

Economic Review Meeting

June 5, 2014



Washington State
Economic and Revenue Forecast Council

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WASHINGTON STATE
ECONOMIC AND REVENUE FORECAST COUNCIL

AGENDA

ECONOMIC REVIEW MEETING

June 5, 2014
2:30 p.m.

- Approval of meeting minutes: February 19, 2014
- Approval of meeting minutes: May 1, 2014
- Presentation of economic outlook and revenue collection experience

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STATE OF WASHINGTON

ECONOMIC AND REVENUE FORECAST COUNCIL

Capitol Plaza Building, PO Box 40912 □ Olympia, Washington 98504-0912 □ (360) 534-1560

Meeting Minutes Revenue Review

February 19, 2014

John A. Cherberg, Hearing Room 3

Economic and Revenue Forecast Council

Members Present

Ross Hunter, House of Representatives, Chair
Andy Hill, Senate
Jim Hargrove, Senate
Terry Nealey, House of Representatives
James McIntire, Treasurer
Carol Nelson, Department of Revenue
David Schumacher, Office of Financial Management

Staff

Steve Lerch, ERFC

Call to Order

The meeting was called to order by Representative Hunter at 10:02 a.m.

Motion

Senator Hill made a motion to approve the meeting minutes from the February 6, 2014 meeting, seconded by Representative Nealey. Council approved the motion at 10:03 a.m.

Presentation on Revenue Forecast

Dr. Lerch presented information on the final economic and revenue forecast. Dr. Lerch summarized the forecast changes. Discussion ensued regarding personal income growth, the weights of the optimistic and pessimistic forecasts, and revenue growth trends.

Motion

Treasurer McIntire moved, seconded by Director Schumacher, that the baseline revenue forecast be adopted. Council unanimously approved the motion at 10:25 a.m.

Adjournment

Meeting adjourned at 10:25 am.



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**Meeting Minutes
Budget Outlook Adoption**

May 1, 2014

John L. O'Brien, Hearing Room B

Economic and Revenue Forecast Council Members

Present

Ross Hunter, House of Representatives, Chair
Andy Hill, Senator (via phone)
Jim Hargrove, Senator
Terry Nealey, House of Representatives (via phone)
Carol Nelson, Department of Revenue
David Schumacher, Office of Financial Management

Staff

Steve Lerch, Executive Director,
ERFC

Budget Outlook representatives:

Pam Davidson
Melissa Palmer
Richard Ramsey

Not Present

James McIntire, Treasurer

Call to Order

The meeting was called to order by Representative Hunter at 9:02 a.m.

Presentation on Budget Outlook

Richard Ramsey, Melissa Palmer, and Pam Davidson presented an overview of differences in the conference outlook compared to the proposed outlook and discussed the specifics of the methodology.

Motion

David Schumacher moved, seconded by Representative Hunter, to ask the workgroup to come up with general rules and a framework that gives the Council guidance on how funds and accounts could be used as part of the budget and which ones are outside the scope we would need legislation to assume in the outlook.

Motion

Senator Hargrove moved, seconded by Director Schumacher, to adopt the budget outlook as proposed. The motion passed unanimously at 9:26 a.m.

Adjournment

Meeting adjourned at 9:27 a.m.

**Economic & Revenue Forecast Council
State of Washington**



Economic Review: June 5, 2014

Executive Summary

- The preliminary economic forecast is based on a modified version of Global Insight's May 2014 Control forecast for the U.S. economy. As usual, we have adjusted real gross domestic product (GDP) to match the Blue Chip "Consensus" GDP forecast. In the May Blue Chip release, the average forecast for real GDP growth in 2014 fell to 2.4% from 2.9% in February as a result of the very weak growth in the first quarter of 2014 and, to a lesser extent, a downward revision to growth in the fourth quarter of 2013. Growth during the remainder of this year is actually higher than assumed in February. As in February, real GDP growth is expected to peak at 3.0% in 2015, slowing to 2.5% in 2019.
- The Blue Chip forecast was distributed prior to the release of the second estimate of first quarter GDP growth, which was revised down from 0.1% (SAAR) to -1.0% (SAAR). The revised GDP estimate will be incorporated in the final June forecast.
- Our oil price forecast continues to rely on the futures markets, primarily the Brent (North Sea) oil price but also the West Texas Intermediate (WTI) benchmark. This forecast was based on the Wednesday, May 28, 2014 closing prices for Brent and WTI which are slightly higher than oil prices in the February forecast but follow a similar downward trend.
- Nonfarm employment increased by 288,000 jobs in April, while February and March employment growth were revised upward by a total of 36,000 jobs. Sectors with notable employment gains in April included retail trade (+35,000), construction (+32,000), leisure and hospitality (+28,000), temporary employment services (+24,000), and health care (+19,000). Federal government employment declined by 4,000 jobs. May employment data will be available on June 6th and will be incorporated into the final economic forecast.
- The two major consumer confidence measures have been out of sync the last several months, making it difficult to identify any trend in consumer views. The Conference Board index of consumer confidence increased in March, fell to 82.3 in April, then rose 1.3 points to 83.0 in May. The University of Michigan consumer sentiment survey moved in the opposite direction, decreasing in March, increasing to 84.1 in April and then declining to 81.9 in May.
- Initial claims for unemployment insurance increased by 8,000 to 312,000 (SA) in the week ending May 31st. The four-week moving average for initial claims decreased, however, dropping by 2,250 to 310,250. This is the lowest reading for the four-week moving average since June 2, 2007.
- Retail and food services sales increased for a third consecutive month according to the Census Bureau advance estimate, although April's 0.1% (SA) gain was well below the 1.5% increase in March. The strongest April sales growth was in department stores (1.8%), clothing stores (1.2%), and

gasoline stations (0.8%), while electronics and appliance stores had sales decrease by 2.3%.

- Light motor vehicle sales increased from 16.0 million units (SAAR) in April to 16.8 million units in May. Sales have now remained above 16 million units for three consecutive months.
- Industrial production declined for the first time in three months, decreasing by 0.6% in April (SA). Much of this decline was in utilities output and is likely weather-related, but manufacturing output also declined slightly. Core capital goods orders (i.e., durables excluding aircraft and military) which are a proxy for business investment, decreased by 1.2% (SA) in April after a revised increase of 4.7% in March. Manufacturing activity, as measured by the Institute for Supply Management's Purchasing Managers Index (PMI), increased to 55.4 in May (50 or higher indicates growth) from 54.9 in April. Manufacturing activity has now increased for twelve consecutive months. The non-manufacturing PMI for May increased by 1.1 points to 56.3; non-manufacturing activity has now increased for 52 consecutive months.
- April data point to the housing market shaking off the impacts of harsh winter weather. Housing units authorized by building permits in April increased 8.0% (SAAR) compared to their March level. This is 3.8% above housing permits for April 2013. Housing starts increased to 1.07 million units in April, 13.2% (SAAR) above the March rate. Existing home sales in April were 1.3% (SAAR) higher than in March. This is the first month this year with an increase in existing home sales. New single family home sales in April increased by 6.4% (SAAR) compared to March, although they are 4.2% below April 2013 sales. Home prices continue to increase, with the Case-Shiller 20-city home price index for March 12.4% above the year-ago level (SA). The seasonally adjusted Case-Shiller index has increased for twenty-six consecutive months through March 2014.
- Major threats to the U.S. and Washington economies remain including slowing Asian economies (especially China), the possibility of a slowdown in the housing recovery, and the ongoing concern about slow growth and debt issues in Europe.

Washington

- In the four months since the February forecast was adopted, the Washington economy added 21,800 jobs, 2,500 more than the 19,400 expected in the February forecast. We have also incorporated another quarter of Quarterly Census of Payrolls and Employment (QCEW) benchmark employment data. The new QCEW data and other revisions raised the estimated level of total employment in December 2013 by 13,400. As a result of the upward revisions to history and slightly stronger than expected growth, the net effect is 15,800 (0.5%) more jobs in April 2014 than expected in the February forecast.
- The current employment statistics were also affected by a reclassification of approximately 45,300 Washington employees involved in providing services for the elderly and disabled. According to the BLS, these employees had been incorrectly coded as being employed by private households which are out of the scope of the current employment statistics. They are now coded as being employed in social services which is in the scope of the current employment statistics.

- As in February, we assume a gradual decline in aerospace employment throughout the forecast. We continue to believe that this downturn will be relatively mild due to the large and increasing backlog of orders. The current reductions are due to improvements in productivity rather than reductions in production.
- The Institute of Supply Management - Western Washington Index (ISM-WW) rebounded to a strong 59.6 in May from 53.7 in April (index values above 50 indicate positive growth while values below 50 indicate contractions). The production, orders, inventory, and deliveries components all improved in May but the employment index declined slightly from 54.5 to 53.6. The last time the Western Washington index was below 50 was in July 2009.
- In late March, the Bureau of Economic Analysis released estimates for state personal income through the fourth quarter of 2013. We have incorporated the new BEA estimates as well as additional Washington QCEW wage data through the fourth quarter. Our estimate of Washington personal income in the fourth quarter of 2013 is \$332.6 billion which is \$1.137 billion (0.3%) higher than assumed in February. However, monthly U.S. personal income growth, a key driver of the Washington personal income estimates, has been slow so far in 2014. As a result, our estimate for personal income in the current quarter is \$0.659 billion (0.2%) less than expected in February.
- Single-family housing construction was once again weaker than expected in the first quarter of 2014 according to the building permit data but overall construction was close thanks to strong multi-family construction. Total housing units authorized by building permits averaged 31,200 (SAAR) in January, February, and March. The February forecast had assumed 31,400 units. Single-family units averaged 17,100, 1,700 less than expected but multi-family units averaged 14,100 which, 1,500 more than expected.
- Regional home prices continue to rise. According to the S&P/Case-Shiller Home Price Indices, seasonally adjusted Seattle area home prices have risen in each of the last 28 months and, as of March, are 11.6% higher than in the previous March. Rising mortgage rates and home prices have started to decrease affordability, although homes remain relatively affordable by historical standards. Even with the recent gains, Seattle area home prices are 12.8% lower than their 2007 peak.
- Washington car sales have been extremely volatile in recent months. After reaching a post-recession high of 280,800 vehicles (SAAR) in January, Washington new car and light truck registrations plummeted to 253,800 in February and 248,400 in March before rebounding to a new post-recession high of 287,700 vehicles in April. New vehicle registrations declined slightly in May to 276,500.
- Washington exports increased 10.0% in the in the first quarter of 2014 compared to the first quarter of 2013. Exports of transportation equipment (mostly Boeing planes) increased 13.3% over the year and exports of agricultural products rose 3.4% over the year. Exports of all other Washington commodities rose 8.7% over the year.
- Seattle area inflation has edged up and now slightly exceeds the national average. In April 2014, the Seattle all items CPI was 2.4% higher than in the previous April; this was slightly higher than the 2.0% increase for the U.S. city average. Core inflation in Seattle was 2.3% compared to 1.8% for the

- nation. The higher than average inflation rate in Seattle is entirely due to more rapidly rising shelter costs.
- Overall, our preliminary June forecast for Washington State is similar to the forecast adopted in February. Washington employment growth is expected to grow 2.4% this year compared to 2.0% assumed in the February forecast. The upward revision to growth in 2014 is mostly due to higher historical employment data through April. The June forecast for average annual employment growth from 2015 through 2019 remains at 1.6% per year. Our June forecast for nominal personal income growth this year of 4.6% is very close to the February forecast of 4.7%. However, our new forecast for nominal personal income growth from 2015 through 2019 averages 5.5% per year compared to 5.1% in February. The higher nominal income growth forecast in 2015-19 partly reflects higher inflation, but real income growth is also higher at 4.0% per year compared to 3.7% in February.

Washington State Economic Outlook & Revenue Collection Experience

Presented to
The Economic & Revenue Forecast Council

Steve Lerch
Executive Director

June 5, 2014
Olympia, Washington



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Summary

- The economic forecast is quite similar to February
- A data reclassification has increased employment levels, but employment growth is similar to February
- Risks to the baseline include the potential for slower Chinese economic growth, possible disruptions to the housing recovery, and a weak Europe
- Adjusted revenue collections since the February forecast are \$23.9 million (0.7%) above expectations
- The Washington economy continues to grow slowly, with employment rising in most sectors except aerospace and federal government

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Three major risks to the forecast



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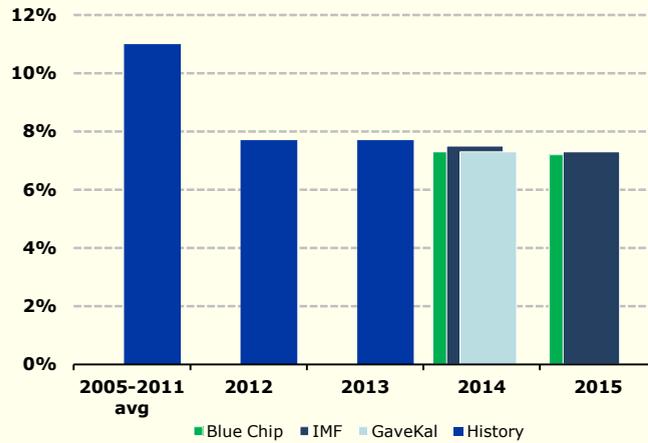
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Source: ERFC

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China's 2014 & 2015 GDP growth expected to be below 2013 rate



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Source: Blue Chip, IMF, ISI; data and forecasts through May 2014

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Rising mortgage rates and home prices have reduced affordability



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Source: Global Insight, WA Center Real Estate Research, ERFC; data through 2014Q1

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Housing starts are trending up but remain below historic average



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Source: U.S. Census; data through April 2014

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Home sales have weakened recently



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Source: National Association of Realtors; data through April 2014

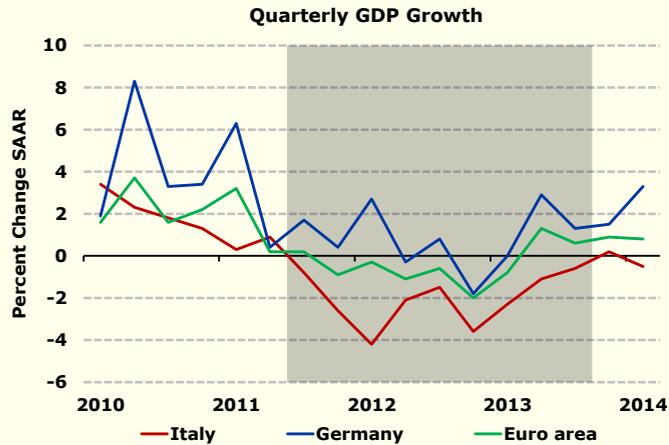
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Euro area GDP has returned to positive growth but remains weak

Eurozone
Forecast:
2014: 1.2%
2015: 1.5%



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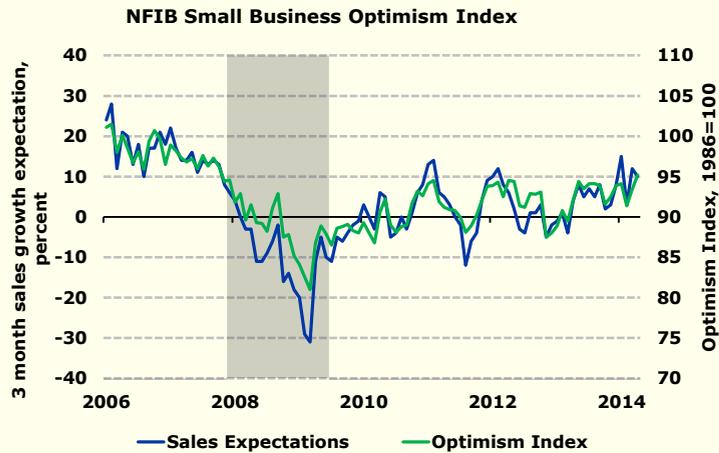
Source: Eurostat, Centre for Economic Policy Research; data through 2014Q1

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Small business optimism and sales expectations are weak but improving



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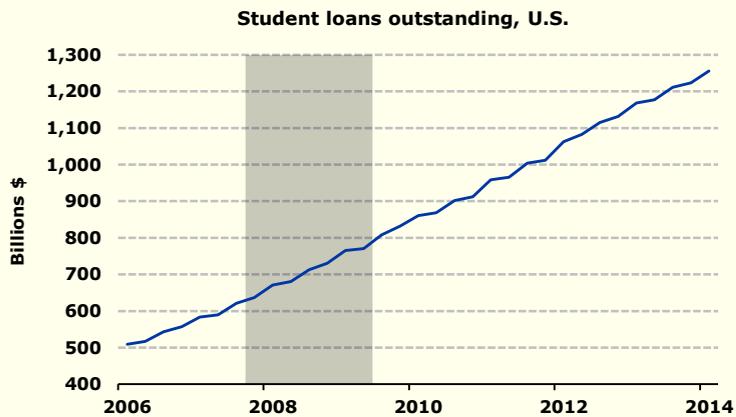
Source: National Federation of Independent Business; data through April 2014

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Student loans have increased by 147% since 2006



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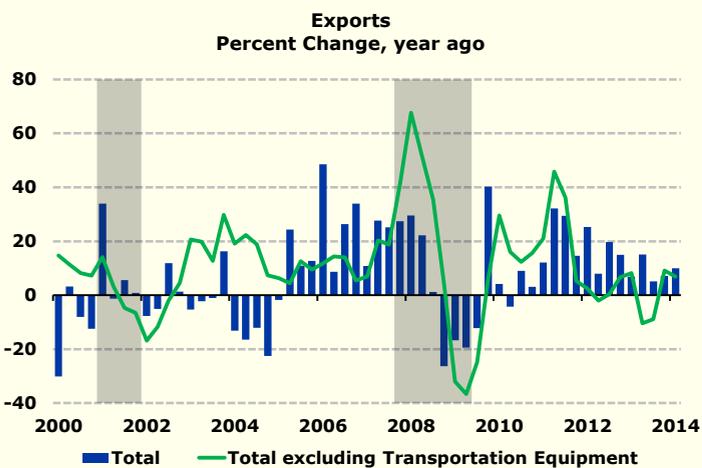
Source: Federal Reserve Board; data through 1st quarter 2014

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Non-transportation equipment export growth is back in positive territory



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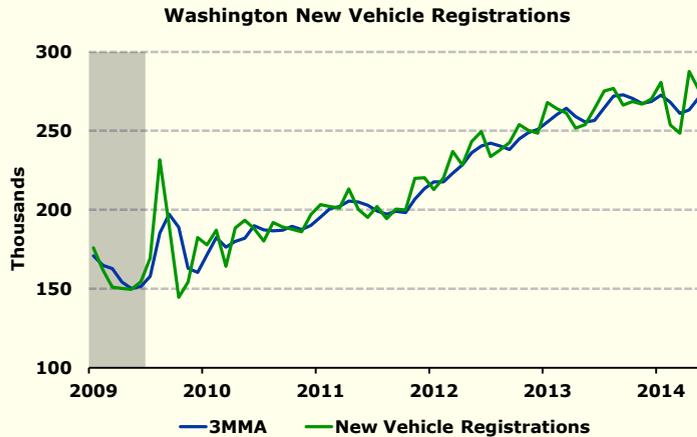
Source: Wisier Trade Data; through 2014Q1

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Are Washington new vehicle registrations hitting a plateau?



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Source: Dept. of Licensing, ERFC; data through May 2014

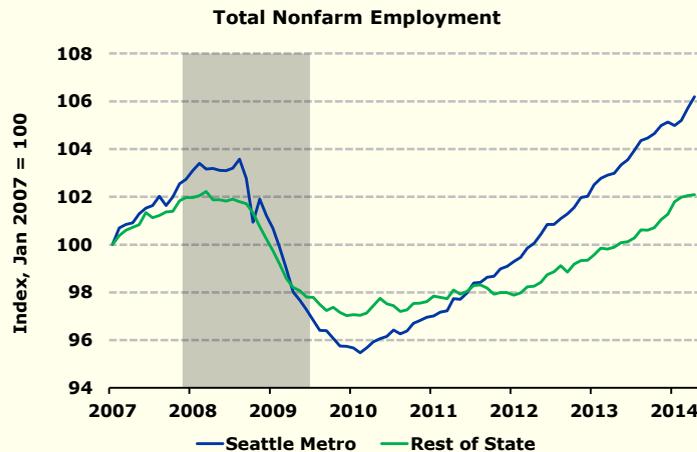
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Seattle area employment is growing much faster than the rest of the state

Outside of Seattle metro area, employment is below its pre-recession peak



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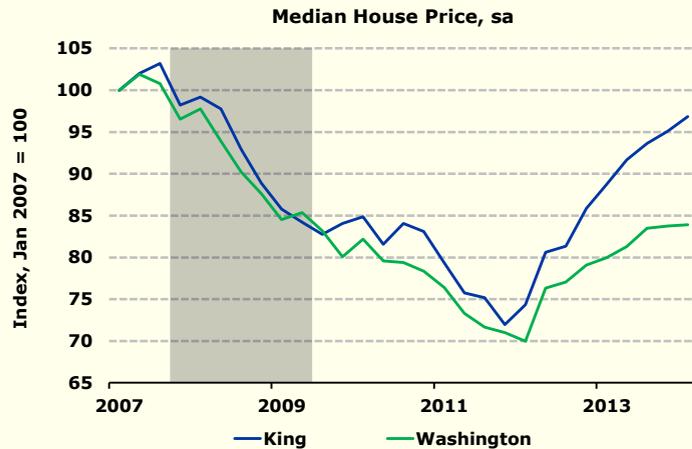
Source: Employment Security Department, ERFC; data through April 2014

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King County house prices are rising faster than the rest of the state



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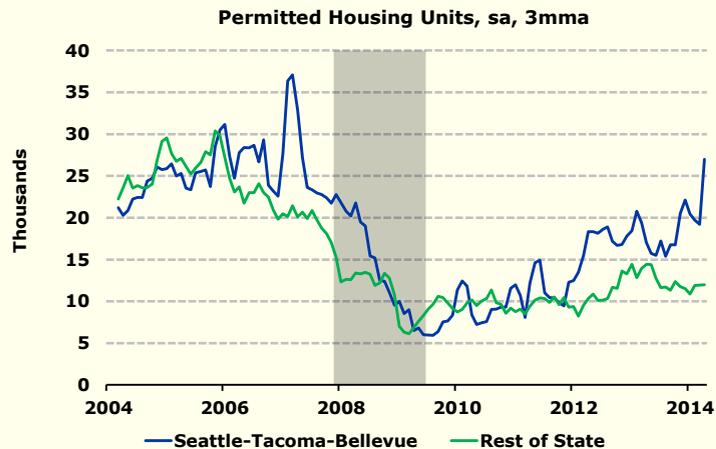
Source: WA Center Real Estate Research, ERFC; data through 2014Q1

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Seattle area housing is growing much faster than the rest of the state



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Source: Census, ERFC; data through April 2014

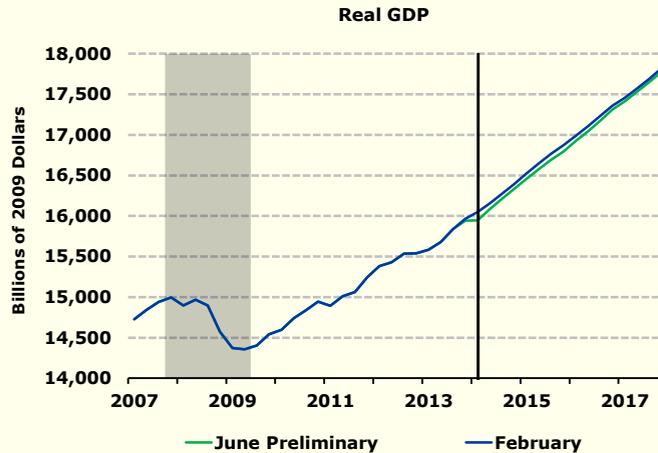
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GDP is quite similar to the February forecast

Real GDP growth is slightly higher through 2015



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Source: Global Insight, ERFC June 2014 Preliminary forecast; historical data through 2014Q1

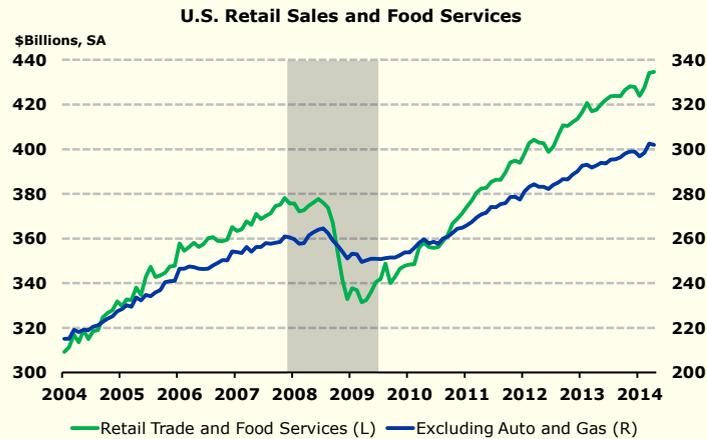
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U.S. retail sales growth is moderate

Preliminary U.S. retail trade and food services sales were up 4.1% year over year in March and 4.0% in April

Excluding autos and gas, sales were up 3.6% year over year in March and 3.1% in April



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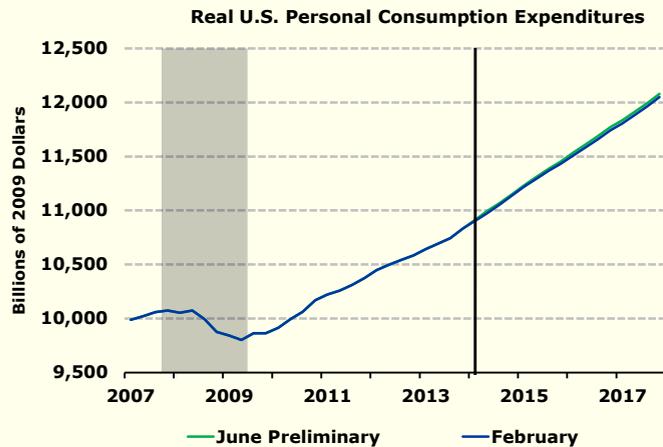
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Source: U.S. Department of Commerce, Census Bureau; Data through April 2014 advance

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National consumer spending is slightly higher



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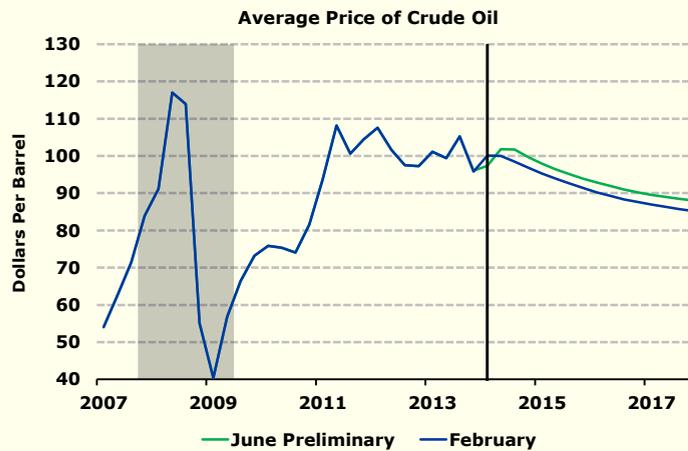
Source: Global Insight, ERFC June 2014 Preliminary forecast; historical data through 2014Q1

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Oil prices are slightly higher but still trending down



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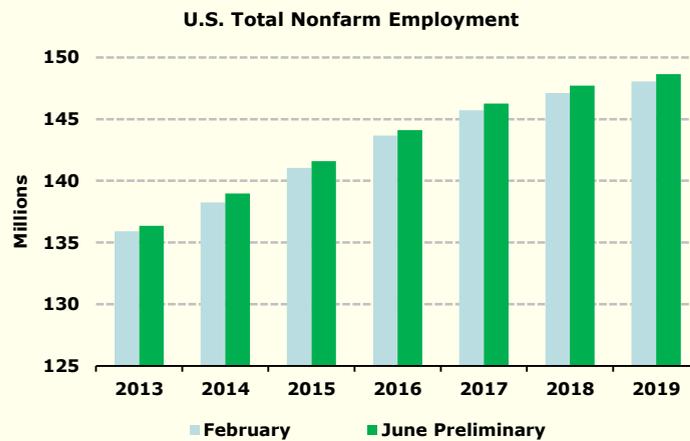
Source: DOE, ERFC June 2014 Preliminary forecast; historical data through 2014Q1

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Employment is higher due to data reclassification



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Source: BEA, ERFC; historical data through 2013

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Over one-third of unemployed have been out of work 27 or more weeks



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Source: Bureau of Labor Statistics; data through April 2014

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Labor force participation is trending down



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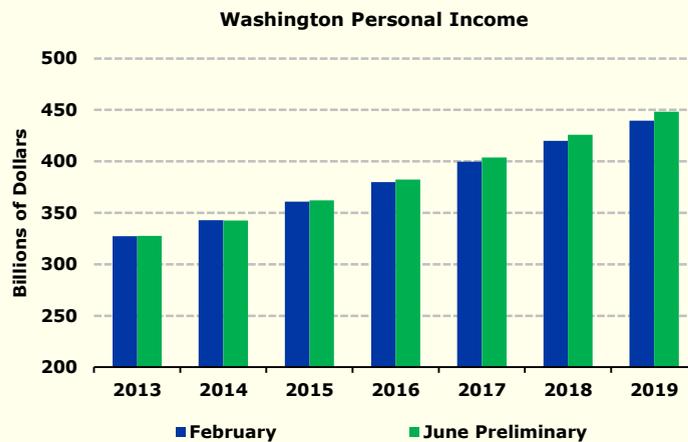
Source: Bureau of Labor Statistics; data through 2014 Q1

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Washington personal income forecast is essentially unchanged



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Source: ERFC June 2014 Preliminary forecast; historical data through 2013

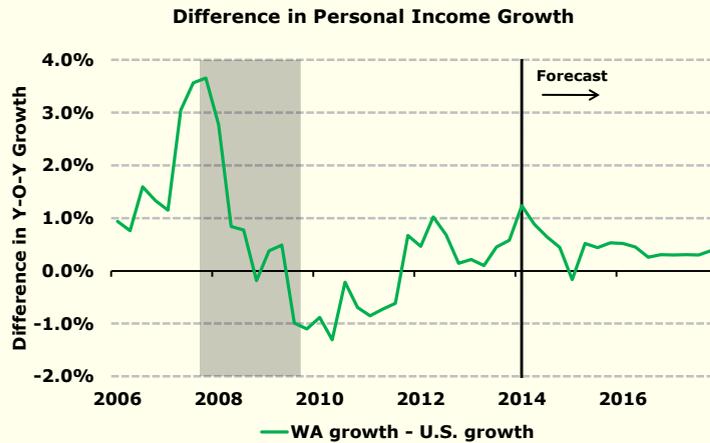
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State personal income will grow slightly faster than the U.S.

Slower WA growth in 2015Q1 reflects impact of 2014Q1 Boeing bonus



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Source: ERFC June Preliminary 2014 Forecast; historical data through 2014Q1

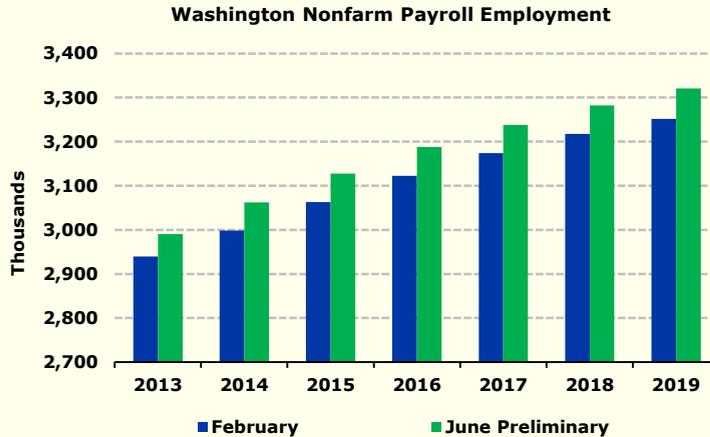
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Higher Washington payroll employment largely due to data reclassification

Employment growth of 1.6% for 2015 - 2019 is unchanged from February



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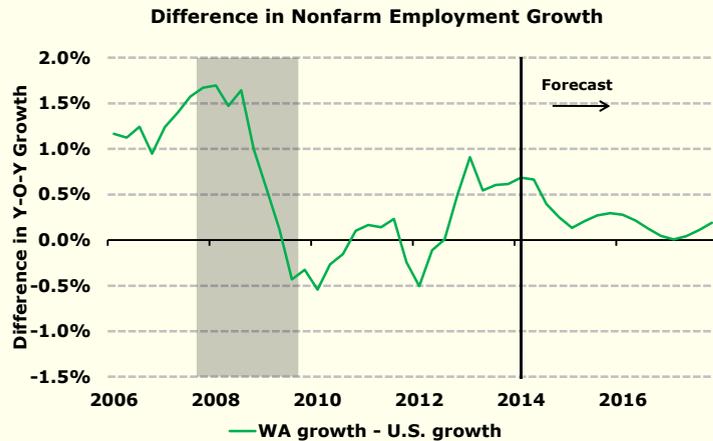
Source: ERFC June 2014 Preliminary forecast; historical data through 2013

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Washington employment will grow slightly faster than the U.S.



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Source: ERFC June 2014 Preliminary forecast; historical data through 2014Q1

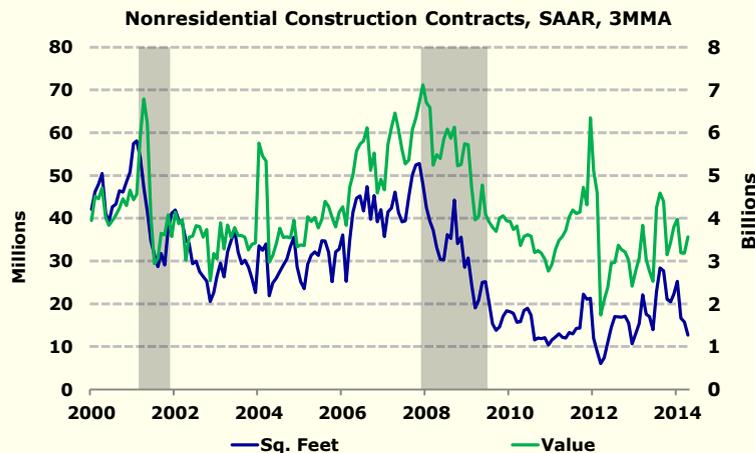
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Contract data indicate an increase in non-residential activity on a value basis

Non-Residential square footage is down 28%, and value is up 18% year over year (3mma).



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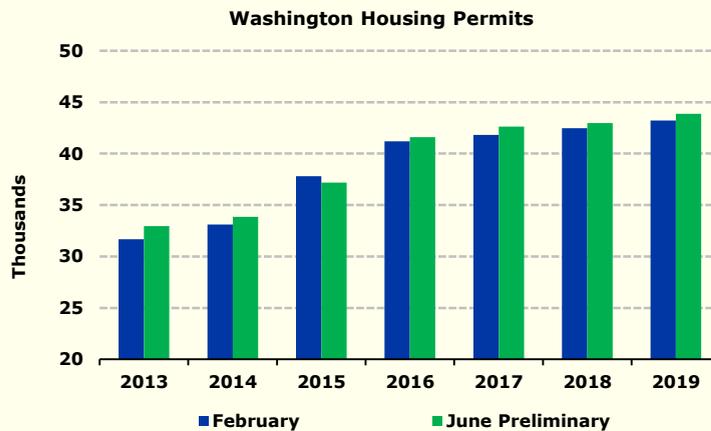
Source: Dodge, ERFC; data through April 2014

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Washington housing permits forecast is slightly higher in 2016 and 2017



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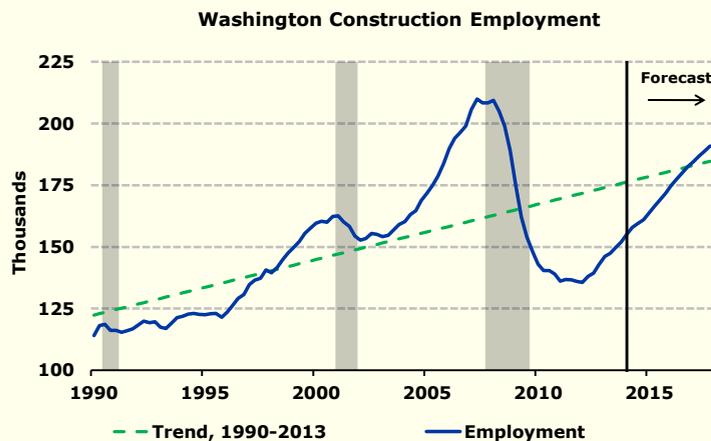
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Source: ERFC June 2014 Preliminary forecast; historical data through 2013

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Washington construction employment is recovering



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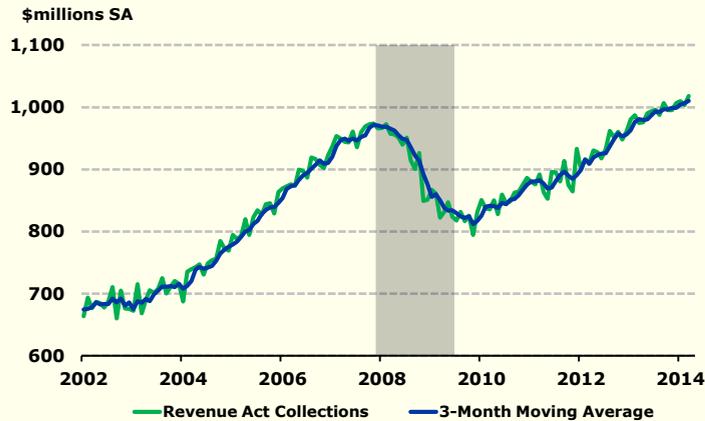
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Source: ERFC June 2014 Preliminary forecast; historical data through 2014Q1

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Seasonally adjusted Revenue Act collections still on an upward trend



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* Adjusted for large one-time transactions, amnesty payments and reporting frequency change, current definition of Revenue Act

Source: DOR and ERFC; monthly data through estimated March 2014 activity

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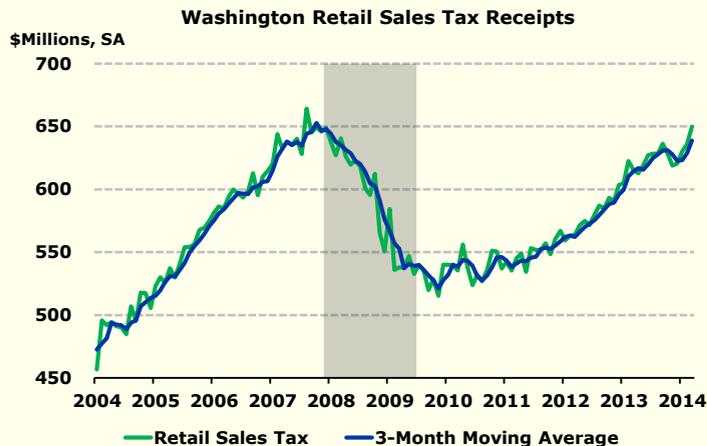


Sales tax collection growth faltered in Q4 2013 but has since resumed

Adjusted sales tax collections were up 4.0% year-over-year for first quarter activity and 4.5% for the fourth quarter of 2013.

Preliminary collections for March activity were up 5.6% year-over-year

Y-O-Y construction activity growth has slowed as forecasted



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Adjusted for large payments/refunds, amnesty payments and taxpayer reporting frequency change
Source: ERFC; Monthly data through March 2014 preliminary activity

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Revenue collections to date

Cumulative Variance Since February Forecast (February 11 – May 10, 2014) dollars in thousands

	<u>Estimate</u>	<u>Actual</u>	<u>Difference</u>	<u>Pct.</u>
Dept. of Revenue	\$3,243,880	\$3,306,859	\$62,979	1.9%
All other agencies	\$24,376	\$23,152	(\$1,224)	-5.0%
Total GF-S	\$3,268,256	\$3,330,011	\$61,755	1.9%
Excl. Special Factors*	\$3,268,256	\$3,292,134	\$23,877	0.7%

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*\$37.9 million in one-time assessment payments not included in the February forecast

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Conclusion

- The economic forecast is quite similar to February's forecast; we expect the slow pace of economic recovery to continue in both the U.S. and Washington economies
- Washington is still likely to outperform the nation, but by a small margin
- Threats to economic recovery include the potential for slower Chinese economic growth, possible disruptions to the housing recovery, and a weak Europe
- The next monthly collection report will be available on June 11th and the revenue forecast will be presented on June 17th

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Questions

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Economic & Revenue Forecast Council
1025 E. Union Avenue, Suite 544
Olympia WA 98504-0912

www.ercf.wa.gov
360-534-1560

U.S. Economic Forecast Comparison

May 2014

	2014Q1	2014Q2	2014Q3	2014Q4	2014	2015	2016	2017	2018	2019
Real GDP, Percent Change, Annual Rate										
ERFC Preliminary June	0.1	3.5	3.1	3.2	2.4	3.0	2.9	2.8	2.6	2.5
Global Insight	0.1	3.5	2.7	3.0	2.4	3.2	3.5	3.2	2.7	2.7
Economy.com	0.1	4.0	3.4	3.8	2.6	3.9				
Blue Chip Average*		3.4	3.0	3.1	2.4	3.0	2.9	2.8	2.6	2.5
Blue Chip Top 10*		4.2	3.6	3.8	2.7	3.4	3.3	3.1	3.0	2.9
Blue Chip Bottom 10*		2.8	2.5	2.3	2.2	2.6	2.4	2.4	2.1	2.1
Real Consumption, Percent Change, Annual Rate										
ERFC Preliminary June	3.0	3.1	2.7	2.9	2.8	2.9	2.7	2.6	2.5	2.4
Global Insight	3.0	2.5	2.5	2.8	2.7	3.0	3.4	3.3	2.9	2.6
Economy.com	3.0	4.4	3.6	3.9	3.3	4.0				
Blue Chip Average*		3.3	2.8	2.8	2.8	2.9	2.7	2.6	2.5	2.4
Blue Chip Top 10*		4.2	3.5	3.6	3.1	3.5	3.1	3.0	2.9	2.7
Blue Chip Bottom 10*		2.4	2.1	2.1	2.5	2.3	2.2	2.3	2.1	2.0
Federal Funds Rate										
ERFC Preliminary June	0.1	0.1	0.1	0.1	0.1	0.4	2.2	3.8	4.0	4.0
Global Insight	0.1	0.1	0.1	0.1	0.1	0.4	2.2	3.8	4.0	4.0
Economy.com	0.1	0.1	0.1	0.1	0.1	0.3				
Three Month T-Bill Rate										
ERFC Preliminary June	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.4	0.7
Global Insight	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.2	0.4	0.7
Blue Chip Average*		0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Blue Chip Top 10*		0.1	0.1	0.3	0.2	0.2	0.2	0.2	0.2	0.2
Blue Chip Bottom 10*		0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1
10-Yr. T-Note Yield										
ERFC Preliminary June	2.8	2.8	3.0	3.1	2.9	3.3	3.9	4.5	4.6	4.6
Global Insight	2.8	2.7	3.0	3.1	2.9	3.3	3.9	4.5	4.6	4.6
Economy.com										
Blue Chip Average*		2.8	3.0	3.3	3.0	3.6	1.9	2.9	3.3	3.5
Blue Chip Top 10*		3.0	3.3	3.6	3.2	4.0	3.1	4.0	4.2	4.3
Blue Chip Bottom 10*		2.7	2.5	2.9	2.8	3.3	0.8	1.5	2.1	2.3
Consumer Price Index, Percent Change, Annual Rate										
ERFC Preliminary June	1.9	3.2	2.4	1.8	2.0	1.7	1.3	1.6	1.8	1.6
Global Insight	1.9	2.8	2.3	1.8	1.9	1.5	1.5	1.8	2.0	2.0
Economy.com	1.9	2.1	2.1	2.2	1.8	2.3				
Blue Chip Average*		2.2	2.1	1.8	1.8	2.0	2.2	2.3	2.4	2.3
Blue Chip Top 10*		3.1	2.8	2.6	2.0	2.5	2.6	2.7	2.8	2.8
Blue Chip Bottom 10*		1.6	1.5	0.8	1.6	1.5	1.9	2.0	2.1	2.0
Payroll Employment, Millions										
ERFC Preliminary June	137.8	138.6	139.5	140.1	139.0	141.6	144.1	146.2	147.7	148.6
Percent Change, Annual Rate	1.5	2.4	2.7	1.8	1.9	1.9	1.8	1.5	1.0	0.6
Global Insight	137.8	138.5	139.2	139.8	138.8	141.5	144.4	147.1	148.9	150.1
Percent Change, Annual Rate	1.5	2.0	2.1	1.7	1.8	1.9	2.1	1.8	1.3	0.8
Economy.com	137.8	138.6	139.3	140.1	139.0	142.4				
Percent Change, Annual Rate	1.5	2.6	2.1	2.3	1.9	2.5				
Unemployment Rate, Percent										
ERFC Preliminary June	6.7	6.3	6.2	6.1	6.3	5.8	5.6	5.5	5.5	5.5
Global Insight	6.7	6.5	6.5	6.3	6.5	6.0	5.6	5.3	5.2	5.1
Economy.com										
Blue Chip Average*		6.4	6.3	6.1	6.4	5.9	5.6	5.4	5.3	5.3
Blue Chip Top 10*		6.5	6.4	6.4	6.5	6.1	6.0	5.8	5.8	5.7
Blue Chip Bottom 10*		6.3	6.1	5.9	6.2	5.6	5.3	5.0	4.9	4.8
Real Disposable Personal Income, Percent Change, Annual Rate										
ERFC Preliminary June	1.9	1.0	3.1	3.7	2.0	3.6	3.9	3.9	3.4	3.1
Global Insight	1.9	1.1	2.7	3.5	2.0	3.7	4.0	4.1	3.4	3.1
Blue Chip Average*		2.6	2.6	2.8	2.2	2.9	2.9	2.9	2.7	2.6
Blue Chip Top 10*		3.5	3.4	3.3	2.5	3.5	3.9	3.7	3.4	3.3
Blue Chip Bottom 10*		1.6	1.8	2.3	1.9	2.3	2.2	2.3	2.2	2.1

* Forecasts beyond 2015 are from the March 2014 Blue Chip Economic Indicators

U.S. Forecast Comparison	Fiscal Years					
	2014	2015	2016	2017	2018	2019
Real GDP						
Billions of 2009 dollars						
June Preliminary Forecast	15,953	16,396	16,864	17,358	17,824	18,276
<i>Growth</i>	2.4%	2.8%	2.9%	2.9%	2.7%	2.5%
February Forecast	16,002	16,461	16,935	17,404	17,866	18,319
<i>Growth</i>	2.7%	2.9%	2.9%	2.8%	2.7%	2.5%
Difference in level	-49	-65	-71	-46	-42	-44
<i>Difference in growth forecast</i>	-0.3%	-0.1%	0.0%	0.2%	0.0%	0.0%
Real Consumption						
Billions of 2009 dollars						
June Preliminary Forecast	10,871	11,190	11,498	11,802	12,108	12,402
<i>Growth</i>	2.4%	2.9%	2.8%	2.6%	2.6%	2.4%
February Forecast	10,864	11,176	11,474	11,772	12,076	12,373
<i>Growth</i>	2.3%	2.9%	2.7%	2.6%	2.6%	2.5%
Difference in level	7	14	24	30	32	29
<i>Difference in growth forecast</i>	0.1%	0.1%	0.1%	0.1%	0.0%	0.0%
Implicit Price Deflator						
Index 2009 = 100						
June Preliminary Forecast	107.9	109.7	111.2	112.8	114.5	116.4
<i>Growth</i>	1.2%	1.7%	1.4%	1.4%	1.5%	1.6%
February Forecast	107.7	109.2	110.6	112.1	113.6	115.0
<i>Growth</i>	1.0%	1.3%	1.3%	1.3%	1.4%	1.3%
Difference in level	0.2	0.6	0.6	0.7	0.9	1.3
<i>Difference in growth forecast</i>	0.2%	0.3%	0.0%	0.1%	0.2%	0.3%
Unemployment Rate						
Percent of Labor Force						
June Preliminary Forecast	6.8%	6.0%	5.7%	5.6%	5.5%	5.5%
February Forecast	6.8%	6.2%	5.8%	5.6%	5.5%	5.4%
<i>Difference in forecast</i>	0.0%	-0.2%	-0.1%	-0.1%	0.0%	0.0%
30 Year Fixed Mortgage Rate						
Annual Average						
June Preliminary Forecast	4.4%	4.7%	5.4%	6.2%	6.7%	6.6%
February Forecast	4.4%	4.8%	5.3%	6.2%	6.6%	6.6%
<i>Difference in forecast</i>	0.0%	-0.1%	0.0%	0.0%	0.1%	0.1%
3 Month T-Bill Rate						
Annual Average						
June Preliminary Forecast	0.1%	0.1%	1.2%	3.1%	3.7%	3.7%
February Forecast	0.1%	0.1%	1.2%	3.1%	3.7%	3.7%
<i>Difference in forecast</i>	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

Washington Forecast Comparison	Fiscal Years					
	2014	2015	2016	2017	2018	2019
Real Personal Income						
Billions of 2009 dollars						
June Preliminary Forecast	310.4	320.7	334.6	348.2	362.1	375.5
<i>Growth</i>	2.6%	3.3%	4.3%	4.1%	4.0%	3.7%
February Forecast	310.4	322.3	334.6	347.6	360.8	373.5
<i>Growth</i>	2.6%	3.9%	3.8%	3.9%	3.8%	3.5%
Difference in level	0.0	-1.6	0.0	0.6	1.3	1.9
<i>Difference in growth forecast</i>	0.0%	-0.5%	0.5%	0.2%	0.2%	0.2%
Nominal Personal Income						
Billions of dollars						
June Preliminary Forecast	335.0	352.0	372.2	392.9	414.8	436.9
<i>Growth</i>	3.9%	5.1%	5.7%	5.6%	5.6%	5.3%
February Forecast	334.3	351.9	370.2	389.6	409.9	429.7
<i>Growth</i>	3.6%	5.2%	5.2%	5.2%	5.2%	4.8%
Difference in level	0.7	0.1	2.0	3.3	4.9	7.2
<i>Difference in growth forecast</i>	0.2%	-0.2%	0.5%	0.3%	0.4%	0.5%
Nonfarm Payroll Employment, End of Period						
Thousands						
June Preliminary Forecast	3,026.4	3,096.6	3,158.0	3,214.5	3,260.4	3,302.1
<i>Growth</i>	2.4%	2.3%	2.0%	1.8%	1.4%	1.3%
February Forecast	2,970.1	3,030.0	3,093.6	3,150.0	3,196.5	3,235.7
<i>Growth</i>	2.2%	2.0%	2.1%	1.8%	1.5%	1.2%
Difference in level	56.3	66.6	64.4	64.5	63.9	66.4
<i>Difference in growth forecast</i>	0.2%	0.3%	-0.1%	0.0%	0.0%	0.1%
Housing Permits						
Units Authorized, Thousands						
June Preliminary Forecast	33.7	34.6	39.7	42.4	42.8	43.3
<i>Growth</i>	7.8%	2.6%	14.9%	6.8%	0.7%	1.3%
February Forecast	31.6	35.4	39.9	41.6	42.1	42.9
<i>Growth</i>	2.7%	11.9%	12.7%	4.3%	1.1%	1.9%
Difference in level	2.1	-0.8	-0.2	0.8	0.7	0.4
<i>Difference in growth forecast</i>	5.1%	-9.4%	2.2%	2.5%	-0.3%	-0.6%

**Year-Over-Year Employment Growth by Industry
(April 2013 to April 2014)
Washington vs. U.S.**

	Washington		U.S.
	(000)	% Chg.	% Chg.
Total	75.3	2.5%	1.7%
Construction	10.5	7.1%	3.5%
Mining and Logging	0.3	4.6%	5.7%
Leisure and Hospitality	10.3	3.6%	2.8%
Transportation, Warehousing and Utilities	3.1	3.3%	2.0%
Retail Trade	10.9	3.3%	2.2%
Software Publishers	1.7	3.2%	NA
Professional and Business Services	11.5	3.2%	3.6%
Manufacturing Excluding Aerospace	5.5	2.9%	NA
Education and Health Services	11.8	2.7%	1.6%
Wholesale Trade	3.1	2.5%	2.3%
Information Excluding Software	1.2	2.3%	NA
Financial Activities	2.9	1.9%	0.7%
State and Local Gov Education	3.5	1.5%	0.4%
Other Services	1.6	1.4%	1.0%
State and Local Gov Non-Education	1.7	0.8%	0.5%
Aerospace Product and Parts Manufacturing	-3.0	-3.1%	NA
Information	2.9	2.8%	-1.3%
Manufacturing	2.5	0.9%	0.9%

Source: WA State ERFC Kalman filtered data, U.S. Bureau of Labor Statistics

**County Taxable Retail Sales
Quarter 4, 2012 to Quarter 4, 2013
(Dollars in Thousands)**

Rank	County	4th Quarter, 2012	4th Quarter, 2013	Percent Change	Taxbase Distribution
1	Columbia	15,018	23,985	59.7%	0.1%
2	Cowlitz	326,719	379,766	16.2%	1.2%
3	Adams	64,432	74,467	15.6%	0.2%
4	Klickitat	51,660	59,378	14.9%	0.2%
5	Chelan	350,610	395,317	12.8%	1.3%
6	Okanogan	132,950	148,280	11.5%	0.5%
7	Pacific	49,872	55,233	10.8%	0.2%
8	Clark	1,198,876	1,326,584	10.7%	4.3%
9	Kittitas	173,047	188,803	9.1%	0.6%
10	Lewis	255,425	277,351	8.6%	0.9%
11	Pierce	2,975,076	3,206,793	7.8%	10.3%
12	Grays Harbor	194,954	209,640	7.5%	0.7%
13	Mason	123,000	132,251	7.5%	0.4%
14	Franklin	261,392	280,822	7.4%	0.9%
15	Wahkiakum	7,903	8,463	7.1%	0.0%
16	Kitsap	838,284	895,051	6.8%	2.9%
17	Island	183,692	195,818	6.6%	0.6%
18	King	11,643,117	12,382,921	6.4%	39.7%
19	Snohomish	2,839,799	3,015,792	6.2%	9.7%
20	Yakima	804,412	852,815	6.0%	2.7%
	Statewide	29,454,861	31,172,904	5.8%	100.0%
21	Clallam	230,237	243,203	5.6%	0.8%
22	Spokane	1,919,938	2,023,764	5.4%	6.5%
23	Asotin	68,385	71,822	5.0%	0.2%
24	Benton	791,286	818,023	3.4%	2.6%
25	Thurston	1,003,153	1,035,791	3.3%	3.3%
26	San Juan	86,096	88,613	2.9%	0.3%
27	Stevens	97,892	100,130	2.3%	0.3%
28	Whatcom	891,518	907,940	1.8%	2.9%
29	Jefferson	91,230	92,843	1.8%	0.3%
30	Douglas	181,356	183,164	1.0%	0.6%
31	Skagit	597,832	599,571	0.3%	1.9%
32	Lincoln	32,408	31,684	-2.2%	0.1%
33	Pend Oreille	38,575	36,801	-4.6%	0.1%
34	Walla Walla	204,958	191,757	-6.4%	0.6%
35	Grant	458,900	424,827	-7.4%	1.4%
36	Garfield	6,301	5,709	-9.4%	0.0%
37	Skamania	23,946	20,995	-12.3%	0.1%
38	Whitman	220,574	173,959	-21.1%	0.6%
39	Ferry	20,040	12,782	-36.2%	0.0%

King/Snohomish/Pierce	17,457,992	18,605,506	6.6%	59.7%
Remainder of State	11,996,869	12,567,398	4.8%	40.3%

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Governor's Council of Economic Advisor's Forecast

Calendar Years

June 5, 2014

	2014	2015	2016	2017	2018	2019
U.S.						
Real GDP						
<i>Growth</i>						
ERFC	2.4	3.0	2.9	2.8	2.6	2.5
GCEA Average	2.4	2.9	2.8	2.6	2.5	2.4
Real Consumption						
<i>Growth</i>						
ERFC	2.8	2.9	2.7	2.6	2.5	2.4
GCEA Average	2.8	2.8	2.7	2.6	2.5	2.4
Implicit Price Deflator, PCE						
<i>Growth</i>						
ERFC	1.5	1.5	1.4	1.5	1.6	1.5
GCEA Average	1.7	2.0	2.0	2.1	2.1	2.2
Mortgage Rate						
<i>Percent</i>						
ERFC	4.5	5.0	5.8	6.5	6.6	6.6
GCEA Average	4.5	5.1	5.7	6.2	6.3	6.3
Oil Price (Brent)						
<i>Dollars per barrel</i>						
ERFC	108.4	104.2	100.0	97.2	95.4	94.2
GCEA Average	105.8	102.0	98.7	97.3	96.4	95.9

Washington State

Real Personal Income

<i>Growth</i>						
ERFC	3.0	4.1	4.2	4.1	3.8	3.7
GCEA Average	3.1	3.6	3.6	3.5	3.3	3.2

Wage and Salary Employment

<i>Growth</i>						
ERFC	2.4	2.1	1.9	1.6	1.4	1.2
GCEA Average	2.2	1.9	1.8	1.5	1.3	1.2

Manufacturing Employment

<i>Growth</i>						
ERFC	0.9	1.5	0.7	0.4	0.5	0.3
GCEA Average	0.7	1.0	0.5	0.2	0.1	0.2

Construction Employment

<i>Growth</i>						
ERFC	6.4	6.0	6.6	5.0	3.9	2.2
GCEA Average	4.7	4.6	4.9	3.9	2.8	2.1

Housing Permits

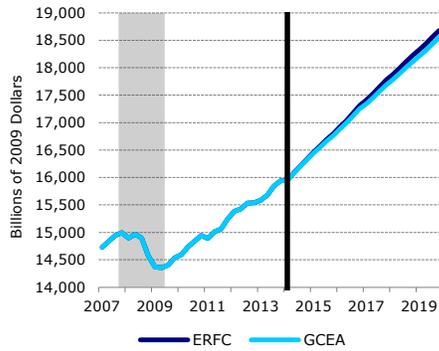
<i>Thousands of authorized units</i>						
ERFC	33.8	37.2	41.6	42.6	43.0	43.9
GCEA Average	33.3	38.6	43.3	42.9	43.2	43.7

Washington Average Annual Wage

<i>Growth</i>						
ERFC	2.9	3.0	3.2	3.2	3.4	3.6
GCEA Average	2.6	2.9	3.1	3.1	3.3	3.3

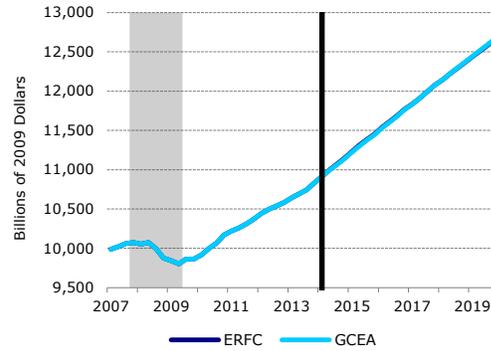
U.S. Forecast Comparison

Real GDP



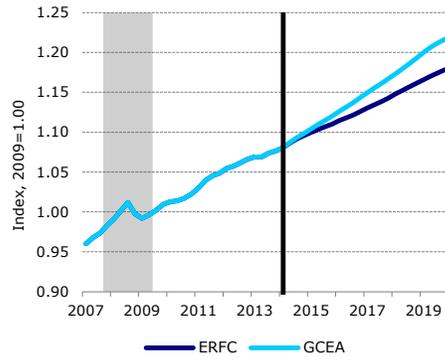
Source: BEA, ERFC, GCEA; data through 2014 Q1

Real Consumption



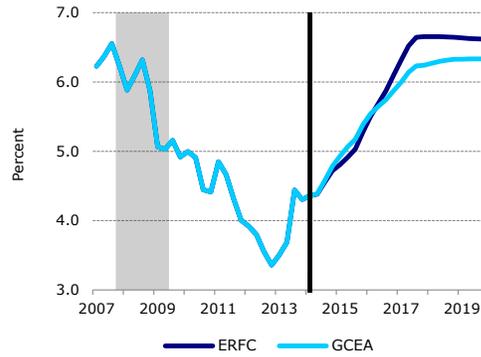
Source: BEA, ERFC, GCEA; data through 2014 Q1

Implicit Price Deflator, PCE



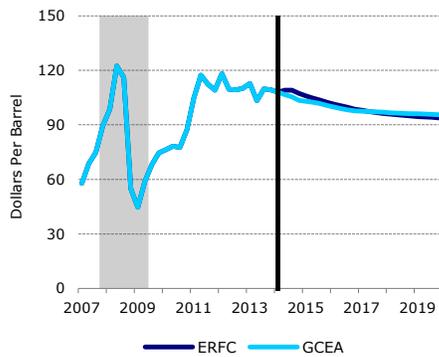
Source: BEA, ERFC, GCEA; data through 2014 Q1

Mortgage Rate



Source: Freddie Mac, ERFC, GCEA; data through 2014 Q1

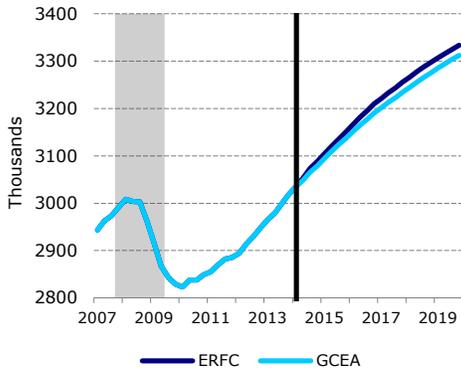
Brent Oil Price



Source: EIA, ERFC, GCEA; data through 2014 Q1

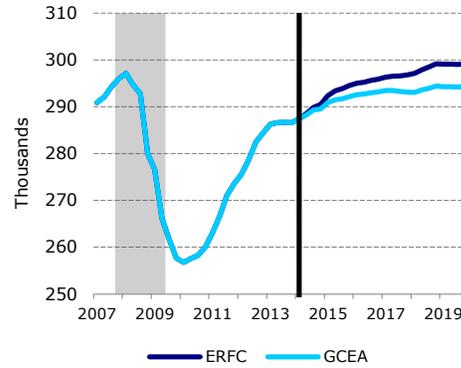
Washington Forecast Comparison

Nonfarm Payroll Employment



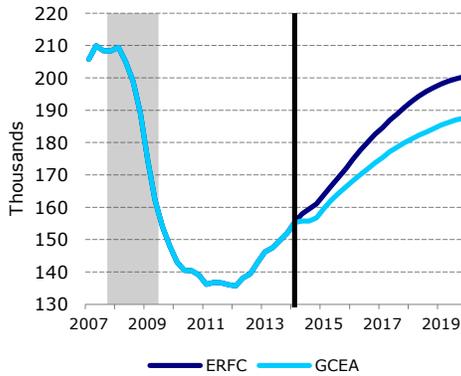
Source: ESD, ERFC, GCEA; data through 2014 Q1

Manufacturing Employment



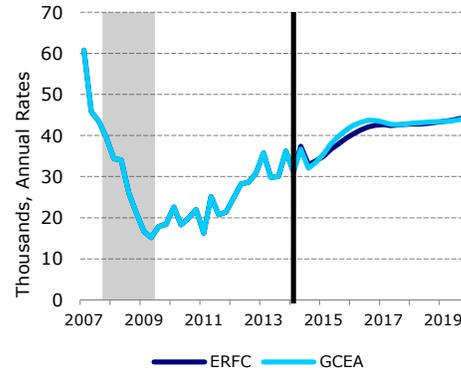
Source: ESD, ERFC, GCEA; data through 2014 Q1

Construction Employment



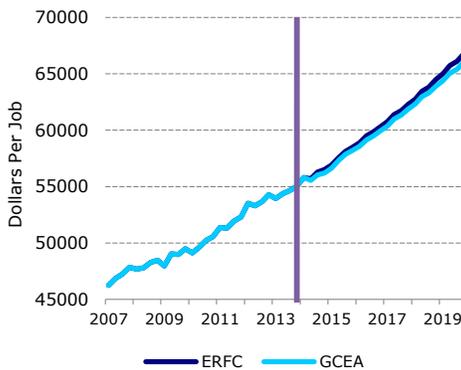
Source: ESD, ERFC, GCEA; data through 2014 Q1

Housing Units Authorized



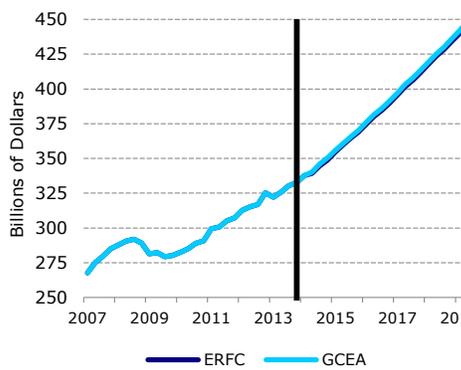
Source: Census, ERFC, GCEA; data through 2014 Q1

Average Annual Wage



Source: BEA, ESD, ERFC, GCEA; data through 2013 Q4

Personal Income



Source: BEA, ERFC, GCEA; data through 2013 Q4