

Mechanics & Challenges of State Revenue Forecasting

Presented to
Washington Agriculture and Forestry Leadership Program

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Olympia, Washington



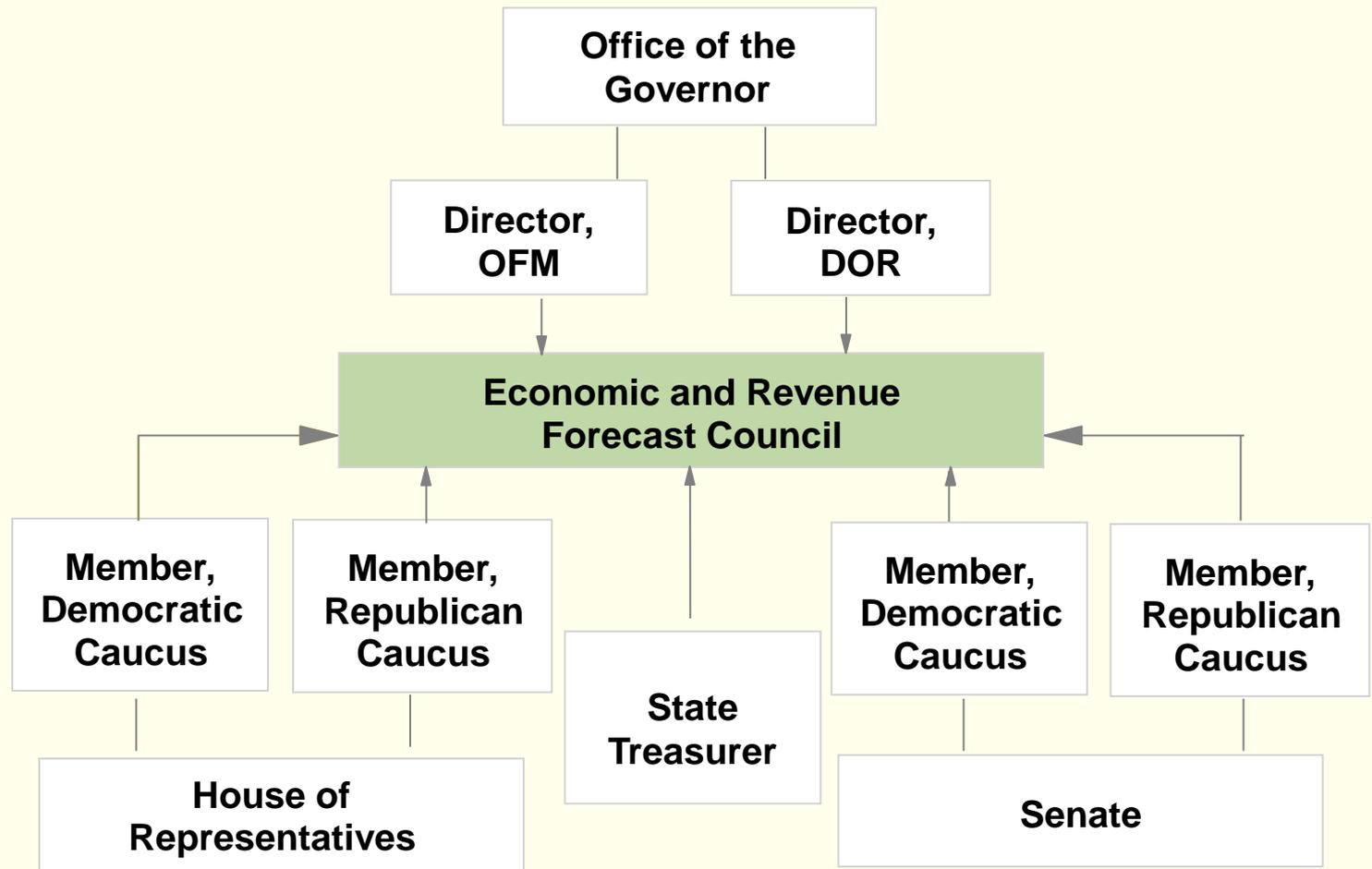
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Economic and Revenue Forecast Council Organization Chart

ERFC

- Created in 1984 as part of Dept. of Revenue
- Became separate agency in 1990



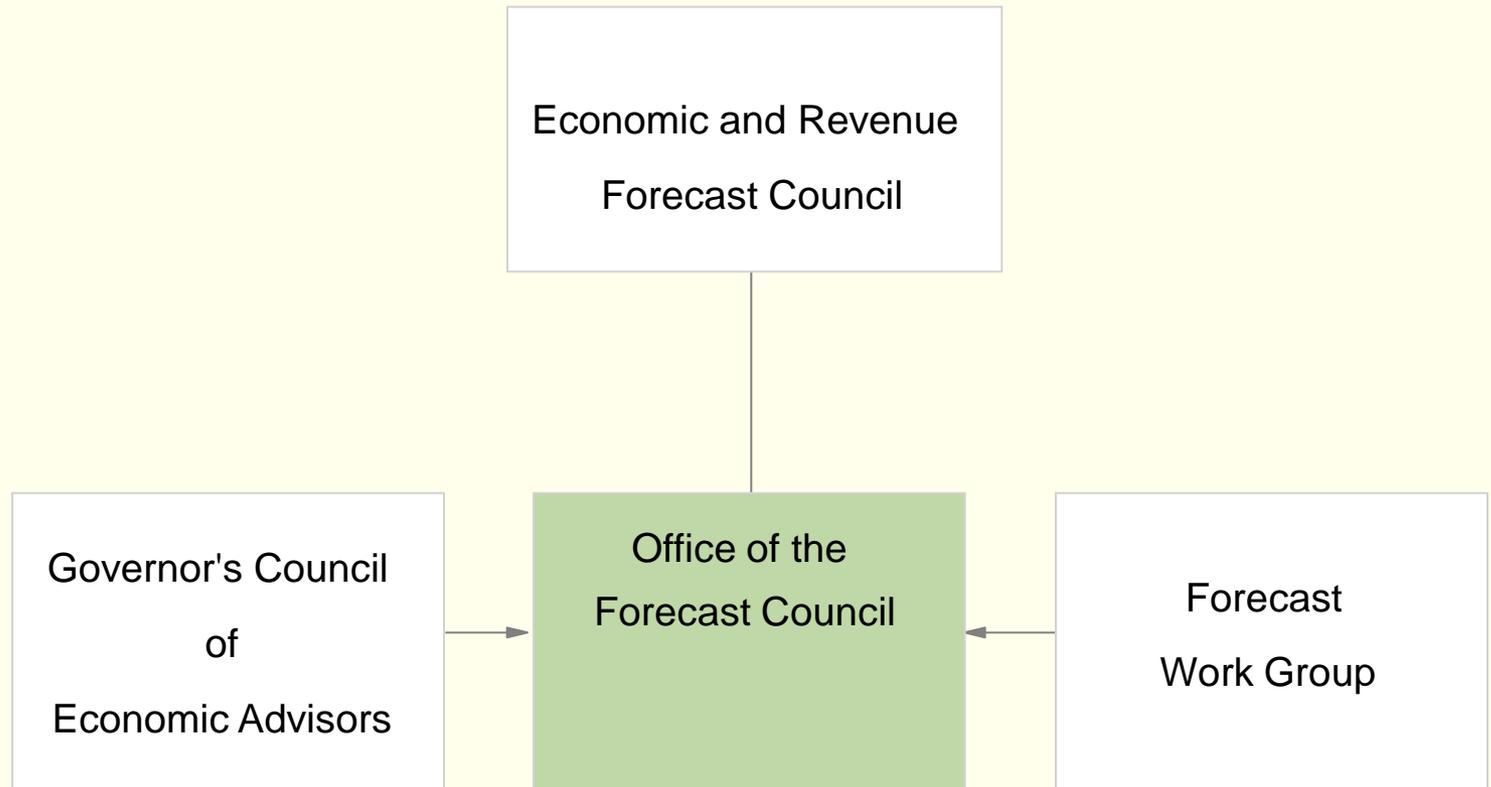
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Forecast Oversight

ERFC

- Council hires Executive Director for three year term
- Director hires staff
- Total staff of five



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ERFC Forecast Process

The national economic forecast is provided by Global Insight



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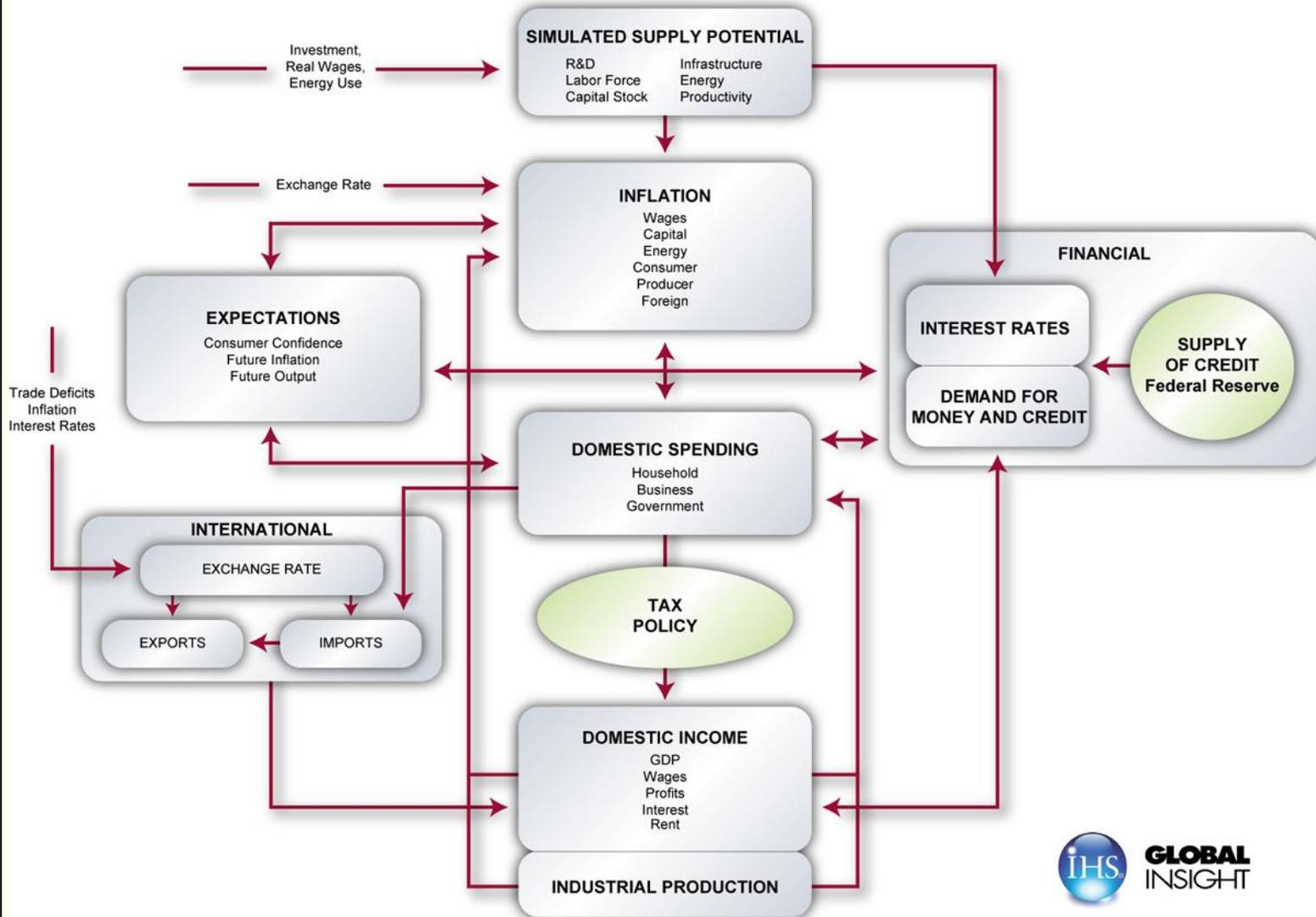
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U.S. Macro Model Overview

Model captures full simultaneity of U.S. economy

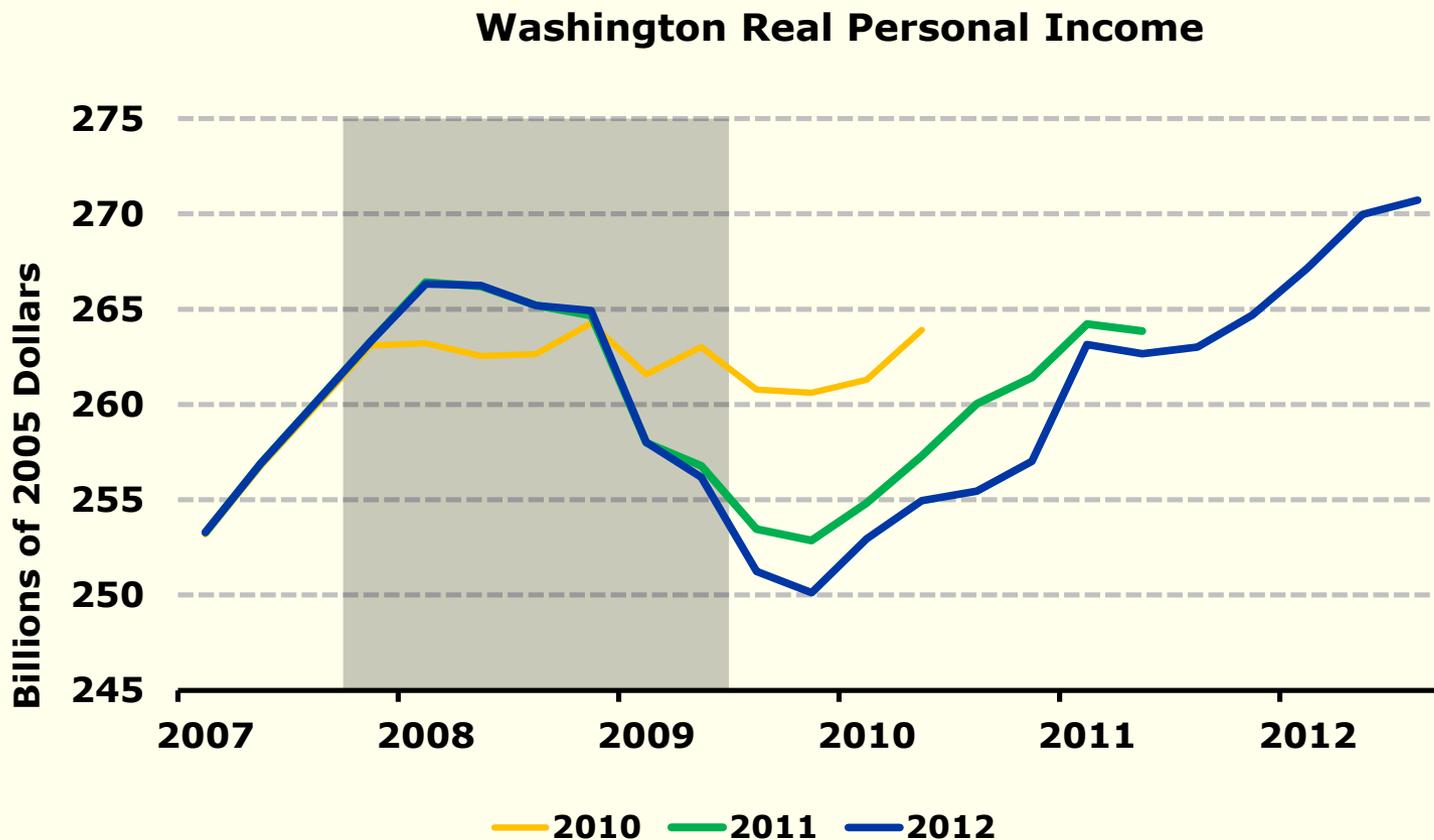
Output, employment, incomes, prices, interest rates, international trade, industrial detail, etc.



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Data revisions have potential to create forecasting difficulties



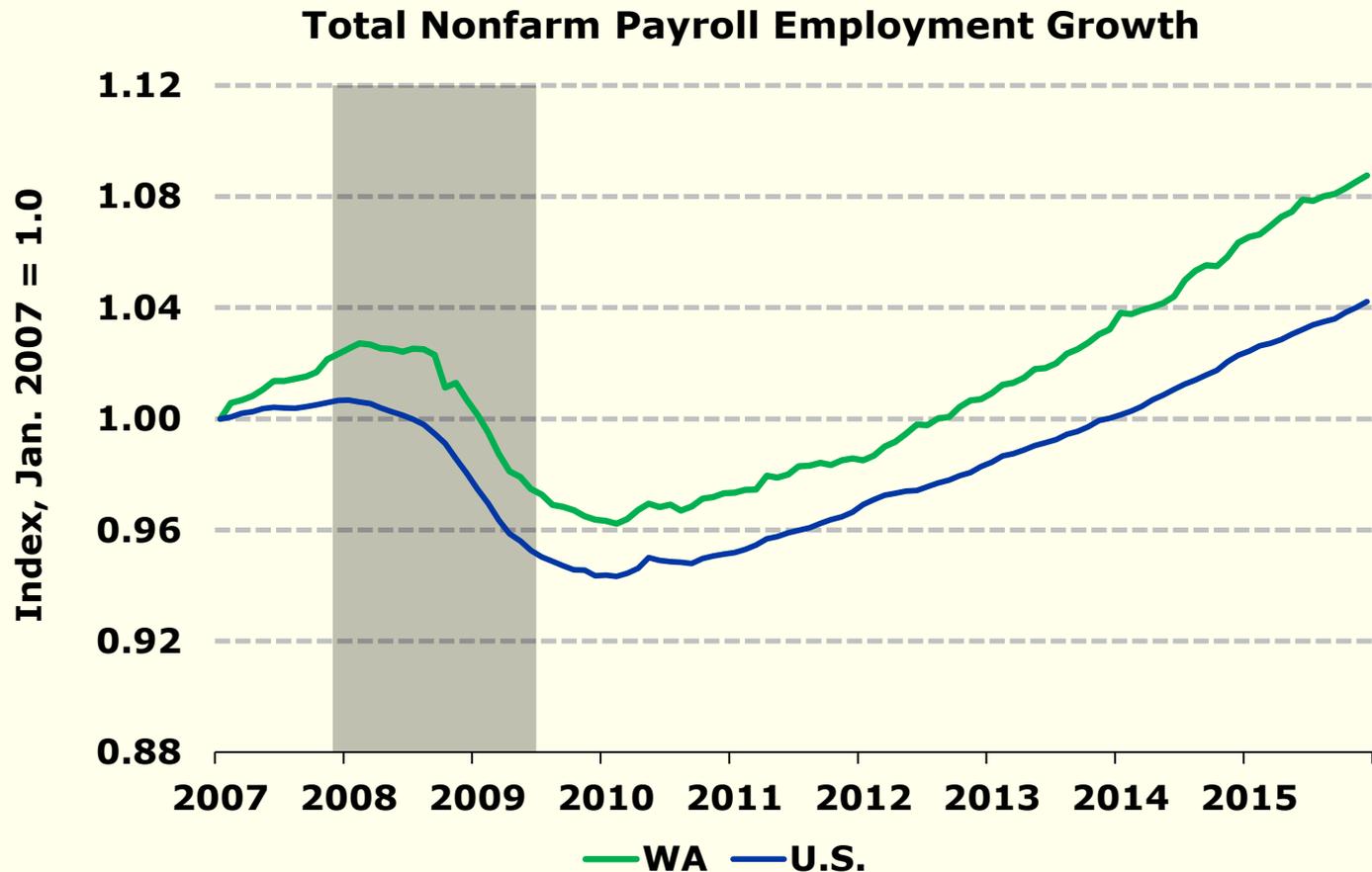
Source: BEA; data through 2012 Q3

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WA and U.S. employment growth since 2007



Source: BLS, ERFC; data through December 2015

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WA exports to major trading partners have slowed

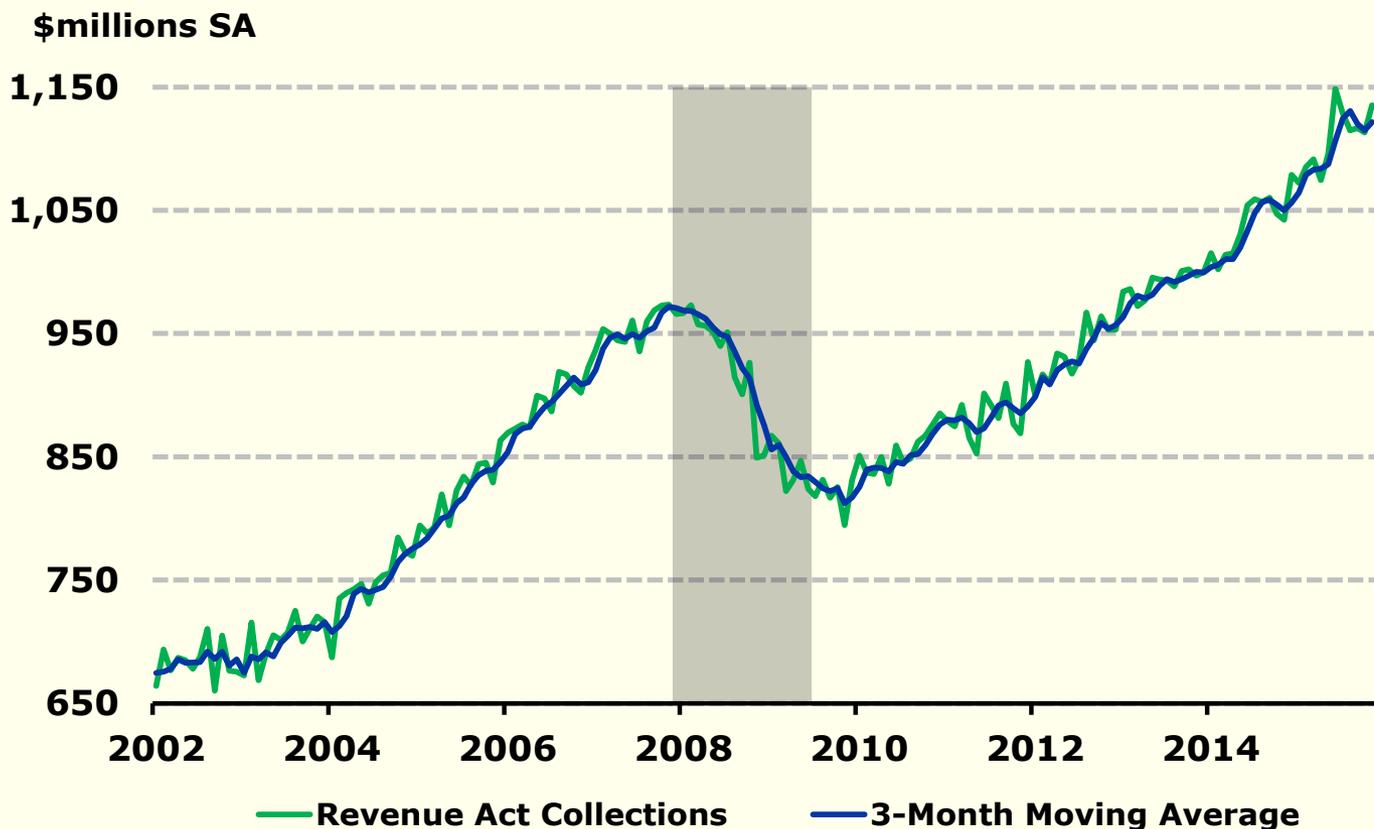


Source: WISERTrade; data through November 2015

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Revenue Act collections back to trend after spike in August collections



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

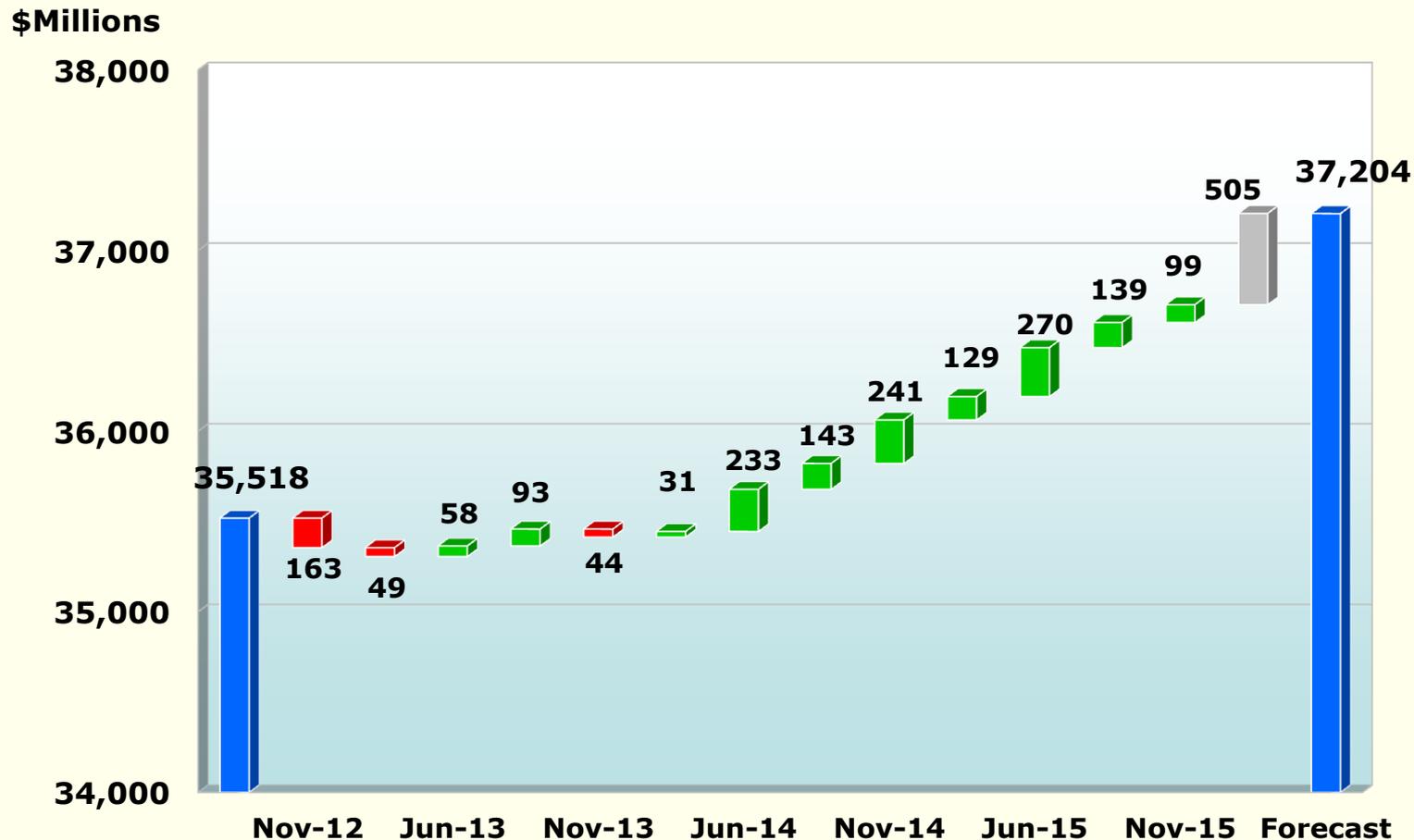
Source: DOR and ERFC; monthly data through estimated November 2015 activity

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GF-S forecast revisions to the 2015-17 biennium

Excluding legislative and other noneconomic impacts, the forecast has increased by 3.3% since Sept. 2012



Source: ERFC September 2012 – November 2015 forecasts
Gray area indicates total noneconomic change

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Ground up forecasting

- Keep ear to the ground – talk to those in the “trenches”
- Continuously test relationships between economic variables – has anything changed?
- Monitor data sources for consistency and accuracy
- Identify trends before they show up in data
- Be skeptical of model based results that contradict common sense
- Listen to what other forecasters are saying and why – be willing to disagree with cause



Summary

- A robust econometric model should be considered an essential first step in guiding the forecaster
- Develop an instinct for the process that generates the data
- Identify key variables – don't be misled by the noise
- Forecasts will not be perfect – that's why they call it a forecast



Questions



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