

Economic and Revenue Update

Presented to
Coalition of Washington Business Organizations

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**WASHINGTON STATE
ECONOMIC AND REVENUE FORECAST COUNCIL**



Summary

- The economic forecast is similar to September's forecast, with slightly weaker growth in U.S. GDP, U.S. employment and WA employment
- The forecast assumes the Federal Reserve will gradually increase interest rates starting in December
- Risks to the baseline include slowing economic growth in the U.S. and globally, impact of a stronger dollar on exports, and weaker manufacturing activity
- The GF-S revenue forecast has been increased by \$113 million for the 2015-17 biennium and increased by \$30 million for the 2017-19 biennium



Economic news continues to suggest risks to forecast

Upside:

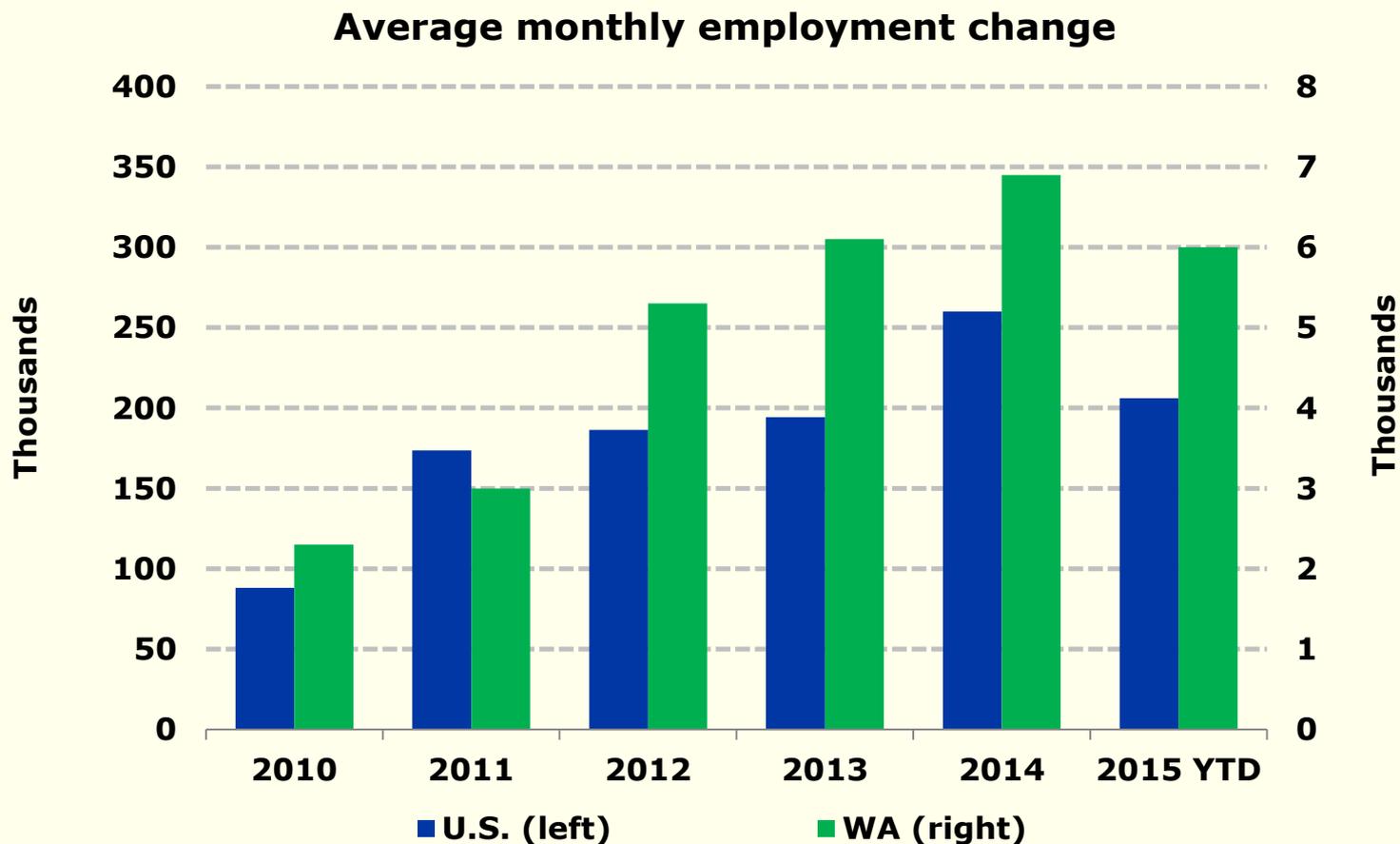
- Stronger than expected job growth
- Rising wage growth
- Stronger housing starts and home sales (new and existing)

Downside:

- Slowing global economy
- Slower U.S. GDP growth
- Negative impact of stronger dollar on exports
- Weaker manufacturing activity
- Impact of Federal Reserve actions



Job creation is slightly weaker in both the U.S. and WA so far this year



Source: Bureau of Labor Statistics, ERFC; data through October 2015

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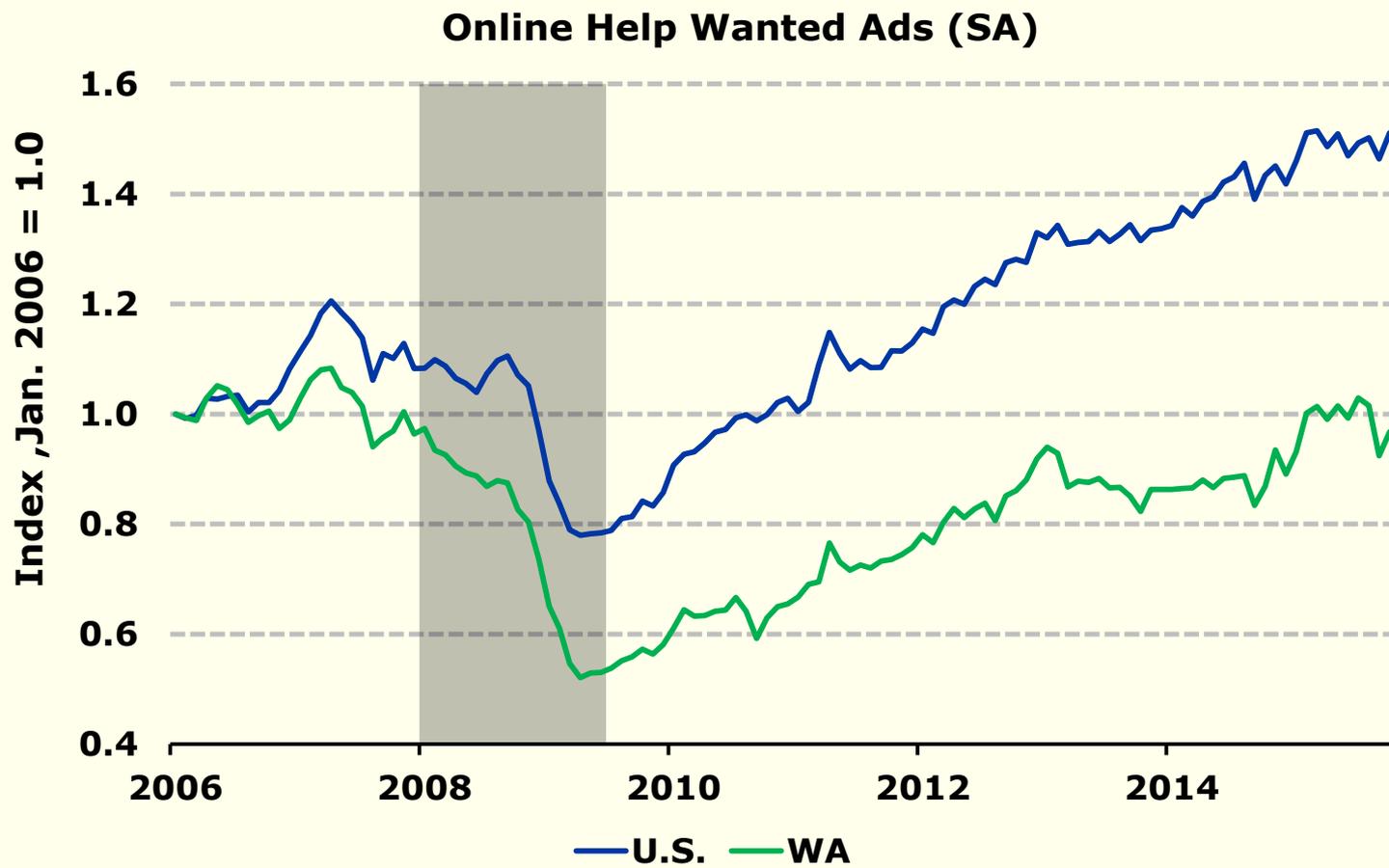


Average U.S. wage growth has turned positive





Job openings trending up nationally, slowing in Washington

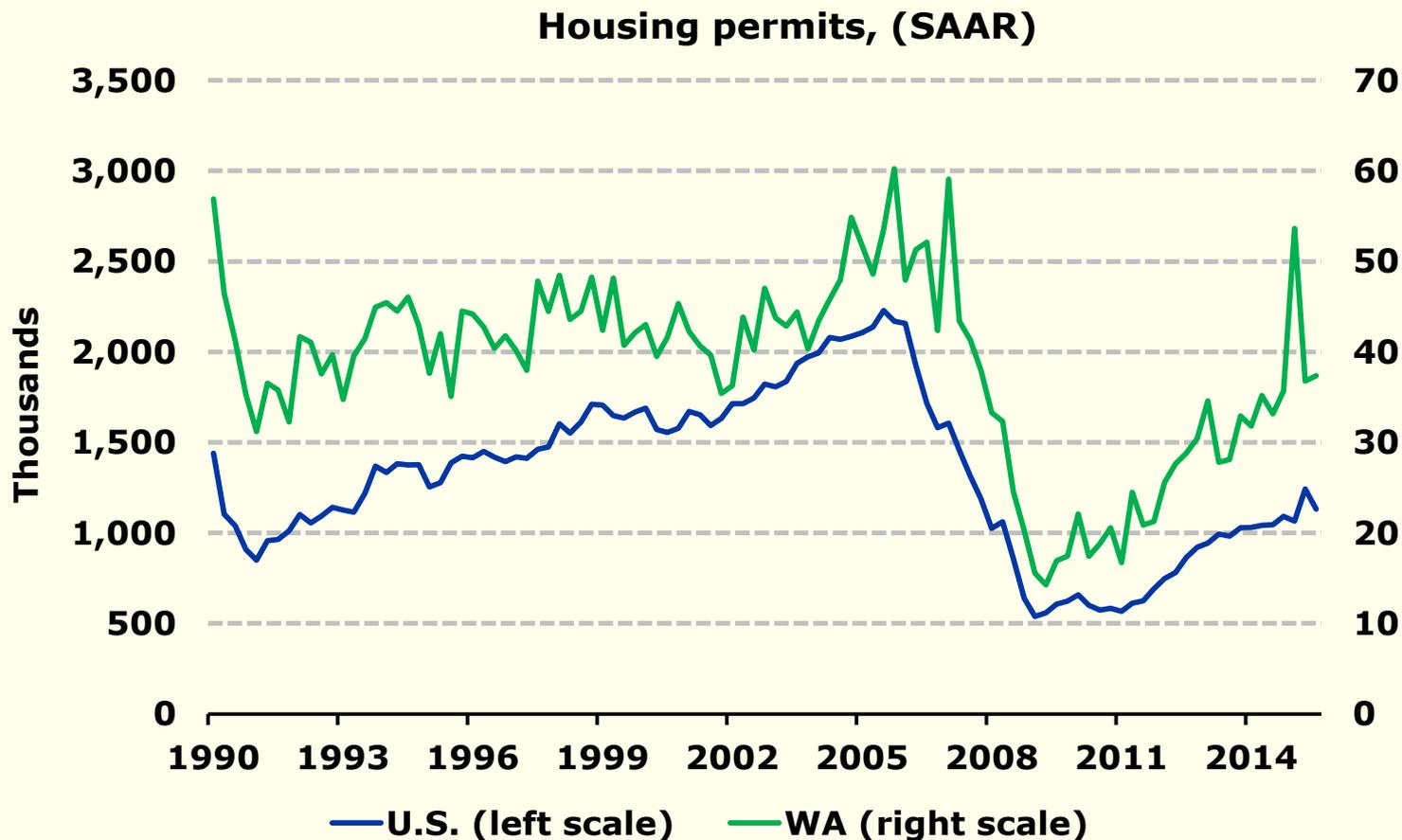


Source: Conference Board; data through October 2015

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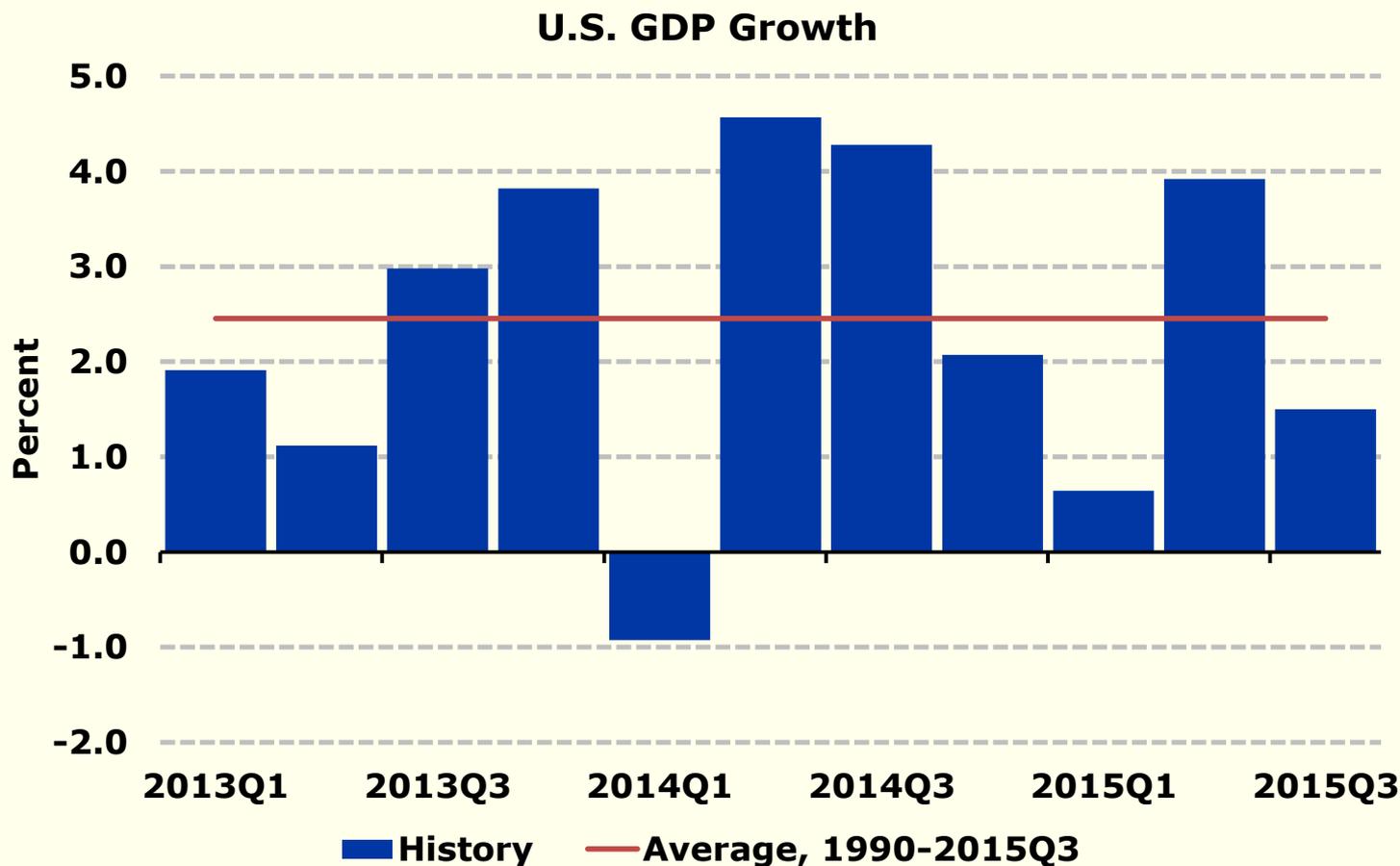


Both U.S. and WA housing permits trending up since 2011





U.S. economic growth weakened in the third quarter

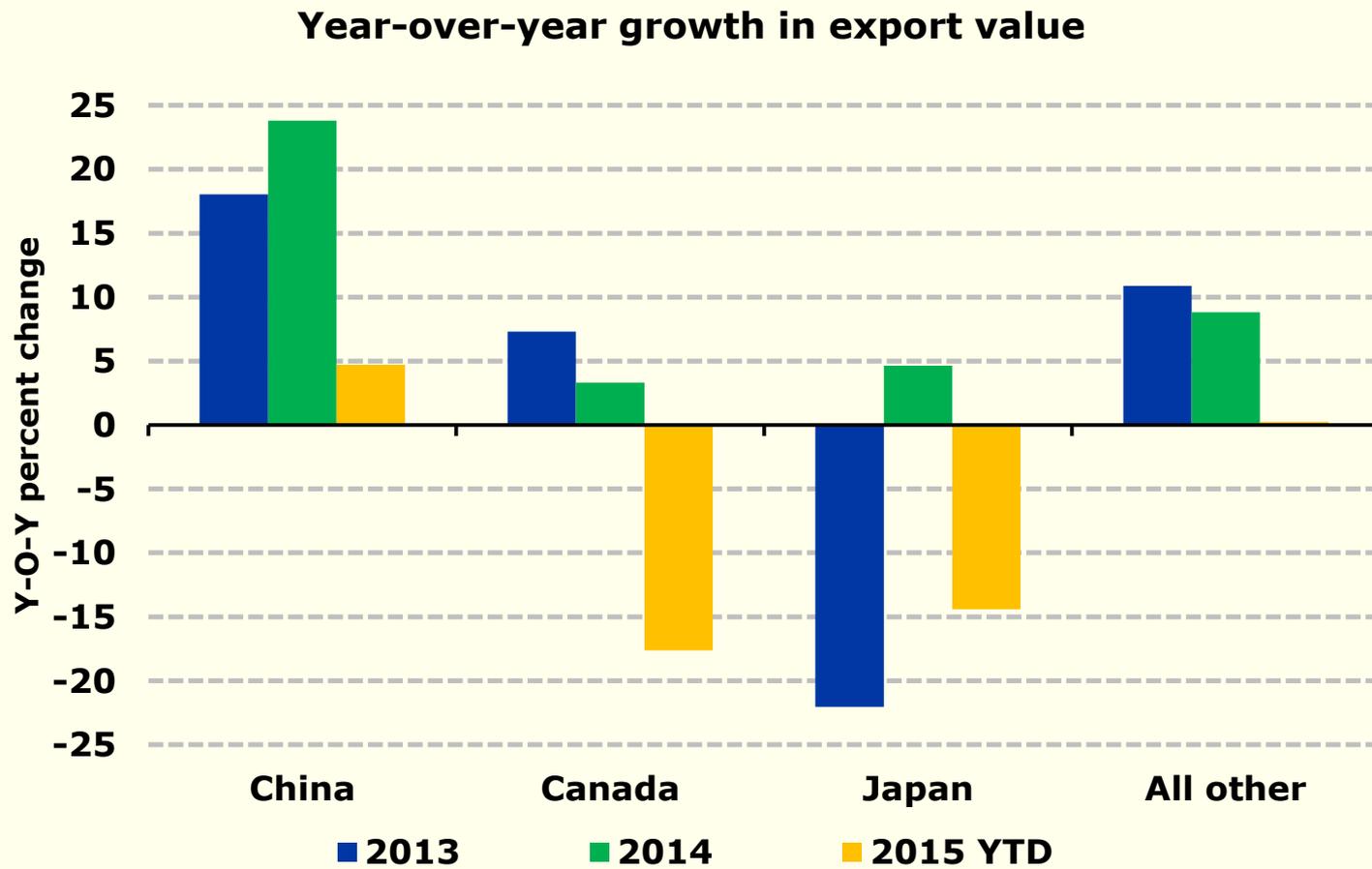


Source: U.S. Dept. of Commerce, BEA, data through 2015Q3

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WA exports to major trading partners have slowed

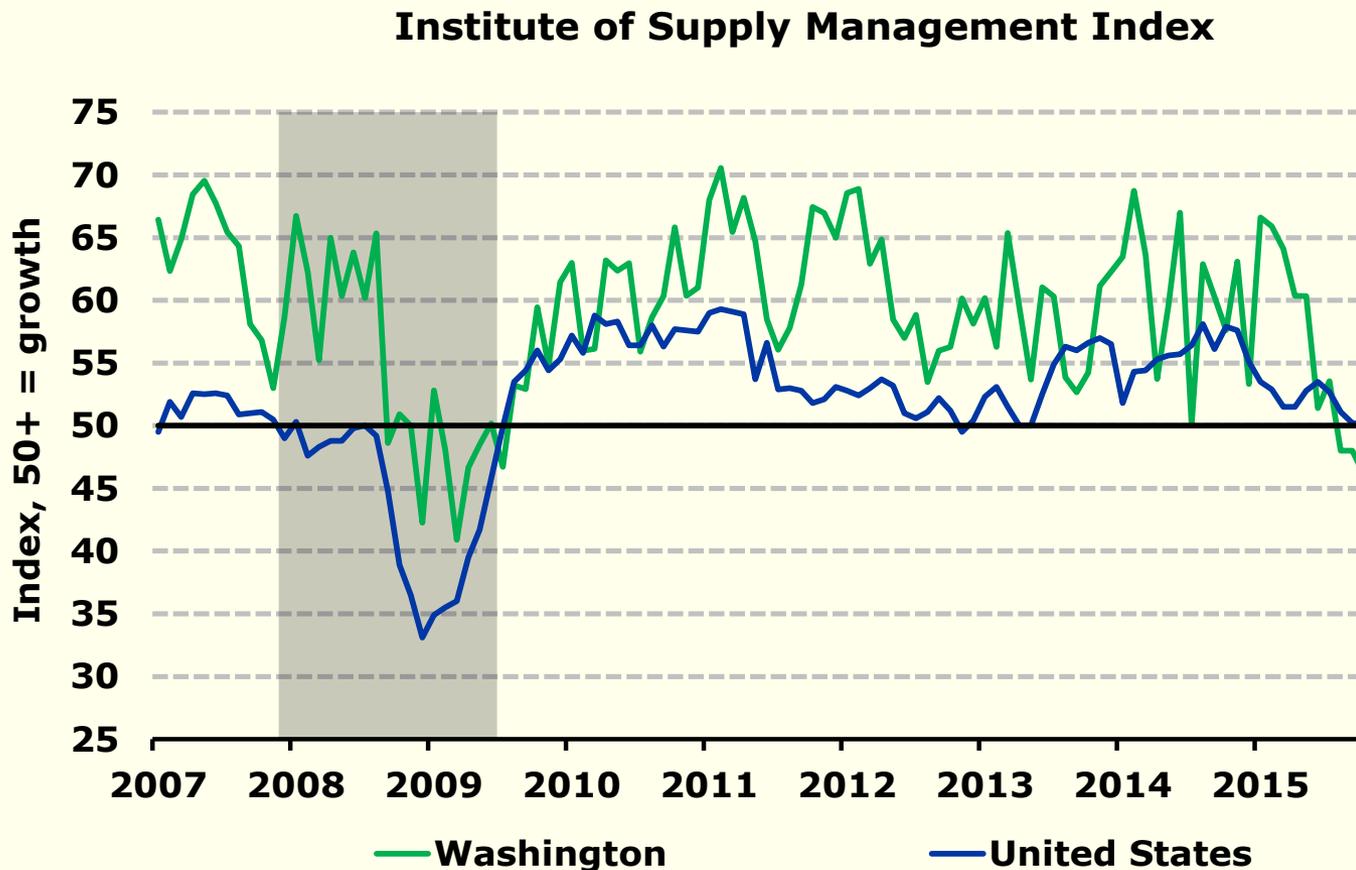


Source: WISERTrade; data through September 2015

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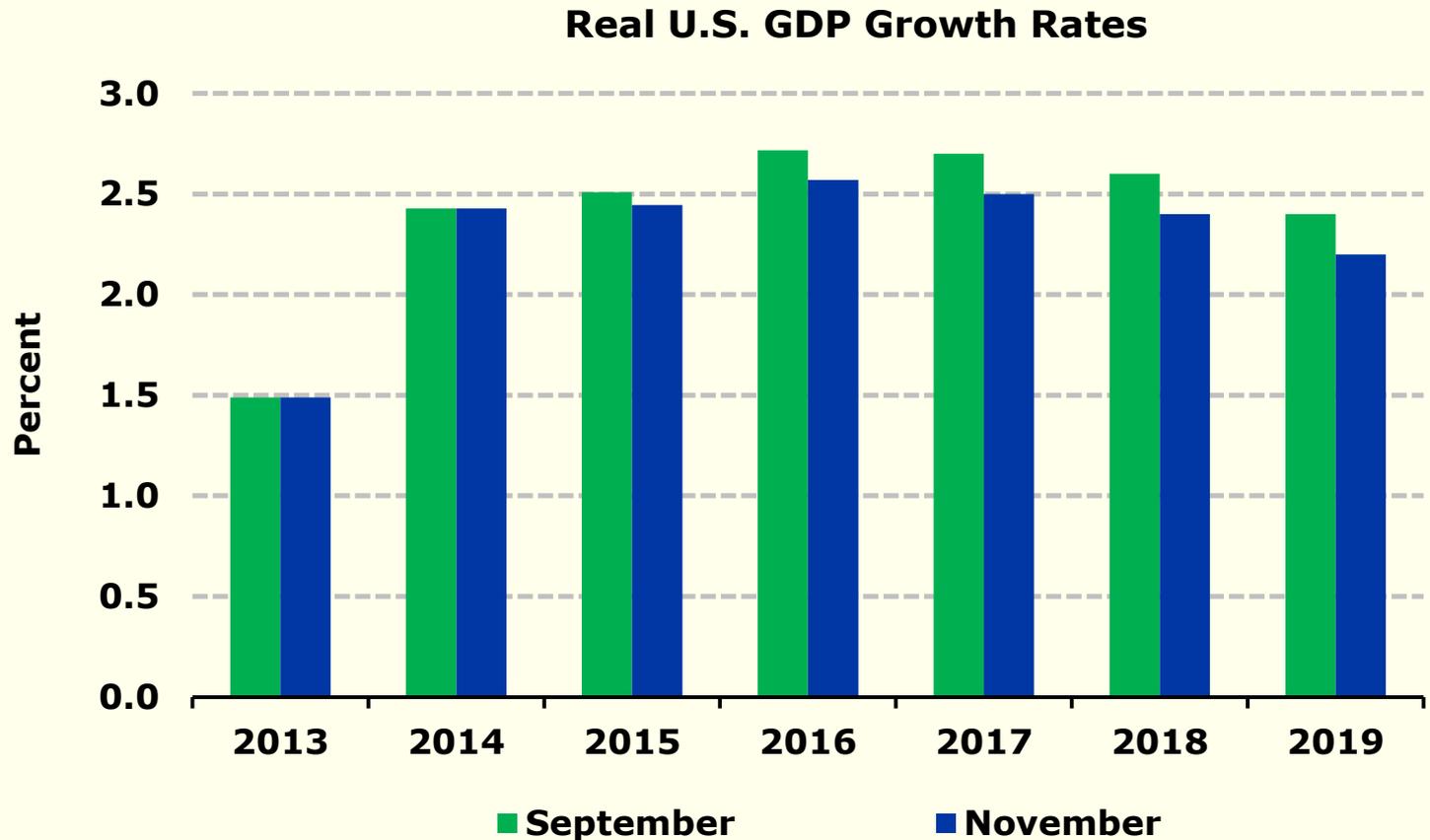
Manufacturing is declining in Washington



Source: ISM; data through October 2015

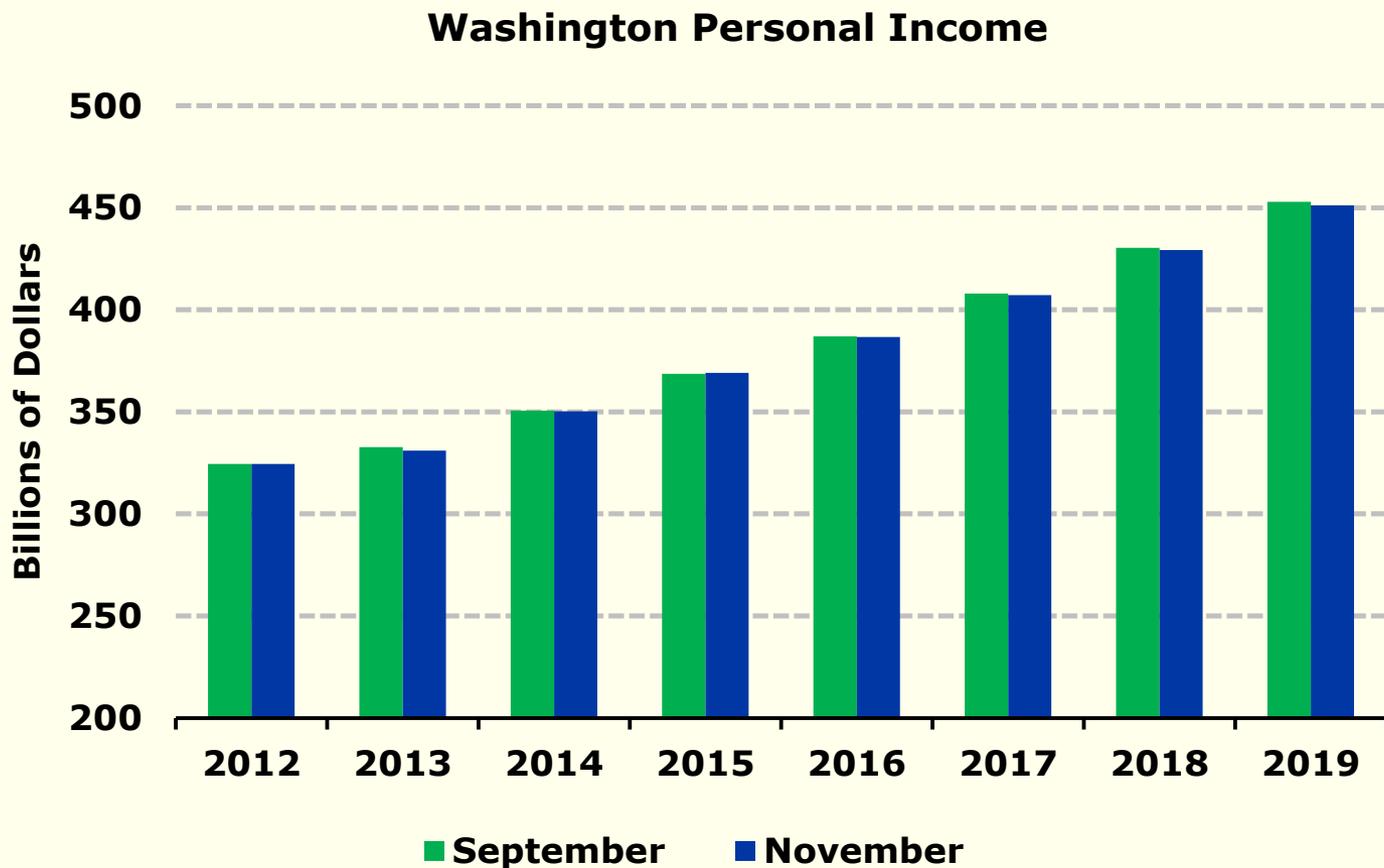


Forecasted real GDP growth is slightly lower than in the September forecast



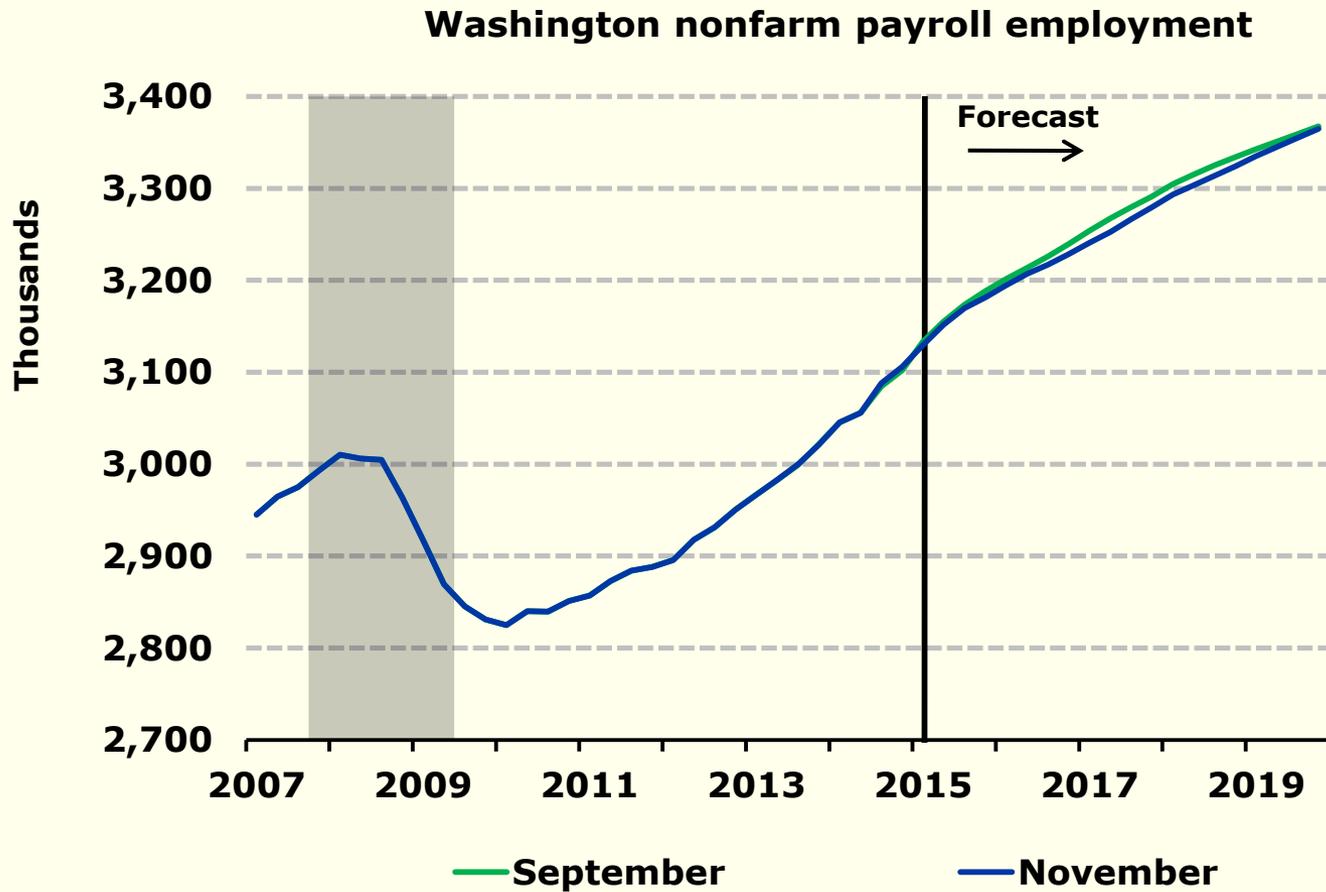


Washington personal income forecast is slightly lower than in September





Washington employment forecast is slightly lower than in September

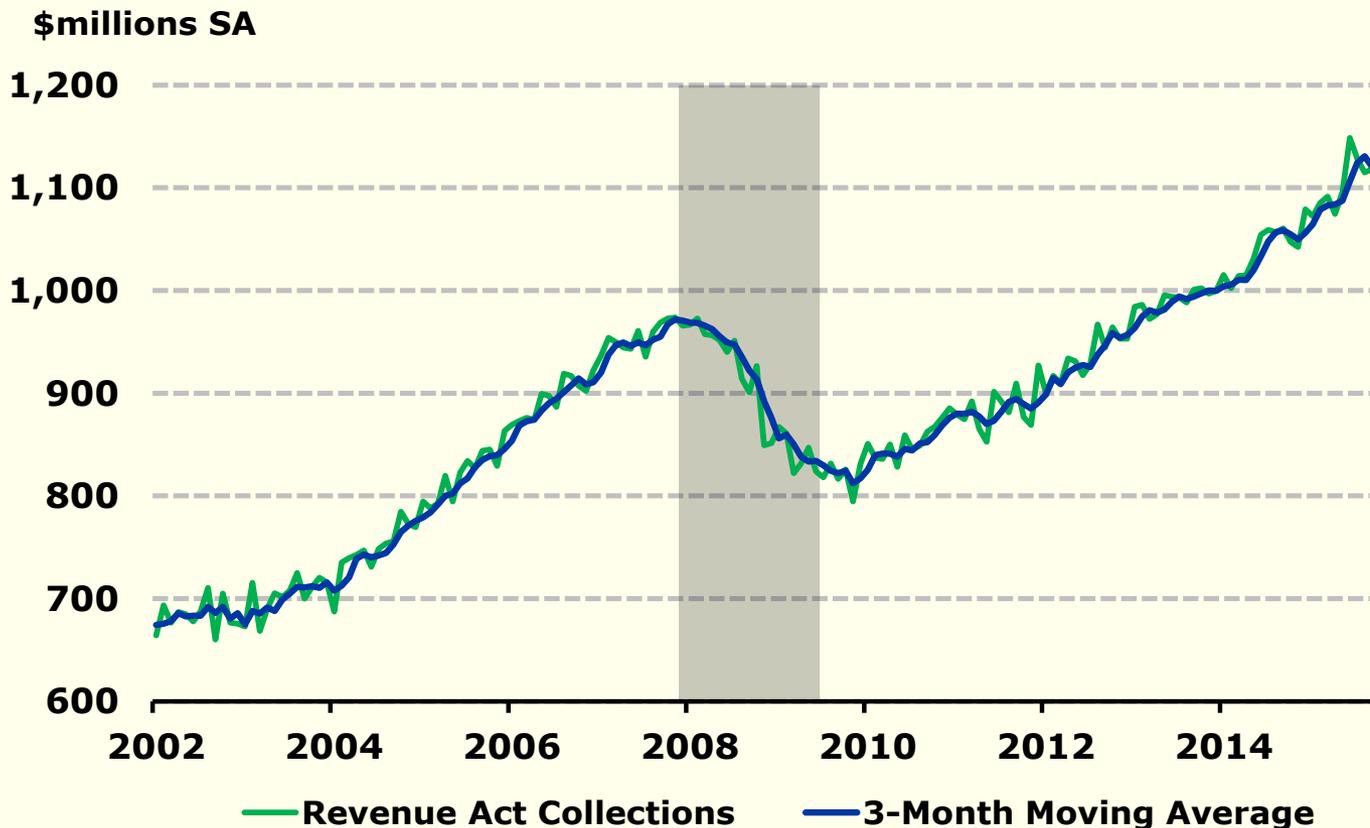




Q3 Revenue Act collections growth slowed after a strong Q2

Adjusted Y-O-Y revenue growth for third quarter activity slowed to 5.5% after 7.3% growth in the second quarter.

Adjusted Y-O-Y growth was 4.3% for August activity and 5.8% for September activity.



* 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 September 2015 activity

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Large commercial property sales have had major impact on REET collections

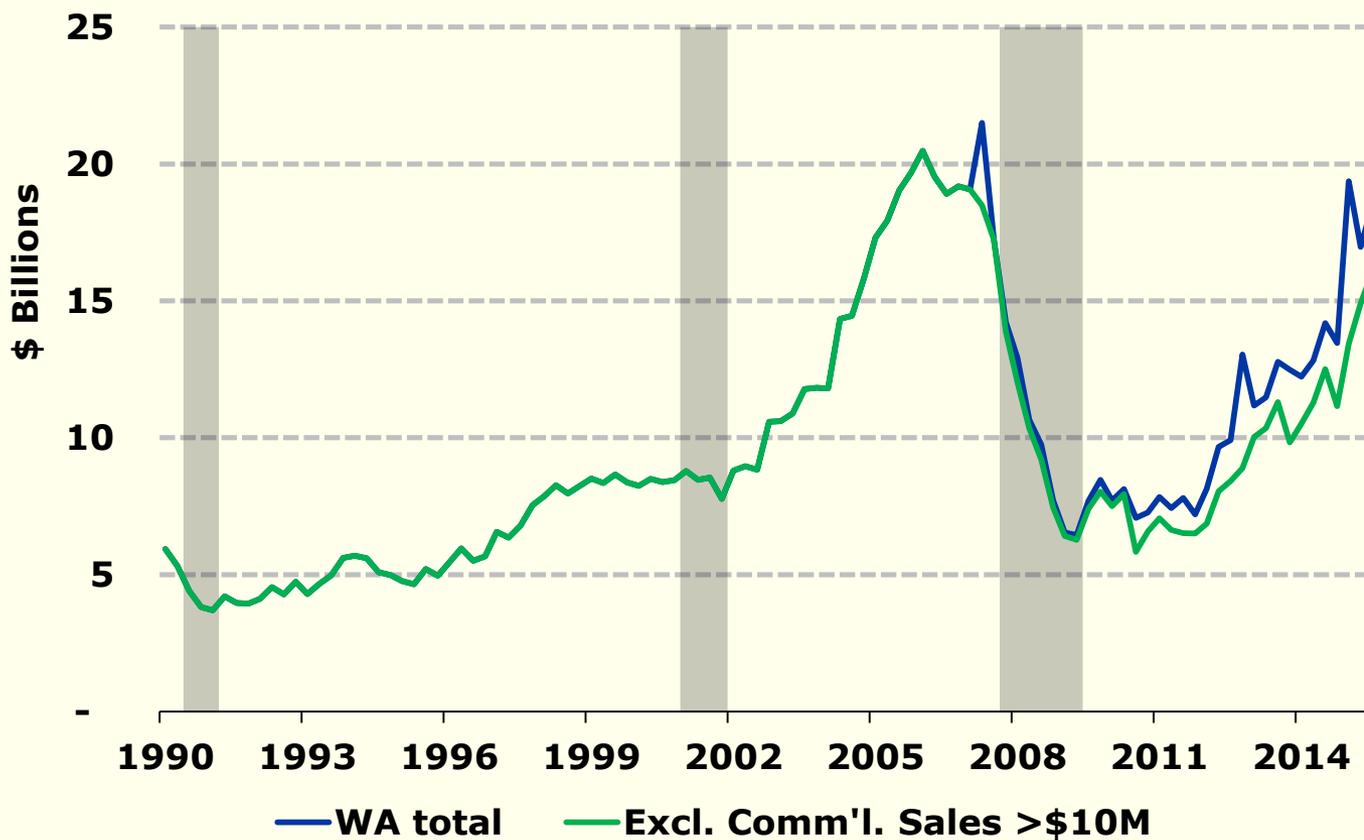
Residential taxable activity has been growing rapidly for the last three quarters but future growth is expected to slow due to a lack of inventory.

Large commercial property sales are also expected to slow.

COWBO
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Taxable real estate sales, SA



Source: ERFC, data through 2015 Q3

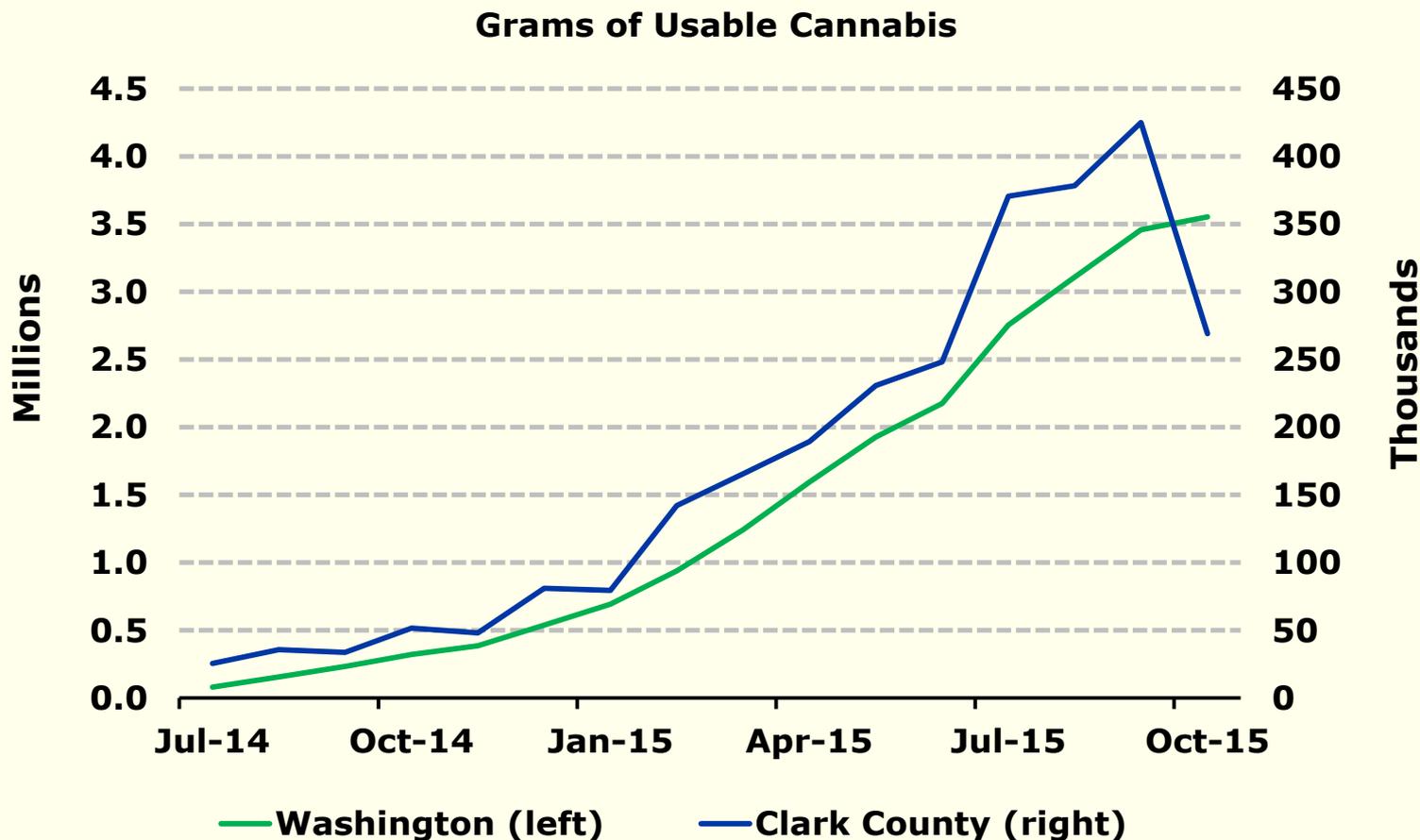
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Oregon legalization appears to have affected Clark County but statewide sales continued to grow

Prior to legal retail sales in Oregon, Clark County accounted for 12.8% of total sales by quantity.

In October, Clark County accounted for 7.6% of total sales by quantity.



Source: WA LCB; data through October 2015



Cannabis excise tax and license fee estimates

Total change from September forecast:

•2015-17
+\$11 M

•2017-19
+\$2 M

\$Millions

November Forecast

| | <u>2013-15</u> | <u>2015-17</u> | <u>2017-19</u> |
|---|-----------------------|-----------------------|-----------------------|
| GF-S share of excise tax and license fees | \$15 | \$133 | \$230 |
| Non-GF | \$52 | \$300 | \$475 |
| Total | \$67 | \$433 | \$705 |

* Detail may not add to total due to rounding

Source: ERFC, LCB, BOTE Analysis



Forecast changes: General Fund State, 2015-2017 Biennium

September Forecast:

\$37,091 million

| \$Millions | November Forecast | | | | <u>Total Change*</u> |
|--------------------|------------------------------|-----------------------------|------------------------|-----------------|----------------------|
| | <u>Collection Experience</u> | <u>Non-economic Change#</u> | <u>Forecast Change</u> | <u>Forecast</u> | |
| Dept. of Revenue | \$45 | \$15 | \$62 | \$35,338 | \$122 |
| All other agencies | (\$1) | \$0 | (\$7) | \$1,866 | (\$8) |
| Total GF-S | \$44 | \$15 | \$55 | \$37,204 | \$113 |

#Sum of large expected audit payments

* Detail may not add to total due to rounding

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Forecast changes: General Fund State, 2017-2019 Biennium

September Forecast:

\$40,538 million

| \$Millions | November Forecast | | | |
|--------------------|----------------------------|------------------------|-----------------|----------------------|
| | <u>Non-economic Change</u> | <u>Forecast Change</u> | <u>Forecast</u> | <u>Total Change*</u> |
| Dept. of Revenue | \$0 | \$35 | \$38,430 | \$35 |
| All other agencies | \$0 | (\$5) | \$2,137 | (\$5) |
| Total GF-S | \$0 | \$30 | \$40,568 | \$30 |

* Detail may not add to total due to rounding



Questions



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