

Economic Outlook

Presented to
American Ismaili Chamber of Commerce

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April 27, 2013
Bellevue, Washington



**WASHINGTON STATE
ECONOMIC AND REVENUE FORECAST COUNCIL**



Today's presentation

Part I:

- Demographic and other data on seniors

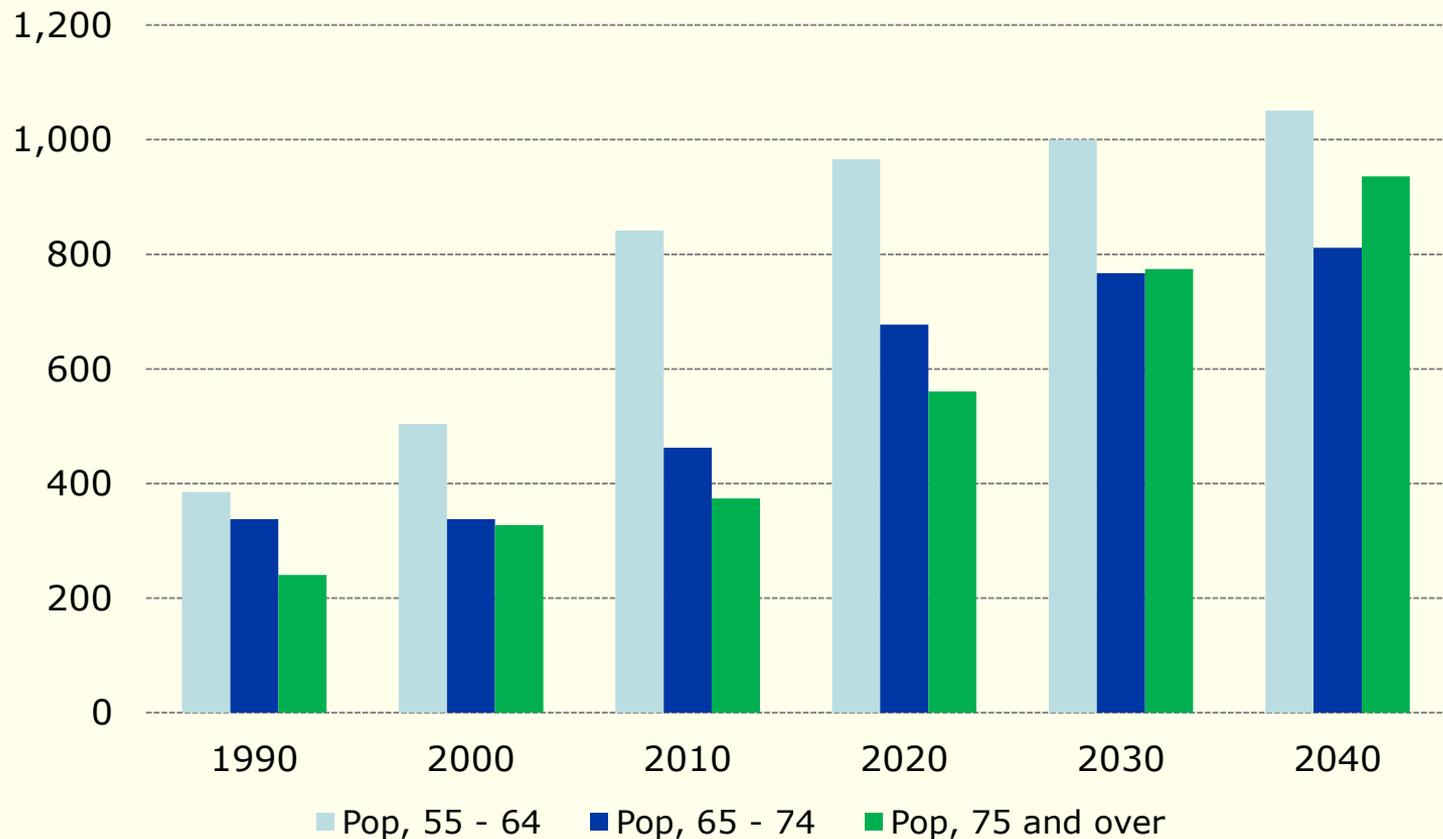
Part II:

- Economic outlook for the U.S. and Washington economies



In WA, the 65+ age group is expected to be over 1.7 million by 2040

Washington Population by Age (thousands)



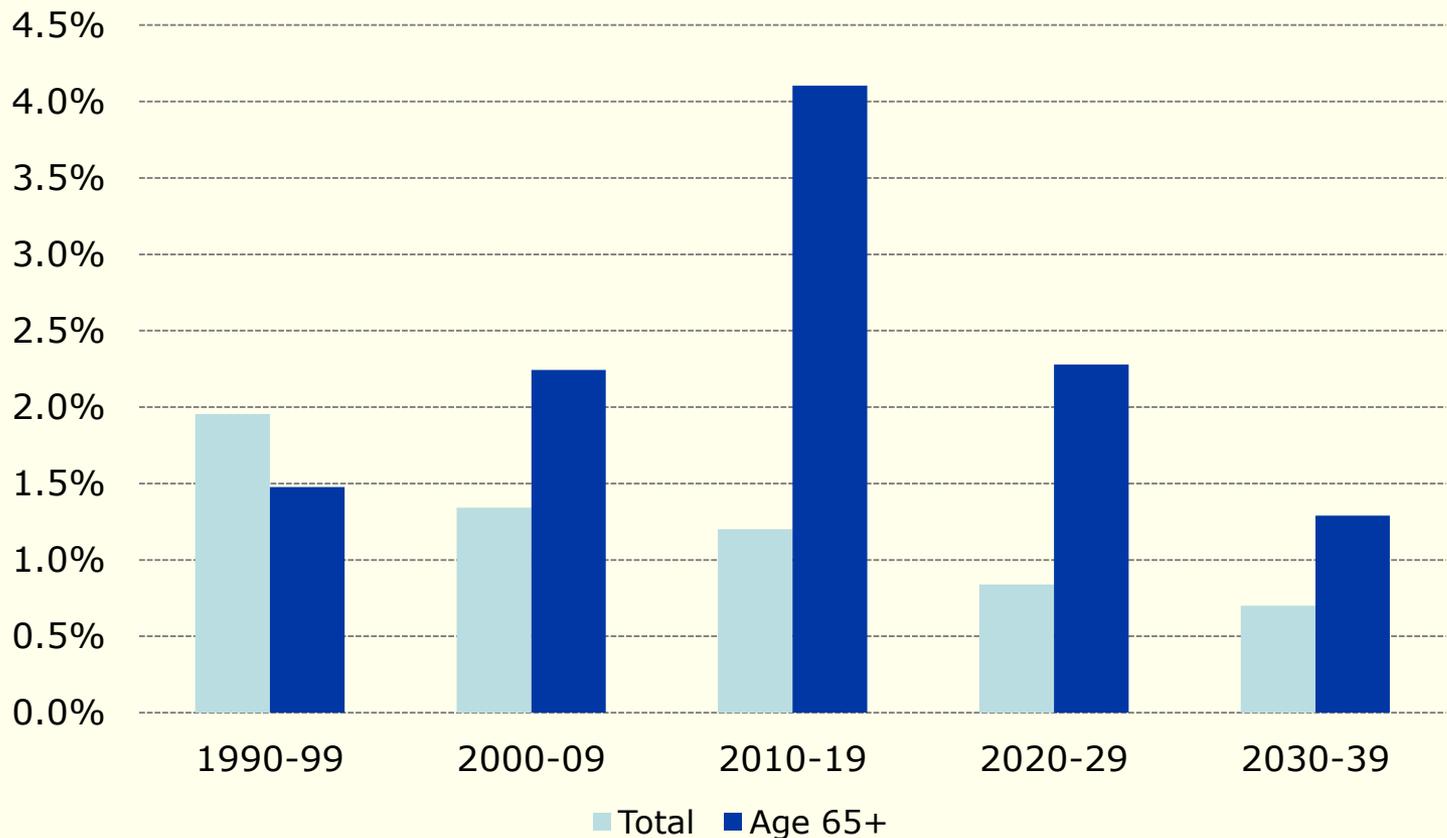
Source: U.S. Census, ERFC

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Over age 65 group grows much faster than population as a whole

Average WA Population Growth Rates by Decade

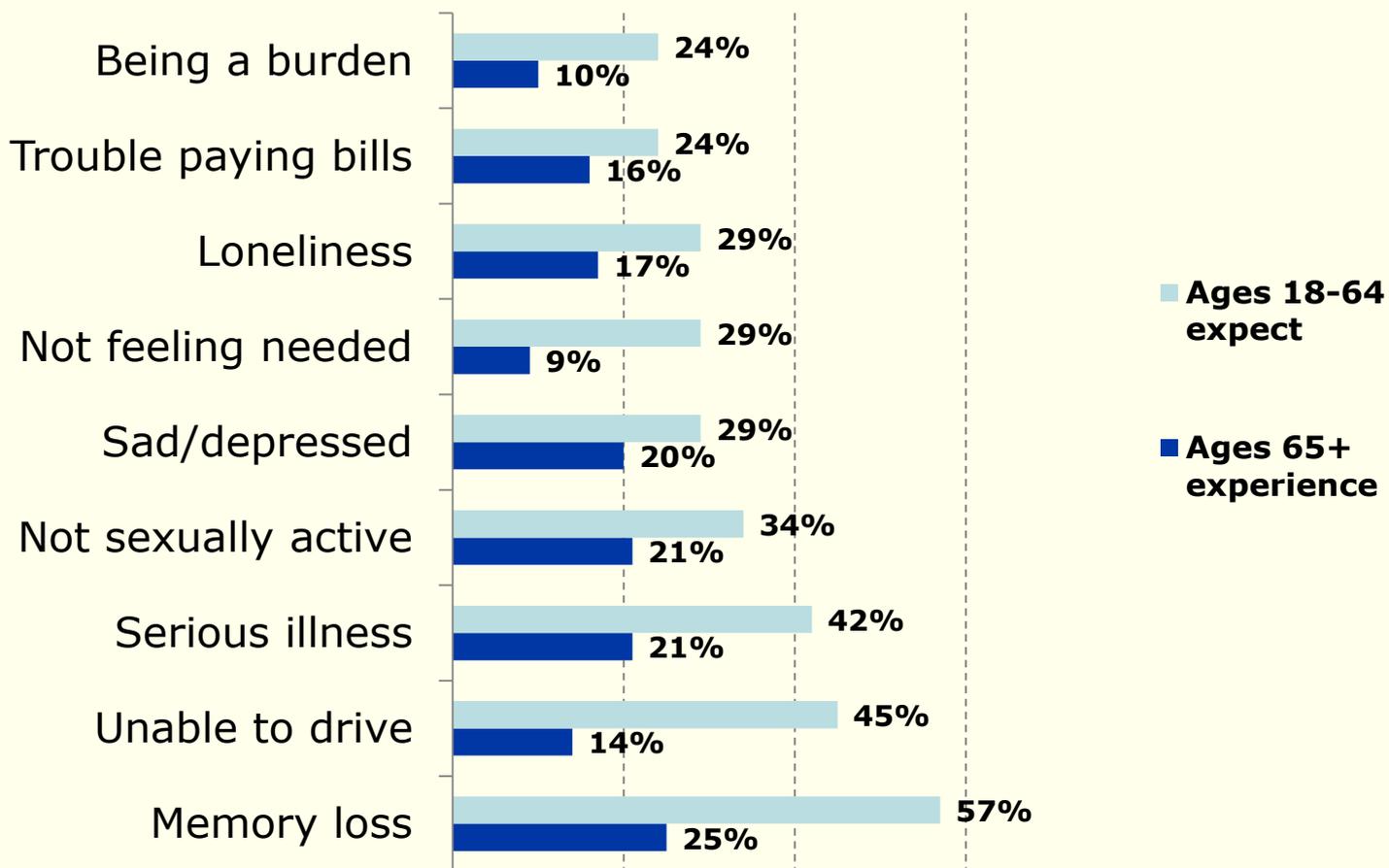


Source: U.S. Census, ERFC

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Challenges of aging – not as bad as younger adults think

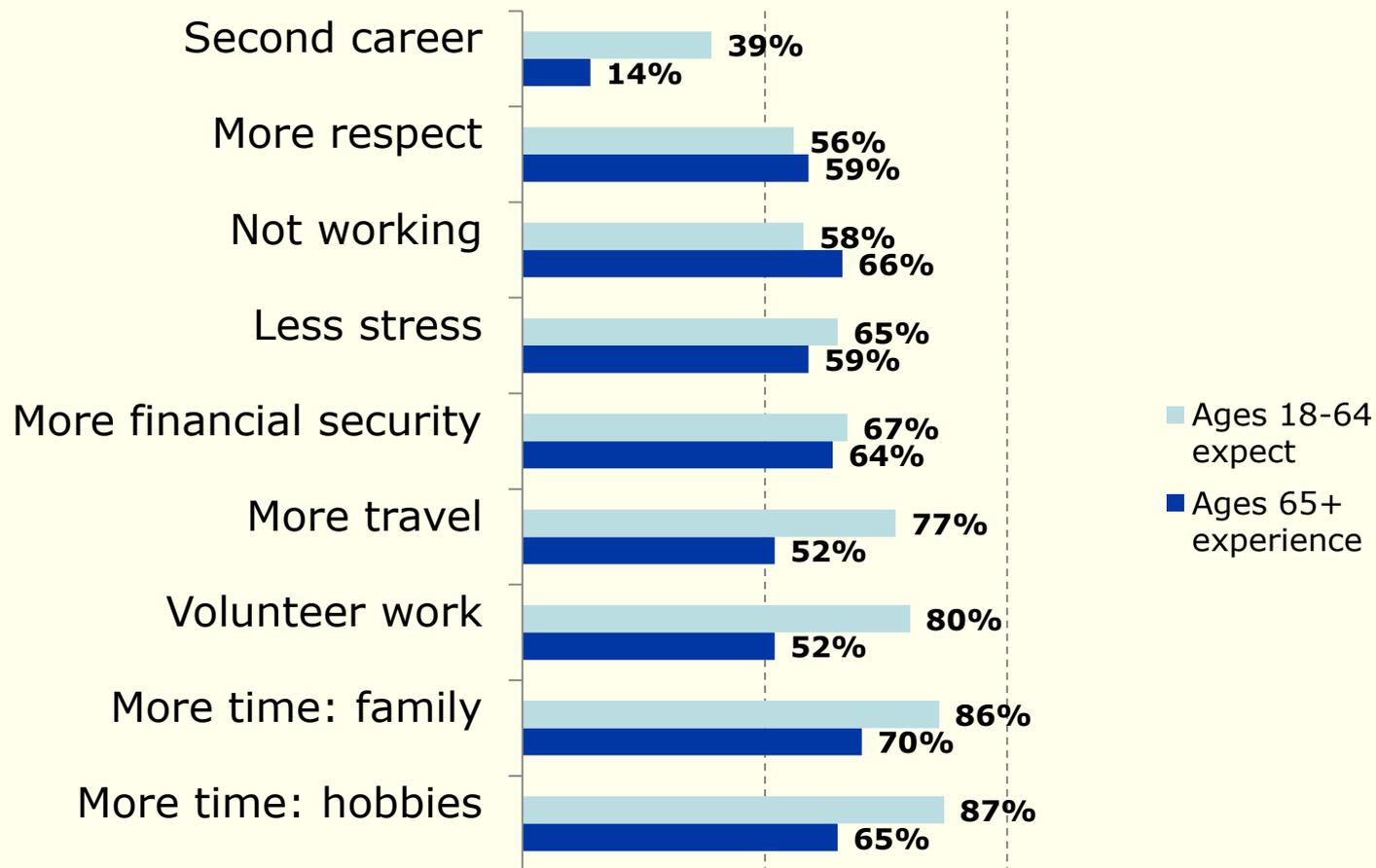


Source: Pew Research Center, "Growing Old in America: Expectations vs. Reality," 2009

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Benefits of growing older: reality may not live up to expectations



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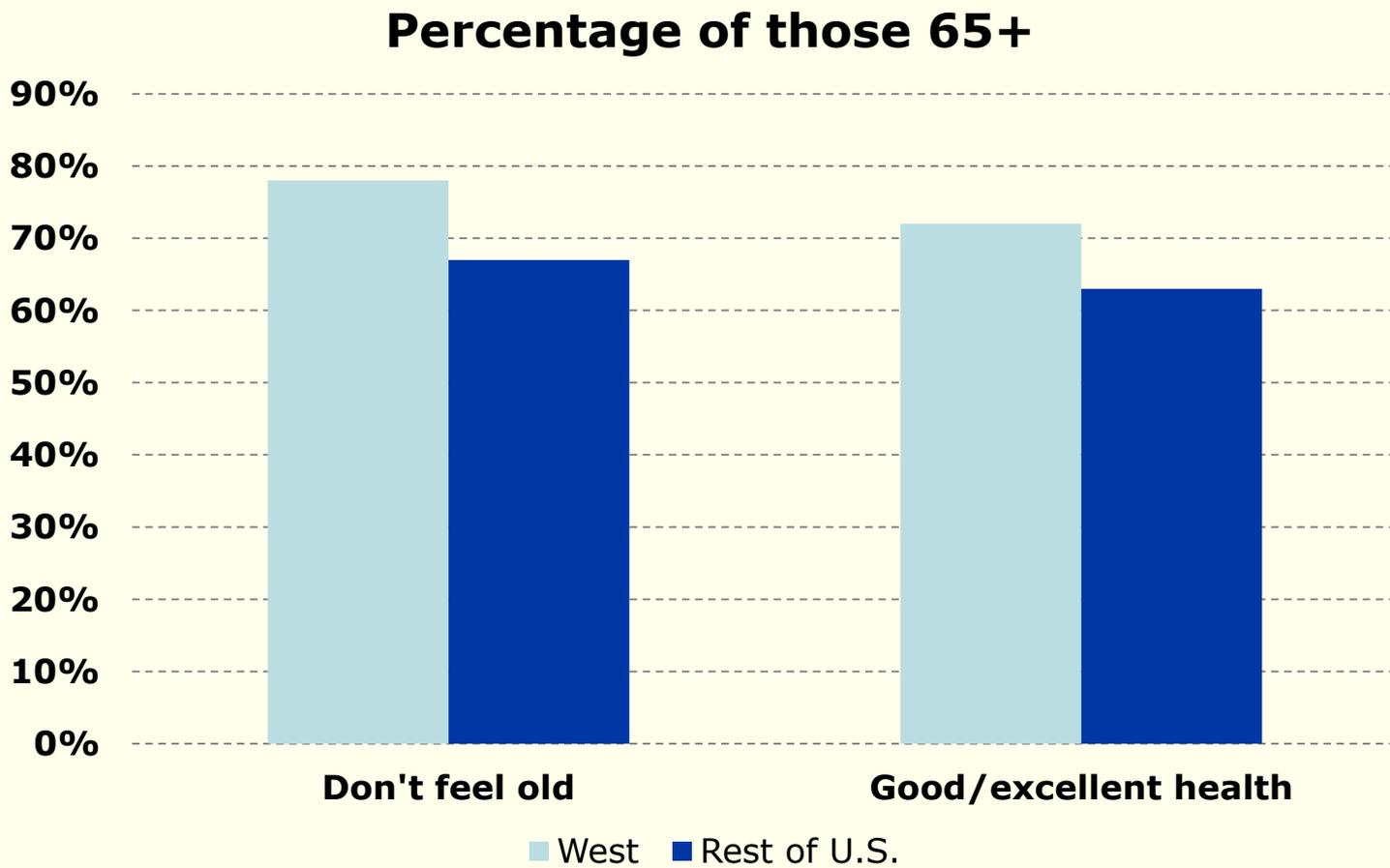
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Source: Pew Research Center, "Growing Old in America: Expectations vs. Reality," 2009

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Seniors in the West feel younger, healthier



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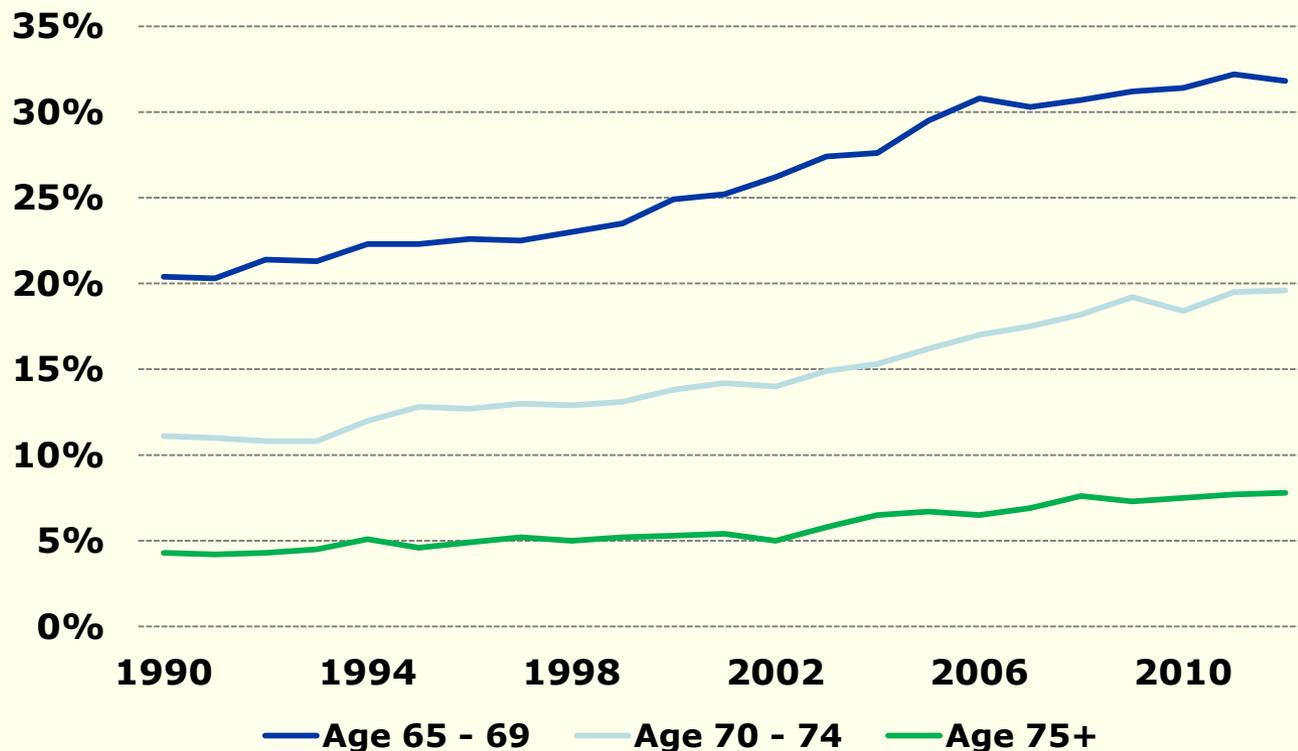
Source: Pew Research Center, "Growing Old in America: Expectations vs. Reality," 2009

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Labor Force Participation Rates: Ages 65 and up

People ages 55 and older currently account for 18.7% of the U.S. labor force, according to data from the Bureau of Labor Statistics. That is the highest share held by this age group since BLS started reporting labor force statistics in 1948.



Source: U.S. Bureau of Labor Statistics

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Reasons for working – 65 or older

Based on those who work full time or part time

"Big reason" they work...	% who said...
Feel useful/productive	68
Live independently	59
Give myself something to do	57
To be with other people	56
Support myself/family	53
Help improve society	40
Qualify for pension/social security	35
Receive health benefits	24

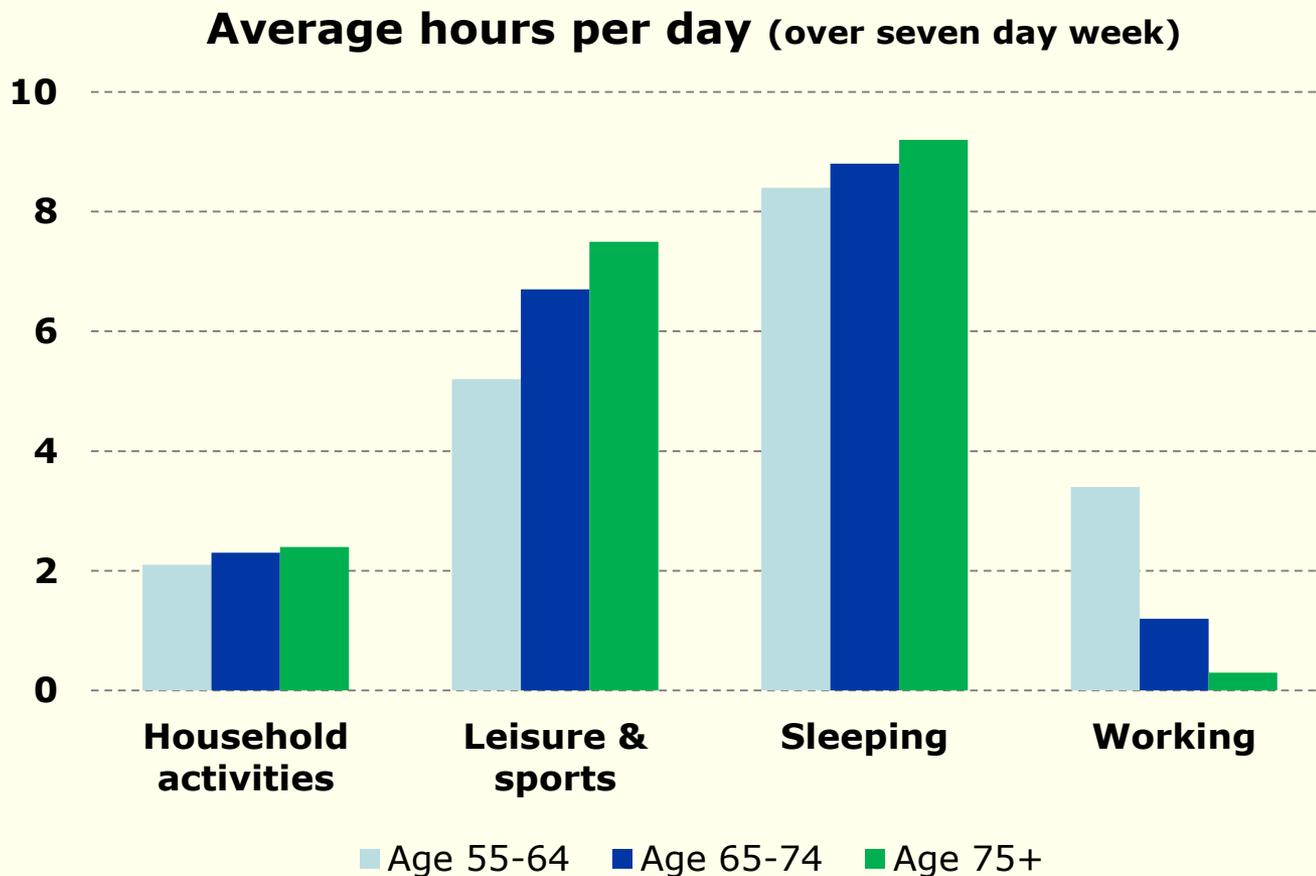
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Source: *Recession Turns a Graying Office Grayer*, Pew Research Center, September 3, 2009
<http://www.pewsocialtrends.org/2009/09/03/recession-turns-a-graying-office-grayer/>

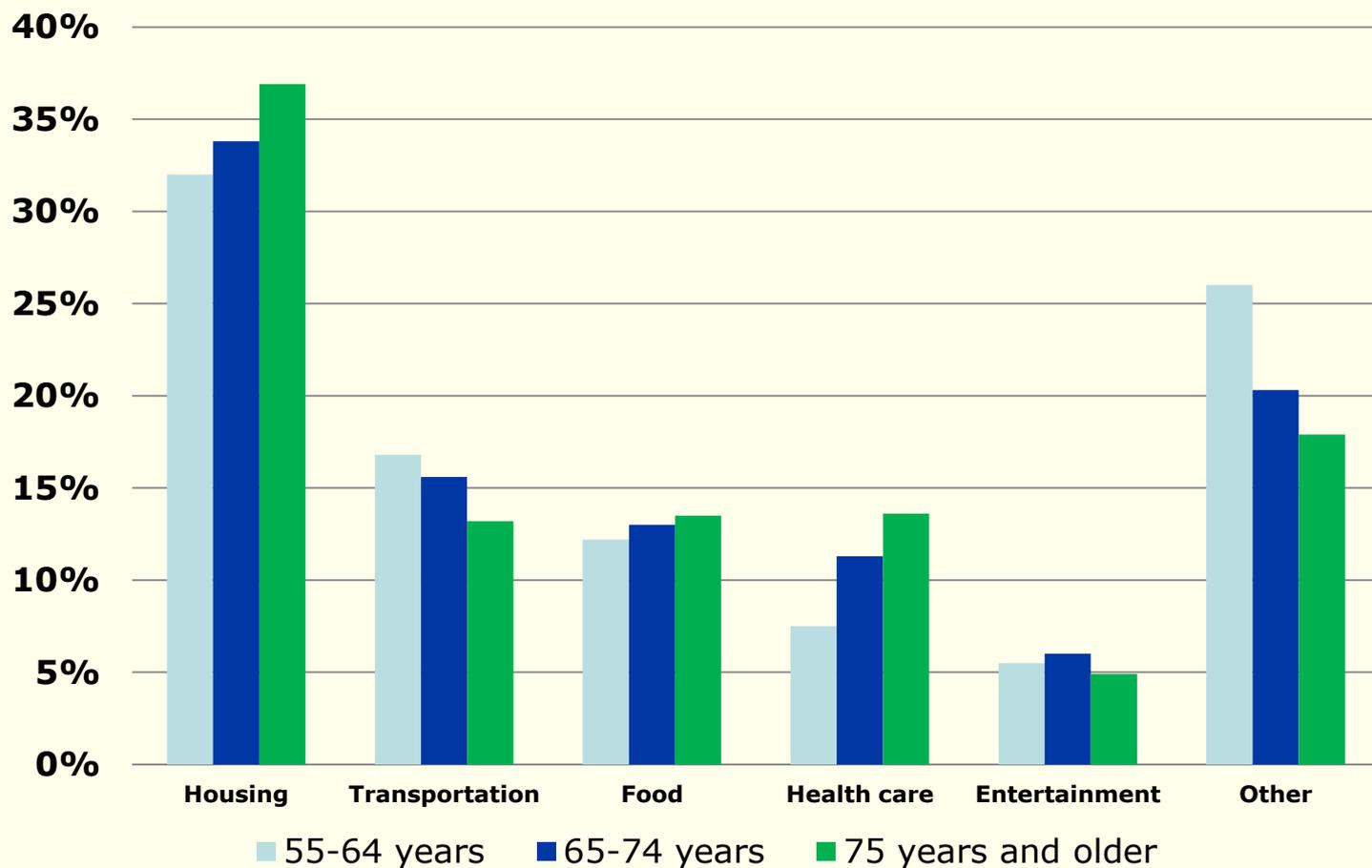


Selected activities by age





Household budget shares by age (2011)



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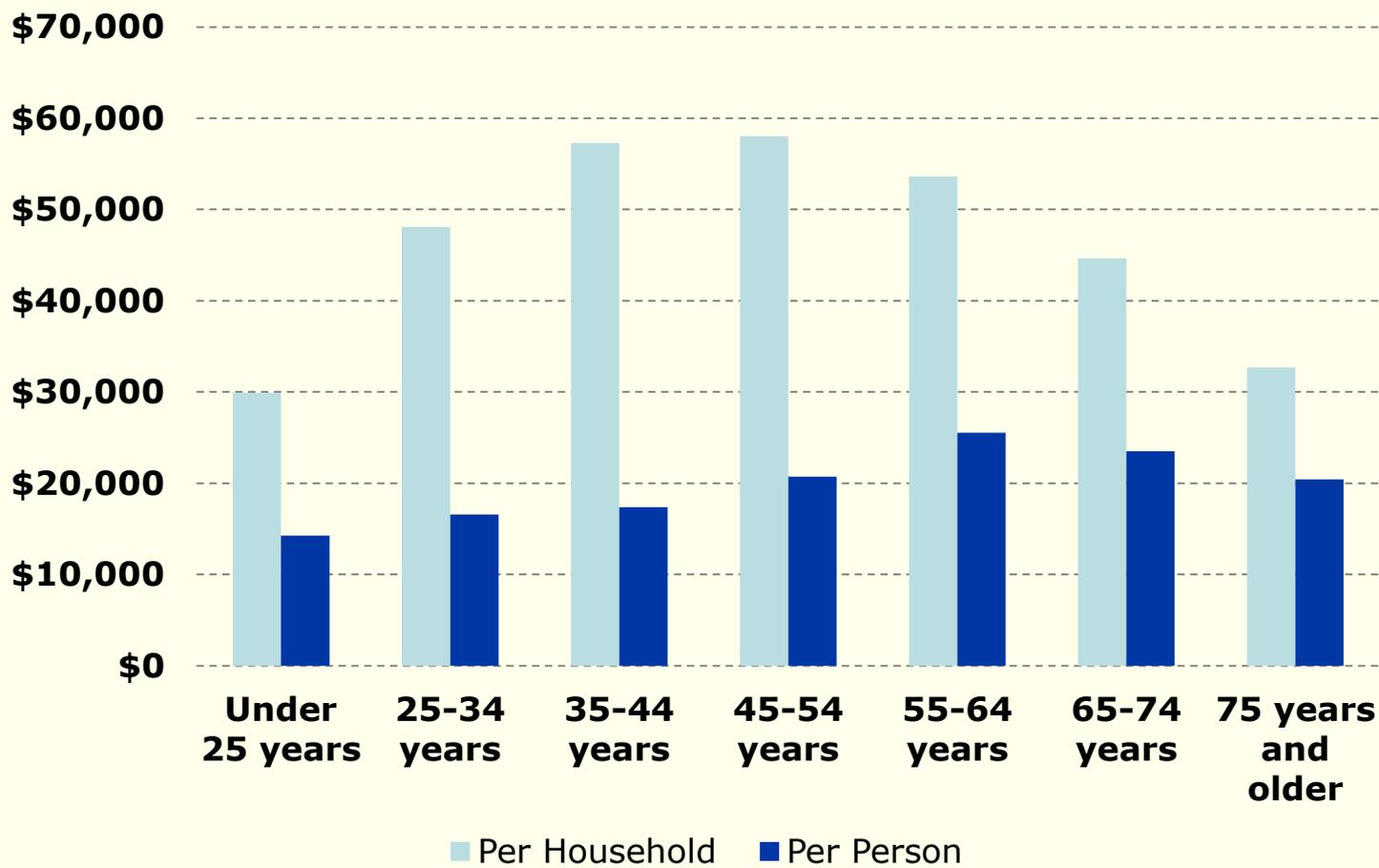
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Source: 2011 Consumer Expenditure Survey, U.S. Dept. of Labor/BLS, ERFC

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Average annual expenditures, by age group (2011)

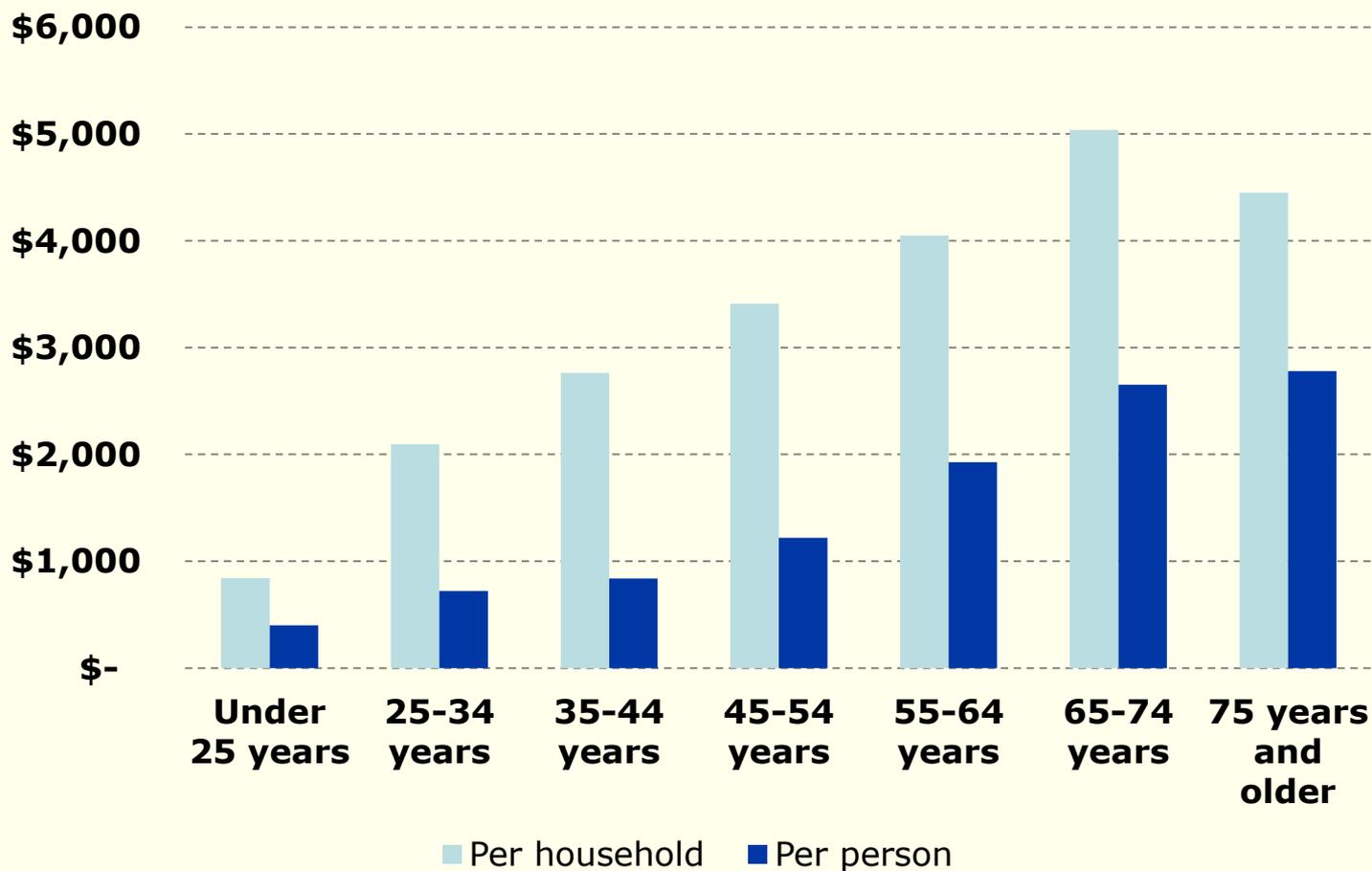


Source: 2011 Consumer Expenditure Survey, U.S. Dept. of Labor/BLS, ERFC

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Average annual expenditures, health care (2011)

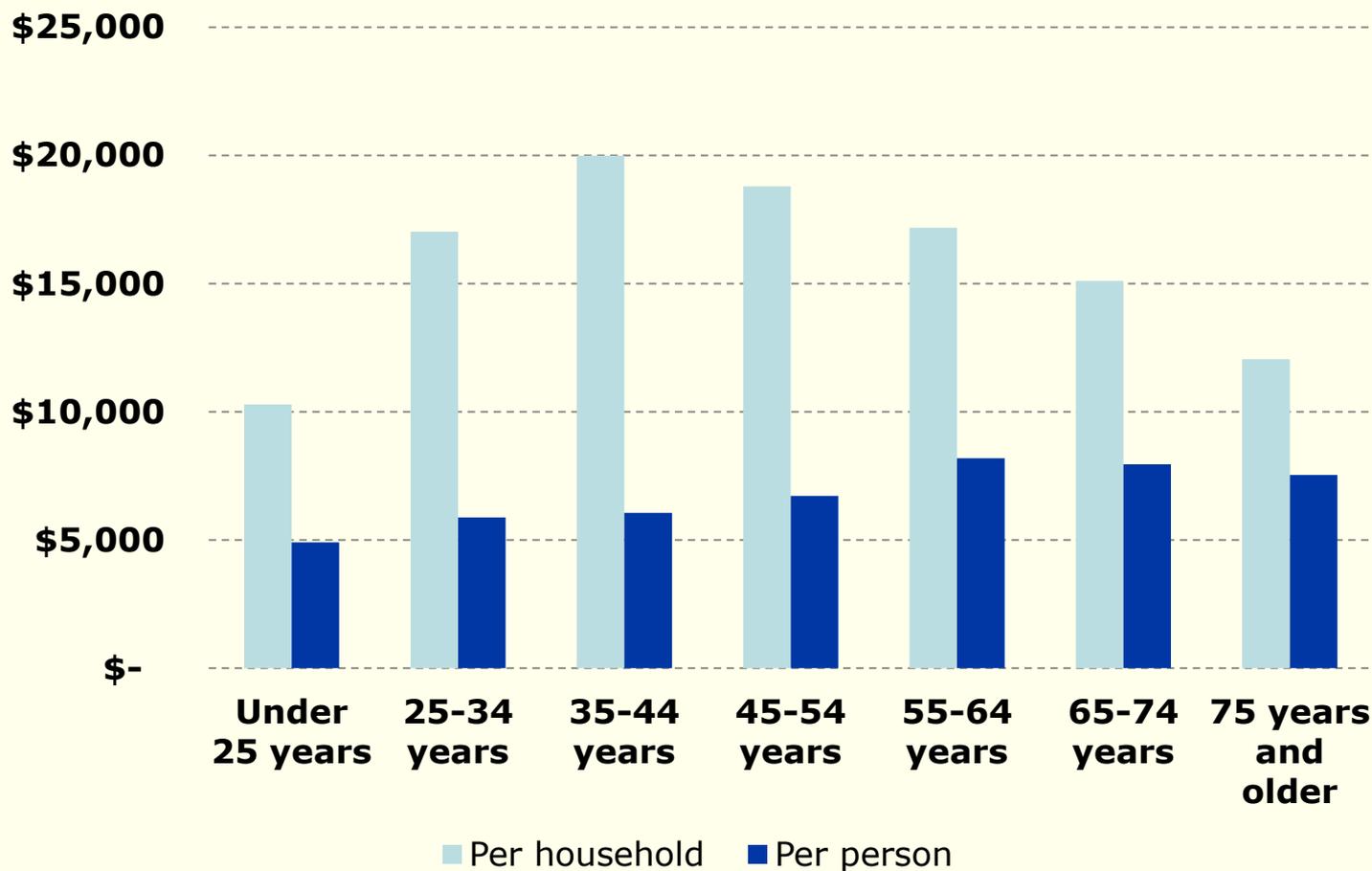


Source: 2011 Consumer Expenditure Survey, U.S. Dept. of Labor/BLS, ERFC

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Average annual expenditures, housing (2011)

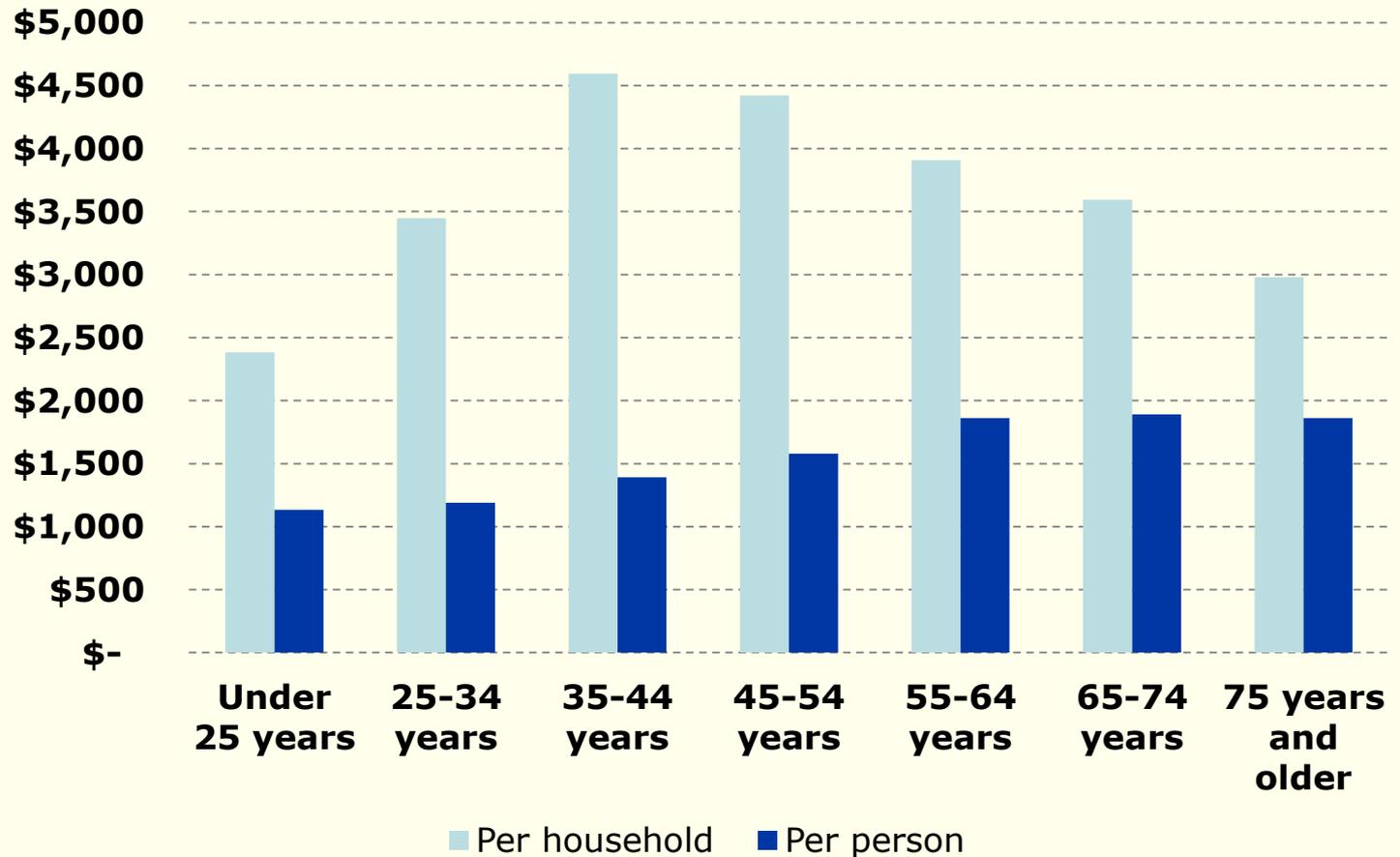


Source: 2011 Consumer Expenditure Survey, U.S. Dept. of Labor/BLS, ERFC

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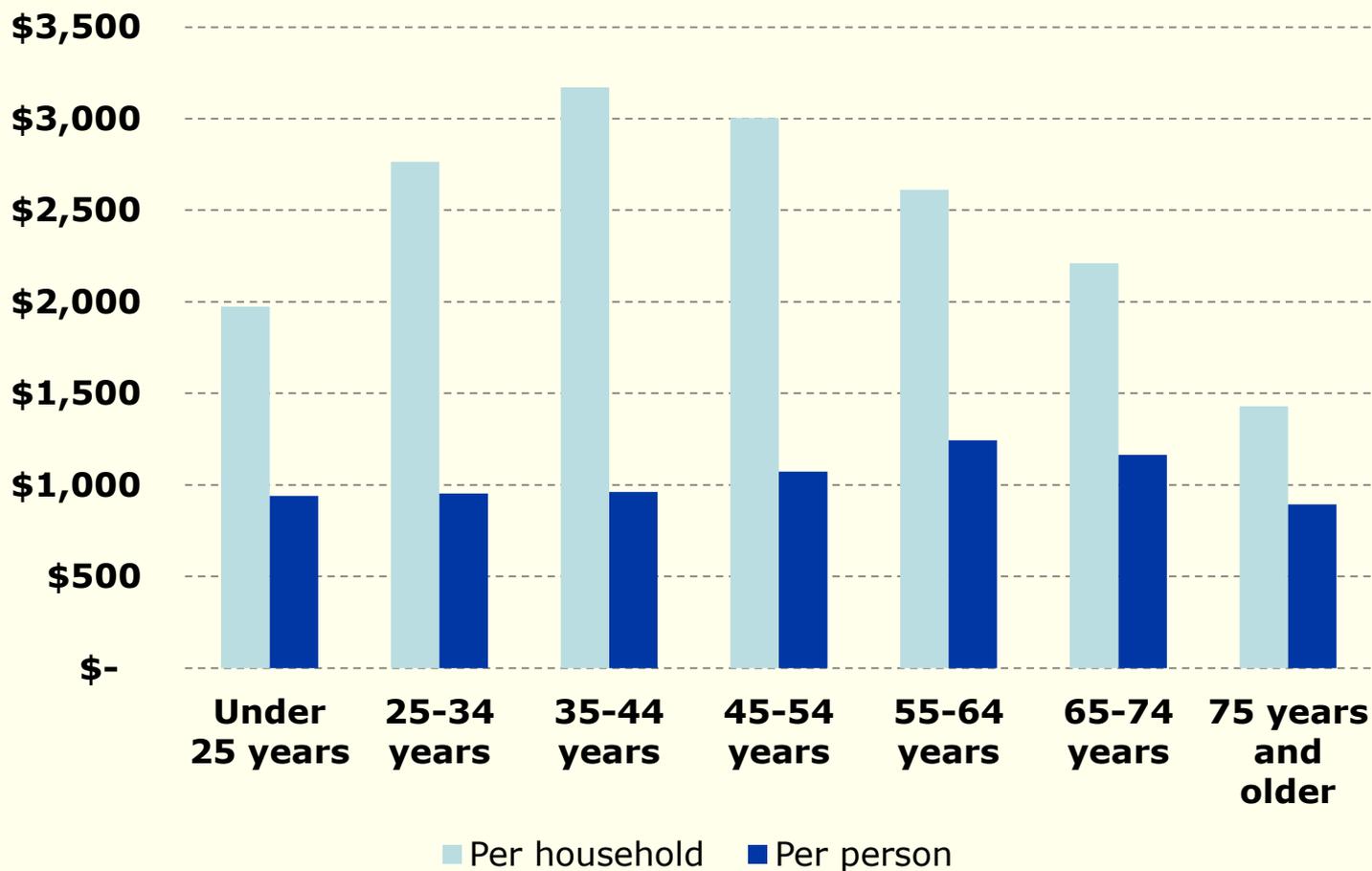
Average annual expenditures, food at home (2011)



Source: 2011 Consumer Expenditure Survey, U.S. Dept. of Labor/BLS, ERFC



Average annual expenditures, food away from home (2011)

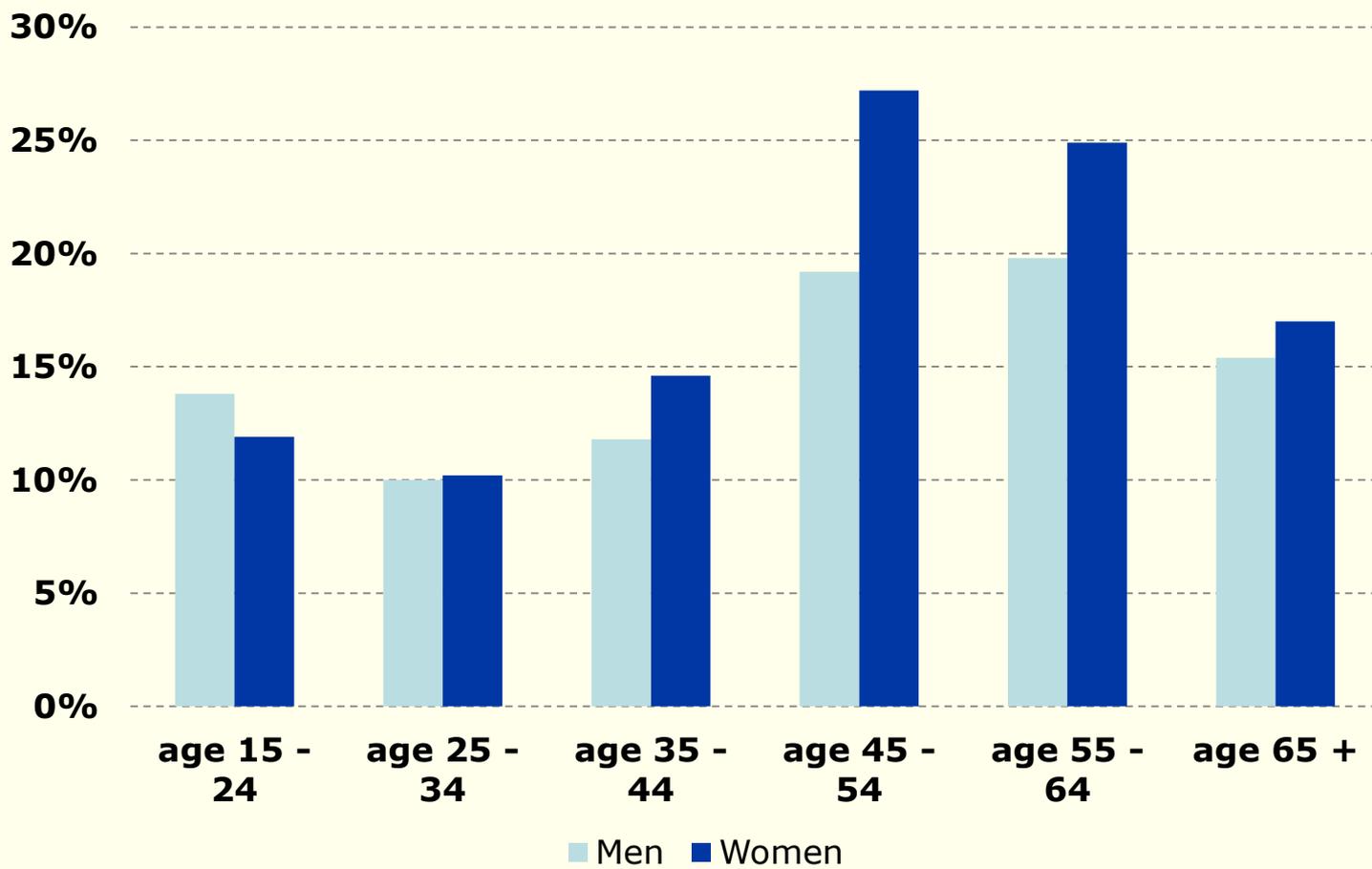


Source: 2011 Consumer Expenditure Survey, U.S. Dept. of Labor/BLS, ERFC

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Eldercare providers, by age and gender



Source: American Time Use Study, U.S. Dept of Labor, BLS, 2011

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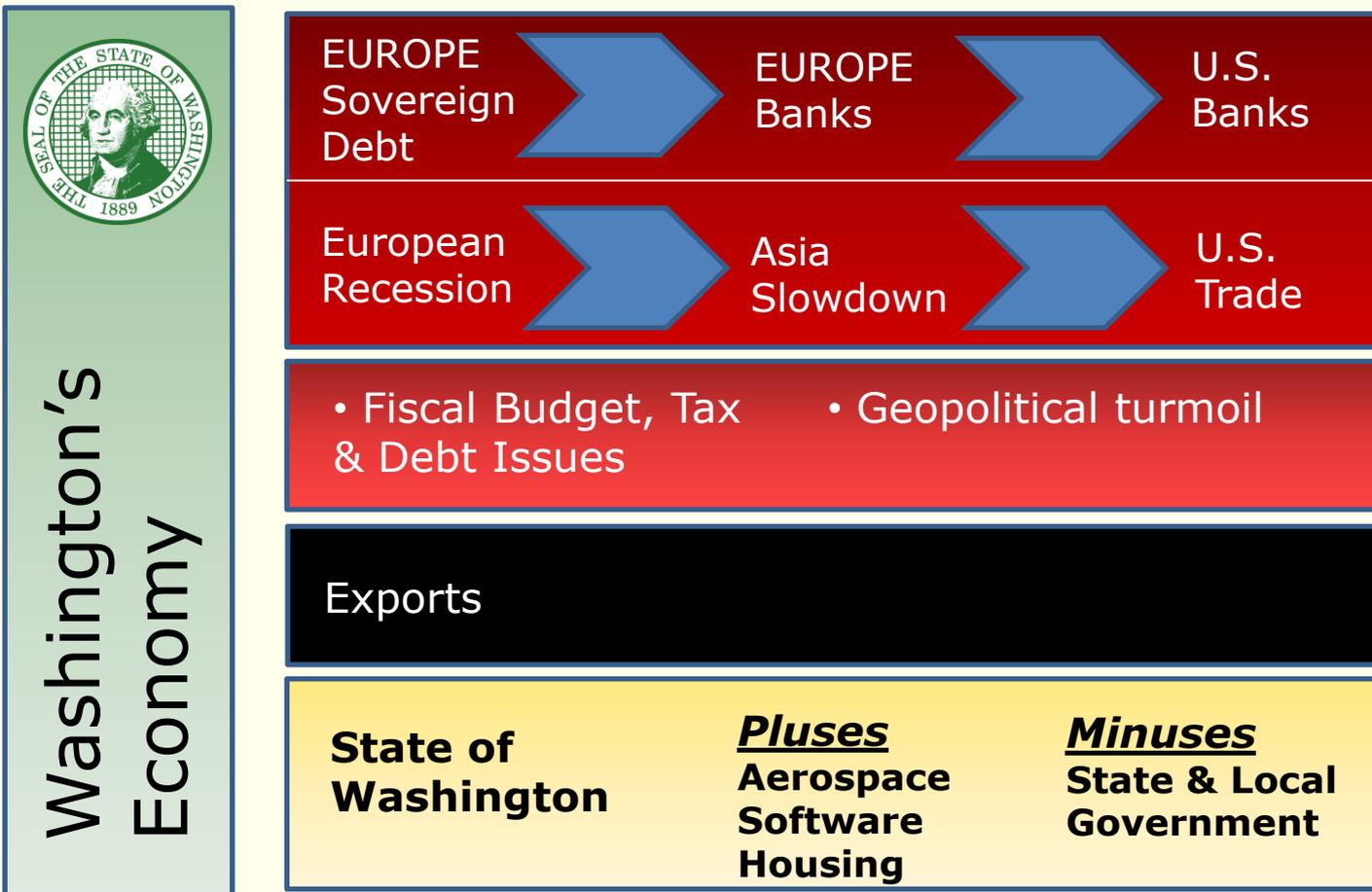


Forecast summary

- Both the U.S. and Washington economies continue to grow slowly
- Labor markets remain weak, but unemployment rates are slowing declining
- Both nationally and in Washington, residential construction and home prices continue to recover
- Uncertainty remains very high, mostly due to on-going concerns about federal government fiscal policy, Europe, and China



The state's risk matrix shows most risks from outside state



Source: ERFC

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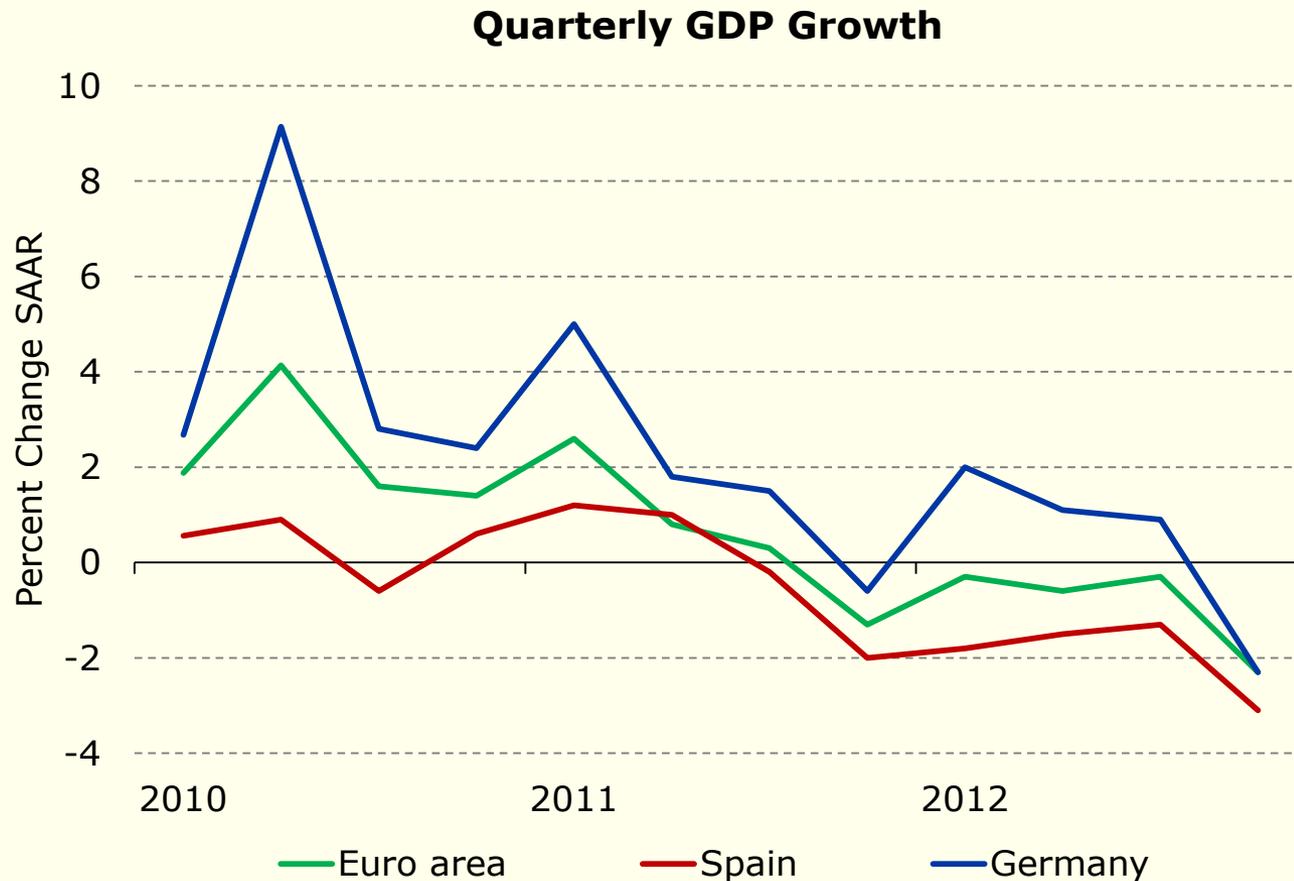


Euro area GDP growth is negative

Eurozone
Forecast:

2013: -0.4%

2014: 0.9%



Source: Eurostat; data through 2012Q4

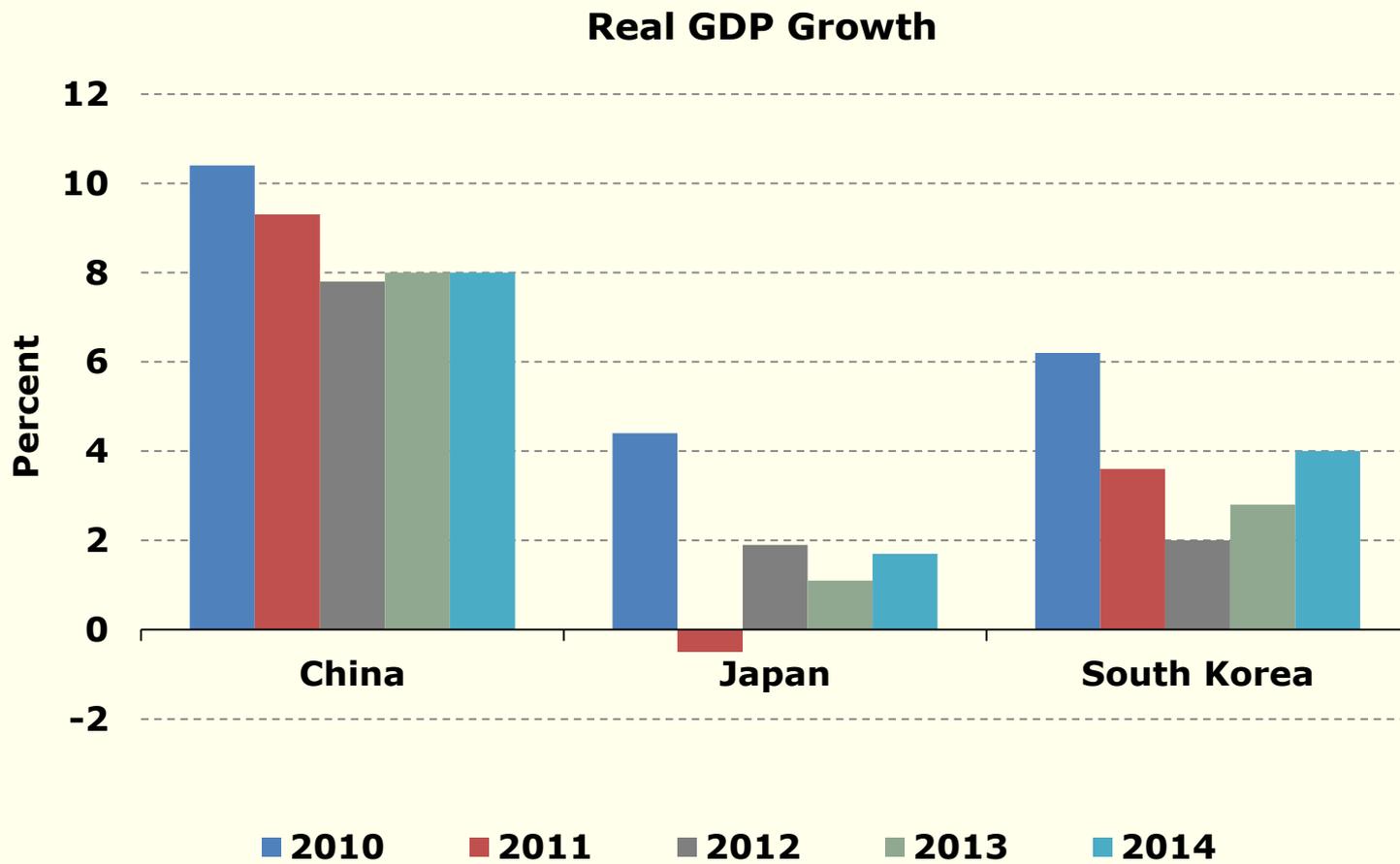
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Asian economic growth has slowed but appears to be improving



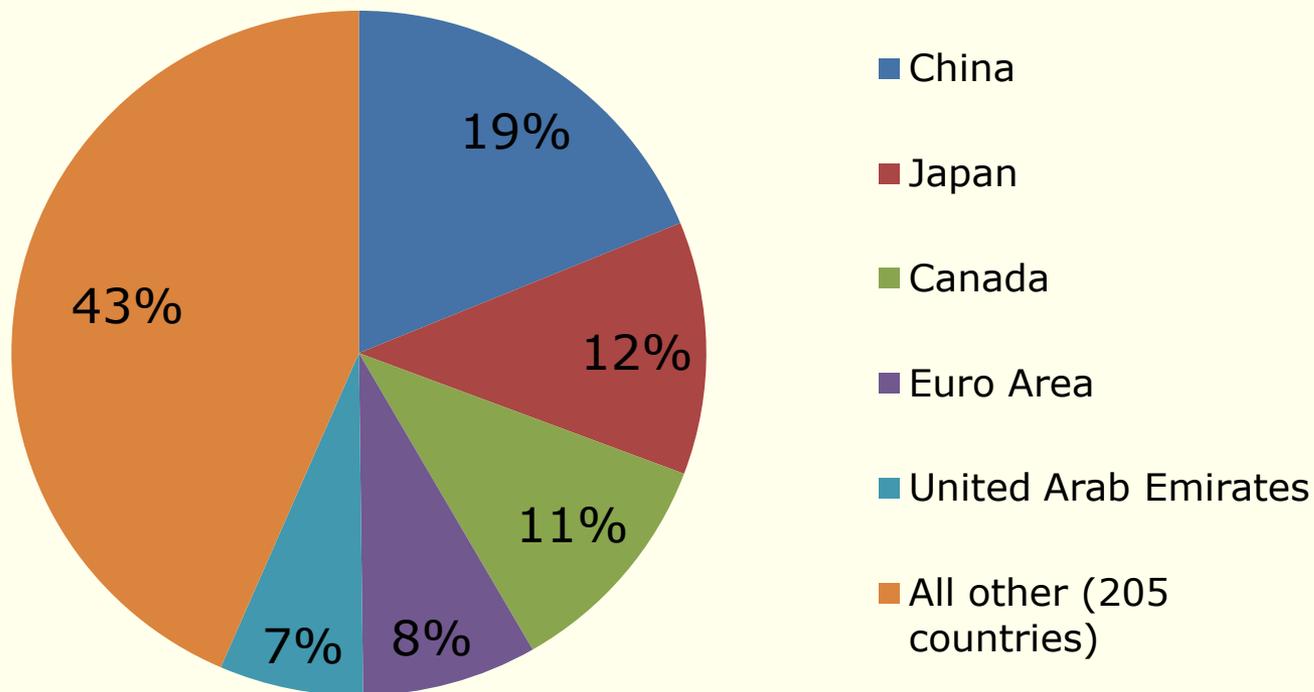
Source: Blue Chip Economic Indicators April 2013, historical data through 2012

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China is Washington's Top Export Destination

Exports by destination



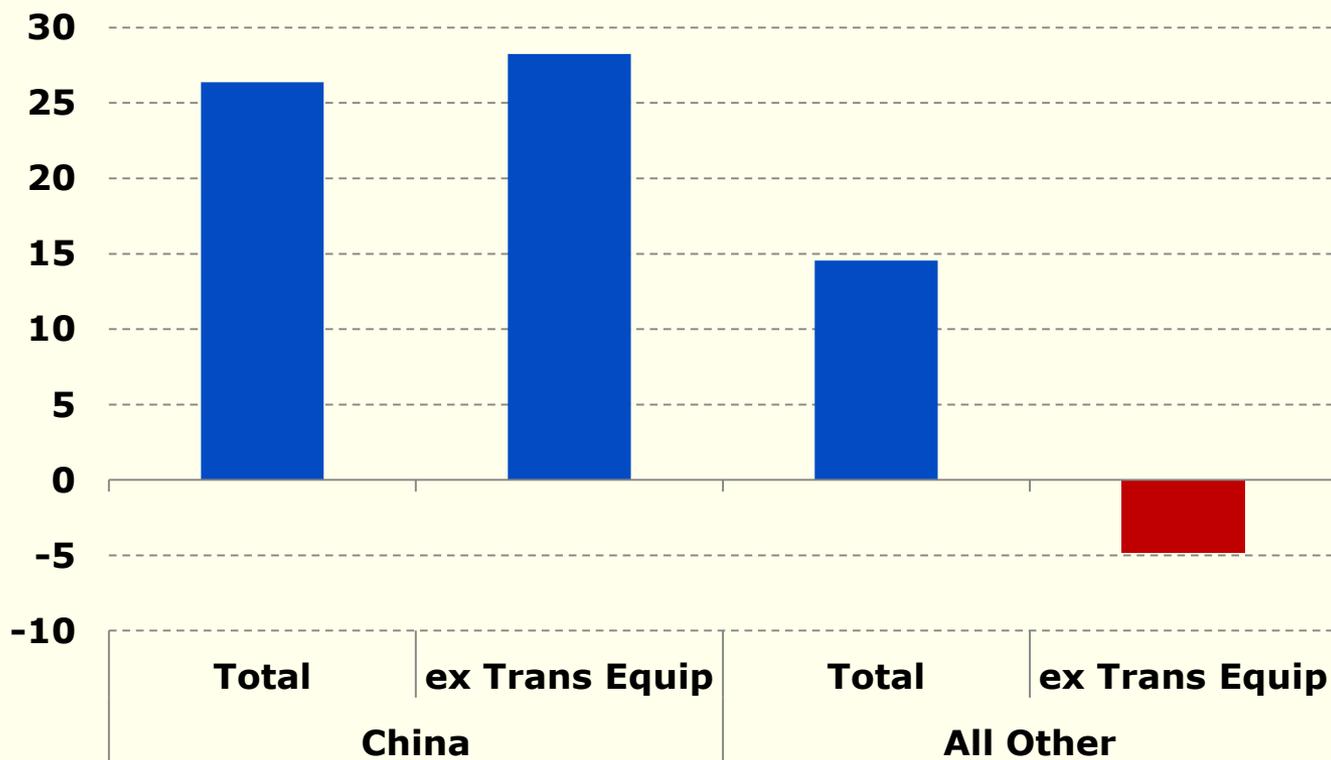
Source: WISER Trade Data; data through 2012

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Non Transportation Equipment exports outside of China are declining

Washington Exports 2012 % Change



Source: Wiser Trade Data; through 2012

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Federal budget and tax changes

Tax increases effective January 1st

- Payroll tax: \$1,000 more in taxes for family with \$50,000 in wages
- Higher taxes on wages, capital gains for upper income (\$450,000+) families

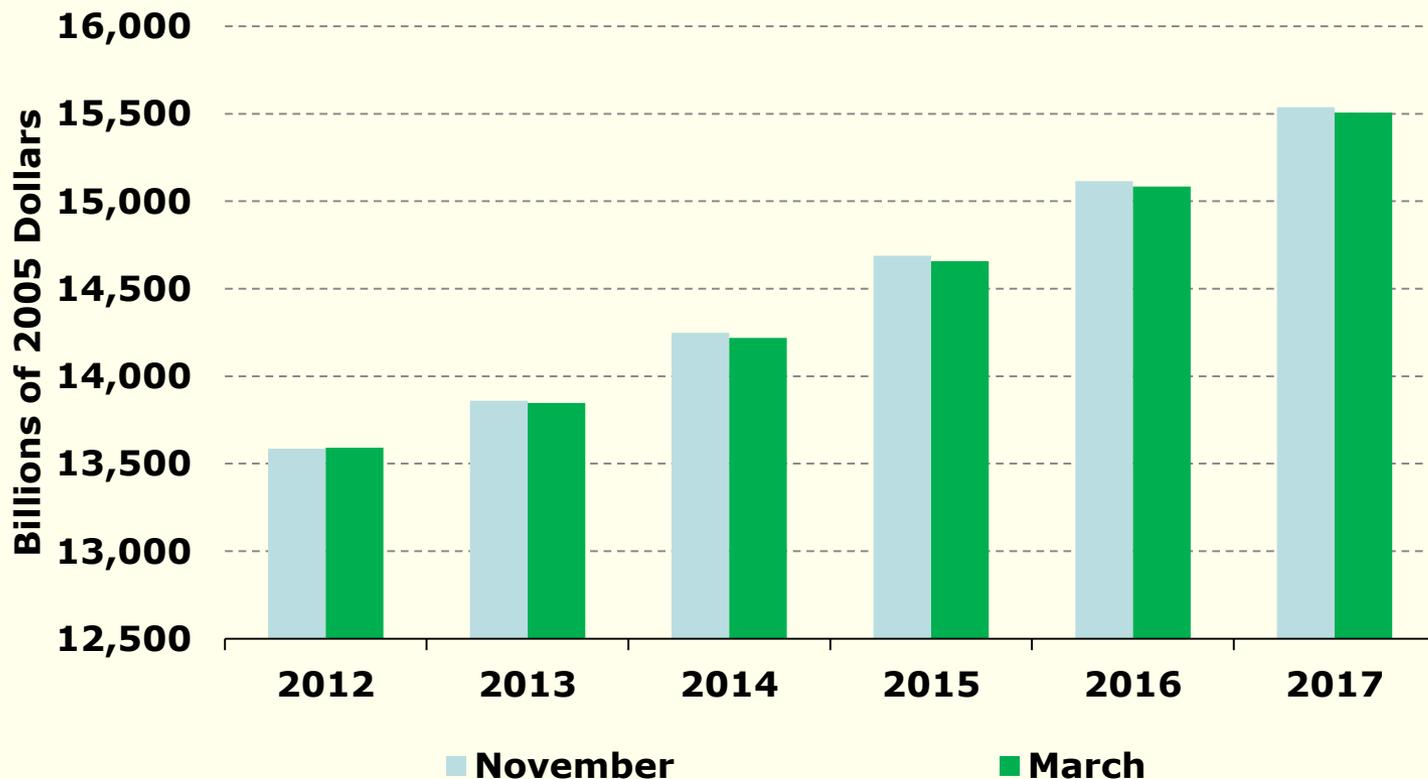
Deficit reduction

- Baseline assumes sequester through June
- \$35 B in spending cuts for 2013
- Additional \$912 B in taxes, spending cuts FFY 2014 - 2023



U.S. GDP Forecast Slightly Lower

Blue Chip Consensus Real GDP forecast

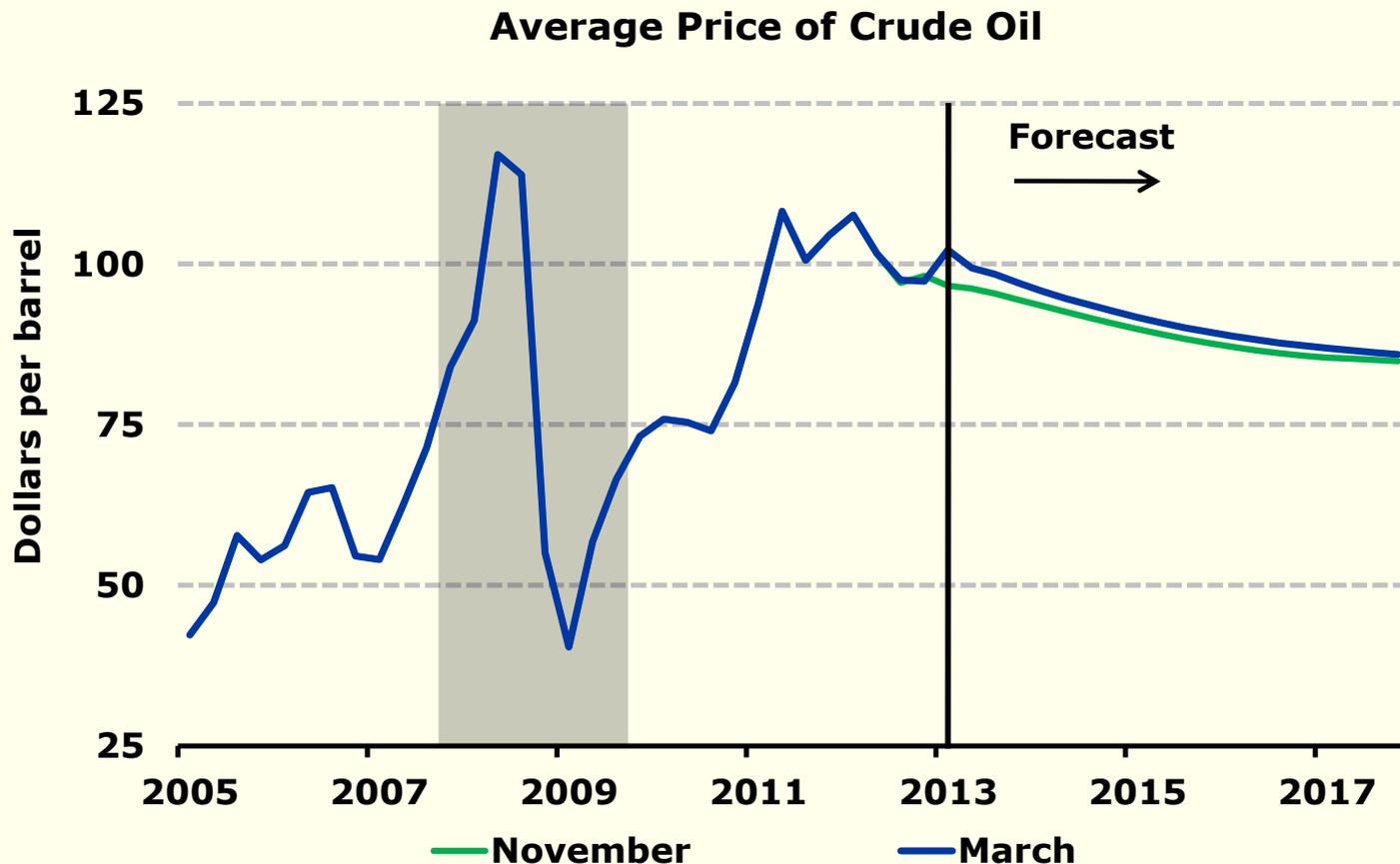


Source: BEA, Blue Chip Economic Indicators March 2013; historical data through 2012

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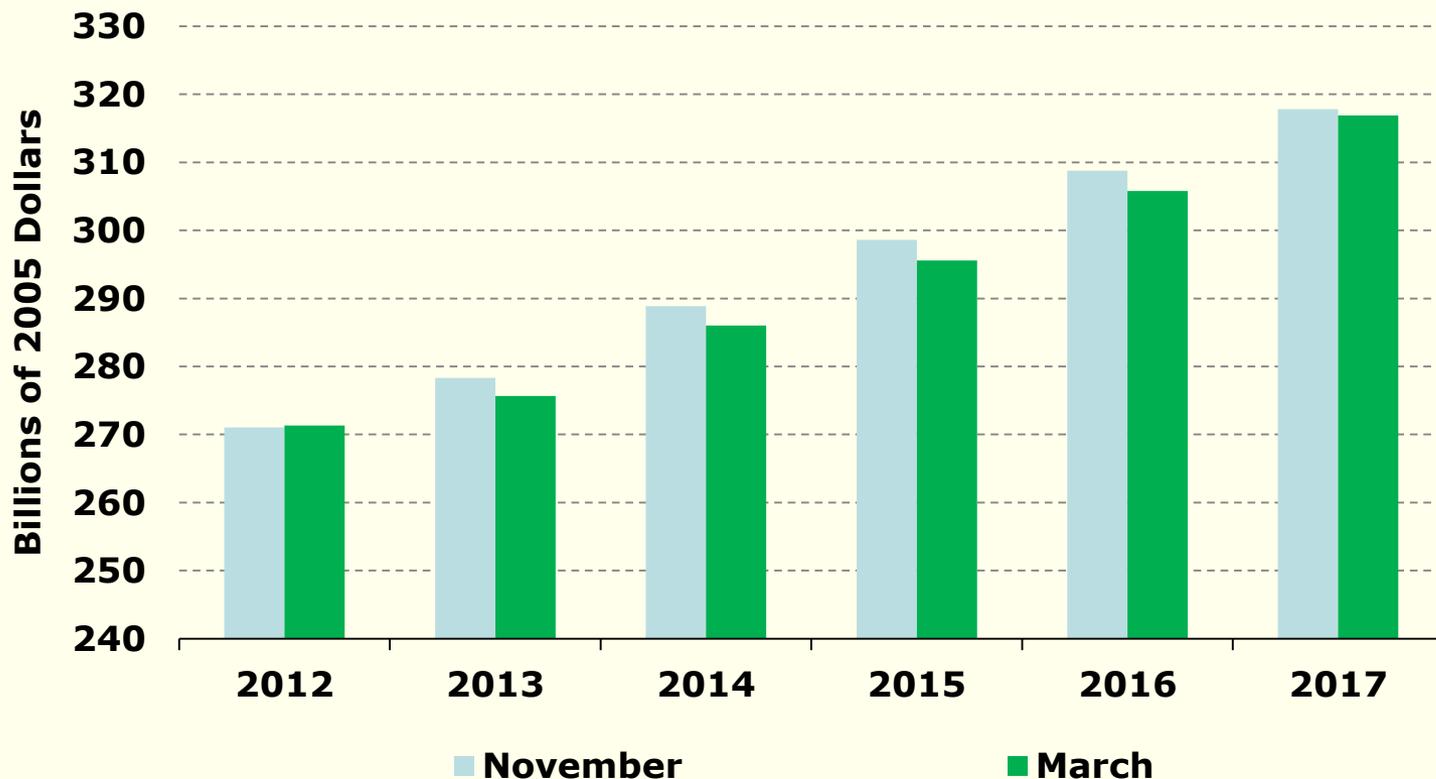
Oil prices: higher than in November but expected to decline





WA Personal Income Forecast Slightly Lower

Washington Real Personal Income

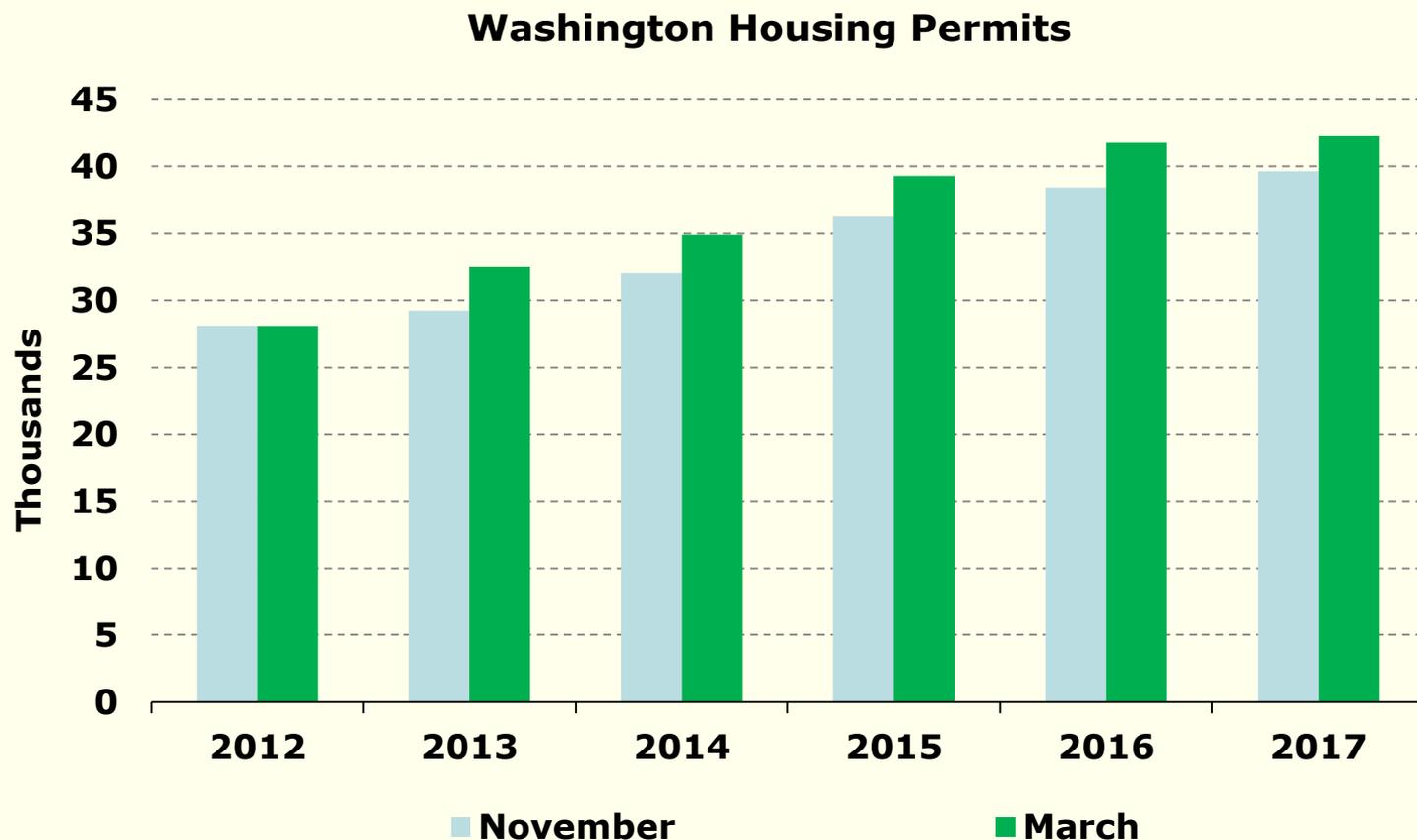


Source: BEA, ERFC March 2013 Forecast; historical data through 2012

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Washington Housing Permits Forecast is Slightly Higher



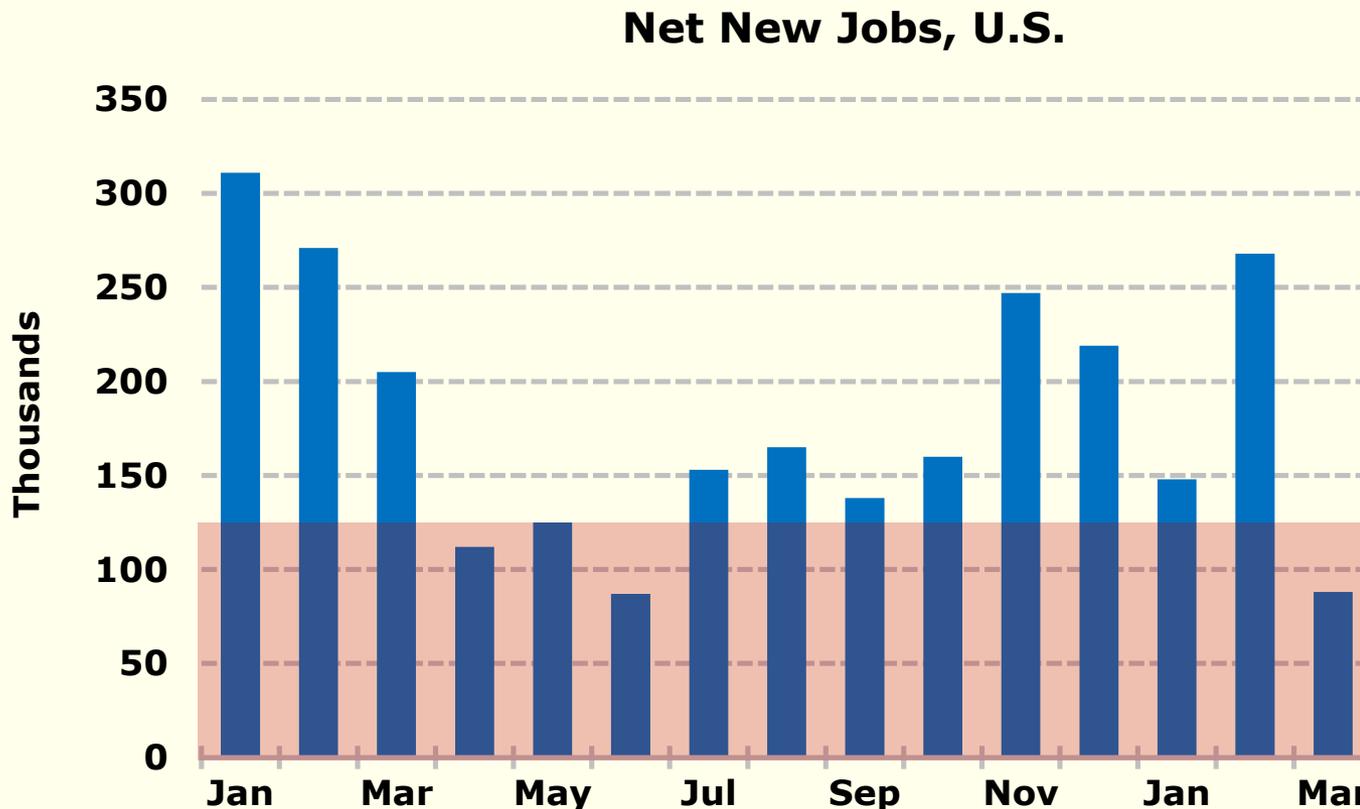
Source: ERFC March 2013 forecast; historical data through 2012

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Job growth remains weak

The economy needs to add roughly 125K jobs each month just to keep up with growth in the labor force



Source: Bureau of Labor Statistics, data through March 2013

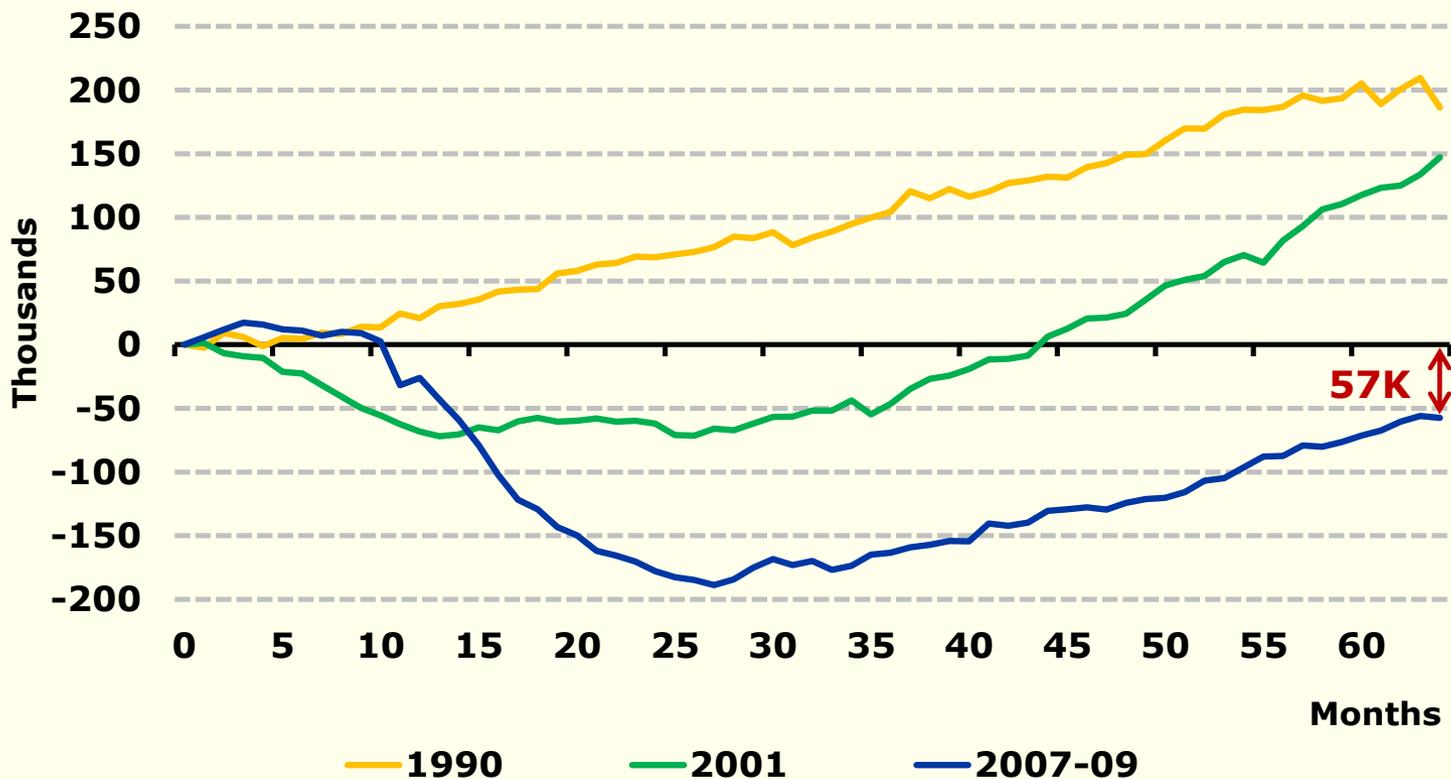
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The decline in employment has been severe

Washington Employment after Business Cycle Peak



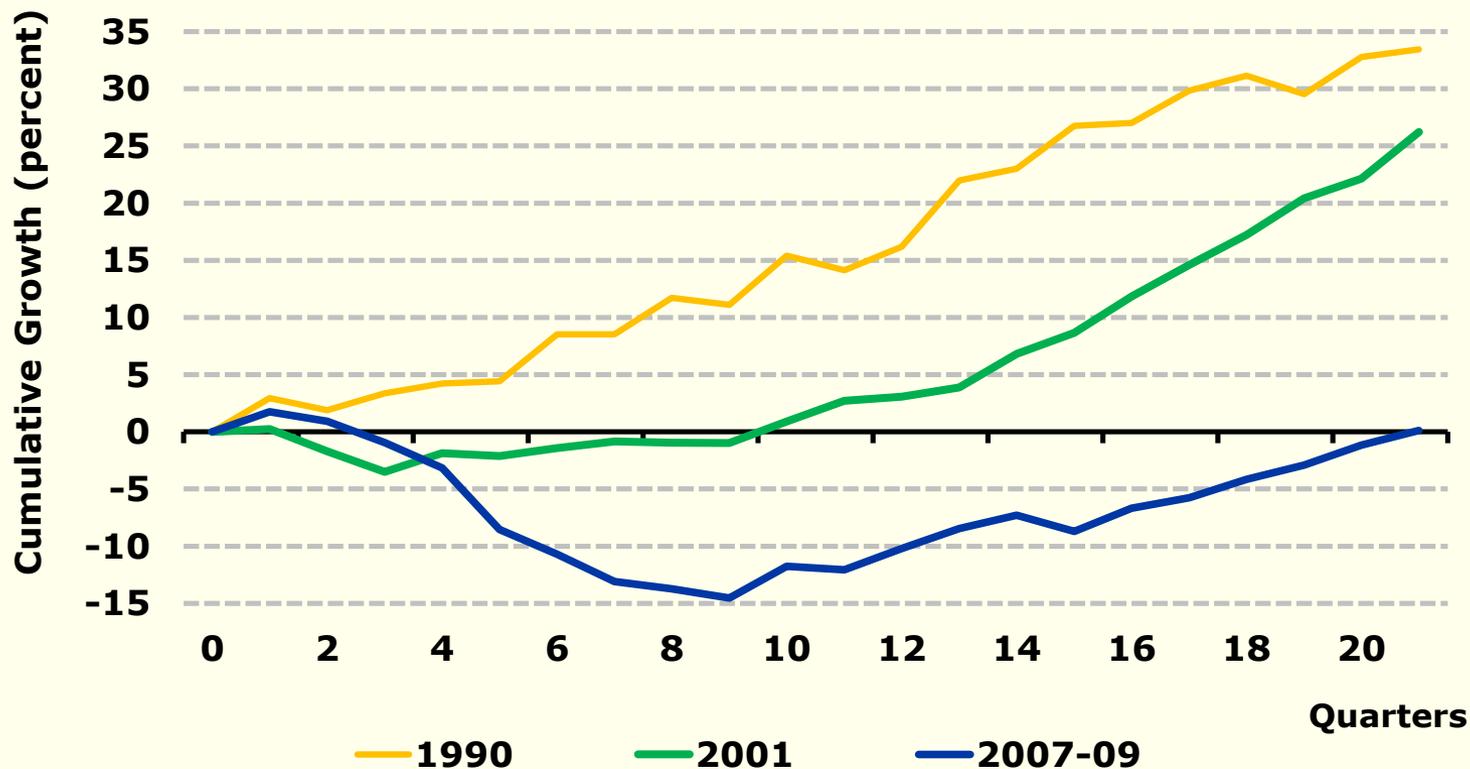
Source: WA ESD, ERFC; data through March 2013

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Revenue collections have been weak compared to past recoveries

Revenue Act Collections after Business Cycle Peak



Source: ERFC; data through 2012 Q4

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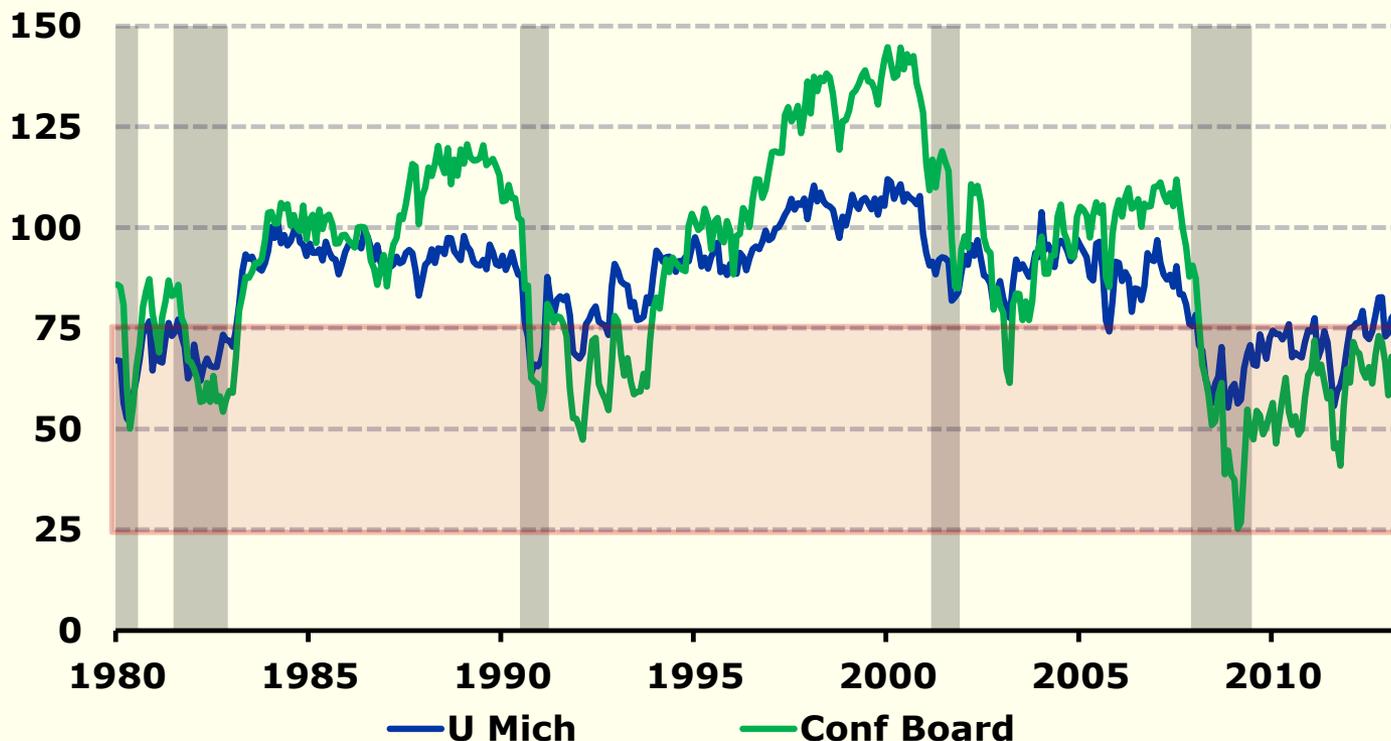


Consumer confidence remains fragile

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Mich: 1966Q1 = 100, SA

Conf Board: 1985 = 100, SA



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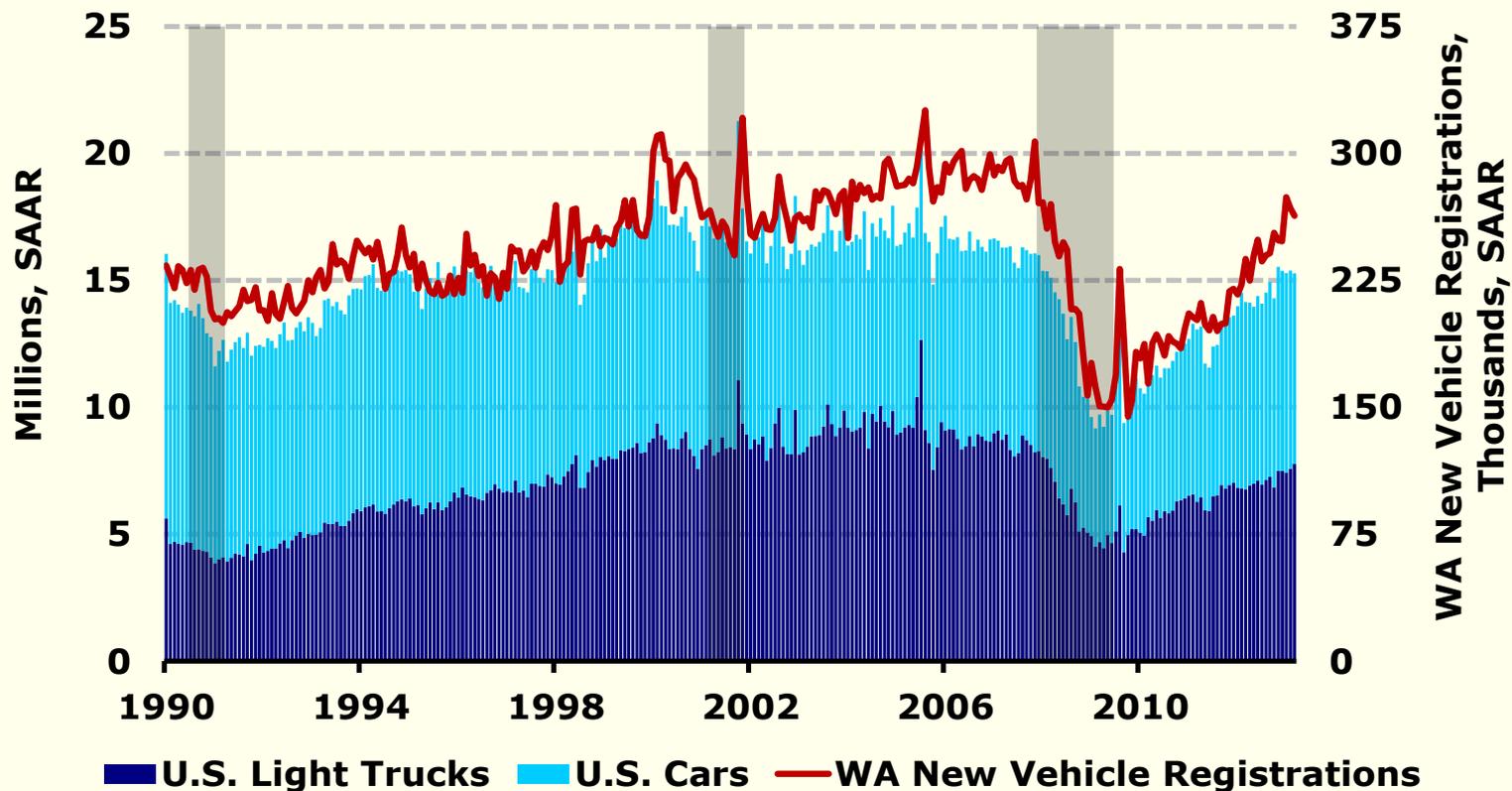
Source: University of Michigan; Conference Board, data through April 2013

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Vehicle sales continue their upward trend

WA new vehicle registrations in March were up 11% year-over-year.



Source: Autodata Corporation, WA DOL; data through March 2013

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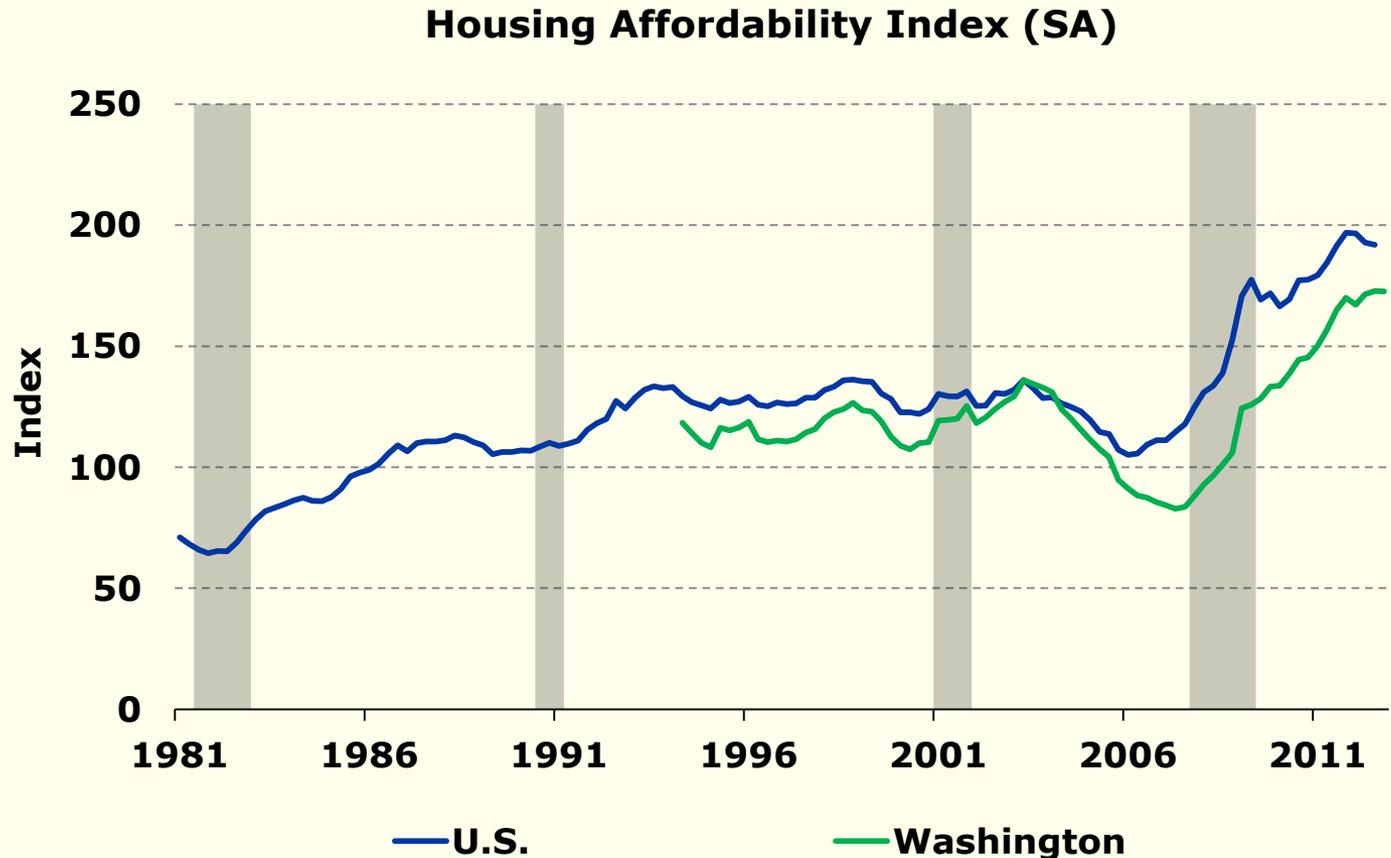
Home affordability remains in record territory

Affordability is 100 when the median income can just afford the median priced home. Above 100 means the median income can afford more than the median priced home

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Source: National Association of Realtors, Global Insight, Washington Center for Real Estate Research; data through 2012 Q4

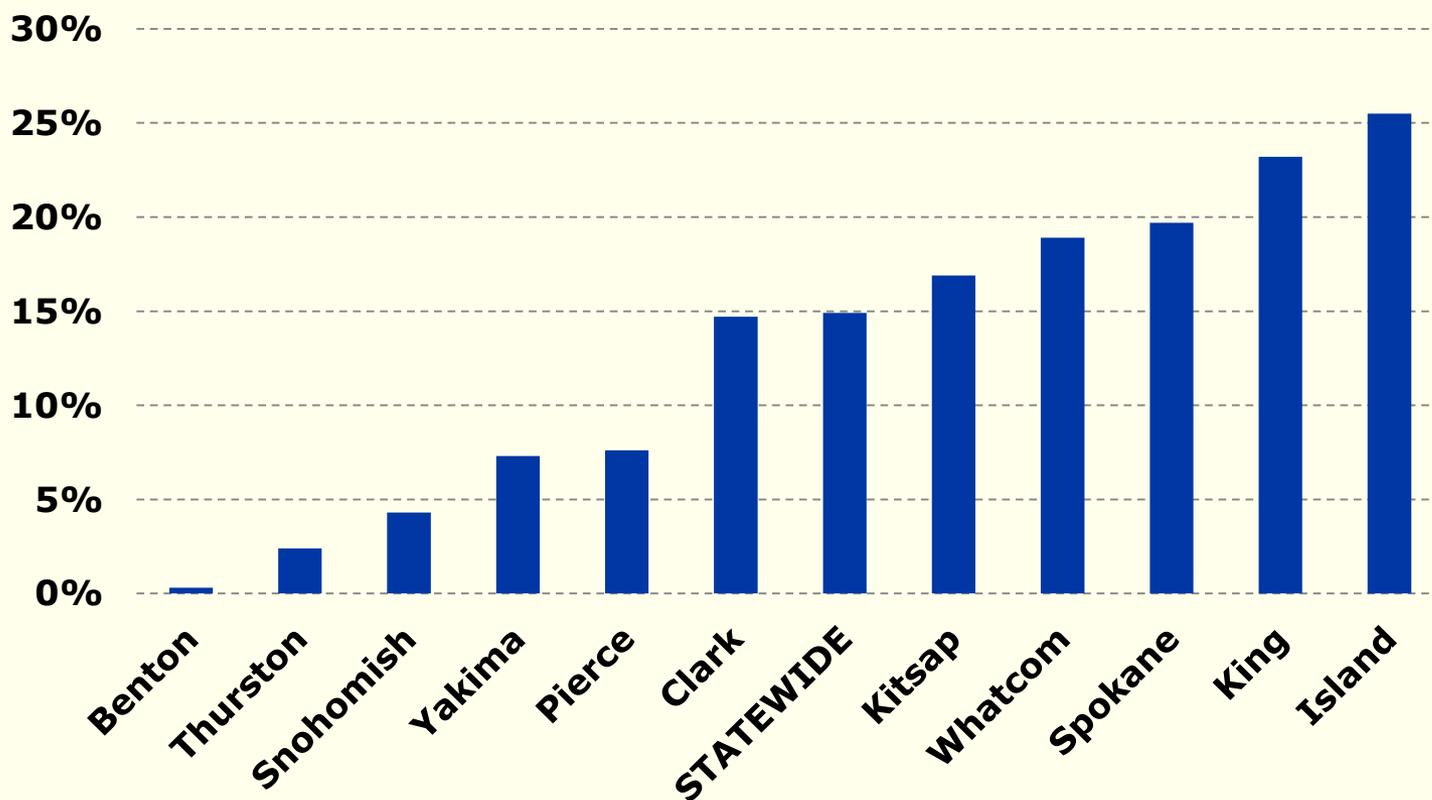
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Strong growth in existing home sales statewide

*Counties with 2% or more of existing home sales, 2012Q4

**Existing Home Sales
Year over Year % Change***



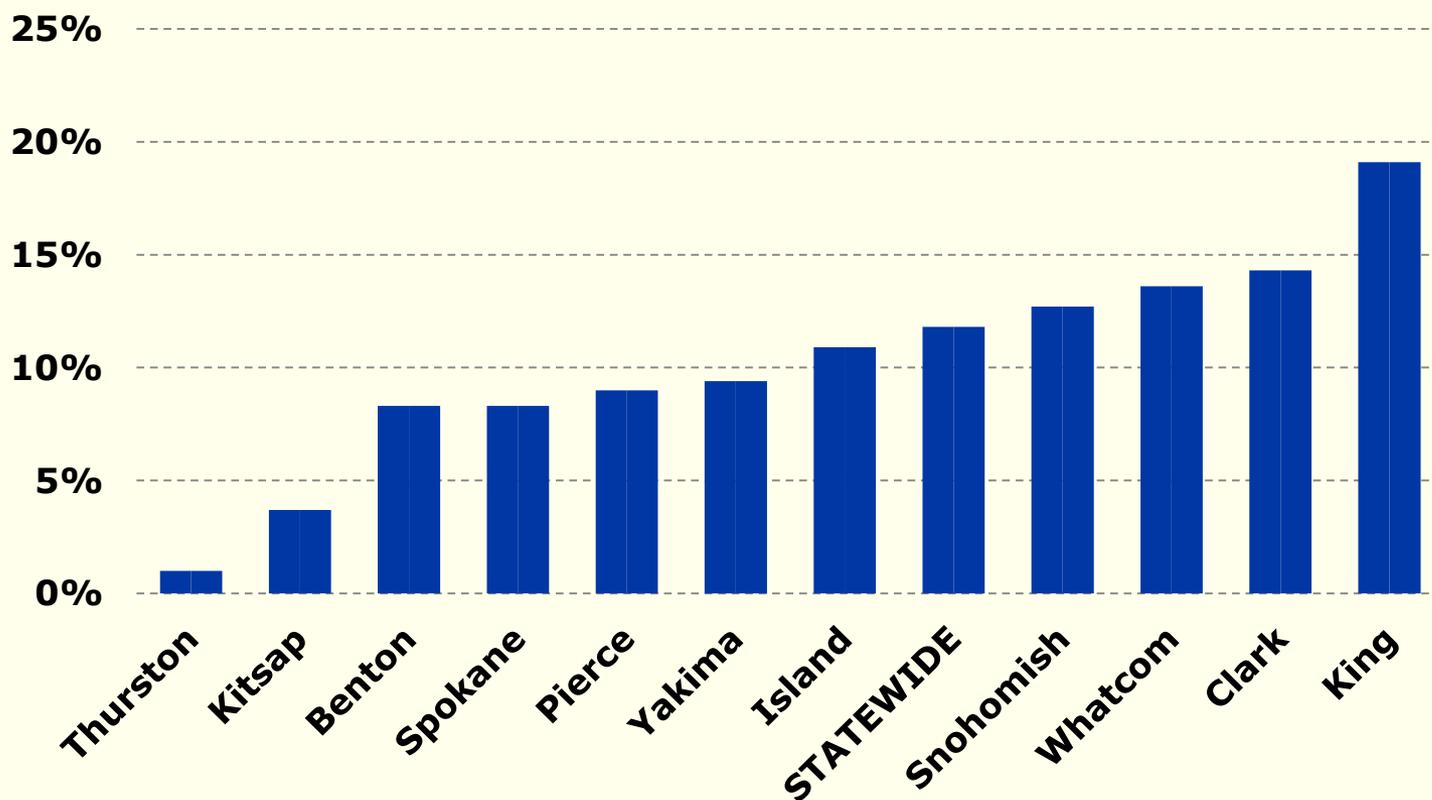
Source: WA Center for Real Estate Research, ERFC; 2012Q4 data



Considerable variation in home price changes across state

*Counties with 2% or more of existing home sales, 2012Q4

**Median Home Price
Year over Year % Change***



Source: WA Center for Real Estate Research, ERFC; 2012Q4 data



Housing permits relative to population will still be below historic levels in 2017

Washington Housing Permits per 1,000 People



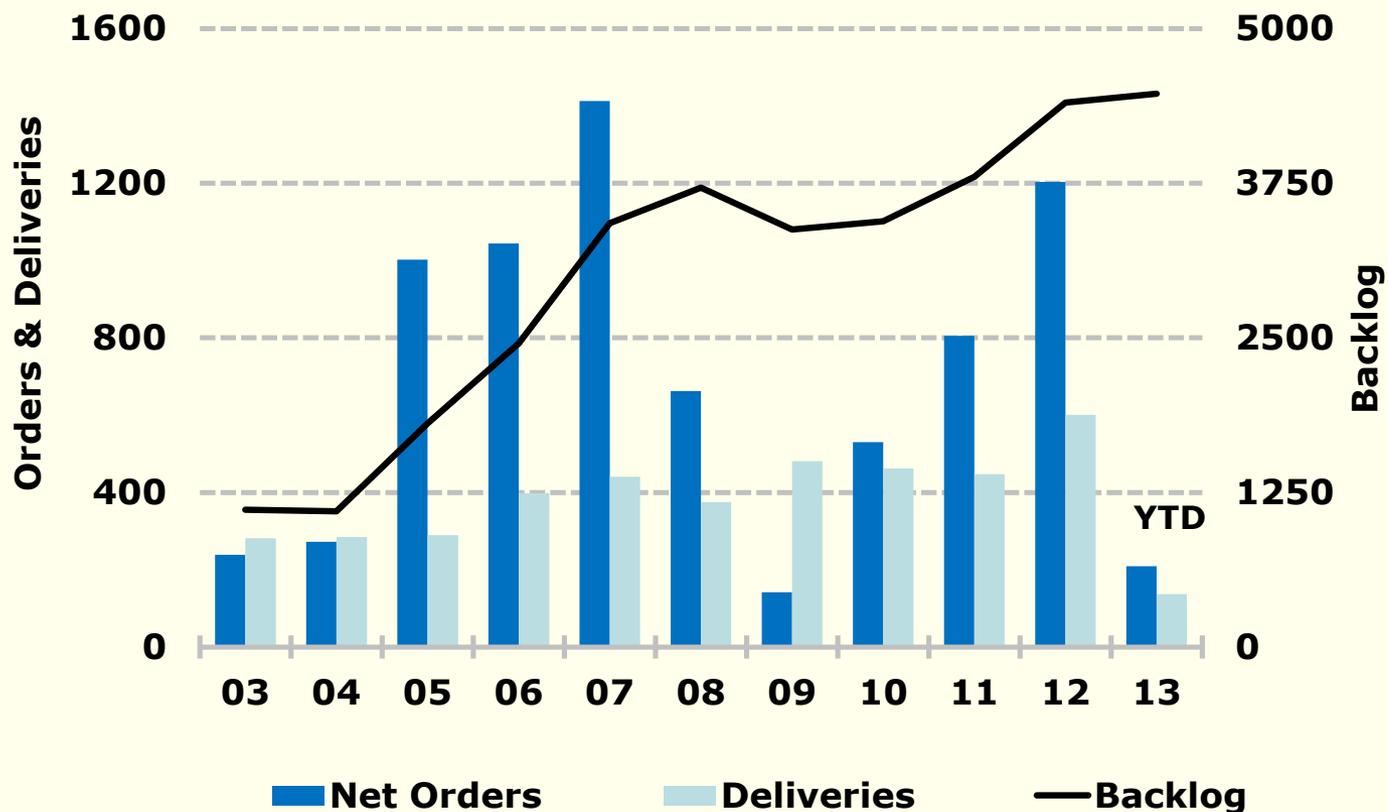
Source: U.S. Census Bureau, ERFC March 2013 Forecast; historical data through 2012 Q4

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Boeing has 7 years of commercial orders on its books

Excludes the military's new refueling tanker



Source: Boeing, data through March 2013

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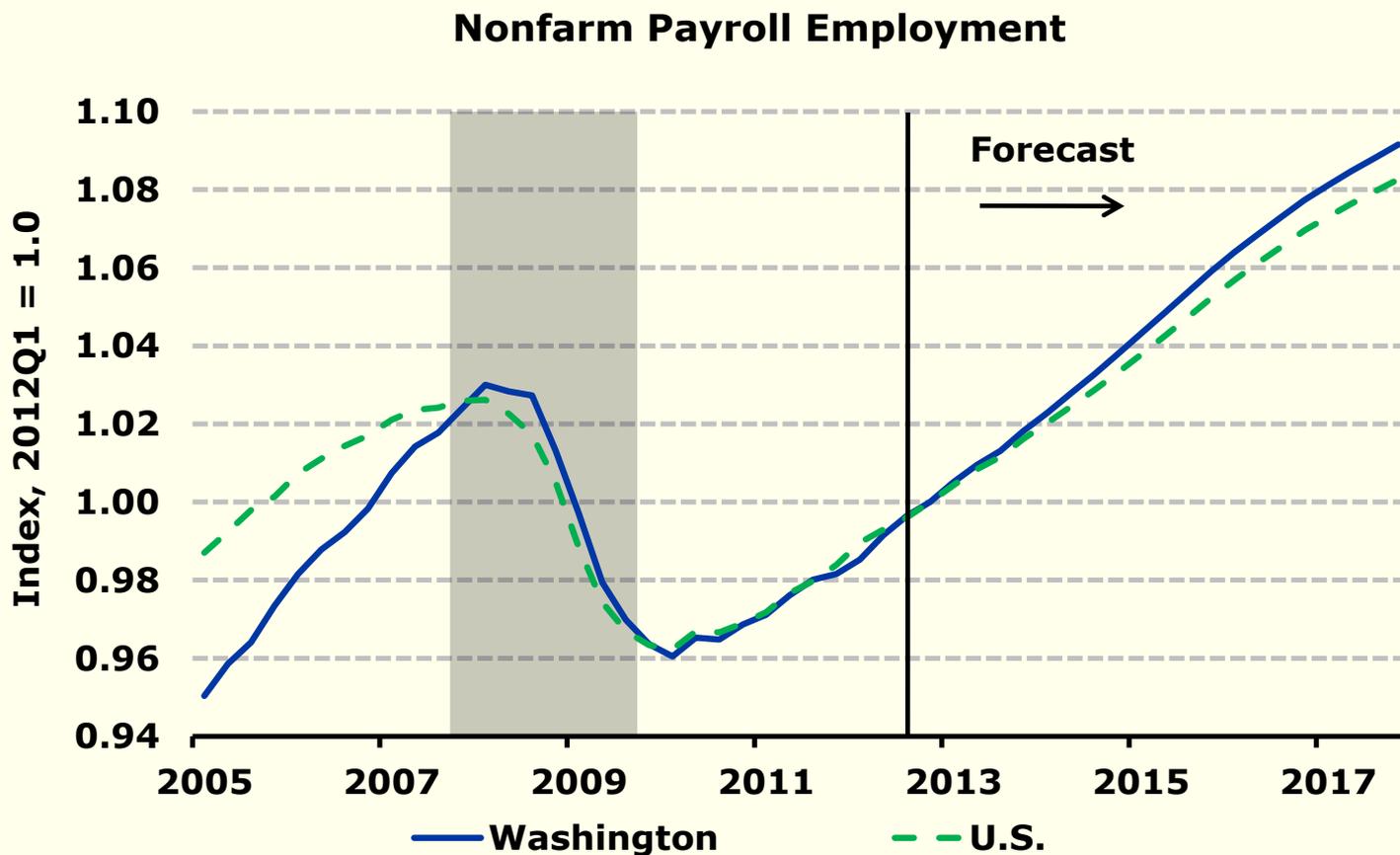


WA employment will recover slightly faster than the U.S.

Date of regaining peak:

WA:
2014Q3

U.S.:
2014Q3



Source: ERFC March 2013 forecast; historical data through 2012Q4

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Conclusion

- Economic growth remains slow, especially for a post-recession recovery
- Positive signs include the recovery in housing and its impacts on the construction sector, auto sales, and the Boeing backlog
- The level of uncertainty in the baseline remains extremely high, and downside risks outweigh upside risks



Questions



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