

Economic & Revenue Outlook

Presented to
Key Private Bank Northwest Nonprofit Forum

Steve Lerch
Chief Economist & Executive Director

March 27, 2014
Seattle, Washington



WASHINGTON STATE
ECONOMIC AND REVENUE FORECAST COUNCIL



Summary

- The economic forecast is quite similar to November, with slightly stronger U.S. GDP and Washington employment
- Risks to the baseline are much the same as in November: the potential for slower Chinese economic growth and possible disruptions to the housing recovery; risks associated with federal fiscal policy have been reduced
- The GF-S revenue forecast has been increased by \$30 million for the 2013-15 biennium and by \$82 million for the 2015-17 biennium
- The Washington economy continues to grow slowly, with employment rising in most sectors except aerospace and federal government



Three major risks to the forecast



Source: ERFC

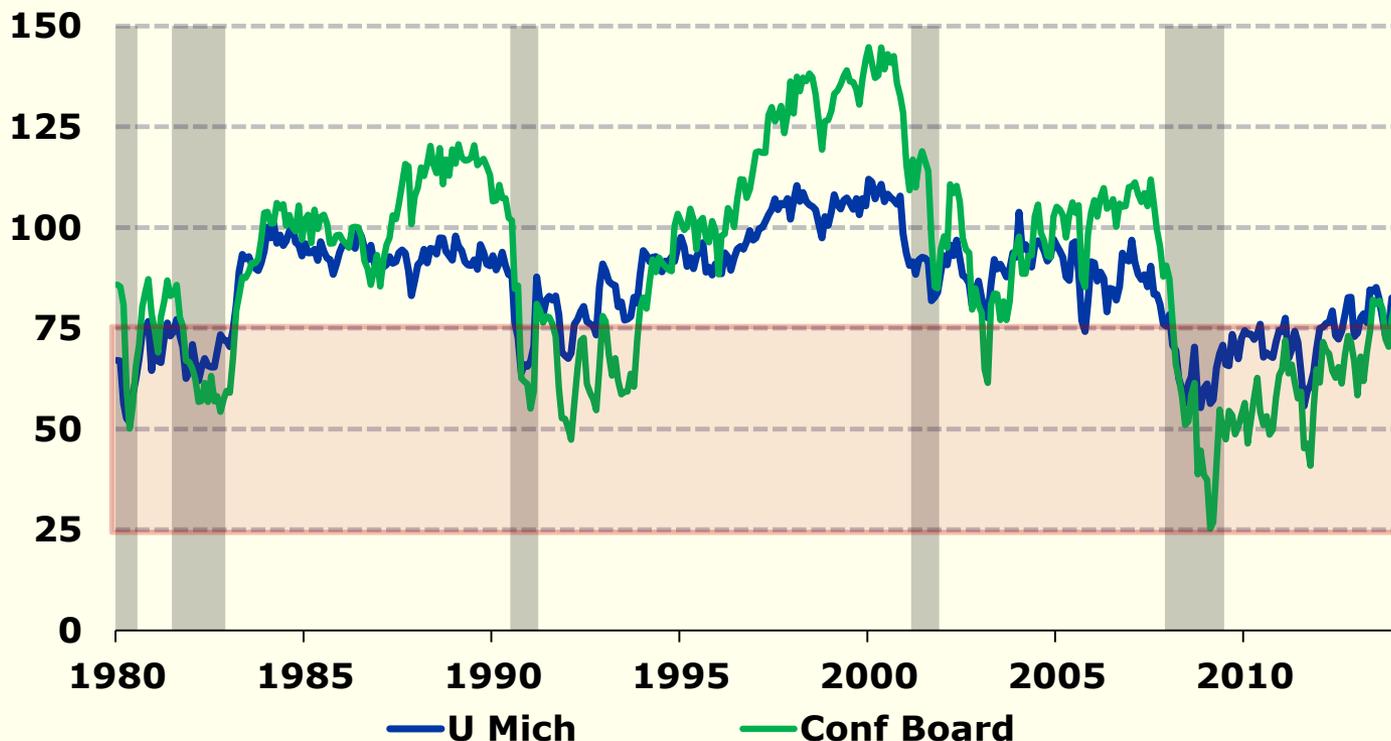


Consumer confidence has improved slightly over last three months

Index

Mich: 1966Q1 = 100, SA

Conf Board: 1985 = 100, SA



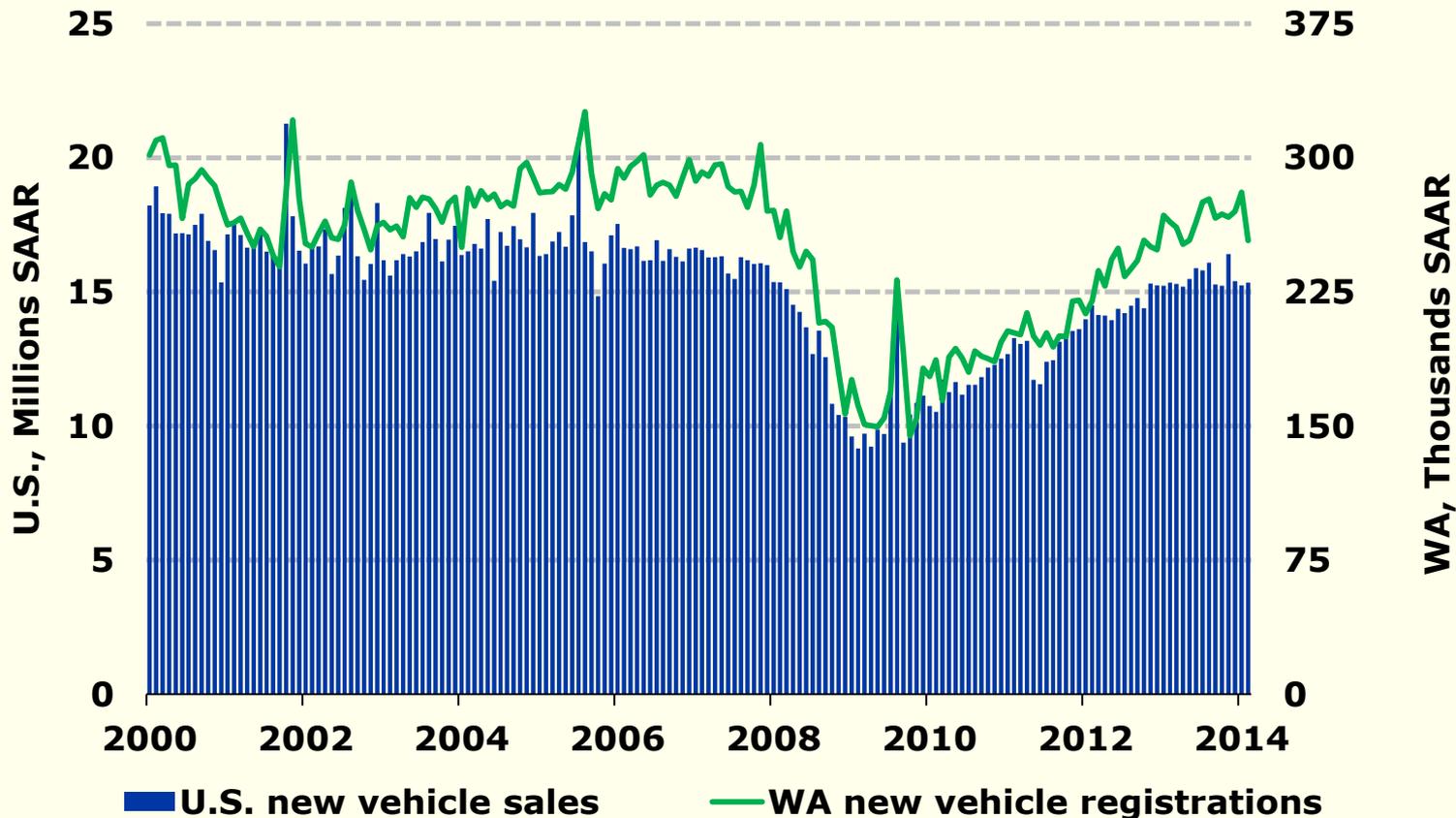
Source: University of Michigan; Conference Board, data through February 2014

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Vehicle sales trend has been positive but may be slowing

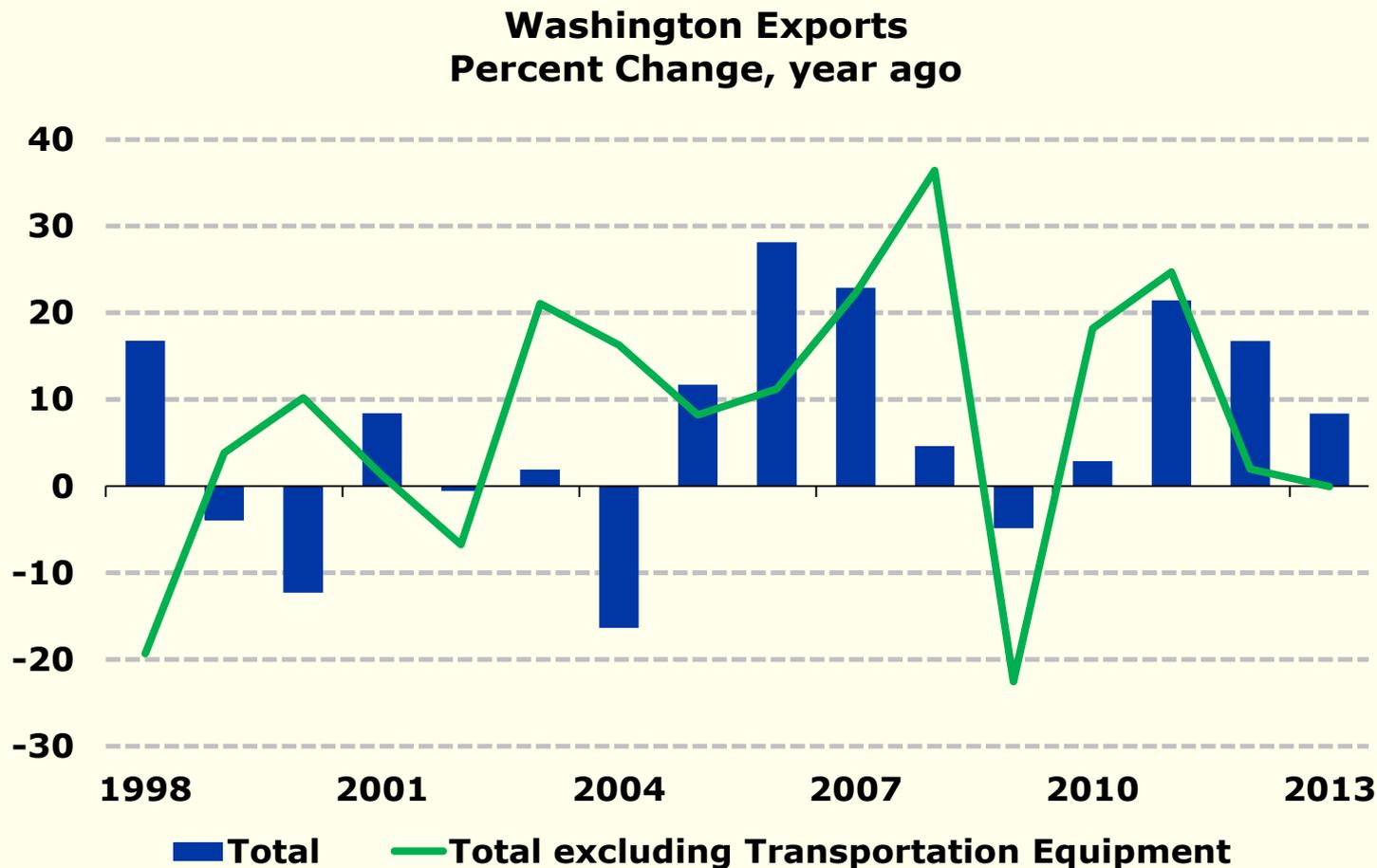
WA new vehicle registrations in February were down 3.9% year-over-year.



Sources: Autodata Corp., WA DOL; data through February 2014



Washington export growth was weak in 2013



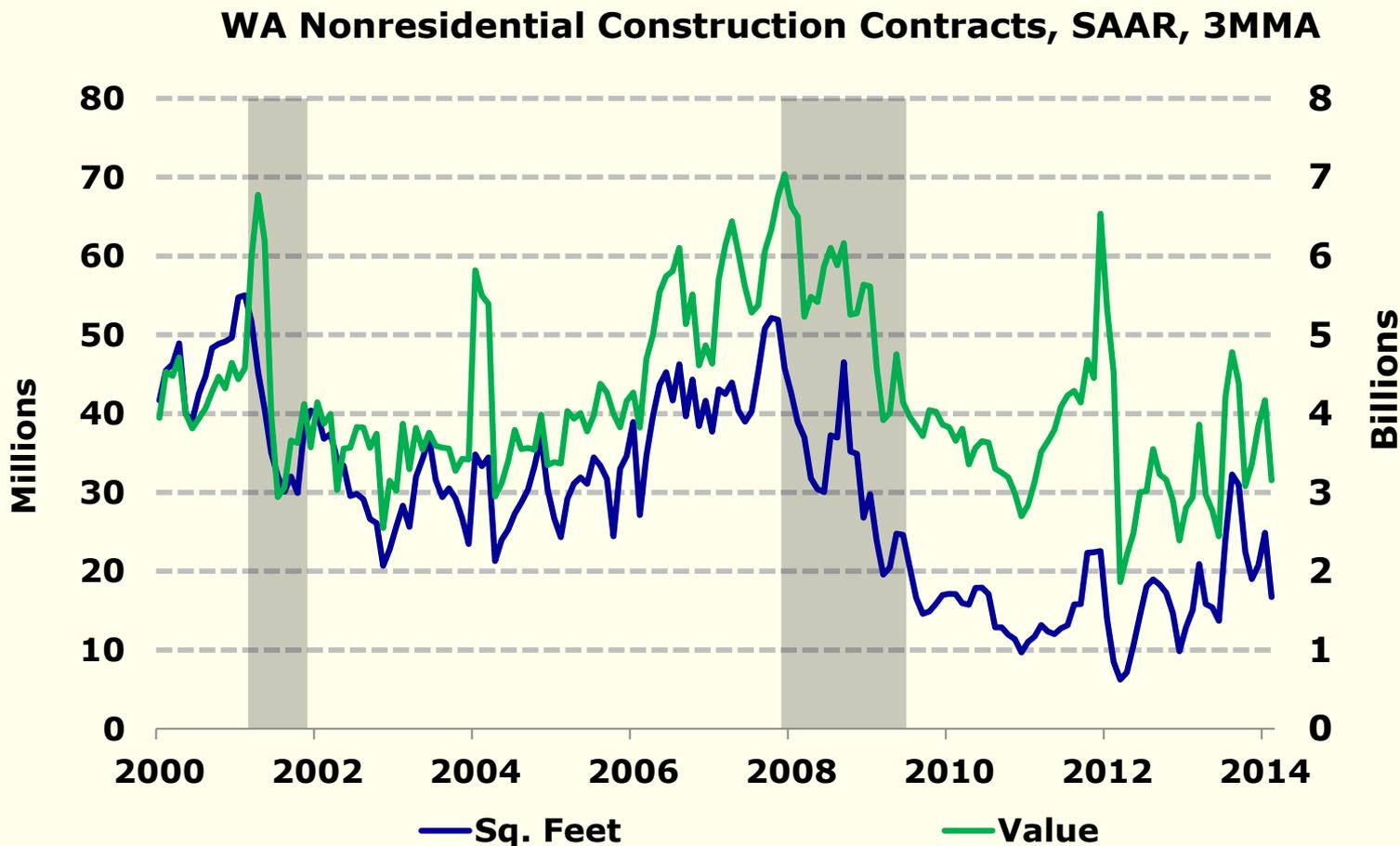
Source: WISER Trade Data; data through 2013

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Non-residential activity: positive trend since 2012 but recent data suggest slower growth

Non-Residential square footage is up 11%, and value is up 7% year over year (3mma).



Economic & Revenue Outlook

27 March 2014

Slide 6

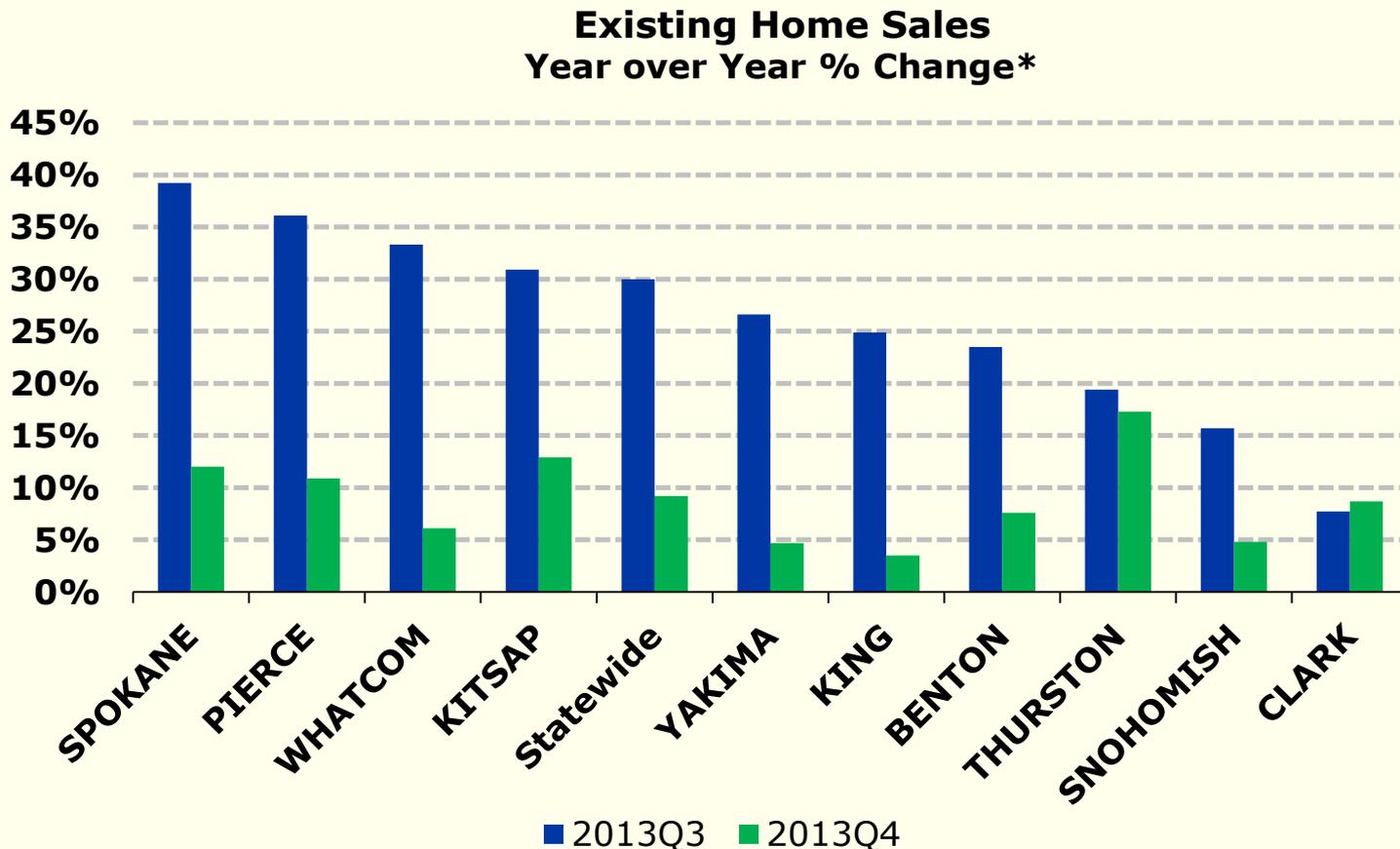
Source: Dodge, ERFC; data through February 2014

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Growth in existing home sales slowed in fourth quarter 2013

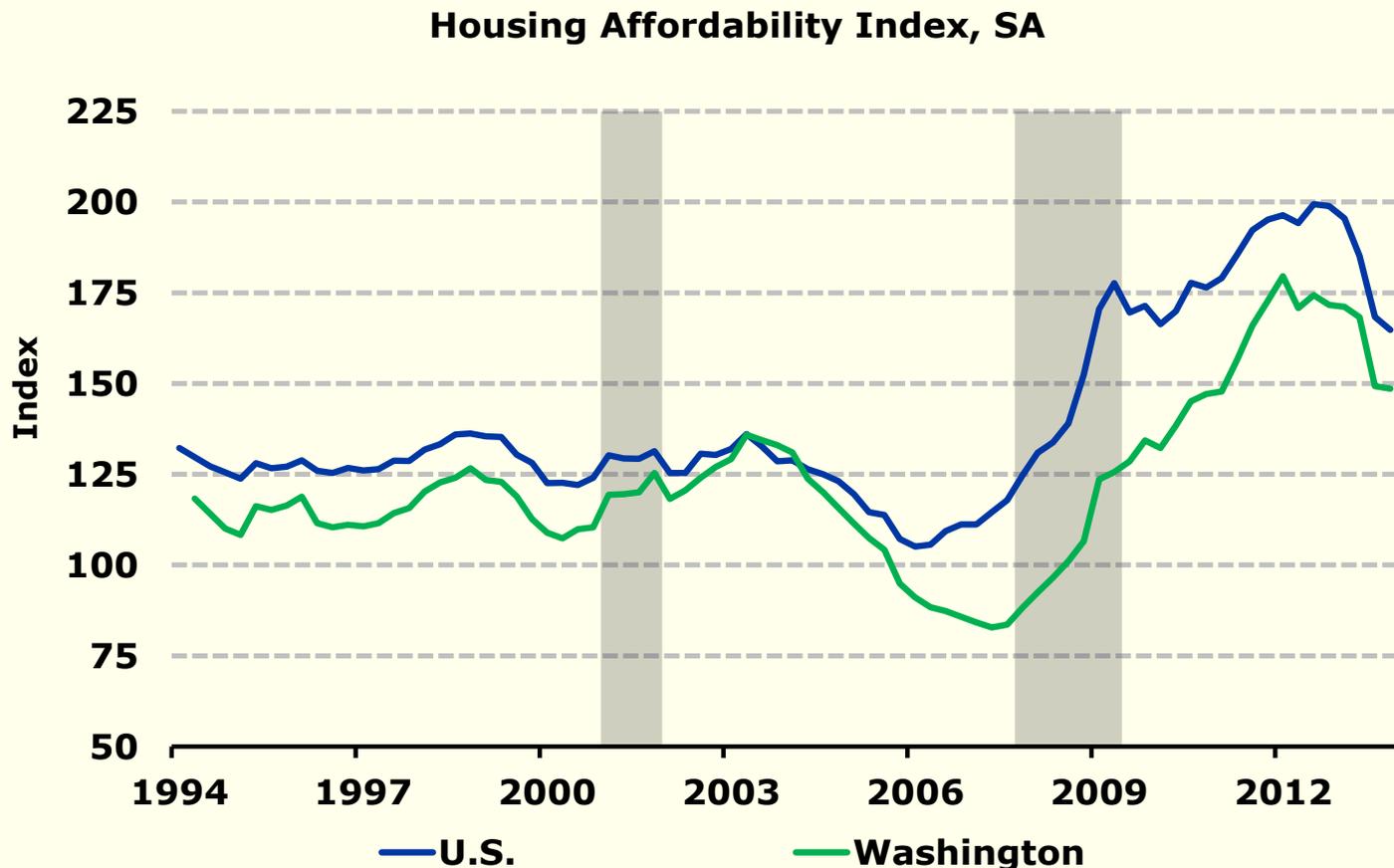
*Ten counties with highest existing home sales, 2013Q3



Source: WA Center for Real Estate Research, ERFC; 2013Q3 & Q4 data



Rising mortgage rates and home prices have reduced affordability



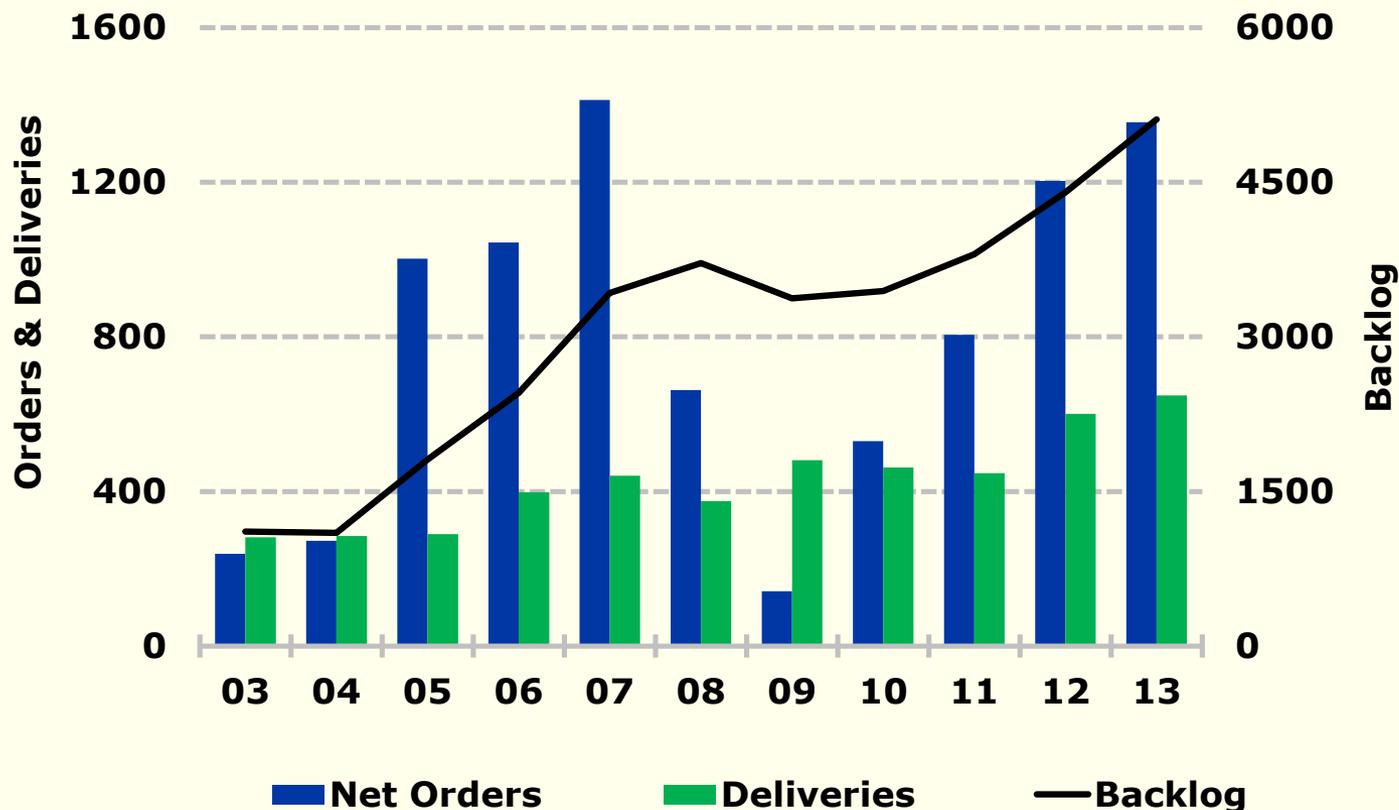
Source: Global Insight, WA Center Real Estate Research, ERFC; data through 2013Q4

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Boeing has over 7 years of commercial orders on its books

Excludes the military's new refueling tanker

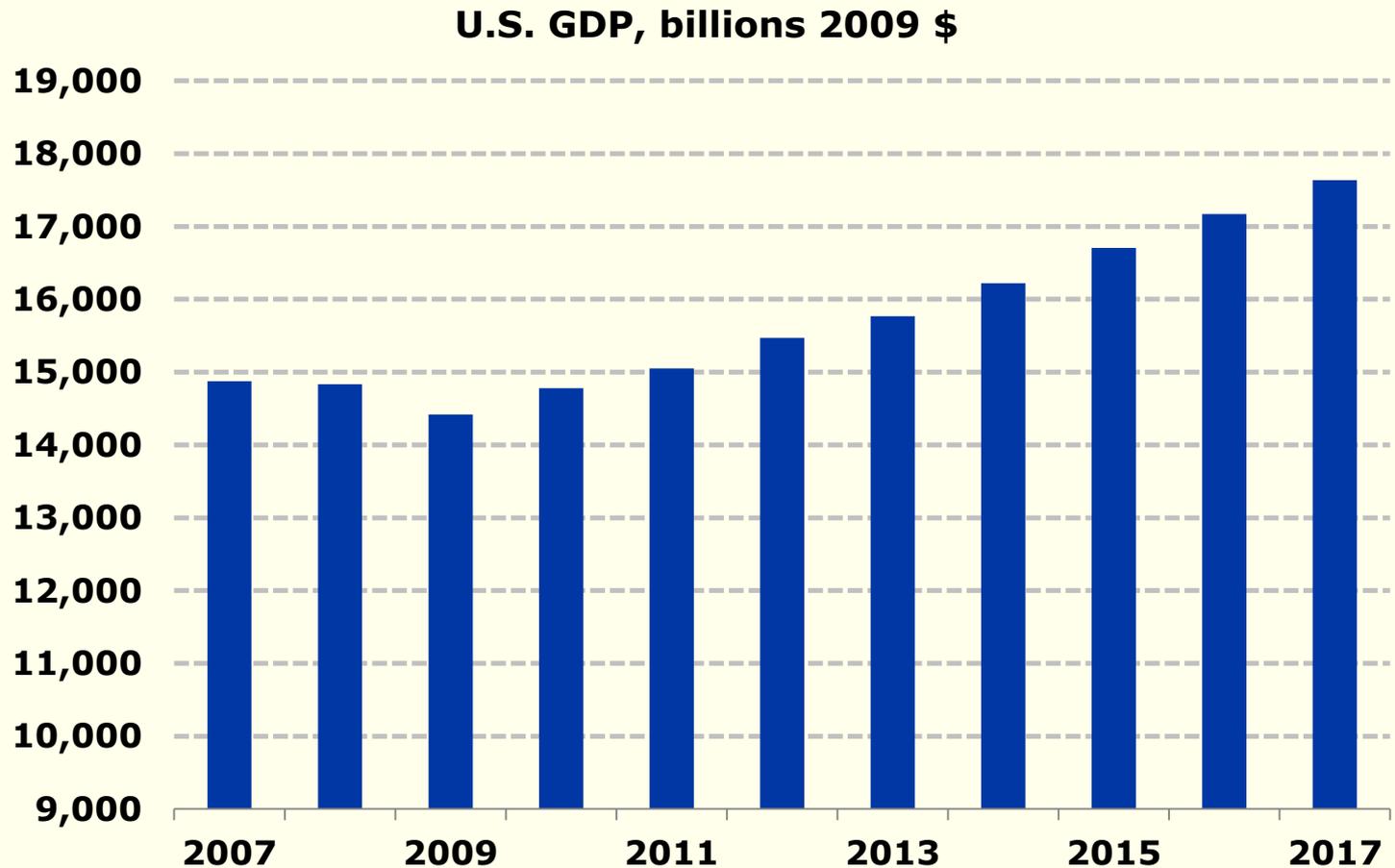


Source: Boeing, data through December 2013



After 1.9% growth in 2013, GDP is expected to grow 2.9% this year

GDP is expected to average 2.8% growth over 2014 - 2017

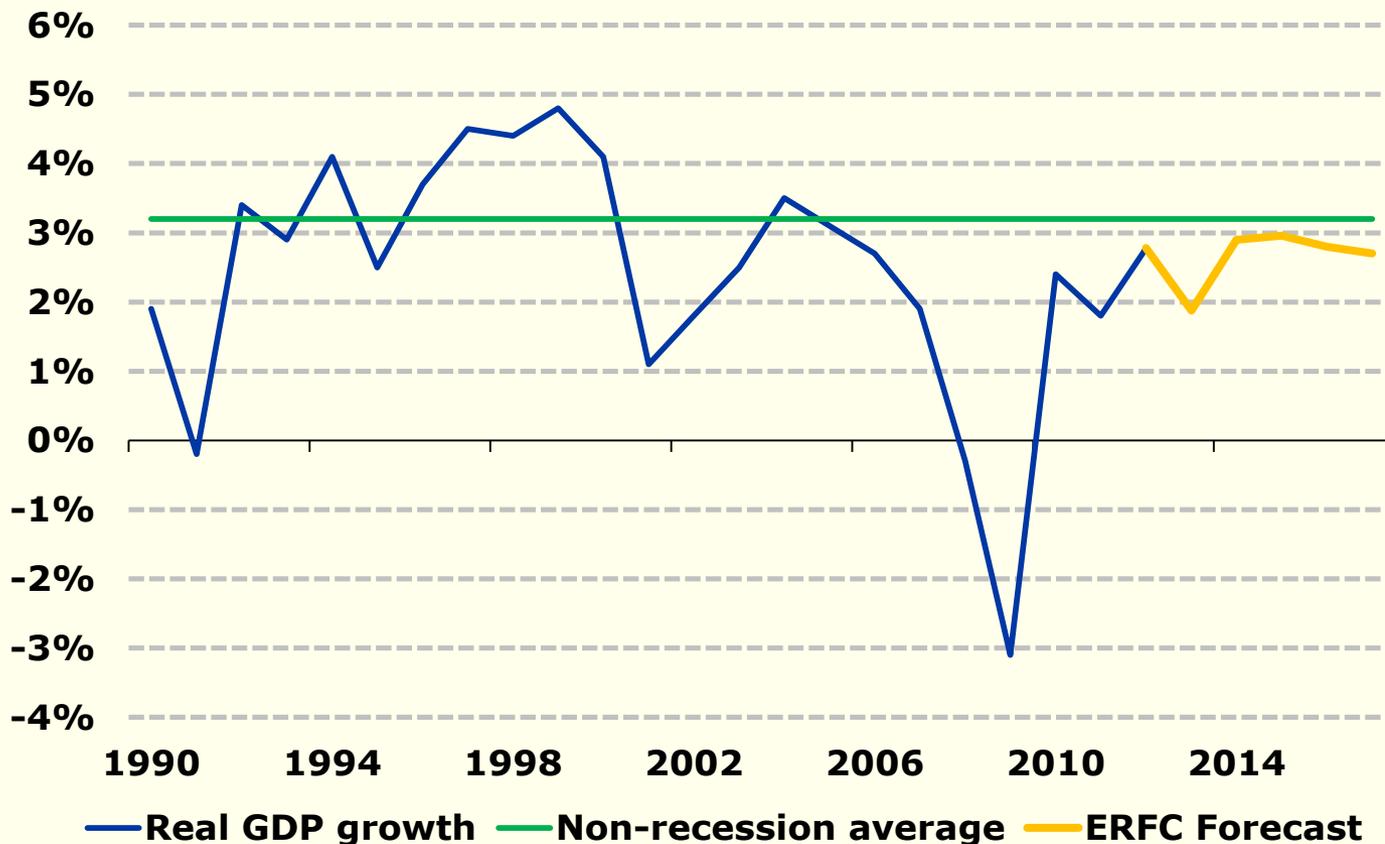


Source: Global Insight, ERFC February 2014 forecast; historical data through 2013Q4



GDP growth forecasted to be near non-recessionary average in 2015

Non-recessionary average growth of 3.2% excludes 1990, 1991, 2001, 2007-2009



Economic & Revenue Outlook

27 March 2014

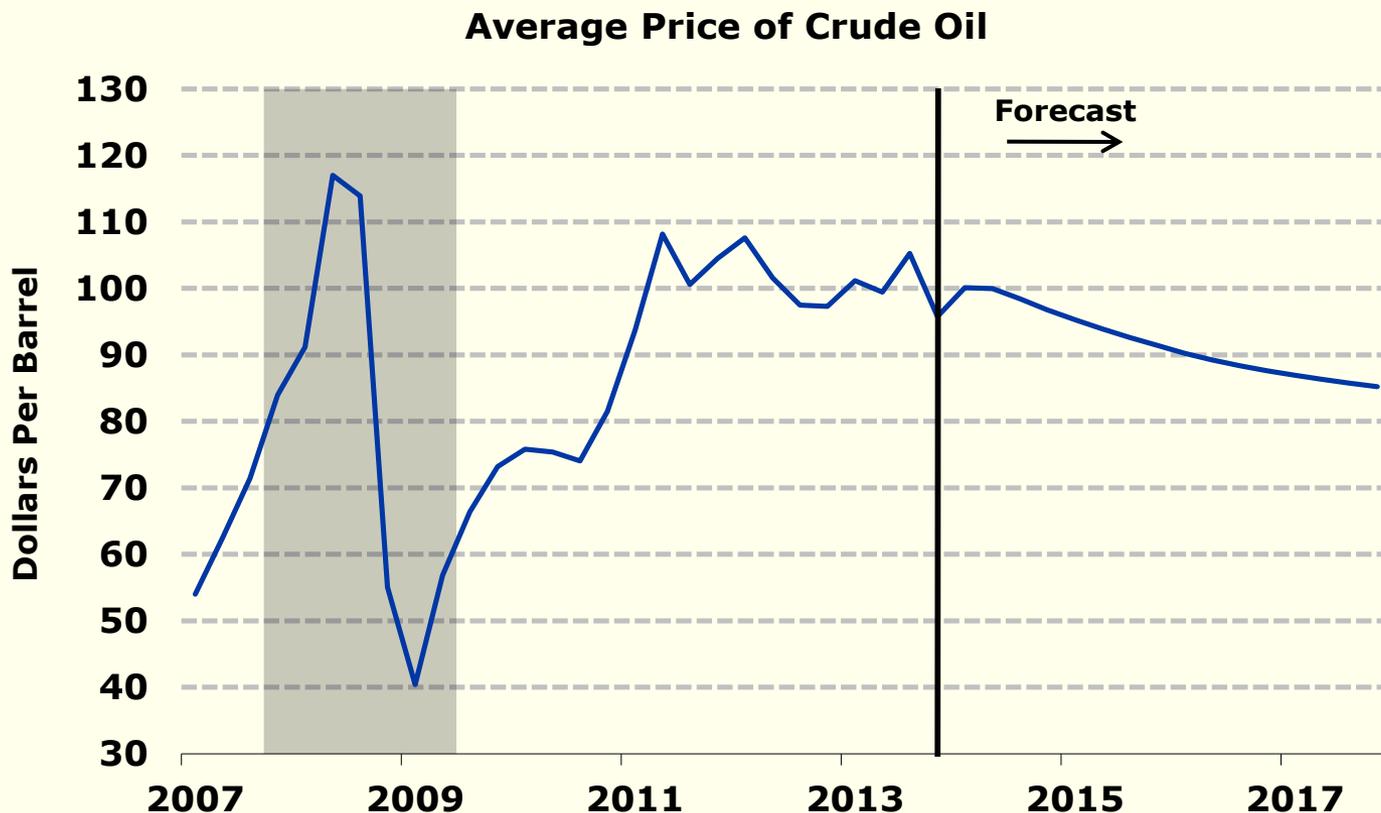
Slide 11

Source: U.S. Dept of Commerce, BEA, ERFC February 2014 Forecast

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Oil prices are expected to slowly decline





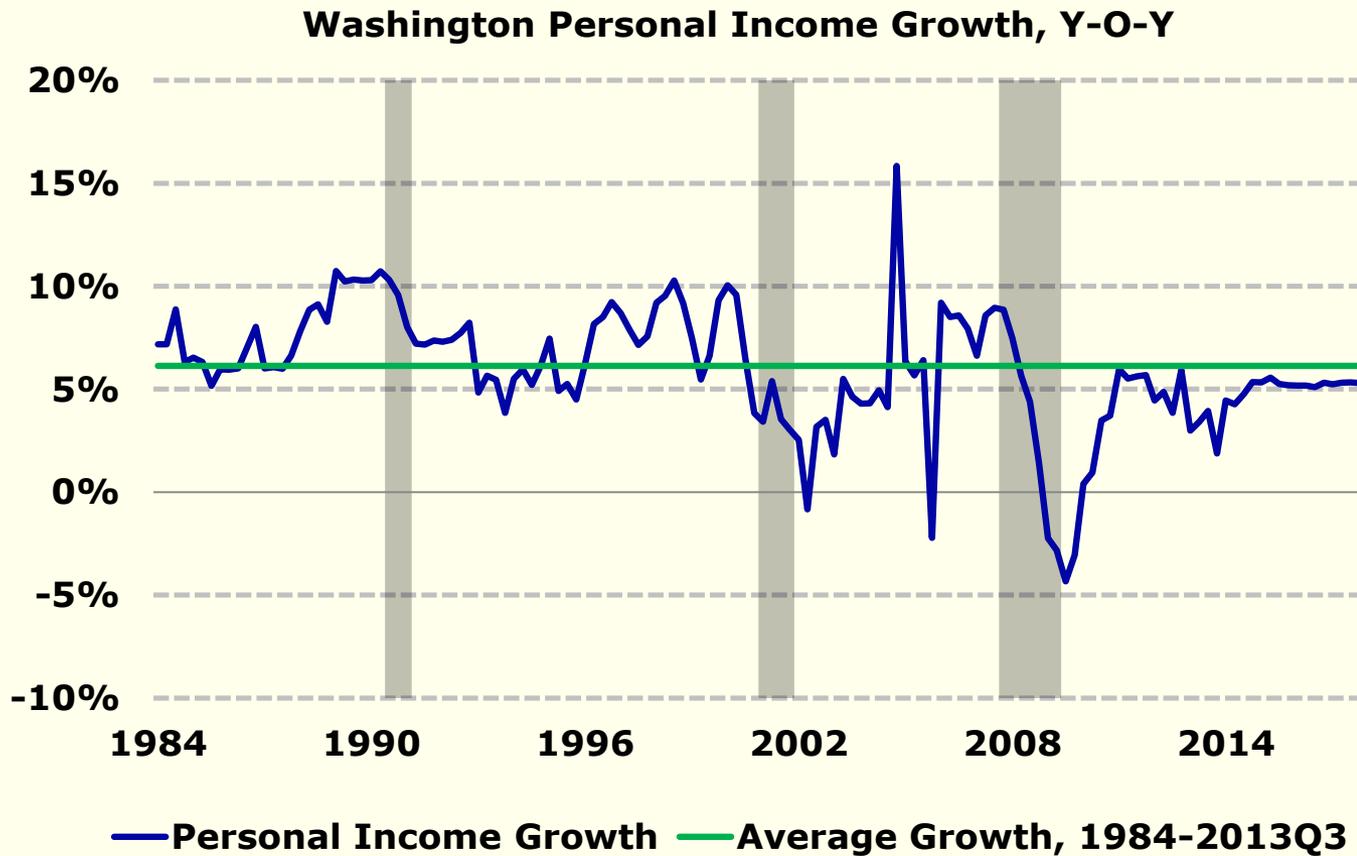
Washington personal income is forecast to average 5.1% annual growth over 2014 – 2017...



Source: ERFC February 2014 forecast; historical data through 2012



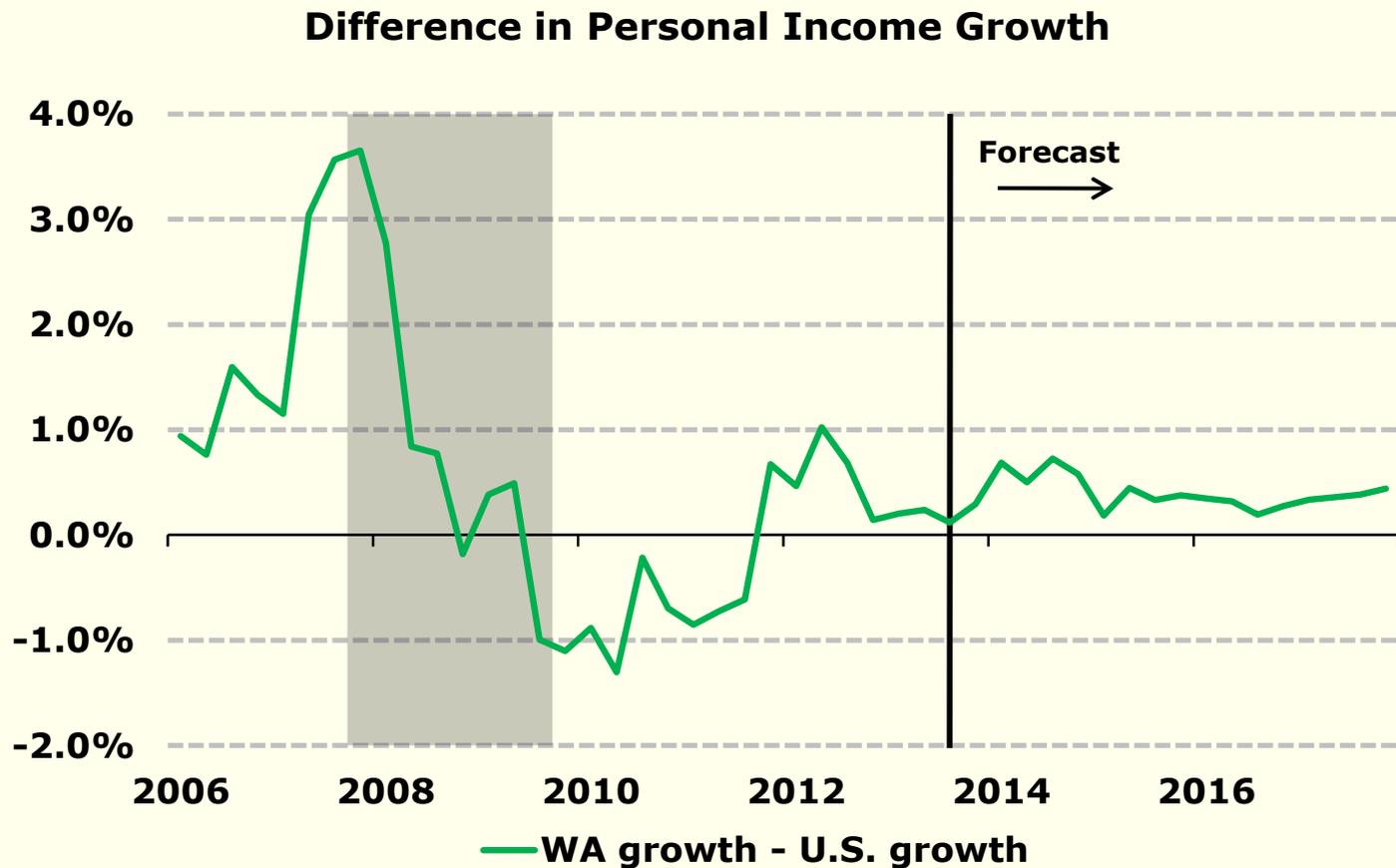
...but personal income is growing at below-average rates



Source: BEA, ERFC; historical data through 2013Q3



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



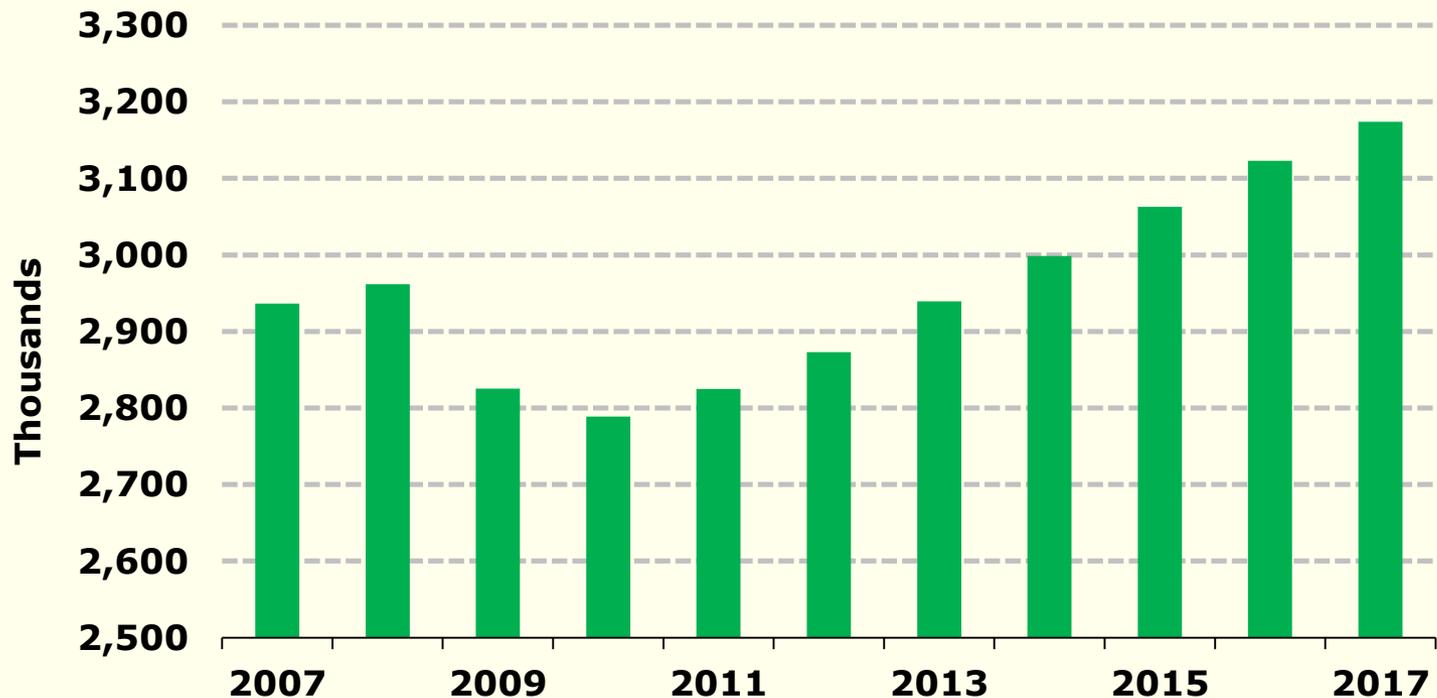
Source: ERFC February 2014 Forecast; historical data through 2013Q3

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Washington payroll employment growth is expected to average 1.9% over 2014 - 2017

Washington Nonfarm Payroll Employment

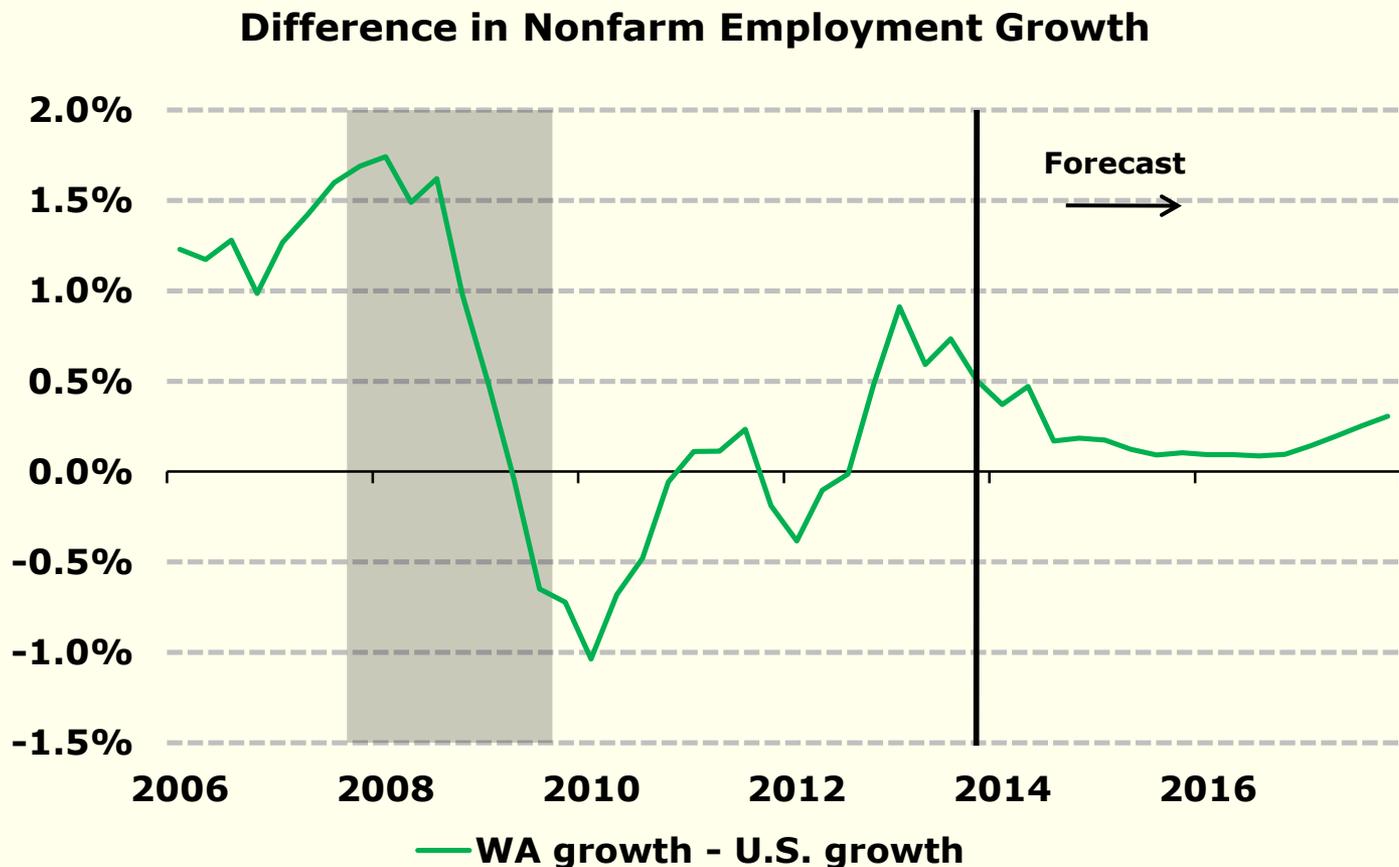


Source: ERFC February 2014 forecast; historical data through 2013

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



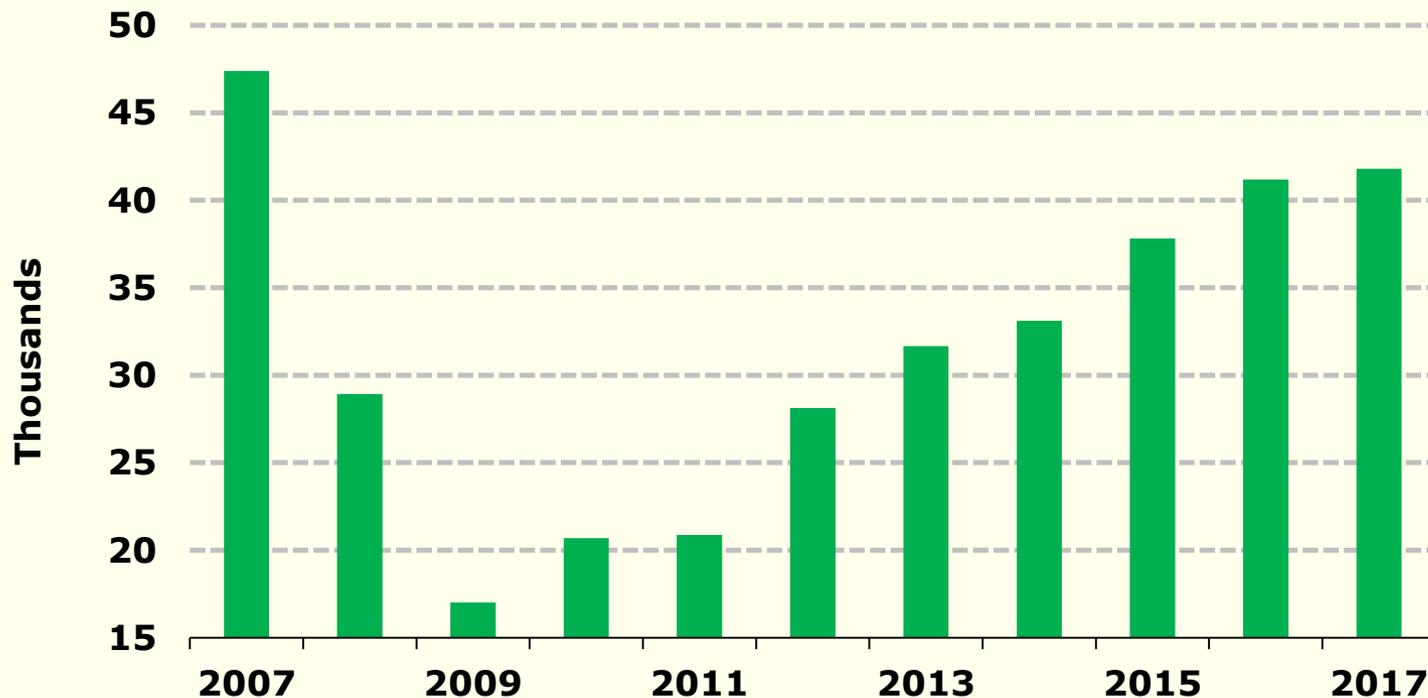
Source: ERFC February 2014 forecast; historical data through 2013Q4

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Growth in Washington residential construction activity is expected through 2017

Washington Housing Permits



Source: ERFC February 2014 forecast; historical data through 2013

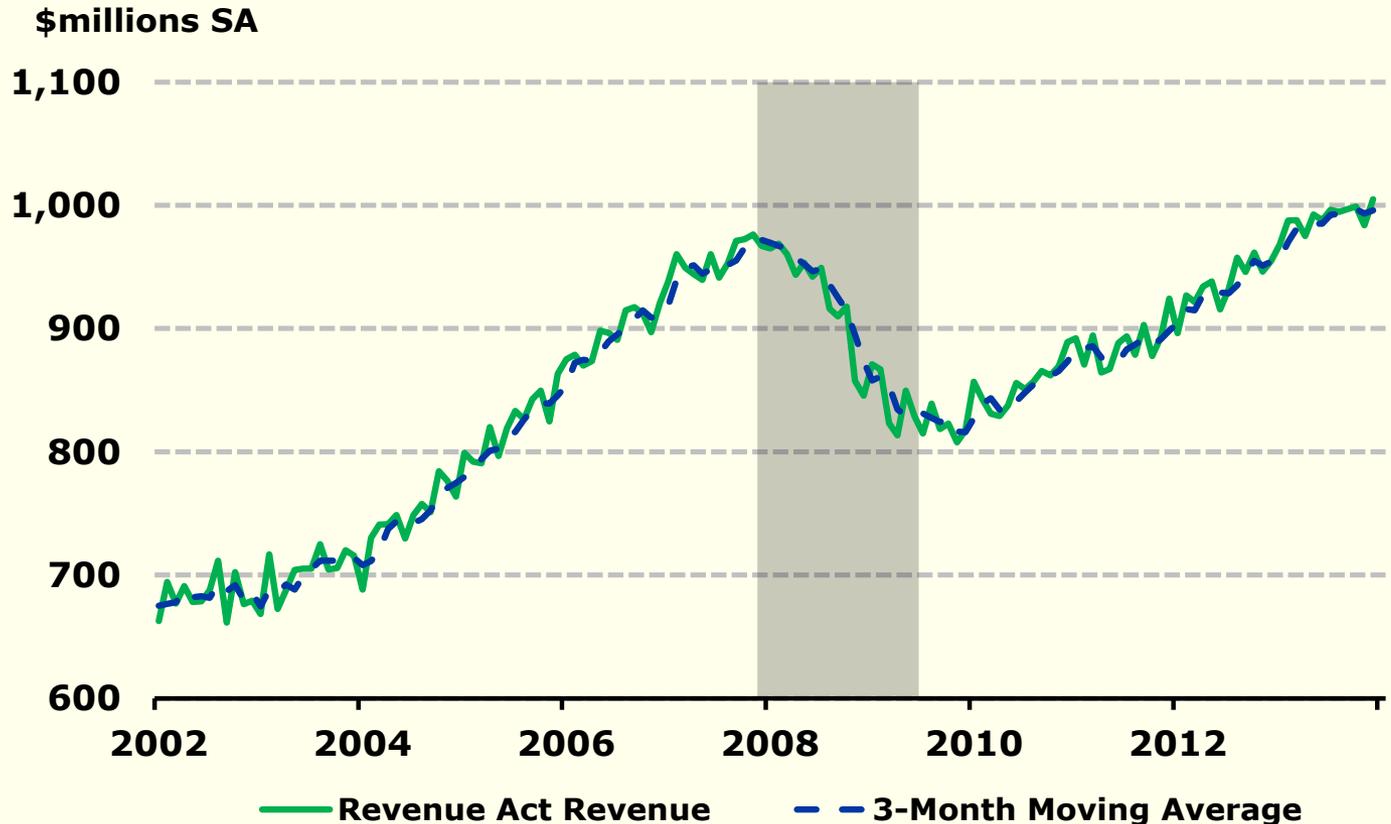


Rev Act collections still above pre-recession peak despite surtax sunset

Seasonally adjusted collections increased in the January 11th - February 10th collection period (December taxable activity)

The 0.3% B&O services surtax expired on July 1, 2013

The surtax brought in \$20-\$26 million per month



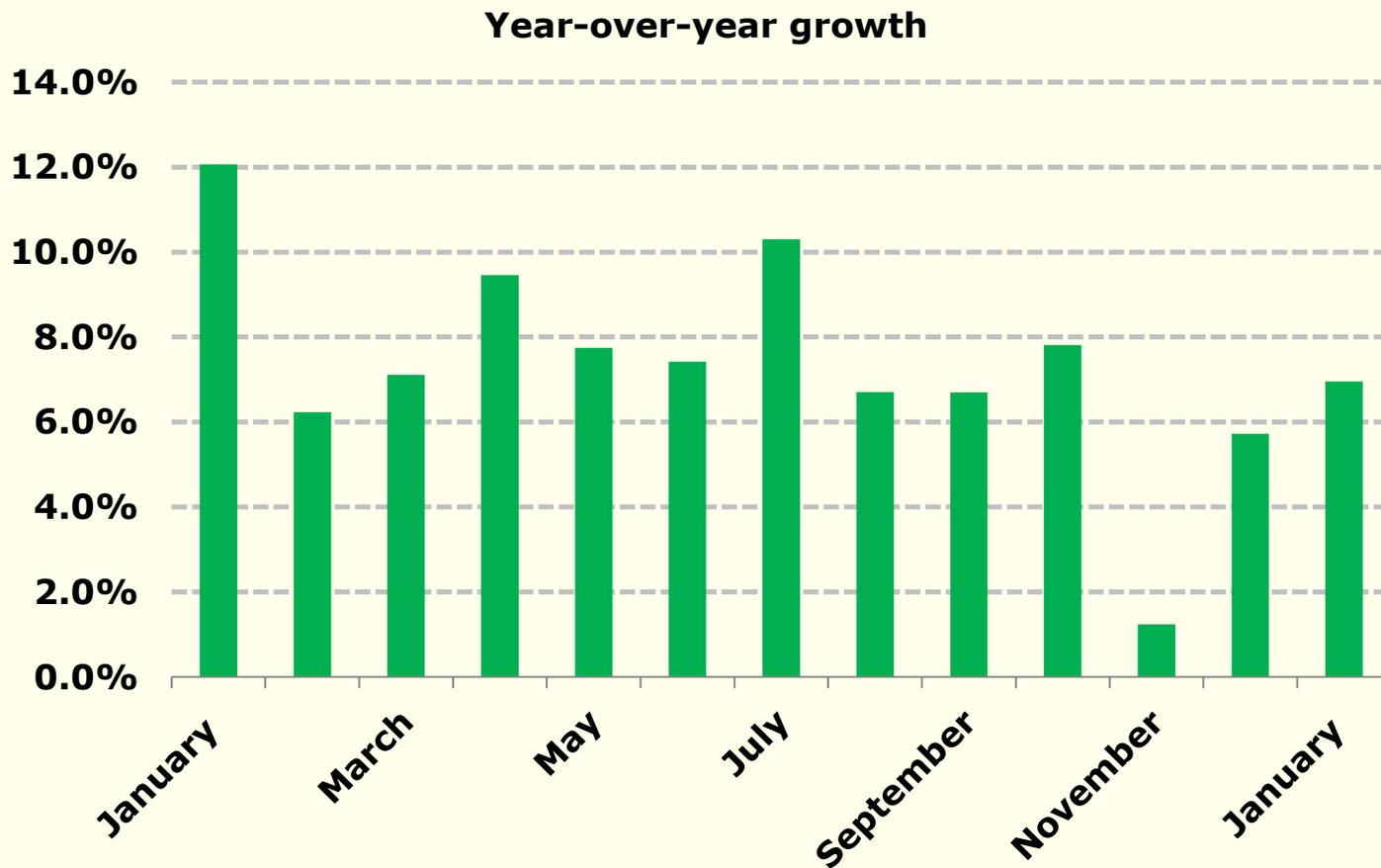
* Adjusted for large one-time transactions, amnesty payments and reporting frequency change, current definition of Revenue Act

Source: DOR and ERFC; monthly data through estimated December 2013 activity

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Sales tax growth slowed in last two months of 2013 but strengthened in January



Source: ERFC; Monthly data through January 2014 preliminary activity

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Forecast changes: General Fund State, 2013-2015 Biennium

November Forecast:

\$32,982 million

\$Millions	February Forecast				
	<u>Collection Experience</u>	<u>Non-economic Change</u>	<u>Forecast Change</u>	<u>Forecast</u>	<u>Total Change*</u>
Dept. of Revenue	\$0	\$0	\$20	\$31,424	\$21
All other agencies	\$2	\$0	\$8	\$1,589	\$10
Total GF-S	\$2	\$0	\$29	\$33,013	\$30

* Detail may not add to total due to rounding

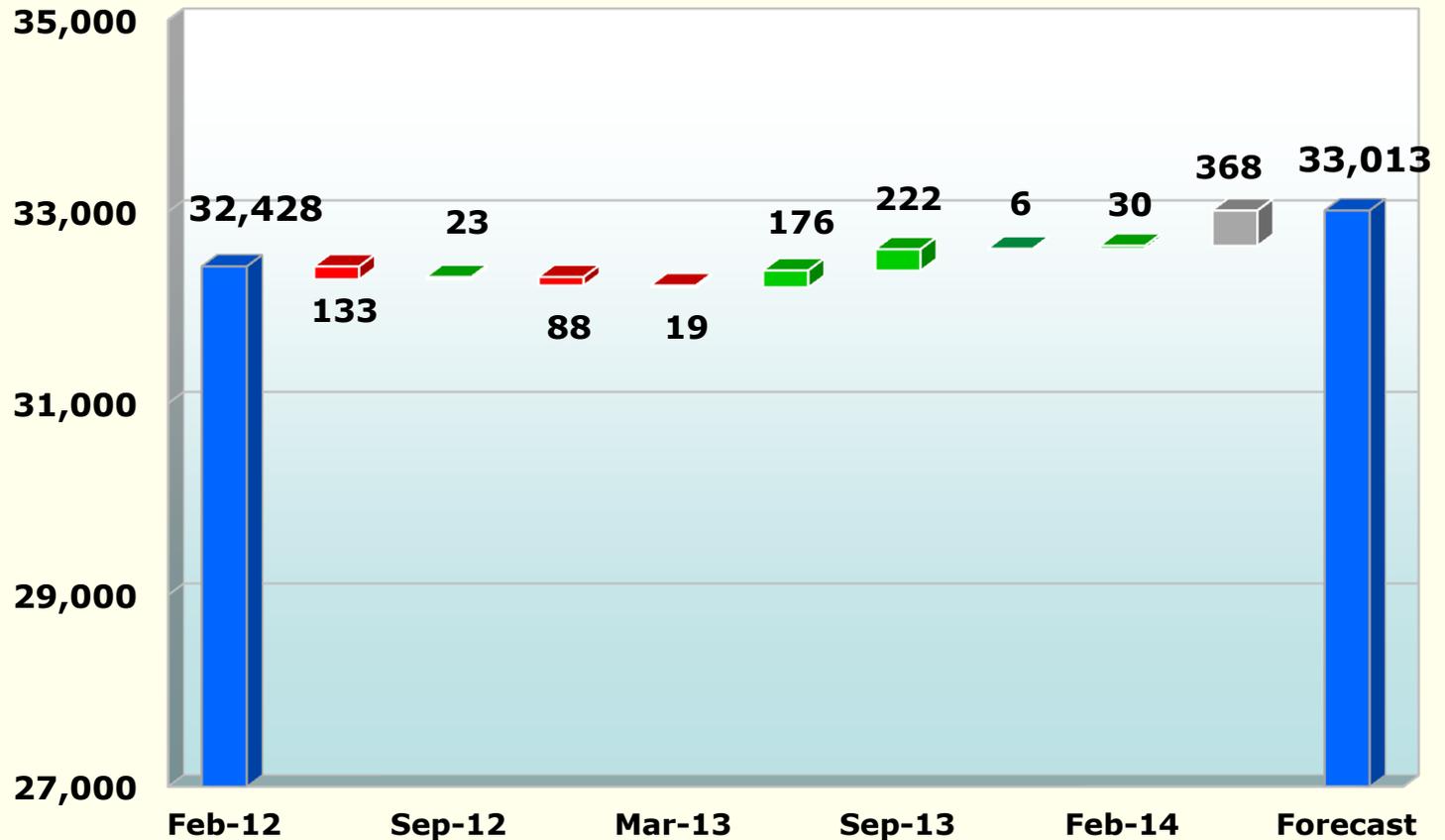


GF-S forecast revisions to the 2013-15 biennium

GF-S New Definition

Gray area
indicates total
noneconomic
change

\$Millions



Source: ERFC February 2012 – February 2014 forecasts

WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL



Forecast changes: General Fund State, 2015-2017 Biennium

November Forecast:

\$35,615 million

\$Millions	February Forecast			
	<u>Non-economic Change</u>	<u>Forecast Change</u>	<u>Forecast</u>	<u>Total Change*</u>
Dept. of Revenue	\$28	\$5	\$34,067	\$33
All other agencies	\$23	\$26	\$1,629	\$49
Total GF-S	\$51	\$31	\$35,697	\$82

* Detail may not add to total due to rounding



Cannabis revenue estimates

Revenue estimates use assumptions based on research conducted by LCB contractor BOTEC Analysis

\$Millions

February Forecast

	<u>2013-15</u>	<u>2015-17</u>	<u>2017-19</u>
GF-S share of excise tax and license fees	\$0	\$22.9	\$63.0
Retail sales tax and B&O	\$0	\$28.3	\$75.4
Total GF-S	\$0	\$51.2	\$138.5
Dedicated Non GF-S excise tax and licenses fees	\$0	\$110.8	\$285.5

* Detail may not add to total due to rounding

Source: ERFC, BOTEC Analysis

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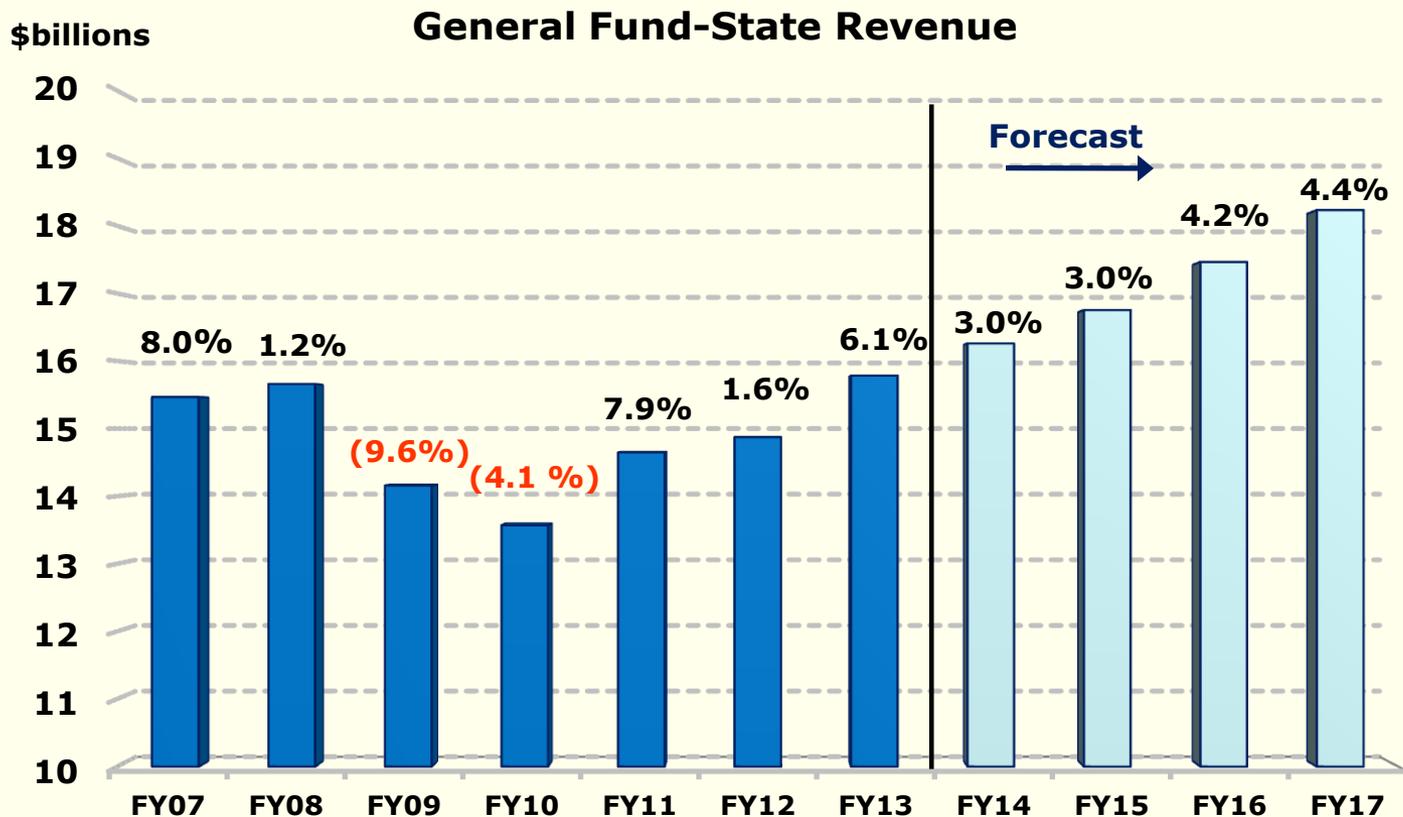
Economic & Revenue Outlook

27 March 2014

Slide 24



General Fund-State* forecast by fiscal year



*General Fund-State & Related Funds for FY 07-09, General Fund-State new definition for FY 10-17
Source: ERFC forecast, February 2014



Conclusion

- The economic forecast is quite similar to November's forecast; we expect the slow pace of economic recovery to continue in both the U.S. and Washington economies
- We continue to expect the Washington economy to be slightly stronger than the U.S. economy
- GF-S revenues are expected to grow 7.7% between the 2011-13 and 2013-15 biennium and are expected to grow 8.1% between the 2013-15 and 2015-17 biennium
- The level of uncertainty in the baseline remains extremely high, and downside risks outweigh upside risks



National survey data indicate human service charities receive largest share of government funds

Data include contracts and grants from national, state and local governments

Charities with Govt. Contracts & Grants

Public Charities			Contracts and Grants			
Type	Number	Percent	Mean (\$)	Median (\$)	Total (\$ millions)	Percent
Arts, culture, and humanities	7,189	12.9	152,074	33,600	1,081	0.8
Education	3,828	6.9	1,392,814	157,034	5,223	3.8
Environment and animals	2,359	4.2	560,871	101,800	1,306	1.0
Health	6,729	12.1	5,586,483	545,082	36,448	26.5
Human services	29,483	52.9	2,826,338	387,732	80,565	58.6
Other	6,114	11	2,203,786	274,688	12,769	9.3
Total	55,702	100	2,543,870	250,000	137,392	100

Source: Urban Institute, National Survey of Nonprofit Contracts and Grants, 2012 data



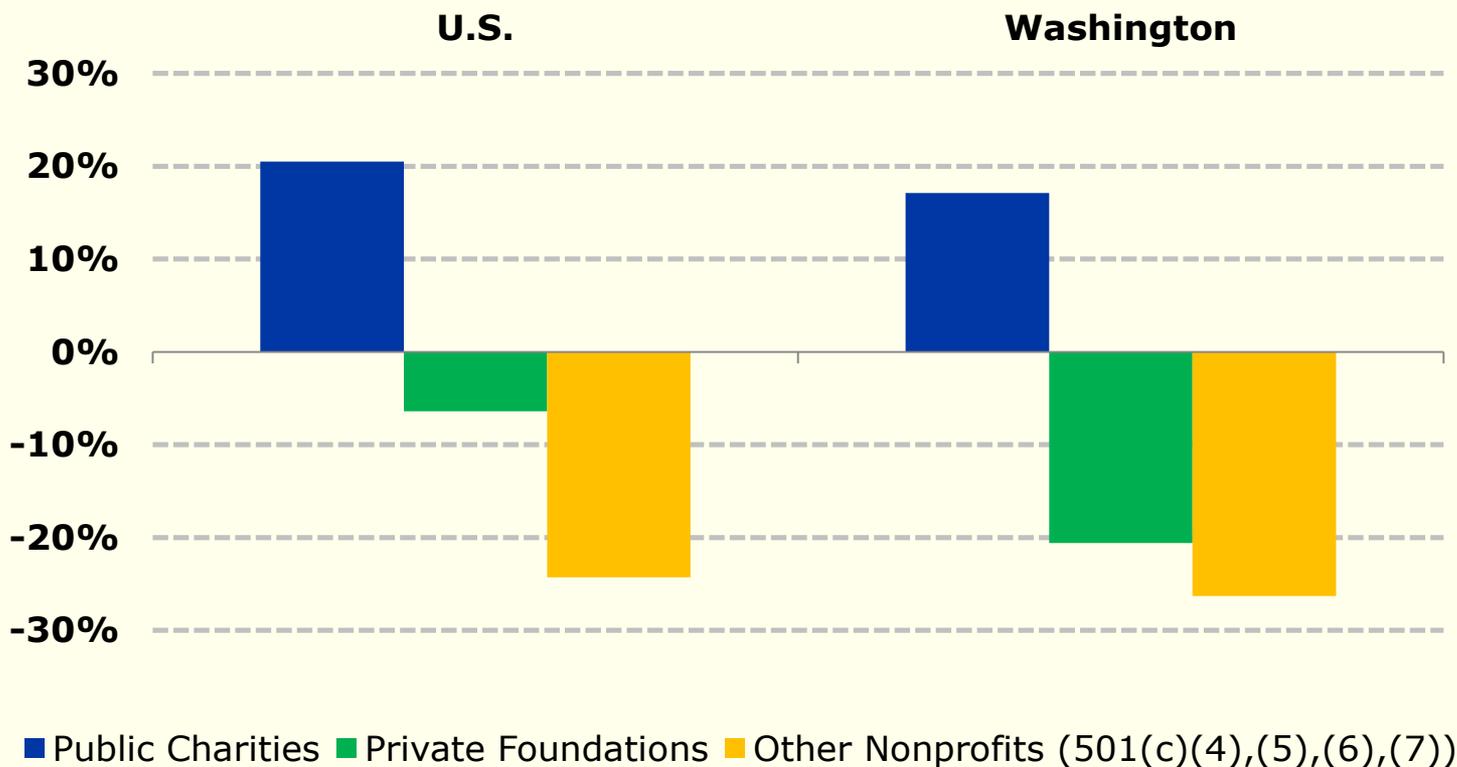
The number of charities has grown while there are fewer foundations

2003-13
change, total
number of
nonprofits:

U.S. = 2.7%

WA = 0.2%

% Change in Number of Nonprofits, 2003-2013

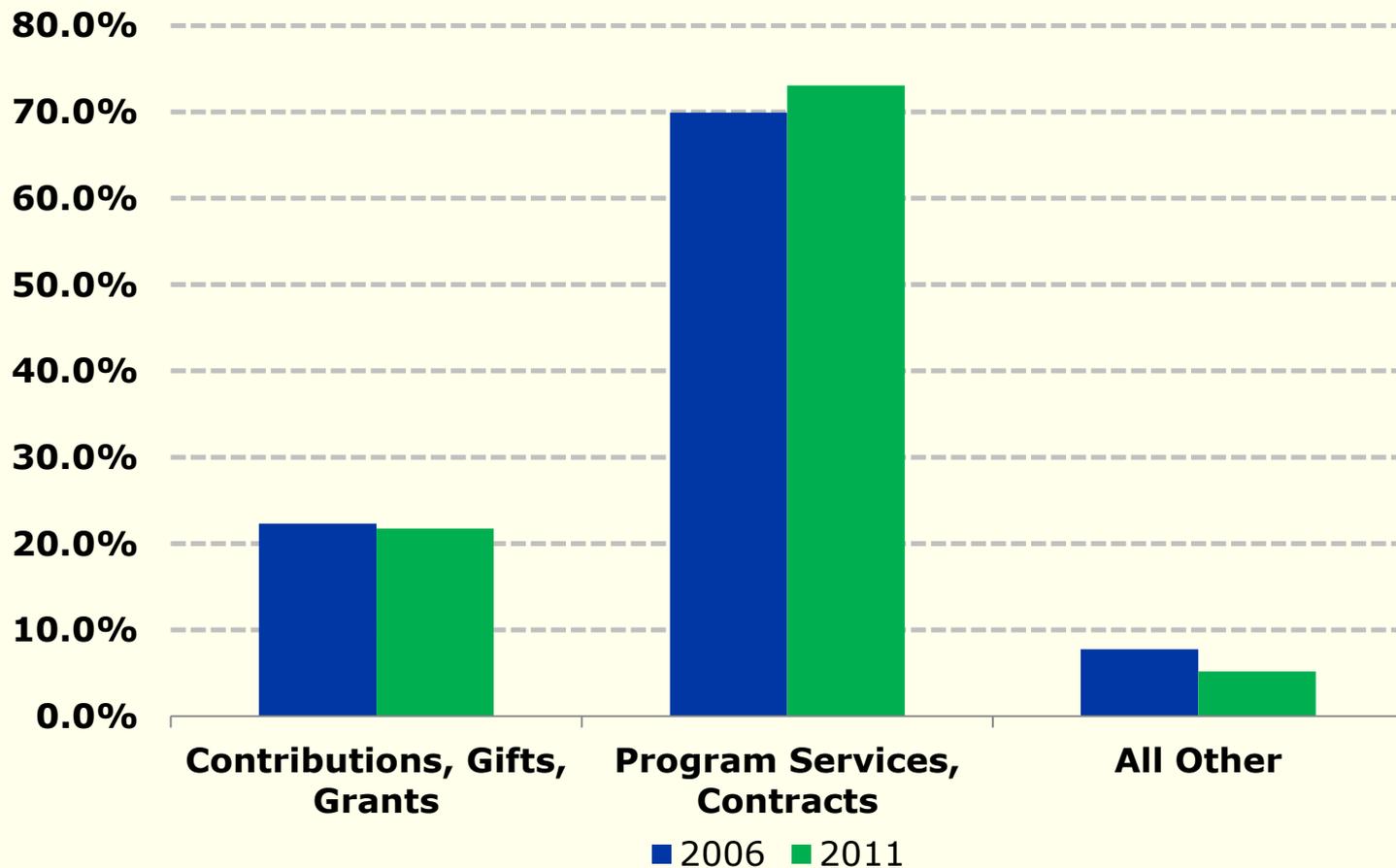


Source: Urban Institute, National Center for Charitable Statistics



Washington public charity revenue sources

All other = income from special events, investments, dues, etc.

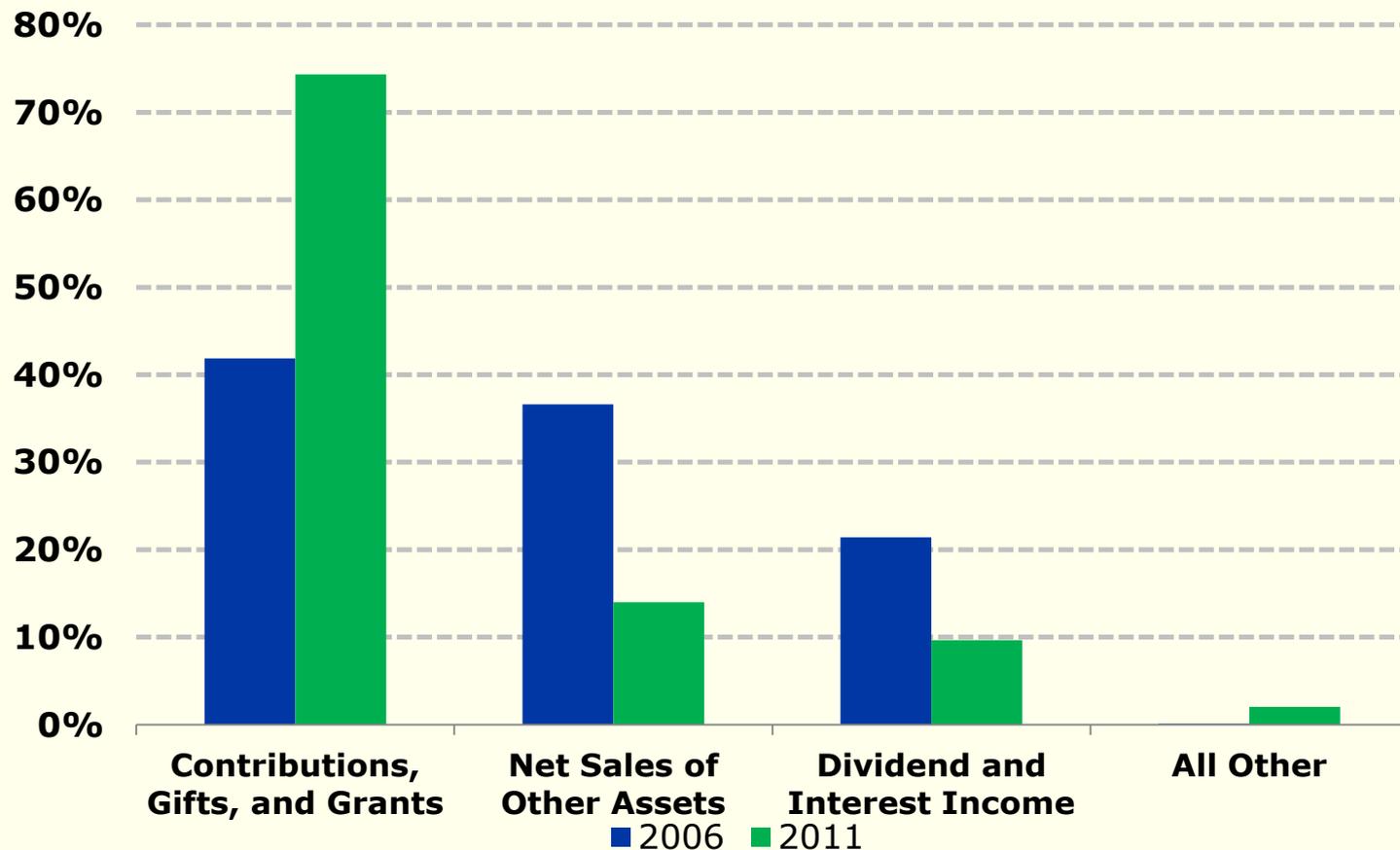


Source: Urban Institute, National Center for Charitable Statistics



Washington private foundation revenue sources

All other =
income from
rents,
inventory
sales, etc.



Source: Urban Institute, National Center for Charitable Statistics



Questions



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

**www.erfc.wa.gov
360-534-1560**

Economic & Revenue
Outlook

27 March 2014

Slide 31