

Washington State: Economic Outlook

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WASHINGTON STATE
ECONOMIC AND REVENUE FORECAST COUNCIL



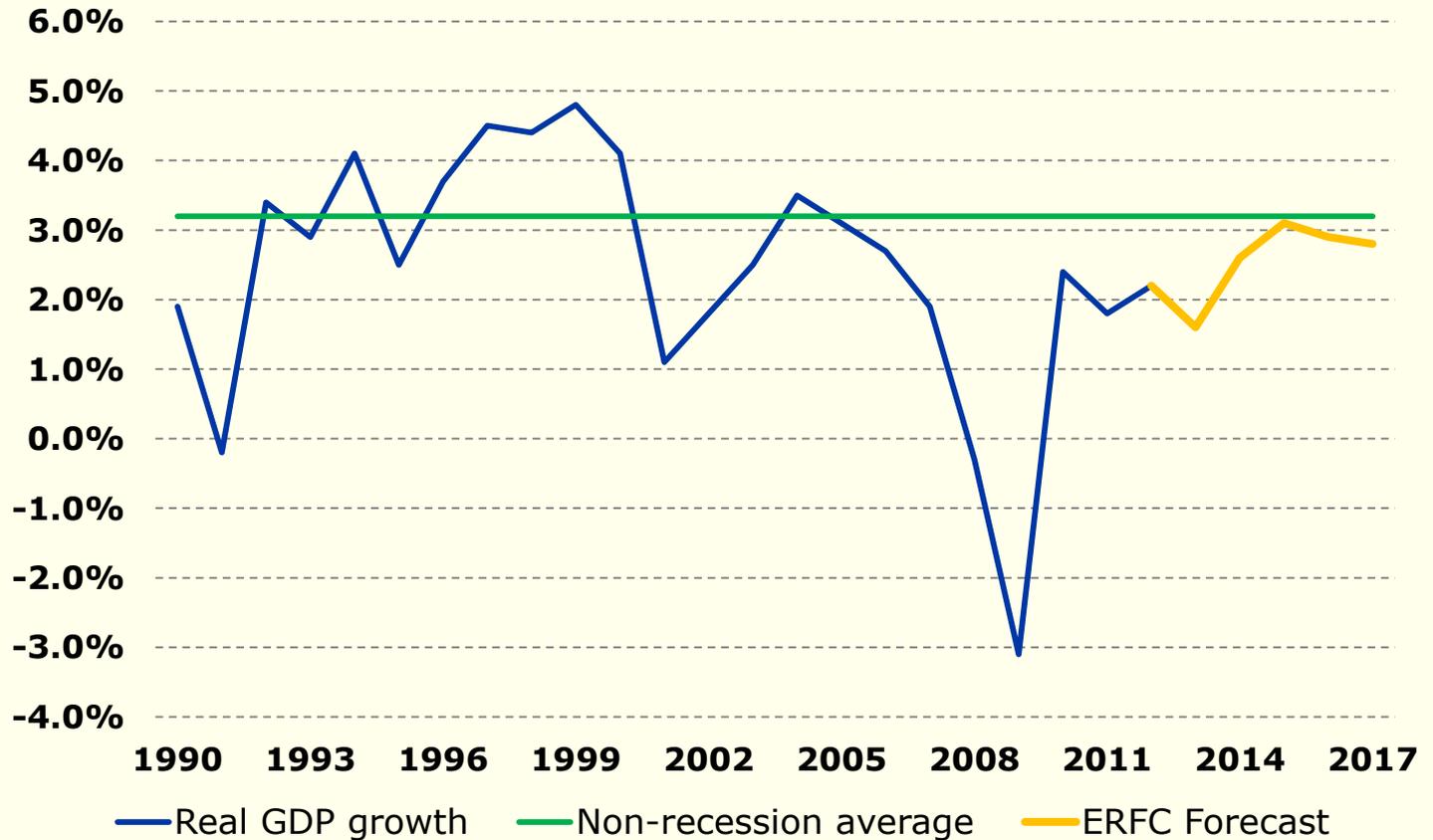
Summary

- The U.S. and Washington economies continue to grow, although at a slow pace
- Construction activity has been a big contributor to Washington employment growth; employment is rising in most Washington industries except aerospace and government
- Risks to the forecast are generally from factors outside the state, including a weaker Chinese economy, uncertain federal fiscal policy and possible disruptions to the housing recovery



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

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



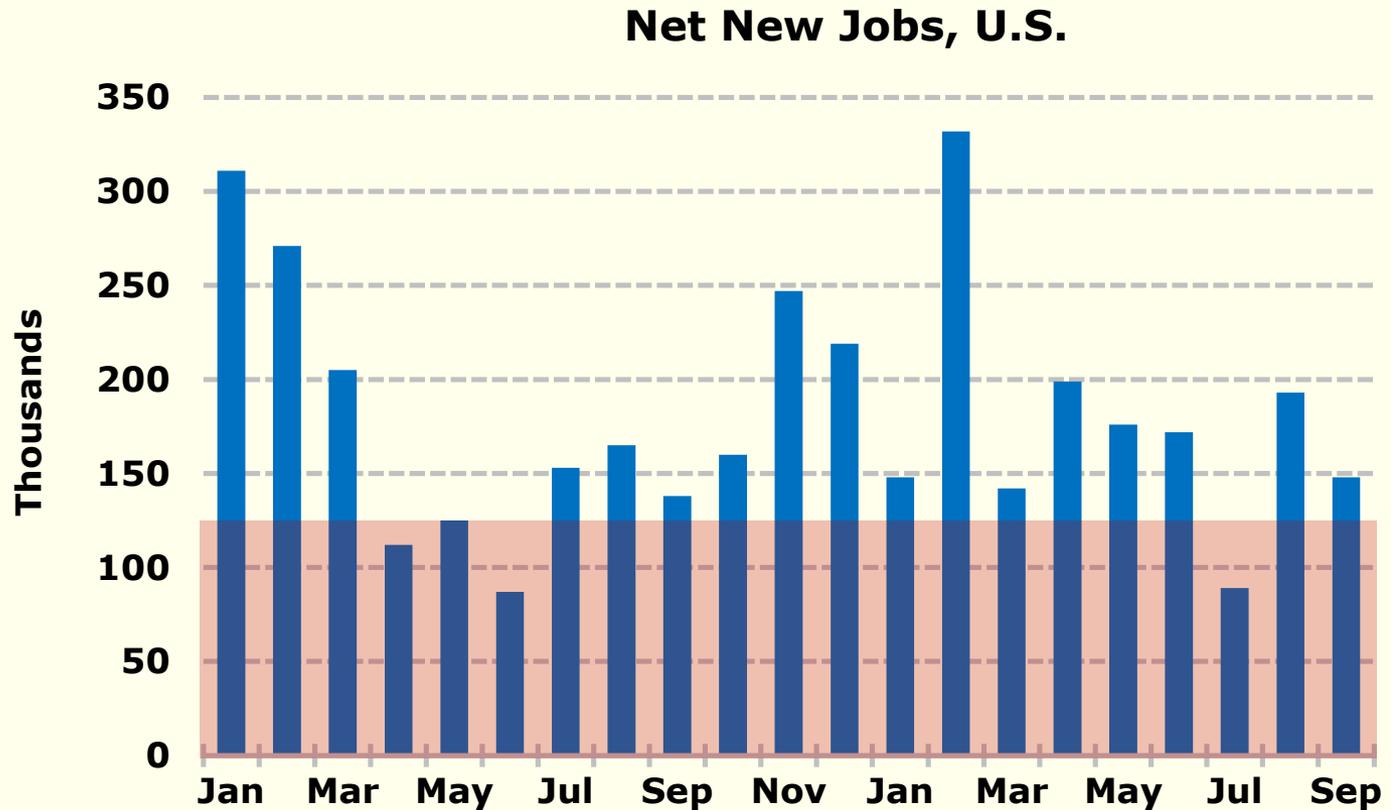
Source: U.S. Dept of Commerce, BEA, ERFC September 2013 Forecast

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Job growth remains modest

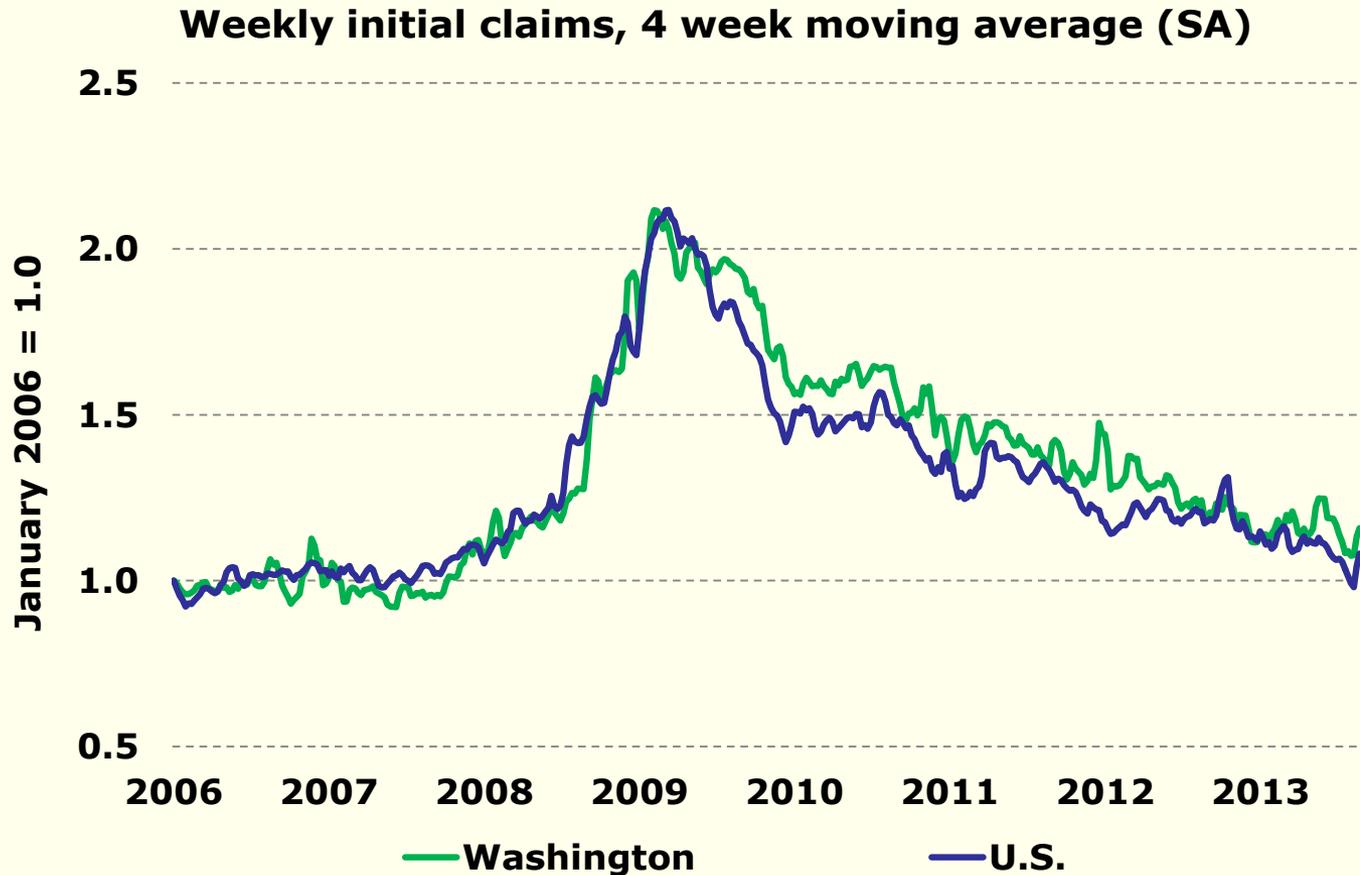
The economy needs to add roughly 125K jobs each month just to keep up with growth in the labor force



Source: Bureau of Labor Statistics, data through September 2013



Initial unemployment claims are declining



Source: US Dept of Labor/BLS; data through October 2013

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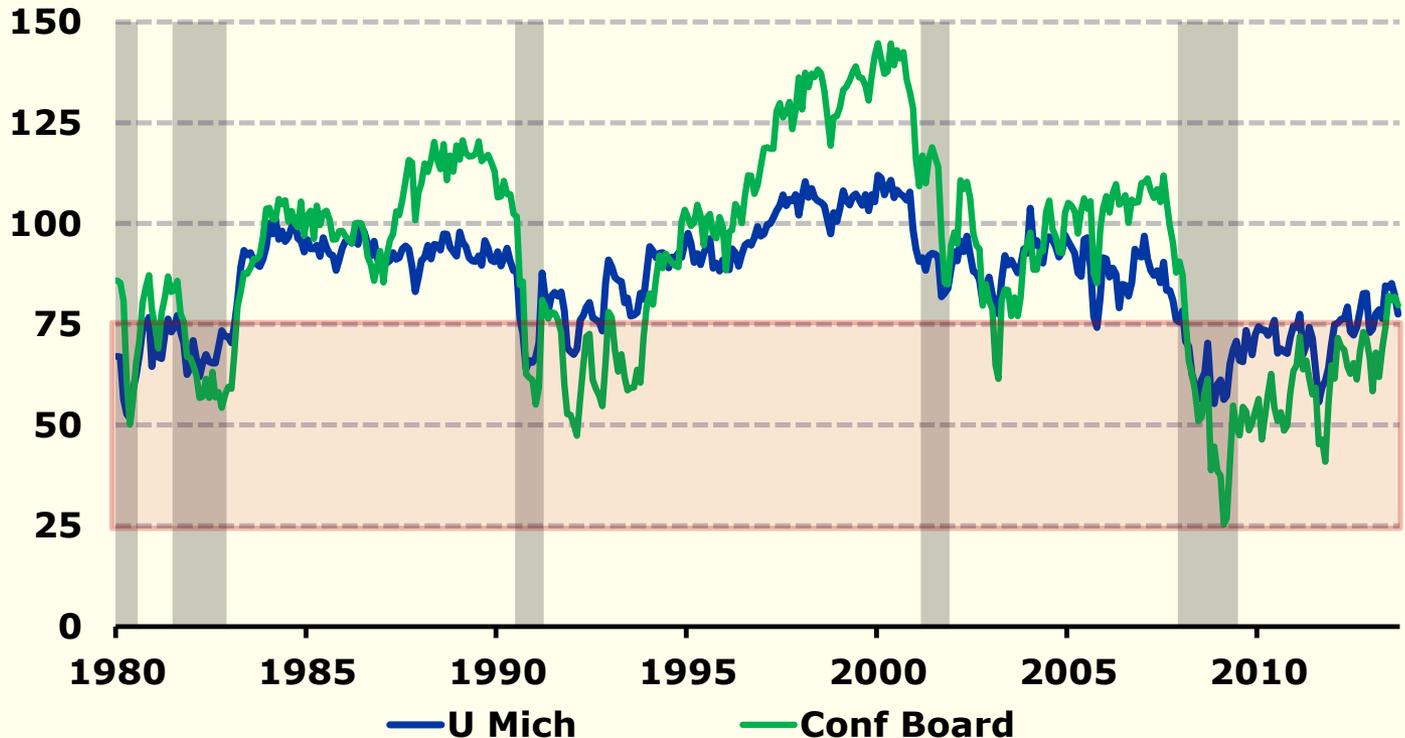


Consumer confidence was beginning to strengthen before fed budget showdown

Index

Mich: 1966Q1 = 100, SA

Conf Board: 1985 = 100, SA

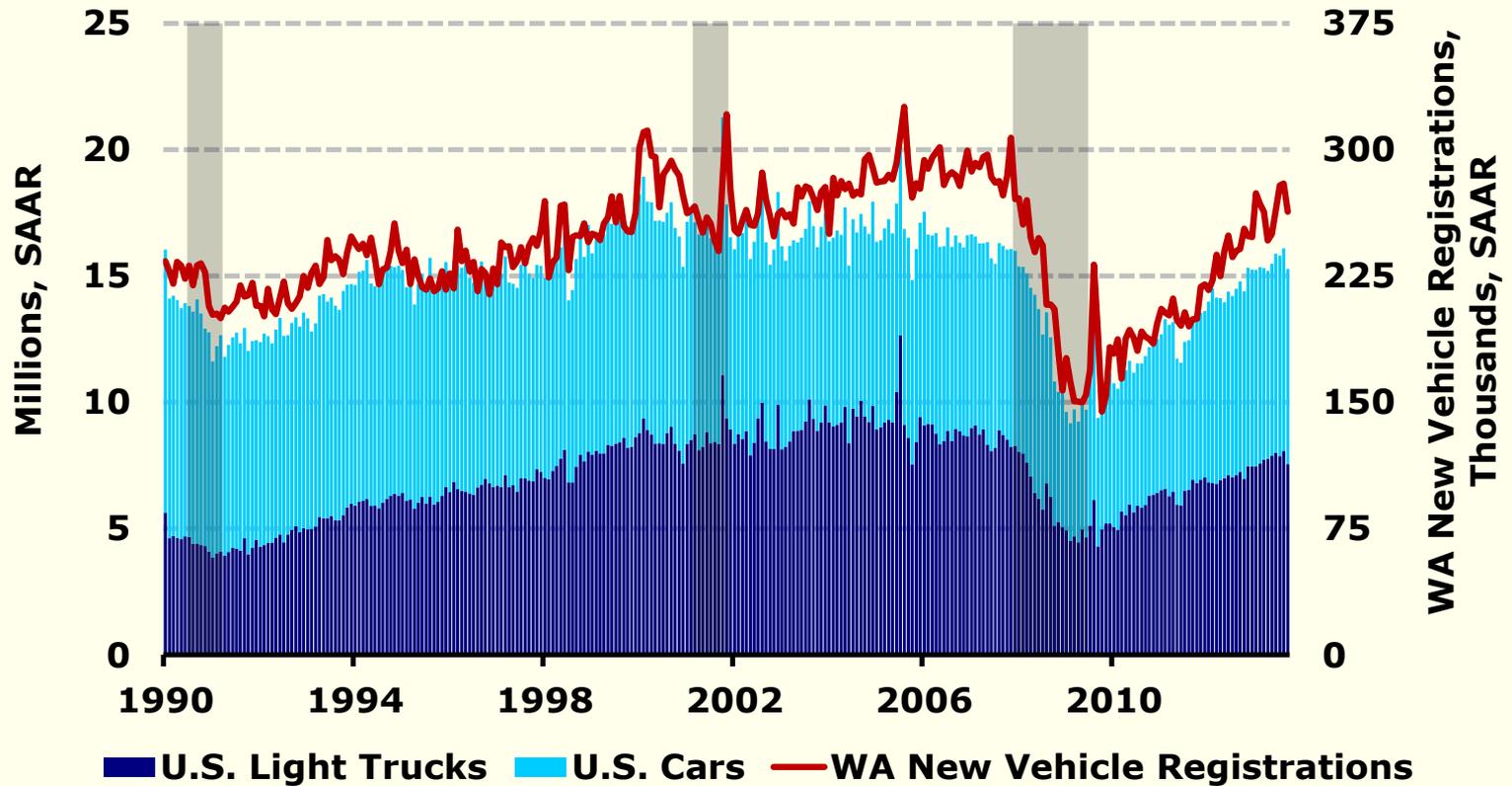


Source: University of Michigan; Conference Board, data through September 2013



Vehicle sales continue their upward trend

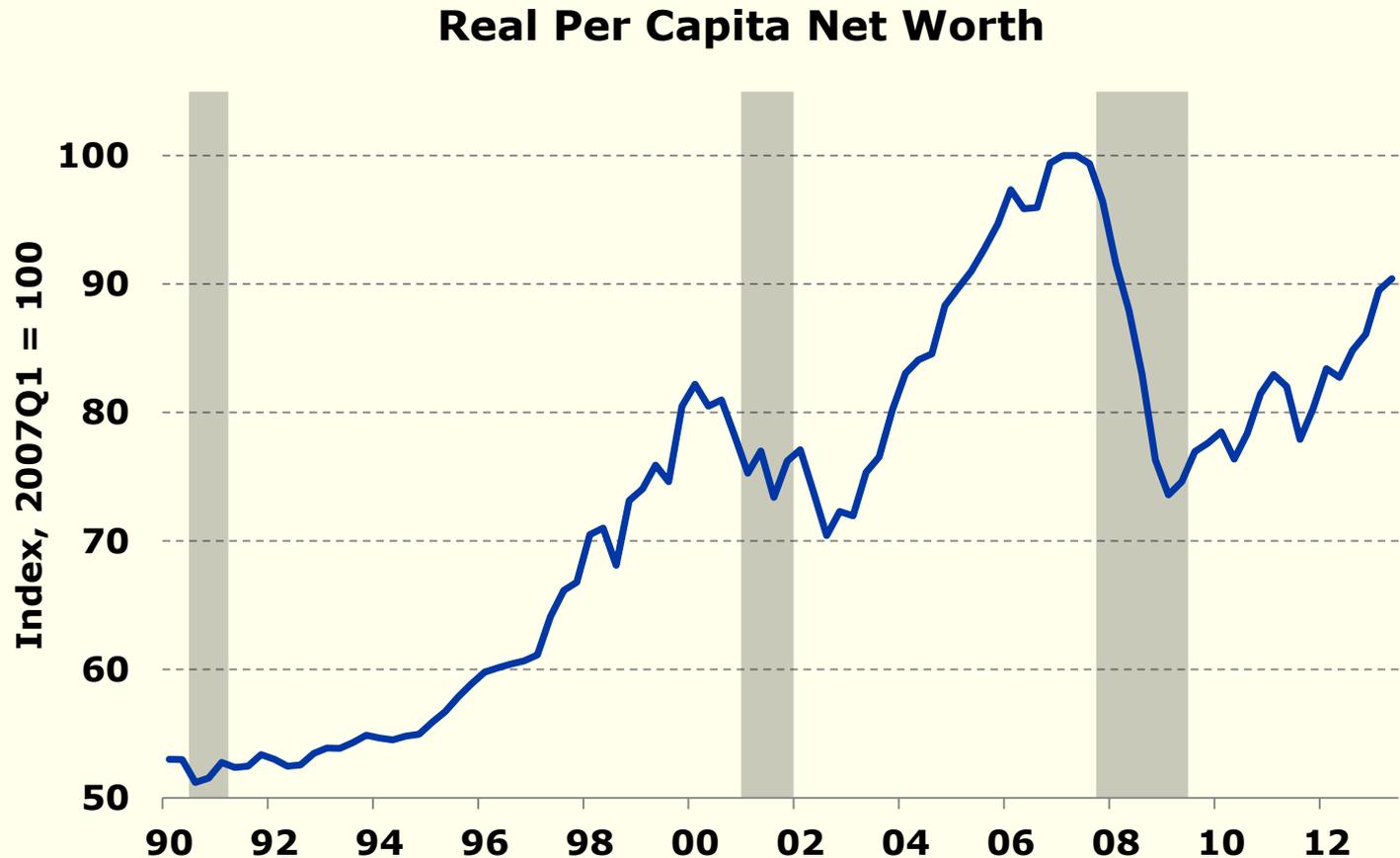
WA new vehicle registrations in September were up 9% year-over-year.



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



Net worth recovering but still below peak

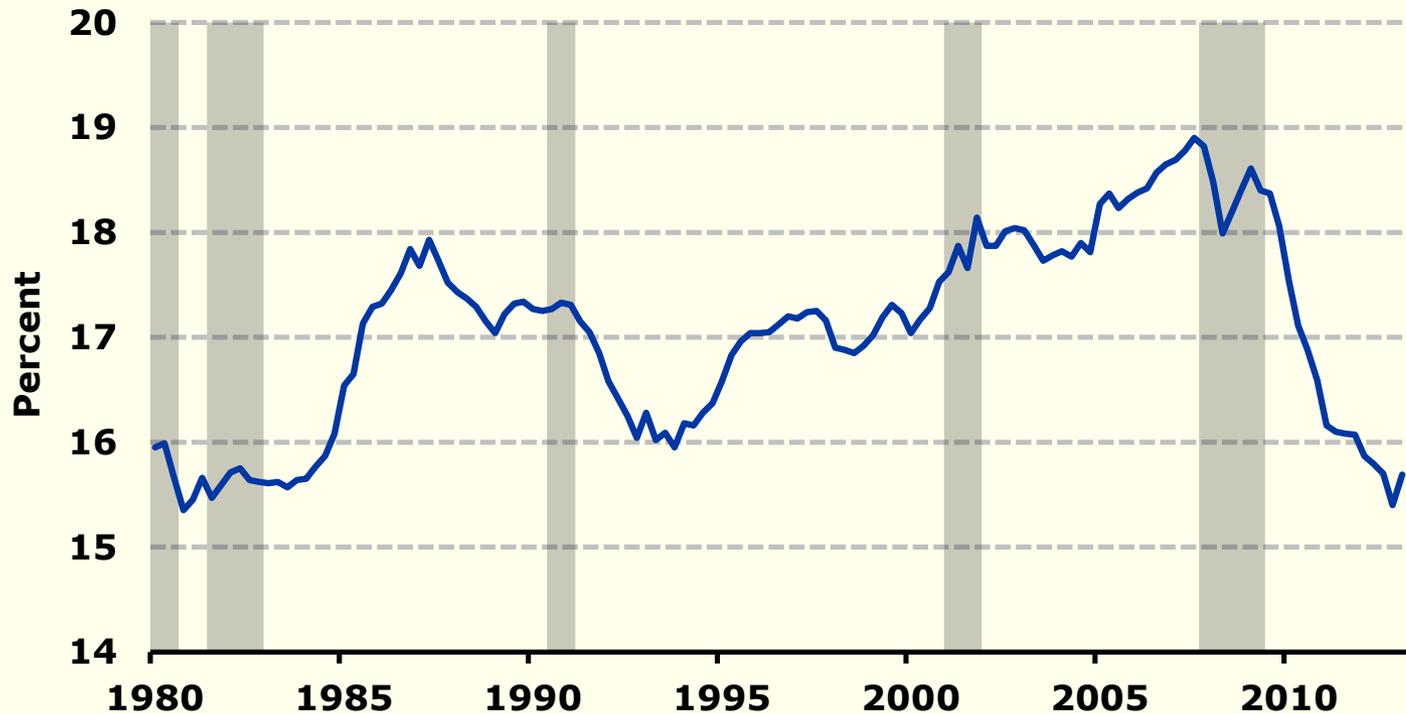


Sources: Federal Reserve, BEA, ERFC; data through 2013 Q2



Consumer deleveraging nearing its end?

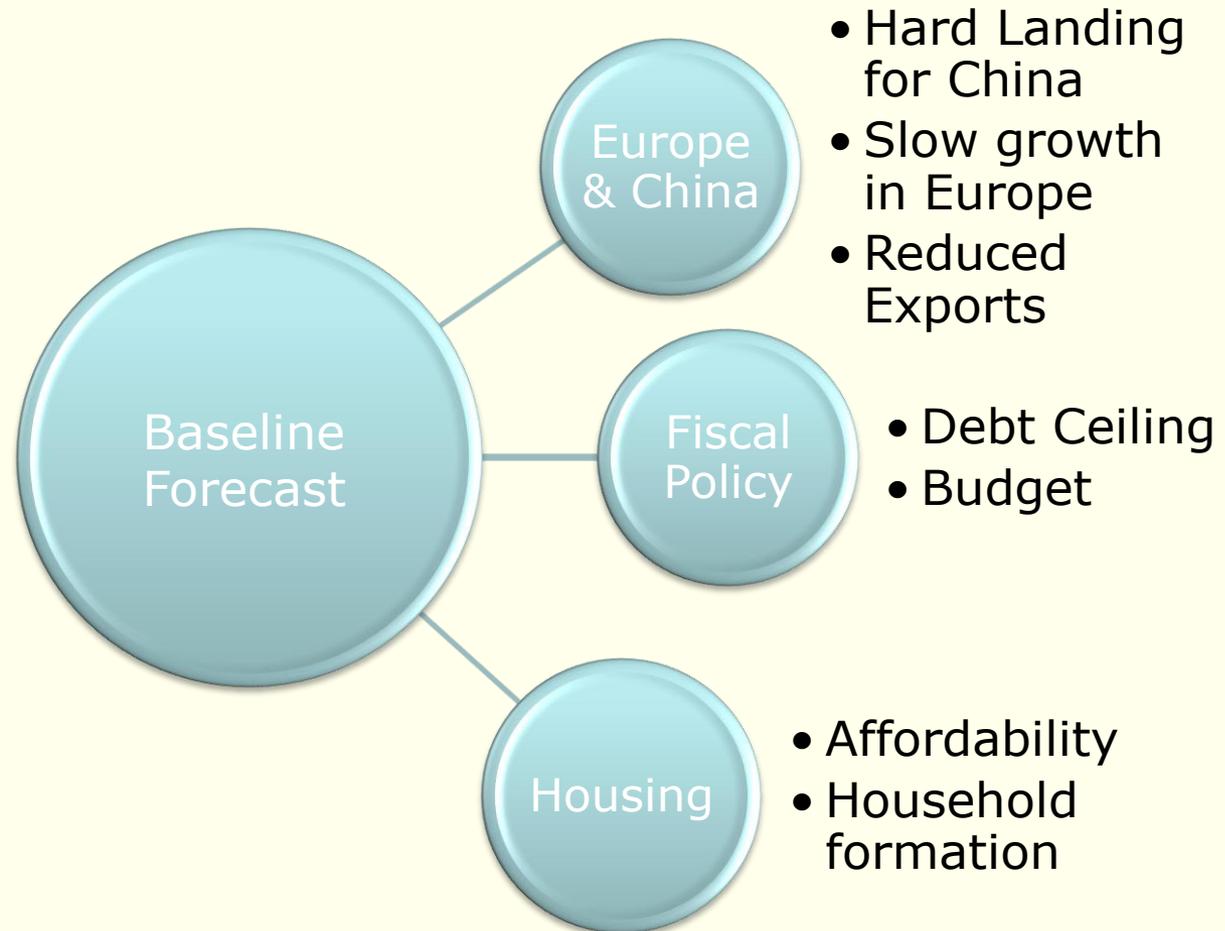
Total U.S. Household Debt Service and Financial Obligations as % of Disposable Personal Income



Source: Board of Governors of the Federal Reserve System, data through 2013Q1

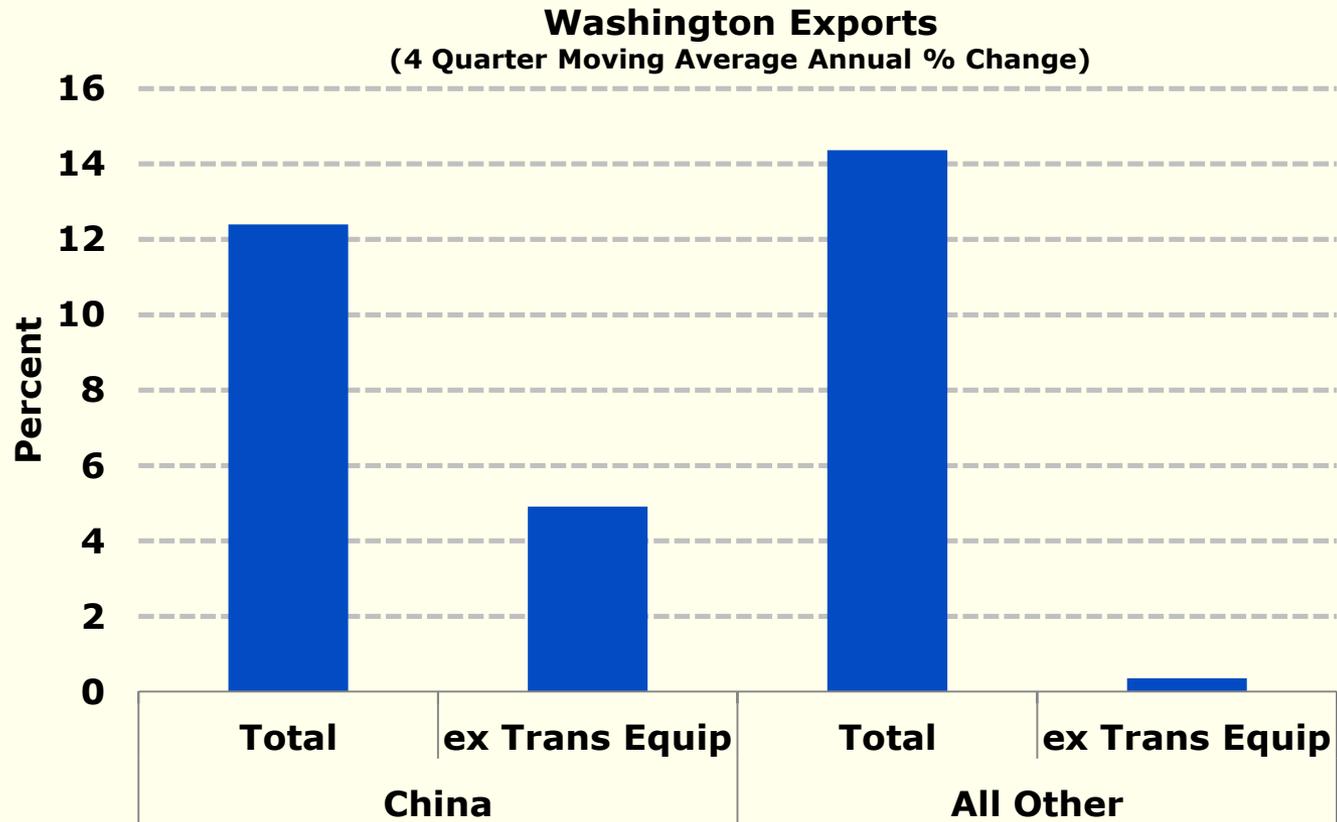


Three major risks to the forecast





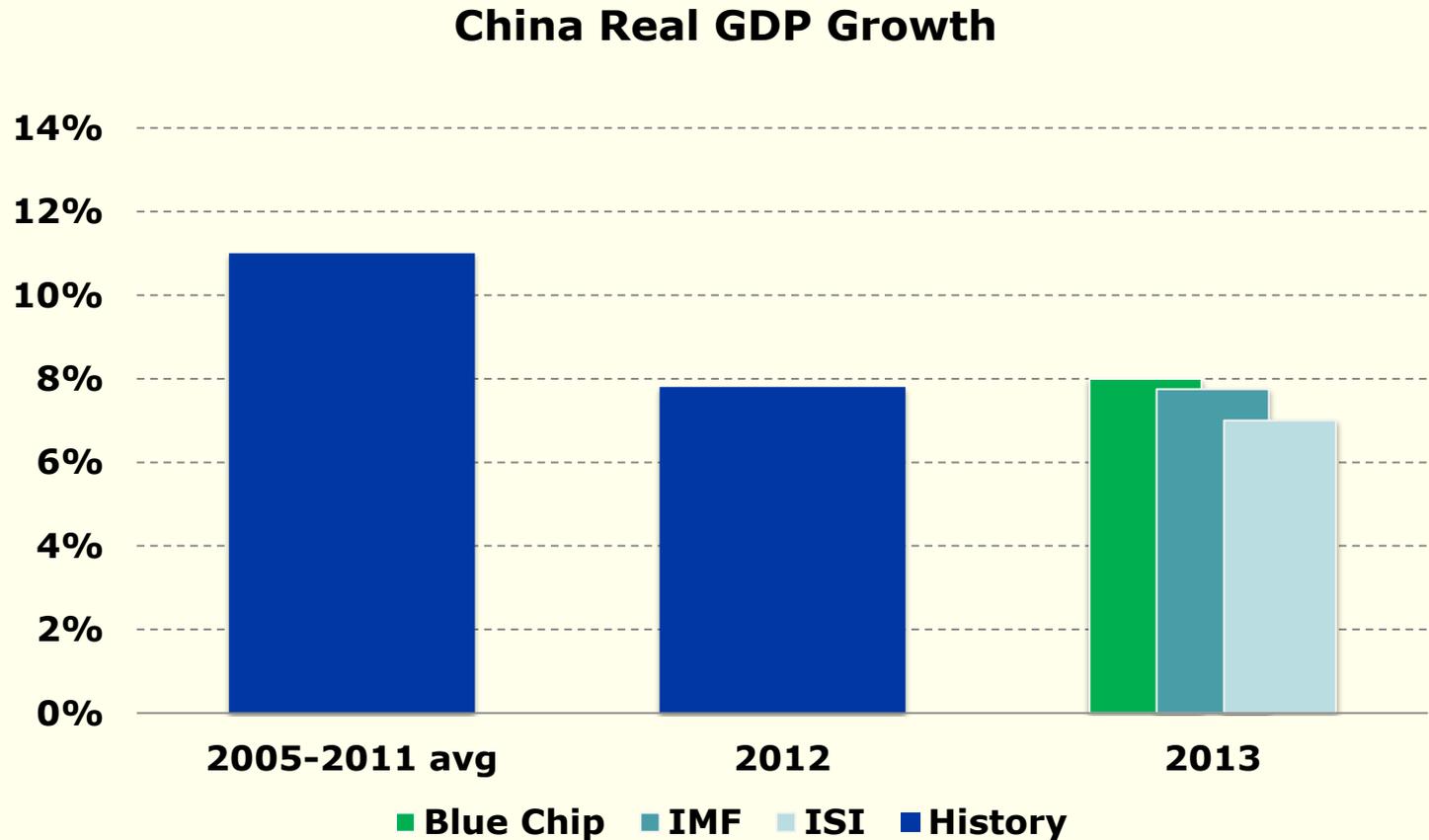
Excluding aerospace, exports outside of China are weak



Source: Wisier Trade Data; data through 2013 Q2



China's Economic Growth has Slowed



Source: Blue Chip, IMF, ISI; data through 2013

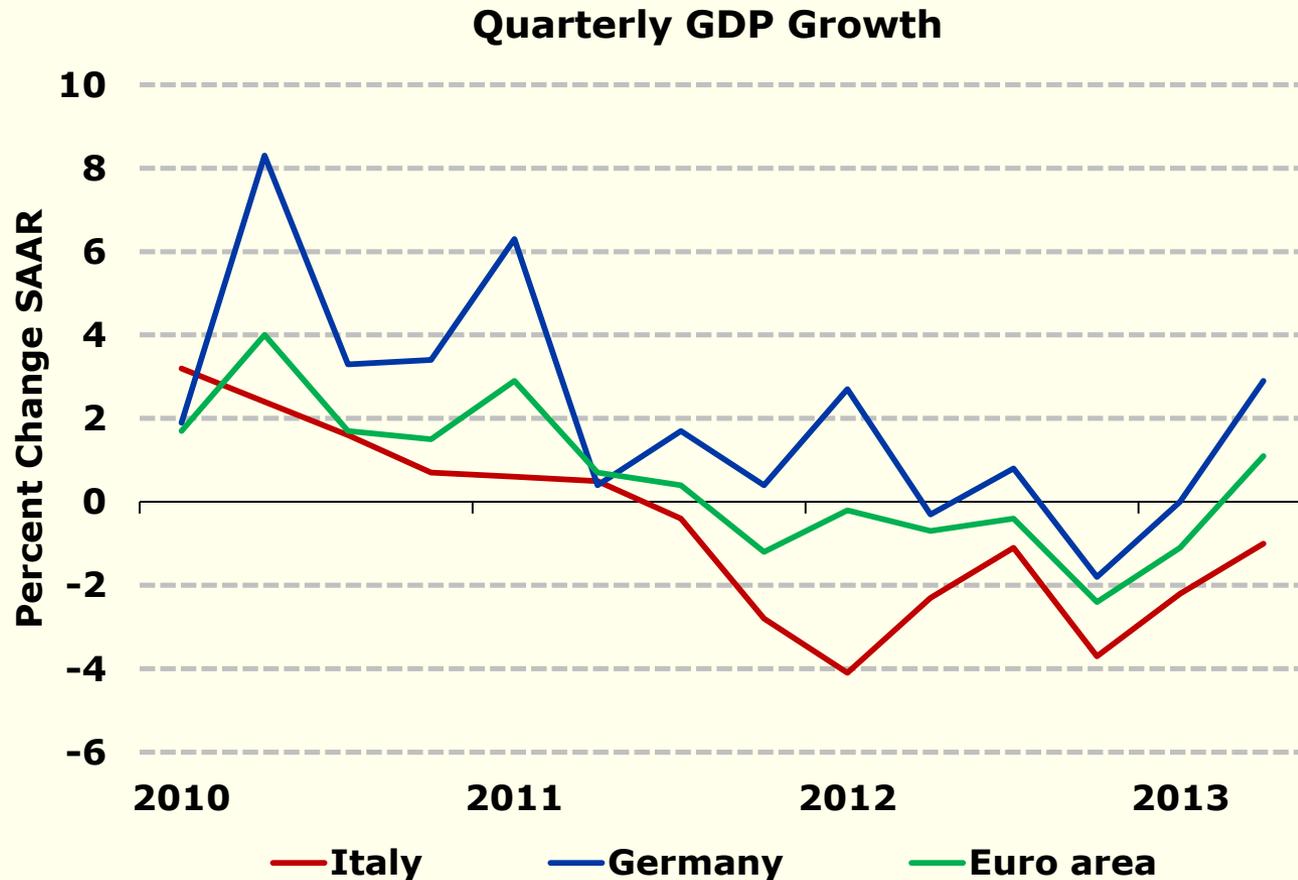


Euro area GDP has returned to positive growth but risks remain

Eurozone
Forecast:

2013: -0.6%

2014: 0.8%

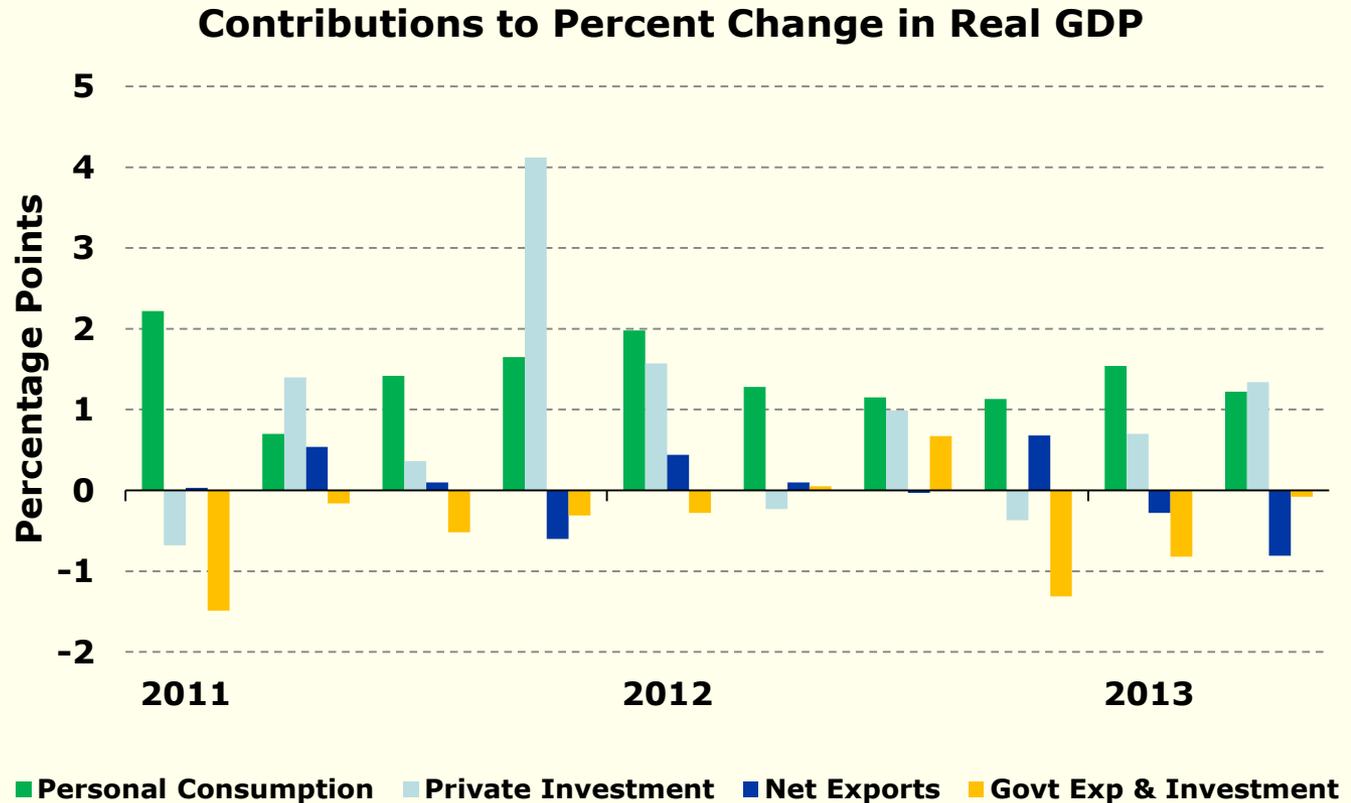


Source: Eurostat; data through 2013Q2

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Slowing government expenditures a drag on GDP growth



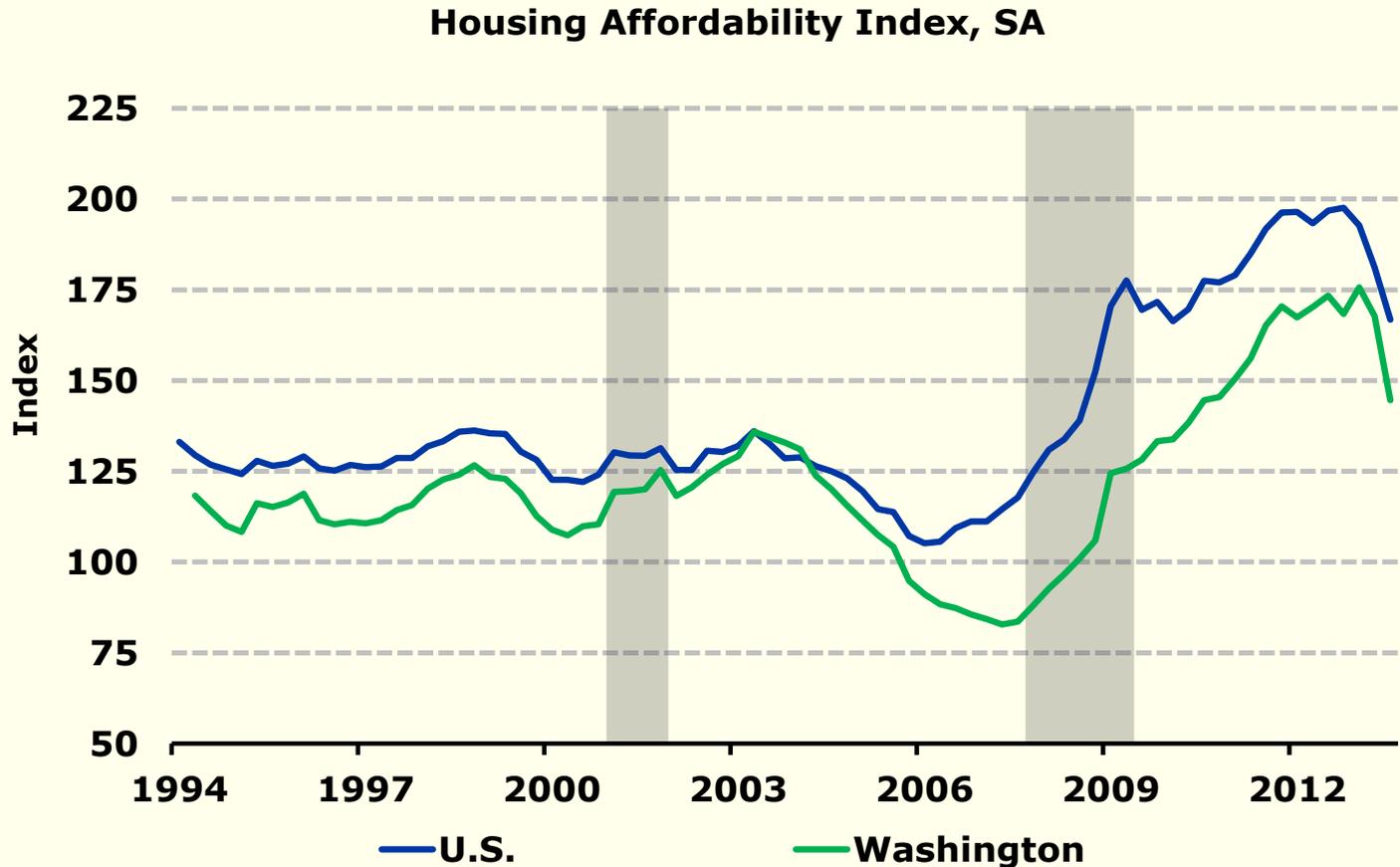
Source: BEA; data through 2013 Q2

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Housing affordability is high but falling fast

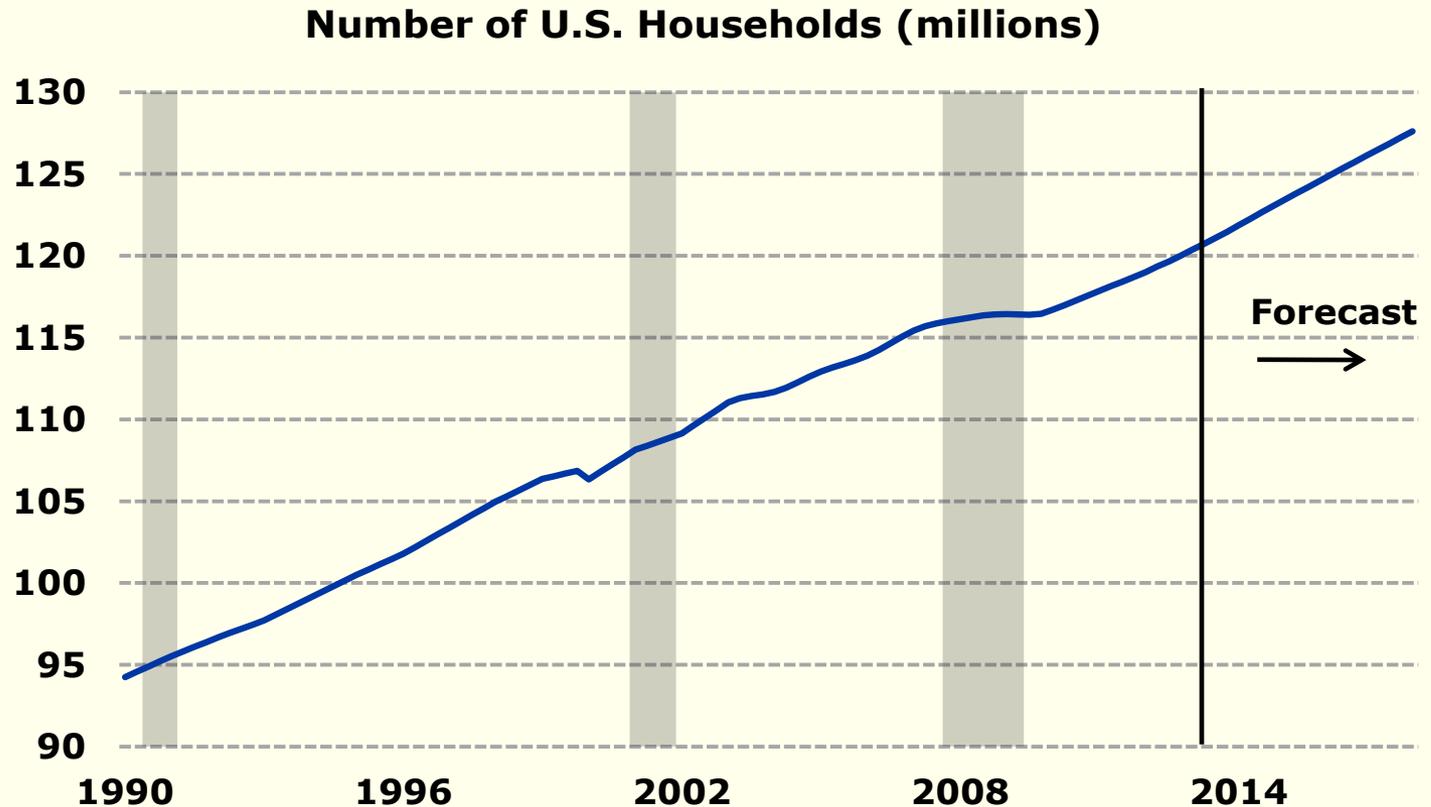
Affordability is 100 when the median income can just afford the median priced home. Above 100 means the median income can afford more than the median priced home



Source: Global Insight, WA Center Real Estate Research, ERFC; data through 2013Q3



The Great Recession saw an unprecedented slowdown in household formation

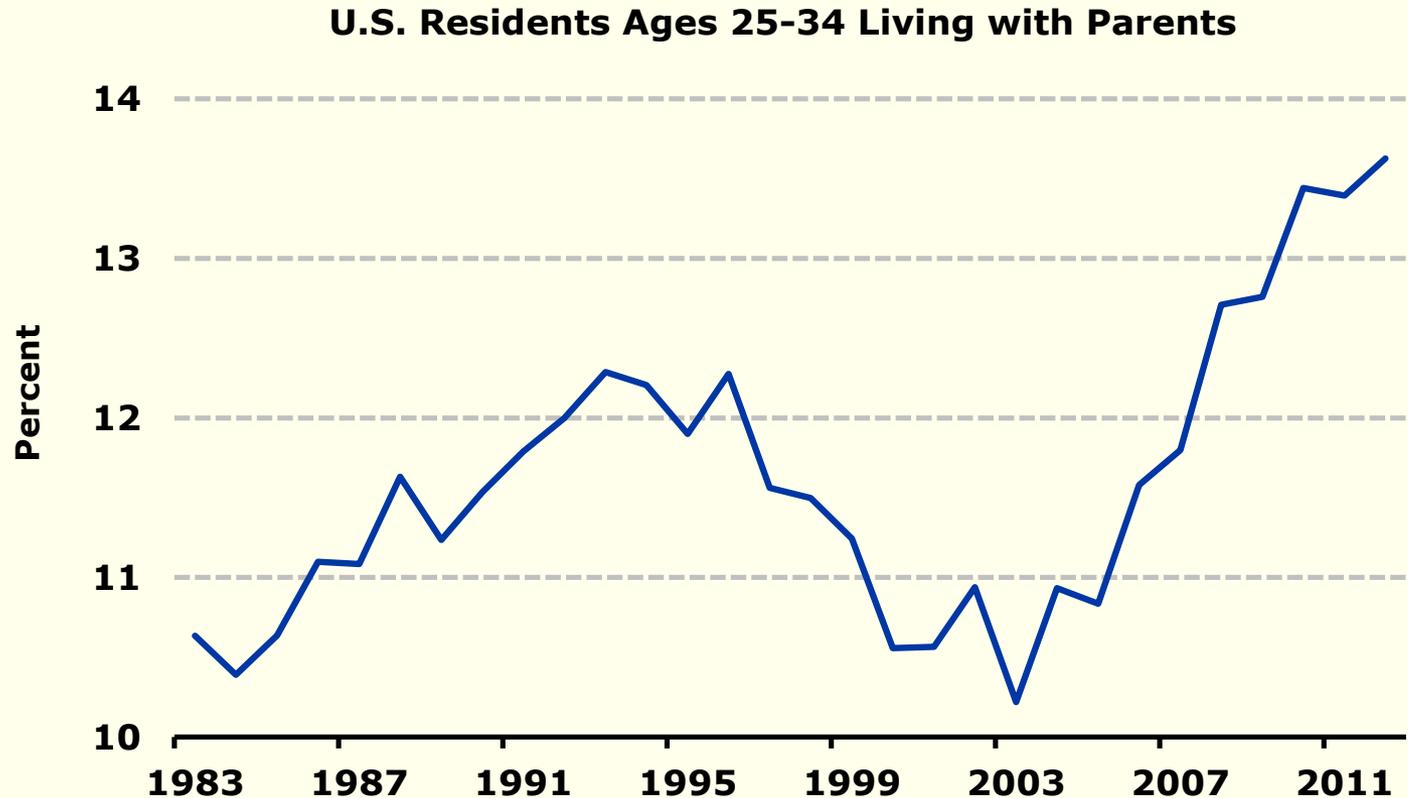


Source: U.S. Census Bureau, ERFC June 2013 Forecast; historical data through 2013 Q1

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Many adults continue to live at home with their parents



Source: U.S. Census; data through 2012



Washington Economic Forecast

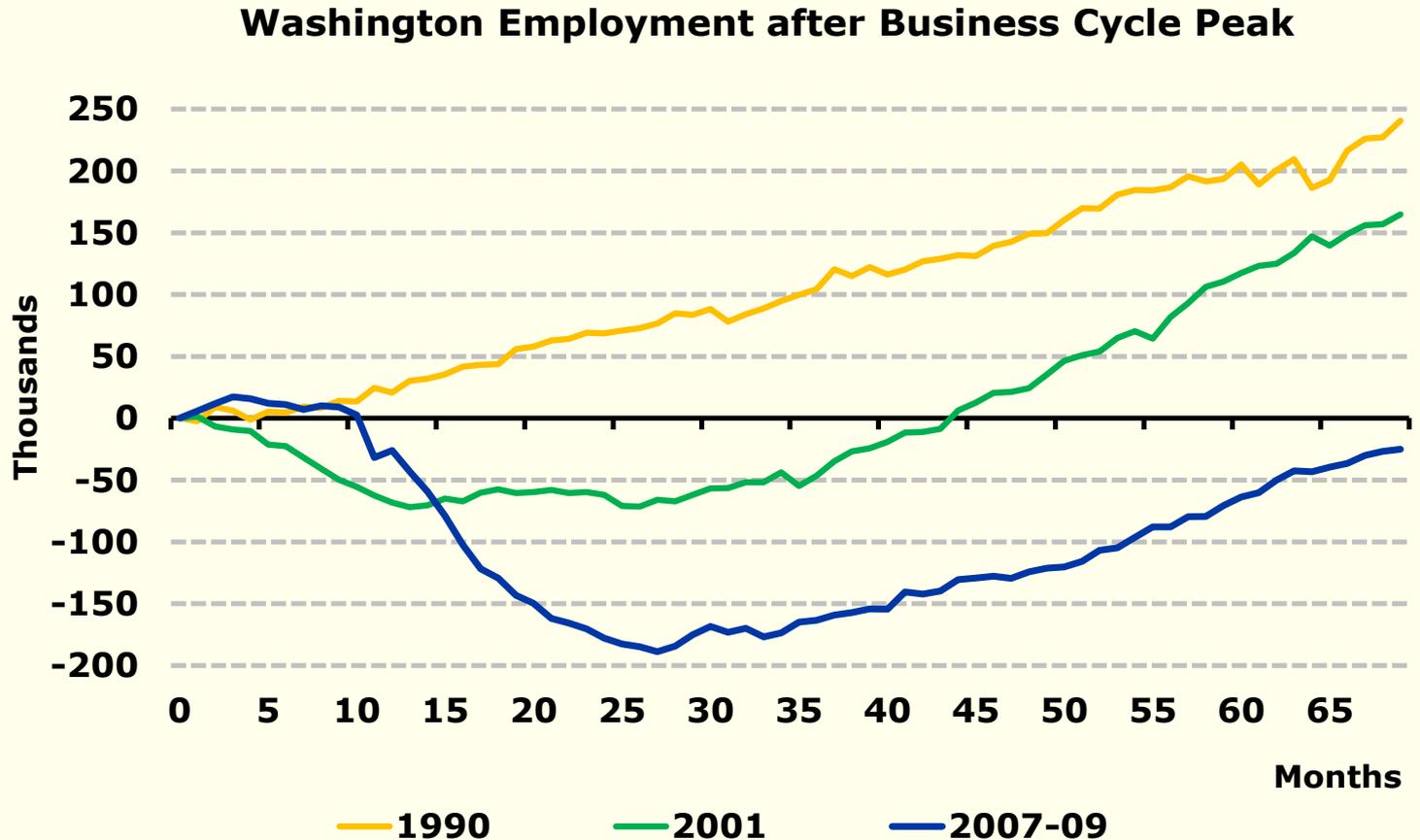
October 25, 2013

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After 5+ years, Washington employment has still not recovered

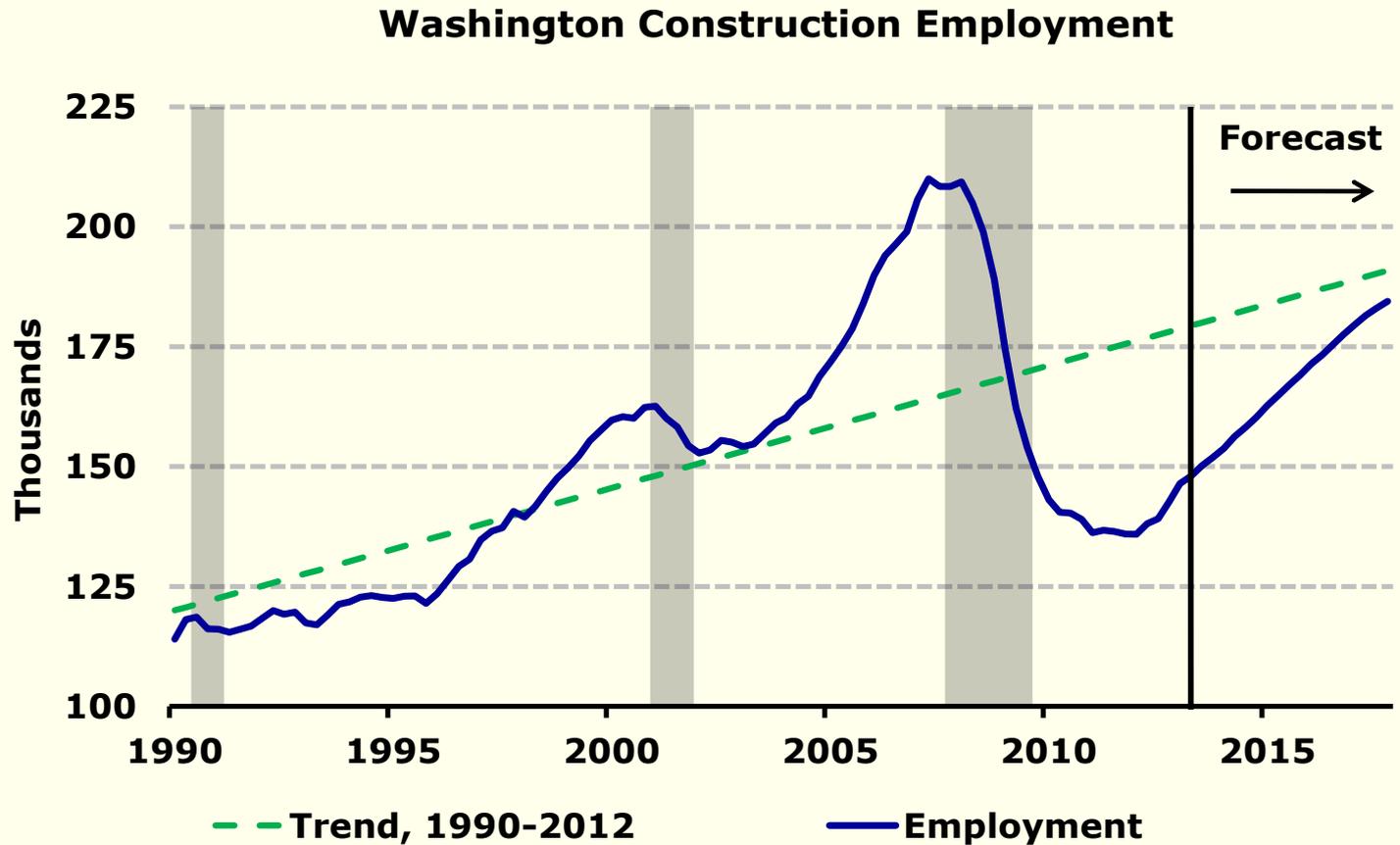
Washington remains 25,000 jobs below the start of the recession



Source: WA ESD, ERFC; data through August 2013



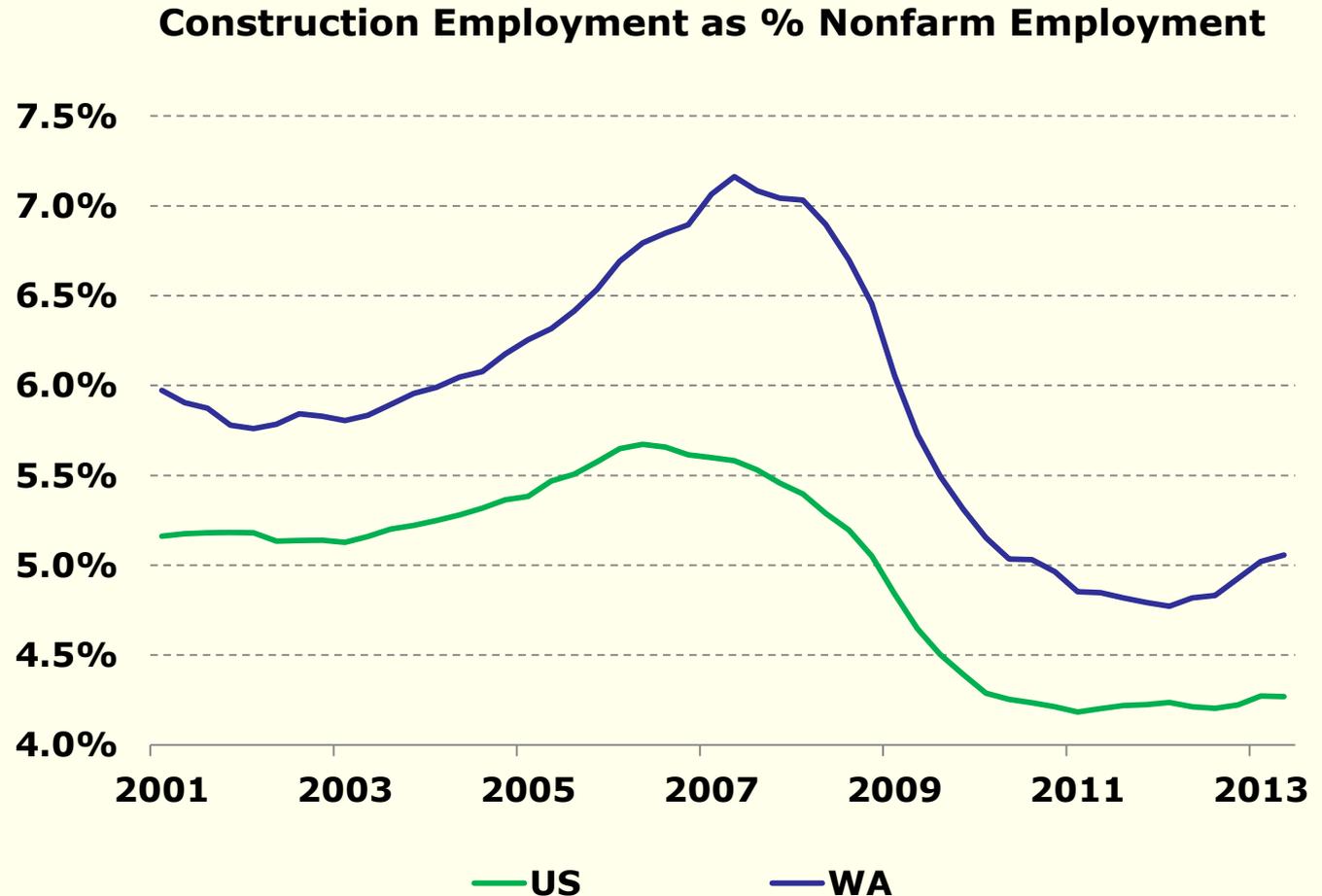
Washington construction employment is recovering



Source: ERFC September 2013 forecast; historical data through 2013Q2

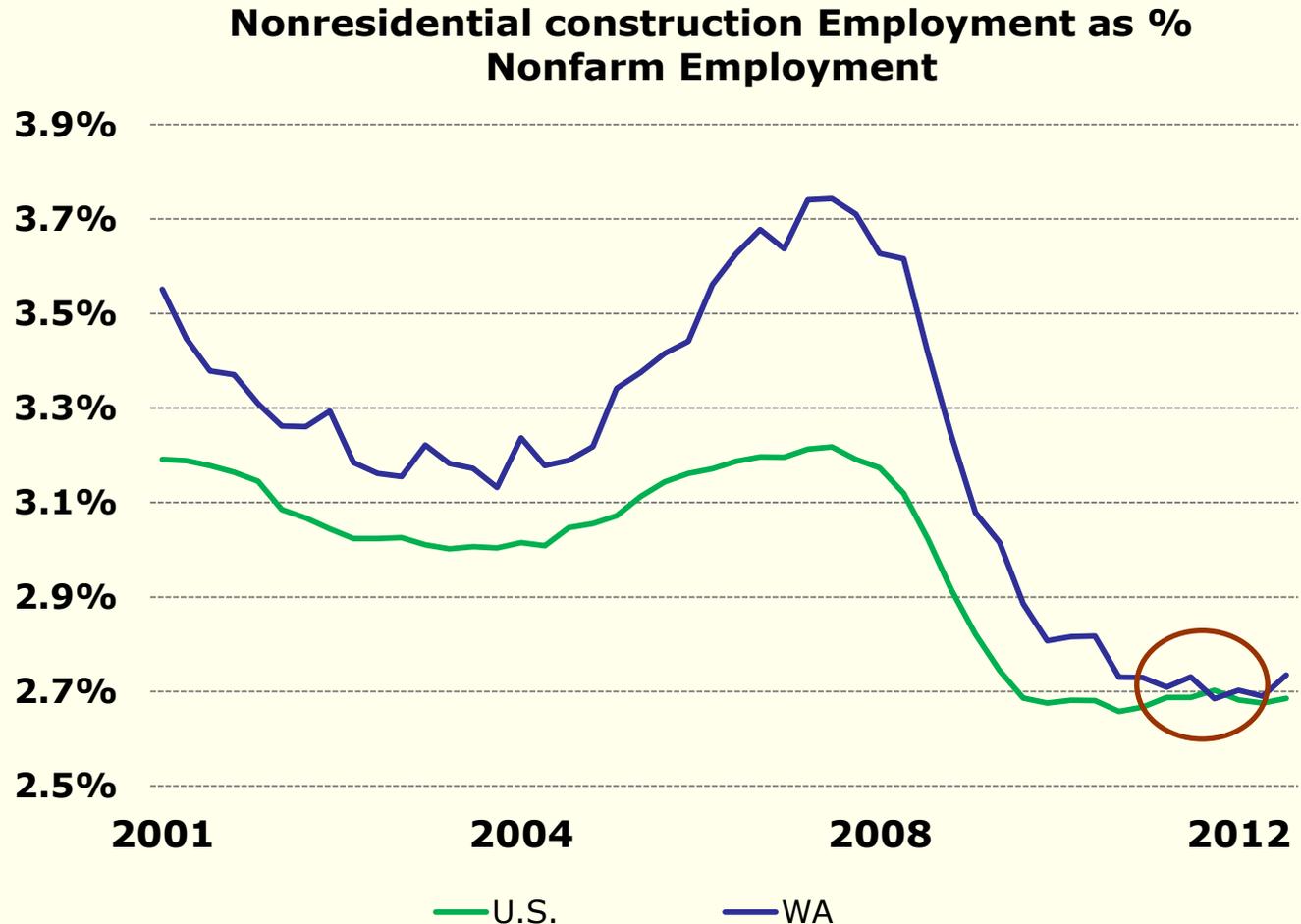


Construction employment share larger in WA than US



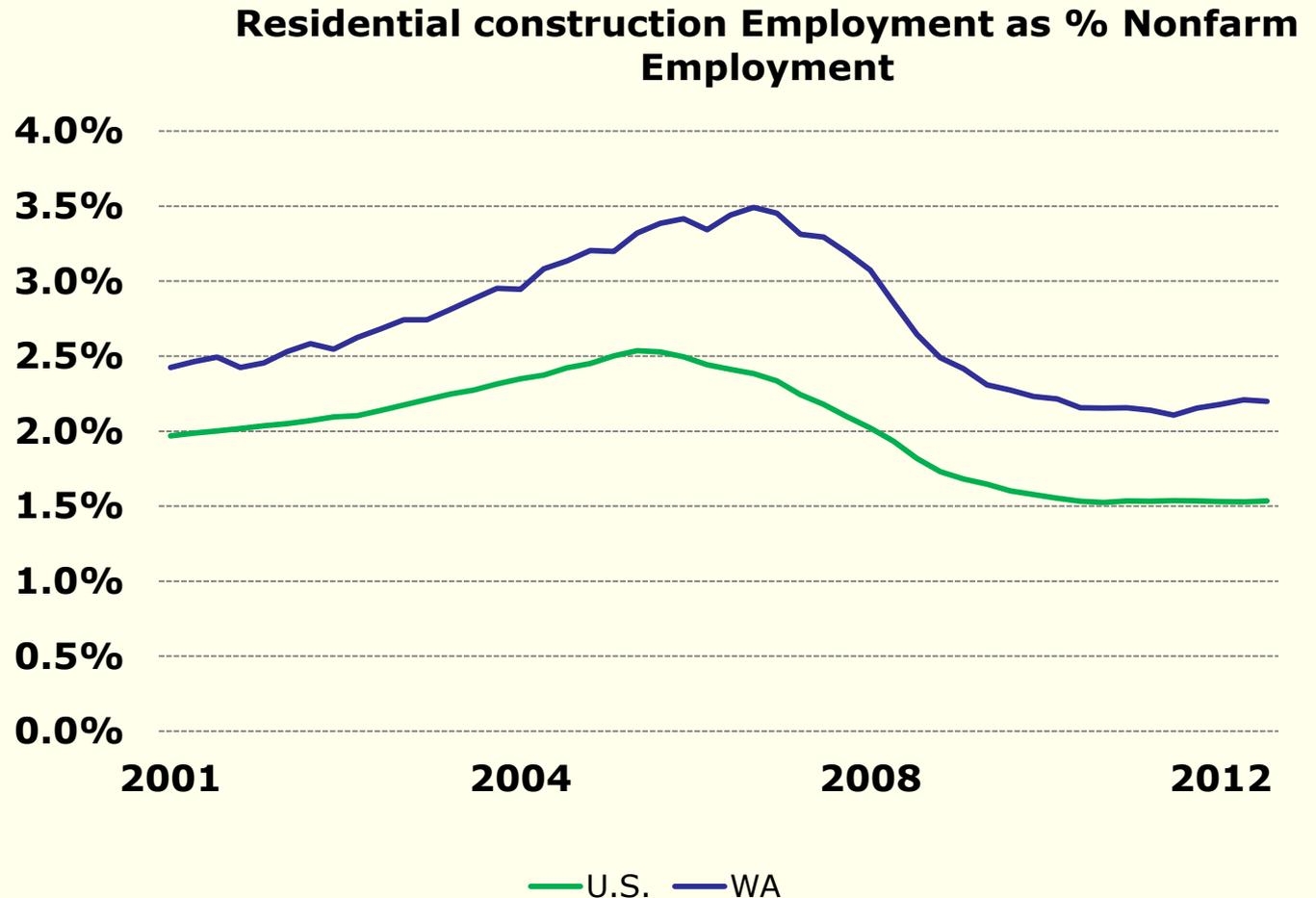


Nonresidential employment shares have converged





Residential employment shares consistently larger in WA



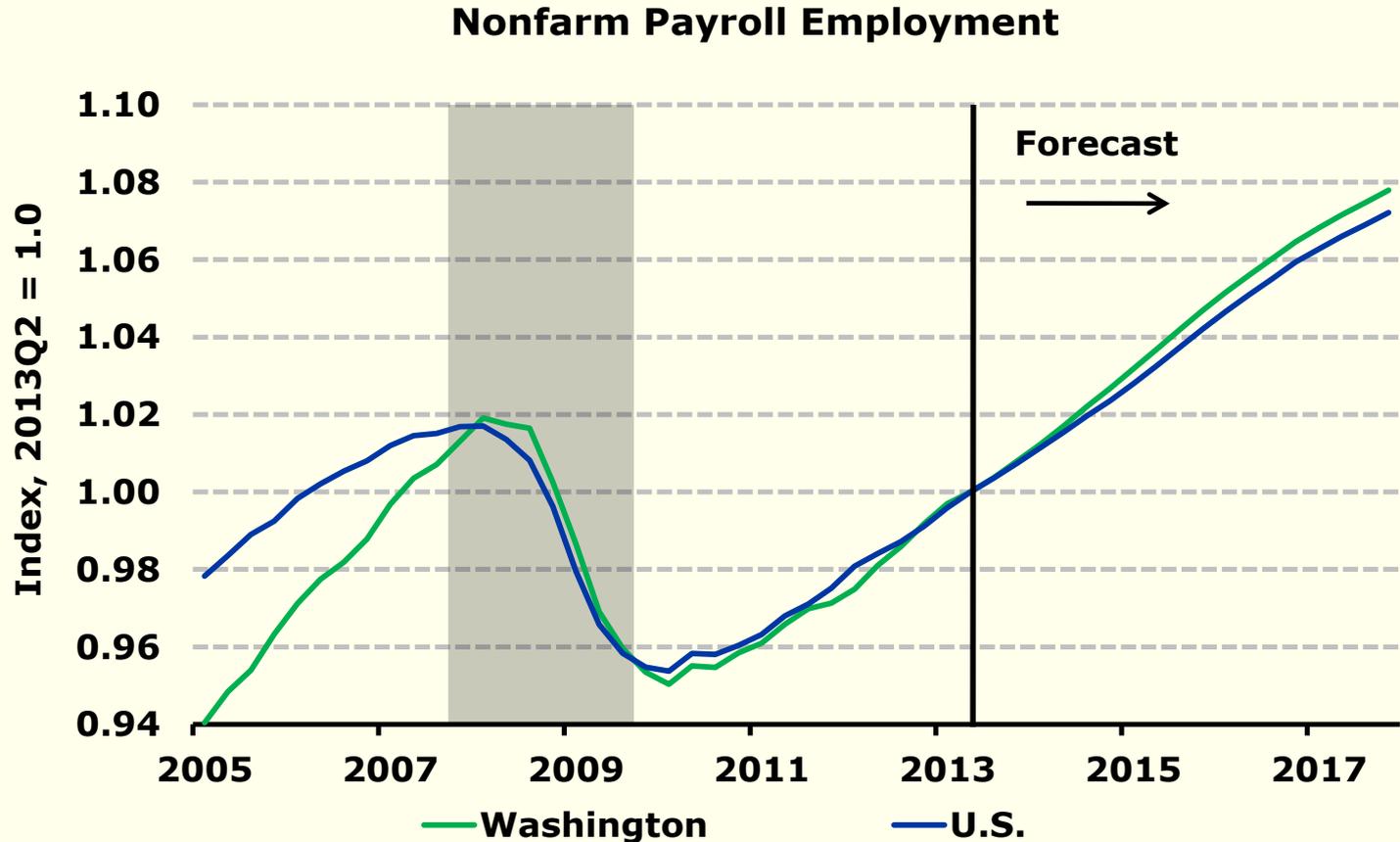


Washington employment will recover slightly faster than the U.S.

Date of regaining peak:

WA:
2014Q3

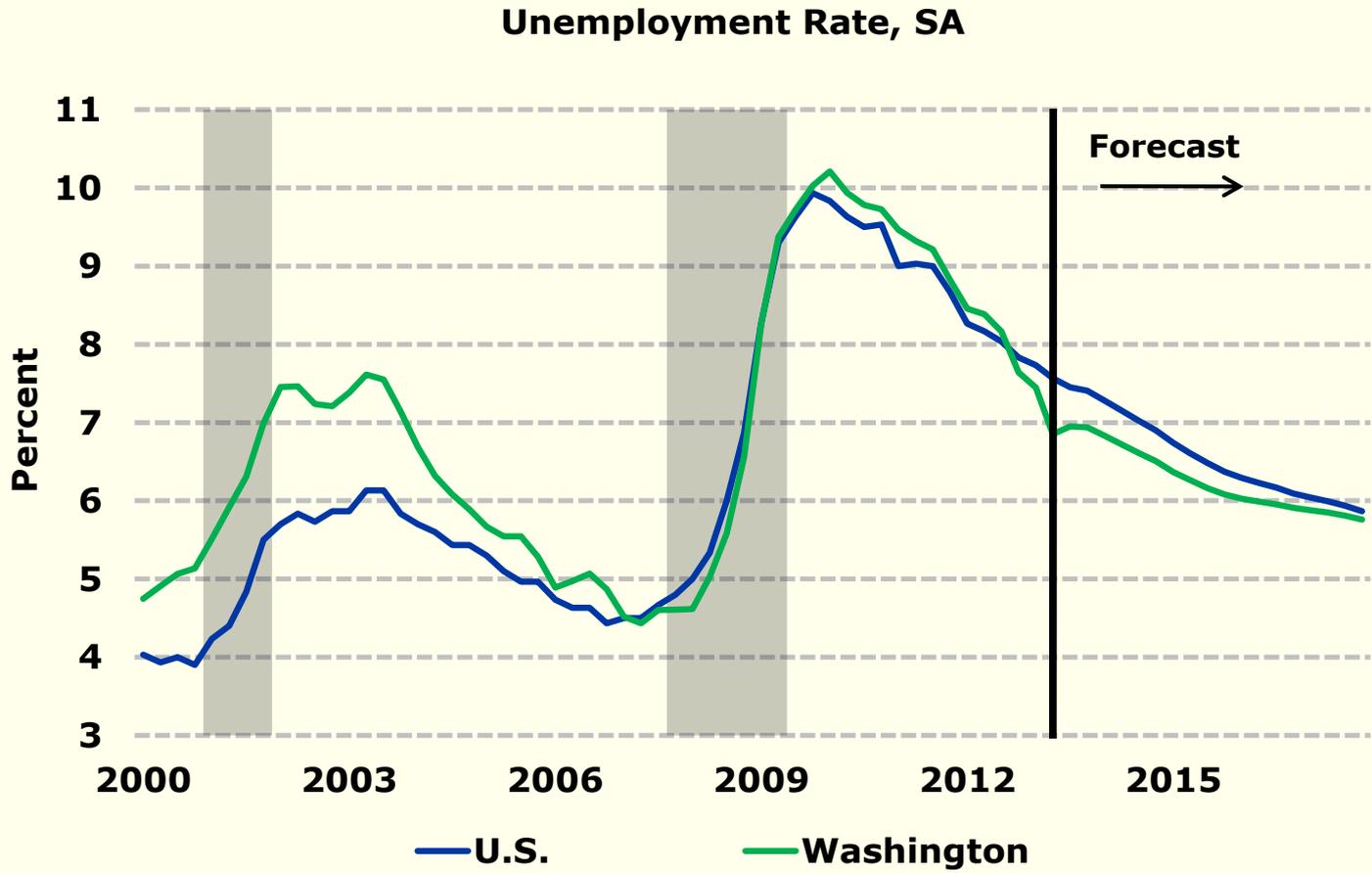
U.S.:
2014Q3



Source: ERFC September 2013 forecast; historical data through 2013Q2



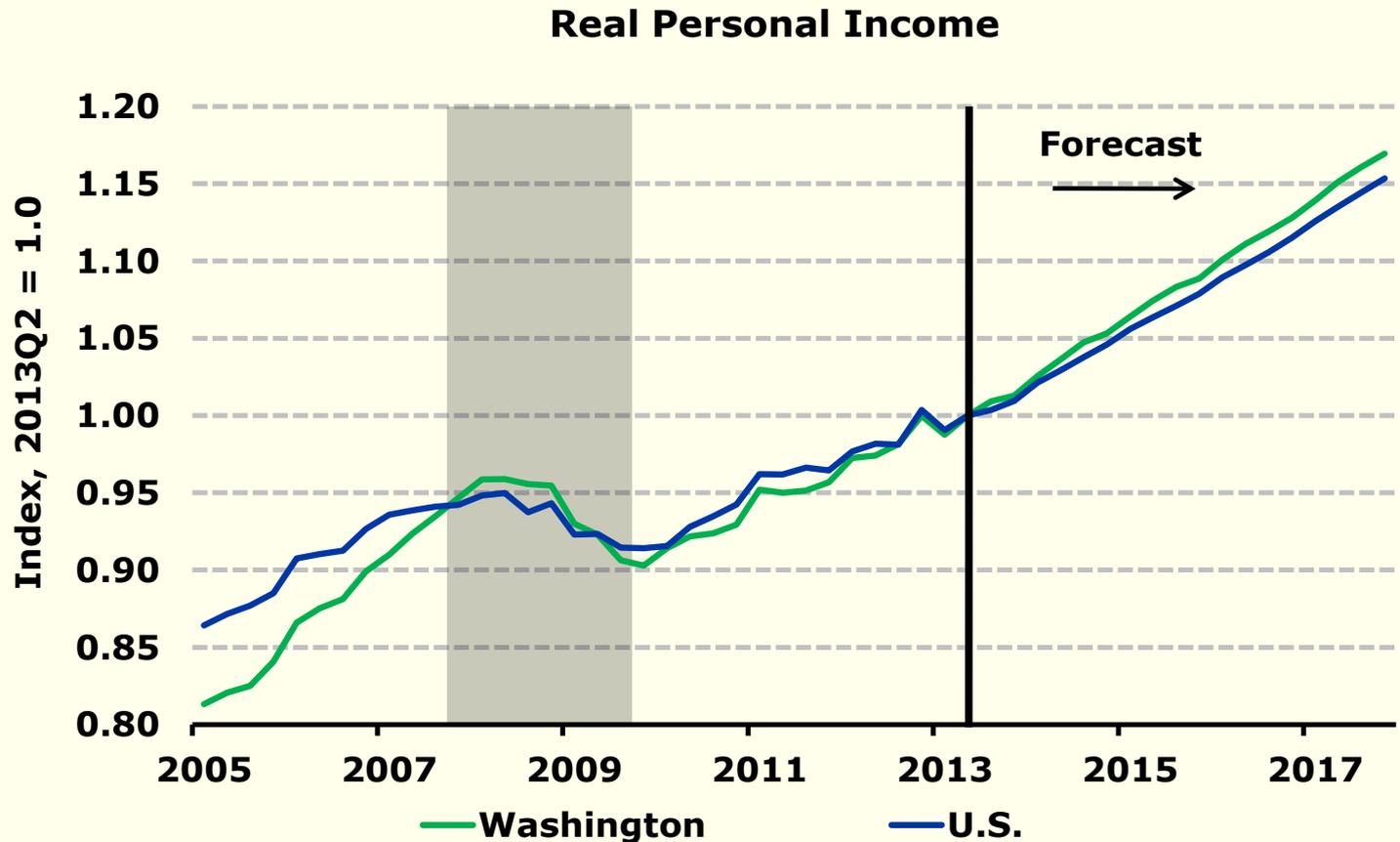
Washington unemployment expected to remain below U.S. rate



Source: ERFC September 2013 forecast; historical data through 2013 Q2



Washington personal income will recover slightly faster than the U.S.

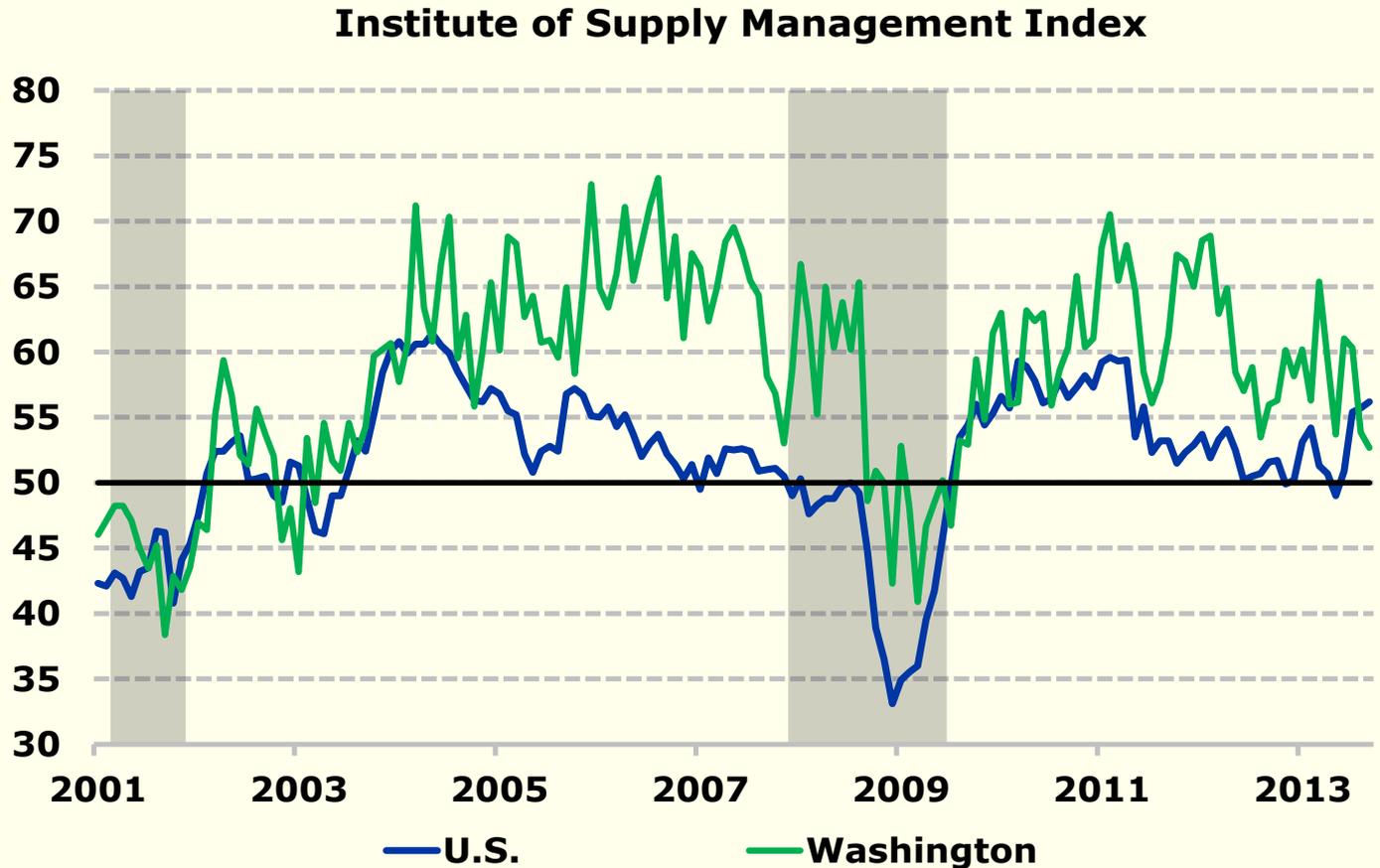


Source: ERFC September 2013 forecast; historical data through 2013Q2



Manufacturing has been stronger in Washington than nationally

An index greater than 50 implies growth



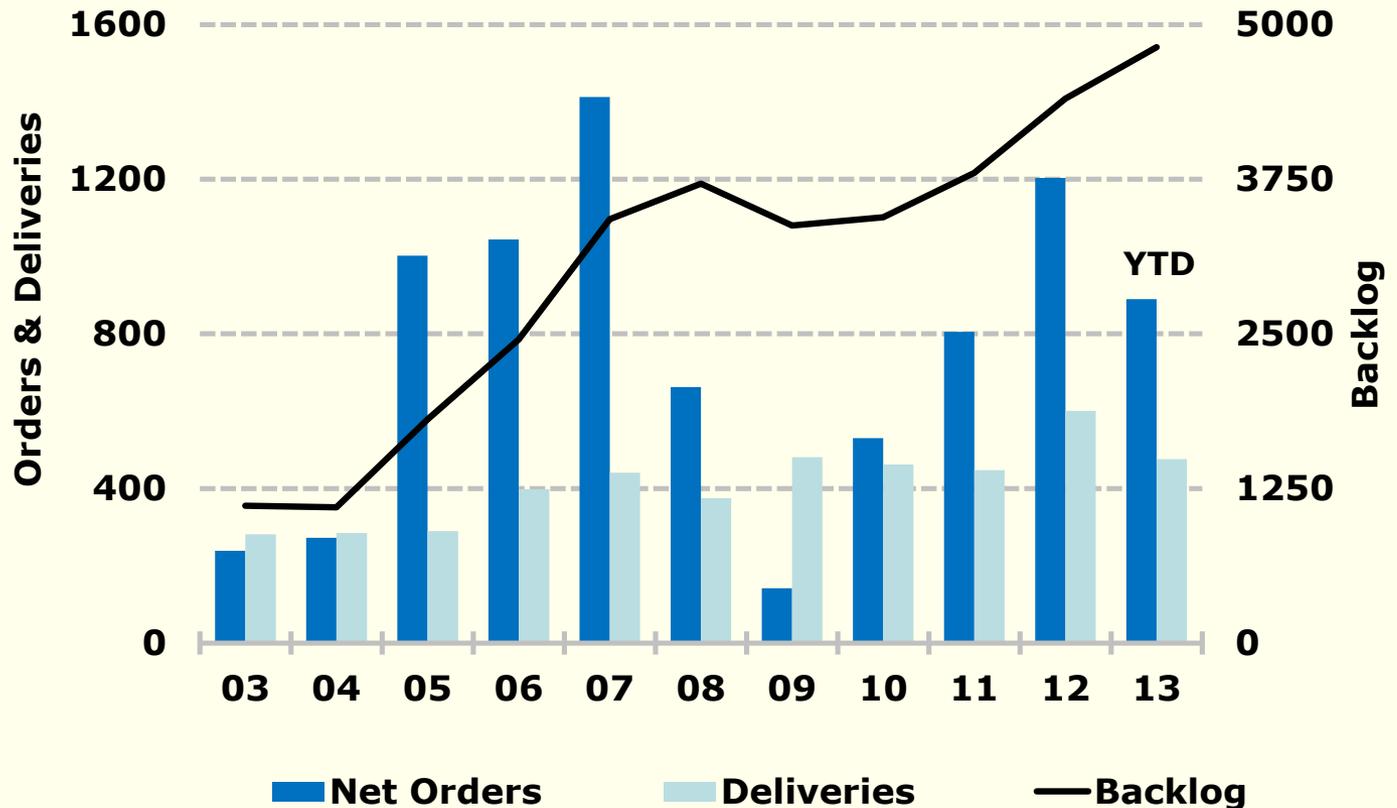
Source: Institute of Supply Management; data through September 2013

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Boeing has over 7 years of commercial orders on its books

Excludes the military's new refueling tanker

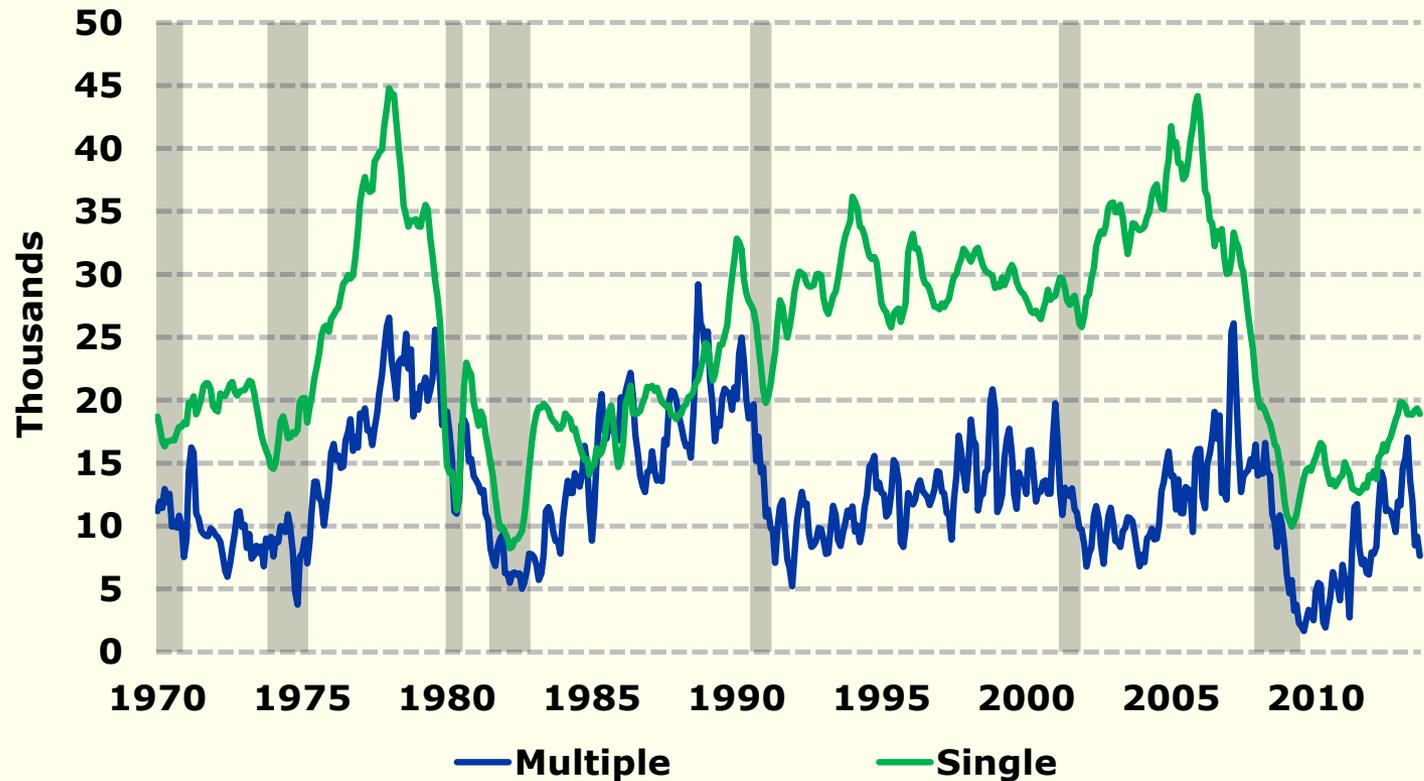


Source: Boeing, data through September 2013



Washington building permits are improving

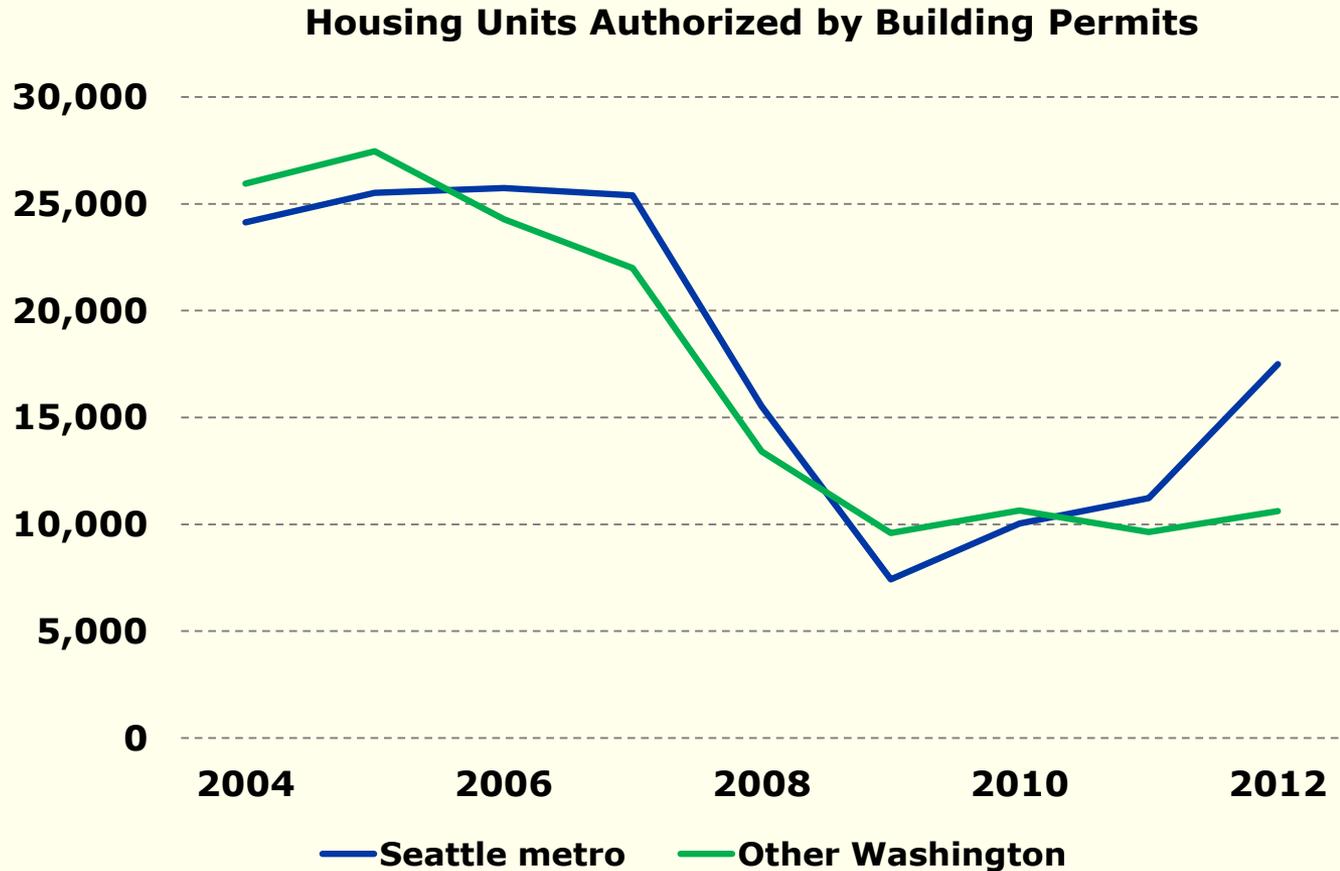
Washington Housing Units Authorized by Building Permits, 3MMA, SAAR



Source: U.S. Census Bureau; data through August 2013



Seattle area has most of recent growth in building permits

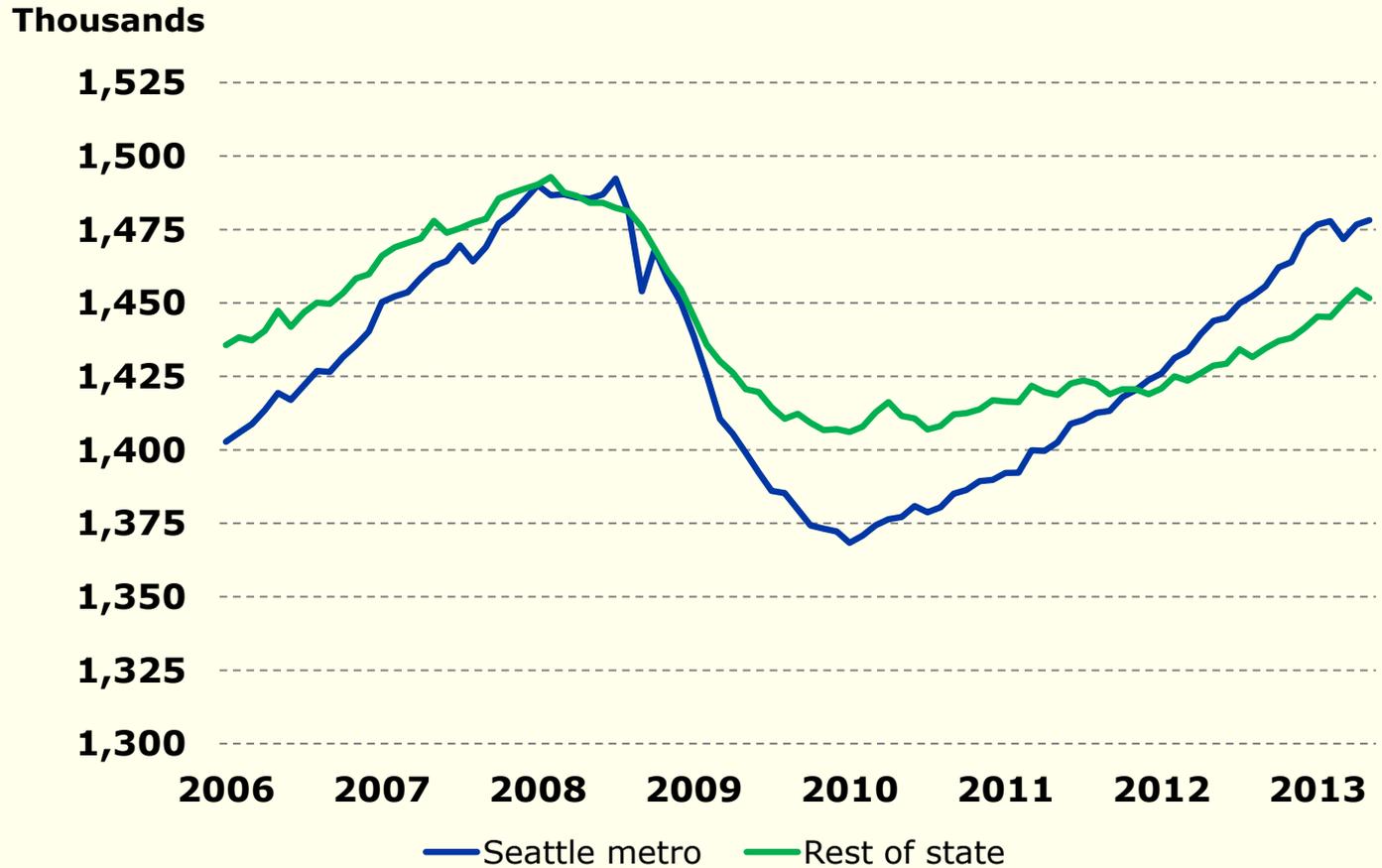


Source: U.S. Census Bureau, ERFC

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Seattle employment declined further but has recovered faster

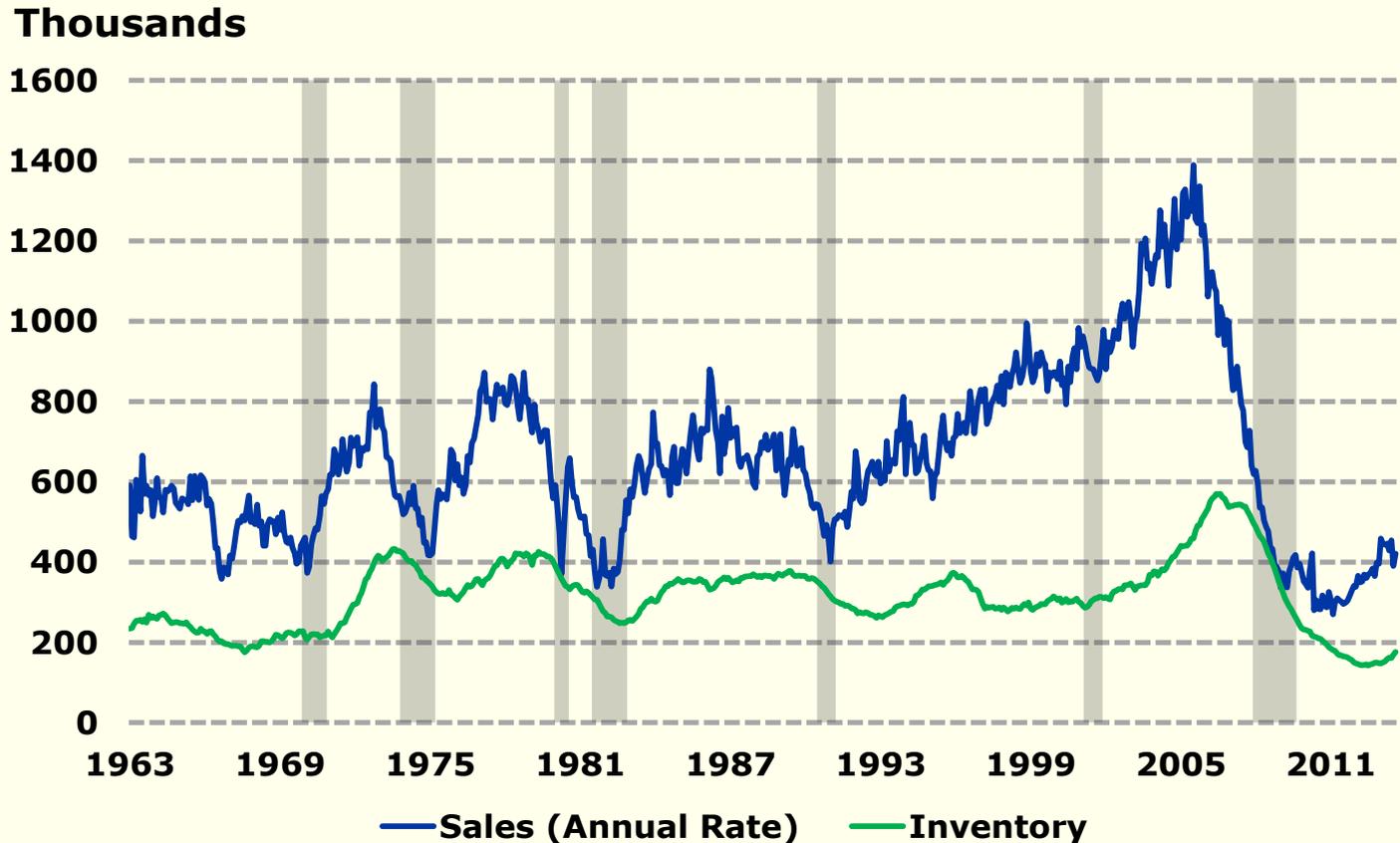


Source: Employment Security Dept., ERFC; data through September 2013

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Builders have drastically reduced the national inventory of new homes for sale



Source: Bureau of the Census; data through August 2013



Housing permits relative to population are forecasted to still be below historical levels in 2017

Washington Housing Permits per 1,000 People



Source: U.S. Census Bureau, ERFC Sept. 2013 Forecast; historical data through 2013 Q2

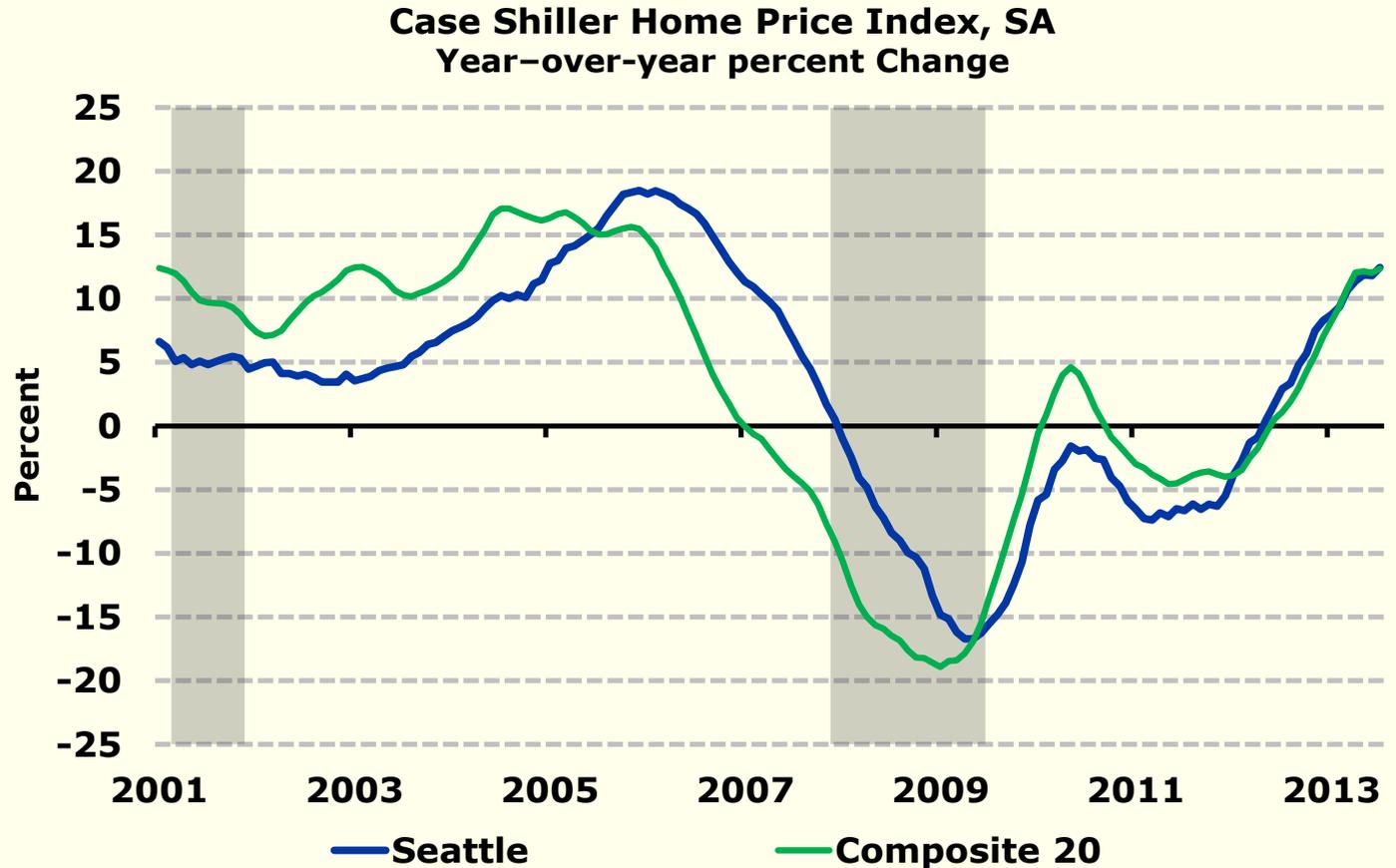


Single-family home prices continue to increase

Jul 2013

U.S. is up
12.3%

Seattle is
up 12.4%

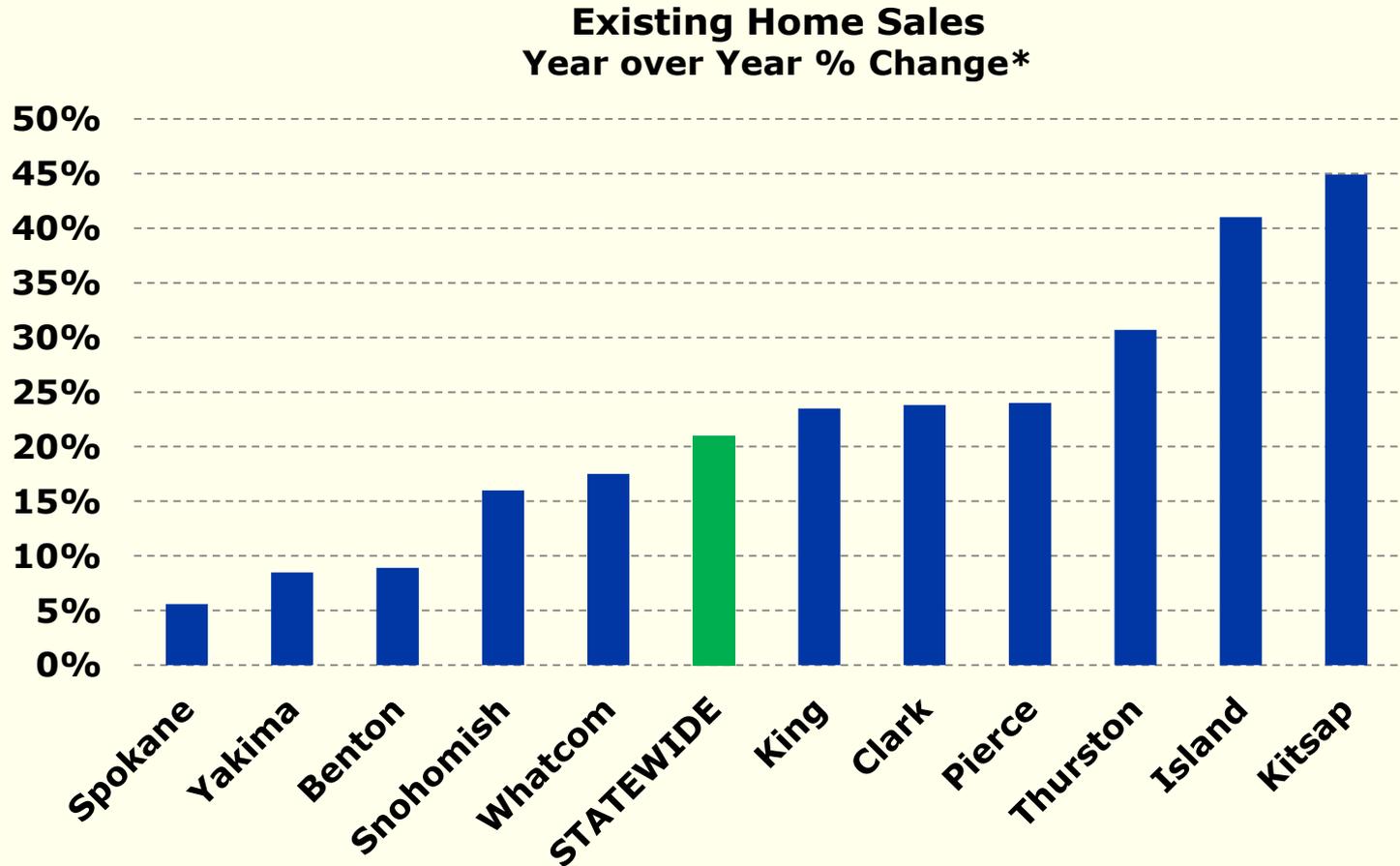


Source: S&P/Case-Shiller; data through July 2013



Strong growth in existing home sales statewide

*Counties with 2% or more of existing home sales, 2013Q2



Source: WA Center for Real Estate Research, ERFC; 2013Q2 data



Underlying REET trend still positive after spike in commercial sales

Large sales of commercial property were still elevated in September, with \$222 million in sales of property worth \$10 million or more

There has already been a \$475 million sale in October, which will generate \$5.6 million in GF-S REET

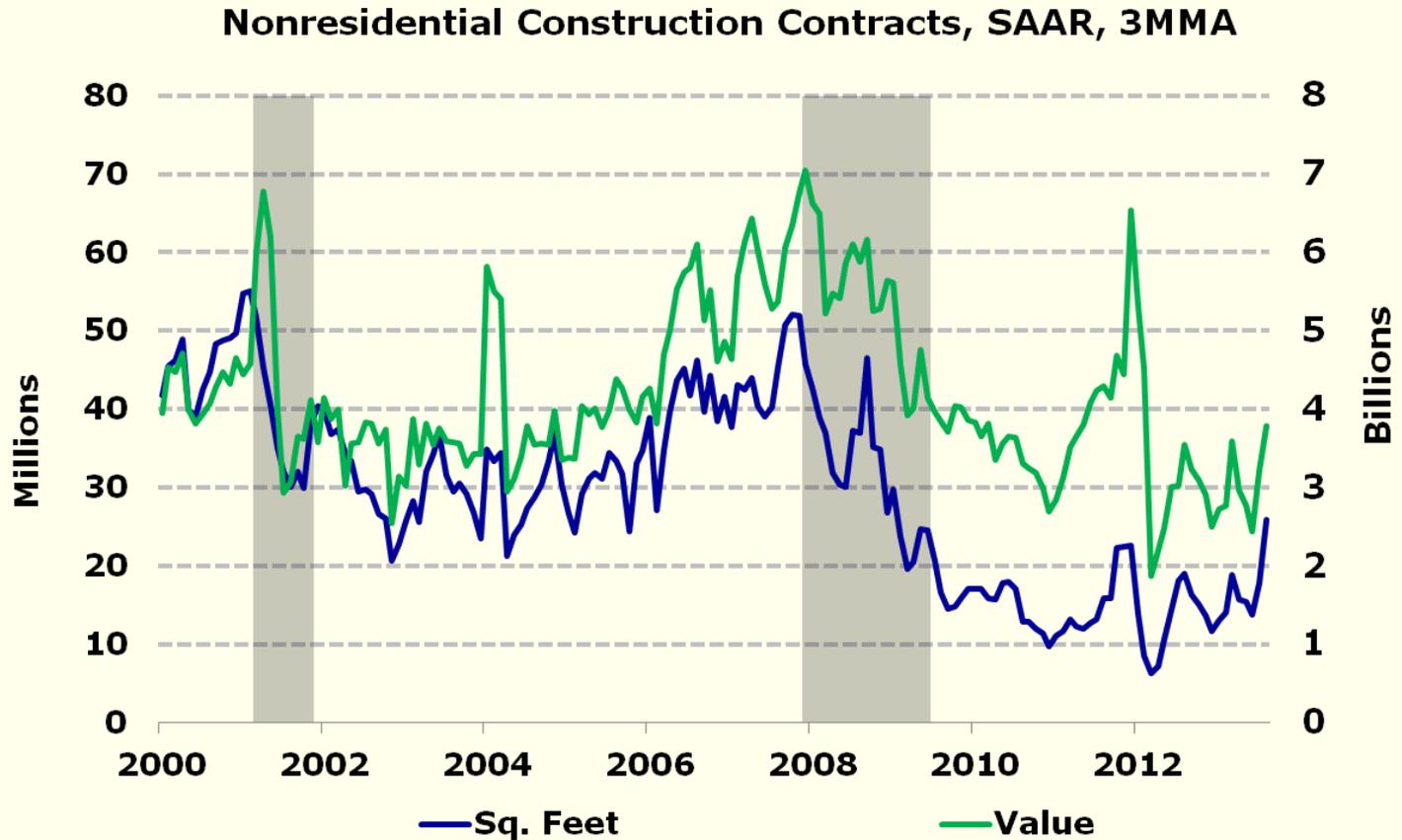


Source: ERFC; Monthly data through September 2013 preliminary



Contract data shows increase but still signals near term weakness

Non-Residential square footage is up 36%, and value is up 6% year over year (3mma).



Source: Dodge, ERFC; data through August 2013 (July adjusted)

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Conclusion

- 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
- Washington construction activity has been strong but rising mortgage rates could slow the housing recovery
- Other threats to economic recovery include slowing Asian economies and uncertainty around federal fiscal issues



Questions



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