

Economic Forecasting for the Construction Industry Webinar

Presented to
Painting & Decorating Contractors of America

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WASHINGTON STATE
ECONOMIC AND REVENUE FORECAST COUNCIL



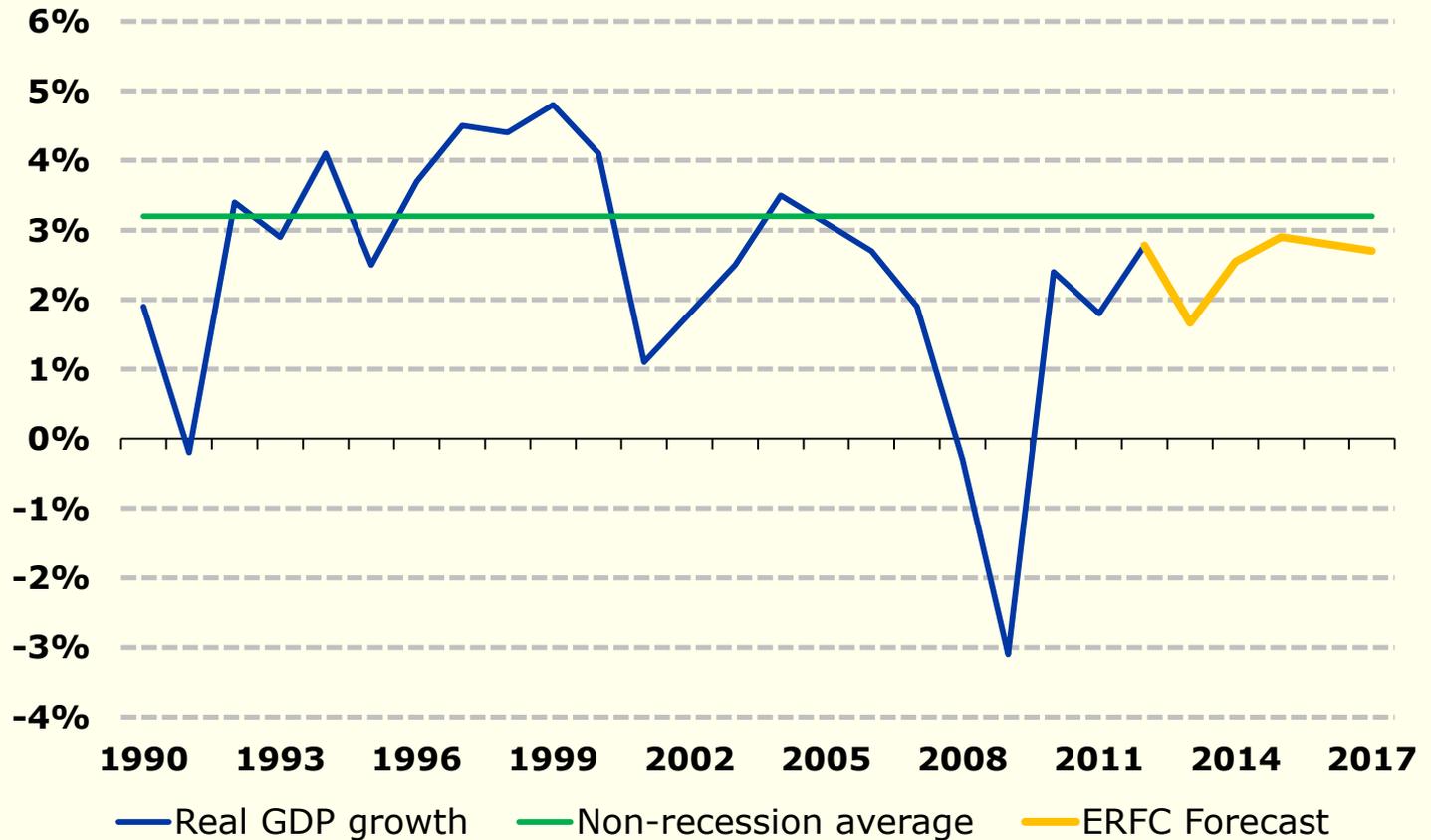
Summary

- The U.S. economy continues to grow, although at a slow pace
- Employment growth has been weak for a recovery period and the unemployment rate is declining slowly
- Risks to the forecast are include a weaker Chinese economy, uncertain federal fiscal policy and possible disruptions to the housing recovery
- Construction activity is strengthening, with housing starts expected to hit 1.5 million units in 2016



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

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



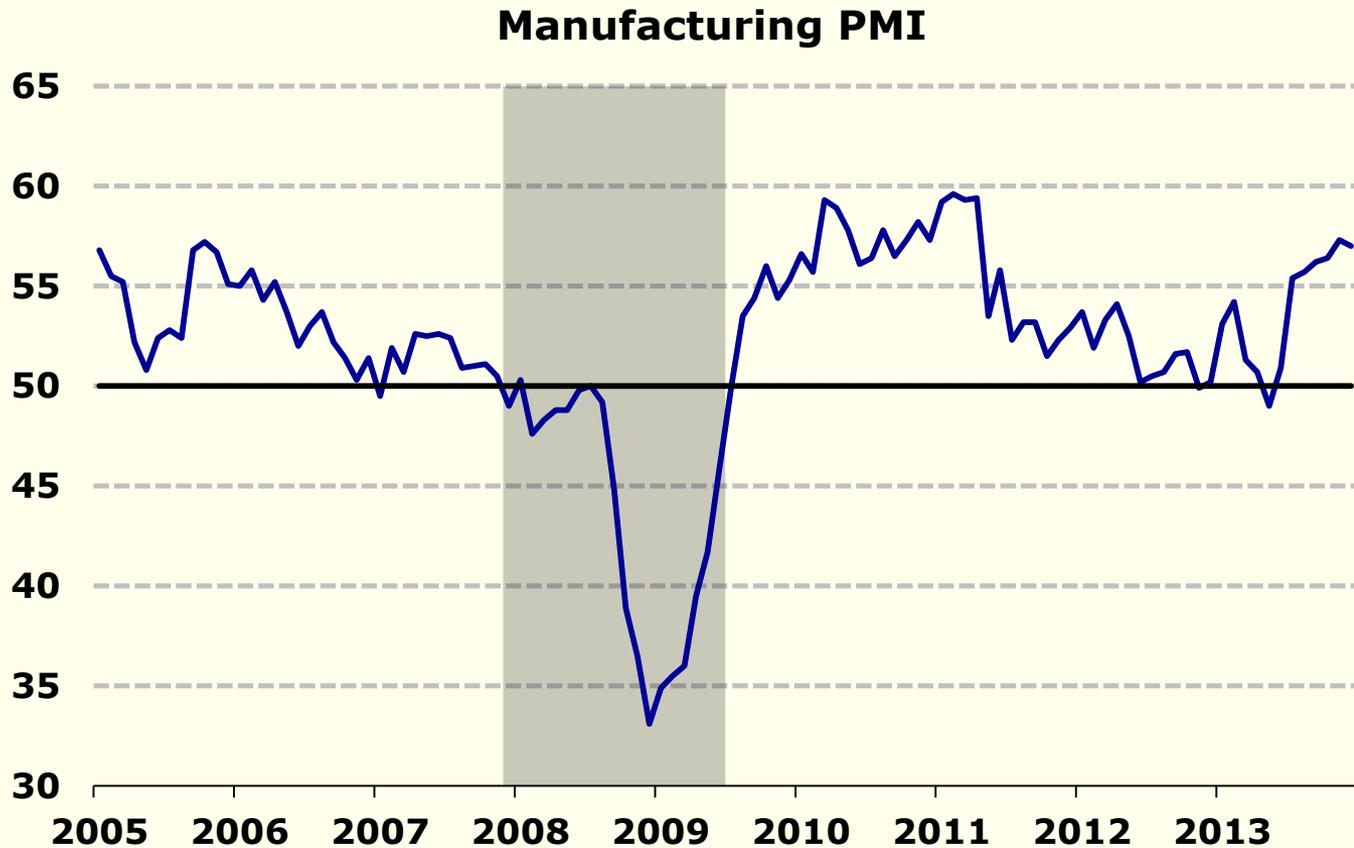
Source: U.S. Dept of Commerce, BEA, ERFC November 2013 Forecast

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Manufacturing activity has been on an upswing since mid-2013

Values above 50 indicate expansion and below 50 indicate contraction



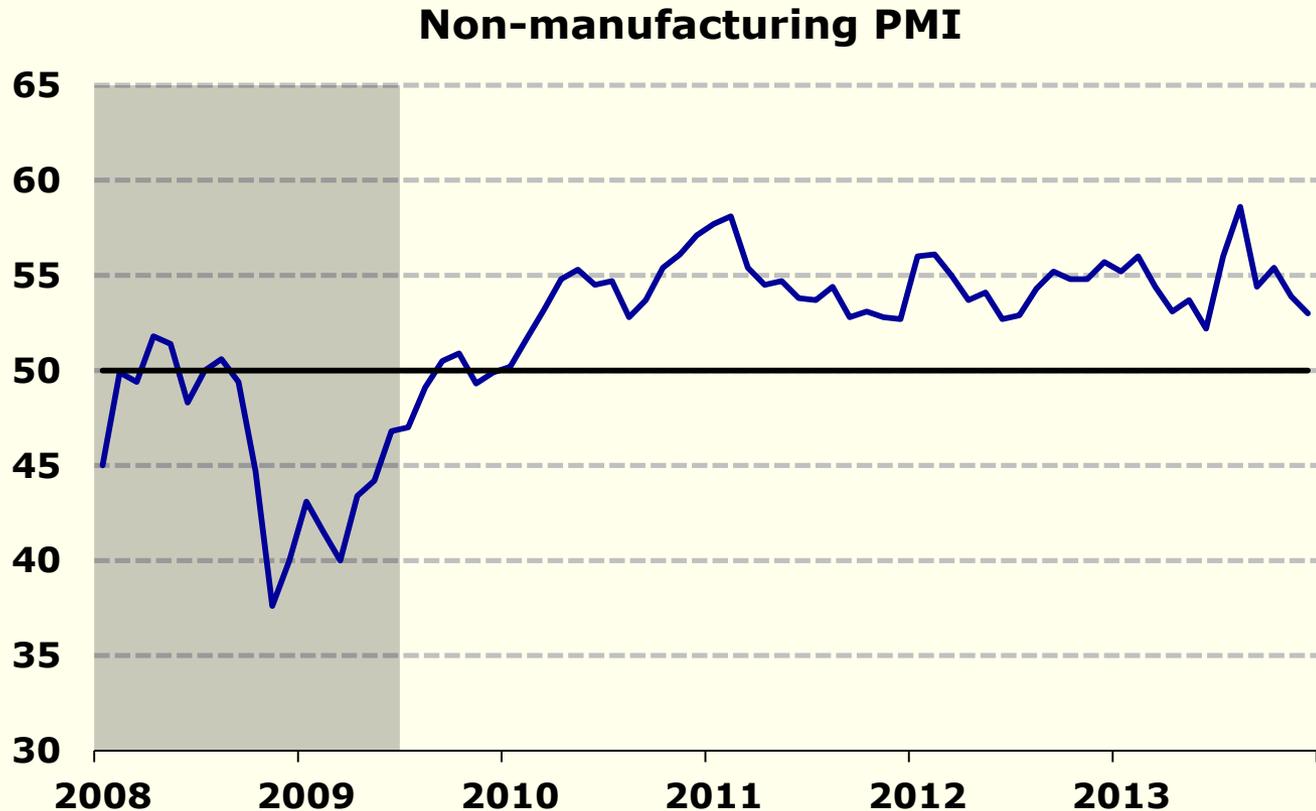
Source: Institute for Supply Management; data through December 2013

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Non-manufacturing activity has grown for 48 consecutive months

Includes construction, retail trade, finance, IT, health care, leisure & hospitality industries



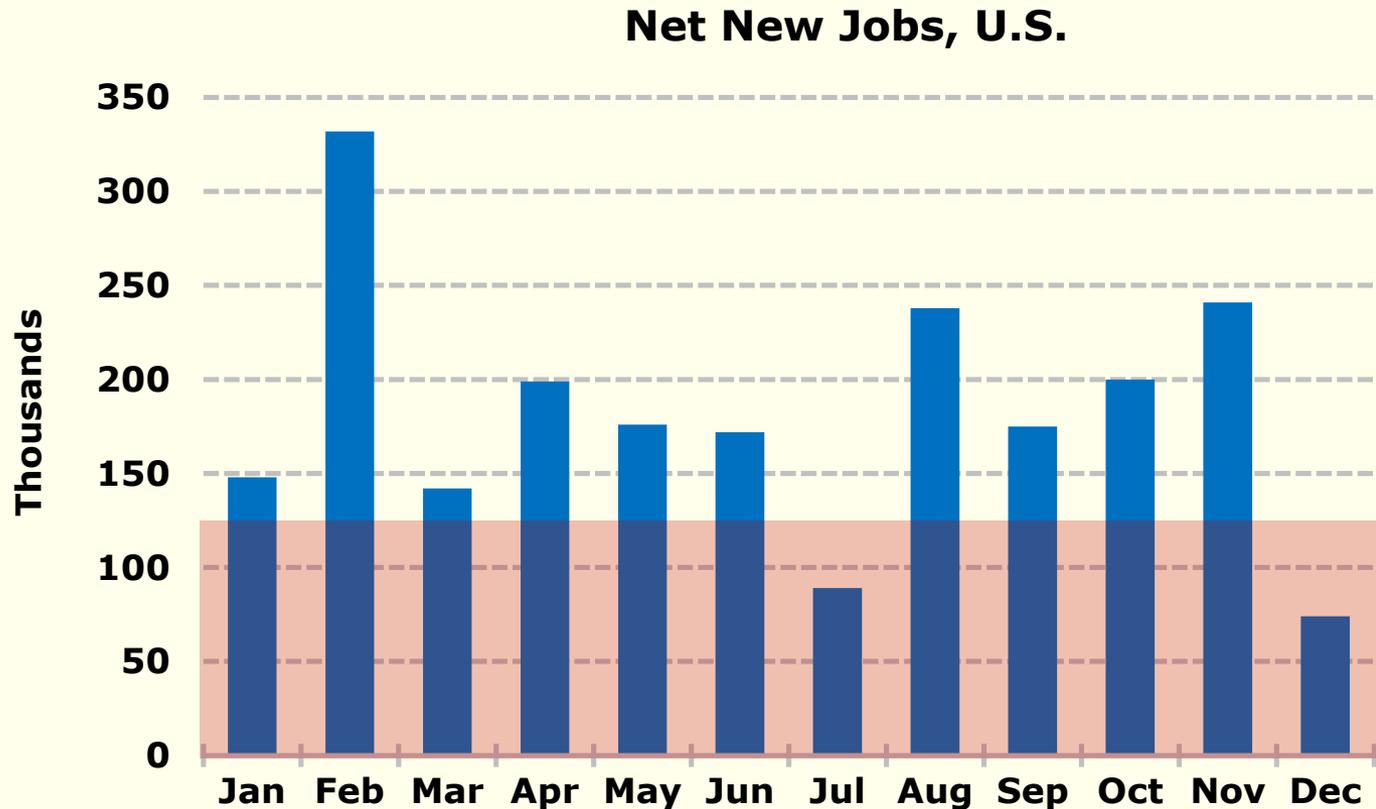
Source: Institute for Supply Management; data through December 2013

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Job growth has been inconsistent

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

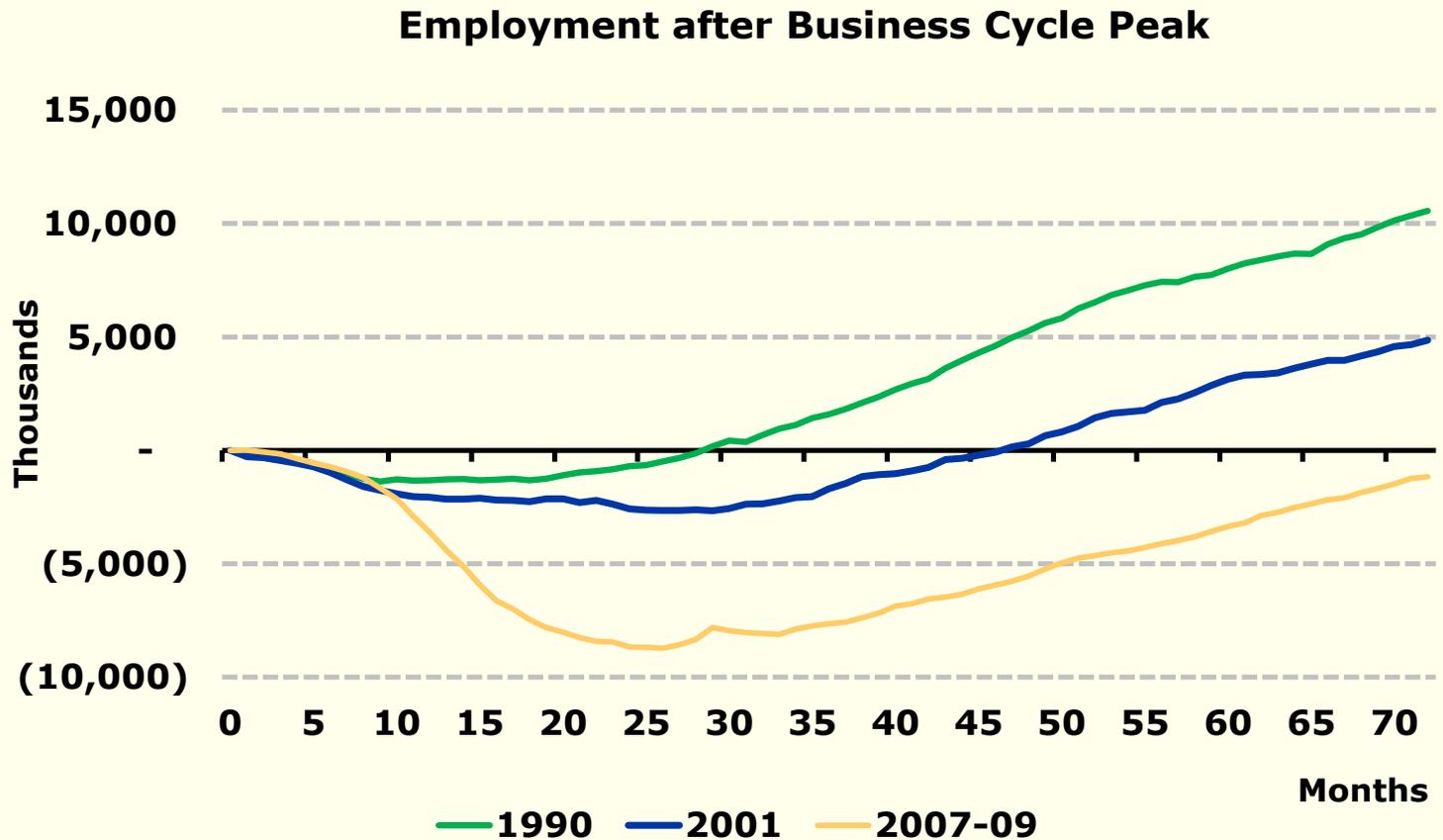


Source: Bureau of Labor Statistics, data through December 2013



Six years after the start of the recession, employment has still not fully recovered

Employment remains nearly 1.2 million jobs below the start of the recession

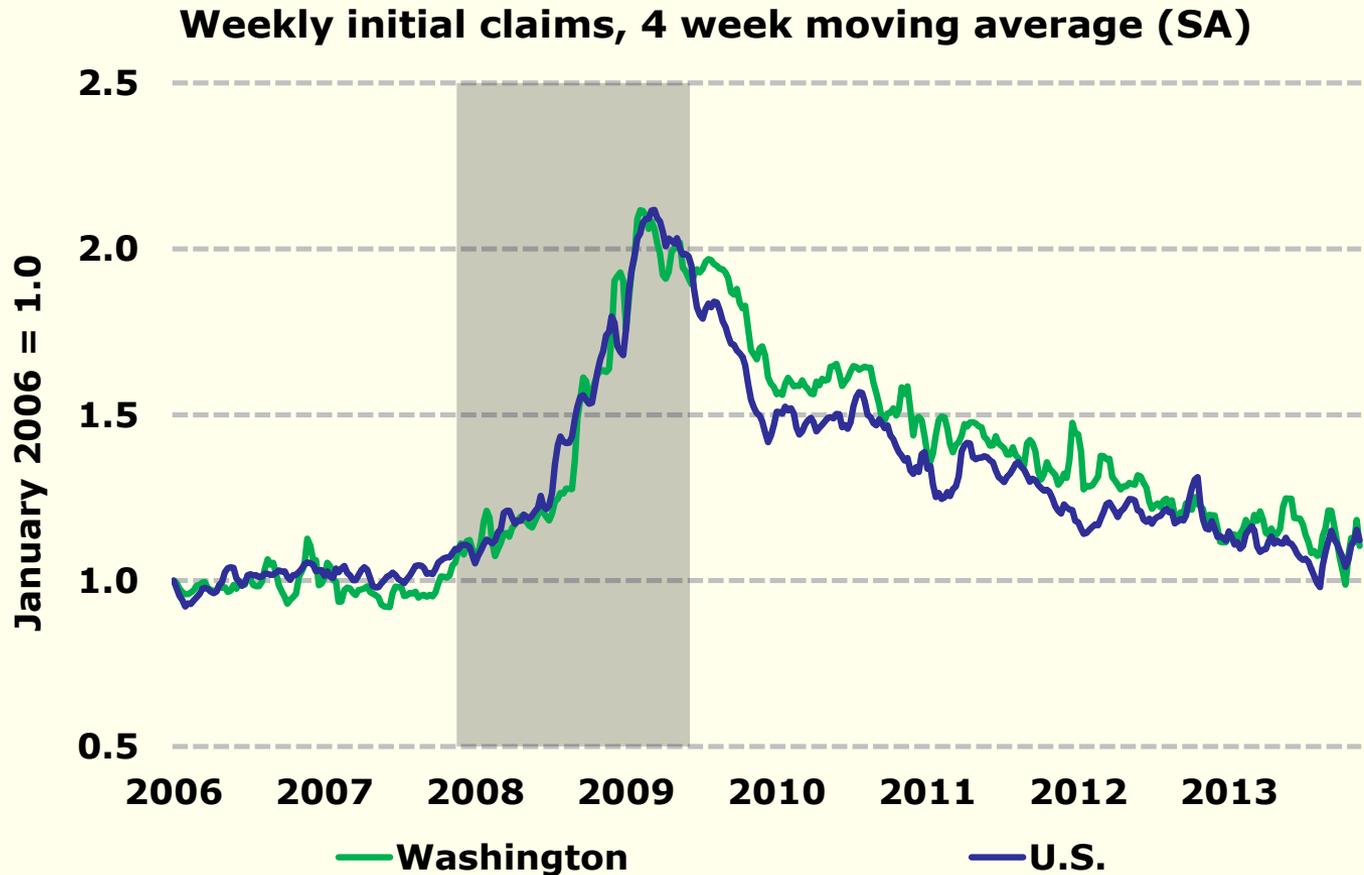


Source: BLS, ERFC; data through December 2013

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Initial unemployment claims are declining



Source: US Dept of Labor/BLS; data through January 4 2014

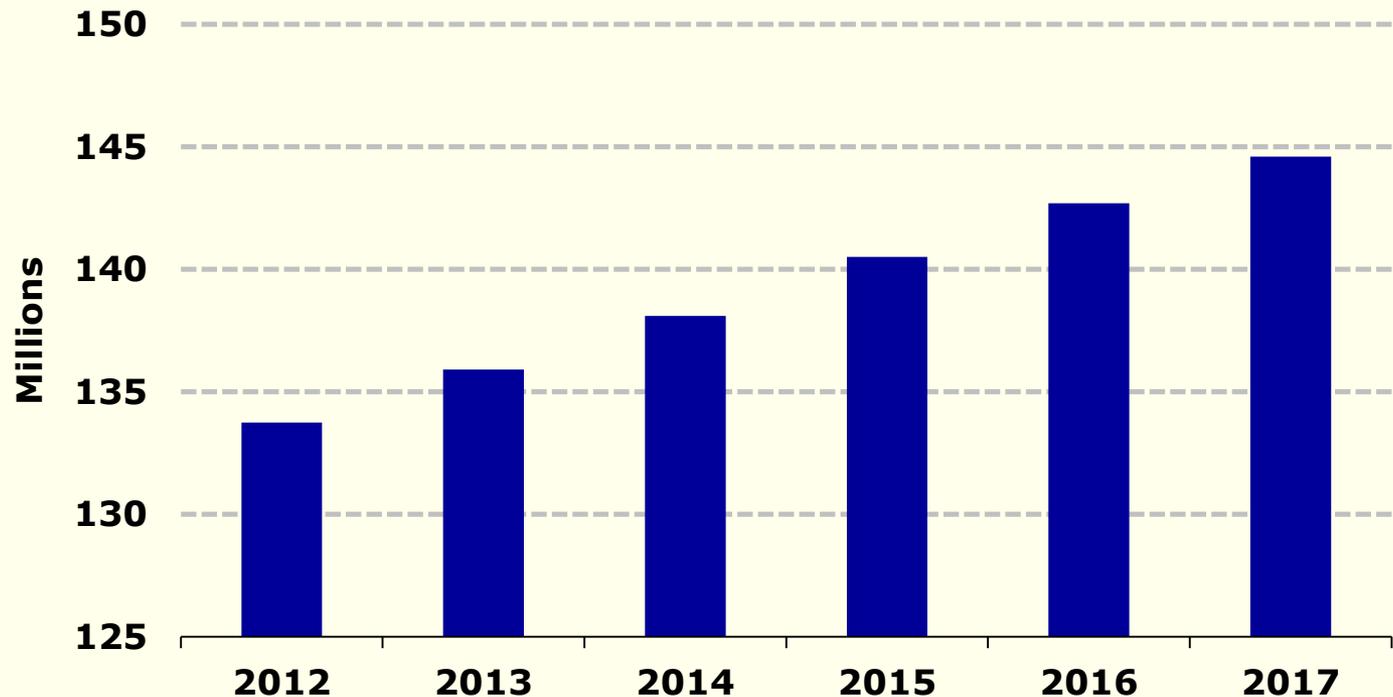
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U.S employment expected to increase 1.6% in 2014

1970 – 2012
avg. growth:
1.5% for all
years;
2.2% in non-
recessionary
years

U.S. Total Nonfarm Employment

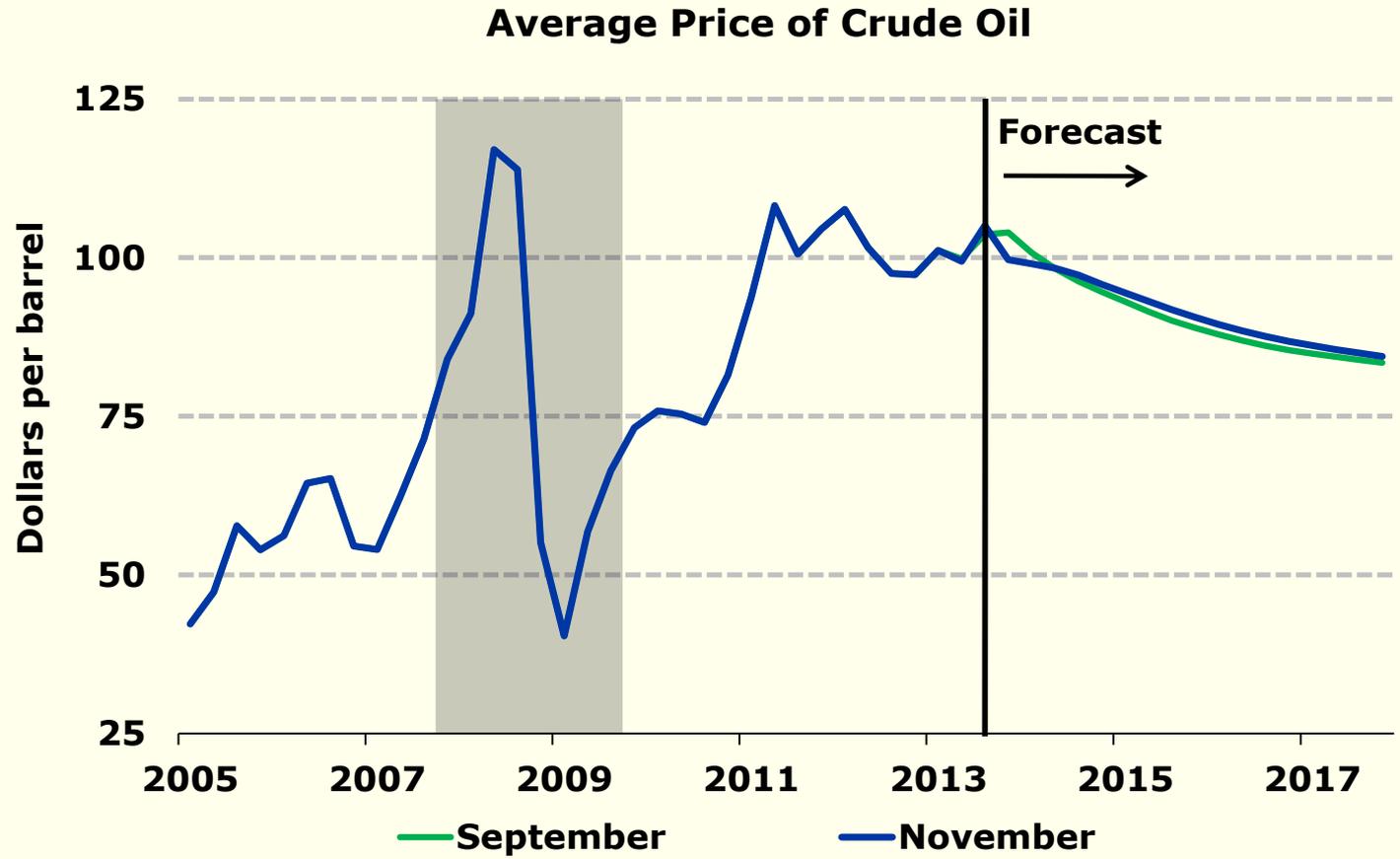


Source: BLS, ERFC November 2013 forecast; historical data through 2012

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Oil prices are expected to be slightly lower in the near term



Source: DOE, ERFC November 2013 forecast; historical data through 2013Q3

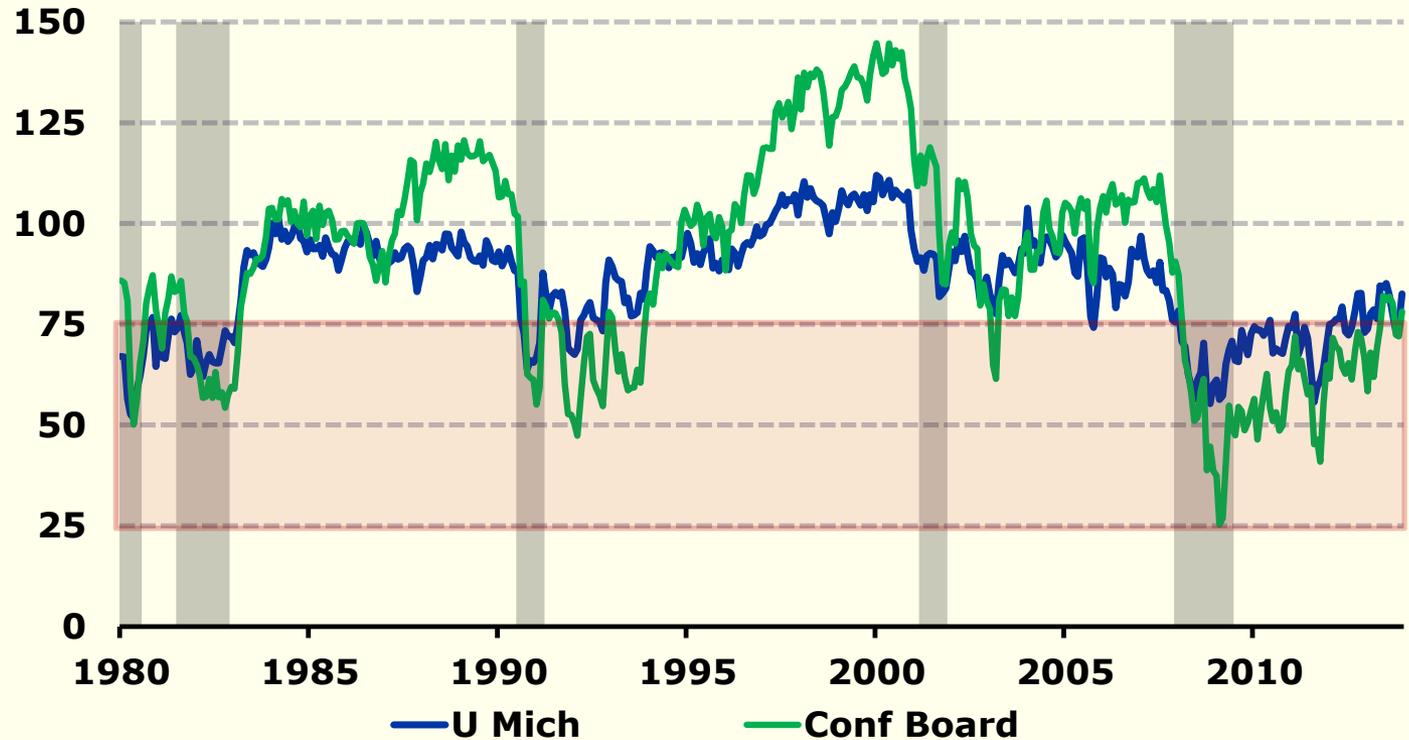


Consumer confidence slowly improves

Index

Mich: 1966Q1 = 100, SA

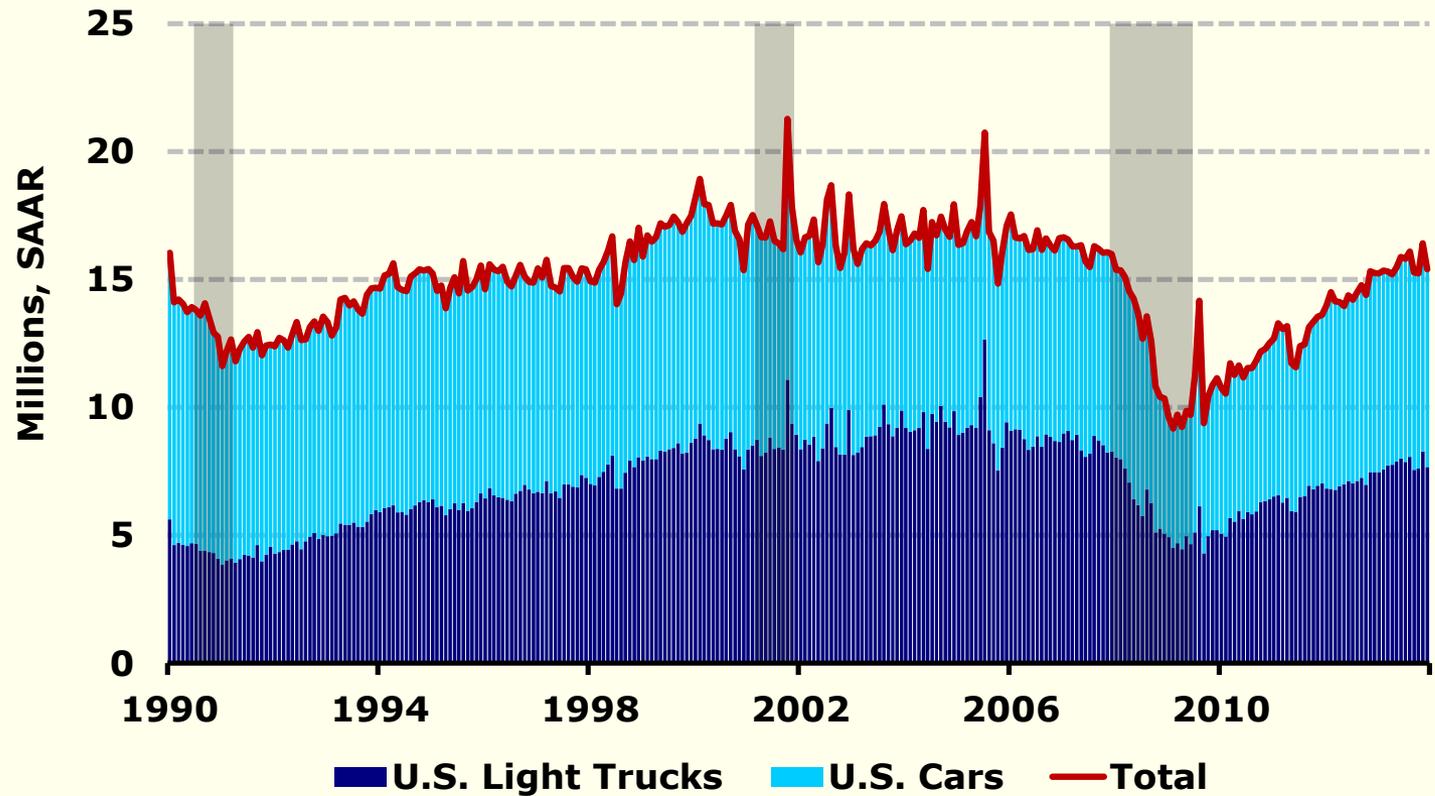
Conf Board: 1985 = 100, SA



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



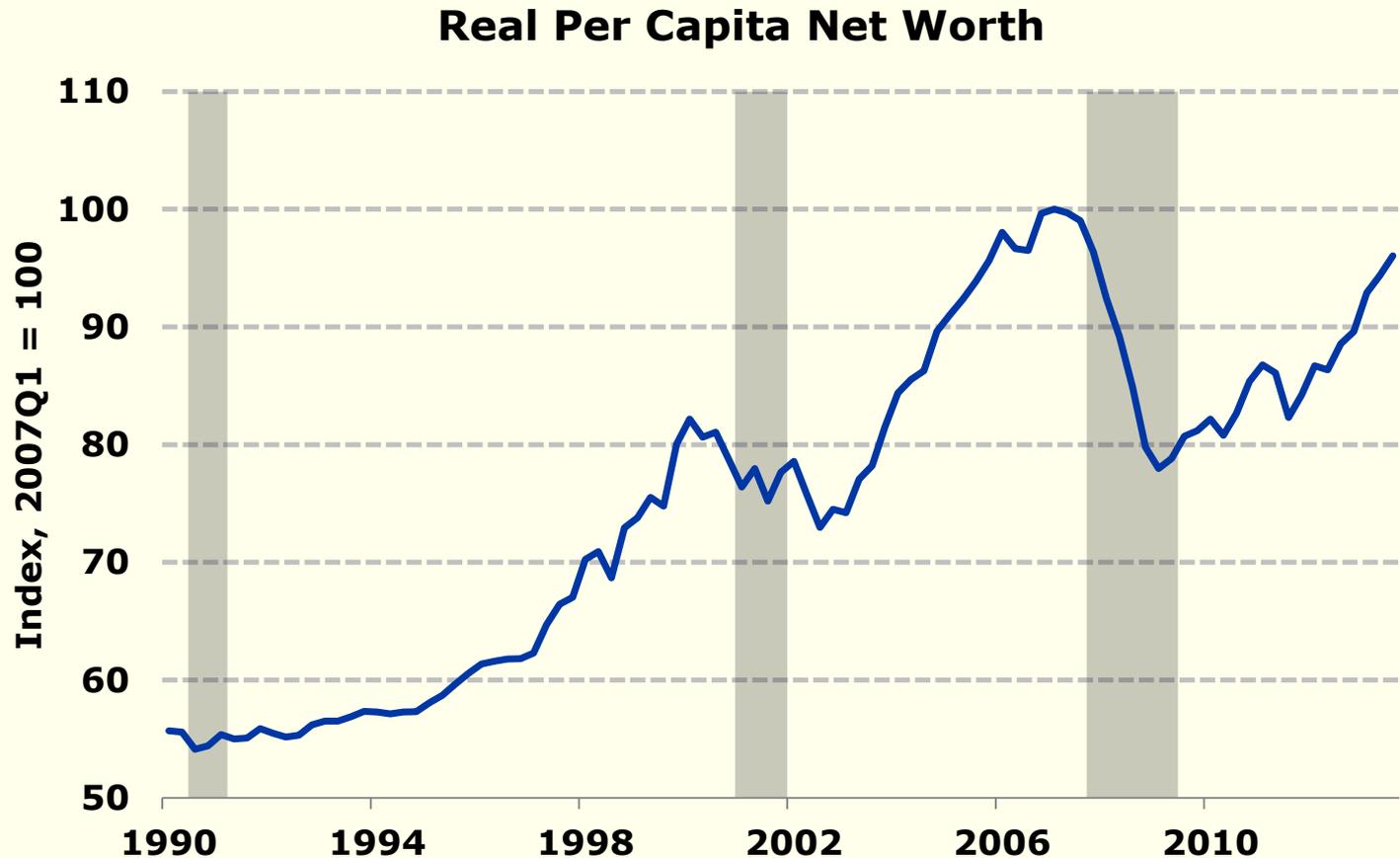
Vehicle sales continue their upward trend



Source: Autodata Corporation; data through December 2013



Net worth recovering but still below peak



Sources: Federal Reserve, BEA, Census ERFC; data through 2013 Q3



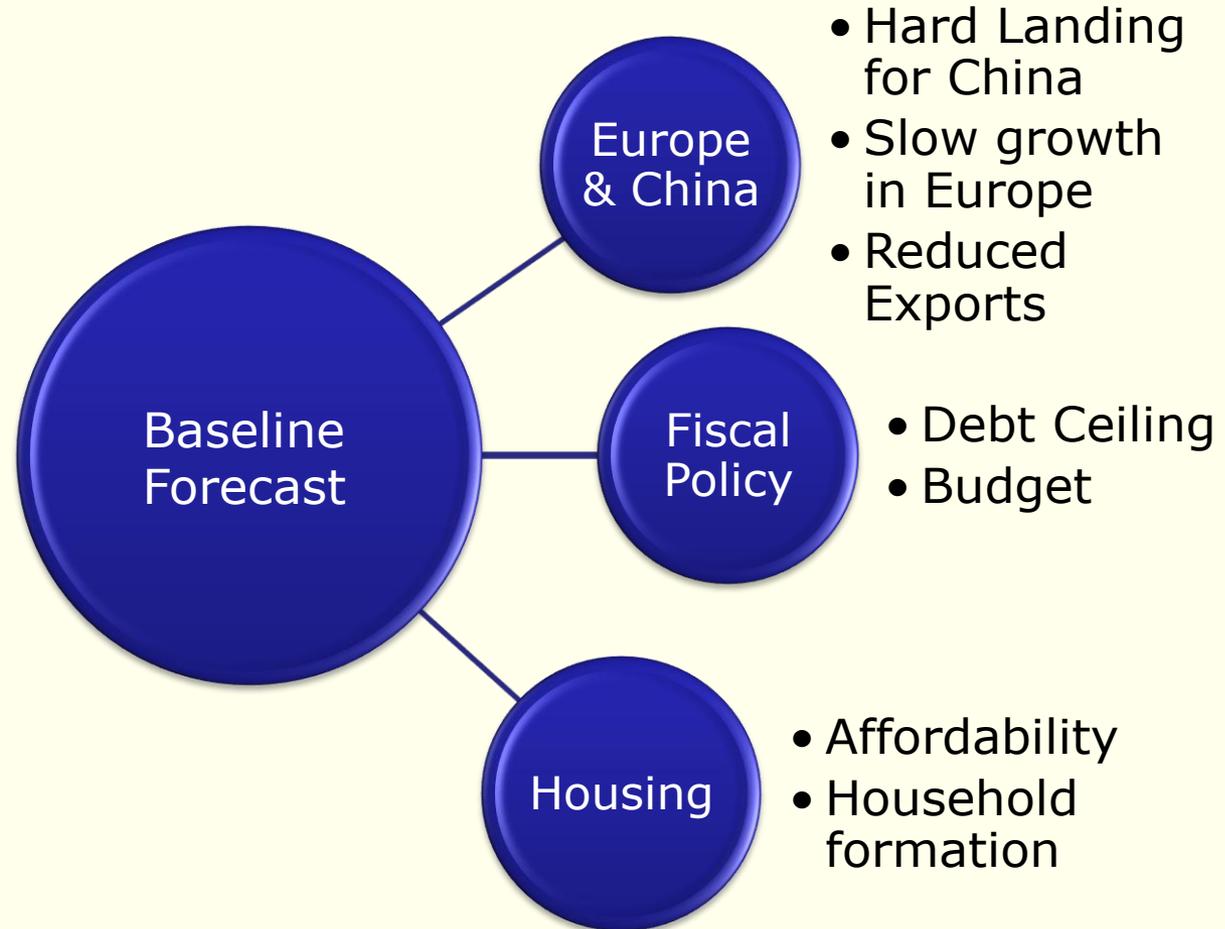
Consumer deleveraging nearing its end?



Source: Board of Governors of the Federal Reserve System, data through 2013Q3

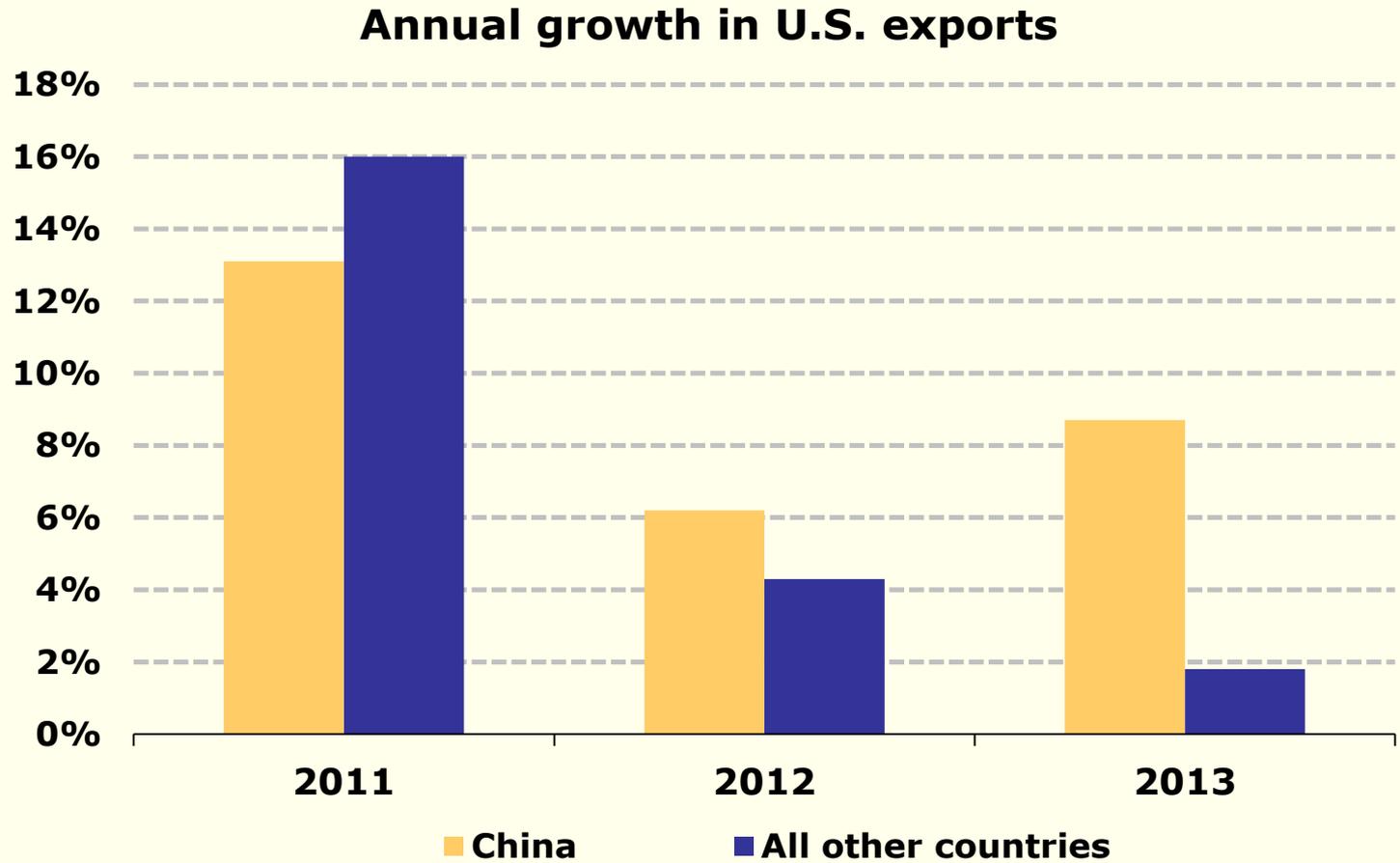


Three major risks to the forecast





Exports have weakened outside of China



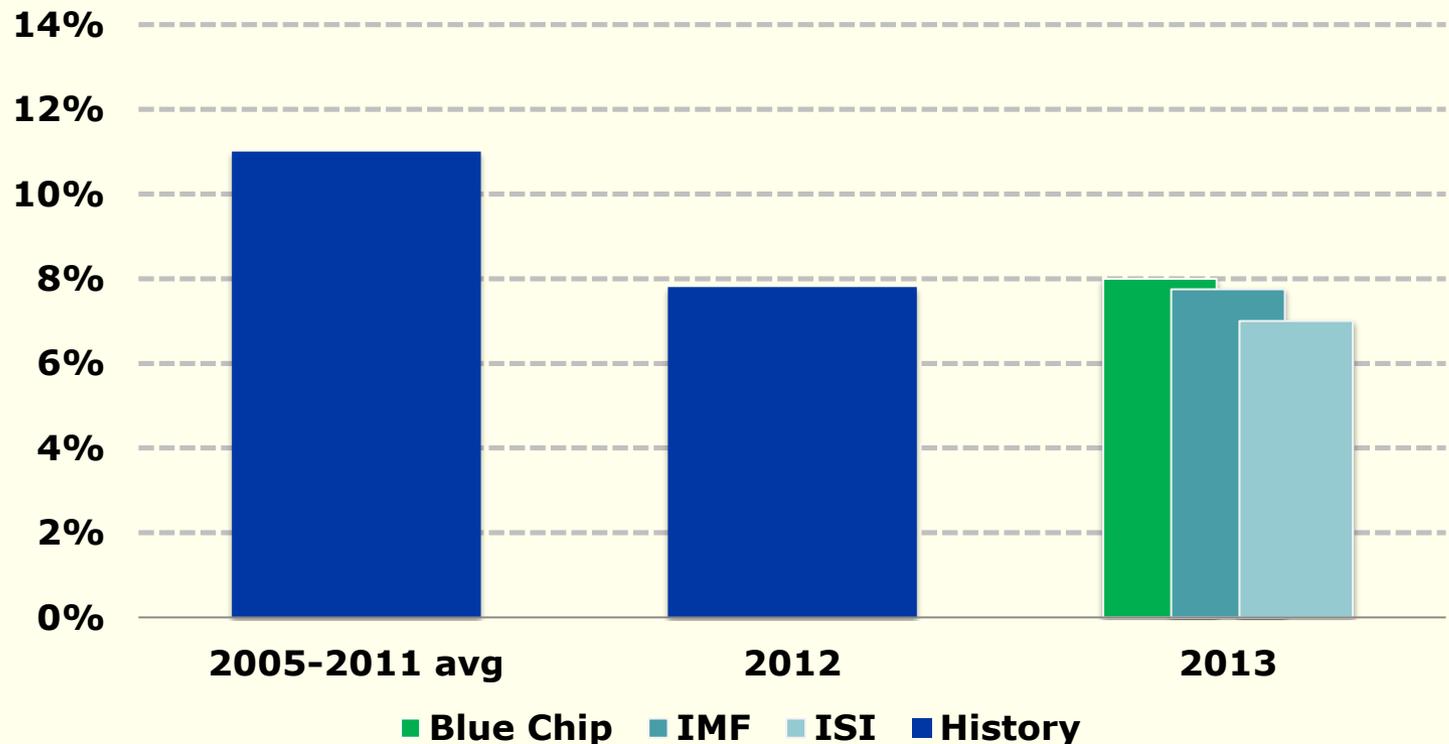
Source: WISERTrade; 2013 data through November

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China's Economic Growth has Slowed

China Real GDP Growth



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

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Exports to Eurozone weaker but growing again



Source: WISERTrade; 2013 data through November

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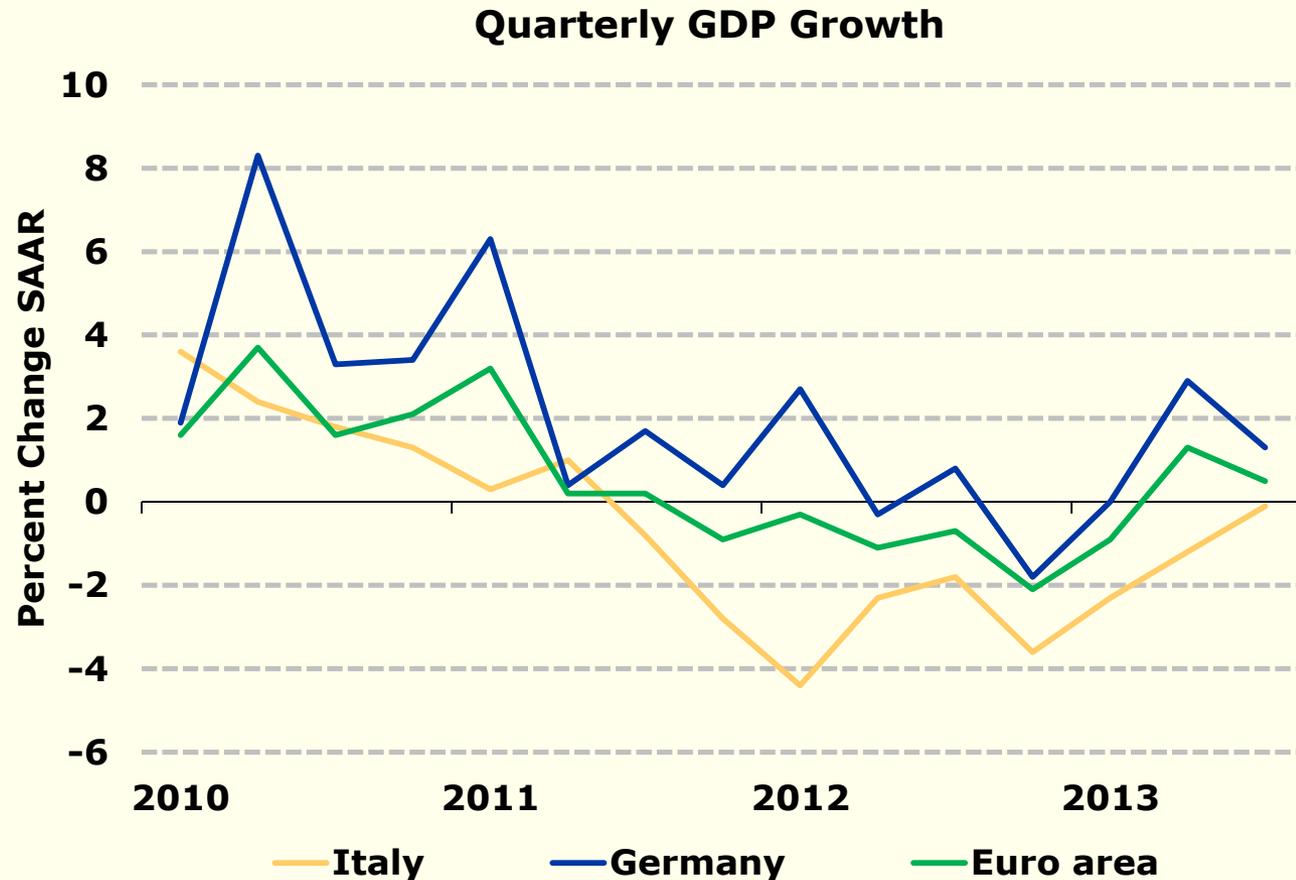
Euro area GDP has returned to positive growth but risks remain

Eurozone
Forecast:

2013: -0.4%

2014: 0.9%

2015: 1.3%

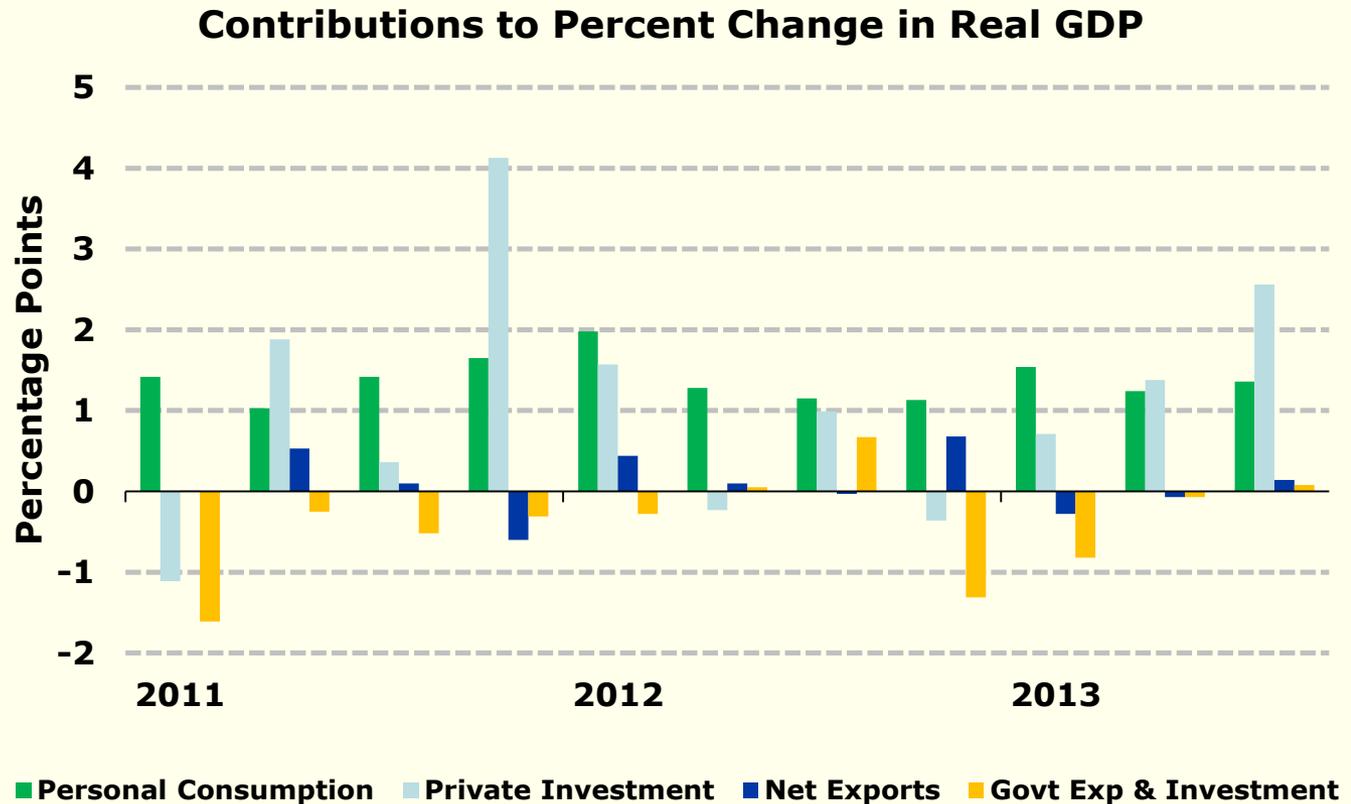


Source: Eurostat; data through 2013Q3

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Government expenditures remain weak



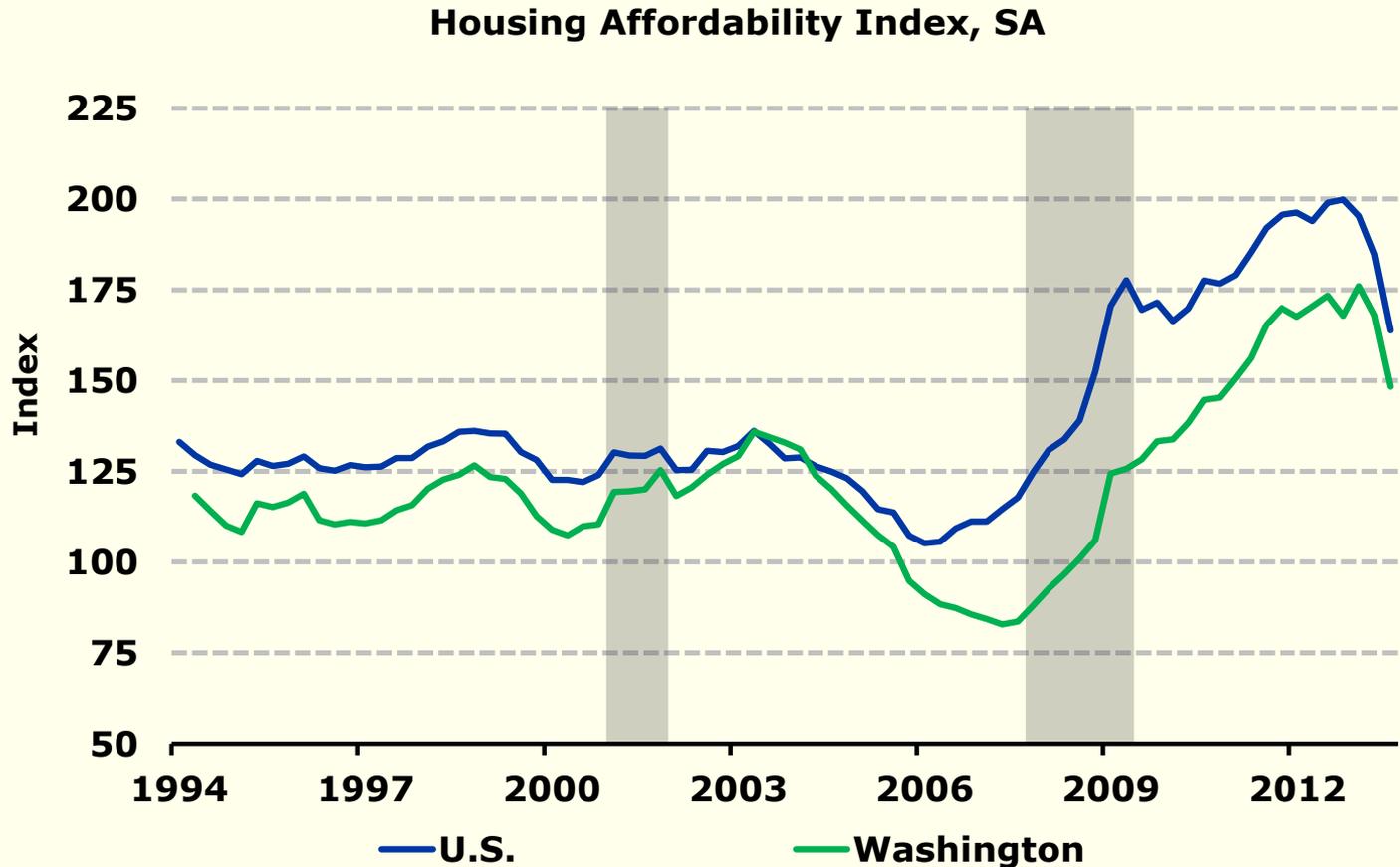
Source: BEA; data through 2013 Q3

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Housing affordability is high but falling

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

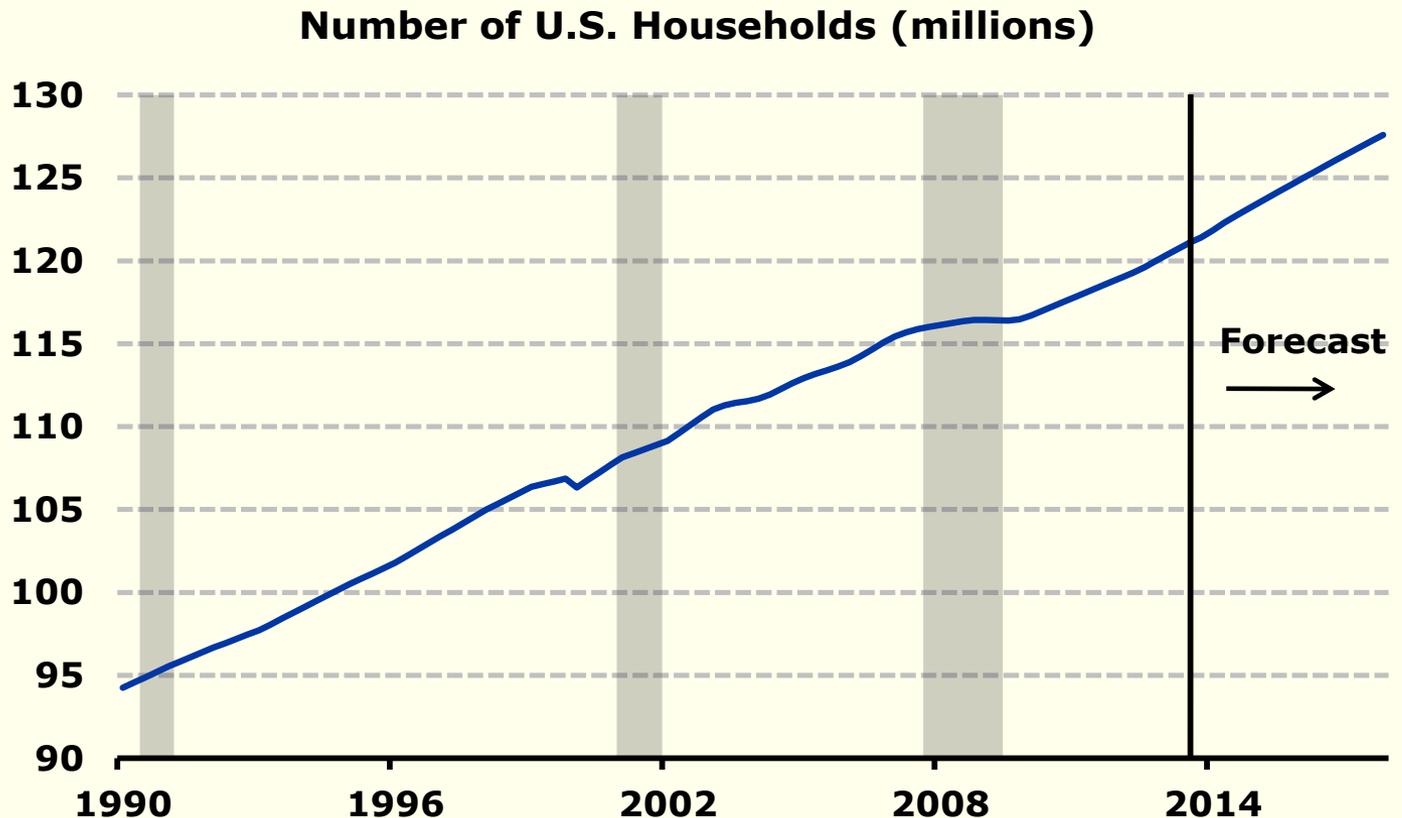


Source: Global Insight, WA Center Real Estate Research, ERFC; data through 2013Q3

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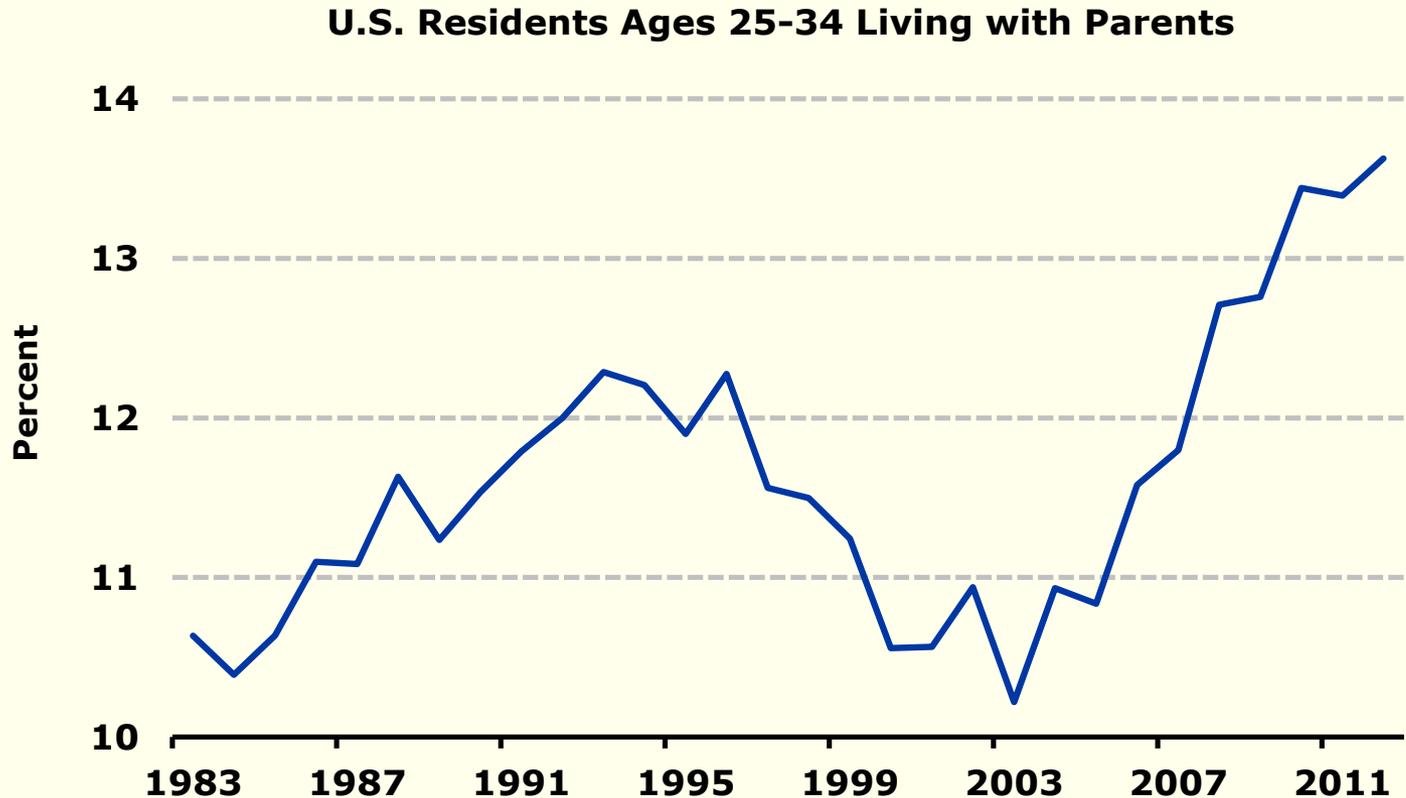
The Great Recession saw an unprecedented slowdown in household formation



Source: U.S. Census Bureau, ERFC November 2013 Forecast; historical data through 2013 Q3



Many adults continue to live at home with their parents



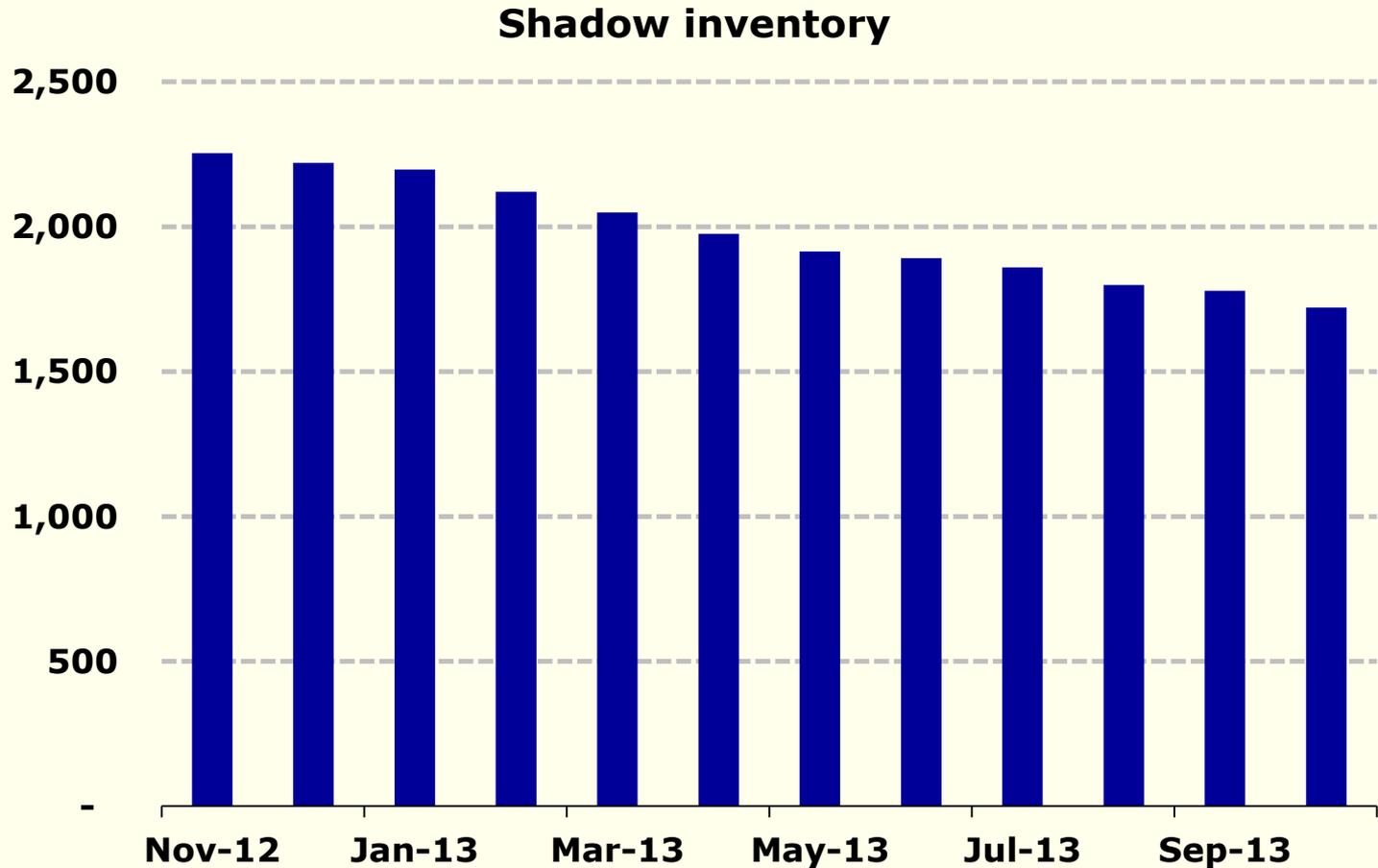
Source: U.S. Census; data through 2012



Shadow inventory of homes has declined 24% between Nov. 2012 and Oct. 2013

“Shadow inventory” =

- Homes more than 90 days delinquent
- Homes in foreclosure
- Homes owned by mortgage servicers not on MLS

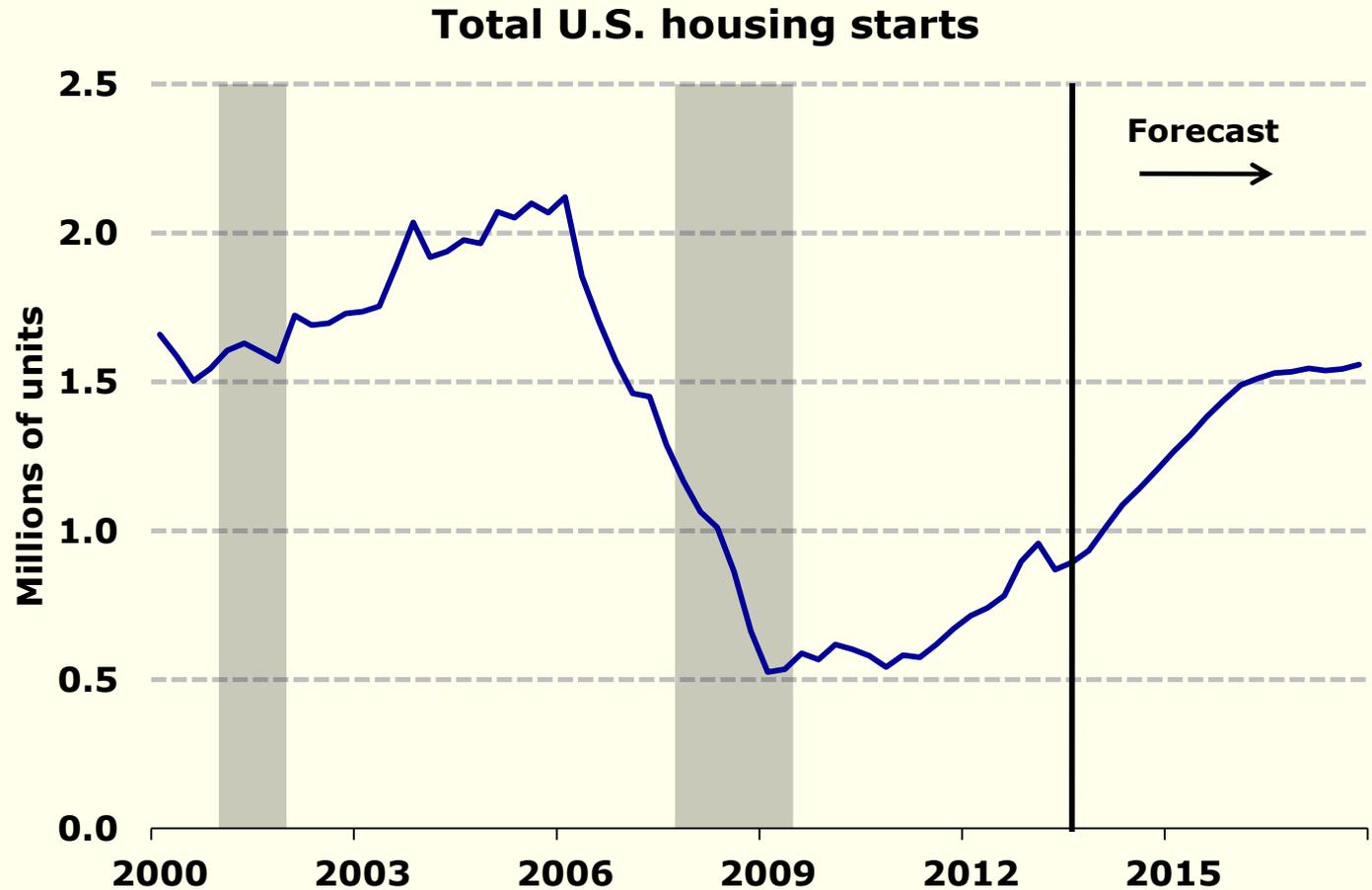


Source: CoreLogic, data through October 2013

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Housing starts expected to reach 1.5 million in 2016

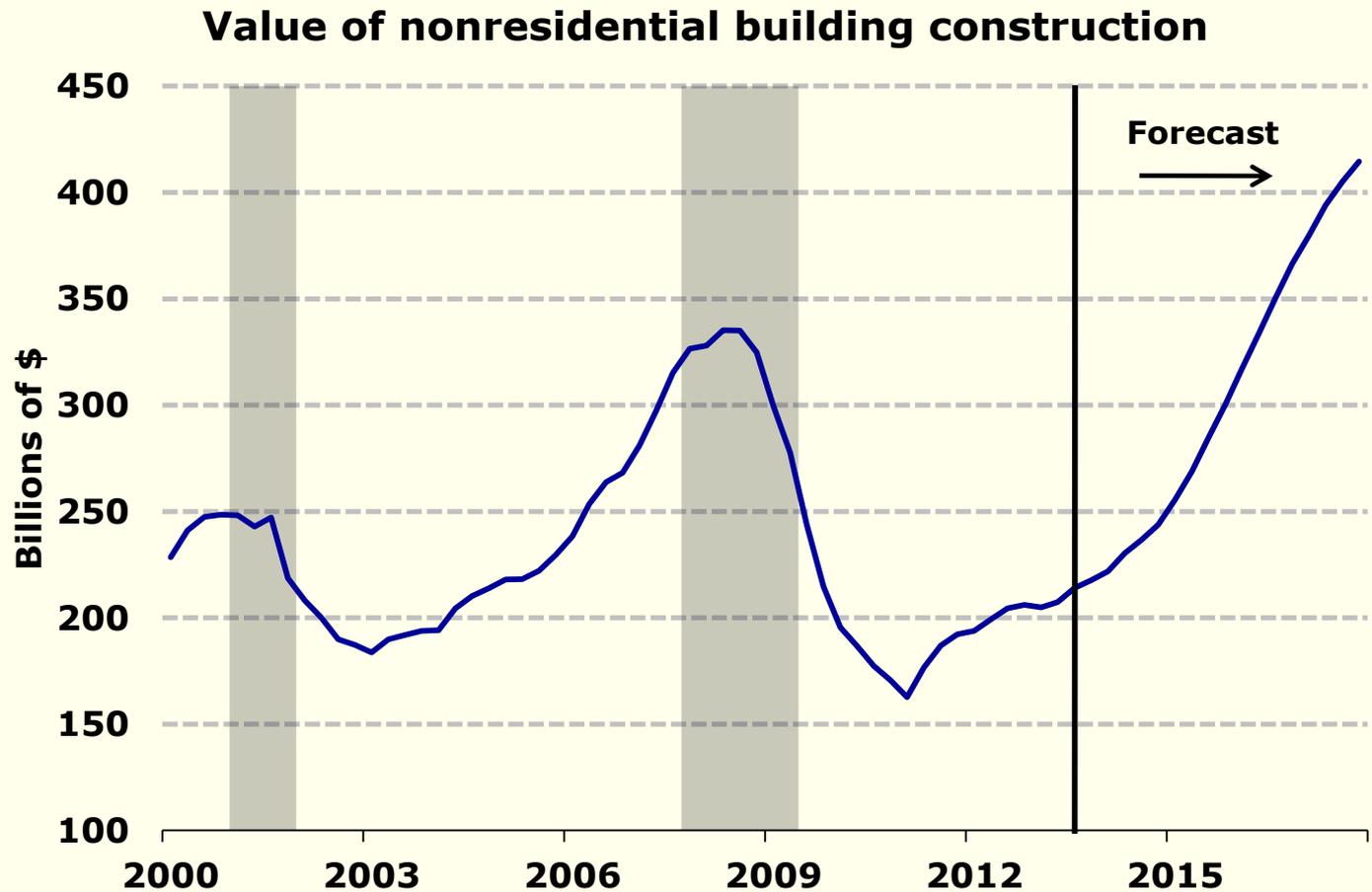


Source: U.S. Census, ERFC Nov 2013 forecast

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Nonresidential building activity expected to equal previous peak in 2016

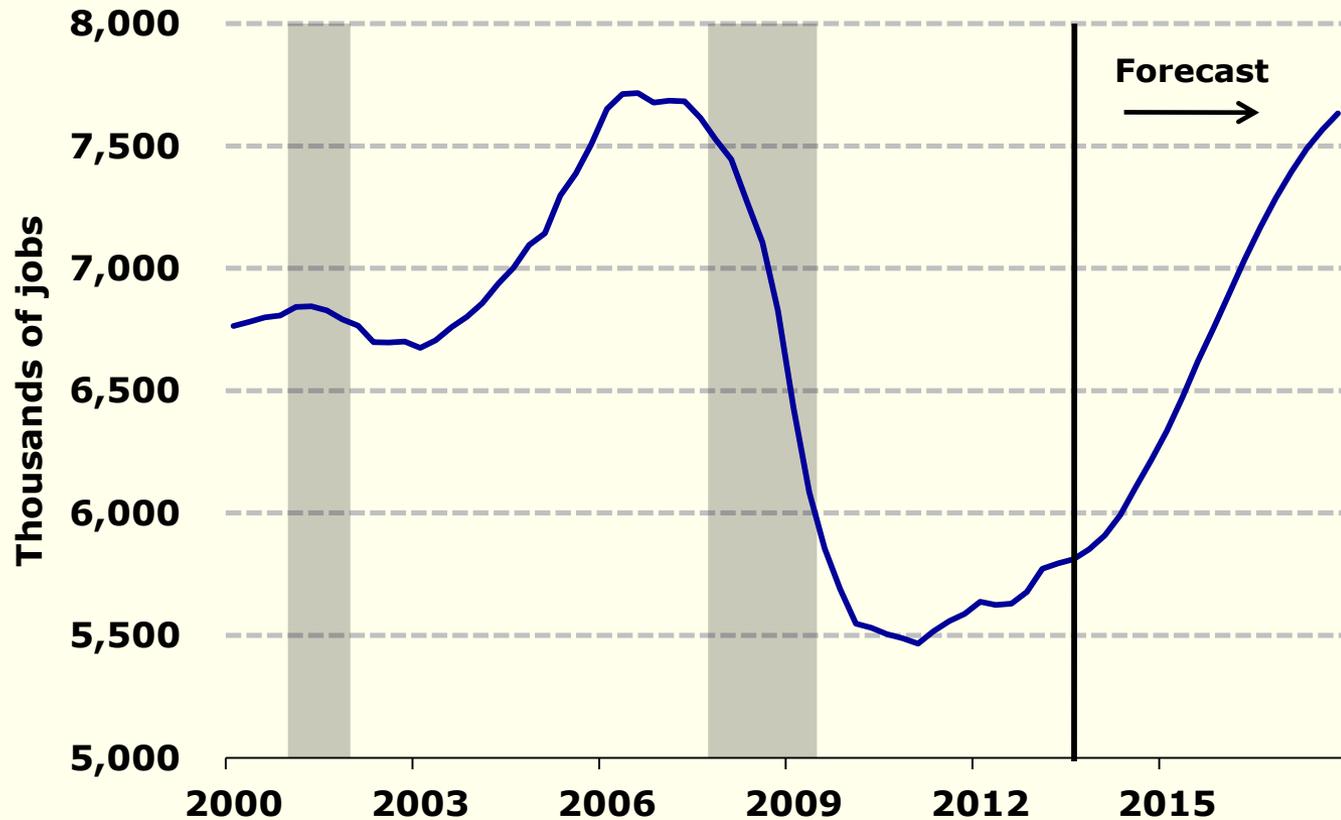


Source: U.S. Census, ERFC Nov 2013 forecast

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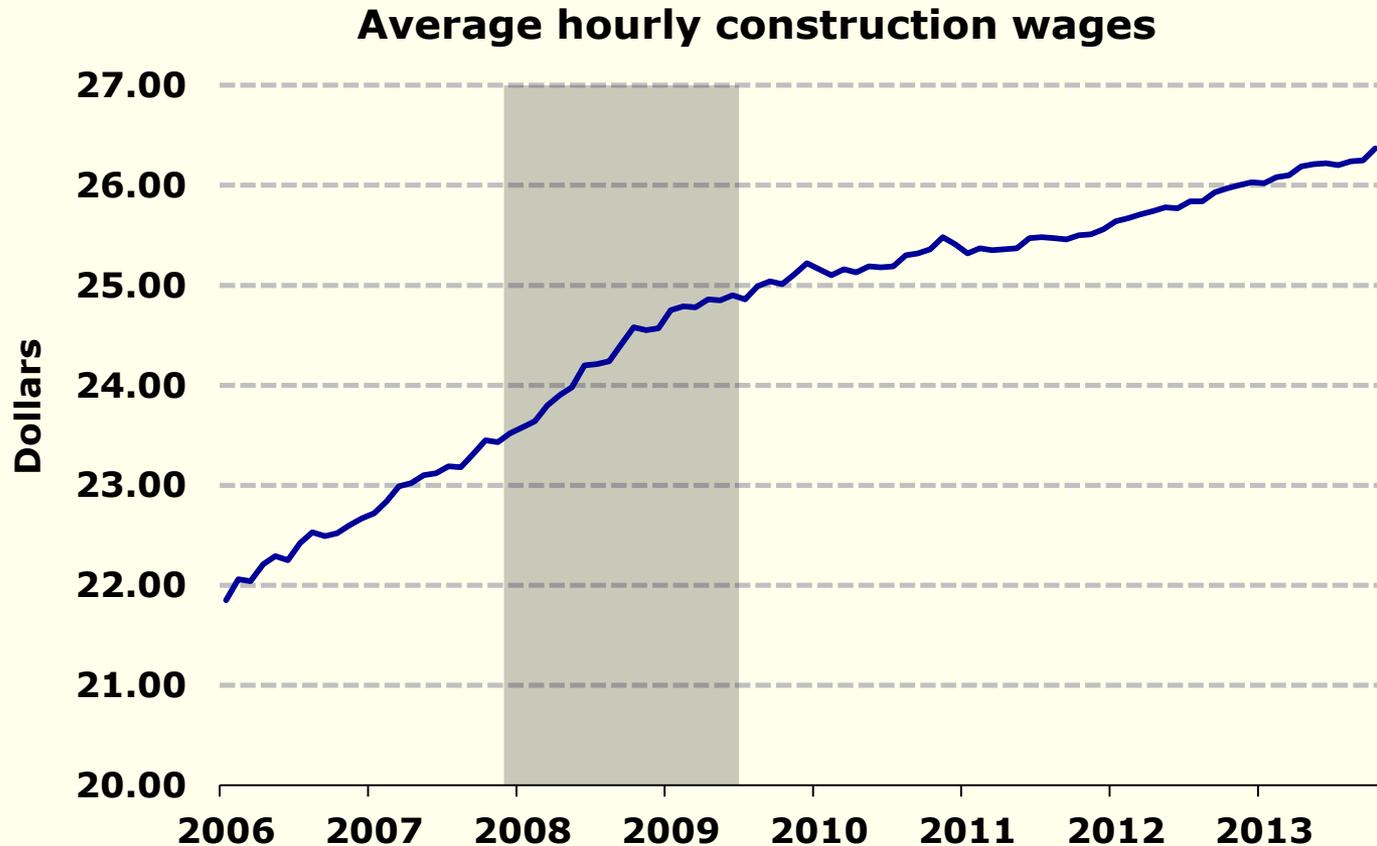
Construction employment not quite back to pre-recession peak by 2017



Sources: BLS, ERFC November 2013 forecast



Average construction wages have increased by 3.4% since Dec. 2011



Source: BLS; data through December 2013

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Painters: top five states by employment, 2012

State	Employment	Average hourly wage
California	24,970	\$21.21
Texas	16,410	\$14.95
Florida	13,140	\$15.12
New York	11,450	\$22.58
Illinois	7,480	\$24.44

Source: BLS, Occupational Employment Statistics, May 2012



Conclusion

- We expect the slow pace of economic recovery to continue
- Both residential and nonresidential 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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