

Washington State: Economic and Revenue Outlook

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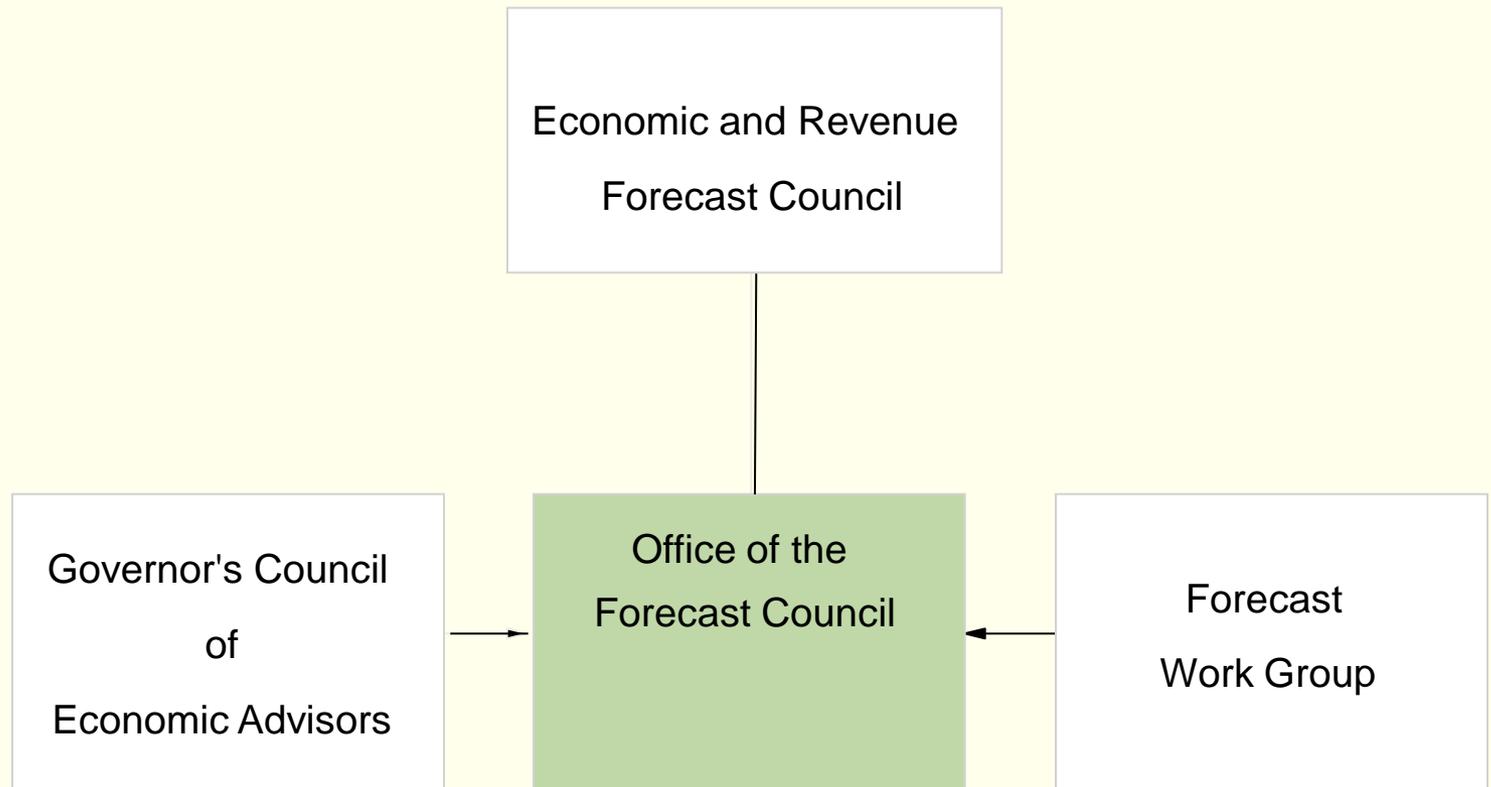
**WASHINGTON STATE
ECONOMIC AND REVENUE FORECAST COUNCIL**



Forecast Oversight

ERFC

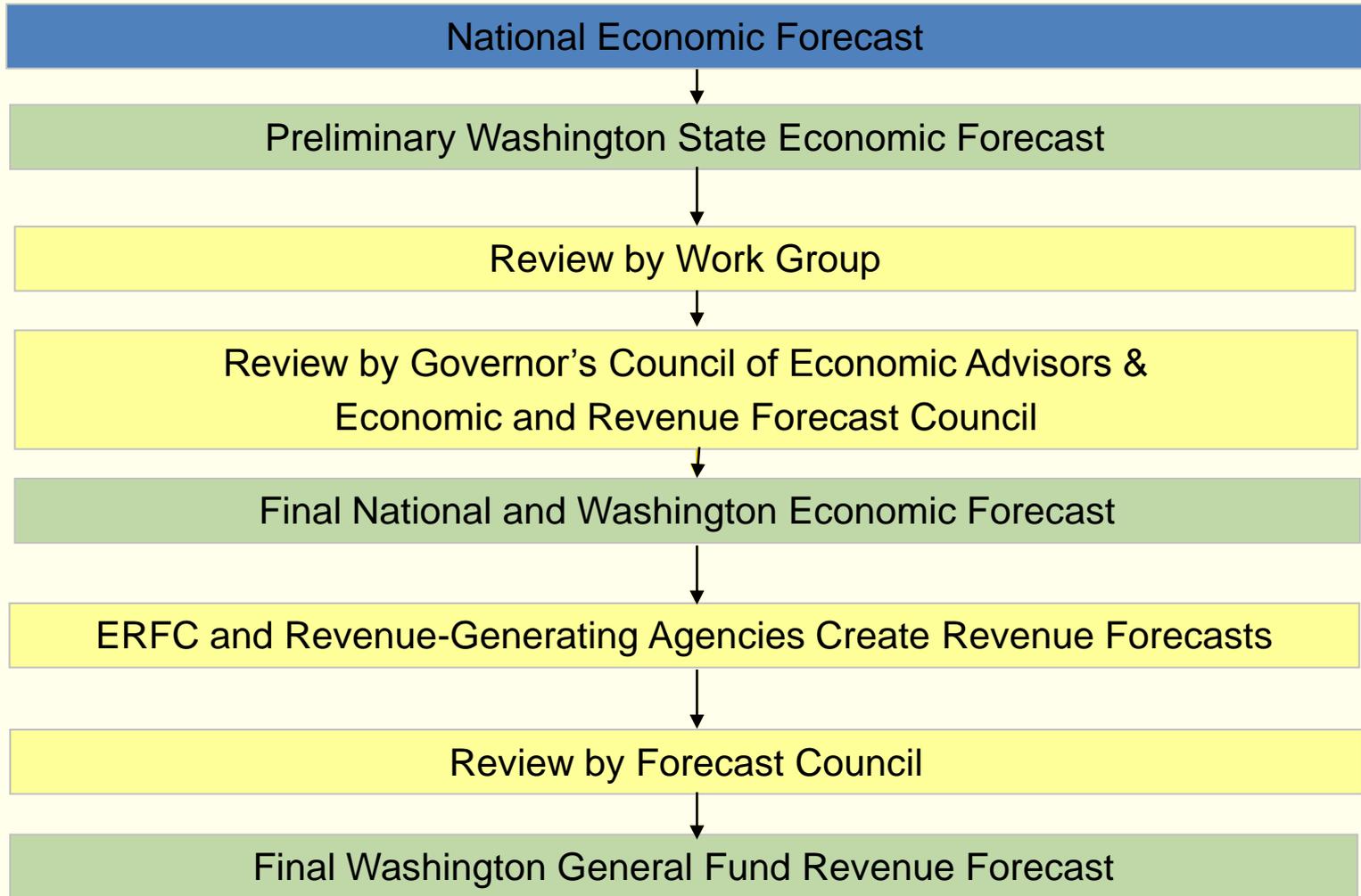
- Council hires Executive Director for three year term
- Director hires staff
- Total staff of five





ERFC Forecast Process

The national economic forecast is provided by Global Insight



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Washington Economic Overview

2012 State GDP (2005 dollars): \$325.2 billion

- 3.6% growth over 2011; 4th fastest in U.S.
- 2.4% of U.S. GDP

2012 State Nonfarm Employment: 2.9 million

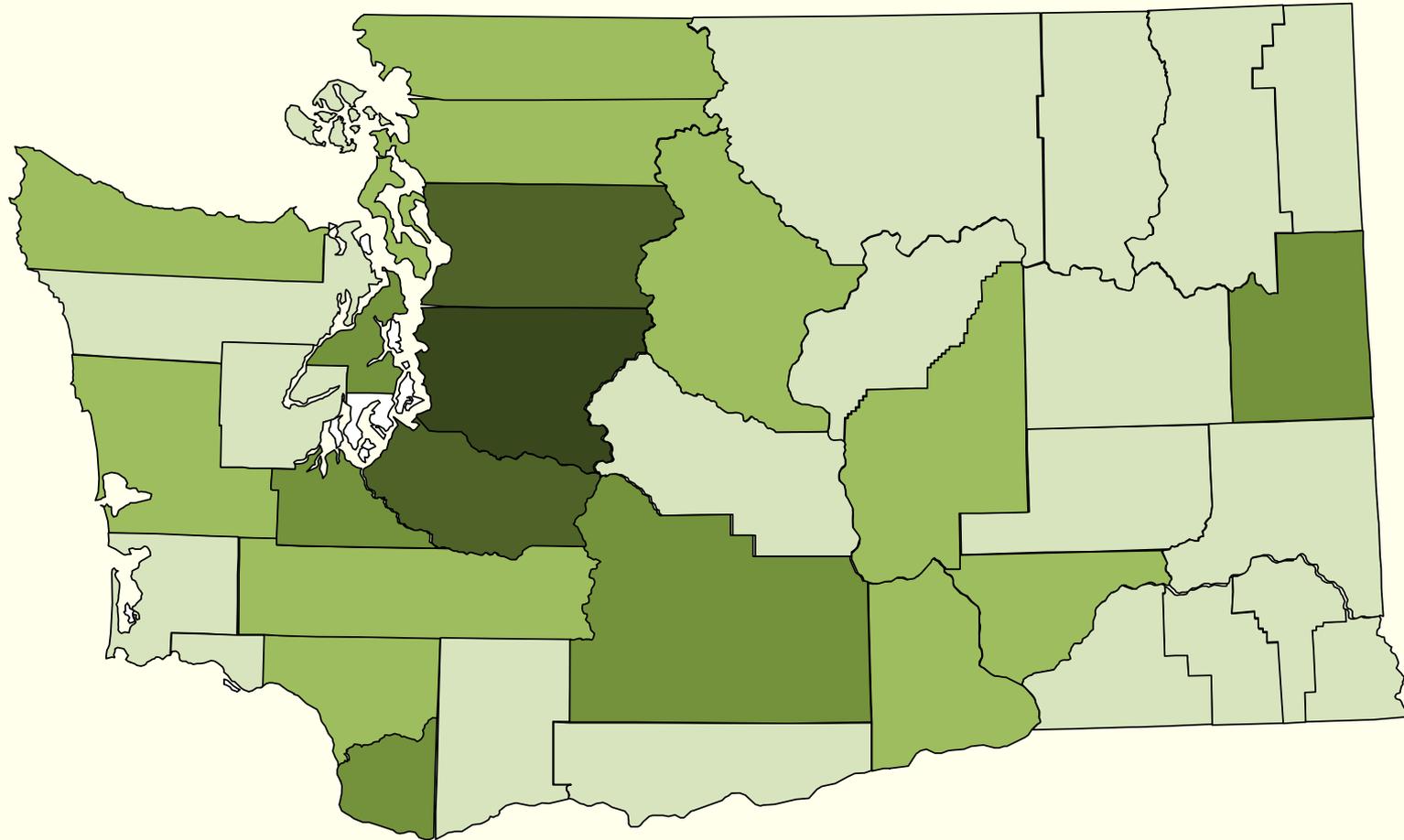
- 1.7% growth over 2011; tied for 16th fastest in U.S.
- 2.1% of U.S. nonfarm employment

2012 State population: 6.9 million; 13th largest state

- 1.1% growth over 2011 (U.S. = 0.9%)
- 2.2% of U.S. population



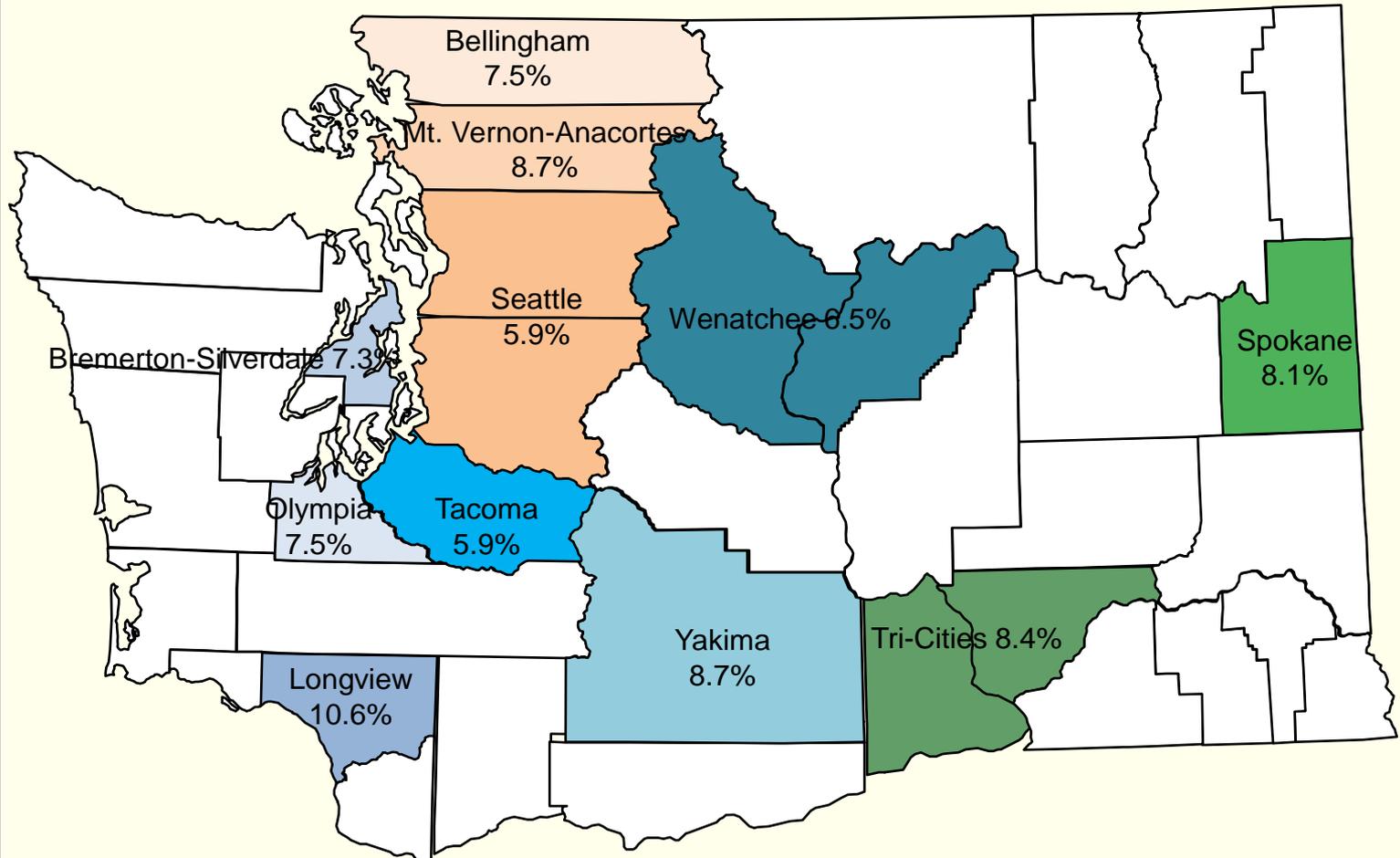
Distribution of state population by county, 2012





Unemployment rates by metro area, June 2013

Statewide
rate: 6.8%

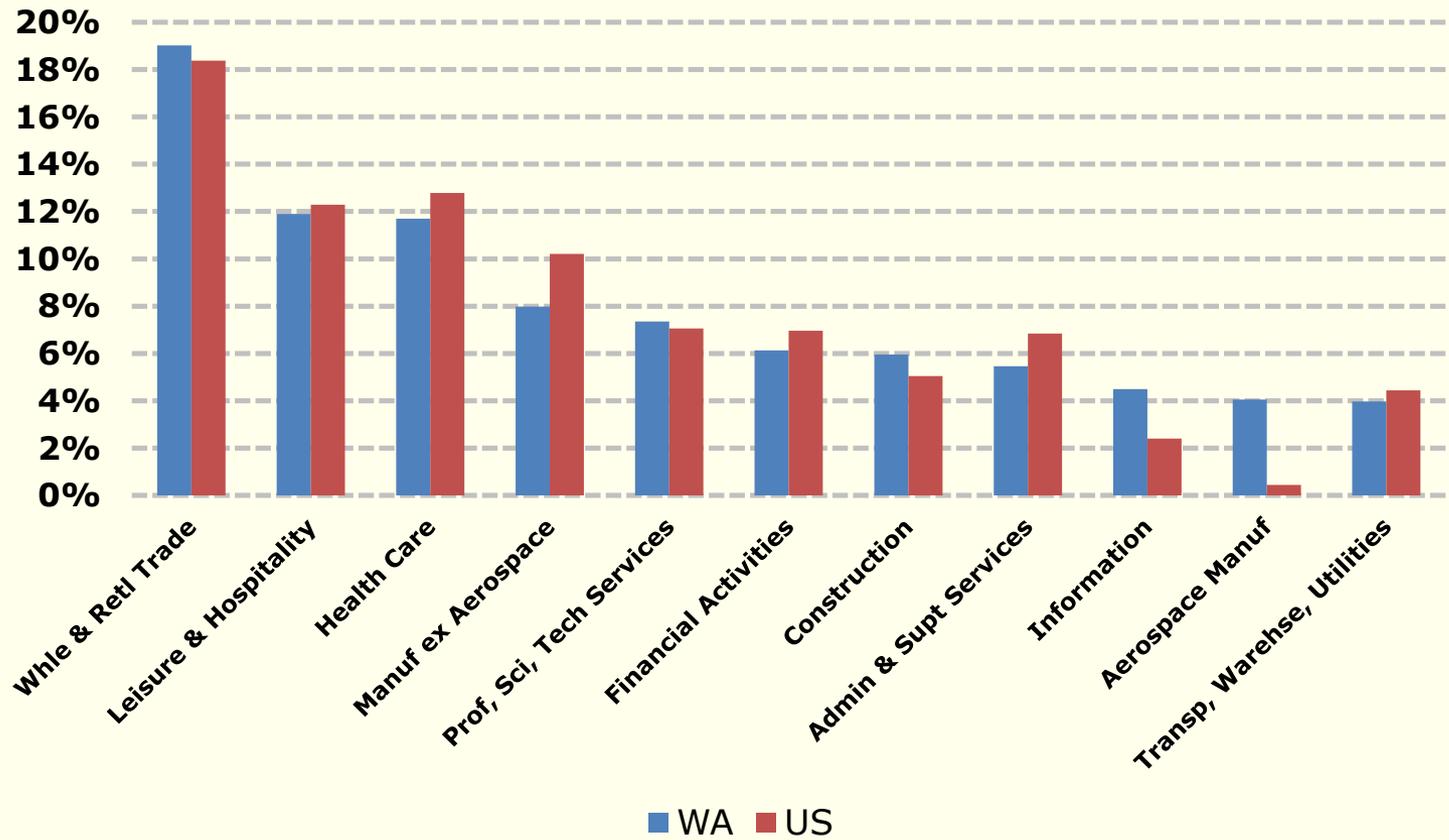


Source: U.S. Bureau of Labor Statistics, June 2013



Major Industries by Employment

2012 Private Employment Shares by Industry

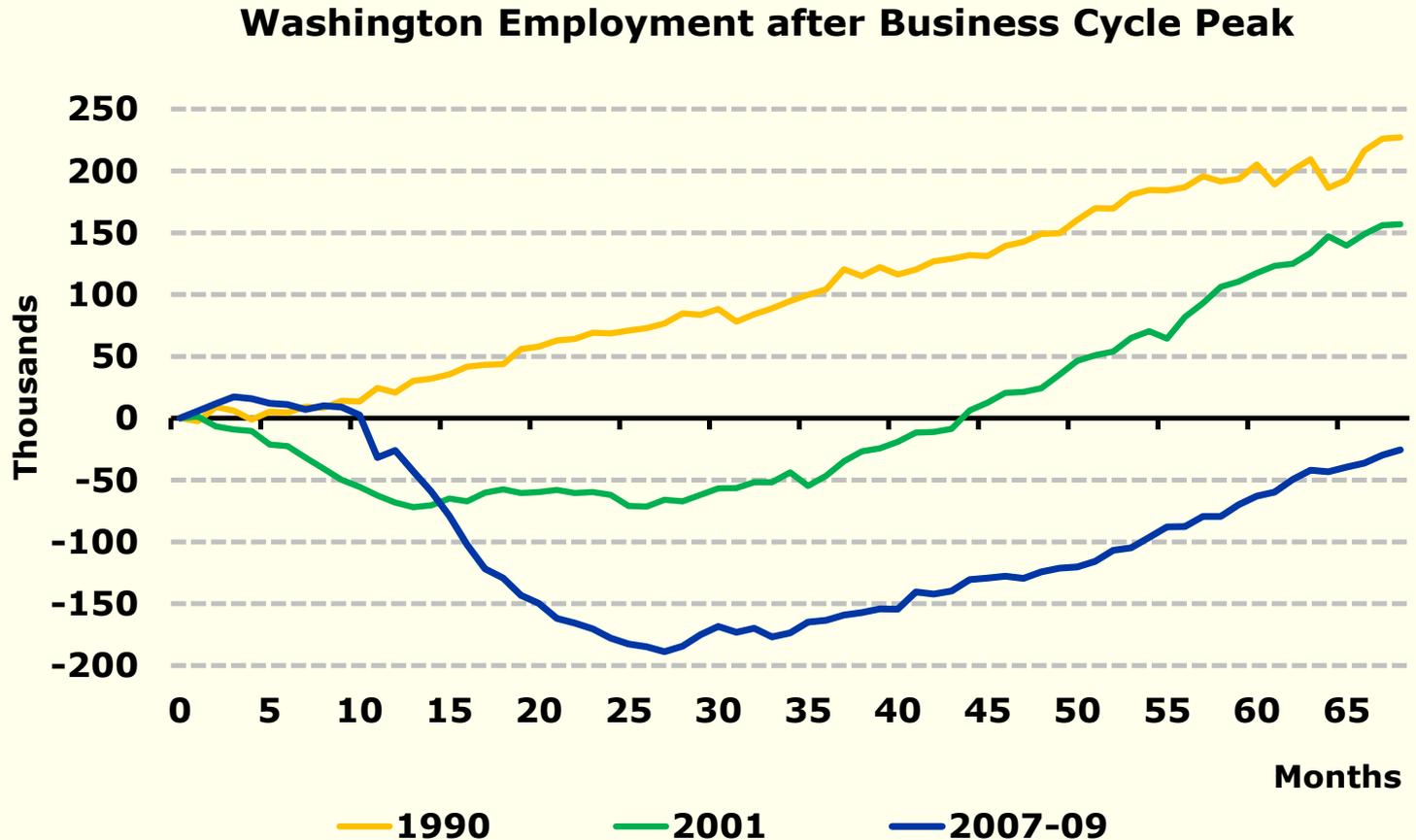


Source: U.S. Dept. of Labor, BLS; ESD; ERFC



After 5 years, Washington employment has still not recovered

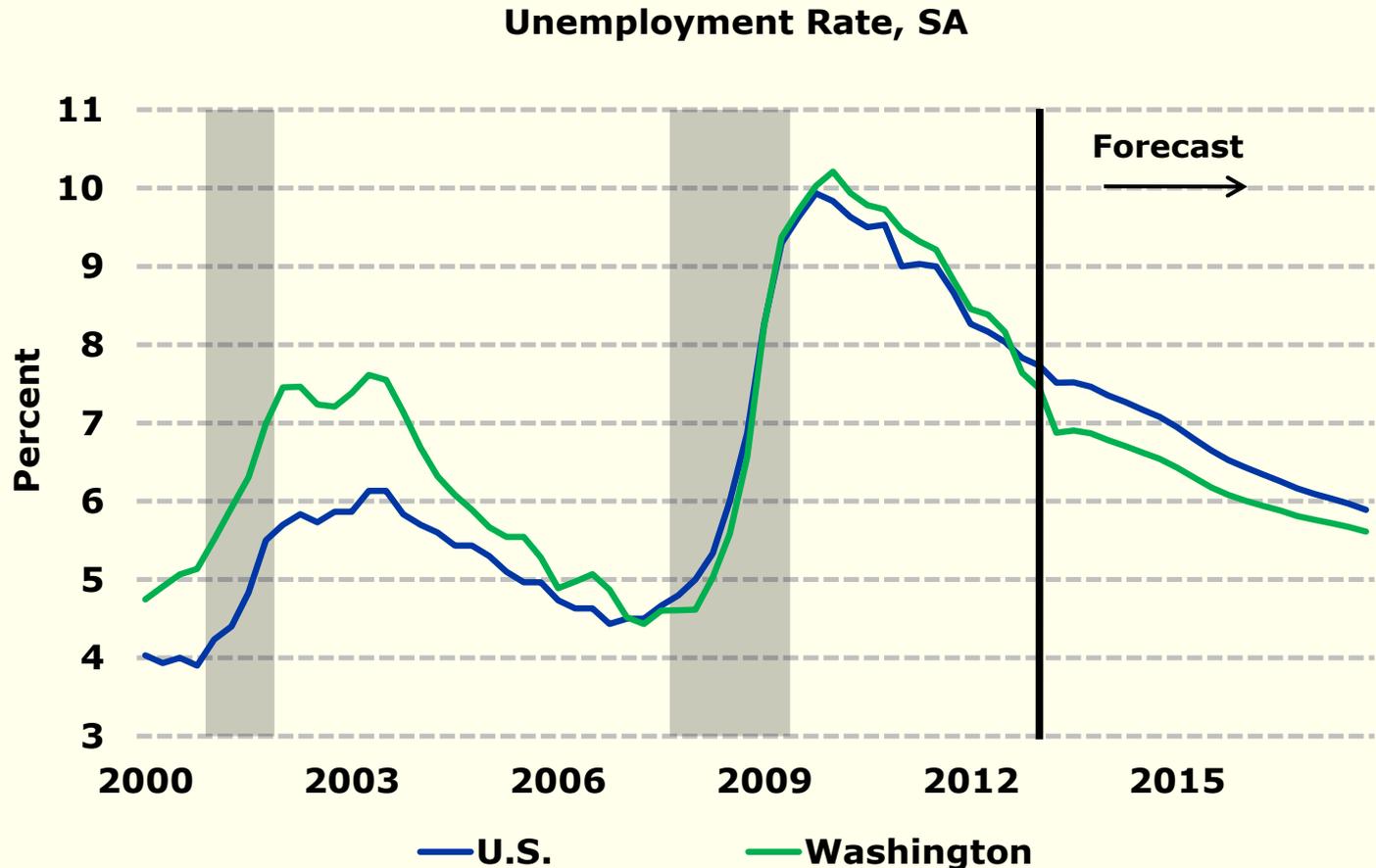
Washington remains 25,000 jobs below the start of the recession



Source: WA ESD, ERFC; data through July 2013



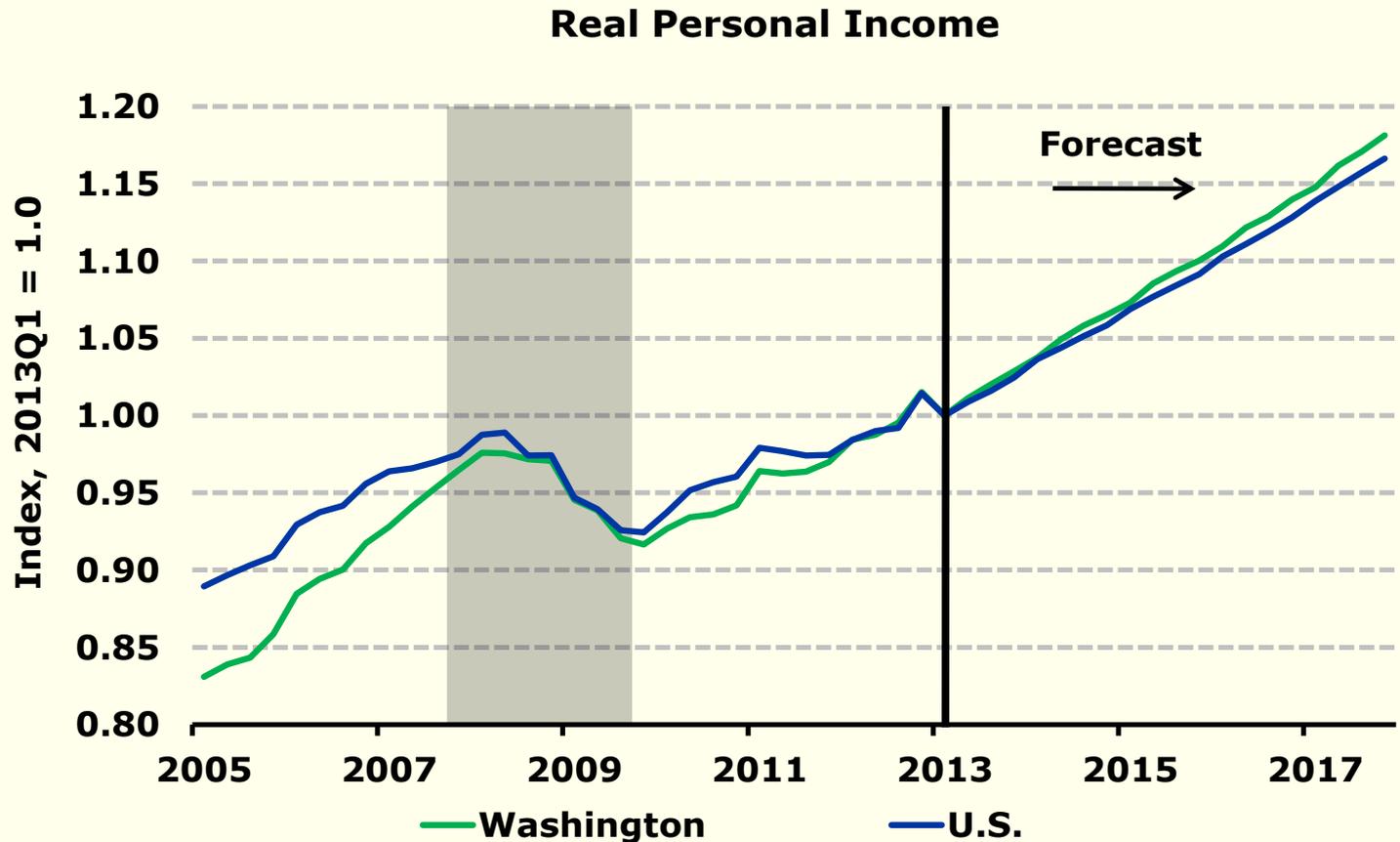
Washington unemployment expected to remain below U.S. rate



Source: ERFC June 2013 forecast; historical data through 2013 Q1



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

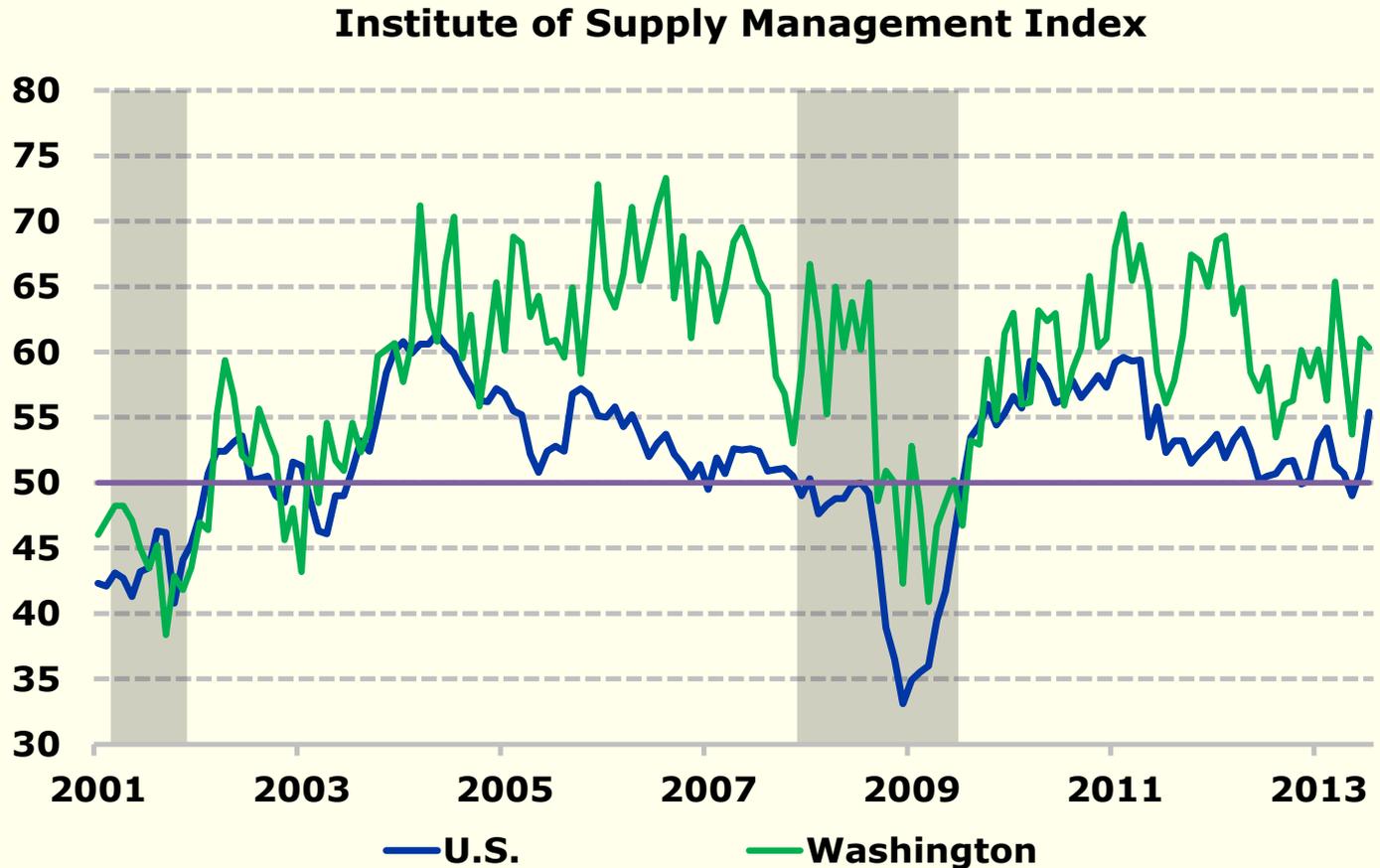


Source: ERFC June 2013 forecast; historical data through 2013Q1



Manufacturing is stronger in WA than nationally

An index greater than 50, implies growth



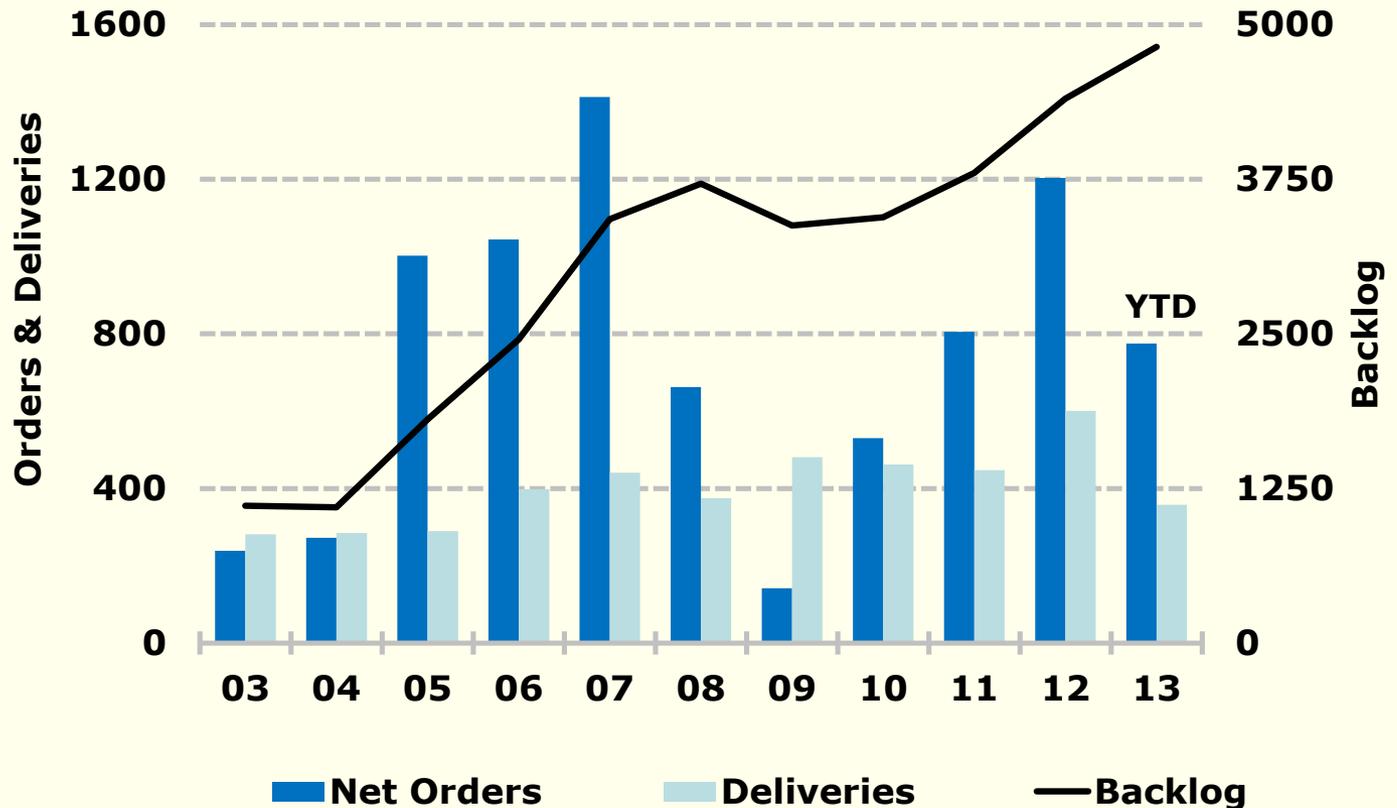
Source: Institute of Supply Management; data through July 2013

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Boeing has over 7 years of commercial orders on its books

Excludes the military's new refueling tanker

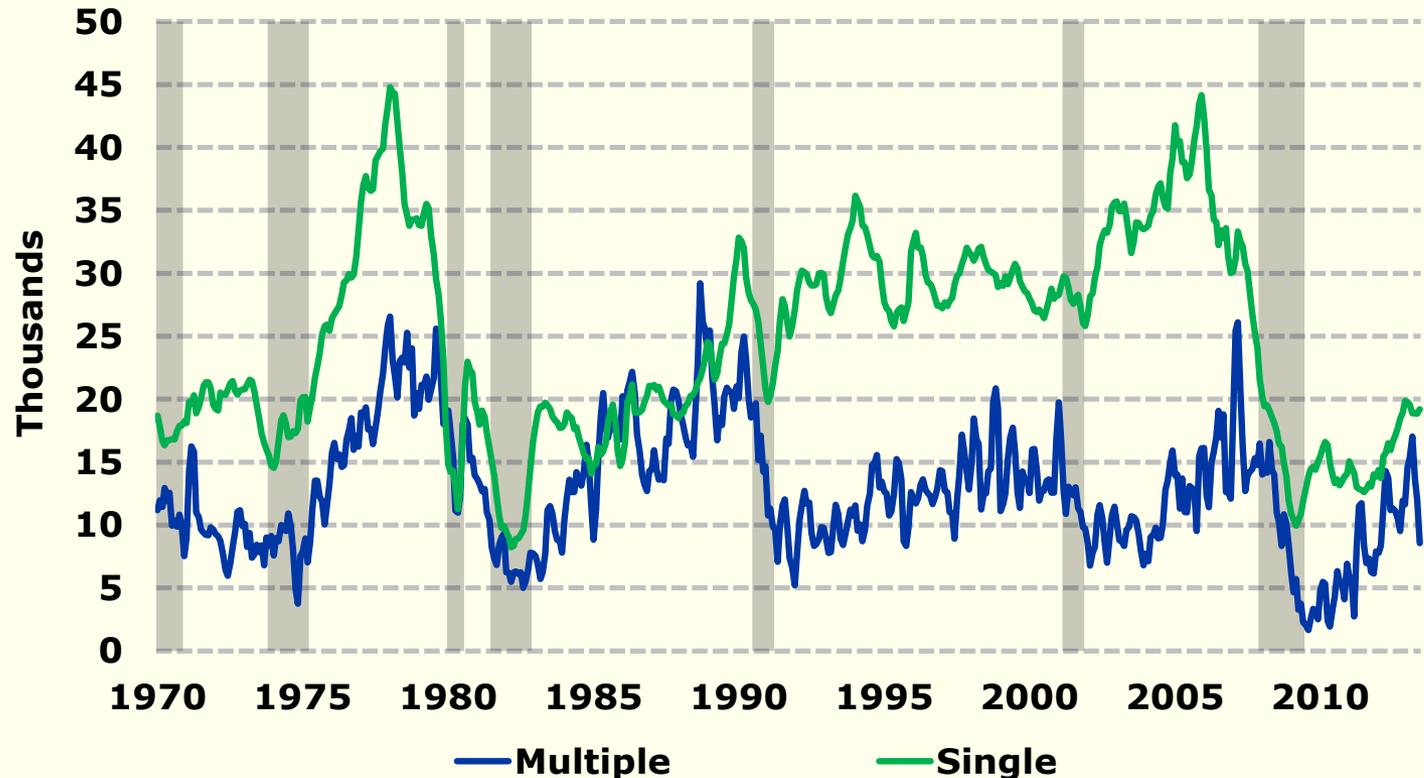


Source: Boeing, data through July 2013



WA building permits are improving

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



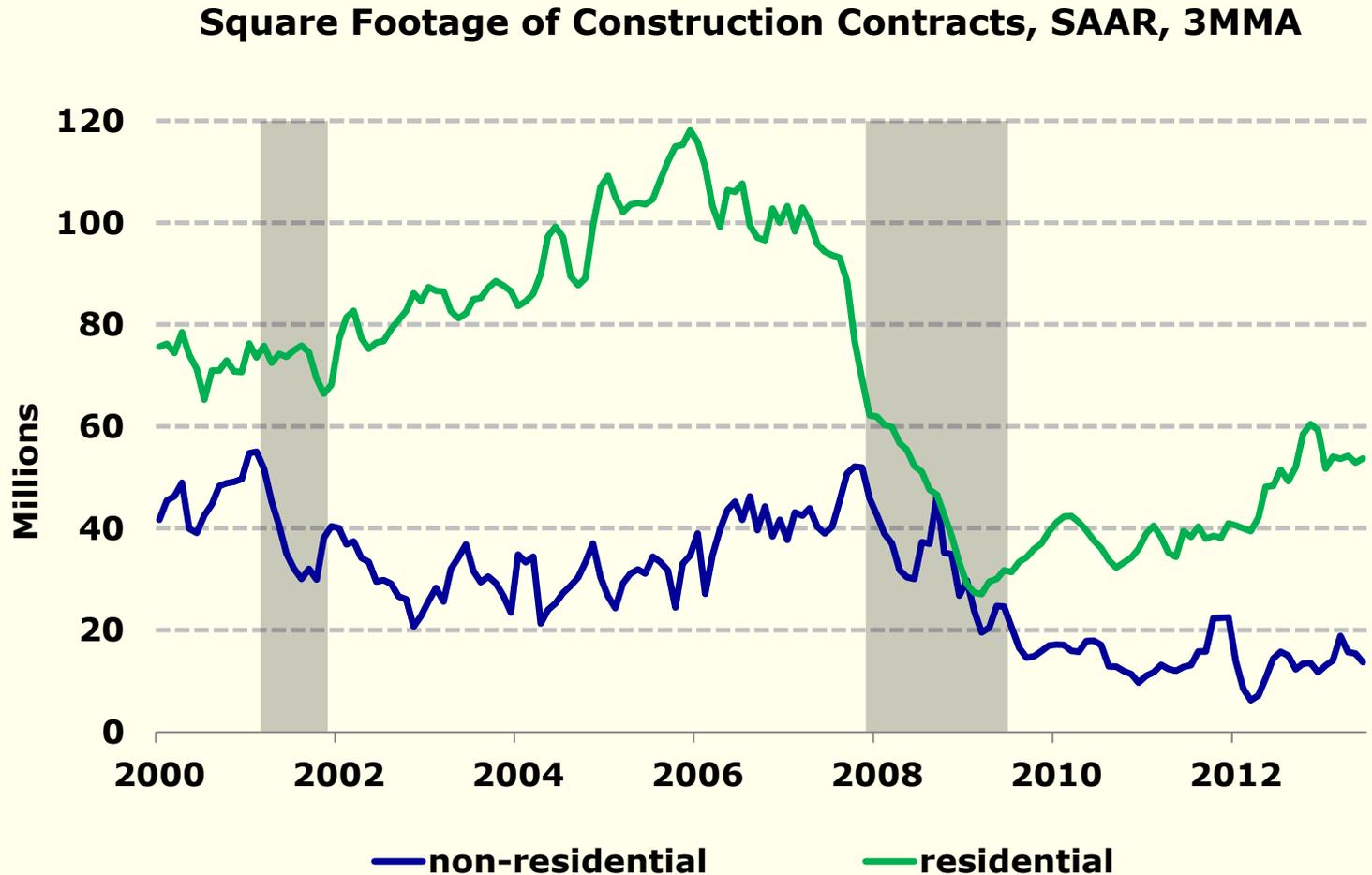
Source: U.S. Census Bureau; data through June 2013



Contract data signal a possible turning point in non-residential construction

Residential square footage is up 11%, and value up 8% year over year (3mma).

Non-Residential square footage is down 5% and value is down 19% year over year (3mma).

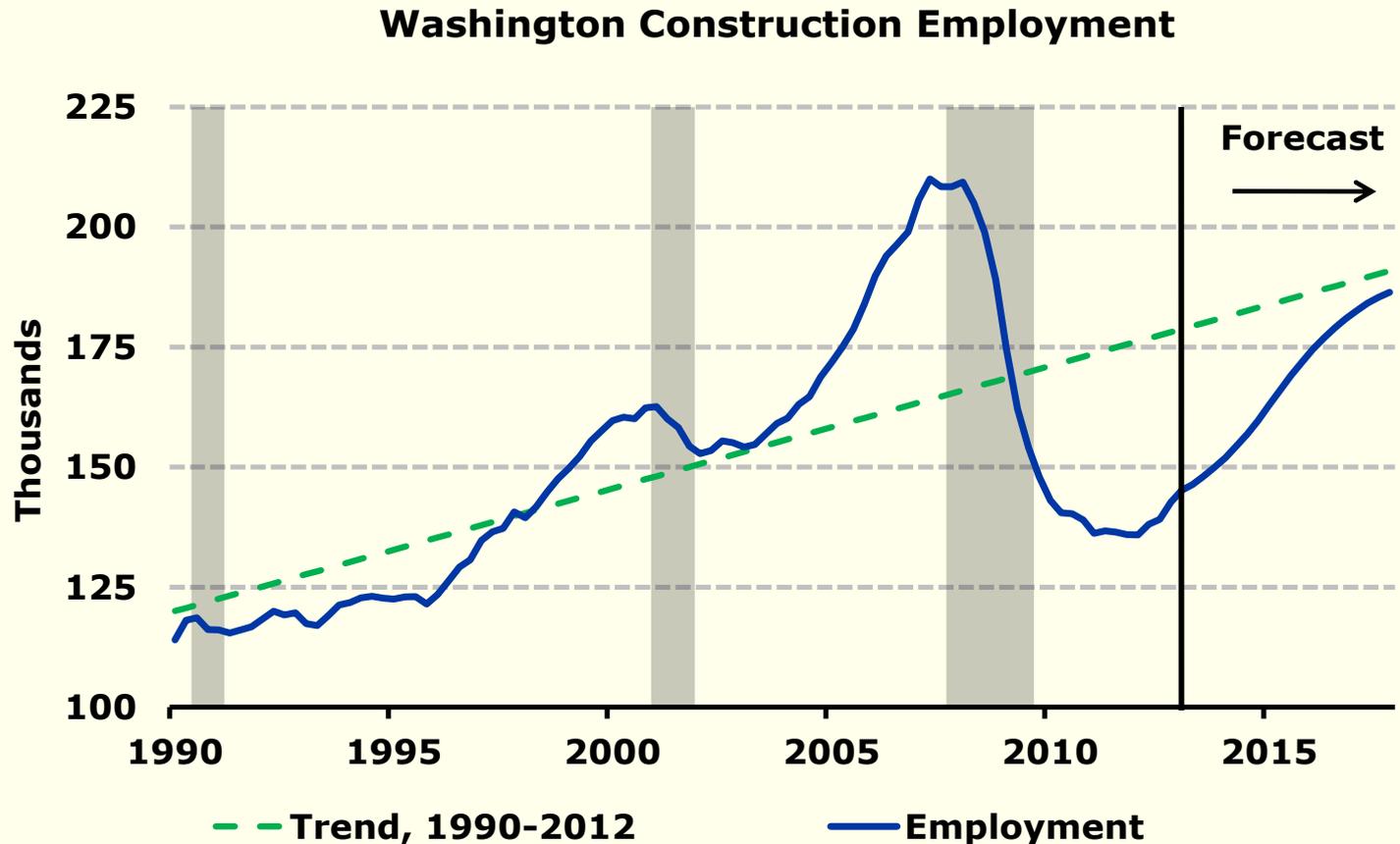


Source: Dodge, ERFC; data through June 2013

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Washington construction employment is recovering

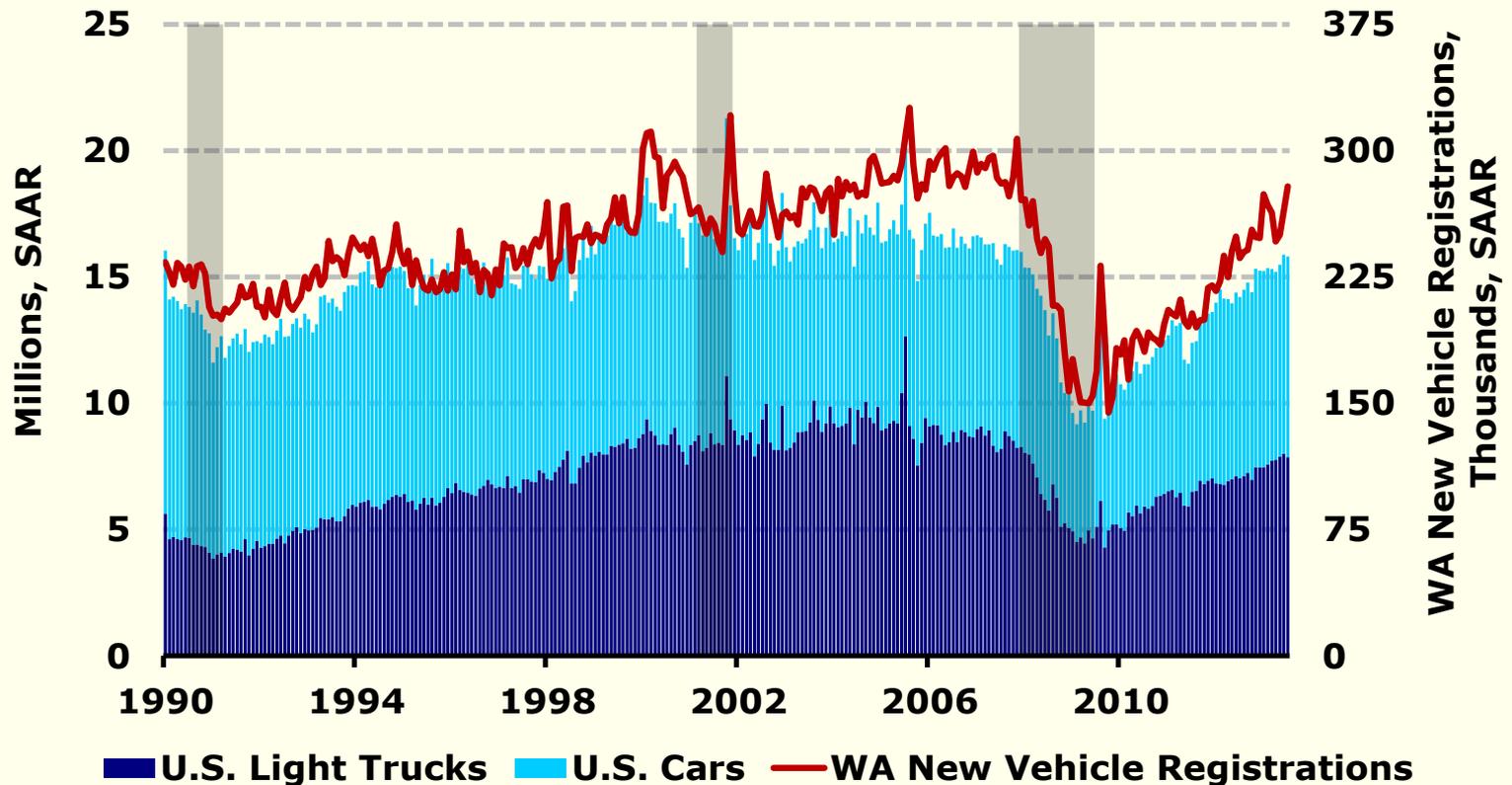


Source: ERFC June 2013 forecast; historical data through 2013Q1



Vehicle sales continue their upward trend

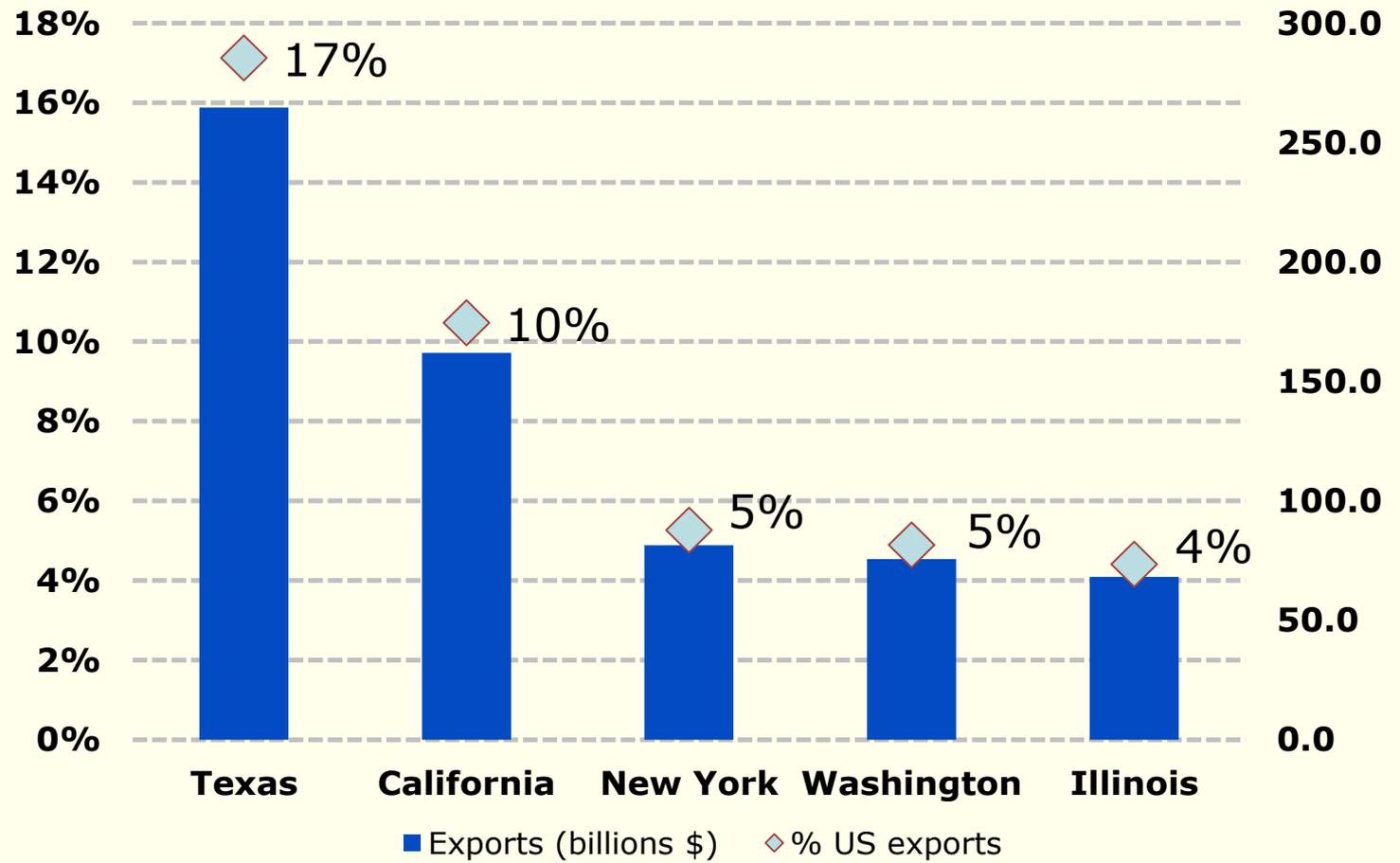
WA new vehicle registrations in July were up 18% year-over-year.



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



Top 5 exporting states, 2012

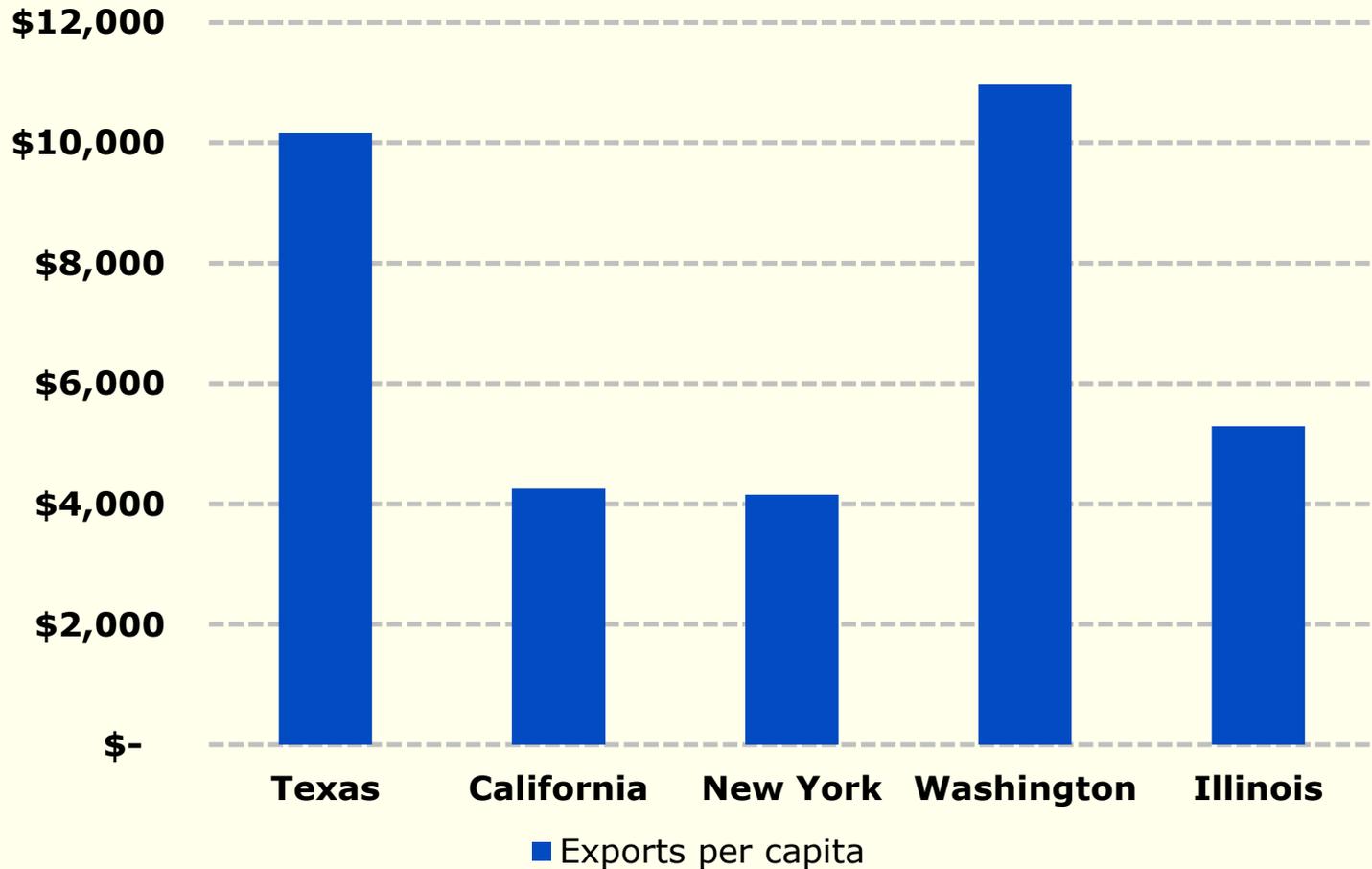


Source: WISER trade data

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Exports per capita, top 5 exporting states (2012)



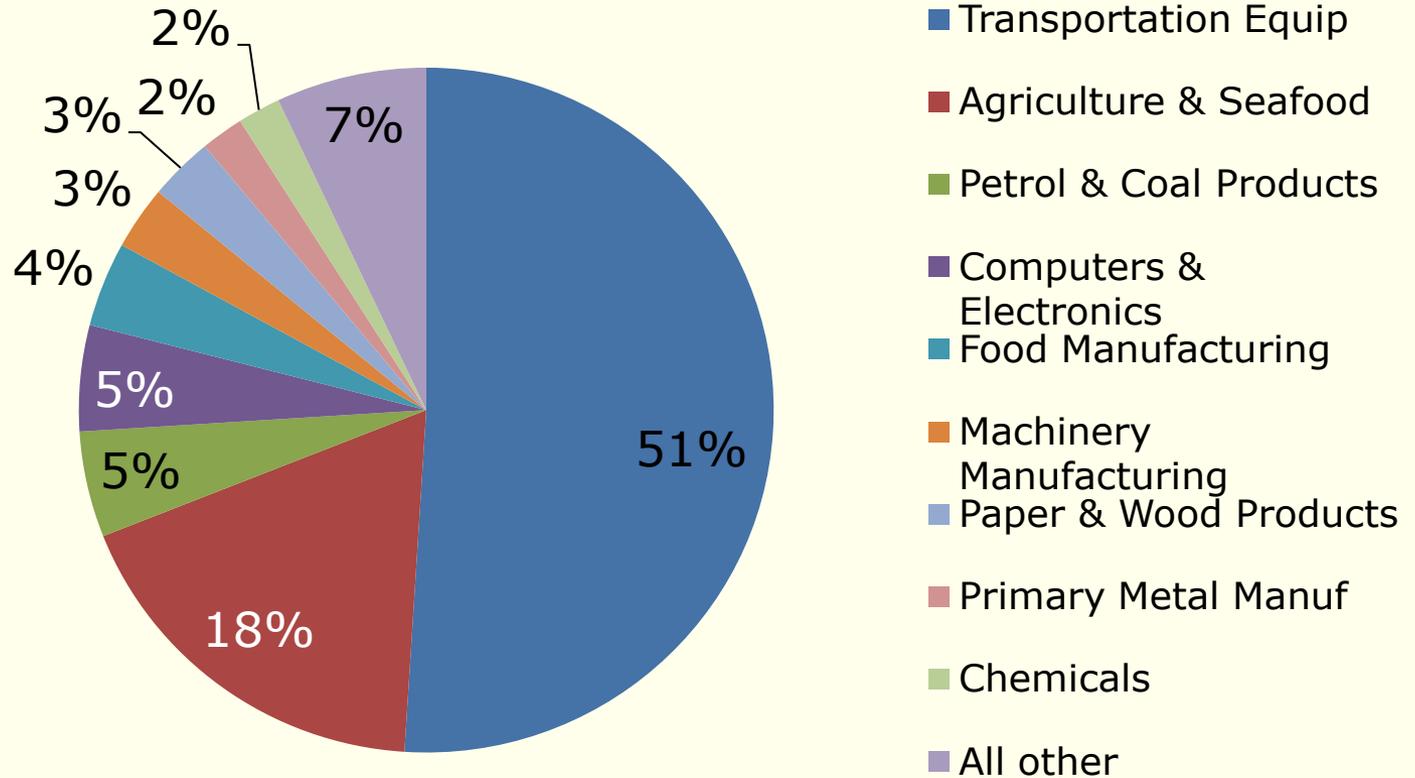
Sources: WISER trade data, U.S. Census

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Washington exports by industry

2012 Exports

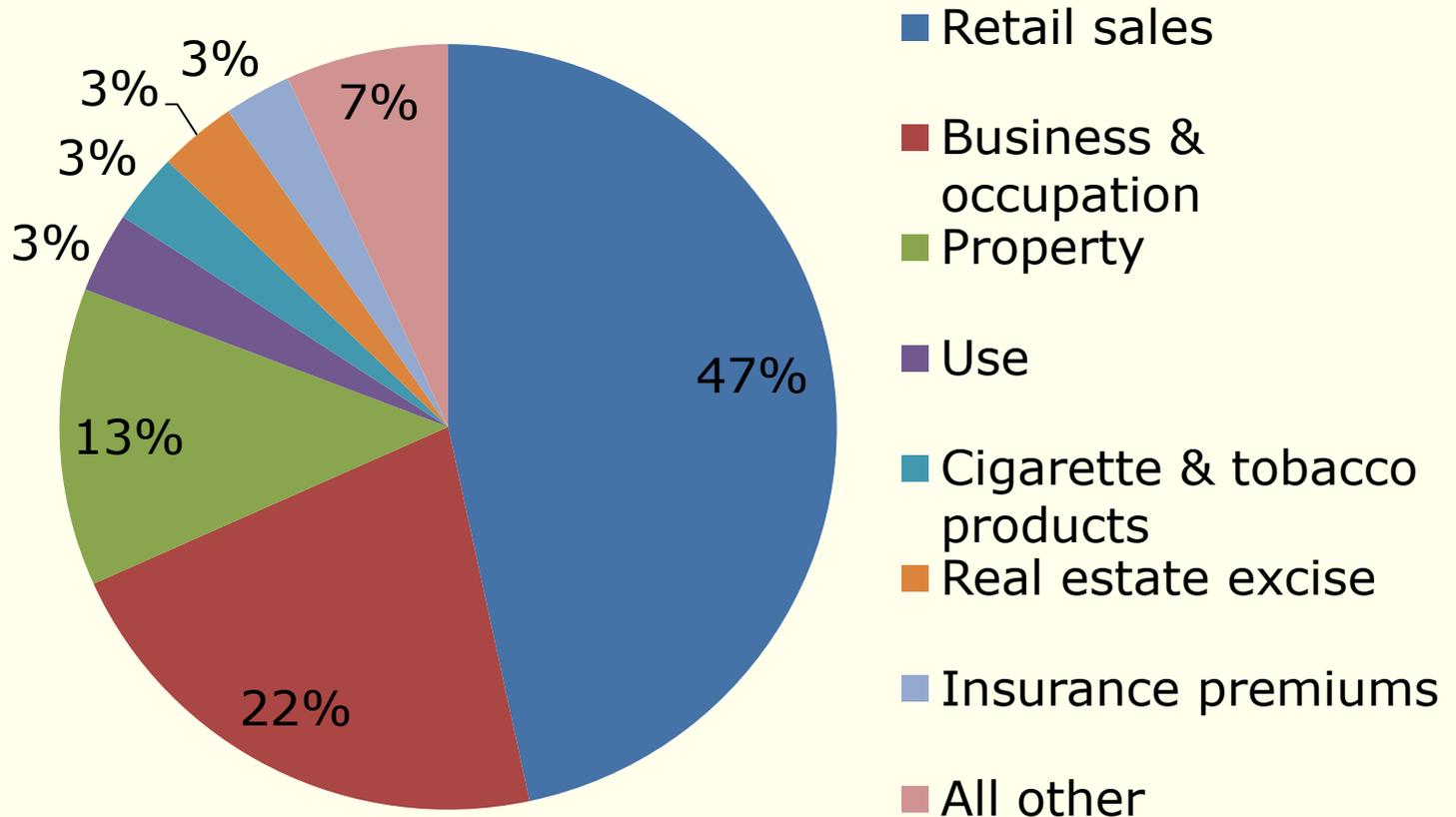


Source: WISER trade data

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General fund revenue sources, FY 2013





Notable tax system features

Retail sales tax:

- Food, most services are exempt
- Construction materials *and* labor taxable
- 6.5% state rate; additional local rates up to 3%

Business and occupations tax:

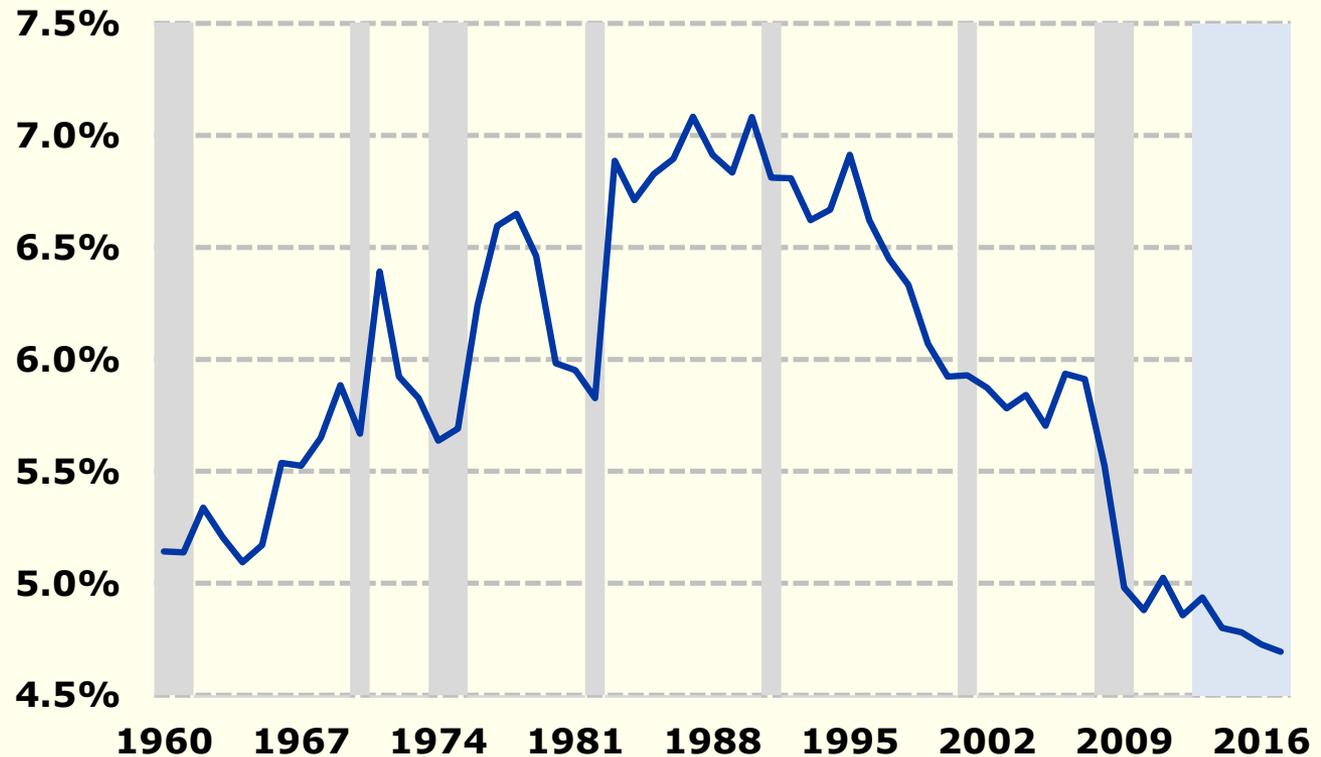
- Gross receipts subject to tax with few exemptions
- Rates range from 0.471% (retail) to 1.5% (services) for most businesses

Property tax:

- 1% maximum growth plus new construction



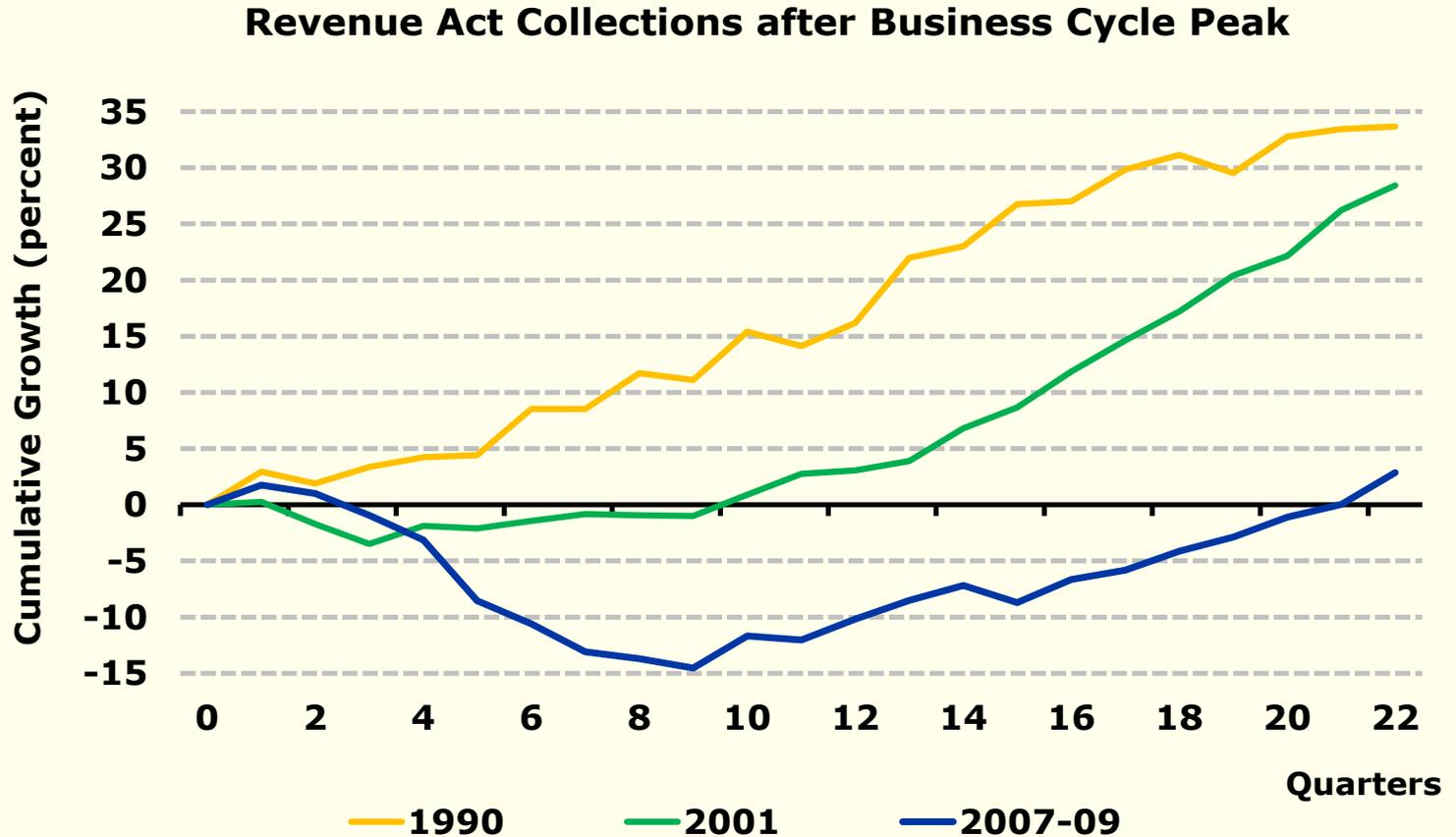
General Fund-State Revenue as Percentage of Personal Income





Revenue collections have been weak compared to past recoveries

Revenue Act collections have now exceeded their previous peak reached in Q1 2008

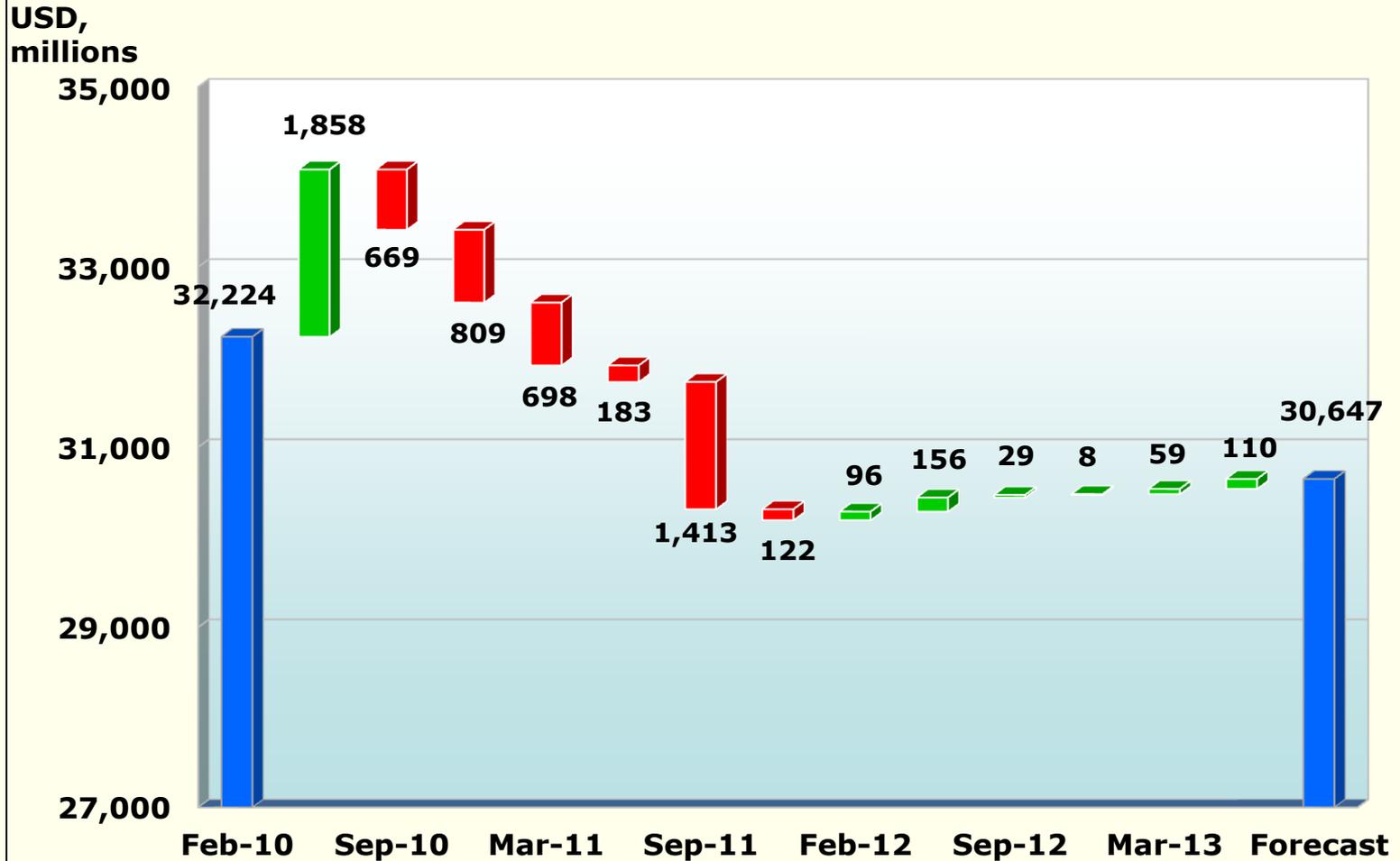


Source: ERFC; data through 2013 Q1 activity



Forecast revisions to the 2011-13 biennium

GF-S
New
Definition



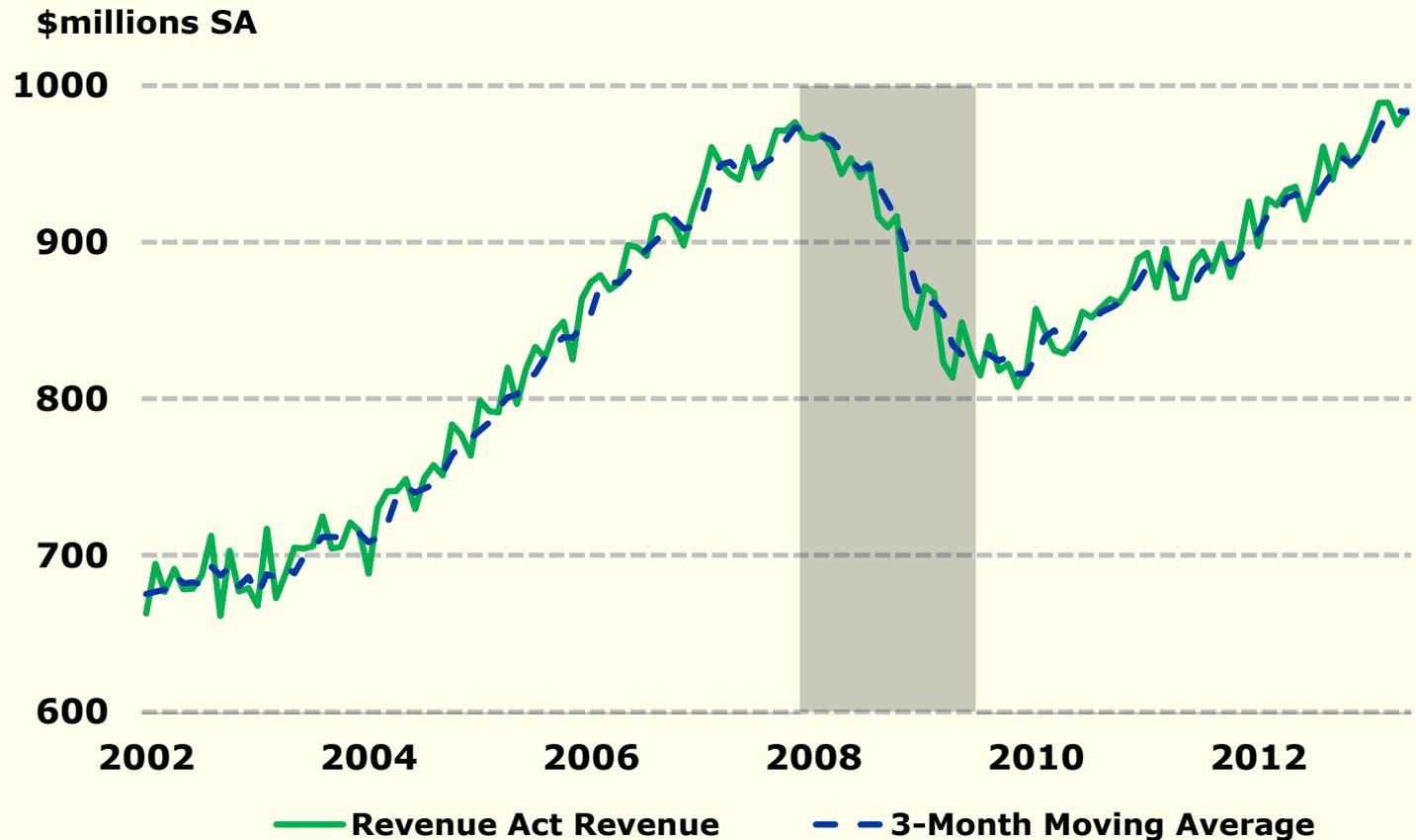
Source: ERFC June 2013 forecast

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Revenue Act collections are still on an upward trend

Collections were up 7.1% year-over-year for first quarter 2013 activity (February 11, 2013–May 10, 2013 collections)



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

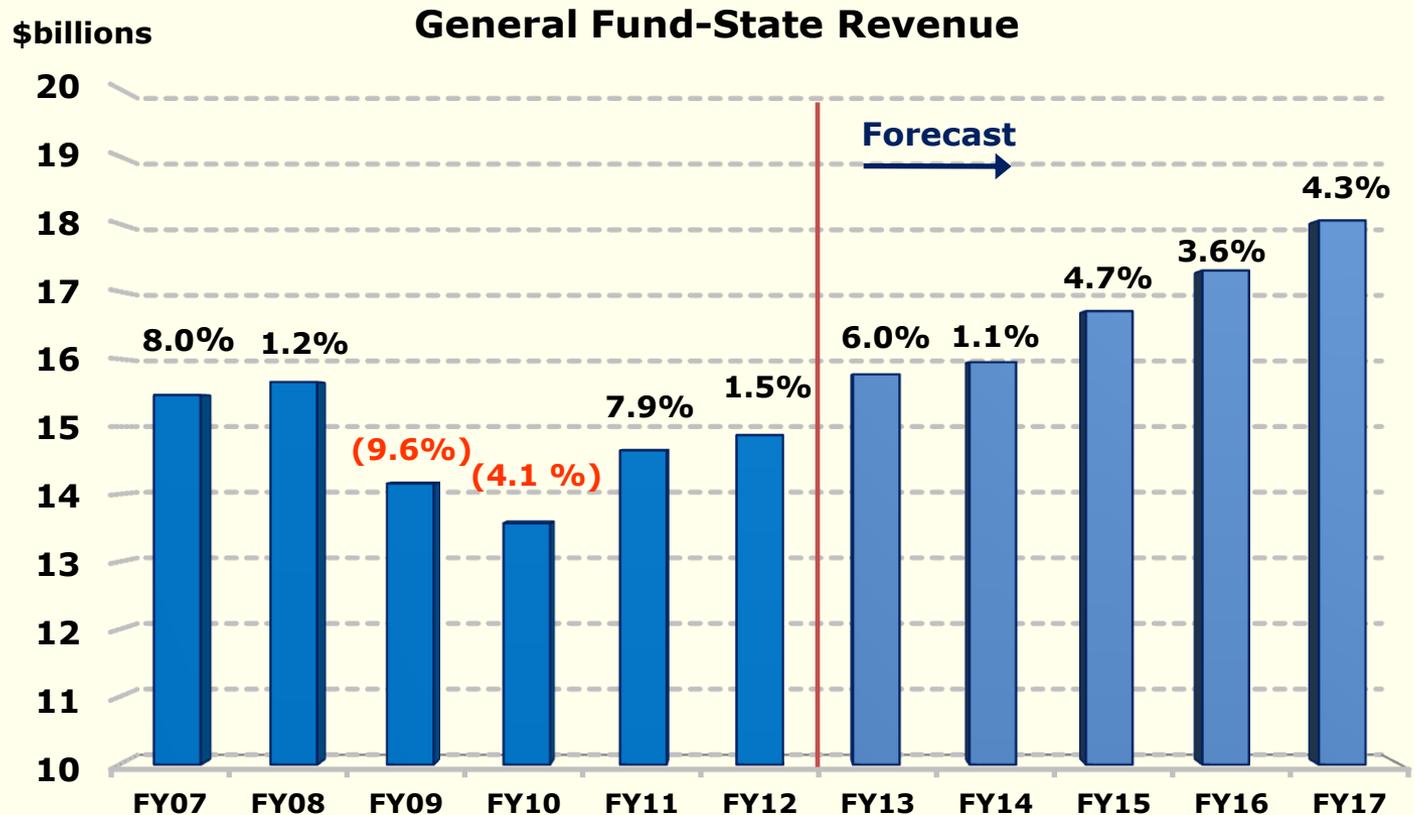
Source: DOR and ERFC; monthly data through estimated May 2013 activity

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General Fund* forecast by fiscal year

FY 2011 revenues were boosted by the tax amnesty program and one-time transfers of non-GF-S funds into the GF-S

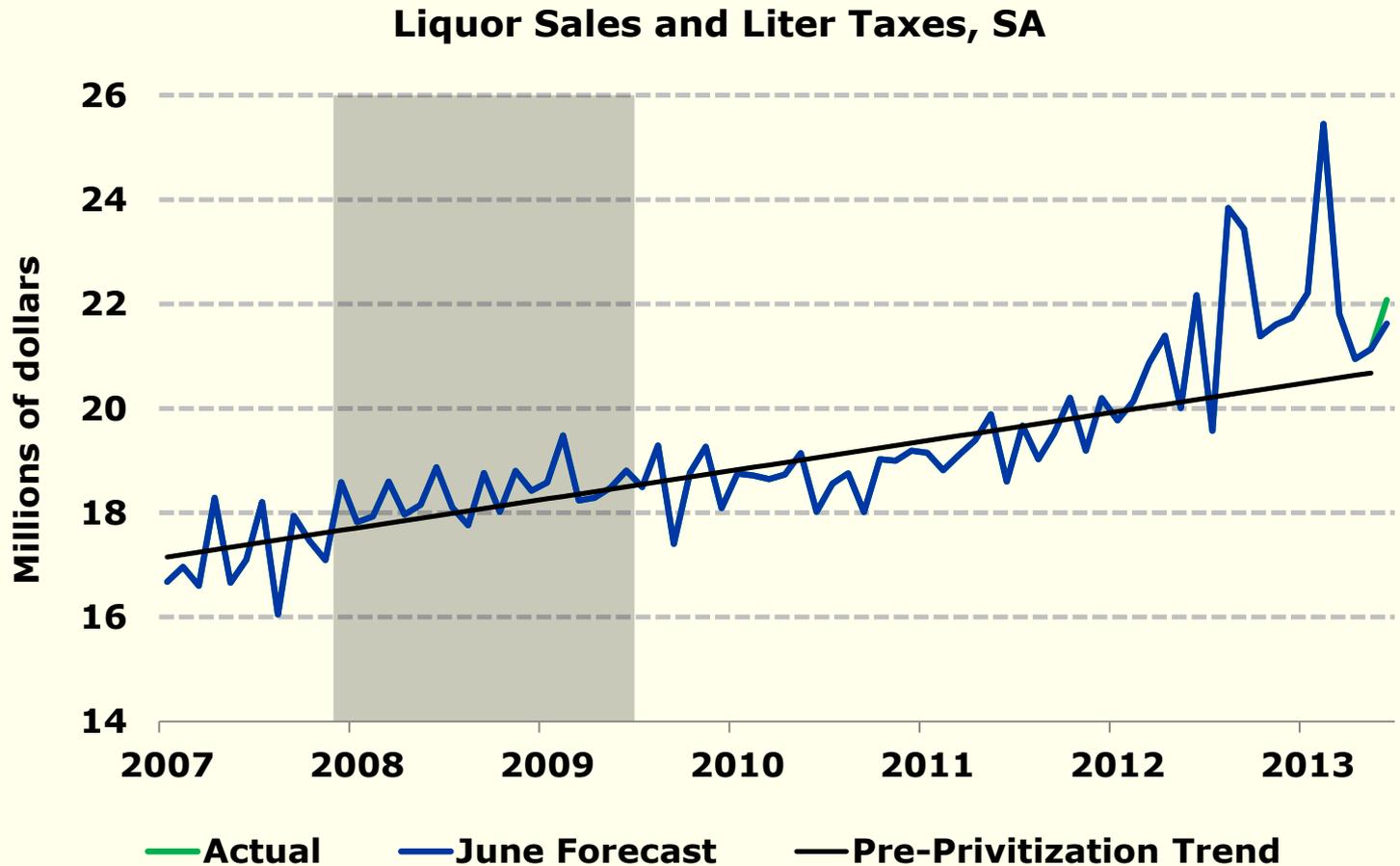


*General Fund & Related Funds for FY 07-09, General Fund – new definition for FY 10-17
Source: ERFC forecast, June 2013



Revenue for liquor sales has been volatile recently

Revenue was \$0.6 million (2.6%) above the June forecast



Source: DOR, ERFC; data through June 2013

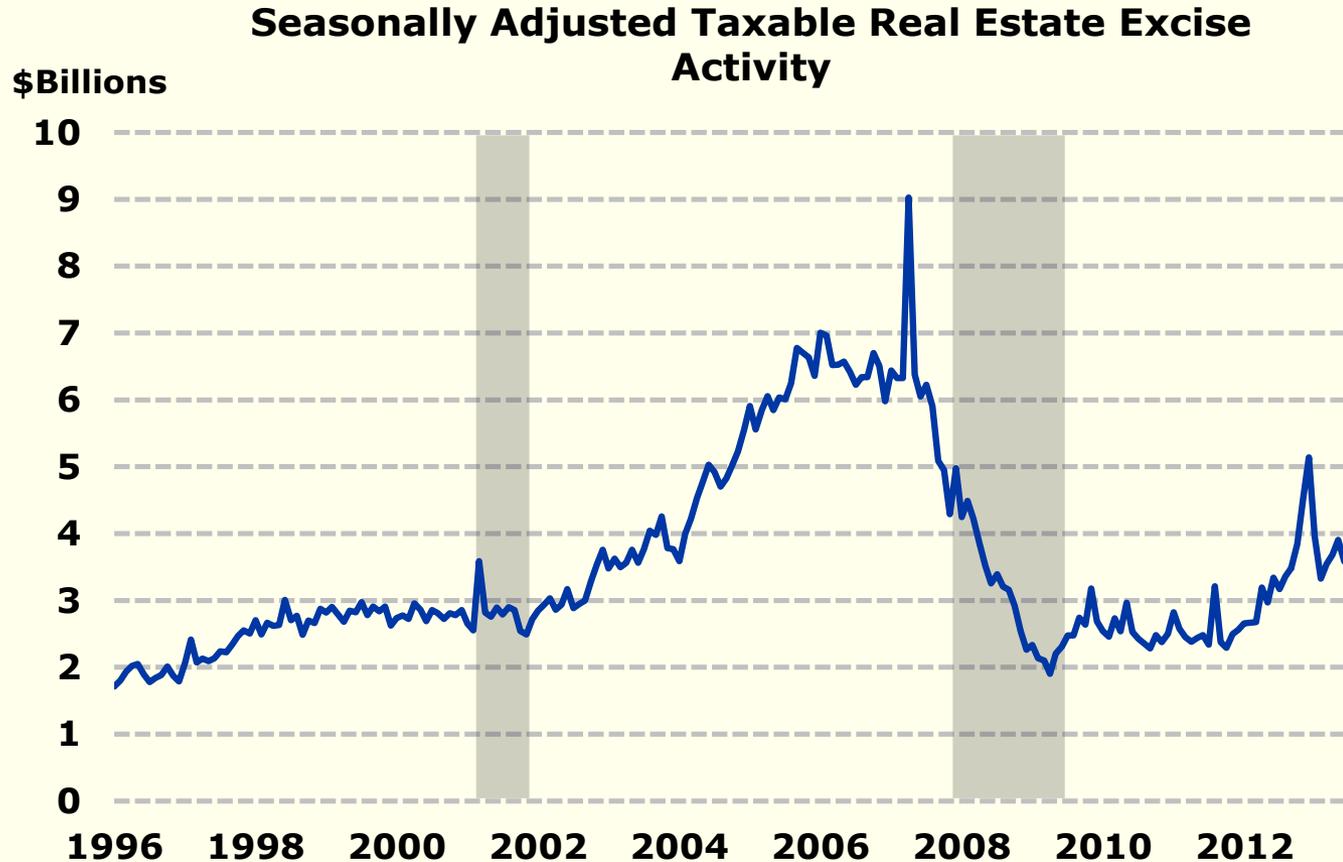
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REET still showing growth after end of year rush

2012 real estate sales were elevated due to the incentive to claim capital gains before taxes increased in 2013, with a particularly large rush at the end of the year.

Sales since the rush have been stronger than expected but a current shortage of houses for sale might limit short-term growth.



Source: ERFC; Monthly data through June 2013 preliminary



Conclusion

- The state's economy continues to grow at a slow but steady pace but has lower unemployment and higher income growth than the U.S as a whole
- Over the next several years, Washington is expected to slightly outperform the U.S. economy
- Positives include housing and construction, auto sales, and software; aerospace and non-education government employment continue to contract
- Revenue growth is expected to continue at a slow but steady pace consistent with economic activity