

Economic Outlook Risks and State Revenue Update

Presented to
The Rainier Club

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February 7, 2013
Seattle, Washington



WASHINGTON STATE
ECONOMIC AND REVENUE FORECAST COUNCIL

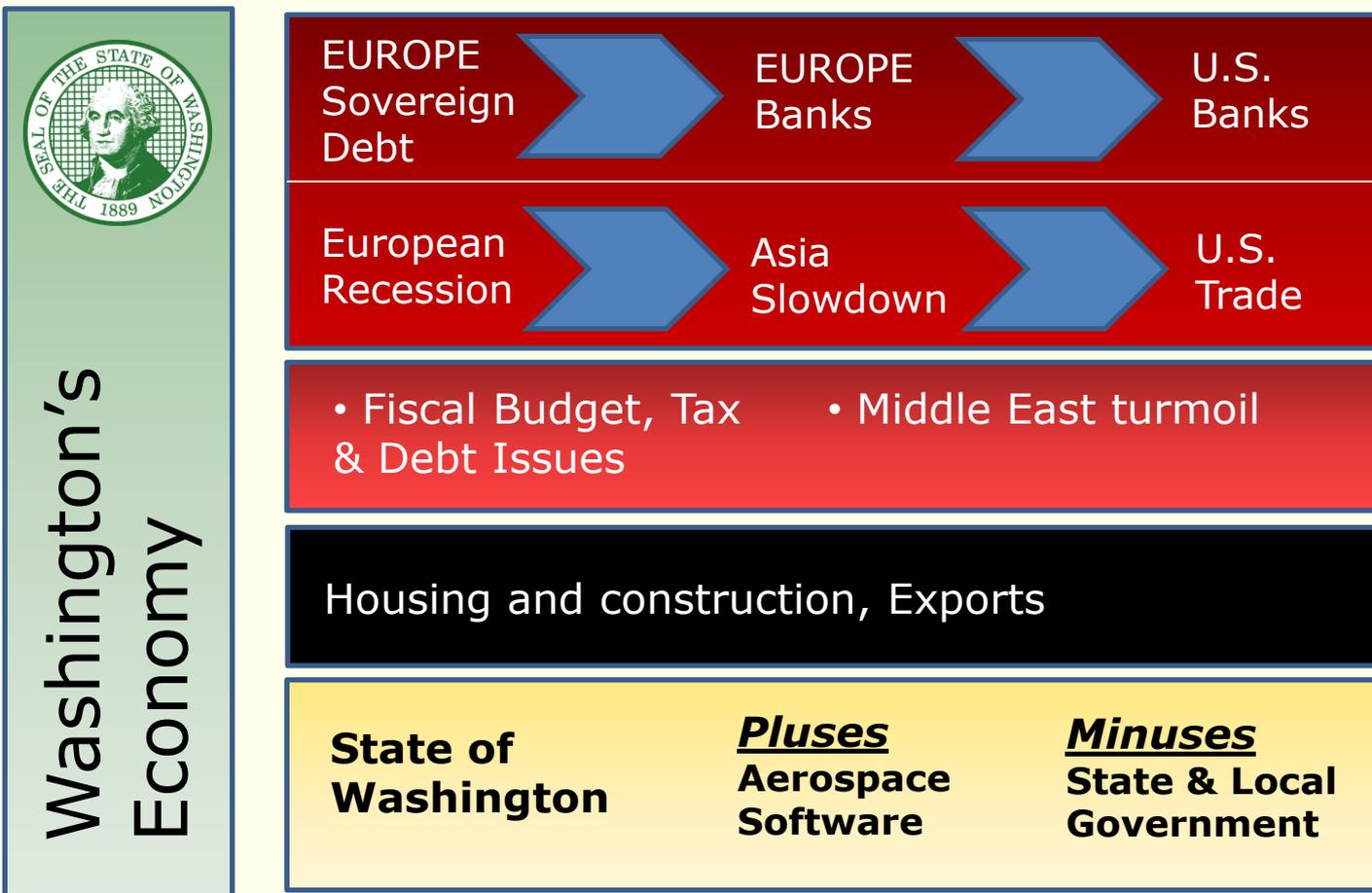


Summary

- Both the U.S. and Washington economies continue to grow slowly
- Labor markets remain weak, but unemployment rates are slowing declining
- Uncertainty in the baseline remains very high, mostly due to on-going concerns about federal government gridlock, Europe, and China
- We continue to expect the Washington economy to grow slightly faster than the U.S.



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



Source: ERFC

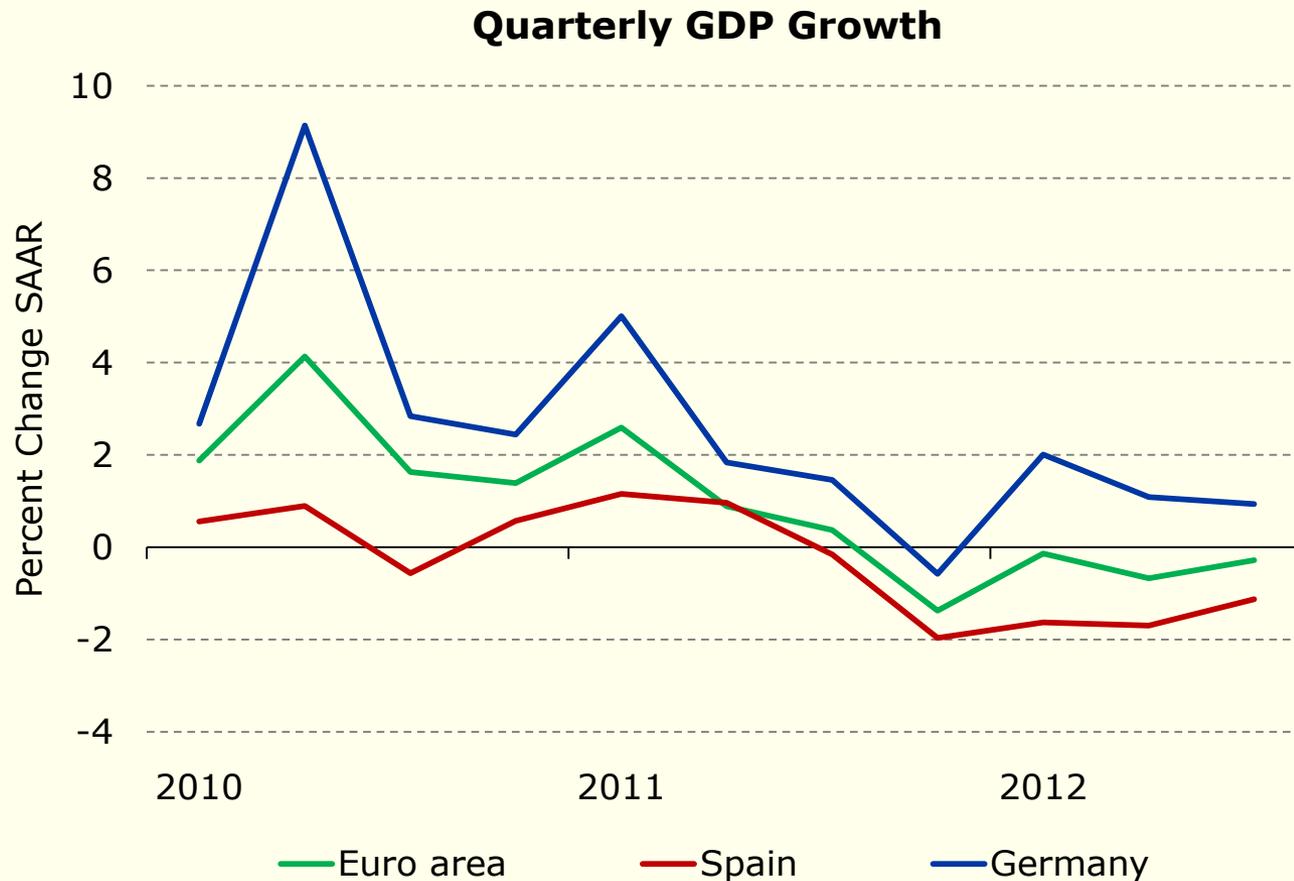


Euro area GDP growth is negative

Eurozone
Forecast:

2013: 0.0%

2014: 0.9%



Source: Eurostat; data through 2012Q3

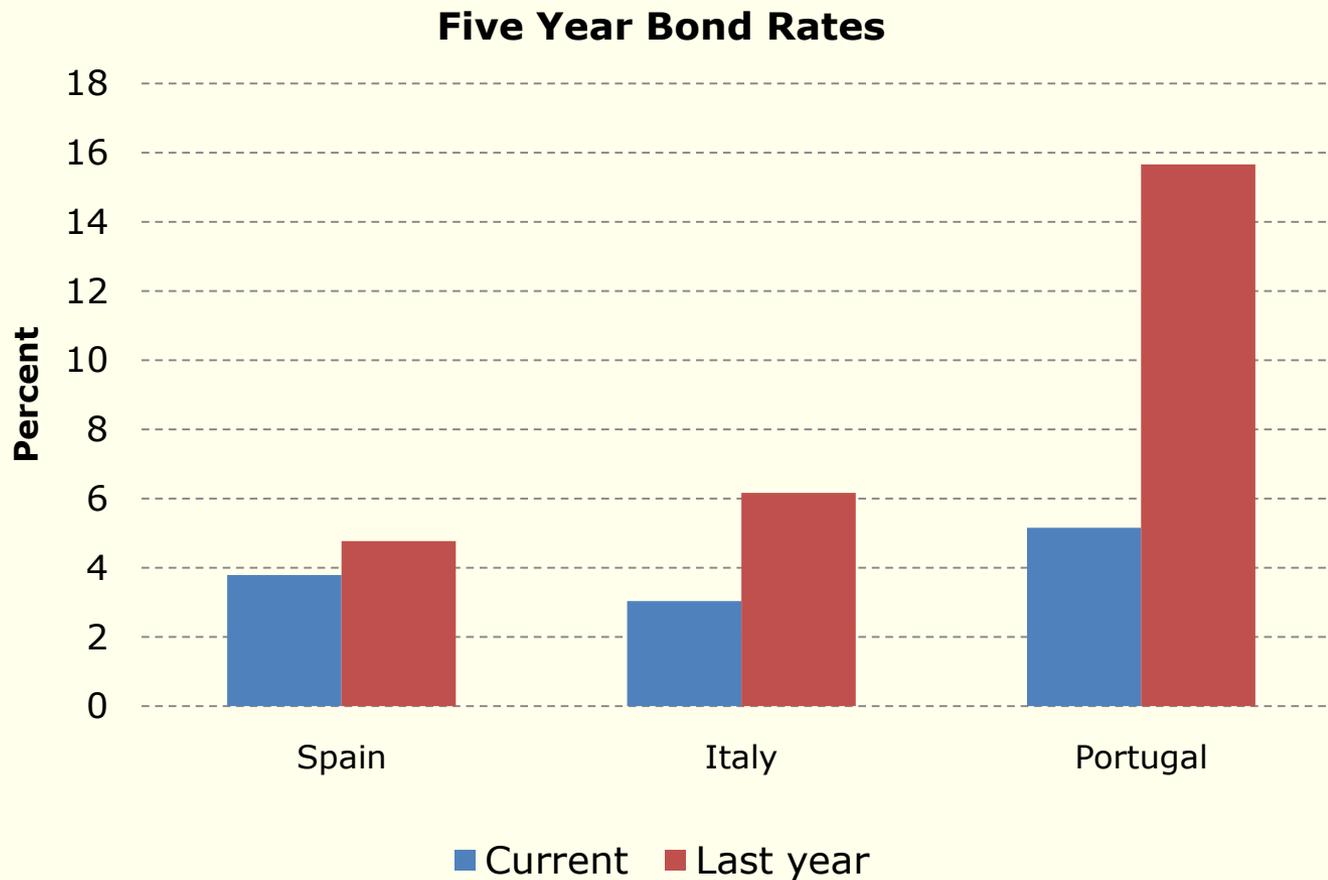
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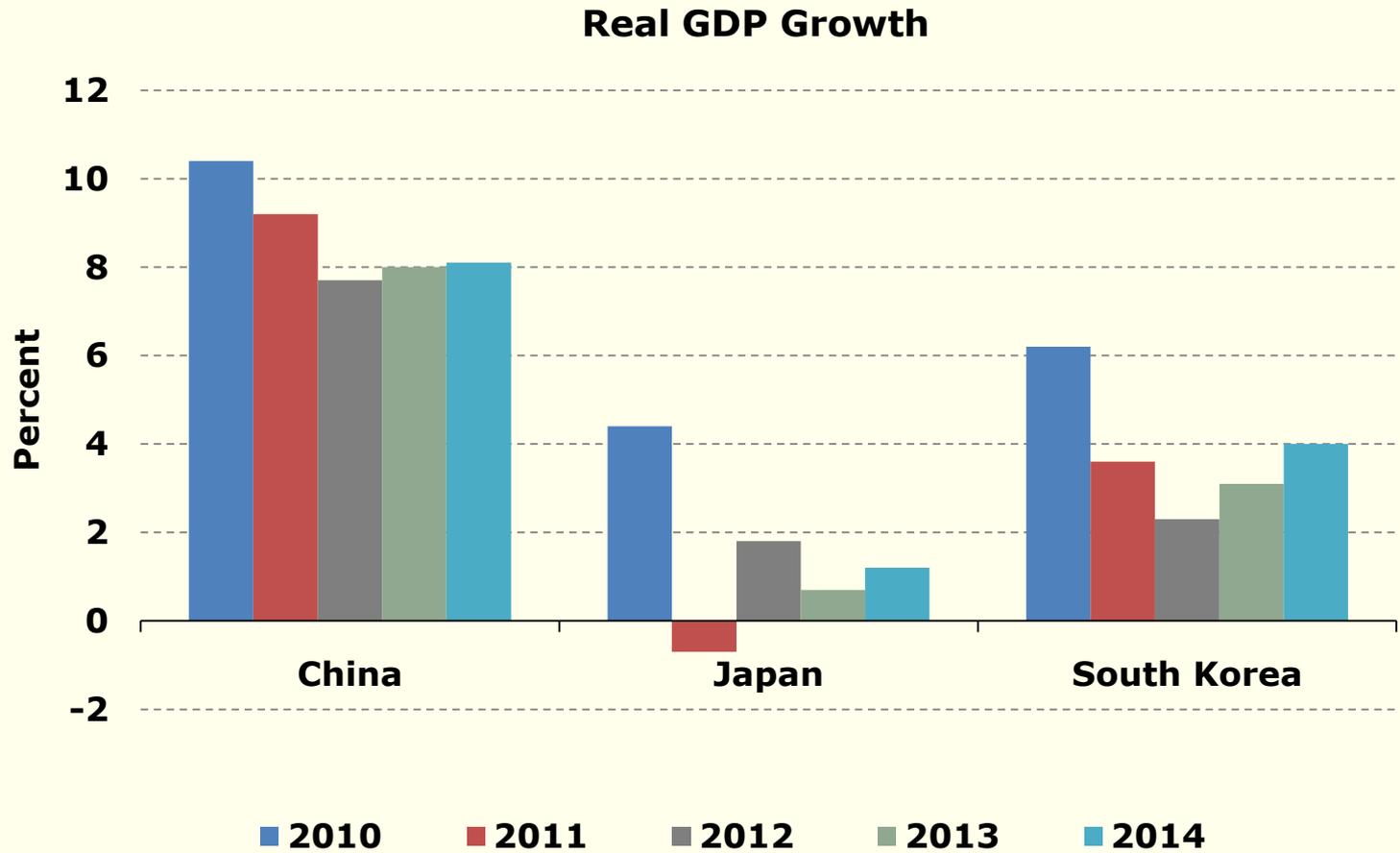


Bond Markets Signal Improved Confidence in Eurozone





Asian economic growth has slowed but appears to be improving



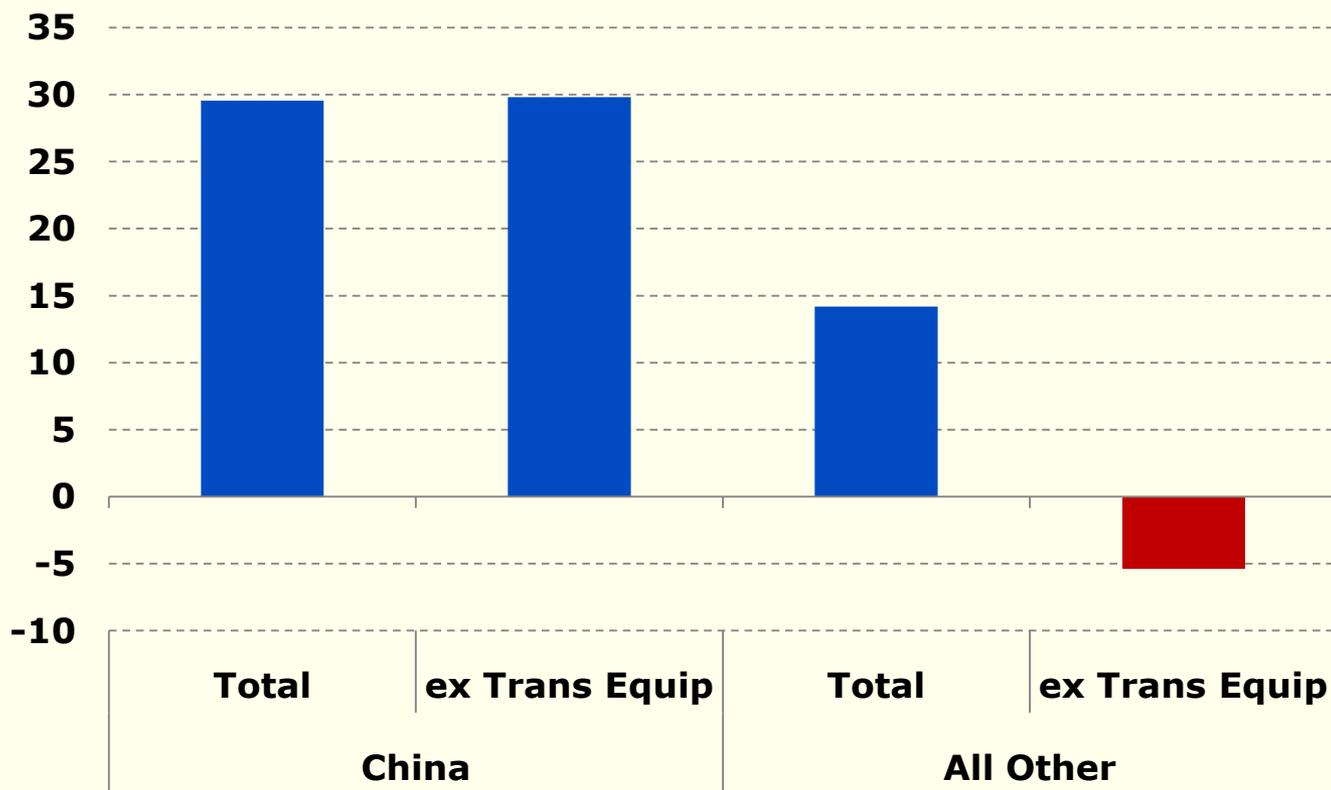
Source: Blue Chip Economic Indicators January 2013, historical data through 2011

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Non Transportation Equipment exports outside of China are declining

Washington Exports YTD % Change

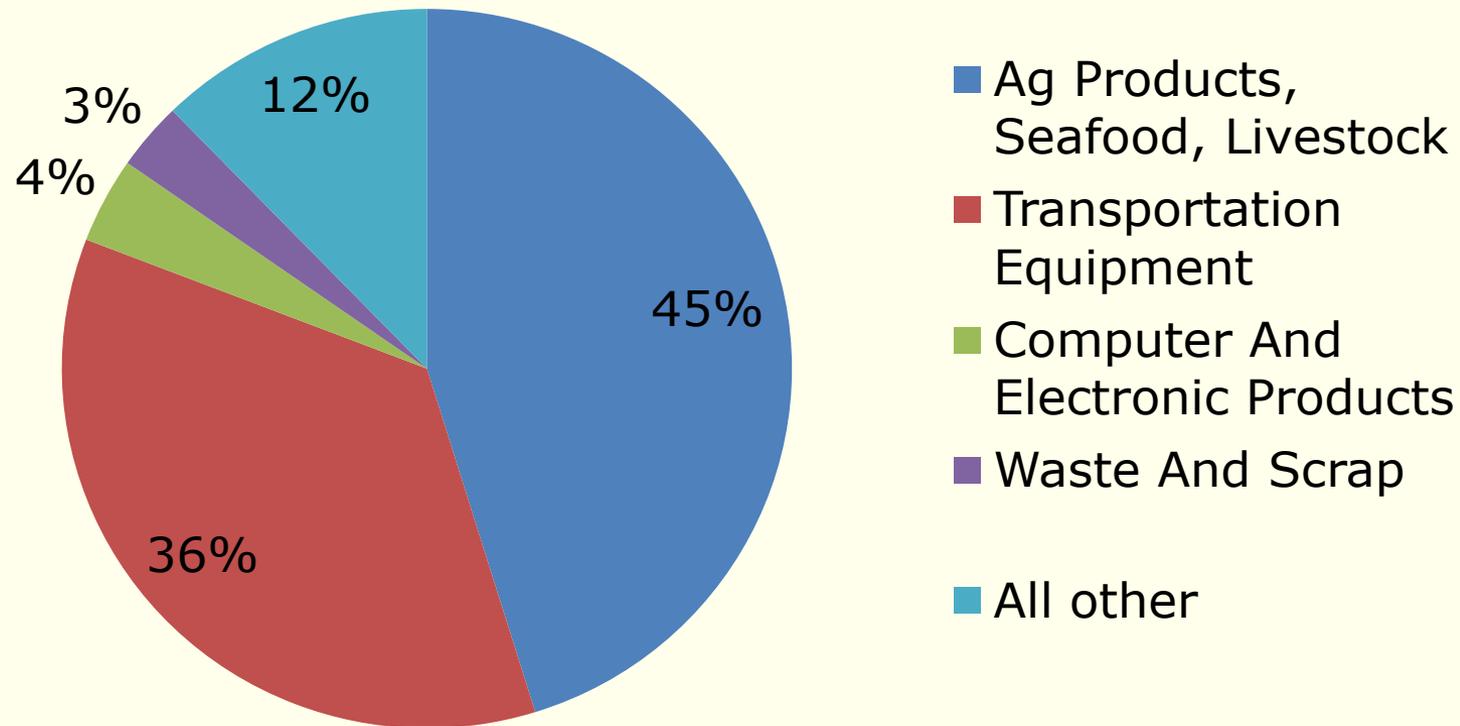


Source: Wiser Trade Data; through October 2012



Agricultural products and transportation equipment are top WA exports to China

YTD Agricultural exports to China are up 73%



Source: WISER Trade Data; data through October 2012

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Federal budget and tax issues

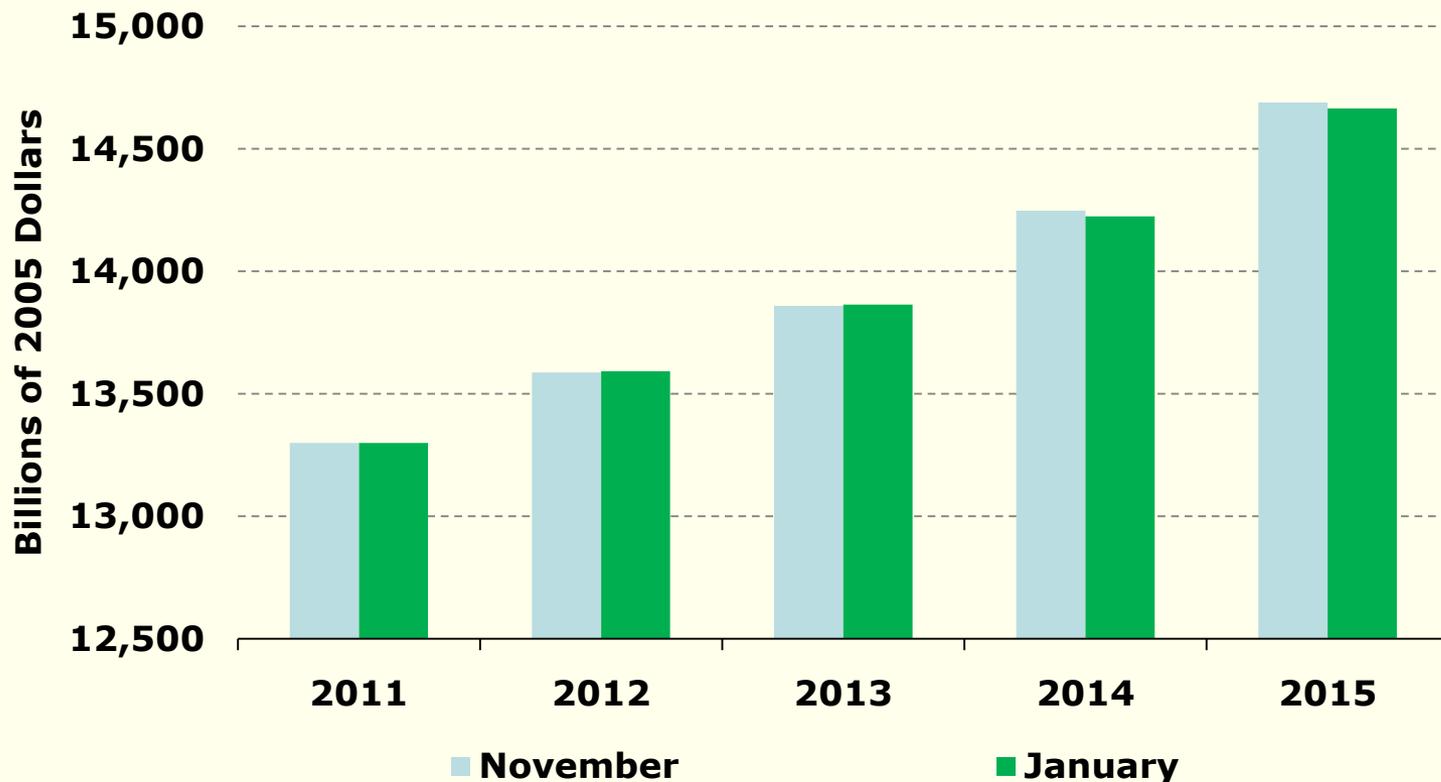
Fiscal cliff avoided but...

- Payroll tax increased on all workers
- Sequestration (across-the-board budget cuts) only delayed for two months
- Debt ceiling suspended, but only until May 18th
- Additional tax increases and/or budget cuts still possible
- Uncertainty tends to negatively impact hiring, investment, and purchasing decisions



U.S. GDP Forecast Slightly Lower

Blue Chip Consensus Real GDP forecast

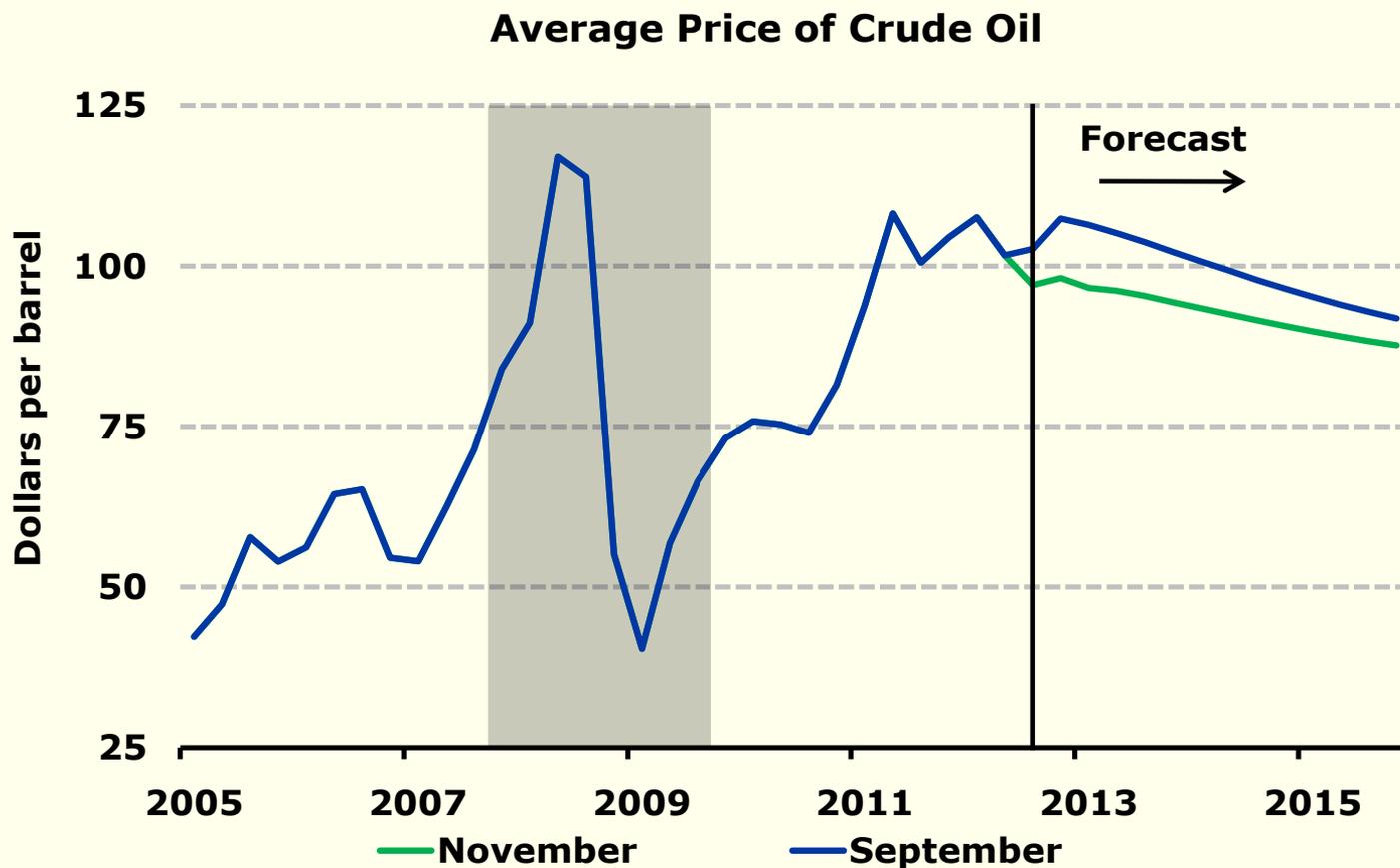


Source: BEA, Blue Chip Economic Indicators January 2013; historical data through 2011

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Oil prices are expected to decline



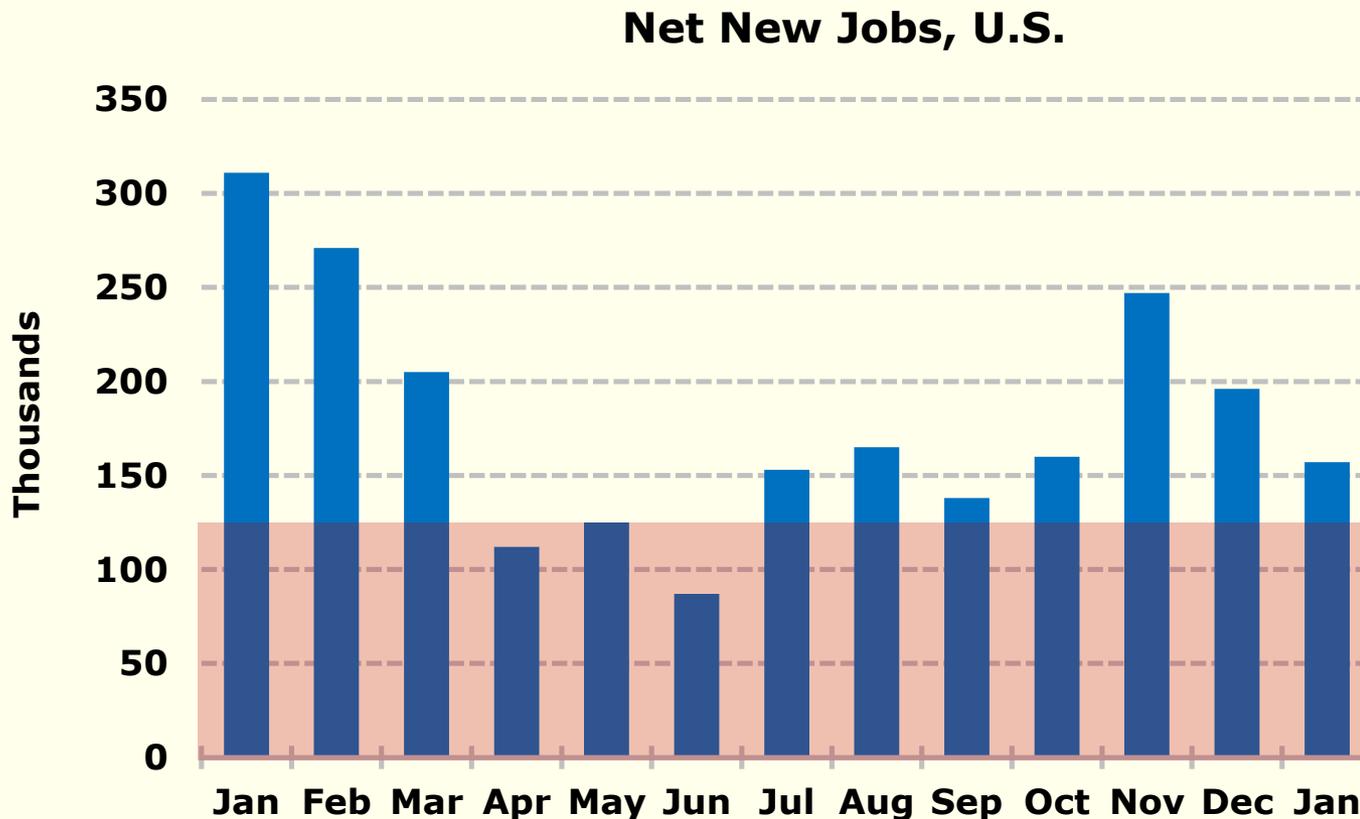
Source: DOE, ERFC November 2012 forecast; historical data through 2012Q3

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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



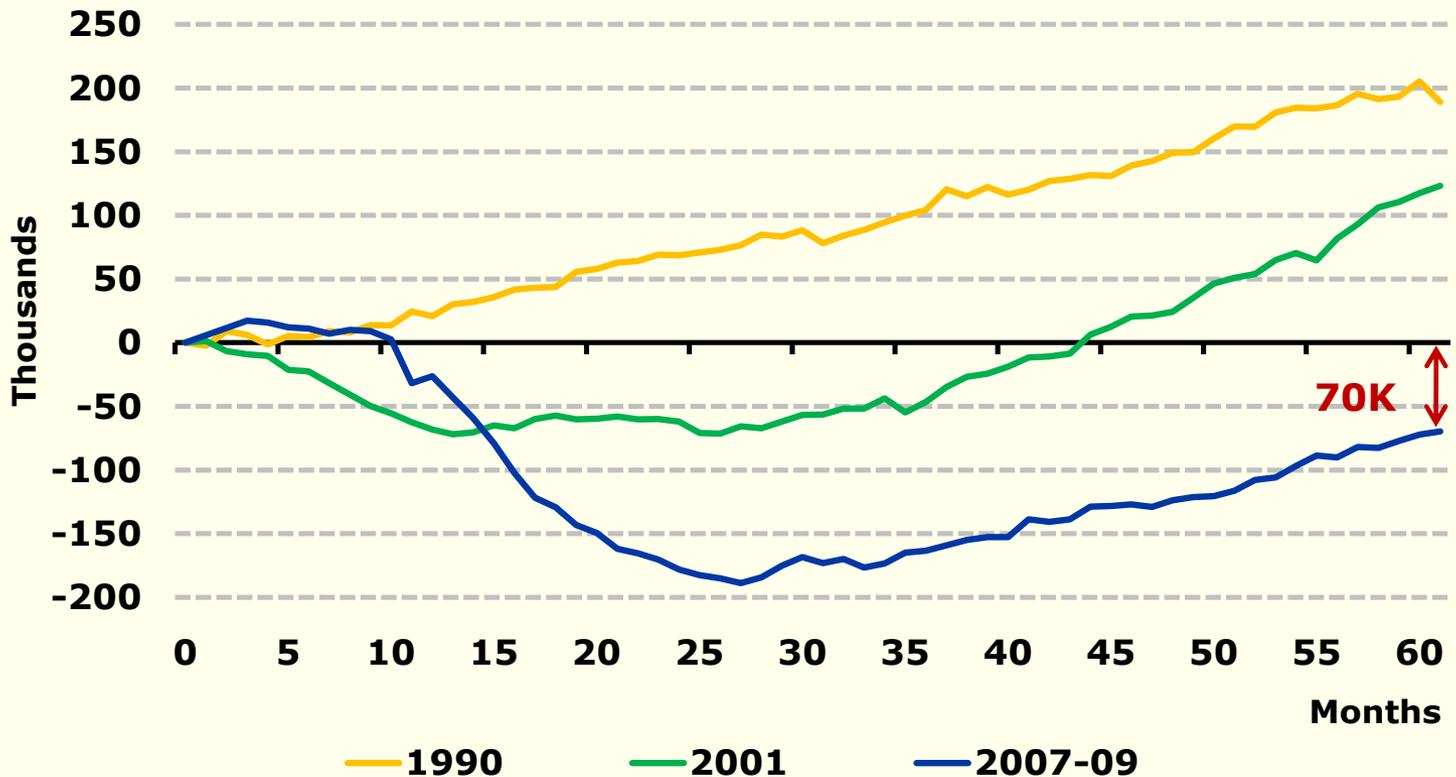
Source: Bureau of Labor Statistics, data through January 2013

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The decline in employment has been severe

Washington Employment after Business Cycle Peak



Source: WA ESD, ERFC; data through December 2012

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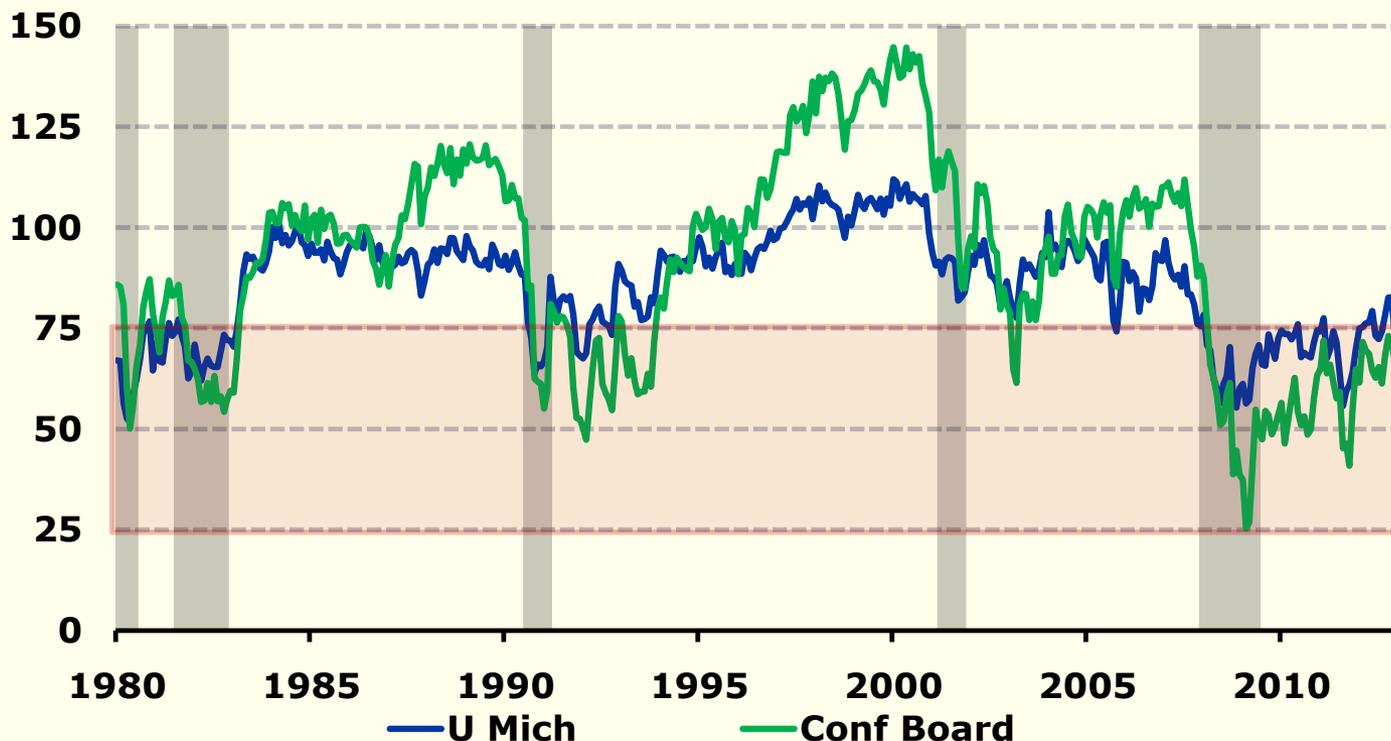


Consumer confidence dipped at the end of the year

Index

Mich: 1966Q1 = 100, SA

Conf Board: 1985 = 100, SA



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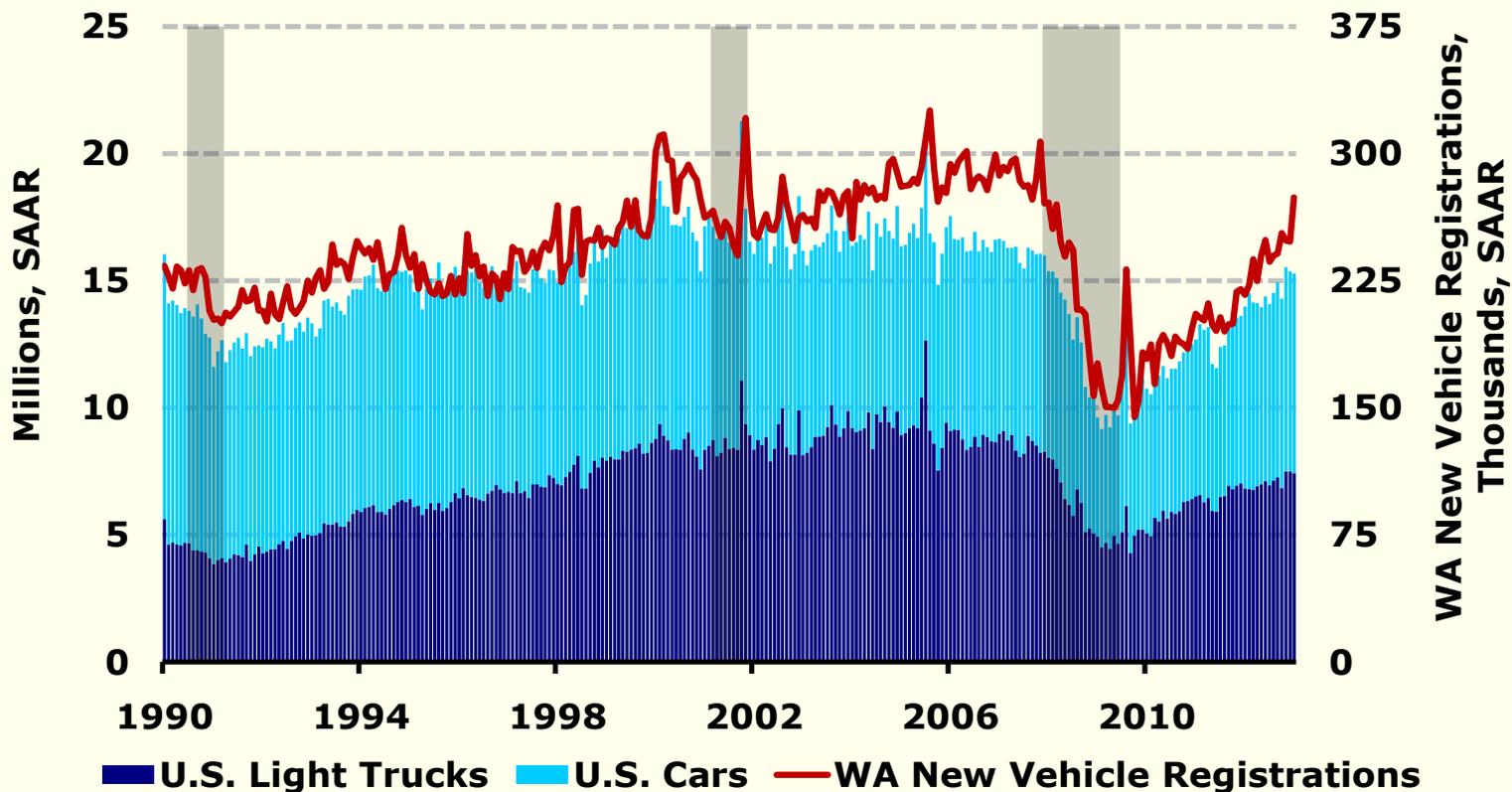
Source: University of Michigan; Conference Board, data through January 2013

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Vehicle sales continue their upward trend

U.S. LMV sales in December were up 9% year-over-year.



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

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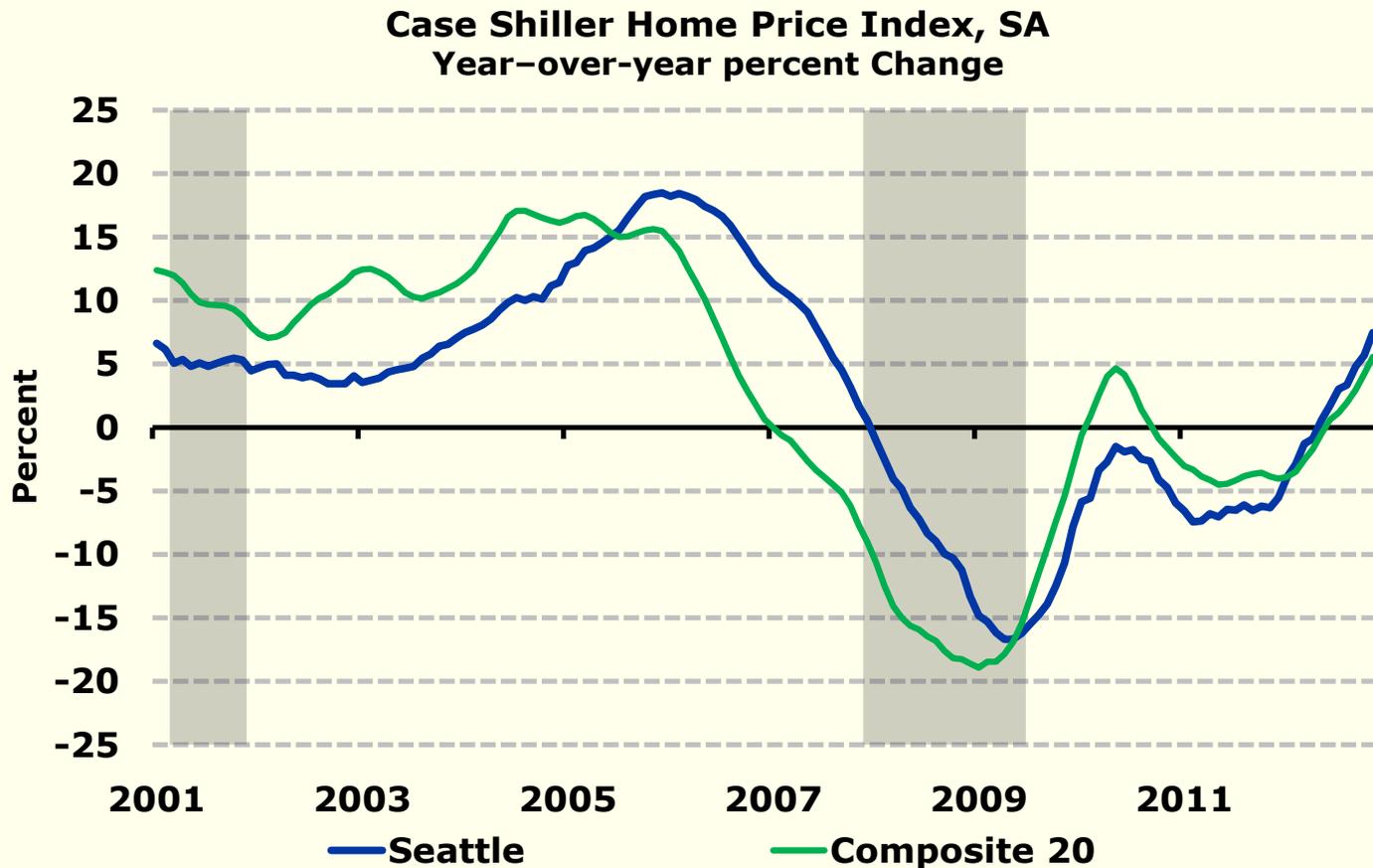


Single-family home prices are beginning to increase

Nov 2012

U.S. is up 5.6%

Seattle is up 7.5%



Source: S&P/Case-Shiller; data through November 2012

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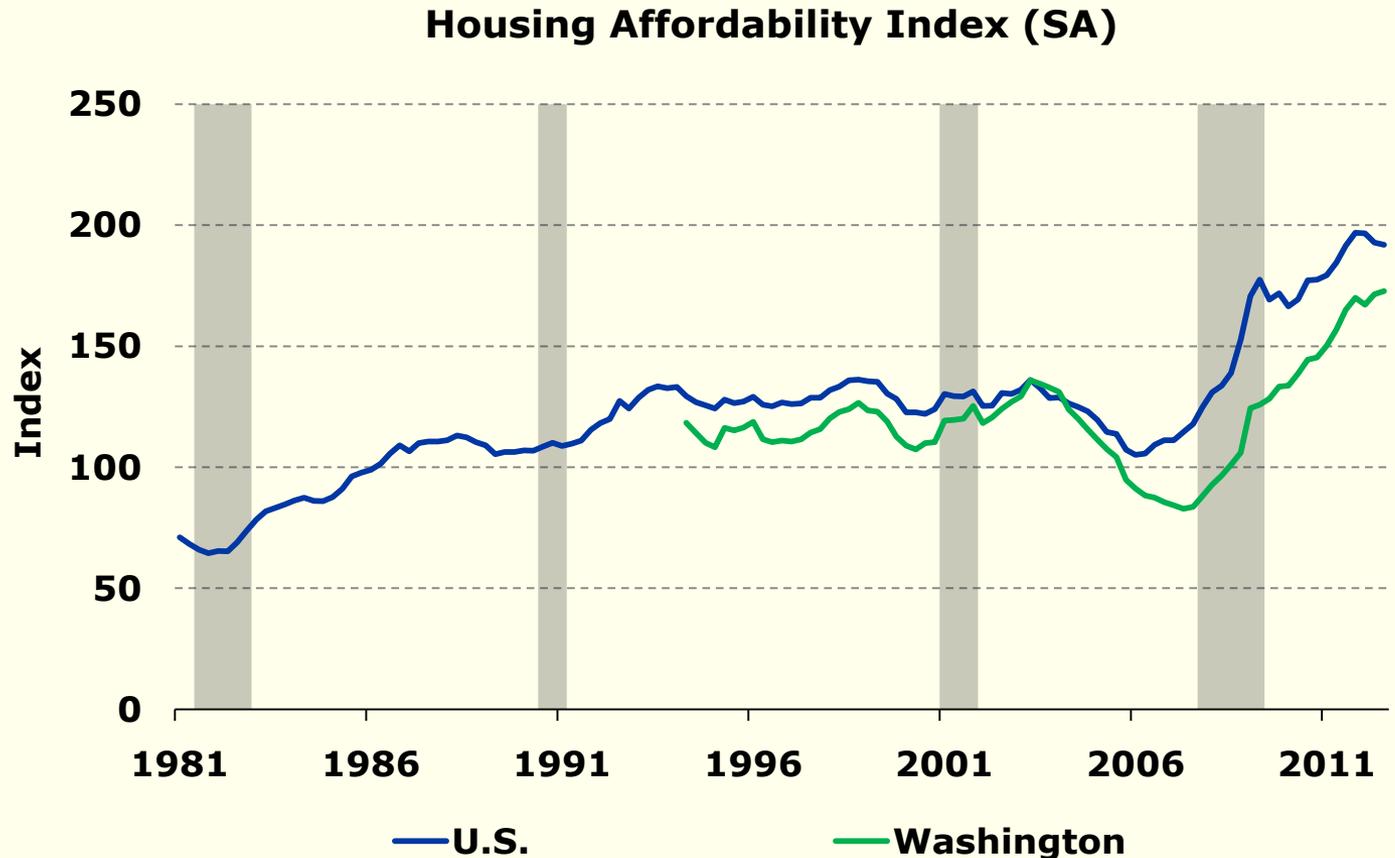


Home affordability remains in record territory

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 Q3

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

Washington Housing Permits per 1,000 People

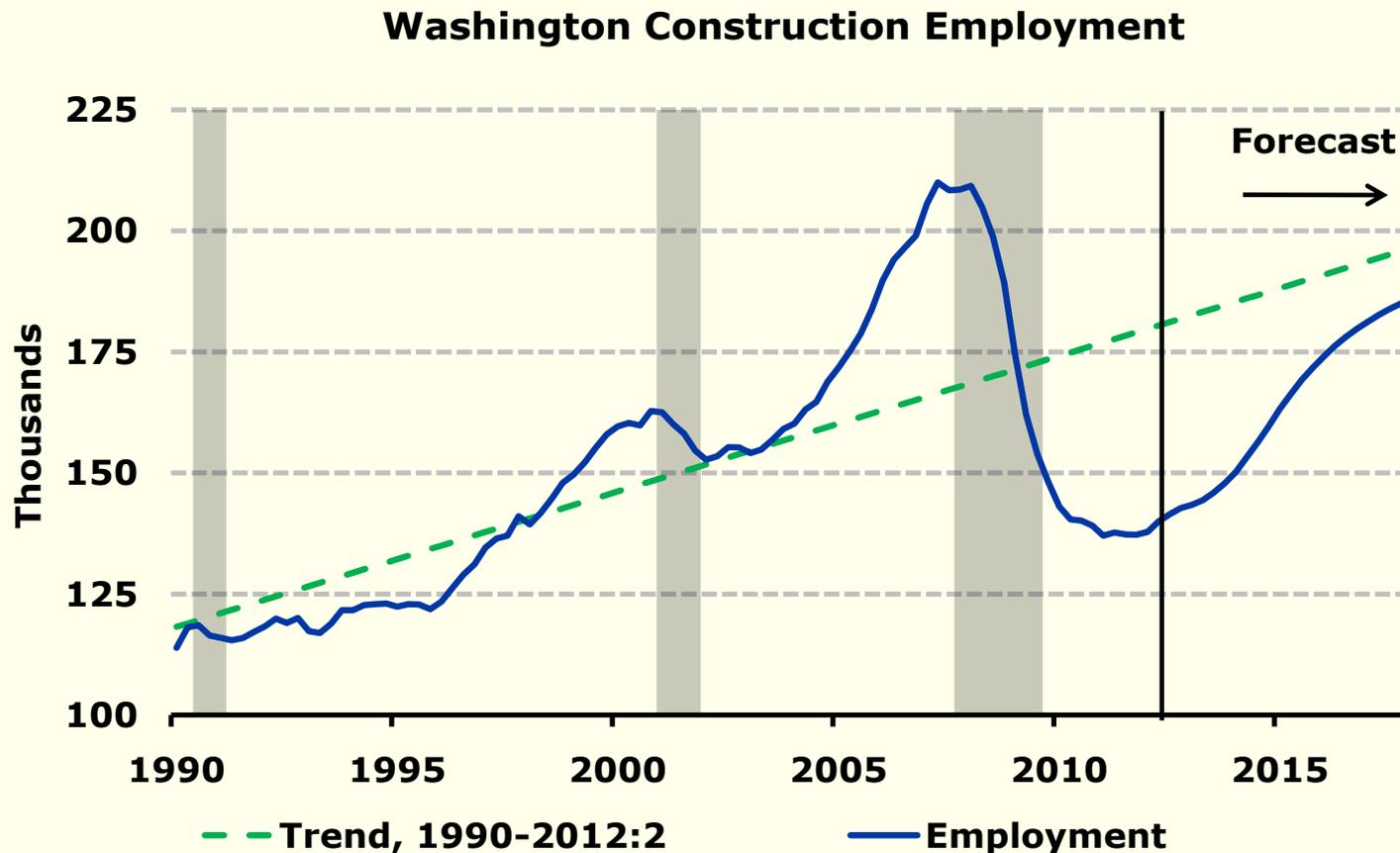


Source: U.S. Census Bureau, ERFC November 2012 Forecast; historical data through 2012 Q3

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Washington construction employment will remain below trend throughout the forecast



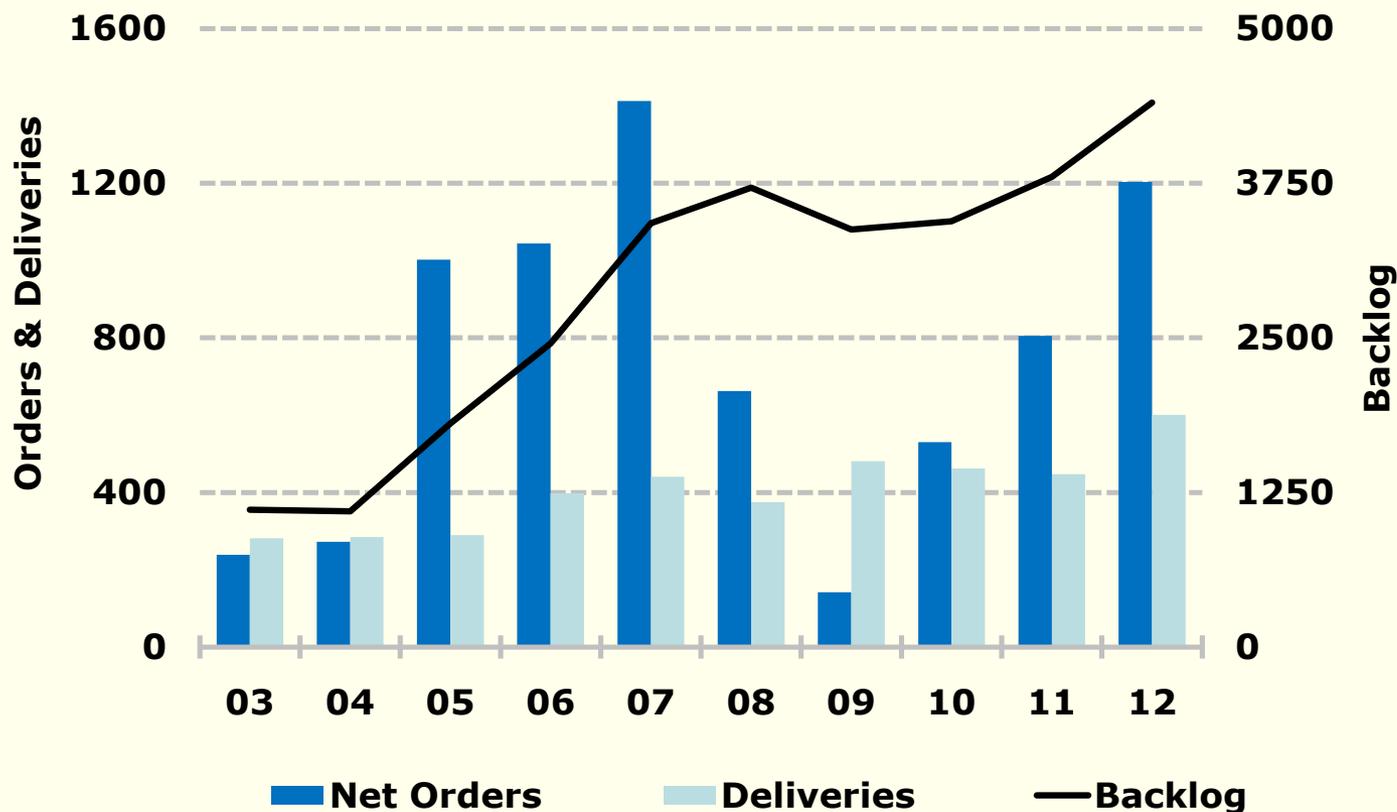
Source: ERFC November 2012 Preliminary forecast; historical data through 2012Q3

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Boeing has 7 years of commercial orders on its books

Excludes the military's new refueling tanker

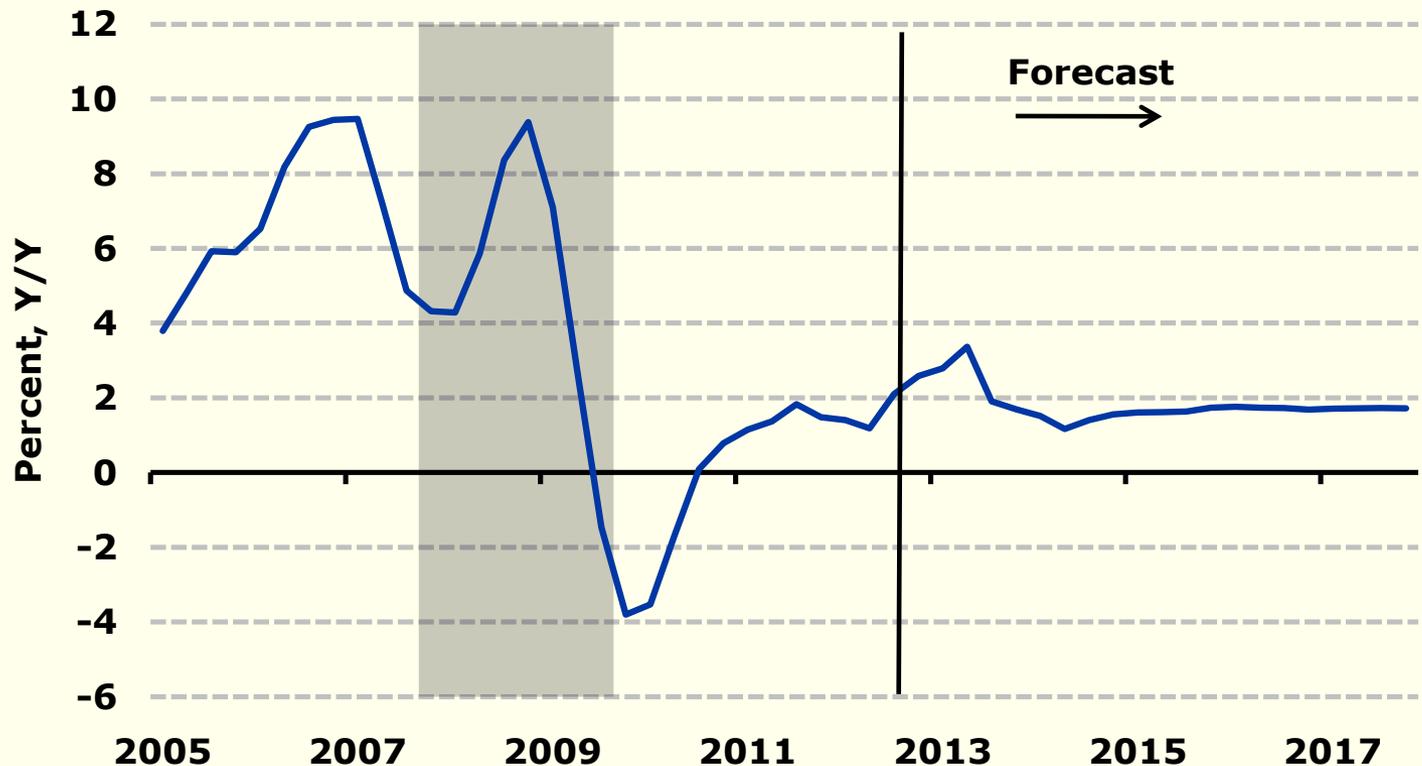


Source: Boeing, data through December 2012



Software publishing employment is expected to slightly outperform overall employment

Washington Software Publishing Employment, SA



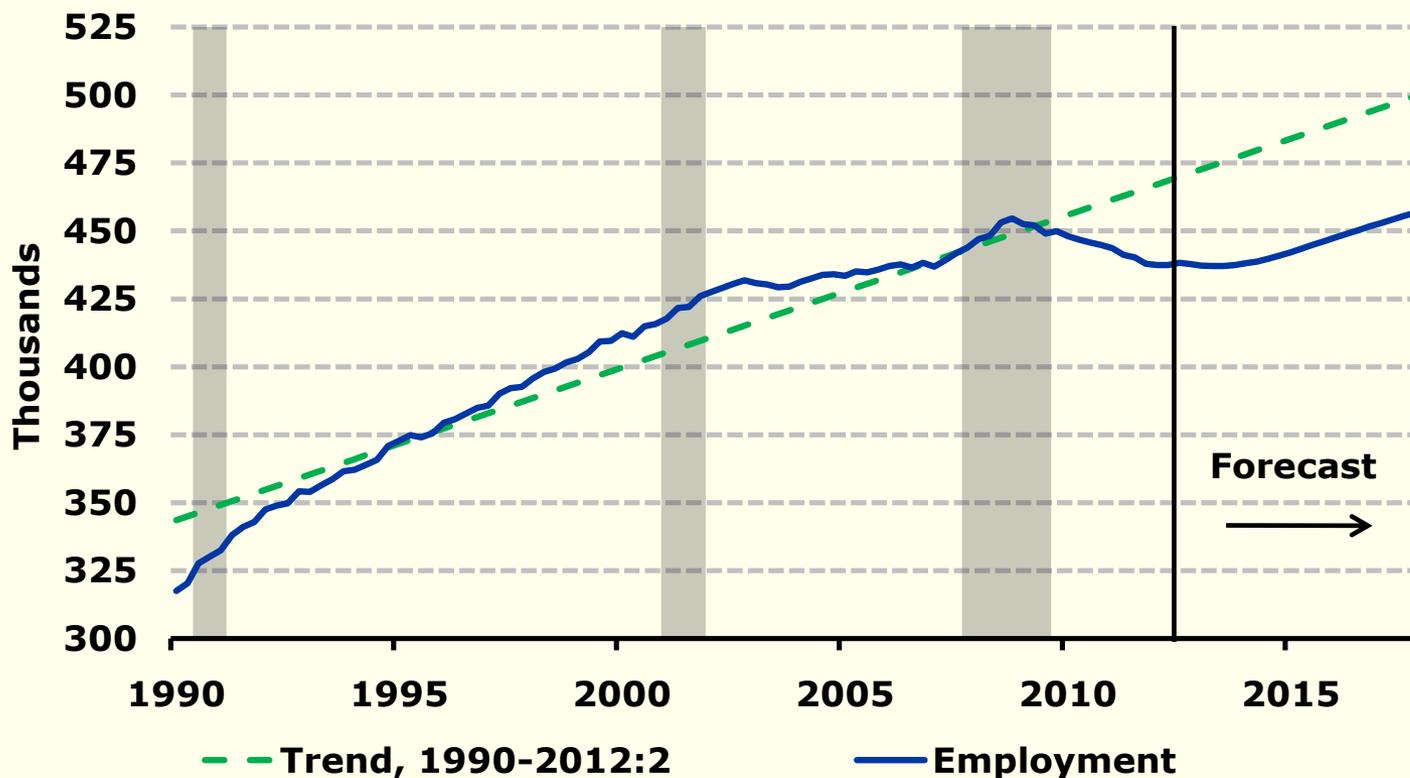
Source: ERFC November 2012 Preliminary forecast; historical data through 2012Q3

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State and local government employment will remain weak

Washington State and Local Government Employment



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Source: ERFC November 2012 Preliminary forecast; historical data through 2012Q3

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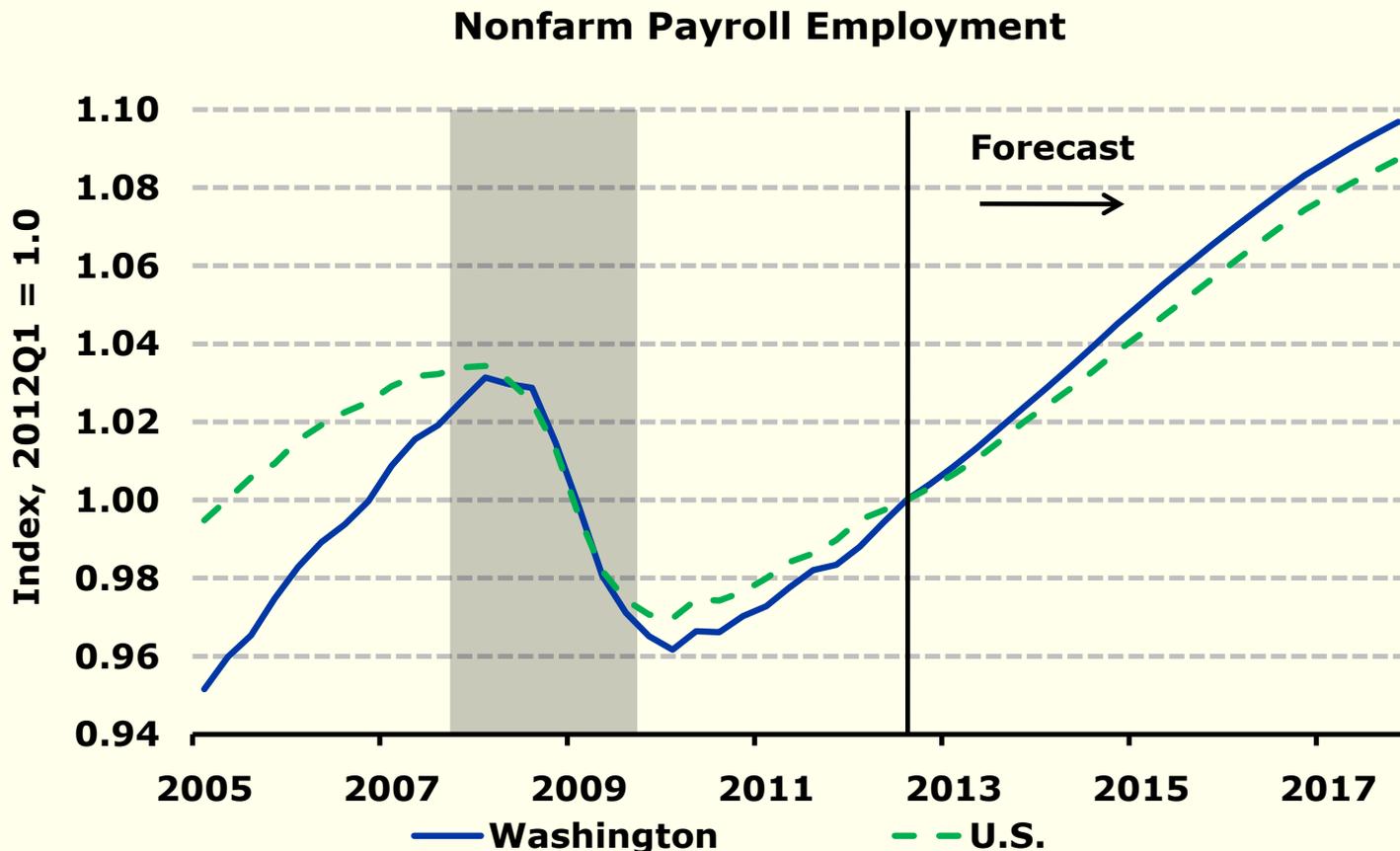


WA employment will recover slightly faster than the U.S.

Date of regaining peak:

WA:
2014Q2

U.S.:
2014Q4



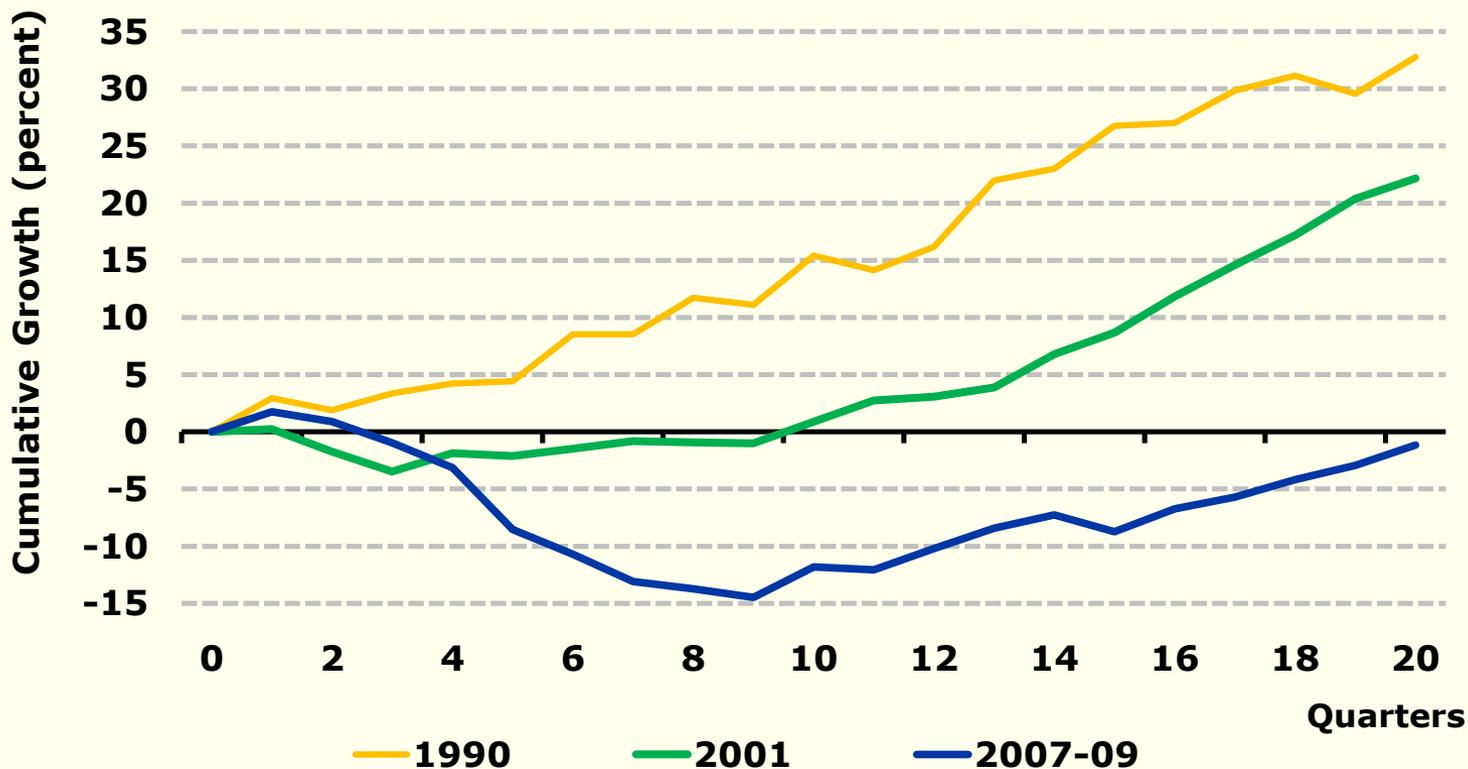
Source: ERFC November 2012 Preliminary forecast; historical data through 2012Q3

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Revenue collections have been weak compared to past recoveries

Revenue Act Collections after Business Cycle Peak



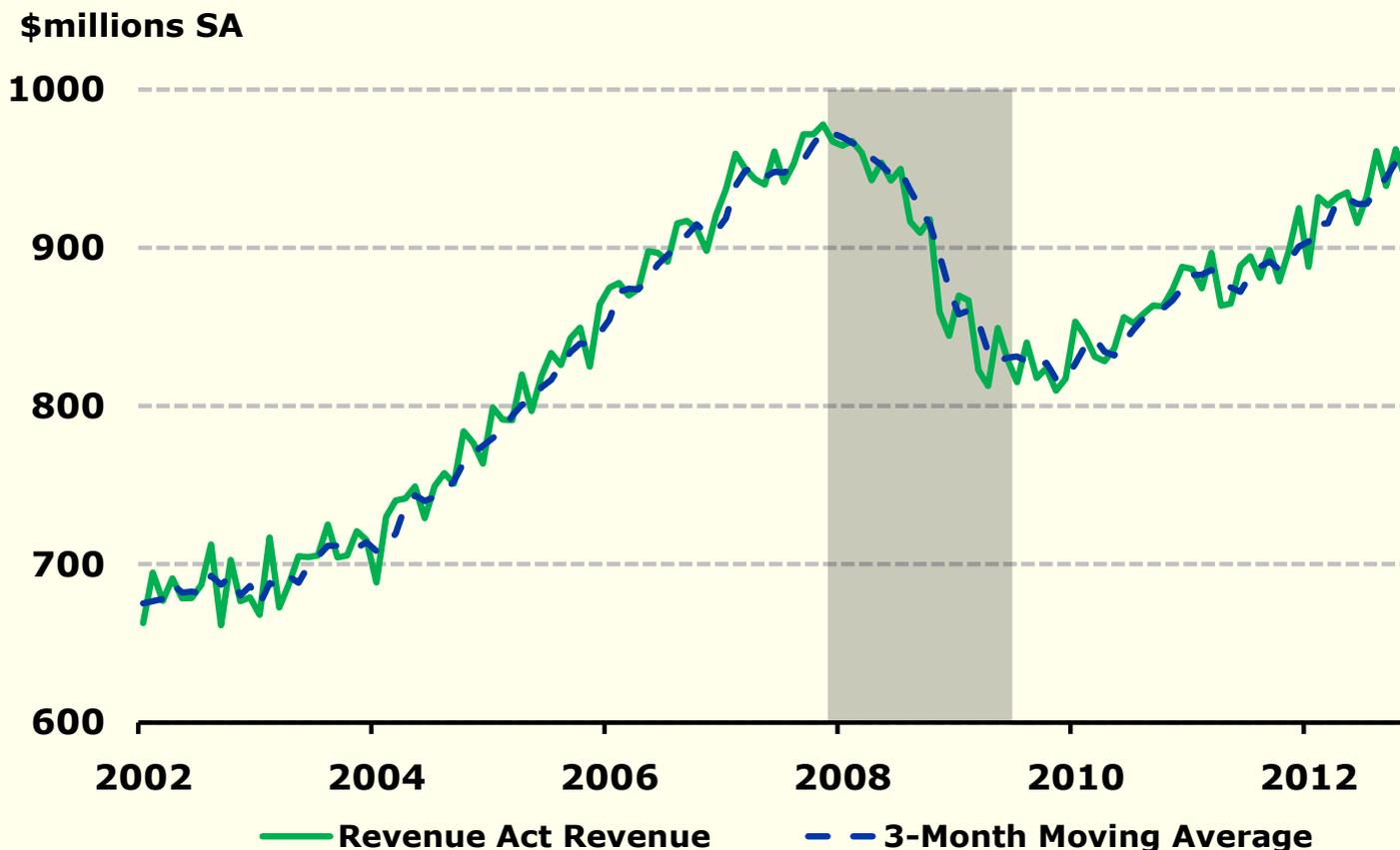
Source: ERFC; data through 2012 Q3

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Revenue Act collections are still on an upward trend

Collections were up 5.4% year-over-year in the December 11, 2012 – January 10, 2013 collection period



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

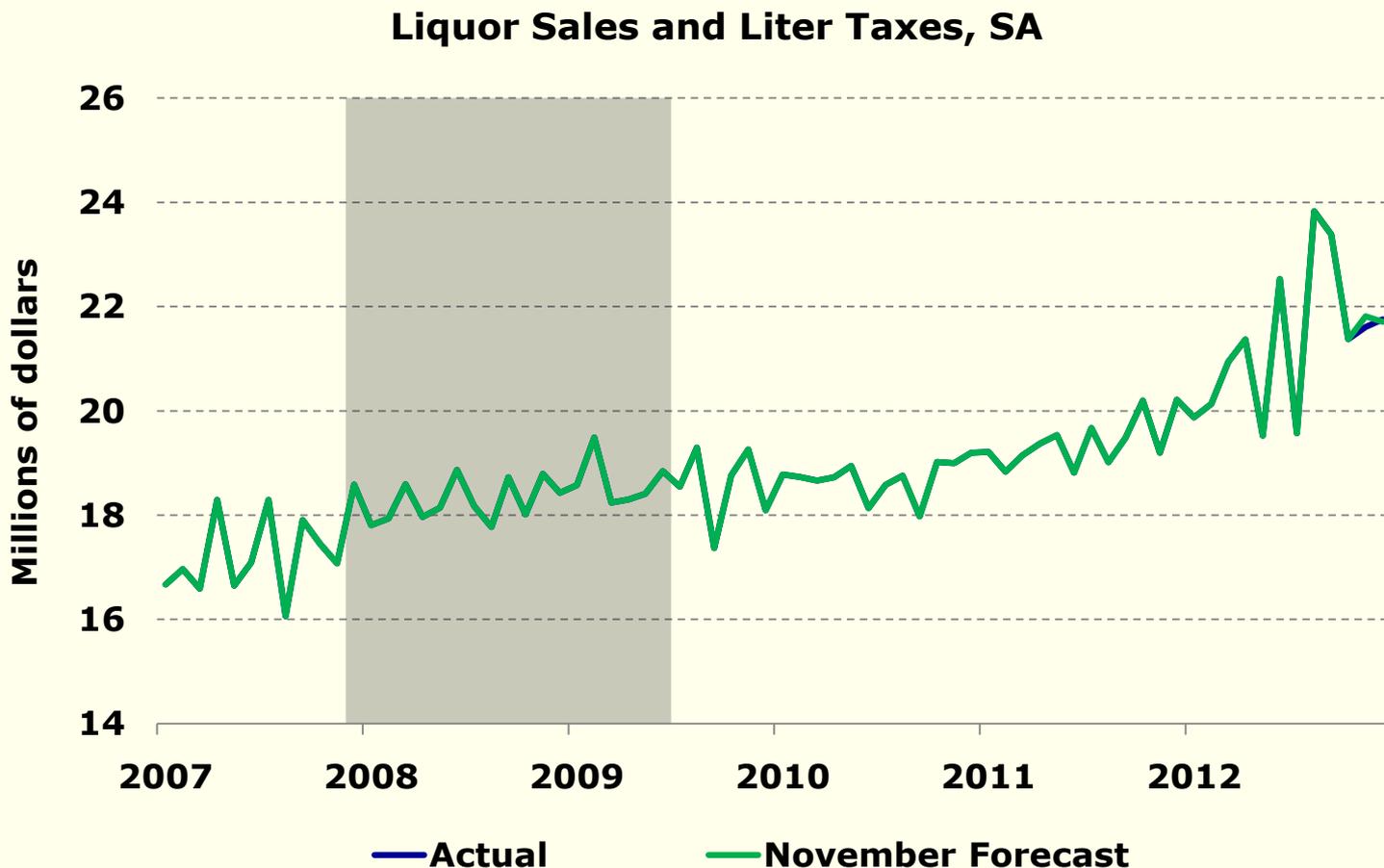
Source: DOR and ERFC; monthly data through estimated November 2012 activity

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Revenue for liquor sales has been volatile recently

Revenue was \$175K (-0.4%) below the November forecast



Source: DOR, ERFC; data through December 2012

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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, the Boeing backlog, and continued growth in software employment
- The level of uncertainty in the baseline remains extremely high, and downside risks outweigh upside risks



Questions



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