

State of the State

Presented to
Economic Analysis
Seattle University

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Seattle, Washington



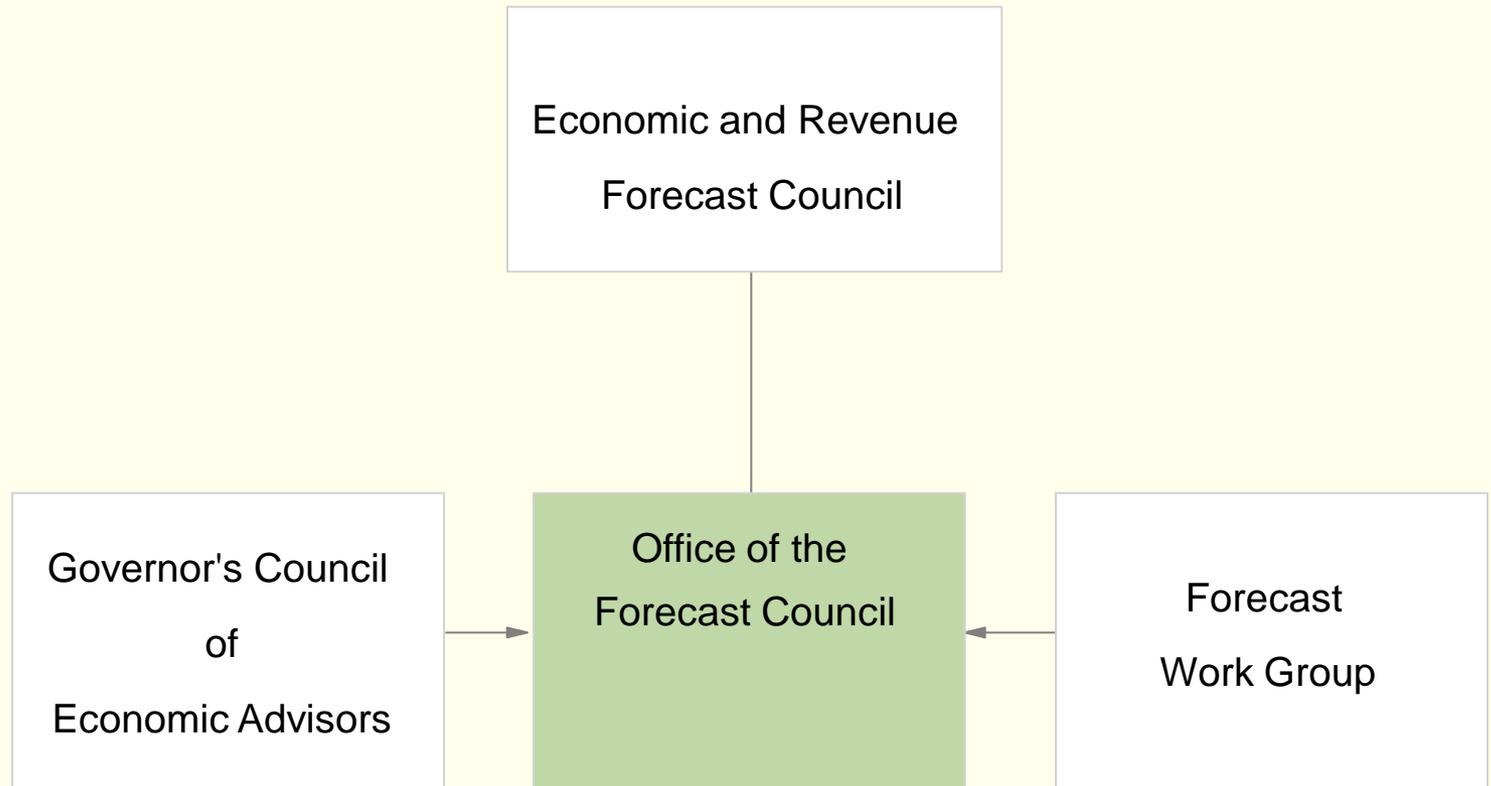
WASHINGTON STATE
ECONOMIC AND REVENUE FORECAST COUNCIL



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



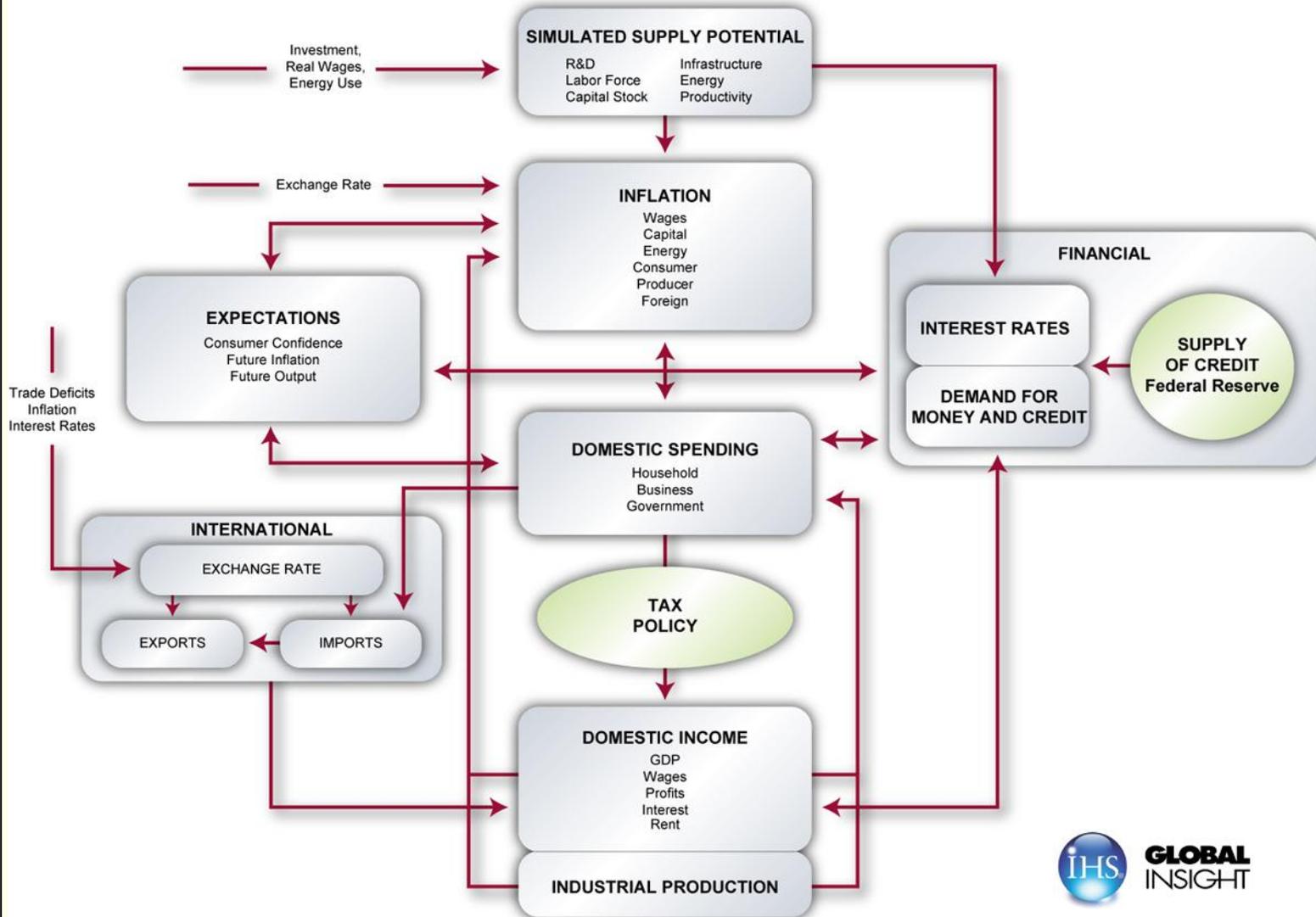
Washington State Economic and Revenue Forecast Council



U.S. Macro Model Overview

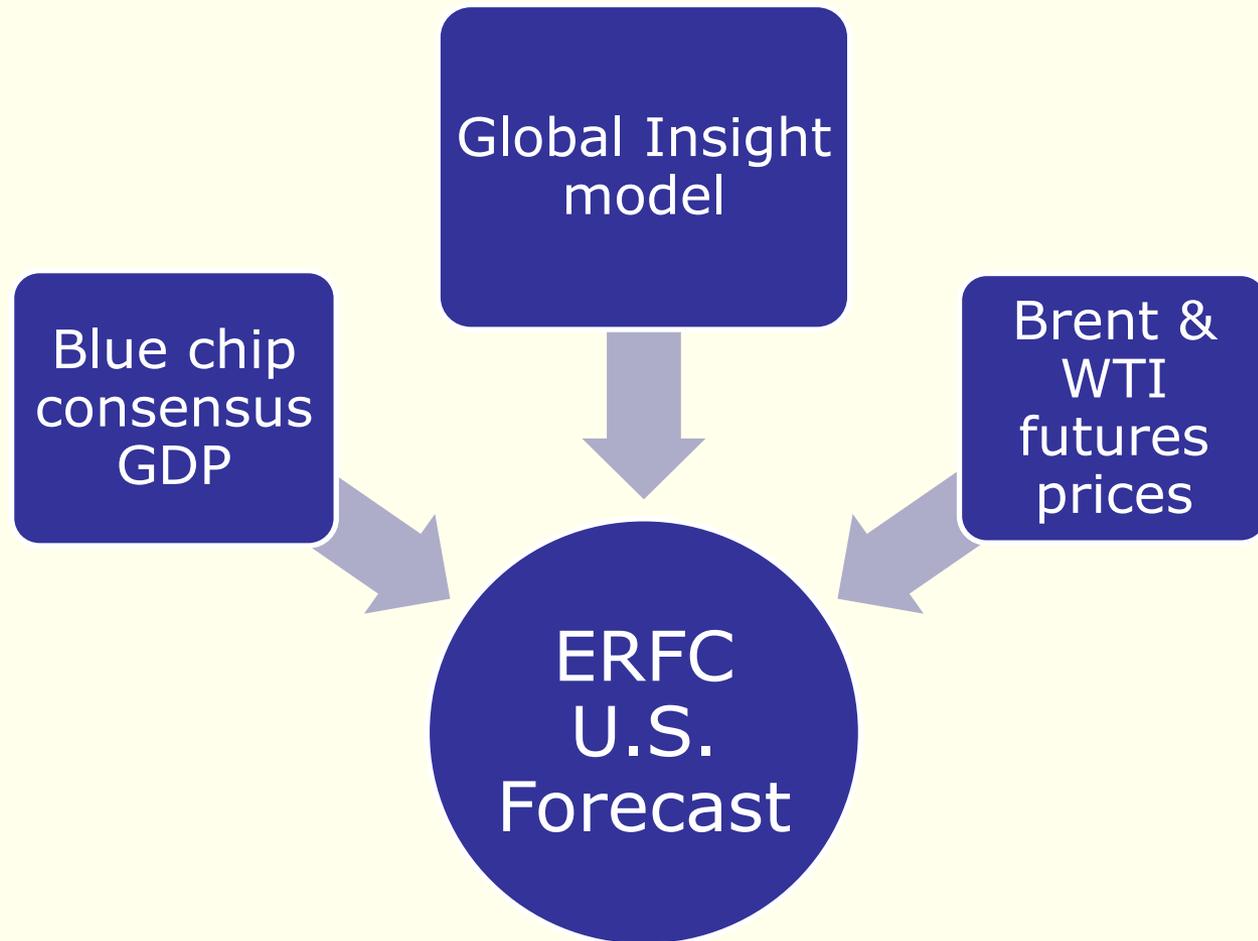
Model captures full simultaneity of U.S. economy

Output, employment, incomes, prices, interest rates, international trade, industrial detail, etc.





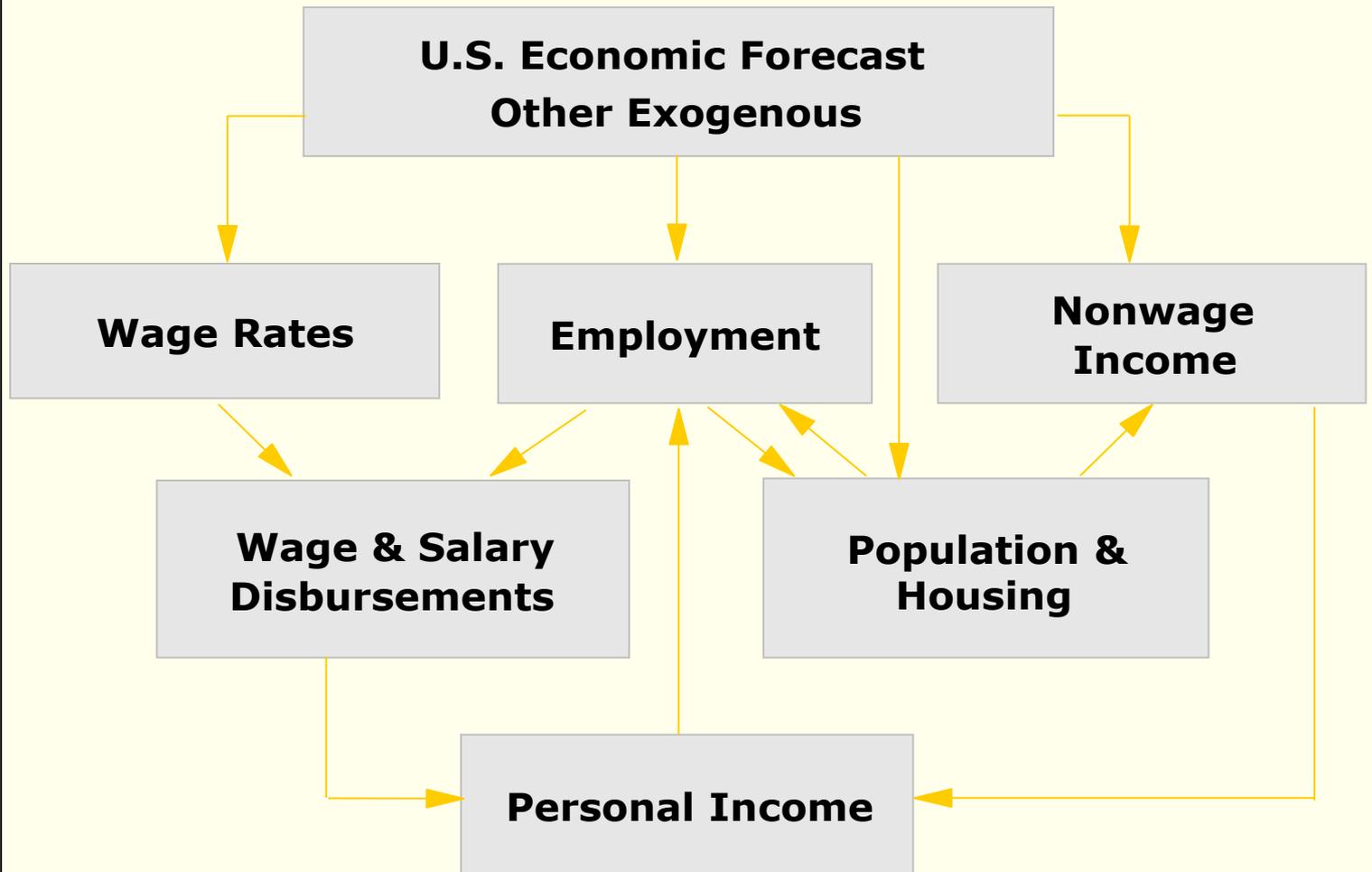
ERFC's US economic model





ERFC's Washington economic model

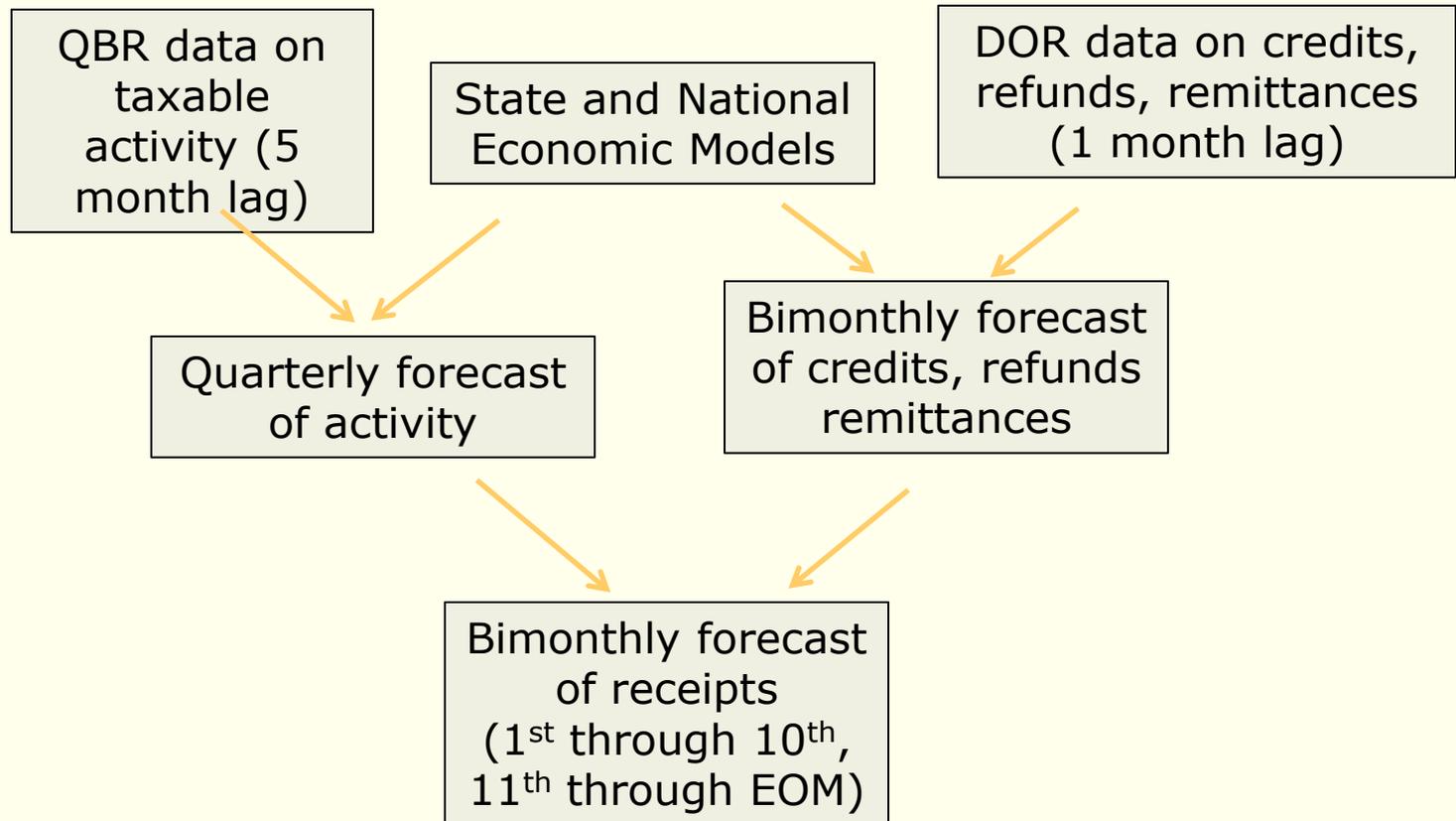
This model was reviewed by Global Insight in 2007-08





Revenue Act model overview

B&O, RST, Use and Public Utility are broken into 40 components (some small sources like semiconductors and nuclear waste disposal are forecasted exogenously)





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

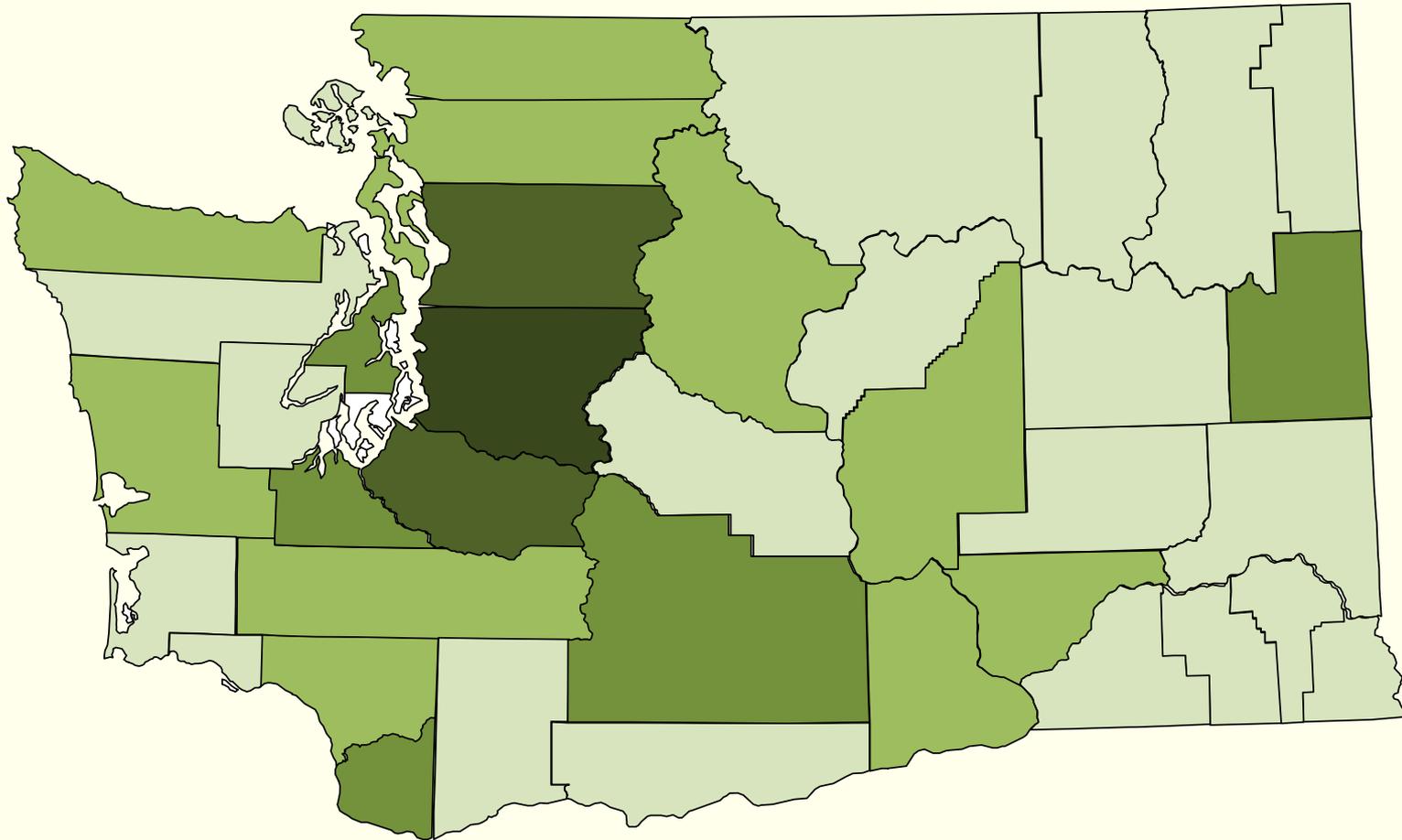
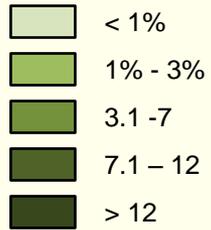
- 1.7% growth over 2011; tied for 16th fastest in U.S.
- 2.1% of U.S. nonfarm employment

2012 State population: 6.9 million; 13th largest state

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



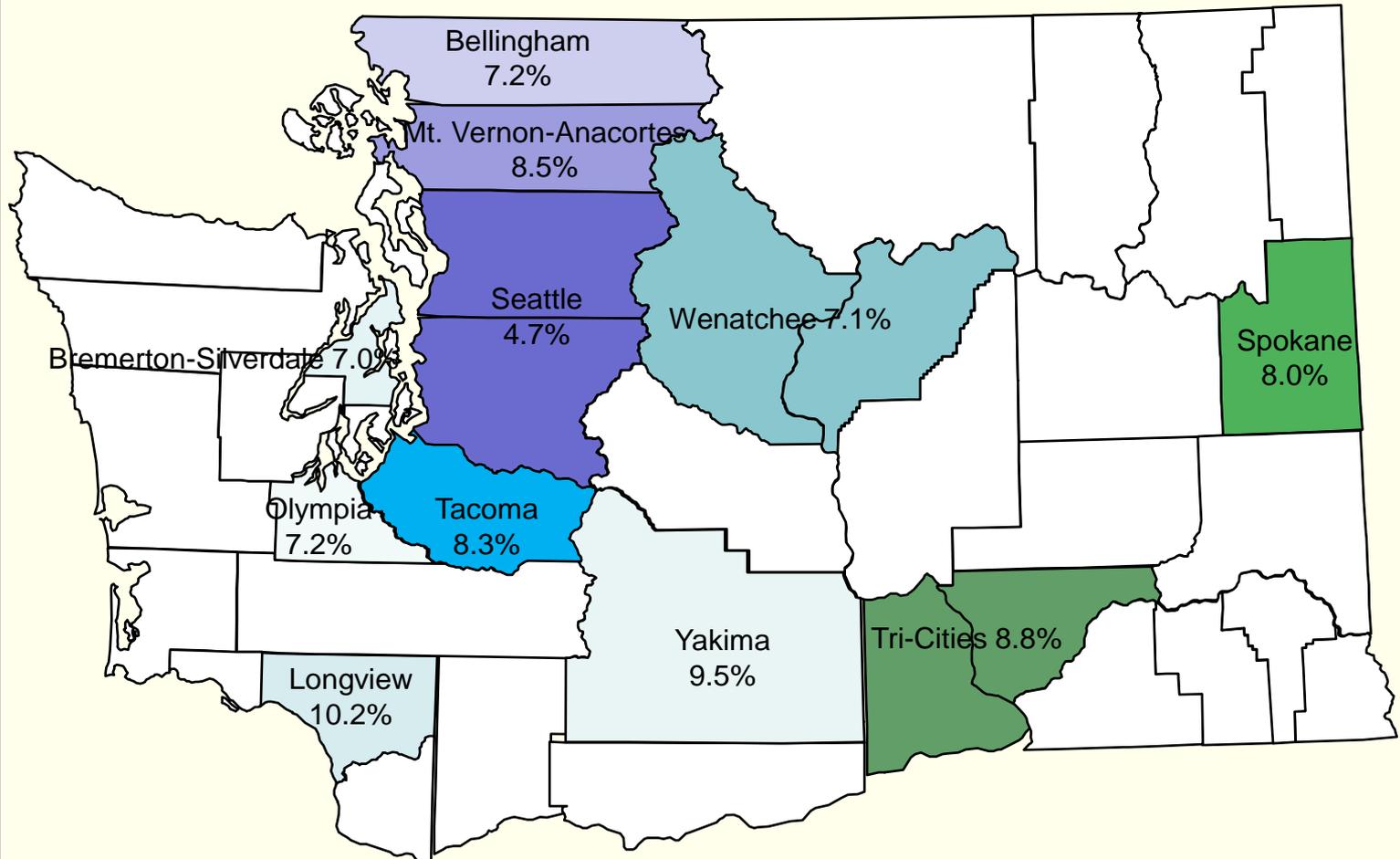
Distribution of state population by county, 2012





Unemployment rates by metro area, May 2013

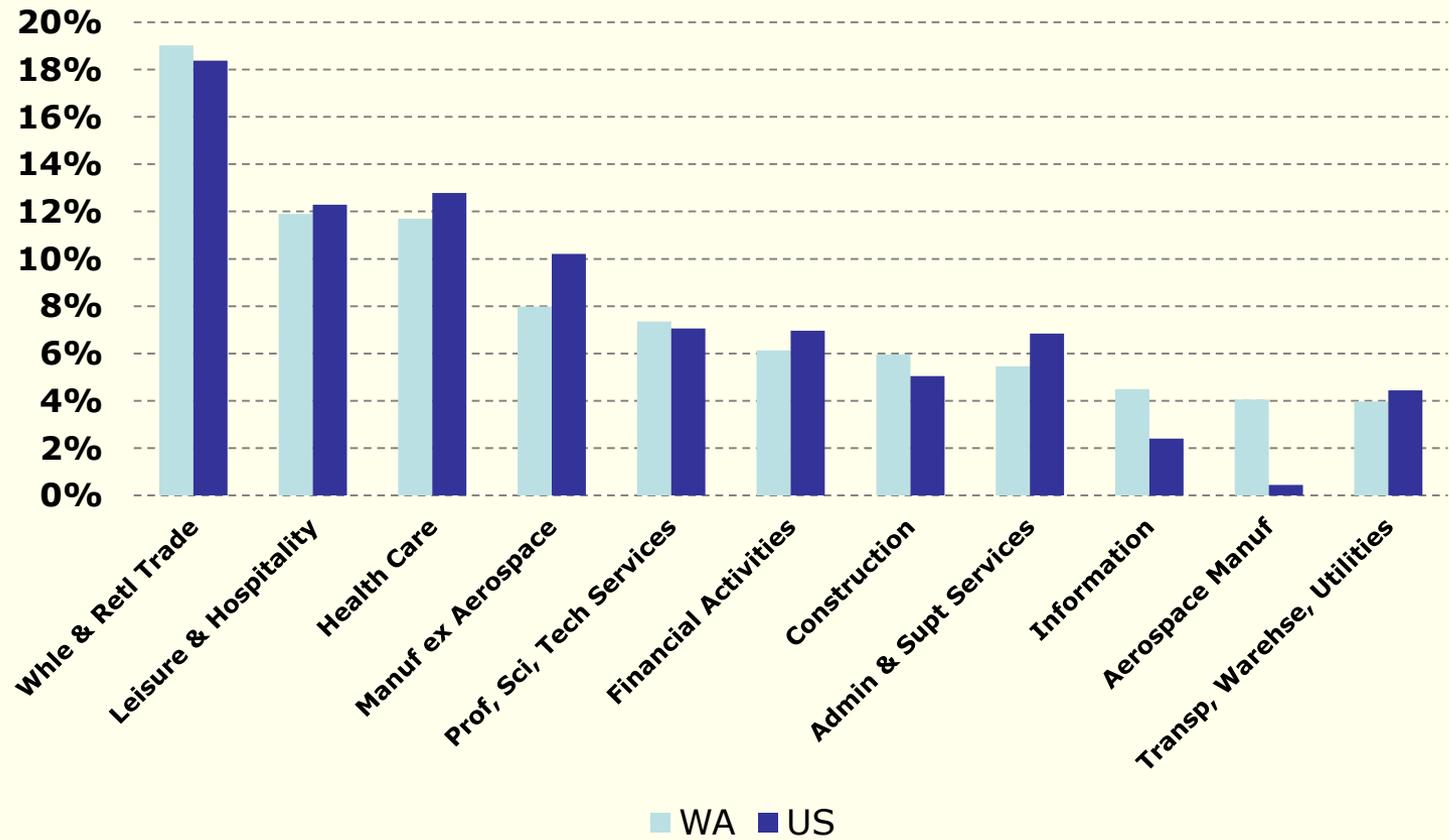
Statewide
rate: 6.8%





Major Industries by Employment

2012 Private Employment Shares by Industry

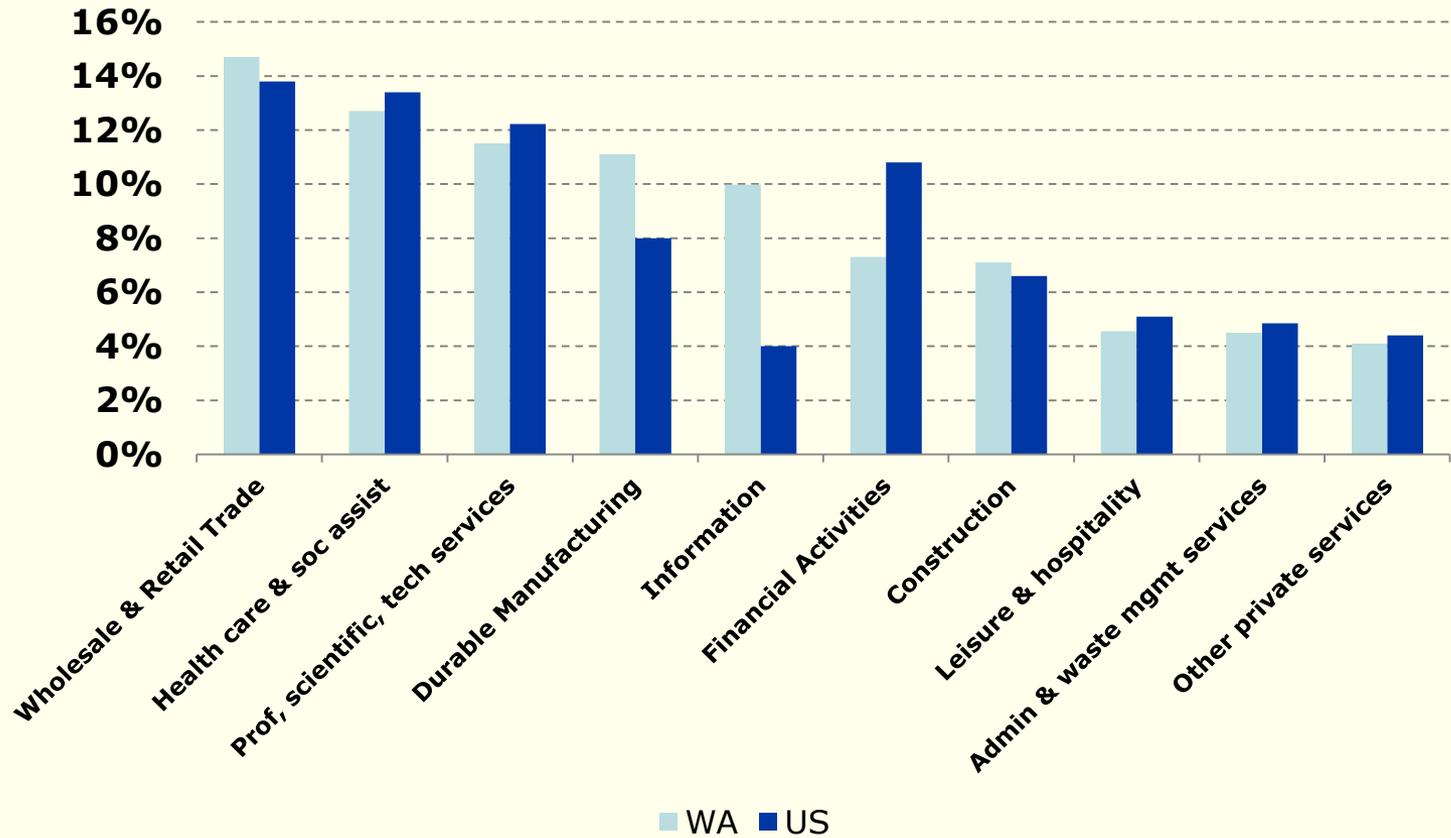


Source: U.S. Dept. of Labor, BLS; ESD; ERFC



Major Industries by Earnings

2012 Private Earnings Shares by Industry



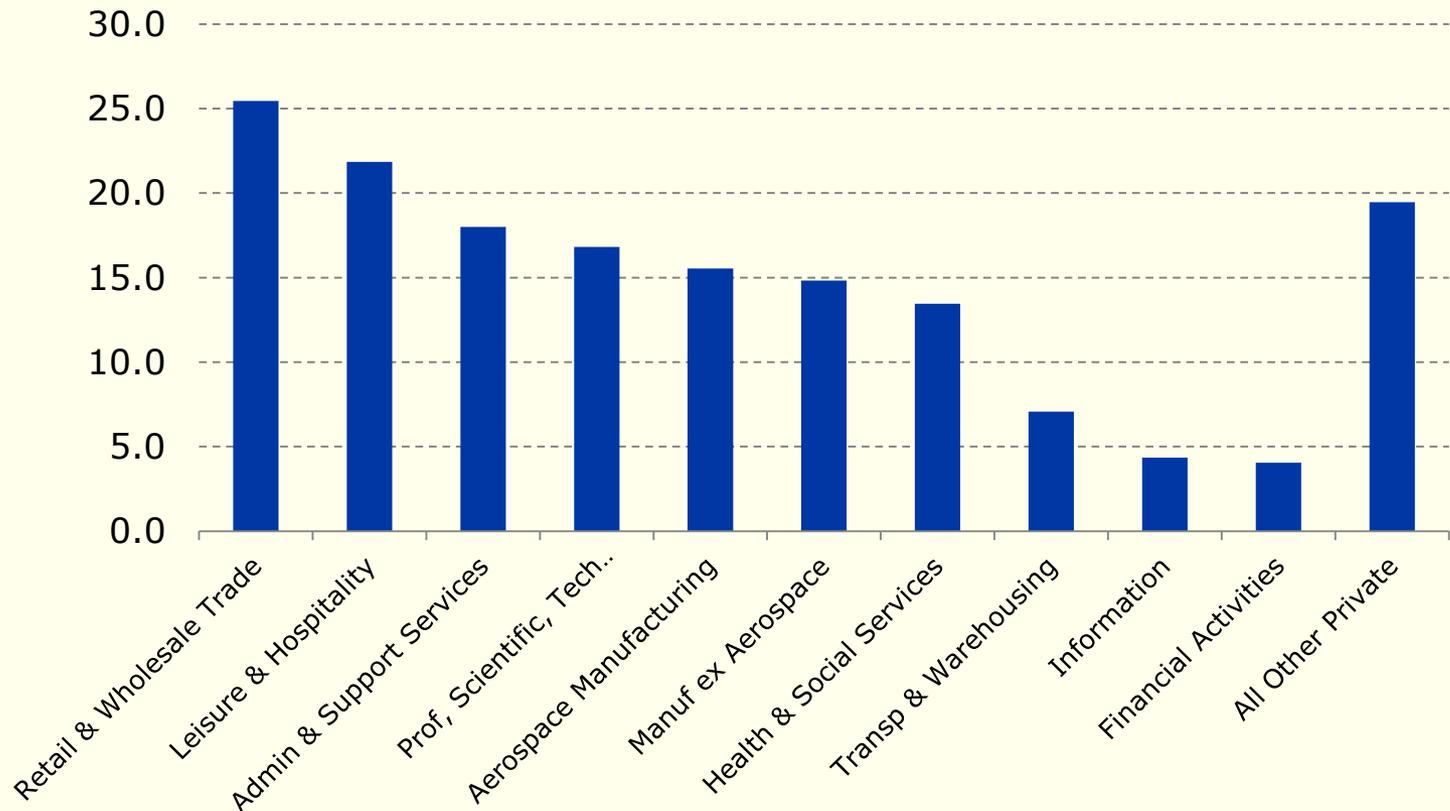
Source: U.S. Dept of Commerce, BEA; ERFC



Washington Employment Trends

Washington has gained 161,000 net private sector jobs since Feb 2010

Employment Change since Trough (thousands)



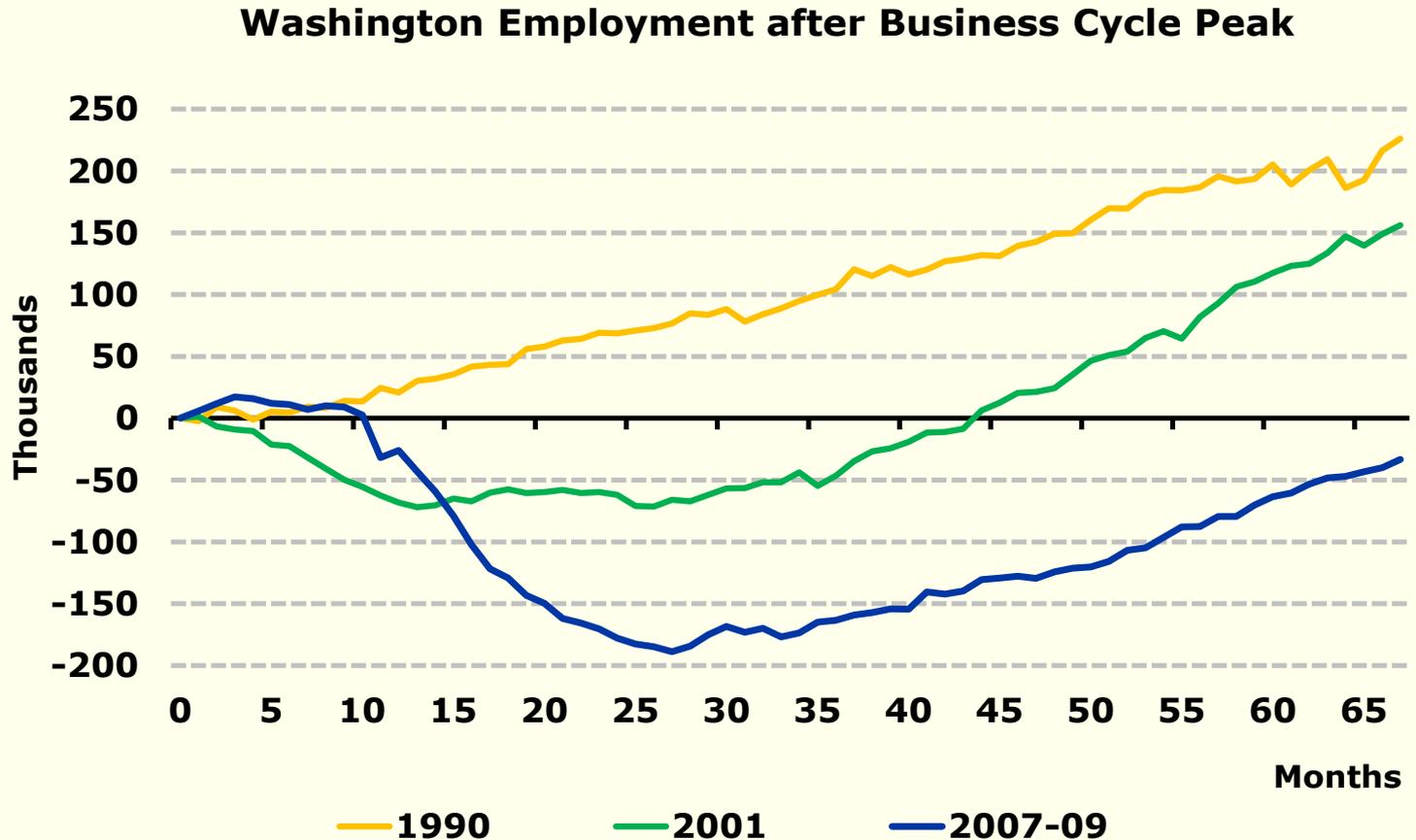
Source: U.S. Dept. of Labor, BLS; ESD; ERFC; data through June 2013

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After 5 years, Washington employment has still not recovered

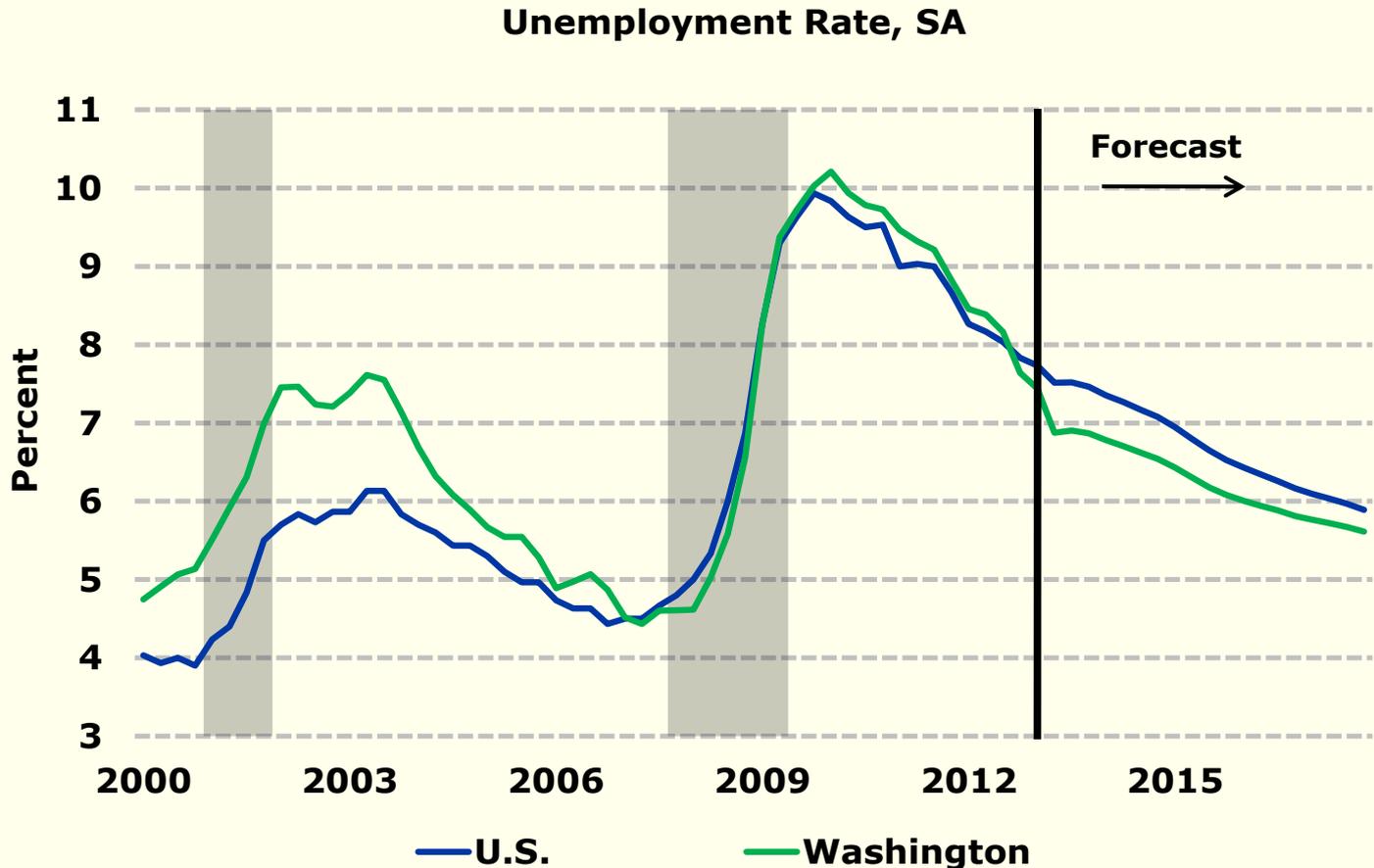
Washington remains 33,000 jobs below the start of the recession



Source: WA ESD, ERFC; data through June 2013



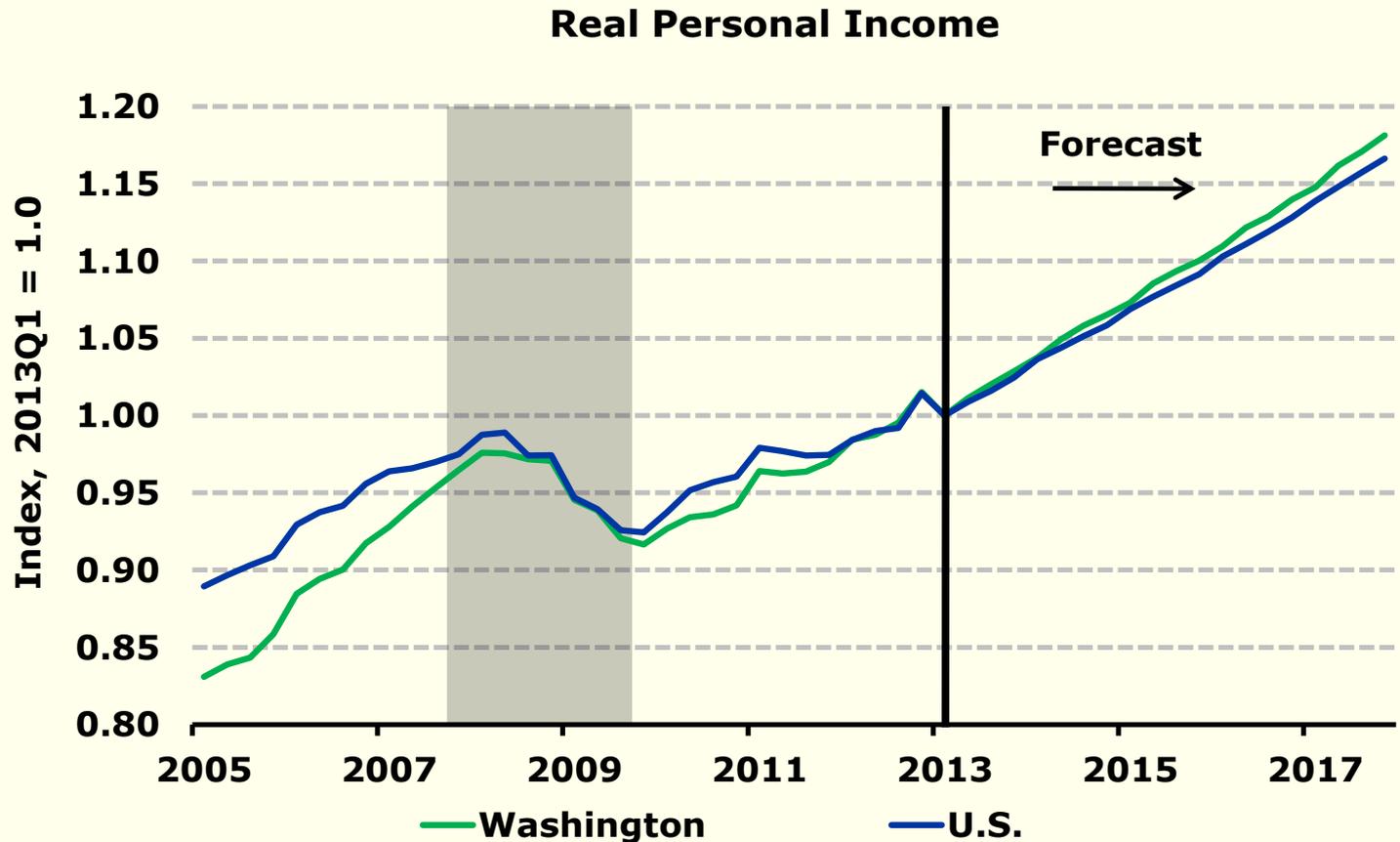
Washington unemployment expected to remain below U.S. rate



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



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

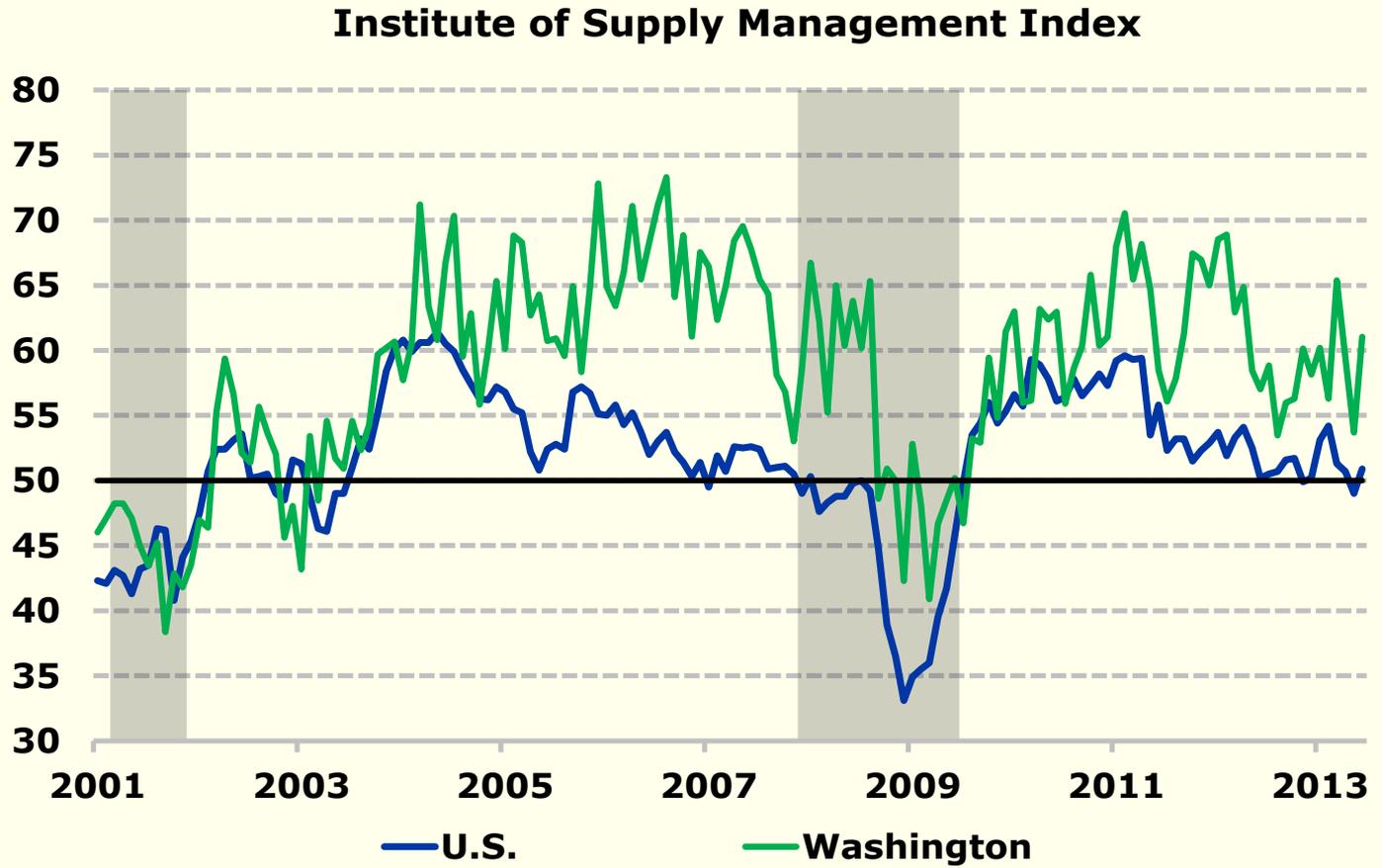


Source: ERFC June 2013 forecast; historical data through 2013Q1



Manufacturing stronger in WA than nationally

An index greater than 50, implies growth

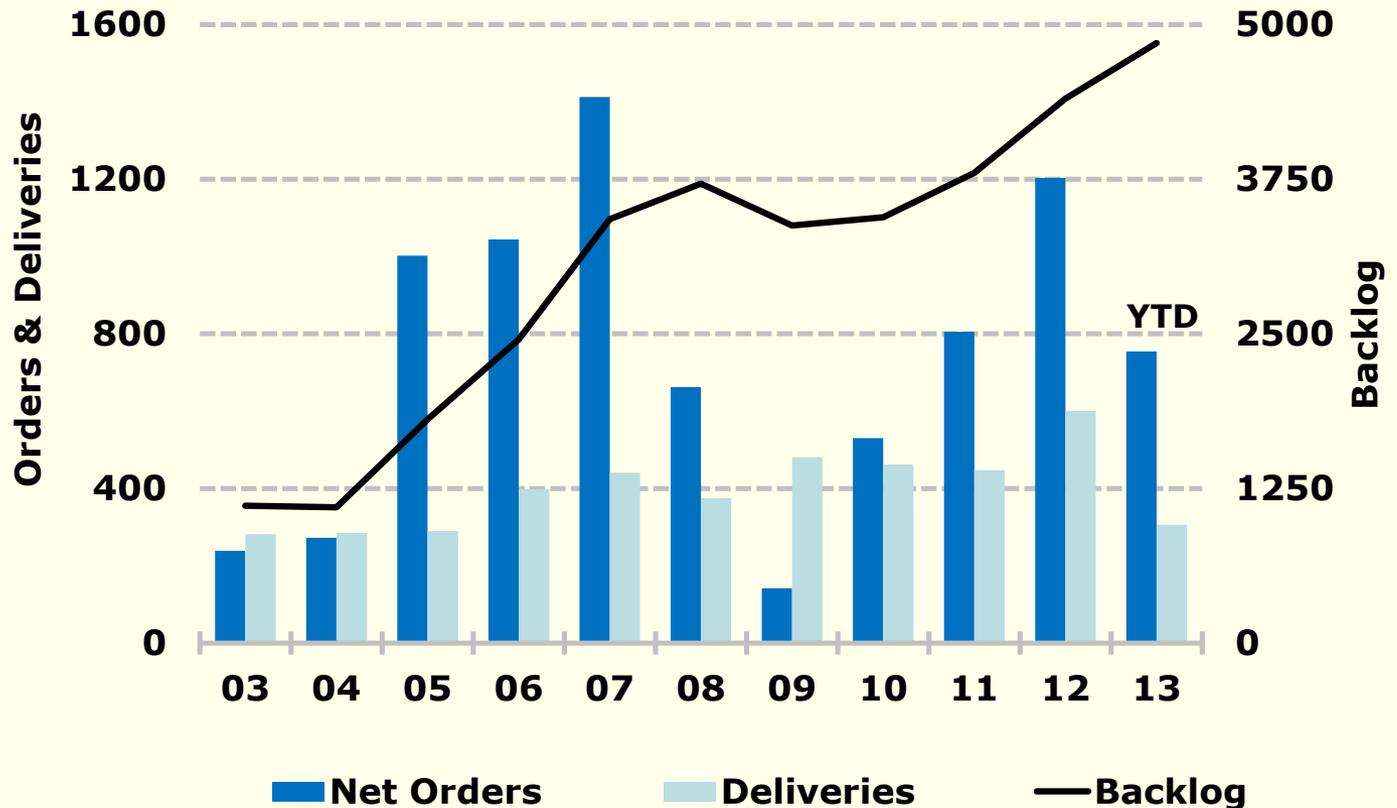


Source: Institute of Supply Management; data through June 2013



Boeing has over 7 years of commercial orders on its books

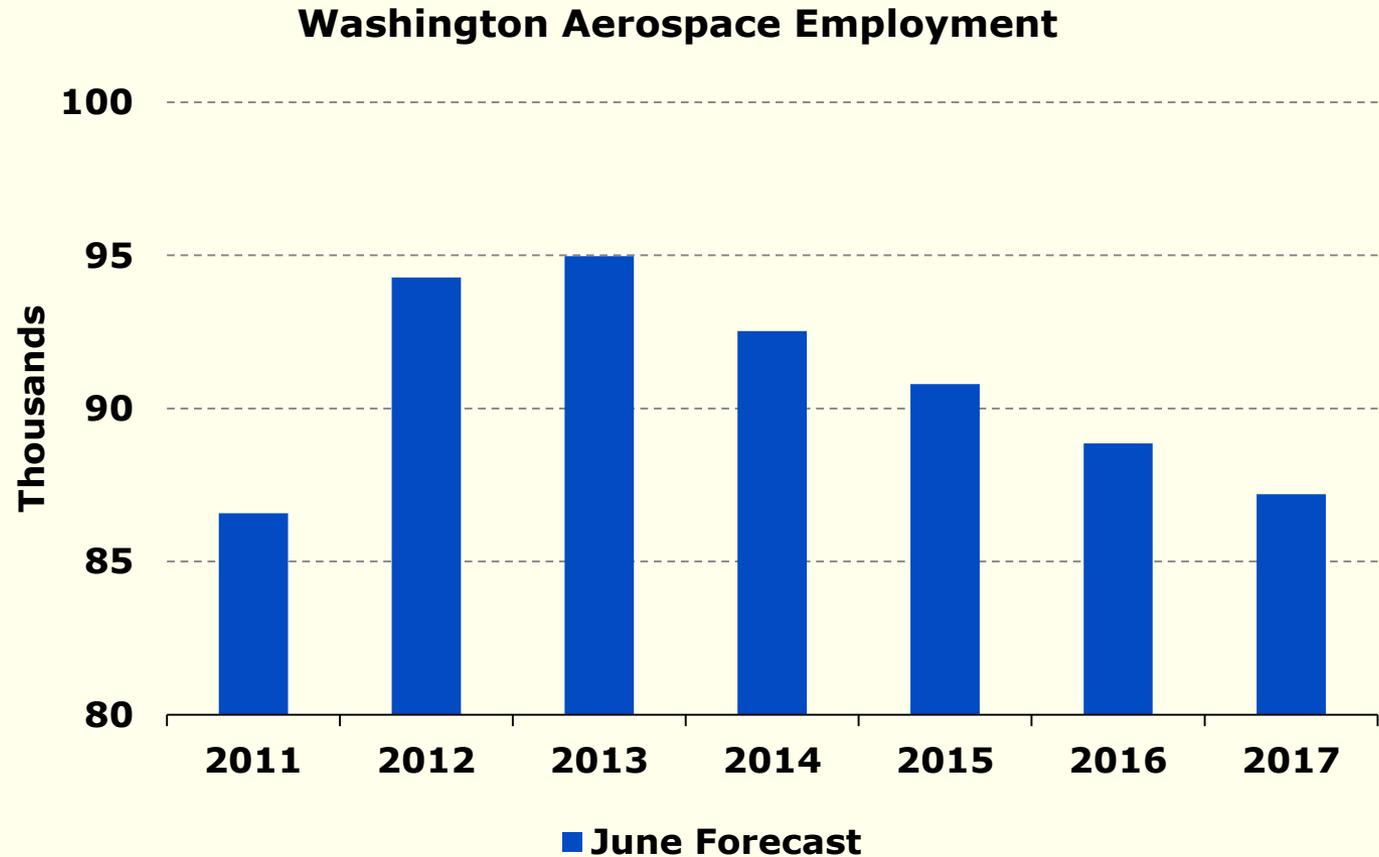
Excludes the military's new refueling tanker



Source: Boeing, data through June 2013



Aerospace employment is declining



Source: ESD, ERFC; historical data through 2012

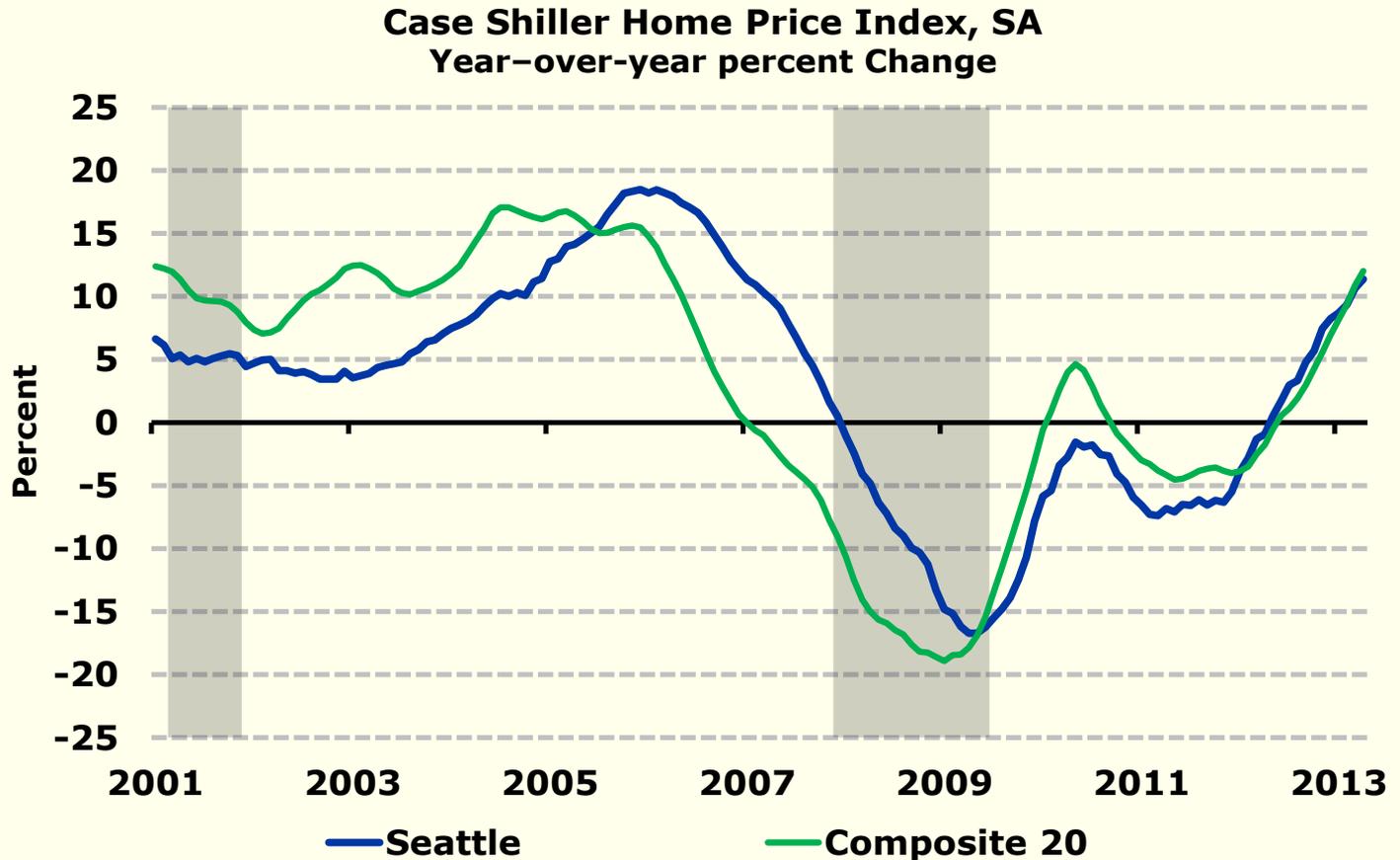


Single-family home prices continue to increase

Apr 2013

U.S. is up 12.0%

Seattle is up 11.4%

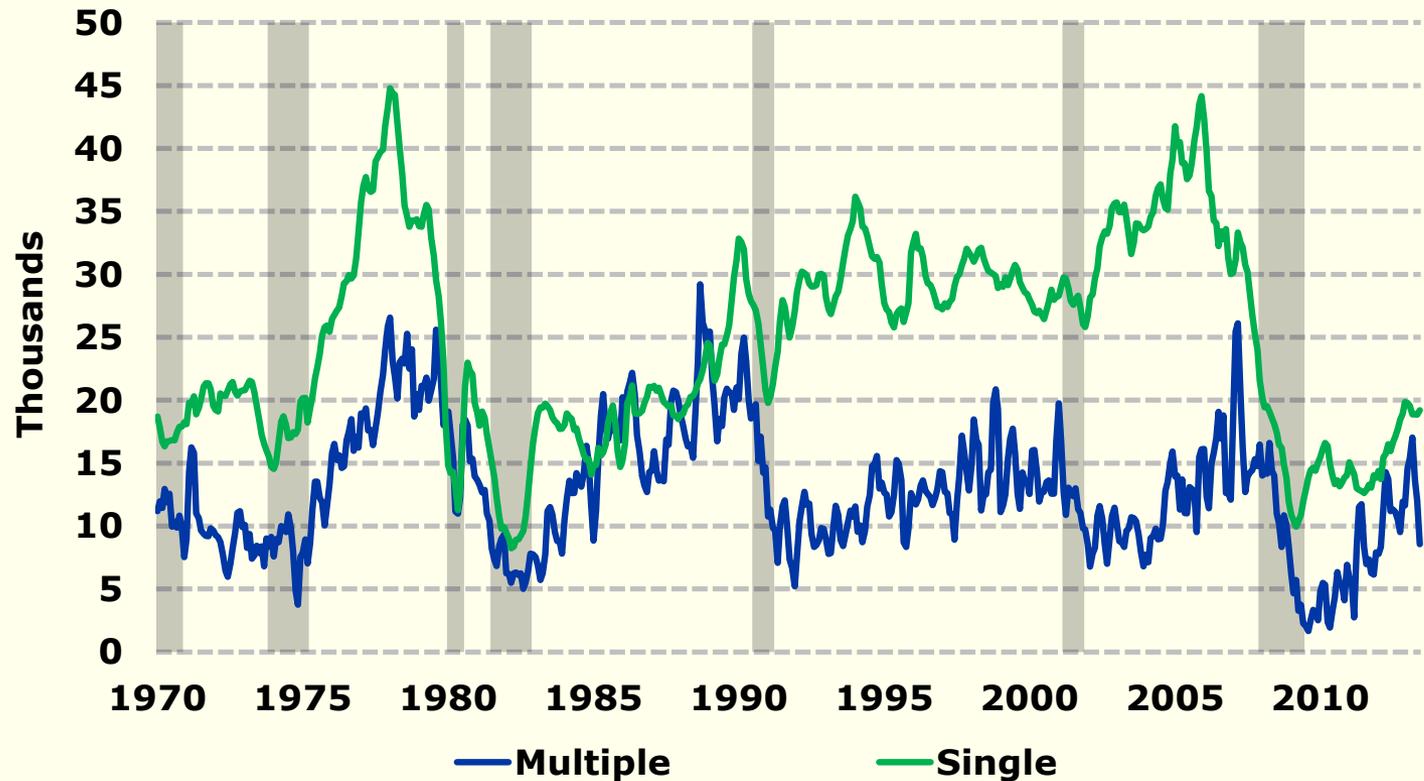


Source: S&P/Case-Shiller; data through April 2013



WA building permits are improving

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



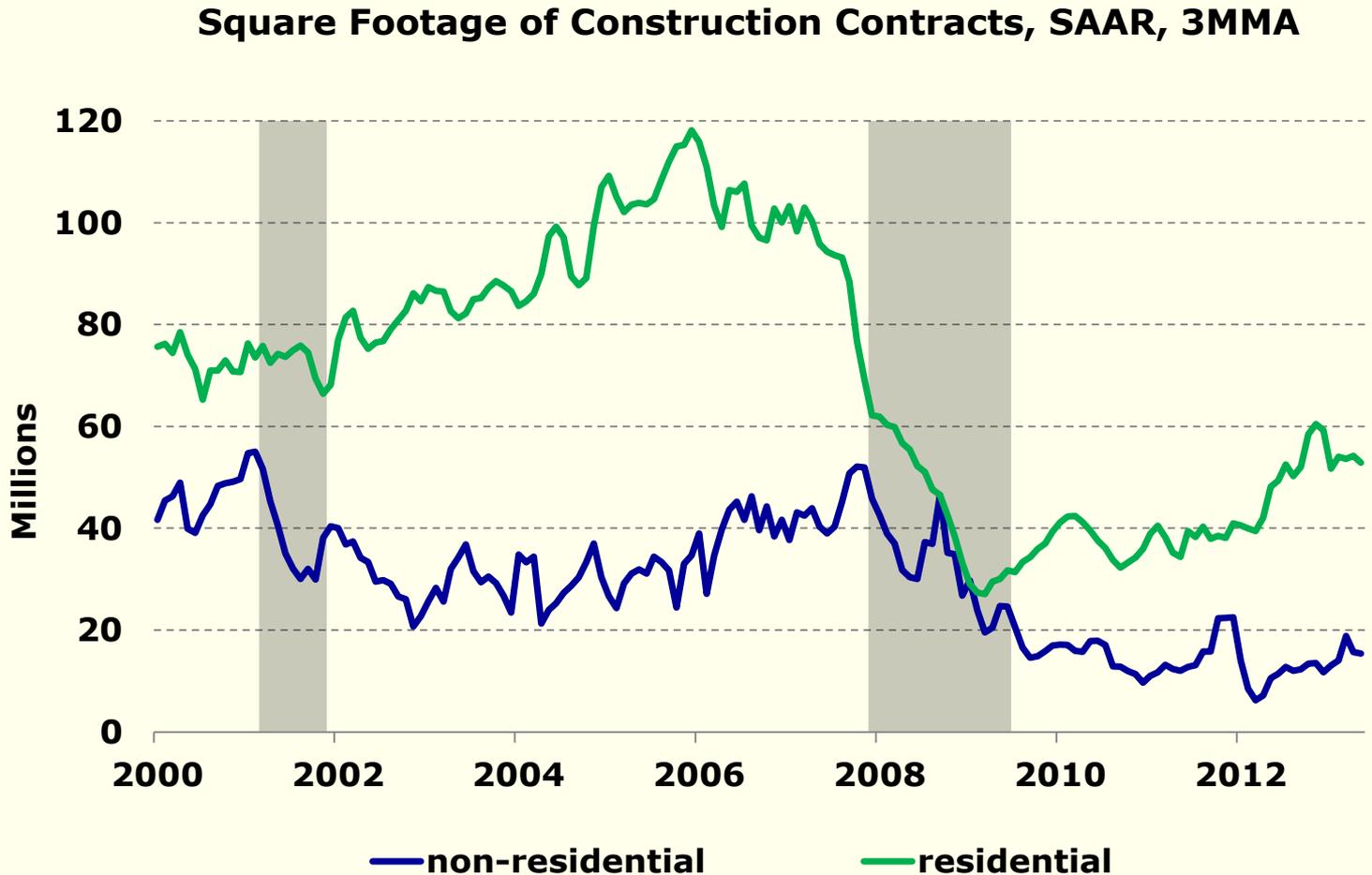
Source: U.S. Census Bureau; data through June 2013



Contract data signal a turning point in non-residential construction

Residential square footage is up 10%, and value up 5% year over year (3mma).

Non-Residential square footage is up 46%, and value is up 12% year over year (3mma).

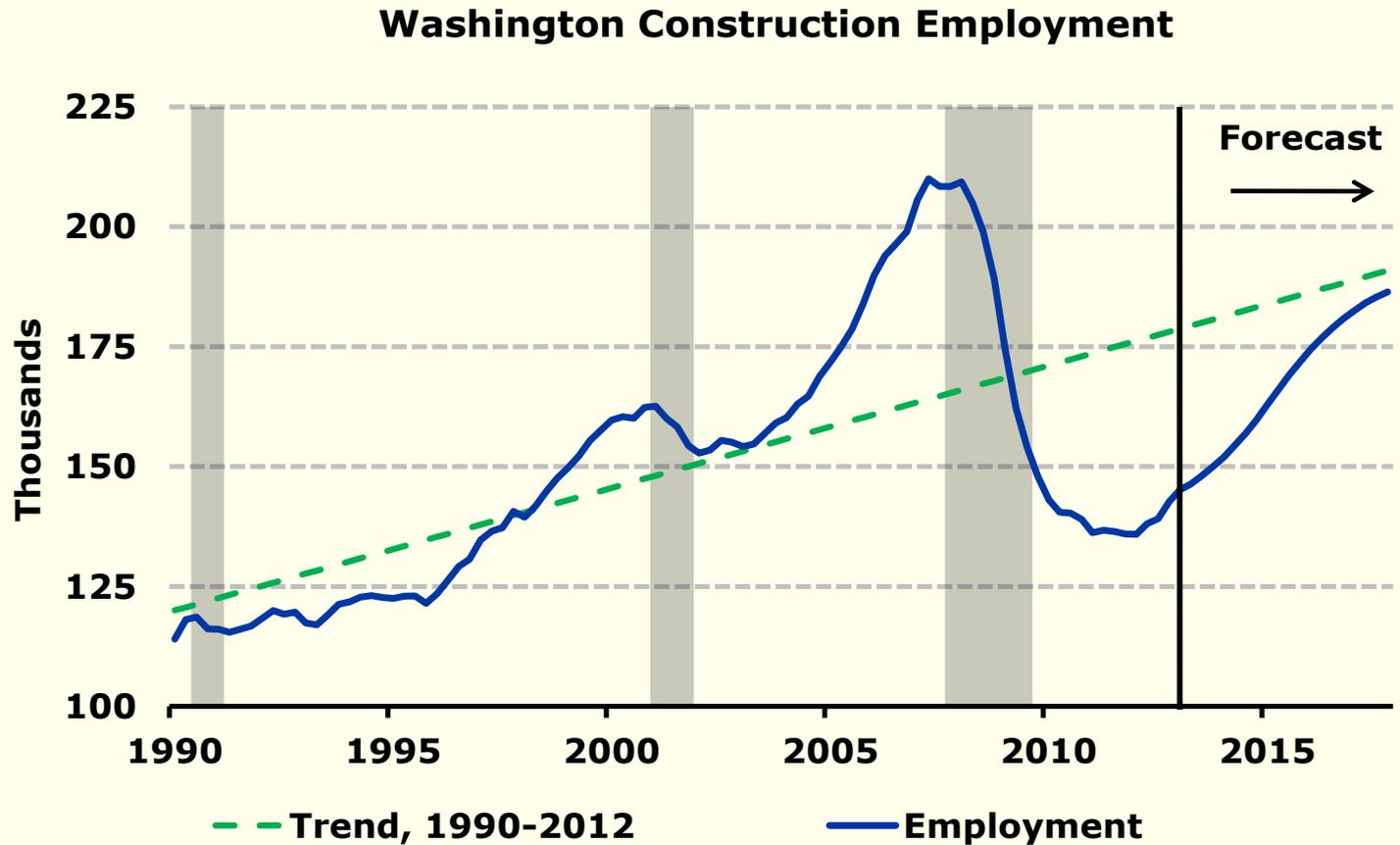


Source: Dodge, ERFC; data through May 2013

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Washington construction employment is recovering

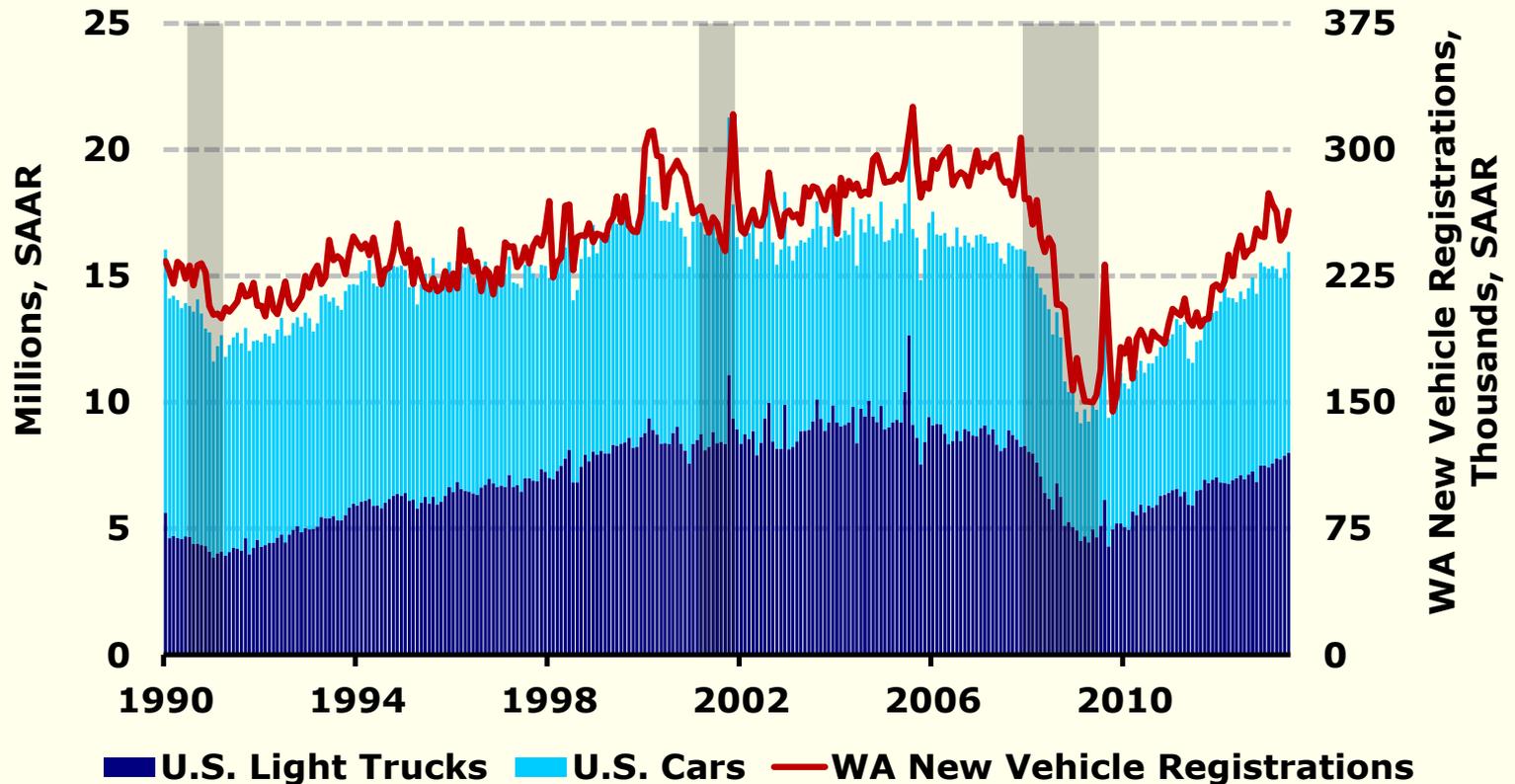


Source: ERFC June 2013 forecast; historical data through 2013Q1



Vehicle sales continue their upward trend

WA new vehicle registrations in June were up 6% year-over-year.

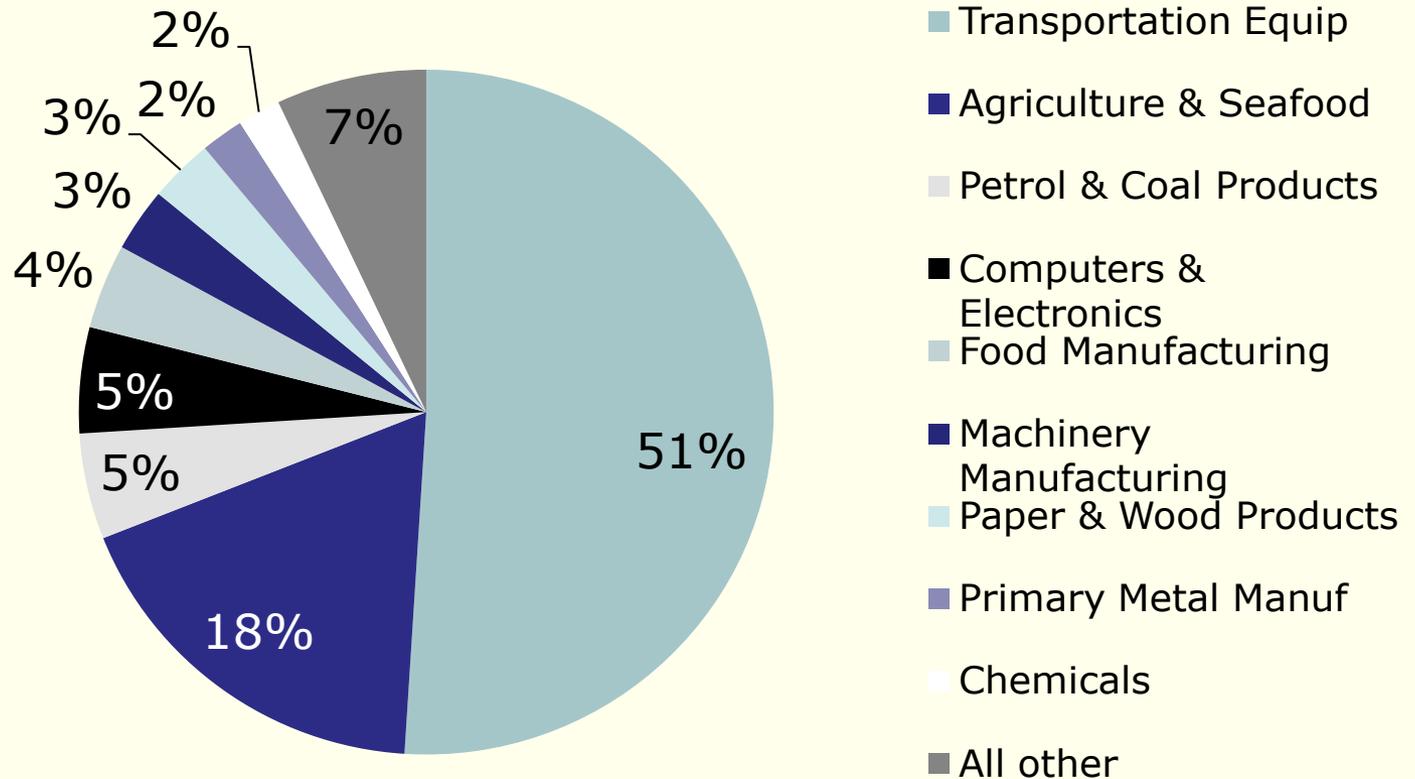


Source: Autodata Corporation, WA DOL; data through June 2013



Washington exports by industry

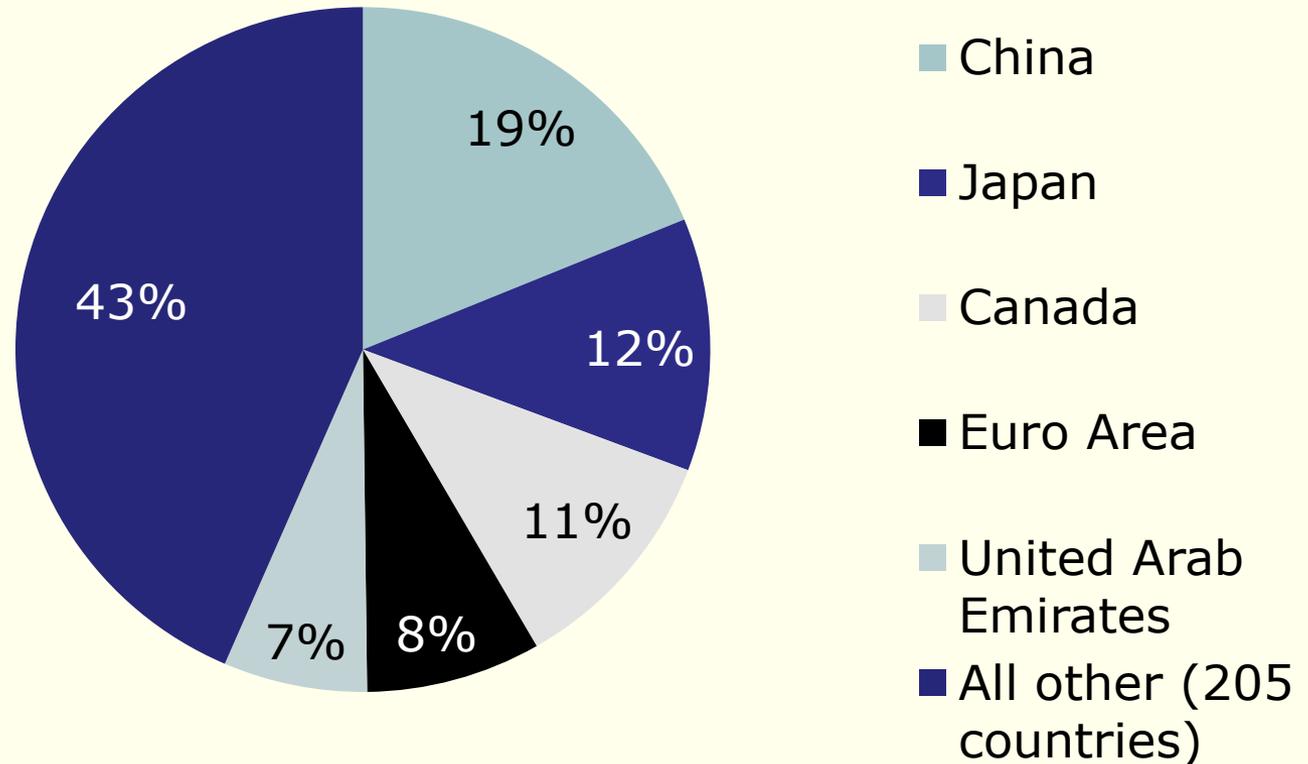
2012 Exports





China is Washington's Top Export Destination

Exports by destination



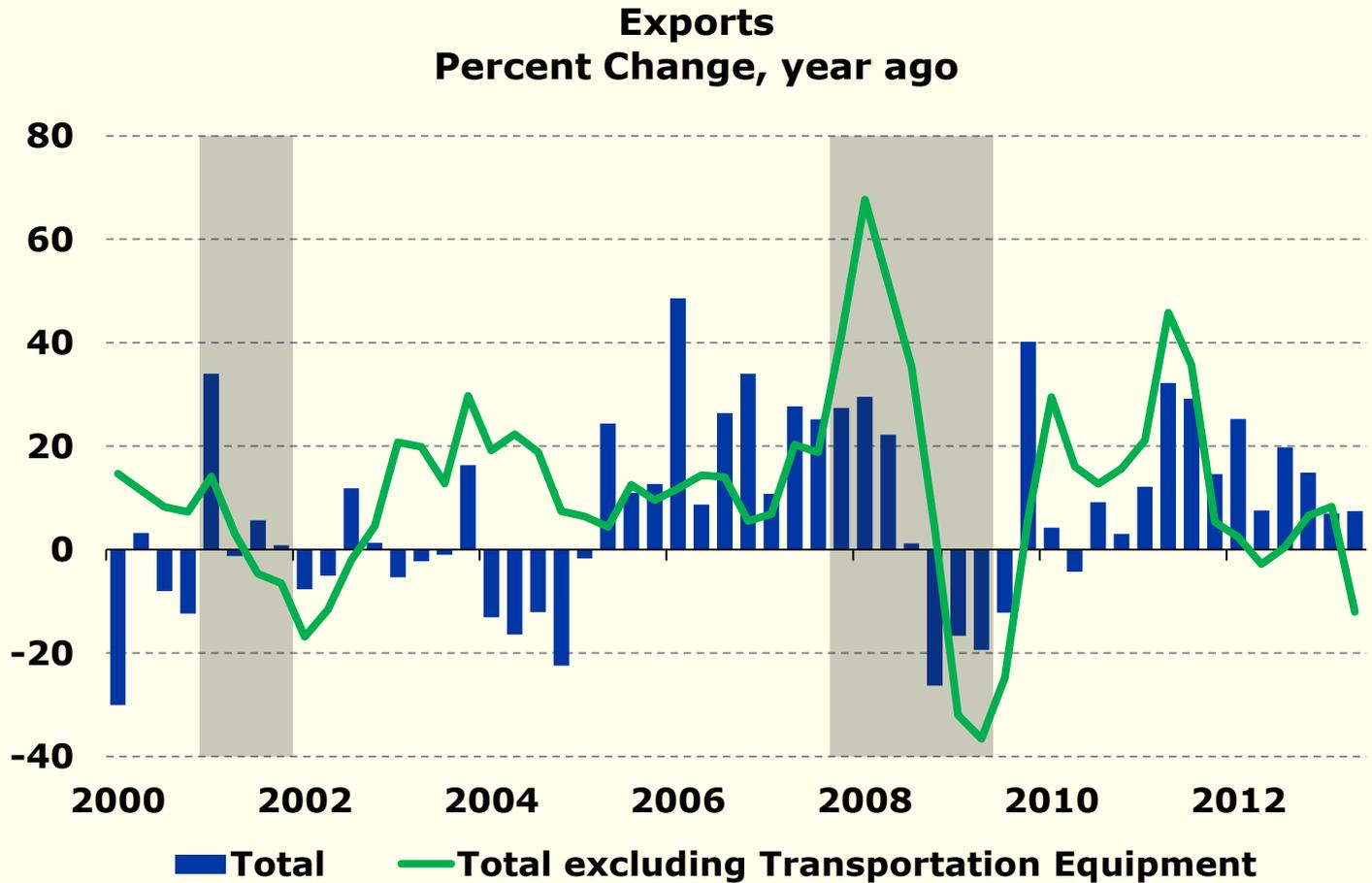
Source: WISER Trade Data; data through 2012



Export growth has slowed

Trans. Equip. exports were up 28% year over year in April and May 2013

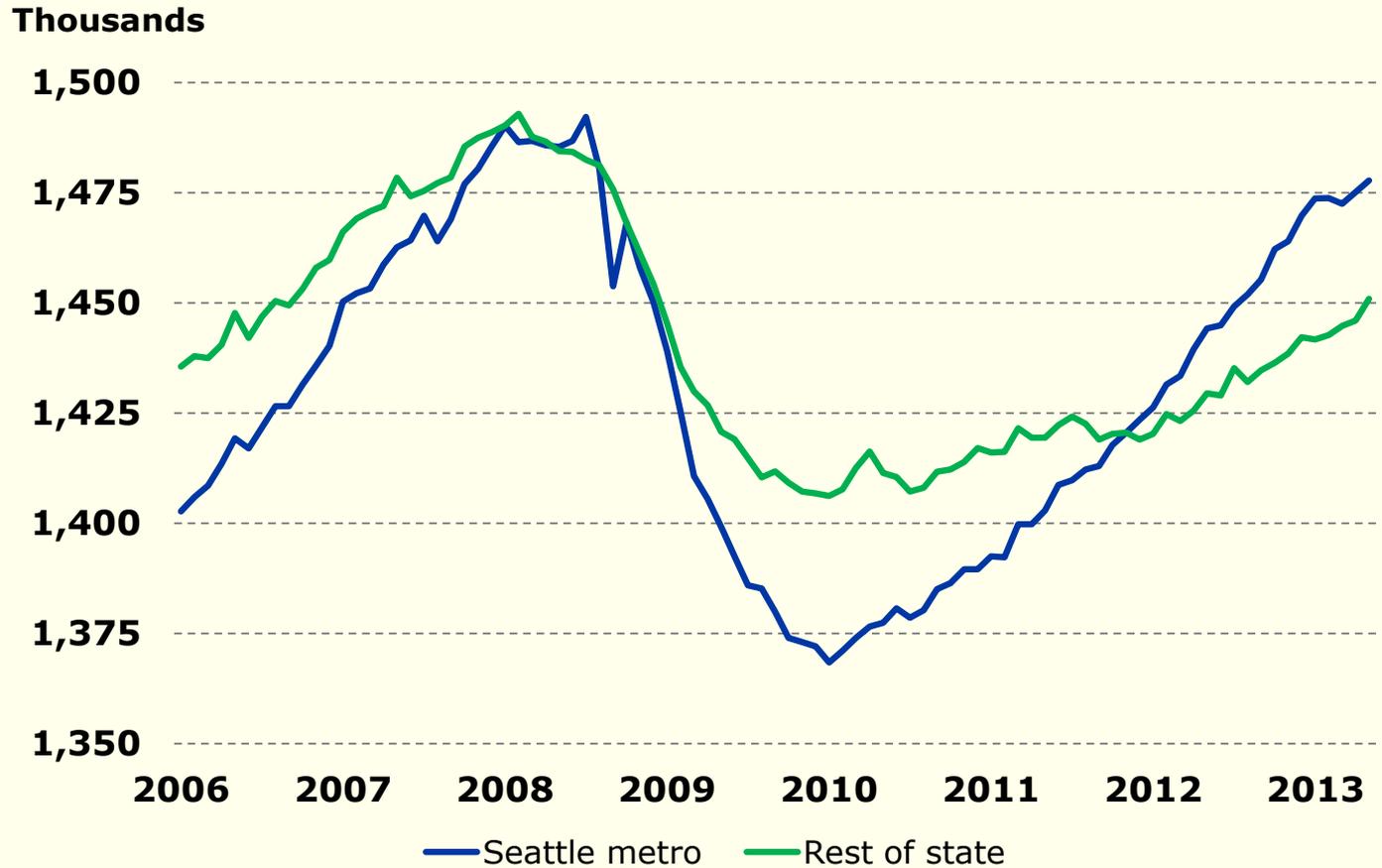
Ag exports were down 48% year over year in April and May 2013



Source: Wisner Trade Data; through May 2013



Seattle employment declined further but has recovered faster

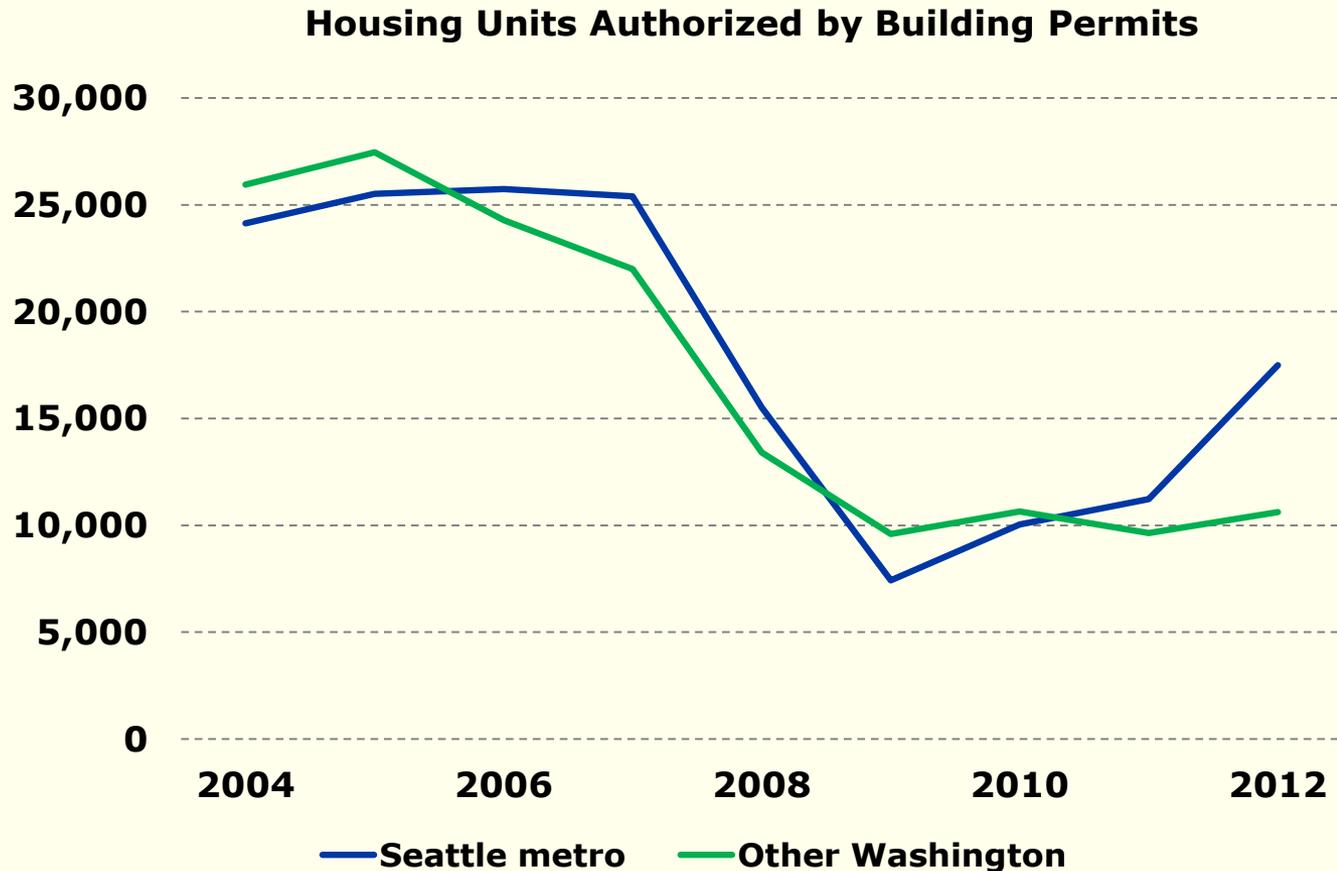


Source: Employment Security Dept., ERFC; data through June 2013

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Seattle area has most of recent growth in building permits



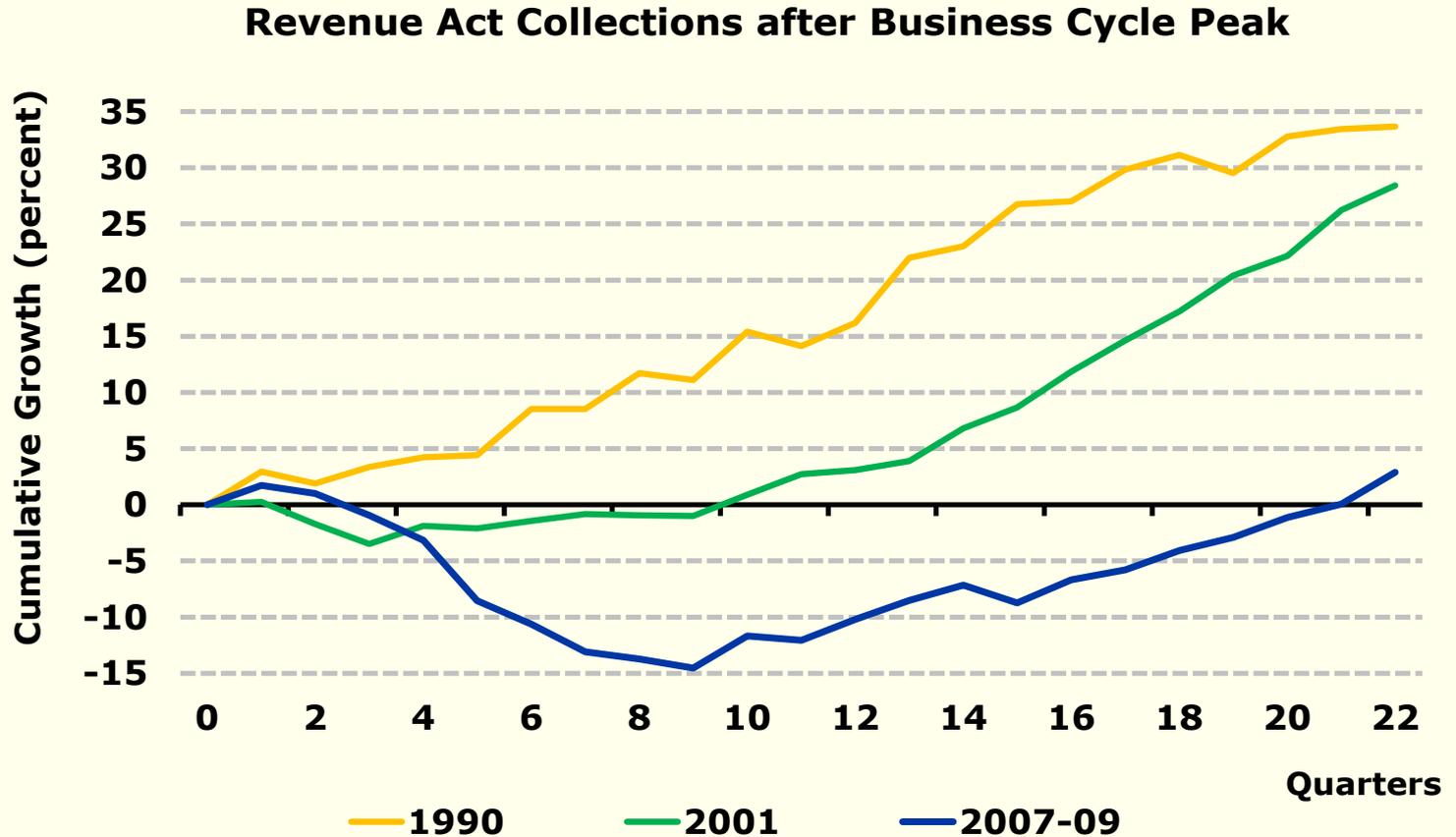
Source: U.S. Census Bureau, ERFC; data through 2012

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Revenue collections have been weak compared to past recoveries

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

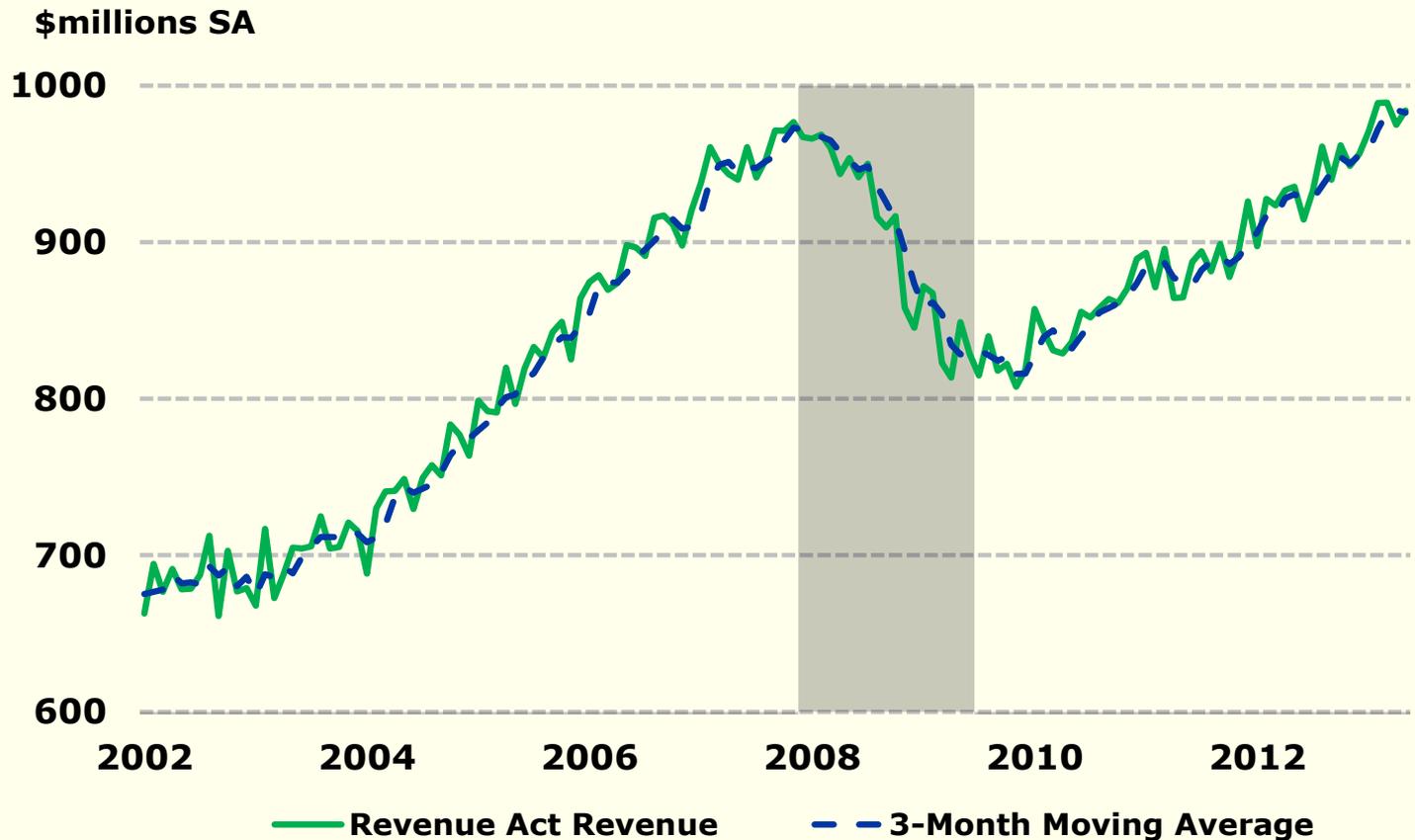


Source: ERFC; data through 2013 Q1



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

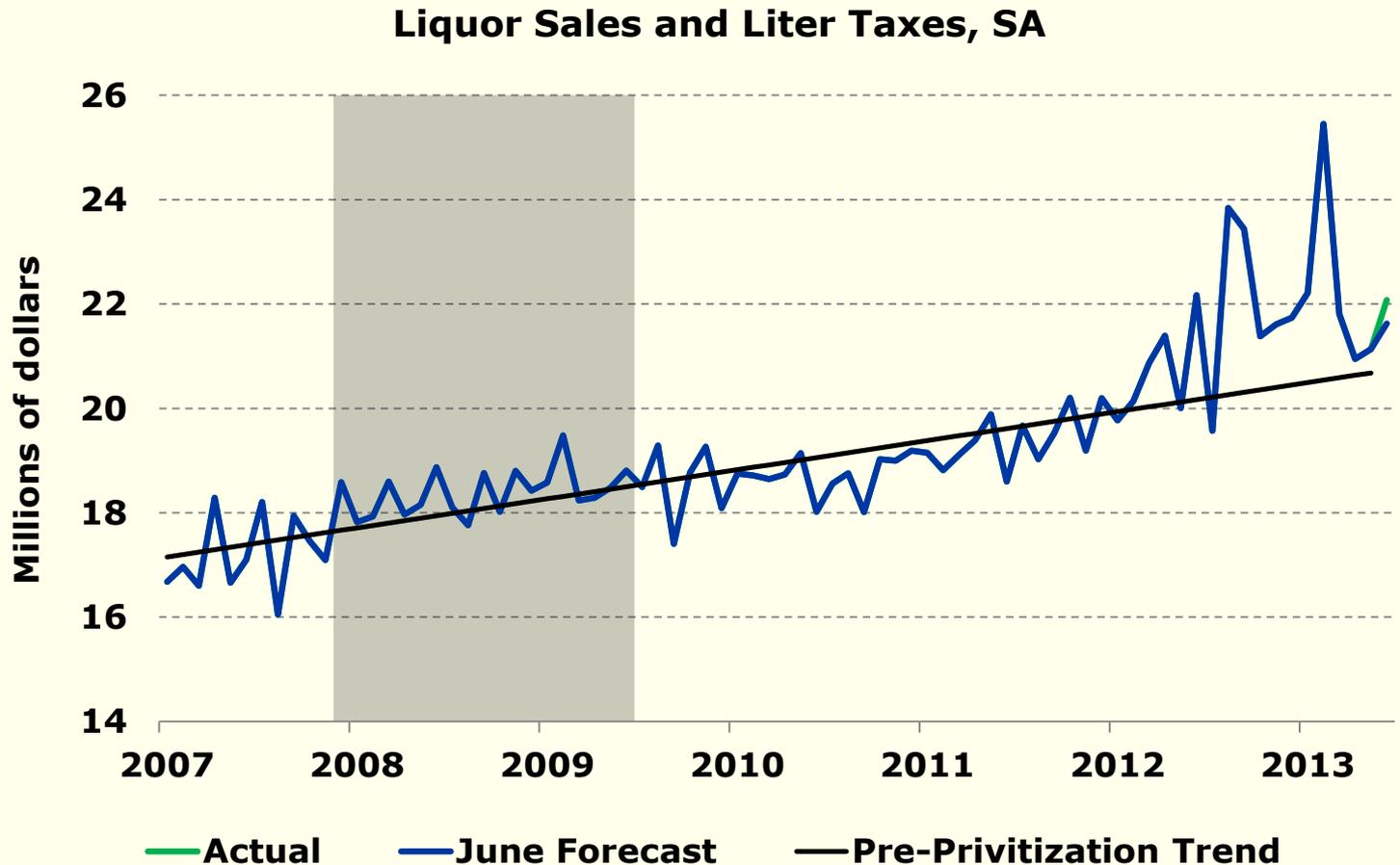
Source: DOR and ERFC; monthly data through estimated May 2013 activity

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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

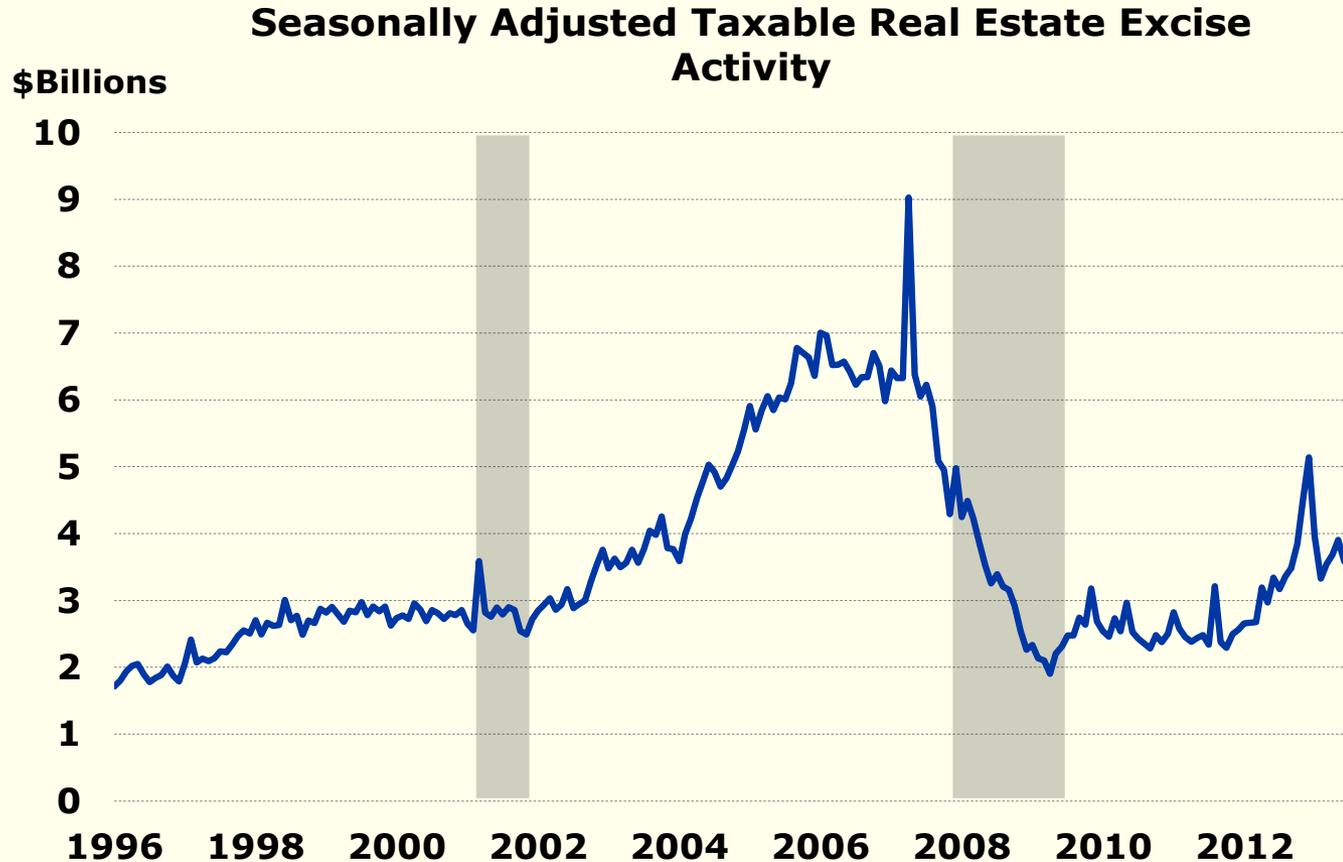
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REET still showing growth after end of year rush

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

- Washington state accounts for roughly 2% of the U.S. economy and population
- 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; non-education government employment continues to contract