

Washington State Economic Outlook & Revenue Collection Experience

Presented to
Skookum Investment Club

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October 09, 2013
Tumwater, Washington



**WASHINGTON STATE
ECONOMIC AND REVENUE FORECAST COUNCIL**

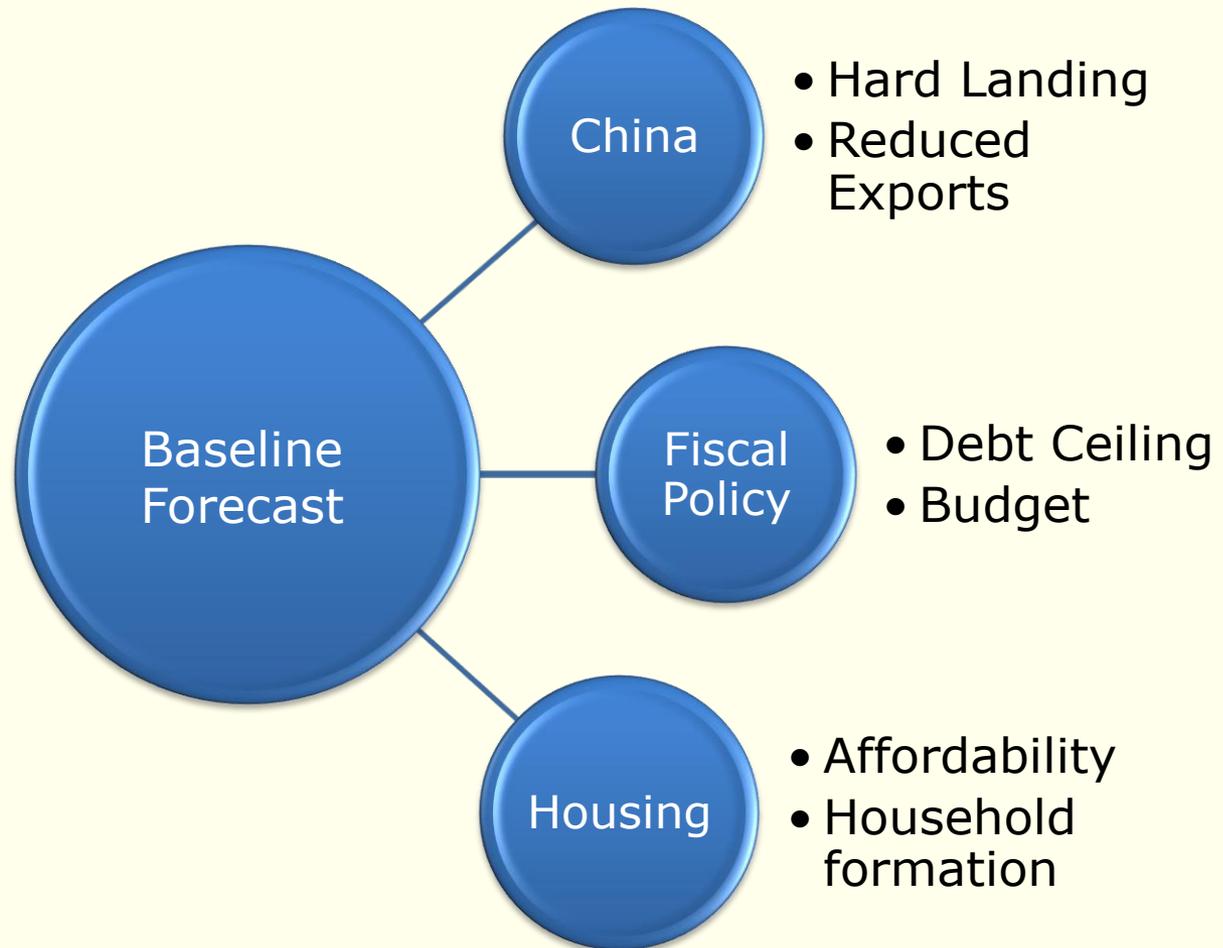


Summary

- 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 federal 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
- State revenue collections have returned to pre-recession levels

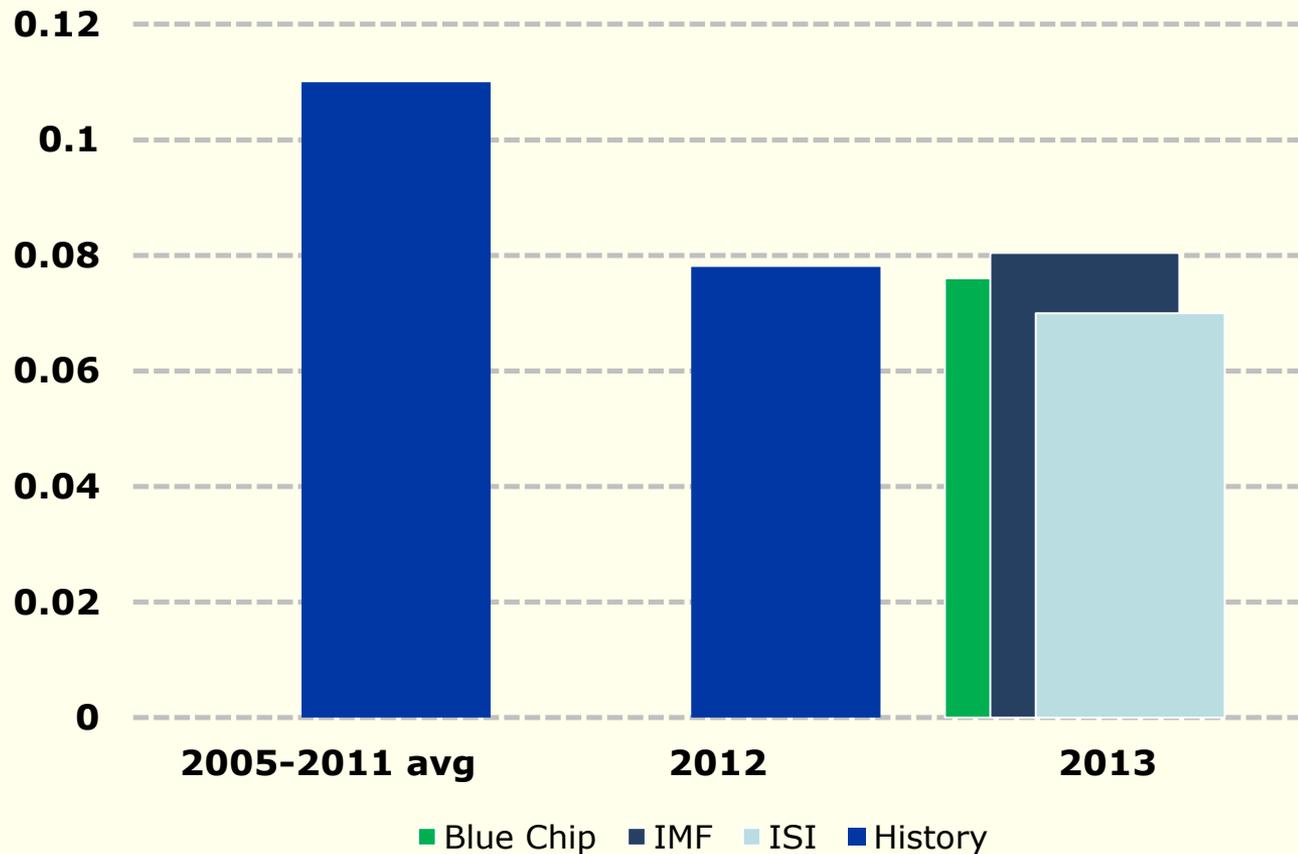


Three major risks to the forecast





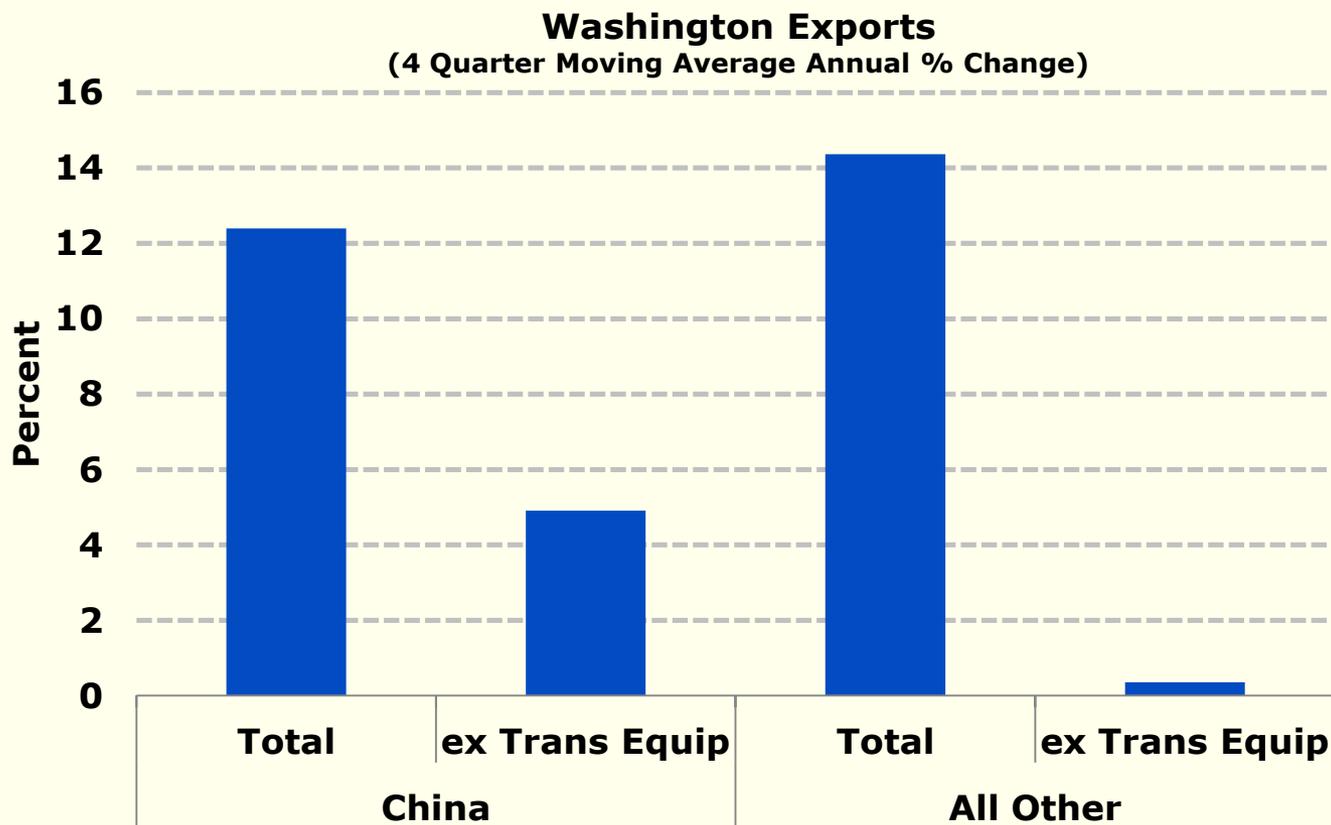
China's Economic Growth has Slowed



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

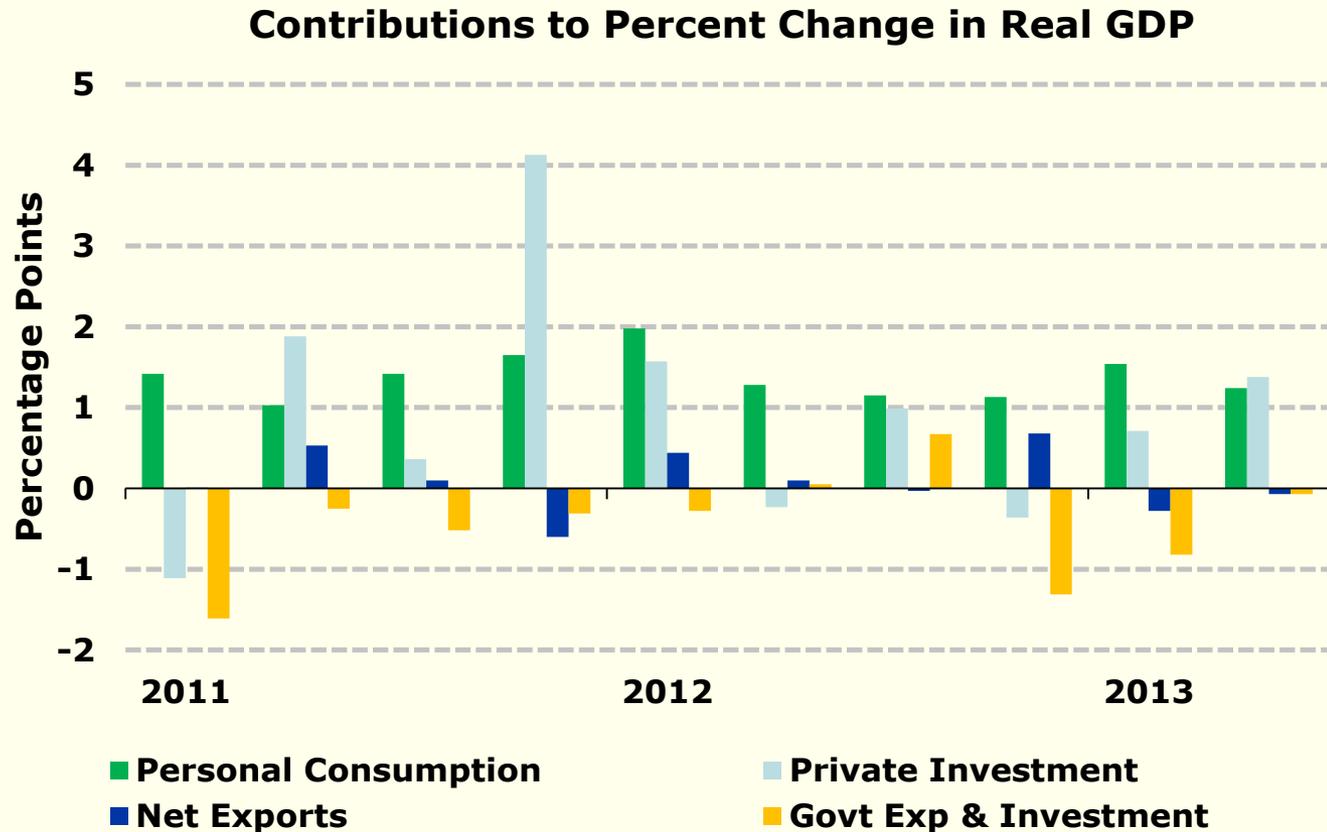


Excluding aerospace, exports outside of China are weak





Declining government expenditures a drag on GDP growth



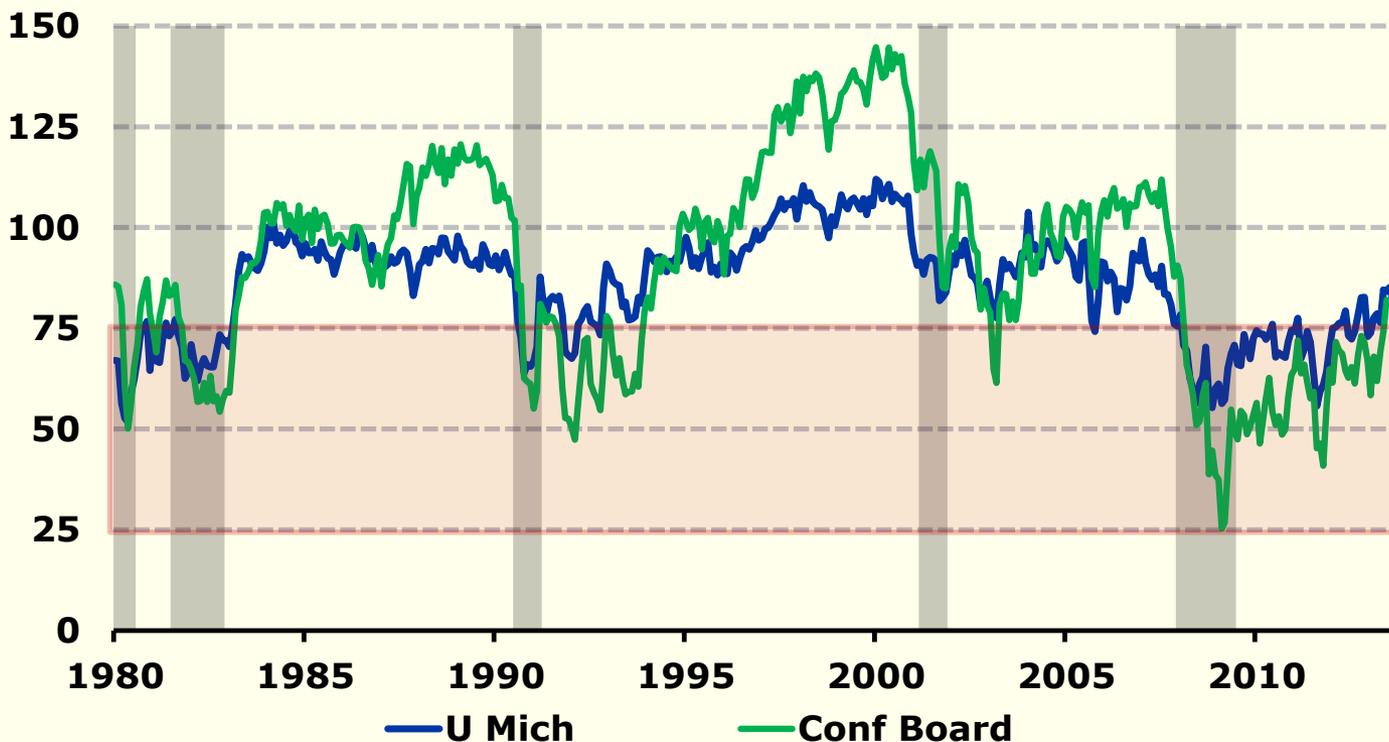


Consumer confidence is beginning to strengthen...

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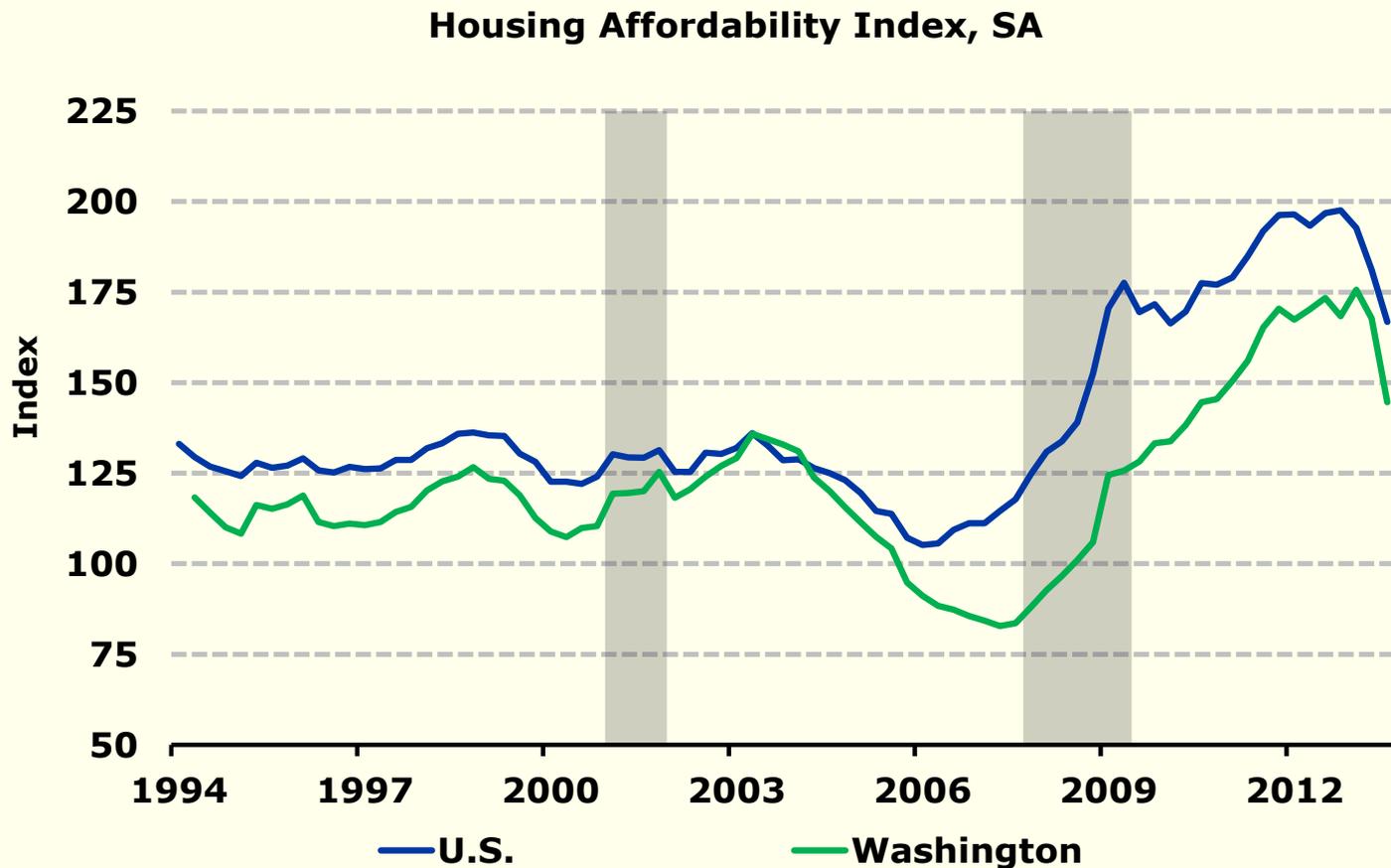
Mich: 1966Q1 = 100, SA

Conf Board: 1985 = 100, SA



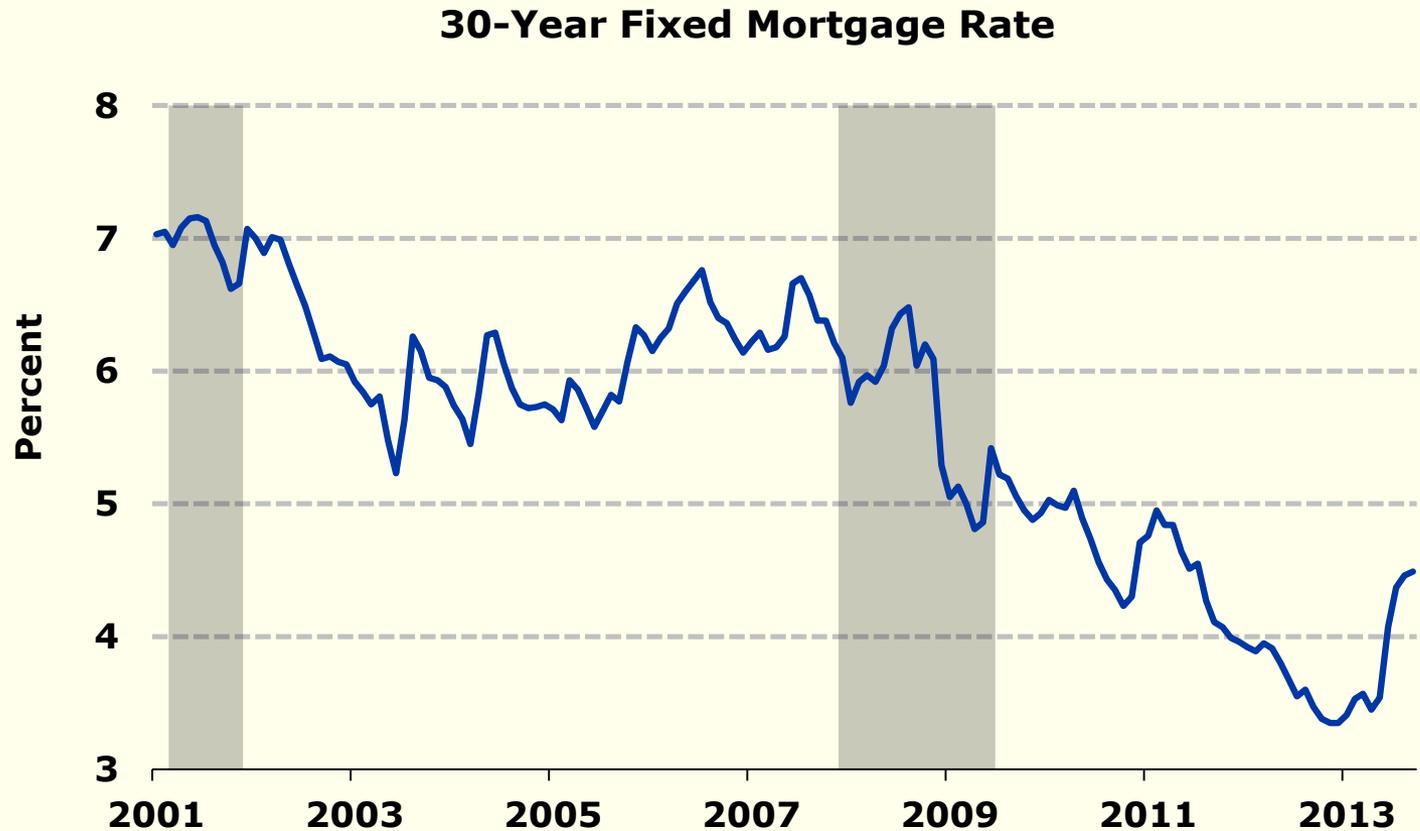


...but housing affordability is plummeting.





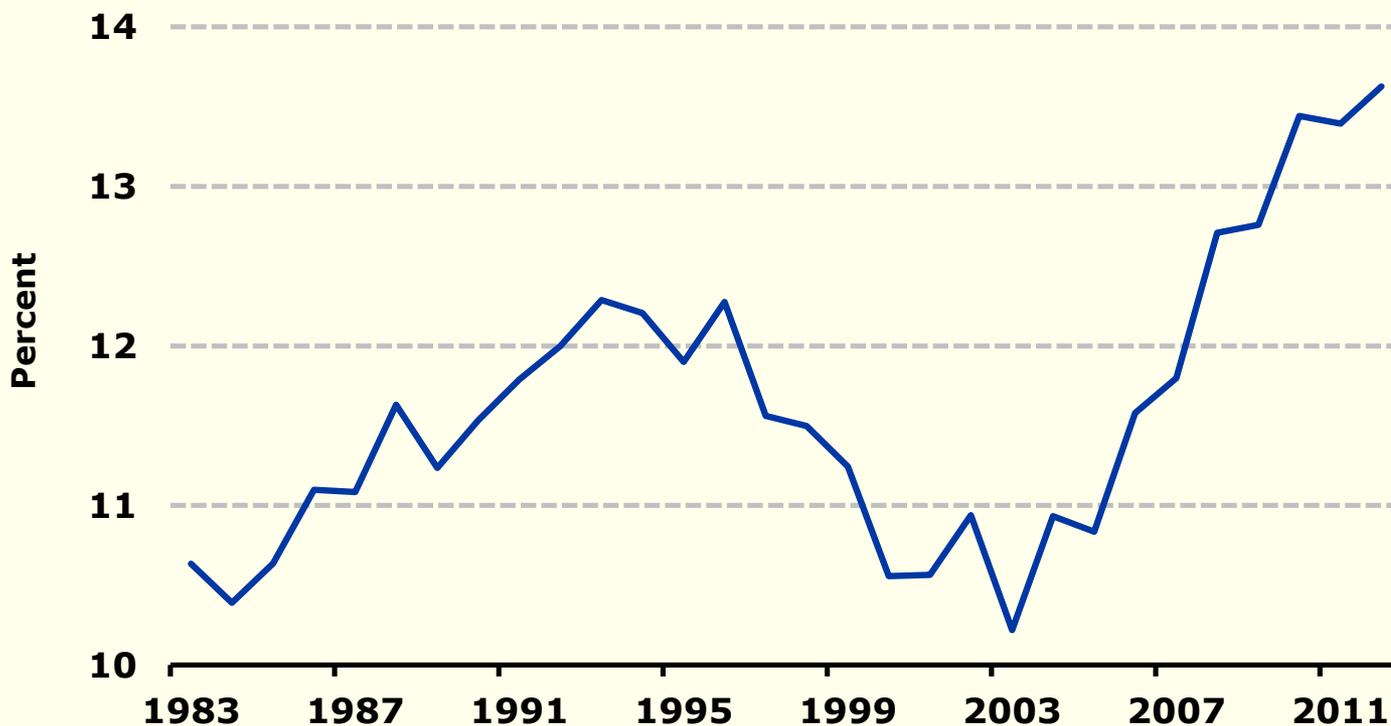
Mortgage rates are increasing





Many adults continue to live at home with their parents

U.S. Residents Ages 25-34 Living with Parents



Source: U.S. Census; data through 2012

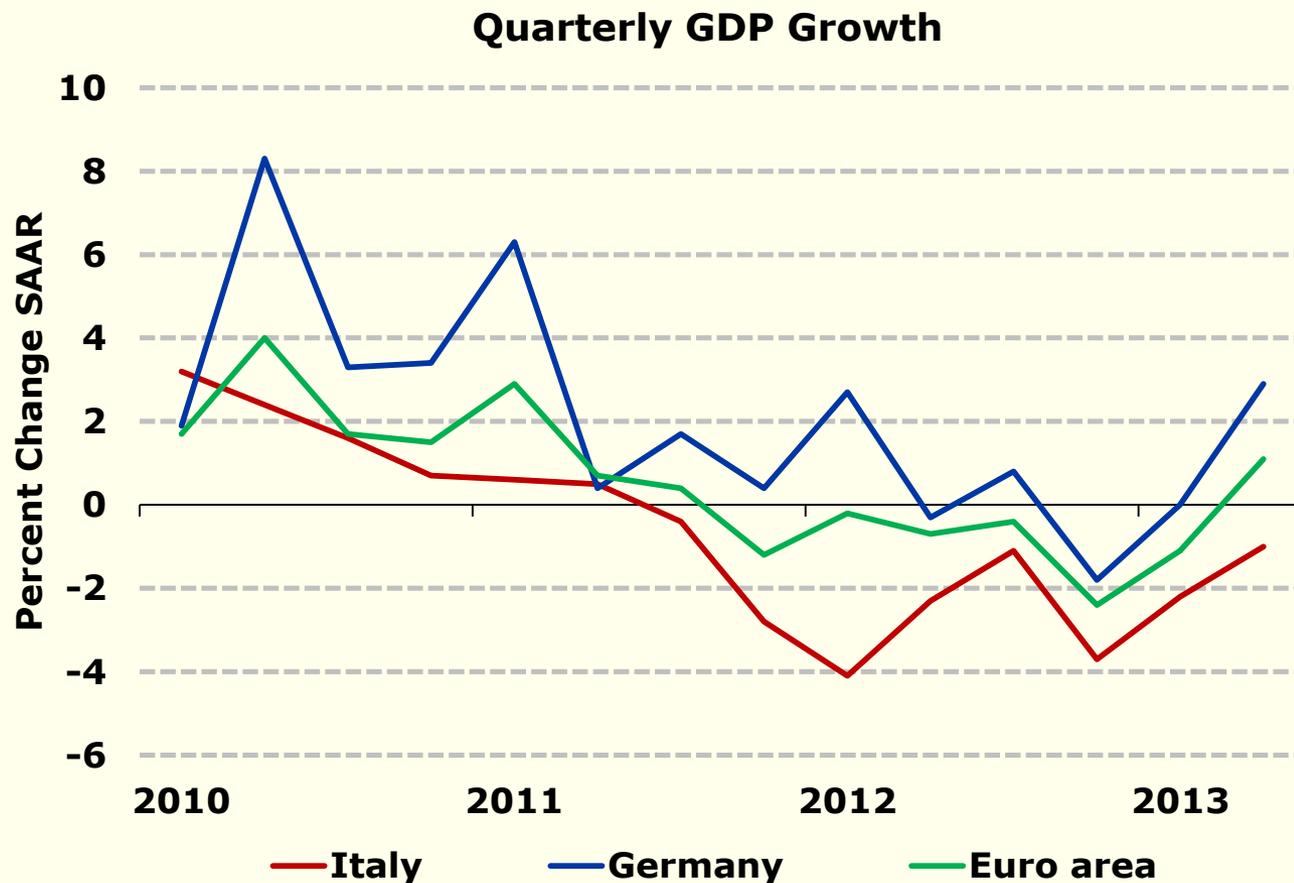


Euro area GDP has returned to positive growth but risks remain

Eurozone
Forecast:

2013: -0.6%

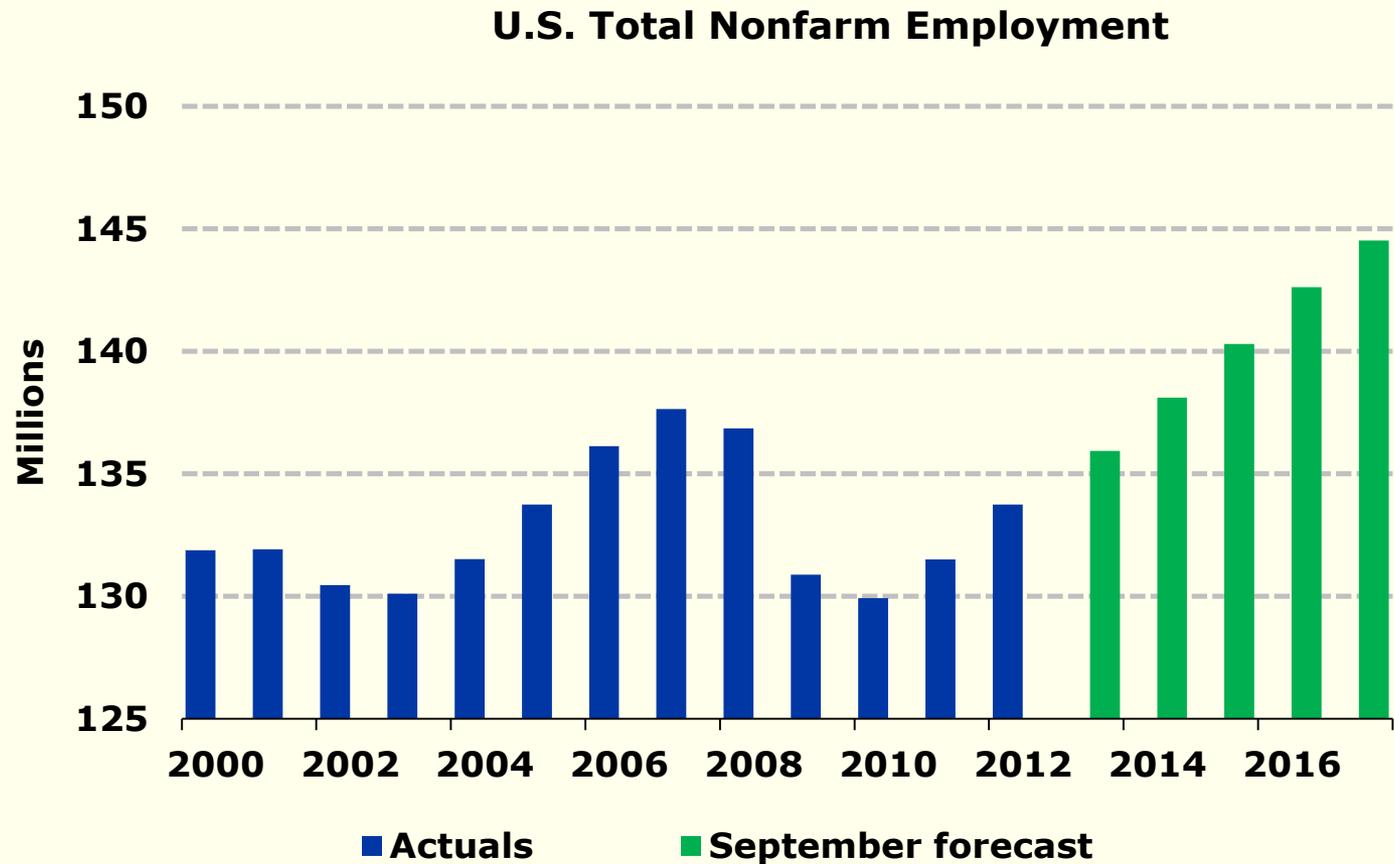
2014: 0.8%



Source: Eurostat; data through 2013Q2

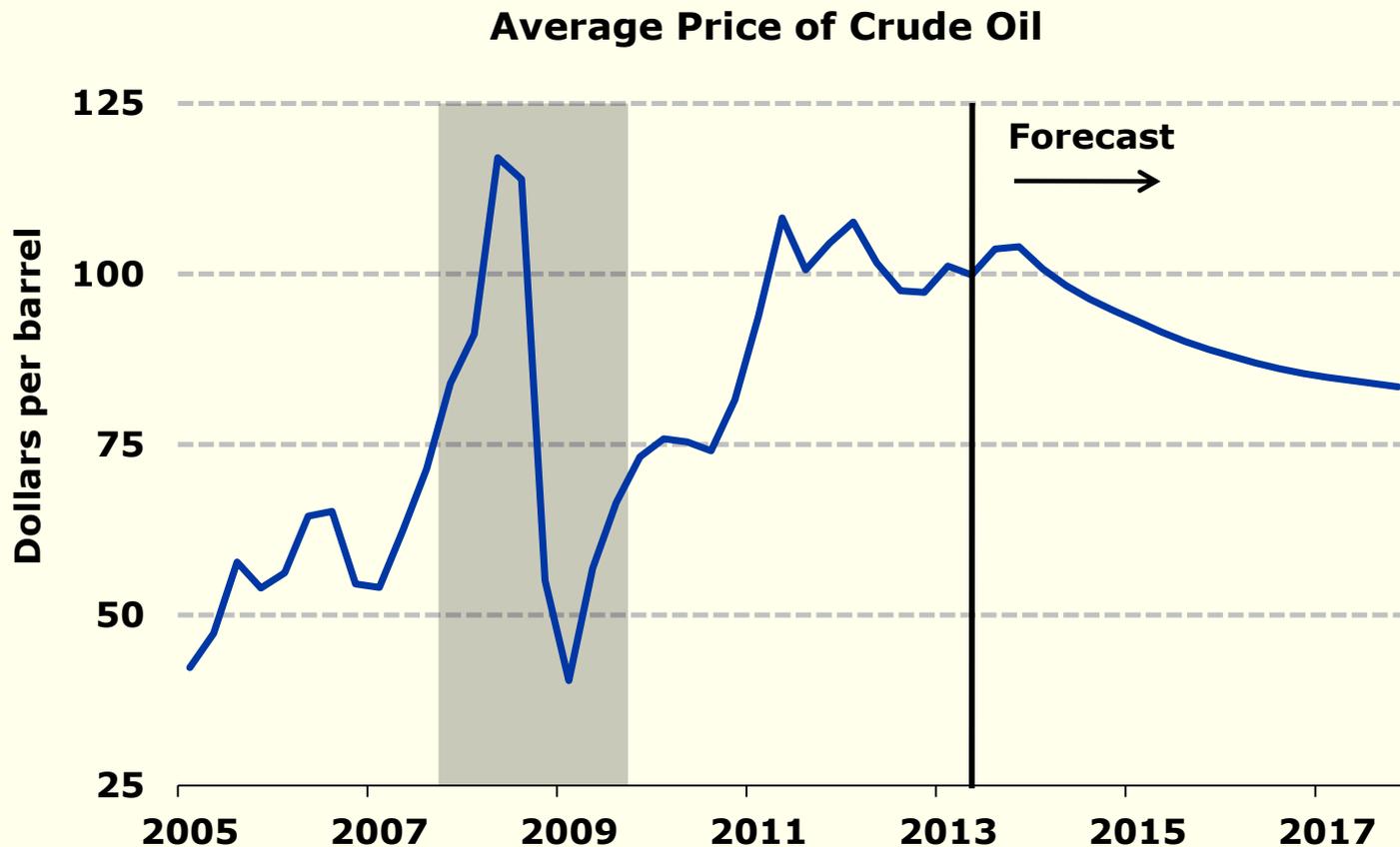


U.S. employment returns to pre-recession levels in 2014



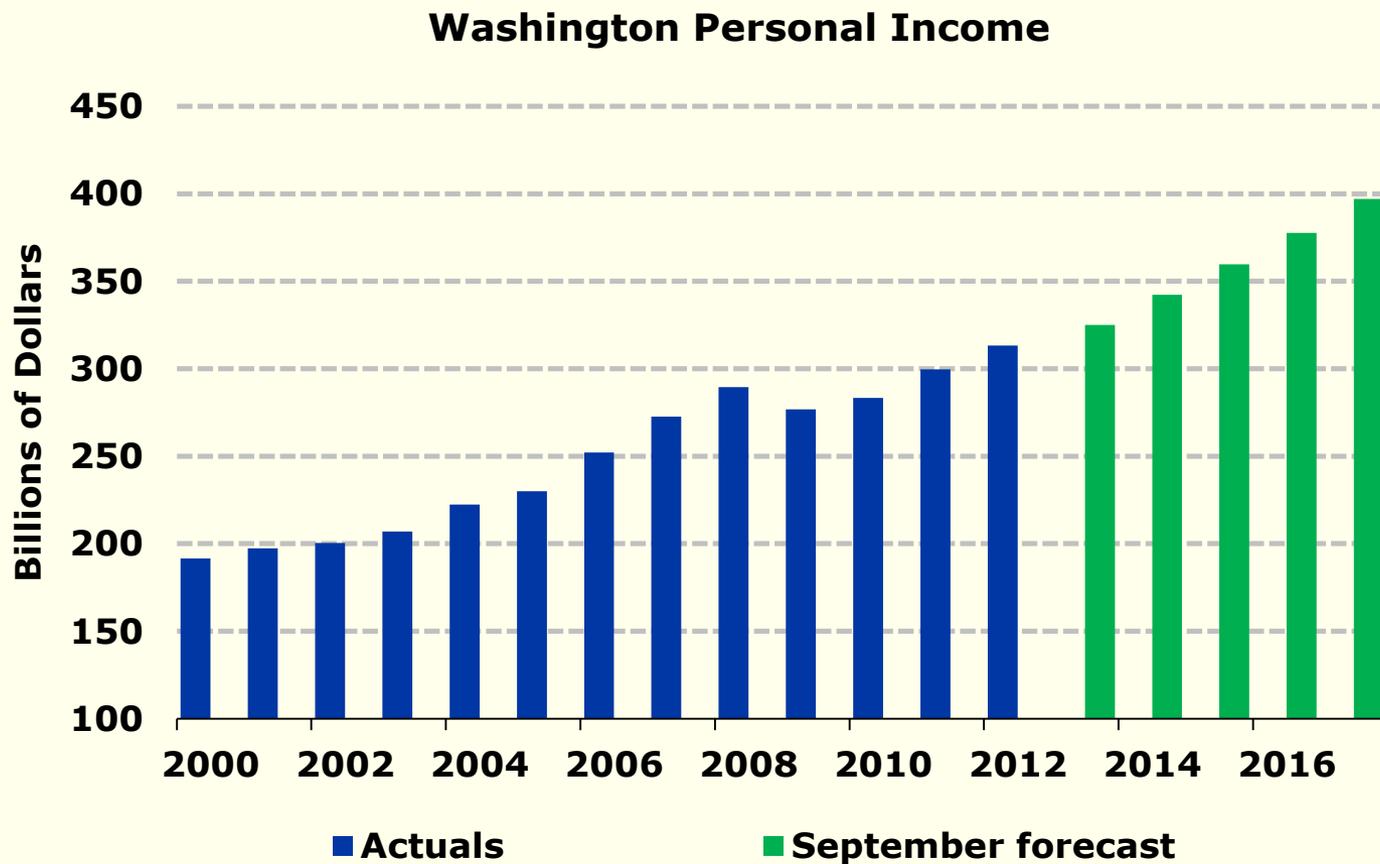


Oil prices are expected to decline over the next several years



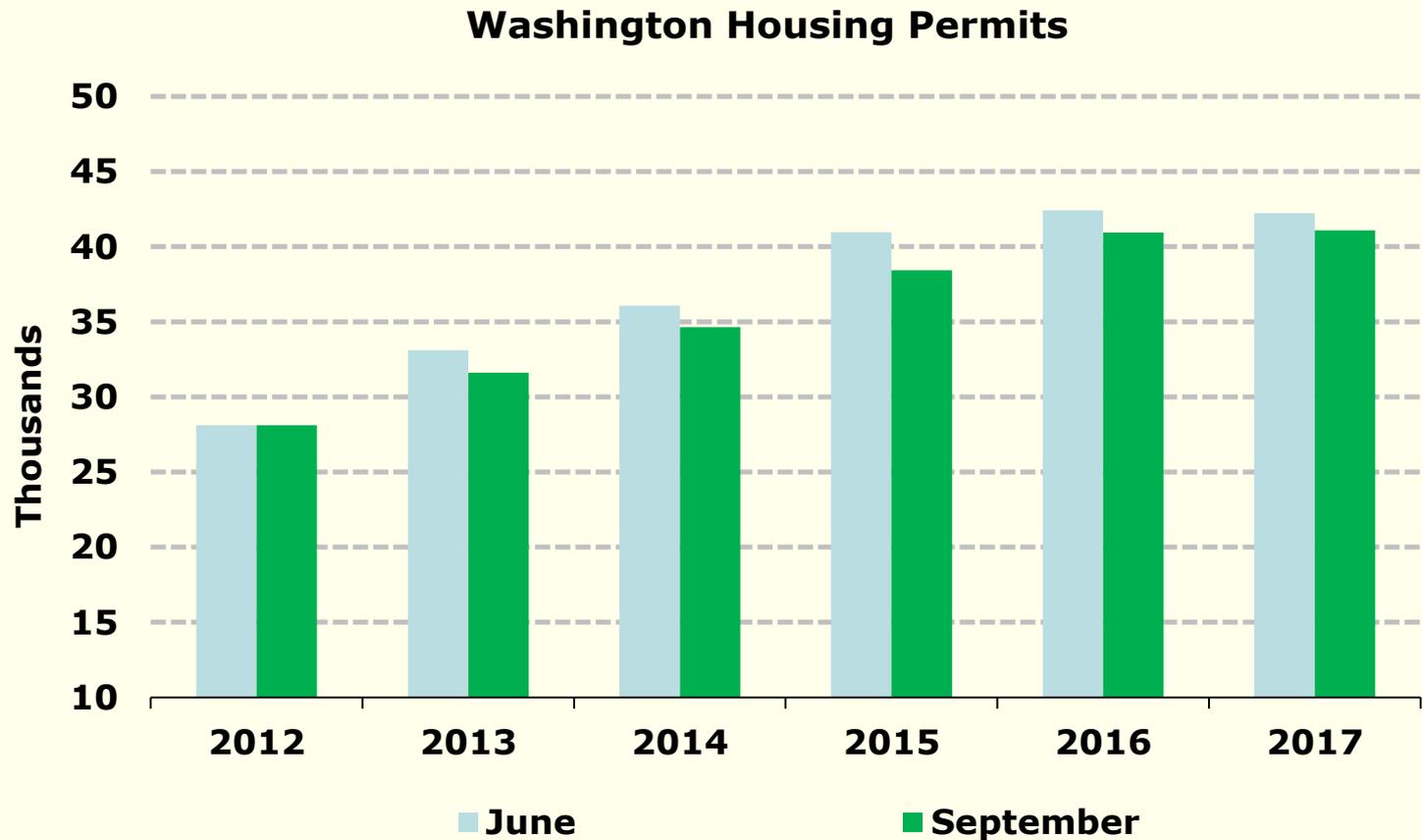


Washington personal income is growing





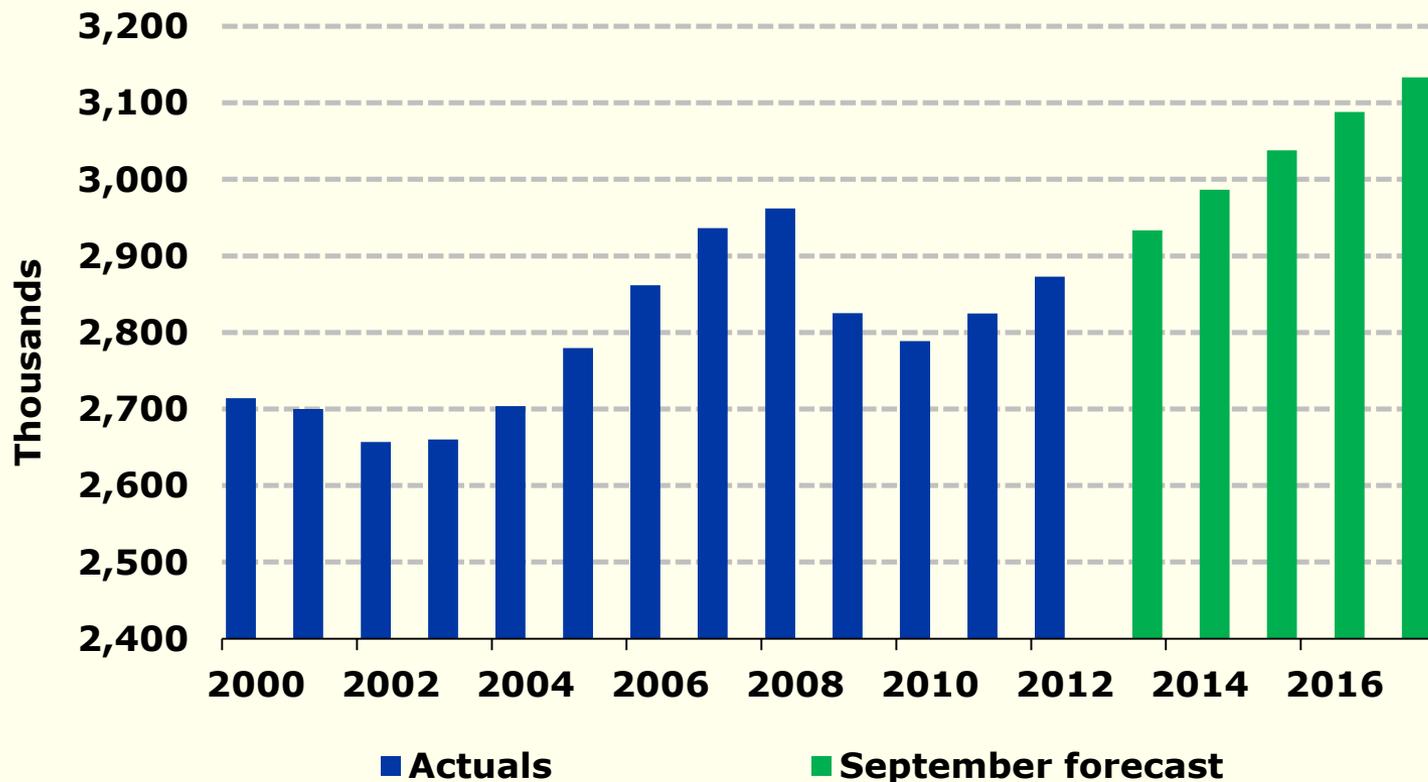
Washington Housing Permits Forecast: still increasing but lower than June





Like the U.S., Washington employment will return to pre-recession levels in 2014...

Washington Nonfarm Payroll Employment



Source: ERFC September 2013 forecast; historical data through 2012

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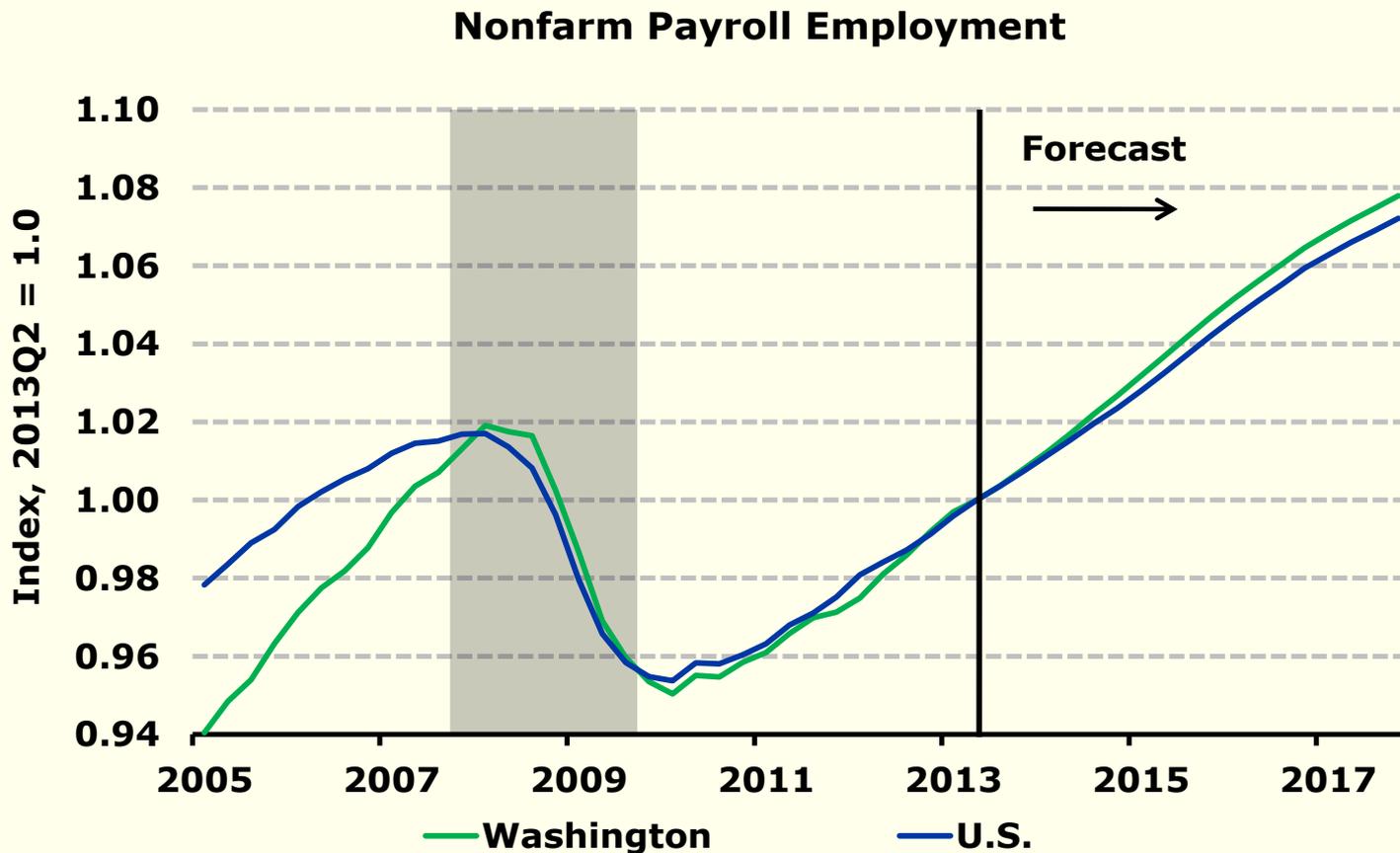


But Washington employment is growing slightly faster than the U.S.

Date of regaining peak:

WA:
2014Q3

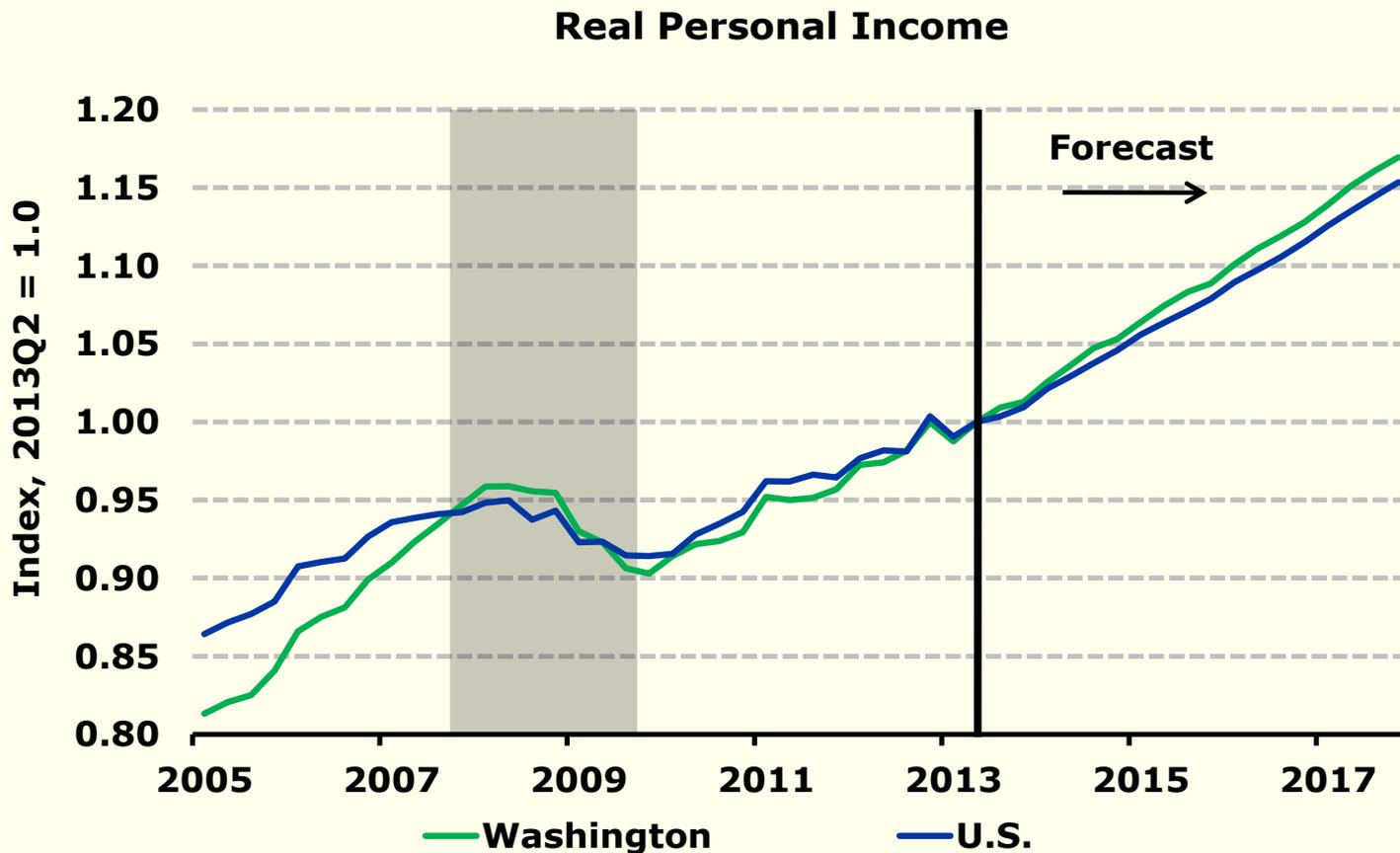
U.S.:
2014Q3



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

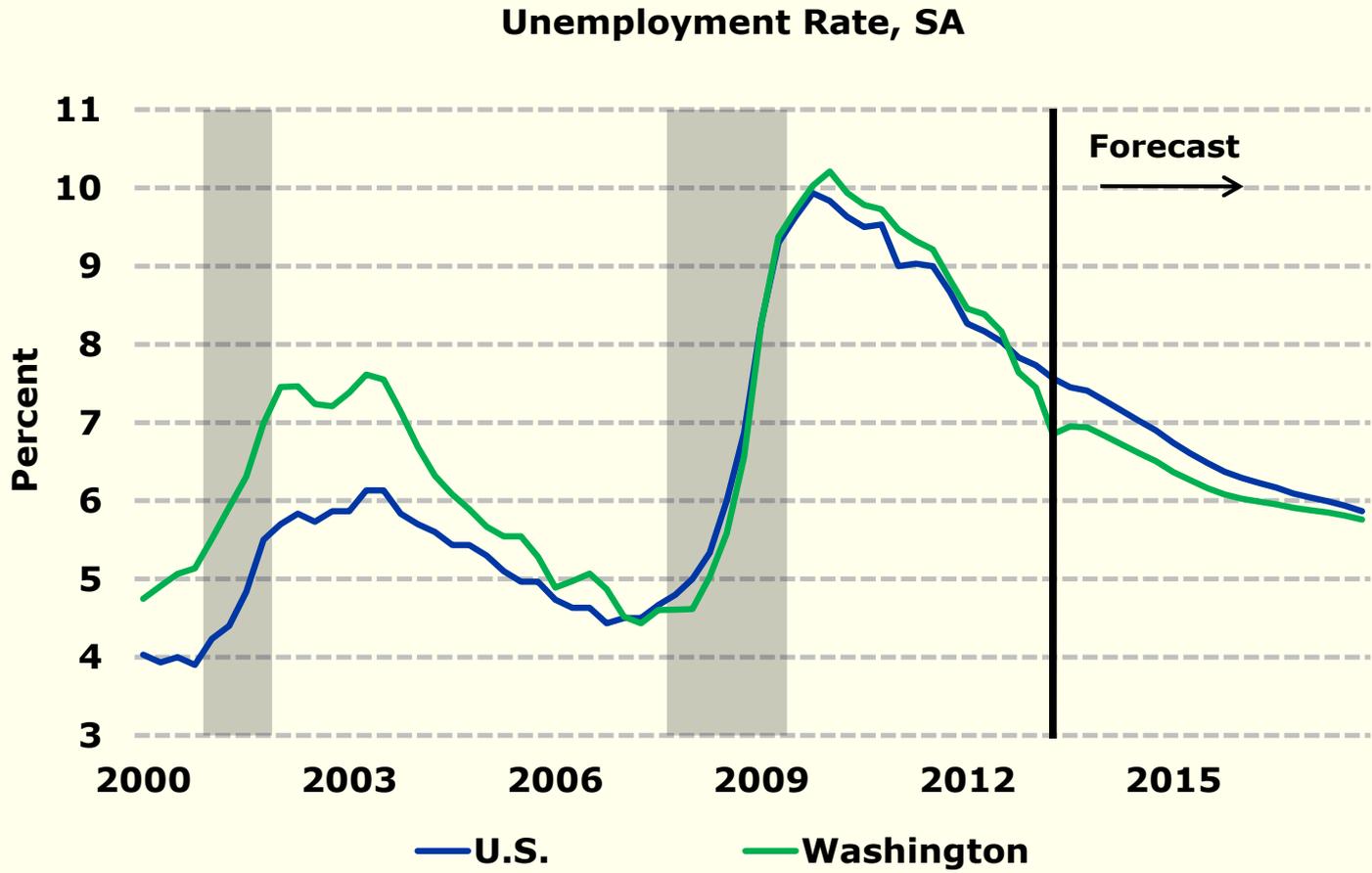


WA personal income will recover slightly faster than the U.S.





Washington unemployment expected to remain below U.S. rate

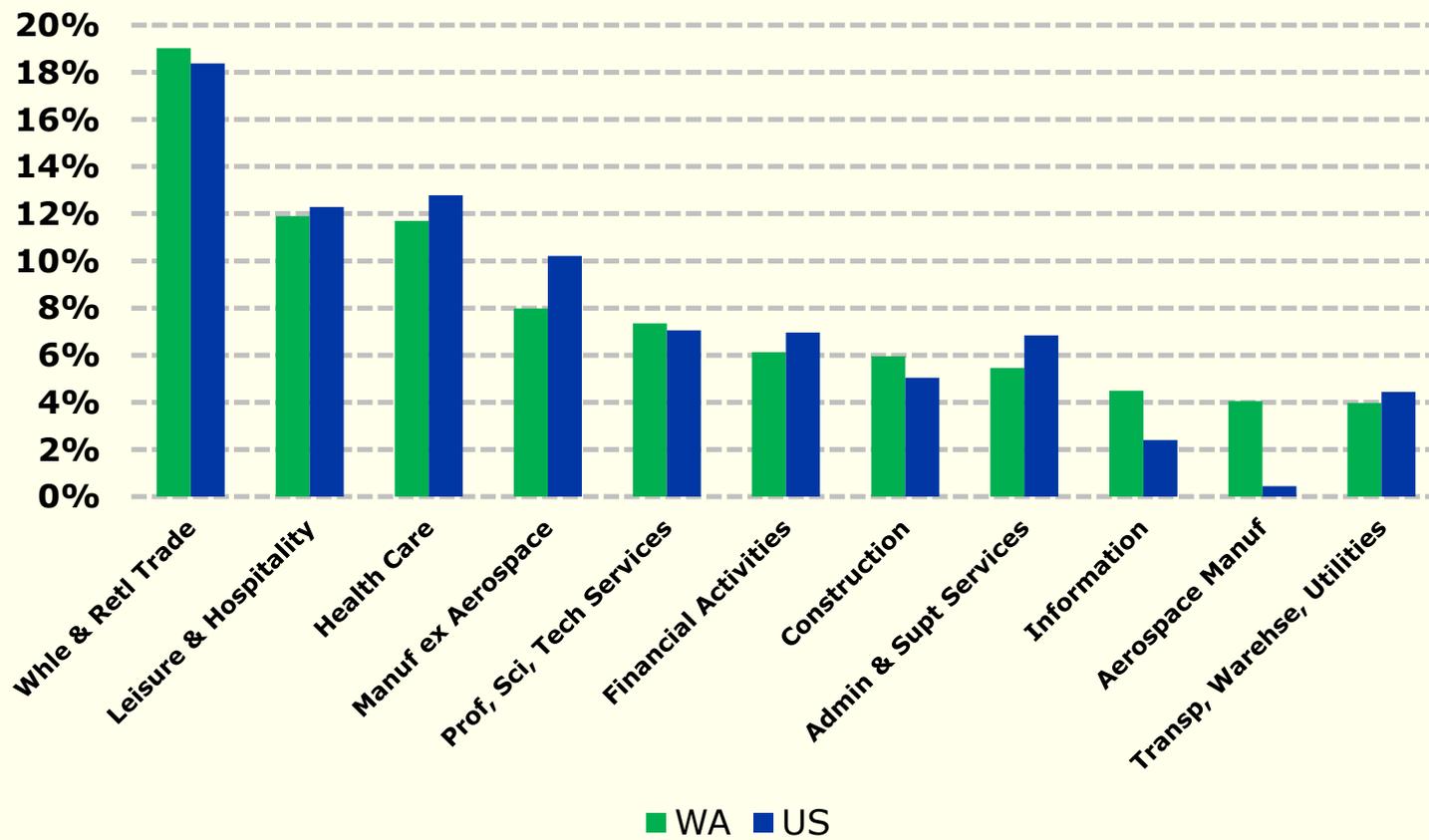


Source: ERFC September 2013 forecast; historical data through 2013 Q2



Major Industries by Employment

2012 Private Employment Shares by Industry

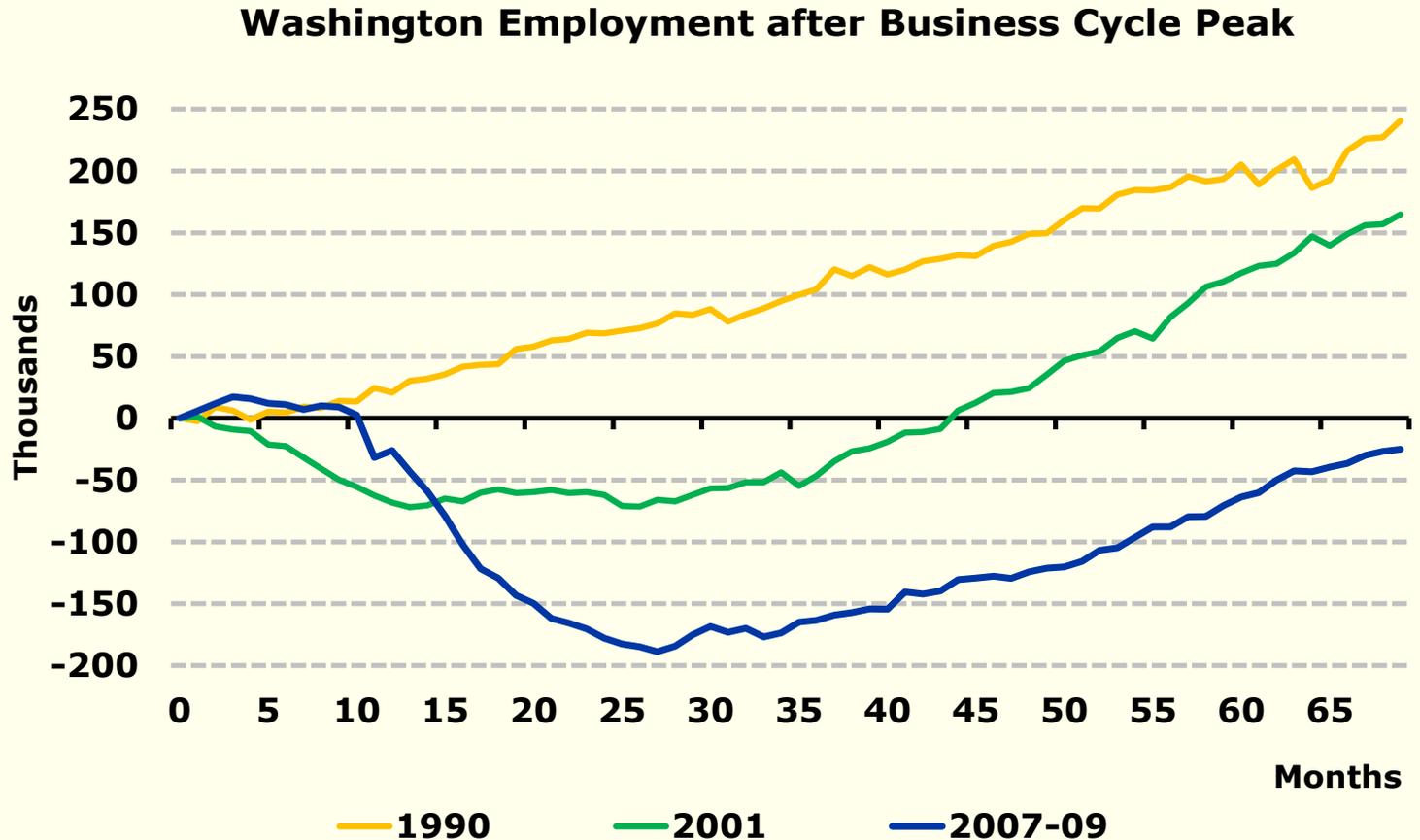


Source: U.S. Dept. of Labor, BLS; ESD; ERFC



After 5+ years, Washington employment has still not recovered

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

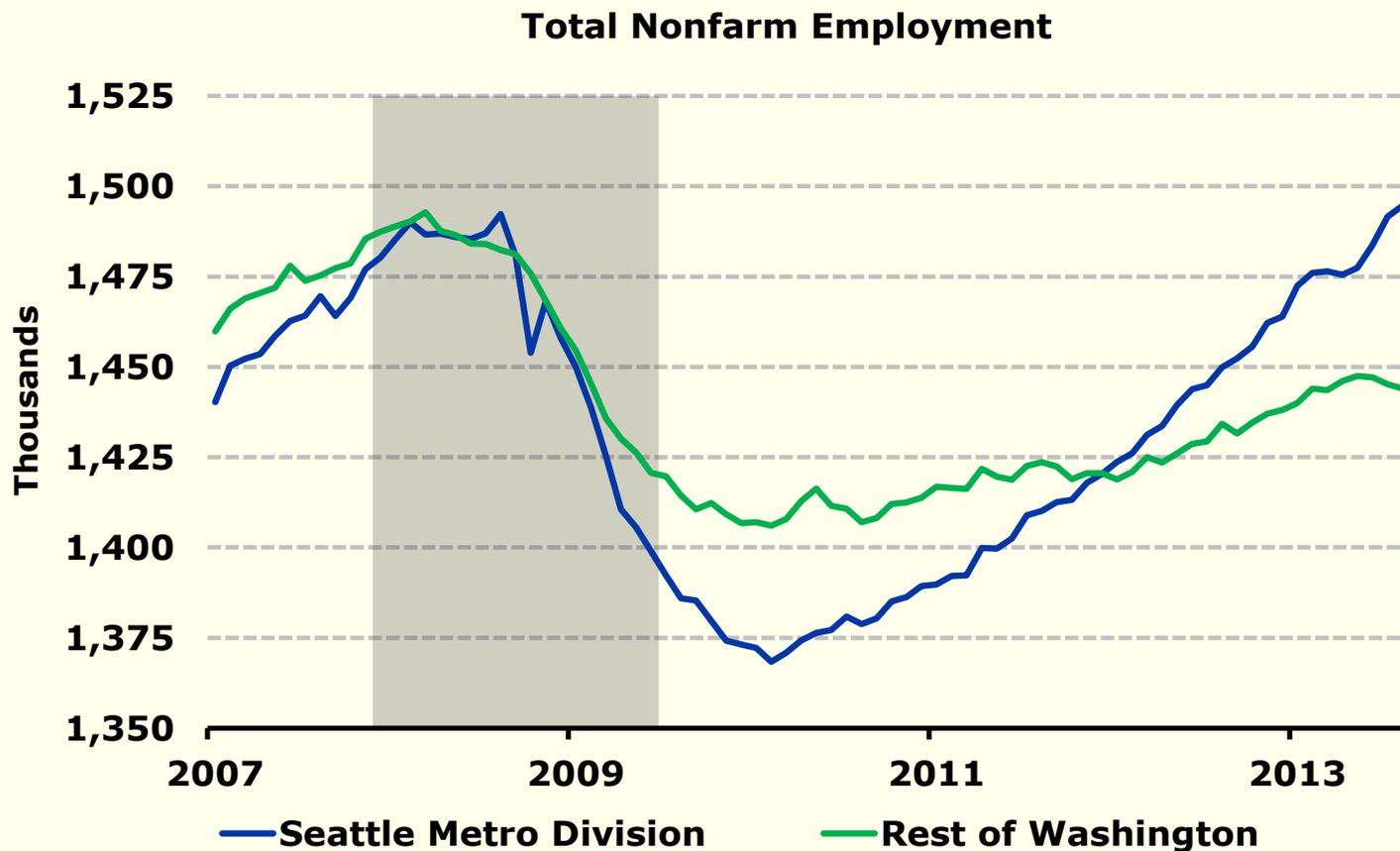


Source: WA ESD, ERFC; data through August 2013

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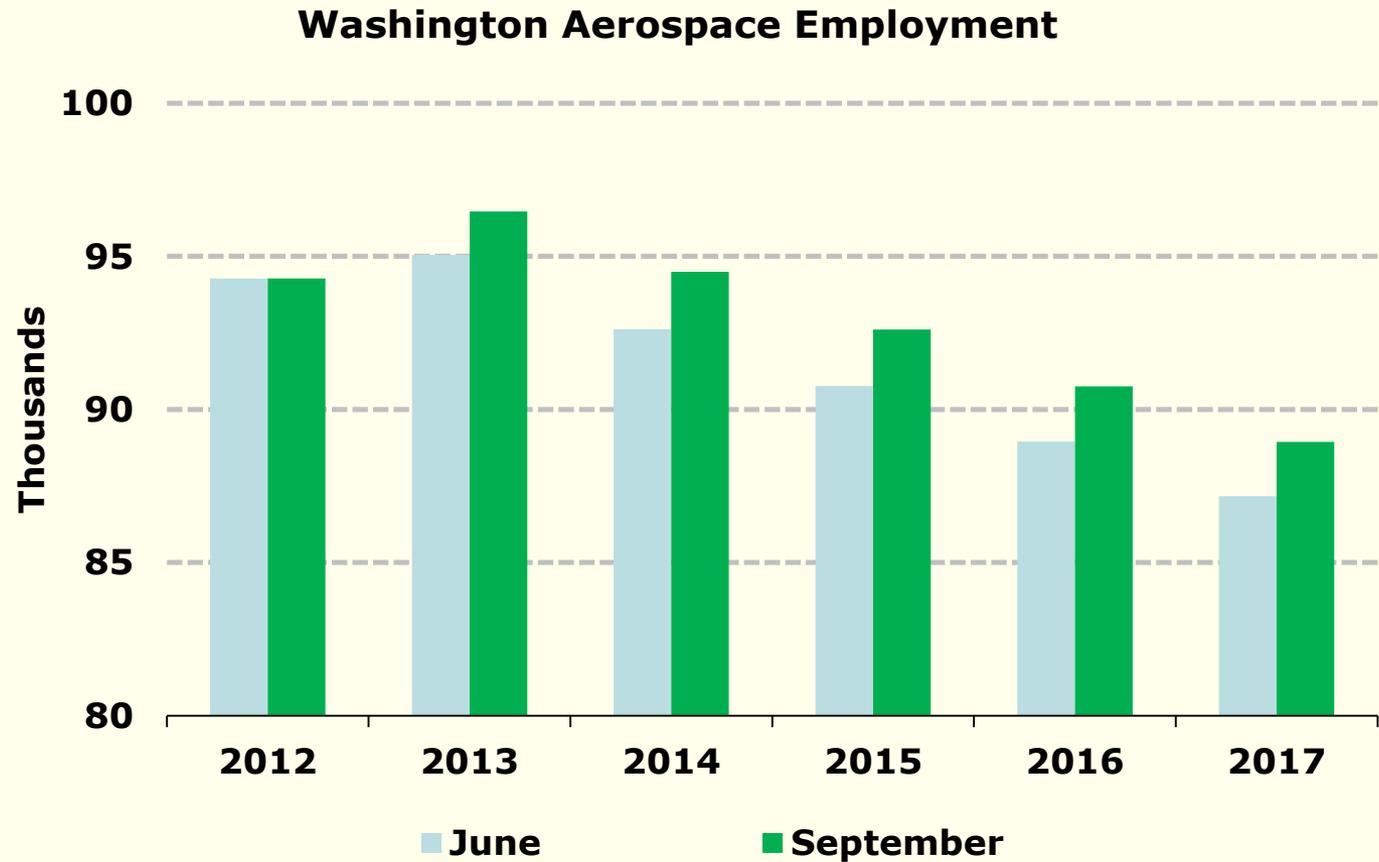
Most of the job growth has been in Seattle



Source: WA State Employment Security Department; data through August 2013



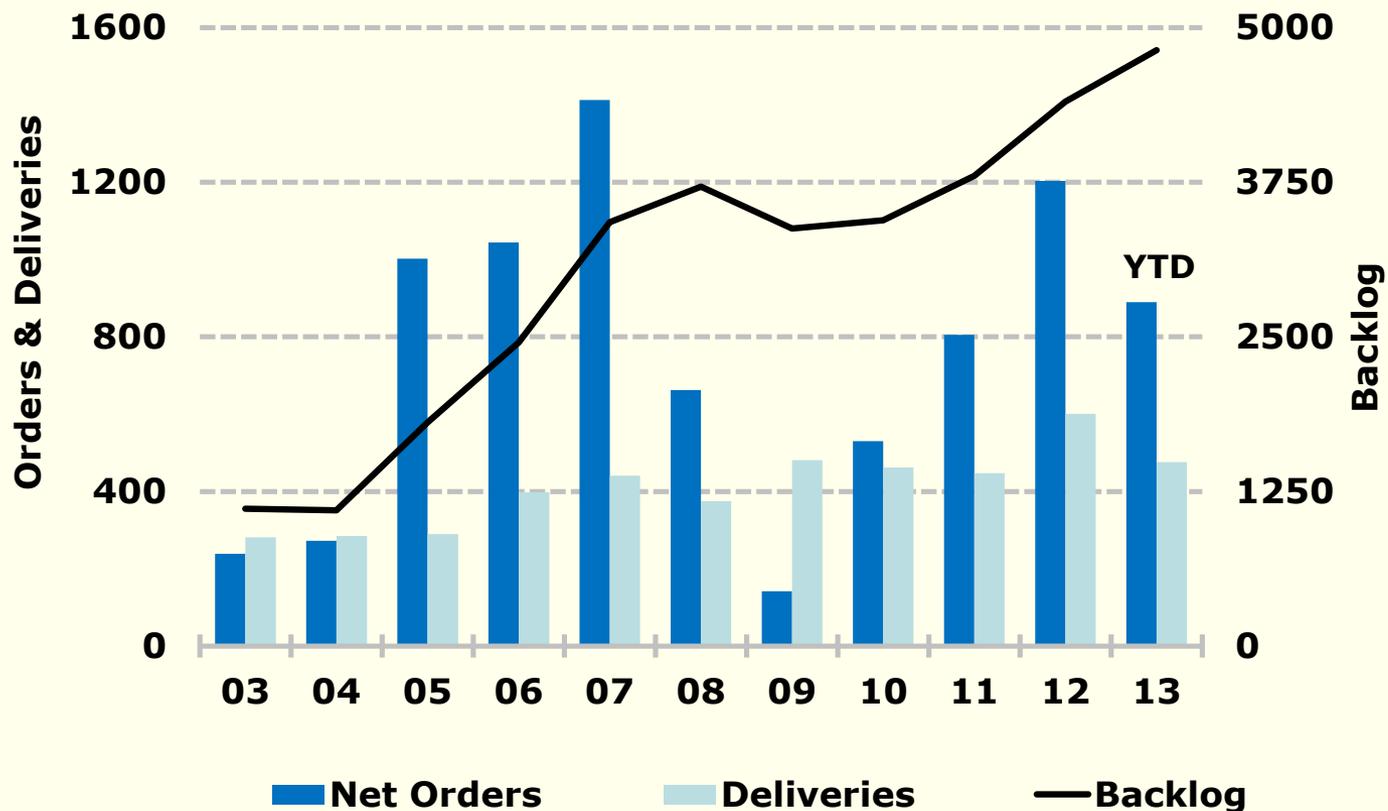
Aerospace employment is declining





Boeing has over 7 years of commercial orders on its books

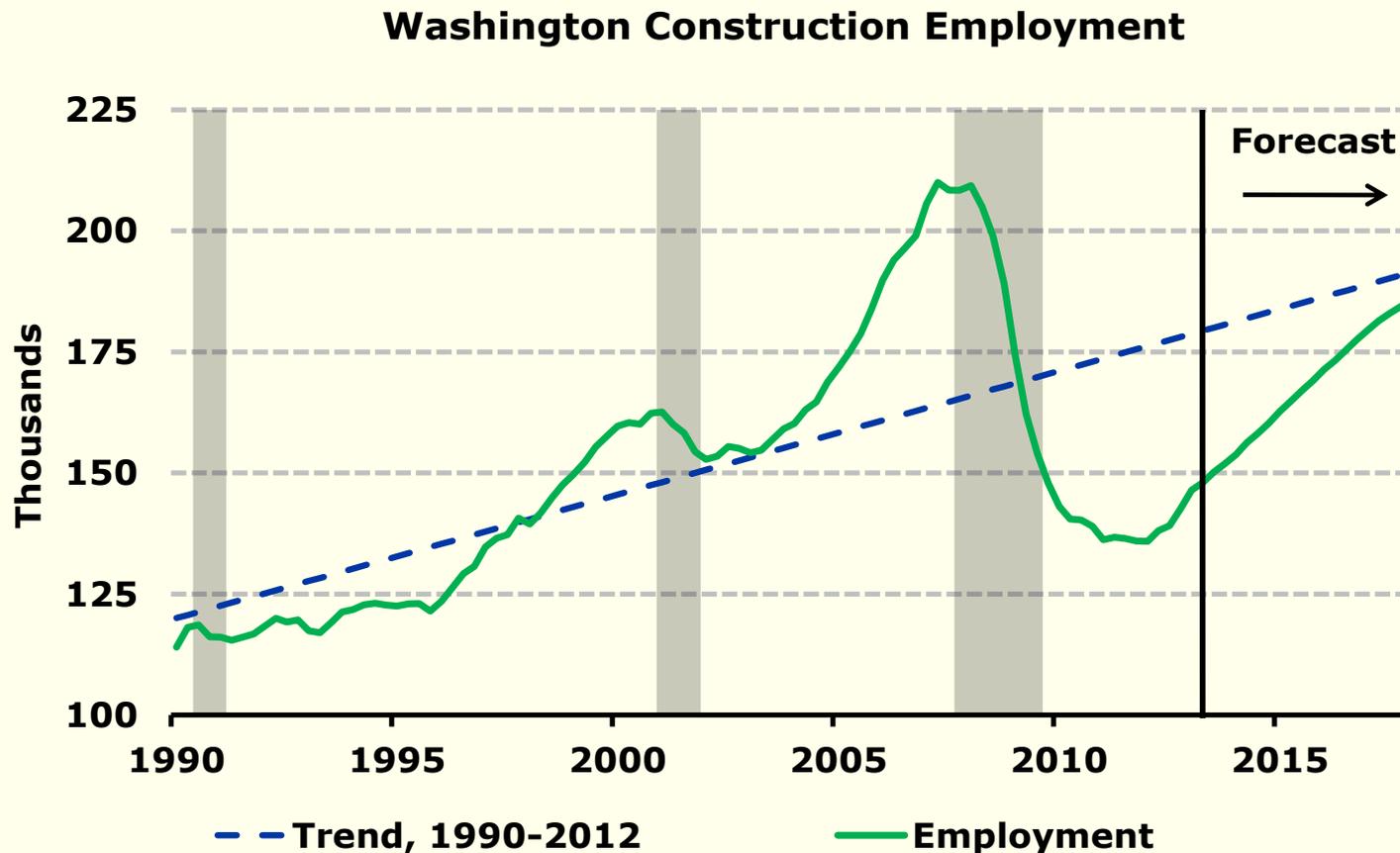
Excludes the military's new refueling tanker



Source: Boeing, data through September 2013



Washington construction employment is recovering



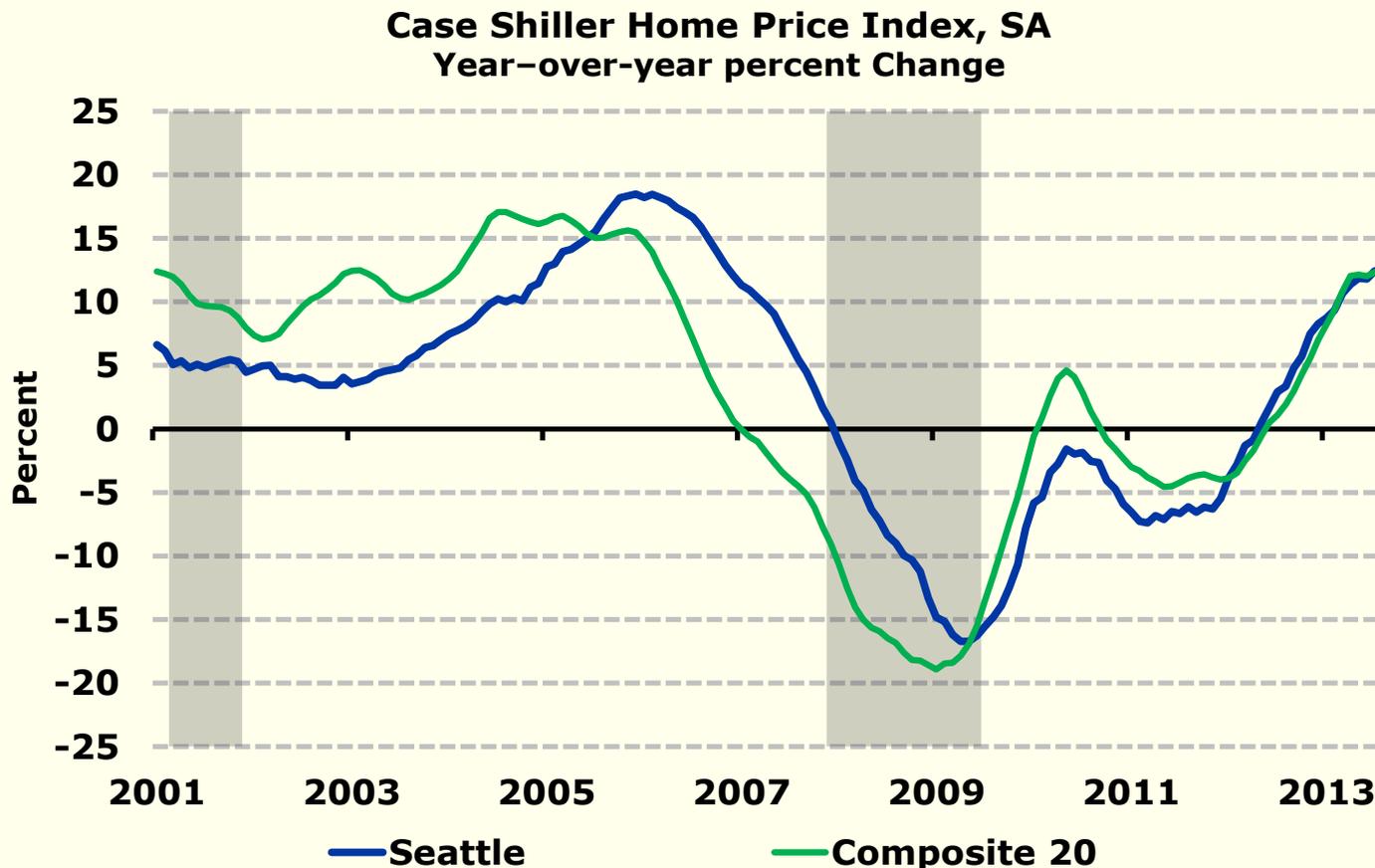


Single-family home prices continue to increase

Jul 2013

U.S. is up
12.3%

Seattle is
up 12.4%

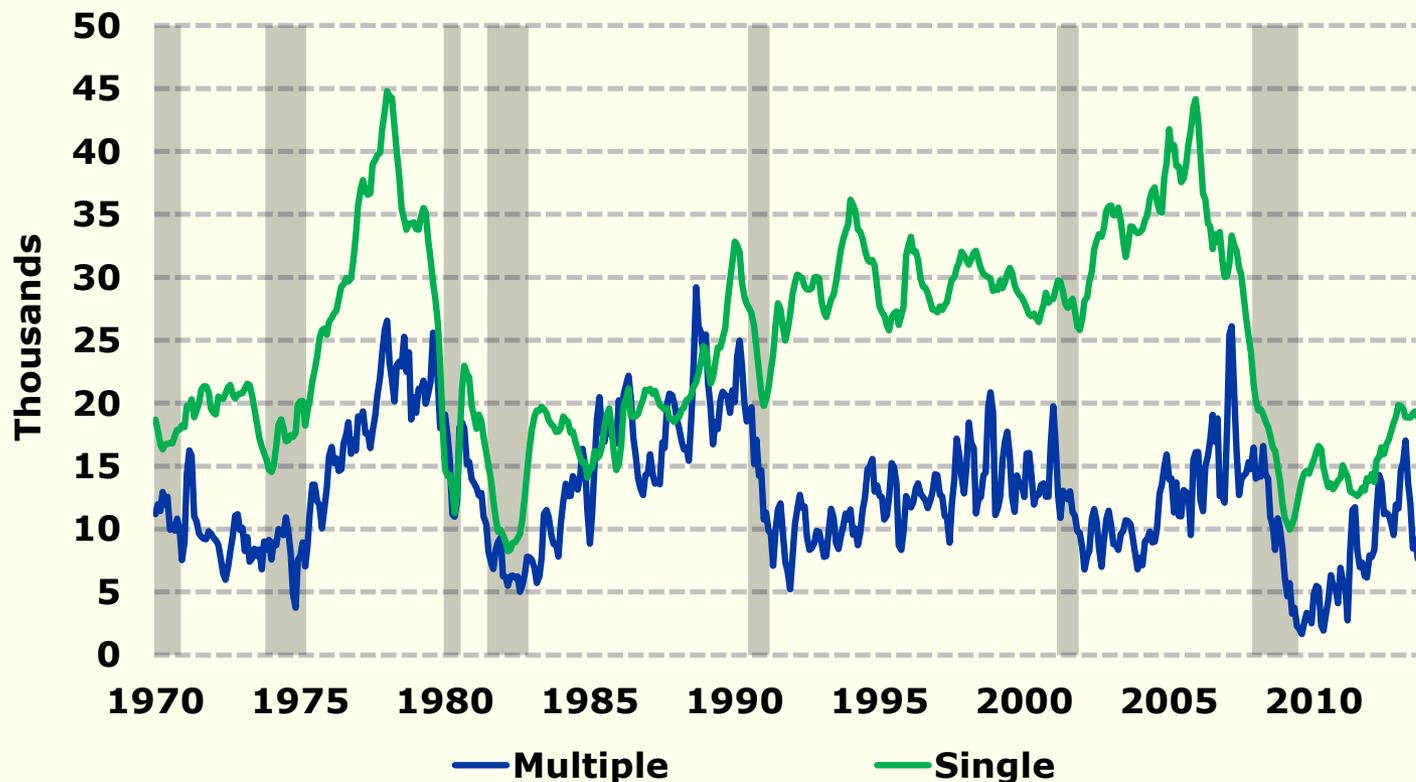


Source: S&P/Case-Shiller; data through July 2013



Washington building permits are improving

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

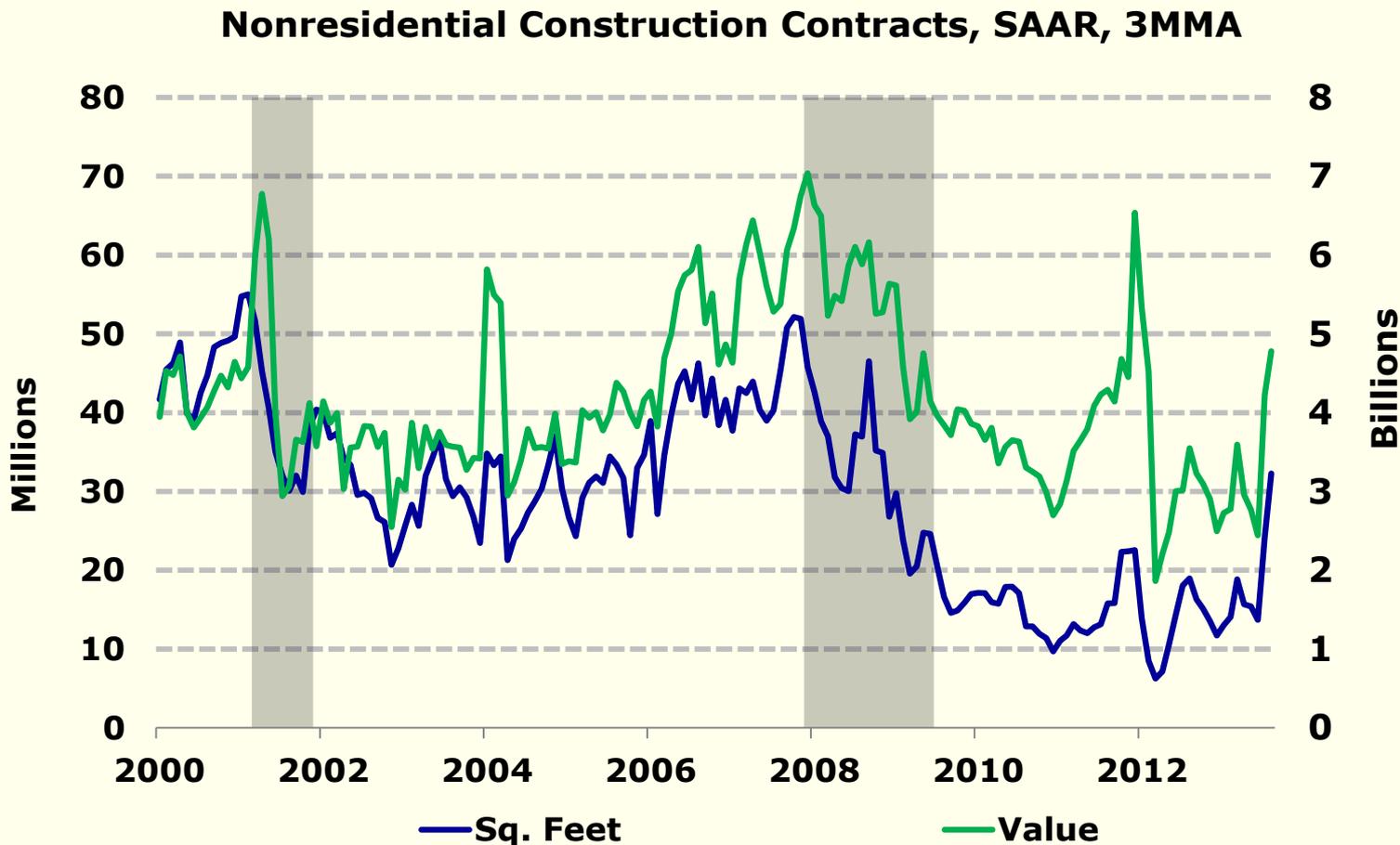


Source: U.S. Census Bureau; data through August 2013



Contract data shows increase but still signals near term weakness

Non-Residential square footage is up 70%, and value is up 35% year over year (3mma).



Source: Dodge, ERFC; data through August 2013

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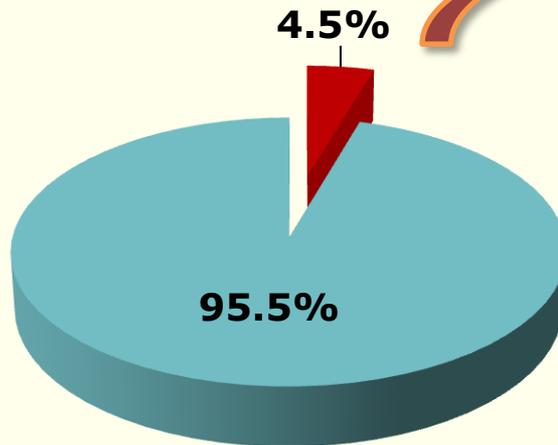


Construction contributes more to the GF-S than to Gross State Product

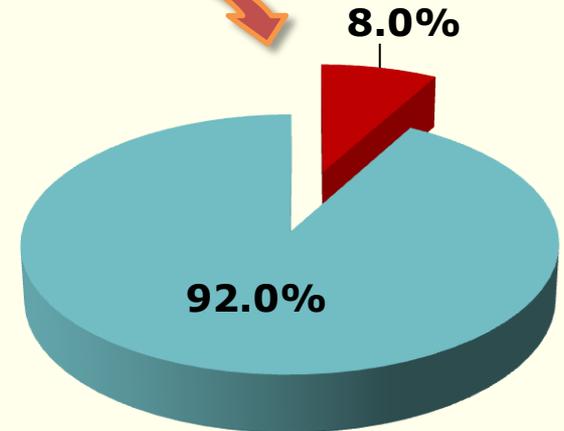
1997 – 2004
Average

Excludes
housing boom
and bust
years

Gross State Product



General Fund Revenue



■ Construction

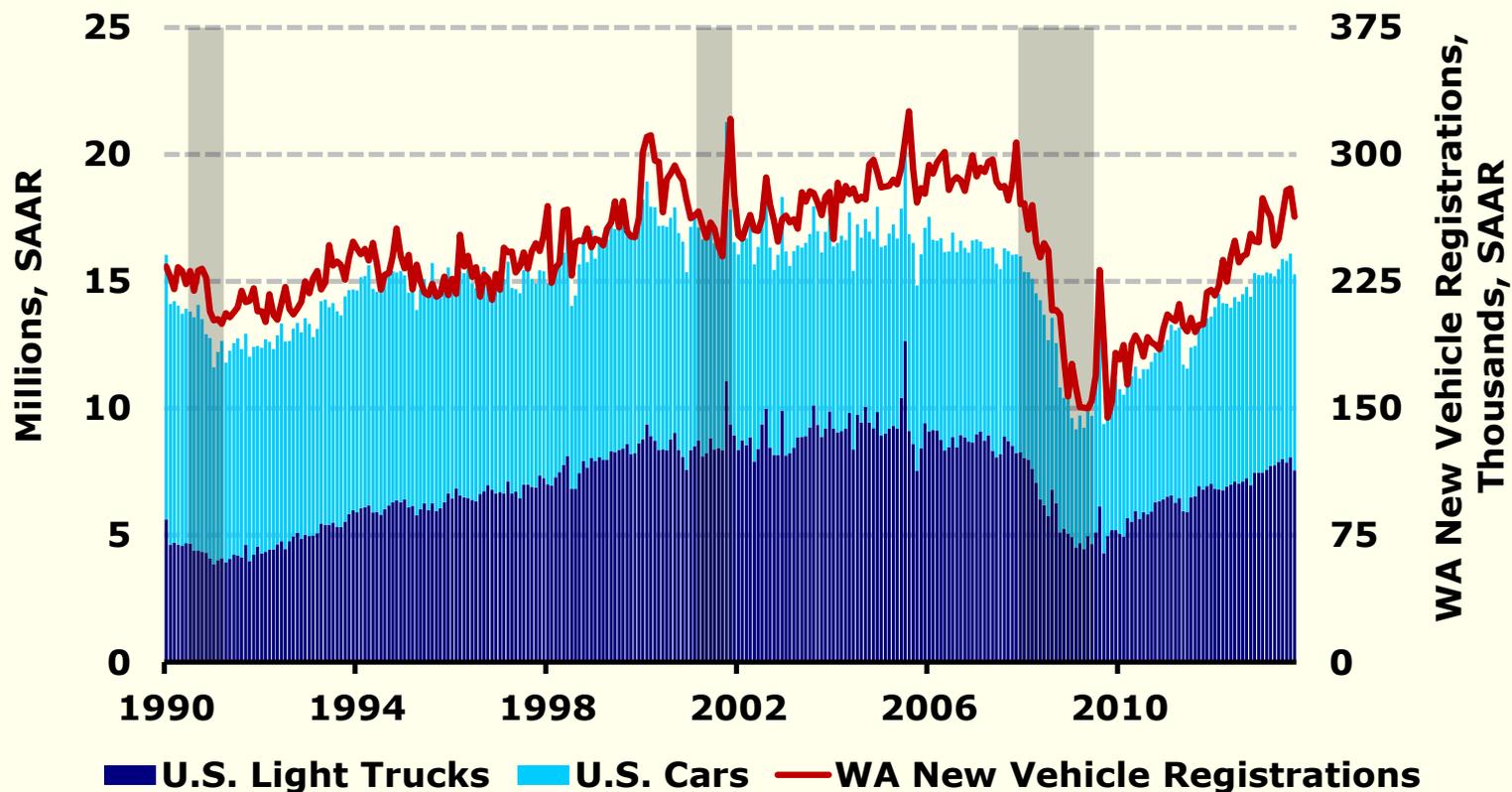
■ All Other

Source: Bureau of Economic Analysis, ERFC



Vehicle sales continue their upward trend

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



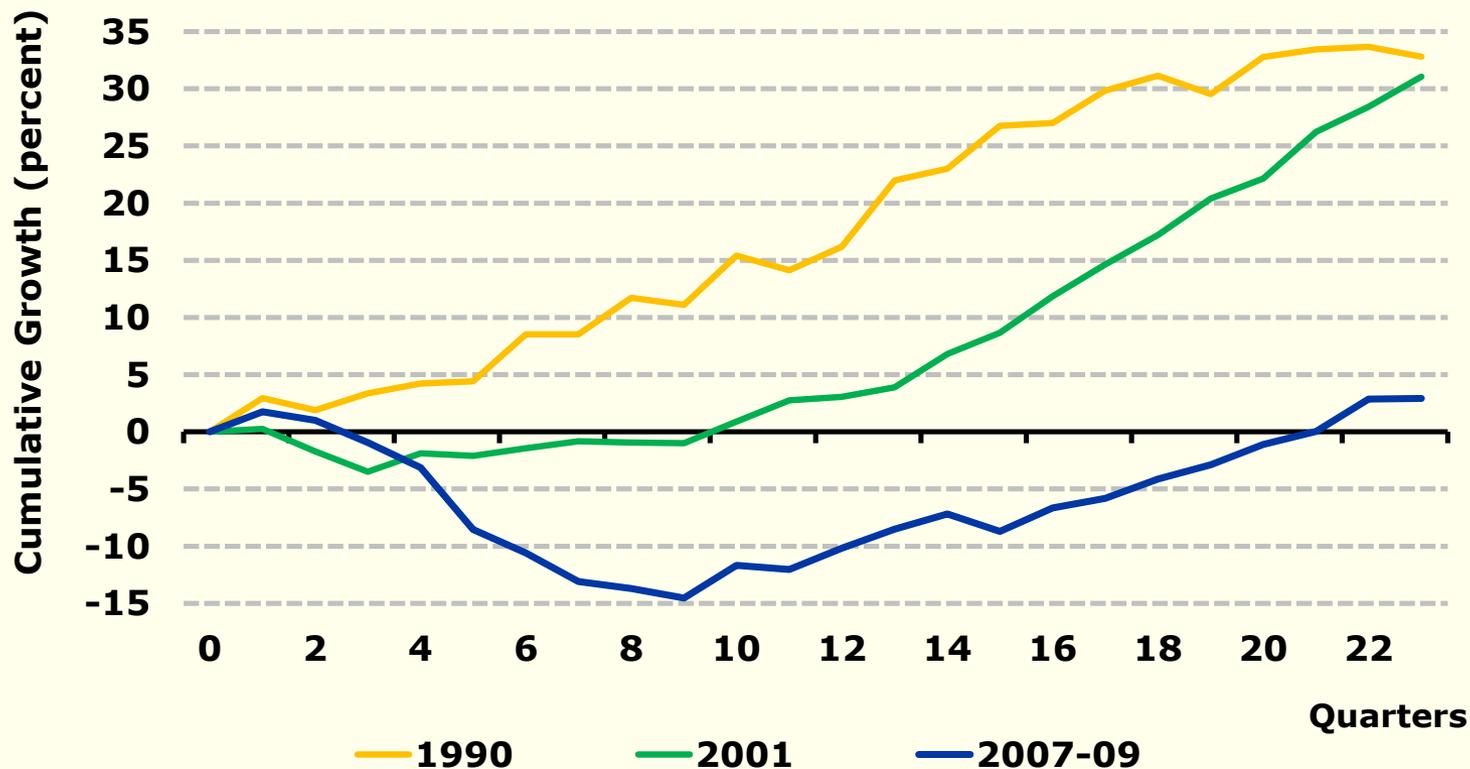
Source: Autodata Corporation, WA DOL; data through September 2013



Revenue collections have recovered slowly after the last recession

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

Revenue Act Collections after Business Cycle Peak



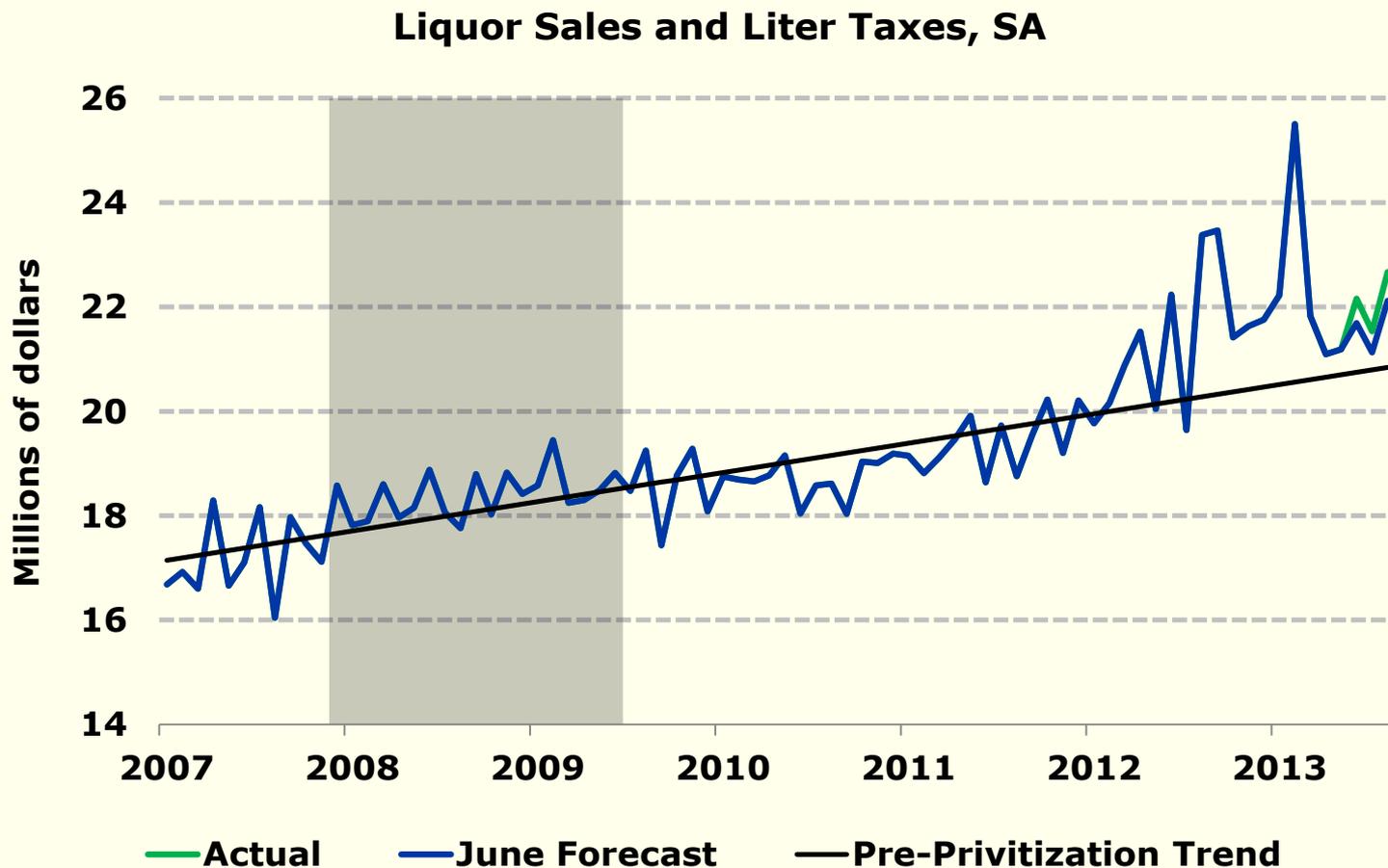
Source: ERFC; data through 2013 Q2

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Revenue from liquor sales has been volatile since privatization

Revenue was \$4.4 million (7.1%) above the June forecast



Source: DOR, ERFC; data through August 2013



REET base strengthening along with spikes of large commercial sales

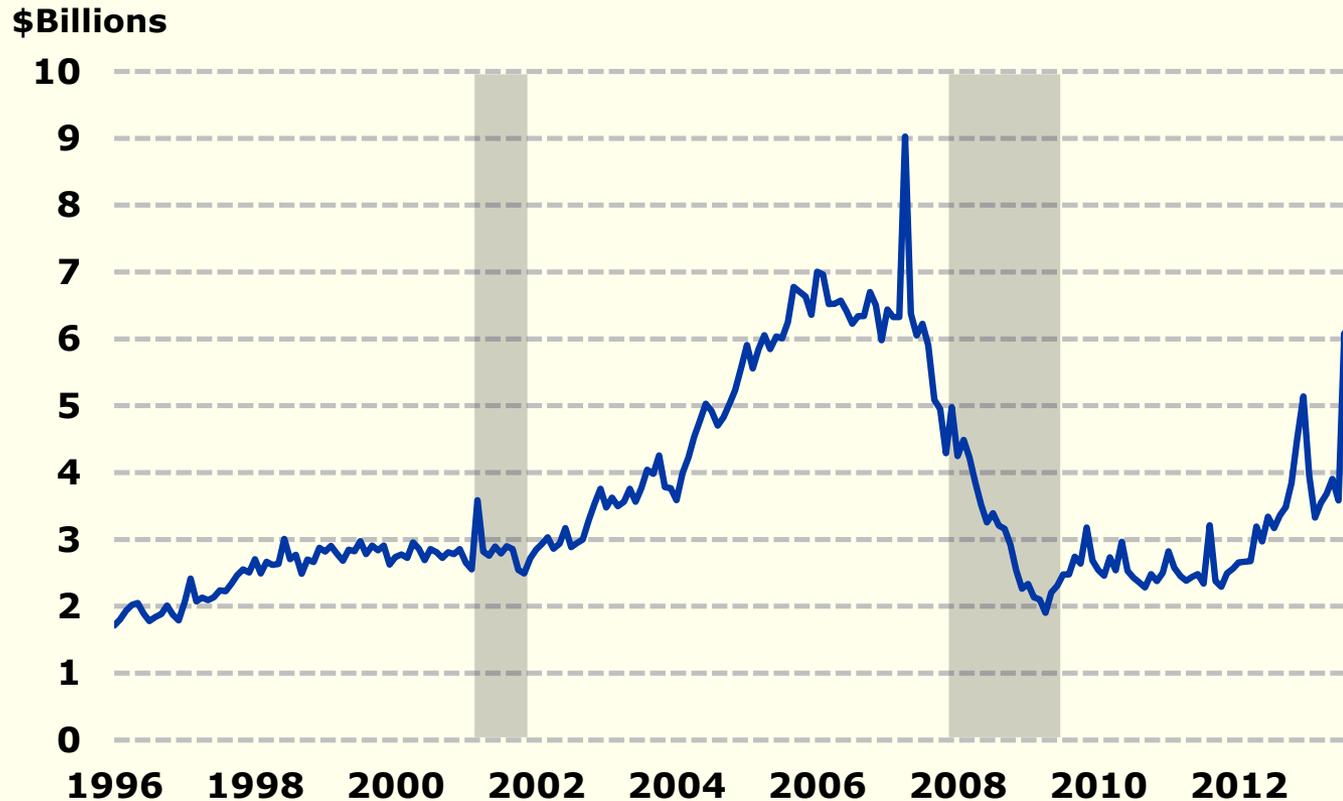
Even after last year's rush in sales of commercial property due to federal tax changes, large commercial sales are still occurring at an above-average rate

Residential prices and sales volume have been increasing but could falter due to higher mortgage rates

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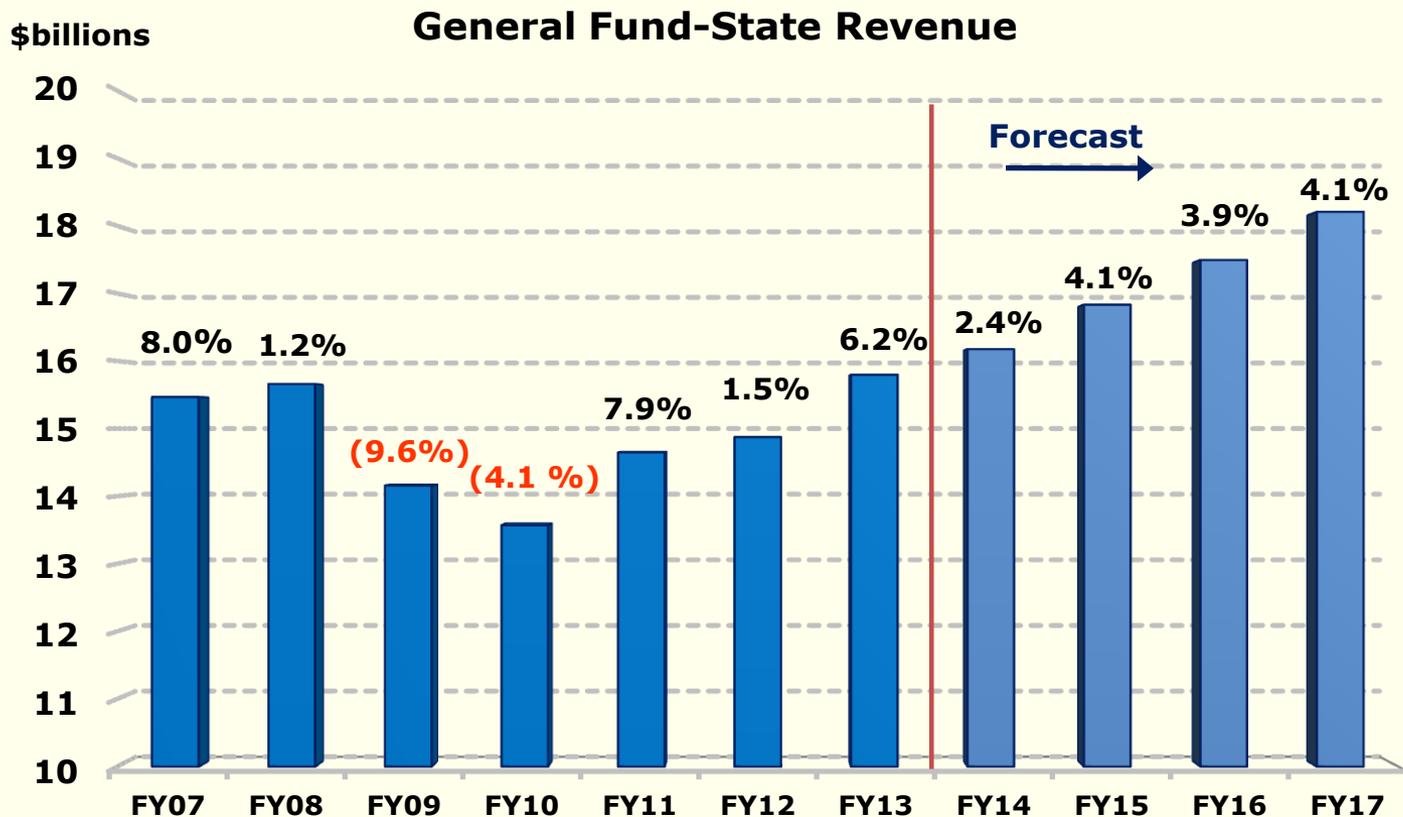
Seasonally Adjusted Taxable Real Estate Excise Activity



Source: ERFC; Monthly data through August 2013 preliminary



General Fund-State* forecast by fiscal year

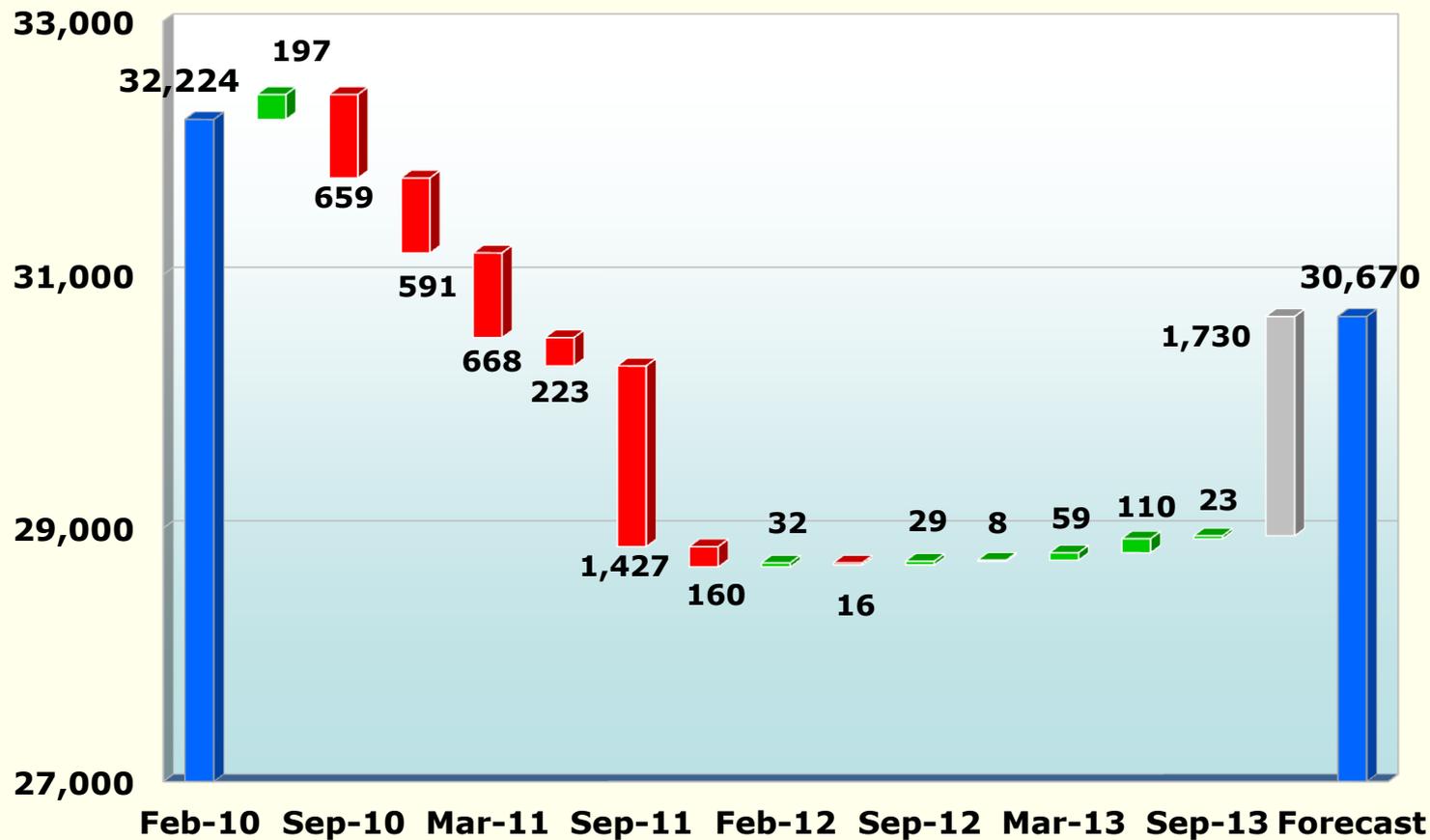




Forecast revisions to the 2011-13 biennium

GF-S
New
Definition

USD, millions





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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