

Economic & Revenue Outlook

Presented to
Supplier Diversity Best Practices Summit

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July 29, 2014
Bellevue, Washington



**WASHINGTON STATE
ECONOMIC AND REVENUE FORECAST COUNCIL**

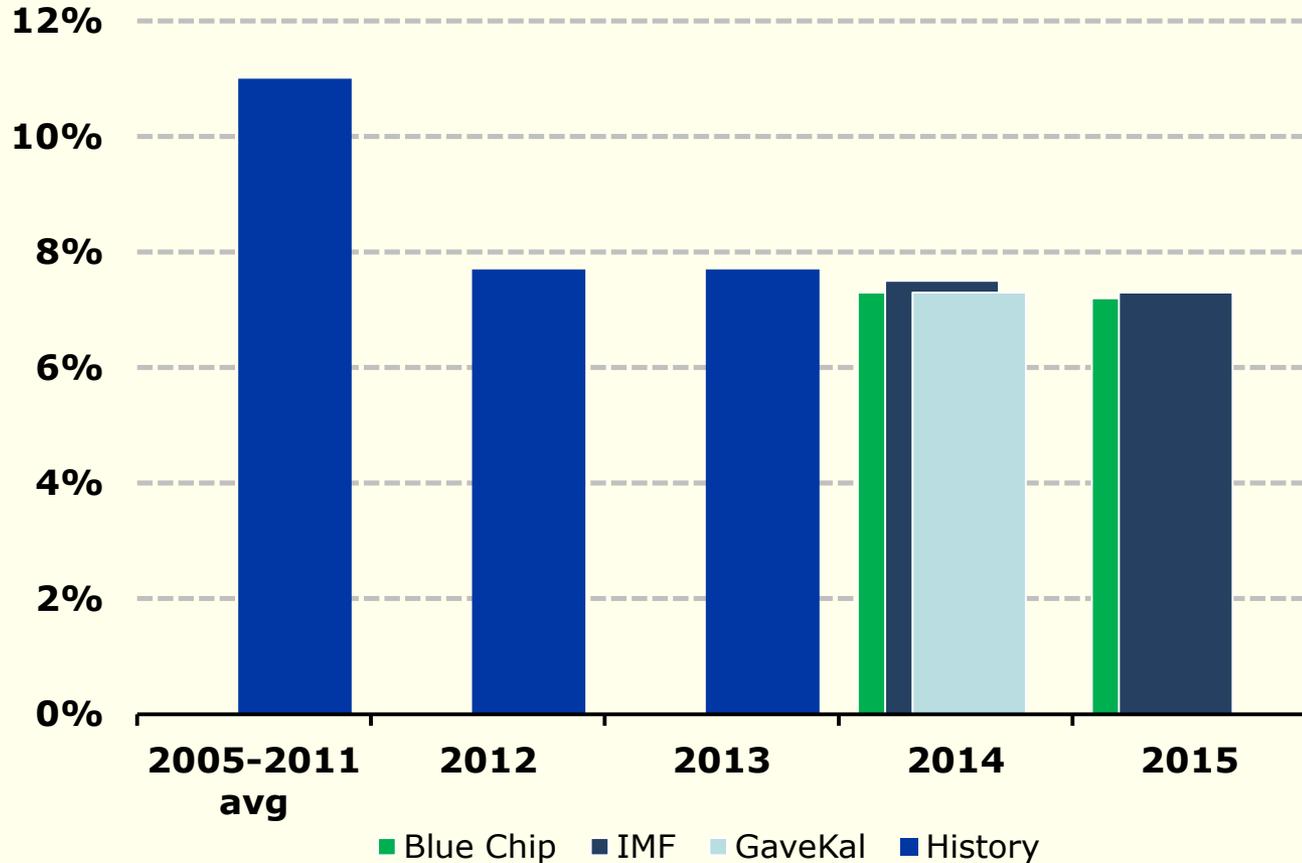


Summary

- Our economic forecast has been fairly consistent, with moderate economic growth in the U.S. after the weather-related contraction in 1st quarter of 2014
- Risks to the baseline include the potential for slower Chinese economic growth, possible disruptions to the housing recovery, and turmoil in the Middle East; recent labor market strength suggests potential upside risks as well
- The June forecast increased by tax revenues by \$157 million for the 2013-15 biennium and by \$238 million for the 2015-17 biennium
- The Washington economy continues to grow slowly, with employment rising in most sectors except aerospace and federal government



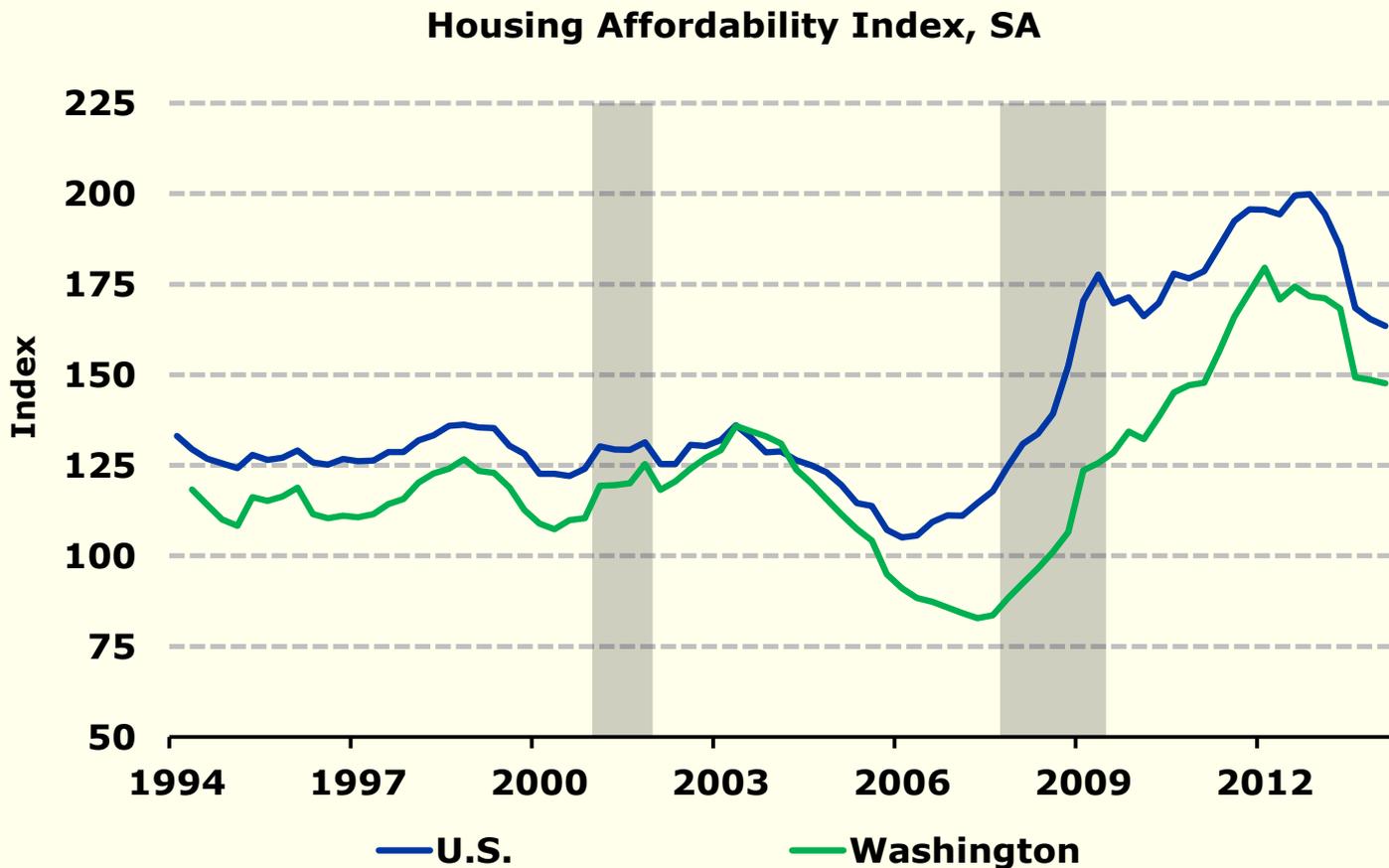
China's 2014 & 2015 GDP growth expected to be below 2013 rate



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



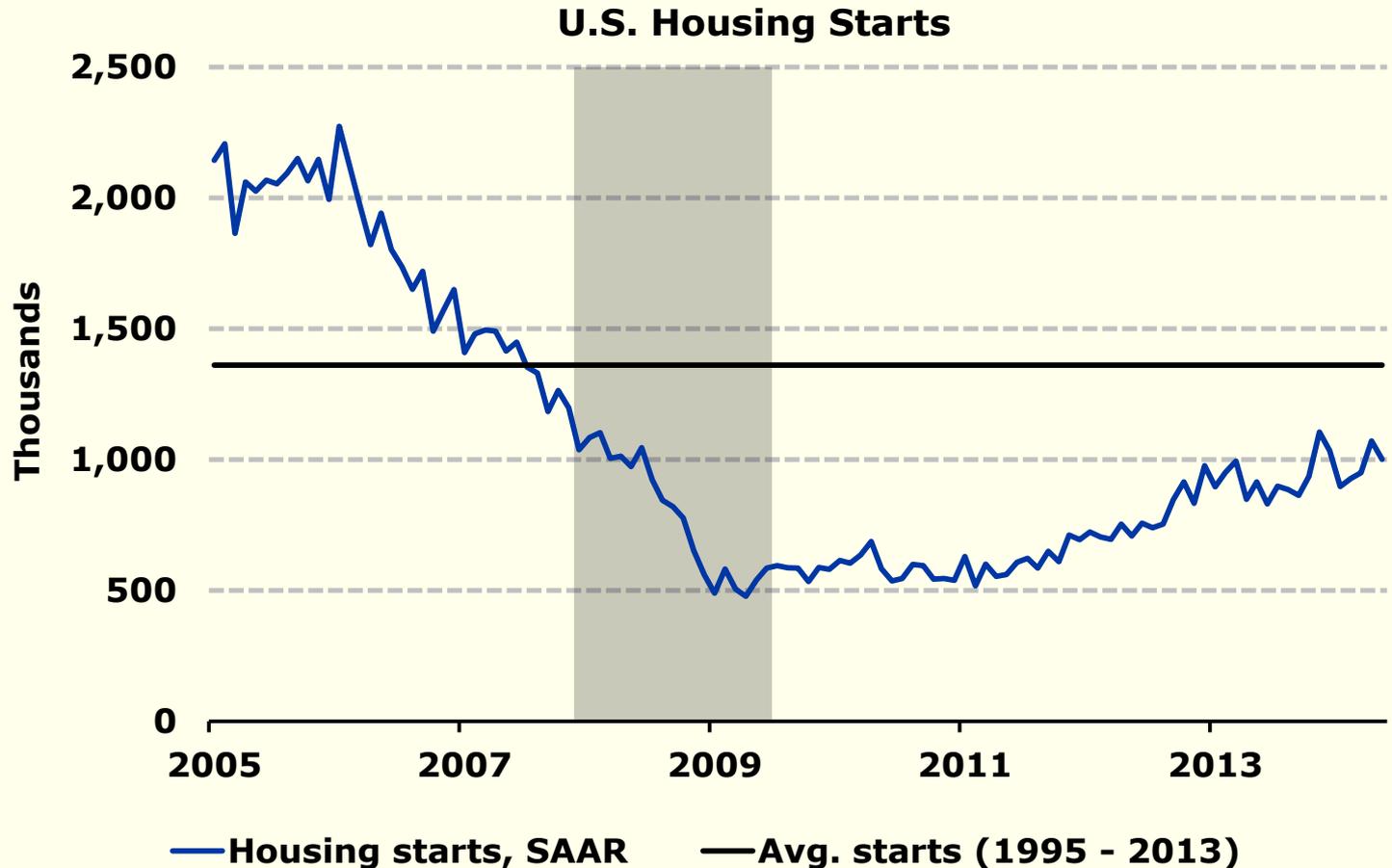
Rising mortgage rates and home prices have reduced affordability



Source: Global Insight, WA Center Real Estate Research, ERFC; data through 2014Q1



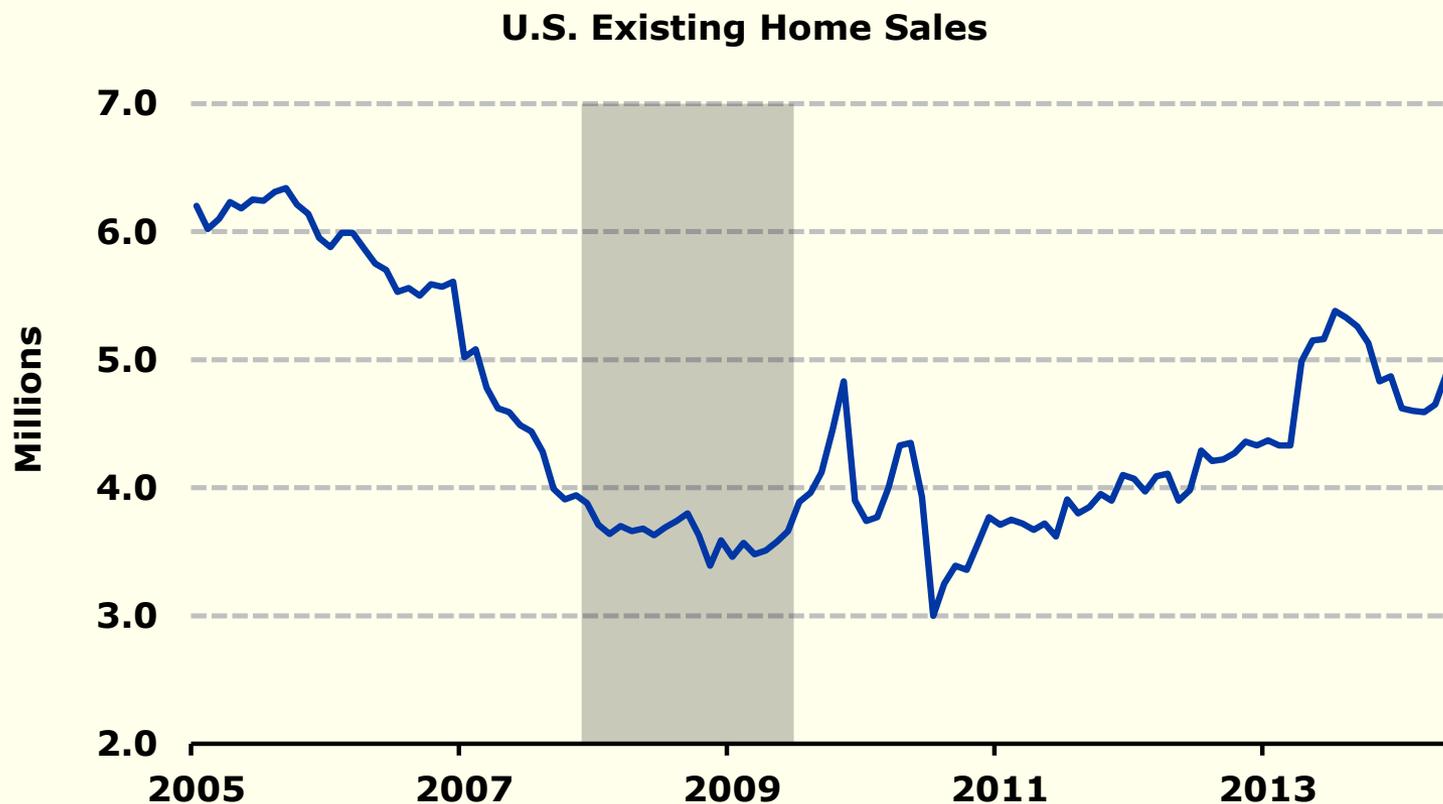
Housing starts are trending up but remain below historic average



Source: U.S. Census; data through May 2014



Home sales have turned up recently

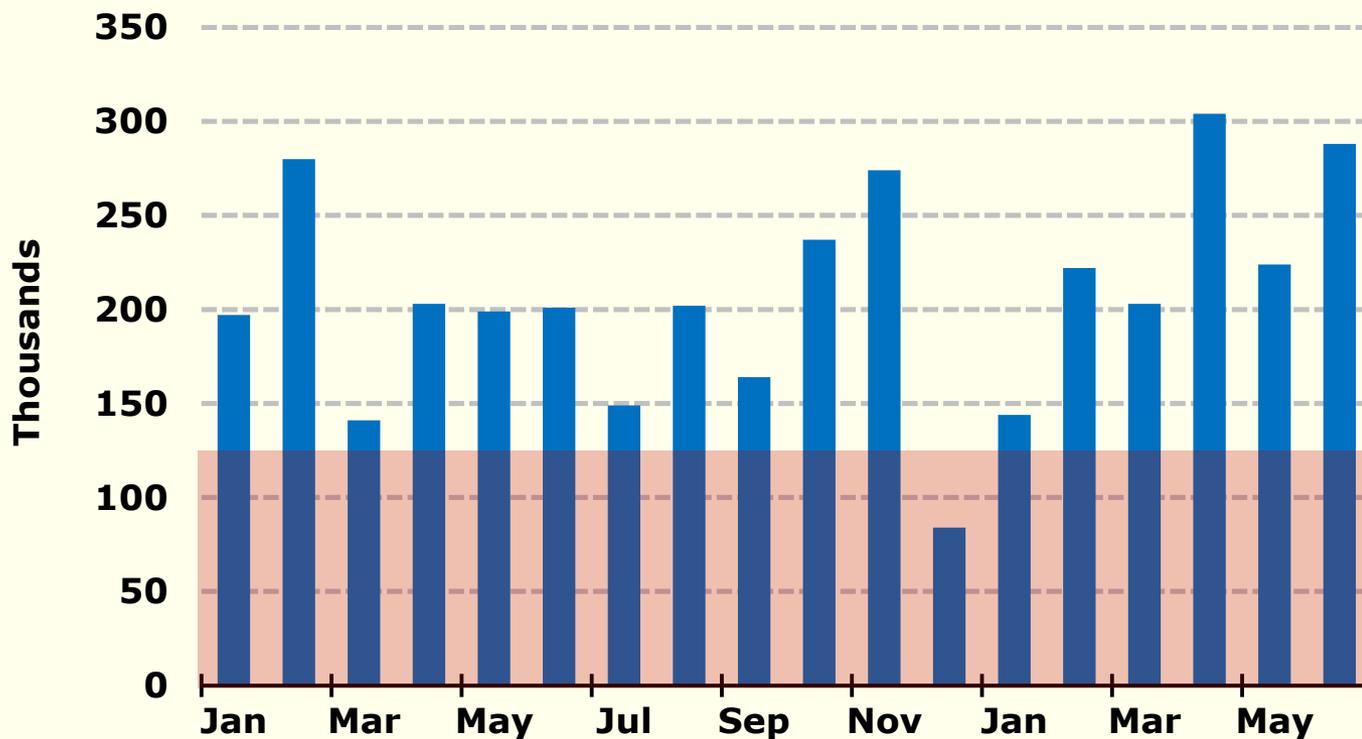




Job growth has strengthened

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

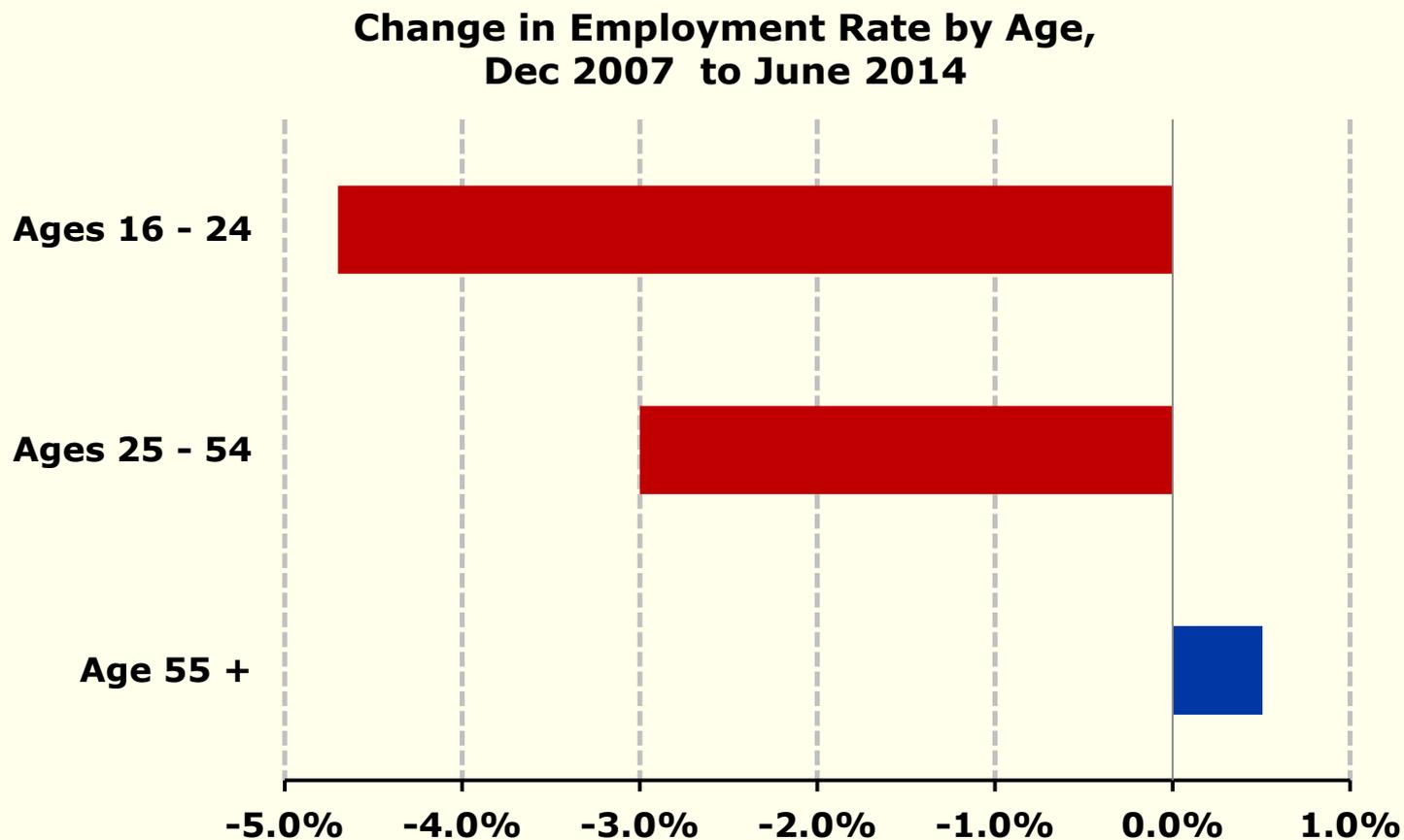
Net New Jobs, U.S.



Source: Bureau of Labor Statistics, data through June 2014



The fraction of people ages 16 - 54 with a job has declined

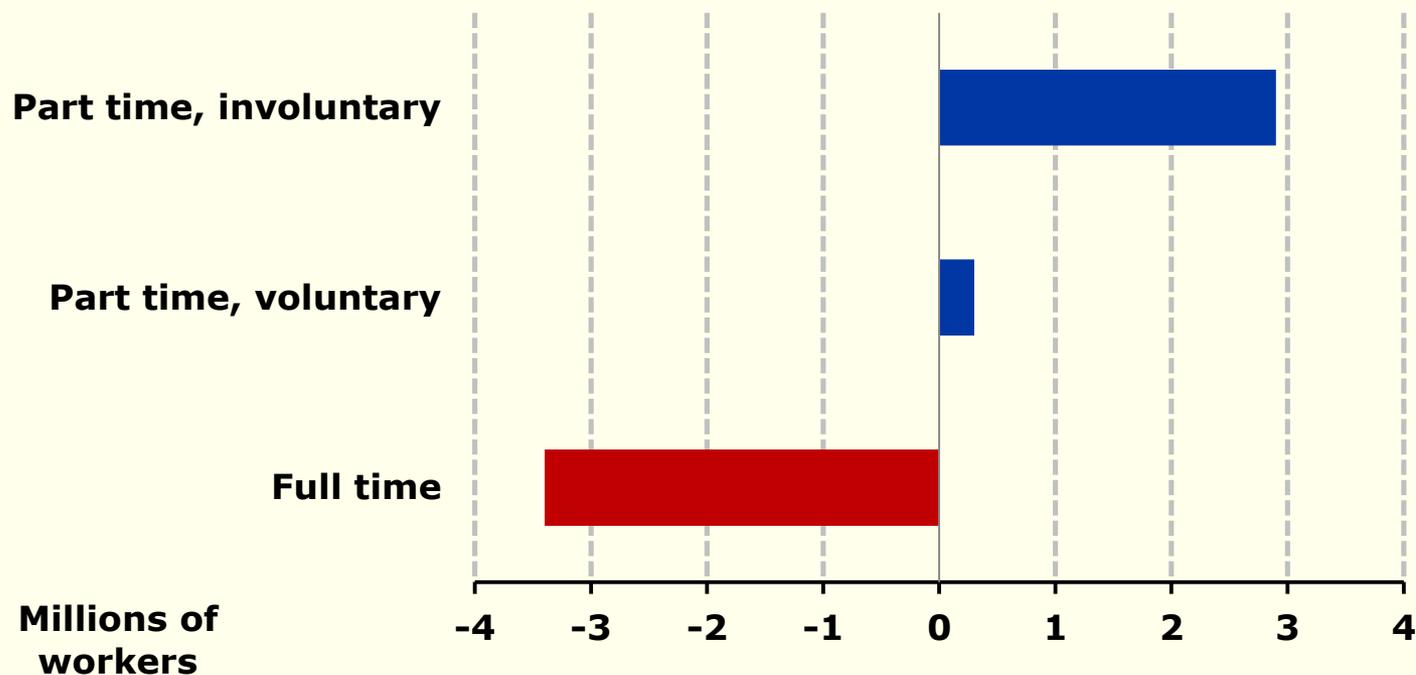


Source: Bureau of Labor Statistics; data Dec. 2007 – June 2014



Full-time jobs have decreased while part-time employment has increased

**Change in employment by hours worked,
Dec 2007 – June 2014**

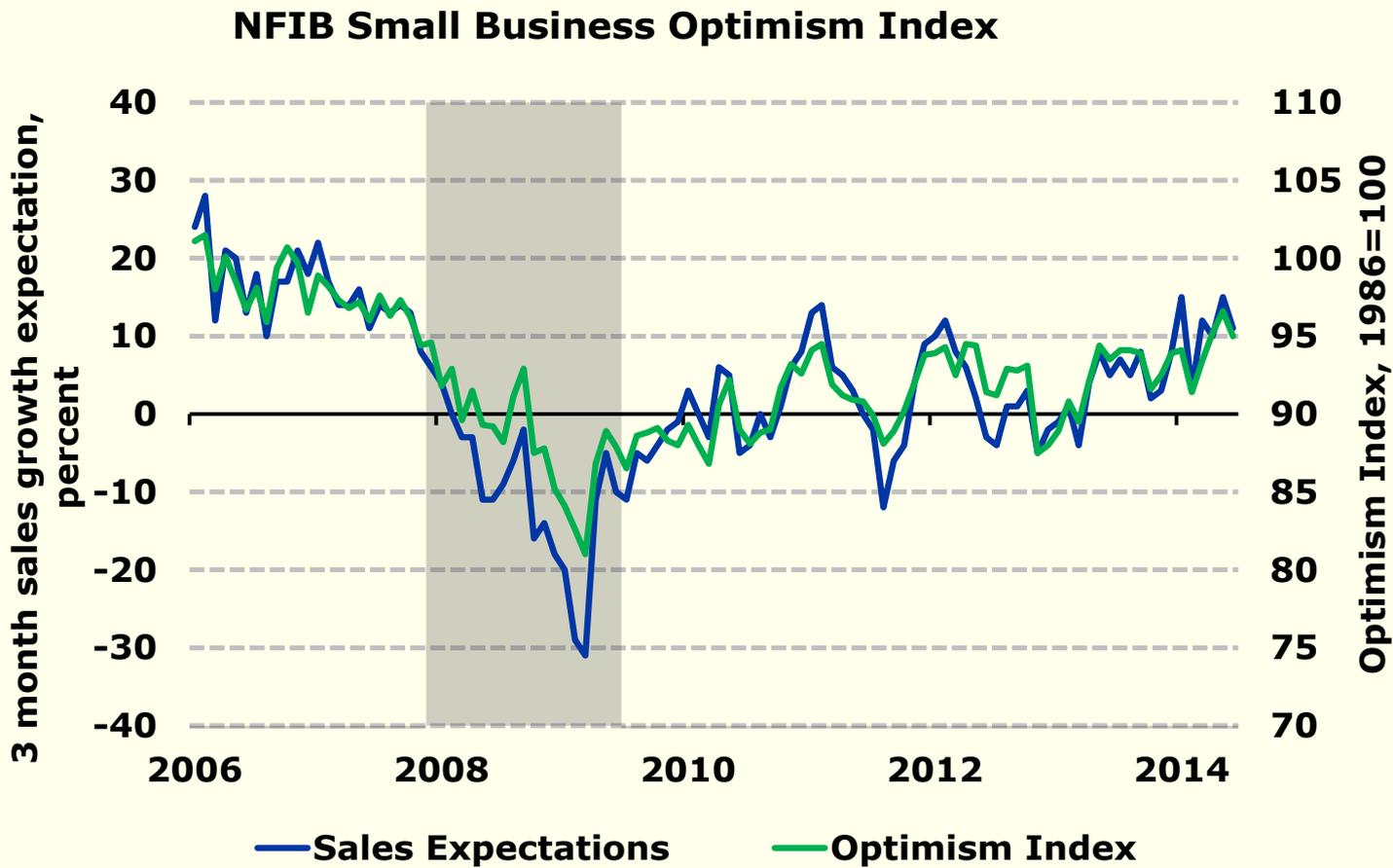


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Source: Bureau of Labor Statistics; data Dec. 2007 – June 2014



After three monthly increases, small business optimism and sales expectations weakened in June



Source: National Federation of Independent Business; data through June 2014

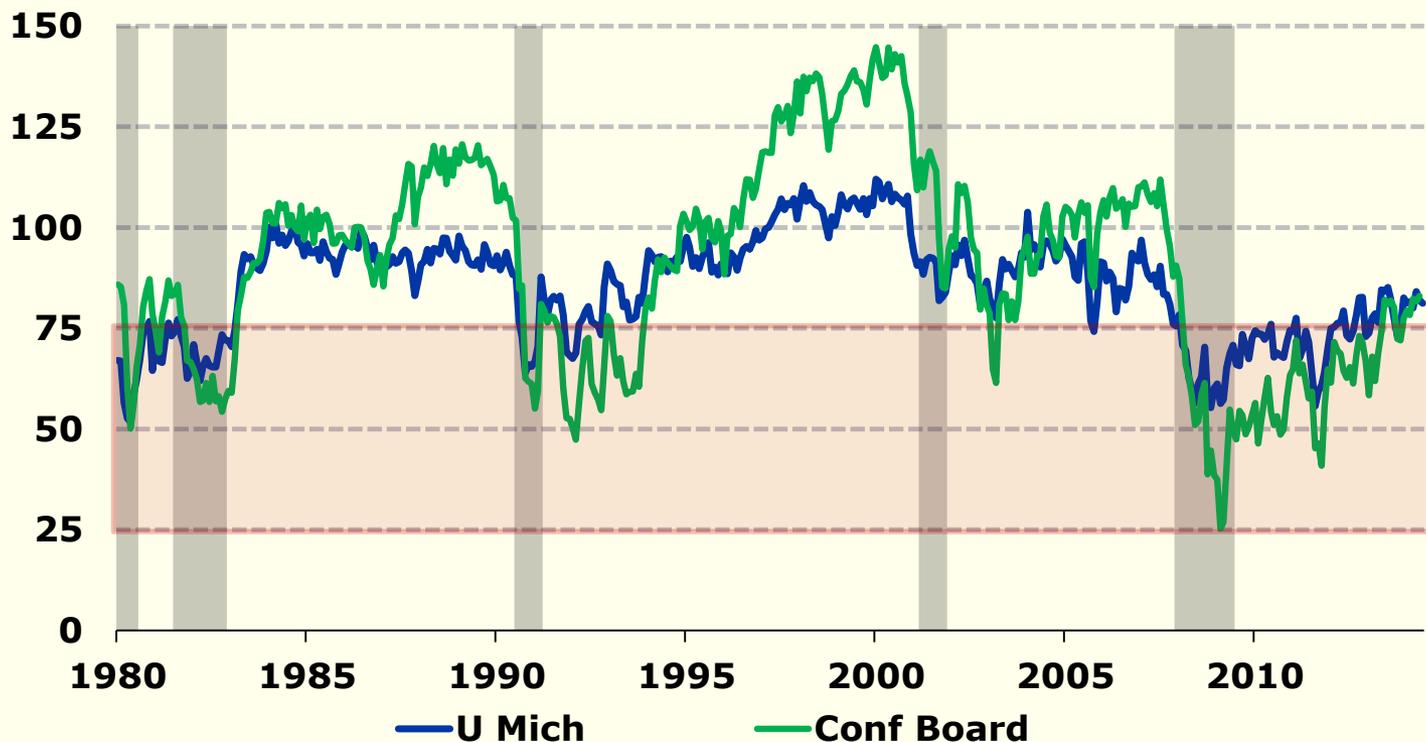


Consumer confidence has improved but still below pre-recession levels

Index

Mich: 1966Q1 = 100, SA

Conf Board: 1985 = 100, SA



Source: University of Michigan; Conference Board, data through June 2014

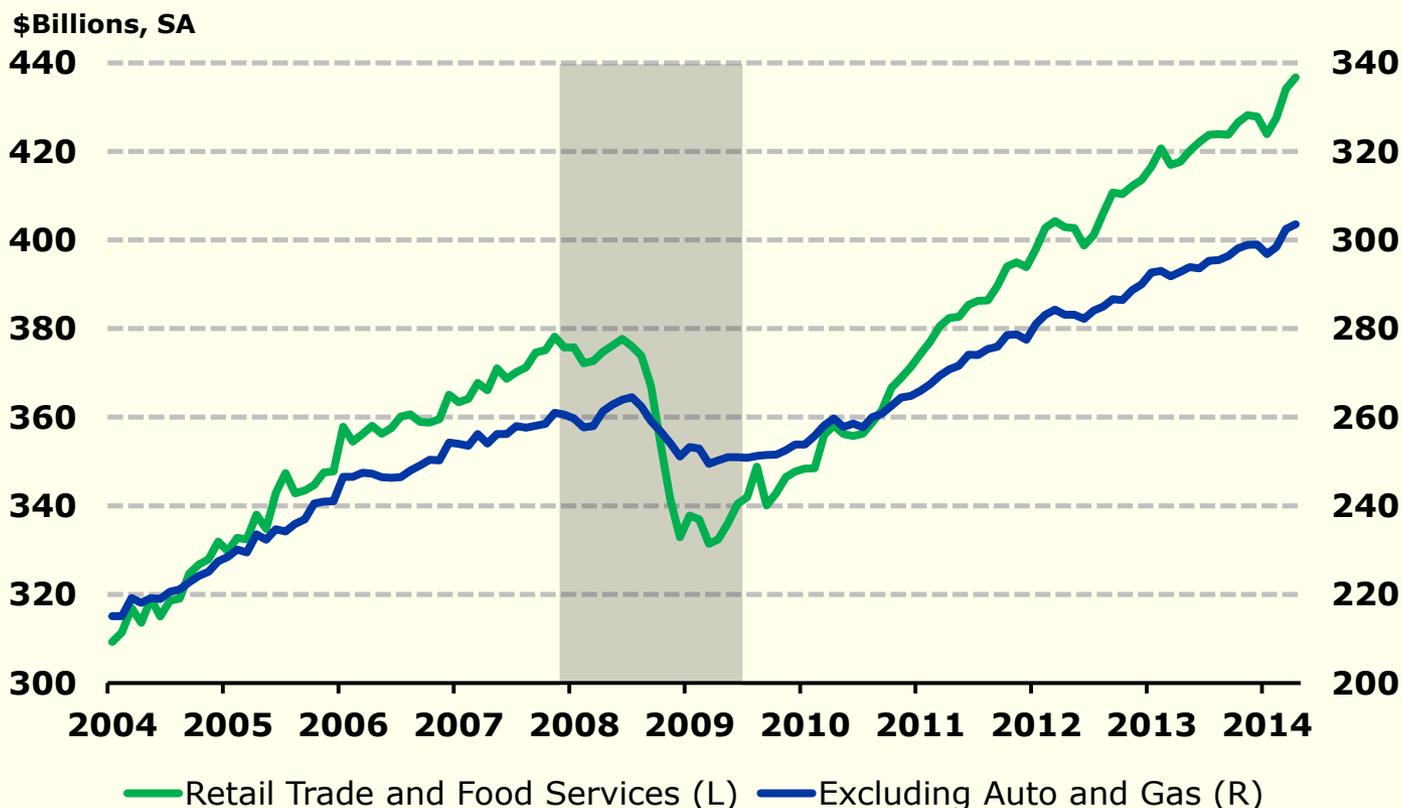


U.S. retail sales growth is moderate

Preliminary U.S. retail trade and food services sales were up 4.6% year over year in May and 4.3% in June

Excluding autos and gas, sales were up 3.6% year over year in May and 4.1% in June

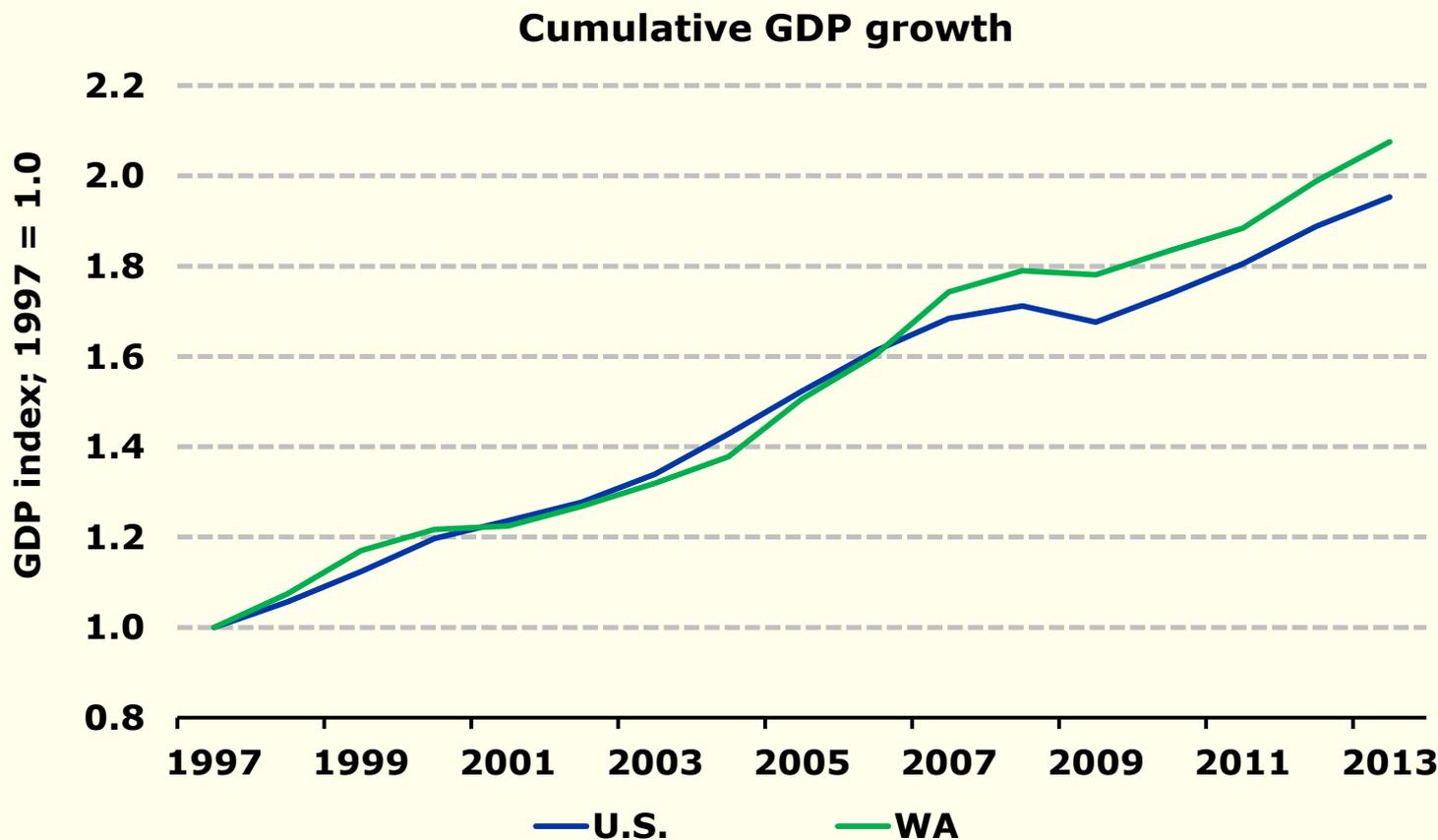
U.S. Retail Sales and Food Services



Source: U.S. Department of Commerce, Census Bureau; Data through June 2014 advance



Washington GDP has grown faster than U.S. GDP for the last two years

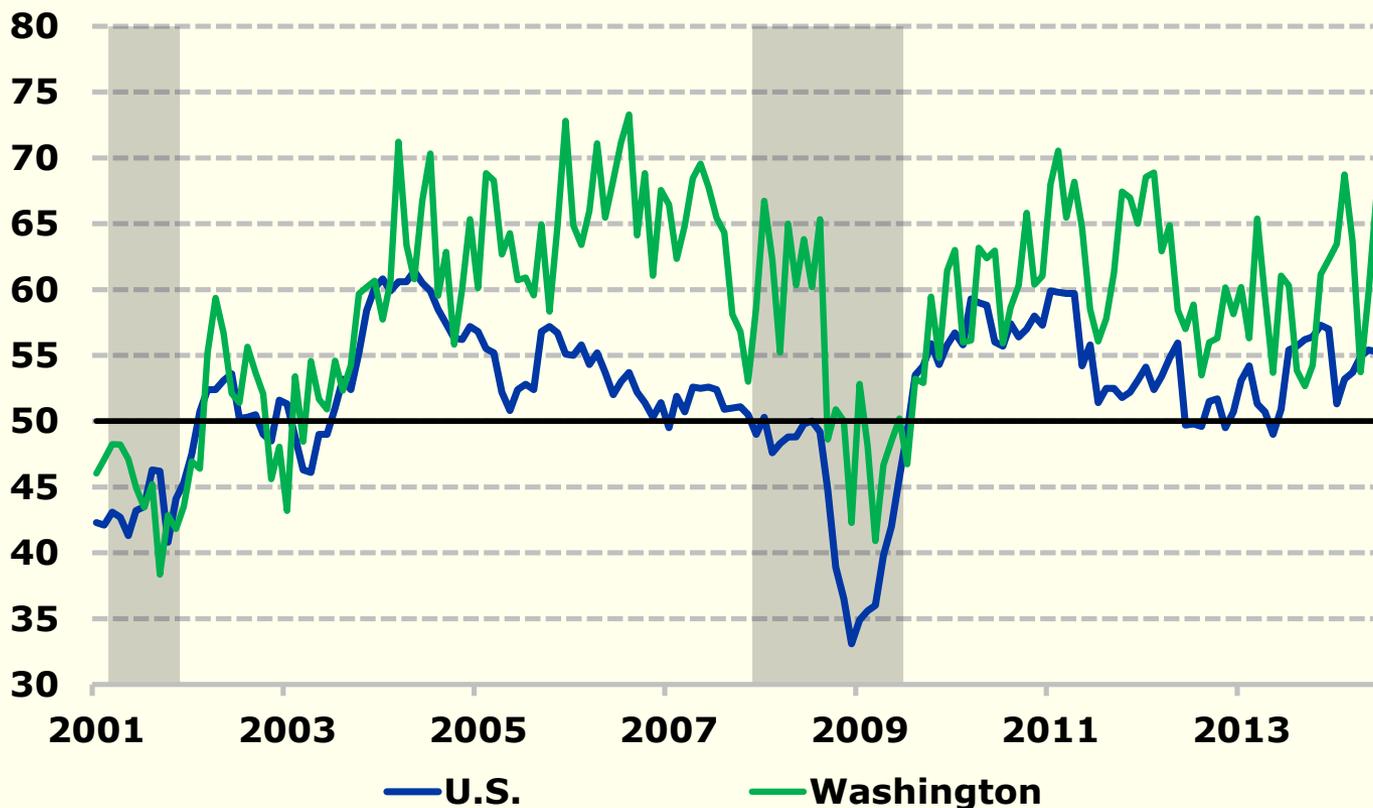




Manufacturing activity: expanding faster in Washington than nationally

An index greater than 50, implies growth

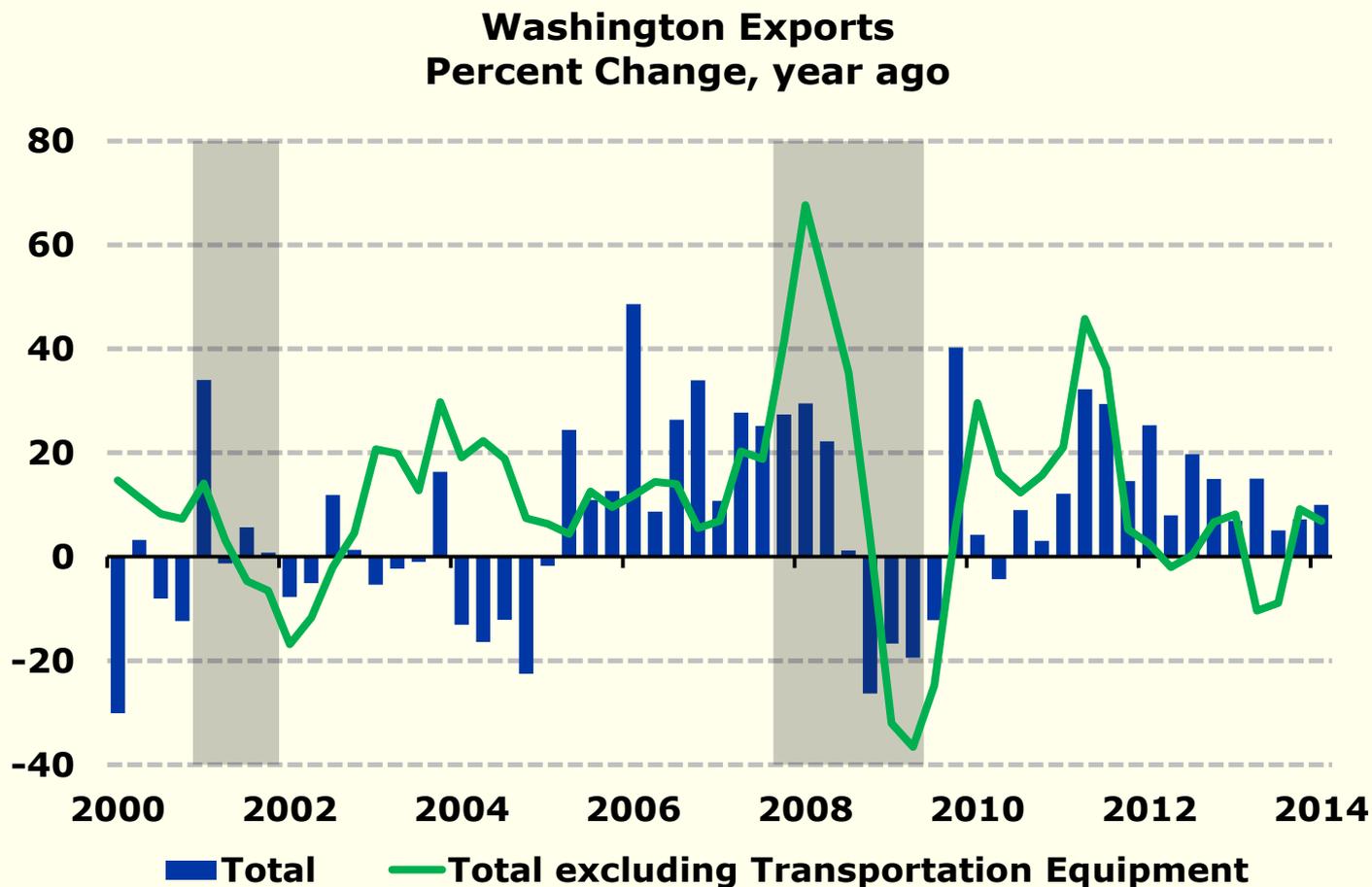
Institute of Supply Management Index



Source: Institute of Supply Management; data through June 2014



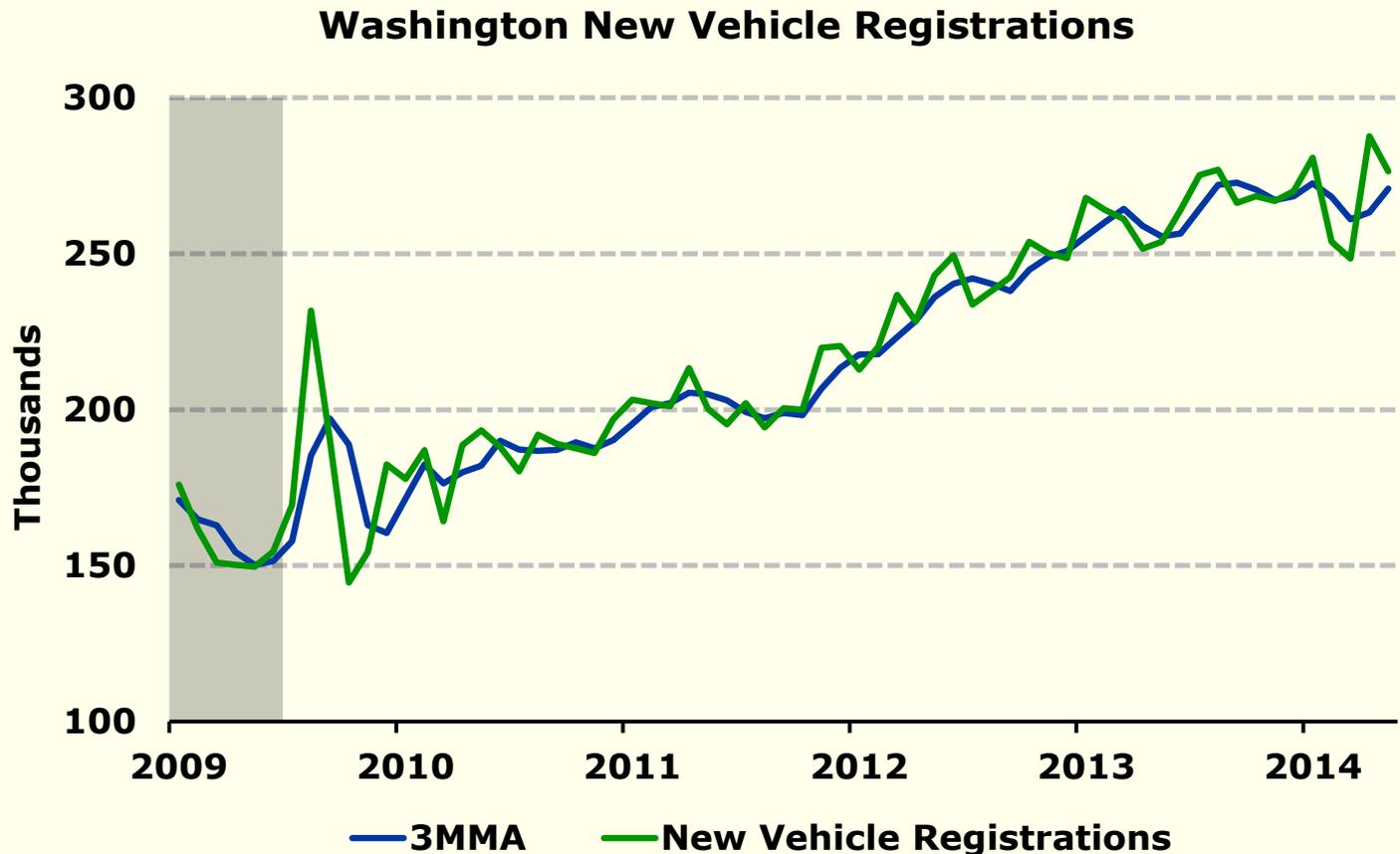
Non-transportation equipment export growth is back in positive territory



Source: Wisner Trade Data; through 2014Q1



Are Washington new vehicle registrations hitting a plateau?

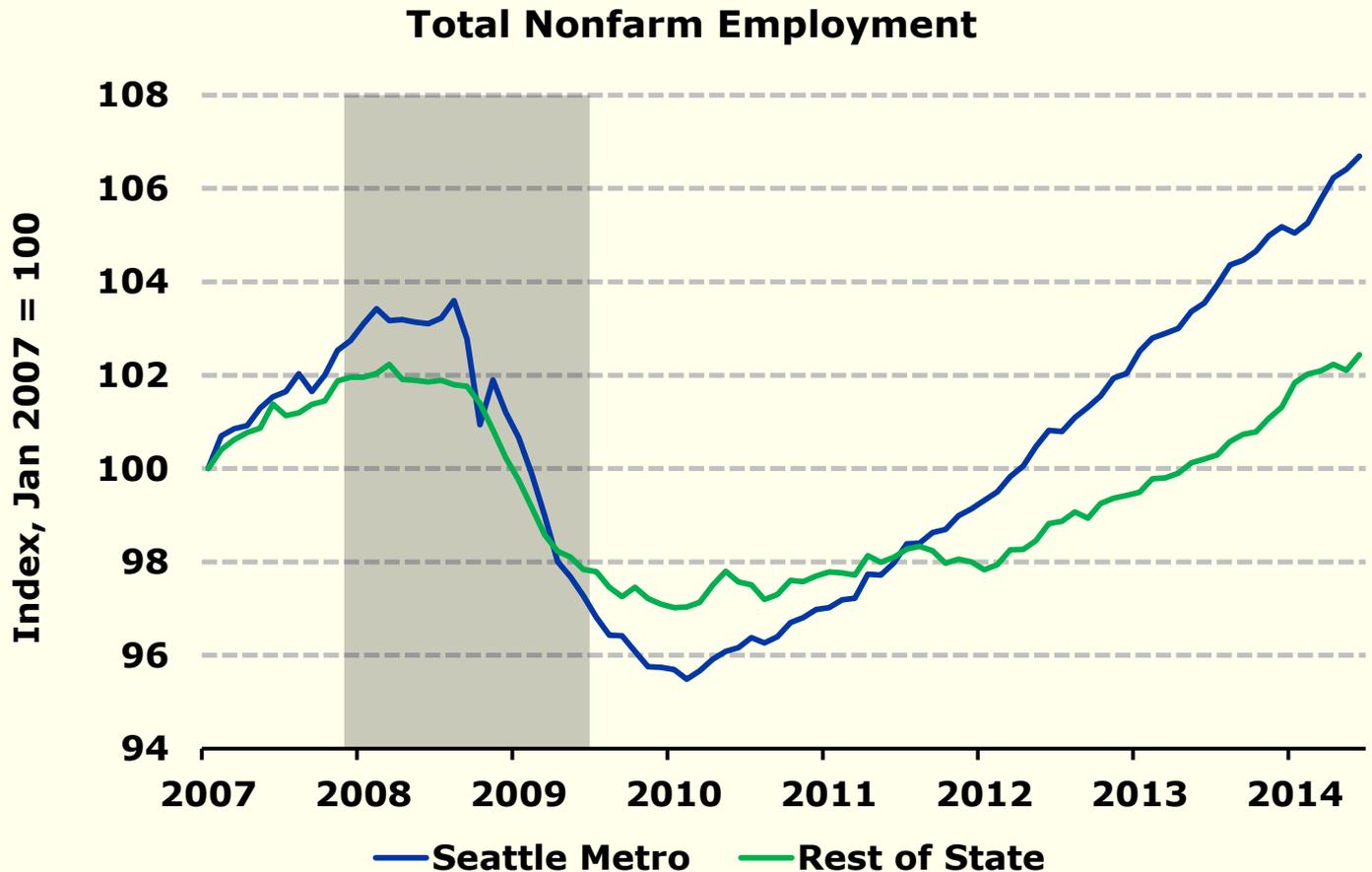


Source: Dept. of Licensing, ERFC; data through June 2014



Seattle area employment is growing much faster than the rest of the state

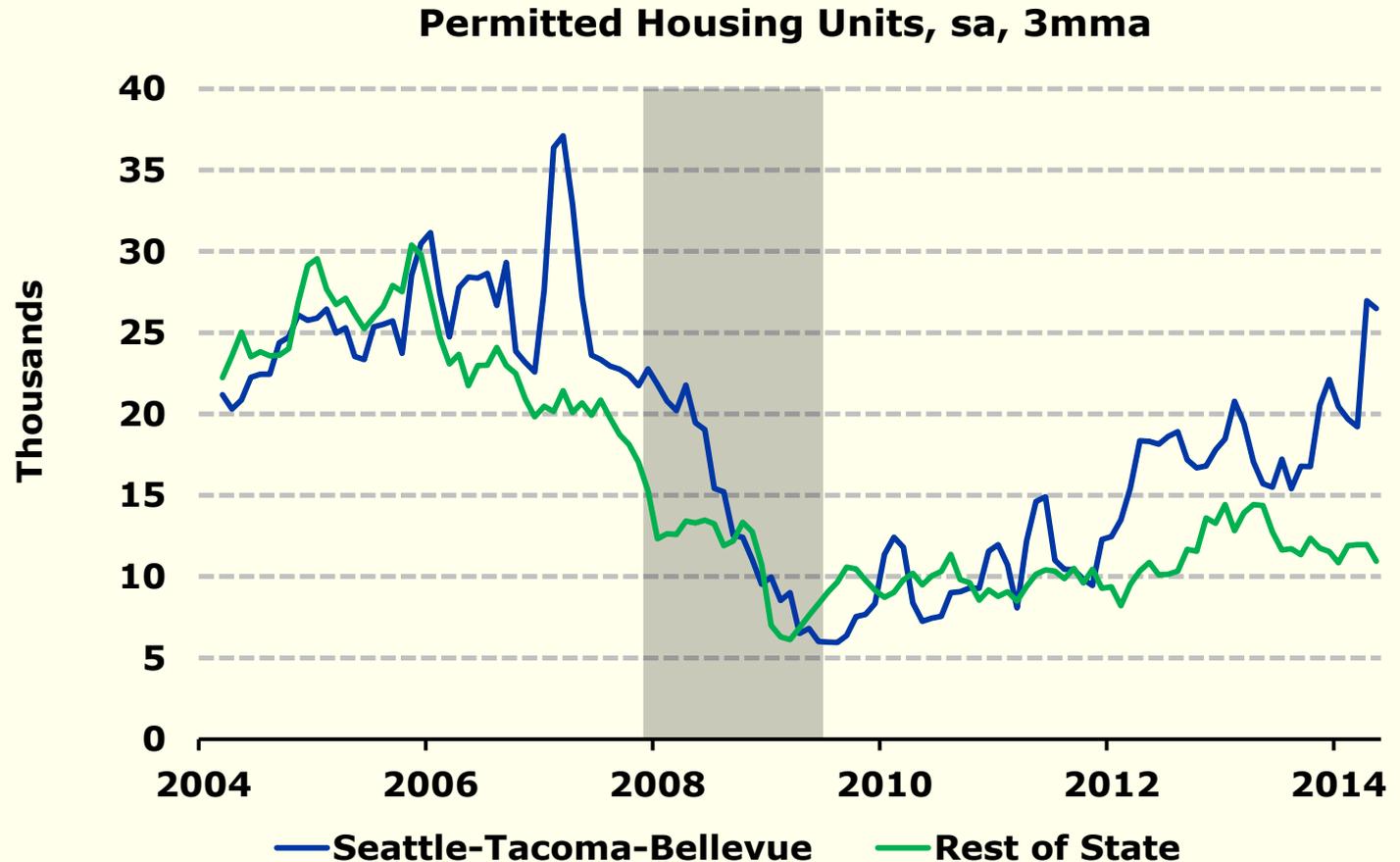
Outside of Seattle metro area, employment did not return to its pre-recession peak until June



Source: Employment Security Department, ERFC; data through June 2014



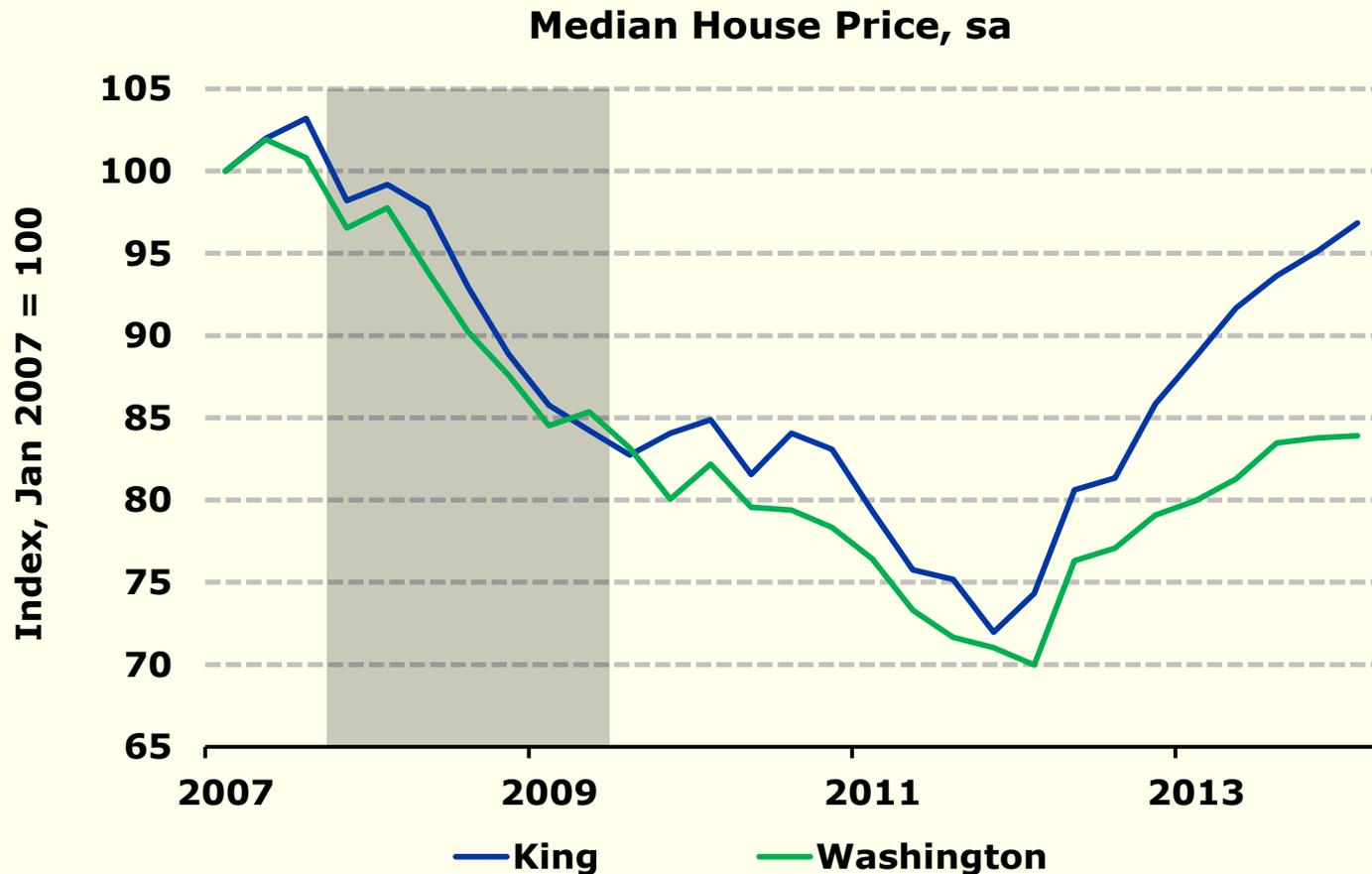
Seattle area housing is growing much faster than the rest of the state



Source: Census, ERFC; data through May 2014



King County house prices are rising faster than the rest of the state

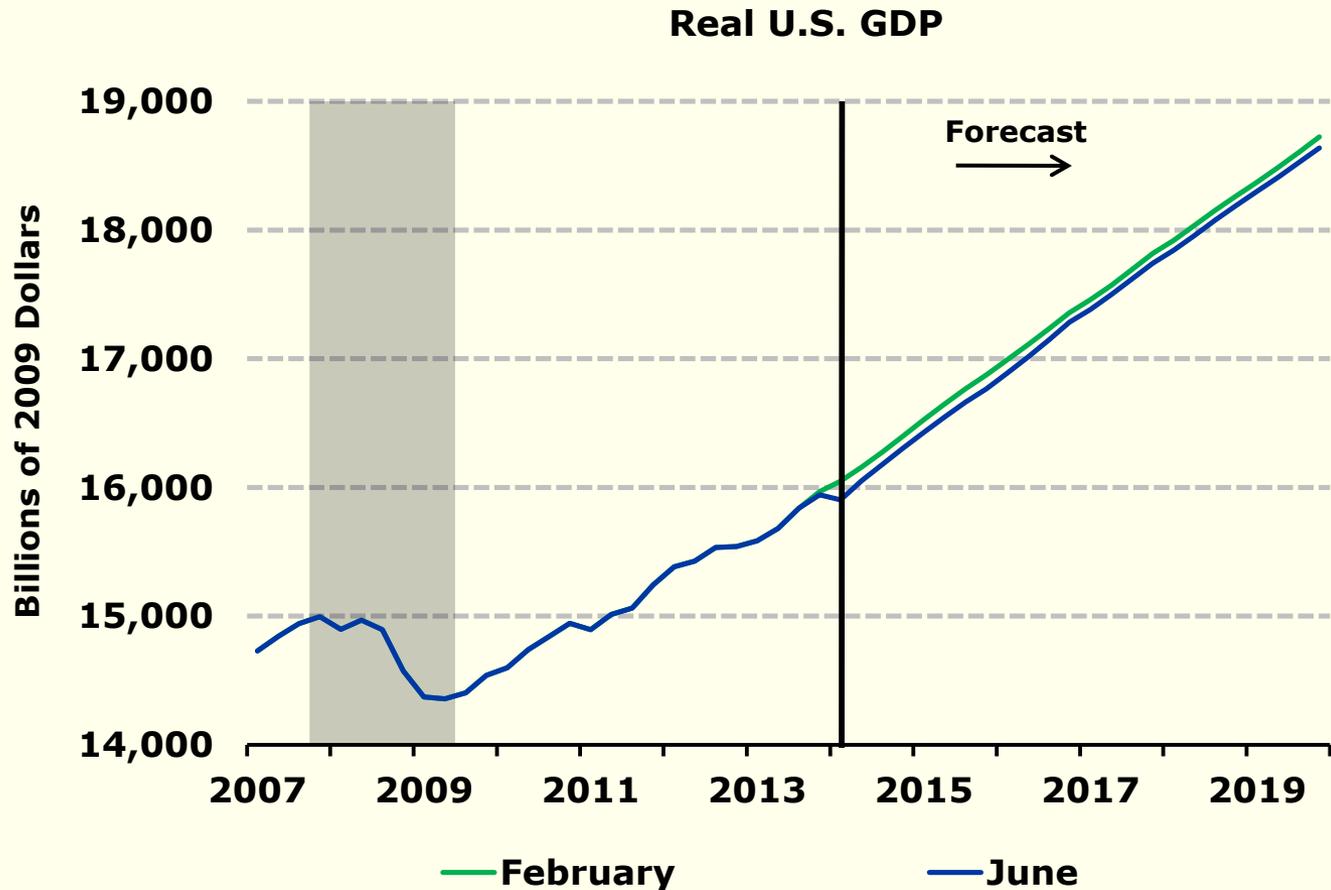


Source: WA Center Real Estate Research, ERFC; data through 2014Q1



GDP is slightly lower as a result of negative growth in first quarter 2014

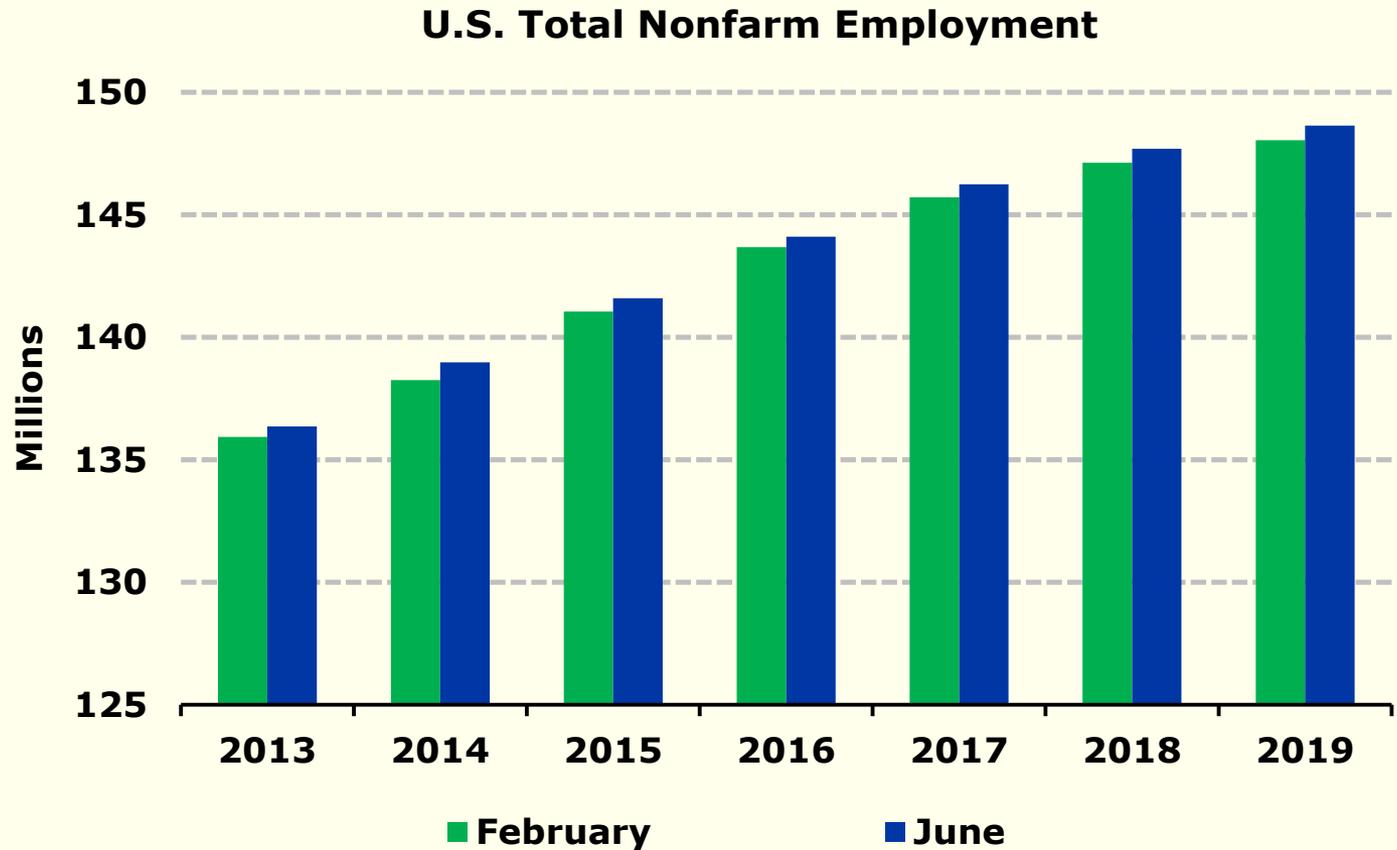
Real GDP growth for 2016 through 2019 is unchanged from February



Source: Global Insight, ERFC June 2014 forecast; historical data through 2014Q1



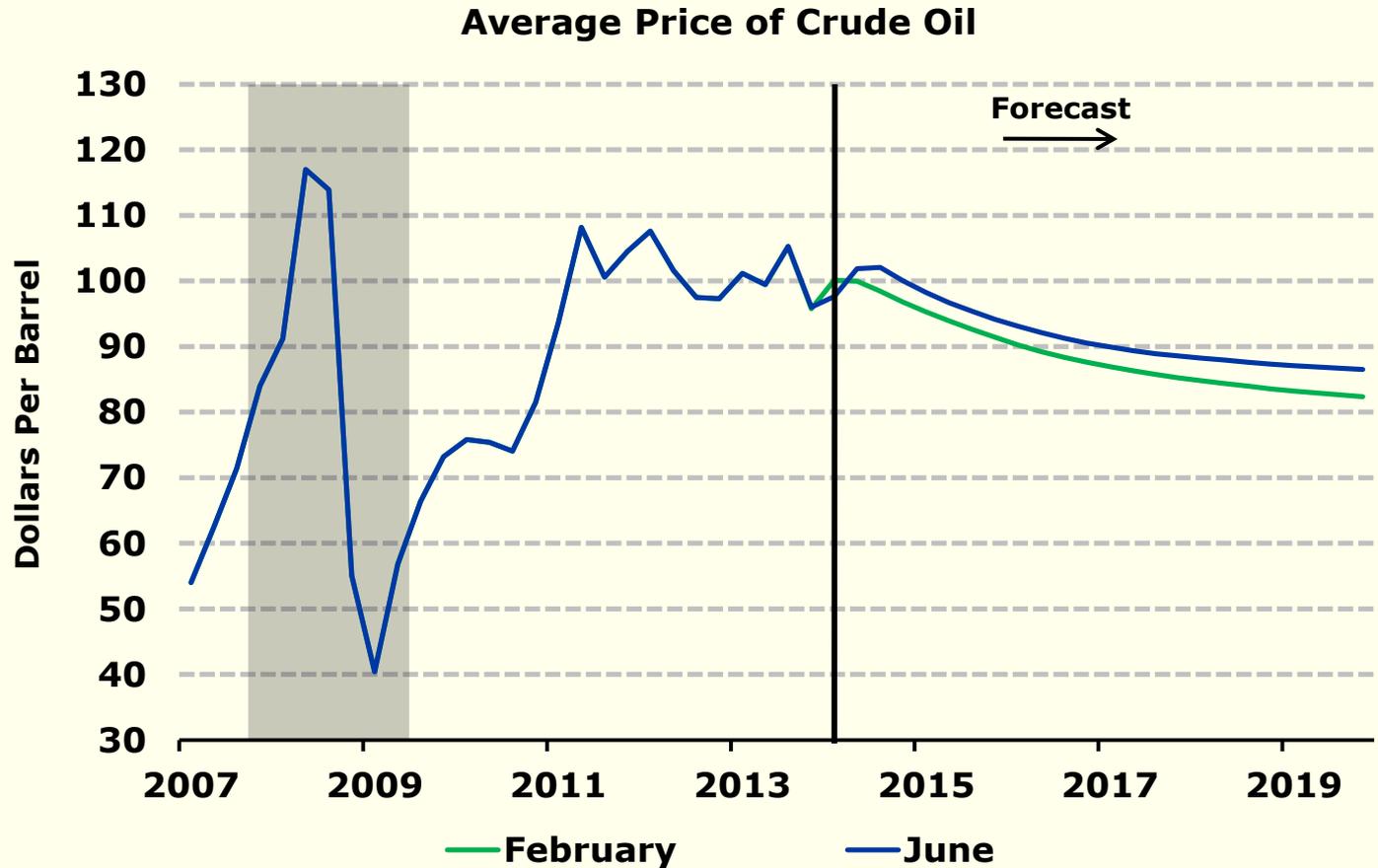
Employment is higher due to data reclassification



Source: BEA, ERFC; historical data through 2013



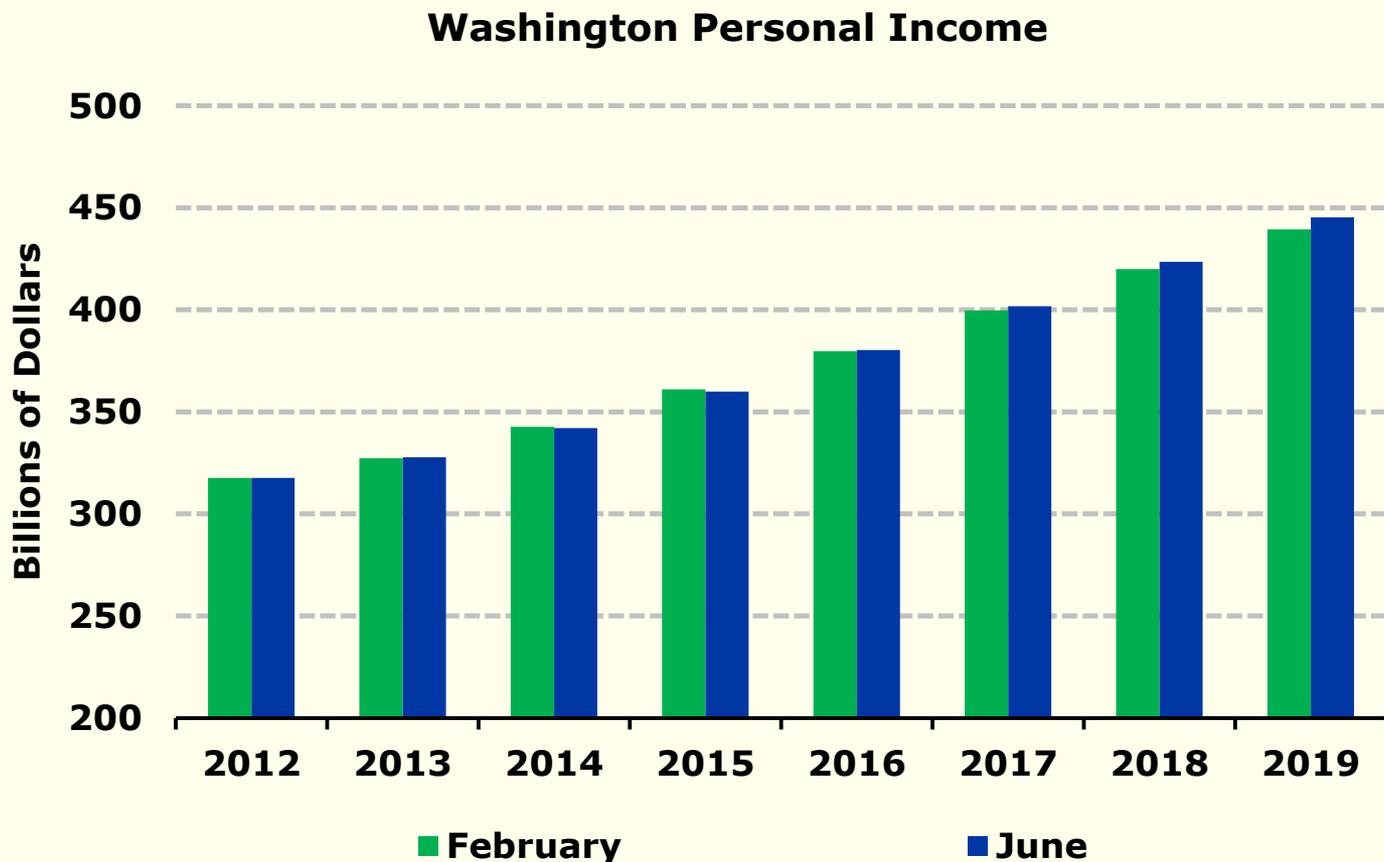
Oil prices are slightly higher



Source: DOE, ERFC June 2014 forecast; historical data through 2014Q1



Washington personal income forecast is similar to the February forecast

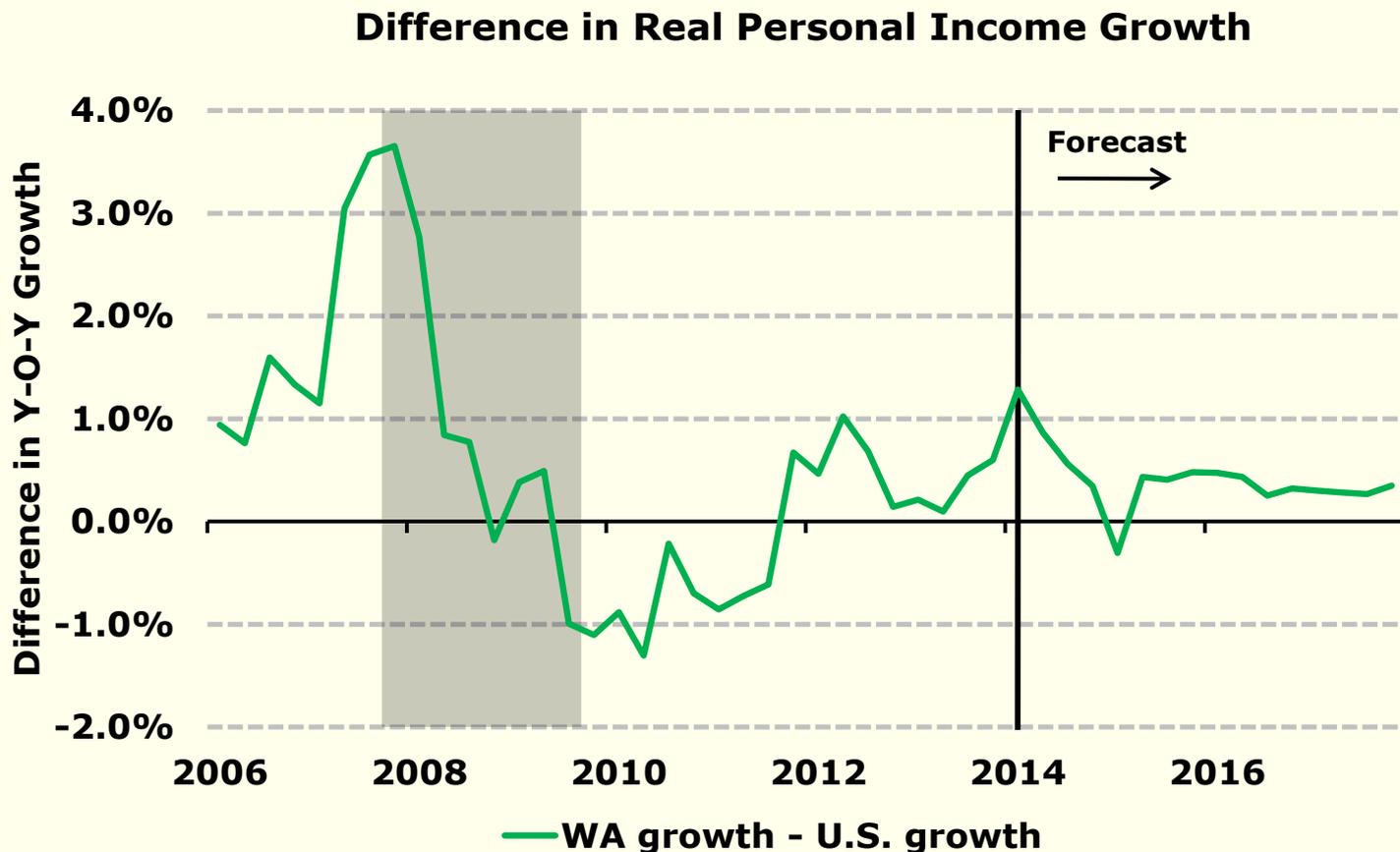


Source: ERFC June 2014 forecast; historical data through 2013



State personal income will grow slightly faster than the U.S.

Slower WA growth in 2015Q1 reflects impact of 2014Q1 Boeing bonus

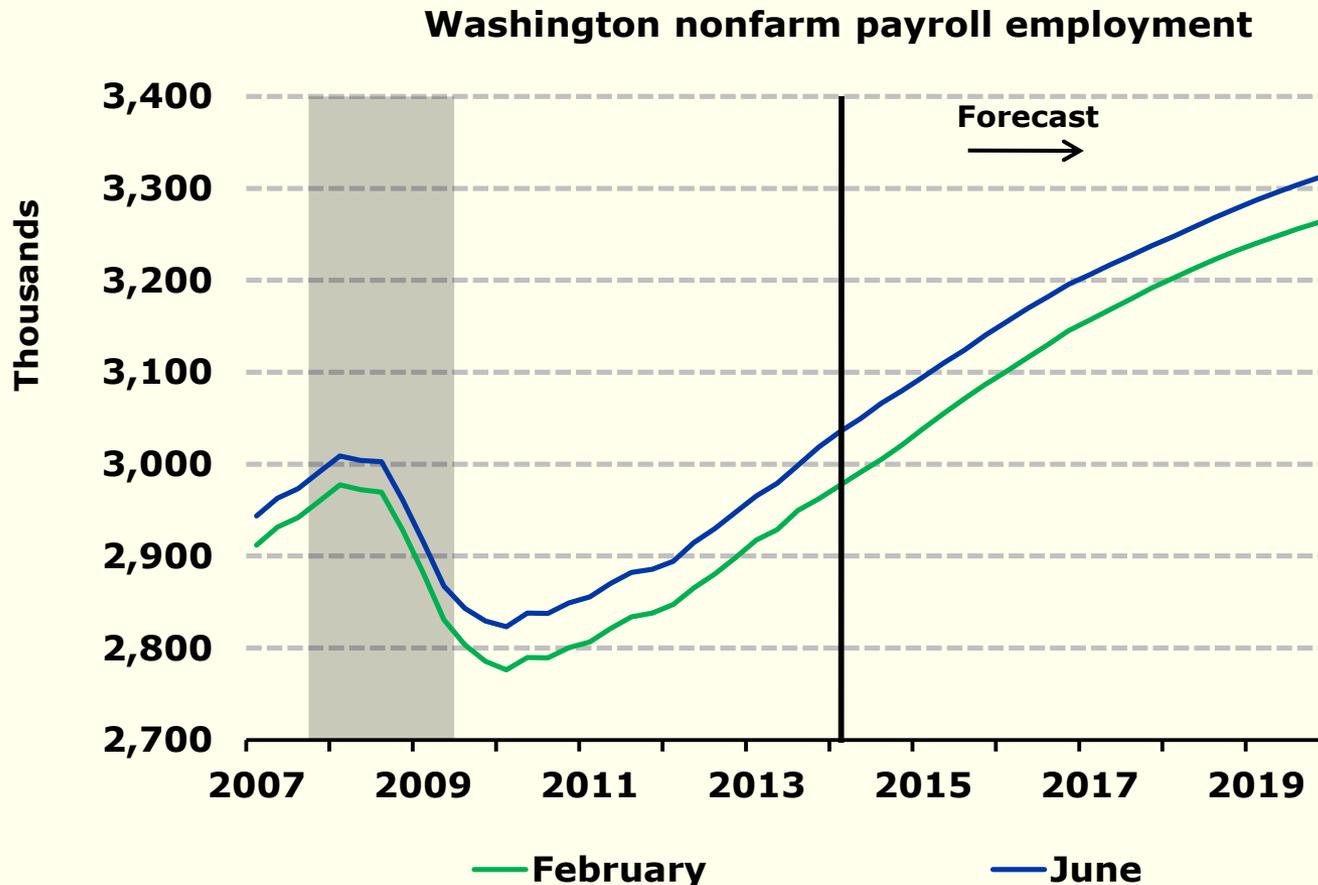


Source: ERFC June 2014 Forecast; historical data through 2014Q1



Higher Washington payroll employment largely due to data reclassification

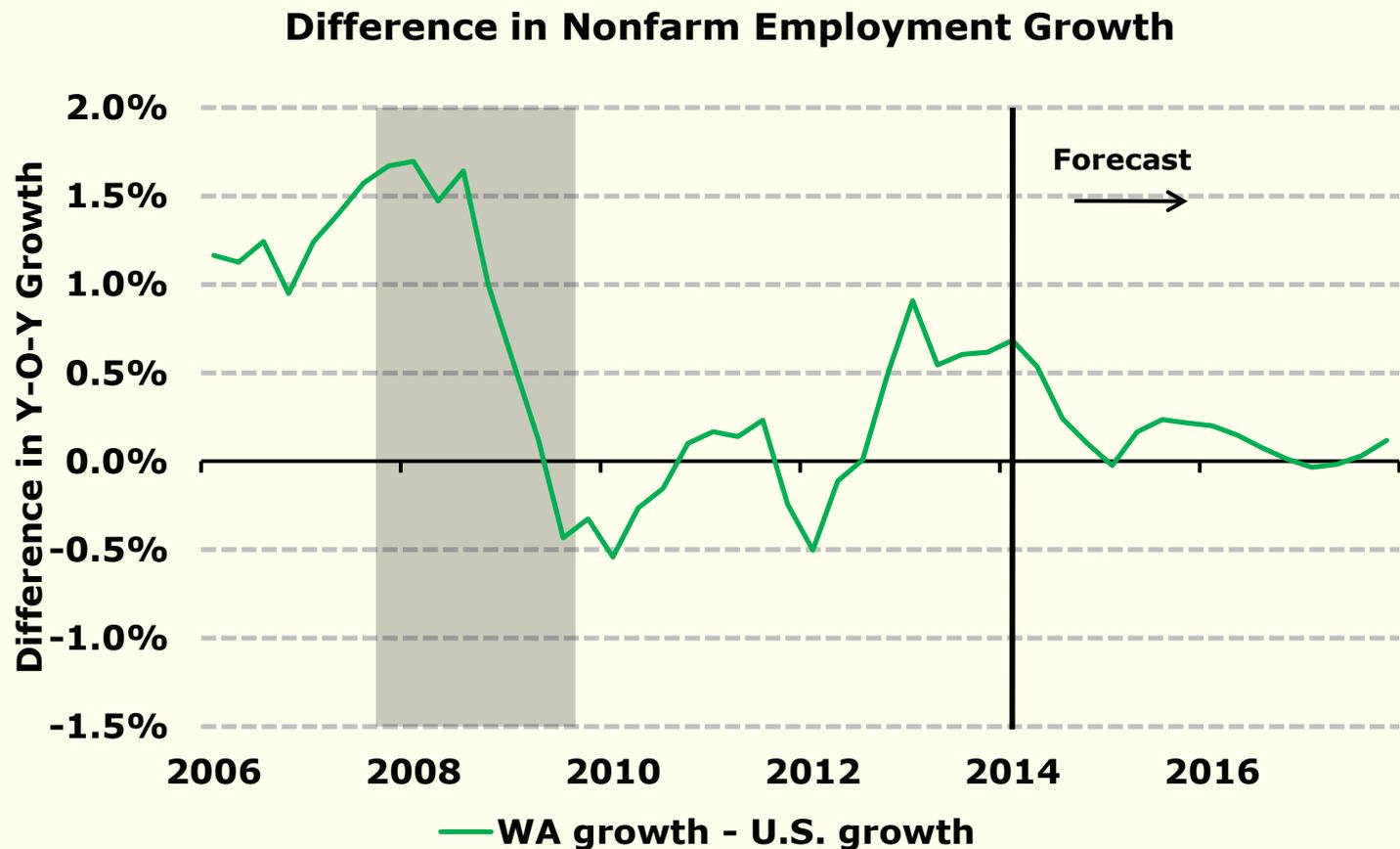
Average employment growth of 1.7% for 2014 to 2019 is unchanged from February



Source: Global Insight, ERFC June 2014 forecast; historical data through 2014Q1



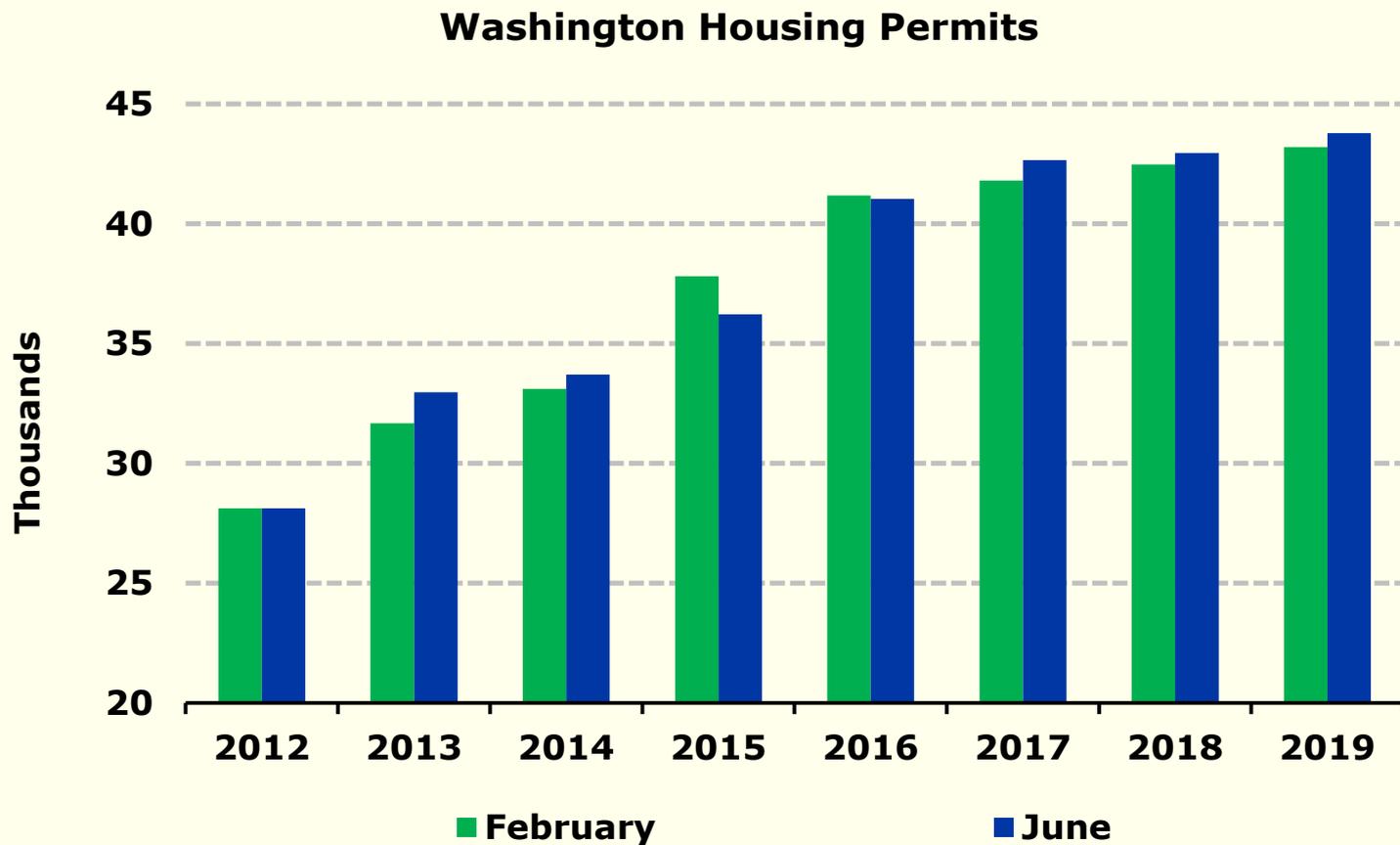
Washington employment will grow slightly faster than the U.S.



Source: ERFC June 2014 forecast; historical data through 2014Q1



Washington housing permits forecast: slightly lower in 2015 – 2016, slightly higher in 2017 - 2019



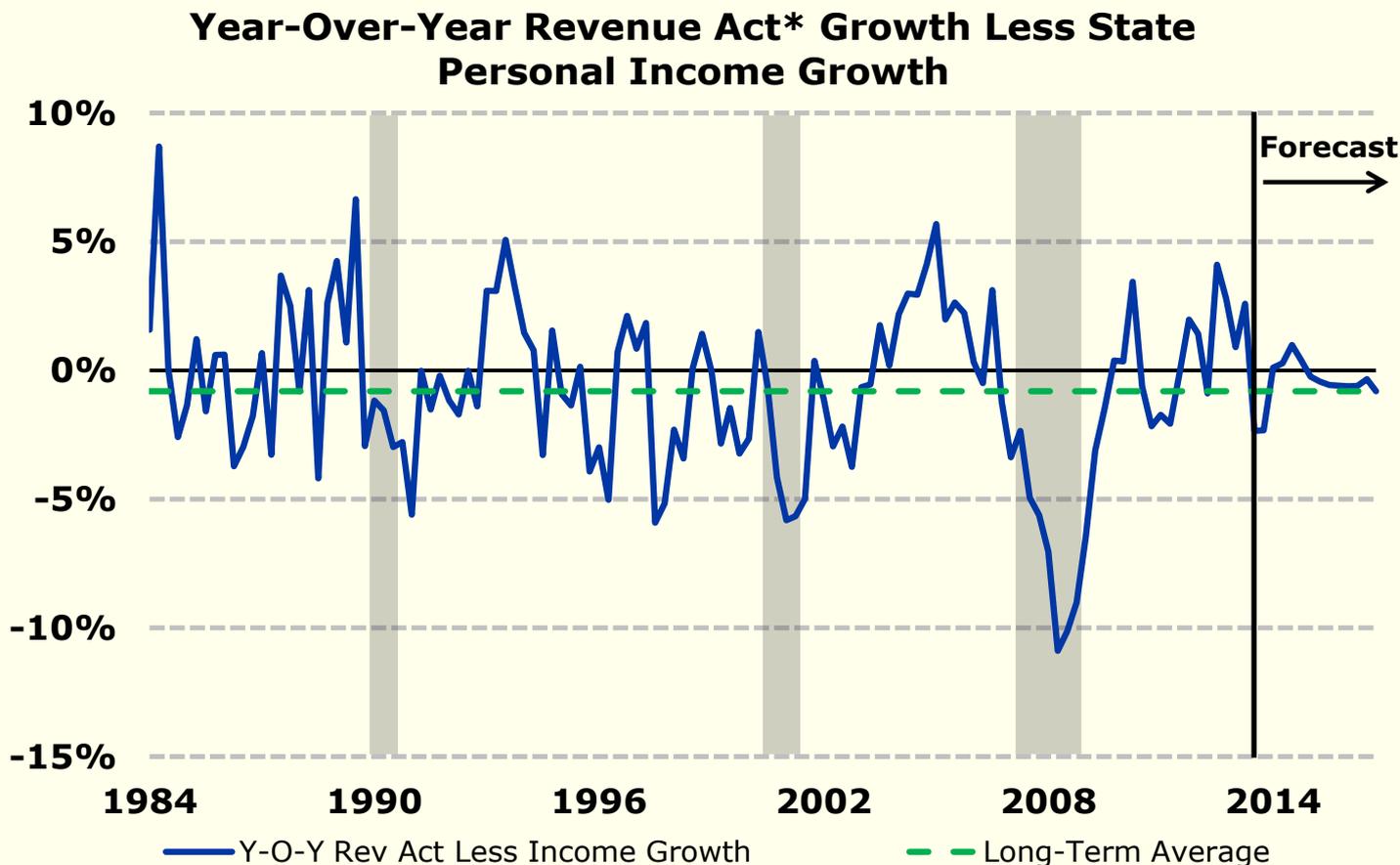
Source: ERFC June 2014 forecast; historical data through 2013



Forecasted Revenue Act growth relative to income is above the long-term average...

Revenue Act growth compared to income growth is forecasted to be slightly above the long-term average due to increasing construction activity

The dip in the chart in mid-2013 through mid-2014 reflects the expiration of the B&O service tax surcharge



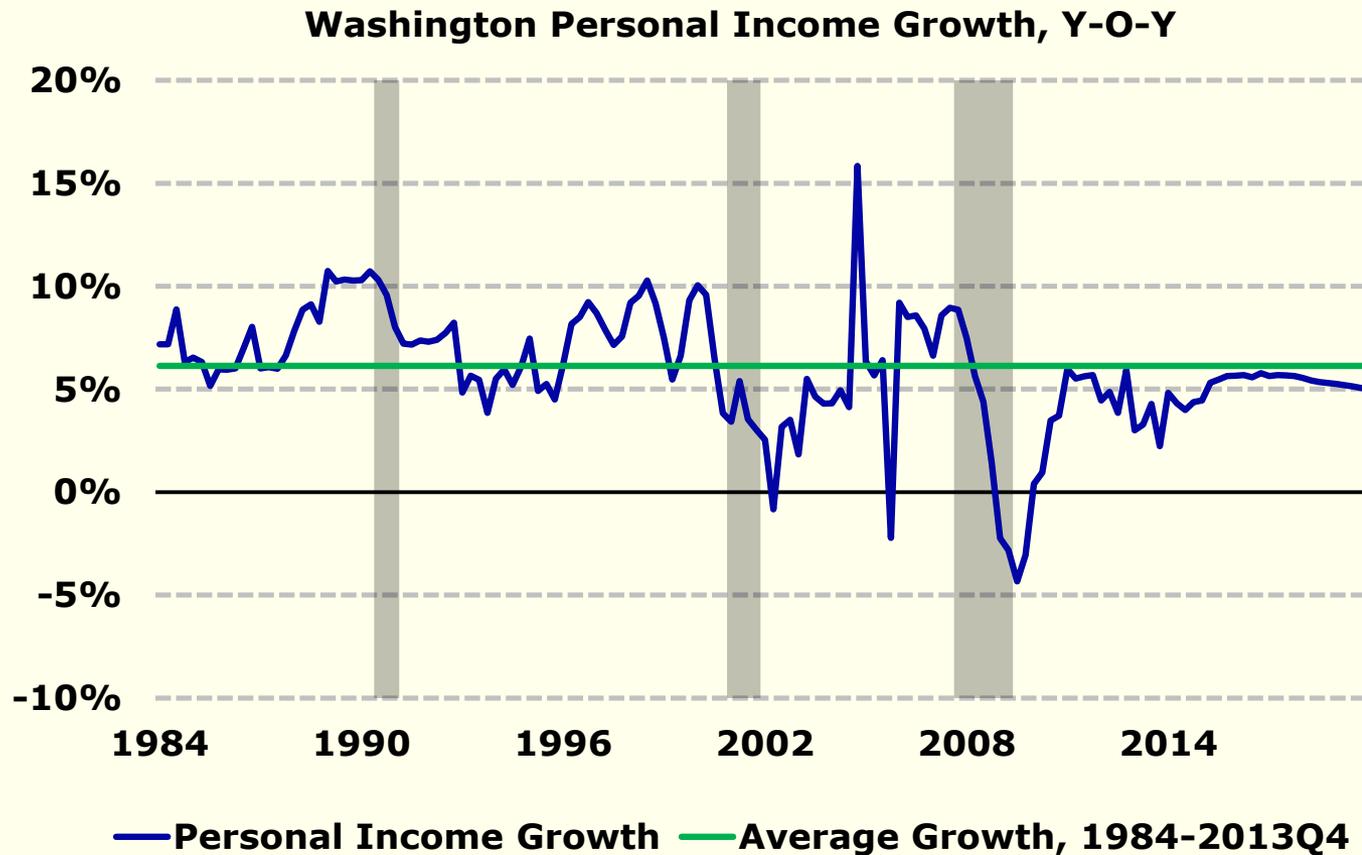
*Adjusted for large one-time payments and refunds and payments under the amnesty program

Source: ERFC; Quarterly revenue data through Q1 2014, June 2014 income estimates

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...but personal income growth is below its long-term average

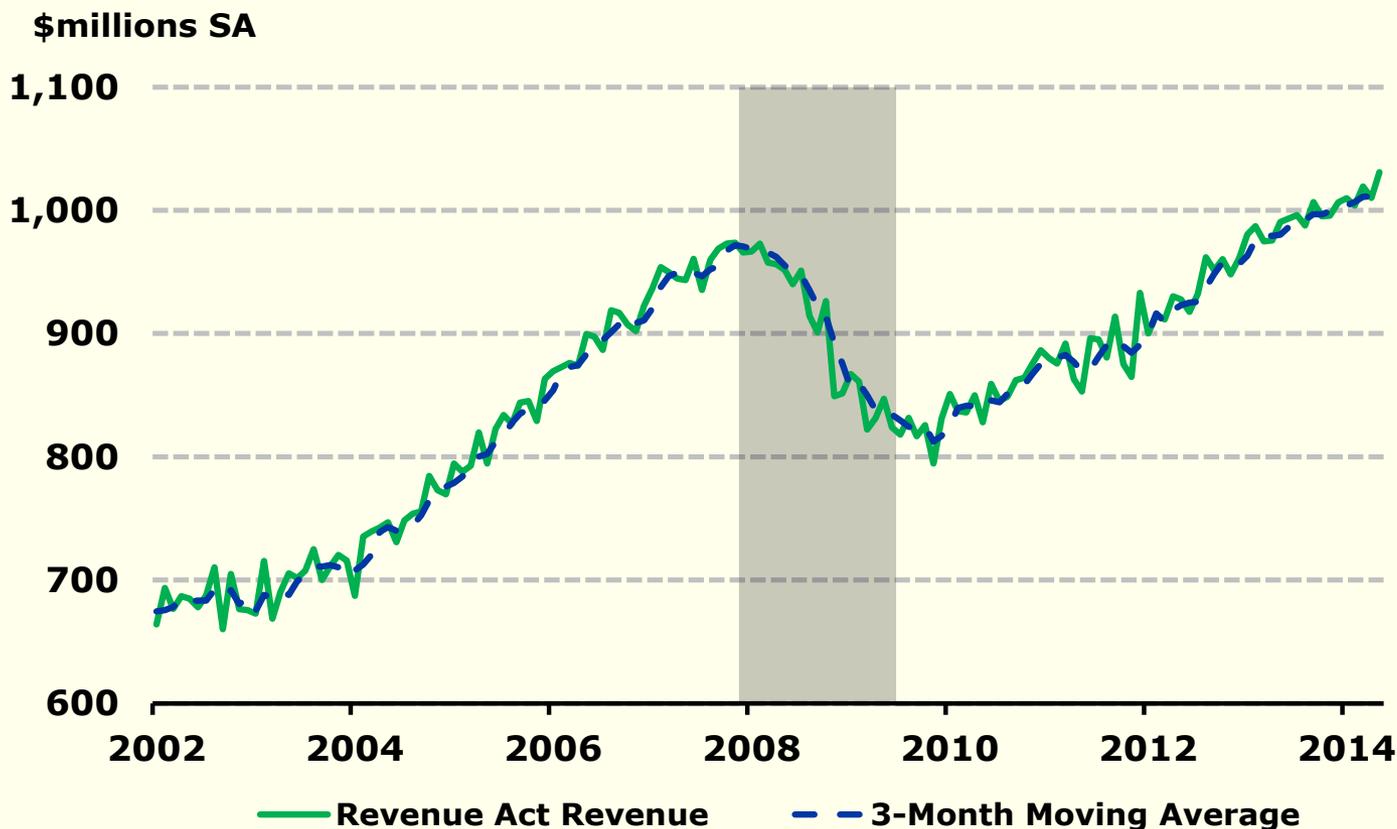




Seasonally adjusted Revenue Act collections still on an upward trend

Adjusted for large payments and refunds, collections increased 2.5% year-over-year for first quarter activity

Year-over-year growth was lowered by about 2% by the 0.3% B&O services surtax that expired on July 1, 2013



* 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 2014 activity

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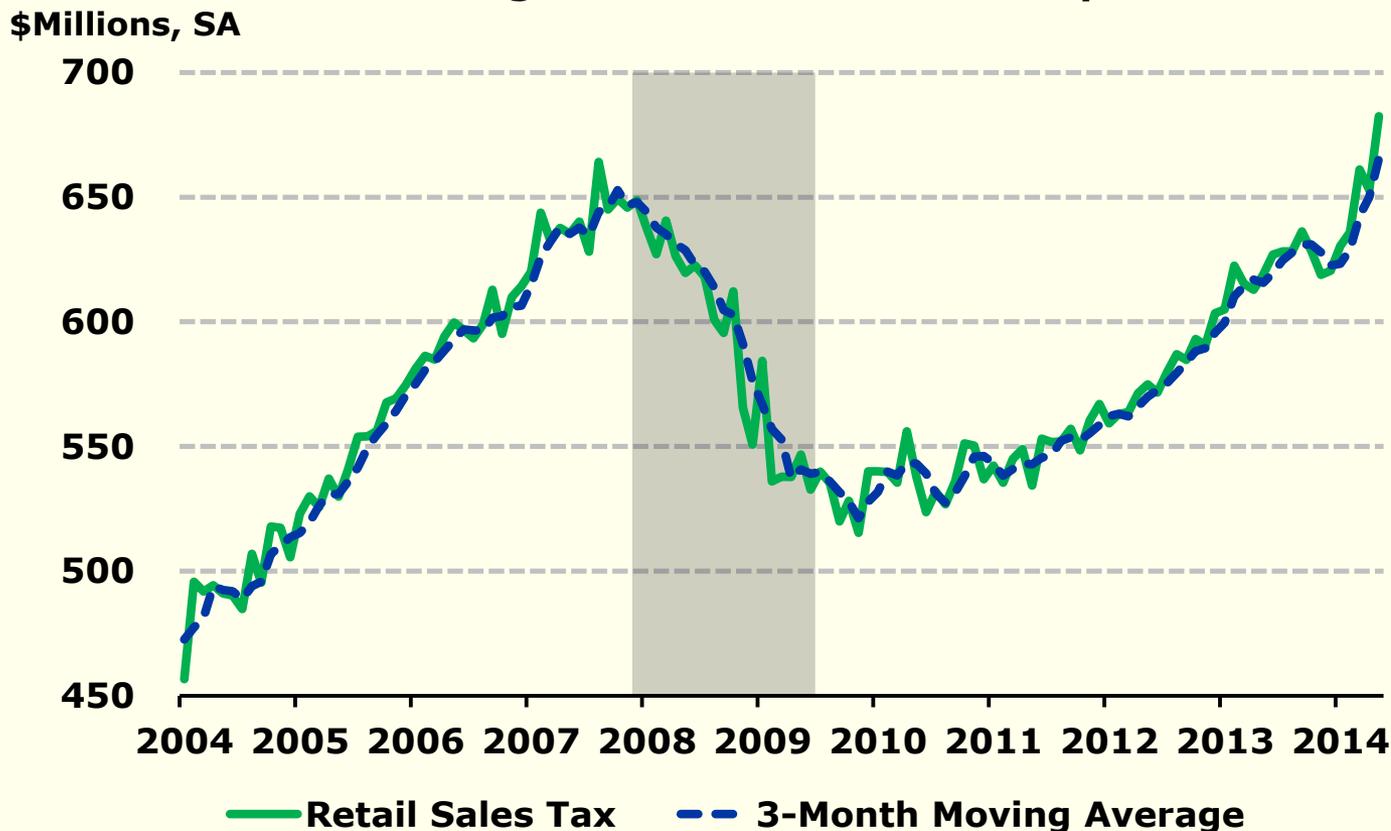


Sales tax collection growth faltered in Q4 2013 but growth has since resumed

Adjusted sales tax collections were up 4.6% year-over-year for first quarter activity

Preliminary collections for May activity were up 10.3% year-over-year

Washington Retail Sales Tax Receipts



Source: ERFC; Monthly data through May 2014 preliminary activity

Adjusted for large payments/refunds, amnesty payments and taxpayer reporting frequency change

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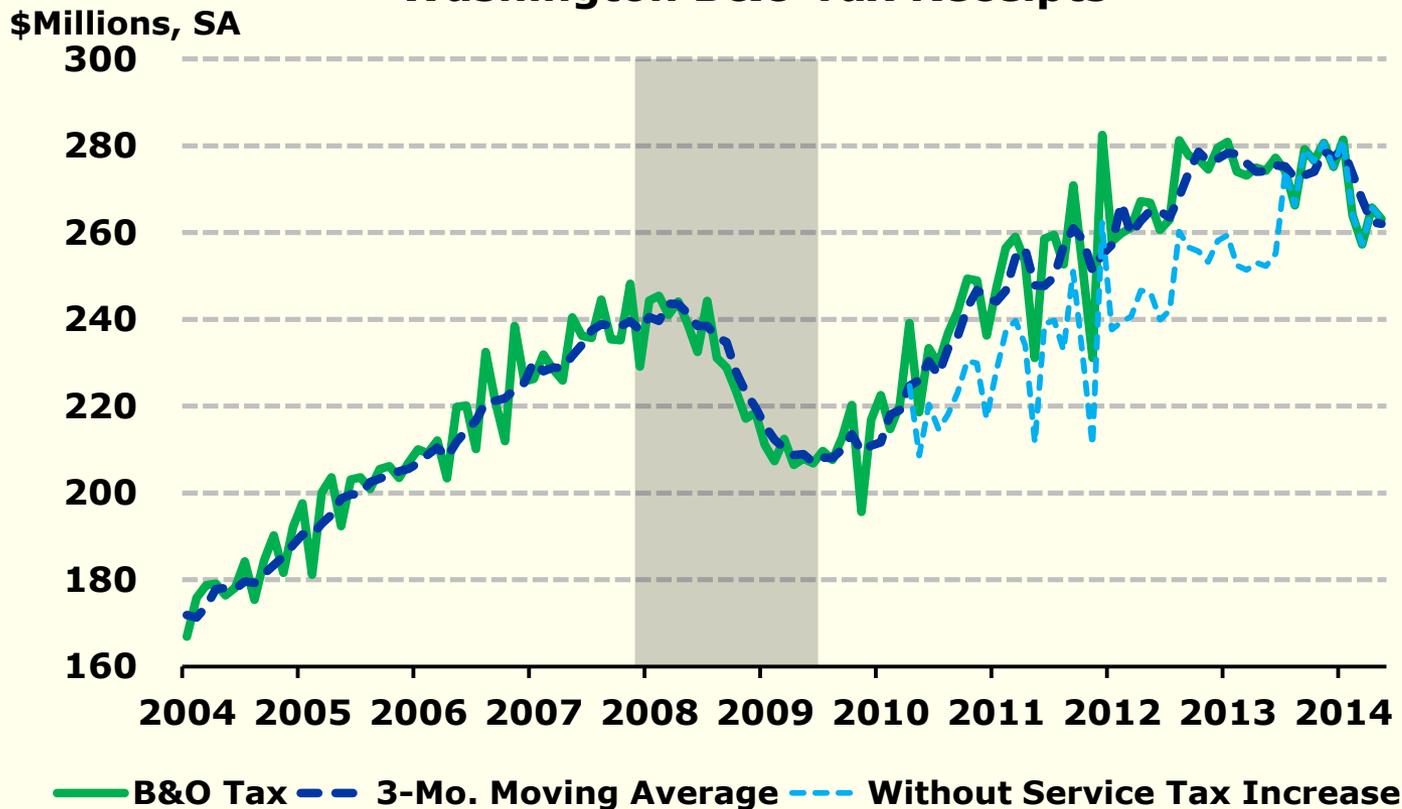


Surtax sunset reducing B&O but underlying Y-O-Y growth still positive

Adjusted B&O tax collections were down 3.0% year over year for first quarter activity

Collections would have grown 5.2% without last year's service tax surcharge

Washington B&O Tax Receipts



Source: ERFC; Monthly data through May 2014 preliminary activity

Adjusted for taxpayer frequency shift, amnesty payments, and recent large refunds

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REET: moderate residential growth plus spikes in large commercial sales

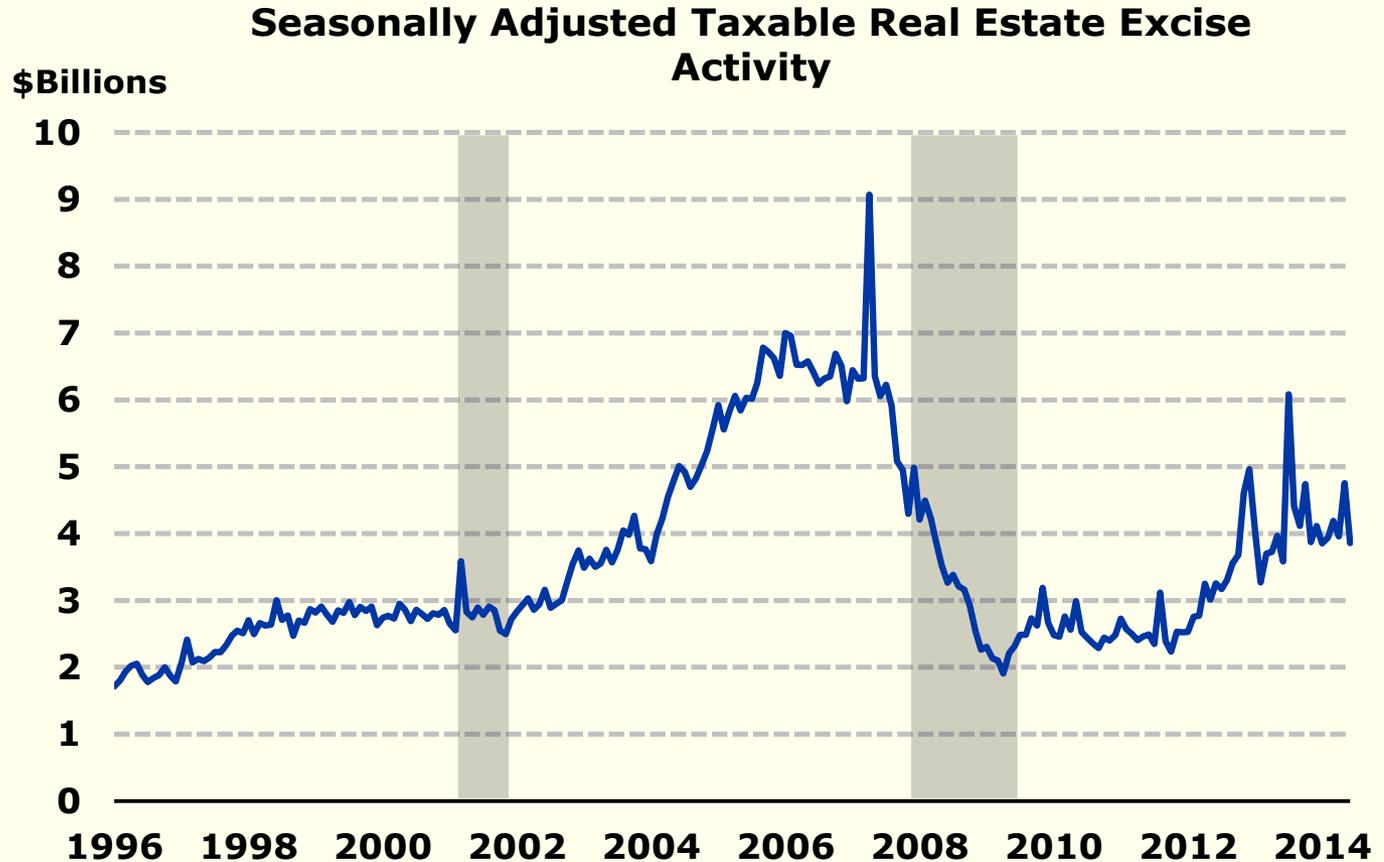
The residential market has shown strong price growth but total sales have been constrained by low inventory

Large commercial sales have caused several spikes in taxable activity

June sales of property worth \$10 million or more totaled \$609 million

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Slide 32



Source: ERFC; Monthly data through June 2014 preliminary



Forecast changes: General Fund State, 2013-2015 Biennium

February Forecast:

\$33,013 million

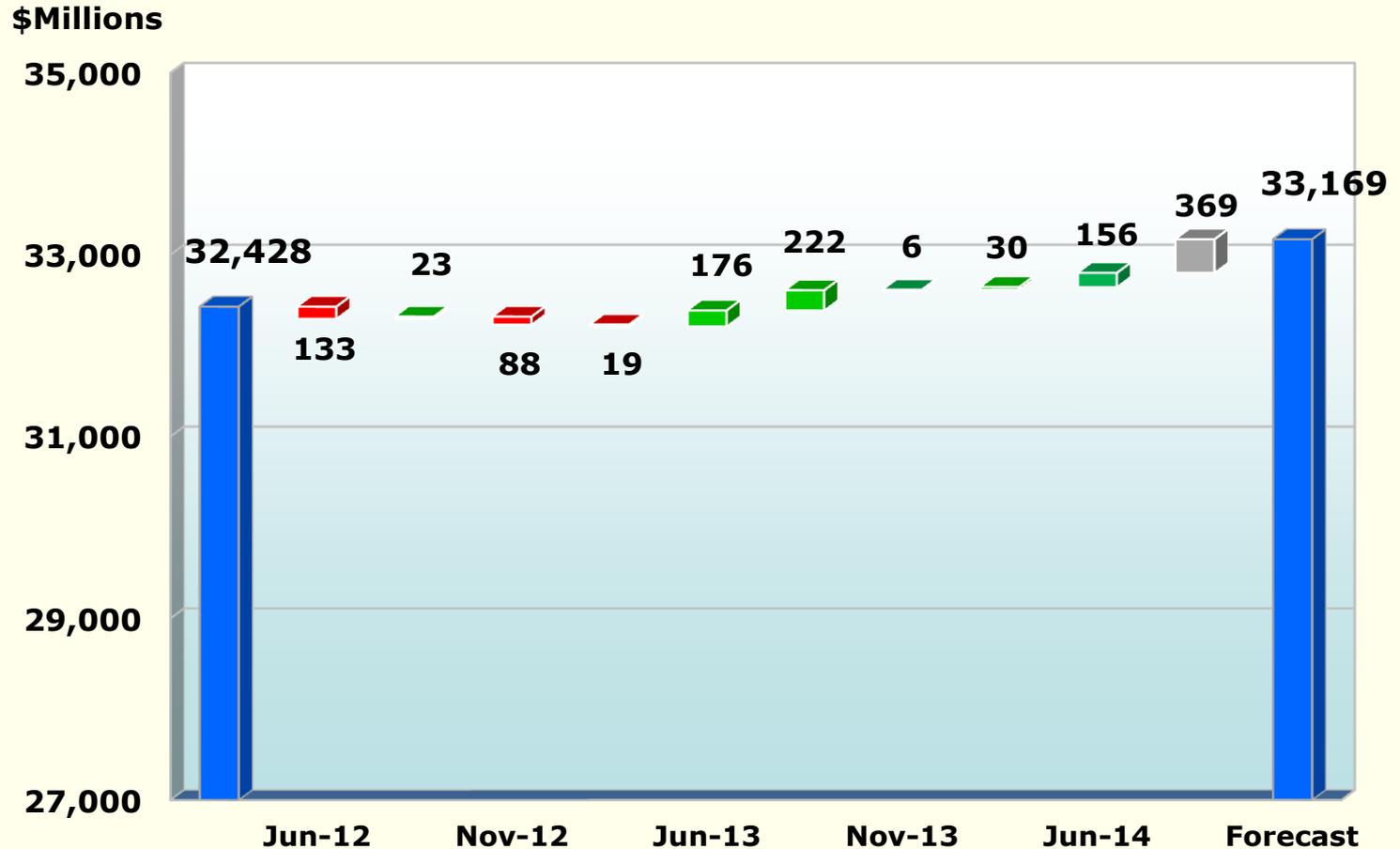
\$Millions	June Forecast				
	<u>Collection Experience</u>	<u>Non-economic Change</u>	<u>Forecast Change</u>	<u>Forecast</u>	<u>Total Change*</u>
Dept. of Revenue	\$123	(\$7)	\$38	\$31,578	\$154
All other agencies	(\$1)	\$8	(\$4)	\$1,592	\$3
Total GF-S	\$122	\$1	\$33	\$33,169	\$157

* Detail may not add to total due to rounding



GF-S forecast revisions to the 2013-15 biennium

GF-S
New
Definition



Source: ERFC February 2012 – February 2014 forecasts
Gray area indicates total noneconomic change

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Forecast changes: General Fund State, 2015-2017 Biennium

February Forecast:

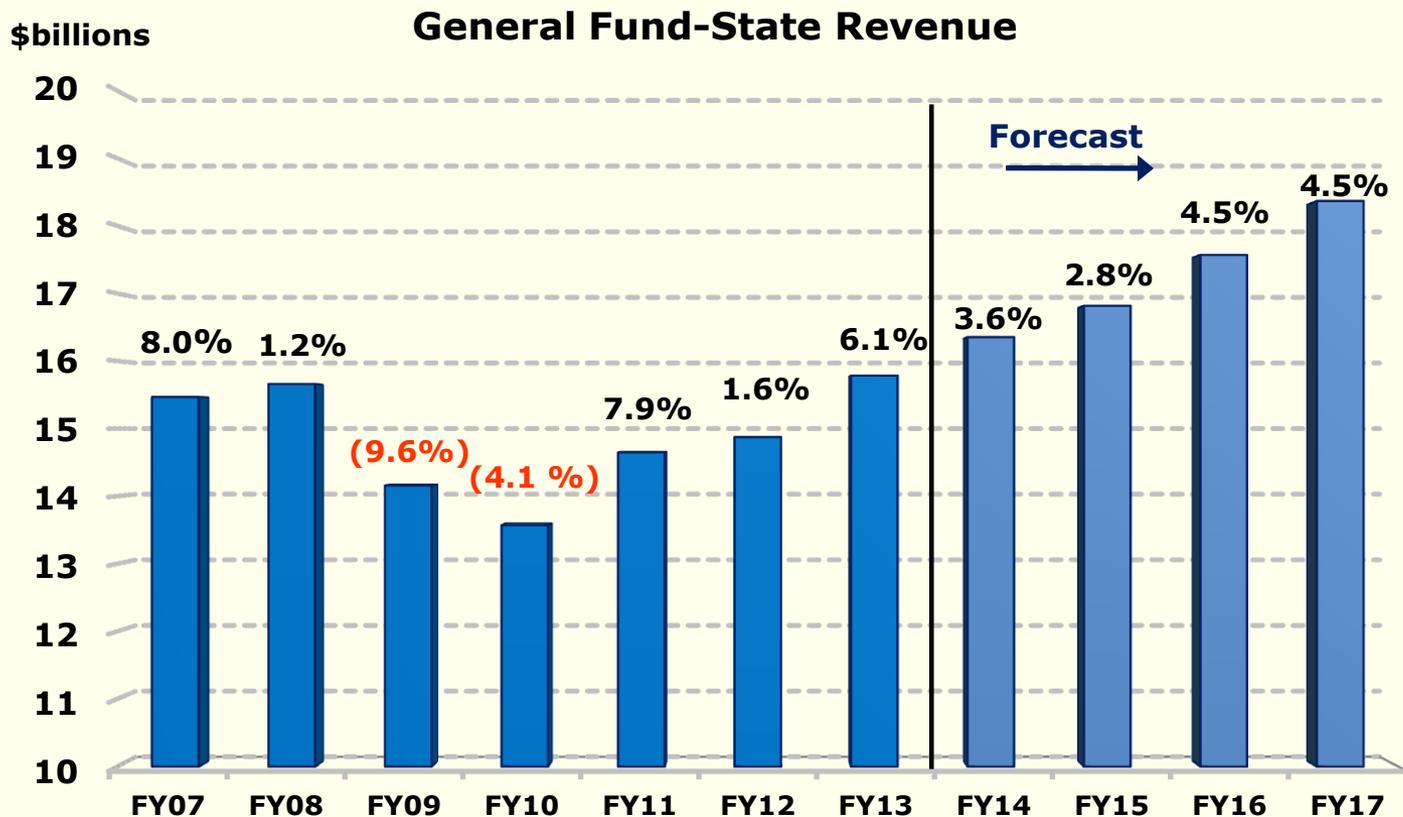
\$35,697 million

\$Millions	June Forecast			
	<u>Non-economic Change</u>	<u>Forecast Change</u>	<u>Forecast</u>	<u>Total Change*</u>
Dept. of Revenue	\$5	\$194	\$34,266	\$199
All other agencies	\$0	\$40	\$1,669	\$40
Total GF-S	\$5	\$233	\$35,935	\$238

* Detail may not add to total due to rounding



General Fund-State* forecast by fiscal year





GF-S cannabis revenue estimates

Revenue estimates use assumptions based on research conducted by LCB contractor BOTEC Analysis

\$Millions

June Forecast

	<u>2013-15</u>	<u>2015-17</u>	<u>2017-19</u>
GF-S share of excise tax and license fees	\$0	\$22.9	\$63.0
Retail sales tax and B&O	\$0	\$28.3	\$75.4
Dedicated share of excise tax and license fees	\$0	\$110.8	\$285.5
Total	\$0	\$162.0	\$424.0

Source: ERFC, BOTEC Analysis; detail may not add to total due to rounding



Conclusion

- The economic forecast is quite similar to February's forecast; we expect the slow pace of economic recovery to continue in both the U.S. and Washington economies
- We continue to expect the Washington economy to be slightly stronger than the U.S. economy
- Revenue collections are expected to grow 8.2% between the 2011-13 and 2013-15 biennia and 8.3% between the 2013-15 and 2015-17 biennia
- The level of uncertainty in the baseline remains high, with risks on both the downside and upside



Questions



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