

Washington State Economic & Revenue Outlook

Presented to
Thurston County Chamber of Commerce

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**WASHINGTON STATE
ECONOMIC AND REVENUE FORECAST COUNCIL**



Summary

- Since the February forecast, U.S. economic data have generally been a bit weaker than expected, while revenue collections have been stronger than expected
- The forecast now assumes the Federal Reserve will only increase interest rates once this year instead of twice as assumed in February
- Risks to the baseline include slowing economic growth in the U.S. and globally, impact of a stronger dollar on exports, and weaker manufacturing activity
- The GF-S revenue forecast has been increased by \$294 million for the 2015-17 biennium and increased by \$126 million for the 2017-19 biennium



Economic news continues to suggest risks to forecast

Upside:

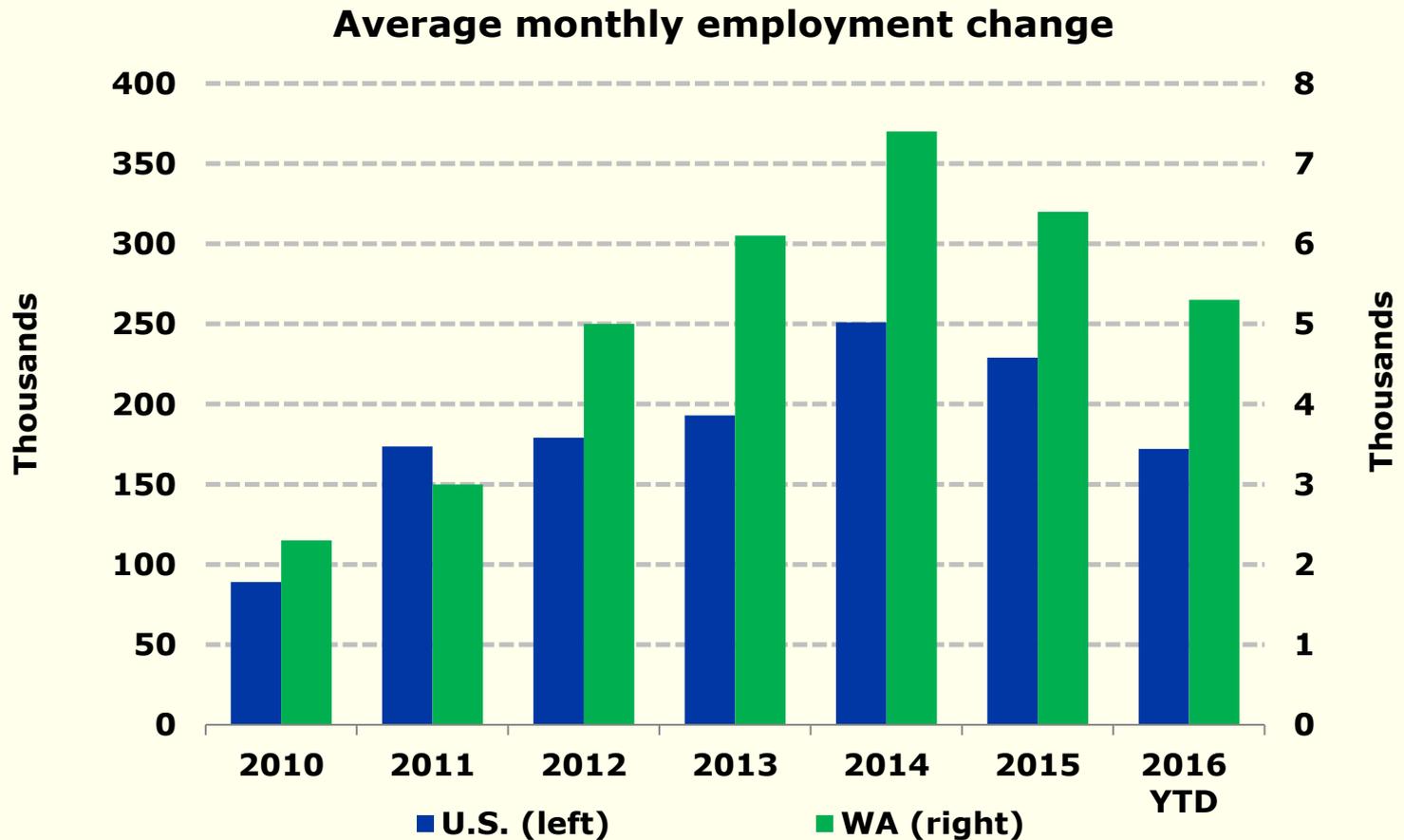
- Stronger than expected job growth
- Rising wage growth
- Stronger housing starts and home sales (new and existing)

Downside:

- Slowing global economy, impact of Brexit
- Slower U.S. GDP growth
- Negative impact of stronger dollar on exports
- Slowing nonresidential construction



So far in 2016, employment change is weaker than last year

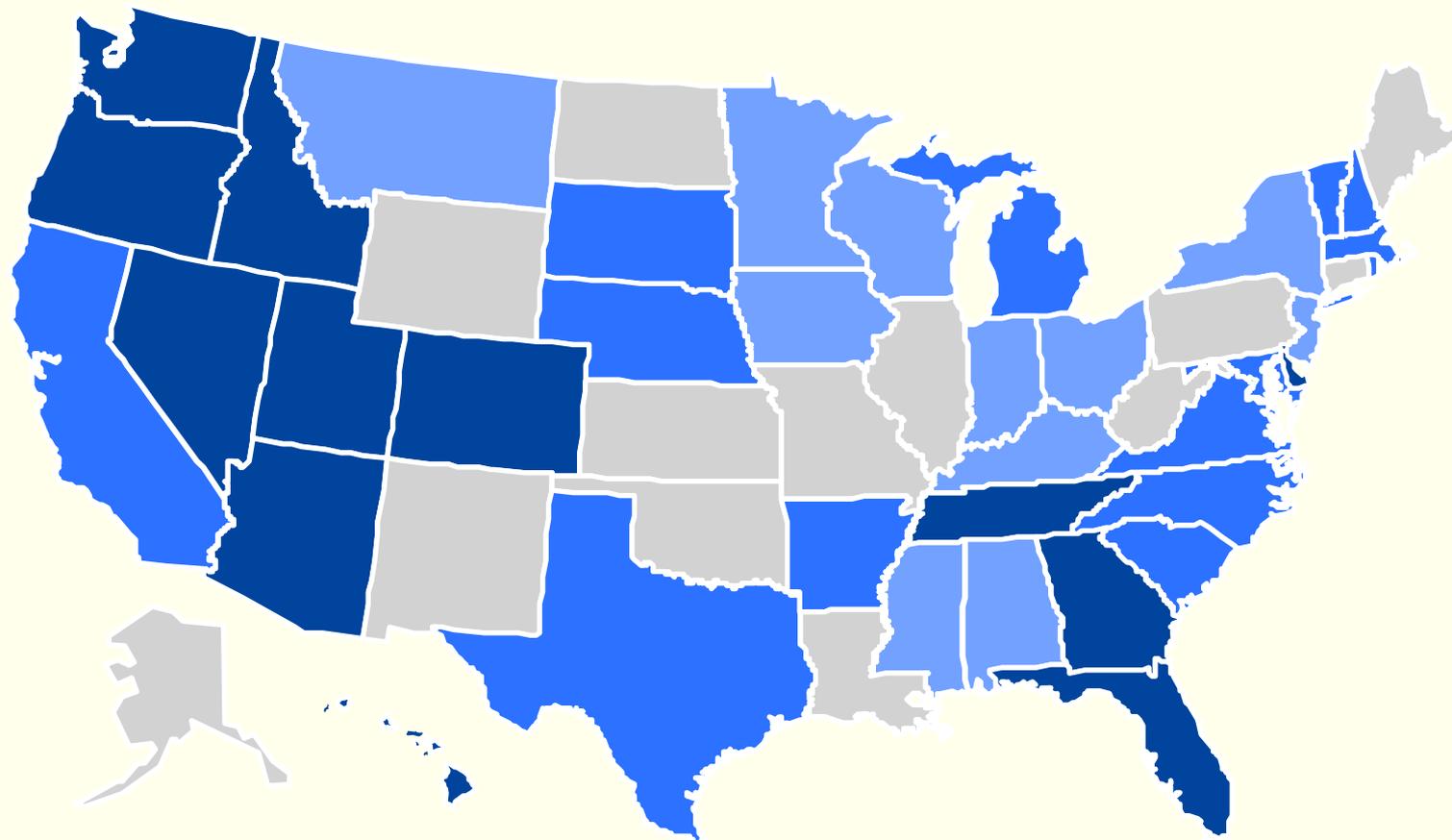
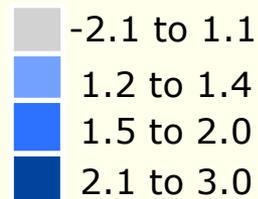


Source: Bureau of Labor Statistics, ERFC; WA data through May 2016, U.S. data through June 2016

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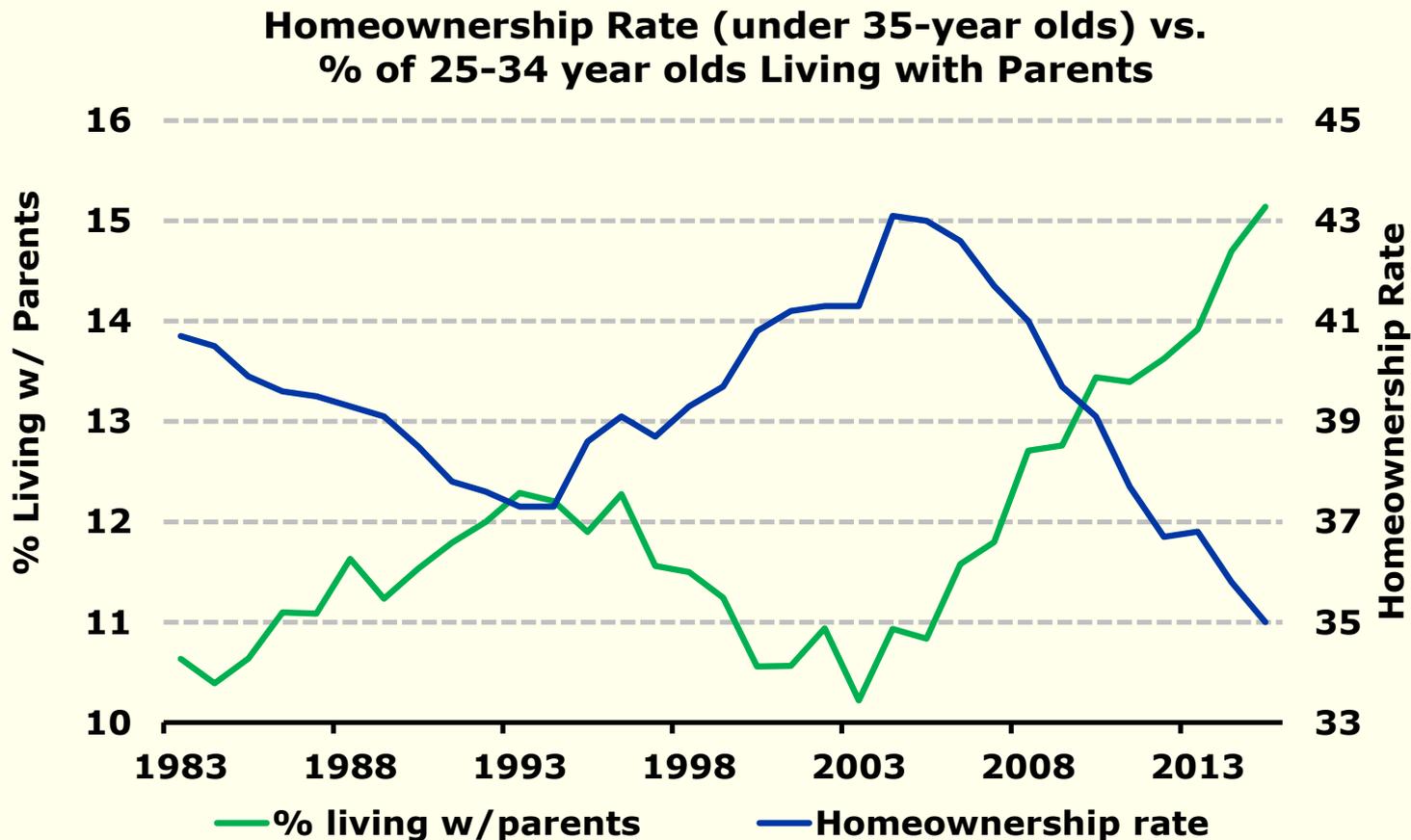
Variations in state employment growth in 2016 reflect the two-tiered economy





Young adults are increasingly living with parents and foregoing home ownership

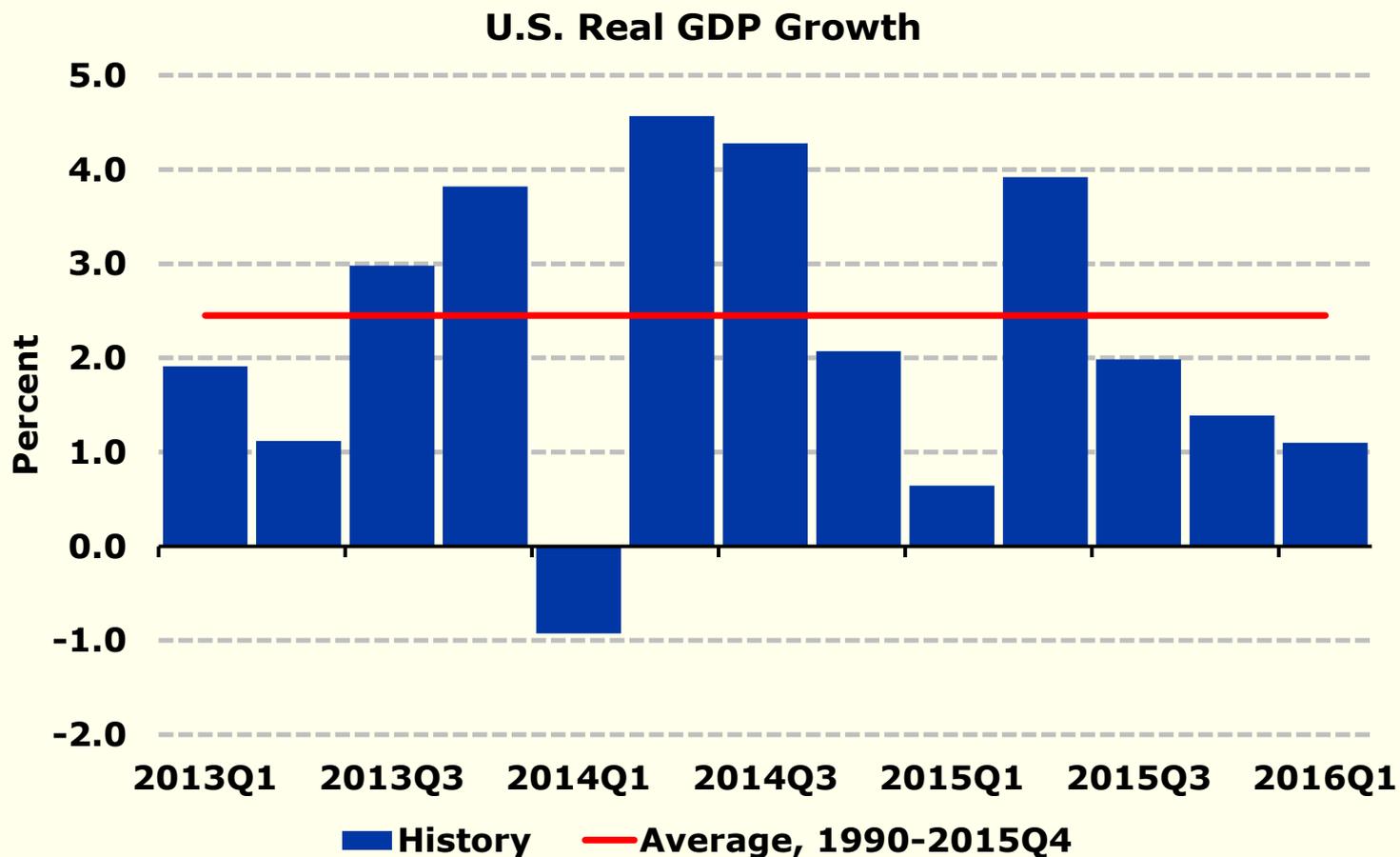
As the job market continues to improve, young adults are likely to move out and increase demand for housing



Source: U.S. Census, ERFC, data through 2015



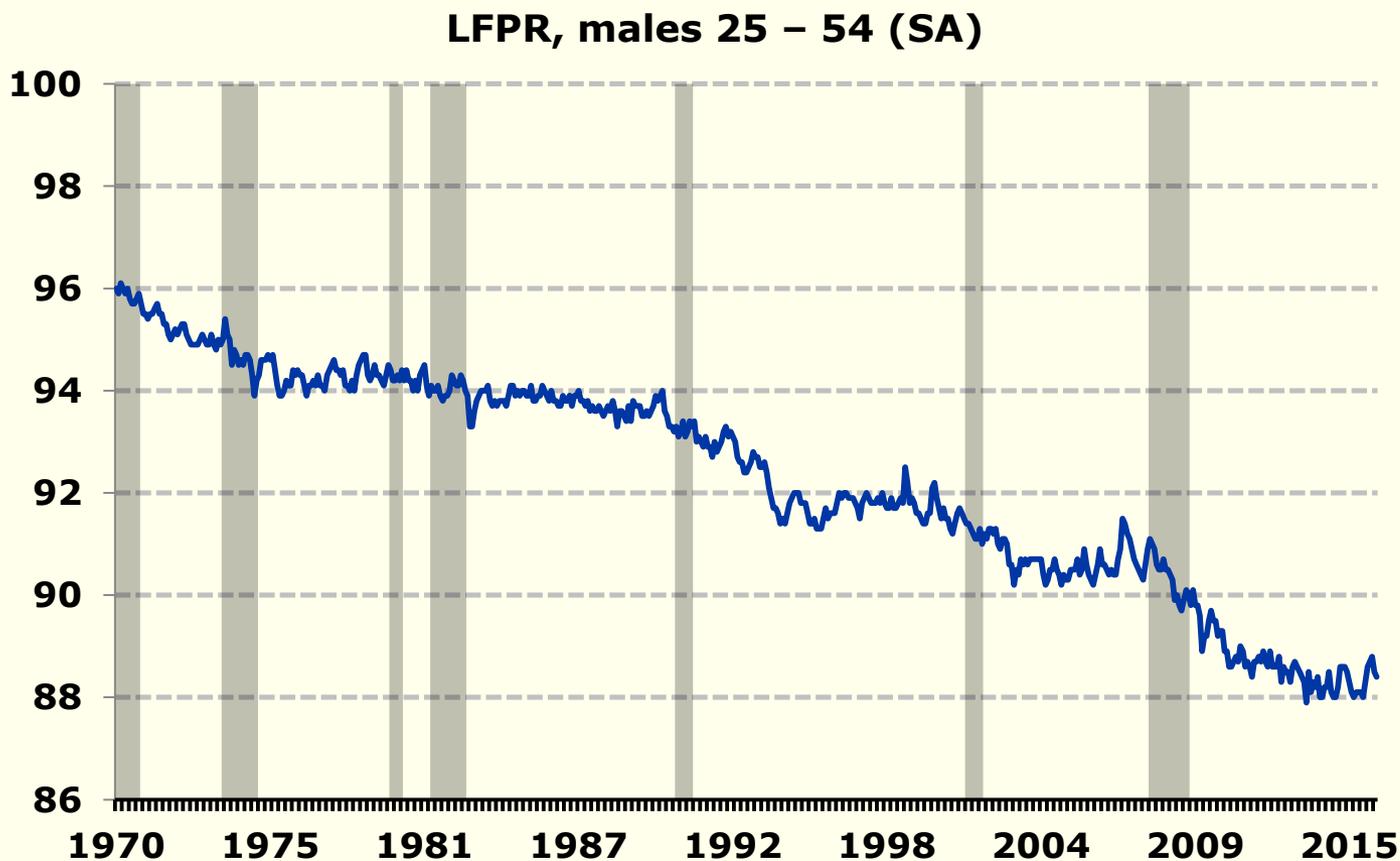
U.S. economic growth weakened in the last three quarters



Source: U.S. Dept. of Commerce, BEA, data through 2016 Q1



Labor force participation rate for prime-age males continues to decline



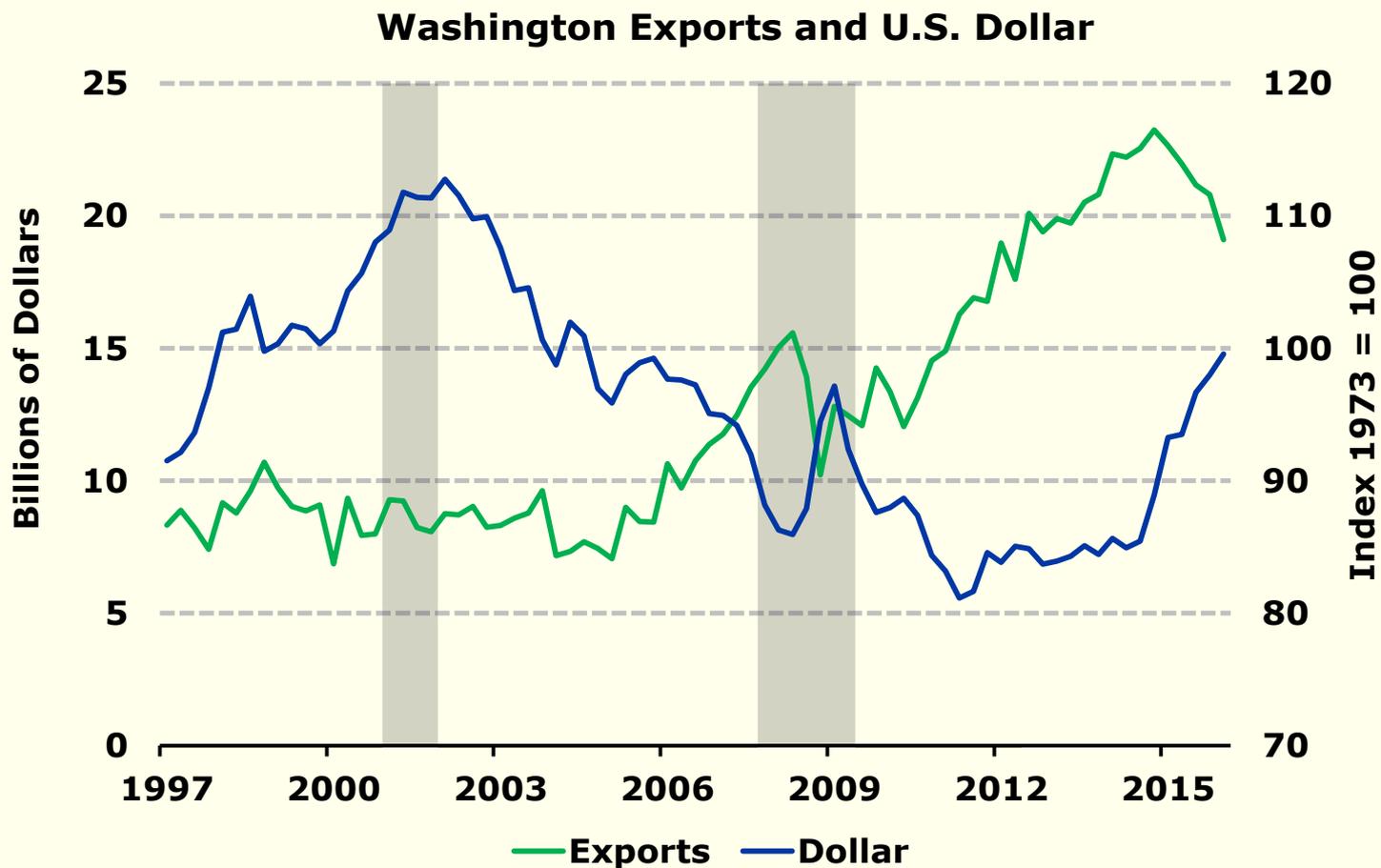


Labor productivity has remained low since 2011





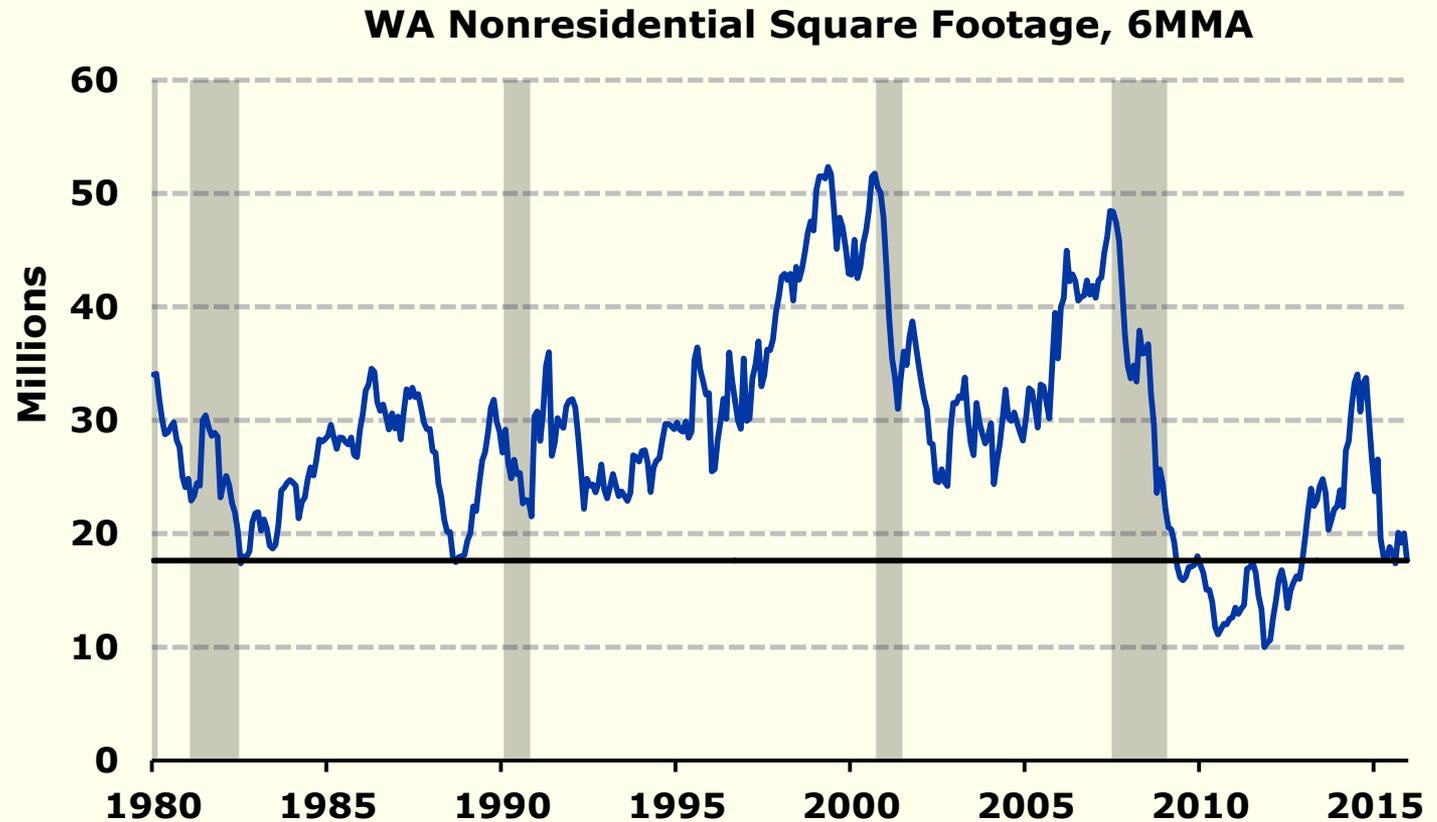
Strong dollar is contributing to a decline in exports



Source: Wiser Trade, ERFC; data through 2016Q1

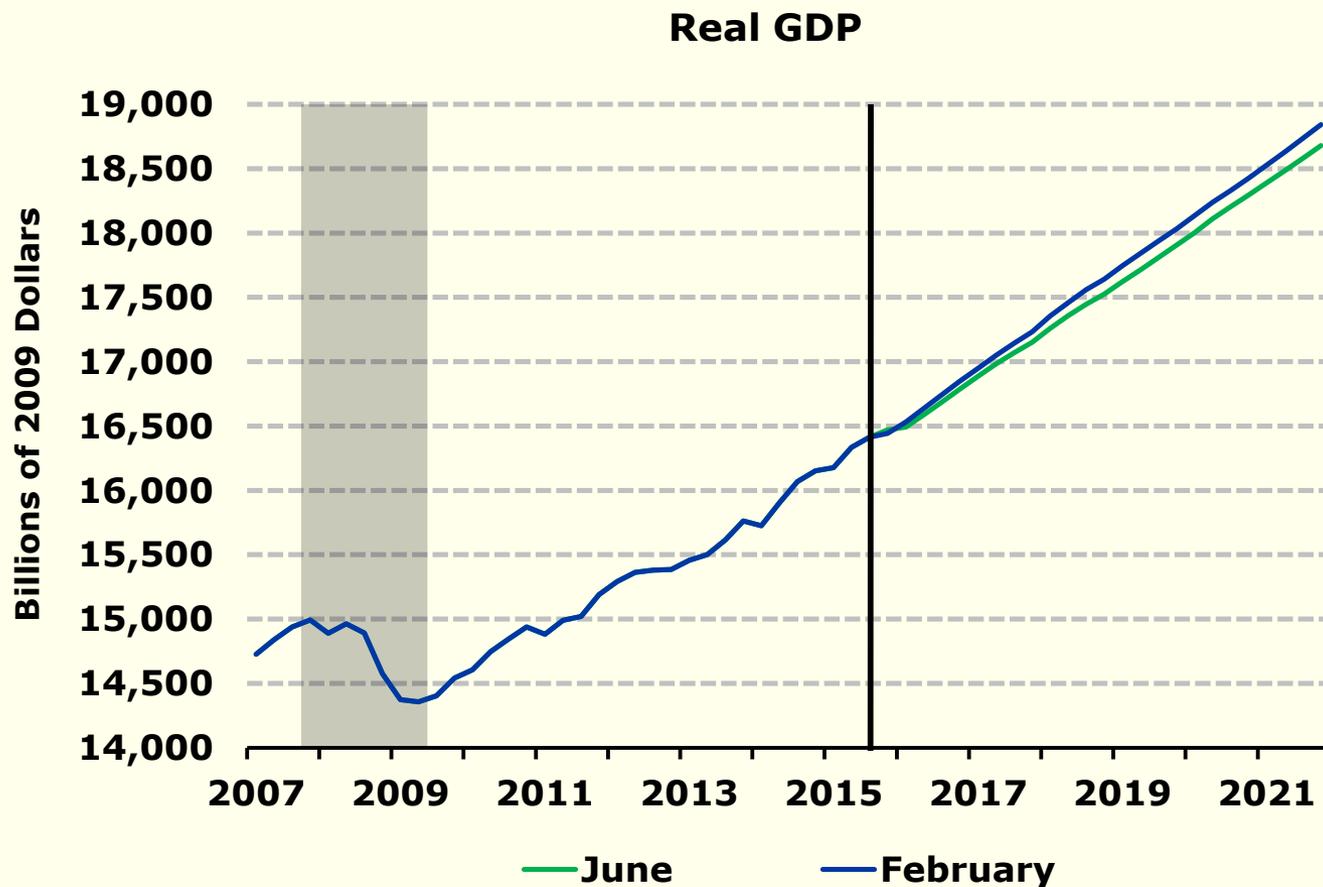


WA nonresidential square footage remains at historic lows



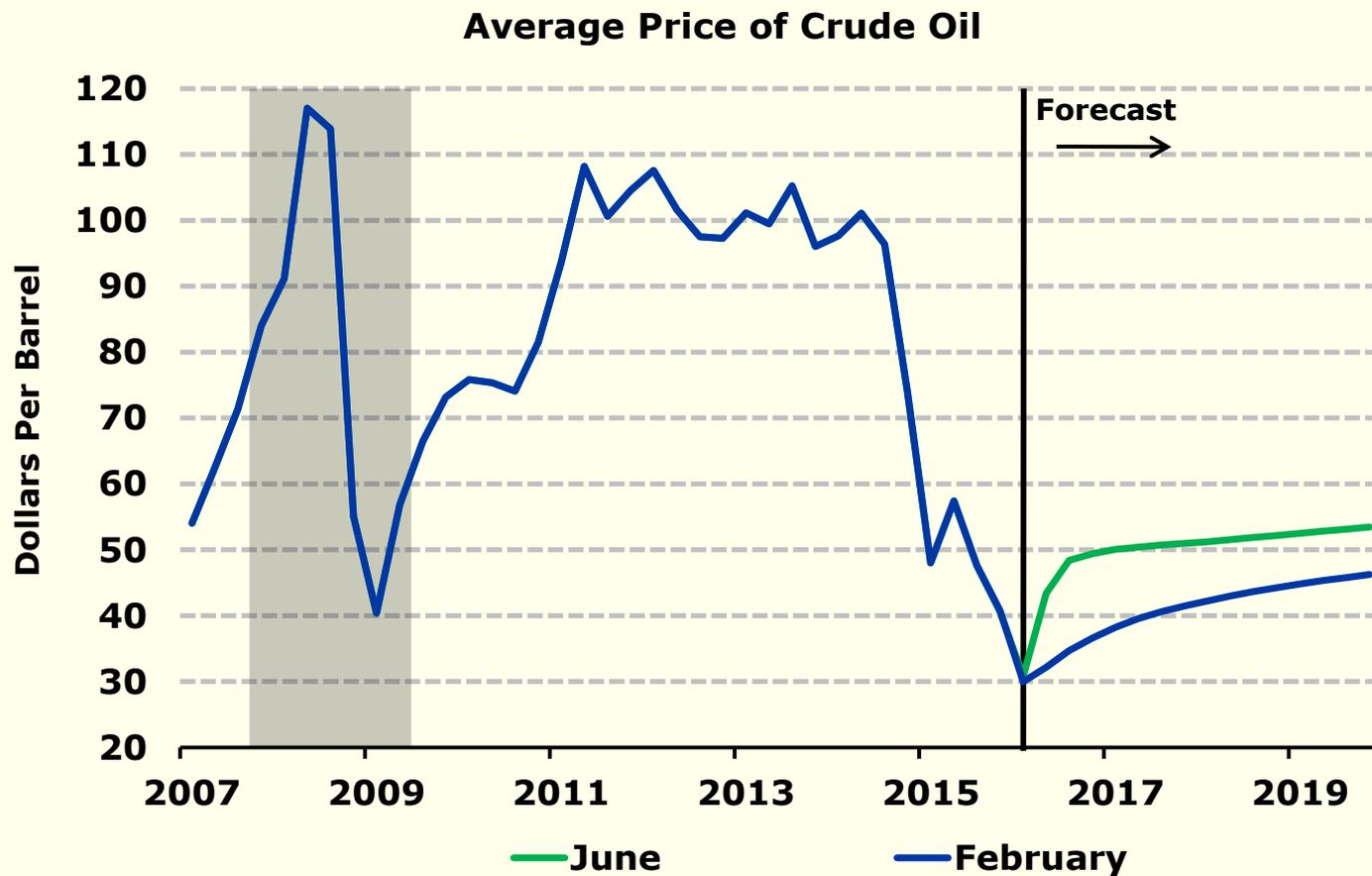


GDP is slightly lower than in the February forecast





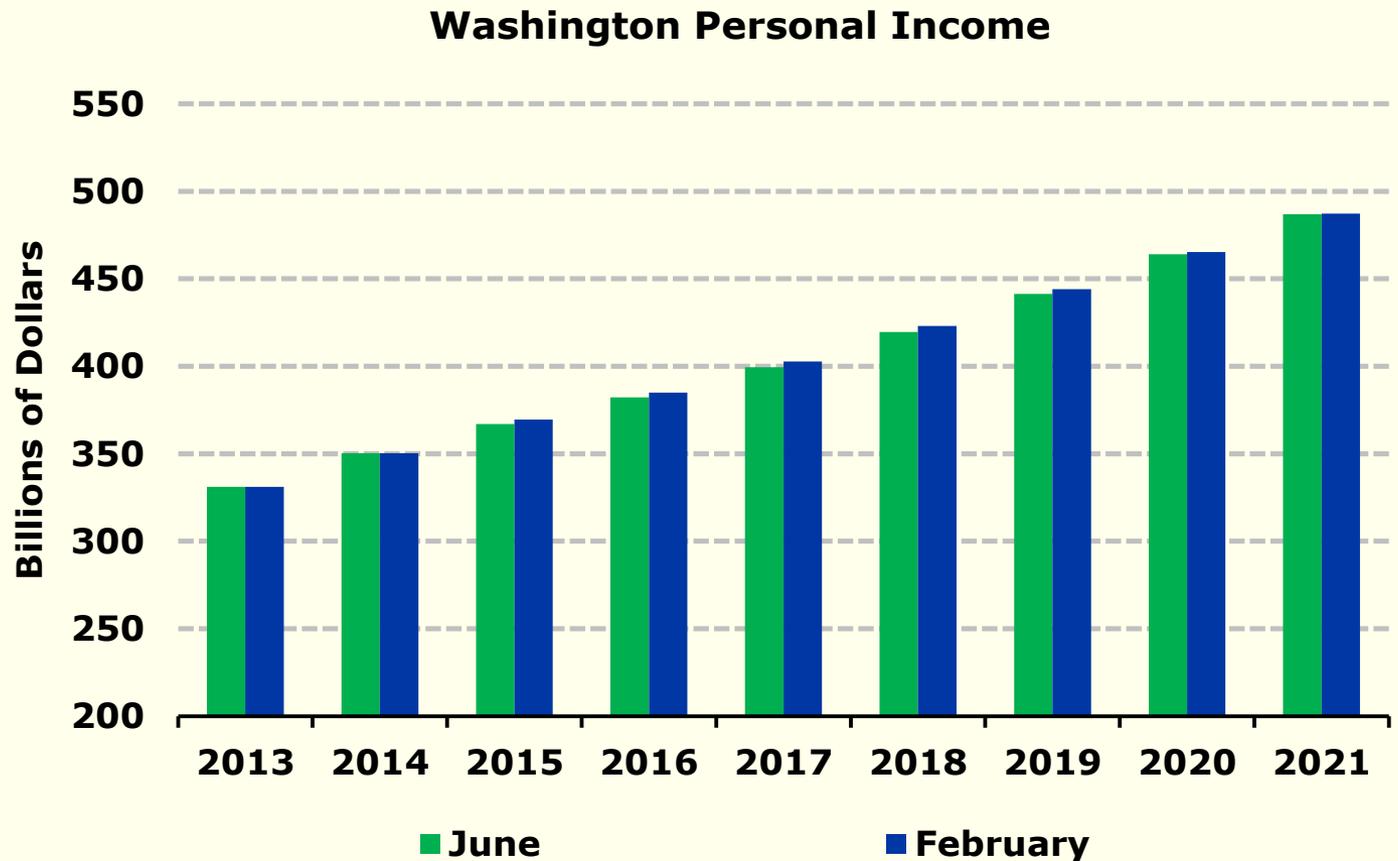
Oil prices have increased since the February forecast



Source: DOE, ERFC June 2016 forecast; historical data through 2016Q1



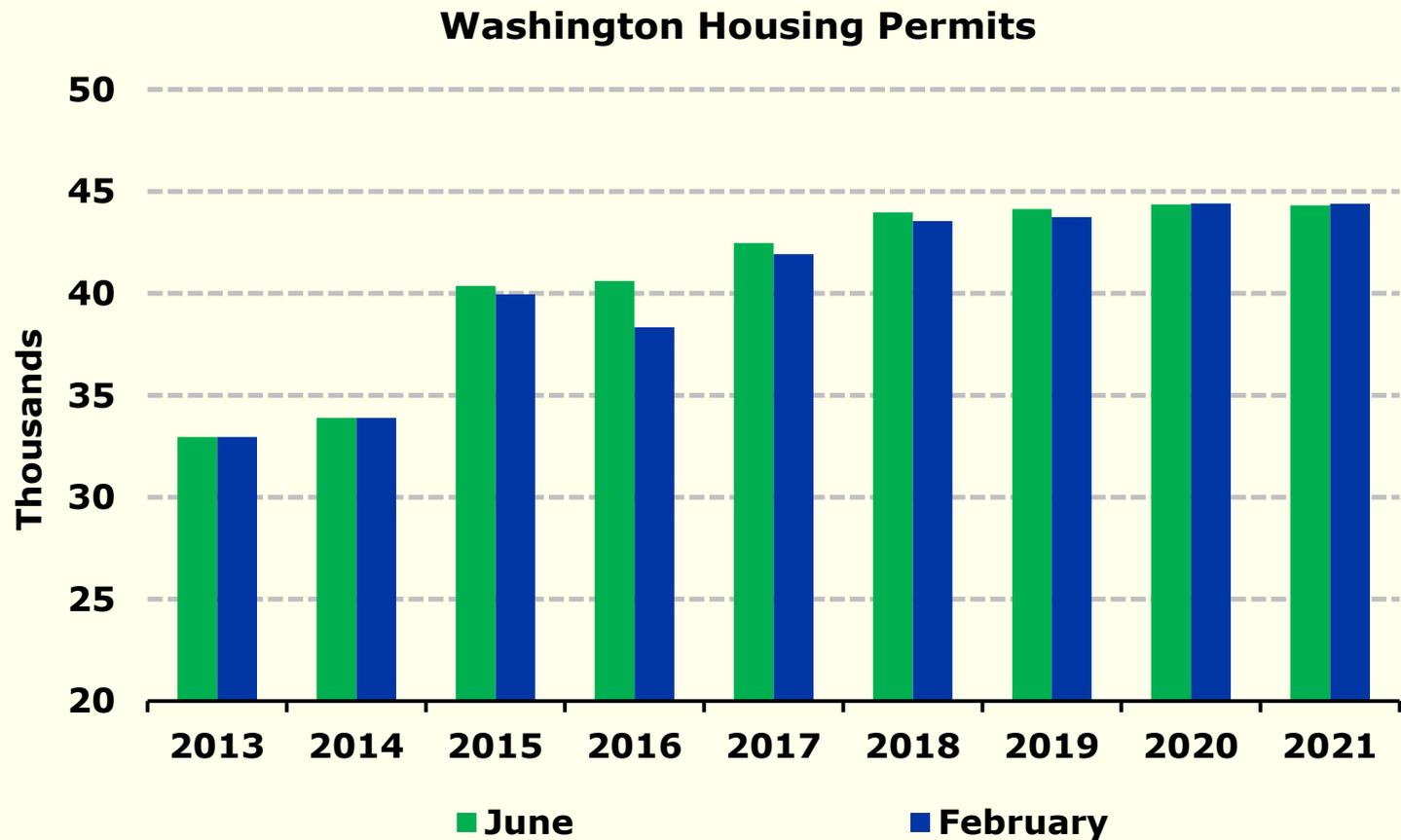
Washington personal income is slightly lower compared to the February forecast



Source: ERFC June 2016 forecast; historical data through 2015



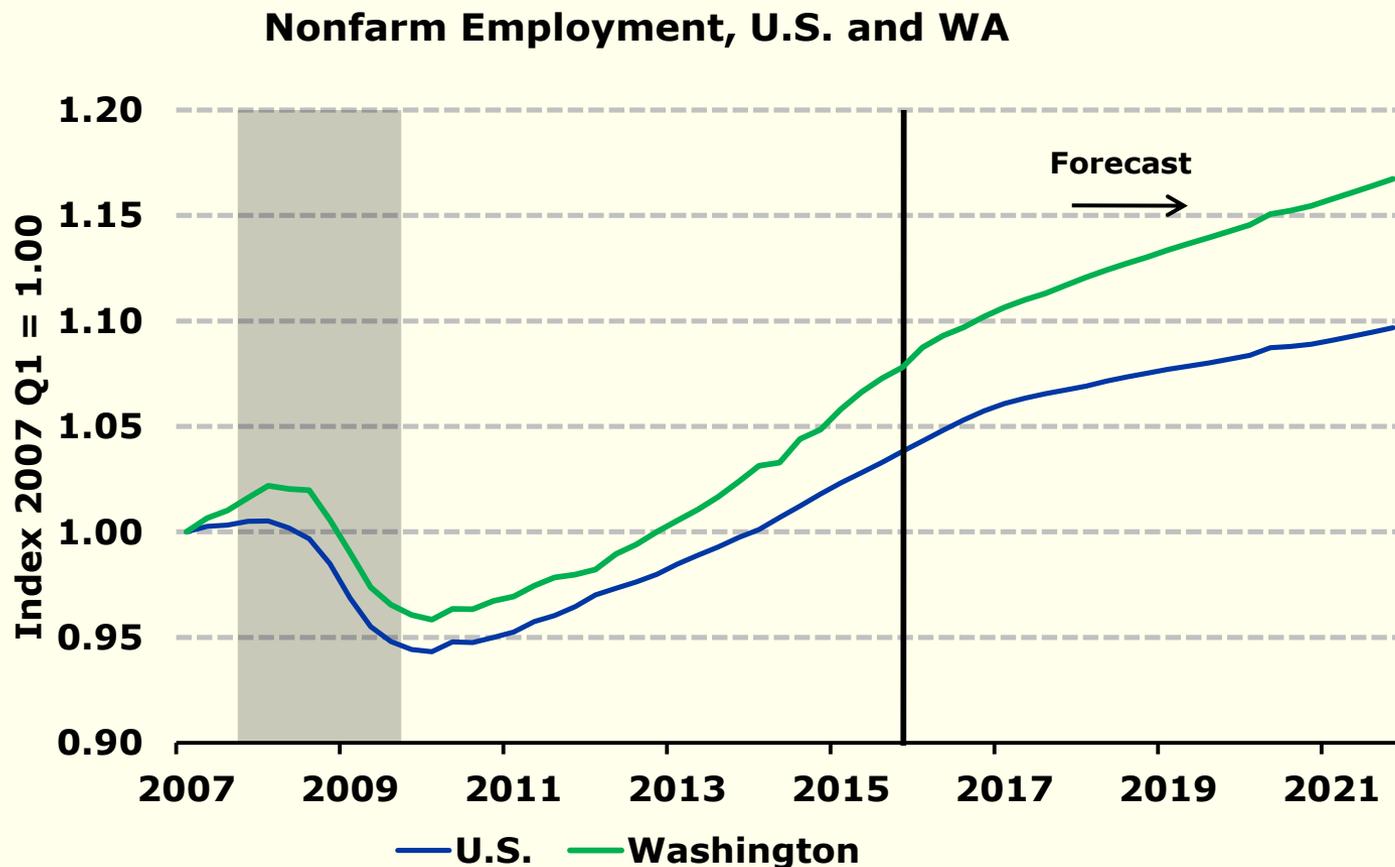
Washington housing permits forecast is slightly higher through 2019 compared to February



Source: ERFC June 2016 forecast; historical data through 2015



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

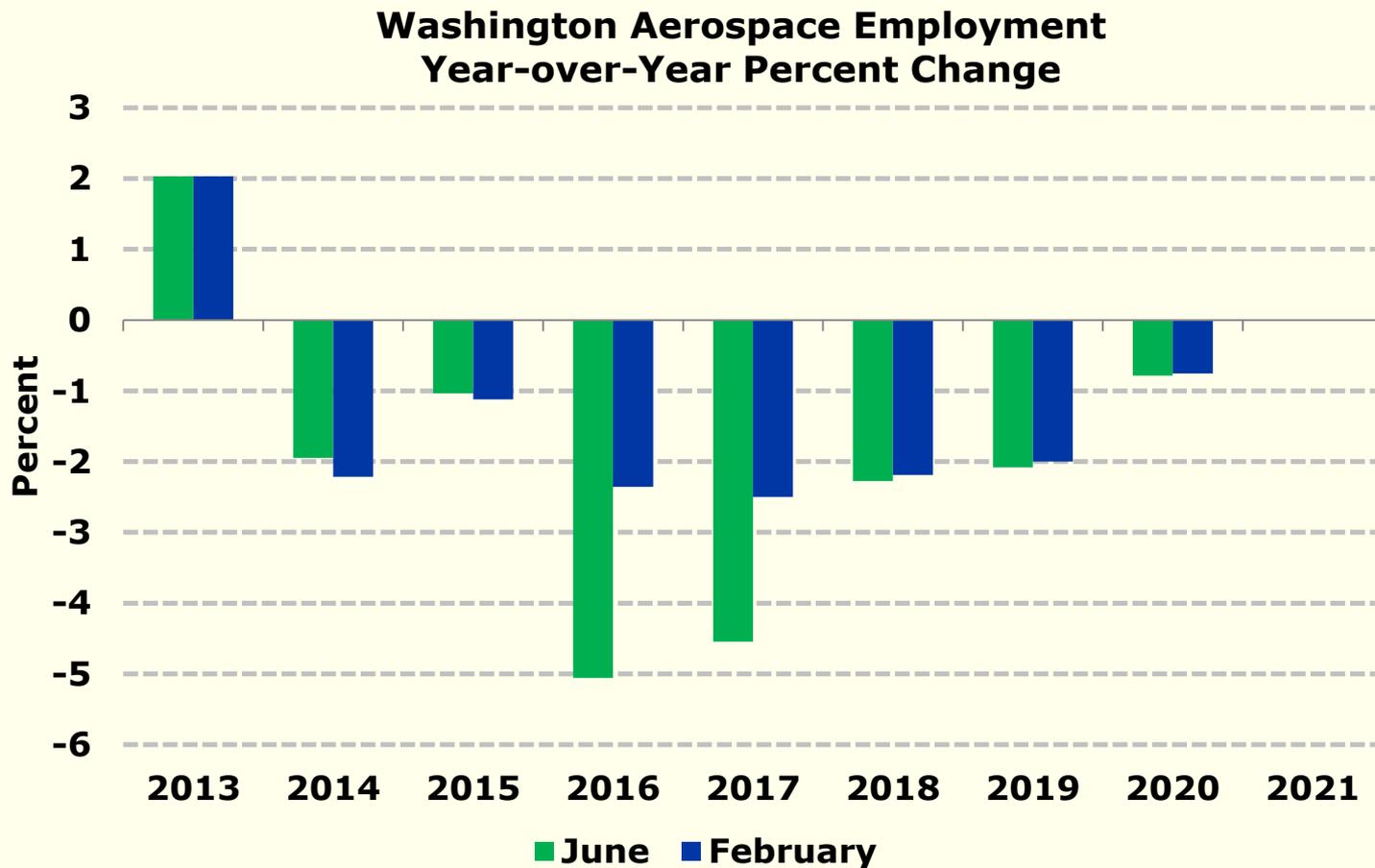


Source: ERFC June 2016 forecast; historical data through 2016Q1



WA aerospace employment is expected to decline faster than in February

Boeing has announced it will eliminate 4,000 jobs this year



Source: ERFC June 2016 forecast; historical data through 2016Q1



Washington Employment Trends

Washington has gained 396,000 nonfarm jobs since February 2010

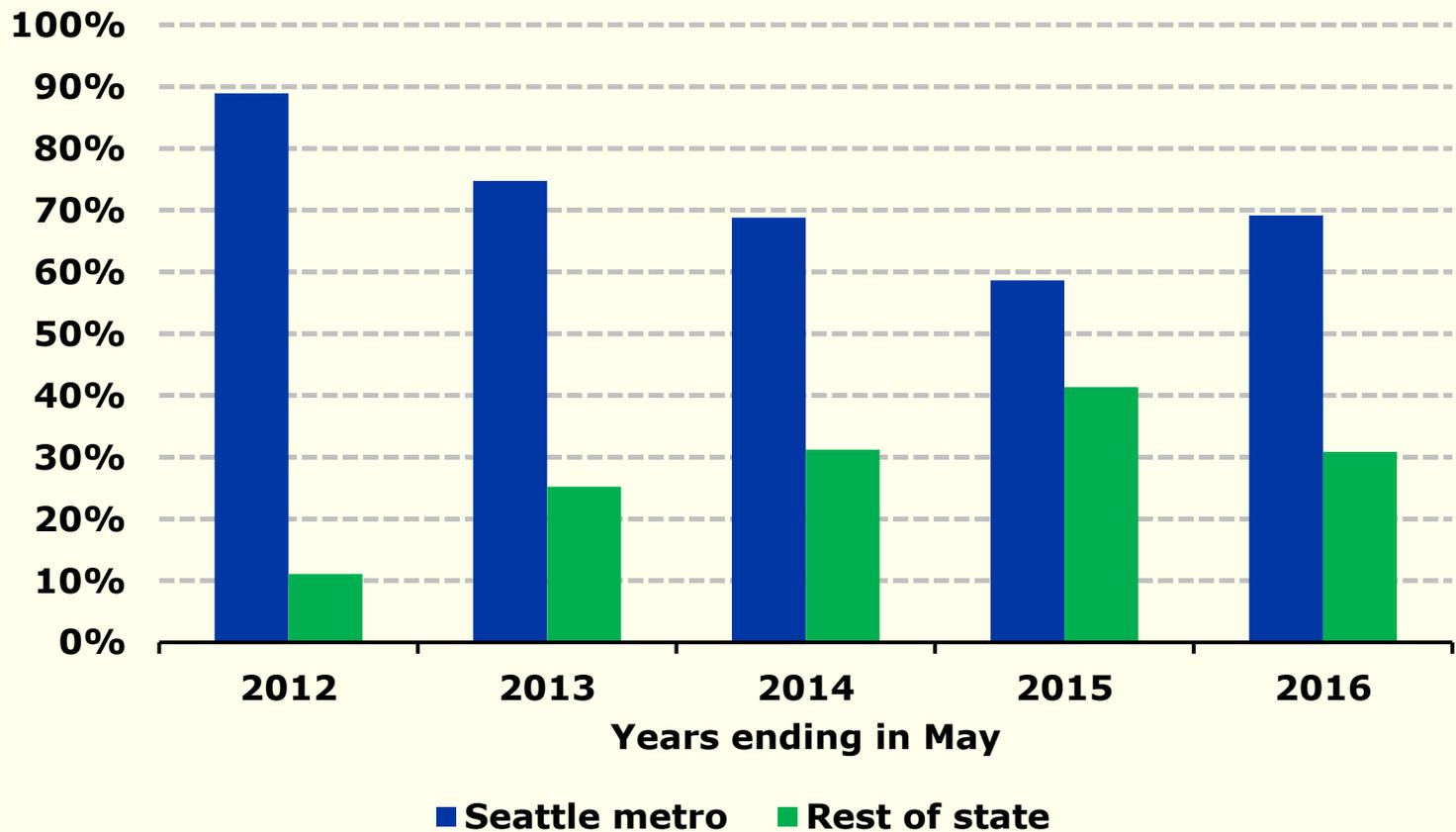
Employment Change since Trough (thousands)



Source: U.S. Dept. of Labor, BLS; ESD; ERFC; data through May 2016



Fraction of statewide employment change, Seattle vs. rest of state

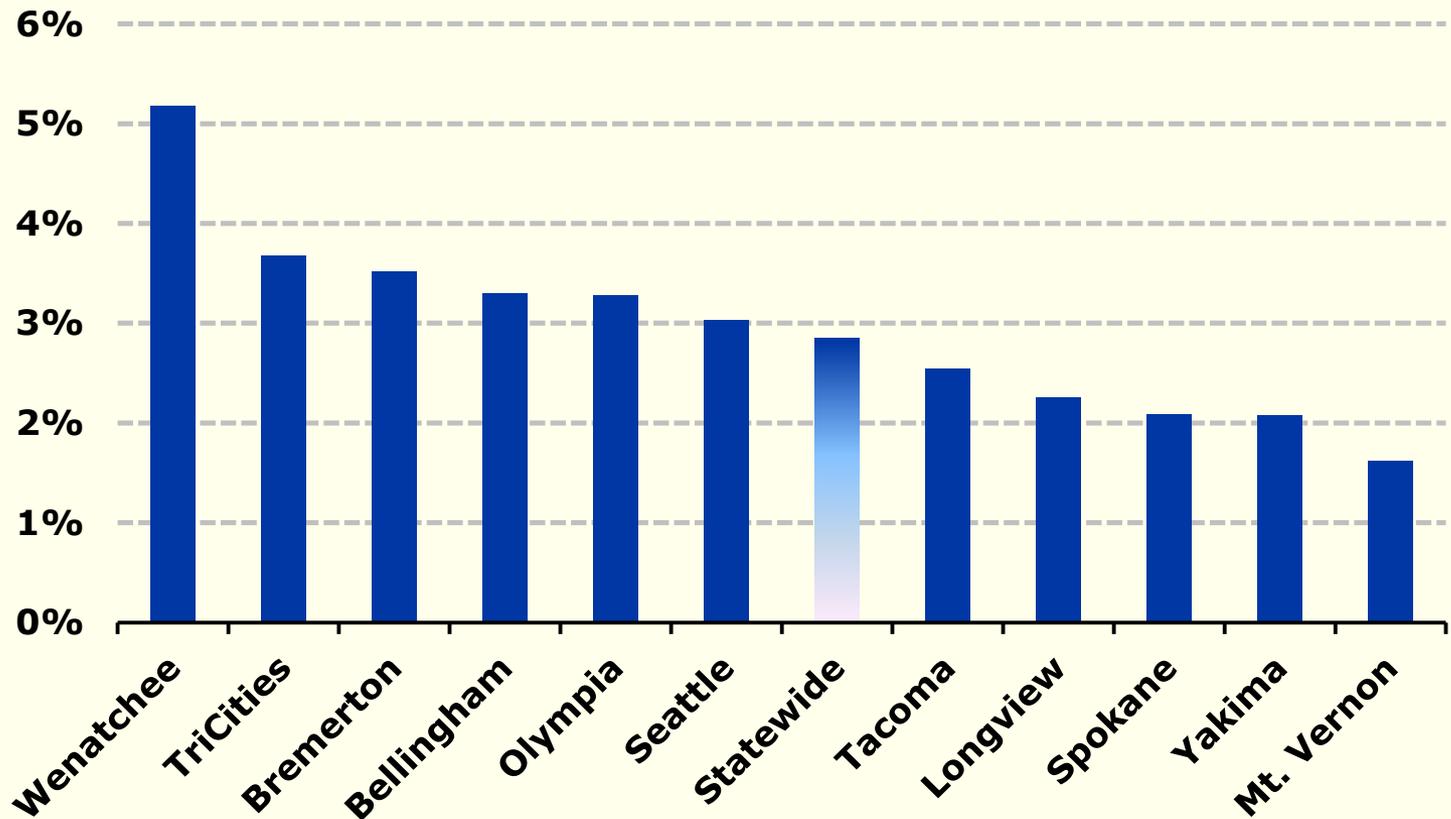


Source: Bureau of Labor Statistics



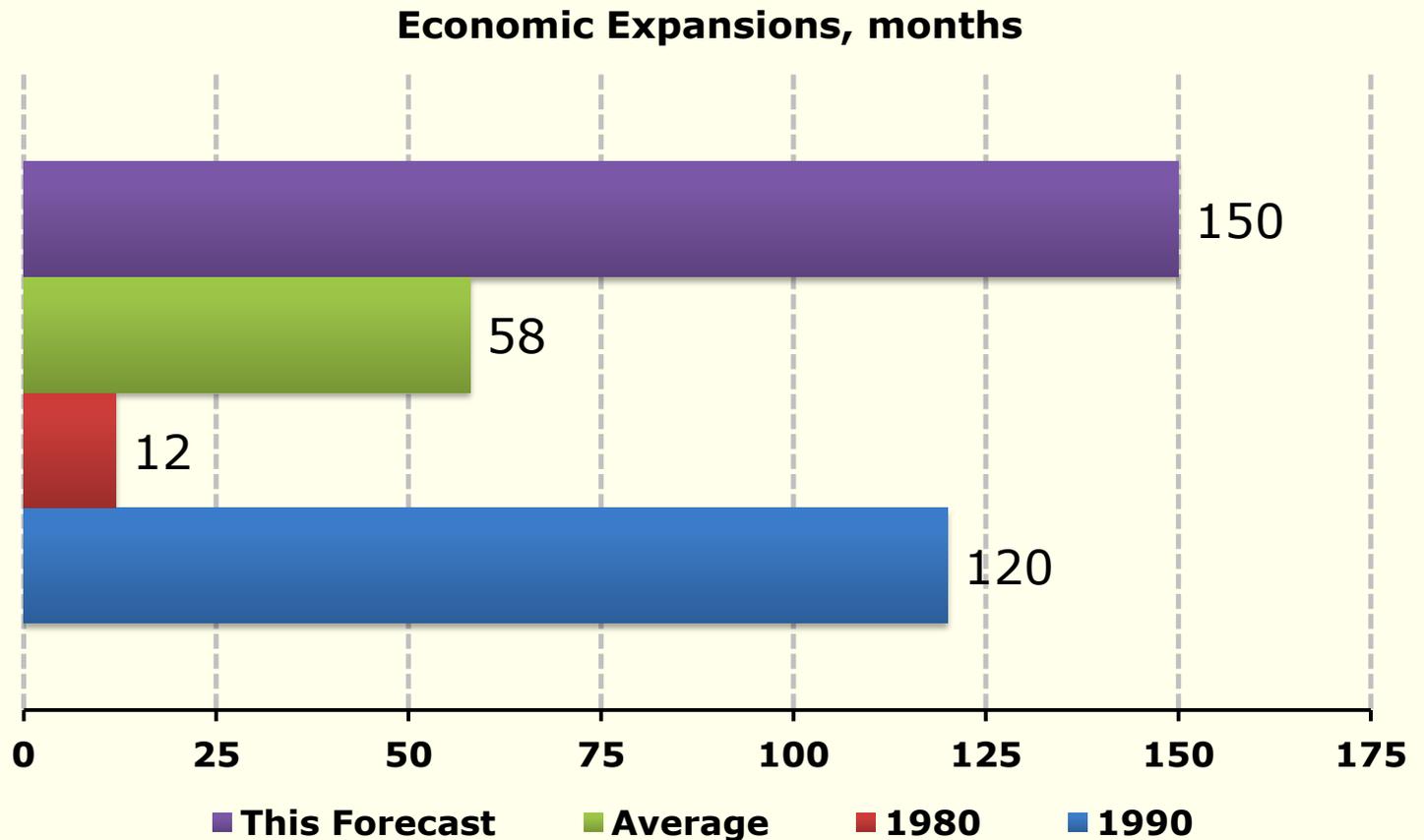
Employment growth varied widely across state metro areas

2015 employment growth by metro area





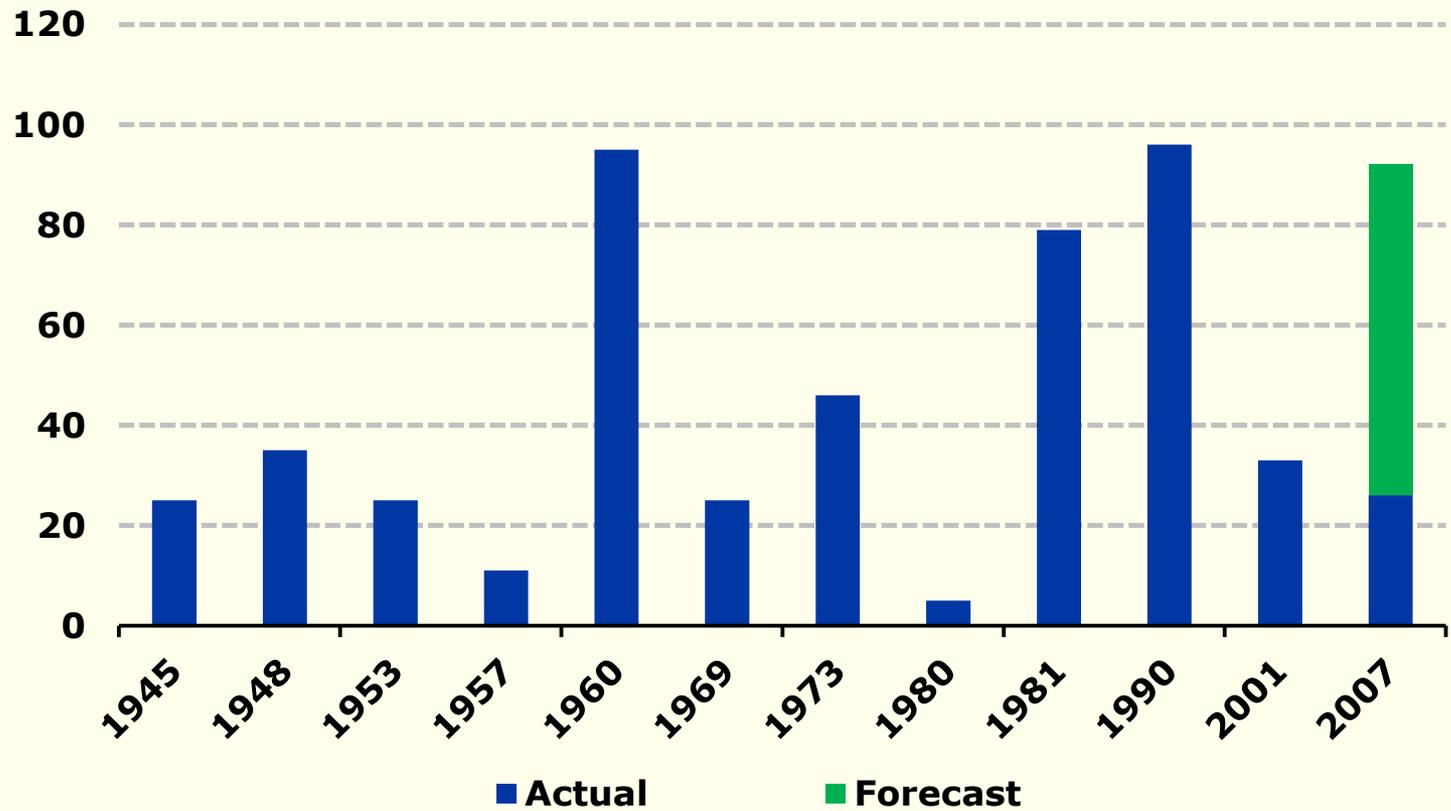
U.S. Economic Expansions since 1945





Initial slow recovery points to extended expansion

Months of Recovery After Reaching Previous Peak in Employment

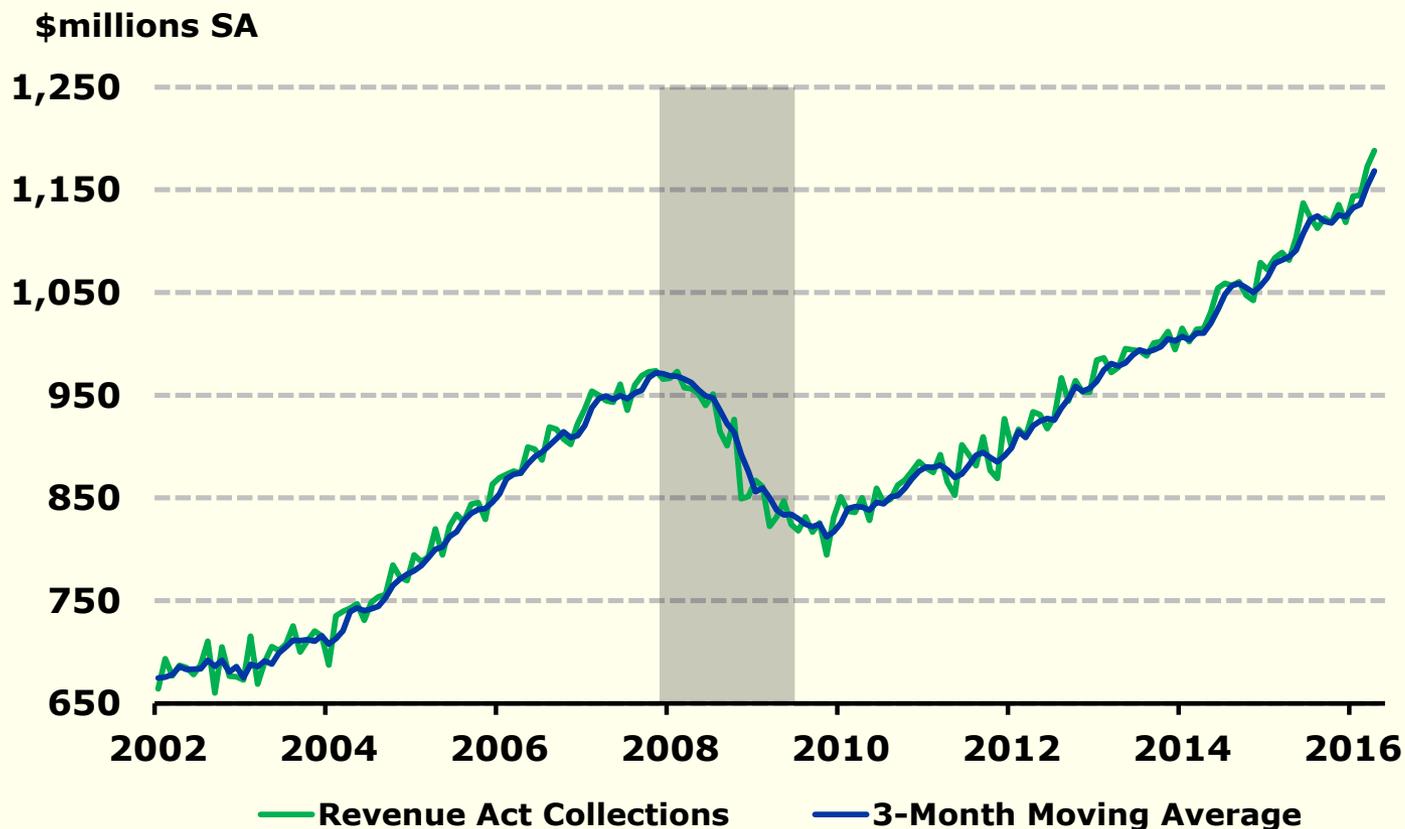


Sources: NBER, BLS, ERFC Preliminary June 2016 forecast; historic data through June 2016

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Revenue Act collections have been strong over the last two months



* 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 April 2016 activity



Large commercial property sales have had major impact on REET collections

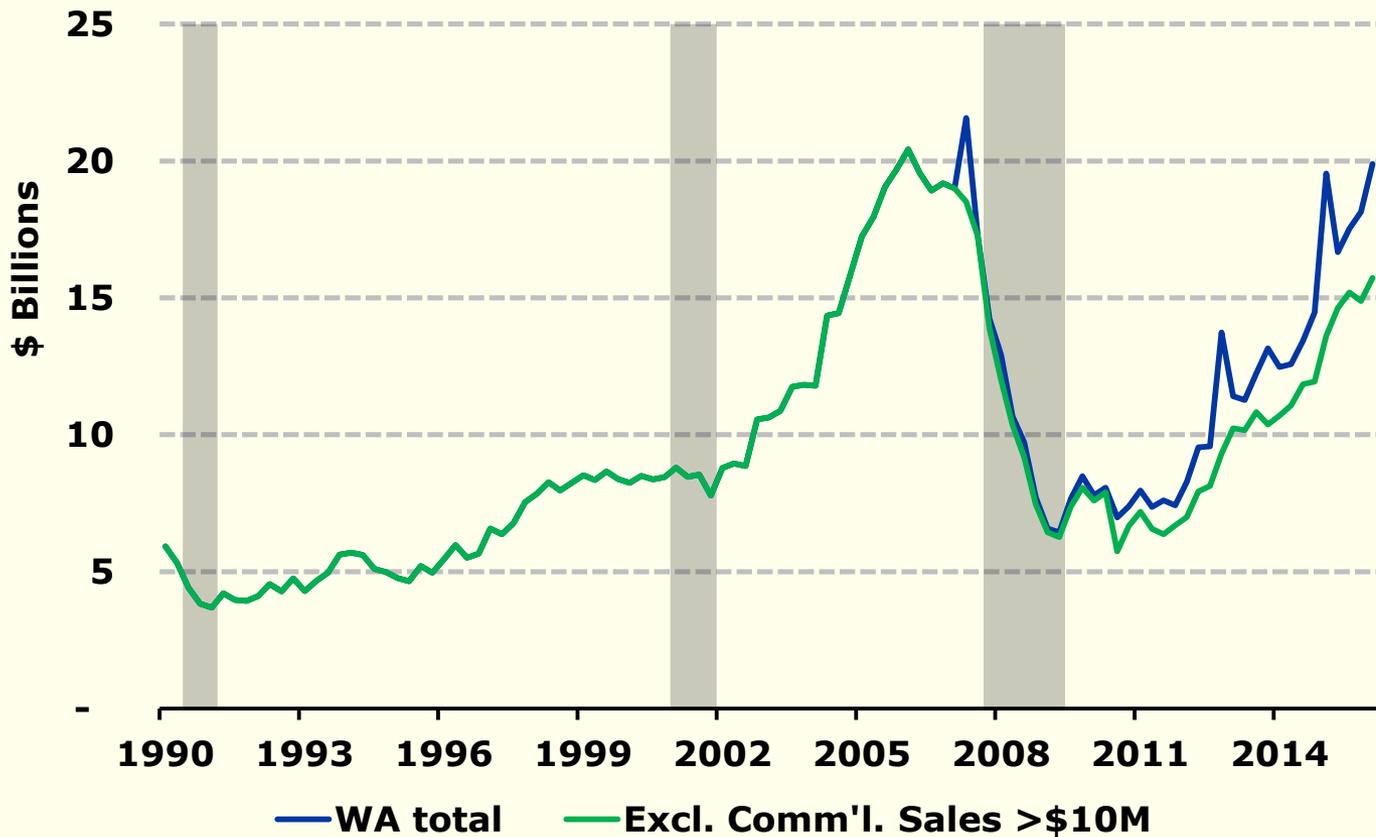
While large commercial property sales have caused spikes in taxable activity, underlying residential and smaller commercial sales have shown strong growth.

Large commercial property sales are expected to decrease from the elevated levels of the past few years.

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Taxable real estate sales, SA



Source: ERFC, data through 2016 Q1



Cannabis excise tax and license fee estimates

Total change from February forecast:

2015-17
+\$7.2 M

2017-19
+\$2.1M

\$Millions

June Forecast

GF-S share of excise tax and license fees

Non-GF

Total

2013-15

2015-17

2017-19

\$15

\$136

\$224

\$52

\$304

\$469

\$67

\$440

\$694

* Detail may not add to total due to rounding

Source: ERFC, LCB, BOTEC Analysis

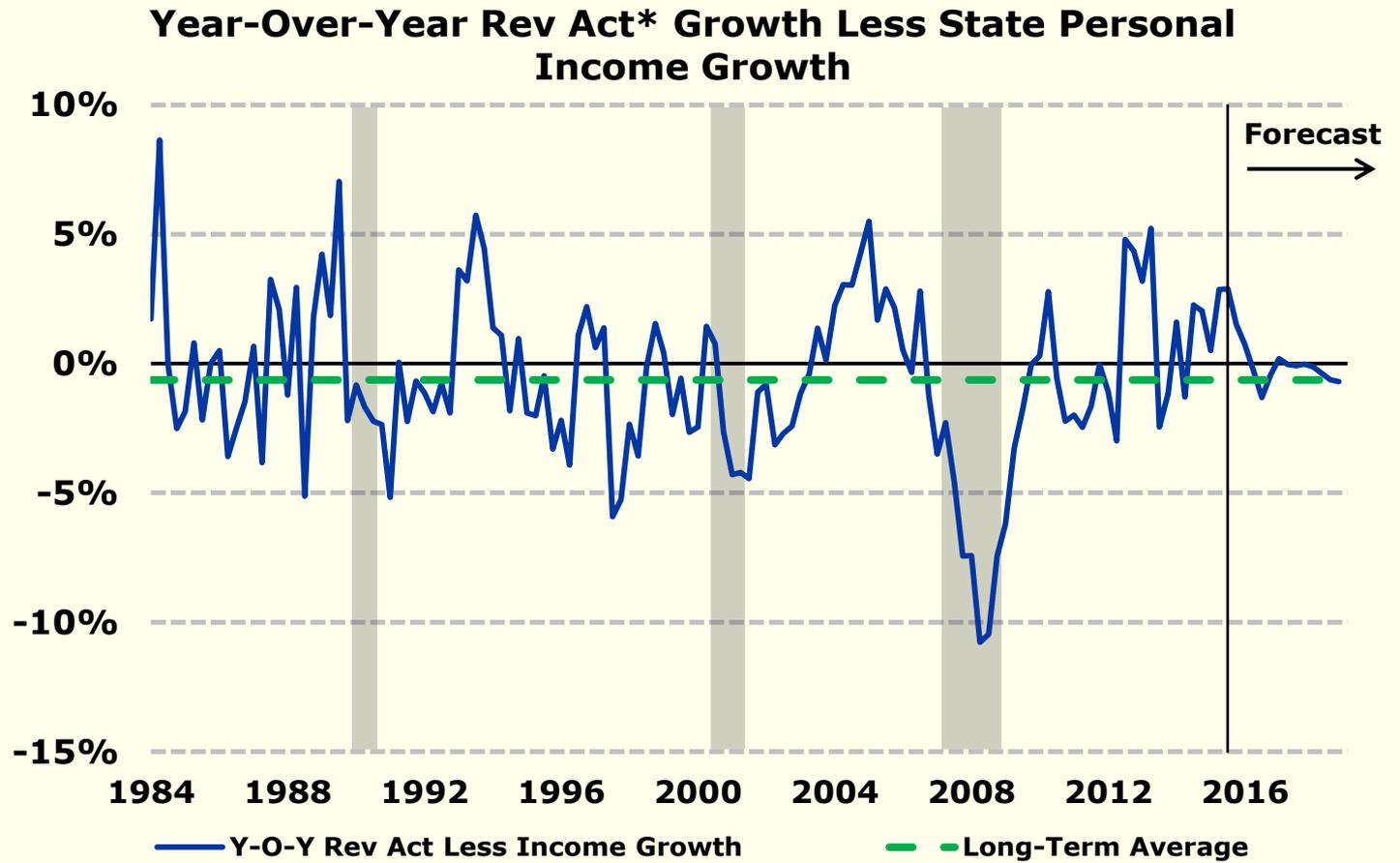


Factors affecting revenue forecast

- Strong sales of large commercial properties, rising home prices increase REET collections
- Slightly higher forecast for housing permits increases construction receipts
- Higher inflation results in stronger retail sales, B&O, property tax growth
- Higher oil, gas prices increase receipts from refineries, gas stations
- Slightly lower U.S., WA personal income forecast reduces consumer spending



Rev Act growth relative to income is projected to slow



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

Source: ERFC; Quarterly revenue data through Q1 2016, June 2016 income estimates

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Forecast changes: General Fund State, 2015-2017 Biennium

February Forecast:

\$37,137 million

\$Millions	June Forecast				<u>Total Change*</u>
	<u>Collection Experience</u>	<u>Non-economic Change</u>	<u>Forecast Change</u>	<u>Forecast</u>	
Dept. of Revenue	\$217	(\$3)	\$113	\$35,565	\$328
All other agencies	\$1	(\$2)	(\$33)	\$1,866	(\$34)
Total GF-S	\$218	(\$5)	\$80	\$37,431	\$294

* Detail may not add to total due to rounding



2015-17 Biennium alternative forecasts – cash basis

\$Millions	2015-17 Biennium	Difference From the baseline
June 2016 Baseline (55%)	\$37,431	
<u>June 2016 Alternative Forecasts</u>		
Optimistic (15%)	\$38,703	\$1,273
Pessimistic (30%)	\$36,202	(\$1,229)
Probability Weighted Average	\$37,253	(\$178)
GCEA*	\$37,328	(\$103)

*Based on the Governor's Council of Economic Advisors' economic assumptions



Forecast changes: General Fund State, 2017-2019 Biennium

February Forecast:

\$40,125 million

\$Millions

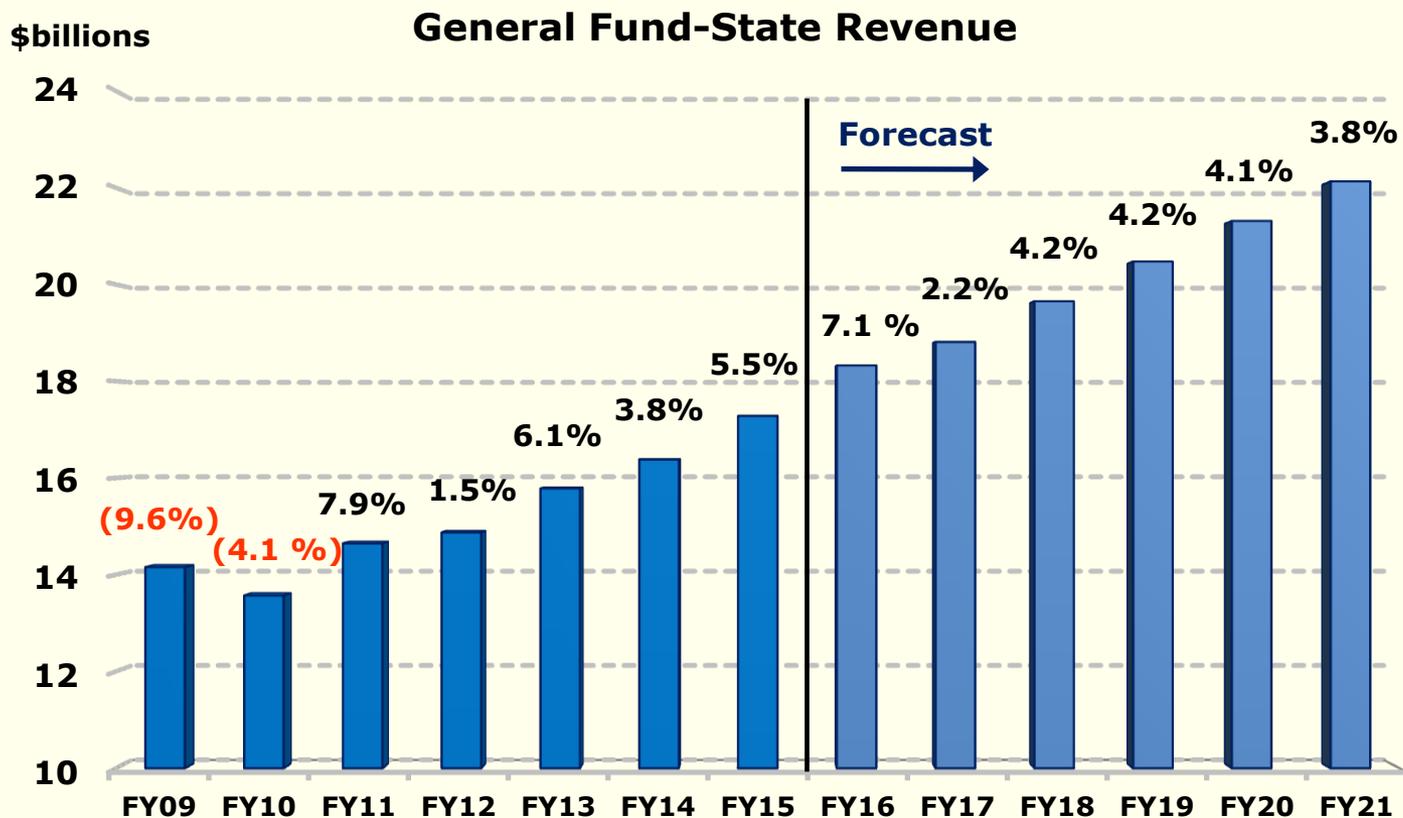
June Forecast

	<u>Non-economic Change</u>	<u>Forecast Change</u>	<u>Forecast</u>	<u>Total Change*</u>
Dept. of Revenue	(\$8)	\$188	\$38,162	\$181
All other agencies	(\$1)	(\$53)	\$2,090	(\$54)
Total GF-S	(\$9)	\$135	\$40,252	\$126

* Detail may not add to total due to rounding

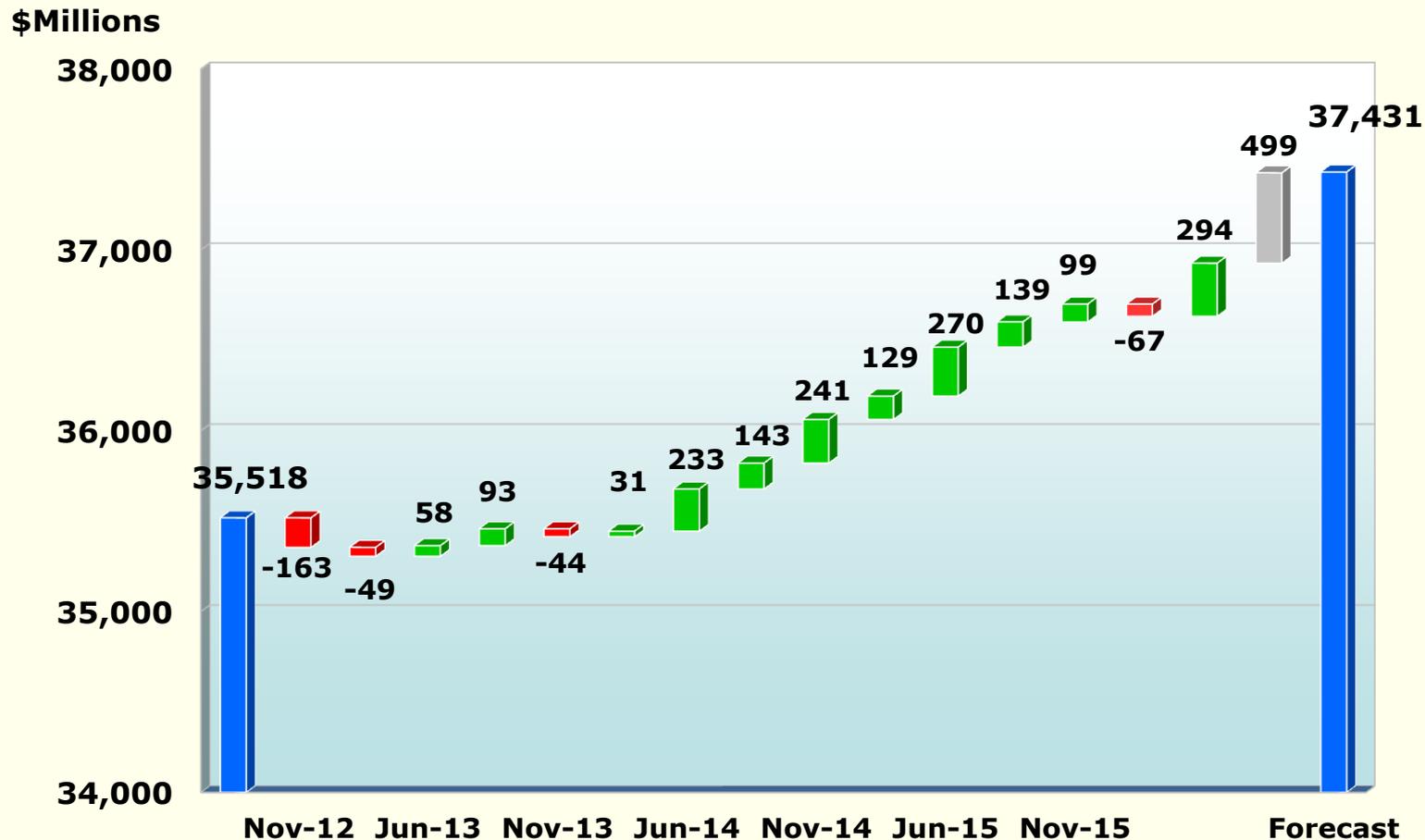


General Fund-State* forecast by fiscal year





GF-S forecast revisions to the 2015-17 biennium



Source: ERFC September 2012 – June 2016 forecasts
Gray area indicates total noneconomic change



Conclusion

- The economic forecast expects slower growth in U.S. GDP and WA personal income and slightly higher WA employment and residential construction than in February
- We continue to expect the WA economy to outperform the U.S. by a small margin
- GF-S revenues are expected to grow 11.2% between the 2013-15 and 2015-17 biennia and 7.5% between the 2015-17 and 2017-19 biennia
- The level of uncertainty in the baseline remains elevated, with downside risks outweighing upside risks



Questions



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