

Washington State Economic and Revenue Outlook

Presented to
the Lenders' Roundtable

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Executive Director

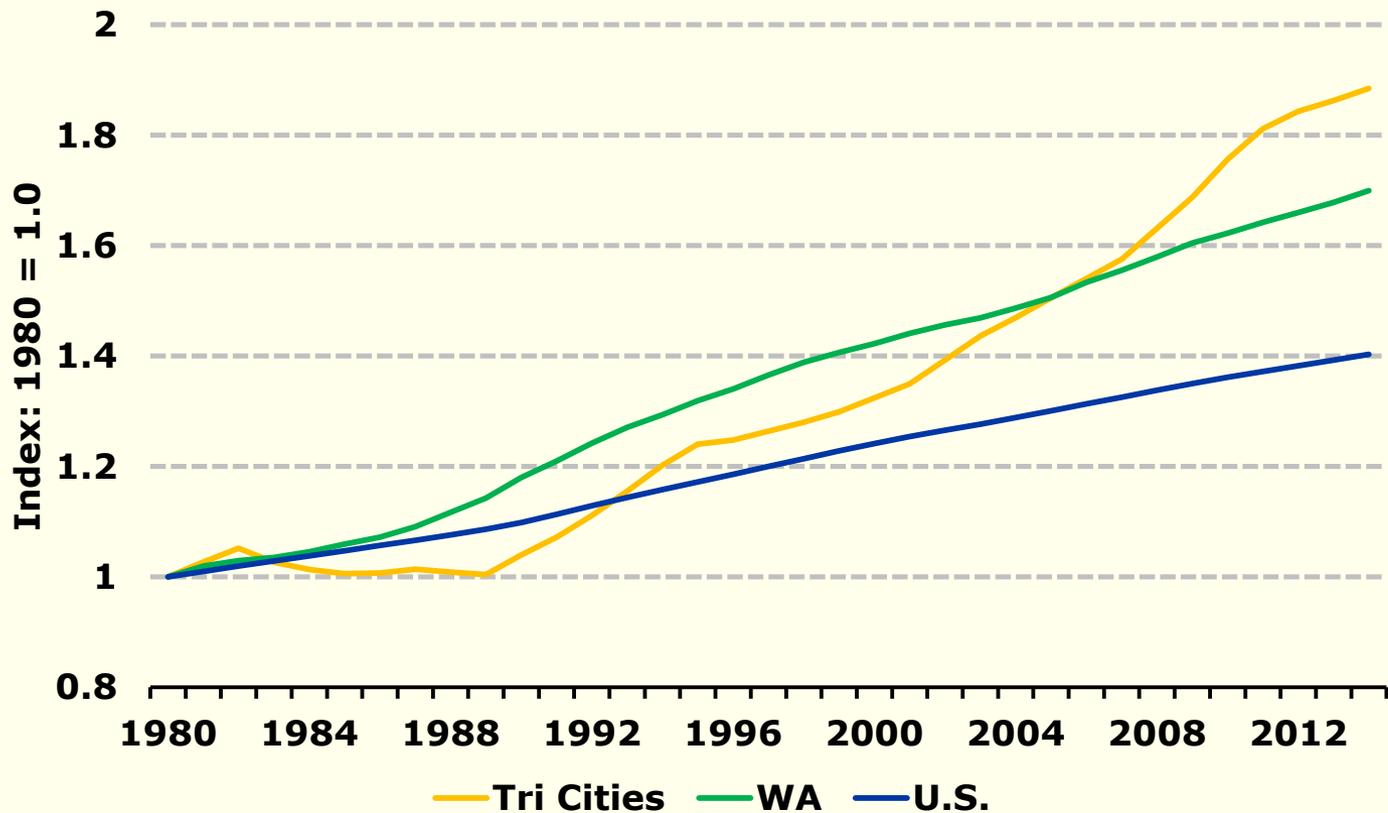
December 10, 2015



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ECONOMIC AND REVENUE FORECAST COUNCIL**



Tri-Cities population growing faster than WA, U.S.



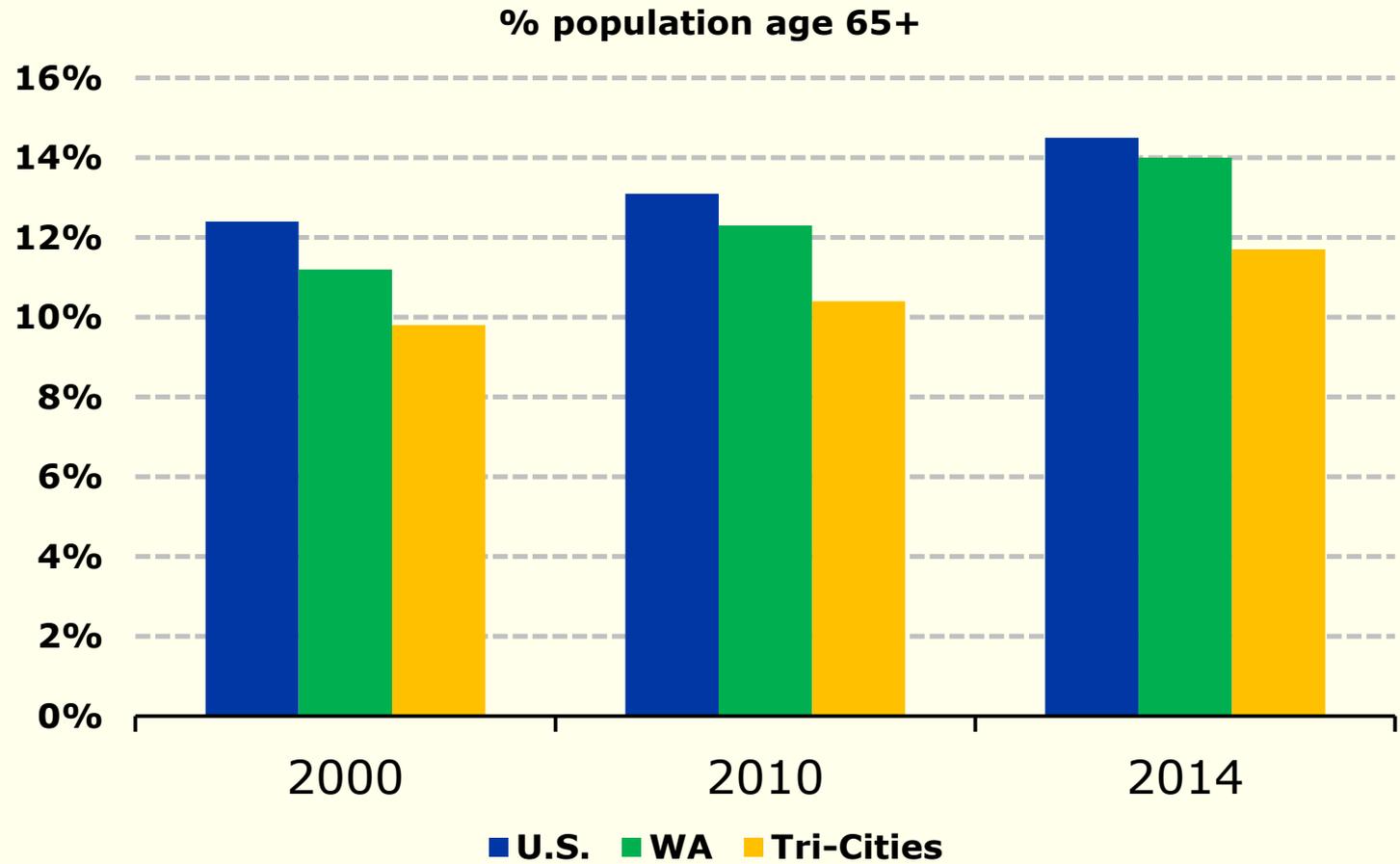
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Source: Bureau of Economic Analysis, U.S. Census; data through 2014

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The Tri-Cities have relatively fewer seniors than the nation or the state



Source: Office of Financial Management; U.S. Census



Tri-Cities employment growth has slowed since 2011

Chart shows total employment growth including agriculture

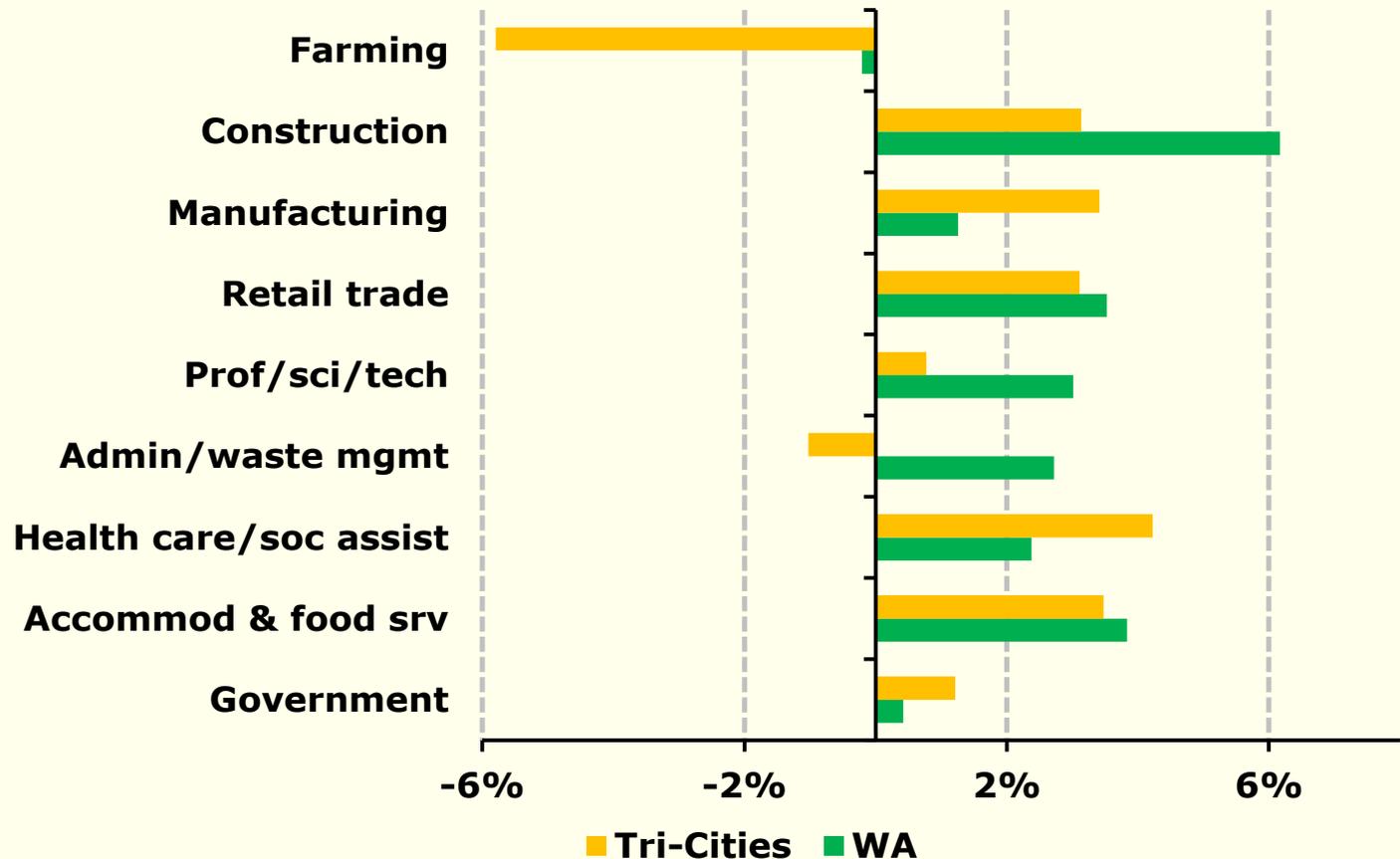


Source: Bureau of Economic Analysis, data through 2014

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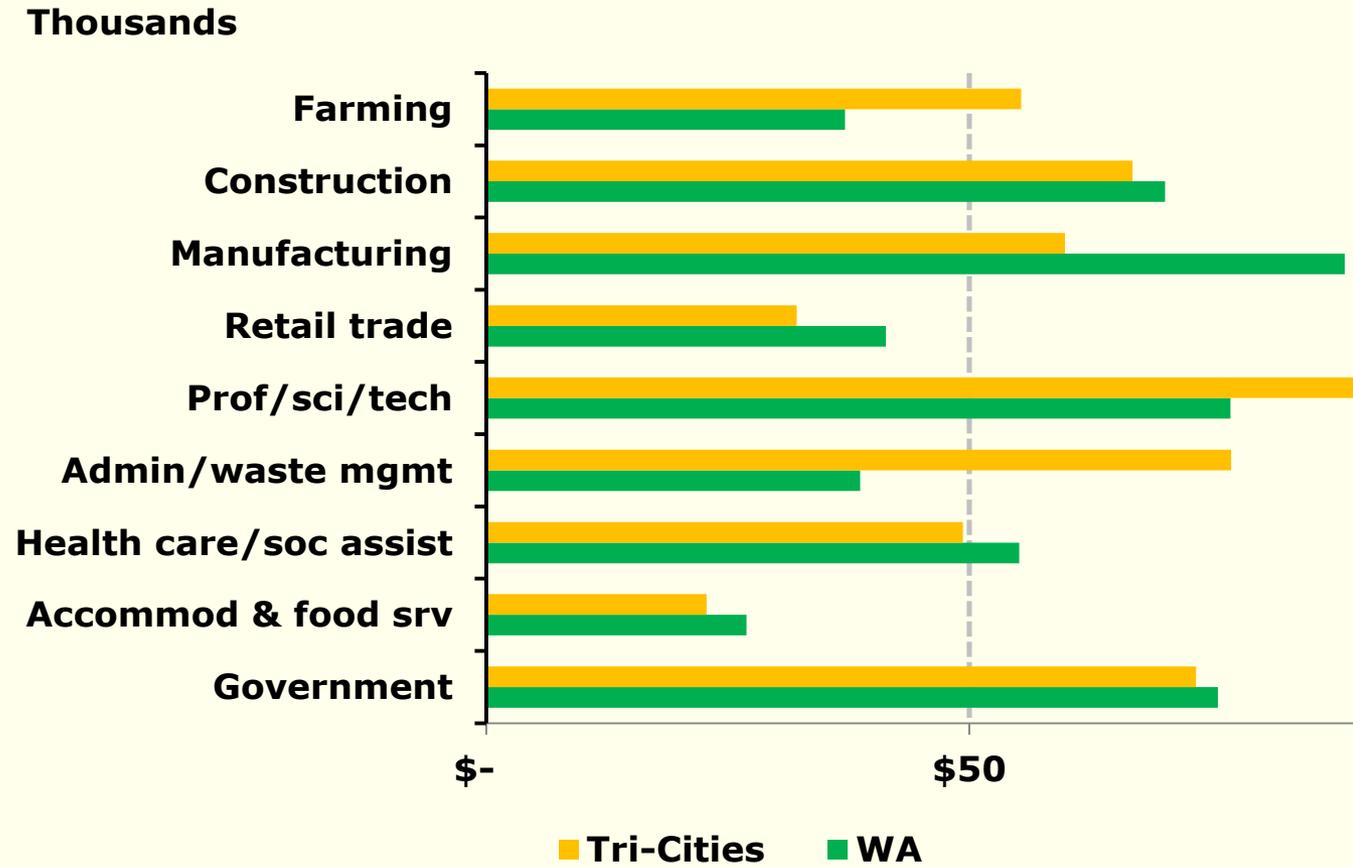
Percent change in employment for selected industries, 2014





Per employee earnings by selected industries, 2014

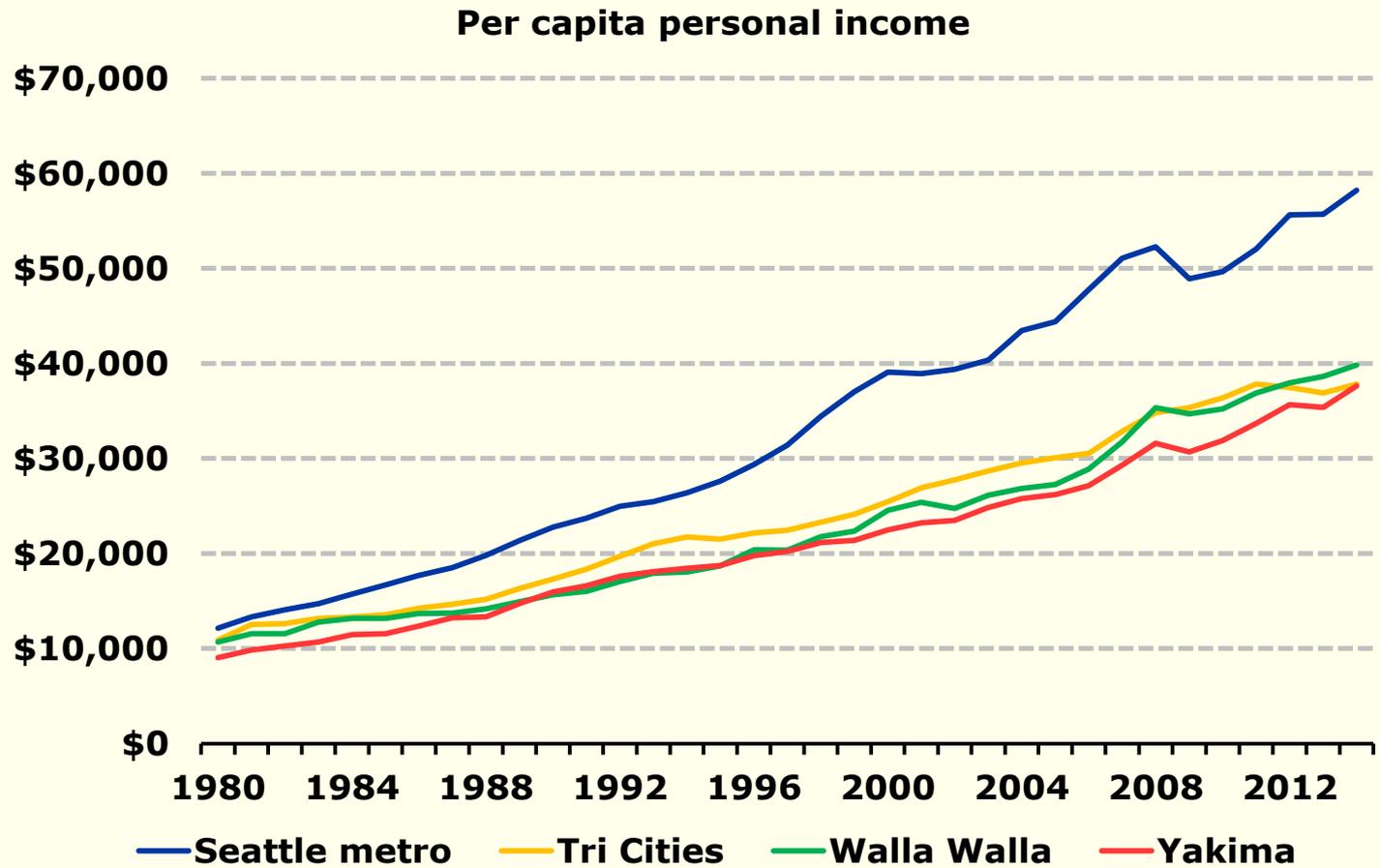
Earnings includes wages, salaries, and benefits



Source: Bureau of Economic Analysis



Tri-Cities per capita income similar to other regional metro areas



Source: Bureau of Economic Analysis, data through 2014



Forecast summary

- The economic forecast has remained stable, with moderate economic growth in the U.S. and WA
- We continue to expect the slightly stronger employment and income growth in WA compared to the national economy
- The forecast assumes the Federal Reserve will gradually increase interest rates starting in December
- 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



Economic news continues to suggest risks to forecast

Upside risks:

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

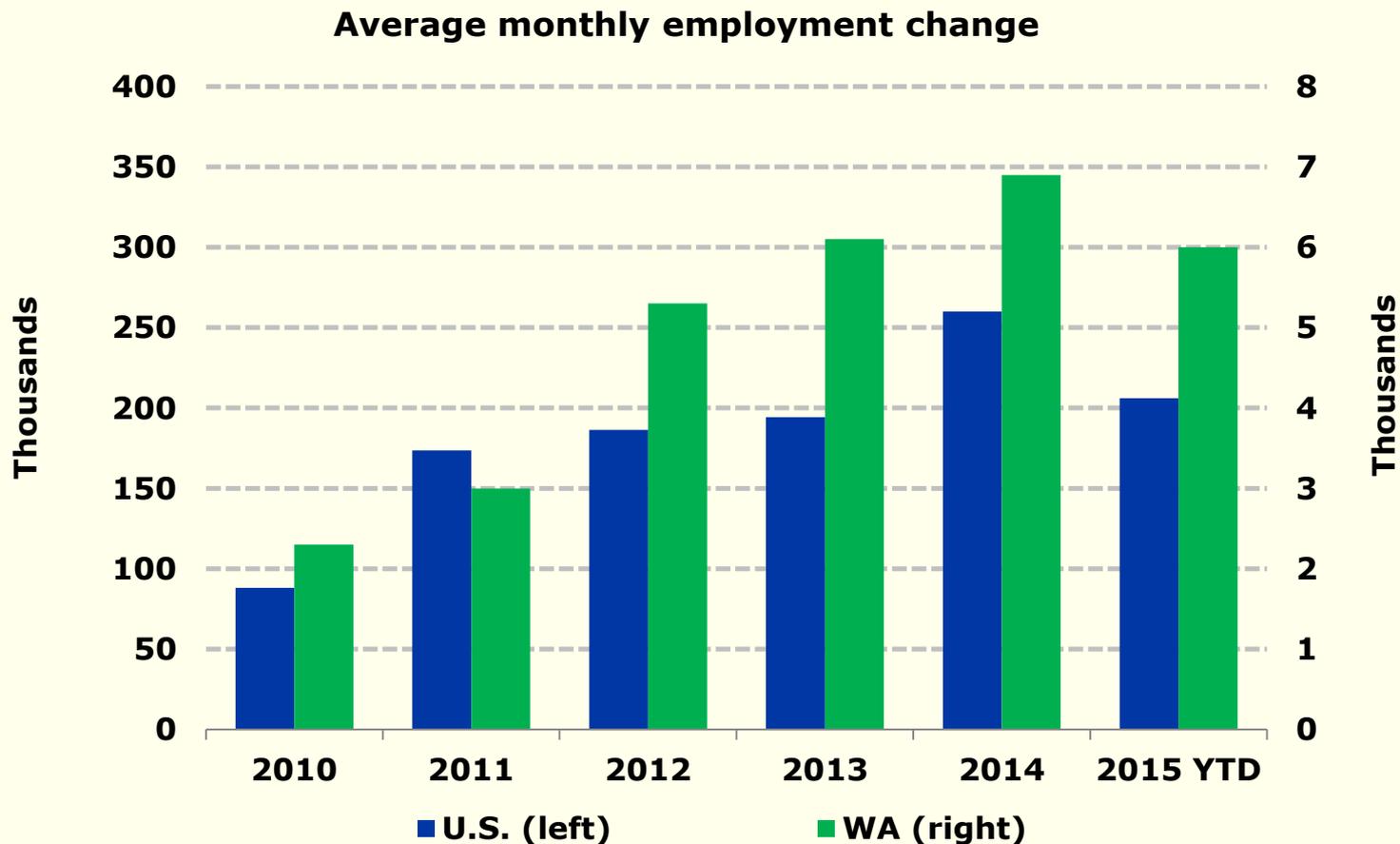
Downside risks:

- Slowing global economy
- Slower U.S. GDP growth
- Negative impact of stronger dollar on exports
- Weaker manufacturing activity
- Impact of Federal Reserve actions



Job creation is slightly weaker in both the U.S. and WA so far this year

October job gains:
U.S.: 271,000
WA: 6,400

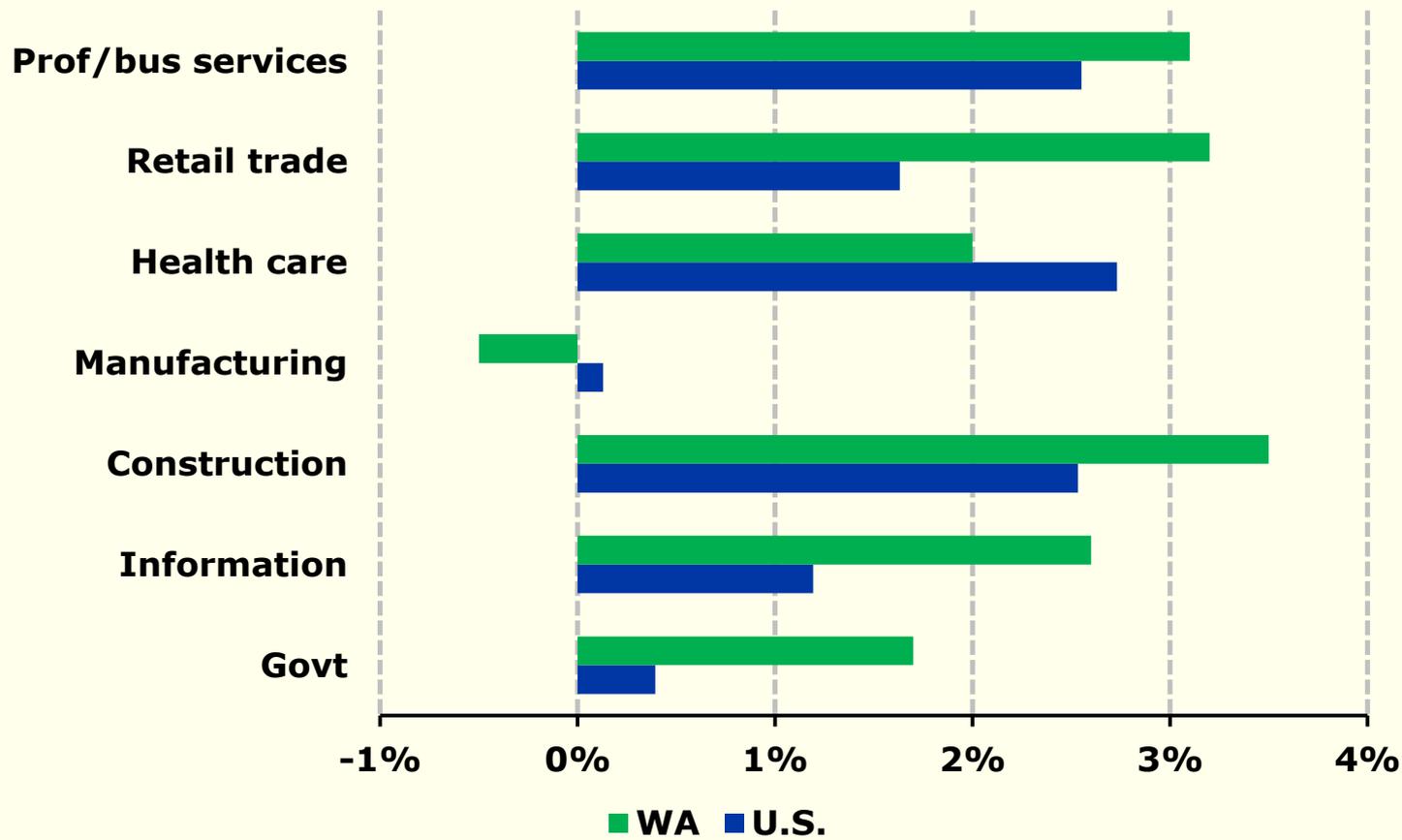


Source: Bureau of Labor Statistics, ERFC; data through October 2015

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Year to date employment growth, selected industries





Average U.S. wage growth has turned positive



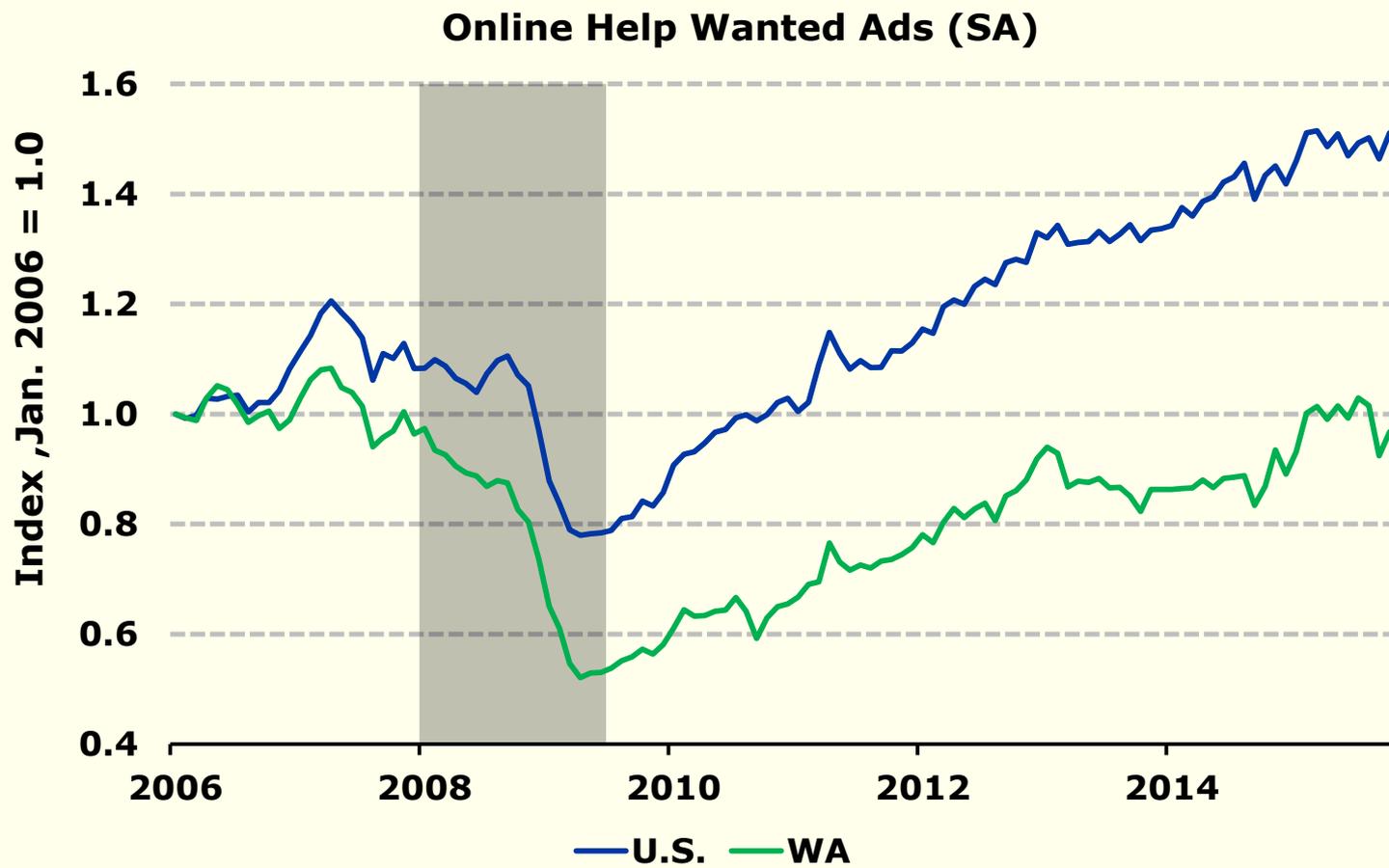
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Source: U.S. Bureau of Labor Statistics, data through Nov. 2015

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Job openings trending up nationally, slowing in Washington



Source: Conference Board; data through October 2015

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Number of long-term unemployed workers remains above pre-recession levels

Long-term unemployed as share of all unemployed:

Apr. 2010: 45%

Nov. 2015: 26%



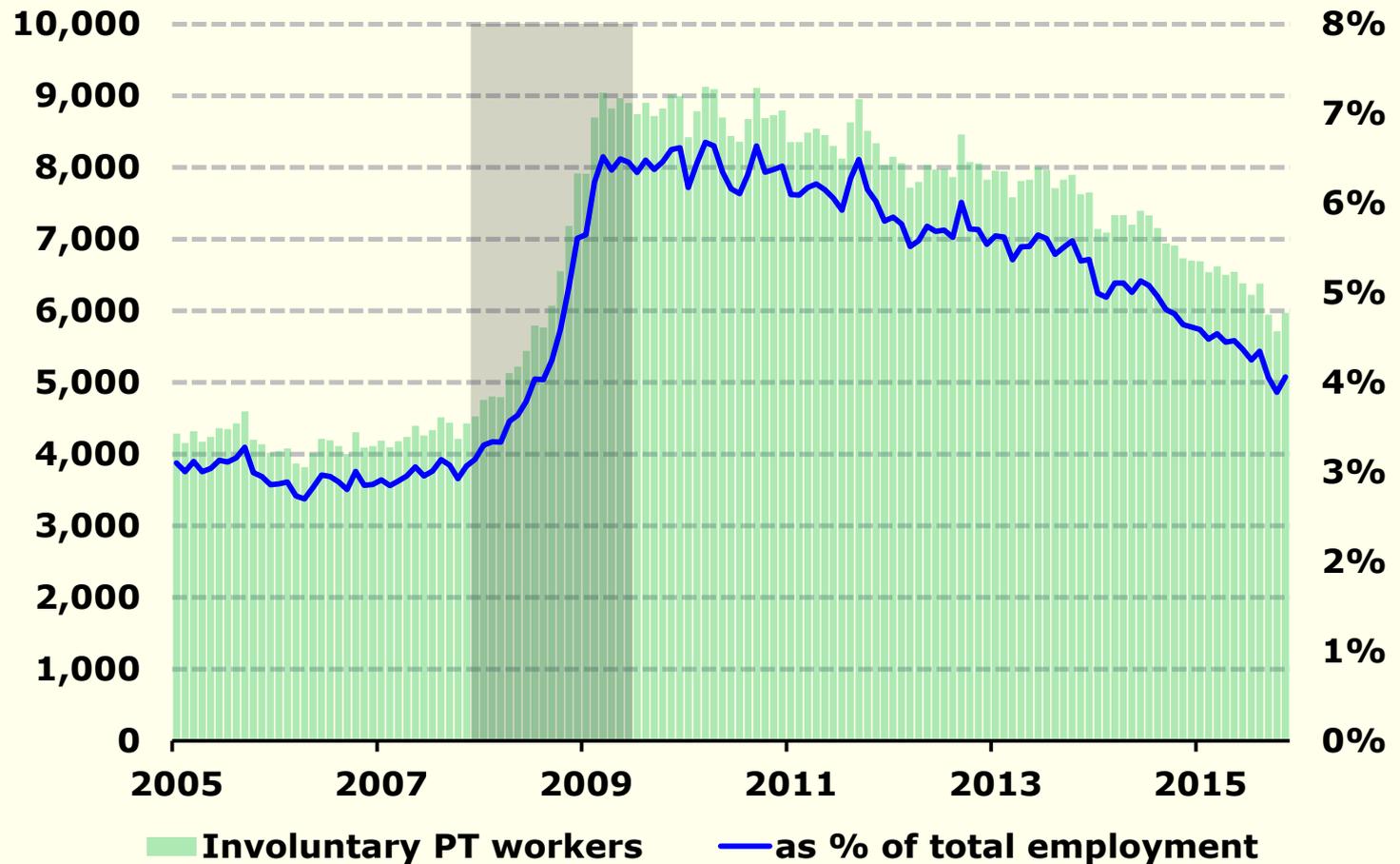
Source: Bureau of Labor Statistics; data through November 2015

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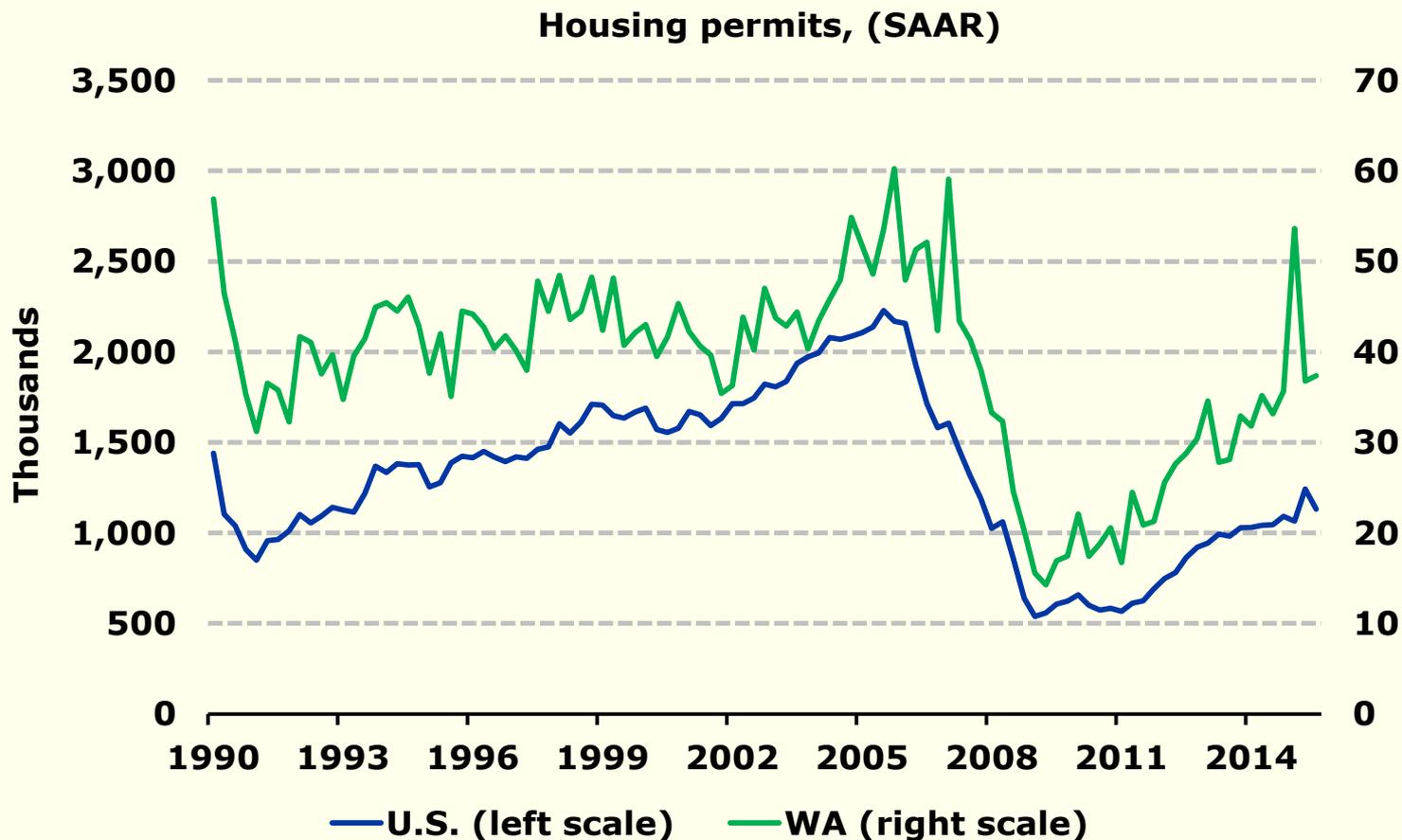
Involuntary part-time employment remains above pre-recession levels



Source: U.S. Bureau of Labor Statistics; data through Nov. 2015



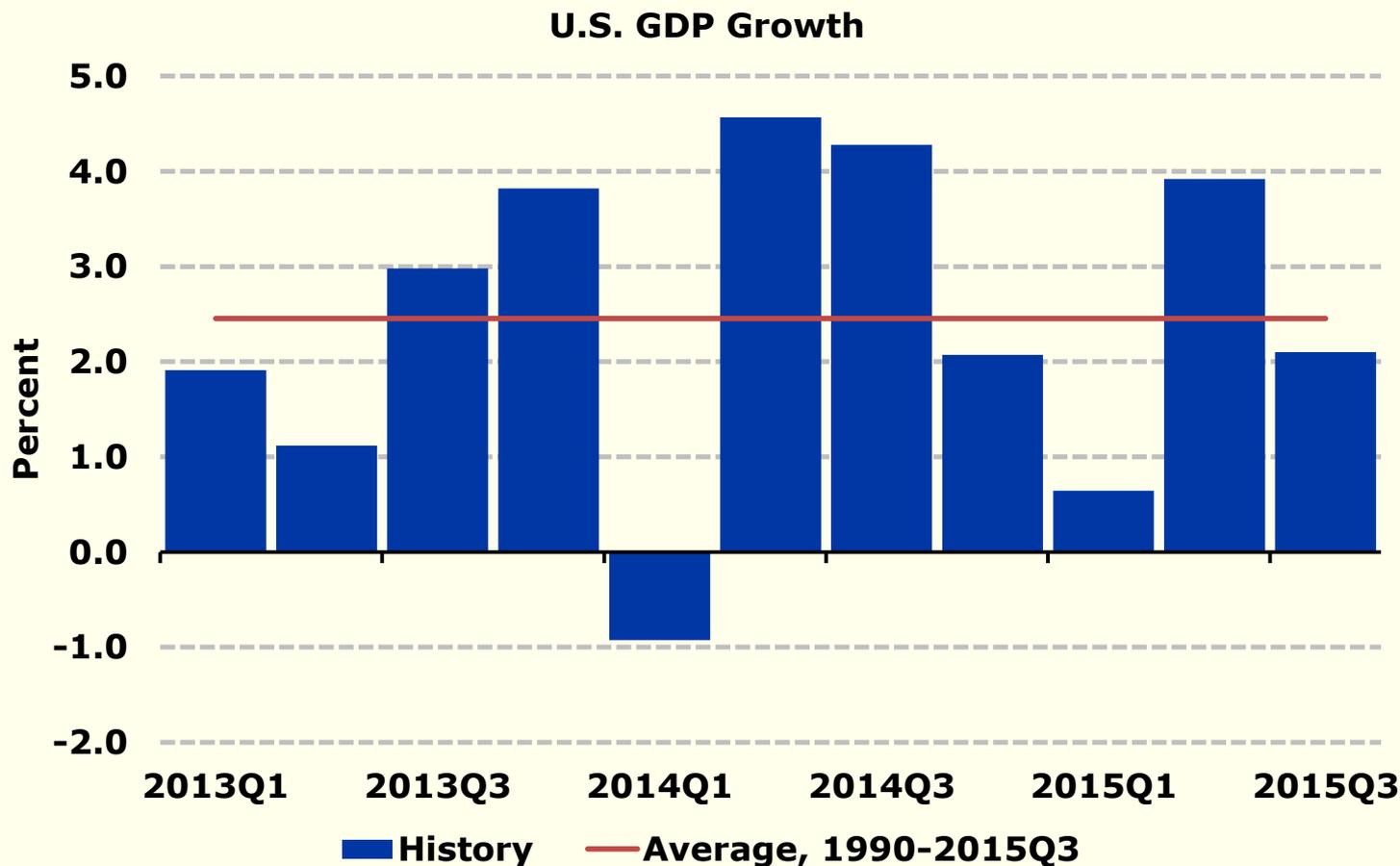
Both U.S. and WA housing permits trending up since 2011





U.S. economic growth weakened in the third quarter

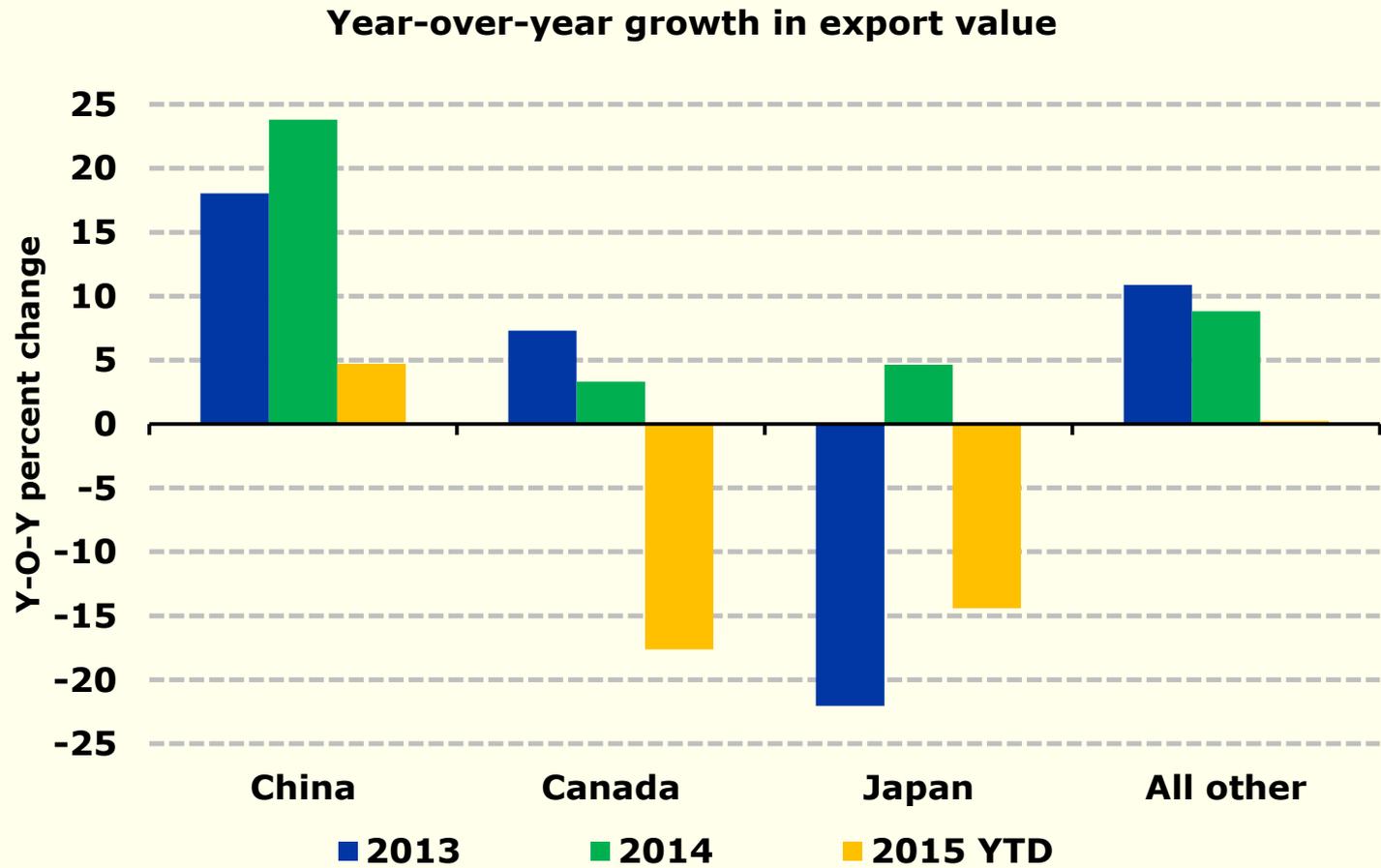
Forecast GDP growth:
2.7% in 4th Q,
2.6% in 2016



Source: U.S. Dept. of Commerce, BEA, data through 2015Q3



WA exports to major trading partners have slowed

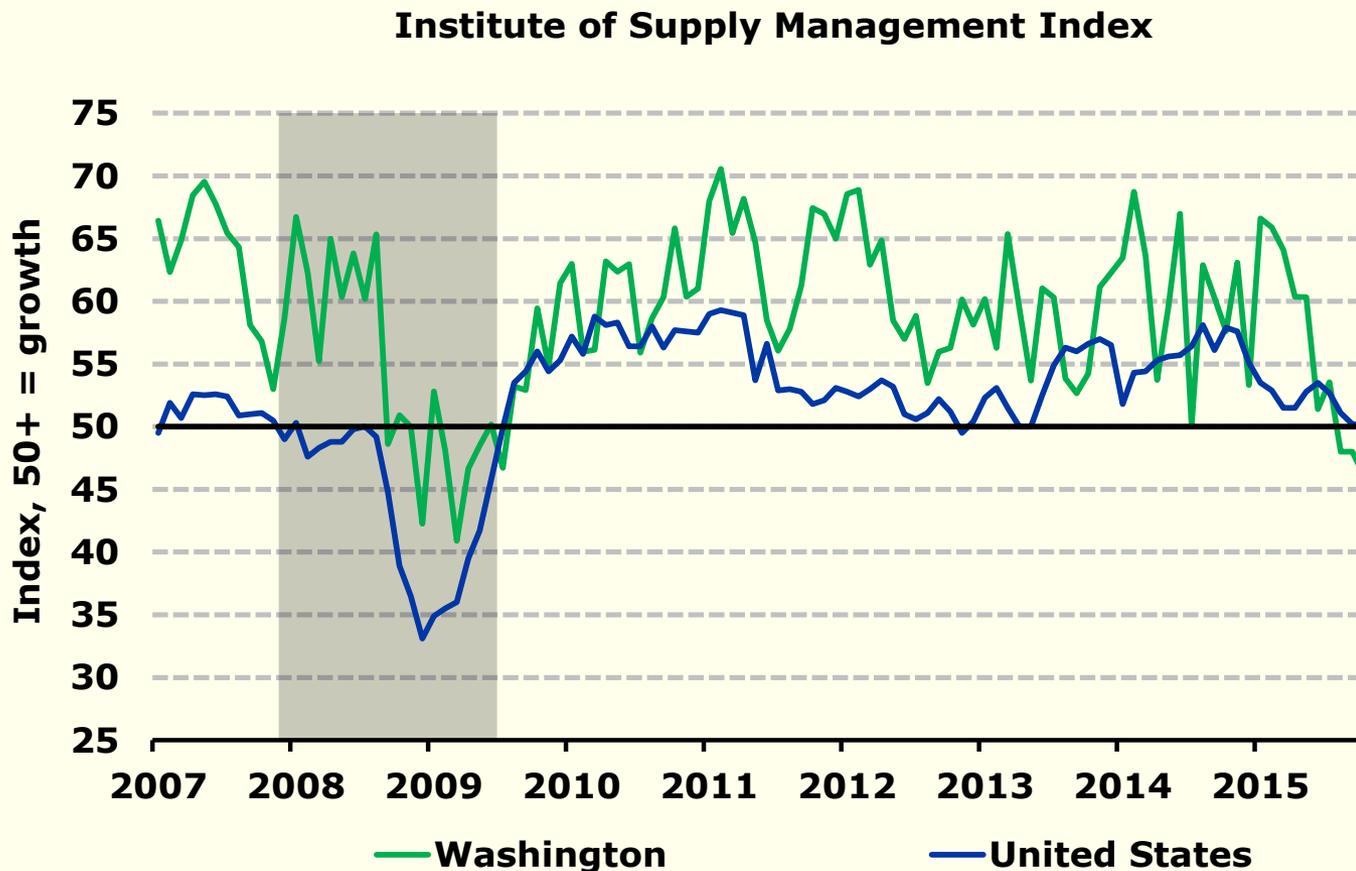


Source: WISERTrade; data through September 2015

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Manufacturing is declining in Washington



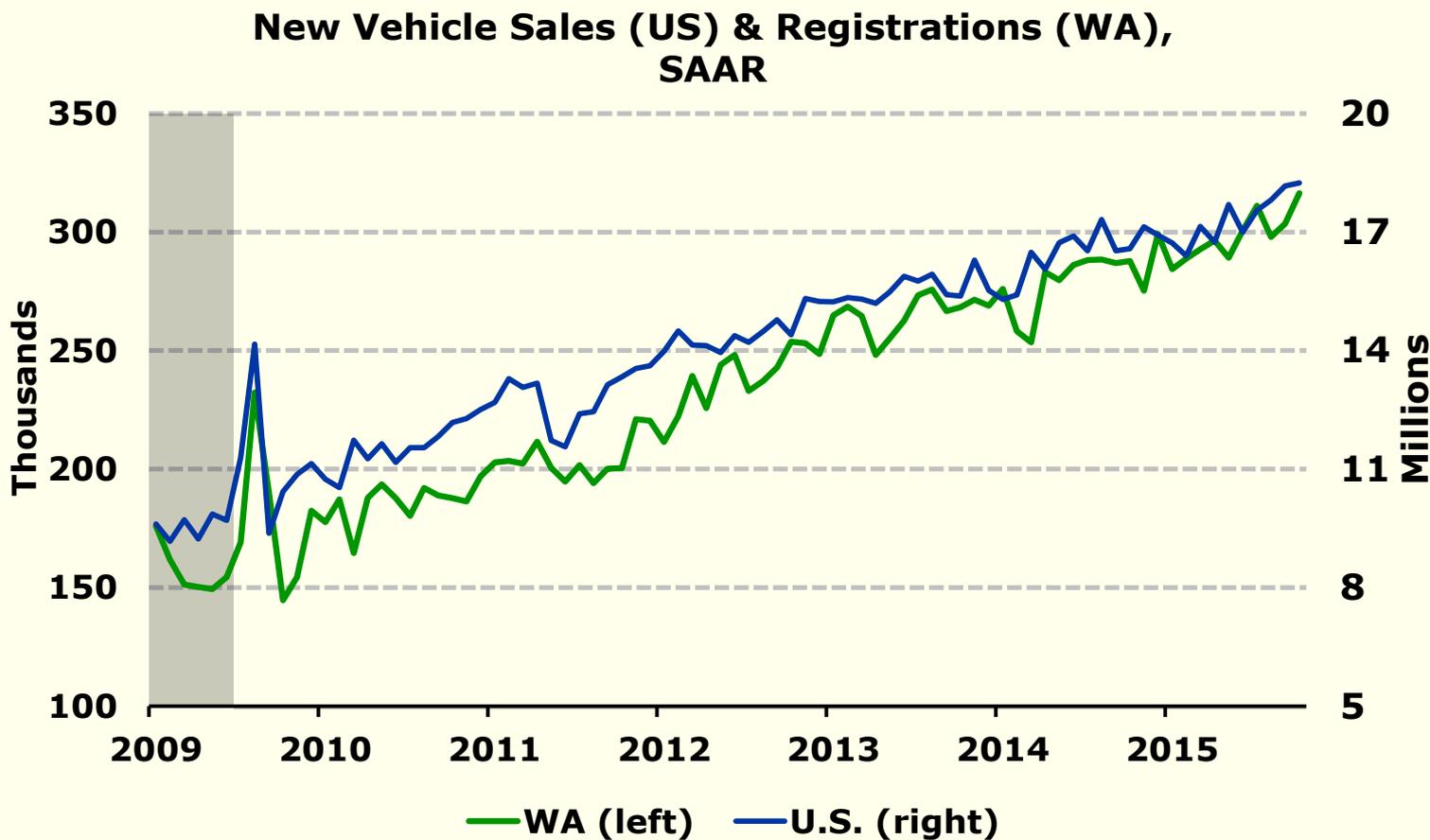
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Source: ISM; data through October 2015

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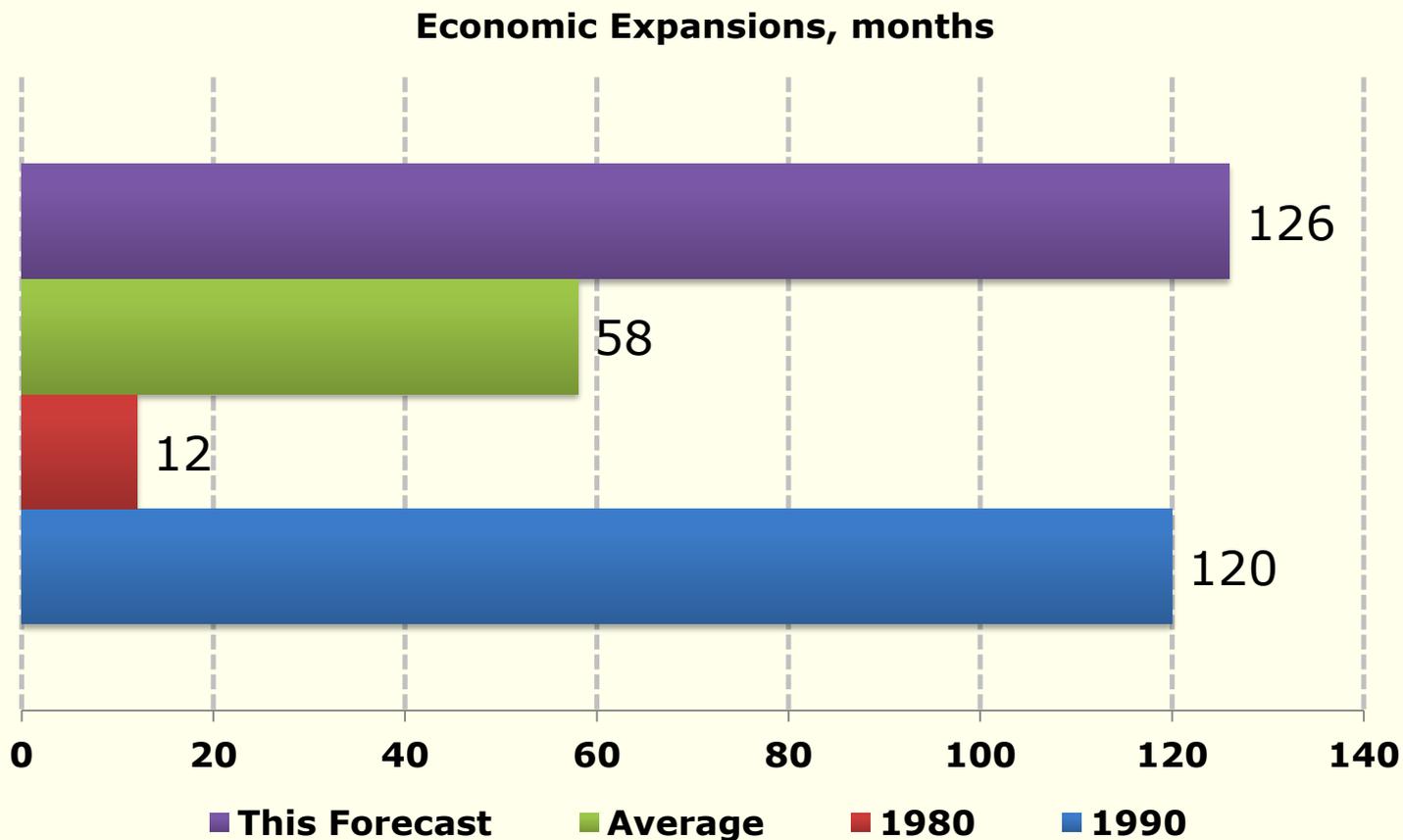


New vehicle sales continue to grow





U.S. Economic Expansions since 1945



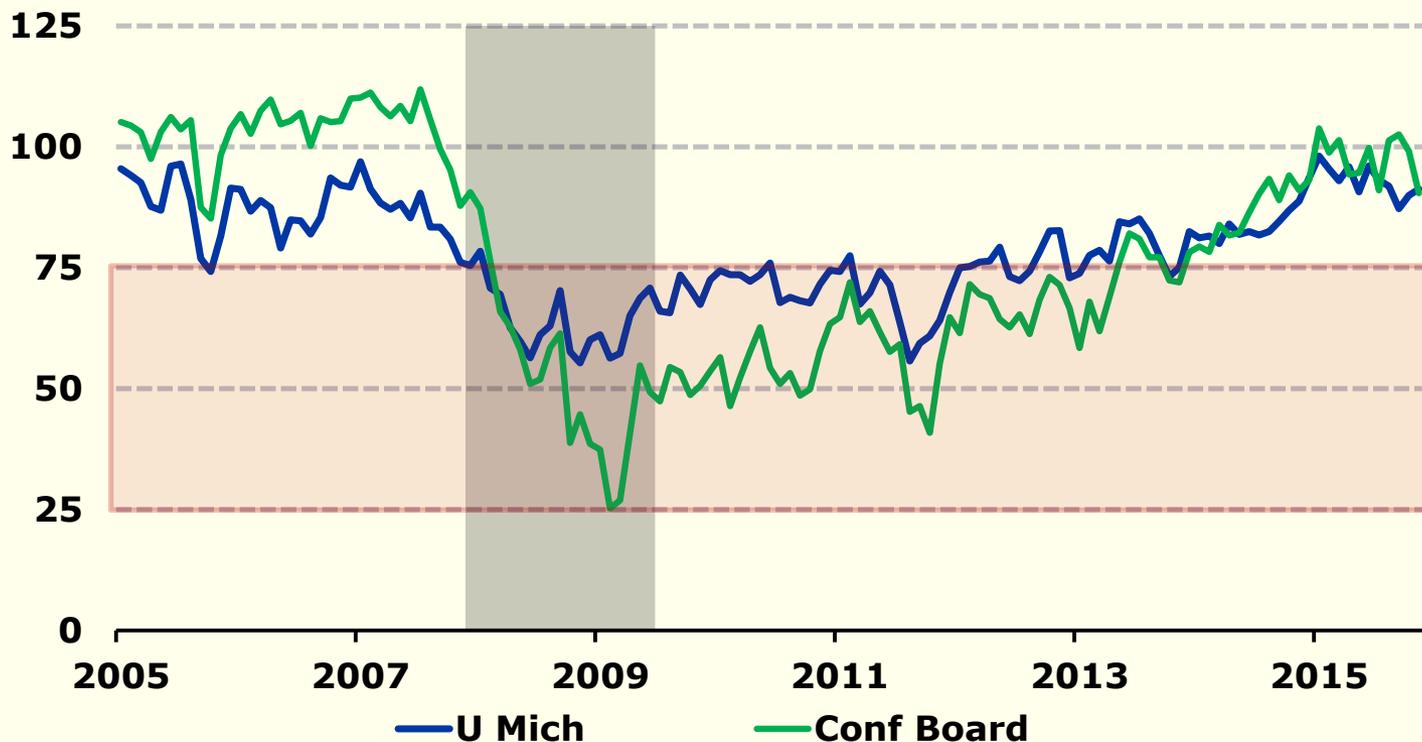


Consumer confidence trend unclear as UMich., Conference Board indexes moving in different directions

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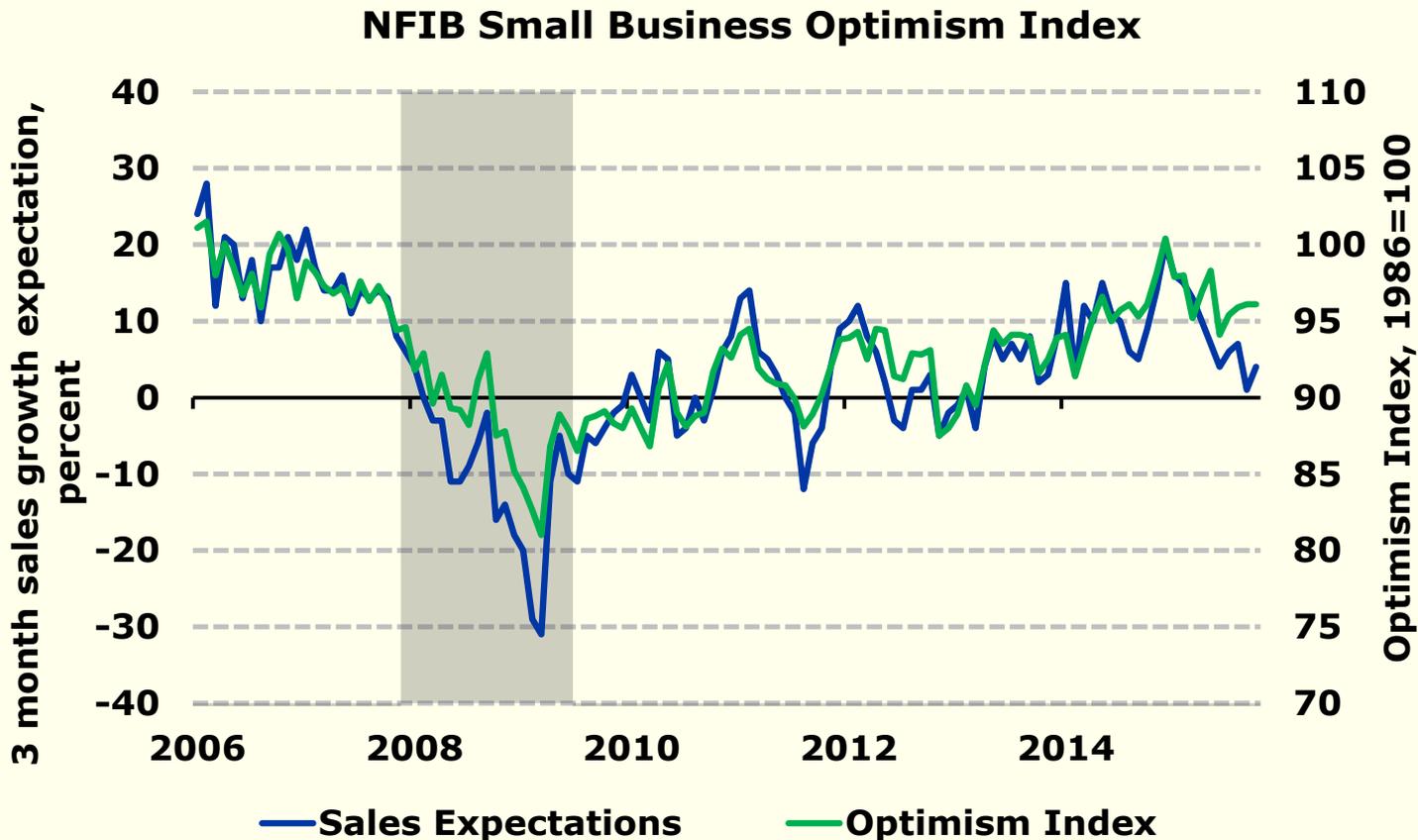
Mich: 1966Q1 = 100, SA

Conf Board: 1985 = 100, SA





Small business optimism and sales expectations have weakened recently



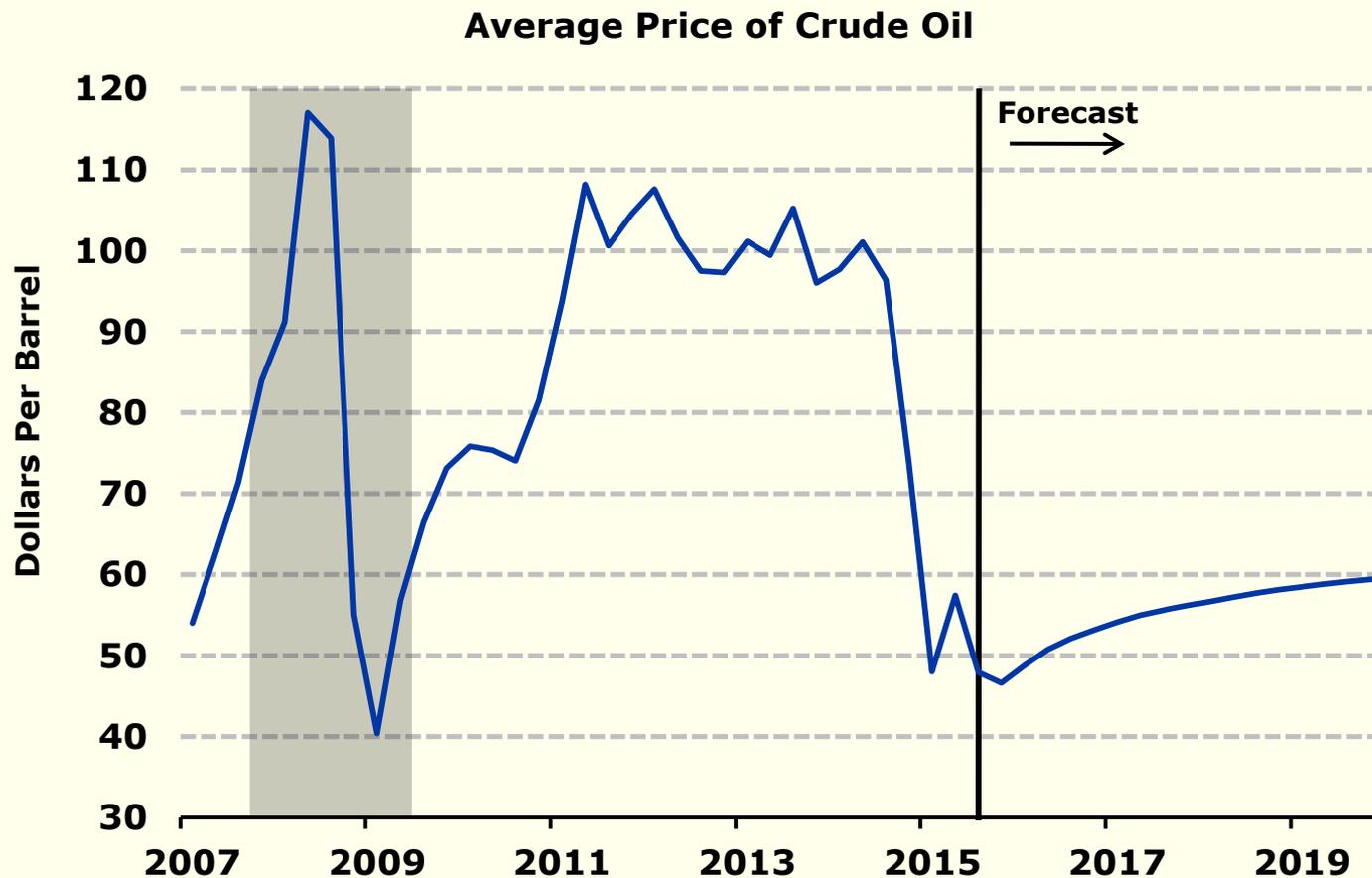


Forecasted real GDP growth is slightly lower than in the September forecast





Oil prices are expected to rise gradually starting next year

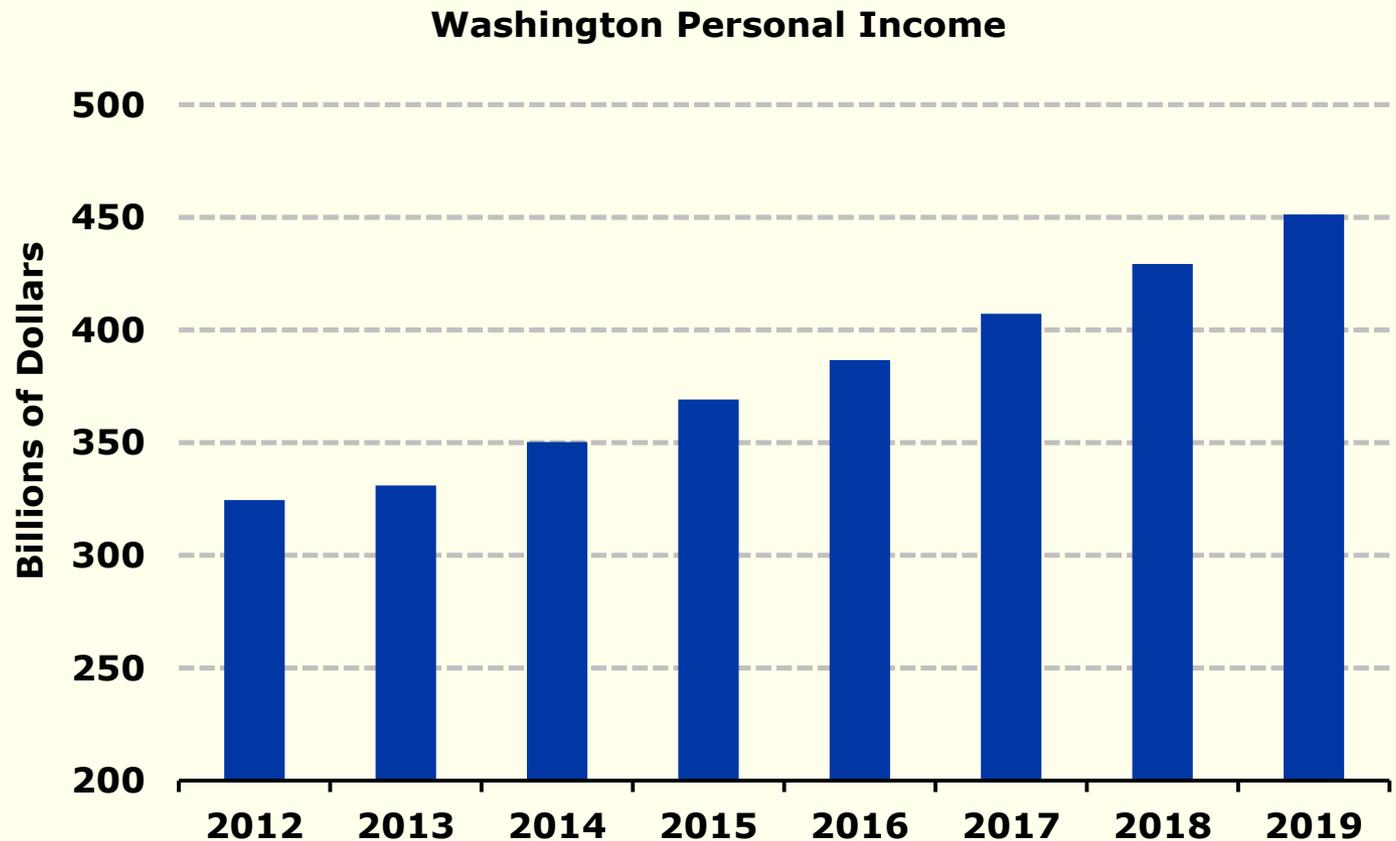


Source: DOE, ERFC November 2015 forecast; historical data through 2015Q3

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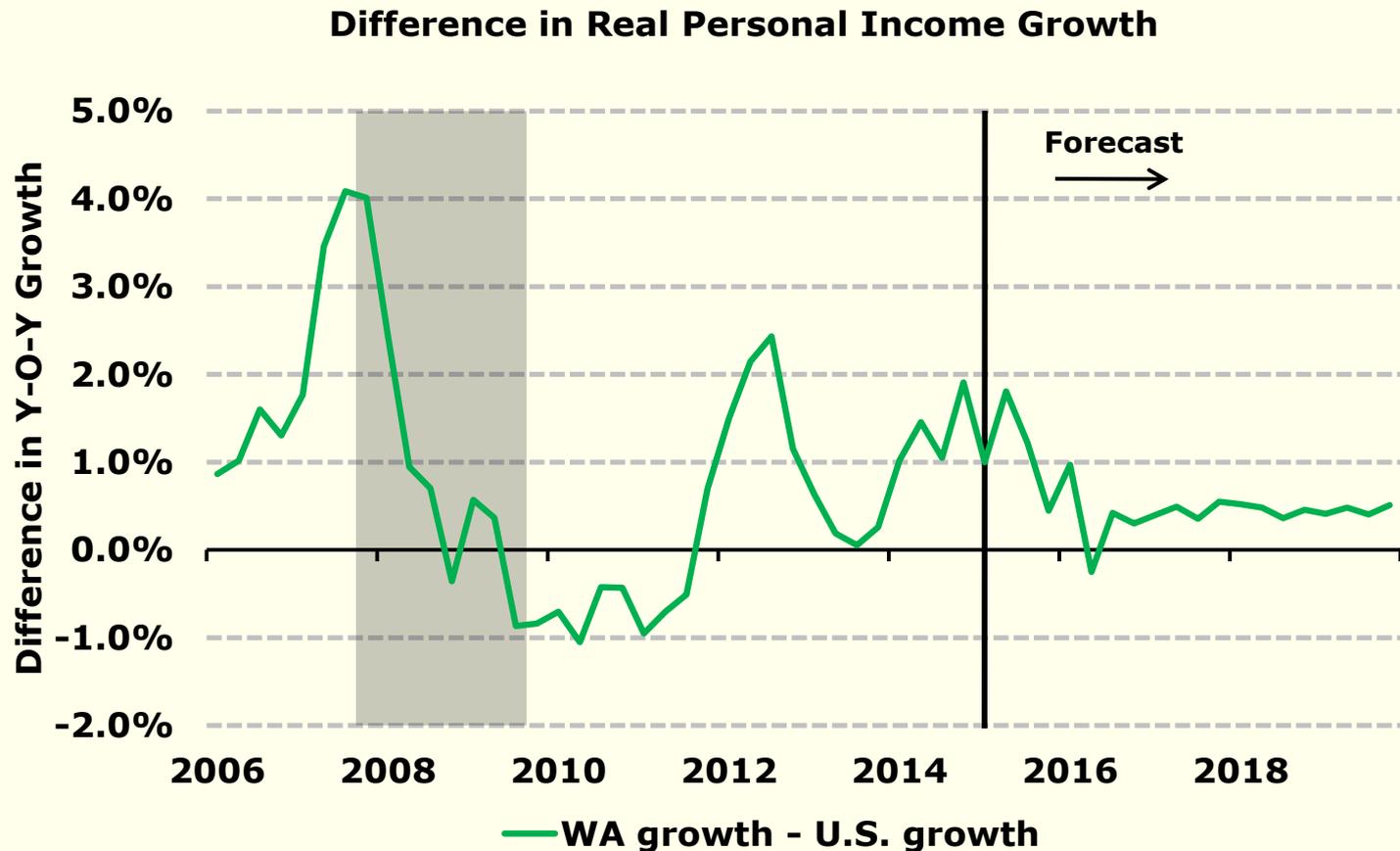


Washington annual personal income growth is expected to average for 2016-19



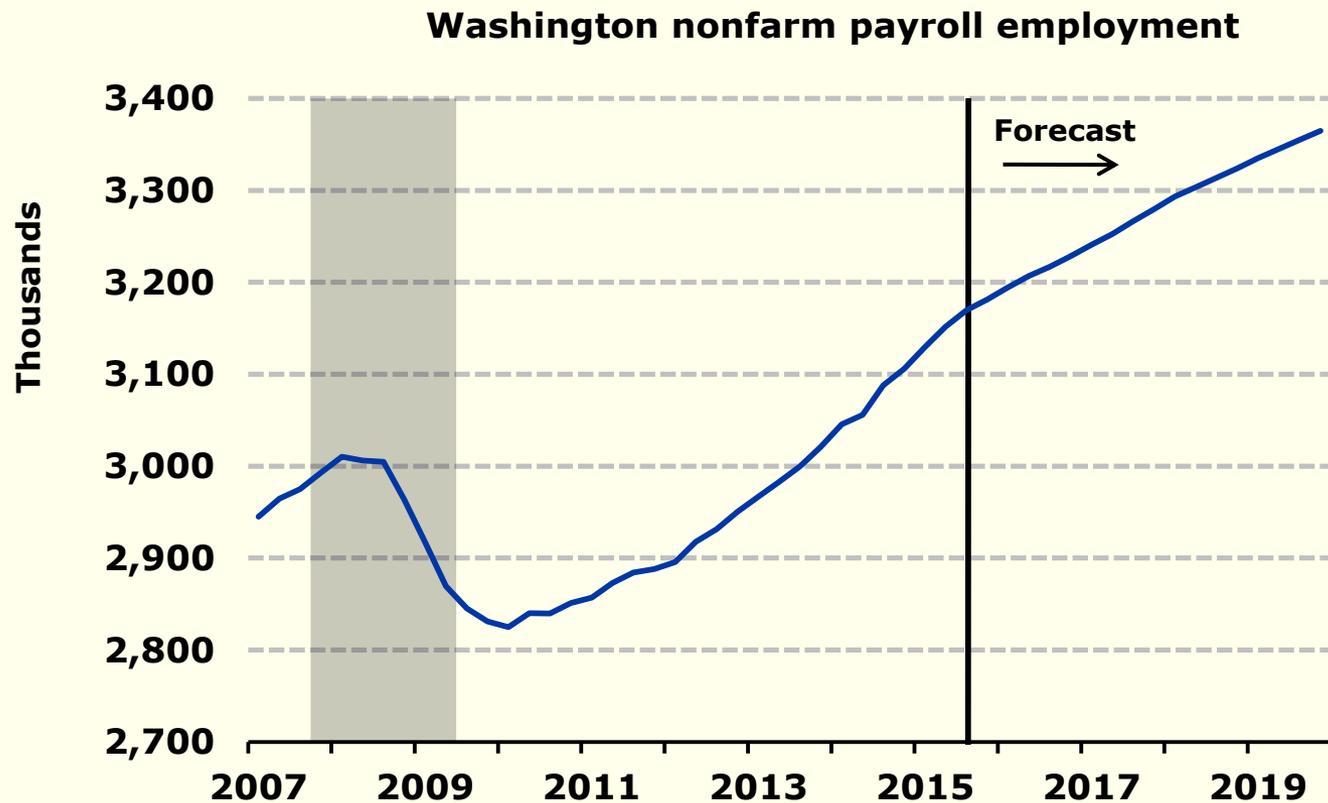


State personal income will grow slightly faster than the U.S.



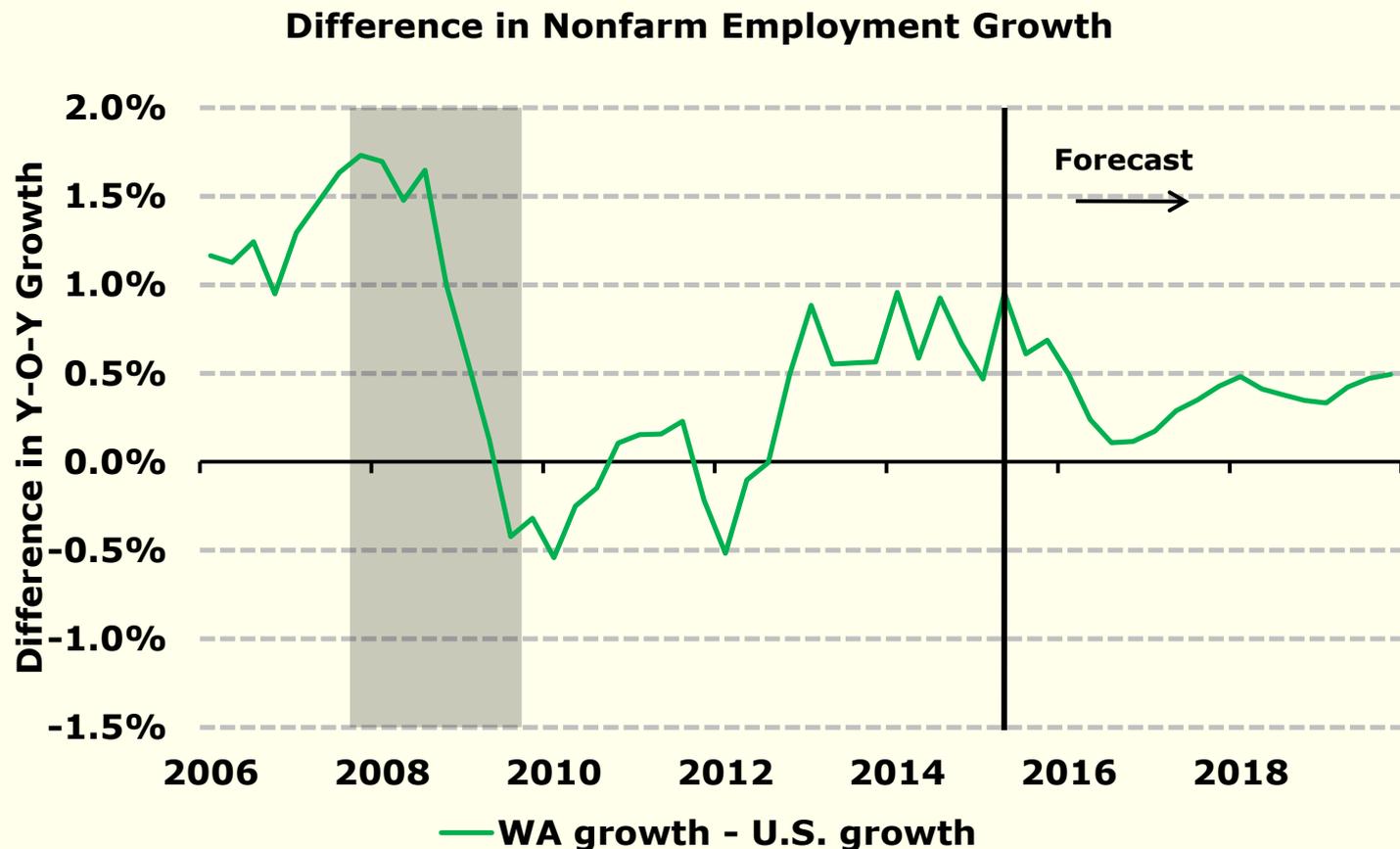


Washington employment forecast is for average annual growth of 1.5%



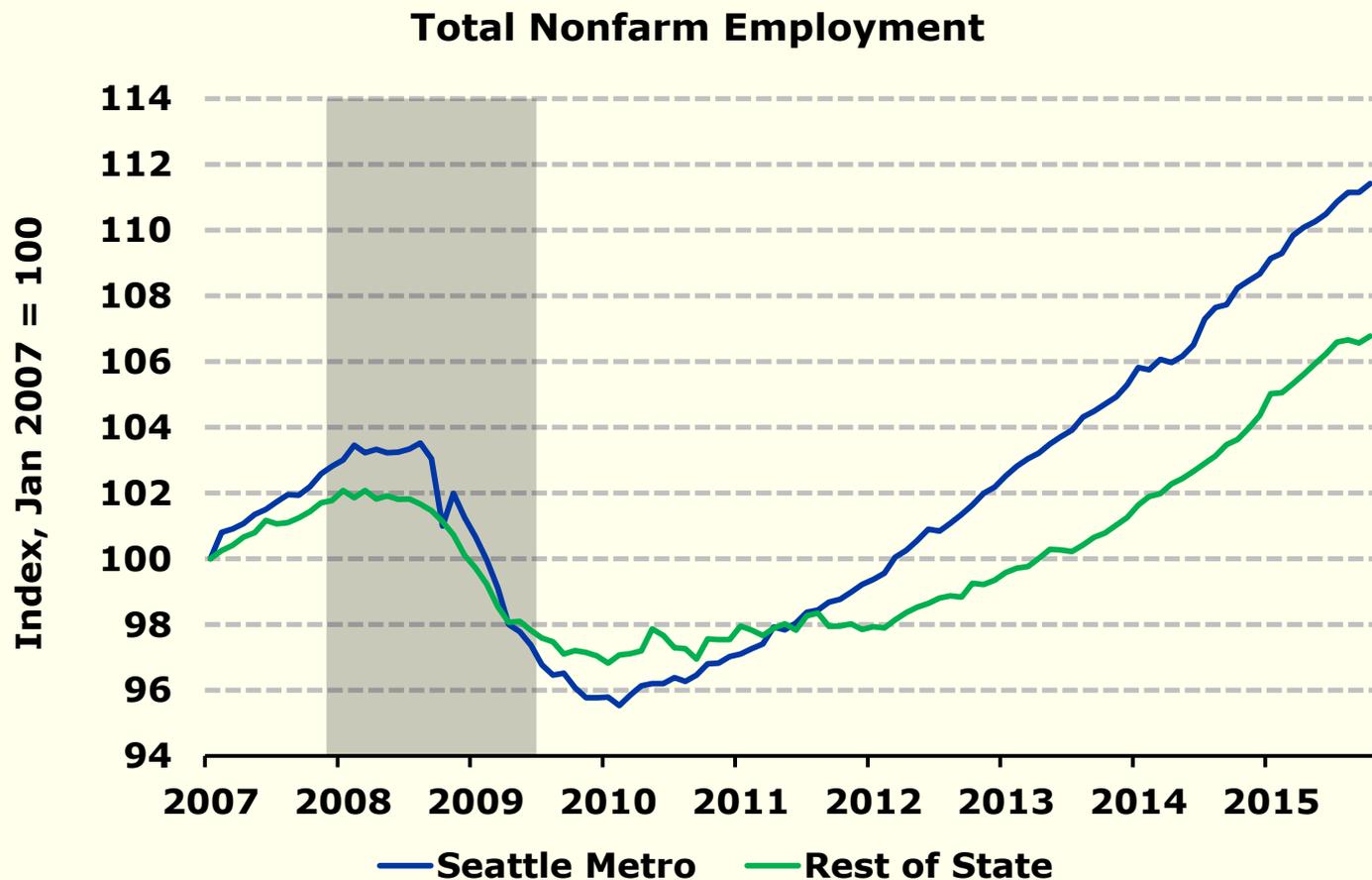


Washington employment will grow slightly faster than the U.S.



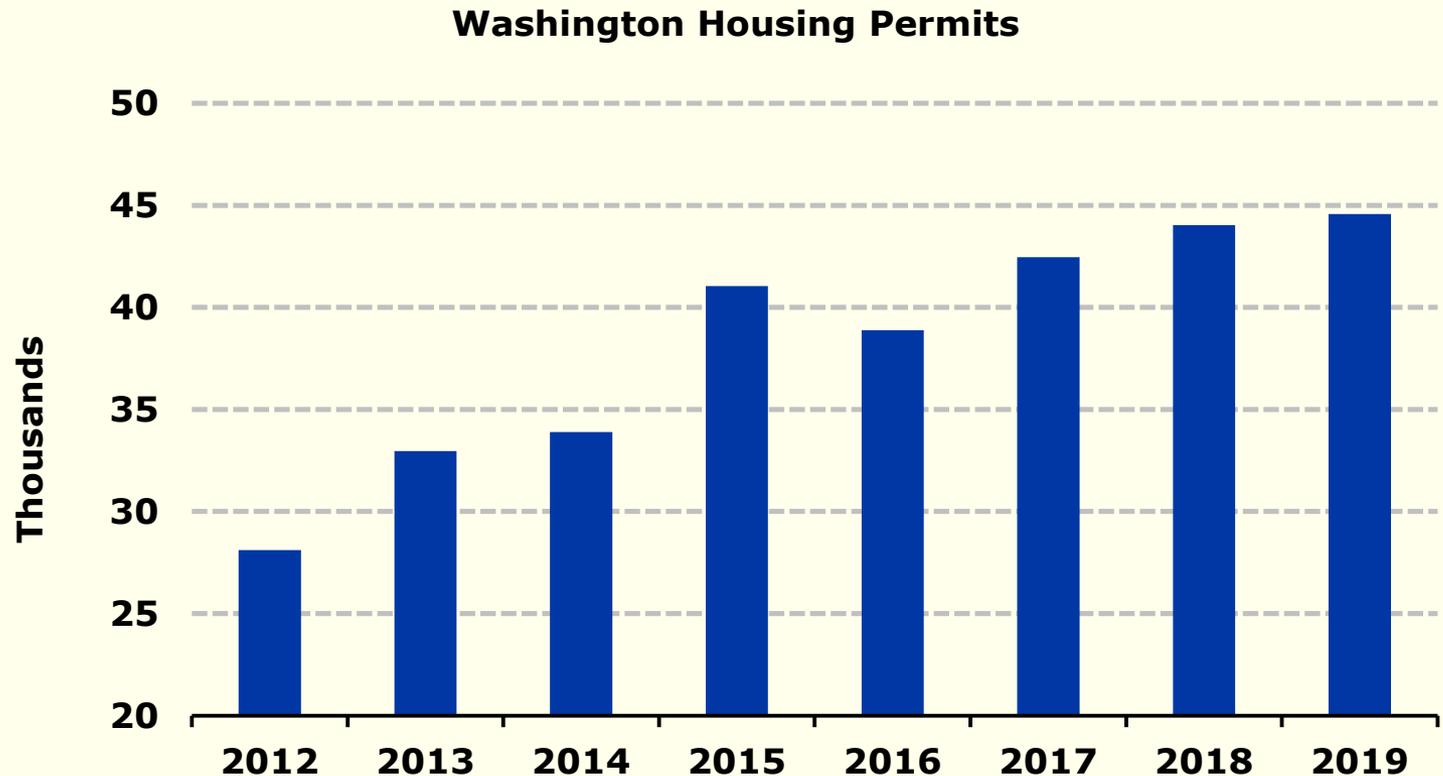


Seattle area employment continues to grow faster than the rest of the state





Washington housing permits forecast is for moderate growth after 2016



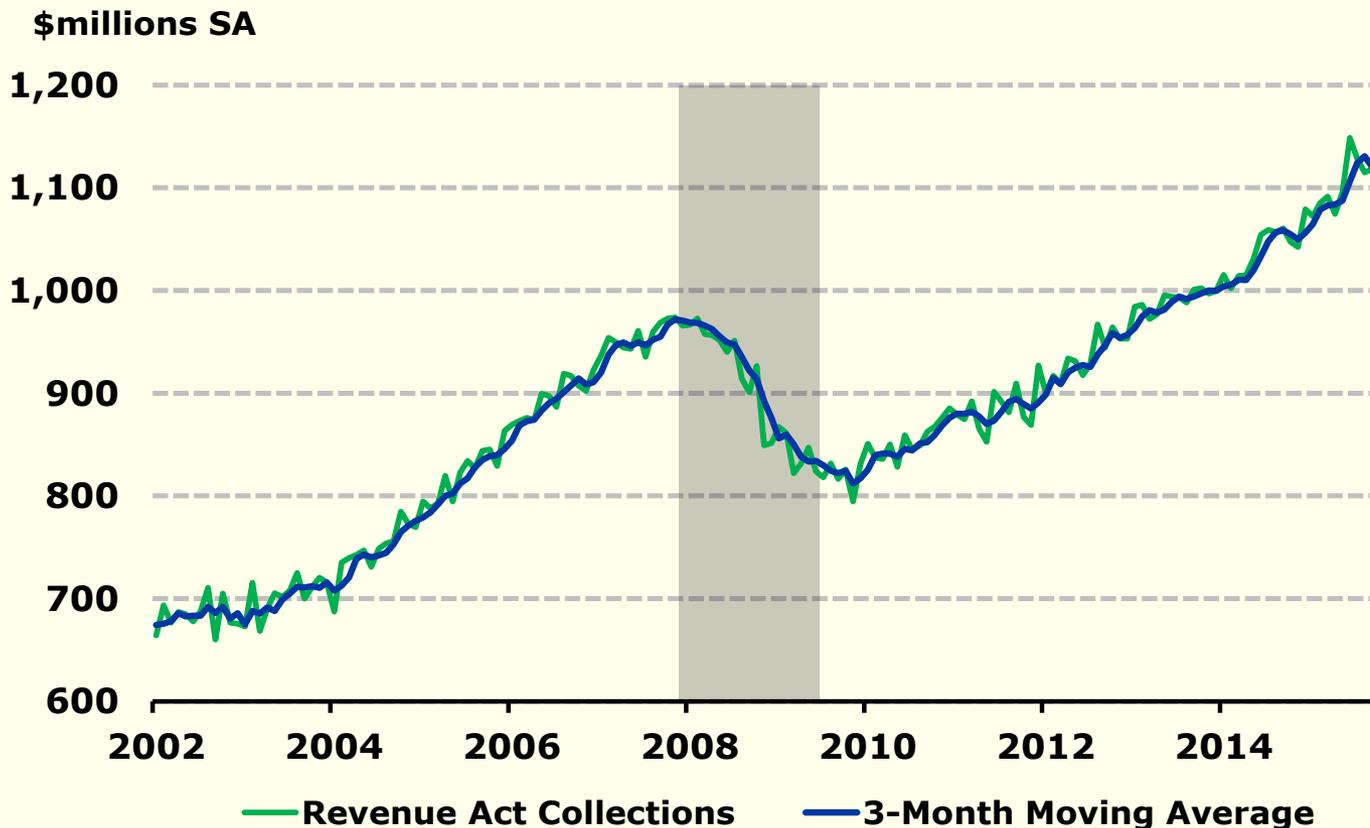
Source: ERFC November 2015 forecast; historical data through 2015Q3



Q3 Revenue Act collections growth slowed after a strong Q2

Adjusted Y-O-Y revenue growth for third quarter activity slowed to 5.5% after 7.3% growth in the second quarter.

Adjusted Y-O-Y growth was 4.3% for August activity and 5.8% for September activity.



* 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 September 2015 activity

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Large commercial property sales have had major impact on REET collections

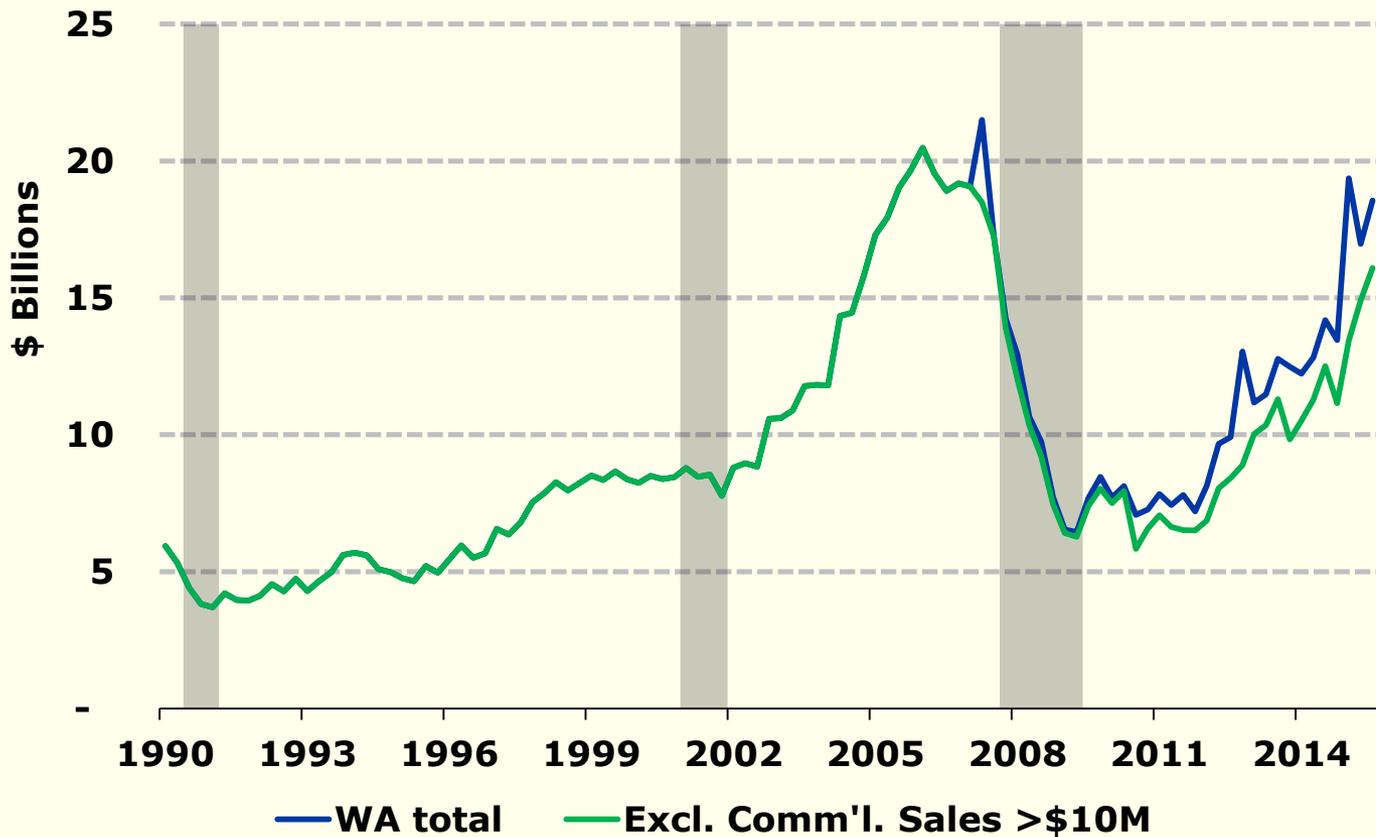
Residential taxable activity has been growing rapidly for the last three quarters but future growth is expected to slow due to a lack of inventory.

Large commercial property sales are also expected to slow.

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Taxable real estate sales, SA

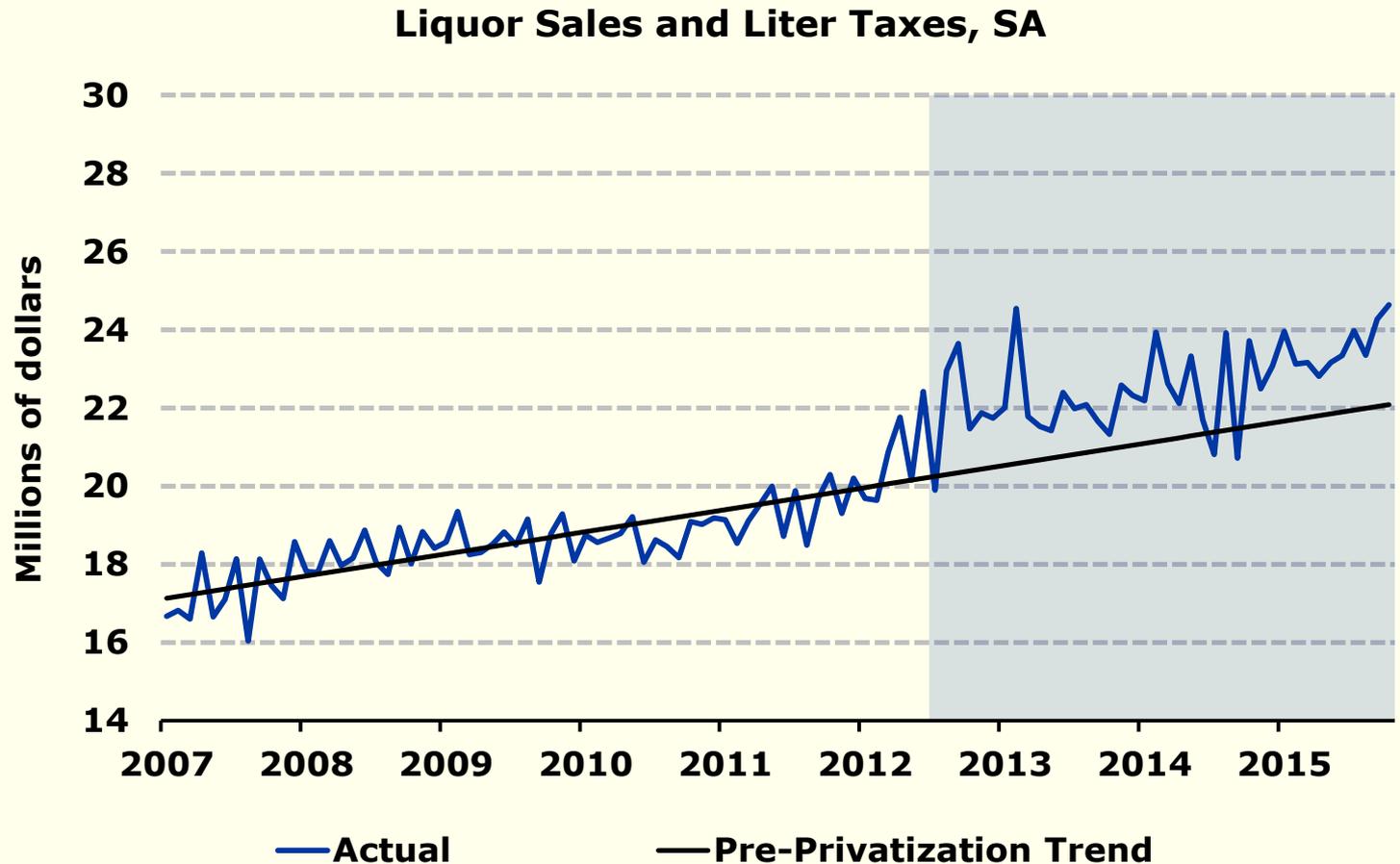


Source: ERFC, data through 2015 Q3

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Revenue from liquor sales remains above pre-privatization trend

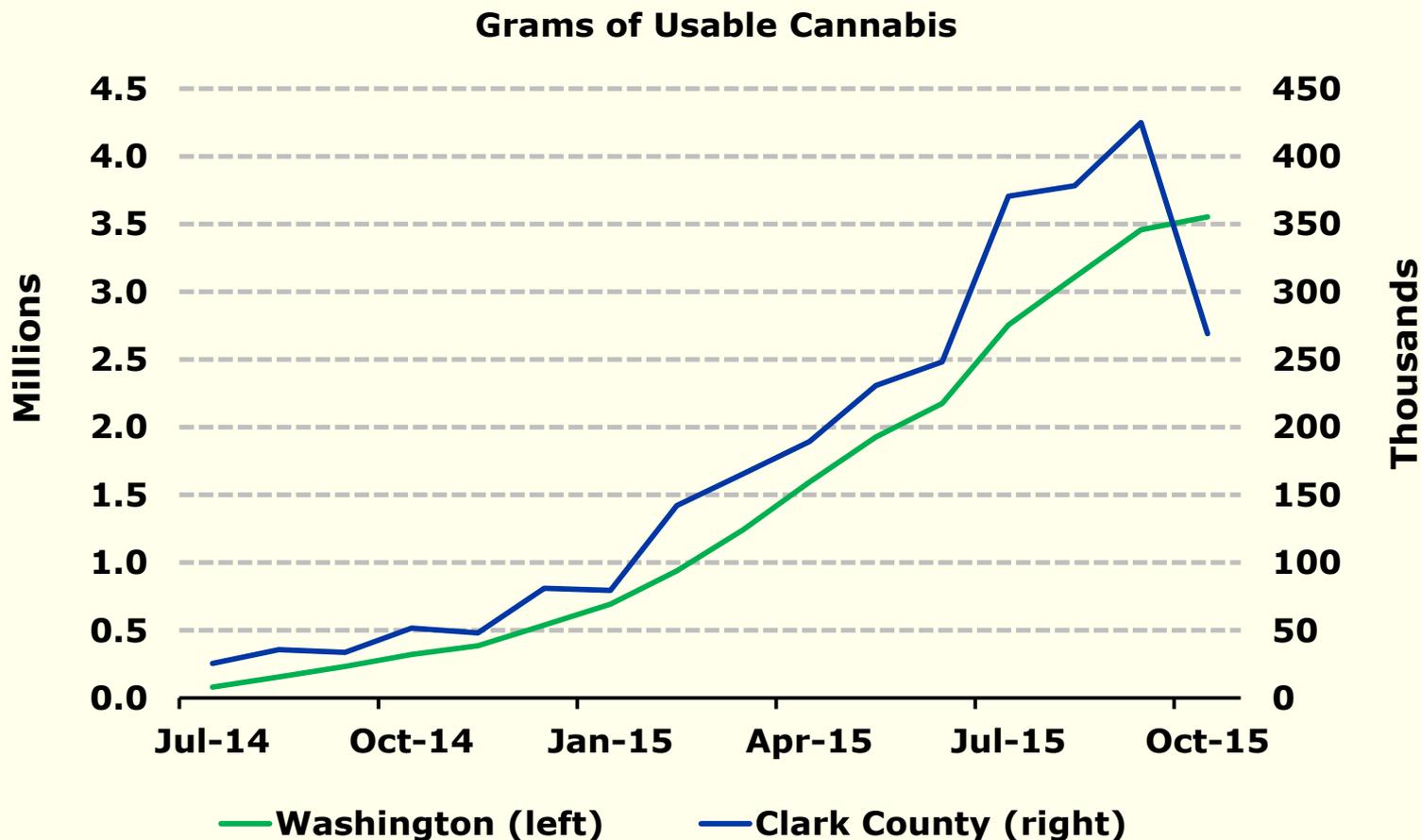




Oregon legalization may have affected Clark County but statewide sales continued to grow

Prior to legal retail sales in Oregon, Clark County accounted for 12.8% of total sales by quantity.

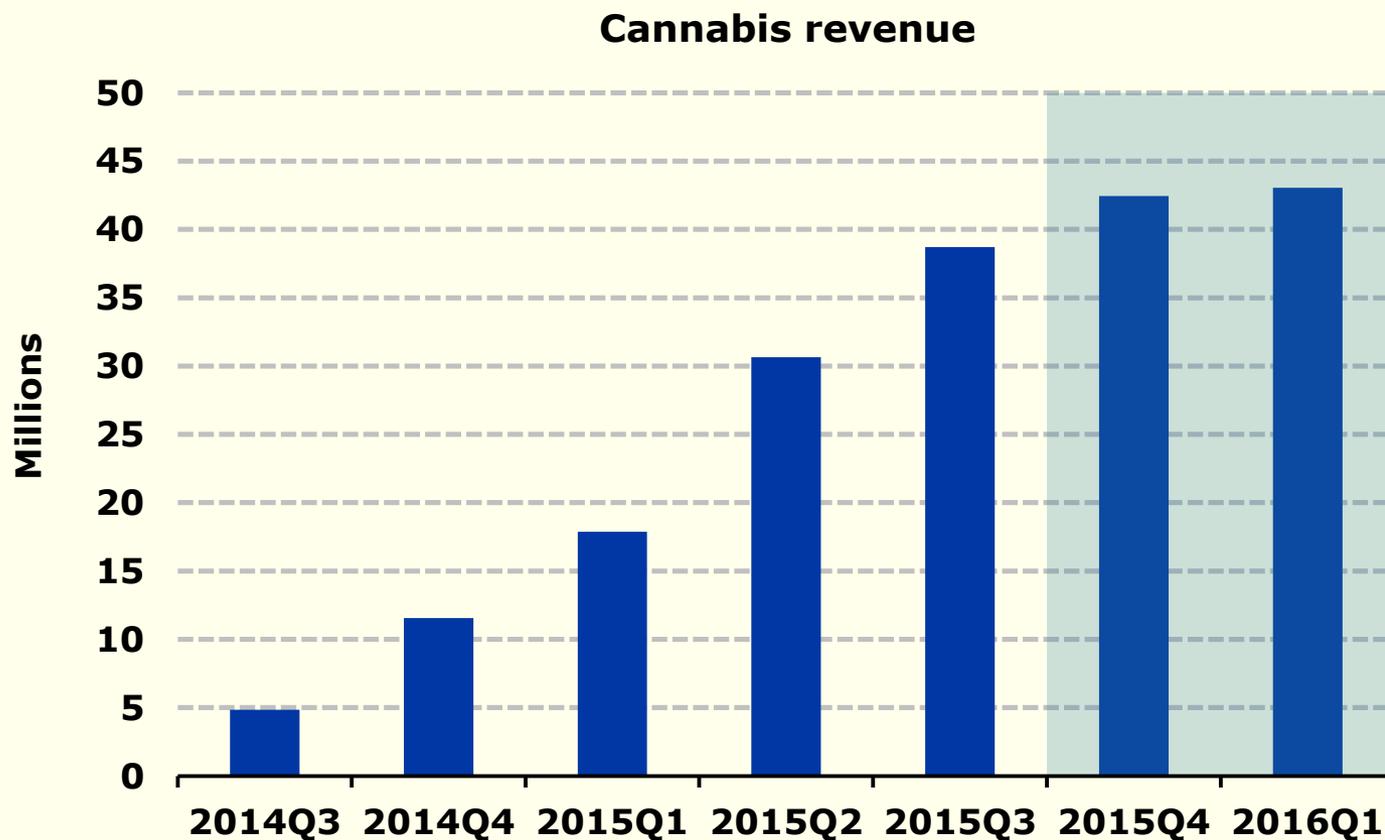
In October, Clark County accounted for 7.6% of total sales by quantity.



Source: WA LCB; data through October 2015



Cannabis revenue has been strong





Cannabis excise tax and license fee estimates

Total change from September forecast:

•2015-17
+\$11 M

•2017-19
+\$2 M

\$Millions

November Forecast

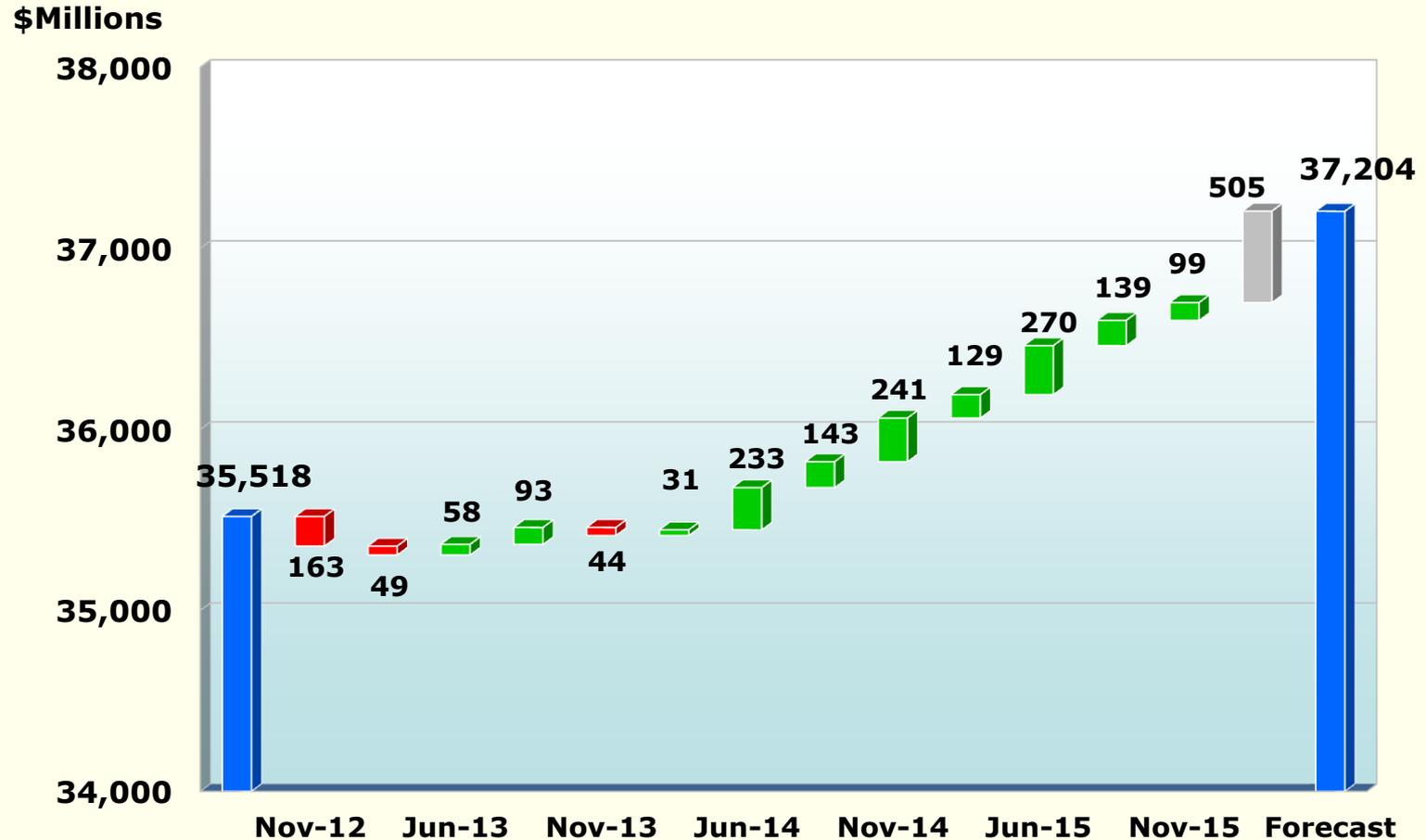
	<u>2013-15</u>	<u>2015-17</u>	<u>2017-19</u>
GF-S share of excise tax and license fees	\$15	\$133	\$230
Non-GF	\$52	\$300	\$475
Total	\$67	\$433	\$705

* Detail may not add to total due to rounding

Source: ERFC, LCB, BOTE Analysis



GF-S forecast revisions to the 2015-17 biennium



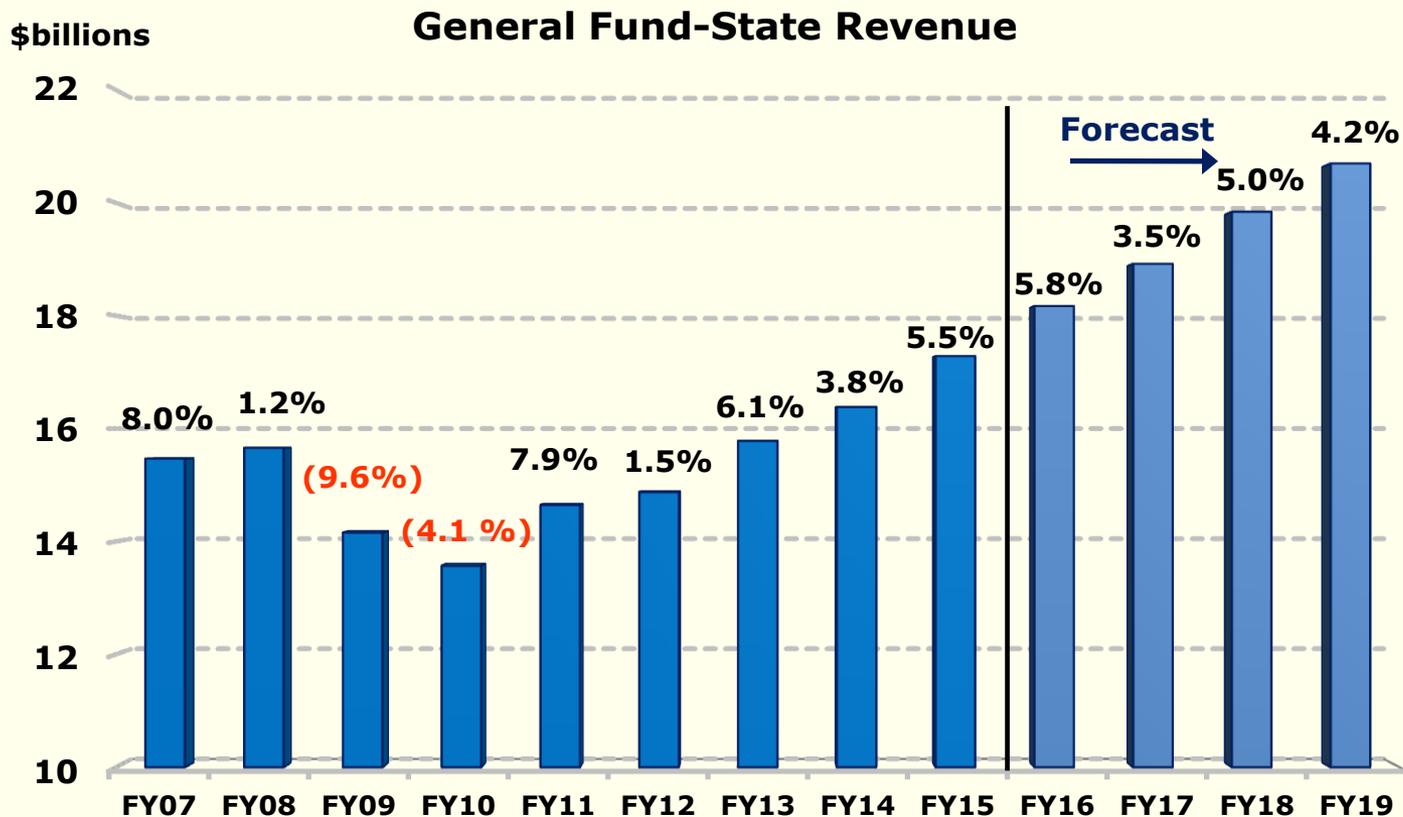
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Source: ERFC September 2012 – November 2015 forecasts
Gray area indicates total noneconomic change

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General Fund-State* forecast by fiscal year





Conclusion

- The economic forecast expects slightly weaker growth in personal income and employment than in September
- We expect the moderate pace of the economic recovery to continue in both the U.S. and Washington economies
- GF-S revenues are expected to grow 10.5% between the 2013-15 and 2015-17 biennia and 9.0% 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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