

Revenue Review

Presented to
Washington Roundtable

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**WASHINGTON STATE
ECONOMIC AND REVENUE FORECAST COUNCIL**



Summary

- The economic forecast does not expect a recession but does assume slower growth in the U.S. and WA economies compared to November
- The forecast assumes the Federal Reserve will increase interest rates twice this year instead of four times as assumed in November
- 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 decreased by \$67 million for the 2015-17 biennium and decreased by \$442 million for the 2017-19 biennium



Economic news continues to suggest risks to forecast

Upside:

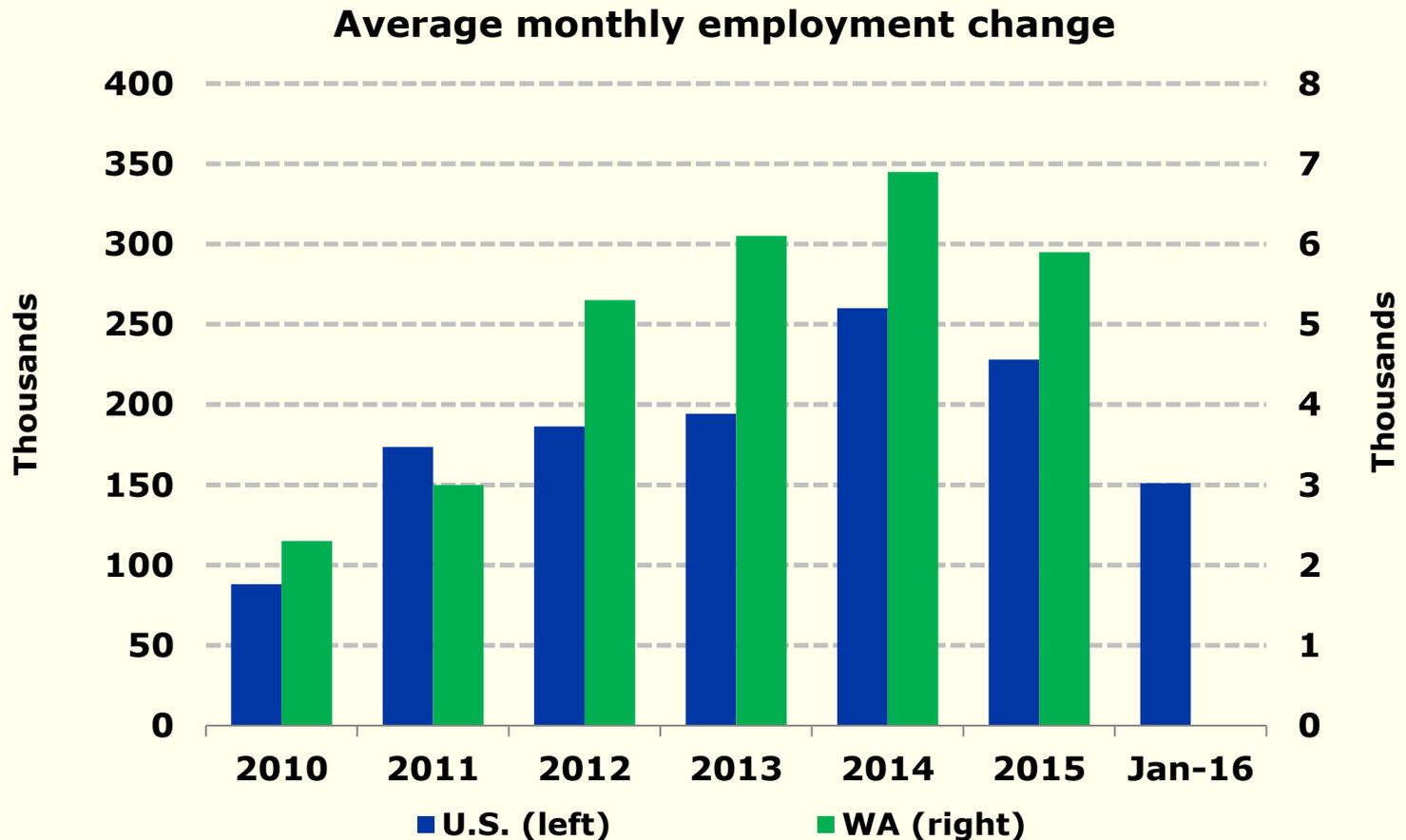
- Falling unemployment
- Rising wage growth
- Stronger housing starts and home sales (new and existing)
- Falling oil, gasoline prices

Downside:

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



Job creation slightly weaker in 2015 than 2014; U.S. off to slow start in January



Source: Bureau of Labor Statistics, ERFC; U.S. data through Jan. 2016, WA data through Dec. 2015

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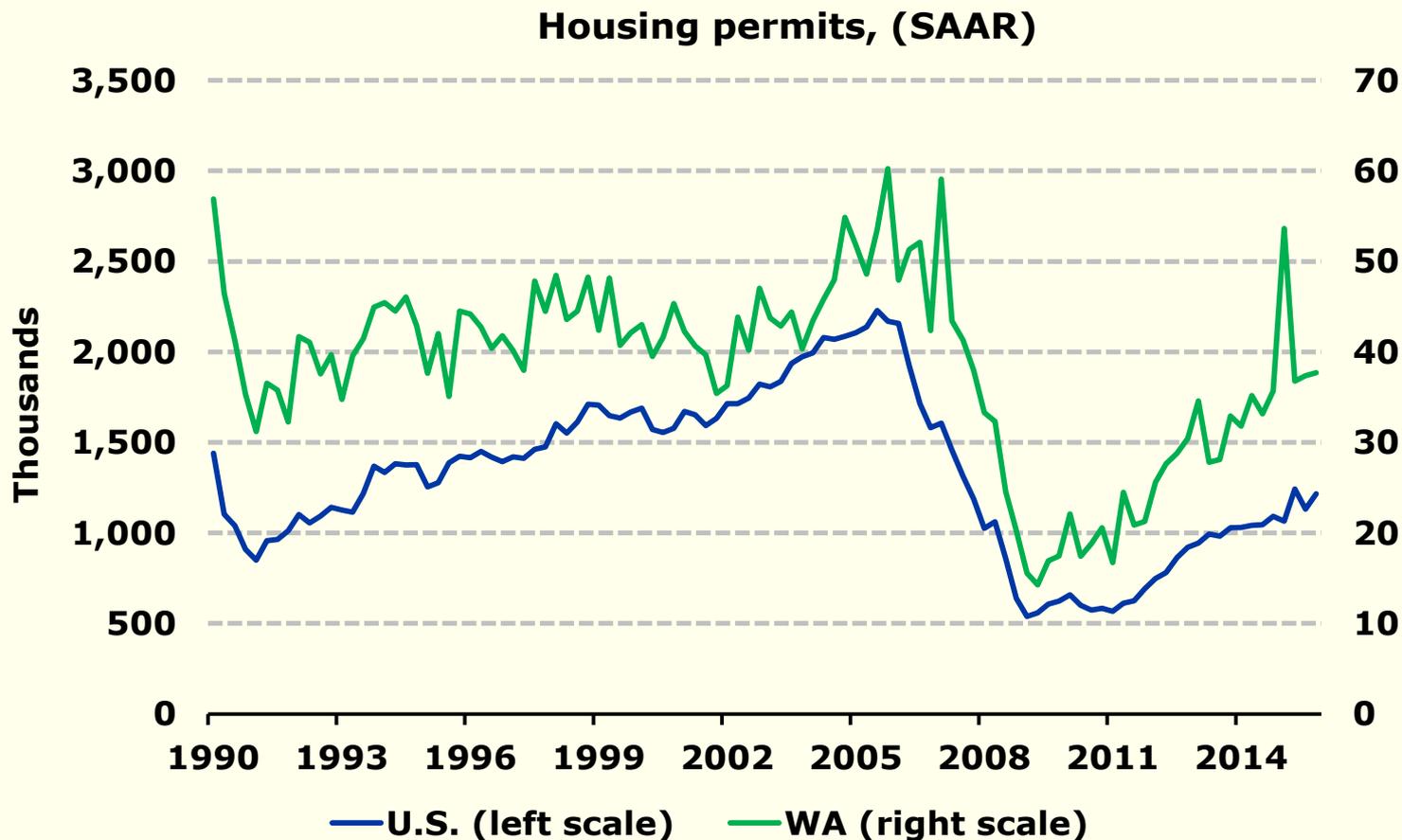


Average U.S. wage growth has turned positive but is not accelerating





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



Source: U.S. Census Bureau, data through 2015 Q4



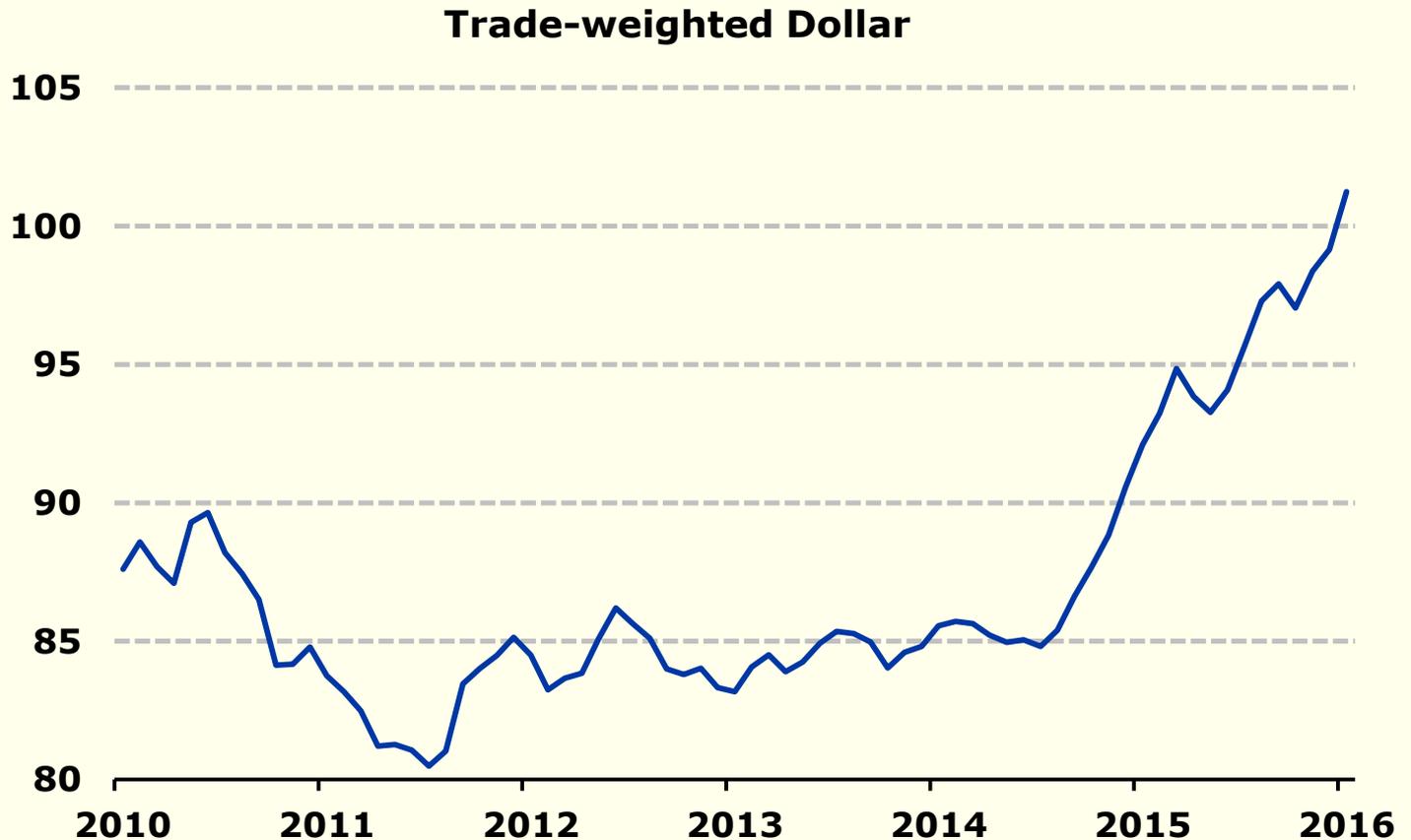
Global GDP growth has slowed



Source: International Monetary Fund, Jan. 2016; historic data through 2014



The dollar has increased in value relative to currencies of U.S. trading partners



Source: Federal Reserve; data through January 2016



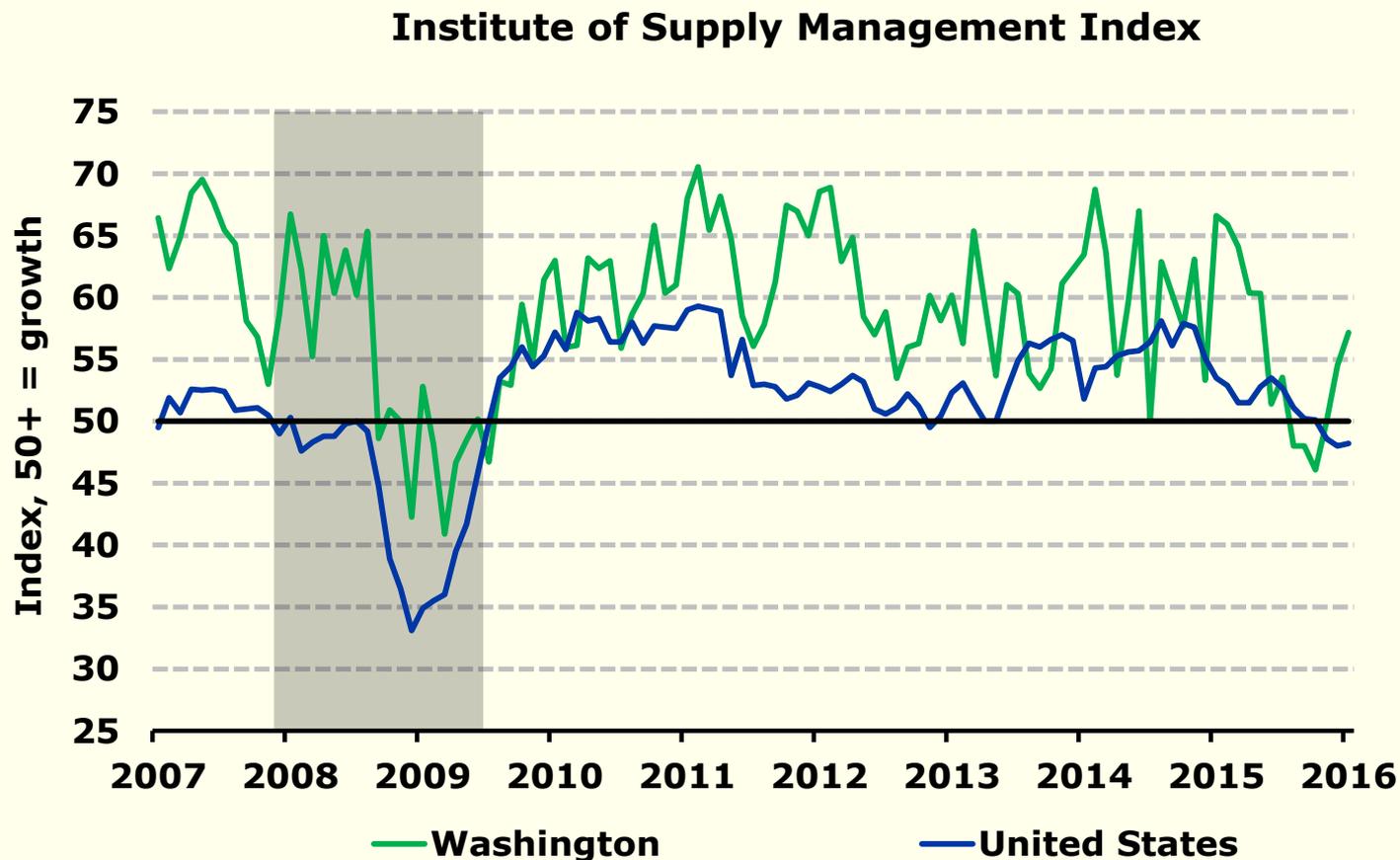
Washington exports declined in 2015 for first time since 2009



Source: WISERTrade, annual data through 2015



Manufacturing: slowing nationally, improving in Washington

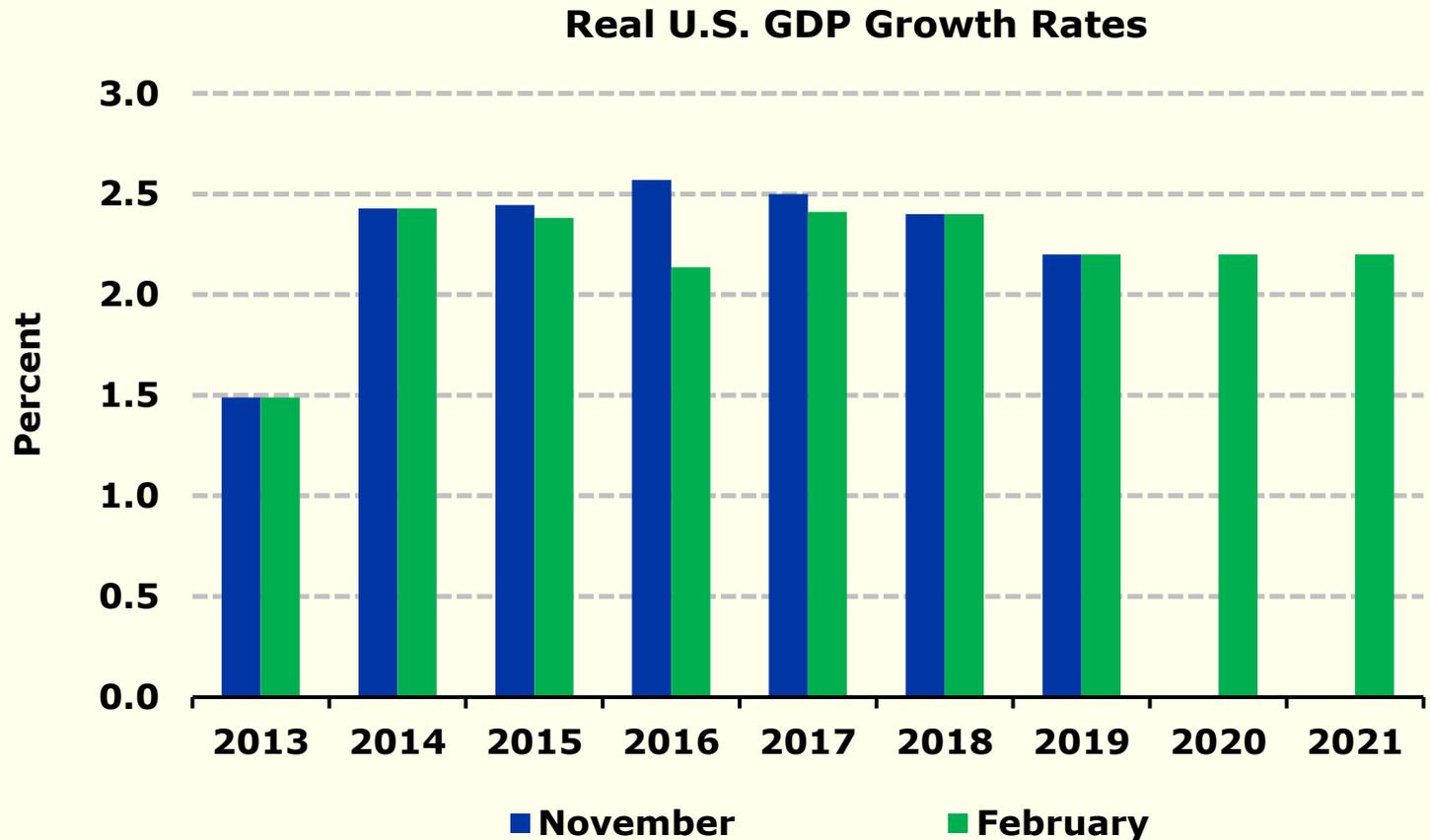


Source: ISM; data through January 2016

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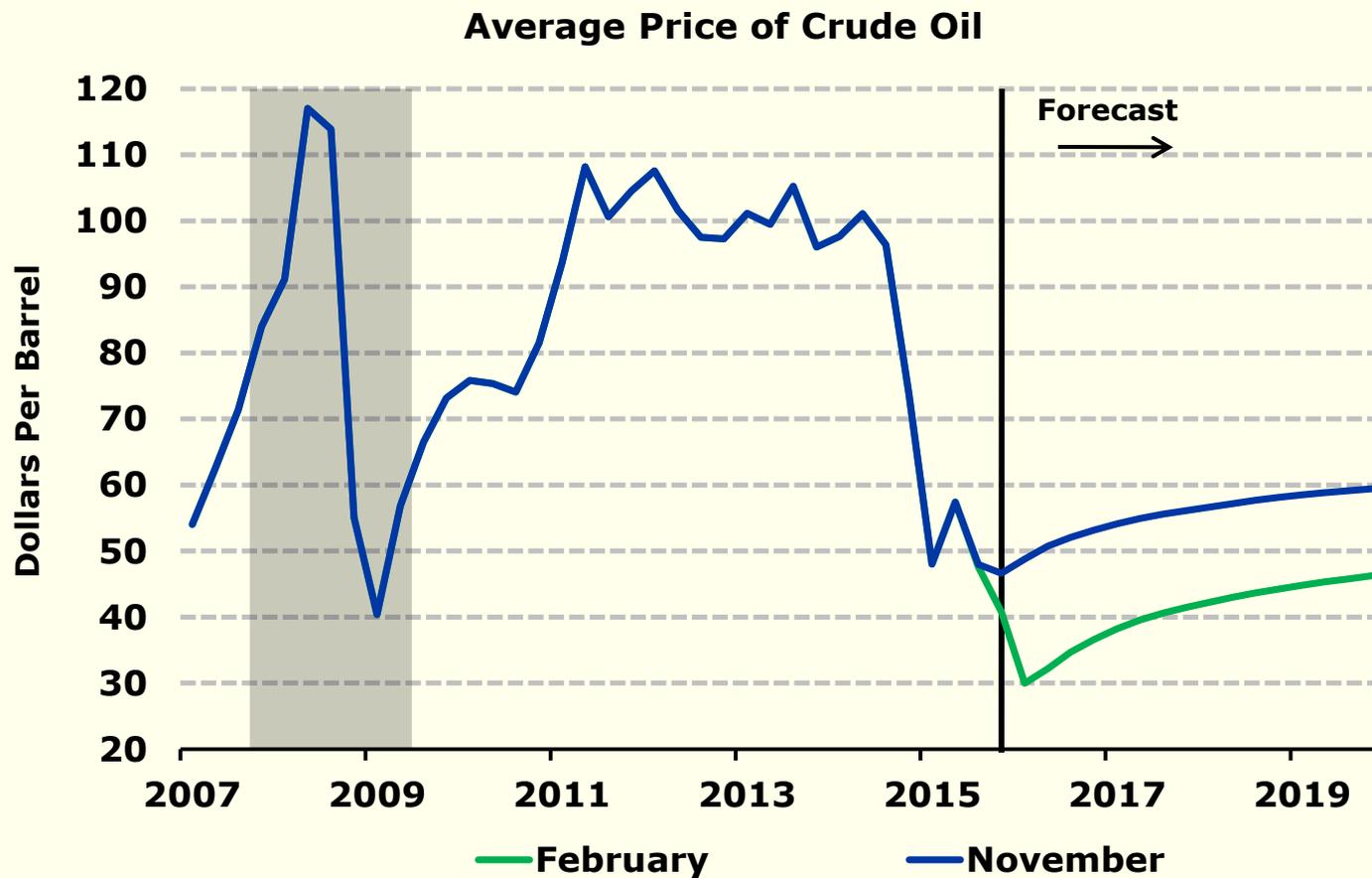
Forecasted real GDP growth is lower in 2015, 2016 & 2017 compared to the November forecast



Source: ERFC February 2016 forecast; historical data through 2015



Oil prices have fallen since the November forecast

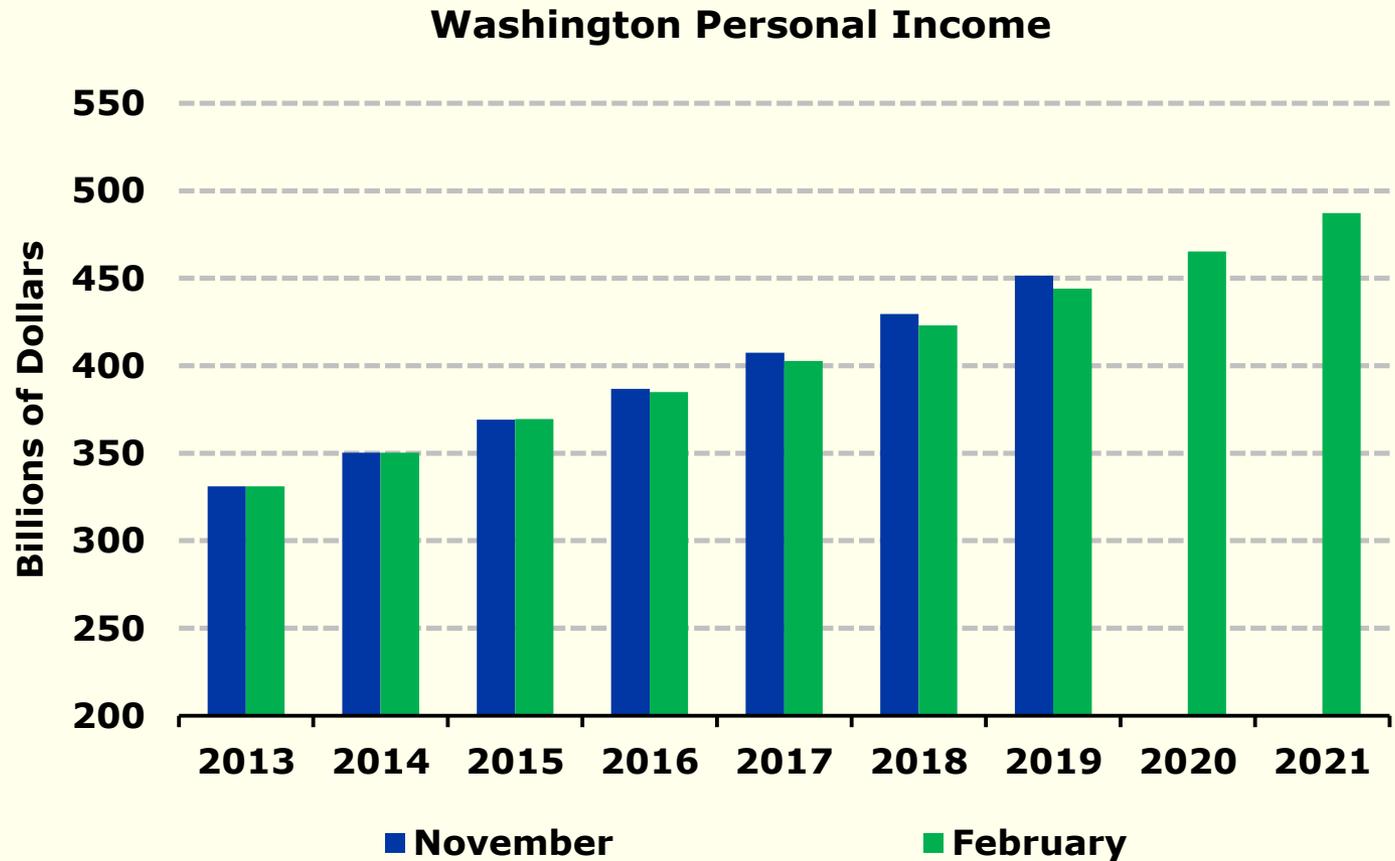


Source: DOE, ERFC February 2016 forecast; historical data through 2015Q4

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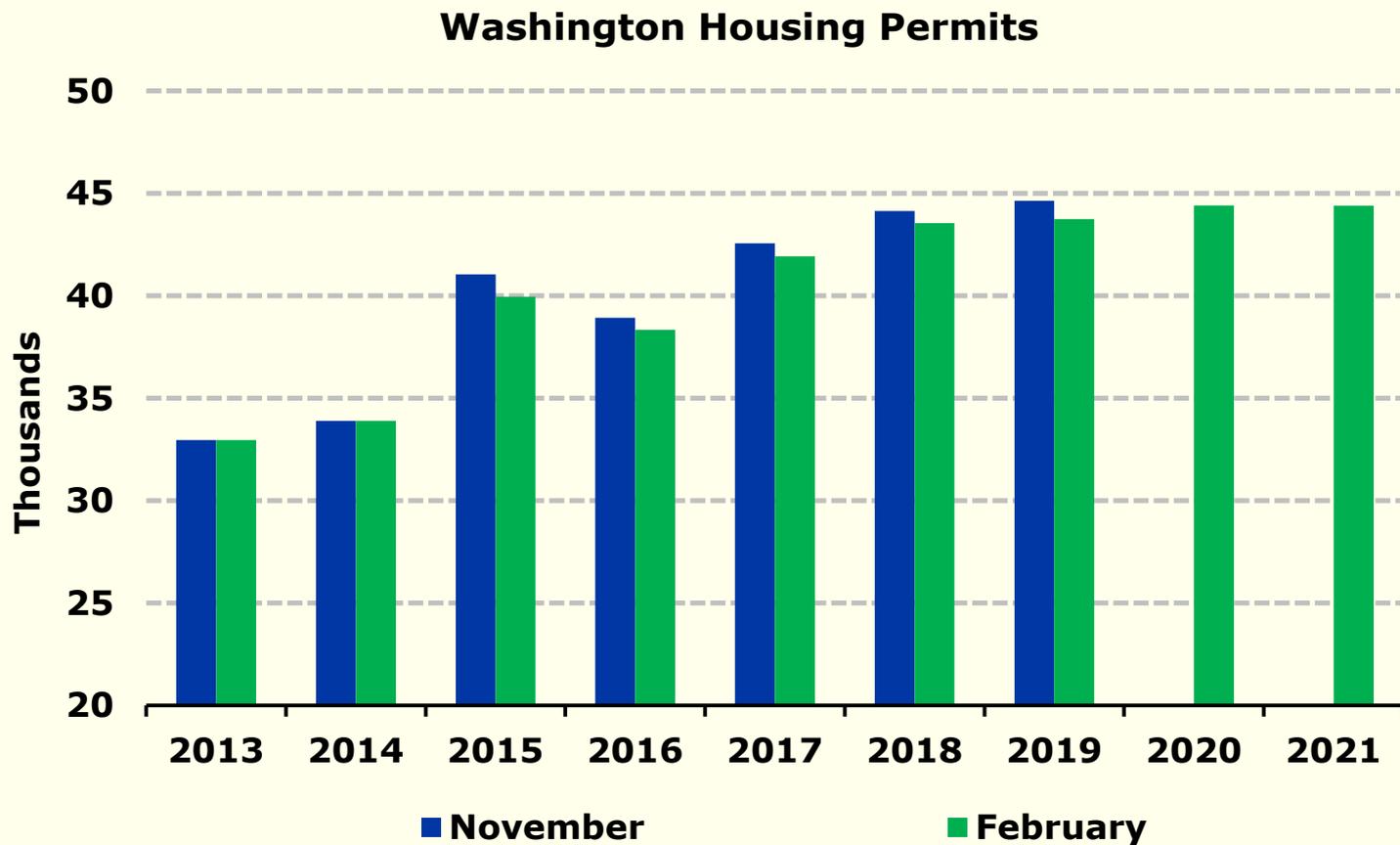
Washington personal income is lower in 2016 – 2019 compared to the November forecast



Source: ERFC February 2016 forecast; historical data through 2015



Washington housing permits forecast is slightly lower than in November

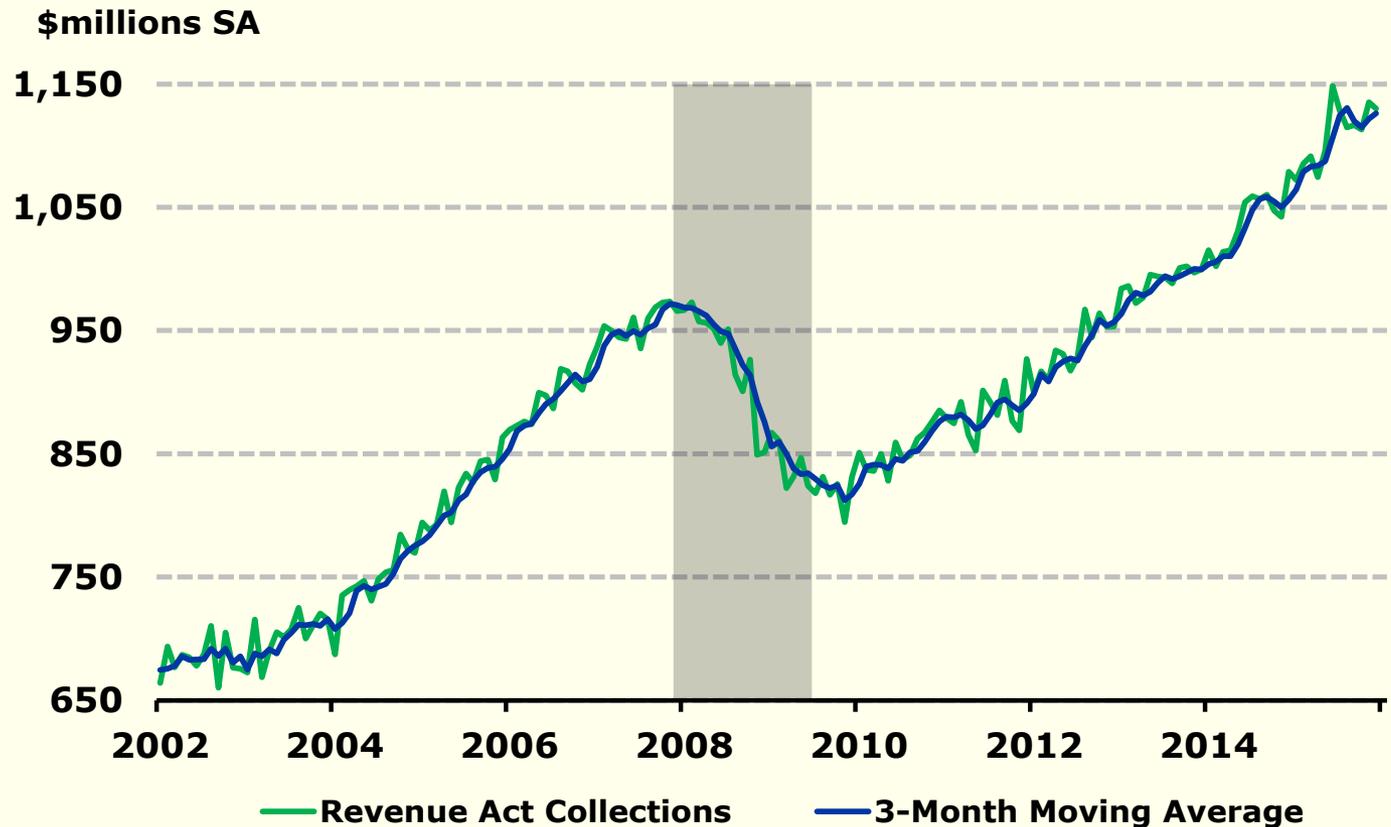


Source: ERFC February 2016 forecast; historical data through 2015

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Revenue Act collections close to previous trend after spike in August 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 December 2015 activity

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Large commercial property sales have had major impact on REET collections

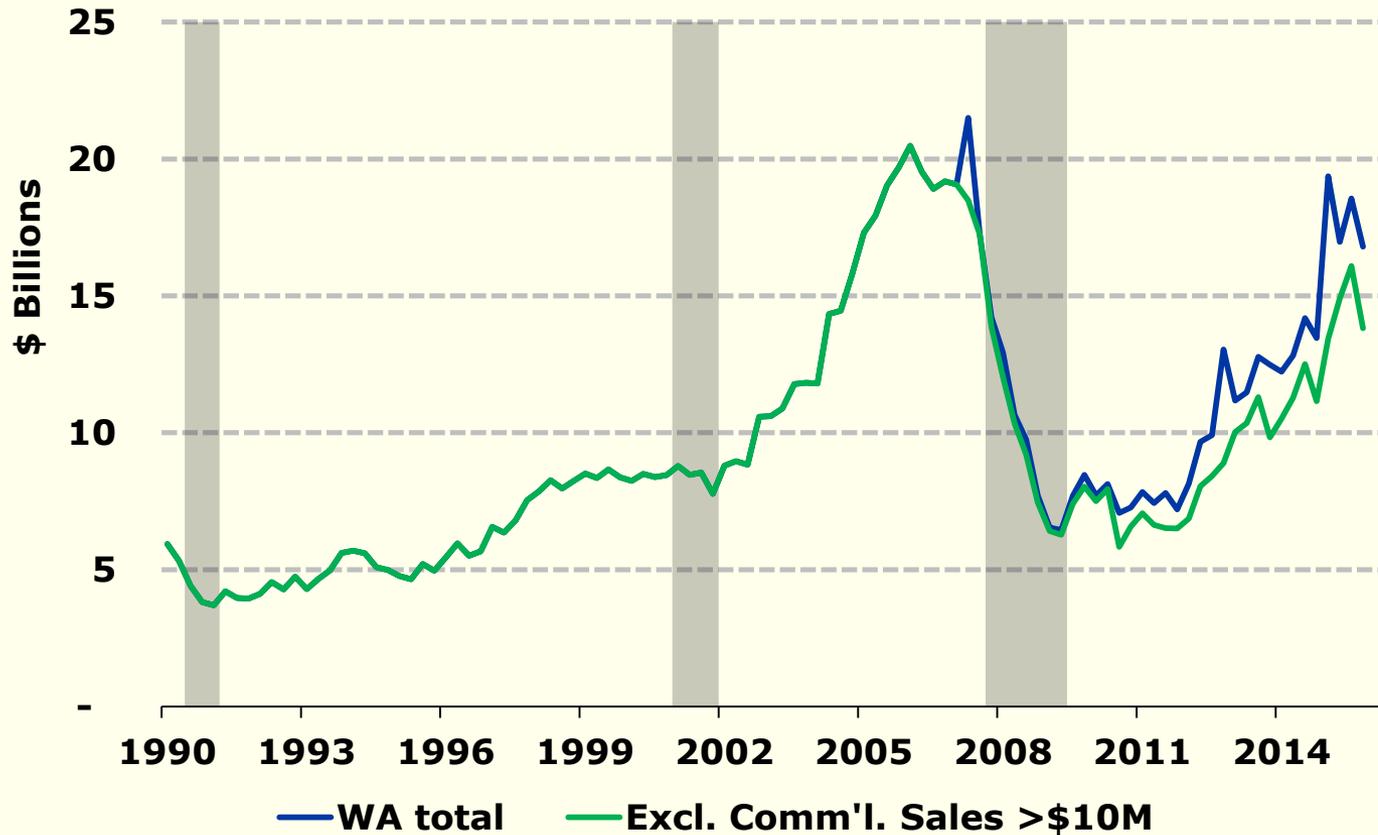
Residential taxable activity and smaller commercial sales grew rapidly for the first 3 quarters of 2015 but declined in the 4th quarter.

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 2015 Q4

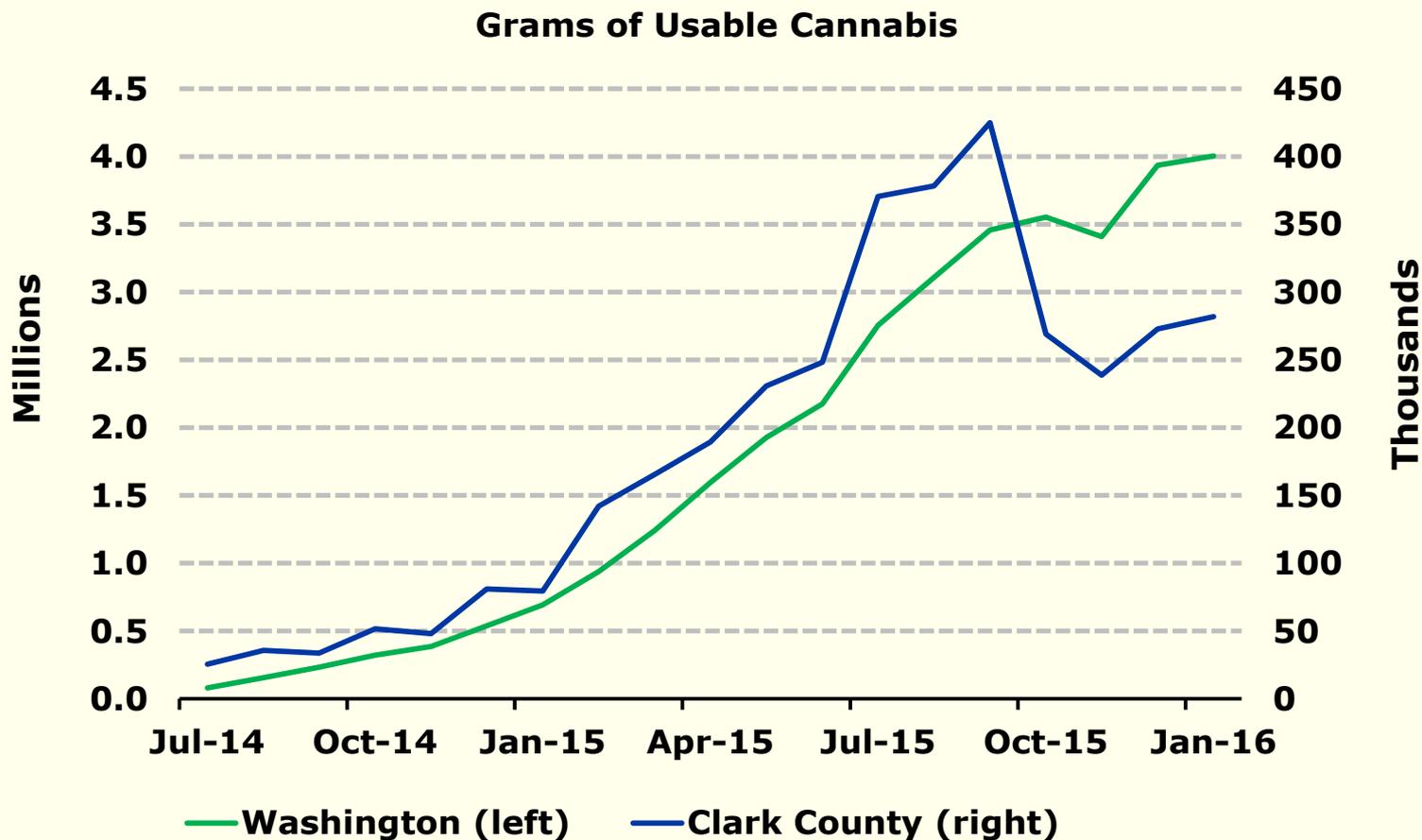
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Oregon legalization may have affected Clark County but statewide sales continued to grow

Prior to legal retail sales in Oregon, Clark County accounted for 12% of total sales by quantity.

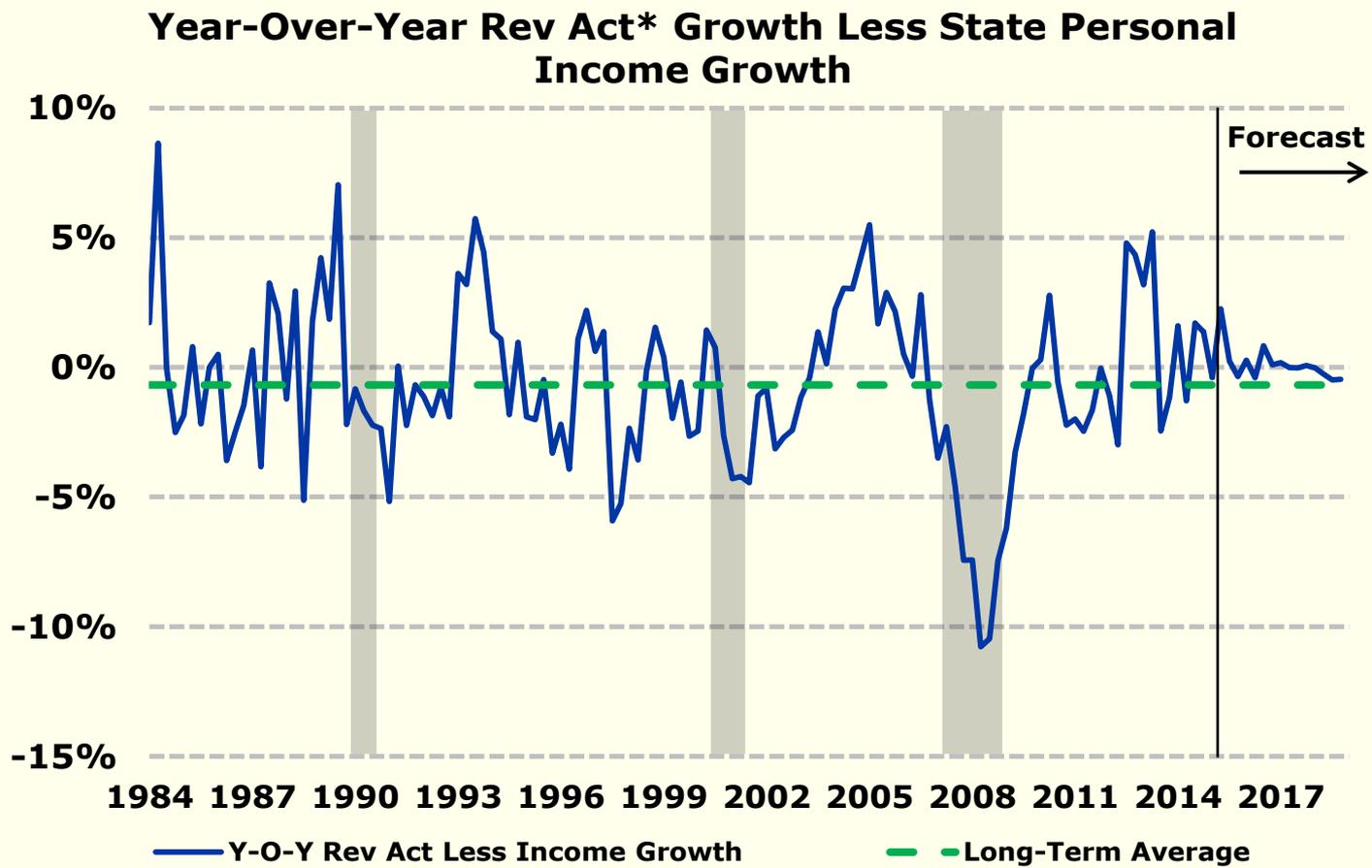
In January, Clark County accounted for 7% of total sales by quantity.



Source: WA LCB; data through January 2016



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 Q4 2015, February 2016 income estimates

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Forecast changes: General Fund State, 2015-2017 Biennium

November Forecast:

\$37,204 million

\$Millions	February Forecast				
	<u>Collection Experience</u>	<u>Non-economic Change</u>	<u>Forecast Change</u>	<u>Forecast</u>	<u>Total Change*</u>
Dept. of Revenue	\$40	\$0	(\$141)	\$35,238	(\$101)
All other agencies	(\$1)	\$0	\$35	\$1,900	\$34
Total GF-S	\$39	\$0	(\$106)	\$37,137	(\$67)

* Detail may not add to total due to rounding



Forecast changes: General Fund State, 2017-2019 Biennium

November Forecast:

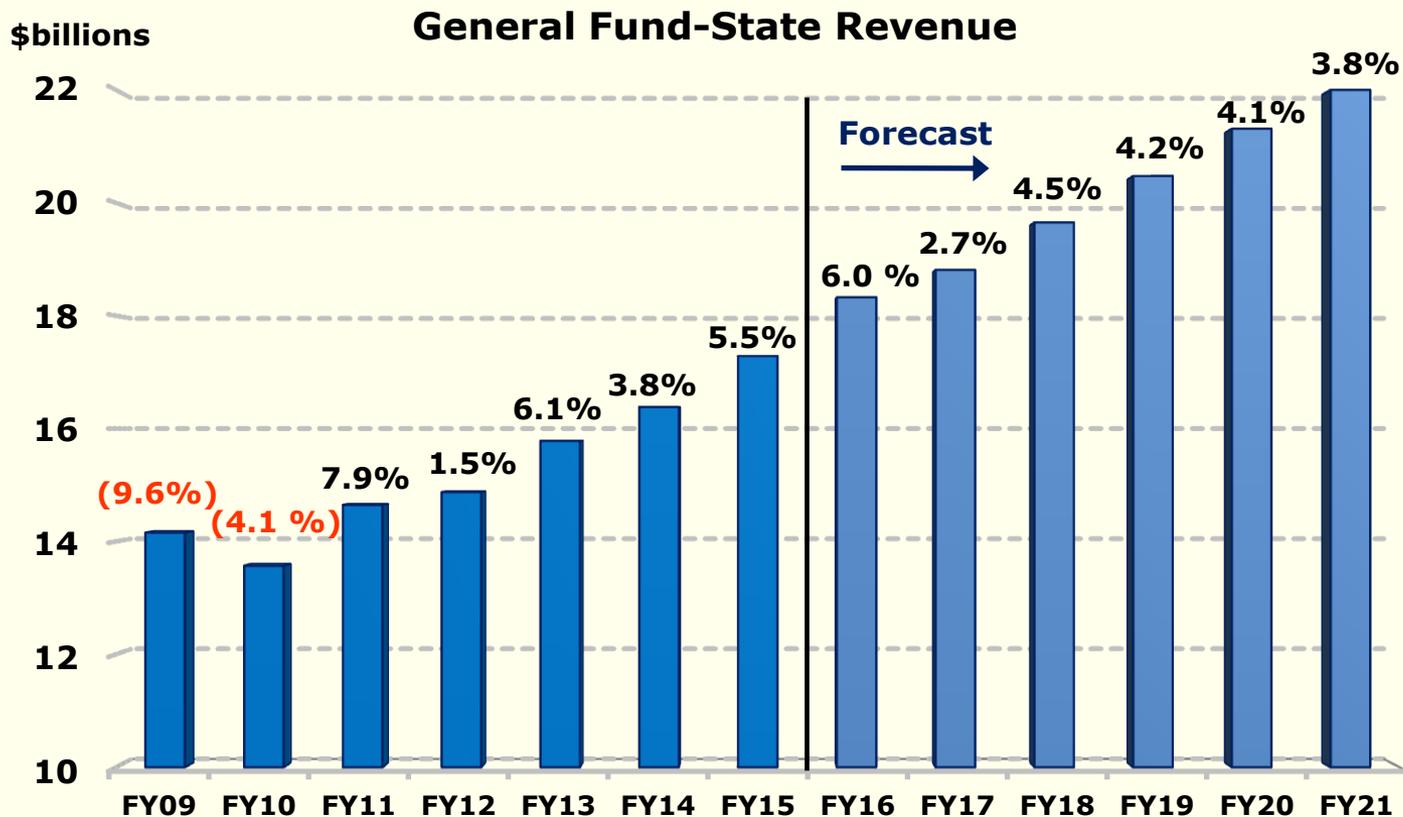
\$40,568 million

\$Millions	February Forecast			<u>Total Change*</u>
	<u>Non-economic Change</u>	<u>Forecast Change</u>	<u>Forecast</u>	
Dept. of Revenue	\$0	(\$449)	\$37,981	(\$449)
All other agencies	\$0	\$7	\$2,144	\$7
Total GF-S	\$0	(\$442)	\$40,125	(\$442)

* Detail may not add to total due to rounding



General Fund-State* forecast by fiscal year





Conclusion

- The economic forecast expects slower growth in U.S. GDP, WA personal income and WA employment than in November
- We continue to expect the WA economy to outperform the U.S. by a small margin
- GF-S revenues are expected to grow 10.3% between the 2013-15 and 2015-17 biennia and 8.0% 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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