

# Economic & Revenue Outlook

Presented to  
Workforce Training and Education Coordinating Board

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June 26, 2014  
Olympia, Washington



**WASHINGTON STATE  
ECONOMIC AND REVENUE FORECAST COUNCIL**

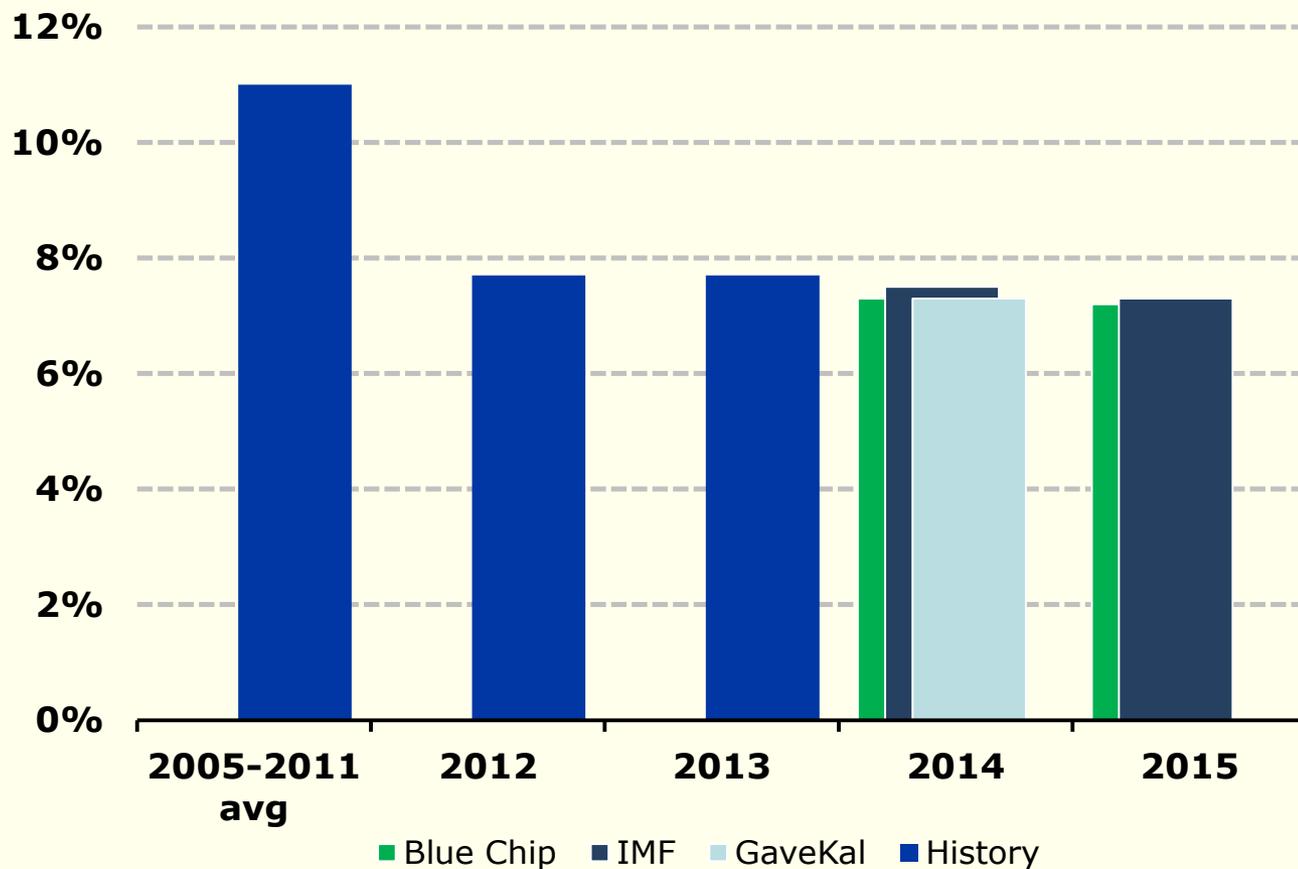


# Summary

- The economic forecast is very similar to February, with moderate economic growth in the U.S. after the weather-related contraction in 1<sup>st</sup> 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 GF-S revenue forecast has been increased 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



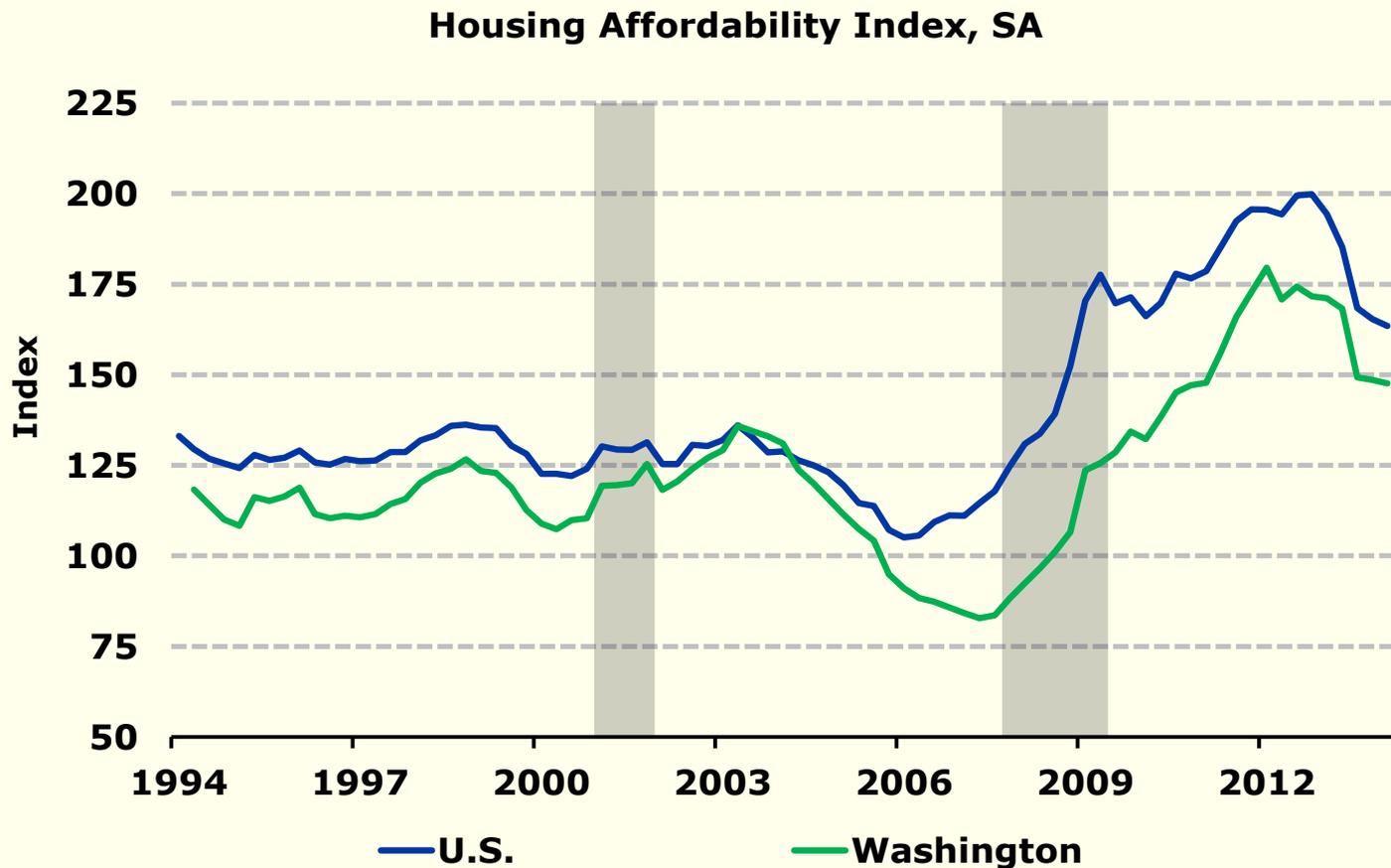
# China's 2014 & 2015 GDP growth expected to be below 2013 rate



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



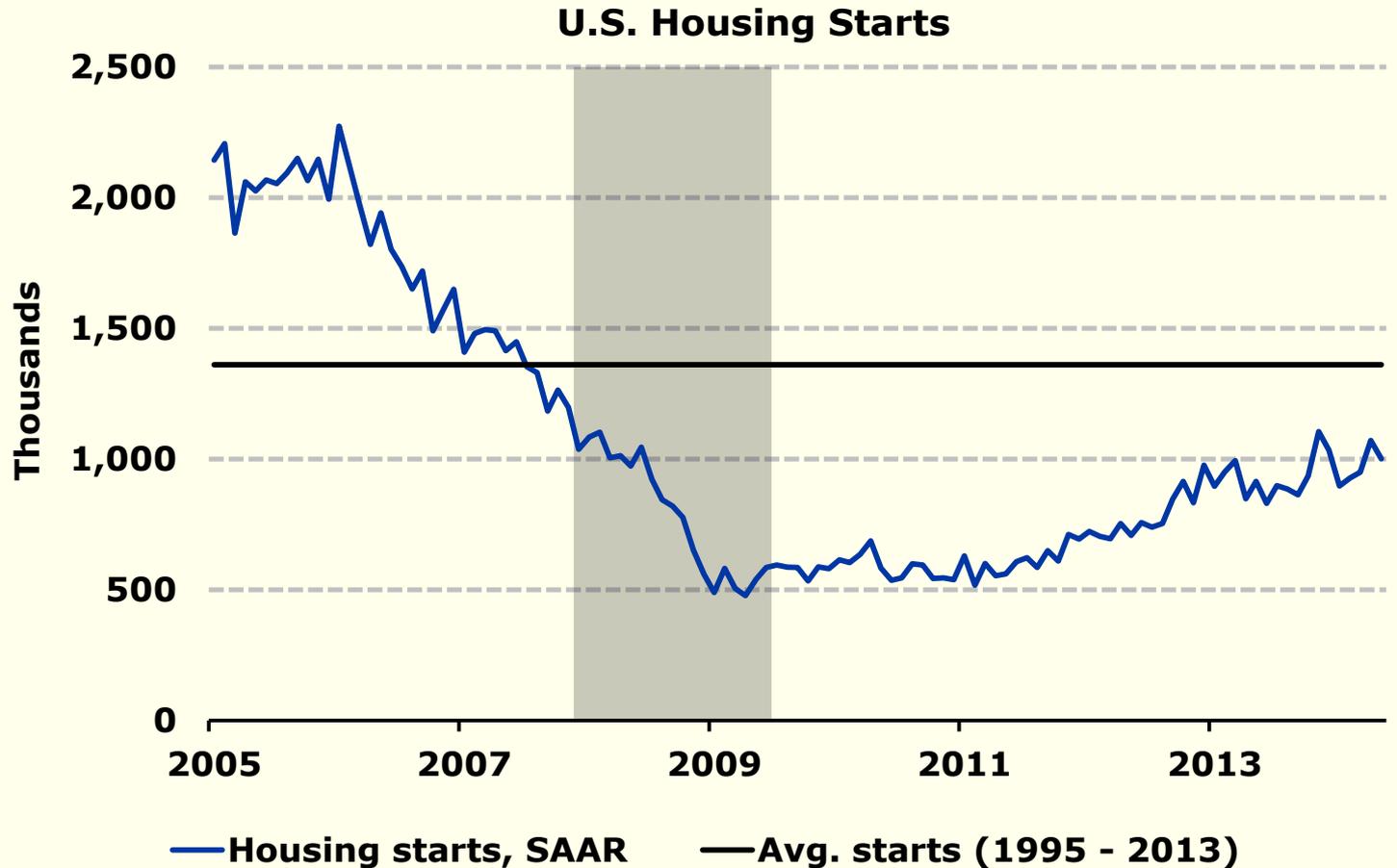
# Rising mortgage rates and home prices have reduced affordability



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



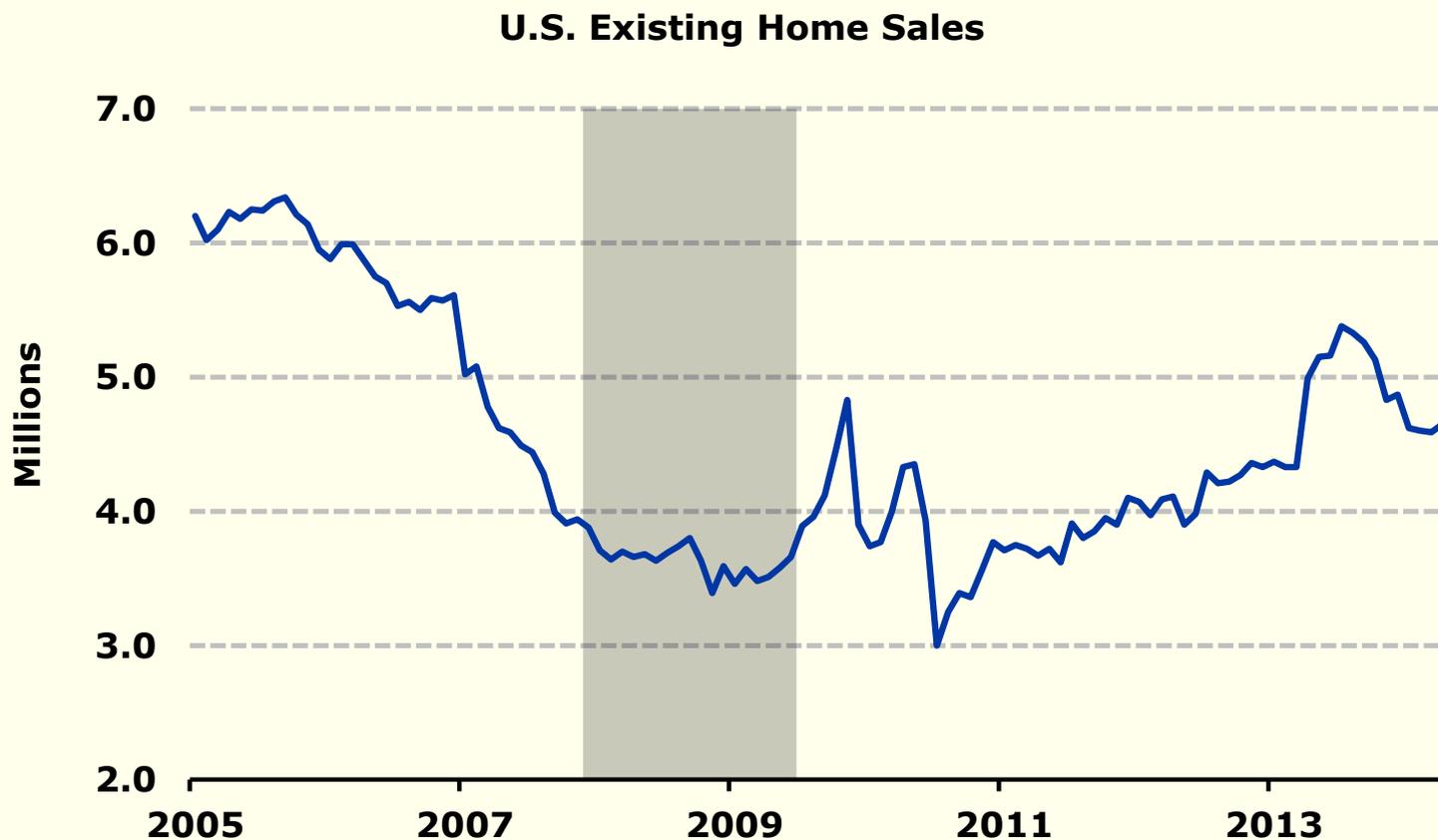
# Housing starts are trending up but remain below historic average



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



# Home sales have weakened recently



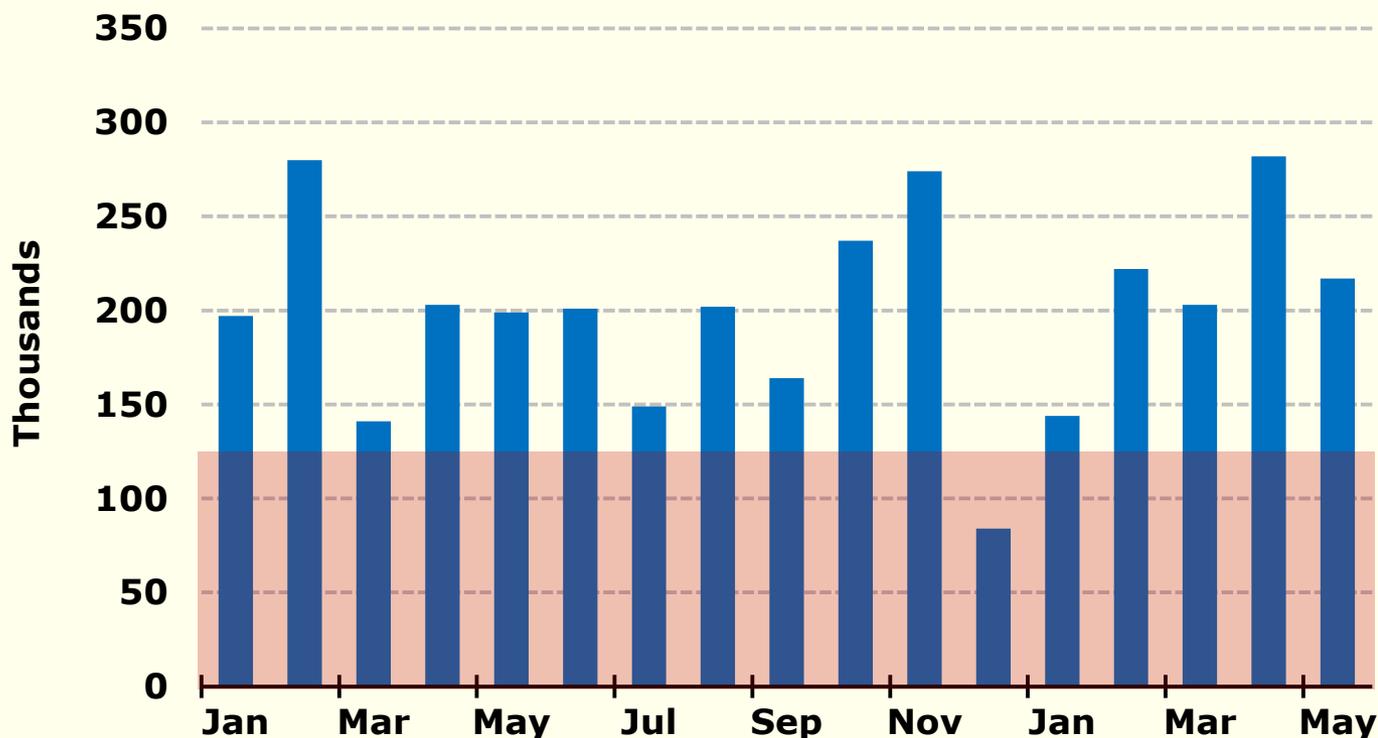
Source: National Association of Realtors; data through April 2014



# Job growth has strengthened

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

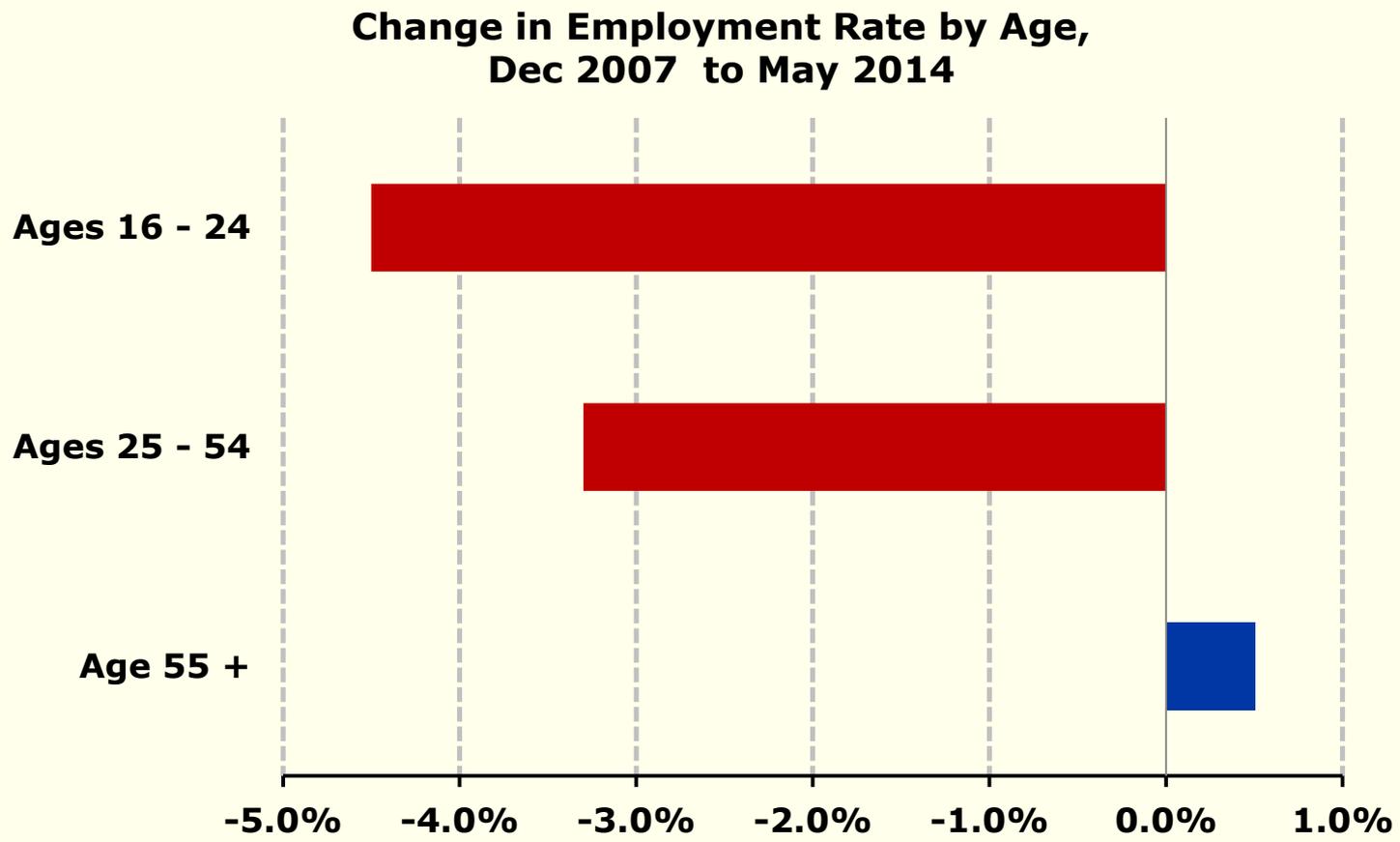
## Net New Jobs, U.S.



Source: Bureau of Labor Statistics, data through May 2014



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

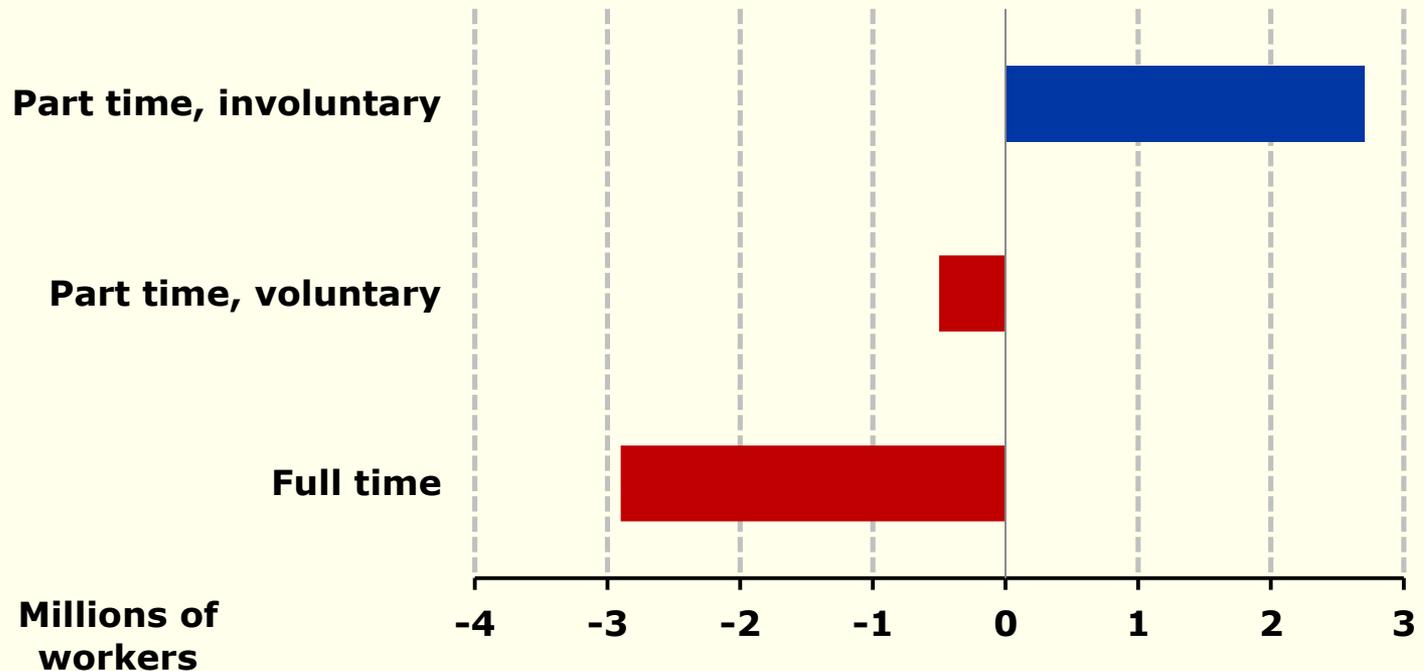


Source: Bureau of Labor Statistics; data Dec. 2007 – May 2014



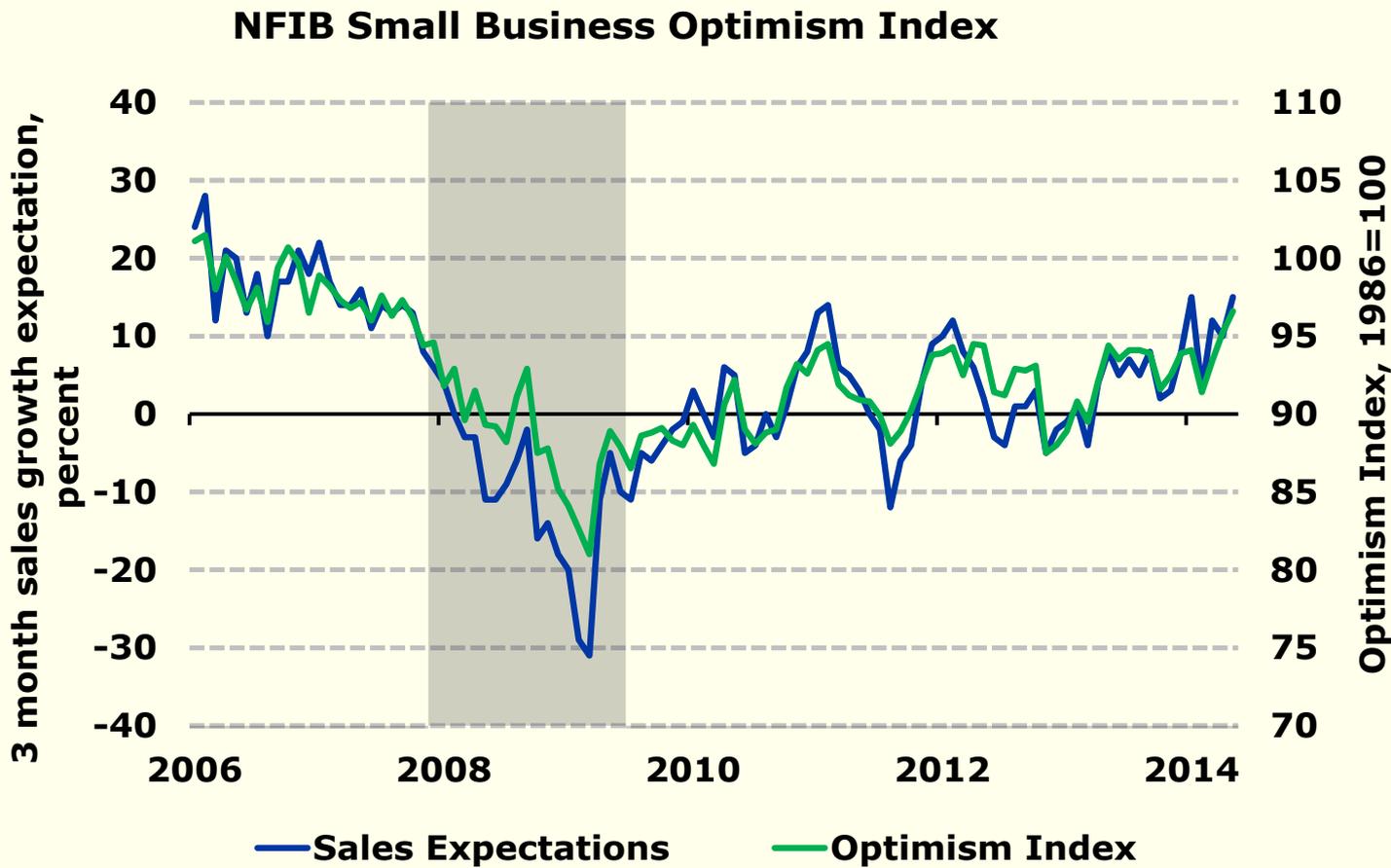
# Full-time jobs have decreased while part-time employment has increased

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





# Small business optimism and sales expectations are weak but improving



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

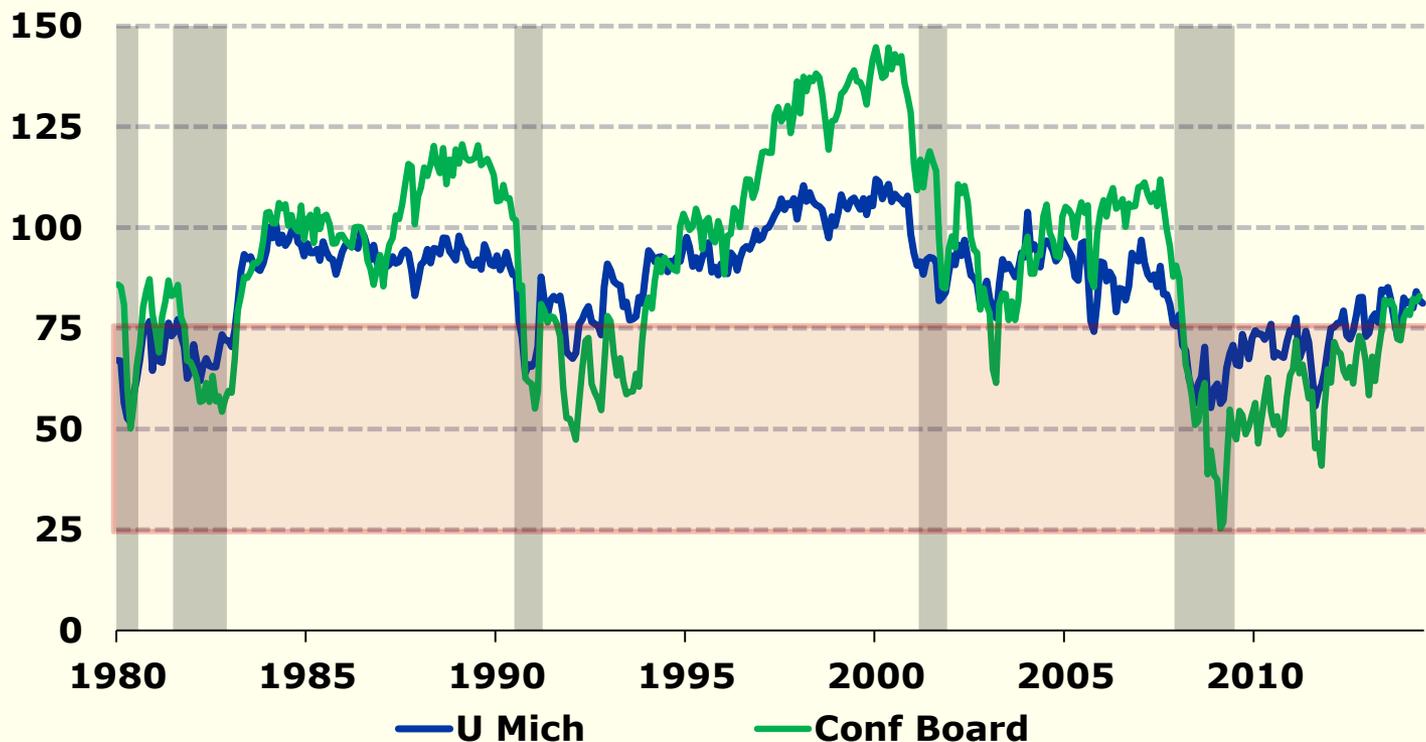


# Consumer confidence has improved but still below pre-recession levels

**Index**

**Mich: 1966Q1 = 100, SA**

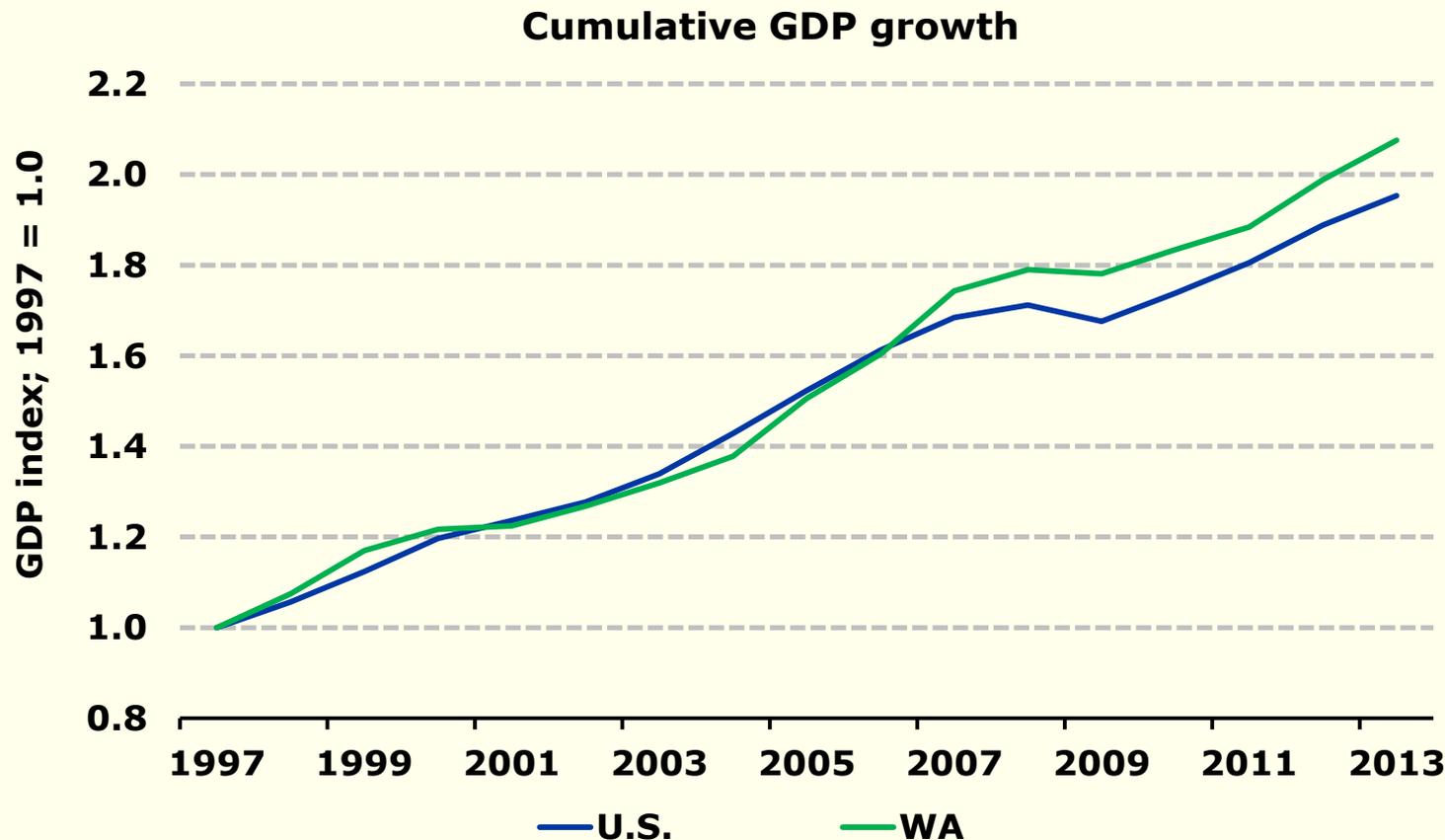
**Conf Board: 1985 = 100, SA**



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



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

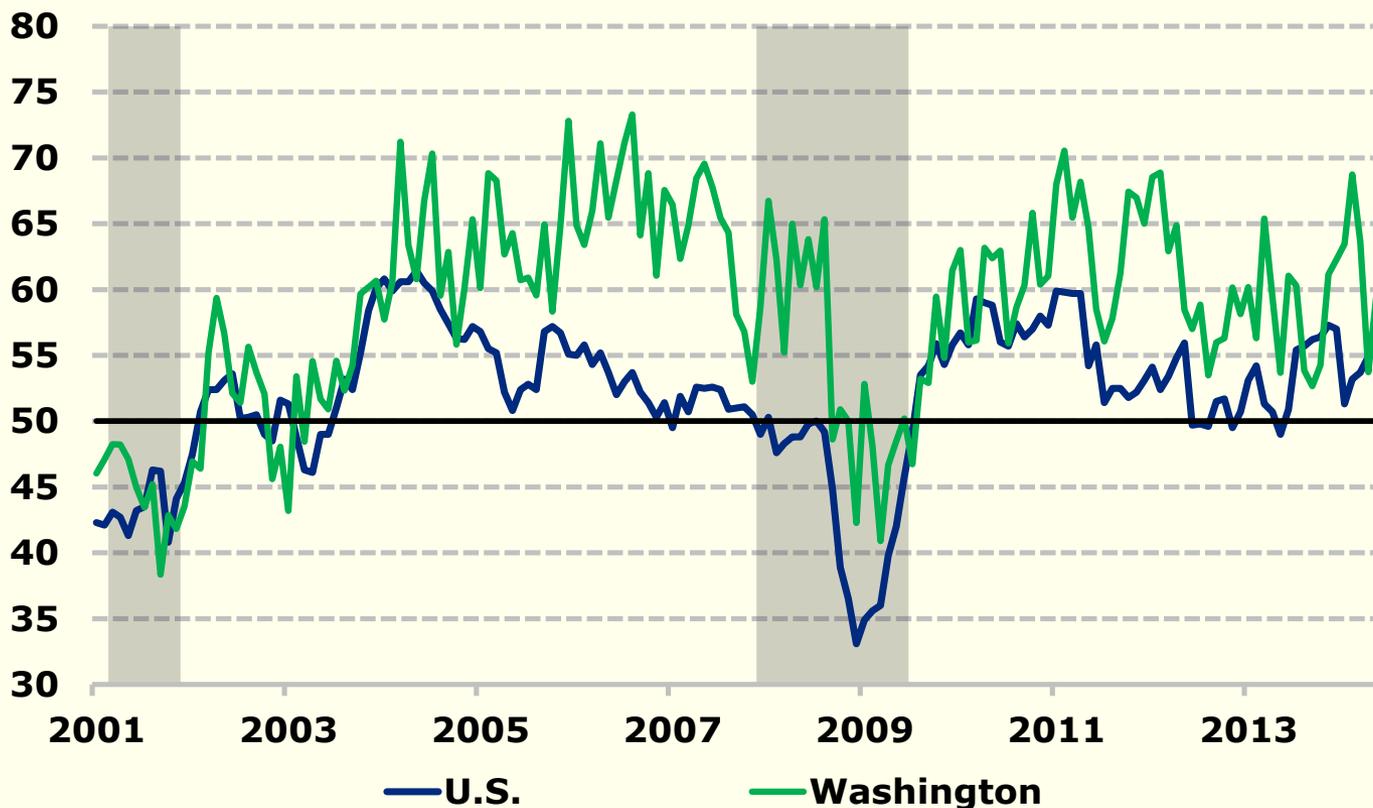




# Manufacturing activity: expanding faster in Washington than nationally

An index greater than 50, implies growth

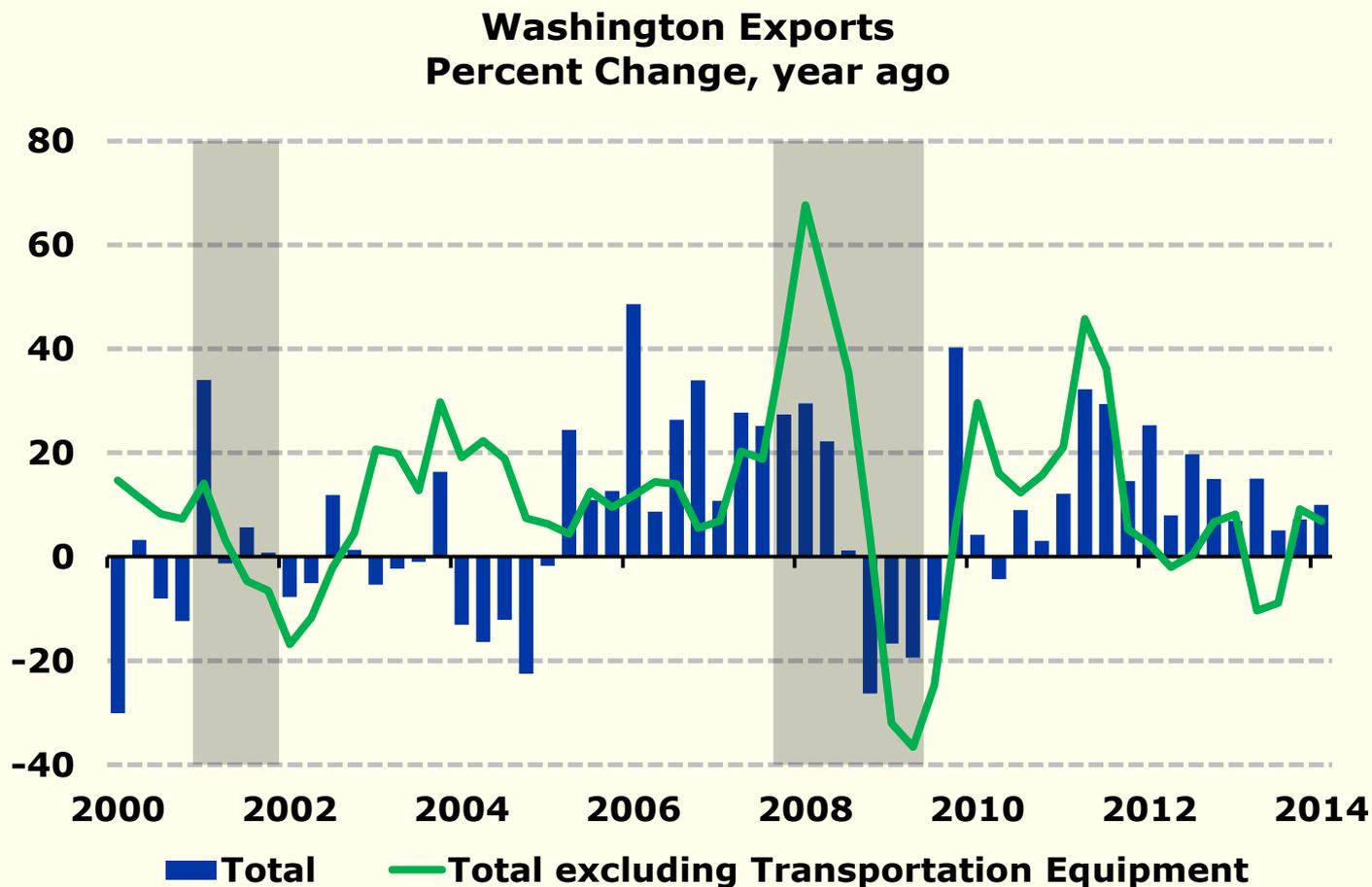
### Institute of Supply Management Index



Source: Institute of Supply Management; data through May 2014



# Non-transportation equipment export growth is back in positive territory

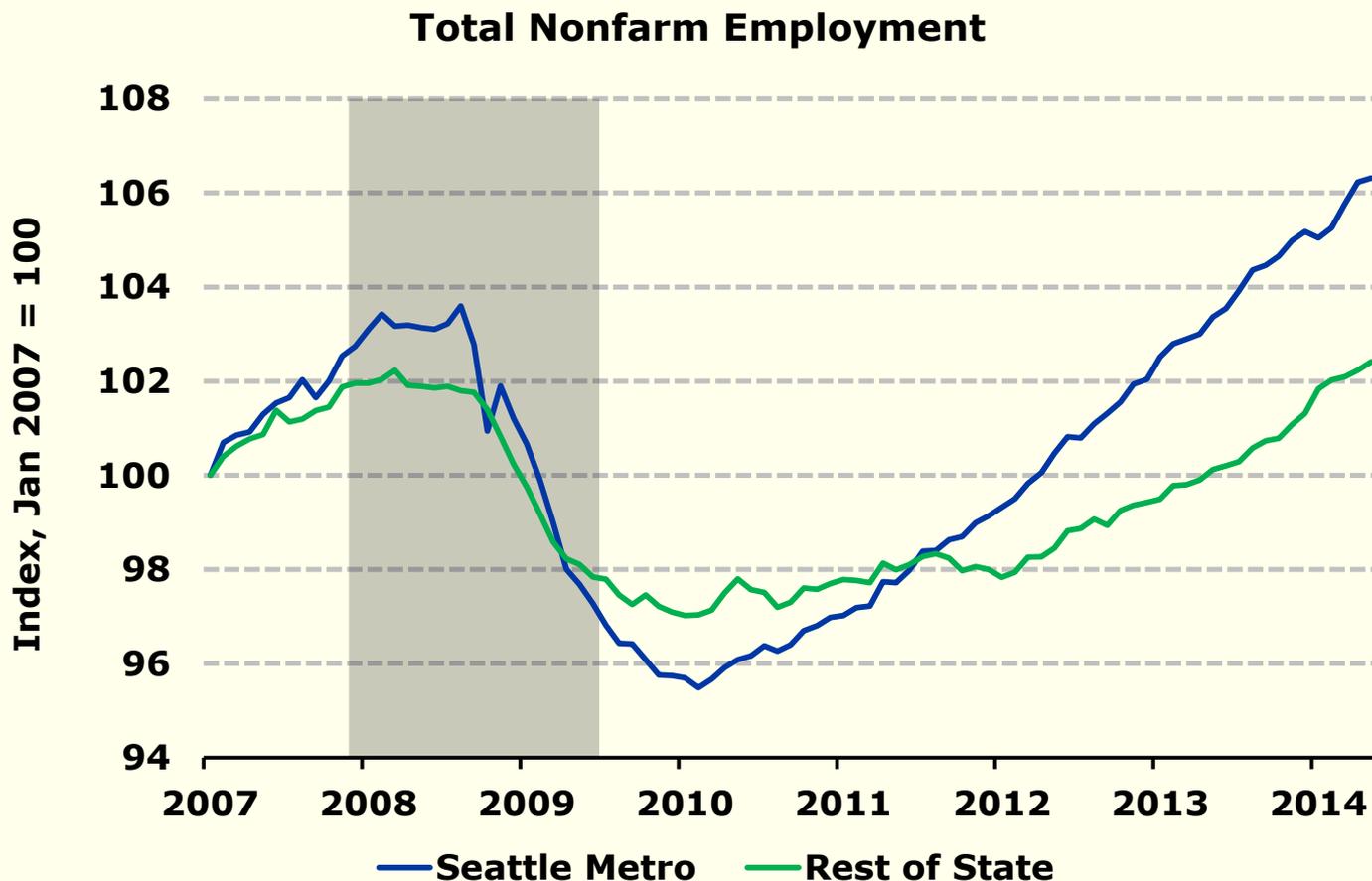


Source: Wisser Trade Data; through 2014Q1



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

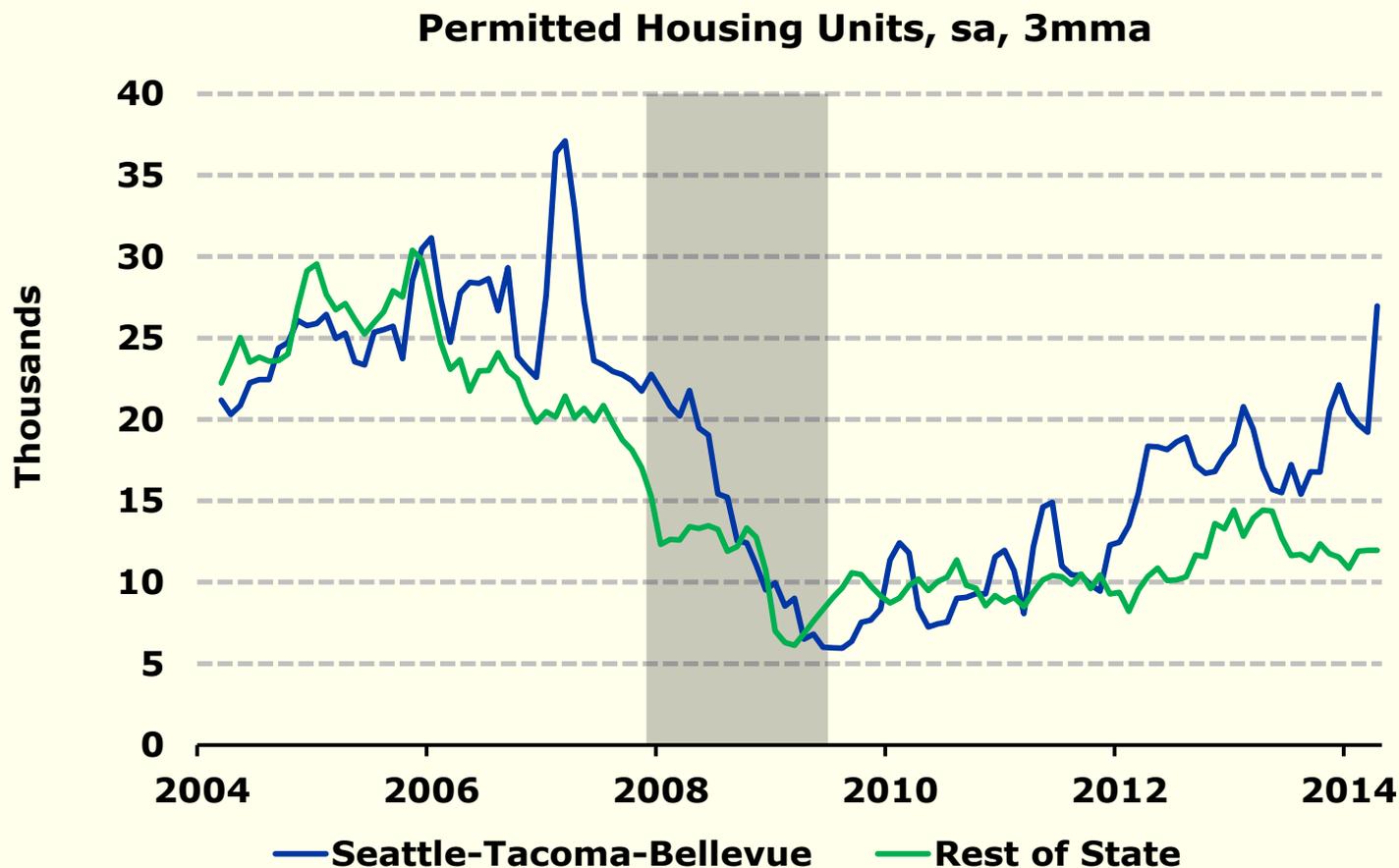
Outside of Seattle metro area, employment is below its pre-recession peak



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



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

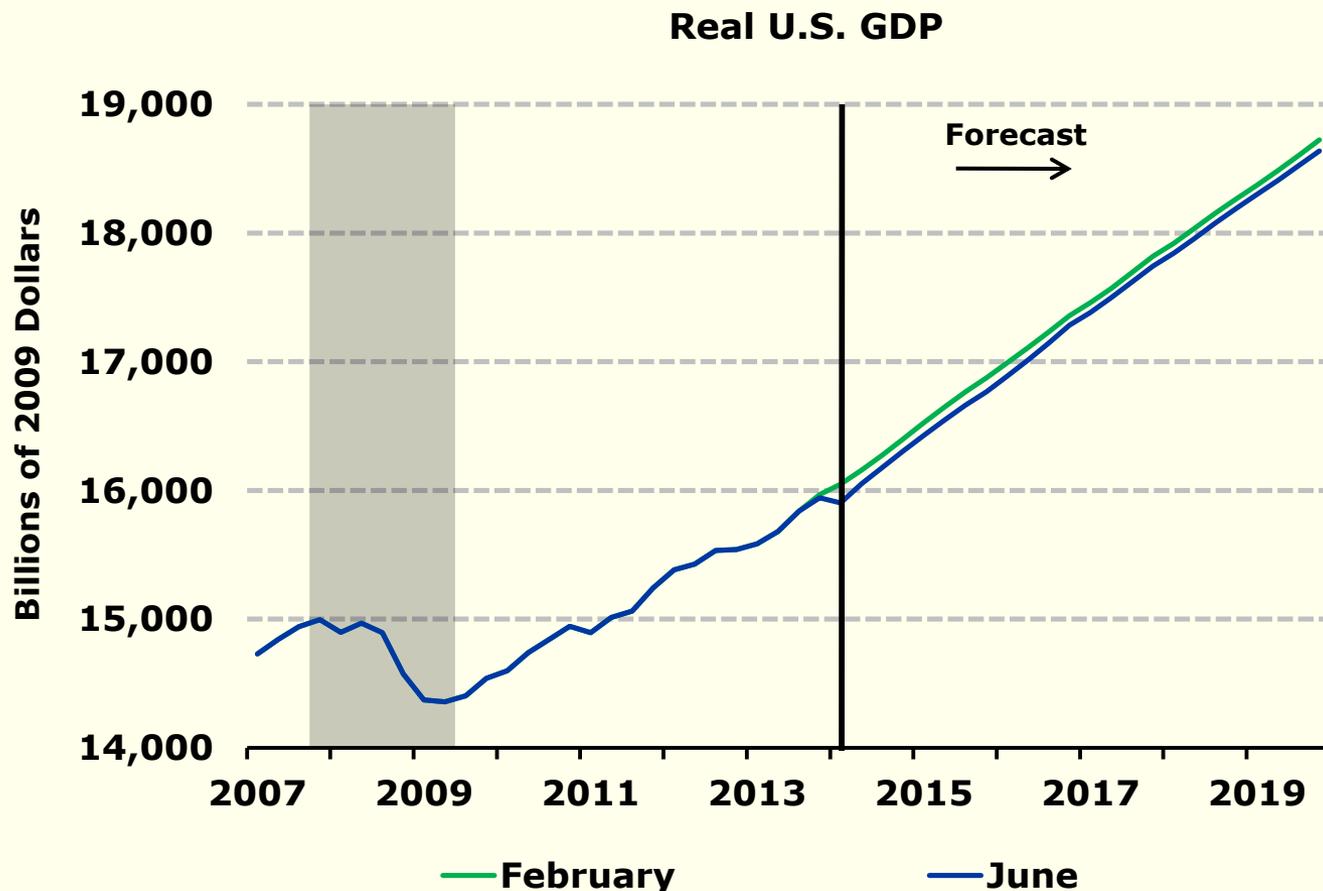


Source: Census, ERFC; data through April 2014



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

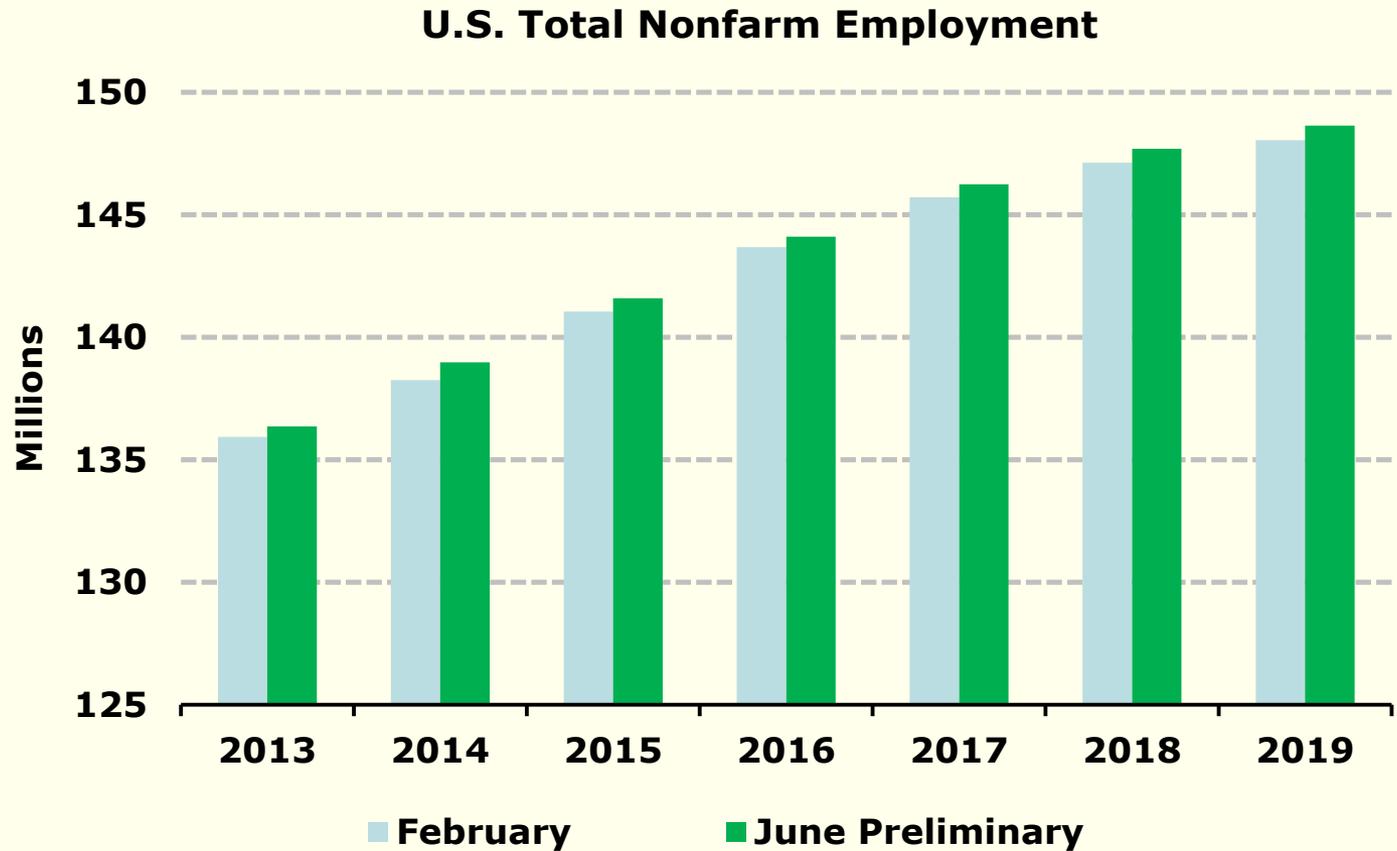
Real GDP growth for 2016 through 2019 is unchanged from February



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



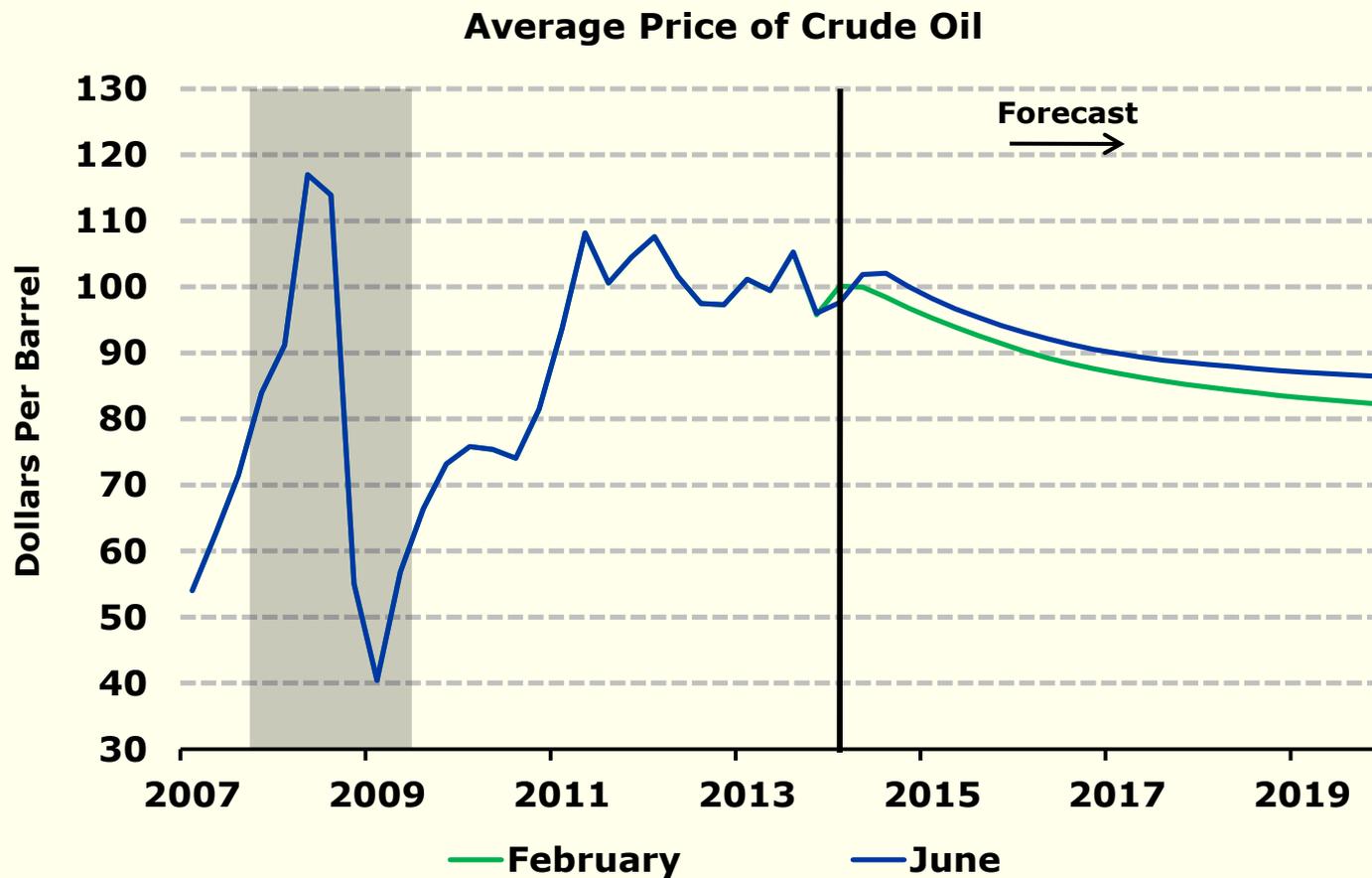
# Employment is higher due to data reclassification



Source: BEA, ERFC; historical data through 2013



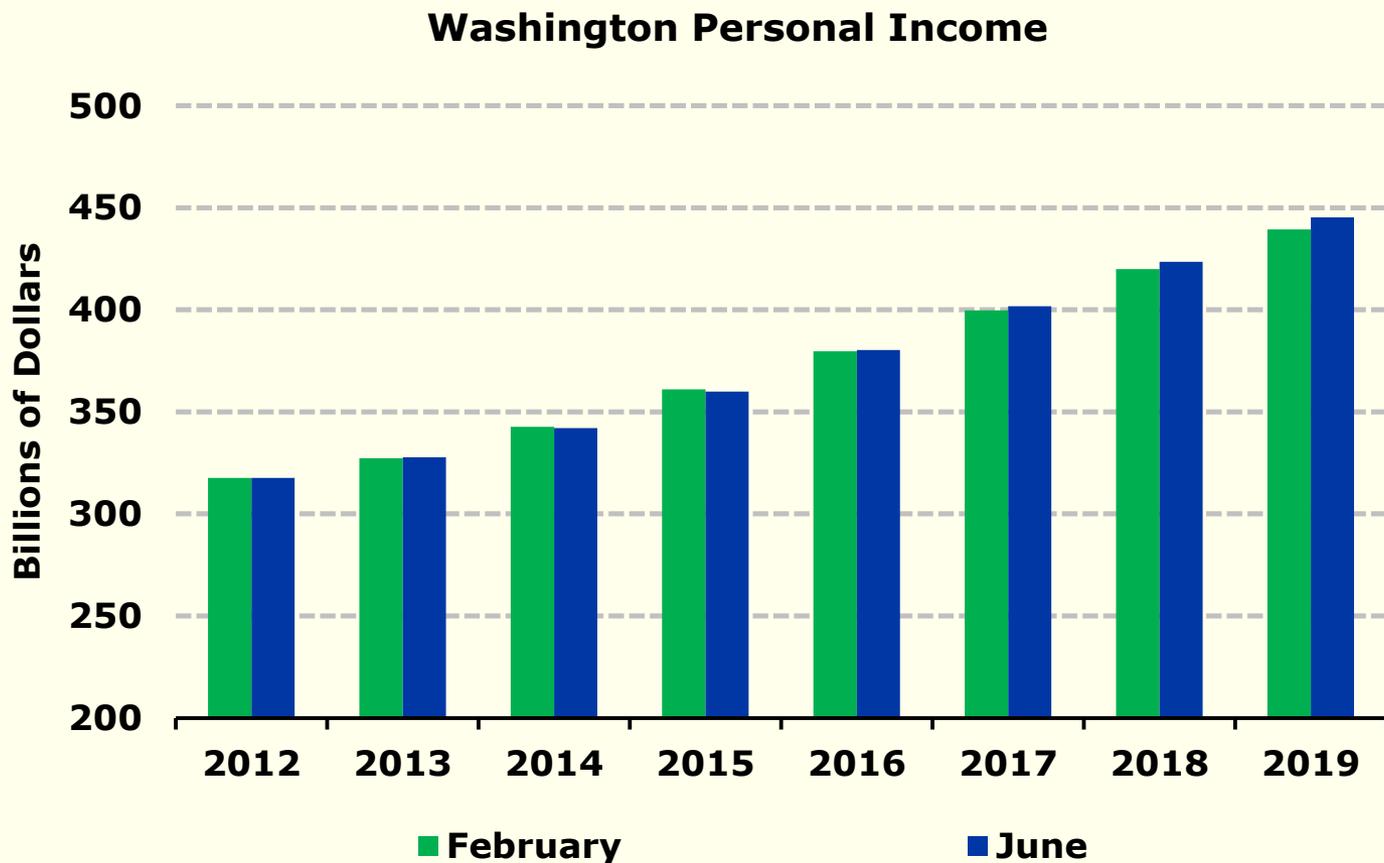
# Oil prices are slightly higher



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



# Washington personal income forecast is similar to the February forecast

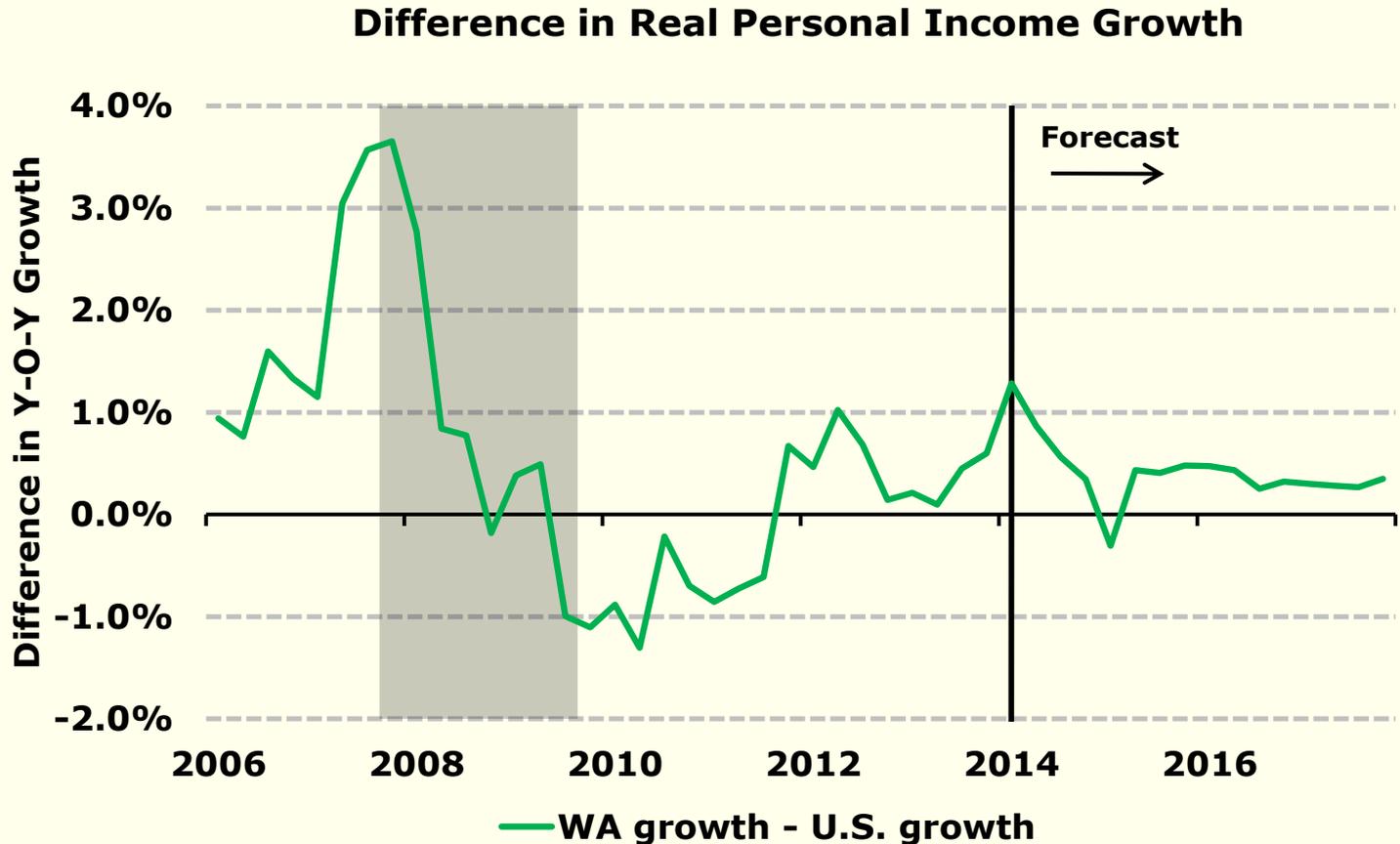


Source: ERFC June 2014 forecast; historical data through 2013



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

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

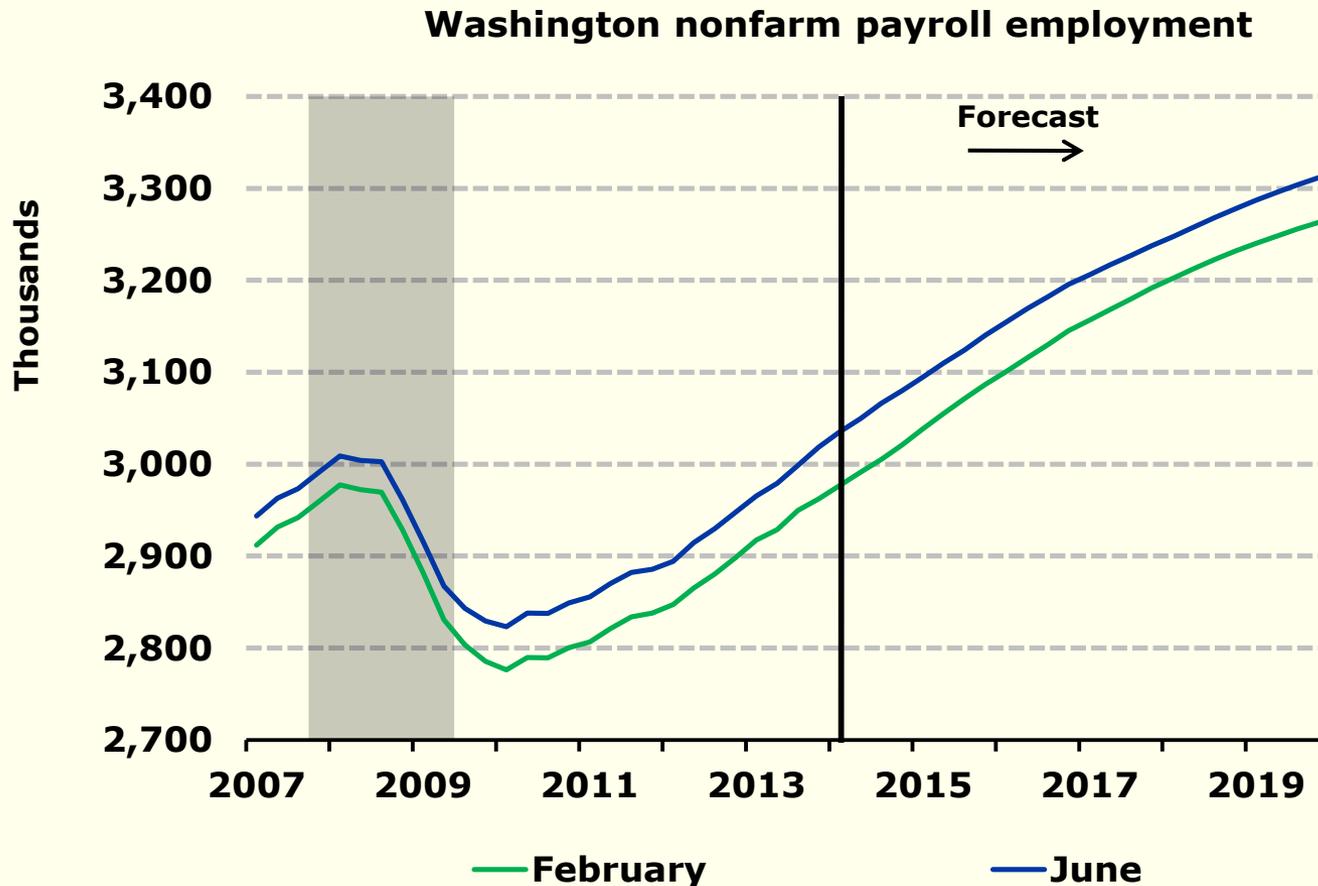


Source: ERFC June 2014 Forecast; historical data through 2014Q1



# Higher Washington payroll employment largely due to data reclassification

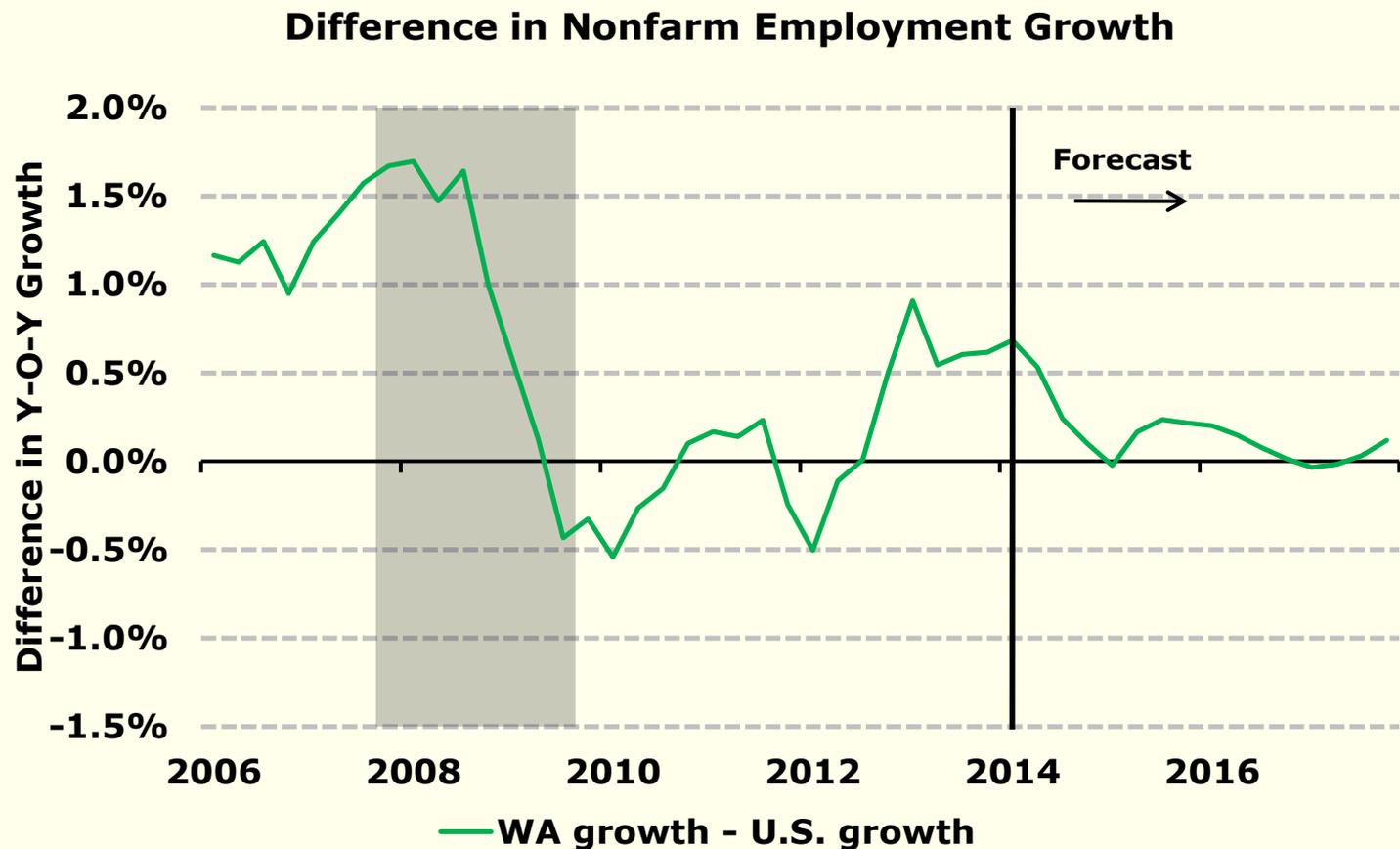
Average employment growth of 1.7% for 2014 to 2019 is unchanged from February



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



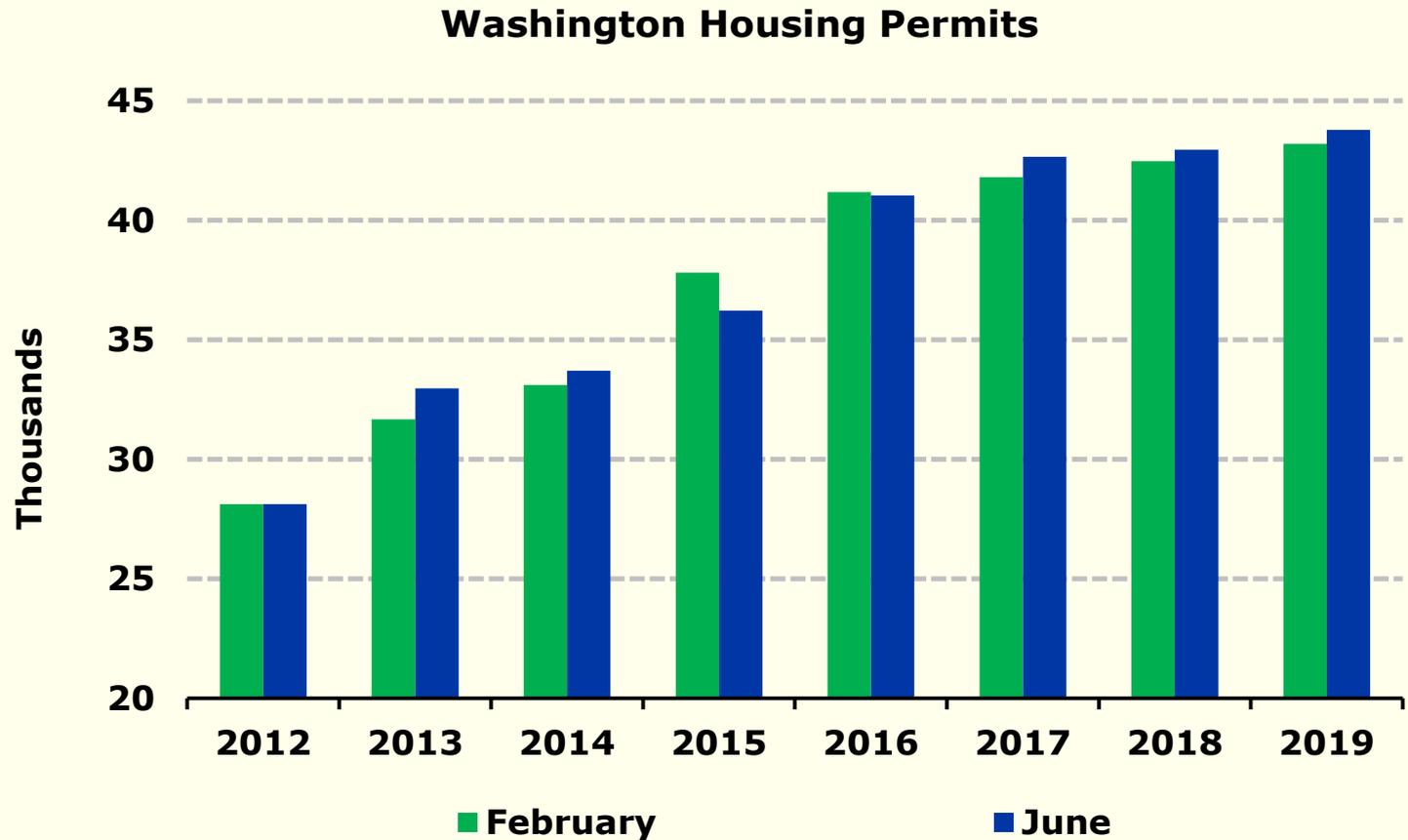
# Washington employment will grow slightly faster than the U.S.



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



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

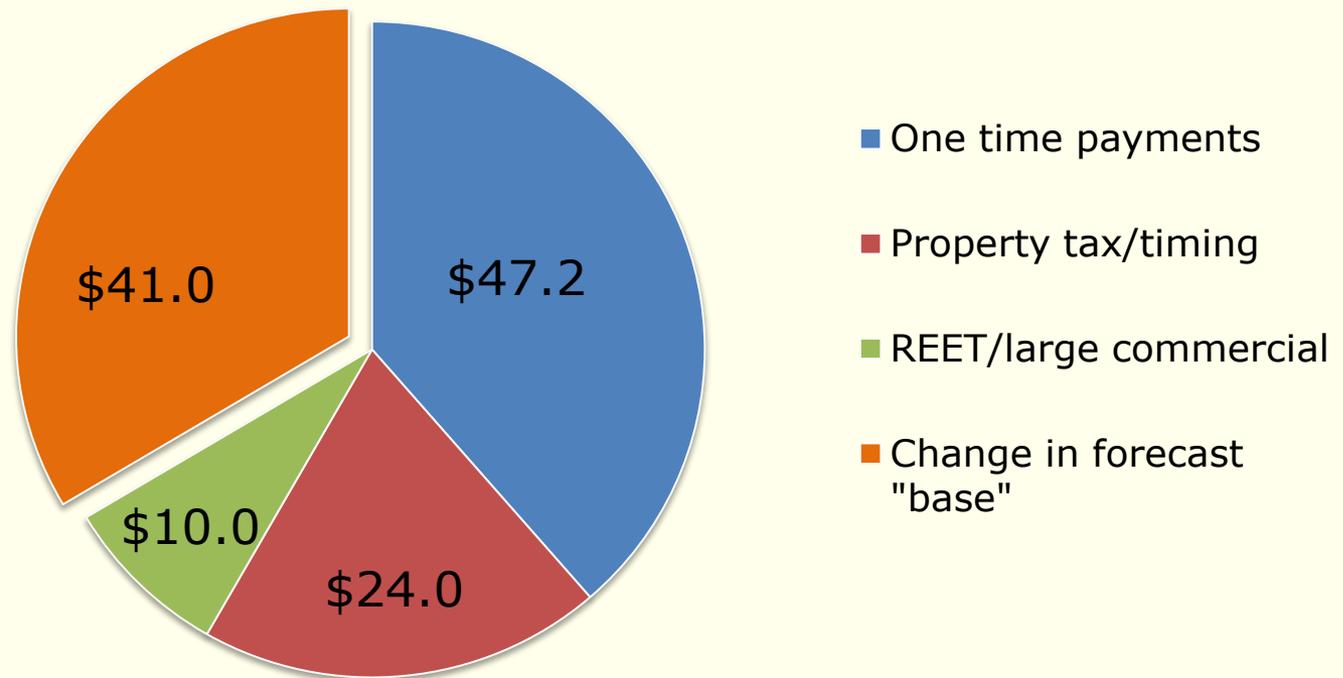


Source: ERFC June 2014 forecast; historical data through 2013



# Majority of forecast variance since February due to one-time payments and timing issues

**Total variance from Feb. forecast, millions \$**

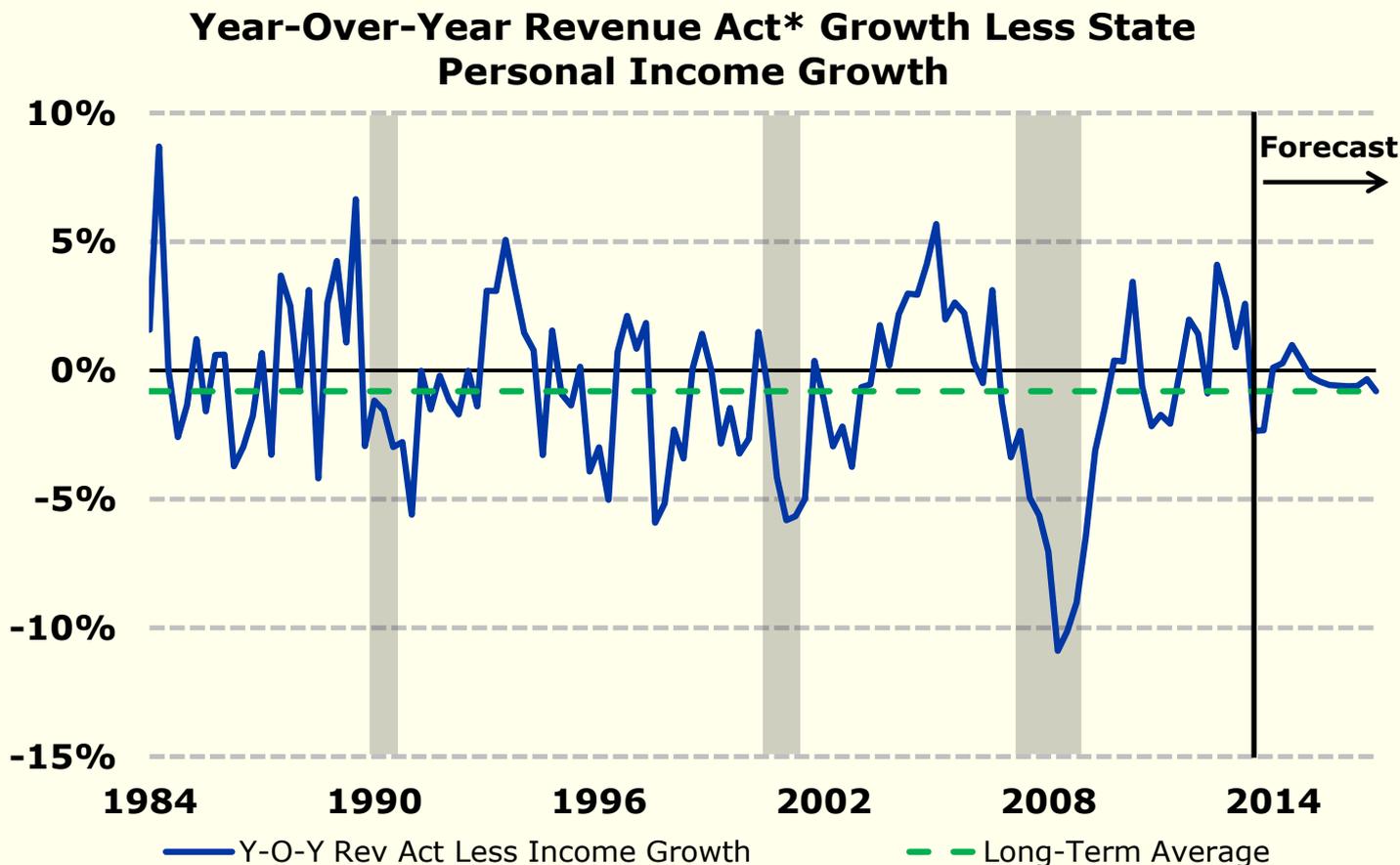




# Forecasted Revenue Act growth relative to income is above the long-term average...

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



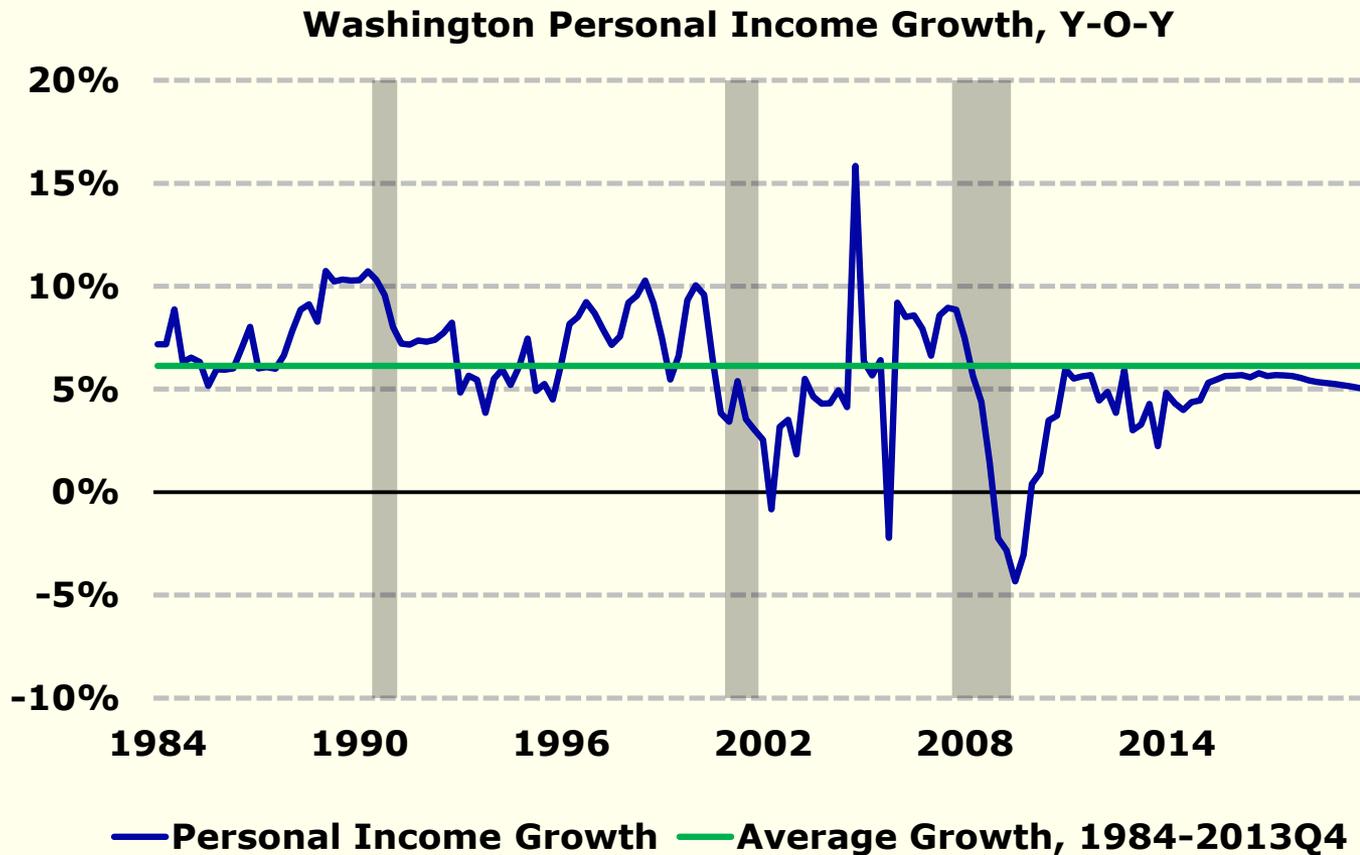
\*Adjusted for large one-time payments and refunds and payments under the amnesty program

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

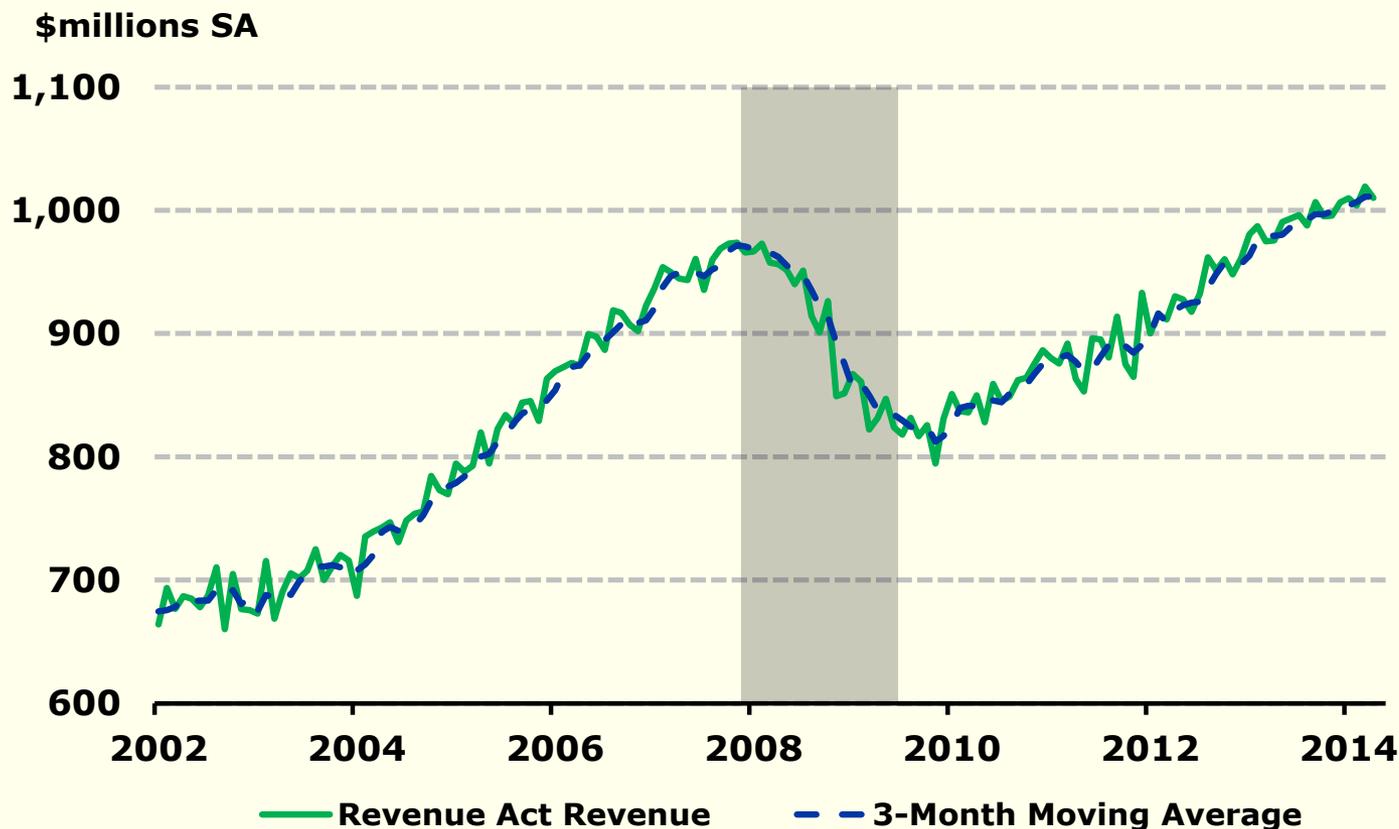




# Seasonally adjusted Revenue Act collections still on an upward trend

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 April 2014 activity

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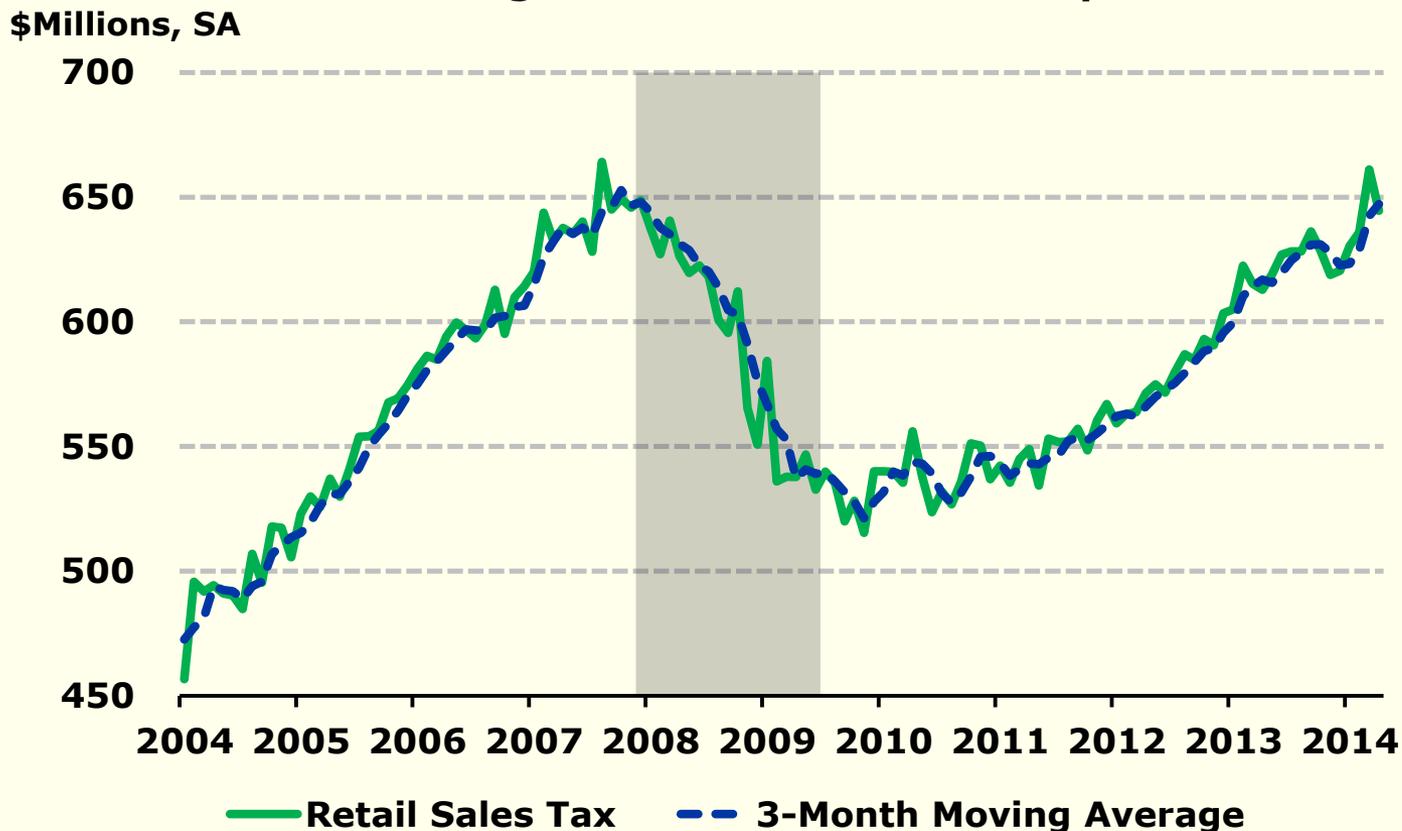


# Sales tax collection growth faltered in Q4 2013 but growth has since resumed

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

Preliminary collections for April activity were up 6.7% year-over-year

### Washington Retail Sales Tax Receipts



Source: ERFC; Monthly data through April 2014 preliminary activity

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

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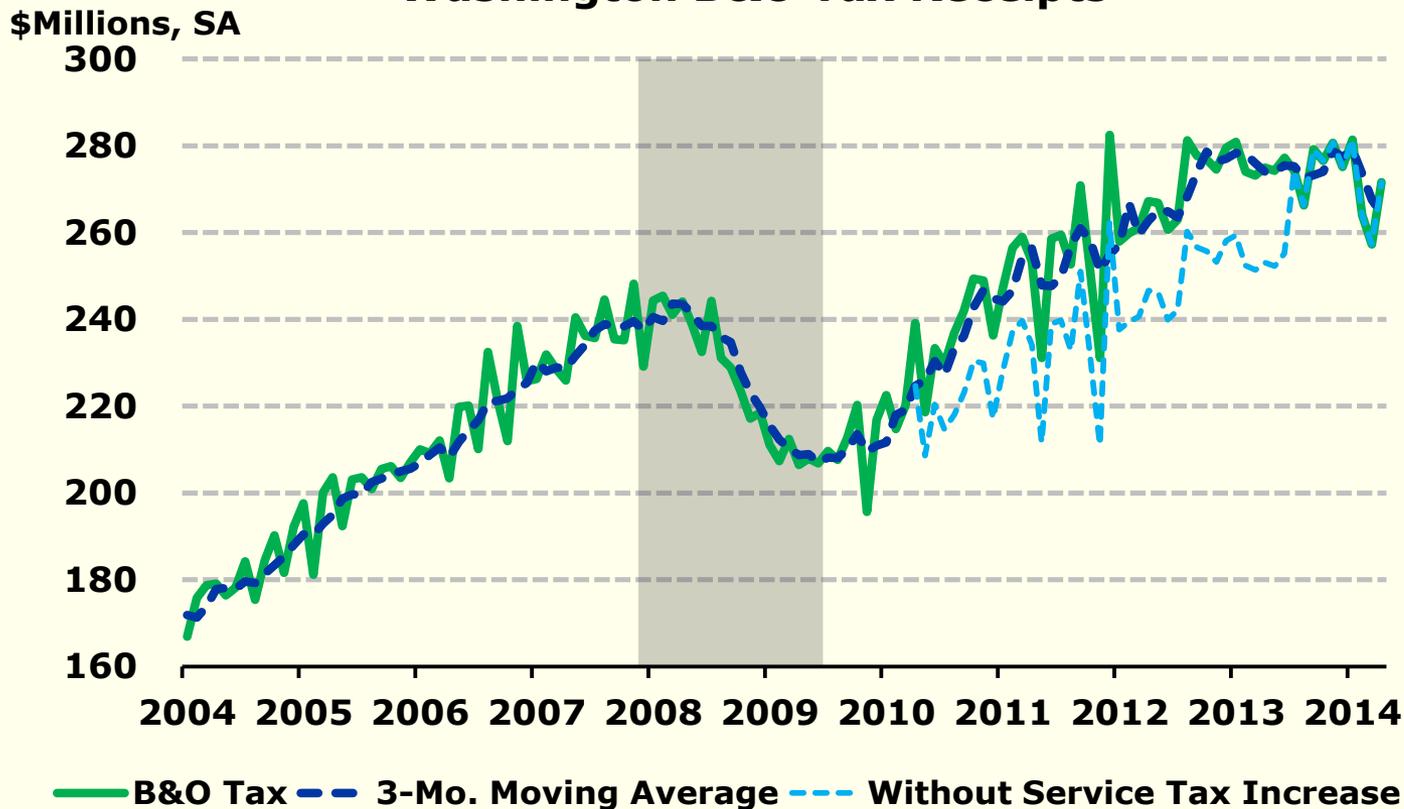


# Surtax sunset reducing B&O but underlying Y-O-Y growth still positive

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 April 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

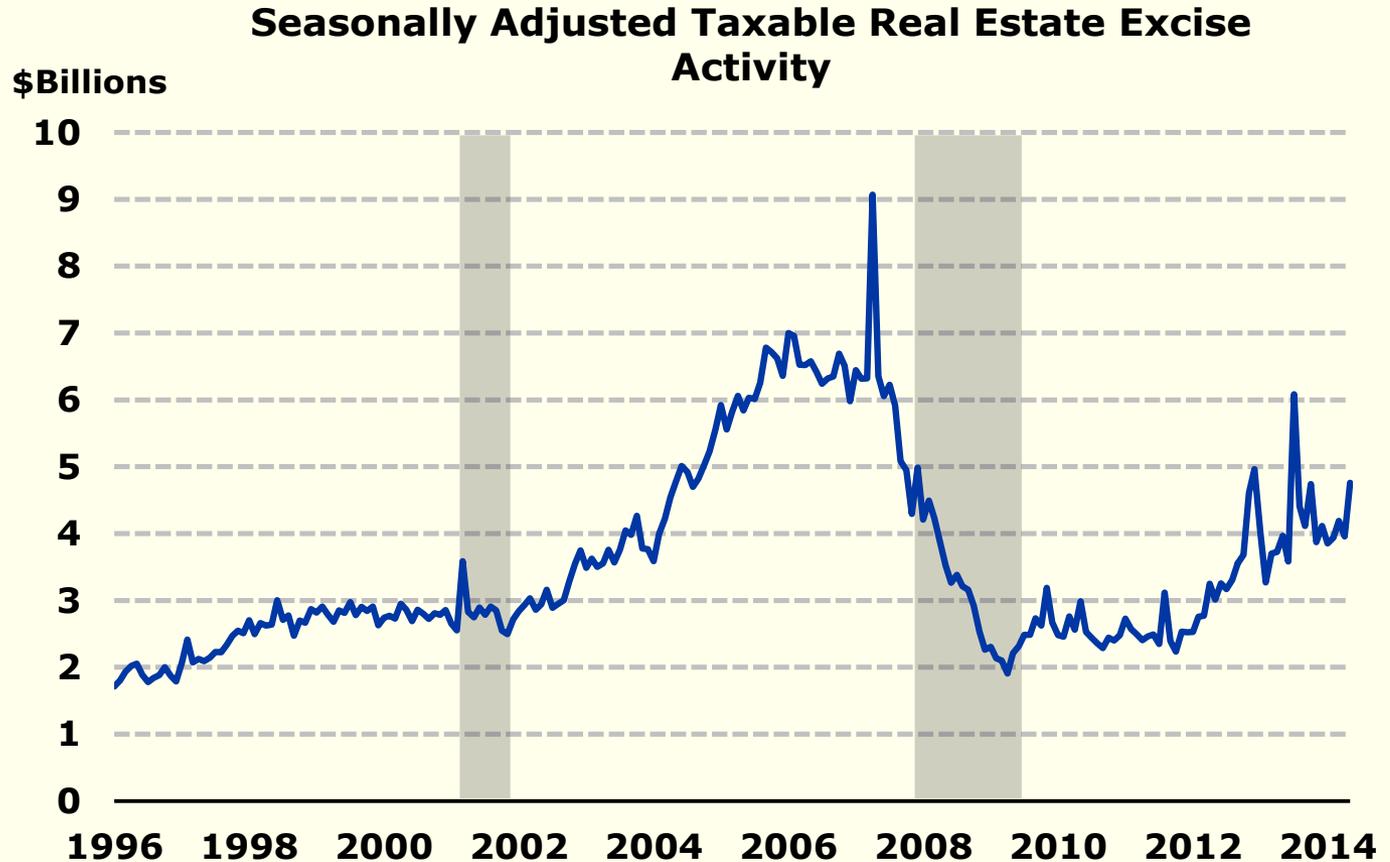
The residential market has shown strong price growth but total sales have been constrained by low inventory

Large commercial sales have caused several spikes in taxable activity

May sales of property worth \$10 million or more totaled \$720 million

Revenue Review  
June 26, 2014

Slide 30



Source: ERFC; Monthly data through May 2014 preliminary



# Forecast changes: General Fund State, 2013-2015 Biennium

**February Forecast:**

**\$33,013 million**

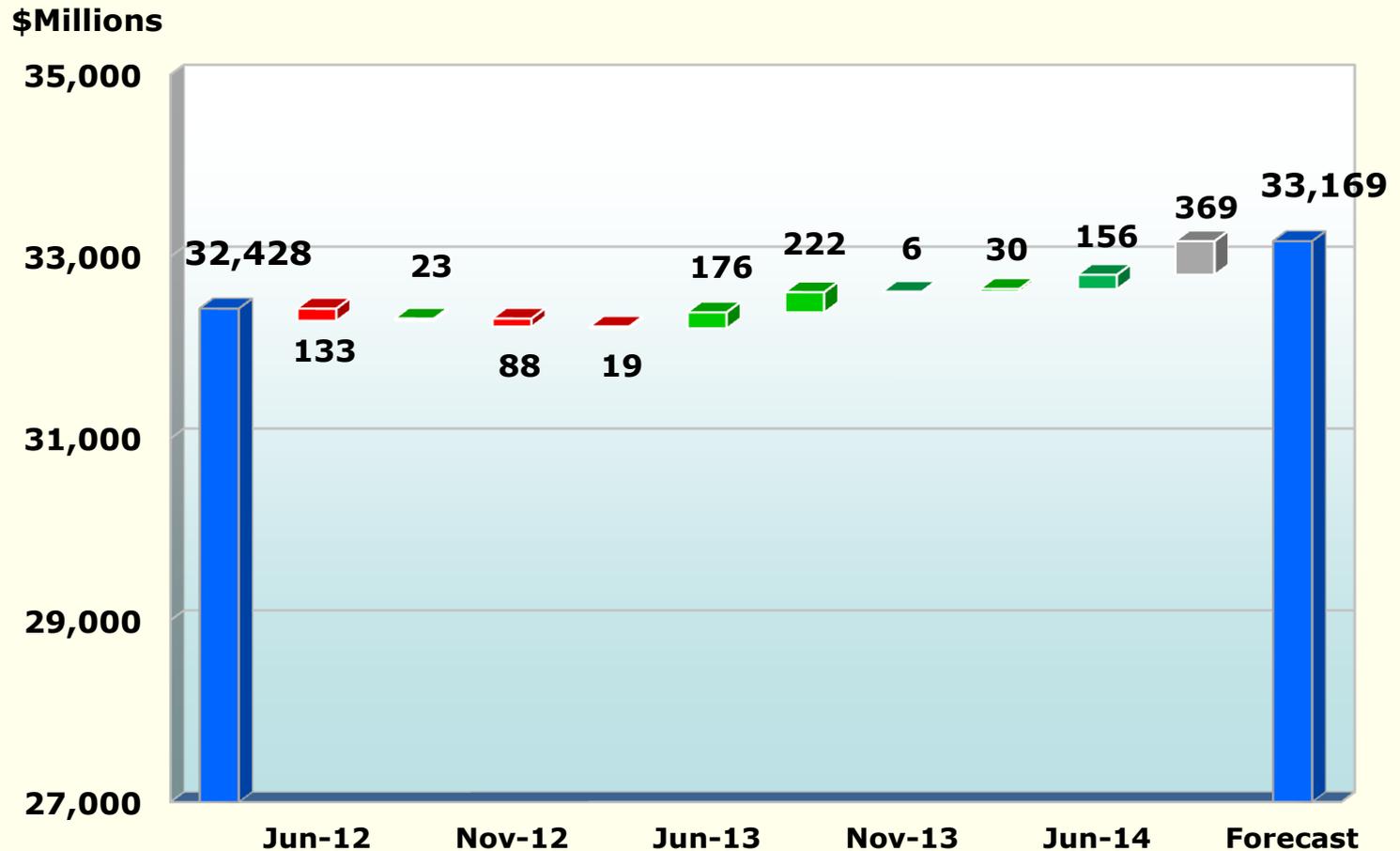
<b>\$Millions</b>	<b>June Forecast</b>				
	<u>Collection Experience</u>	<u>Non-economic Change</u>	<u>Forecast Change</u>	<u>Forecast</u>	<u>Total Change*</u>
Dept. of Revenue	\$123	(\$7)	\$38	\$31,578	\$154
All other agencies	(\$1)	\$8	(\$4)	\$1,592	\$3
<b>Total GF-S</b>	<b>\$122</b>	<b>\$1</b>	<b>\$33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

\* Detail may not add to total due to rounding



# GF-S forecast revisions to the 2013-15 biennium

**GF-S**  
**New**  
**Definition**



Revenue Review  
June 26, 2014

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:**

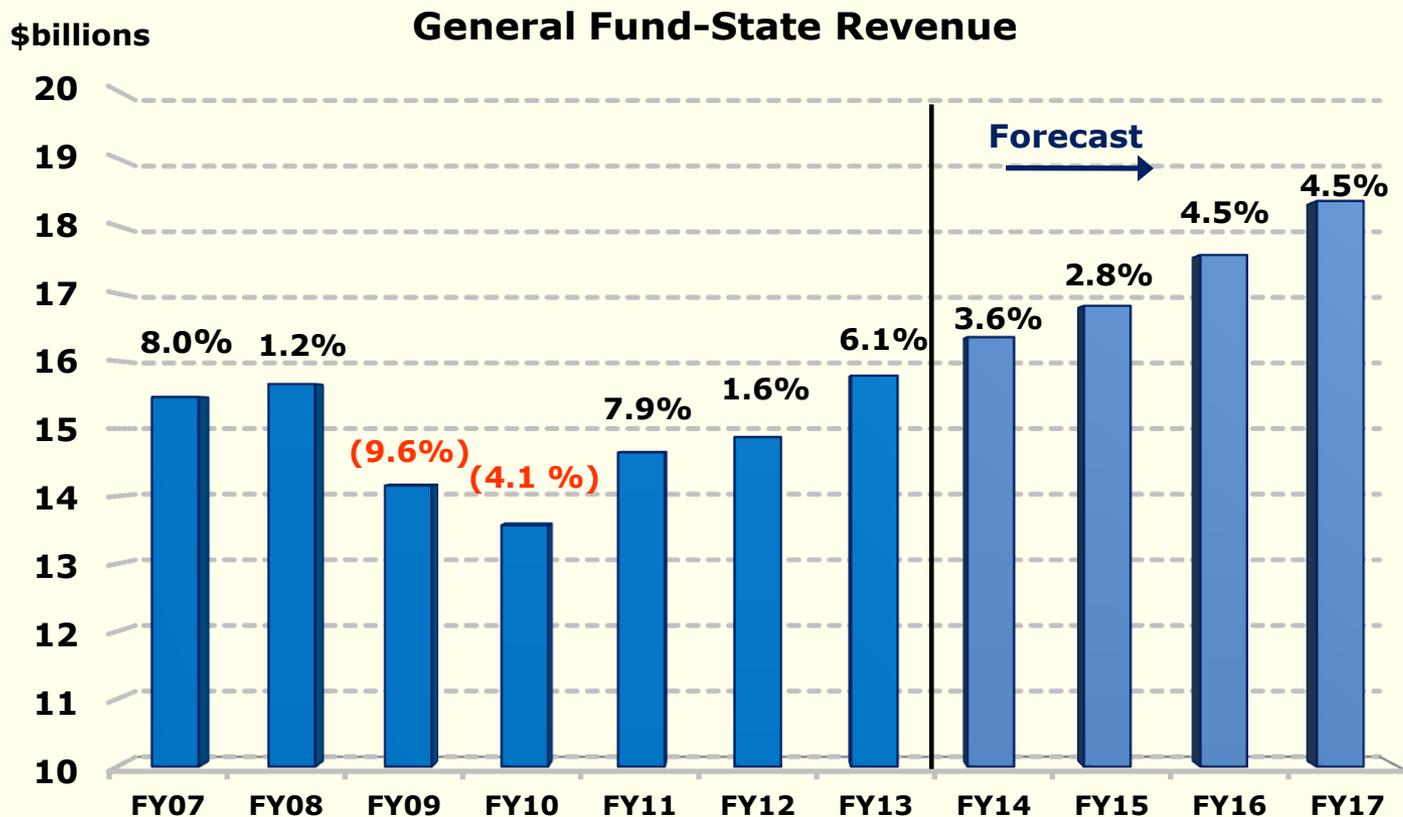
**\$35,697 million**

<b>\$Millions</b>	<b>June Forecast</b>			
	<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
<b>Total GF-S</b>	<b>\$5</b>	<b>\$233</b>	<b>\$35,935</b>	<b>\$238</b>

\* Detail may not add to total due to rounding



# General Fund-State\* forecast by fiscal year





# 2013-15 Biennium alternative forecasts – cash basis

<b>\$Millions</b>	<b>2013-15 Biennium</b>	<b>Difference From the baseline</b>
<b>June Baseline (50%)</b>	<b>\$33,169</b>	
<b><u>June 2014 Alternative Forecasts</u></b>		
<b>Optimistic (25%)</b>	<b>\$34,513</b>	<b>\$1,344</b>
<b>Pessimistic (25%)</b>	<b>\$31,757</b>	<b>(\$1,412)</b>
<b>Probability Weighted Average</b>	<b>\$33,152</b>	<b>(\$17)</b>
<b>GCEA*</b>	<b>\$33,172</b>	<b>\$2</b>

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



# 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
- GF-S revenues 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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