

Washington State Economic Outlook & Revenue Collection Experience

Presented to
Governor's Distinguished Managers Association

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Executive Director

October 25, 2013
Tumwater, Washington



WASHINGTON STATE
ECONOMIC AND REVENUE FORECAST COUNCIL

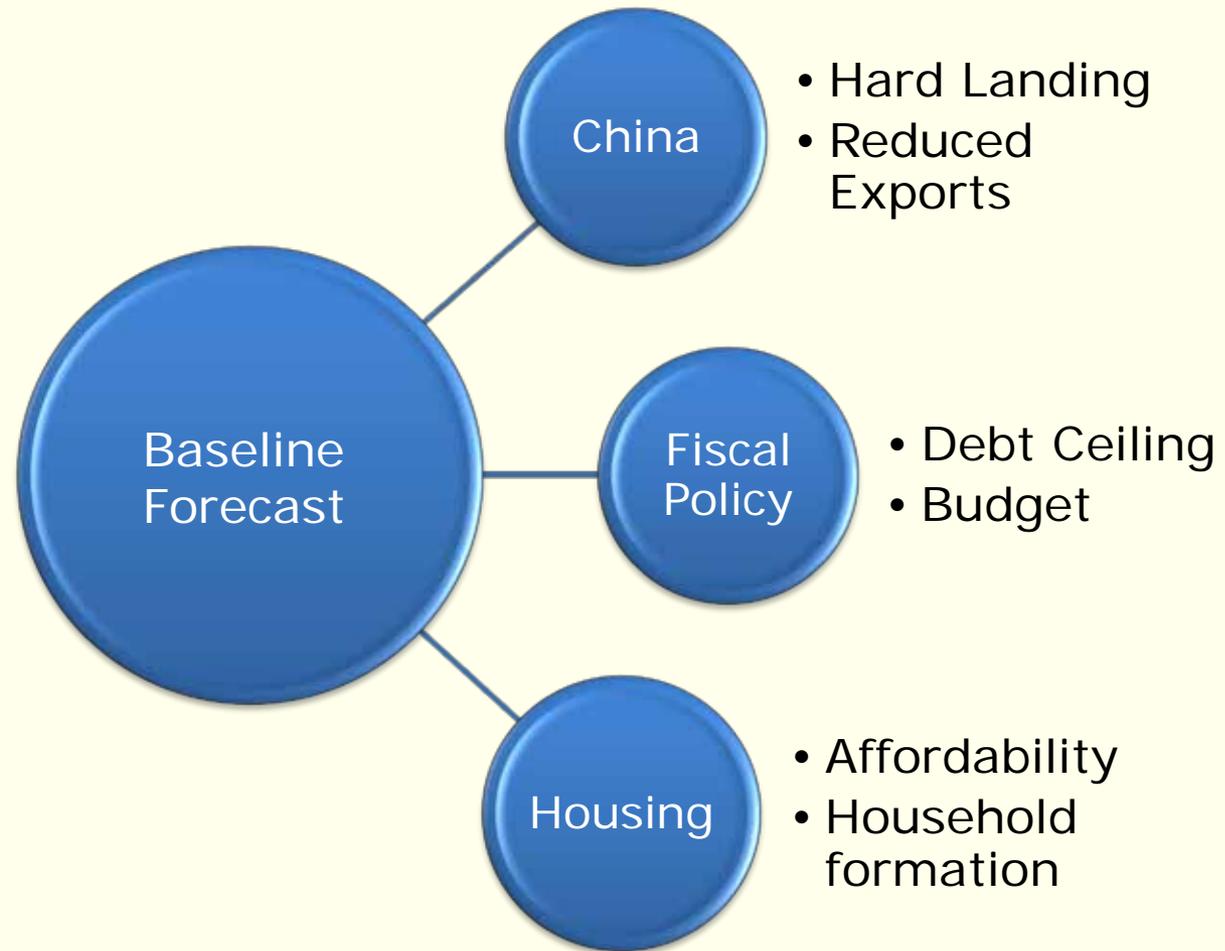


Summary

- The U.S. and Washington economies continue to grow, although at a slow pace
- Construction activity has been a big contributor to Washington employment growth; employment is rising in most Washington industries except aerospace and government
- Risks to the forecast are generally from factors outside the state, including a weaker Chinese economy, uncertain federal fiscal policy and possible disruptions to the housing recovery
- State revenue collections have returned to pre-recession levels

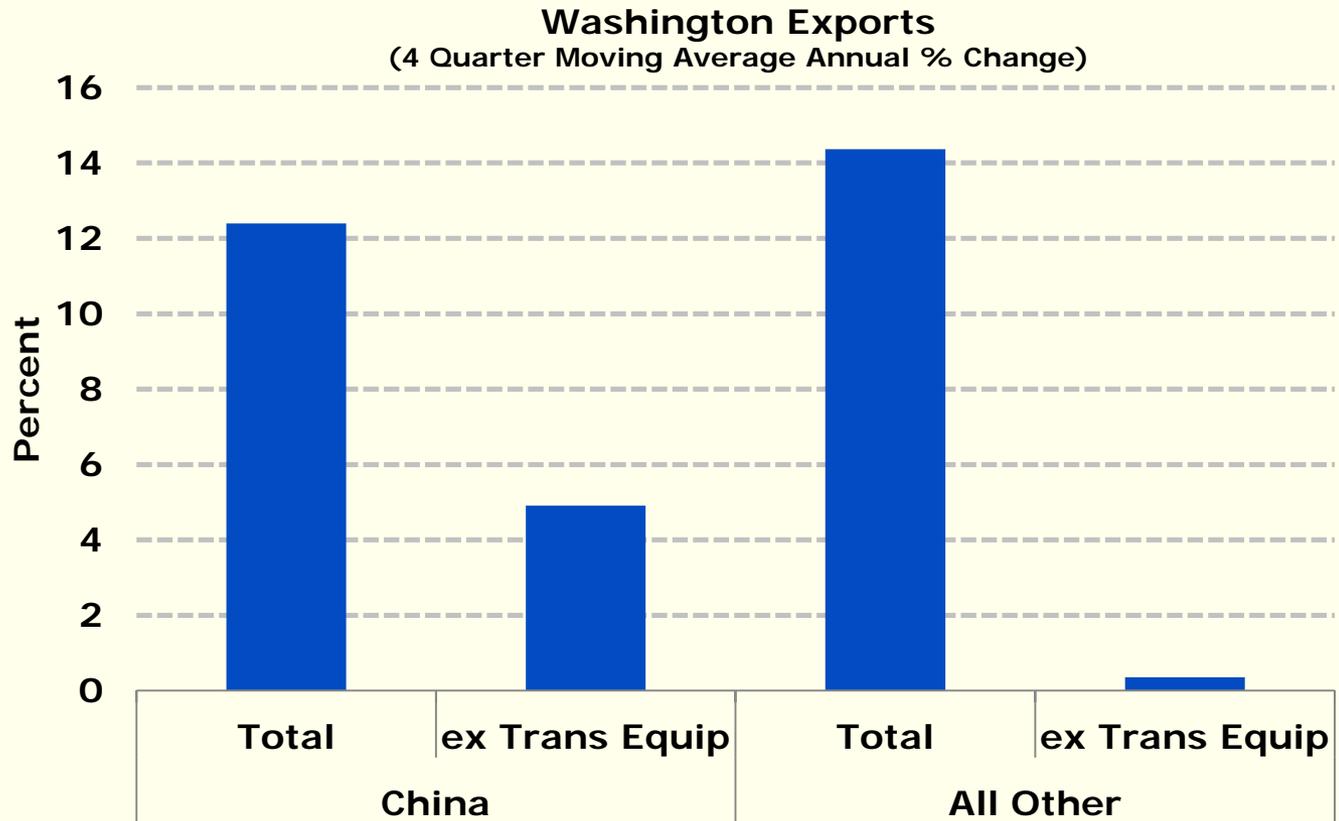


Three major risks to the forecast





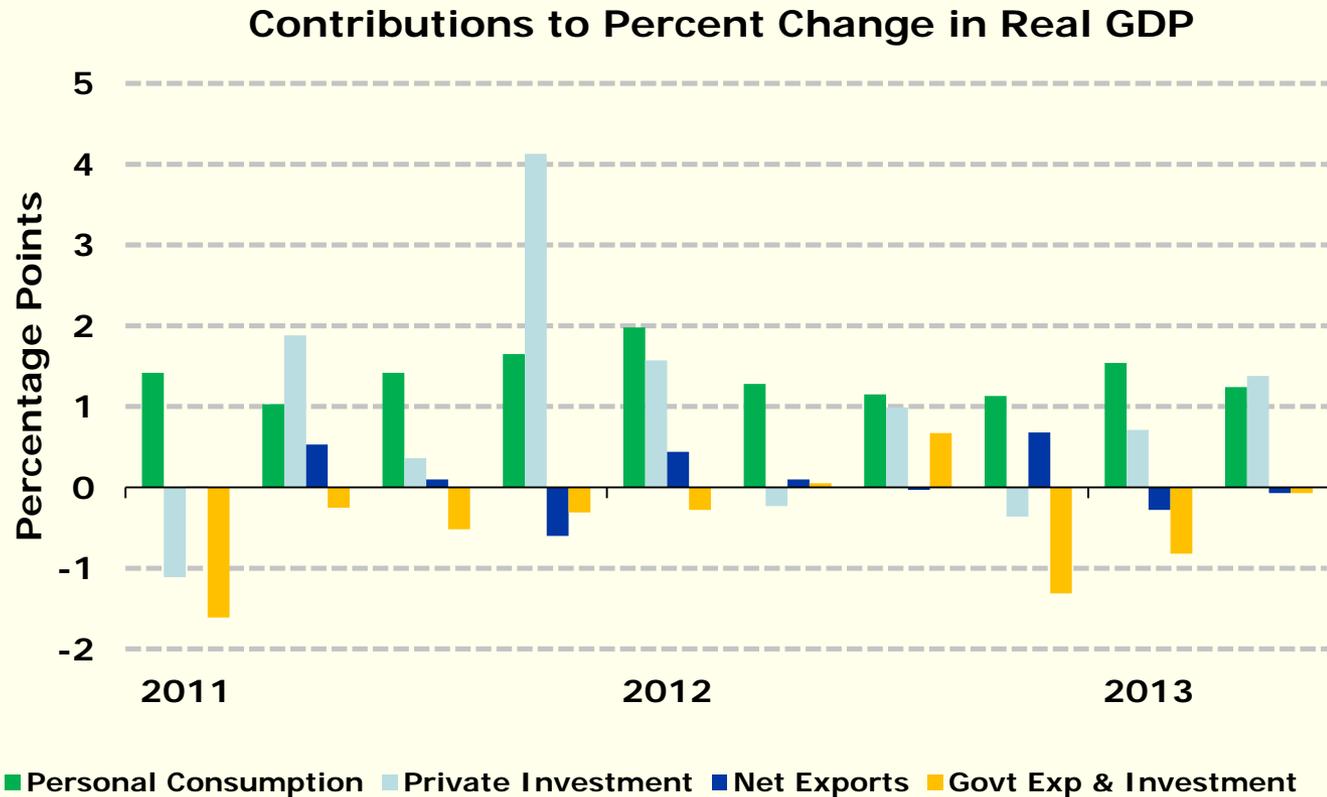
Excluding aerospace, exports outside of China are weak



Source: Wiser Trade Data; data through 2013 Q2



Slowing government expenditures a drag on GDP growth



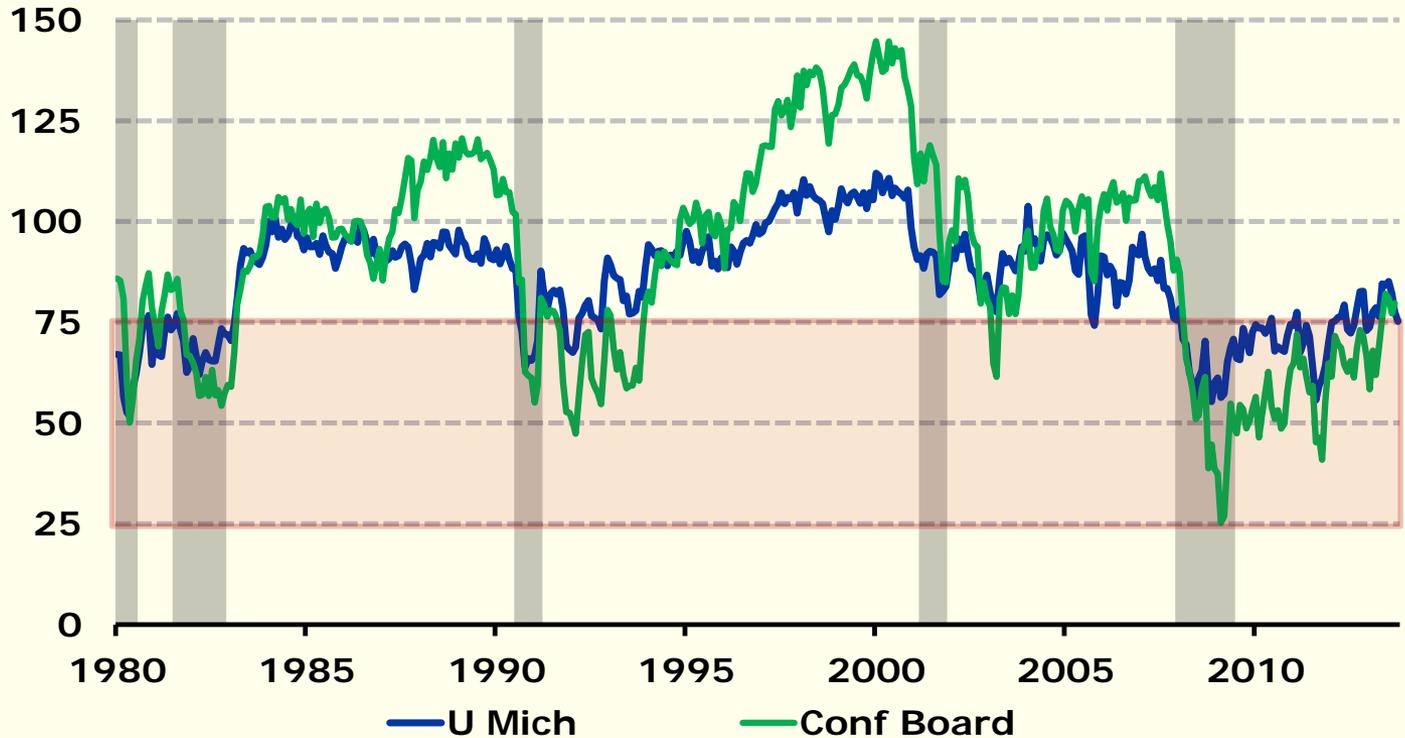


Consumer confidence is beginning to strengthen...

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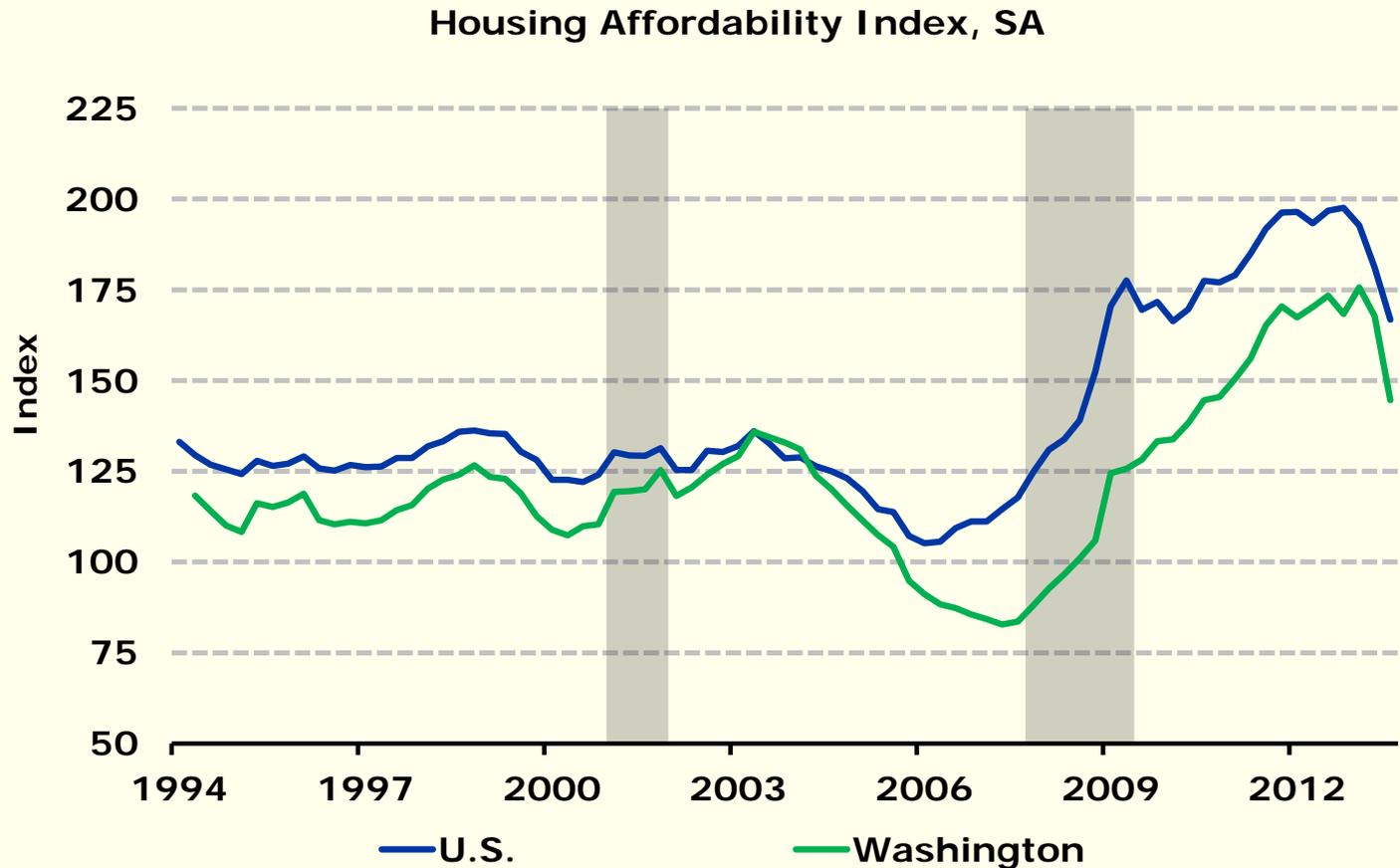
Mich: 1966Q1 = 100, SA

Conf Board: 1985 = 100, SA



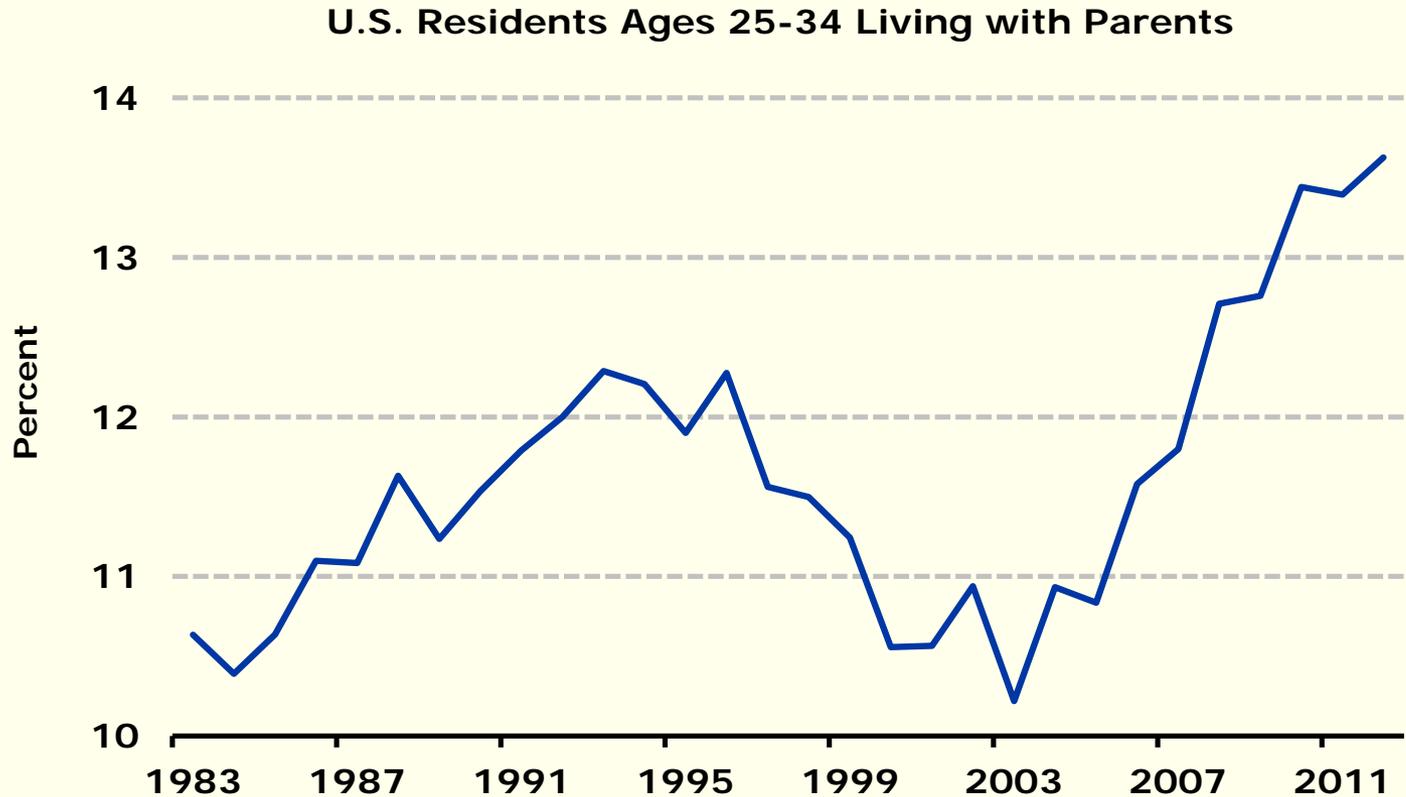


...but housing affordability is plummeting.





Many adults continue to live at home with their parents



Source: U.S. Census; data through 2012

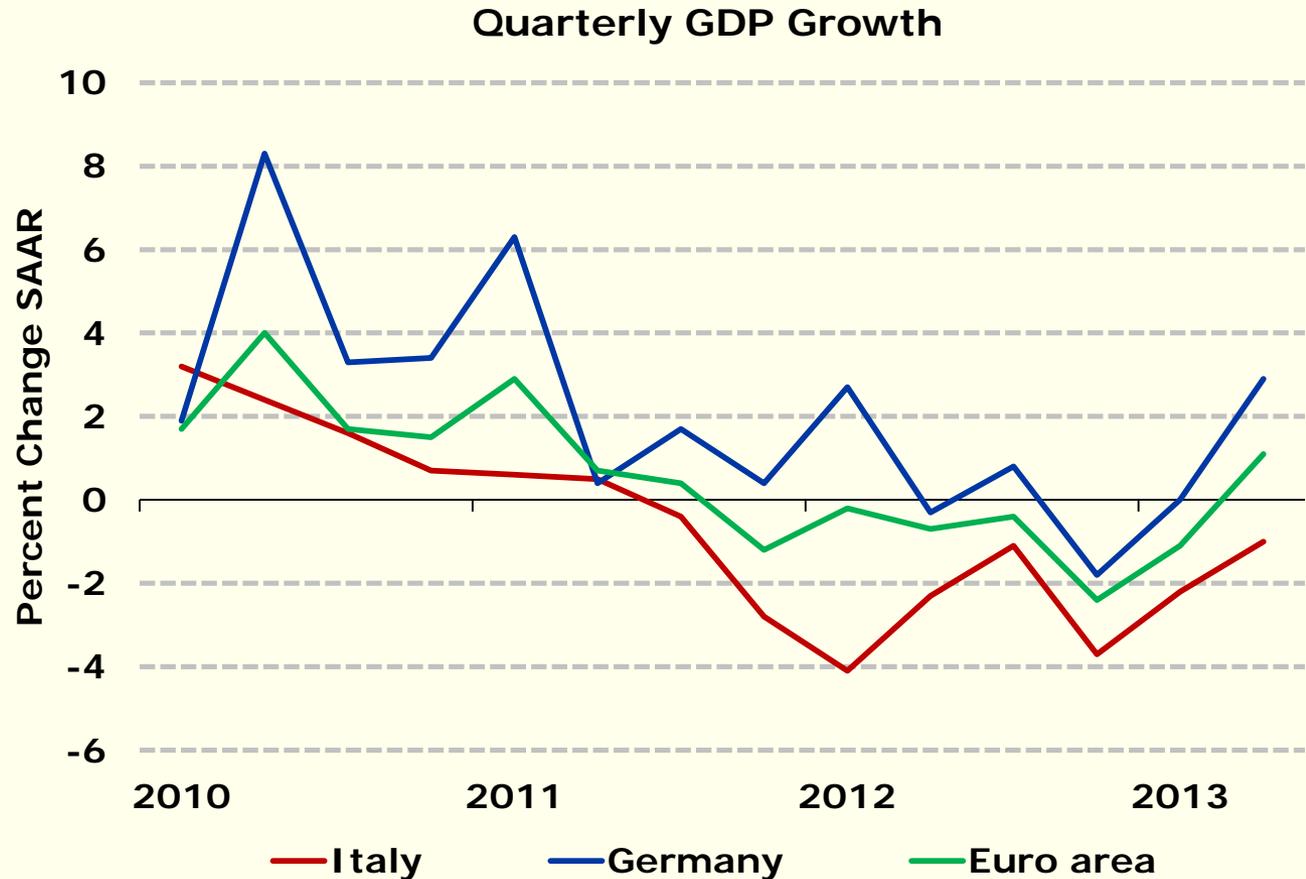


Euro area GDP has returned to positive growth but risks remain

Eurozone
Forecast:

2013: -0.6%

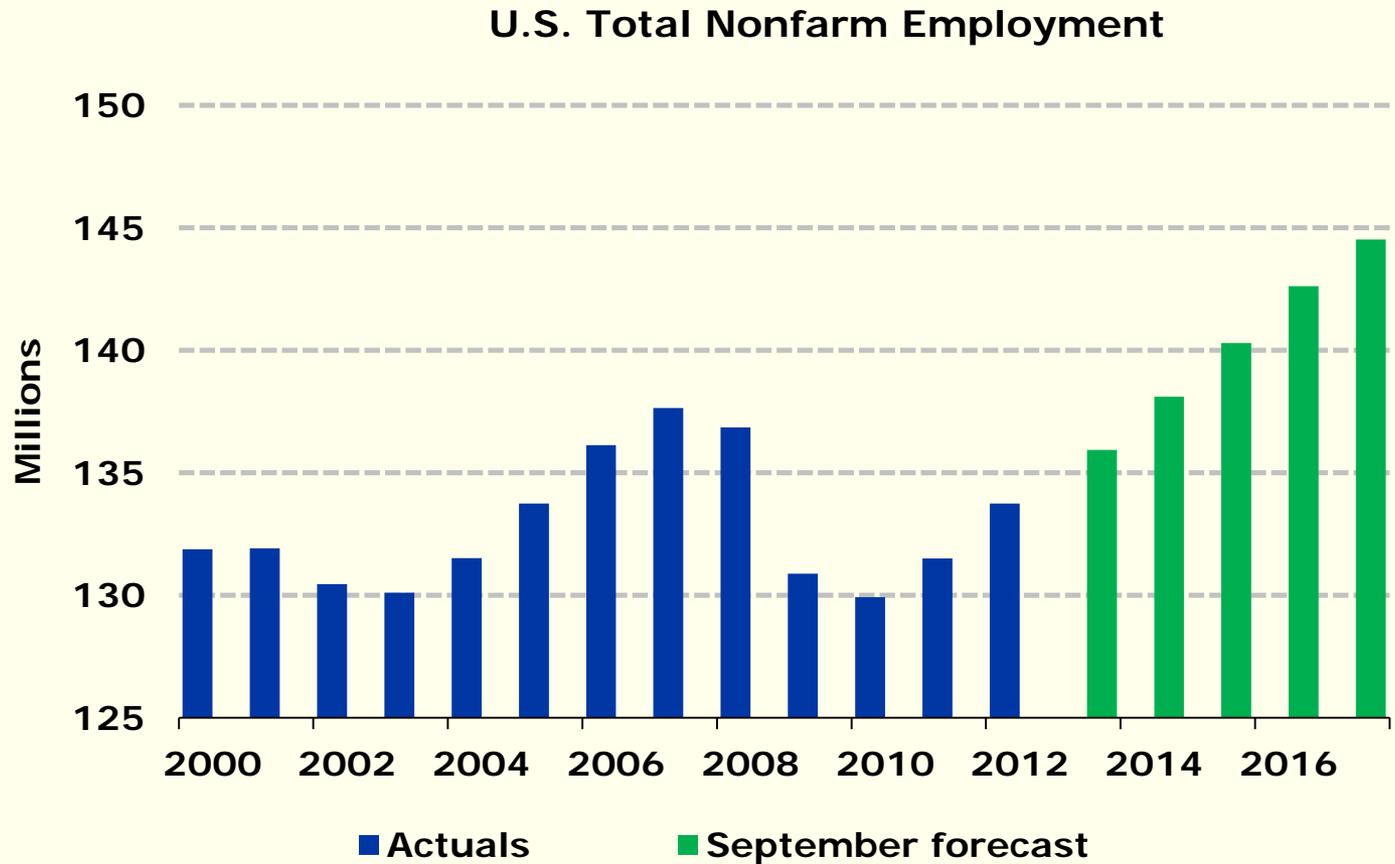
2014: 0.8%



Source: Eurostat; data through 2013Q2



U.S. employment returns to pre-recession levels in 2014

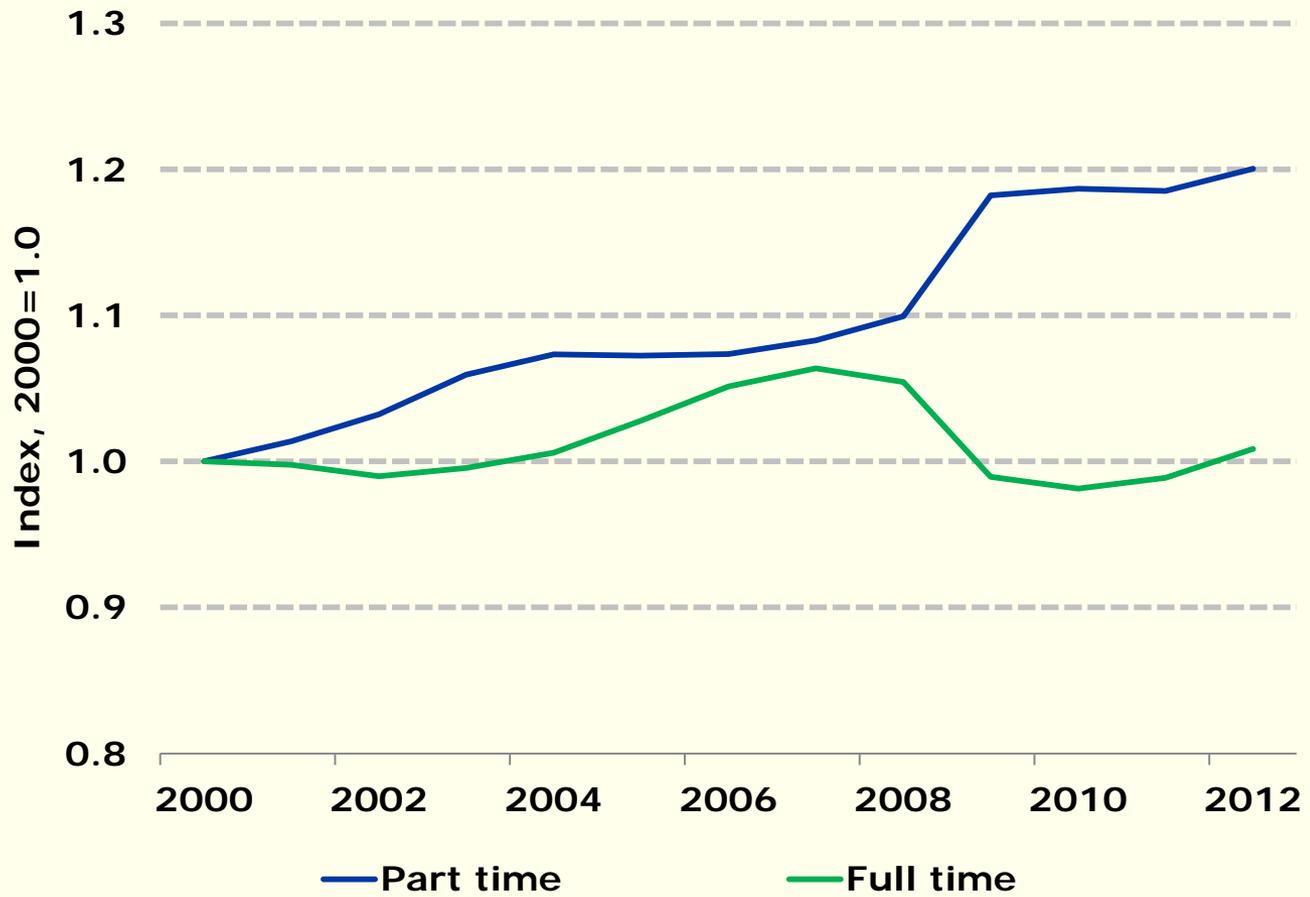




Part time jobs have grown faster than full time jobs since 2000

2000:
PT = 23.0 M
FT = 113.8 M

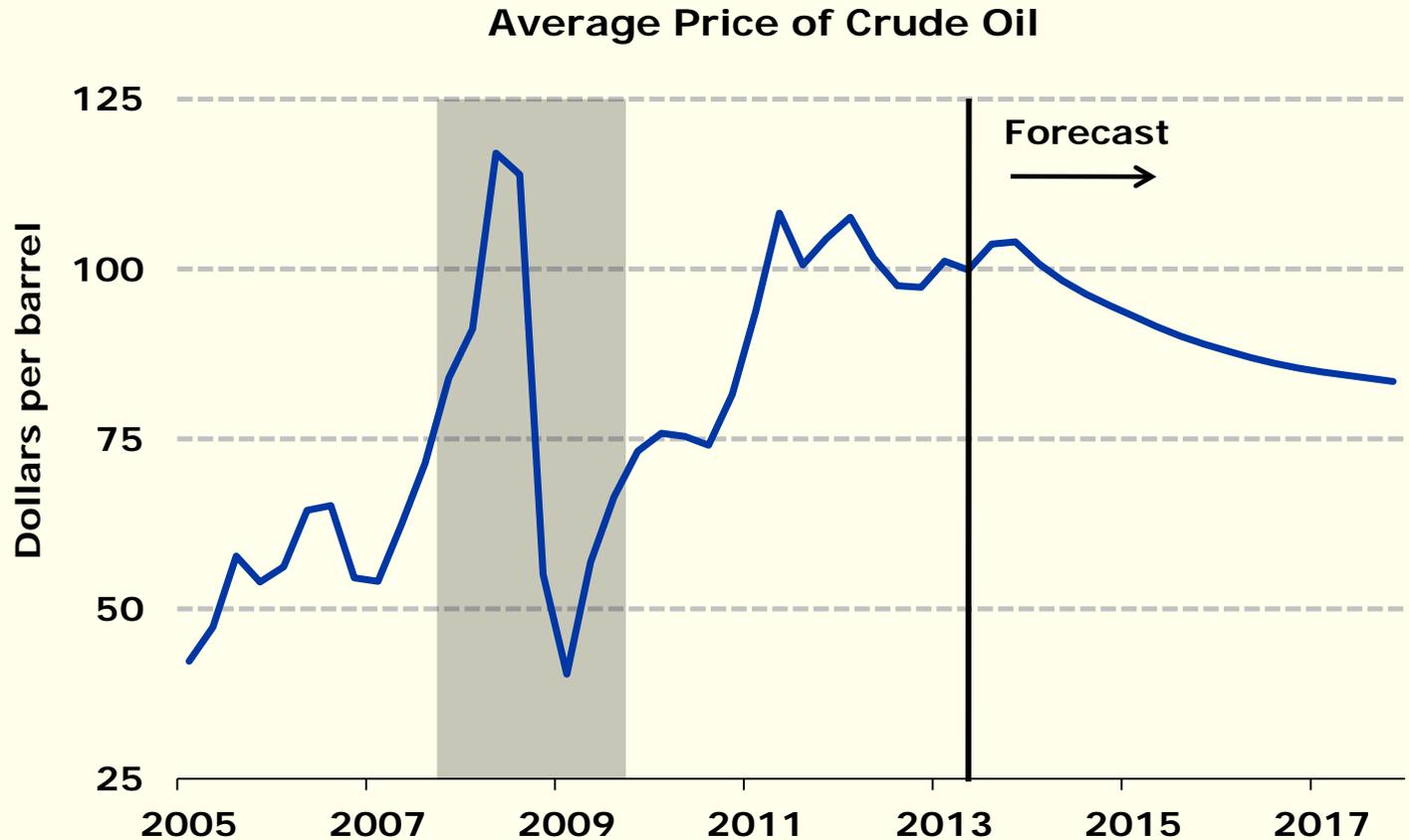
2012:
PT = 27.7 M
FT = 114.8 M



Source: U.S. Bureau of Labor Statistics, ERFC; annual data through 2012

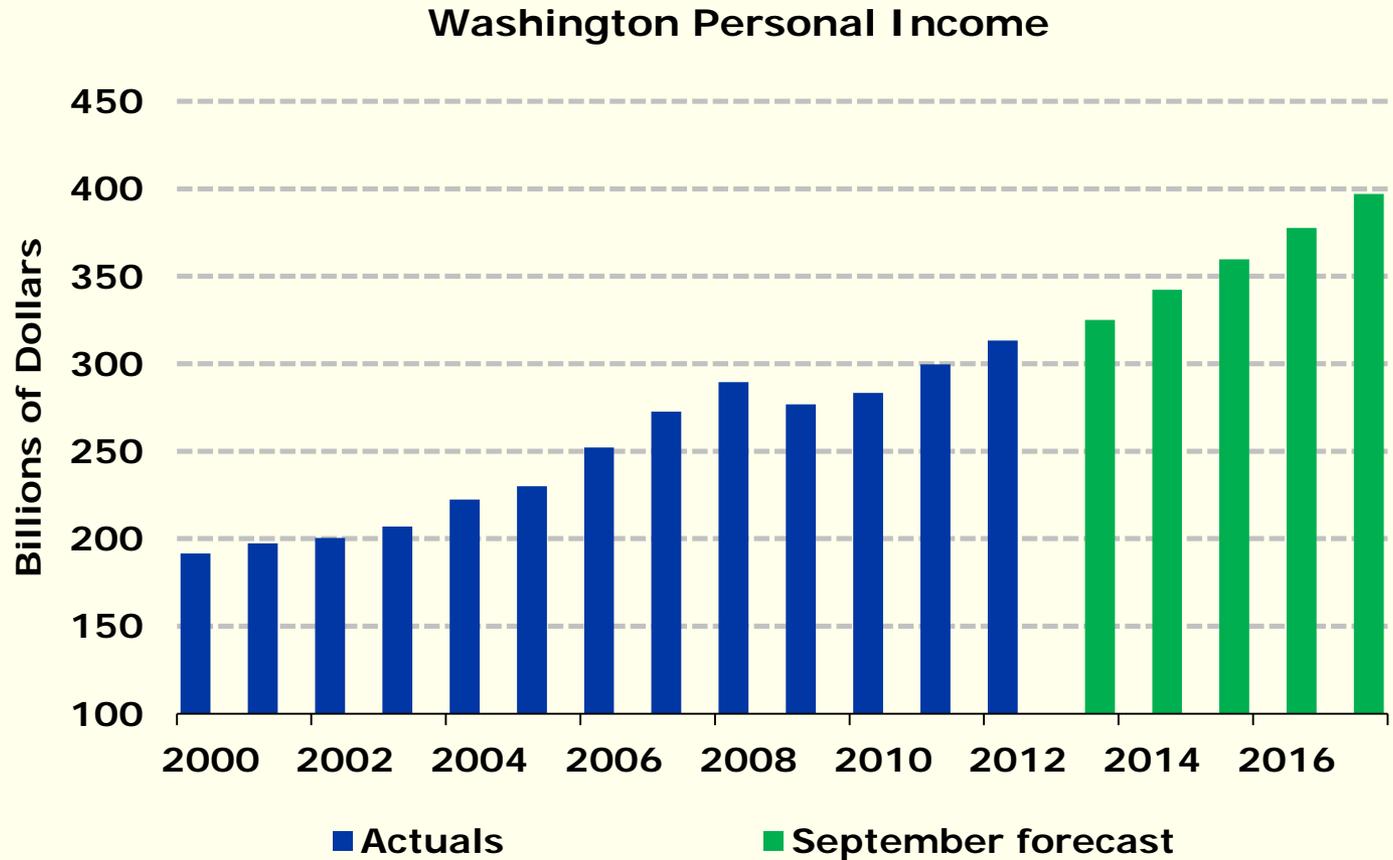


Oil prices are expected to decline over the next several years



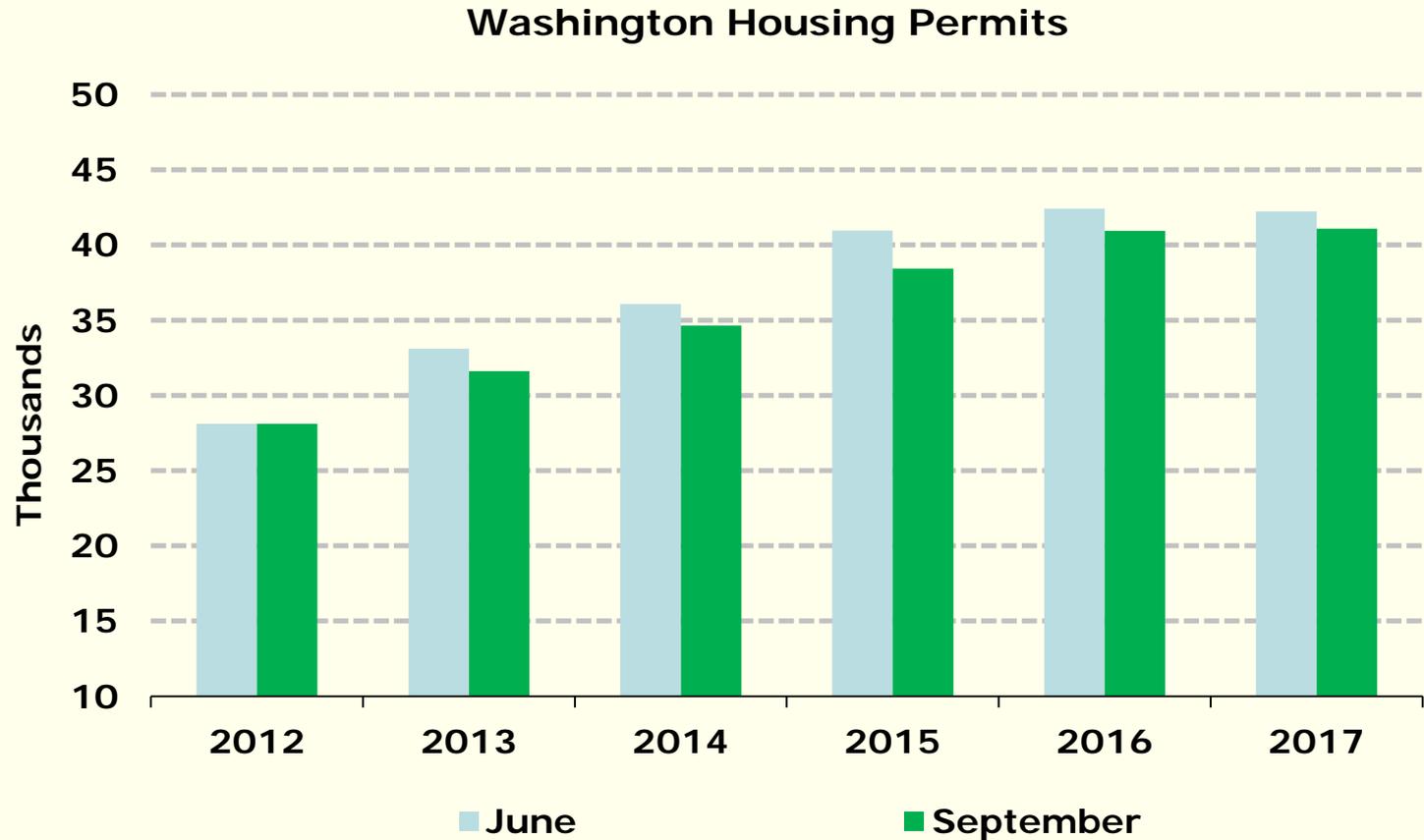


Washington personal income is growing





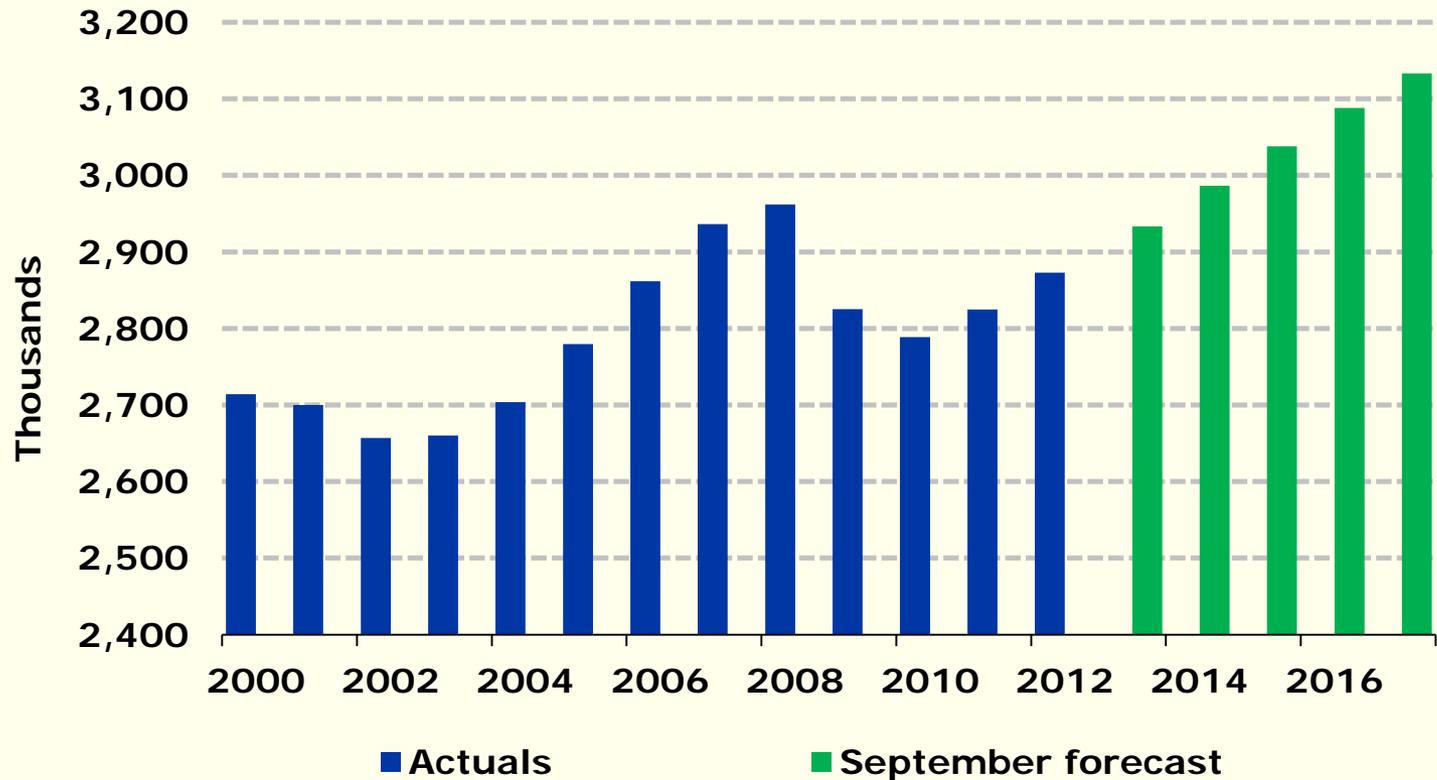
Washington Housing Permits Forecast: still increasing but lower than June





Like the U.S., Washington employment will return to pre-recession levels in 2014...

Washington Nonfarm Payroll Employment



Source: ERFC September 2013 forecast; historical data through 2012

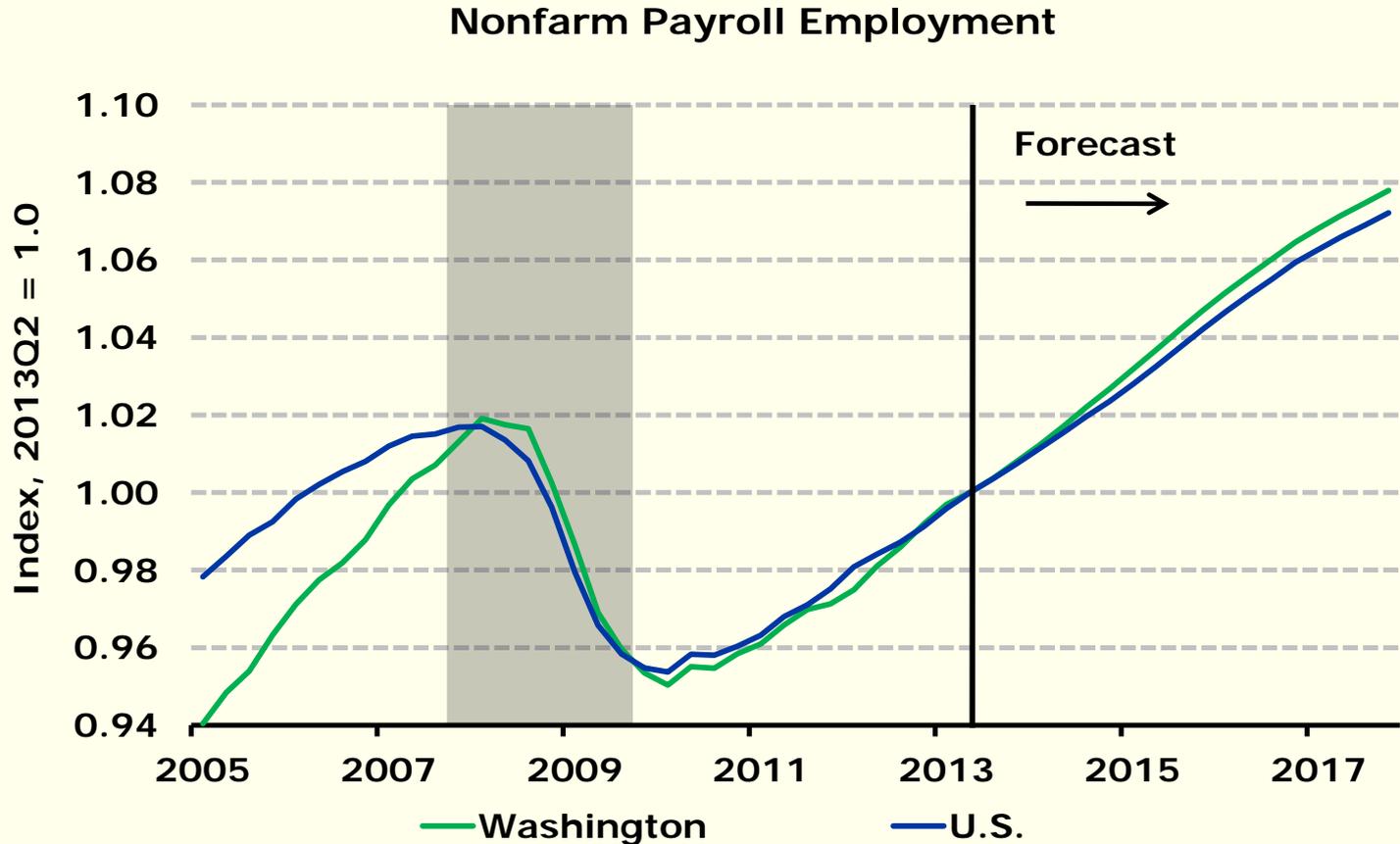


But Washington employment is growing slightly faster than the U.S.

Date of regaining peak:

WA:
2014Q3

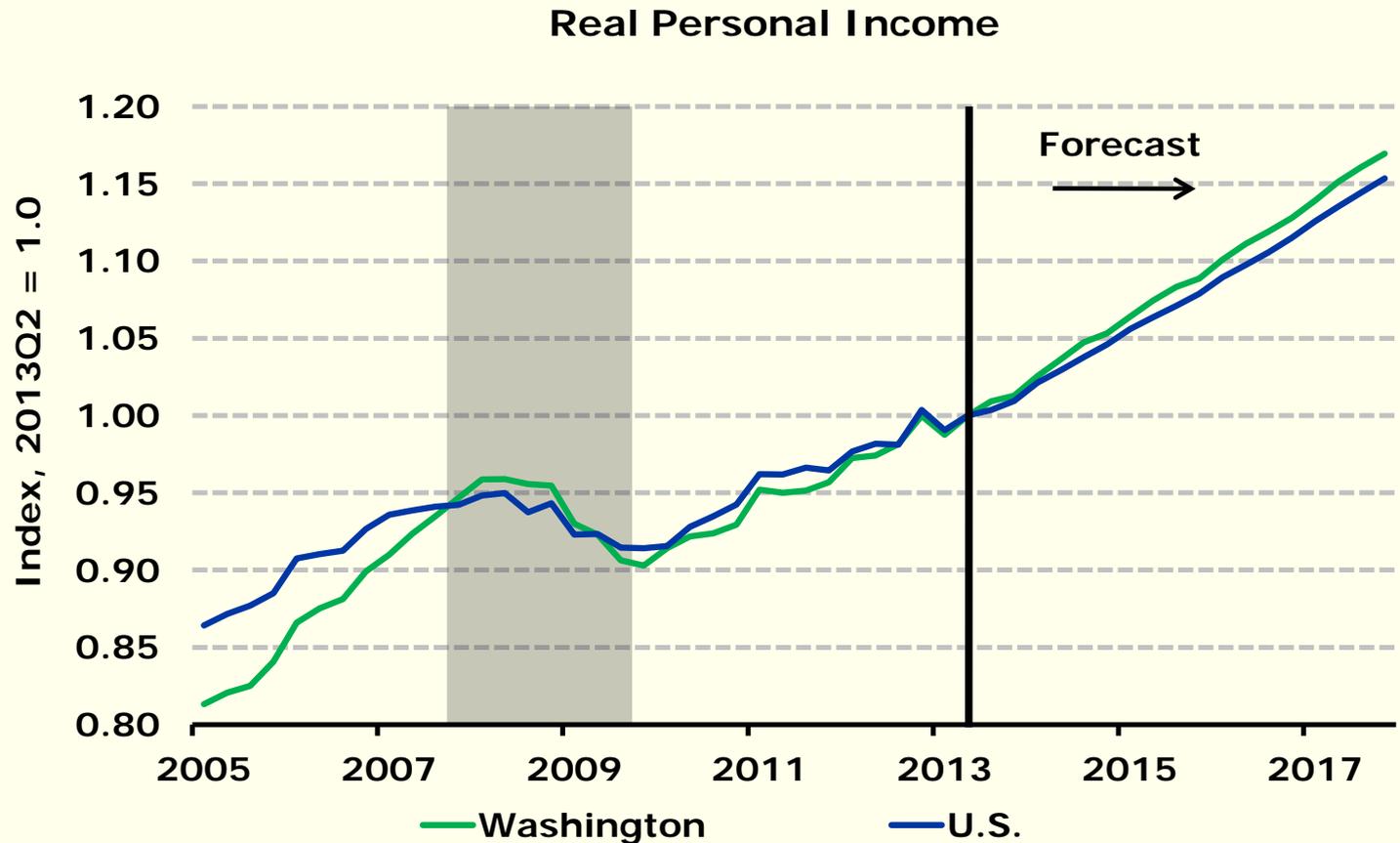
U.S.:
2014Q3



Source: ERFC September 2013 forecast; historical data through 2013Q2

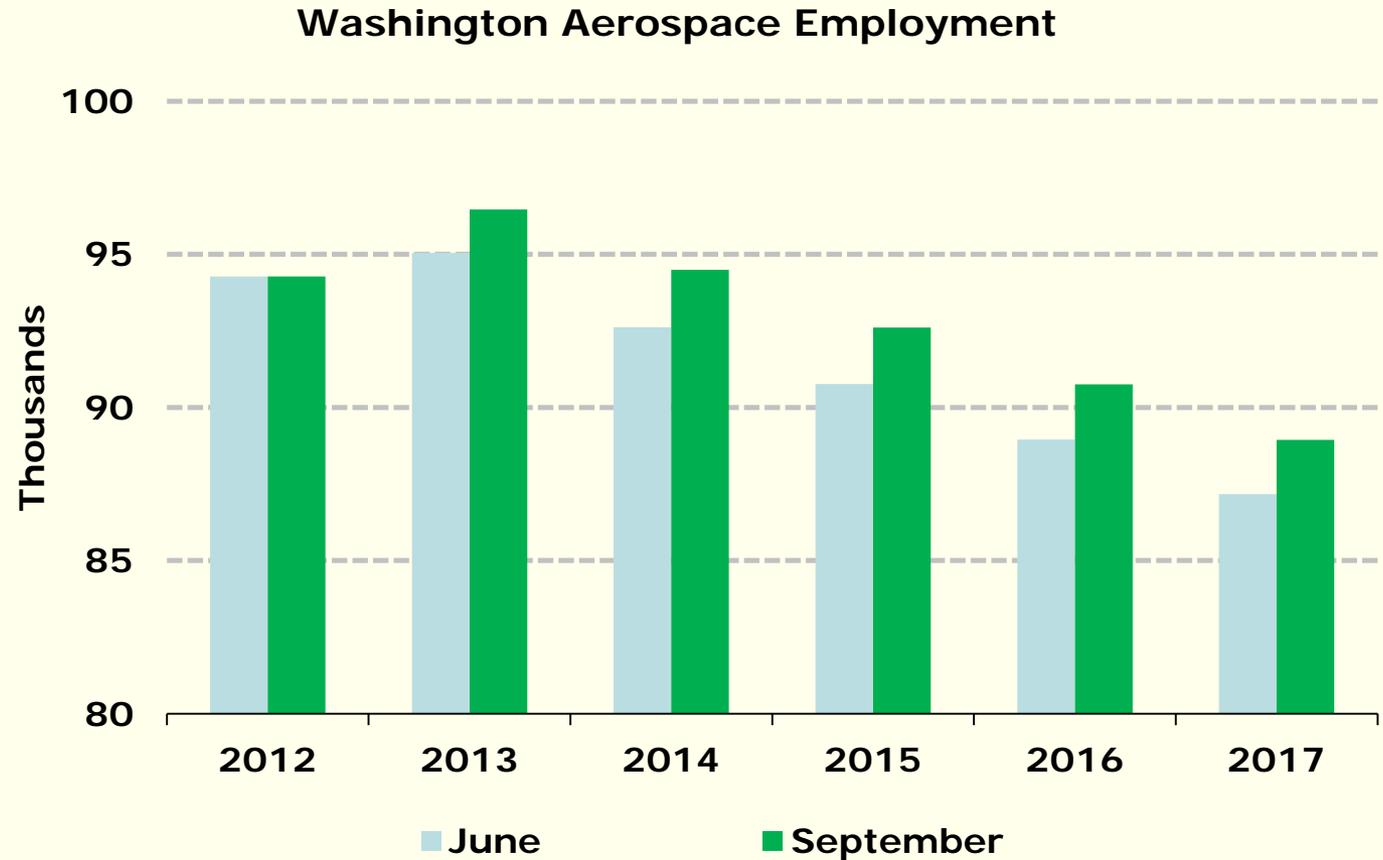


WA personal income will recover slightly faster than the U.S.





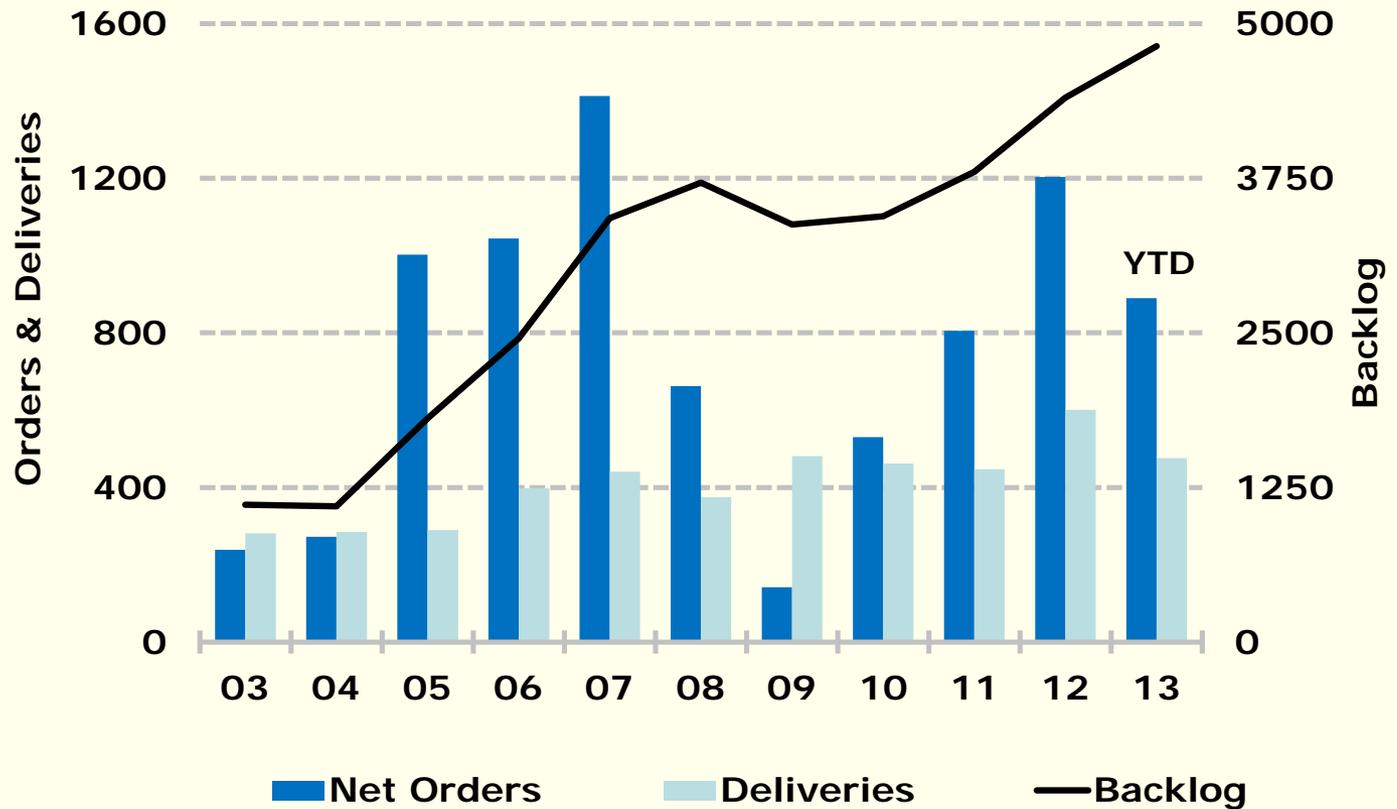
Aerospace employment is declining





Boeing has over 7 years of commercial orders on its books

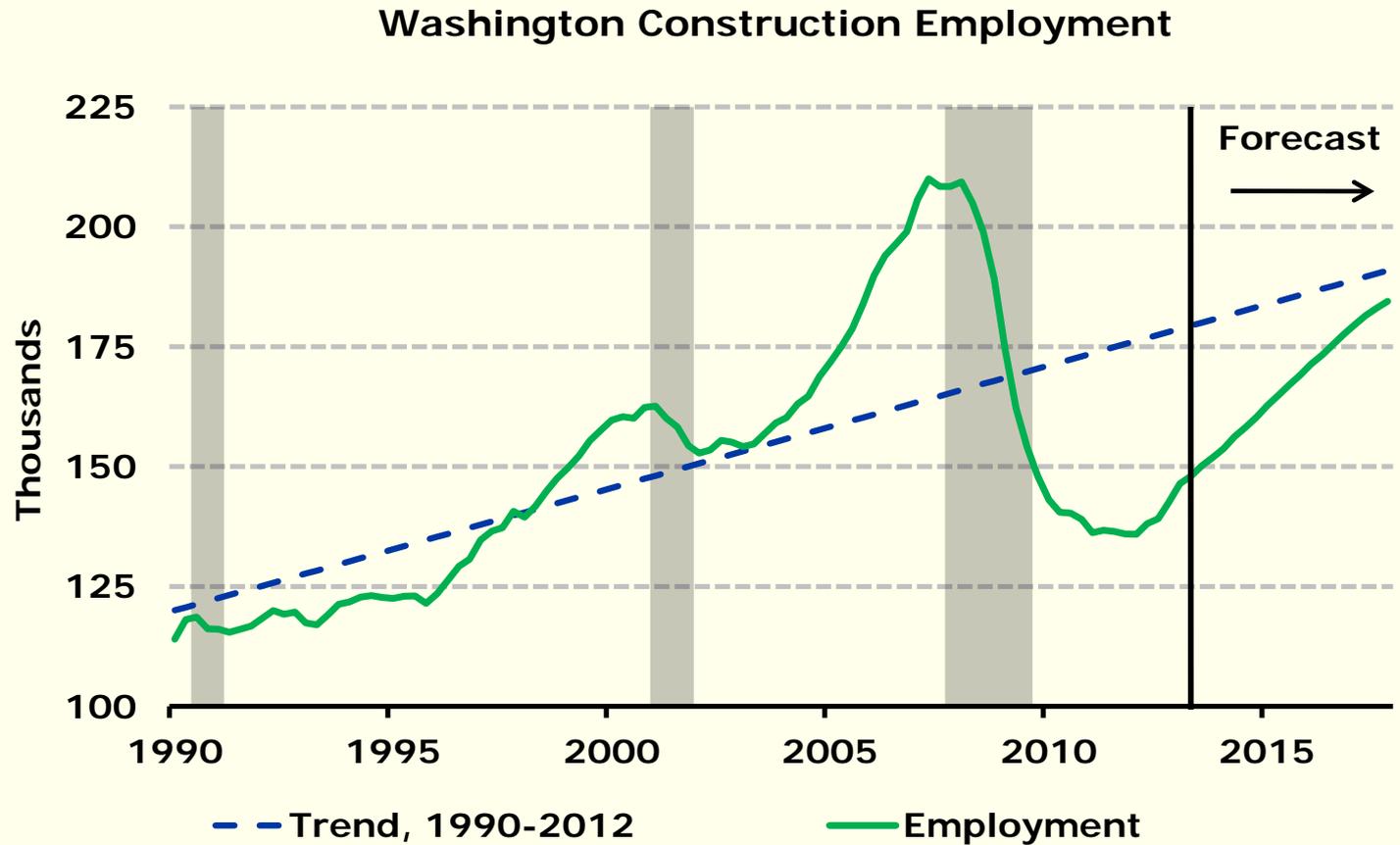
Excludes the military's new refueling tanker



Source: Boeing, data through October 2013



Washington construction employment is recovering



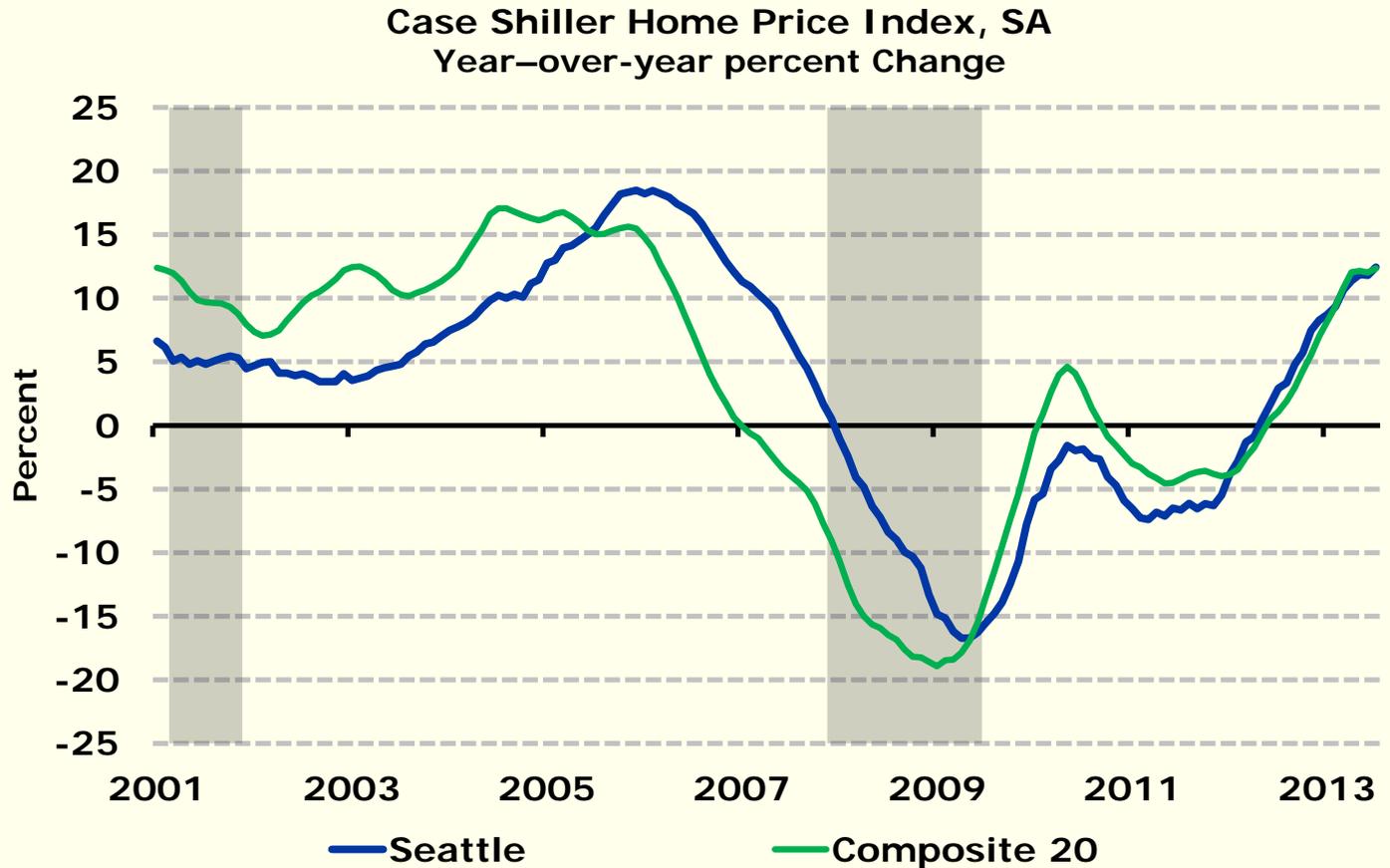


Single-family home prices continue to increase

Jul 2013

U.S. is up
12.3%

Seattle is
up 12.4%

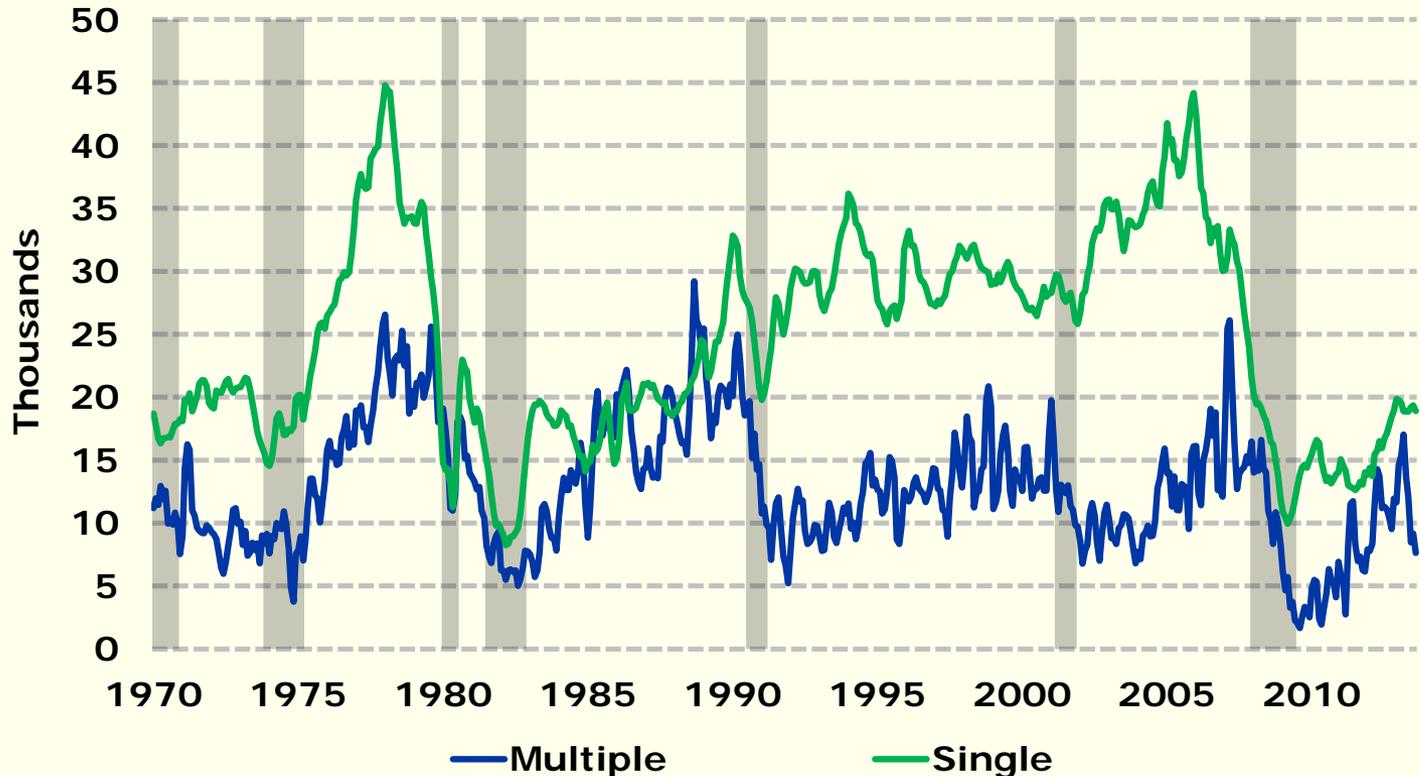


Source: S&P/Case-Shiller; data through July 2013



Washington building permits are improving

Washington Housing Units Authorized by Building Permits, 3MMA, SAAR

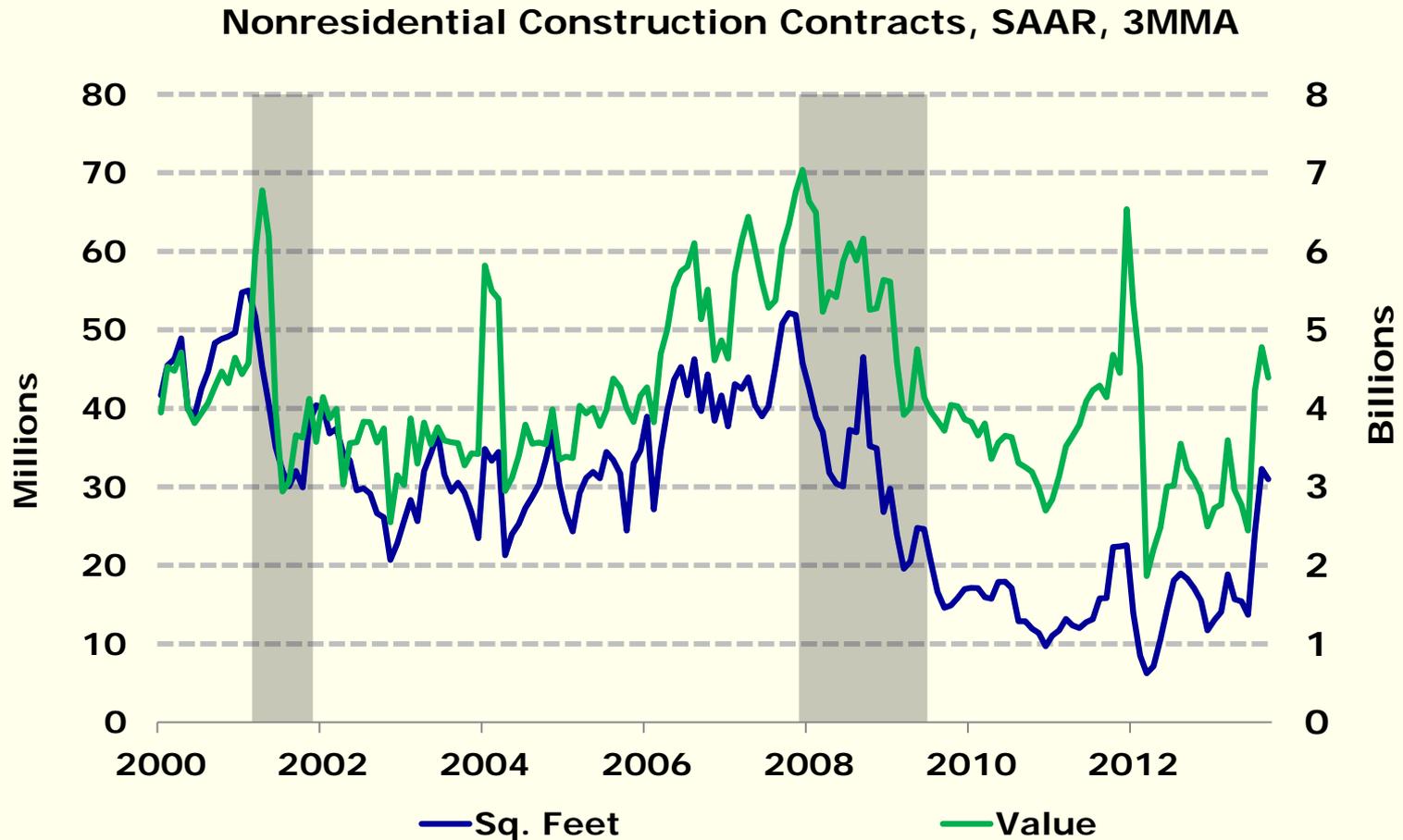


Source: U.S. Census Bureau; data through August 2013



Contract data indicates a possible increase in activity

Non-Residential square footage is up 69%, and value is up 36% year over year (3mma).



Source: Dodge, ERFC; data through September 2013

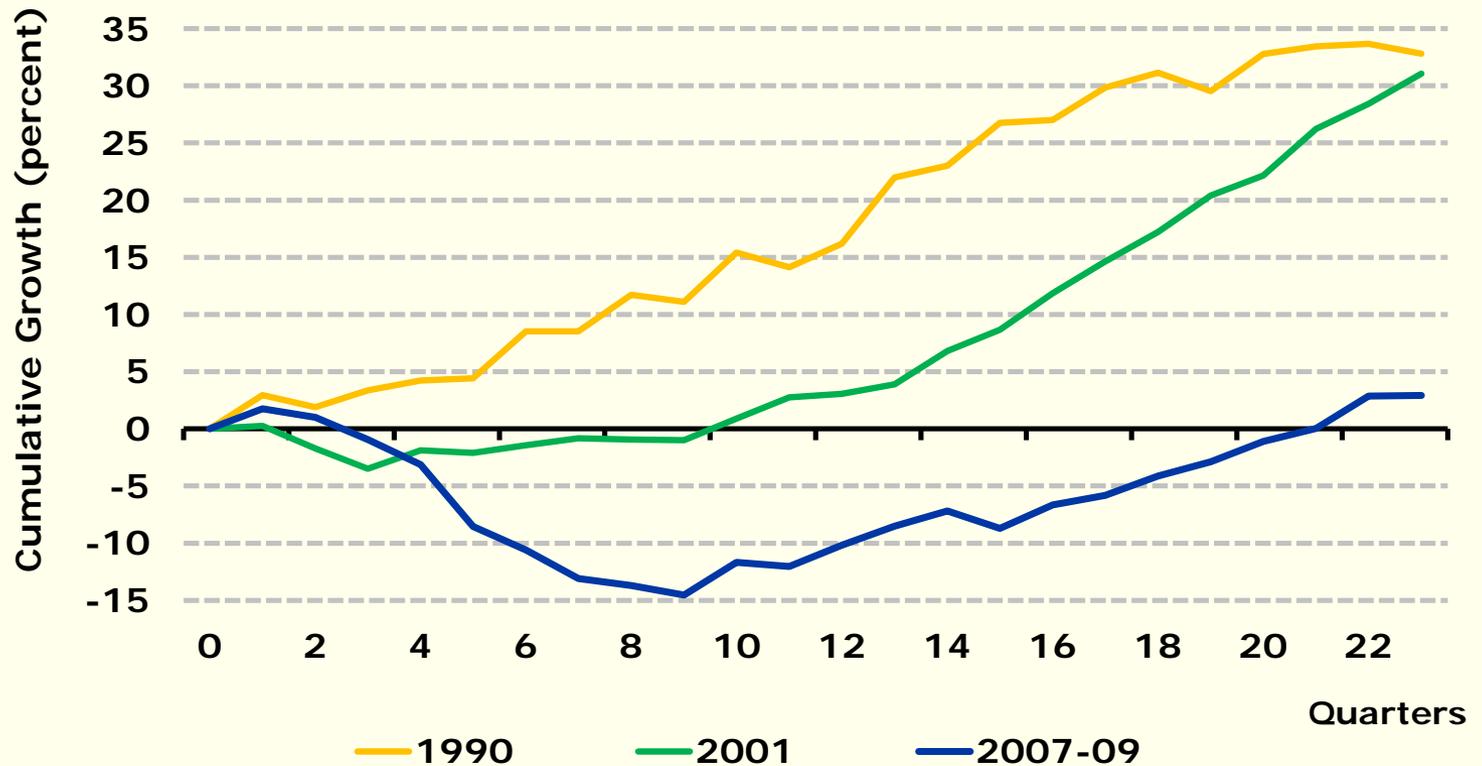
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Revenue collections have recovered slowly after the last recession

Revenue Act collections have now exceeded their previous peak reached in Q1 2008

Revenue Act Collections after Business Cycle Peak



Source: ERFC; data through 2013 Q2



Rev Act collections still above pre-recession peak despite surtax sunset

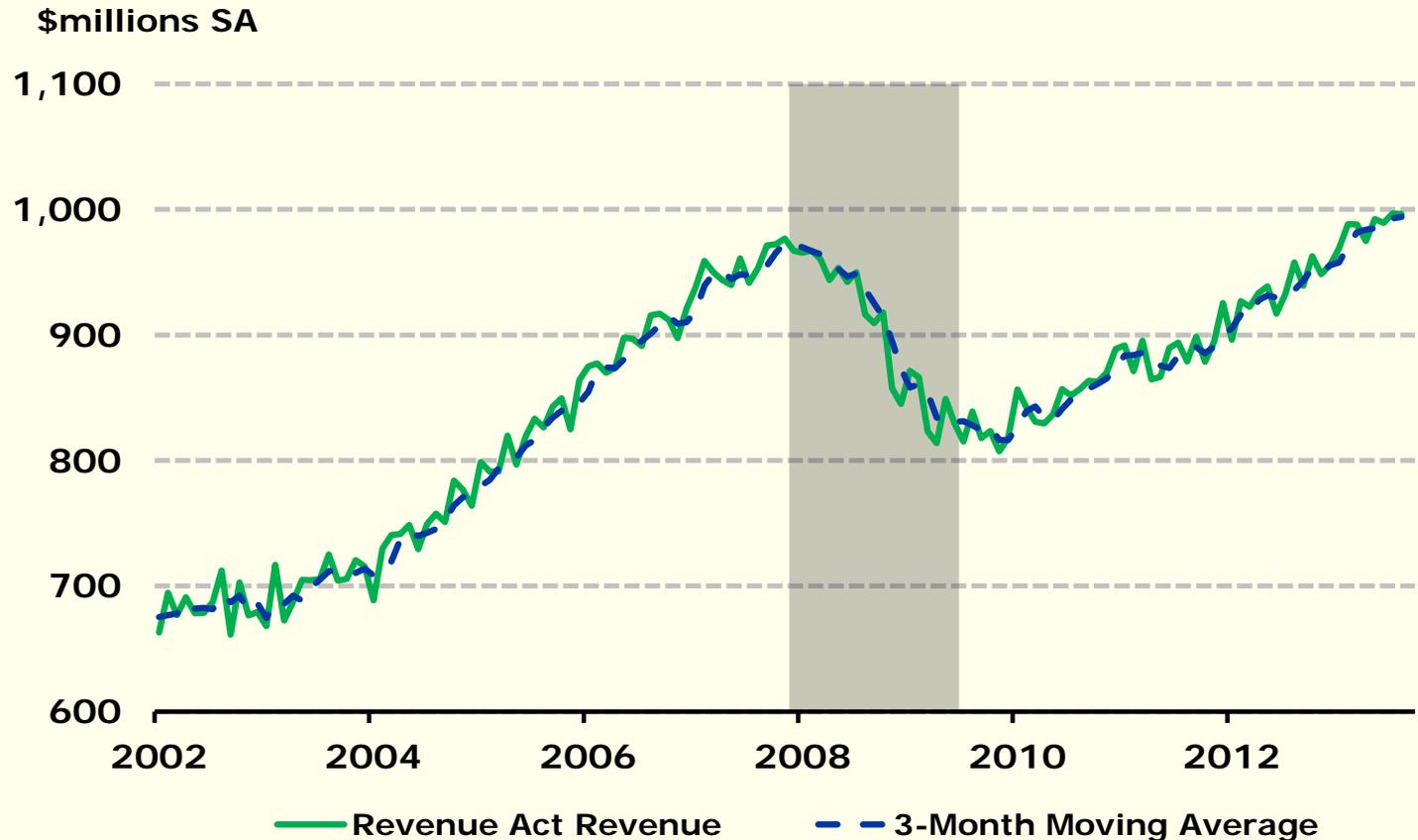
Seasonally adjusted collections decreased slightly in the September 11th - October 10th collection period (August taxable activity)

Collections in the previous period managed to increase even though the B&O surtax expired on July 1st

The surtax brought in \$20-\$26 million per month

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October 25, 2013

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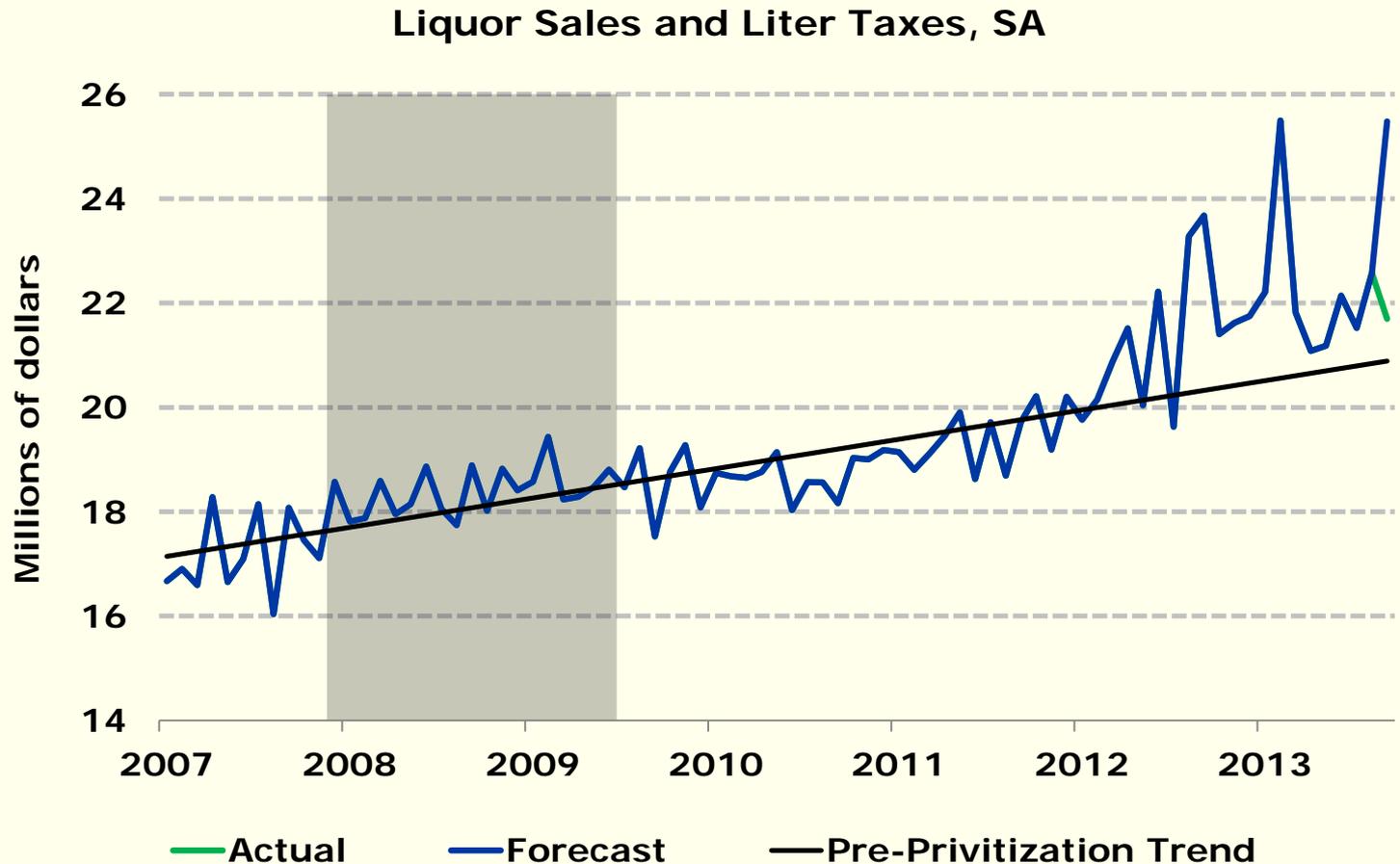
* Adjusted for large one-time transactions, amnesty payments and reporting frequency change, current definition of Revenue Act

Source: DOR and ERFC; monthly data through estimated August 2013 activity

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Revenue from liquor sales has been volatile since privatization



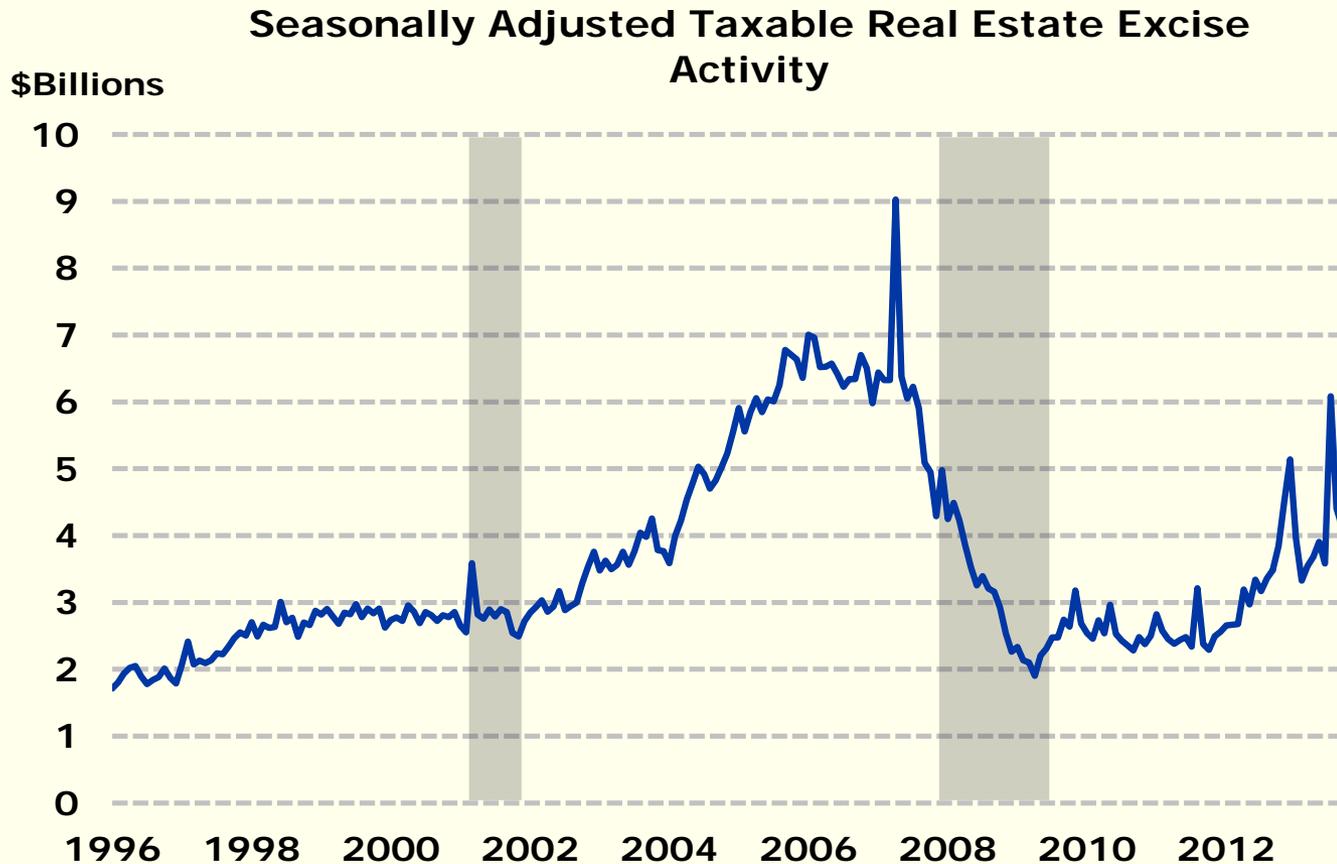
Source: DOR, ERFC; data through September 2013



Underlying REET trend still positive after spike in commercial sales

Large sales of commercial property were still elevated in September, with \$222 million in sales of property worth \$10 million or more

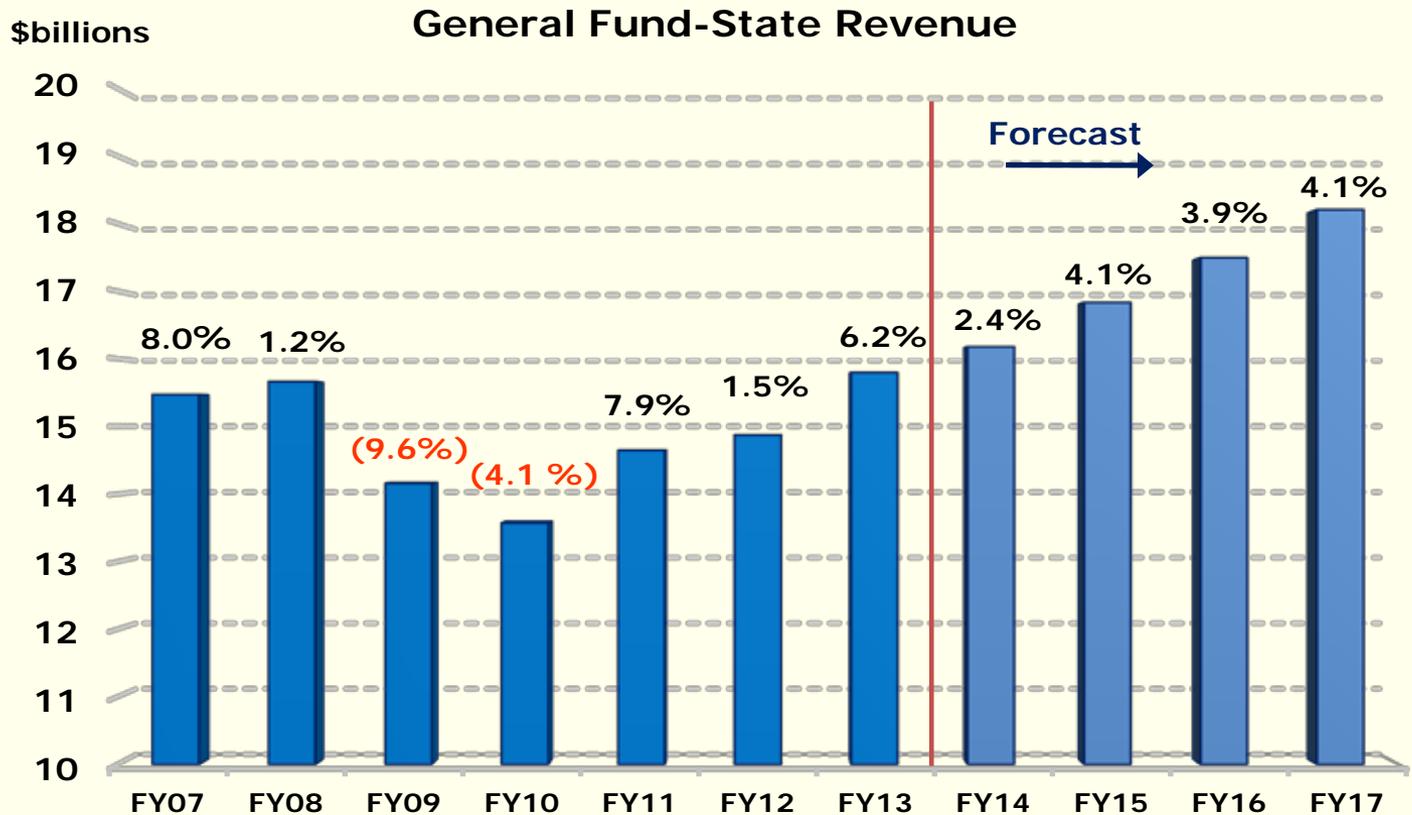
There has already been a \$475 million sale in October, which will generate \$5.6 million in GF-S REET



Source: ERFC; Monthly data through September 2013 preliminary



General Fund-State* forecast by fiscal year





Revenue collections to date

Cumulative Variance Since September Forecast (September 11 – October 10, 2013) dollars in thousands

	<u>Estimate</u>	<u>Actual</u>	<u>Difference</u>	<u>Pct.</u>
Dept. of Revenue	\$1,096,129	\$1,129,529	\$33,400	3.0%
All other agencies	\$8,486	\$7,394	(\$1,092)	-12.9%
Total GF-S	\$1,104,615	\$1,136,923	\$32,308	2.9%
Excl. Special Factors*	\$1,104,615	\$1,114,423	\$9,808	0.9%

*\$22.5 million refund included in forecast but yet to occur



Conclusion

- We expect the slow pace of economic recovery to continue in both the U.S. and Washington economies
- Washington is still likely to outperform the nation, but by a small margin
- Washington construction activity has been strong but rising mortgage rates could slow the housing recovery
- Other threats to economic recovery include slowing Asian economies and uncertainty around federal fiscal issues



Questions



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