

# Economic and Revenue Outlook

Presented to  
Financial Management Advisory Council

Steve Lerch  
Executive Director

January 22, 2015  
Olympia, Washington



WASHINGTON STATE  
ECONOMIC AND REVENUE FORECAST COUNCIL

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## Summary – November Forecast

- Oil prices are lower than in the September forecast
- Washington personal income is higher than expected in September due to historical data revisions
- Downside risks to the baseline include the potential for slower Chinese, Japanese and European economic growth, possible disruptions to the housing recovery, and geopolitical unrest
- The Washington economy continues to grow modestly, with employment rising in most sectors
- The state revenue forecast for the current biennium and for the 2015-2017 budget period was increased by 0.5% compared to September

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Slide 1

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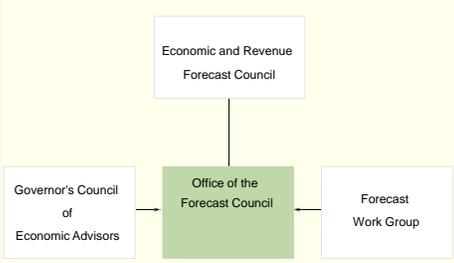
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## Forecast Oversight

**ERFC**

- Council hires Executive Director for three year term
- Director hires staff
- Total staff of five

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    ERC[Economic and Revenue Forecast Council] --- OFC[Office of the Forecast Council]
    GCA[Governor's Council of Economic Advisors] --> OFC
    FWG[Forecast Work Group] --> OFC
            
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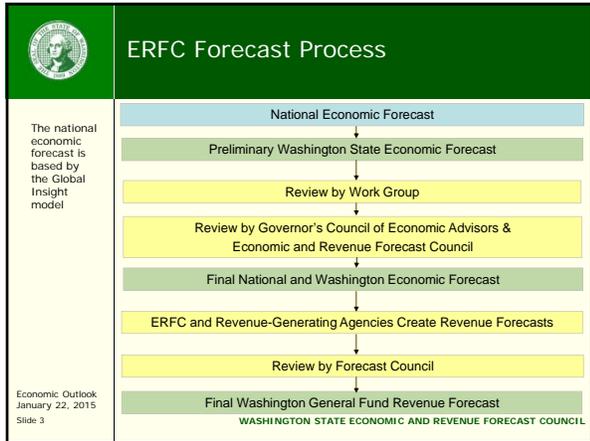
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- Economic news continues to suggest risks to forecast**
- Upside:
    - Declining initial unemployment claims
    - Net monthly employment gains average almost 250,000 in 2014
    - Lower gasoline prices
    - Lower mortgage rates
  - Downside:
    - Slowing Chinese, Japanese, European economies
    - Lackluster housing activity
    - Instability in Middle East, Ukraine/Russia
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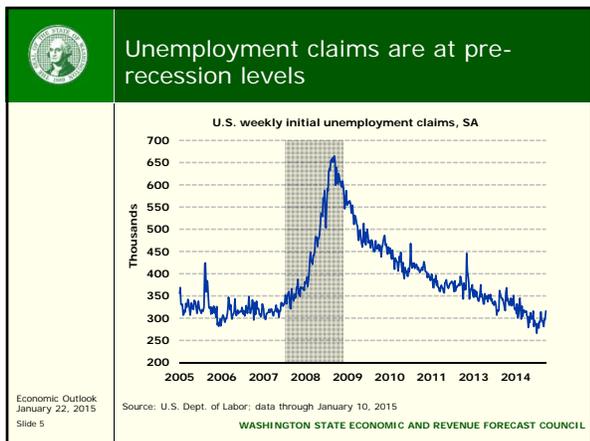
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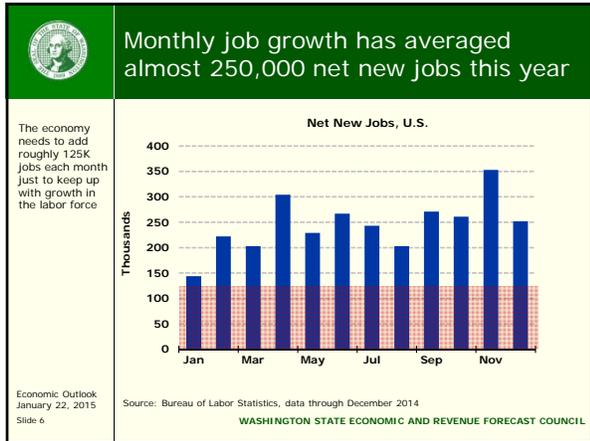
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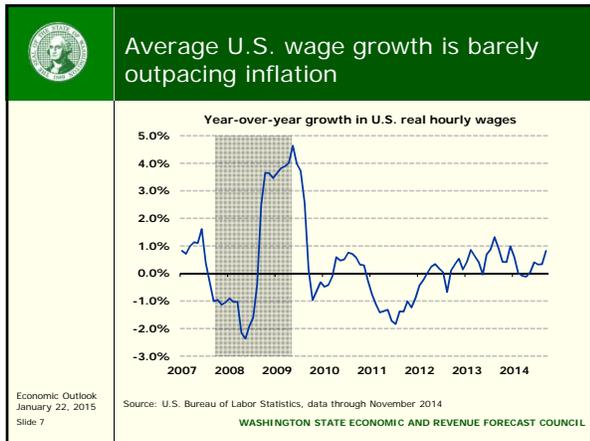
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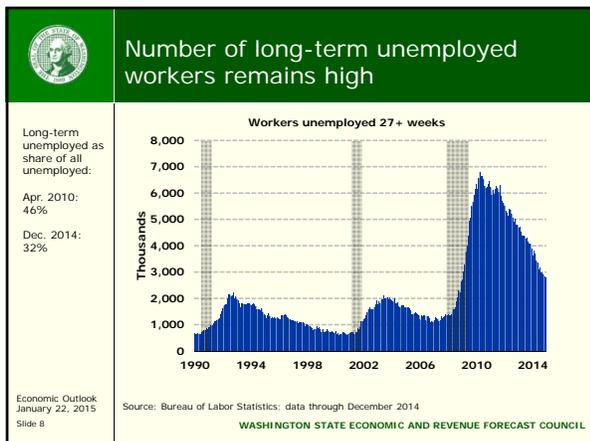
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### Gasoline prices are falling



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Source: Dept. of Energy, weekly data through January 12, 2015

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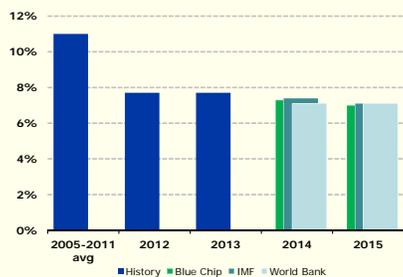
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### China's 2014 & 2015 GDP growth expected to be below 2013 rate



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Source: Blue Chip, IMF; data and forecasts through November 2014; World Bank, June 2014 forecast

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### Housing starts are trending up but remain below historic average



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

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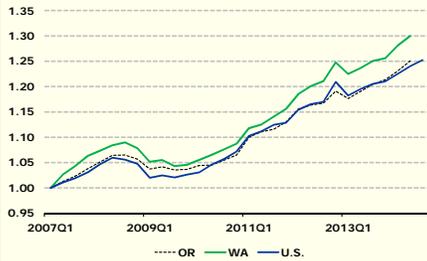
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### Personal income growth since 2007



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Source: BEA; data through 2014 Q3

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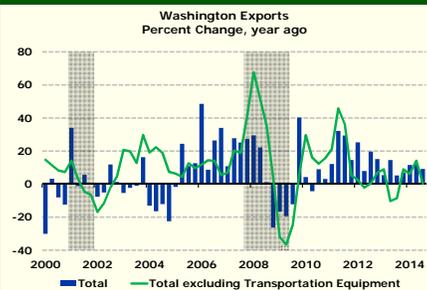
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### Non-transportation equipment export growth remains weak



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Source: Wisner Trade Data; through 2014Q3

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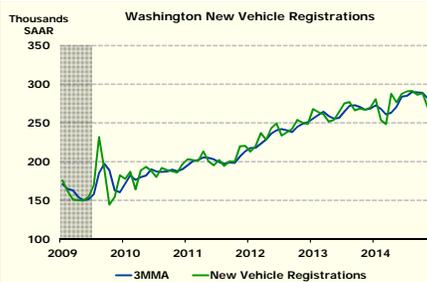
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### Washington new vehicle registrations hit a post-recession high in December



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Source: Dept. of Licensing, ERFC; data through December 2014

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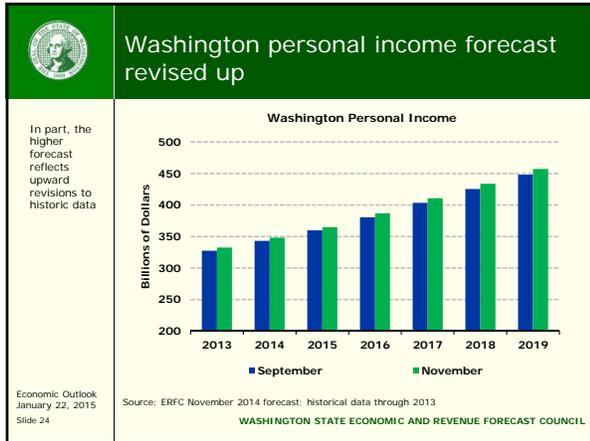
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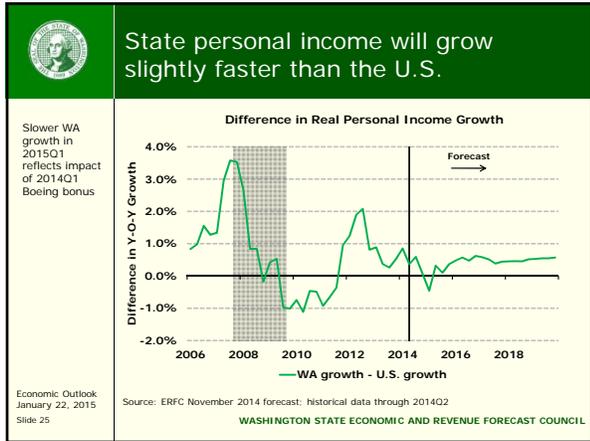
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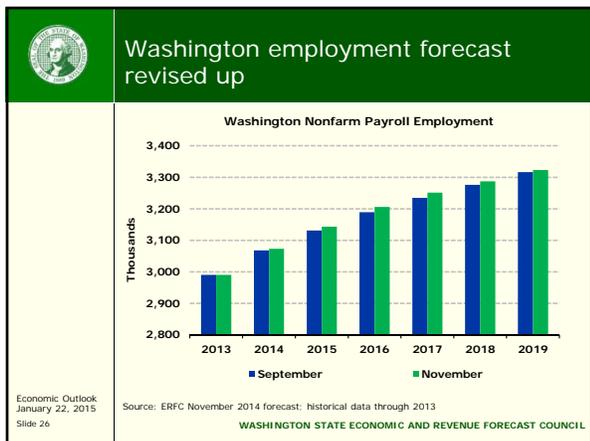
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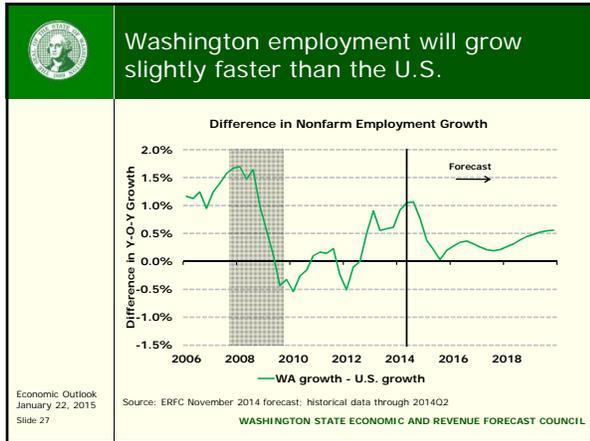
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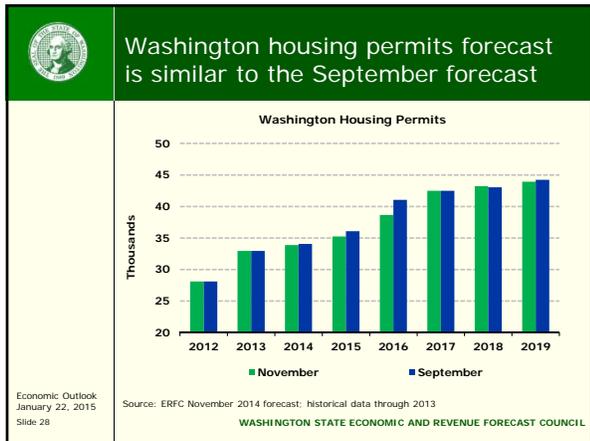
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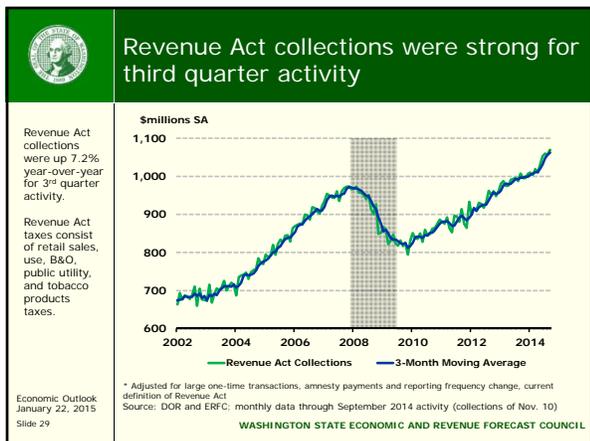
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## The surge from liquor privatization is over



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Source: DOR, ERFC November 2014 forecast; historical data through 2013 Q3  
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## The number of cannabis establishments continues to grow

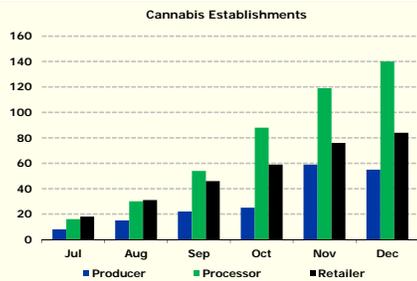
65% of Producers are also Processors

Growth in Establishments: (July to November)

Producer 8 to 55

Processor 16 to 140

Retail 18 to 84



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Slide 31

Source: LCB, ERFC; data through December 2014  
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## GF-S cannabis revenue estimates

Total GF-S change from September forecast:

\*2013-15 +\$4.0 M

\*2015-17 +\$8.0 M

\*2017-19 +\$2.4 M

\$Millions	November Forecast		
	2013-15	2015-17	2017-19
GF-S share of excise tax and license fees	\$5.7	\$36.1	\$64.9
Retail sales tax and B&O	\$5.2	\$32.0	\$56.6
<b>Total General Fund</b>	<b>\$10.9</b>	<b>\$68.1</b>	<b>\$121.5</b>
<b>Total Non-GF</b>	<b>\$31.8</b>	<b>\$168.4</b>	<b>\$293.5</b>

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January 22, 2015  
Slide 32

\* Detail may not add to total due to rounding  
Source: ERFC, LCB, BOTEC Analysis  
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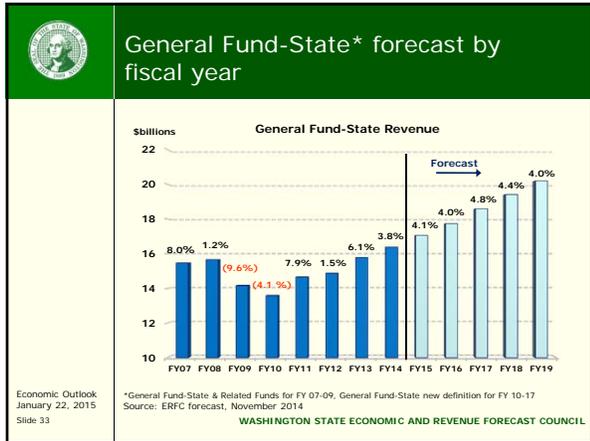
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- ### Conclusion
- The economic forecast is quite similar to September's forecast, with the exception of lower oil prices
  - We expect the moderate pace of the economic recovery to continue in both the U.S. and Washington economies
  - Washington's economy will continue to be slightly stronger than the nation as a whole
  - The level of uncertainty in the baseline remains high, with greater risks on the downside than on the upside
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Slide 34
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### Questions

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[www.erc.wa.gov](http://www.erc.wa.gov)  
360-534-1560

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January 22, 2015  
Slide 35

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