

Economic and Revenue Outlook

Presented to
FMAC

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Chief Economist & Executive Director

November 29, 2012
Olympia, Washington



WASHINGTON STATE
ECONOMIC AND REVENUE FORECAST COUNCIL



Summary

- The updated economic forecast is marginally weaker than the September forecast, with slightly lower U.S. GDP and Washington personal income
- Uncertainty in the baseline remains very high, mostly due to on-going concerns about Europe, China, and the “fiscal cliff”
- Given the uncertainty around implementation, no new revenue is associated with I-502 at this time
- This forecast increases expected GF-S revenue by \$8 million in the current biennium but decreases it by \$88 million in the 2013-15 biennium

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The state's risk matrix shows most risks from outside state



Washington's Economy

EUROPE Sovereign Debt → EUROPE Banks → U.S. Banks

European Recession → Asia Slowdown → U.S. Trade

• Fiscal Cliff • Iran's effect on oil

Housing and construction, Exports

State of Washington

Pluses
Aerospace
Software

Minuses
State & Local
Government

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Source: ERFC

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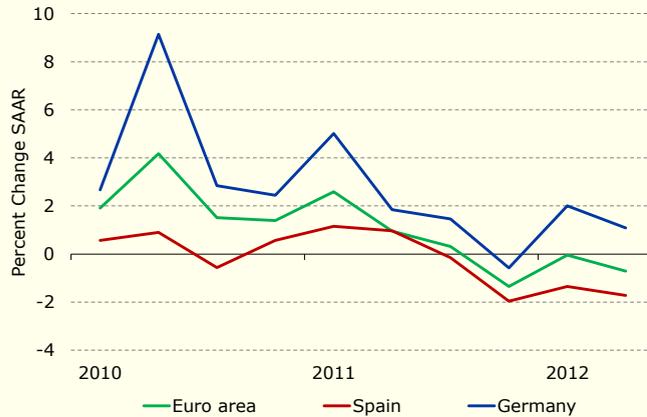
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Euro area GDP growth is negative

Eurozone Forecast:
2012: -0.5%
2013: 0.2%

Quarterly GDP Growth



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Source: Organisation for Economic Co-operation and Development (OECD); data through second quarter, 2012

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European unemployment is heading in the wrong direction

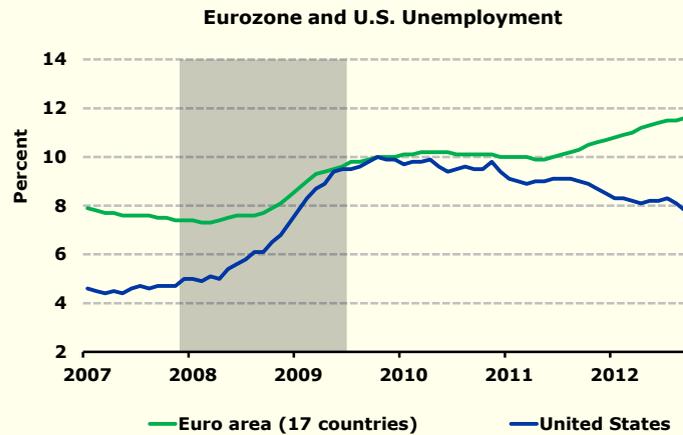
Unemployment Rate:

Spain: 25.8
Greece: 25.1

Germany: 5.4

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Source: Eurostat; data through September 2012

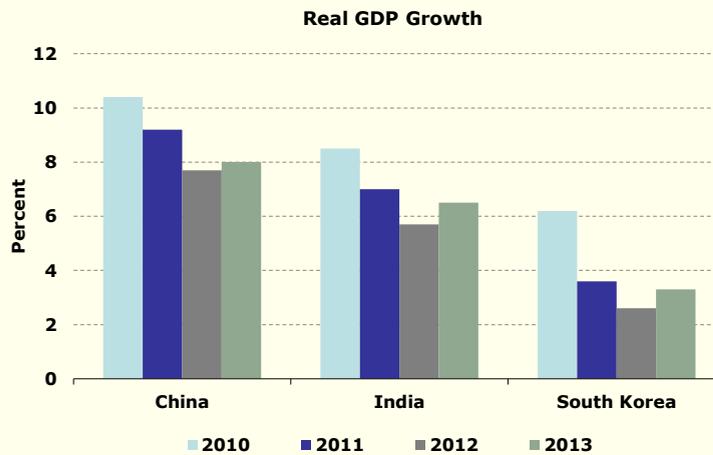
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Asian economic growth is slowing

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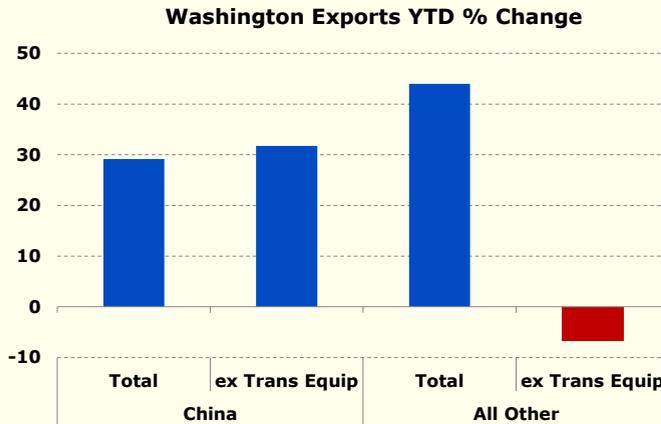
Source: Blue Chip Economic Indicators October 2012, data through 2011

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Non Transportation Equipment exports outside of China are declining

YTD Agricultural exports to China are up 90%



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Source: Wiser Trade Data; through September 2012

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The U.S. will enter another recession if Congress does not address fiscal cliff

Economists in the latest WSJ forecasting survey put the probability at 17%

	FY 2013	Fiscal Cliff ¹	Alt Scenario ²
GDP		-0.5%	+1.7%
Unemployment Rate		9.1%	8.0%
Budget Deficit		\$641 Billion	\$1,037 Billion

¹ Current laws remain generally unchanged.

² Maintains majority of current policies (extend most tax cuts and prevent automatic spending cuts)

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Source: The Congressional Budget Office

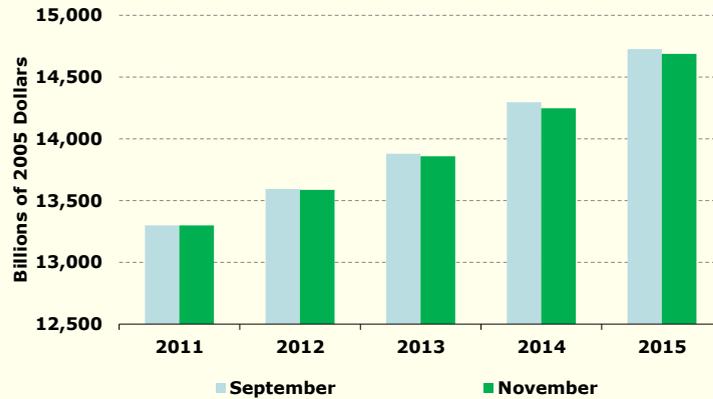
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U.S. GDP Forecast Slightly Lower

Blue Chip Consensus Real GDP forecast



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Source: BEA, Blue Chip Economic Indicators November 2012; historical data through 2011

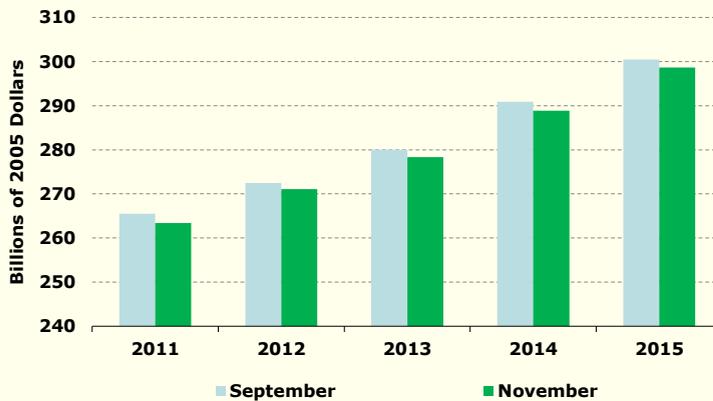
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WA Personal Income Forecast Slightly Lower

Washington Real Personal Income



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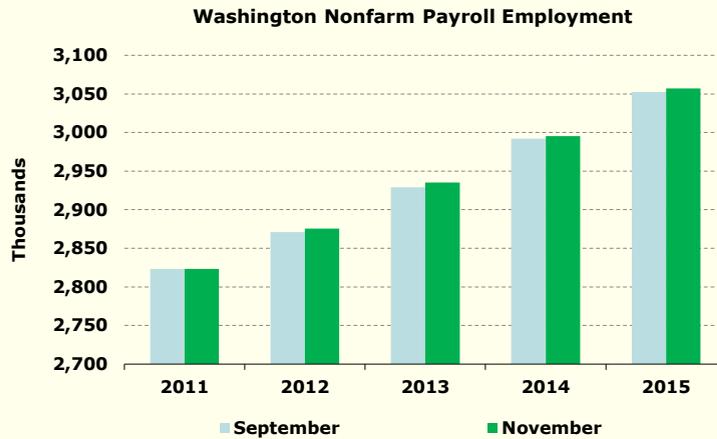
Source: BEA, ERFC November 2012 Forecast; historical data through 2011

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WA Employment Forecast Slightly Higher



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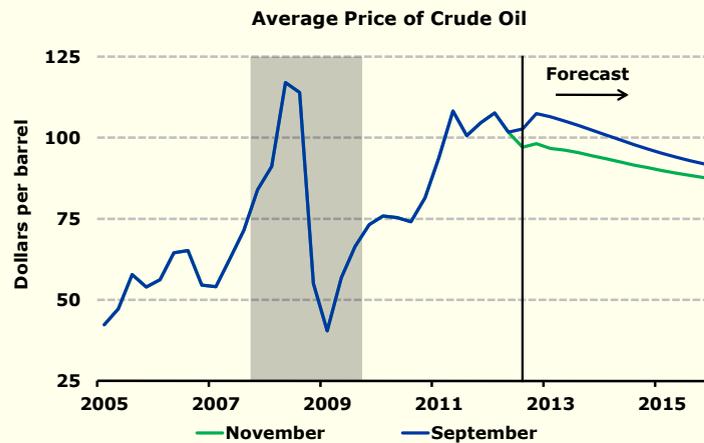
Source: WA State ESD, ERFC November 2012 Forecast; historical data through 2011

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Oil prices are expected to decline



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Source: DOE, ERFC November 2012 forecast; historical data through 2012Q3

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Job growth remains weak

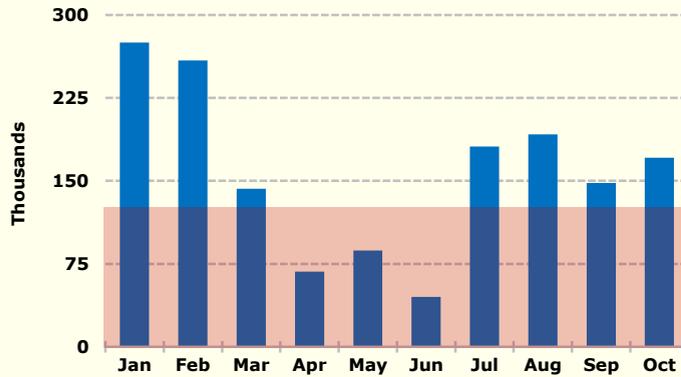
12.3 million people remained unemployed in October

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

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Net New Jobs



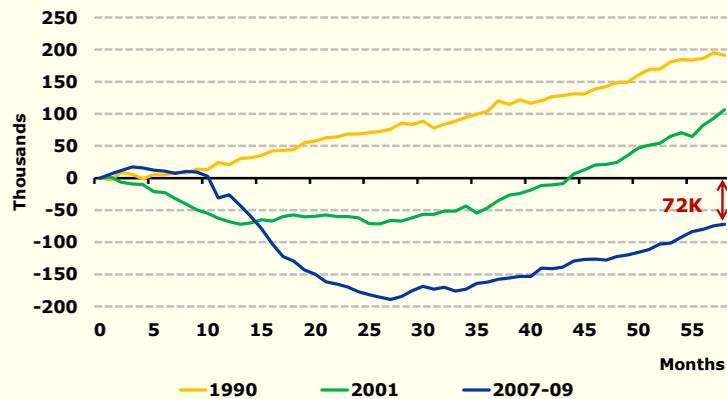
Source: Bureau of Labor Statistics, data through October 2012

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The decline in employment has been severe

Washington Employment after Business Cycle Peak



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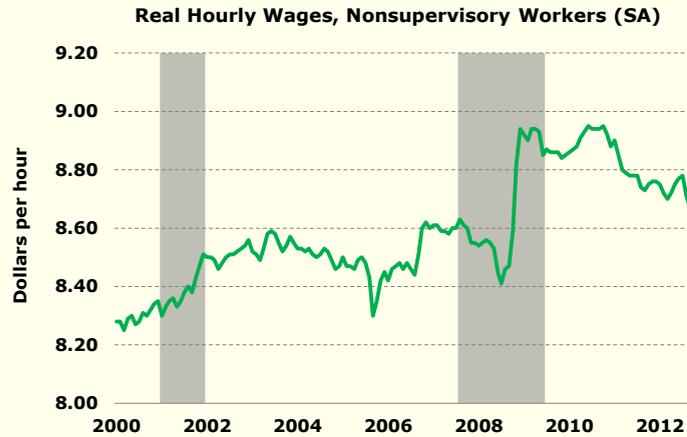
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Source: WA ESD, ERFC; data through September 2012

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Real Wages Have Trended Down Since 2011



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Source: BLS; data through September 2012

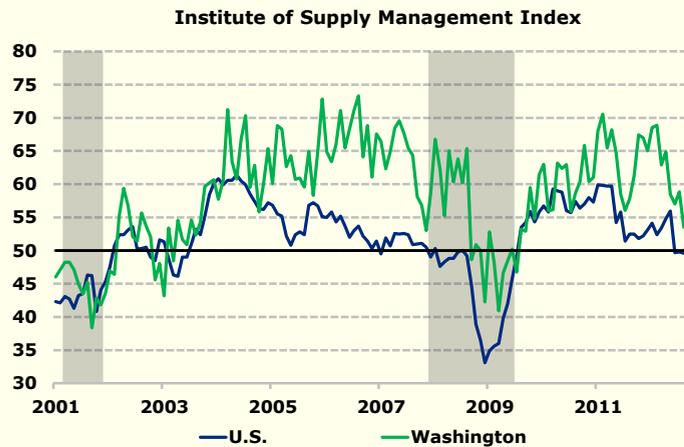
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Manufacturing remains weak nationally

An index greater than 50, implies growth



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Source: Institute of Supply Management; data through October 2012

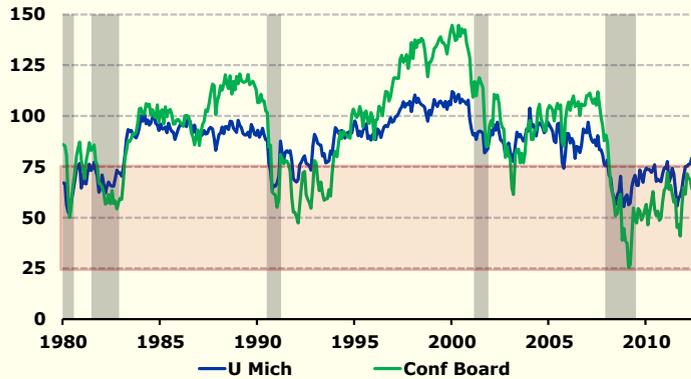
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Consumer confidence appears to be finally improving

Index
Mich: 1966Q1 = 100, SA
Conf Board: 1985 = 100, SA



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Source: University of Michigan; Conference Board, data through November 2012

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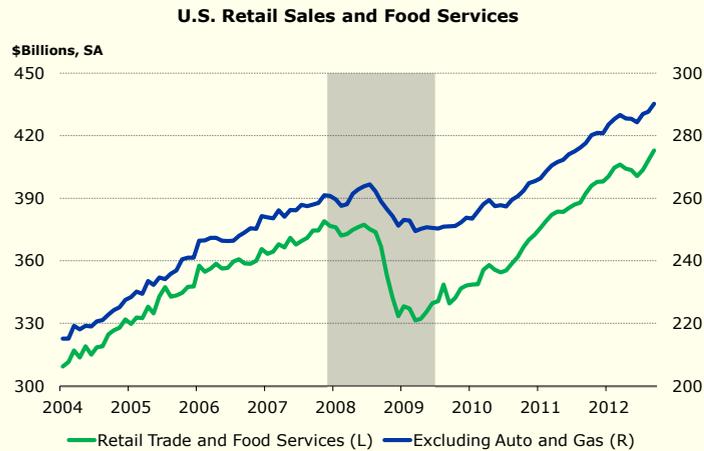
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U.S. retail sales on an upswing after April-June pause

Preliminary U.S. retail trade and food services sales were up 5.3% year-over-year in August and 5.2% in September.

Excluding autos and gas, sales were up 4.1% year-over-year in August and 4.5% in September.



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Source: U.S. Department of Commerce, Census Bureau; Data through September 2012 advance

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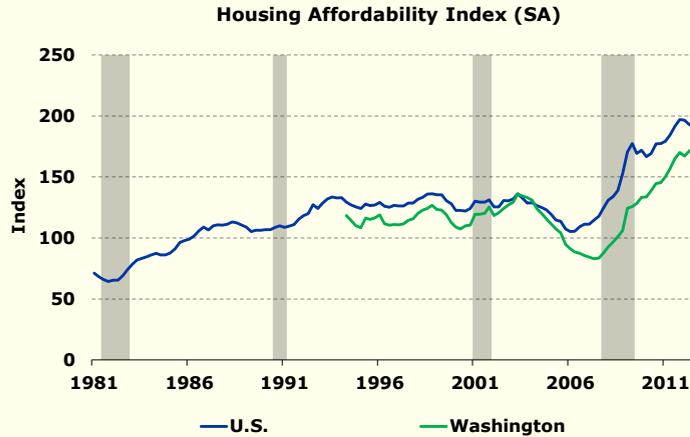
Home affordability remains in record territory

Affordability is 100 when the median income can just afford the median priced home. Above 100 means the median income can afford more than the median priced home

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Source: National Association of Realtors, Global Insight, Washington Center for Real Estate Research; data through 2012 Q3

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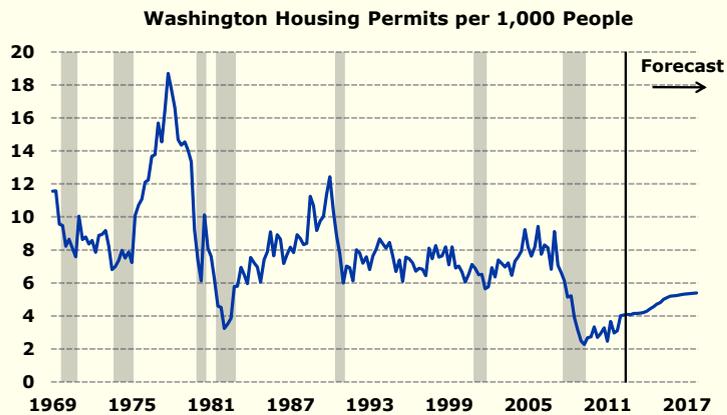


Housing permits relative to population will still be below historic levels in 2017

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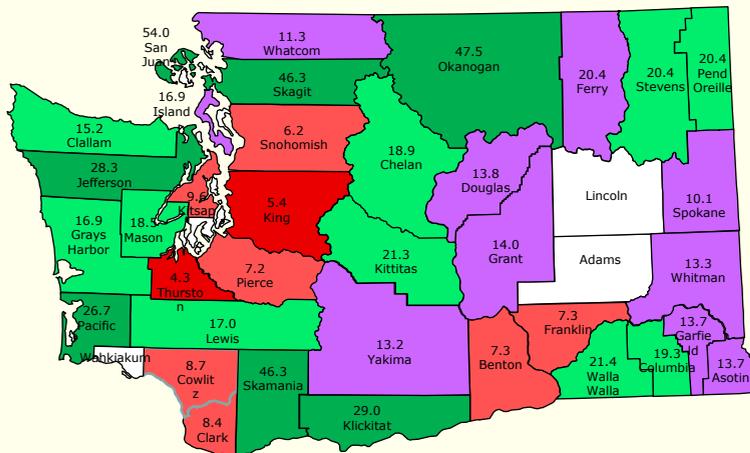
Source: U.S. Census Bureau, ERFC November 2012 Forecast; historical data through 2012 Q3

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Month's supply of homes on market by county - 2011Q2

- 2.0 to 6.0 Months
- 6.1 to 10.0
- 10.1 to 15.0
- 15.1 to 23.9
- 24.0 to 70.0
- No data



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Source: Washington Center for Real Estate Research, data through 2nd quarter 2011

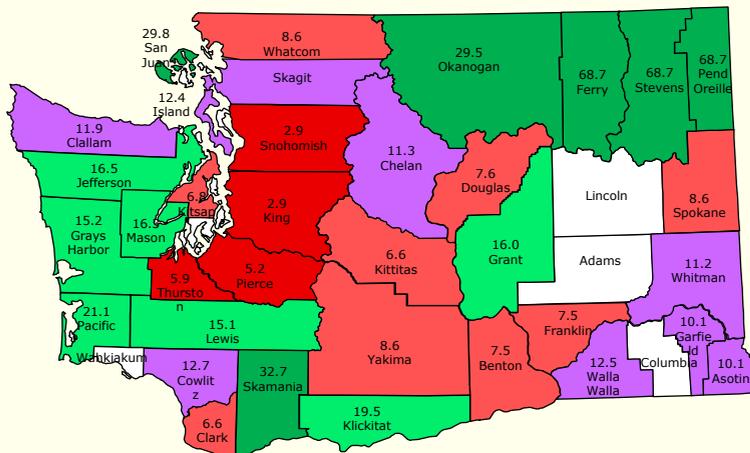
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Month's supply of homes on market by county - 2012Q2

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Source: Washington Center for Real Estate Research, data through 2nd quarter 2012

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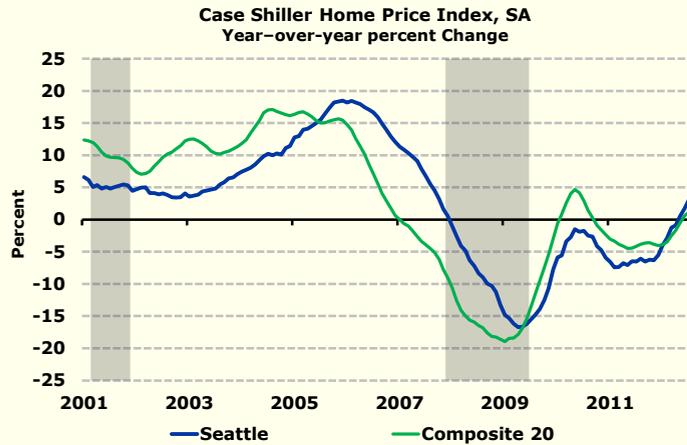


Single-family home prices are beginning to increase

Aug 2012

U.S. is up 2.0%

Seattle is up 3.3%



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Source: S&P/Case-Shiller; data through August 2012

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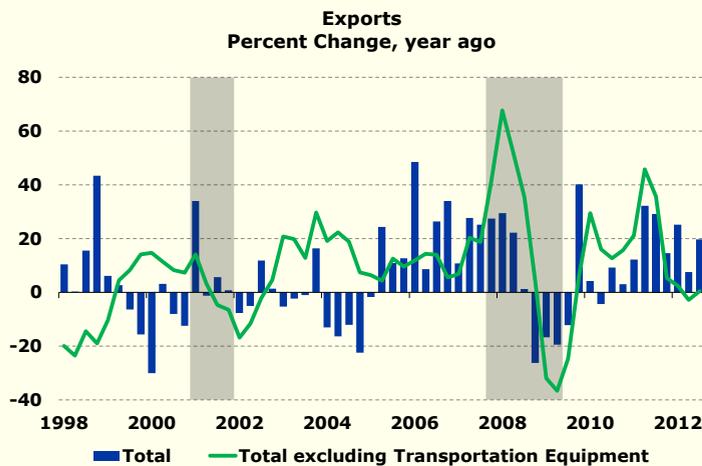
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WA export growth has slowed

Trans. Equip. exports are up 43.4% year-over-year in Q3

All other exports are up just 0.4% year-over-year in Q3



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Source: WISER Trade Data; data through 2012 Q3

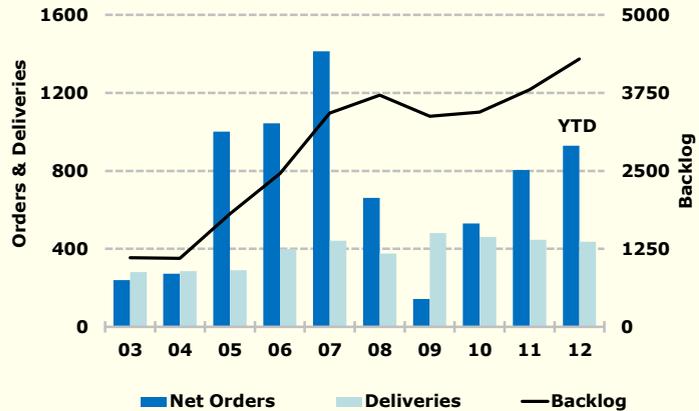
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Boeing has 7 years of commercial orders on its books

Excludes the military's new refueling tanker



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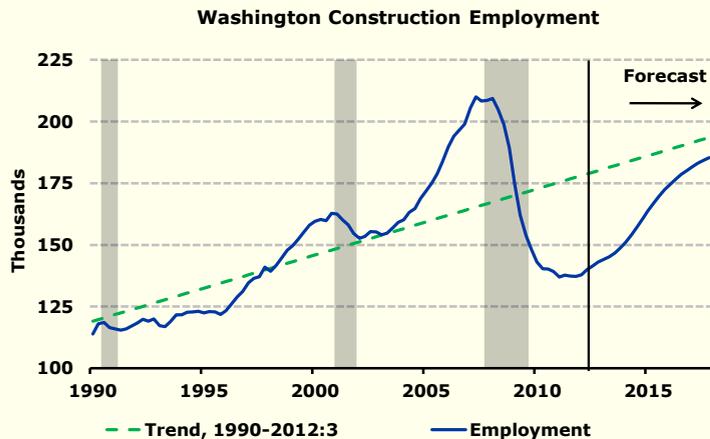
Source: Boeing, data through October 2012

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Washington construction employment will remain below trend throughout the forecast



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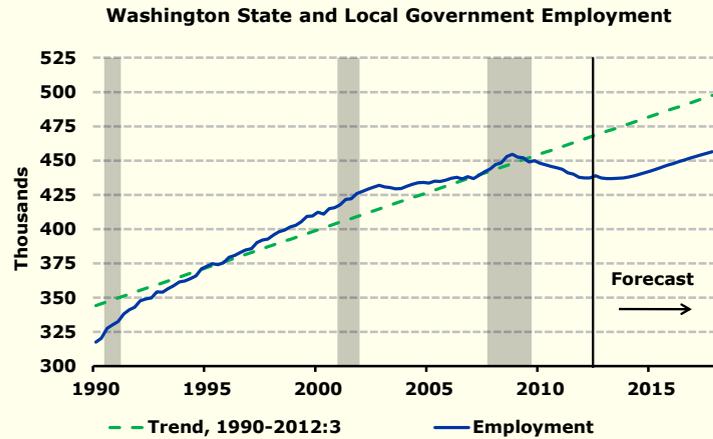
Source: ERFC November 2012 forecast; historical data through 2012Q3

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State and local government employment will remain weak



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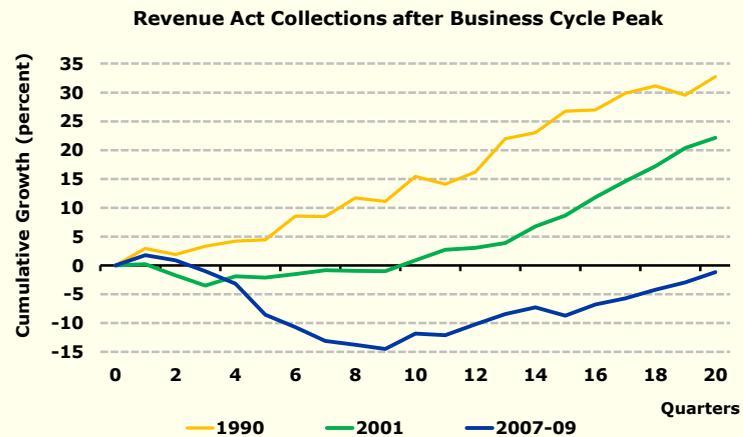
Source: ERFC November 2012 forecast; historical data through 2012Q3

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Revenue collections have been weak compared to past recoveries



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Source: ERFC; data through 2012 Q3

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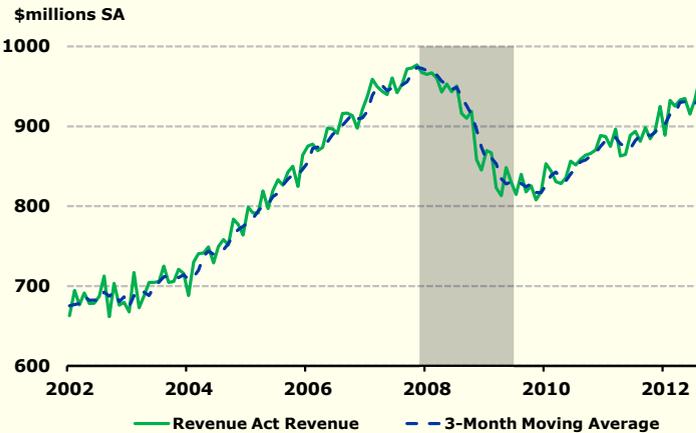
Revenue Act collections are still on an upward trend

Collections were up 2.3% year-over-year in the October 11 - November 10, 2012 collection period but were up 10.4% in the previous period

Collections through November 10 were only \$136,000 lower than forecasted.

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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 September 2012 activity

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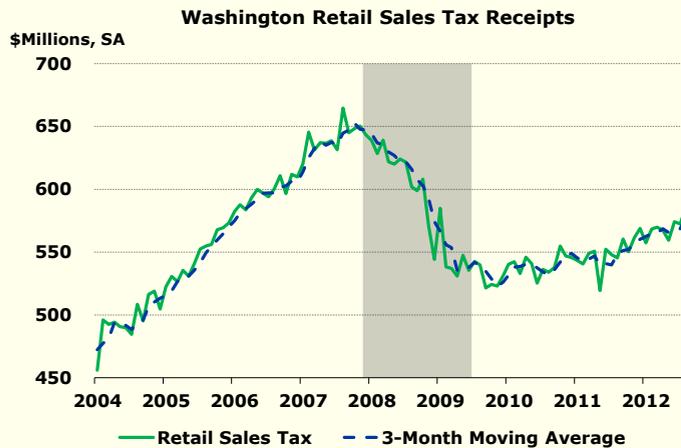


WA sales tax growth still moderate

Preliminary seasonally adjusted sales tax receipts were up 3% year-over-year for September activity but were up 7% for August activity.

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

Source: ERFC; Monthly data through September 2012 preliminary activity

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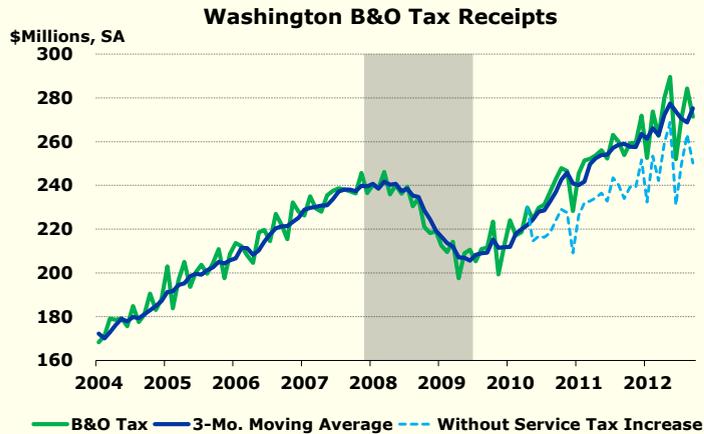


B&O tax growth is stronger than retail sales tax growth

Preliminary seasonally adjusted business and occupation tax receipts were up 7% year-over-year for September activity.

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Source: ERFC; Monthly data through September 2012 preliminary activity
Adjusted for taxpayer frequency shift, amnesty payments, and recent large refunds

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October saw another spike in large commercial real estate sales

\$800 million in large commercial sales added about \$10 million to October REET

The pending \$1.2 billion sale of the Amazon.com campus added \$15 million to the forecast

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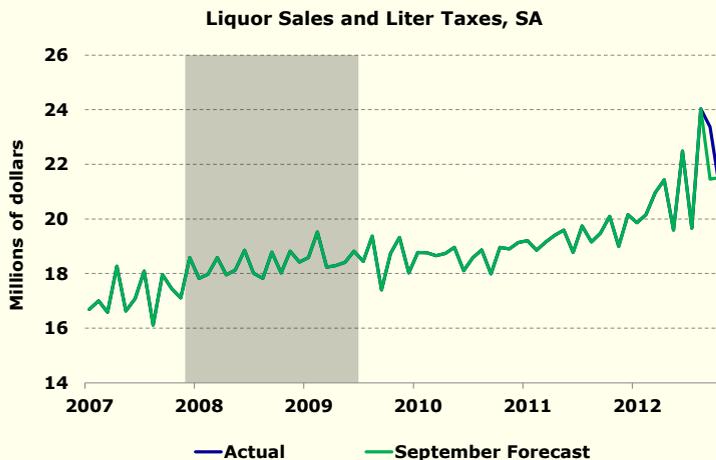
Source: ERFC; Monthly data through October 2012 preliminary

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Revenue for liquor sales has been volatile recently

Revenue was \$2.2 million (5.1%) above the September forecast



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Source: DOR, ERFC; data through October 2012

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Forecast changes: General Fund State, 2011-2013 Biennium

September Forecast:

\$30,469 million

USD millions	November Forecast			
	<u>Collection Experience</u>	<u>Forecast Change</u>	<u>Forecast</u>	<u>Total Change*</u>
Dept. of Revenue	\$32	(\$3)	\$28,852	\$29
All other agencies	(\$1)	(\$20)	\$1,625	(\$21)
Total GF-S	\$31	(\$23)	\$30,477	\$8

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* Detail may not add to total due to rounding

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Forecast revisions to the 2011-13 biennium

**GF-S
New
Definition**

USD,
millions



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Source: ERFC November 2012 forecast

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Forecast changes: General Fund State, 2013-2015 Biennium

**September
Forecast:**

**\$32,649
million**

USD
millions

	November Forecast			Total Change*
	<u>Non- economic Change</u>	<u>Forecast Change</u>	<u>Forecast</u>	
Dept. of Revenue	\$0	(\$113)	\$31,001	(\$113)
All other agencies	\$0	\$25	\$1,560	\$25
Total GF-S	\$0	(\$88)	\$32,561	(\$88)

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* Detail may not add to total due to rounding

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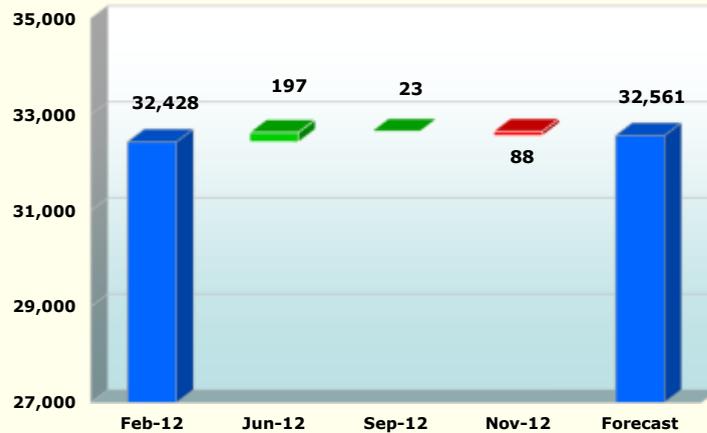
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Forecast revisions to the 2013-15 biennium

**GF-S
New
Definition**

USD,
millions



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Source: ERFC November 2012 forecast

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Forecast changes: General Fund State, 2015-2017 Biennium

**September
Forecast:**

**\$35,518
million**

USD
millions

	November Forecast			
	<u>Non-economic Change</u>	<u>Forecast Change</u>	<u>Forecast</u>	<u>Total Change*</u>
Dept. of Revenue	\$0	(\$196)	\$33,906	(\$196)
All other agencies	\$0	\$33	\$1,449	\$33
Total GF-S	\$0	(\$163)	\$35,355	(\$163)

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* Detail may not add to total due to rounding

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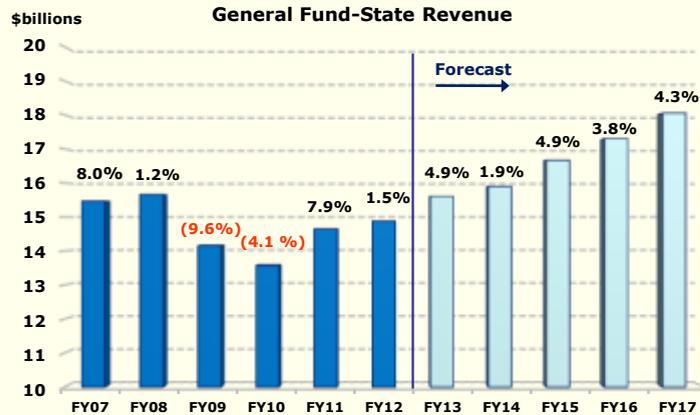


General Fund* forecast by fiscal year

FY 2011 revenues were boosted by the tax amnesty program and one-time transfers of non-GF-S funds into the GF-S

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*General Fund & Related Funds for FY 07-09, General Fund – new definition for FY 10-17
Source: ERFC forecast, November 2012

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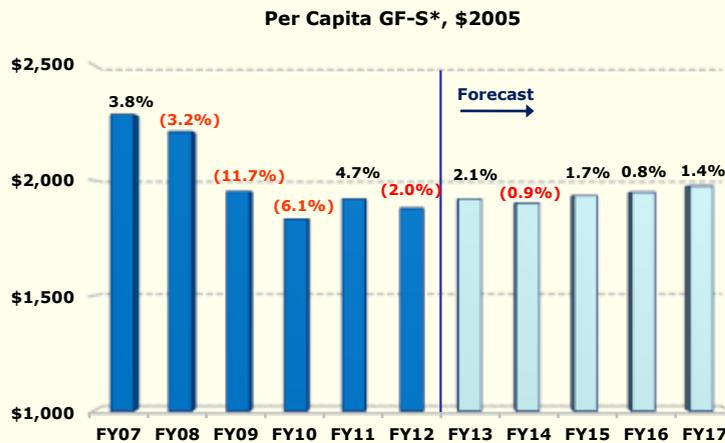


Real Per Capita General Fund*-State Revenue

* General Fund & Related Funds for FY 2007-2009, General Fund – new definition, for FY 2010-2017

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Source: ERFC forecast, November 2012

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2011-13 Biennium alternative forecasts – cash basis

<u>\$Millions</u>	2011-13 Biennium	Difference From the baseline
November 2012 Baseline (50%)	\$30,477	
<u>November 2012 Alternative Forecasts</u>		
Optimistic (15%)	\$31,082	\$604
Pessimistic (35%)	\$29,871	(\$607)
Probability Weighted Average	\$30,356	(\$122)
GCEA*	\$30,471	(\$7)

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

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2013-15 Biennium alternative forecasts – cash basis

<u>\$Millions</u>	2013-15 Biennium	Difference From the baseline
November 2012 Baseline (50%)	\$32,561	
<u>November 2012 Alternative Forecasts</u>		
Optimistic (15%)	\$35,545	\$2,984
Pessimistic (35%)	\$29,477	(\$3,084)
Probability Weighted Average	\$31,929	(\$632)
GCEA*	\$32,582	\$21

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

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Conclusion

- The forecast for the 2011-13 Biennium is \$8 million higher than in September
- The forecast for the 2013-15 Biennium is \$88 million lower than in September
- Revenues are expected to grow 8.0% between the 2009-11 and 2011-13 biennium and 6.8% between the 2011-13 and 2013-15 biennium
- As in September, we are forecasting slow economic and job growth for both the national and state economies
- The level of uncertainty in the baseline remains extremely high, and downside risks outweigh upside risks

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Questions



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