

State Economic Outlook

Presented to Financial Management Advisory Council

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Executive Director

January 20, 2009



Washington State Economic and Revenue Forecast Council



Overview

- Economic & Revenue Forecast Council Background
- Economic & Revenue Outlook
- Questions

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Washington State Economic and Revenue Forecast Council



Why a Forecast Council?

- Recessions of the Early 1980s
- Transparency
- Legislative input
 - “Major budget decisions and policy options are affected by state forecasts of economic activity and revenue collections. Efforts to increase legislative participation in and understanding of the forecasting process can increase the credibility and utility of the forecasts.”

John Spellman, Governor, Executive Order 84-01

- Eliminate multiple forecasts

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RCW 82.33

- The economic and revenue forecast council shall oversee the preparation of and approve, by an affirmative vote of at least four members, the official, optimistic, and pessimistic state economic and revenue forecasts prepared under RCW 82.33.020. *If the council is unable to approve a forecast before a date required in RCW 82.33.020, the supervisor shall submit the forecast without approval and the forecast shall have the same effect as if approved by the council.*
- Four times each year the supervisor shall prepare, subject to the approval of the economic and revenue forecast council under RCW 82.33.010 :
 - (a) An **official** state economic and revenue forecast;
 - (b) An unofficial state economic and revenue forecast based on **optimistic** economic and revenue projections; and
 - (c) An unofficial state economic and revenue forecast based on **pessimistic** economic and revenue projections.
- The supervisor shall submit forecasts on or before November 20th, February 20th in the even-numbered years, March 20th in the odd-numbered years, June 20th, and September 20th. All forecasts shall include both estimated receipts and estimated revenues in conformance with generally accepted accounting principles as provided by RCW 43.88.037.
- All agencies of state government shall provide to the supervisor immediate access to all information relating to economic and revenue forecasts.

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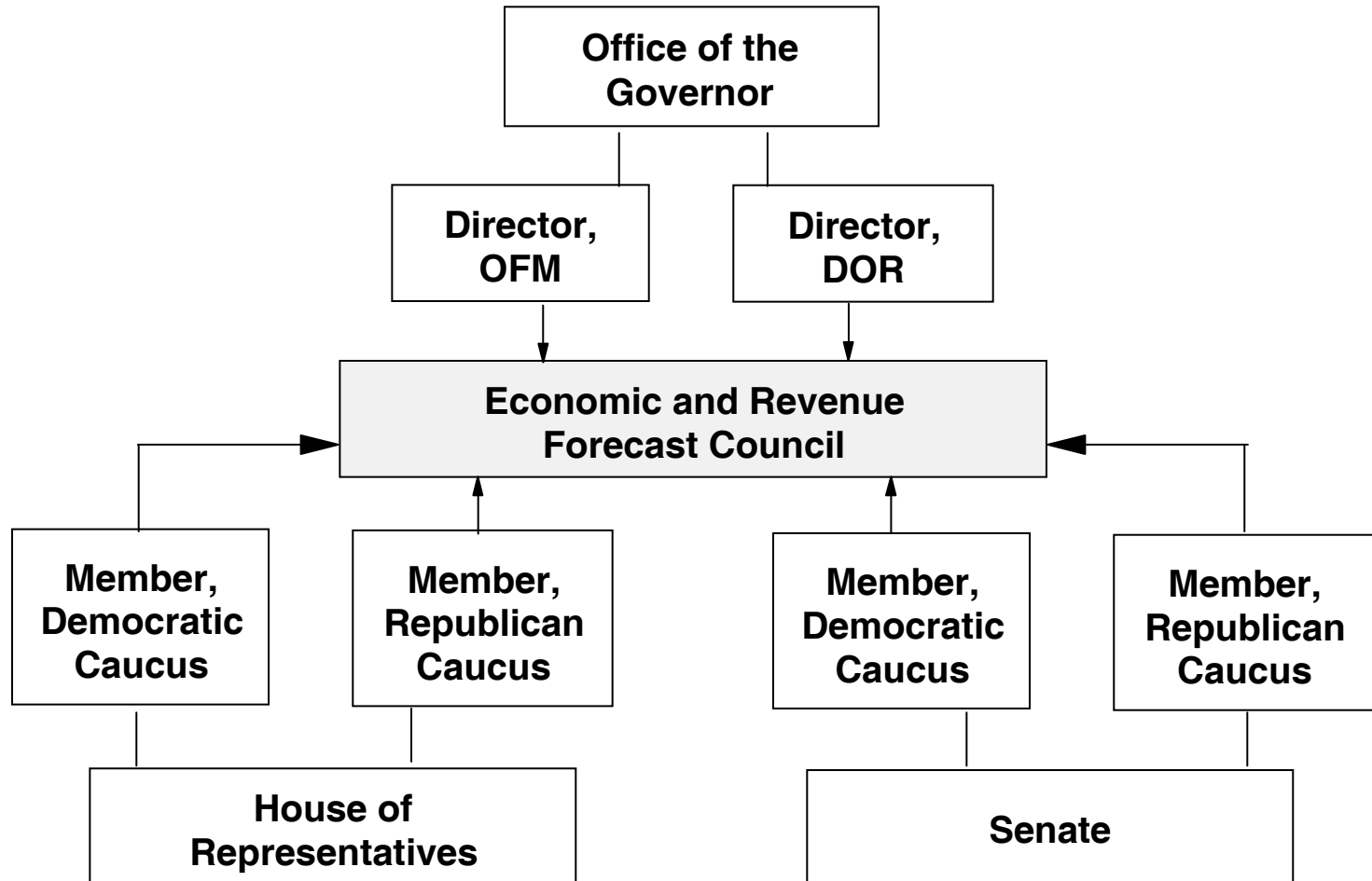
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Economic and Revenue Forecast Council

ERFC

- Created in 1984 as part of Dept. of Revenue
- Became separate agency in 1990



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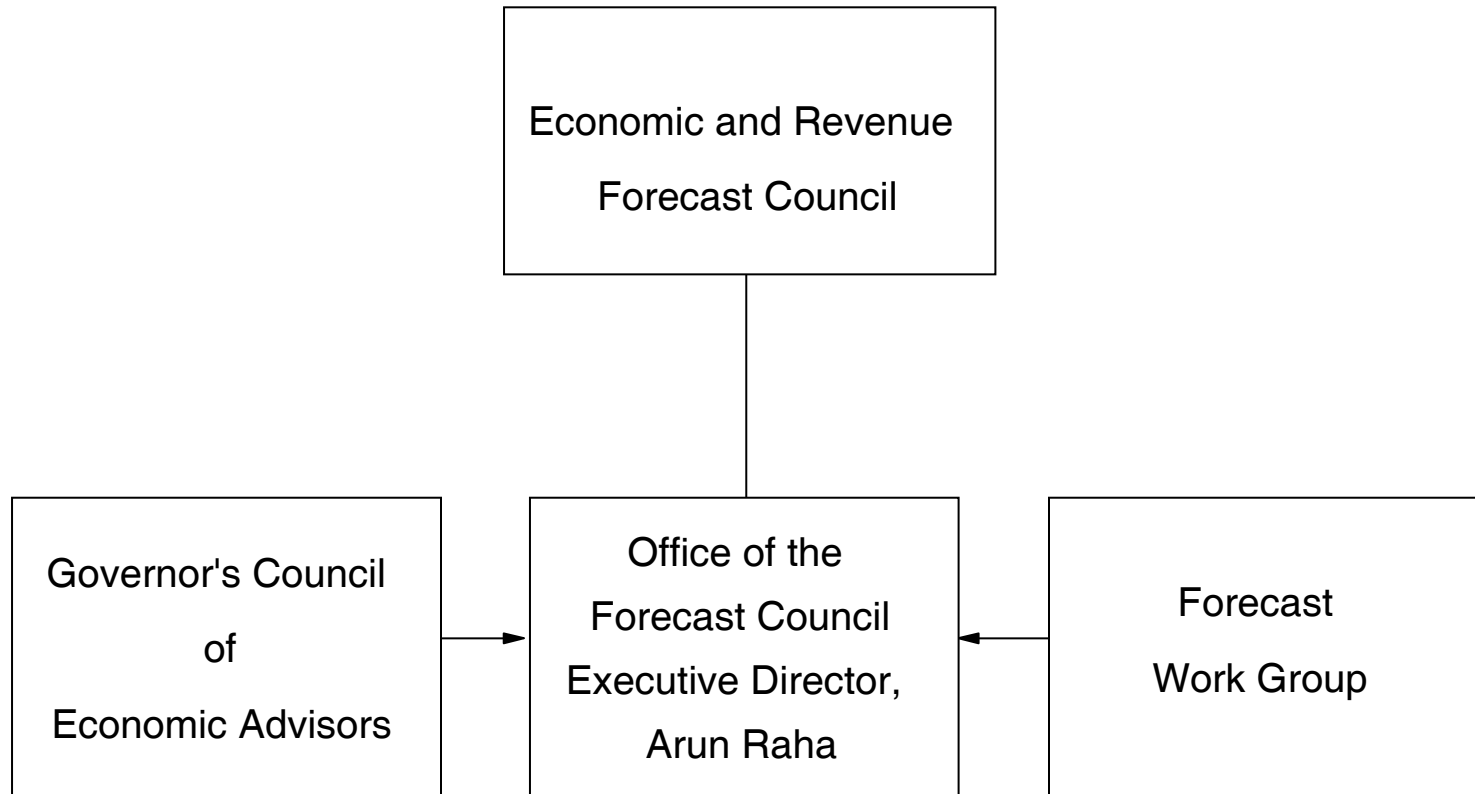


Forecast Oversight

ERFC

- Council hires Executive Director for three year term
- Director hires staff
- 5 FTEs

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ERFC Forecast Process

The national economic forecast is provided by Global Insight



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Economic Outlook Summary

- The U.S. economy has been in recession since December 2007 – this may possibly turn out to be the longest downturn since the Great Depression
- Financial sector woes have spilled over into the real economy
- Credit to consumers and business is still mostly unavailable
- Washington's economy has lagged the U.S. into the downturn, but will lead it in the recovery
- State revenue collections will be affected more severely, because this is a consumer led recession

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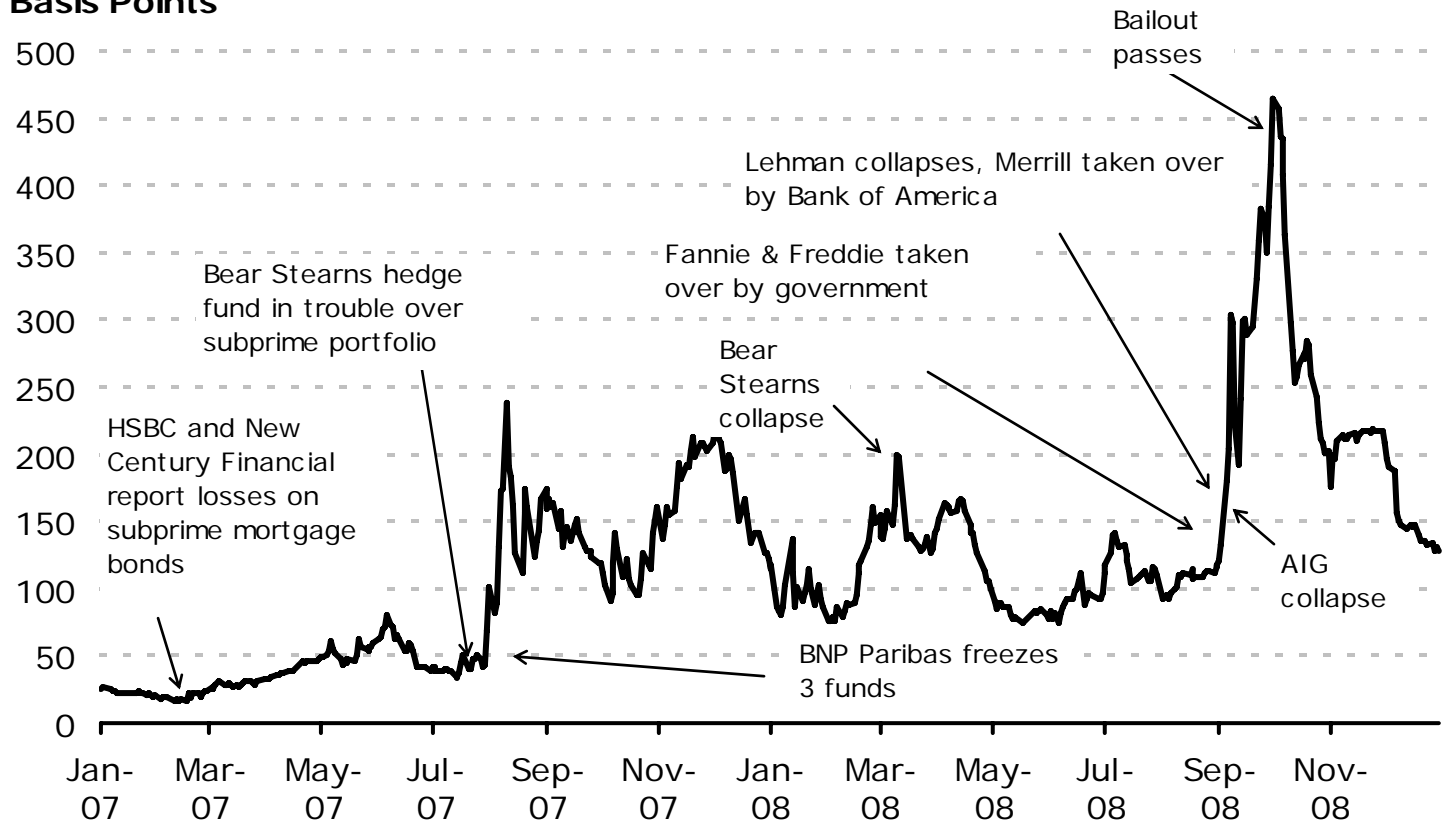
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Banks are now able to borrow from each other

The spread indicates the premium banks have to pay to borrow from each other

**USD 3m LIBOR - 3m US T-bill Spread
Basis Points**



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Source: British Bankers Association, US Federal Reserve Bank, ERFC; data through January 8, 2009

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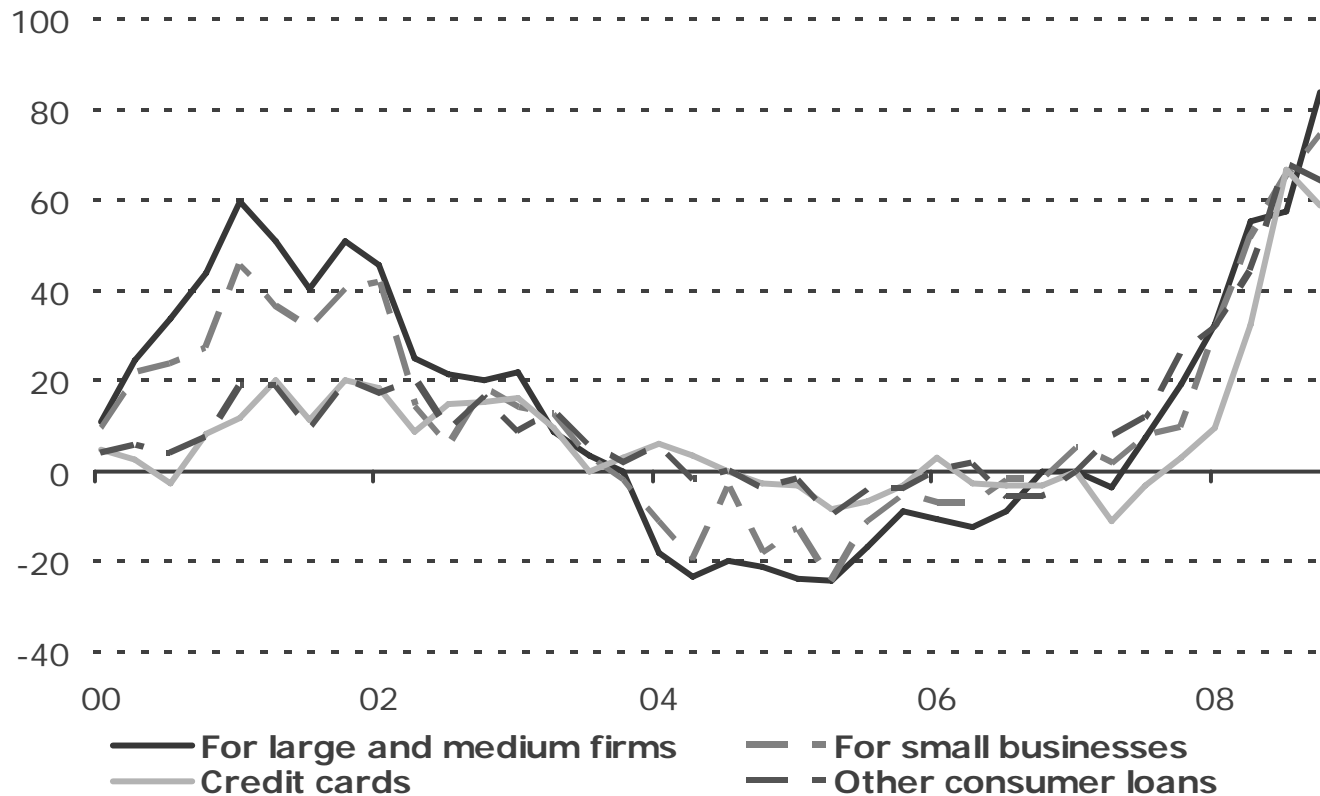


But lending to businesses and consumers remains mostly tight

There is some anecdotal evidence that credit conditions eased a little late in the year for credit-worthy car and home buyers

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Net Tightening *minus* Easing
Percent



Source: Federal Reserve Board, Senior Loan Officers Quarterly Survey, data through Oct 2008 survey



Consumer sentiment is lower than in previous recessions

Conference Board measure was its lowest ever recorded in October, and then fell even lower in December

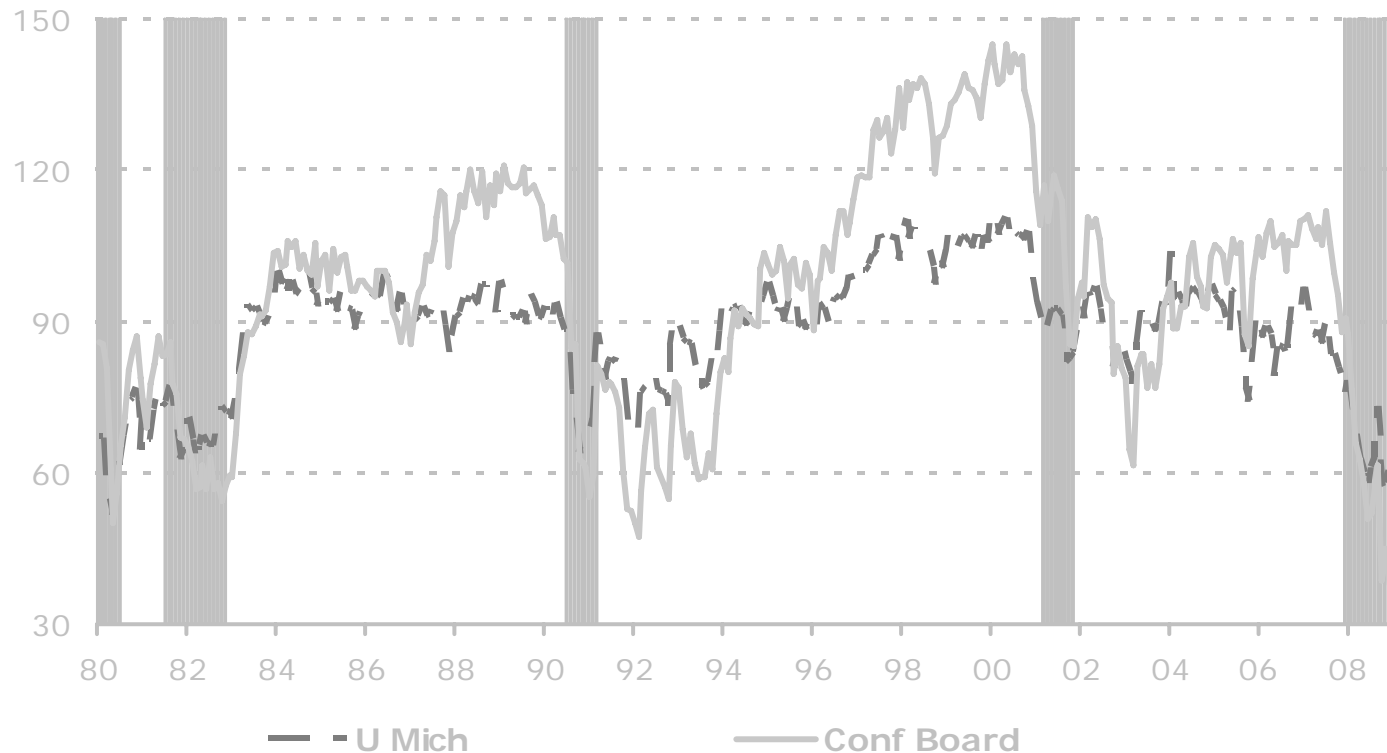
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Index
Mich: 1966Q1 = 100, SA
Conf Board: 1985 = 100, SA



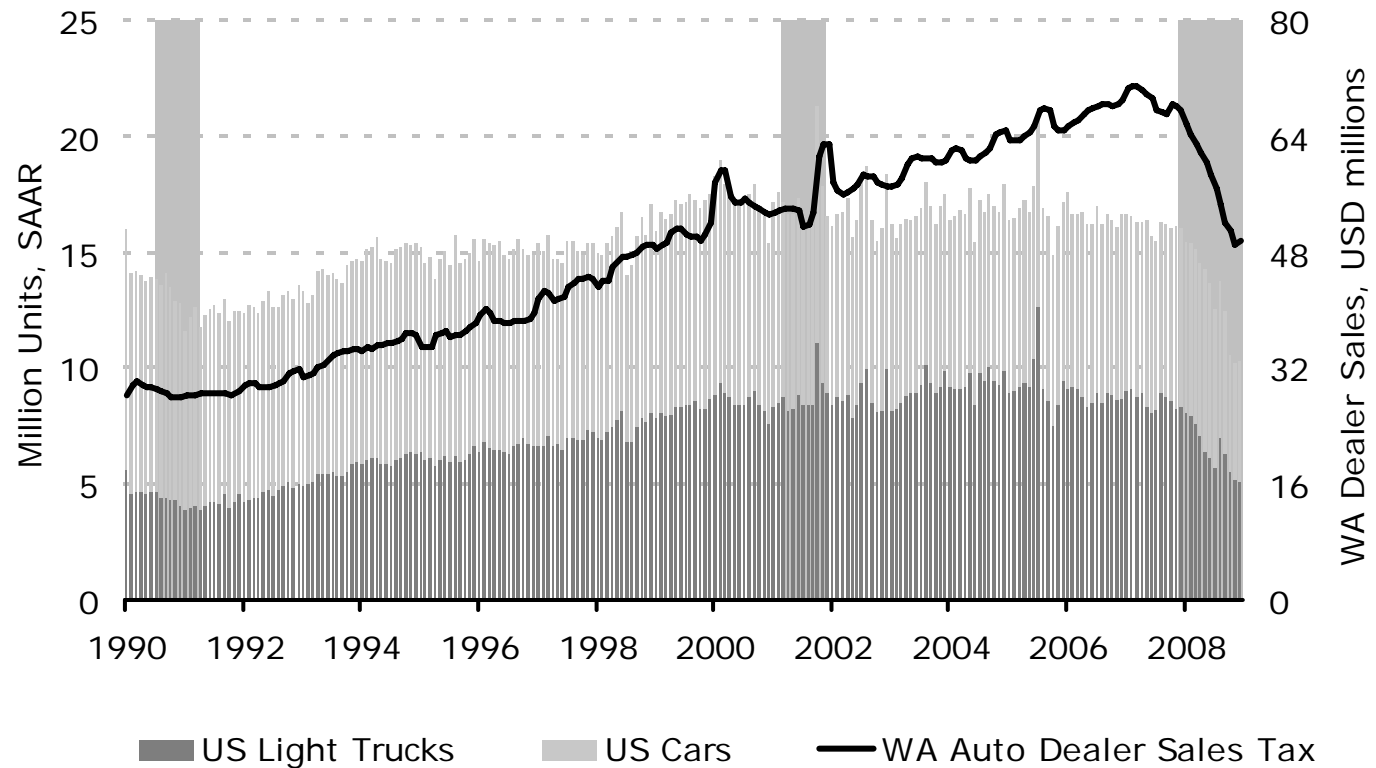
Source: University of Michigan; Conference Board; data through December 2008.

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Automotive sales have tumbled nationally, and in Washington

Auto Retail Sales:
US units sold
V.
USD value of WA auto dealer sales



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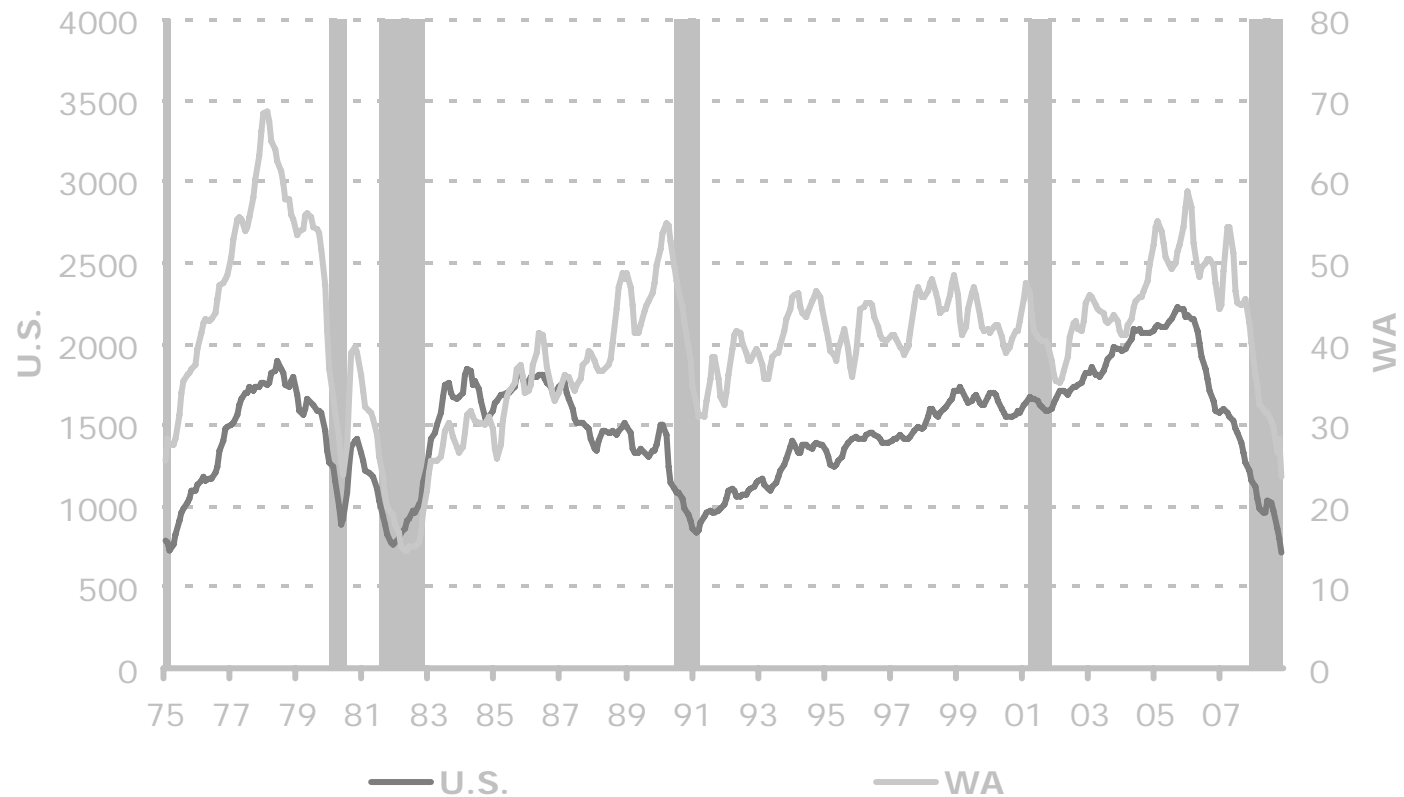
Source: Autodata Corporation, WA Dept. of Revenue, ERFC estimate for 2008 Q4

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State housing permit activity has slowed, similar to the national economy

Thousands, annualized units, 3 MMA, SA



Source: Census Bureau, Data through November

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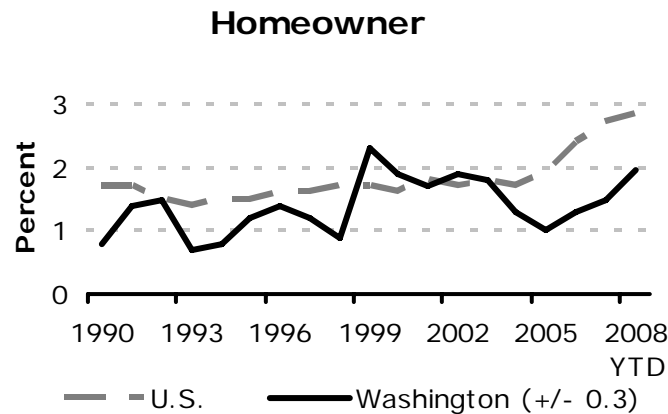
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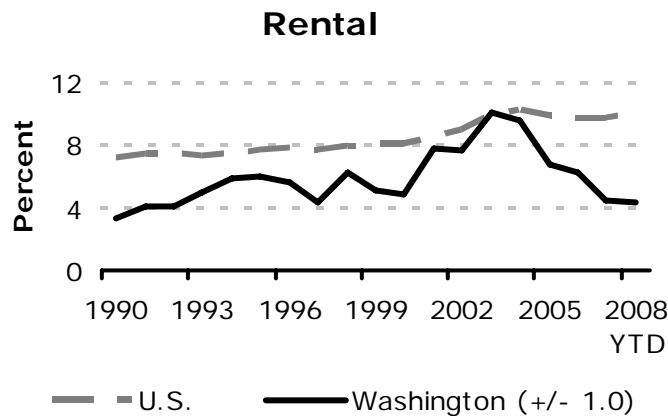
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Vacancy rates show continued demand for multi-family housing in Washington



- Homeowner vacancy rates in Washington are rising, but still lower than national vacancy rates



- Rental vacancies are low in Washington

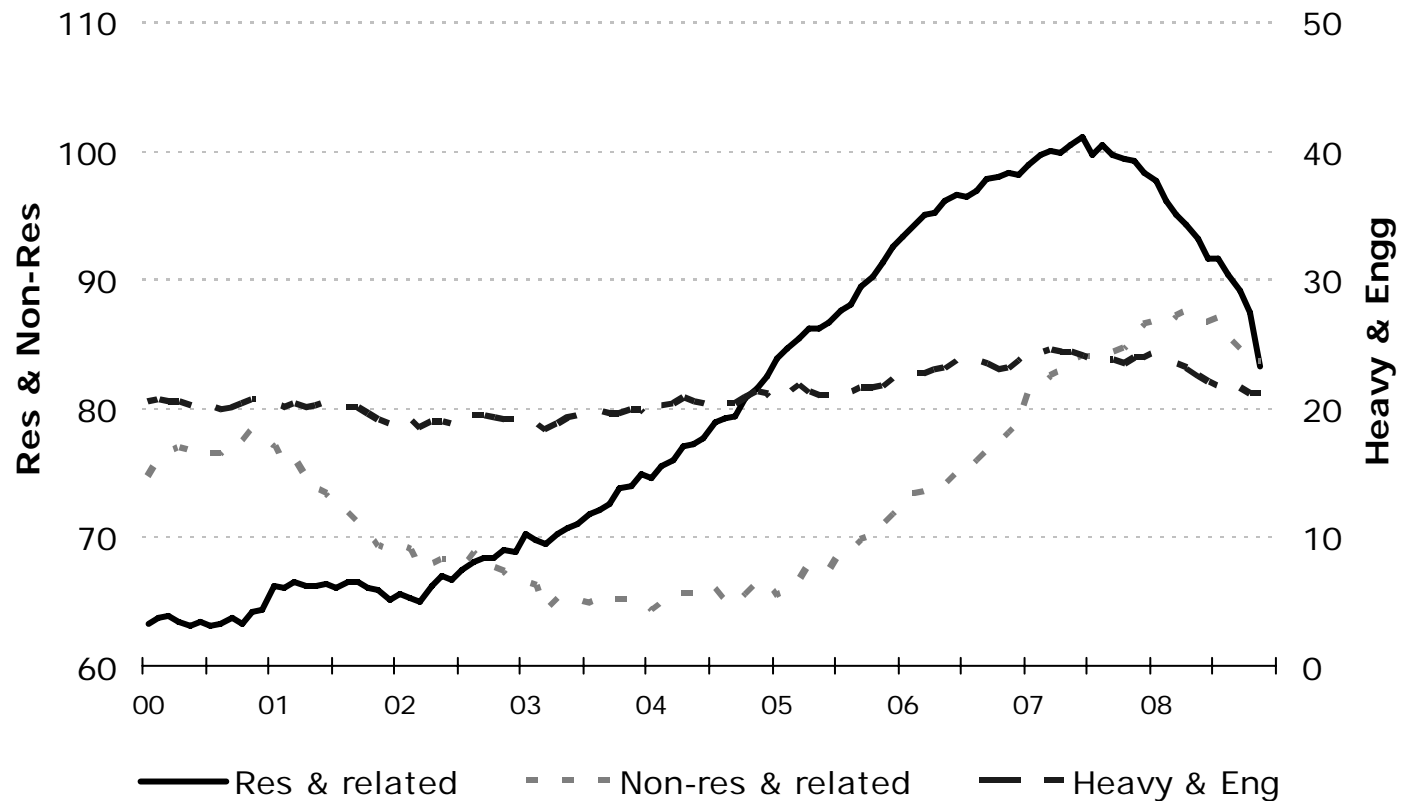
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Source: Bureau of the Census; data through 2008 Q3



WA construction employment: All types are declining

Thousands, SA



Source: ERFC, data through November 2008

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Non-farm payroll employment growth forecast: U.S. v WA

Slowing growth in Washington, but we will outperform the national economy

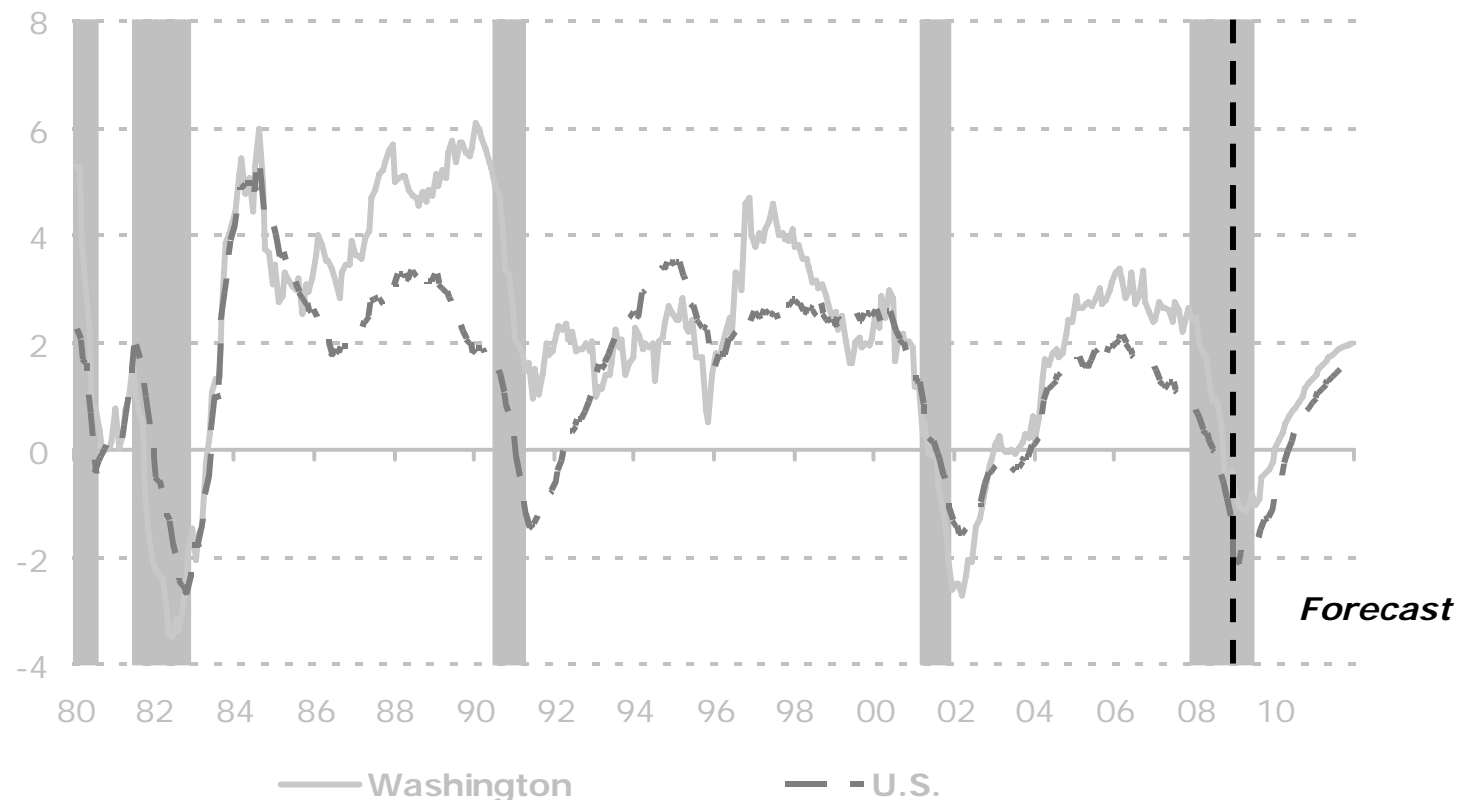
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Percent change, year ago



Source: ERFC forecast; Bureau of Labor Statistics - actual data through December 2008, WA actual data through November, 2008

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Nominal personal income growth forecast: U.S. v WA

Washington is expected to do better than the nation

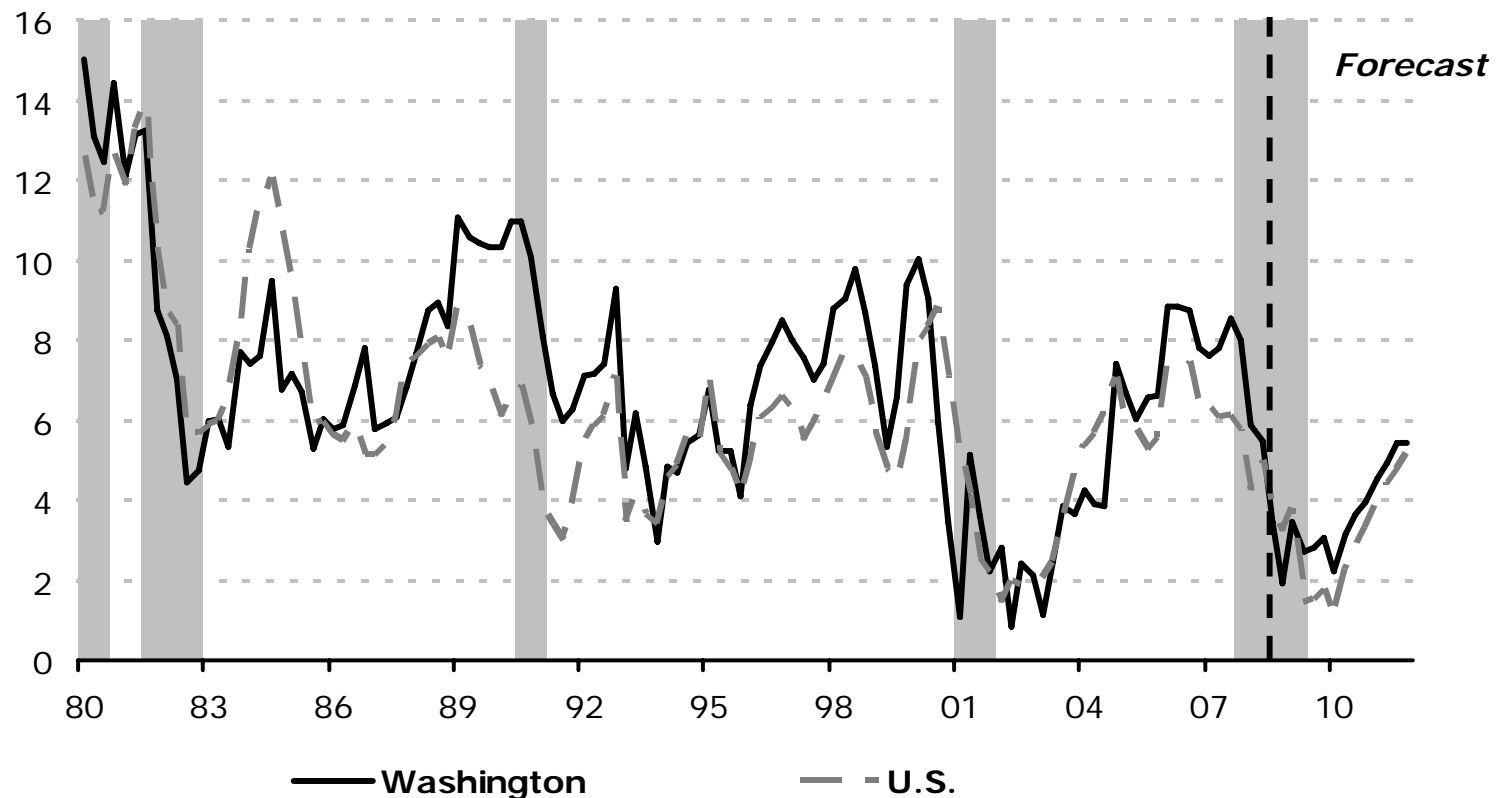
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Percent change, year ago



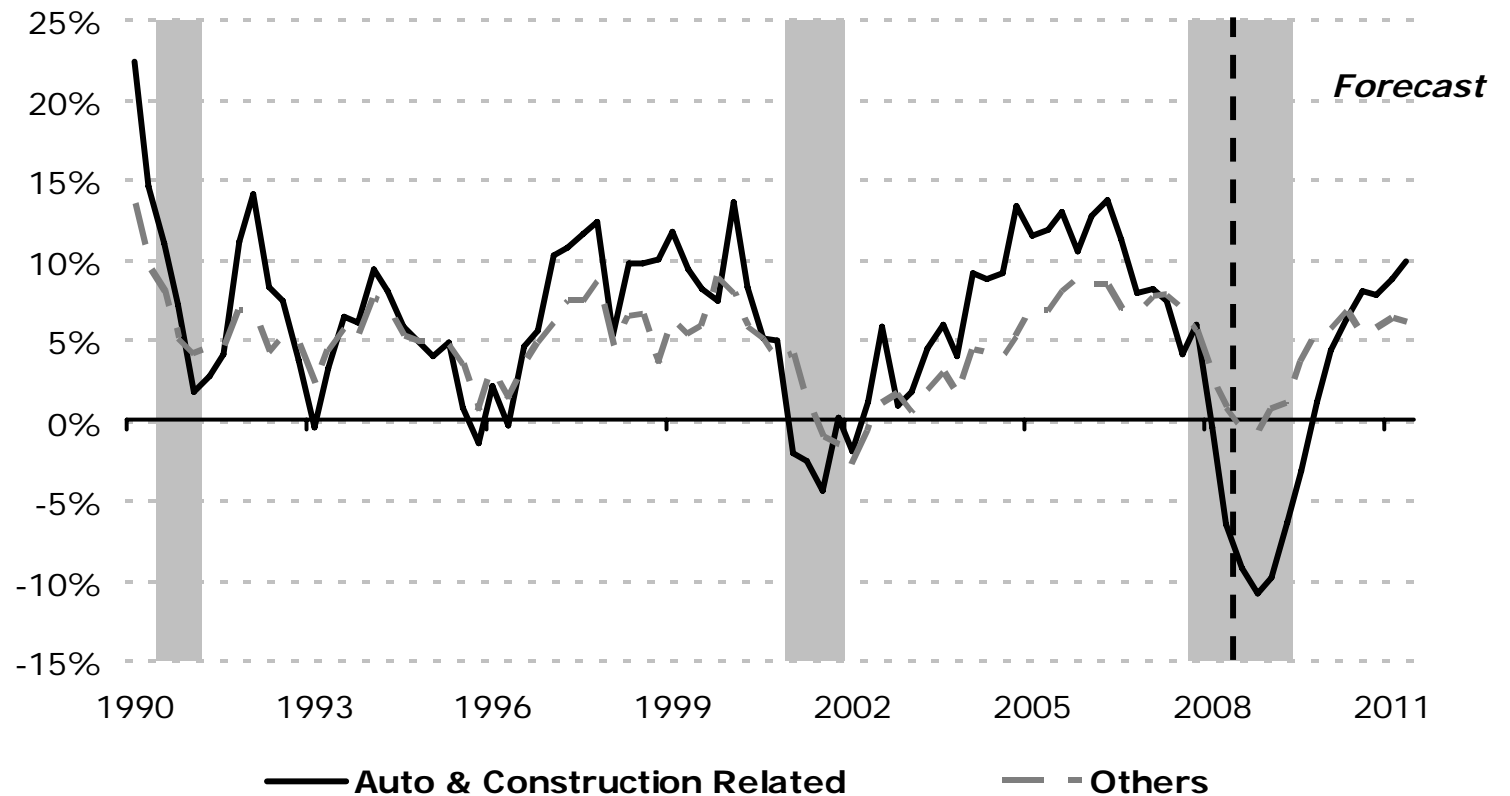
Source: ERFC forecast; actual data through 2008Q3

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Taxable activity in automotive and construction related sectors has dropped off sharply

Percent change, year ago



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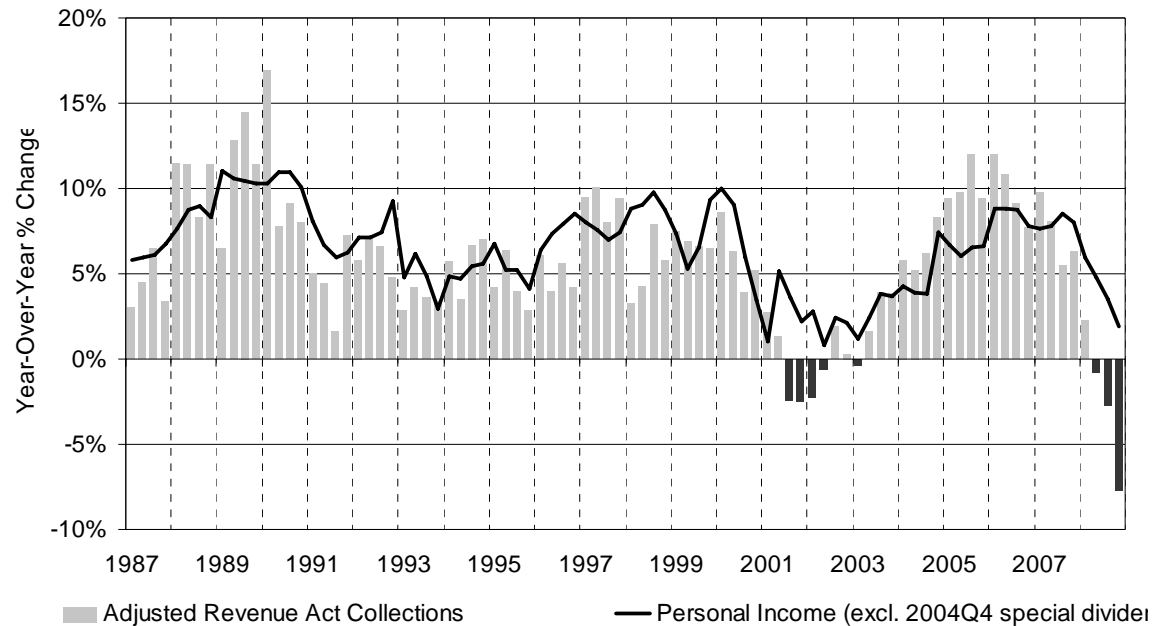
Source: ERFC forecast; actual data through 2008Q3



Revenue collections are declining but income growth is positive

* Adjusted for new legislation and special factors

Net Revenue Act Collections* and State Personal Income



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Source: ERFC; actual data through 2008Q3, estimate for Q4

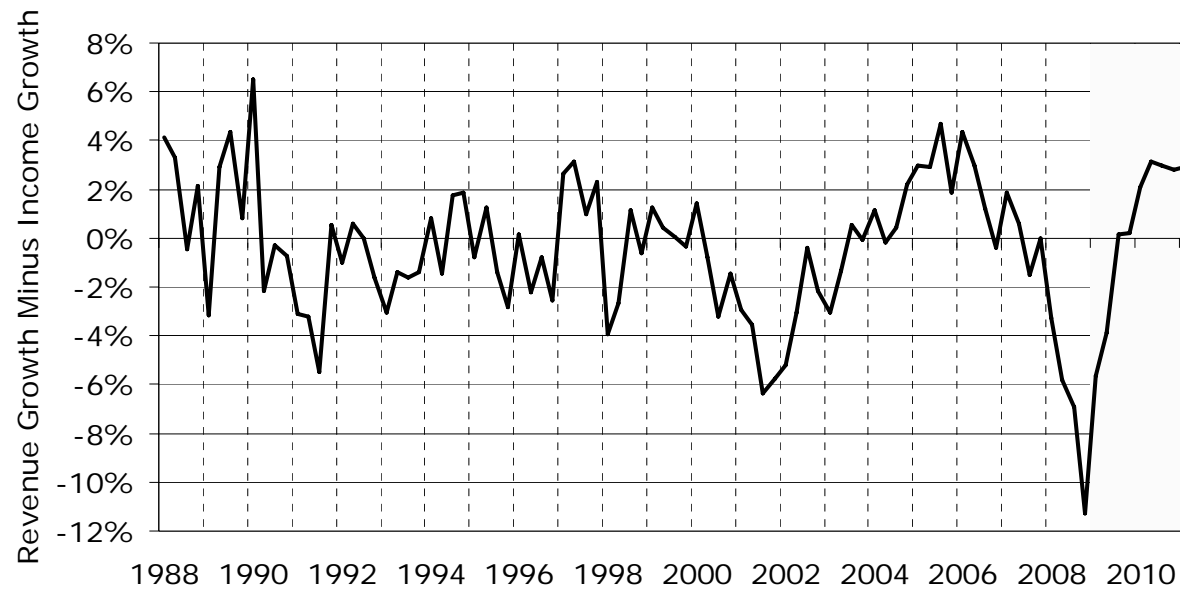
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Another way of looking at it...

* Adjusted for new legislation and special factors

Growth in Net Revenue Act Collections* Relative to Growth in State Personal Income



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Source: ERFC; actual data through 2008Q3, estimate for Q4

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Forecast Changes

2007-2009 Biennium

USD Millions

	<u>Sept '08 Forecast</u>	November '08 Forecast			<u>Total Change</u>
		<u>Forecast Change</u>	<u>Non- economic Change</u>	<u>Forecast</u>	
Dept. of Revenue	\$ 28,270	(\$506)	-	27,765	(\$506)
All other agencies	\$857	\$3	-	\$861	\$3
Total GFS	\$29,129	(\$503)	-	\$28,627	(\$503)

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Forecast Changes

2009-2011 Biennium

USD Millions

		November '08 Forecast			
	<u>Sept '08 Forecast</u>	<u>Forecast Change</u>	<u>Non- economic Change</u>	<u>Forecast</u>	<u>Total Change</u>
Dept. of Revenue	\$ 30,701	(\$1,387)	\$36	29,350	(\$1,351)
All other agencies	\$797	(\$77)	-	\$720	(\$77)
Total GFS	\$31,498	(\$1,464)	\$36	\$30,071	(\$1,428)

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Summary

- The credit squeeze has hurt Washington's economy and revenue collections
- Relative to the nation, our downturn will be modest, but the impact on revenues will be severe
- Consumer spending has to recover, for state revenues to recover
- Our November forecast lowers expected revenue collections over the rest of this biennium and the next by USD 1.9 billion dollars

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Questions



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