

# Washington State Economic and Revenue Outlook

Presented to  
Financial Management Advisory Council

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Executive Director

March 22, 2018  
Olympia, Washington



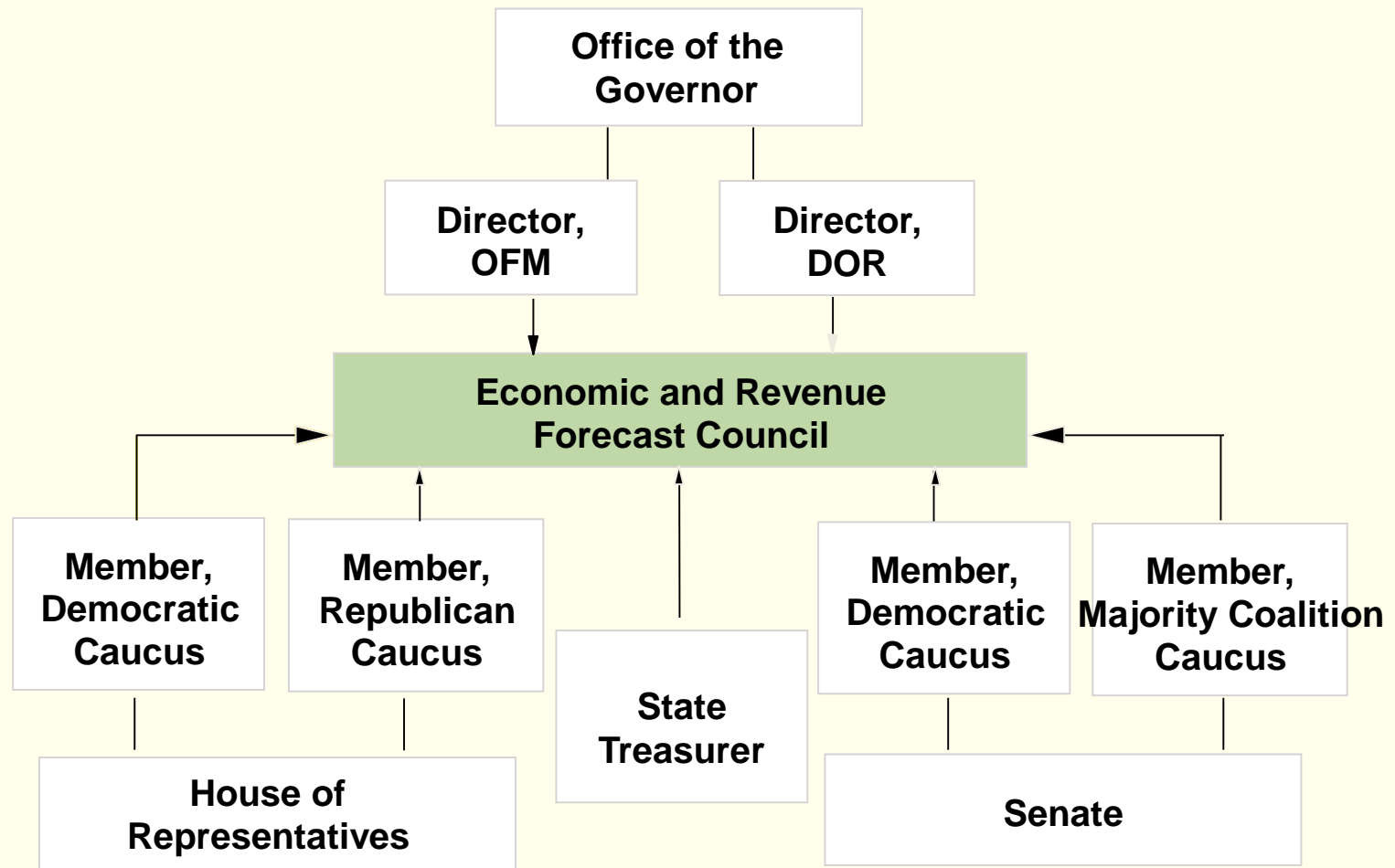
WASHINGTON STATE  
ECONOMIC AND REVENUE FORECAST COUNCIL



# Economic and Revenue Forecast Council Organization Chart

## ERFC

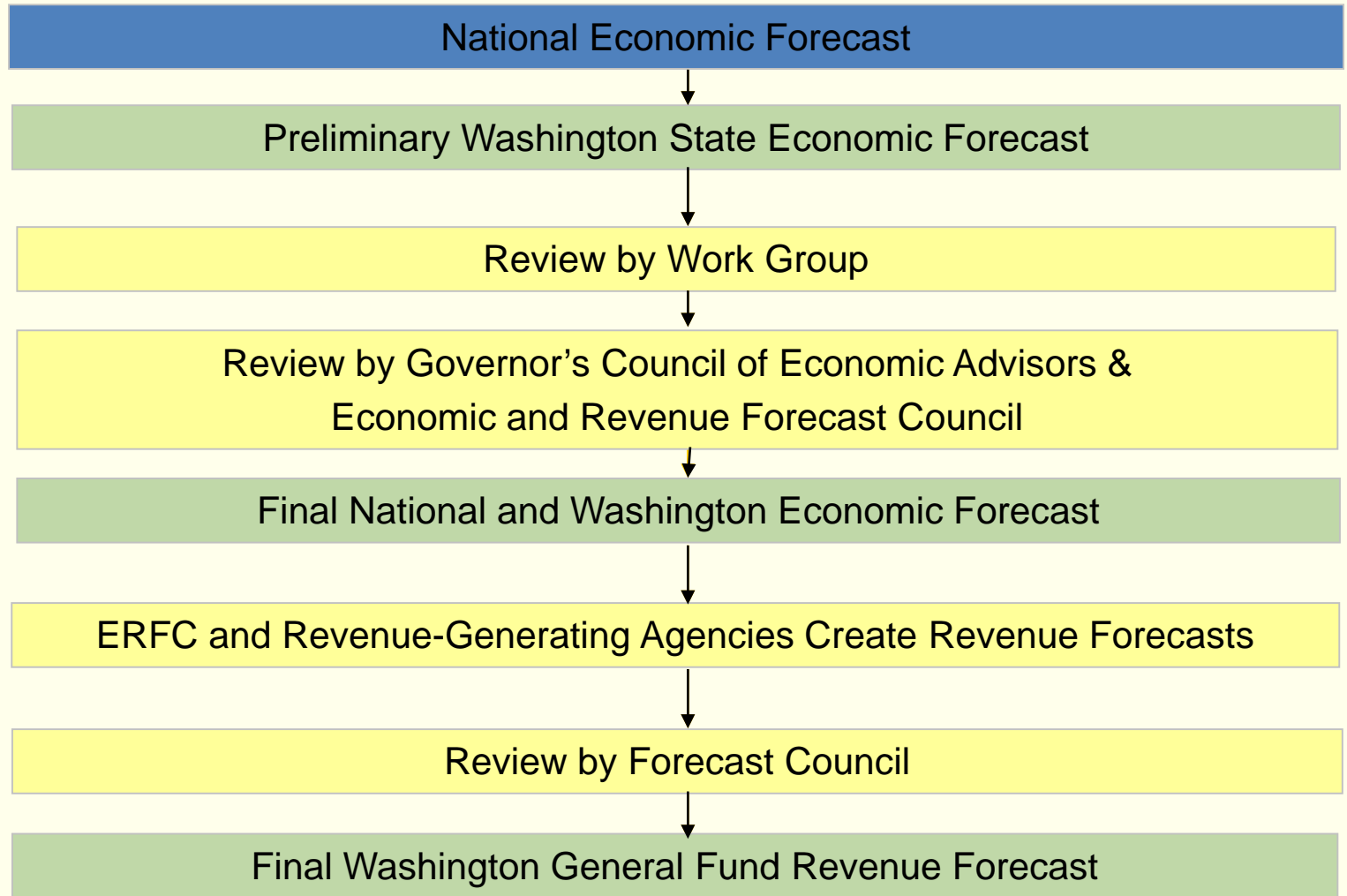
- Created in 1984 as part of Dept. of Revenue
- Became separate agency in 1990





# ERFC Forecast Process

The national economic forecast is based on a modified version of the IHS Markit model of the U.S. economy



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# Summary

- The forecast now extends through 2023
- The economic forecast for the U.S. is slightly stronger than in November
- The economic forecast for WA has slightly higher personal income than in November
- Federal tax changes have increased after-tax income
- Risks to the baseline include stock market volatility and concerns about international trade and fiscal policy
- The revenue collection variance since the November forecast is \$185 million
- GF-S revenue for the 2017-19 biennium has been increased by \$647 million, and revenue for the 2019-21 biennium has been increased by \$671 million.



# Forecast risks

## Upside

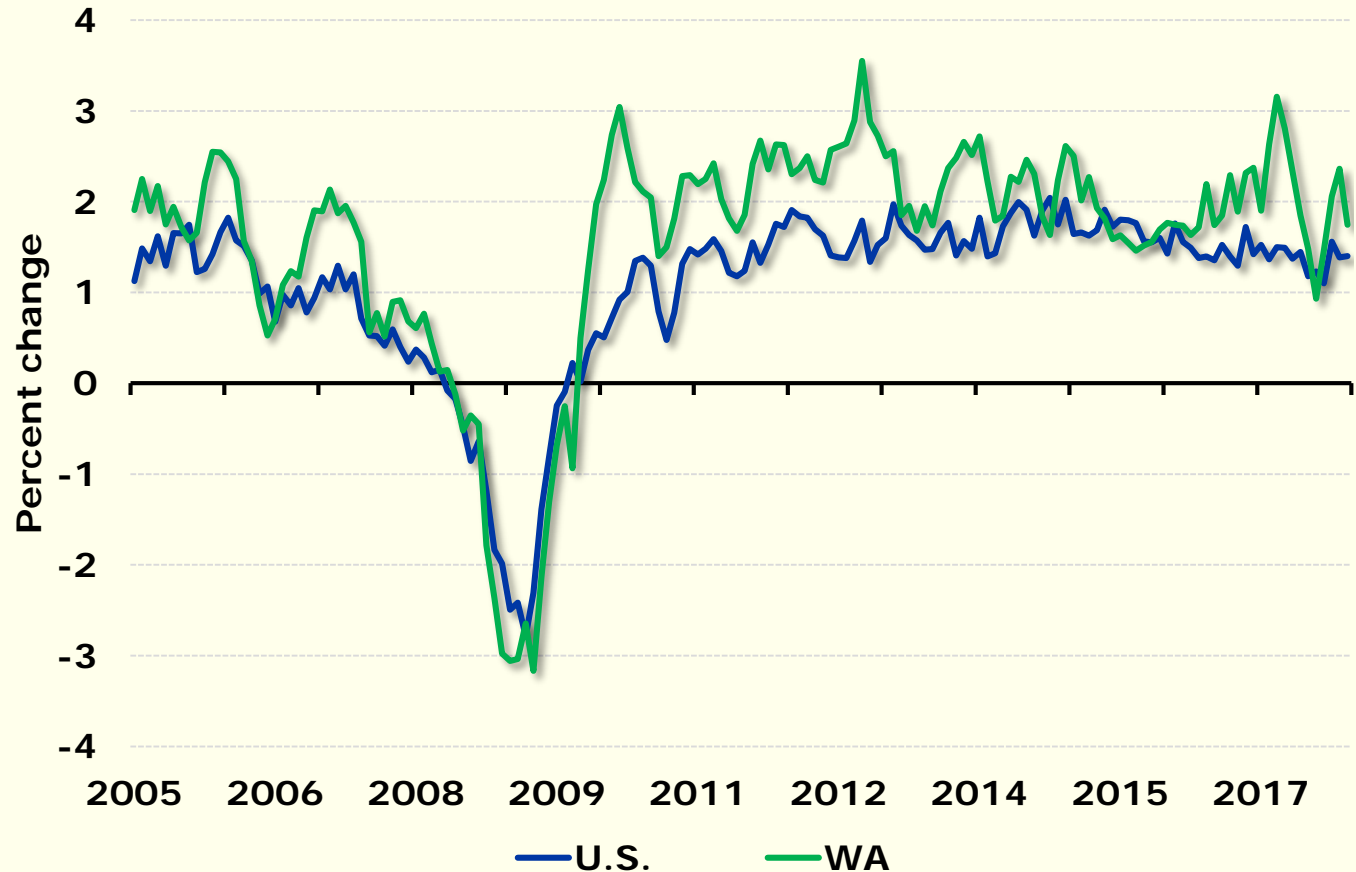
- Elevated consumer, business confidence could translate into stronger growth
- Stronger global economic growth

## Downside

- International trade and fiscal policy uncertainty
- Stock market volatility could lead to slower household spending
- Federal Reserve raises rates too much or too quickly
- Geopolitical risks: North Korea, Russia, Middle East



# Leading economic indexes for U.S., WA suggest continued growth over at least the next six months

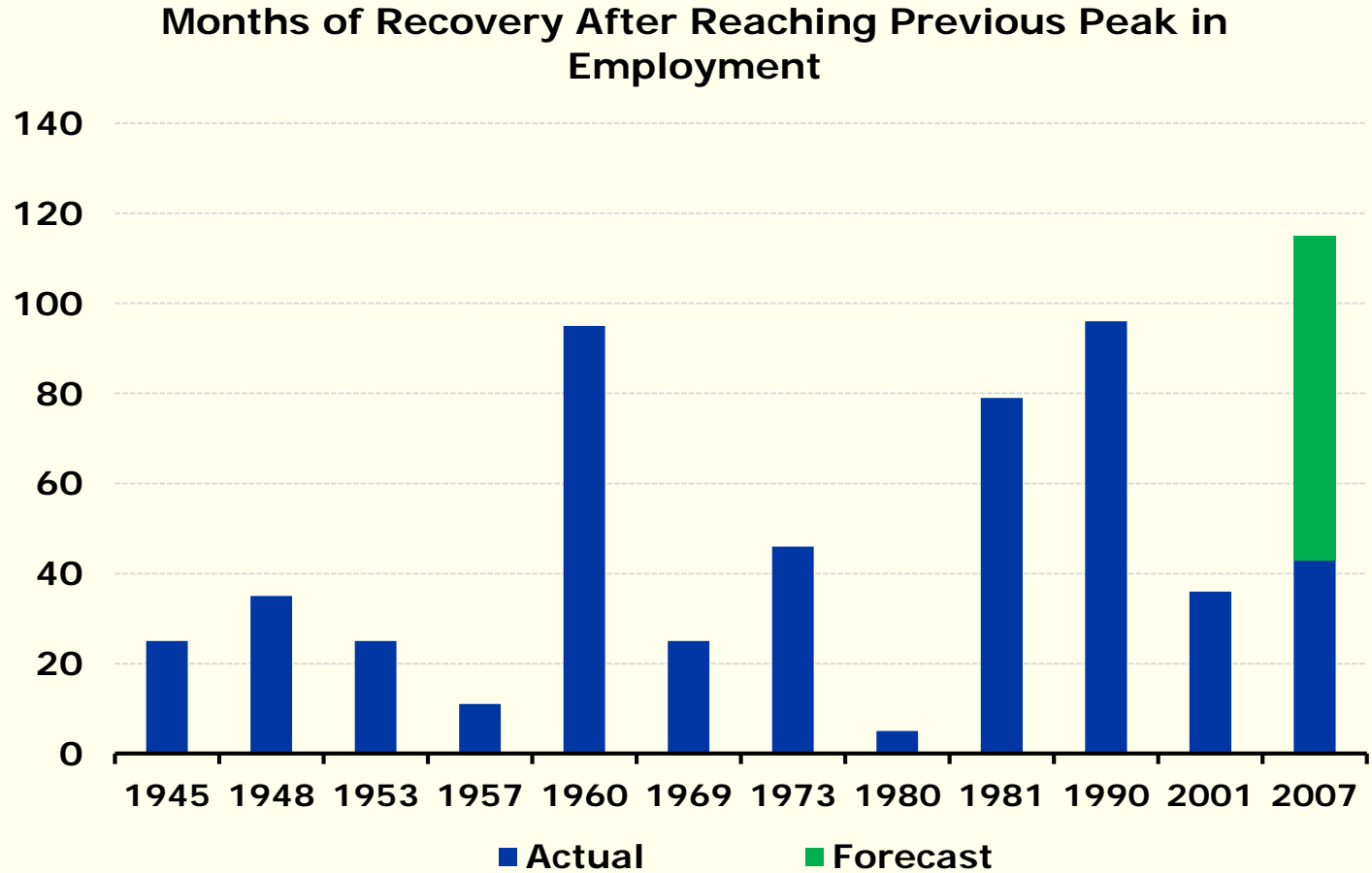




# This recovery is forecasted to be the longest on record

GCEA members were asked the probability of recession by 2023.

Average probability of those who responded = 88%



Source: BLS; ERFC February 2018 forecast

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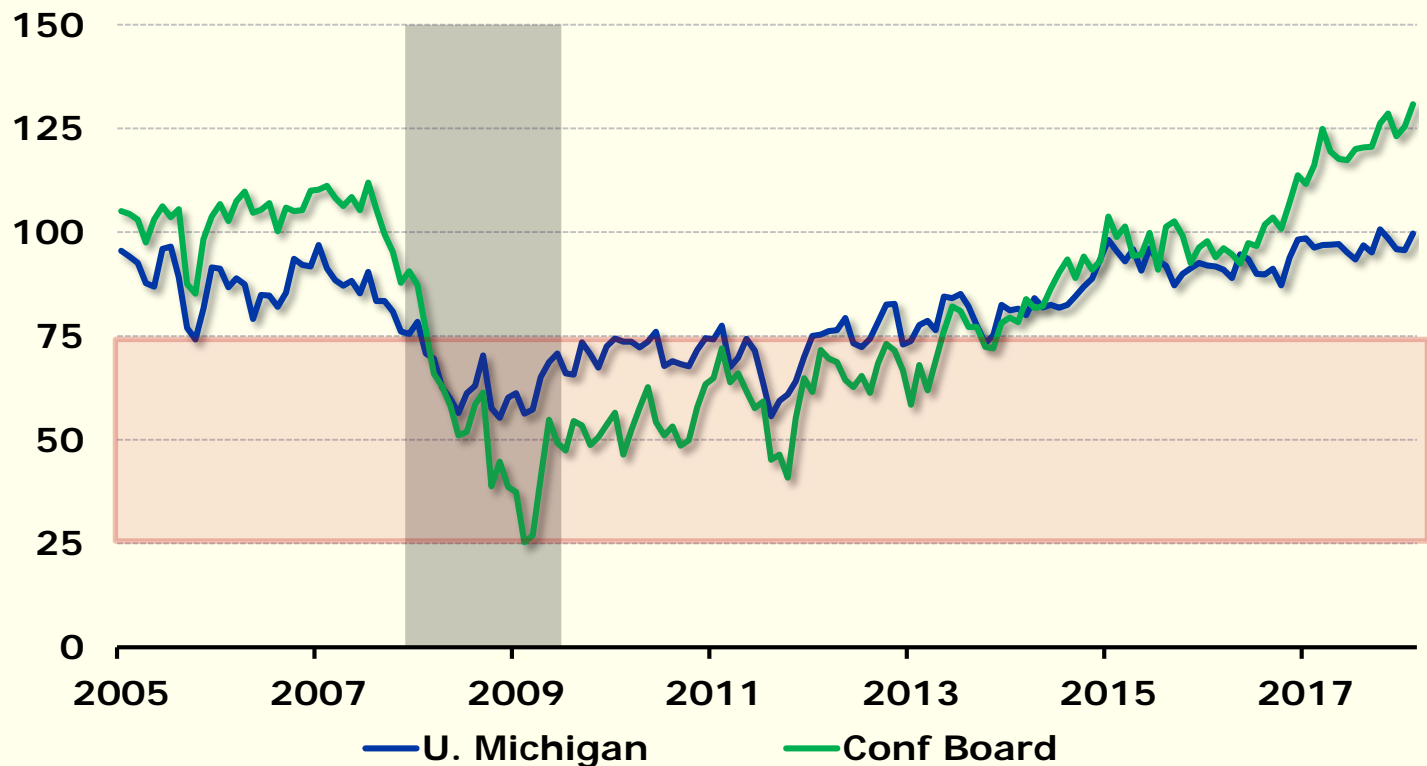


# Consumer confidence is at or above pre-recession levels

Index

Mich: 1966Q1 = 100, SA

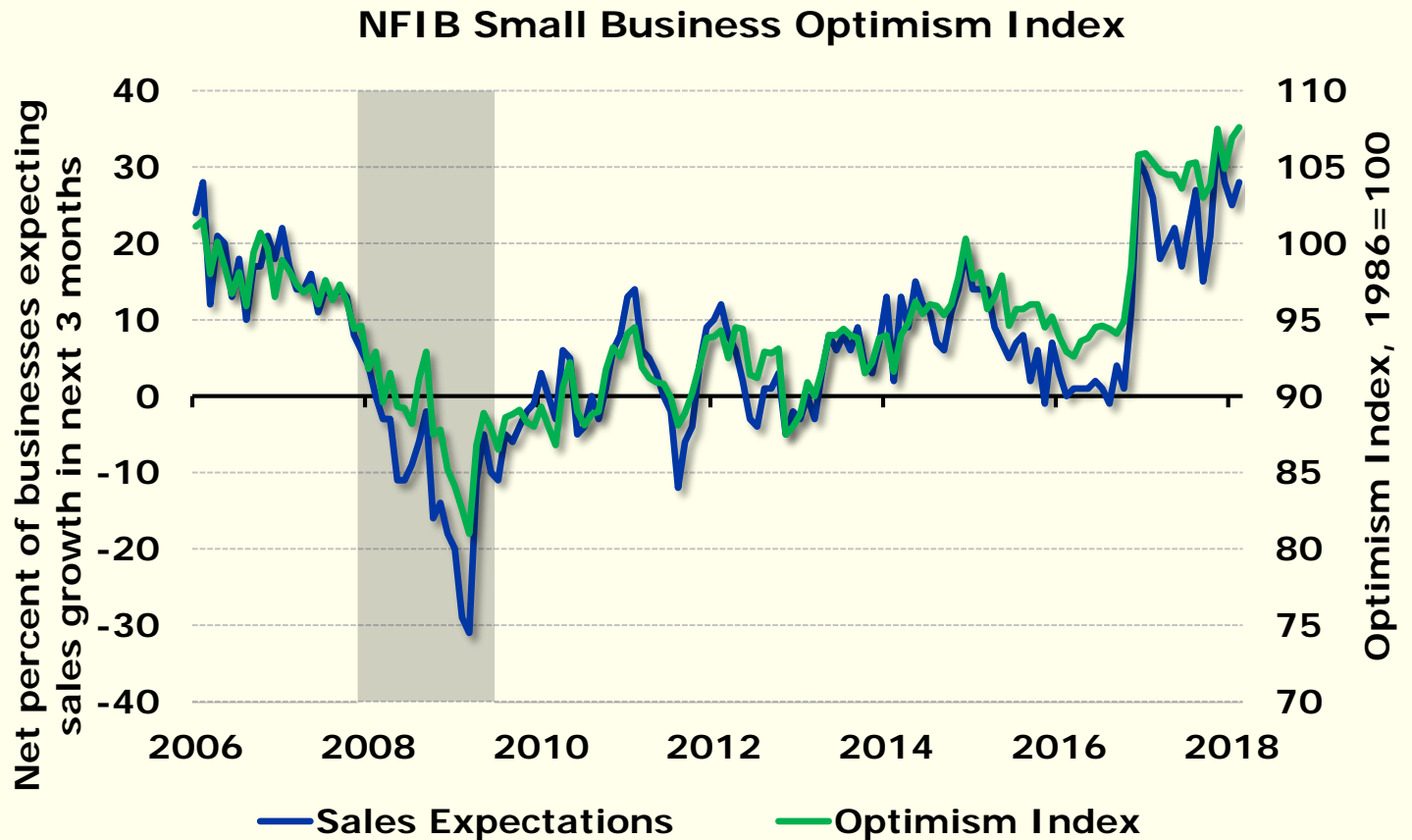
Conf Board: 1985 = 100, SA





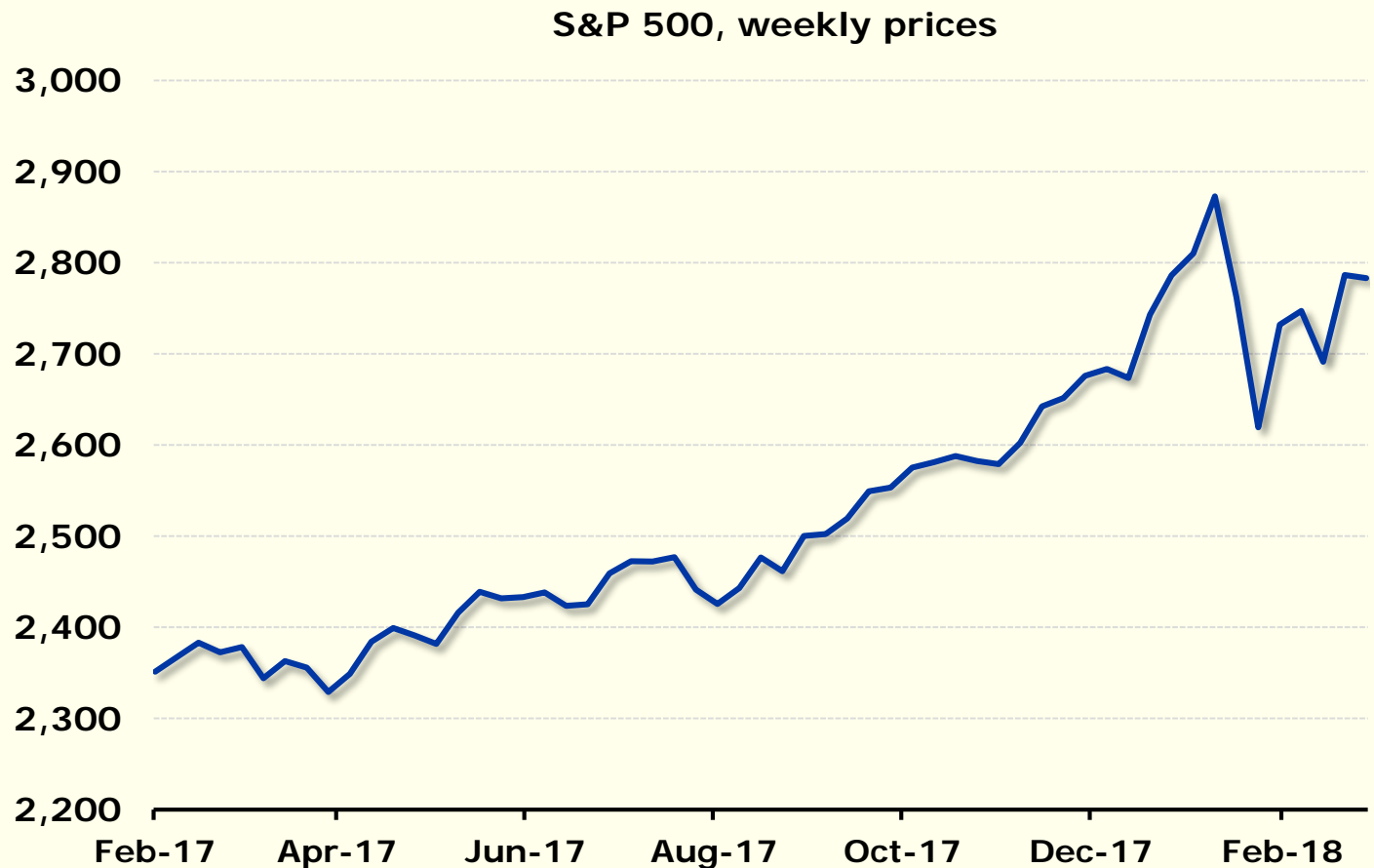


# Small business optimism and sales expectations are above pre-recession levels





# After an extended period of rising prices, the stock market has become volatile recently

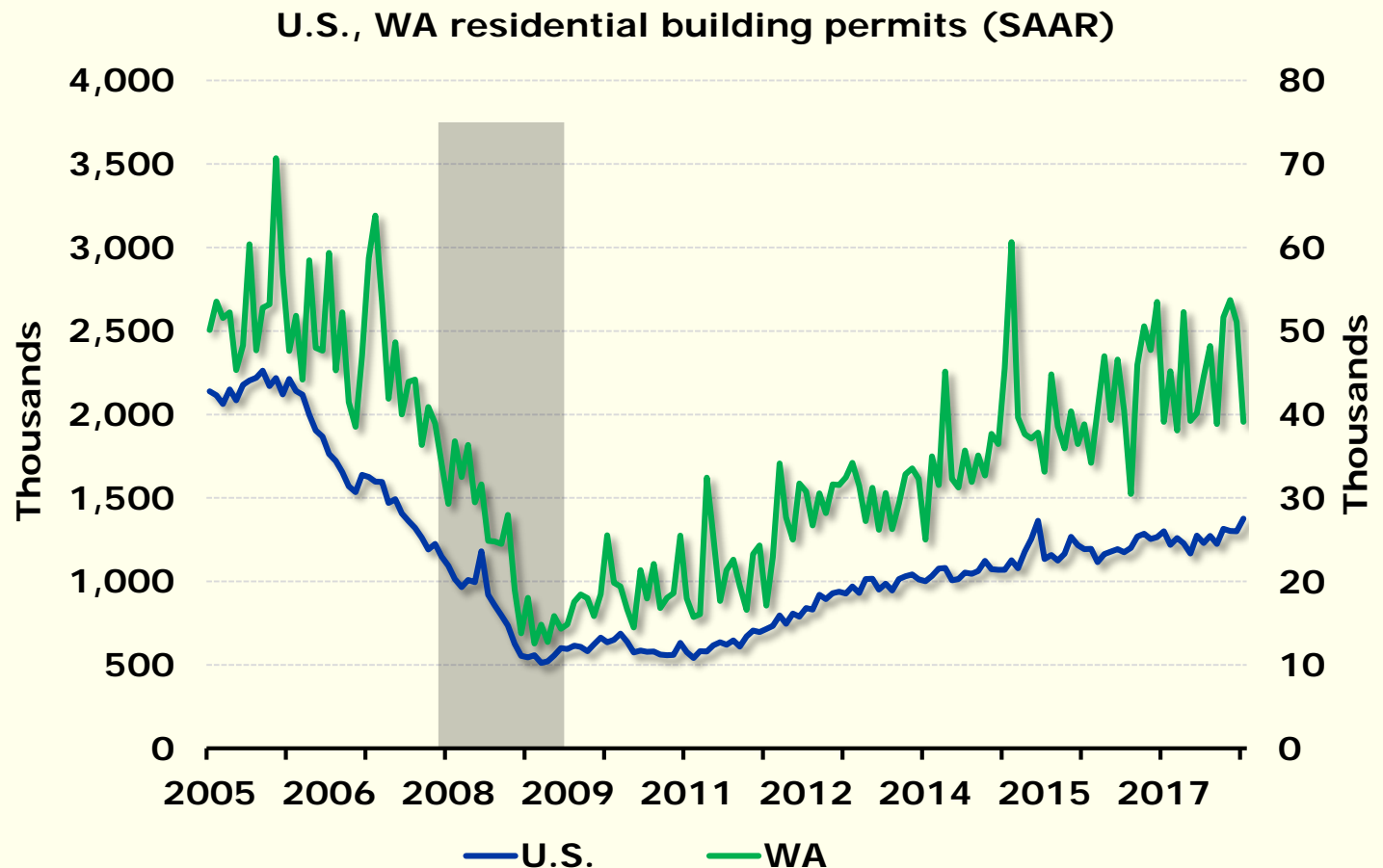


Source: Yahoo Finance, data through Mar. 12, 2018

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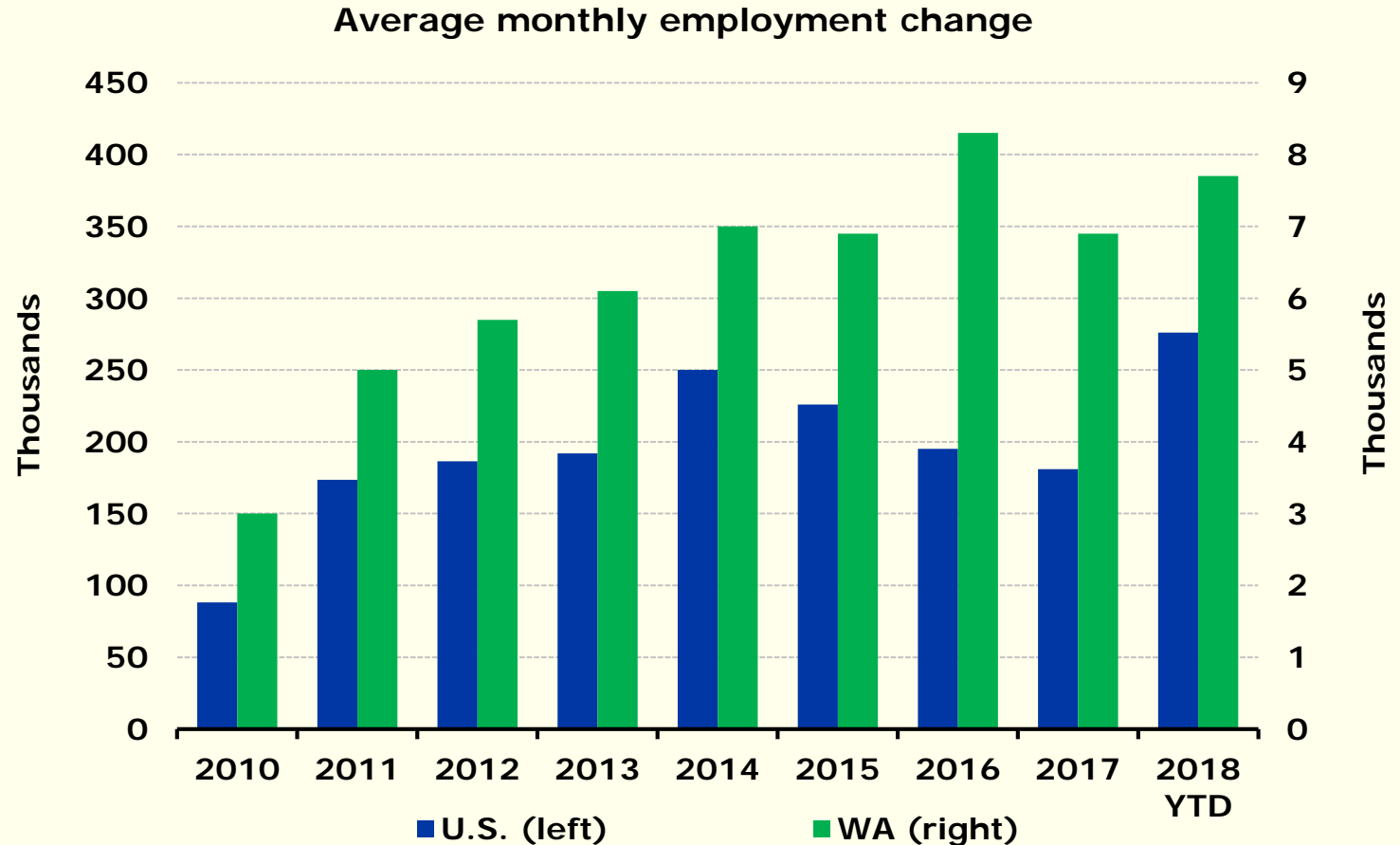


# U.S. residential construction remains below pre-recession levels





# Pace of U.S. job creation has strengthened so far this year, remains strong in WA



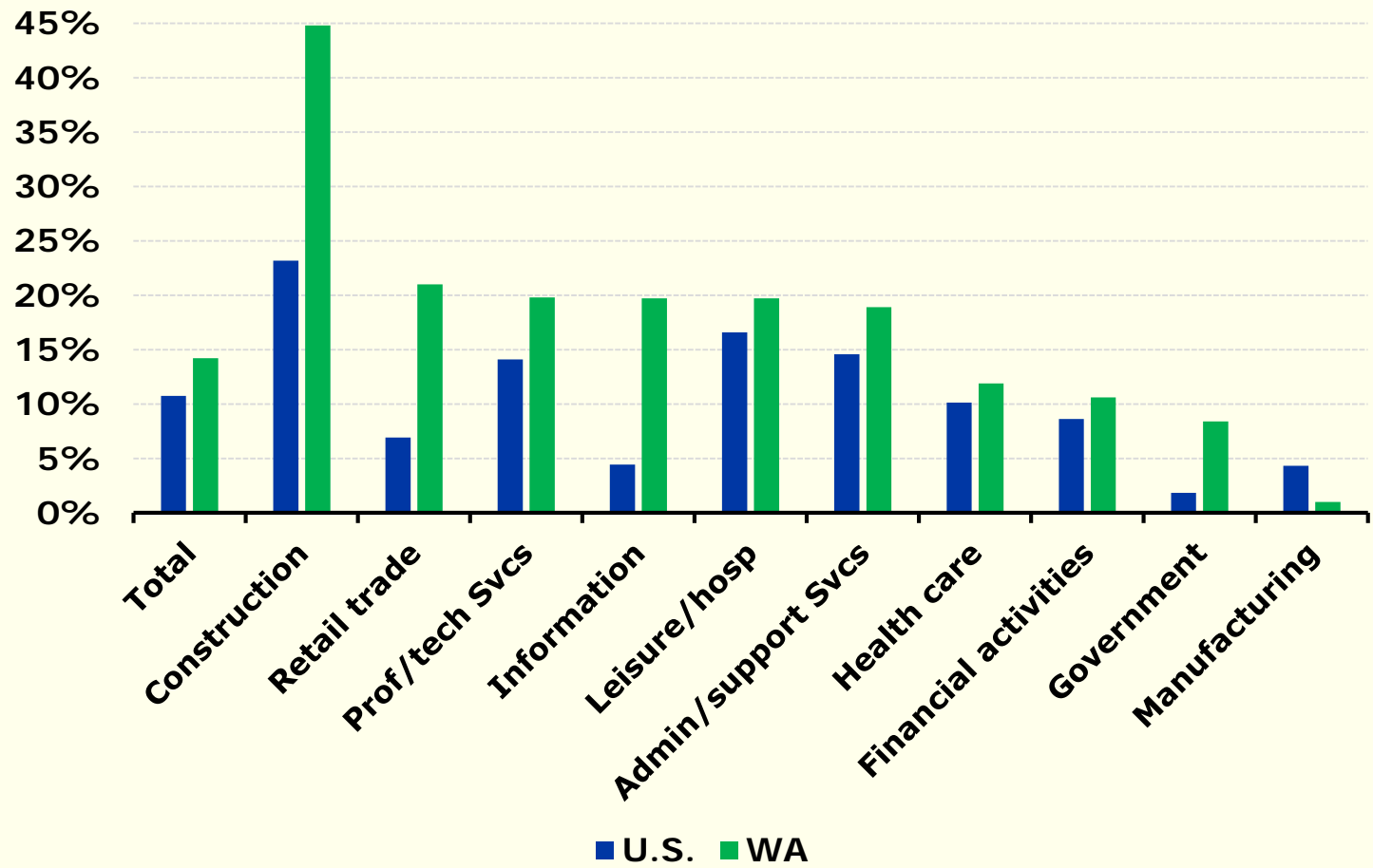


# U.S. and WA: percentage change in employment by sector, 2012-2017

2012 – 2017  
employment  
change:

U.S.:  
+12.1 M  
jobs

WA:  
+416,000  
jobs



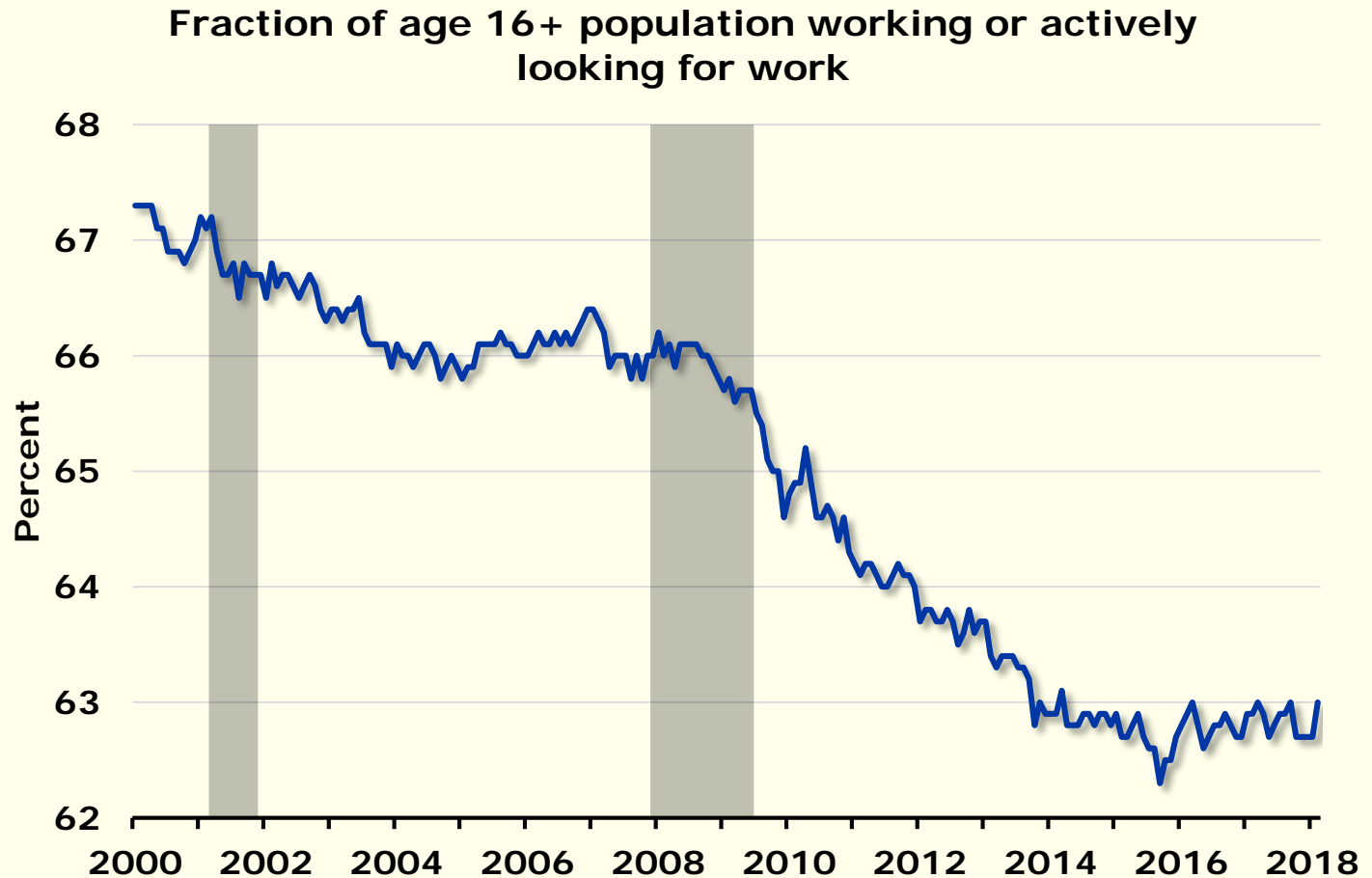


# Adjusted for inflation, hourly wage growth remains muted



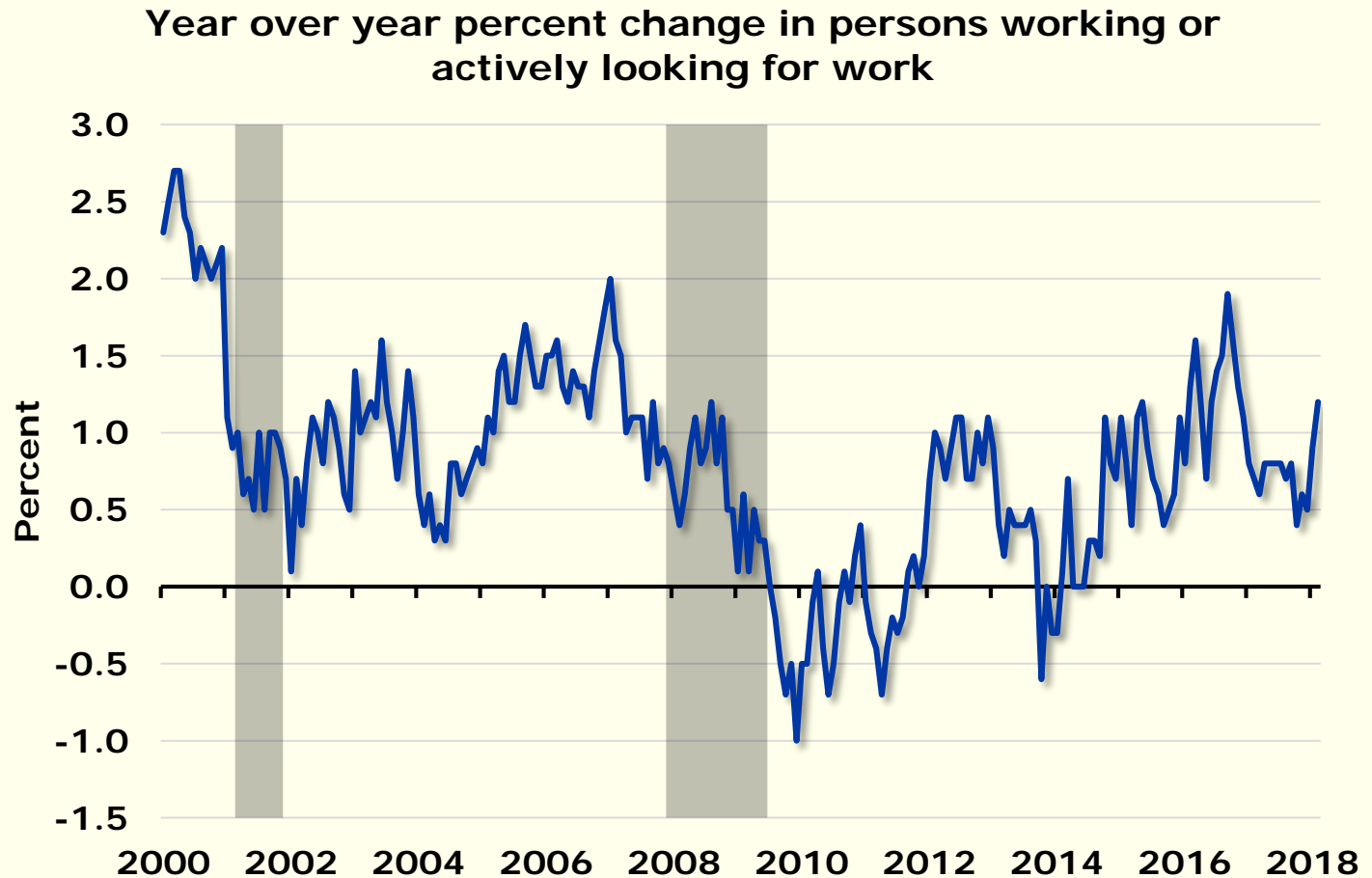


# The labor force participation rate has improved slightly since late 2015





# The labor force contracted after the recession but has started growing



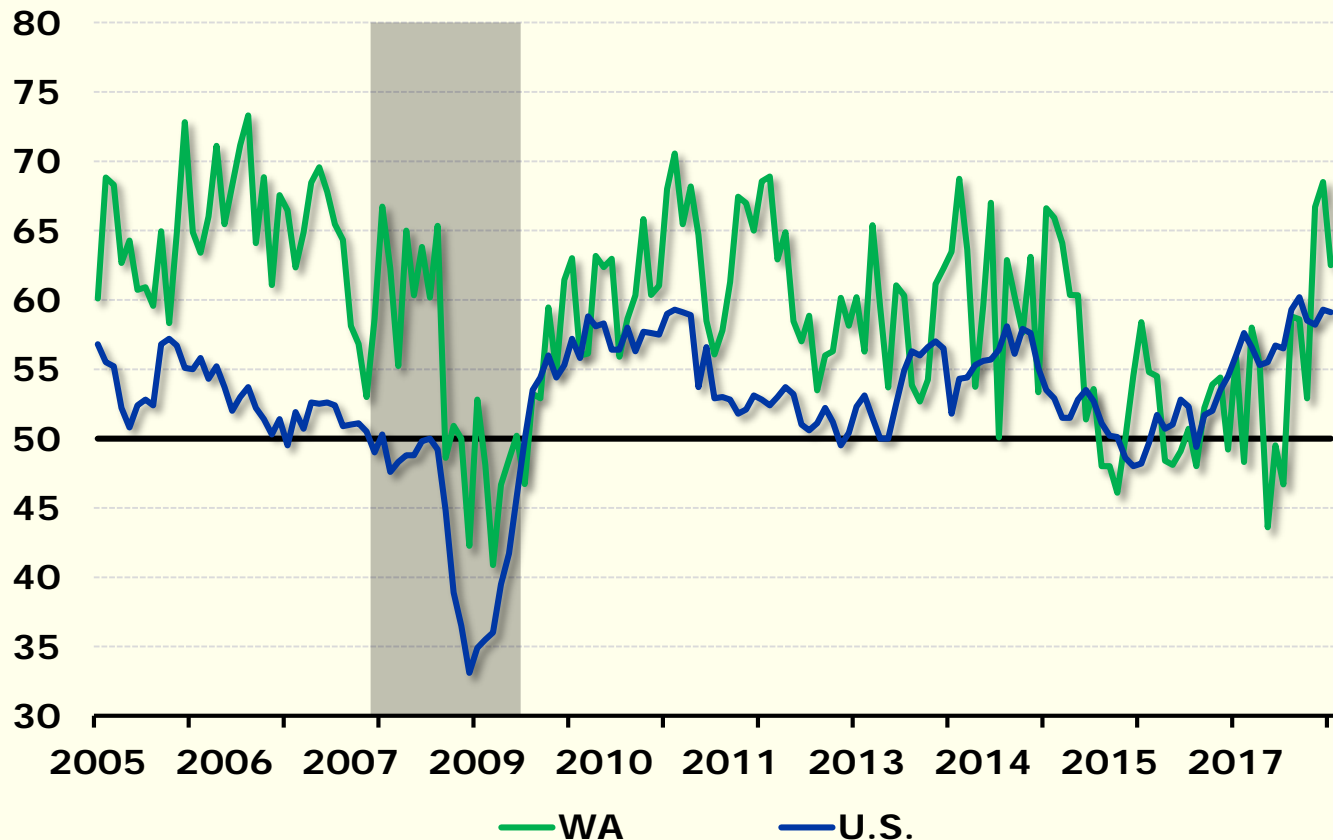




# Manufacturing activity continues to expand nationally and in WA

Index values below 50 indicate contraction in manufacturing activity, values above 50 indicate expansion

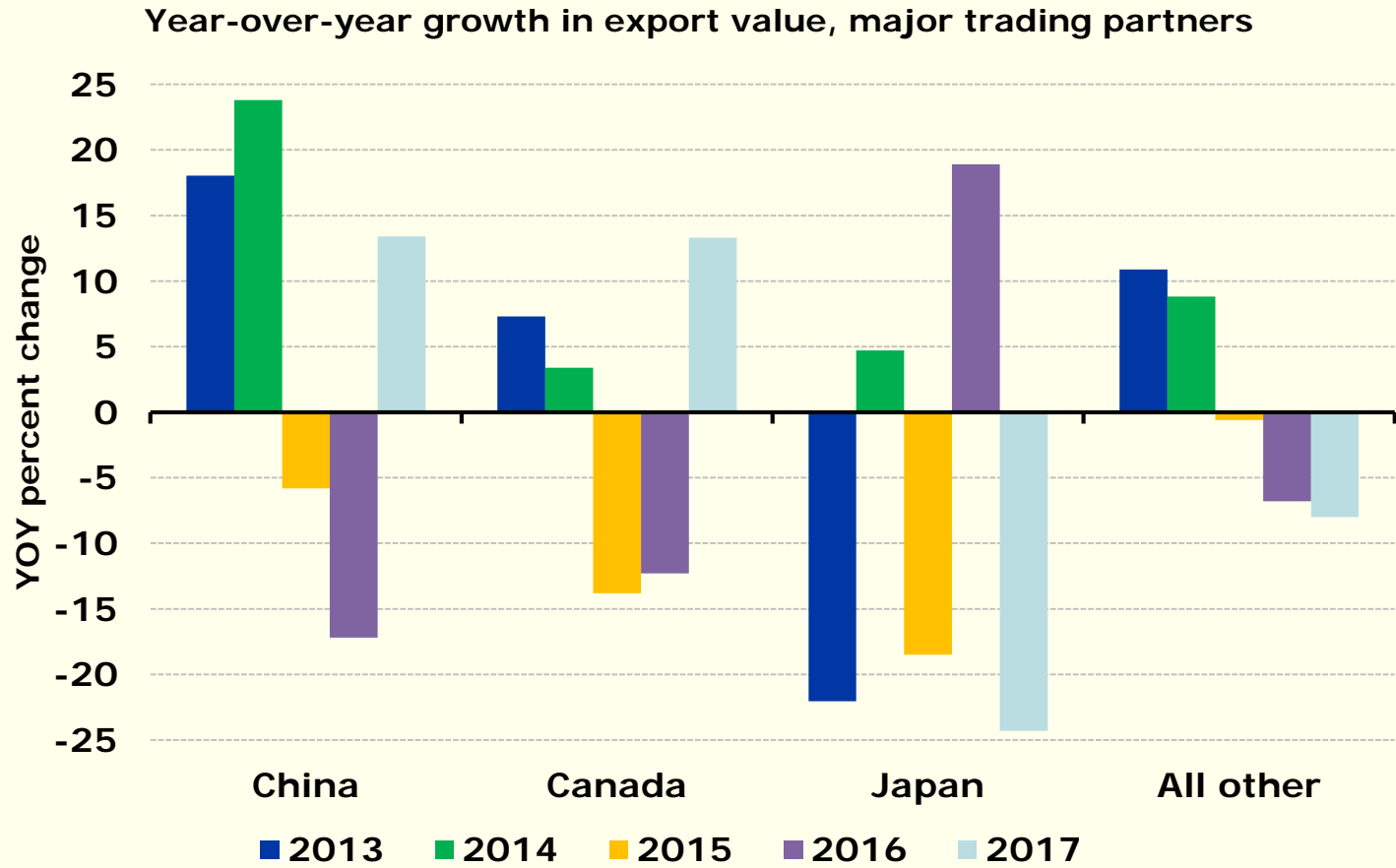
Manufacturing Purchasing Managers' Index, WA & U.S.





# WA exports have slowed, but exports to China, Canada have improved in 2017

Total exports declined 3.2% in 2017 and 7.9% in 2016



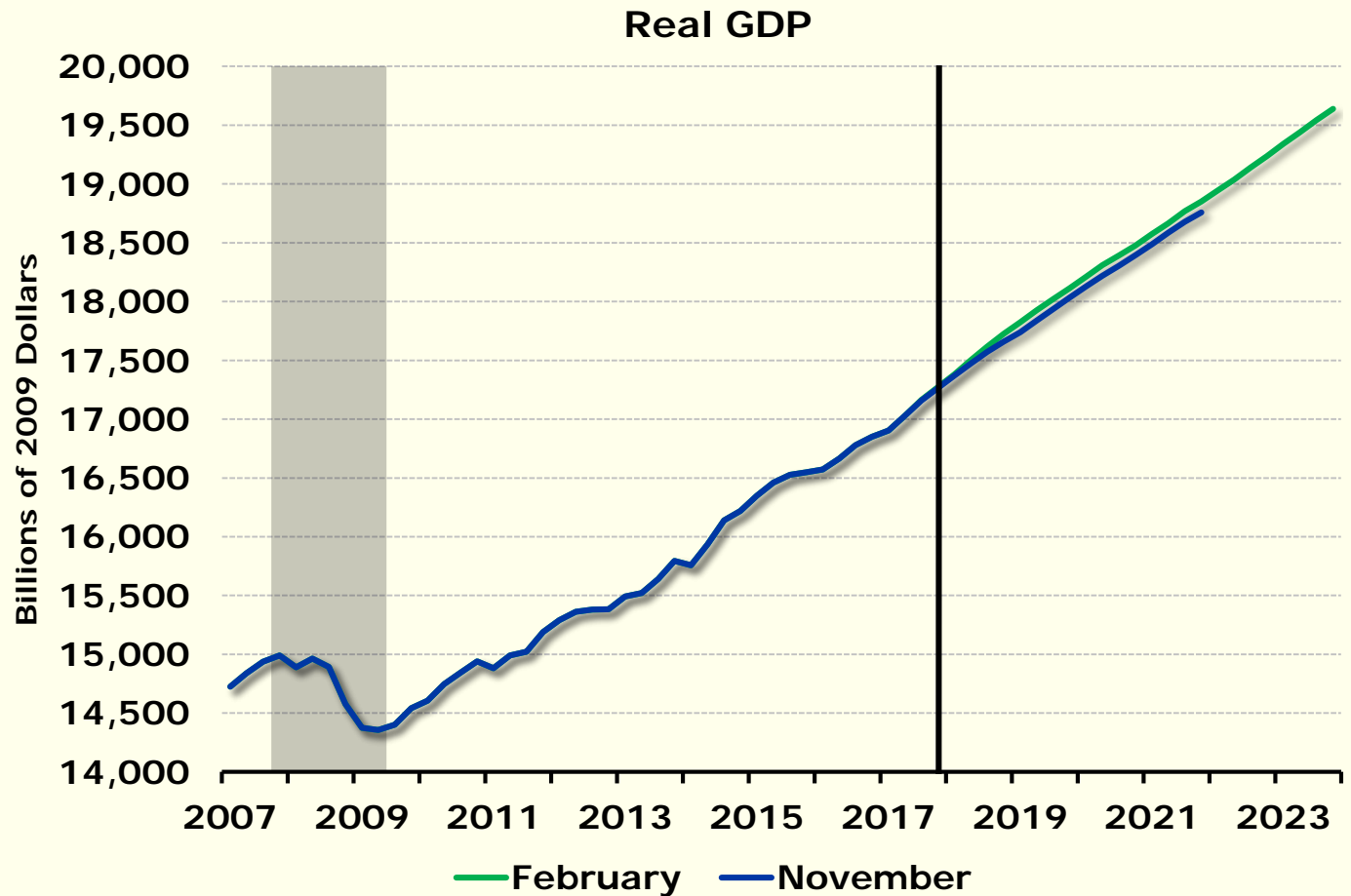
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Source: WISERTrade; data through December 2017

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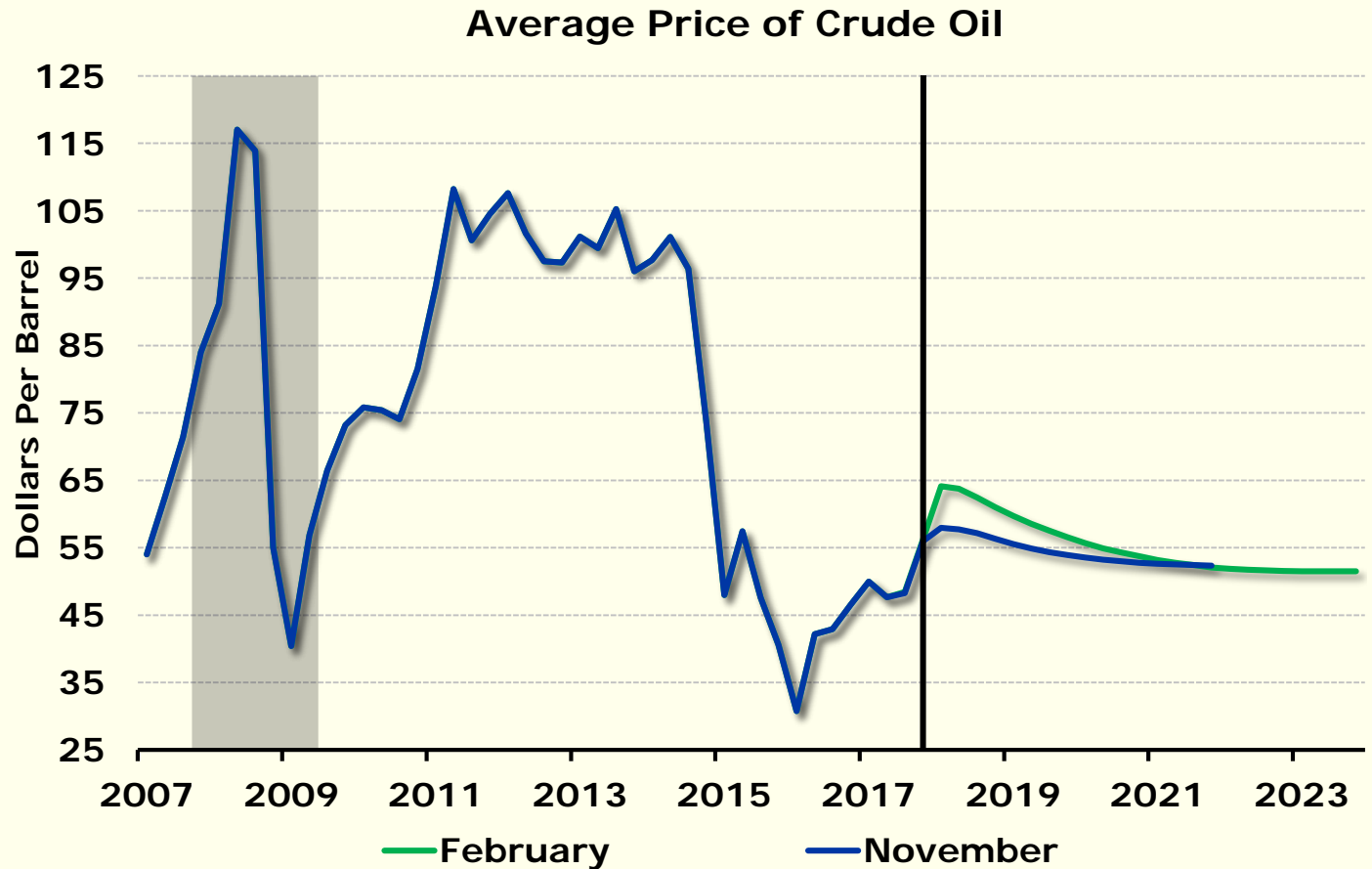


# Real GDP is slightly higher than the November forecast



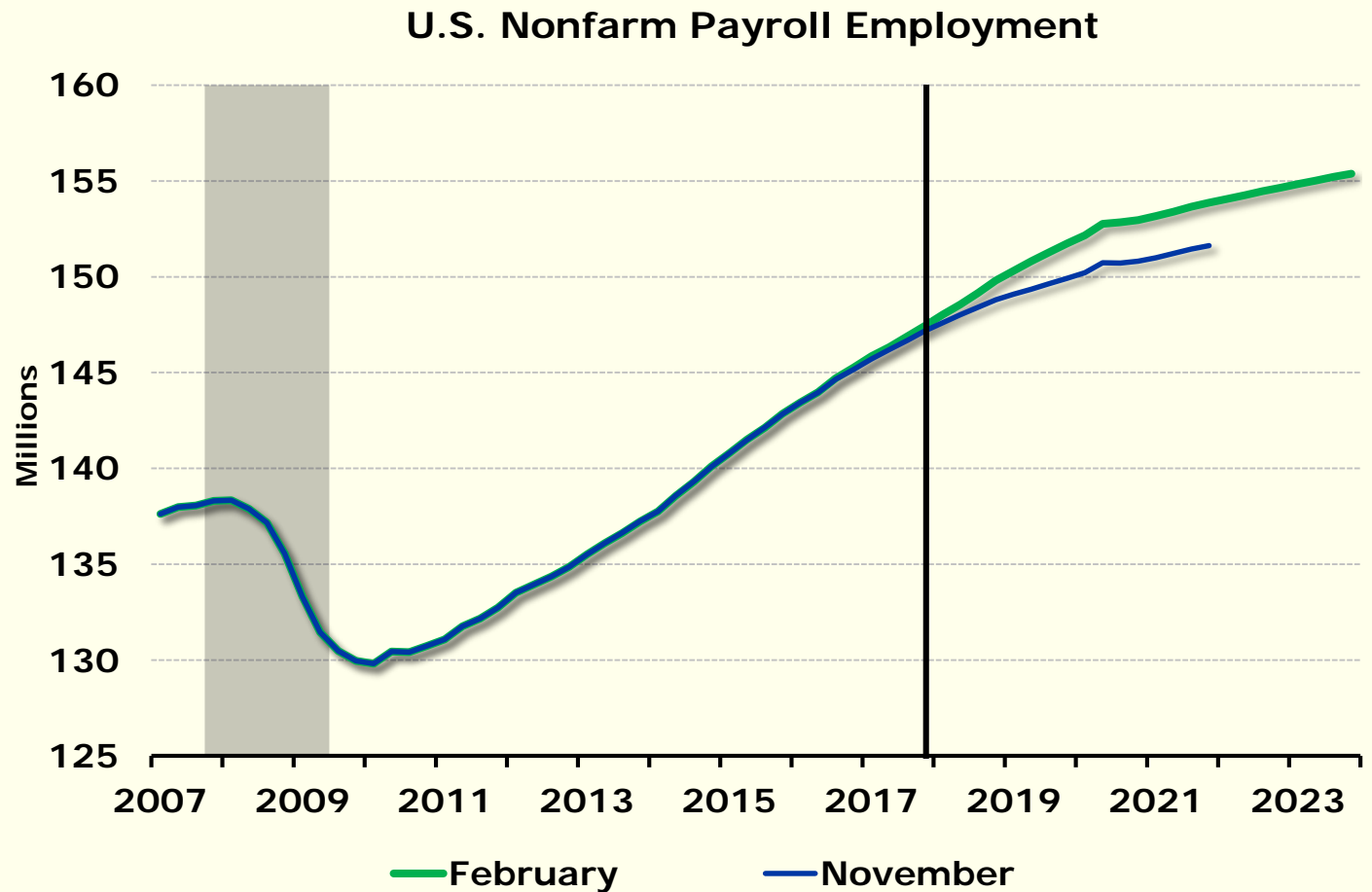


# Oil prices are slightly higher in the near term compared to the November forecast



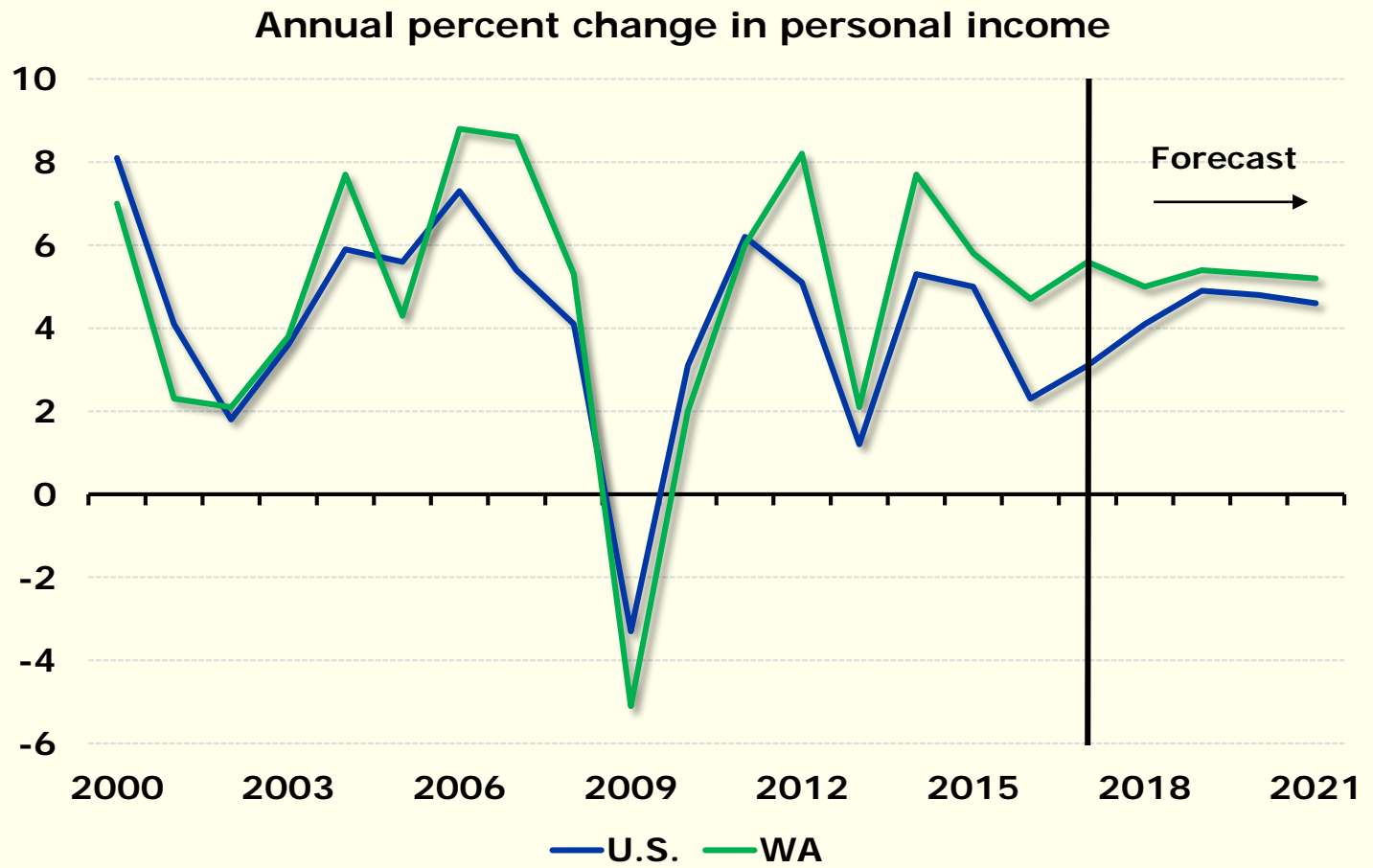


# The U.S. nonfarm payroll employment forecast is stronger than November





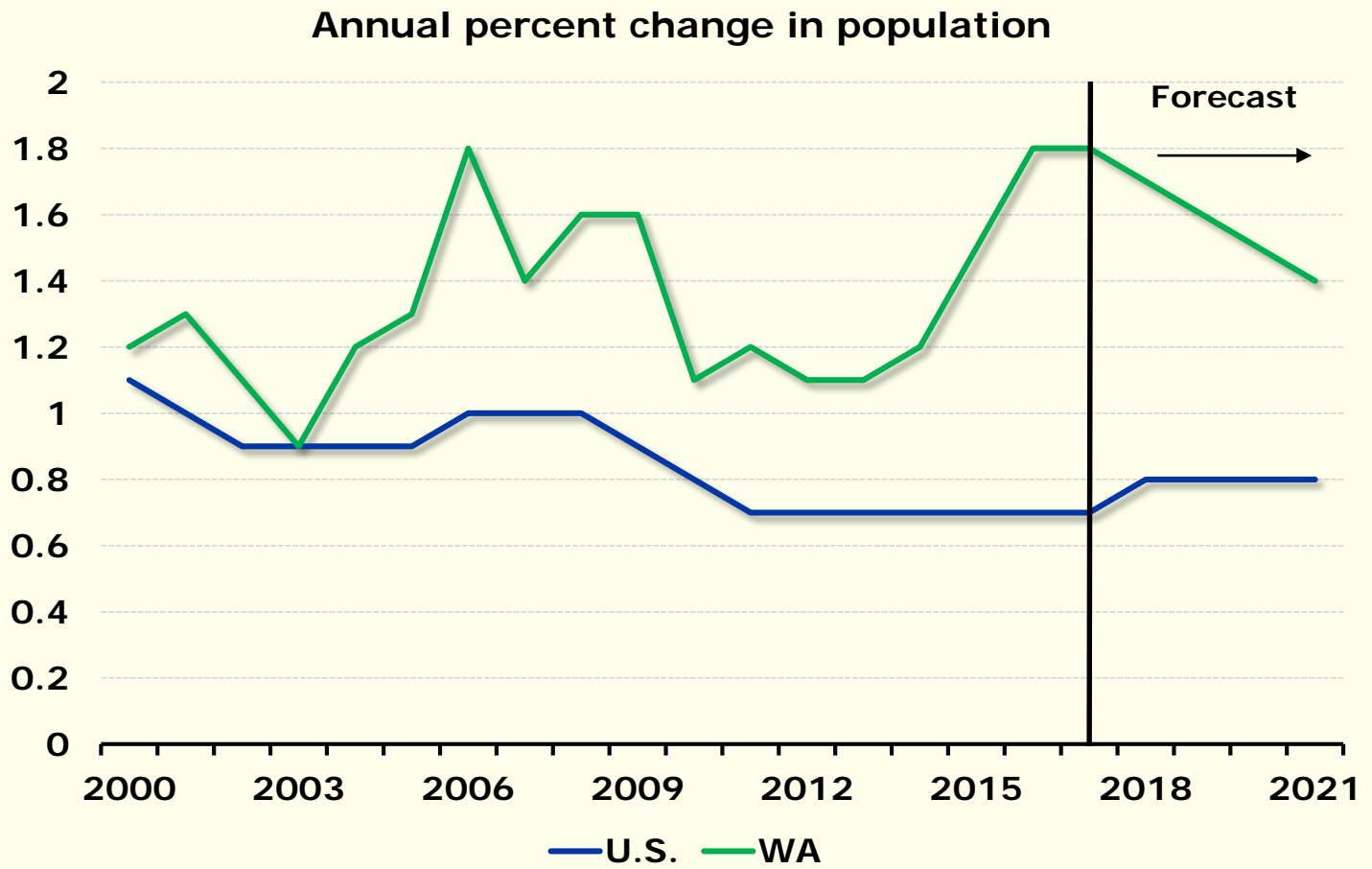
# Since 2011, personal income has grown faster in WA than nationally





# WA population consistently grows faster than U.S. as a whole

Washington's population has grown from 5.9 million in 2000 to an expected 7.9 million in 2021



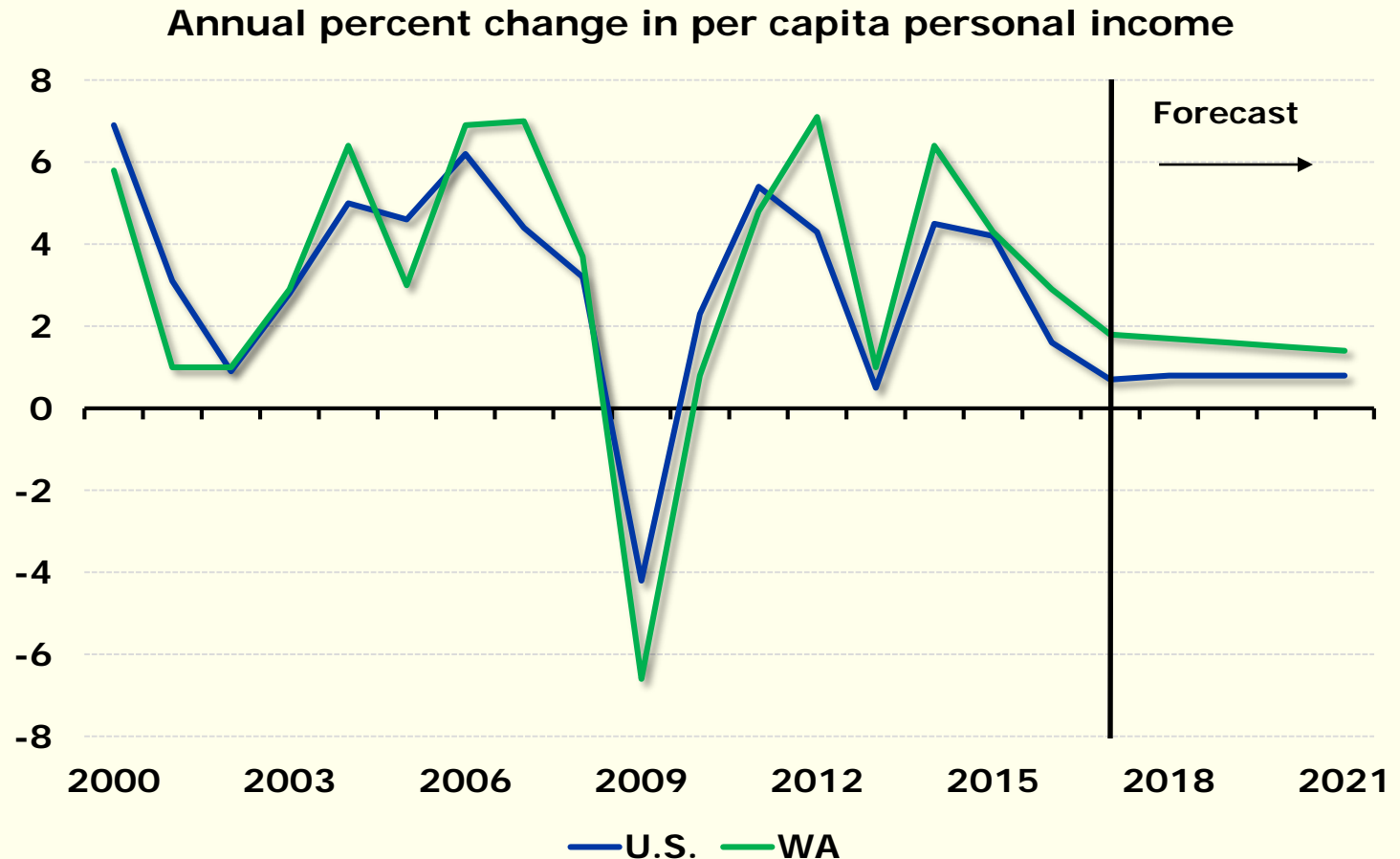


# On a per capita basis, WA personal income has grown as fast or faster than U.S. as a whole

Per capita  
personal  
income,  
2016

U.S.:  
\$49,246

WA:  
\$54,579

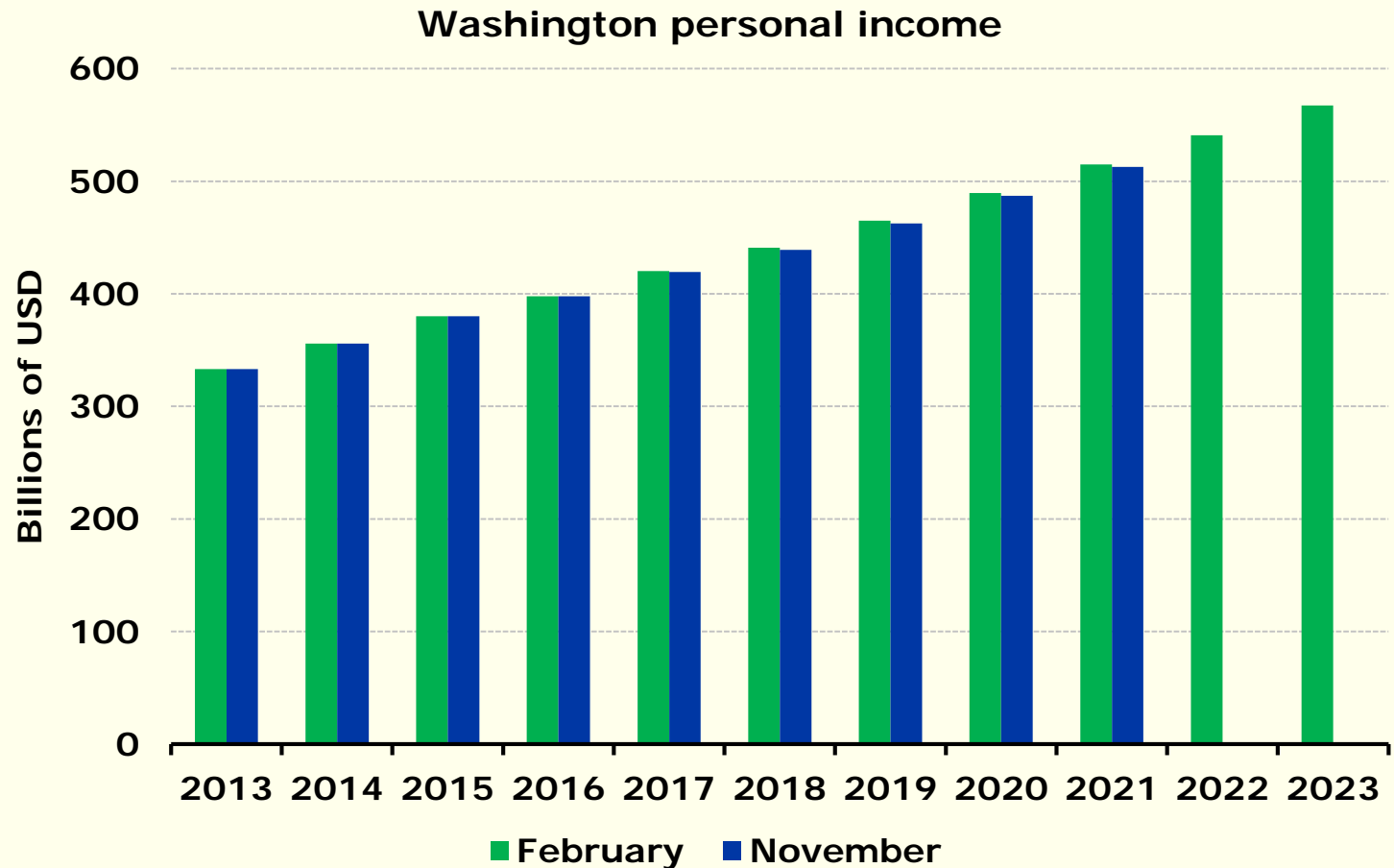






# Washington personal income is slightly higher than in November...

Third quarter 2017 personal income data have become available since the November forecast



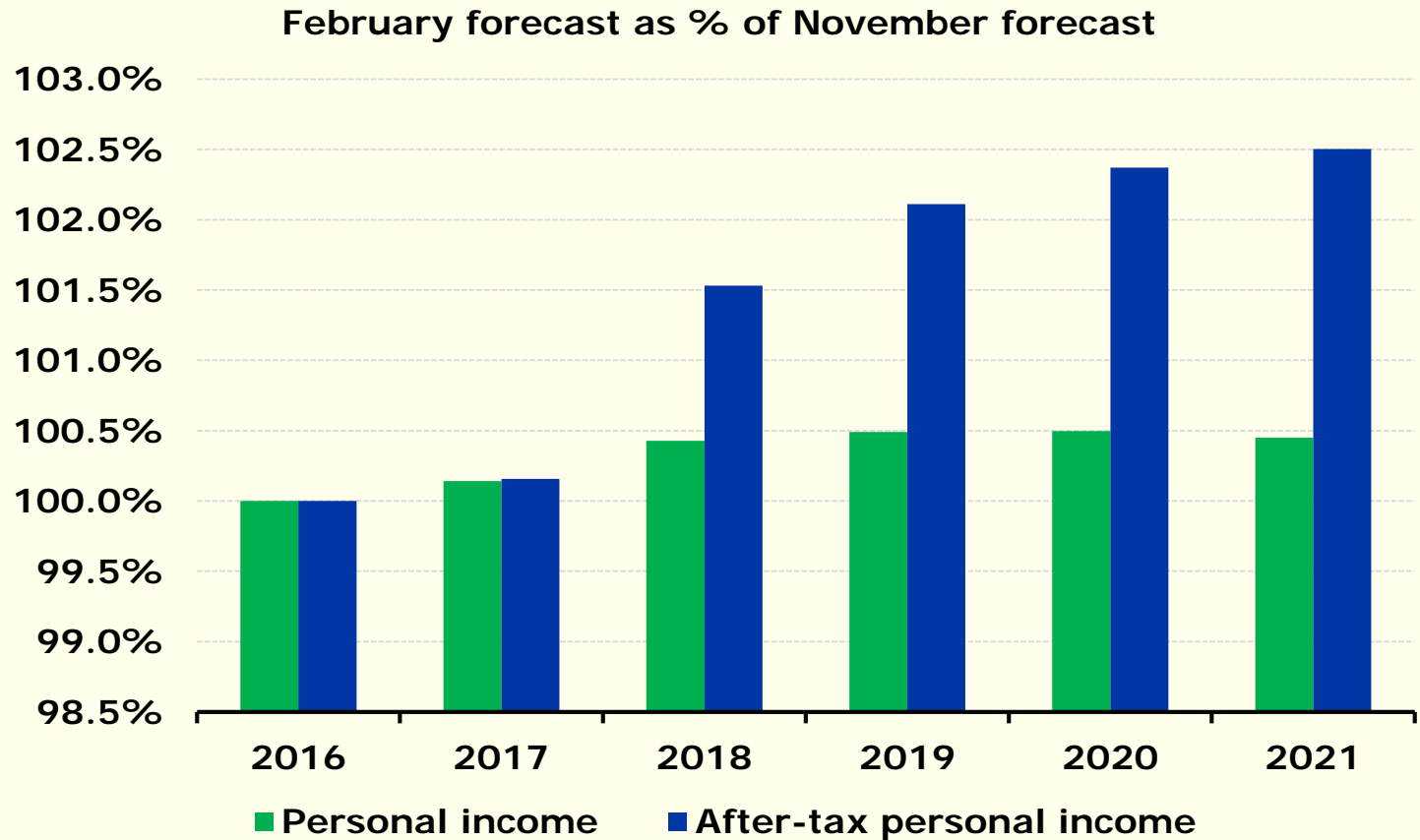
Source: ERFC February 2018 forecast; historical data through 2016

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# But WA after-tax personal income increased even more due to federal tax cuts

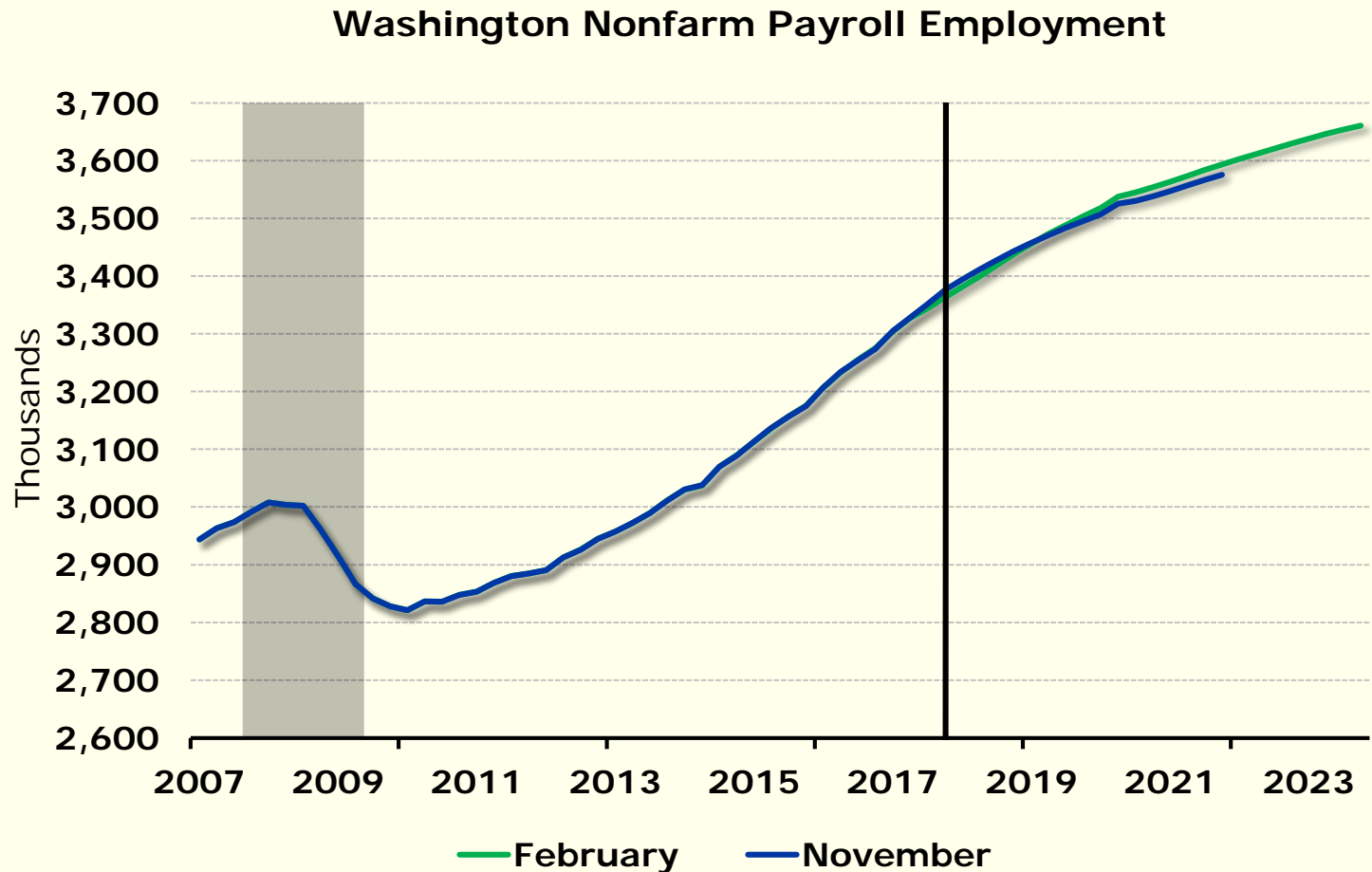
Personal income is 0.4% to 0.5% higher compared to November but after-tax income is 1.5% to 2.5% higher





# Washington employment forecast is slightly higher compared to November

The WA nonfarm employment forecast is 18,000 jobs higher (0.5%) by 2021 compared to November.

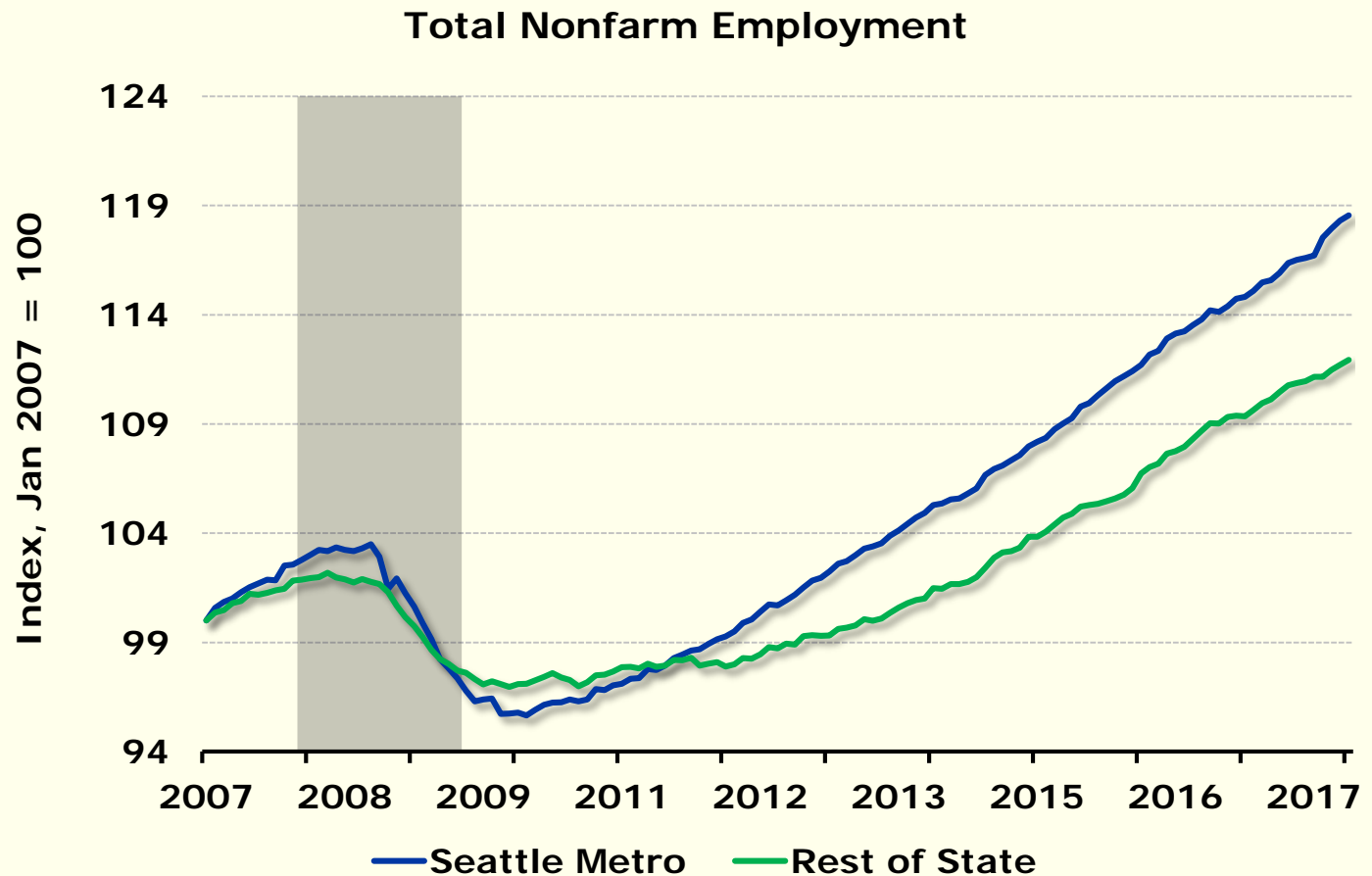


Source: ERFC February 2018 forecast; historical data through Q4 2017

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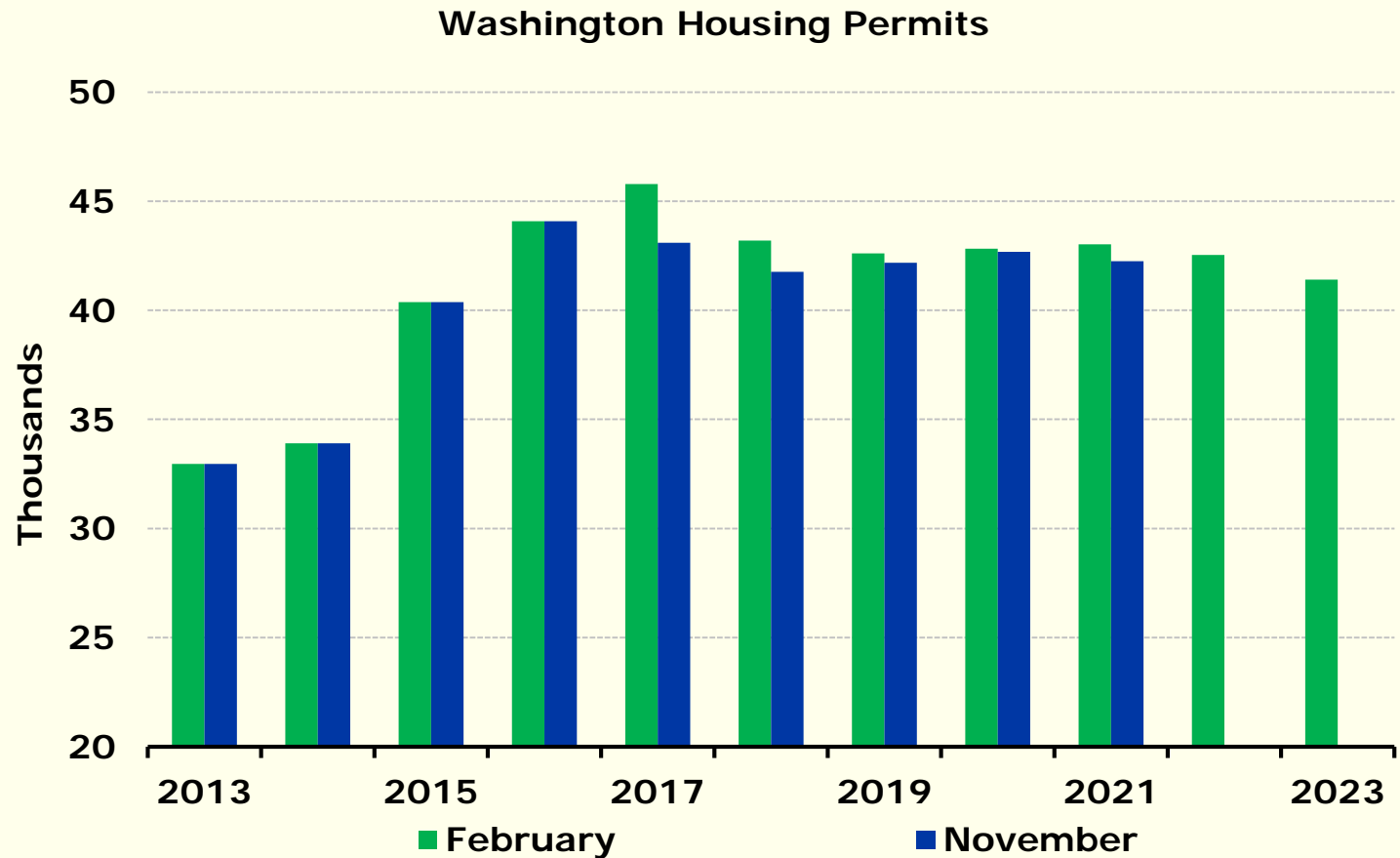
# Seattle area employment continues to grow faster than the rest of the state





# Washington housing permits forecast is slightly higher than in November

Fourth quarter 2017 permits were much higher than expected in November.



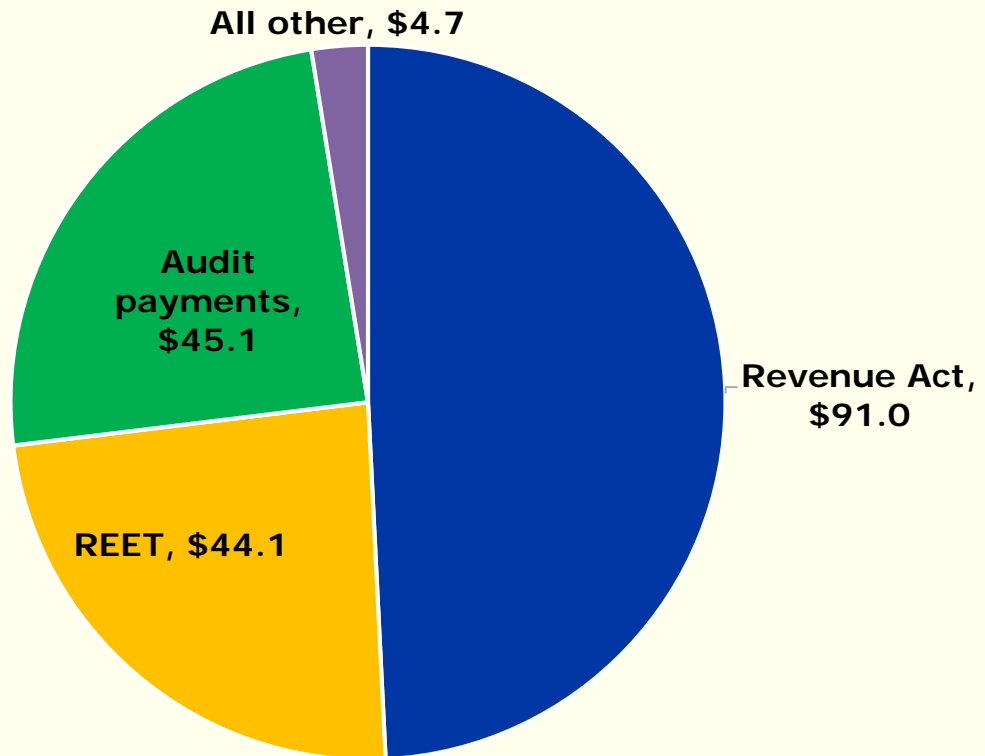
Source: ERFC February 2018 forecast; historical data through 2017

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# Forecast variance since November mainly from Revenue Act sources; 24% due to one-time audit payments

Variance from November forecast (\$ millions)

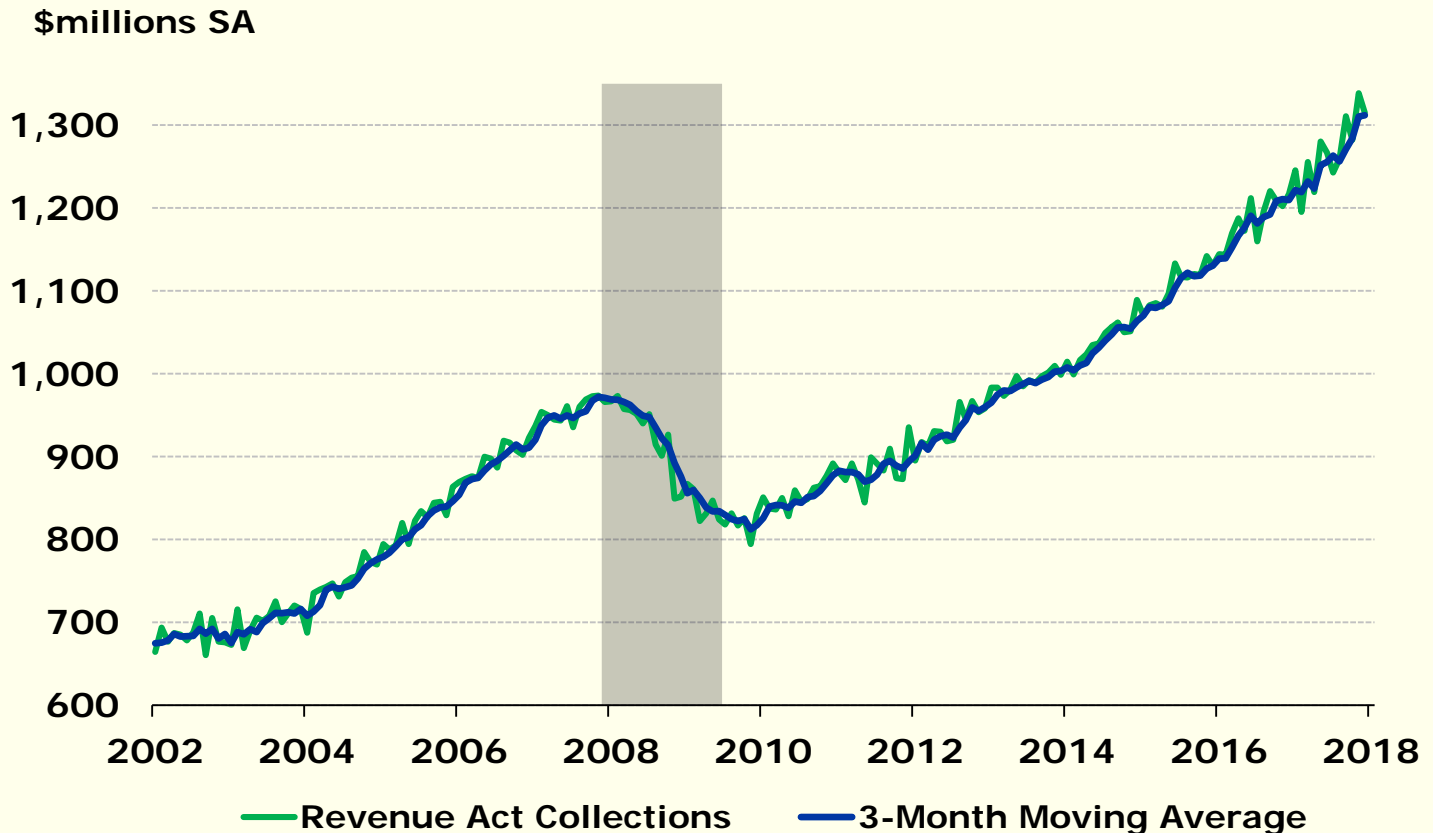




# Revenue Act collections growth accelerated in the 4<sup>th</sup> quarter

Adjusted year-over-year collections growth (by quarter of activity):

Q1: 6.3%  
Q2: 5.6%  
Q3: 6.4%  
Q4: 8.3%



\* 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 December 2017 activity

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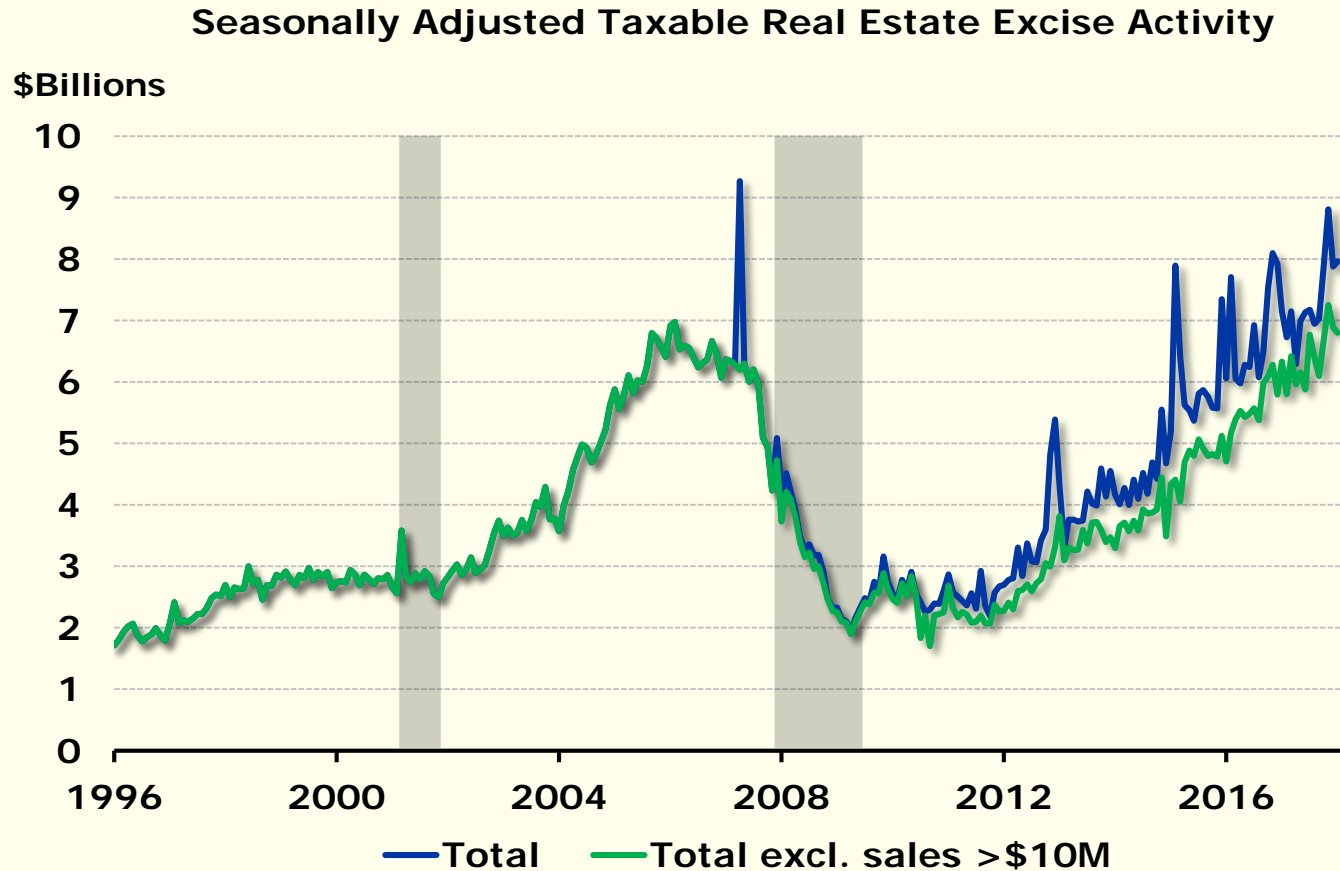
# Large commercial property sales increased in the 4<sup>th</sup> quarter of 2017

Large commercial sales (>\$10 million) totaled \$1.8 billion in the 1<sup>st</sup> quarter of 2017, \$2.9 billion in the 2<sup>nd</sup> quarter and \$2.0 billion in the 3<sup>rd</sup> quarter, then rebounded to \$3.6 billion in the 4<sup>th</sup> quarter.

Residential and smaller commercial sales also increased.

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Slide 31



Source: ERFC; Monthly data through January 2018 preliminary

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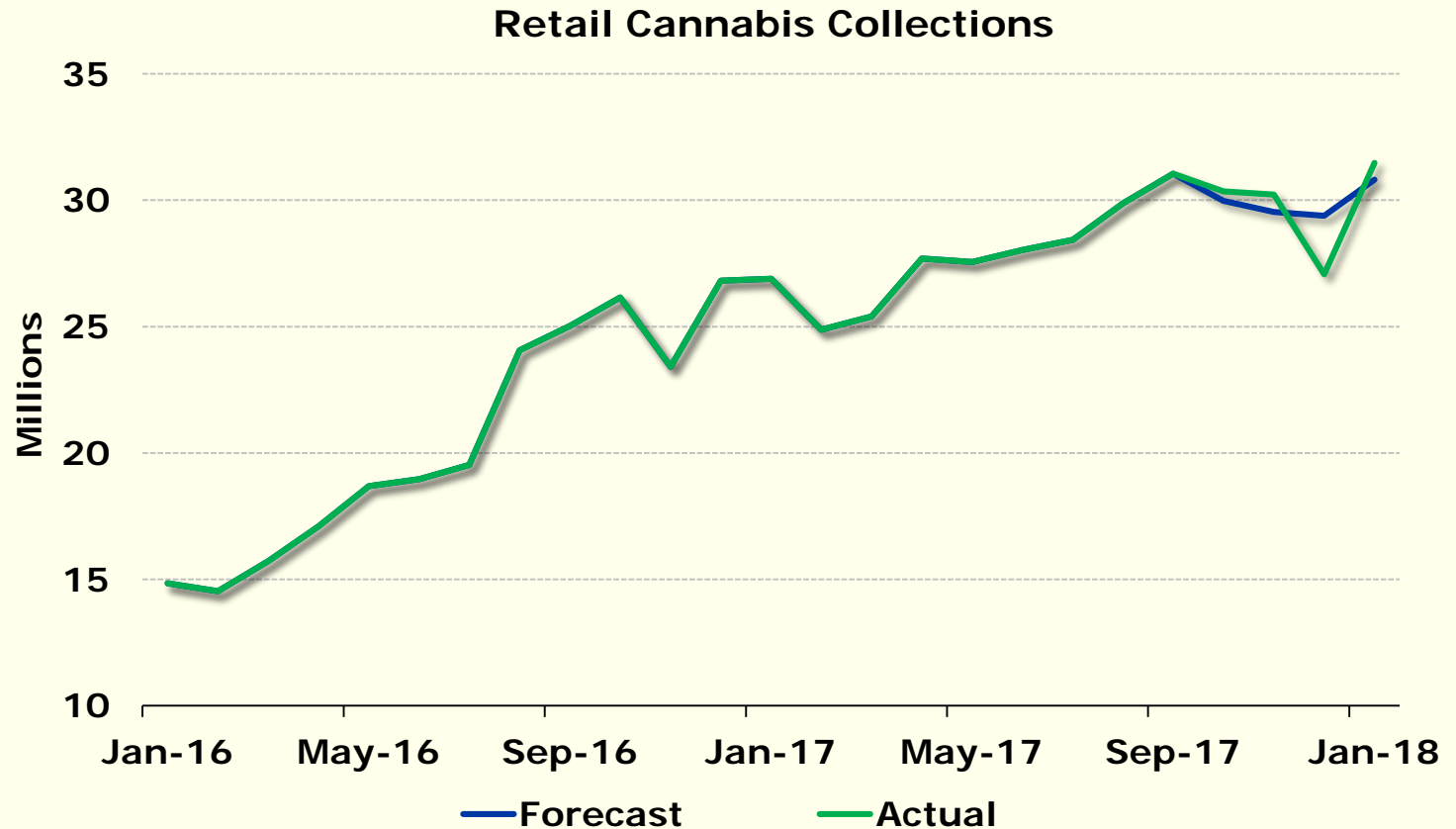




# Cannabis revenue continues to be volatile

Collections were 2.1% above forecast in January

Collections are 0.5% below forecast since October





# Forecast changes: General Fund State, 2017-2019 Biennium

**November  
Forecast:**

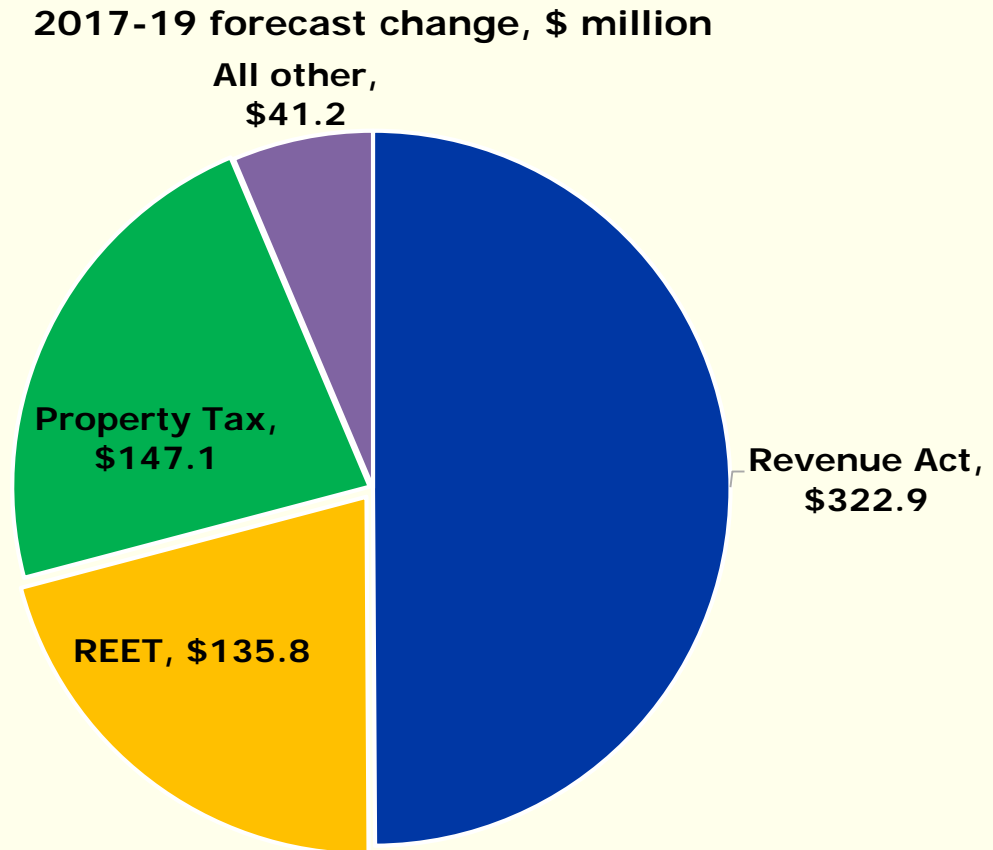
**\$43,566  
million**

\$Millions	February Forecast				
	<u>Collection Experience</u>	<u>Non- economic Change</u>	<u>Forecast Change</u>	<u>Forecast</u>	<u>Total Change*</u>
Dept. of Revenue	\$184	\$0	\$447	\$41,999	\$631
All other agencies	\$1	\$0	\$15	\$2,213	\$16
<b>Total GF-S</b>	<b>\$185</b>	<b>\$0</b>	<b>\$462</b>	<b>\$44,213</b>	<b>\$647</b>

\* Detail may not add to total due to rounding



# Components of 2017-19 GF-S forecast change





# Forecast changes: General Fund State, 2019-2021 Biennium

**November  
Forecast:**

**\$47,582  
million**

**\$Millions**

	February Forecast			
	<u>Non- economic Change</u>	<u>Forecast Change</u>	<u>Forecast</u>	<u>Total Change*</u>
Dept. of Revenue	\$0	\$655	\$46,029	\$655
All other agencies	\$0	\$16	\$2,226	\$16
<b>Total GF-S</b>	<b>\$0</b>	<b>\$671</b>	<b>\$48,255</b>	<b>\$671</b>

\* Detail may not add to total due to rounding



# State property tax estimates

\$Millions

## Property Tax Forecast

	<u>2015-17</u>	<u>2017-19</u>	<u>2019-21</u>
November	\$4,133	\$6,034	\$7,188
February	\$4,133	\$6,181	\$7,416
<b>Difference</b>	<b>\$0</b>	<b>\$147</b>	<b>\$228</b>

\* Detail may not add to total due to rounding

Source: ERFC February 2018 forecast



# Cannabis excise tax and license fee estimates

General Fund  
change since  
November  
forecast:

•2017-19  
\$0 M

•2019-21  
+\$7.6 M

**\$Millions**

## Cannabis Forecast

**2015-17**

**2017-19**

**2019-21**

GF-S share of excise  
tax and license fees

\$148

\$250

\$278

Non-GF

\$321

\$499

\$532

**Total**

**\$469**

**\$749**

**\$809**

\* Detail may not add to total due to rounding

Source: ERFC February 2018 forecast



# 2017-19 Biennium alternative forecasts – cash basis

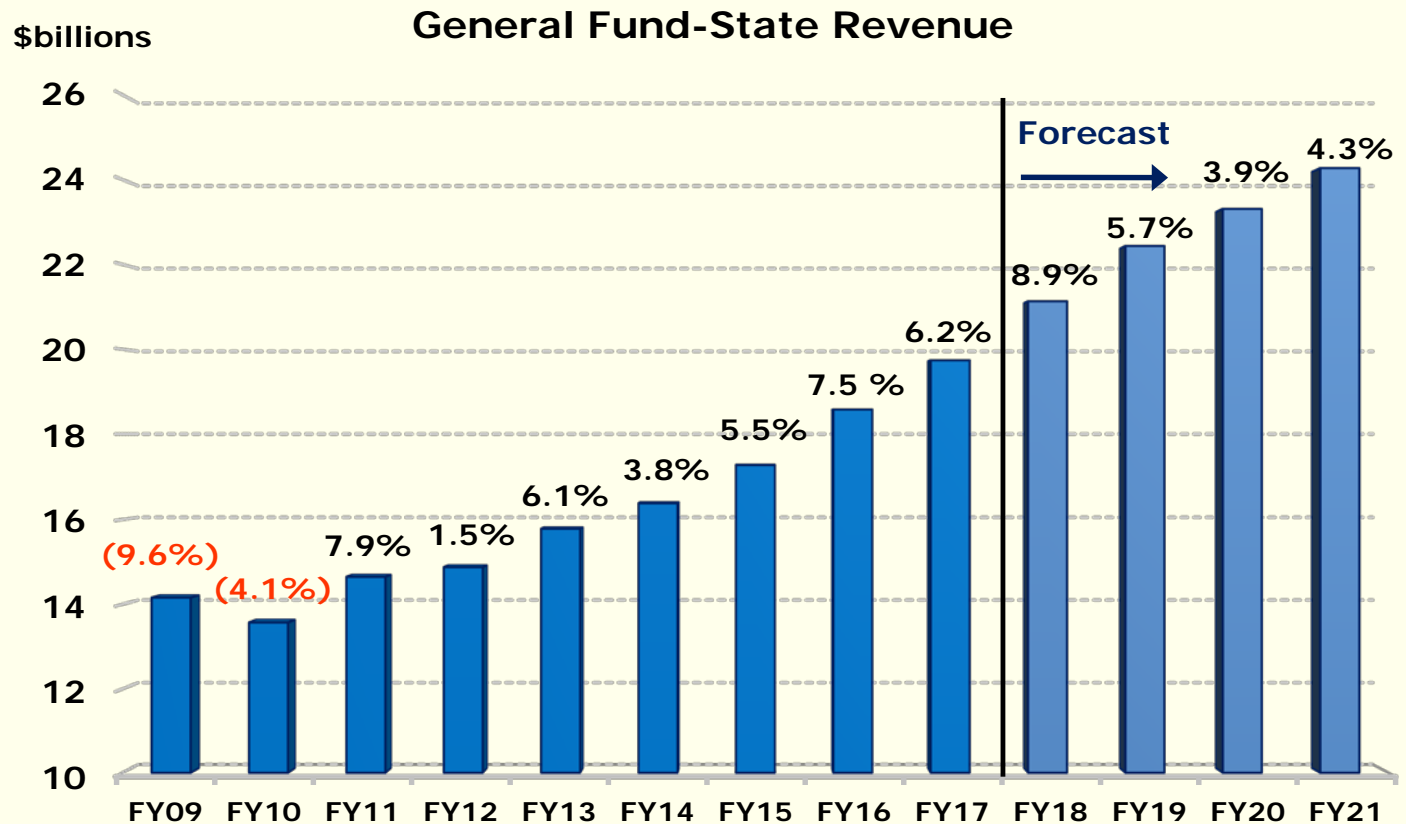
<b>\$Millions</b>	<b>2017-19 Biennium</b>	<b>Difference From the baseline<sup>#</sup></b>
<b>February 2018 Baseline (60%)</b>	<b>\$44,213</b>	
<b><u>November 2017 Alternative Forecasts</u></b>		
<b>Optimistic (15%)</b>	<b>\$45,311</b>	<b>\$1,098</b>
<b>Pessimistic (25%)</b>	<b>\$42,832</b>	<b>(\$1,381)</b>
<b>Probability Weighted Average</b>	<b>\$44,032</b>	<b>(\$181)</b>
<b>GCEA<sup>*</sup></b>	<b>\$44,125</b>	<b>(\$88)</b>

<sup>\*</sup>Based on the Governor's Council of Economic Advisors' economic assumptions

<sup>#</sup>May not add to total due to rounding



# General Fund-State\* forecast by fiscal year



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\*General Fund-State & Related Funds for FY 09, General Fund-State current definition for FY 10-21  
Source: ERFC forecast, February 2018

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# Conclusion

- WA personal income and employment are slightly higher than in November
- The forecast incorporates federal tax changes, raising after-tax income in the U.S. and in WA
- As has been the case for some time, Washington's economy is continuing to outperform the nation
- GF-S revenues are expected to grow 15.4% between the 2015-17 and 2017-19 biennia and 9.1% between the 2017-19 and 2019-21 biennia
- The level of uncertainty in the baseline remains elevated, with downside risks outweighing upside risks



# Questions



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