U.S. and Washington Economic Forecast Update

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Summary

- Our economic forecast expects continued growth in the U.S. and Washington economies but at a slightly slower pace than in November and with lower inflation.

- Oil prices have declined dramatically; moderate growth is expected over the forecast period.

- The forecast assumes the Federal Reserve will increase interest rates twice this year.

- Risks to the baseline include slowing global and U.S. economic growth, impact of a stronger dollar on exports, and weaker manufacturing activity.
Economic news continues to suggest risks to forecast

**Upside:**
- Declining unemployment rates
- Rising wage growth
- Stronger housing starts and home sales (new and existing)
- Lower oil prices

**Downside:**
- Slower U.S. GDP growth
- Slowing global economy
- Negative impact of stronger dollar on exports
- Stock market volatility
U.S., WA unemployment rates trending down

Number of long-term unemployed workers remains above pre-recession levels

Long-term unemployed as share of all unemployed:

Apr. 2010: 45%
Jan. 2016: 27%

Source: Bureau of Labor Statistics; data through January 2016

WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL
Job creation slightly weaker in 2015 than 2014; U.S. weak, WA strong in January 2016

Average U.S. wage growth has turned positive but slowed in January.
Both U.S. and WA housing permits trending up since 2011

**Graph:**

- **Housing permits, (SAAR)**
- **Thousands**
- **U.S. (left scale)**
- **WA (right scale)**

*Source: U.S. Census Bureau, data through 2015 Q4*
Seattle home prices have been rising faster than prices nationally.
Nonresidential construction activity appears to be slowing

Square feet under contract, WA nonresidential projects (SAAR)

Source: Dodge Data & Analytics; data through Jan. 2016
U.S. economic growth weakened in the third and fourth quarters.
Global GDP forecasts have been consistently revised down

IMF real annual global GDP growth forecast (%)

Source: International Monetary Fund, World Economic Outlook; historic data through 2015

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The dollar has increased in value relative to currencies of U.S. trading partners.

Source: Federal Reserve; data through January 2016
WA exports in 2015 declined for the first time since 2009

Year-over-year growth in export value

Source: WISERTrade; data through December 2015
Manufacturing: slowing nationally, improving in Washington

Institute of Supply Management Index

New vehicle sales continue to trend up; WA had record new car registrations in January

New Vehicle Sales (US) & Registrations (WA), SAAR

Source: Dept. of Licensing, ERFC, MotorIntelligence.com; data through January 2016

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The stock market is generally more volatile than the U.S. economy.

Source: OECD Main Economic Indicators, through 2015Q1; DJ Total US Market 2015Q2 – Q4
Conference Board, U. of Michigan indexes both down in February

Sources: University of Michigan, Conference Board; data through February 2016
Small business optimism and sales expectations weakened in 2015

Source: National Federation of Independent Business; data through January 2016
Forecasted real GDP growth is lower in 2015, 2016 & 2017 compared to the November forecast.

Real U.S. GDP Growth Rates

Source: ERFC February 2016 forecast; historical data through 2015
Oil prices have fallen since the November forecast.

Source: DOE, ERFC February 2016 forecast; historical data through 2015Q4
Washington personal income is lower in 2016 – 2019 compared to the November forecast.

Source: ERFC February 2016 forecast; historical data through 2015
State personal income will continue to grow slightly faster than the U.S.

Source: ERFC February 2016 forecast; historical data through 2015Q3
Washington employment forecast revised down slightly in 2017 - 2019

**Washington Nonfarm Payroll Employment**

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<th>Year</th>
<th>February</th>
<th>November</th>
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<tr>
<td>2021</td>
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<td>3,800</td>
</tr>
</tbody>
</table>

Source: ERFC February 2016 forecast; historical data through 2015
Seattle area employment continues to outpace the rest of the state.

Total Nonfarm Employment

Index, Jan 2007 = 100

Source: Employment Security Department, ERFC; data through December 2015
Employment growth varied widely across state metro areas

2015 employment growth by metro area

- Wenatchee: 5%
- TriCities: 4%
- Bremerton: 3%
- Bellingham: 3%
- Olympia: 3%
- Seattle: 3%
- Statewide: 3%
- Tacoma: 2%
- Longview: 2%
- Spokane: 2%
- Yakima: 2%
- Mt. Vernon: 1%

Source: WA State Employment Security Department
Washington employment will continue to grow slightly faster than the U.S.

Nonfarm Employment, U.S. and WA

Source: ERFC February 2016 forecast; historical data through 2015Q4
Washington housing permits forecast is slightly lower than in November.

Source: ERFC February 2016 forecast; historical data through 2014.
U.S. Economic Expansions since 1945

Economic Expansions, months

- This Forecast
- Average
- 1980
- 1990

Sources: NBER, ERFC February 2016 Preliminary forecast
Wall Street Journal survey shows low but rising probability of recession

Source: Wall Street Journal Economic Forecasting Survey
Initial slow recovery points to extended expansion

Months of Recovery After Reaching Previous Peak in Employment

Sources: NBER, ERFC February 2016 forecast
Retail sales taxes account for over 47% of collections

FY 2015 collections

- Retail sales: 47%
- B&O: 17%
- State property tax: 12%
- Real estate excise tax: 4%
- All other: 20%

Source: Dept. of Revenue, ERFC
Revenue Act collections close to previous trend after spike in August collections

$millions SA


650 750 850 950 1,050 1,150

Green: Revenue Act Collections
Blue: 3-Month Moving Average

* 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 2015 activity
Residential taxable activity and smaller commercial sales grew rapidly for the first 3 quarters of 2015 but declined in the 4th quarter.

Large commercial property sales are expected to decrease from the elevated levels of the past few years.

Source: ERFC, data through 2015 Q4
Oregon legalization may have affected Clark County but statewide sales continued to grow.

Prior to legal retail sales in Oregon, Clark County accounted for 12% of total sales by quantity.

In January, Clark County accounted for 7% of total sales by quantity.

Source: WA LCB; data through January 2016
Medical & recreational cannabis sales merge as of July 2016

Currently, only recreational sales subject to 37% tax; starting in July, medical sales will also be taxed at 37%

Cannabis excise tax collections

Source: ERFC February 2016 forecast; actual data through 2015 Q4
Conclusion

- The economic forecast is weaker than in November but we continue to expect moderate growth
- Oil prices and inflation are lower than expected in November
- Washington is still likely to outperform the nation, but by a small margin
- Threats to economic expansion include slower global and U.S. growth, the impact of a stronger dollar on exports, and a slowdown in manufacturing
Questions

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