

# U.S. and Washington Economic Outlook

Presented to  
SW Washington Estate Planning Council

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**WASHINGTON STATE**  
**ECONOMIC AND REVENUE FORECAST COUNCIL**



# Summary – November Forecast

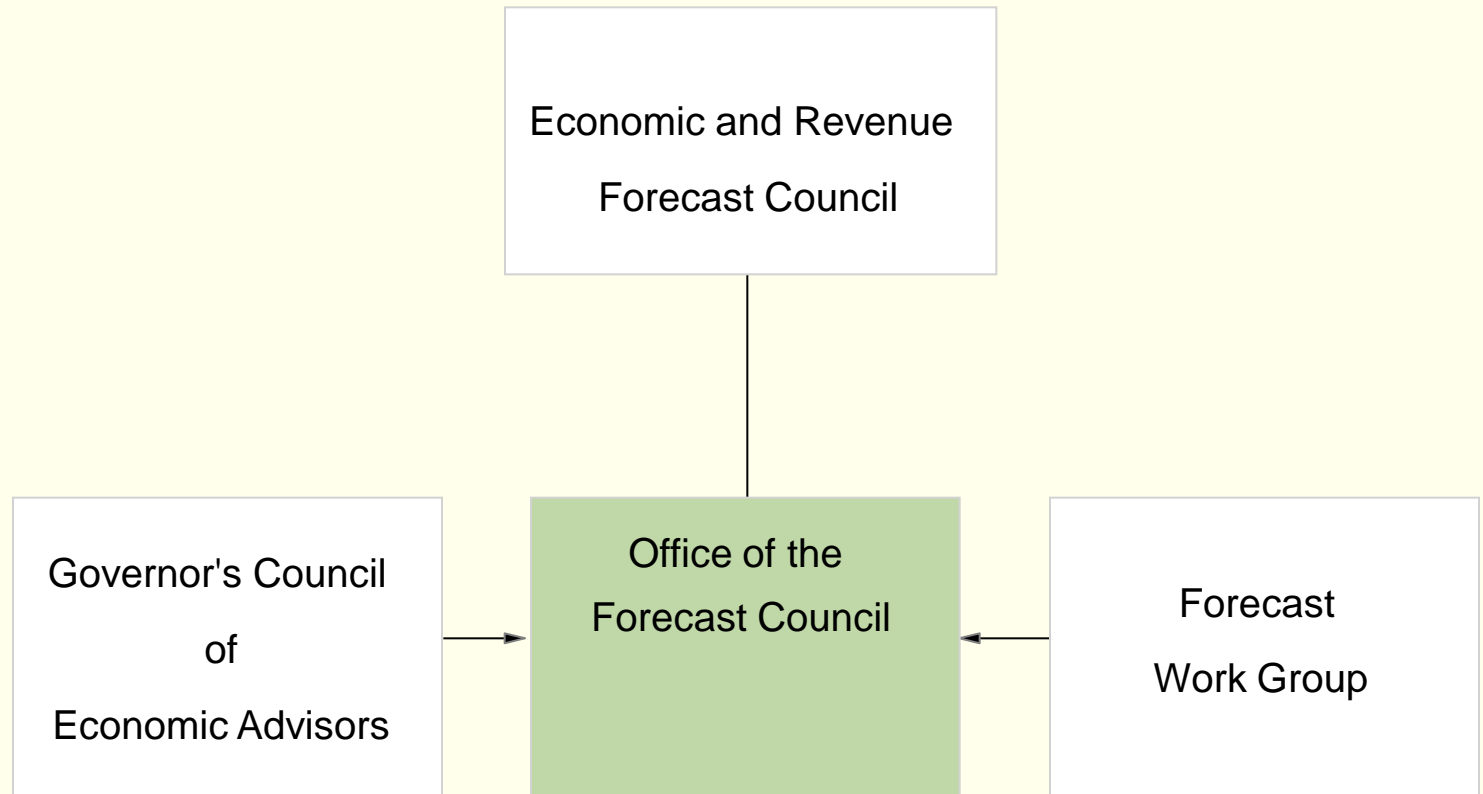
- Oil prices are lower than in the September forecast
- Washington personal income is higher than expected in September due to historical data revisions
- Downside risks to the baseline include the potential for slower Chinese, Japanese and European economic growth, possible disruptions to the housing 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



# Forecast Oversight

## **ERFC**

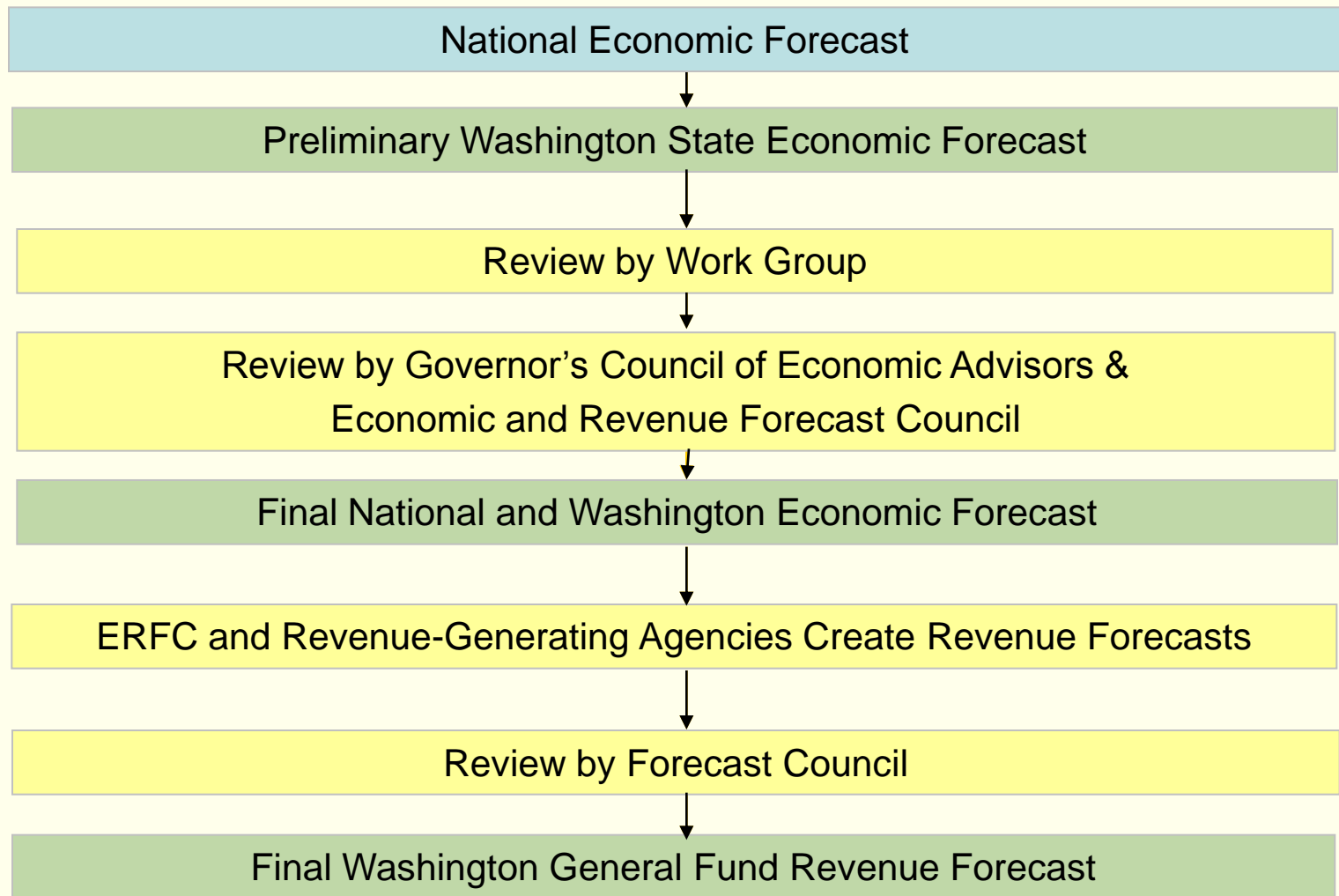
- Council hires Executive Director for three year term
- Director hires staff
- Total staff of five





# ERFC Forecast Process

The national economic forecast is based by the Global Insight model



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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



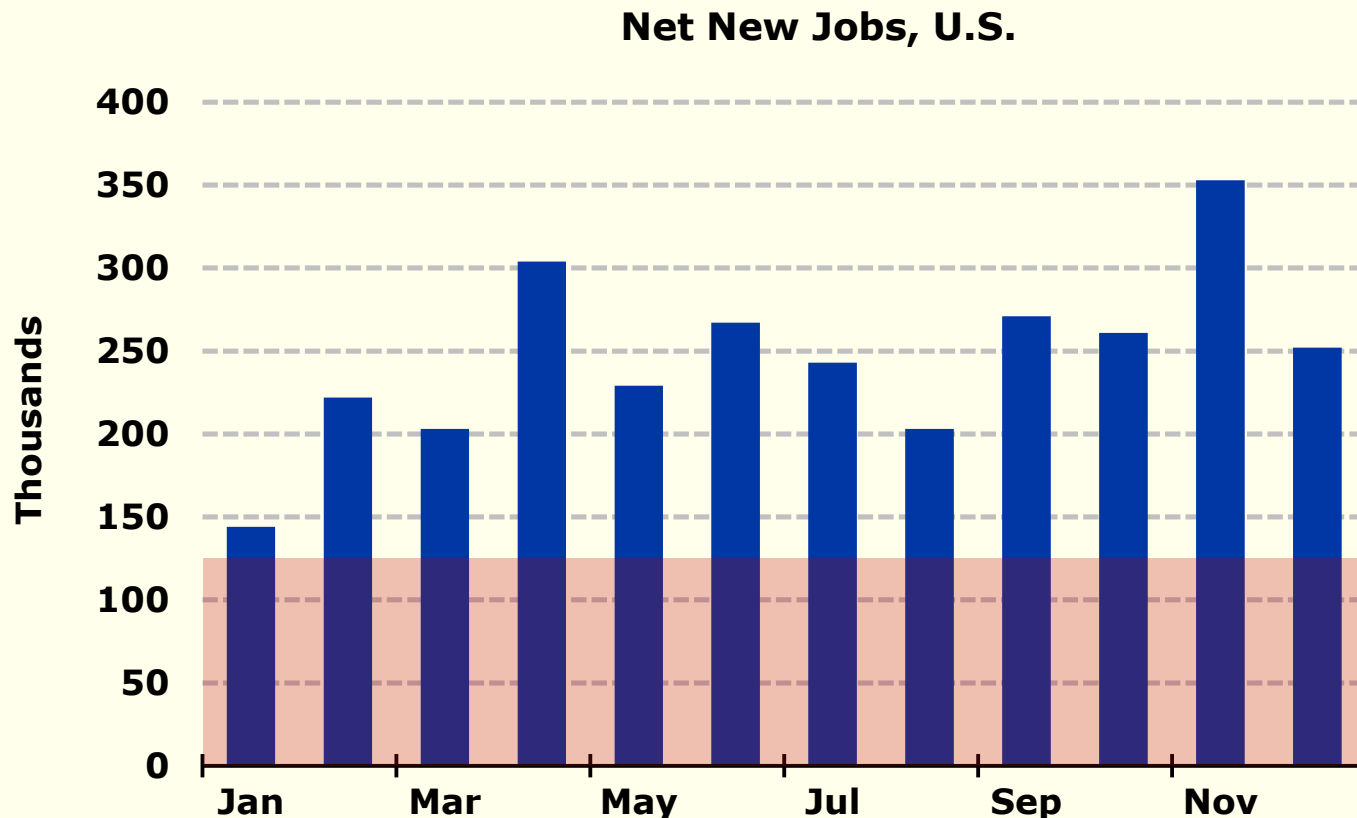
# Unemployment claims are at pre-recession levels





# Monthly job growth has averaged almost 250,000 net new jobs this year

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



Source: Bureau of Labor Statistics, data through December 2014



# Average U.S. wage growth is barely outpacing inflation







# Number of long-term unemployed workers remains high

Long-term unemployed as share of all unemployed:

Apr. 2010:  
46%

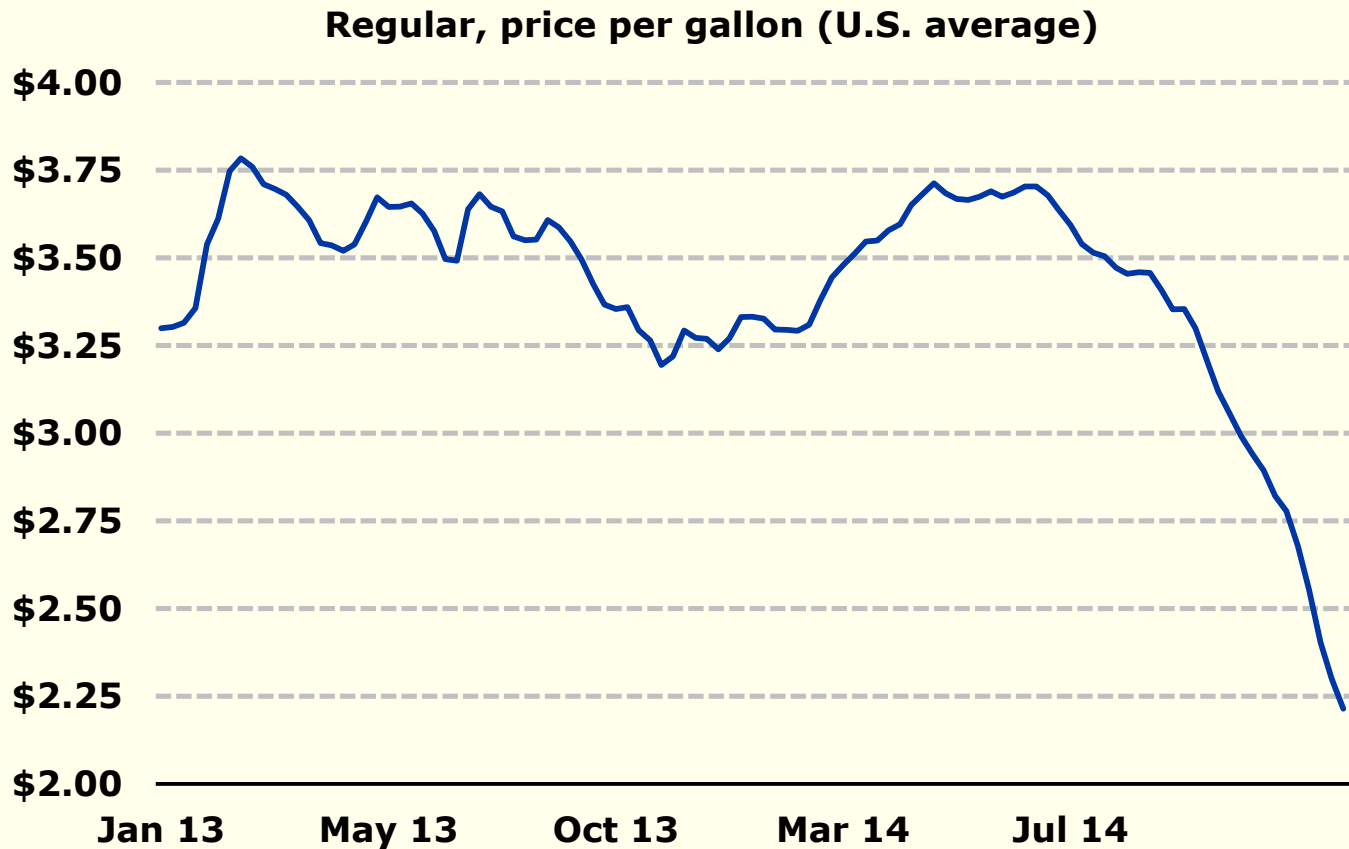
Dec. 2014:  
32%



Source: Bureau of Labor Statistics; data through December 2014



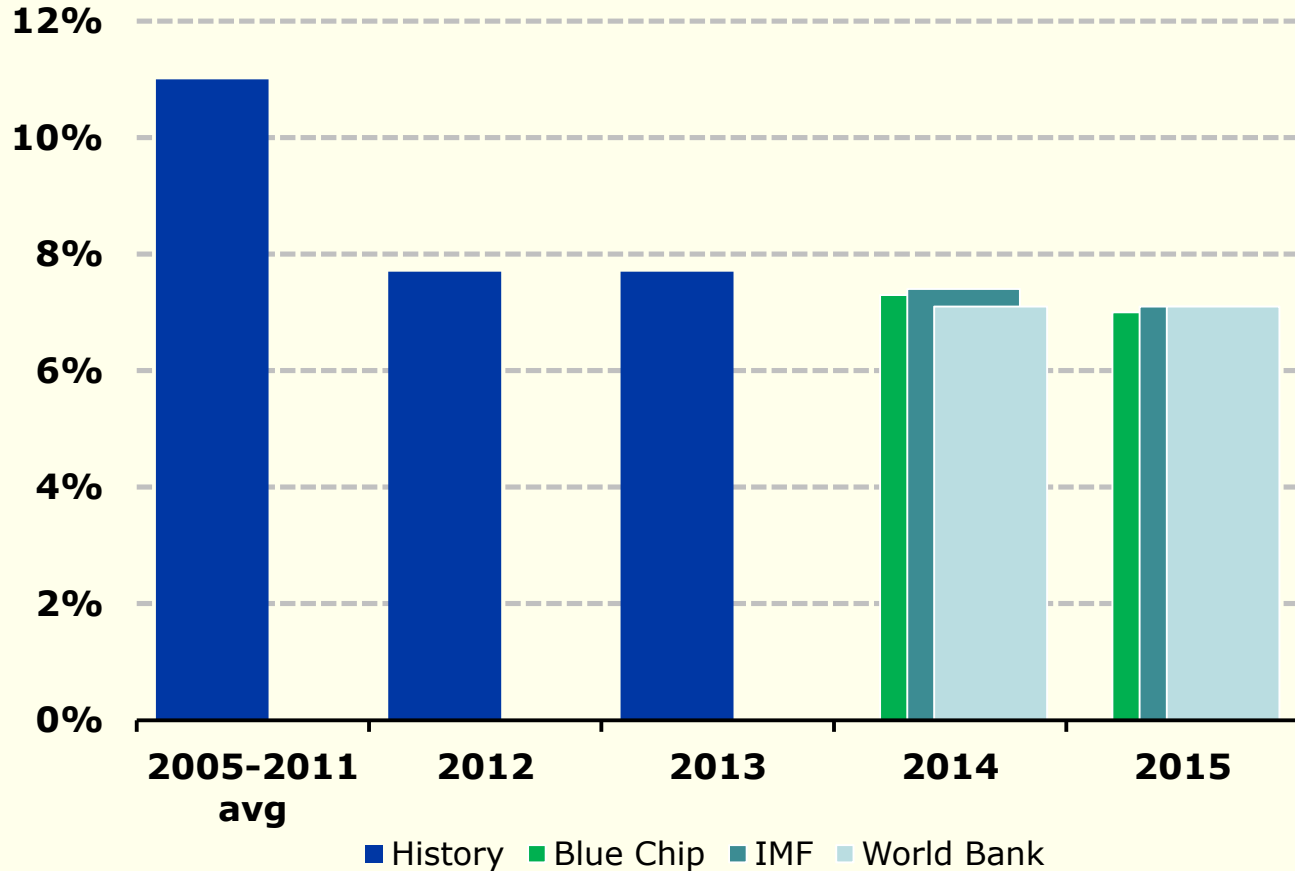
# Gasoline prices are falling



Source: Dept. of Energy, weekly data through January 5, 2015



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

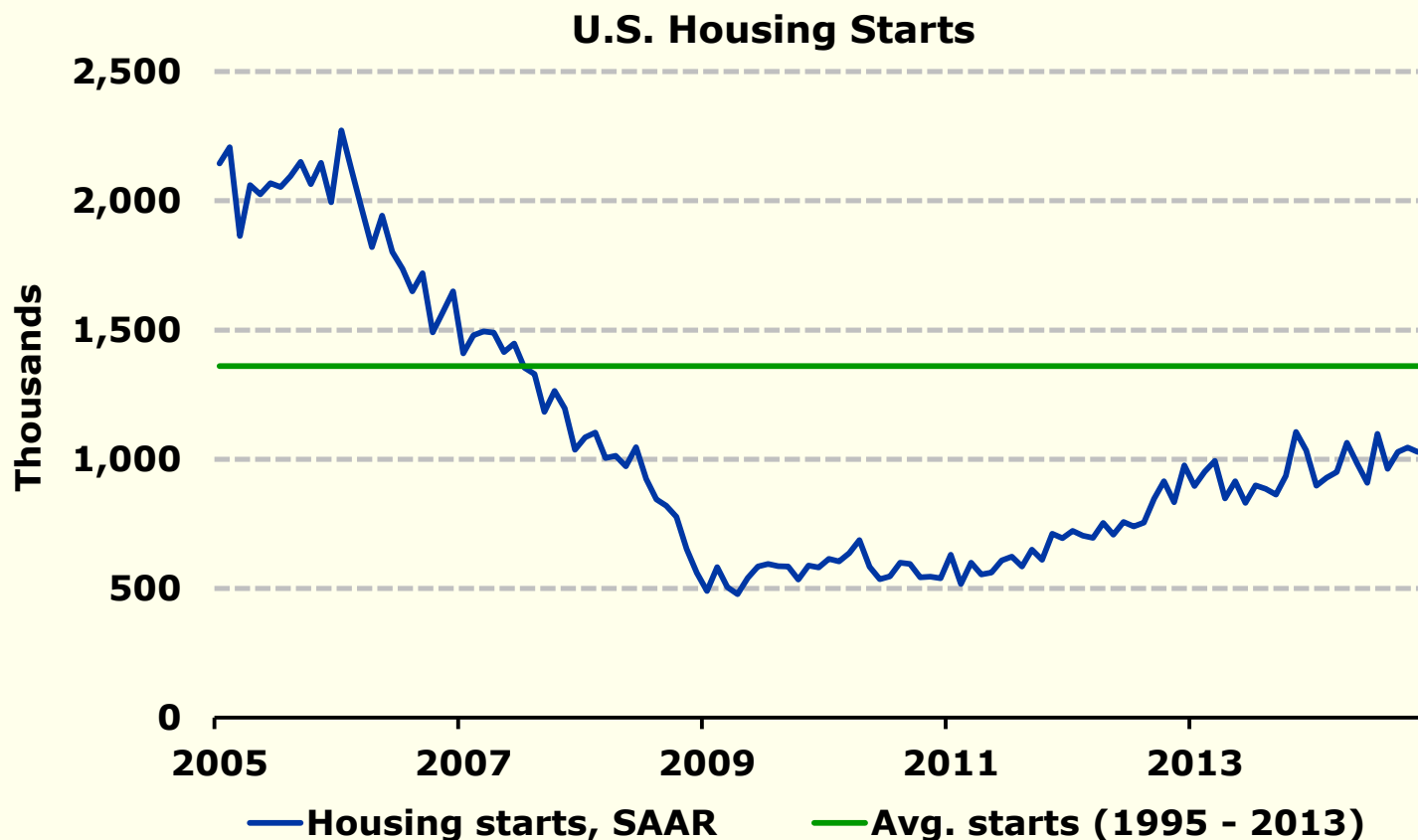


Source: Blue Chip, IMF; data and forecasts through November 2014; World Bank, June 2014 forecast

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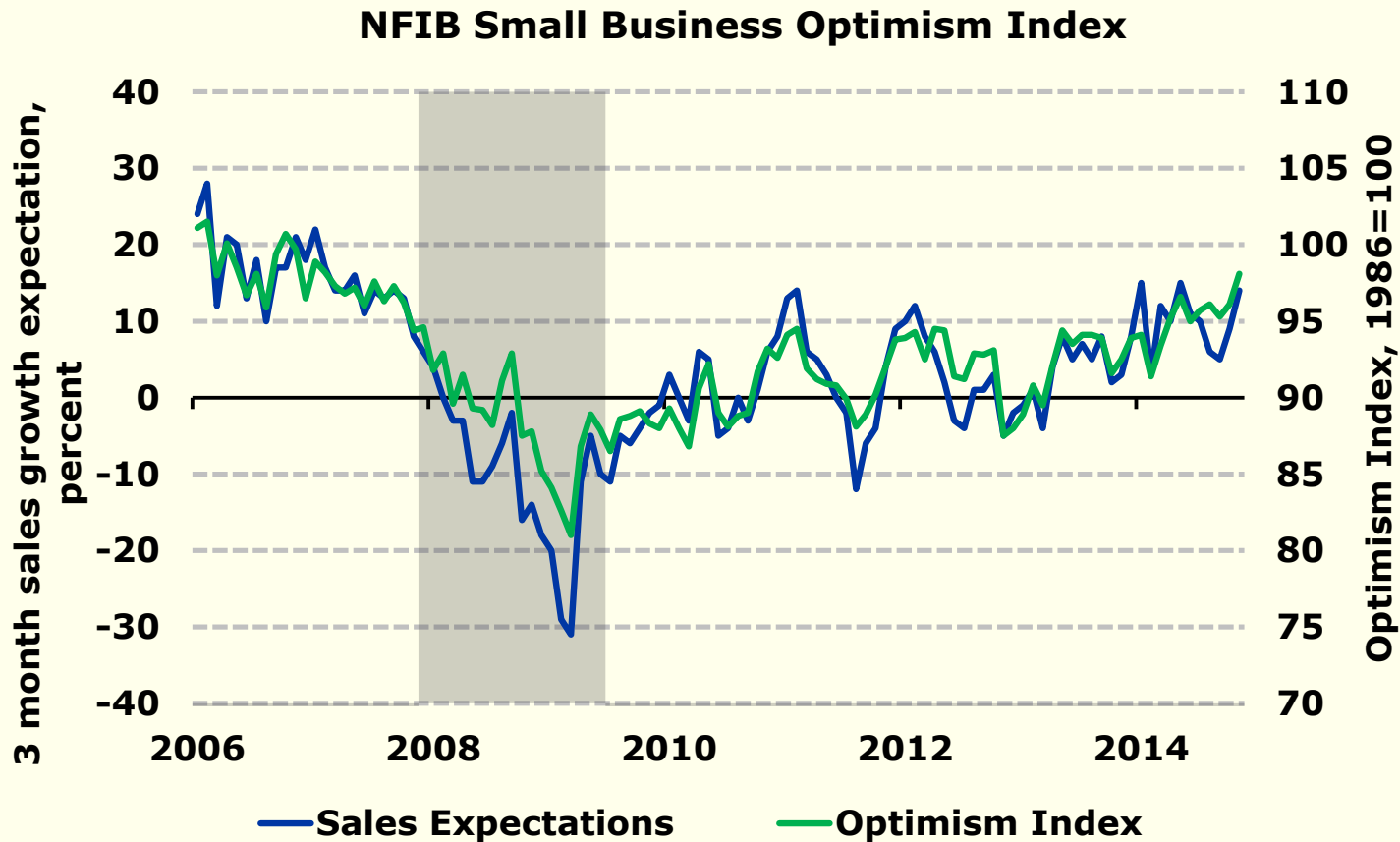


# Housing starts are trending up but remain below historic average





# Small business optimism and sales expectations getting back to pre-recession levels



Source: National Federation of Independent Business; data through November 2014

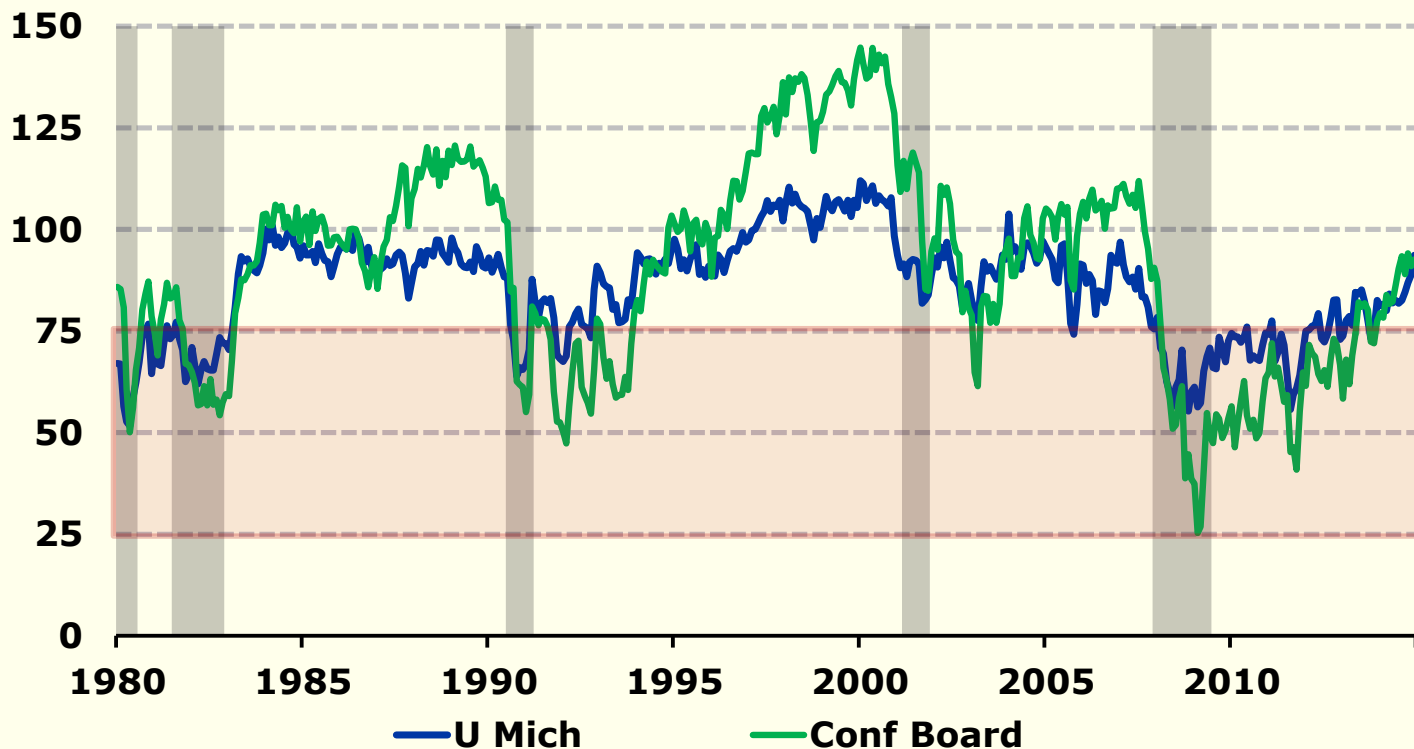


# Consumer confidence improving but also getting close to pre-recession levels

**Index**

**Mich: 1966Q1 = 100, SA**

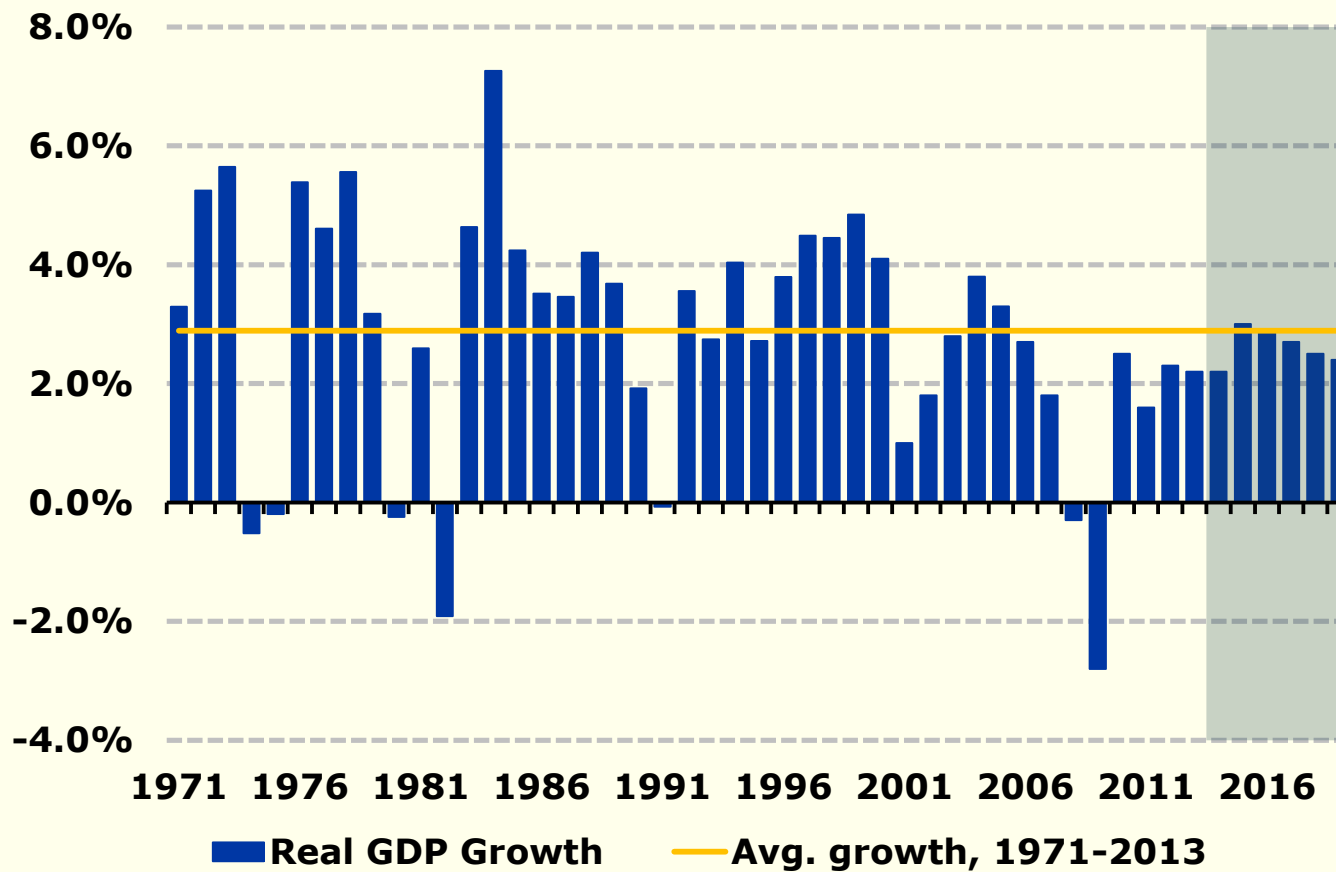
**Conf Board: 1985 = 100, SA**



Source: University of Michigan; Conference Board, data through December 2014



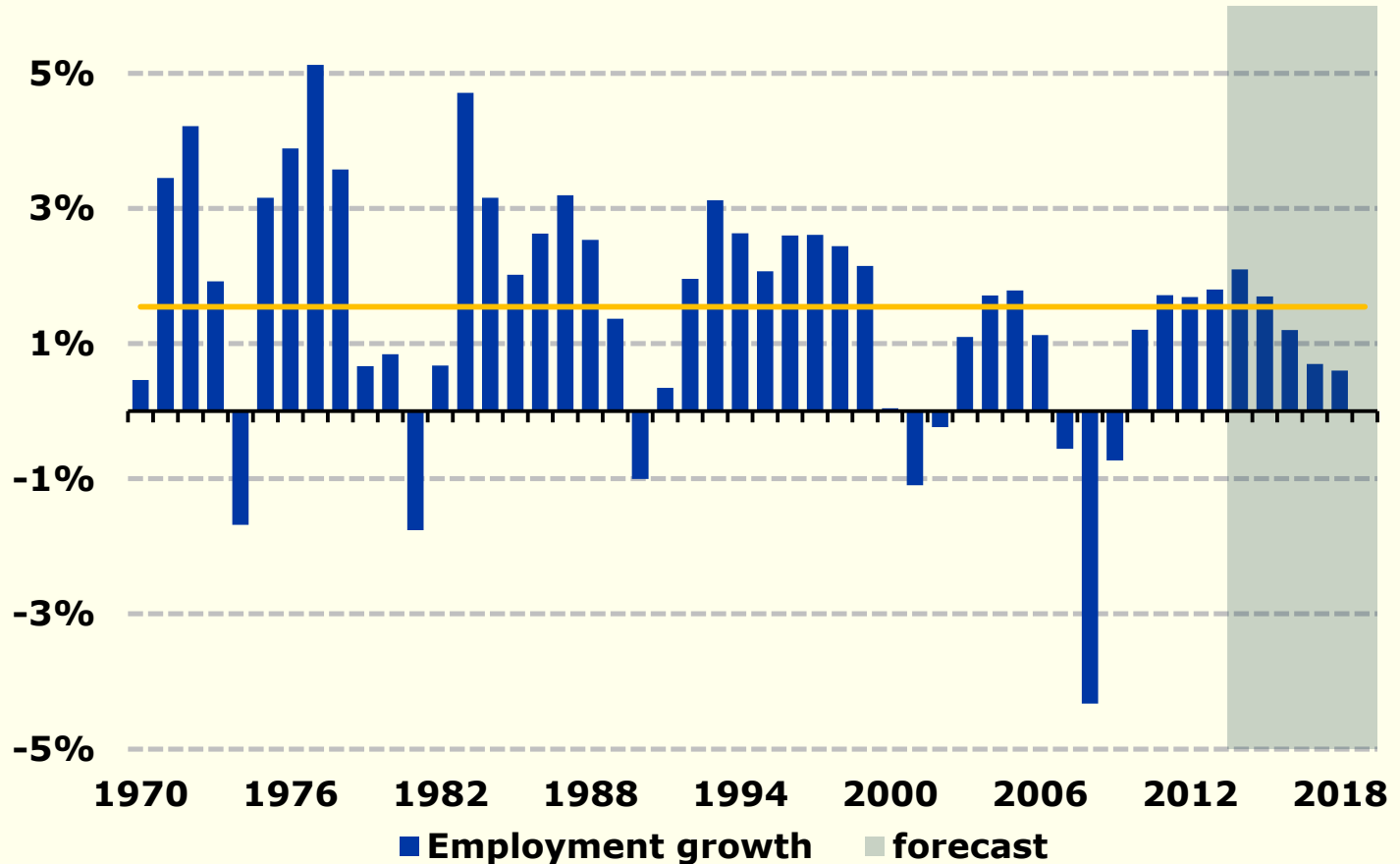
# U.S. economic growth has been slower than in past recoveries



Source: BEA, historical data through 2013; ERFC November forecast 2014-19



# Demographics and declining unemployment will slow U.S. employment growth

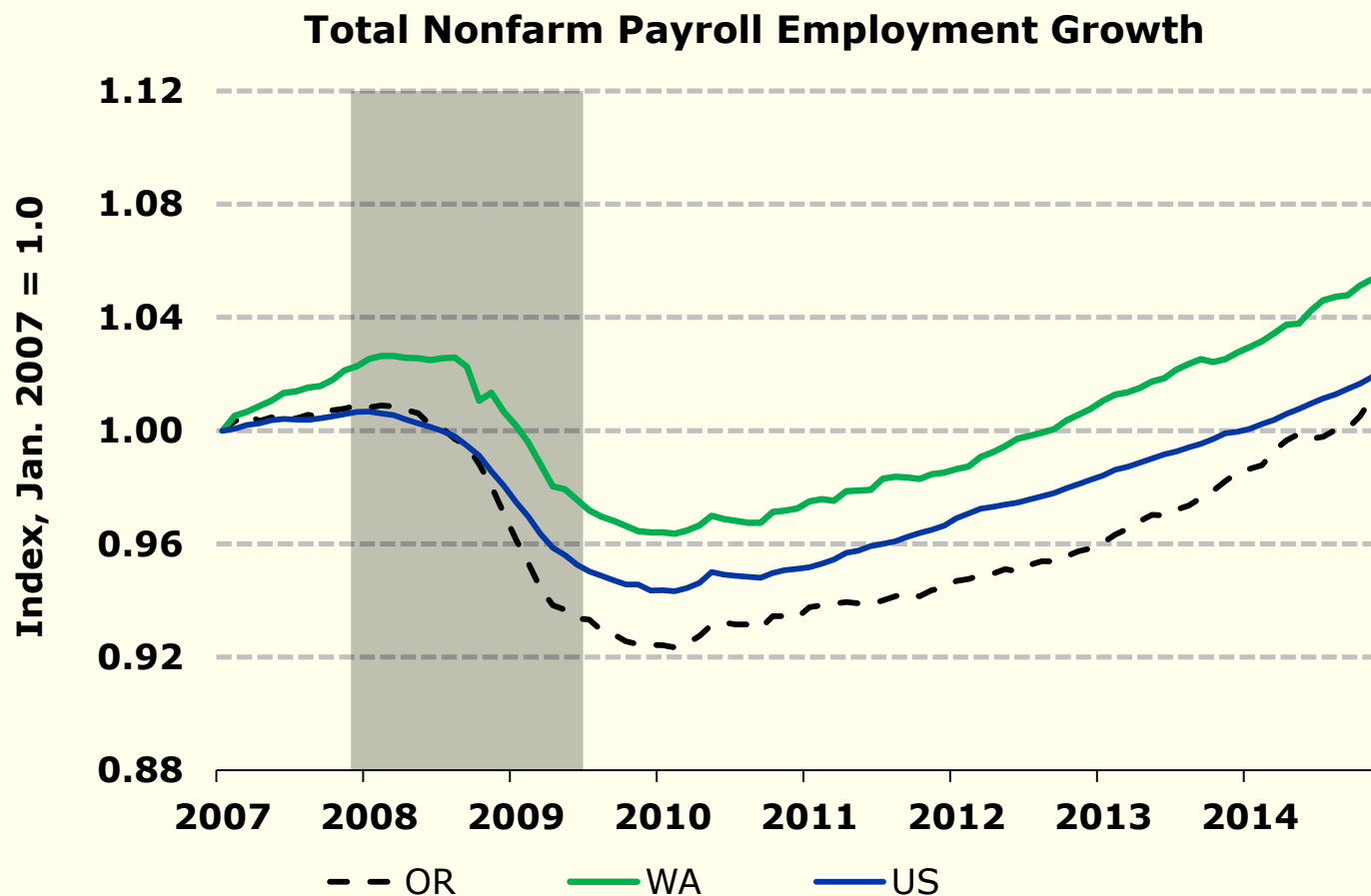


Source: BLS, historical data through 2013; ERFC November forecast 2014-19





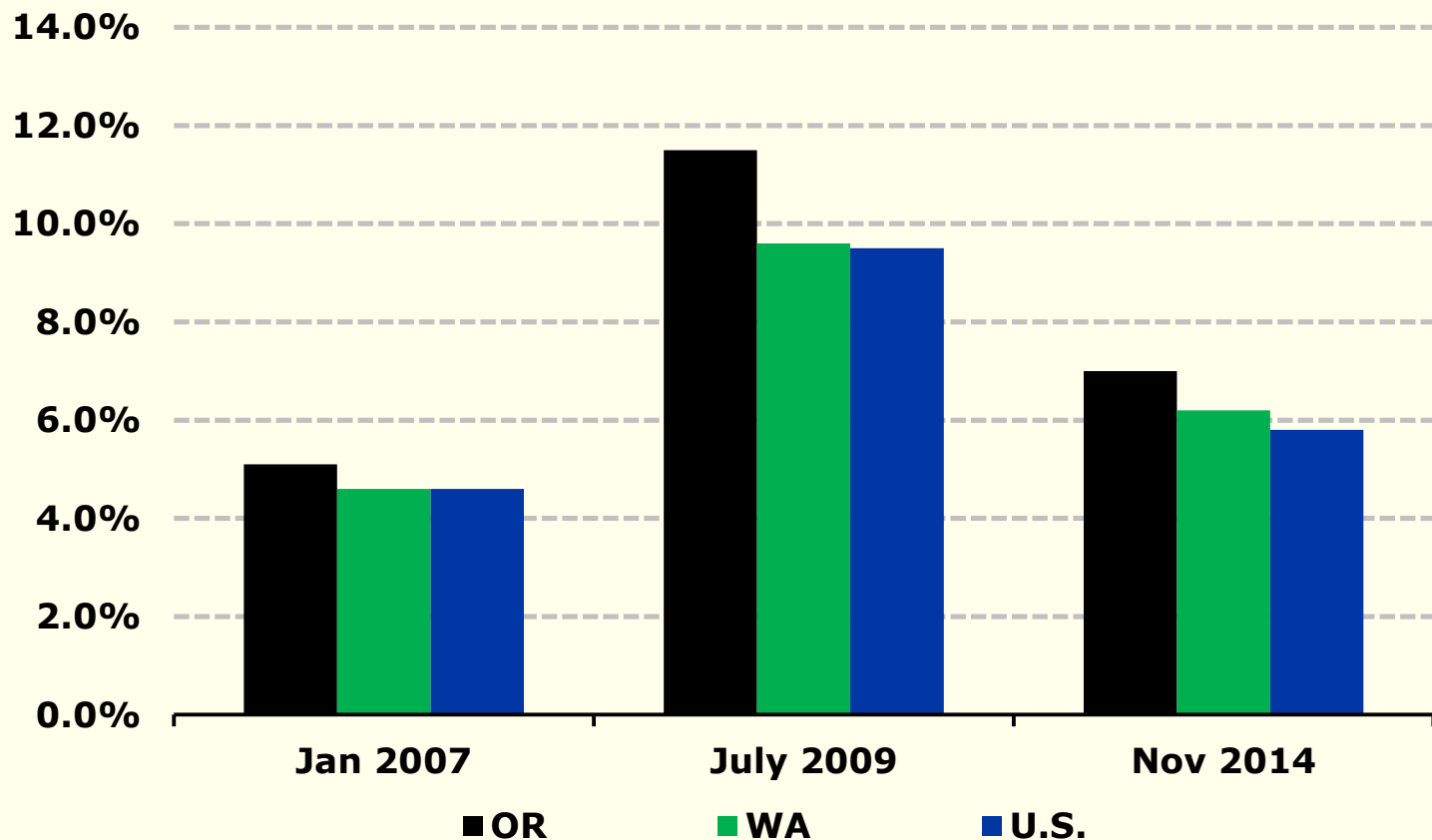
# Employment growth since 2007



Source: BLS; data through November 2014



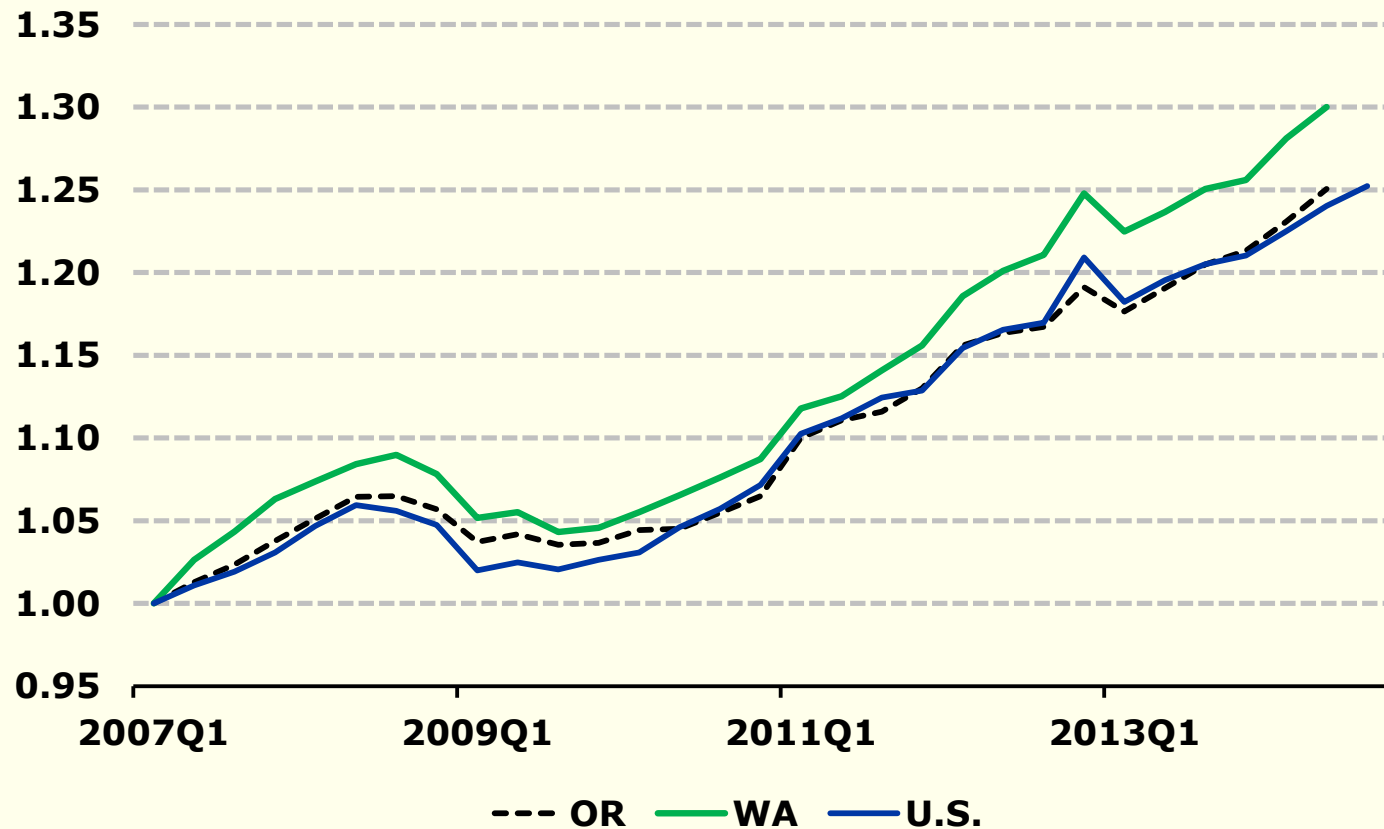
# Unemployment rates are down but still above pre-recession levels



Source: BLS; data through November 2014



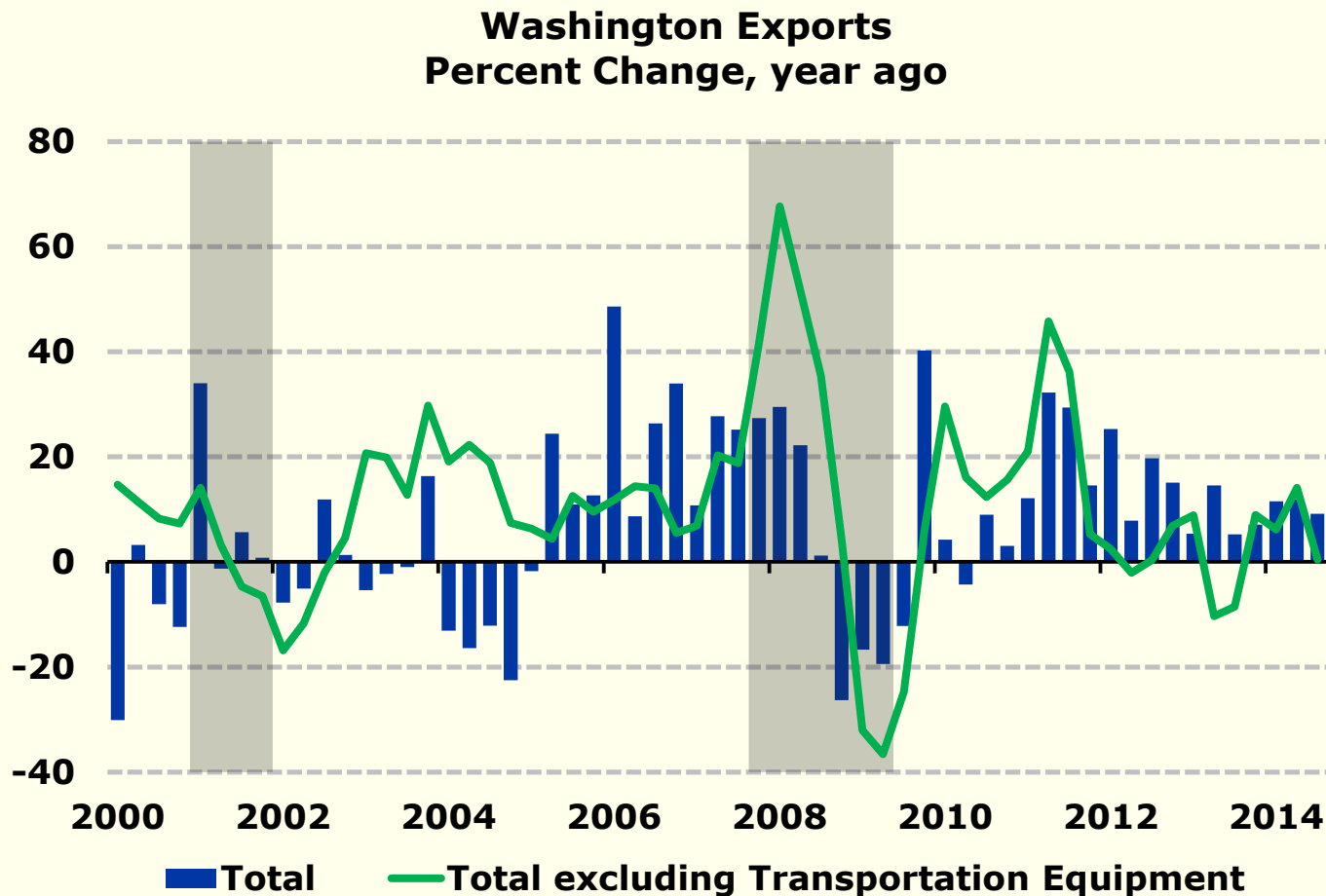
# Personal income growth since 2007



Source: BEA; data through 2014 Q3

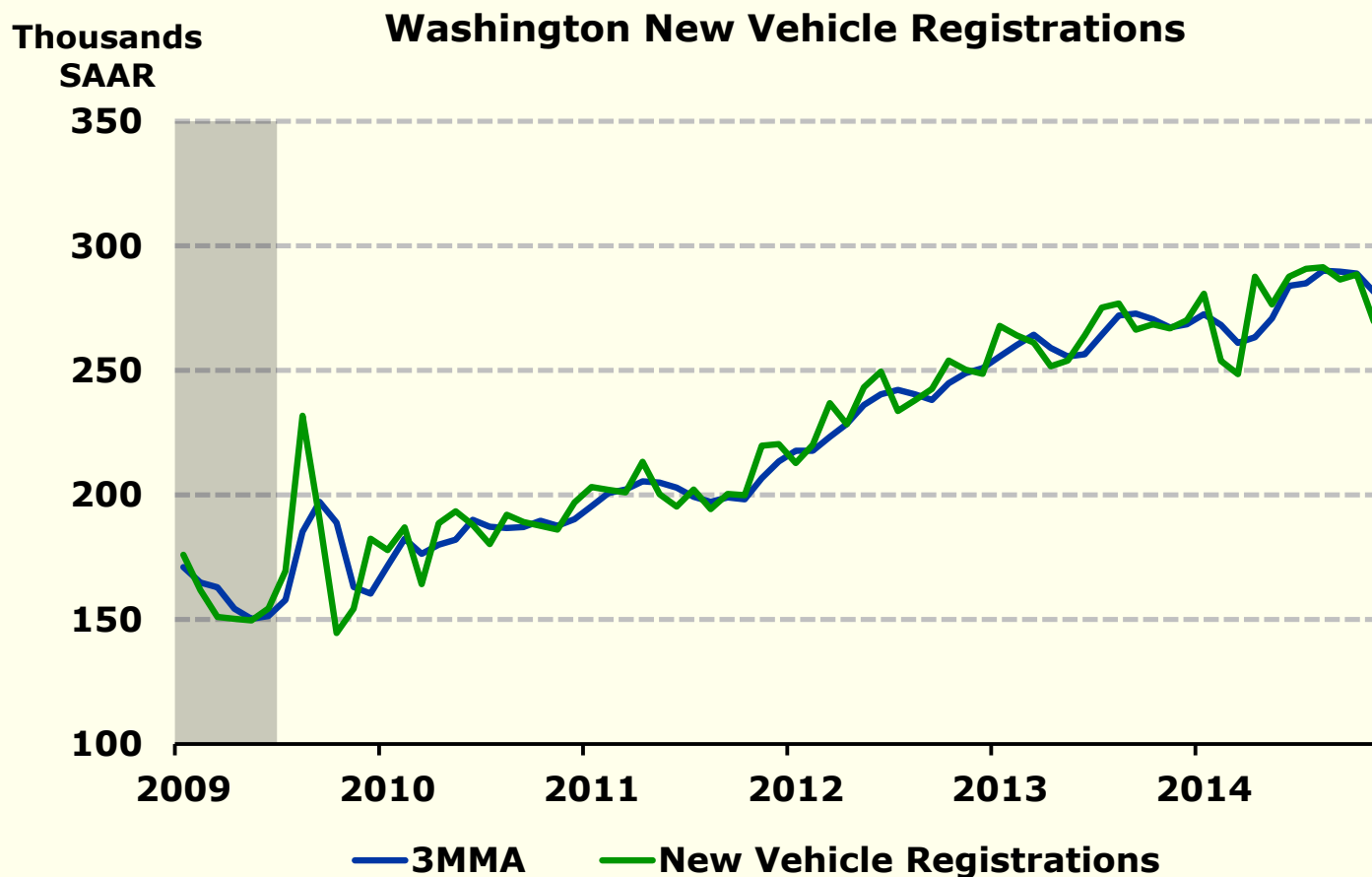


# Non-transportation equipment export growth remains weak





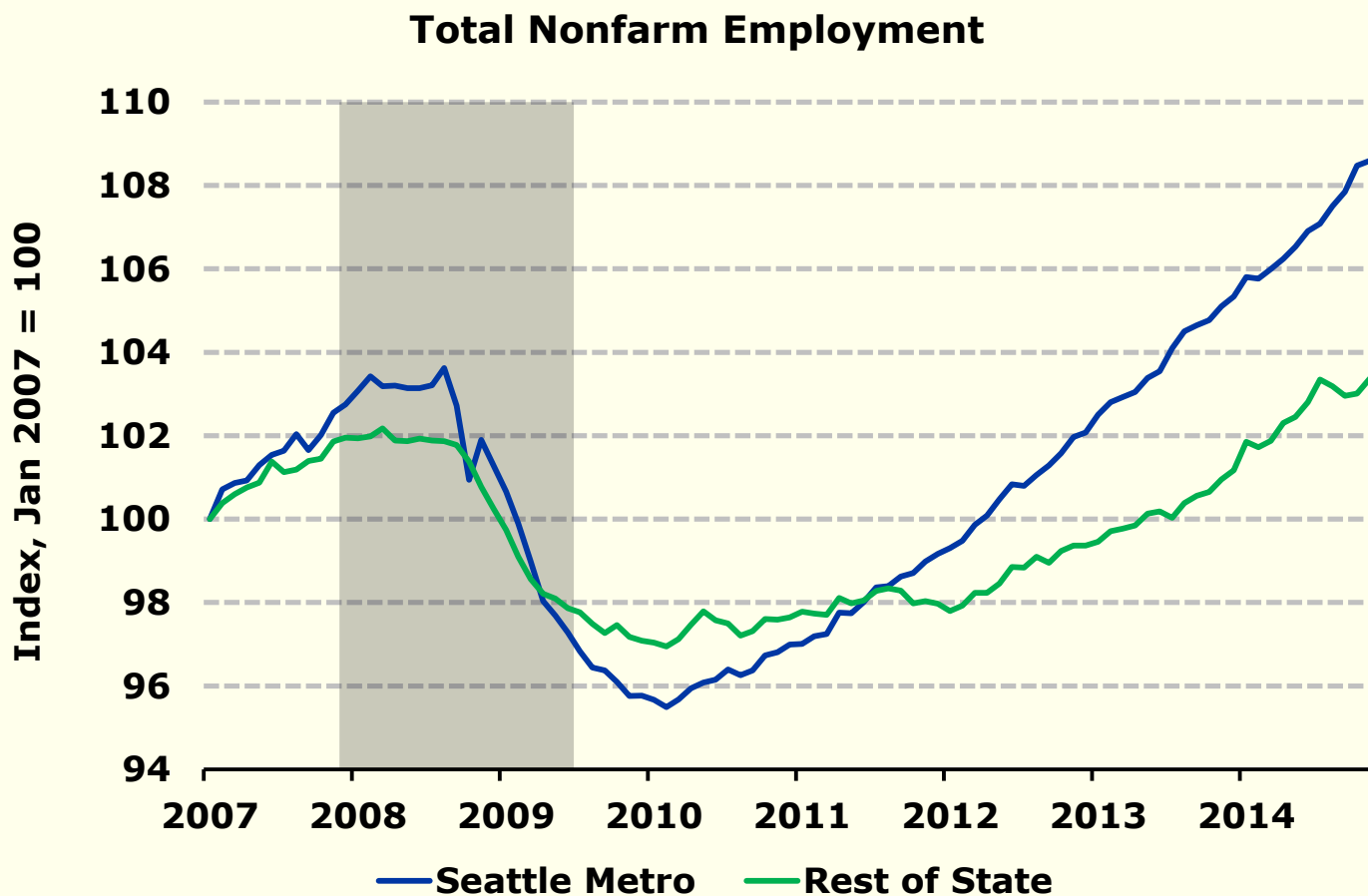
# Washington new vehicle registrations may be slowing



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



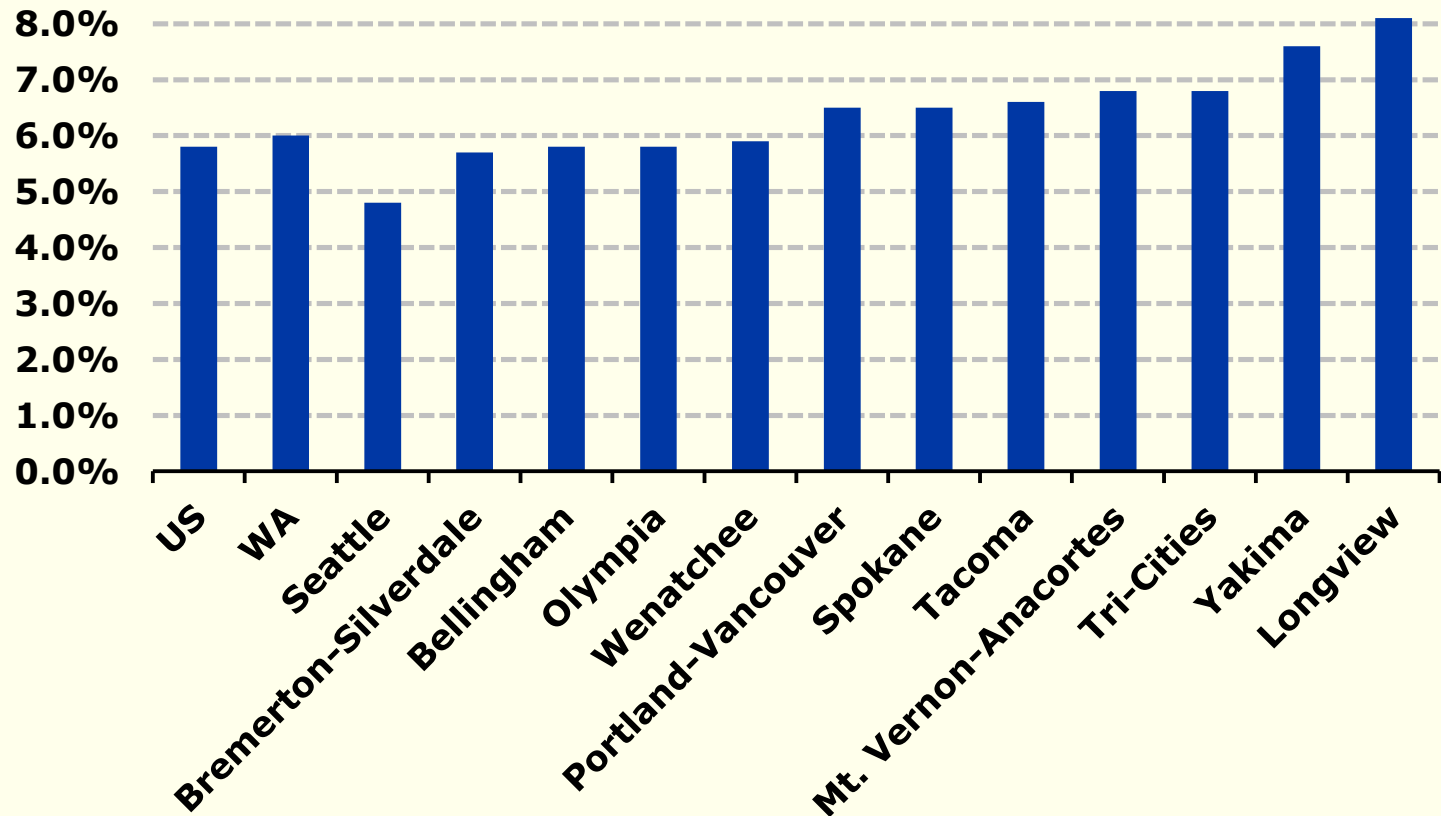
# Seattle area employment is growing much faster than the rest of the state





# Seattle continues to have the lowest unemployment rate among state metropolitan areas

November unemployment rate (SA)

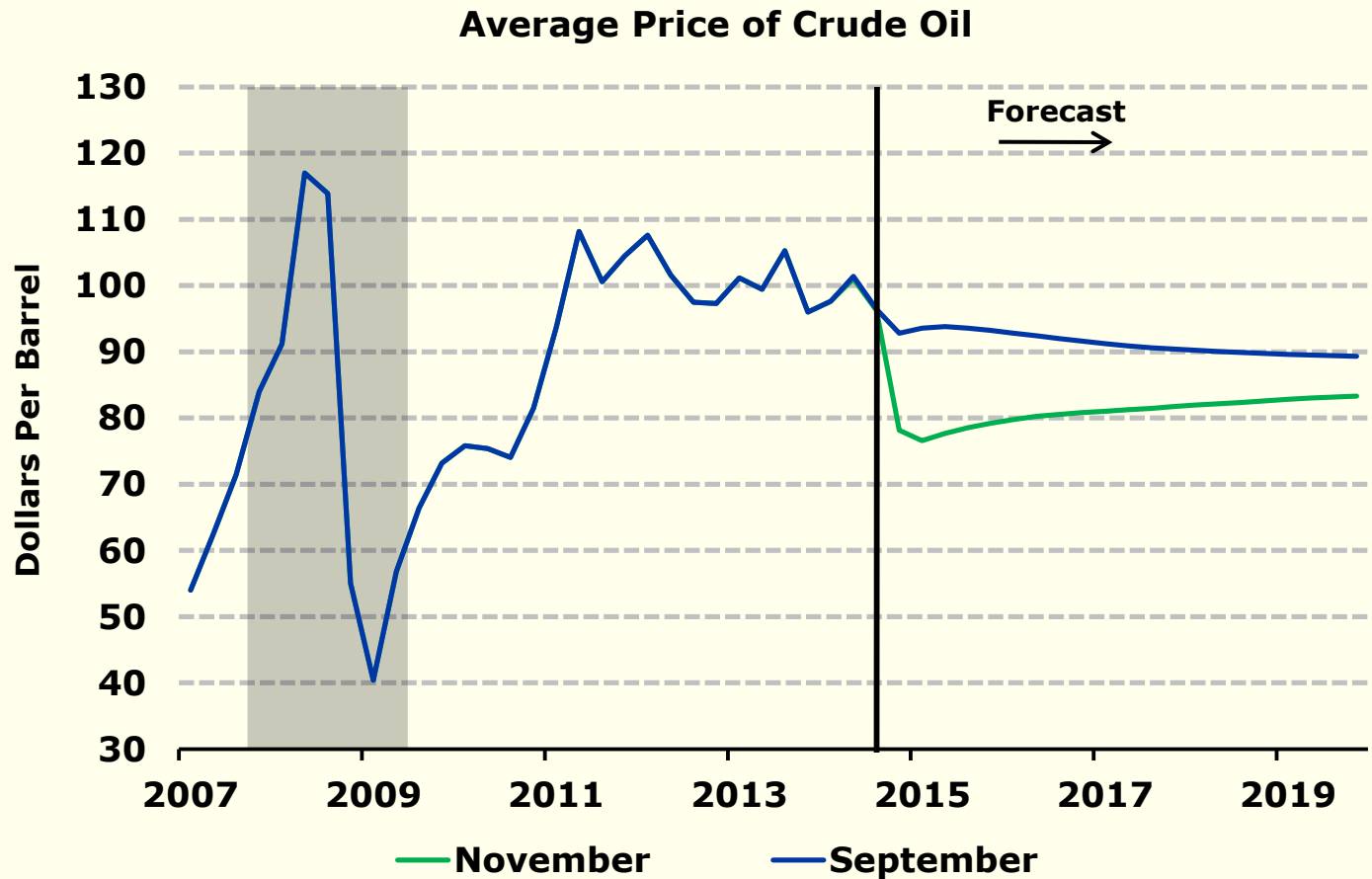


Source: Employment Security Dept., November 2014 data



# Oil prices lower in the near term but no longer decline throughout the forecast

Oil prices have fallen even further since our November forecast



Source: DOE, ERFC November 2014 forecast; historical data through 2014Q3

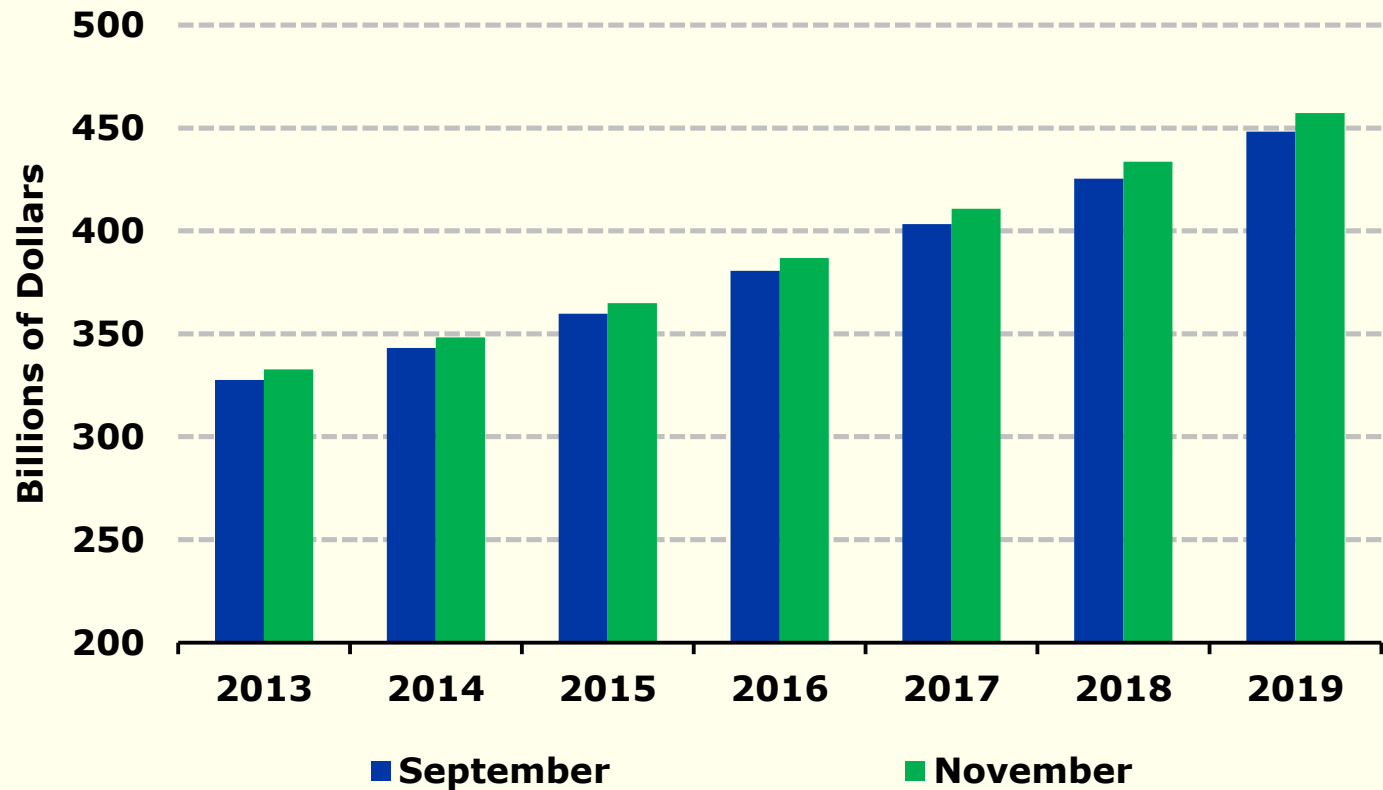




# Washington personal income forecast revised up

In part, the higher forecast reflects upward revisions to historic data

## Washington Personal Income

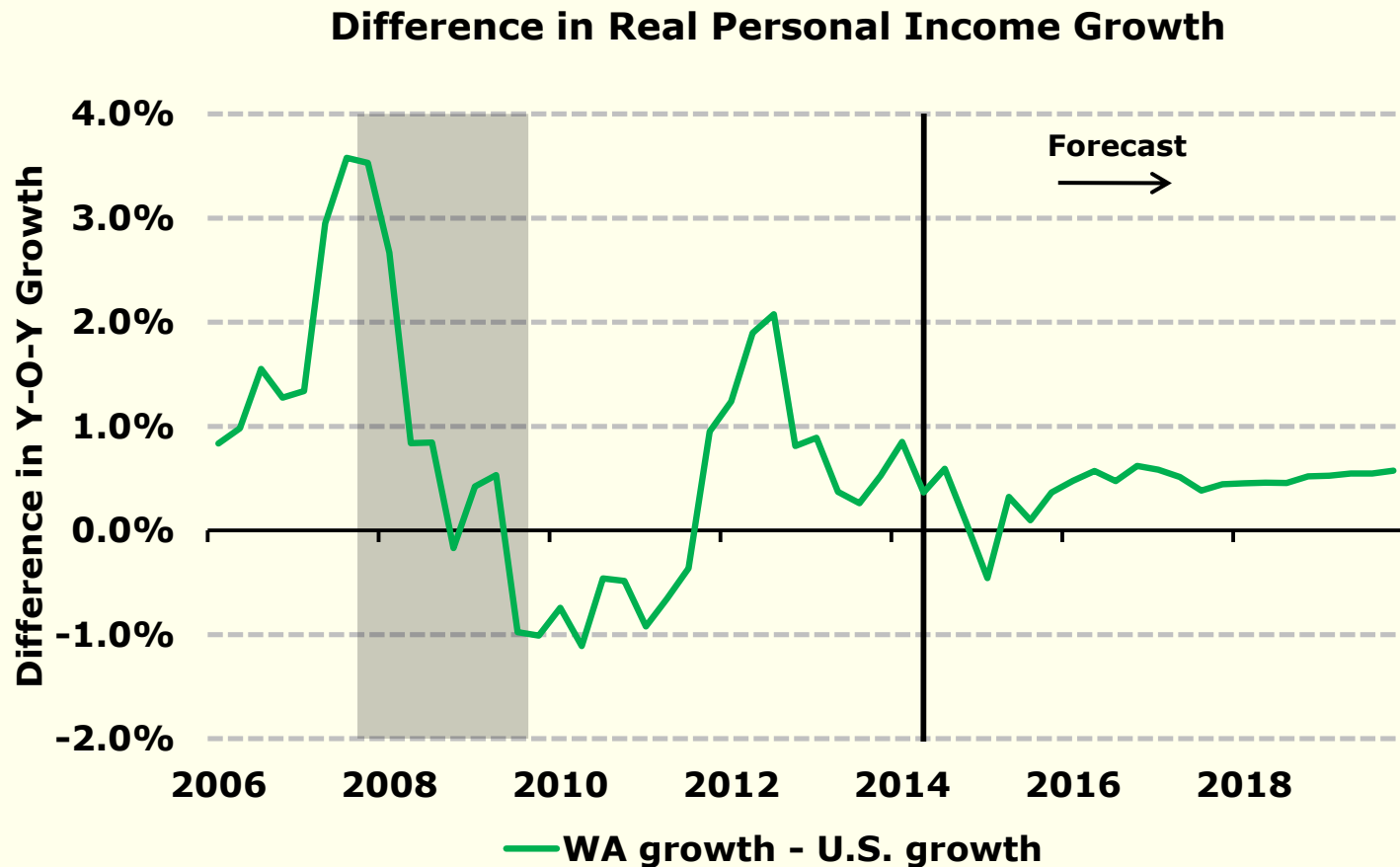


Source: ERFC November 2014 forecast; historical data through 2013



# State personal income will grow slightly faster than the U.S.

Slower WA growth in 2015Q1 reflects impact of 2014Q1 Boeing bonus

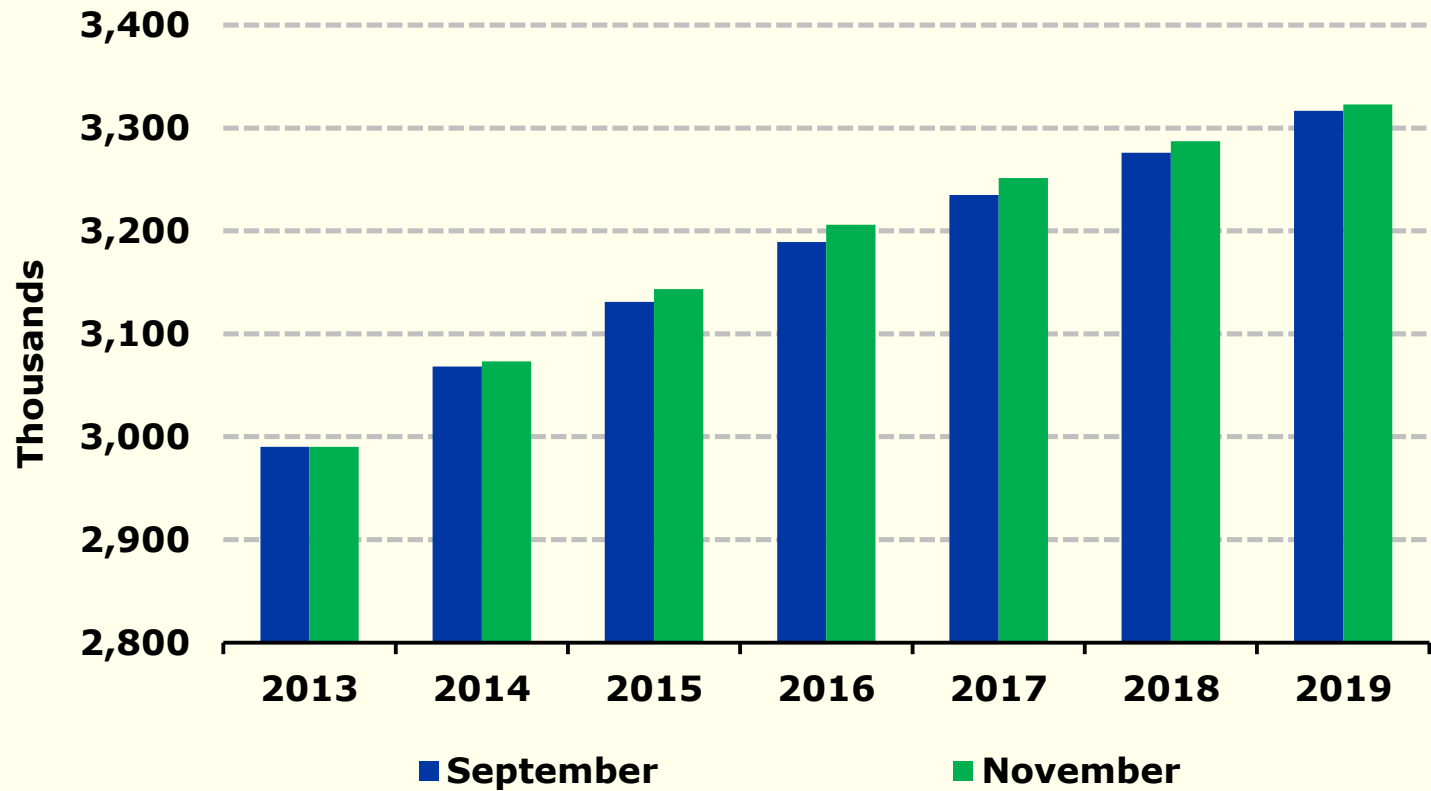


Source: ERFC November 2014 forecast; historical data through 2014Q2



# Washington employment forecast revised up

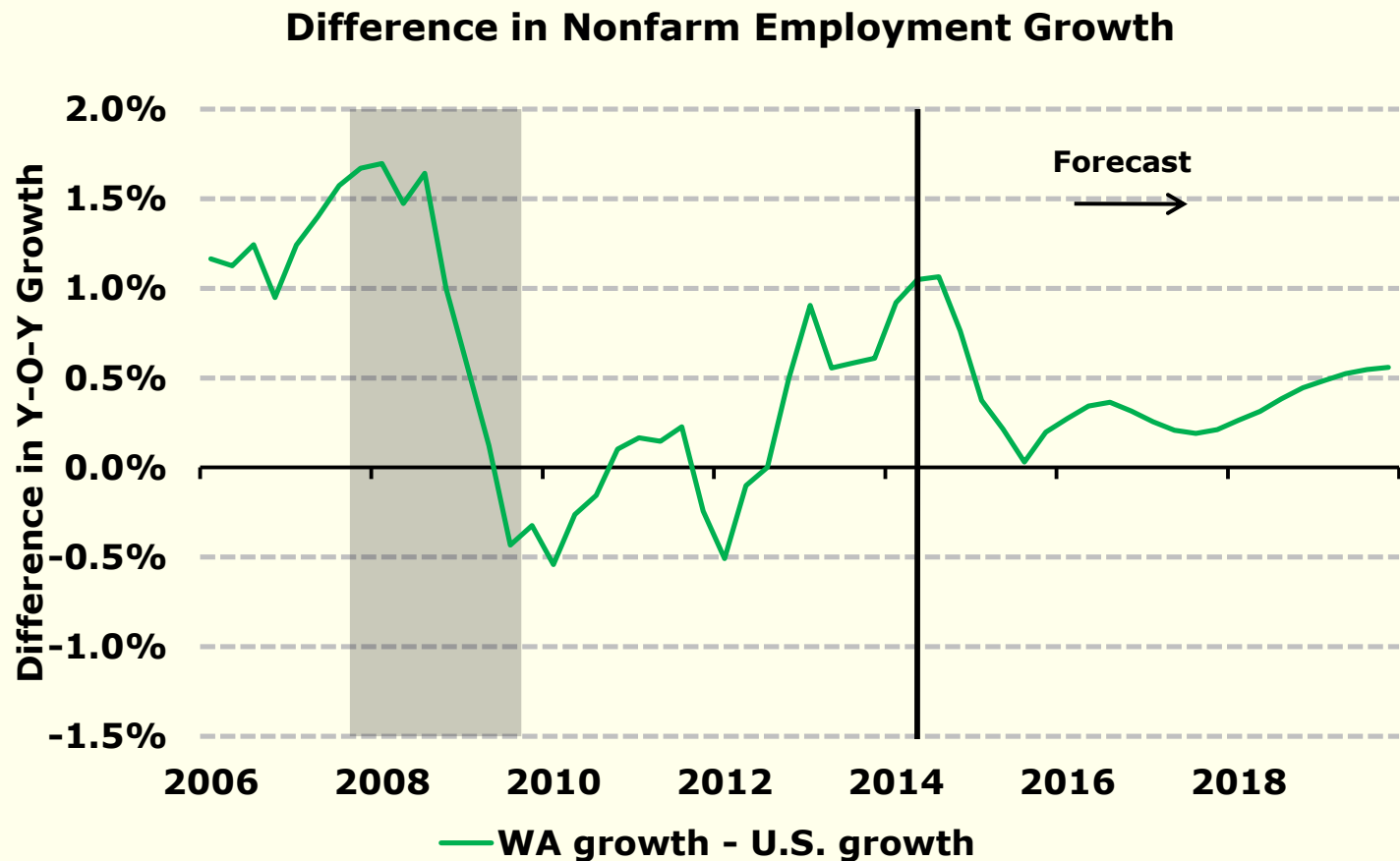
## Washington Nonfarm Payroll Employment



Source: ERFC November 2014 forecast; historical data through 2013

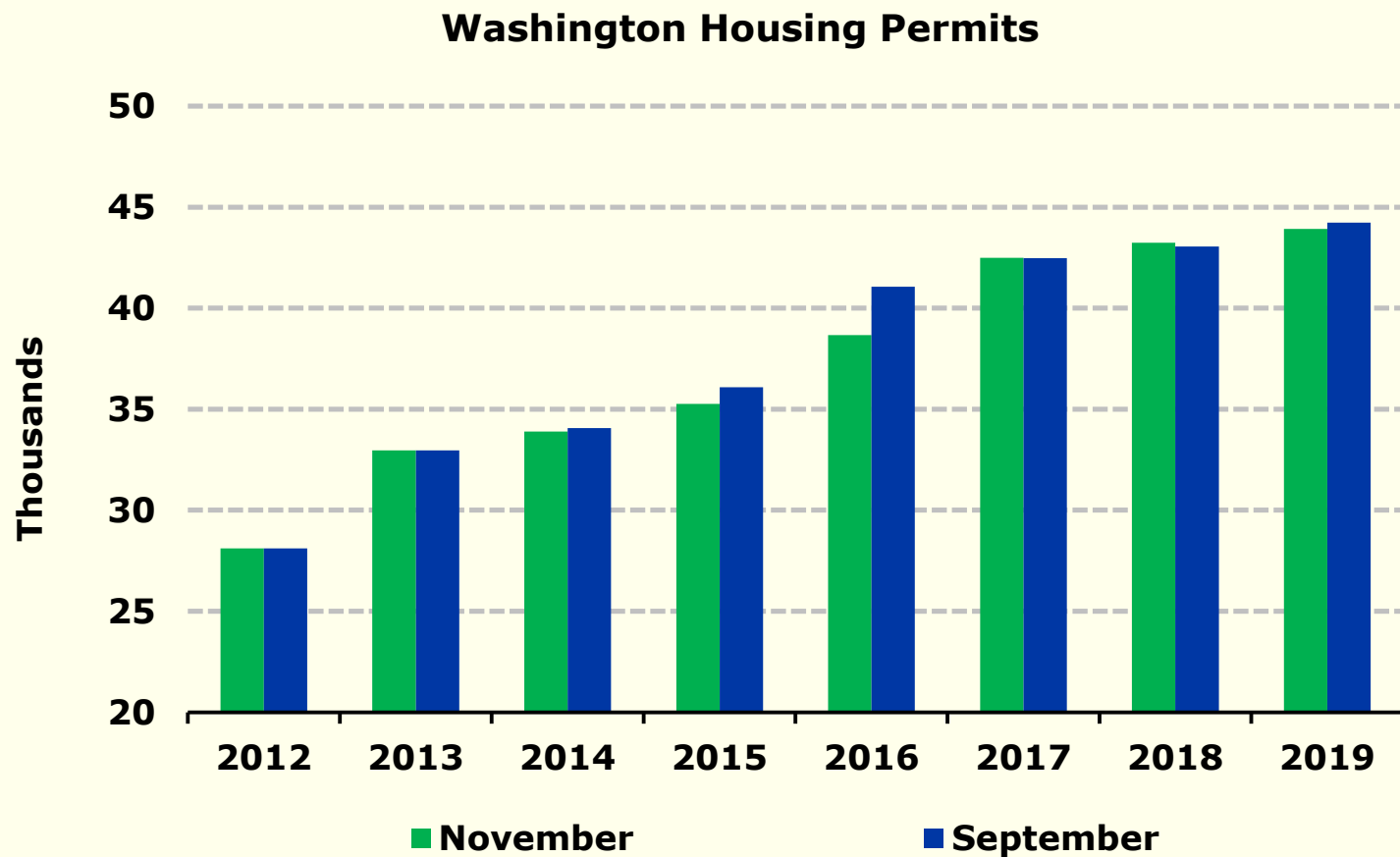


# Washington employment will grow slightly faster than the U.S.





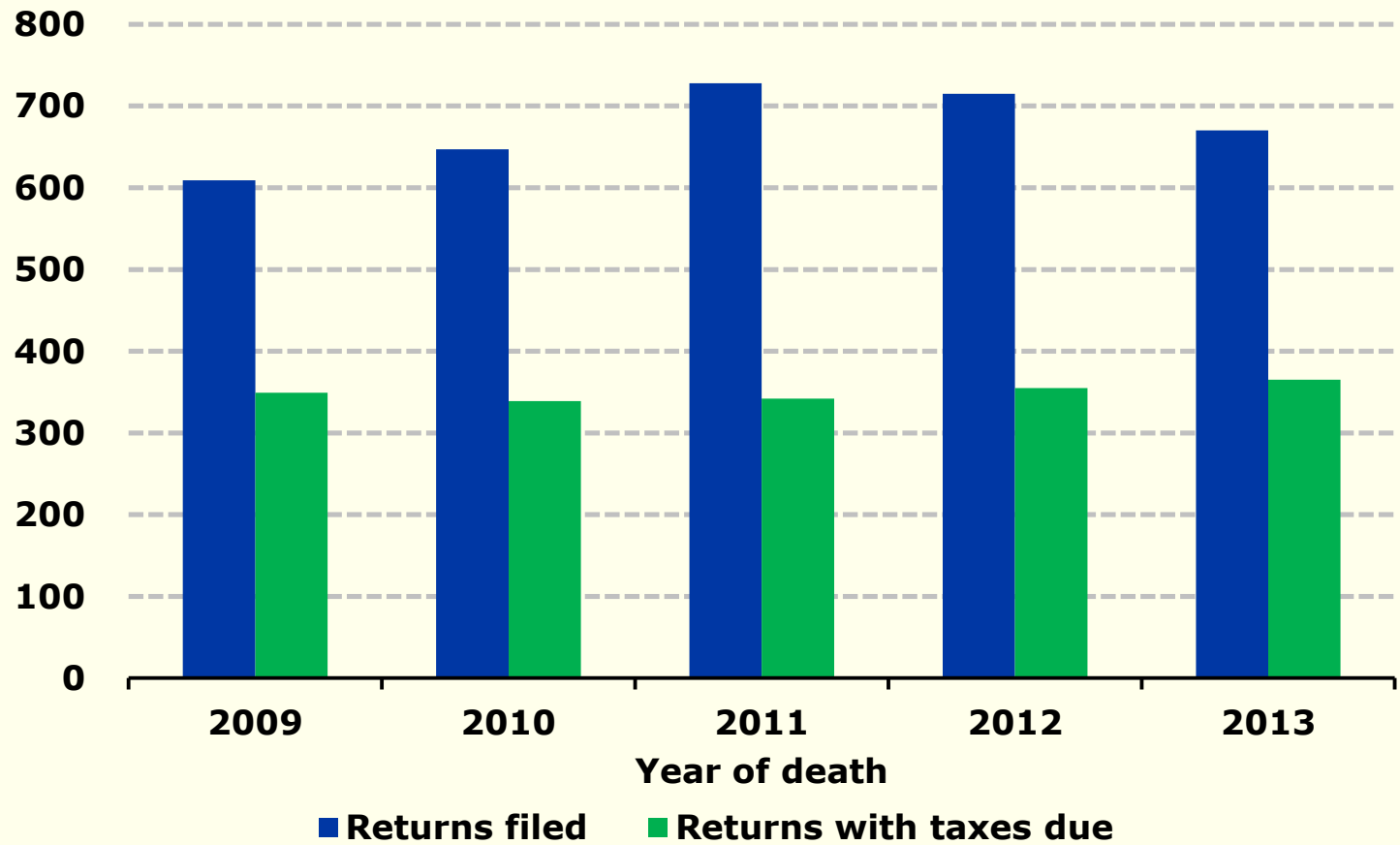
# Washington housing permits forecast is similar to the September forecast



Source: ERFC November 2014 forecast; historical data through 2013



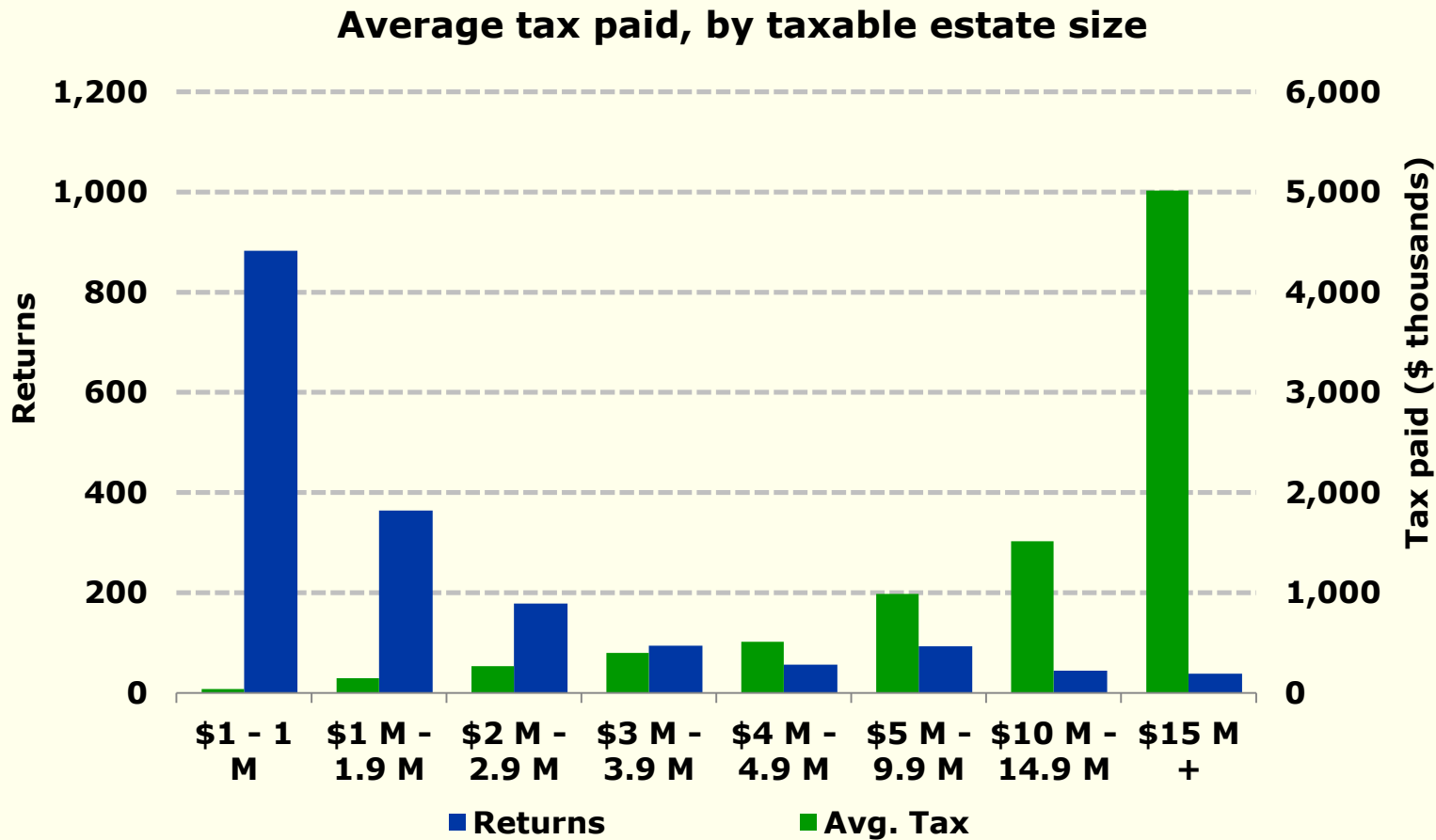
# The number of Washington estate tax returns has been fairly constant



Source: Dept. of Revenue; data through November 2014



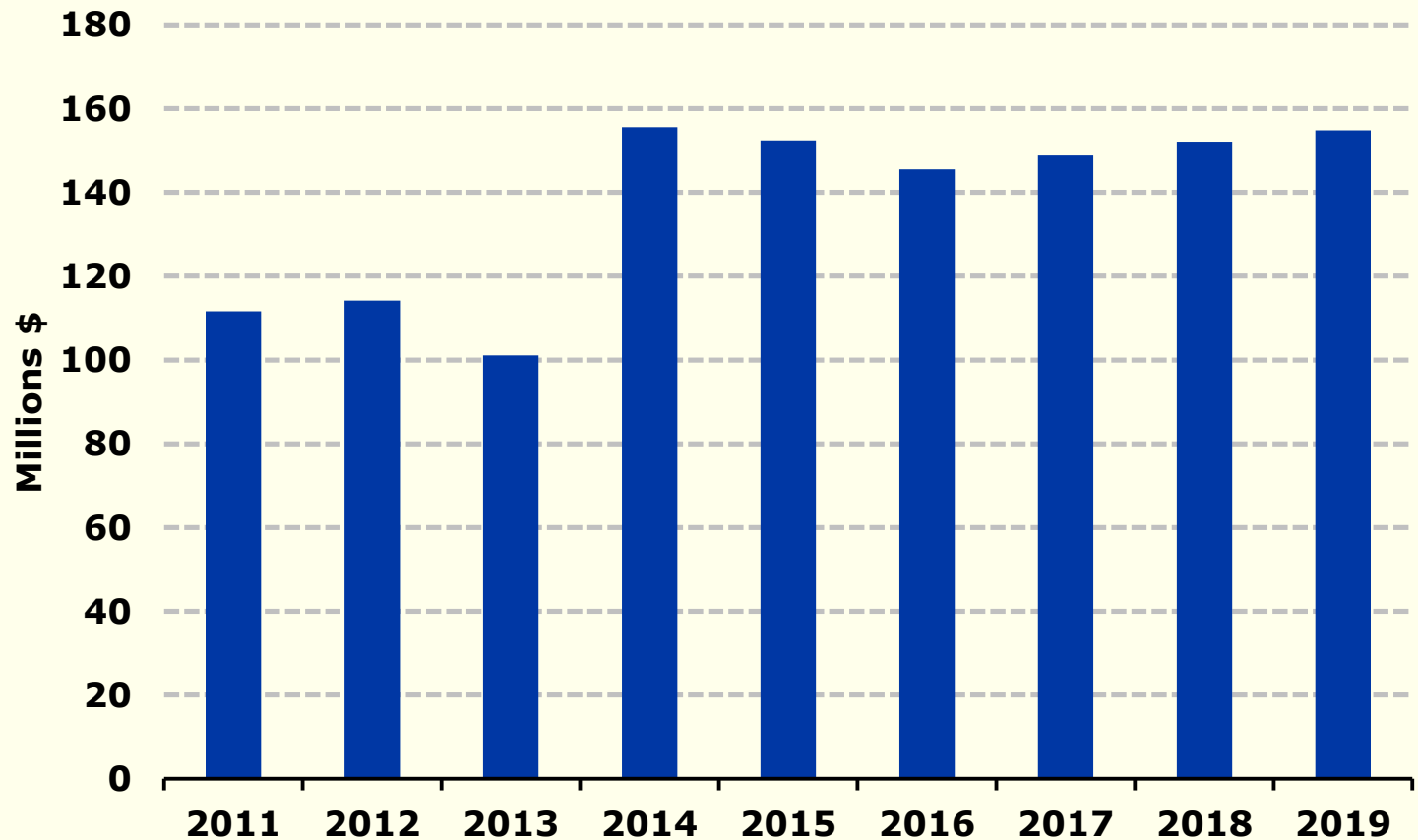
# Average tax per taxable estate, 2009 - 2013



Source: Dept. of Revenue; data through 2013



# Estate tax collections and forecast



Source: Dept. of Revenue, ERFC; fiscal years, forecast 2015 - 2019

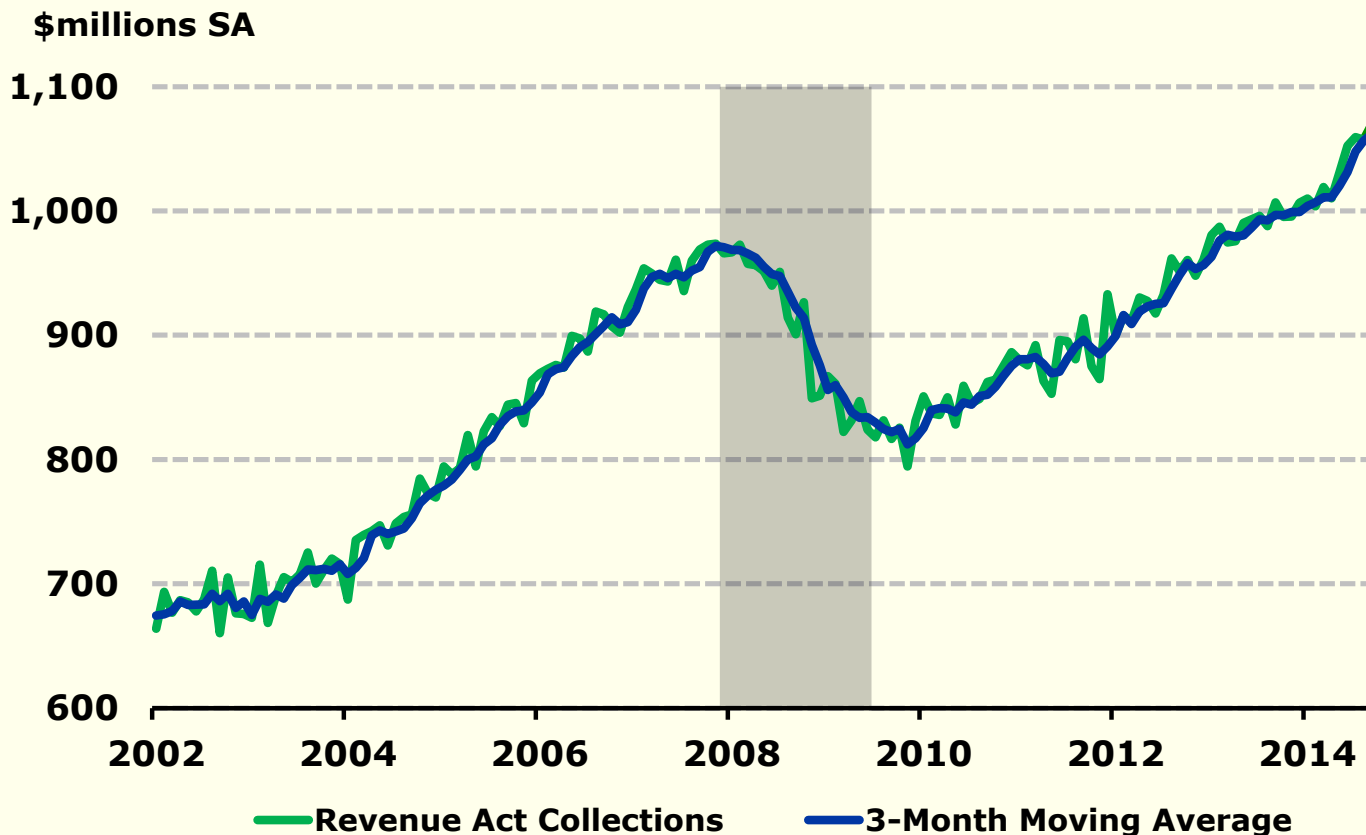




# Revenue Act collections were strong for third quarter activity

Revenue Act collections were up 7.2% year-over-year for 3<sup>rd</sup> quarter activity.

Revenue Act taxes consist of retail sales, use, B&O, public utility, and tobacco products taxes.

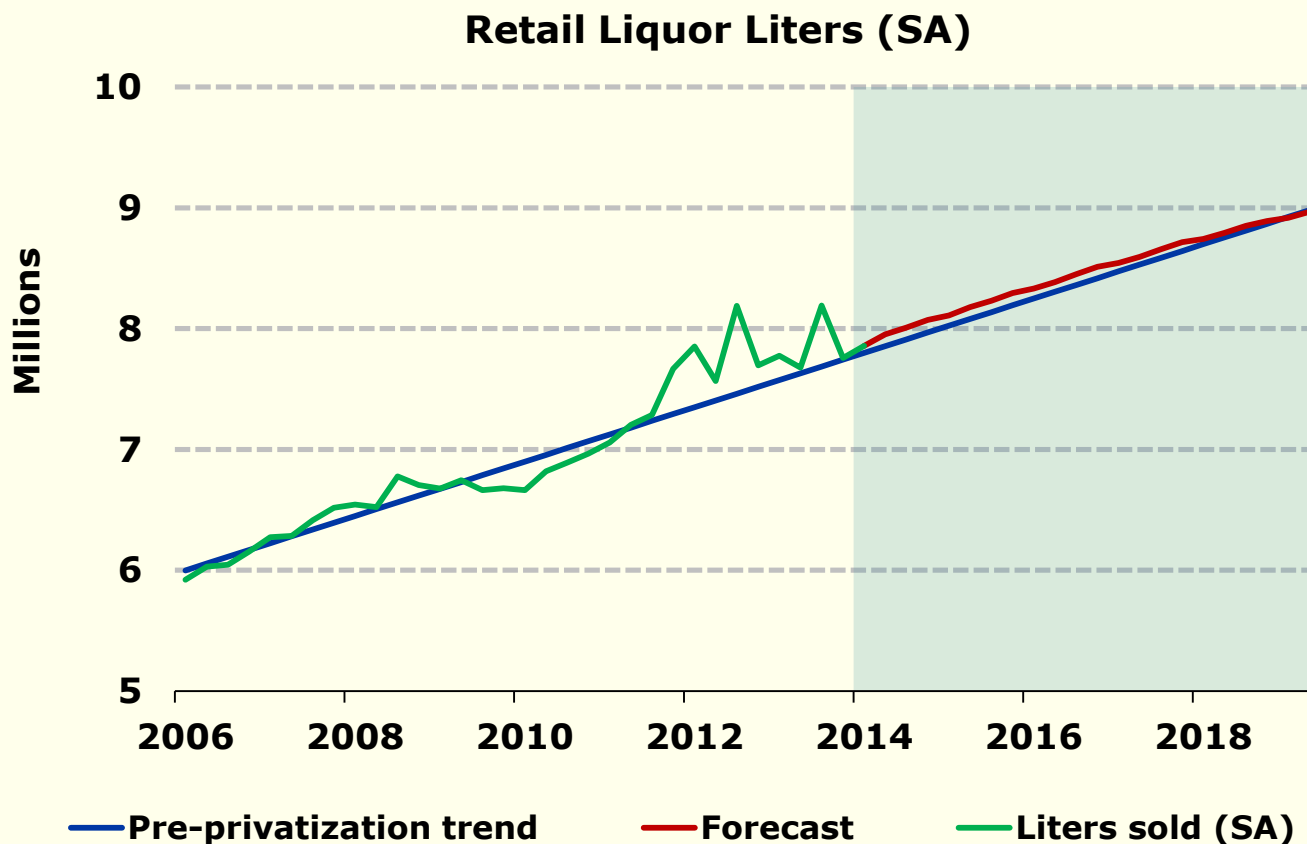


\* Adjusted for large one-time transactions, amnesty payments and reporting frequency change, current definition of Revenue Act

Source: DOR and ERFC; monthly data through September 2014 activity (collections of Nov. 10)



# The surge from liquor privatization is over





# The number of cannabis establishments continues to grow

65% of Producers are also Processors

Growth in Establishments: (July to November)

Producer  
8 to 55

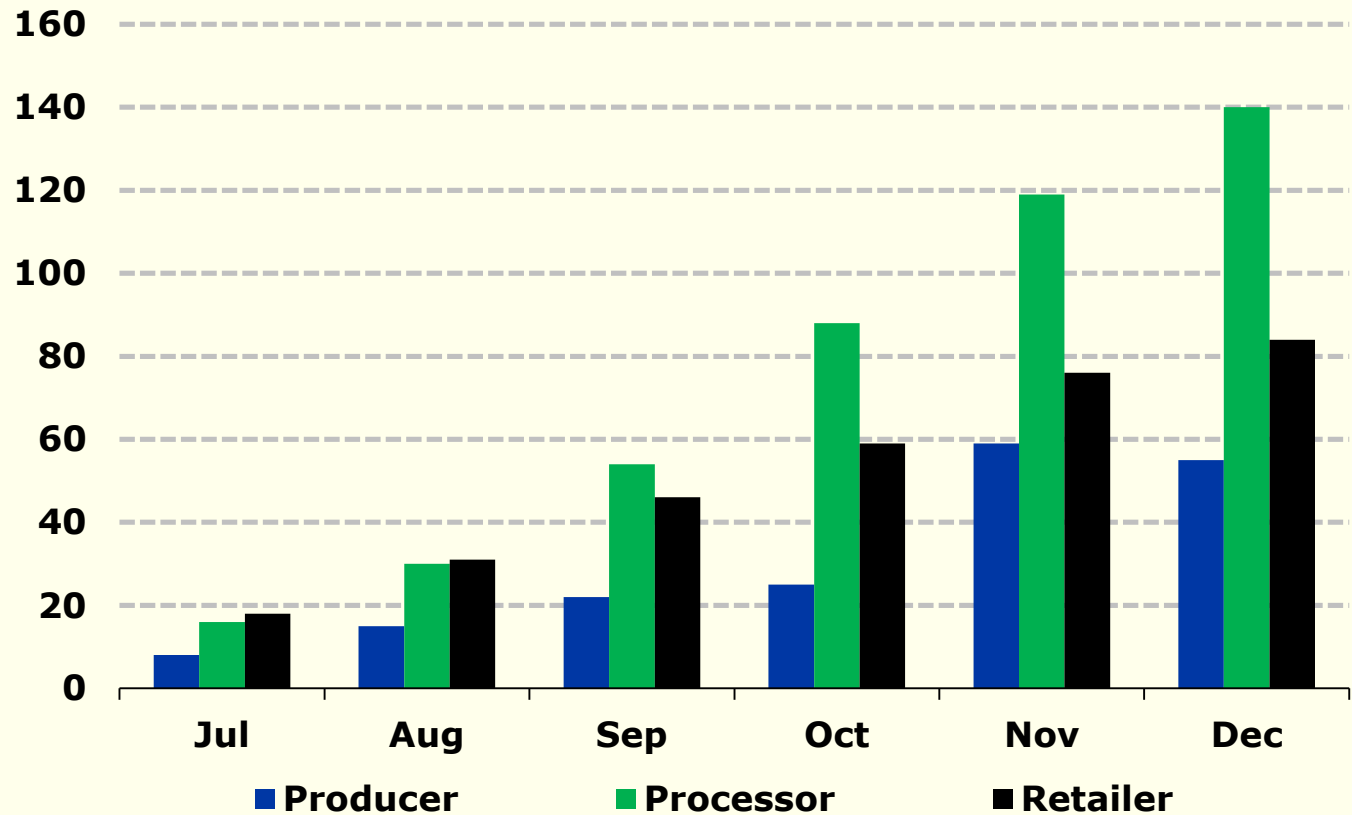
Processor  
16 to 140

Retail  
18 to 84

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## Cannabis Establishments



Source: LCB, ERFC; data through December 2014



# 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**

	<b><u>2013-15</u></b>	<b><u>2015-17</u></b>	<b><u>2017-19</u></b>
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>

\* Detail may not add to total due to rounding

Source: ERFC, LCB, BOTEC Analysis



# 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



# Questions



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