

Economic & Revenue Outlook

Presented to
Financial Management Advisory Council

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Executive Director

January 23, 2014
Olympia, Washington



WASHINGTON STATE
ECONOMIC AND REVENUE FORECAST COUNCIL



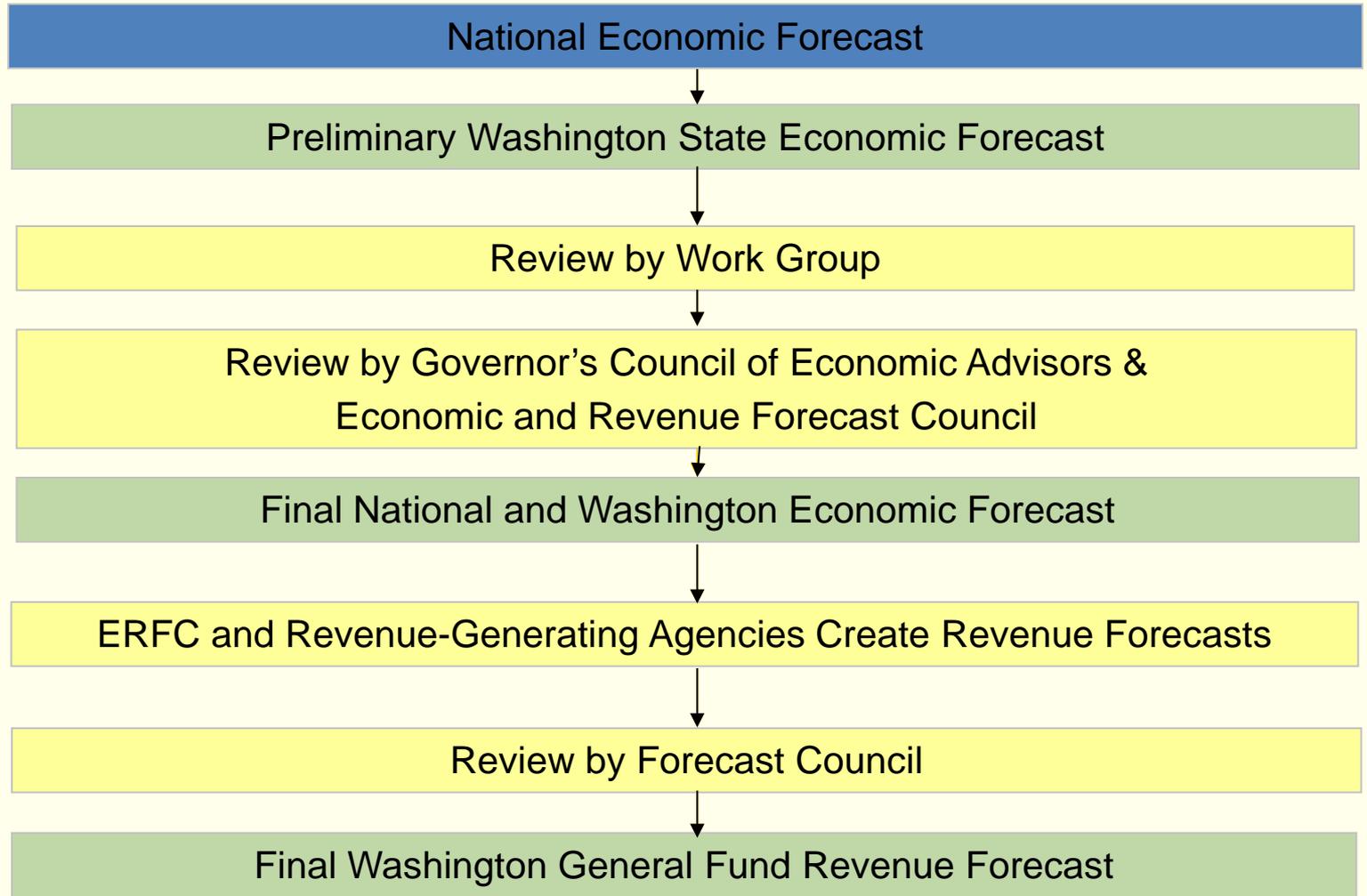
Summary

- The U.S. and Washington economies continue to grow, although at a slow pace
- Construction activity has been a big contributor to Washington employment growth; employment is rising in most Washington industries except aerospace and the federal government
- Risks to the forecast are generally from factors outside the state, including a weaker Chinese economy, uncertain federal fiscal policy and possible disruptions to the housing recovery
- State revenue collections have returned to pre-recession levels



ERFC Forecast Process

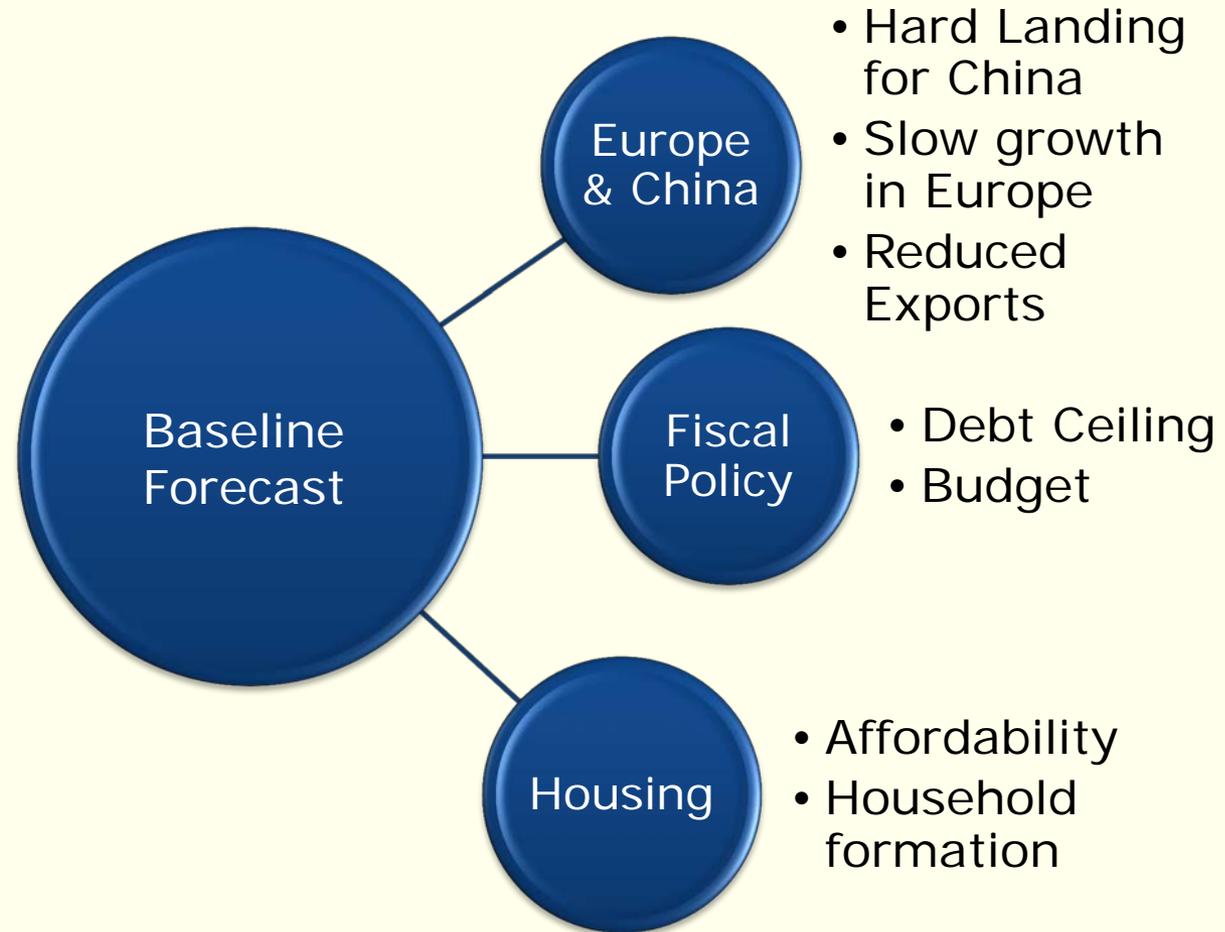
The national economic forecast is based on the Global Insight model



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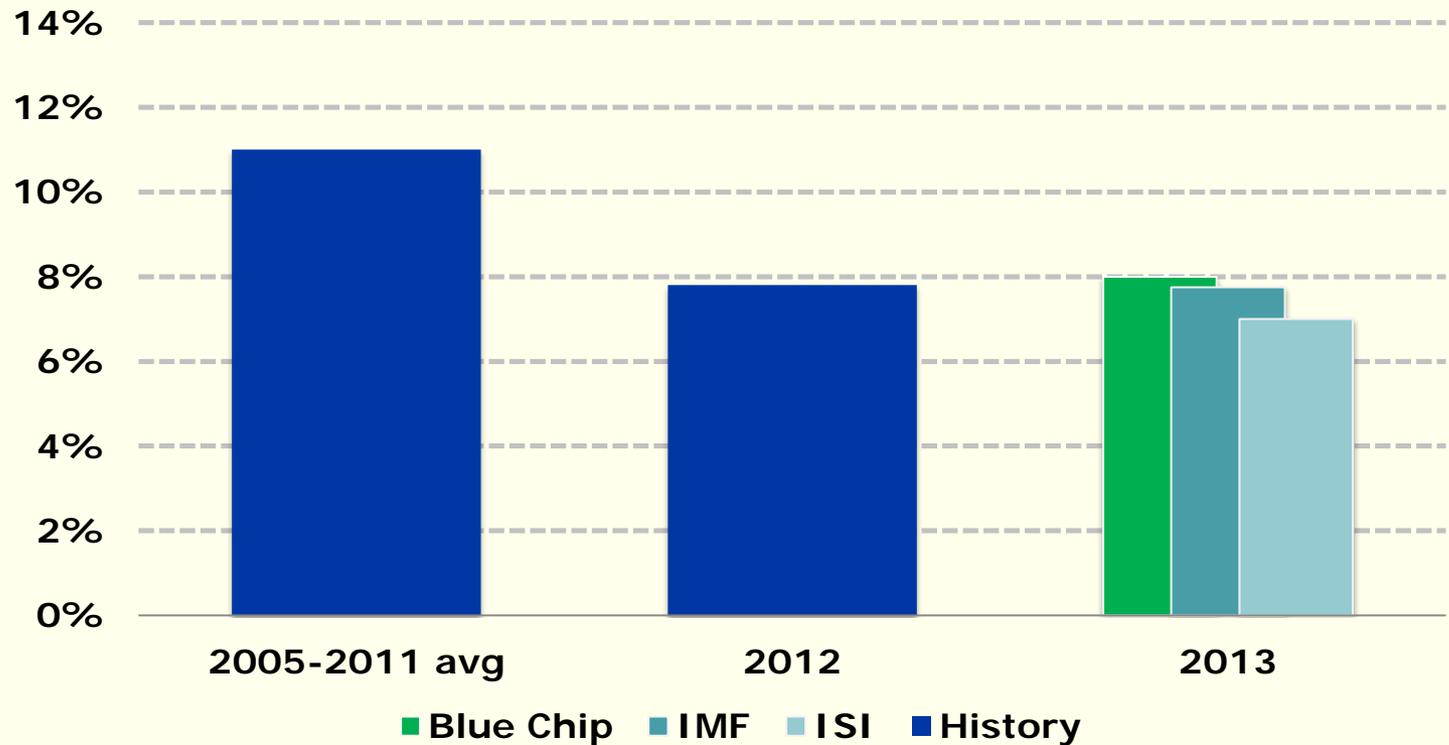
Three major risks to the forecast





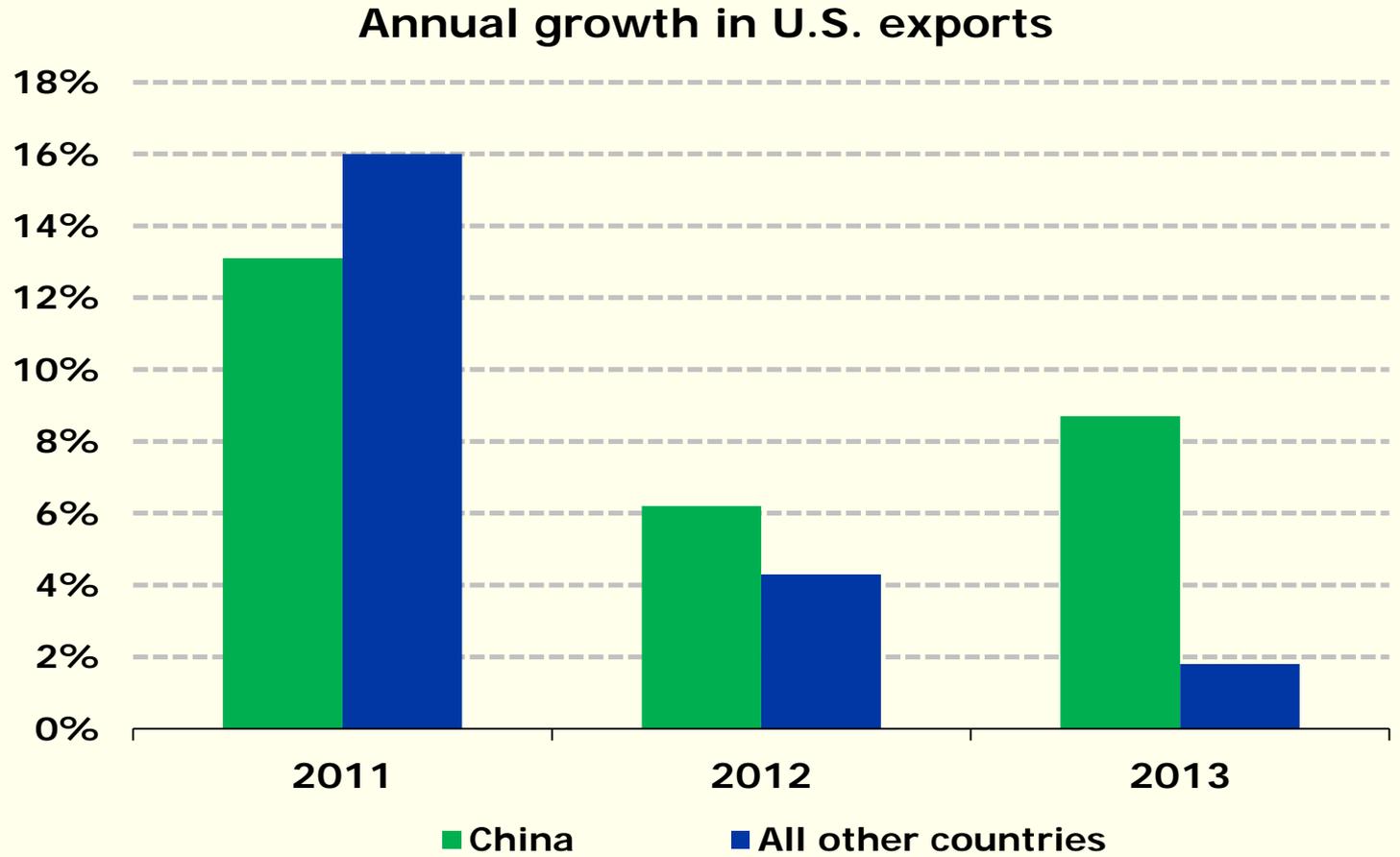
China's Economic Growth has Slowed

China Real GDP Growth





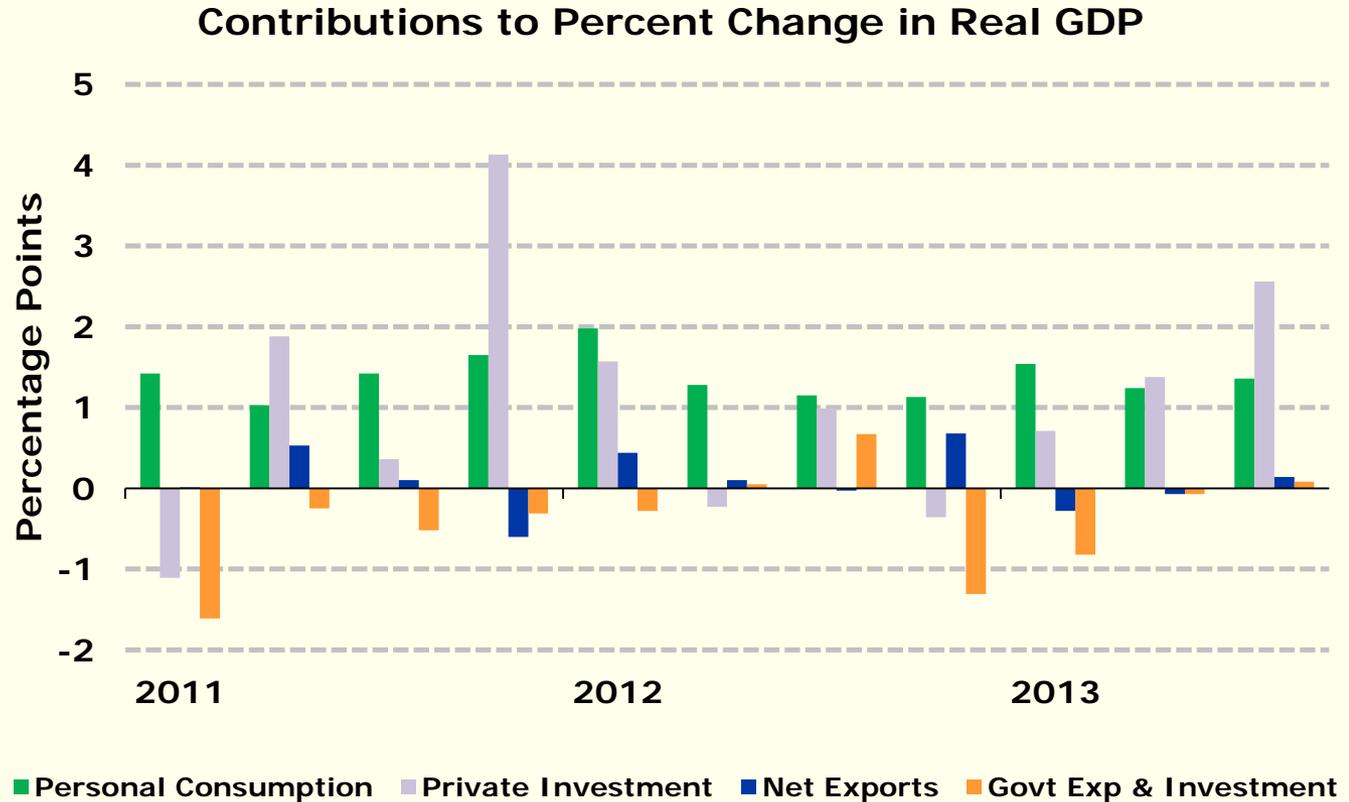
Exports have weakened outside of China



Source: WISERTrade; 2013 data through November

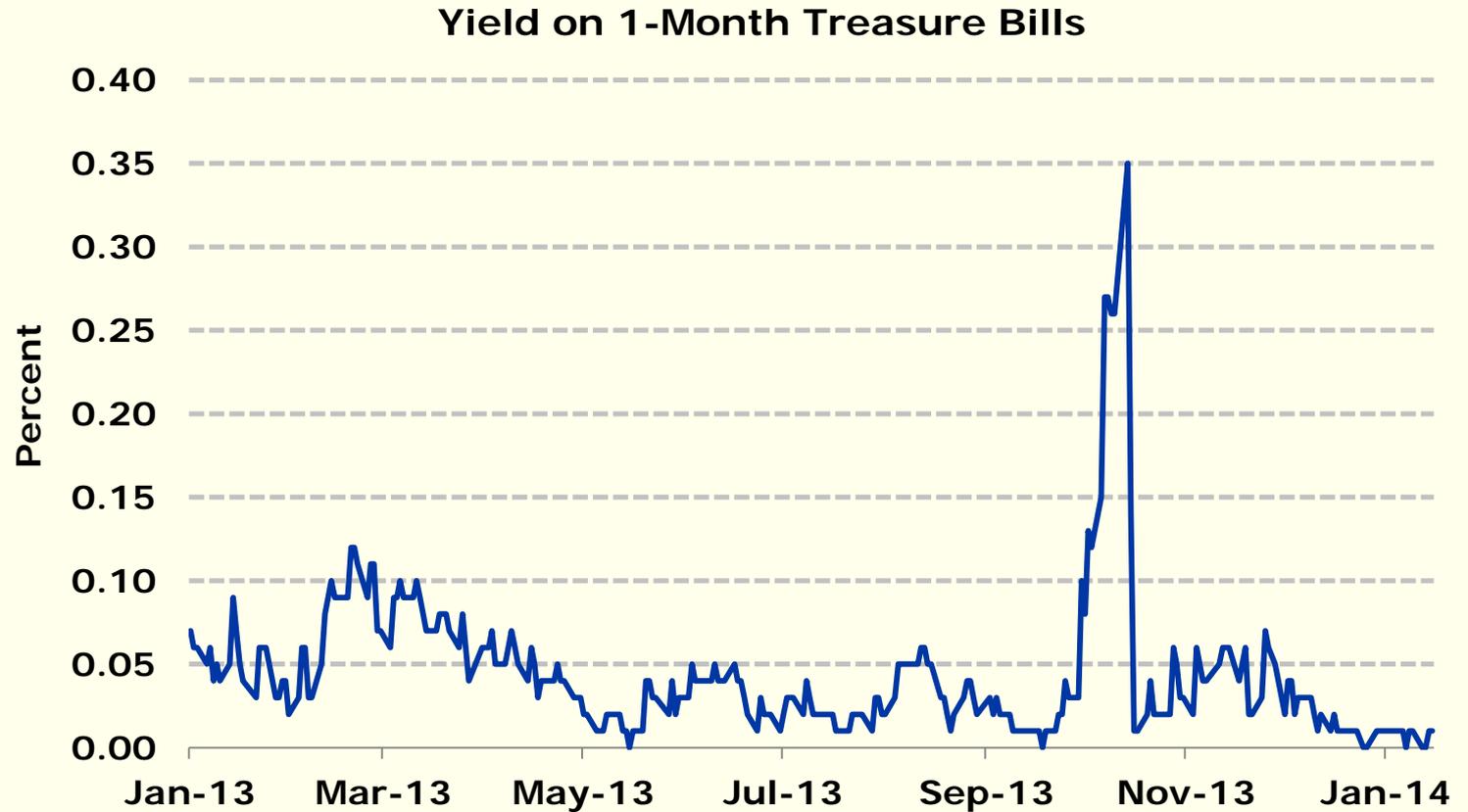


Government expenditures remain weak





Debt ceiling debate created uncertainty



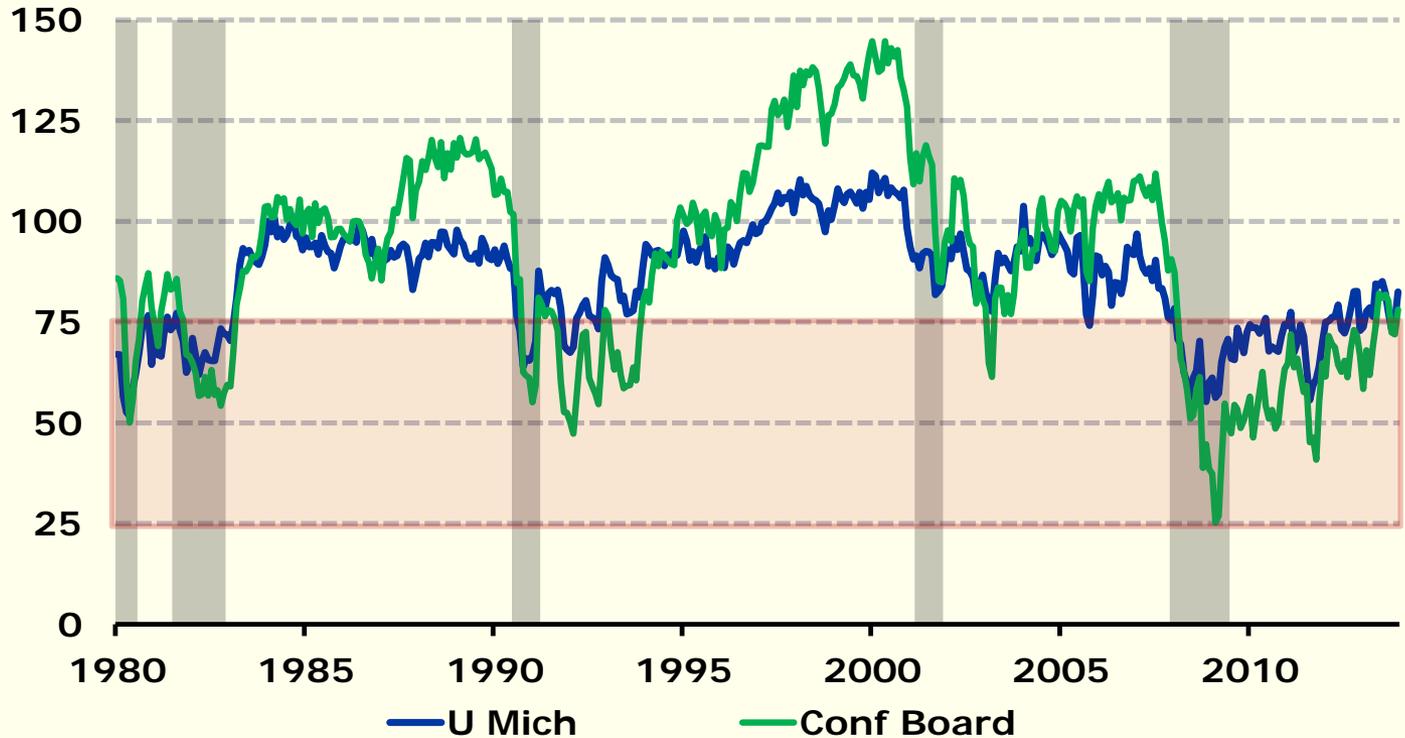


Consumer confidence slowly improves

Index

Mich: 1966Q1 = 100, SA

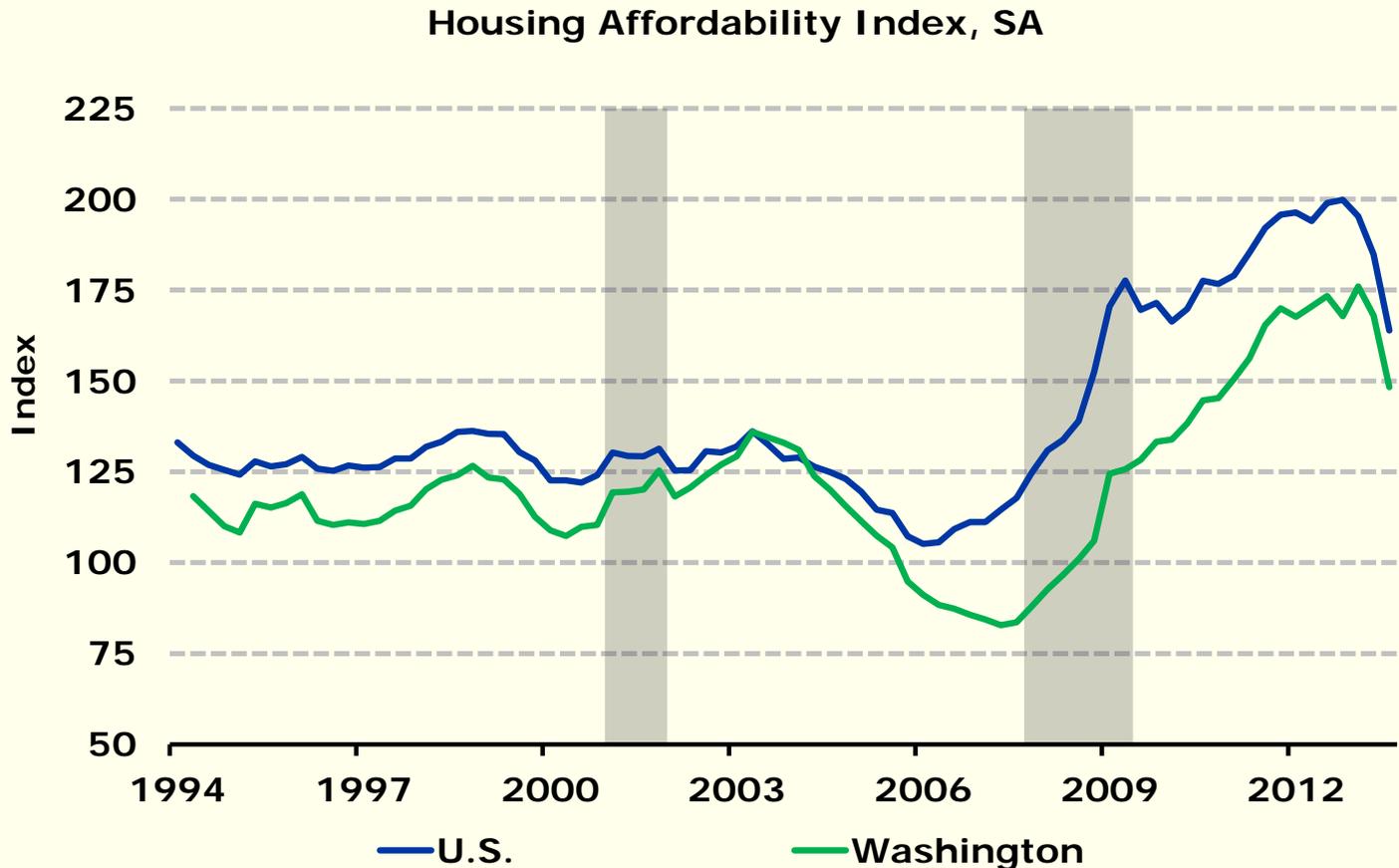
Conf Board: 1985 = 100, SA





Housing affordability is high but falling

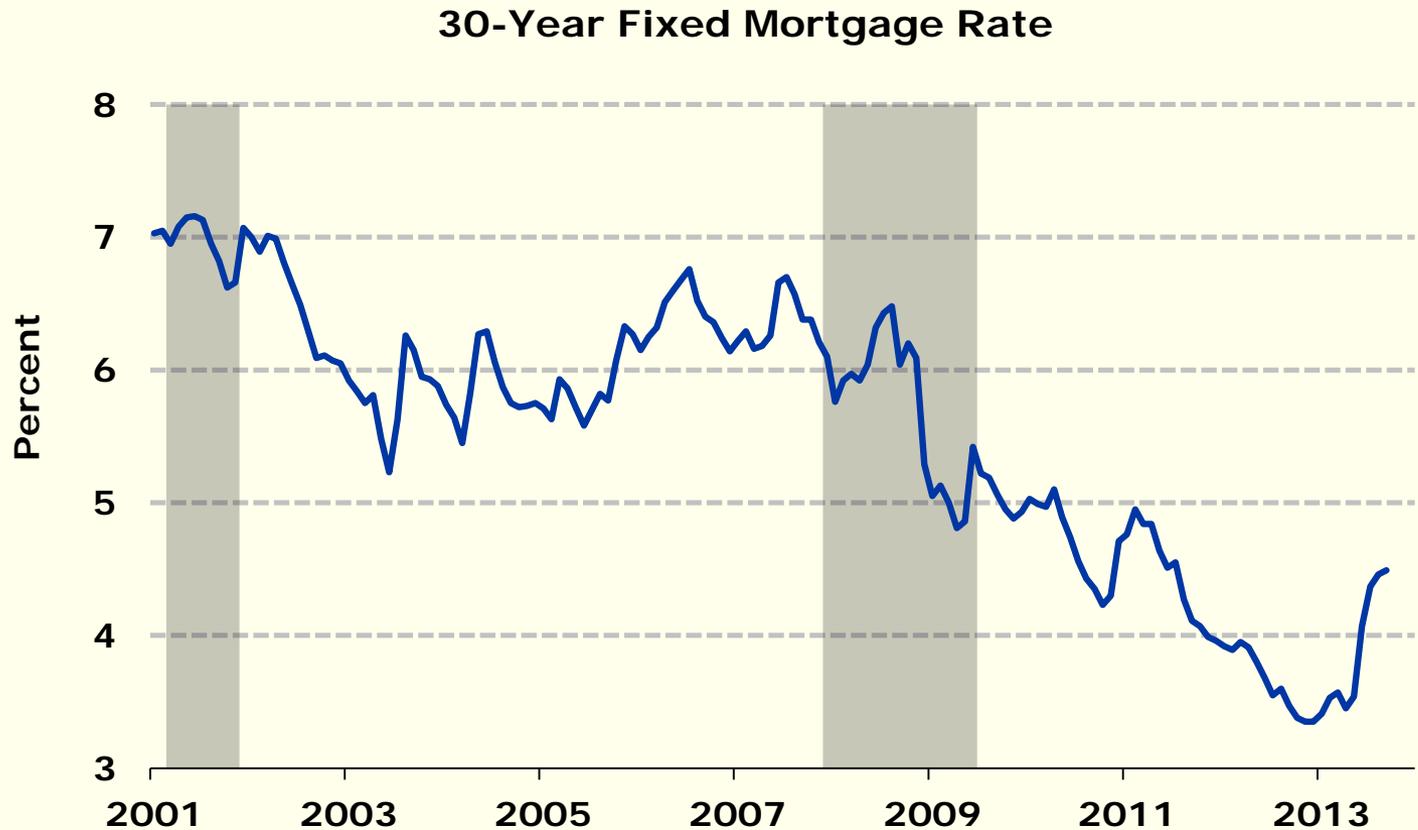
Affordability is 100 when the median income can just afford the median priced home. Above 100 means the median income can afford more than the median priced home



Source: Global Insight, WA Center Real Estate Research, ERFC; data through 2013Q3



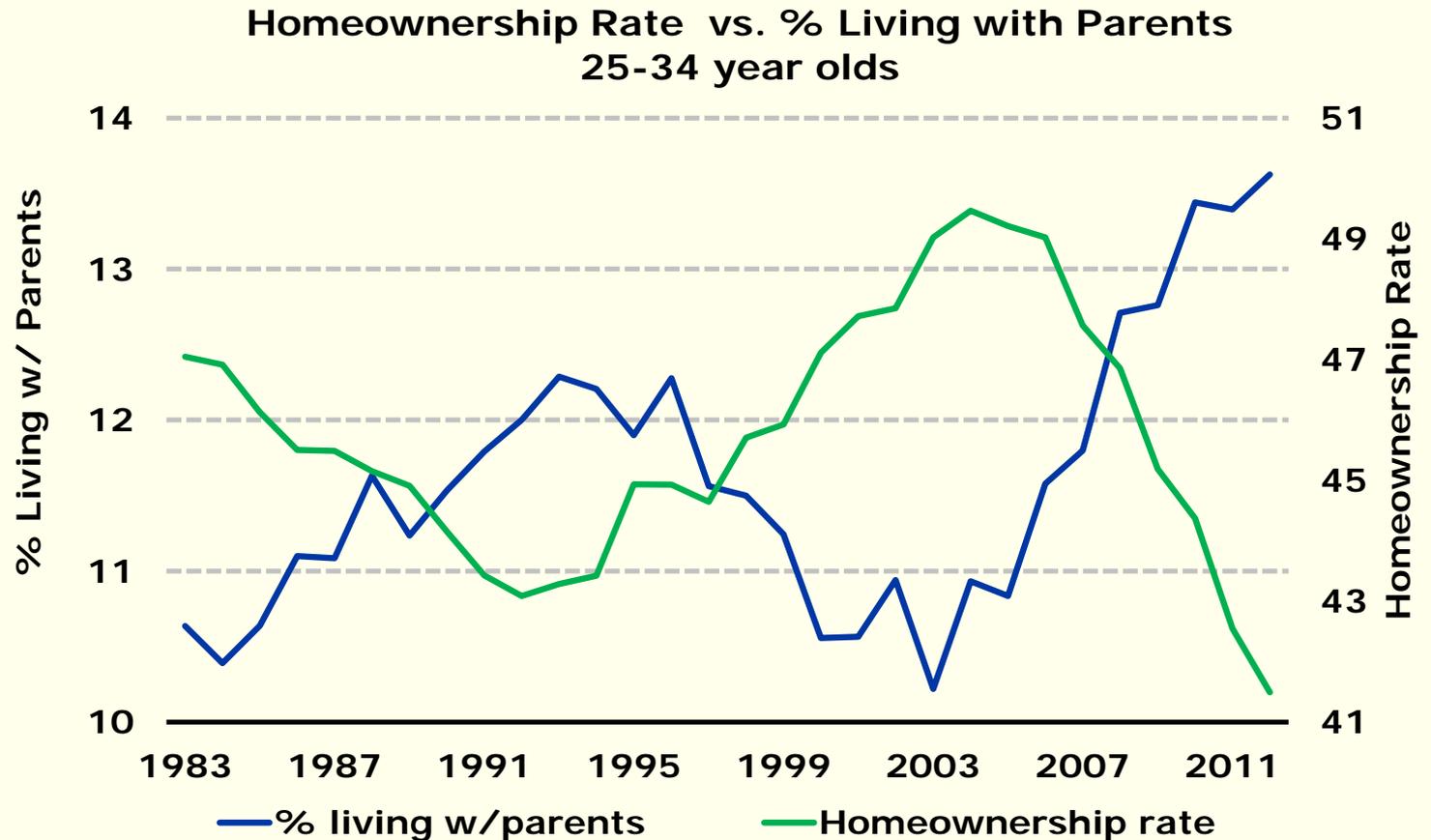
Mortgage rates are increasing



Source: Freddie Mac; data through December 2013



Many adults continue to live at home with their parents



Source: U.S. Census, ERFC, data through 2012



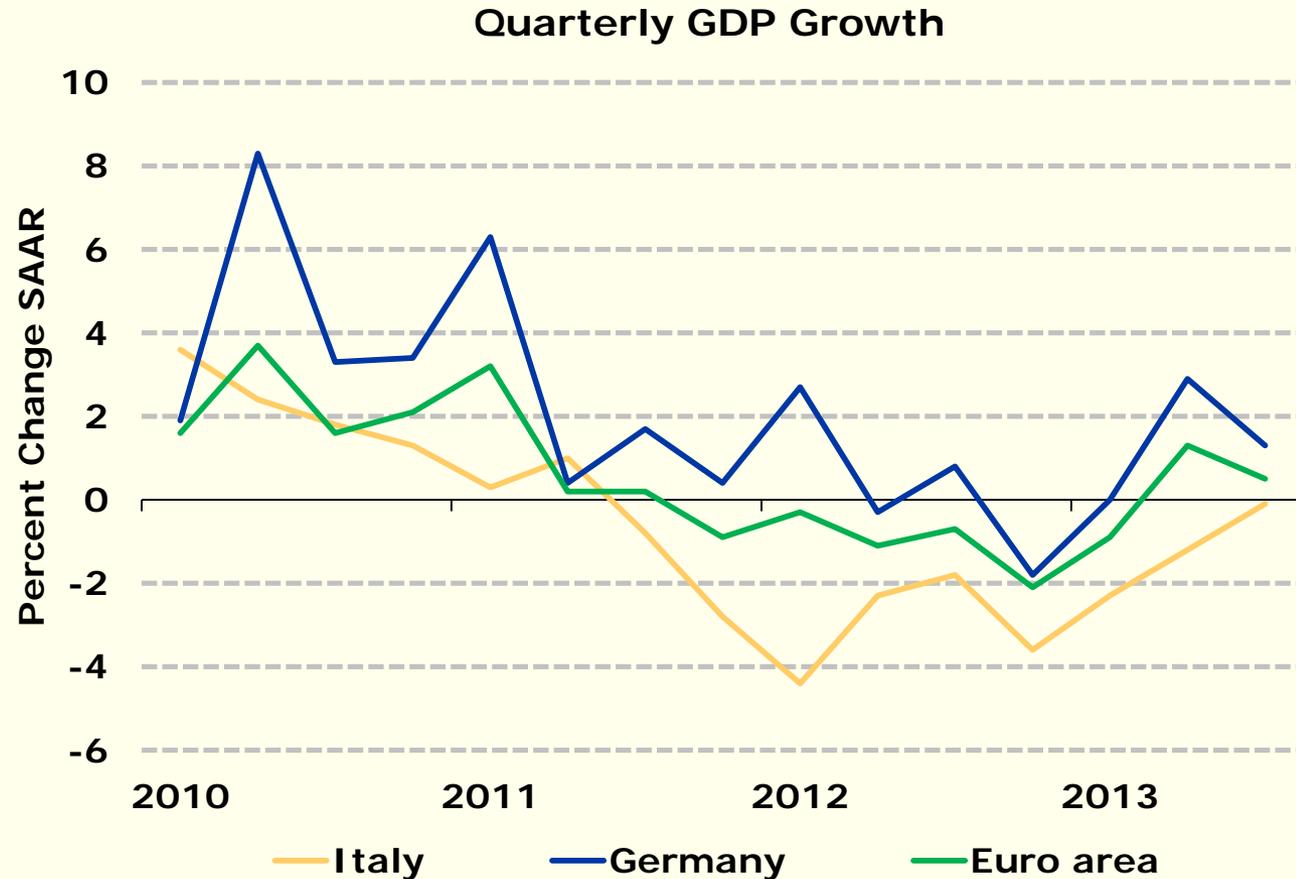
Euro area GDP has returned to positive growth but risks remain

Eurozone
Forecast:

2013: -0.4%

2014: 0.9%

2015: 1.3%



Source: Eurostat; data through 2013Q3

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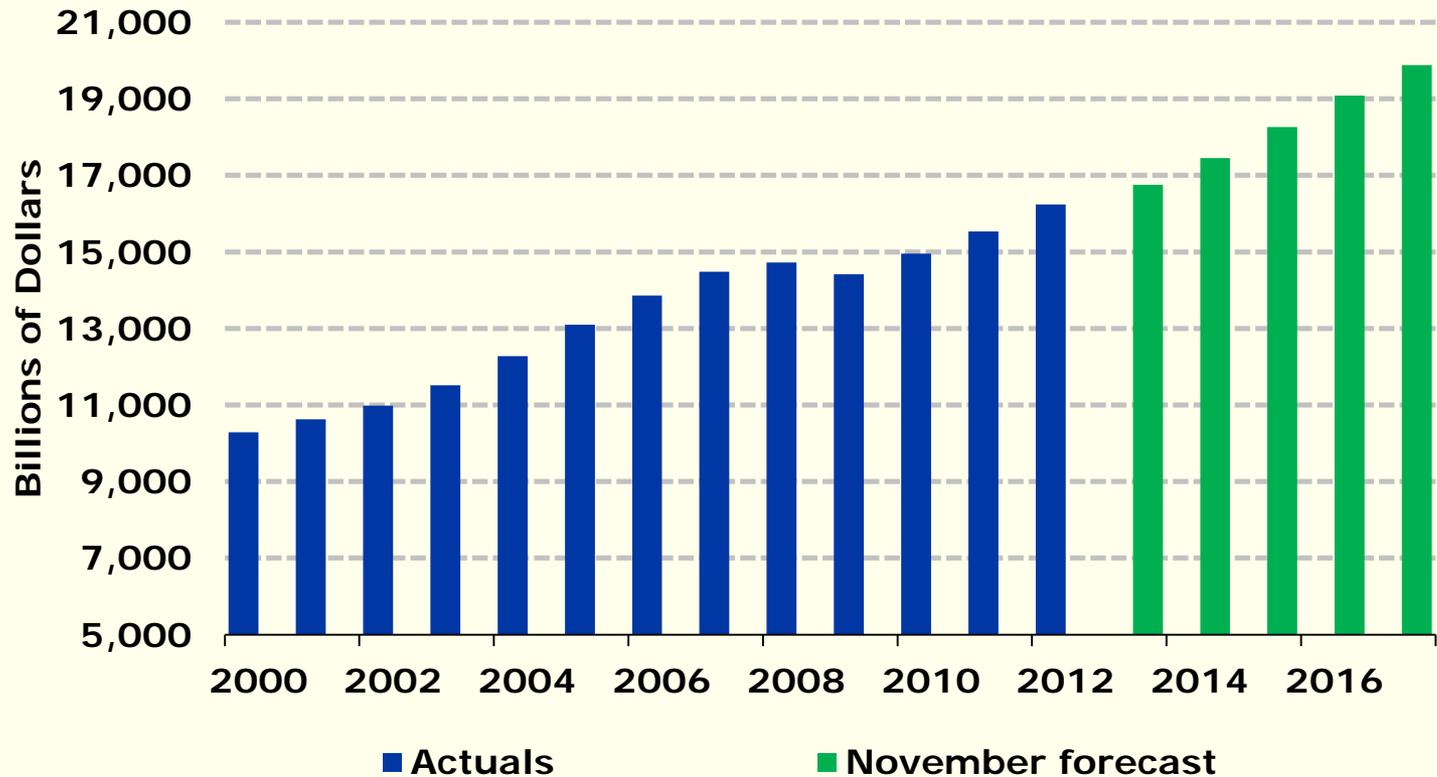
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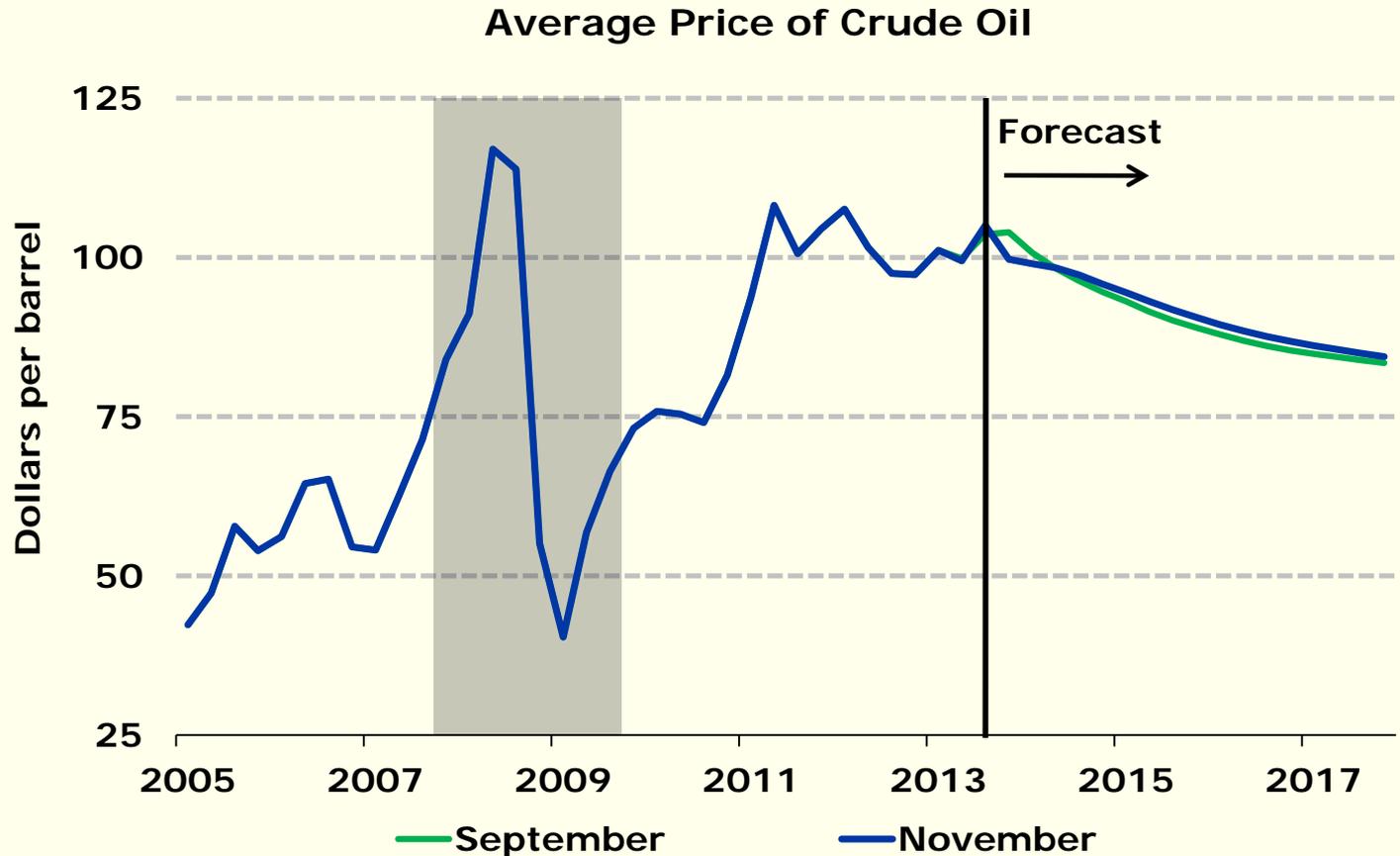
U.S. GDP is growing

U.S. Gross Domestic Product





Oil prices are expected to be slightly lower in the near term





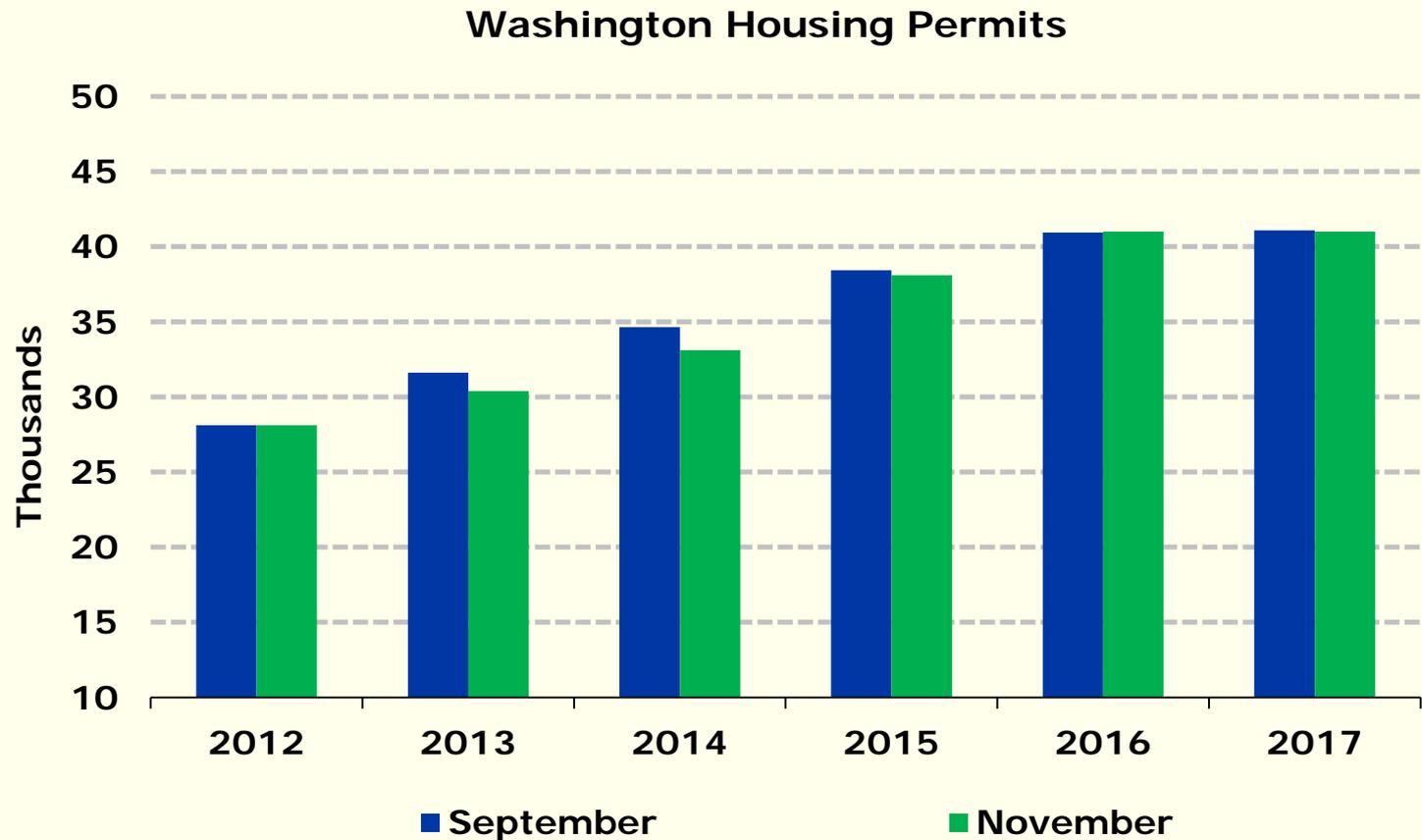
Washington personal income is expected to increase by 5.2% in 2014



Source: ERFC November 2013 forecast; historical data through 2012



Washington housing permits forecast is lower in the near term

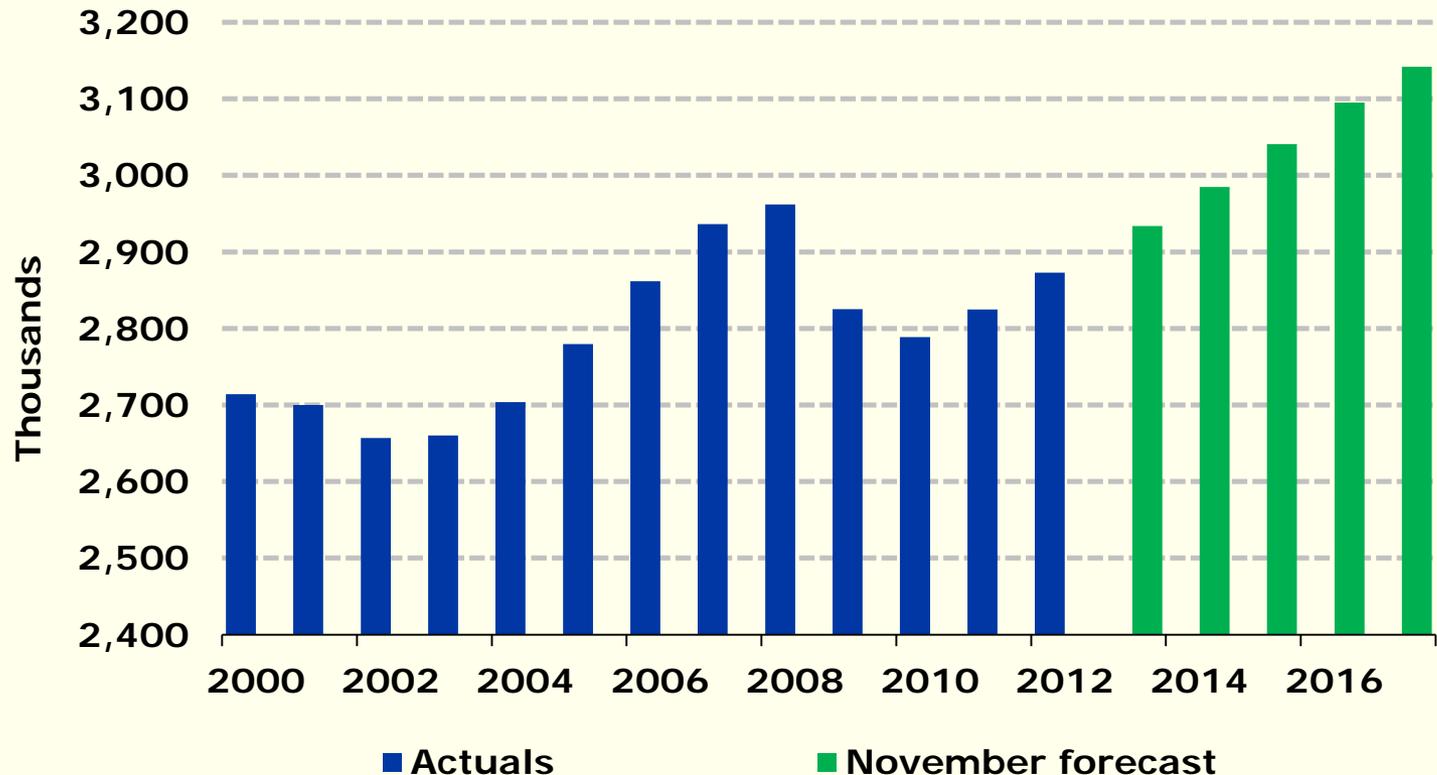


Source: U.S. Census, ERFC November 2013 forecast; historical data through 2012



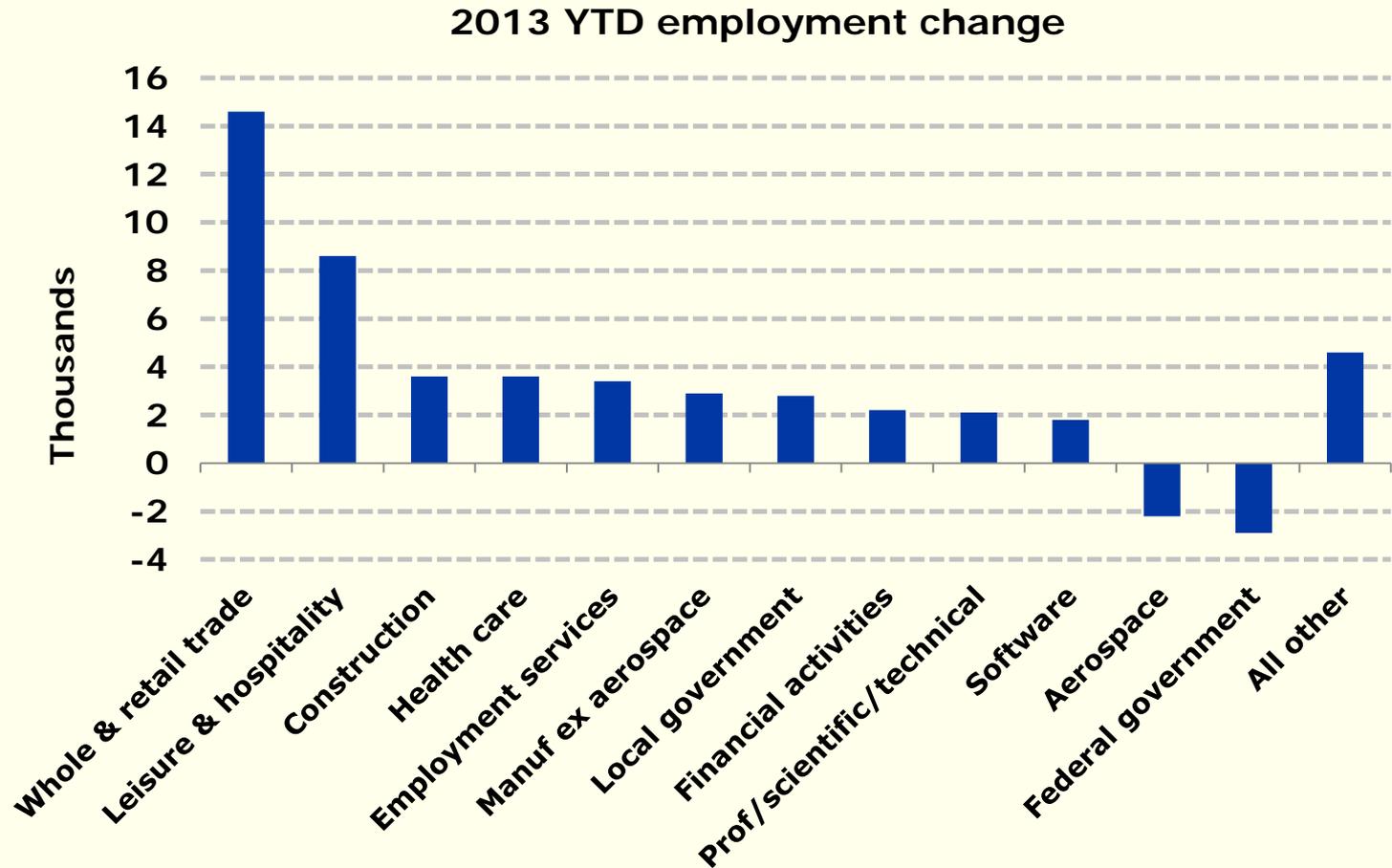
Like the U.S., Washington employment will return to pre-recession levels in 2014

Washington Nonfarm Payroll Employment



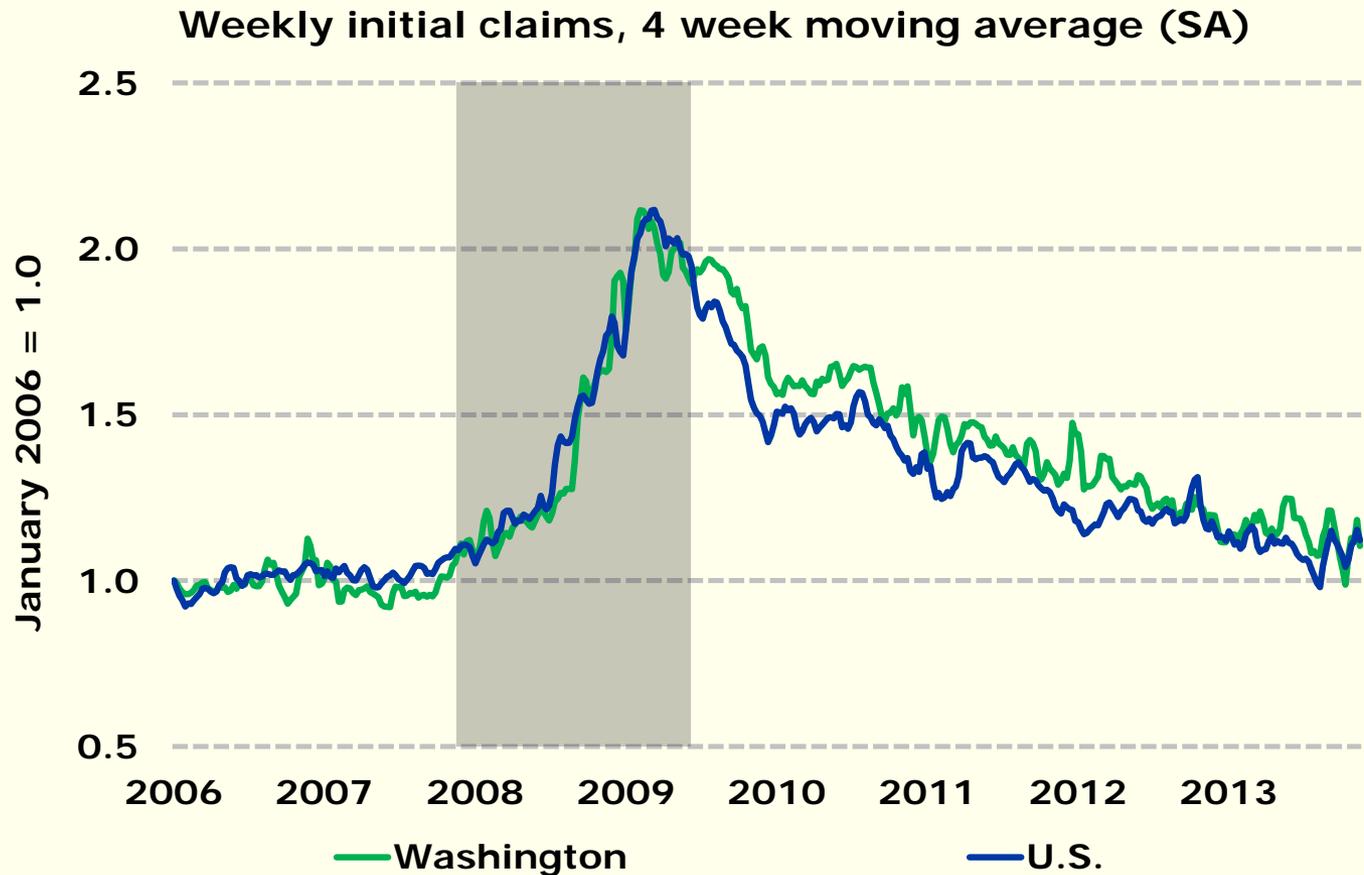


Washington nonfarm employment is up 45,100 so far this year





Initial unemployment claims are declining



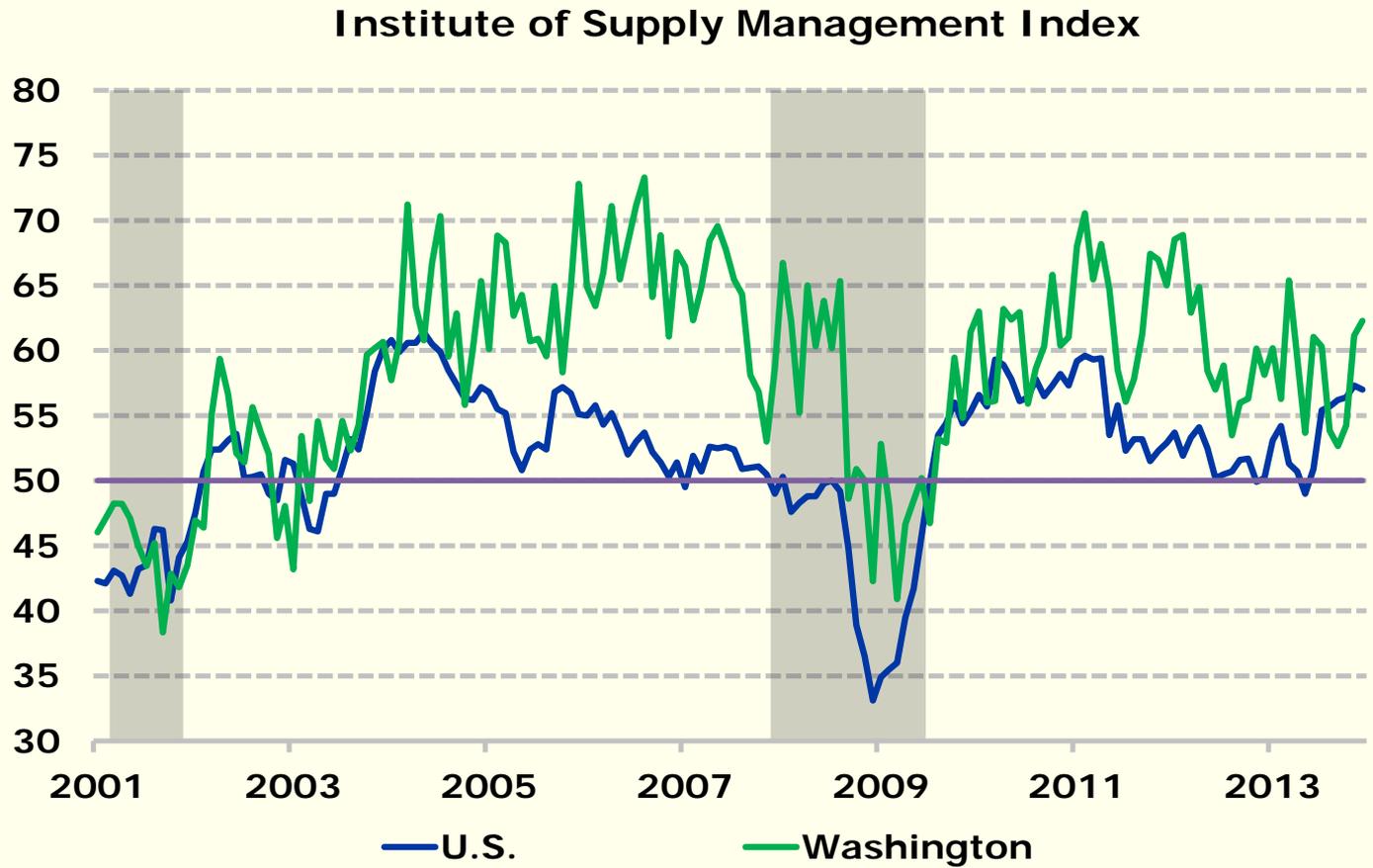
Source: U.S. Dept of Labor/BLS; data through January 4 2014

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Washington manufacturing activity has turned up

An index greater than 50, implies growth



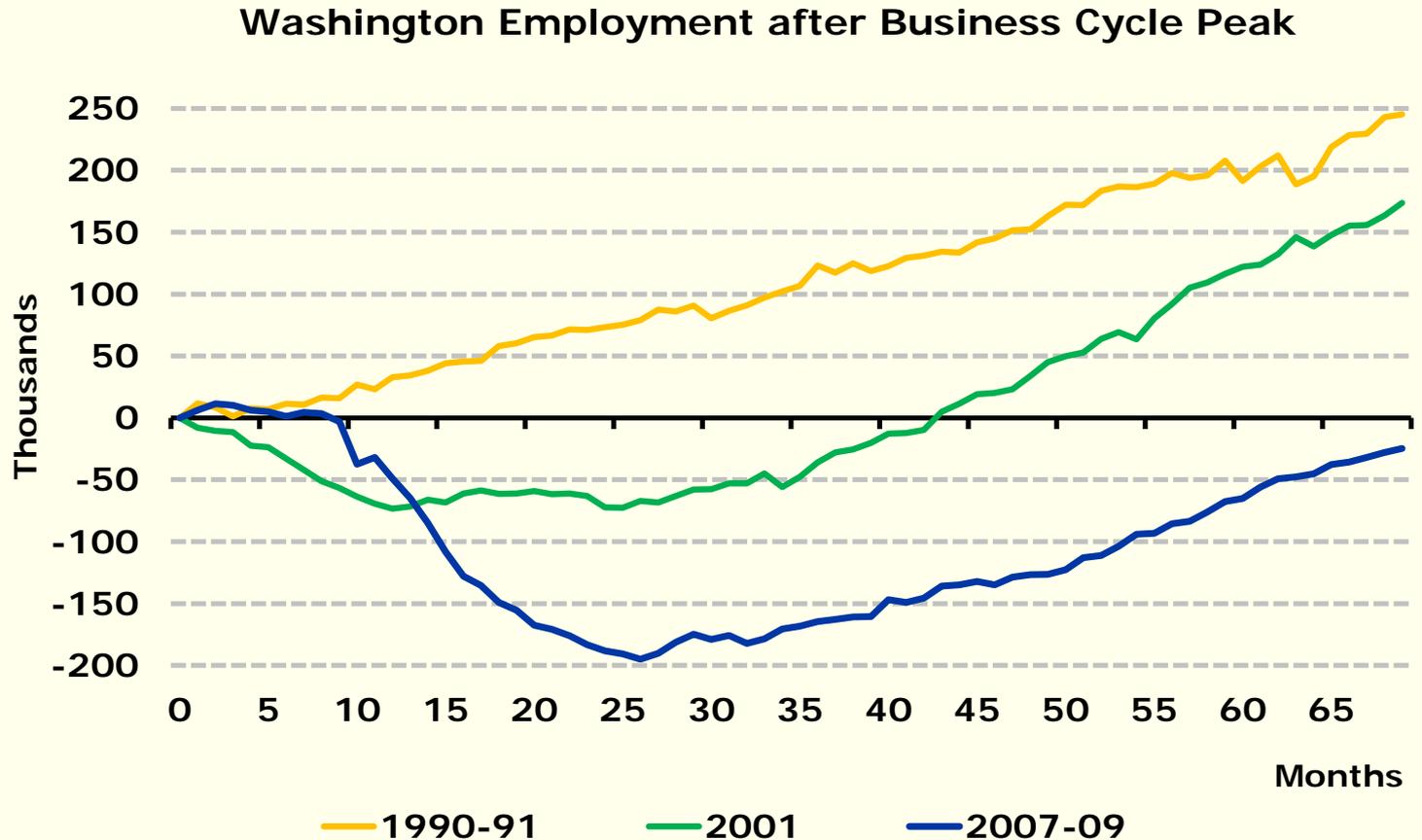
Source: Institute of Supply Management; data through December 2013

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After nearly 6 years, Washington employment has still not recovered

Washington remains 20,000 jobs below the start of the recession



Source: WA ESD, ERFC; data through November 2013

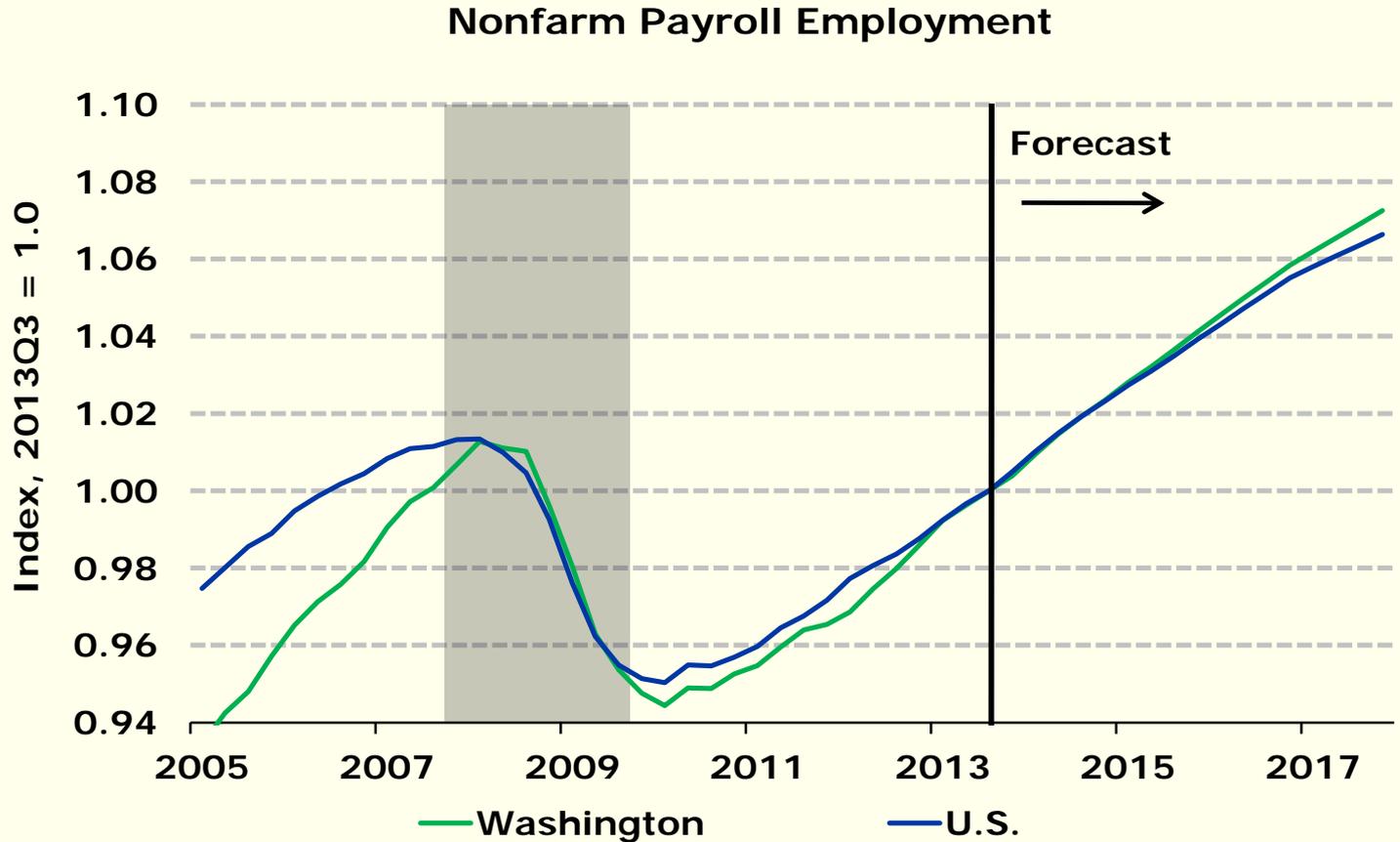


Washington employment will recover slightly faster than the U.S.

Date of regaining peak:

WA:
2014Q2

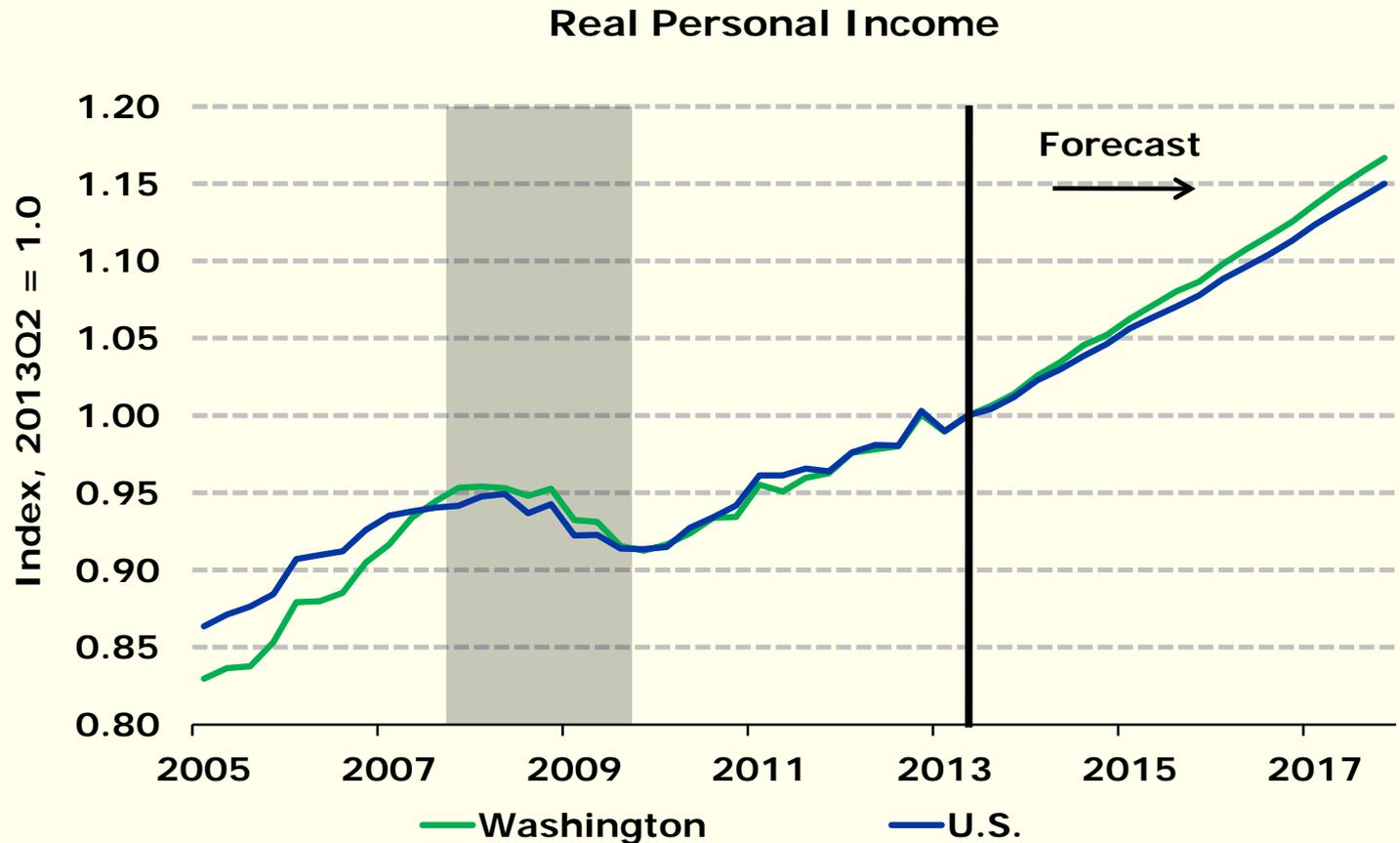
U.S.:
2014Q3



Source: ERFC November 2013 forecast; historical data through 2013Q3

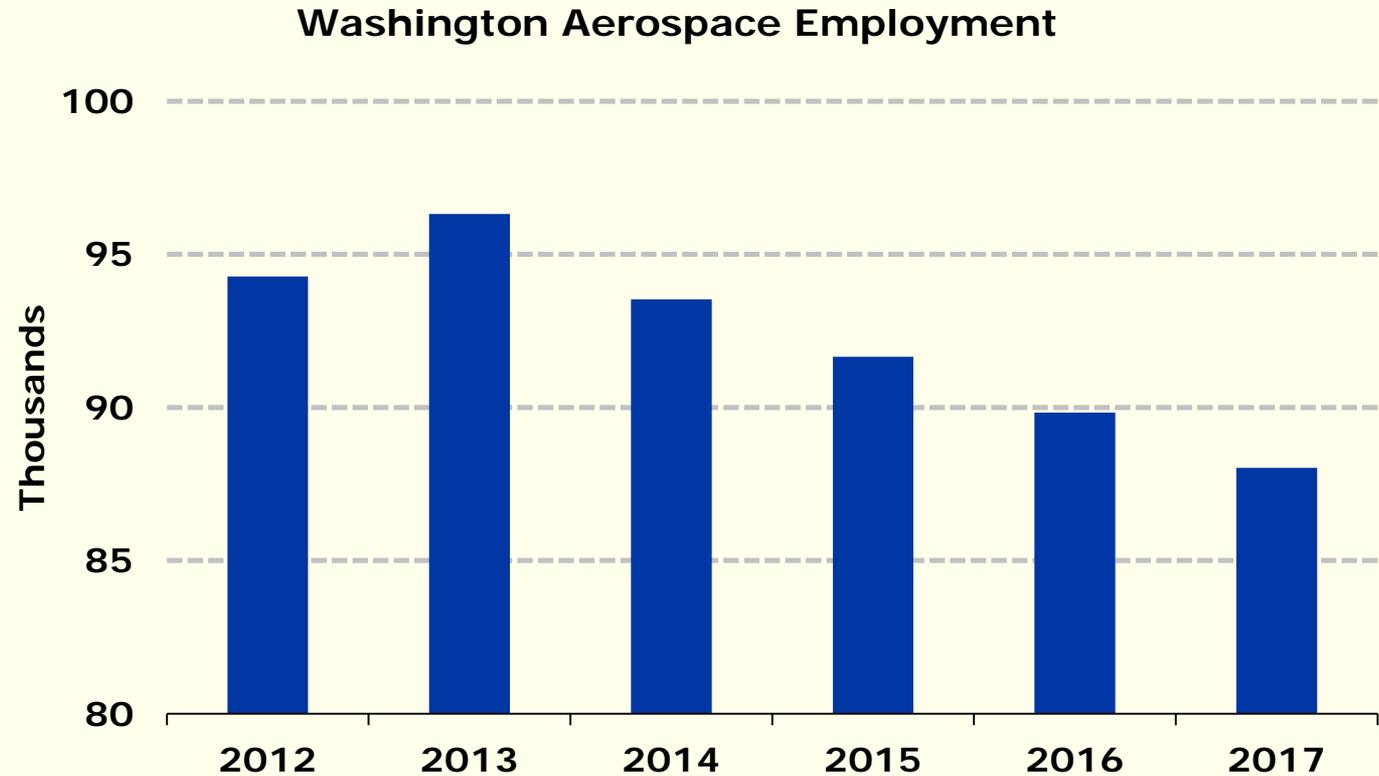


...and state personal income will recover slightly faster than the U.S.





Aerospace employment is declining

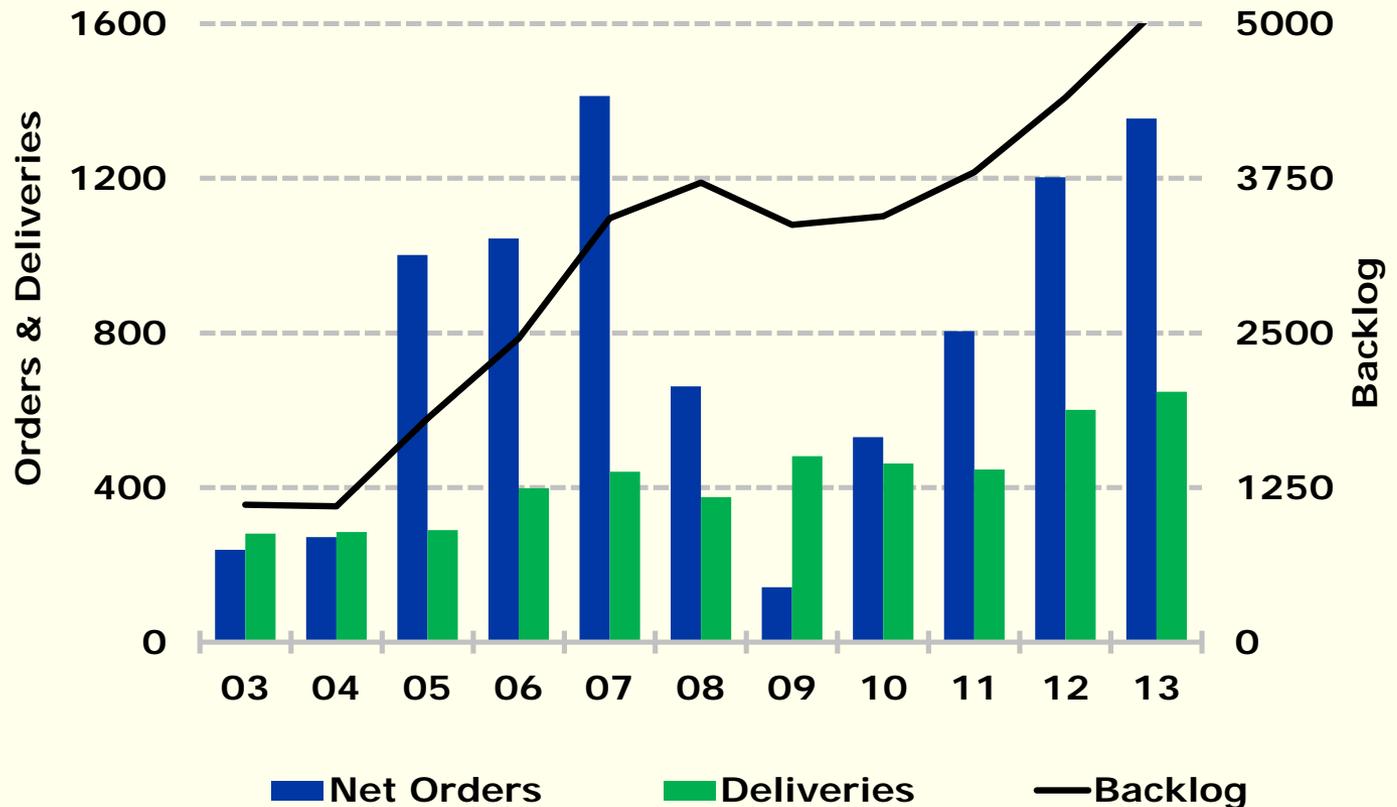


Source: ERFC November 2013 forecast; historical data through 2012



Boeing has over 7 years of commercial orders on its books

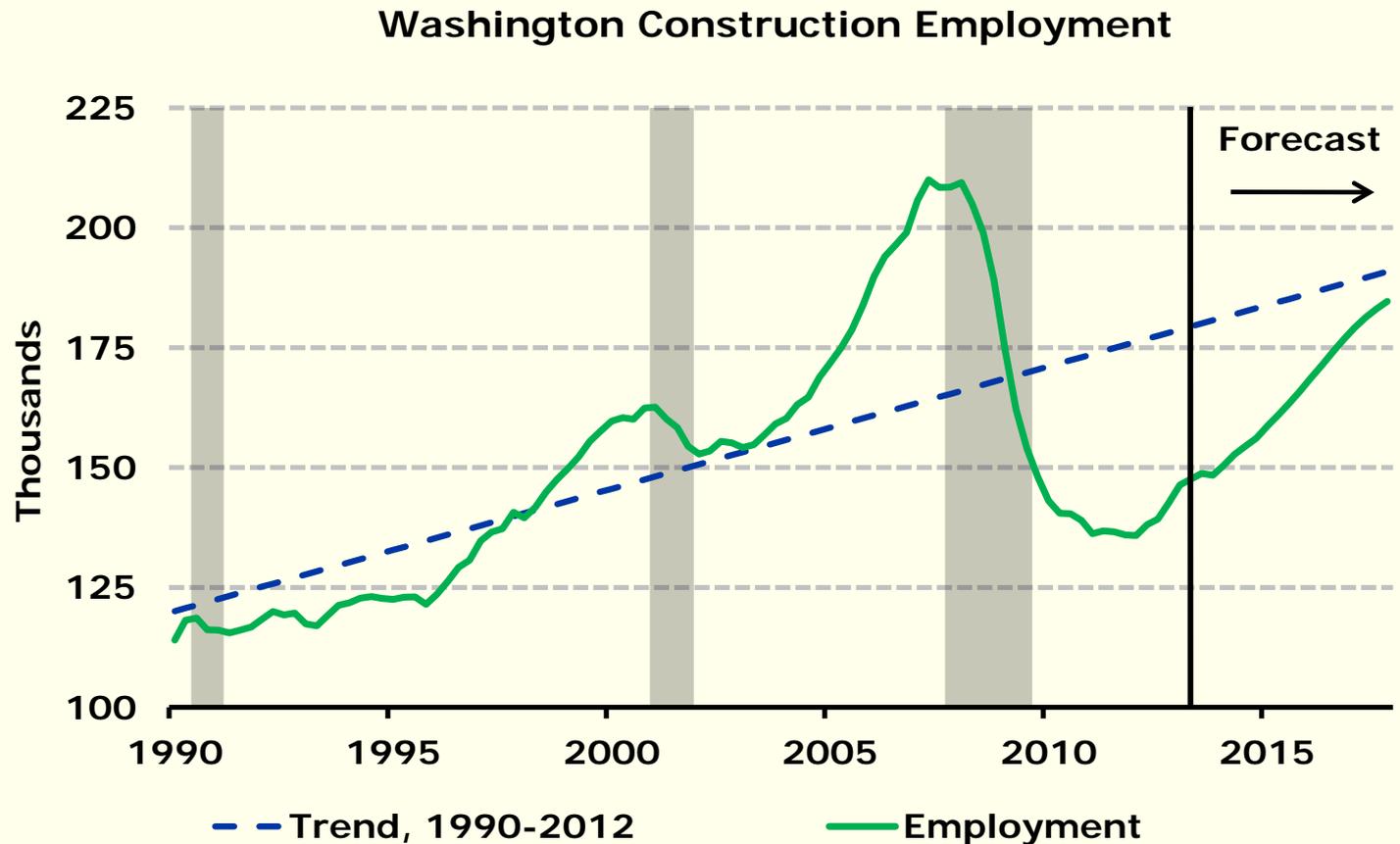
Excludes the military's new refueling tanker



Source: Boeing, data through December 2013



Washington construction employment is recovering



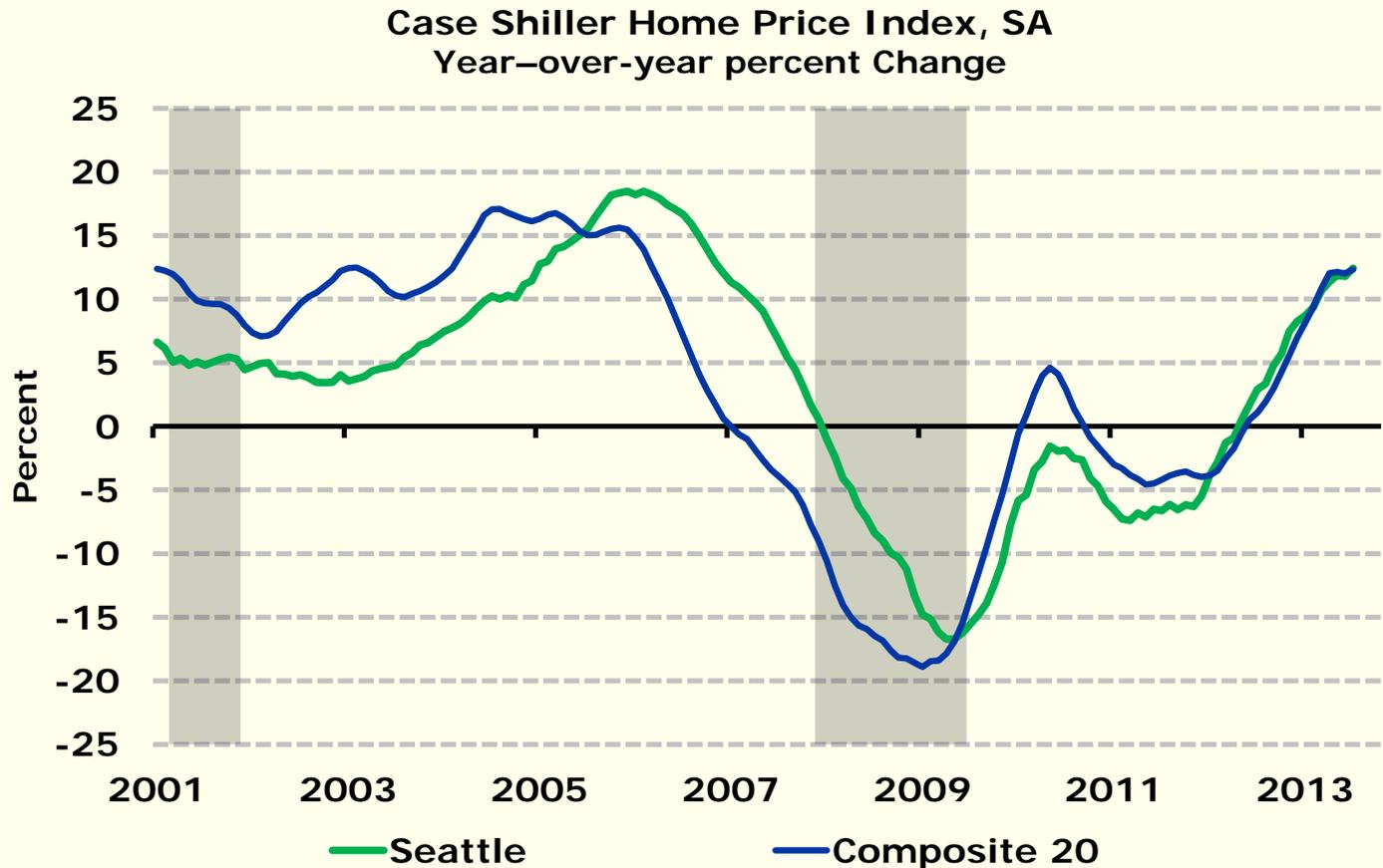


Single-family home prices continue to increase

Oct 2013

U.S. is up
13.6%

Seattle is
up 13.1%

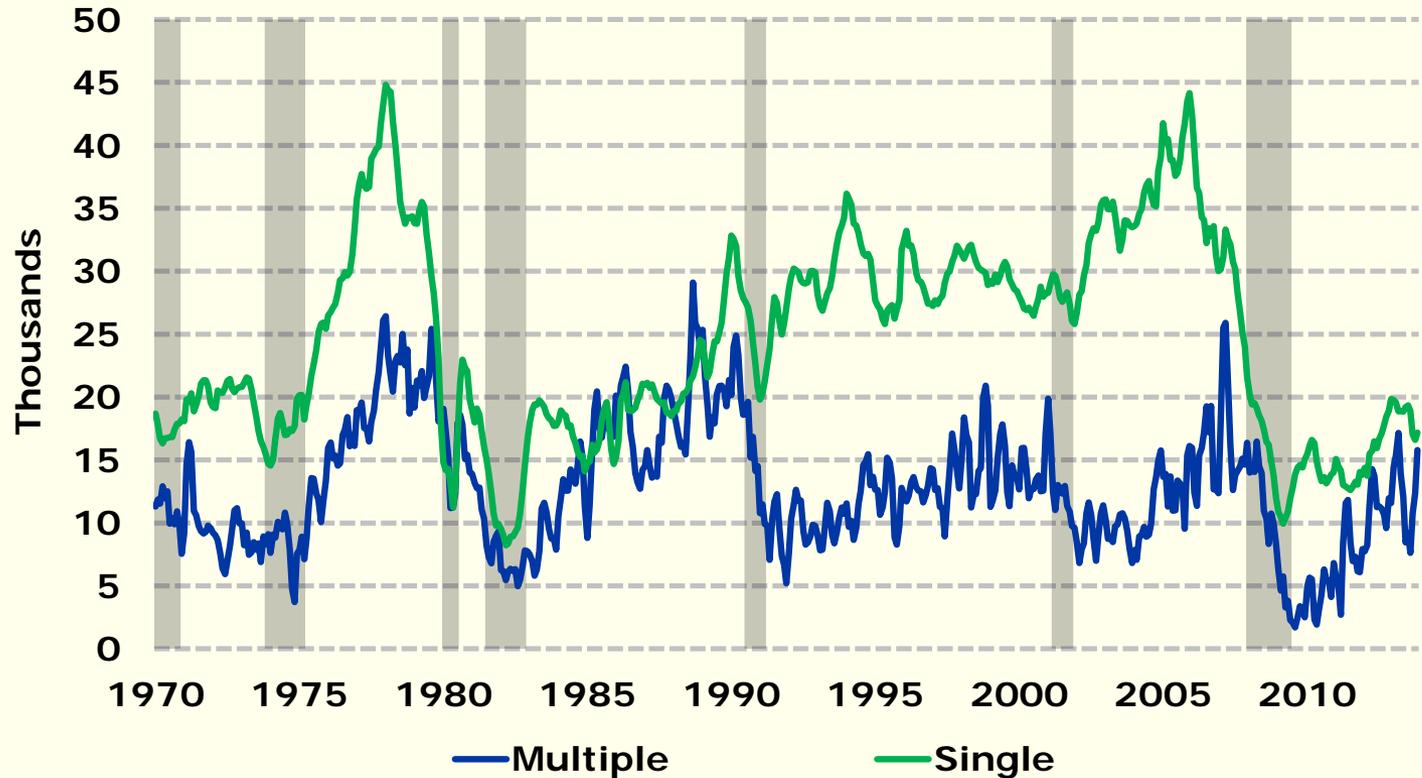


Source: S&P/Case-Shiller; data through October 2013



Multifamily building permits improving but single family permits have stalled

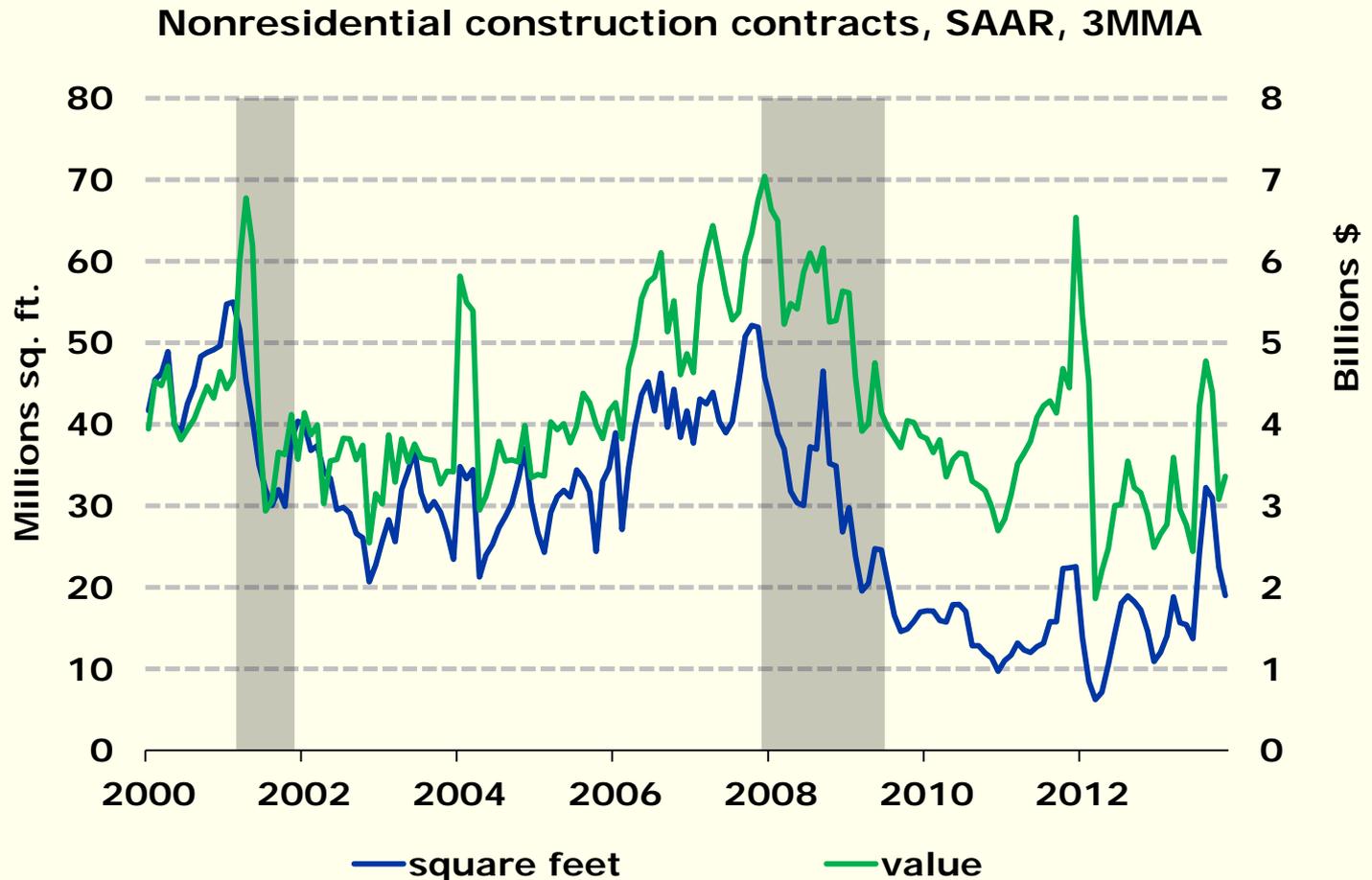
Washington Housing Units Authorized by Building Permits, 3MMA, SAAR



Source: U.S. Census Bureau; data through November 2013



Nonresidential activity is trending up but remains volatile



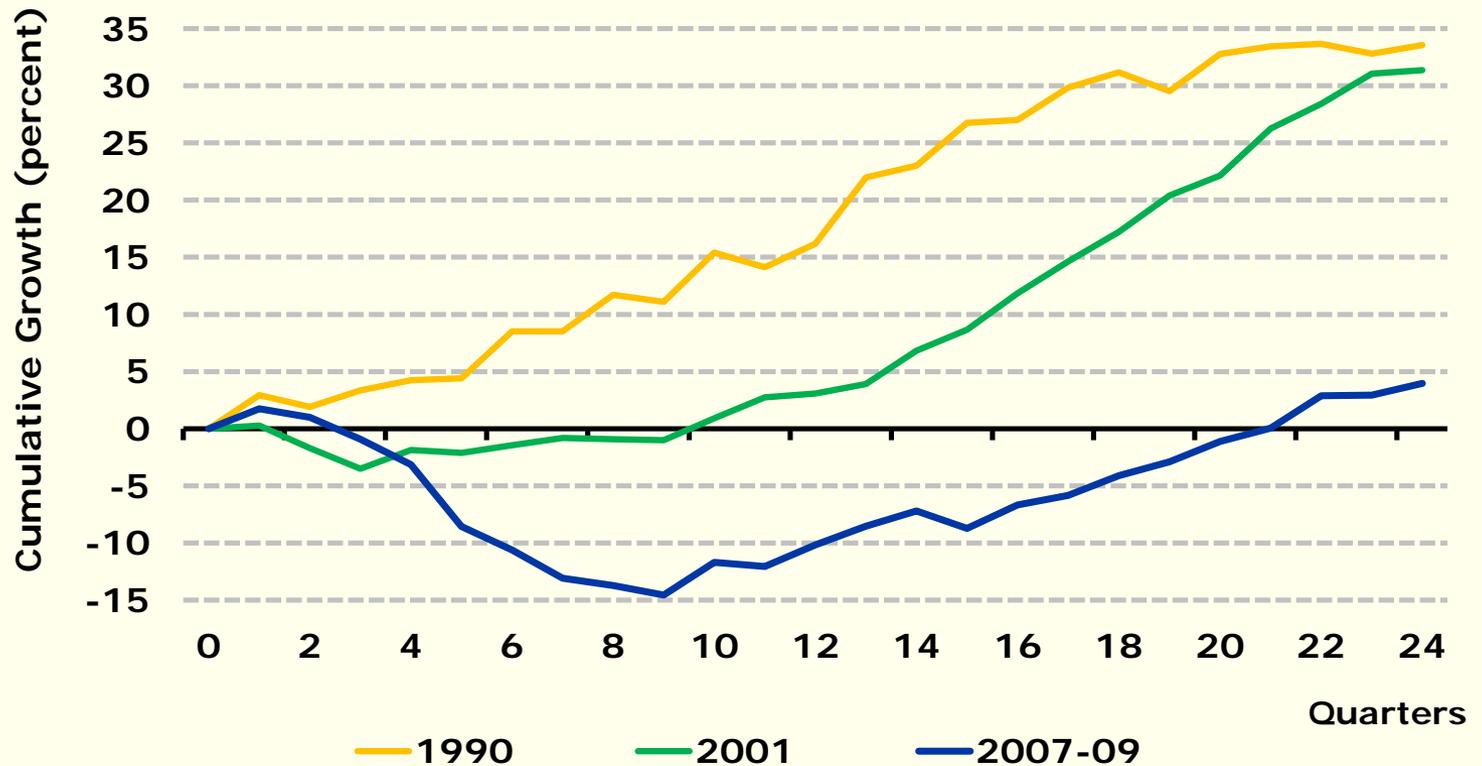
Source: Dodge, ERFC; data through November 2013



Revenue collections have recovered slowly after the last recession

Revenue Act collections have now exceeded their previous peak reached in Q1 2008

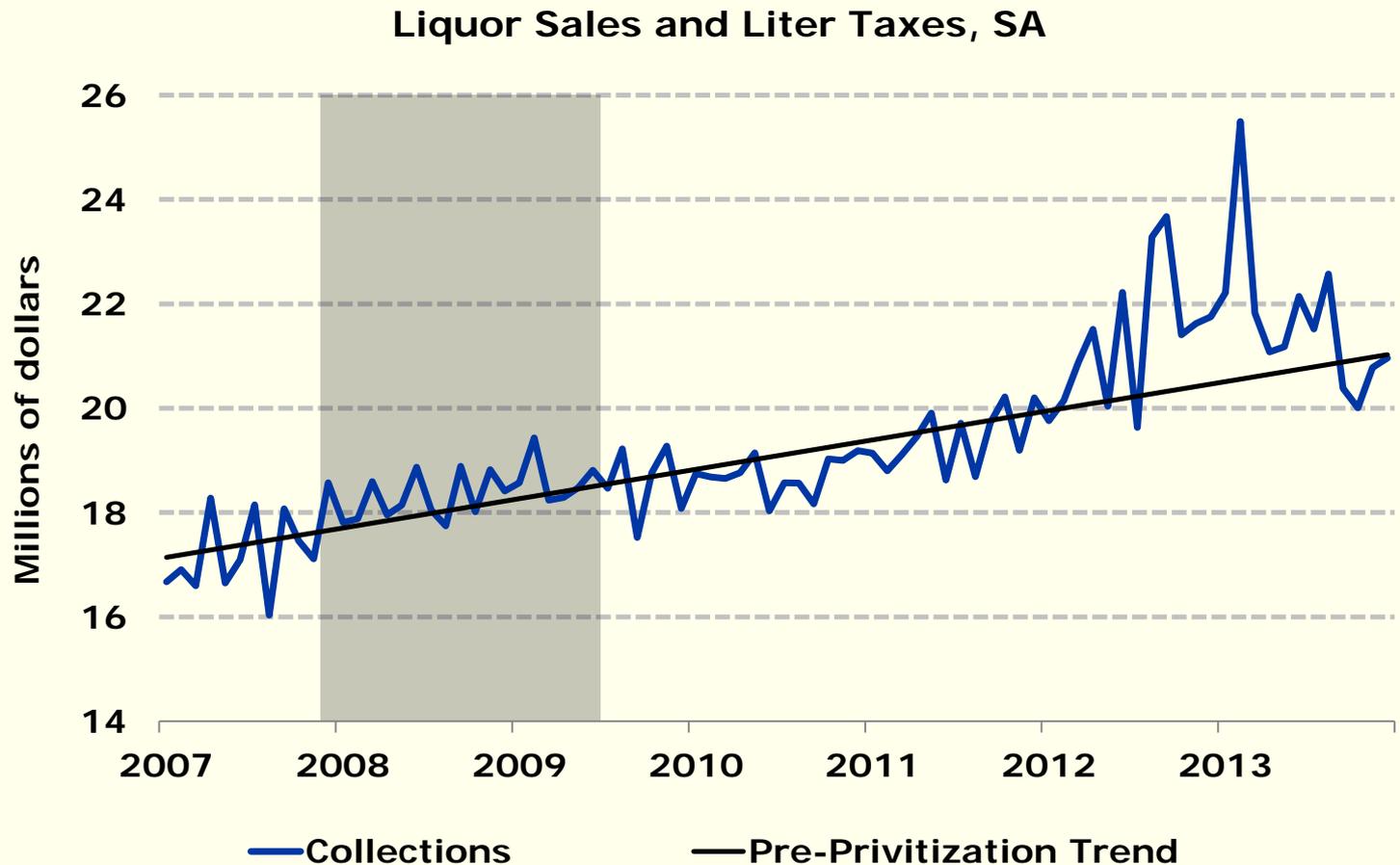
Revenue Act Collections after Business Cycle Peak



Source: ERFC; data through 2013 Q3



Revenue from liquor sales has been volatile since privatization



Source: DOR, ERFC; data through December 2013



REET base strengthening along with spikes of large commercial sales

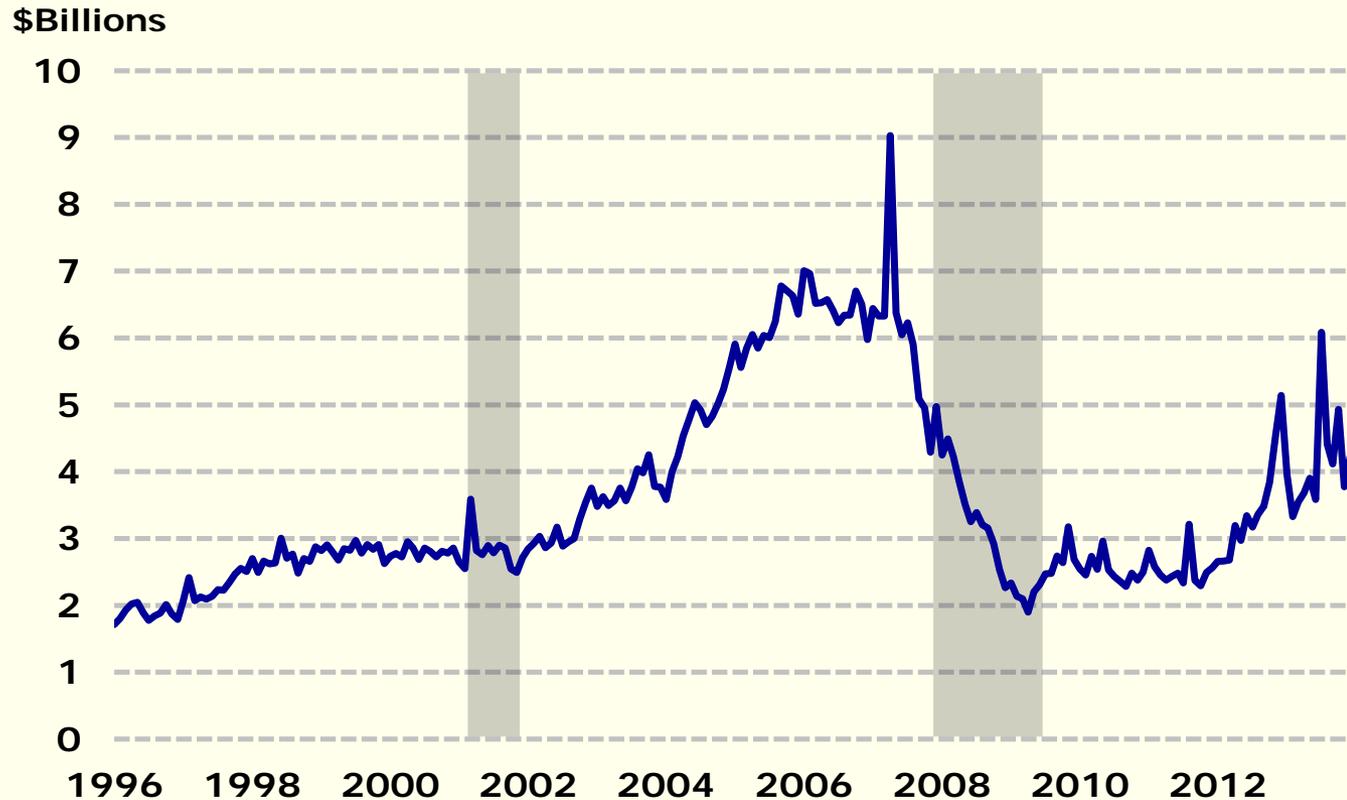
Even after last year's rush in sales of commercial property due to federal tax changes, large commercial sales are still occurring at an above-average rate

Residential prices and sales volume grew in 2013 but have flattened in recent months

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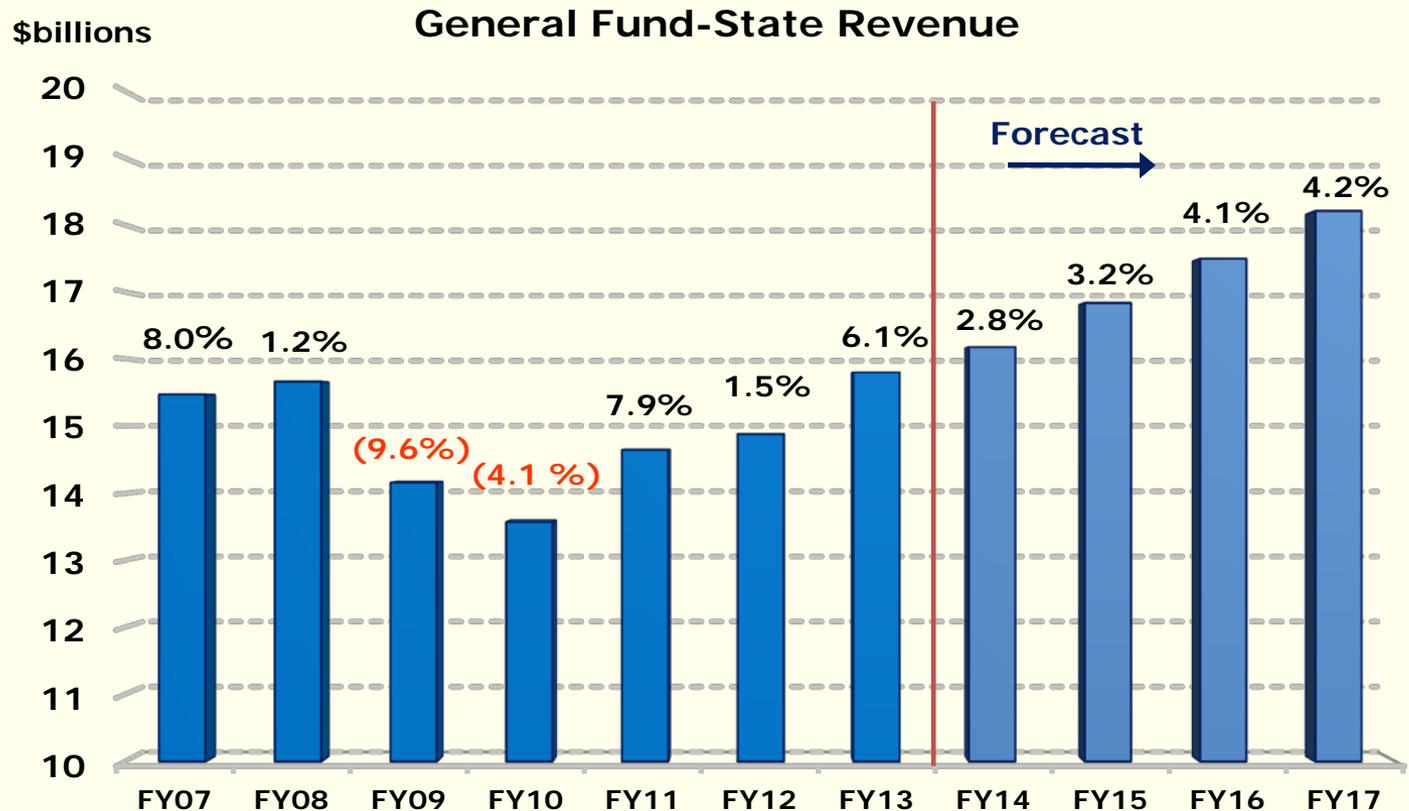
Seasonally Adjusted Taxable Real Estate Excise Activity



Source: ERFC; Monthly data through December 2013 preliminary



General Fund-State* forecast by fiscal year





Conclusion

- We expect the slow pace of economic recovery to continue in both the U.S. and Washington economies
- Washington is still likely to outperform the nation, but by a small margin
- Washington construction activity has been strong but rising mortgage rates could slow the housing recovery
- Other threats to economic recovery include slowing Asian economies and uncertainty around federal fiscal issues



Questions



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