

# Washington State Economic & Revenue Outlook

Presented to  
Executive IT Seminar

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Lake Chelan, Washington



**Washington State Economic and Revenue Forecast Council**



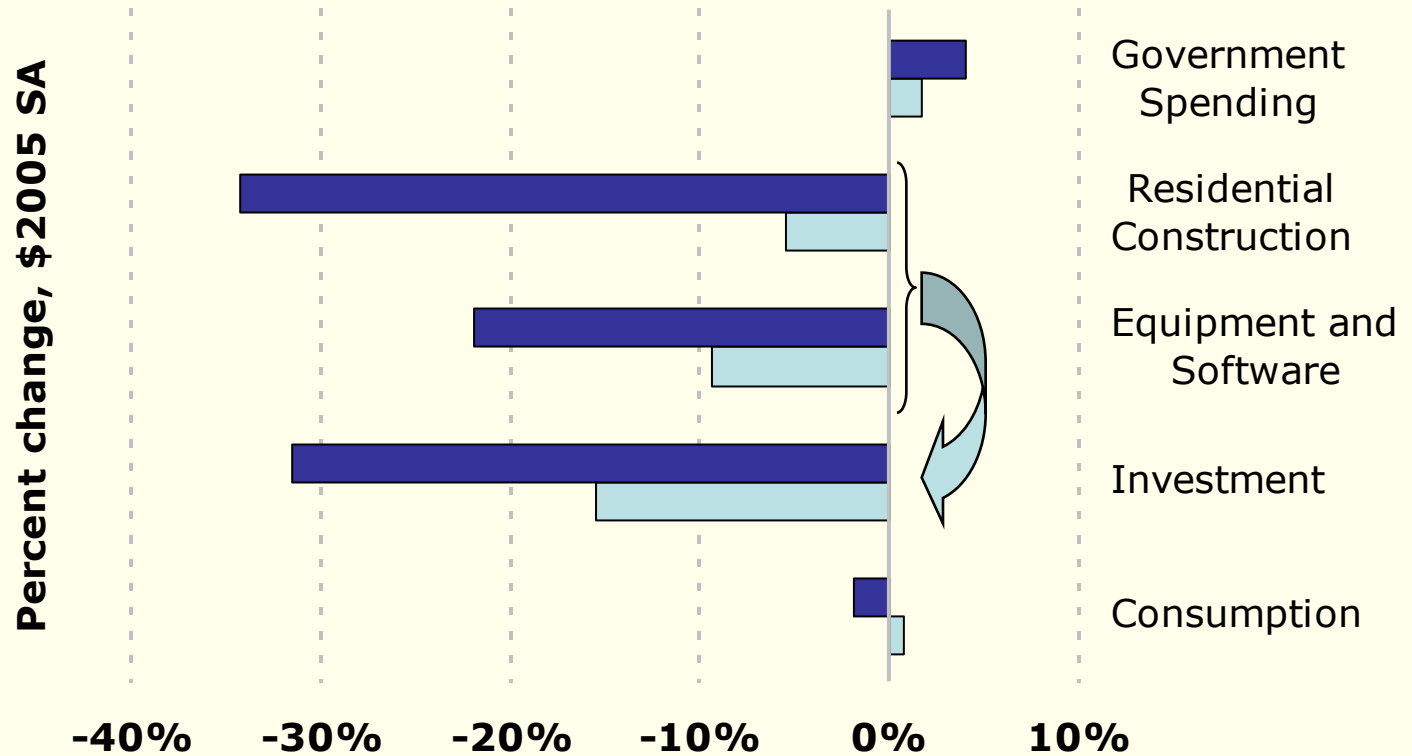
# Summary

- It is almost certain that the recession in both the national and state economies is now over
- The recovery is still fragile, and risks remain
  - Real estate, especially commercial
  - Banking, particularly local and regional banks
  - Consumer spending
- On the upside, a synchronized global recovery now unfolding, means exports will kick in earlier in the cycle
- In terms of the economy, we are where we thought we'd be in June, but consumer spending and revenue collections are lagging the recovery



# This recession has seen the sharpest drop in both consumption and investment

Peak to trough decline in GDP components



■ Prior post WWII recessions

■ This recession

Source: BEA, NBER, ERFC; data through 2009Q2

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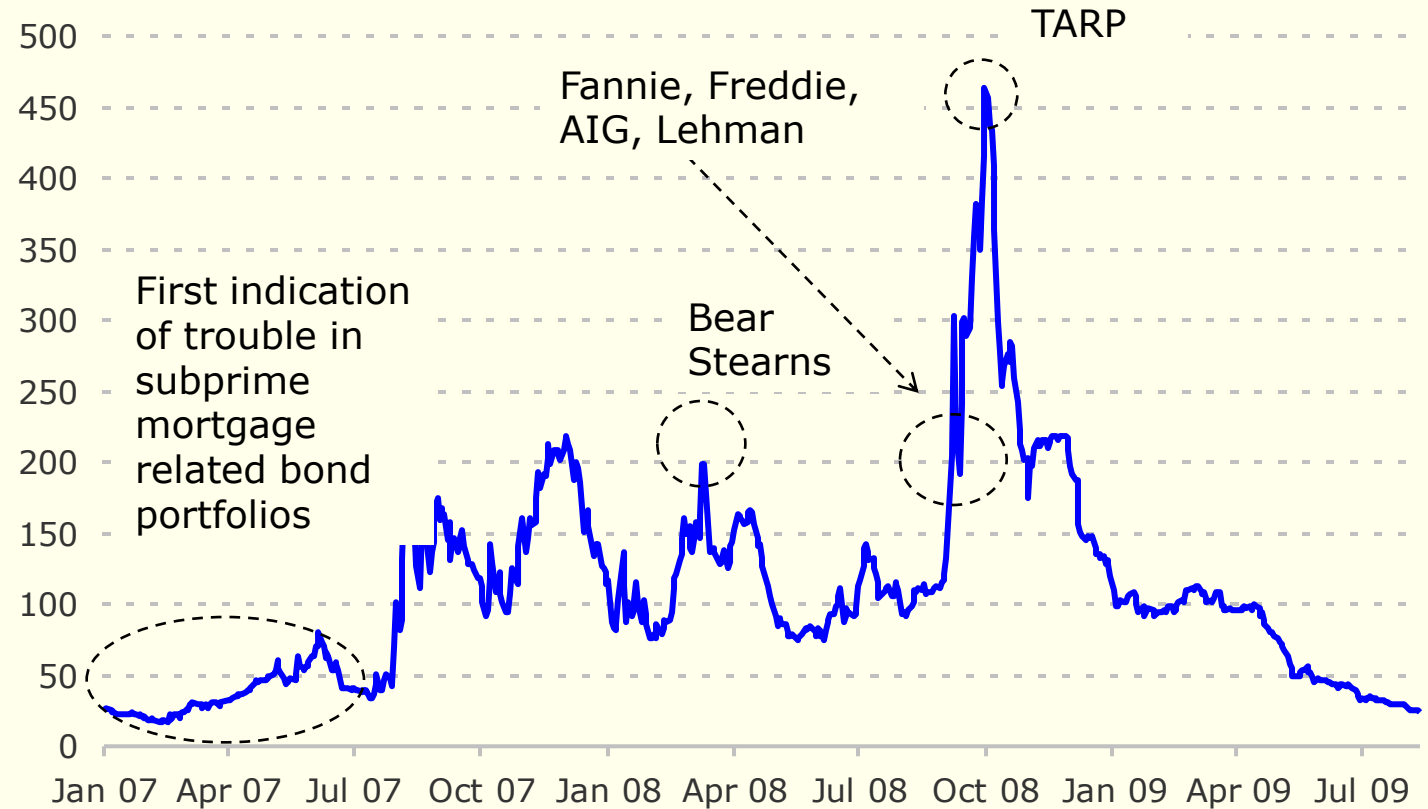


# Inter-bank lending has returned to normal

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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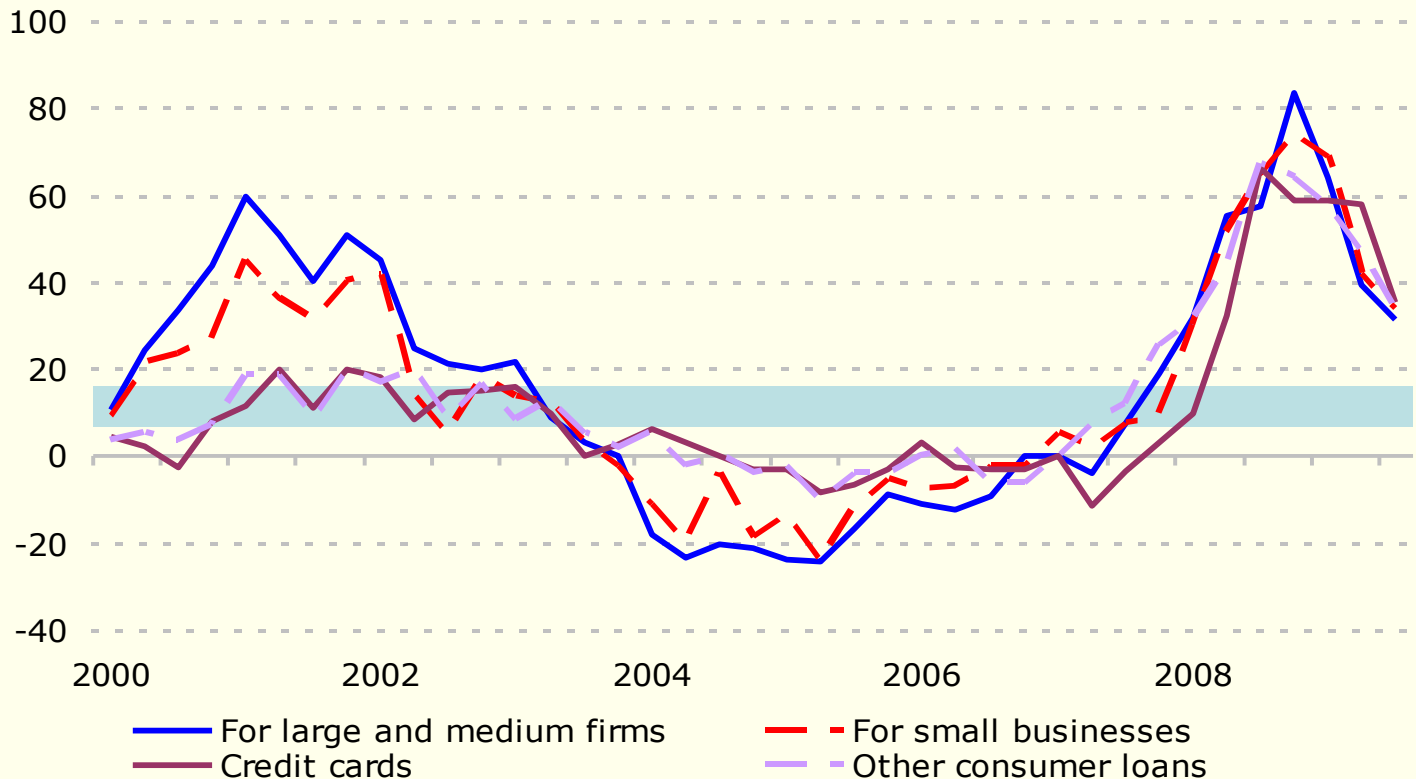
Source: British Bankers Association, US Federal Reserve Bank, ERFC; data through August 21, 2009



# Bank lending to businesses and consumers is easing

## Net Tightening minus Easing

Percent



Source: Federal Reserve Board, Senior Loan Officers Quarterly Survey, data through July 2009 survey



# Corporate bond issuance volume has recovered sharply

**Q/Q  
growth**

**2008**

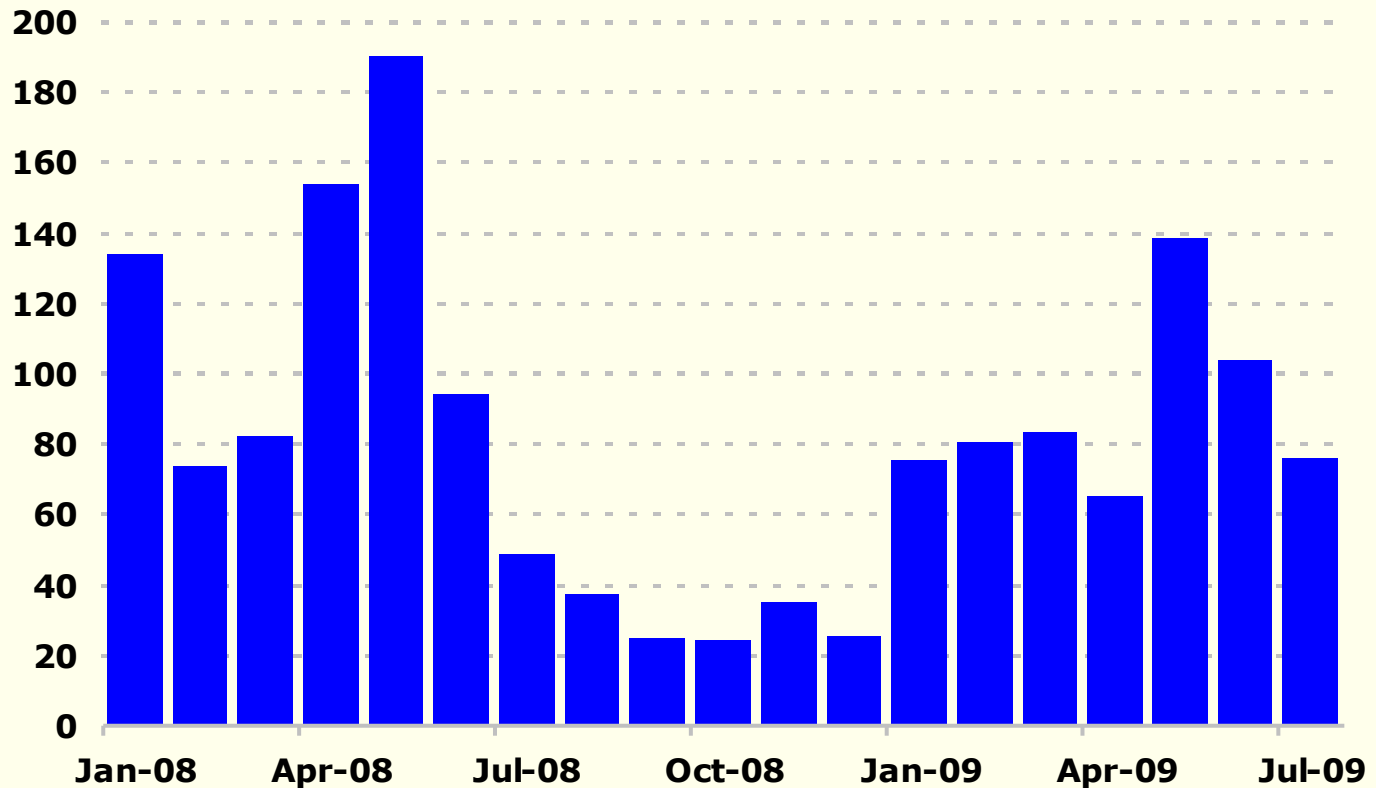
**Q4: -46%**

**2009**

**Q1: 140%**

**Q2: 50%**

USD, billions



Source: SIFMA, revised data through July 2009

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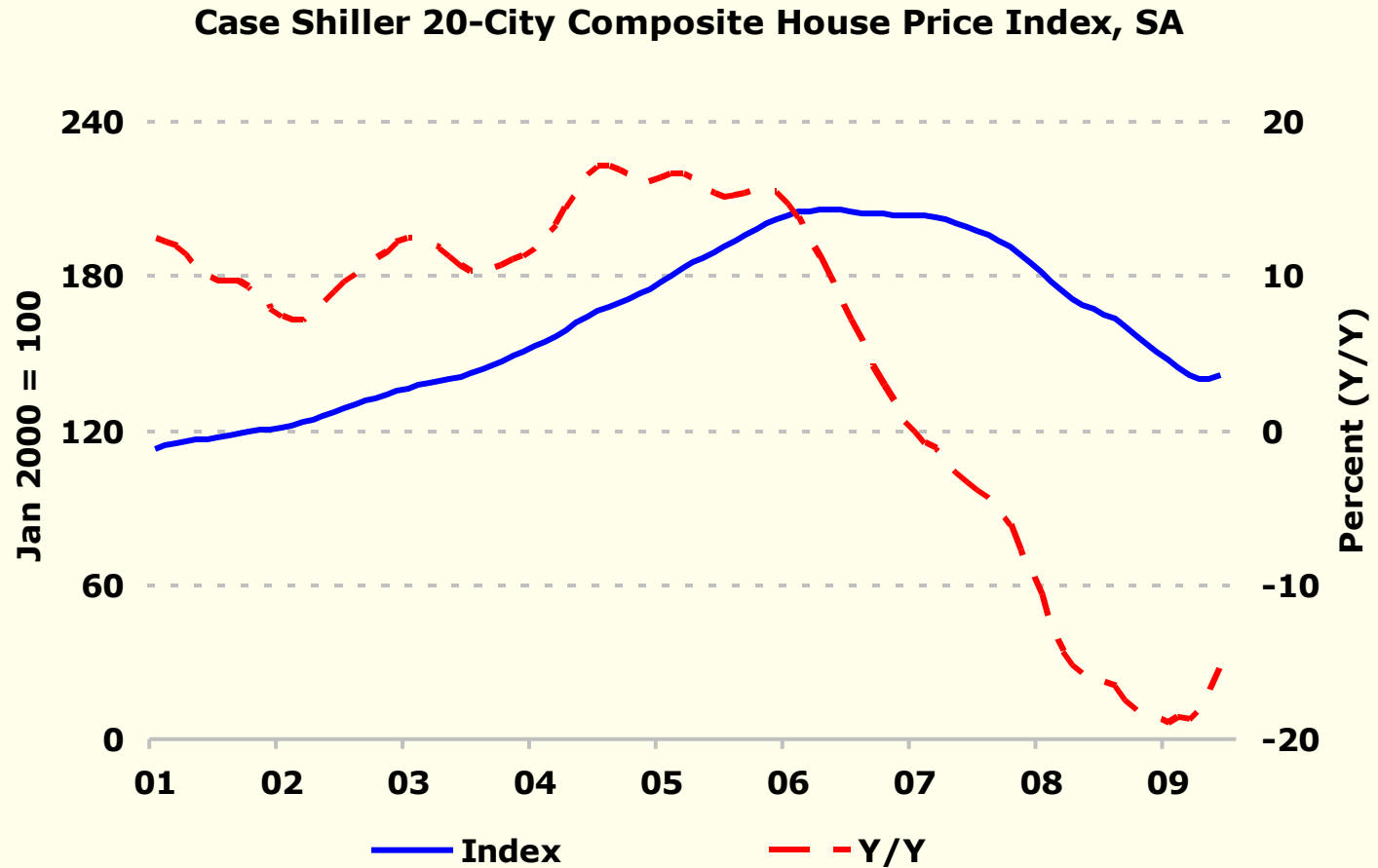
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# Home prices nationally have passed their point of inflection

Home prices are now showing a slower rate of Y/Y decline

Home prices increased from May to June



Source: S&P/Case-Shiller; data through June 2009

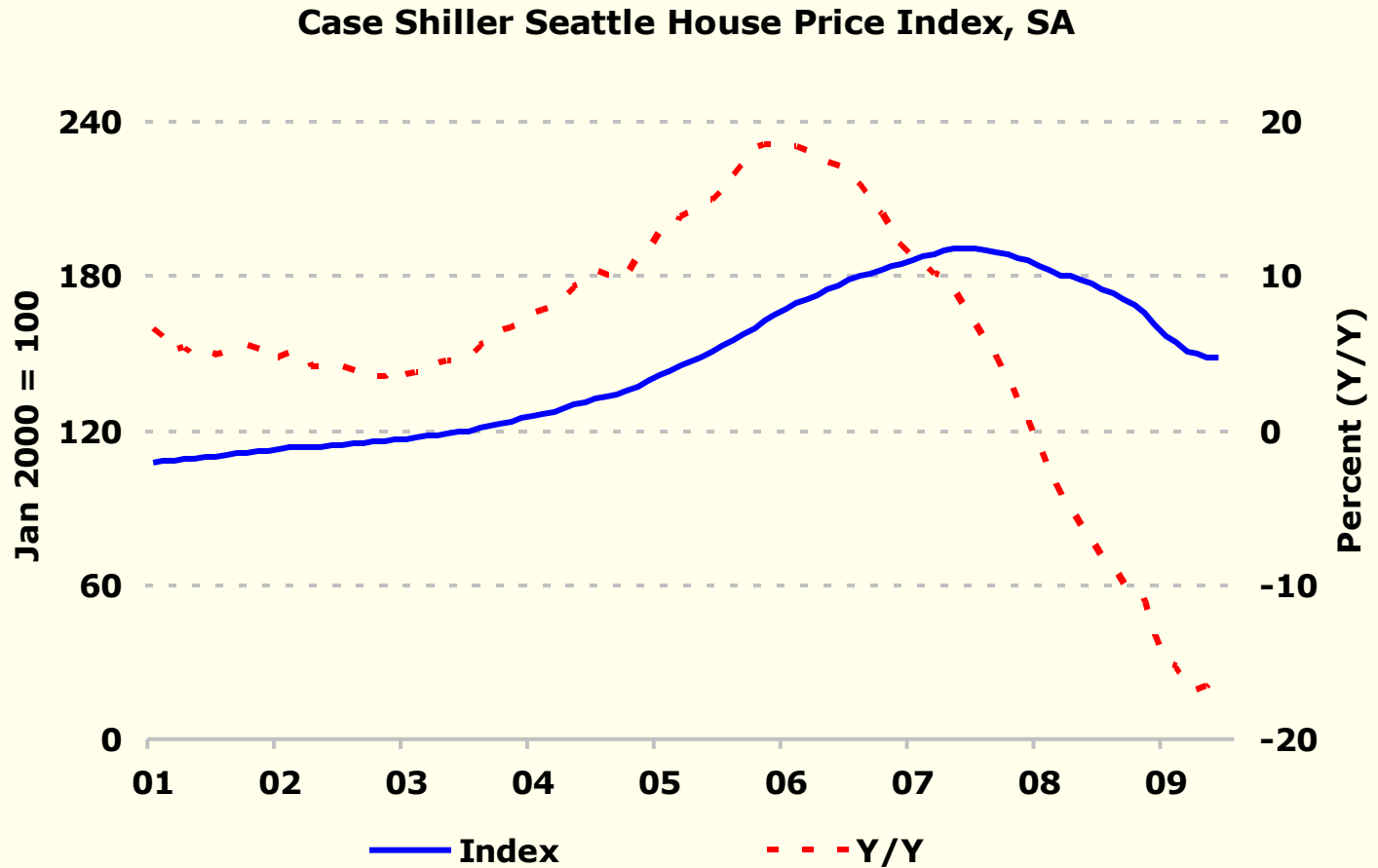
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# Home prices in Seattle appear to be leveling off, but lag the nation in the turnaround

## Seattle Home Prices



Source: S&P/Case-Shiller; data through June 2009

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# The rate of decline in national GDP is moderating



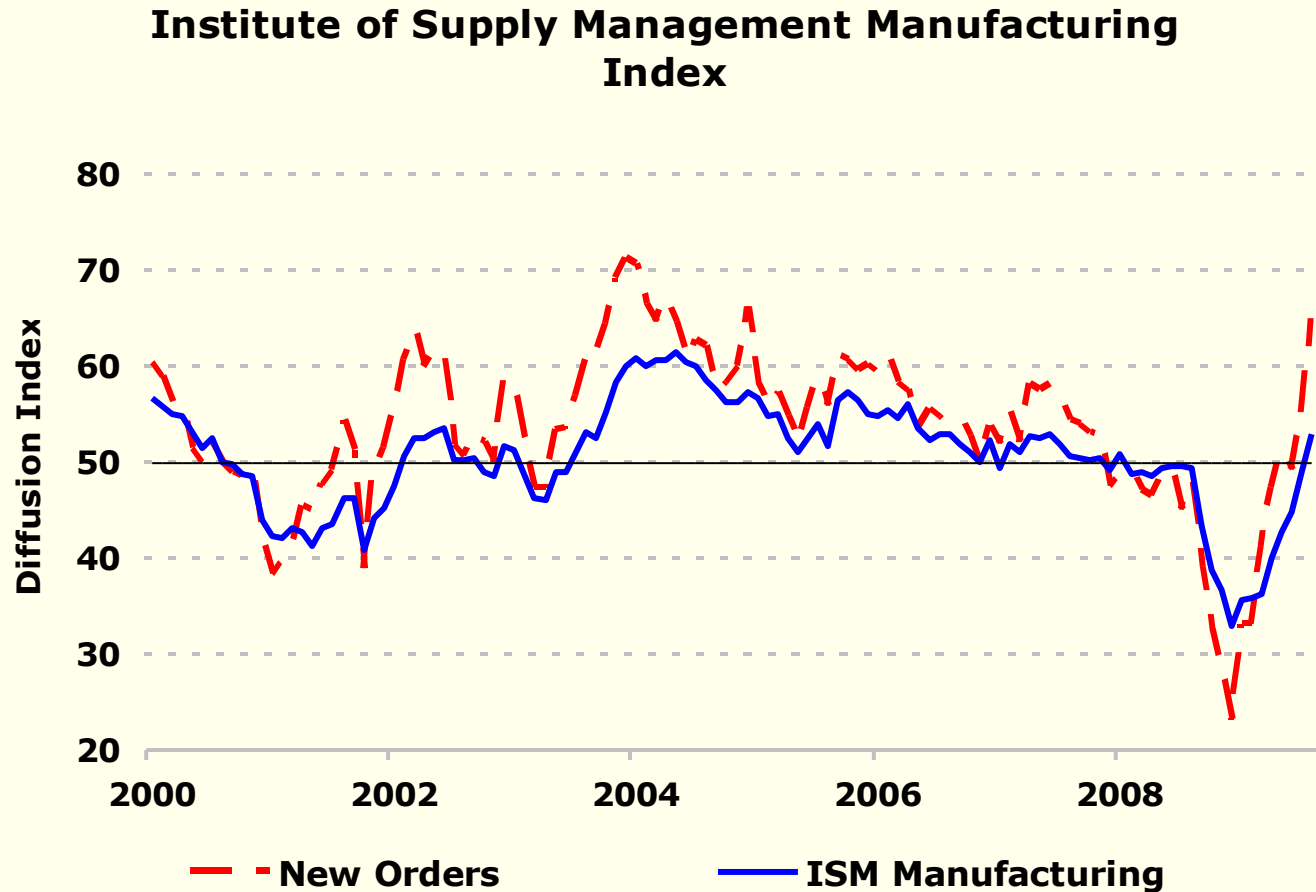
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Source: BEA, data through 2009 Q2, preliminary



# The manufacturing sector is seeing a rebound

Index > 50  
means  
growth



Source: ISM; data through August 2009

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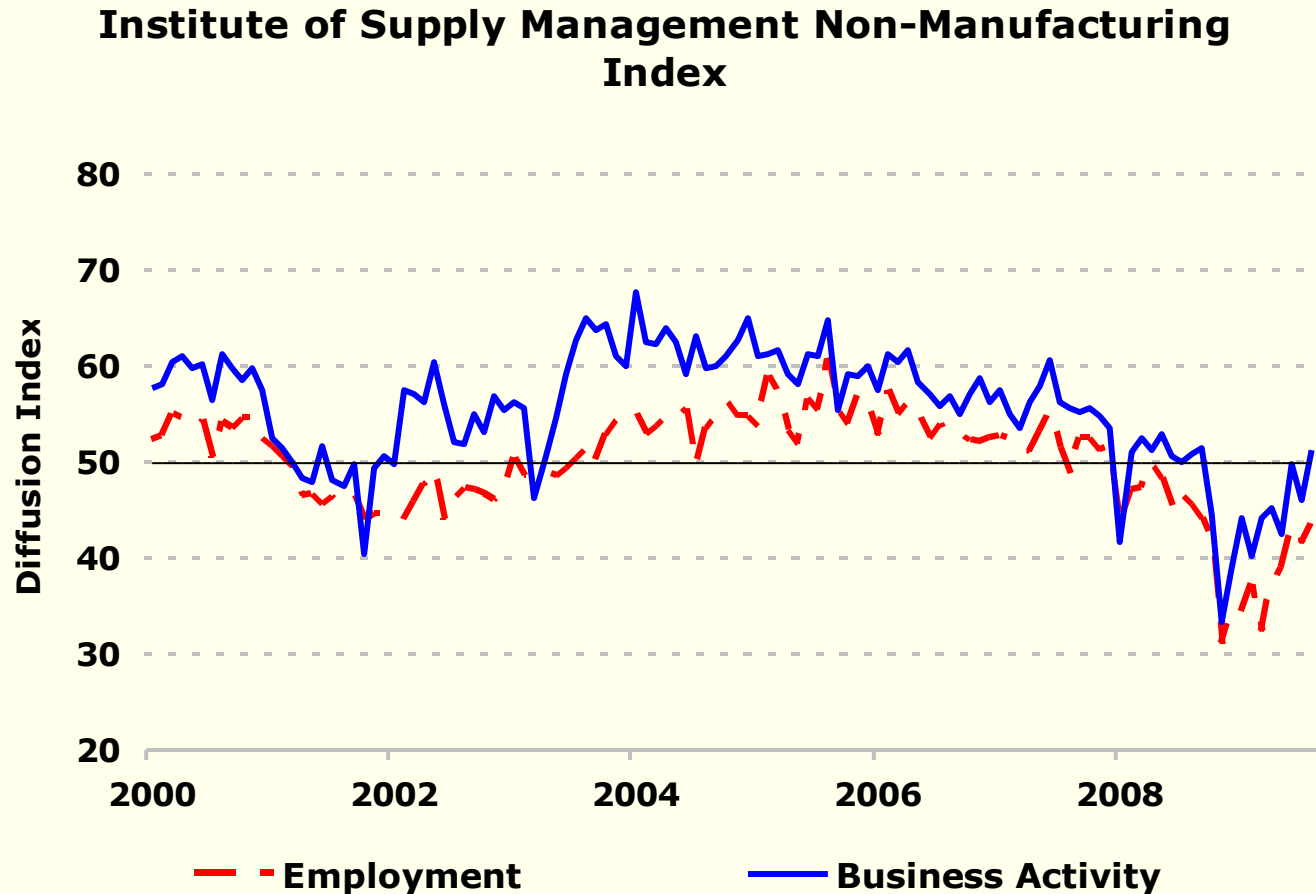
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# The services sector shows a weak employment picture, but activity has started to grow

Index > 50  
means  
growth

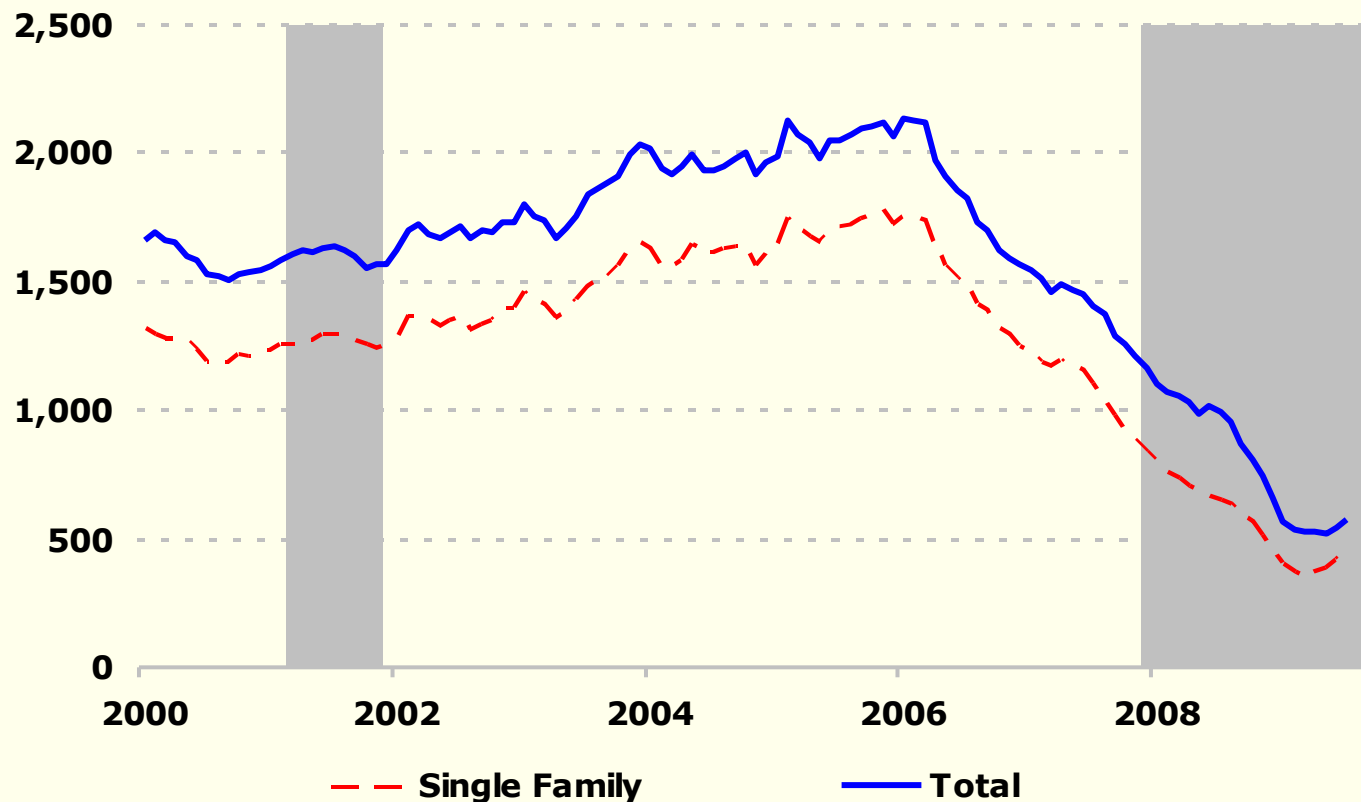


Source: ISM; data through August 2009



# U.S. housing starts appear to have turned the corner

Thousands, SA, 3MMA

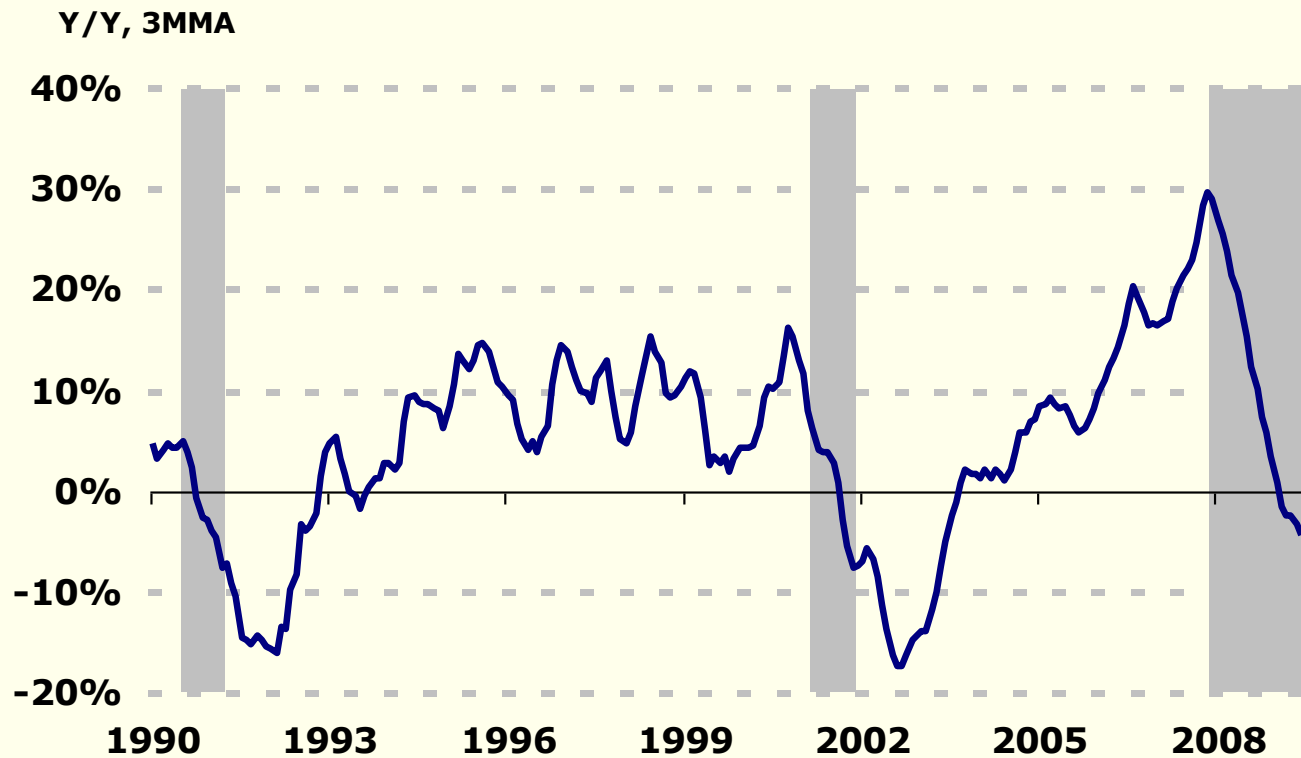


Source: U.S. Census Bureau; data through July 2009



# There is further downside to the non-residential downturn

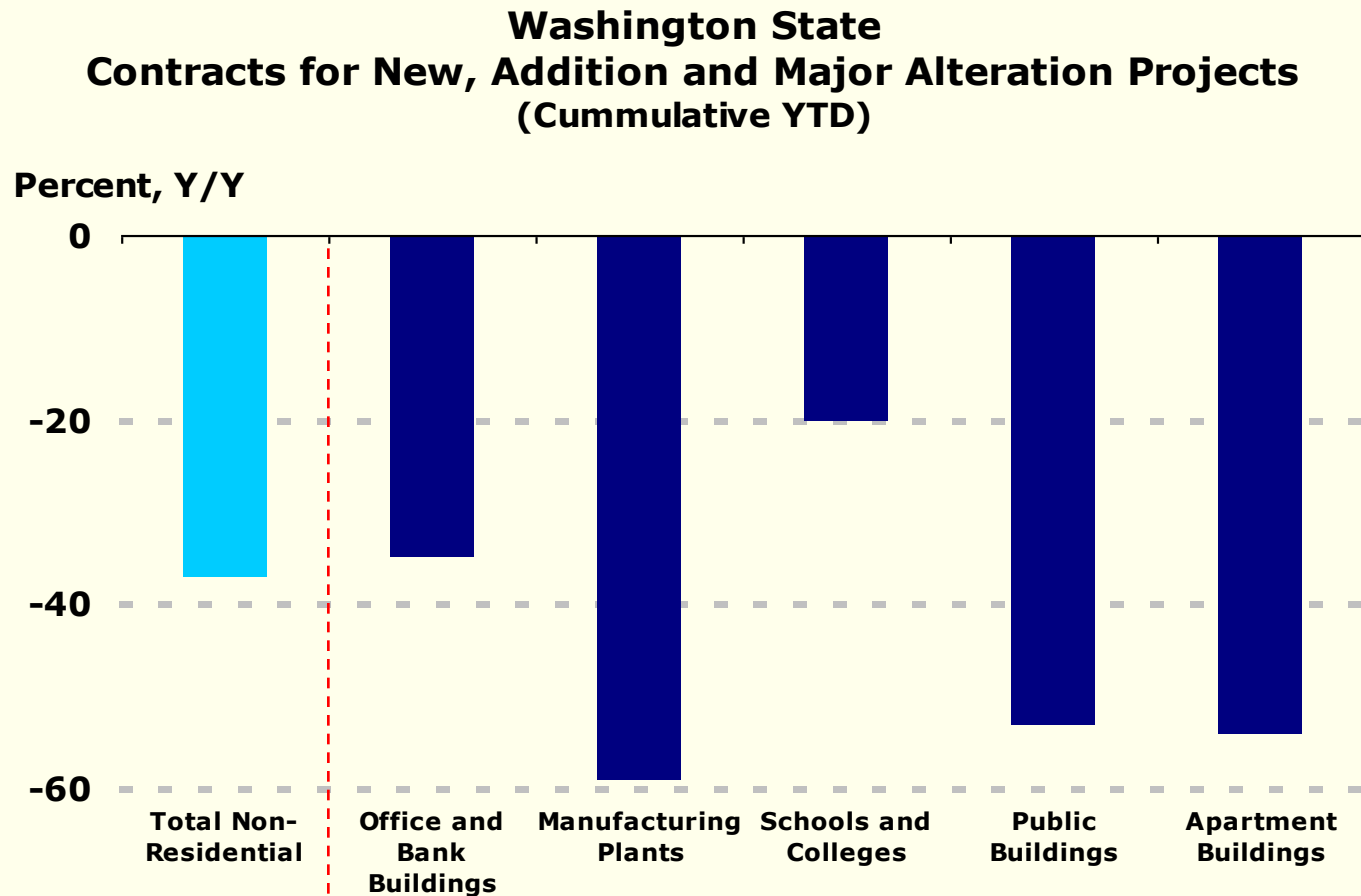
**Construction Put In Place, Private Non-Residential  
\$ millions SAAR**



Source: Bureau of the Census, ERFC; data through June, 2009



# Contract data indicate WA non-res construction will remain weak



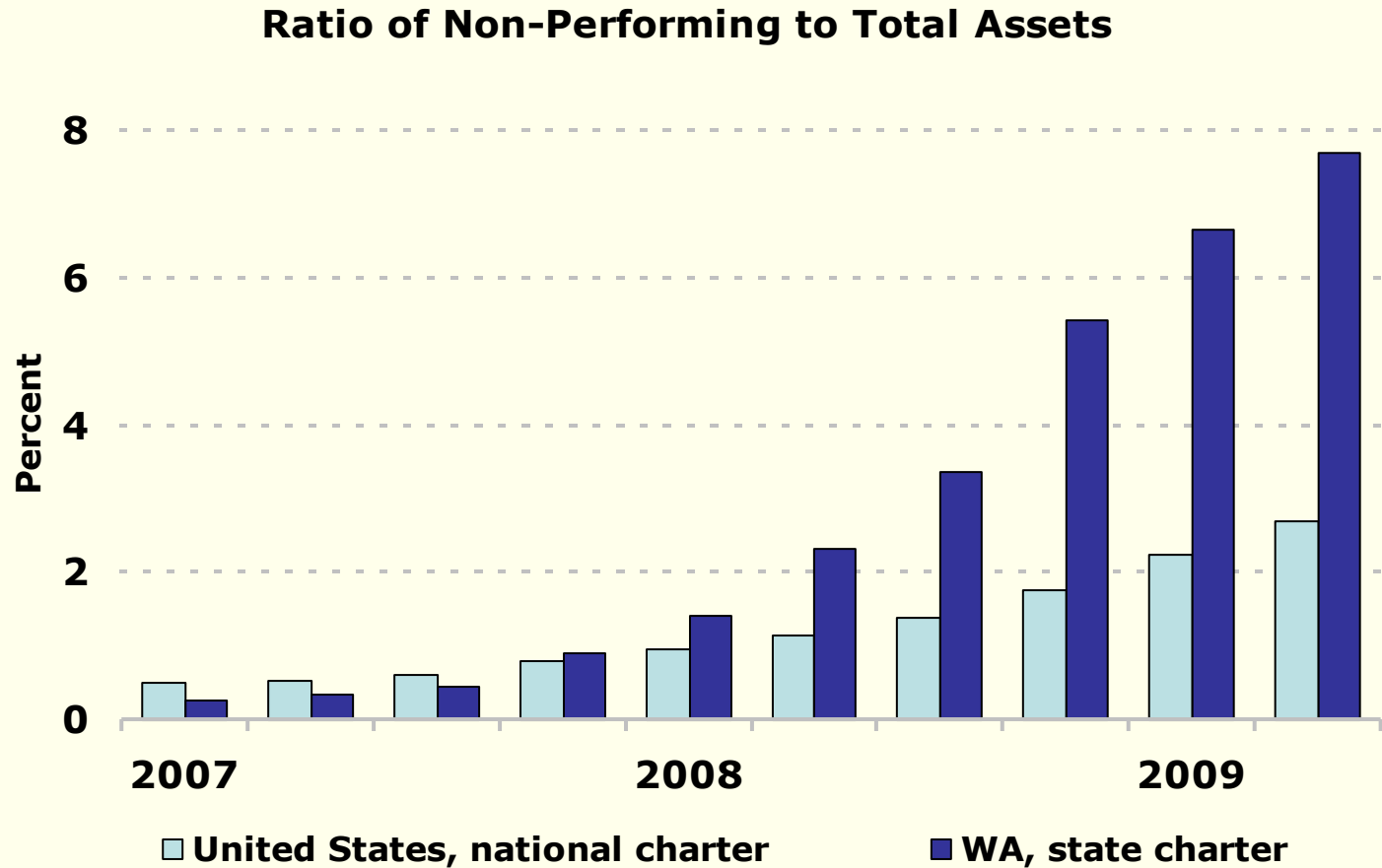
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Source: McGraw-Hill Construction, data through August, 2009



# State chartered banks in Washington have experienced faster deterioration in asset quality than national banks

This is generally true for state chartered banks in other states as well



Source: FDIC, data through 2009 Q2.



# We are witnessing an unprecedented global recovery

These economies represent 32% of global GDP.

The US is 25% of global GDP

	GDP share	Q/Q, SAAR %	
		2009 Q1	2009 Q2
<b>Japan</b>	<b>8.0%</b>	<b>-14.2</b>	<b>3.7</b>
<b>China</b>	<b>6.2%</b>	<b>5.6</b>	<b>16.0</b>
<b>Germany</b>	<b>6.0%</b>	<b>-13.4</b>	<b>1.3</b>
<b>France</b>	<b>4.7%</b>	<b>-5.7</b>	<b>1.2</b>
<b>India</b>	<b>2.0%</b>	<b>7.0</b>	<b>6.5</b>
<b>Korea</b>	<b>1.9%</b>	<b>0.5</b>	<b>9.7</b>
<b>Indonesia</b>	<b>0.8%</b>	<b>3.7</b>	<b>5.3</b>
<b>Taiwan</b>	<b>0.7%</b>	<b>-3.2</b>	<b>9.1</b>
<b>Thailand</b>	<b>0.4%</b>	<b>-7.2</b>	<b>9.6</b>
<b>Hong Kong SAR</b>	<b>0.4%</b>	<b>-14.7</b>	<b>13.8</b>
<b>Malaysia</b>	<b>0.3%</b>	<b>-17.7</b>	<b>13.2</b>
<b>Singapore</b>	<b>0.3%</b>	<b>-12.2</b>	<b>20.7</b>
<b>Philippines</b>	<b>0.3%</b>	<b>-7.1</b>	<b>11.0</b>

Source: IMF, ERFC

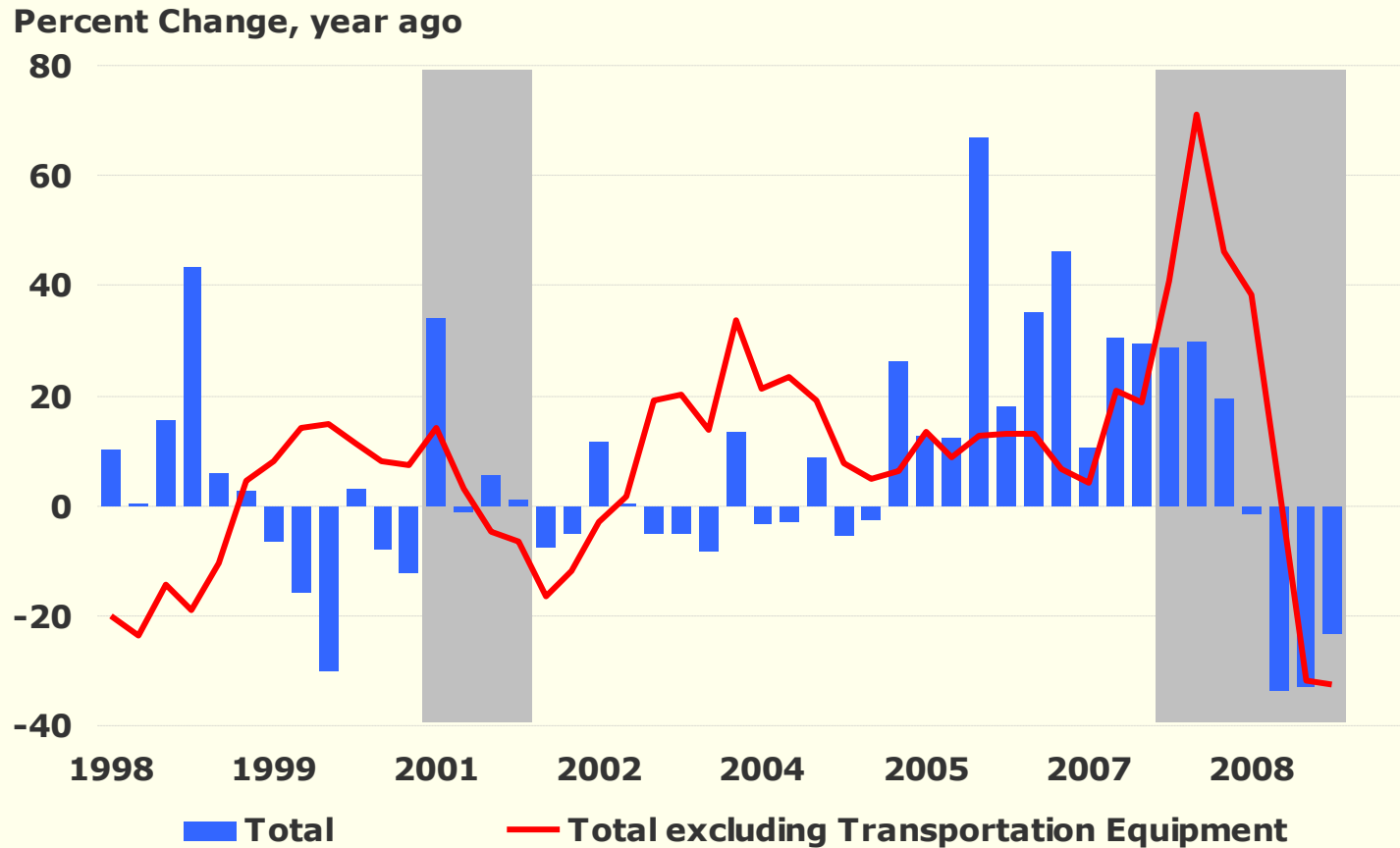
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# Exports may help the state recover earlier in the cycle than we expected

2009 Q2 shows improvement over 2009 Q1 due to transportation equipment



Source: Wisier Trade Data; through 2009 Q2

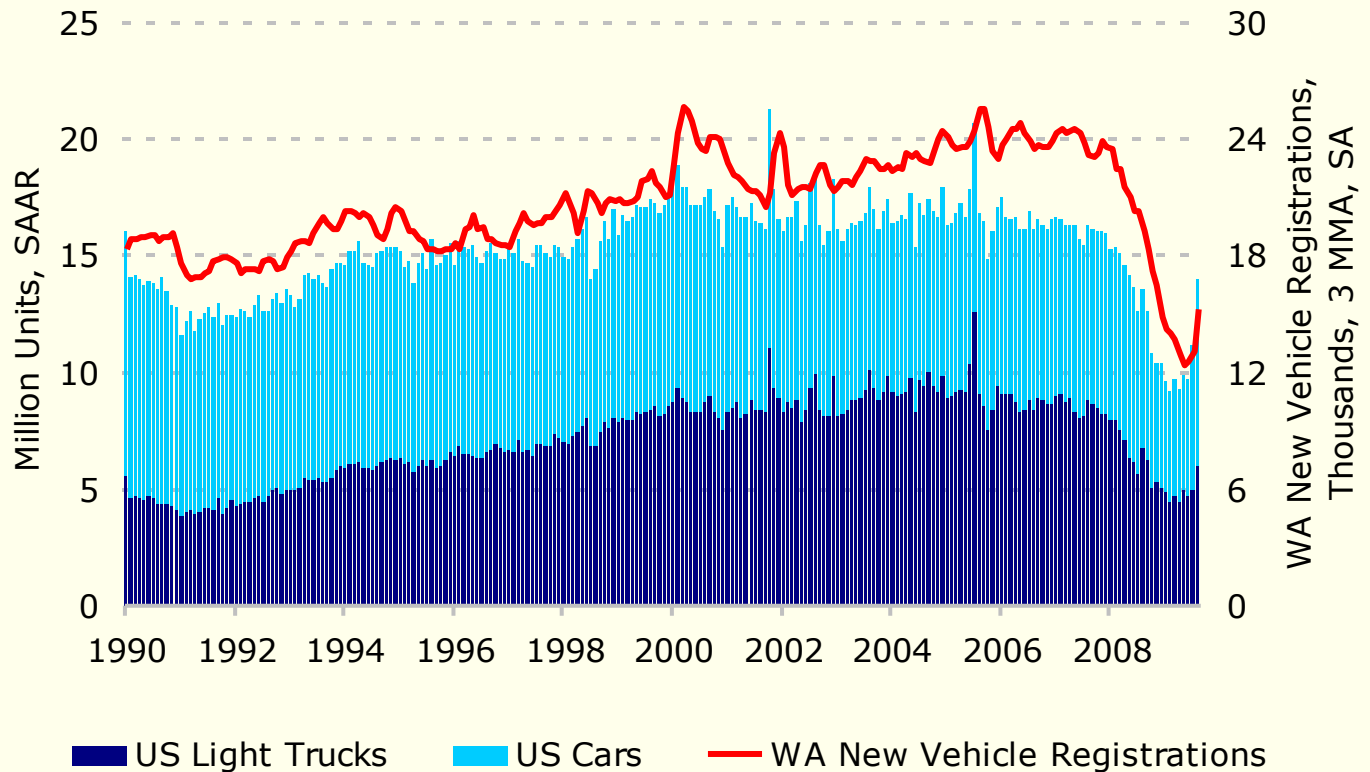
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# Automotive sales have ticked up nationally, and in the state

June boost from closing dealerships;

July and August boost from "cash for clunkers"



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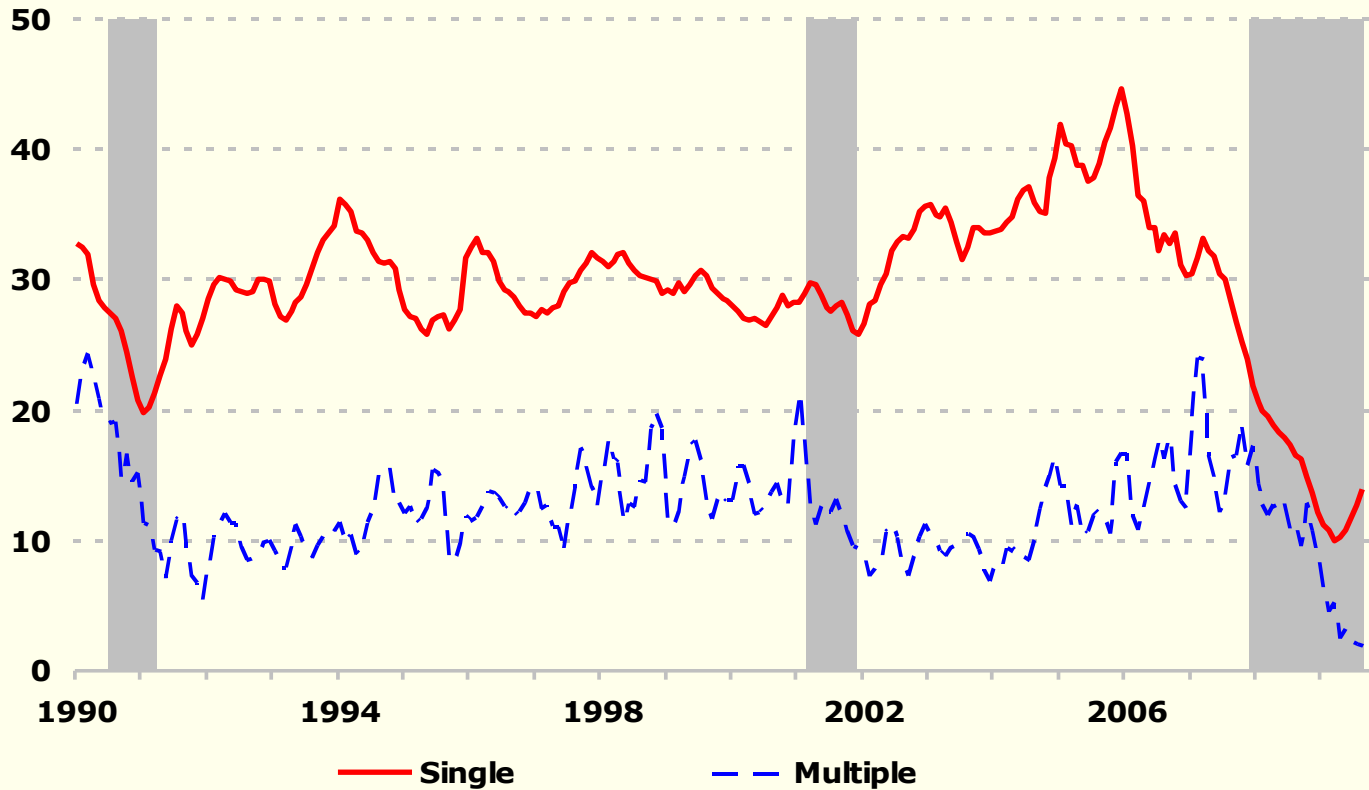
Source: Autodata Corporation, WA DOL, ERFC estimate; data through August 2009

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# WA single family building permits are showing signs of recovery

Thousands, SA, 3MMA



Source: U.S. Census Bureau; data through August 2009

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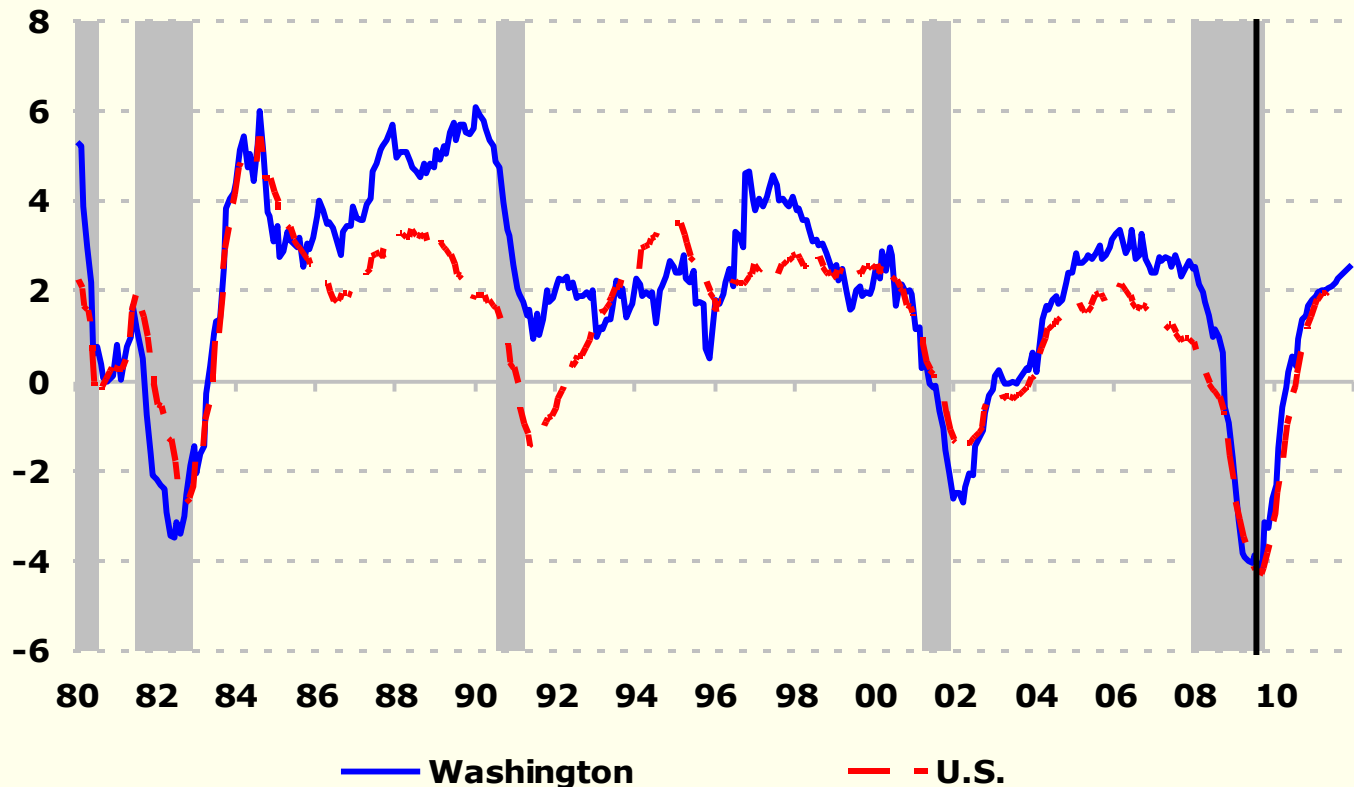
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# WA employment lagged the nation in the downturn, and will recover a little faster than the nation

Percent change, year ago

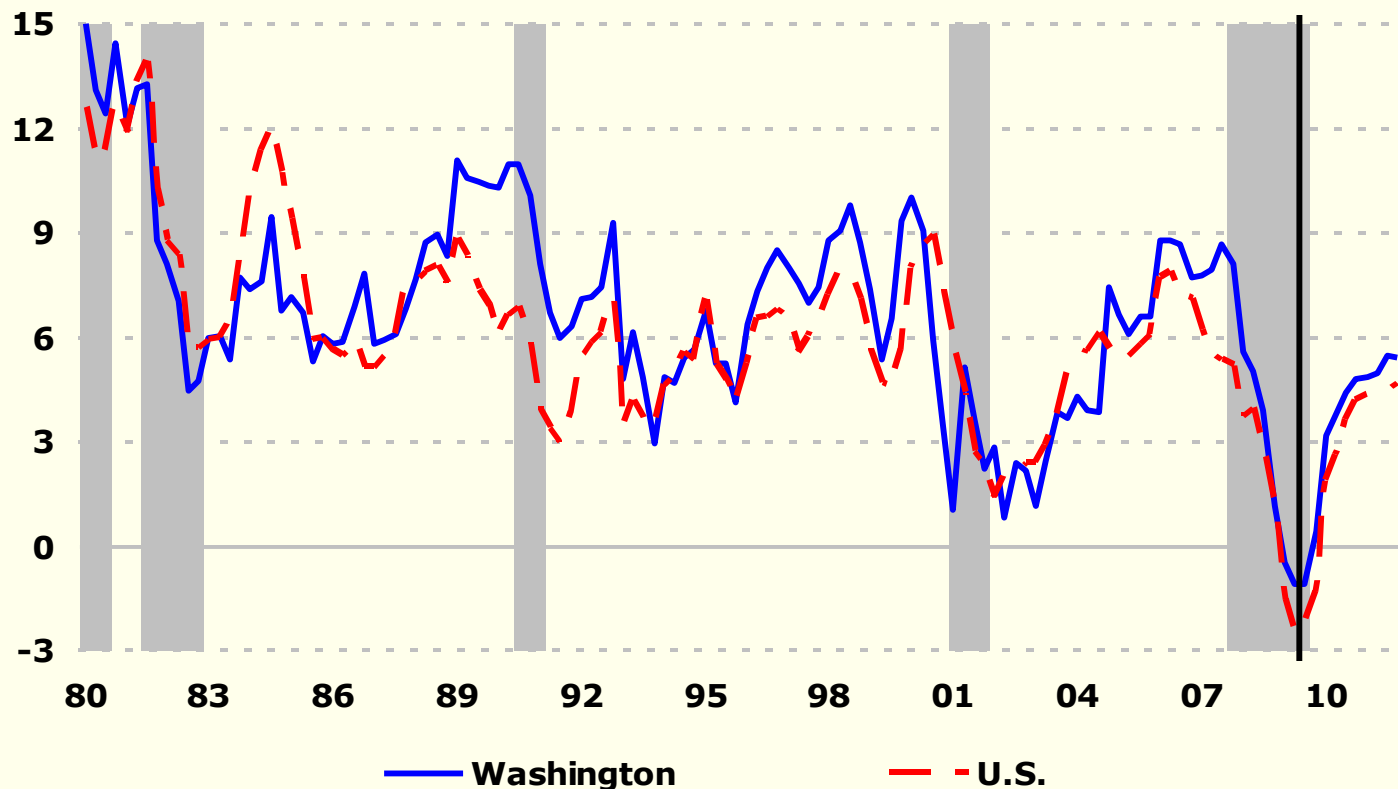


Source: ERFC September 2009 forecast; actual through August 2009



# The recovery in WA personal income growth is expected to be better than the nation's

Percent change, year ago

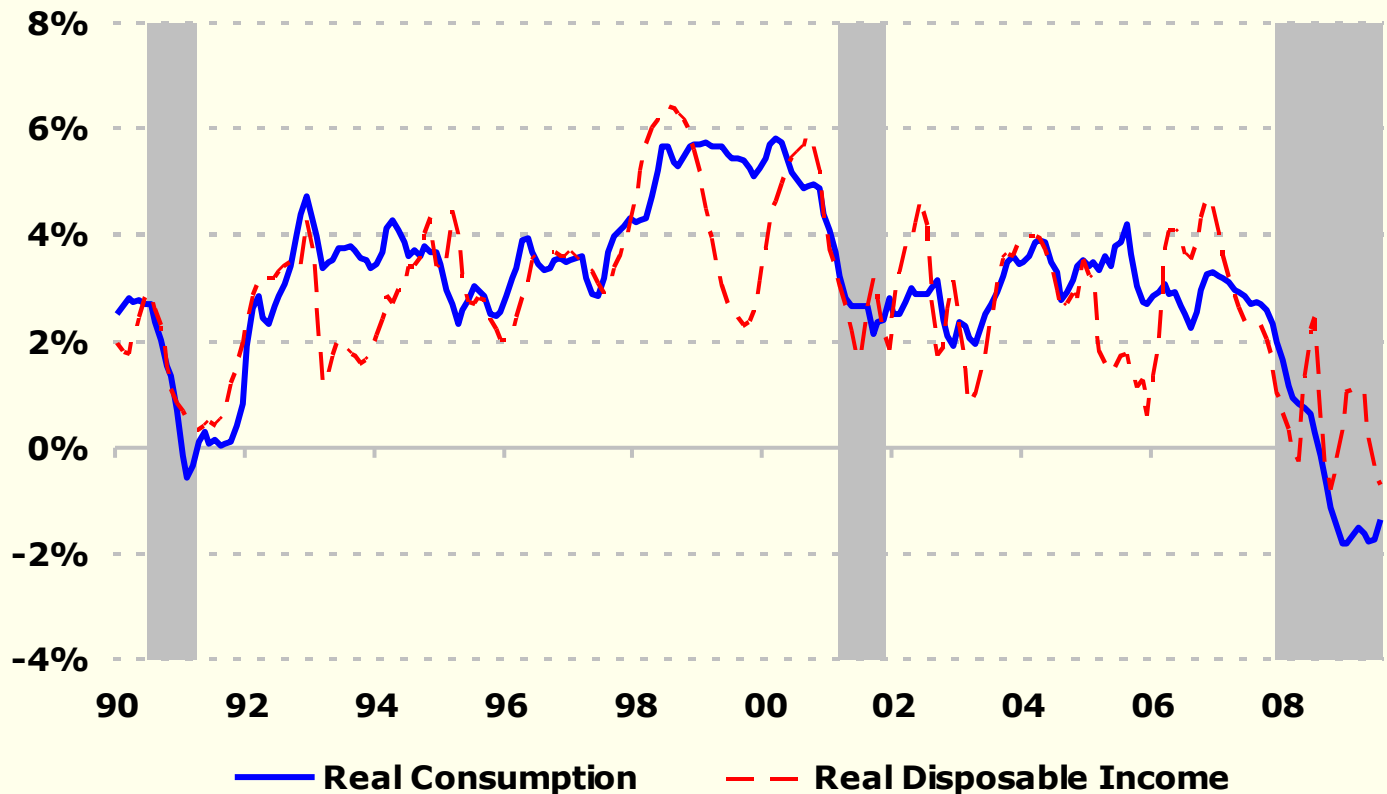


Source: ERFC September 2009 forecast; actual data through 2009Q1



# Recovery in revenue depends on consumer spending – still a wildcard

3 MMA, Y/Y percent



Source: BEA, data through July 2009.

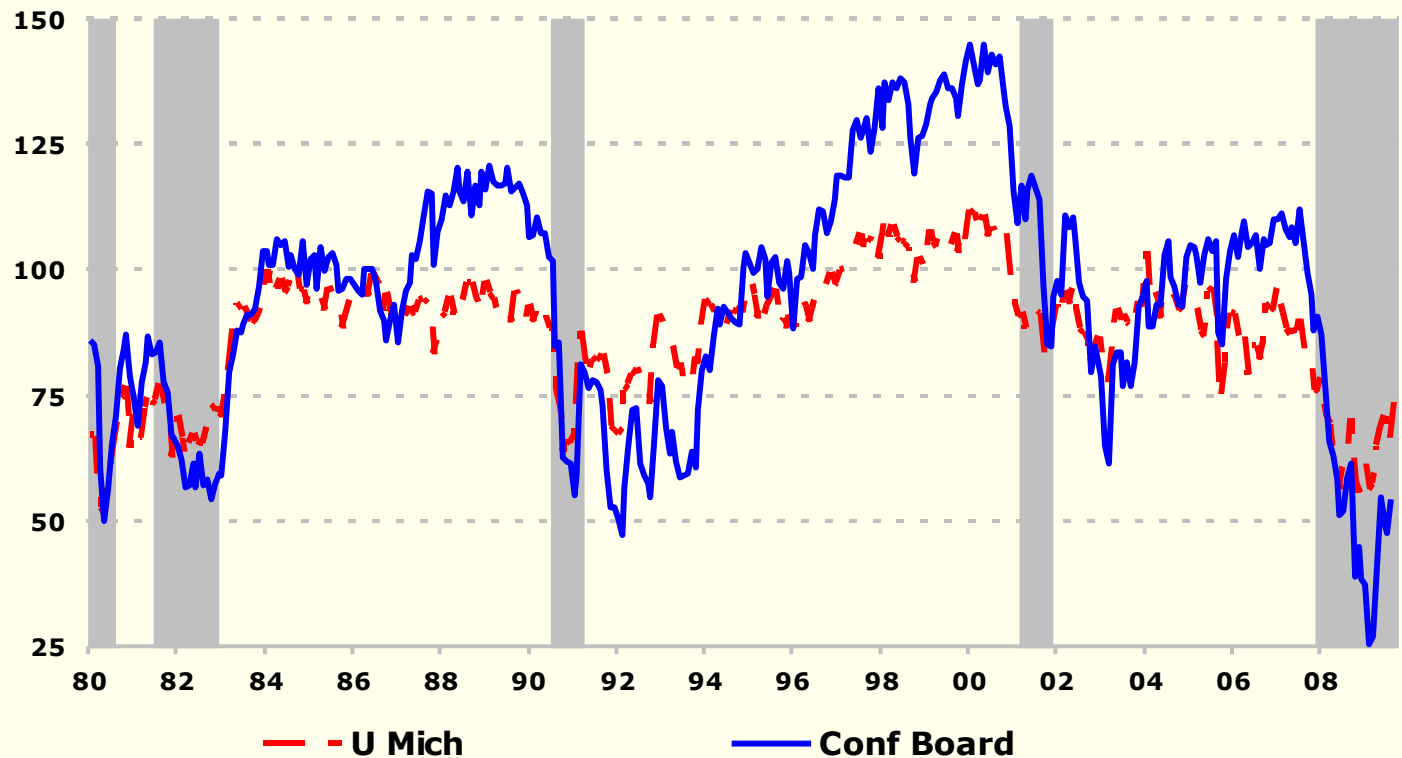


# Consumer confidence is still in recessionary territory, but improving

Index

Mich: 1966Q1 = 100, SA

Conf Board: 1985 = 100, SA

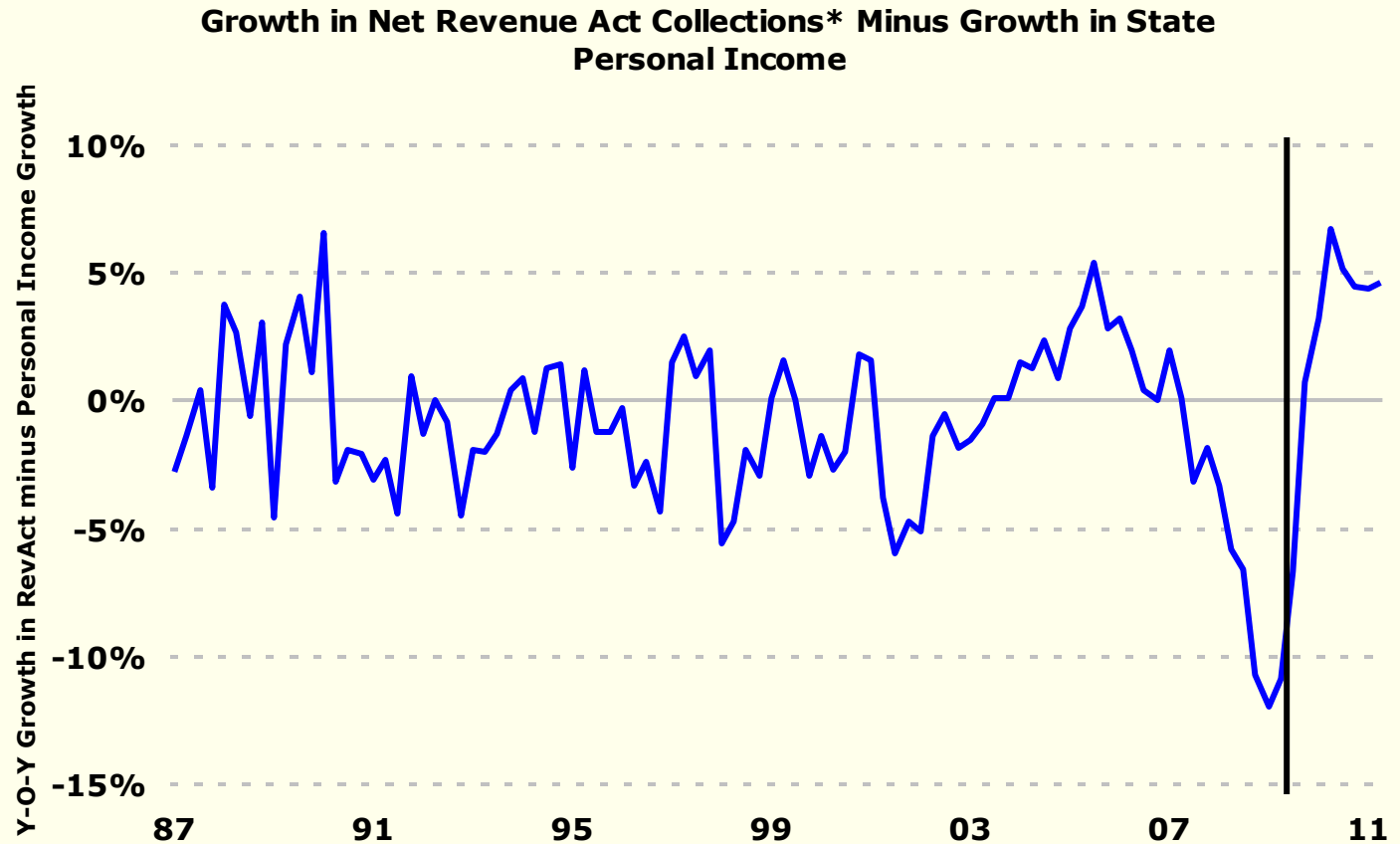


Source: University of Michigan; Conference Board, data through September 2009.



# Revenue growth relative to income growth is turning around

\* Adjusted for new legislation and special factors



Source: ERFC forecast; actual data through 2009Q2

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# Forecast changes: General Fund State, 2009-2011 biennium

**June Forecast:**  
 USD Millions  
**\$29,834 million**

USD millions	September '09 Forecast				
	<u>Collection Experience</u>	<u>Non-economic Change</u>	<u>Forecast Change</u>	<u>Forecast</u>	<u>Total Change*</u>
Dept. of Revenue	(\$76)	(\$46)	(\$101)	\$28,138	(\$223)
All other agencies	\$1	\$0	(\$9)	\$1,465	(\$8)
<b>Total GF-S</b>	<b>(\$75)</b>	<b>(\$46)</b>	<b>(\$110)</b>	<b>\$29,603</b>	<b>(\$231)</b>

\* Detail may not add to total due to rounding

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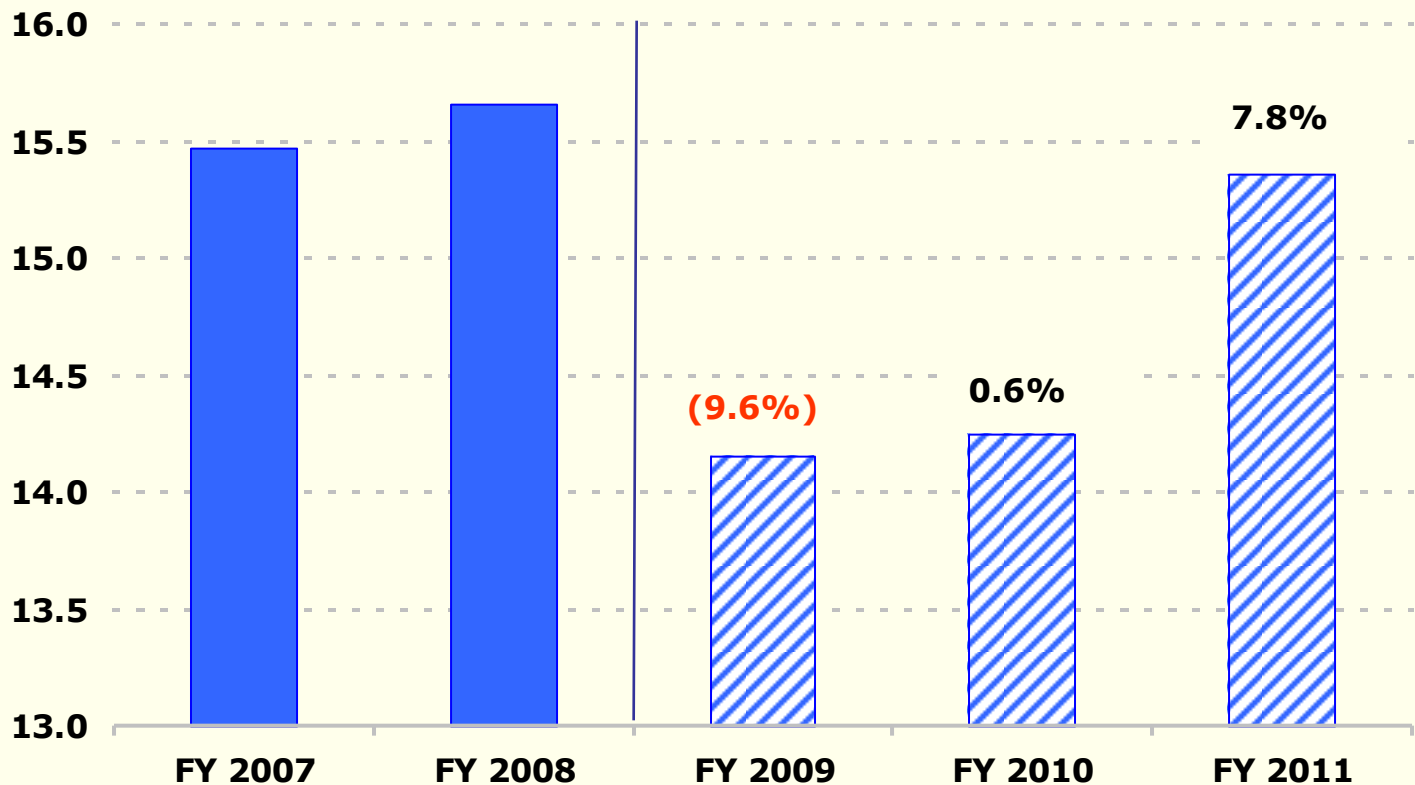


# General Fund\* forecast by fiscal year

\* General Fund & Related Funds for FY 07, 08, 09

General Fund – new definition, for FY 10, 11

USD billions



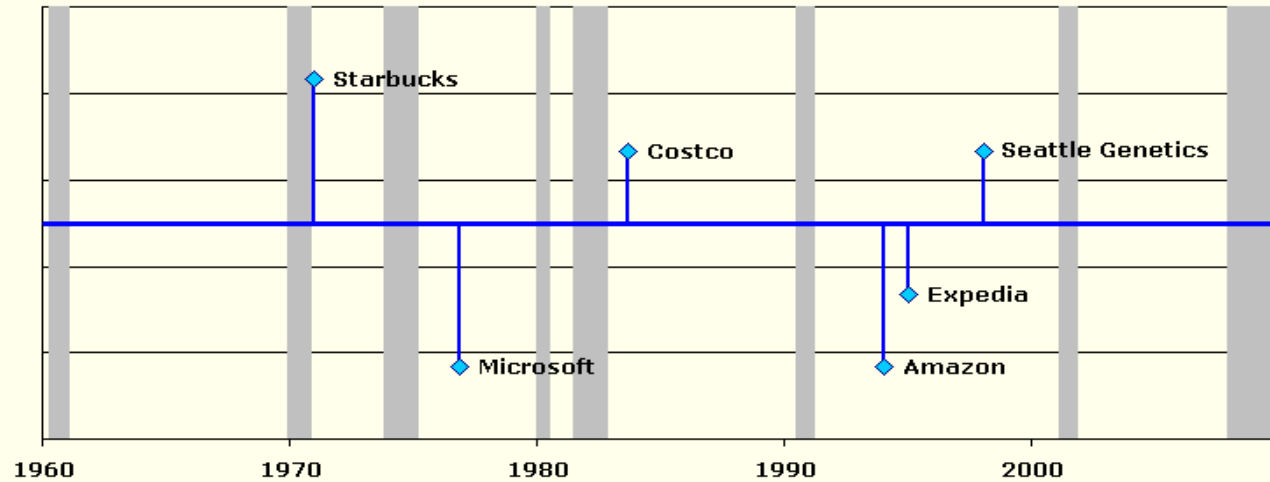
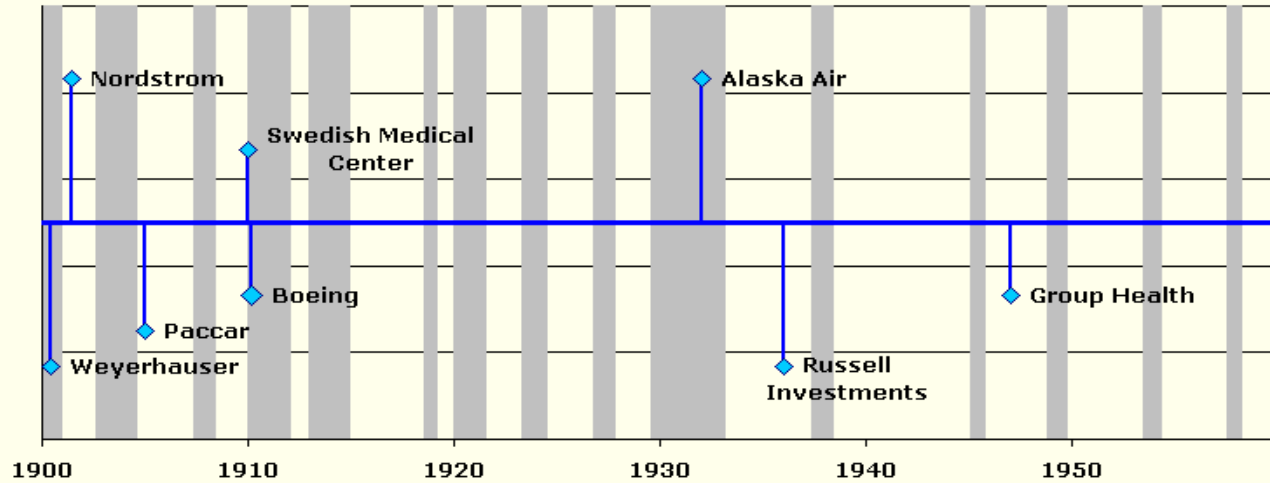
Source: ERFC forecast, September 2009

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# Innovation follows recessions

Gray bars correspond to national recessions



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# Conclusion

- State revenues will lag the economic recovery
- The recovery in revenues will be slow and is subject to risk
- Collections in FY 11 are expected to be USD 300 million less than in FY 08.
- Revenues in the 2009-11 biennium are expected to be 1% below their 2007-09 level



# Questions



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