

# Economic Outlook

Presented to  
IPMA Executive Seminar

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September 25, 2012  
Chelan, Washington



WASHINGTON STATE  
ECONOMIC AND REVENUE FORECAST COUNCIL

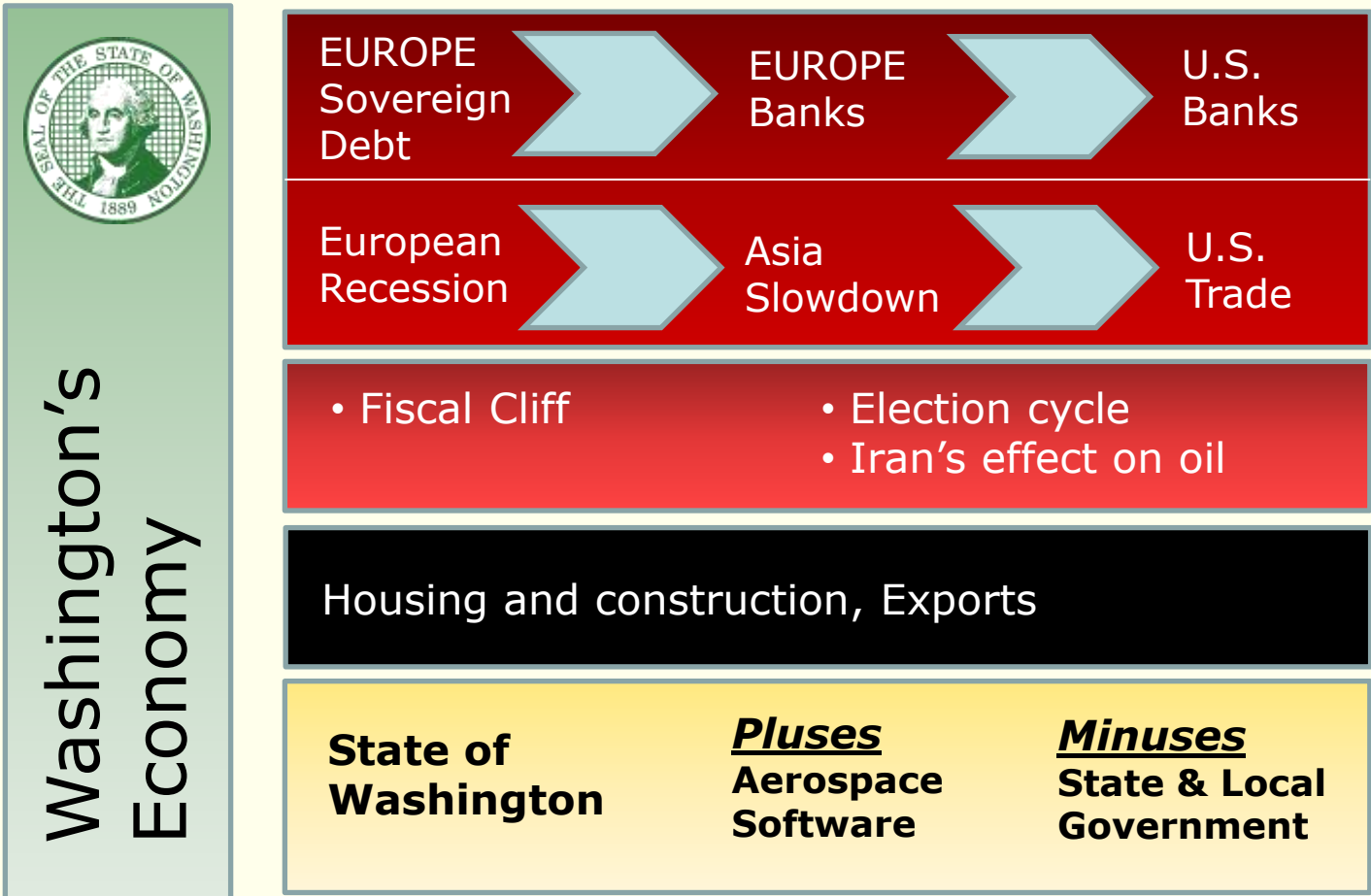


# Summary

- The updated economic forecast is very similar to the June forecast; as a result the revenue forecast is largely unchanged
- Uncertainty in the baseline remains very high, mostly due to on-going concerns about Europe, China, and the “fiscal cliff”
- Within WA, revenue growth has been positive for motor vehicles and most retail sectors but has been declining in the manufacturing sector
- Revenues since the June forecast are \$20.8 million (0.6%) above expectations
- This forecast increases expected GF–S revenues by \$29 million in the current biennium and \$23 million in the 2013-15 biennium



# The state's risk matrix shows most risks from outside state



Source: ERFC



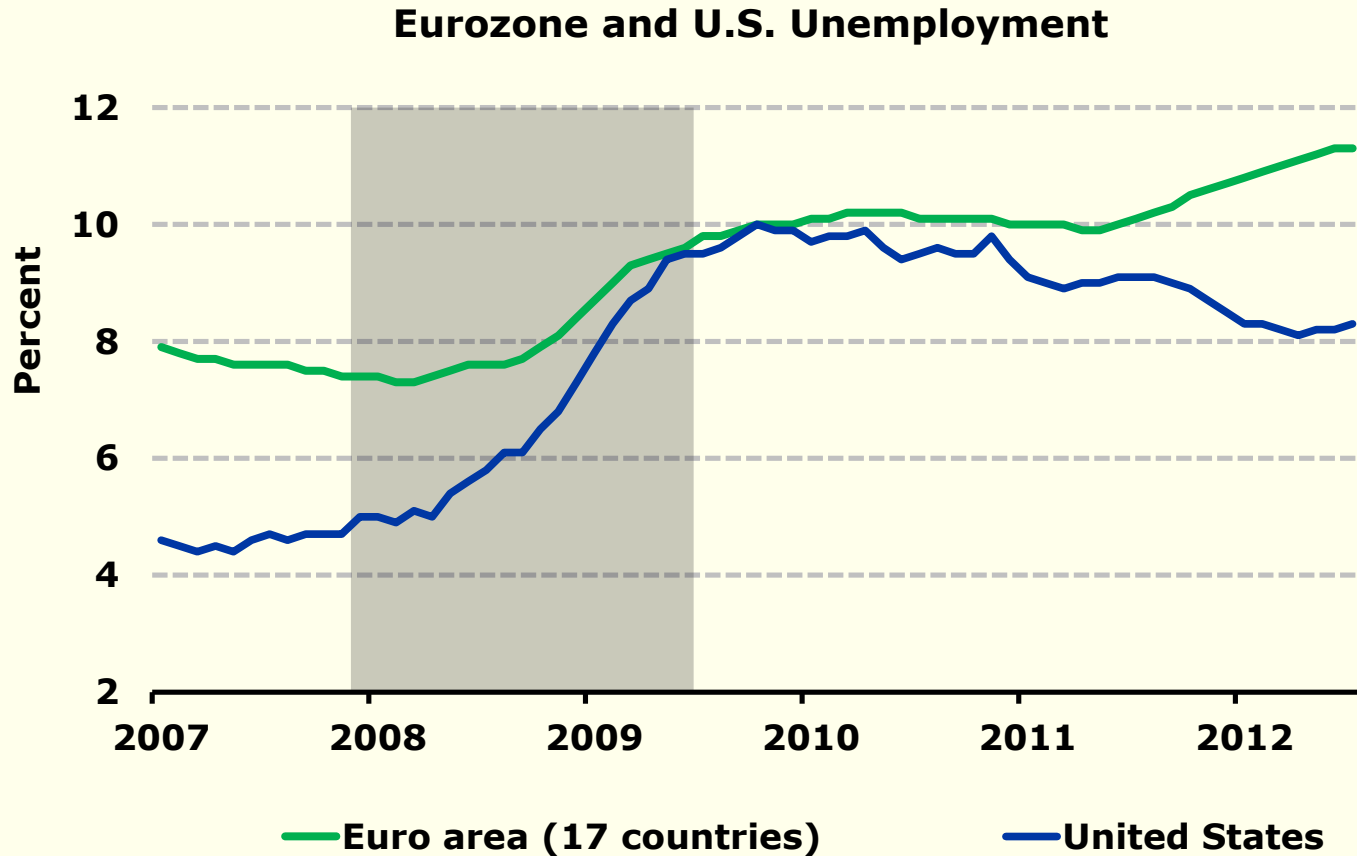
# European unemployment is heading in the wrong direction

Unemployment Rate:

Spain: 25.1

Greece: 23.1

Germany: 5.5



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Source: Eurostat; data through July 2012

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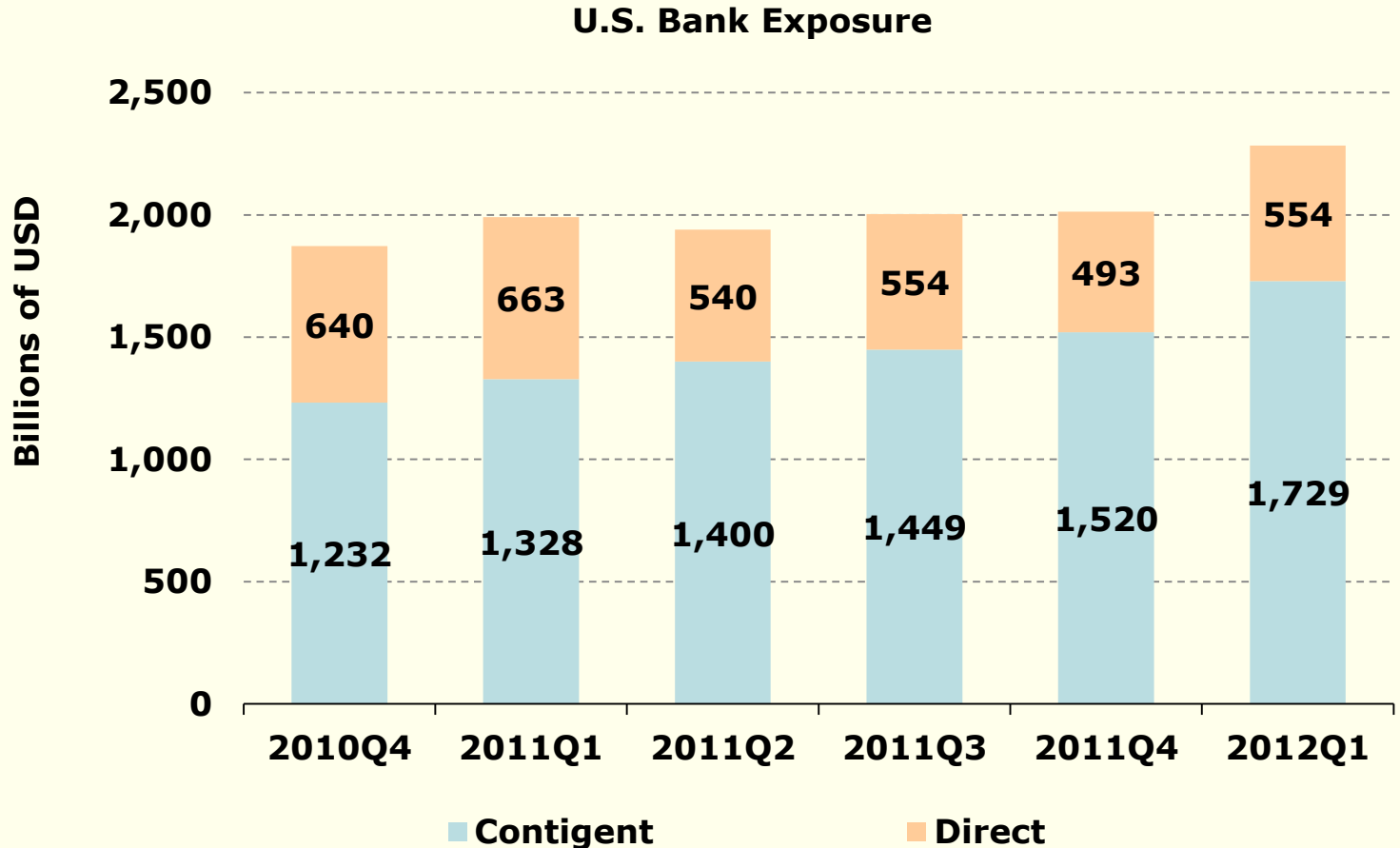
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# U.S. banks have reduced their direct exposure to European banks

Contingent liabilities continue to increase

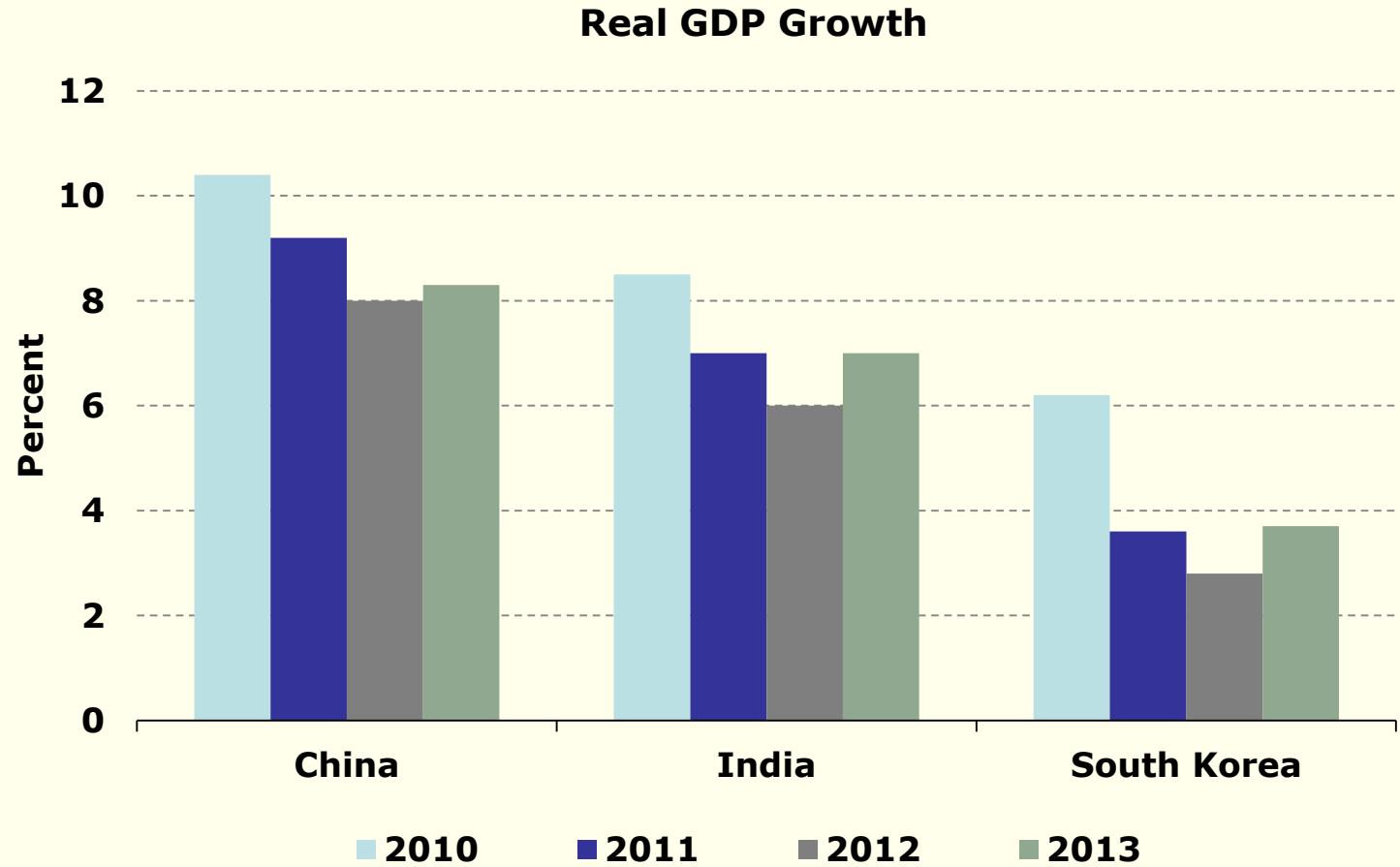
Total value at risk is now over \$2 trillion



Source: Bank of International Settlements, 2012Q1



# Asian economic growth is slowing



Source: Blue Chip Economic Indicators August 2012, data through 2011



# The U.S. will enter another recession if Congress does not address fiscal cliff

<b>FY 2013</b>	<b>Fiscal Cliff<sup>1</sup></b>	<b>Alt Scenario<sup>2</sup></b>
GDP	-0.5%	+1.7%
Unemployment Rate	9.1%	8.0%
Budget Deficit	\$641 Billion	\$1,037 Billion

<sup>1</sup> Current laws remain generally unchanged.

<sup>2</sup> Maintains majority of current policies (extend most tax cuts and prevent automatic spending cuts)

Source: The Congressional Budget Office

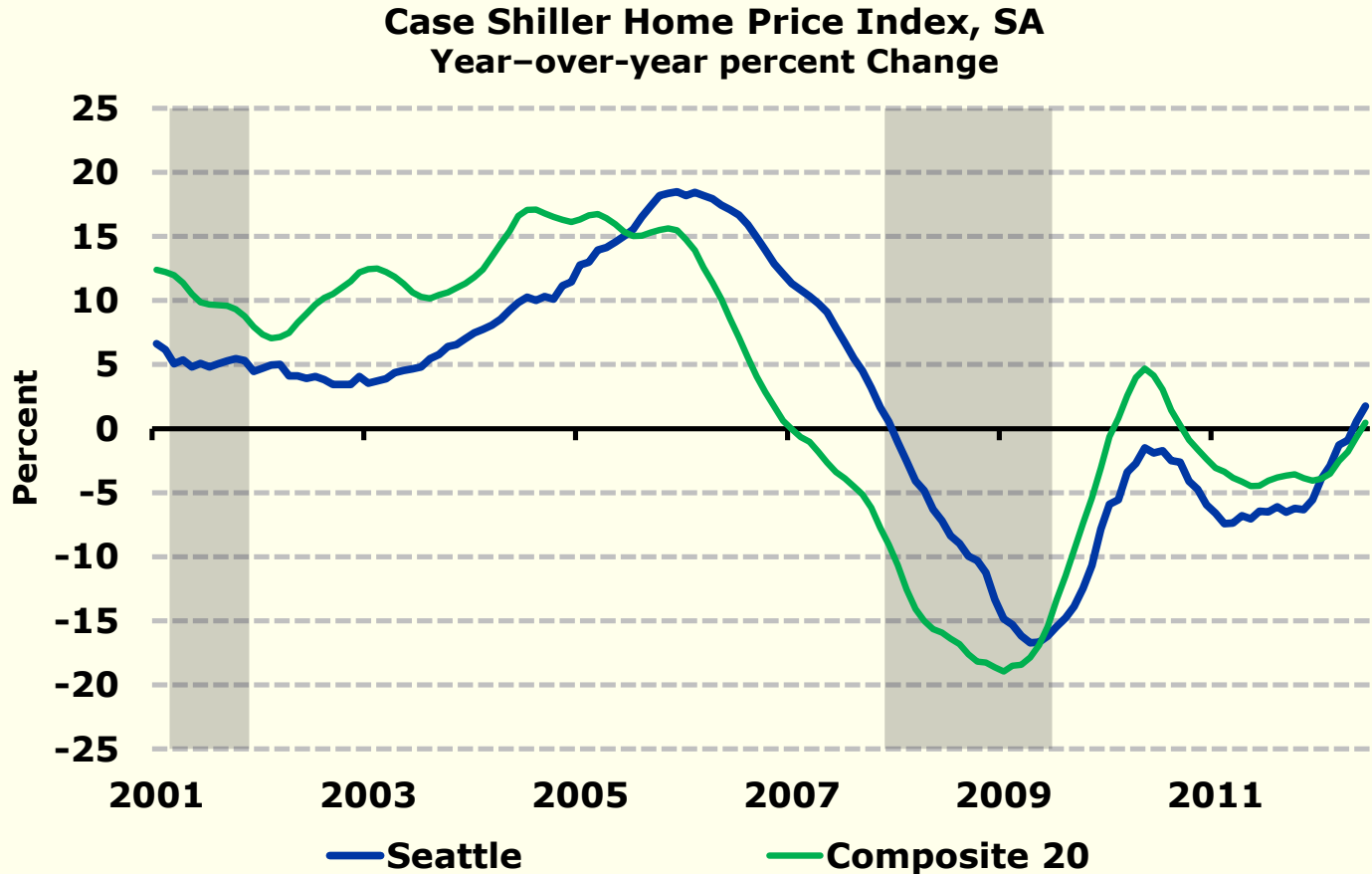


# Single-family home prices are beginning to stabilize

Jun 2012

U.S. is up  
0.5%

Seattle is  
up 1.7%



Source: S&P/Case-Shiller; data through June 2012

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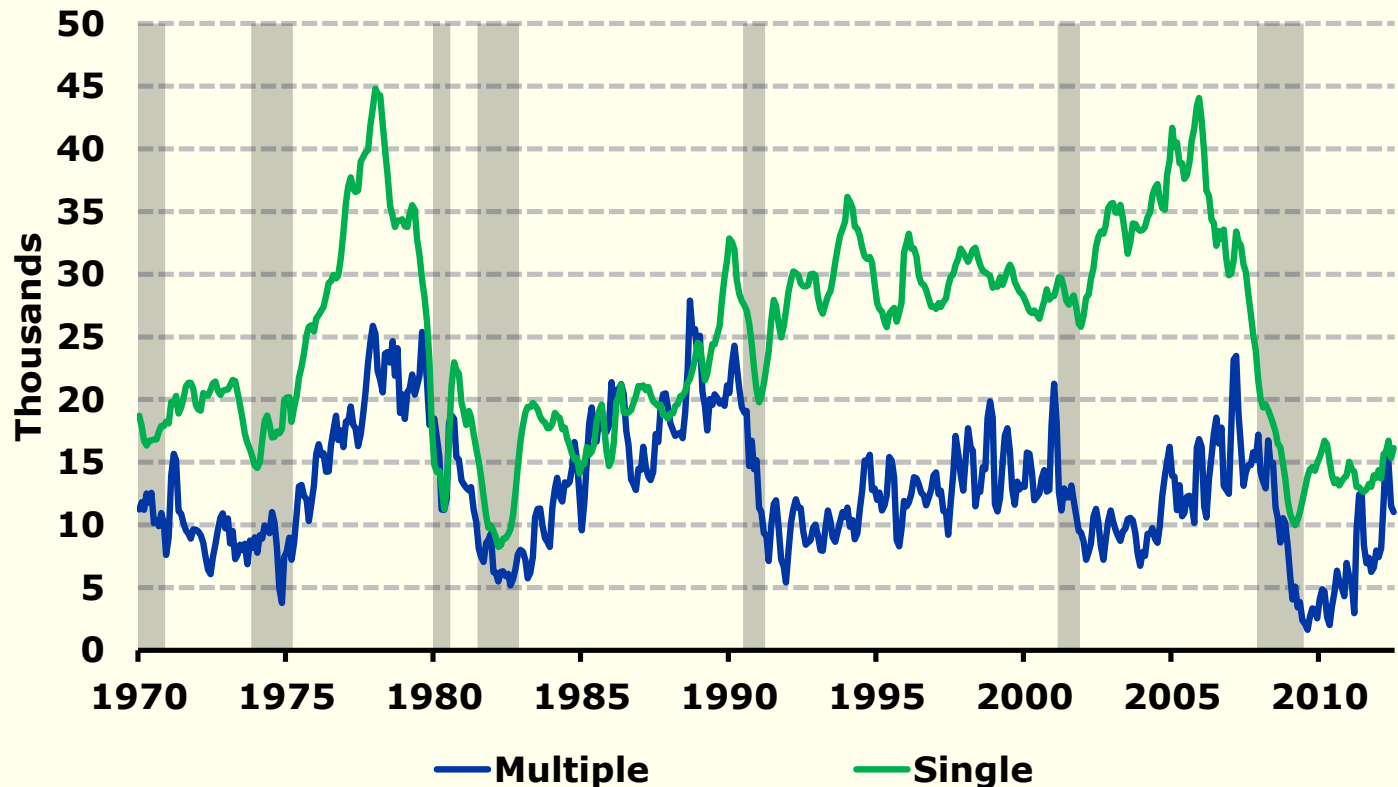
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# WA multi-family building permits are increasing

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



Source: U.S. Census Bureau; data through July 2012

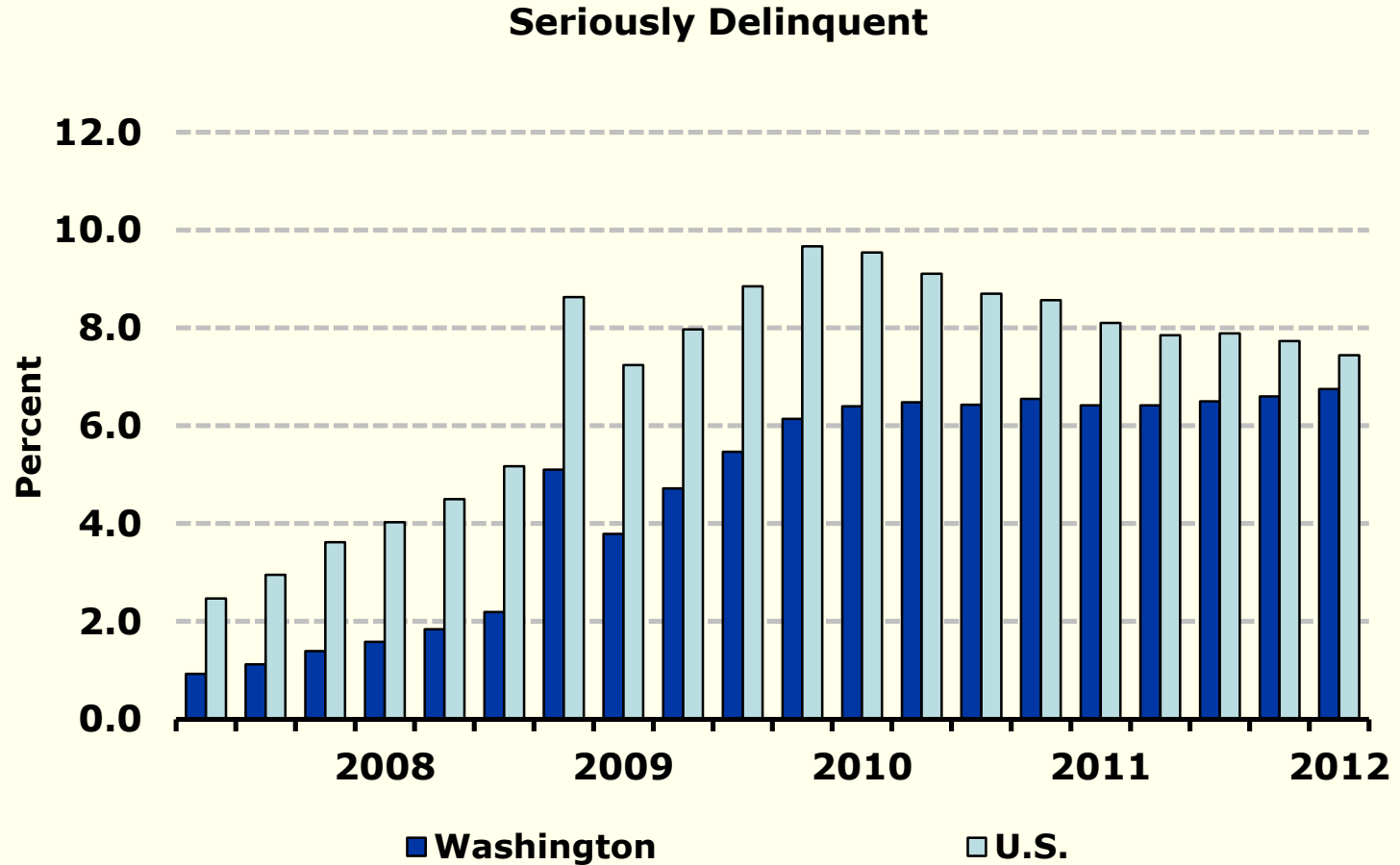


# Washington's foreclosure problem is not improving

**WA Rank:**  
**(1<sup>st</sup> = highest)**

**2011Q1: 23<sup>rd</sup>**  
**2012Q1: 16<sup>th</sup>**

Seriously  
Delinquent =  
90+ Days Past  
Due or in  
foreclosure



Source: Mortgage Bankers Association® National Delinquency Survey, data through 2012 Q1

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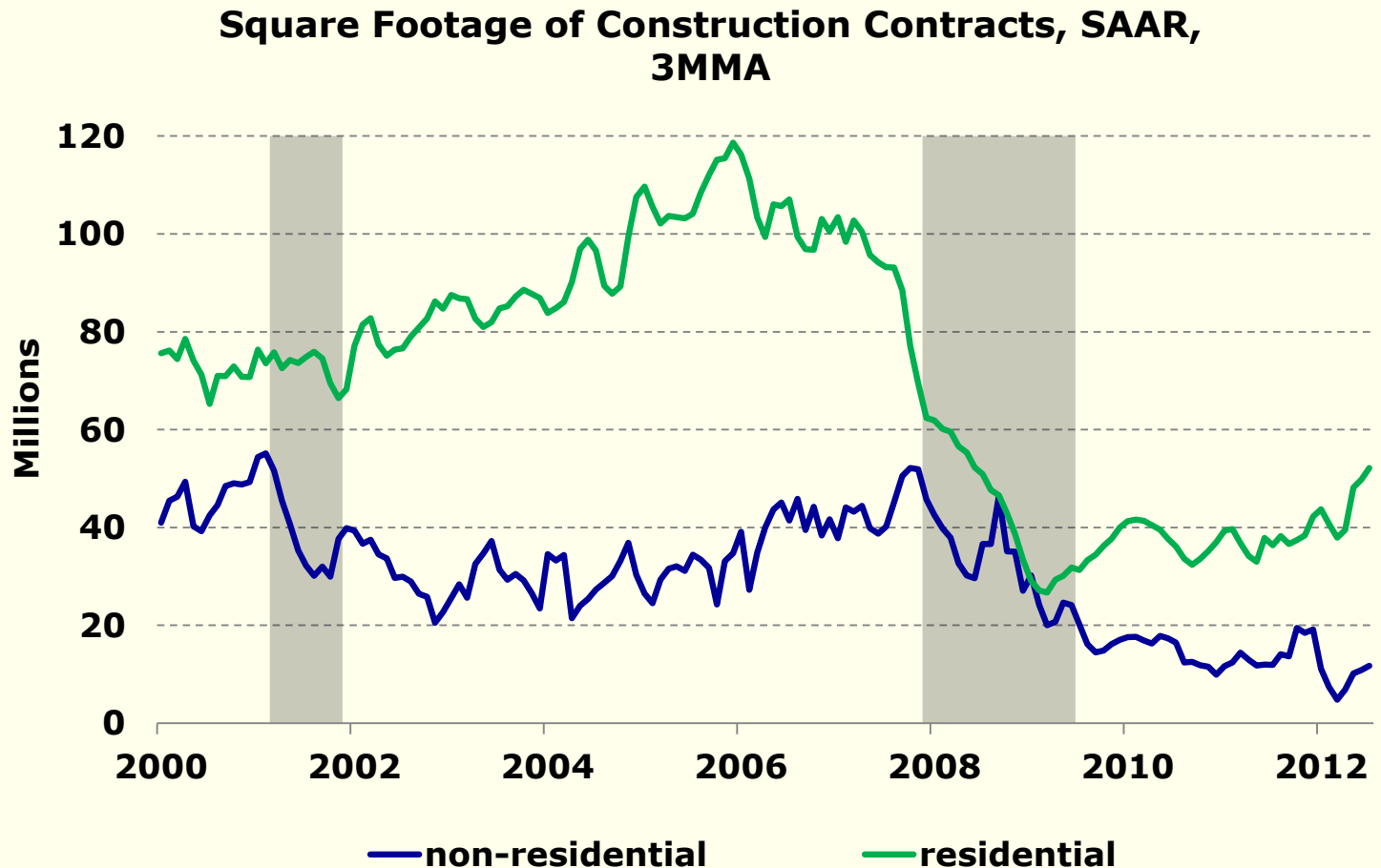
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# Contract data signal more weakness in non-residential construction

Residential square footage is up 36%, and value up 28% year over year (3mma).

Non-Residential square footage is down 5%, and value is down 43% year over year (3mma).

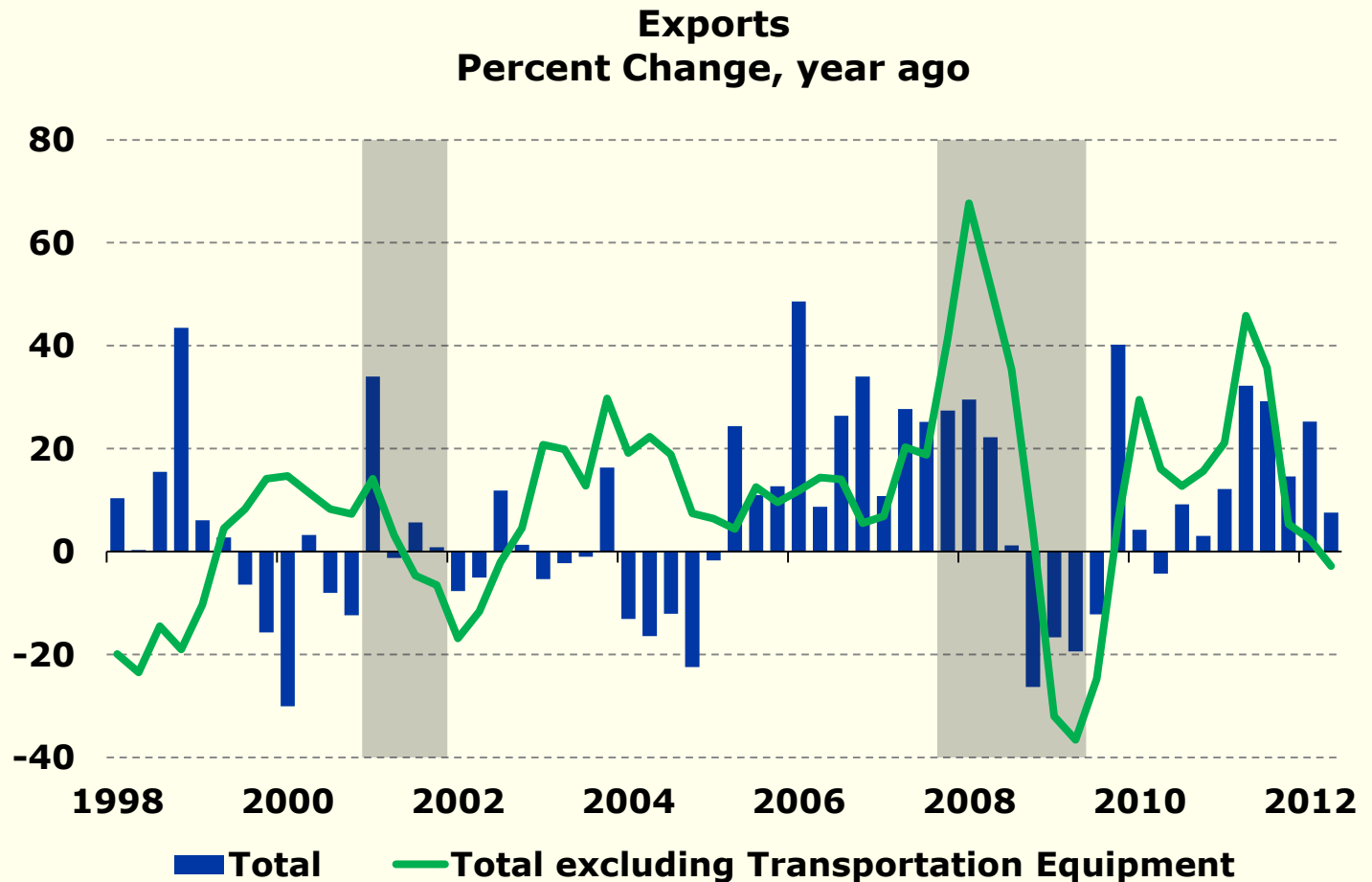


Source: Dodge, ERFC; data through April 2012



# WA export growth is slowing

Trans. Equip. exports were up 21% year over year in Q2

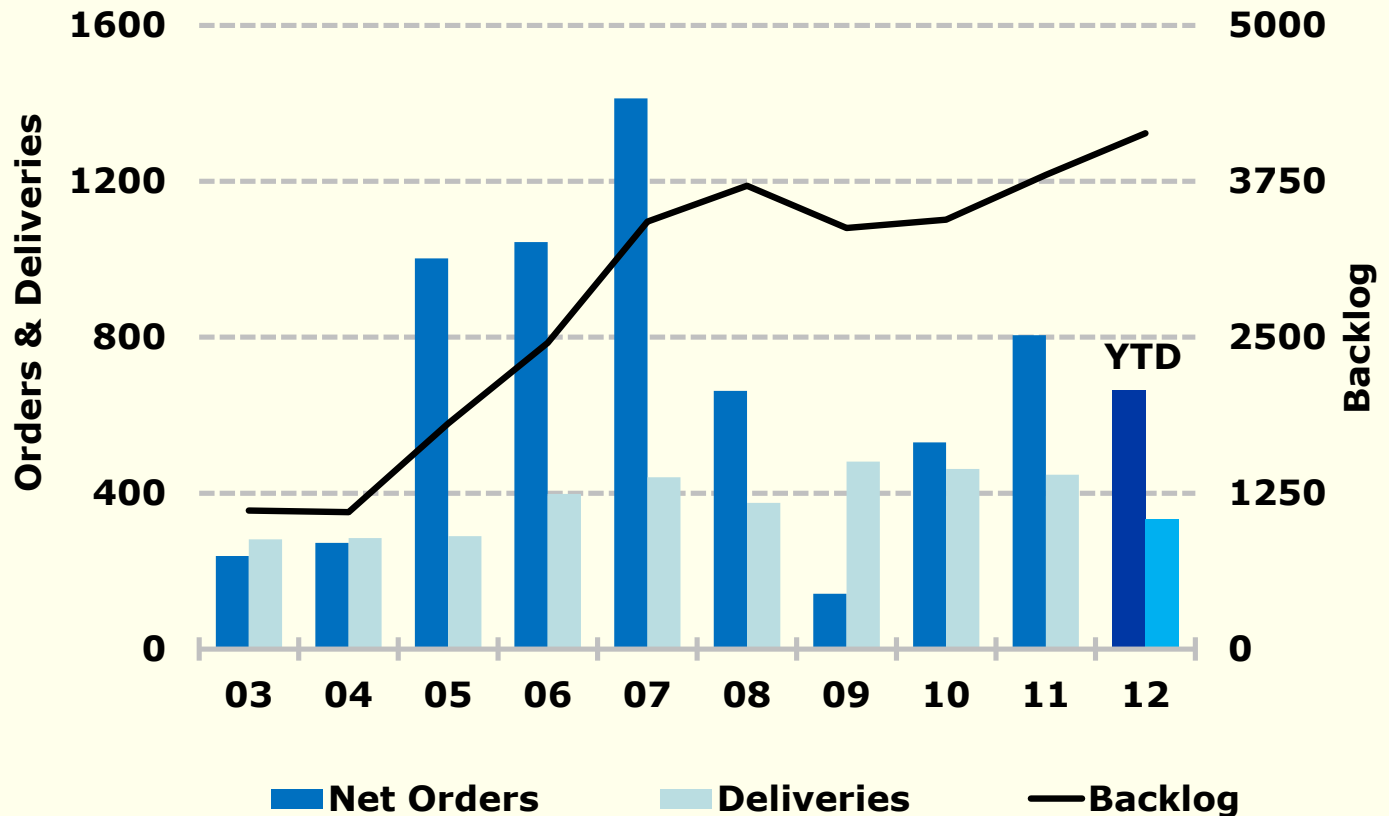


Source: Wisier Trade Data; through 2012 Q2



# Boeing has over 7 years of commercial orders on its books

Excludes the military's new refueling tanker

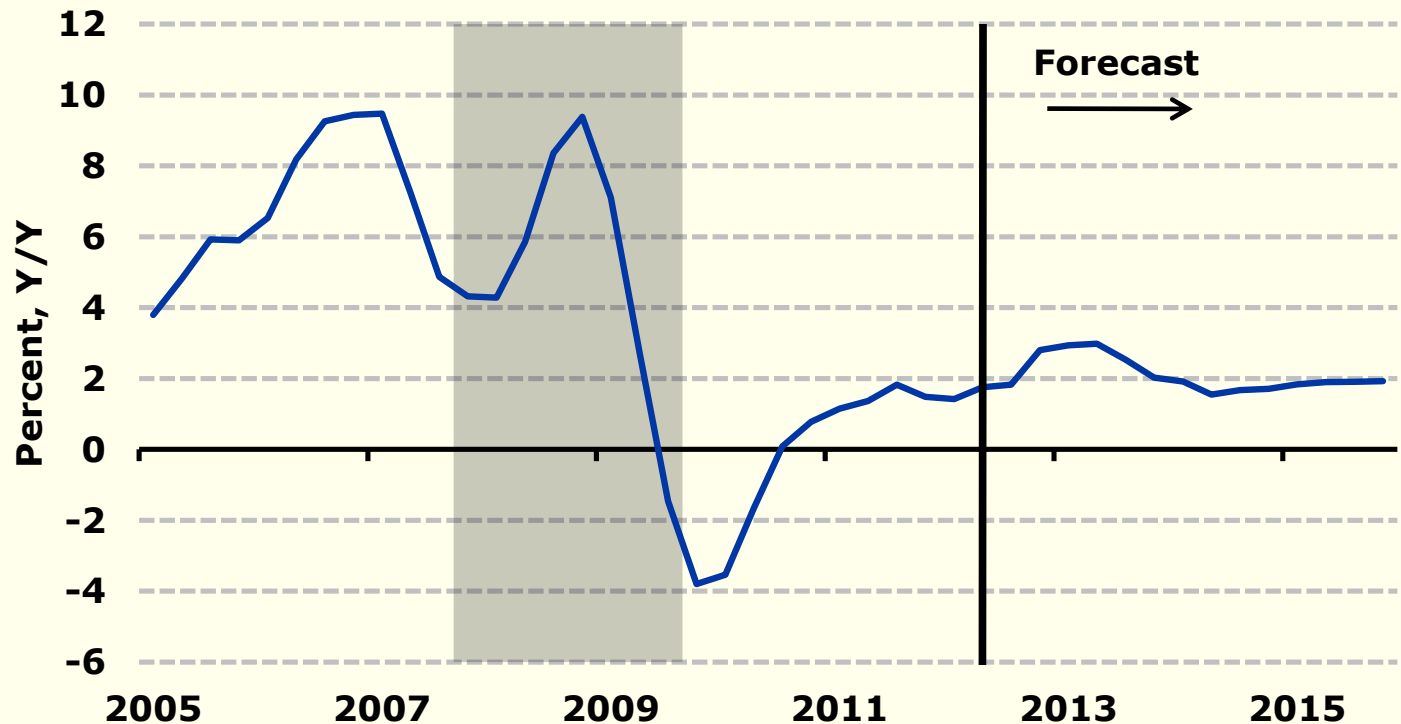


Source: Boeing, data through August 2012



# Software publishing employment is expected to slightly outperform overall employment

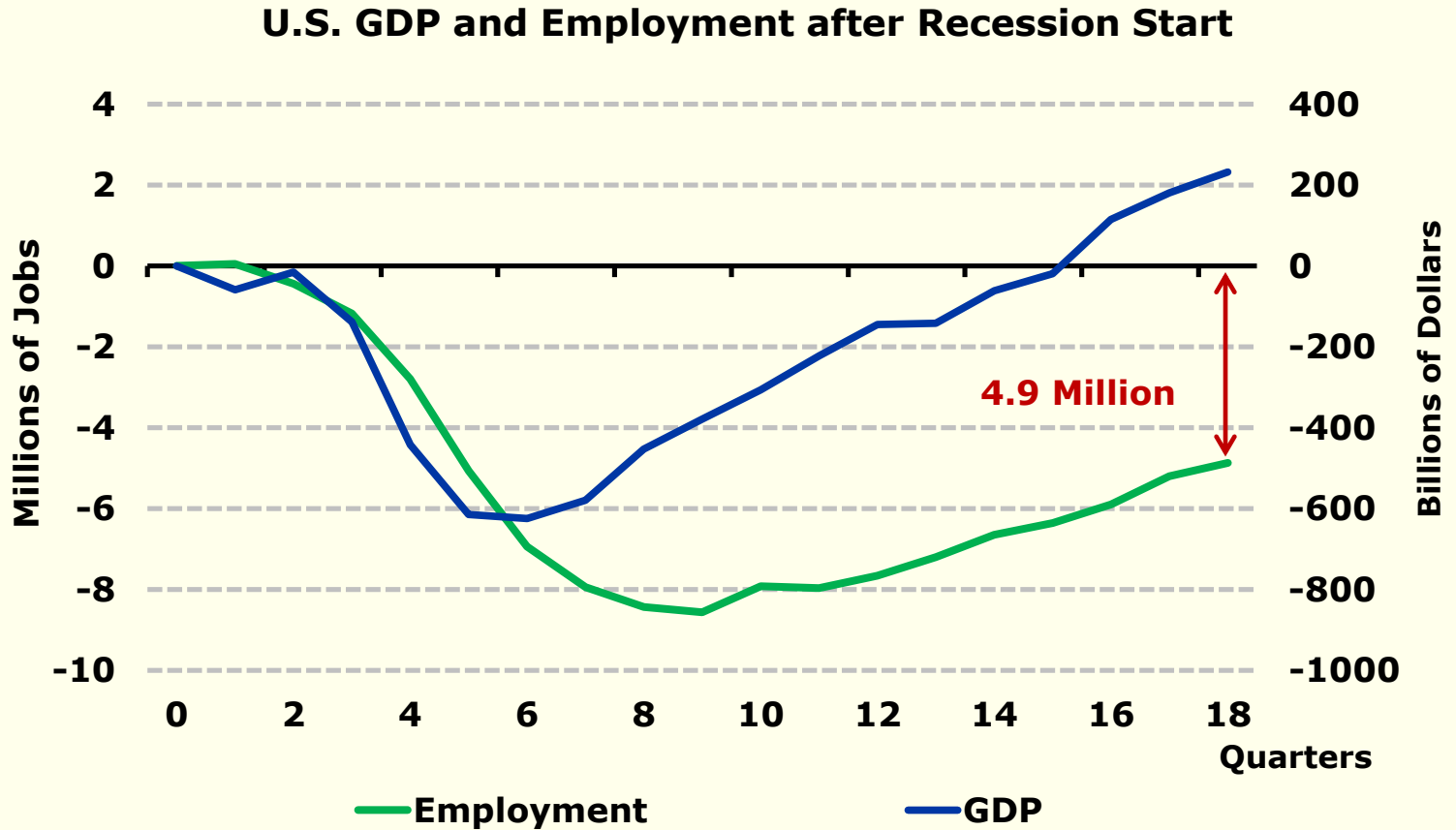
Washington Software Publishing Employment, SA





# The economy is now producing more than its pre-recession output with fewer jobs

Data normalized to recession start, 2007Q4 = 0



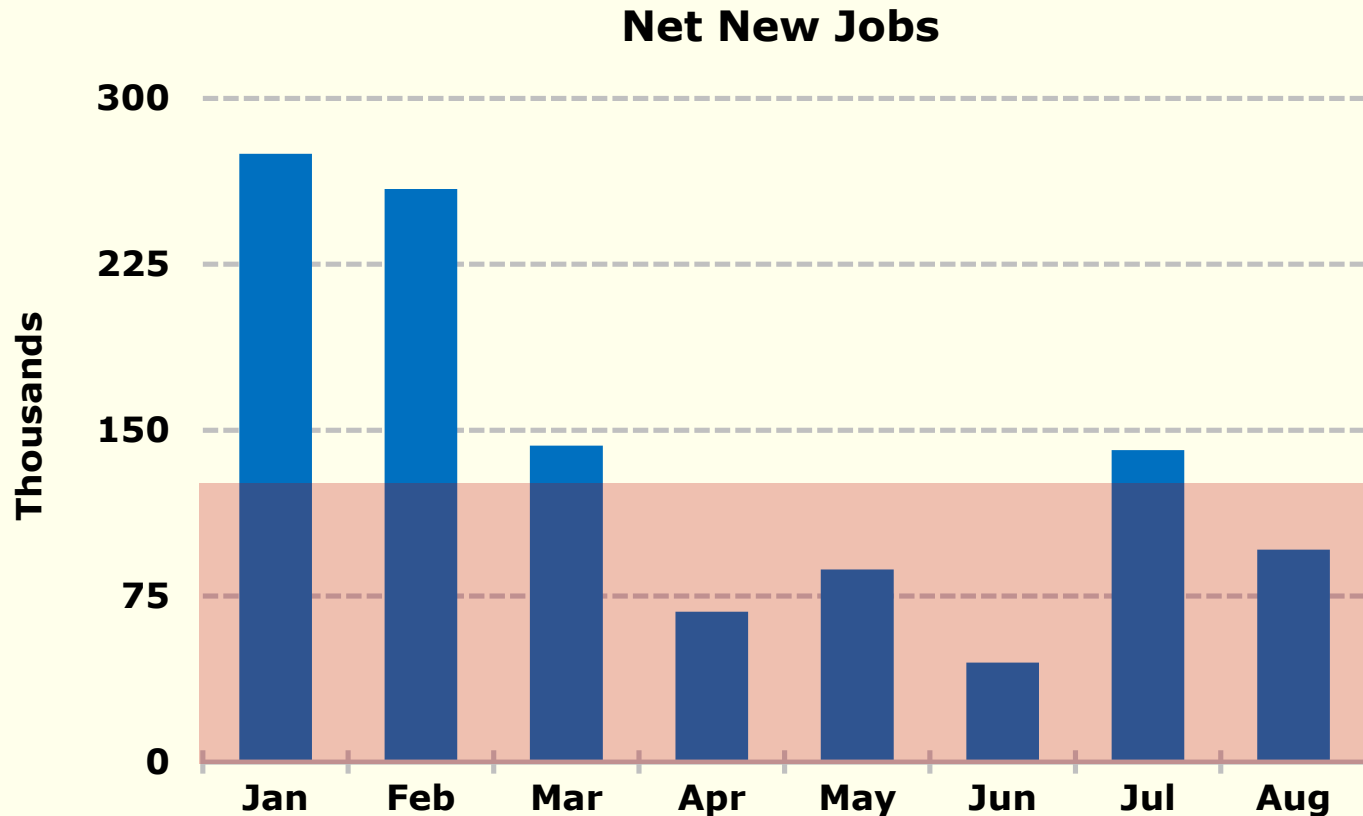
Source: BEA, BLS, ERFC; data through 2012 Q2



# Job growth remains weak

12.5 million people remained unemployed in August

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



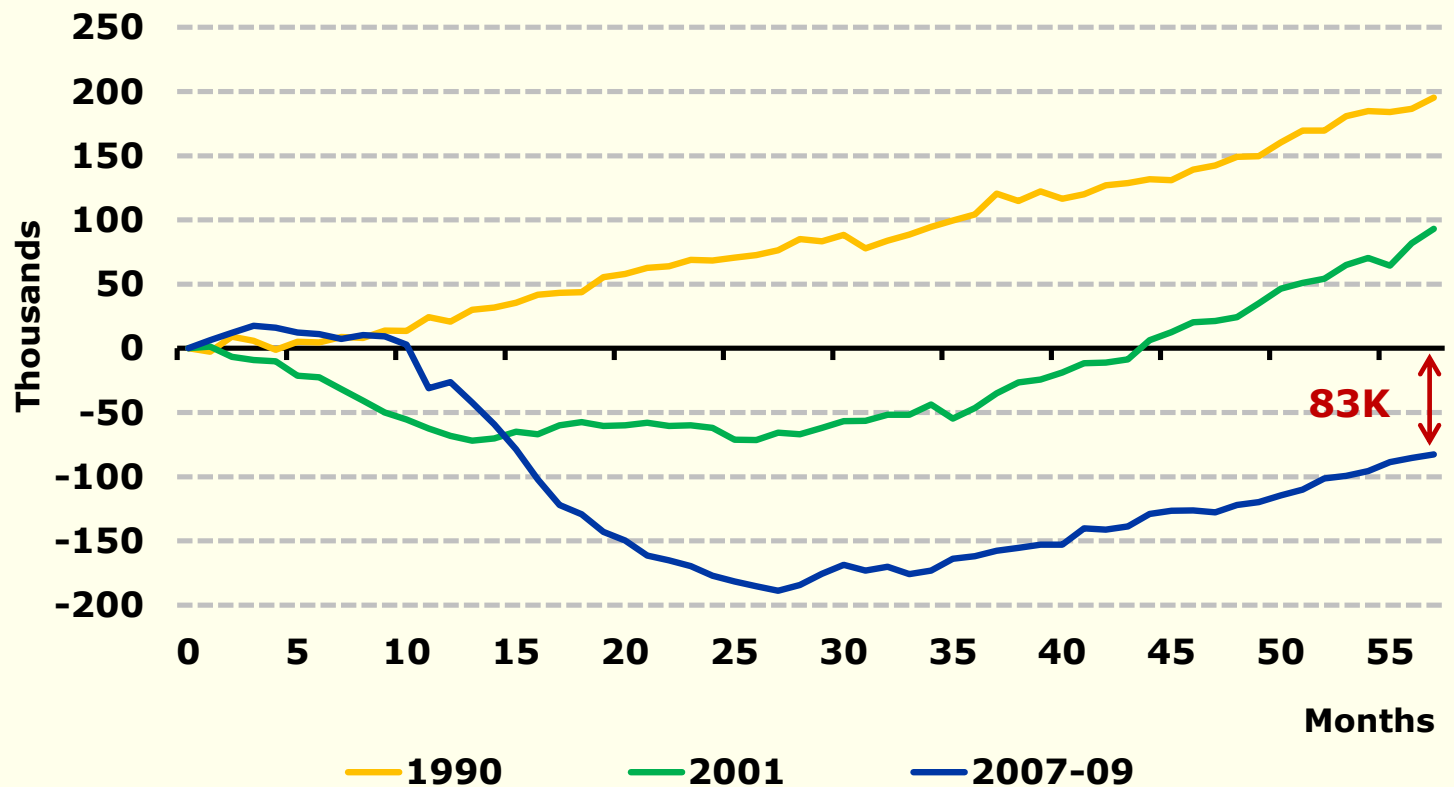
Source: Bureau of Labor Statistics, data through July 2012





# The decline in employment has been severe

## Washington Employment after Business Cycle Peak



83K

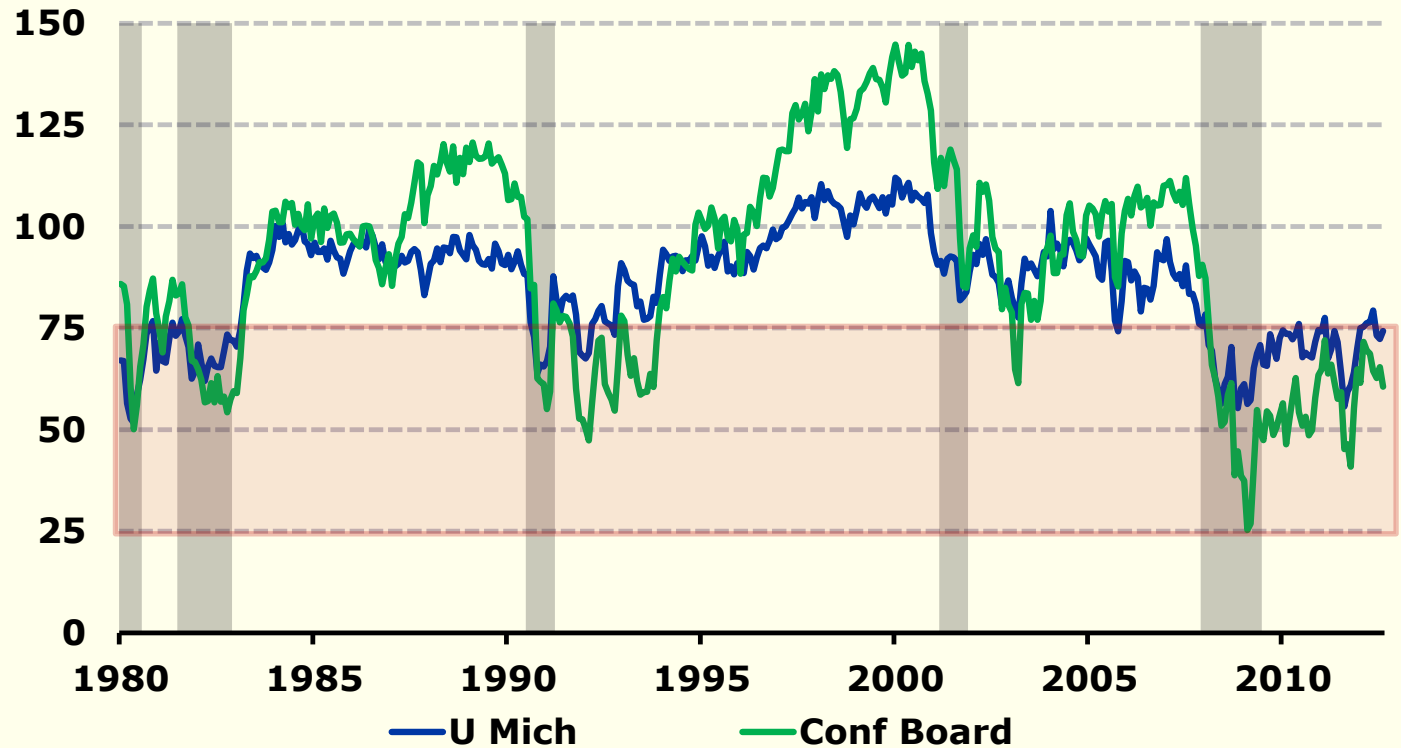


# Consumer confidence remains weak

## Index

Mich: 1966Q1 = 100, SA

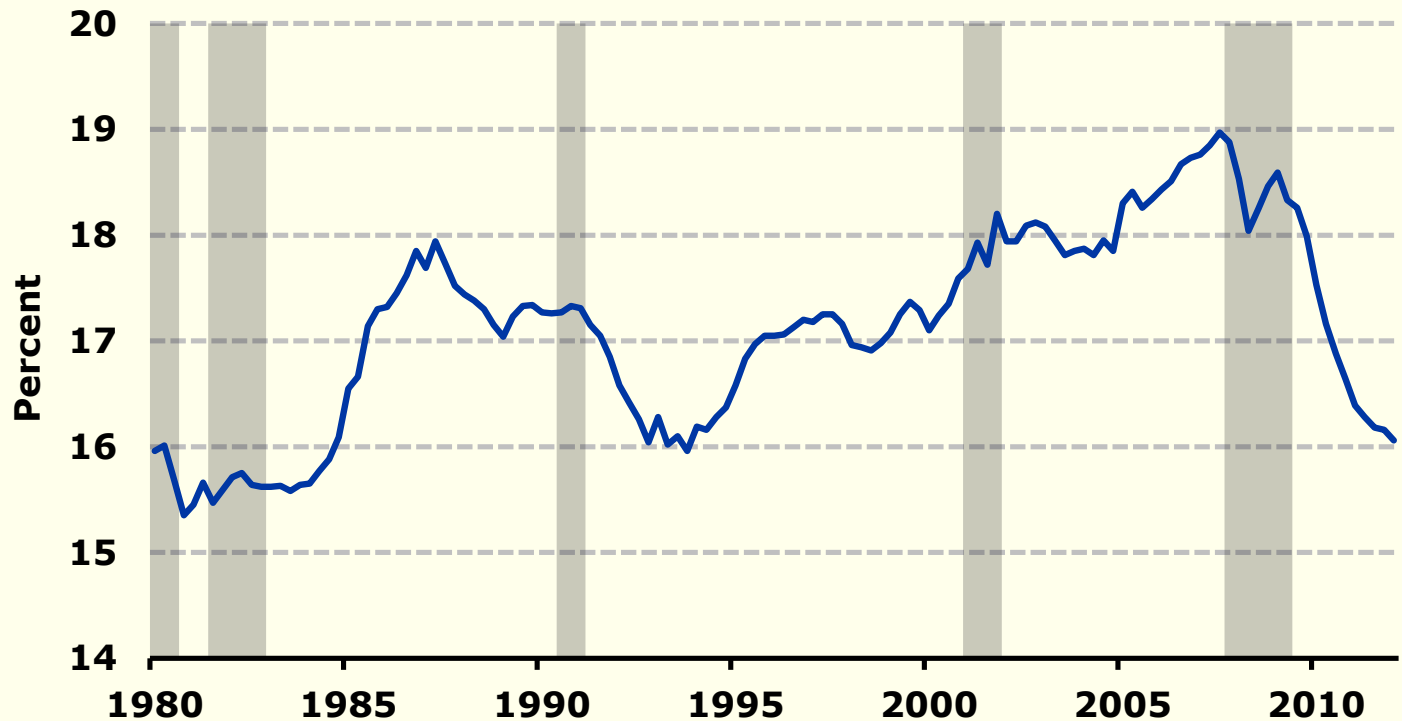
Conf Board: 1985 = 100, SA





# Consumers continue to deleverage

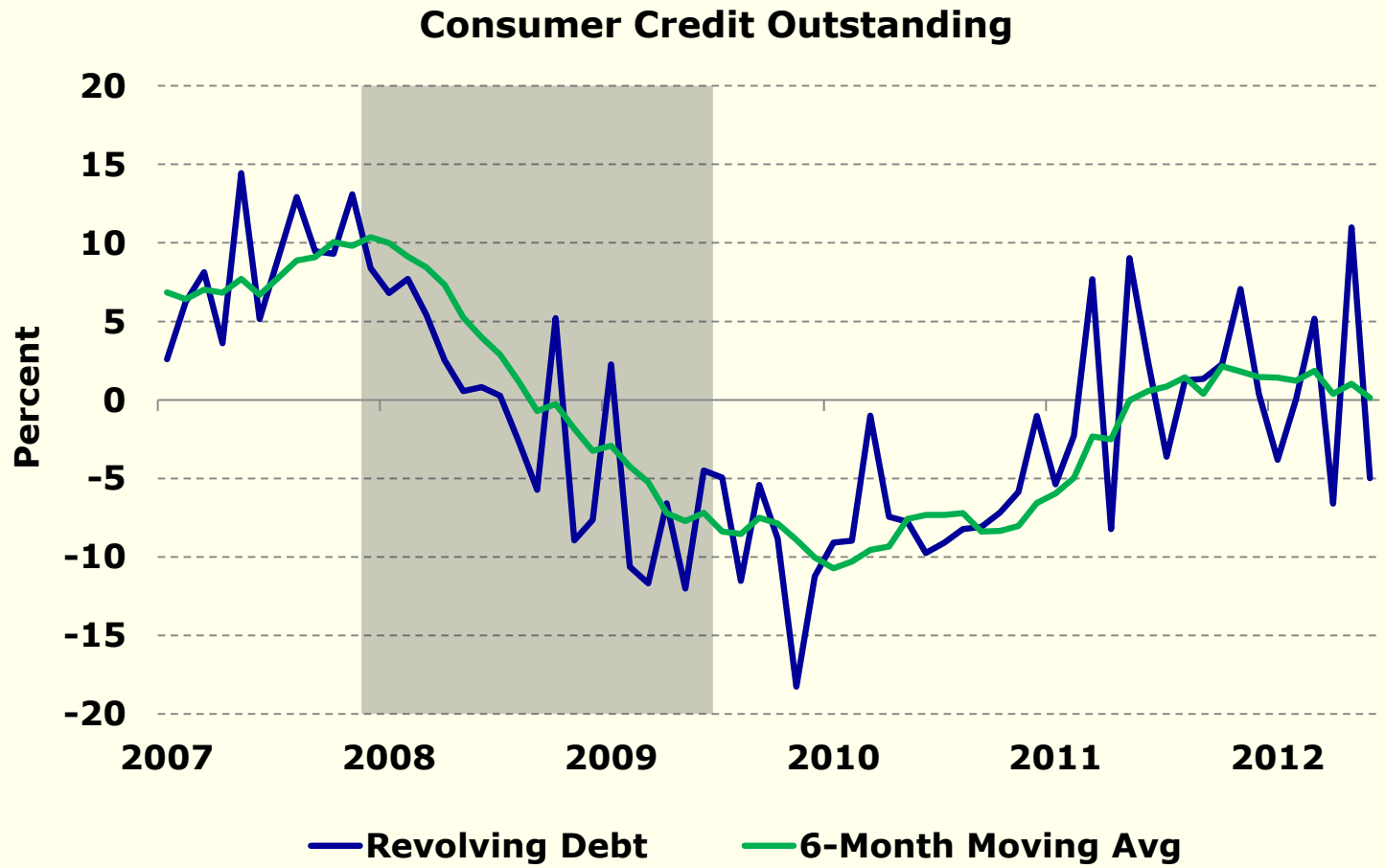
**Total U.S. Household Debt Service and Financial Obligations as % of Disposable Personal Income**



Source: Board of Governors of the Federal Reserve System, data through 2012Q1



# The recovery in consumer debt is stalling



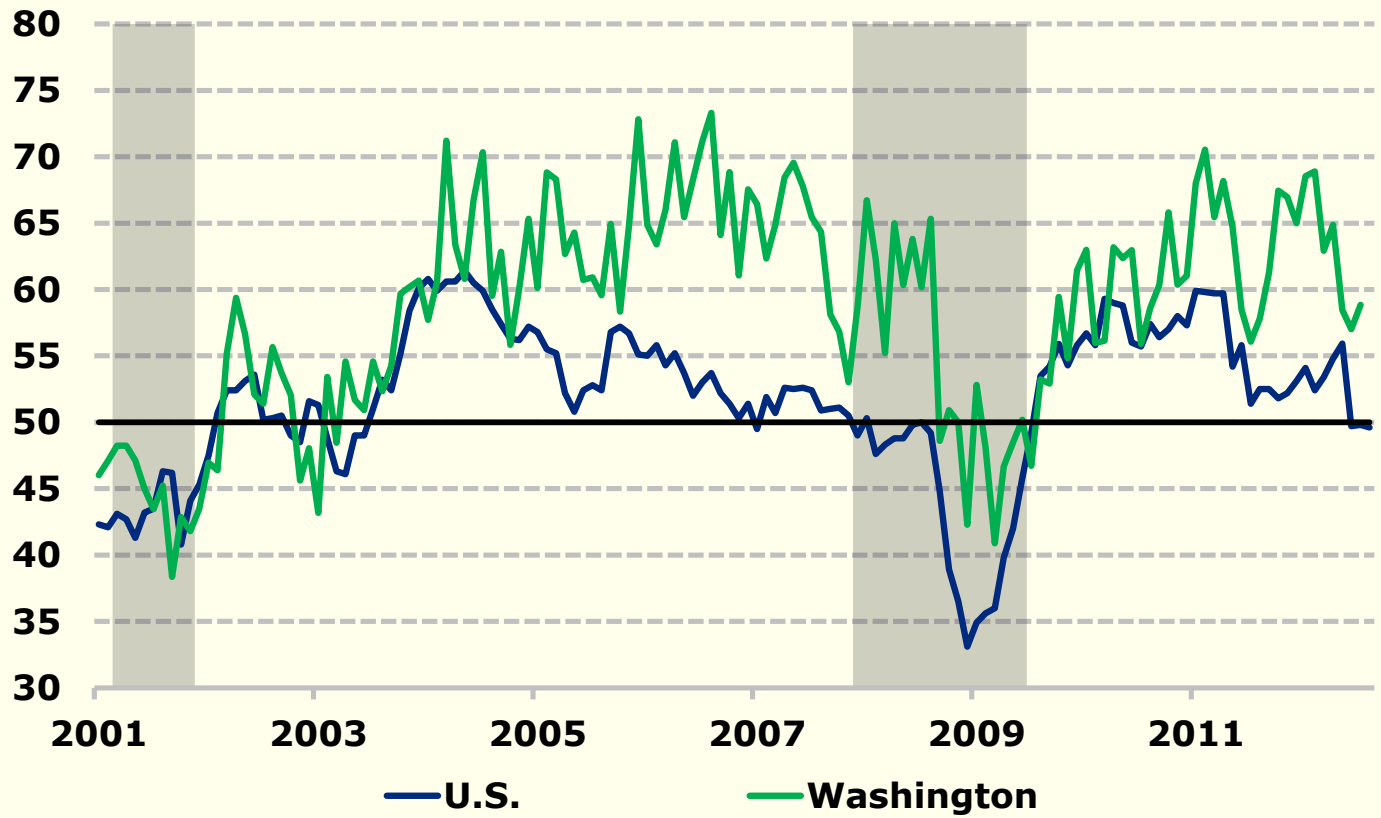
Source: Federal Reserve; data through June 2012



# Manufacturing has been contracting nationally

An index greater than 50, implies growth

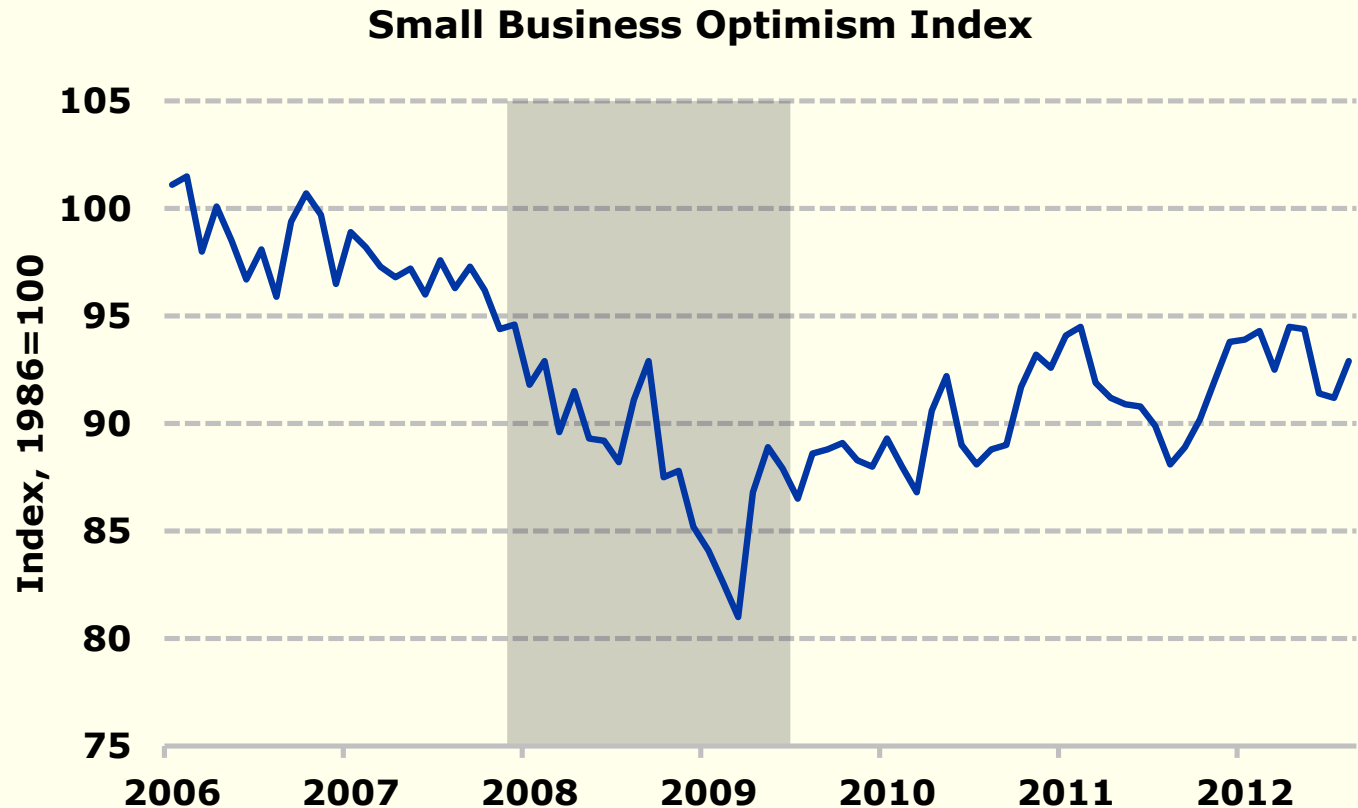
### Institute of Supply Management Index



Source: Institute of Supply Management; data through August 2012



# Small business optimism is slowly improving



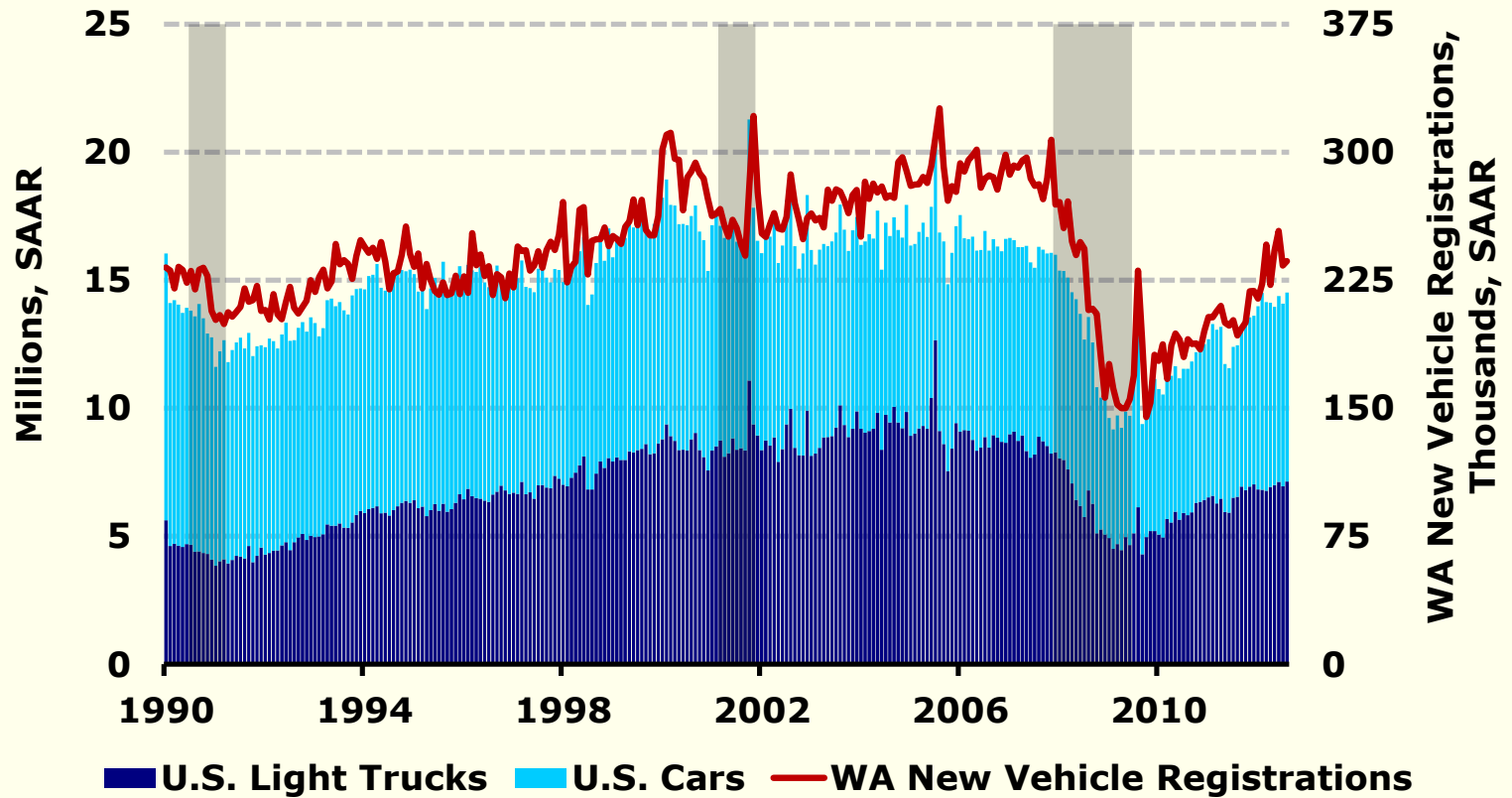
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Source: National Federation of Independent Business; data through August 2012



# Vehicle sales continue their upward trend

U.S. LMV sales in August were up 17% year-over-year.

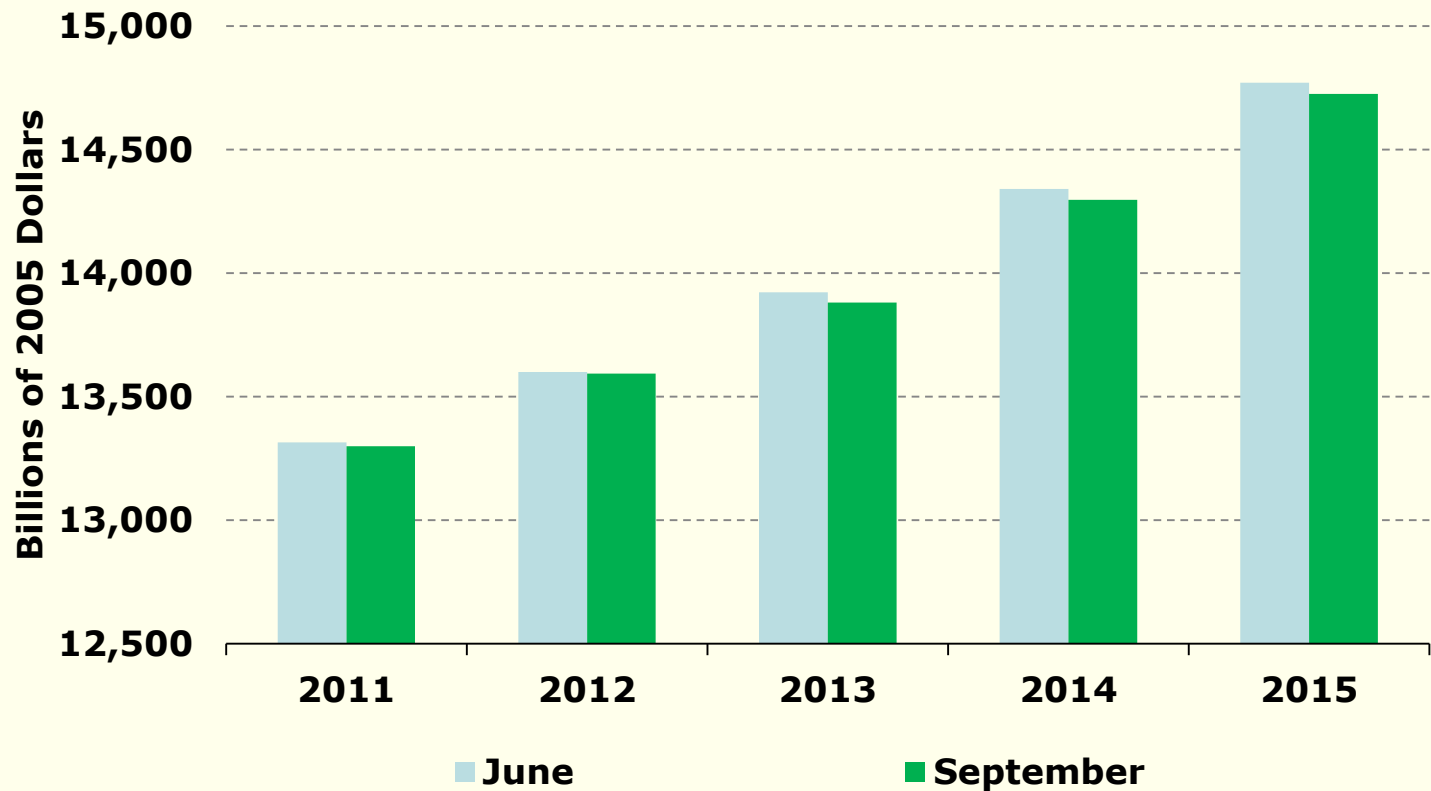


Source: Autodata Corporation, WA DOL; data through August 2012



# U.S. GDP Forecast Slightly Lower

**Blue Chip Consensus Real GDP forecast**



Source: BEA, Blue Chip Economic Indicators September 2012; historical data through 2011

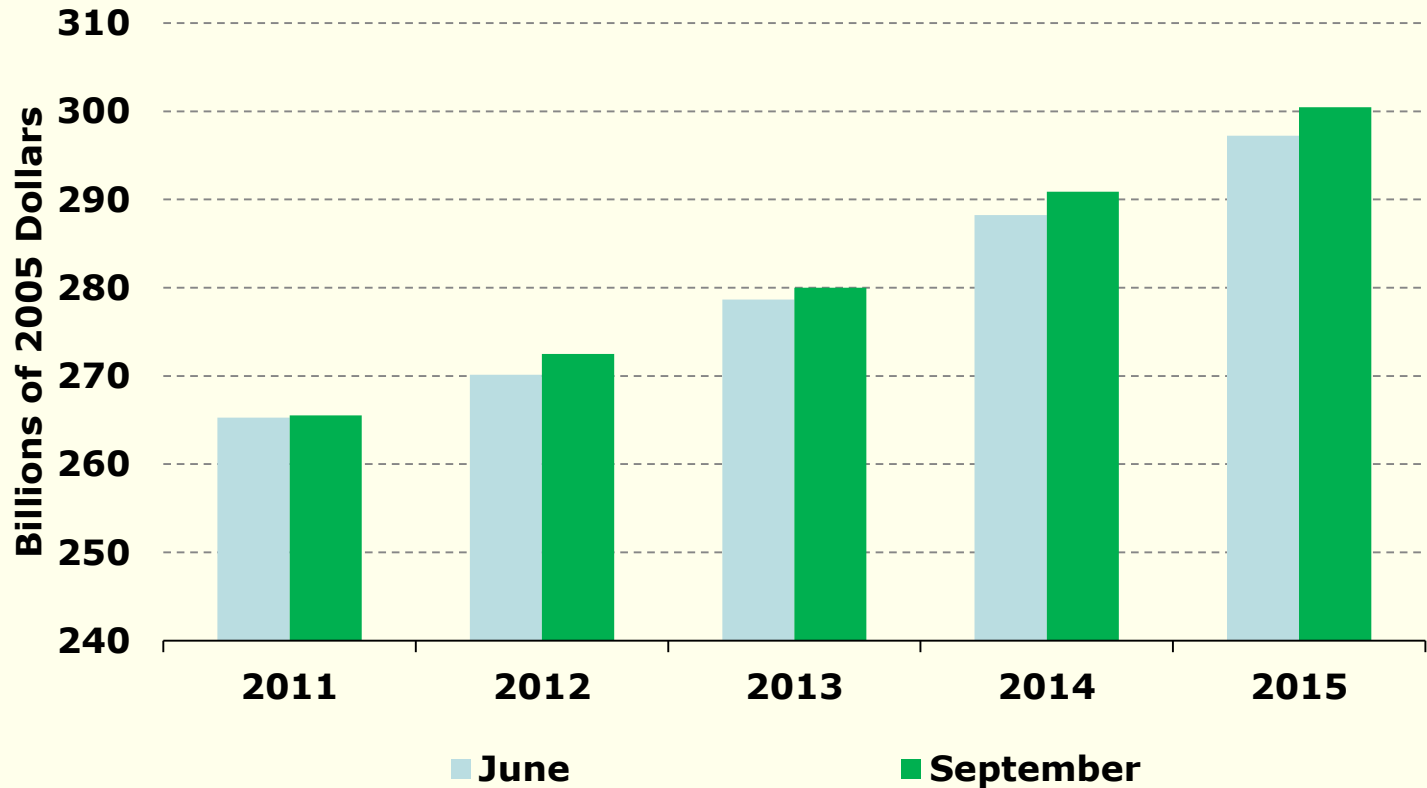
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# WA Personal Income Forecast Slightly Higher

**Washington Real Personal Income**

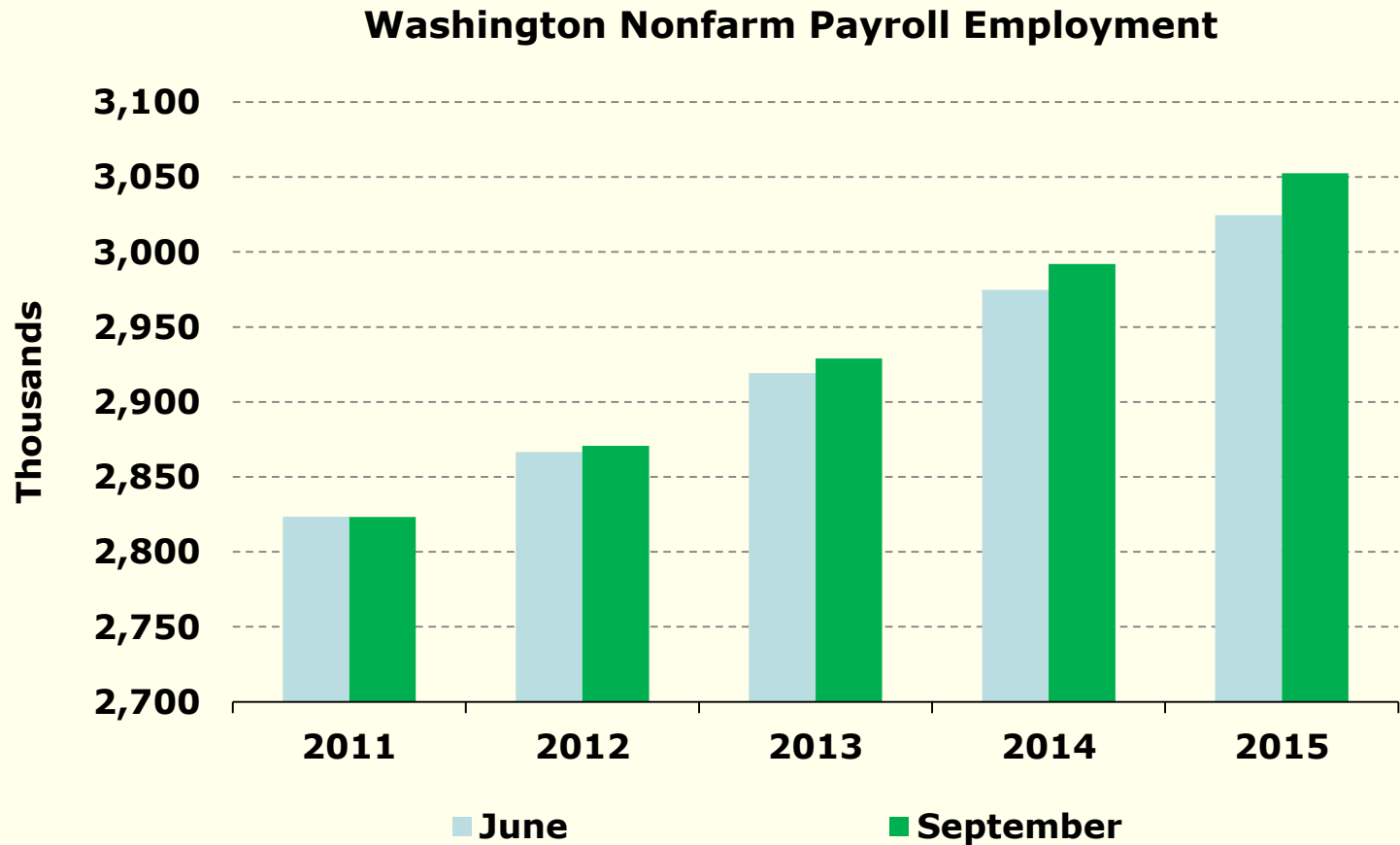


Source: BEA, ERFC September 2012 Forecast; historical data through 2011

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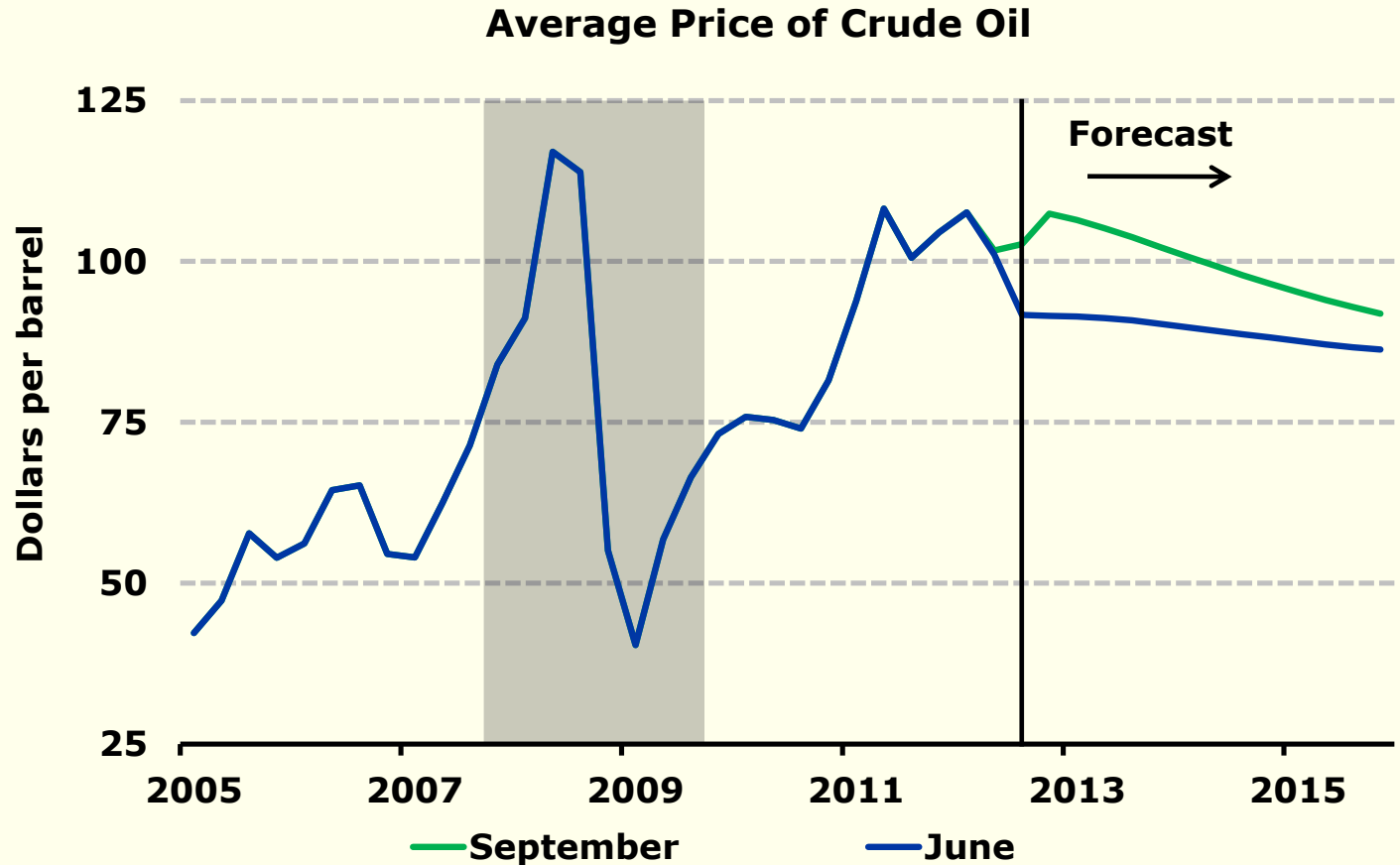


# WA Employment Forecast Slightly Higher



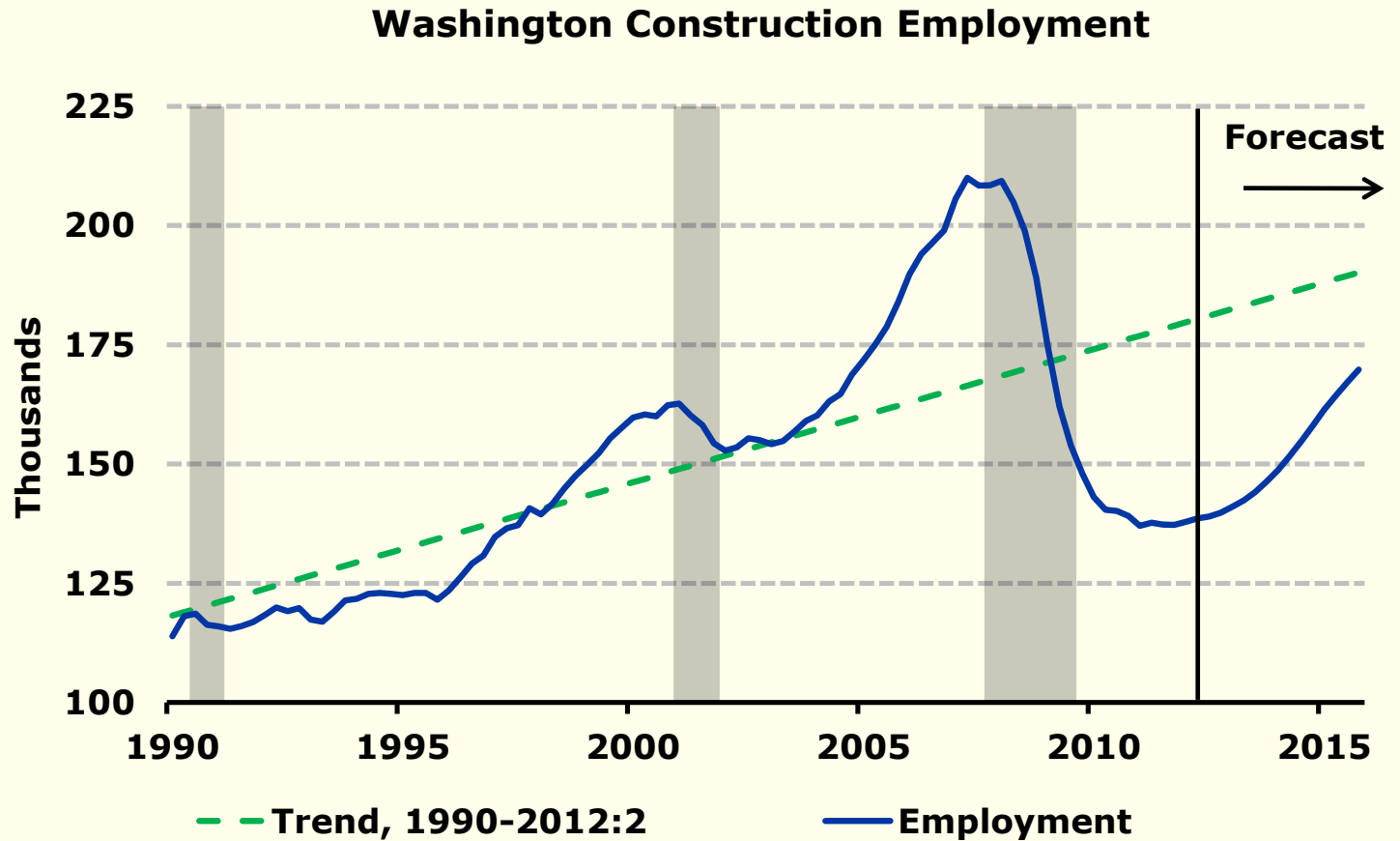


# Oil prices are expected to decline





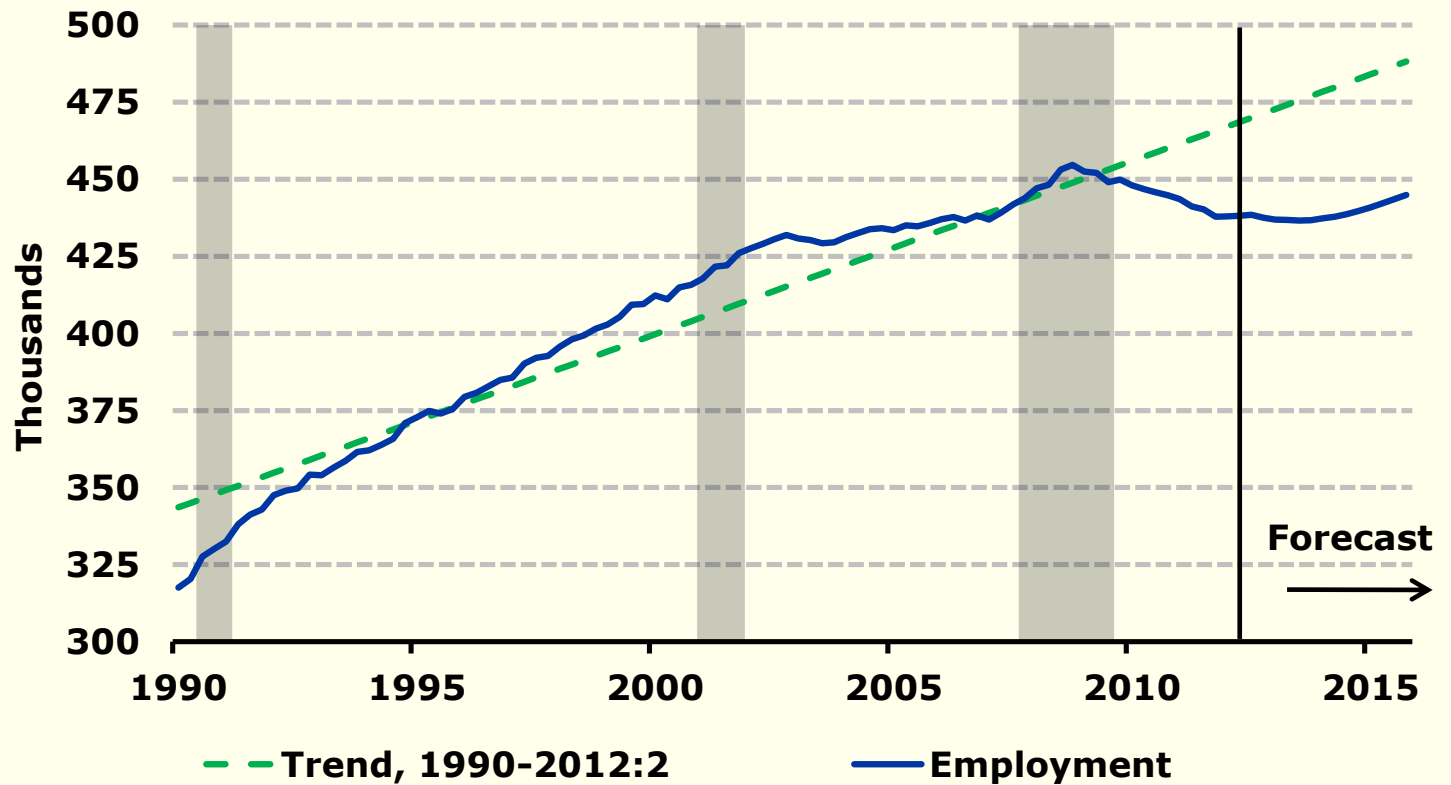
# Washington construction employment will remain below trend throughout the forecast





# State and local government employment will remain weak

## Washington State and Local Government Employment

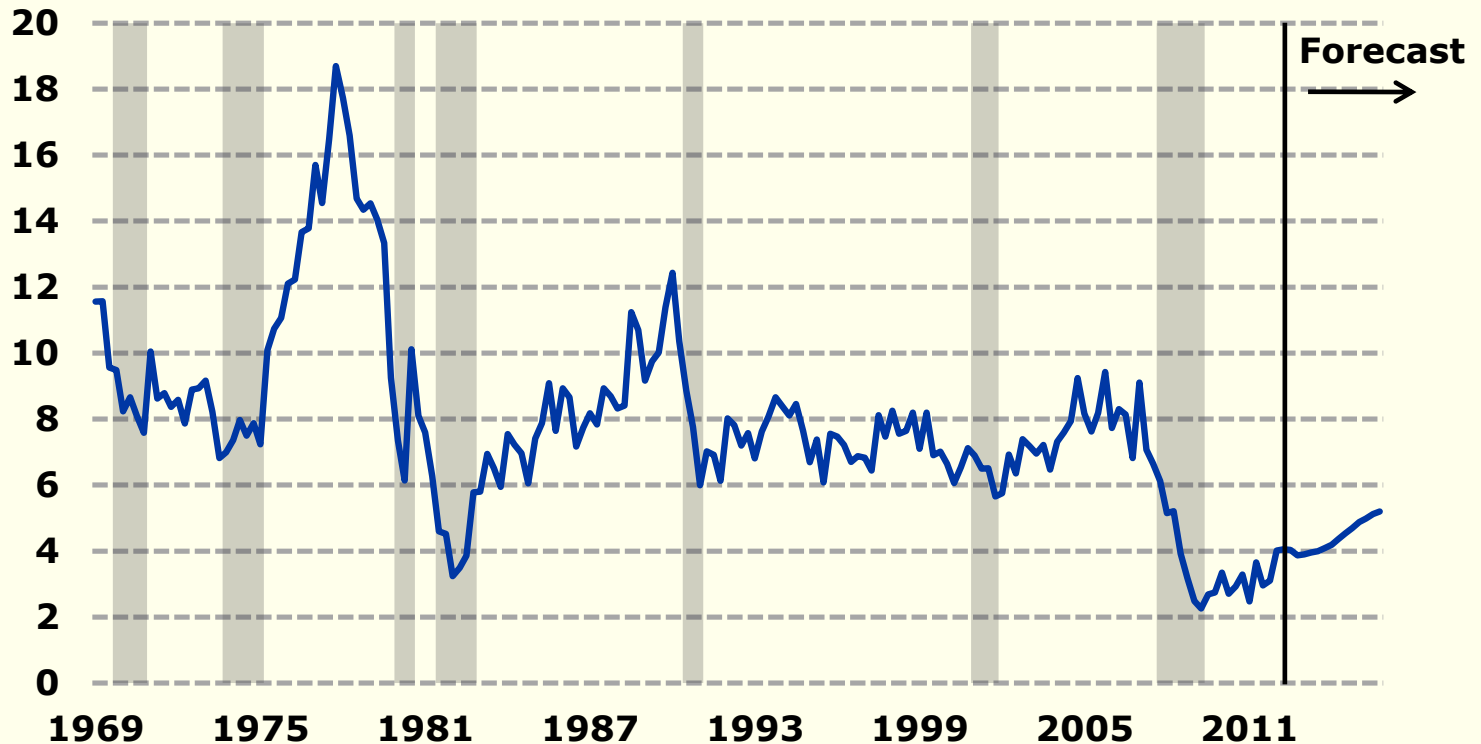


Source: ERFC September 2012 forecast; historical data through 2012Q2



# Housing permits relative to population will still be below historic levels in 2015

**Washington Housing Permits per 1,000 People**

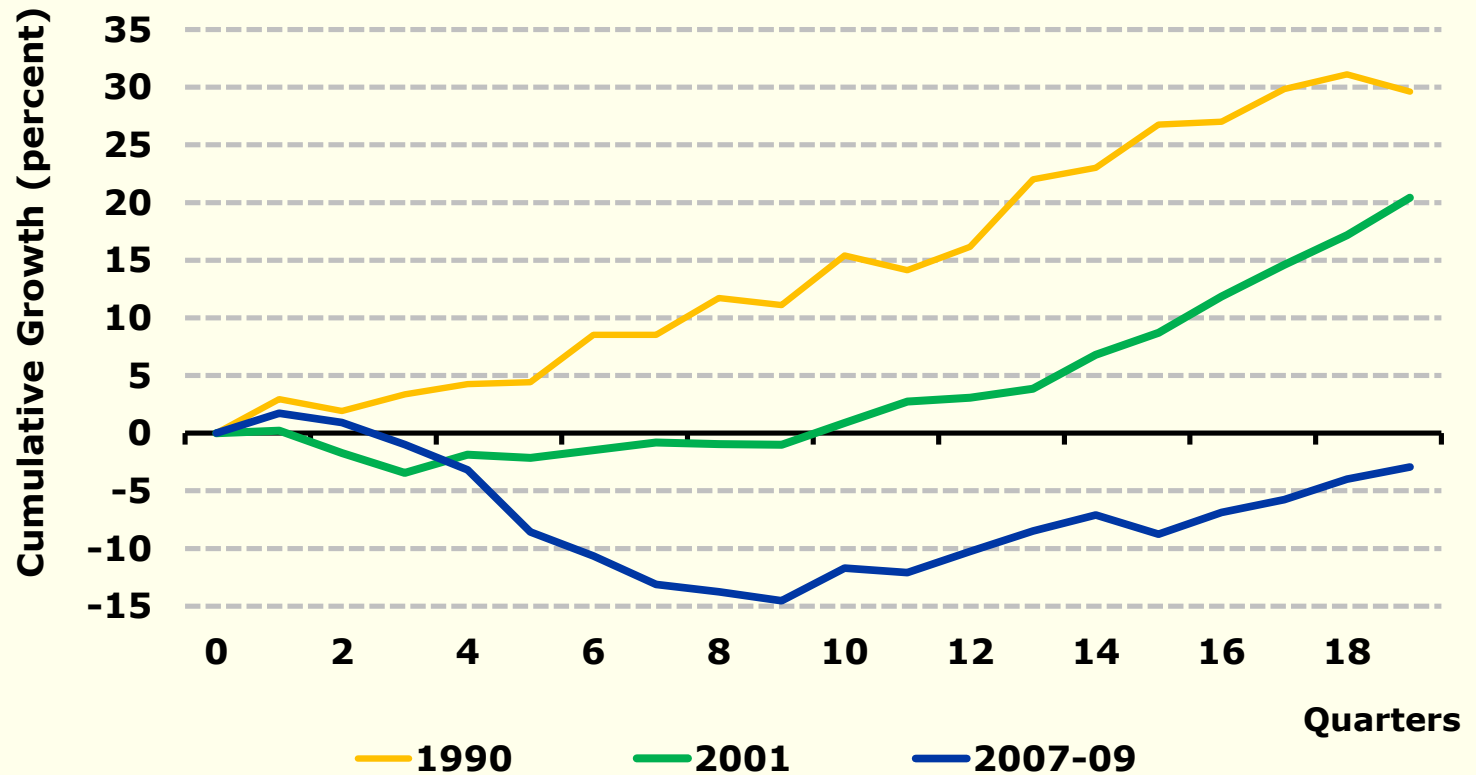


Source: U.S. Census Bureau, ERFC September 2012 Forecast; historical data through 2012 Q2



# Revenue collections have been weak compared to past recoveries

## Revenue Act Collections after Business Cycle Peak



Source: ERFC; data through 2012 Q2

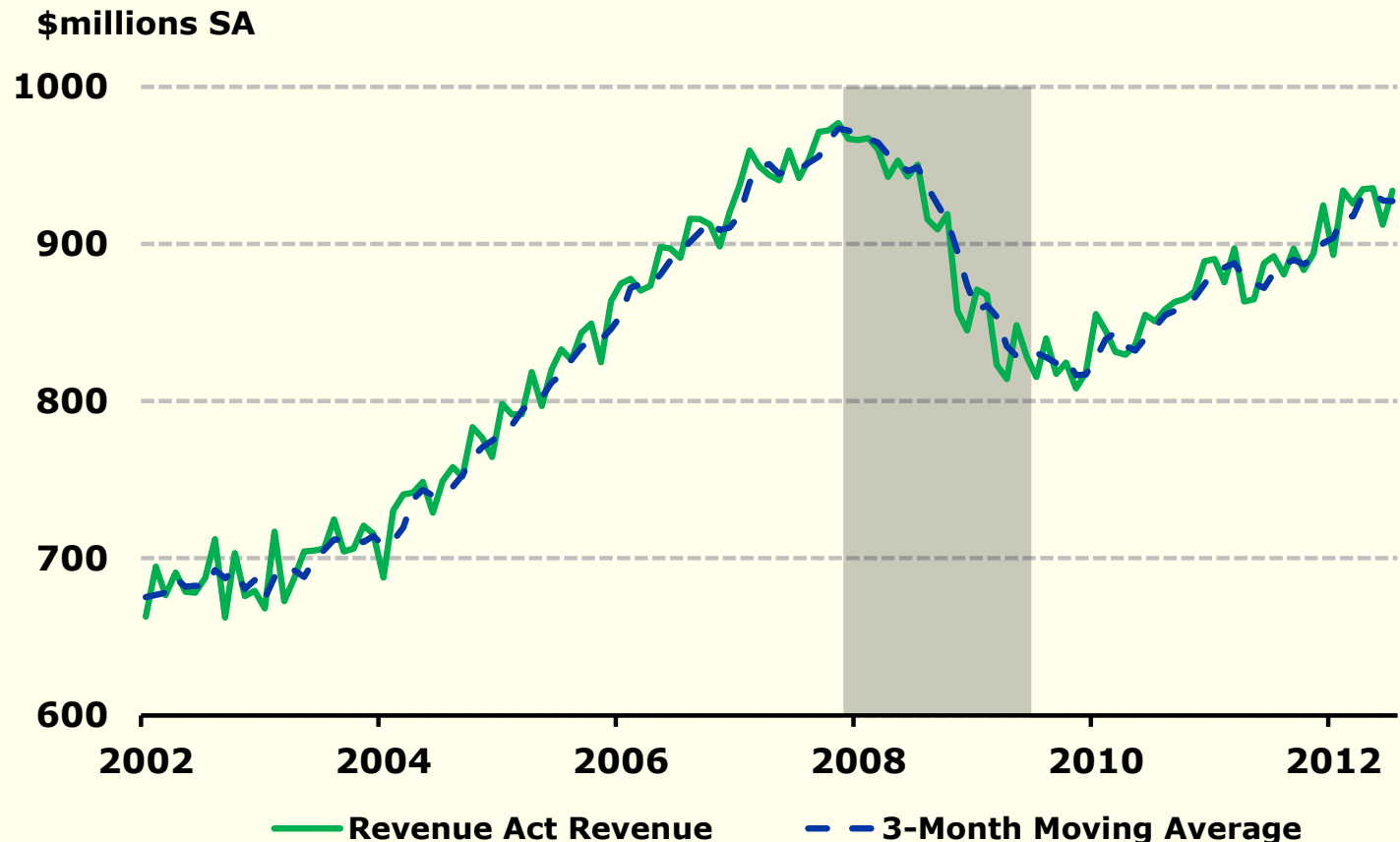
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# Revenue Act collections are still on an upward trend

Collections were up 3.4% year-over-year in the August 11 - September 10, 2012 collection period.

Collections through September 10 were \$15 million (0.5%) lower than forecasted.



\* 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 July 2012 activity

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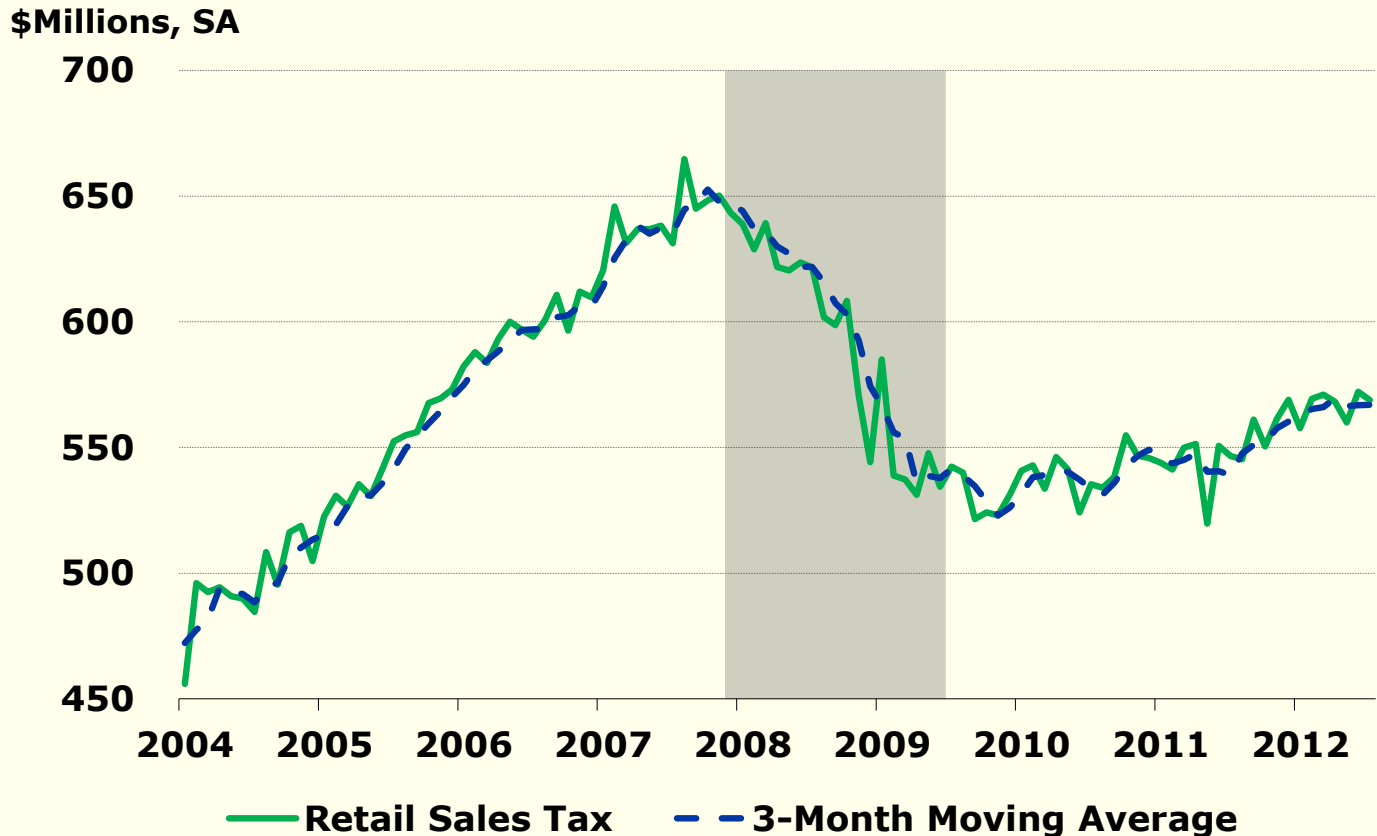




# WA sales tax growth still moderate

Preliminary seasonally adjusted sales tax receipts were up 4% year-over-year for July activity.

## Washington Retail Sales Tax Receipts



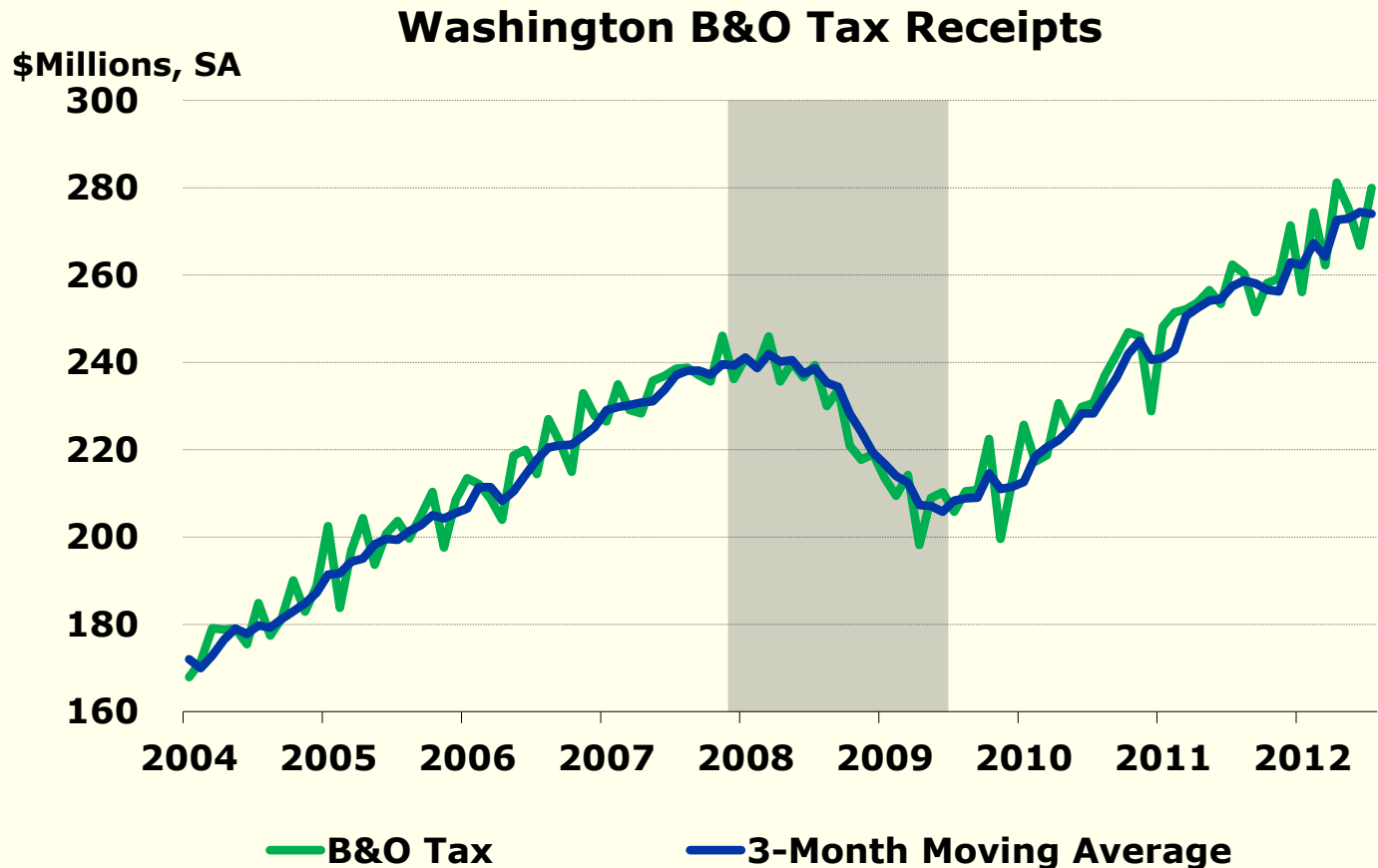
Adjusted for large payments/refunds, amnesty payments and taxpayer reporting frequency change  
Source: ERFC; Monthly data through July 2012 preliminary activity

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# B&O tax growth has slowed from its prior pace

Preliminary seasonally adjusted business and occupation tax receipts were up 6% year-over-year for July activity.

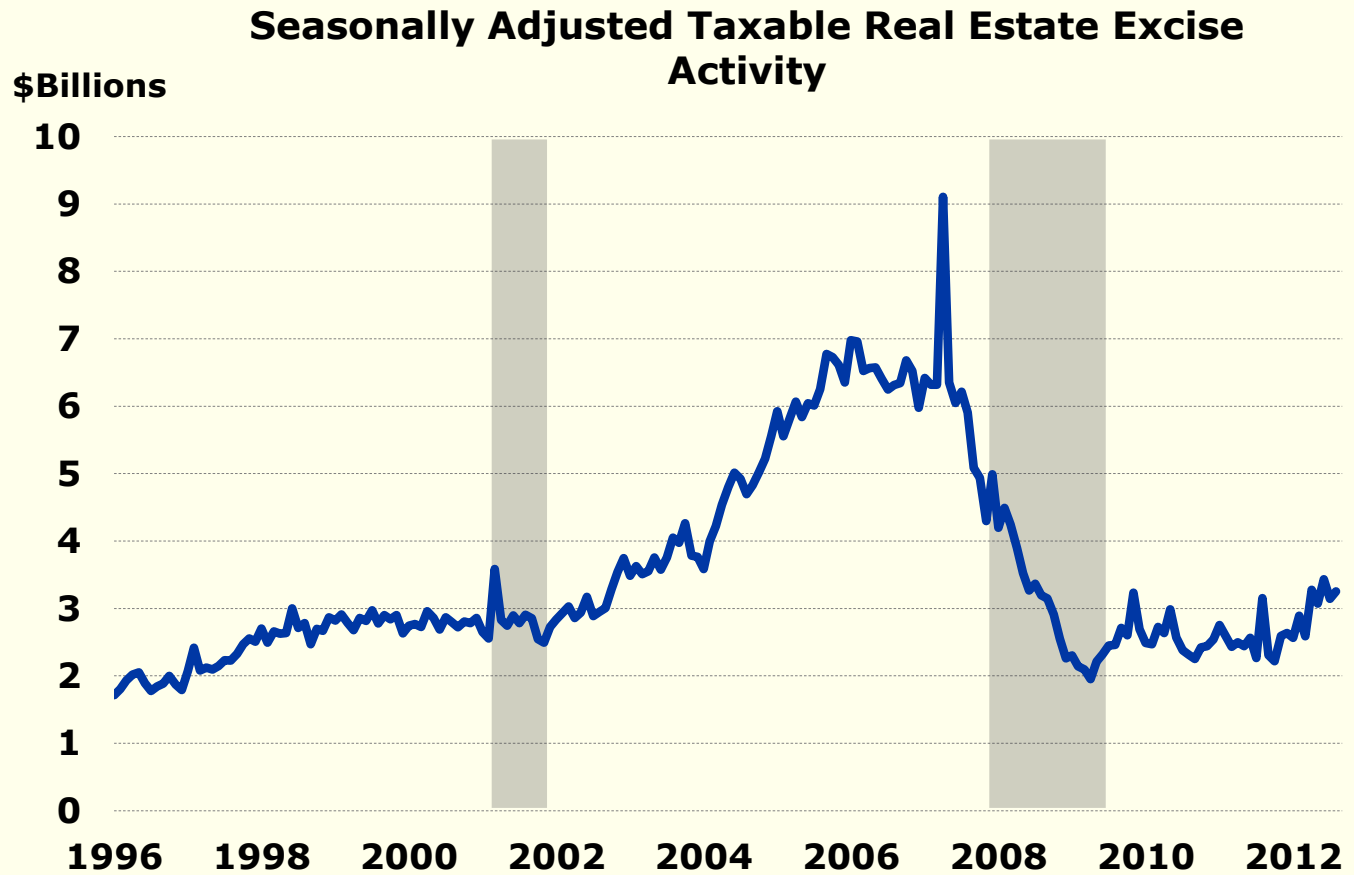


Source: ERFC; Monthly data through July 2012 preliminary activity  
Adjusted for taxpayer frequency shift, amnesty payments, and recent large refunds

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# REET activity since April has been boosted by large commercial sales



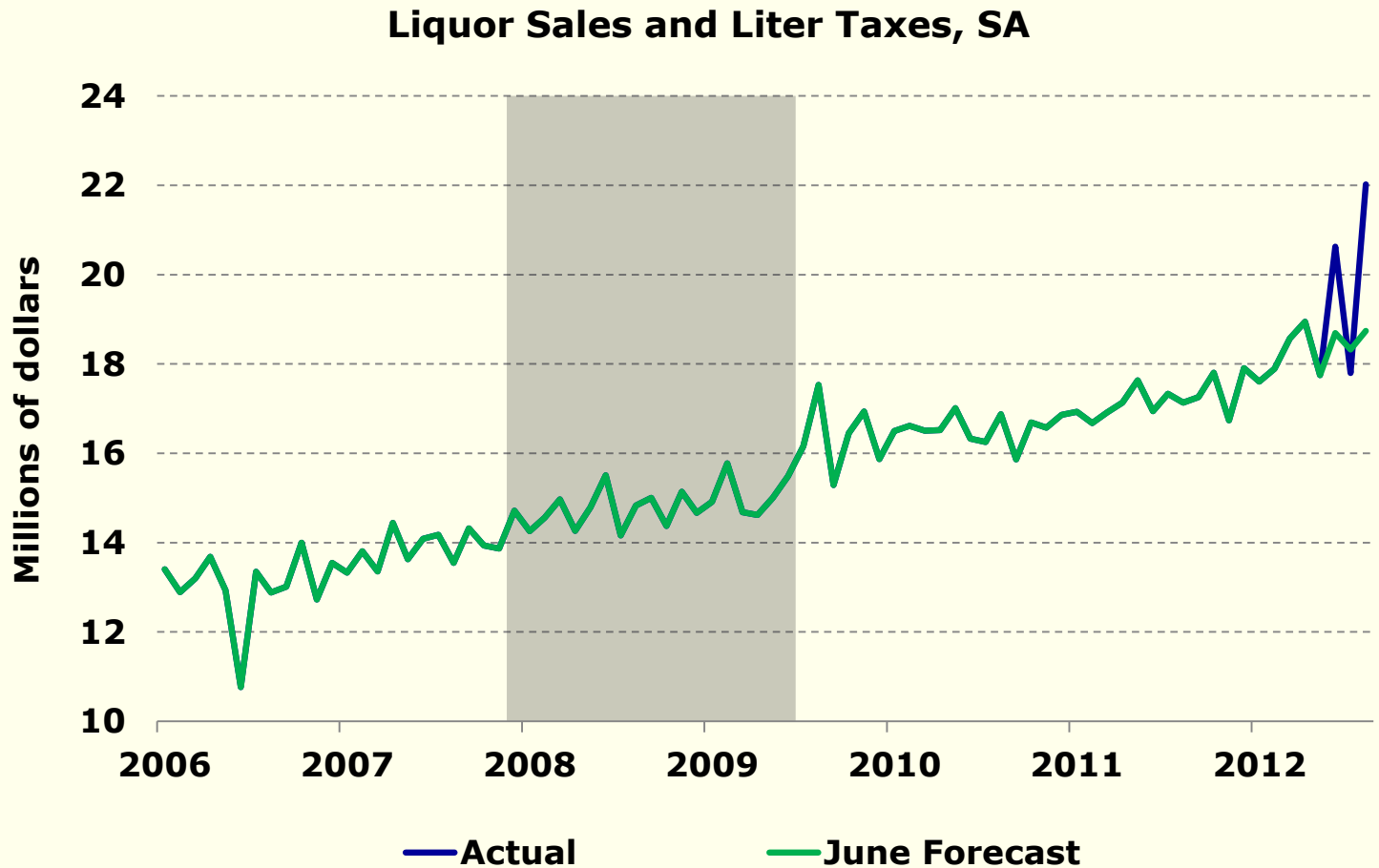
Source: ERFC; Monthly data through August 2012 preliminary



# Revenue for liquor sales has been volatile

Revenue was \$4.0 million (6.4%) above the June forecast

We have raised our forecast by \$10.9 million this biennium



Source: DOR, ERFC; data through August 2012



# Forecast changes: General Fund State, 2011-2013 Biennium

**June Forecast:**

**\$30,440 million**

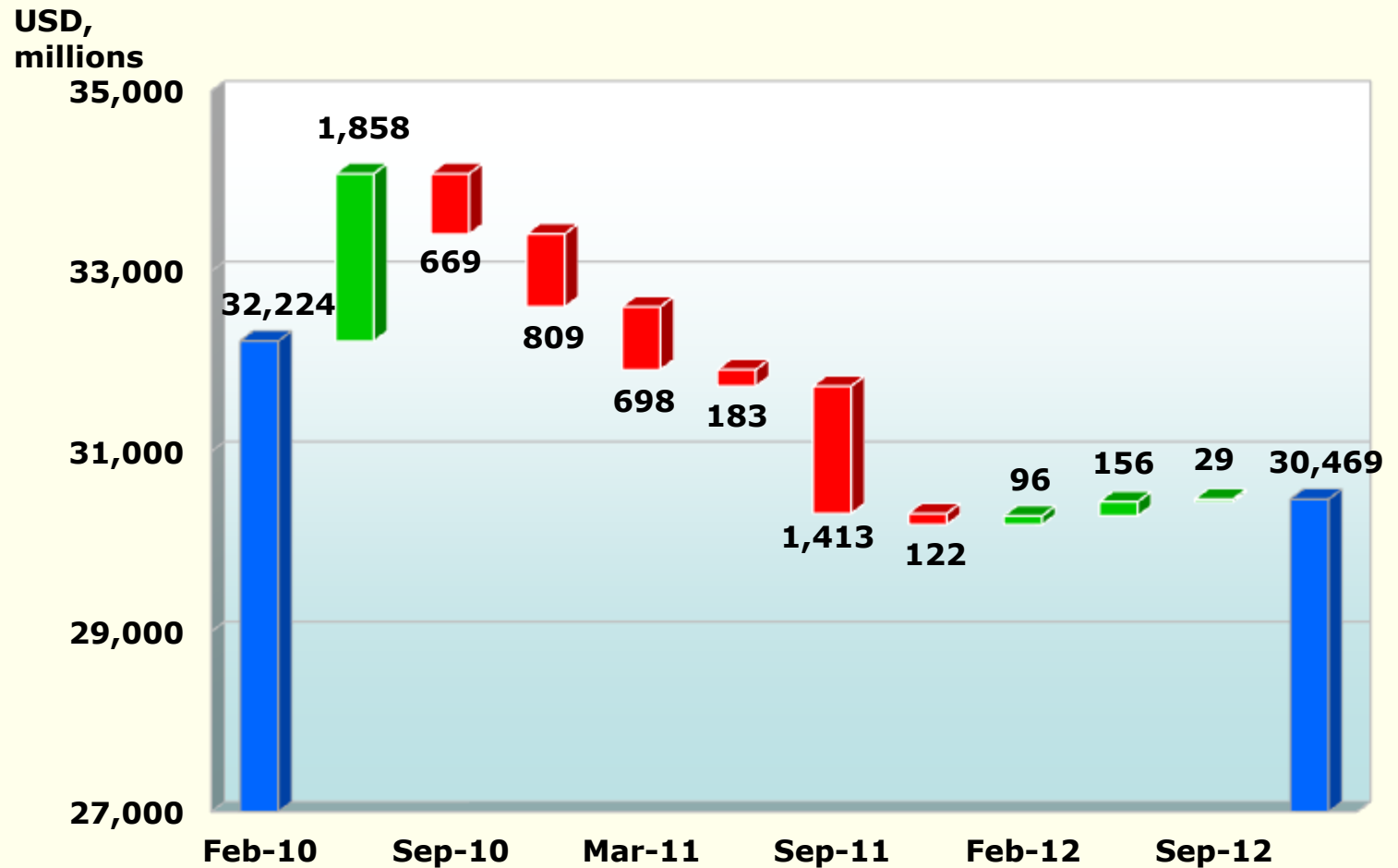
USD millions	September Forecast			
	<u>Collection Experience</u>	<u>Forecast Change</u>	<u>Forecast</u>	<u>Total Change*</u>
Dept. of Revenue	\$20	\$24	\$28,824	\$44
All other agencies	\$1	(\$16)	\$1,646	(\$15)
<b>Total GF-S</b>	<b>\$21</b>	<b>\$8</b>	<b>\$30,469</b>	<b>\$29</b>

\* Detail may not add to total due to rounding



# Forecast revisions to the 2011-13 biennium

**GF-S**  
**New**  
**Definition**



Source: ERFC September 2012 forecast

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# Forecast changes: General Fund State, 2013-2015 Biennium

**June Forecast:**

**\$32,626 million**

**USD millions**

## September Forecast

	<u>Non-economic Change</u>	<u>Forecast Change</u>	<u>Forecast</u>	<u>Total Change*</u>
Dept. of Revenue	\$0	\$39	\$31,114	\$39
All other agencies	\$0	(\$15)	\$1,535	(\$15)
<b>Total GF-S</b>	<b>\$0</b>	<b>\$23</b>	<b>\$32,649</b>	<b>\$23</b>

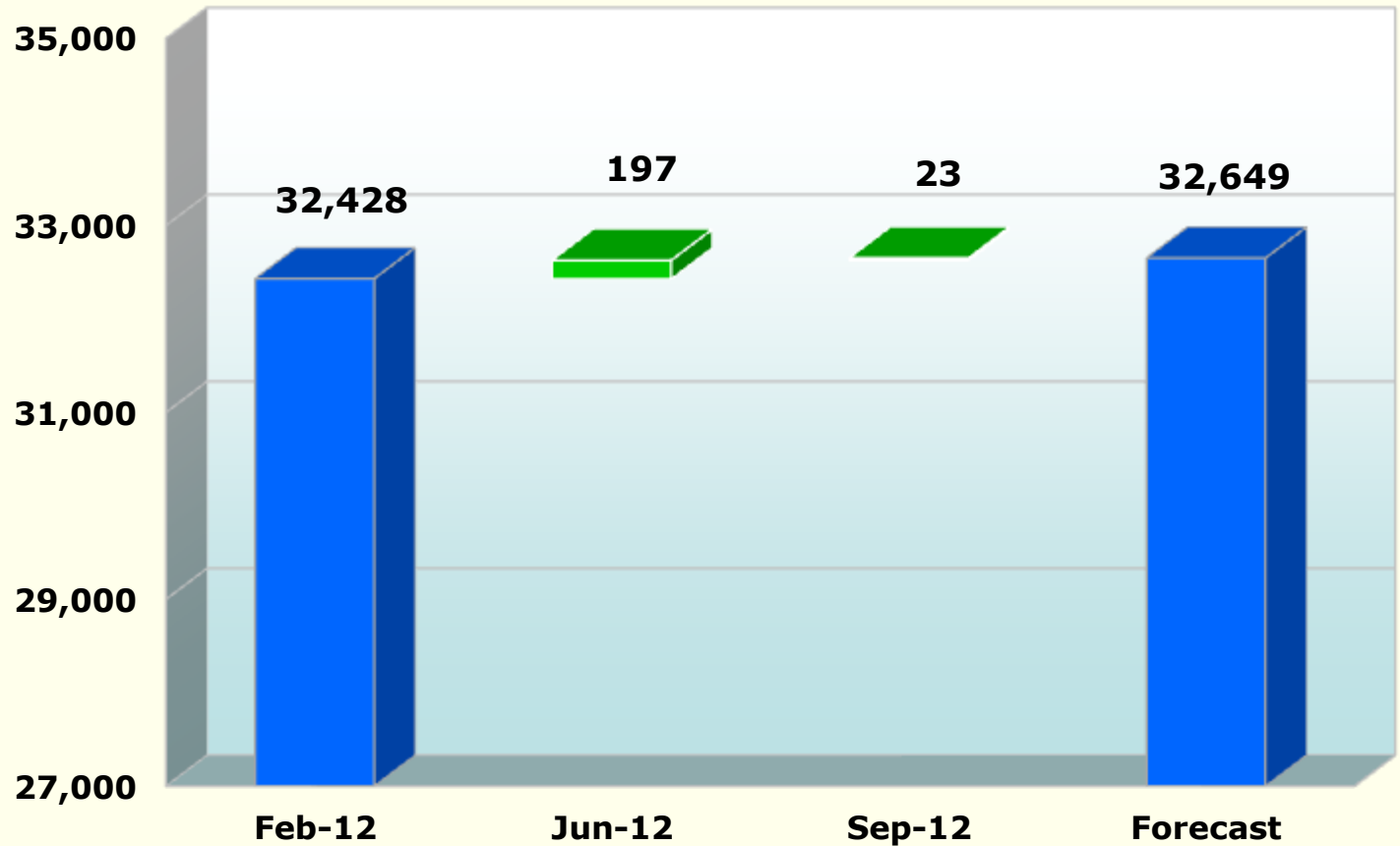
\* Detail may not add to total due to rounding



# Forecast revisions to the 2013-15 biennium

**GF-S**  
**New**  
**Definition**

USD,  
millions



Source: ERFC September 2012 forecast





# Initial Forecast: General Fund State, 2015-2017 Biennium

The 2015-17 biennial forecast is 8.8% higher than the 2013-15 forecast

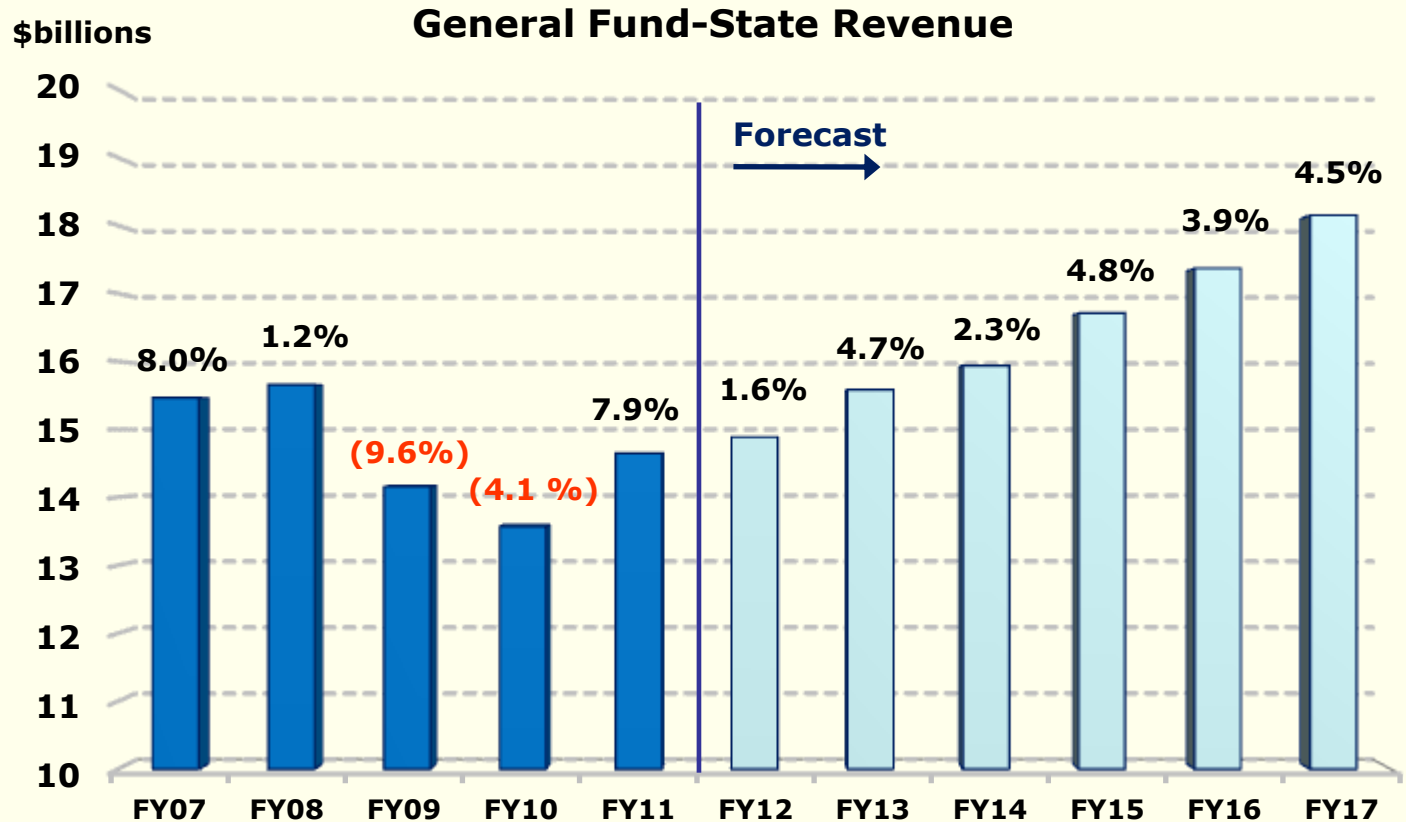
	<b>Forecast (\$millions)</b>
Dept. of Revenue	\$34,102
All other agencies	\$1,416
<b>Total GF-S</b>	<b>\$35,518</b>

\* Detail may not add to total due to rounding



# General Fund\* forecast by fiscal year

FY 2011 revenues were boosted by the tax amnesty program and one-time transfers of non-GF-S funds into the GF-S



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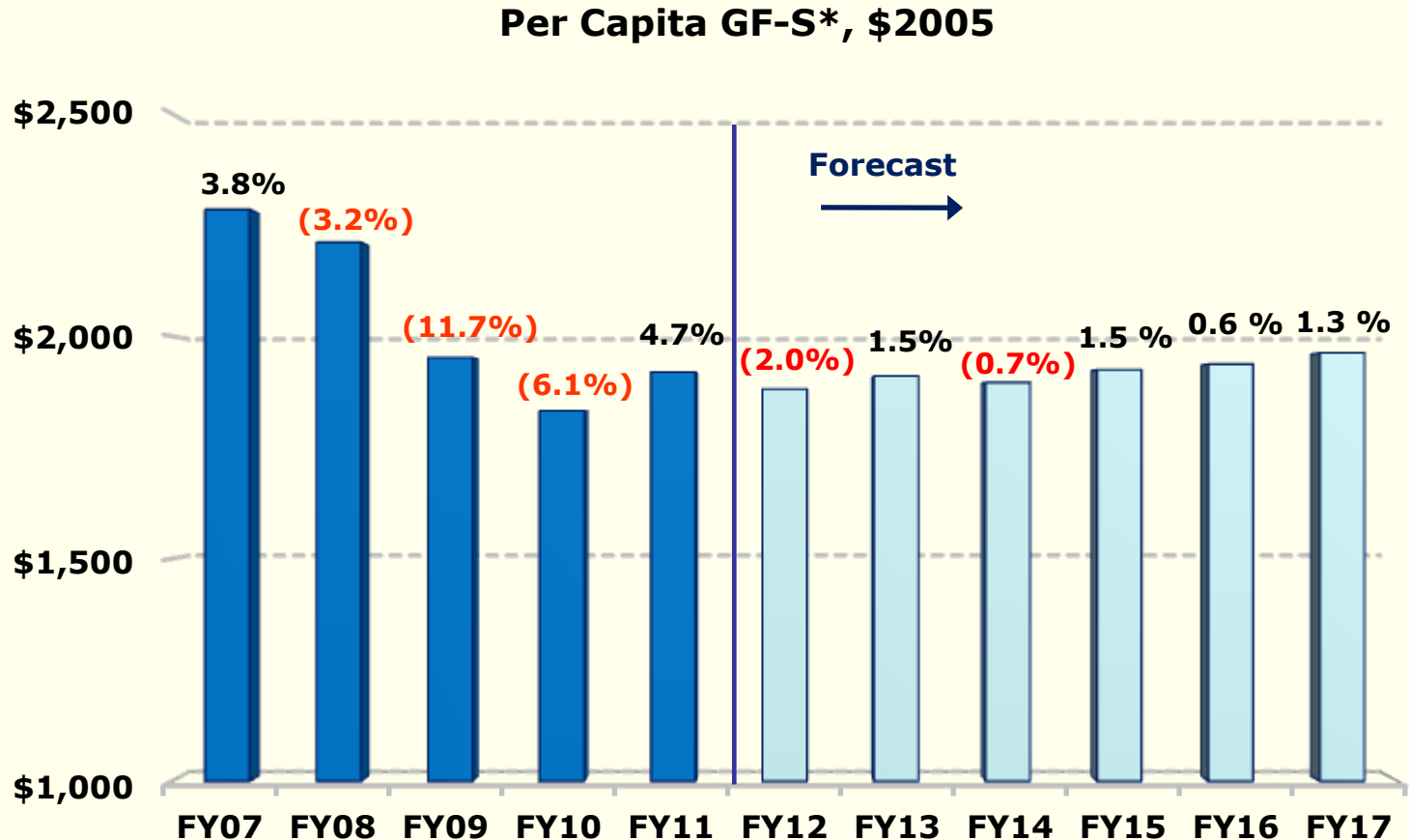
\*General Fund & Related Funds for FY 07-09, General Fund – new definition for FY 10-13  
Source: ERFC forecast, September 2012



# Real Per Capita General Fund\*-State Revenue

\* General Fund & Related Funds for FY 2007-2009

General Fund – new definition, for FY 2010-2015



Source: ERFC forecast, September 2012



# 2011-13 Biennium alternative forecasts – cash basis

<u>\$Millions</u>	<b>2011-13 Biennium</b>	<b>Difference From the baseline</b>
<b>September 2012 Baseline (50%)</b>	<b>\$30,469</b>	
<b><u>September 2012 Alternative Forecasts</u></b>		
<b>Optimistic (15%)</b>	<b>\$31,246</b>	<b>\$776</b>
<b>Pessimistic (35%)</b>	<b>\$29,752</b>	<b>(\$717)</b>
<b>Probability Weighted Average</b>	<b>\$30,335</b>	<b>(\$135)</b>
<b>GCEA*</b>	<b>\$30,472</b>	<b>\$3</b>

\*Based on the Governor's Council of Economic Advisors' assumptions



# 2013-15 Biennium alternative forecasts – cash basis

<u>\$Millions</u>	<b>2013-15 Biennium</b>	<b>Difference From the baseline</b>
<b>September 2012 Baseline (50%)</b>	<b>\$32,649</b>	
<b><u>September 2012 Alternative Forecasts</u></b>		
<b>Optimistic (15%)</b>	<b>\$35,830</b>	<b>\$3,181</b>
<b>Pessimistic (35%)</b>	<b>\$29,364</b>	<b>(\$3,285)</b>
<b>Probability Weighted Average</b>	<b>\$31,976</b>	<b>(\$673)</b>
<b>GCEA*</b>	<b>\$32,491</b>	<b>(\$158)</b>

\*Based on the Governor's Council of Economic Advisors' assumptions



# Conclusion

- The forecast for the 2011-13 Biennium is \$29 million higher than in June
- The forecast for the 2013-15 Biennium is \$23 million higher than in June
- Revenues are expected to grow 8.0% between the 2009-11 and 2011-13 biennium and 7.2% between the 2011-13 and 2013-15 biennium
- As in June, an extended period of slow economic and job growth is expected for both the national and state economies
- The level of uncertainty in the baseline remains extremely high, and downside risks outweigh upside risks



# Questions



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