

# Economic & Revenue Outlook

Presented to  
Estate Planning Council of Southwest Washington

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Vancouver, Washington



WASHINGTON STATE  
ECONOMIC AND REVENUE FORECAST COUNCIL



# Summary

- Events are unfolding largely as expected in the November forecast
- However, the uncertainty in the baseline remains very high, mostly due to out-of-state factors
- Within WA, there is fiscal drag from declining state and local government budgets
- Revenue growth has been restrained due to a stagnant construction sector
- The February forecast increased expected GF–S revenues by \$96 million in the current biennium
- Revenues since the February forecast are \$8 million (0.9%) below expectations

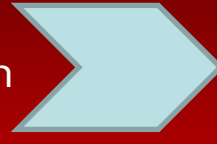


# The state's risk matrix shows most risks from outside state

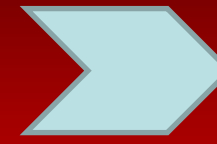


## Washington's Economy

EUROPE  
Sovereign  
Debt

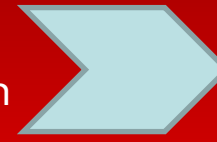


EUROPE  
Banks

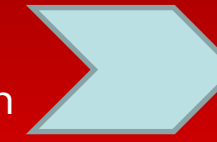


U.S.  
Banks

European  
Recession



Asia  
Slowdown



U.S.  
Trade

Political Gridlock In  
Washington DC

- Election cycle
- Iran's effect on oil

Weak consumer and business confidence

State of  
Washington

Pluses  
Aerospace  
Software  
Exports

Minuses  
Construction  
State & Local  
Government

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Source: ERFC

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

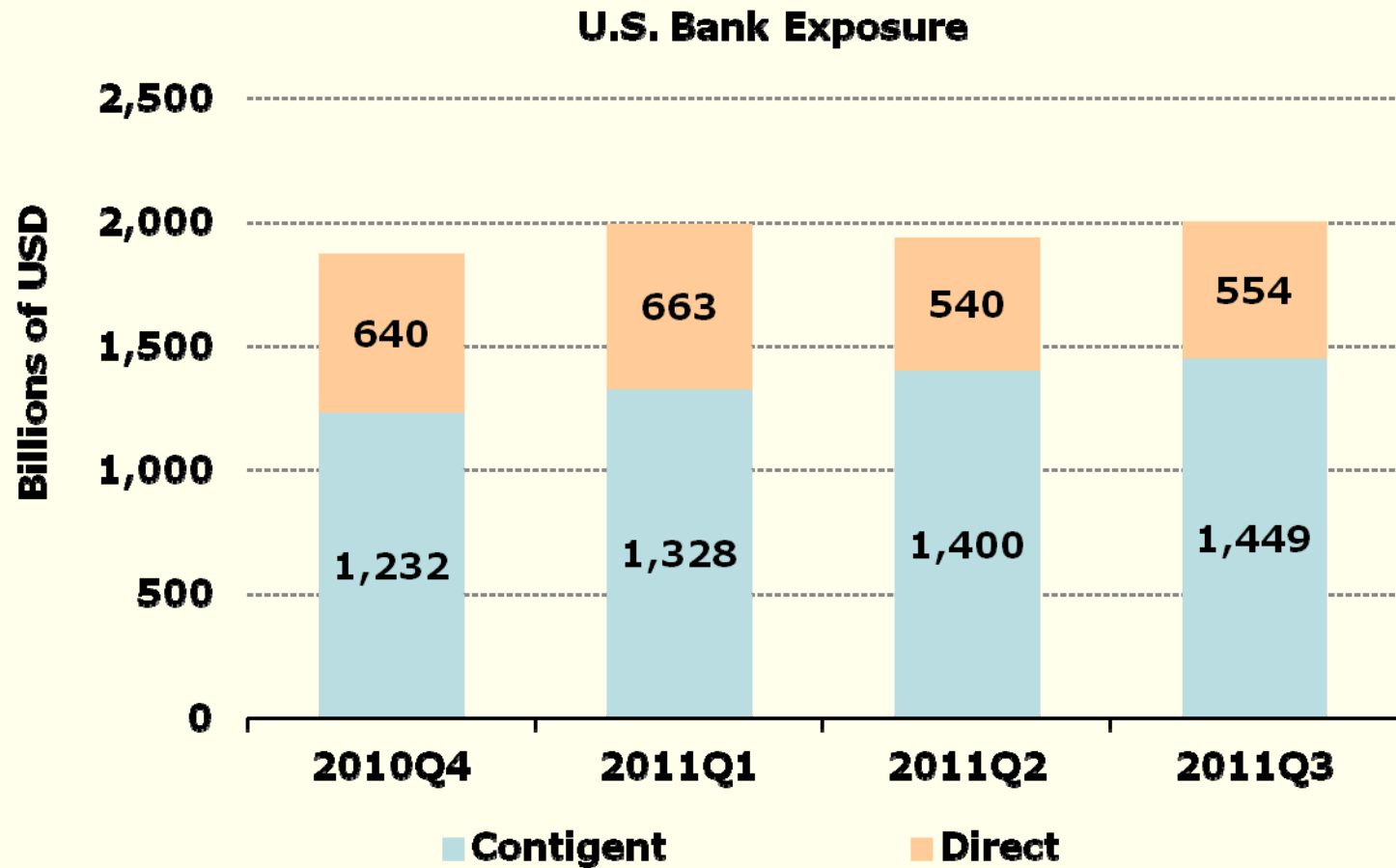
Contingent liabilities continue to increase

Total value at risk remains close to \$2 trillion

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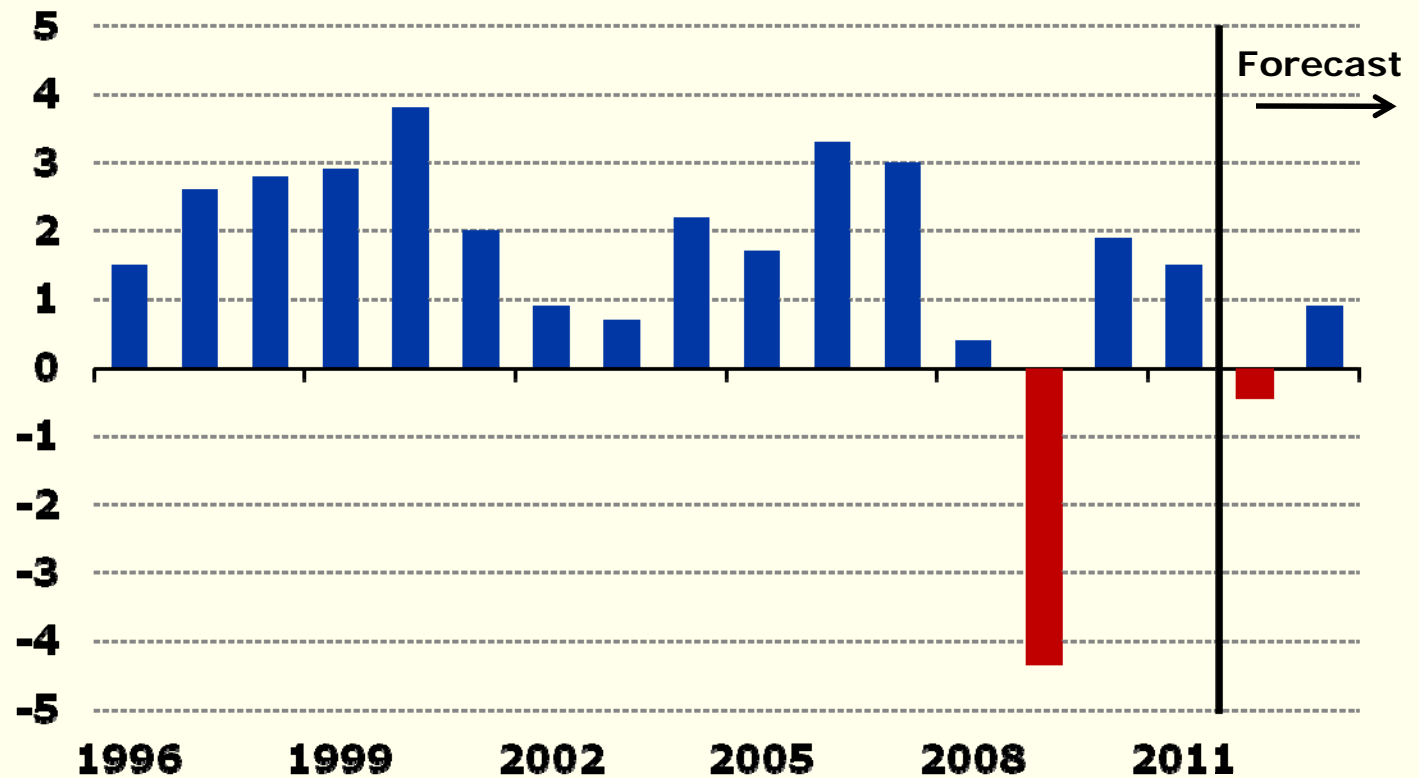
Source: Bank of International Settlements, 2011 Q3

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# Europe is likely in recession

**Eurozone Real GDP Growth**



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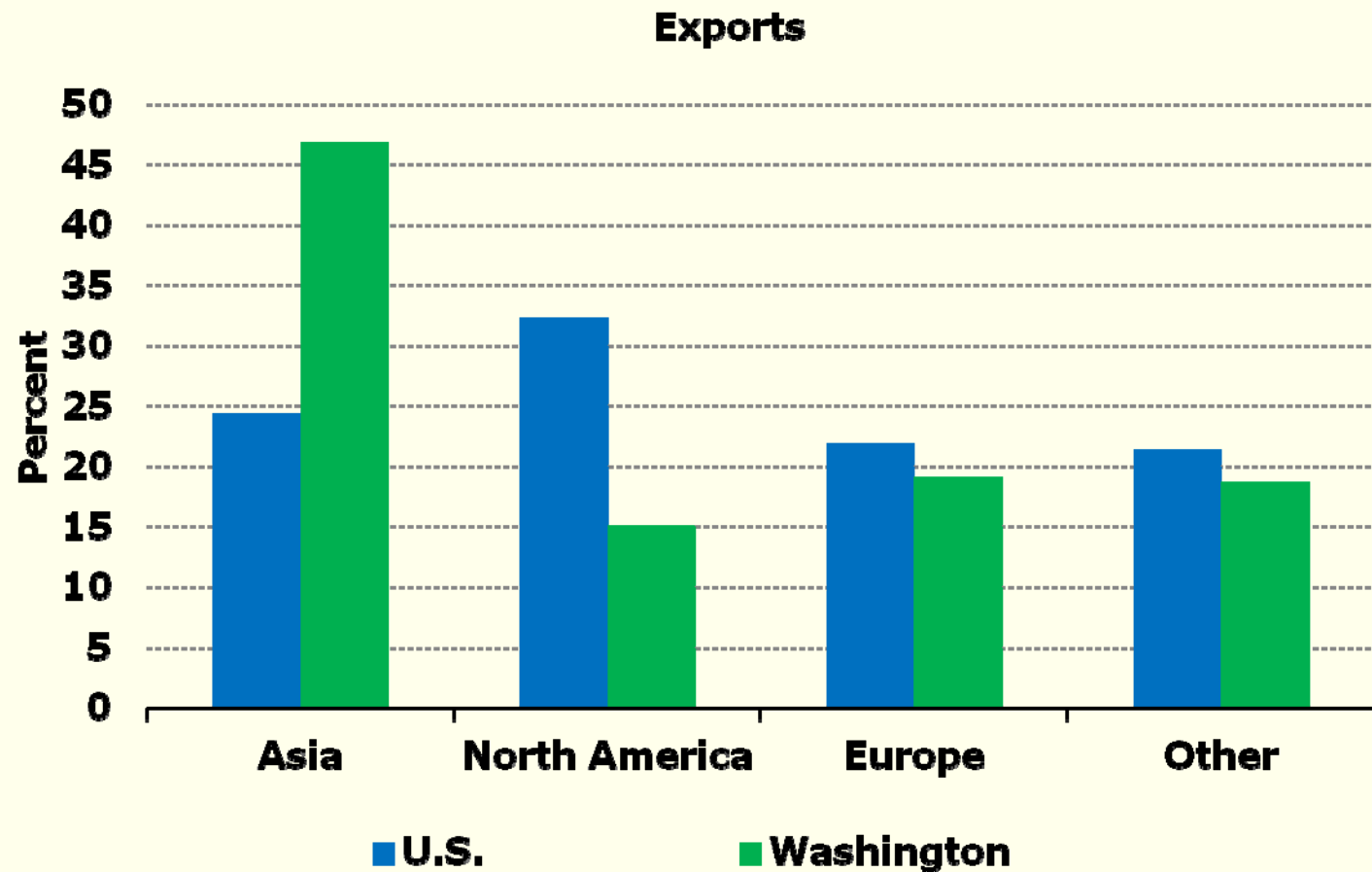
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Source: Eurostat, Blue Chip Economic Indicators, data through March 2012

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# Washington trade is more exposed to Asia

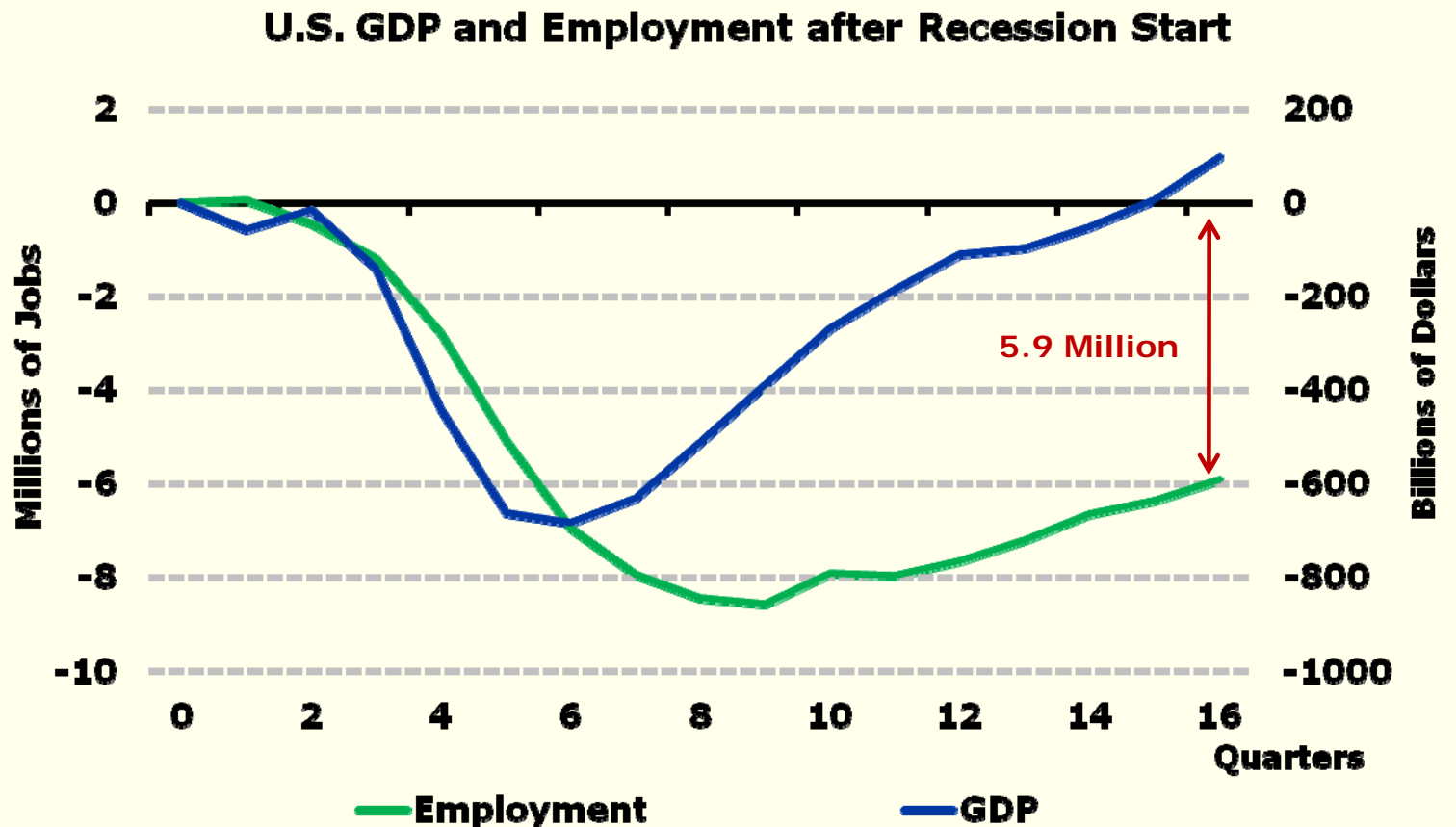


Source: Wisier Trade Data; through 2011



# The U.S. economy is now producing its pre-recession output with fewer jobs

Data normalized to recession start, 2007Q4 = 0



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Source: BEA, BLS, ERFC; data through 2011 Q4

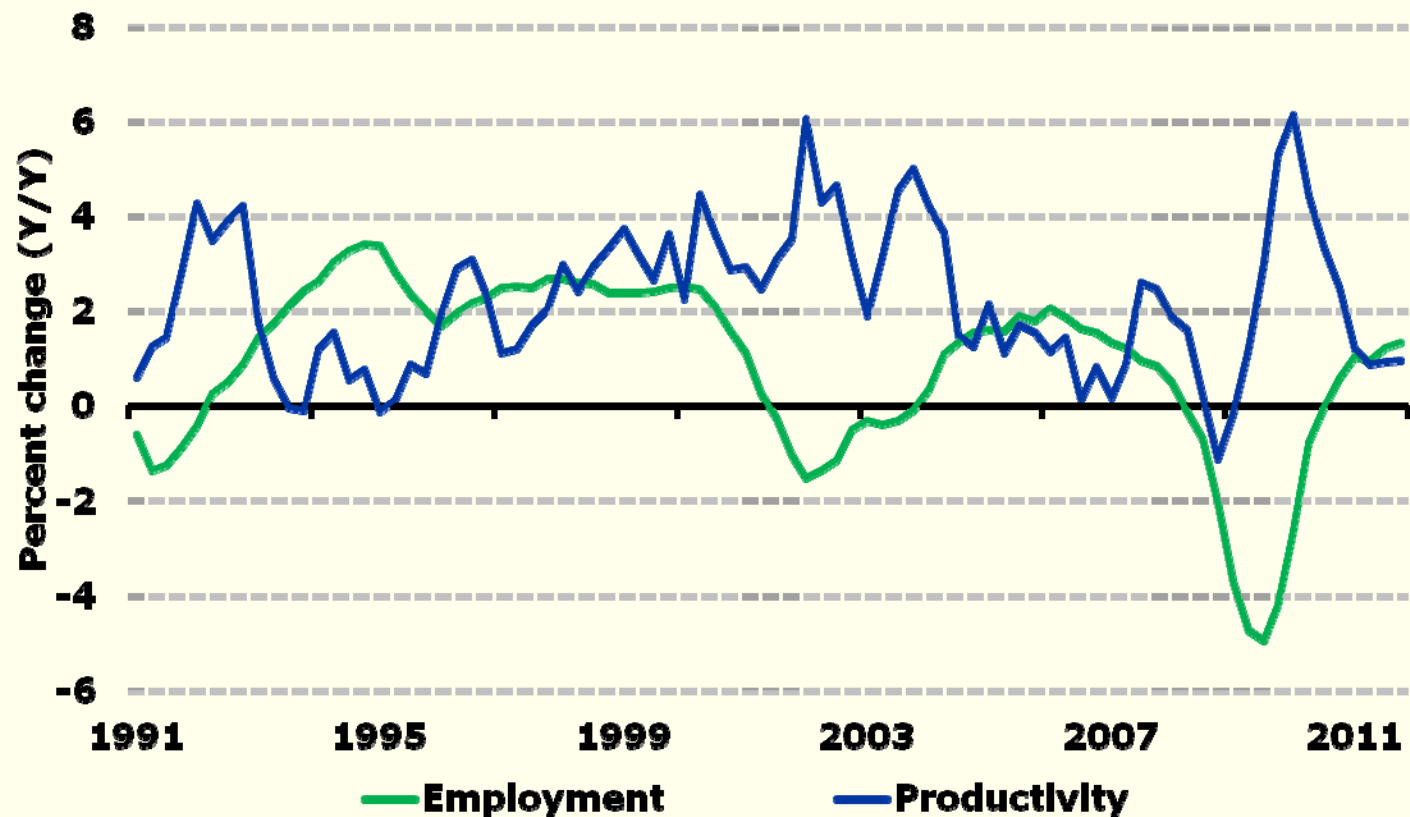
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# Labor productivity growth remains low, helping job growth

Any increase in final demand will translate to job growth after labor productivity declines.

### U.S. Employment & Labor Productivity Growth



Source: BLS; data through 2011 Q4



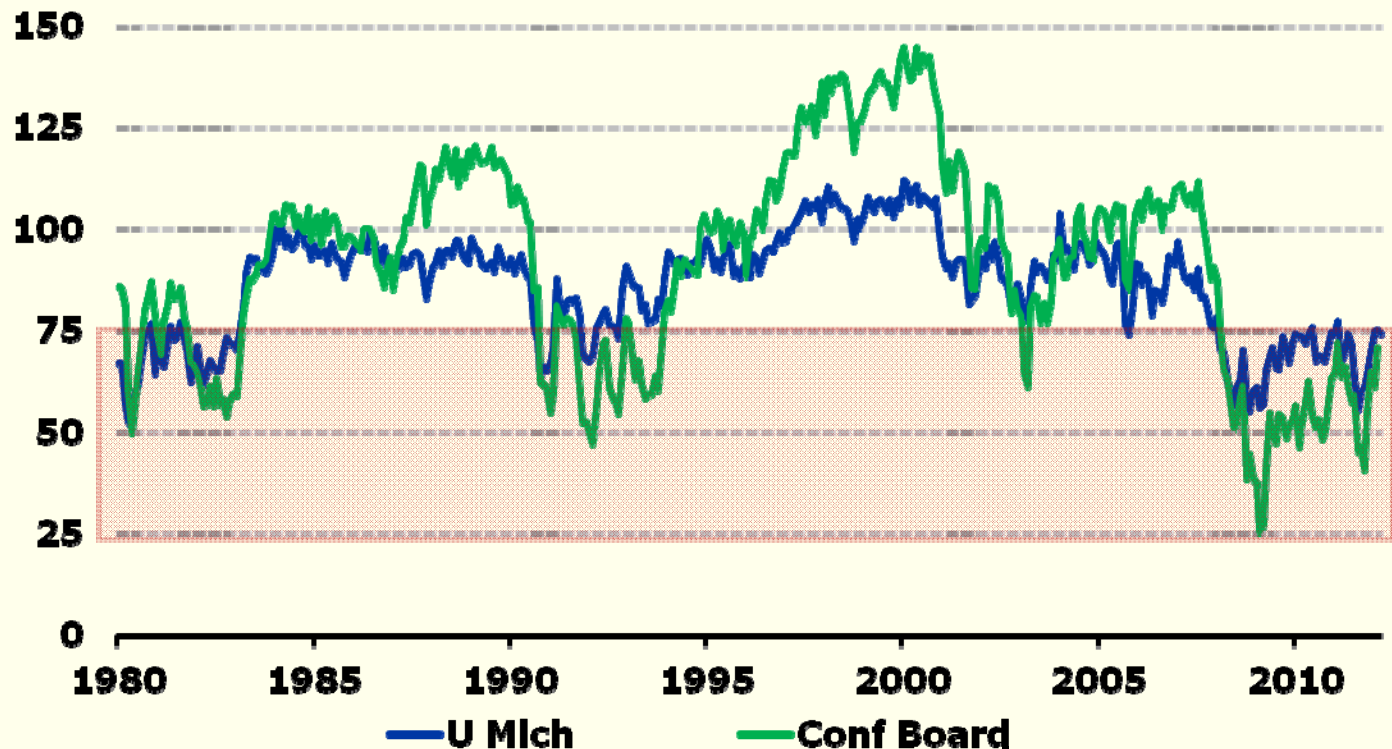


# Consumer confidence is showing some signs of firming, but still weak

## Index

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

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



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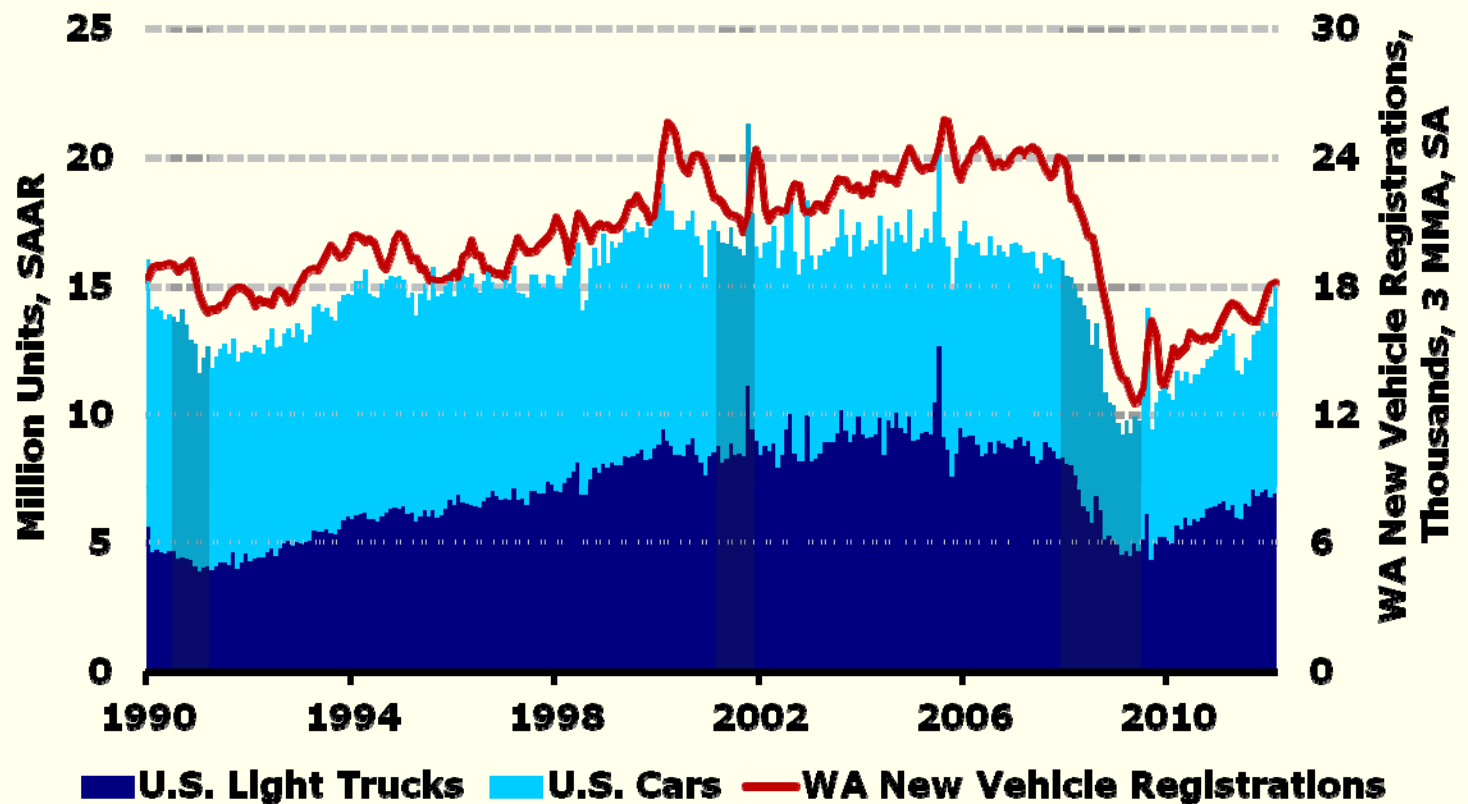
Source: University of Michigan; Conference Board, data through March 2012

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# U.S. LMV sales have recovered from recent supply chain disruptions

U.S. LMV sales in February were up 13.7% Y/Y.



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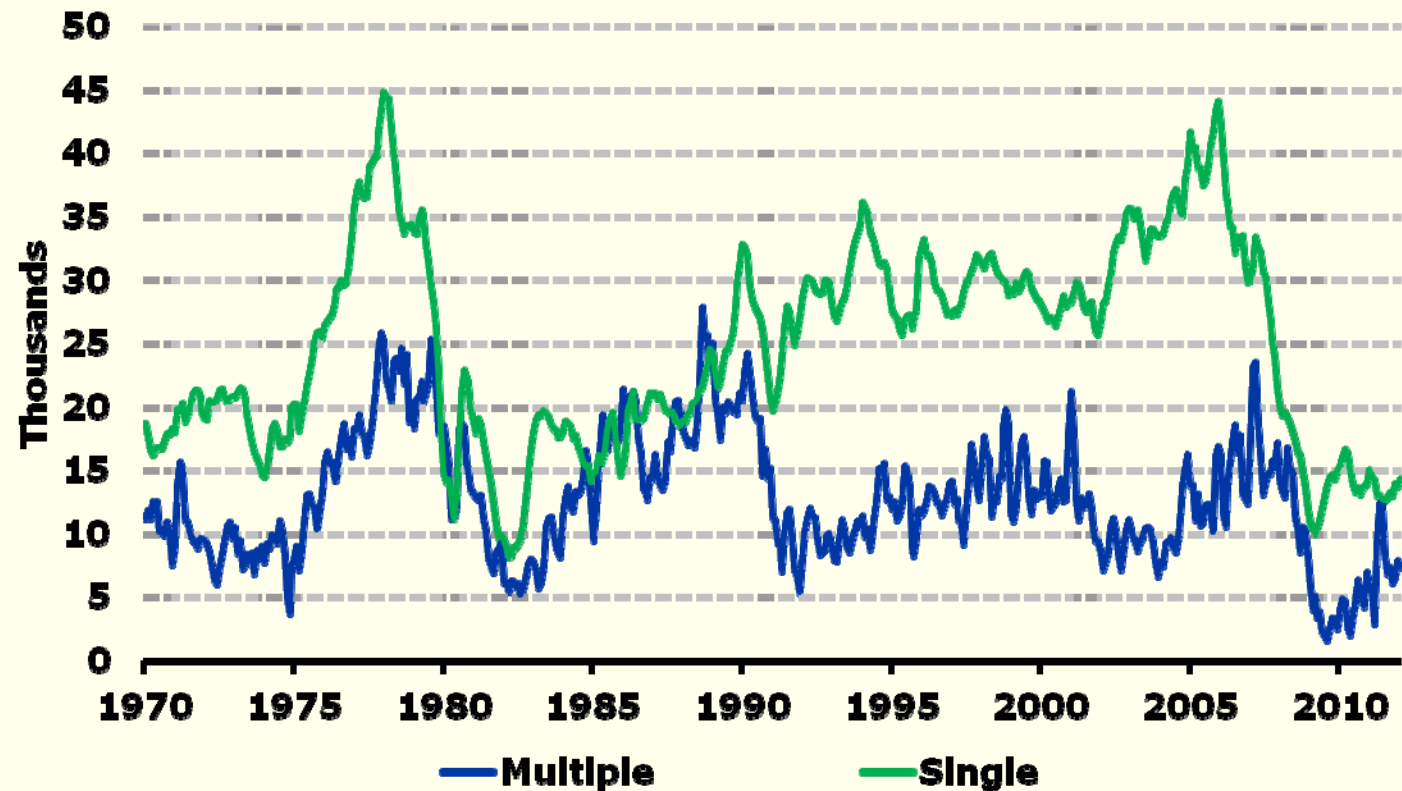
Source: Autodata Corporation, WA DOL; data through February 2012

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# WA multi-family building permits are improving

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



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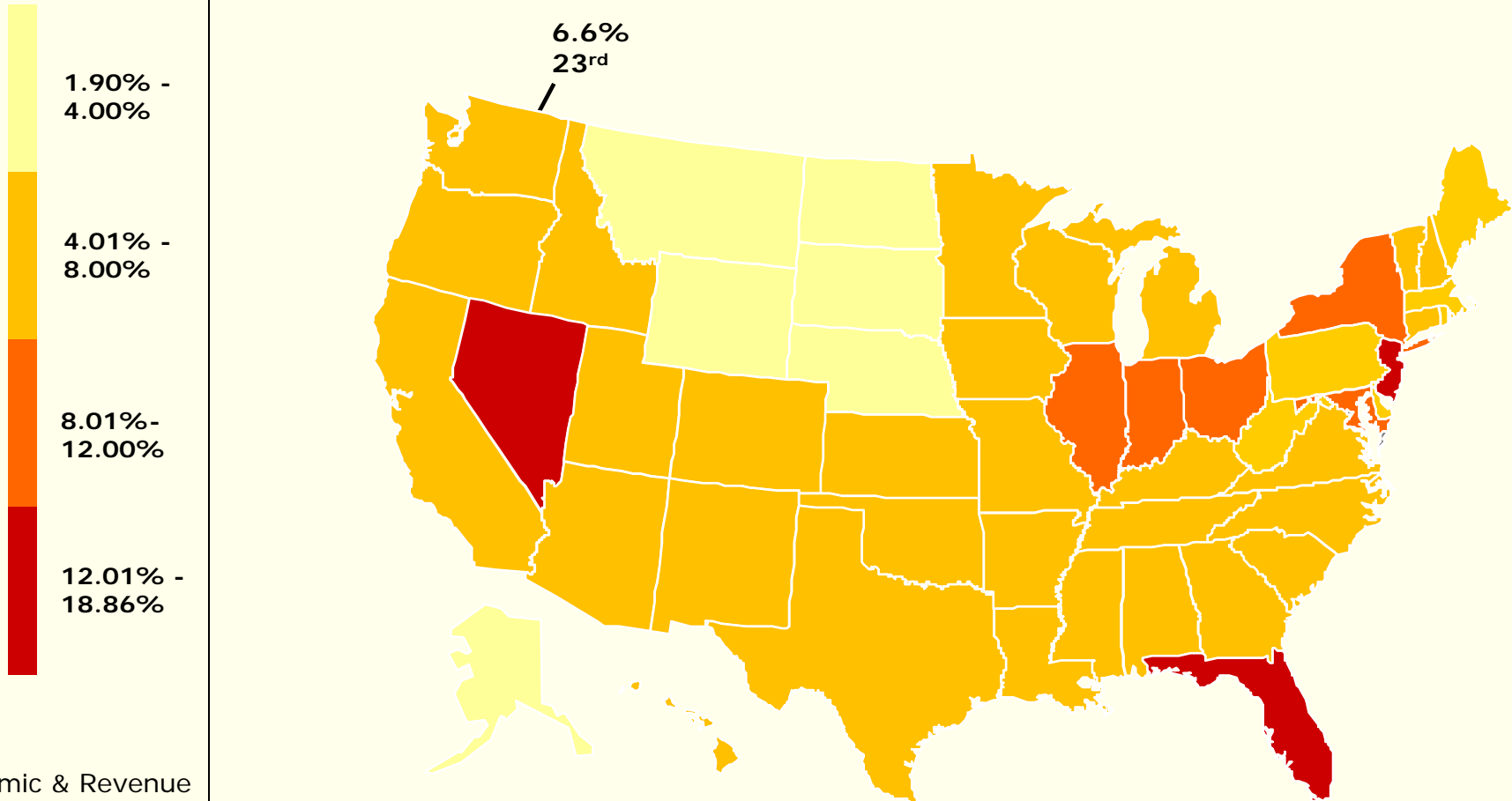
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Source: U.S. Census Bureau; data through January 2012

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# Percentage of loans that are 90 days past due or in foreclosure....



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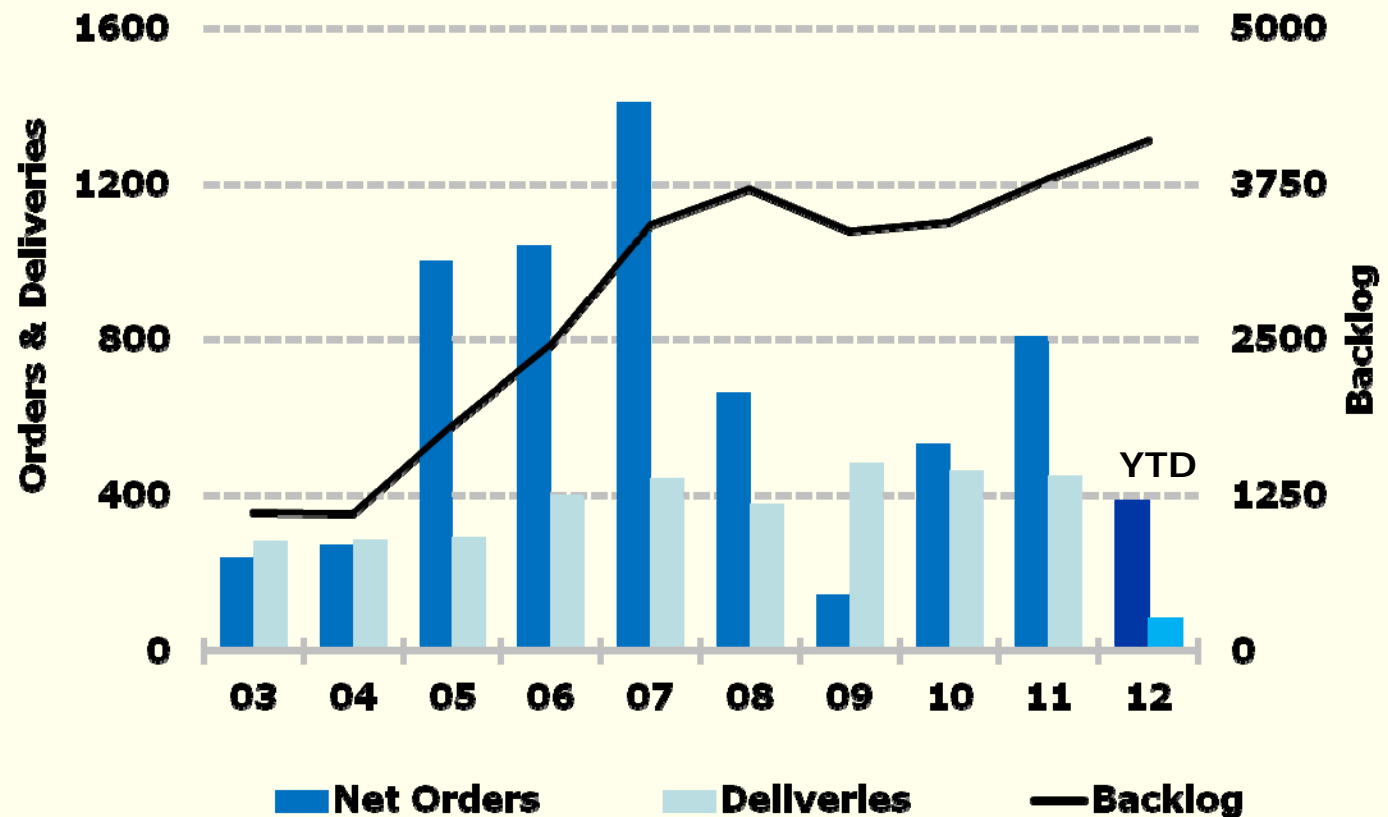
Source: Mortgage Bankers Association, data through fourth quarter 2011

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

Excludes the military's new refueling tanker



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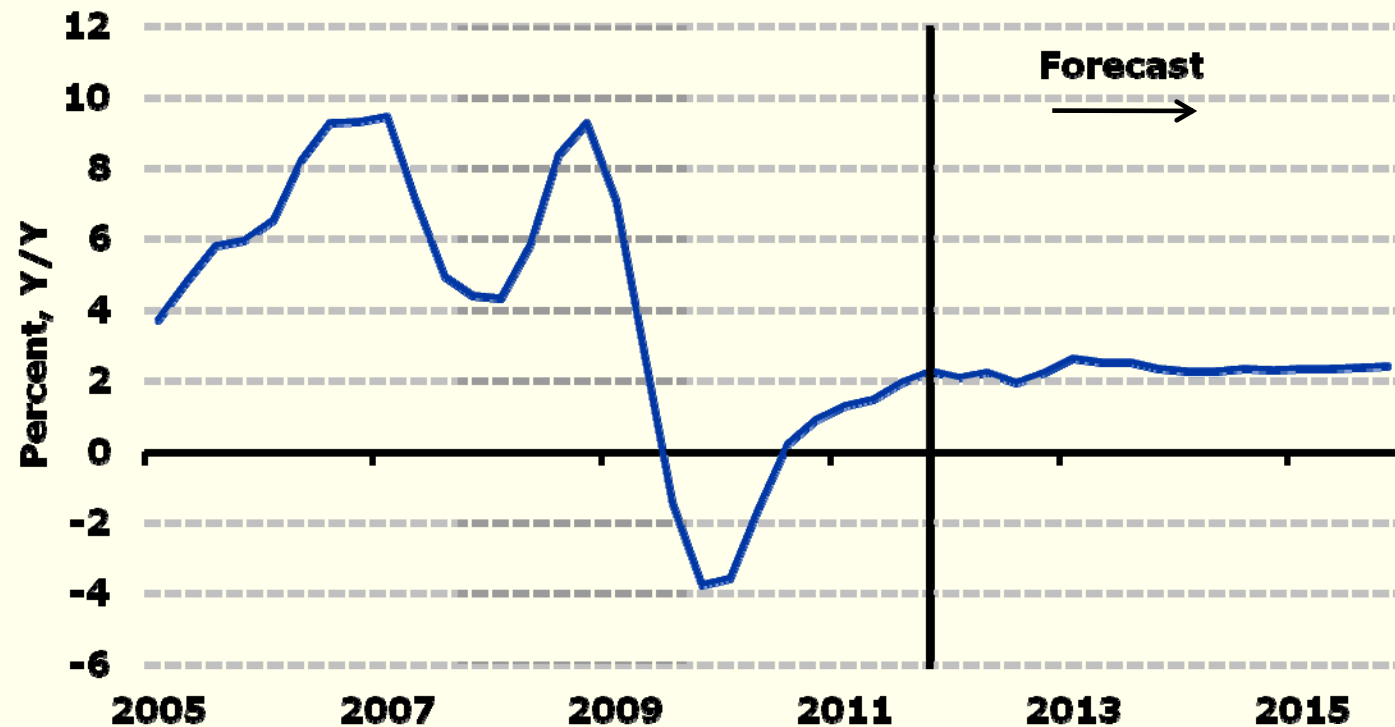
Source: Boeing, data through February 2012

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# Software publishing employment is growing

Washington Software Publishing Employment, SA



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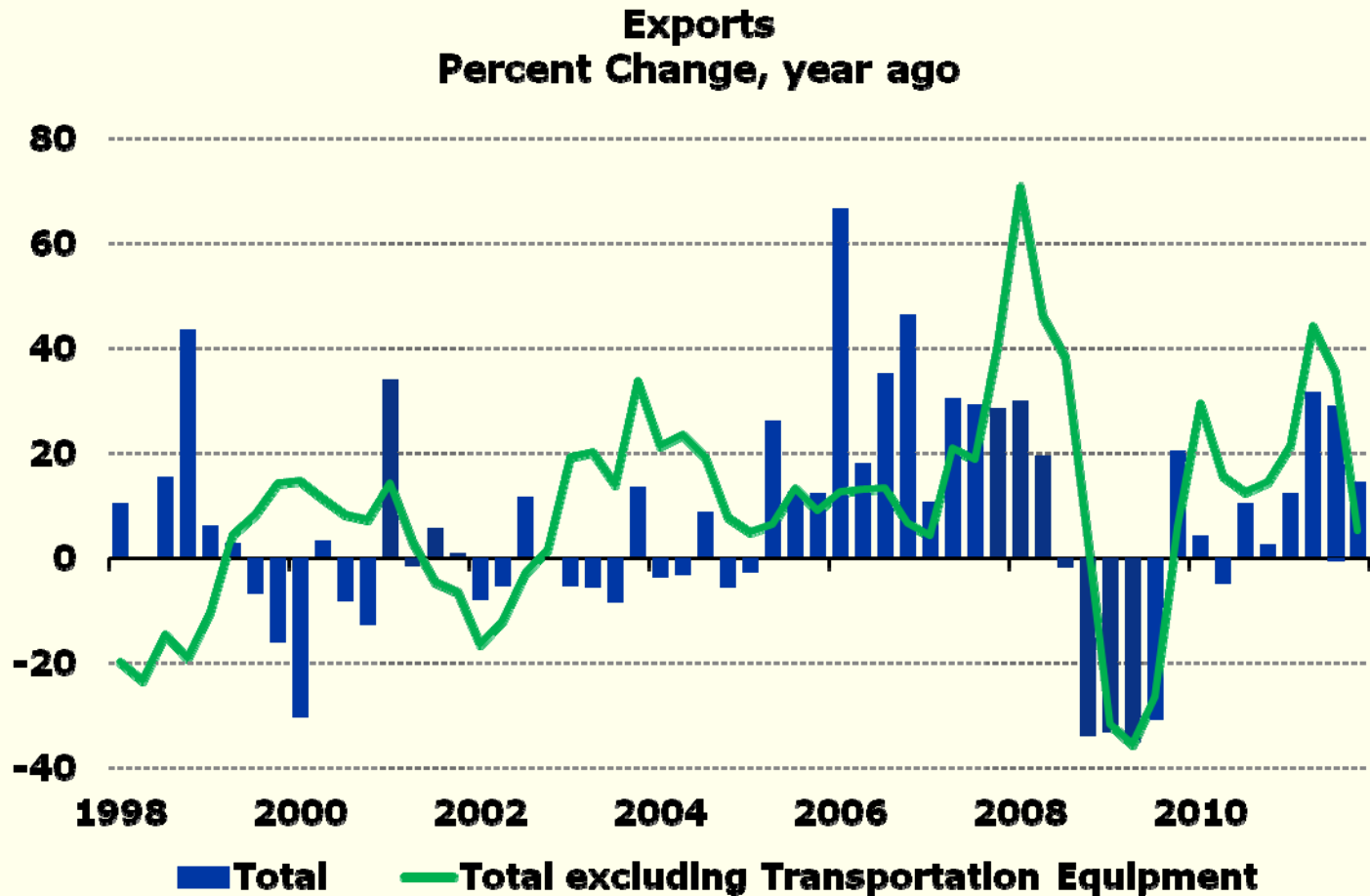
Source: ERFC February 2012 forecast; actual data through 2011Q4

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# WA export growth has slowed

Trans.  
Equip.  
exports  
were up  
27% Y/Y in  
Q4



Source: Wisier Trade Data; through 2011 Q4

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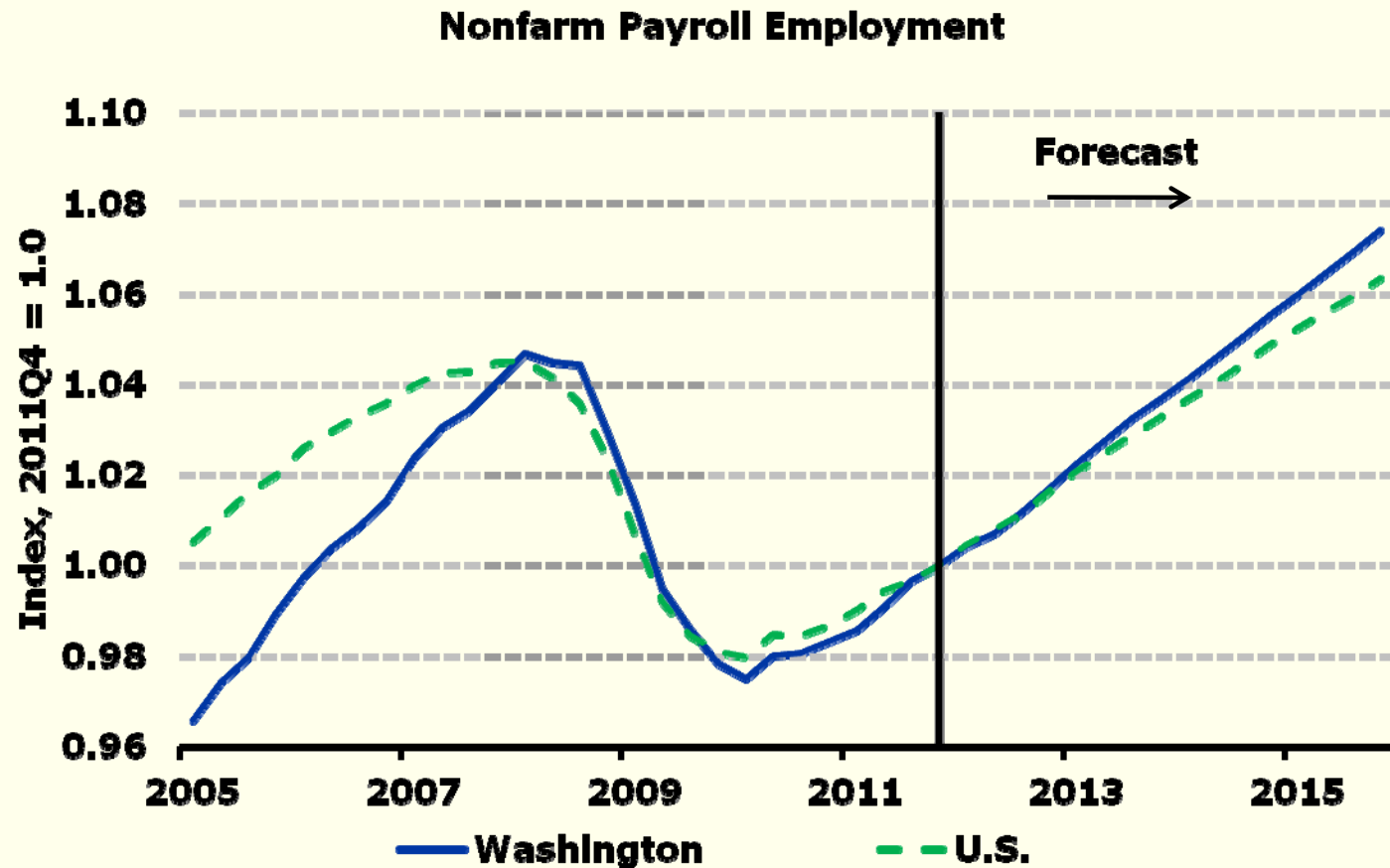


# WA employment will recover slightly faster than the U.S.

Date of regaining peak:

**WA:**  
2014Q3

**U.S.:**  
2014Q4



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Source: ERFC February 2012 forecast; actual data through 2011Q4

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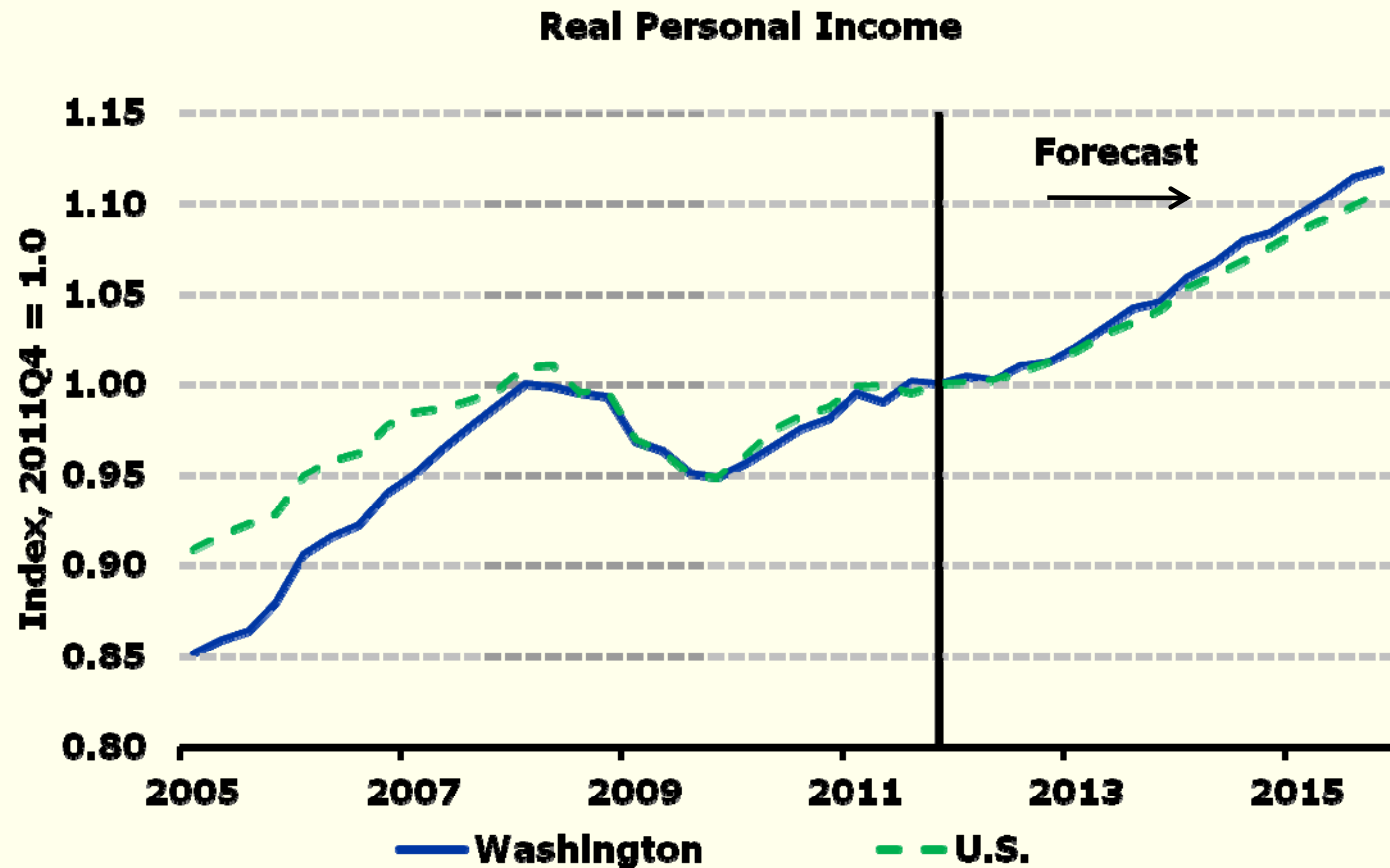


# WA personal income will recover faster than that of the U.S.

Date of regaining peak:

**WA:**  
2011Q3

**U.S.:**  
2012Q4



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Source: ERFC February 2012 forecast; actual data through 2011Q4

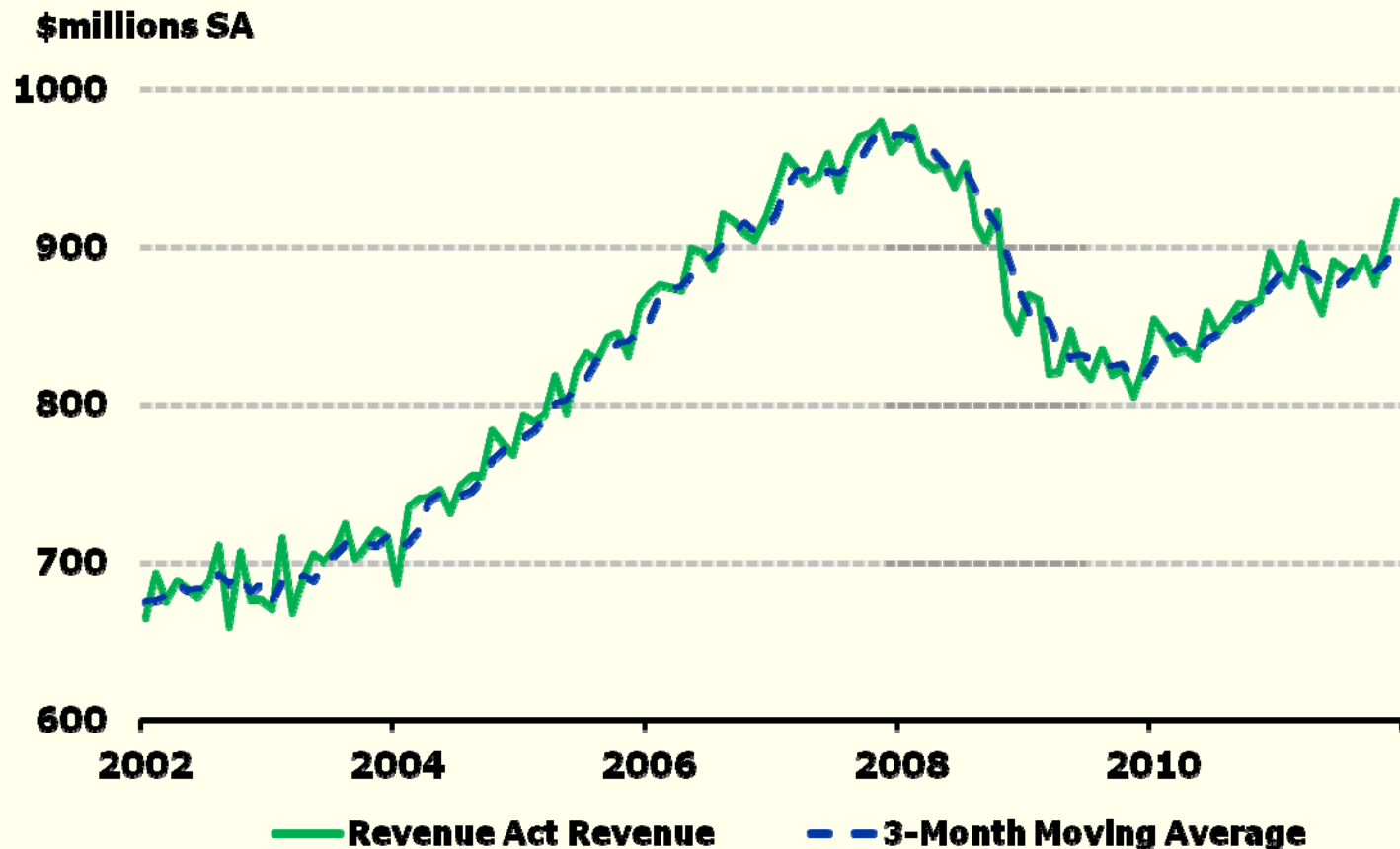
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# Revenue Act collections are growing slowly

Adjusted collections were up 6.2% Y/Y in the January 11 - February 10, 2012 collection period.

Trend is apparent in 3-month moving average (dotted line); monthly data is "noisy."



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\* 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 2011 activity

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# WA sales tax receipts show signs of picking up

Preliminary seasonally adjusted sales tax receipts were up 5% year-over-year for December activity



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Adjusted for large payments/refunds, amnesty payments and taxpayer reporting frequency change  
Source: ERFC; Monthly data through December 2011 preliminary activity

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# B&O tax receipts returned to growth after late fall slowdown

Much of the spring boost and late fall slowdown in B&O taxes was due to the effects of oil and gas prices on gross receipts of oil refineries and gas stations. Oil and gas prices are once again on the rise.

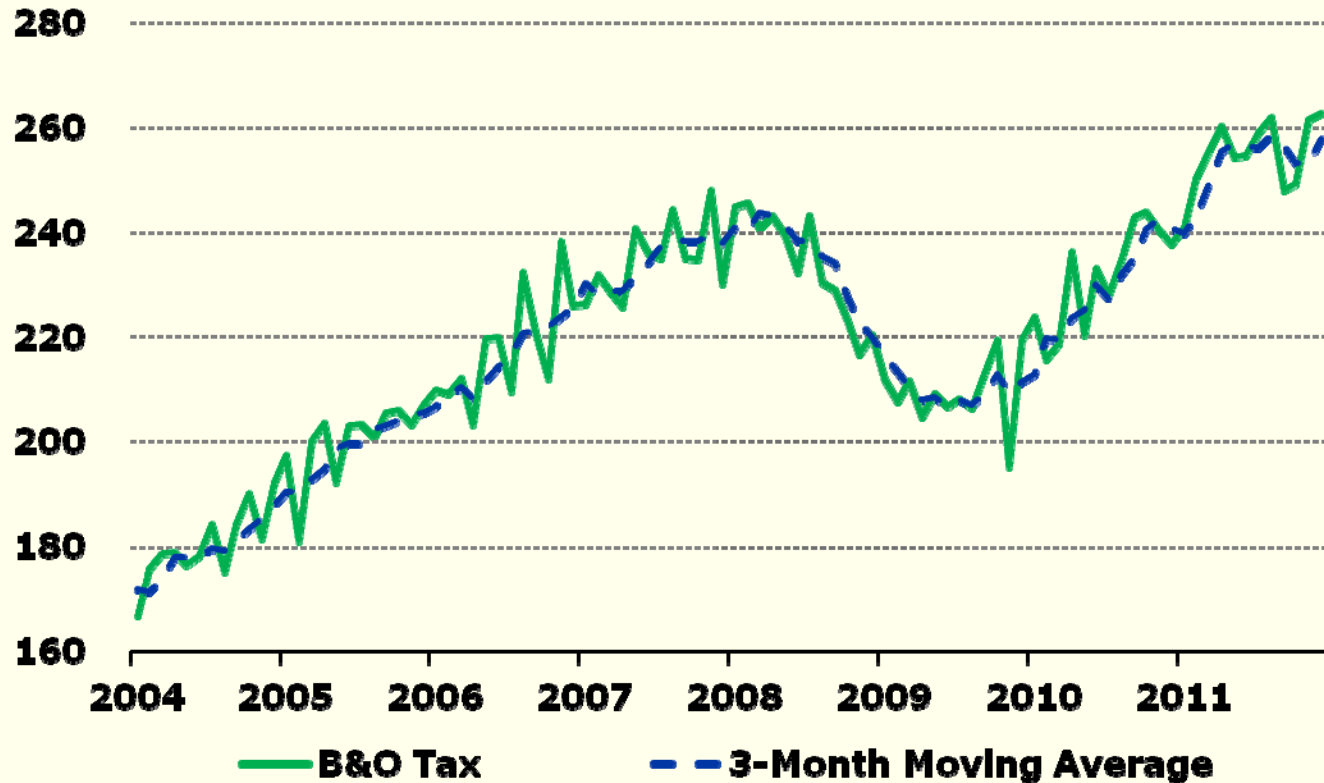
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## Washington B&O Tax Receipts

\$Millions, SA



Adjusted for large payments/refunds, amnesty payments and taxpayer reporting frequency change  
Source: ERFC; Monthly data through December 2011 preliminary activity

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# REIT activity bolstered recently by commercial property sales

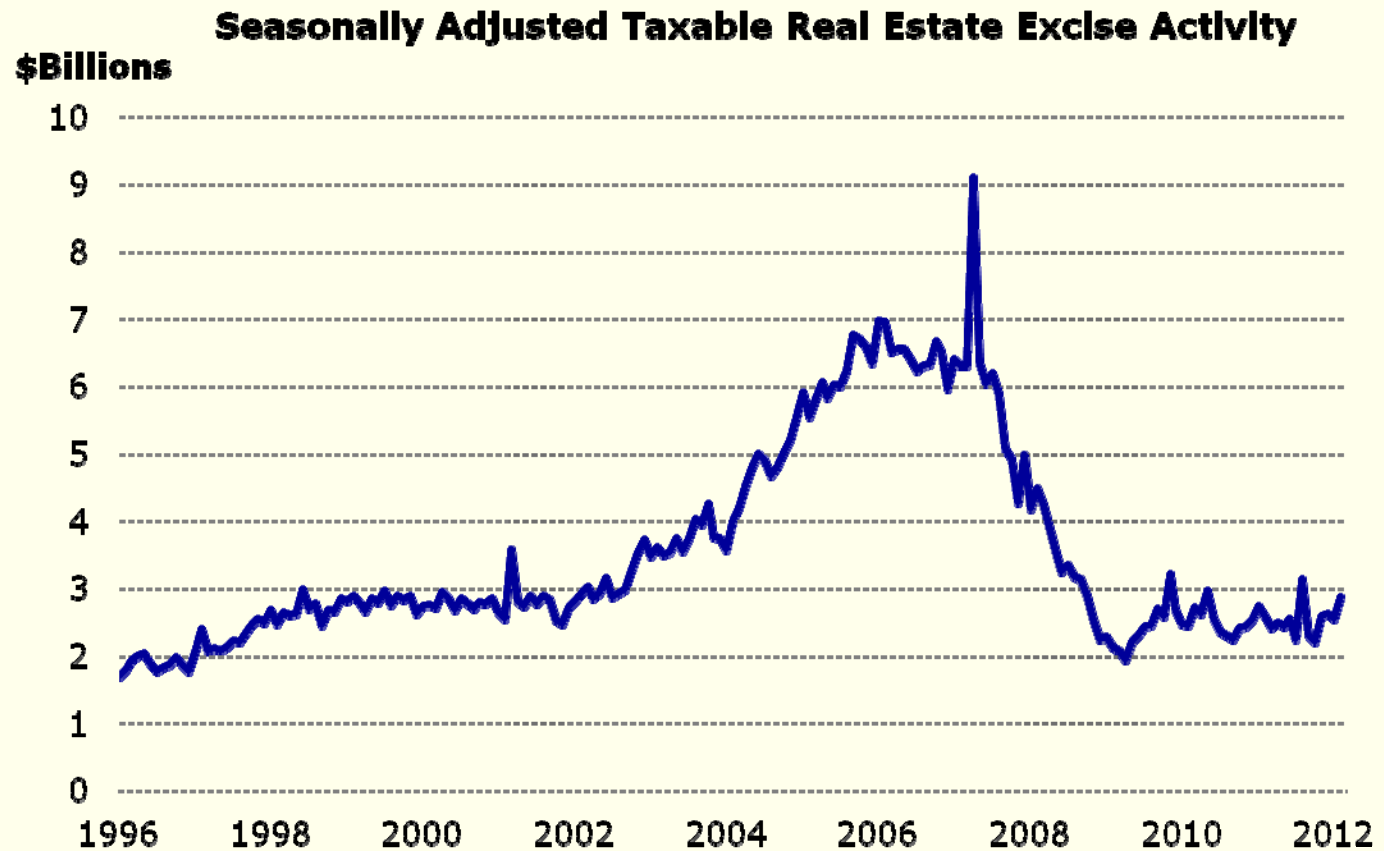
Preliminary February activity was up 11.4% year-over-year due to the sale of two large commercial properties in Seattle.

The previous spike was also due to large commercial sales.

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Source: ERFC; Monthly data through February 2012 preliminary

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

November Forecast:

**\$30,188 million**

USD millions

## February Forecast

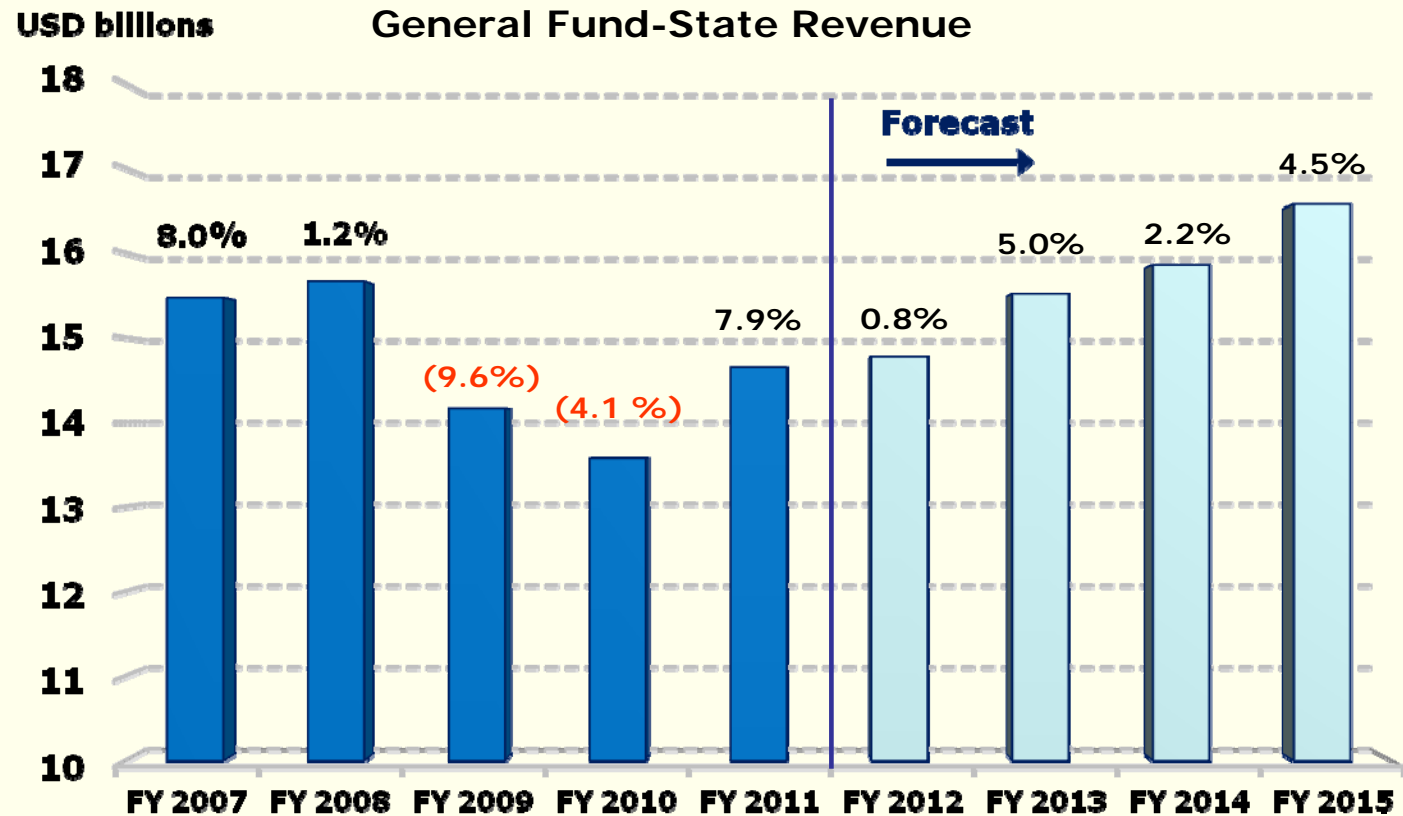
	<u>Non-economic Change</u>	<u>Forecast Change</u>	<u>Forecast</u>	<u>Total Change*</u>
Dept. of Revenue	\$64	\$27	\$28,695	\$90
All other agencies	\$0	\$6	\$1,589	\$6
<b>Total GF-S</b>	<b>\$64</b>	<b>\$32</b>	<b>\$30,284</b>	<b>\$96</b>

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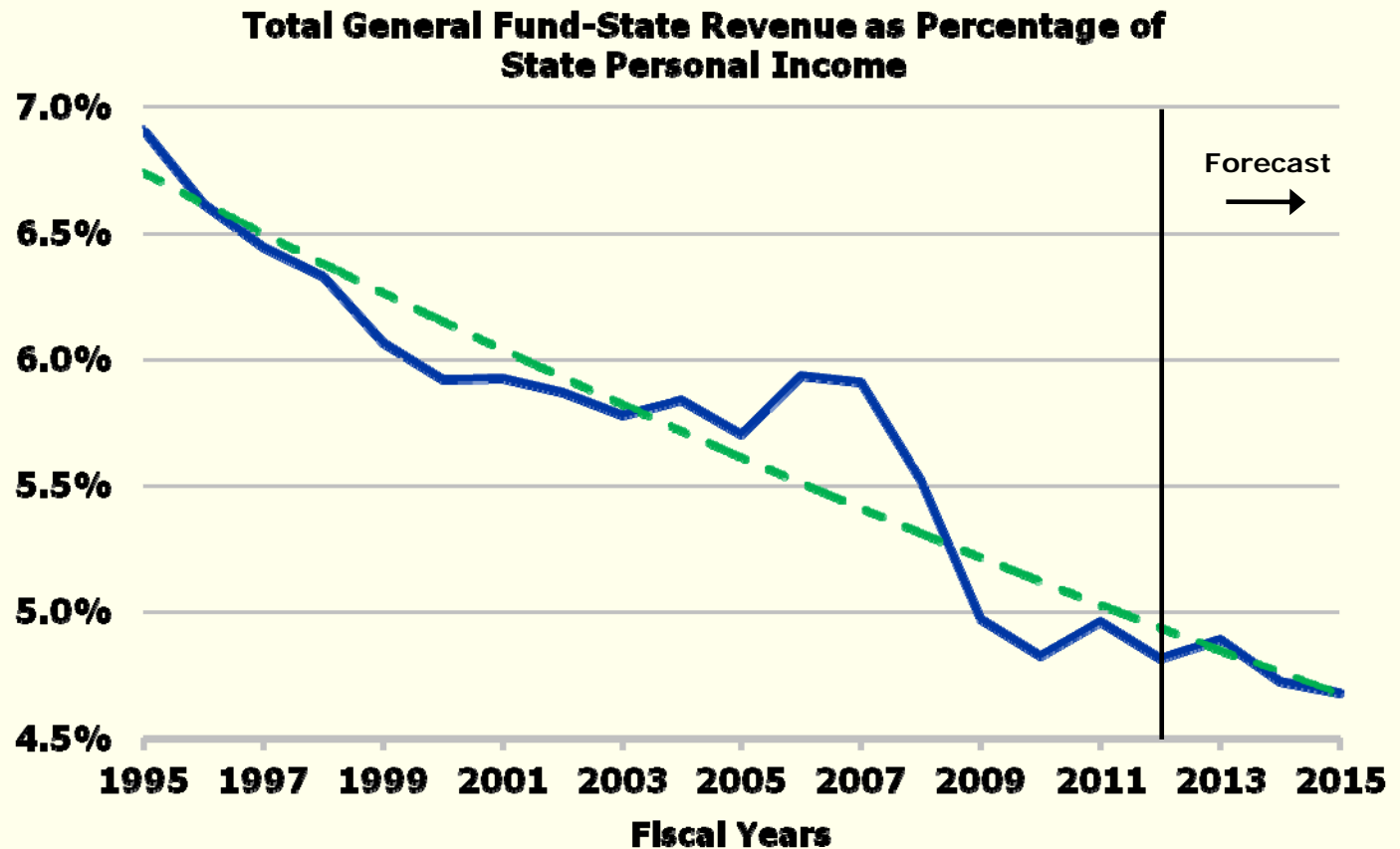
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\*General Fund & Related Funds for FY 07-09, General Fund – new definition for FY 10-13  
Source: ERFC forecast, February 2012

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# GF-S revenue as a share of personal income returns to trend in FY13



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\*Current definition of Revenue Act

Source: ERFC; data through FY 2011, February 2012 forecast

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# 2011-13 Biennium alternative forecasts – cash basis

<u>\$Millions</u>	<b>2011-13 Biennium</b>	<b>Difference From the baseline</b>
<b>Feb 2012 Baseline (50%)</b>	<b>\$30,284</b>	
<b><u>Feb 2012 Alternative Forecasts</u></b>		
<b>Optimistic (10%)</b>	<b>\$32,025</b>	<b>\$1,741</b>
<b>Pessimistic (40%)</b>	<b>\$28,749</b>	<b>(\$1,535)</b>
<b>Probability Weighted Average</b>	<b>\$29,844</b>	<b>(\$440)</b>
<b>GCEA*</b>	<b>\$30,261</b>	<b>(\$23)</b>

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



## Conclusion

- The forecast for the 2011-13 Biennium is \$96 million higher
- Revenues are expected to grow 7.3% between the 2009-11 and 2011-13 biennium and 7.1% between the 2011-13 and 2013-15 biennium
- The national and state economies appear headed for an extended period of muddle-through – slow economic and job growth, high unemployment and weak confidence
- The level of uncertainty in the baseline remains extremely high, and downside risks outweigh upside risks



# Questions

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