

# Washington State Economic Outlook & Revenue Collection Experience

Presented to  
Select Committee on Pension Policy

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WASHINGTON STATE  
ECONOMIC AND REVENUE FORECAST COUNCIL



## Summary

- Economic activity and revenue collections since the September forecast have come in very close to forecast
- According to the NBER, the Great Recession officially ended in June 2009
- However, there are still considerable headwinds, and economic growth is expected to be slow
  - Fiscal tightening as states cut budgets
  - Improving, but still tight credit for small business
  - Weak construction, consumer confidence
  - Slow job growth; greater uncertainty
- Double-dip unlikely, but possible
- WA outperformance thesis still intact

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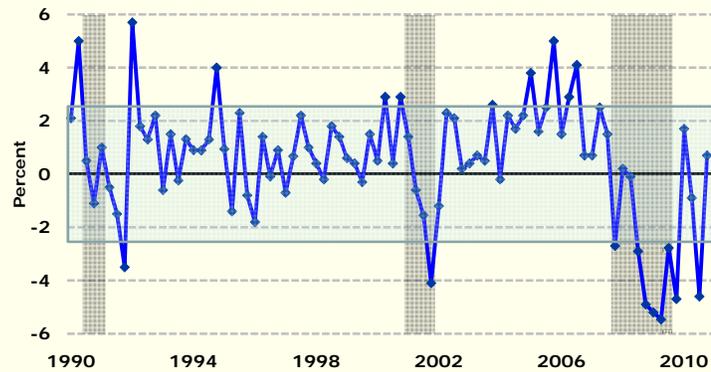
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## Revenues have come in close to forecast since September

Average Adjusted Monthly Variance



Source: ERFC; data through November 2010 estimated

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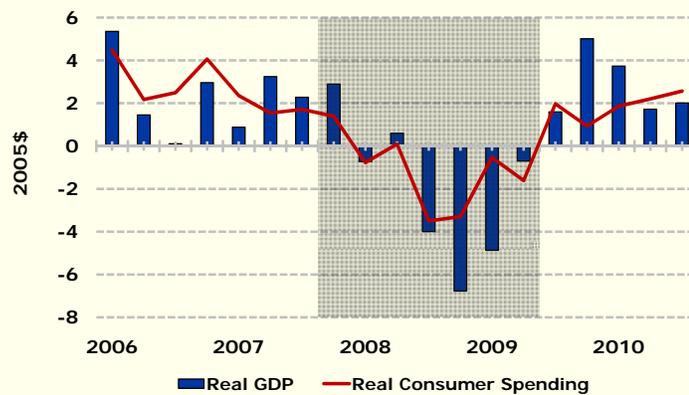
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## GDP is growing, but modestly

Percent growth, SAAR



Source: BEA, data through 2010 Q3

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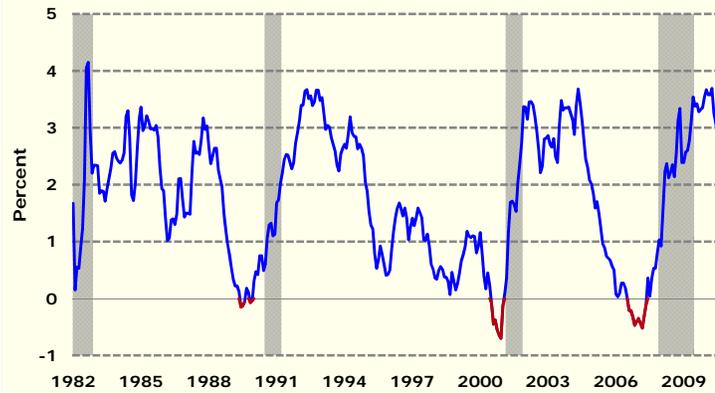
## The yield curve has flattened, but is not signaling a double dip

An inverted yield curve typically precedes a recession while a steepening yield curve signifies a recovery

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**Yield Curve Spread**  
10-Year minus 3-Month U.S. Treasuries



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## Consumer confidence remains uncertain

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**Index**  
Mich: 1966Q1 = 100, SA  
Conf Board: 1985 = 100, SA

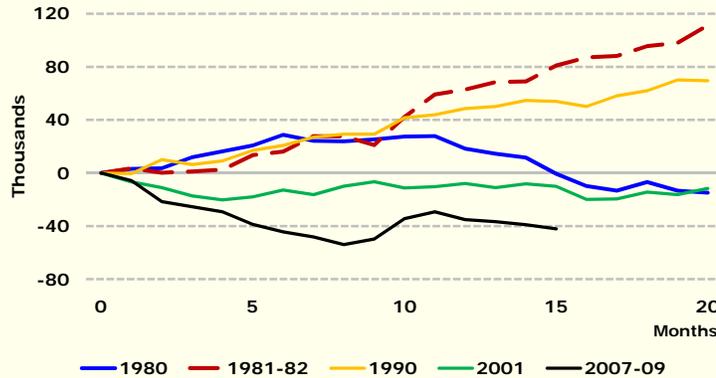


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# Employment growth in WA since the trough has been slowest for this recession...

### Change in Employment Since Recession Trough



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Source: BLS, WA ESD; data through September 2010

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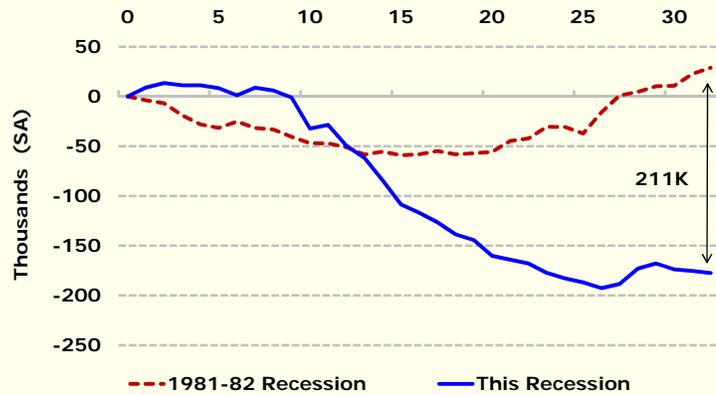
# ... and the hole we are in is also the toughest

Peak to trough job losses

**1981-82:**  
2.9% of labor force

**This time:**  
5.5% of labor force

### Washington Months after Recession Start



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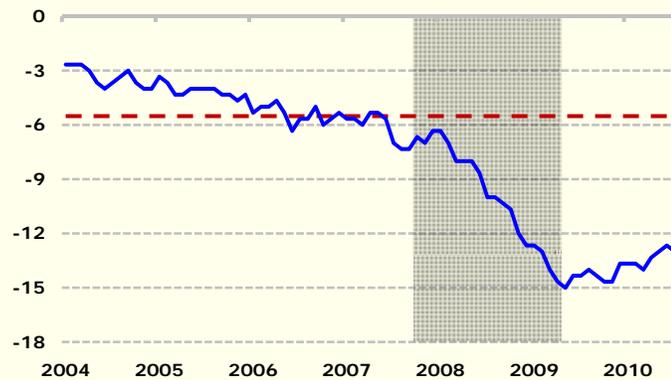
Source: WA ESD, ERFC; data through September 2010

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## Credit conditions for small business are improving, but remain tight

Availability of Loans  
Net Percent ("Easier" minus "Harder"), 3mma



Source: National Federation of Independent Business; data through September 2010

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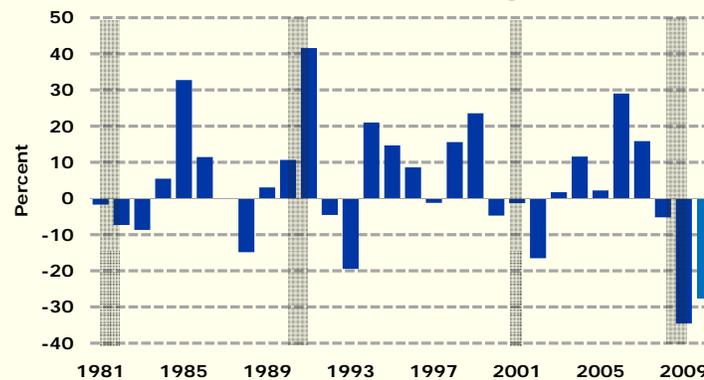
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## This is WA's worst downturn in non-residential construction in 30 years

Non-Residential Contract Value  
Annual Percent Change



Source: McGraw-Hill Construction, data through September 2010

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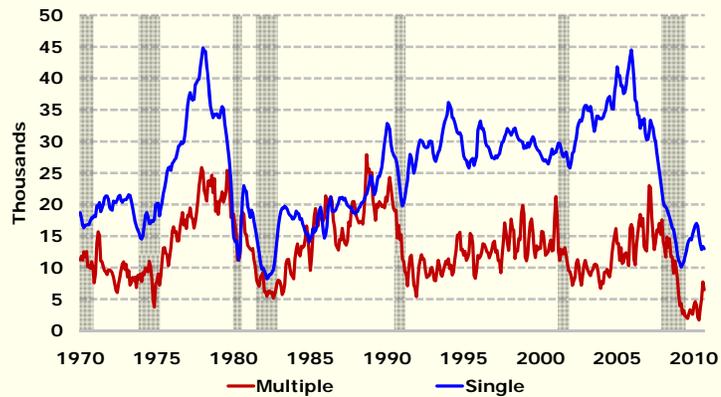
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## WA single-family building permits appear to be stabilizing

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



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Source: U.S. Census Bureau; data through September 2010

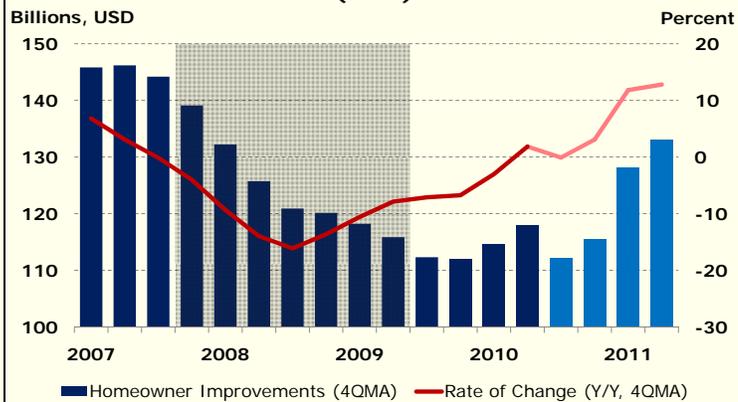
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## Leading indicator suggests remodeling improvement

The Leading Indicator of Remodeling Activity (LIRA)



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Source: Joint Center for Housing Studies of Harvard University, actual data through 2010 Q2

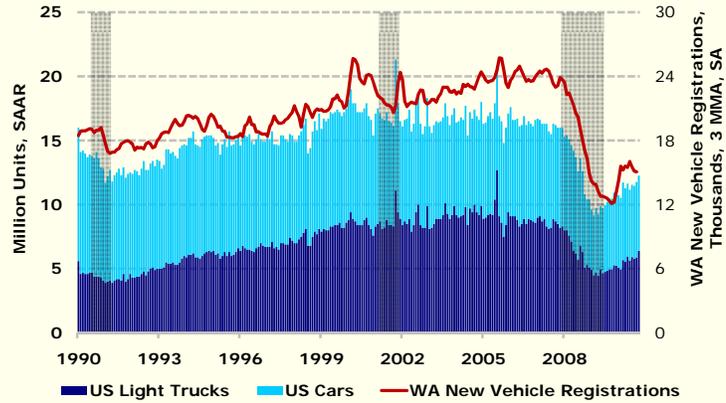
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## U.S. automotive sales ticked up in October

Cash for Clunkers effect removed



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## WA employment lagged the nation in the downturn and will recover at about the same rate as the nation

Percent change, year ago



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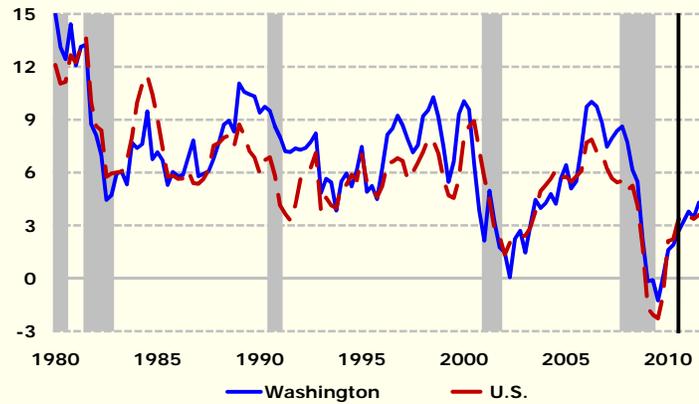


## The recovery in WA personal income growth, however is expected to be better than the nation's

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Percent change, year ago



Source: ERFC November 2010 preliminary forecast; actual data through 2010Q3

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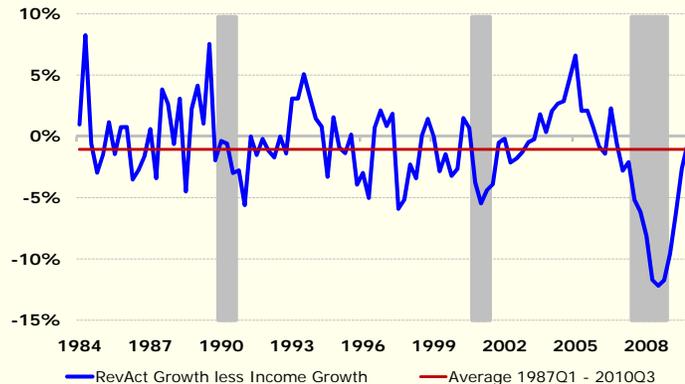
## Revenue growth relative to income in positive territory for Q3

The difference between the growth rate of Revenue Act collections and state personal income began to shrink in the second quarter of 2009.

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Y/Y growth in net Revenue Act collections\* minus growth in state personal income



\* Adjusted for large one-time payments, current definition of Revenue Act

Source: DOR and ERFC; data through 2010Q3 estimated

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## Initiative 1107 will subtract \$272 million through the next biennium

	FY2011	FY2012	FY2013
Sales Tax on Candy	(\$15,191,000)	(\$31,250,000)	(\$31,686,000)
Sales Tax on Bottled Water	(\$16,083,000)	(\$33,768,000)	(\$35,355,000)
Excise Tax on Carbonated Beverages	(\$23,064,000)	(\$41,449,000)	(\$41,200,000)
Food Processors B&O Tax	(\$1,932,000)	(\$4,028,000)	(\$4,165,000)
Revenue Adjustment for Price Elasticity	\$1,491,000	\$2,670,000	\$2,663,000
<b>Total State General Fund Revenue Impact</b>	<b>(\$54,779,000)</b>	<b>(\$107,825,000)</b>	<b>(\$109,743,000)</b>
<b>0911 Biennium</b>		<b>1113 Biennium</b>	
<b>(\$54,779,000)</b>		<b>(\$217,568,000)</b>	

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Source: OFM fiscal impact statement

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## Gold prices are approaching their historical highs



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Source: World Gold Council, BLS, ERFC; data through October 2010

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## Conclusion

- The economy continues to grow, but slowly
- We expect near term growth similar to what we did in our last forecast, but the longer term outlook as well as the trajectory to it is weaker
- The level of uncertainty inherent in our forecast remains higher than usual
- State revenues are coming very close to the September forecast
- The passage of Initiative 1107 will reduce revenues by \$ 272 million through the next biennium.
- The next revenue collection update will be published on the 11<sup>th</sup> of November, and our new revenue forecast will be presented on the 18<sup>th</sup>.

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## Questions



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