

Economic & Revenue Outlook

Presented to
Select Committee on Pension Policy

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September 20, 2011
Olympia, Washington



WASHINGTON STATE
ECONOMIC AND REVENUE FORECAST COUNCIL



Summary

- The economic outlook has weakened significantly in recent months
- Data revisions by the BEA show the U.S. economy close to stalling early this year
- The most likely scenario is an extended period of muddle-through
- Our last revenue forecast reduced expected GF-S revenues by \$1.4 billion in the current biennium
- Risks to the outlook
 - European sovereign debt problem
 - Political gridlock in Washington DC
 - Weak consumer and business confidence

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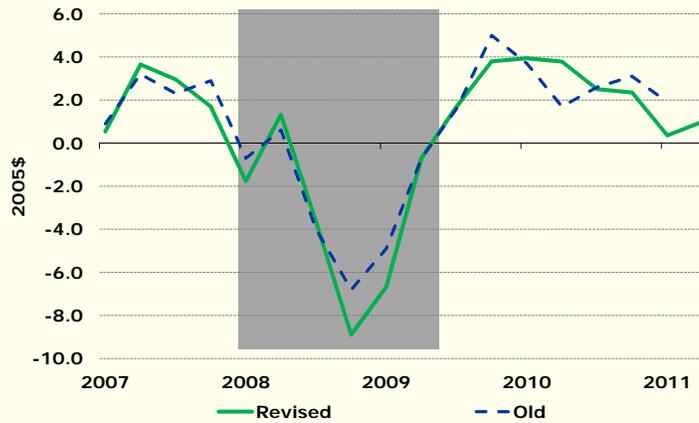
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GDP revisions show the economy close to stalling in the first half

Percent Change, SAAR



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Source: BEA; data through 2011 Q2 second estimate; revised 2003 Q1 onward

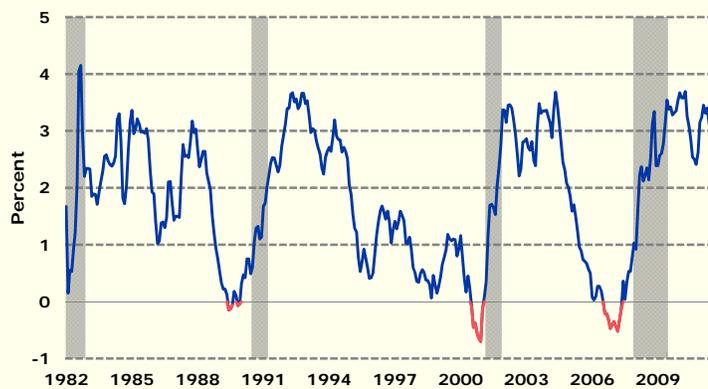
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The yield curve spread is shrinking

An inverted yield curve typically precedes a recession; a shrinking yield curve spread indicates weakening growth

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



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Source: Federal Reserve Board, ERFC; data through September 12, 2011

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Stock market volatility has again spiked



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Source: Yahoo! Finance; data through September 12, 2011

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Consumer confidence is headed back down...

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



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Source: University of Michigan; Conference Board, data through August 2011

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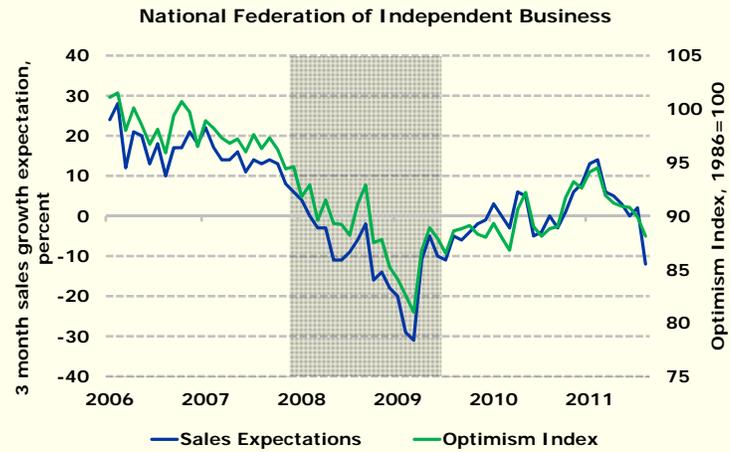
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...as are sales expectations and small business optimism

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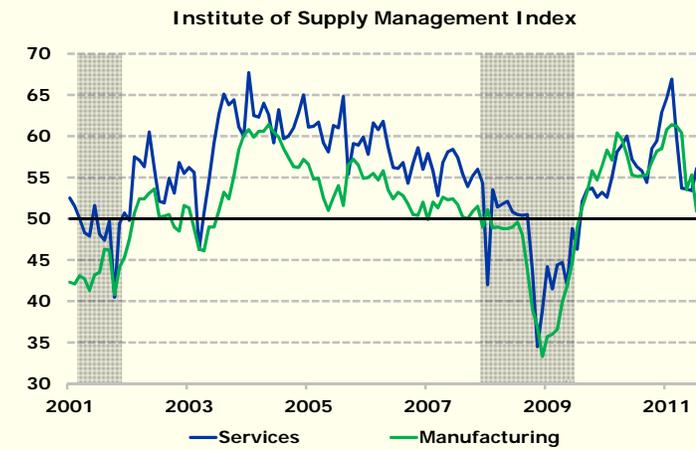


Manufacturing and service sector growth is slowing

An index greater than 50, implies growth

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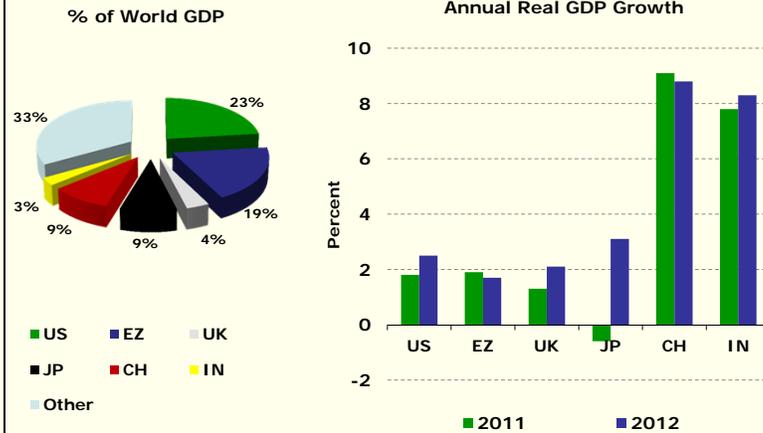


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World GDP is expected to remain weak through 2012

Global GDP growth less than 3% implies the world economy is in recession



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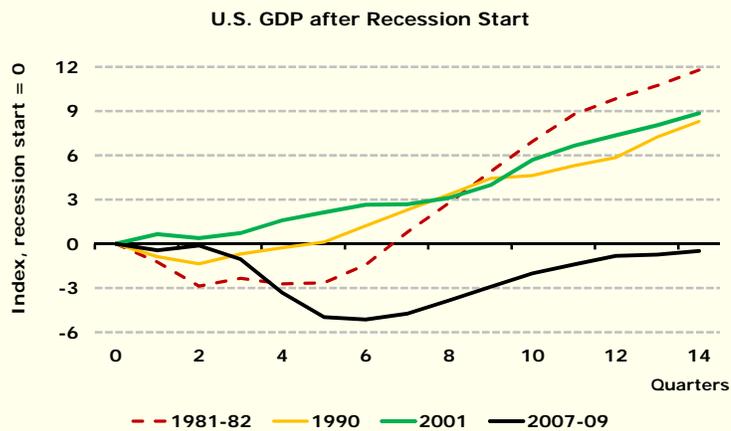
Source: Blue Chip Consensus, ERFC, World Bank; data through August 2011

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The U.S. economy still hasn't regained all the output lost



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Source: BEA, ERFC; data through 2011 Q2

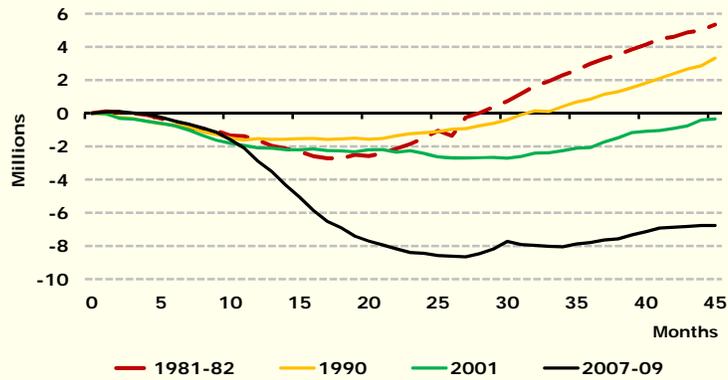
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This has been the slowest recovery in U.S. employment

U.S. Employment after Business Cycle Peak



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Source: BLS, ERFC; data through August 2011

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Employment should pick up as labor productivity growth declines

U.S. Employment & Labor Productivity Growth



Any increase in final demand will translate to job growth

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Source: BLS; data through 2011 Q2

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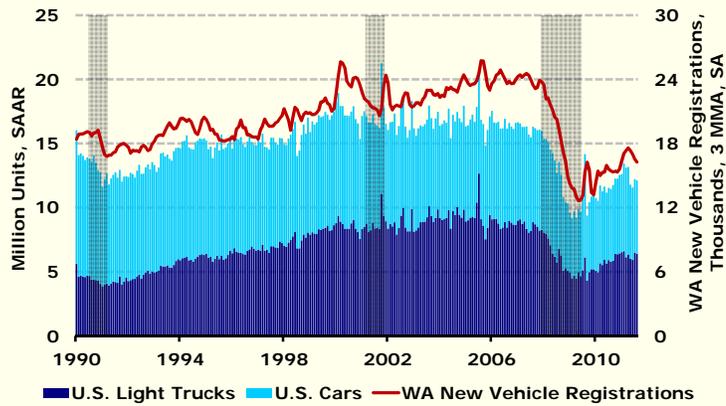


U.S. LMV sales have been adversely affected by supply-chain issues

U.S. LMV sales fell 0.8% in August

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Source: Autodata Corporation, WA DOL: data through August 2011

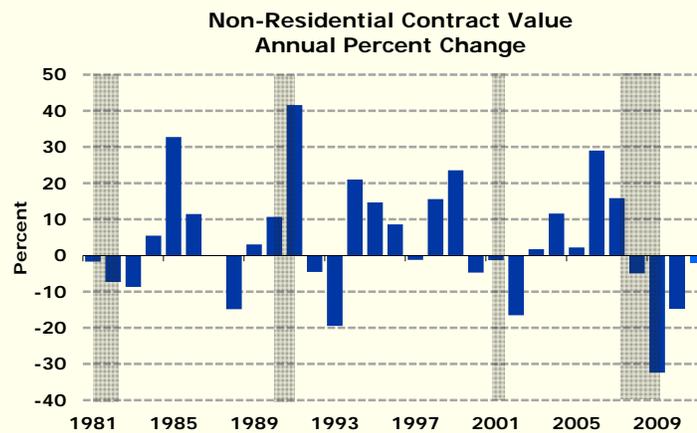
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This is WA's worst downturn in non-residential construction in 30 years

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Source: McGraw-Hill Construction, data through August 2011

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Home prices continue to decline

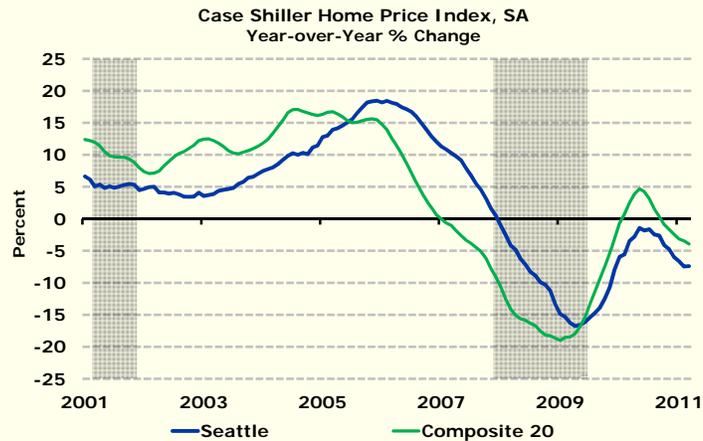
Jun 2011

U.S is
down
4.6%

SEA is
down 6.4%

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Source: S&P/Case-Shiller; data through June 2011

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More foreclosures can be expected...

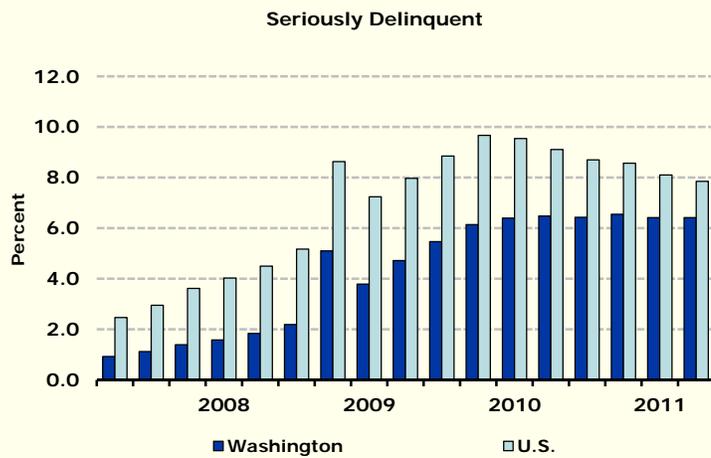
WA Rank:

2011Q1 : 23
2011Q2 : 23

Seriously
Delinquent =
90+ Days Past
Due or in
foreclosure

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Source: Mortgage Bankers Association® National Delinquency Survey, data through 2011 Q2

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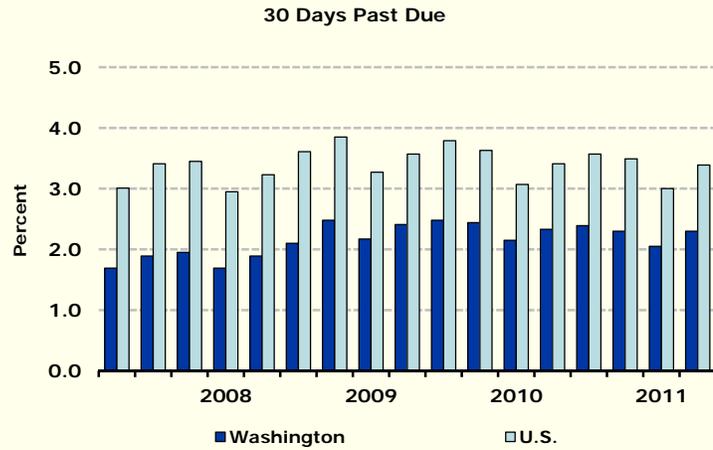
...but will eventually slow down

WA Rank:

2011Q1: 47
2011Q2: 47

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Source: Mortgage Bankers Association® National Delinquency Survey, data through 2011 Q2

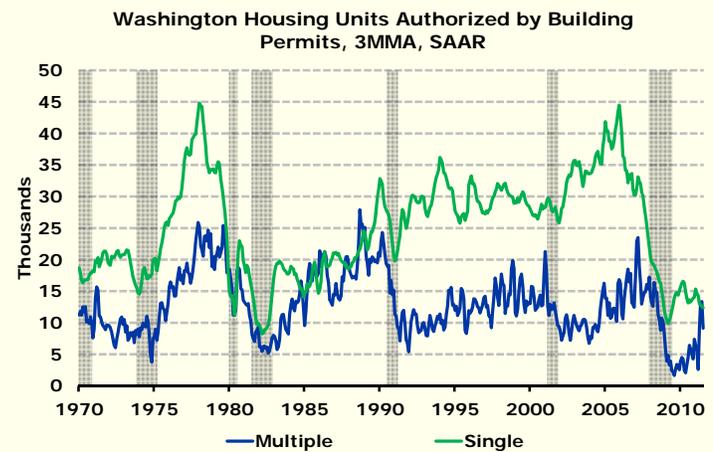
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WA multi-family building permits are improving

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Source: U.S. Census Bureau; data through July 2011

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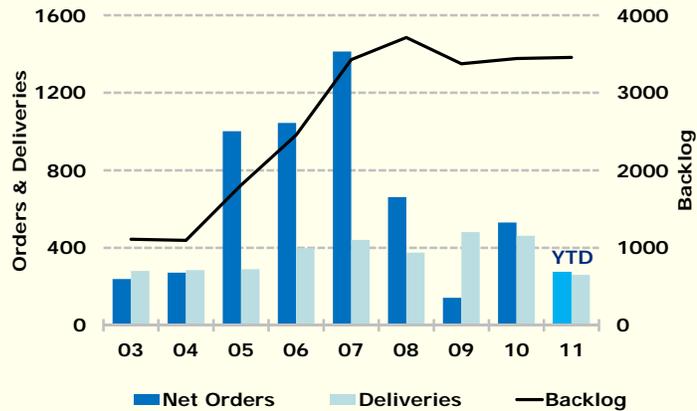


Boeing has over 7 years of commercial orders on its books

Excludes the military's new refueling tanker

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Source: Boeing, data through August 2011

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Software publishing employment is growing

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Source: ERFC September 2011 forecast; actual through August 2011

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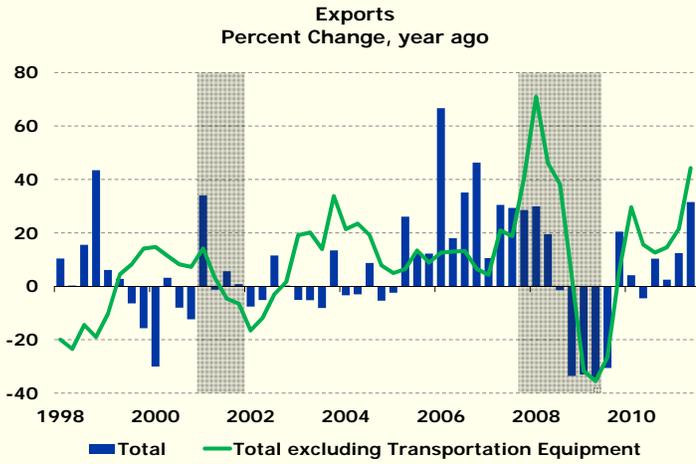


WA export growth is strong, and will help state outperform in the recovery

Total exports were up 31.5% y/y in Q2

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WA employment is still in the hole

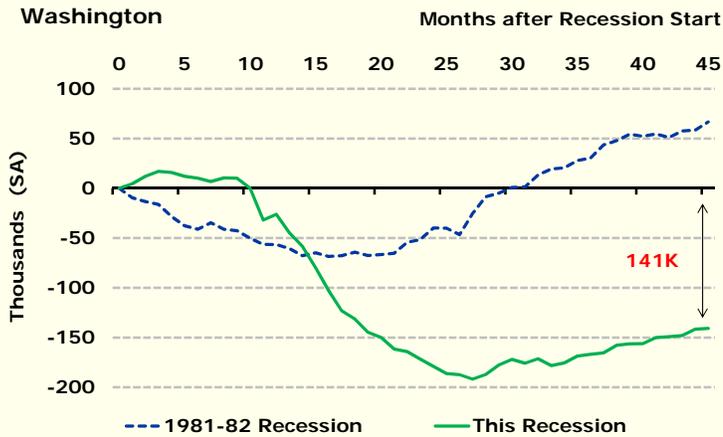
Peak to trough job losses

1981-82:
3.3% of labor force

This time:
5.4% of labor force

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

WA employment peaked 1 month after U.S. (Feb. 2008 vs. Jan. 2008)

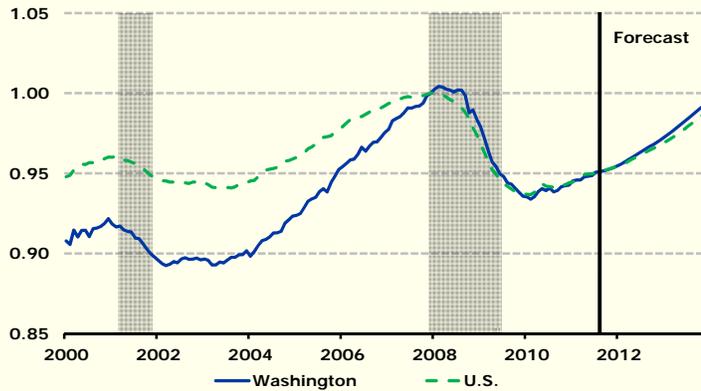
Both WA and the U.S. reached a trough in Feb. 2010

Both WA and the U.S. won't reach their previous peak until after 2013

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December 2007 = 1.0



Source: ERFC September 2011 forecast; actual through August 2011

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

Date of regaining peak:

WA:

Nominal

10Q4

Real

11Q3

U.S.:

Nominal

10Q4

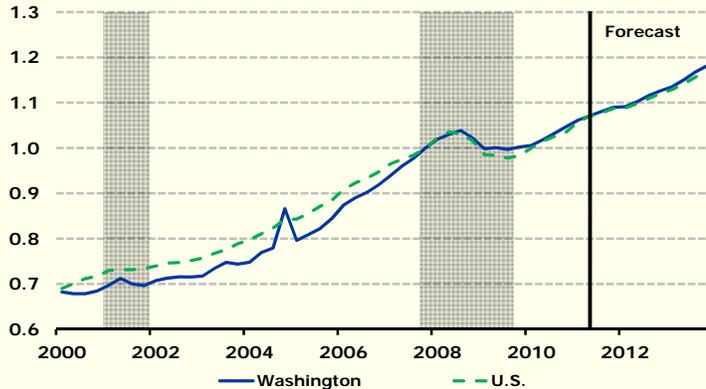
Real

11Q4

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2007Q4 = 1.0



Source: ERFC Preliminary September 2011 forecast; actual data through 2011Q2

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Forecast changes: General Fund State, 2011-2013 Biennium

June Forecast:
\$31,724 million

USD millions	September 2011 Forecast				Total Change*
	Collection Experience	Non-economic Change	Forecast Change	Forecast	
Dept. of Revenue	(\$25)	\$14	(\$1,378)	\$28,767	(\$1,389)
All other agencies	(\$1)	\$0	(\$23)	\$1,544	(\$24)
Total GF-S	(\$26)	\$14	(\$1,401)	\$30,311	(\$1,413)

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* Detail may not add to total due to rounding

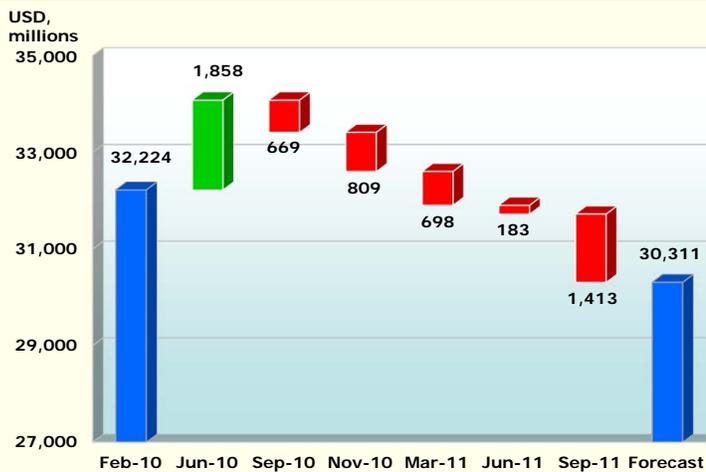
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Forecast revisions to the 2011-13 biennium

GF-S New Definition



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Source: ERFC; data through September 2011 forecast

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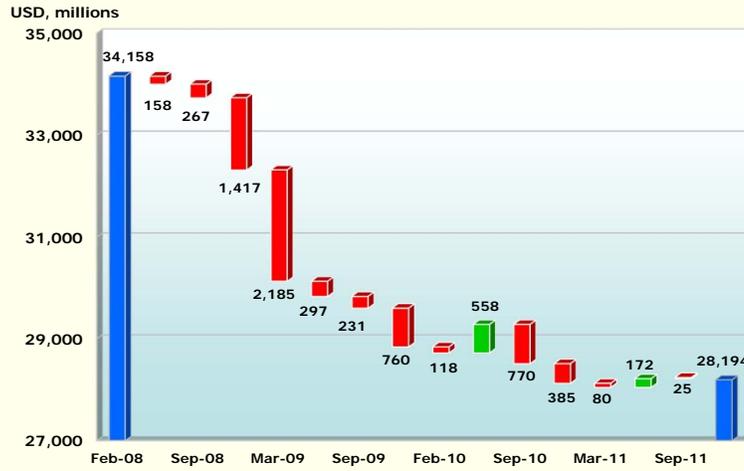


Forecast revisions to the 2009-11 biennium

GF-S
New
Definition

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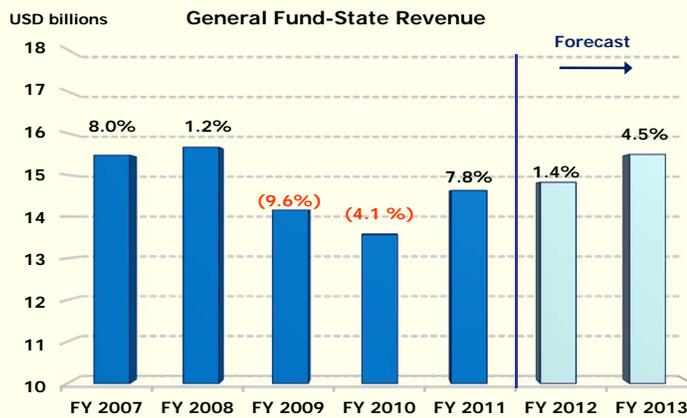


General Fund* forecast by fiscal year

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

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Real Per Capita General Fund* - State Revenue

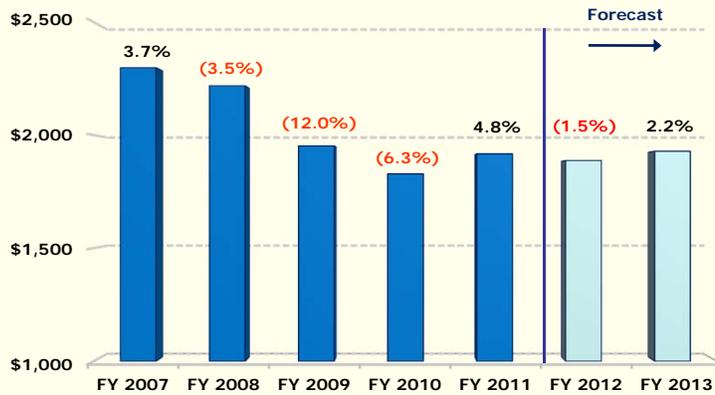
* General Fund & Related Funds for FY 07-09

General Fund – new definition, for FY 10-13

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Per Capita GF-S*, \$2005



Source: ERFC forecast, September 2011

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Conclusion

- 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 forecast for the 2011-13 Biennium is \$1.4 billion lower due to the worsened economic outlook
- Revenues are expected to grow 7.5% between the 09-11 and 11-13 biennium
- The level of uncertainty in the baseline remains high, and downside risks outweigh upside risks

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Questions

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