

Economic and Revenue Review

Presented to
Select Committee on Pension Policy

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Olympia, Washington



WASHINGTON STATE
ECONOMIC AND REVENUE FORECAST COUNCIL



Summary

- The updated economic forecast is very similar to the February forecast; as a result the revenue forecast is largely unchanged except for non-economic factors
- Uncertainty in the baseline remains very high, mostly due to out-of-state factors
- Within WA, revenue growth has been slowed by a flat construction sector and declining state and local government employment
- Revenues since the February forecast are \$24.8 million (0.5%) above expectations, but only because of a transfer of \$31.4 million into the GF-S due to new legislation
- This forecast increases expected GF-S revenues by \$156 million in the current biennium

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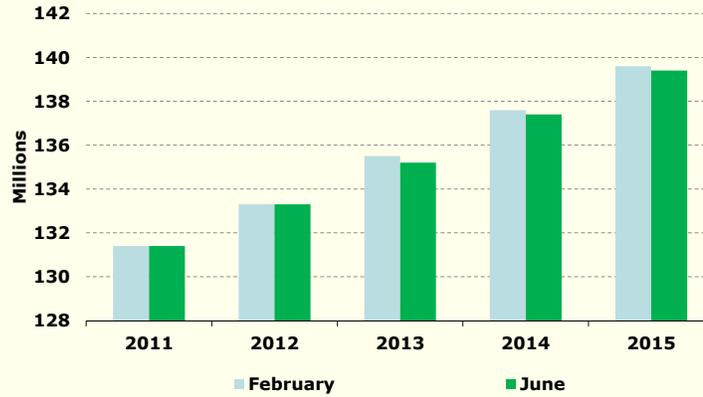
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U.S. Employment Forecast Slightly Lower

U.S. Payroll Employment



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Source: BLS, ERFC June 2012 Forecast; data through 2011

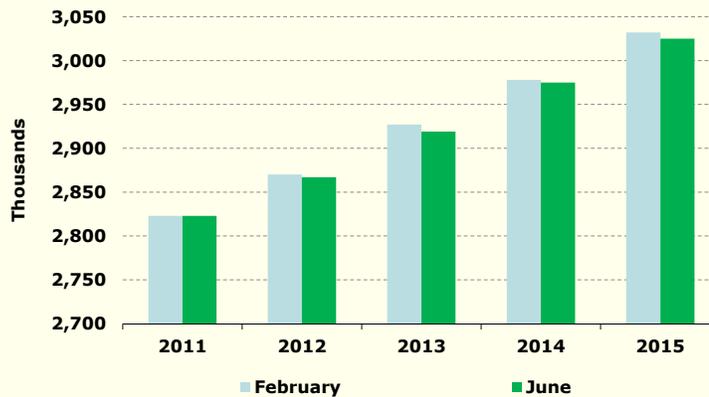
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WA Employment Forecast Slightly Lower

Washington Nonfarm Payroll Employment



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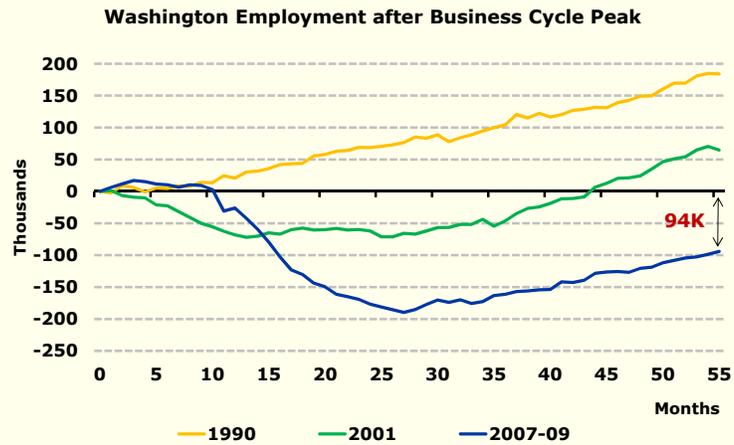
Source: WA State ESD, ERFC June 2012 Forecast; data through 2011

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The decline in employment has been severe



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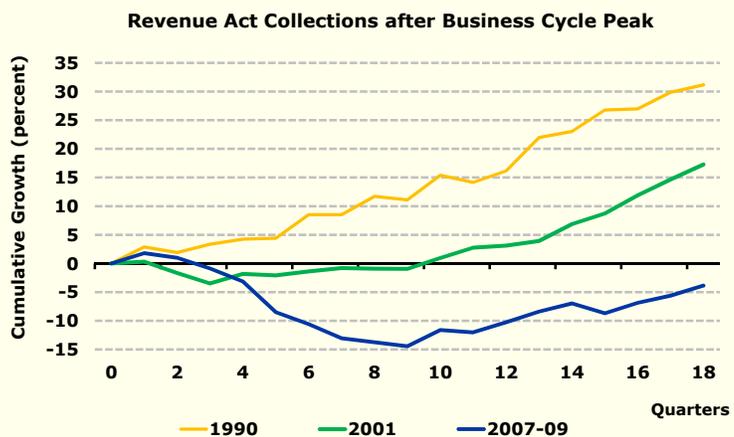
Source: WA ESD, ERFC; data through June 2012

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Revenue collections have been weak compared to past recoveries



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Source: ERFC; data through 2012 Q1

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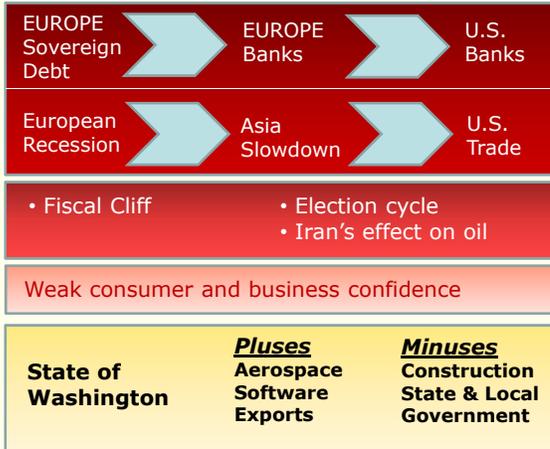
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The state's risk matrix shows most risks from outside state



Washington's Economy



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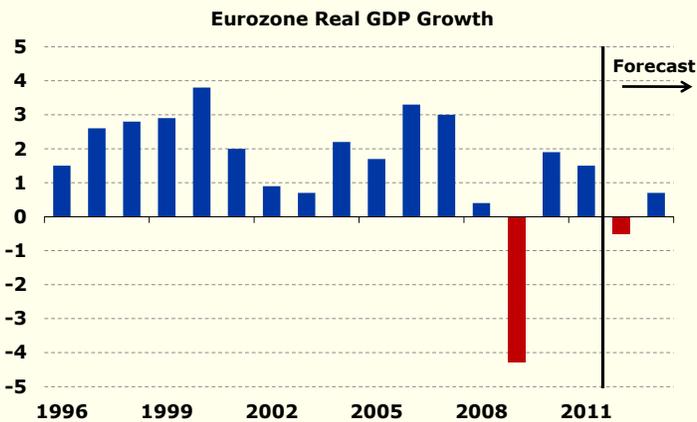
Source: ERFC

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Europe is likely in recession



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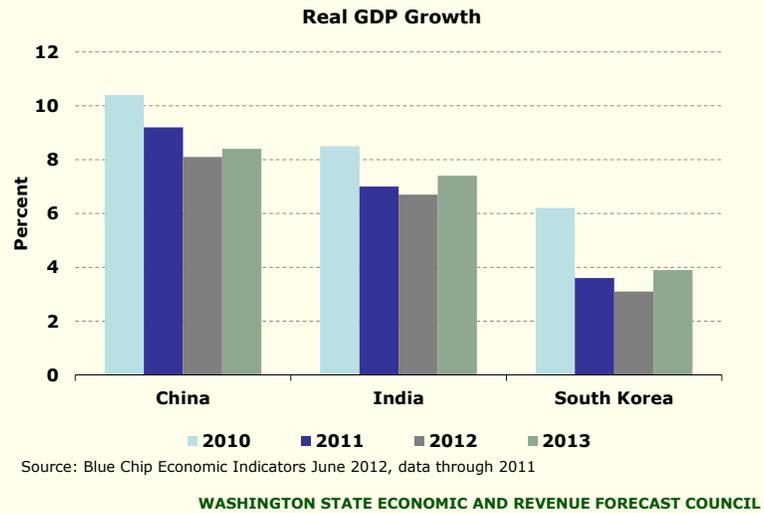
Source: Eurostat, Blue Chip Economic Indicators June 2012, data through 2011

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Asian economic growth is slowing

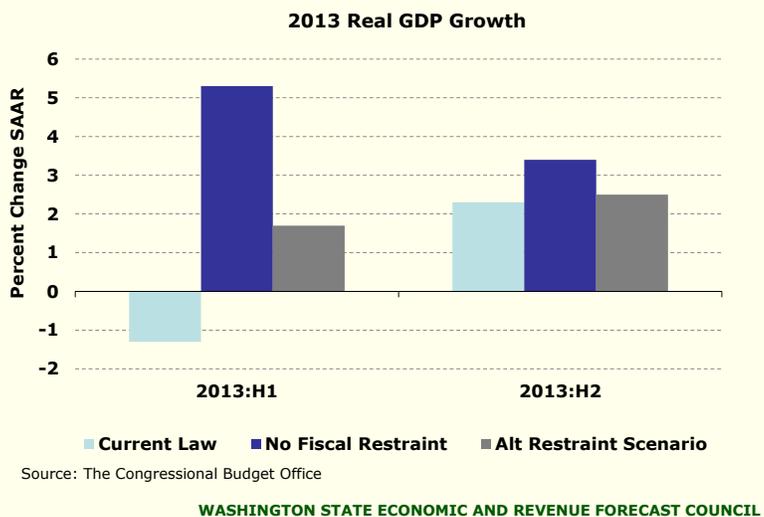


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The U.S. will enter another recession if Congress does not address fiscal cliff

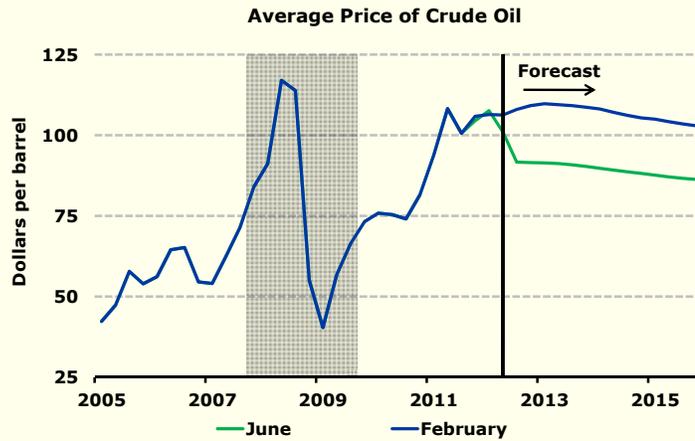


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Oil prices are expected to decline



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Source: DOE, ERF June 2012 forecast; actual data through 2012Q1

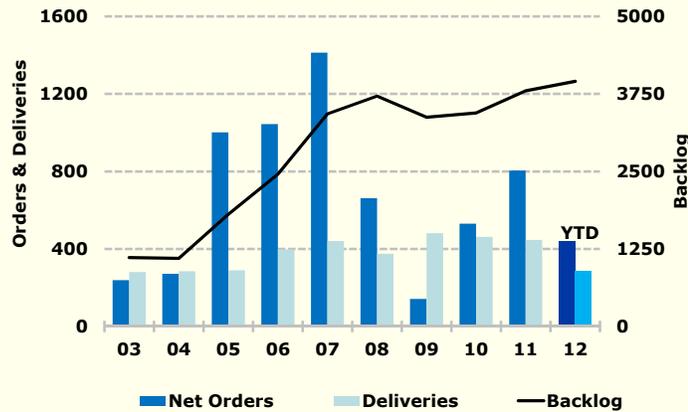
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Boeing has over 7 years of commercial orders on its books

Excludes the military's new refueling tanker



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Source: Boeing, data through June 2012

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Software publishing employment is growing



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Source: ERFC June 2012 forecast; actual data through 2012Q1

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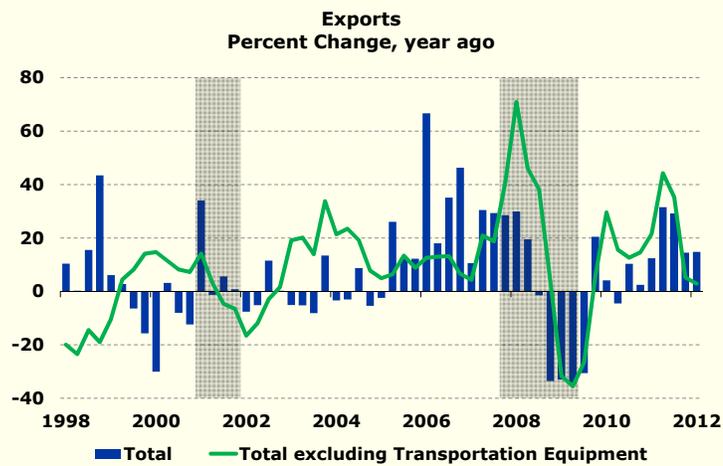
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WA export growth has slowed

Trans. Equip. exports were up 30% year-over-year in Q1

2011 exports were just below the 2008 peak



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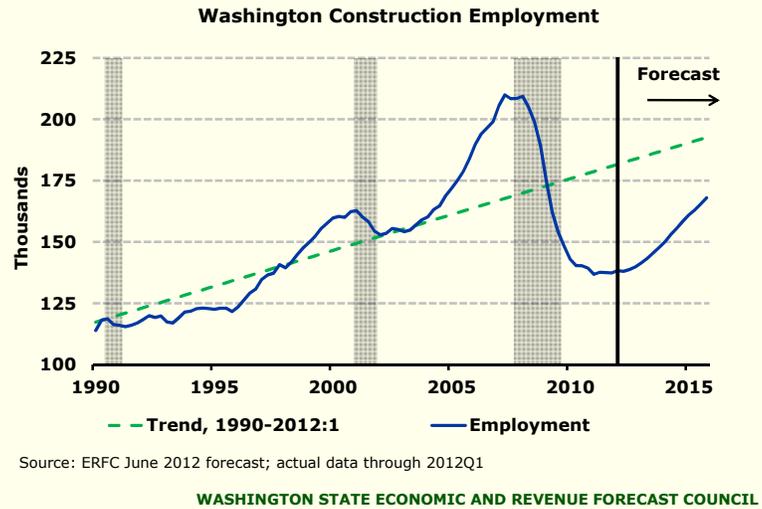
Source: WISER Trade Data; data through 2012 Q1

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Washington construction employment will remain below trend throughout the forecast



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...as will state and local government employment

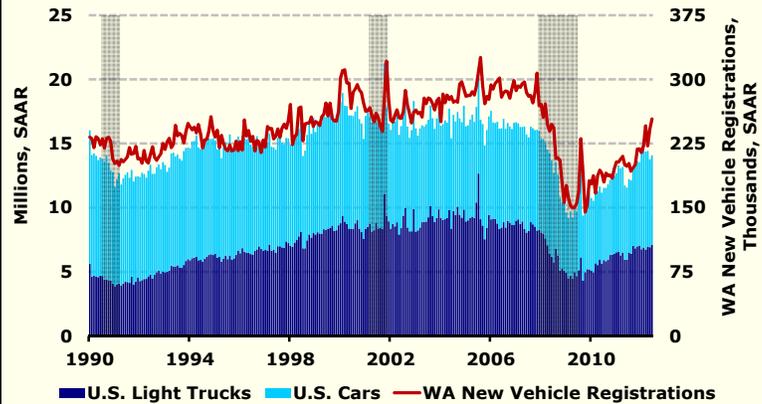


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Vehicle sales have recovered from last summer's supply chain disruptions

U.S. LMV sales in June were up 22% year-over-year.



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

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

Housing Permits per 1,000 People



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Source: U.S. Census Bureau, ERFC June 2012 Forecast; data through 2012 Q1

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Consumers continue to de-leverage

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



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Source: Board of Governors of the Federal Reserve System, data through 2011Q4

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WA sales tax growth still moderate

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

Washington Retail Sales Tax Receipts



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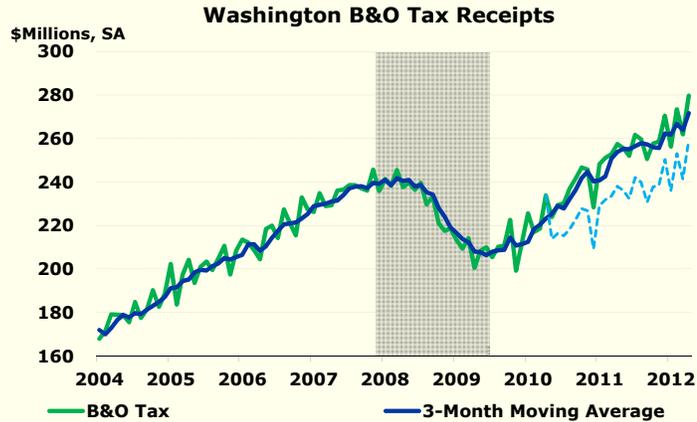
Adjusted for large payments/refunds, amnesty payments and taxpayer reporting frequency change
Source: ERFC; Monthly data through April 2012 preliminary activity

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B&O tax receipts excluding B&O services surcharge are above prior peak



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

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REET activity has recently been boosted by large commercial sales

April activity spiked from the \$480 million sale of the Russell Center and May had \$356 million in large sales

Since the February forecast, there have been \$1.2 billion in exceptionally large commercial sales, which have generated \$14.8 million in GF-S revenue.

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Source: ERFC; Monthly data through June 2012 preliminary

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Forecast changes: General Fund State, 2011-2013 Biennium

February Forecast:
\$30,284 million

USD millions	June Forecast			Total Change*
	<u>Non-economic Change</u>	<u>Forecast Change</u>	<u>Forecast</u>	
Dept. of Revenue	\$112	(\$28)	\$28,779	\$84
All other agencies	\$60	\$11	\$1,661	\$72
Total GF-S	\$172	(\$16)	\$30,440	\$156

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* Detail may not add to total due to rounding

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Forecast changes: General Fund State, 2013-2015 Biennium

February Forecast:
\$32,428 million

USD millions	June Forecast			Total Change*
	<u>Non-economic Change</u>	<u>Forecast Change</u>	<u>Forecast</u>	
Dept. of Revenue	\$86	(\$120)	\$31,075	(\$34)
All other agencies	\$245	(\$13)	\$1,550	\$232
Total GF-S	\$330	(\$133)	\$32,626	\$197

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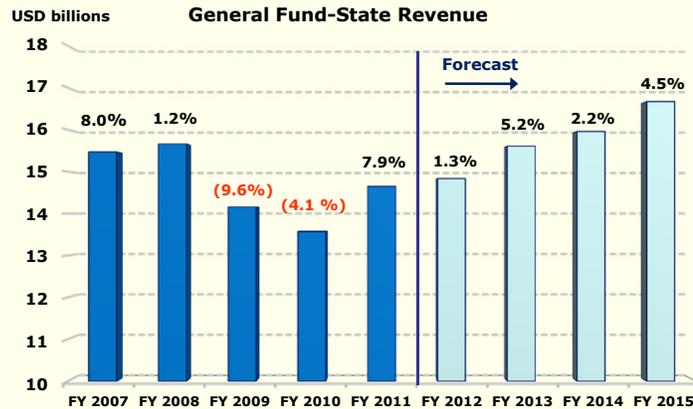


General Fund* forecast by fiscal year

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, June 2012

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Conclusion

- The forecast for the 2011-13 Biennium is \$156 million higher than in February
- The forecast for the 2013-15 Biennium is \$197 million higher than in February
- Revenues are expected to grow 7.9% between the 2009-11 and 2011-13 biennium and 7.2% between the 2011-13 and 2013-15 biennium
- The national and state economies appear headed for an extended period of 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

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Questions

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