

Economic & Revenue Outlook

Central Washington Economic Symposium

Lance Carey
Senior Economist

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Yakima, Washington



WASHINGTON STATE
ECONOMIC AND REVENUE FORECAST COUNCIL



Summary

- U.S. and state economic growth seem to be on a sustainable, if slow, path to recovery
- However, the uncertainty in the baseline remains very high, mostly due to out-of-state factors
- Housing, consumer spending, and government are weak; Exports and equipment investment have been stronger
- Within WA, there is fiscal drag from declining state and local government budgets
- European debt crisis remains largest risk.



We are currently recovering from the worst recession since WW II

Recession	Peak-to-trough decline		Recession Duration
	Real GDP	Employment	
	<i>percent</i>	<i>percent</i>	<i>months</i>
1948-49	1.6	5.0	11
1953-54	2.5	3.4	10
1957-58	3.1	4.2	8
1960-61	0.5	2.3	10
1969-70	0.2	1.2	11
1973-75	3.2	1.9	16
1980	2.2	2.3	6
1981-82	2.6	3.1	16
1990-91	1.4	1.4	8
2001	0.7	1.7	8
Average	1.8	2.6	10
2007-09	5.1	6.4	18

Source: NBER, ERFC

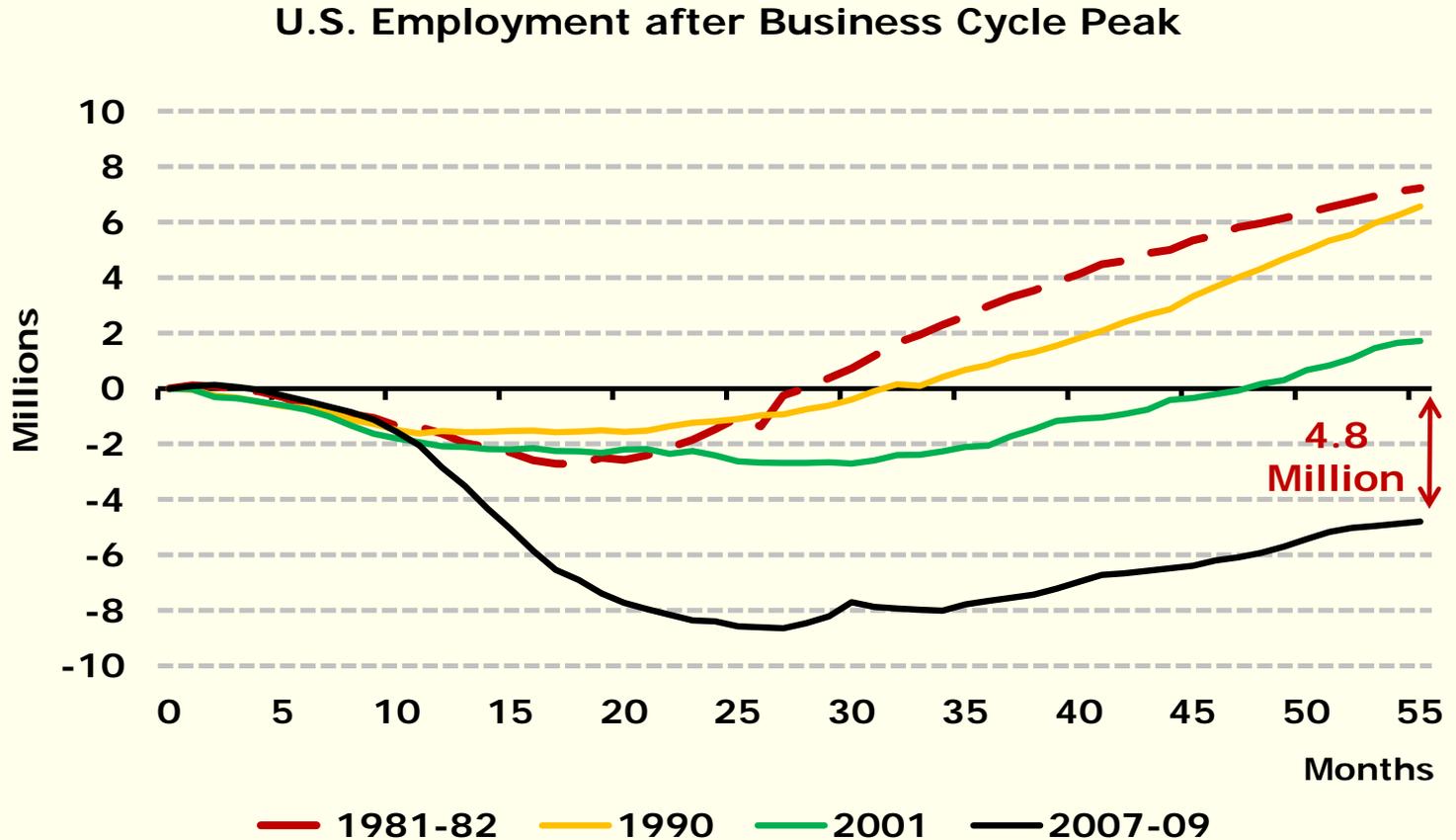


The recovery has been painfully slow

Peak to
trough job
losses

1981-82:
2.6% of
labor force

This time:
5.7% of
labor force

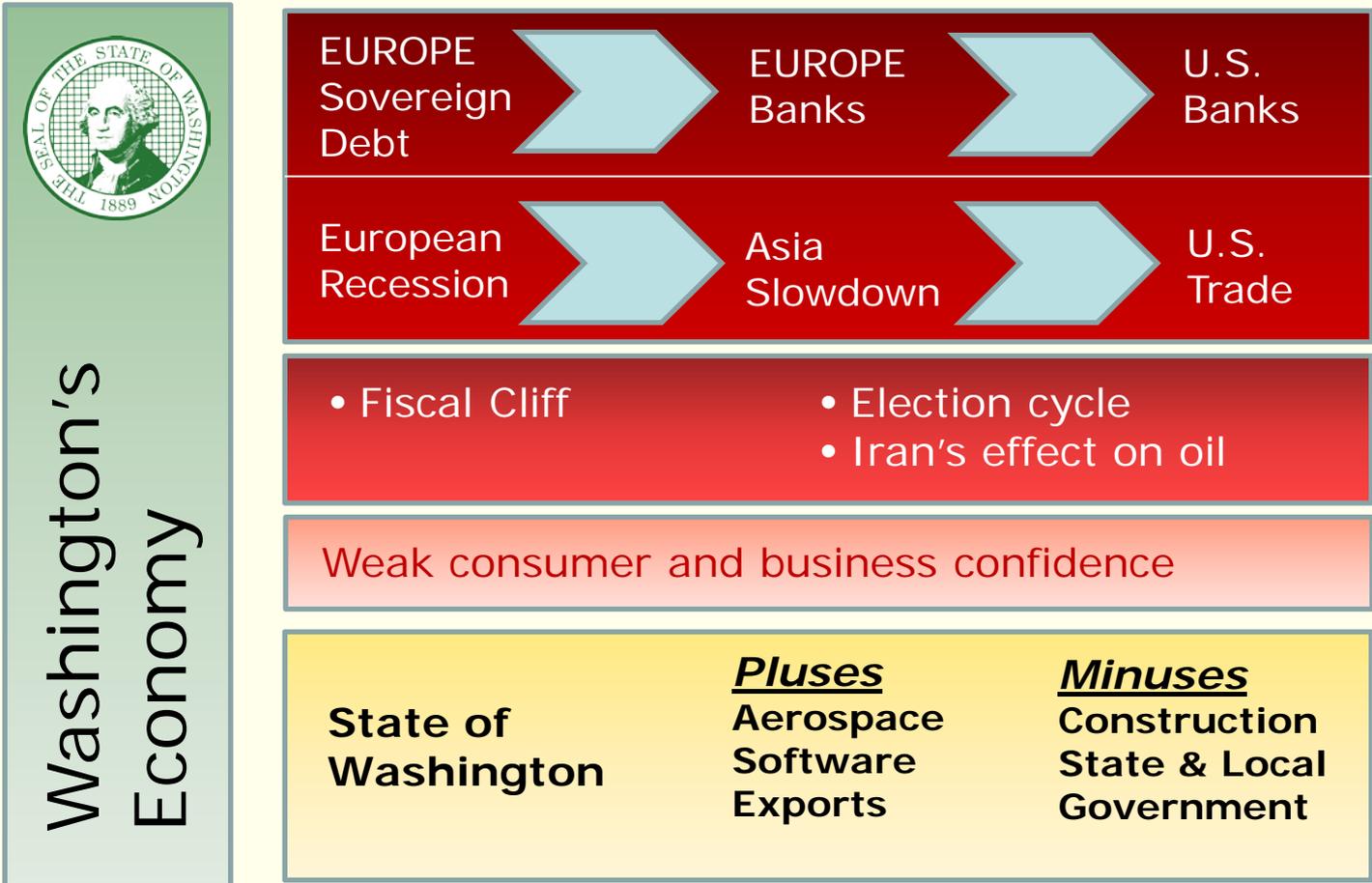


Source: BLS, ERFC; data through June 2012

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



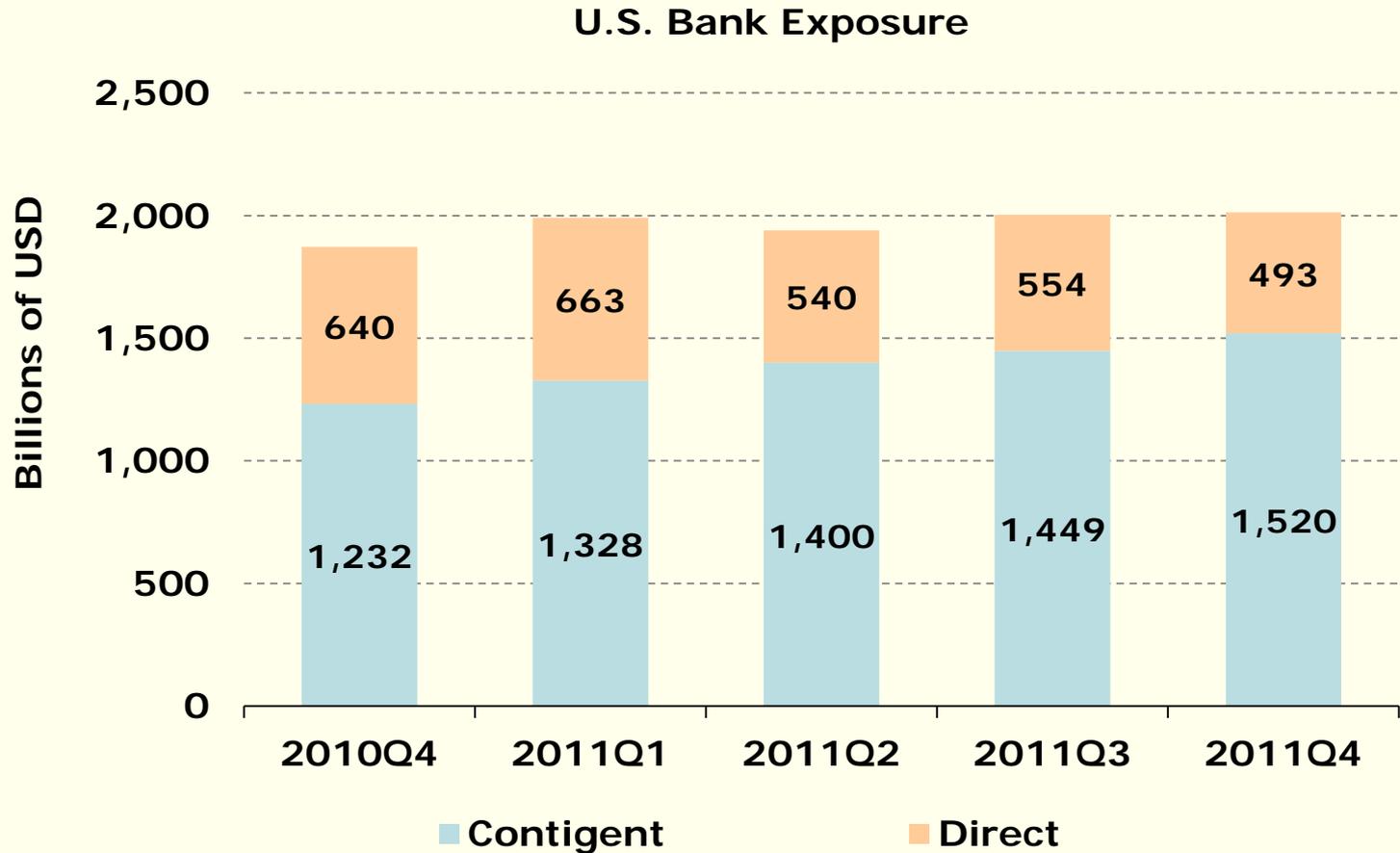
Source: ERFC



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

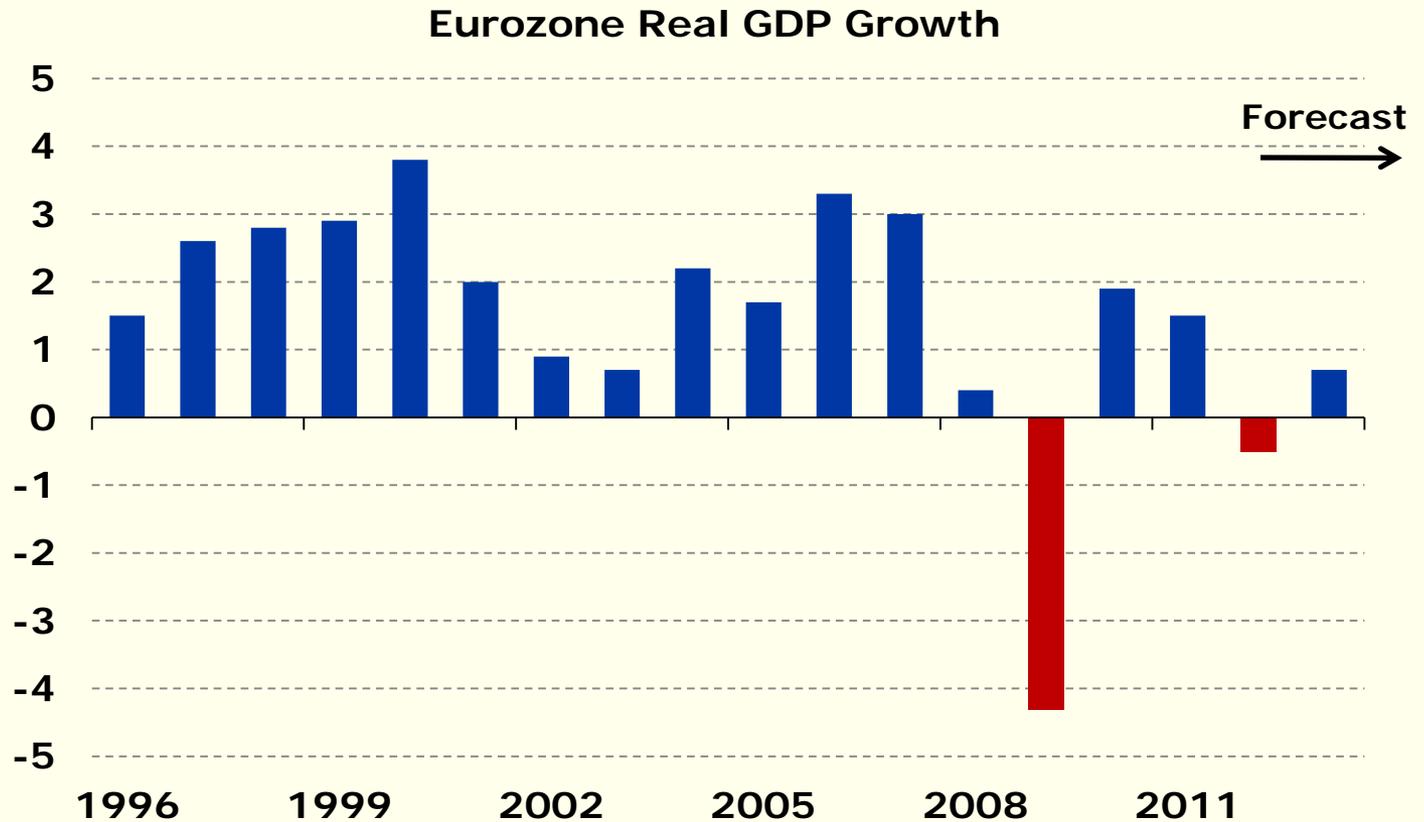


Source: Bank of International Settlements, 2011 Q4

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Europe is likely in recession



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

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European unemployment is heading in the wrong direction

17.6 Million people are unemployed in the 17 country Euro Area

Unemployment Rate:

Spain: 24.6
Greece: 21.9

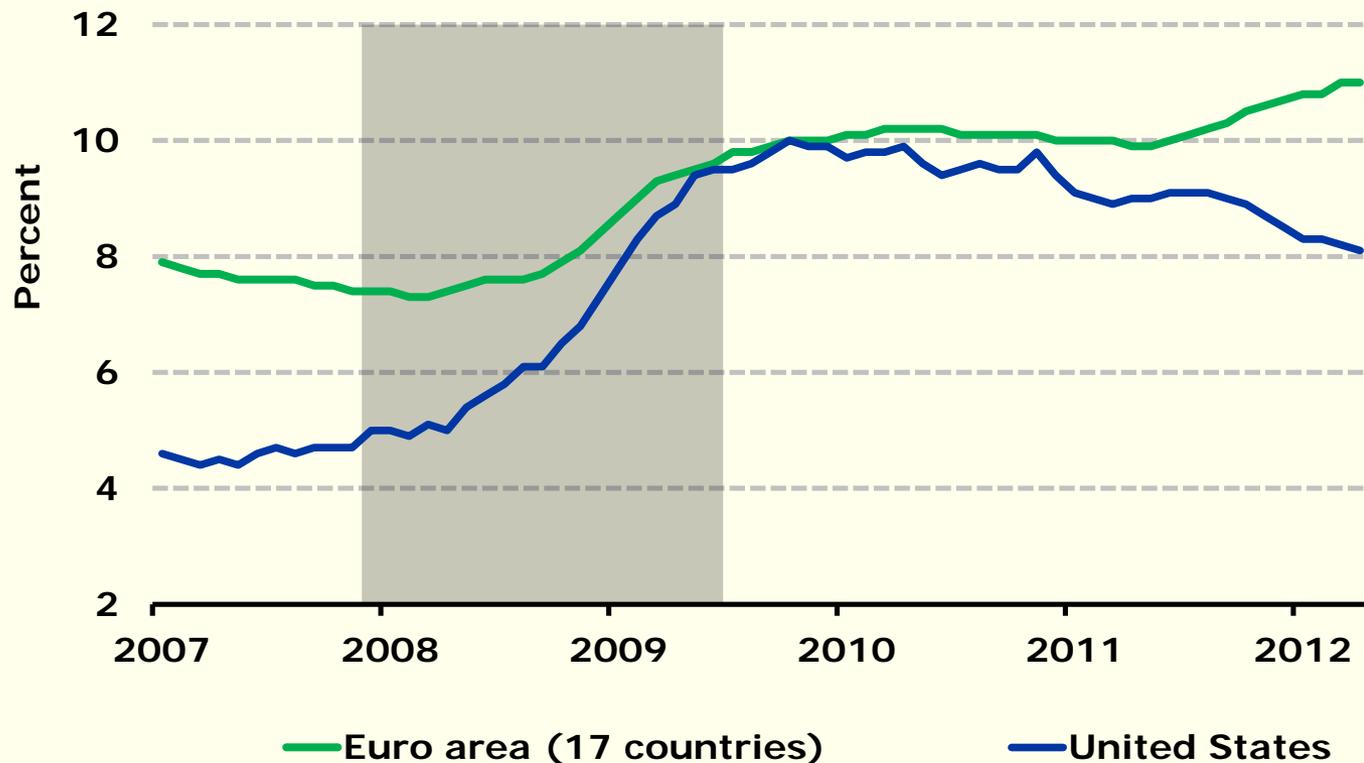
Germany: 5.6

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Eurozone and U.S. Unemployment

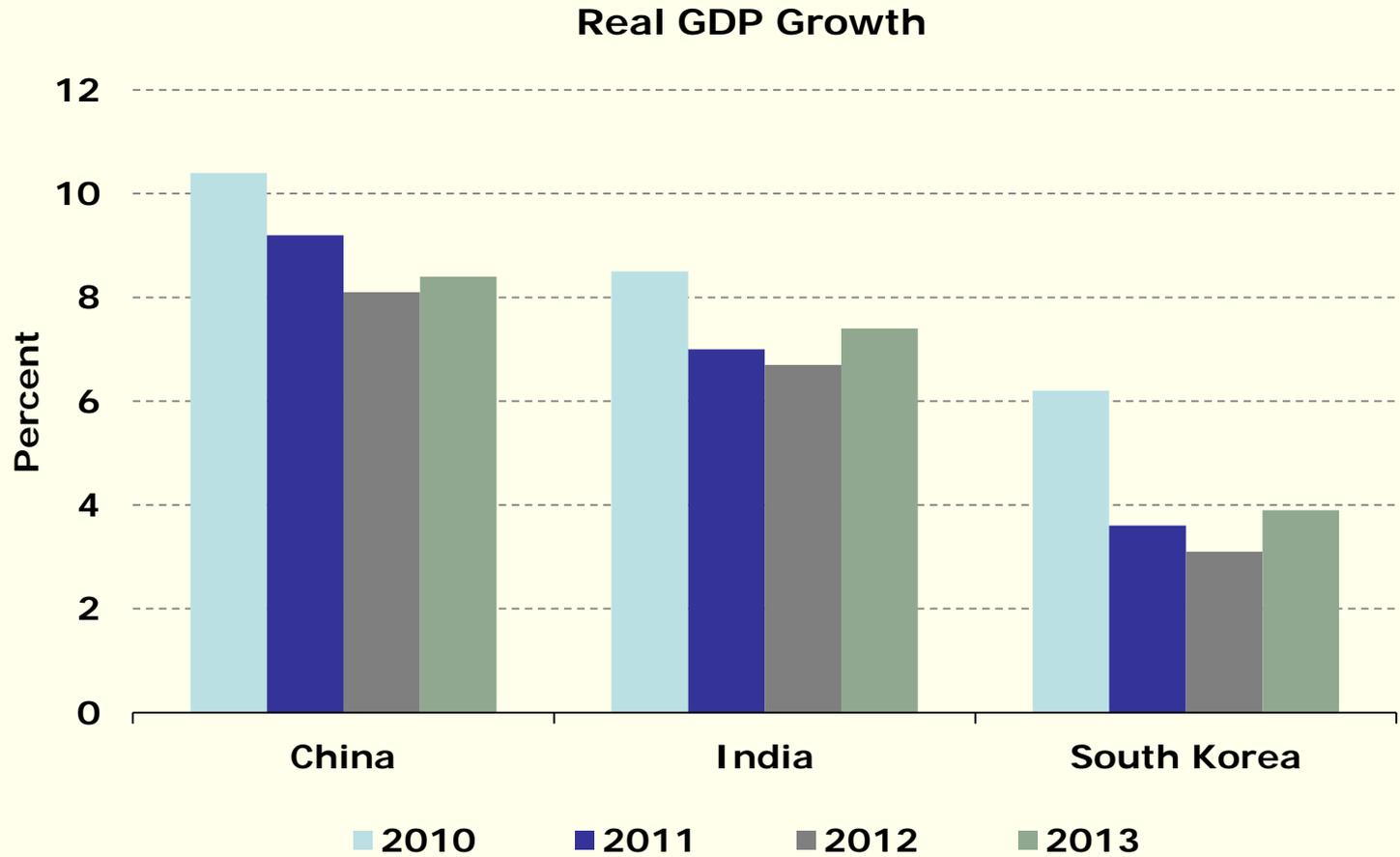


Source: Eurostat; data through May 2012

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Asian economic growth is slowing

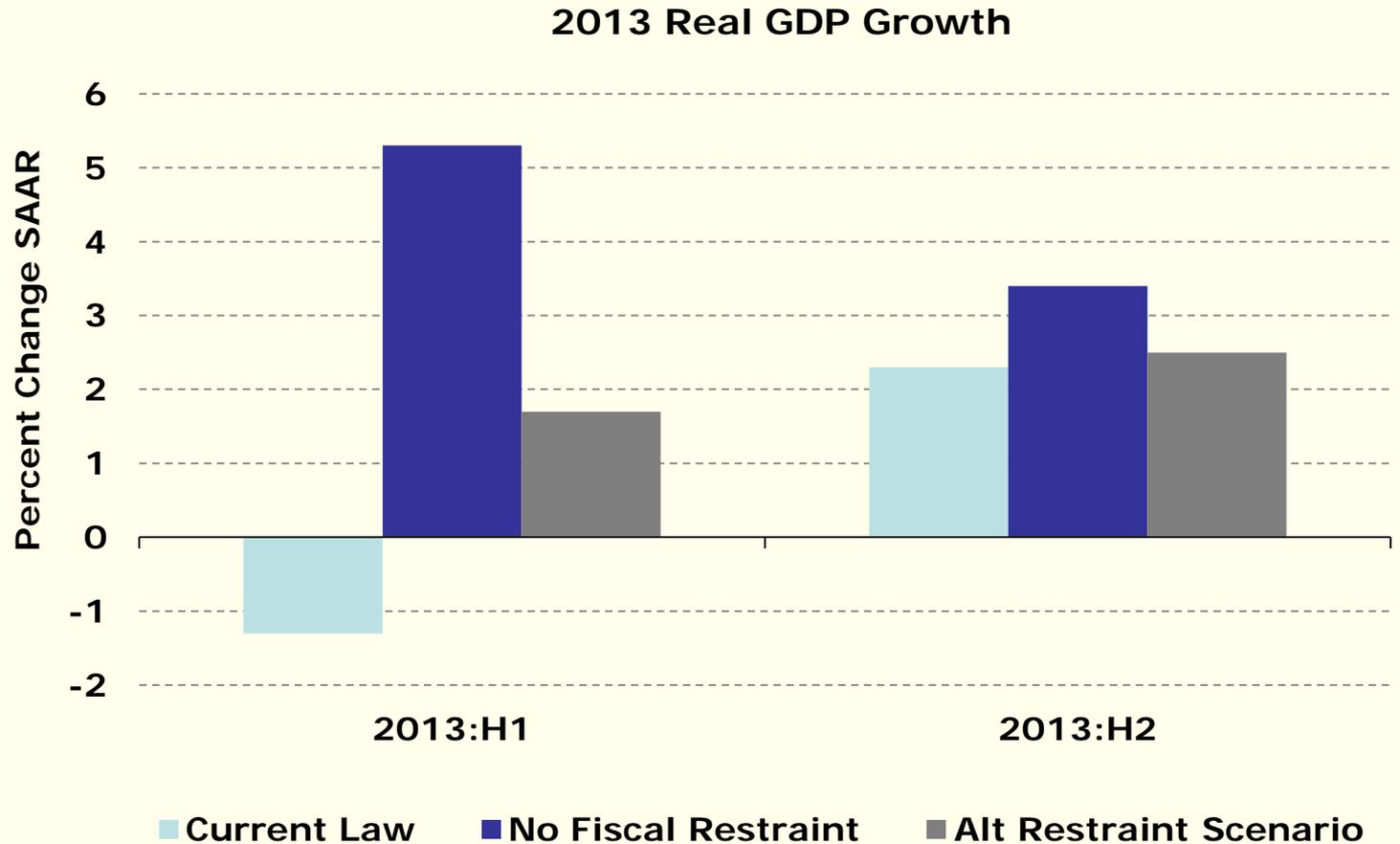


Source: Blue Chip Economic Indicators June 2012, data through 2011

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



Source: The Congressional Budget Office

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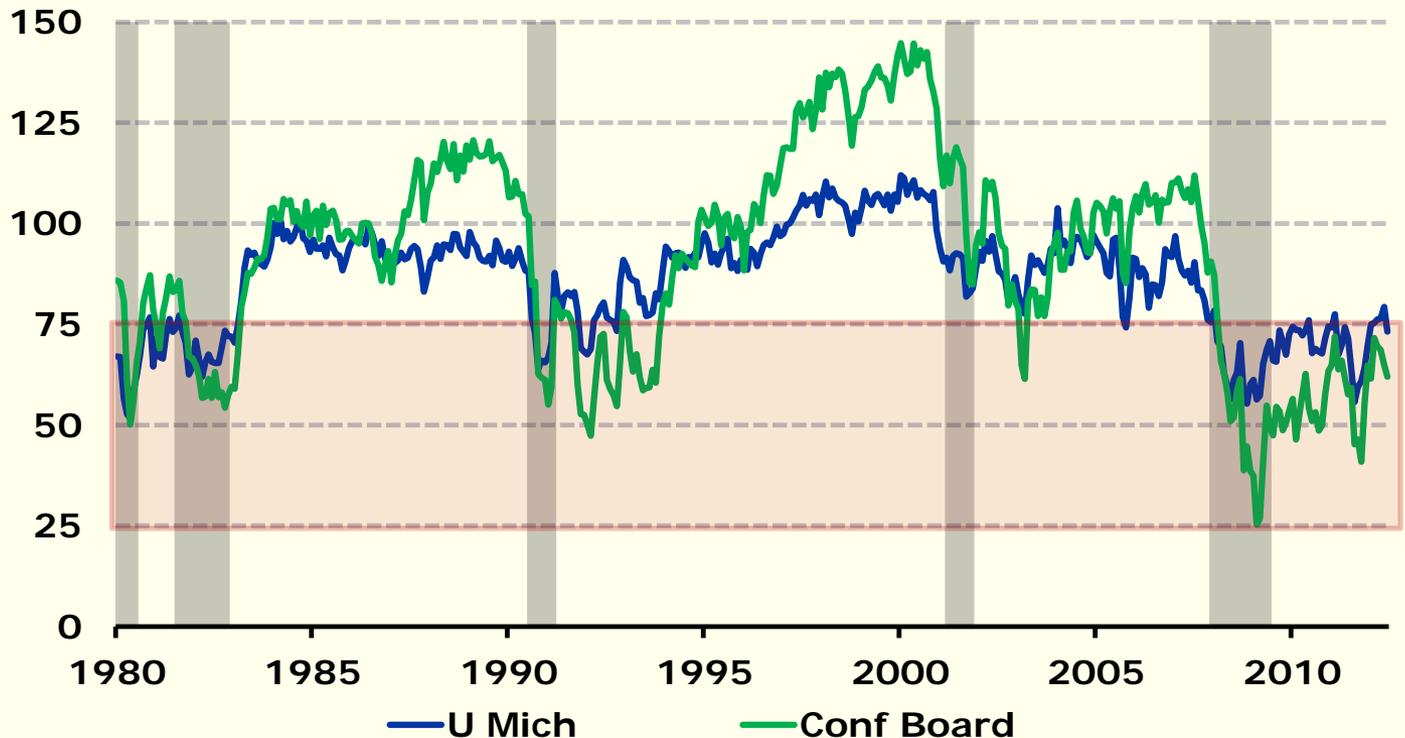


Consumer confidence remains in recessionary territory

Index

Mich: 1966Q1 = 100, SA

Conf Board: 1985 = 100, SA



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

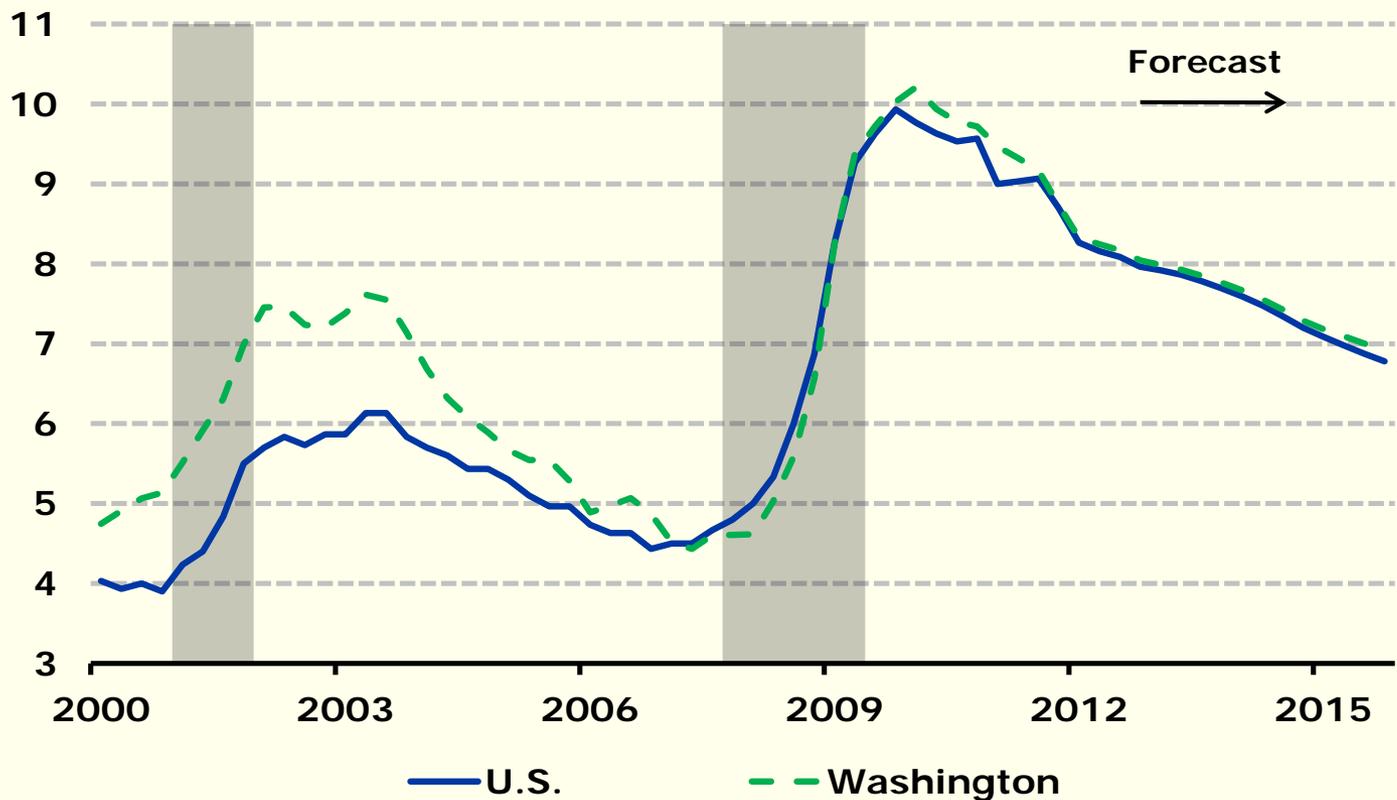
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Unemployment will remain high

The U6 measure of unemployment was 14.9% in June

Unemployment Rate, SA



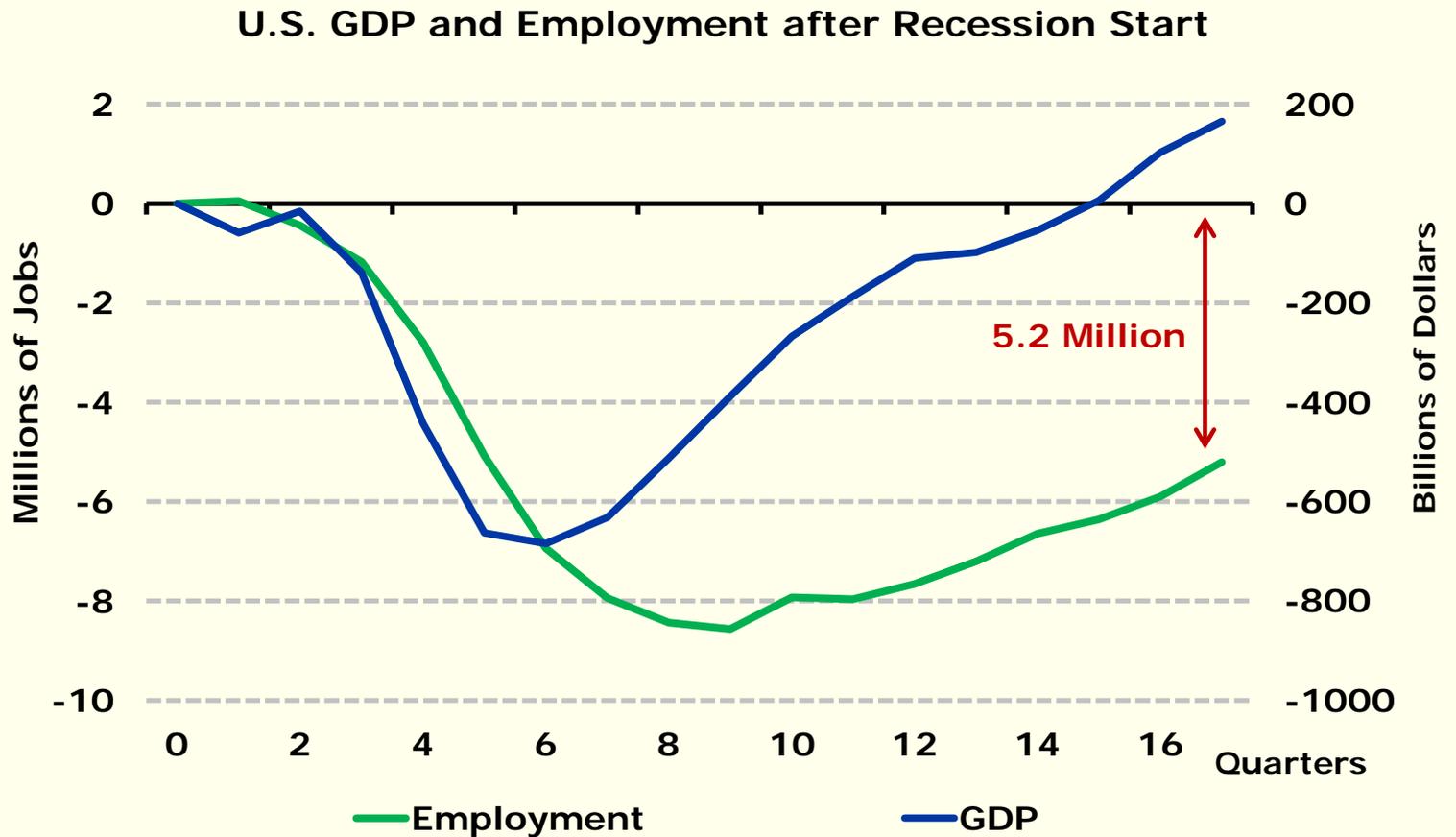
Source: ERFC June 2012 Preliminary forecast; actual data through 2012Q1

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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 Q1

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Job growth has stalled

12.7 million people remained unemployed in June

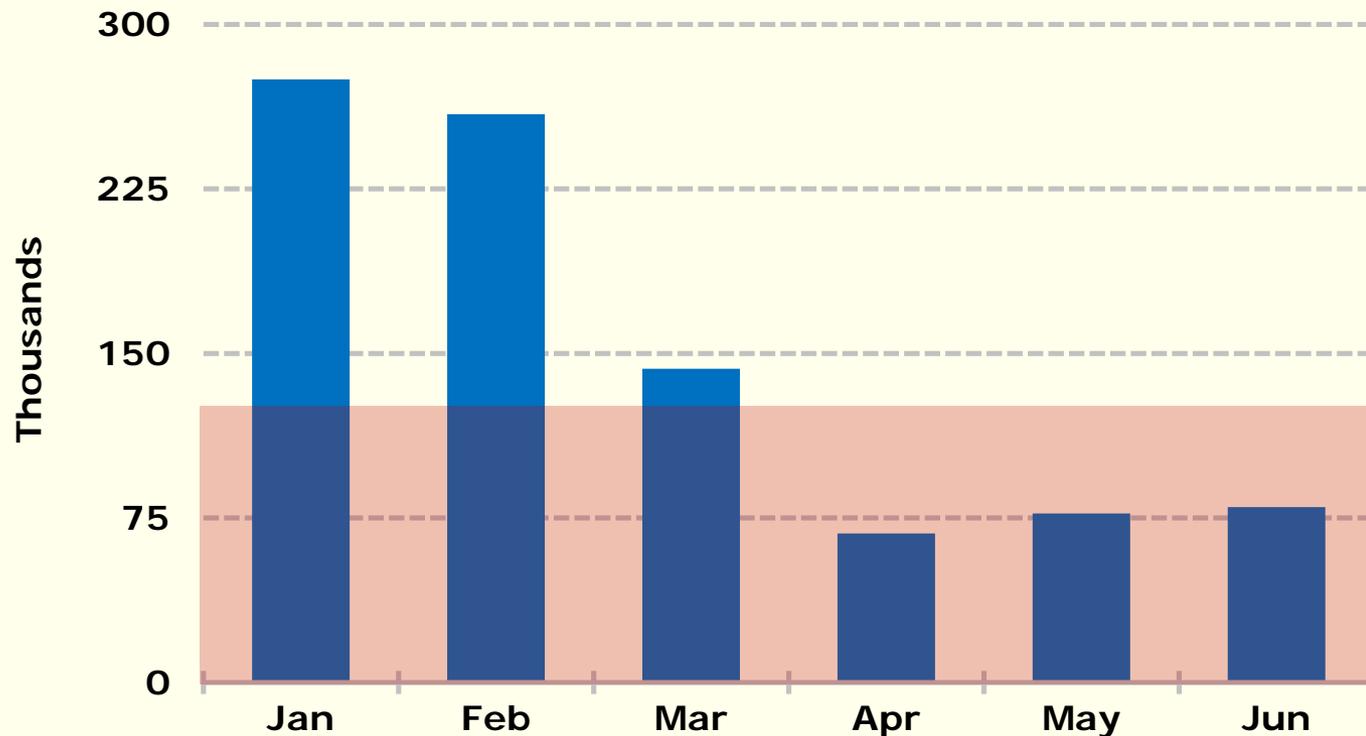
The economy needs to add roughly 125K jobs each month just to keep up with growth in the labor force

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Net New Jobs



Source: Bureau of Labor Statistics, data through June 2012

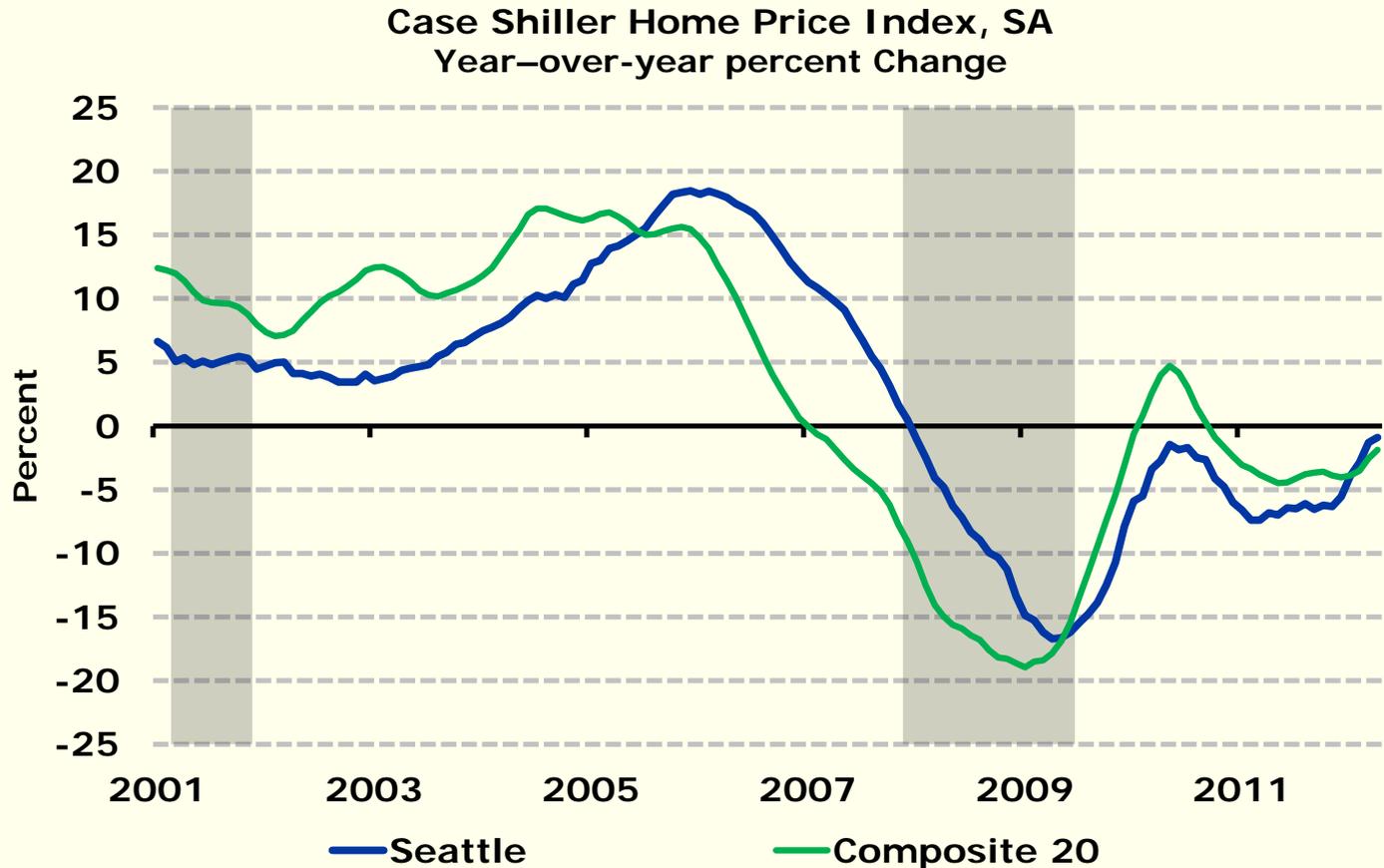


Single-family home prices are beginning to stabilize

Apr 2012

U.S. is down 1.9%

Seattle is down 0.9%



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

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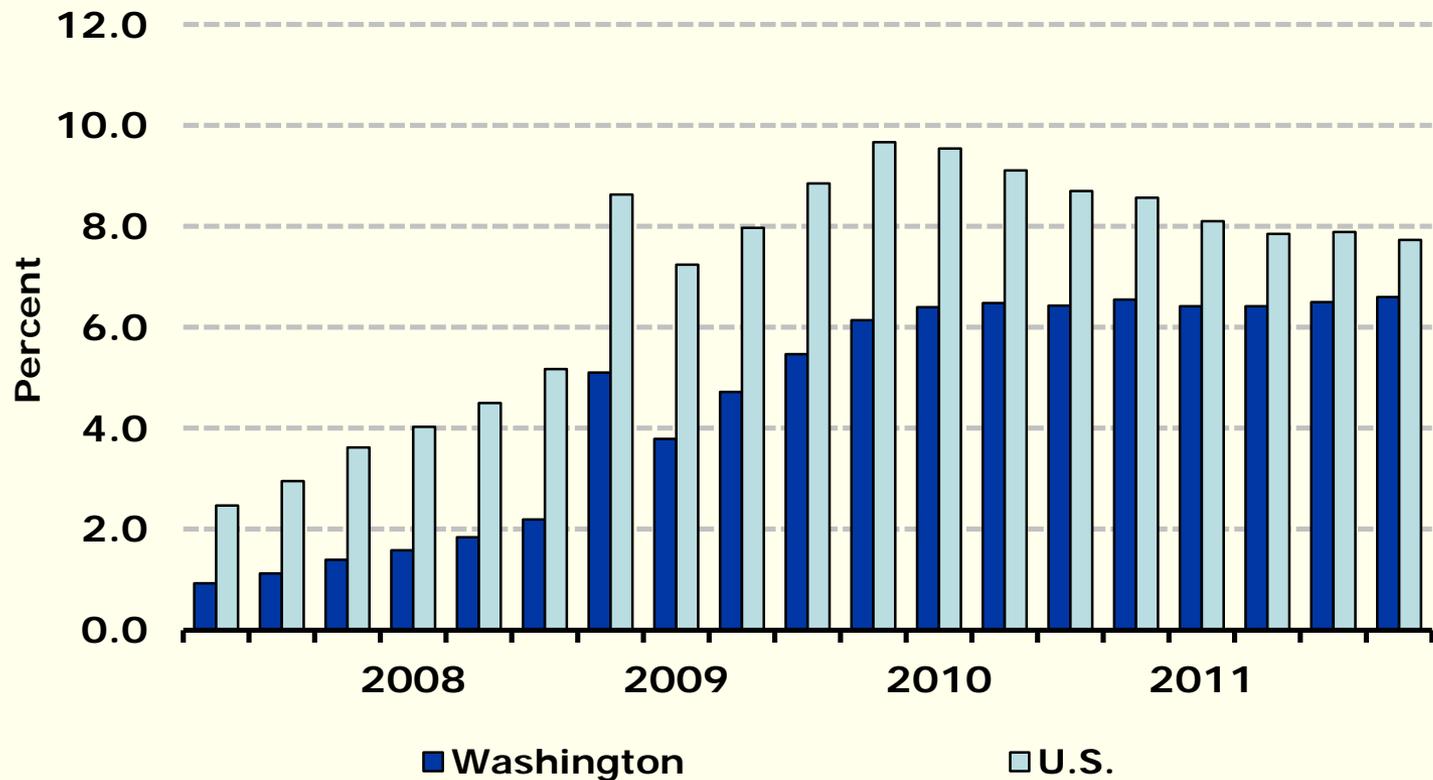
More foreclosures can be expected

WA Rank:

2011Q3 : 23
2011Q4 : 23

Seriously
Delinquent =
90+ Days
Past Due or
in foreclosure

Seriously Delinquent



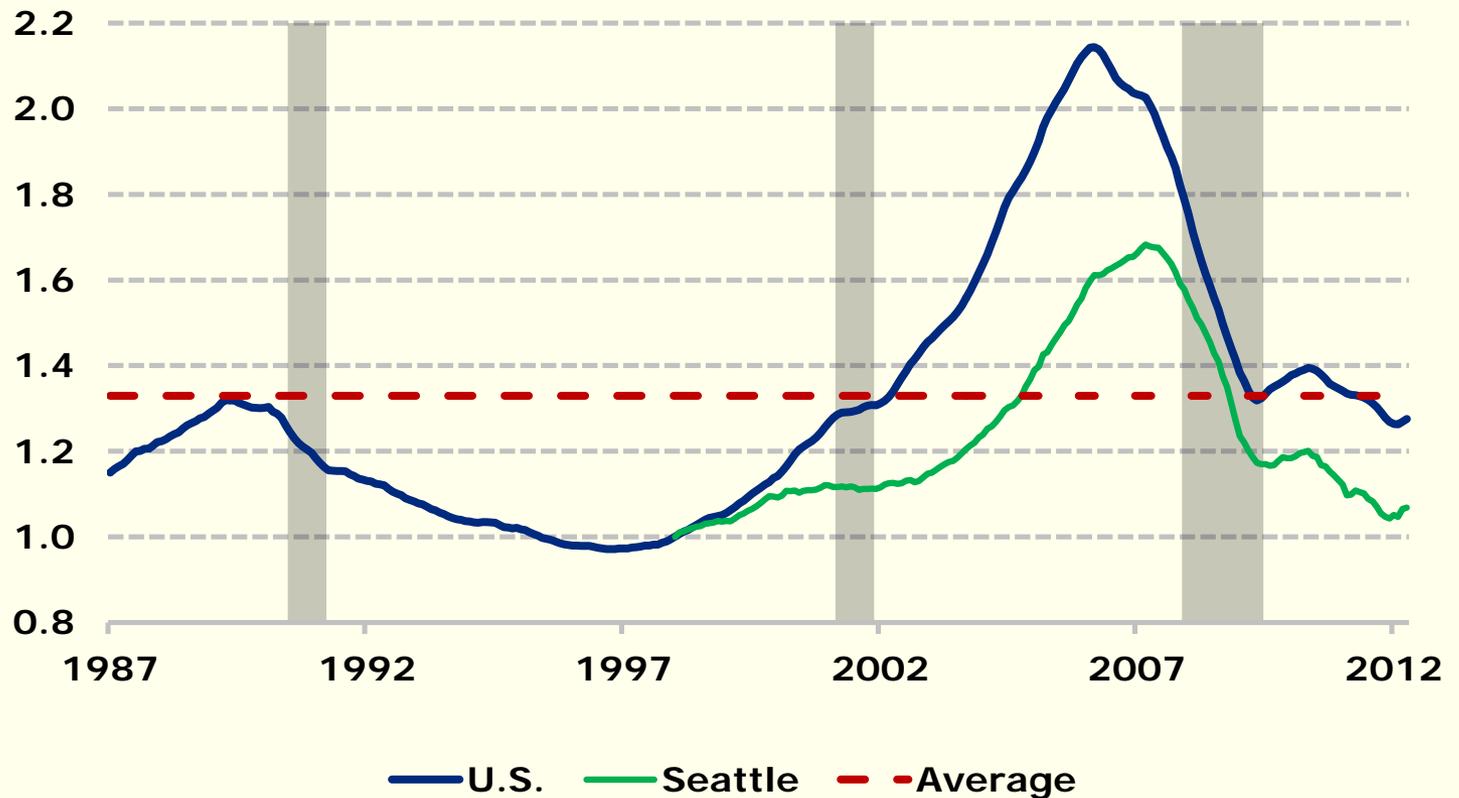
Source: Mortgage Bankers Association® National Delinquency Survey, data through 2011 Q4

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The ratio of home prices to rent is well below average for Seattle

**Purchase Price to Rent Ratio
Index (Jan 1998 = 1.0)**



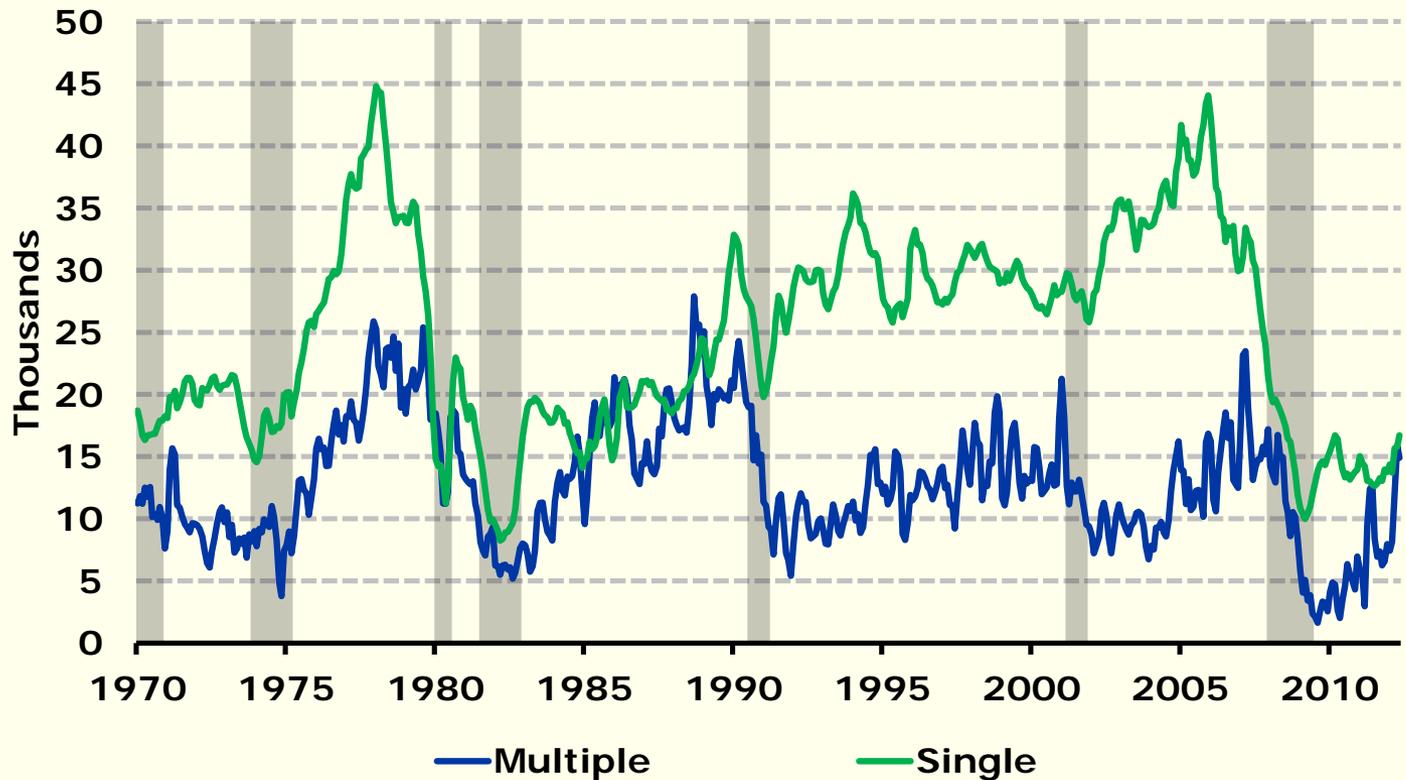
Source: BLS, Case Shiller; data through April 2012

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WA multi-family building permits are improving

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



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

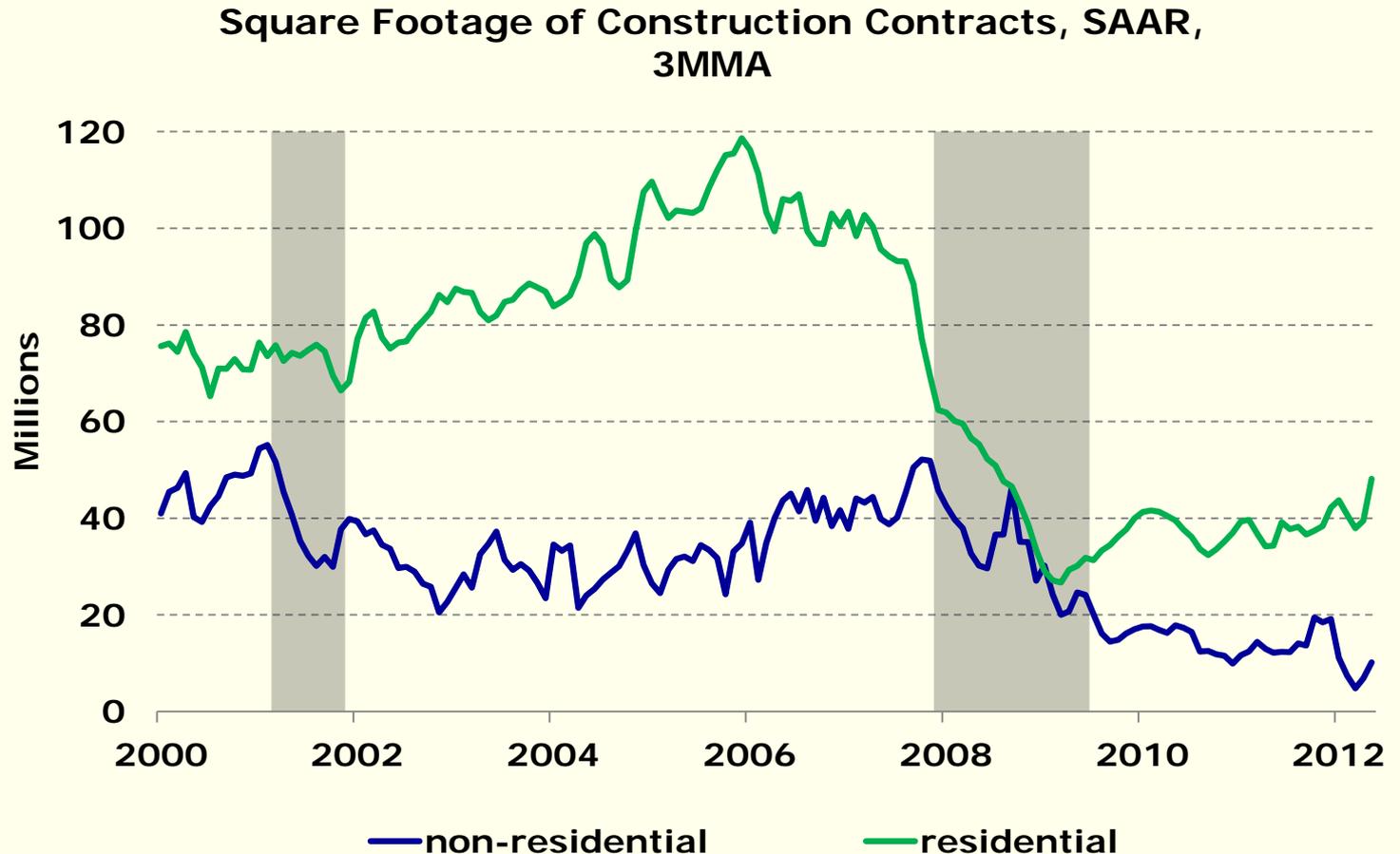
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Contract data signal more weakness in non-residential construction

Residential square footage is up 40%, and value up 37% year over year (3mma).

Non-Residential square footage is down 17%, and value is down 45% year over year (3mma).

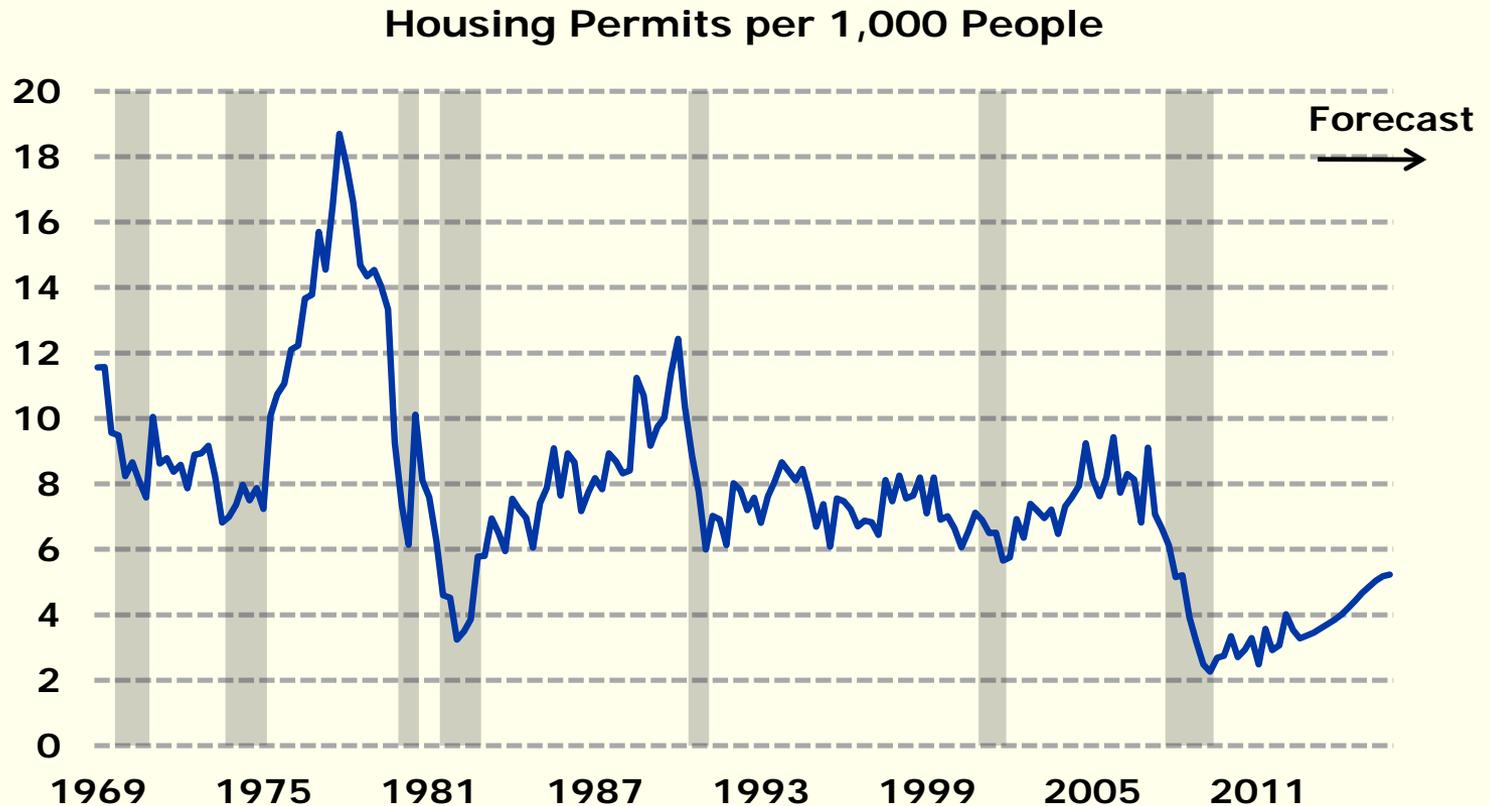


Source: Dodge, ERFC; data through April 2012

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



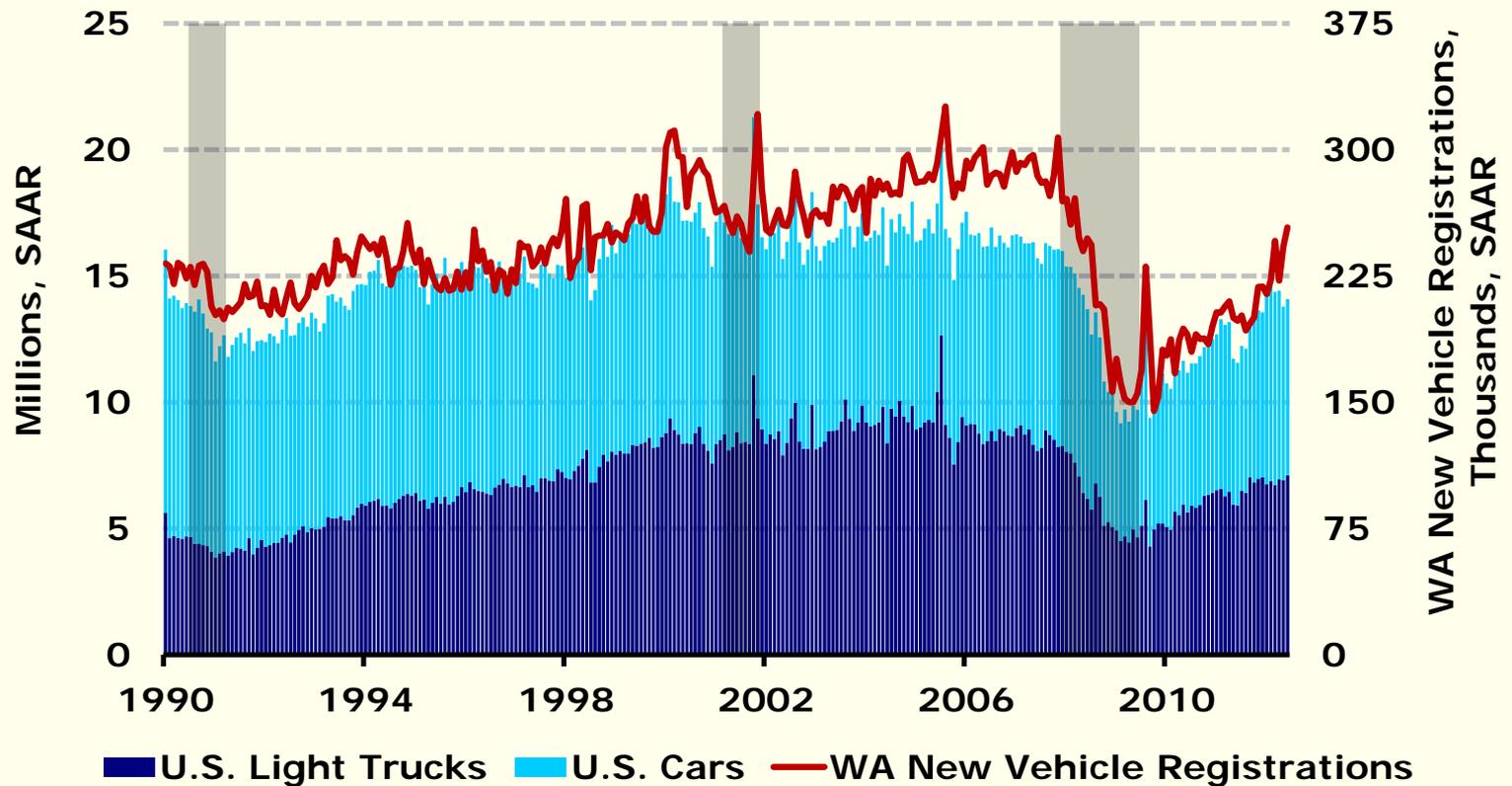
Source: U.S. Census Bureau, ERFC June 2012 Forecast; data through 2012 Q1

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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.

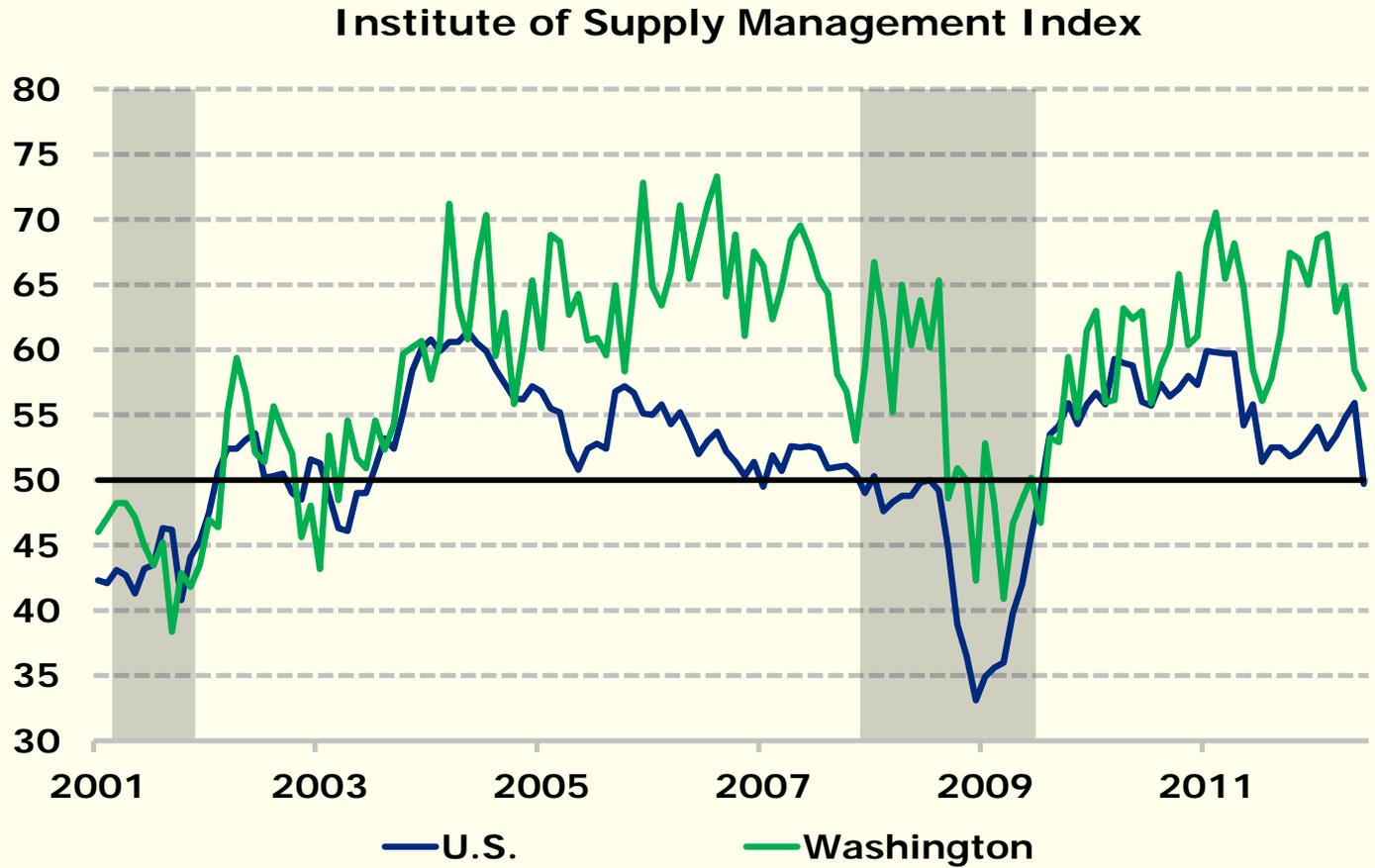


Source: Autodata Corporation, WA DOL; data through June 2012



Washington manufacturing has been outperforming the nation

An index greater than 50, implies growth



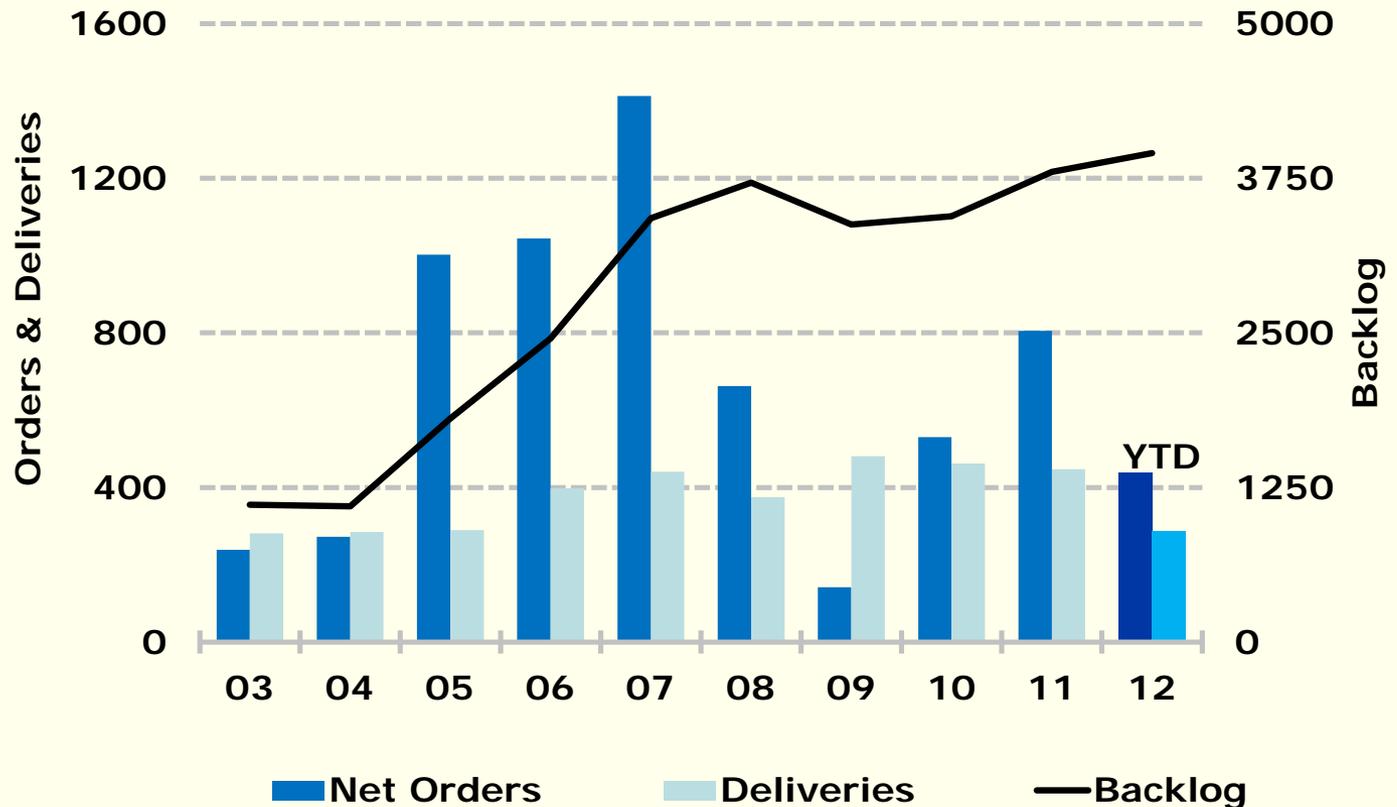
Source: Institute of Supply Management; data through June 2012

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Boeing has over 7 years of commercial orders on its books

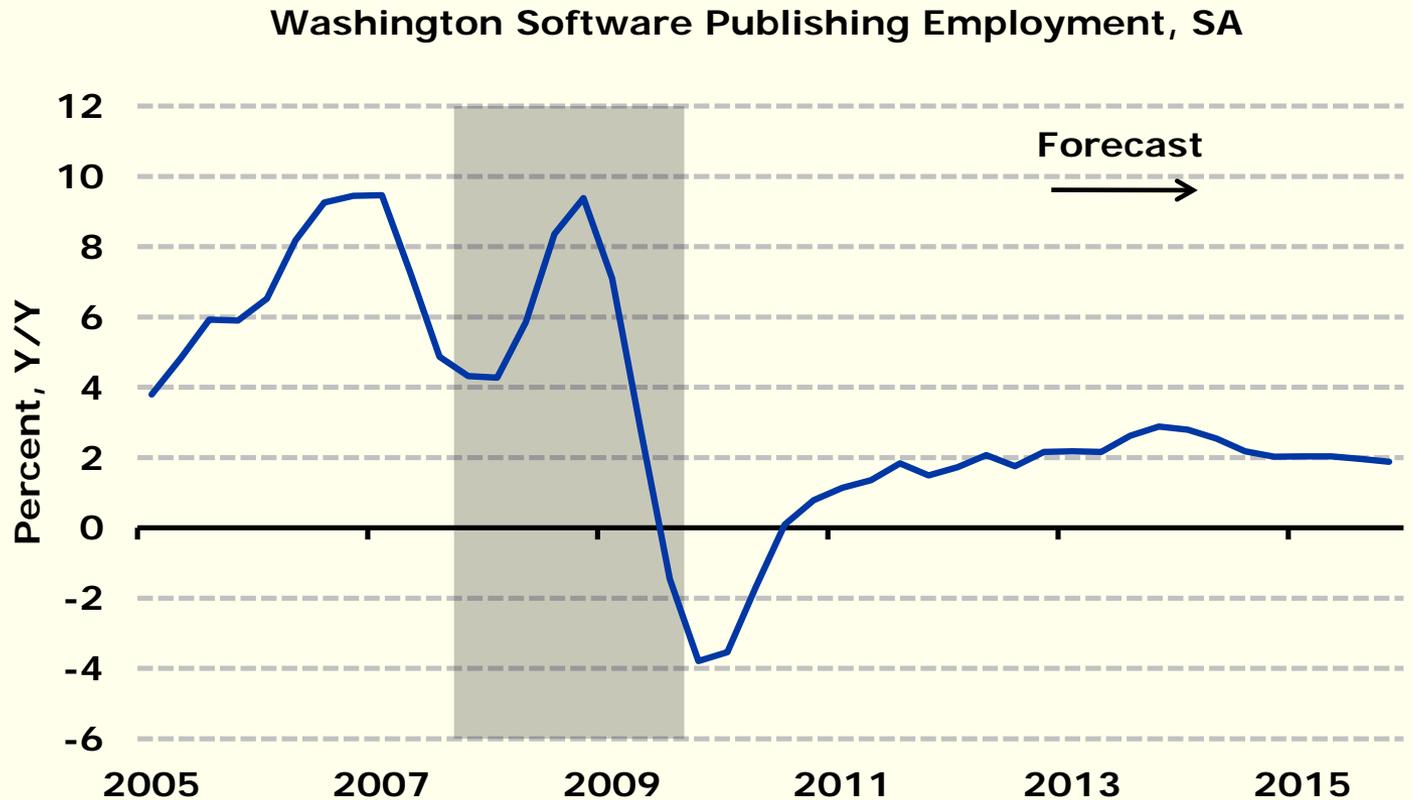
Excludes the military's new refueling tanker



Source: Boeing, data through June 2012



Software publishing employment is growing



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

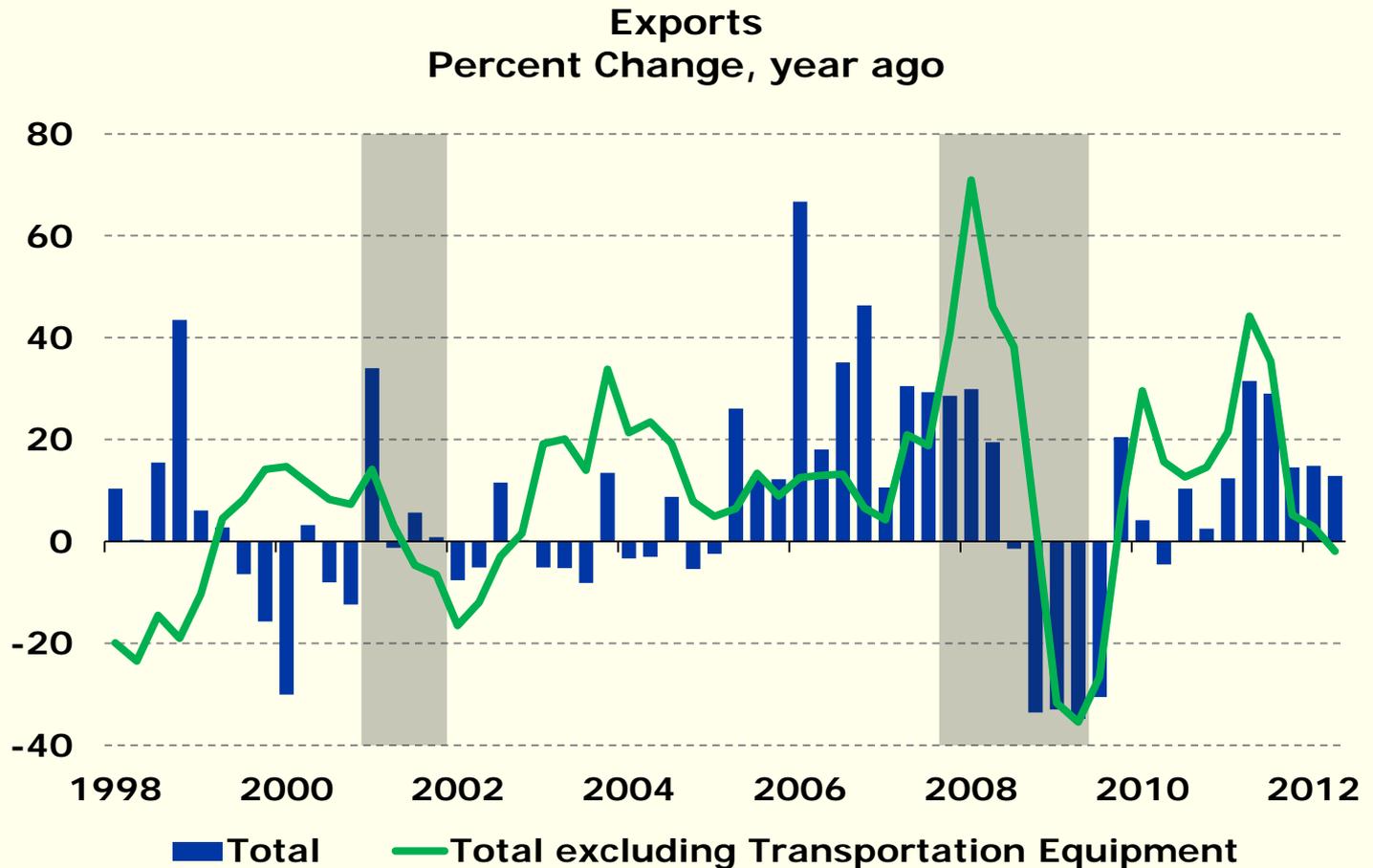
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WA export growth has slowed

Trans. Equip. exports are up 34% year-over-year so far in Q2

All other exports are down 2% year-over-year so far in Q2



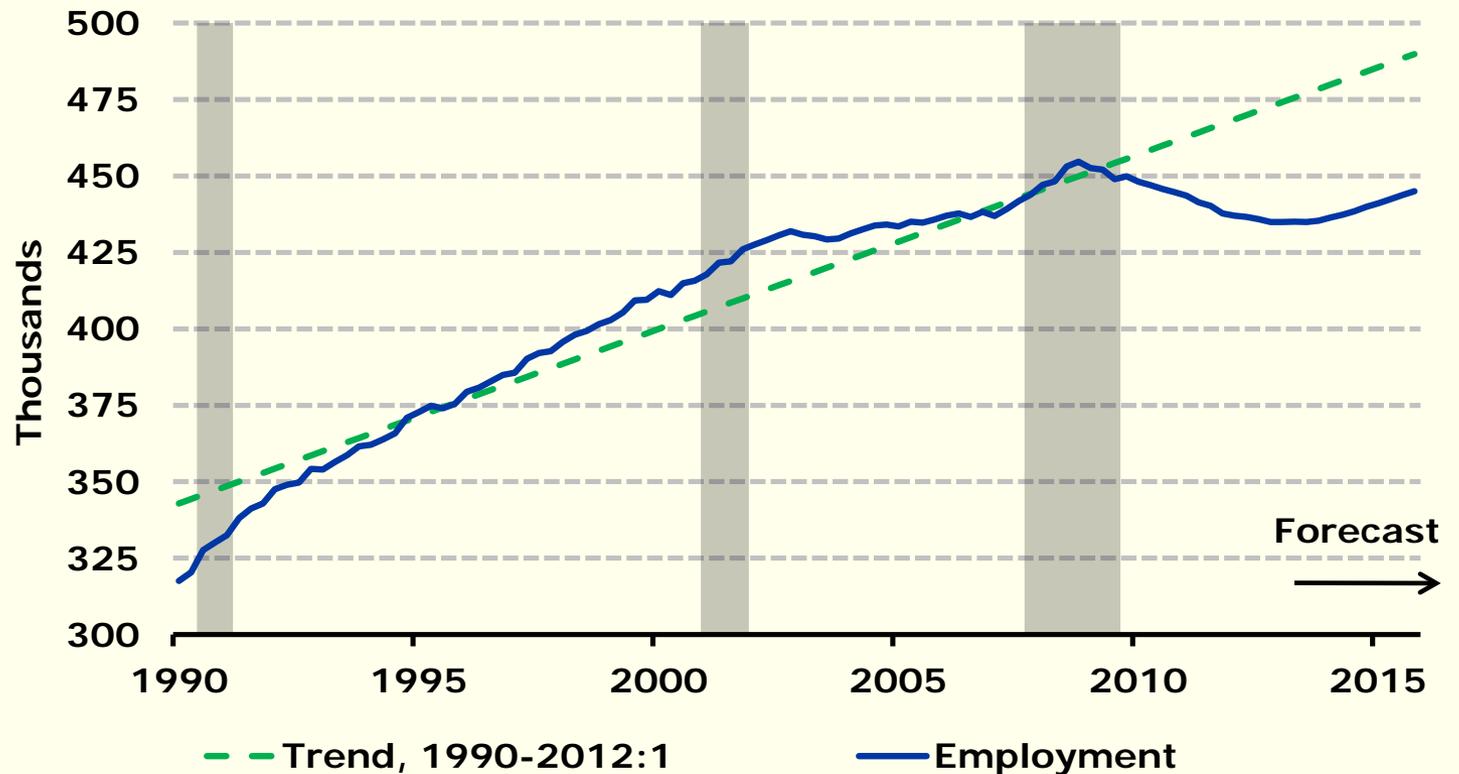
Source: WISER Trade Data; data through 2012 Q2 estimated

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State and local government employment will remain weak

Washington State and Local Government Employment



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

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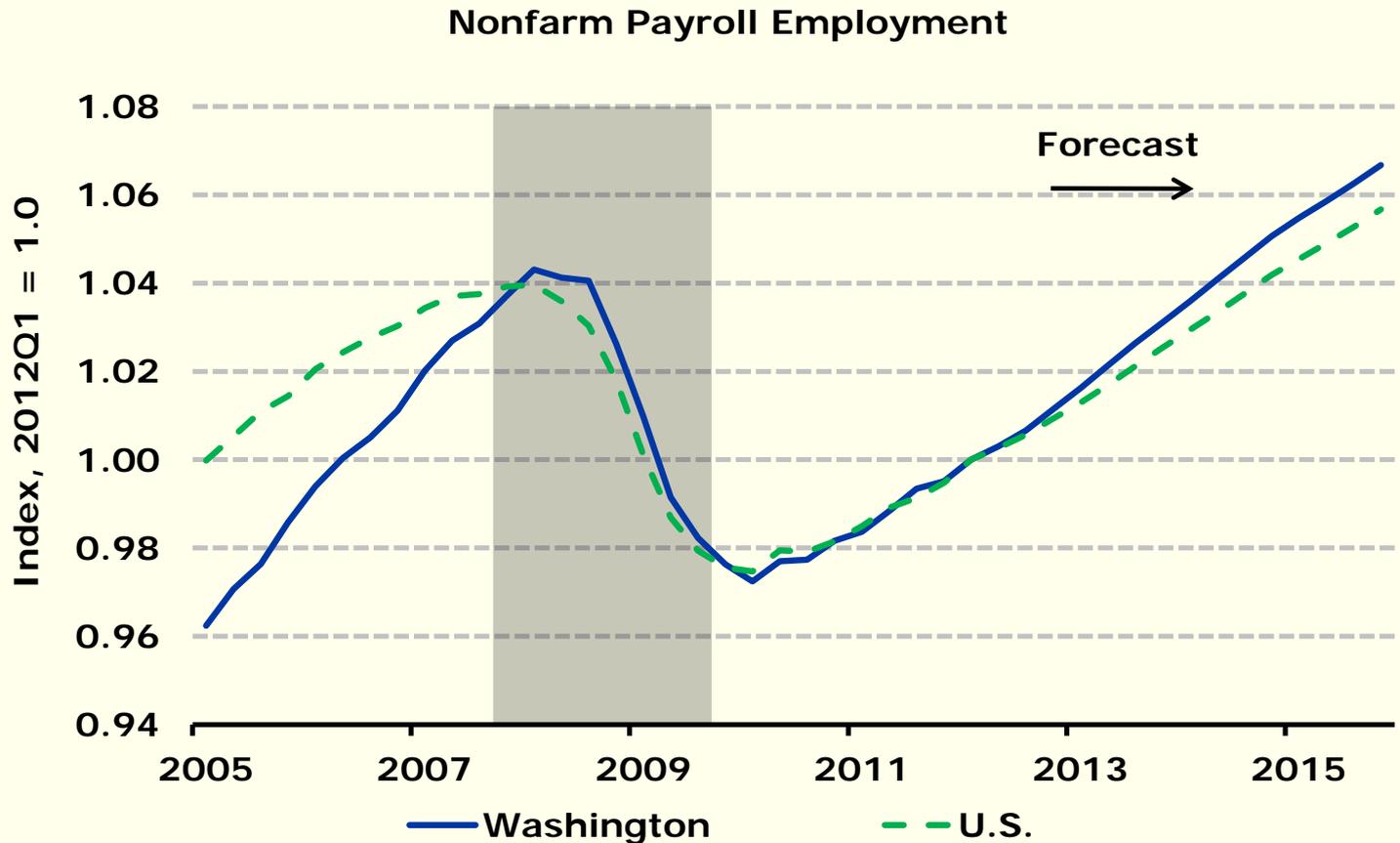


WA employment will recover slightly faster than the U.S.

Date of regaining peak:

WA:
2014Q3

U.S.:
2014Q4



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

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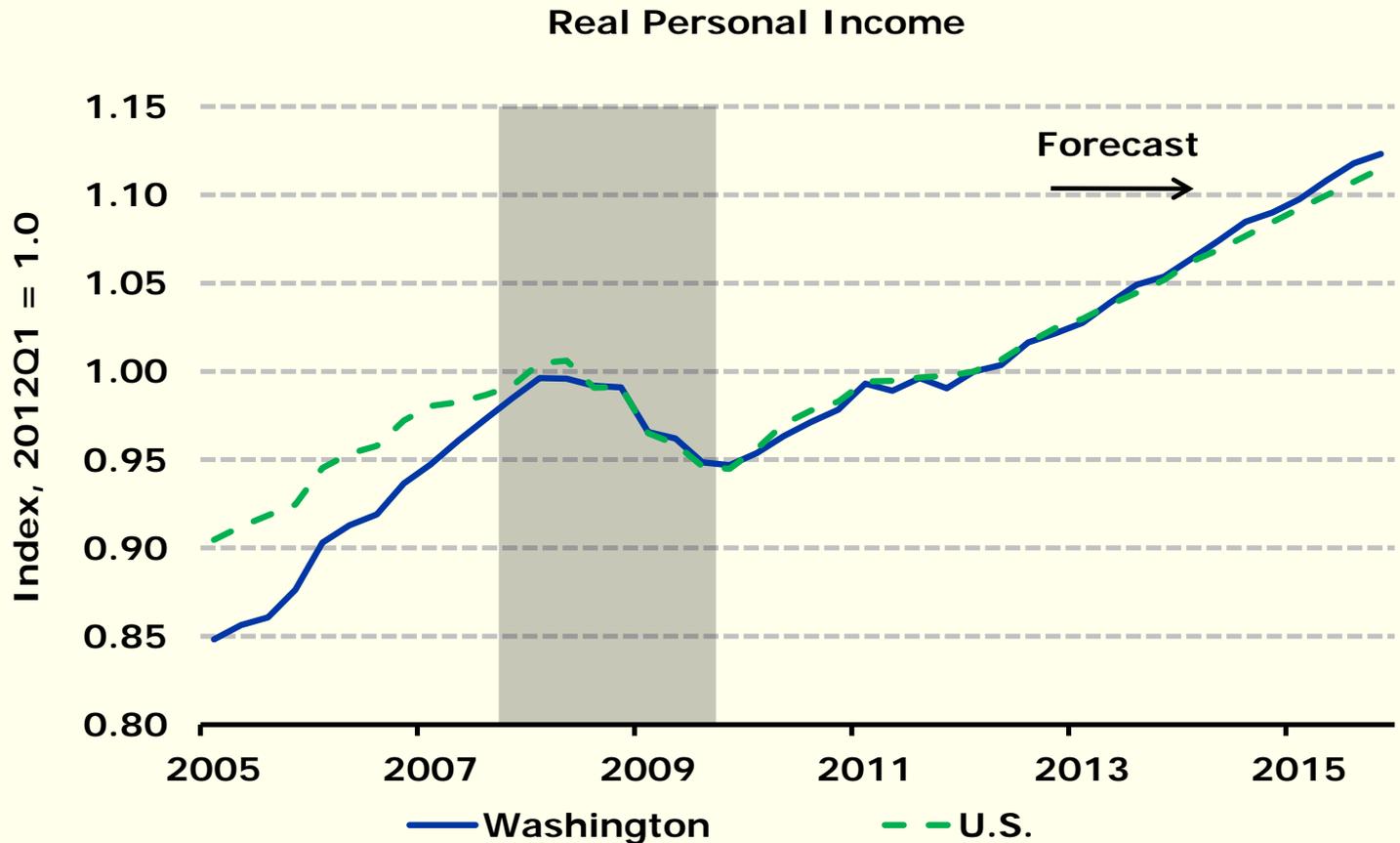


WA personal income will recover faster than that of the U.S.

Date of regaining peak:

WA:
2011Q3

U.S.:
2012Q2



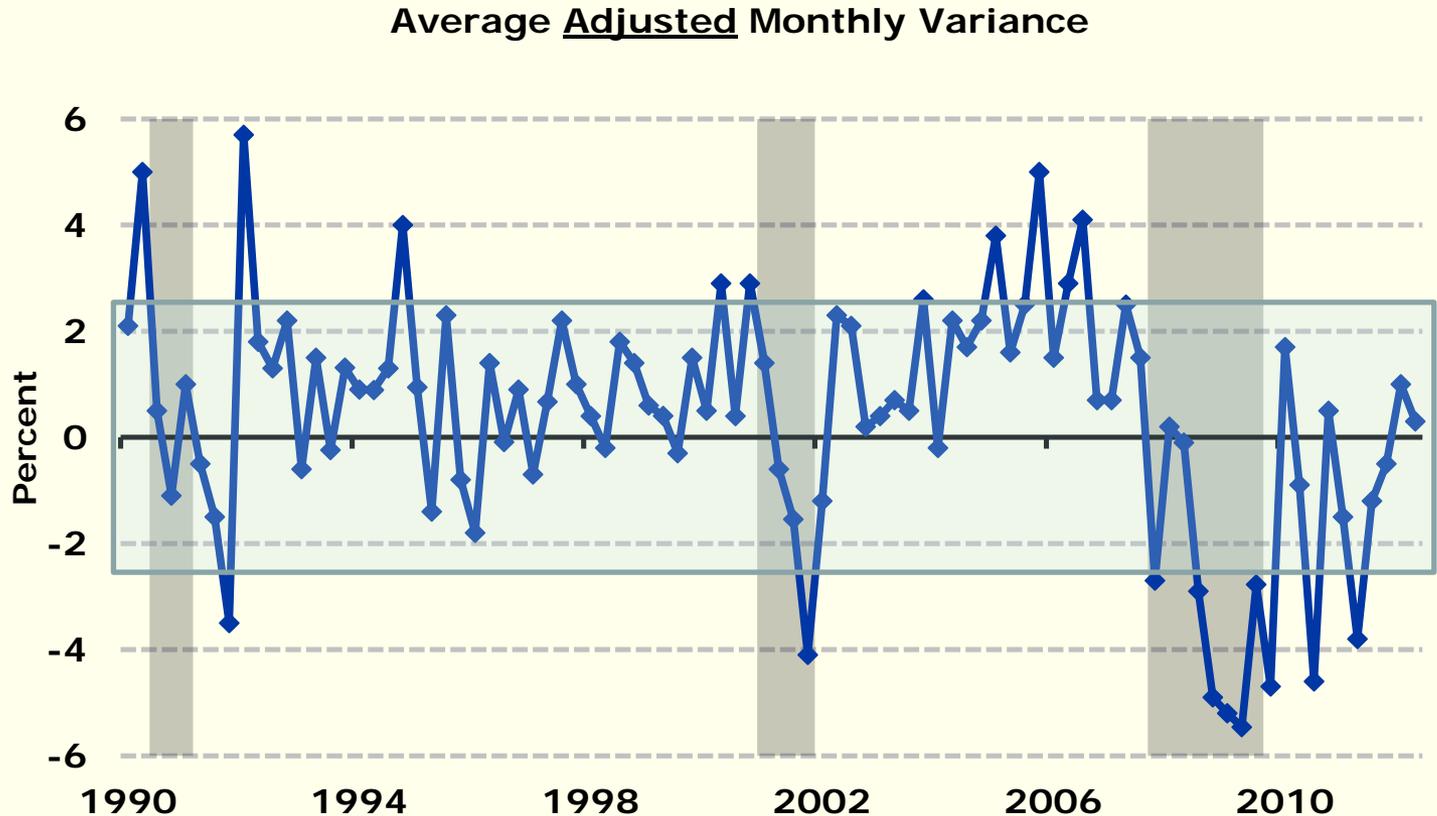
Source: ERFC June 2012 forecast; actual data through 2012Q1

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Revenue has come in close to forecast

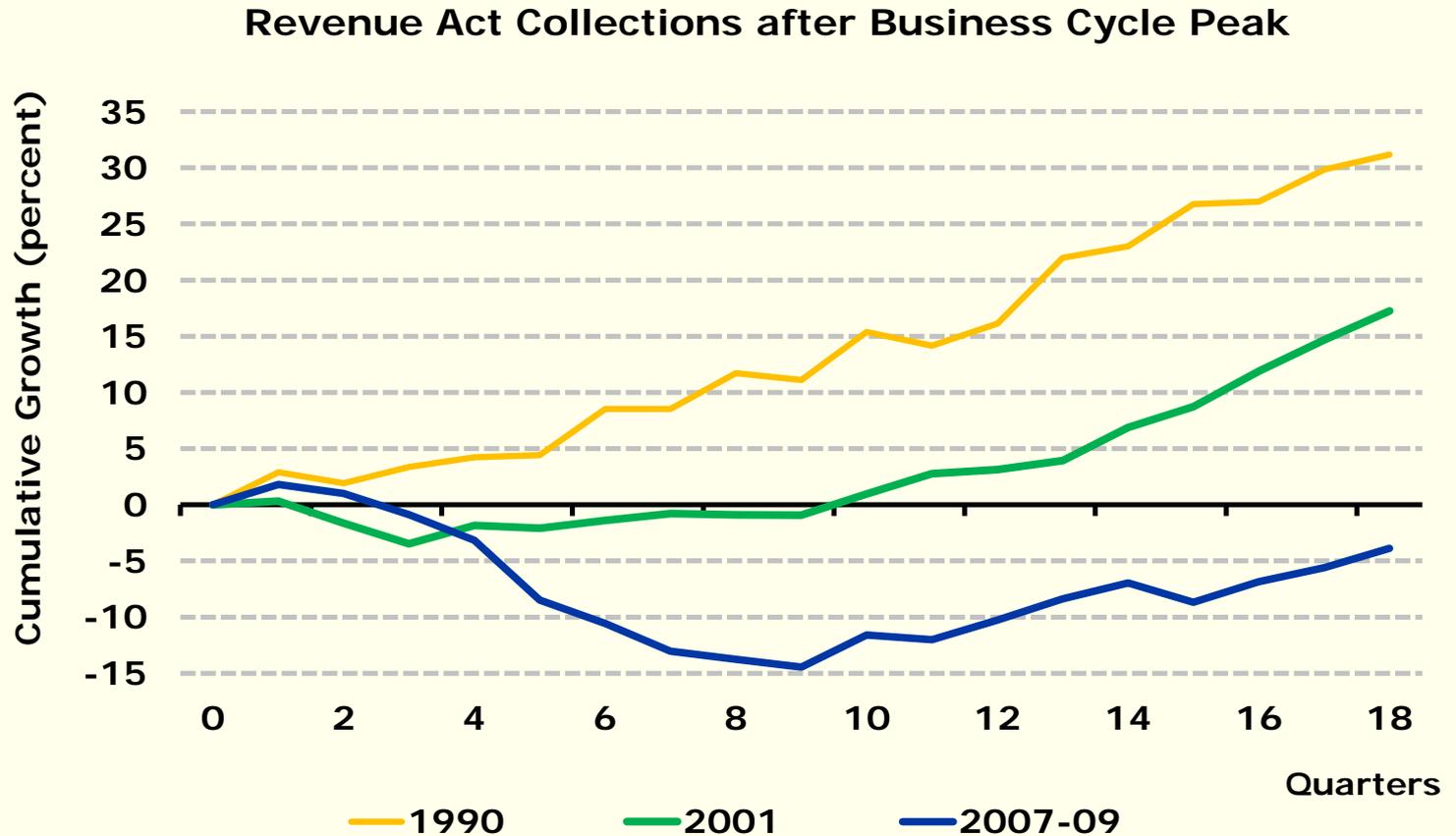
The variances reported here are net of unexpected one-time payments and refunds.



Source: ERFC; collections through July 10, 2012



Revenue collections have been weak compared to past recoveries



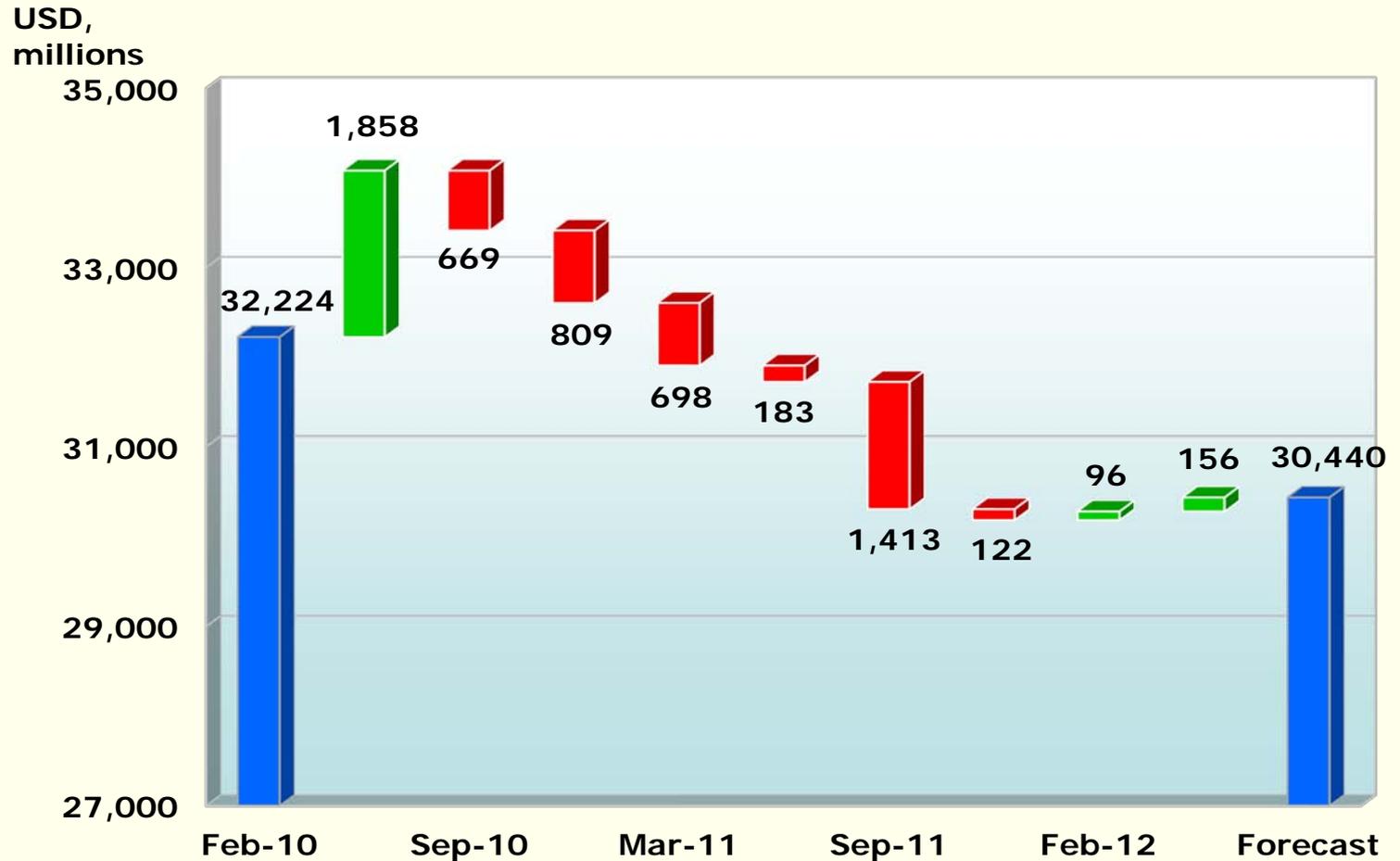
Source: ERFC; data through 2012 Q1

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Forecast revisions to the 2011-13 biennium

GF-S
New
Definition



Source: ERFC; data through June 2012 forecast

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Conclusion

- We continue to expect the U.S. and Washington economies to experience slow growth and muddle through conditions through the biennium
- Washington is still likely to outperform the nation, but by a small margin
- Downside risks remain high due to the European debt crisis and recession, slowing Asian economies and uncertainty around the "fiscal cliff"
- Recent data releases have been somewhat worrisome



Questions



**Economic & Revenue Forecast Council
1025 E. Union Avenue, Suite 544
Olympia WA 98504-0912**

**www.erfc.wa.gov
360-534-1560**