

Washington State Forecast

Presented to
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**WASHINGTON STATE
ECONOMIC AND REVENUE FORECAST COUNCIL**



Summary

- U.S., WA forecasts similar to the November forecast
- Baseline forecast has slowing growth but no recession
- Wage growth and inflation remain moderate
- Downside risks to the baseline include uncertainty regarding trade and fiscal policy, geopolitical concerns and a maturing economic expansion
- Potential impact of 737 MAX grounding adds a new downside risk
- The Near General Fund-State forecast is increased by \$307 million for the 2017-19 biennium and by \$554 million for 2019-21 biennium



Selected forecast risks

Labor markets

- Unemployment rate, initial UI claims low
- Job growth has been strong until February

737 MAX

- Currently, impact on WA employment and personal income unclear

International trade policy

- China – U.S. trade deal no longer seems imminent

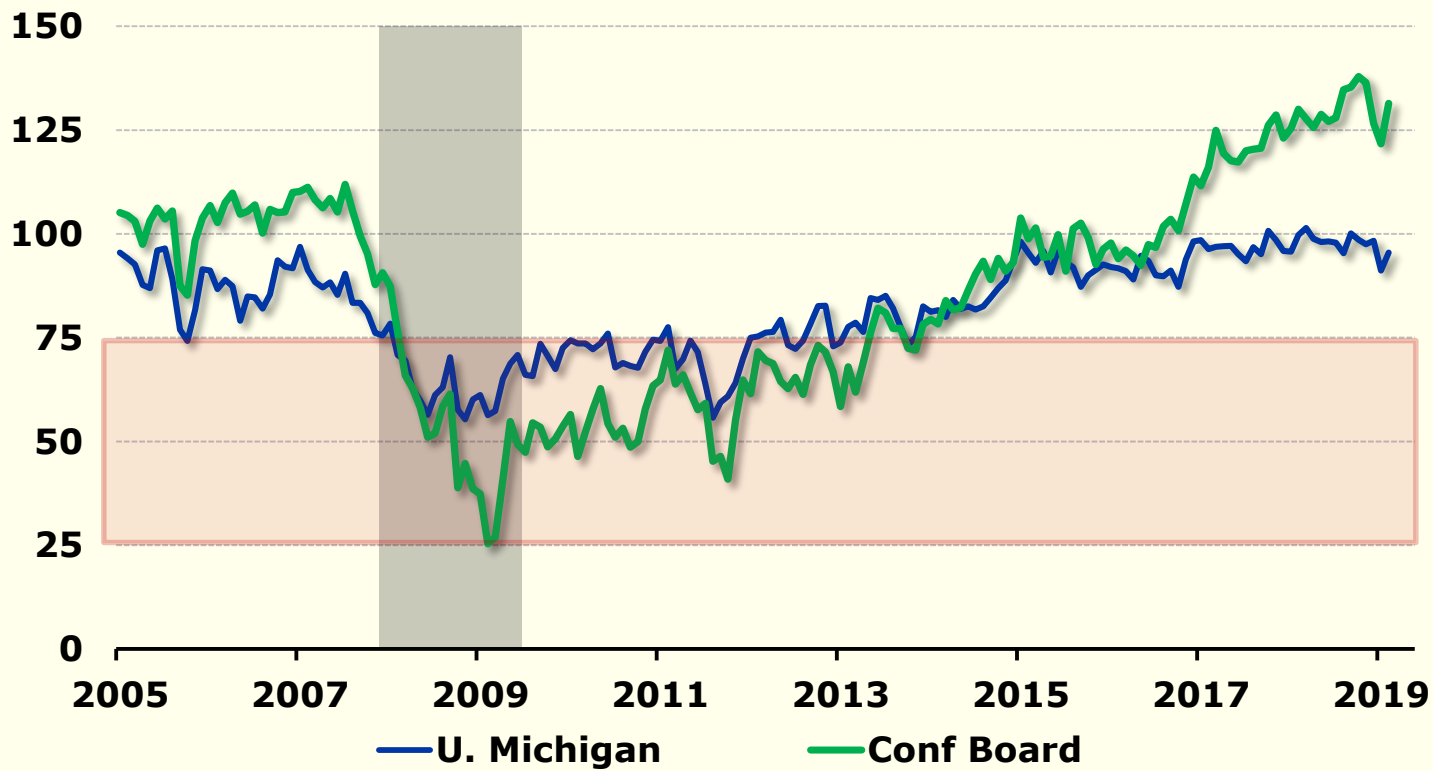


Consumer confidence dipped in late 2018 but has partially recovered, remains strong

Index

Mich: 1966Q1 = 100, SA

Conf Board: 1985 = 100, SA

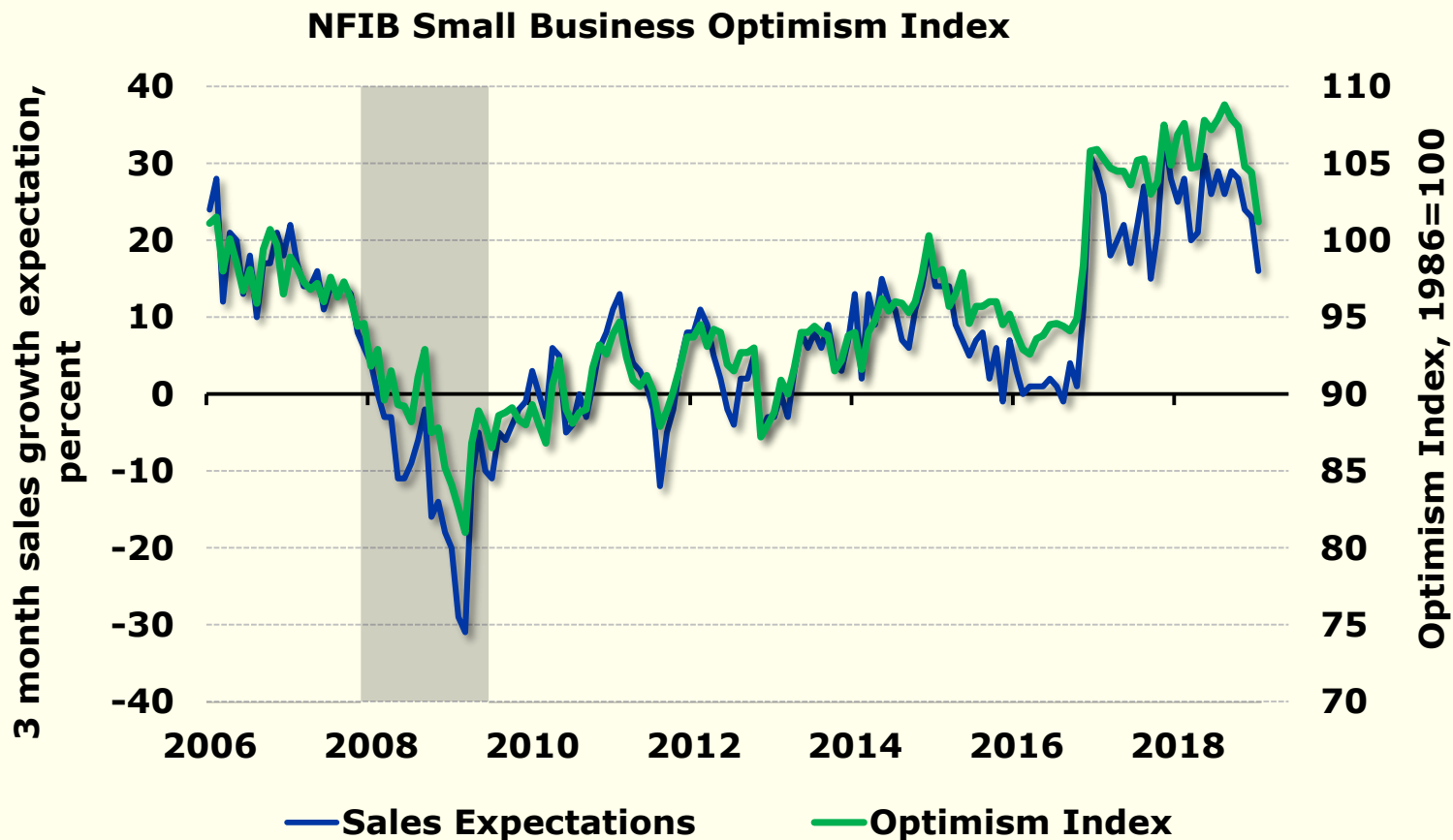


Sources: University of Michigan, Conference Board; data through February 2019

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Small business optimism has weakened recently but remains strong



Source: National Federation of Independent Business; data through Jan. 2019

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Job openings continue to grow at a strong pace

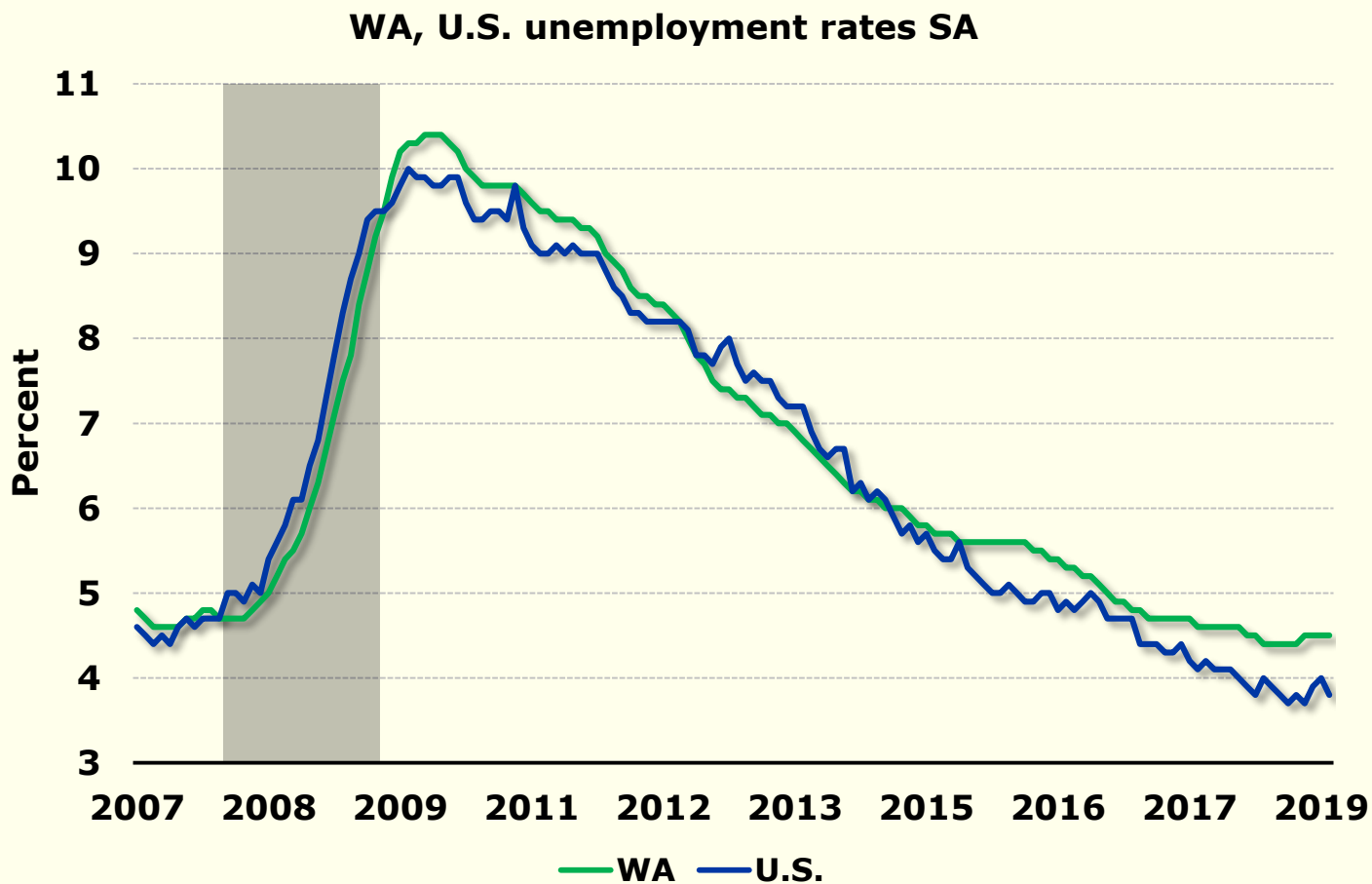
An average of 5.7 million jobs were open in 2018



Source: U.S. Bureau of Labor Statistics, data through Dec. 2018



WA, U.S. unemployment rates are below pre-recession levels



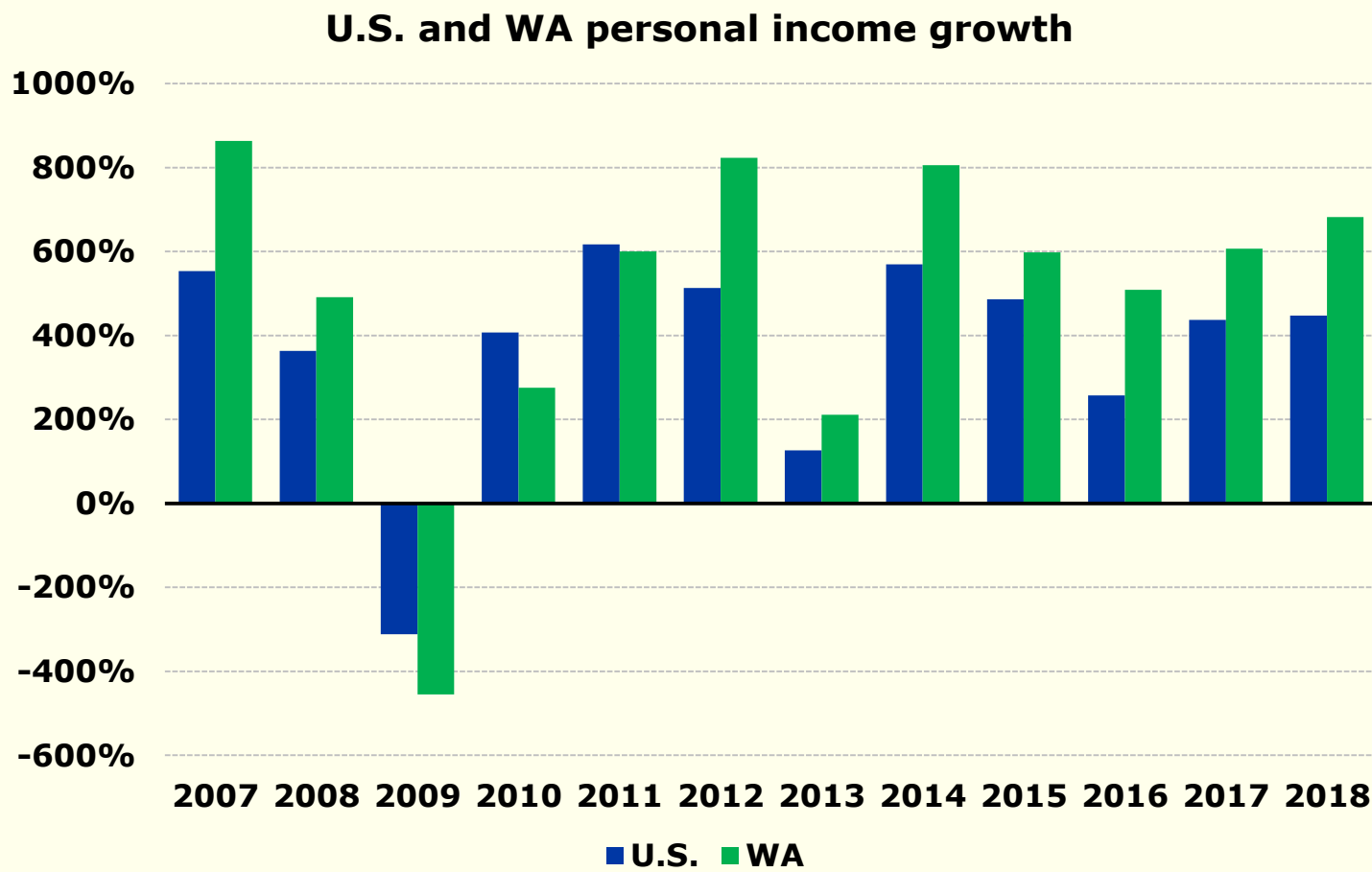
Source: Bureau of Labor Statistics, ERFC; Data through Feb. 2019

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Washington personal income growth has outpaced the U.S. for the last seven years

WA personal income growth is expected to average 4.8% per year for 2019 - 2023

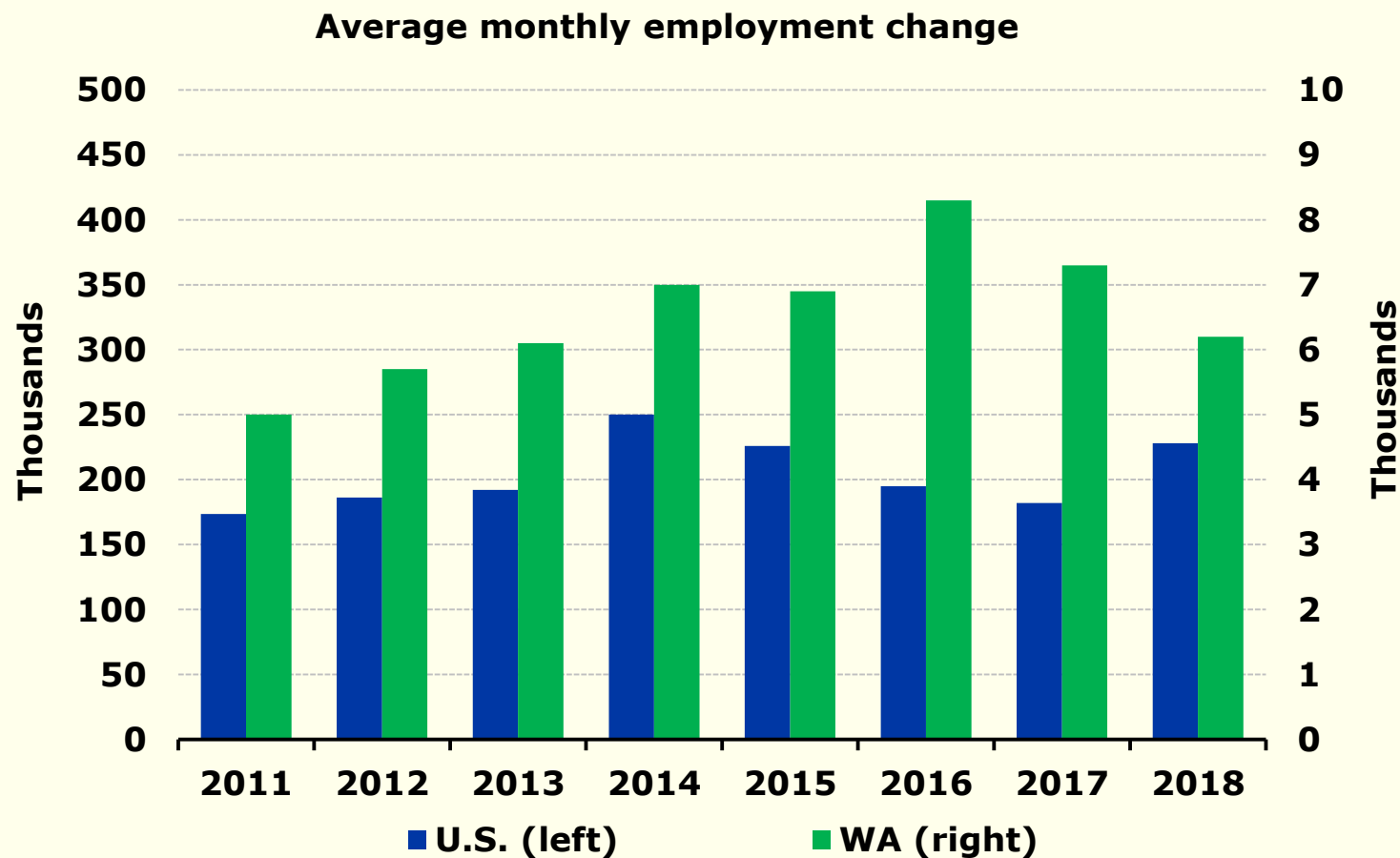


Source: U.S. Bureau of Economic Analysis, data through 2018

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WA, U.S. job growth remain strong

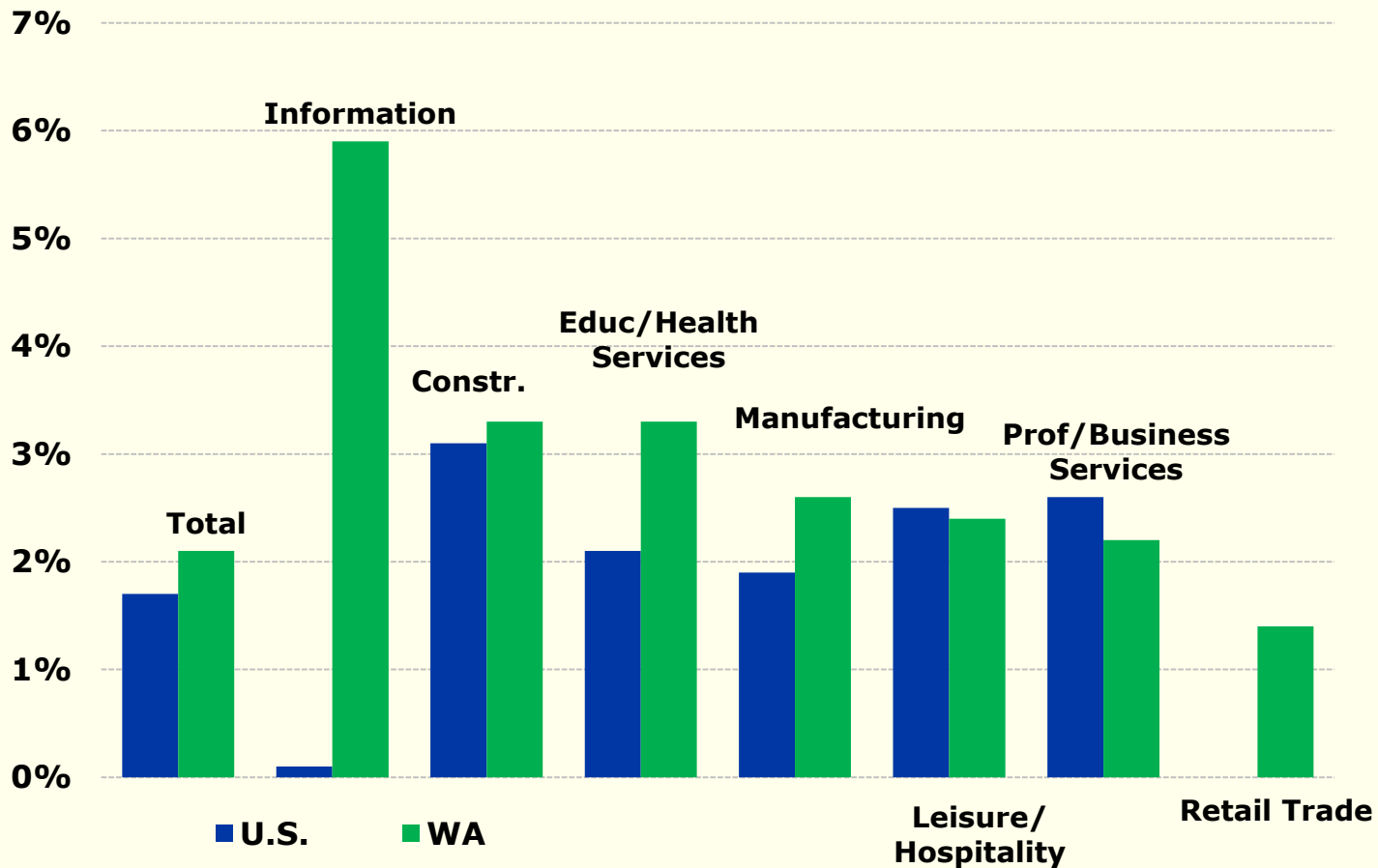


Source: Bureau of Labor Statistics, ERFC; data through 2018

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Washington vs U.S. employment growth: Feb. 2018 to Feb. 2019

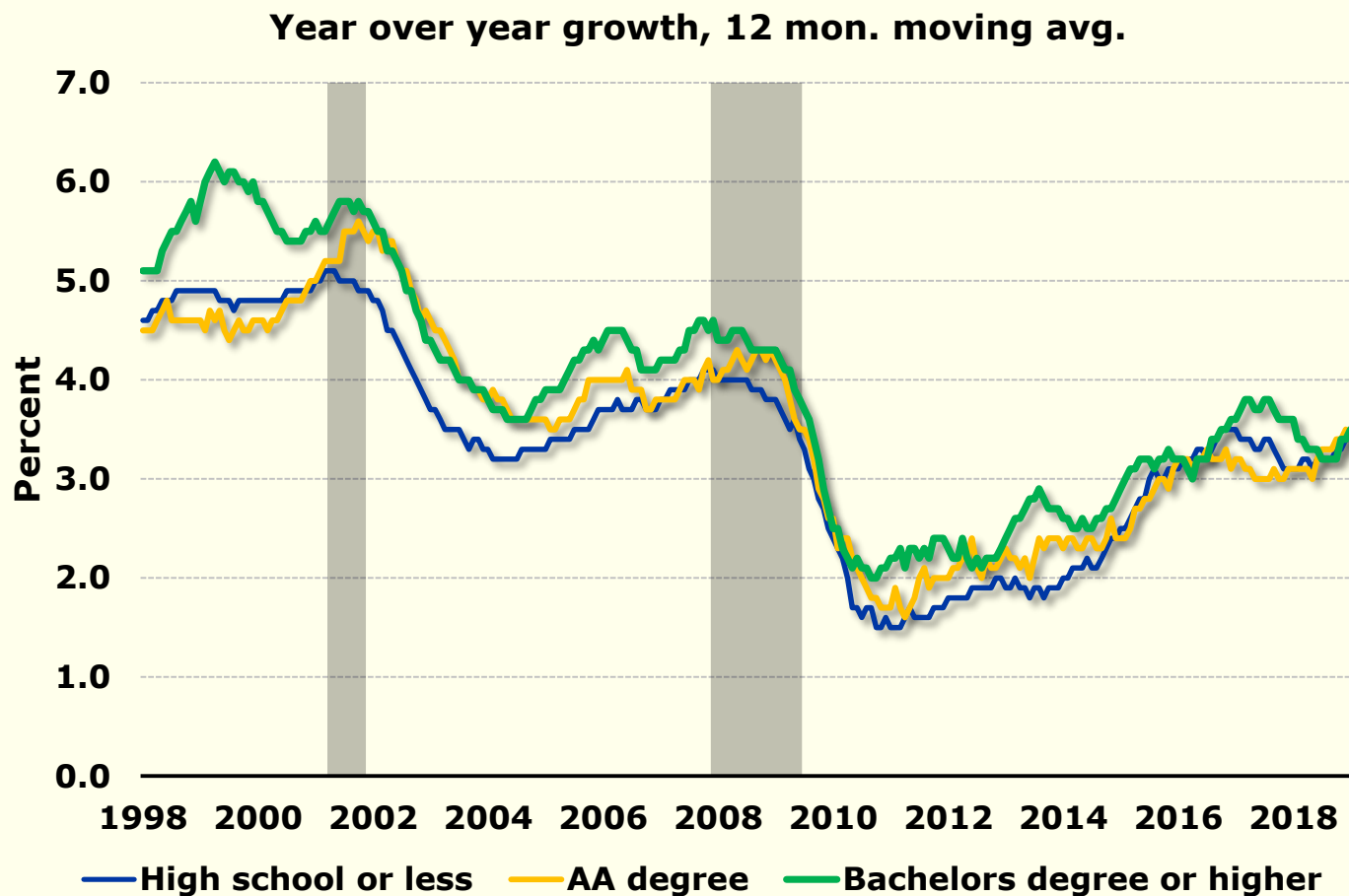


Source: U.S. Bureau of Labor Statistics, Employment Security Dept., ERFC; data through Feb. 2019

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Nominal wage growth has averaged 3.3% in last 12 months regardless of educational level



Source: Federal Reserve Bank of Atlanta, data through Jan. 2019

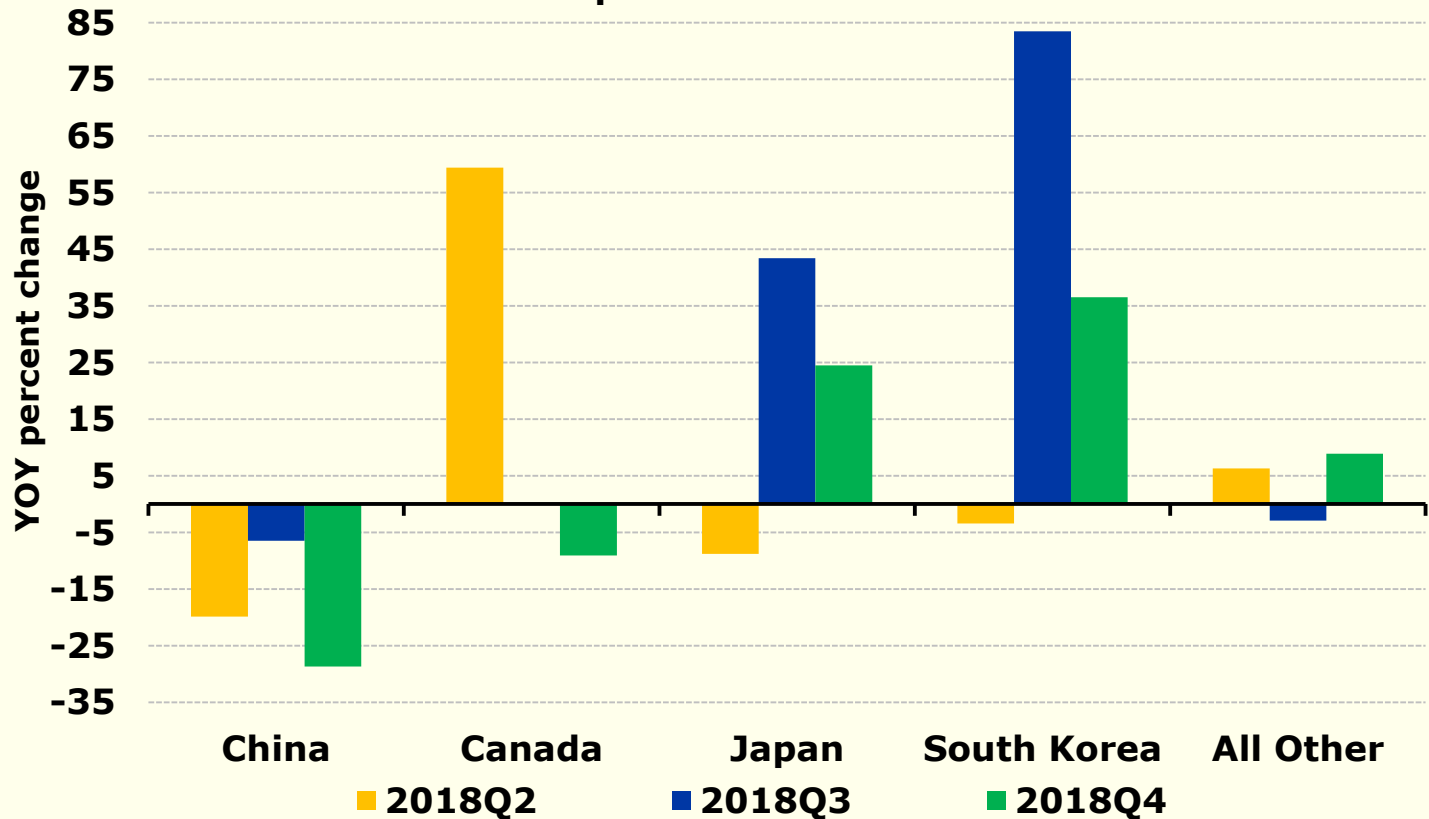
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Exports to China are declining

After four quarters of year over year growth, WA exports declined in 2018 Q4

Year-over-year growth in export value, major trading partners



Source: WISERTrade; data through 2018 Q4



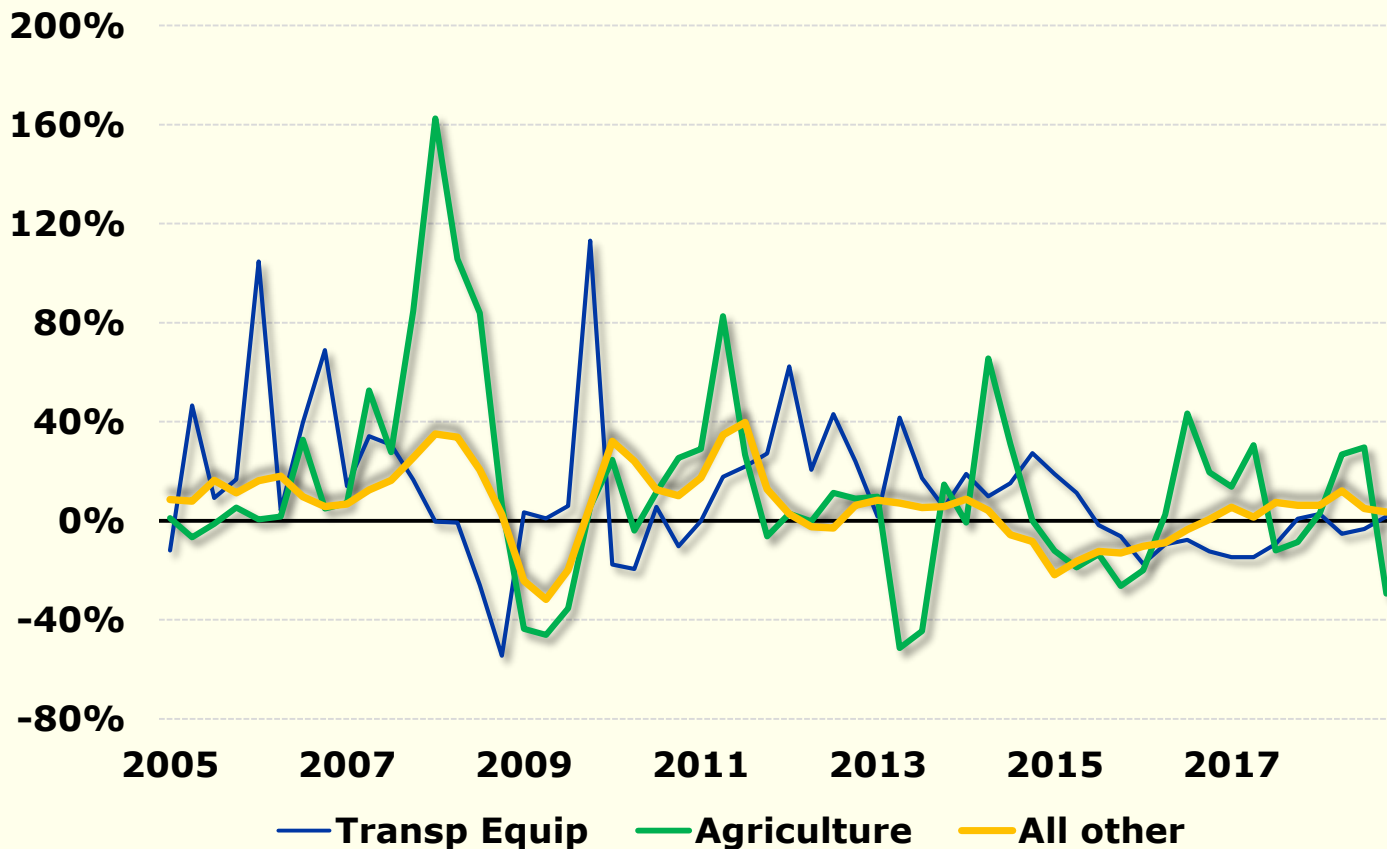
After four consecutive quarters of growth, WA exports declined in the fourth quarter of 2018

Total Export Growth

2017Q4: 0.6%
2018Q1: 3.9%
2018Q2: 3.7%
2018Q3: 2.6%

2018Q4:
-2.7%

WA exports, year over year growth

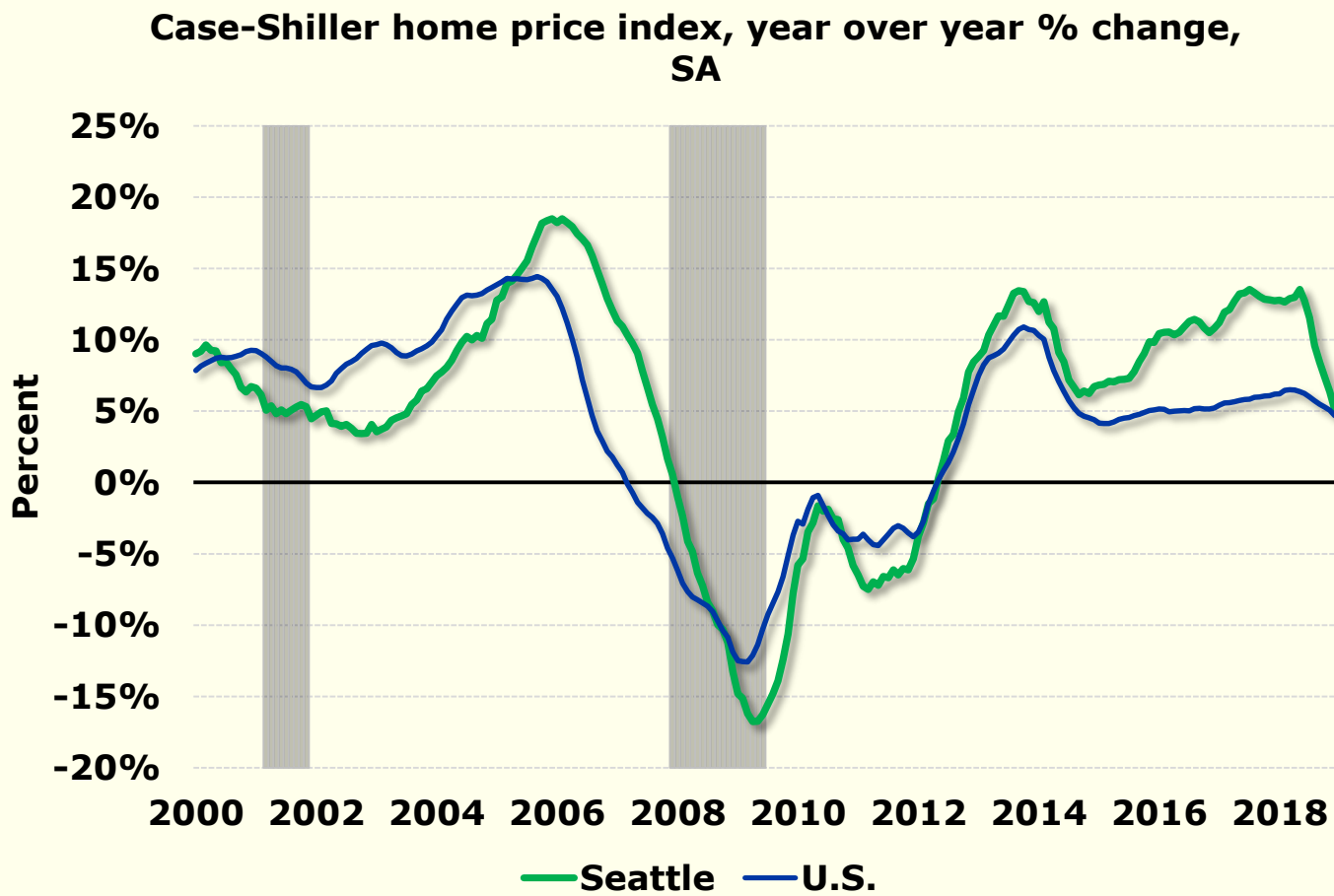


Source: WISERTrade; data through 2018 Q4



Home price growth is slowing

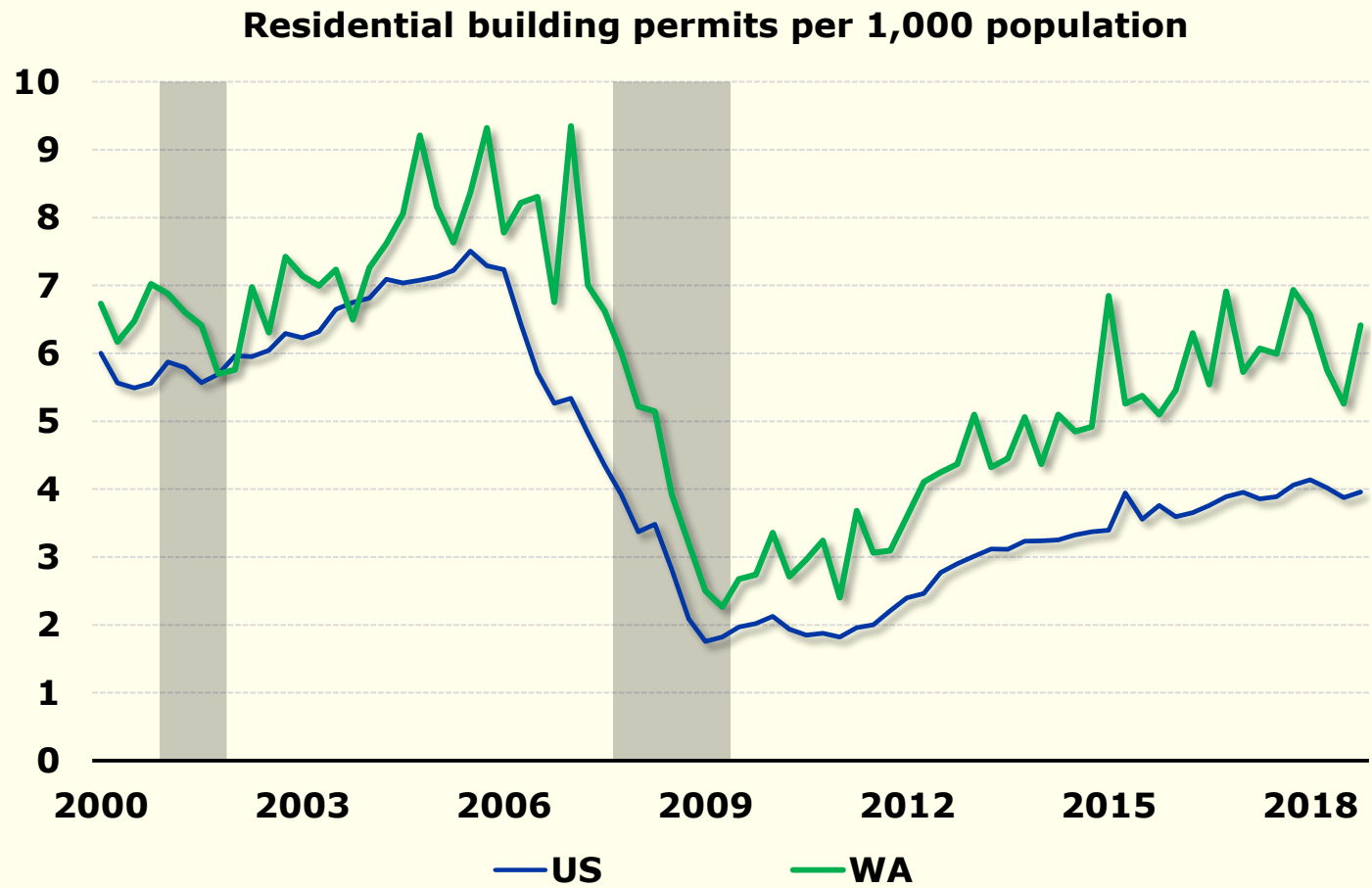
Starting in July 2018, the Case-Shiller index for Seattle has decreased for six consecutive months.



Source: Case-Shiller, data through December 2018



Relative to population, WA residential construction activity is stronger than the U.S.



Source: U.S. Census Bureau, ERFC; data through 2018 Q4

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U.S. retail sales growth has slowed recently

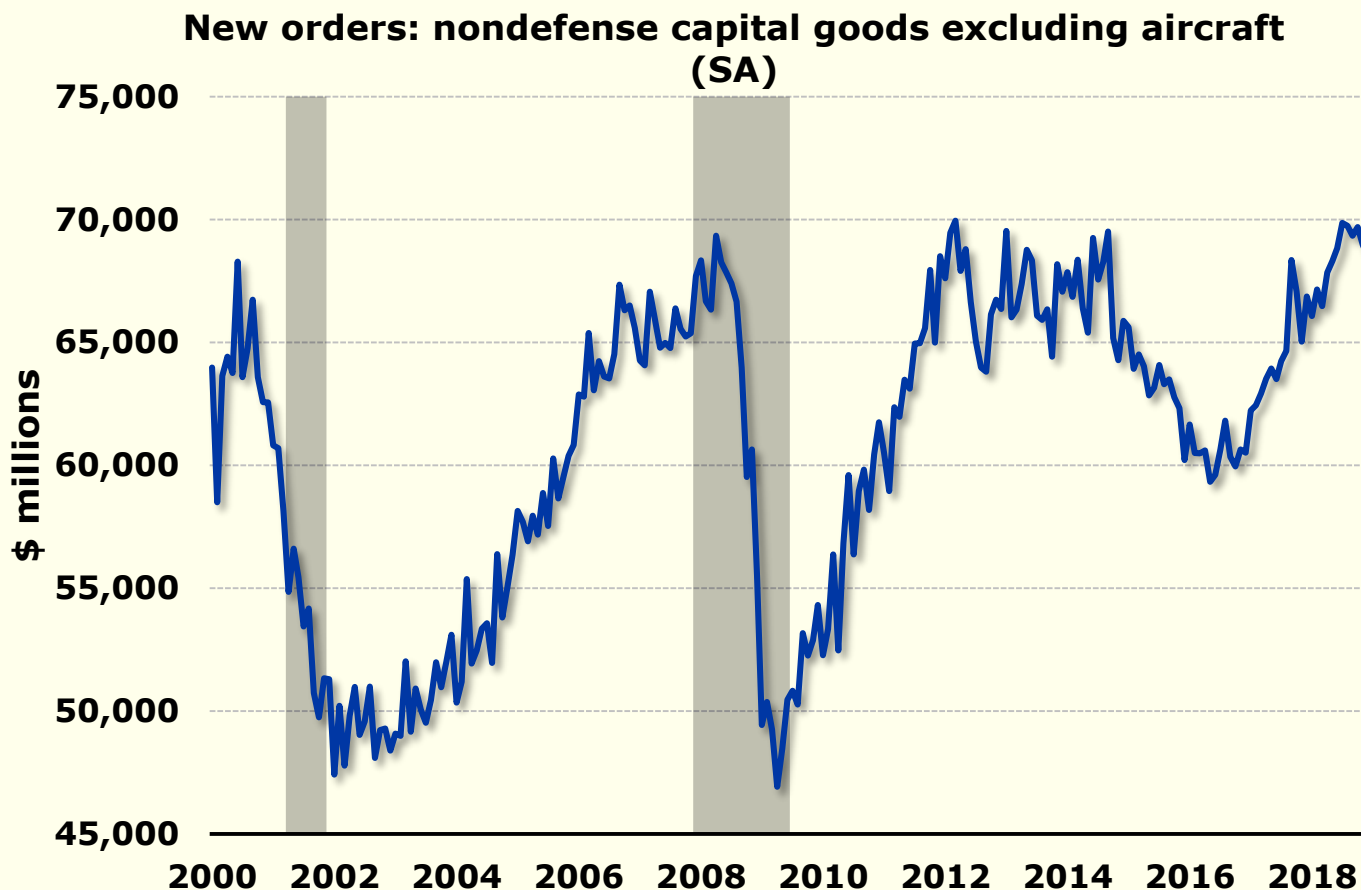


Source: U.S. Census Bureau data through January 2019

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Business investment trended down in last five months of 2018

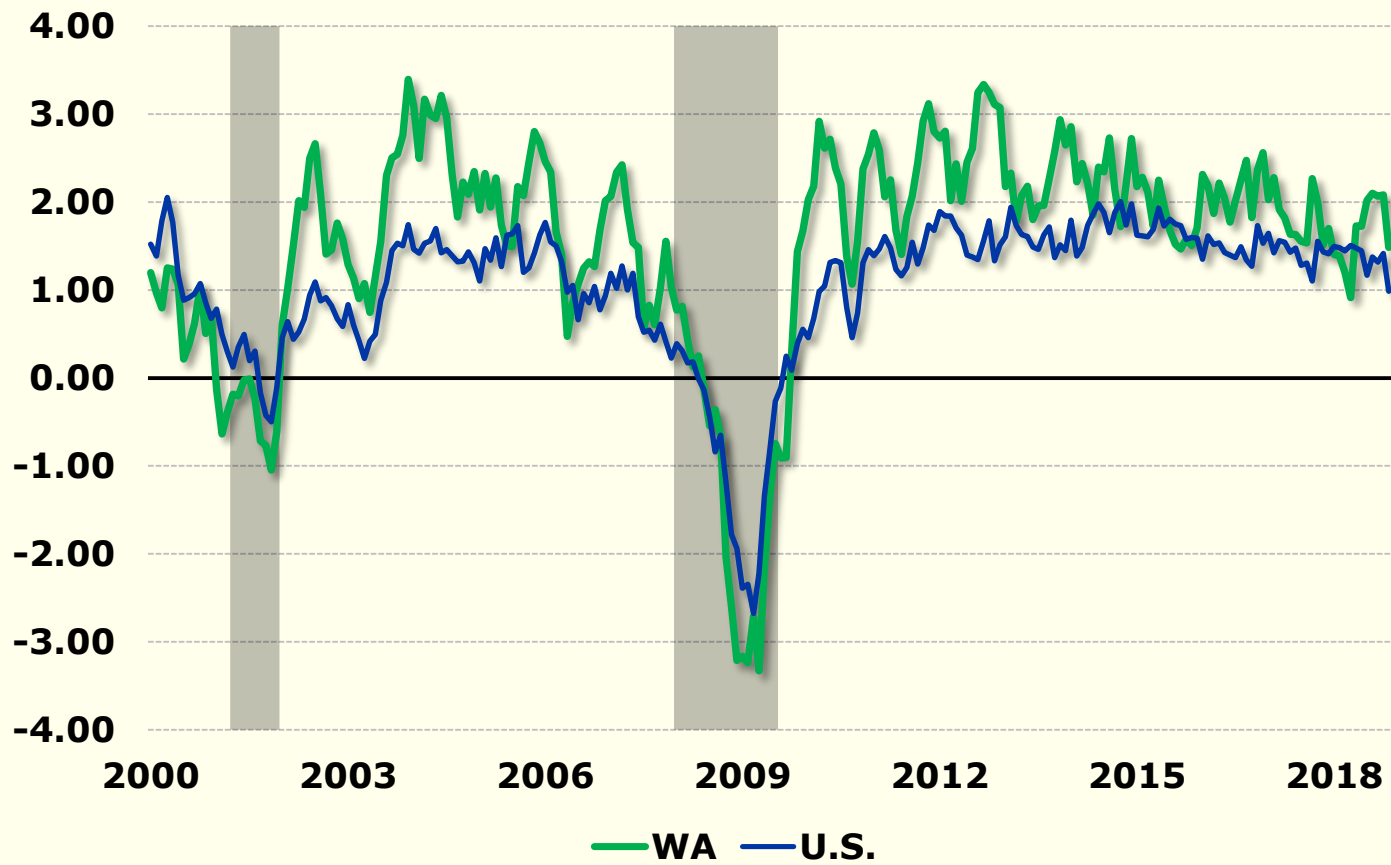


Source: U.S. Census Bureau; data through Dec. 2018

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Leading economic indexes for WA, U.S. dipped recently but do not suggest a recession in near term



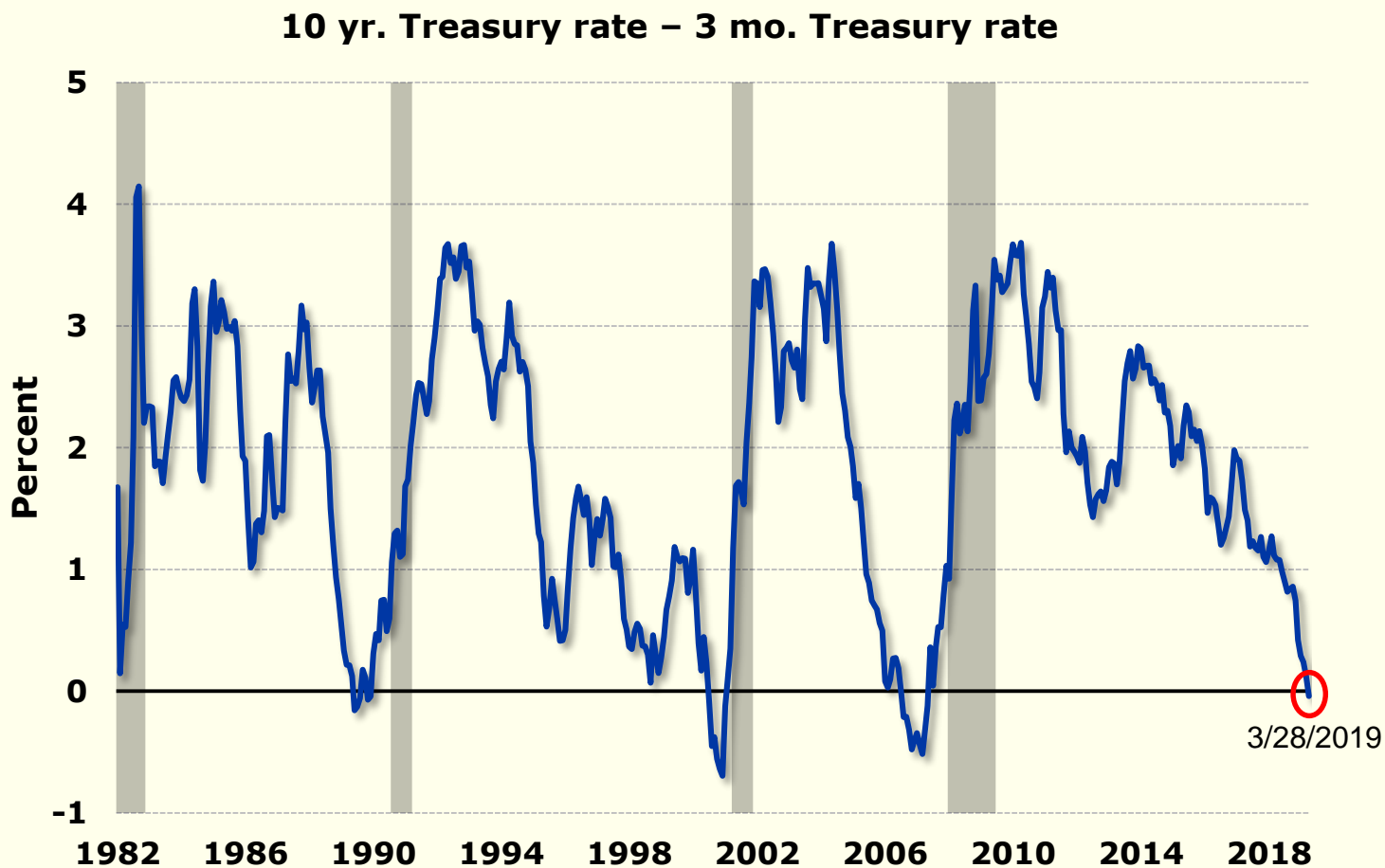
Source: Federal Reserve Bank of Philadelphia, data through Nov. 2018

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An inverted yield curve (short-term interest rates > long-term rates) is a consistent recession predictor

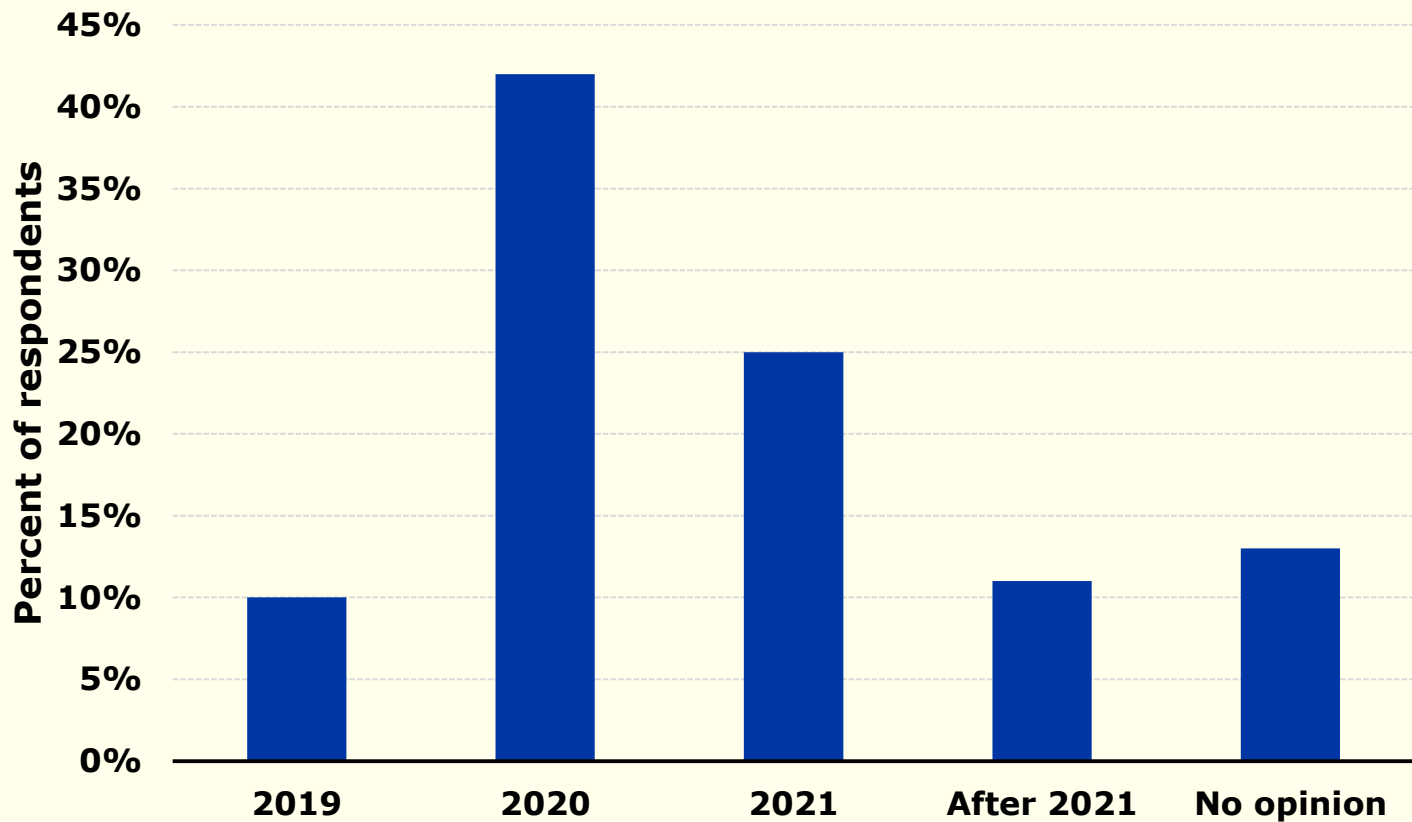
As of March 28, 2019 10 year Treasury bond yields were 0.04% below three month Treasury bill yields



Source: Federal Reserve Bank of St. Louis, data through March 2019



Timing of next recession: National Assoc. of Business Economists survey



Source: National Association of Business Economists, Economic Policy Survey, Feb. 2019

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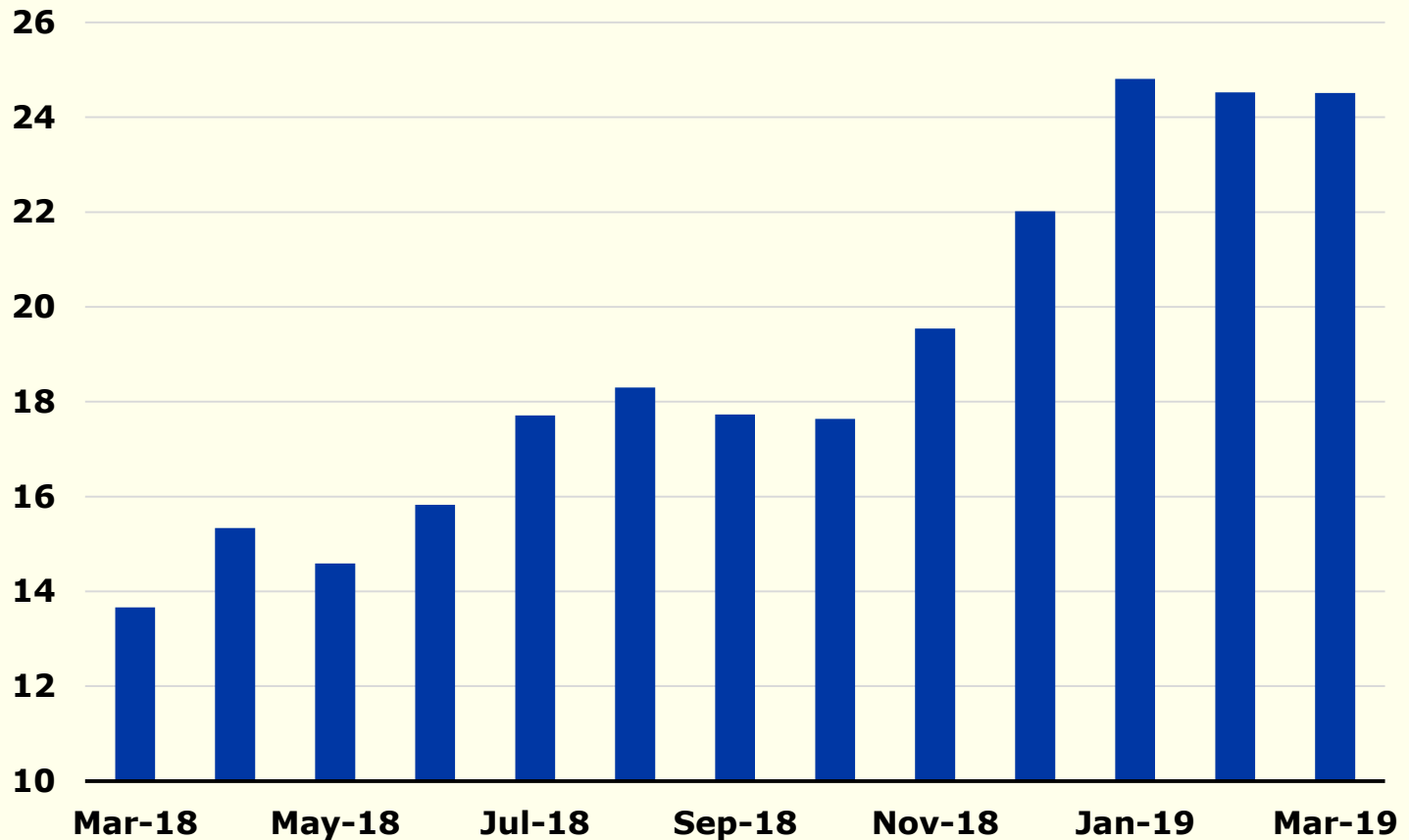


Wall Street Journal economists' survey shows recession probability rising but below 25%

GCEA members:

Average probability of recession in next 12 months = 36%

Probability of recession in next 12 months

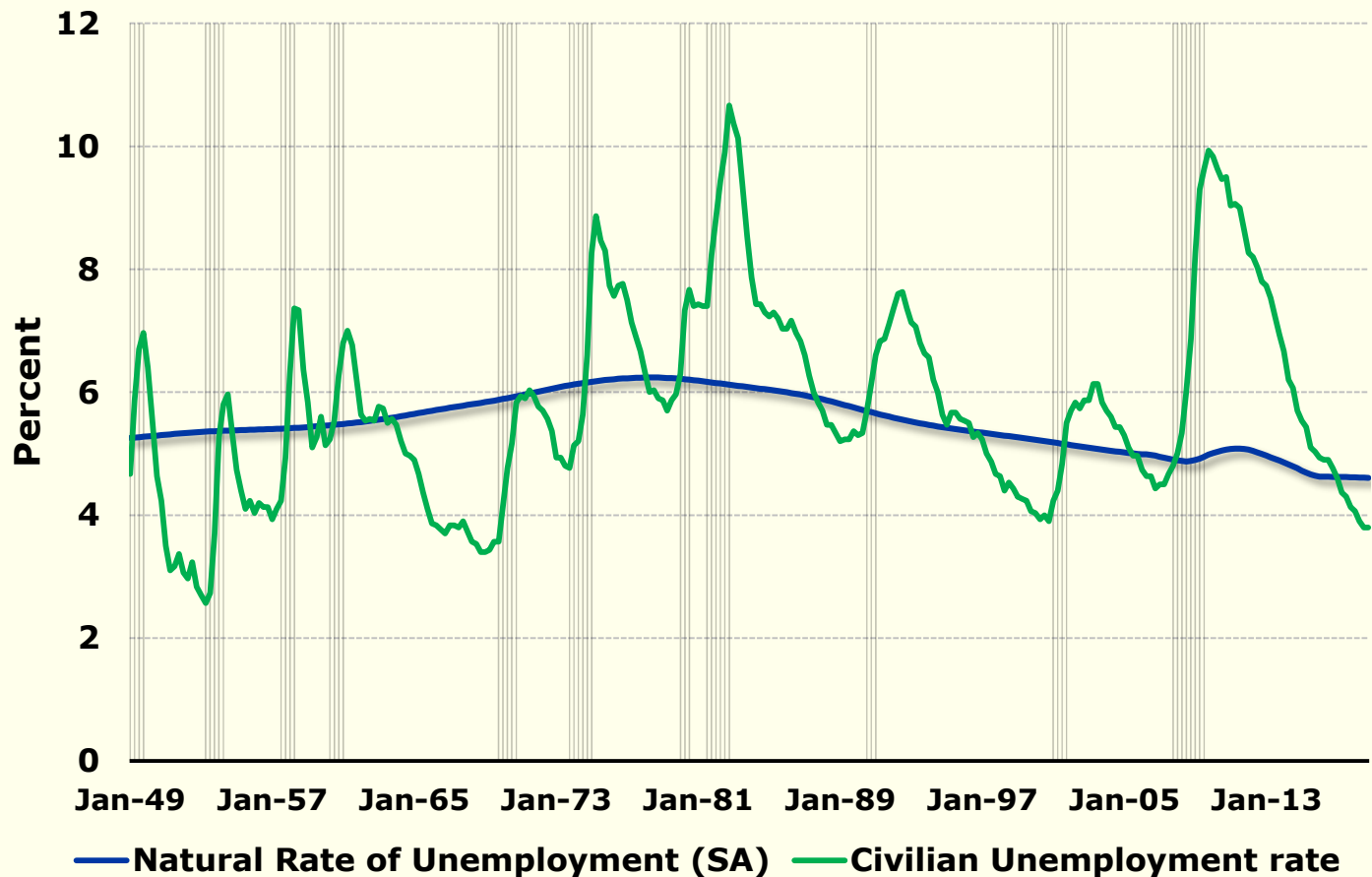


Source: Wall Street Journal economists' survey, data through Mar. 2019

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Recessions are always (almost) preceded by $UR < NAIRU$

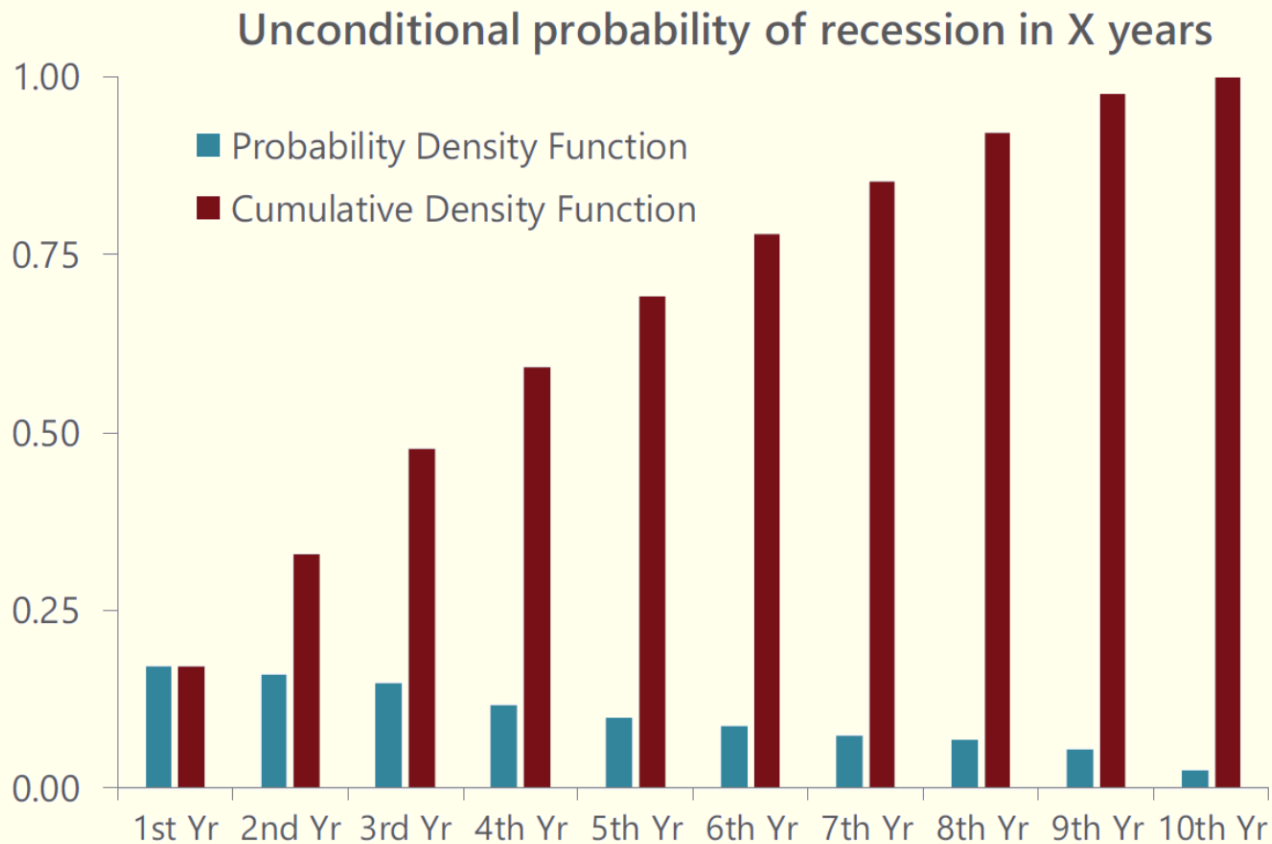


Source: Federal Reserve Economic Data

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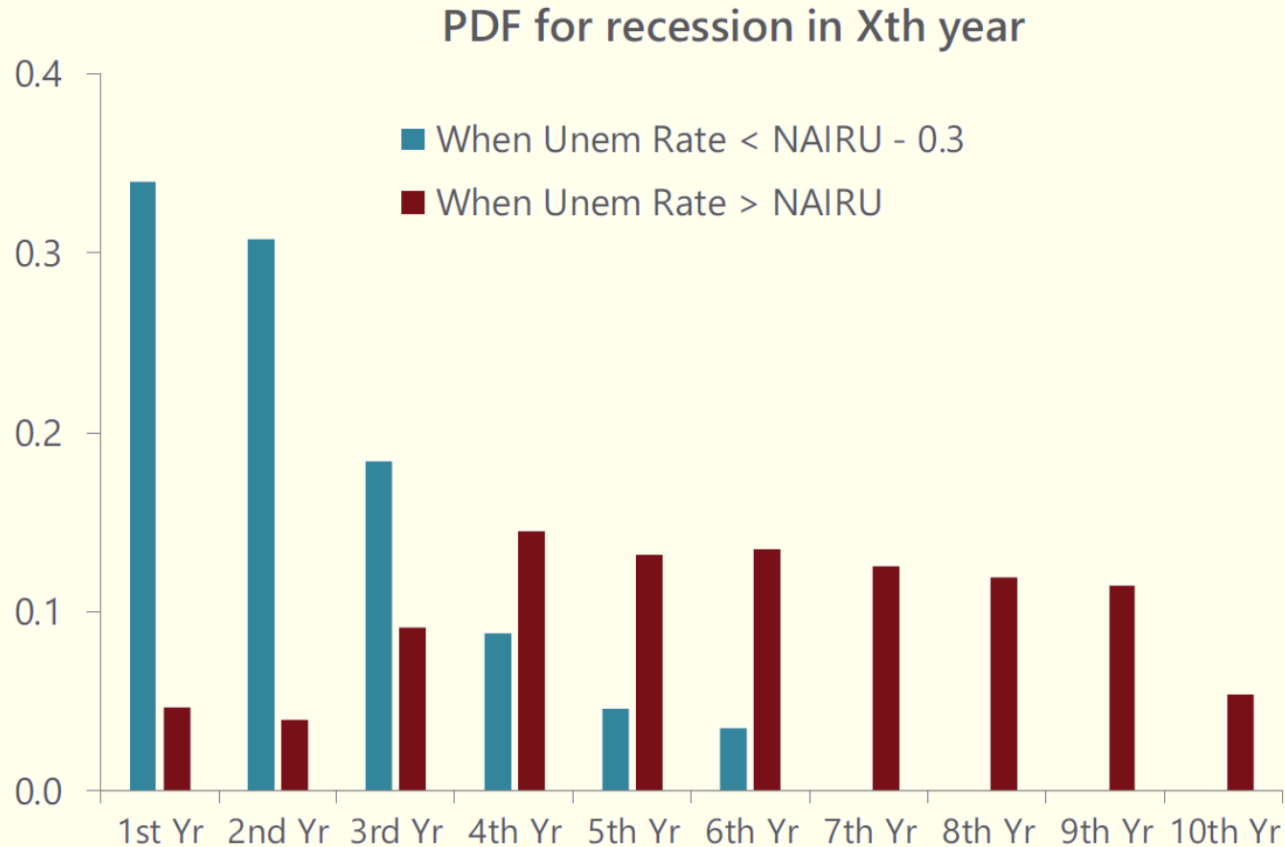
Unconditional probability of recession in X years



Source: Macroeconomic Advisers by IHS Markit



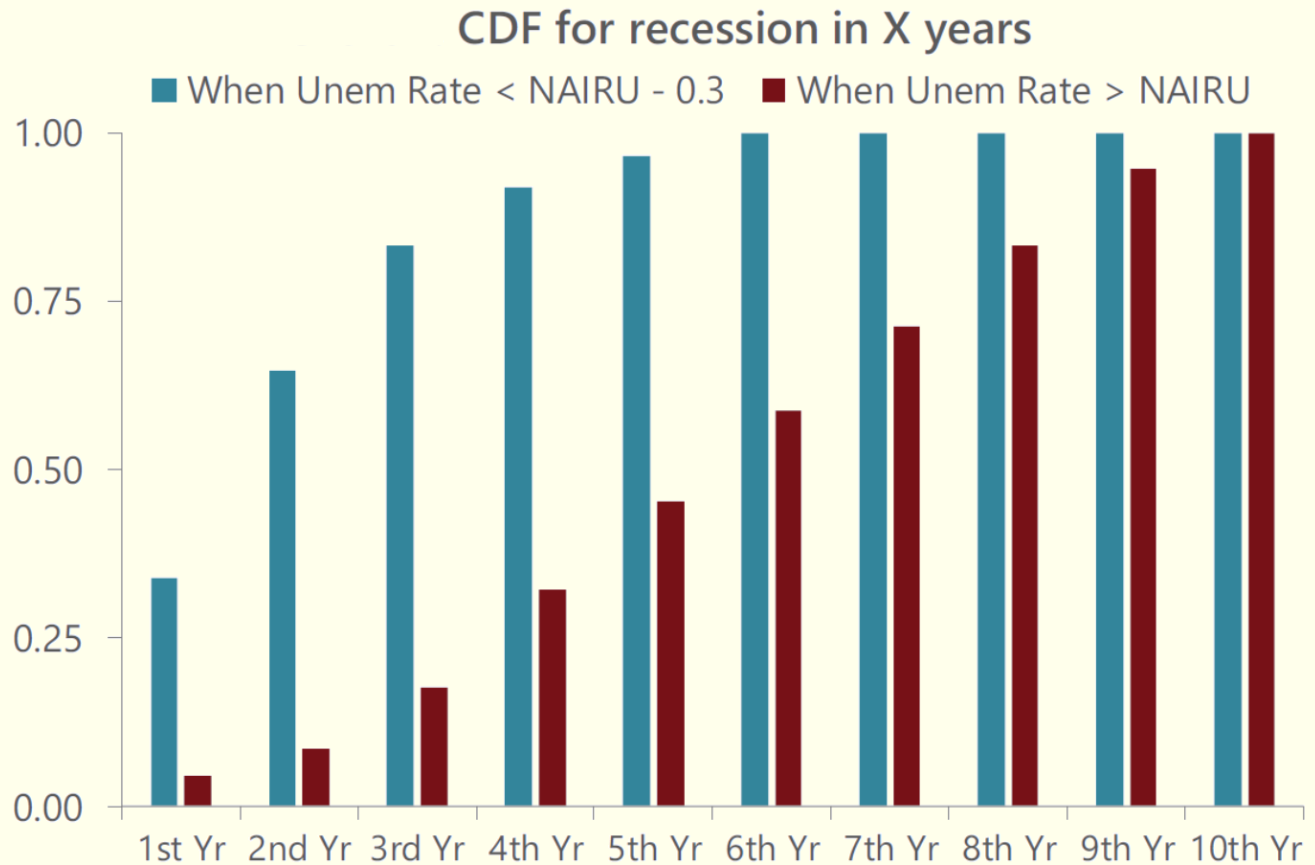
Probability density function (PDF) for a recession in Xth year



Source: Macroeconomic Advisers by IHS Markit



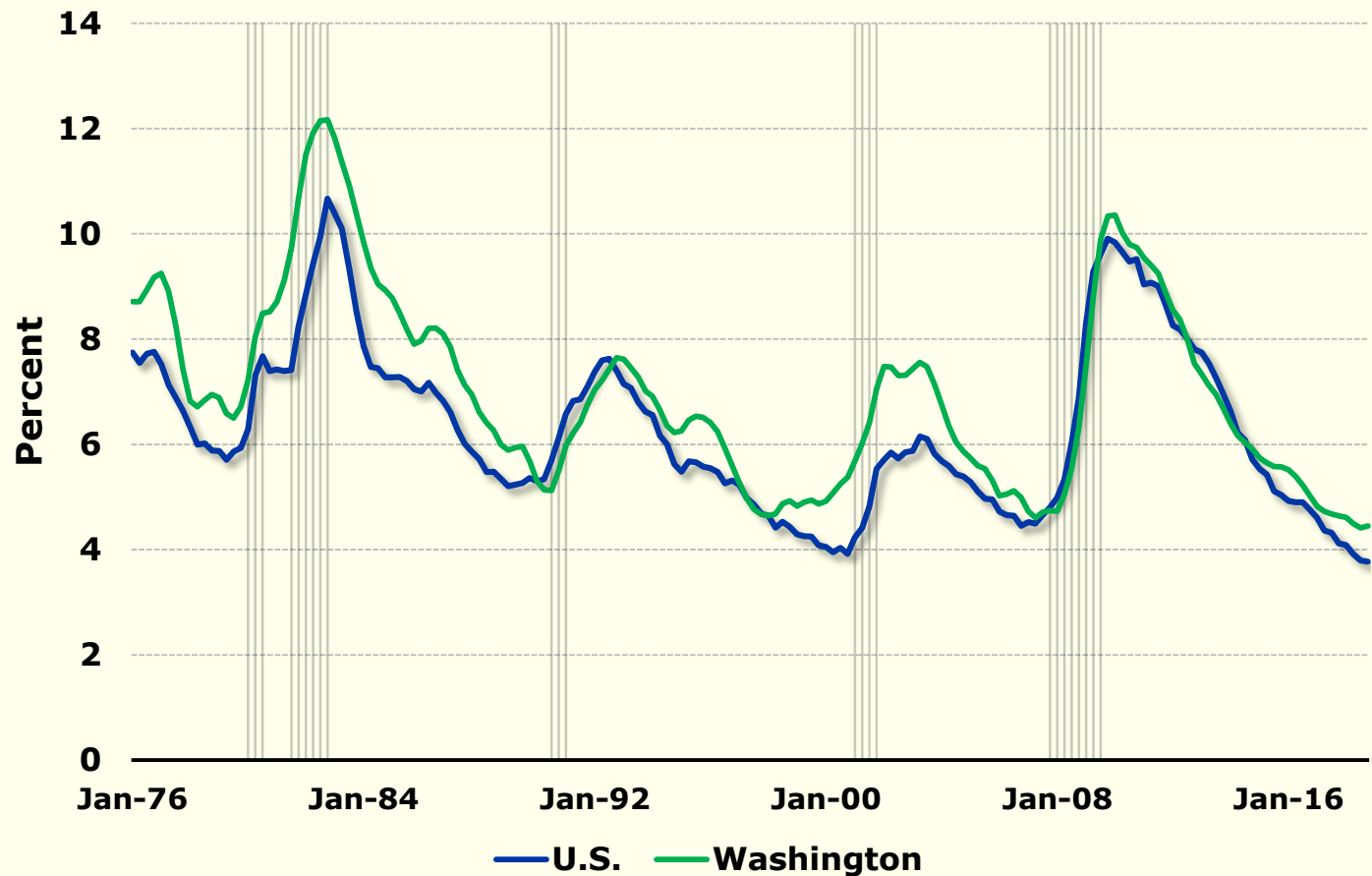
Cumulative density function (CDF) for a recession in Xth year



Source: Macroeconomic Advisers by IHS Markit



The increase in Washington Unemployment is Usually Similar to the U.S.



Source: BLS; Data through Q4 2018

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2019-21 Biennium alternative General Fund-State forecasts

\$Millions (cash basis)	2019-21 Biennium	Difference From the baseline[#]
March 2019 Baseline (50%)	\$49,609	
<u>March 2019 Alternative Forecasts</u>		
Optimistic (15%)	\$51,784	\$2,176
Pessimistic (35%)	\$47,052	(\$2,557)
Probability Weighted Average	\$49,040	(\$569)
GCEA*	\$49,855	\$246

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

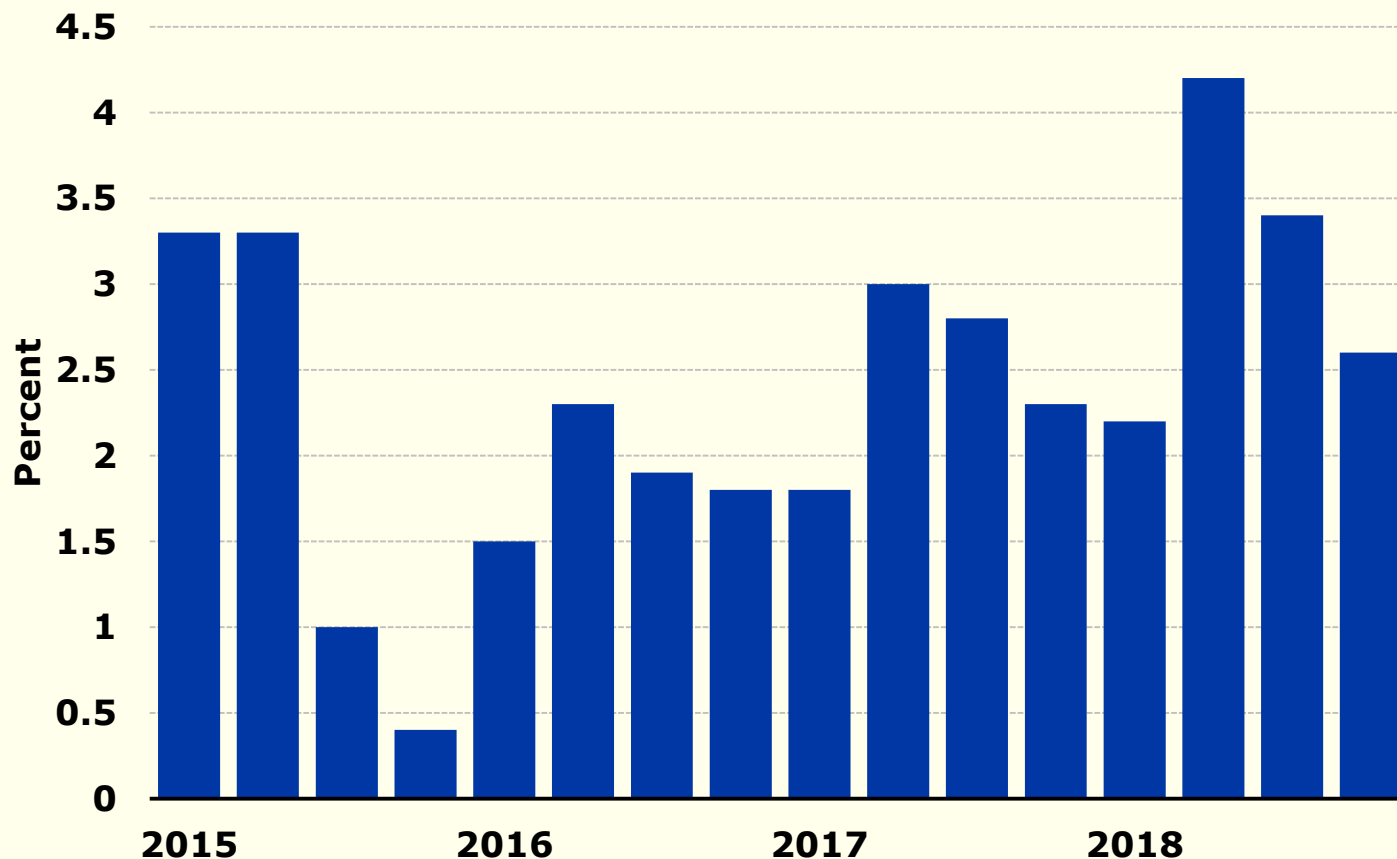
#May not add to total due to rounding

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U.S. real GDP growth has slowed

Due to the partial Federal government shutdown, 2018 Q4 data, which was released Feb. 28th, was not available for this forecast.

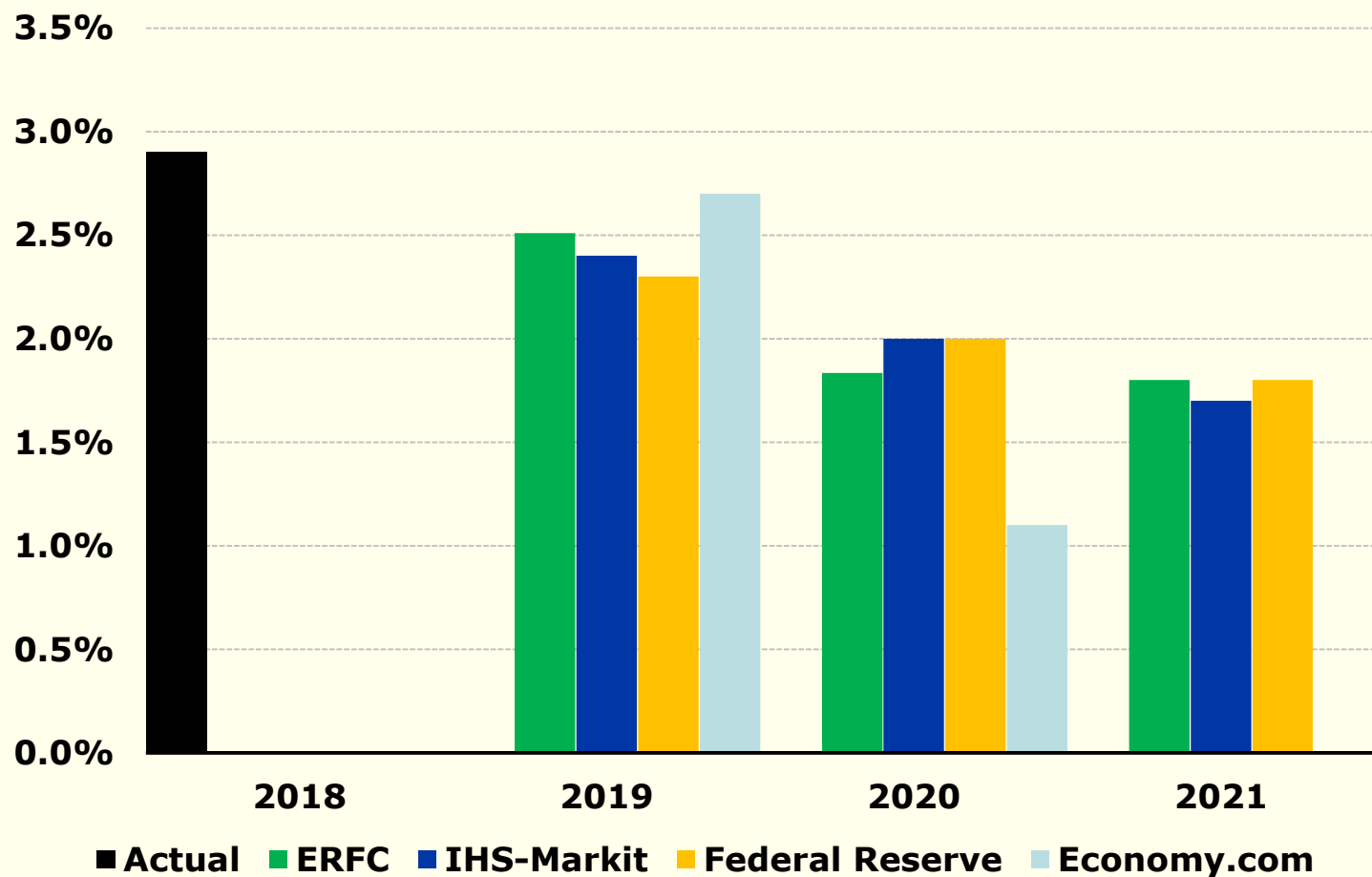


Source: U.S. Bureau of Economic Analysis. Data through Q4 2018

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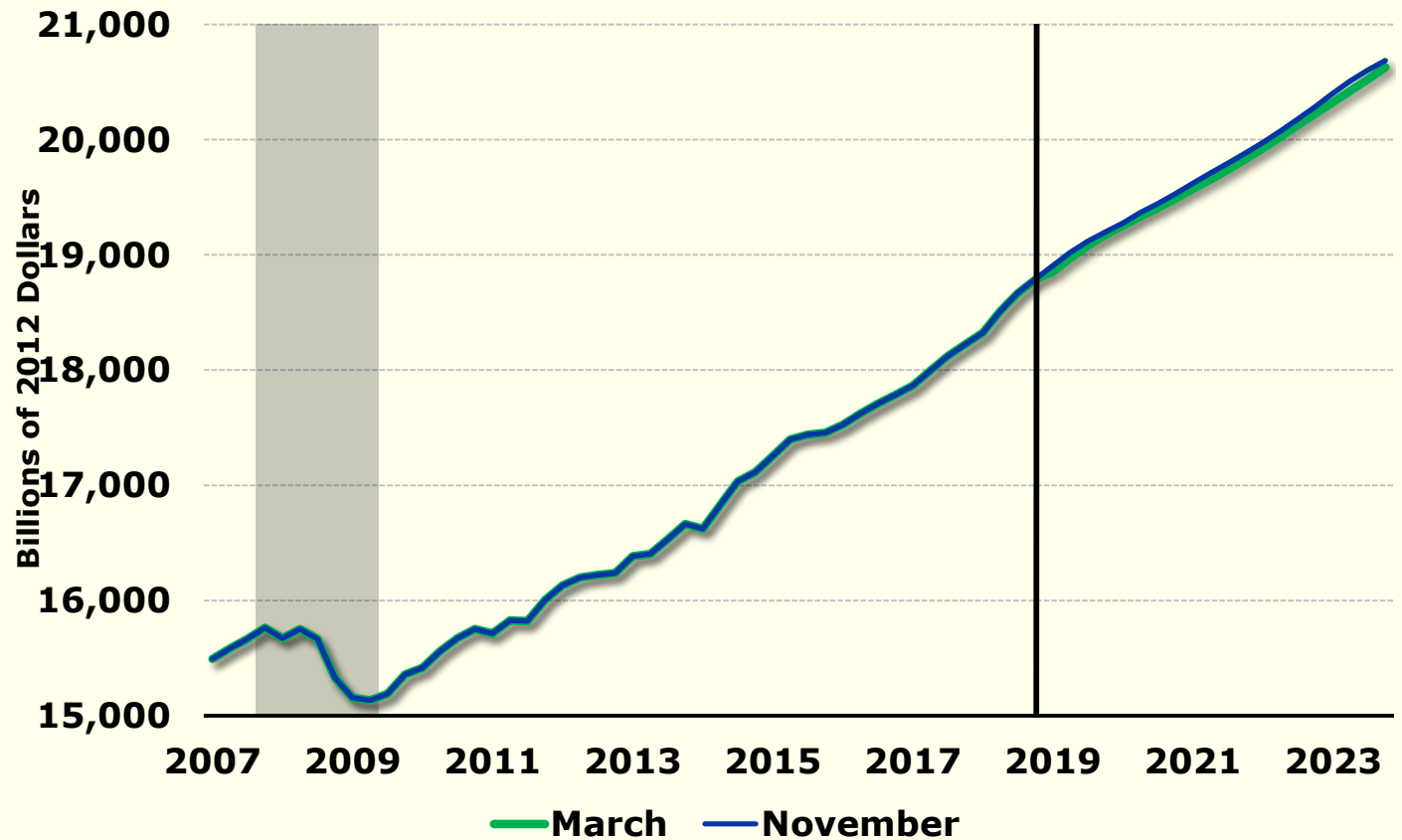


Many forecasters expect U.S. economic growth is to slow further





GDP is slightly lower than in November



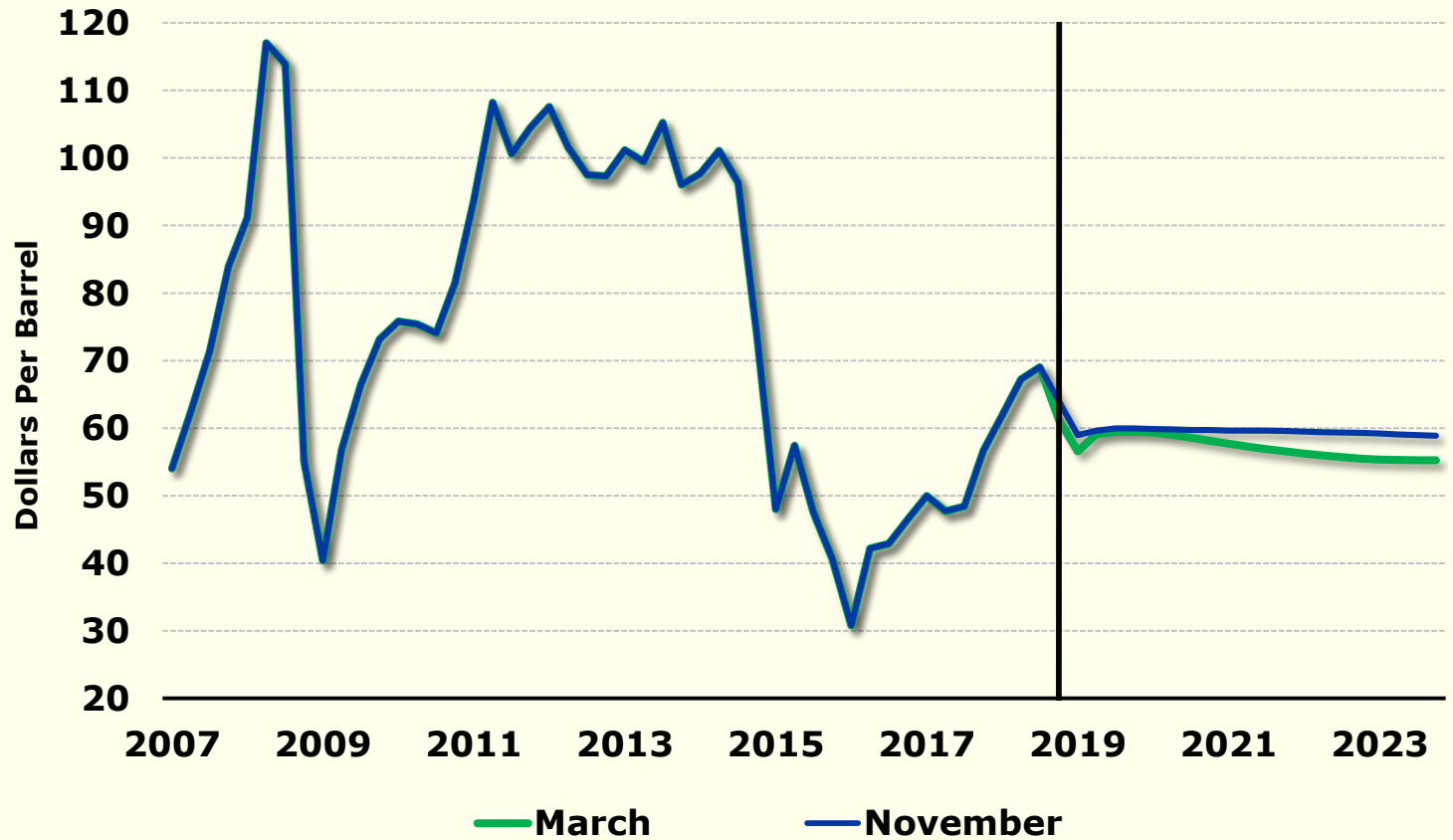
Source: IHS Markit, ERFC; data through Q4 2018

Note: Vertical black line indicates last actual

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Oil prices are slightly lower than in the November forecast

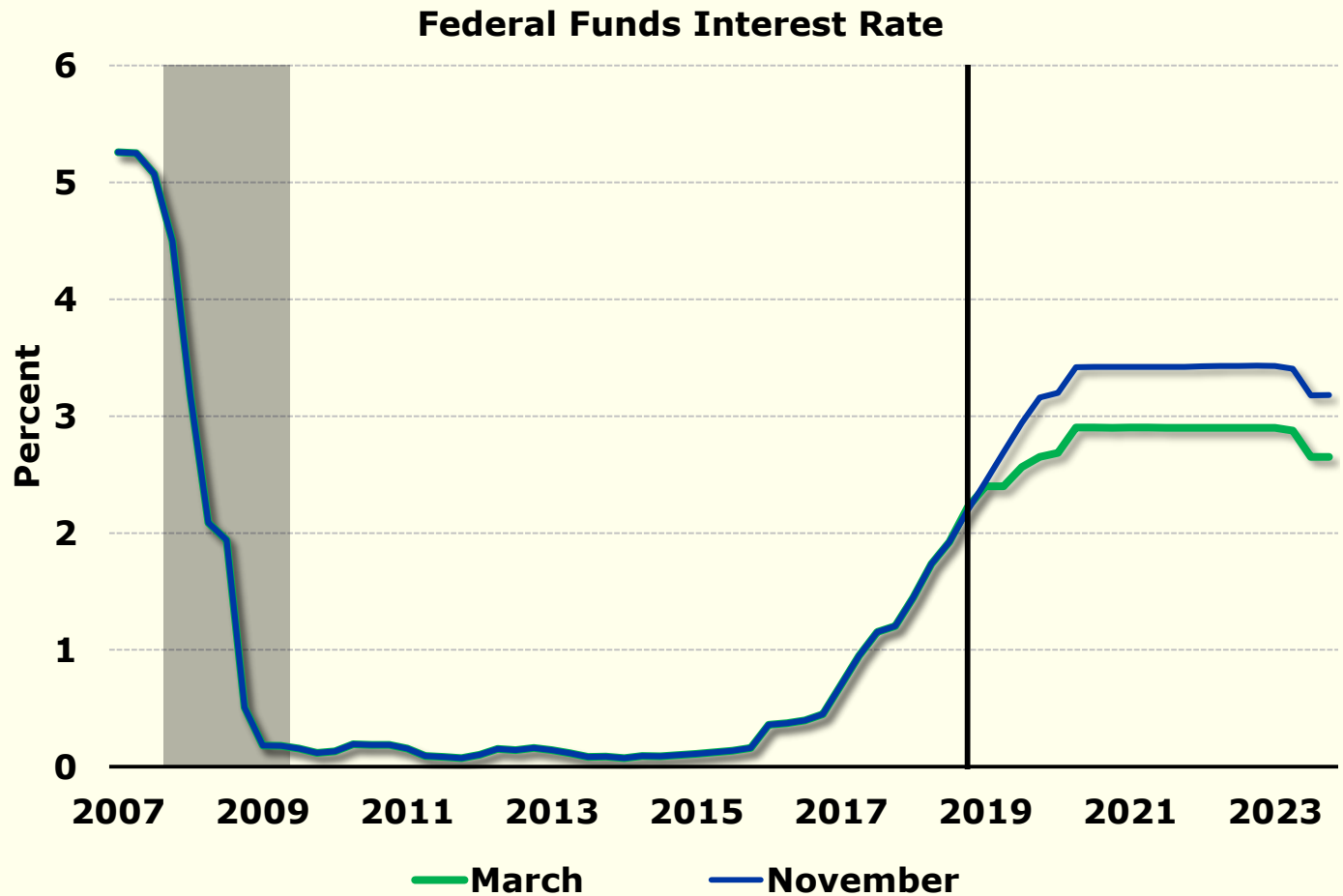


Source: Energy Information Administration, IHS Markit, ERFC; data through Q4 2018
Note: Vertical black line indicates last actual

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The Federal Reserve is not expected to raise interest rates as high as anticipated in November

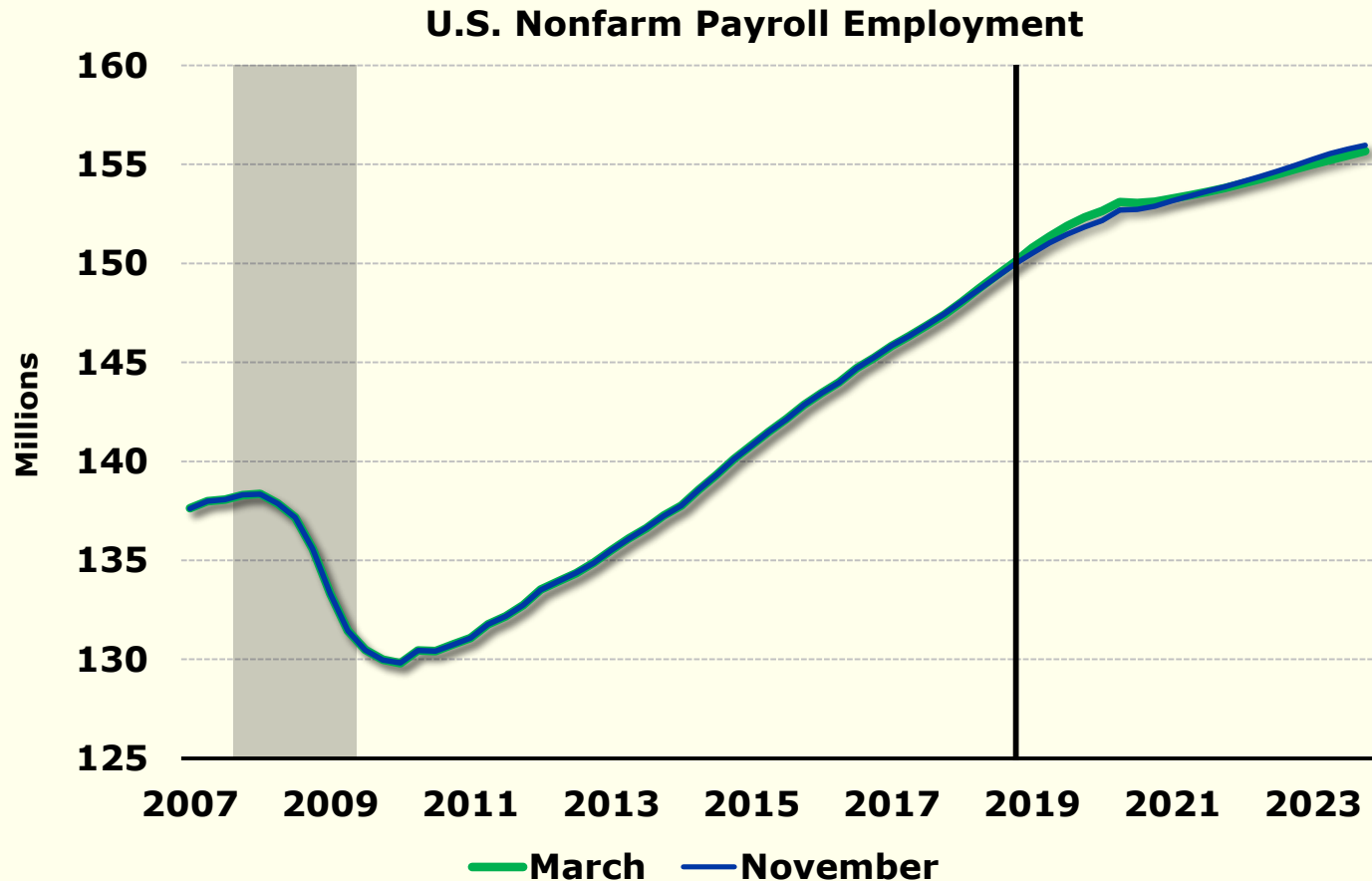


Source: ERFC March 2019 Preliminary forecast; historical data through Q4 2018

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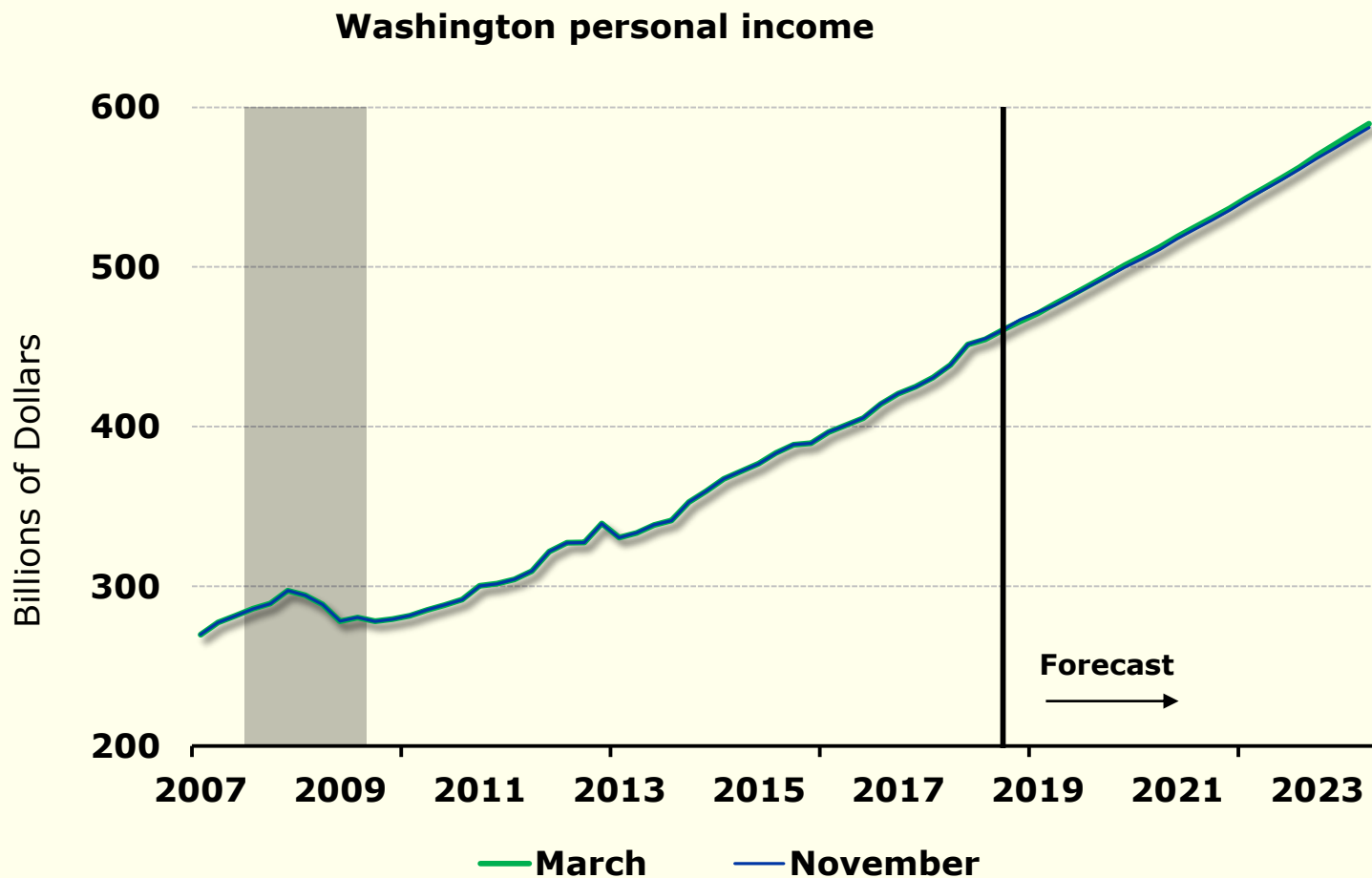


U.S. nonfarm payroll employment is slightly higher than in November





Washington personal income is slightly higher than in November

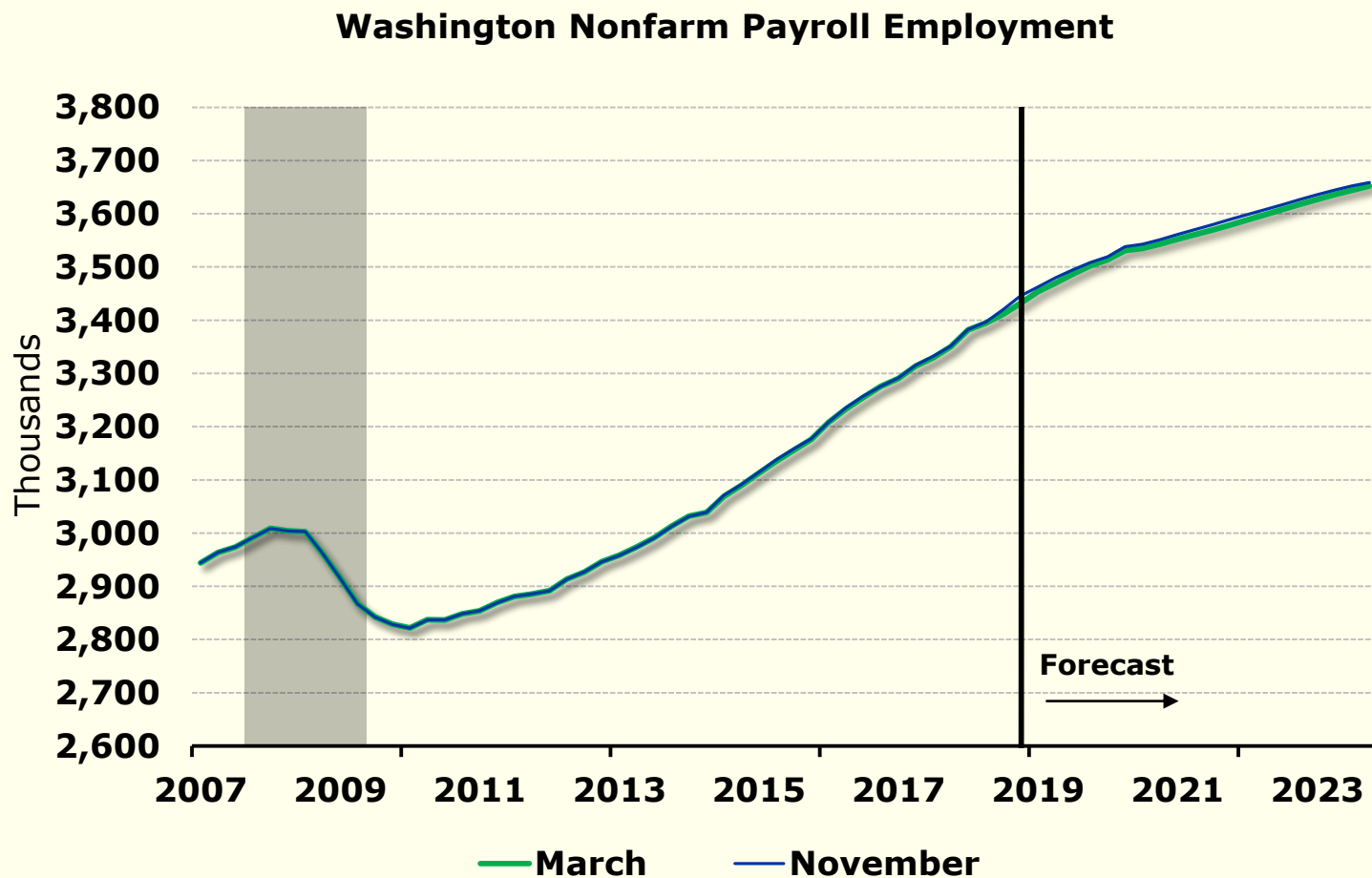


Source: ERFC March 2019 forecast; historical data through Q4 2018

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Washington employment forecast is slightly lower than in November

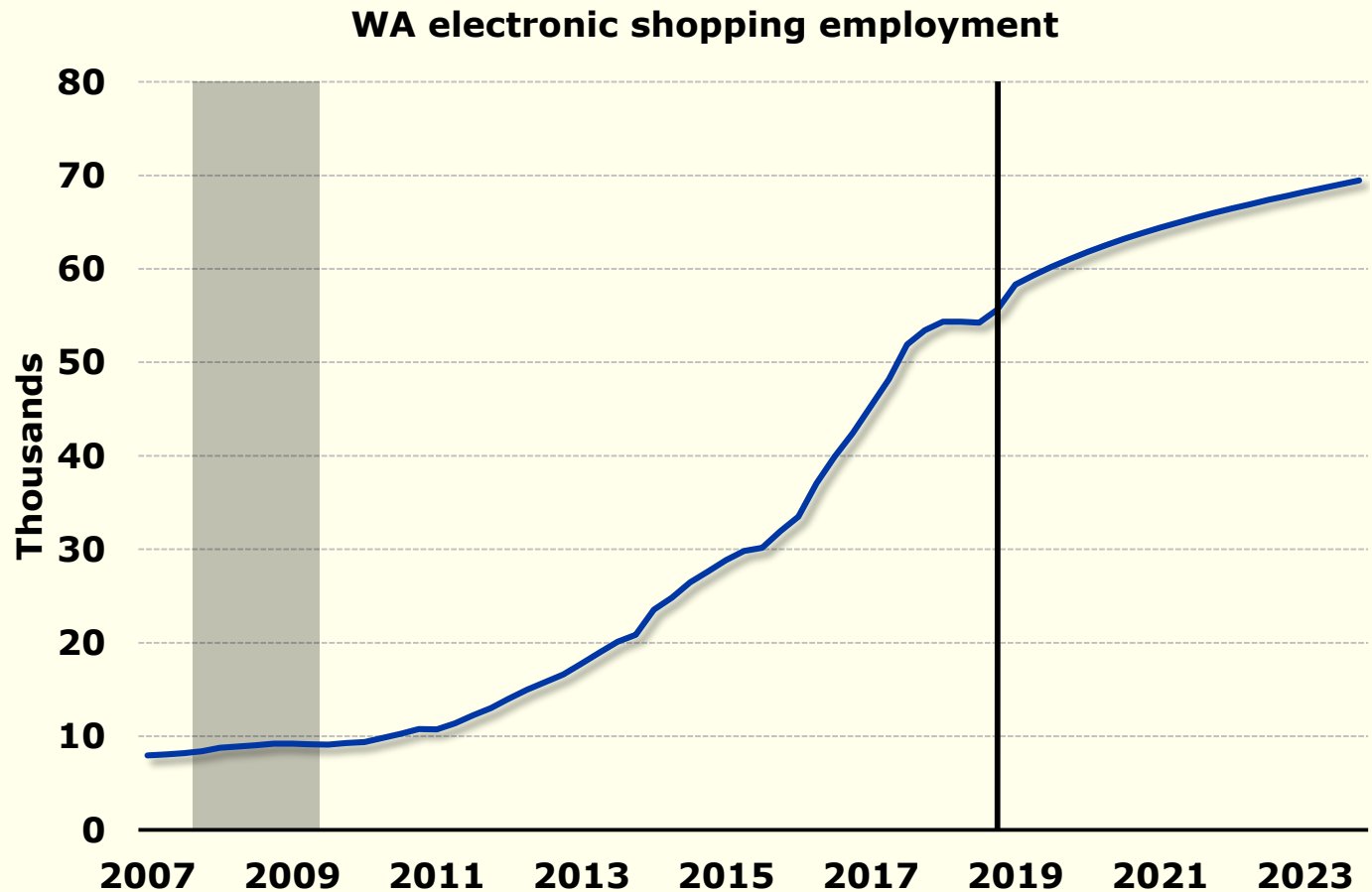


Source: ERFC March 2019 forecast; historical data through Q4 2018

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Online retail employment forecast consistent with press comments about future hiring plans

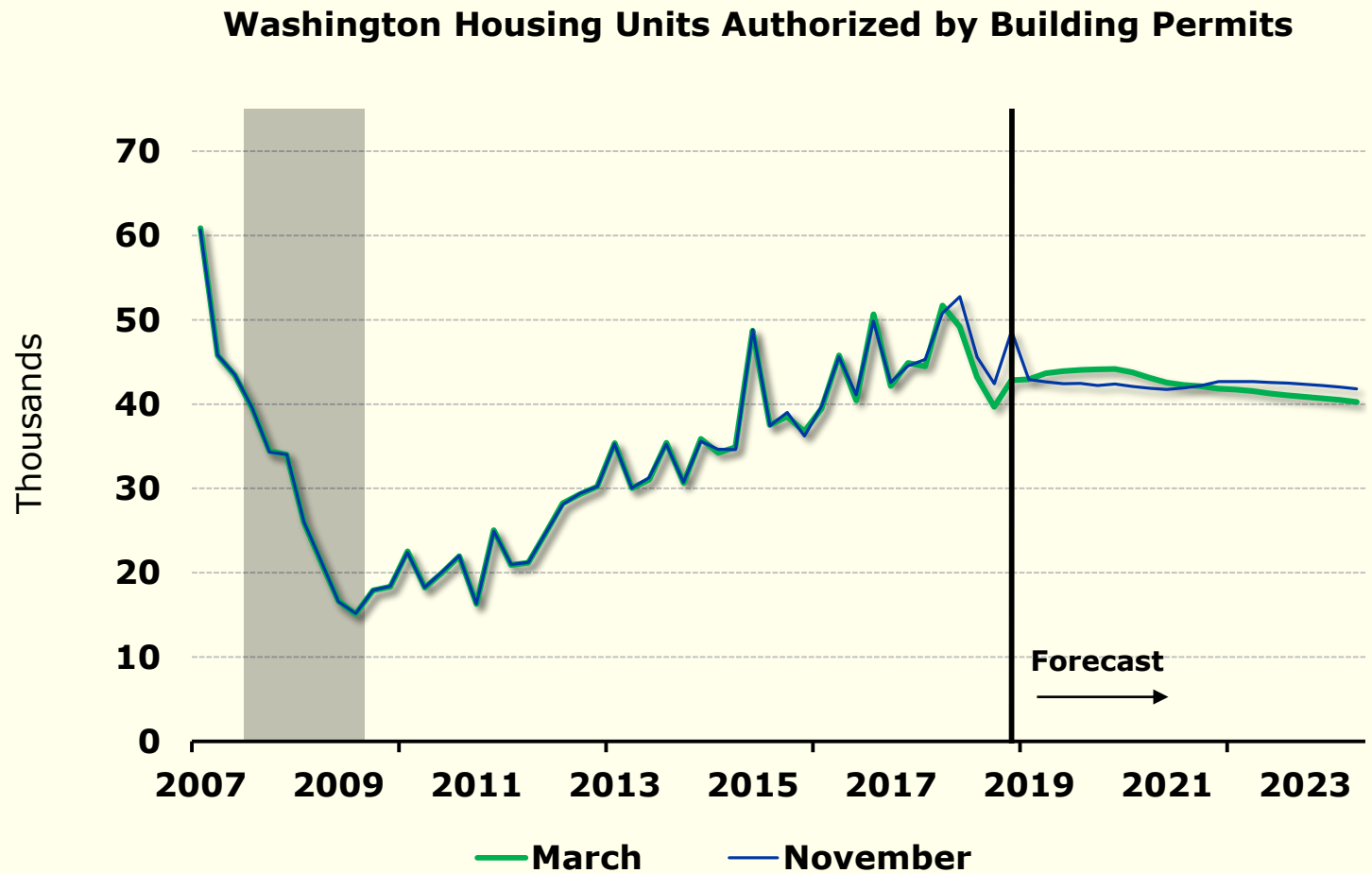


Source: ERFC March 2019 Preliminary forecast; historical data through Q4 2018

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Permits forecast for 2019 – 2023: average unchanged, timing slightly different compared to November



Source: ERFC March 2019 forecast; historical data through Q4 2018

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Conclusion

- Economic forecasts are only slightly changed from November
- Washington's economy is continuing to outperform the nation but not as dramatically as in past
- Threats to economic expansion include concerns about international trade and fiscal policy, geopolitical risks and a maturing expansion
- GF-S revenues are expected to grow 15.3% between the 2015-17 and 2017-19 biennia and 12.3% between the 2017-19 and 2019-21 biennia
- The level of uncertainty in the baseline remains elevated, with downside risks outweighing upside risks



Questions



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