

# Economic Outlook

Presented to  
FMAC

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January 26, 2012  
Olympia, Washington



WASHINGTON STATE  
ECONOMIC AND REVENUE FORECAST COUNCIL



# Summary

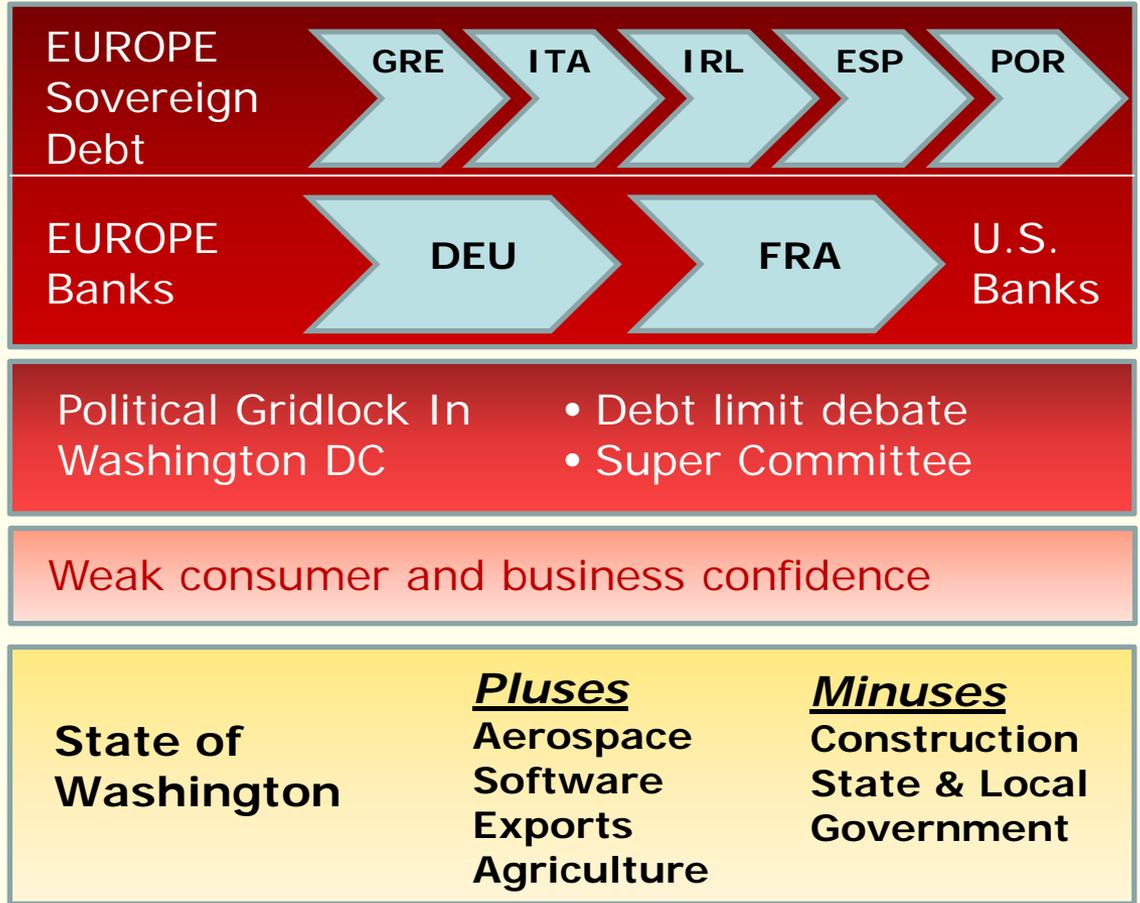
- Events are unfolding as expected in the November forecast
- However, the uncertainty in the baseline remains very high, mostly due to out-of-state factors
- Within WA, there is fiscal drag from declining state and local government budgets
- Revenue growth has been restrained due to a stagnant construction sector
- Revenues since the November forecast are coming in close to expectations
- Events to date since the November forecast do not indicate the need for a significant forecast revision



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



## Washington's Economy



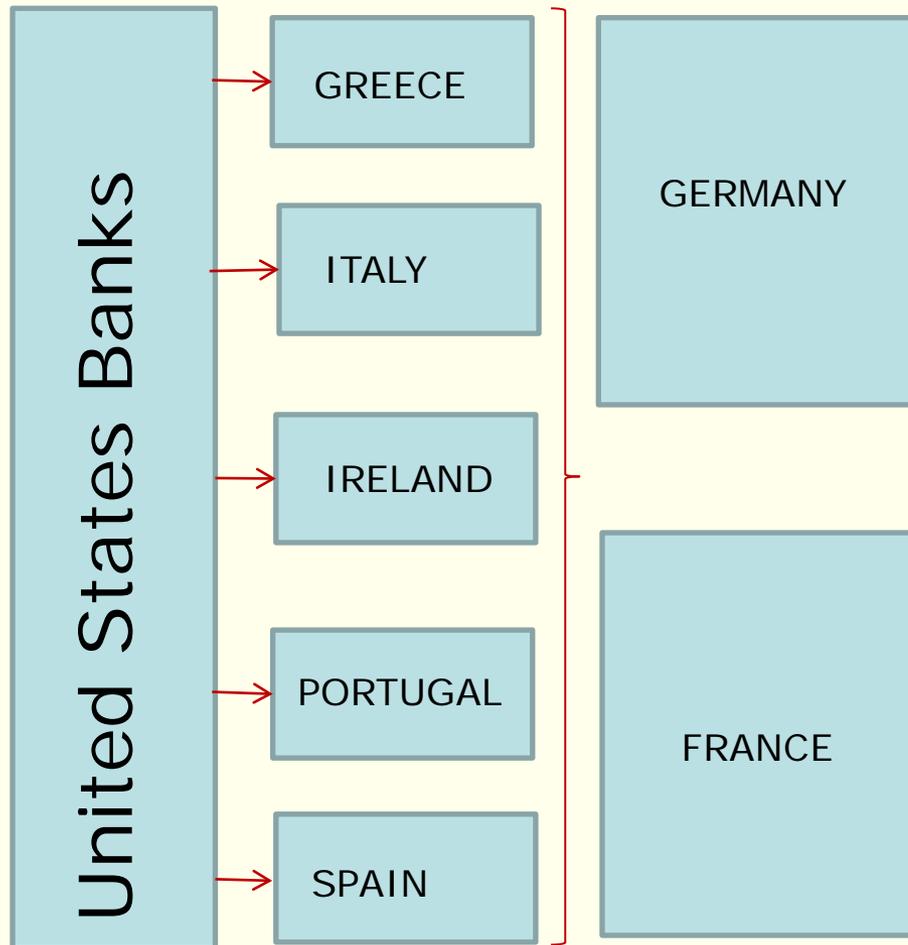
Source: ERFC

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# U.S. banks' exposure to Europe is worrying

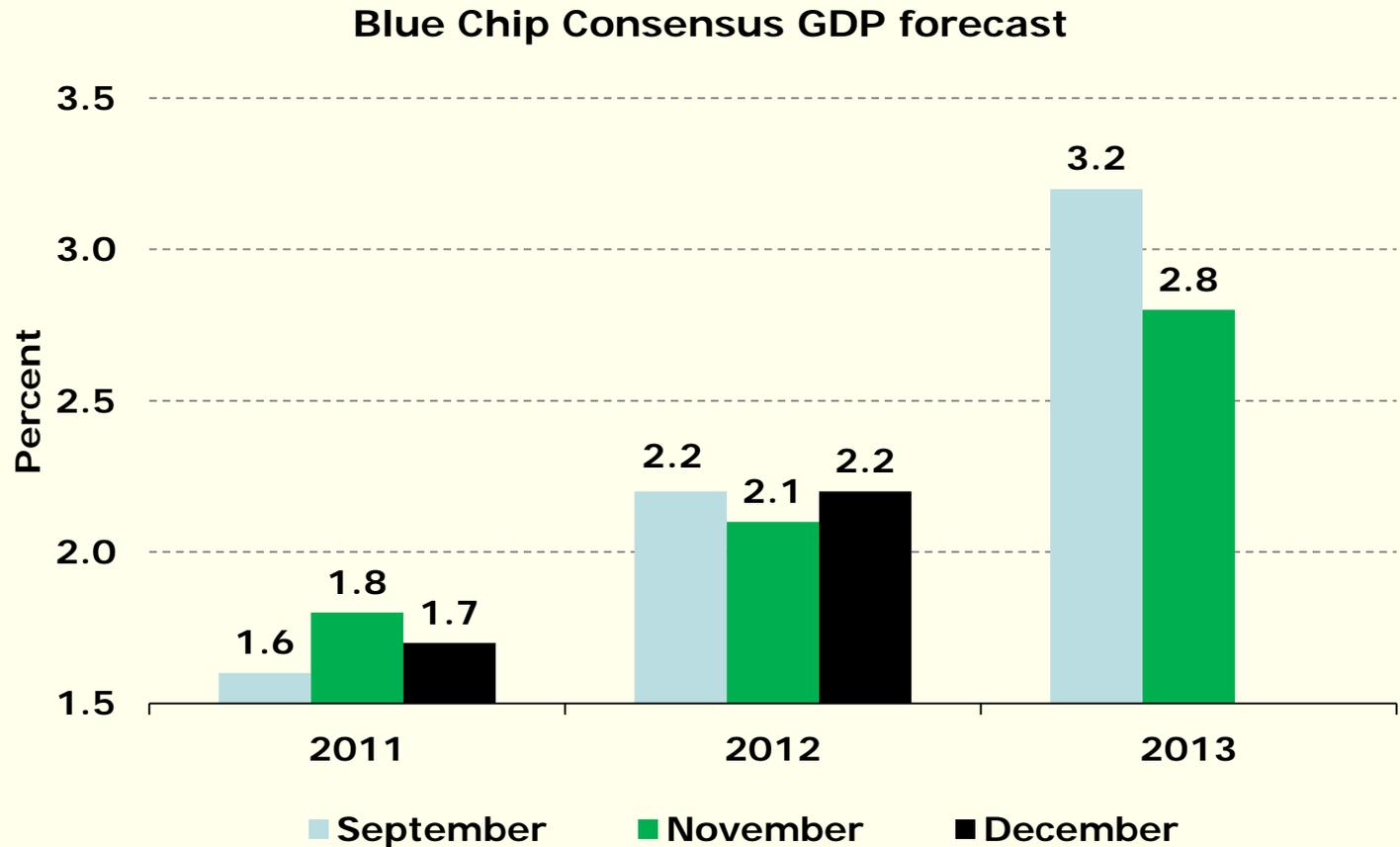


U.S. Banks Exposure		
\$ bill.	Sov.	Pvt.
GRE	2.3	5.9
ITA	12.9	31.3
IRE	1.9	50.6
POR	1.2	4.0
ESP	7.6	56.3
DEU	59.4	105.4
FRA	24.9	176.6
<b>Direct</b>	<b>\$ 540 billion</b>	
<b>Cont.</b>	<b>\$ 1.4 trillion</b>	

Source: Bank of International Settlements, 2011 Q2



# The consensus economic outlook has been fairly steady recently



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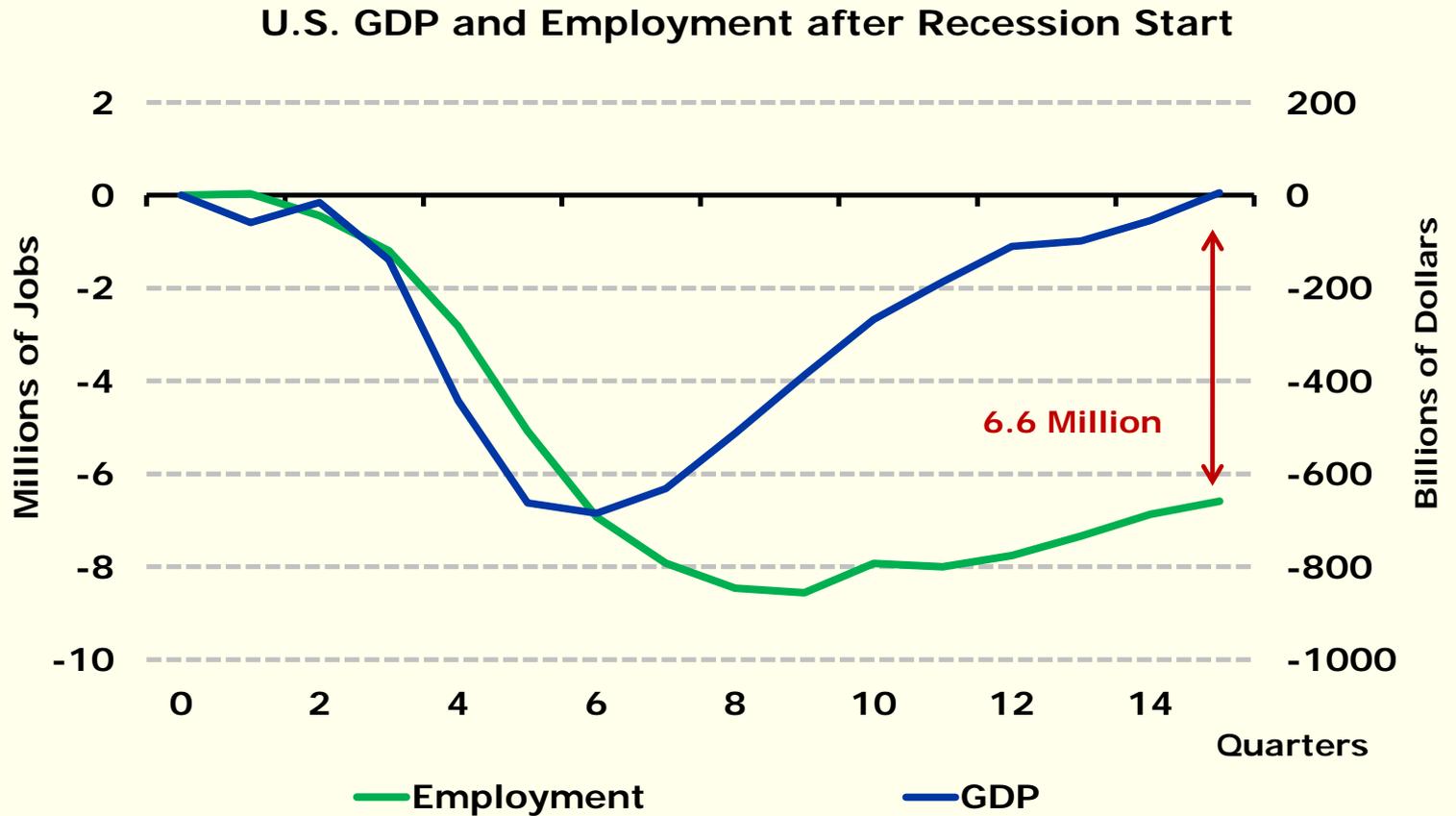
Source: Blue Chip Economic Indicators, data through December 2011

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# The U.S. economy is now producing its pre-recession output with fewer jobs

Data normalized to recession start, 2007Q4 = 0



Source: BEA, BLS, ERFC; data through 2011 Q3

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# Labor productivity growth has slowed job growth

Any increase in final demand will translate to job growth after labor productivity declines

### U.S. Employment & Labor Productivity Growth



Source: BLS; data through 2011 Q3

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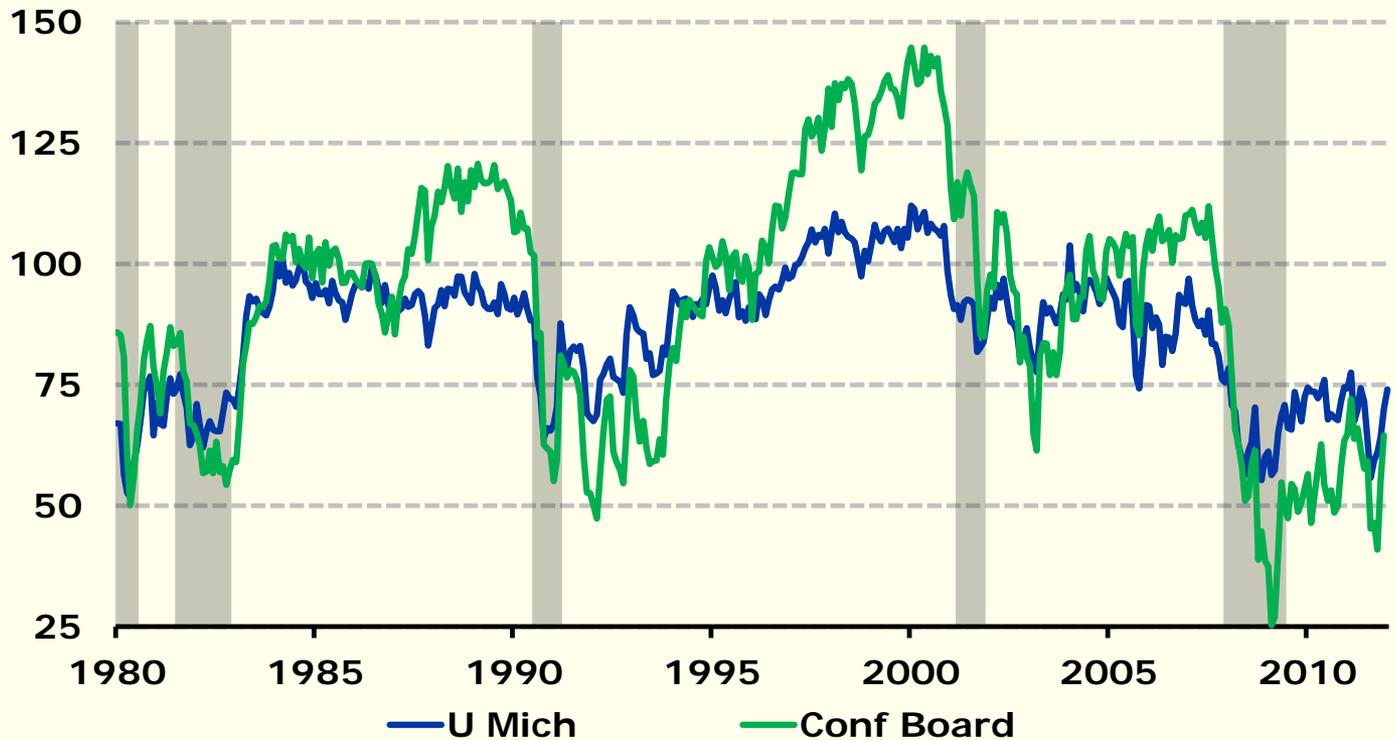


# Consumer confidence is showing some signs of firming, but still weak

Index

Mich: 1966Q1 = 100, SA

Conf Board: 1985 = 100, SA



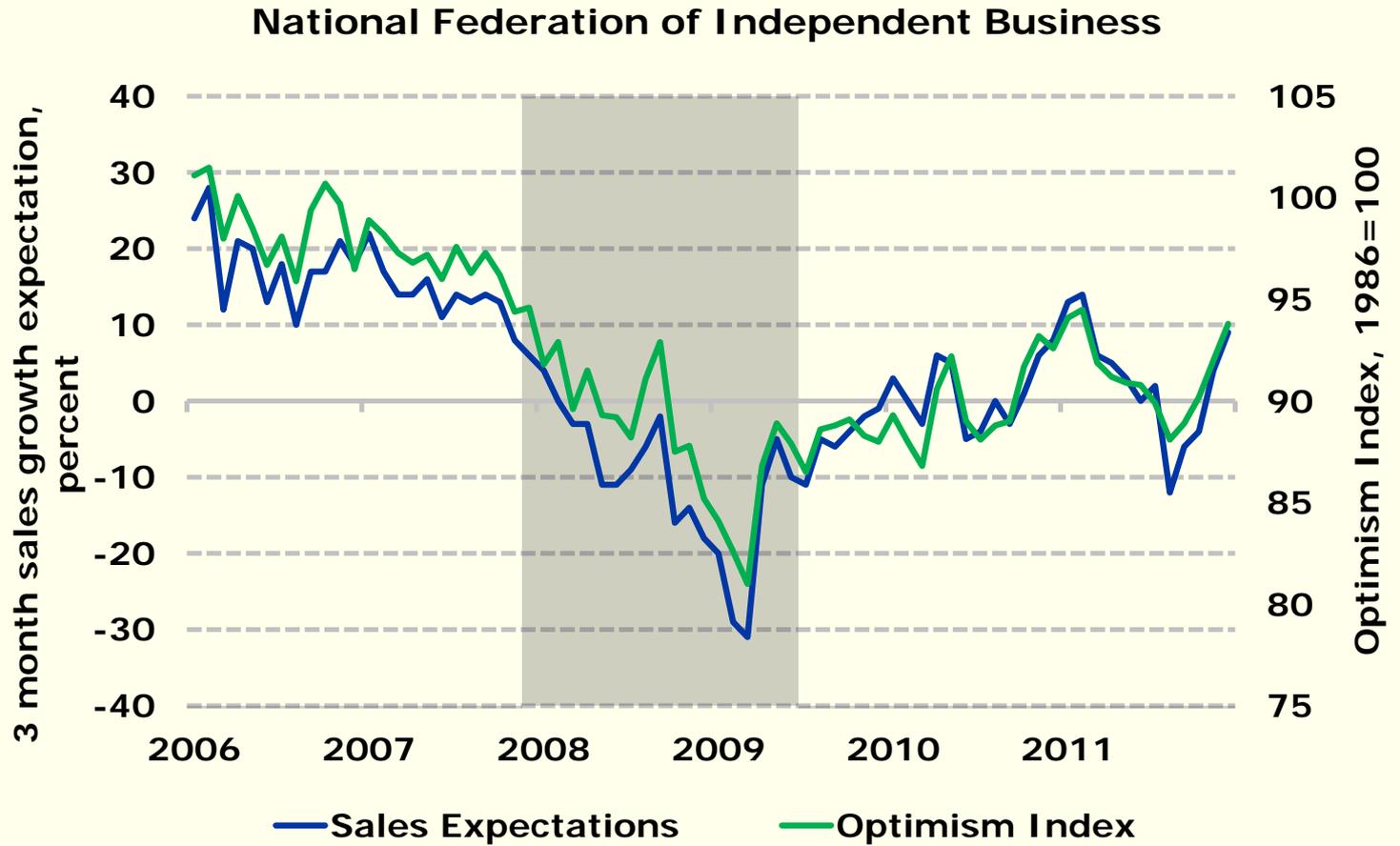
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Source: University of Michigan; Conference Board, data through January 2012

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# Small business optimism and sales expectations are weak but improving



Source: National Federation of Independent Business; data through December 2011



# Stock market volatility down but EU slow burn continues



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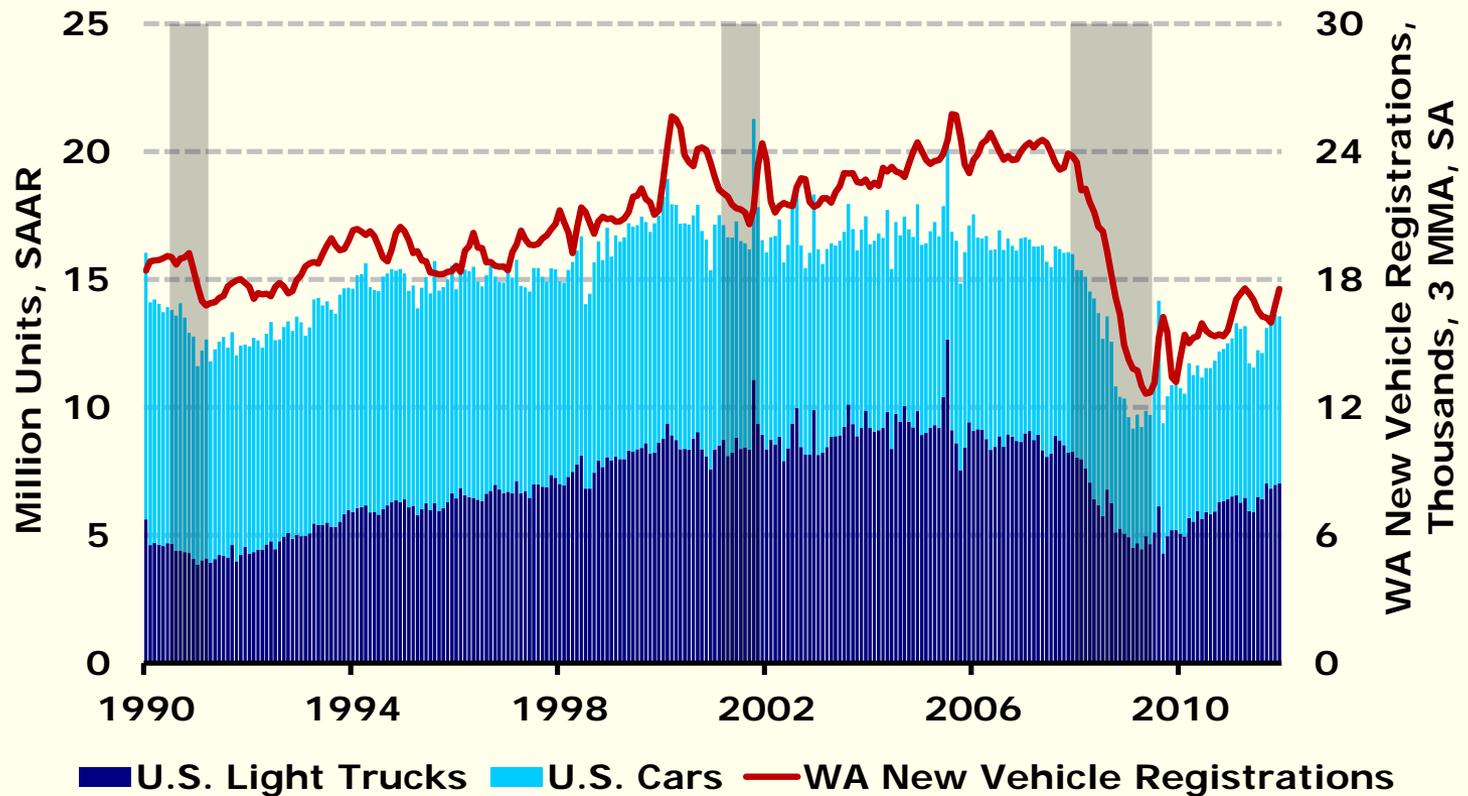
Source: Yahoo! Finance; data through January 20, 2012

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# U.S. LMV sales have recovered from recent supply chain disruptions

U.S. LMV sales in December were up 8.4% Y/Y



Source: Autodata Corporation, WA DOL; data through December 2011

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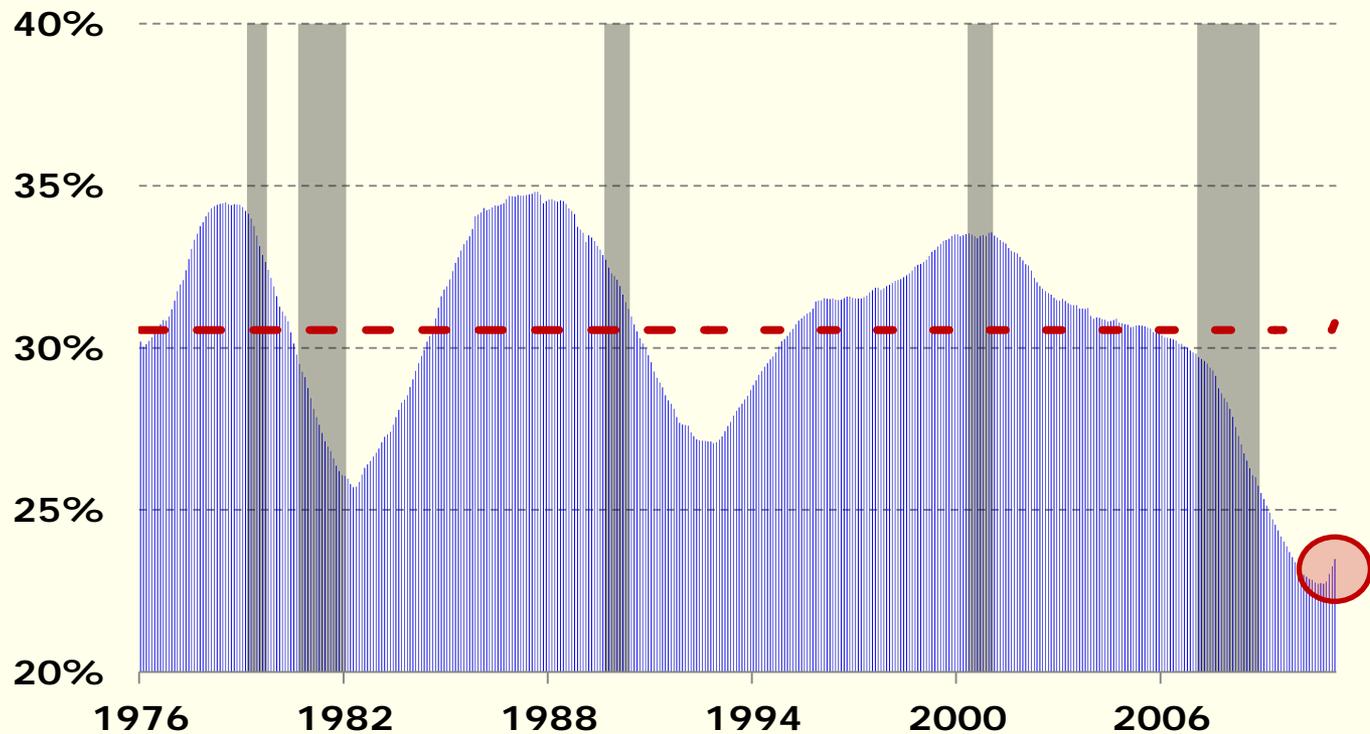
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# Relative age of the car fleet indicates continued turnaround in car sales

The percent of "old" cars on the road was at a historic high in June and has now been falling over the last 6 months

## U.S. LMV Sales: Ratio of 36/120 Months



Source: Autodata Corporation, ERFC; data through December 2011

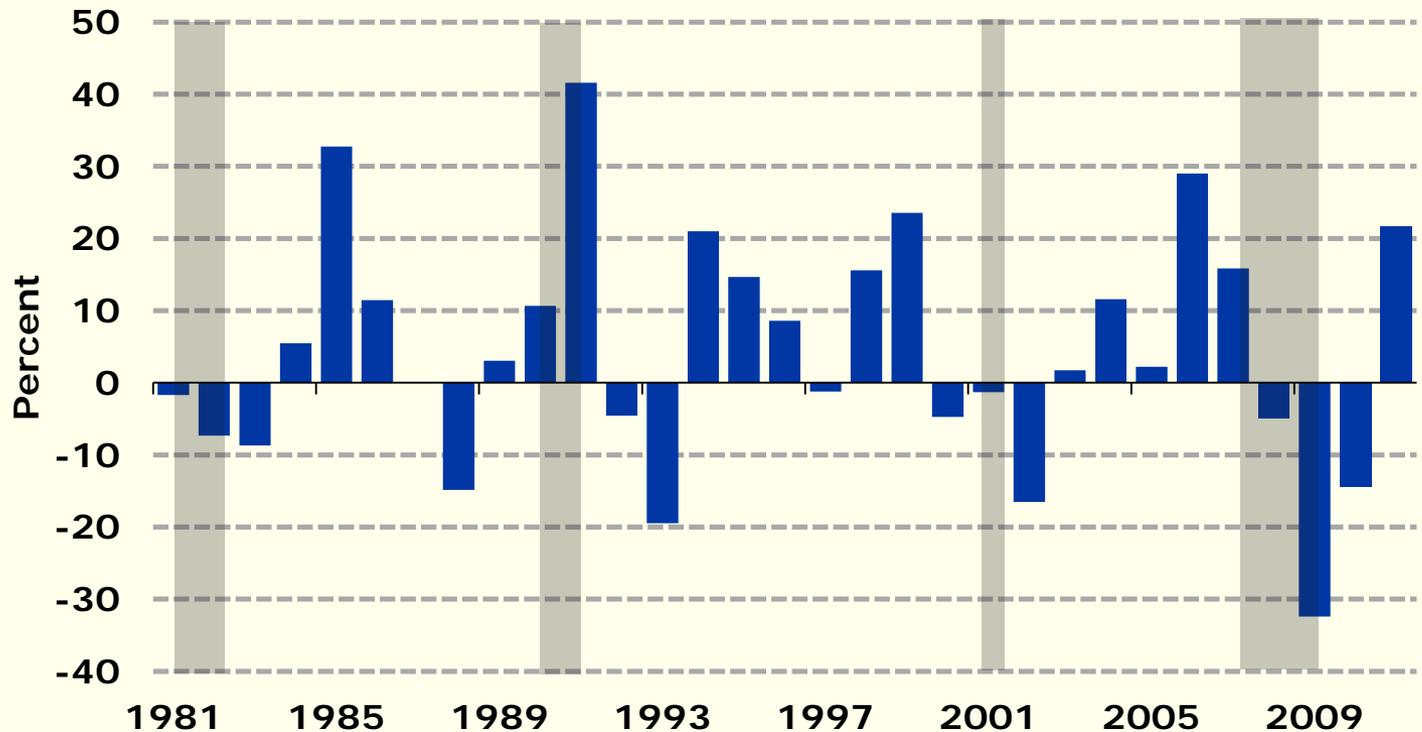
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# WA non-residential contracts have turned up for the first time in four years

## Non-Residential Contract Value Annual Percent Change

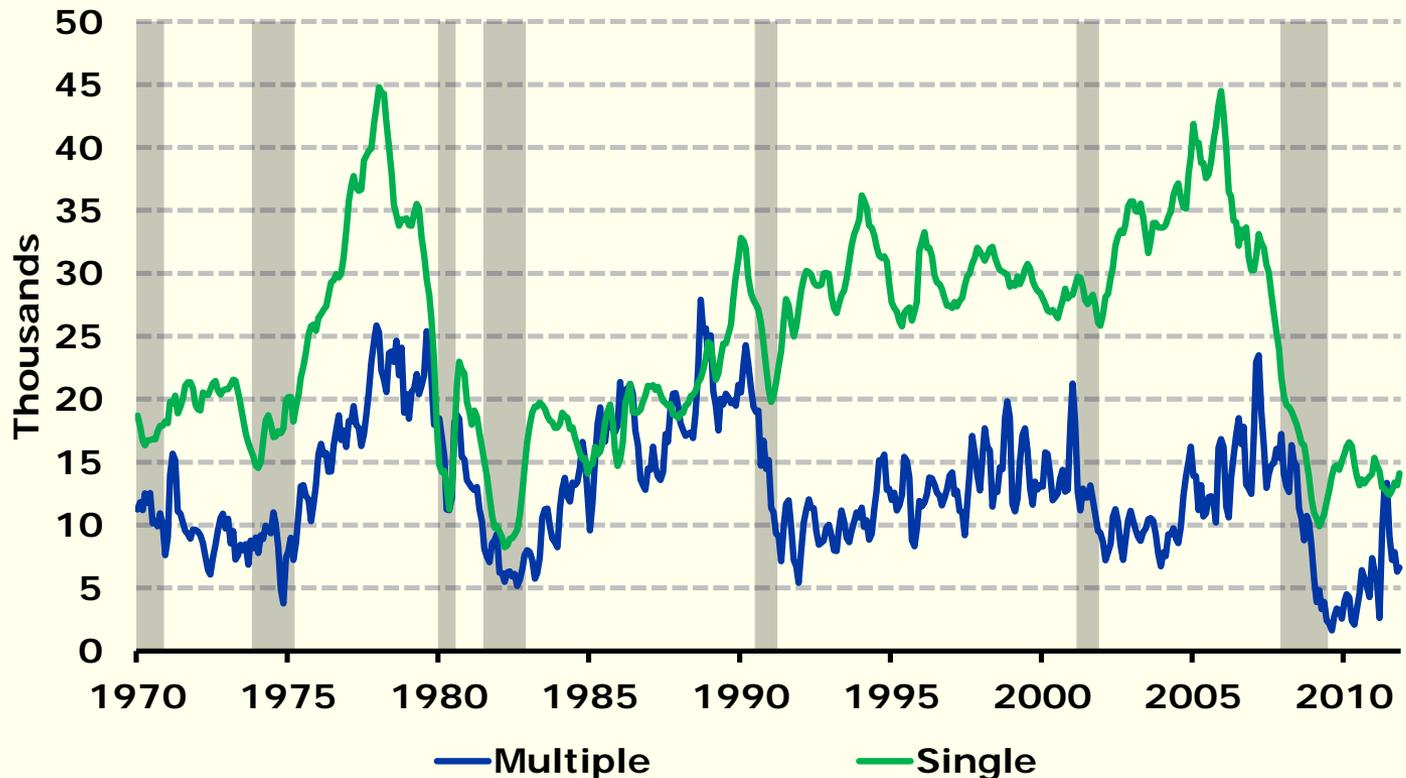


Source: McGraw-Hill Construction, data through December 2011



# WA multi-family building permits are improving

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



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

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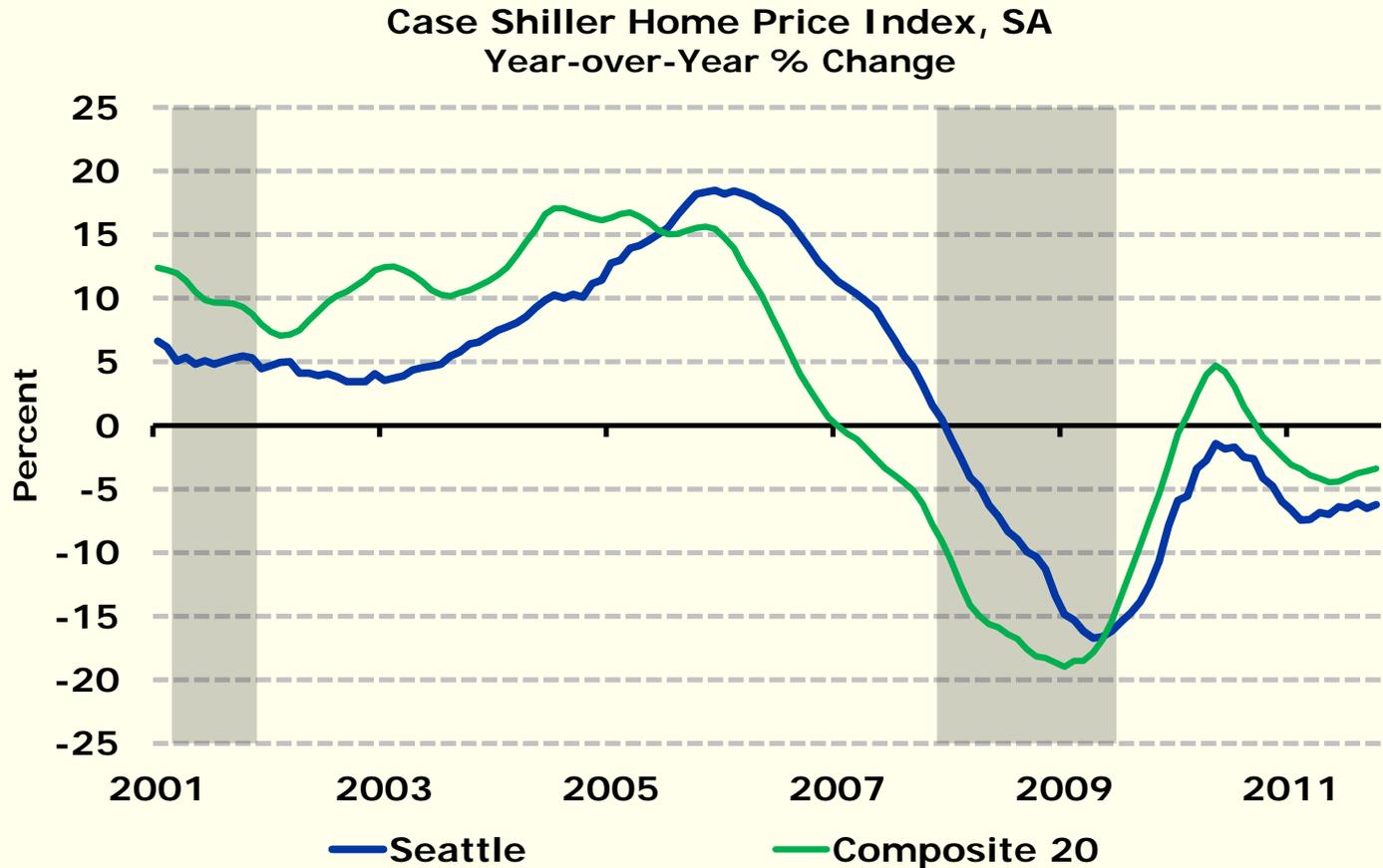


# Single-family home prices continue to decline

Oct 2011

U.S. is  
down  
3.4%

SEA is  
down  
6.2%



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

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# More foreclosures can be expected...

**WA Rank:**

**2011Q2 : 23**

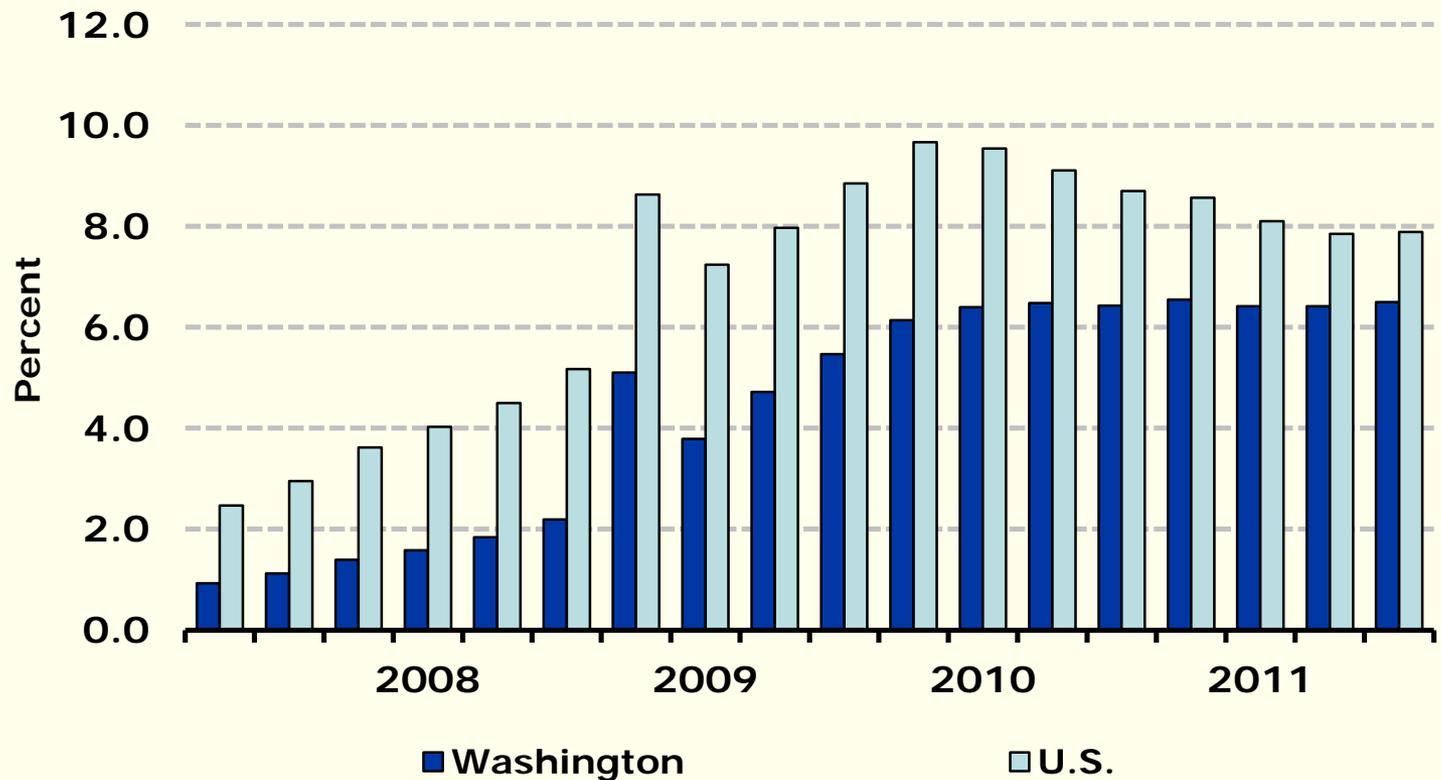
**2011Q3 : 23**

Seriously  
Delinquent =  
90+ Days  
Past Due or  
in foreclosure

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## Seriously Delinquent



Source: Mortgage Bankers Association® National Delinquency Survey, data through 2011 Q3



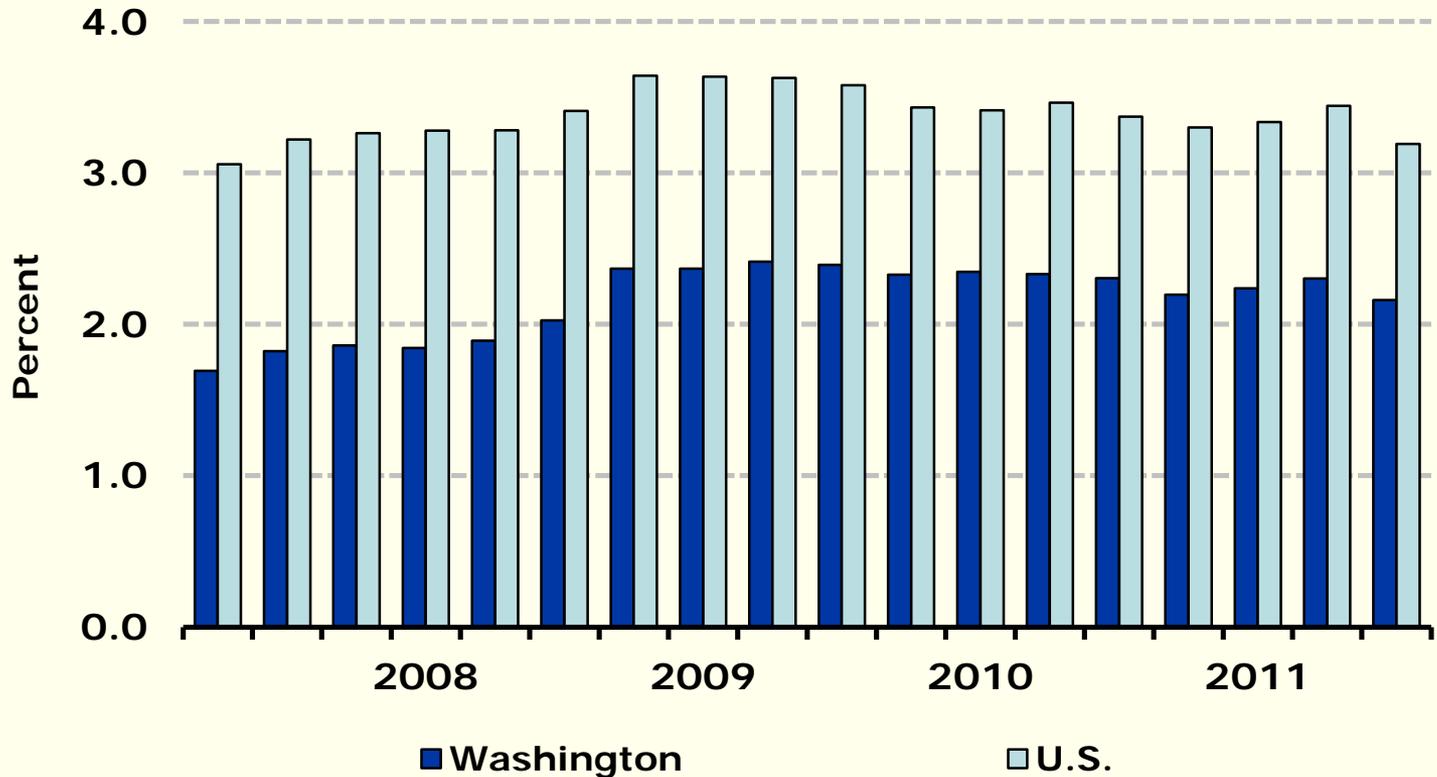
# ...but will eventually slow down

**WA Rank:**

**2011Q2: 47**

**2011Q3: 45**

### 30 Days Past Due, SA

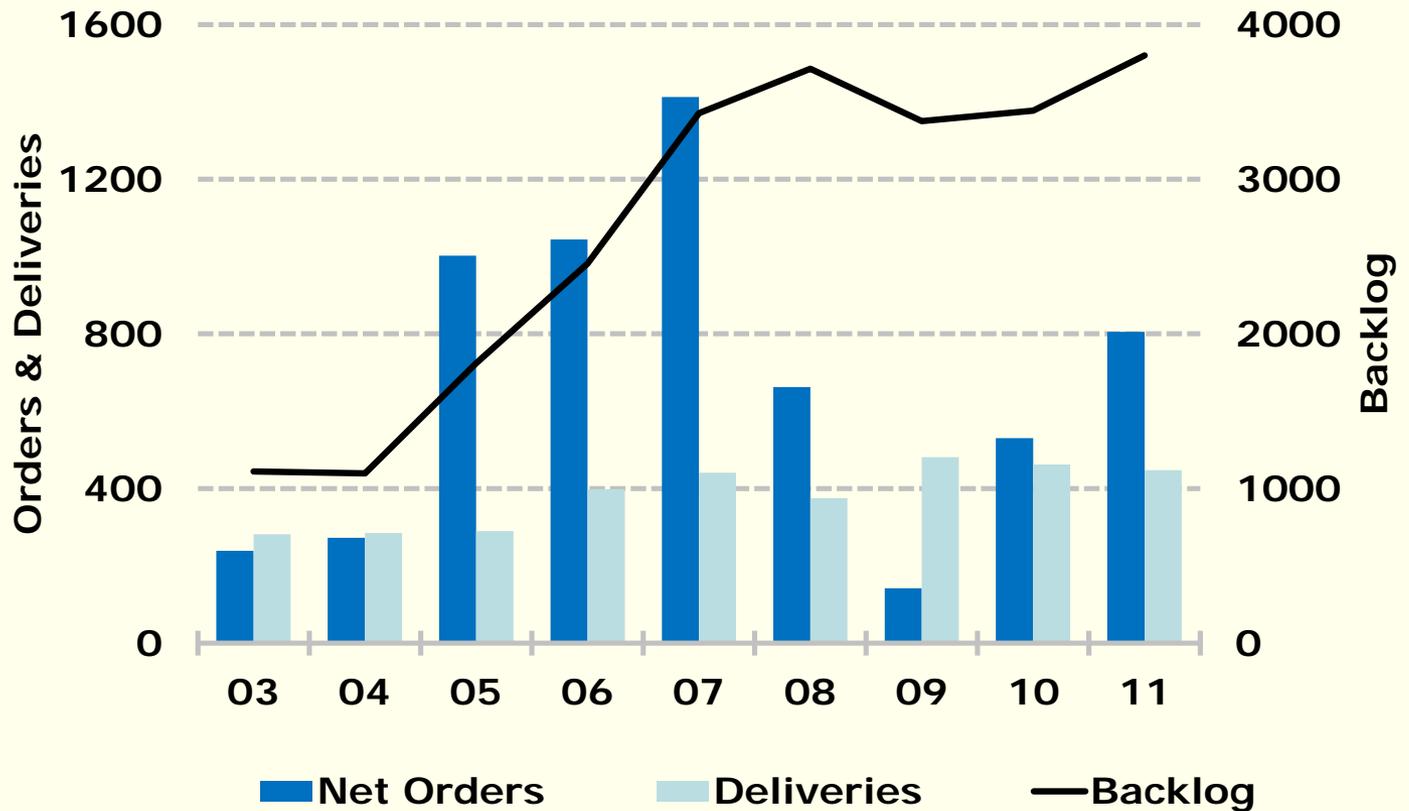


Source: Mortgage Bankers Association® National Delinquency Survey, data through 2011 Q3



# Boeing has over 7 years of commercial orders on its books

Excludes the military's new refueling tanker



Source: Boeing, data through December 2011

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# Software publishing employment is growing

Percent change, year ago



Forecast

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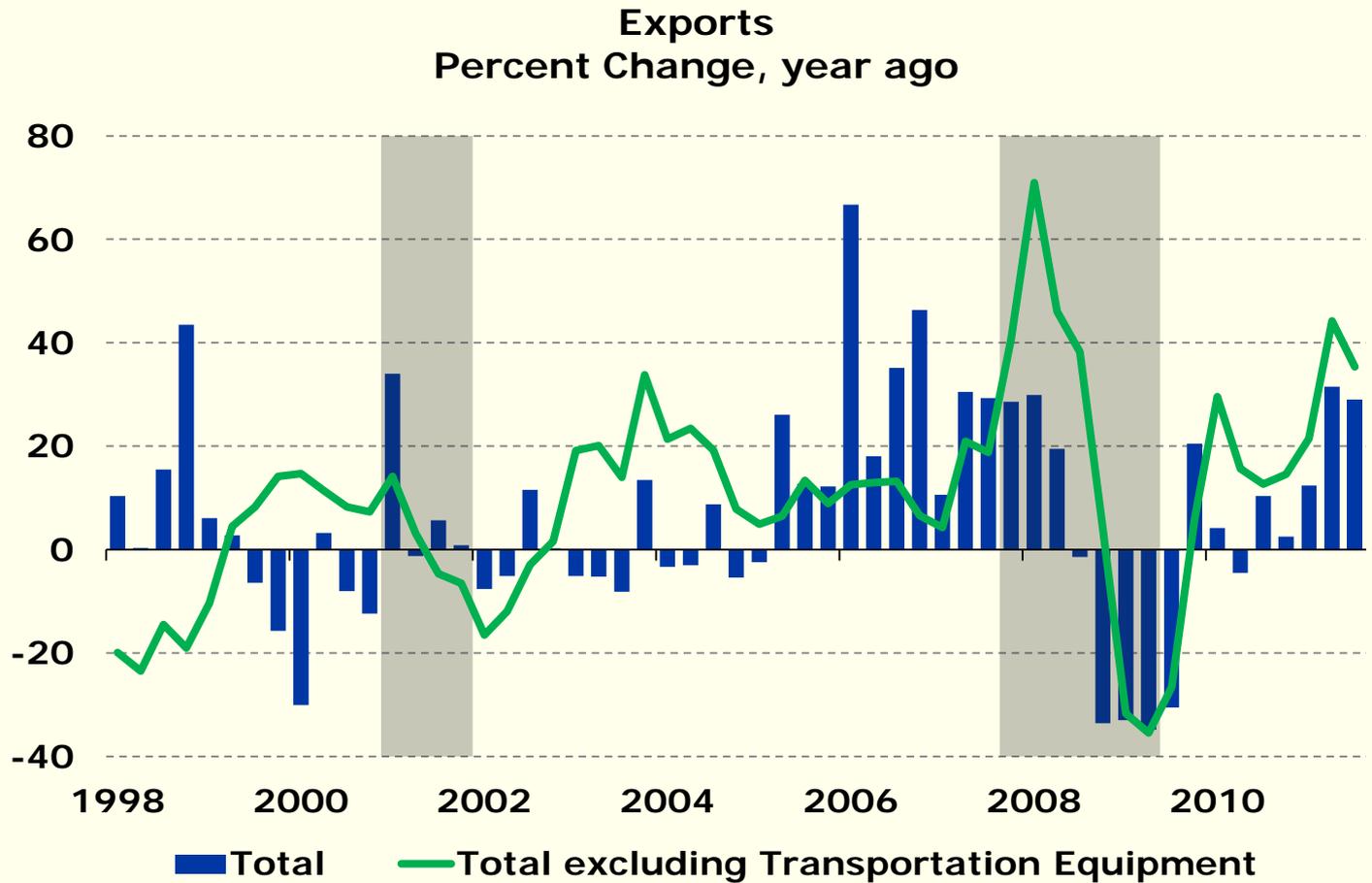
Source: ERFC November 2011 forecast; actual through December 2011

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

Total exports were up 29% y/y in Q3



Source: Wisier Trade Data; through 2011 Q3

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# Recent free trade agreements will benefit the state

	Rank	USD	%	Key Industries	Detail
South Korea	4 <sup>th</sup>	\$2.7 Billion	5.1%	Agriculture, Transportation Equipment	92% of trans equip barriers eliminated immediately, 2/3 of ag barriers
Panama	27 <sup>th</sup>	\$315 million	0.6%	Transportation Equipment	Over 90% of aerospace exports become duty free immediately
Colombia	50 <sup>th</sup>	\$56 million	0.1%	Petroleum, Chemicals, Machinery	Majority of exports become duty free immediately

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Source: U.S. Department of Commerce, Wiser Trade; data through 2010

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

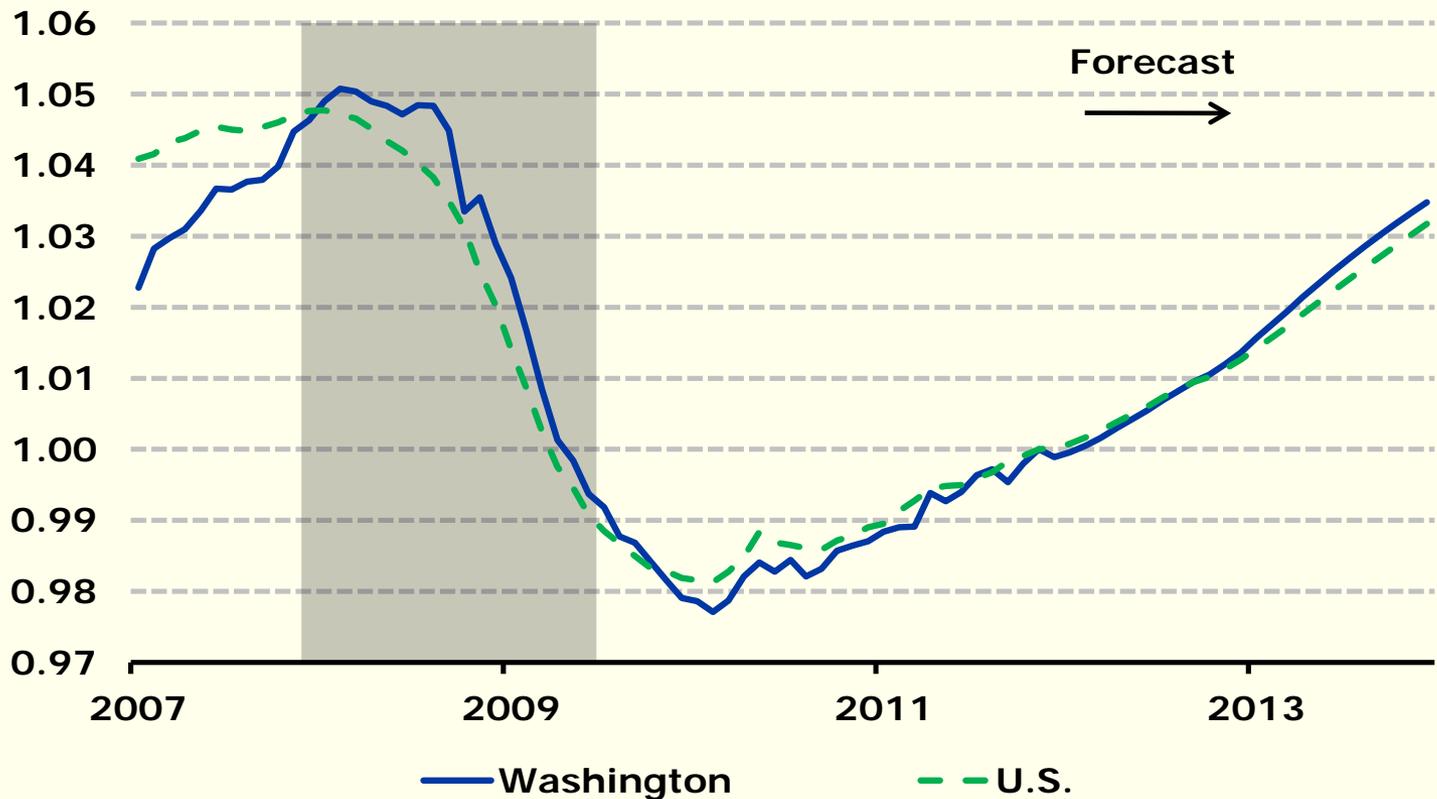
WA employment peaked 1 month after U.S. (Feb. 2008 vs. Jan. 2008)

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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November 2011 = 1.0



Source: ERFC November 2011 forecast; actual through November 2011



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

Date of regaining peak:

**WA:**

Nominal  
2011Q1

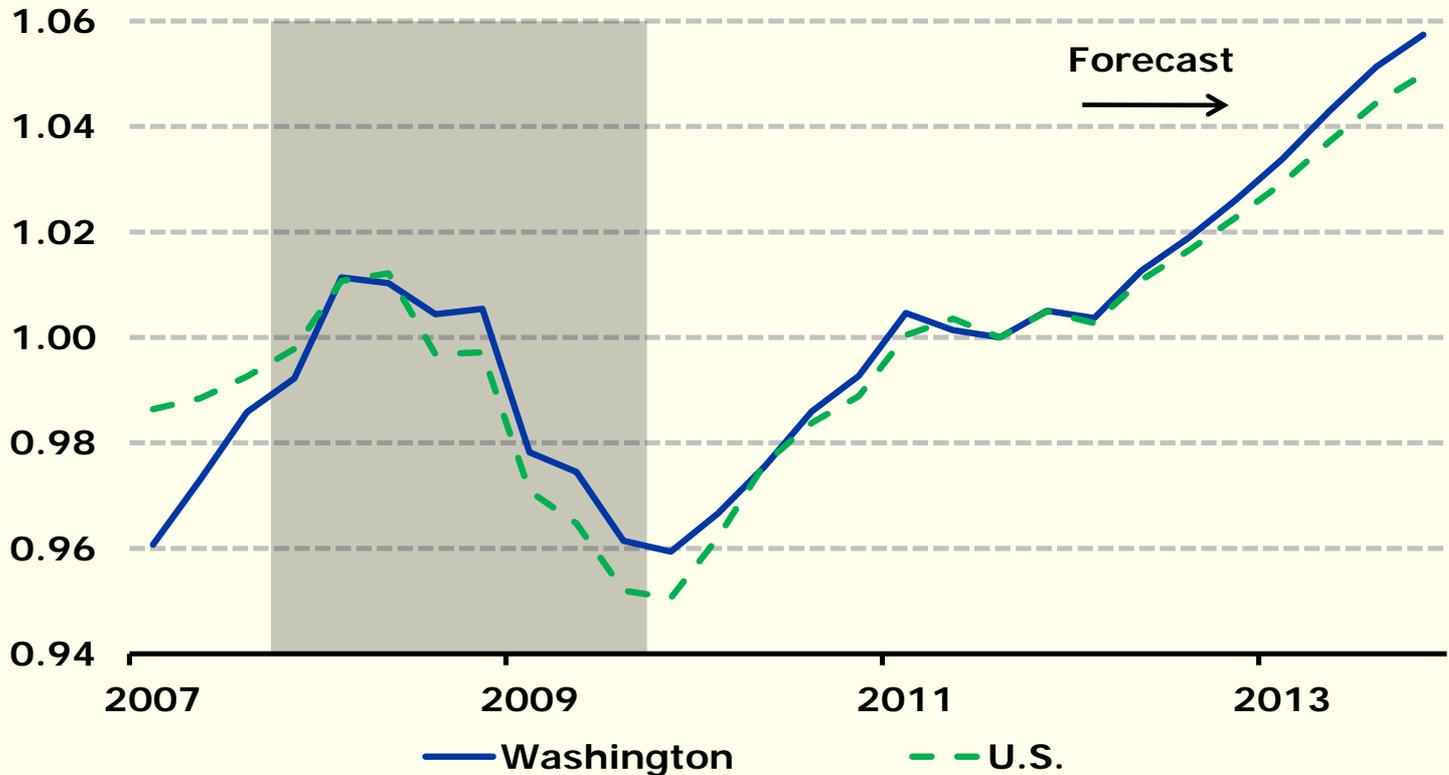
Real  
2012Q2

**U.S.:**

Nominal  
2010Q4

Real  
2012Q3

2011Q3 = 1.0

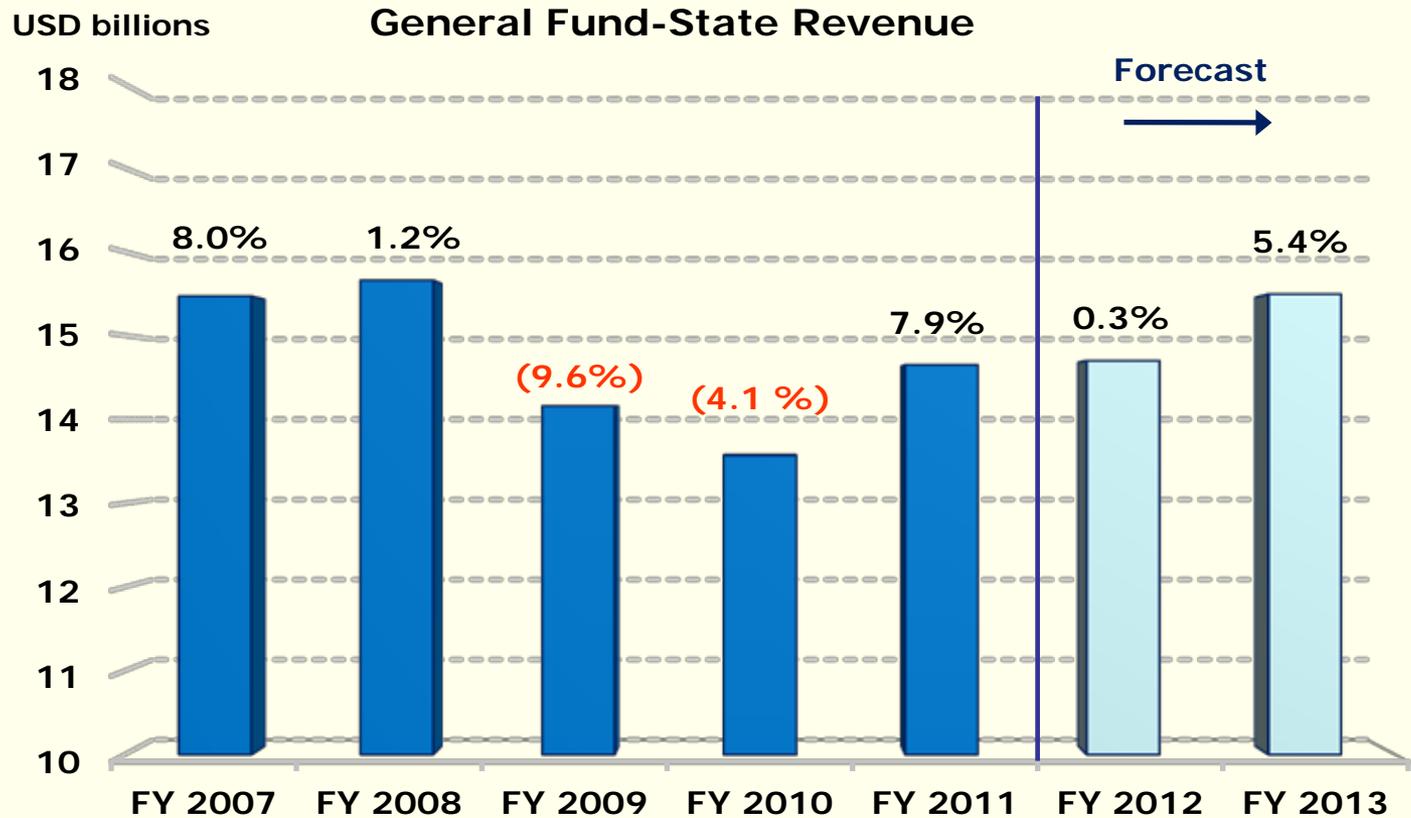


Source: ERFC November 2011 forecast; actual data through 2011Q3



# General Fund\* forecast by fiscal year

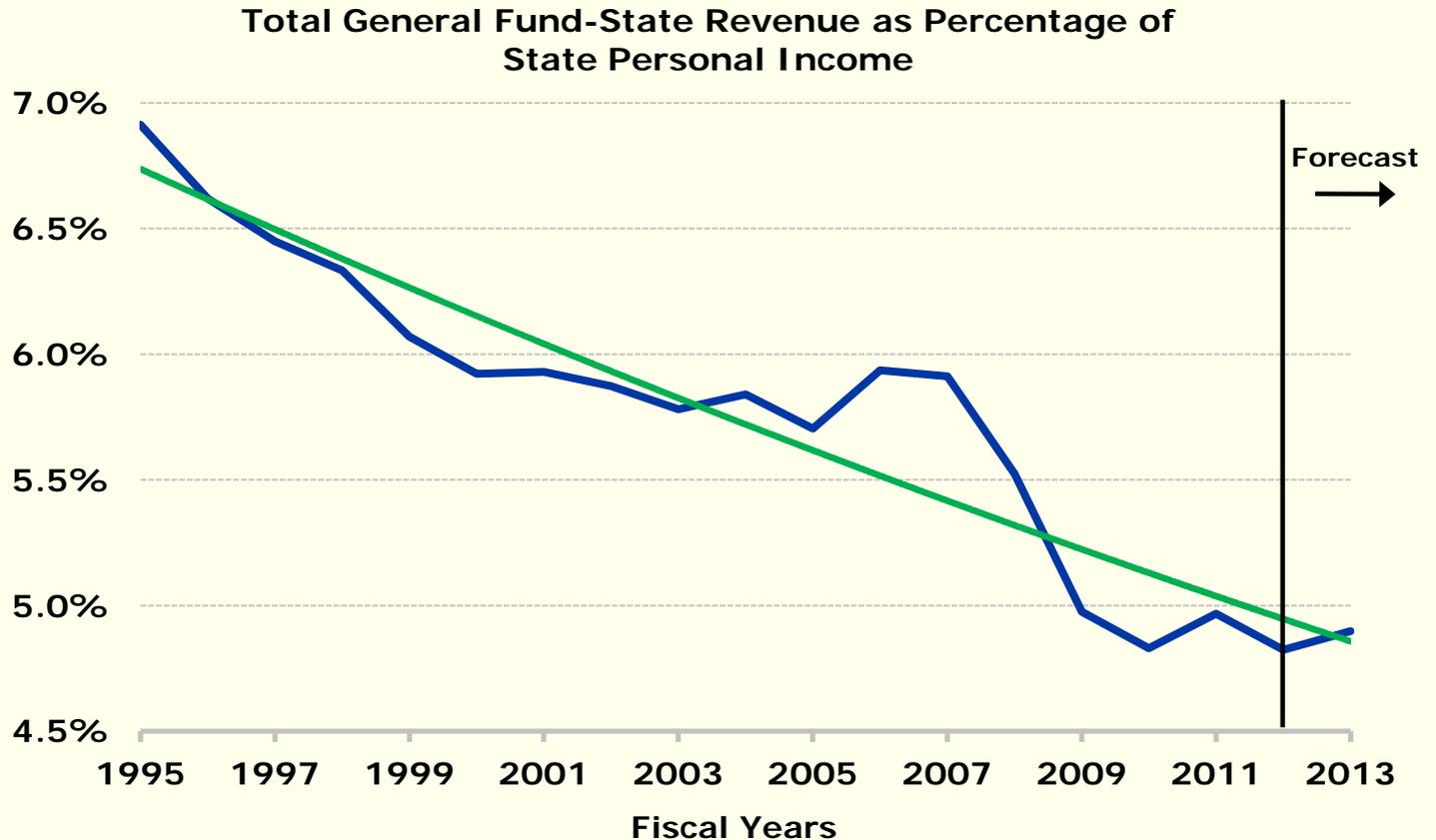
FY 2011 revenues were boosted by tax amnesty program and one-time transfers of non-GF-S funds into the GF-S



\*General Fund & Related Funds for FY 07-09, General Fund – new definition for FY 10-13  
Source: ERFC forecast, November 2011



# GF-S revenues as a share of personal income will be below trend until FY13



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\*Current definition of Revenue Act

Source: ERFC; data through FY 2011, November 2011 forecast

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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 level of uncertainty in the baseline remains extremely high, and downside risks outweigh upside risks
- Revenue growth is likely to remain slow in the near term

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# Questions



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