Economic & Revenue Outlook

Presented to
Financial Management Advisory Council

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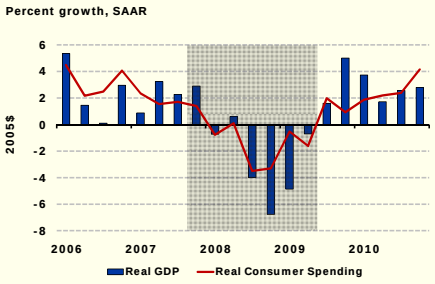
March 24, 2011
Olympia, Washington

WASHINGTON STATE
ECONOMIC AND REVENUE FORECAST COUNCIL

Summary

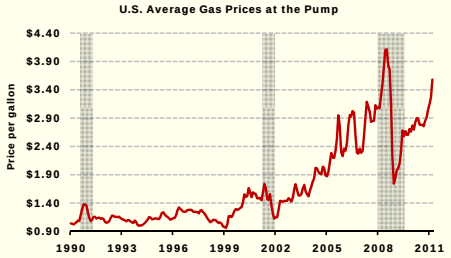
- The recovery remains fragile, and is hindered by slow job growth, lagging construction, and geopolitical developments
- The outlook has become more uncertain in the last month
  - Japan earthquake & tsunami
  - Middle-east political tensions
- Revenues have come in $85 million (1.8%) below forecast, since November 2010.
- This forecast lowers expected total General Fund–State revenues by
  - $80 million this biennium (09-11)
  - $698 million next biennium (11-13)

GDP growth is picking up



Source: BEA, data through 2010 Q4, second estimate

Gas prices have spiked in recent weeks…



Source: U.S. Energy Information Administration; data through March 14, 2011

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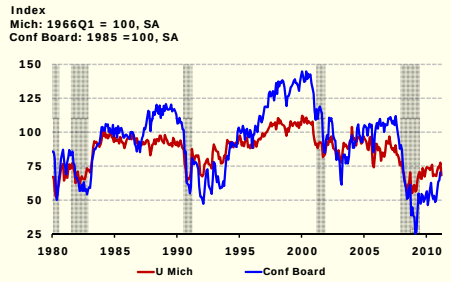
… and consumer confidence is showing signs of softening



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

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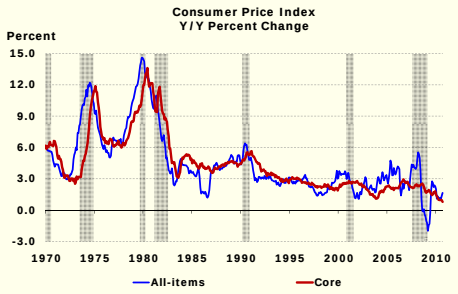
All-items inflation is ticking up, but the "core" remains stable



Source: BLS; data through January 2011

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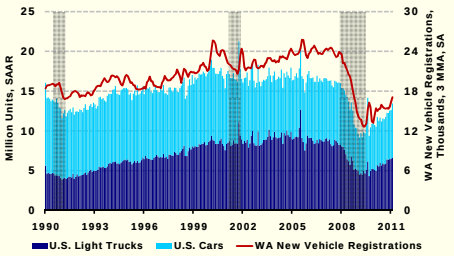
U.S. automotive sales in February were the highest since "cash for clunkers"

U.S. LMV sales were up 28% year-over-year in February



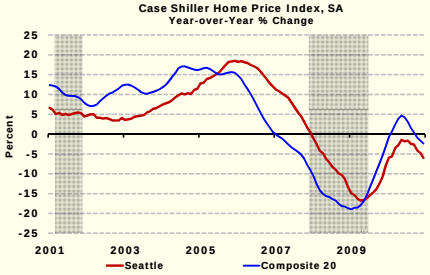
Source: Autodata Corporation, WA DOL; data through February 2011

Home prices are once again headed down

Dec 2010

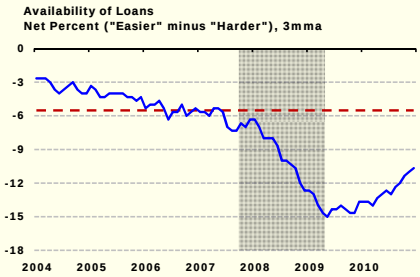
U.S is down 2.4%

SEA is down 6.0%



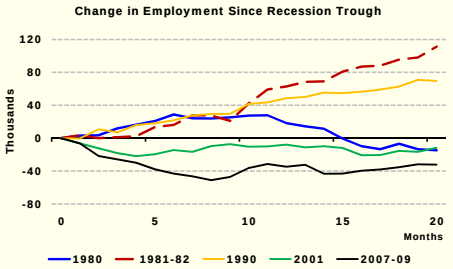
Source: S&P/Case-Shiller; data through December 2010

Credit conditions for small business are improving, but remain tight



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

Employment growth in WA since the trough has been slowest for this recession…



Source: BLS, WA ESD, ERFC; data through February 2011

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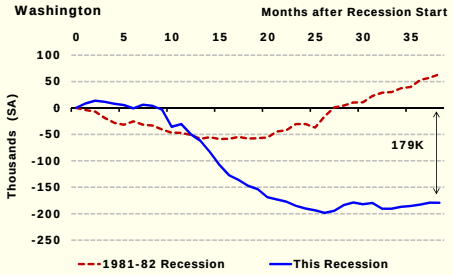
… and the hole we are in is also the toughest

Peak to trough job losses

1981-82:
2.9% of labor force

This time:
5.6% of labor force



Source: WA ESD, ERFC; data through February 2011

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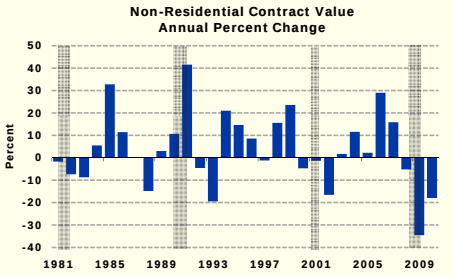
This is WA's worst downturn in non-residential construction in 30 years



Source: McGraw-Hill Construction, data through December 2010

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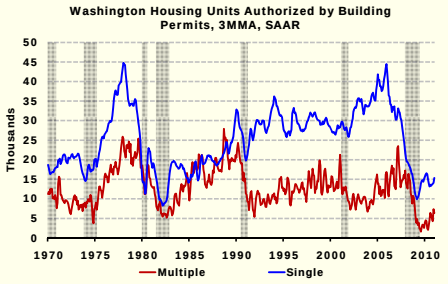
WA multi-family building permits appear to be recovering



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

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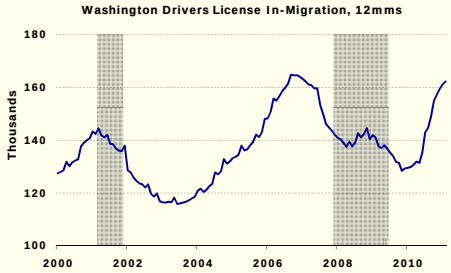
Migration into Washington is picking up



Source: Washington DOL; data through February 2011

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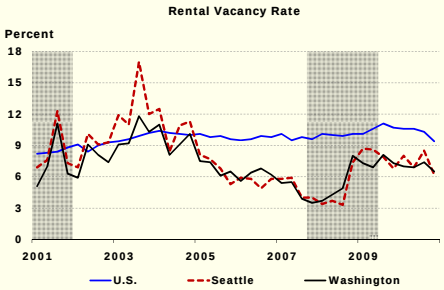
Rental vacancy rates are declining



Source: U.S. Census Bureau; data through 2010 Q4

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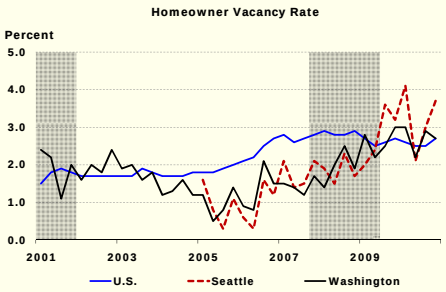
Homeowner vacancy in Seattle is higher than the national rate



Source: U.S. Census Bureau; data through 2010 Q4

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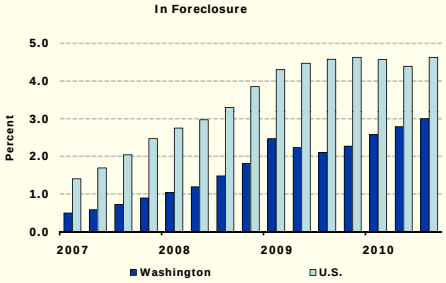
Foreclosures continue to trend upward in Washington

WA Rank: 33rd



Source: Mortgage Bankers Association® National Delinquency Survey, data through 2010 Q4

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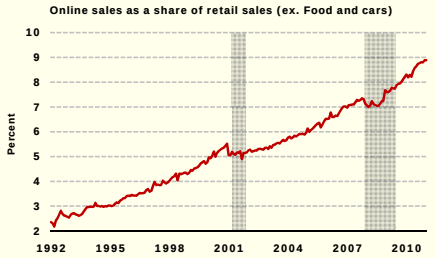
Online sales have been growing…

DOR estimates we collect about 50% of the taxes from online sales

This will result in a revenue loss of **$740 mill** in the 11-13 biennium



Source: U.S. Census; data through January 2011

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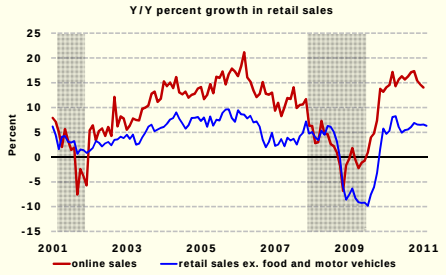
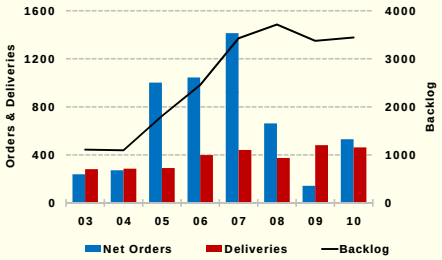
...much faster than overall retail sales

Online sales have accounted for over **20%** of total retail sales growth over the past year



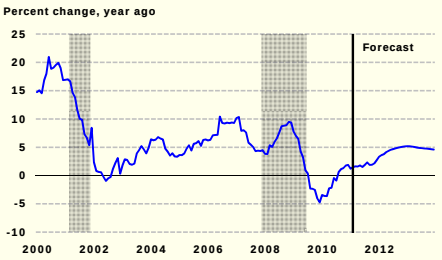
Source: U.S. Census; data through February 2011

Boeing orders recovered in 2010



Source: Boeing, data through 2010

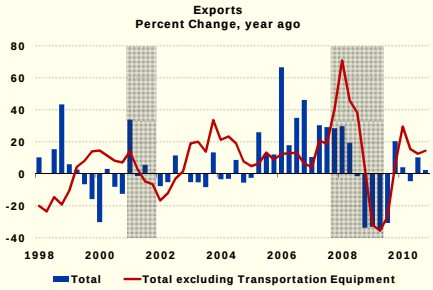
Software publishing employment is expected to eventually grow at about 5% per year



Source: ERFC March 2011 forecast; actual through February 2011

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

Total exports were up 2.5% y/y in Q4



Source: Wiser Trade Data; through 2010 Q4

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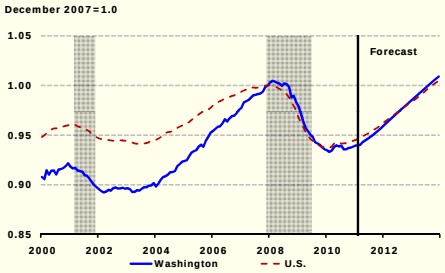
WA employment will return to its prior peak the same time as the nation

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

WA also reached its trough 1 month after U.S. (Feb. 2010 vs. Jan 2010)

WA and the US are forecasted to reach their pre-recession peak in October 2013



Source: ERFC March 2011 forecast; actual through February 2011

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

Date of regaining peak:

WA:

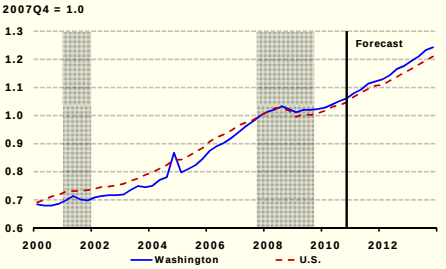
Nominal 10Q2

Real 10Q3

U.S.:

Nominal 10Q2

Real 11Q1



Source: ERFC March 2011 forecast; actual data through 2010Q4

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Forecast changes: General Fund State, 2009-2011 Biennium

November Forecast:

$28,127 million

USD millions		March 2011 Forecast			
	Collection Experience	Non-economic Change	Forecast Change	Forecast	Total Change*
Dept. of Revenue	($84)	$111	($102)	$26,601	($75)
All other agencies	($1)	$0	($4)	$1,446	($5)
Total GF-S	**($85)**	**$111**	**($106)**	**$28,047**	**($80)**

* Detail may not add to total due to rounding

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Forecast changes: General Fund State, 2011-2013 Biennium

USD millions		March 2011 Forecast			
	Nov 2010 Forecast	Non-economic Change	Forecast Change	Forecast	Total Change*
Dept. of Revenue	$31,010	($30)	($640)	$30,340	($670)
All other agencies	$1,595	$0	($29)	$1,567	($29)
Total GF-S	**$32,605**	**($30)**	**($668)**	**$31,907**	**($698)**

* Detail may not add to total due to rounding

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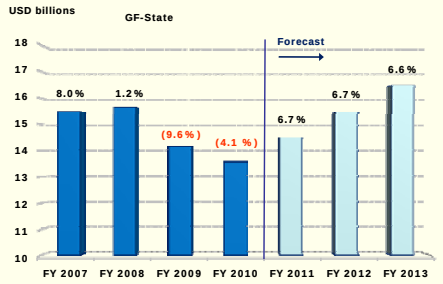
General Fund* forecast by fiscal year

* General Fund & Related Funds for FY 07, 08, and 09

General Fund – new definition, for FY 10-13



Source: ERFC forecast, March 2011

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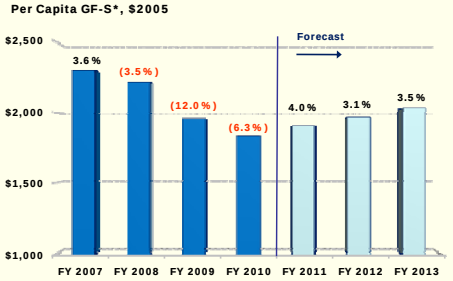
Real Per Capita General Fund-State Revenue

Prior to the recession, the last time real per capita GF-S revenue was below the FY 2013 level was FY 1997

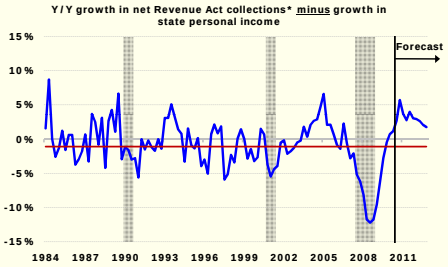
* General Fund & Related Funds for FY 07-09, General Fund, current definition, for FY 10-13



Source: ERFC forecast, March 2011

2010 legislation will still improve revenue growth relative to income

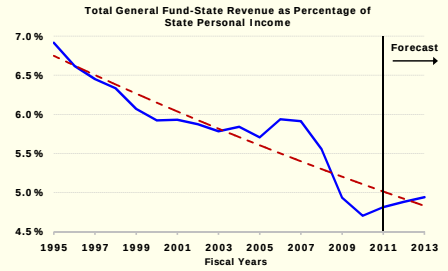
The spike in the forecast in 2011Q2 is because it is the last quarter to show large y/y growth from the temporary increase in B&O taxes on services



*Current definition of Revenue Act, adjusted for large one time payments and refunds

Source: DOR and ERFC; data through 2010Q4 estimated, March 2011 forecast

GF-S revenues as a share of personal income are rising, but still below trend



*Current definition of Revenue Act

Source: ERFC; data through FY 2010, March 2011 forecast

Conclusion

- The forecast for the 2009-11 Biennium is $80 million lower, due economic and non-economic reasons
- The forecast for the 2011-13 Biennium is $698 million lower mostly due to economic reasons
- Revenues are expected to grow 13.8% between the 09-11 and 11-13 biennium
- The level of uncertainty in the baseline remains high as geo-political events make economic conditions very fluid
- Downside risks are twice as high as upside risks

Questions

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