

Economic & Revenue Outlook

Presented to
Financial Management Advisory Council

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WASHINGTON STATE
ECONOMIC AND REVENUE FORECAST COUNCIL



Summary

- Revenue collections since our June forecast have come in \$192 million below expectations
- The economic outlook has weakened since June
 - The recovery is expected to be painfully slow
 - Historical data has been revised downward
 - Risk of double-dip is higher, but unlikely
- Mostly due to the weaker economic outlook, revenue collections are now expected to be:
 - For the 09-11 biennium: \$770 million lower
 - For the 11-13 biennium: \$669 million lower
- The level of uncertainty in the baseline forecast is significantly higher

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The current state of the economy...not doing much



A pictorial description of the current state of the economy...

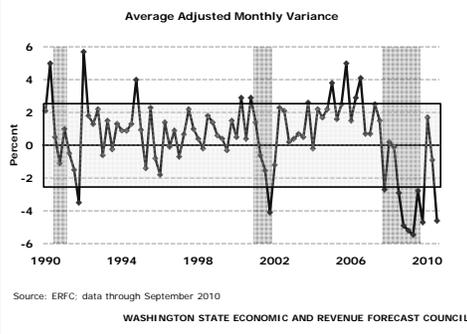
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The revenue forecast variance has increased sharply since our June forecast



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This is the worst recession since WW II

Recession	Peak-to-trough decline		Recession Duration
	Real GDP	Employment	
	percent	percent	months
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	4.1	6.1	18

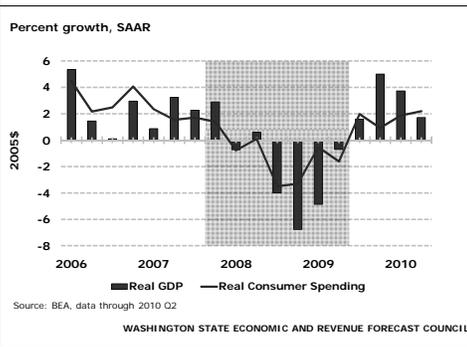
Source: NBER, ERFC

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GDP growth has moderated, and is now well below trend



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The historical savings rate was revised up sharply, affecting our forecast

The saving rate for 2010Q1 was revised from 3.1% of disposable income to 5.5%.

Source: ERFC September 2010 forecast; actual through 2010 Q2
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Household net worth is on the mend, but still well below its peak

\$18 trillion of wealth was lost in this recession
\$6 trillion has been recovered so far

Source: Federal Reserve; data through 2010 Q2
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Consumer confidence remains uncertain

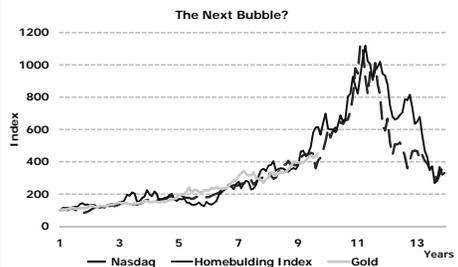
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Mich: 1966Q1 = 100, SA
Conf Board: 1985 = 100, SA

Source: University of Michigan; Conference Board, data through October 2010
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So far, gold has followed the same path as the previous two bubbles



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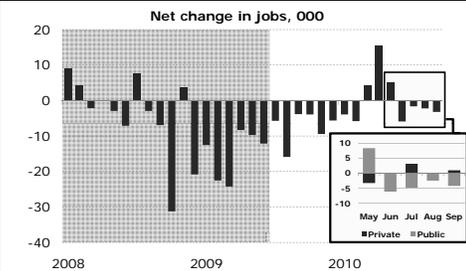
Source: BLS, WA ESD; data through August 2010

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Private sector job growth in WA mirrors the national pattern – weak and hesitant



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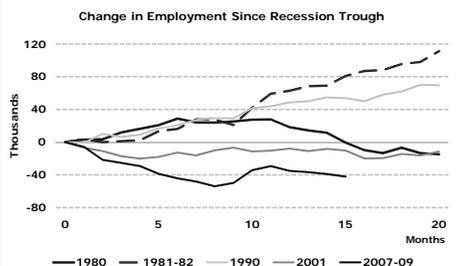
Source: WA ESD, ERFC; data through September 2010

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Employment growth since the trough has been slowest for this recession...



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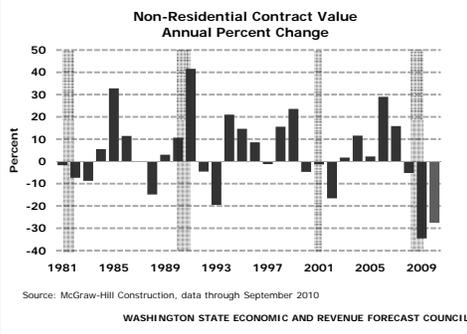
Source: BLS, WA ESD; data through September 2010

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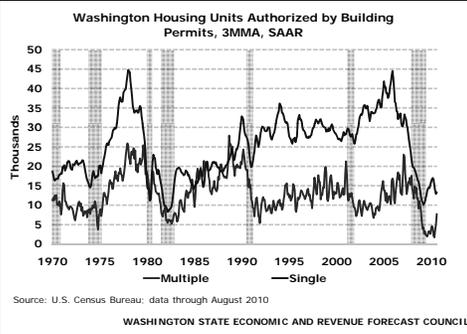
This is WA's worst downturn in non-residential construction in 30 years



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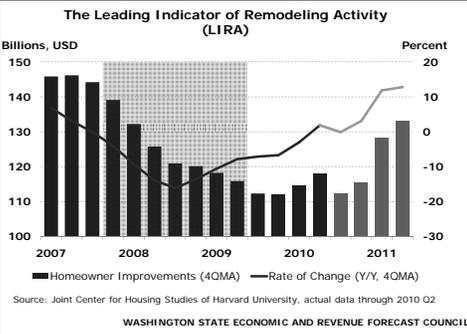
WA building permits have dropped sharply since the tax credits expired



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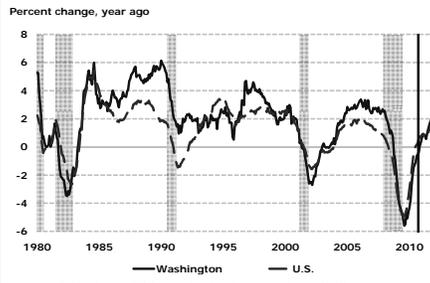
Leading indicator suggests remodeling improvement in late 2010



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WA employment lagged the nation in the downturn and will recover at about the same rate as the nation

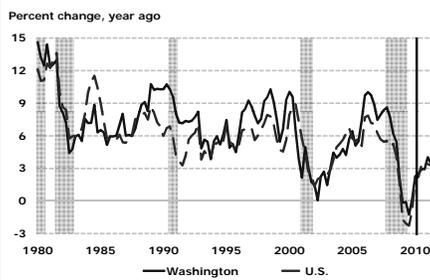


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Source: ERFC September 2010 forecast; actual through September 2010
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The recovery in WA personal income growth, however is expected to be modestly better than the nation's



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Source: ERFC September 2010 forecast; actual data through 2010Q2
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Forecast changes: General Fund State, 2009-2011 Biennium

June
Forecast
\$29,282
million

USD millions	September '10 Forecast				Total Change*
	Collection Experience	Non- economic Change	Forecast Change	Forecast	
Dept. of Revenue	(\$189)	(\$5)	(\$552)	\$27,055	(\$747)
All other agencies	(\$2)	\$0	(\$21)	\$1,457	(\$23)
Total GF-S	(\$192)	(\$5)	(\$573)	\$28,512	(\$770)

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* Detail may not add to total due to rounding

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Forecast changes: General Fund State, 2011-2013 Biennium

USD Millions	USD millions	September '10 Forecast				Total Change*
		June 2010 Forecast	Non-economic Change	Forecast Change	Forecast	
	Dept. of Revenue	\$32,433	(\$10)	(\$611)	\$31,812	(\$621)
	All other agencies	\$1,650	\$0	(\$48)	\$1,602	(\$48)
	Total GF-S	\$34,083	(\$10)	(\$659)	\$33,414	(\$669)

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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

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So far, gold has followed the same path as the previous two bubbles

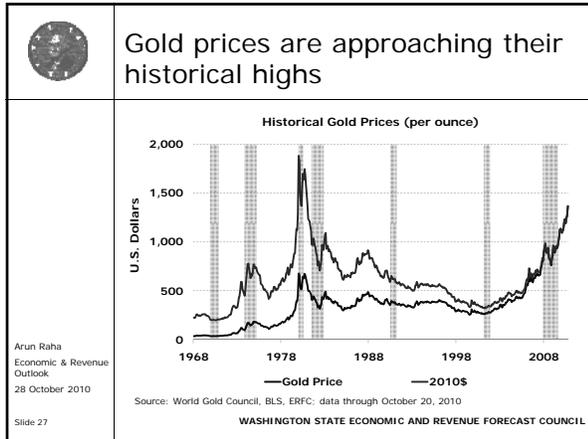
Starting Points

- NASDAQ : January 1990
- Homebuilder: April 1995
- Gold: January 2002

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Source: BLS, WA ESD; data through August 2010

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Conclusion

- The forecast for the 2009-11 Biennium is \$770 million lower, due to a weaker economic outlook
- The forecast for the 2011-13 Biennium is \$669 lower for the same reason
- The economic recovery is going to be a slow painful slog, and it is difficult to see what is likely to cause growth to accelerate
- Both the downside risk to the forecast, as well as the level of uncertainty in the baseline is significantly higher than in June
- Our next revenue forecast is scheduled for November 18, 2010 – same time, same place.

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Questions

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