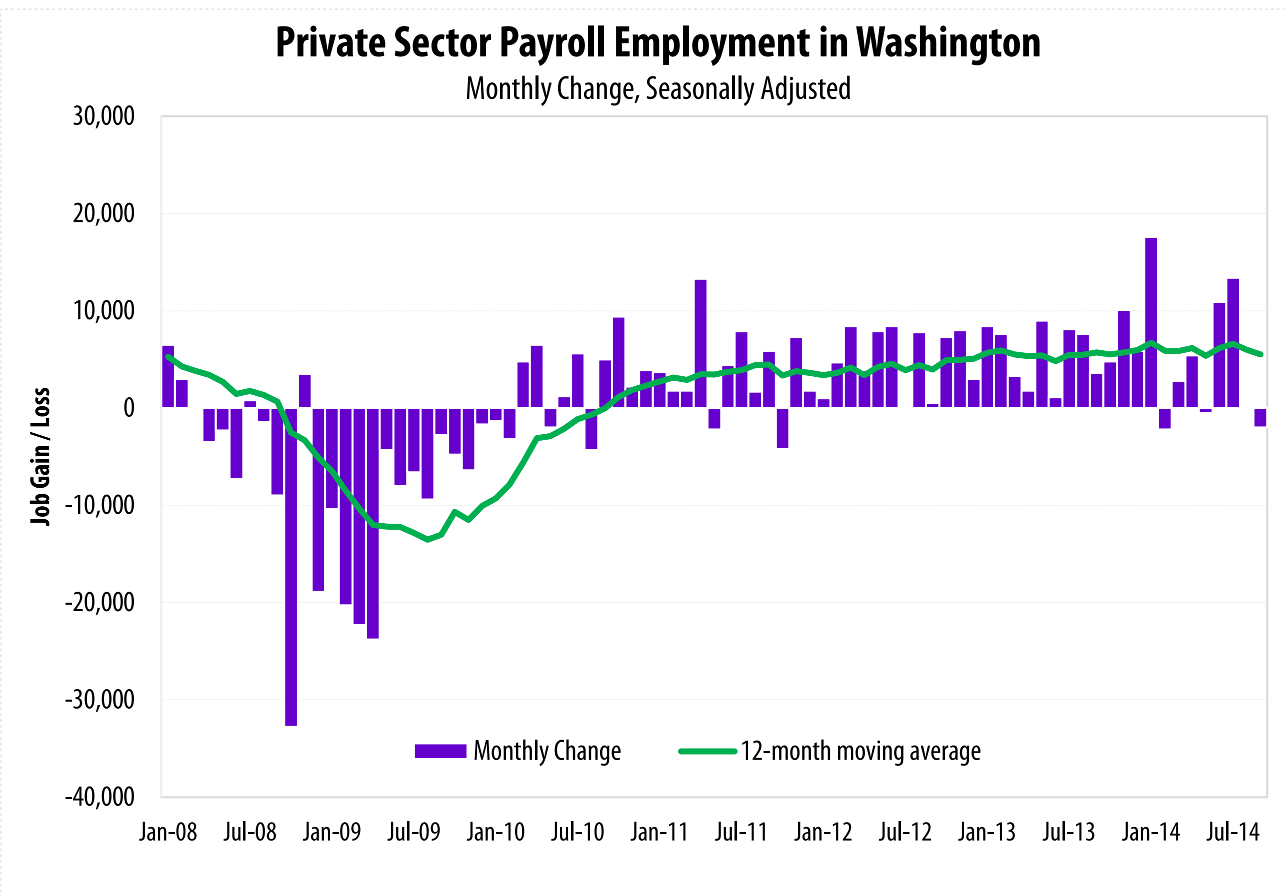
National outlook: Slow, steady recovery expected to continue

The national economy is expected to continue its slow but steady recovery from the Great Recession during the 2015–17 biennium. The nation's gross domestic product is anticipated to grow at a 2.9 percent clip through fiscal years 2016 and 2017.

The single most significant economic development today is the dramatic decline in oil prices. The United States has experienced an energy boom over the past several years as greater exploration and newer drilling methods have brought huge new reserves of oil and natural gas to market. That abundance has been driving down energy prices.

Compounding the price situation, however, have been recent actions by OPEC to set prices even lower to compete more aggressively with this new supply. As a result, crude oil prices have plummeted and the market remains volatile. Lower energy costs will ripple through the economy. While this could put a damper on energy investments and domestic production, it will lower transportation costs for the movement of goods and increase the amount of disposable income that households can spend on non-energy goods and services.

In September 2014, the nation's jobless rate fell below 6 percent for the first time since August 2008. This period of high unemployment was nearly twice as long as the recession caused by Sept. 11. Of particular concern during this jobs drought has been the decline in workforce participation — the share of population 16 years and older who are working or looking for work.



While the aging population was already responsible for part of the decline in participation, sluggish job growth has also been a factor. With a declining share of the population in the workforce, it is possible for the unemployment rate to drop significantly without a comparable boost in employment. A faster-growing economy should produce a rebound in workforce participation. Indeed, the unemployment rate is expected to fall to 5.1 percent by the end of the next biennium.

Throughout the Great Recession, consumers deferred large-ticket purchases — autos and light trucks in particular. The number of sales of those vehicles fell from a 17.8 million annual pace in August 2005 to a 9.5 million annual pace in June 2009. As the average age of the nation's auto and truck fleet grew to record levels, a huge pent-up demand for new vehicles was created. By October 2014, the annual pace of sales was close to 16.7 million, and sales are expected to continue at that rate through 2015.

Sales of new single-family homes have also been slow during the recovery. The foreclosure of millions of homes nationwide when the housing bubble burst released a huge number of homes into the market, driving down prices and suppressing demand for new construction. While the economic recovery and expansion have spurred demand for existing homes, the demand for new single-family homes is still tepid. Demand will likely remain soft until incomes rebound. Median household income in 2013 was still 8 percent lower than in 2007, the year before the recession.

The nation's economy remains at risk from several factors: slowing Asian economies (especially China), a continued soft housing recovery, slow growth and debt issues in Europe, and instability in the Middle East and Ukraine.

Washington outlook: Personal income makes above-average gains

Washington's economy has been a step ahead of the nation's during this expansion. Recent economic performance has narrowed that gap, but Washington should still maintain an advantage during the next biennium.

Washington's jobless rate remained lower than the national rate for much of the past two years. This was unusual: Washington's rate has traditionally been above the national norm due to the state's outsized share of seasonal industries. More recent figures show Washington's jobless rate edging above the national average, likely the result of an increase in workforce participation. In fundamental ways, that is good news as it reflects an increase in workers' confidence in finding gainful employment.

Personal income in Washington is expected to make above-average gains over the next biennium. Real personal income should post increases of 3.9 percent in fiscal year 2016 and 4.6 percent in fiscal year 2017, slightly higher than national projections. On a per-capita basis, Washington's real personal income should reach $49,226 at the end of the biennium, more than $2,900 above the U.S. average.

These gains in Washington's personal income will occur in spite of declines in aerospace employment, which is expected to fall by 2.8 percent in fiscal year 2016 and 2.5 percent in fiscal year 2017. Though this places a drag on overall nonfarm employment growth, Washington will still net a 2.1 percent gain in total payroll jobs in fiscal year 2016 and a 1.8 percent increase in fiscal year 2017, again slightly better than national projections.

Construction activity in Washington is expected to increase at a healthy rate during the 2015–17 biennium. While multi-family construction was prompted by demand for rental units in the aftermath of the recession, income gains should help renew demand for single-family housing. Building permits should surpass 36,700 in fiscal year 2016 and reach nearly 41,000 in fiscal year 2017. As a result, construction employment should jump by 6 percent and 5.3 percent, respectively. That should boost construction jobs to 5.7 percent of total nonfarm employment, in line with historic averages.

Revenue outlook: State collections not keeping pace with economic growth

Forecasted Near General Fund-State revenue for the 2015–17 biennium is now $36.9 billion, which is 8.6 percent higher than forecasted revenue in the current biennium.

While this increase in revenues is solid, it needs to be compared to the gains in total personal income over the same period, as total personal income is a good proxy for the state economy overall. State revenues have been declining as a share of personal income for more than two decades. In fiscal year 1995, revenues were 6.6 percent of total personal income. In fiscal year 2014, NGF-S revenues composed 4.9 percent of total personal income. And NGF-S revenues are projected to continue to decline relative to personal income, falling to 4.6 percent in fiscal year 2019.

The fact that the economy is expanding faster than revenue collections is a sign that long-term changes in consumer demographics and spending patterns are not reflected in Washington's tax system. In general, people are spending a smaller share of their disposable income on goods and a greater share on services. Considering that the majority of state revenues are collected via a sales tax centered primarily on the purchase of goods, it is becoming more evident that Washington's tax structure is out of synch with changing consumer behavior. So even though there are measurable gains in NGF-S revenues during the forecast period, those gains do not keep up with the higher costs or demand for state services.