ECONOMIC OUTLOOK

Washington outlook: Personal income makes above-average gains

Washington's economy has continued to outpace the nation's during this expansion. Recent economic performance has solidified that advantage, which Washington should maintain through the 2017–19 biennium.

Washington's jobless rate trended above the national rate for much of the past year. The state's rate has historically been above the national norm due to its outsized share of seasonal and cyclical industries. Recent trends are more likely the result of Washington's vibrant economy, which promotes an increase in workforce participation. In fundamental ways, that is good news as it reflects a boost in workers' confidence in their ability to find gainful employment. By the end of the 2017–19 biennium, Washington's unemployment rate is projected to fall to 4.9 percent, down from the current 5.4 percent.

Personal income in Washington is expected to make above-average gains over the next biennium. Real personal income should post increases of 3.1 percent for fiscal year 2017, 2.8 percent in fiscal year 2018 and 3.3 percent in fiscal year 2019 — each higher than national projections. On a per-capita basis, Washington's real personal income should reach $50,304 in fiscal year 2019, more than $3,000 above the U.S. average.

These gains in Washington's personal income will occur despite declines in aerospace employment, which is expected to fall by 6.6 percent in fiscal year 2017, 3.9 percent in fiscal year 2018 and 2.0

National outlook: Slow, steady expansion expected to continue next biennium

The national economy is expected to continue its slow but steady expansion during the 2017–19 biennium as the effects of the Great Recession dissipate. The nation's gross domestic product grew at a 1.7 percent pace in fiscal year 2016. National GDP is expected to rise to 2.0 percent in fiscal year 2017 and 2.1 percent in fiscal years 2018 and 2019.

The most notable feature of this period of expansion is continued low oil prices. The United States experienced an energy boom after the recession as greater exploration and newer drilling methods brought huge new reserves of oil and natural gas to market. That abundance drove down energy prices, and the prospect of even bigger reserves has helped hold the line on costs.

OPEC recently tried to counter these low prices by restricting the supply of crude sold by member countries. That proved unsuccessful, and supplies have remained plentiful, assuring moderate prices in the near term; the cost of a barrel of crude is expected to be $52 in fiscal year 2019, about half its 2014 price. This has put a damper on energy investments and domestic exploration, which in turn has put a damper on mining activity and employment. However, it has cut transportation costs for the movement of goods, boosted the amount of disposable income that households have to spend on nonenergy goods and services, and heightened demand for new vehicles.

In the latter half of fiscal year 2016, the nation's jobless rate fell below 5.0 percent for the first time since February 2008. The extended period of high unemployment trailing out of the recession was nearly twice as long as the recession caused by the Sept. 11, 2001, attacks. Of particular concern during the jobs drought and subsequent expansion has been the persistent decline in workforce participation — the share of population 16 years and older who are working or looking for work.

While the aging population had been responsible for part of the decline in participation, sluggish job growth was also a factor. This waning share made it possible for the unemployment rate to drop significantly without a substantial increase in employment. And with continued economic expansion, the unemployment rate should fall to 4.6 percent by fiscal year 2019. Steady growth in the economy should produce a rebound in workforce participation among prime working-age populations, though demographic forces will still exert a downward influence on the overall participation rate.

Sales of new single-family homes had also been slow to recover following the recession. 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. The economic recovery and expansion then spurred demand for this ample supply of homes. Now with the inventory of foreclosed homes depleted and with millennials entering the market, demand for new single-family homes has begun to stimulate new construction; housing starts are expected to reach 1.4 million nationally in fiscal year 2019.

The nation's economy remains at risk from several factors: slowing Asian economies (especially China), uneven wage growth, slow growth and debt issues in Europe, and instability in the Middle East and Eastern Europe.

percent in fiscal year 2019. Though this places a drag on overall nonfarm employment growth, Washington will still net a 2.4 percent gain in total payroll jobs in fiscal year 2017, a 1.6 percent increase in fiscal year 2018 and a 1.5 percent increase in fiscal year 2019, again well above national projections.

Construction activity in Washington is expected to grow at a healthy rate during the 2017–19 biennium. While multifamily housing construction was prompted by demand for rental units in the recession's wake, income gains have renewed demand for single-family housing. Building permits should surpass 40,700 in fiscal year 2018 and 41,300 in fiscal year 2019. As a result, construction employment should jump by 3.0 percent and 3.3 percent, respectively. That should boost construction jobs to 5.8 percent of total nonfarm employment, a bit above historic averages and indicative of a robust housing market.

PRIVATE SECTOR PAYROLL EMPLOYMENT IN WASHINGTON

Monthly change, seasonally adjusted