Economic and revenue outlook

Washington's economic performance throughout much of 2020 has been constrained by the state's efforts to contain the COVID-19 virus. Higher risk economic activities that involve close physical proximity between workers, workers and consumers, or where consumers are close to each other, have been tightly controlled to help limit virus transmission. This has resulted in unprecedented job losses, striking the entertainment, hospitality, personal services, and eating and drinking sectors particularly hard. The initial wave of job losses has run its course and over 190,000 workers have resumed work since May. But, as of November, the state still had over 217,000 fewer jobs than in February.

Because this recession is primarily a public health crisis with serious economic consequences (compared to the more typical economic crisis with public health consequences), the state's recovery pattern is without precedent. The job impact of the Great Recession lasted 70 months from initial job losses to full recovery, to the previous job peak. We do not expect this recovery to take nearly as long. However, the number of permanent job losses and permanent business closures may bring longer-term consequences.

Washington's jobless rate moved above the national rate during the past three years after mirroring the national figures for much of the economic recovery. The state's rate has traditionally been higher than the national norm. That's because of its outsized share of seasonal industries and its attractiveness to in-migrants searching for opportunity and the Northwest experience. Over the past four years, 74% of Washington's population growth came from migration. More recent forecasts expect Washington's jobless rate to remain above the national average, likely the result of strong population growth and the accompanying frictional lag in employment. In fundamental ways, this reflects the confidence workers have in finding gainful employment. By the end of the next biennium (2021–23), Washington's unemployment rate is projected to decline to 5.5% from 6% in October.

Personal income in Washington is expected to moderate over the next two fiscal years after concerted efforts to provide federal pandemic-relief money to individuals and households boosted fiscal year 2020 real personal income by 5.2%. Real personal income should gain 0.6% in fiscal year 2021, decline by 0.8% in fiscal year 2022, and grow by 2.5% in fiscal year 2023. That compares to the respective 0.6%, 3.4%, and 2.4% projections for the nation. Despite the slower growth, Washington's real per capita personal income should reach $59,924 in fiscal year 2023, nearly $7,300 above the U.S. average.

These gains in Washington's personal income will be bounded by the decline in aerospace employment, a traditional driver of Washington's economy. Aerospace jobs are expected to drop from 87,600 jobs in fiscal year

2020 to 62,500 jobs in fiscal year 2023. Even though Washington's nonfarm employment is projected to decline 1.9% in fiscal year 2021, the state is projected to net a 4% increase in total payroll jobs in fiscal year 2022, and 2.4% in fiscal year 2023 — thanks to gains in software publishing, electronic shopping and mail order, and other technology sectors.

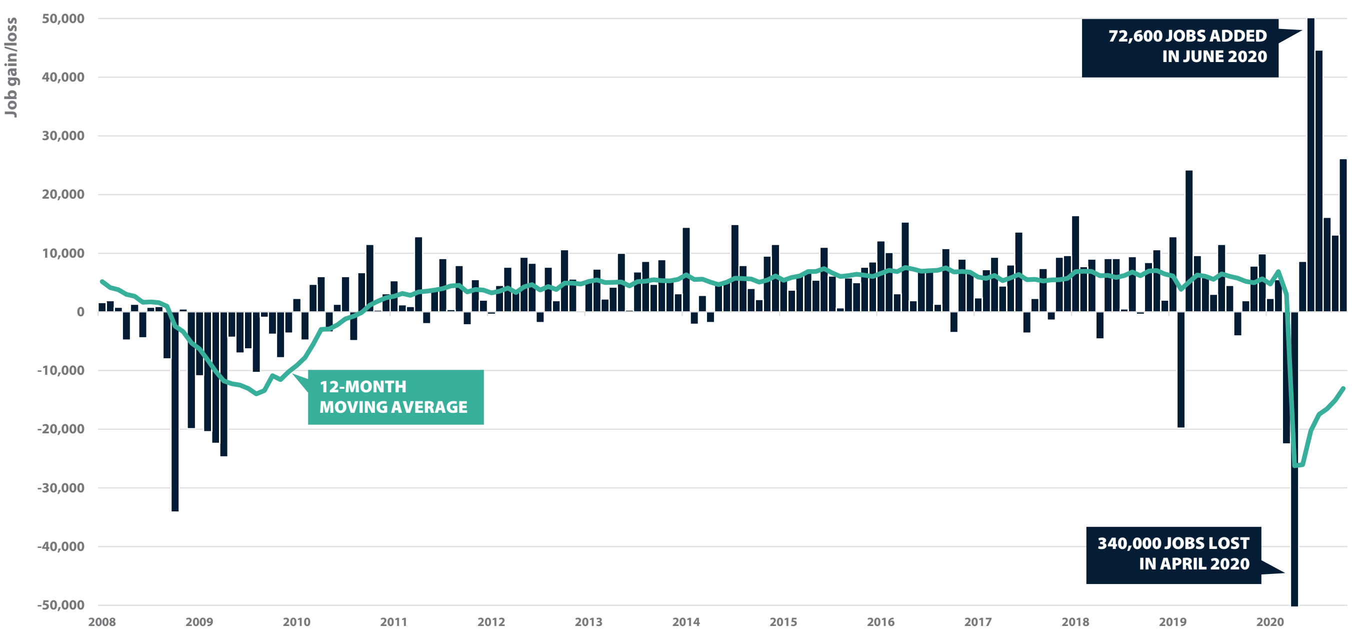
Construction activity in Washington is expected to trend to a more historically normal level in the next several fiscal years. While growth in the technology sectors prompted demand for new office space, the commercial sector does tend to overbuild. This leads to subsequent periods of higher vacancies and gradual absorption. Building permits should total 45,350 in fiscal year 2021, 44,035 in fiscal year 2022, and 42,889 in fiscal year 2023. As a result, construction employment should move down to 202,500 jobs in fiscal year 2023, from 216,200 jobs in fiscal year 2020. That should lower the share of construction jobs to 5.7% of total nonfarm employment, the historic average. At the height of the building boom in fiscal year 2019, construction jobs represented 6.3% of total nonfarm employment.

General Fund-State revenues grew 10% in fiscal year 2018 and 3.3% in fiscal year 2019, and the revenue forecast will finish fiscal year 2020 up 6.2%. GFS revenues are expected to grow 4.9% in fiscal year 2021, 3.2% in fiscal year 2022, and 3.6% in fiscal year 2023. The recovering economy, rebounds in hiring aside from aerospace and construction, and a steady housing market should keep revenues growing at a restrained pace.

The latest economic and revenue forecast from the Economic and Revenue Forecast Council can be found on the council's website.

Private sector payroll employment in Washington

Monthly change, seasonally adjusted



Source: Washington Employment Security Dept. and Economic and Revenue Forecast Council