

Economic and revenue outlook

Recent economic performance in Washington has been a balance between mitigation efforts to contain the COVID-19 pandemic and the need to fully open social, educational and economic activity. The unprecedented worker layoffs in the March-May 2020 period resulted in a loss of 421,800 nonfarm jobs, and hit the entertainment, hospitality, personal services, and eating and drinking sectors particularly hard. Through October 2021, over 319,000 nonfarm jobs have been recovered. However, there were still about 102,000 fewer jobs compared to February 2020.

Because this recession was primarily a public health crisis with serious economic consequences — as opposed to the more typical economic crisis with public health consequences — the pattern of decline and recovery has been without precedent. The job impact of the Great Recession of 2008 lasted 70 months from initial job losses to full recovery to the prior job peak. The current job loss and recovery period is not expected to take nearly as long. And if recent job-growth trends continue, full job recovery is likely to be reached by mid-spring 2022. That would be a loss-recovery duration of 26-27 months, less than half that of the prior recession.

Washington's unemployment rate spiked to a high of 16.3% in April 2020 and has since recovered to 5.0% as of October 2021. Washington jobless rates mirrored the national figures for much of the economic recovery, though most recent national numbers have trended below those of the Evergreen State. Washington's unemployment rate has

traditionally been higher than the national norm due to the state's outsized share of seasonal industries and its attractiveness to in-migrants searching for opportunity and the Northwest experience. Over the past four years, 77% of Washington's population growth has been due to 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, that reflects the confidence workers have in finding gainful employment. By the end of the current biennium (2021–23), Washington's unemployment rate is projected to decline to 4.3% compared to 3.7% for the nation.

Washington's real personal income grew 6.3% in fiscal year 2020 and 3.7% in fiscal year 2021 boosted by concerted efforts to provide pandemic-relief money to individuals and households. Real personal income growth is expected to moderate over the next two fiscal years as government transfer payments return to pre-pandemic norms. Real personal income is expected to decline by 1.0% in fiscal year 2022, and then grow by 3.1% in fiscal year 2023, a notably quicker growth forecast than the respective -2.1% and 2.7% projections for the nation. In concert with this quicker growth, Washington's real per capita personal income should reach \$62,082 in fiscal year 2023, nearly \$7,600 above the U.S. average.

Washington's personal income growth will be assisted by a modest recovery in aerospace employment, a traditional driver of Washington's economy. Aerospace jobs are

expected to grow from 67,700 jobs in fiscal year 2021 to 72,000 jobs in fiscal year 2023. Along with the rebound in aerospace employment, additional gains in software publishing, electronic shopping and mail order, and other technology sectors, will result in a net 4.4% increase in total payroll jobs in fiscal year 2022, and 2.4% in fiscal year 2023.

Construction activity in Washington is expected to trend to a more historically normal level in the next several fiscal years. While demand for new office space was prompted by burgeoning growth in the technology sectors, the commercial sector does tend to over-build, leading to subsequent periods of higher vacancies and gradual absorption. Building permits should total 47,090 in fiscal year 2022, and 43,960 in fiscal year 2023. As a result,

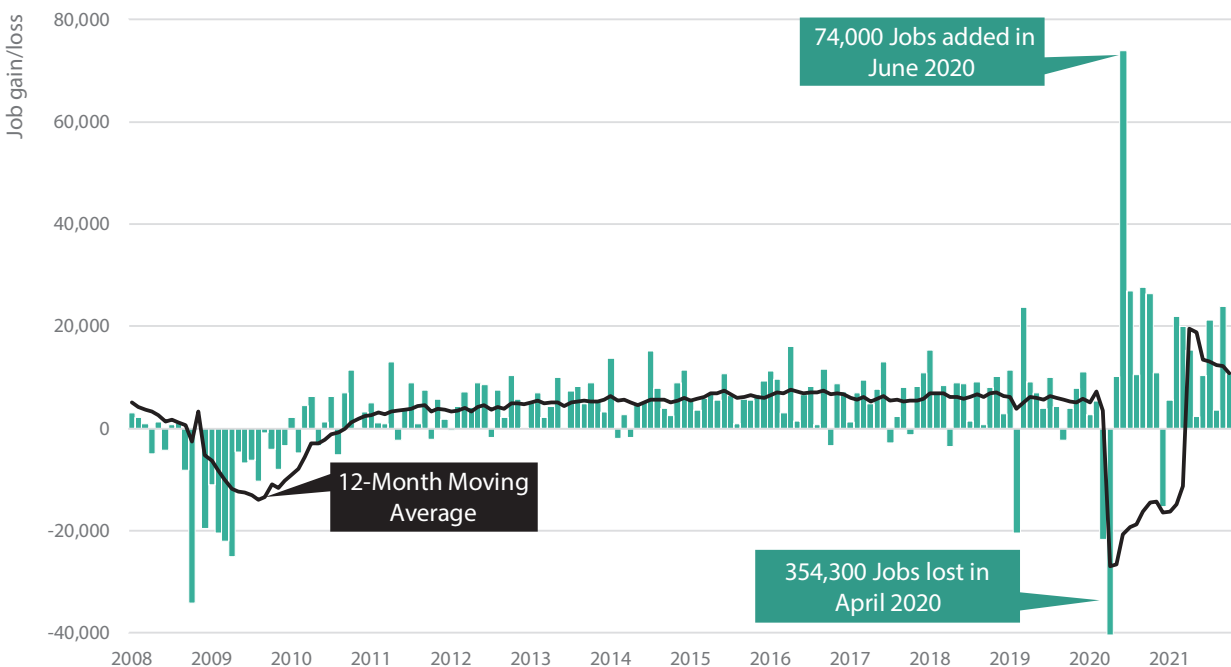
construction employment should decline from 223,000 jobs in fiscal year 2021 to 219,500 jobs in fiscal year 2023. That should ease the share of construction jobs to 6.1% of total nonfarm employment, closer to the historic average. At the height of the building boom in fiscal year 2019, construction jobs represented 6.3% of total nonfarm employment.

General Fund-State revenues grew 6.2% in fiscal year 2020 and 13.3% in fiscal year 2021. GF-S revenues are expected to grow 6.2% in fiscal year 2022, and 0.8% in fiscal year 2023. The recovering economy, rebounds in hiring, and a steady housing market should keep revenues growing at a moderate pace.

The latest economic and revenue forecast from the Economic and Revenue Forecast Council can be found at the following link: erfc.wa.gov.

Private sector payroll employment in Washington

Monthly change, seasonally adjusted



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

Note: The axes are limited so they don't obscure the monthly values outside of the April and June 2020 extremes.