Economic and revenue outlook

Over the past year, Washington's economy has improved with COVID-19 restrictions gradually easing. The unprecedented worker layoffs in the February-May 2020 period resulted in a loss of 431,700 nonfarm jobs, and hit the entertainment, hospitality, personal services, and eating and drinking sectors particularly hard. However, Washington gained over 492,400 nonfarm jobs from the May 2020 low-point through October 2022, thus surpassing the February 2020 nonfarm total by 60,700 jobs. But several major industry sectors are still below their February 2020 job levels:

- Manufacturing (-19,200)
- Leisure and hospitality (-11,800)
- Other services (-8,500)
- Government (-26,400).

The bulk of the continued shortfall in government employment is in state and local educational services.

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 unprecedented. The job impact of the Great Recession (2007-2009) lasted 70 months from initial job losses to full recovery to the previous job peak. The loss and recovery period during the pandemic was much shorter, with the top-line non-farm employment reaching full recovery between May and June of 2022. That was a loss/recovery duration of 27.5 months, less than half of the previous recession.

Washington's unemployment rate spiked to a high of 16.3% in April 2020 and has since recovered to 3.7% as of the third quarter of 2022. Washington's jobless rate mirrored the national figure for much of the economic recovery, though most recent national numbers trend slightly below those of the Evergreen State. While it has converged recently, 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 economic opportunity. Over the past four years, 78% of Washington's population growth has been due to migration. The most recent forecast expects Washington's and the nation's jobless rates to increase in response to Federal Reserve interest rate policies that seek to slow the economy enough to ease inflation. U.S. and Washington unemployment is likely to reach 5.3% and 5.4% respectively by the first quarter of 2024. By the second quarter of 2025 (the end of the current biennium), Washington's unemployment rate is projected to decline to 4.8%, compared to 4.6% for the nation overall.

Washington's real personal income grew 5.8% in fiscal year 2021 and declined 1.8% in fiscal year 2022 as inflation (5.8% in fiscal year 2022 as measured by the price deflator for personal consumption) outpaced nominal income growth. Real personal income growth is expected to return to a positive track in fiscal year 2023 (0.3%) and fiscal year 2024 (2.4%) as Federal Reserve policies bring inflation under control. Washington's real personal income growth in fiscal years 2023 and 2024 is expected to be notably quicker than the respective -0.2% and 1.7% projections for the nation. In concert with this quicker growth, Washington's real per capita personal income should reach $62,607 in fiscal year 2024, nearly $8,600 above the U.S. average.

Washington's personal income growth benefits from a recovery in aerospace employment, a traditional driver of Washington's economy. Aerospace jobs are expected to grow from 68,000 jobs in fiscal year 2022, to 73,400 jobs in fiscal year 2023 and 75,900 jobs in fiscal year 2024. Along with the rebound in aerospace employment, additional gains in software publishing, and professional and business services will help balance the softening of other sectors as they navigate this period of higher interest rates. While total nonfarm employment should post a 3.3% increase in fiscal year 2023, weaker prospects are on the horizon in fiscal year 2024 as employment is expected to decline by 0.3%.

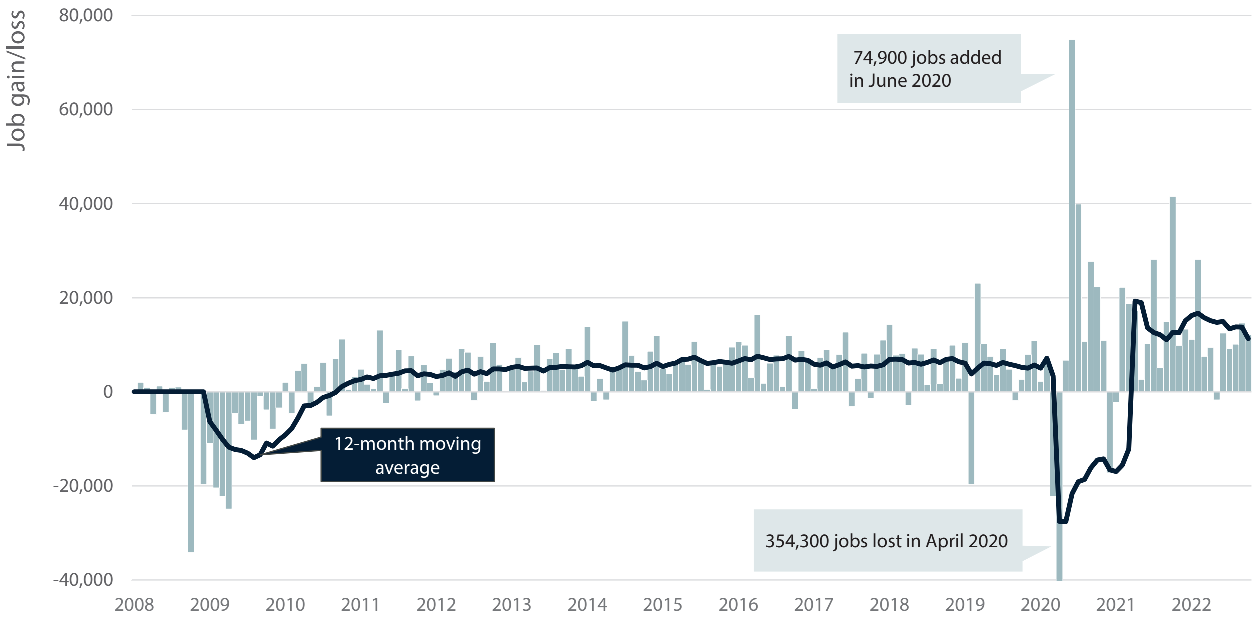
Construction activity is particularly sensitive to interest rate movements. Interest on 30-year fixed rate mortgages averaged 3.72% in fiscal year 2022 but are expected to average 6.60% in fiscal year 2023 and 6.14% in fiscal year 2024. As a result, construction activity is expected to slow. Before 2020, technology sector growth fueled the demand for new office space. However, the advent of teleworking in response to the COVID-19 pandemic has left the commercial building sector awash with vacant space. It will likely take several years before the teleworking trend reaches a point of equilibrium. Until then, commercial building activity will likely be muted. Building permits are forecast to decline from 58,300 in fiscal year 2022 to 42,700 in fiscal year 2023 and then recover to 44,300 in fiscal year 2024. Construction employment is expected to increase from 229,200 jobs in fiscal year 2022 to 236,900 jobs in fiscal year 2023 as builders complete a record number of multifamily projects begun the previous year. Construction employment should ease down to 230,400 jobs in fiscal year 2024.

General Fund-State (GF-S) revenues grew 13.3% in fiscal year 2021 and 11.3% in fiscal year 2022. GF-S revenues are expected to grow 2.4% in fiscal year 2023, and 0.5% in fiscal year 2024. Between the 2021-23 and the 2023-25 biennia, GF-S revenues are expected to grow 3.6%, which means GF-S revenues will hit $62.966 billion. Growth in aerospace, software publishing, professional and business services, and steady consumer spending 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: erfc.wa.gov.

Private sector payroll employment in Washington

Monthly change, seasonally adjusted



Source: Washington Employment Security Department and Economic and Revenue Forecast Council
Note: The range of the Y axis has been limited so that it doesn't obscure the monthly values outside of the extreme values of April and June 2020.