# Economic and revenue outlook

Over the past year, Washington's economic growth eased from the heady pace of the previous two years, which is when Washington worked to recover from the COVID-19 recession. We lost 429,000 nonfarm jobs from the unprecedented worker layoffs in the February-May 2020 period. This hit the entertainment, hospitality, personal services, and eating and drinking sectors particularly hard.

Washington gained over 532,400 nonfarm jobs from the May 2020 low-point through October 2023, surpassing the February 2020 nonfarm total by 103,200 jobs. However, several major industry sectors are still below their February 2020 job levels:

- Manufacturing (-18,200 jobs)
- Leisure and hospitality (-5,400 jobs)
- Other services (-7,200 jobs)
- Government (-2,900 jobs)

The manufacturing sector continues to feel ramifications from the tragic 737 Max incidents despite passenger air travel recovering from its lowest pandemic point. We see the most unfilled jobs in state educational services as students and educational institutions find a new equilibrium in the post-COVID-19 era.

This recession was primarily a public health crisis with serious economic consequences — as opposed to the more typical economic crisis with public health consequences — and the pattern of decline and recovery we saw was unprecedented. The job impact of the Great Recession (2007-2009) lasted 70 months from people initially losing their jobs to fully recovering and enjoying the previous job peak. However, 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 2022. That was a loss/recovery duration of 27.5 months, less than half of the Great Recession timeline.

Washington's unemployment rate spiked to a high of 16.6% in April 2020 and has since recovered to 3.6% as of 2023's third quarter. Washington's jobless rate mirrored the national figure for much of the economic recovery, though most recent national numbers trend slightly above ours. While these numbers recently converged, Washington's unemployment rate has traditionally been higher than the national norm. That's because the state has an outsized share of seasonal industries and is attractive to in-migrants (people coming to Washington from other states or countries) searching for economic opportunity. Over the past four years, over 80% of Washington's population growth has been due to this migration. The most recent forecast expects Washington's and the nation's jobless rates to increase as the economy responds to Federal Reserve interest rate policies that seek to slow the economy enough to squelch inflation. U.S. and Washington unemployment is likely to reach 4.4% and 4.7% respectively by the final calendar quarter of 2024. By the second quarter of 2025 (the end of the current biennium), we project Washington's unemployment rate to hold at 4.7%, compared to 4.3% for the nation.

Washington's real personal income grew 7.2% in fiscal year 2021, then fell 1.6% in fiscal year 2022 and fell another 0.7% in fiscal year 2023. This happened as federal COVID-19 relief payments ran their course, and as an inflation spike (6.0% in fiscal year 2022 and 5.3% in fiscal year 2023) outpaced the typical income growth of Washingtonians. Real personal income growth is expected to return to a positive track in fiscal year 2024 (2.5%) and fiscal year 2025 (3.3%) as Federal Reserve policies bring inflation under control. Washington's real personal income growth in fiscal years 2024 and 2025 is expected to be notably quicker than the respective 1.7% and 2.9% projections for the nation. In concert with this quicker growth, Washington's real per capita personal income should reach $64,106 in fiscal year 2025, over $8,700 above the U.S. average.

Washington's personal income growth should benefit from the aerospace employment recovering, which is a traditional driver of Washington's economy. We expect aerospace jobs to grow from 74,300 jobs in fiscal year 2023, to 80,500 jobs in fiscal year 2024, and 83,700 jobs in fiscal year 2025. Along with the rebound in aerospace employment, steady payrolls in software publishing, and gains in professional and business services will help fortify other sectors as they navigate this period of higher interest rates. While total nonfarm employment increased by 3.3% in fiscal year 2023, moderating growth is on the horizon in fiscal years 2024 and 2025 as employment is expected to grow 1.8% and 0.6% respectively.

Construction activity is particularly sensitive to interest rate movements. Interest on 30-year fixed rate mortgages averaged 6.29% in fiscal year 2023, but we expect the interest to average 7.35% in fiscal year 2024 and 6.28% in fiscal year 2025. As a result, we expect construction activity to slow. Before 2020, technology sector growth fueled the demand for new office space. However, today's teleworking demand in response to the pandemic has left the commercial building sector with a large surplus of vacant space. While this past year saw many employers instituting 'return-to-office' policies, it will likely take a few more years for the teleworking trend to balance. Until then, commercial building activity will likely be muted. Building permits are forecast to decline from 41,000 in fiscal year 2023 to 38,670 in fiscal year 2024, and then recover to 42,470 in fiscal year 2025. We expect construction employment to increase from 235,300 jobs in fiscal year 2023 to 238,000 jobs in fiscal year 2024 as builders shift from commercial projects to single and multifamily developments. Construction employment should increase to 240,300 jobs in fiscal year 2025.

General Fund-State (GF-S) revenues grew 11.3% in fiscal year 2022 as consumers tapped the last of their COVID-19 relief payments. The 3.1% growth of GF-S revenues in fiscal year 2023 came from moderate consumer spending after two years of vigorous gains We expect GF-S revenues to grow 0.8% in fiscal year 2024, and 3.5% in fiscal year 2025. Between the 2021-23 and the 2023-25 biennia, we expect GF-S revenues to grow 4.1%, which means GF-S revenues will hit $63.529 billion. Growth in aerospace, professional services, business services, and steady consumer spending should keep revenues growing at a moderate pace.

You can find the latest economic and revenue forecast from the Economic and Revenue Forecast Council at: erfc.wa.gov.