

Economic Outlook

Presented to
Surety Association of Washington

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Executive Director

May 17, 2023



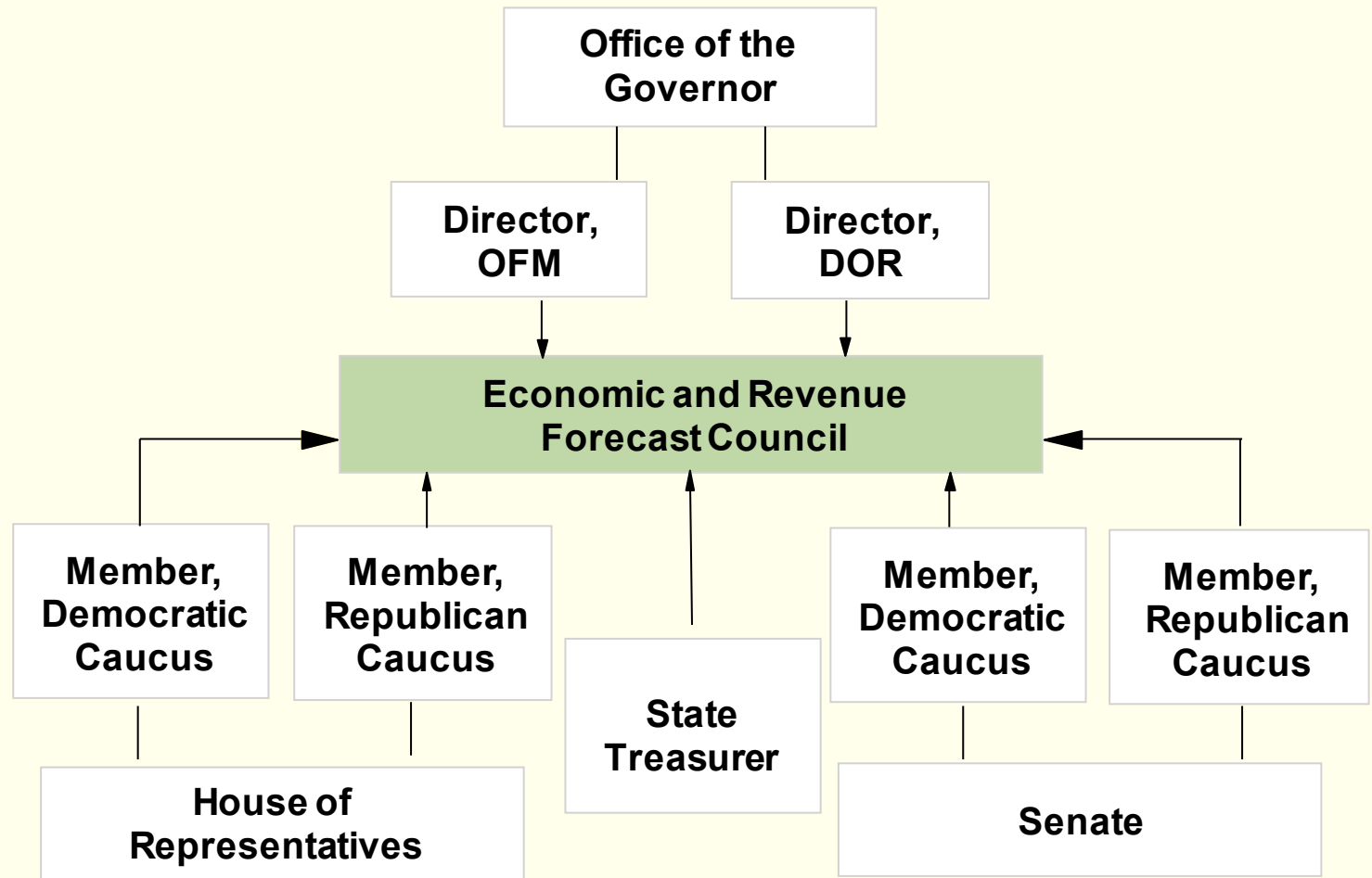
WASHINGTON STATE
ECONOMIC AND REVENUE FORECAST COUNCIL



Economic and Revenue Forecast Council Organization Chart

ERFC

- Created in 1984 as part of Dept. of Revenue
- Became separate agency in 1990





Summary – March 2023 Forecast

After the March forecast, the Federal Reserve raised the federal funds rate to a range of 5.0% to 5.25%

- WA personal income, building permits are lower than in the November forecast
- The forecast assumed the Federal Reserve will raise the federal funds interest rate to a range of 5.25 – 5.5% by June 2023
- U.S. GDP level is slightly higher than November; stronger growth in 2023, weaker in 2024
- The forecast of funds subject to the budget outlook is increased by \$194 million for 2021-23 biennium, decreased by \$483 million for the 2023-25 biennium, decreased by \$541 million for the 2025-27 biennium



Forecast risks

Upside

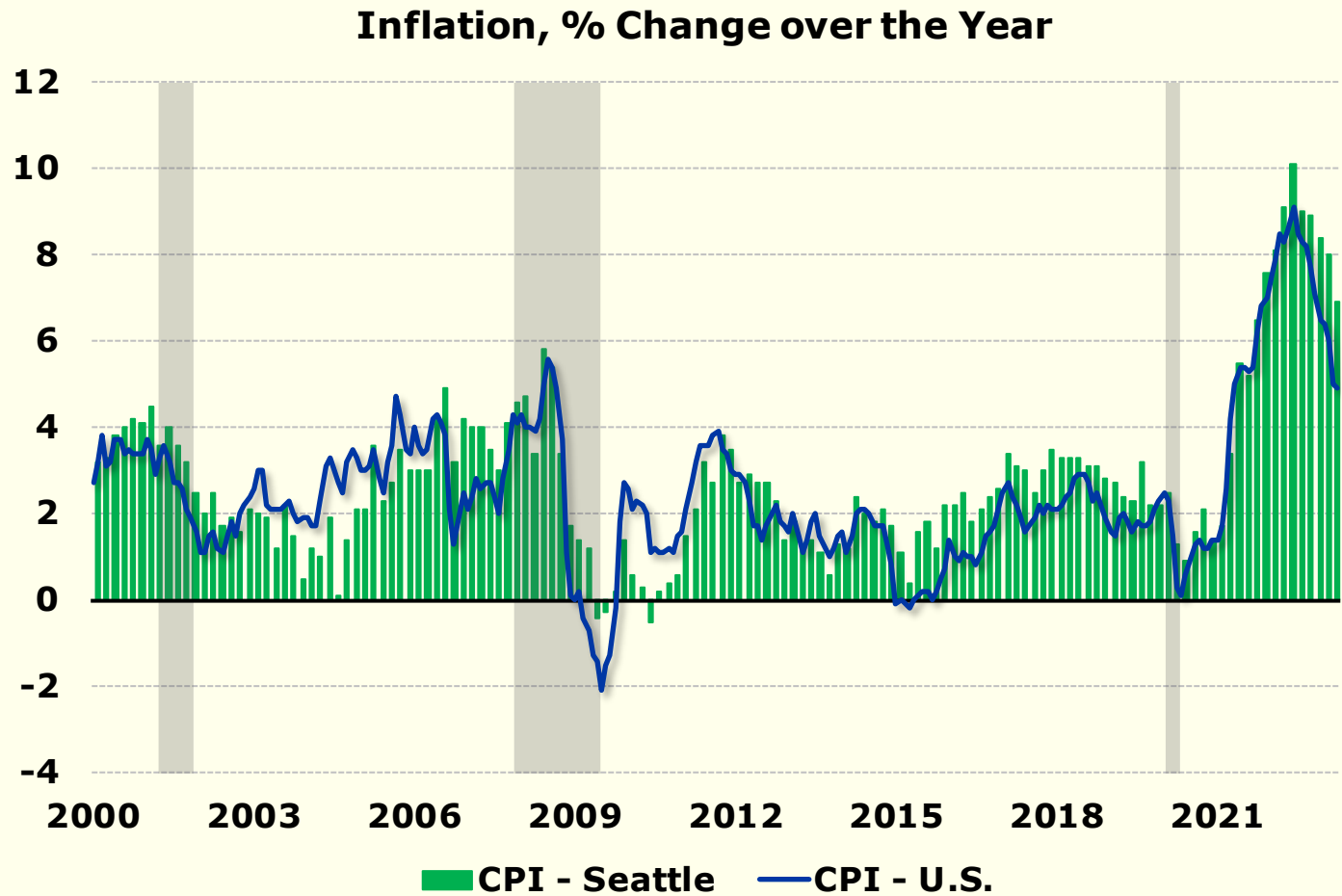
- Quicker resolution of Russia – Ukraine conflict
- Energy prices decline faster than expected
- Consumer spending and labor productivity growth are stronger than expected

Downside

- Rising interest rates push economy into recession
- Technology sector layoffs are larger than expected
- Banking crisis intensifies
- Inflation remains elevated
- Russia – Ukraine conflict intensifies
- Congress fails to raise debt ceiling



Inflation over the year continues to trend down but remains elevated





After a 3.5% increase in January, U.S. retail trade sales were down 0.2% in February and 1.0% in March

Sectors with largest sales decreases in March:

Gasoline stations: -5.5%

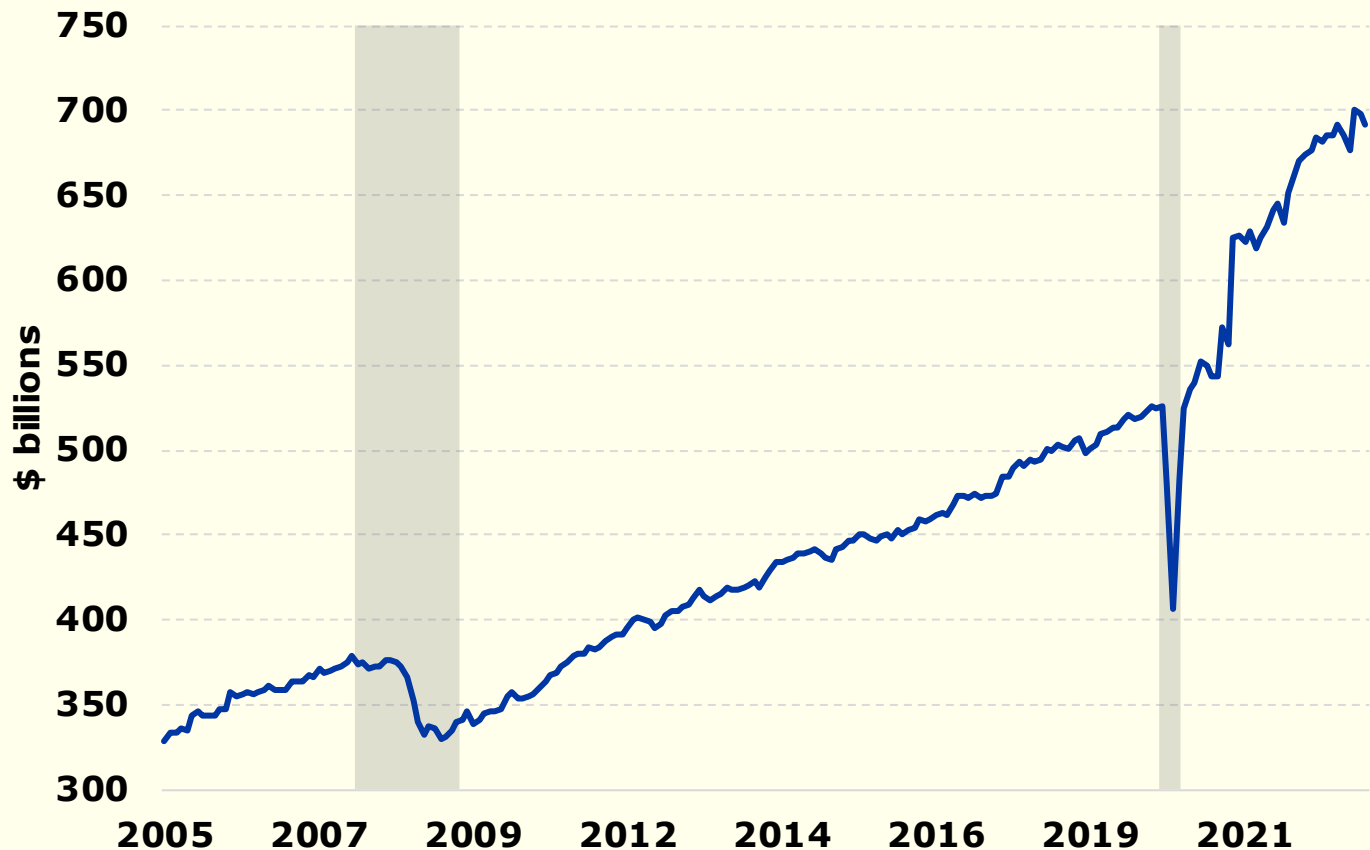
General merchandise stores: -3.0%

Electronics & appliance stores: -2.1%

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Slide 5

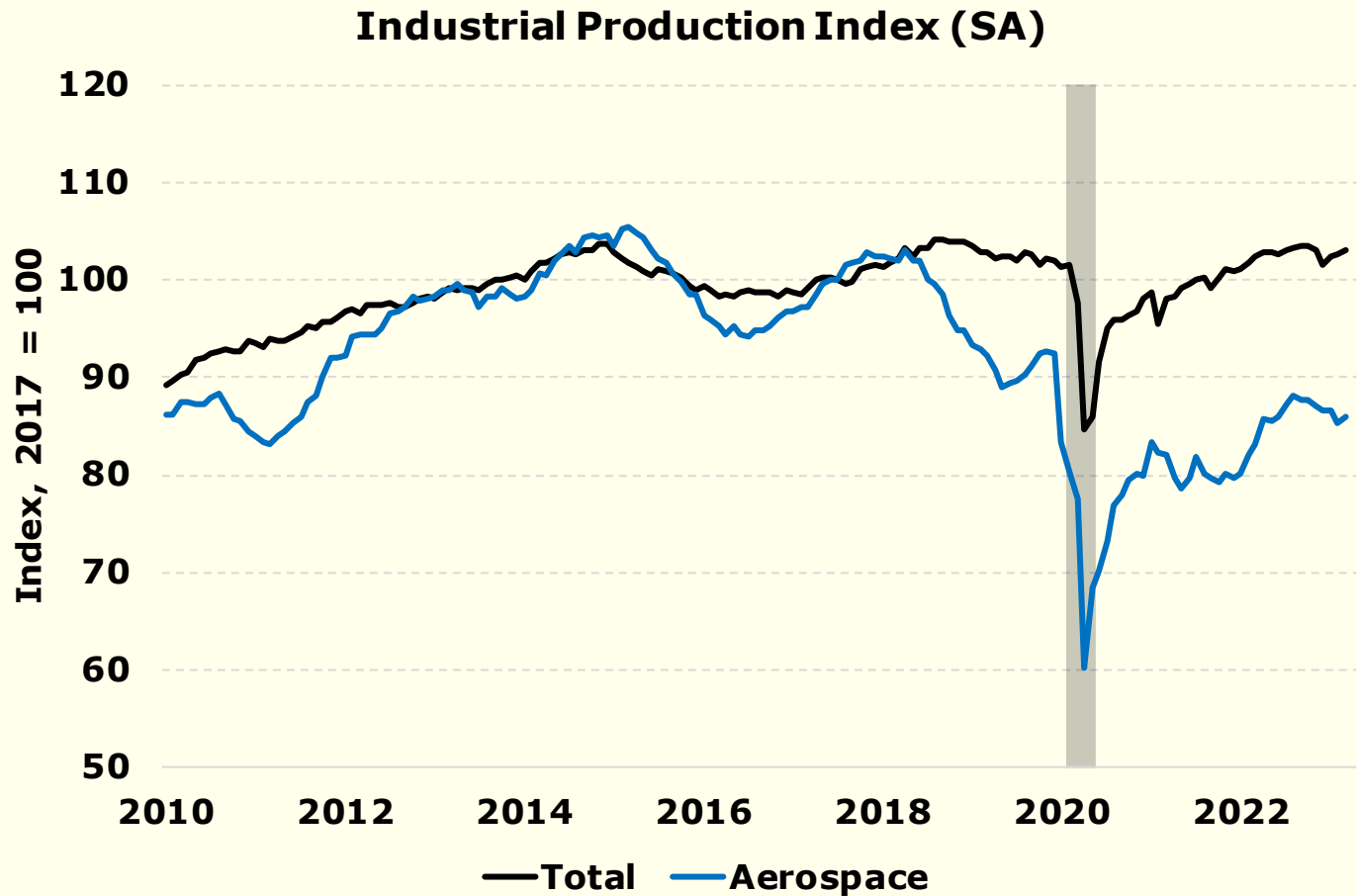
U.S. Retail Trade & Food Service Sales, SA



Source: U.S. Census Bureau; data through advanced March 2023



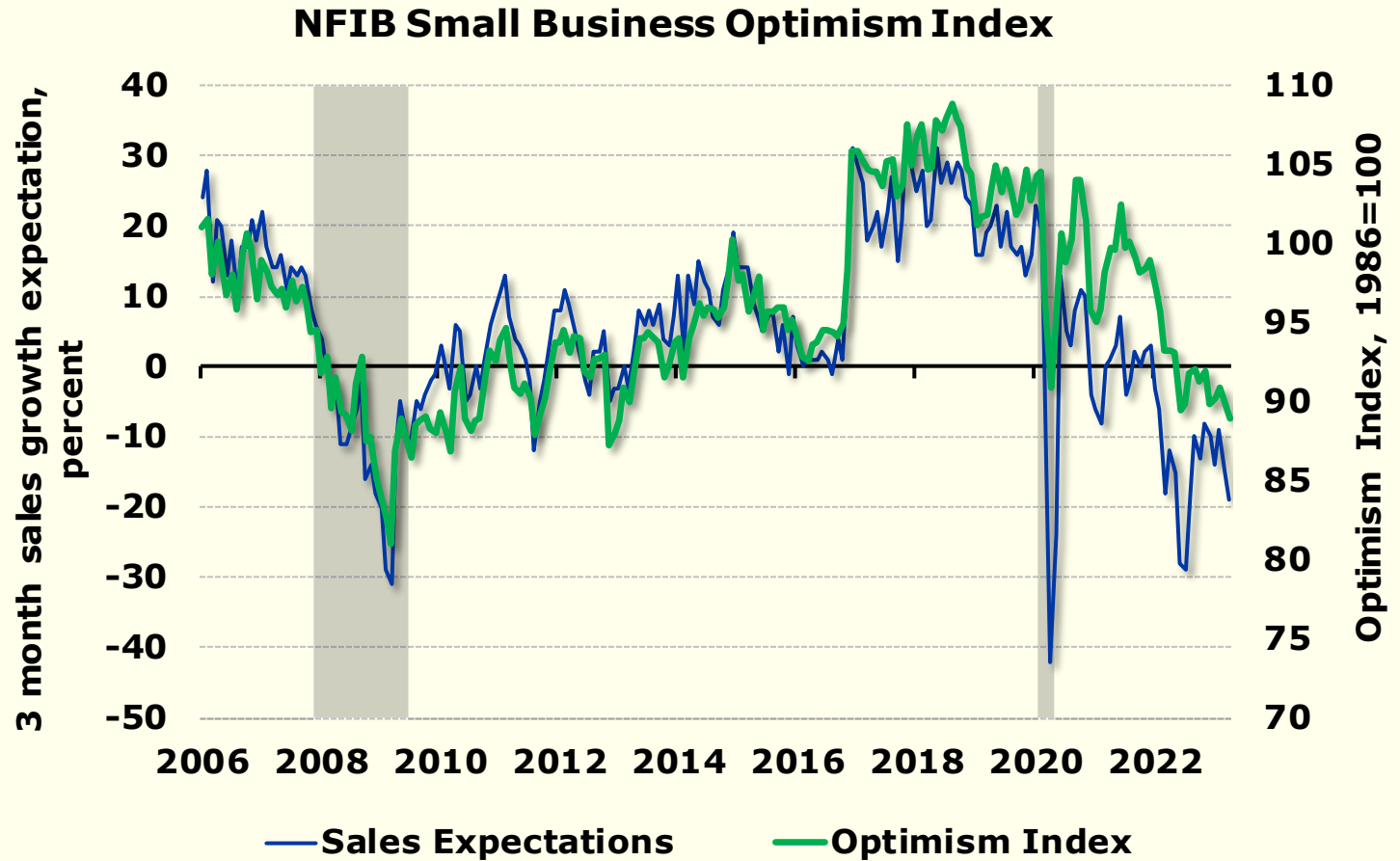
The pandemic had an outsized impact on the aerospace sector compared to overall U.S. industrial production



Source: Federal Reserve Board; data through March 2023



Small business expectations about future business conditions remain low



Source: National Federation of Independent Business; data through April 2023

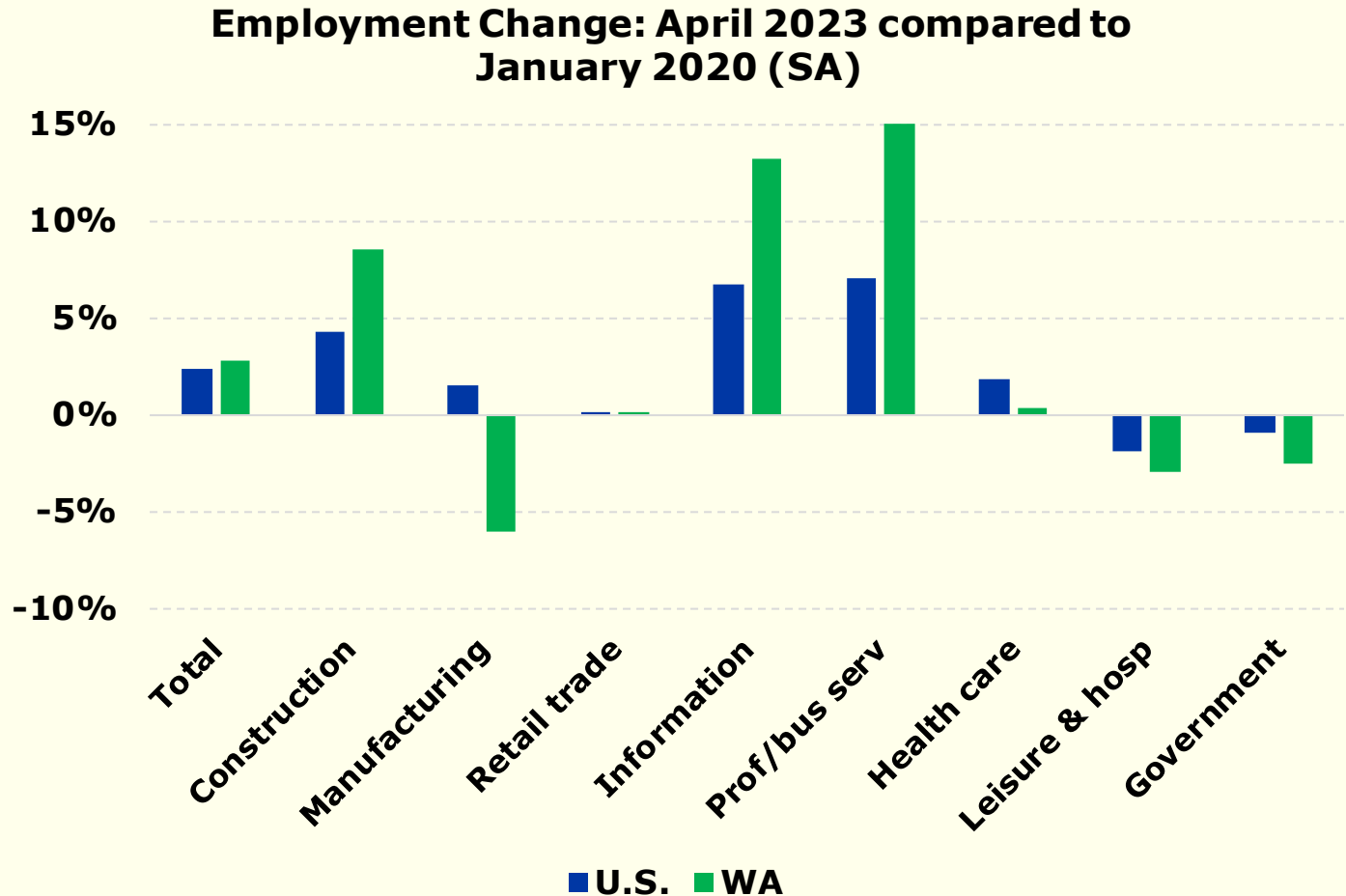


U.S., WA post-pandemic employment changes differ across industries

April 2023 employment:

U.S. = 2.3% above January 2020

WA = 2.8% above January 2020

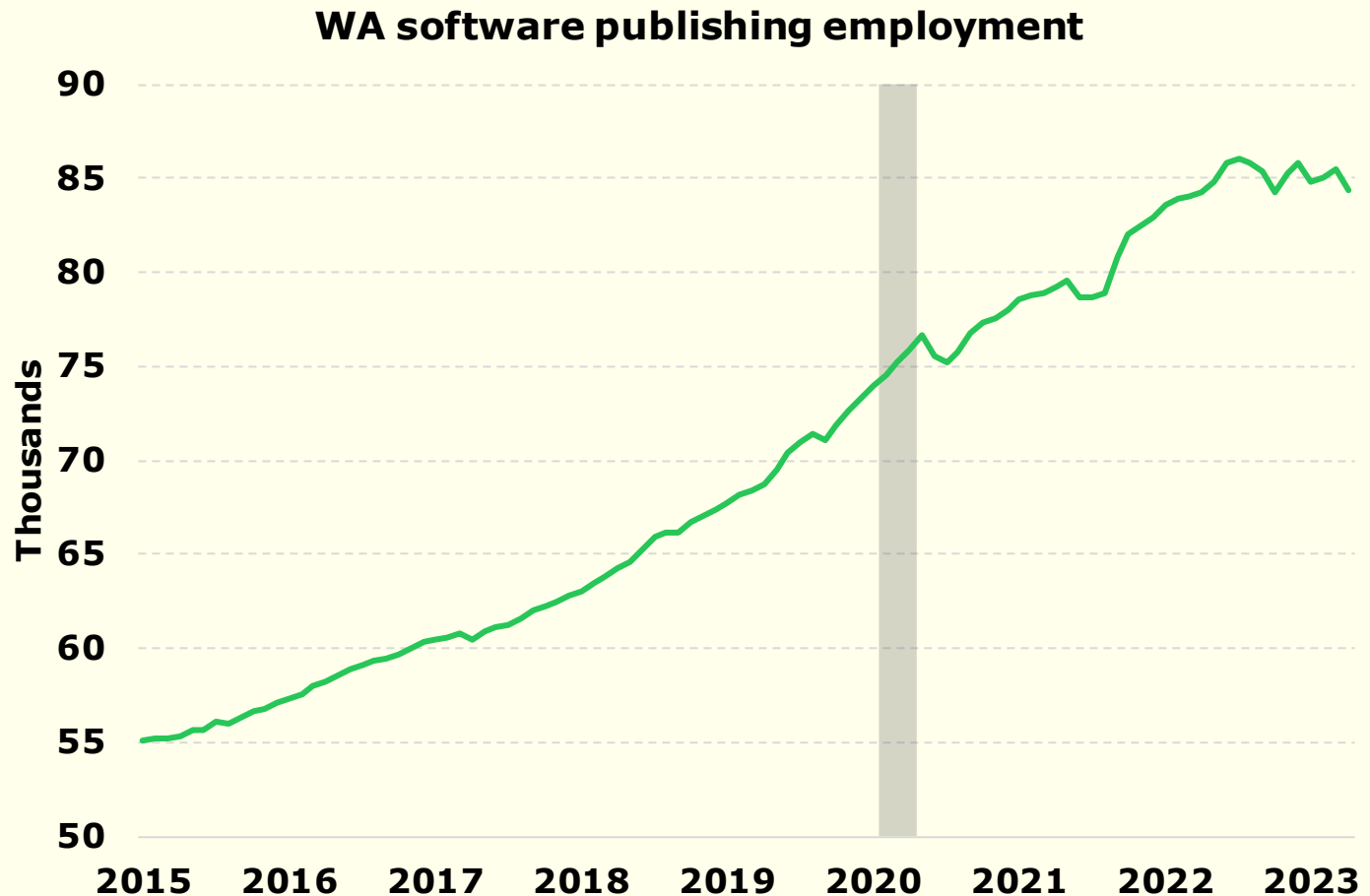


Source: ERFC, U.S. Bureau of Labor Statistics, WA Employment Security Dept.

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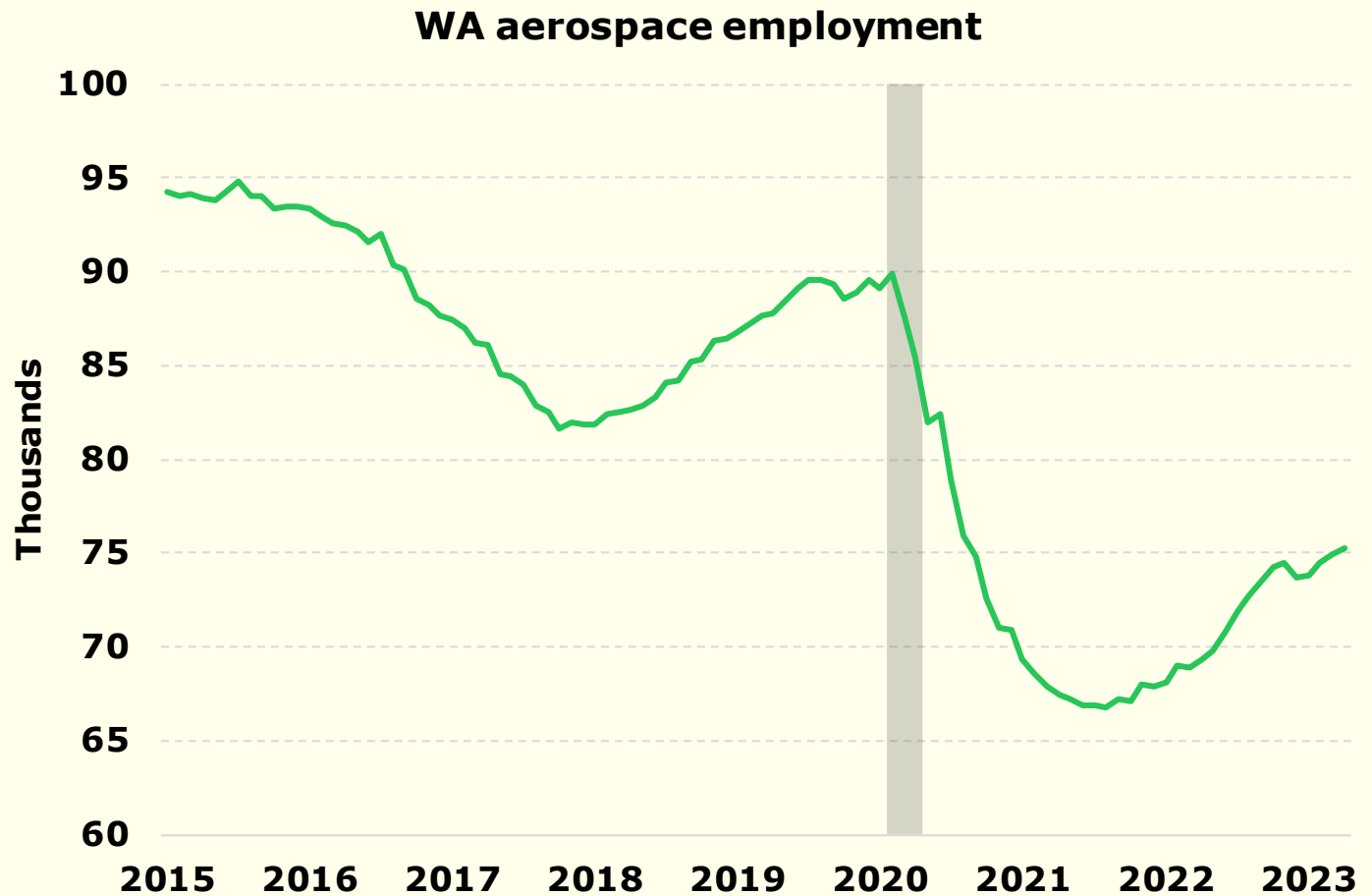


WA software publishing employment has dropped by 1,400 since December 2022





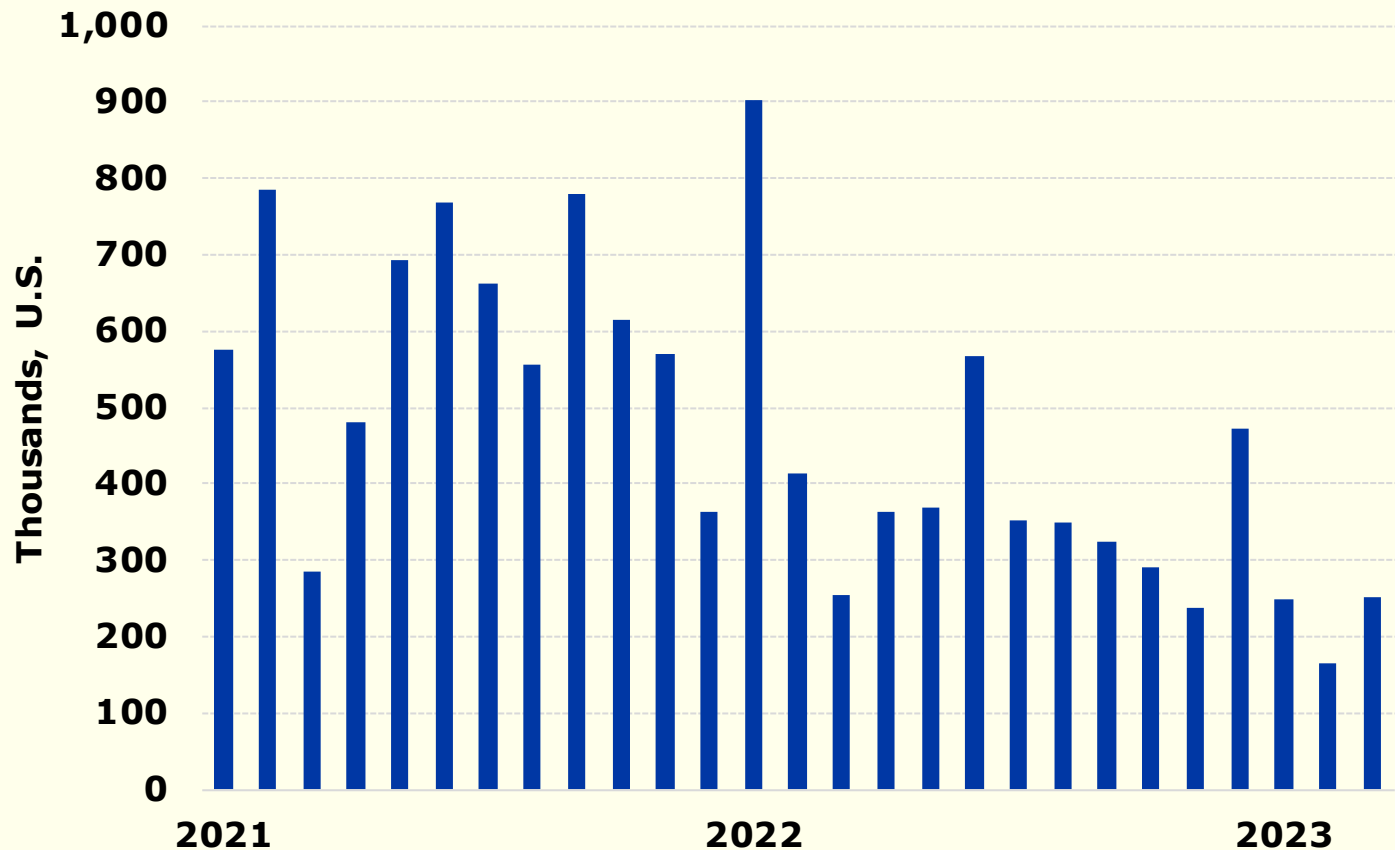
WA aerospace employment is up 8,500 since low point in August 2021





U.S. employment continues to grow but trend suggests gradual slowing

U.S. Monthly Employment Change (SA)

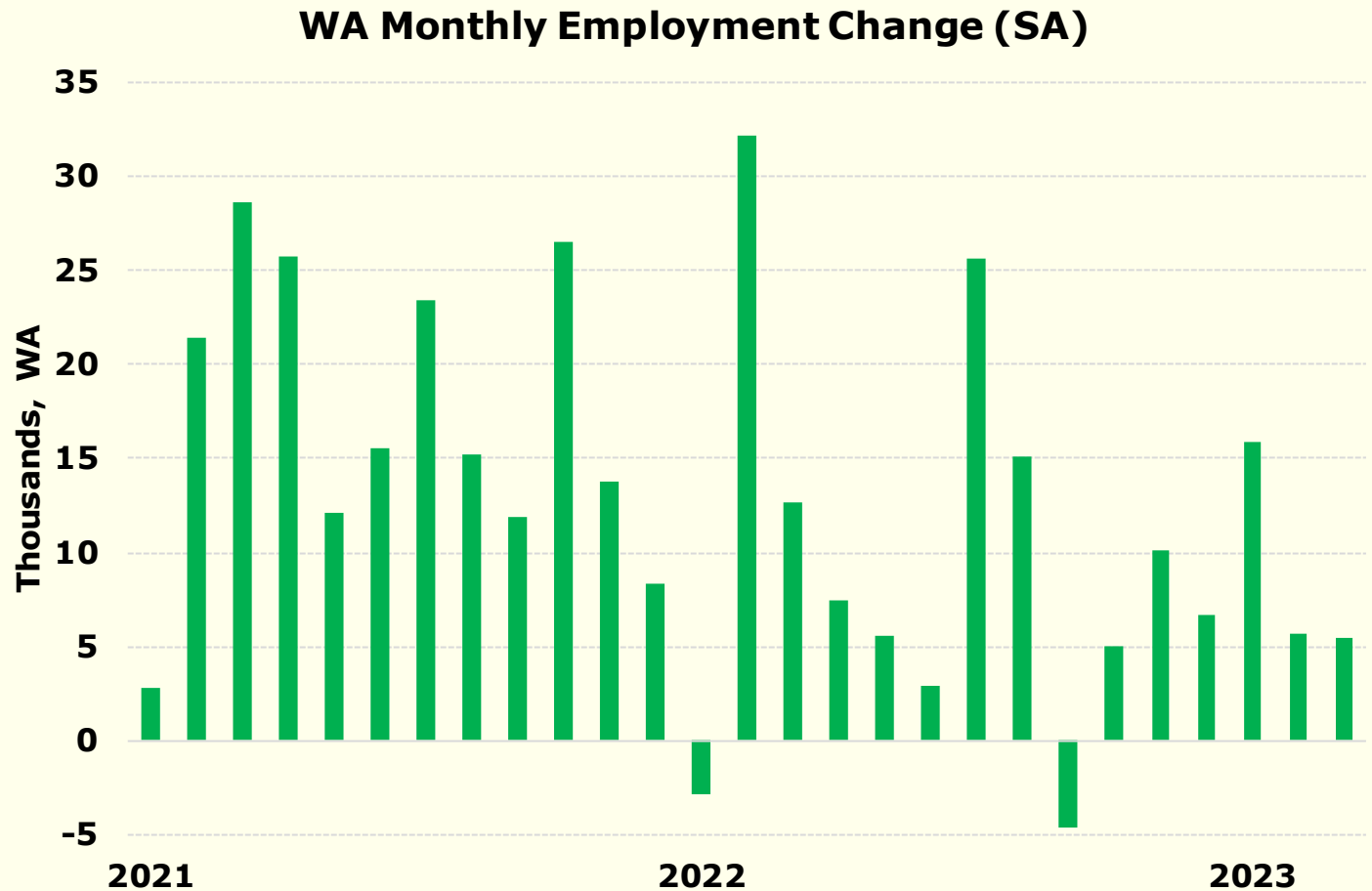


Source: U.S. Bureau of Labor Statistics, WA Employment Security Dept., ERFC; data through April 2023

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WA employment growth is also positive but trending down

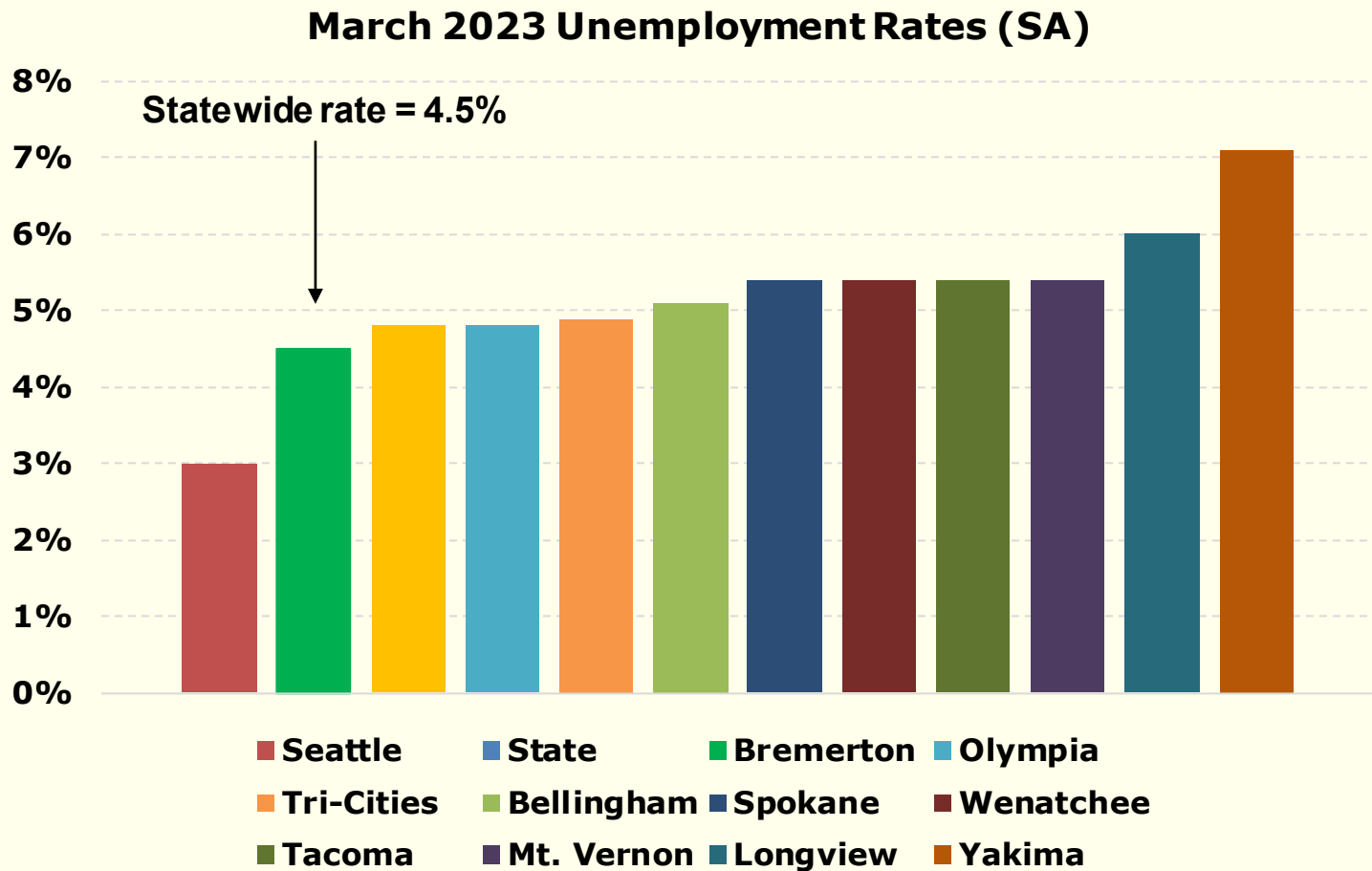


Source: U.S. Bureau of Labor Statistics, WA Employment Security Dept., ERFC; data through April 2023

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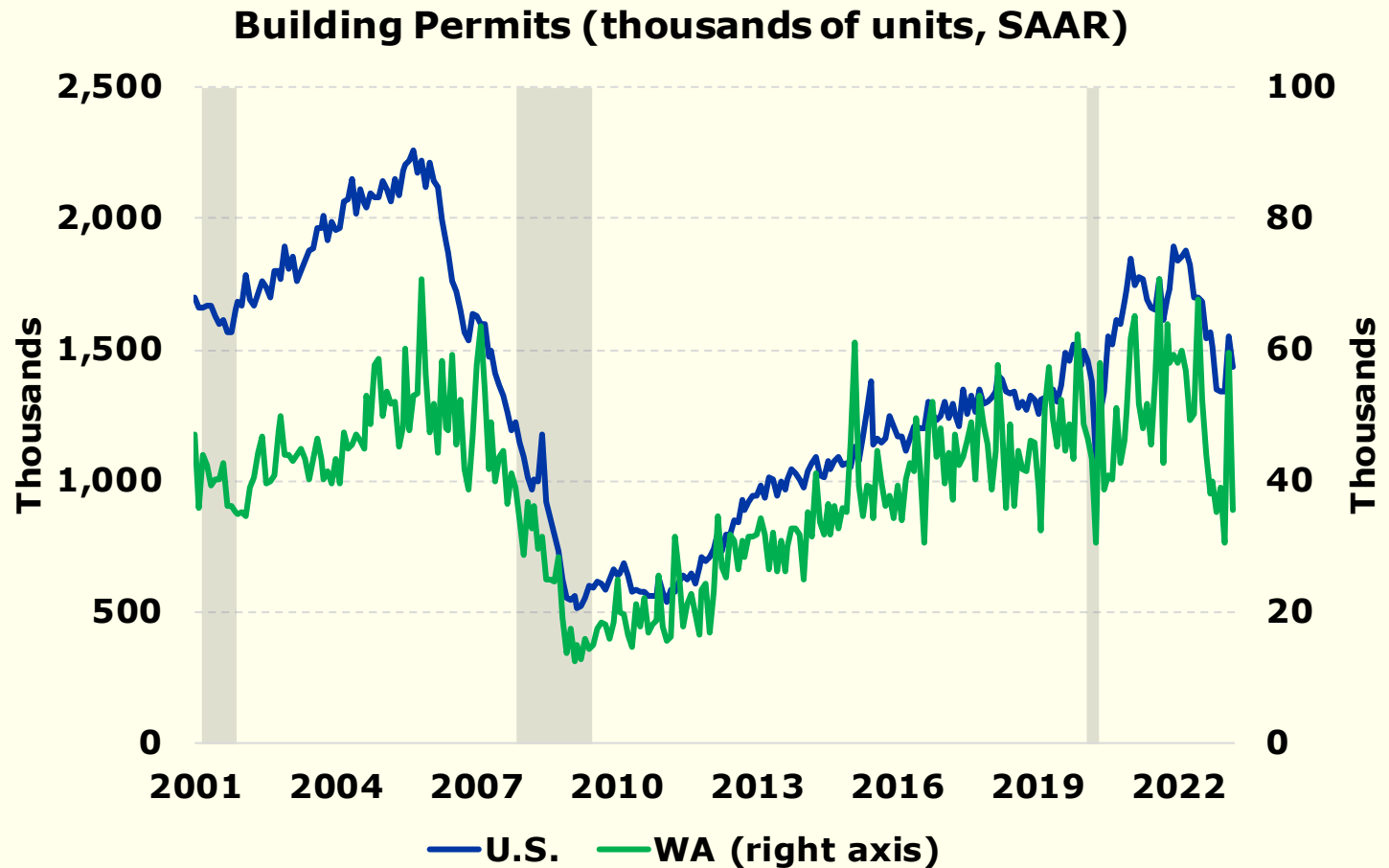


Unemployment rates vary widely across Washington metro areas





Residential construction slowed in 2022; continued slowing expected despite February 2023 improvement





WA exports have increased from their 2020 low

Total Exports

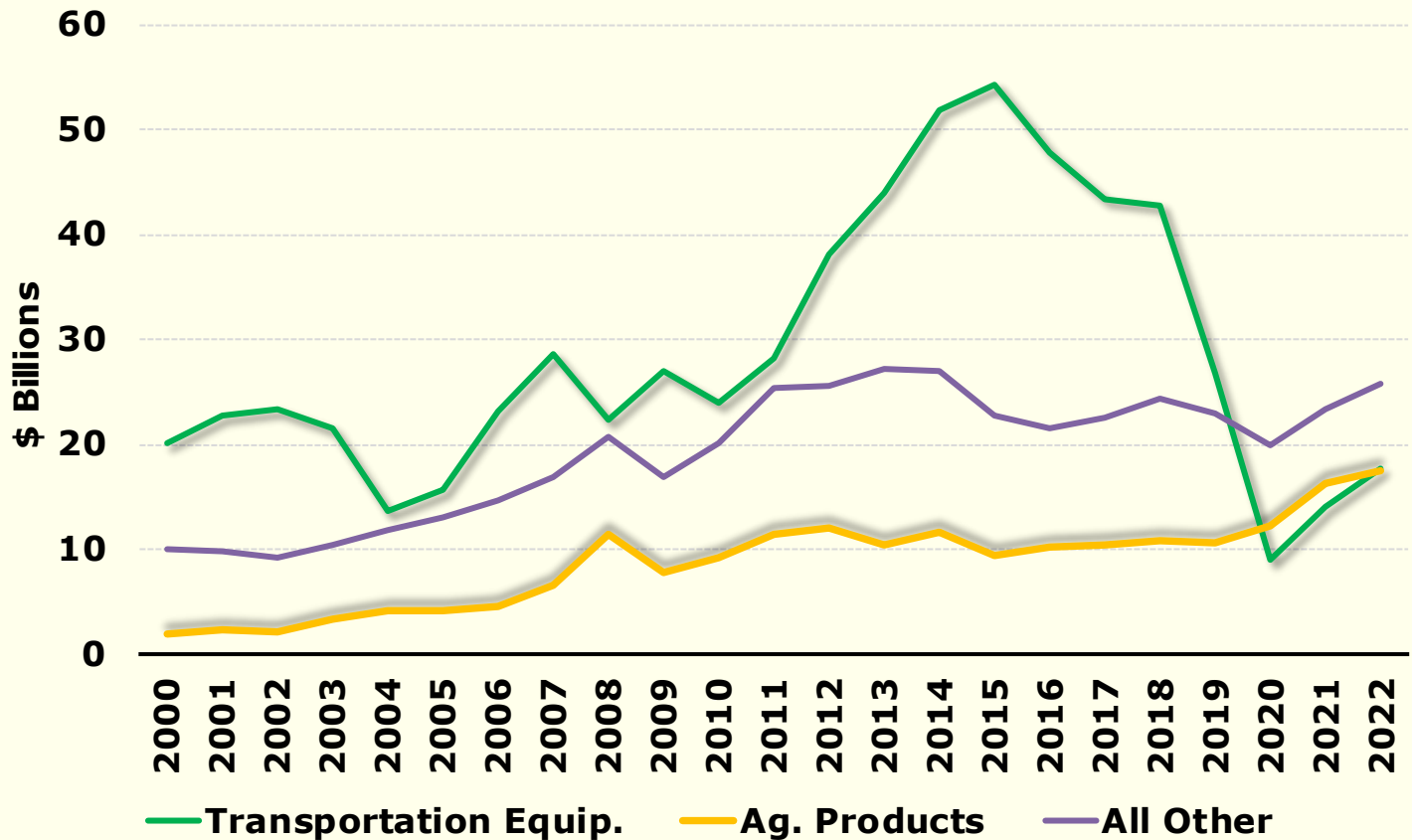
2019: \$60.3 B

2020: \$41.1 B

2021: \$53.6 B

2022: \$61.1 B

WA merchandise exports



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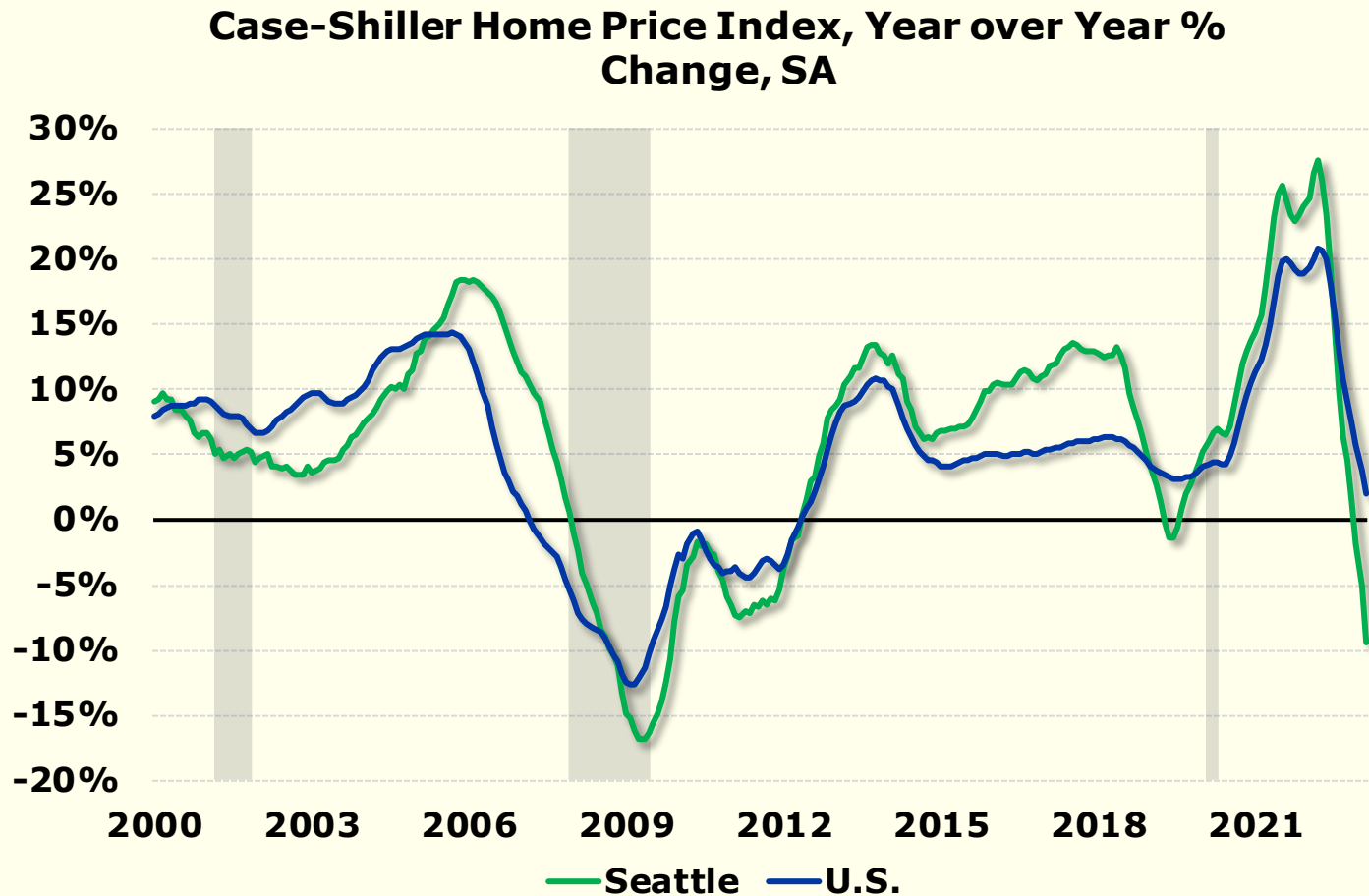
Source: WISERTrade; data through 2022

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Seattle area home prices have declined for the last nine months

Nationally, home prices increased slightly in February after seven months of decline



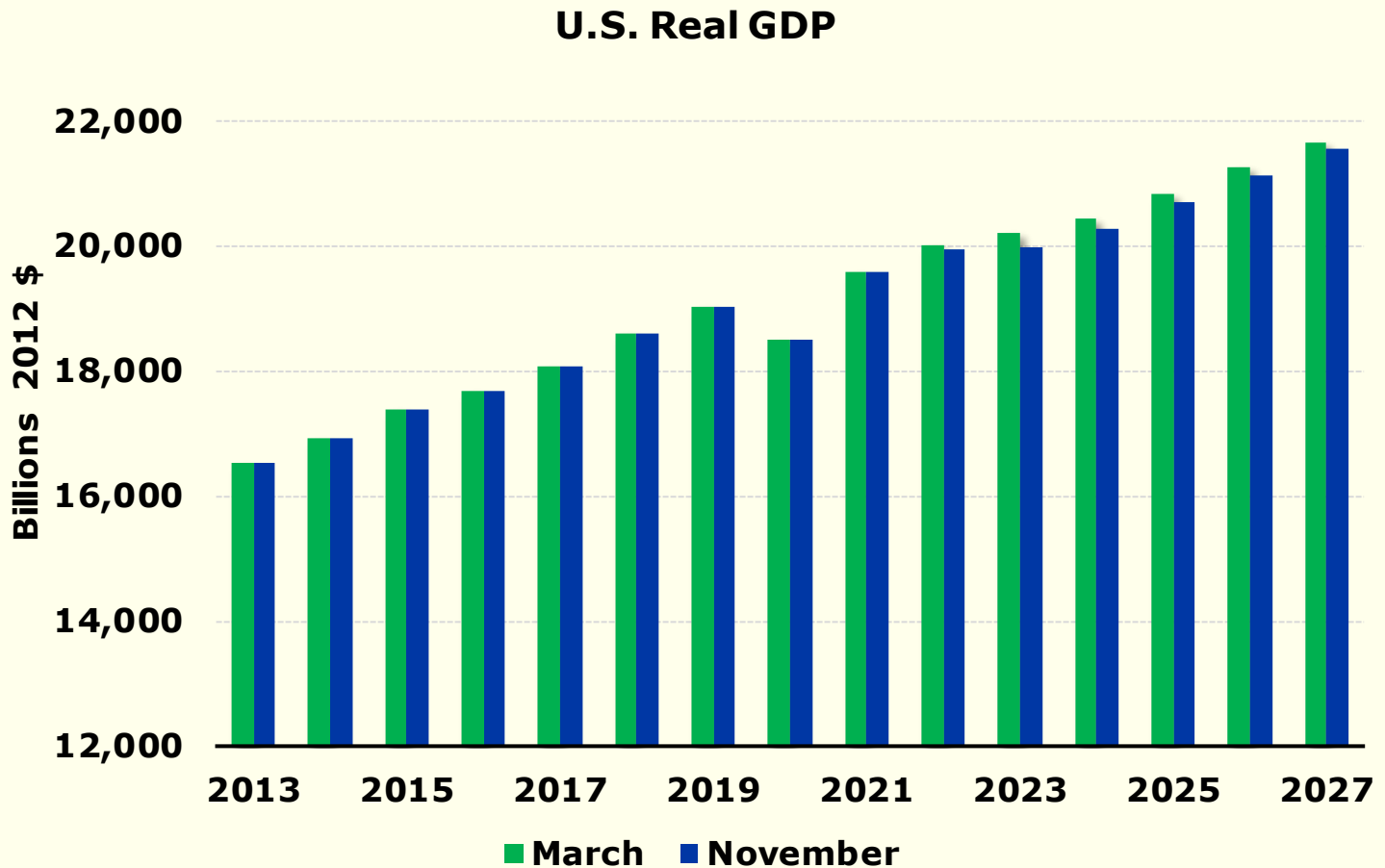
Source: Case-Shiller, data through February 2023

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GDP was stronger than expected in 2022, raising the level slightly higher than in the November forecast

GDP growth is stronger in 2023, slightly weaker in 2024 through 2027 compared to the November forecast



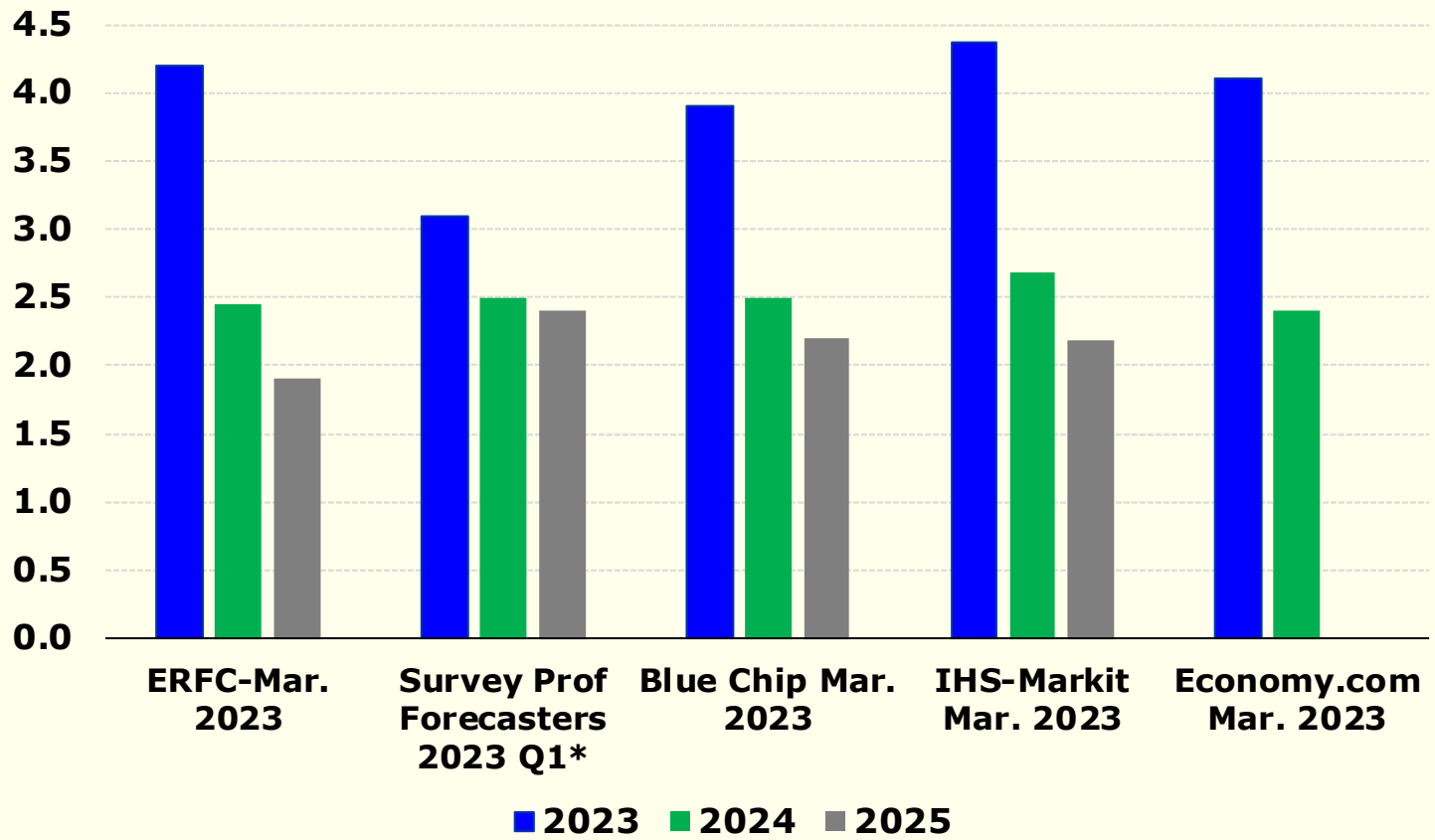
Source: ERFC March 2023 forecast; historical data through 2022



Inflation forecasts are slightly lower in 2023-2025 compared to November

The Consumer Price Index increased by 8.0% in 2022

Consumer Price Index, Annual % Change

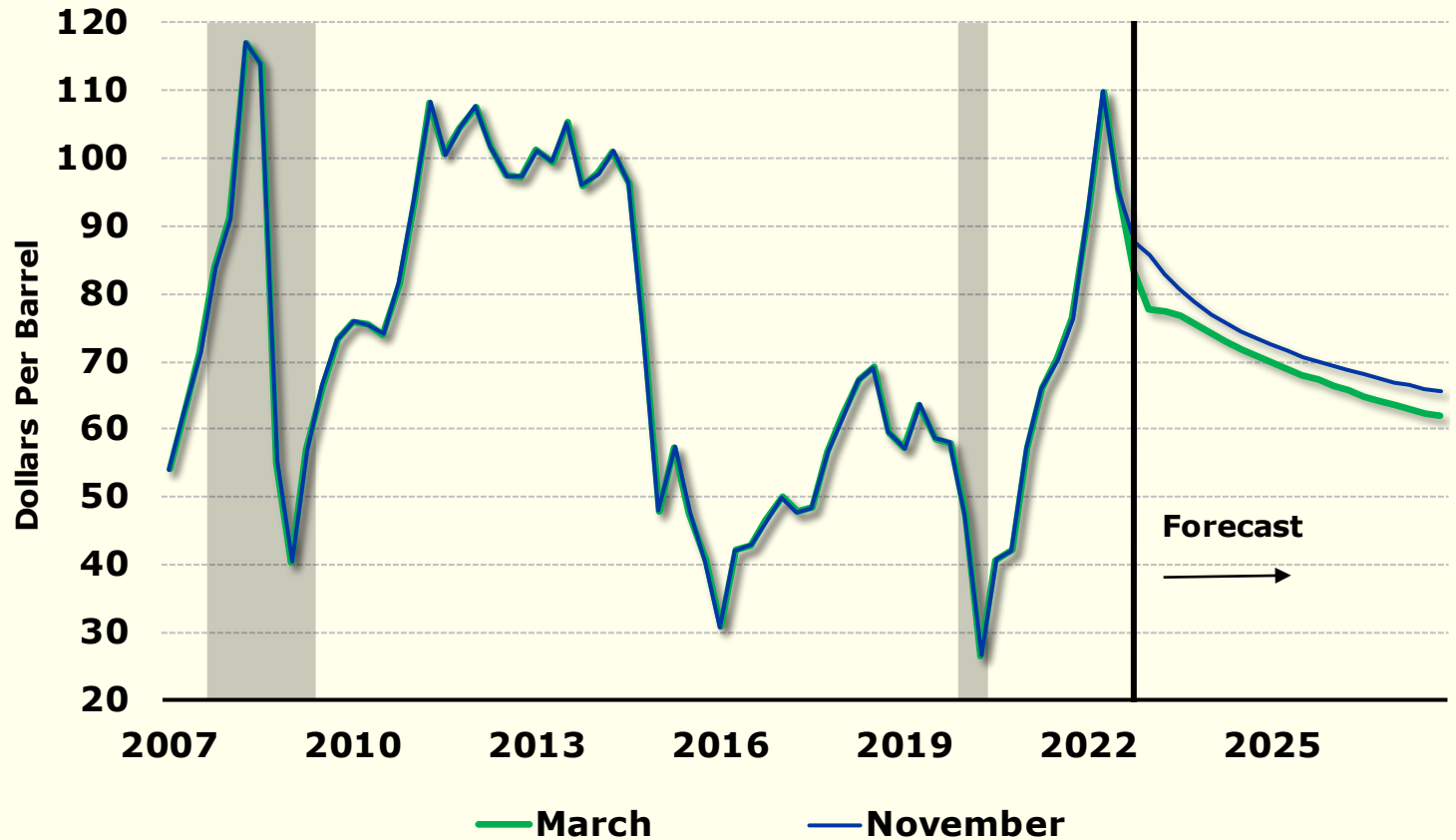


Survey of Professional Forecasters reflects change in price level in 4th quarter compared to 4th quarter of prior year; all others reflect average change over the year compared to prior year.

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Oil prices are lower compared to the November forecast

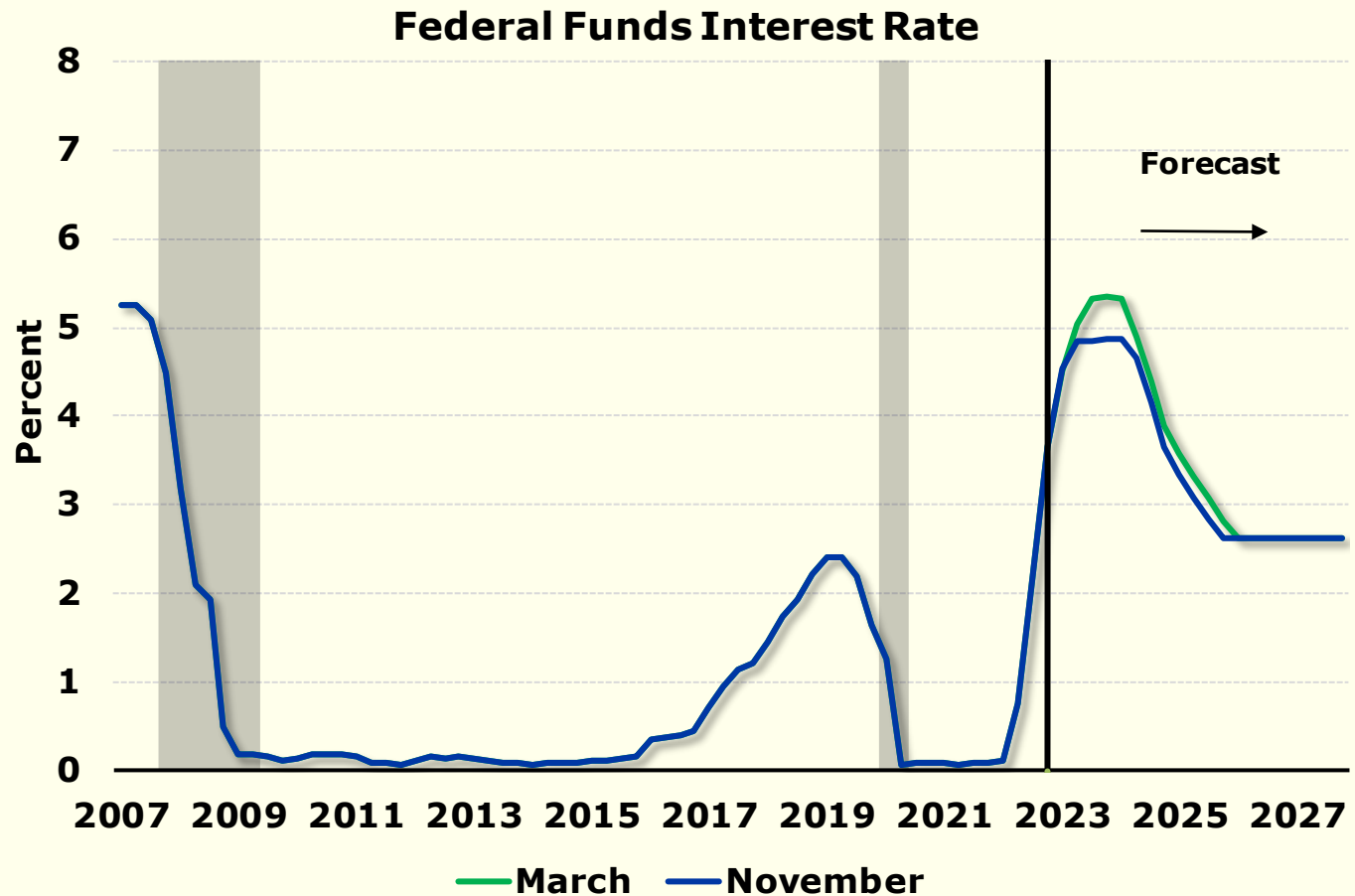


Source: Energy Information Administration, IHS Markit, ERFC; data through Q4 2022
Note: Vertical black line indicates last actual

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The Federal Reserve is assumed to raise interest rates higher than expected in the November forecast



Source: ERFC March 2023 forecast; historical data through 2023 Q1



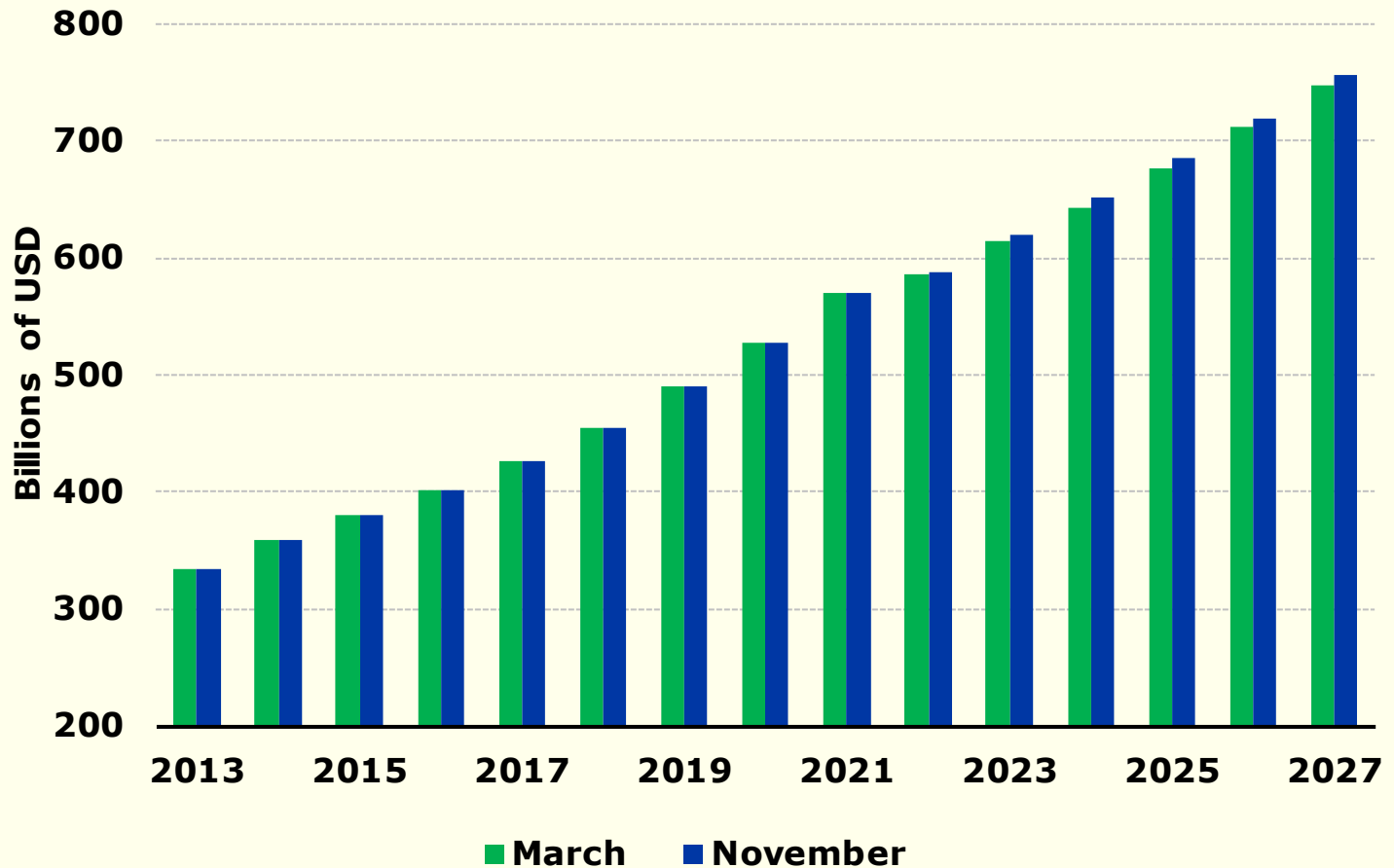
WA personal income is slightly lower, grows slightly slower compared to November forecast

Annual average personal income growth for 2023 to 2027:

March = 5.0%

Nov. = 5.2%

Washington Personal Income



Source: ERFC March 2023 forecast; historical data through 2021

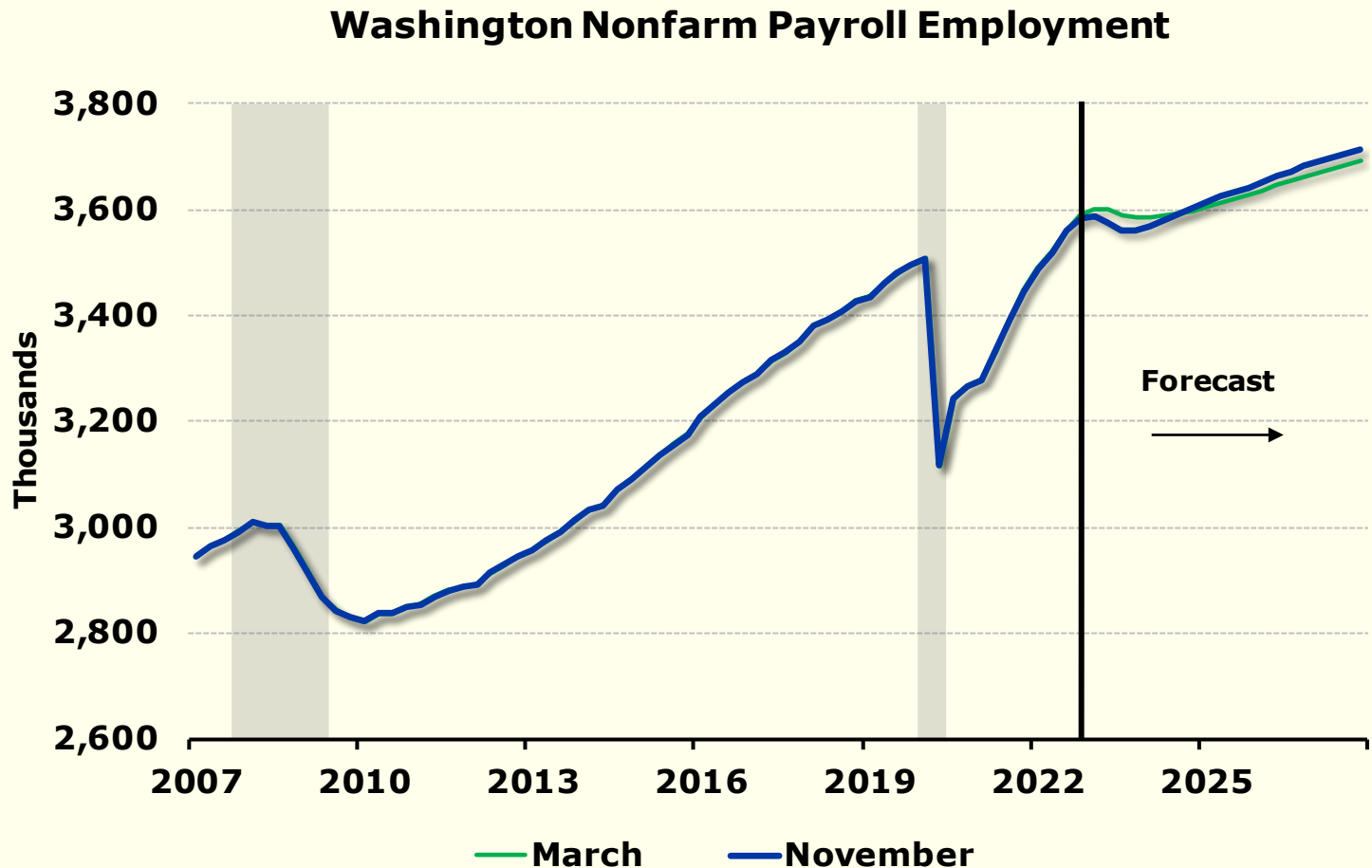


WA employment forecast is very similar to the November forecast

Average annual employment growth, 2023 to 2027:

U.S. = 0.4%

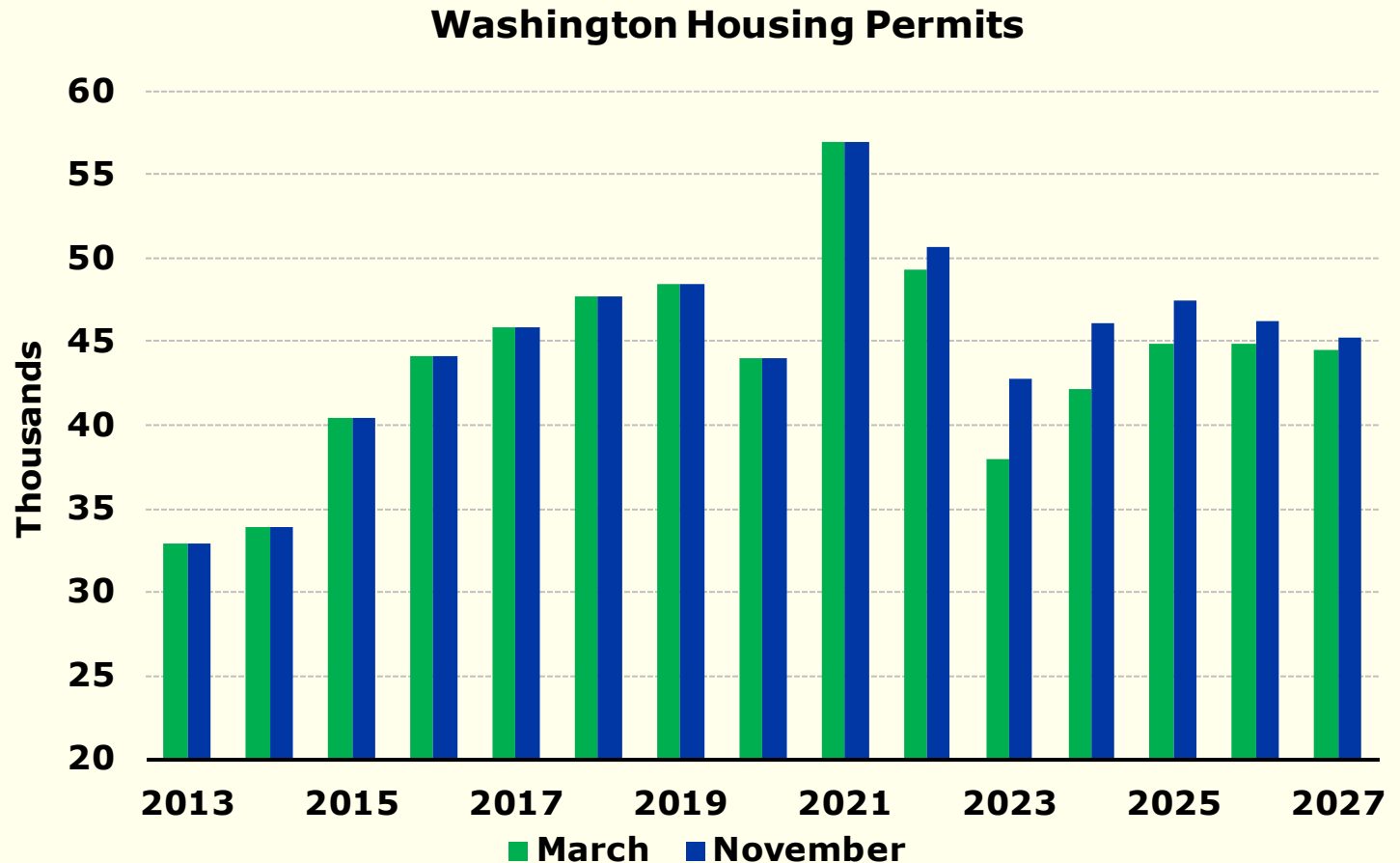
WA = 0.9%



Source: ERFC March 2023 forecast; historical data through Q4 2022



WA housing permits for 2023 – 2027 average almost 2,700 units per year less than the November forecast



Source: ERFC March 2023 forecast; historical data through 2022



New data since March forecast

U.S. & WA
employment
data since
March
forecast are
slightly
stronger than
expected

U.S.

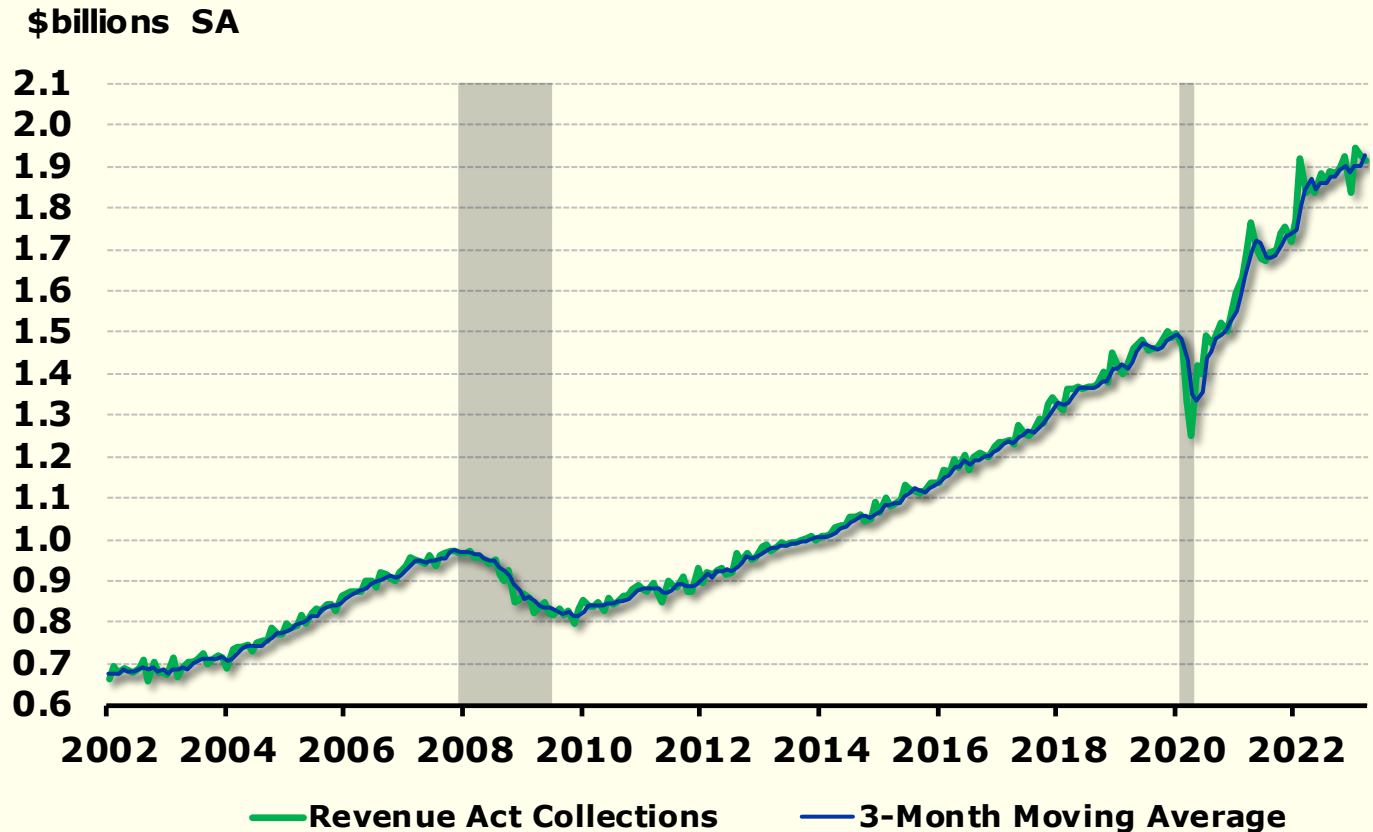
- February & March employment: revised down by 149,000 jobs
- April employment: 253,000 new jobs
- April unemployment rate: 3.4%
- April CPI: prices increased 4.9% compared to April 2022

Washington

- January, February, March, April employment: 30,900 new jobs
- March unemployment rate: 4.5%



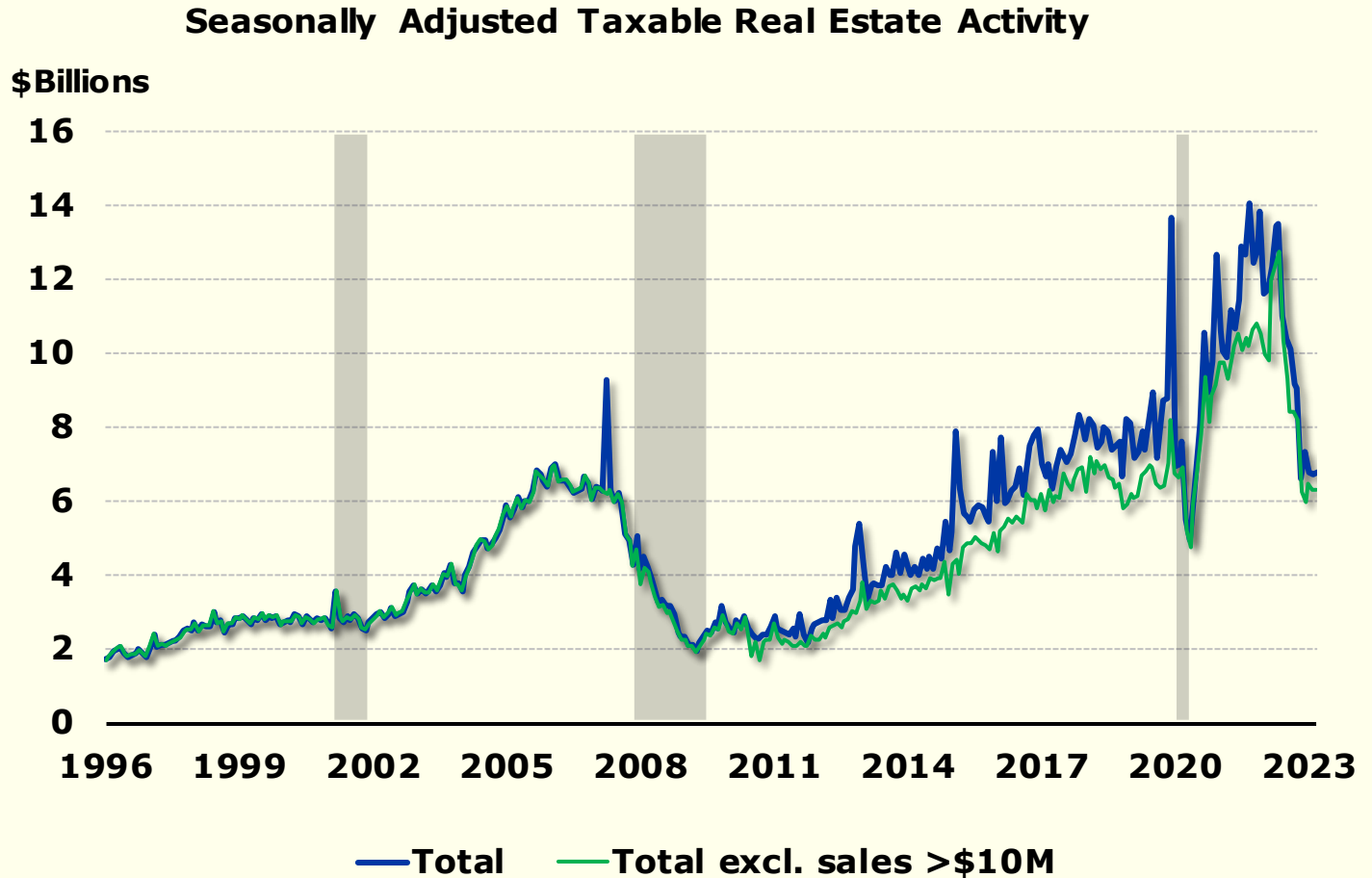
Revenue Act collections grew by 4.2% over the year for March activity after a 0.5% growth rate in February



* Adjusted for large one-time transactions, amnesty payments, reporting frequency change and deferred 2020 payments, current definition of Revenue Act
Source: DOR and ERFC; monthly data through March 2023 activity



Seasonally adjusted taxable real estate activity was \$7.3 billion in April, 46% lower than April 2022



Source: ERFC; Monthly data through April 2023 estimate



Cannabis excise tax and license fee estimates

Total change since November forecast:

- 2021-23
-\$20.0 M
- 2023-25
-\$21.4 M
- 2025-27
-\$2.3 M

\$Millions

Cannabis Forecast

	<u>2021-23</u>	<u>2023-25</u>	<u>2025-27</u>
GF-S share of excise tax and license fees	\$321	\$323	\$351
Non-GF	\$687	\$748	\$811
Total	\$1,008	\$1,071	\$1,163

Detail may not add to total due to rounding
Source: ERFC November 2022 forecast; historical data through October 2022



Forecast changes: all funds, 2021-23 biennium, cash basis

\$Millions	<u>Nov. 2022 Forecast</u>	<u>Non-economic Change</u>	<u>Forecast Change</u>	<u>Mar. 2023 Forecast</u>	<u>Total Change[#]</u>
General Fund-State	\$60,779	n/a	\$100	\$60,880	\$100
Education Legacy Trust Account	\$2,045	n/a	\$74	\$2,119	\$74
WA Opportunity Pathways Account	\$376	n/a	\$23	\$399	\$23
Workforce Education Investment Account	\$752	n/a	(\$3)	\$748	(\$3)
Total	\$63,952	n/a	\$194	\$64,146	\$194

Detail may not add to total due to rounding



Forecast changes, all funds: 2023-25 biennium, cash basis

\$Millions	<u>Nov. 2022 Forecast</u>	<u>Non-economic Change</u>	<u>Forecast Change</u>	<u>Mar. 2023 Forecast</u>	<u>Total Change#</u>
General Fund-State	\$62,966	n/a	(\$407)	\$62,559	(\$407)
Education Legacy Trust Account	\$2,085	n/a	(\$77)	\$2,008	(\$77)
WA Opportunity Pathways Account	\$341	n/a	\$10	\$350	\$10
Workforce Education Investment Account	\$794	n/a	(\$9)	\$784	(\$9)
Total	\$66,185	n/a	(\$483)	\$65,702	(\$483)

Detail may not add to total due to rounding



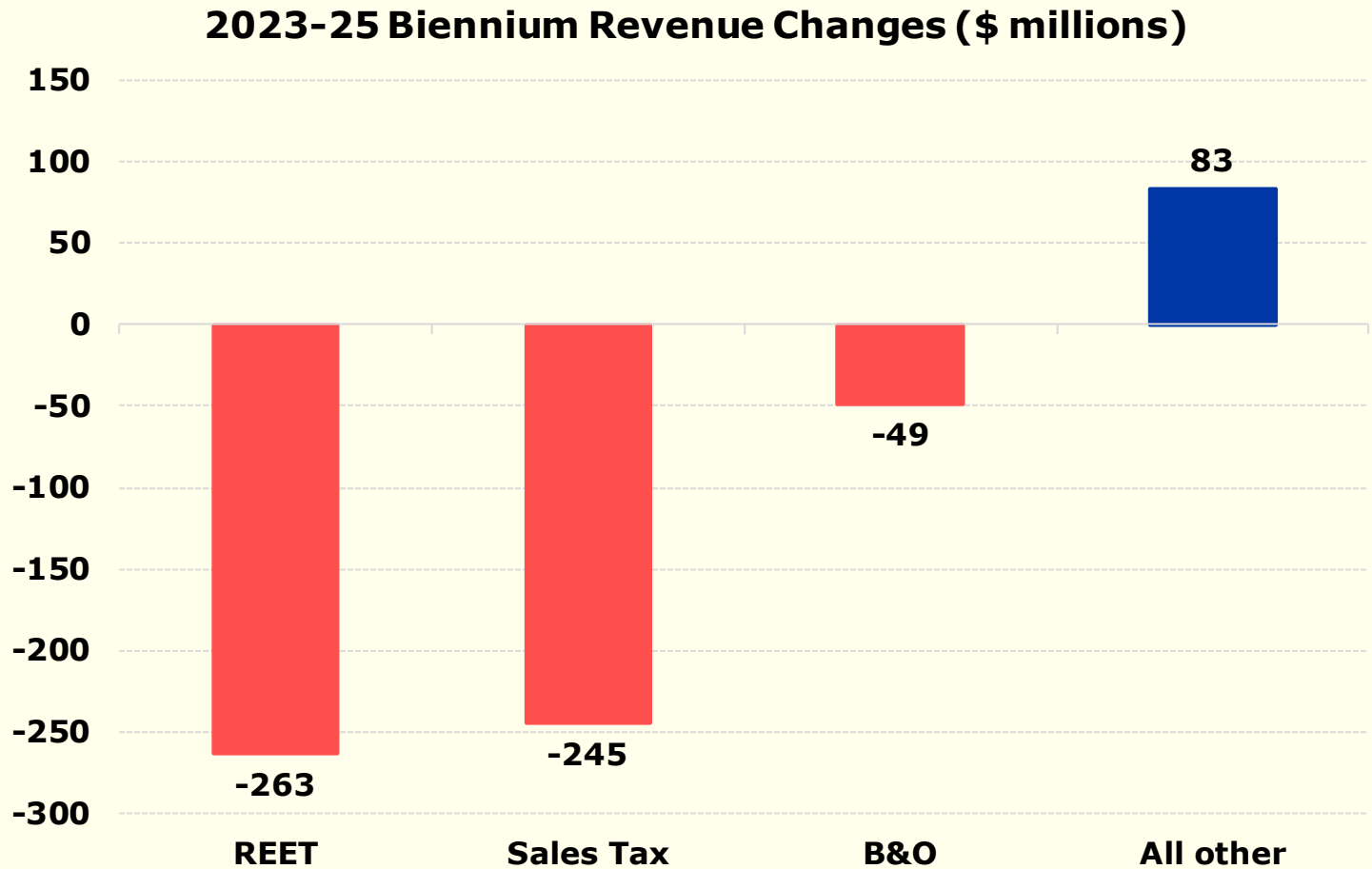
What are the major factors that drove the revenue forecast change?

- Despite reductions in REET forecast in Sept. and Nov., REET collections have been below forecast
- Slightly lower WA personal income
- Higher interest rates negatively impact residential construction and sales, consumer durable purchases (autos, furniture, appliances)



Majority of 2023-25 revenue change due to lower REET, sales tax

Increases in public utility, liquor, insurance premiums taxes partially offset revenue declines





Conclusion

- U.S. GDP, employment forecasts similar to November; inflation, oil prices higher in 2022 - 2025
- WA personal income growth forecast slightly higher than Nov. forecast; residential construction forecast revised up
- COVID, inflation, geopolitics pose forecast risks
- Total state revenues are expected to grow 16.1% between the 2019-21 and 2021-23 biennia and 6.0% between the 2021-23 and 2023-25 biennia



Questions



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