

Economic & Revenue Outlook

Presented to
Puget Sound Finance Officers Association

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August 10, 2011
Renton, Washington



WASHINGTON STATE
ECONOMIC AND REVENUE FORECAST COUNCIL



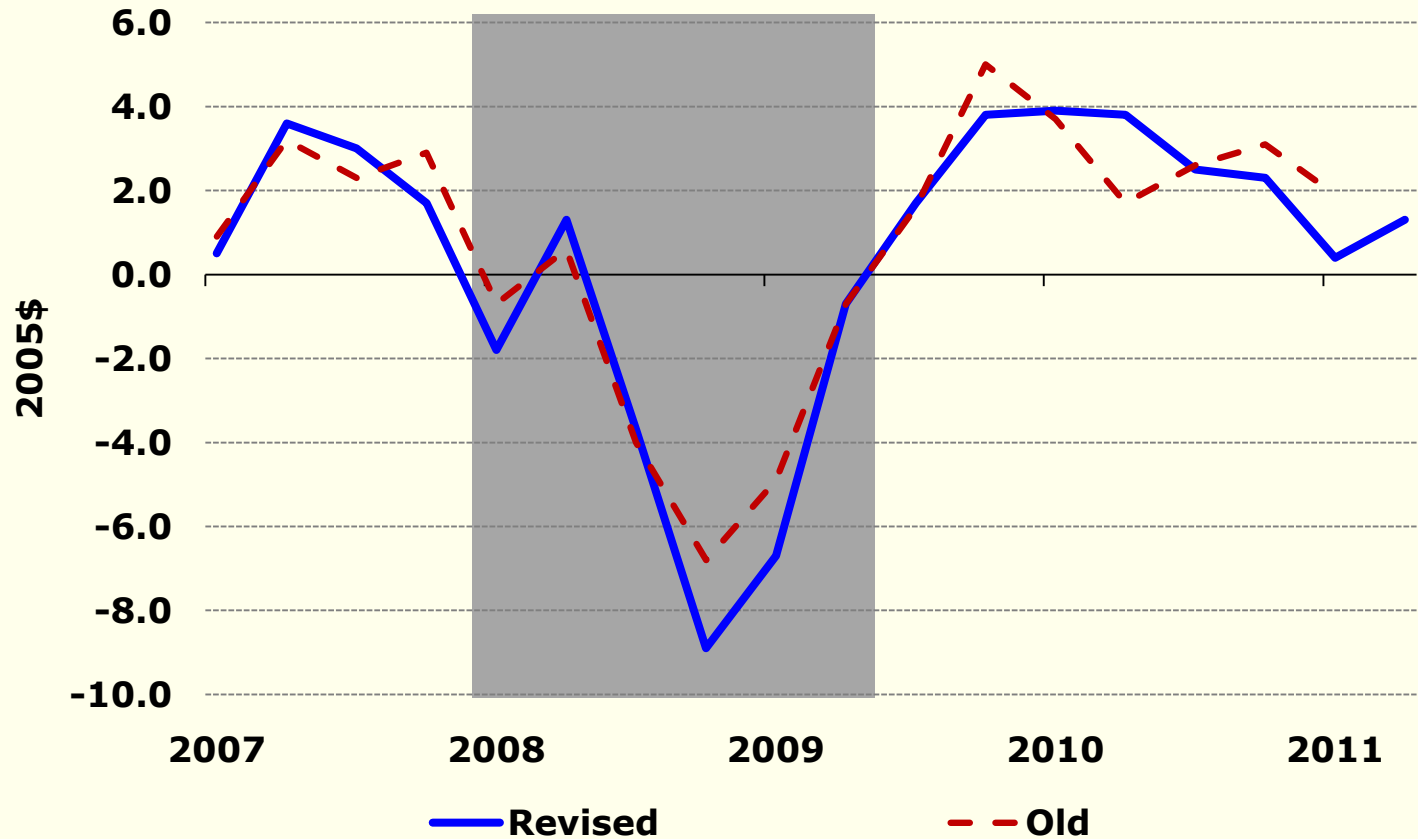
Summary

- Data revisions by the Bureau of Economic Analysis (BEA) show that the recession was much deeper than previously estimated
- The near term economic outlook has weakened since the June forecast
- Revenues since the June forecast have come in \$18 million (1.4%) below expectations.
- The outlook remains uncertain
 - Terms of debt limit deal still unclear
 - Simmering European sovereign debt crisis
 - High impact low probability event



GDP revisions show an even weaker economy

Percent Change, SAAR

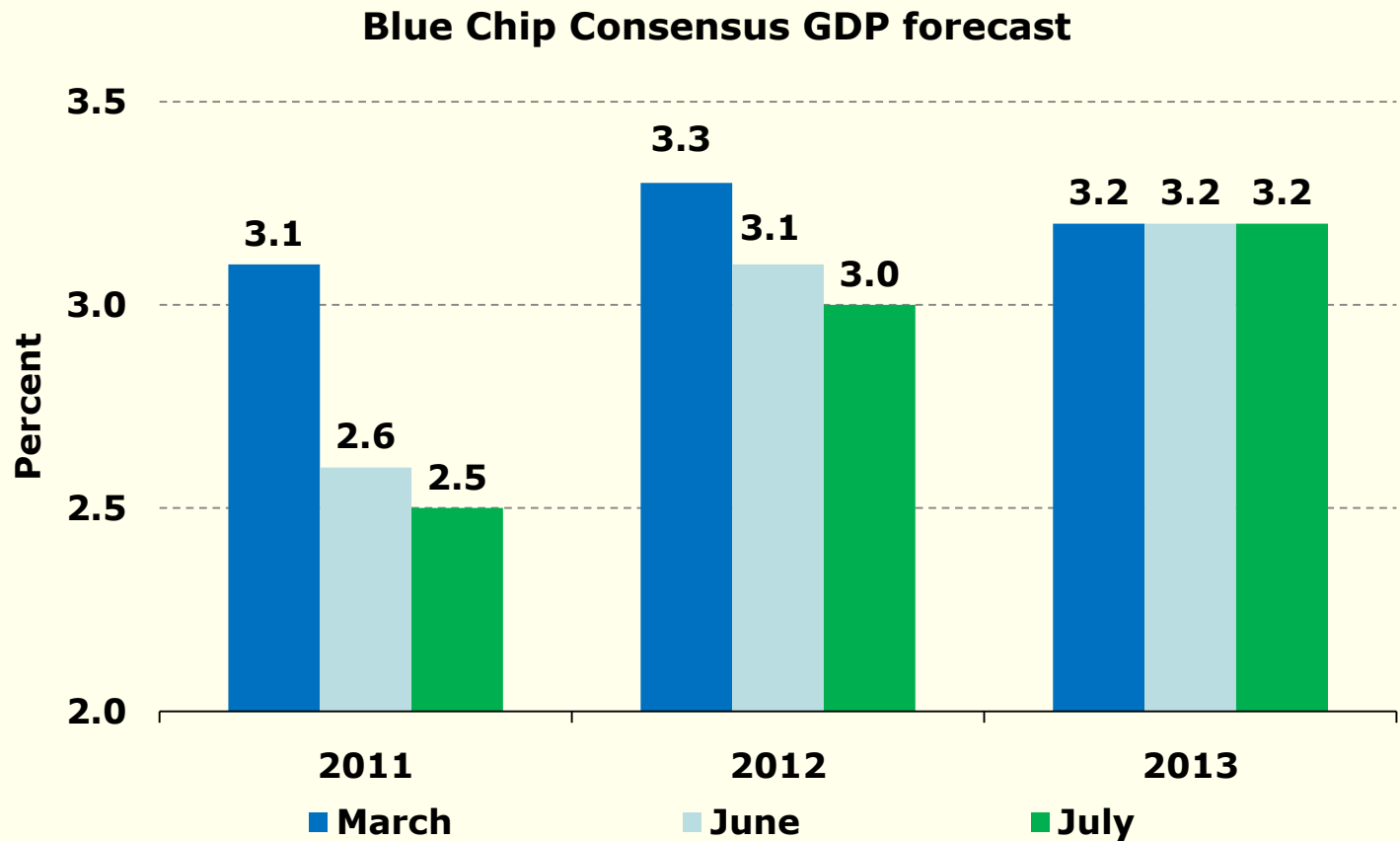


Source: BEA; data through 2011 Q2 advance; revised 2003 Q1 onward

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The consensus near-term economic outlook has weakened since June



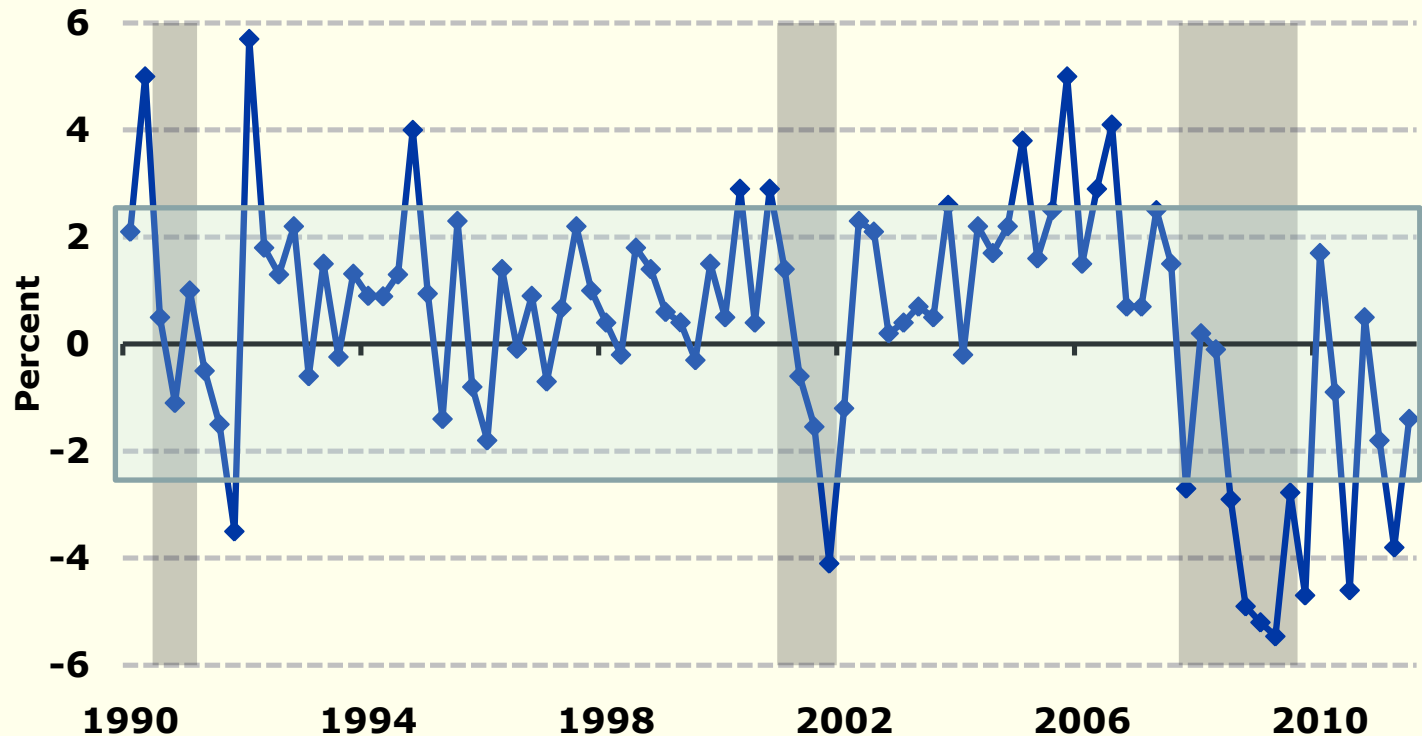
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Source: Blue Chip Economic Indicators, data through July 2011



Excluding one-time factors, revenues are 1.4% below the June forecast

Average Adjusted Monthly Variance



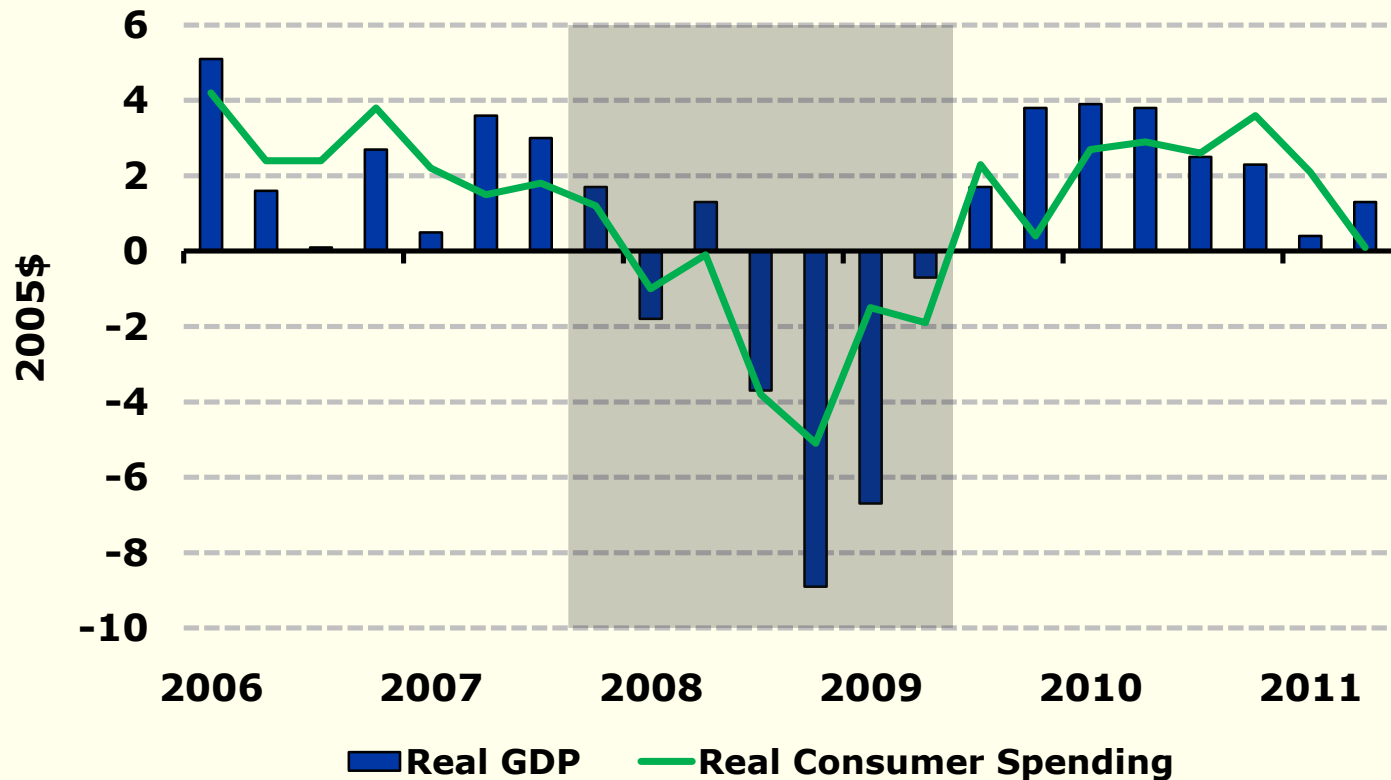
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Source: ERFC; Based on collections through July 10, 2011



Consumer spending growth appears to be stalling

Percent growth, SAAR

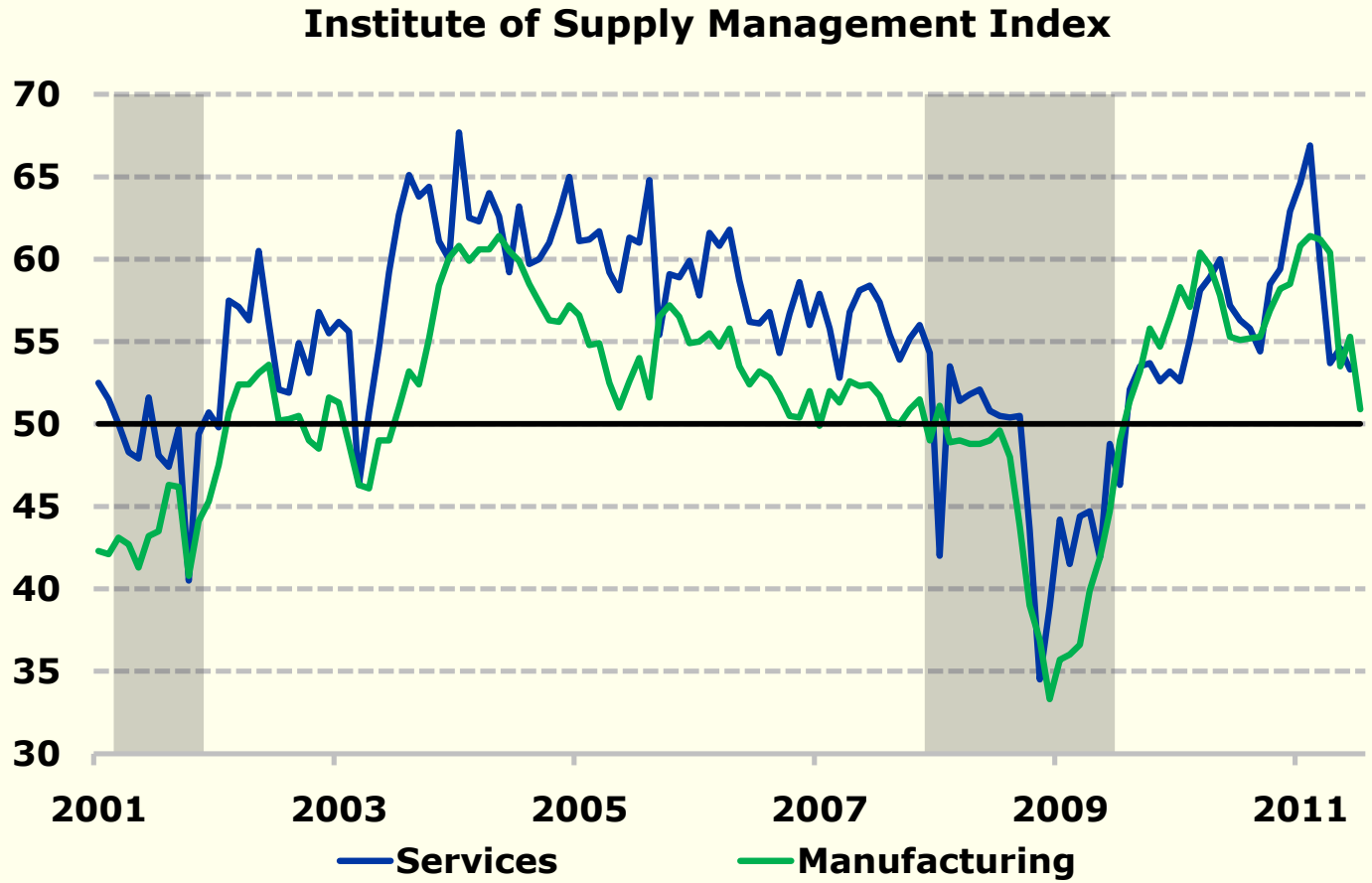


Source: BEA, data through 2011 Q2, advance estimate; revised from 2003Q1 onward



Manufacturing and service sector growth is slowing

An index greater than 50, implies growth



Source: Institute of Supply Management; data through July 2011

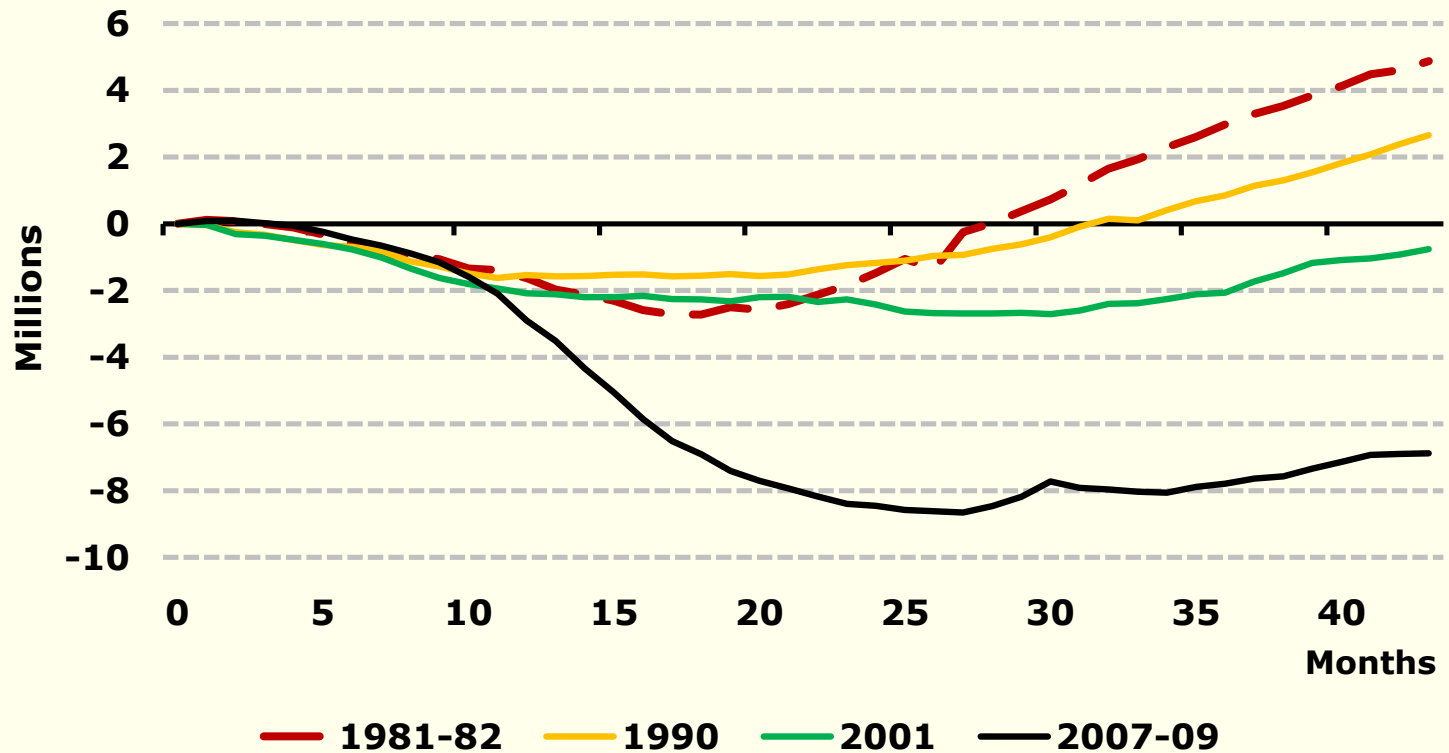
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This has been the slowest recovery in U.S. employment

U.S. Employment after Business Cycle Peak



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Source: BLS, WA ESD, ERFC; data through June 2011

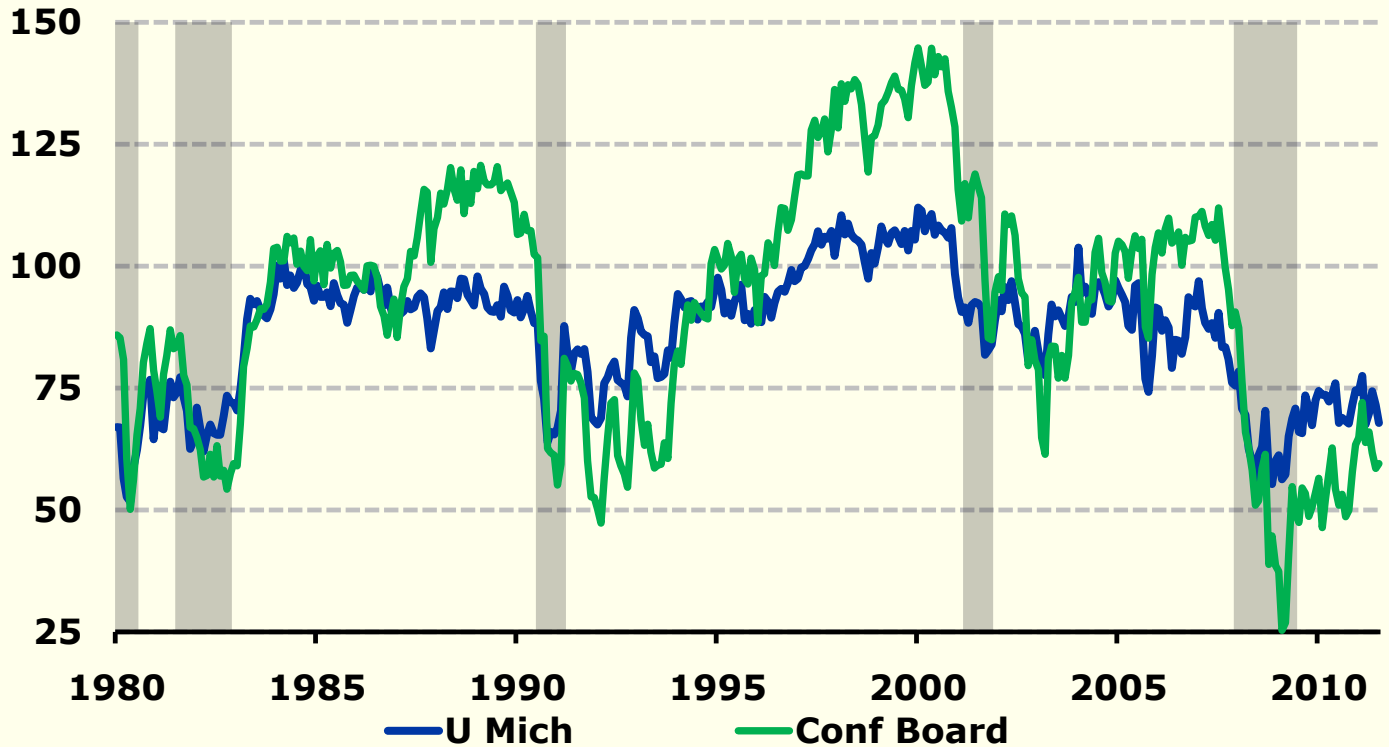


Consumer confidence is showing signs of softening

Index

Mich: 1966Q1 = 100, SA

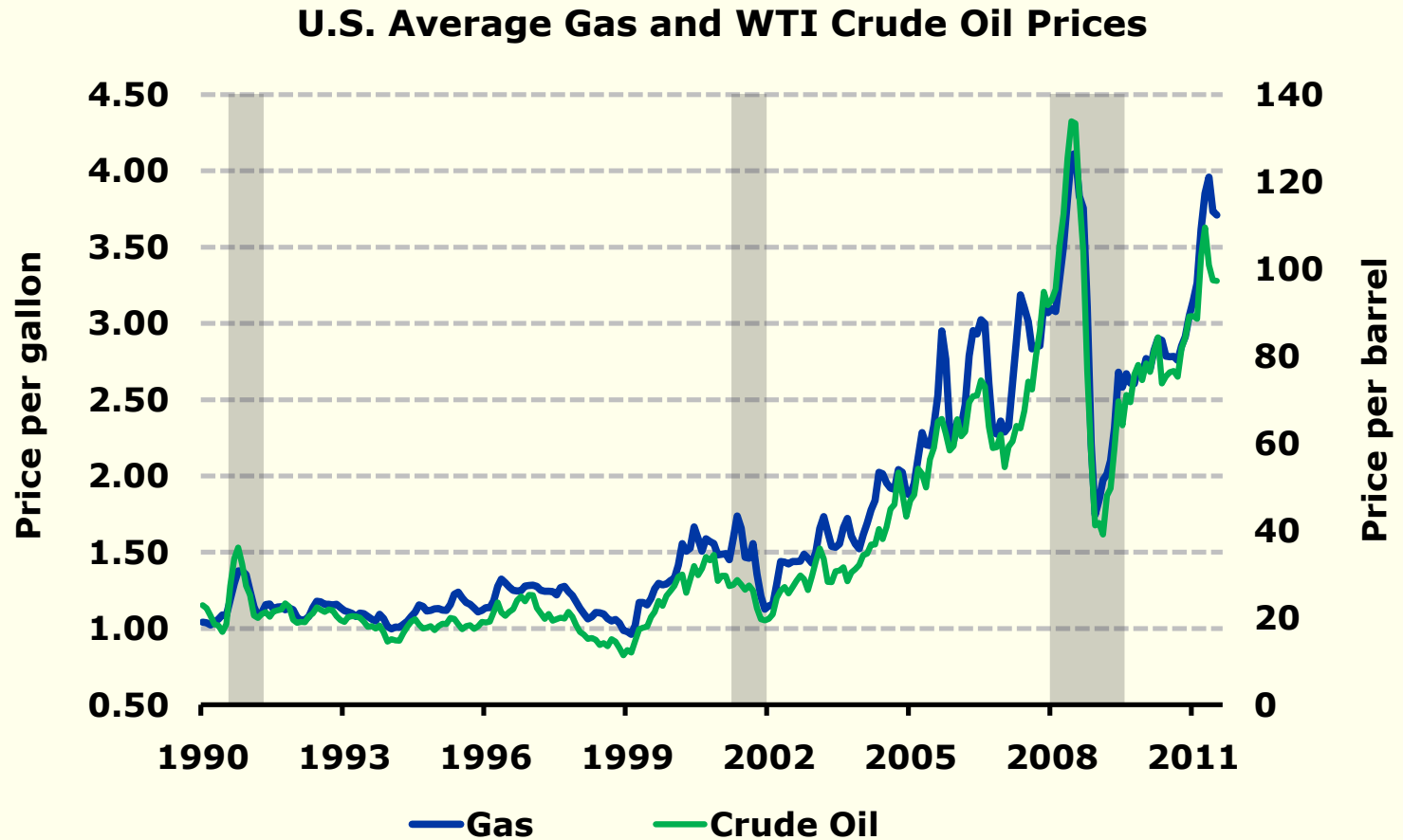
Conf Board: 1985 = 100, SA



Source: University of Michigan; Conference Board, data through July 2011



Gas prices are retreating, but remain high

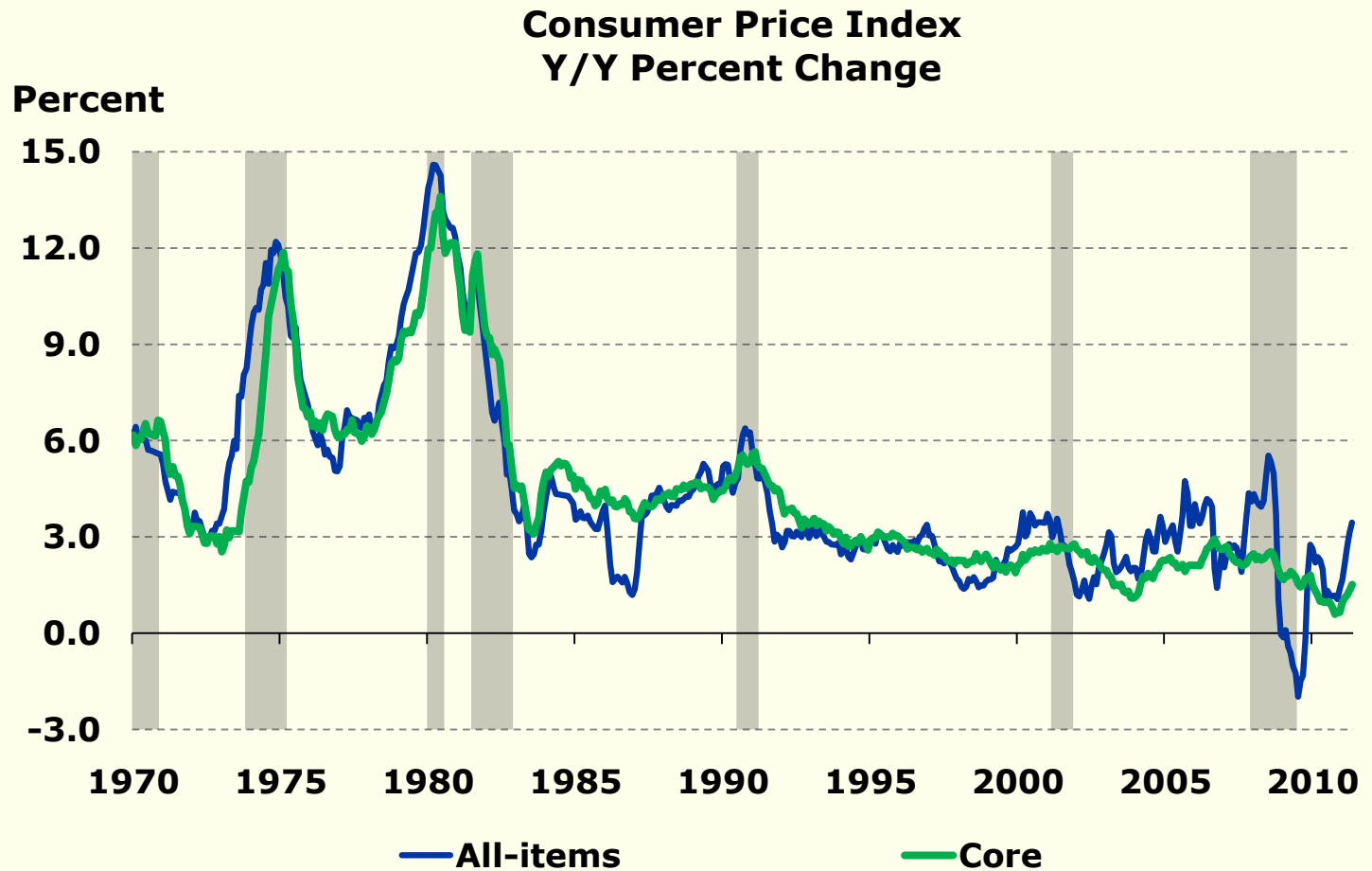


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Source: U.S. Energy Information Administration; data through July, 2011



All-items inflation is ticking up, but the "core" remains stable

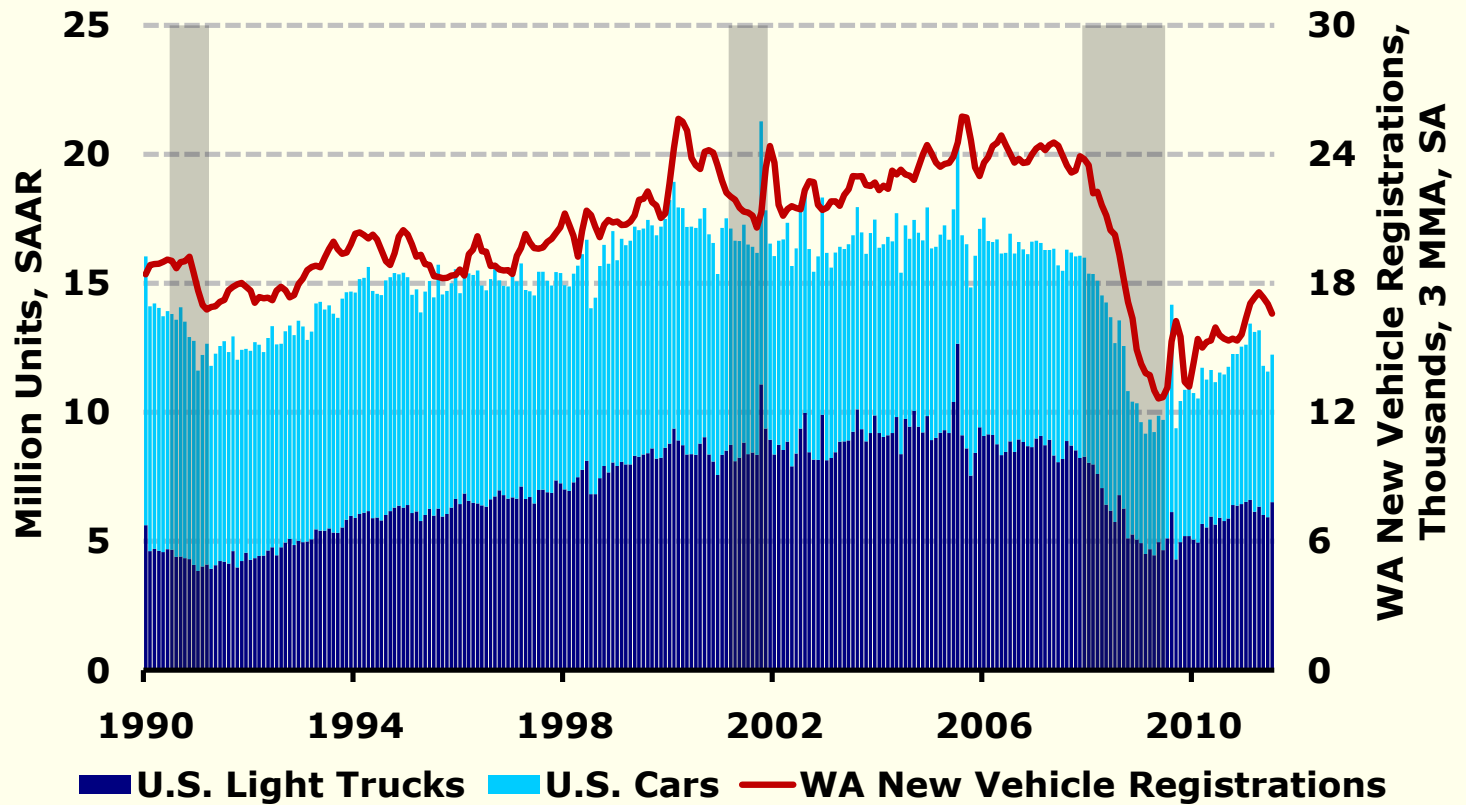


Source: BLS; data through Jun 2011



U.S. LMV sales slowed improved modestly in July...

U.S. LMV sales rose 5.8% in July

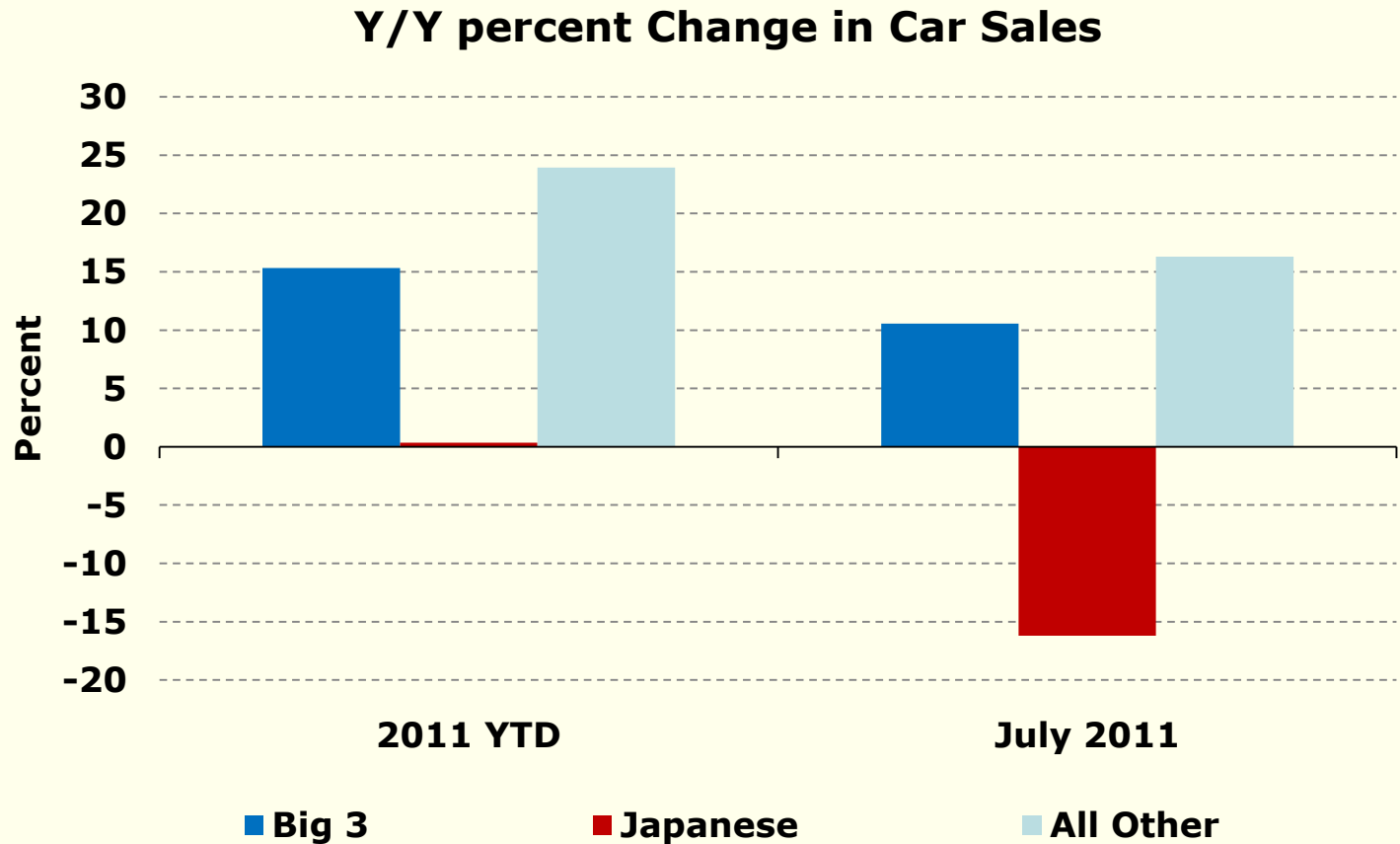


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Source: Autodata Corporation, WA DOL; data through July 2011



... but Japanese brands are still hit by supply chain disruptions

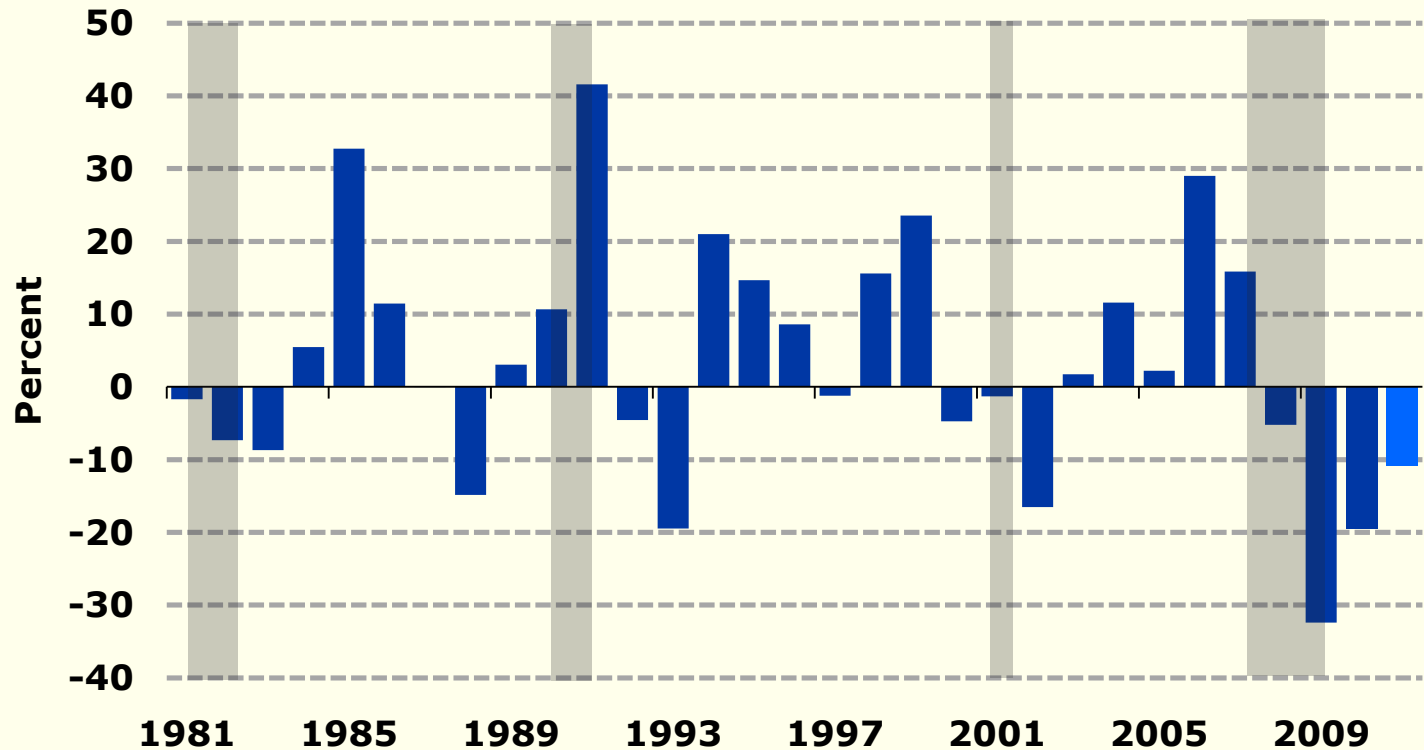


Source: Autodata Corporation, data through July 2011



This is WA's worst downturn in non-residential construction in 30 years

Non-Residential Contract Value Annual Percent Change



Source: McGraw-Hill Construction, data through May 2011

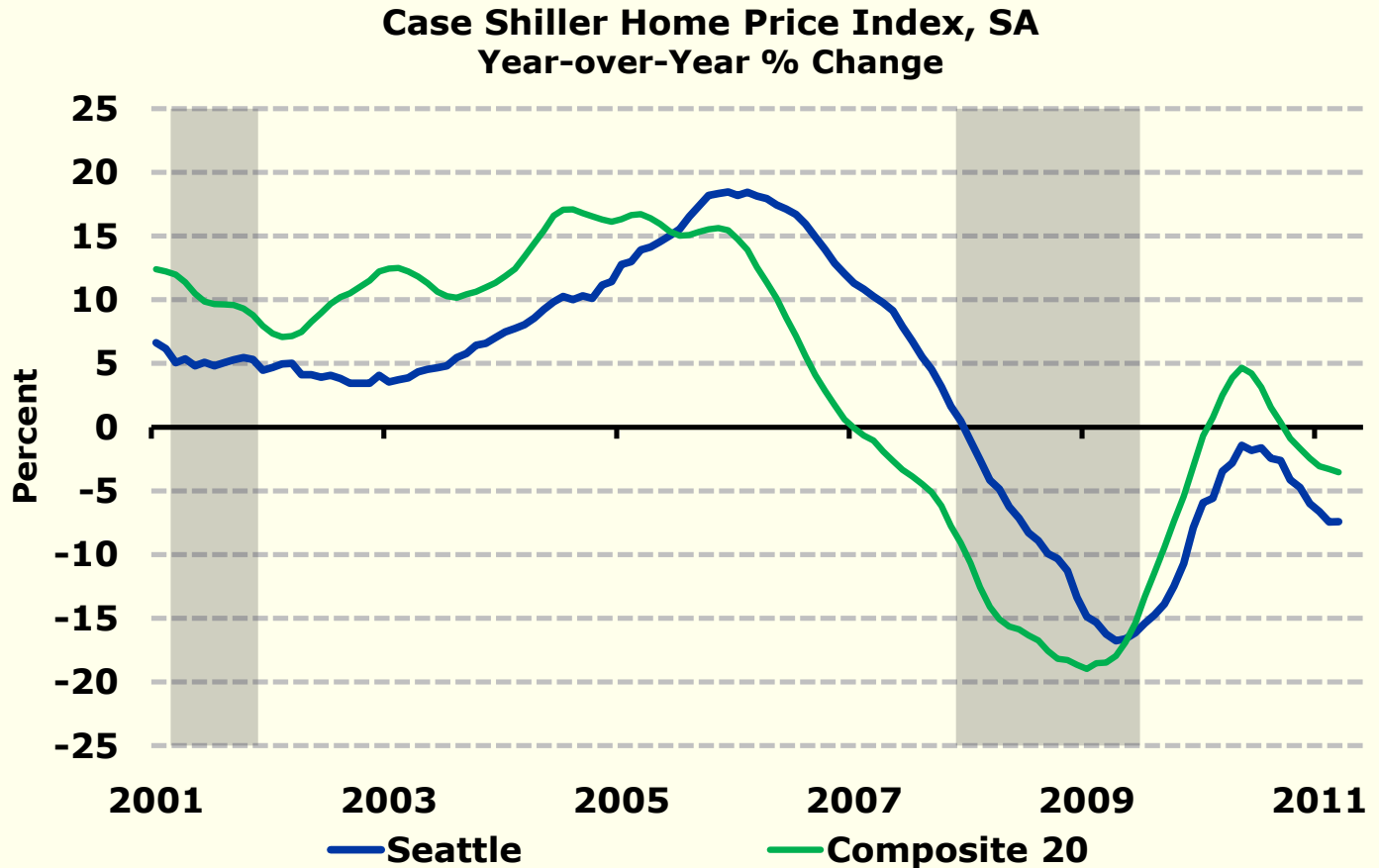


Home prices continue to decline

Apr 2011

**U.S is
down
4.5%**

**SEA is
down
7.0%**



Source: S&P/Case-Shiller; data through May 2011

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More foreclosures can be expected...

WA Rank:

2010Q4 : 25

2011Q1 : 23

Seriously
Delinquent =
90+ Days Past
Due or in
foreclosure

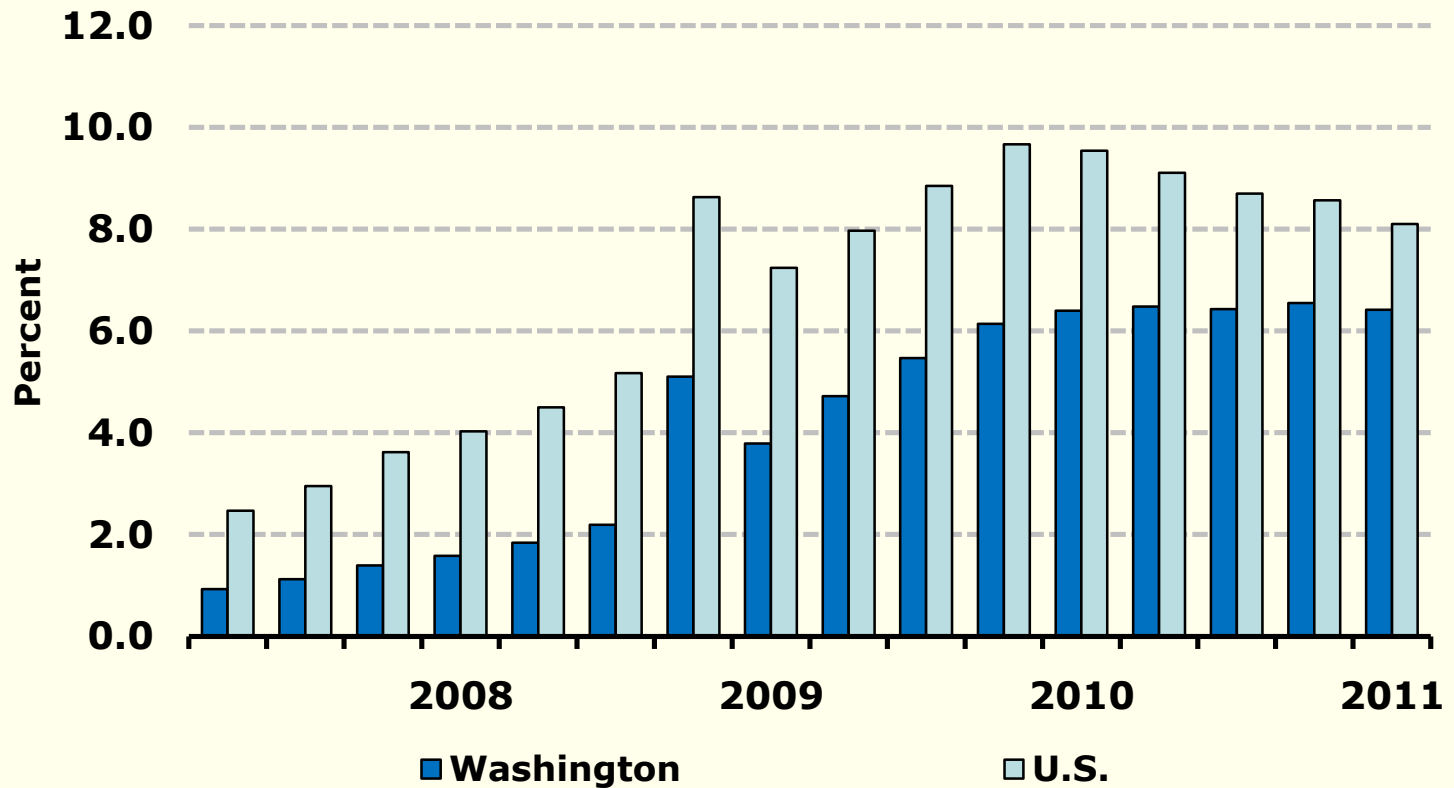
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Seriously Delinquent



Source: Mortgage Bankers Association® National Delinquency Survey, data through 2011 Q1



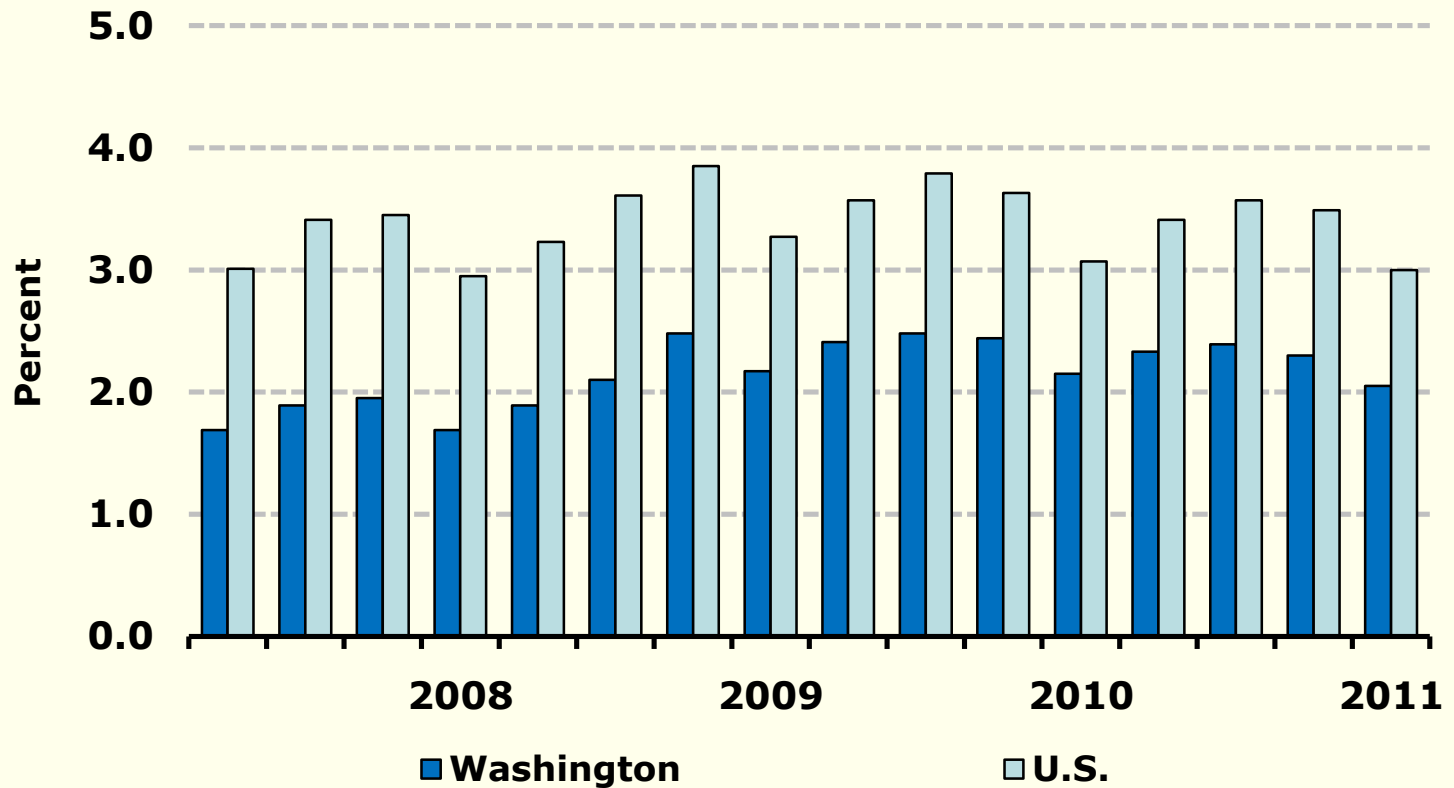
...but will eventually slow down

WA Rank:

2010Q4: 46

2011Q1: 47

30 Days Past Due



Source: Mortgage Bankers Association® National Delinquency Survey, data through 2011 Q1

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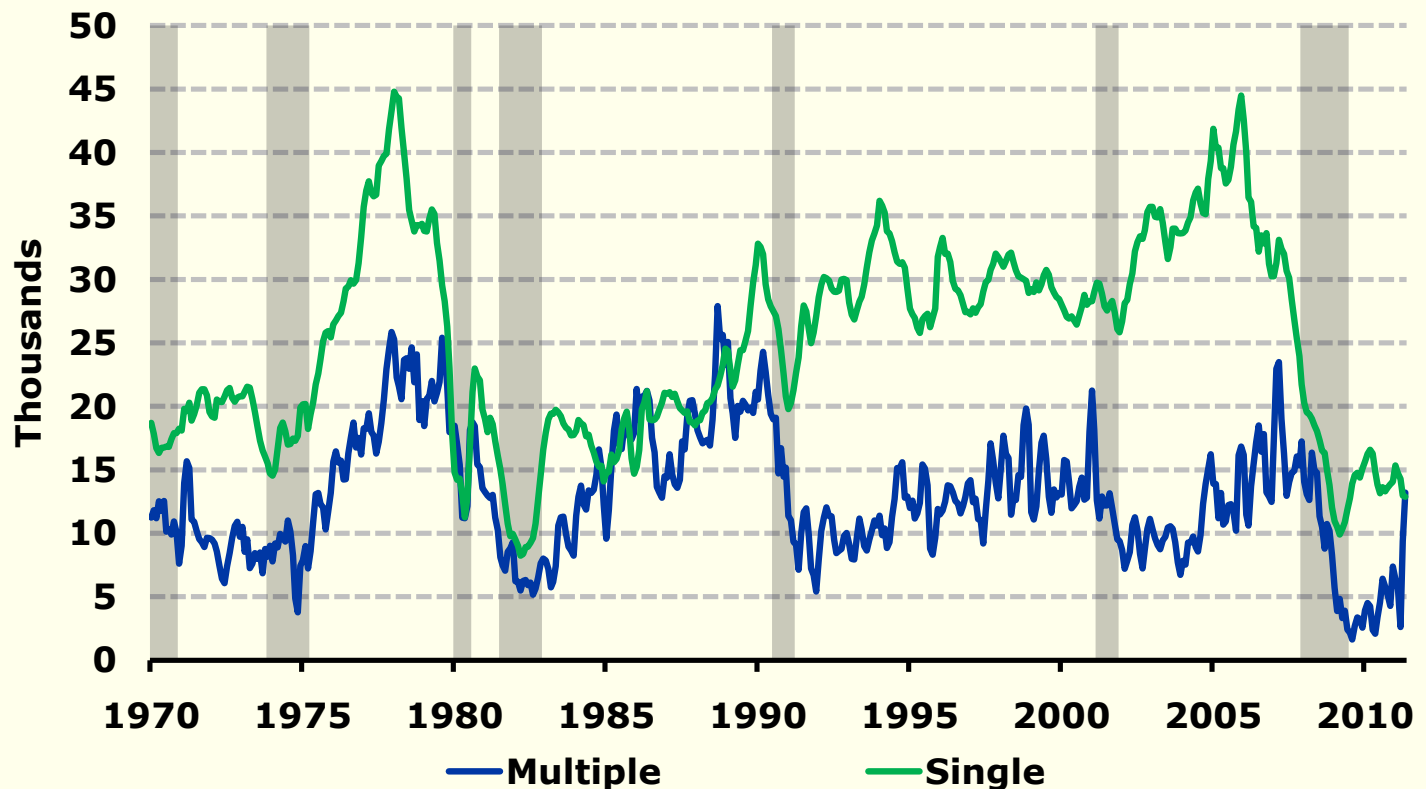
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WA multi-family building permits are gradually improving

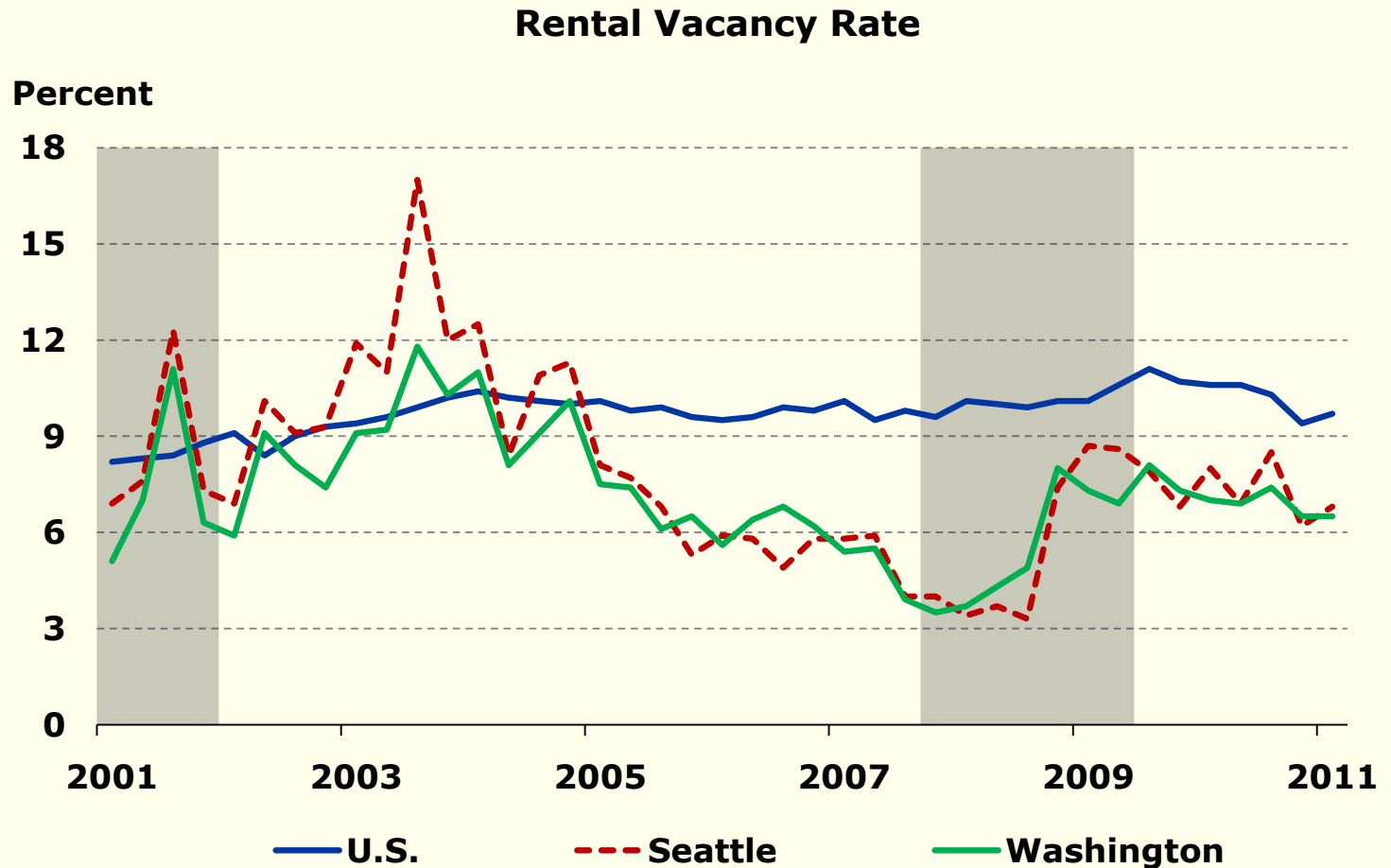
Washington Housing Units Authorized by Building Permits, 3MMA, SAAR



Source: U.S. Census Bureau; data through May 2011



Rental vacancy rates are declining

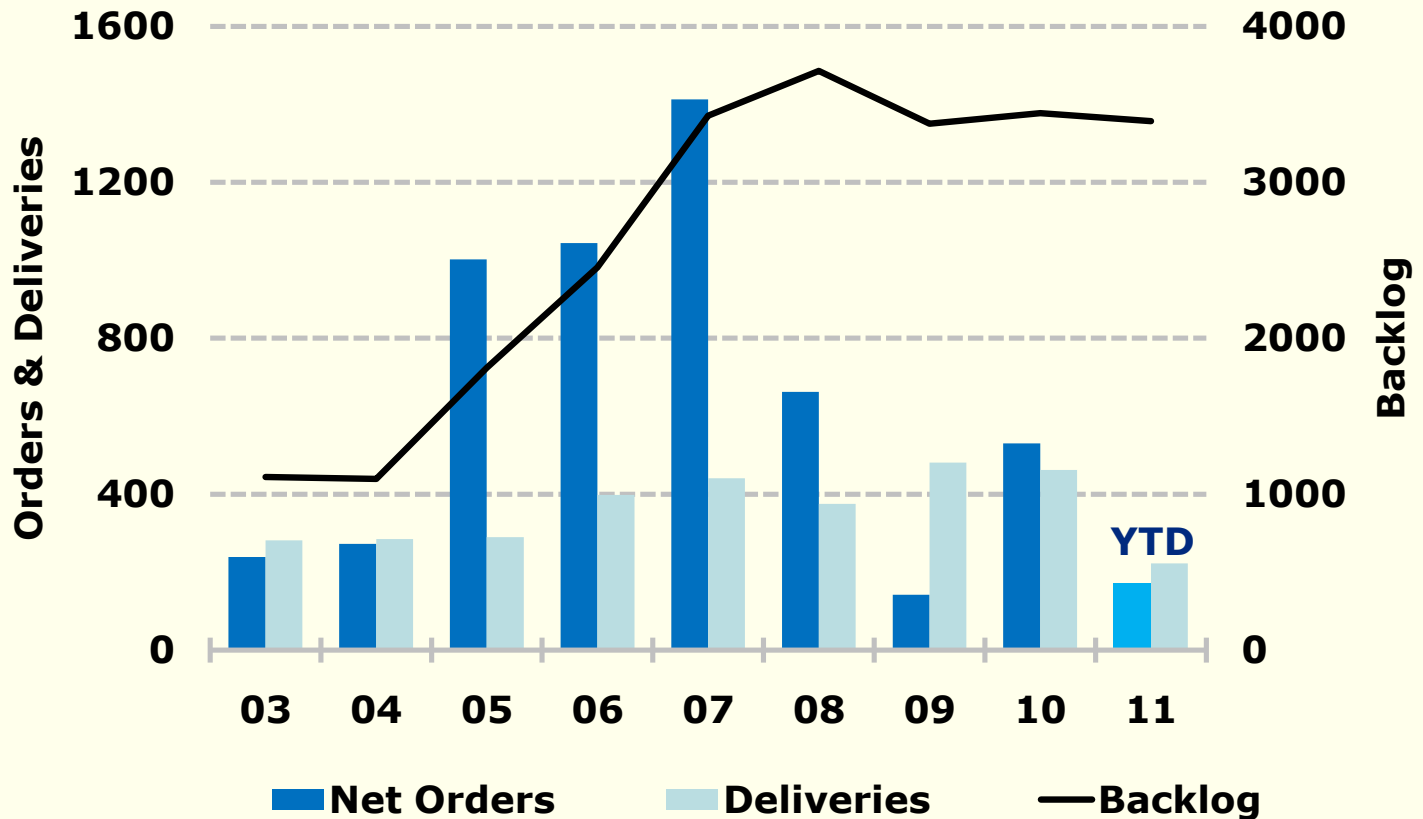


Source: U.S. Census Bureau; data through 2011 Q1



Boeing has over 7 years of commercial orders on its books

Excludes the military's new refueling tanker



Source: Boeing, data through June 2011



Software publishing employment is growing

Percent change, year ago



Forecast

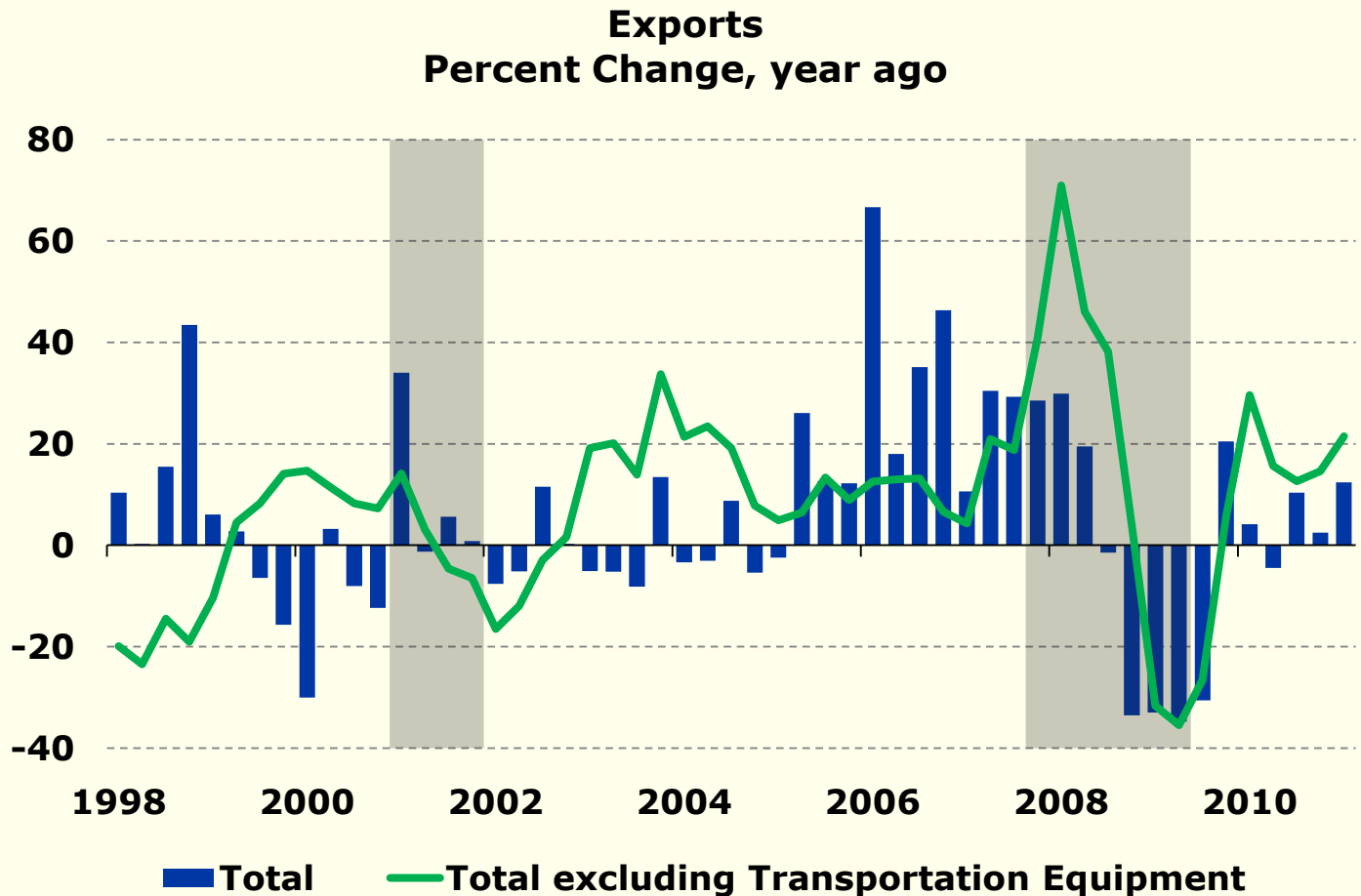
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Source: ERFC Preliminary June 2011 forecast; actual through May 2011



WA export growth is strong, and will help state outperform in the recovery

Total exports were up 12.4% y/y in Q1



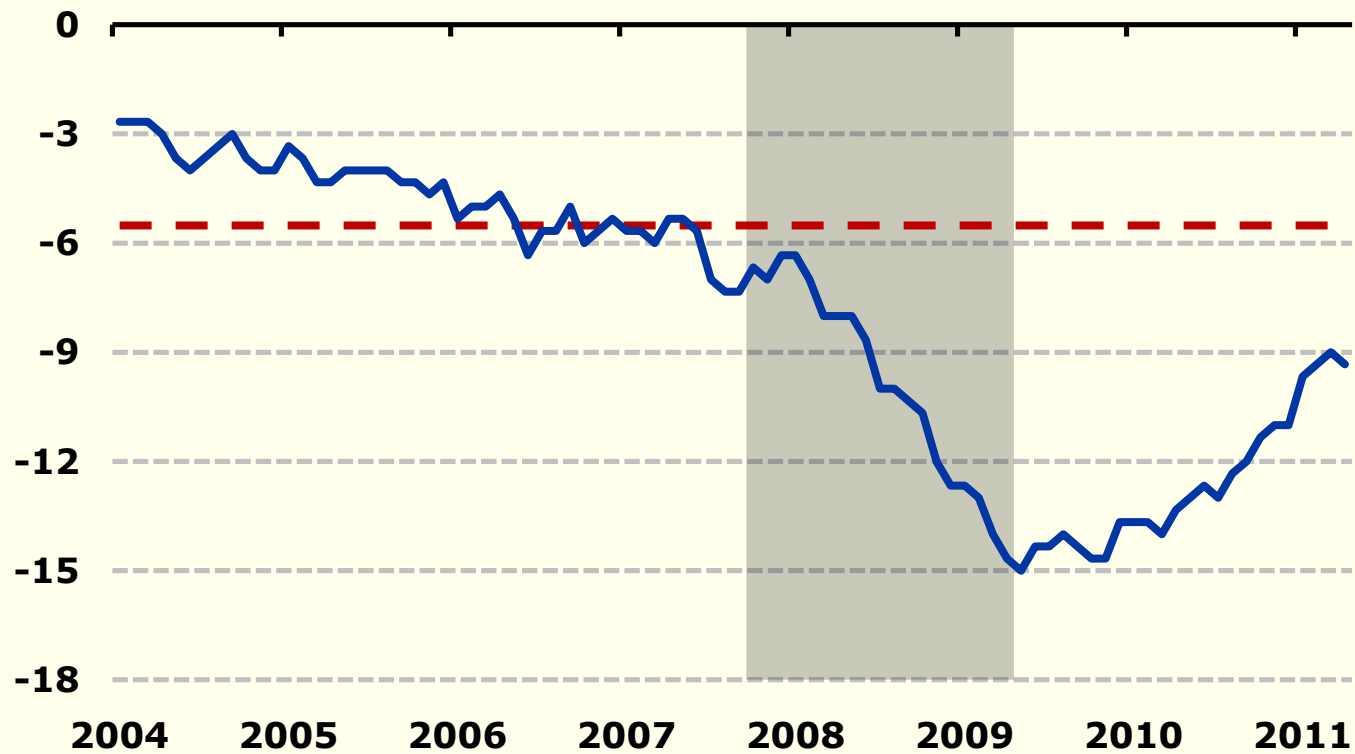
Source: Wisier Trade Data; through 2011 Q1

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Credit conditions for small business are improving, but remain tight

Availability of Loans
Net Percent ("Easier" minus "Harder"), 3mma

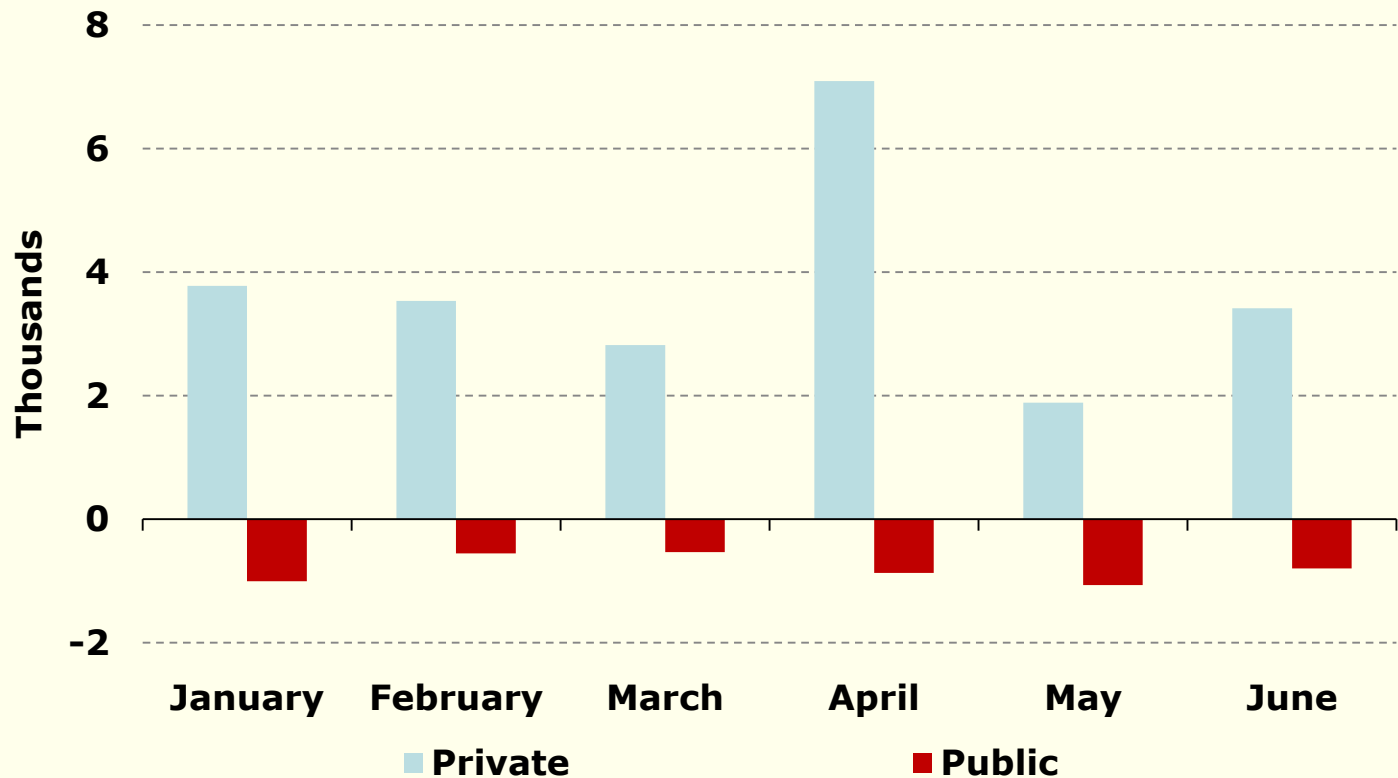


Source: National Federation of Independent Business; data through June 2011



Private sector job gains in WA have been weak

Washington State Monthly Employment Growth, 2011



Source: BLS, ERFC Kalman filter; data through June 2011



WA employment will recover slightly faster than the U.S.

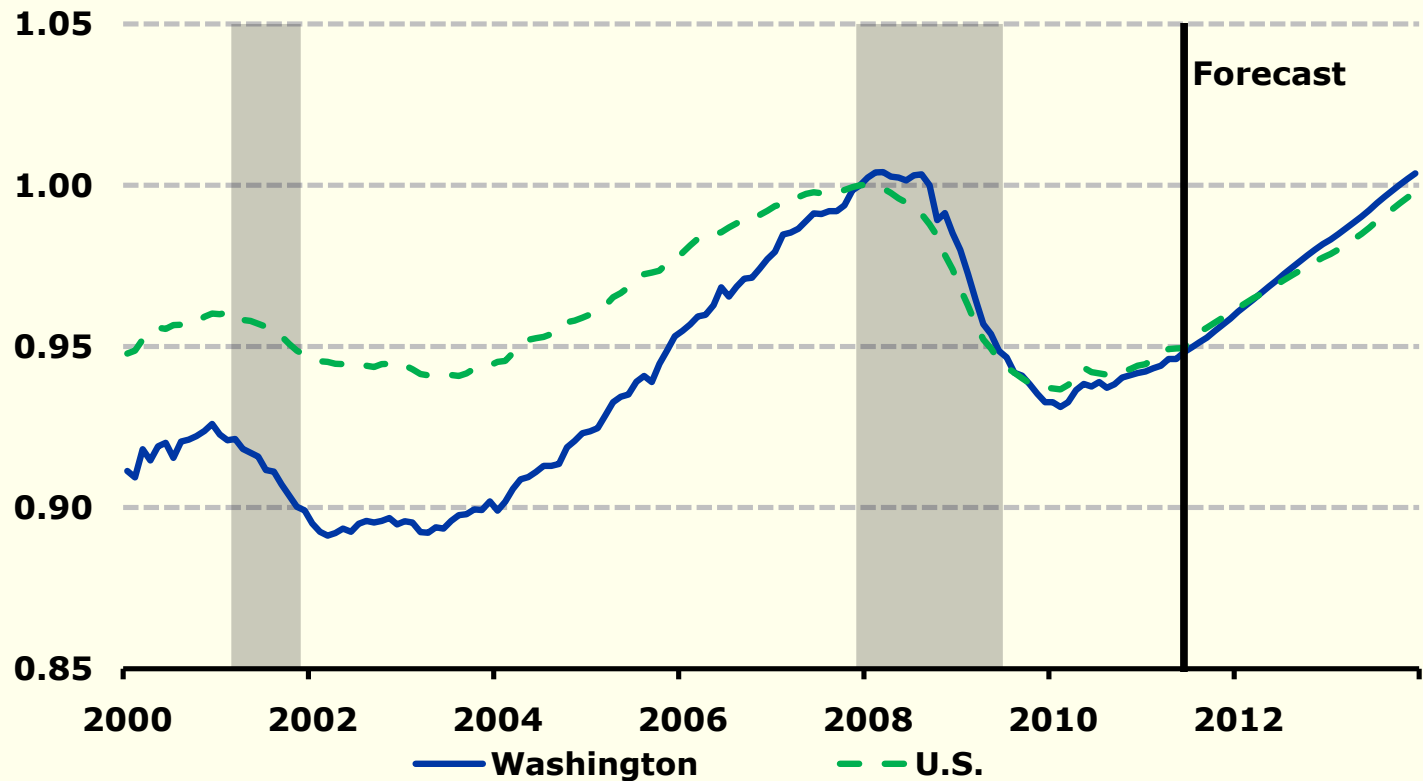
WA employment peaked 1 month after U.S. (Feb. 2008 vs. Jan. 2008)

Both WA and the U.S. reached a trough in Feb. 2010

WA is forecasted to reach its pre-recession peak in December 2013, the U.S. after 2013

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December 2007=1.0



Source: ERFC June 2011 forecast; actual through June 2011



WA personal income will recover faster than that of the U.S.

Date of regaining peak:

WA:

Nominal 10Q2

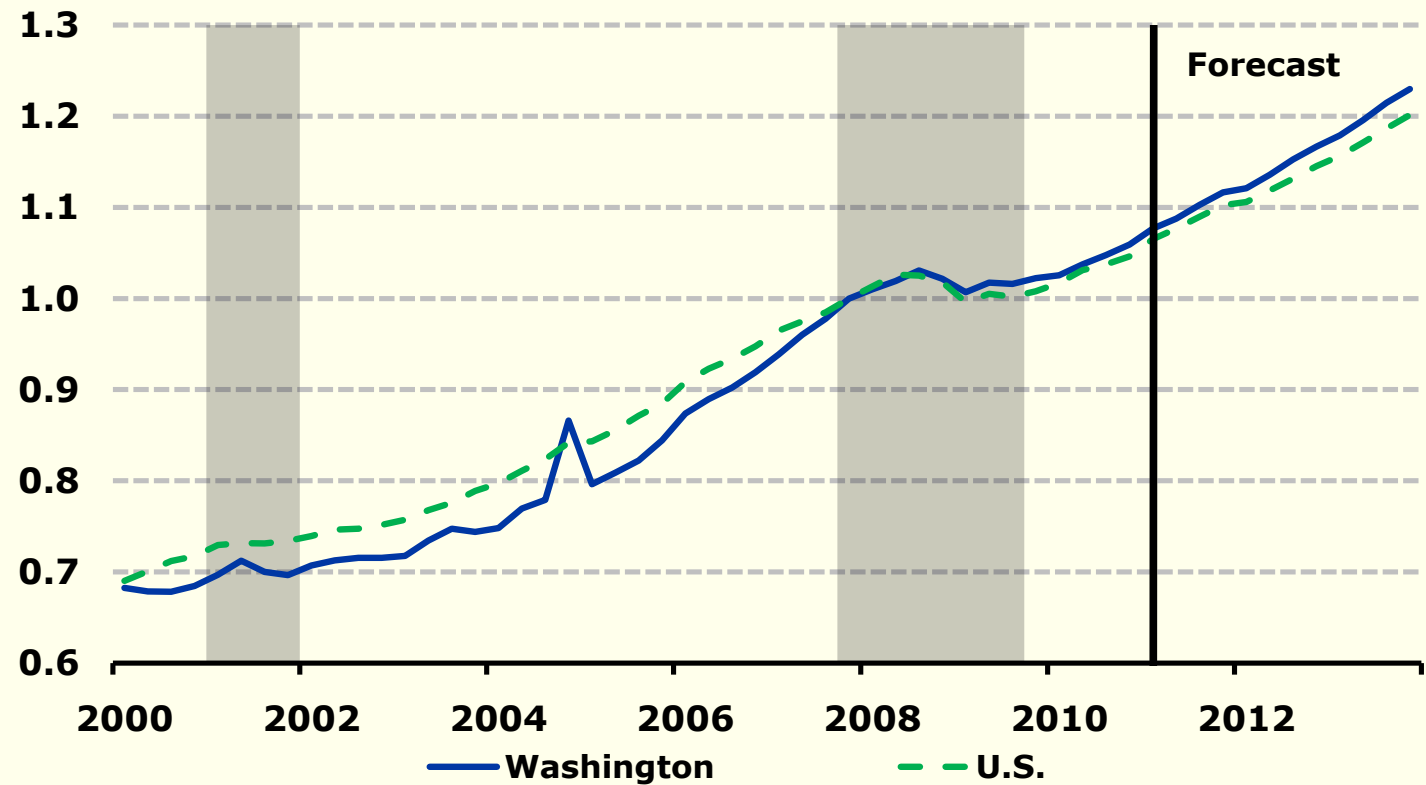
Real 10Q3

U.S.:

Nominal 10Q2

Real 11Q1

2007Q4 = 1.0



Source: ERFC June 2011 forecast; actual data through 2011Q1

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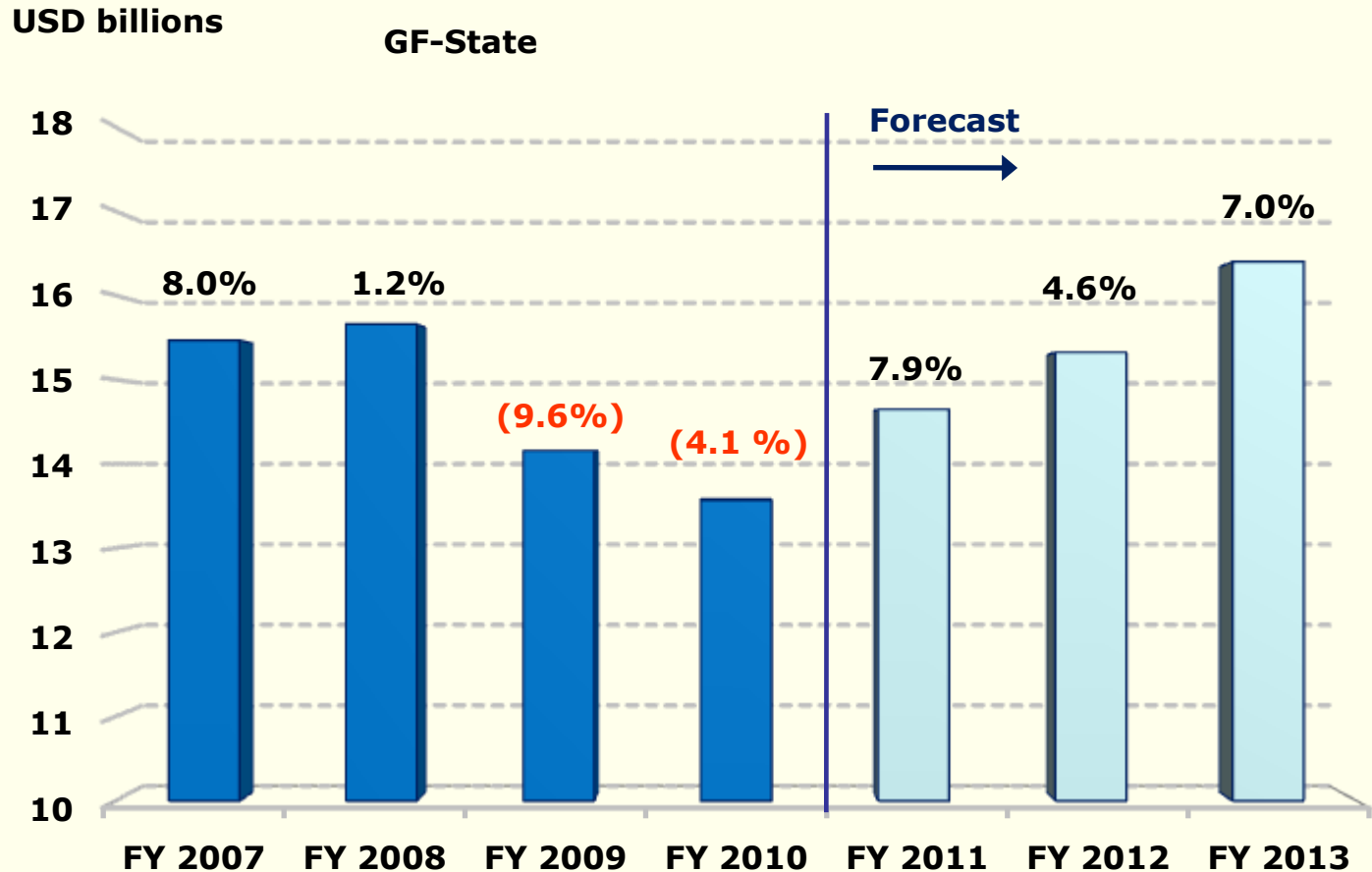


General Fund* forecast by fiscal year

* General Fund & Related Funds for FY 07-09

General Fund – new definition, for FY 10-13

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Source: ERFC forecast, June 2011

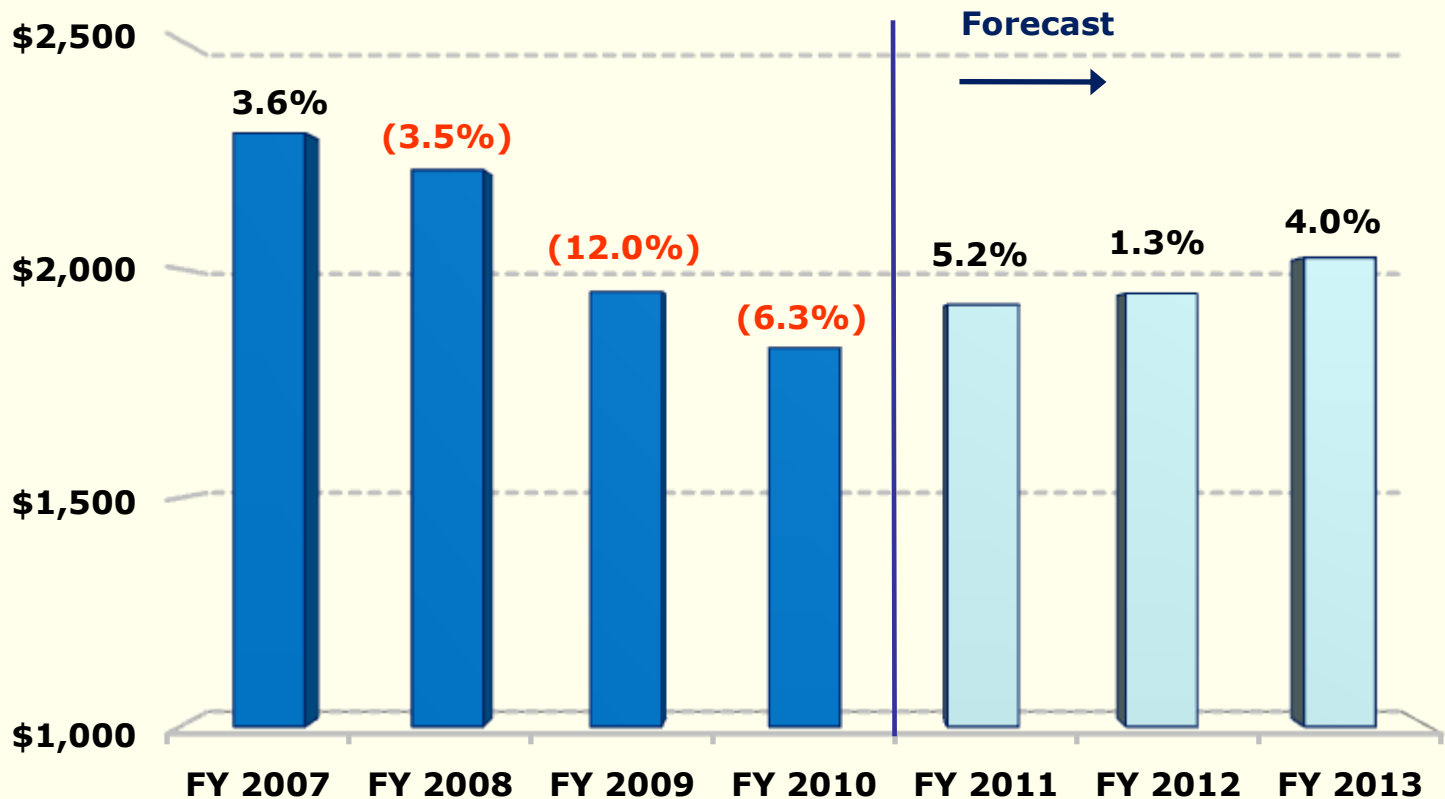


Real Per Capita General Fund*- State Revenue

* General Fund & Related Funds for FY 07-09

General Fund – new definition, for FY 10-13

Per Capita GF-S*, \$2005



Source: ERFC forecast, June 2011

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Conclusion

- Revenues are expected to grow 12.4% between the 09-11 and 11-13 biennium
- The level of uncertainty in the baseline remains high as financial markets remain jittery and geo-political events make economic conditions very fluid
- Downside risks are four times as high as upside risks



Questions



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