

Economic and Revenue Outlook

Presented to
Clallam Economic Development Council

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Sequim, Washington



WASHINGTON STATE
ECONOMIC AND REVENUE FORECAST COUNCIL



Summary

- Our November forecast lowered total General Fund–State revenues by
 - \$385 million this biennium
 - \$809 million next biennium
- Revenue collections since our November forecast have come in above target, however
 - Most of the modest positive variance can be explained by timing and other non-economic factors
- The passage of Initiative 1107 lowered expected revenues by \$281 million
- Economic developments since the November forecast have been positive on balance, but it is too early to tell if that will last



This is the worst recession since WW II

Recession	Peak-to-trough decline		Recession Duration
	Real GDP	Employment	
	<i>percent</i>	<i>percent</i>	<i>months</i>
1948-49	1.6	5.0	11
1953-54	2.5	3.4	10
1957-58	3.1	4.2	8
1960-61	0.5	2.3	10
1969-70	0.2	1.2	11
1973-75	3.2	1.9	16
1980	2.2	2.3	6
1981-82	2.6	3.1	16
1990-91	1.4	1.4	8
2001	0.7	1.7	8
Average	1.8	2.6	10
2007-09	4.1	6.1	18

Source: NBER, ERFC

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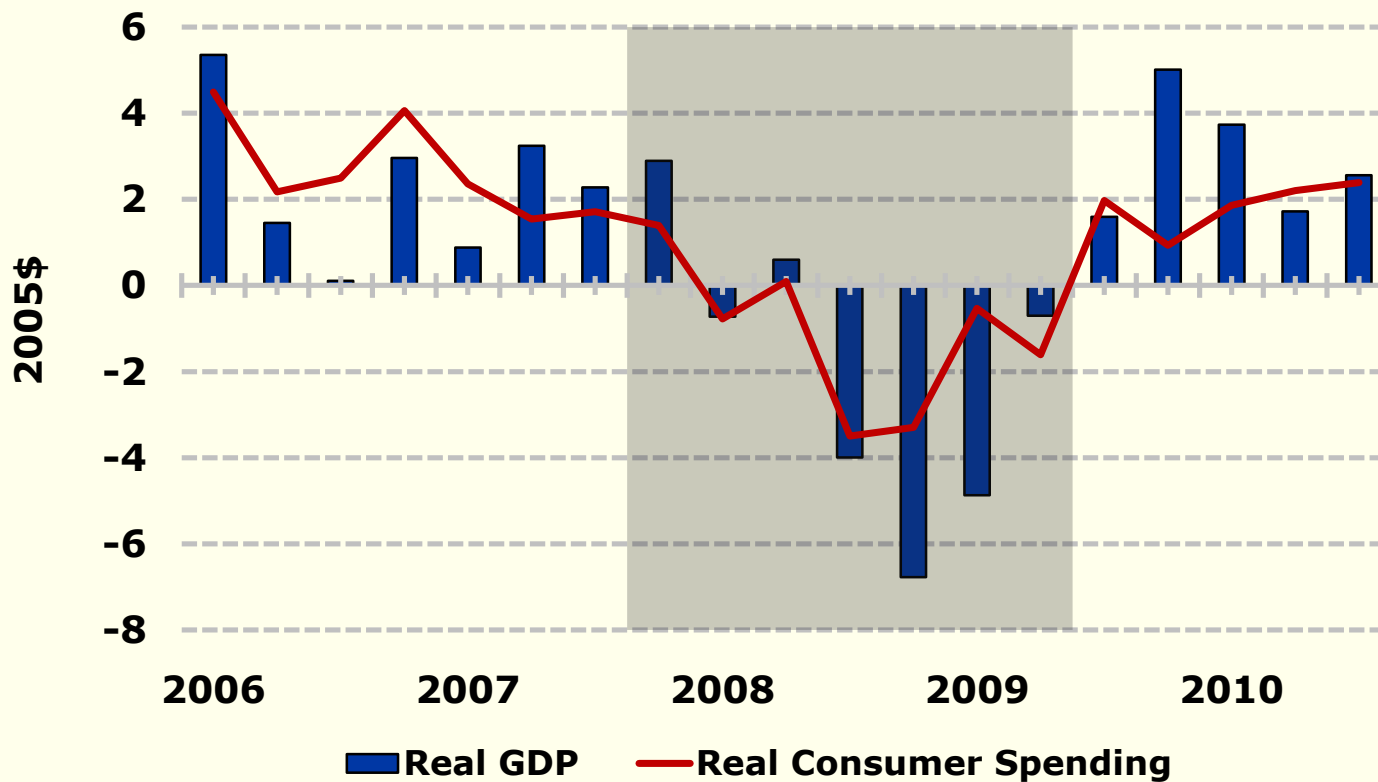
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GDP is growing, but modestly

Percent growth, SAAR

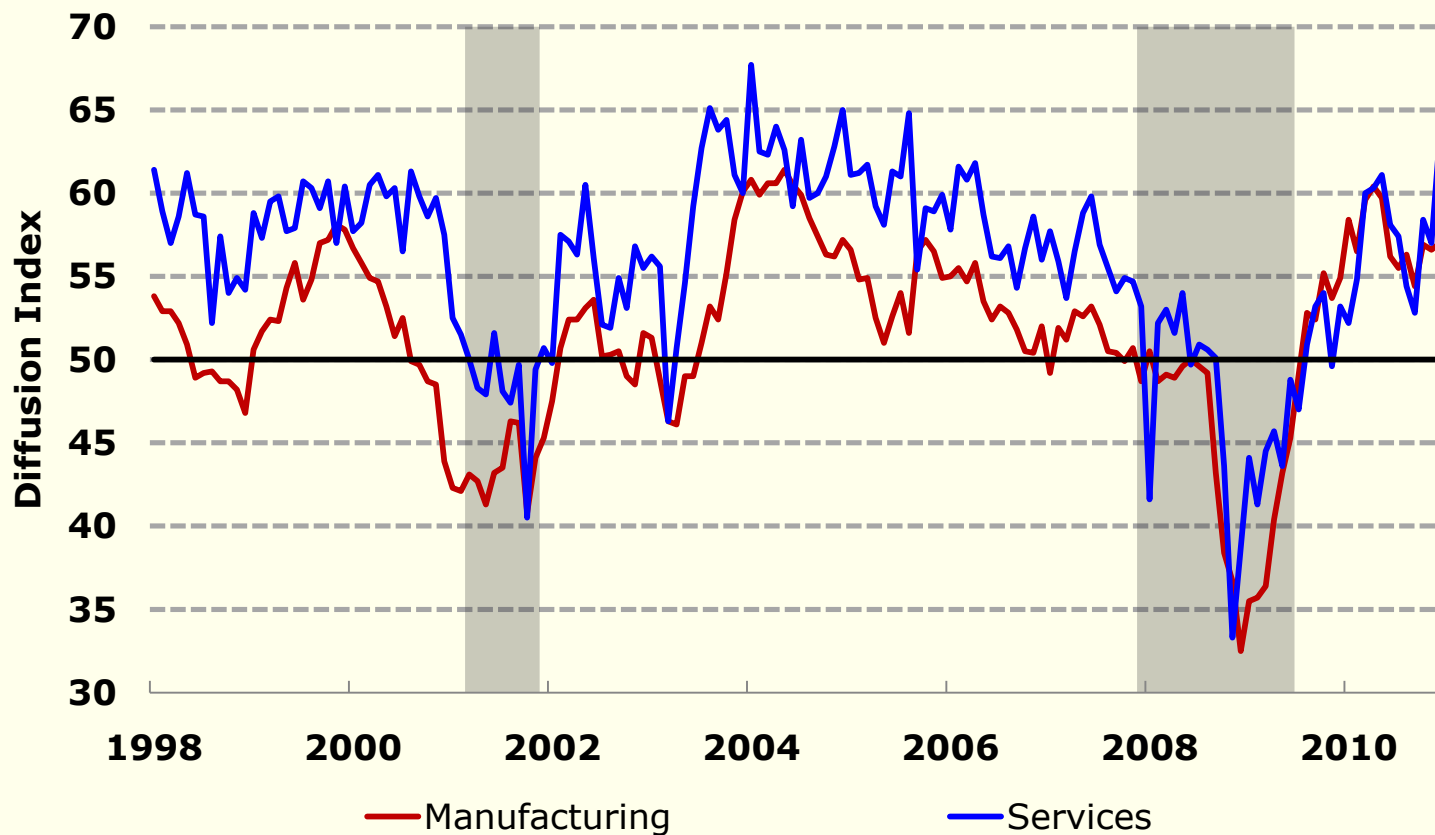


Source: BEA, data through 2010 Q3



ISM indices for both services and manufacturing indicate continuing growth

An index greater than 50 implies growth



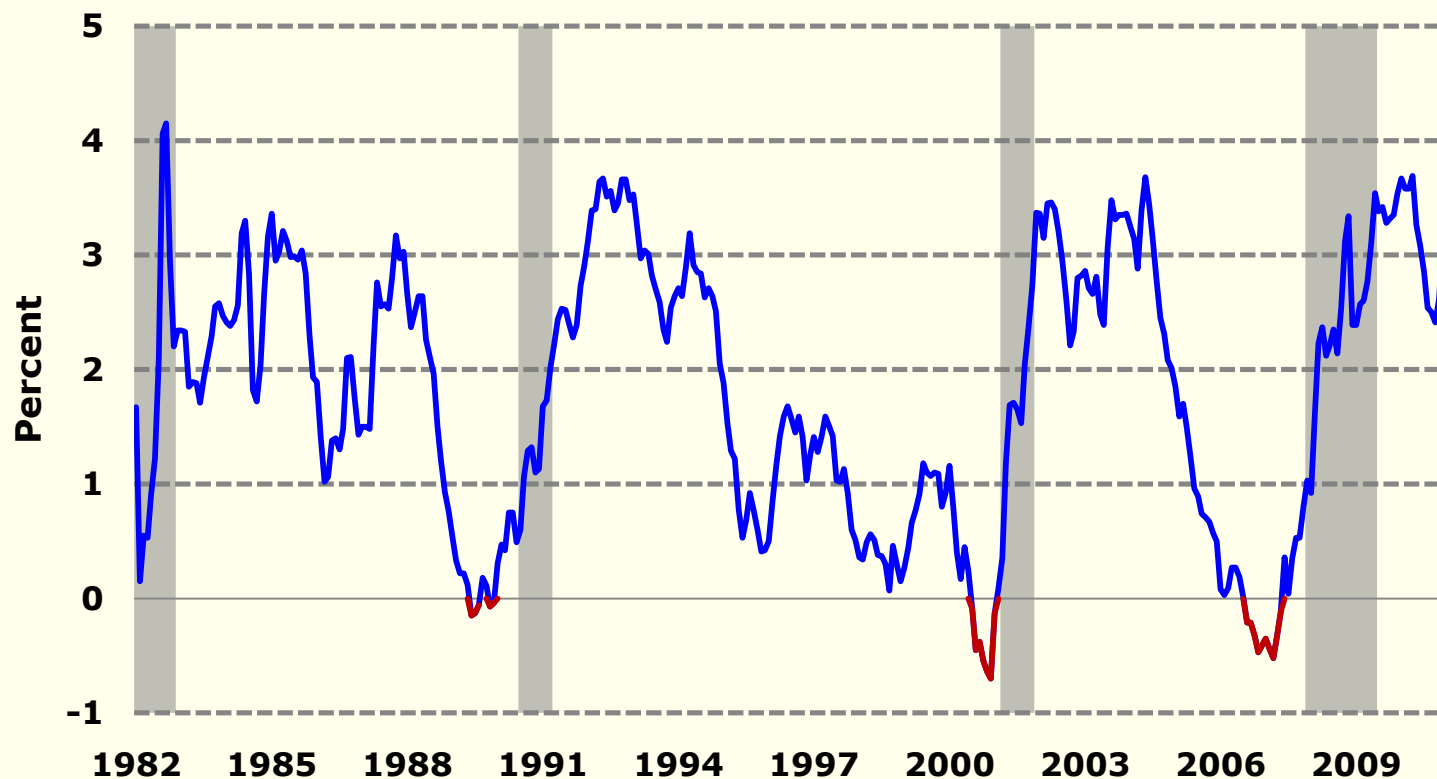
Source: Institute of Supply Management; data through December 2010



The yield curve is not signaling a double dip

An inverted yield curve typically precedes a recession while a steepening yield curve signifies a recovery

Yield Curve Spread
10-Year minus 3-Month U.S. Treasuries



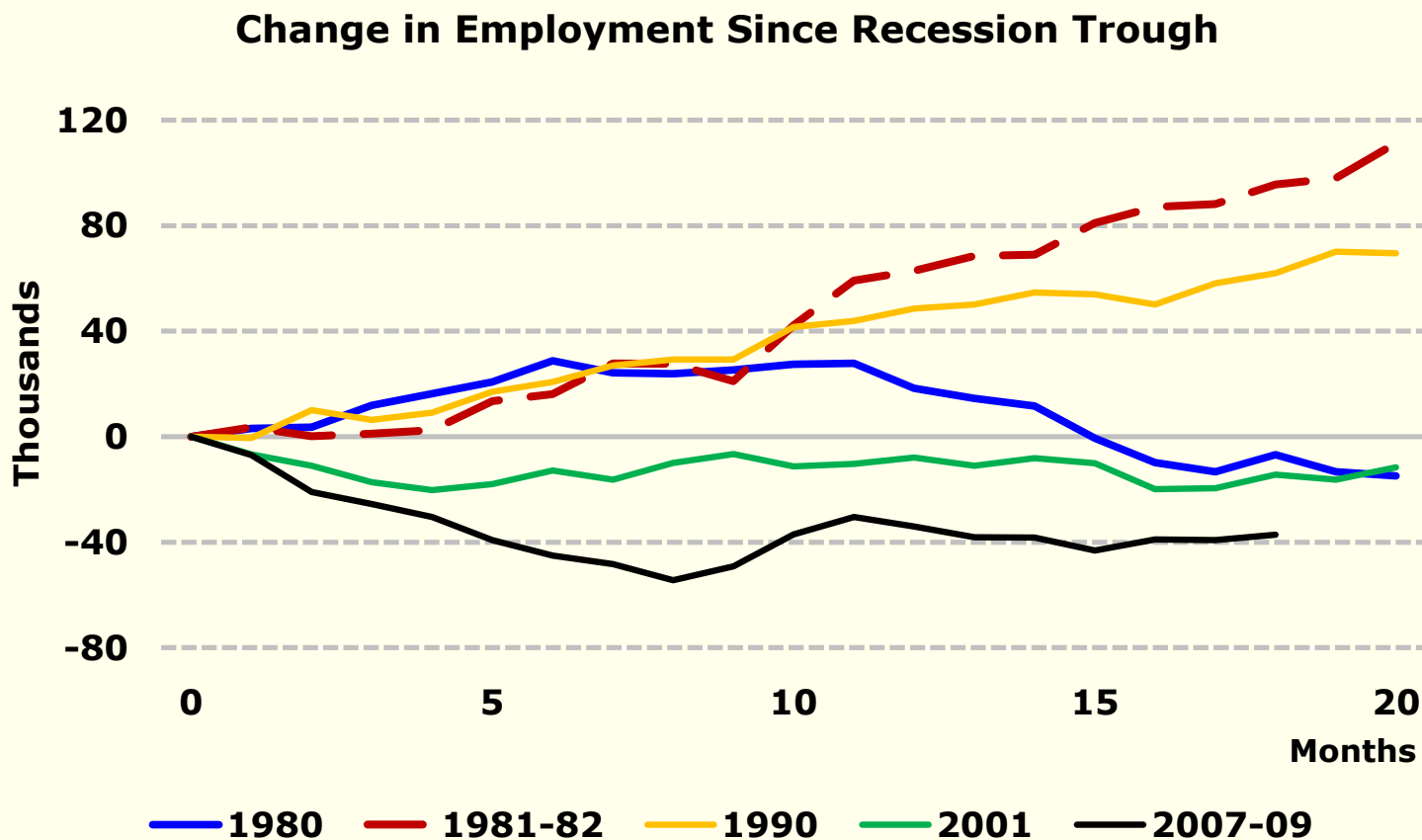
Source: Federal Reserve Board, ERFC; data through December, 2010

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Employment growth in WA since the trough has been slowest for this recession...



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Source: BLS, WA ESD, ERFC; data through December 2010



... and the hole we are in is also the deepest

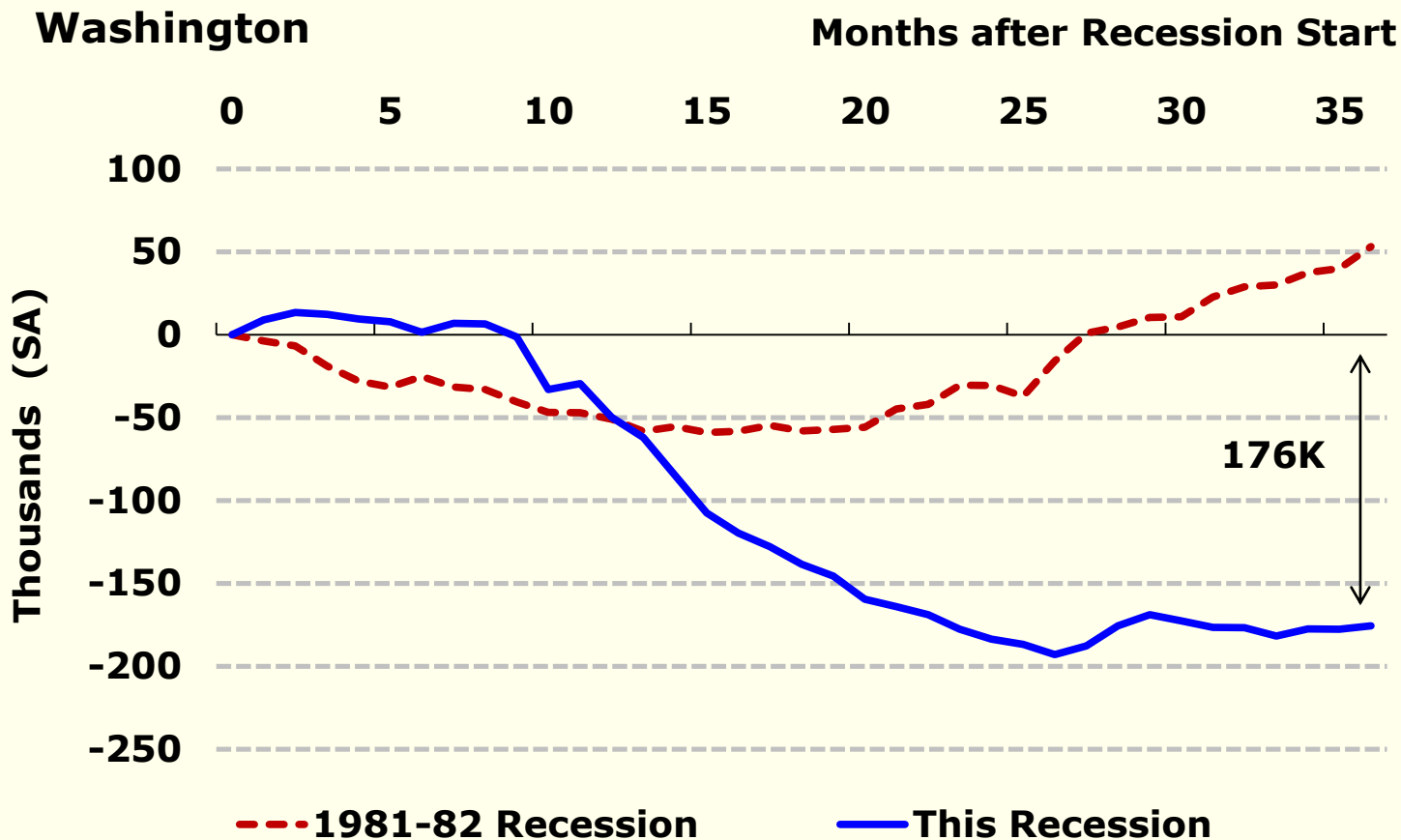
Peak to
trough job
losses

1981-82:

2.9% of
labor force

This time:

5.5% of
labor force



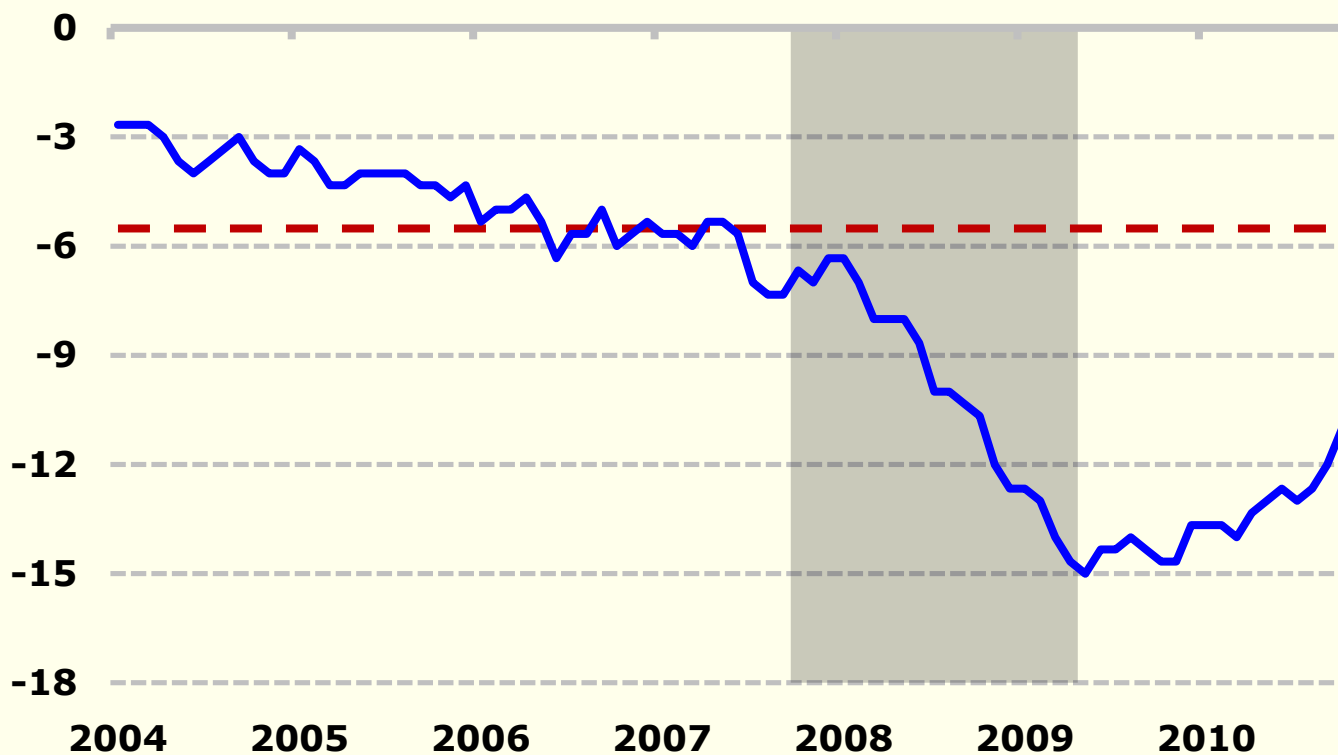
Source: WA ESD, ERFC; data through December 2010

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Credit conditions for small business are improving

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

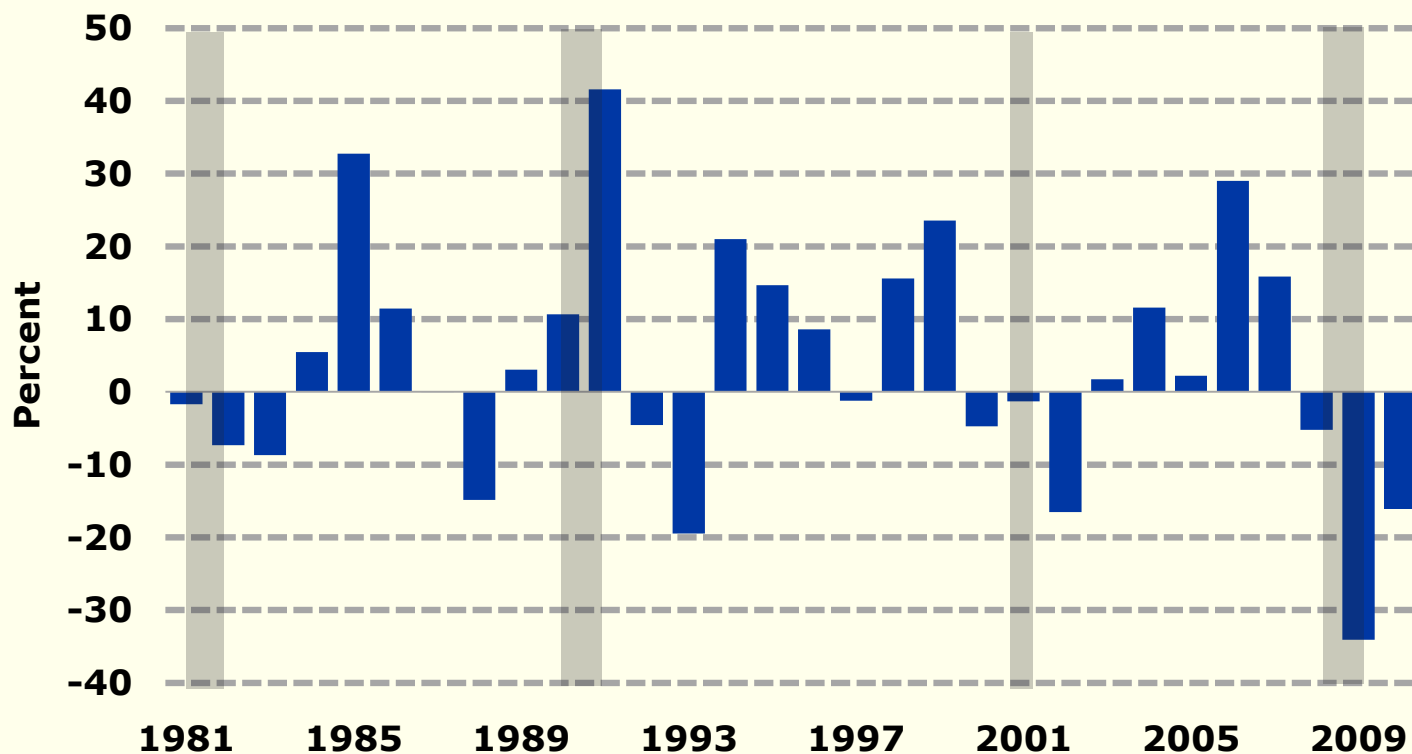


Source: National Federation of Independent Business; data through December 2010



We do not expect recovery in non-residential construction until 2012

Non-Residential Contract Value Annual Percent Change

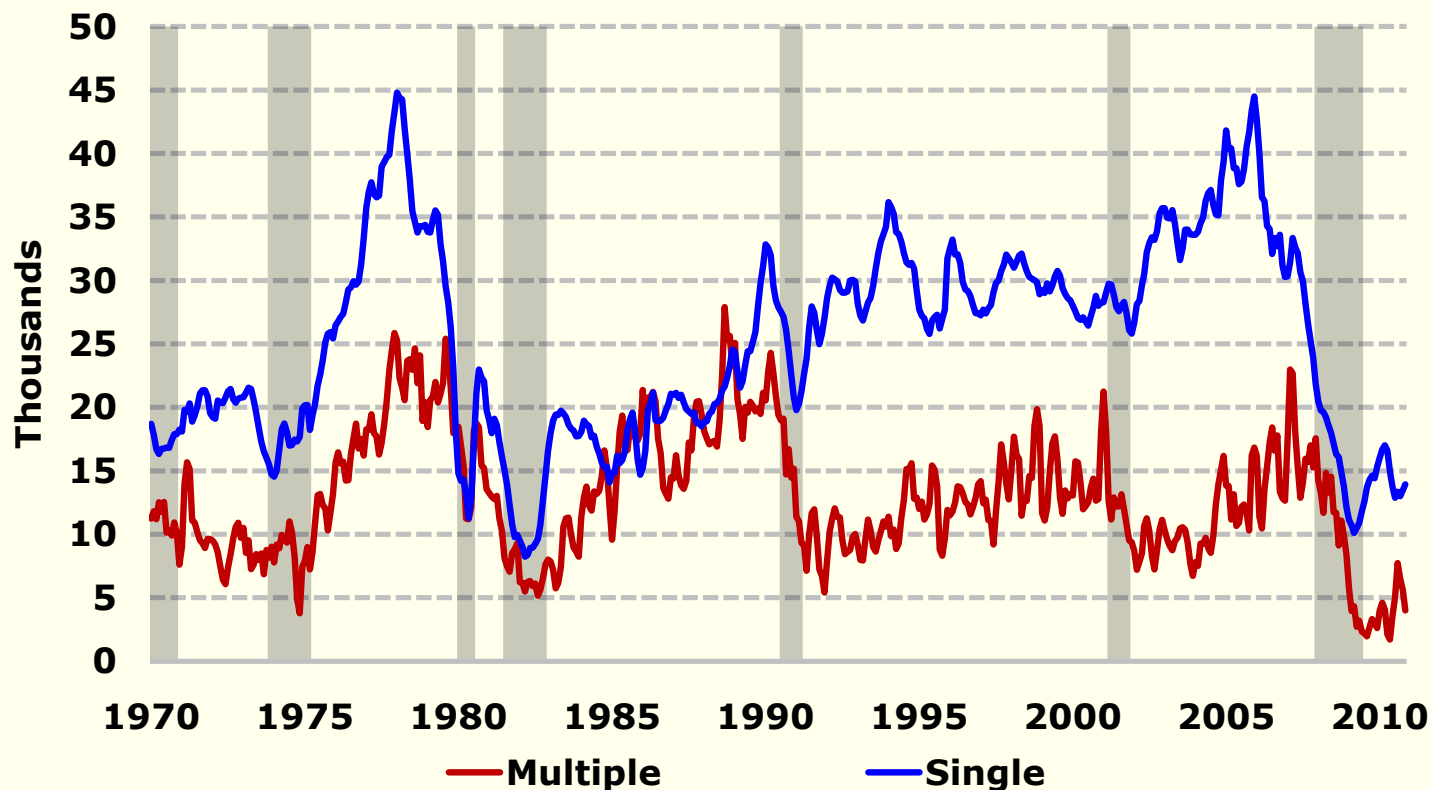


Source: McGraw-Hill Construction, data through December 2010



WA single-family building permits appear to be stabilizing

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



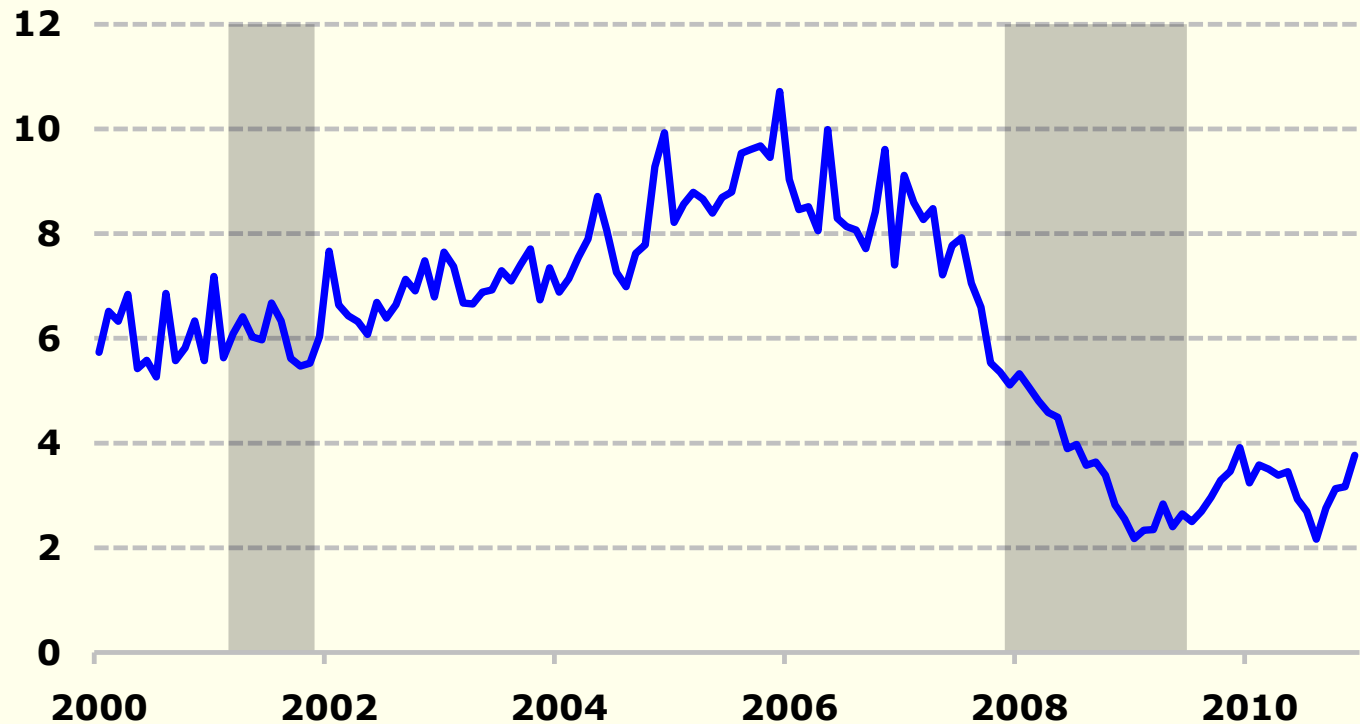
Source: U.S. Census Bureau; data through November 2010



Contract data for residential construction in WA signals improving activity

Residential Construction Contracts, Square Footage, Seasonally Adjusted

Thousands



Source: McGraw-Hill Construction, ERFC; data through December 2010

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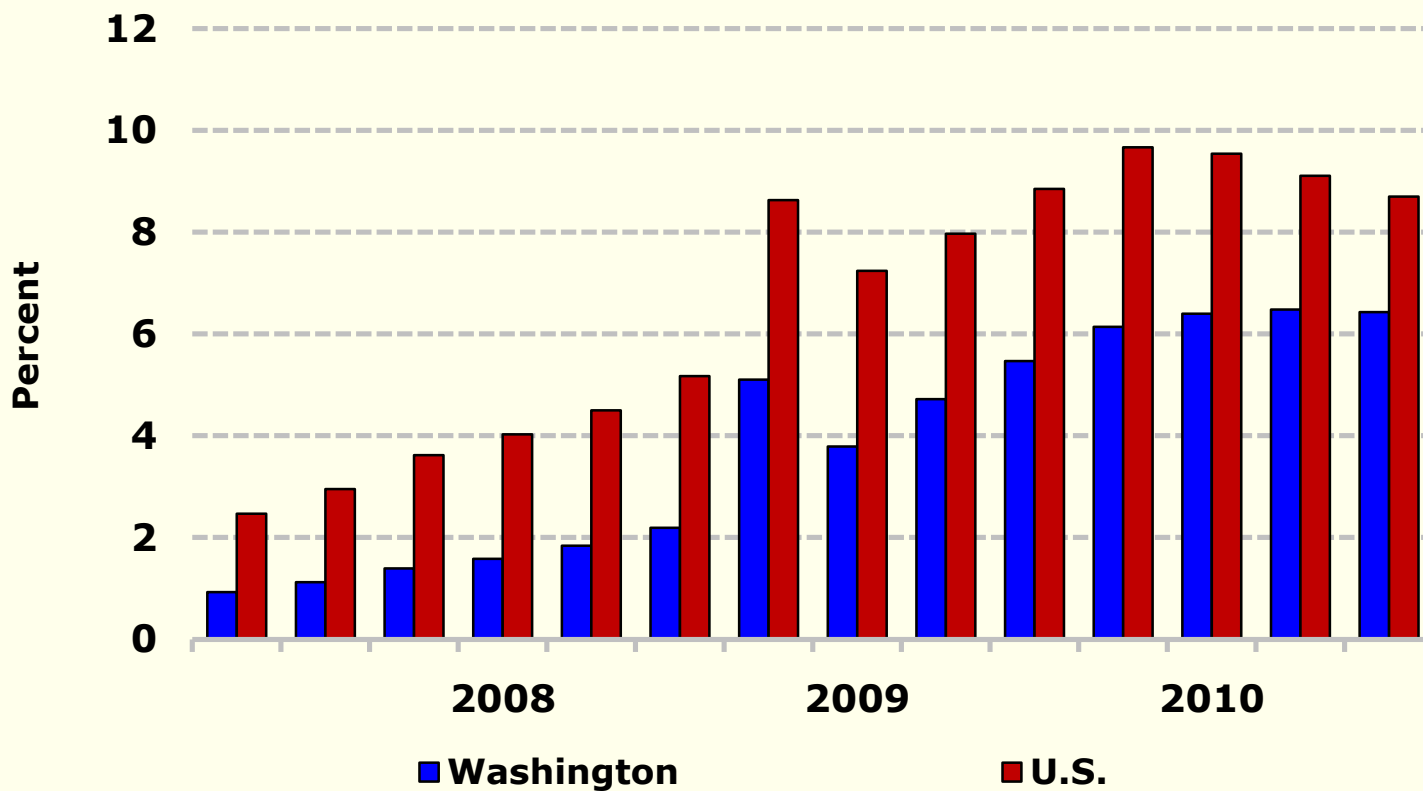
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Seriously delinquent mortgages remain high in WA

Washington ranks 18th in seriously delinquent mortgages in the 3rd quarter

Seriously Delinquent Mortgages



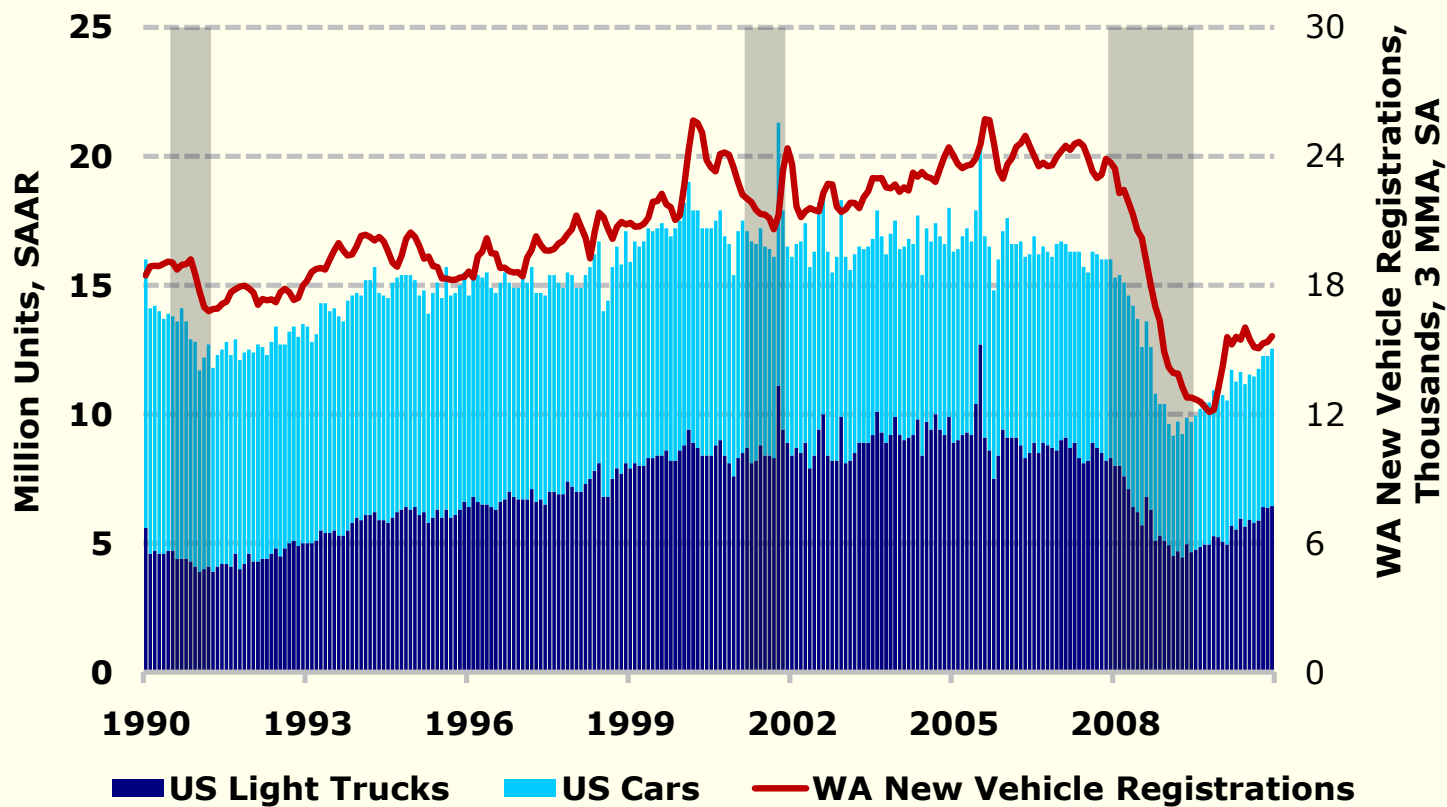
Source: Mortgage Bankers Association® National Delinquency Survey, data through 2010 Q3

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Automotive sales are improving

Cash for Clunkers effect removed



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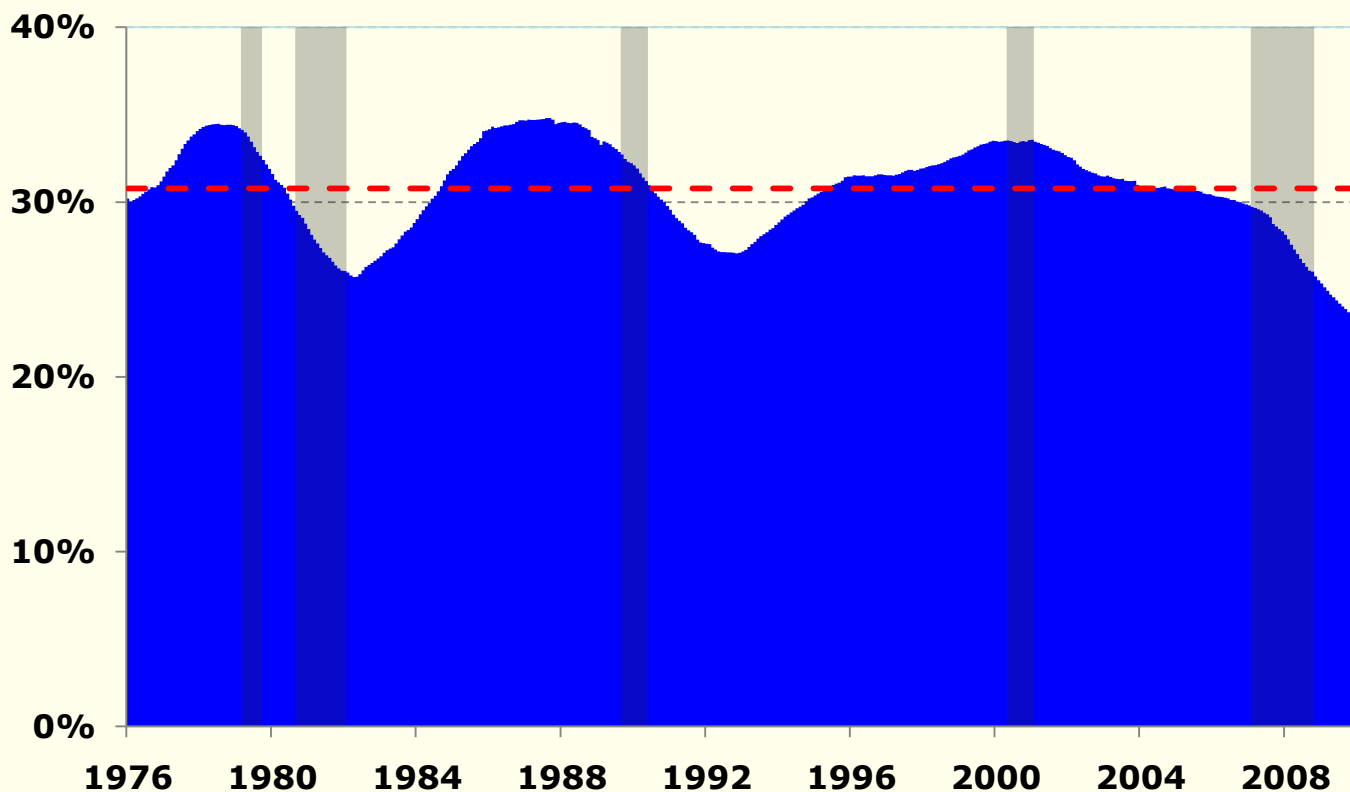
Source: Autodata Corporation, WA DOL; data through December 2010



Relative age of the car fleet indicates continued turnaround in car sales

The percent of "old" cars on the road is at a historic high

Ratio of US LMV Sales in Last 36 Months to Last 120 Months

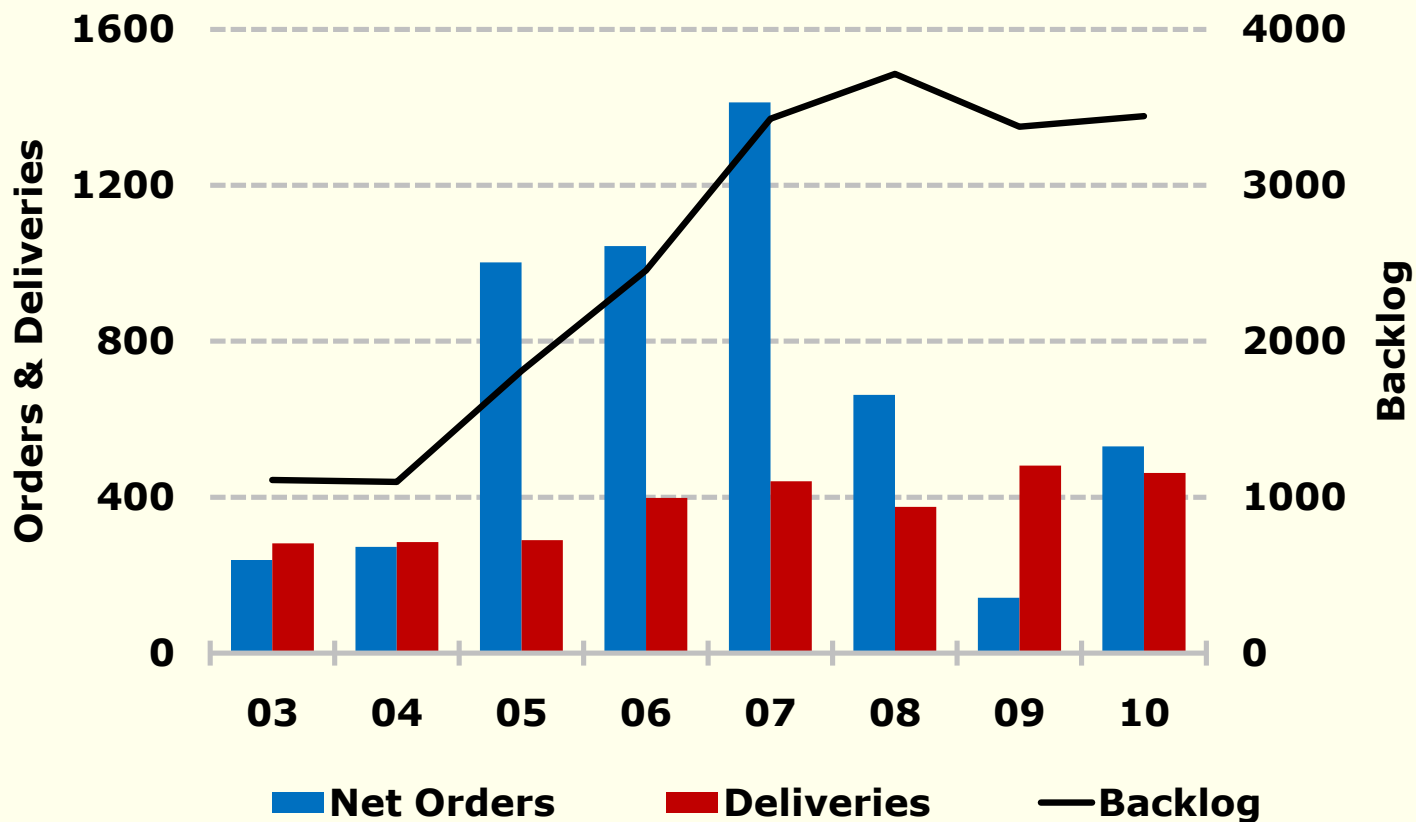


Source: Autodata Corporation, ERFC; data through December 2010

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Boeing orders recovered in 2010

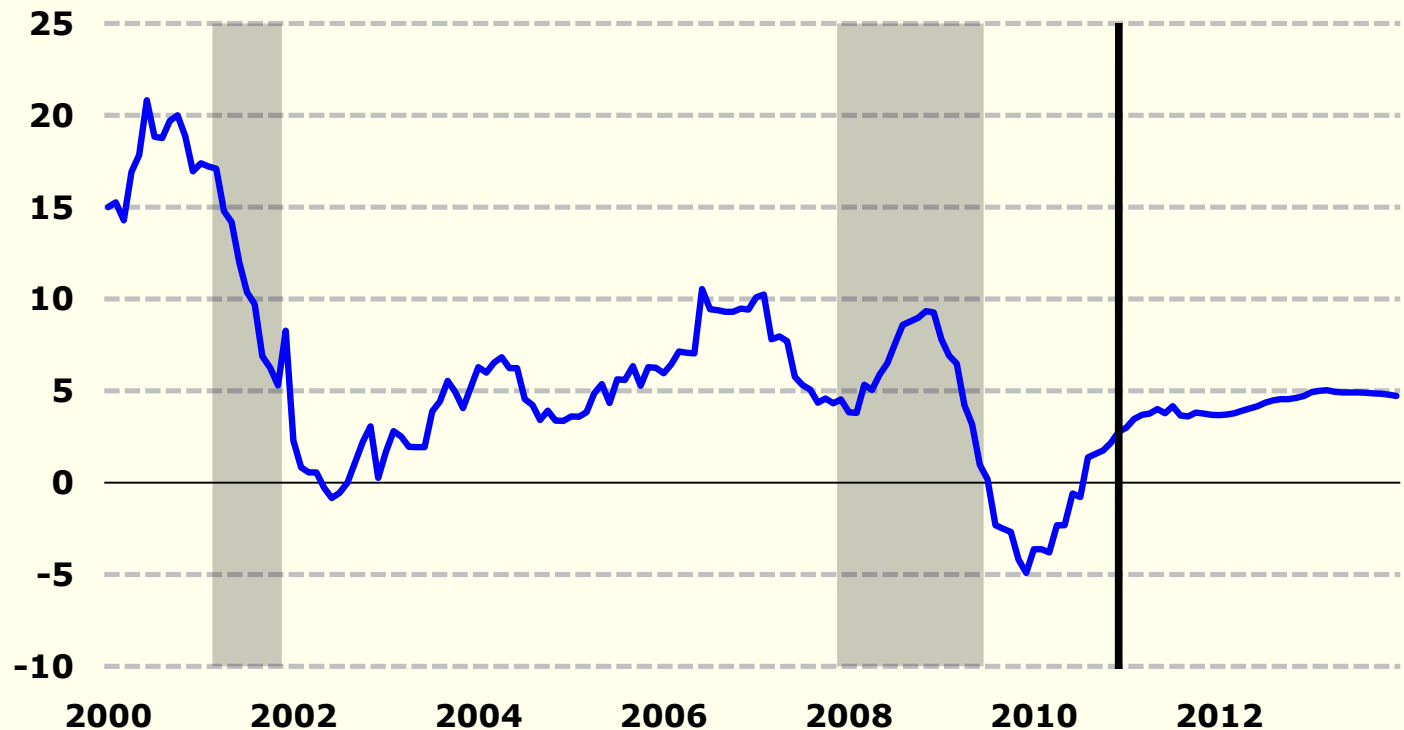


Source: Boeing, data through 2010



Software publishing employment is expected to eventually grow at about 5% per year

Percent change, year ago

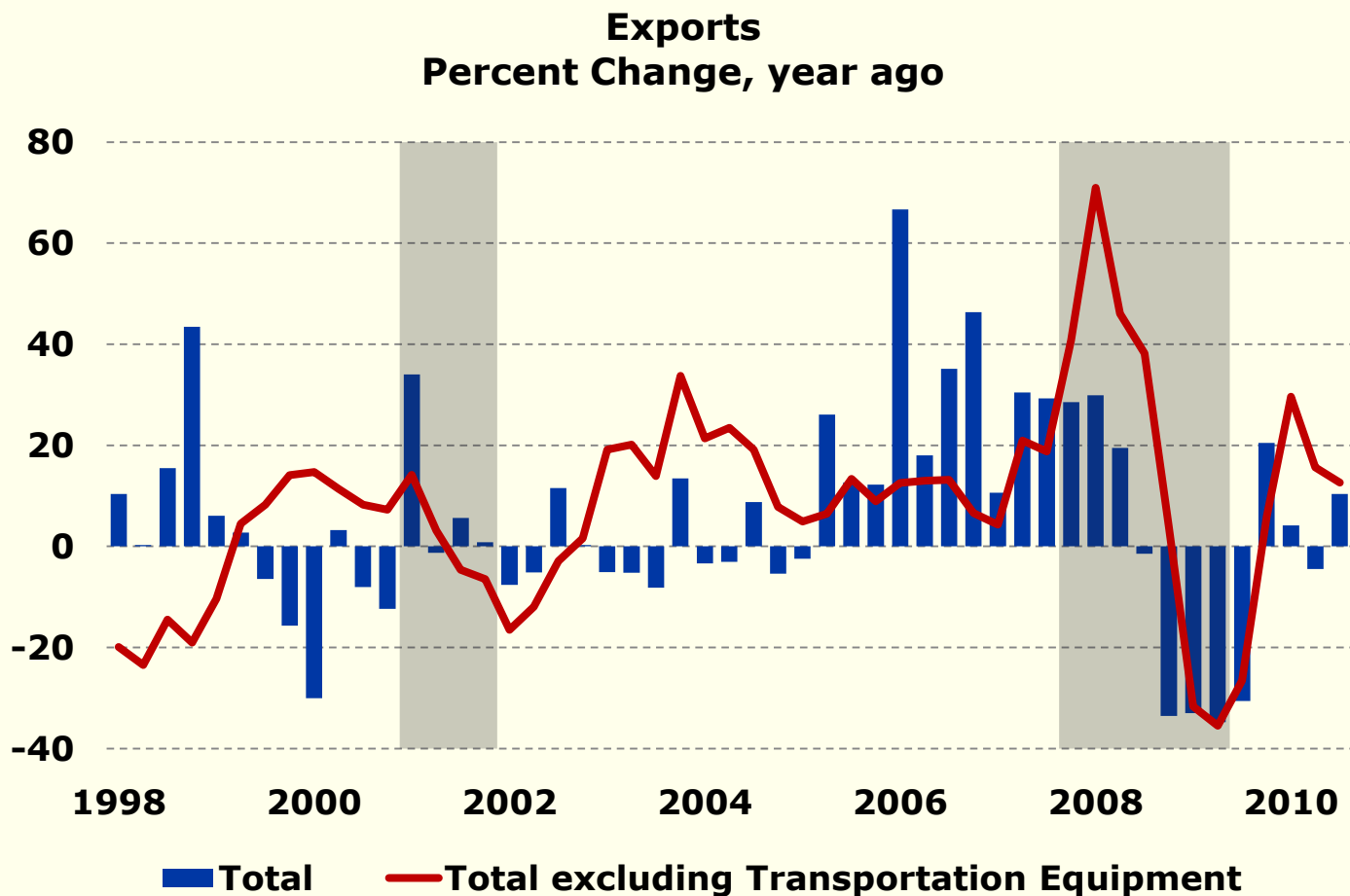


Source: ERFC November 2010 forecast; actual through December 2010



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

Total exports were up 10% y/y in Q3



Source: Wiser Trade Data; through 2010 Q3

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The US began its employment recovery before WA but WA will recover faster

WA employment peaked 3 months after US (Feb. 2008 vs Dec. 2007)

WA also reached its trough 3 months after US (Feb. 2010 vs Dec. 2009)

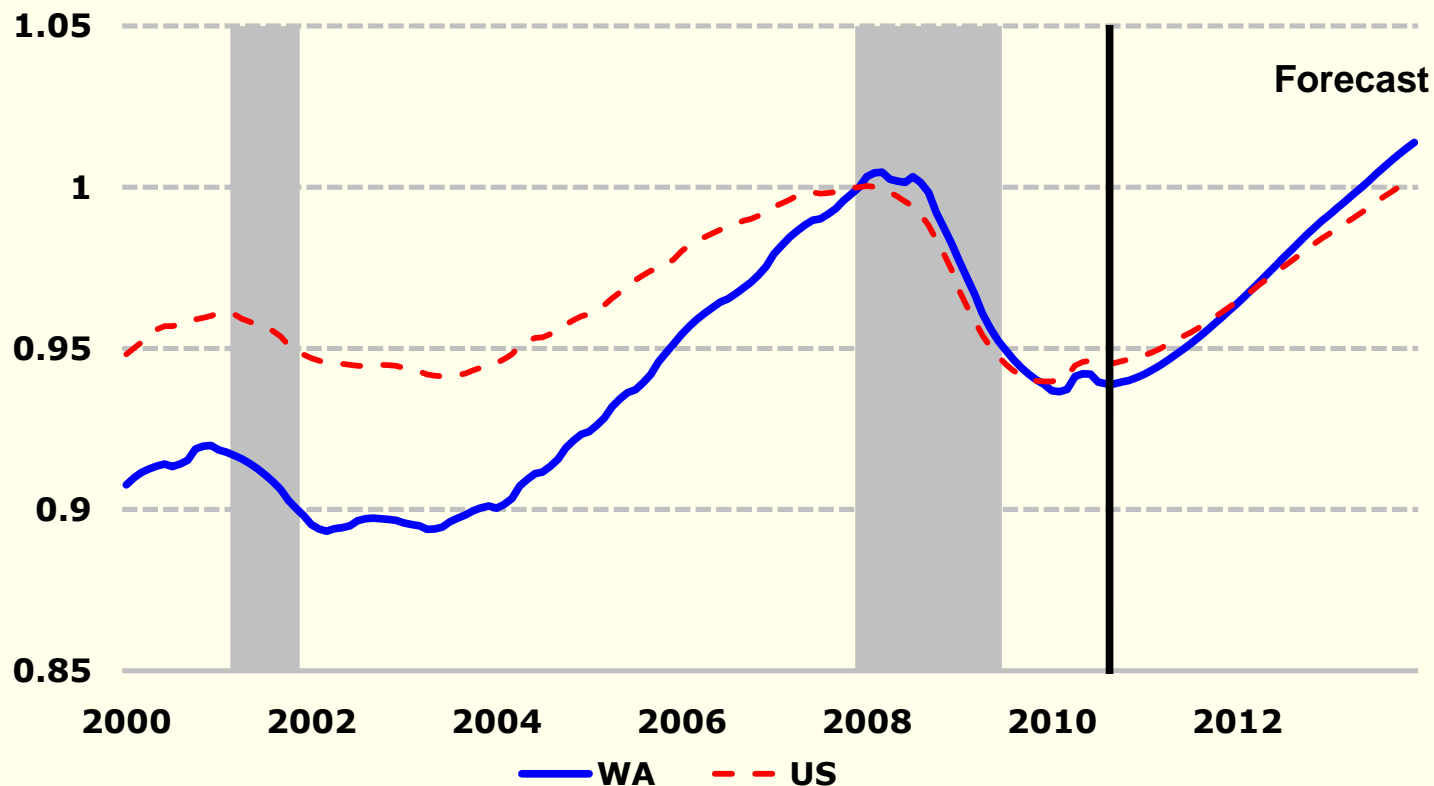
WA is forecasted to reach its pre-recession peak in August 2013, the US in November 2010

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December 2007=1.0



Source: ERFC November 2010 forecast; actual through October 2010



WA personal income will recover faster than that of the US

Date of regaining peak:

WA:

Nominal
10Q2

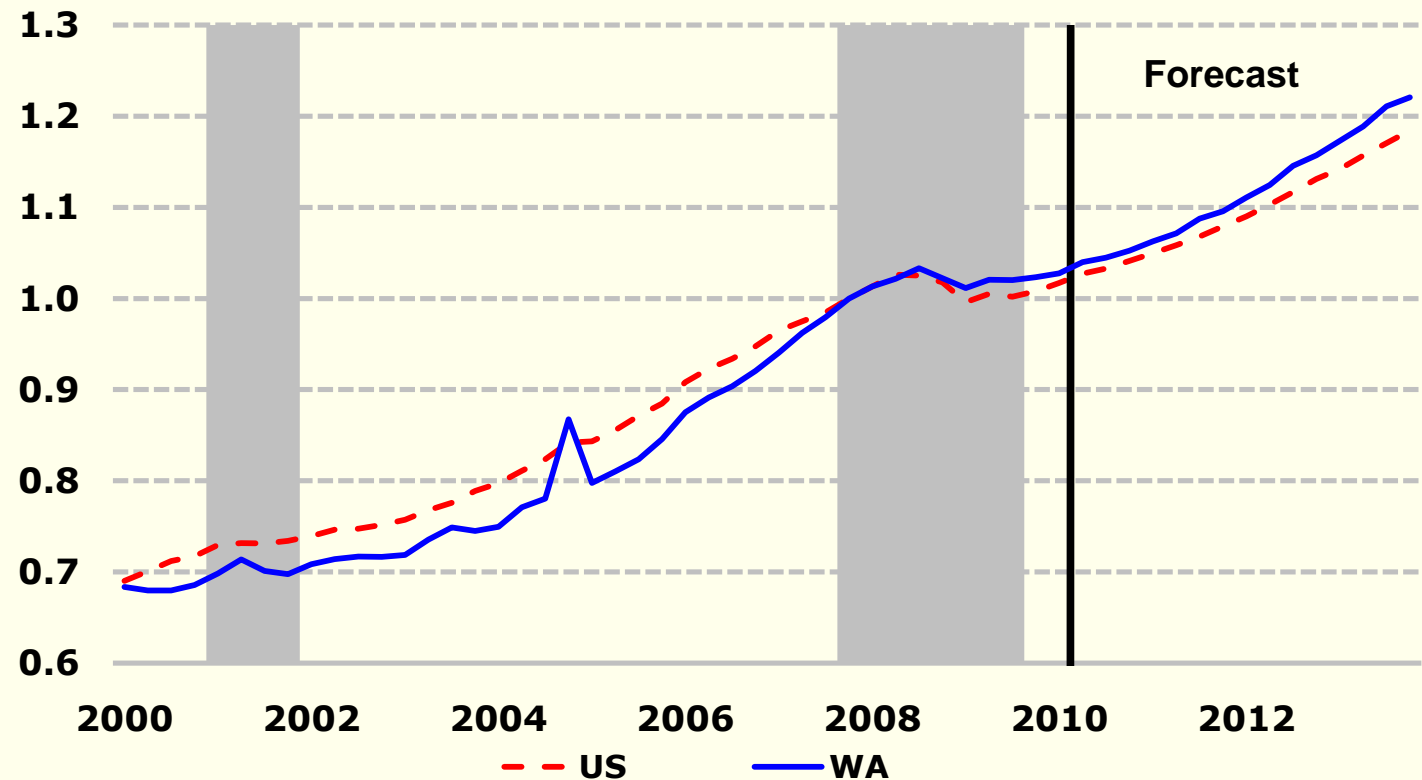
Real 10Q4

US:

Nominal
10Q2

Real 11Q3

2007Q4 = 1.0



Source: ERFC November 2010 forecast; actual data through 2010Q2

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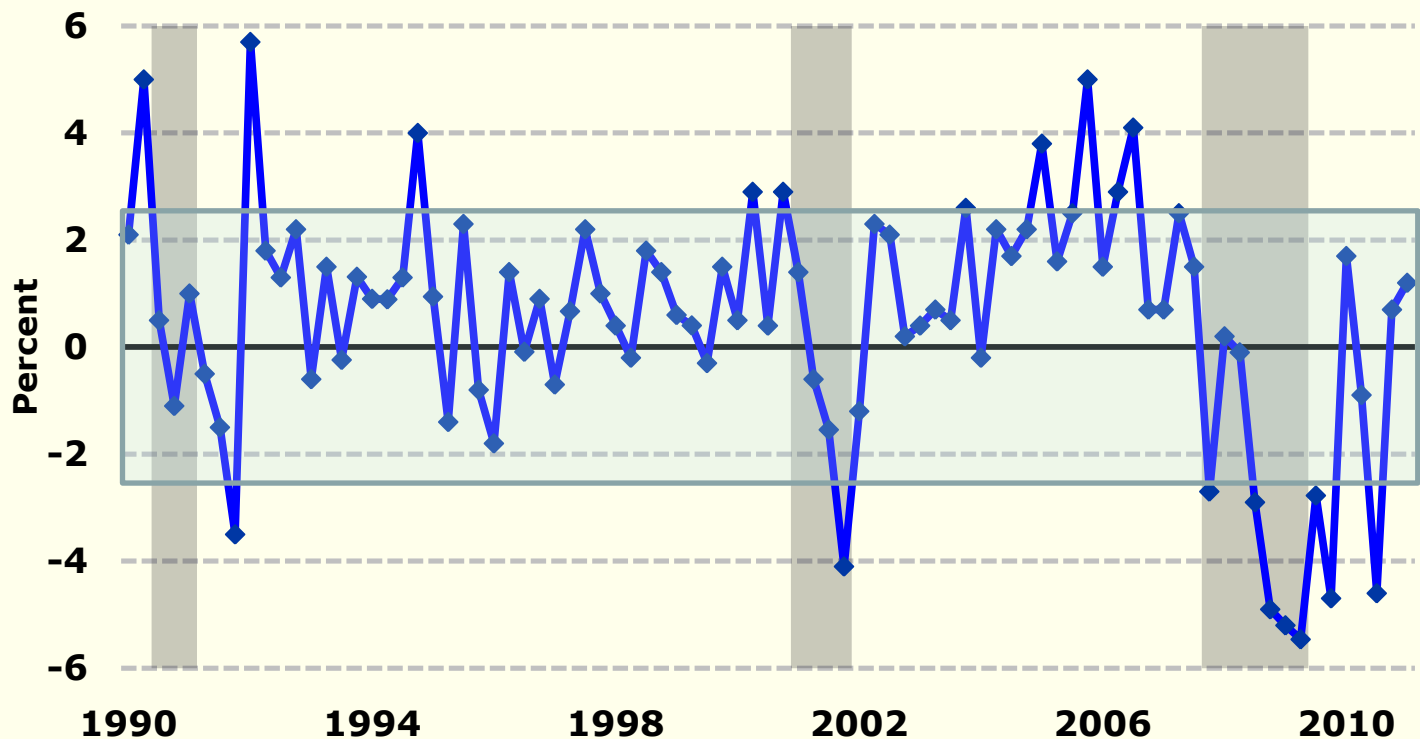
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Revenues have come in close to forecast since September

Average Adjusted Monthly Variance



Source: ERFC; data through January 10, 2011 collections



Forecast changes: General Fund State, 2009-2011 Biennium

September Forecast:

\$28,512 million

USD millions

November '10 Forecast

	<u>Collection Experience</u>	<u>Non-economic Change</u>	<u>Forecast Change</u>	<u>Forecast</u>	<u>Total Change*</u>
Dept. of Revenue	\$21	(\$63)	(\$337)	\$26,676	(\$379)
All other agencies	\$0	\$0	(\$6)	\$1,451	(\$6)
Total GF-S	\$21	(\$63)	(\$343)	\$28,127	(\$385)

* Detail may not add to total due to rounding

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Forecast changes: General Fund State, 2011-2013 Biennium

USD Millions

USD millions	Sept 2010 Forecast	November '10 Forecast			
		Non-economic Change	Forecast Change	Forecast	Total Change*
Dept. of Revenue	\$31,812	(\$218)	(\$584)	\$31,010	(\$802)
All other agencies	\$1,602	\$0	(\$7)	\$1,595	(\$7)
Total GF-S	\$33,414	(\$218)	(\$591)	\$32,605	(\$809)

* Detail may not add to total due to rounding

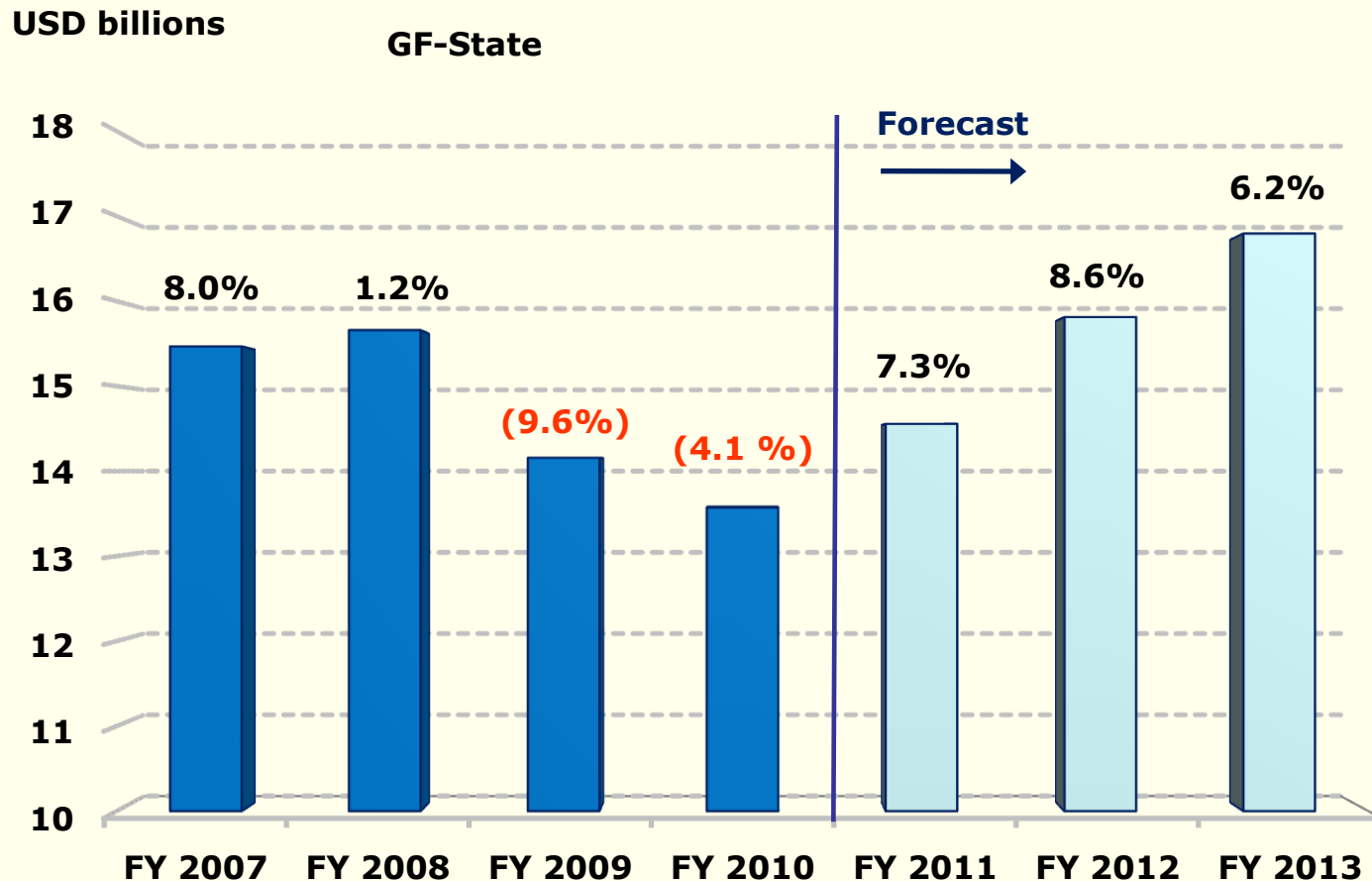
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General Fund* forecast by fiscal year

* General Fund & Related Funds for FY 07, 08, and 09

General Fund – new definition, for FY 10-13



Source: ERFC forecast, November 2010; includes impact of legislative changes

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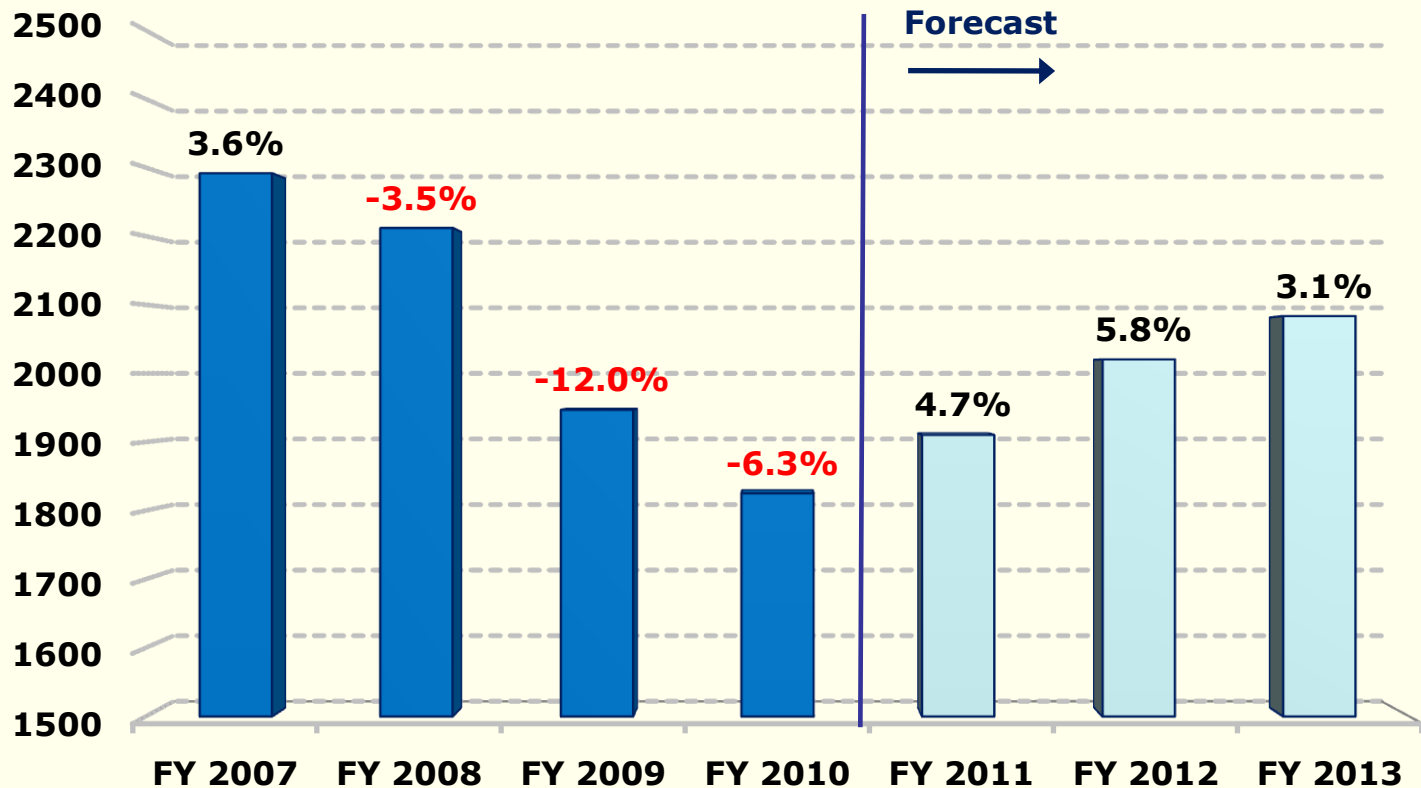
Real per capita General Fund* forecast by fiscal year

* General Fund & Related Funds for FY 07, 08, and 09

General Fund – new definition, for FY 10-13

2005 Dollars

GF-State



Source: ERFC forecast, November 2010; includes impact of legislative changes

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Conclusion

- The latest forecast for the 2009-11 Biennium is \$385 million lower, due economic and non-economic reasons
- The forecast for the 2011-13 Biennium is \$809 million lower for the same reasons
- The economic recovery is ongoing, but at a slow pace
- Developments since the forecast have been positive, but it is still too early to expect those trends to continue
- The level of uncertainty in the baseline is still significantly high
- Downside risks still remain higher than upside risks



Questions



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