

Economic Outlook

Presented to
Seattle Economics Council

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Seattle, Washington



WASHINGTON STATE
ECONOMIC AND REVENUE FORECAST COUNCIL



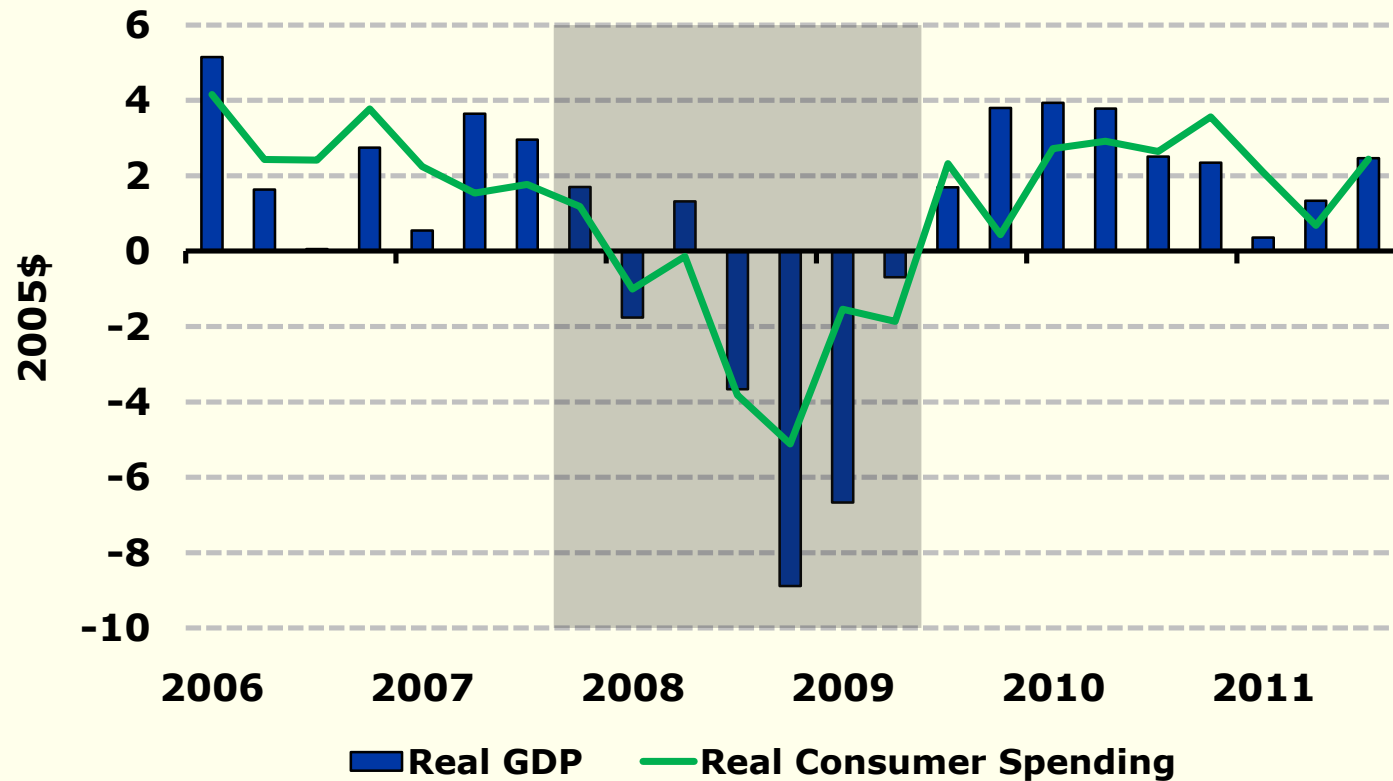
Summary

- Events are unfolding as expected in the September forecast
- However, the uncertainty in the baseline remains very high
- Revenues since the September forecast are \$2 million (0.1%) below expectations
- Factors outside the state are mostly responsible for the states current distress
 - Europe; Political gridlock in DC; weak consumer and business confidence
- Except construction, and state and local governments, the WA economy is sound



Consumer spending growth is improving

Percent growth, SAAR

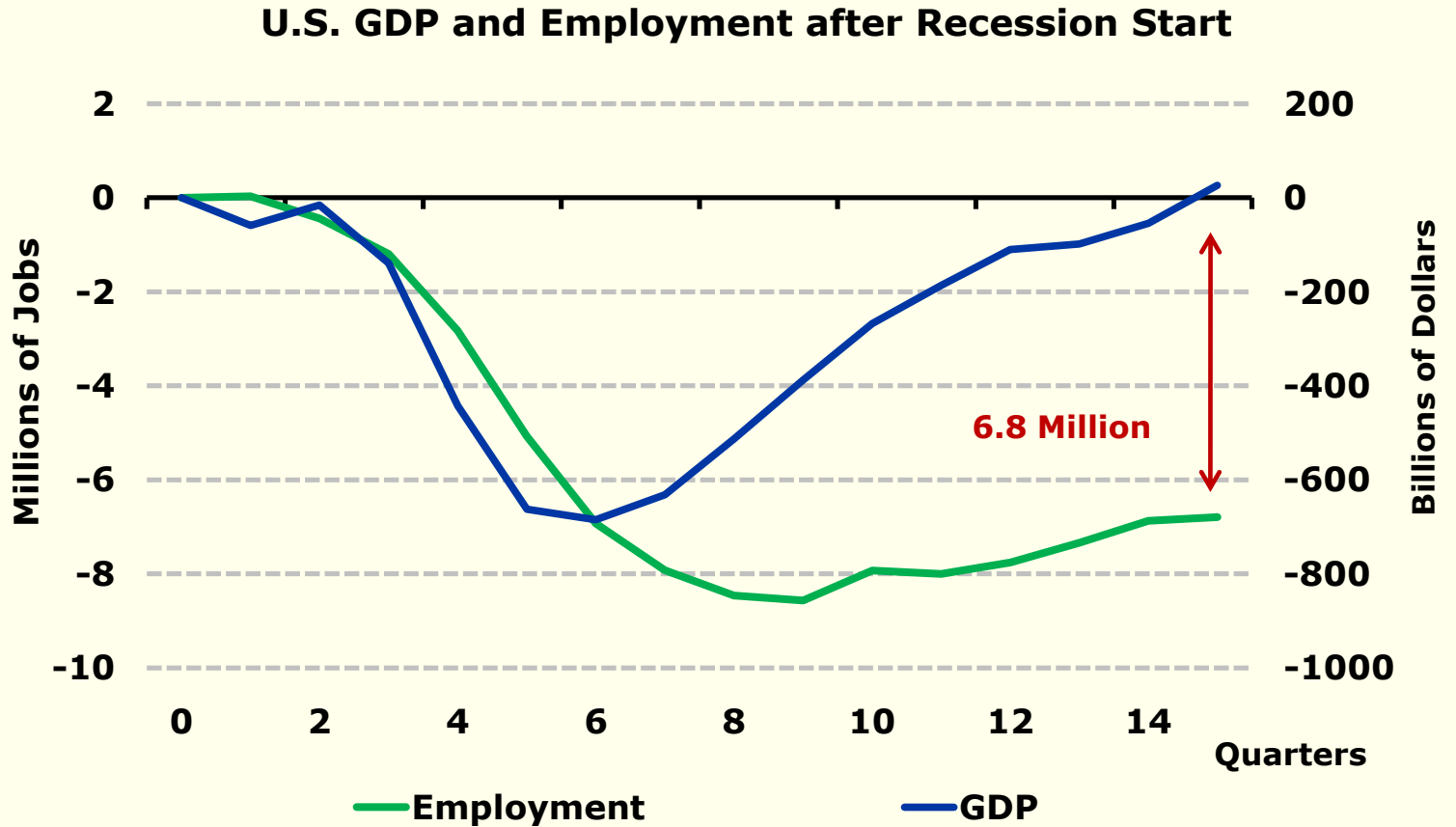


Source: BEA, data through 2011 Q3, advance estimate



The U.S. economy is now producing its pre-recession output with fewer jobs

Data normalized to recession start, 2007Q4 = 0



Source: BEA, BLS, ERFC; data through 2011 Q3

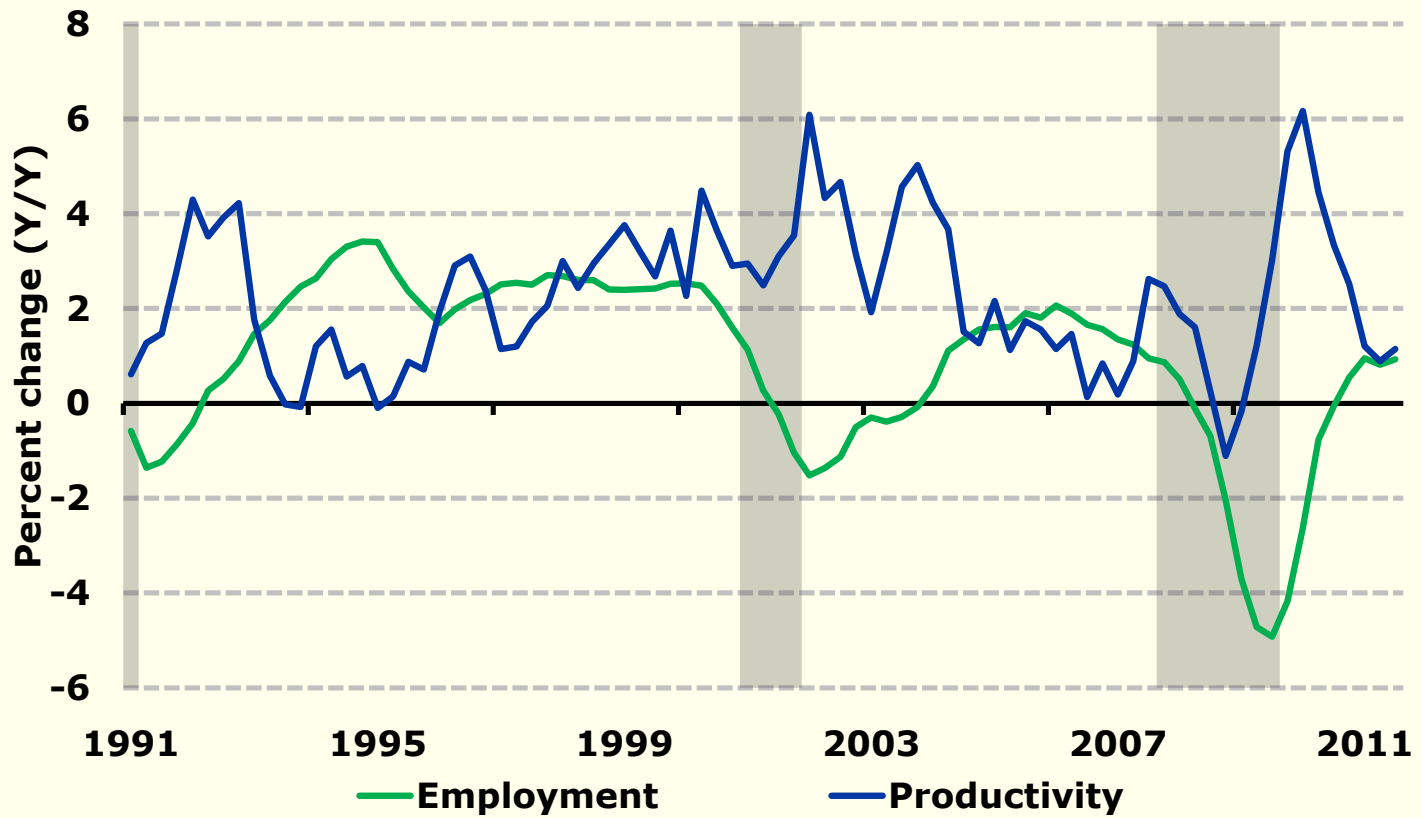
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Labor productivity growth is increasing again, slowing job growth

Any increase in final demand will translate to job growth after labor productivity declines

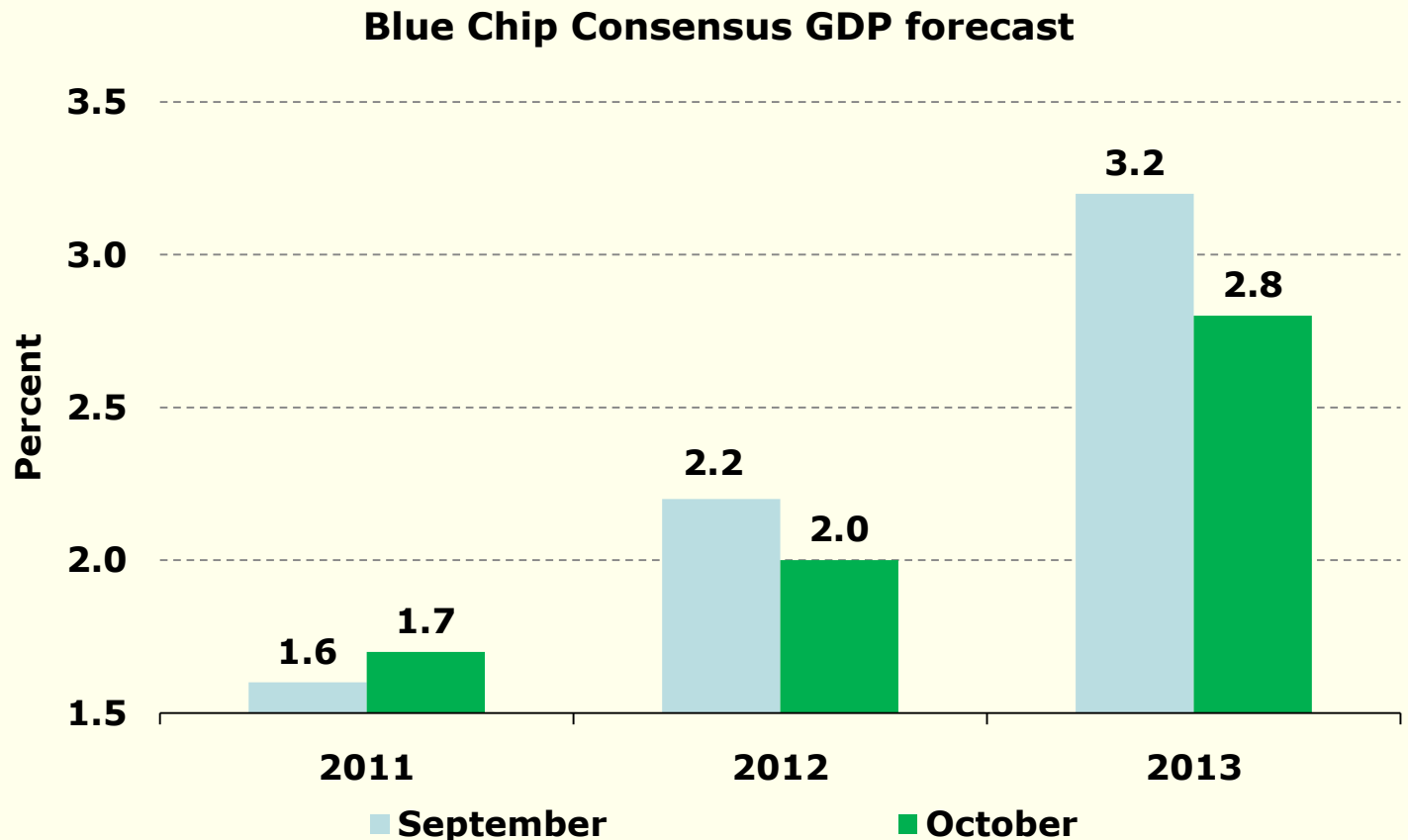
U.S. Employment & Labor Productivity Growth



Source: BLS; data through 2011 Q3



The consensus economic outlook is marginally weaker in the out years

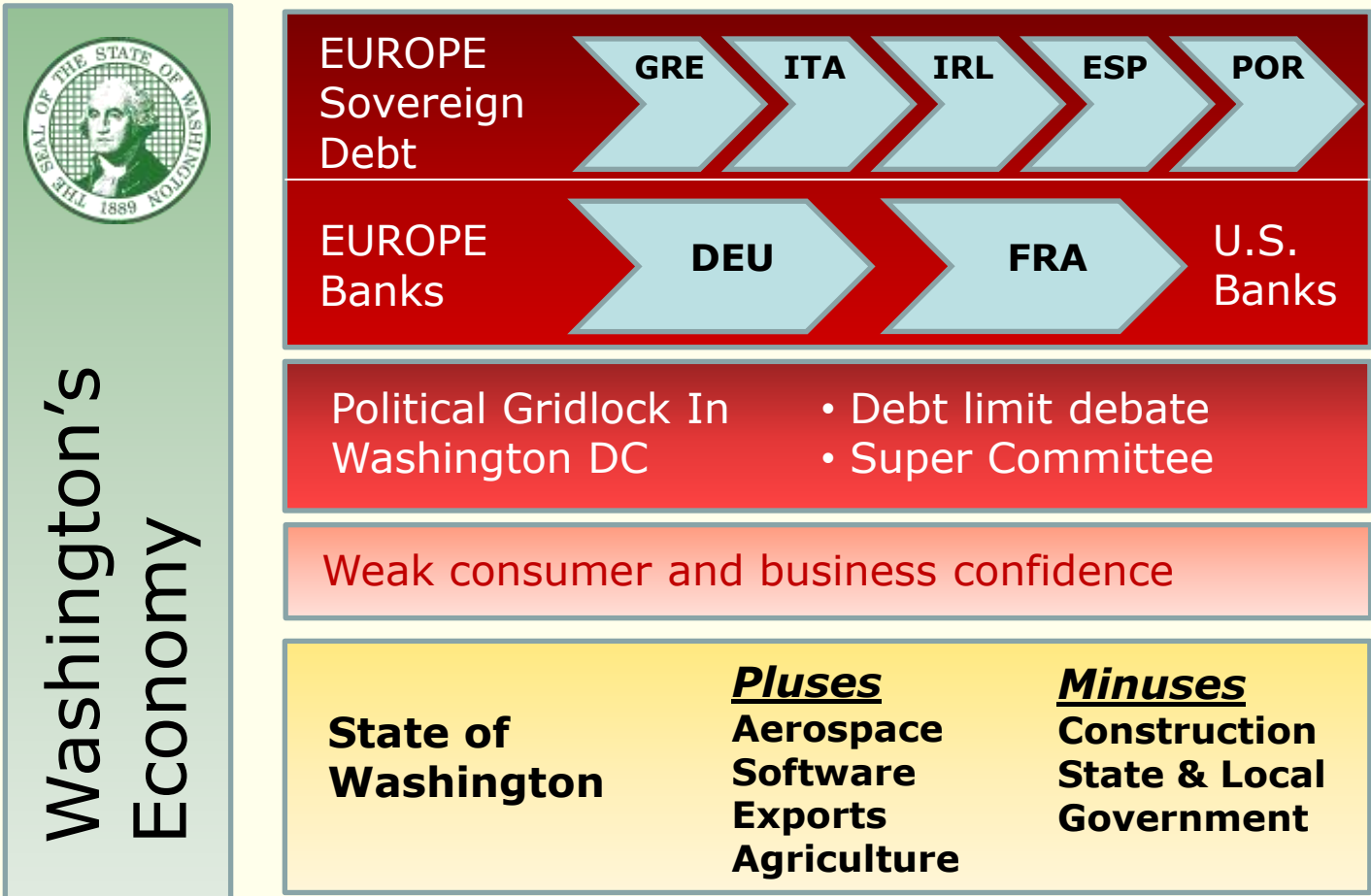


Source: Blue Chip Economic Indicators, data through October 2011

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The state's risk matrix shows most risks from outside state



Source: ERFC

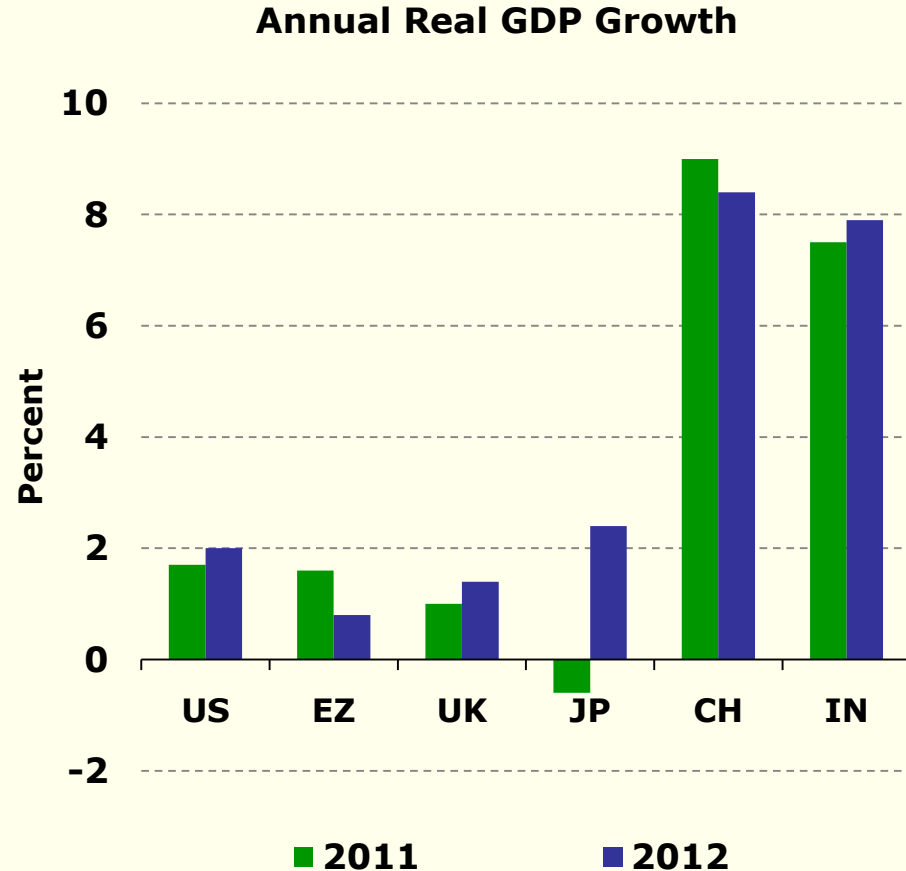
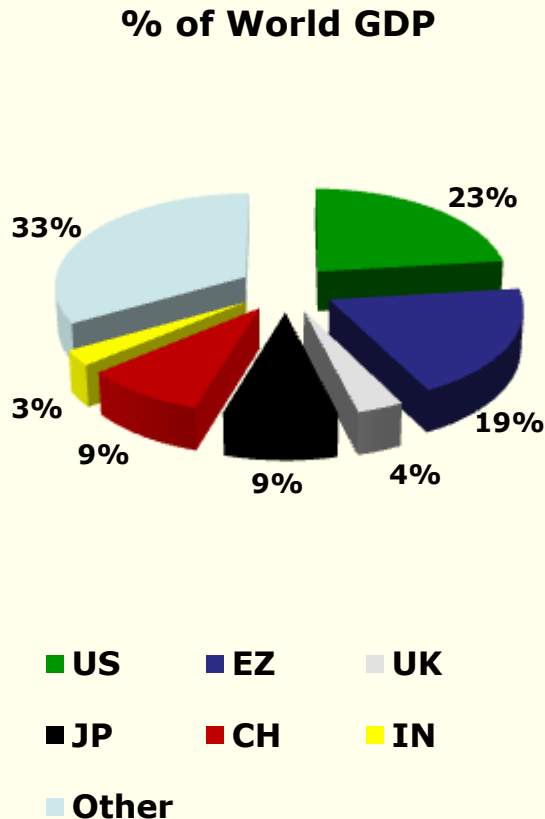
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World GDP is expected to remain weak through 2012

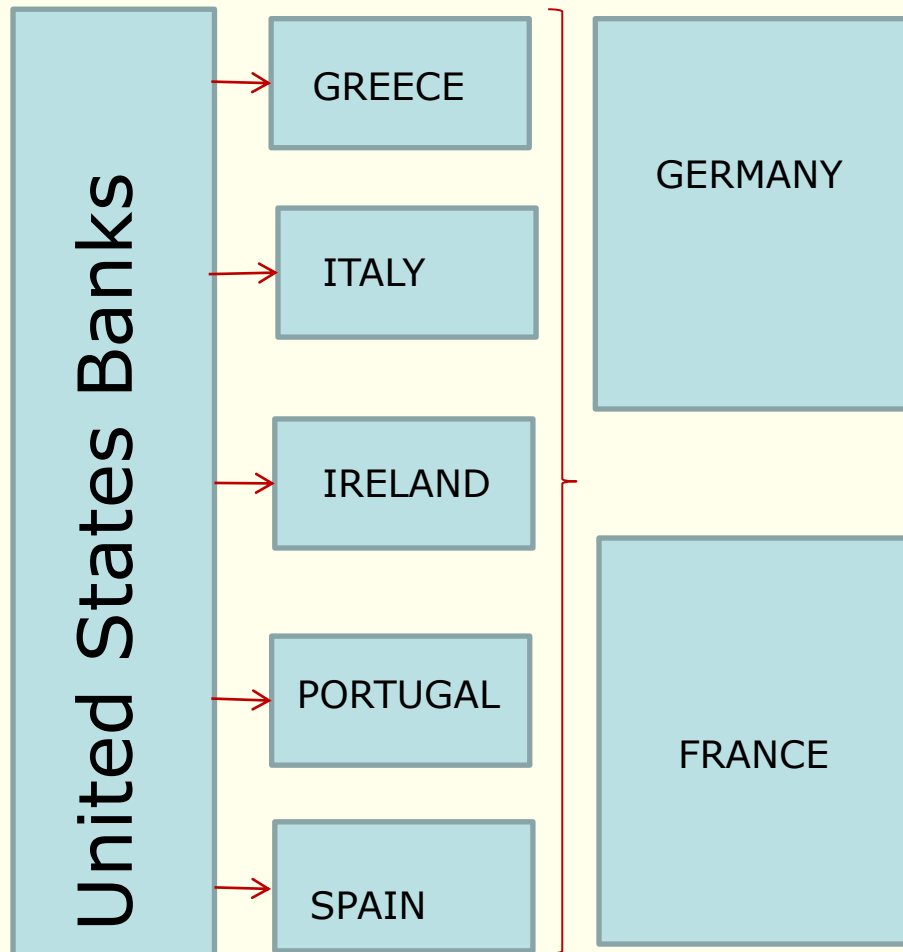
Global GDP growth less than 3% implies the world economy is in recession



Source: Blue Chip Consensus, ERFC, World Bank; data through October 2011



U.S. banks' exposure to Europe is worrying



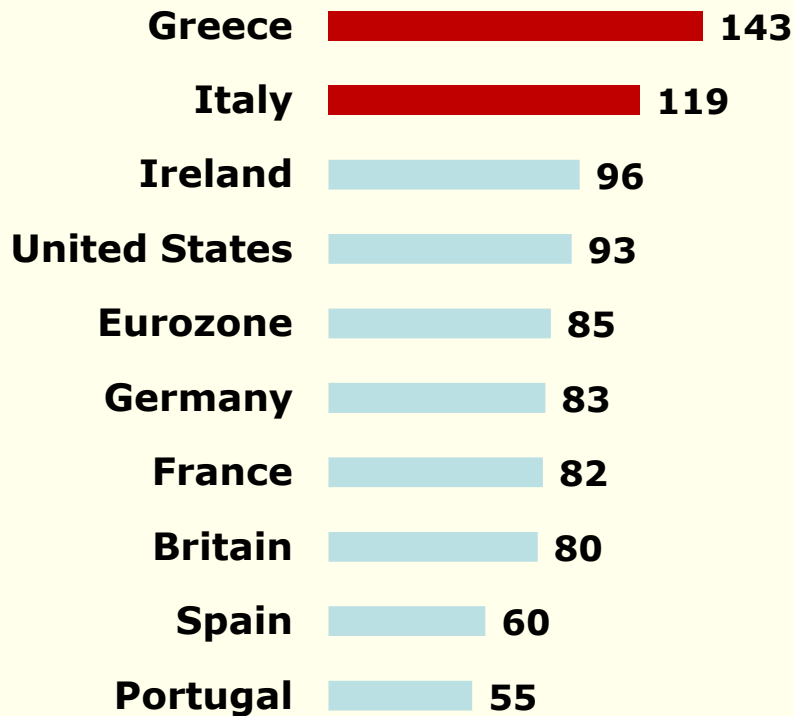
U.S. Banks Exposure		
\$ bill.	Sov.	Pvt.
GRE	2.3	6.0
ITA	12.9	34.0
IRE	1.9	51.7
POR	1.1	4.1
ESP	7.6	59.1
DEU	59.6	175.1
FRA	24.9	246.8
Direct	\$ 687 billion	
Cont.	\$ 1.4 trillion	

Source: Bank of International Settlements, 2011 Q2

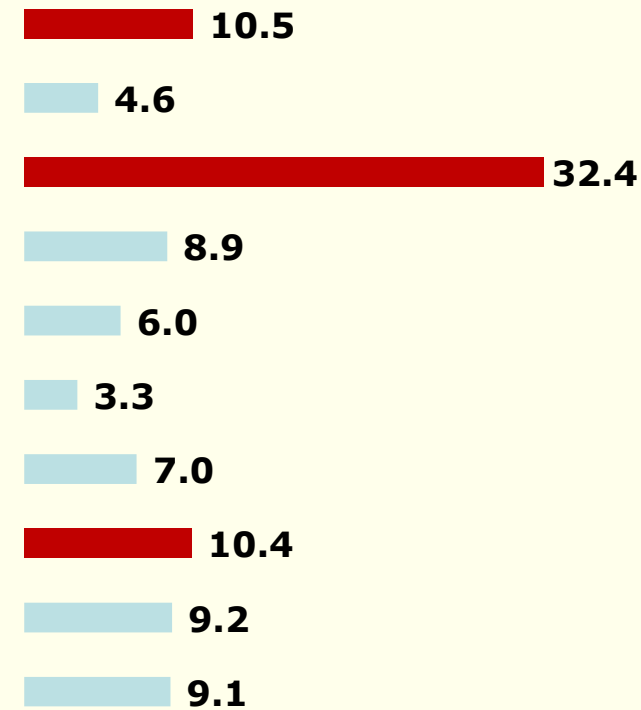


European economies are under stress

Gross government debt, 2010 Share of GDP



Budget deficit, 2010 Share of GDP



Source: Eurostat, U.S. Office of Management and Budget, ERFC; data through 2010

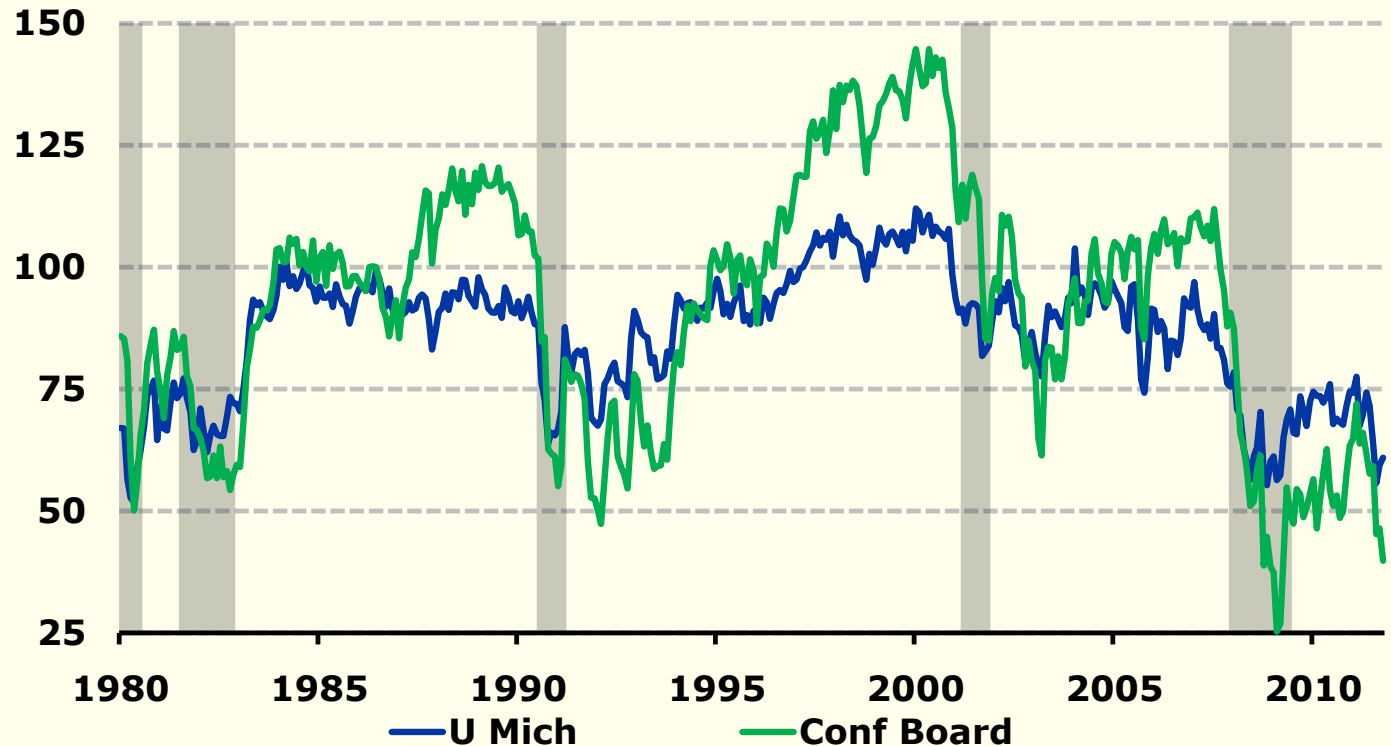


Consumer confidence is very weak...

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Mich: 1966Q1 = 100, SA

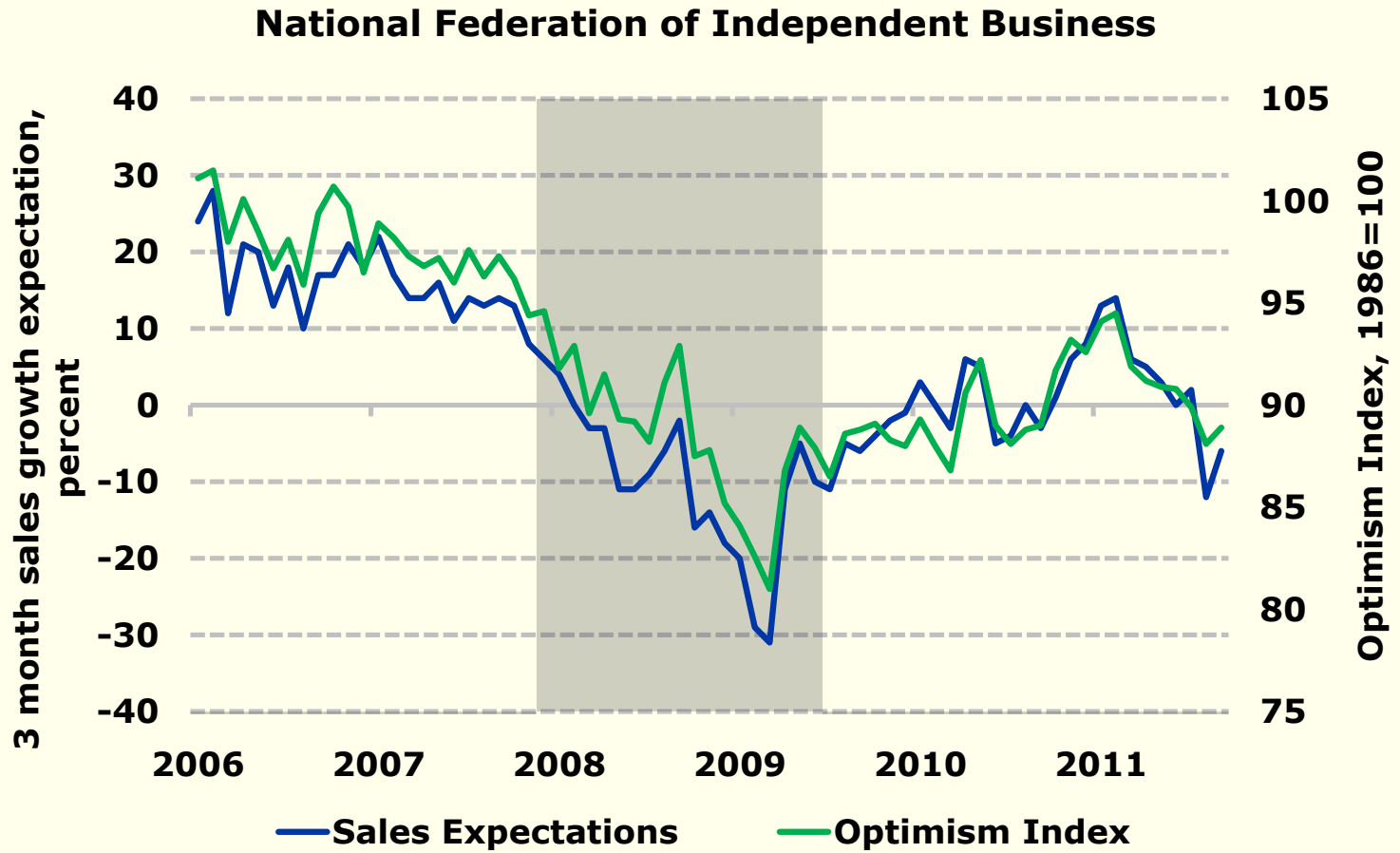
Conf Board: 1985 = 100, SA



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



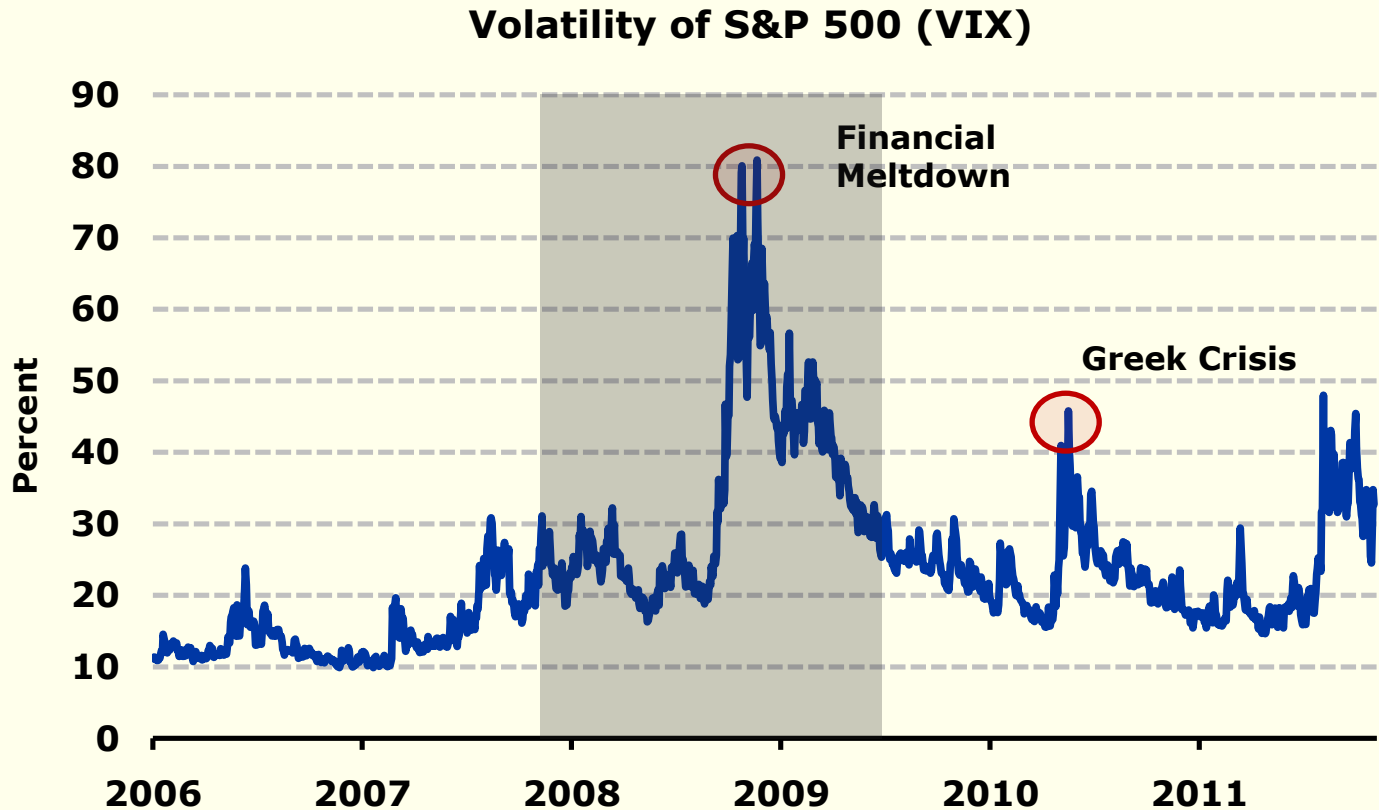
...as are sales expectations and small business optimism



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



Stock market volatility has again spiked

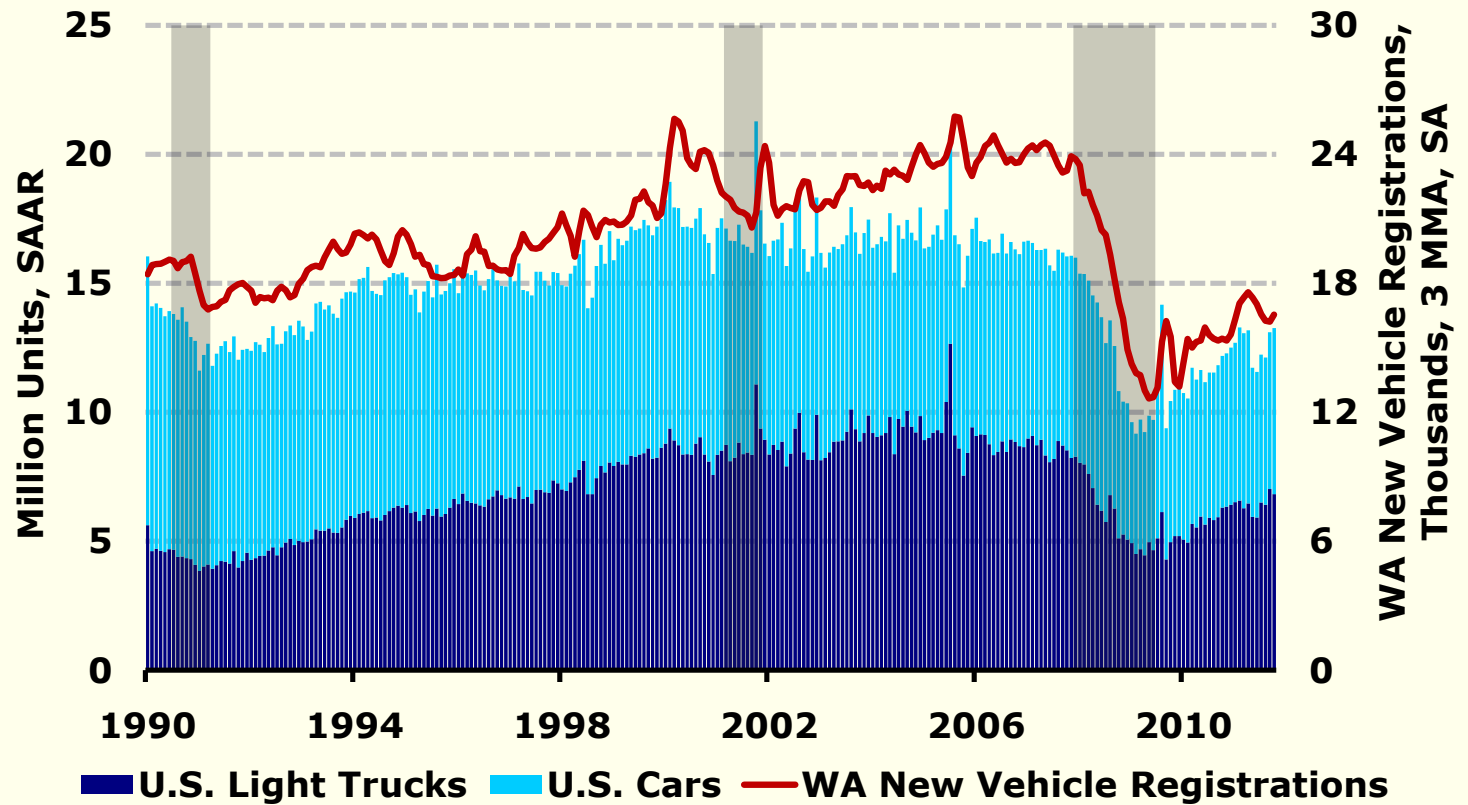


Source: Yahoo! Finance; data through November 2, 2011



U.S. LMV sales are recovering slowly from supply chain disruptions

U.S. LMV sales increased 1.2% in October



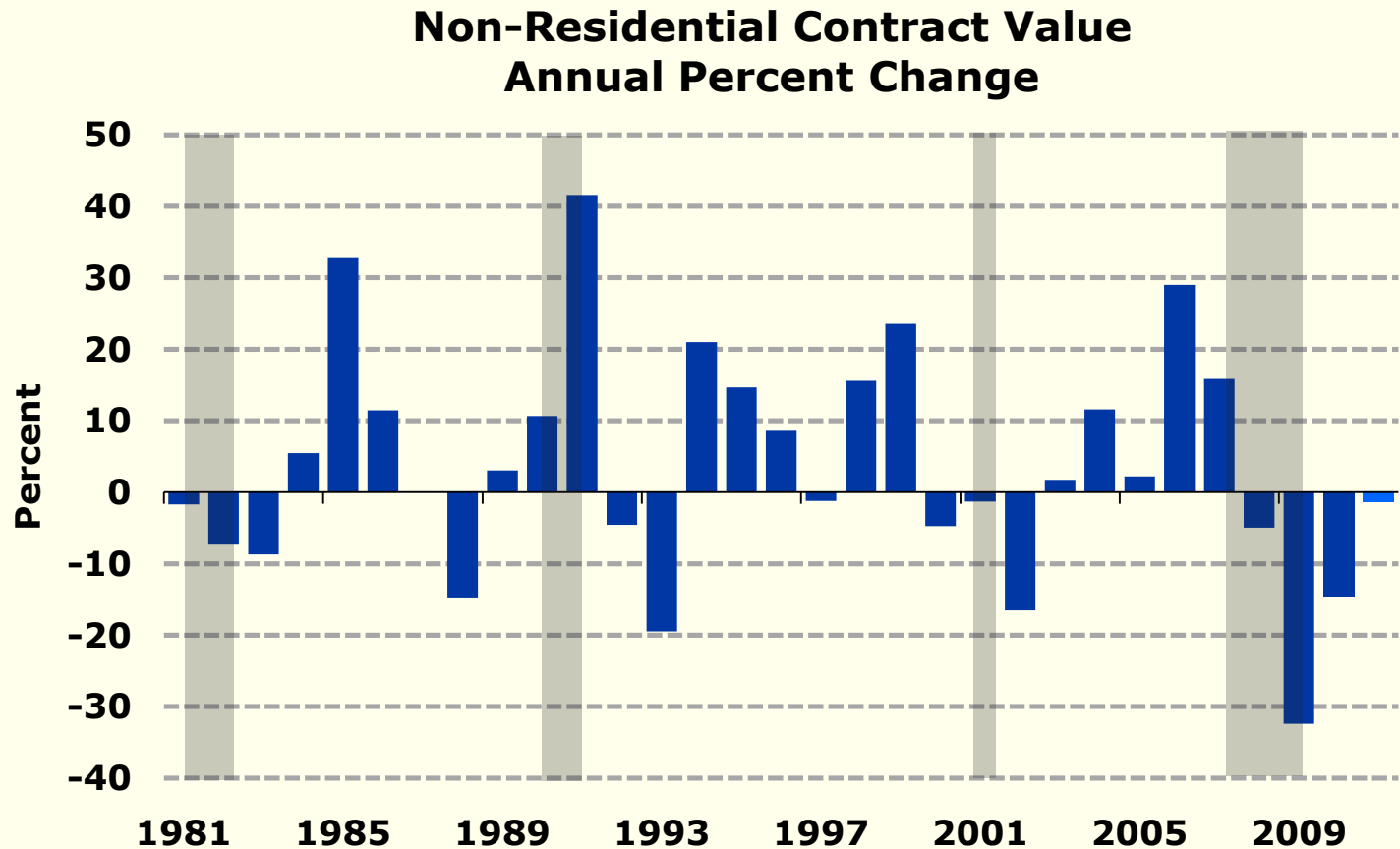
Source: Autodata Corporation, WA DOL; data through October 2011

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



Source: McGraw-Hill Construction, data through September 2011

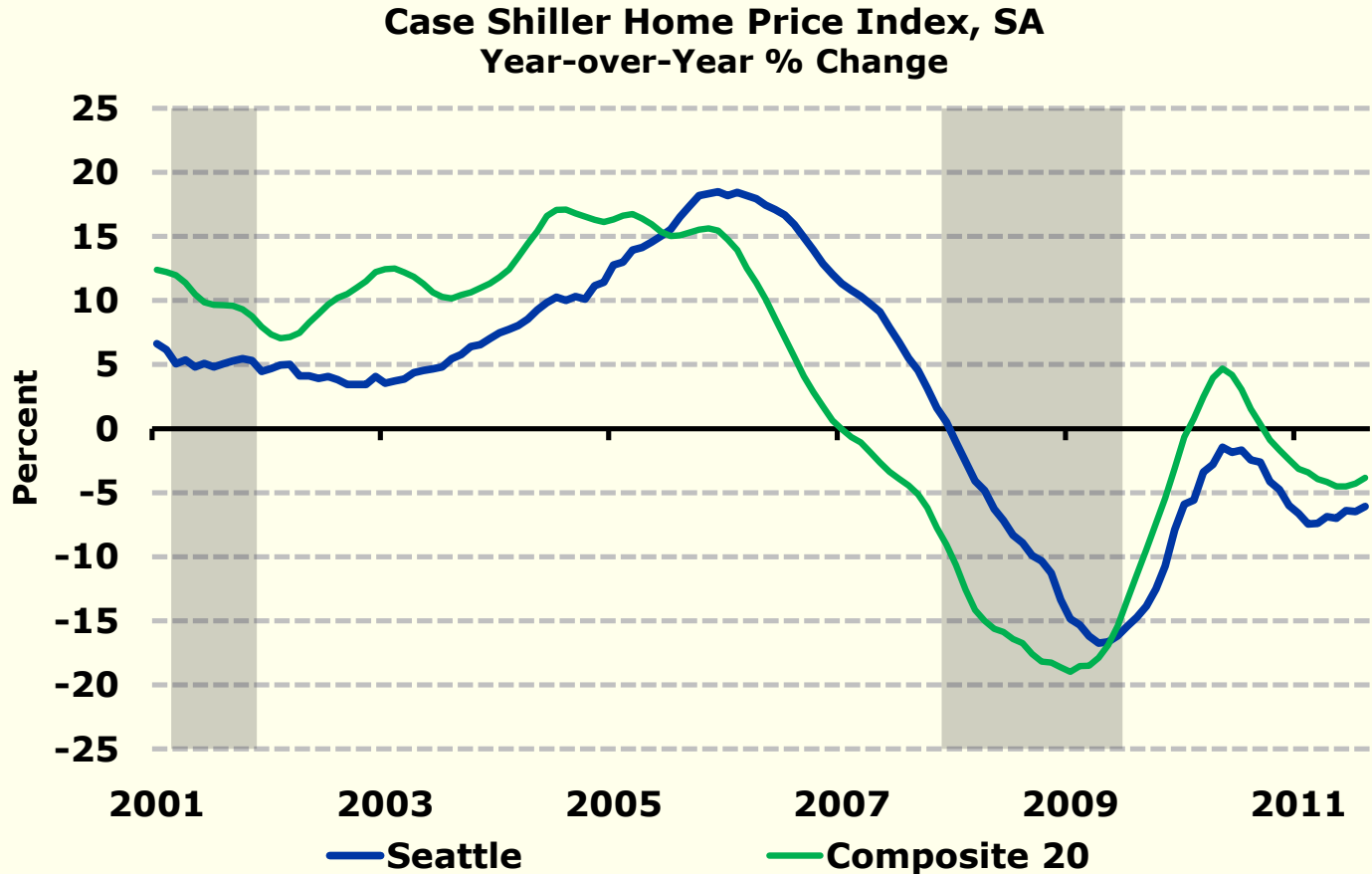


Single-family home prices continue to decline

Aug 2011

U.S. is
down
3.9%

SEA is
down 6.1%



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

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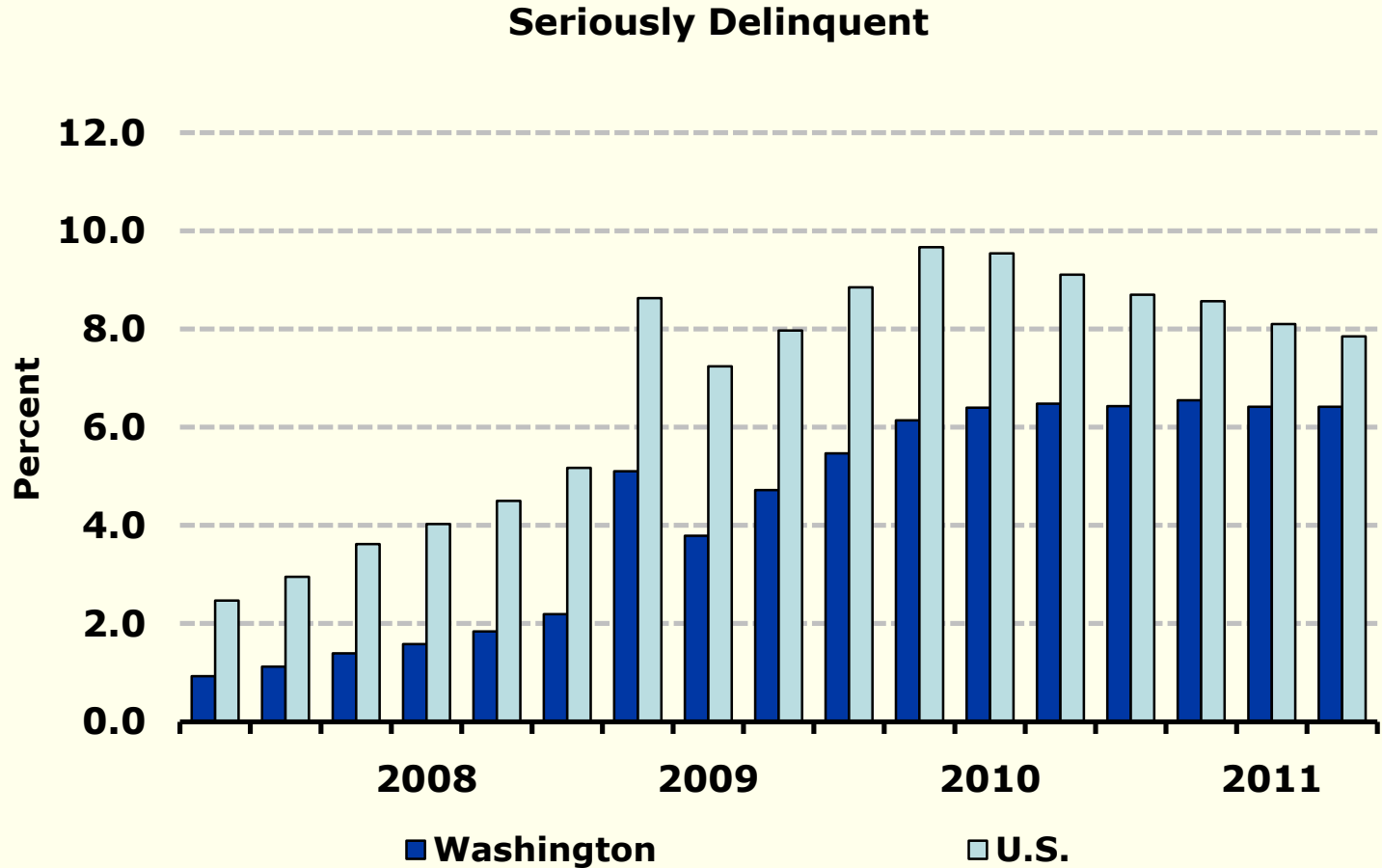
More foreclosures can be expected...

WA Rank:

2011Q1 : 23

2011Q2 : 23

Seriously
Delinquent =
90+ Days
Past Due or
in foreclosure



Source: Mortgage Bankers Association® National Delinquency Survey, data through 2011 Q2



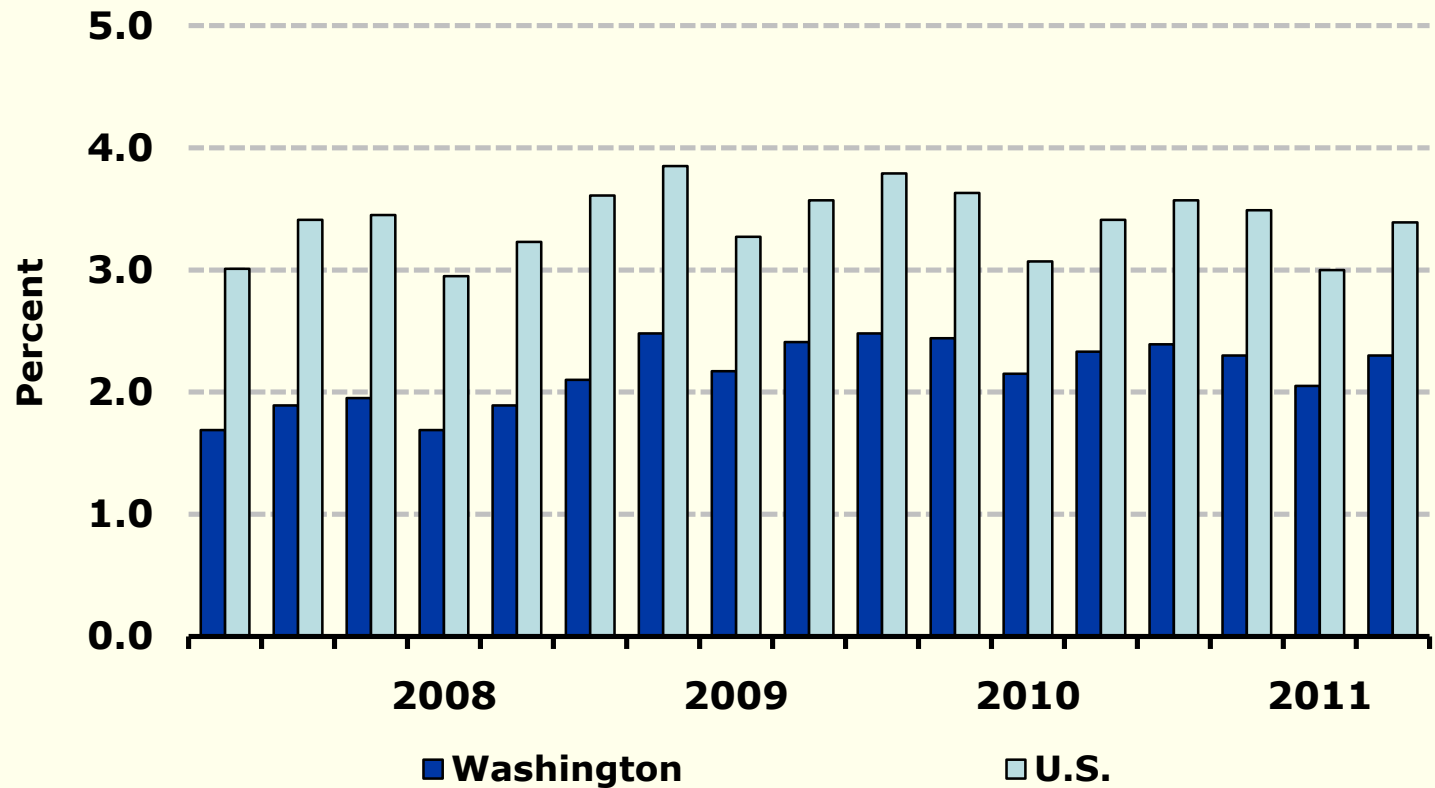
...but will eventually slow down

WA Rank:

2011Q1: 47

2011Q2: 47

30 Days Past Due



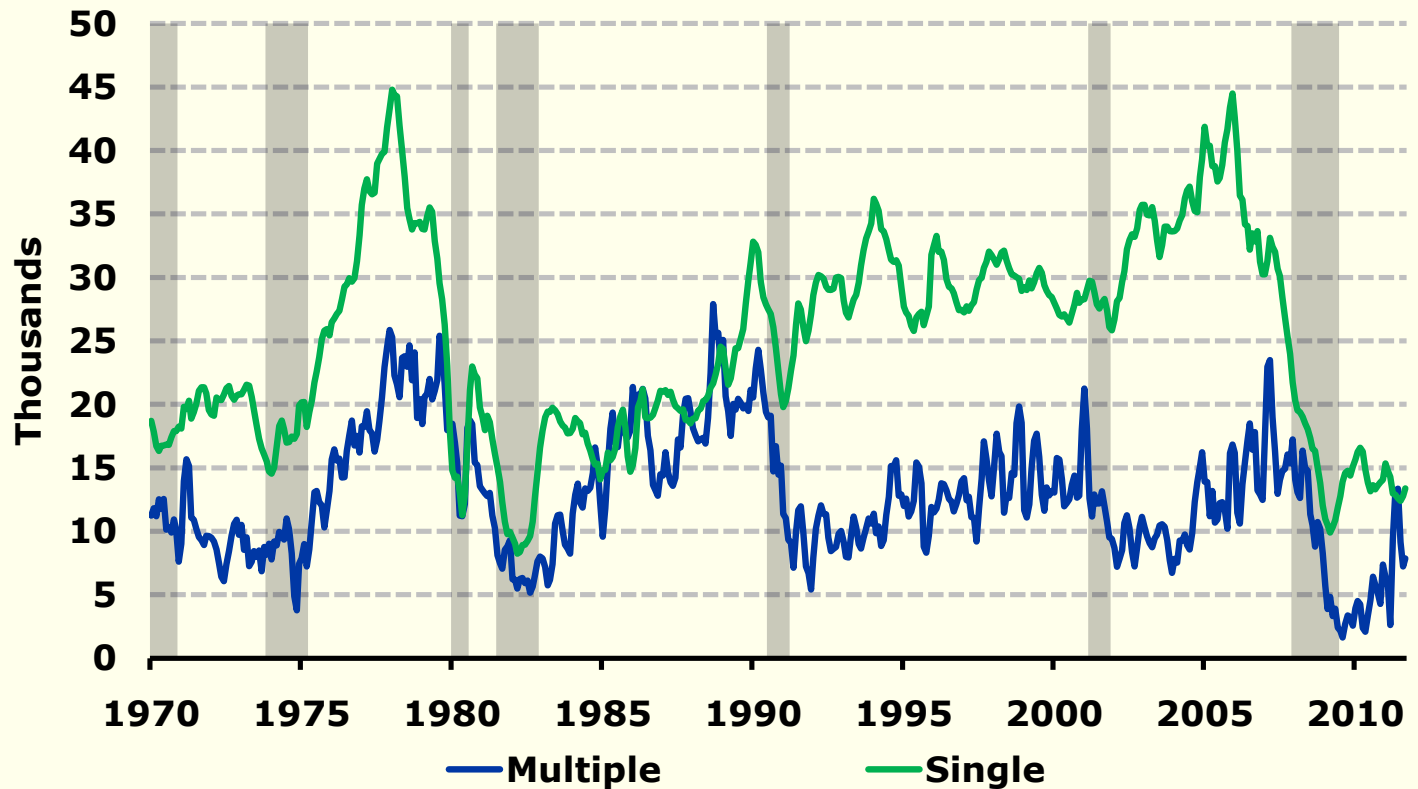
Source: Mortgage Bankers Association® National Delinquency Survey, data through 2011 Q2

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WA multi-family building permits are improving

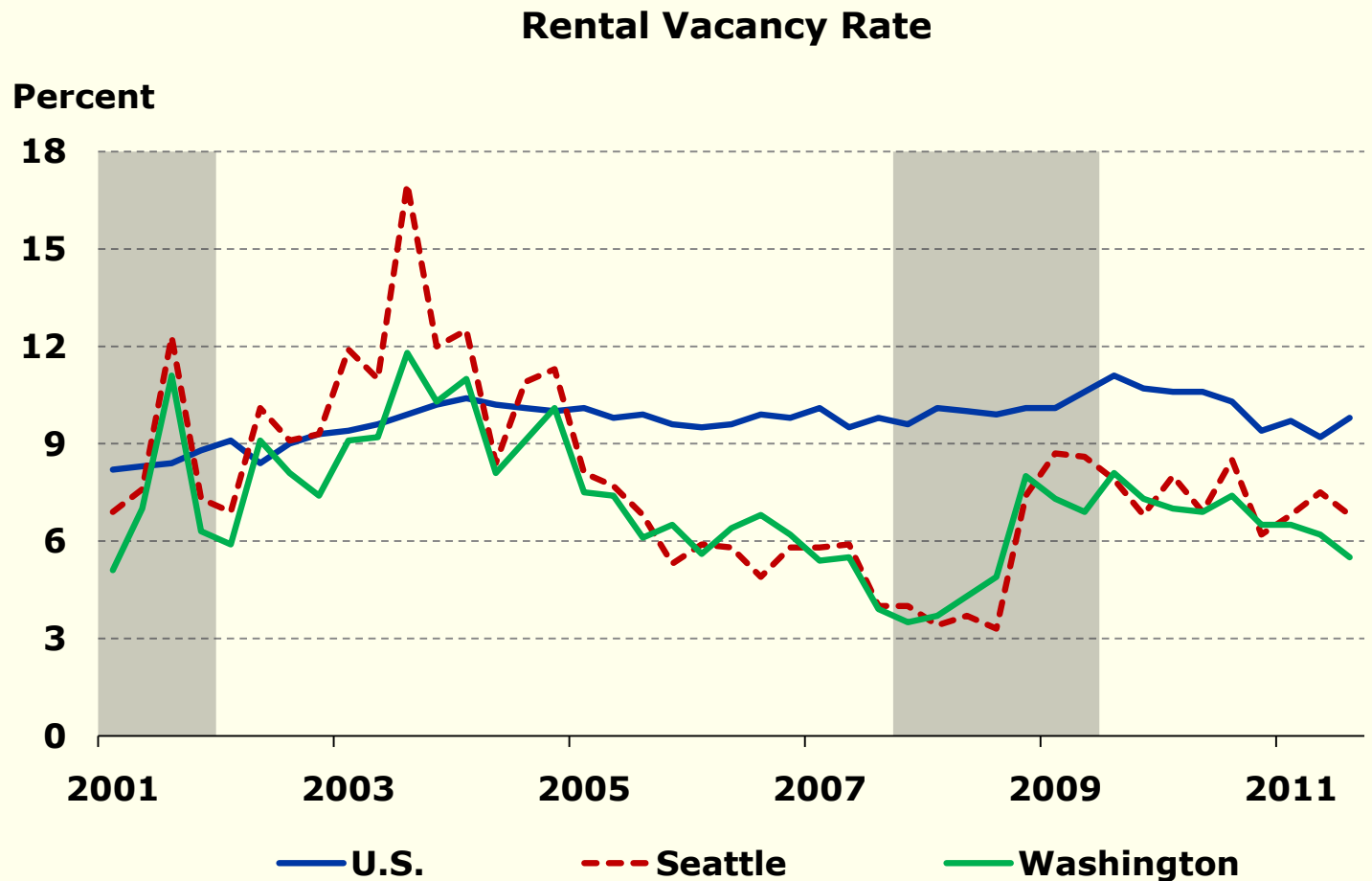
Washington Housing Units Authorized by Building Permits, 3MMA, SAAR



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



Rental vacancy rates are declining in Washington

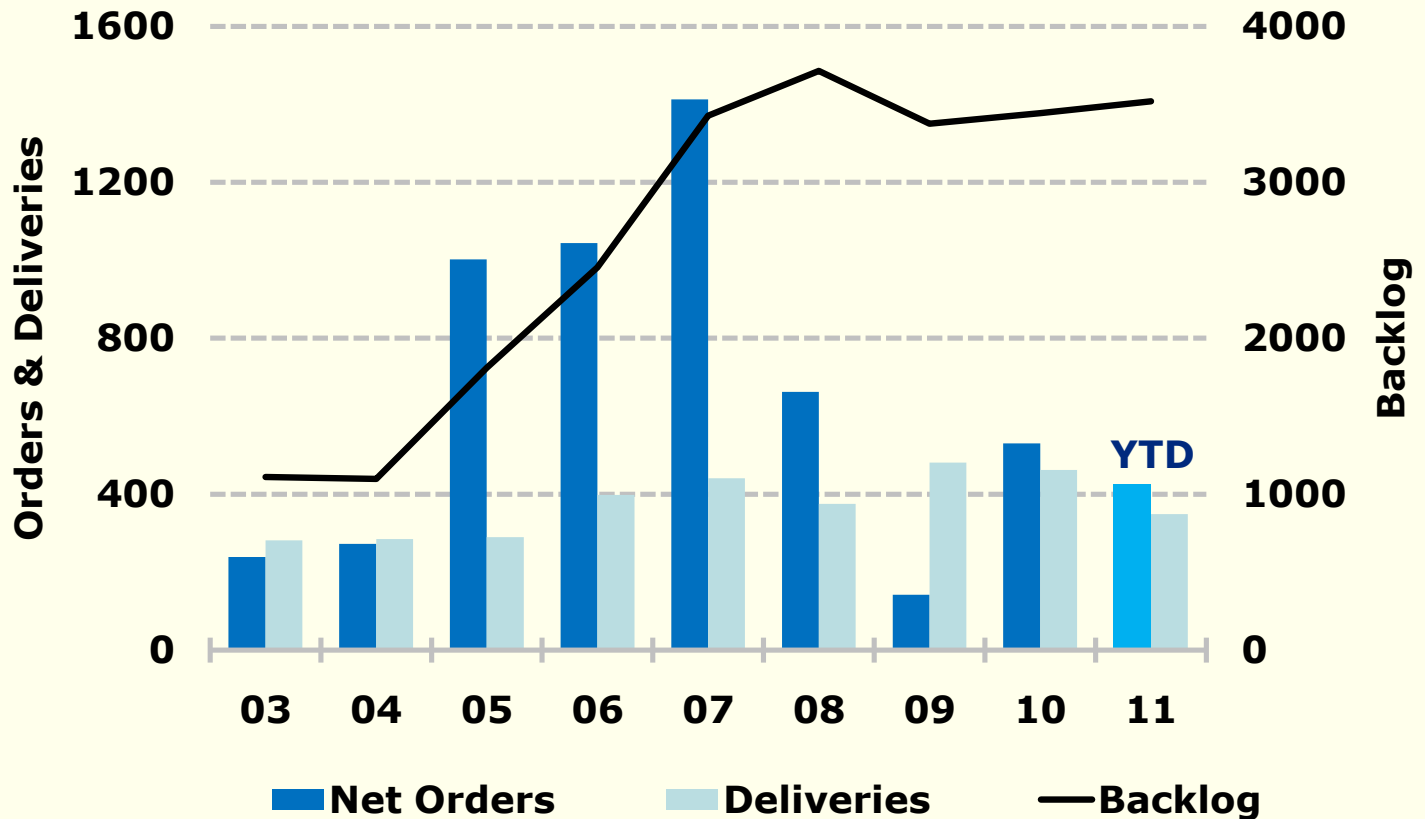


Source: U.S. Census Bureau; data through 2011 Q3



Boeing has over 7 years of commercial orders on its books

Excludes the military's new refueling tanker



Source: Boeing, data through October 2011



Software publishing employment is growing

Percent change, year ago



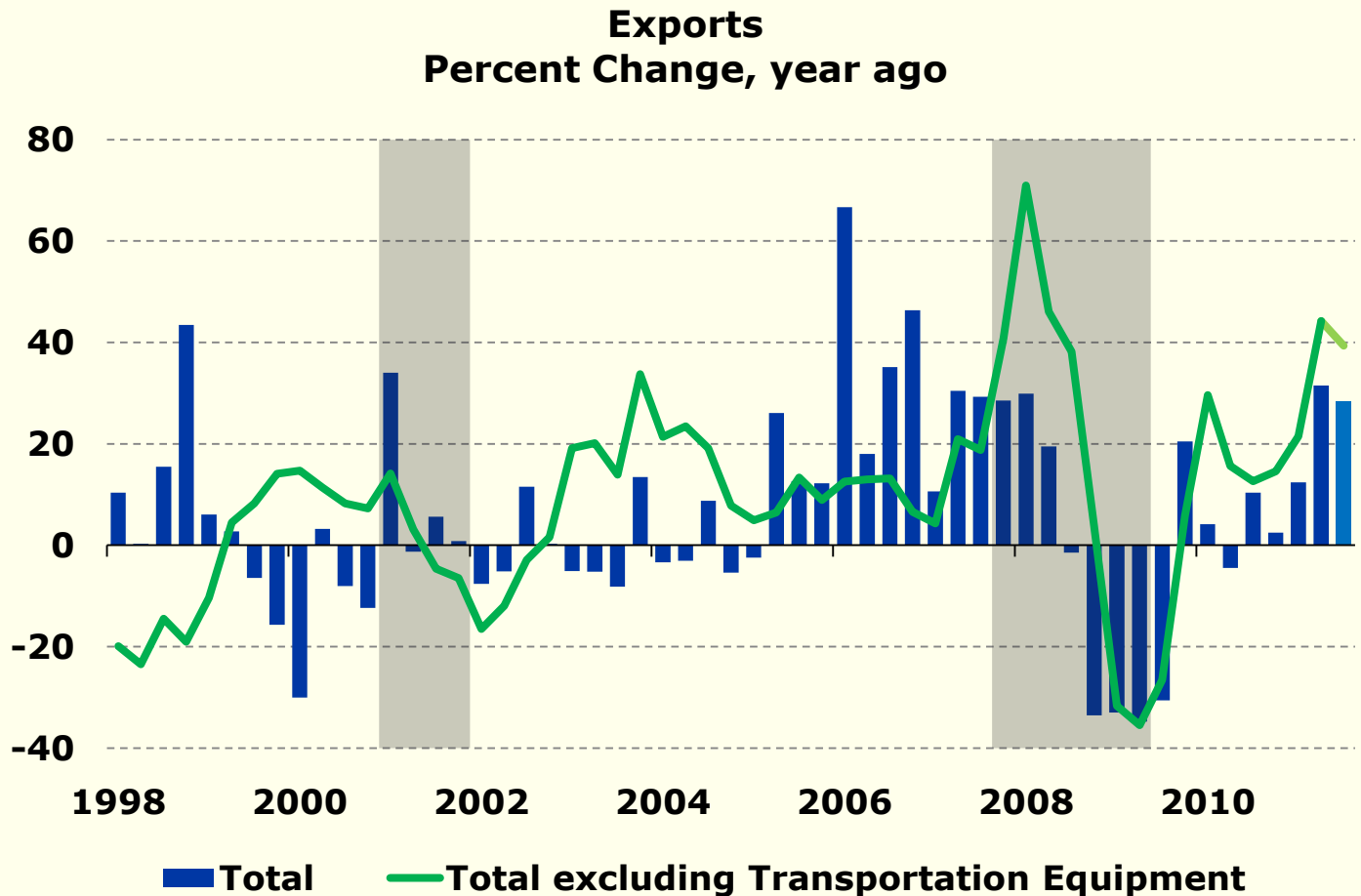
Source: ERFC Preliminary November 2011 forecast; actual through September 2011



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

Total exports were up 31.5% y/y in Q2

To date exports are up 28.4% y/y in Q3



Source: Wiser Trade Data; through August 2011



Recent free trade agreements will benefit the state

	Rank	USD	%	Key Industries	Detail
South Korea	4 th	\$2.7 Billion	5.1%	Agriculture, Transportation Equipment	92% of trans equip barriers eliminated immediately, 2/3 of ag barriers
Panama	27 th	\$315 million	0.6%	Transportation Equipment	Over 90% of aerospace exports become duty free immediately
Colombia	50 th	\$56 million	0.1%	Petroleum, Chemicals, Machinery	Majority of exports become duty free immediately

Source: U.S. Department of Commerce, Wisier Trade; data through 2010

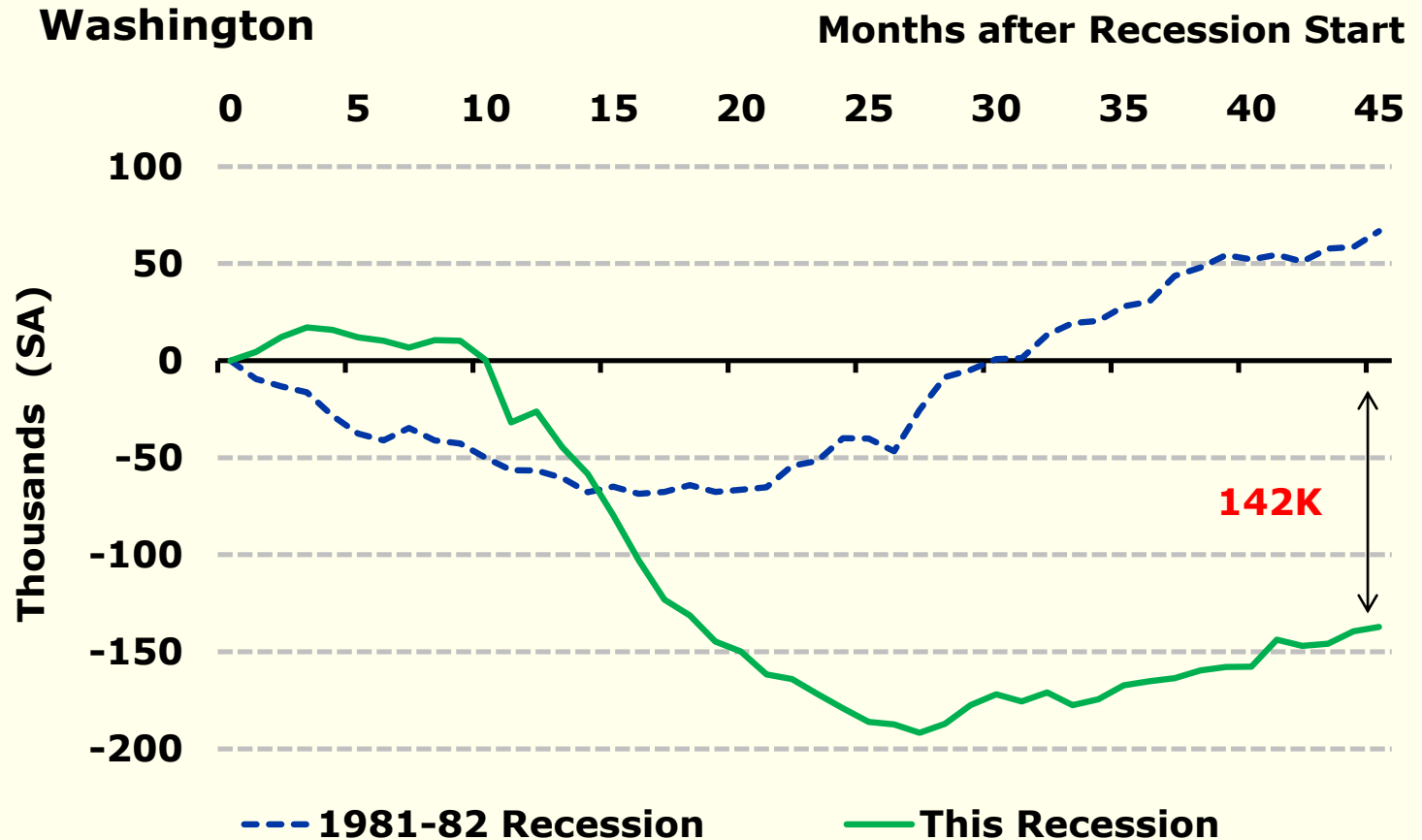


WA employment is still in the hole

Peak to
trough job
losses

1981-82:
3.3% of
labor force

This time:
5.4% of
labor force



Source: WA ESD, ERFC Kalman filtered; data through September 2011



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

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

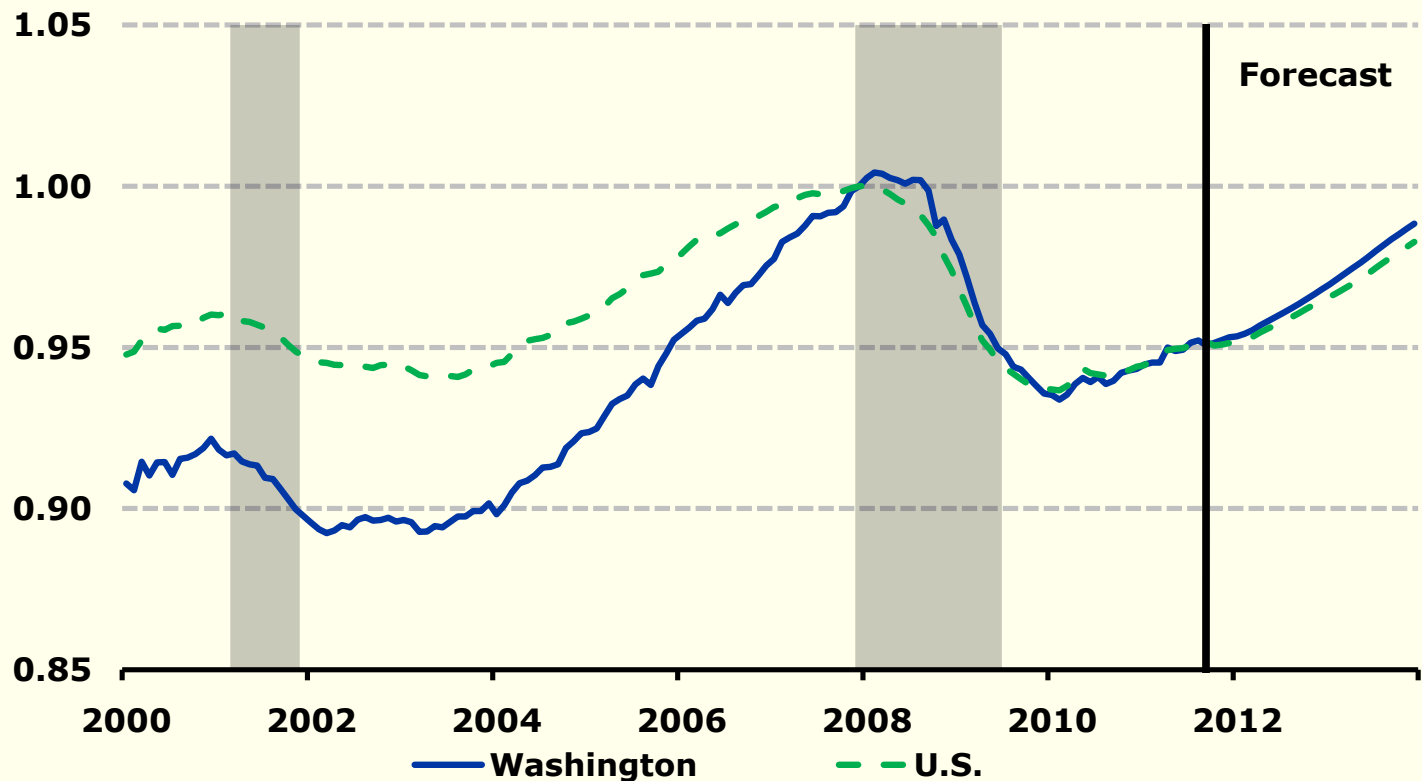
Both WA and the U.S. reached a trough in Feb. 2010

Both WA and the U.S. won't reach their previous peak until after 2013

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December 2007=1.0

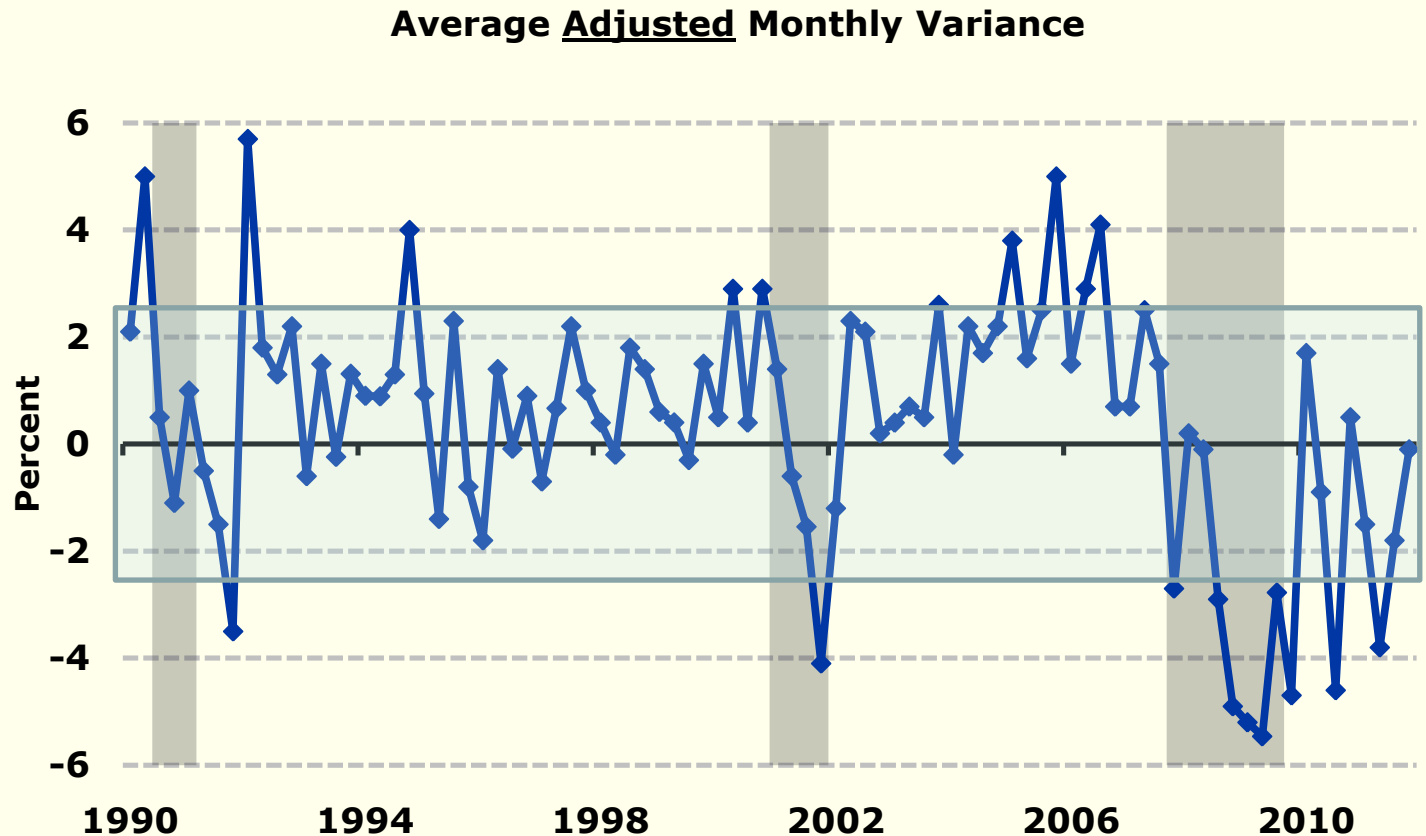


Source: ERFC Preliminary November 2011 forecast; actual through September 2011



Revenues are coming in close to the September forecast

The variances reported here are net of one-time payments



Source: ERFC; collections Sept. 15 through Nov.10, 2011 estimated based on Nov. 2 collections



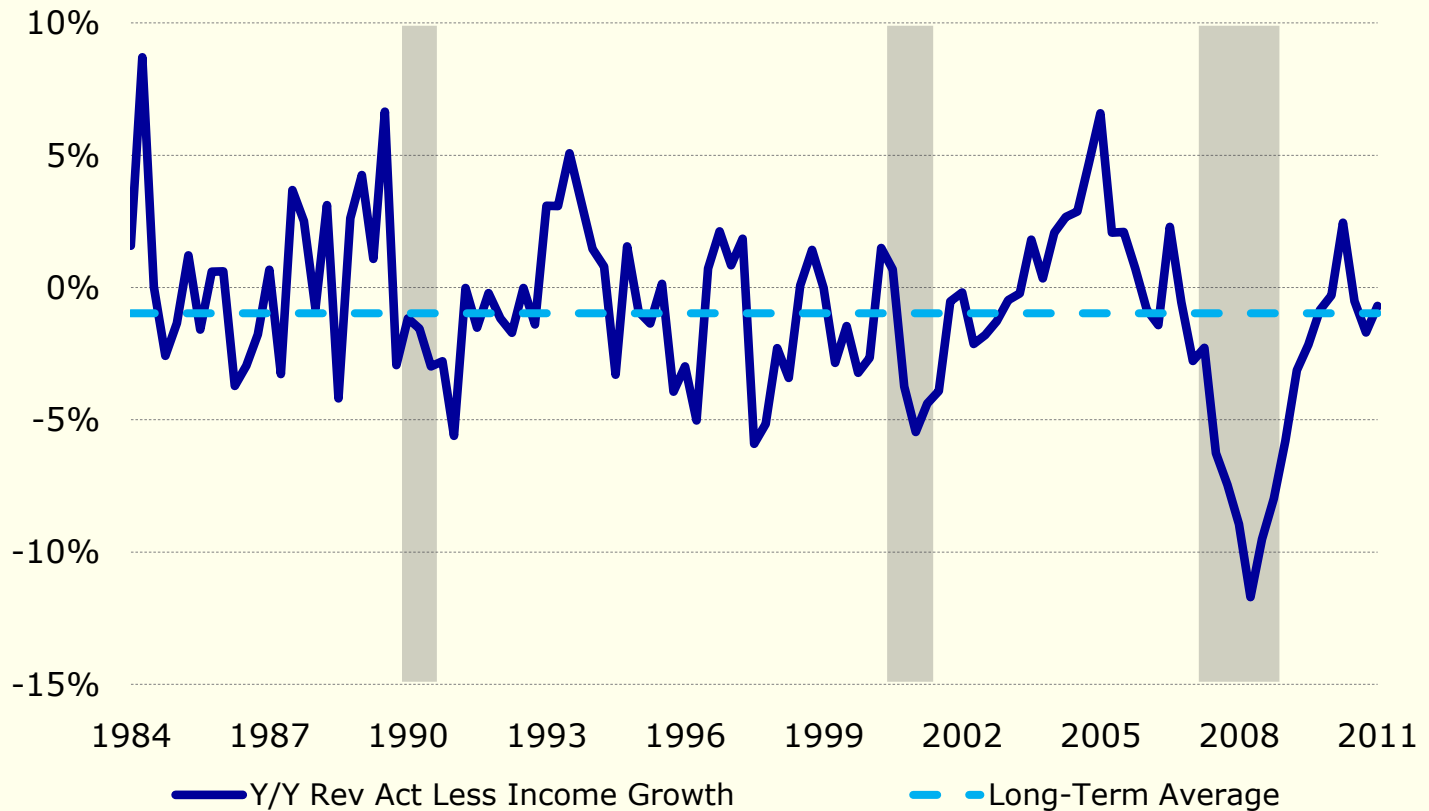
Revenue Act collection growth is close to the growth rate of personal income

Revenue act receipts (adjusted for large payments and amnesty payments) are estimated to grow 4.0% year-over-year for third quarter activity

Income is estimated to have grown at 4.7% year-over-year in the third quarter

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Year-Over Year Rev Act* Growth Less State Personal Income Growth



*Adjusted for large one-time payments and refunds and payments under the amnesty program
Source: ERFC; Quarterly revenue data through Q3 2011 estimated, November preliminary income estimates



Conclusion

- We continue to expect the U.S. and WA economies will experience slow growth and muddle through conditions through the biennium
- WA is still likely to outperform the nation
- Uncertainty remains high
- The risk of another recession in the U.S. remains elevated, but has receded modestly since September
- The next revenue collection update will be published on the 11th of November, and our new revenue forecast will be presented on the 17th



Questions



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