

# Washington State Economic & Revenue Outlook

Presented to  
Workforce & Economic Development  
Conference

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Spokane, Washington



**Washington State Economic and Revenue Forecast Council**



# Summary

- It is almost certain that the recession in both the national and state economies is now over
- The recovery is still fragile, and risks remain
  - Real estate, especially commercial
  - Banking, particularly local and regional banks
  - Consumer spending
- On the upside, a synchronized global recovery now unfolding, means exports will kick in earlier in the cycle
- In terms of the economy, we are where we thought we'd be in June, but consumer spending and revenue collections are lagging the recovery

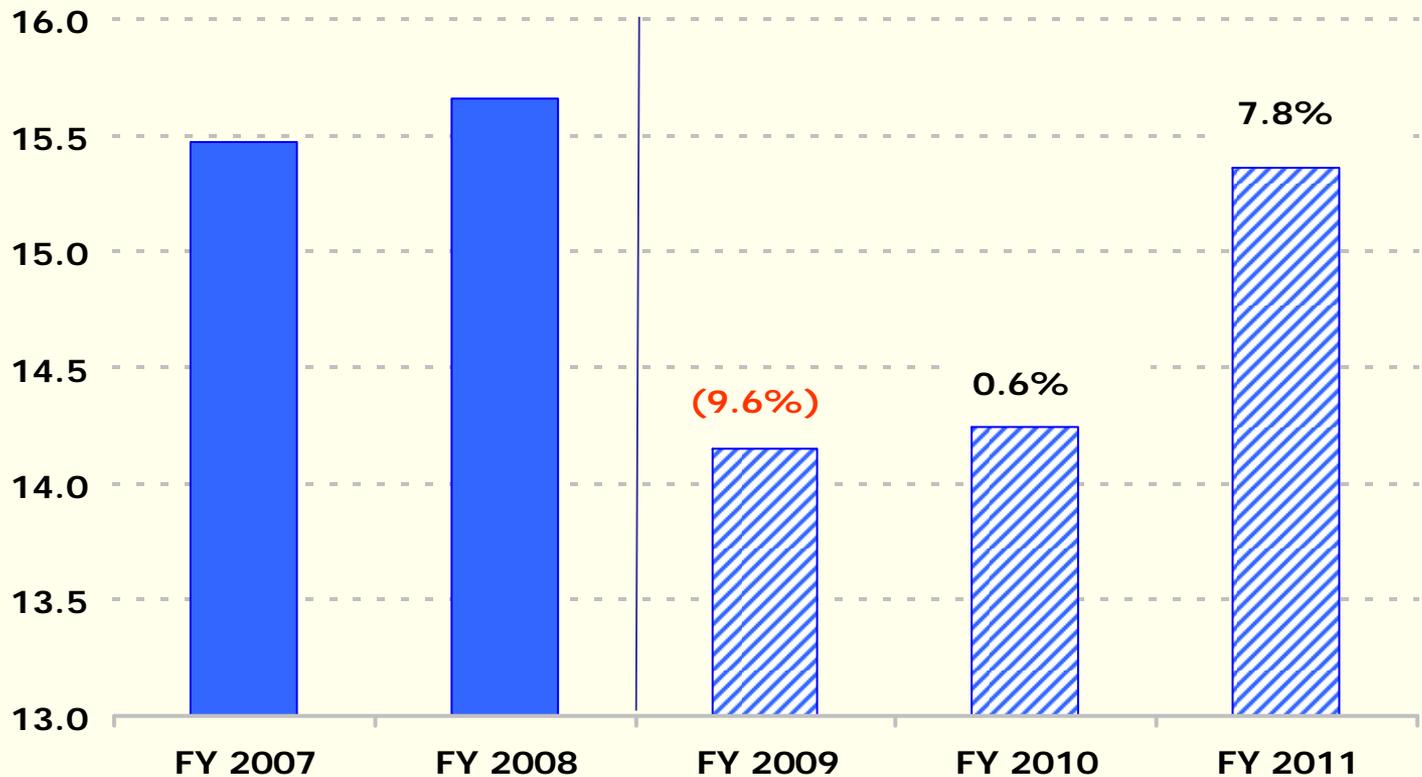


# General Fund\* forecast by fiscal year

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

General Fund – new definition, for FY 10, 11

Billions of Dollars



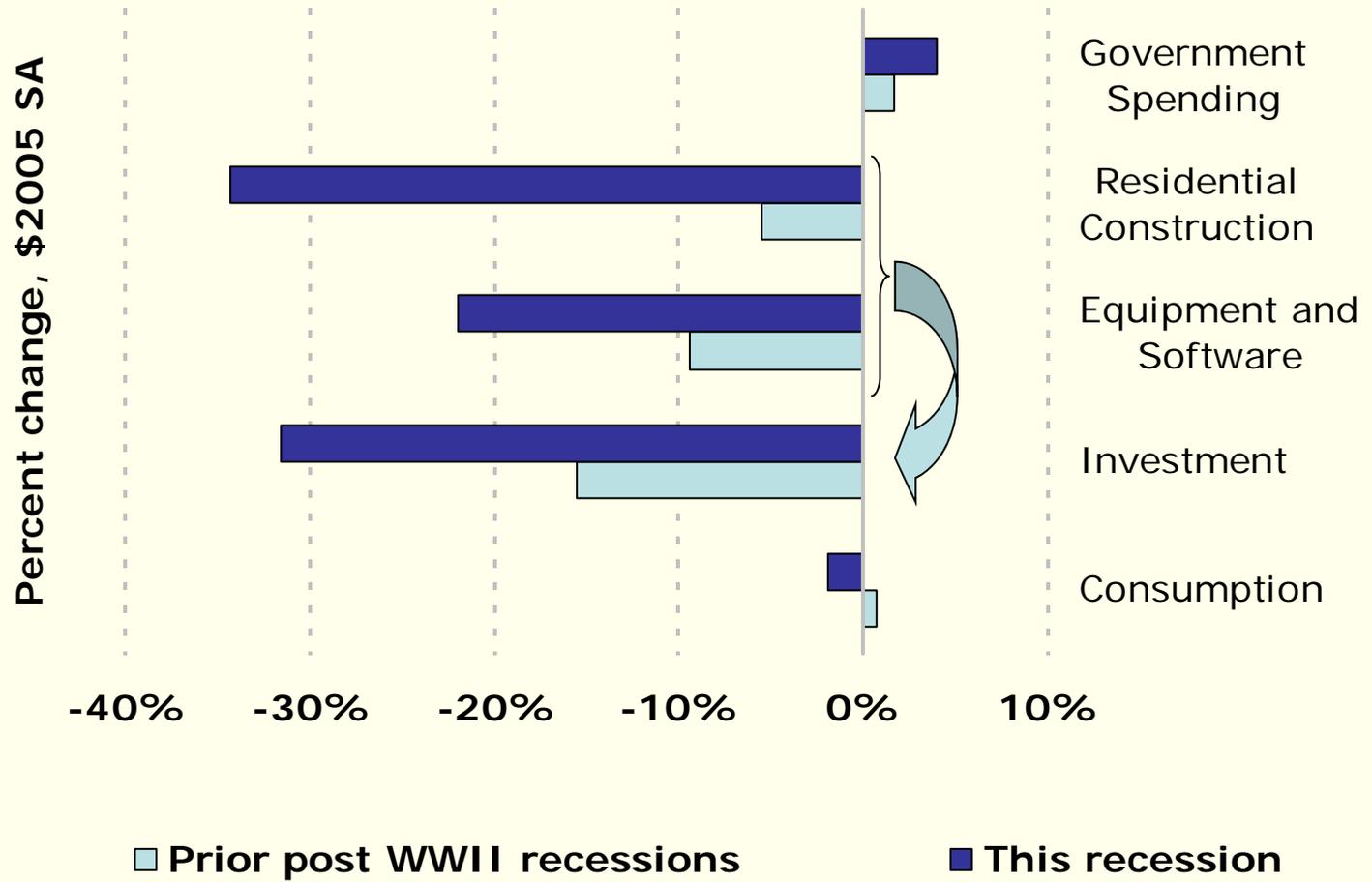
Source: ERFC forecast, September 2009

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# This recession has seen the sharpest drop in both consumption and investment

Peak to trough decline in GDP components

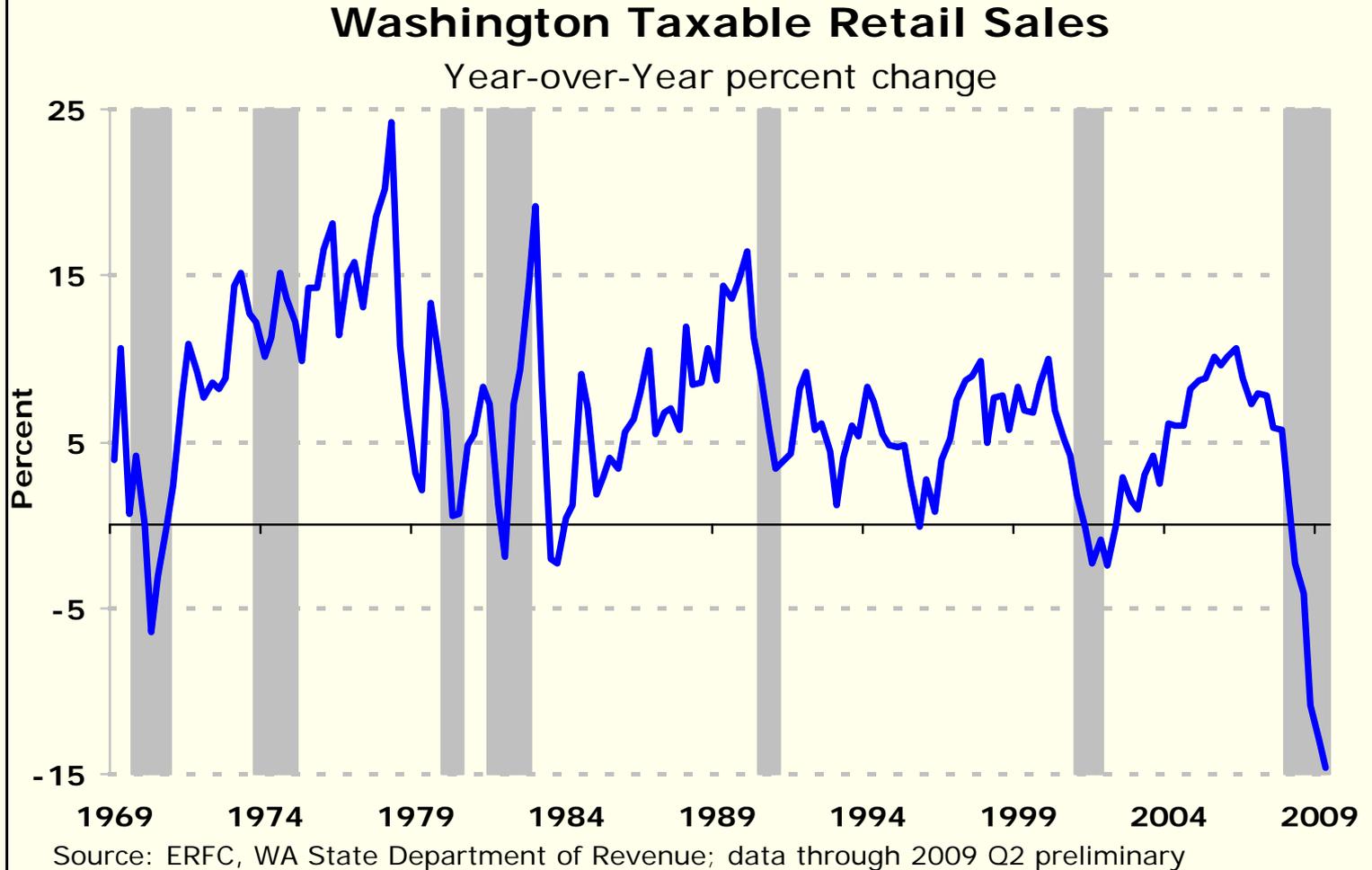


Source: BEA, NBER, ERFC; data through 2009Q2

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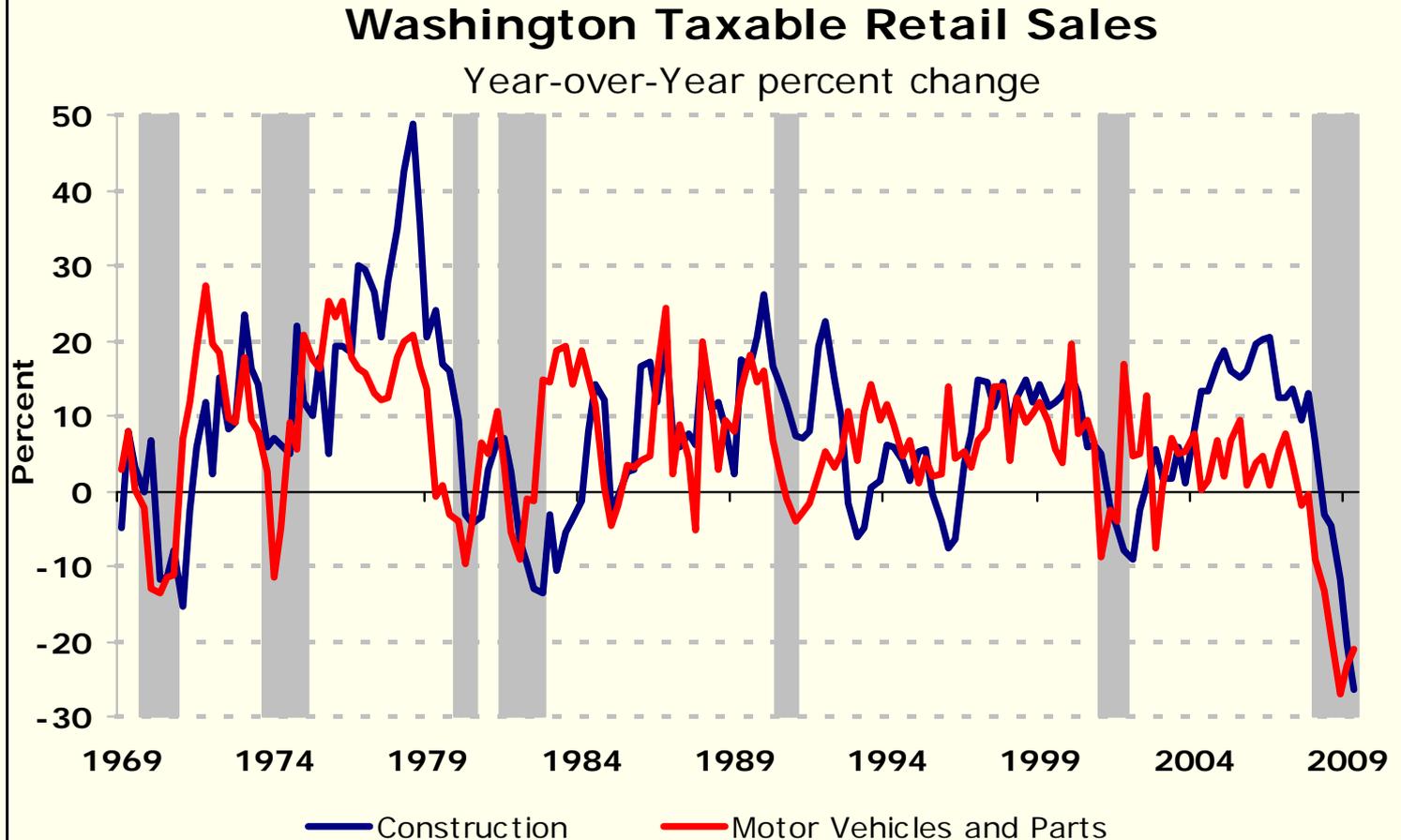
# WA experienced an unprecedented decline in retail sales



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# Much of the decline in state revenue can be traced to the automotive and construction sectors



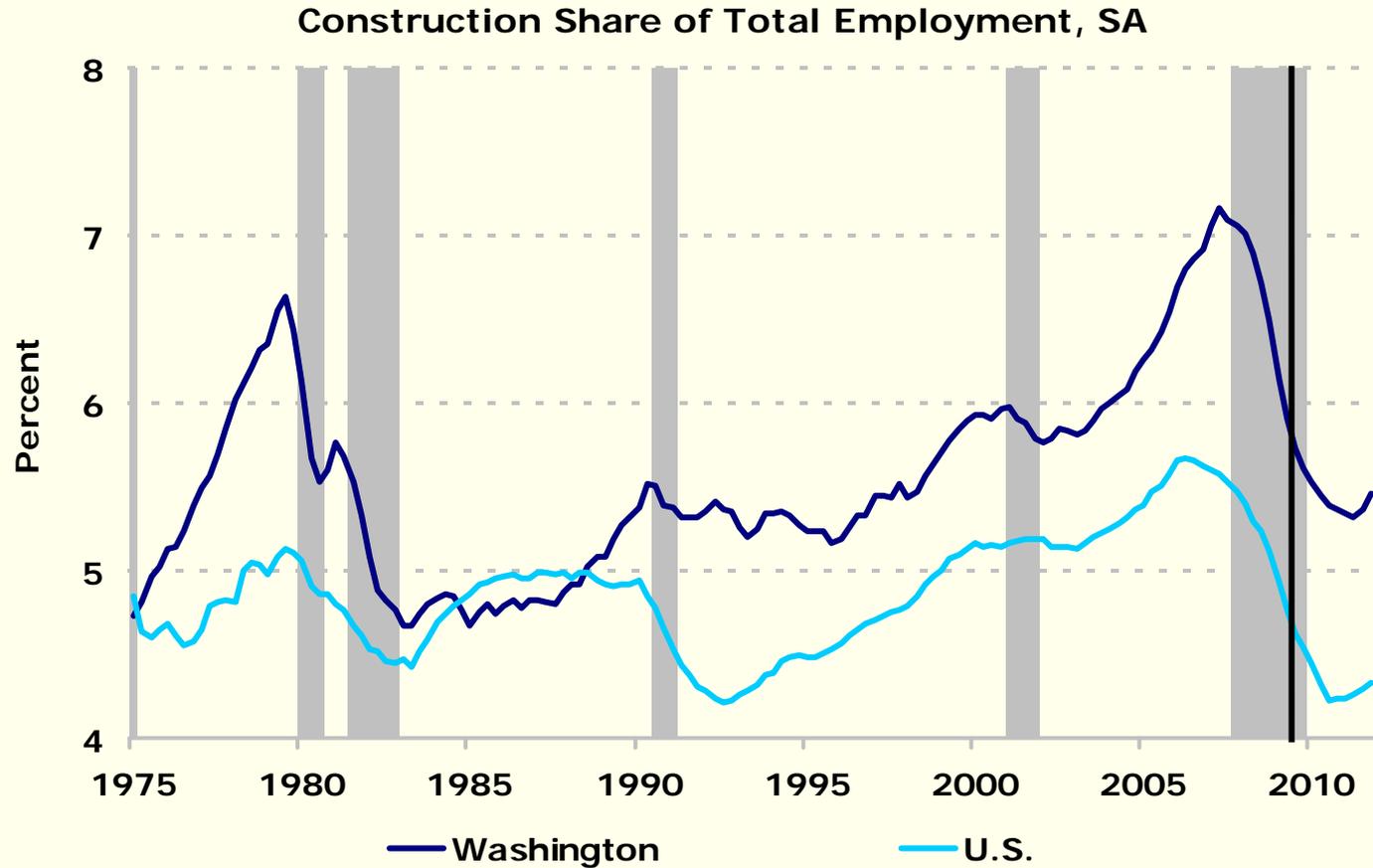
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Source: ERFC, WA State Department of Revenue; data through 2009 Q2 preliminary



# The state economy is recovering from over exposure to construction

New homes;  
commercial  
real estate;  
and heavy &  
engineering  
projects



Source: WA State ESD, Actual data through 2009 Q2, ERFC Forecast

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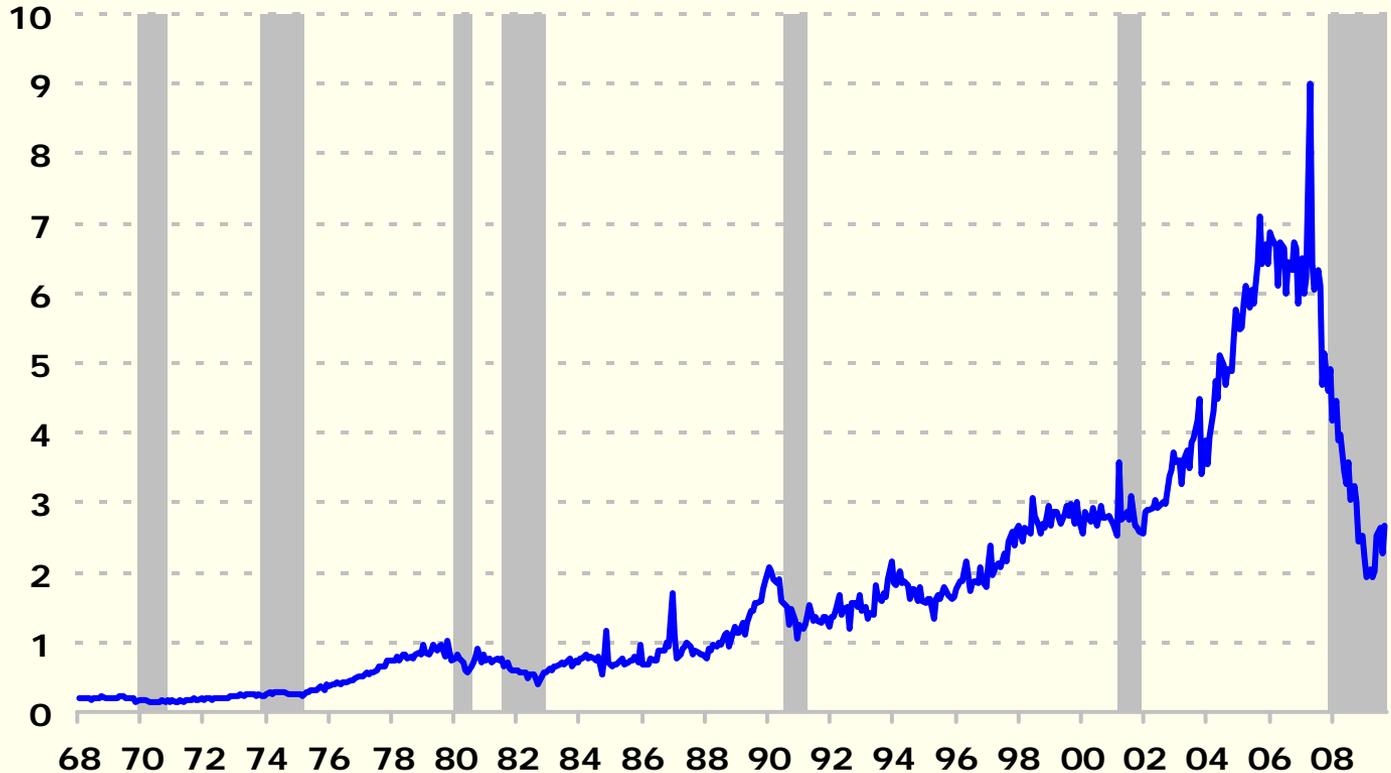
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# The spike and decline in real estate excise taxes is unprecedented

Collected on  
all real-  
estate  
transactions

**Washington Taxable REET Activity**  
Billions of Dollars, SA



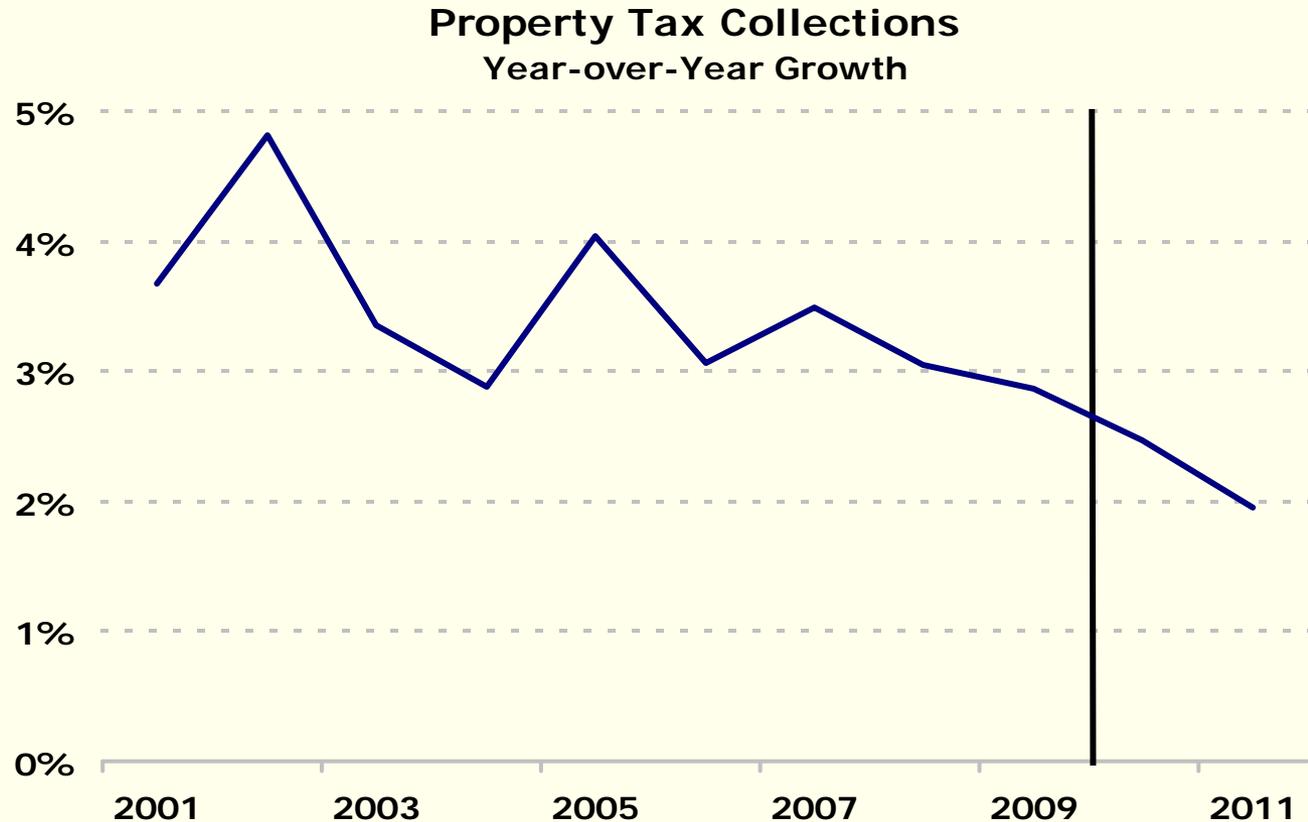
Source: DOR and ERFC, data through August 2009

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# The growth in property tax collections is slowing

The growth in the levy on existing property is capped by the lower of 1% or the rise in the July implicit price deflator for consumption



Source: WA State DOR, Actual data through FY 2009, ERFC Forecast

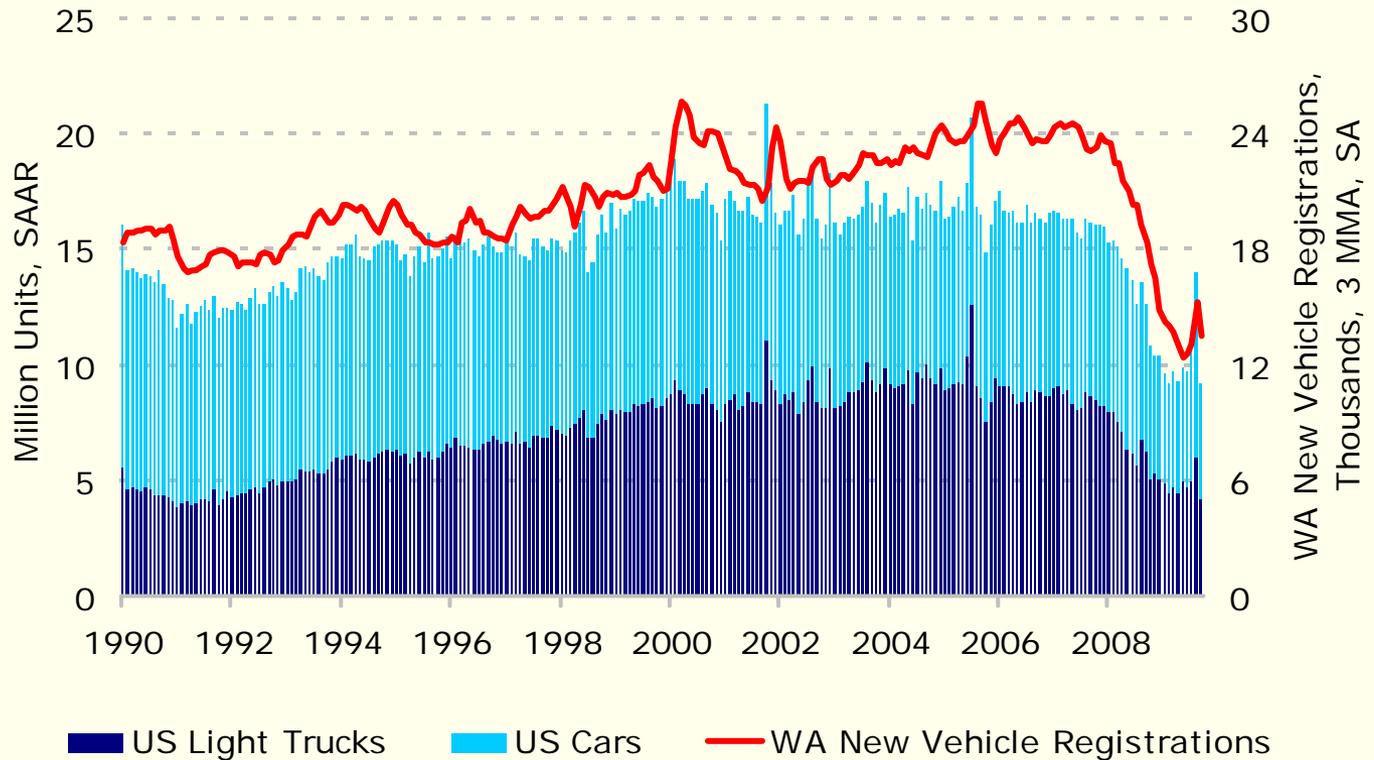
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# Automotive sales have ticked up nationally, and in the state

June boost from closing dealerships;

July and August boost from "cash for clunkers"



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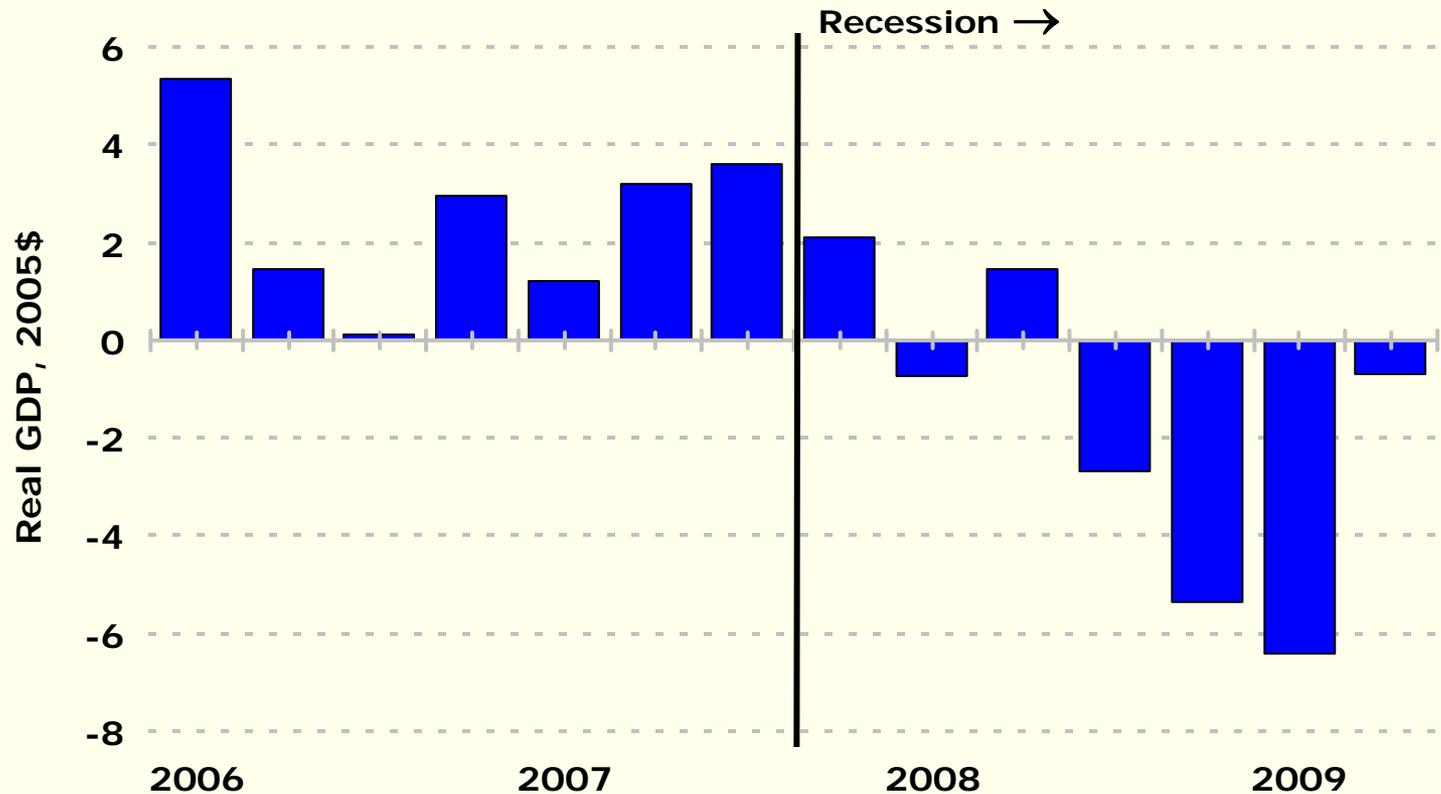
Source: Autodata Corporation, WA DOL, ERFC estimate; data through September 2009

Slide 10



# The rate of decline in national GDP is moderating

Percent growth, SAAR



Source: BEA, data through 2009 Q2, final

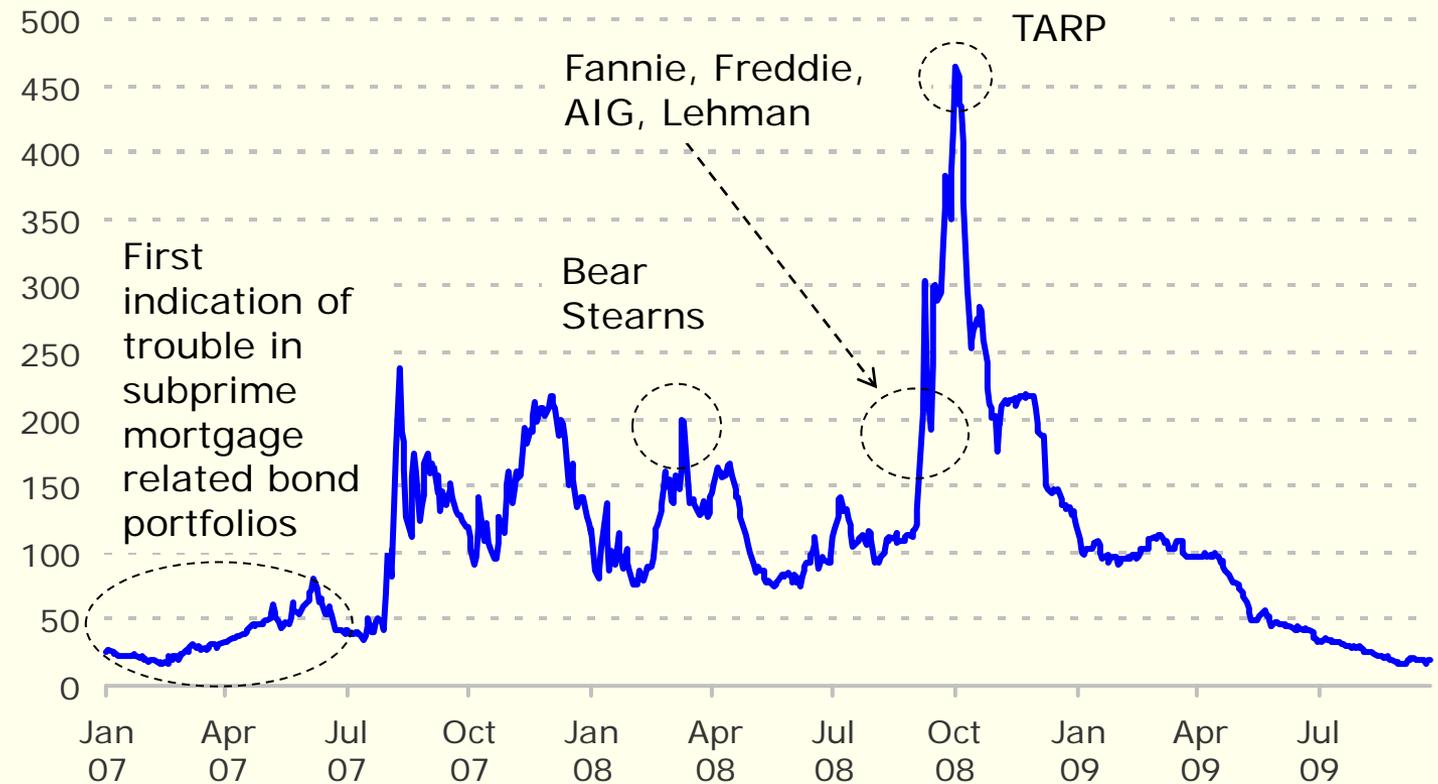


# Inter-bank lending has returned to normal

The spread indicates the premium banks have to pay to borrow from each other

## USD 3m LIBOR - 3m US T-bill Spread

Basis Points



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Source: British Bankers Association, US Federal Reserve Bank, ERFC; data through October 2, 2009

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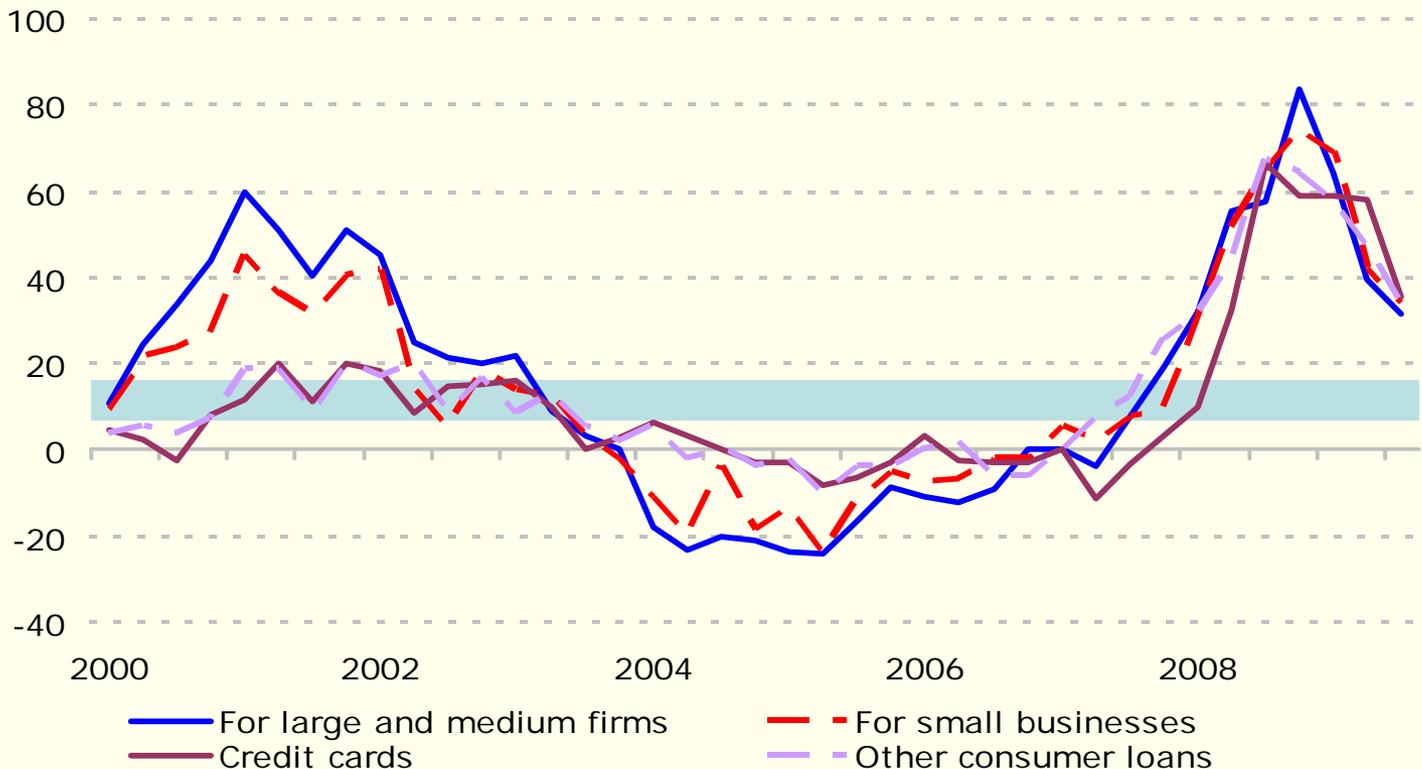
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# Bank lending to businesses and consumers is easing

## Net Tightening minus Easing

Percent

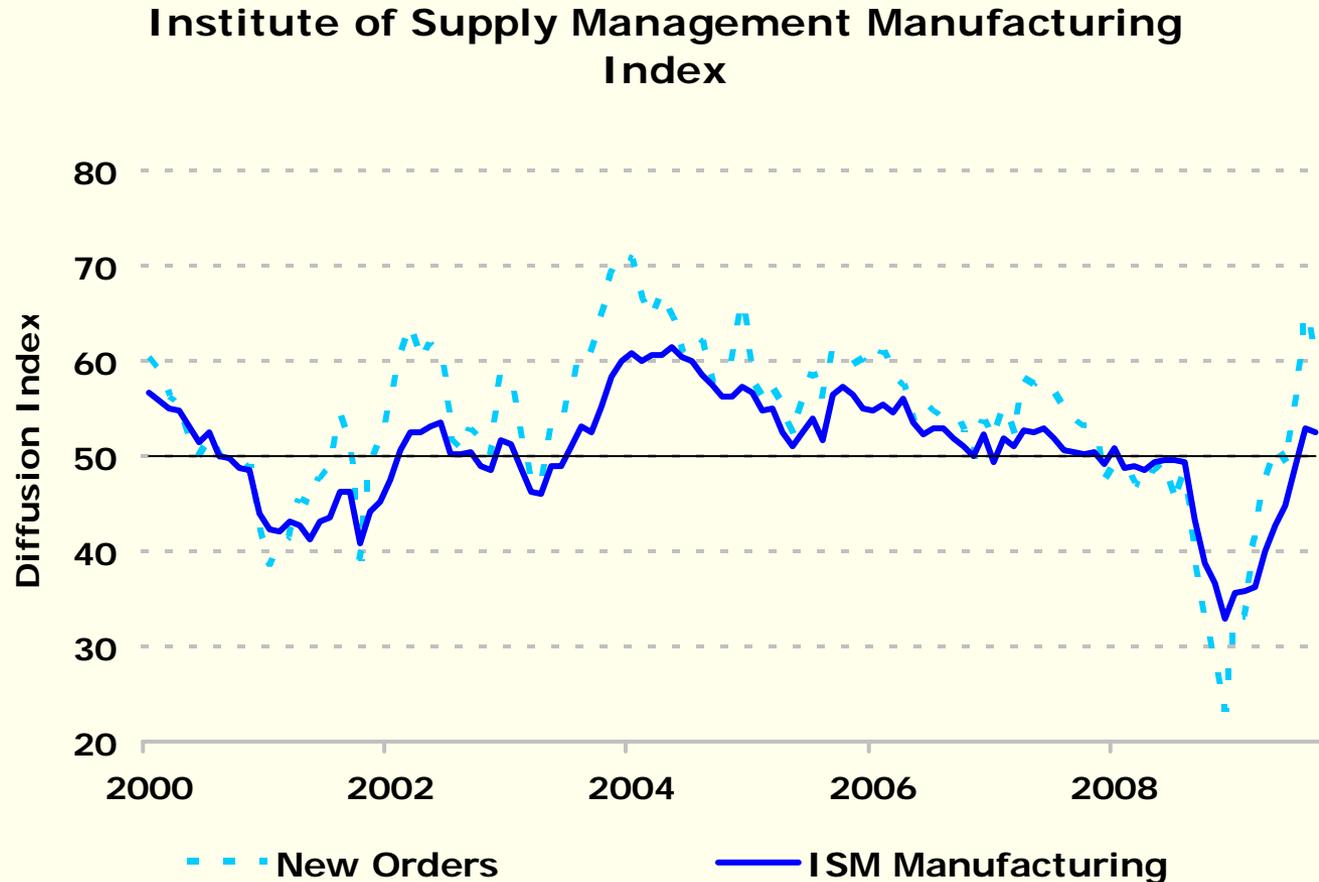


Source: Federal Reserve Board, Senior Loan Officers Quarterly Survey, data through July 2009 survey



# The manufacturing sector is seeing a rebound

Index > 50  
means  
growth



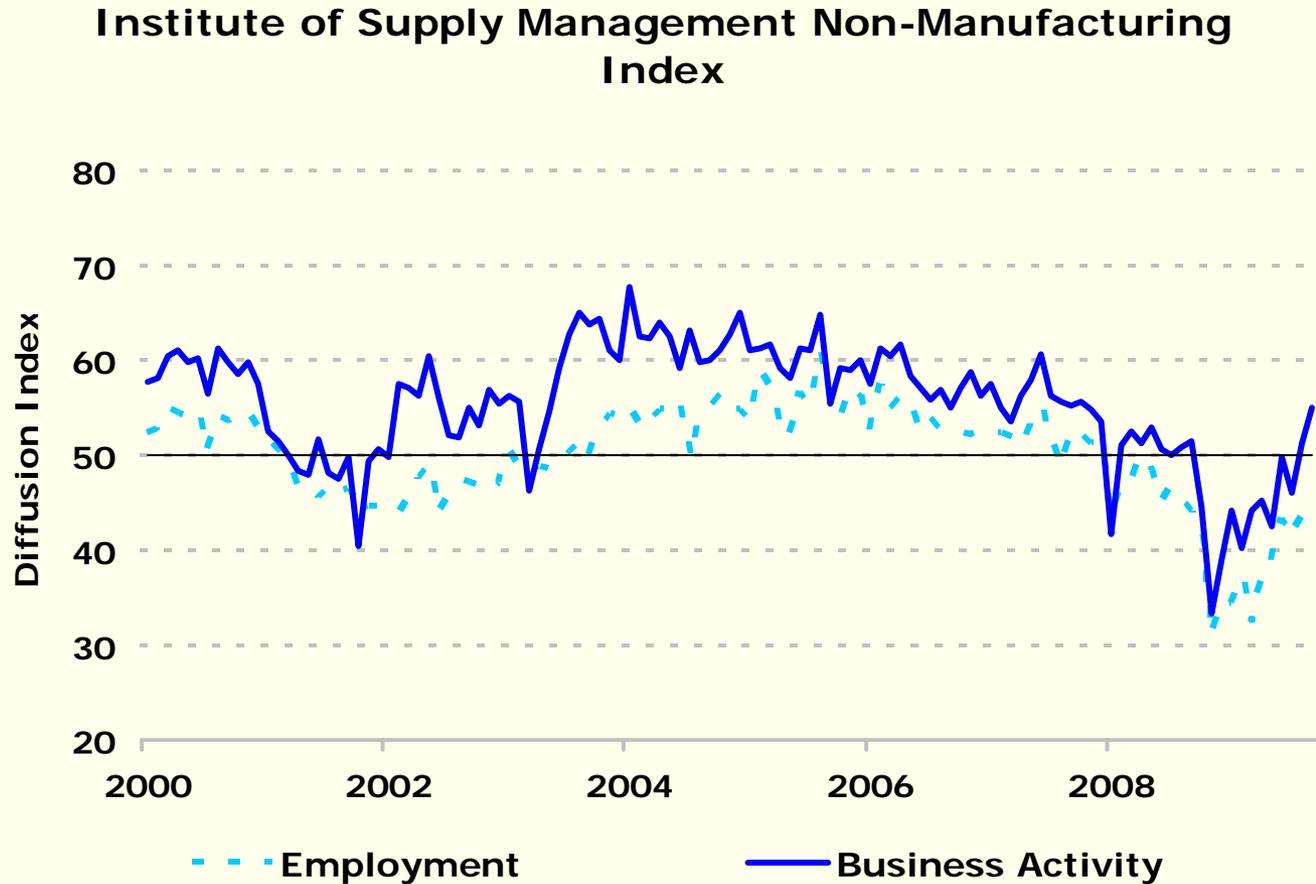
Source: ISM; data through September 2009

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# The services sector shows a weak employment picture, but activity has started to grow

Index > 50  
means  
growth

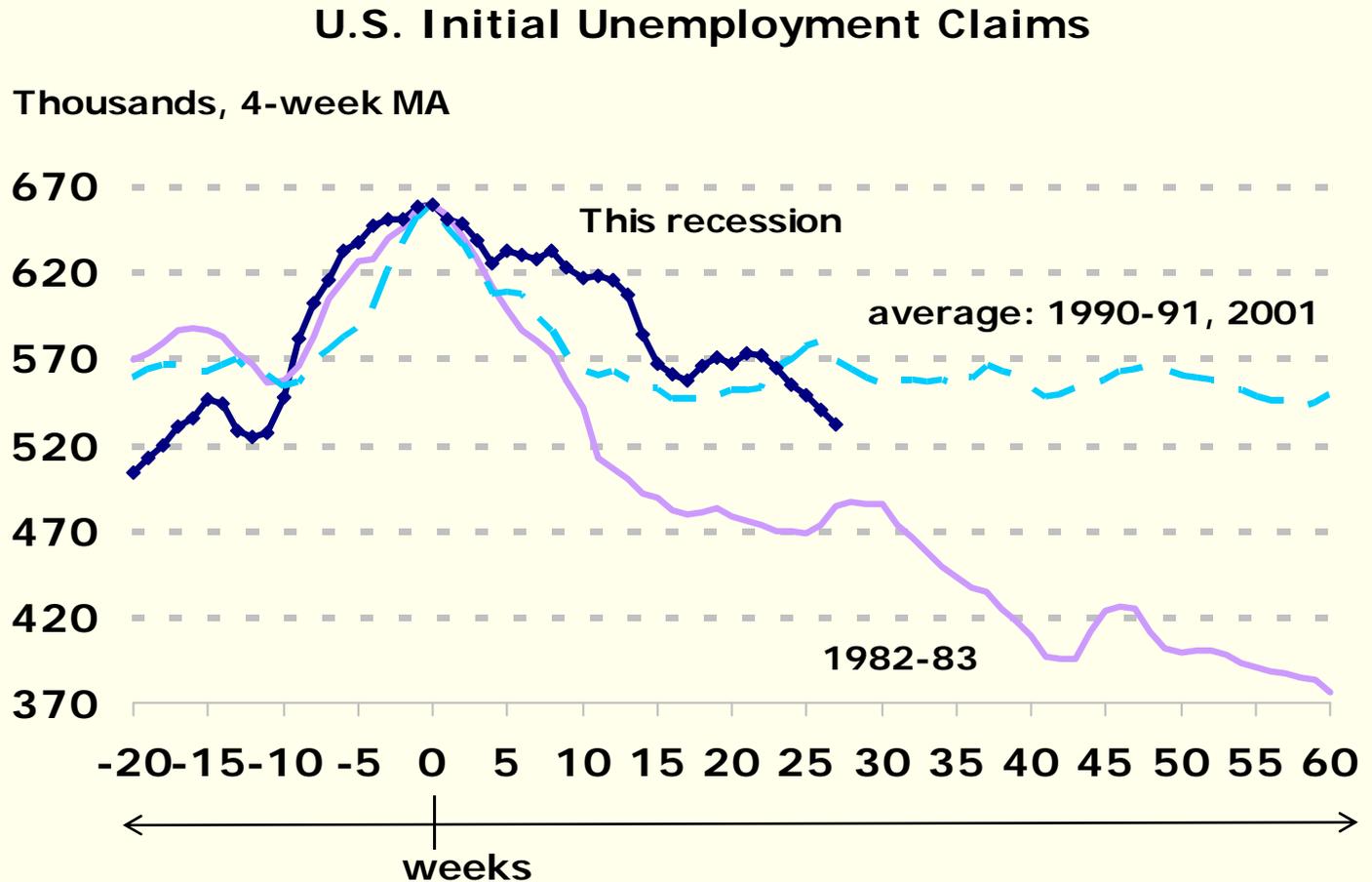


Source: ISM; data through September 2009



# The recovery in employment will be slow

Employment lags the recovery: the pattern this time appears closer to the slow 1990-91 and 2001 recoveries



Source: U.S. Department of Labor, ERFC; data through October 10, 2009

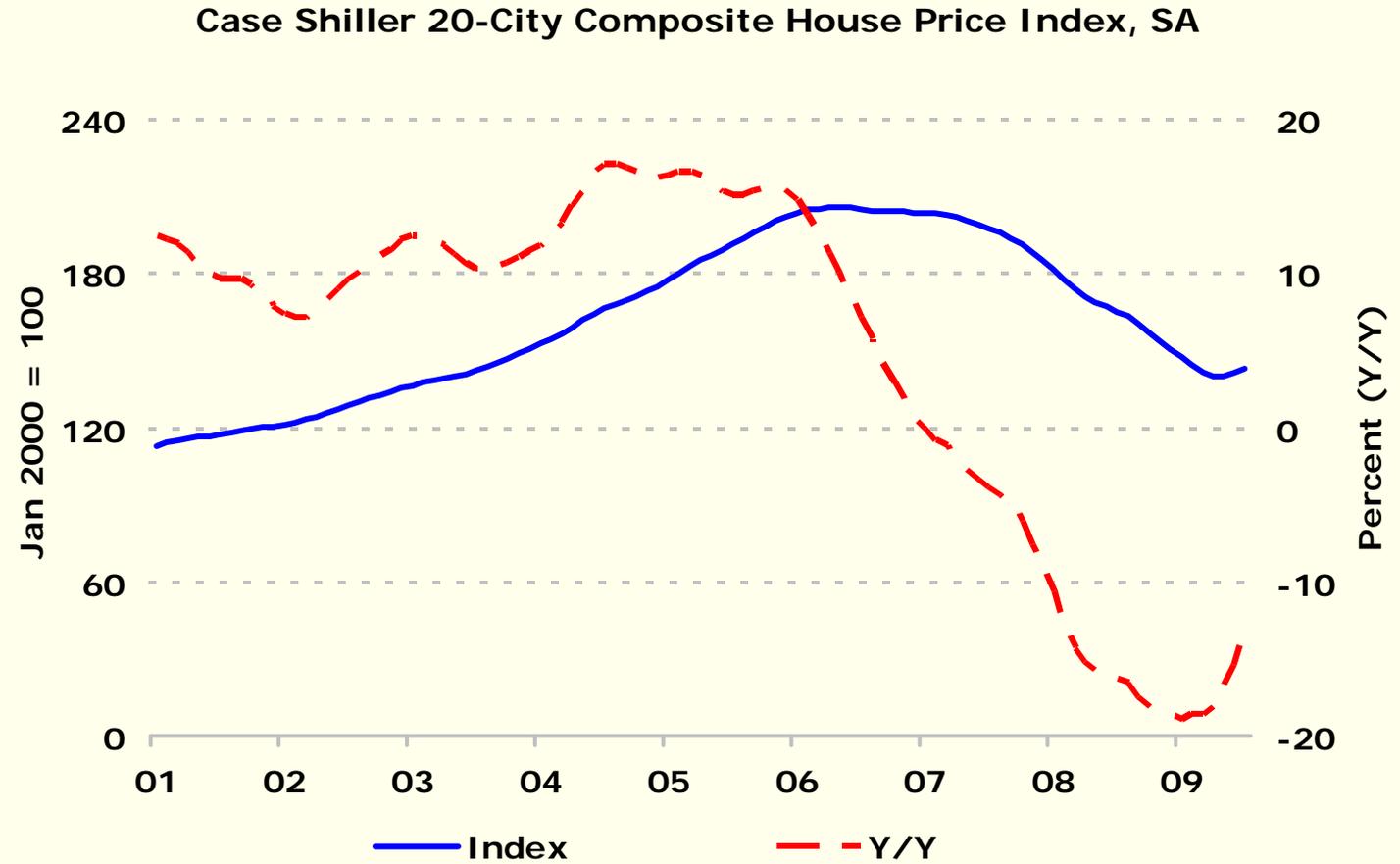
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# Home prices nationally are stabilizing

Home prices are now showing a slower rate of Y/Y decline

Home prices increased in June and July



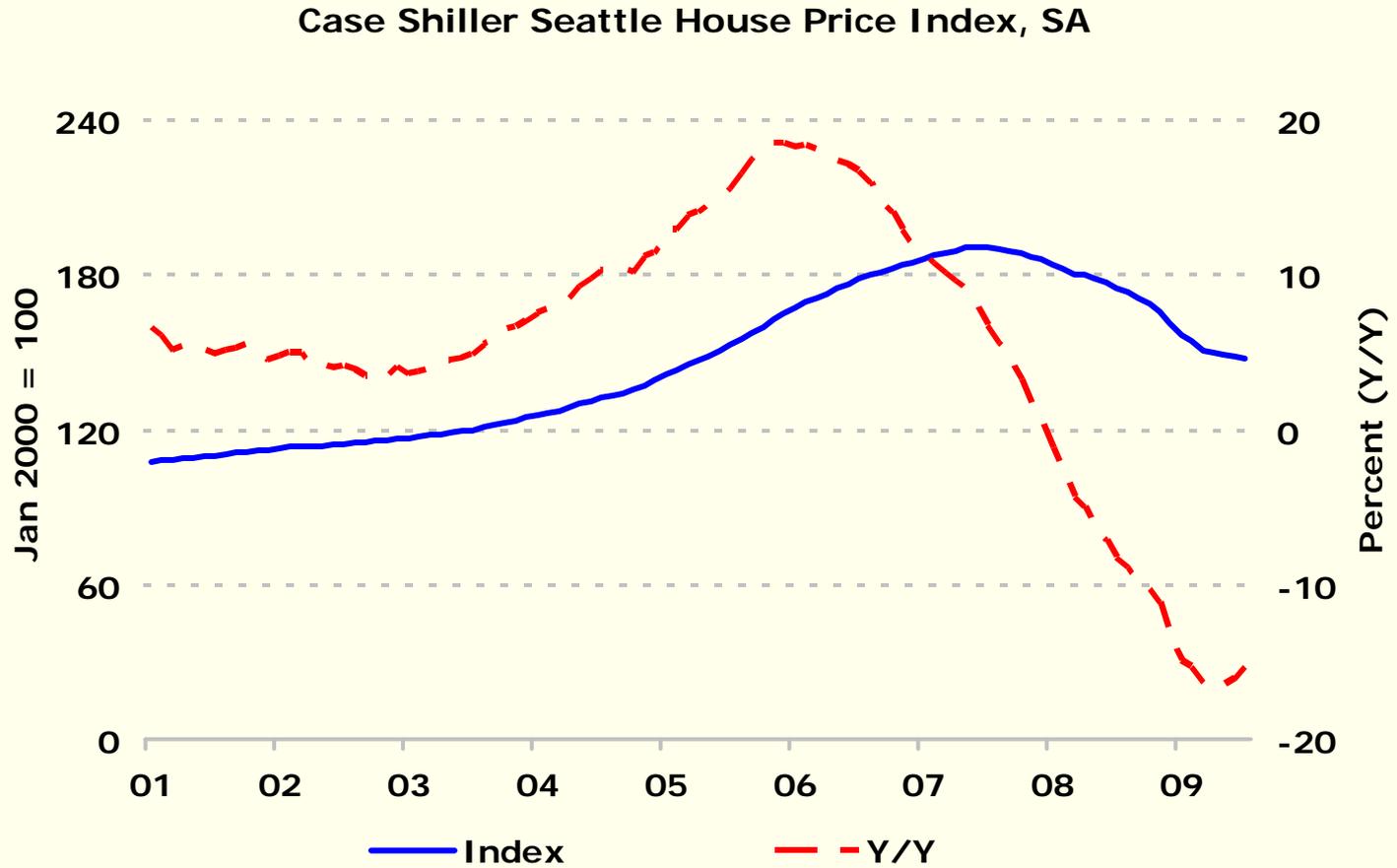
Source: S&P/Case-Shiller; data through July 2009

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# Home prices in Seattle appear to be leveling off, but lag the nation in the turnaround

## Seattle Home Prices



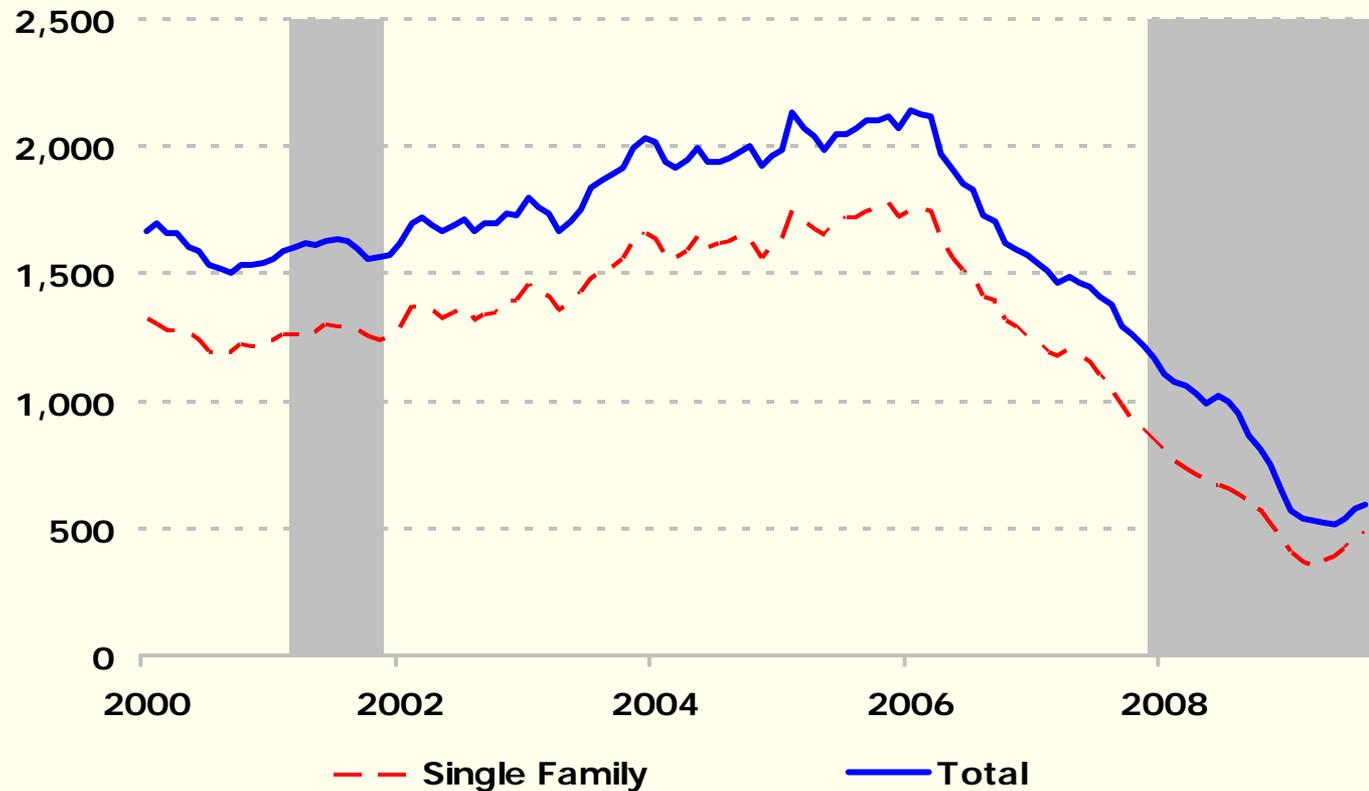
Source: S&P/Case-Shiller; data through July 2009

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# U.S. housing starts appear to have turned the corner

Thousands, SA, 3MMA

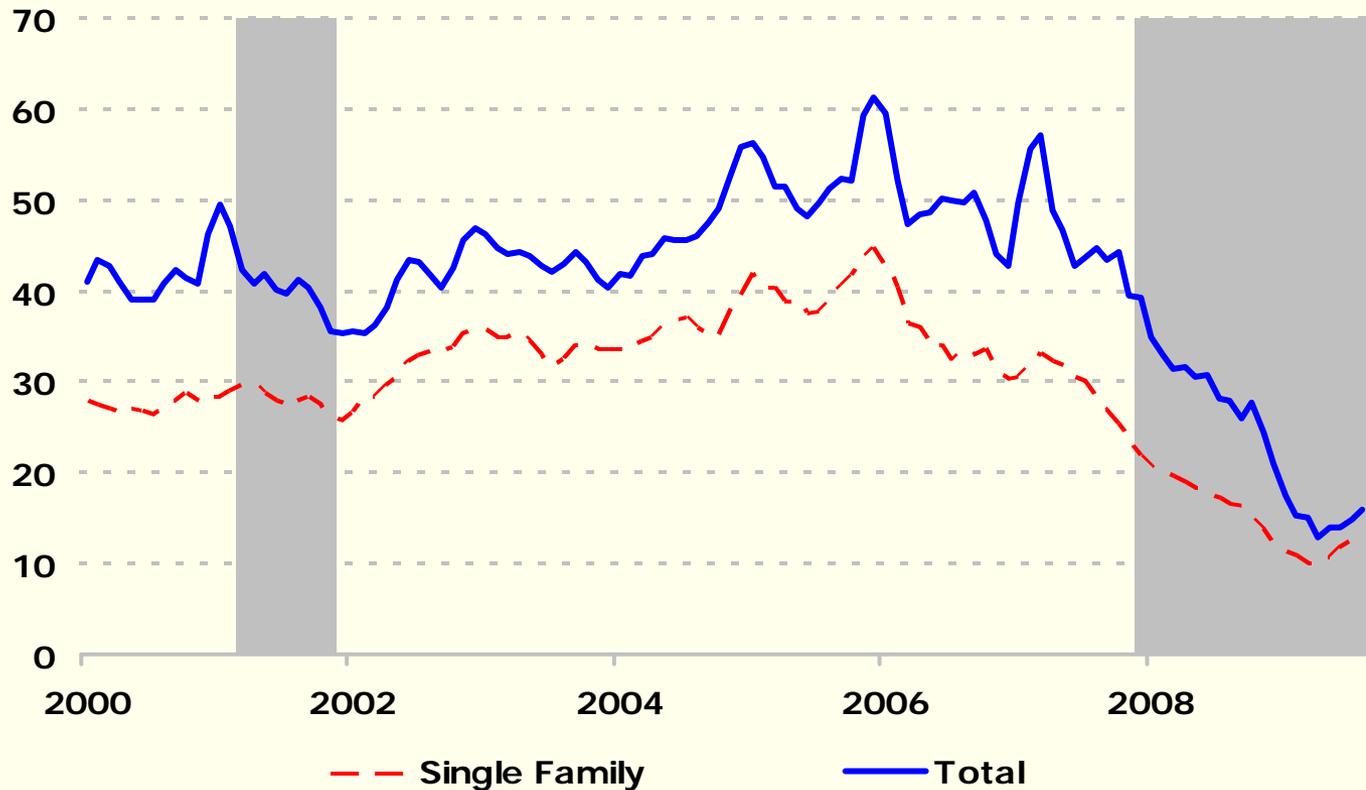


Source: U.S. Census Bureau; data through August 2009



# WA housing permits have also turned around

Thousands, SAAR, 3MMA

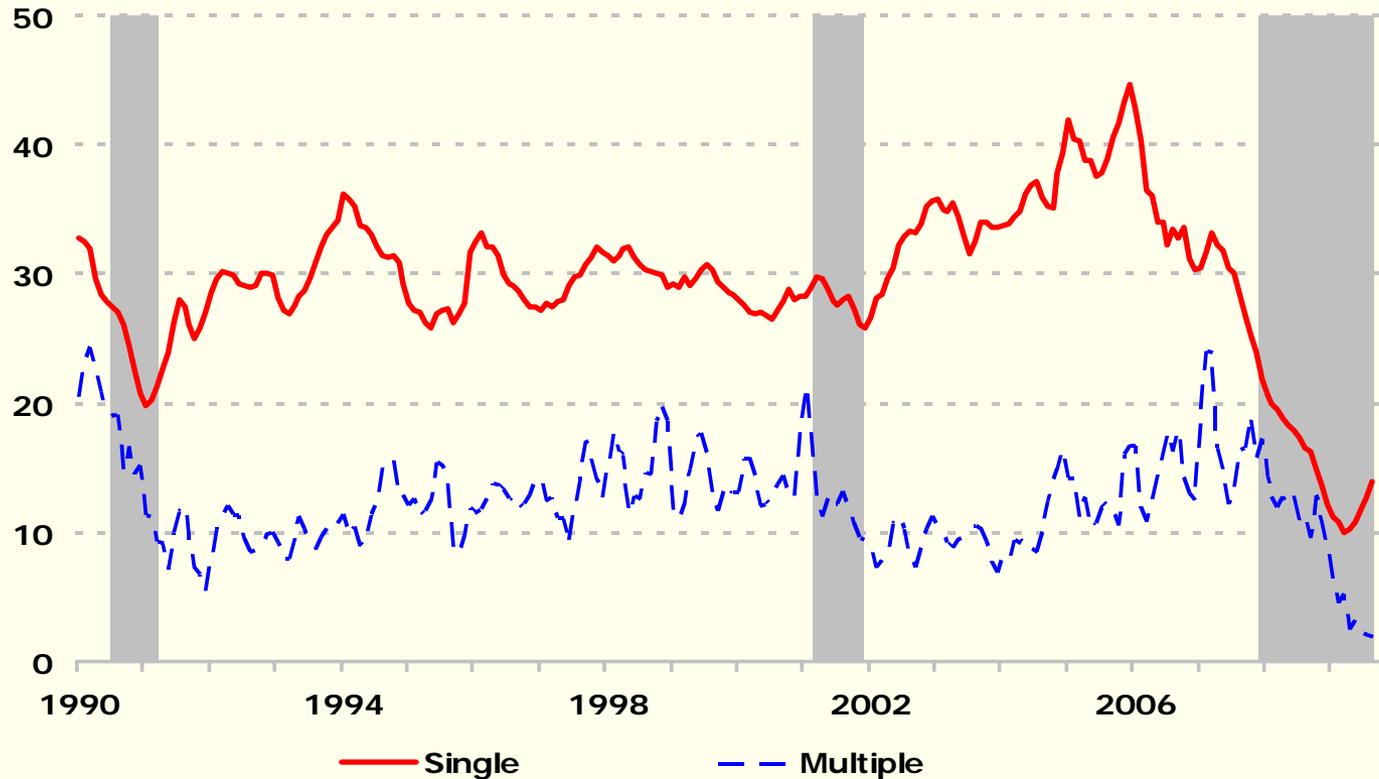


Source: U.S. Census Bureau; data through July 2009



# Recovery is due to single family building permits

Thousands, SA, 3MMA

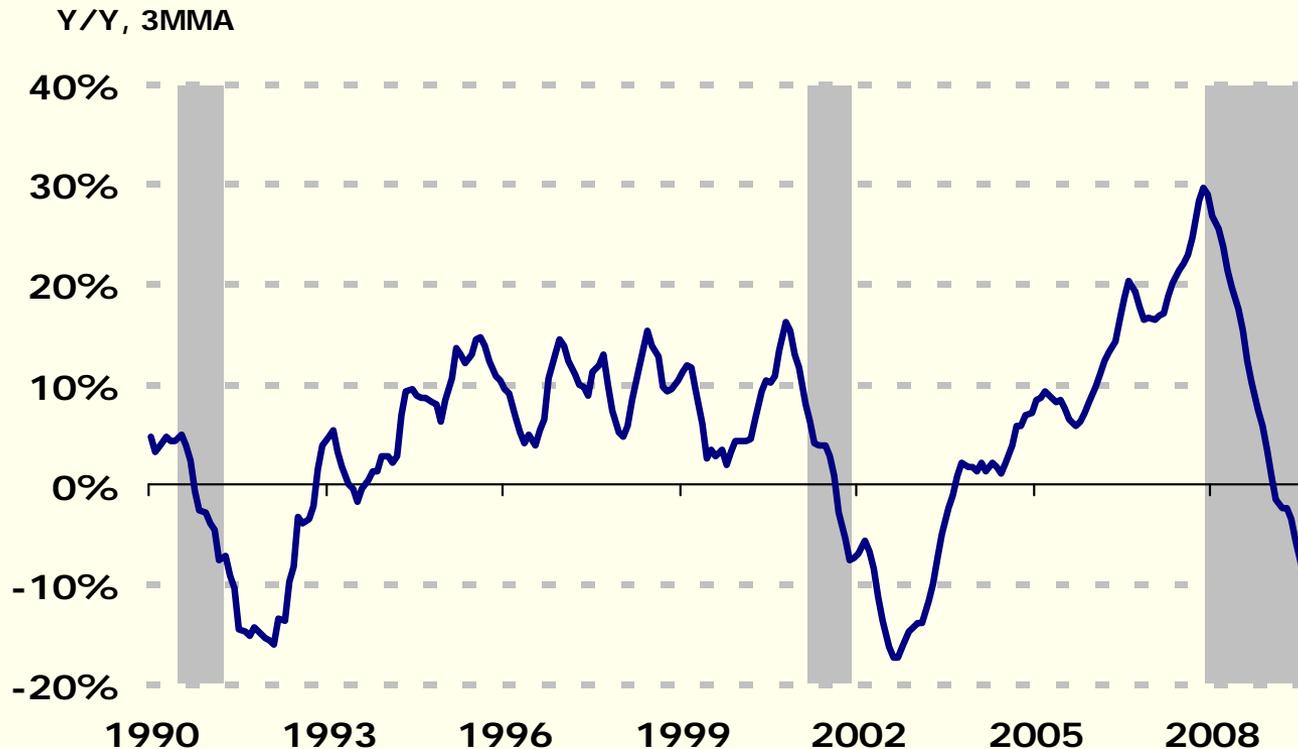


Source: U.S. Census Bureau; data through August 2009



# There is further downside to the non-residential downturn

Construction Put In Place, Private Non-Residential  
\$ millions SAAR

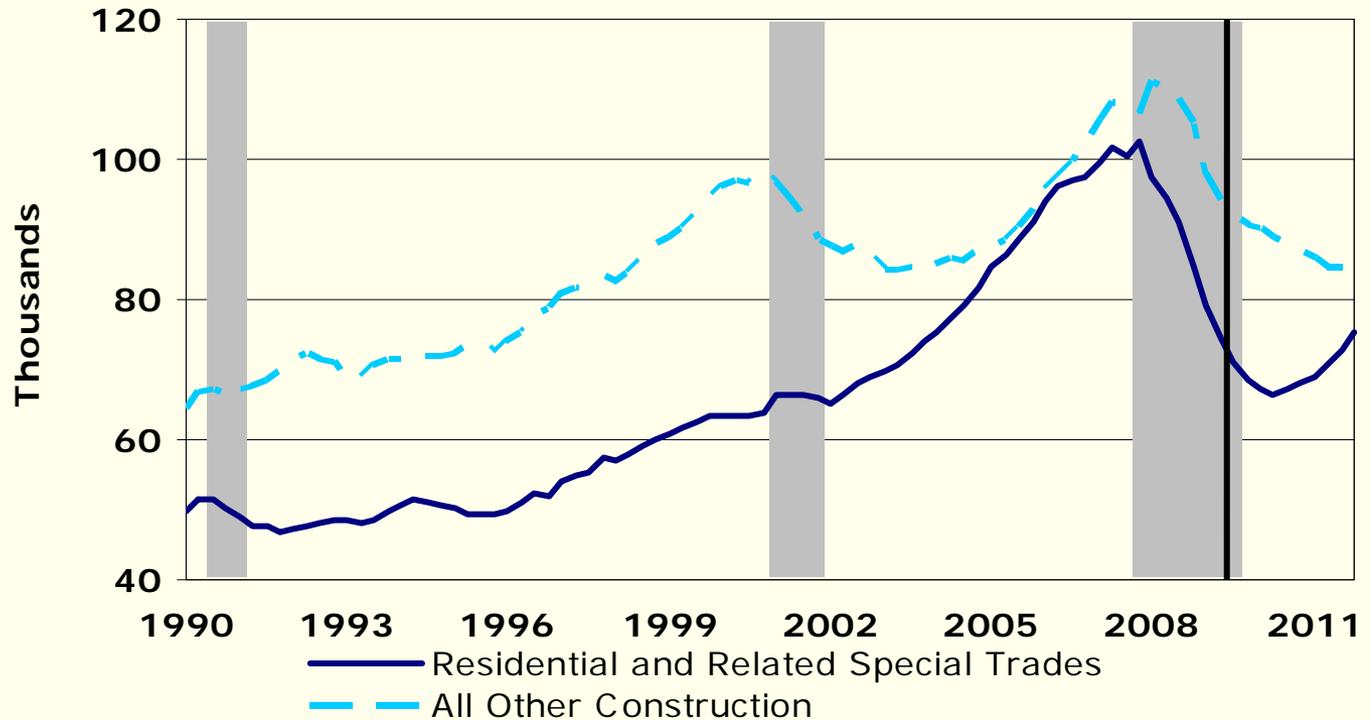


Source: Bureau of the Census, ERFC; data through August, 2009



# Recovery in non-residential construction will lag residential

Washington Construction Employment



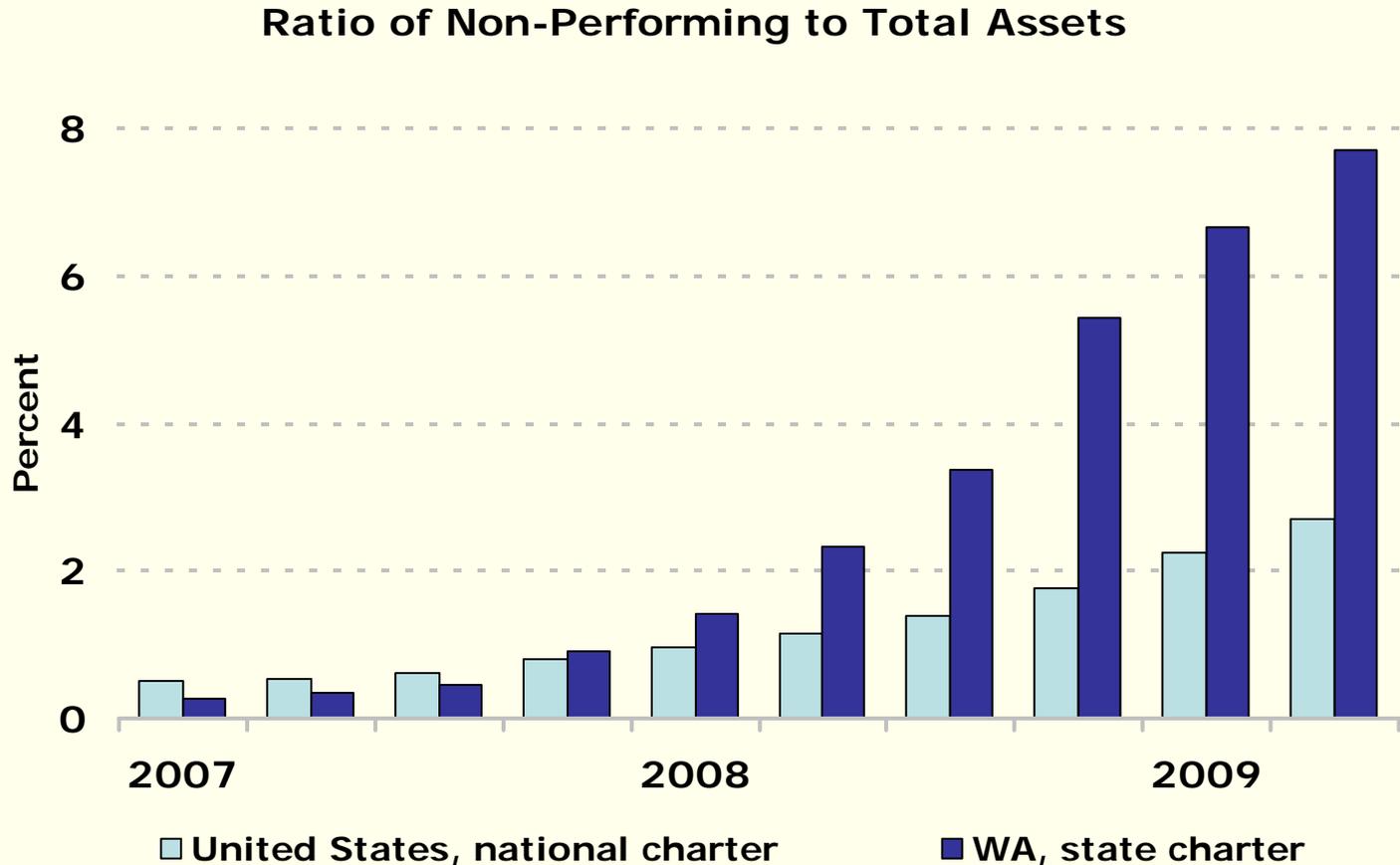
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Source: WA State ESD history through 2009Q2, ERFC forecast.



# Commercial real estate bust weighs more heavily on state chartered banks than on national banks

This is generally true for state chartered banks in other states as well



Source: FDIC, data through 2009 Q2.



# We are witnessing an unprecedented global recovery

These economies represent 32% of global GDP.

The US is 25% of global GDP

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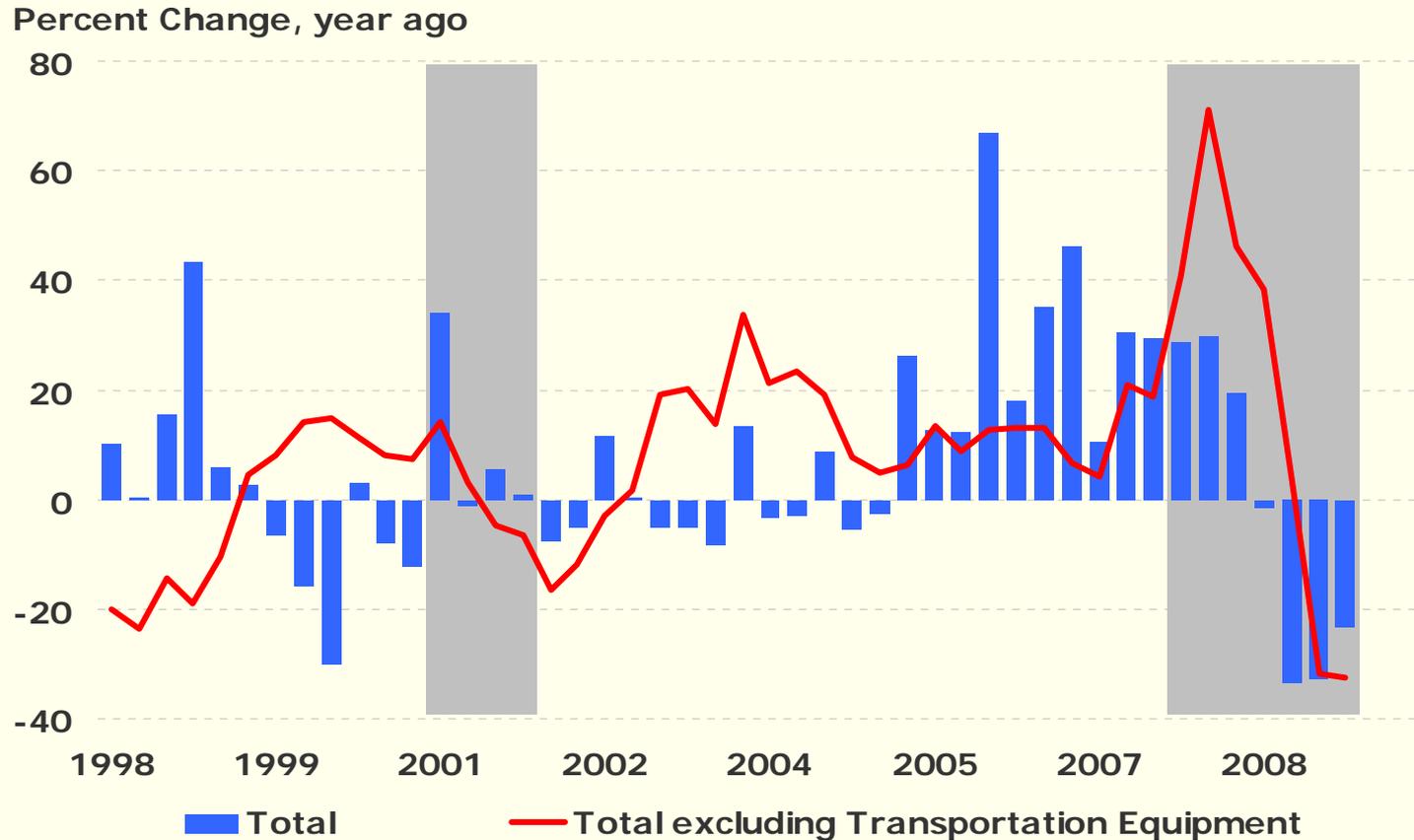
	GDP share	Q/Q, SAAR %	
		2009 Q1	2009 Q2
Japan	8.0%	-14.2	3.7
China	6.2%	5.6	16.0
Germany	6.0%	-13.4	1.3
France	4.7%	-5.7	1.2
India	2.0%	7.0	6.5
Korea	1.9%	0.5	9.7
Indonesia	0.8%	3.7	5.3
Taiwan	0.7%	-3.2	9.1
Thailand	0.4%	-7.2	9.6
Hong Kong SAR	0.4%	-14.7	13.8
Malaysia	0.3%	-17.7	13.2
Singapore	0.3%	-12.2	20.7
Philippines	0.3%	-7.1	11.0

Source: IMF, ERFC



# Exports may help the state recover earlier in the cycle than we expected

2009 Q2 shows improvement over 2009 Q1 due to transportation equipment



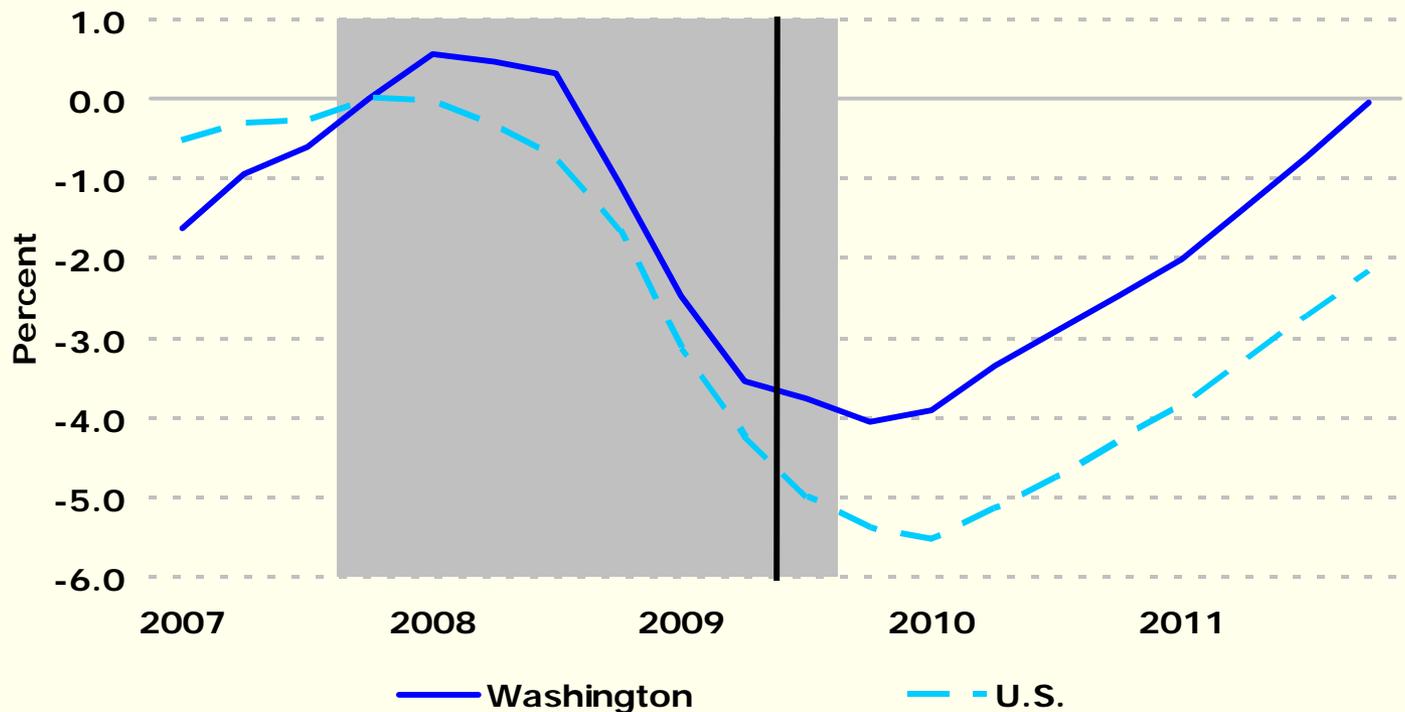
Source: Wisier Trade Data; through 2009 Q2

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# Washington employment is expected to outperform the U.S.

Percent change in employment from the business cycle peak

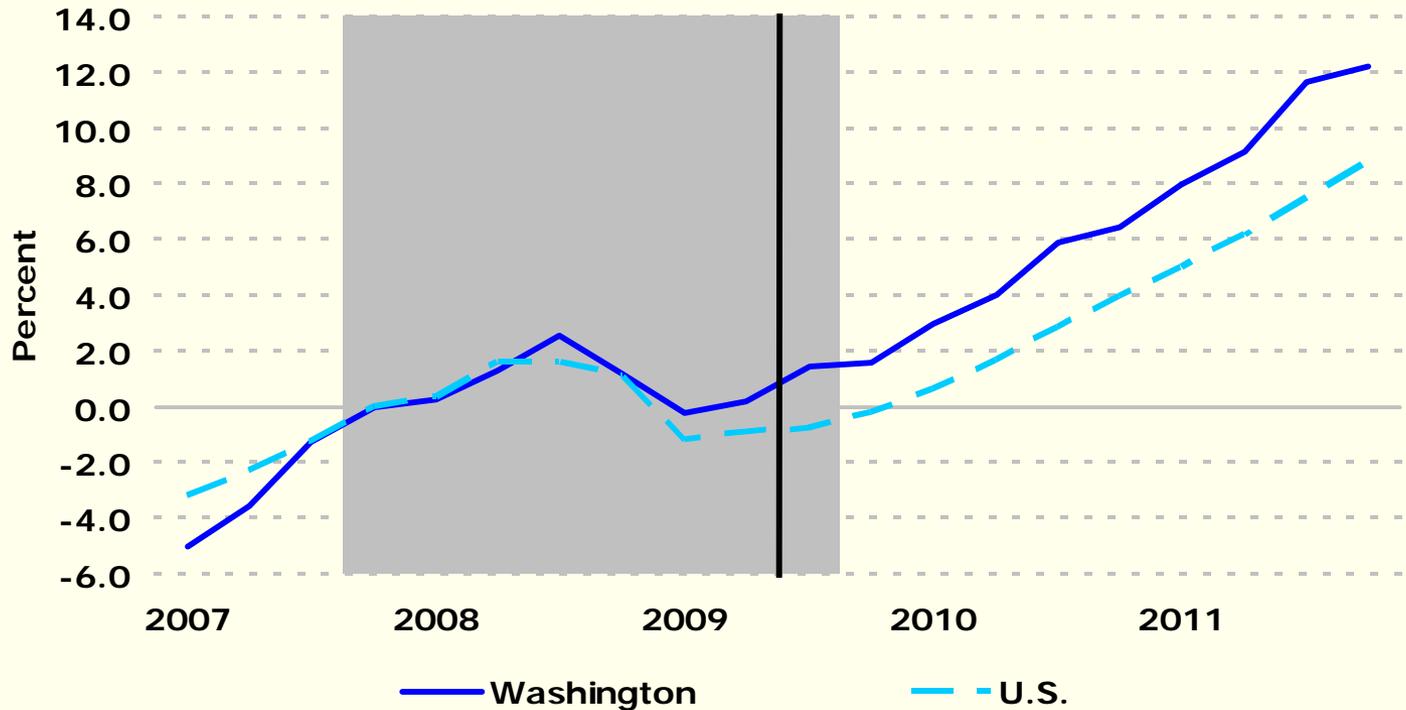


Source: ERFC September 2009 forecast; actual data through 2009Q2



# Washington personal income is also outperforming the U.S.

Percent change in personal income from the business cycle peak



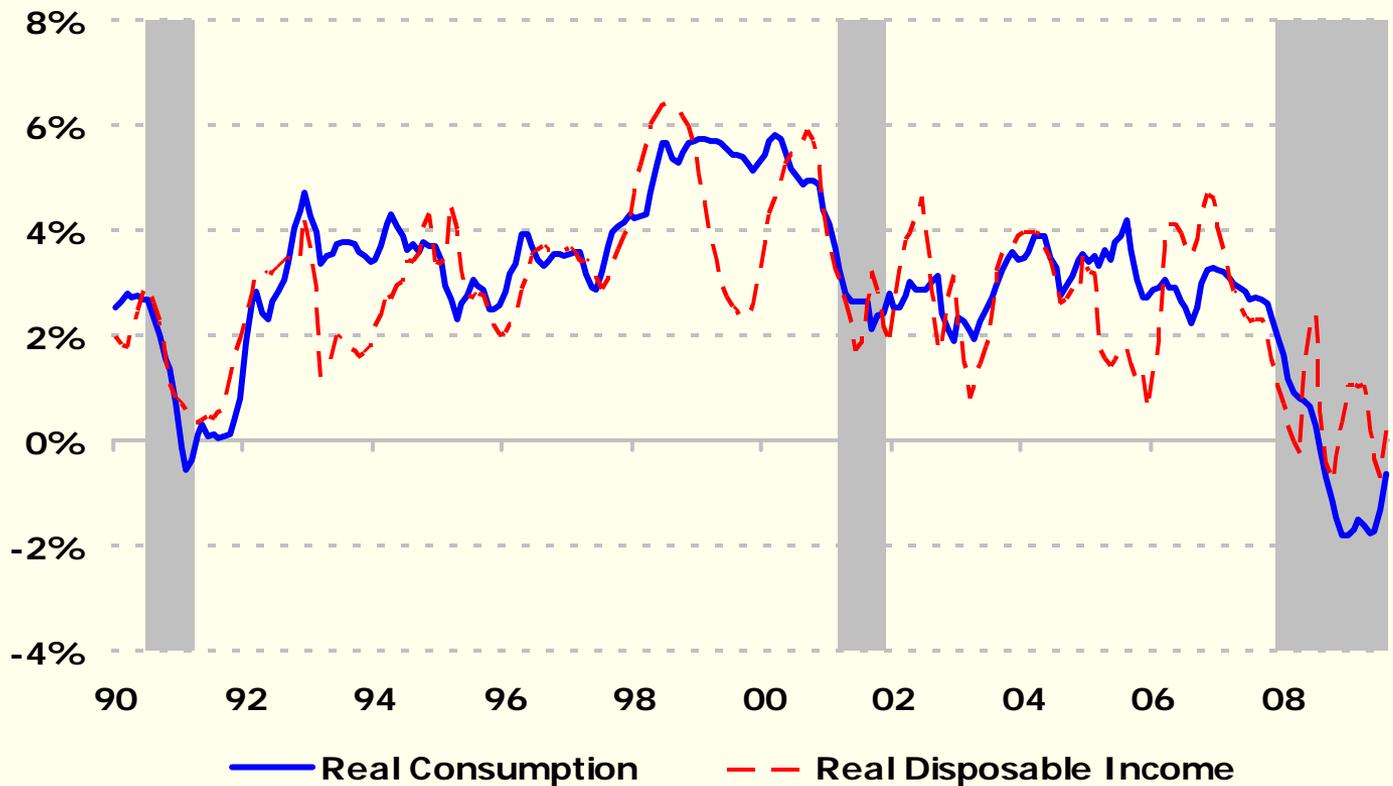
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Source: ERFC September 2009 forecast; actual data through 2009Q2



# Recovery in revenue depends on consumer spending – still a wildcard

3 MMA, Y/Y percent



Source: BEA, data through August 2009.

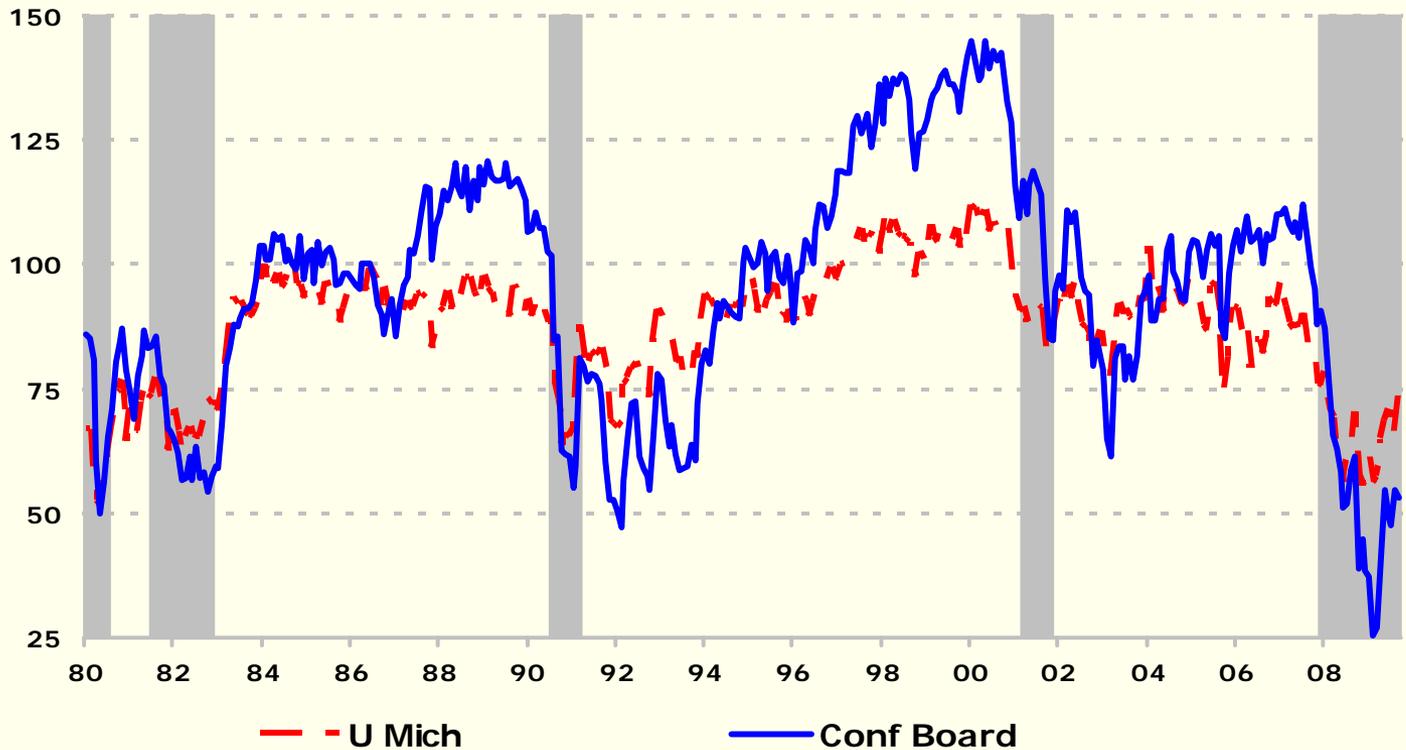


# Consumer confidence is still in recessionary territory, but improving

Index

Mich: 1966Q1 = 100, SA

Conf Board: 1985 = 100, SA

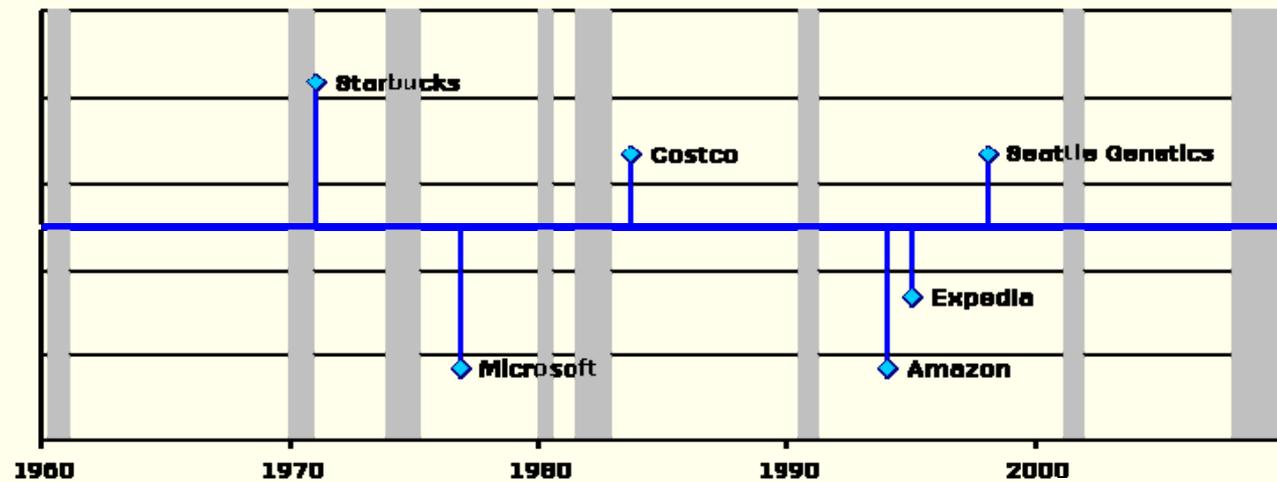
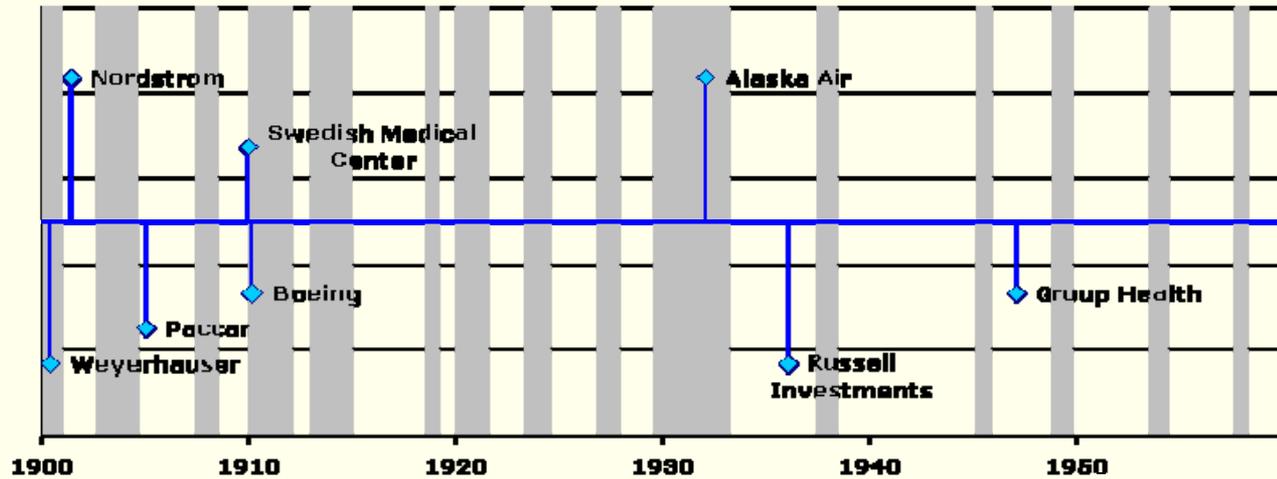


Source: University of Michigan; Conference Board, data through September 2009.



# Innovation follows recessions

Gray bars correspond to national recessions



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# Conclusion

- Washington will lead the U.S. in recovery
- Recovery in state revenue will lag the economic recovery
- The recovery in revenues will be slow and is subject to risk
- Revenues in the 2009-11 biennium are expected to be 1% below their 2007-09 level



# Questions



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