

Arun Raha, Ph.D., Executive Director and Chief Economist

Arun Raha is Chief Economist for the State of Washington and Executive Director of the Economic and Revenue Forecast Council. He is responsible for preparation and presentation of quarterly forecasts of Washington's economy and General-Fund revenues. He also advises state legislative committees and other government agencies regarding economic and revenue activity in the state.

Dr. Raha was formerly Vice-President, Economic Research, at Swiss Re in New York, a leading global reinsurer, headquartered in Zurich, Switzerland. There he was responsible for forecasts of North American macroeconomic, financial, and property-casualty insurance markets. He also worked closely with Connecticut based Conning Asset Management which was part of the Swiss Re Group.

Prior to that, he was Manager of Economic Analysis at Eaton Corporation, a global diversified industrial manufacturer in Cleveland, Ohio.

Arun has won two national forecasting awards - The Federal Reserve Bank of Chicago's top overall forecast prize for 2007, and the Wall Street Journal's forecasting award in January 2005.

Arun Raha has served on the Ohio Governor's Council of Economic Advisors, and is a former member of the Board of the Automotive Market Research Council.

He has a Ph.D. in Economics from Washington State University, and a Masters from the Delhi School of Economics.

Economic & Revenue Outlook

Presented to
Workforce Training and Education Coordinating Board

Arun Raha
Chief Economist

July 27, 2011
Olympia, Washington



WASHINGTON STATE
ECONOMIC AND REVENUE FORECAST COUNCIL



Summary

- The near term economic outlook has weakened since the June forecast
- We expect growth to pick up momentum later this year, as supply chain disruptions from Japan recede, and oil prices stabilize.
- 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

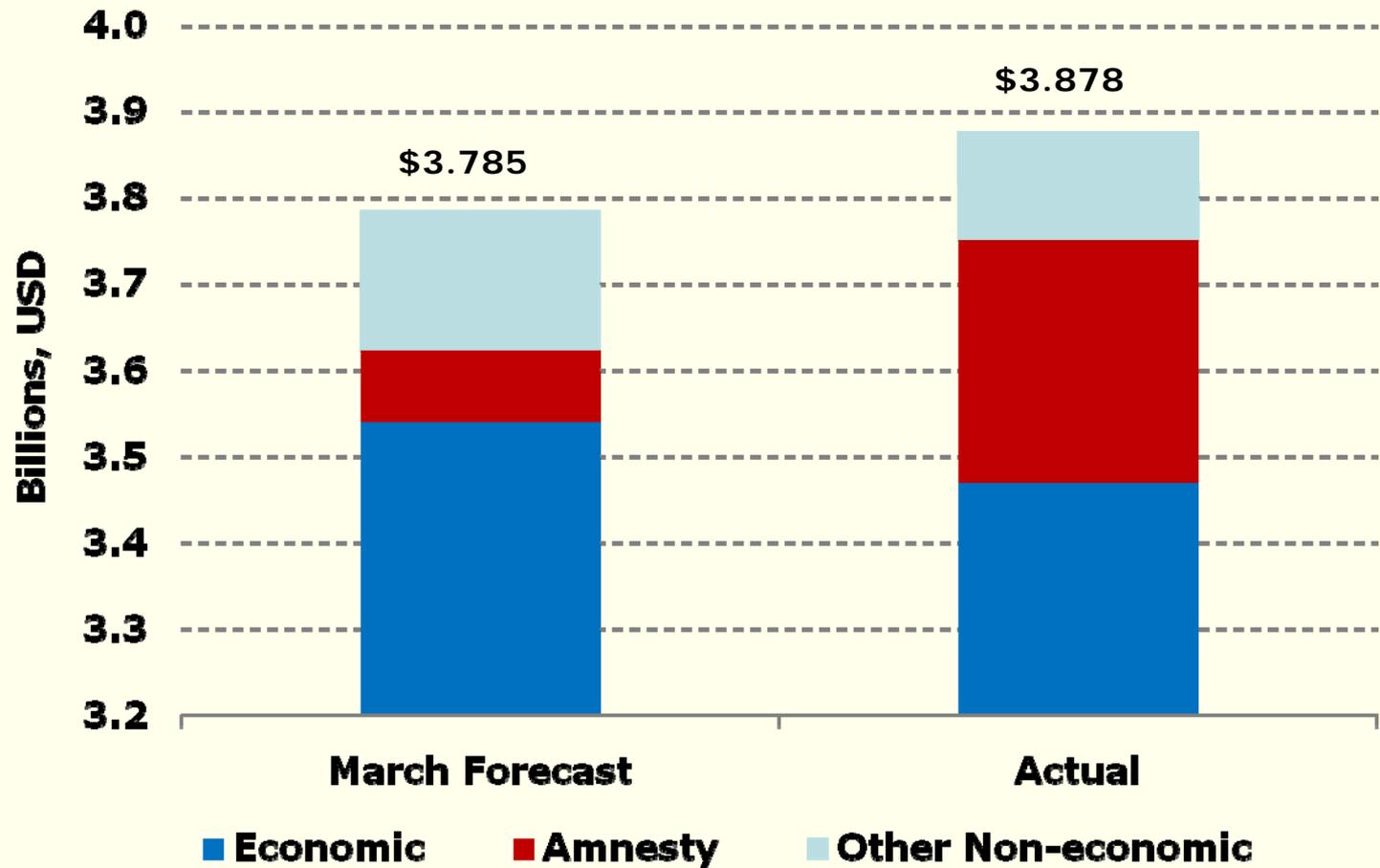


The amnesty program was a huge success

Amnesty:

March Forecast
\$85 Million

Collections
\$282 Million



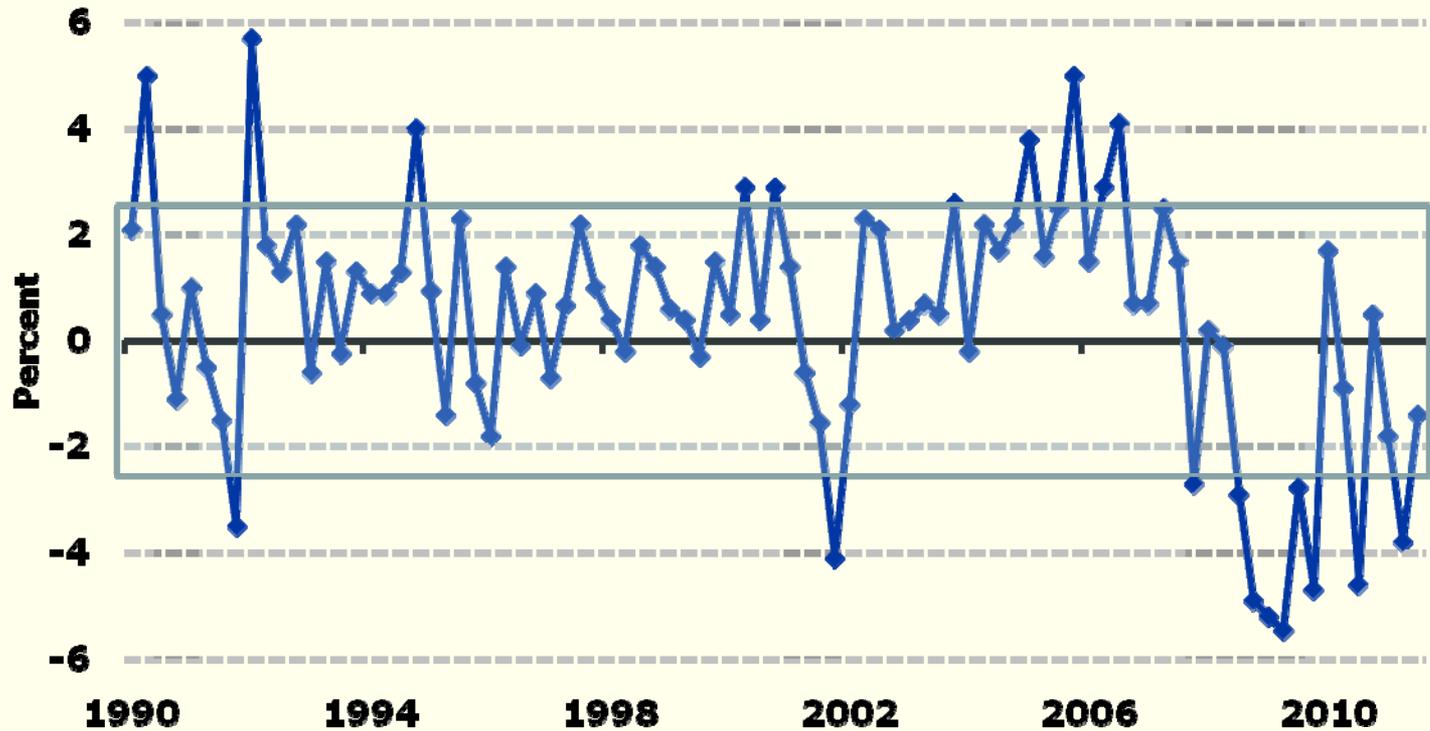
Source: ERFC; data through June 10, 2011 Collections

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

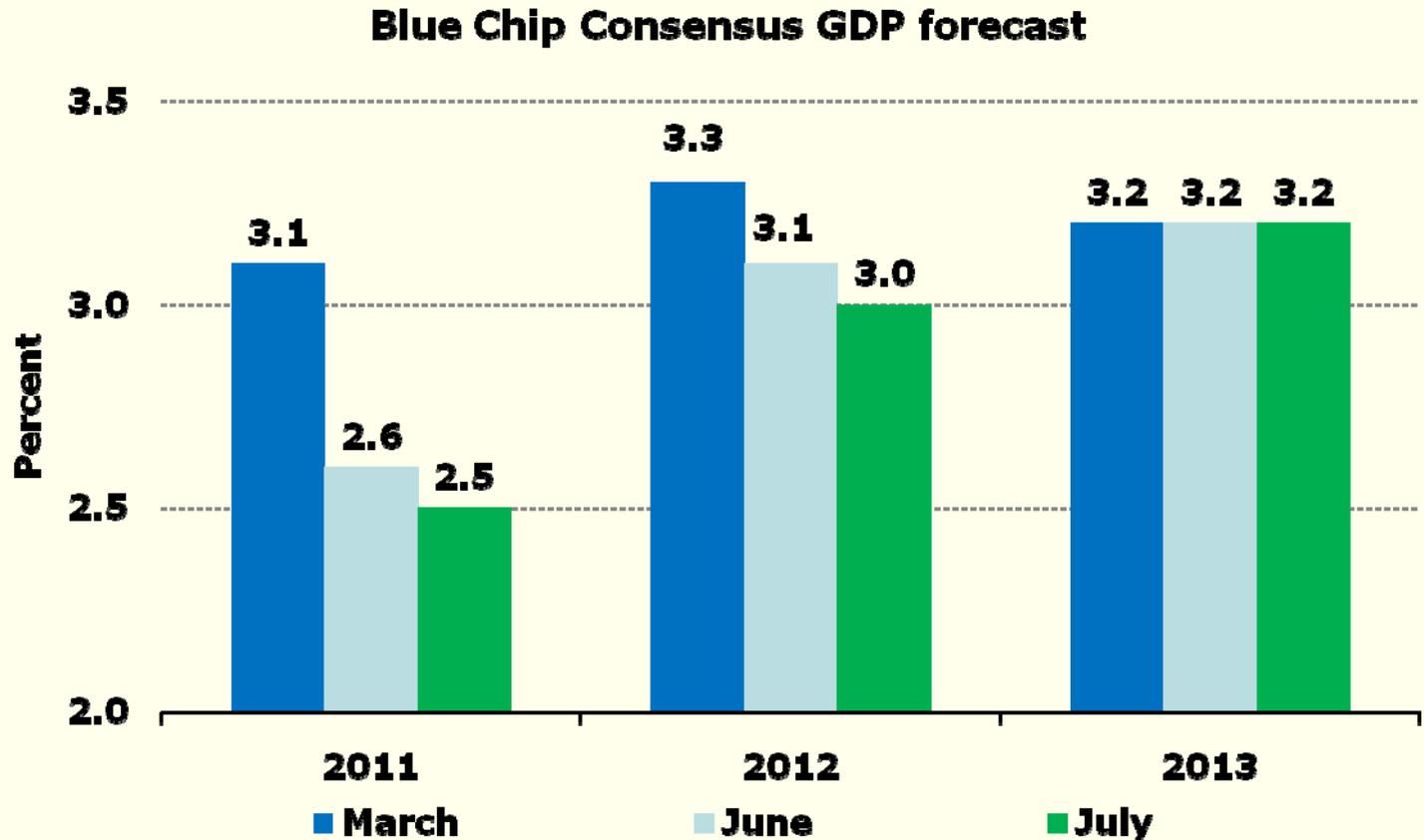
Average Adjusted Monthly Variance



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



The consensus near-term economic outlook has weakened since March



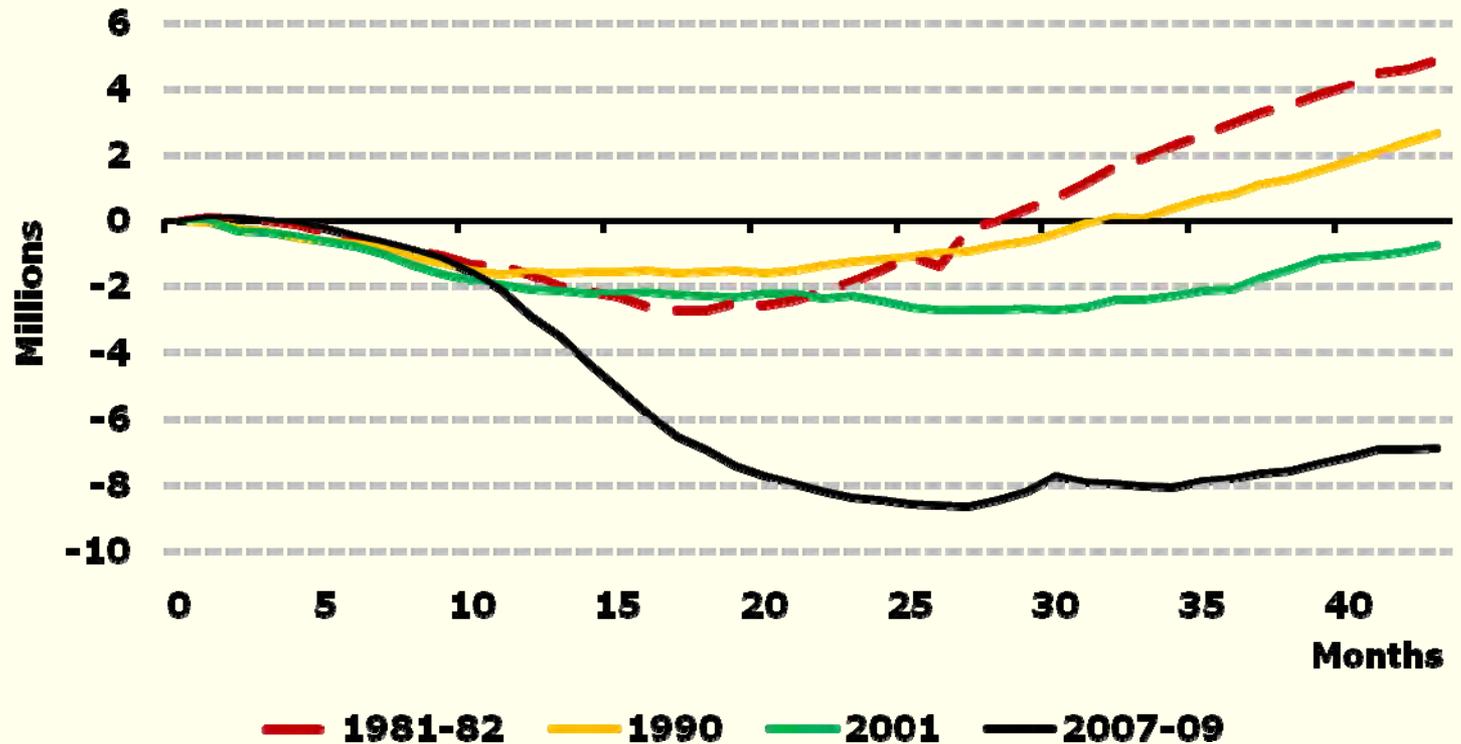
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Source: Blue Chip Economic Indicators, data through July 2011



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



Employment should pick up as labor productivity growth declines

Any increase in final demand will translate to job growth



Source: BLS; data through 2011 Q1

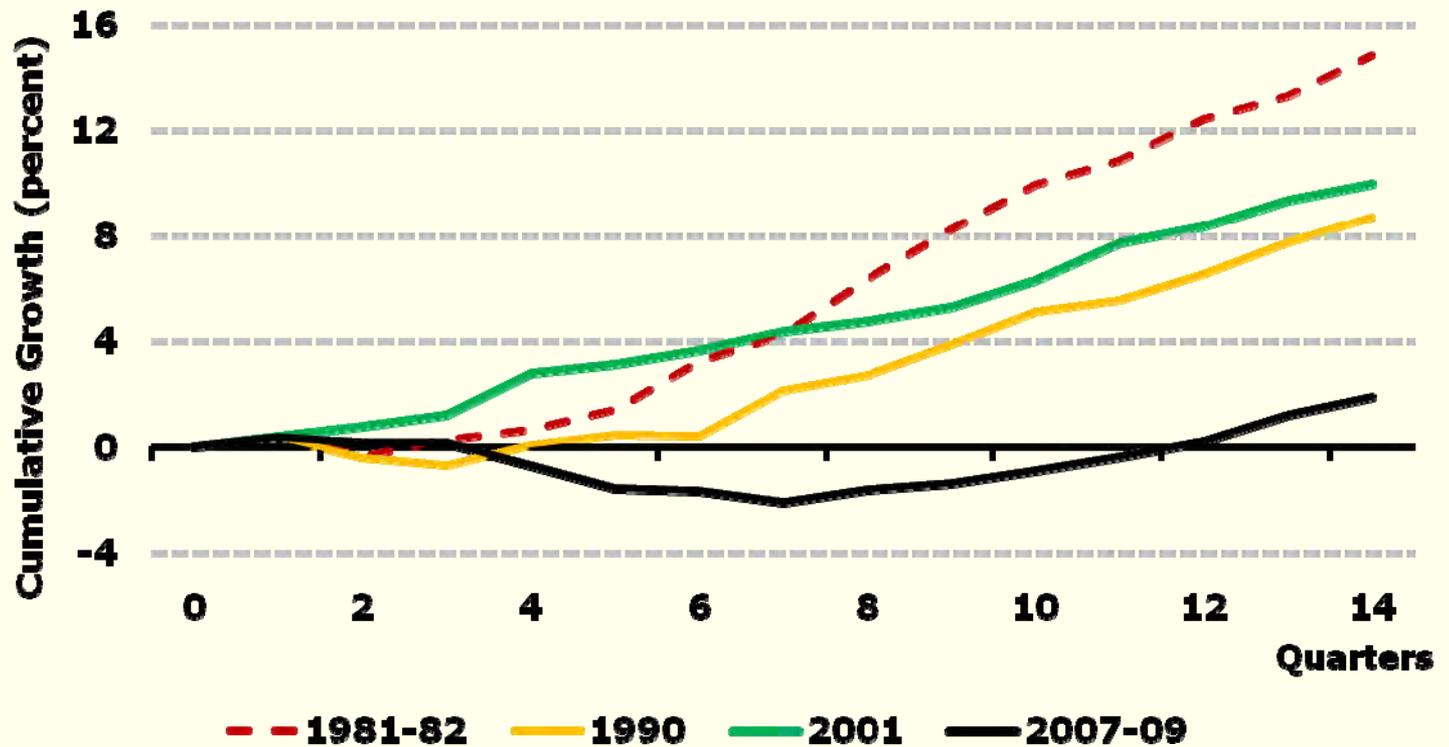
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Consumer demand is weak

U.S. Consumption after Business Cycle Peak



Source: BEA, ERFC; data through 2011 Q1



The trade deficit increased in May after falling in April



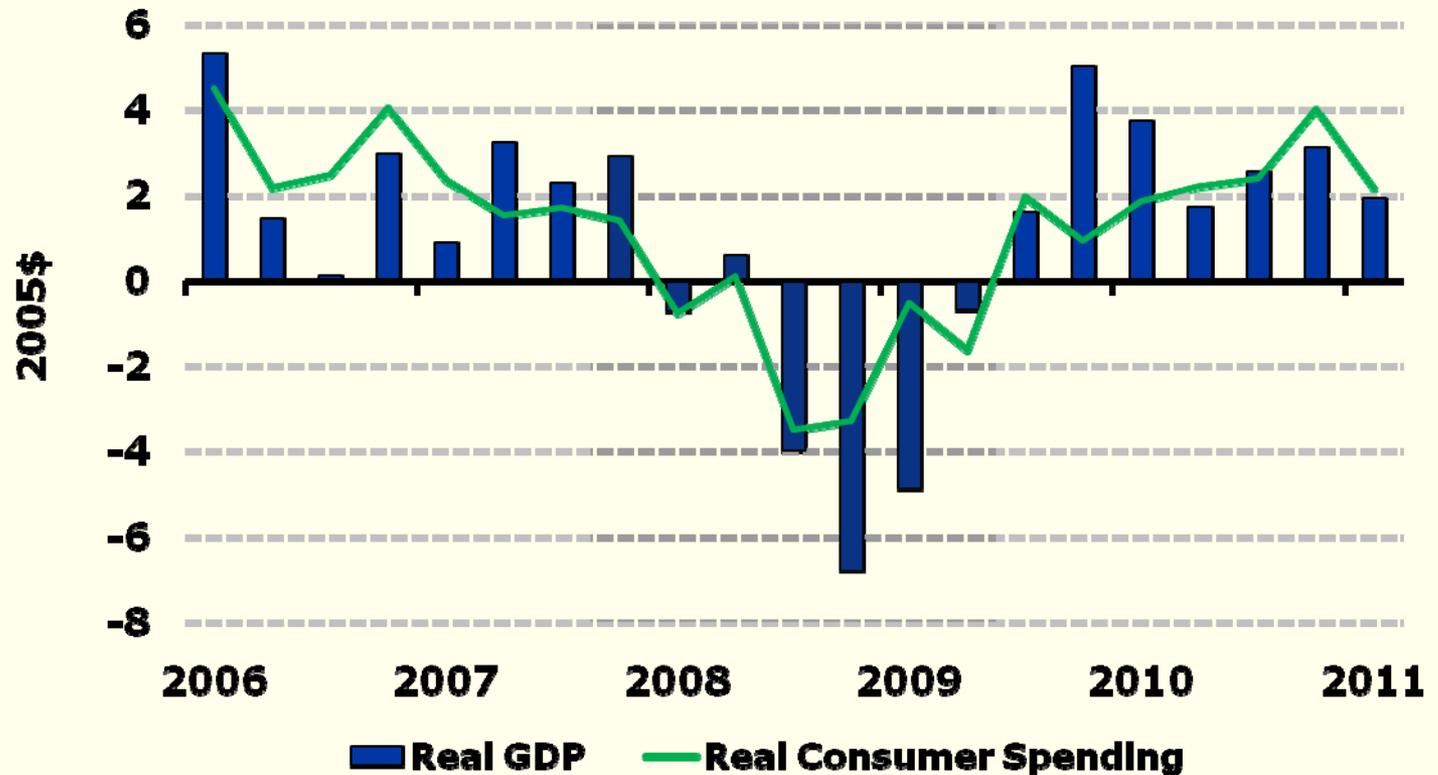
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Source: Census Bureau, U.S. Balance of Payments Account; data through May 2011



GDP and consumer spending growth slowed in Q1

Percent growth, SAAR

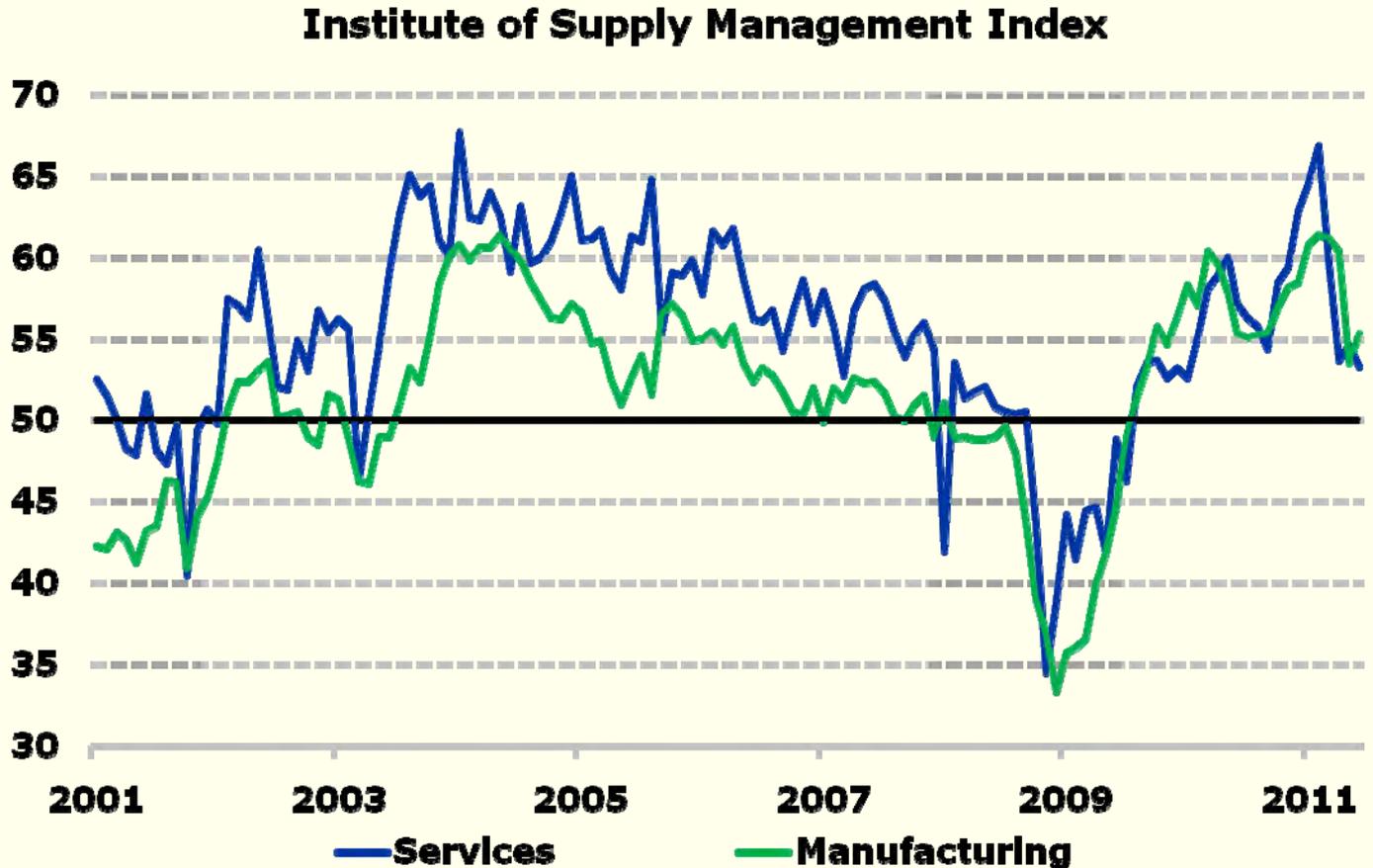


Source: BEA, data through 2011 Q1, third estimate



Manufacturing and service sector growth is slowing

An index greater than 50, implies growth



Source: Institute of Supply Management; data through June 2011

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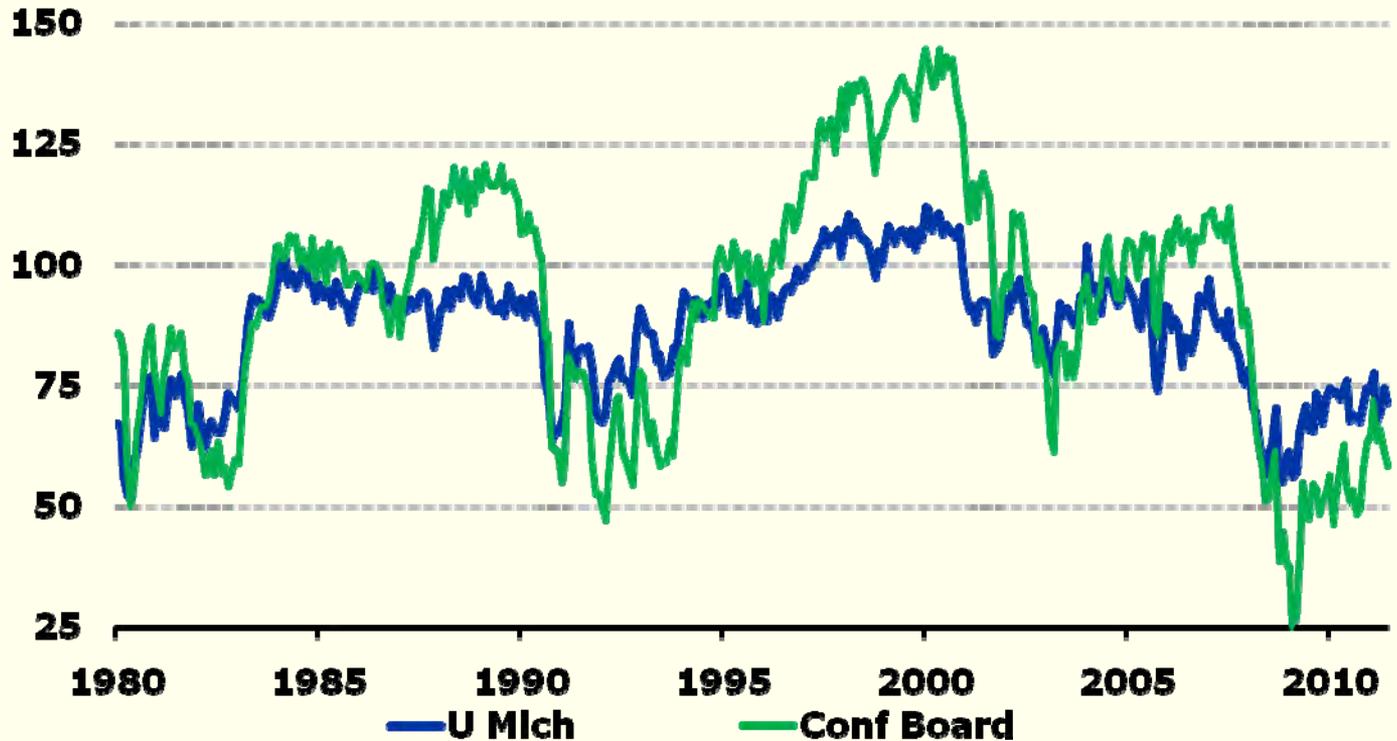


Consumer confidence is showing signs of softening

Index

Mich: 1966Q1 = 100, SA

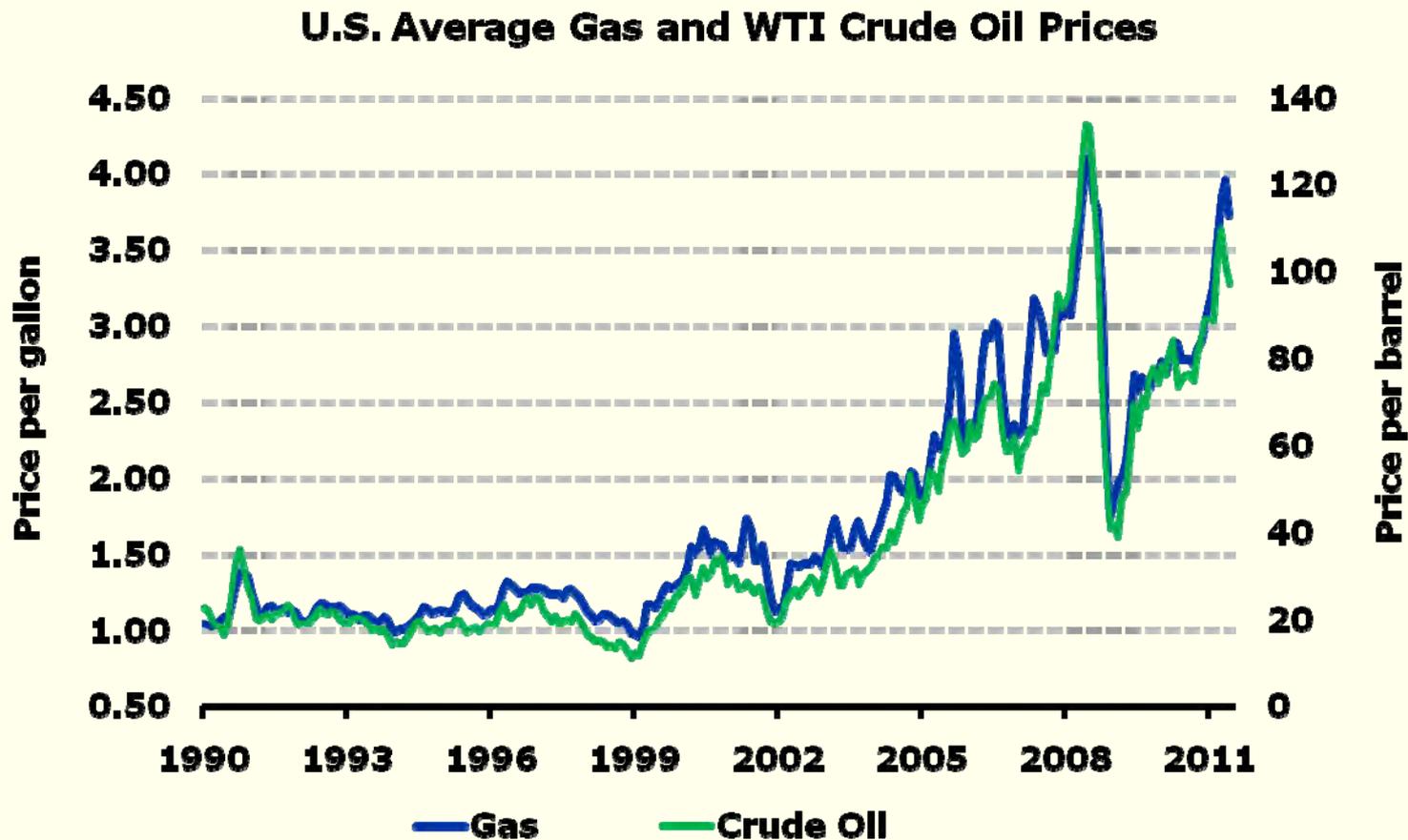
Conf Board: 1985 = 100, SA



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



Gas prices are retreating, but remain high

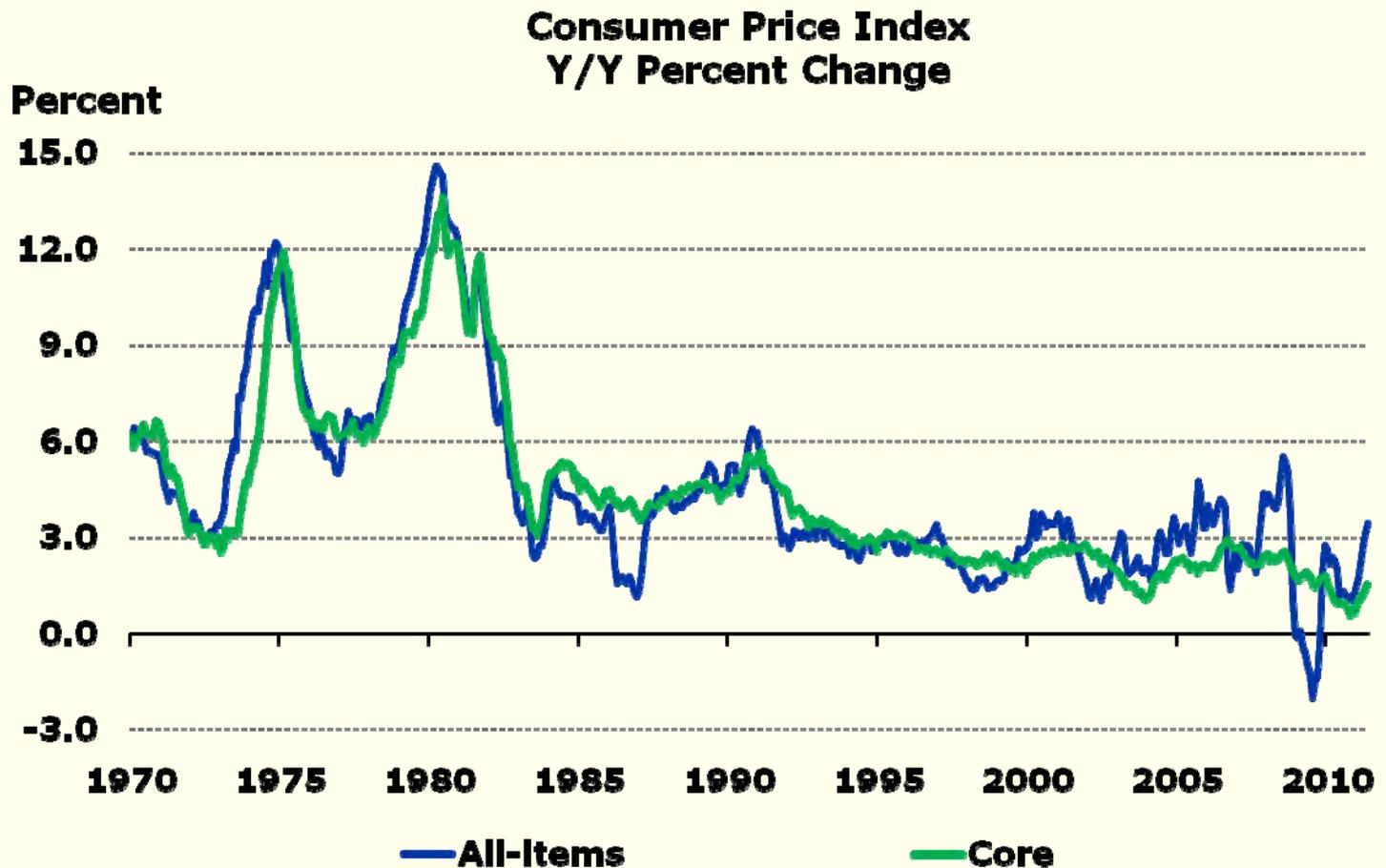


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Source: U.S. Energy Information Administration; data through June, 2011



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



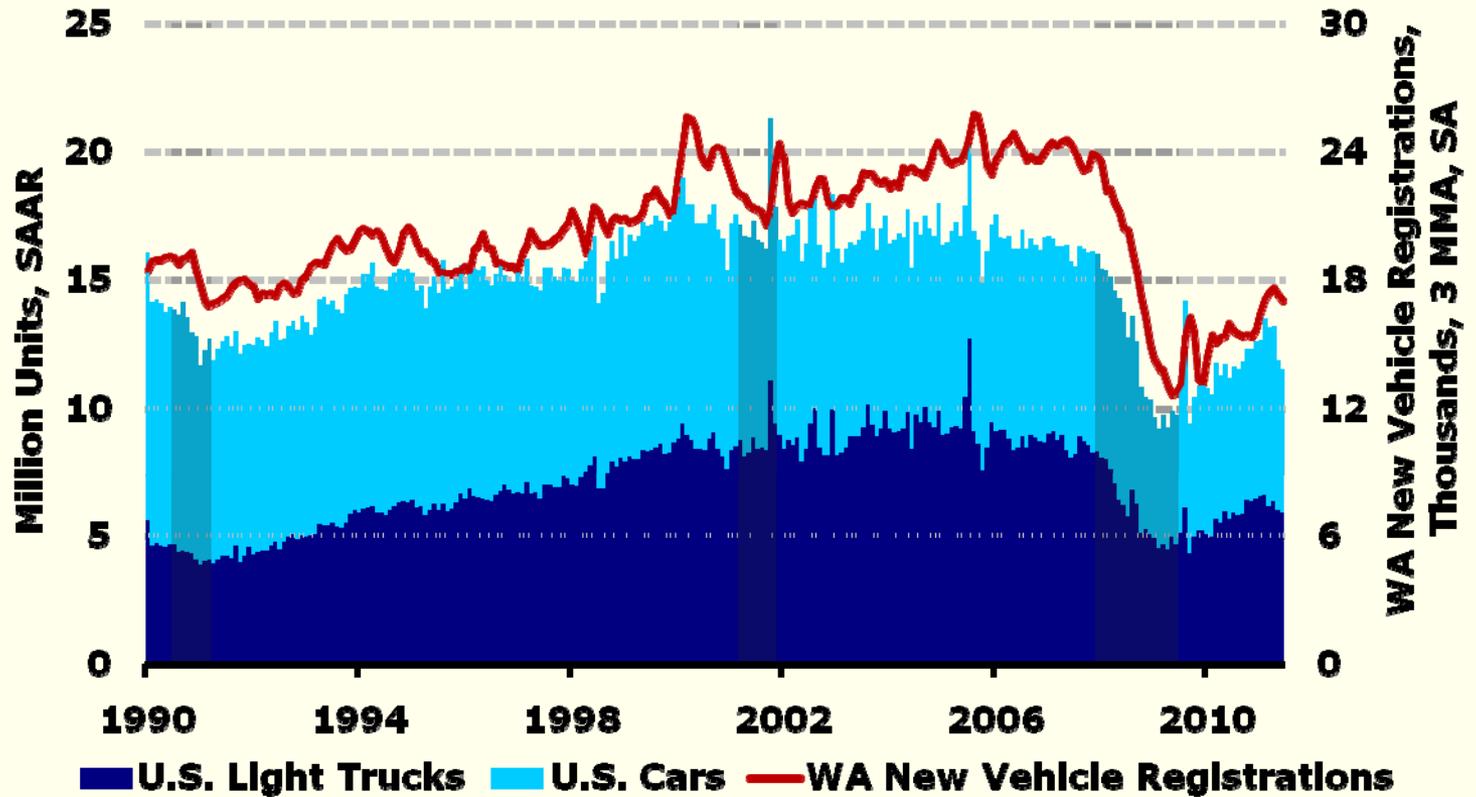
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Source: BLS; data through May 2011



U.S. LMV sales slowed in May and June...

U.S. LMV sales fell 10.4% in May

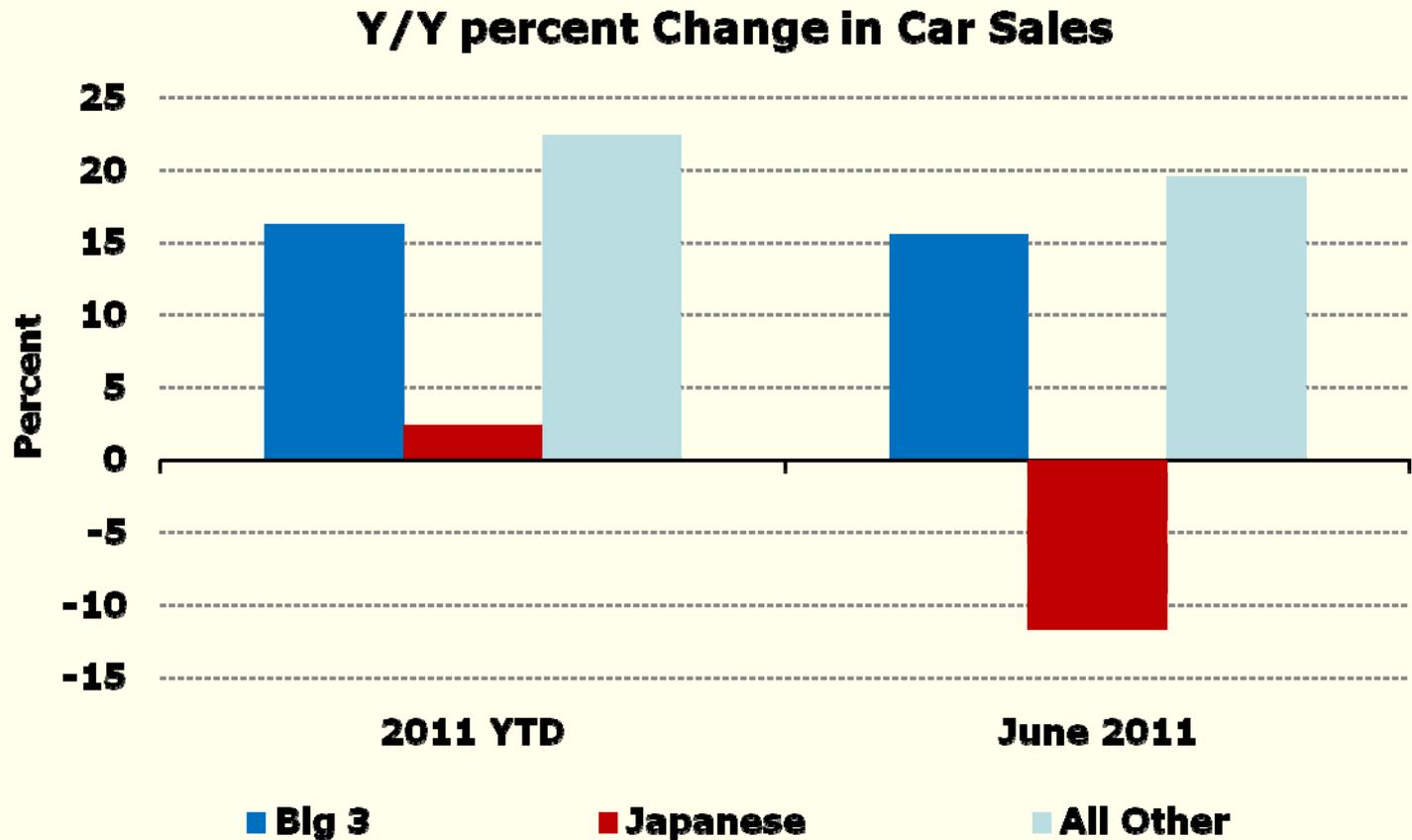


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Source: Autodata Corporation, WA DOL; data through June 2011



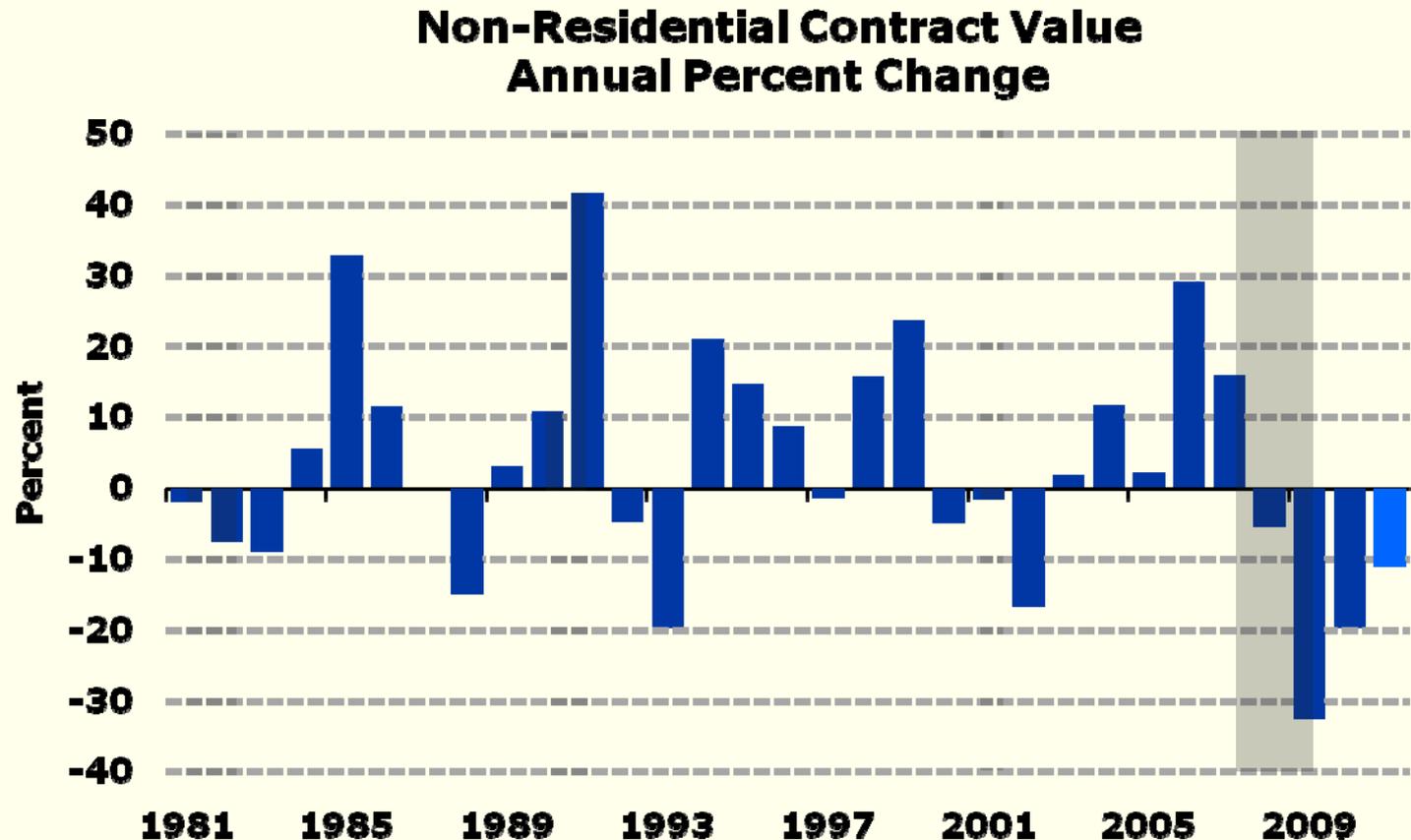
... as Japanese brands were hit by supply chain disruptions



Source: Autodata Corporation, data through June 2011



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



Source: McGraw-Hill Construction, data through May 2011

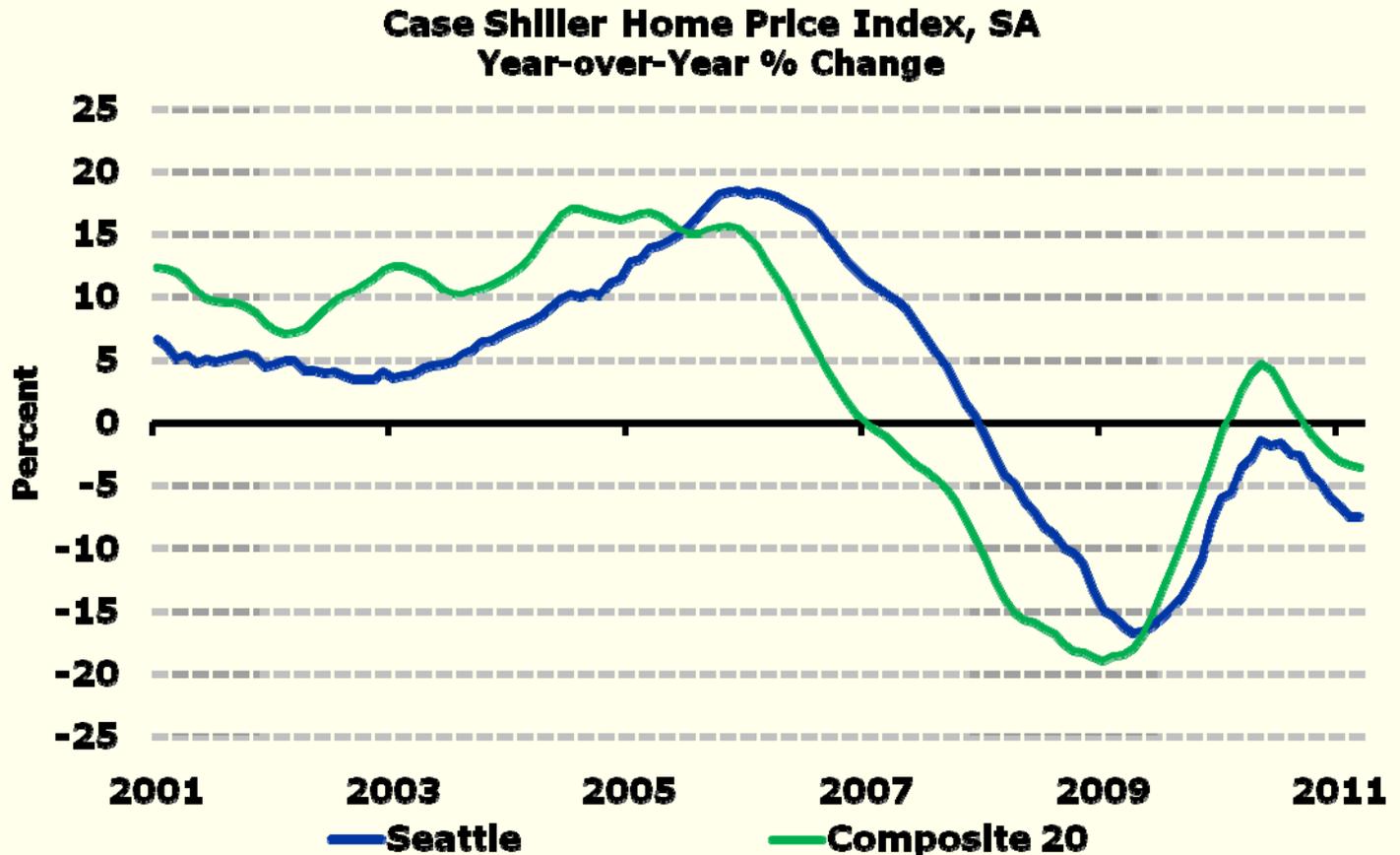


Home prices continue to decline

Apr 2011

U.S is
down
3.9%

SEA is
down
6.9%



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

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More foreclosures can be expected...

WA Rank:

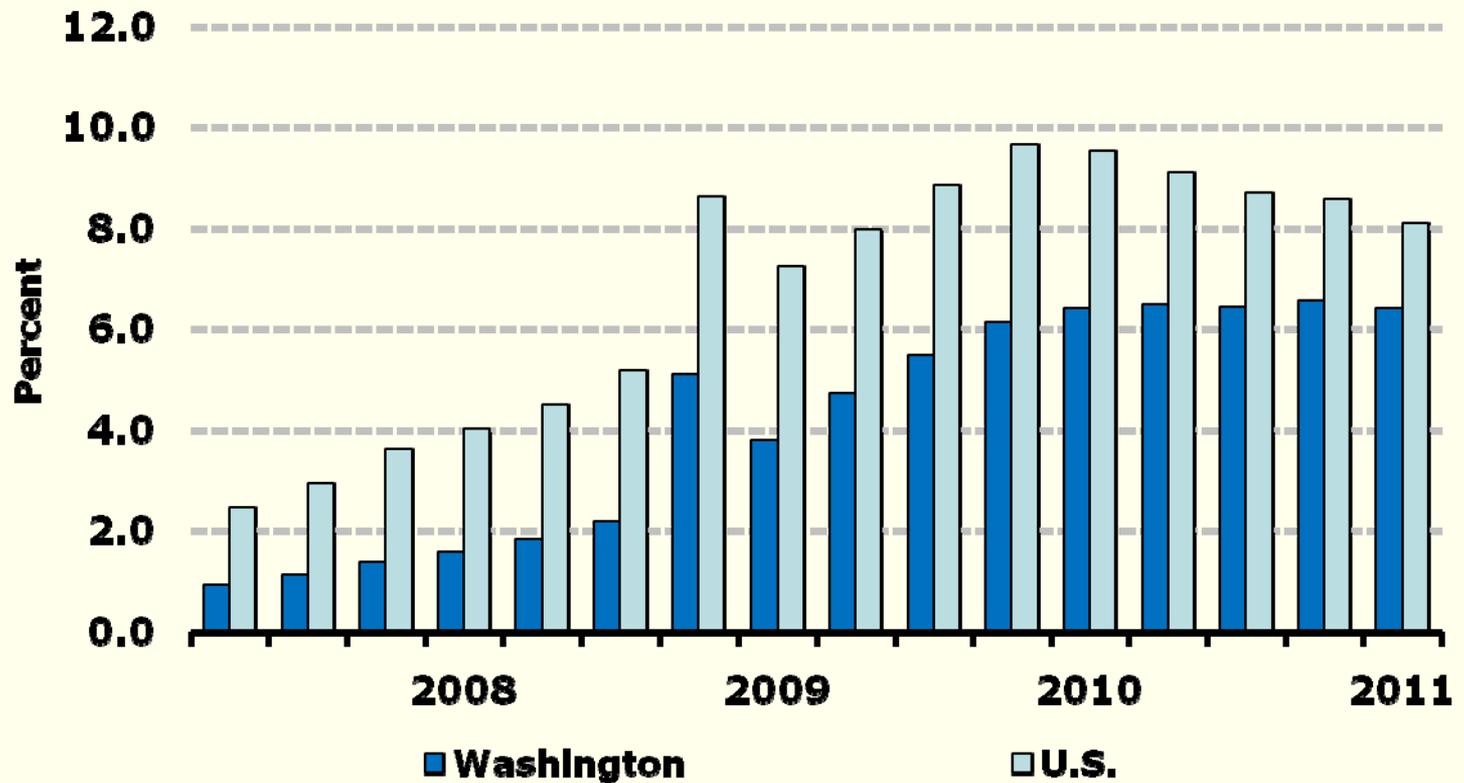
2010Q4 : 25
2011Q1 : 23

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



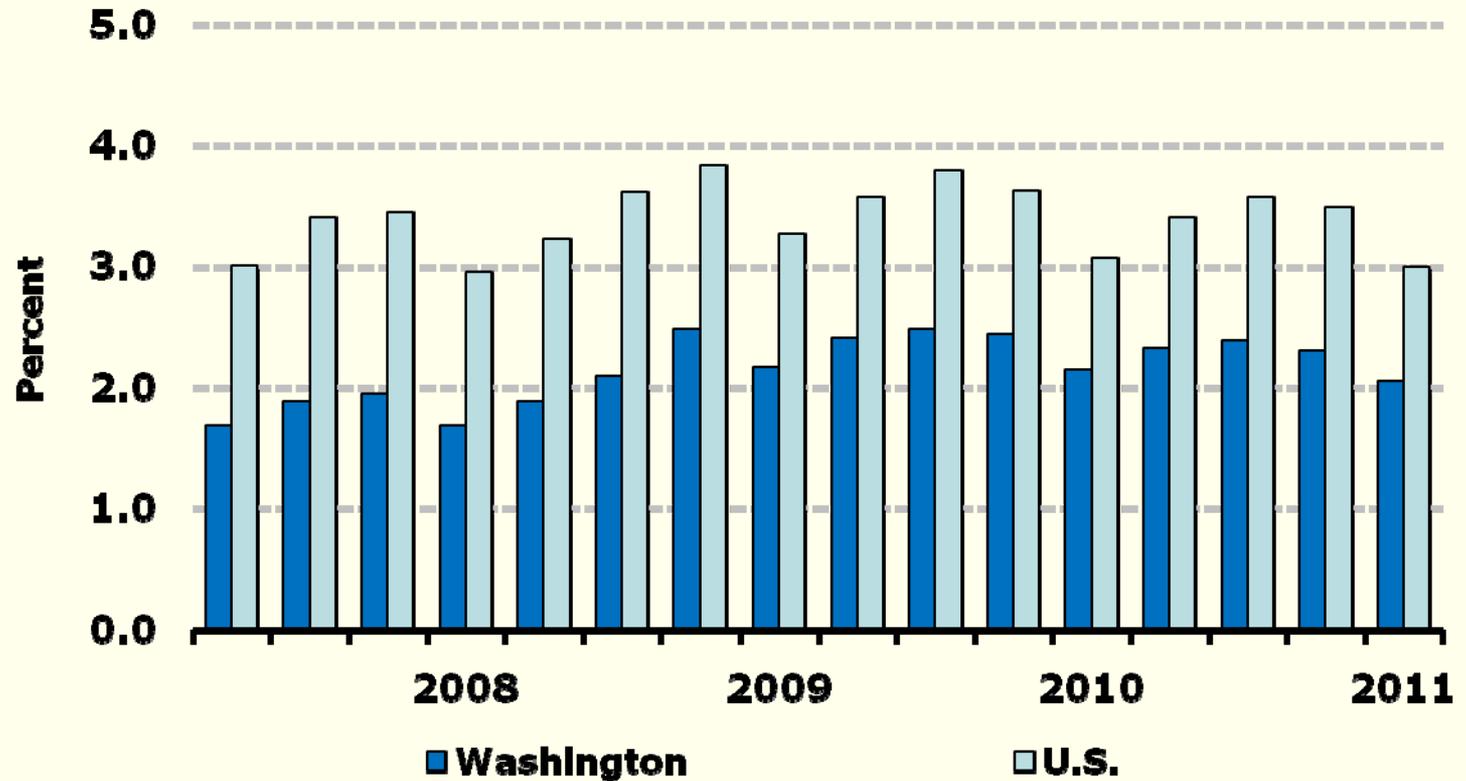
...but will eventually slow down

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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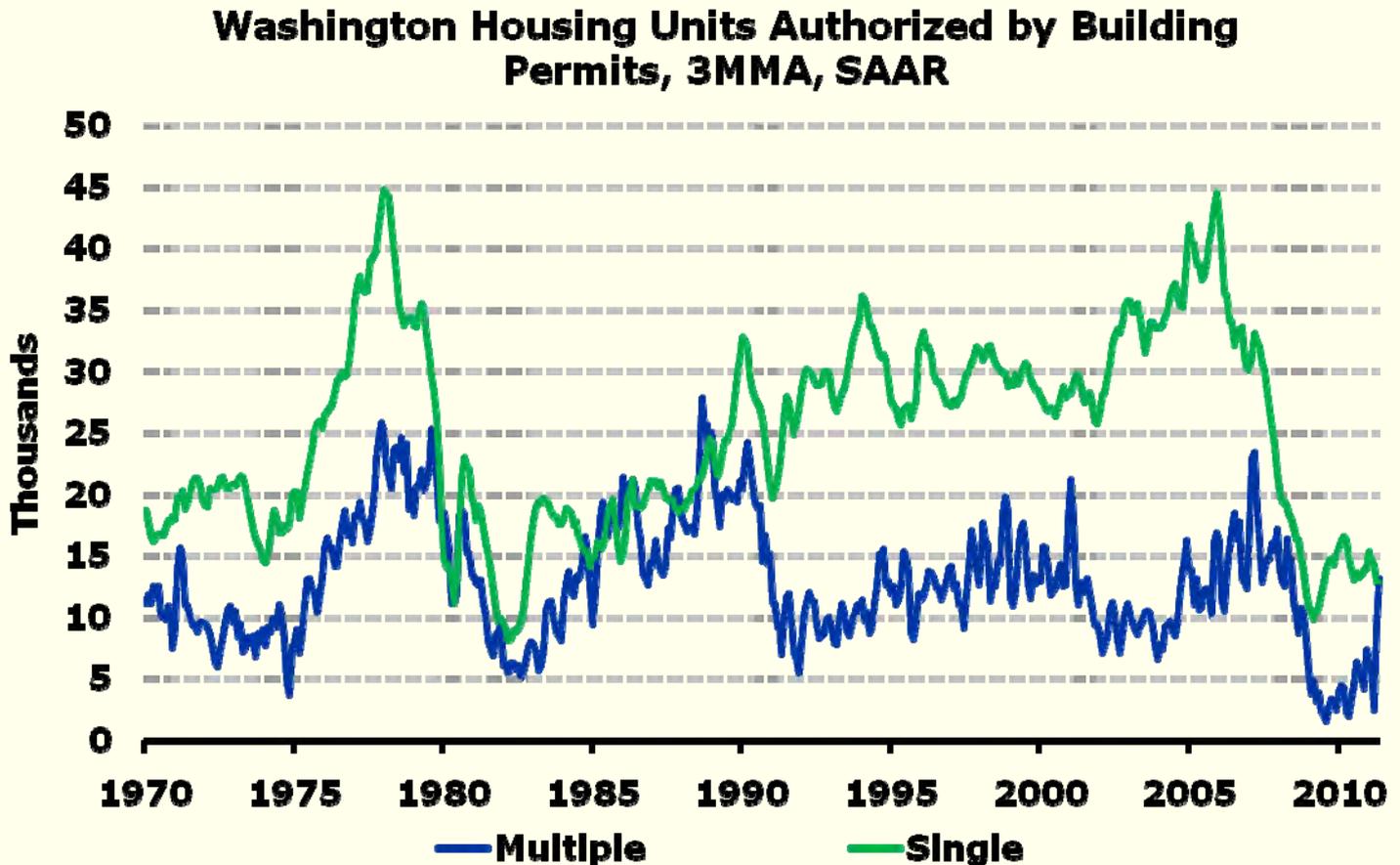
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WA multi-family building permits are gradually improving

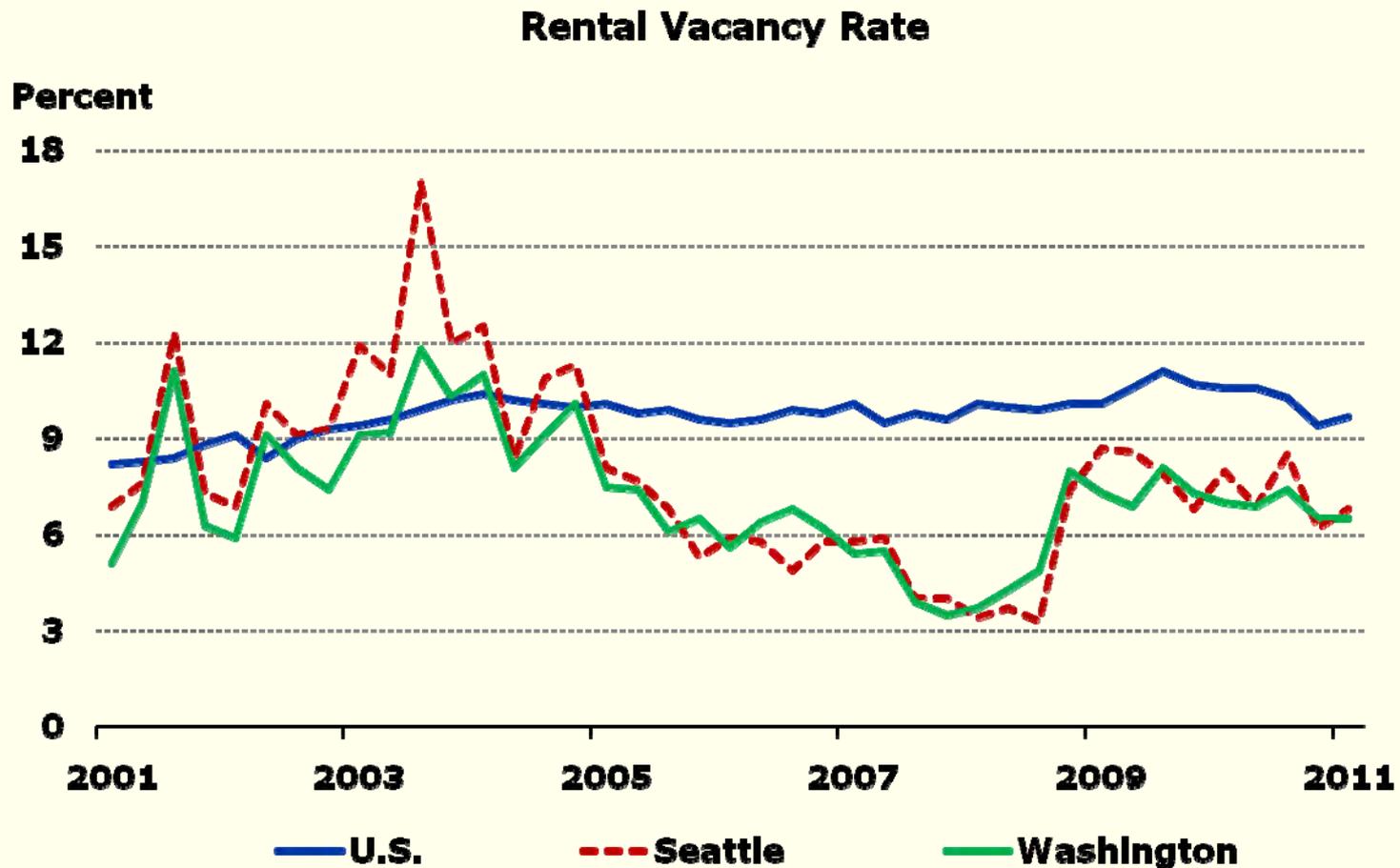


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Source: U.S. Census Bureau; data through May 2011



Rental vacancy rates are declining

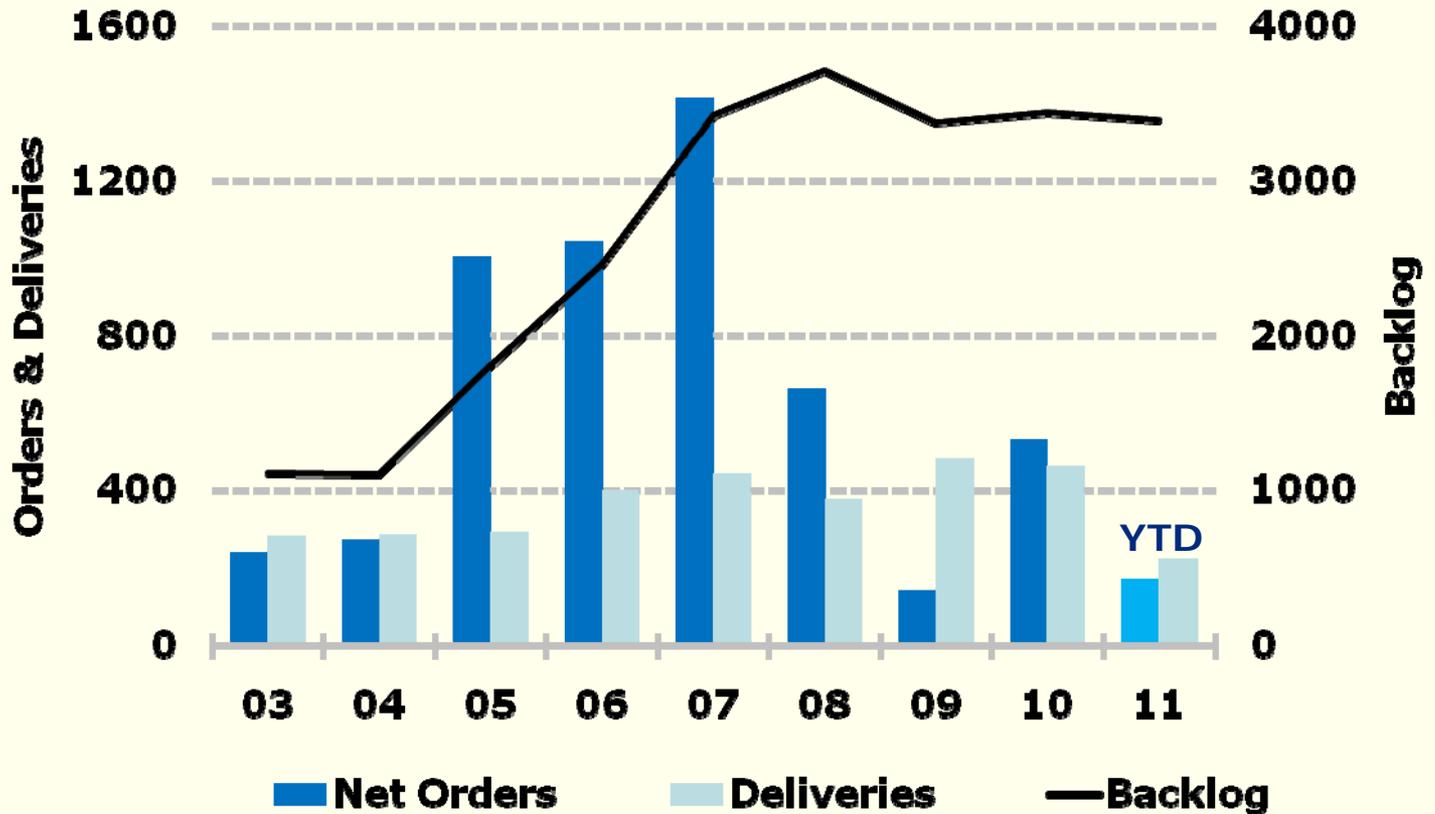


Source: U.S. Census Bureau; data through 2011 Q1



Boeing has over 7 years of commercial orders on its books

Excludes the military's new refueling tanker



Source: Boeing, data through June 2011

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Software publishing employment is growing

Percent change, year ago

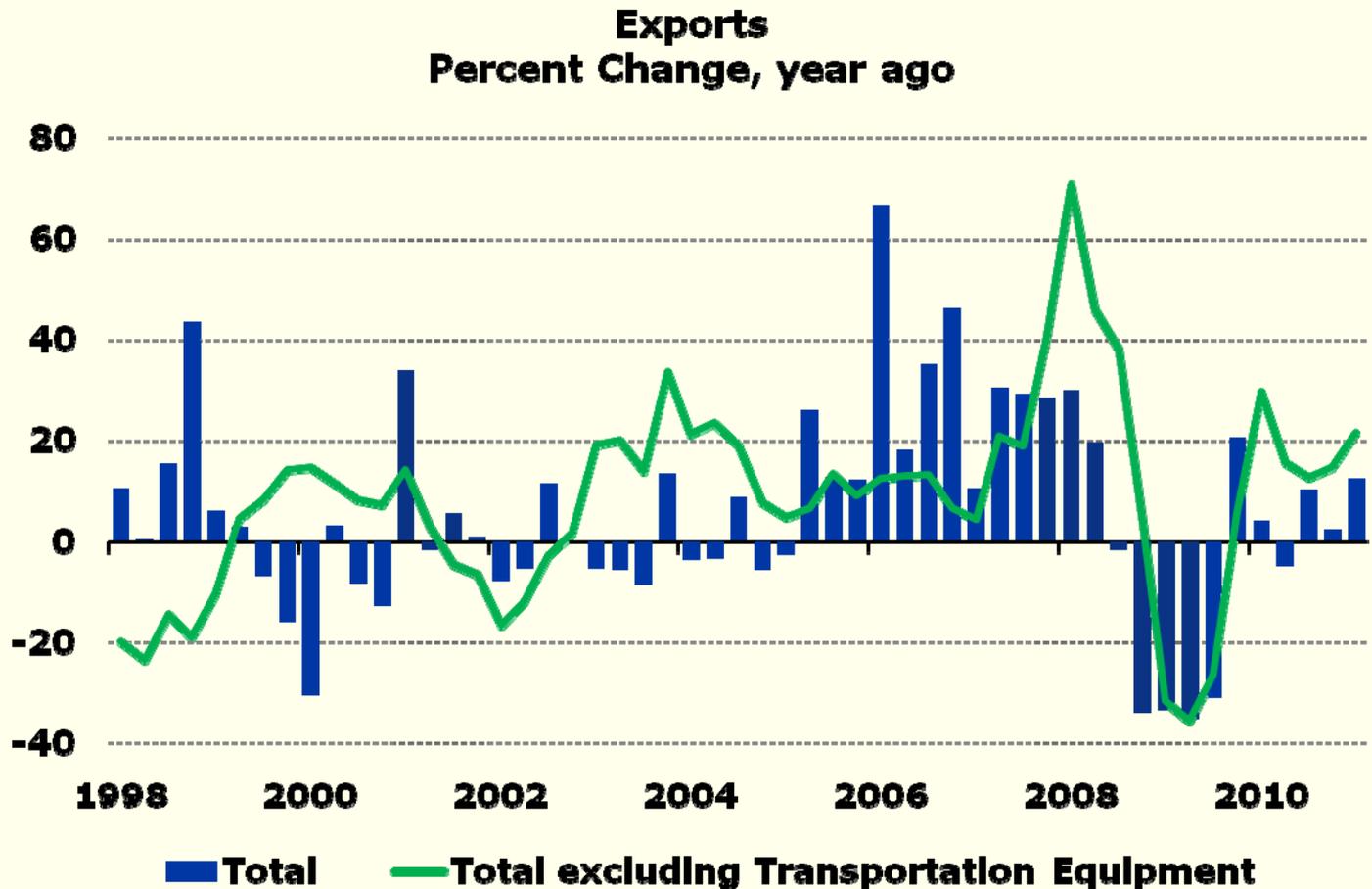


Source: ERFC Preliminary June 2011 forecast; actual through May 2011



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

Total exports were up 12.4% y/y in Q1



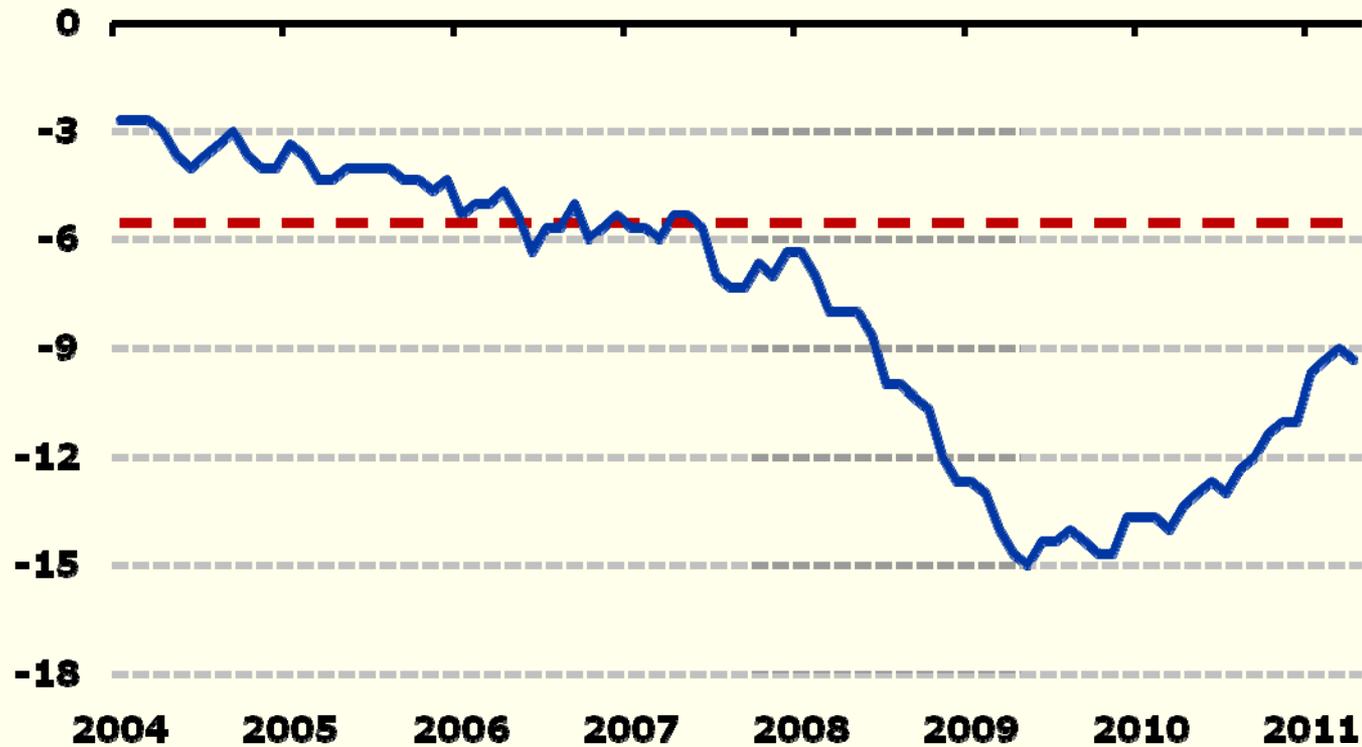
Source: Wisier Trade Data; through 2011 Q1

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Credit conditions for small business are improving, but remain tight

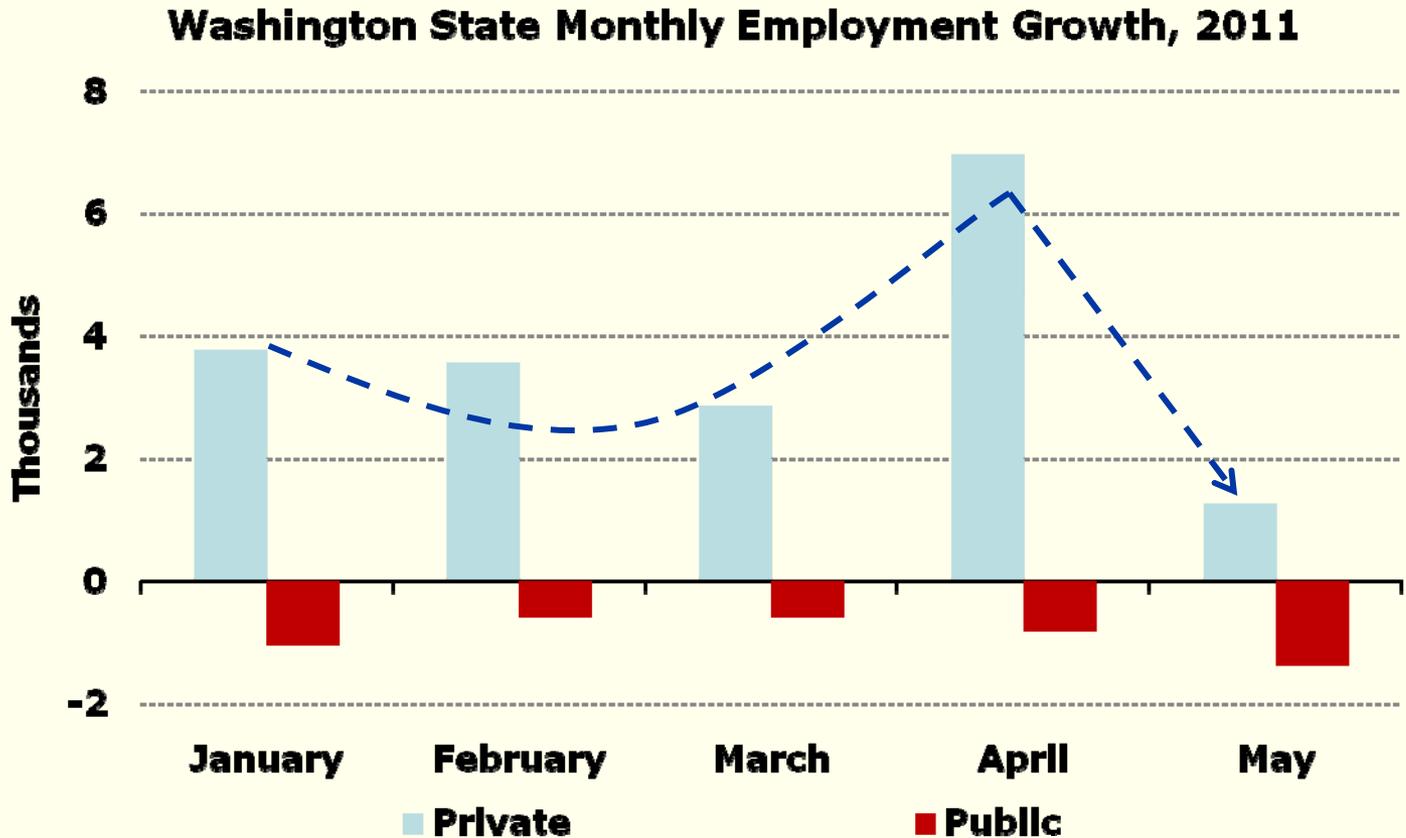
**Availability of Loans
Net Percent ("Easier" minus "Harder"), 3mma**



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



Private sector job gains in WA slipped in May



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

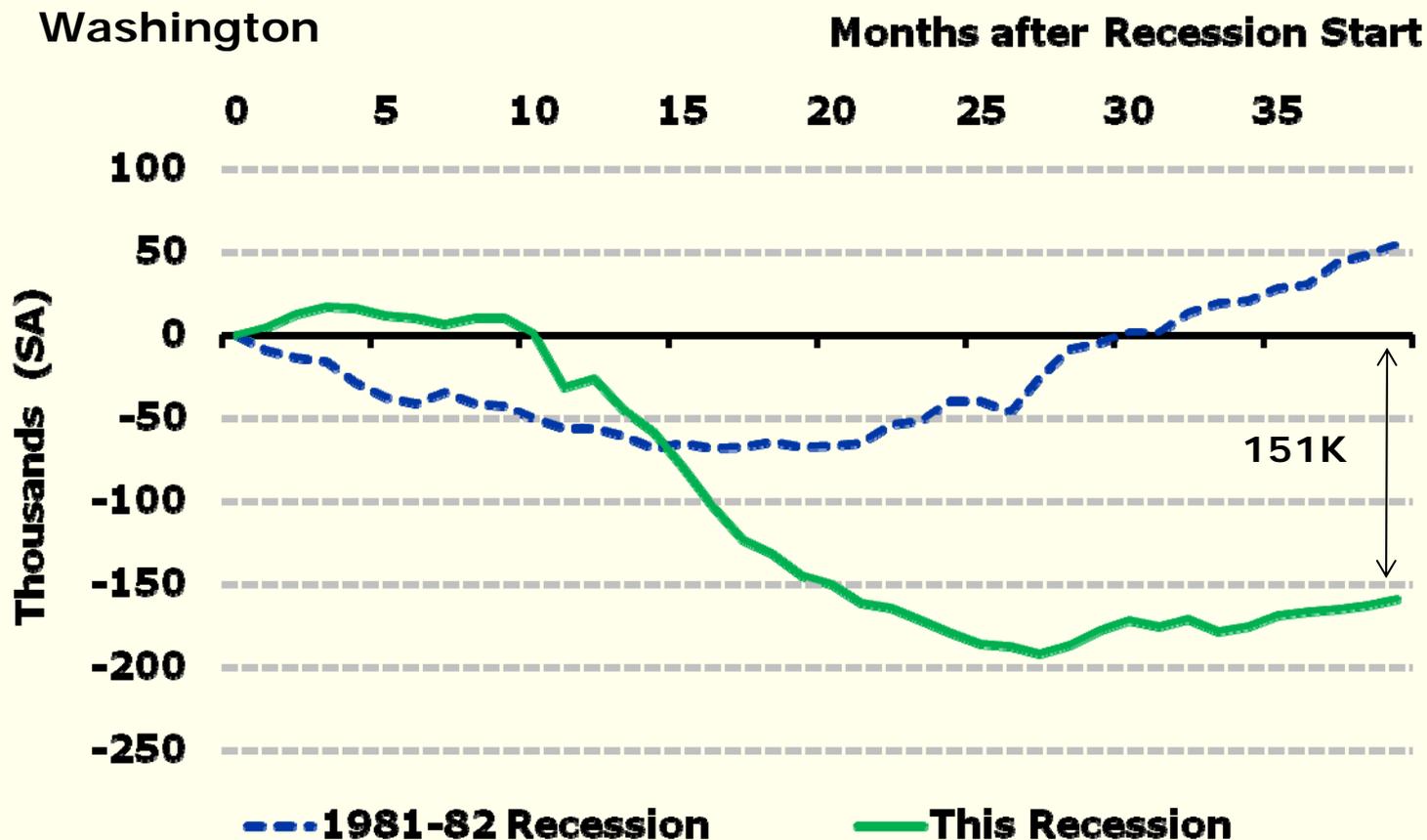


WA employment is still in the hole

Peak to trough job losses

1981-82:
3.3% of labor force

This time:
5.4% of labor force



Source: WA ESD, ERFC; data through May 2011

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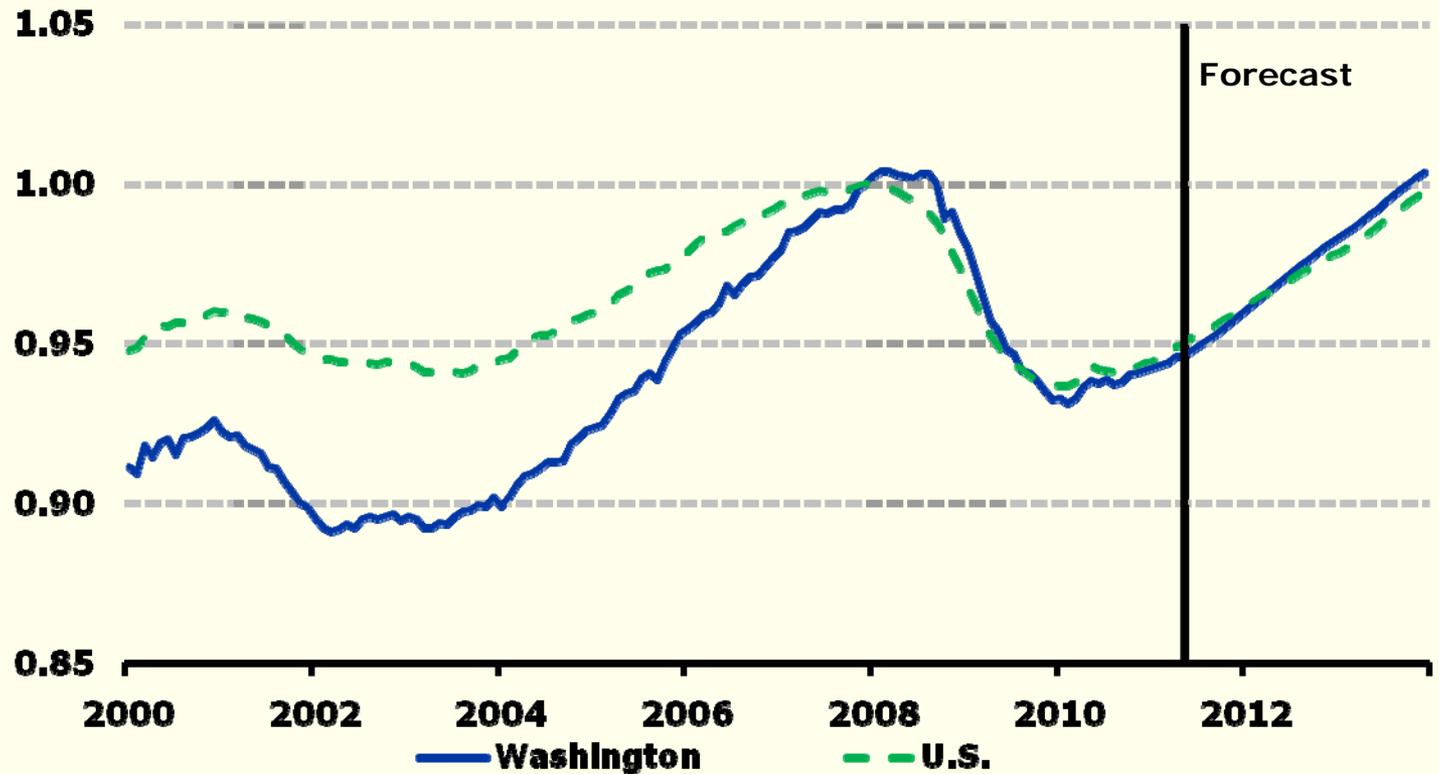
WA employment will recover slightly faster than the U.S.

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

December 2007=1.0



Source: ERFC June 2011 forecast; actual through May 2011

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

Date of regaining peak:

WA:

Nominal 10Q2

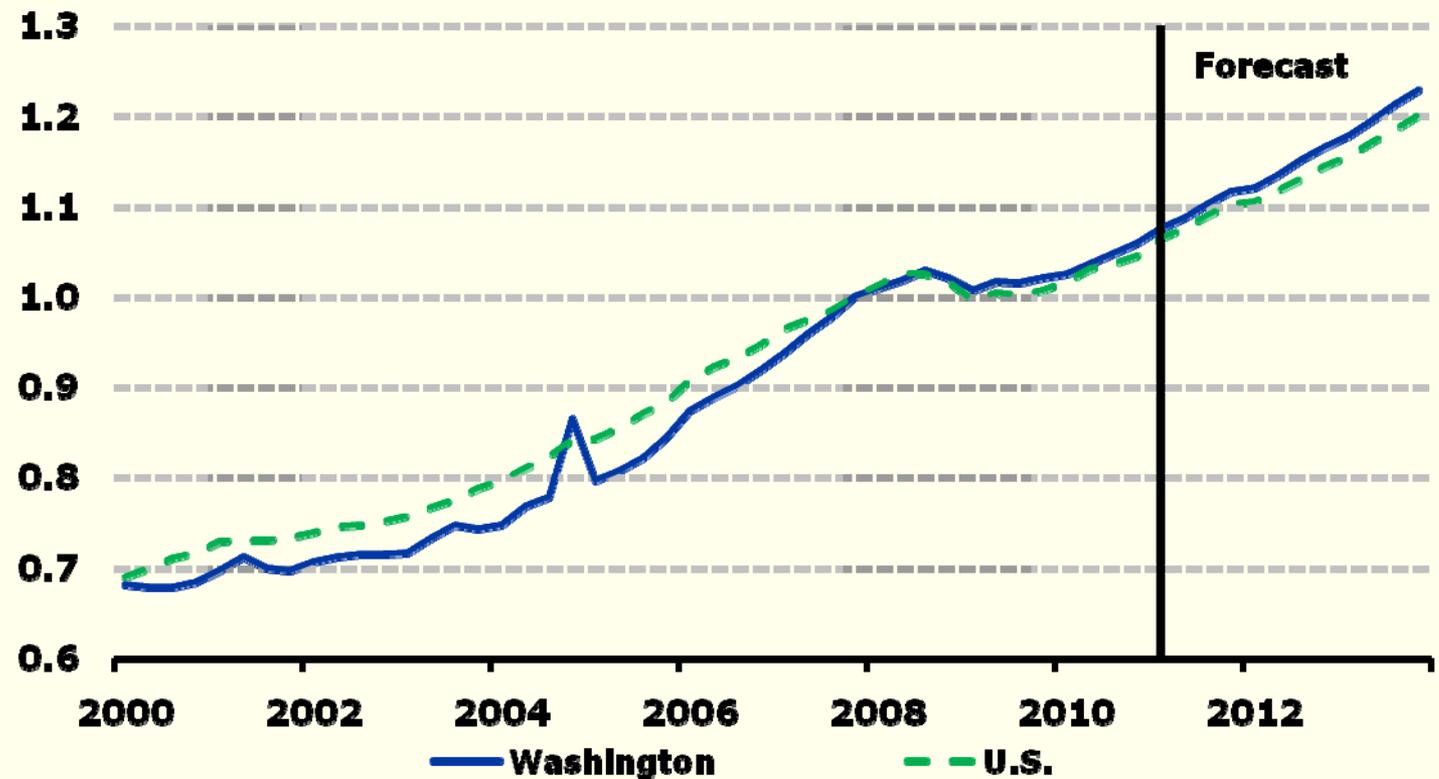
Real 10Q3

U.S.:

Nominal 10Q2

Real 11Q1

2007Q4 = 1.0



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

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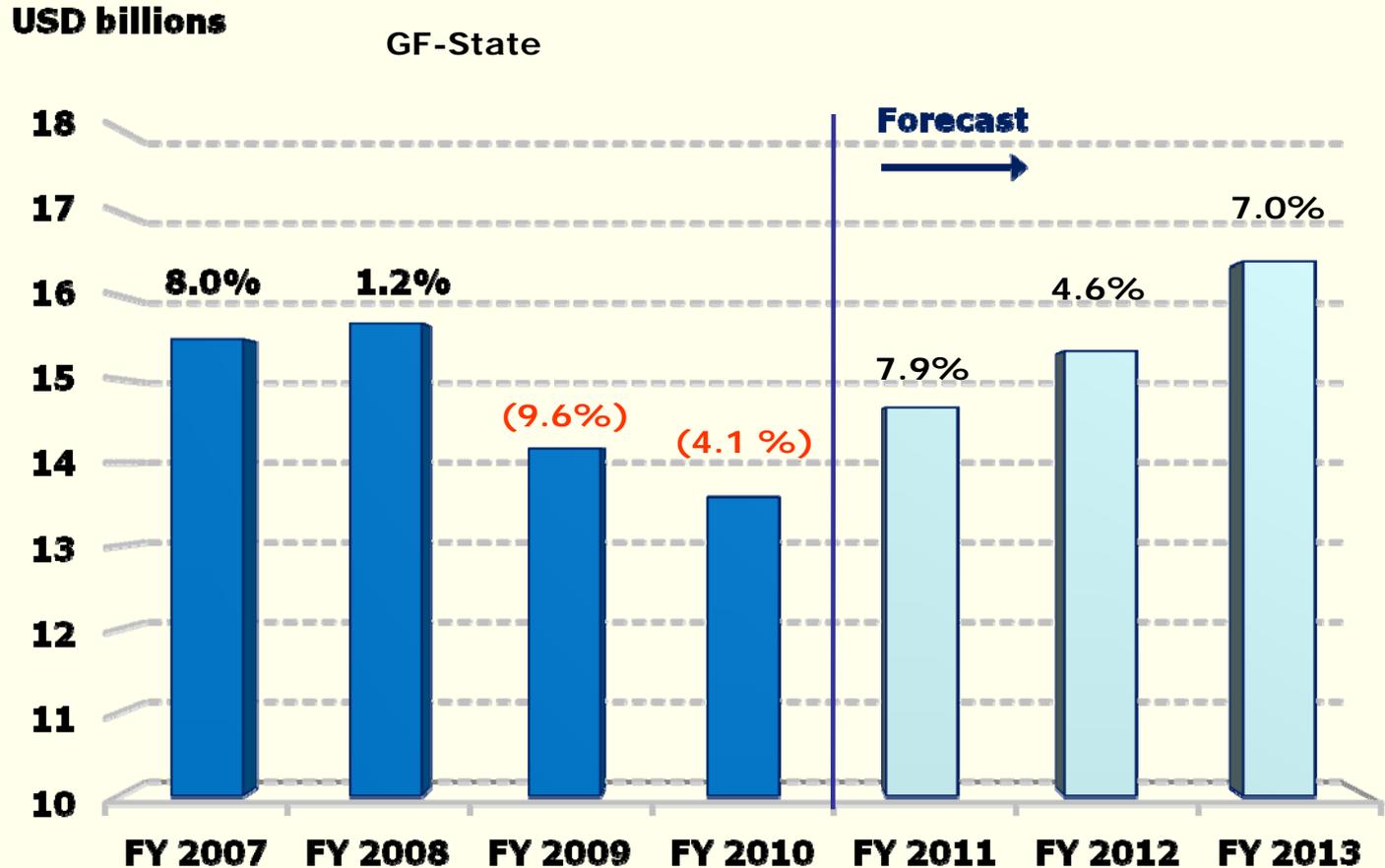


General Fund* forecast by fiscal year

* 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

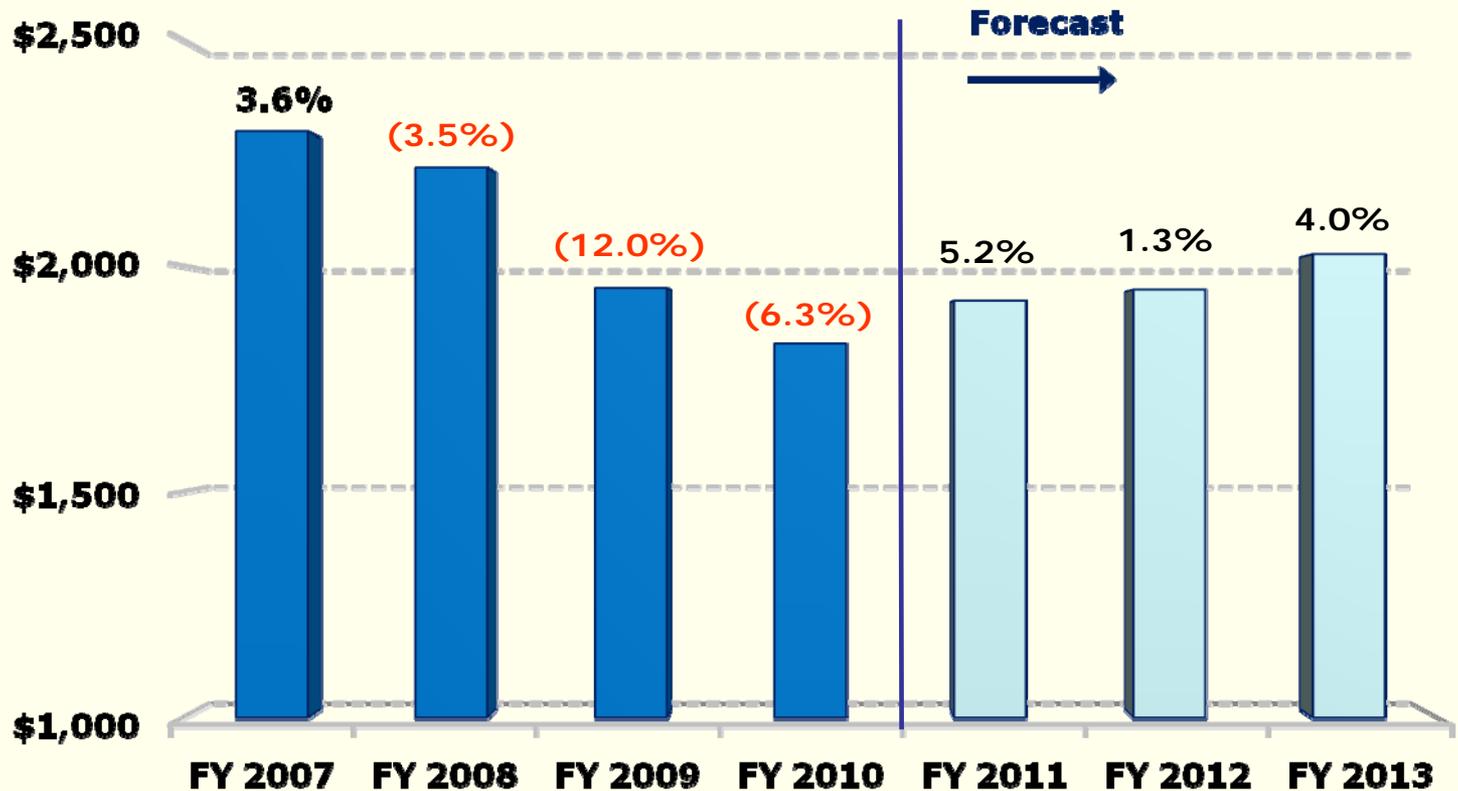


Real Per Capita General Fund* - State Revenue

* 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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