Summary

- The economic forecast has remained stable, with moderate economic growth in the U.S. and Washington.

- We continue to expect slightly stronger employment and income growth in Washington compared to the national economy.

- Risks to the baseline include slowing economic growth in the U.S. and globally, the impact of a stronger dollar on exports, weaker manufacturing activity, and a volatile stock market.
Economic news continues to suggest risks to forecast

**Upside:**
- Stronger than expected job growth
- Rising wage growth
- Stronger housing starts and home sales (new and existing)

**Downside:**
- Slowing global economy
- Slower U.S. GDP growth
- Negative impact of stronger dollar on exports
- Weaker manufacturing activity

Job creation is slightly weaker in both the U.S. and WA so far this year

November job gains:
- U.S.: 211,000
- WA: 5,000

Source: Bureau of Labor Statistics, ERFC; data through November 2015
Year to date employment growth, selected industries

<table>
<thead>
<tr>
<th>Industry</th>
<th>WA</th>
<th>U.S.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prof/bus services</td>
<td></td>
<td></td>
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<td>Retail trade</td>
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<td>Health care</td>
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<td>Manufacturing</td>
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<td>Govt</td>
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Year-over-year Growth in U.S. Real Hourly Wages

Source: BLS, ERFC; data through November 2015

Average U.S. wage growth has turned positive

Number of long-term unemployed workers remains above pre-recession levels

Long-term unemployed as share of all unemployed:
- Apr. 2010: 45%
- Nov. 2015: 26%

Involuntary part-time employment remains above pre-recession levels

Source: Bureau of Labor Statistics; data through November 2015

Source: U.S. Bureau of Labor Statistics; data through Nov. 2015
Both U.S. and WA housing permits trending up since 2011

Housing permits, (SAAR)

Thousands

Source: U.S. Census Bureau, data through 2015 Q3

U.S. economic growth weakened in the third quarter

Forecast GDP growth:
2.7% in 4th Q, 2.6% in 2016

Source: U.S. Dept. of Commerce, BEA, data through 2015Q3
WA exports to major trading partners have slowed

**Year-over-year growth in export value**

- China
- Canada
- Japan
- All other

-25 -20 -15 -10 -5 0 5 10 15 20 25

Source: WISERTrade; data through October 2015

Manufacturing has slowed in Washington and nationally

**Institute of Supply Management Index**

- Washington
- United States

Source: ISM; data through November 2015
U.S. Economic Expansions since 1945

Sources: NBER, ERFC November 2015 forecast

After six months of moving in different directions Conference Board, UMich indexes both rise in December

Sources: University of Michigan, Conference Board; data through December 2015
Small business optimism and sales expectations have weakened in 2015

Real GDP growth is expected to slow slightly after 2016
Oil prices are expected to rise gradually starting next year.

Average Price of Crude Oil

Dollars Per Barrel

Source: DOE, ERFC November 2015 forecast; historical data through 2015Q3

Washington annual personal income growth is expected to average 5.2% for 2016-19.

Washington Personal Income

Billions of Dollars

Source: ERFC November 2015 forecast; historical data through 2014
State personal income will grow slightly faster than the U.S.

Source: ERFC November 2015 Preliminary forecast; historical data through 2015Q2

Washington employment forecast is for average annual growth of 1.5%

Source: Global Insight, ERFC November 2015 forecast; historical data through 2015Q3
Seattle area employment continues to grow faster than the rest of the state

Washington employment will grow slightly faster than the U.S.
Washington housing permits forecast is for moderate growth after 2016

Washington Housing Permits

Thousands


Washington housing permits forecast is for moderate growth after 2016.

- Source: ERFC November 2015 forecast; historical data through 2015Q3

Q3 Revenue Act collections growth slowed after a strong Q2

Adjusted Y-O-Y revenue growth for third quarter activity slowed to 5.8% after 7.1% growth in the second quarter.

- Adjusted Y-O-Y growth was 5.3% for September activity and 6.3% for October activity.

$millions SA


Q3 Revenue Act collections growth slowed after a strong Q2.

- Adjusted for large one-time transactions, amnesty payments and reporting frequency change, current definition of Revenue Act

- Source: DOR and ERFC; monthly data through estimated October 2015 activity

*Good Eggs* January 13, 2016
Slide 22

*Good Eggs* January 13, 2016
Slide 23
Large commercial property sales have had major impact on REET collections

Residential taxable activity has been growing rapidly for the last three quarters but future growth is expected to slow due to a lack of inventory.

Large commercial property sales are also expected to slow.

Oregon legalization may have affected Clark County but statewide sales continued to grow

Prior to legal retail sales in Oregon, Clark County accounted for 12.8% of total sales by quantity.

In December, Clark County accounted for 7.8% of total sales by quantity.
### Cannabis excise tax and license fee estimates

**Total change from September forecast:**
- 2015-17 +$11 M
- 2017-19 +$2 M

<table>
<thead>
<tr>
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<th>November Forecast</th>
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<tbody>
<tr>
<td></td>
<td>2013-15</td>
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<tr>
<td>GF-S share of excise tax and license fees</td>
<td>$15</td>
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<tr>
<td>Non-GF</td>
<td>$52</td>
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<tr>
<td><strong>Total</strong></td>
<td><strong>$67</strong></td>
</tr>
</tbody>
</table>

*Detail may not add to total due to rounding

Source: ERFC, LCB, BOTEC Analysis

### General Fund-State* forecast by fiscal year

*General Fund-State & Related Funds for FY 07-09, General Fund-State new definition for FY 10-17

Source: ERFC forecast, November 2015
Conclusion

- The economic forecast expects slightly weaker growth in personal income and employment than in September.
- We expect the moderate pace of the economic recovery to continue in both the U.S. and Washington economies.
- GF-S revenues are expected to grow 10.5% between the 2013-15 and 2015-17 biennia and 9.0% between the 2015-17 and 2017-19 biennia.
- The level of uncertainty in the baseline remains elevated, with downside risks outweighing upside risks.

Questions

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