

# Washington State Economic Outlook

Presented to  
Association of County Treasurers

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Executive Director

September 9, 2020  
via Zoom



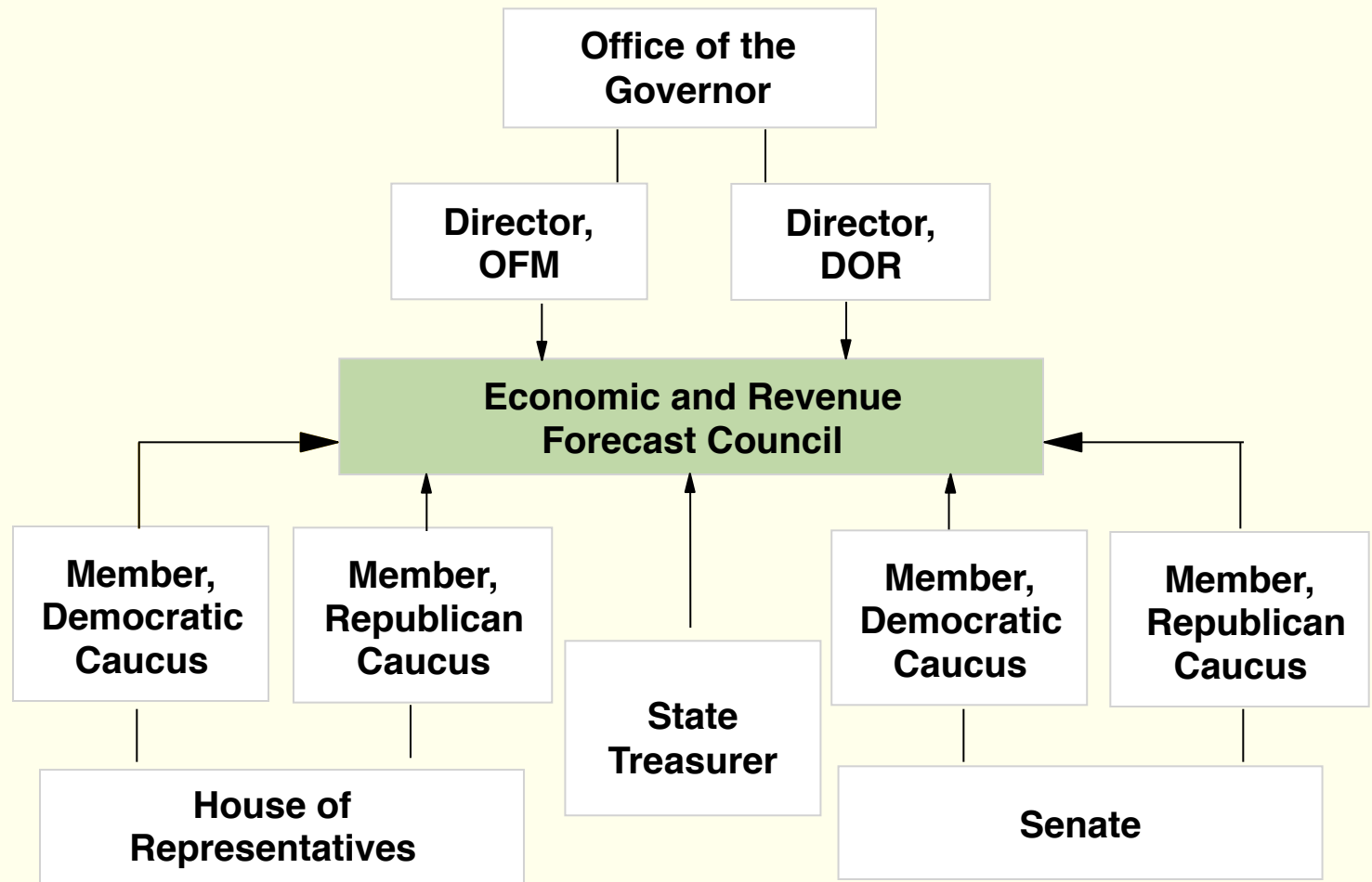
**WASHINGTON STATE  
ECONOMIC AND REVENUE FORECAST COUNCIL**



# Economic and Revenue Forecast Council Organization Chart

## ERFC

- Created in 1984 as part of Dept. of Revenue
- Became separate agency in 1990





# Economic and revenue forecasts based on multi-step statistical modeling process

Data gathering and quality assurance checks occur prior to Steps 1, 2 & 3.

Models are updated with new data prior to each forecast.

- Step 1: use modified version of IHS-Markit model of U.S. economy to produce U.S. economic forecast
- Step 2: use forecast values of U.S. economic measures as inputs into in-house WA economic model to produce WA economic forecast
- Step 3: use forecast values of WA and U.S. economic measures to forecast tax revenue



# Summary

- The preliminary economic forecast assumes emergency unemployment benefits of \$600/week are extended through December and a second round of stimulus checks will be issued in September
- Congress has not enacted additional stimulus legislation to date; the final economic forecast will incorporate Congressional actions as of early September
- The forecast assumes a decline of 9,300 aerospace jobs over the remainder of 2020; we do not assume a consolidation of 787 production in South Carolina
- Revenue collections since the June forecast are \$643 million (19.6%) above expectations



# Forecast risks

## Upside

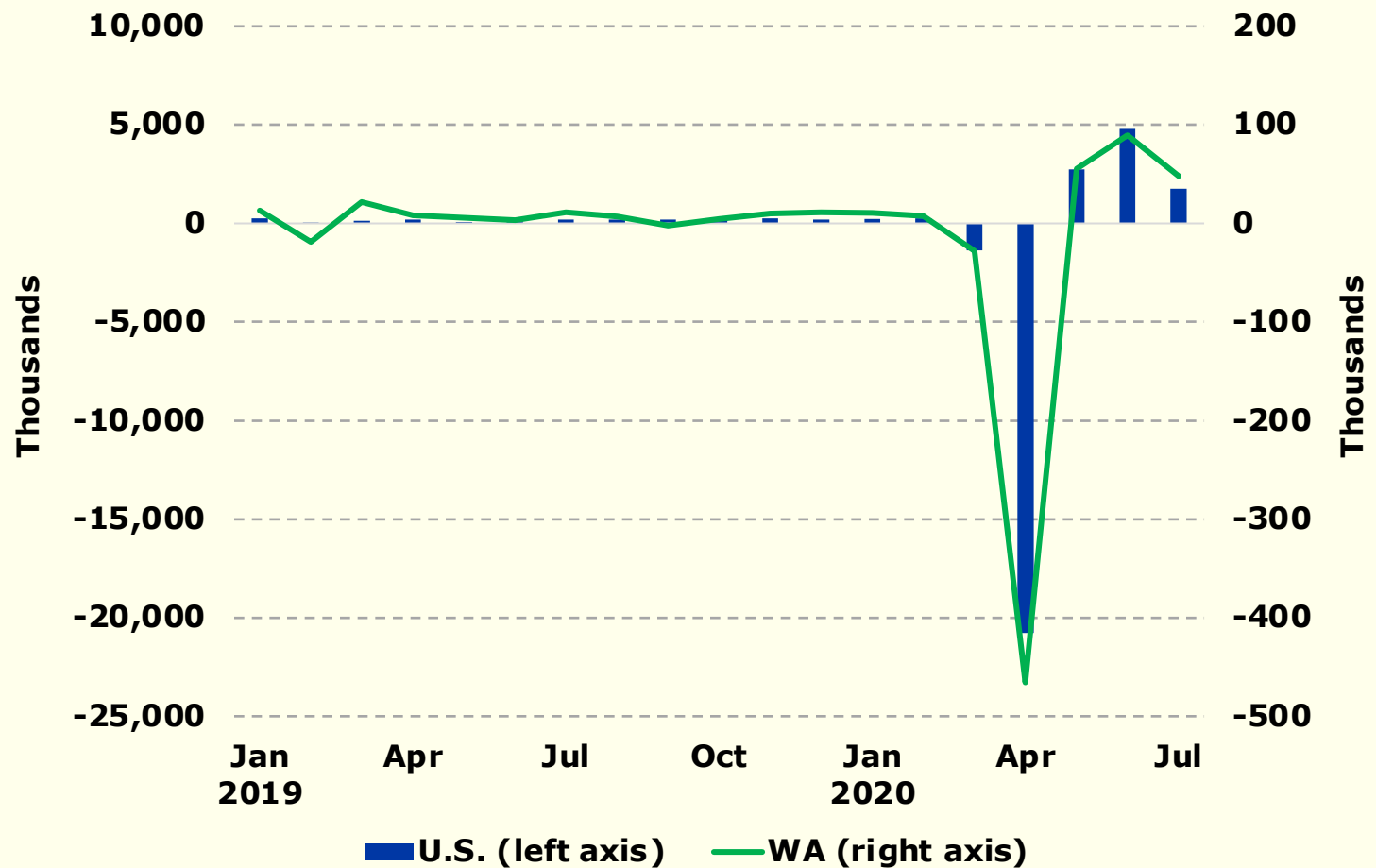
- COVID infection rates decline as social distancing guidelines are generally observed, leading to faster reopening of businesses, greater consumer confidence and spending, increased employment

## Downside

- COVID infection rates increase, leading to slower pace of economic reopening, reduced consumer spending and employment
- Congress does not pass additional fiscal stimulus legislation



# Employment has increased in last three months but remains well below pre-pandemic levels





# Unemployment rates have dropped but remain elevated





# WA unemployment rate in July is 16<sup>th</sup> highest among 50 states and D.C.

July  
unemployment  
rate:

U.S. = 10.2%  
WA = 10.3%

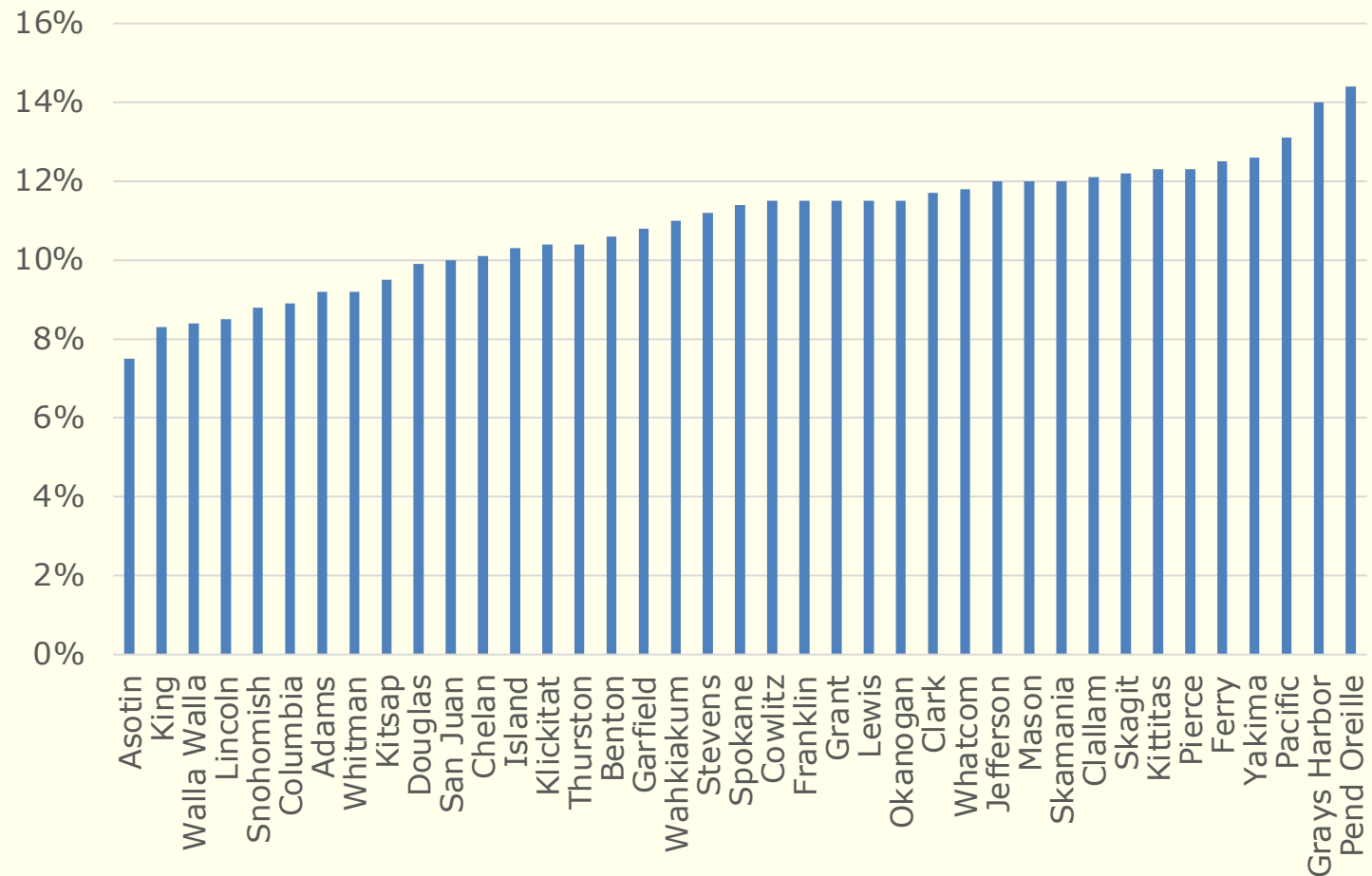


Source: U.S. Bureau of Labor Statistics, WA Employment Security Dept.





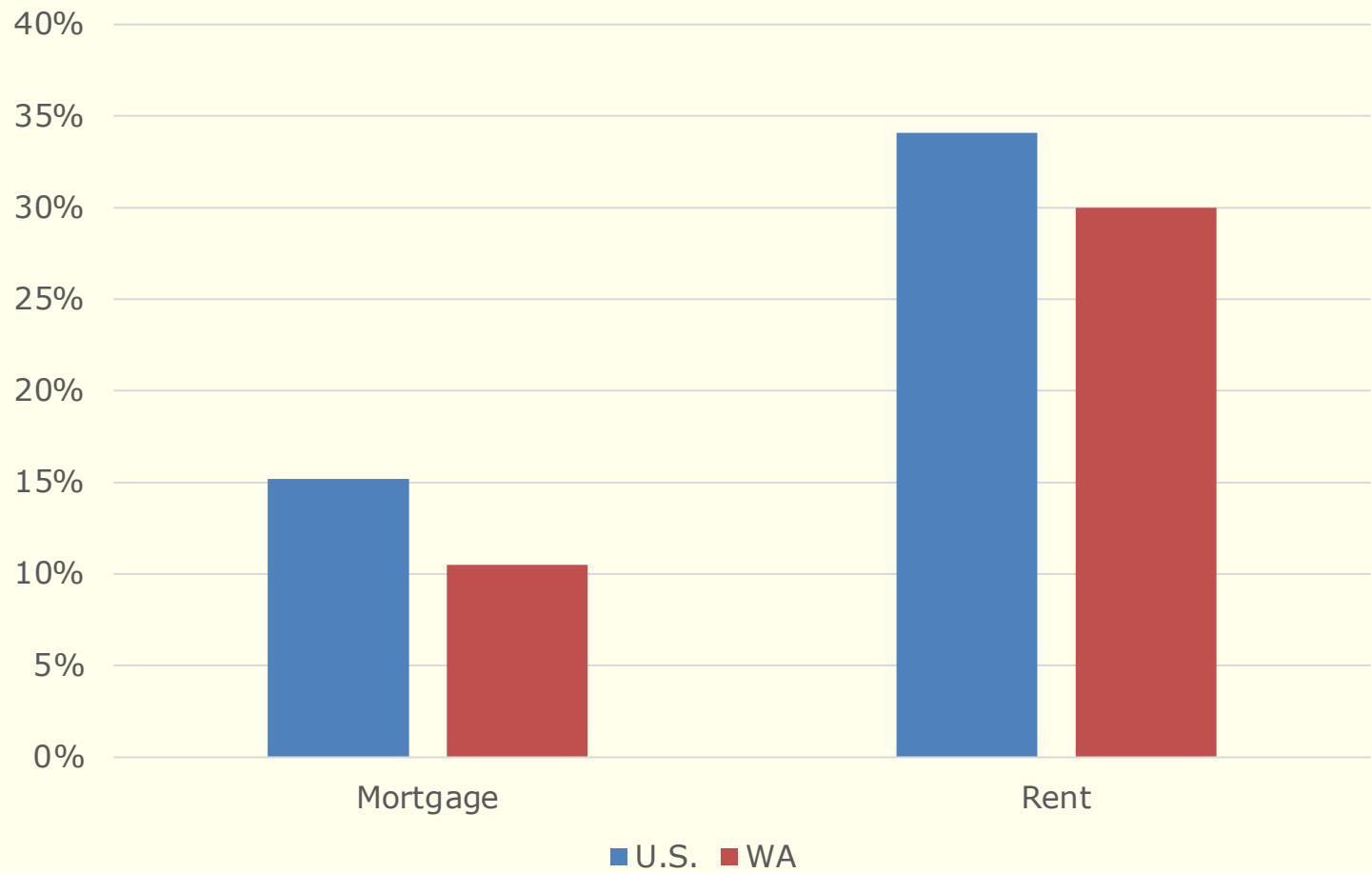
# WA unemployment rates by county, July 2020



Source: U.S. Bureau of Labor Statistics, WA Employment Security Dept.; data not seasonally adjusted

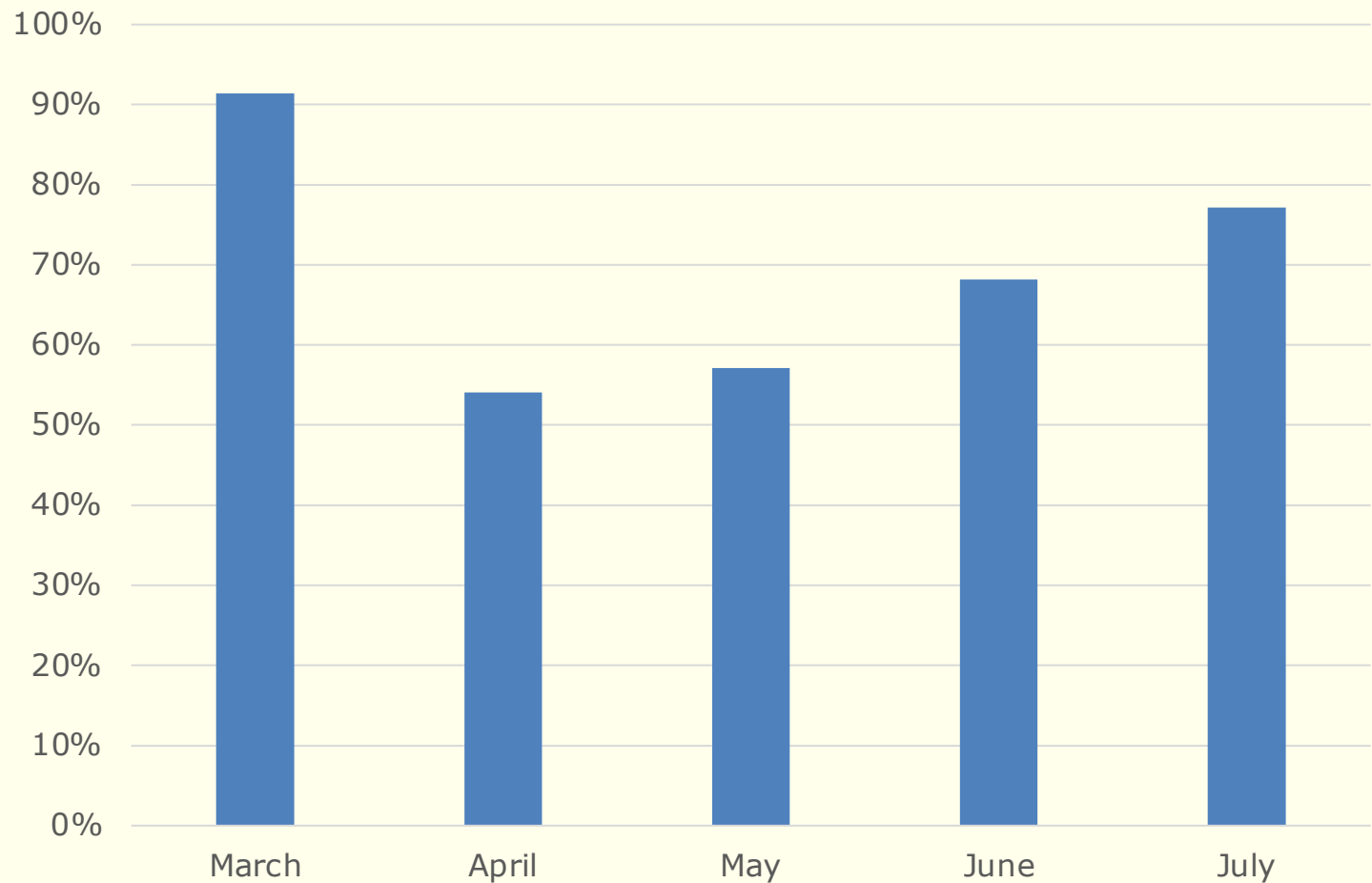


# Share of households with no or slight confidence in ability to make August housing payment





# Share of U.S. retail tenants making rental payments has improved, remains below pre-pandemic levels



Source: Wall Street Journal, Datex Property Solutions

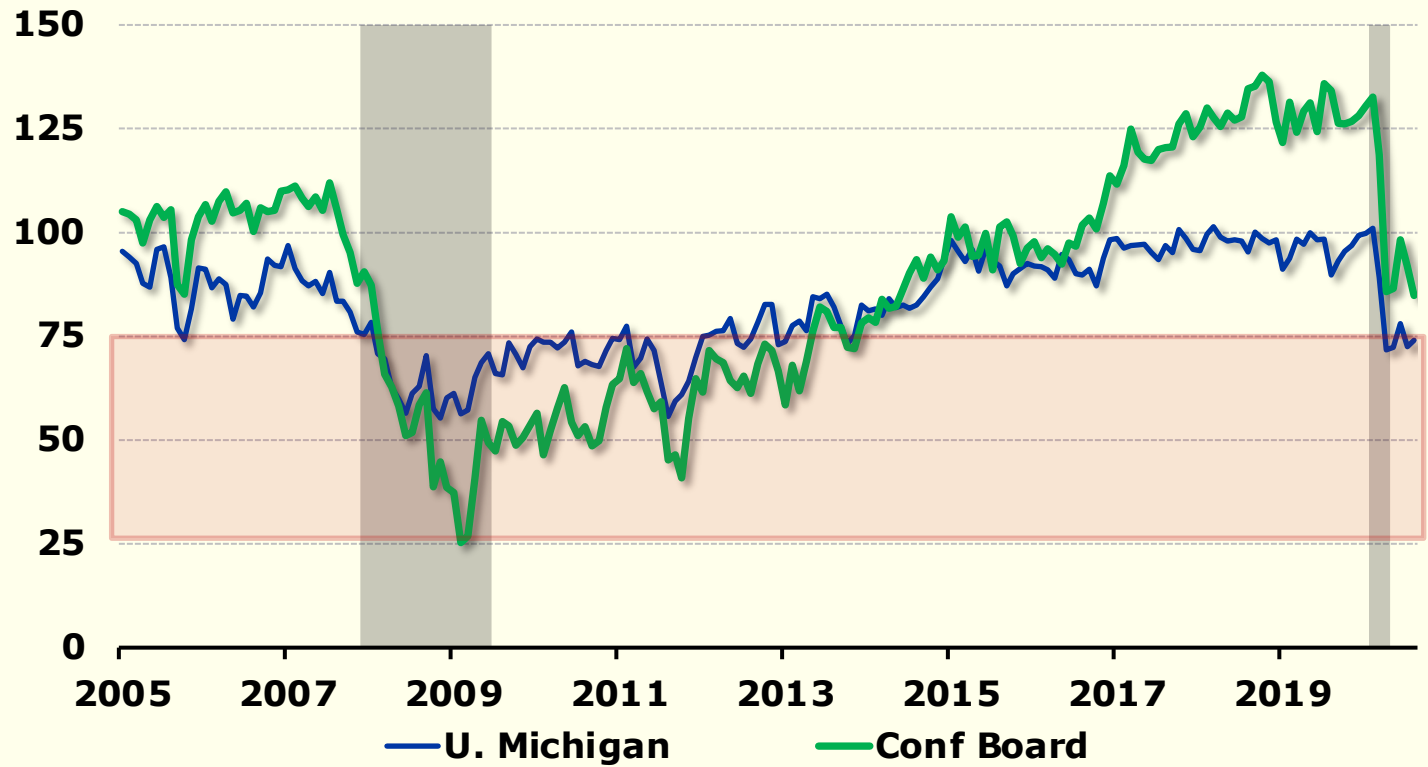


# Consumer confidence remains well below pre-pandemic levels

**Index**

**Mich: 1966Q1 = 100, SA**

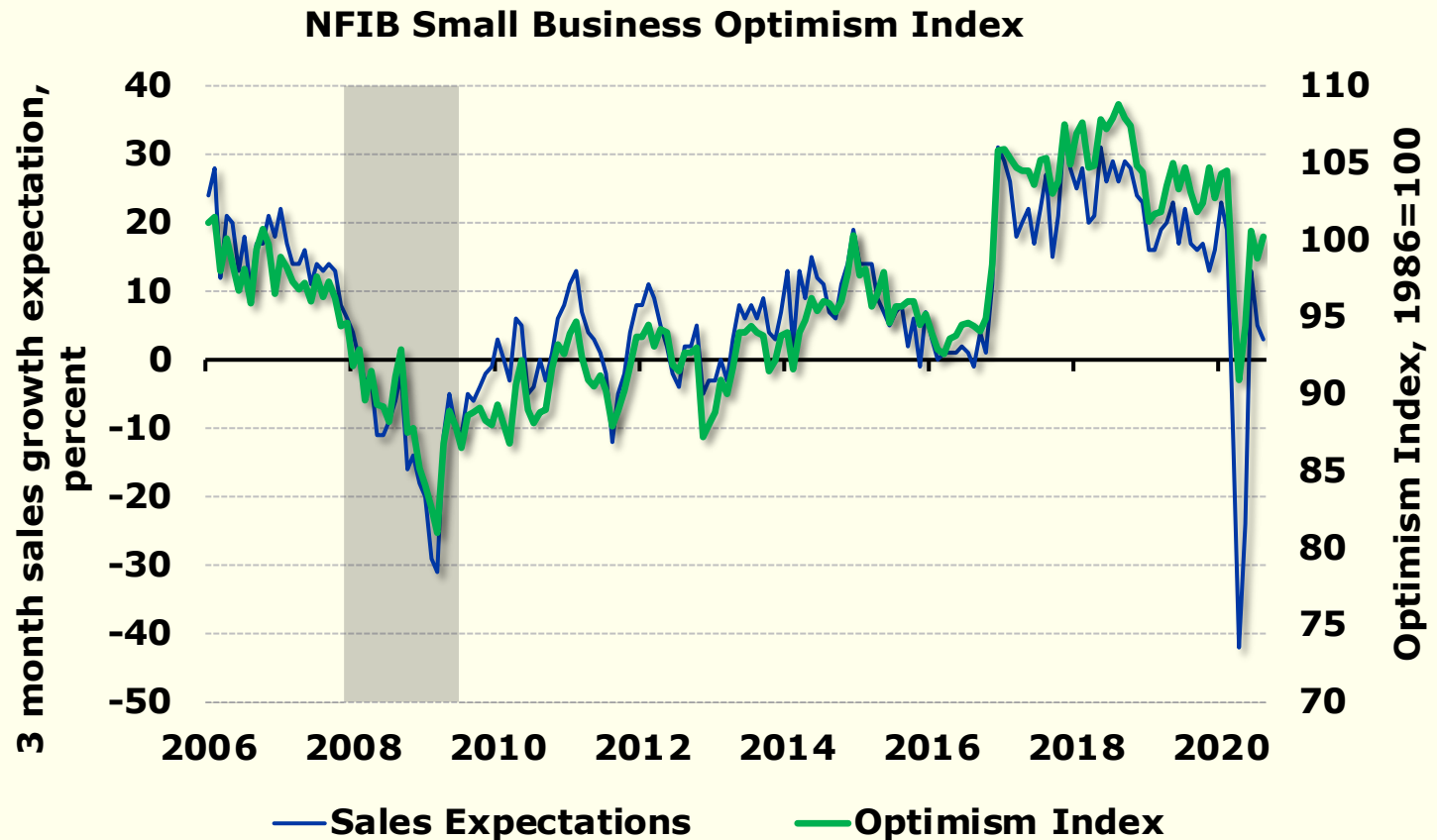
**Conf Board: 1985 = 100, SA**



Sources: University of Michigan, Conference Board; data through August 2020

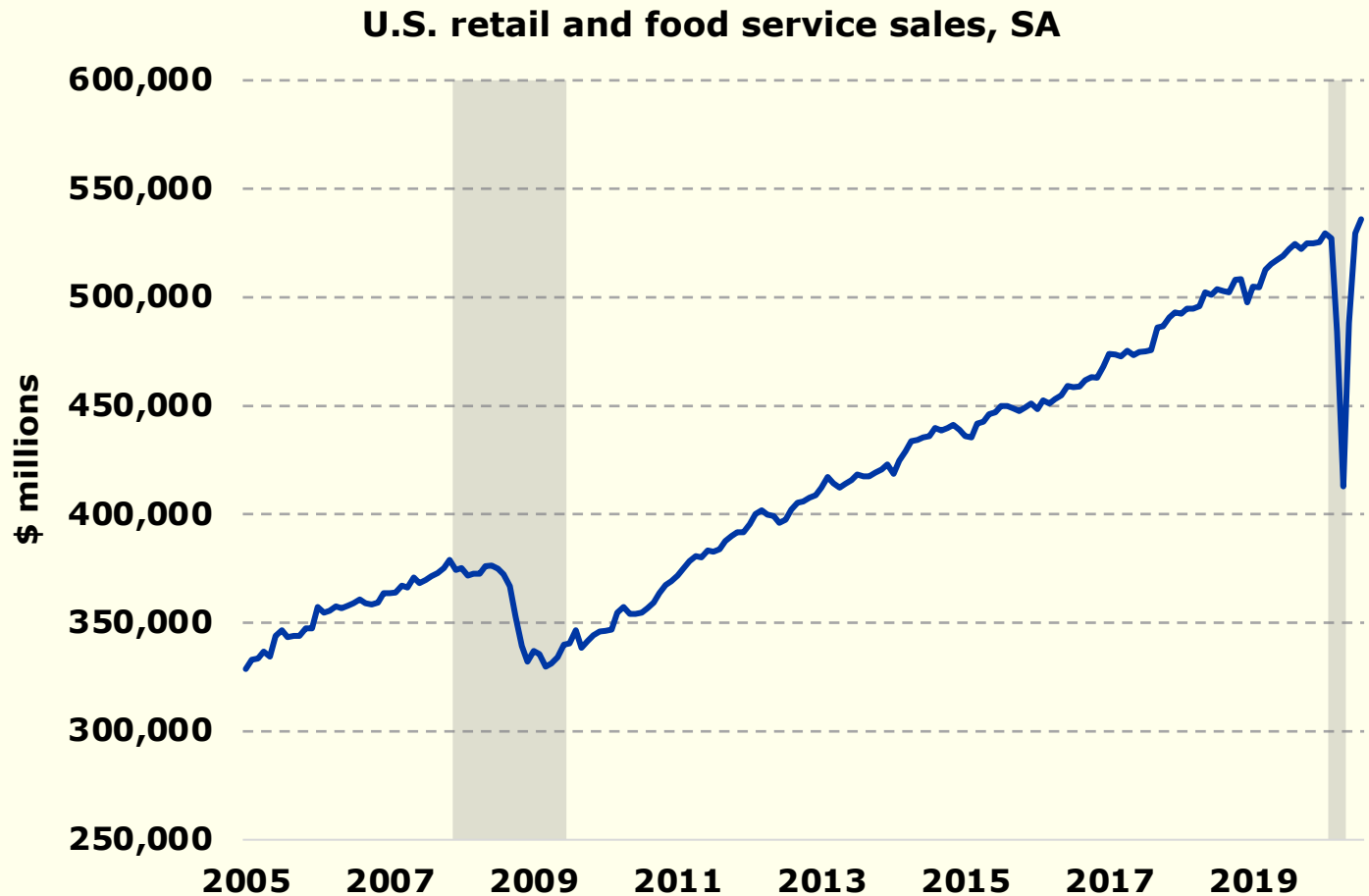


# Small business optimism stable after improving in May and June





# U.S. retail sales in July were above pre-pandemic levels



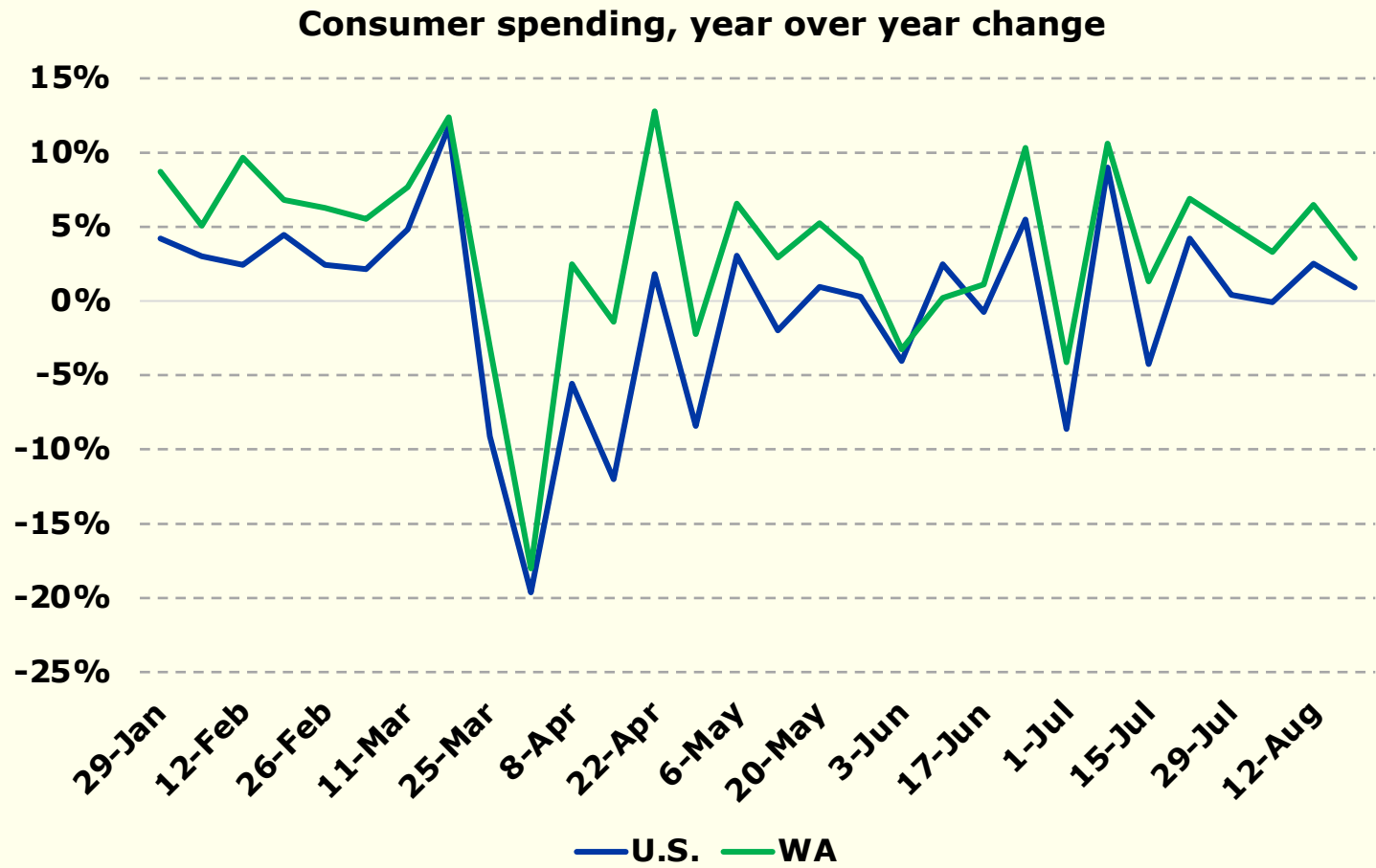
Source: U.S. Census Bureau; advance data through advanced July 2020

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# On a year over year basis, WA consumer spending has grown since the week of July 8

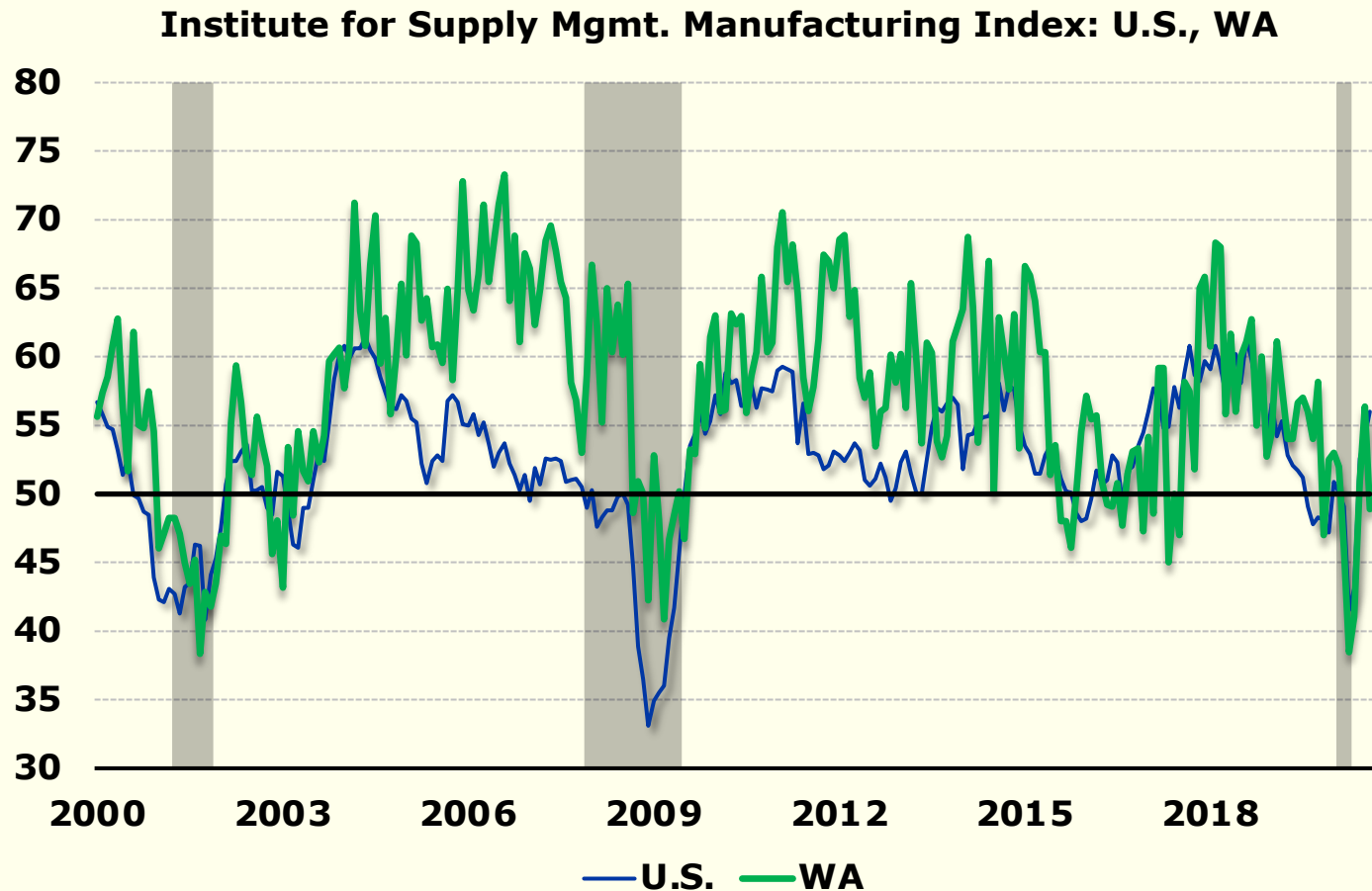
Earnest Research tracks a subset of credit and debit card transactions for large national chain stores and businesses; does not include construction or auto sales.





# ISM manufacturing index for U.S. indicates expanding activity the past three months; WA dipped in August

Values above 50 indicate expansion, below 50 indicate contraction.

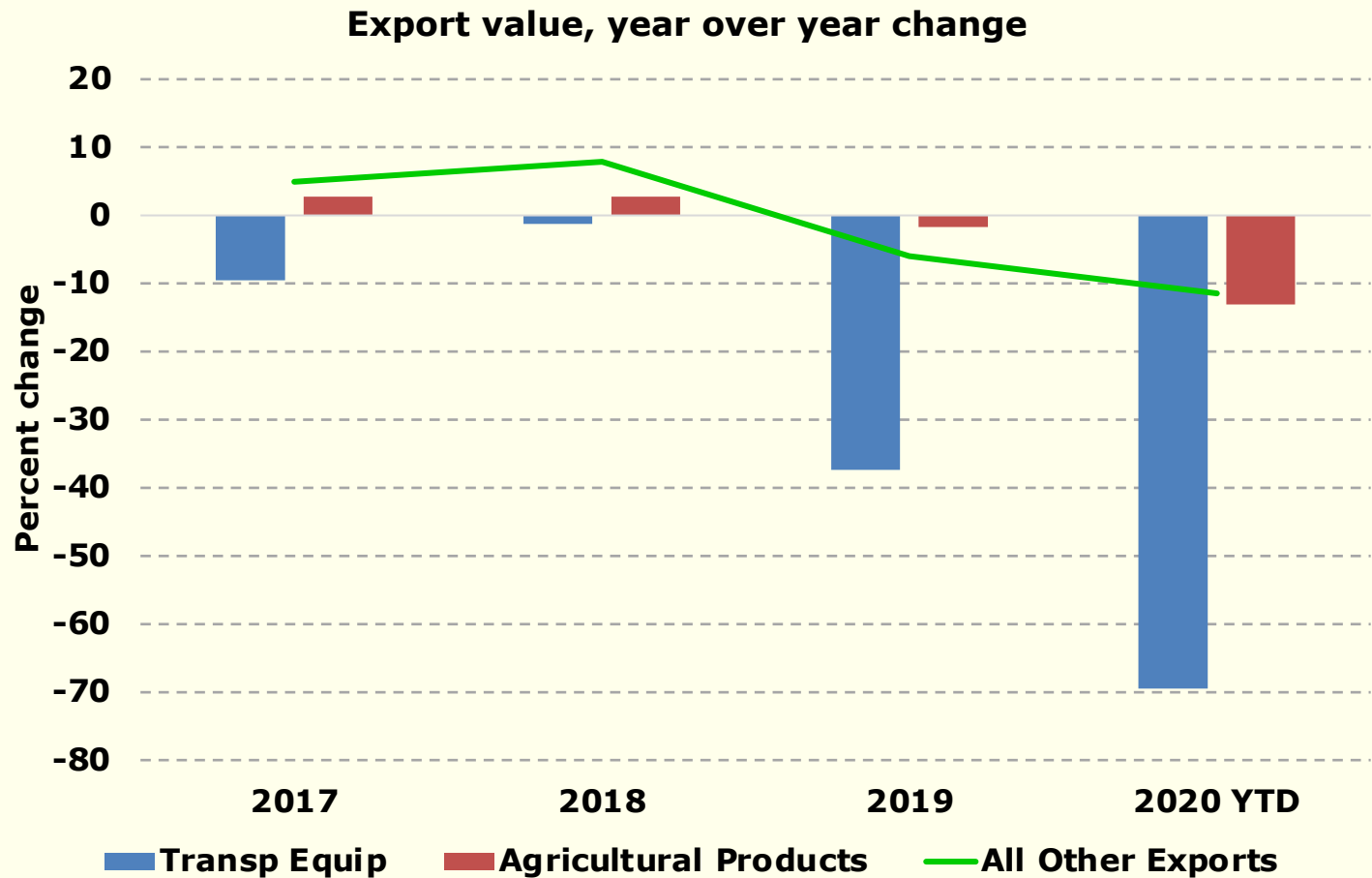


Source: ISM; data through August 2020





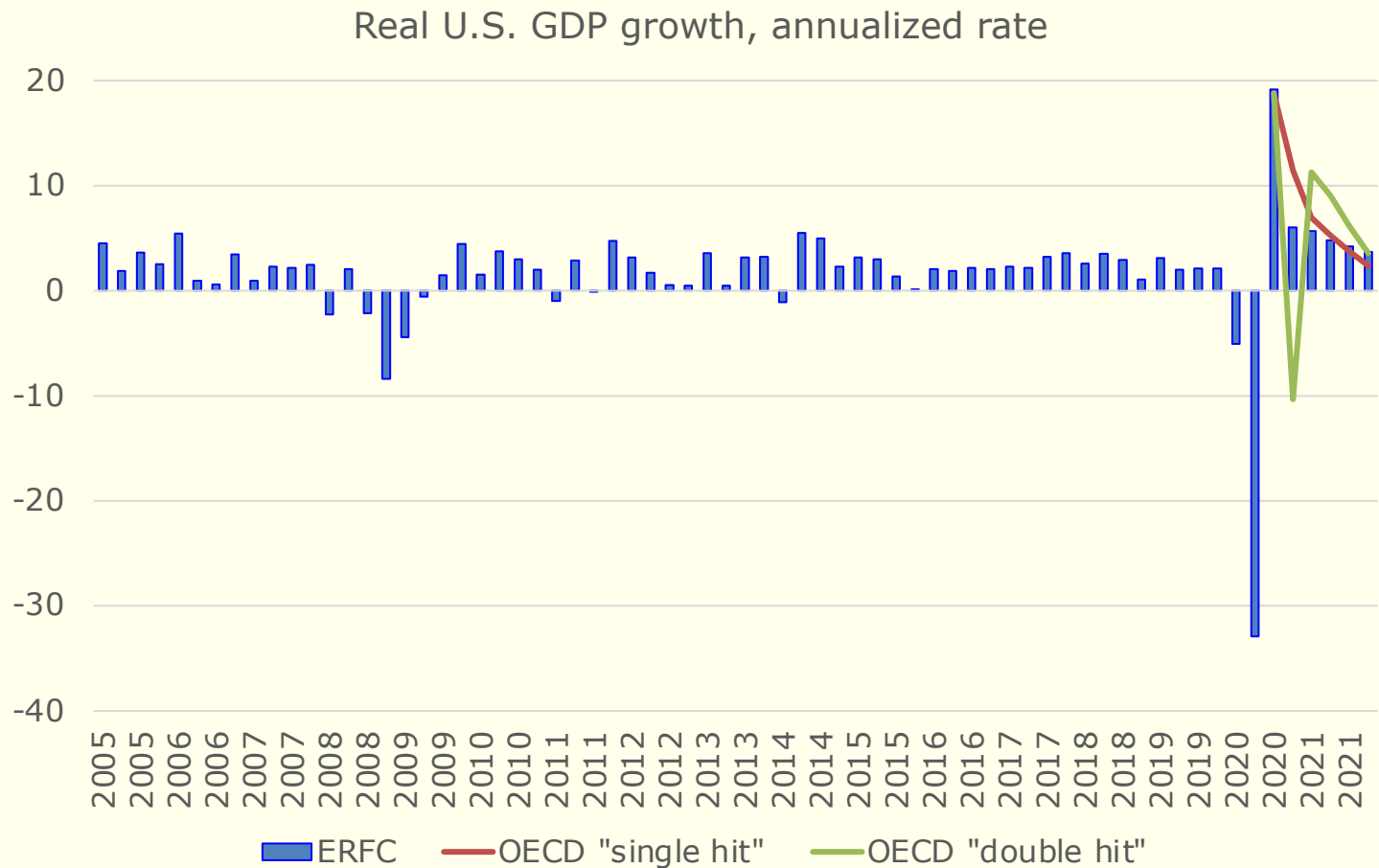
# WA exports have now decreased for seven consecutive quarters





# OECD has two forecast scenarios, one assuming a renewed shutdown in 2020 Q4

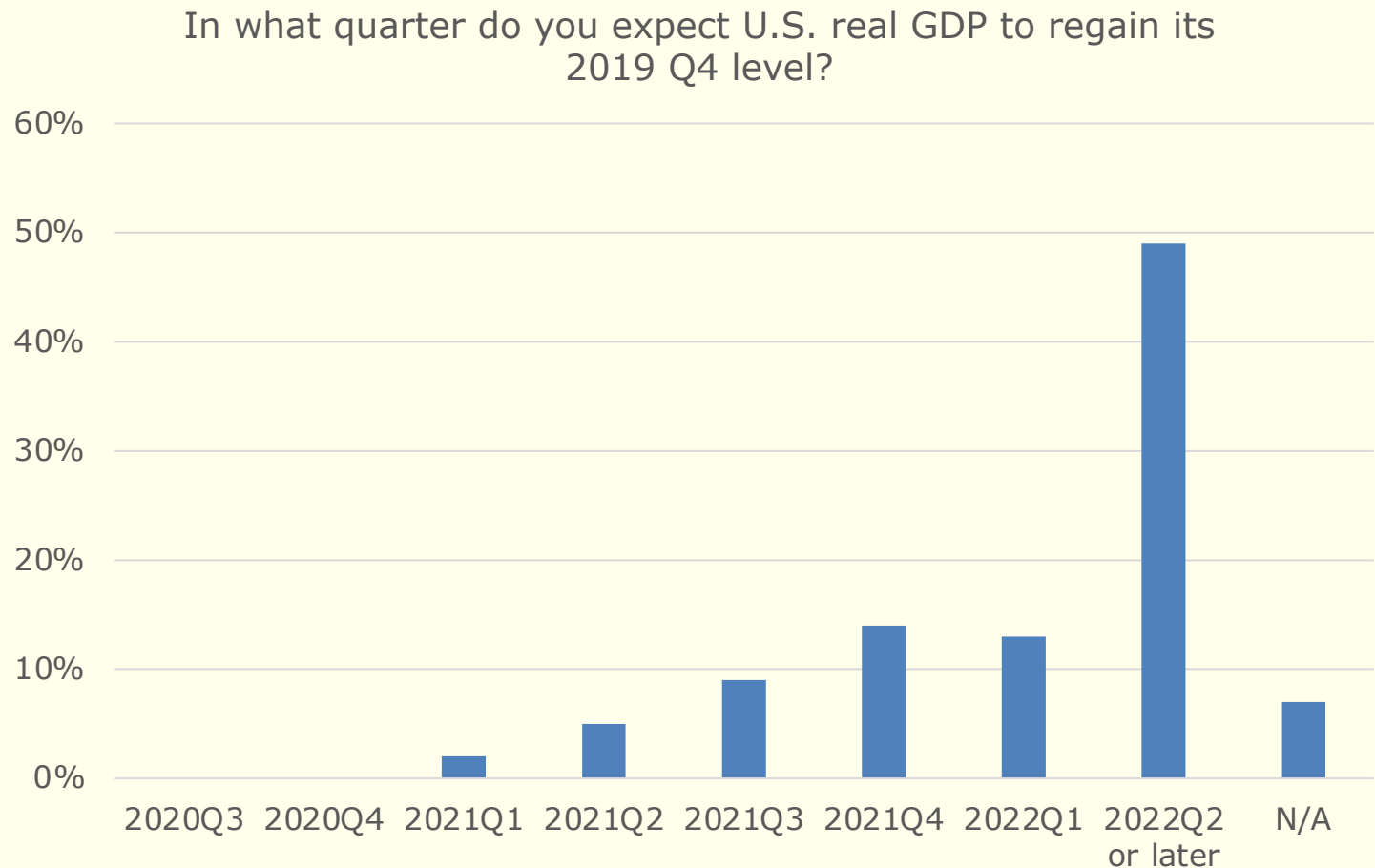
The OECD “double hit” scenario incorporates a second shutdown in 2020 Q4 in response to a renewed outbreak of COVID-19.



Source: ERFC September 2020 preliminary forecast, OECD Economic Outlook June 2020; data through 2020 Q2



# Many economists do not expect GDP to return to pre-pandemic levels until mid-2022 or later

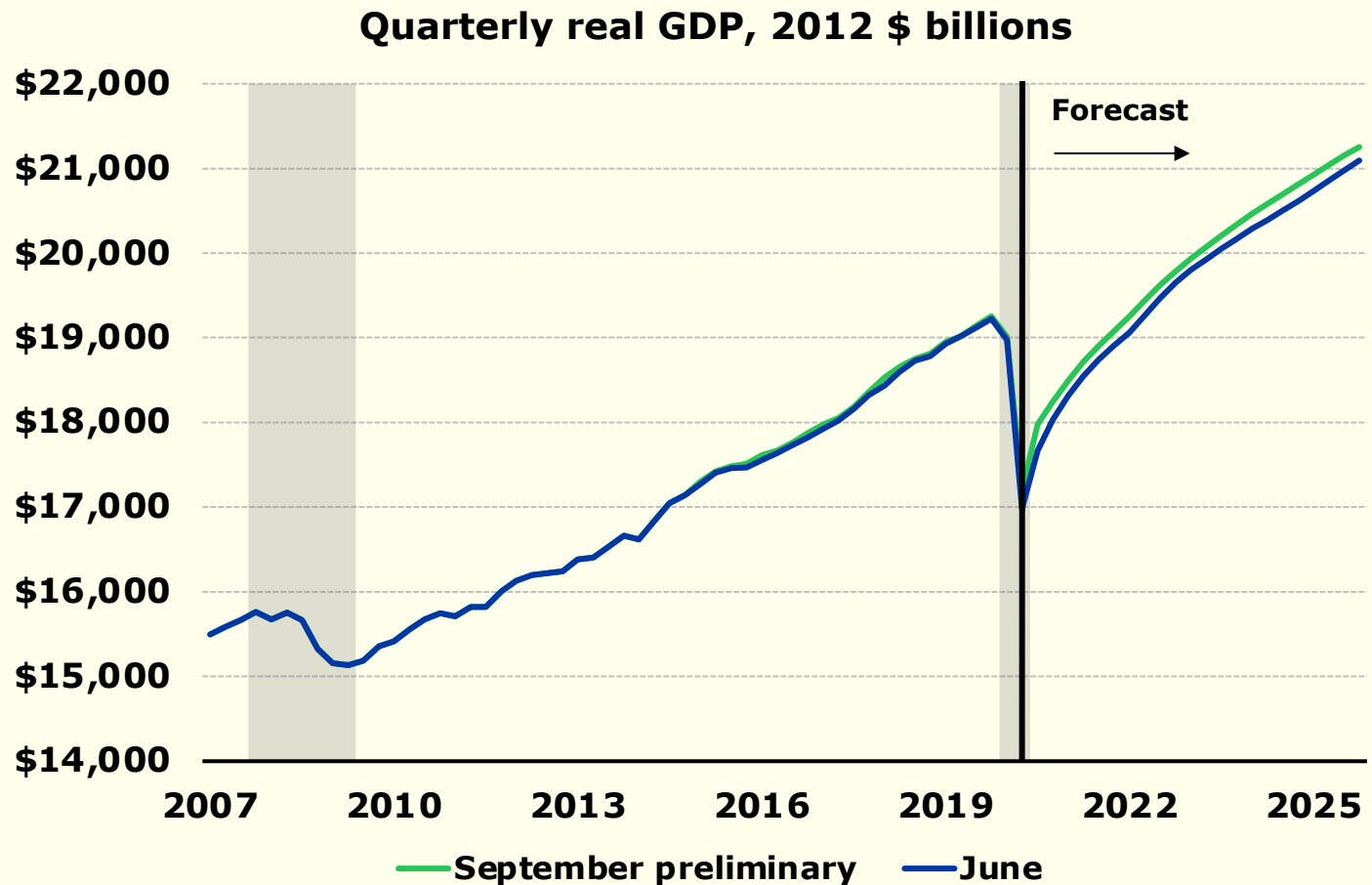


Source: National Association of Business Economists, August 2020 Economic Policy Survey

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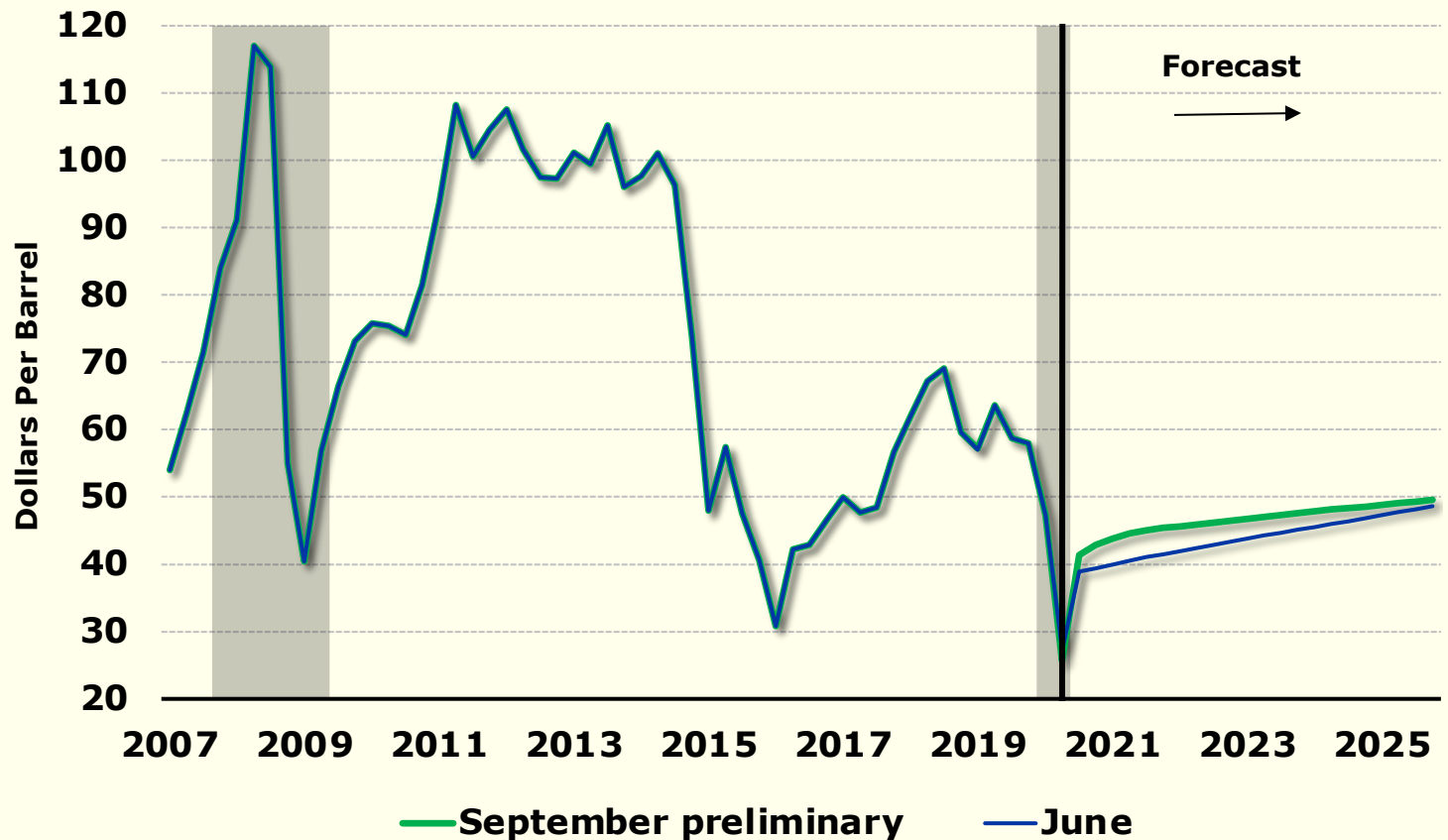


# GDP growth in 2020 is now assumed to be -5.2%, up from -6.1% in June





# Oil prices are expected to be slightly higher than in the June forecast

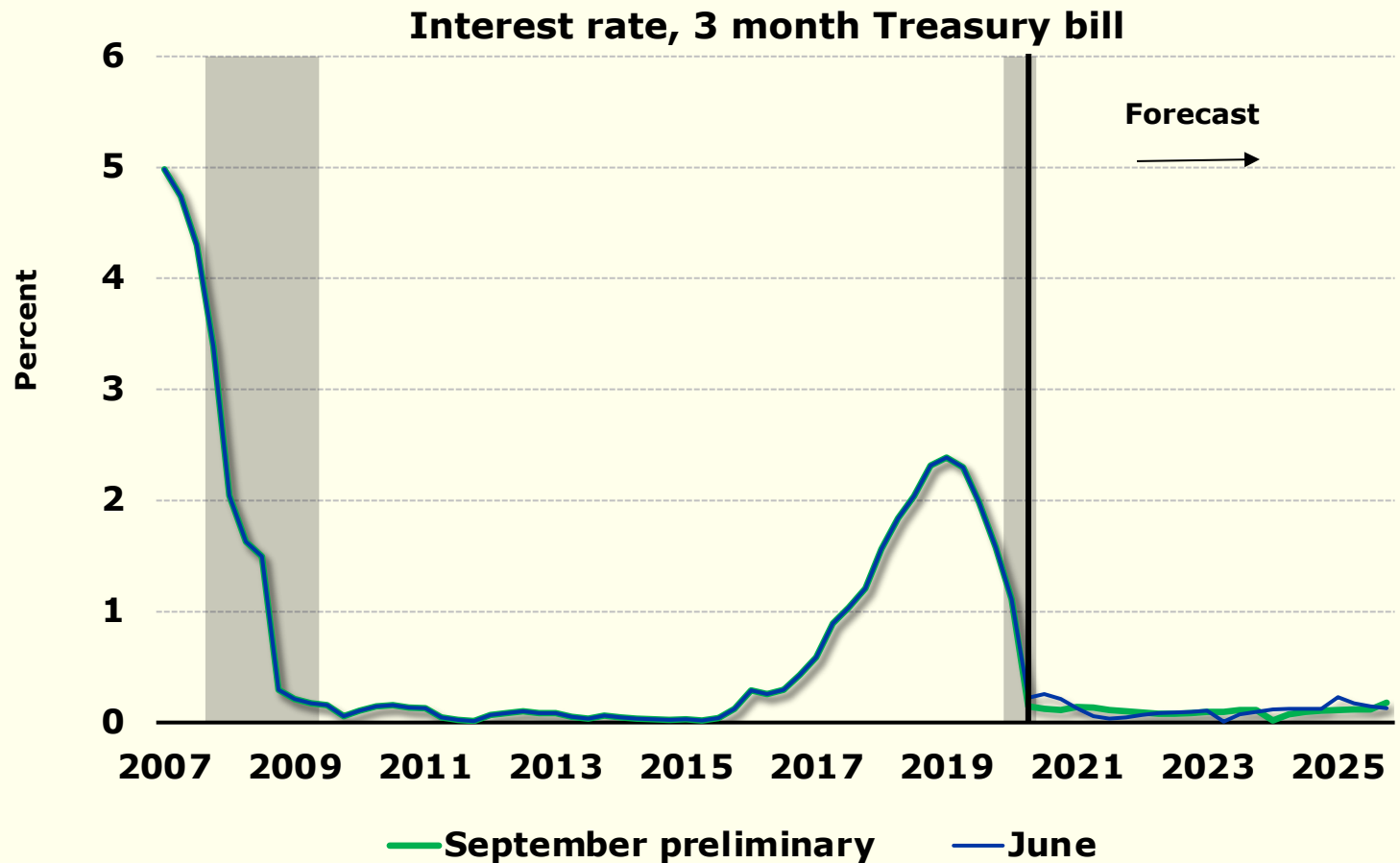


Source: Energy Information Administration, IHS Markit, ERFC; data through Q2 2020  
Note: Vertical black line indicates last actual

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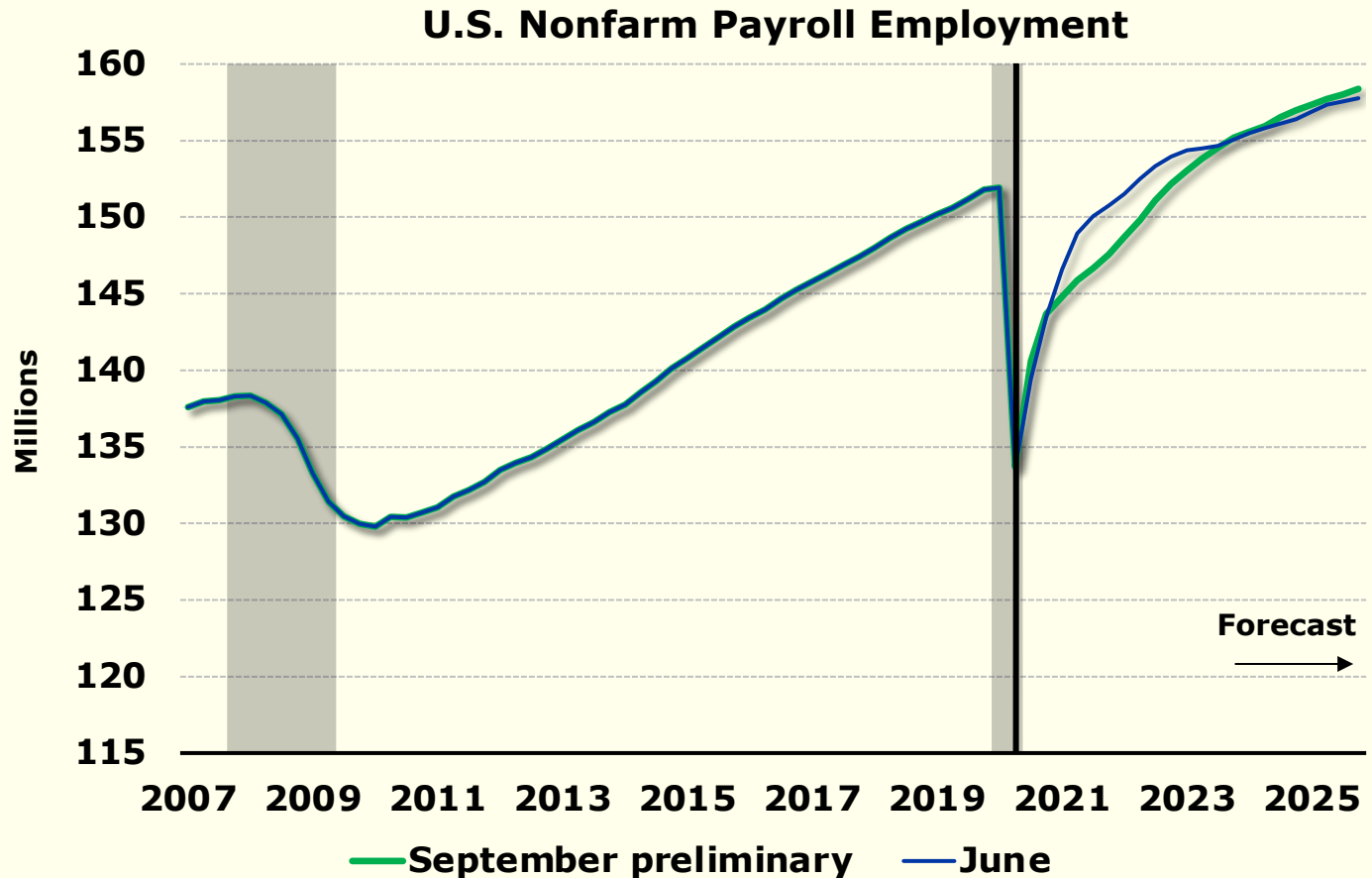
# Interest rates are expected to remain low throughout the forecast period





# U.S. nonfarm employment is expected to grow more slowly in 2021 and 2022 compared to June

After reaching 13.0% in 2020 Q2, the U.S. unemployment rate is expected to decline to 8.4% by 2020 Q4.

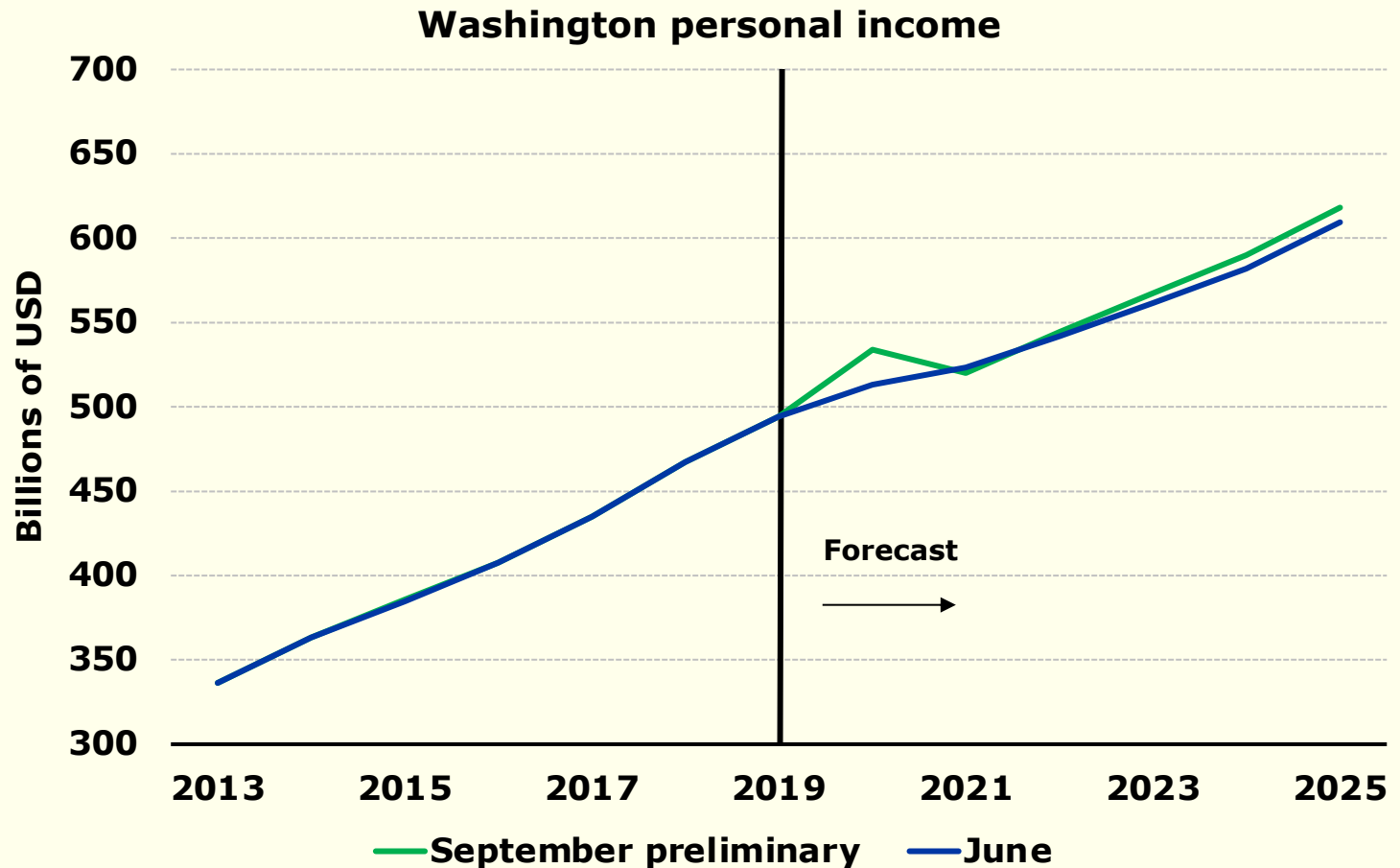


Source: IHS Markit, ERFC September 2020 preliminary forecast; data through 2020 Q2



# Higher WA personal income in 2020 reflects higher transfer payments than in the June forecast

The increased transfer payments include both higher than expected actual stimulus payments and the assumed passage of an additional Federal stimulus bill which has not passed to date. The final economic forecast will reflect Congressional action as of early September.

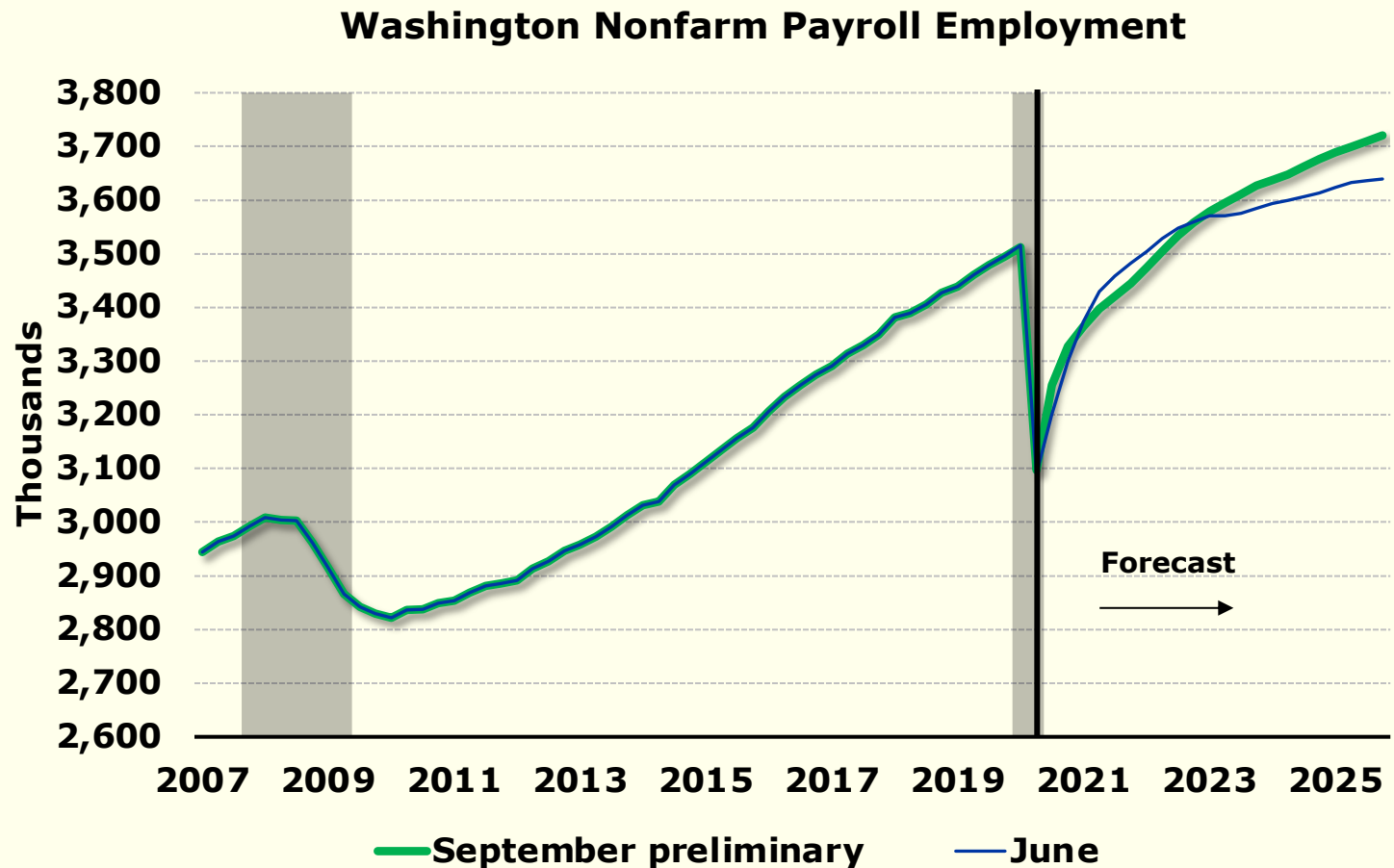


Source: ERFC September 2020 Preliminary forecast; historical data through 2019





# WA employment growth for 2020–25 is expected to average 2.4% compared to 2.1% in the June forecast

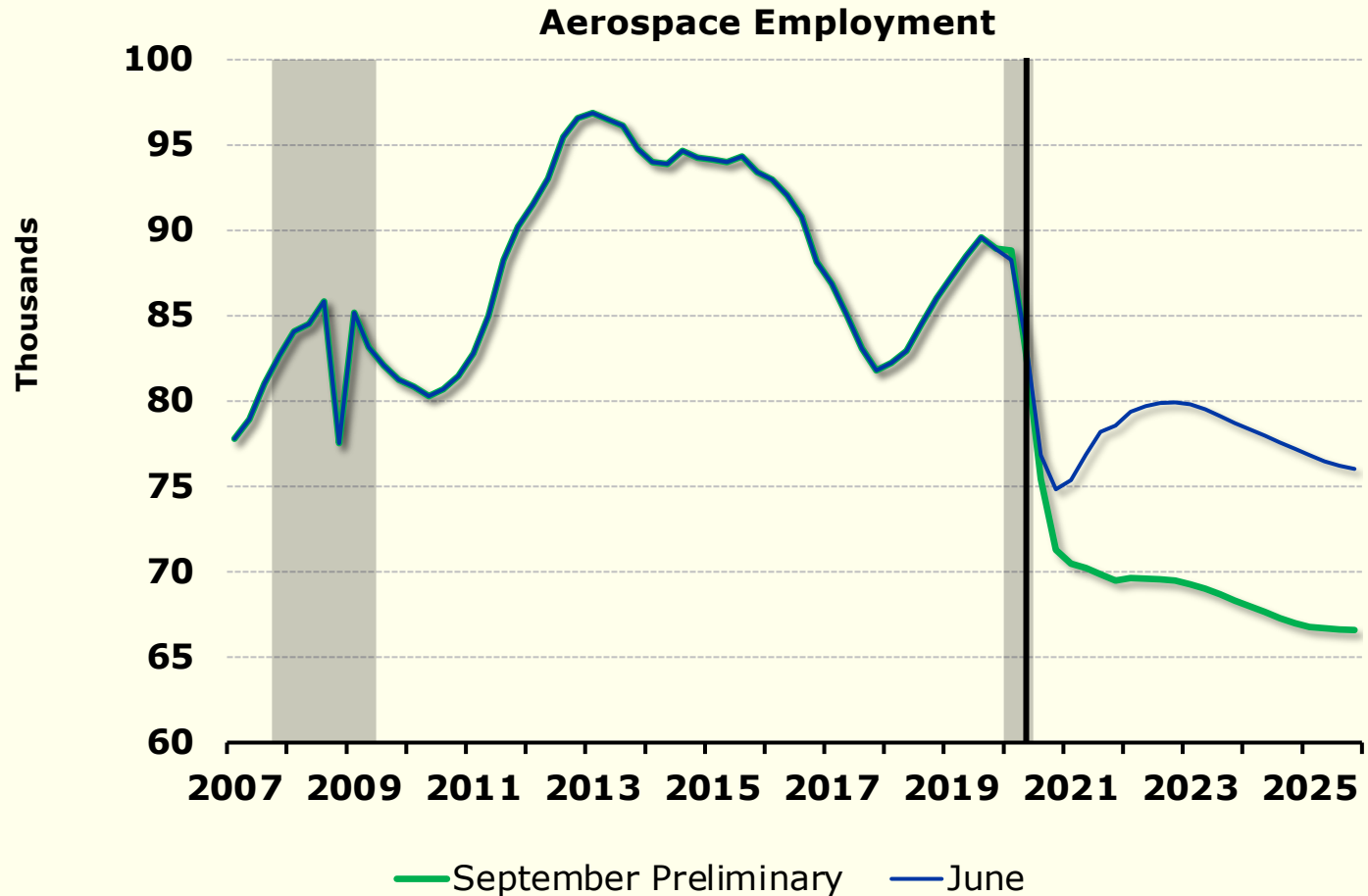


Source: ERFC September 2020 Preliminary forecast; historical data through Q2 2020



# Aerospace employment will be lower throughout the forecast

As of July, Washington aerospace employment has already declined by 6,300 since April when Boeing first announced major job cuts. We assume a decline of another 9,300 aerospace employees by the end of the year.



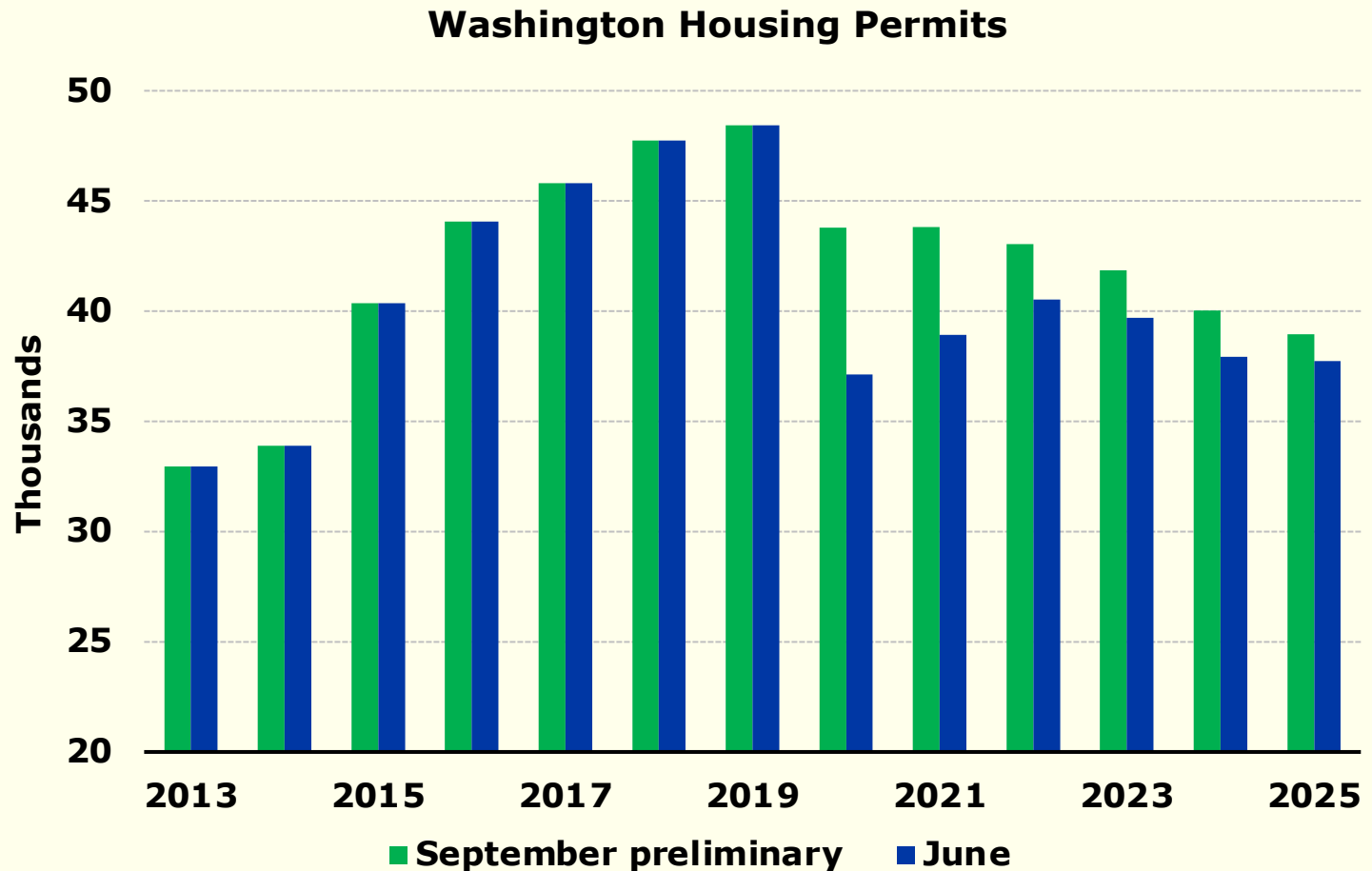
Source: WA State Employment Security Department, ERFC; data through Q2 2020  
Note: Vertical black line indicates last actual

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# Washington housing permits forecast has been revised up compared to June

Housing permits for 2020Q2 averaged 40,300 at an annualized rate, up from the 28,900 expected in the June forecast.

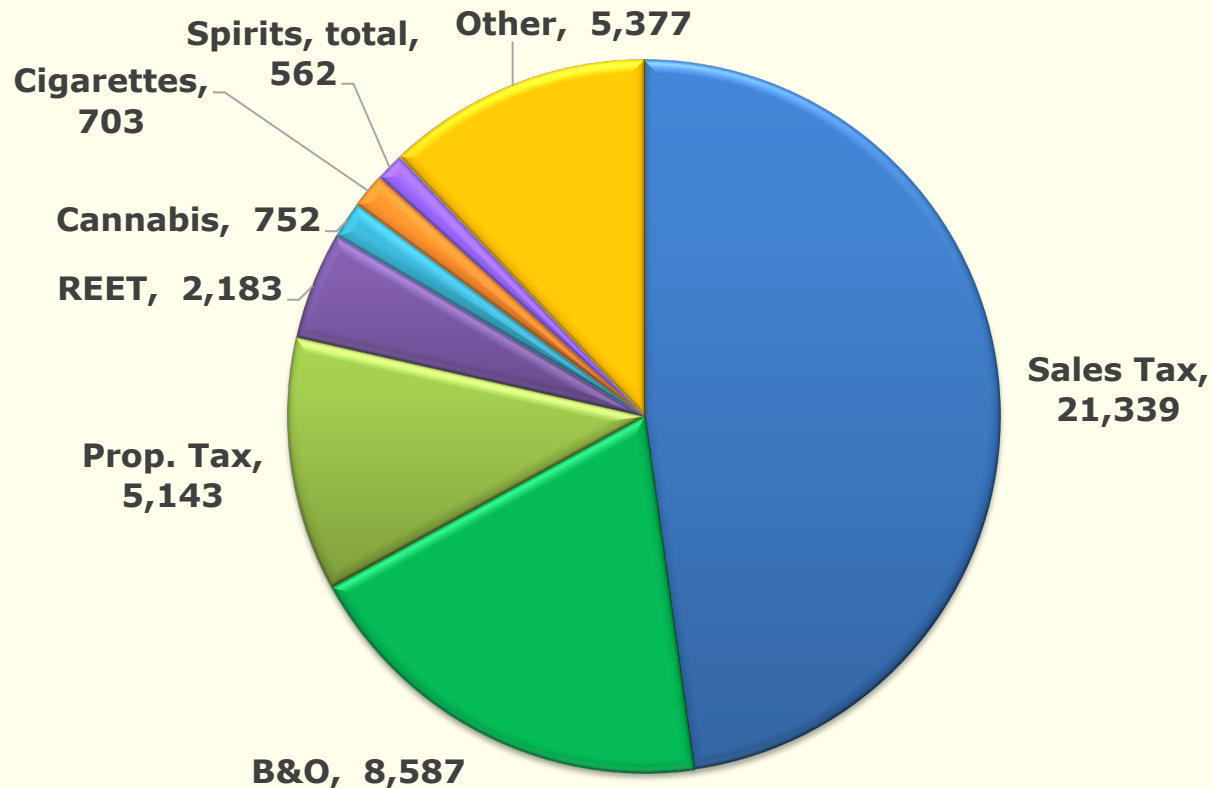


Source: ERFC September 2020 Preliminary forecast; historical data through 2019



# General Fund-State plus cannabis revenues for 2017-19 biennium

**\$ millions**





# Quarterly Rev Act collections fell while income was supported by federal spending

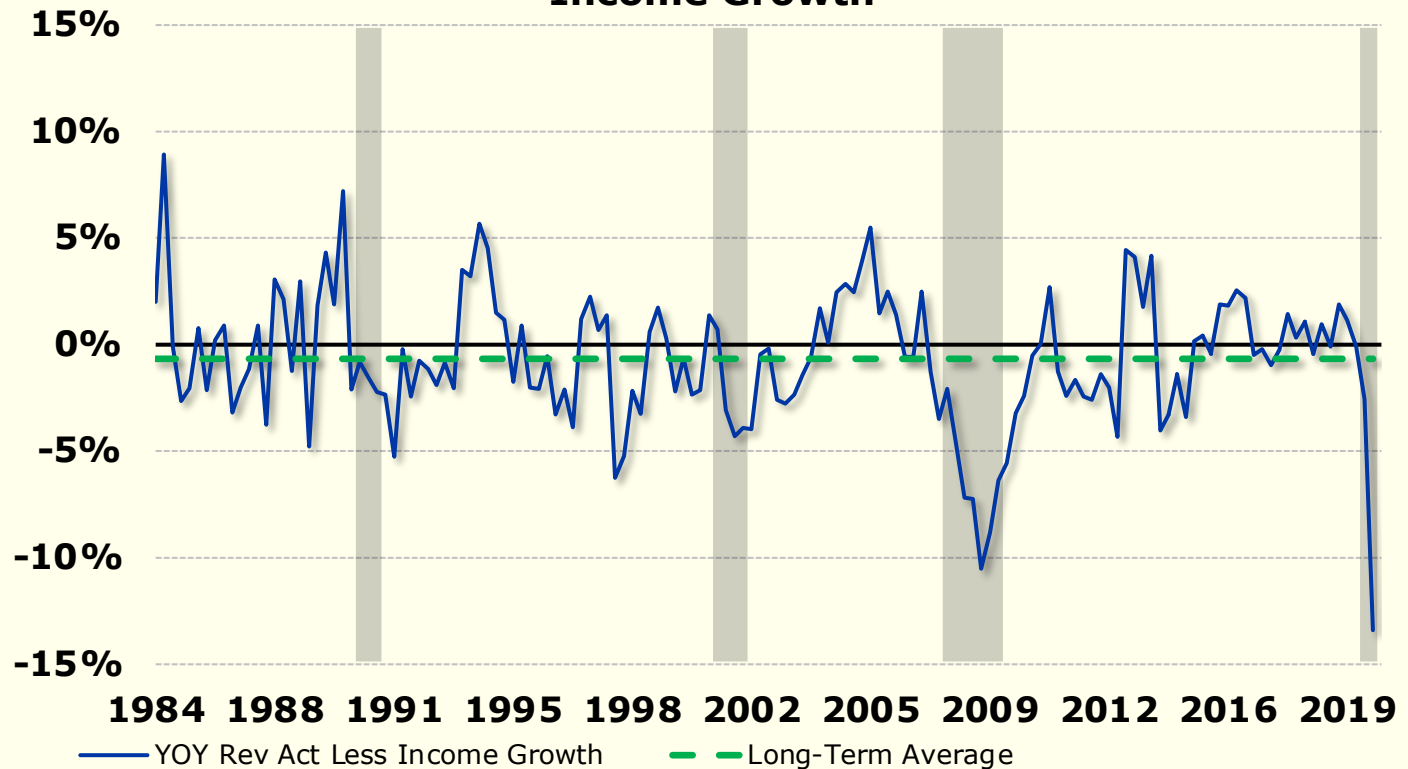
Adjusted Rev Act growth YOY:

19Q3: 6.6%  
19Q4: 5.5%  
20Q1: 1.6%  
20Q2: -8.1%

June personal income YOY growth estimates:

19Q3: 5.4%  
19Q4: 5.6%  
20Q1: 4.1%  
20Q2: 5.3%

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



\*Adjusted for large one-time payments and refunds, payments under the amnesty program and deferred April 2020 payments

Source: ERFC; Quarterly revenue data through Q2 2020, June 2020 income estimates

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# REET activity rebounded in June and July but is still below pre-COVID levels

Seasonally adjusted taxable activity in July was \$6.9 billion, up from \$5.9 billion in June and \$4.8 billion in May.

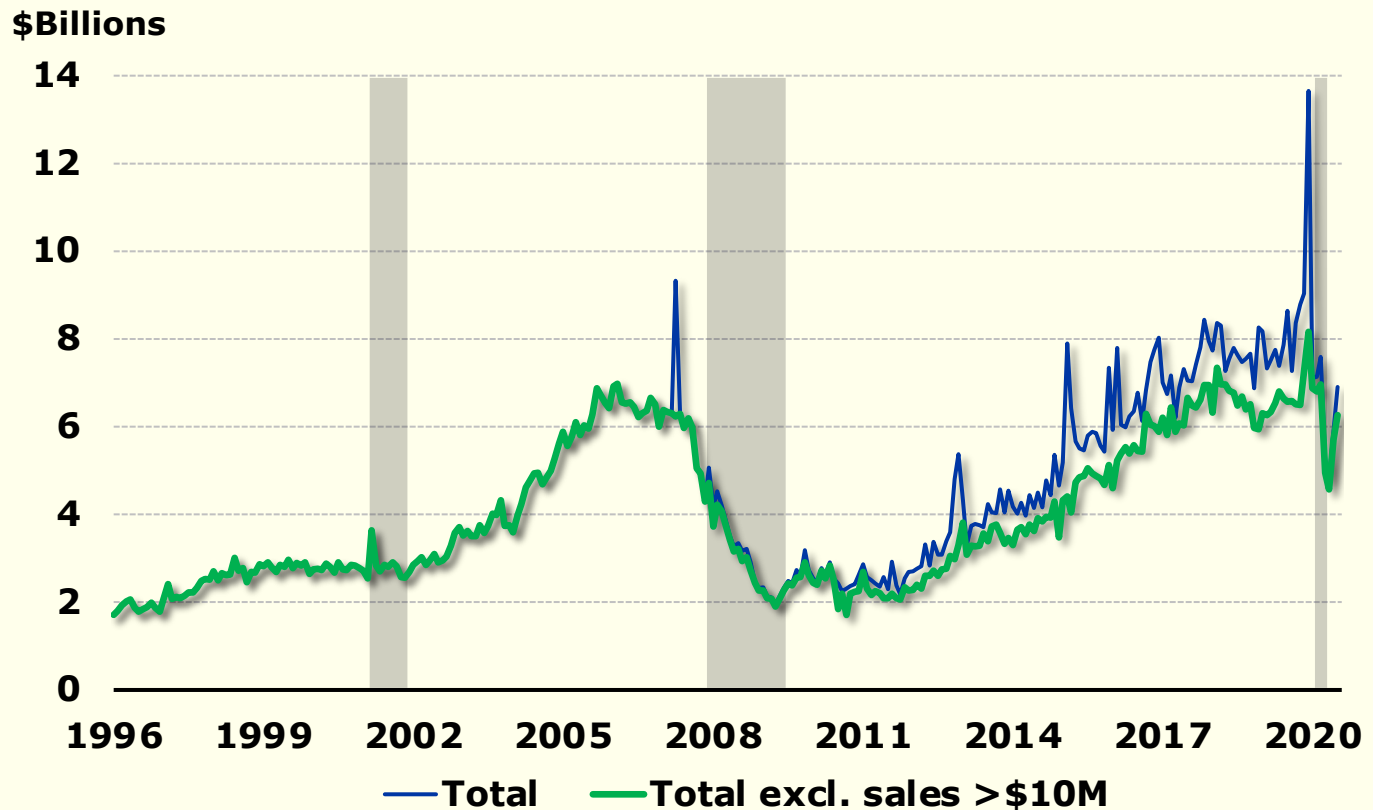
Large commercial sales (>\$10 million) totaled \$638 million in July after June sales of \$195 million.

Current activity is similar to the levels of the first half of 2017.

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September 9, 2020

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## Seasonally Adjusted Taxable Real Estate Excise Activity



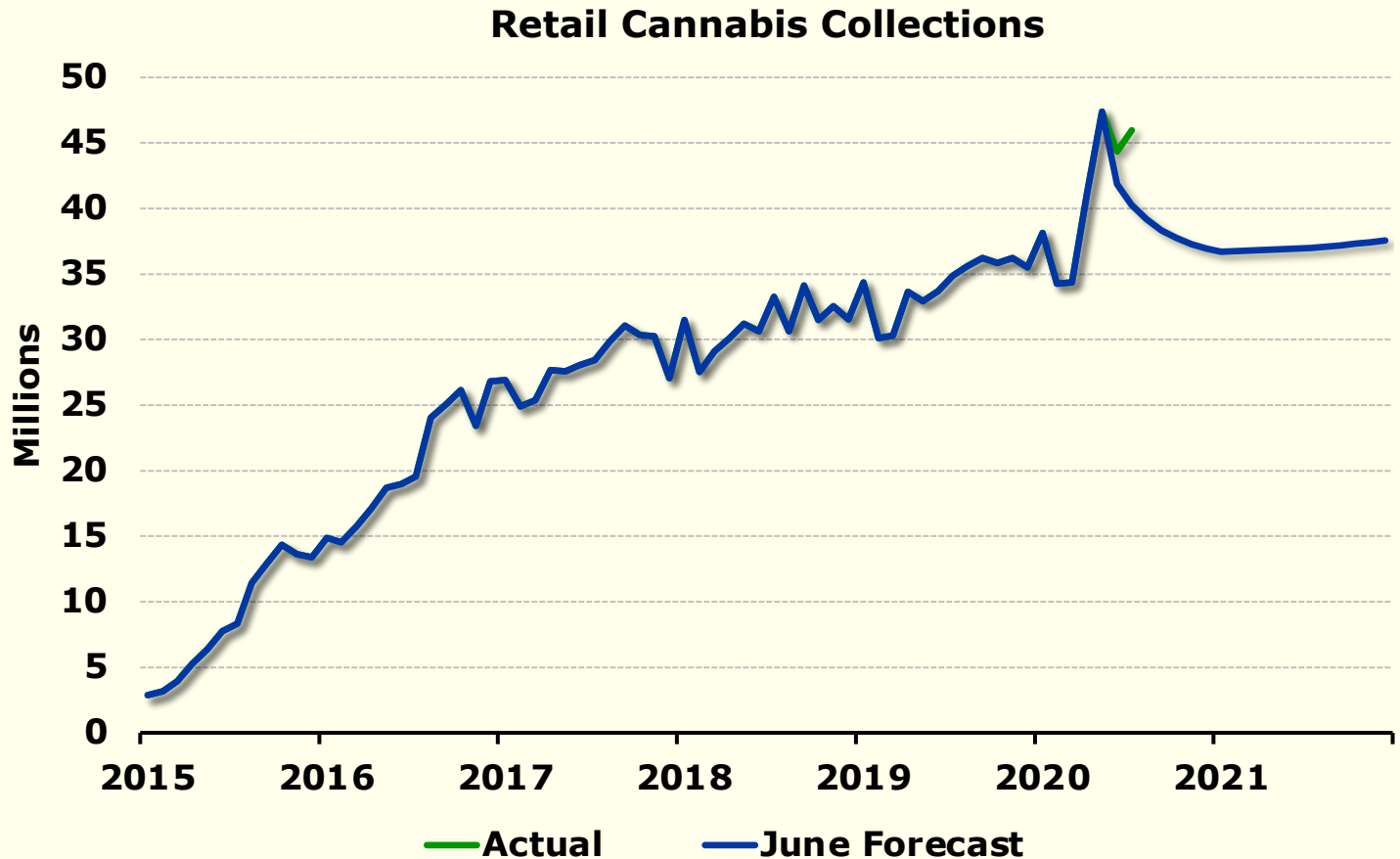
Source: ERFC; Monthly data through July 2020 preliminary

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# Cannabis revenue spiked, but is expected to decline in the near term

Collections have been 9.9% above the June forecast

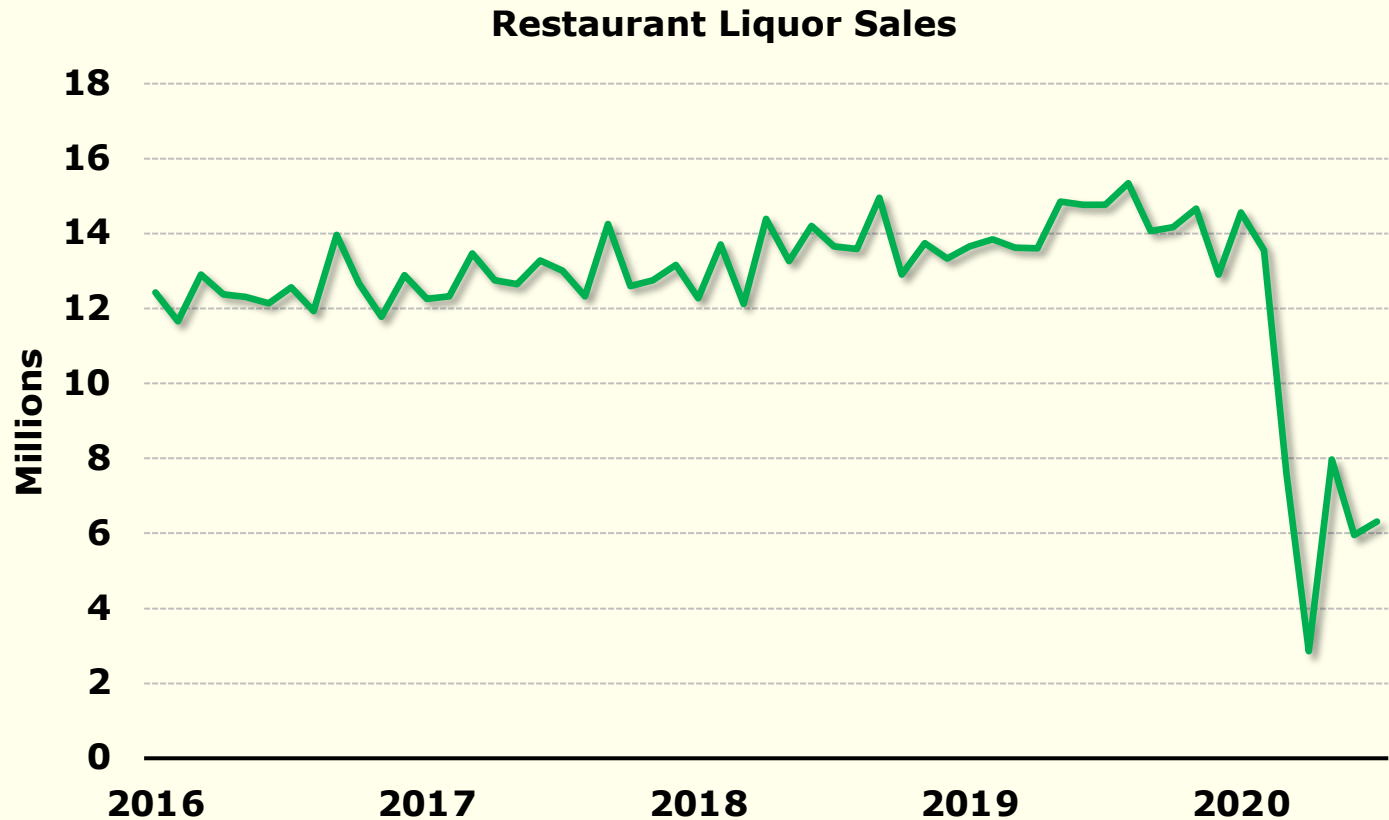


Source: ERFC June 2020 forecast; historical data through July 2020



# Restaurant liquor sales have plummeted

Restaurant and bar liquor sales have been severely impacted by stay at home orders and social distancing requirements



Source: LCB, ERFC; data through July 2020

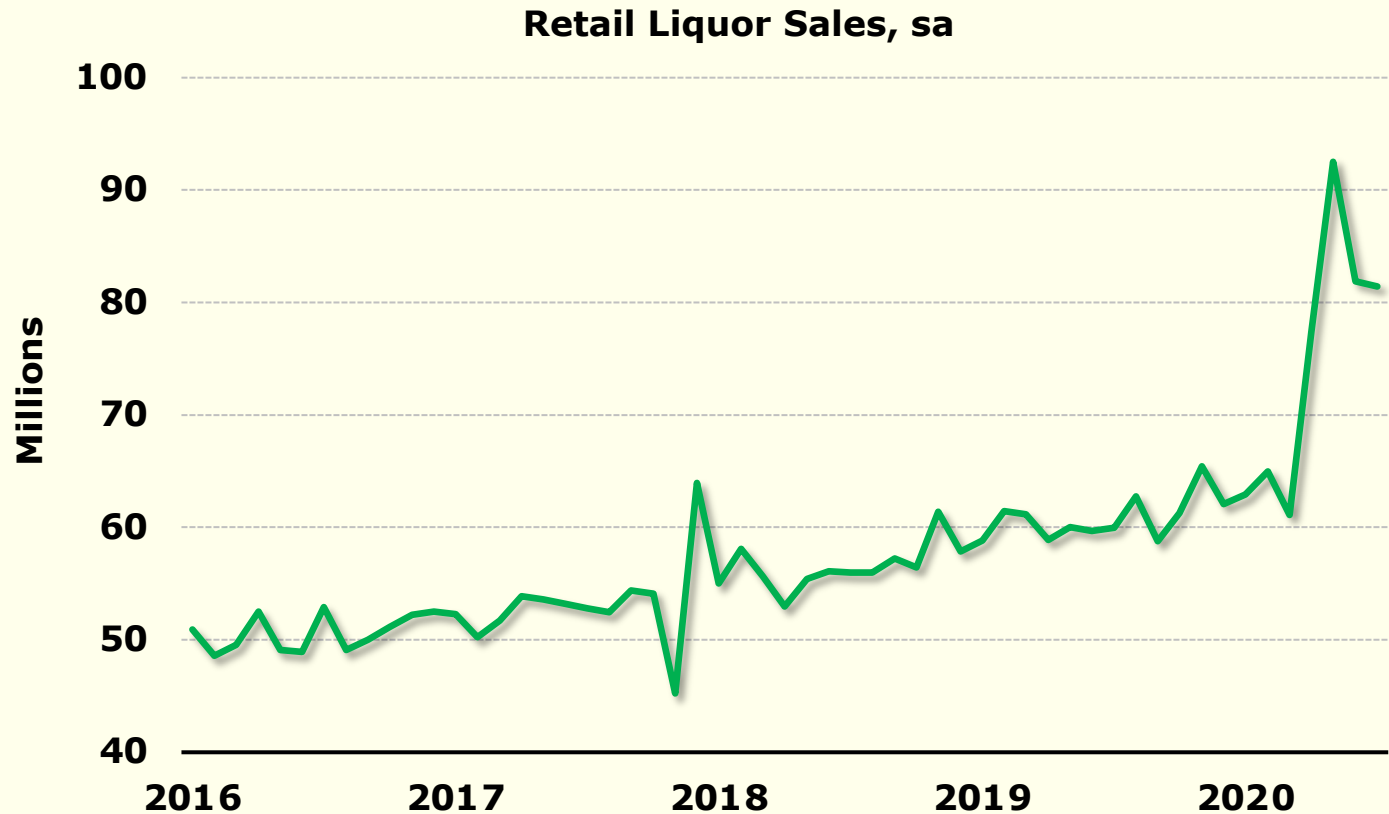




# Retail liquor sales have spiked

Retail liquor sales have more than made up for the drop in restaurants

Total Liquor sales YOY Growth:  
May +34%  
June +18%  
July +17%



Source: LCB, ERFC; data through July 2020



# Revenue collections to date

Revenue Act collections since the June forecast reflect taxable activity in May and June, months when a majority of counties reached phase 2 or 3 reopening after a long shutdown. It remains to be seen whether this level of activity will continue or if it was a short term release of pent-up demand.

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## Collections Variance Since June Forecast (June 11 – August 10, 2020) dollars in thousands

	<u>Estimate</u>	<u>Actual</u>	<u>Difference</u>	<u>Pct.</u>
Dept. of Revenue	\$3,267,762	\$3,910,942	\$643,180	19.7%
All other agencies	\$7,685	\$7,455	(\$229)	-3.0%
Total GF-S	<b>\$3,275,447</b>	<b>\$3,918,397</b>	<b>\$642,950</b>	<b>19.6%</b>



# Conclusion

- The preliminary economic forecast reflects stronger growth in 2020 but slower growth in 2021 compared to the June forecast.
- Uncertainty regarding COVID-19 impacts to the economy remains high.
- International trade and geopolitical issues are also risks to the forecast.
- The next monthly revenue collection report will be available on September 16<sup>th</sup> and the revenue forecast will be presented on September 23<sup>rd</sup>.



# Questions



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