

Forecast Update

Presented to
Washington Association of County
Officials

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Executive Director

October 11, 2023



WASHINGTON STATE
ECONOMIC AND REVENUE FORECAST COUNCIL



Summary

- WA personal income is higher than in the June forecast
- U.S. GDP growth is slightly stronger in 2023, 2024 compared to June forecast
- The Federal Reserve is expected to raise the federal funds interest rate to a range of 5.5% – 5.75% in November; a decrease in rates is not expected until 2024 Q2
- The forecast of funds subject to the budget outlook is increased by \$265 million for 2021-23 biennium, \$663 million for the 2023-25 biennium and \$437 million for the 2025-27 biennium



Since the June forecast...

Positives:

- U.S. employment has increased by 344,000 jobs
- WA employment has increased by 16,500 jobs
- WA unemployment rate in August remained at an all-time low of 3.6%

Negatives:

- WA revenue collections growth has slowed
- Inflation continues to trend down but remains above desired levels



Forecast risks

Upside

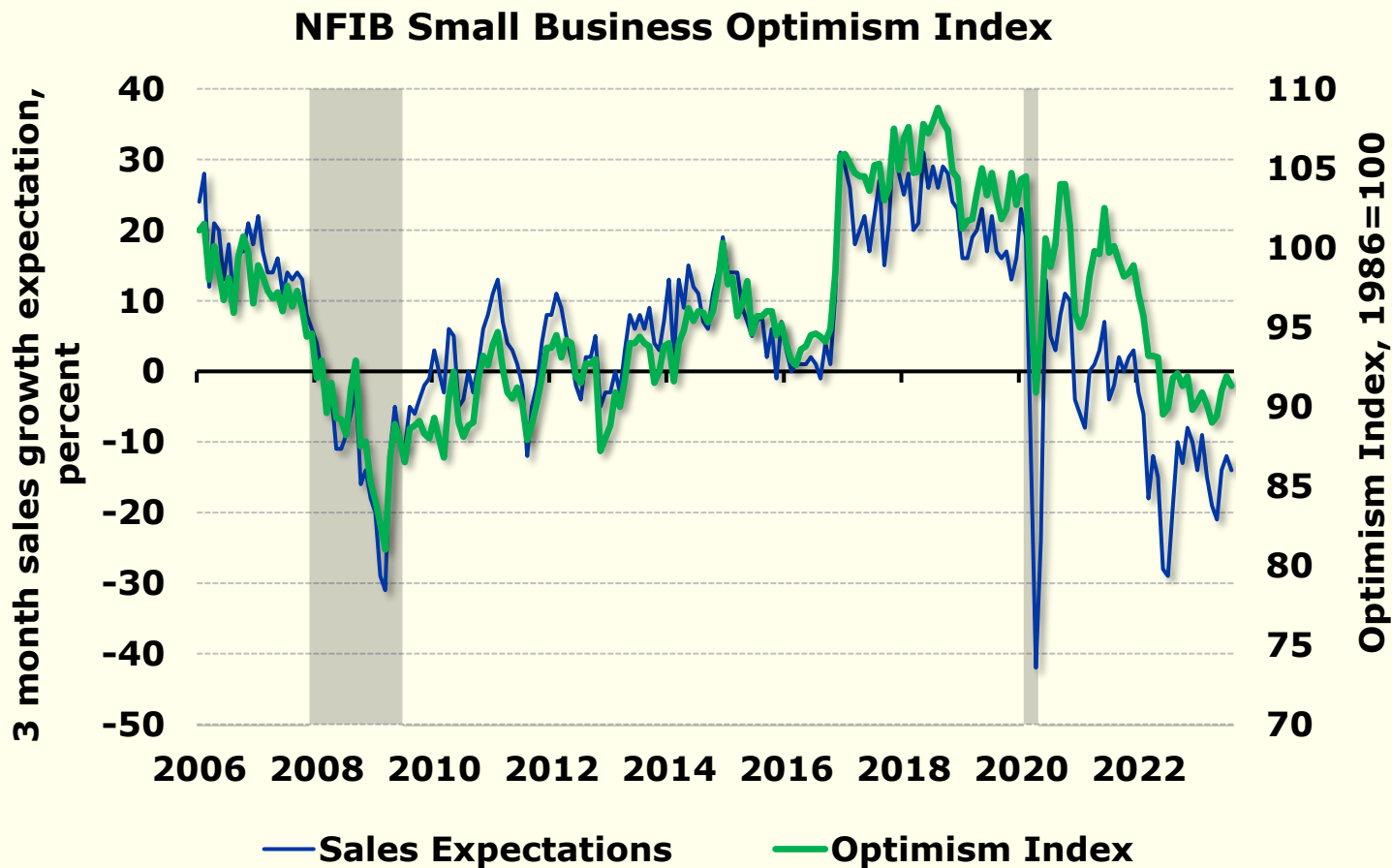
- Consumer spending, labor productivity are stronger than expected
- Federal Reserve does not raise interest rates in November

Downside

- Rising interest rates, vacancies threaten commercial real estate market, banking system
- Congress unable to pass budget leading to federal government shutdown



Inflation, worker shortages lead the list of small business concerns



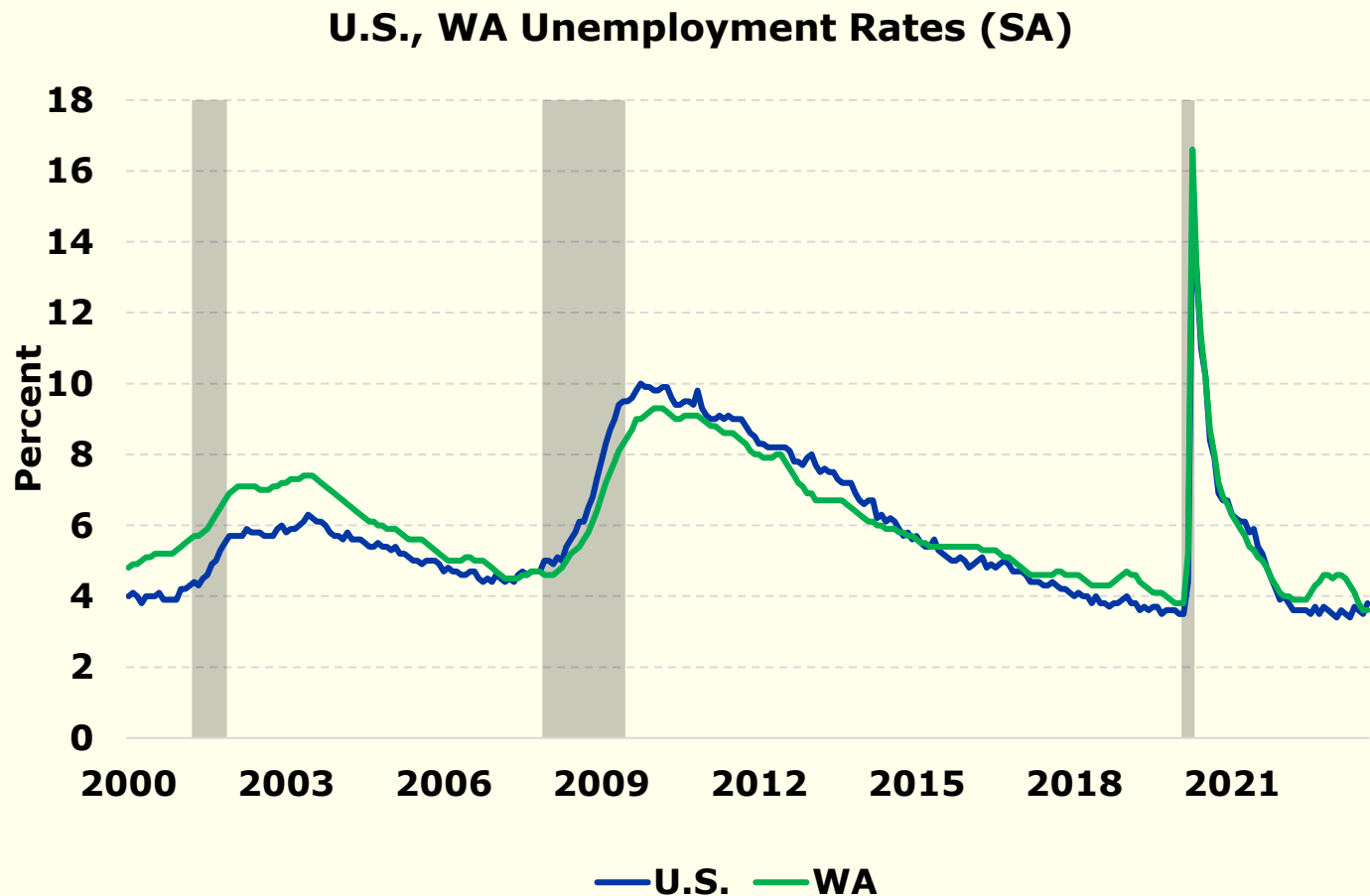
Source: National Federation of Independent Business; data through August 2023

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Unemployment rates are at historically low levels



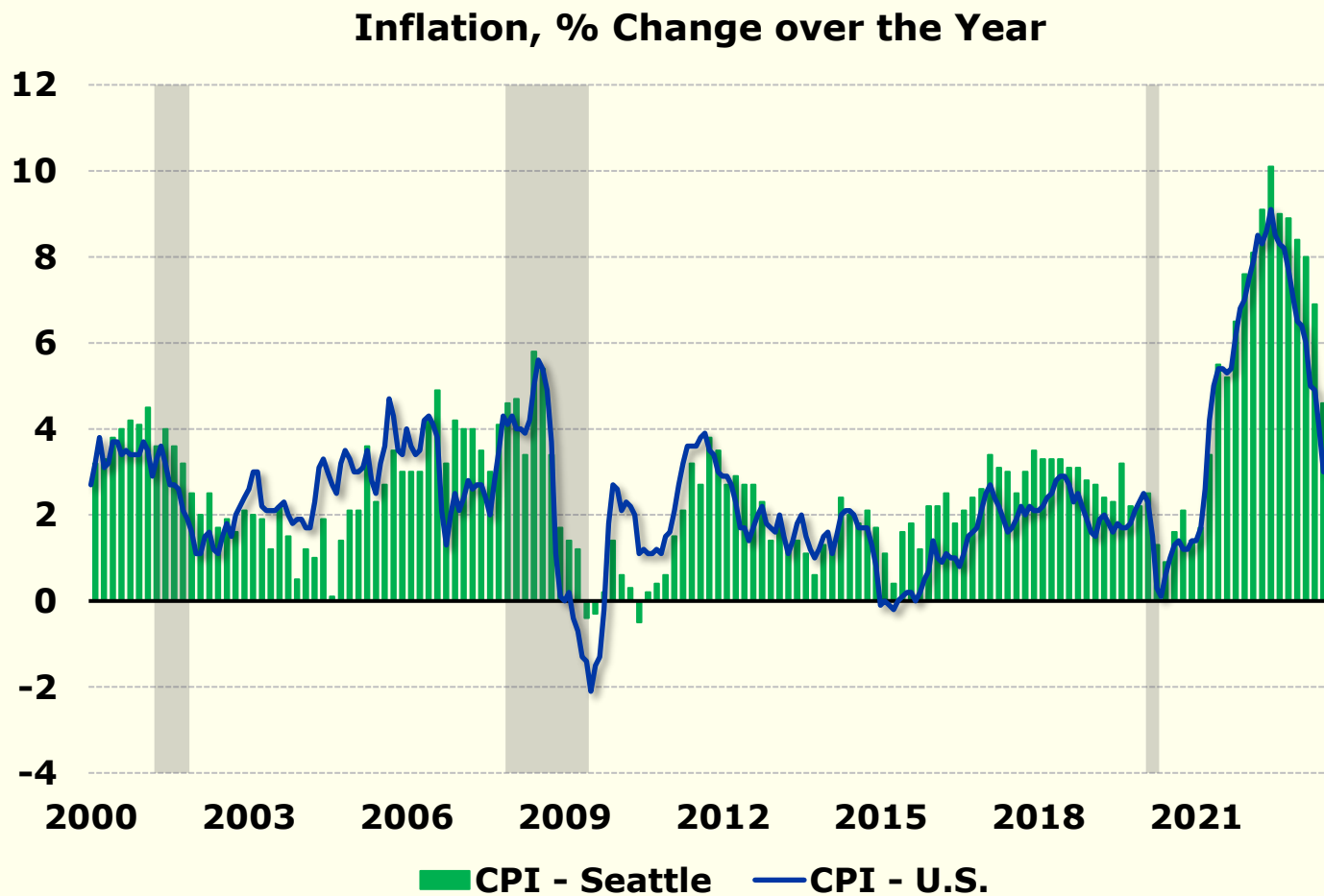
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Source: U.S. Bureau of Labor Statistics, WA Employment Security Dept., ERFC; data through August 2023

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Inflation over the year continues to trend down but ticked up in August



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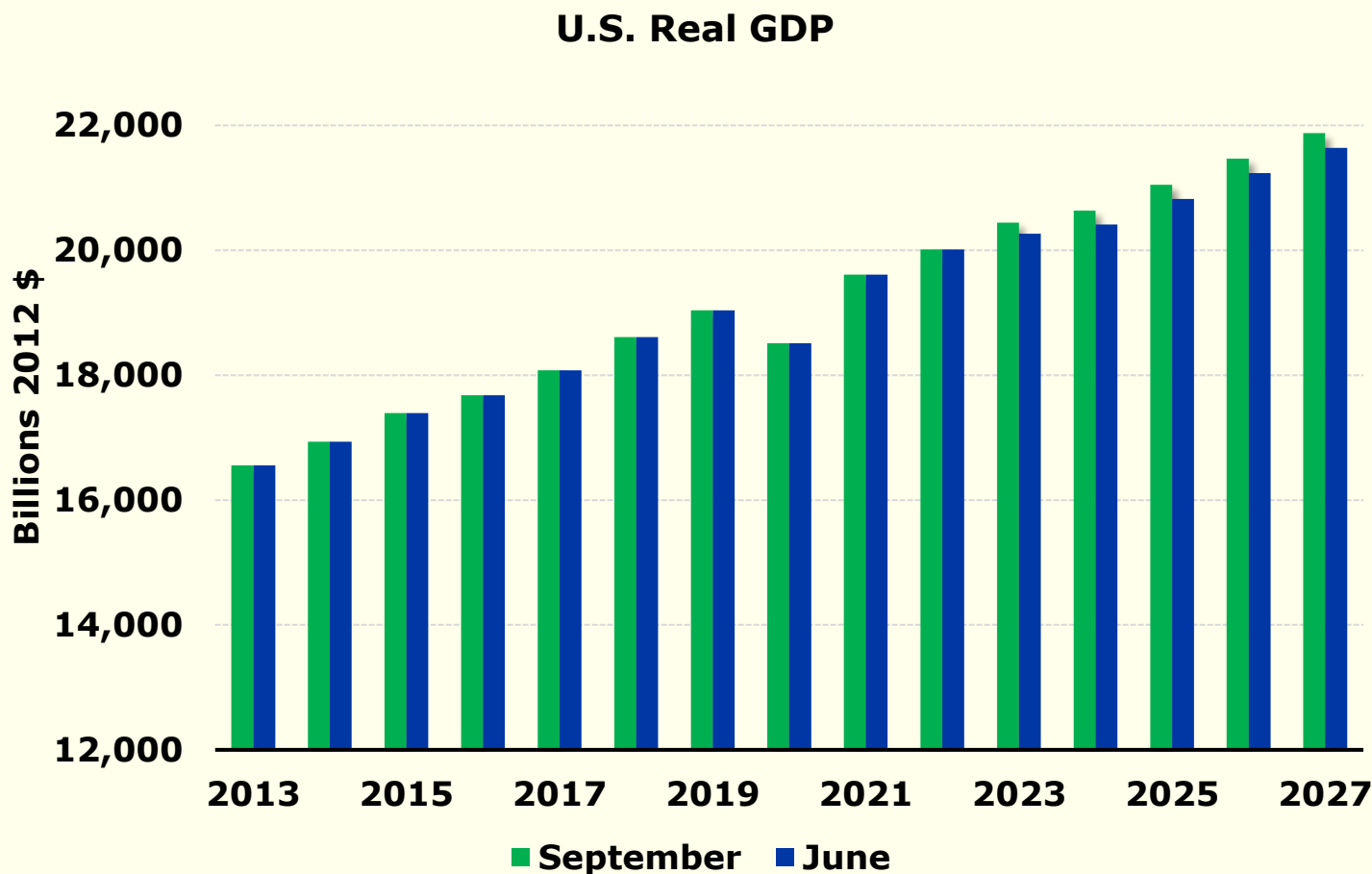
Source: U.S. Bureau of Labor Statistics, U.S. data through August 2023

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U.S. GDP is about 1% higher compared to the June forecast

GDP growth is slightly stronger in 2023 and 2024 compared to the June forecast



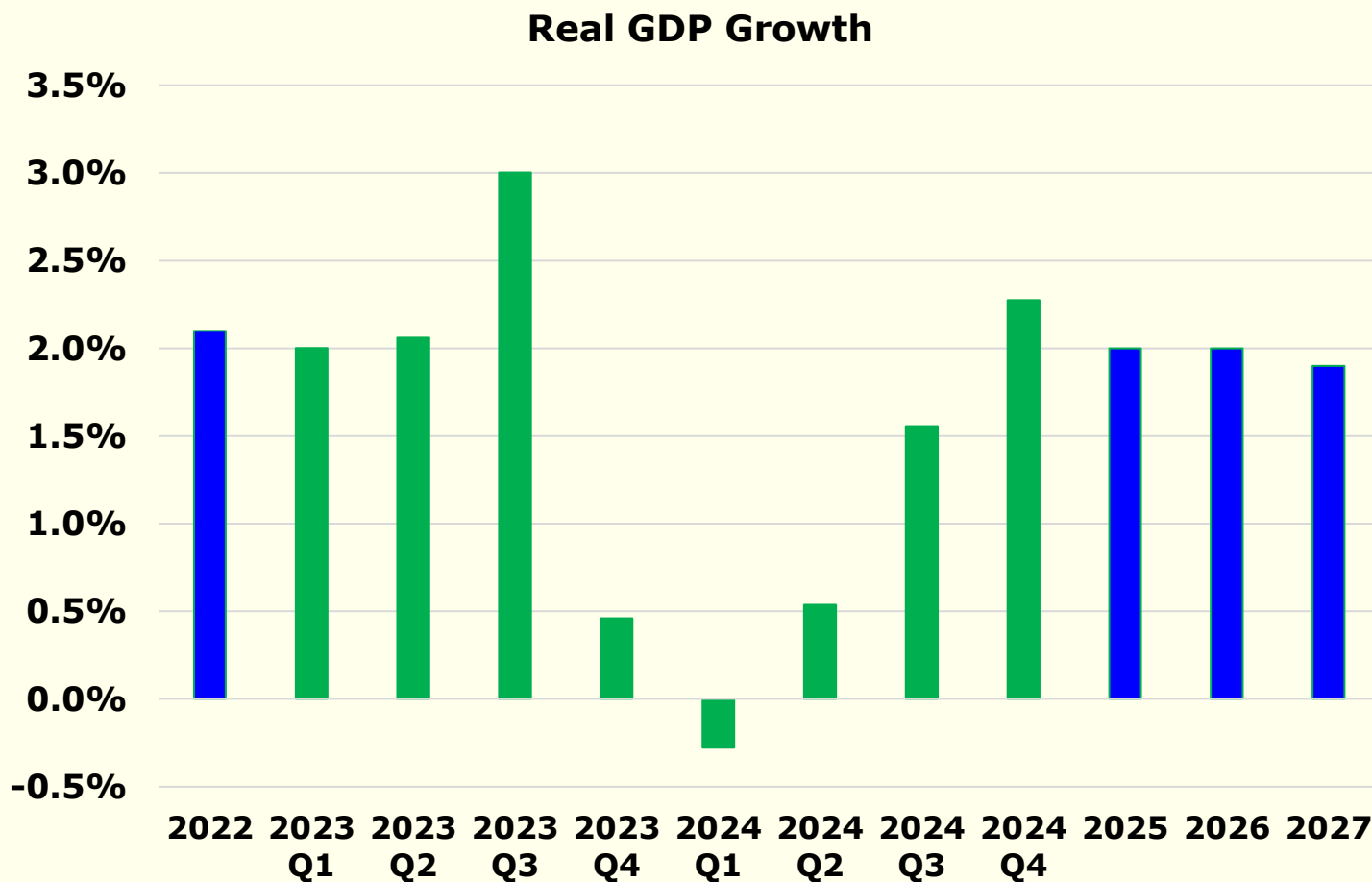
Source: ERFC September 2023 forecast; historical data through 2022

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GDP forecast now has only one quarter with negative growth

June forecast expected negative growth in the 3rd and 4th quarters of 2023



Source: IHS Markit, ERFC September 2023 forecast; historical data through 2023 Q2

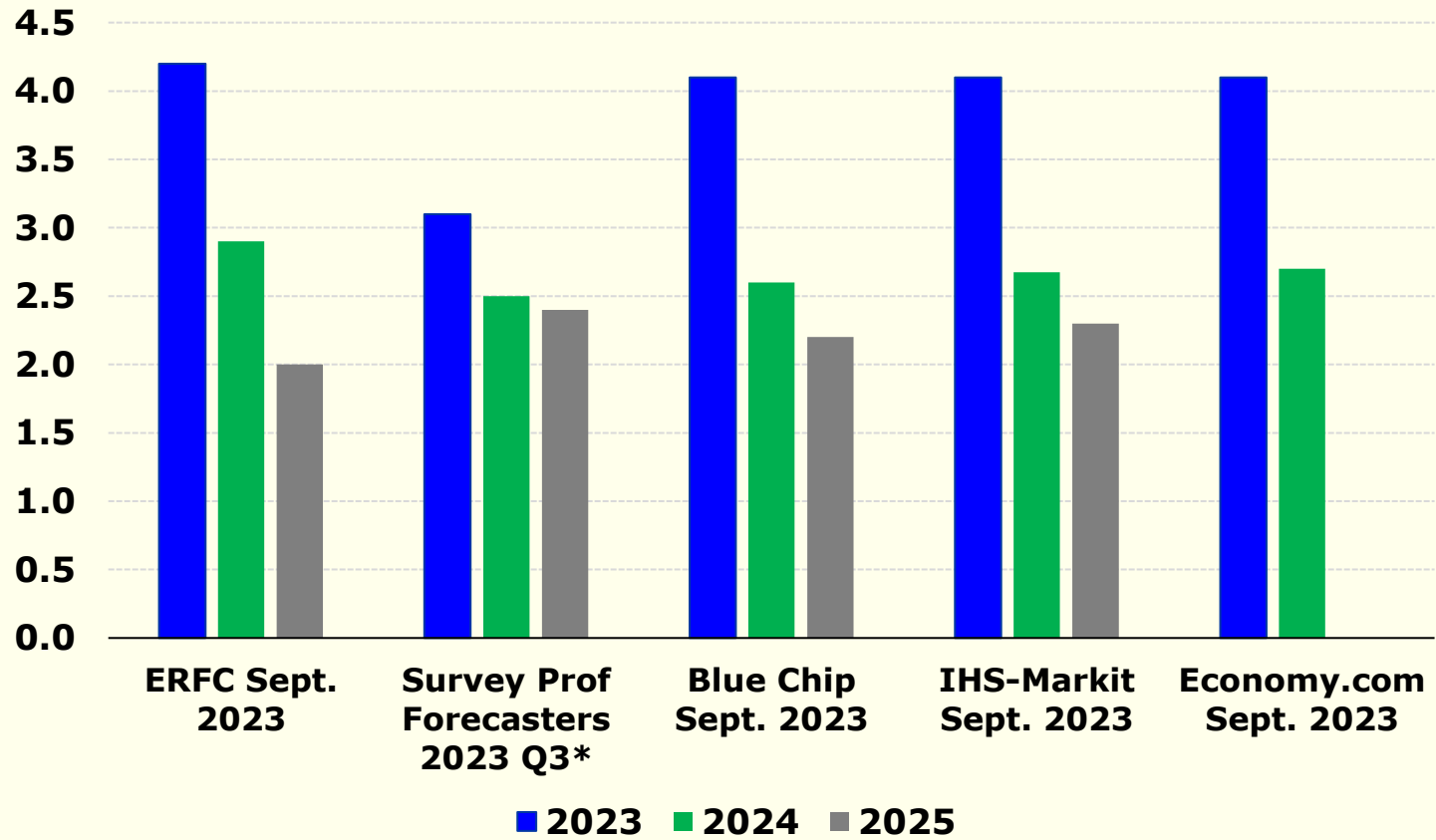
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The 2023 inflation forecast is slightly higher compared to June

The June forecast expected CPI increases of 3.9% in 2023, 2.4% in 2024 and 2.1% in 2025

Consumer Price Index, Annual % Change

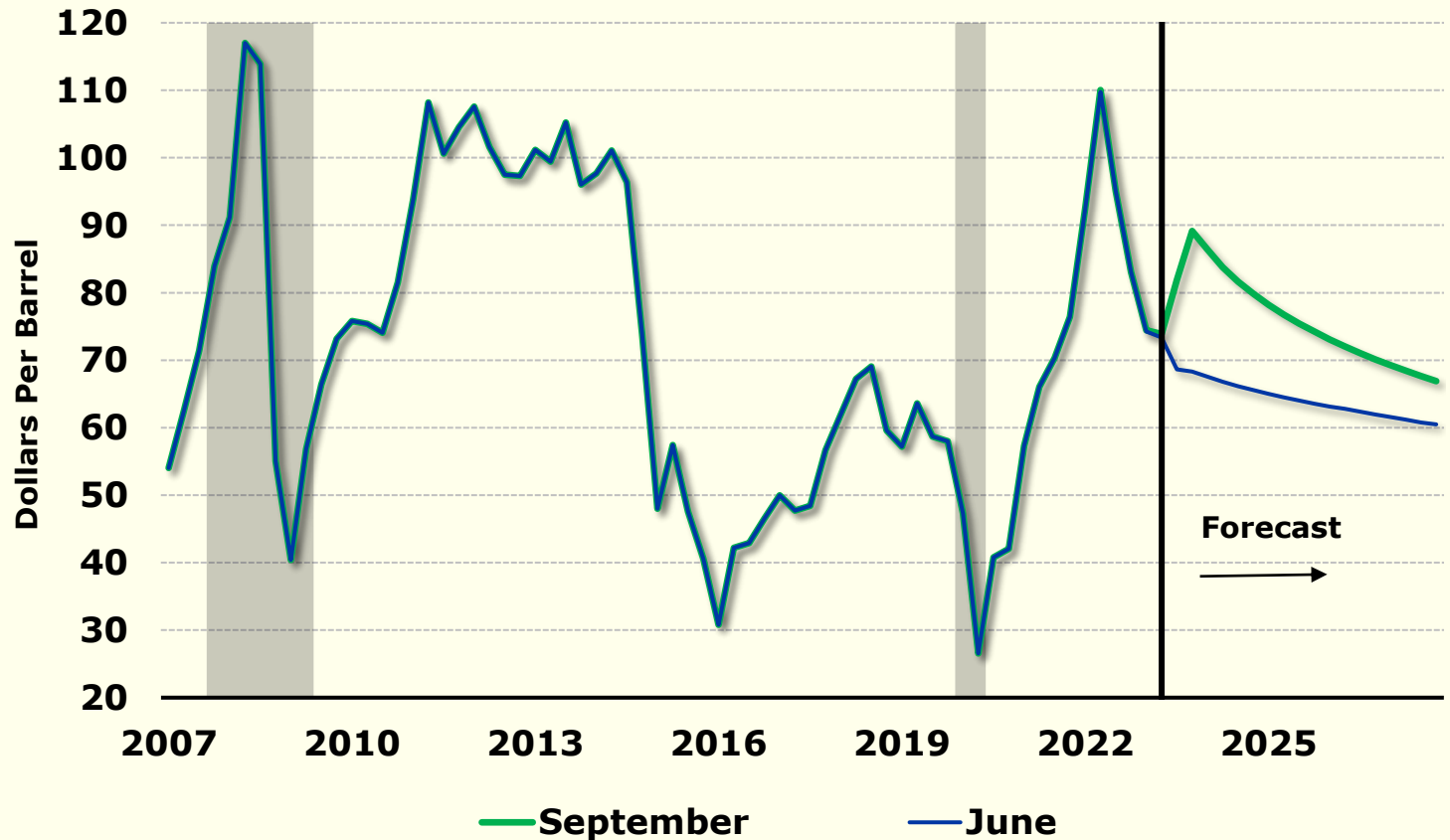


Survey of Professional Forecasters reflects change in price level in 4th quarter compared to 4th quarter of prior year; all others reflect average change over the year compared to prior year.

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Production cuts by OPEC+ have increased oil prices compared to the June forecast



Source: Energy Information Administration, IHS Markit, ERFC; data through Q2 2023
Note: Vertical black line indicates last actual

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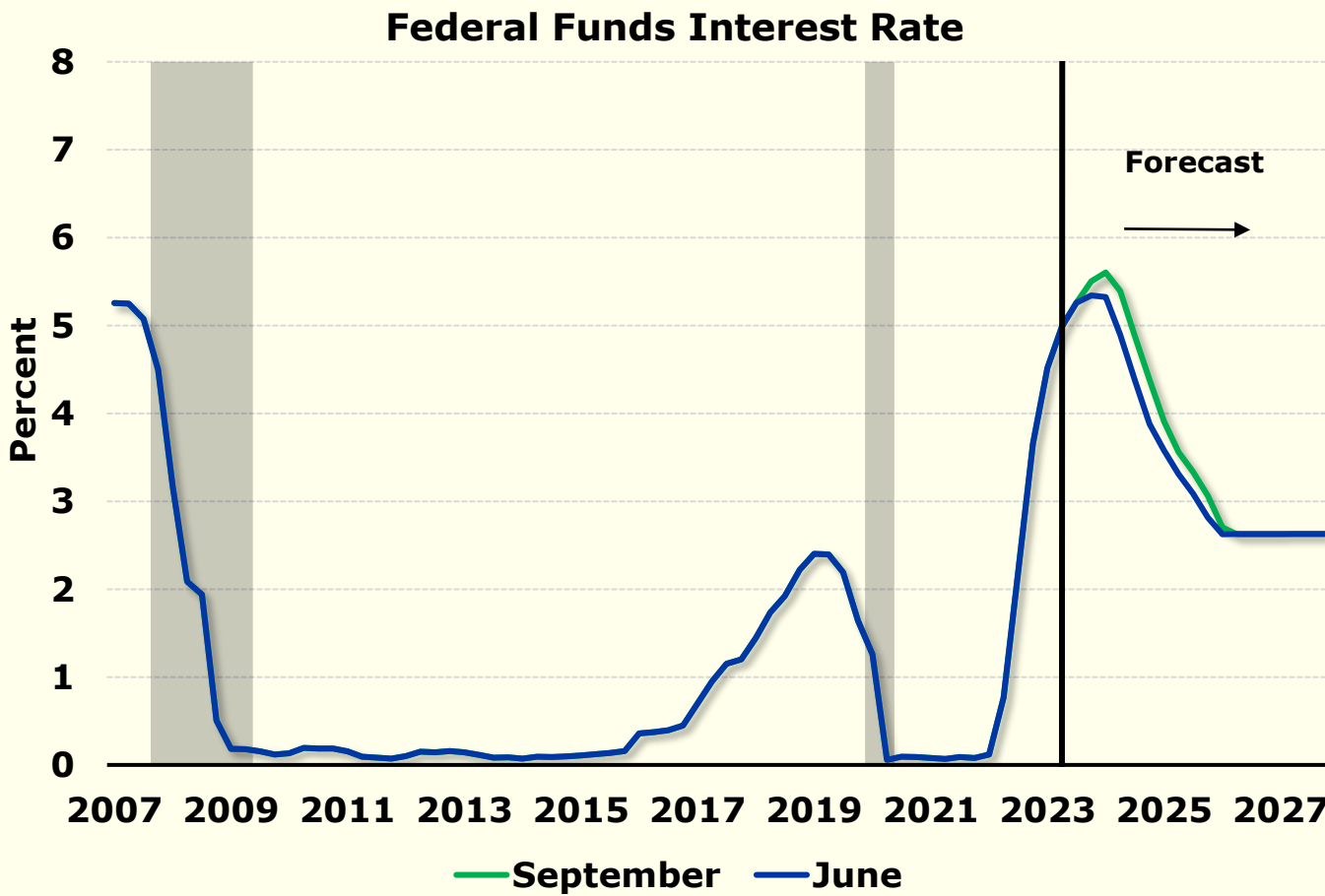
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The Federal Reserve is assumed to raise interest rates 0.25% higher than expected in the June forecast

The Federal Reserve left interest rates unchanged at its September 2023 meeting.

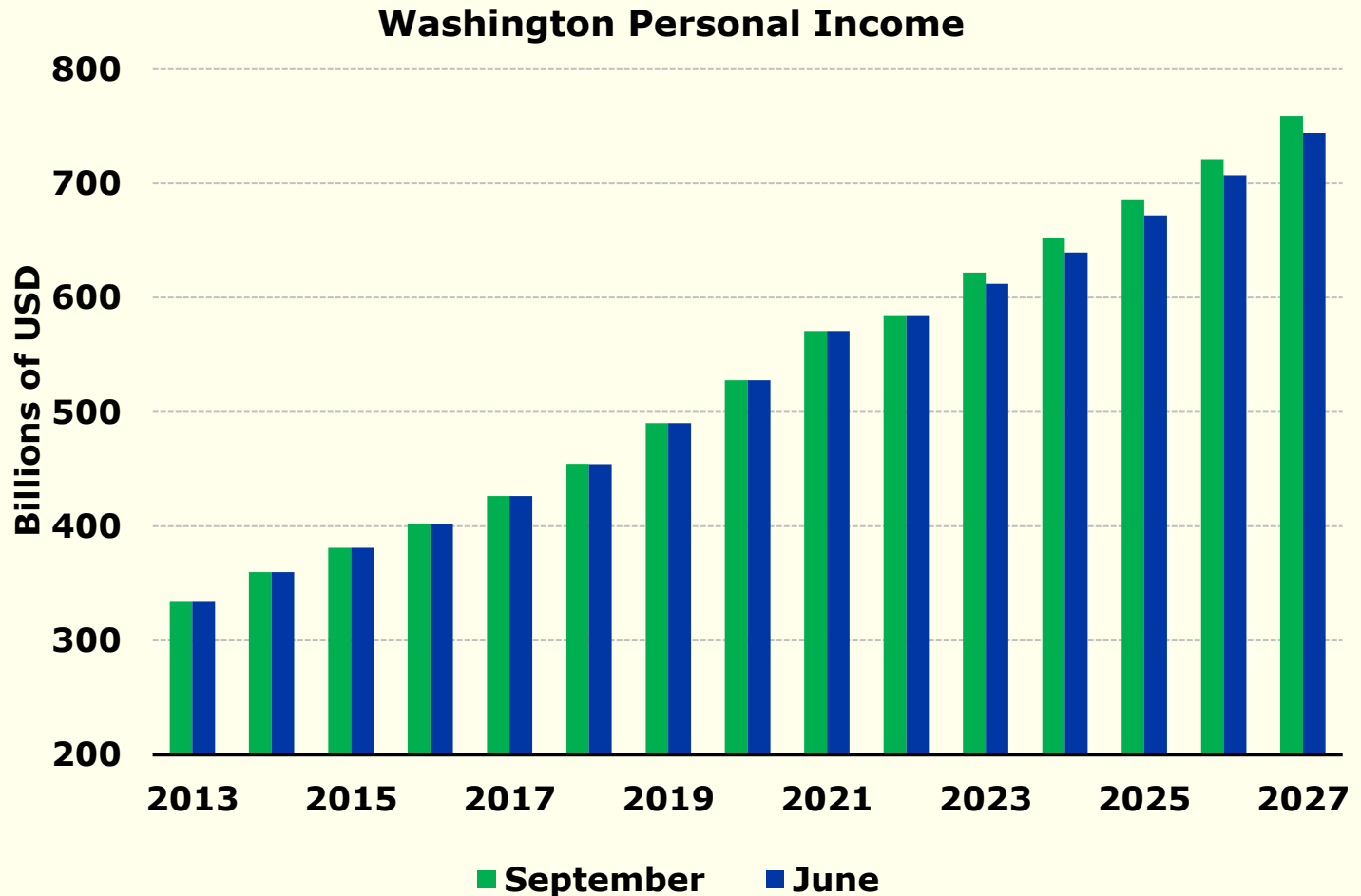


Source: ERFC September 2023 forecast; historical data through 2023 Q2

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WA personal income higher compared to the June forecast largely due to revisions in 2023 Q1 data



Source: ERFC September 2023 forecast; historical data through 2022

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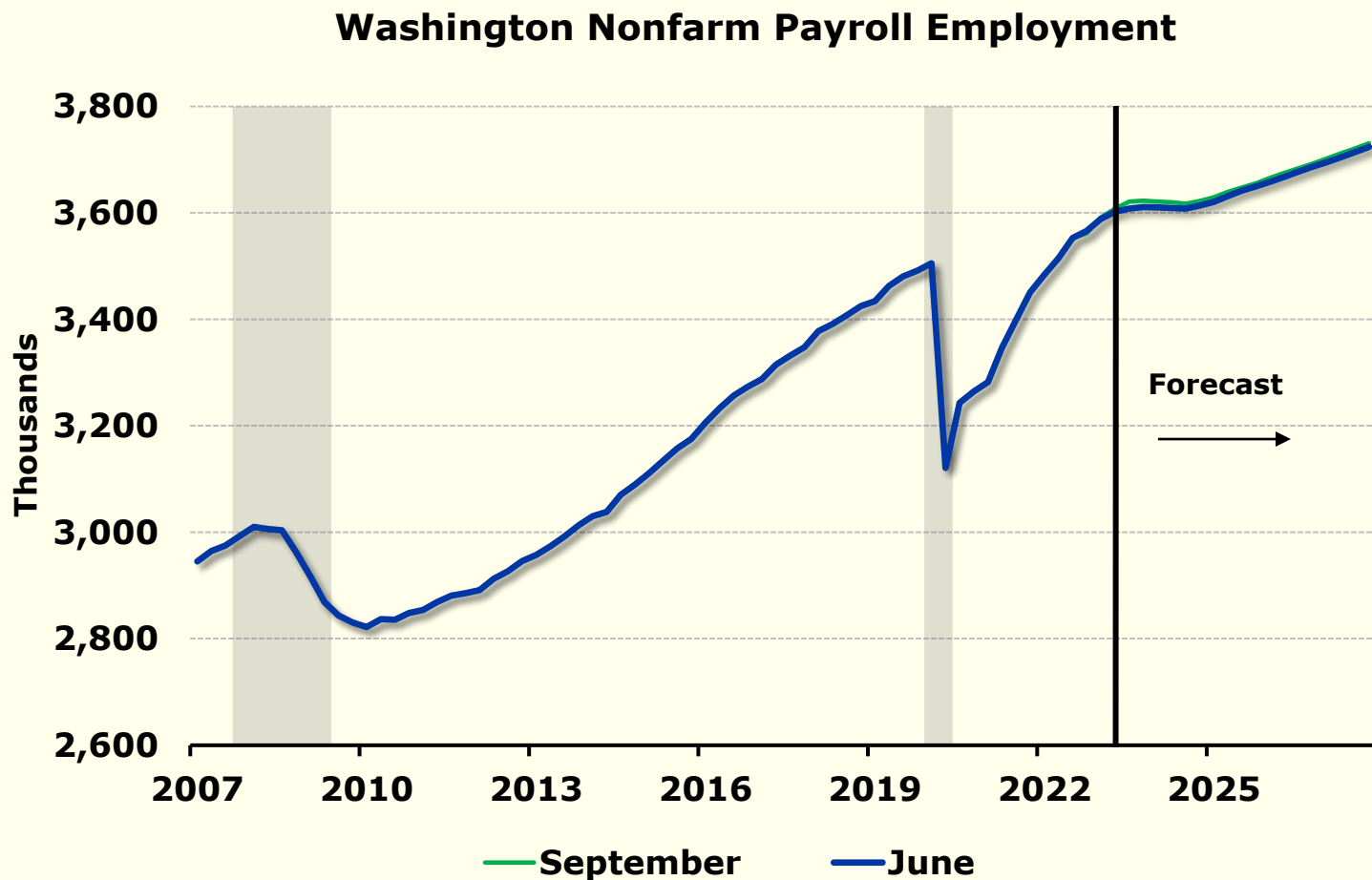


WA employment forecast is very similar to the June forecast

Average annual employment growth, 2024 to 2027:

U.S. = 0.2%

WA = 0.7%

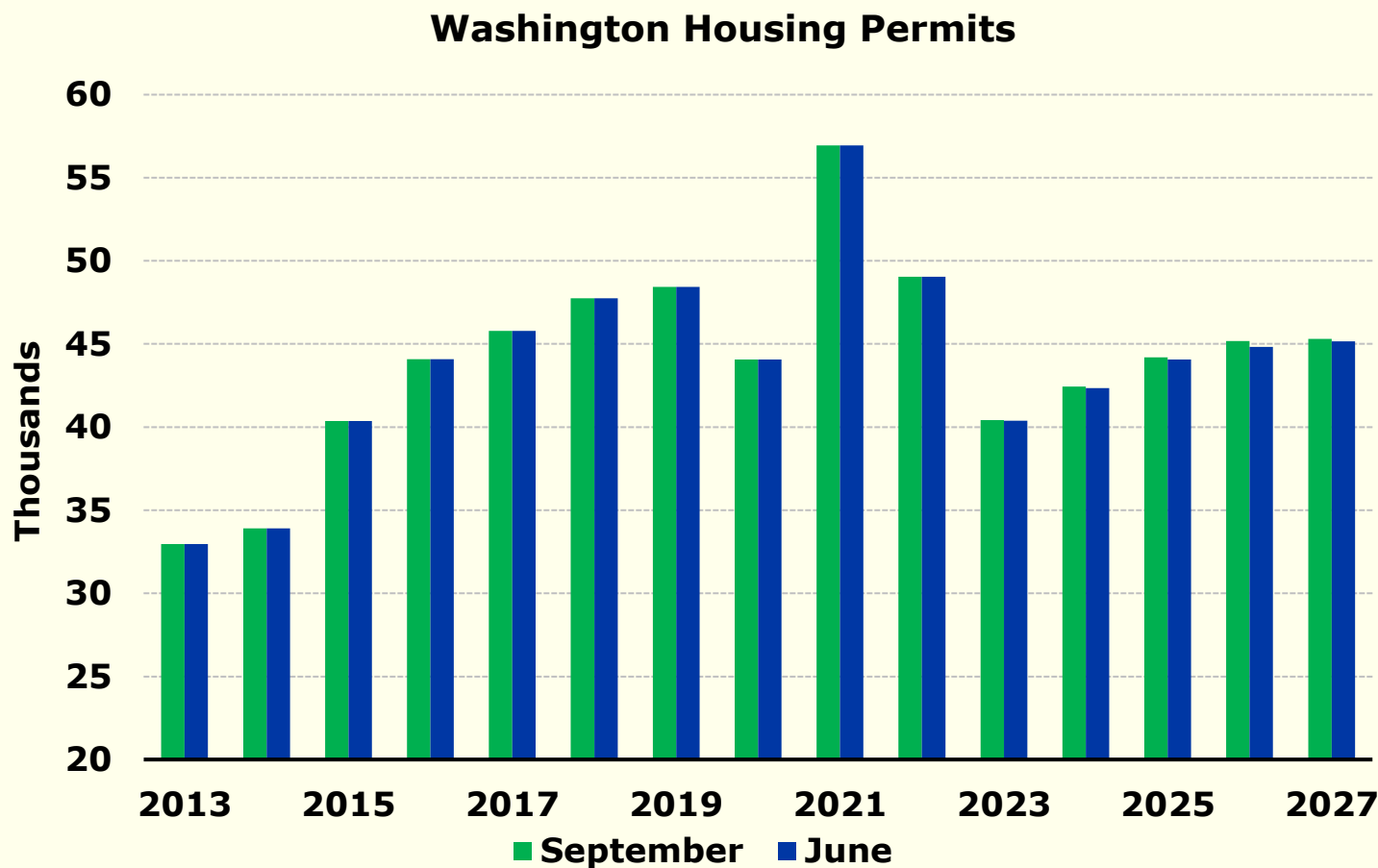


Source: ERFC September 2023 forecast; historical data through Q2 2023

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WA housing permits for 2025 – 2027 slightly higher than the June forecast



Source: ERFC September 2023 forecast; historical data through 2022

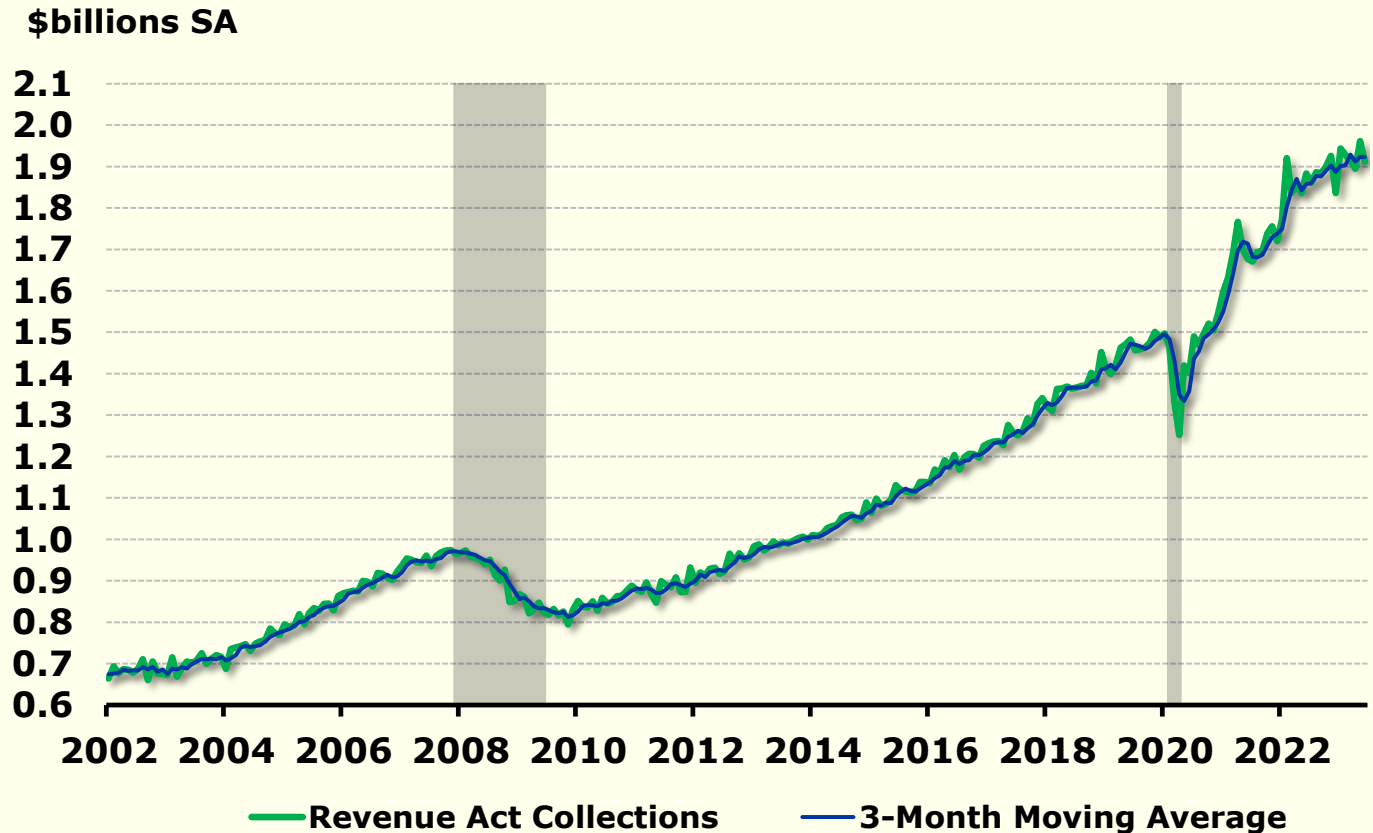
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After a 2.3% annual growth rate last month, Revenue Act collections increased 0.4% over the year for June activity



* Adjusted for large one-time transactions, amnesty payments, reporting frequency change and deferred 2020 payments, current definition of Revenue Act
Source: DOR and ERFC; monthly data through July 2023 activity

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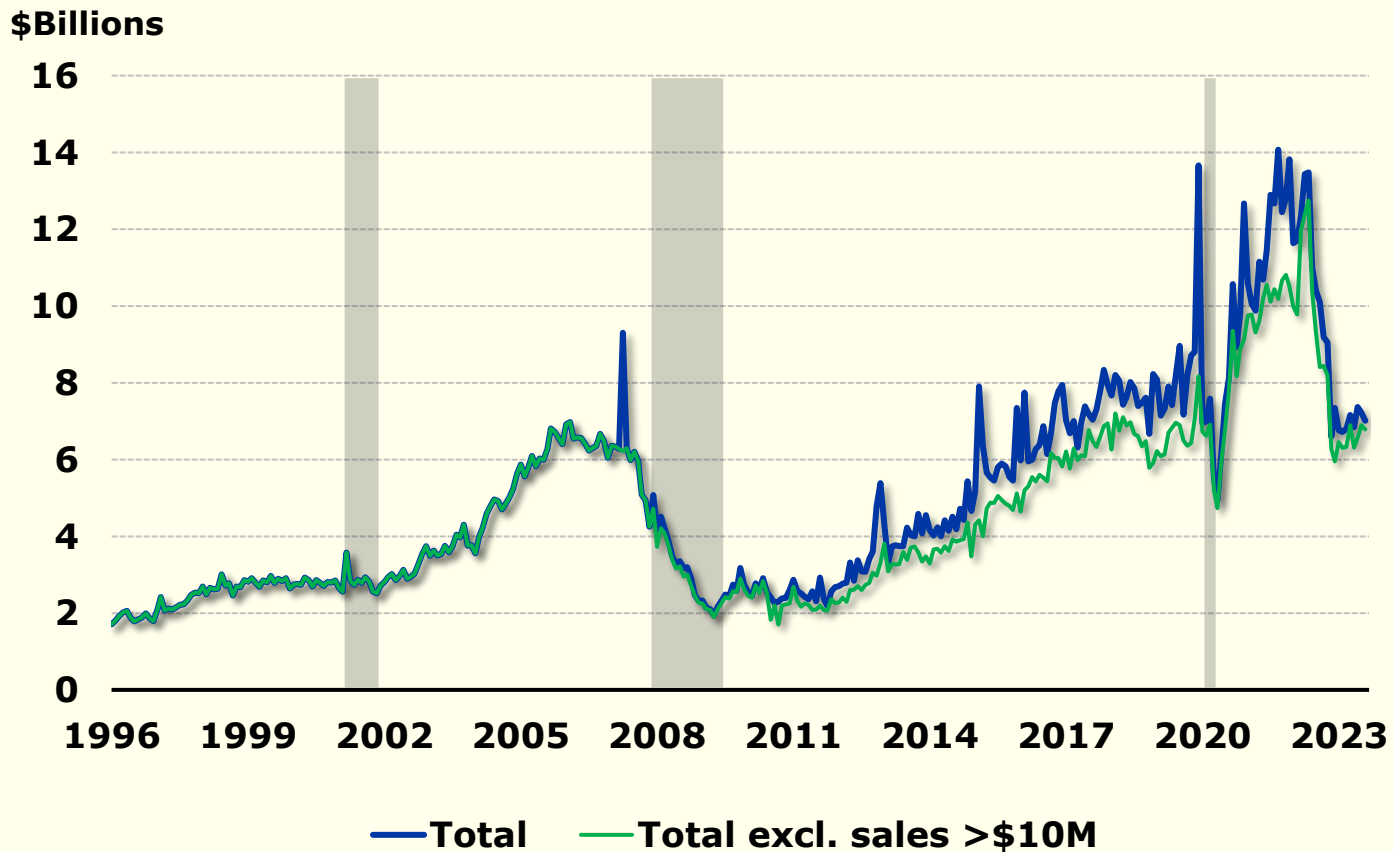
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Seasonally adjusted taxable real estate sales have plateaued; August 2023 activity nearly 31% below August 2022

Seasonally Adjusted Taxable Real Estate Excise Activity



Source: ERFC; Monthly data through August 2023 estimate

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Cannabis excise tax and license fee estimates

Total change since June forecast:

- 2021-23
-\$0 M
- 2023-25
-\$9 M
- 2025-27
-\$10 M

\$Millions

Cannabis Forecast

	<u>2021-23</u>	<u>2023-25</u>	<u>2025-27</u>
GF-S share of excise tax and license fees	\$319	\$309	\$337
Non-GF	\$683	\$718	\$781
Total	\$1,002	\$1,026	\$1,118

Detail may not add to total due to rounding
Source: ERFC September 2023 forecast; historical data through August 2023

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Forecast changes: all funds, 2021-23 biennium, cash basis

\$Millions	<u>Jun. 2023 Forecast</u>	<u>Non- economic Change</u>	<u>Forecast Change</u>	<u>Sept. 2023 Forecast</u>	<u>Total Change[#]</u>
General Fund-State	\$60,897	n/a	\$111	\$61,008	\$111
Education Legacy Trust Account	\$2,431	n/a	\$141	\$2,571	\$141
WA Opportunity Pathways Account	\$394	n/a	(\$0)	\$393	(\$0)
Workforce Education Investment Account	\$766	n/a	\$13	\$779	\$13
Total	\$64,487	n/a	\$265	\$64,752	\$265

[#] Detail may not add to total due to rounding

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Forecast changes, all funds: 2023-25 biennium, cash basis

\$Millions	<u>Jun. 2023 Forecast</u>	<u>Non-economic Change</u>	<u>Forecast Change</u>	<u>Sept. 2023 Forecast</u>	<u>Total Change#</u>
General Fund-State	\$62,741	n/a	\$616	\$63,357	\$616
Education Legacy Trust Account	\$2,124	n/a	\$12	\$2,136	\$12
WA Opportunity Pathways Account	\$355	n/a	\$7	\$361	\$7
Workforce Education Investment Account	\$809	n/a	\$28	\$838	\$28
Total	\$66,028	n/a	\$663	\$66,692	\$663

Detail may not add to total due to rounding



Forecast changes, all funds: 2025-27 biennium, cash basis

\$Millions	<u>Jun. 2023</u> <u>Forecast</u>	<u>Non-</u> <u>economic</u> <u>Change</u>	<u>Forecast</u> <u>Change</u>	<u>Sept.</u> <u>2023</u> <u>Forecast</u>	<u>Total</u> <u>Change</u> [#]
General Fund-State	\$66,982	n/a	\$400	\$67,382	\$400
Education Legacy Trust Account	\$2,306	n/a	\$7	\$2,314	\$7
WA Opportunity Pathways Account	\$358	n/a	(\$1)	\$358	(\$1)
Workforce Education Investment Account	\$844	n/a	\$31	\$874	\$31
Total	\$70,490	n/a	\$437	\$70,927	\$437

Detail may not add to total due to rounding

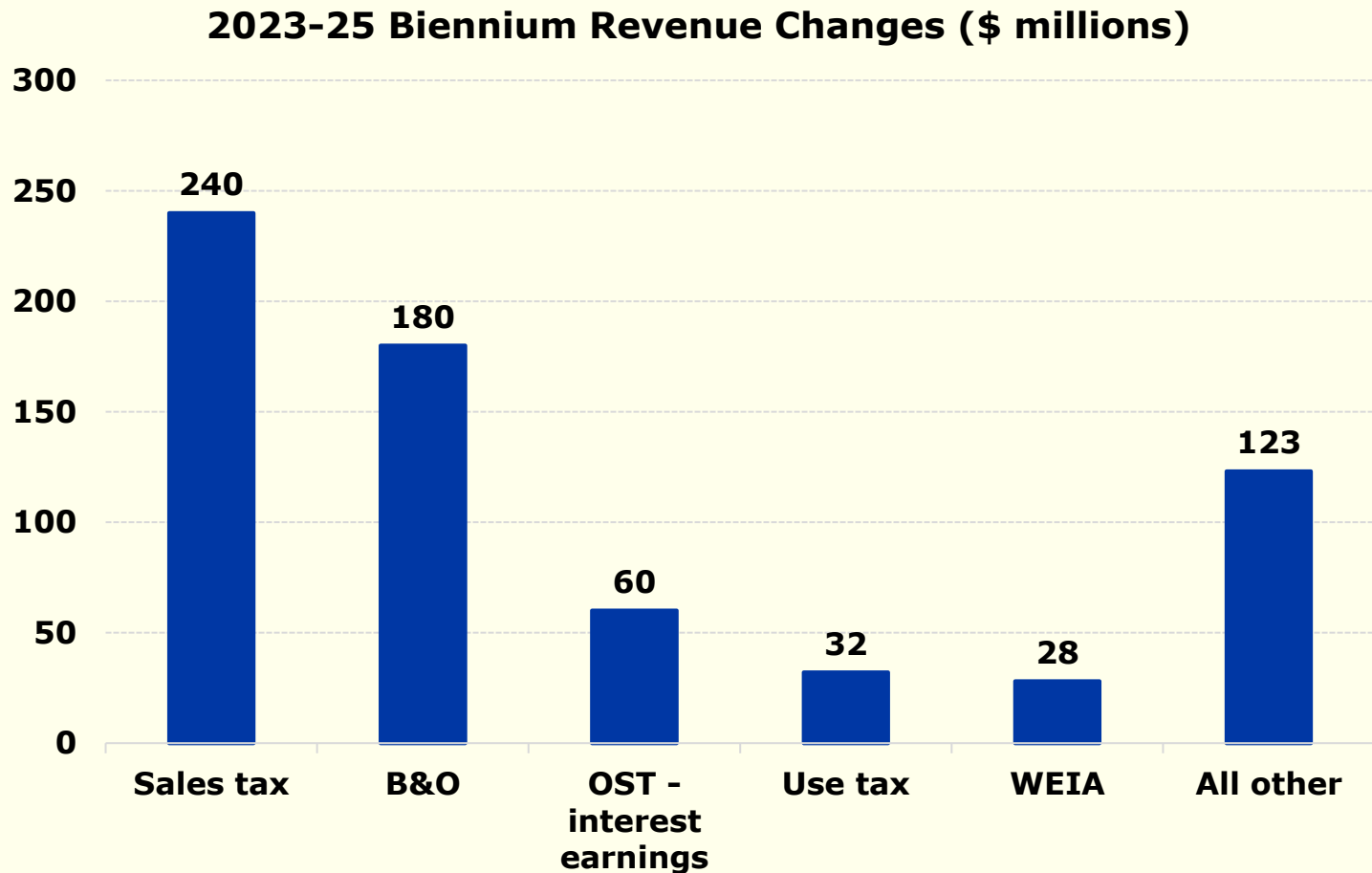


What are the major factors that drove the revenue forecast change?

- Final 2nd quarter 2023 revenue collections data stronger than expected in June forecast
- WA personal income data stronger than in June forecast, mainly due to data revisions
- Higher interest rates and daily balances increased OST interest earnings



Majority of 2023-25 revenue change due to sales and B&O taxes





2023-25 Biennium alternative General Fund-State forecasts

\$Millions (cash basis)	2023-25 Biennium	Difference From the baseline[#]
Sept. 2023 Baseline (50%)	\$63,357	
<u>Sept. 2023 Alternative Forecasts</u>		
Optimistic (25%)	\$66,656	\$3,299
Pessimistic (25%)	\$59,361	(\$3,996)
Probability Weighted Average	\$63,183	(\$174)
GCEA*	\$63,215	(\$142)

*Based on the Governor's Council of Economic Advisors' economic assumptions
#May not add to total due to rounding

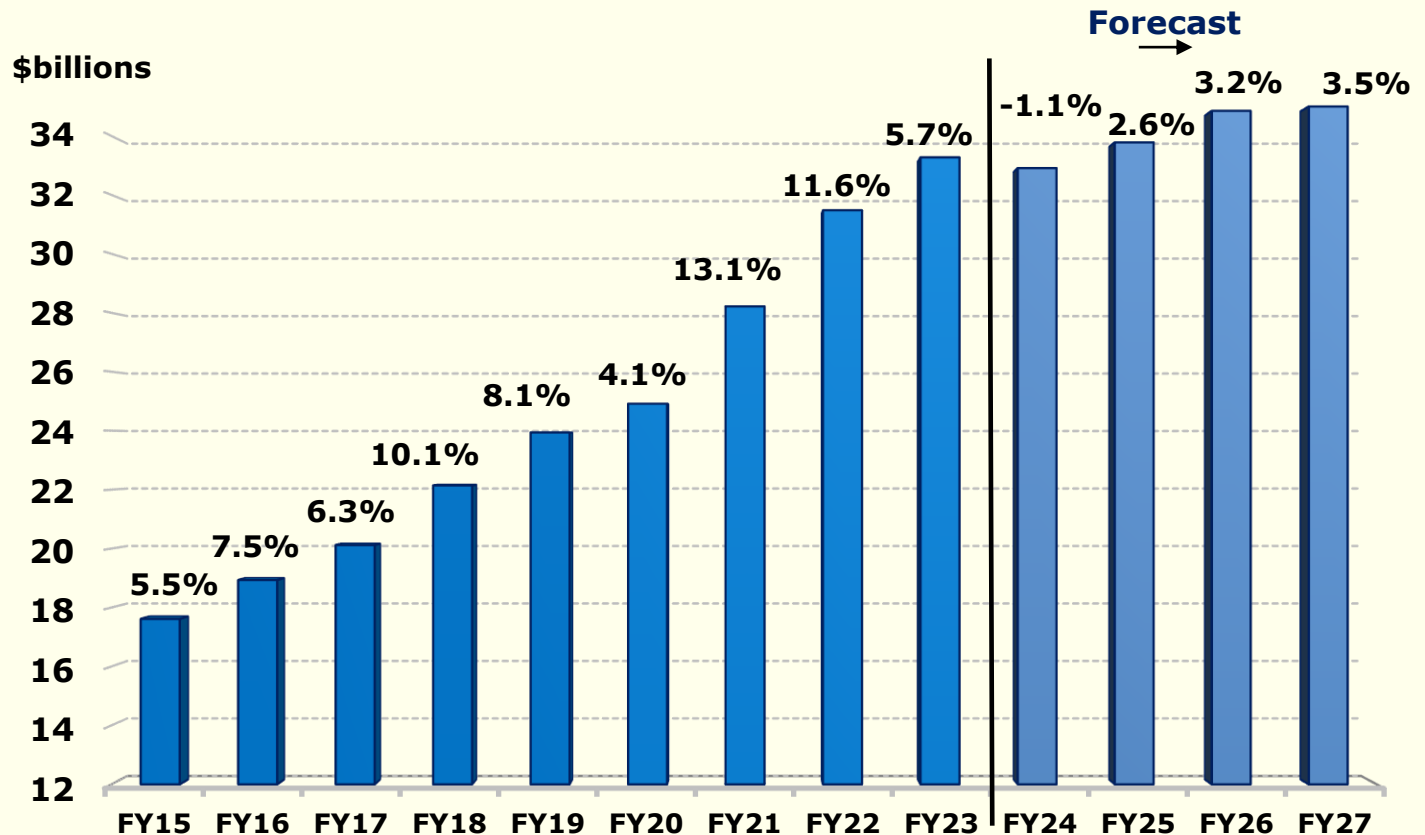
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Forecast of funds subject to the budget outlook process* by fiscal year



*Funds subject to the budget outlook process are General Fund-State plus Education Legacy Trust, Washington Opportunities Pathway and Workforce Education Investment Accounts
Source: ERFC forecast, September 2023

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Conclusion

- Economic forecast stronger than June:
 - WA forecast: personal income higher than June
 - U.S. forecast: GDP in 2023 and 2024 higher compared to June
- Rising interest rates, Ukraine – Russia conflict, potential federal government shutdown pose forecast risks
- Total state revenues are expected to grow 3.0% between the 2021-23 and 2023-25 biennia and 6.3% between the 2023-25 and 2025-27 biennia



Questions



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