

Washington State Economic & Revenue Outlook

Presented to
Washington Society of Certified Public
Accountants

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October 15, 2009
Kent, 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

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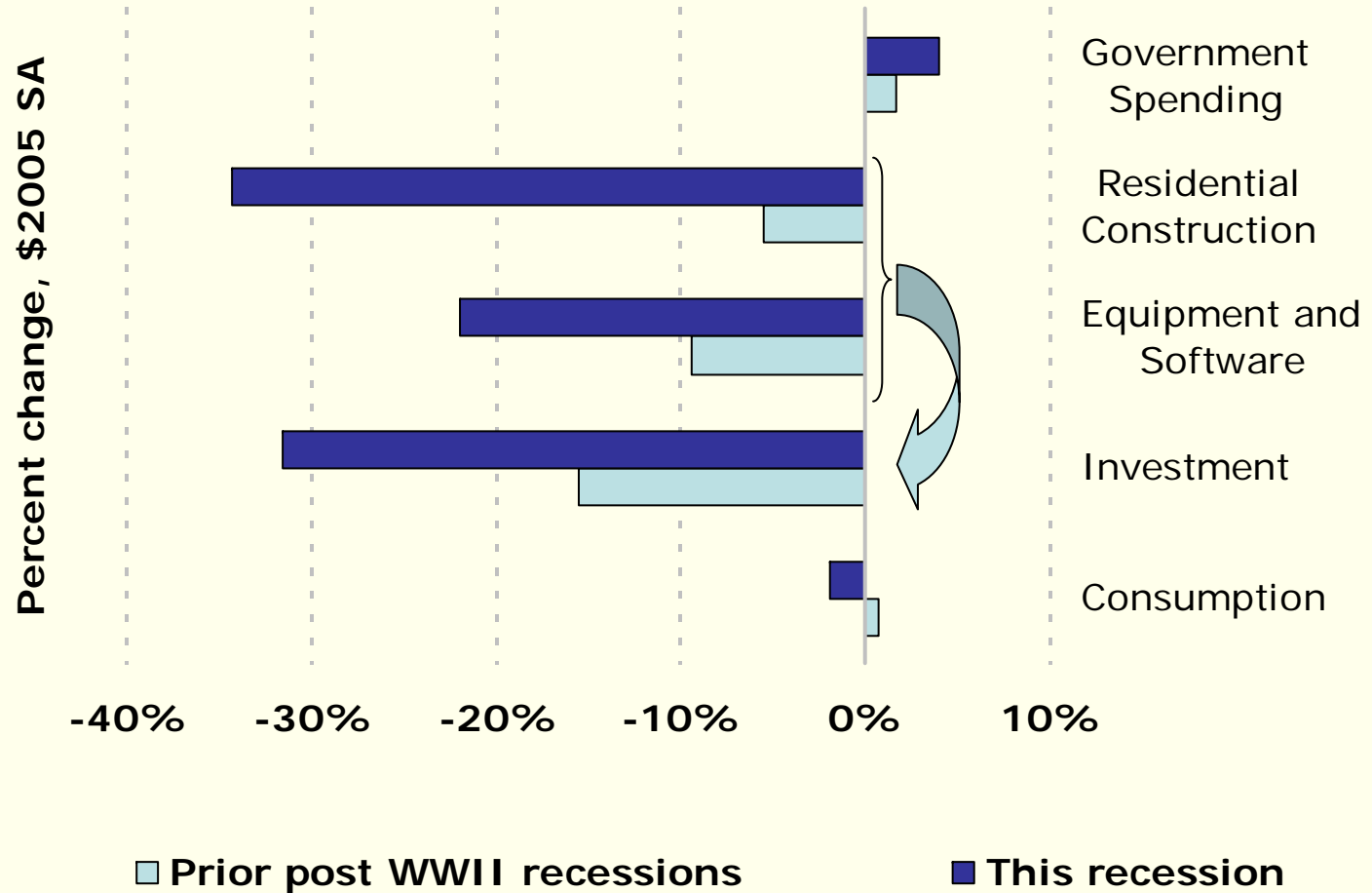
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This recession has seen the sharpest drop in both consumption and investment

Peak to trough decline in GDP components



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

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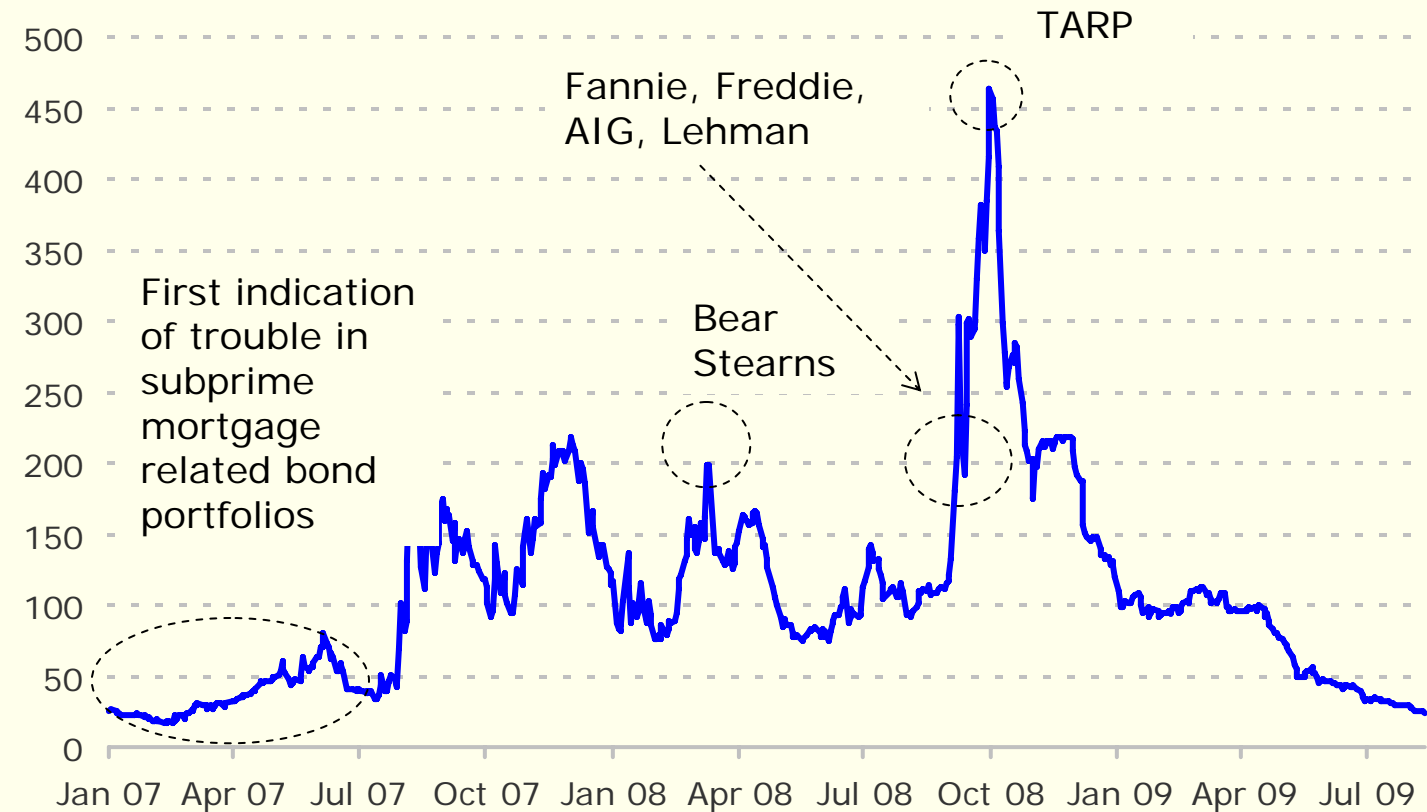


Inter-bank lending has returned to normal

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 August 21, 2009

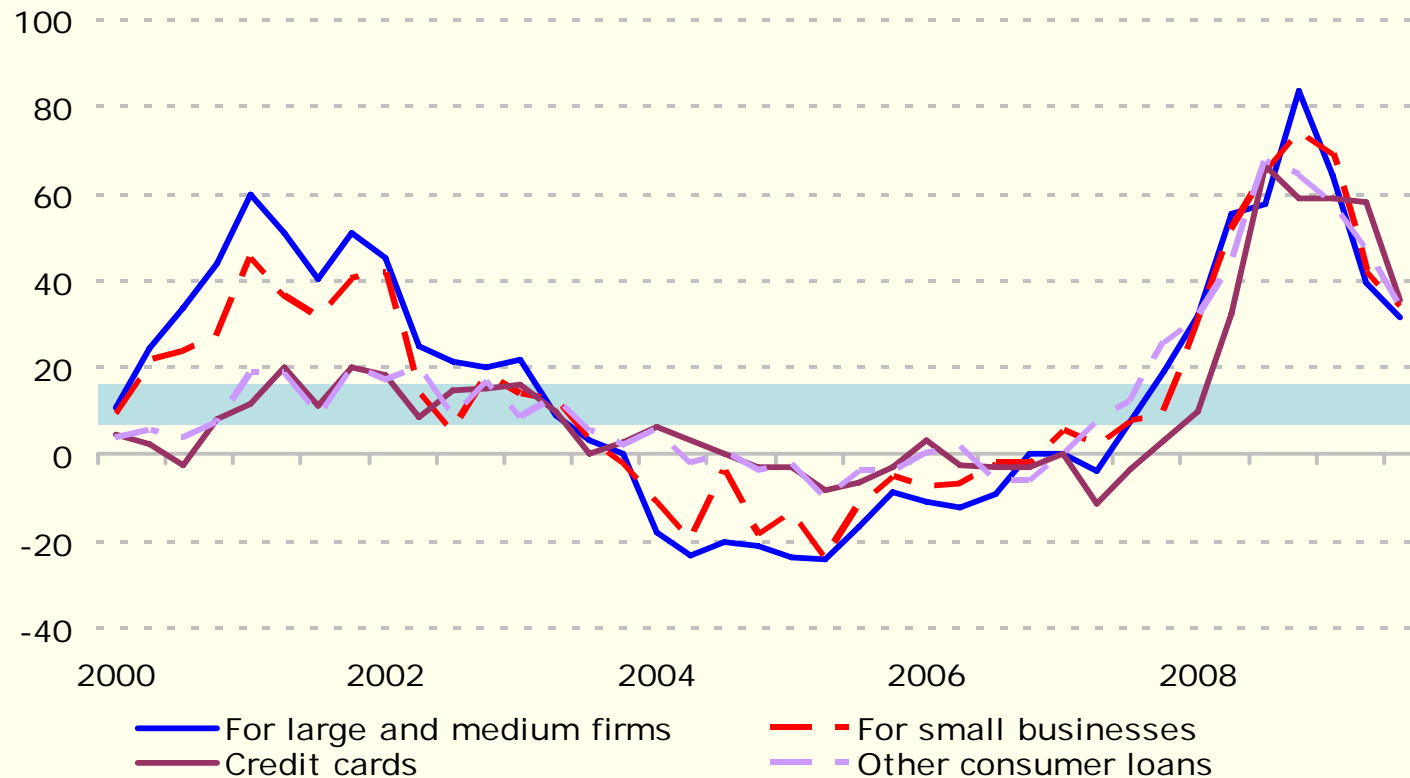
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Bank lending to businesses and consumers is easing

Net Tightening minus Easing
Percent



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

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Corporate bond issuance volume has recovered sharply

Q/Q
growth

2008

Q4: -46%

2009

Q1: 140%

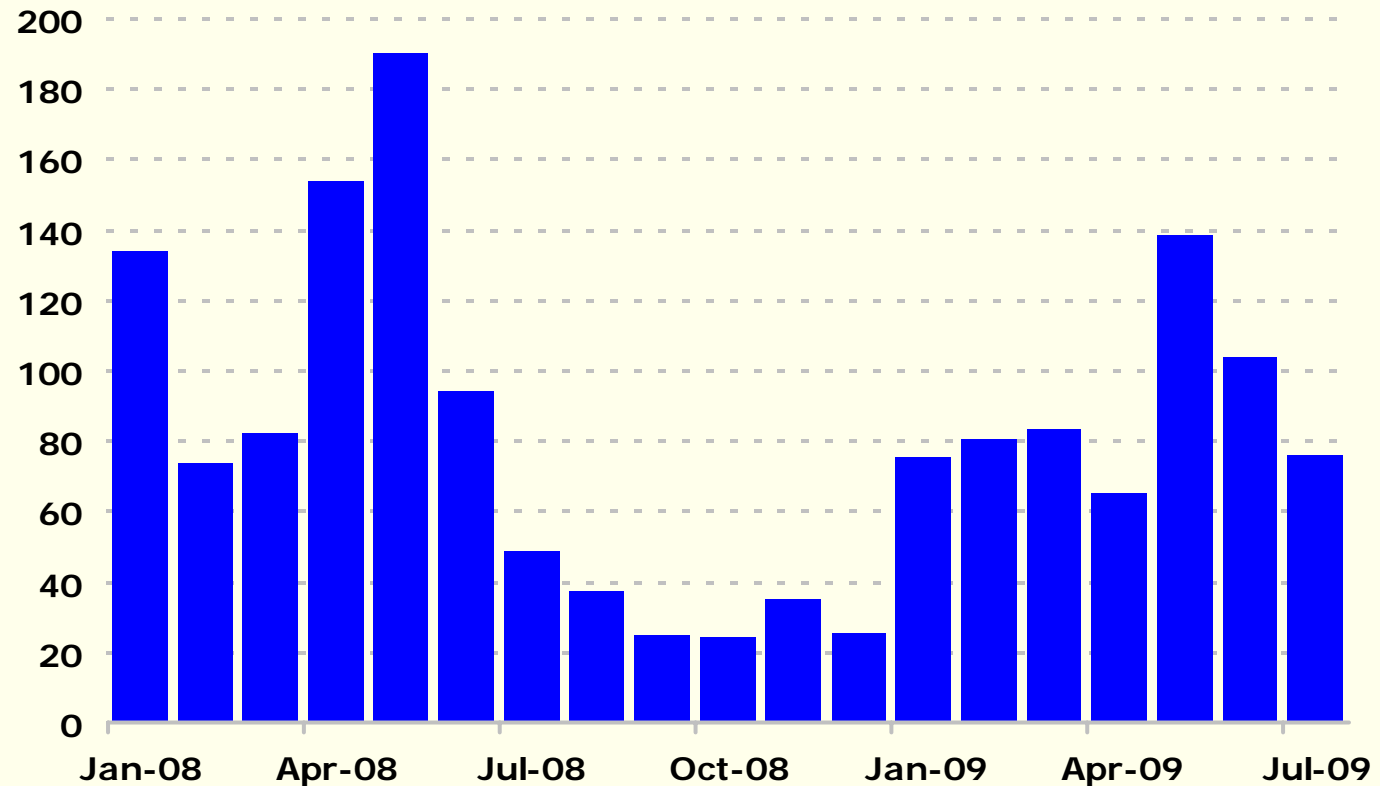
Q2: 50%

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USD, billions



Source: SIFMA, revised data through July 2009

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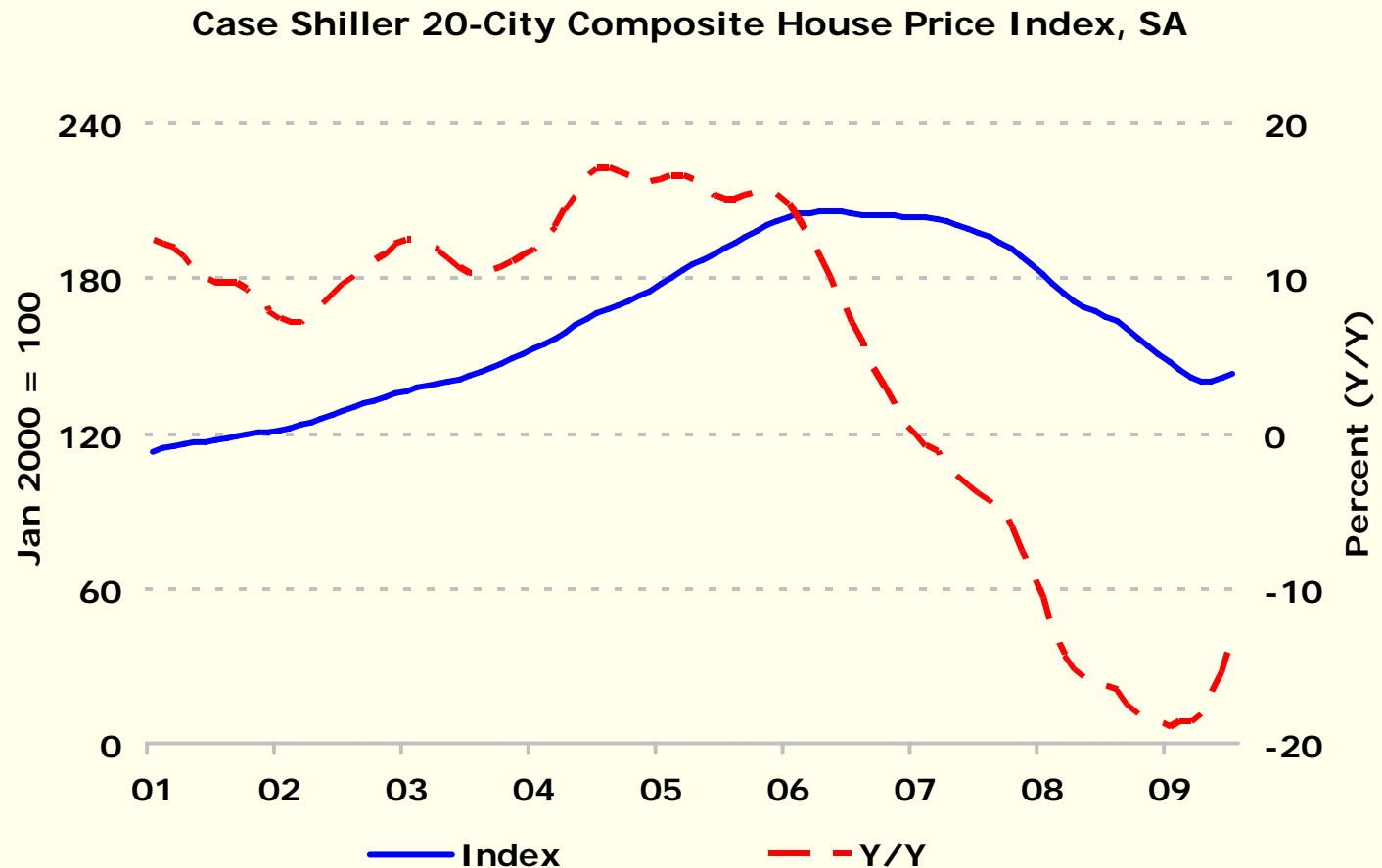
Home prices nationally are stabilizing

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

Home prices increased in June and July

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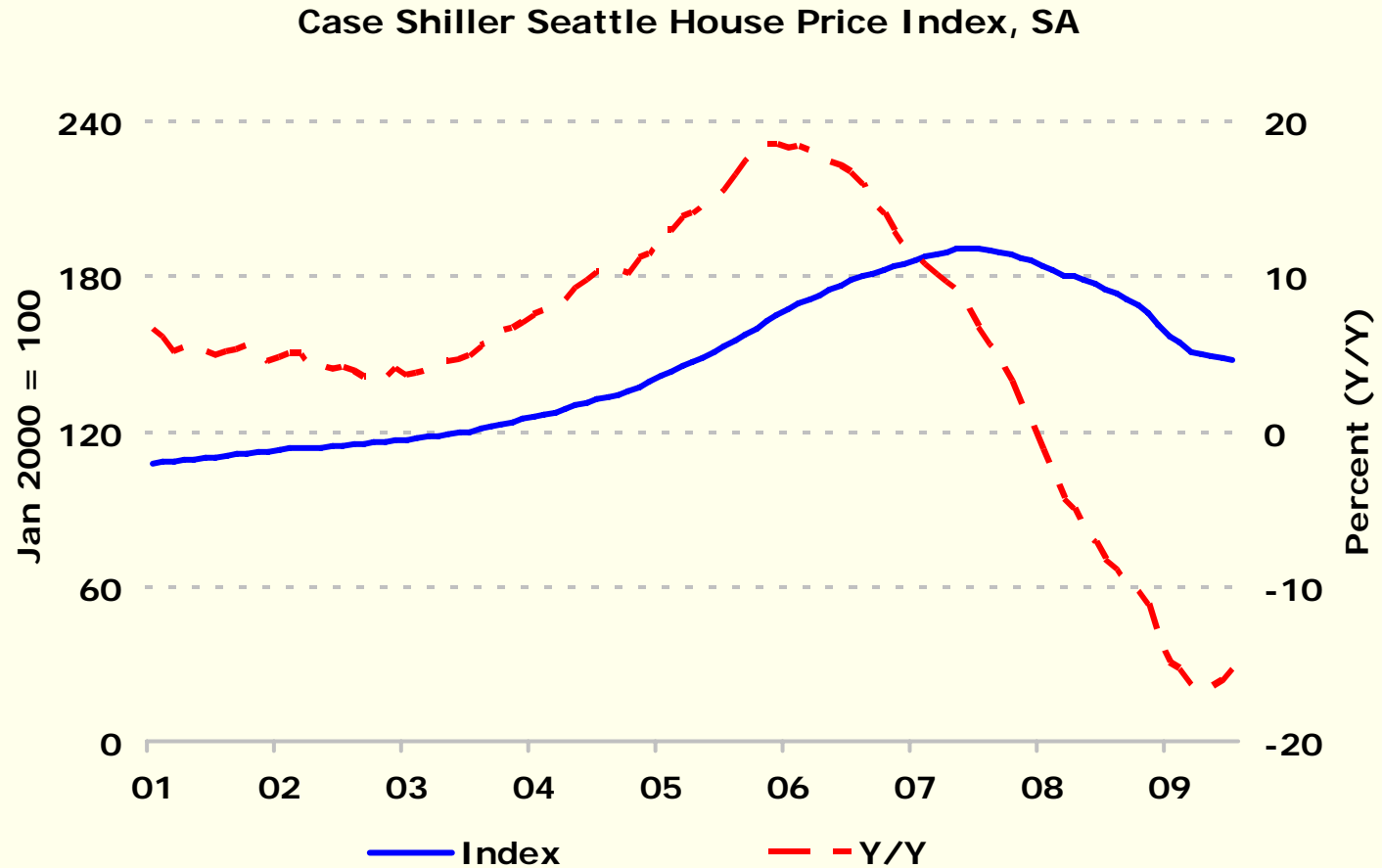
Source: S&P/Case-Shiller; data through July 2009

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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

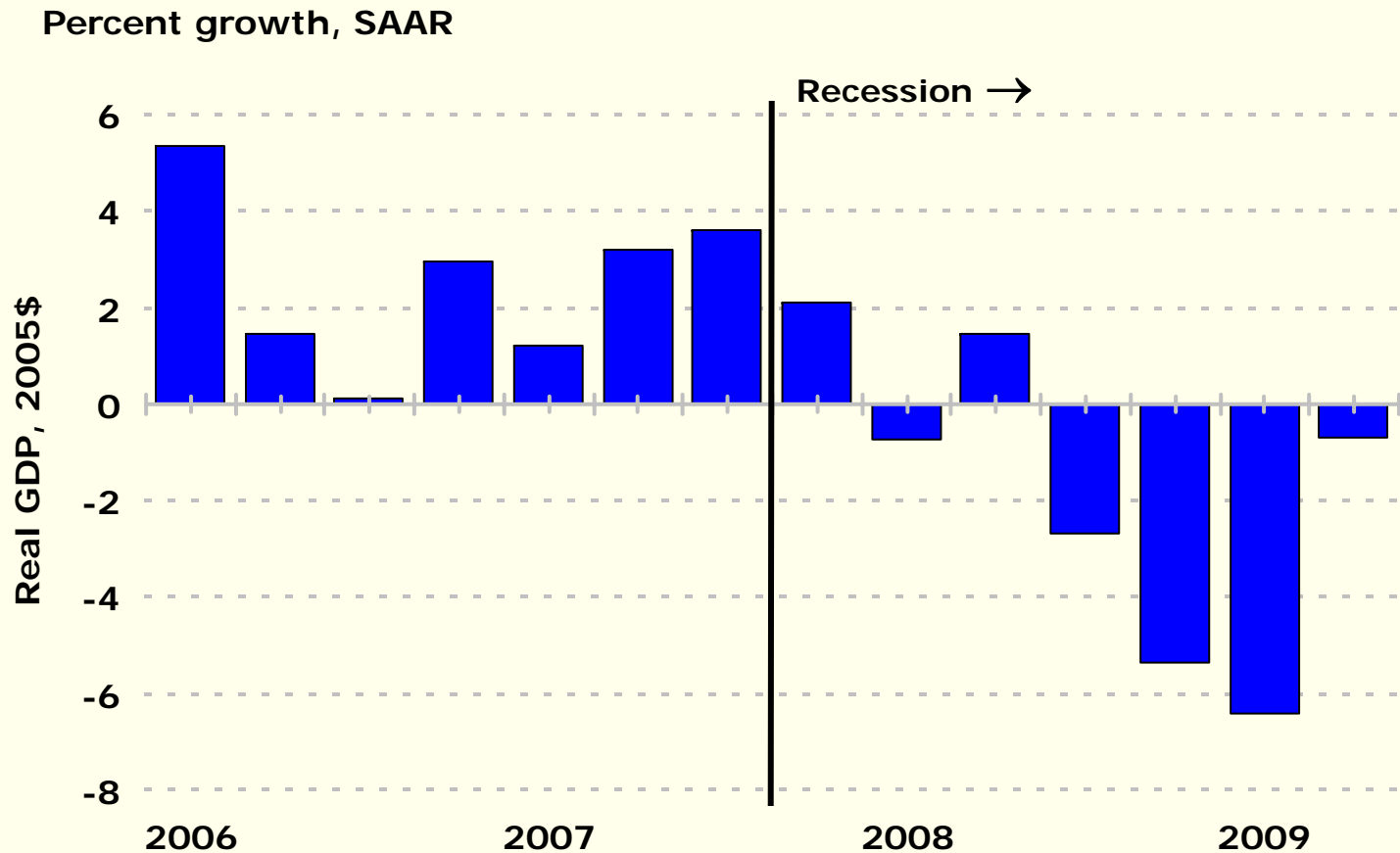
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The rate of decline in national GDP is moderating



Source: BEA, data through 2009 Q2, final

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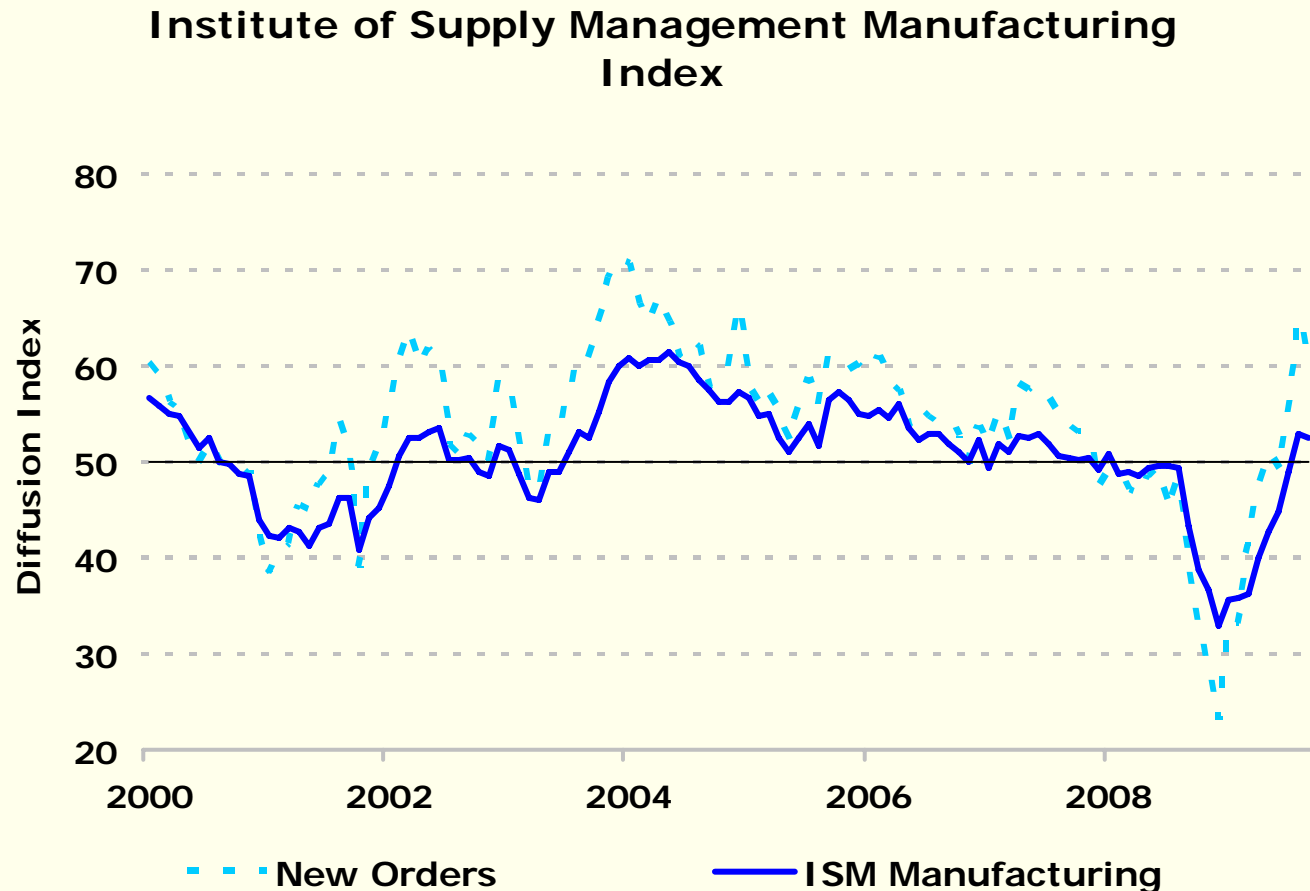
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The manufacturing sector is seeing a rebound

Index > 50
means
growth



Source: ISM; data through September 2009

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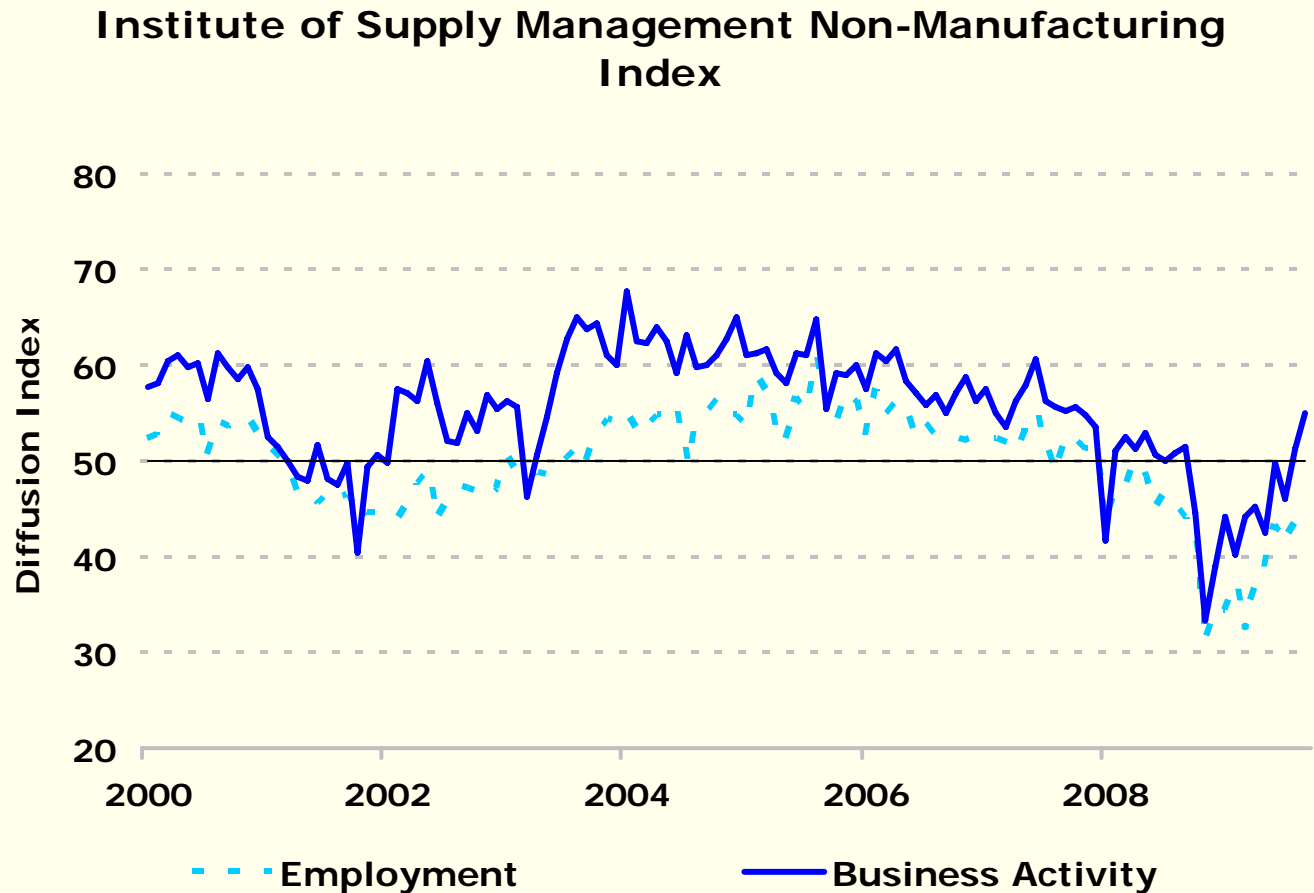
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The services sector shows a weak employment picture, but activity has started to grow

Index > 50
means
growth



Source: ISM; data through September 2009

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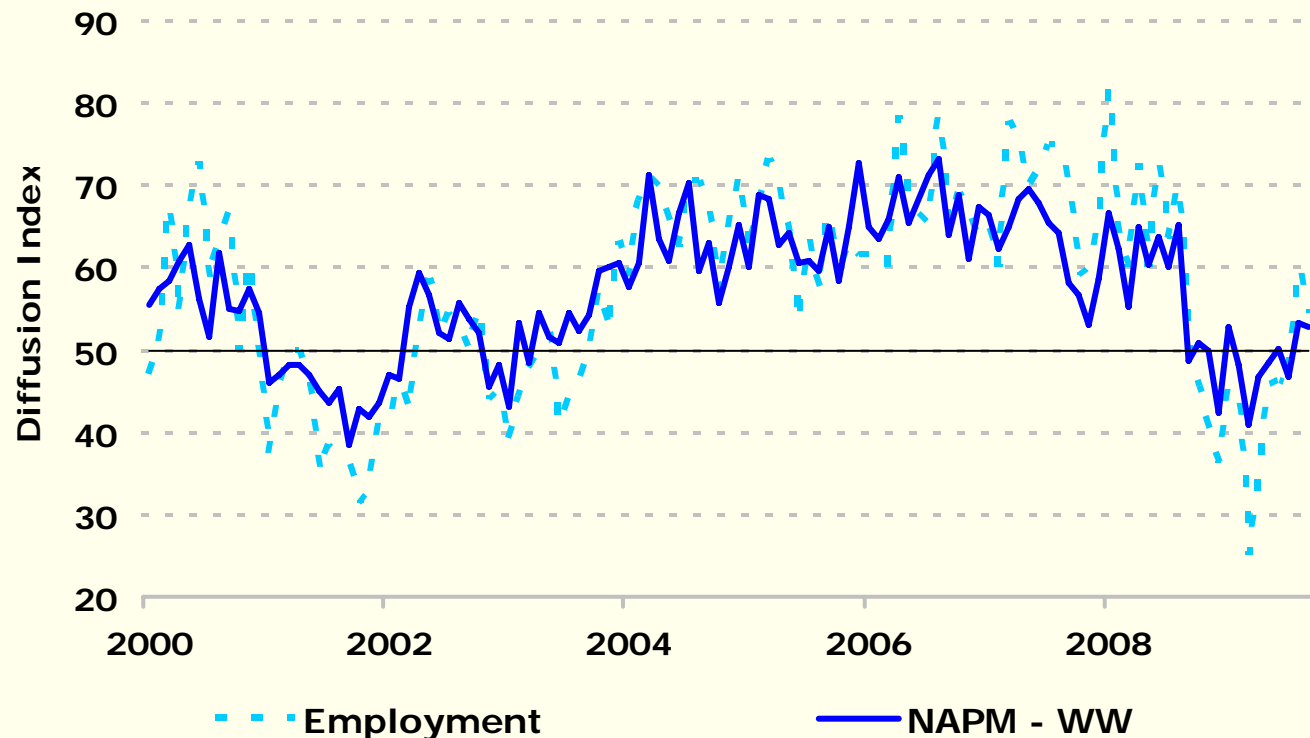
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Washington's purchasing managers see growth

Index > 50
means
growth

National Association of Purchasing Managers Index - Western Washington



Source: ISM; data through September 2009

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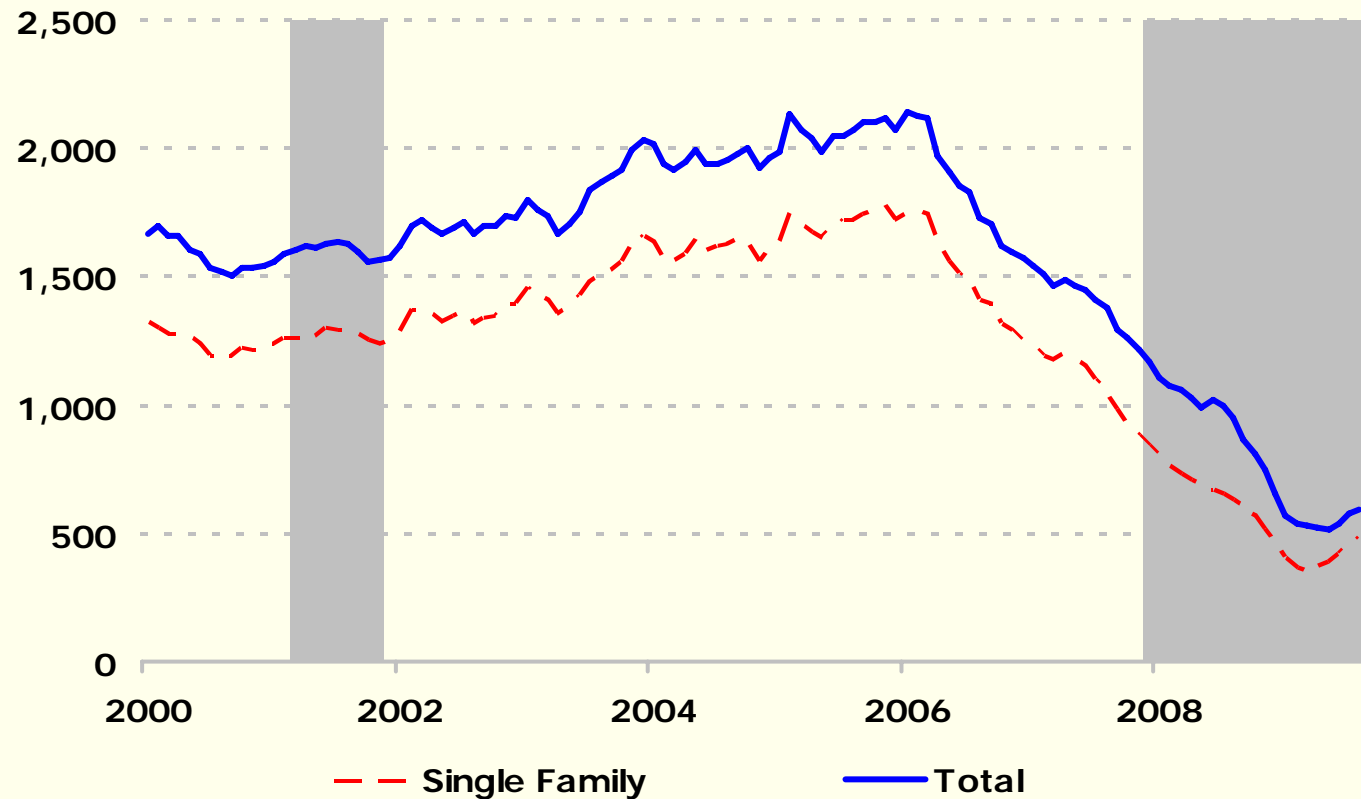
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U.S. housing starts appear to have turned the corner

Thousands, SA, 3MMA



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

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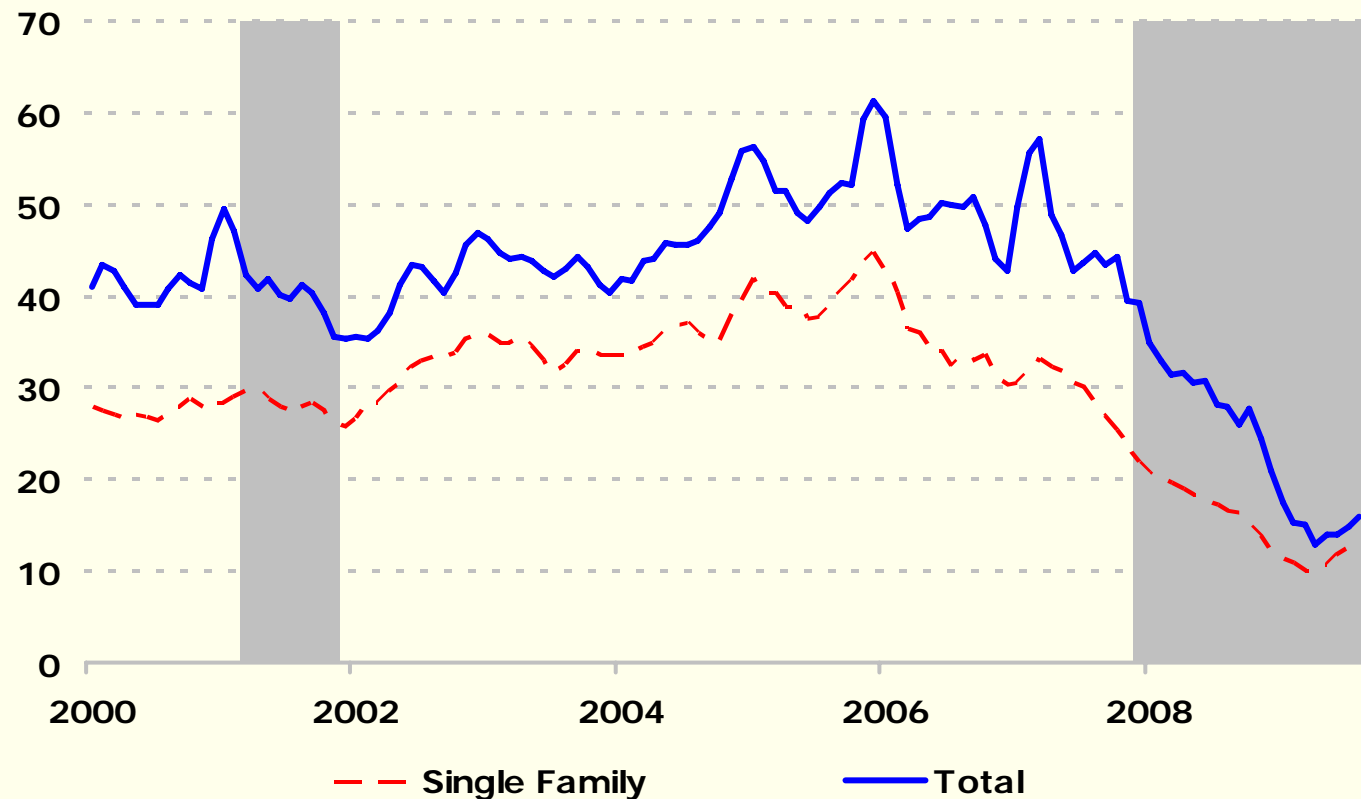
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WA housing permits have also turned around

Thousands, SAAR, 3MMA



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

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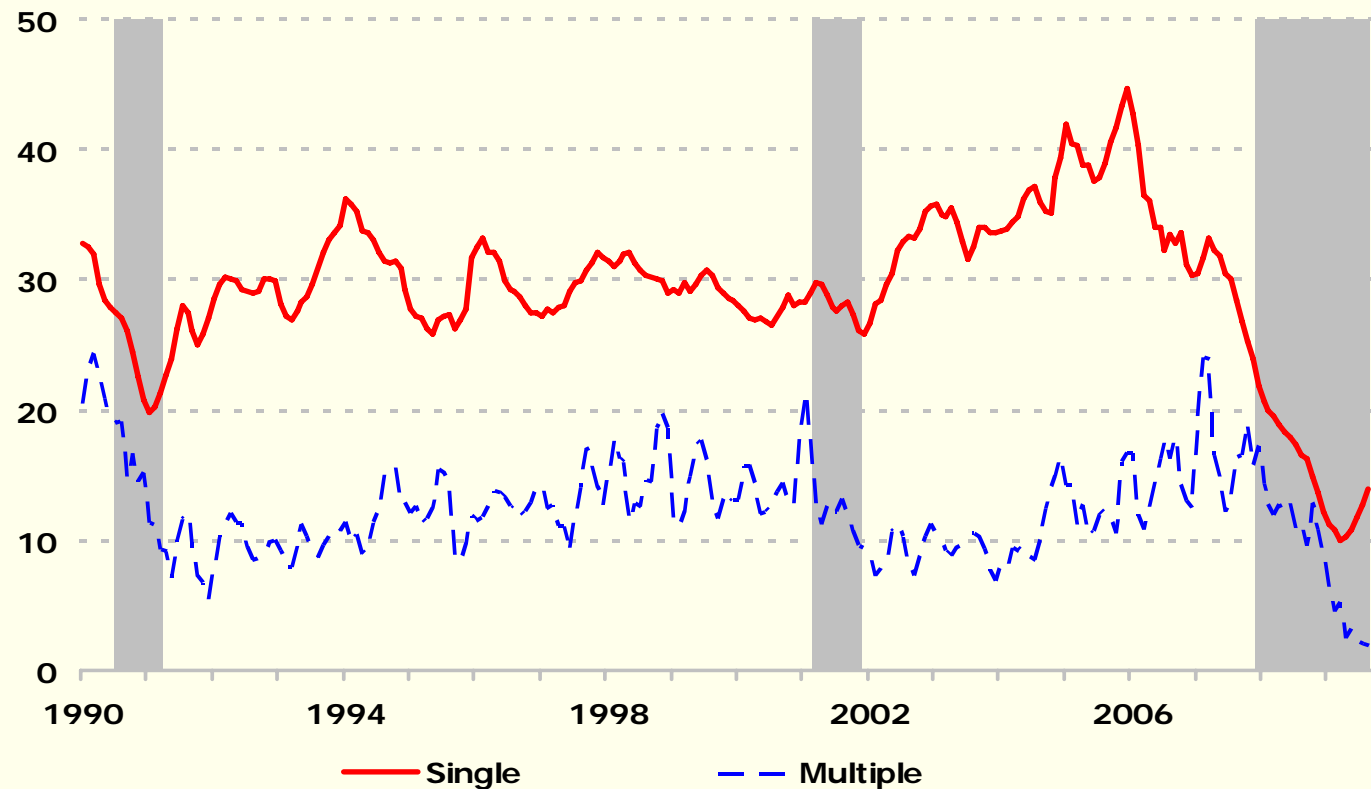
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WA single family building permits are recovering

Thousands, SA, 3MMA



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

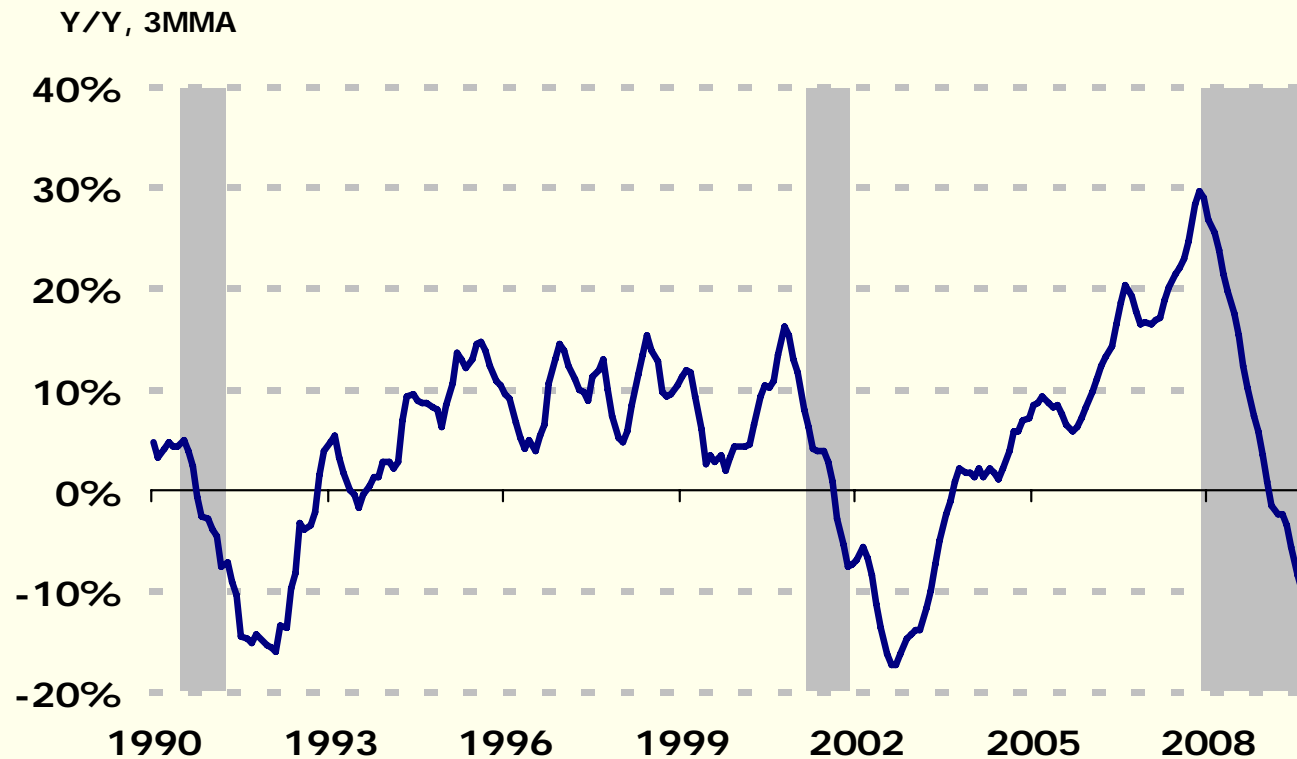
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There is further downside to the non-residential downturn

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



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

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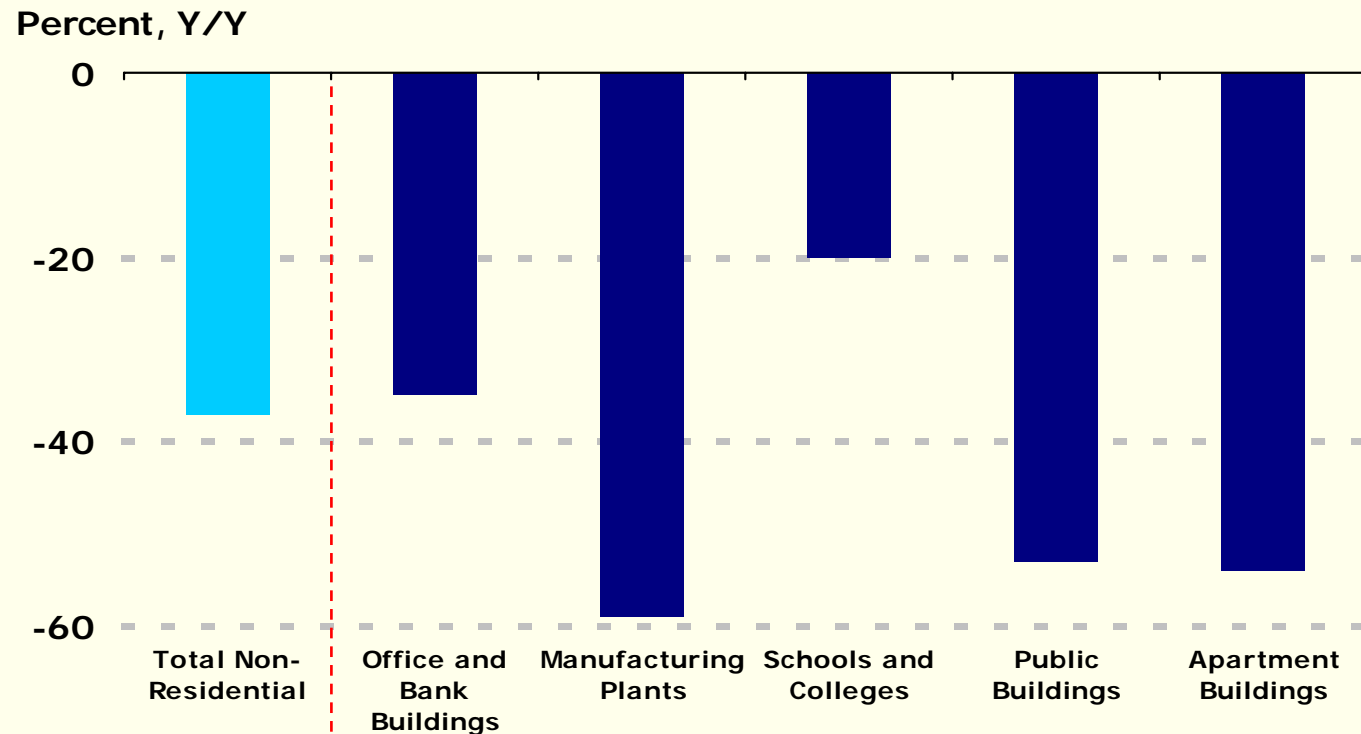
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Contract data indicate WA non-res construction will remain weak

Washington State Contracts for New, Addition and Major Alteration Projects (Cumulative YTD)



Source: McGraw-Hill Construction, data through August, 2009

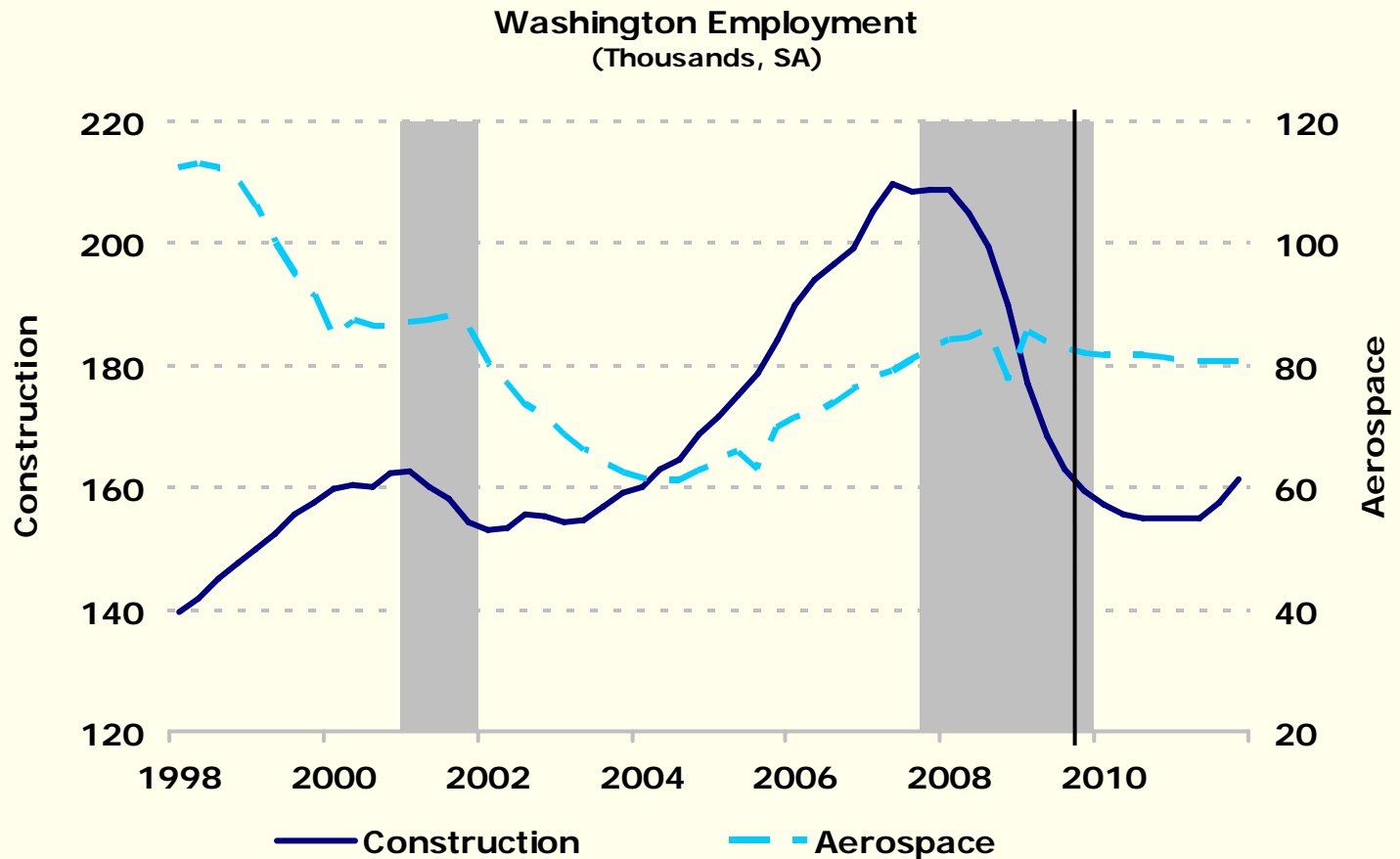
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Don't blame Boeing (this time)



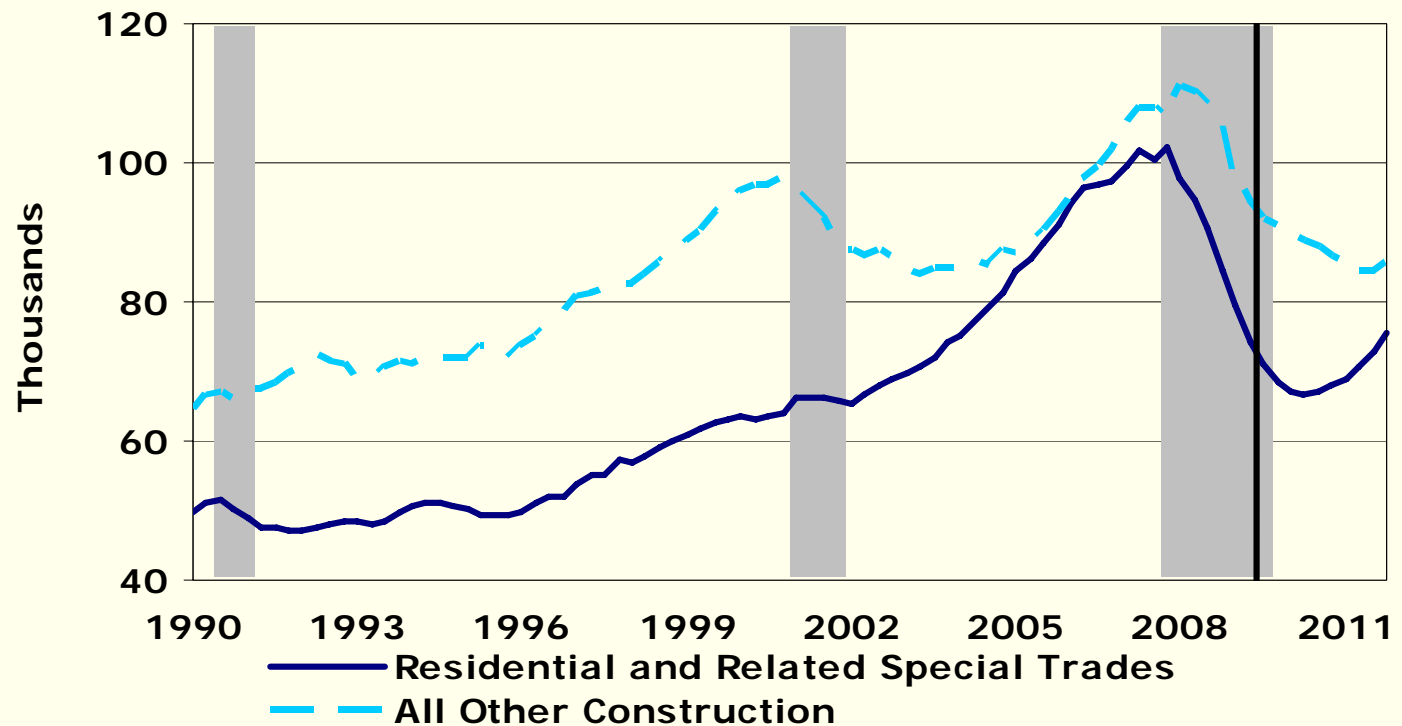
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Source: WA State ESD, Actual data through 2009 Q2, ERFC Forecast



Non-residential construction lags residential construction

Washington Construction Employment

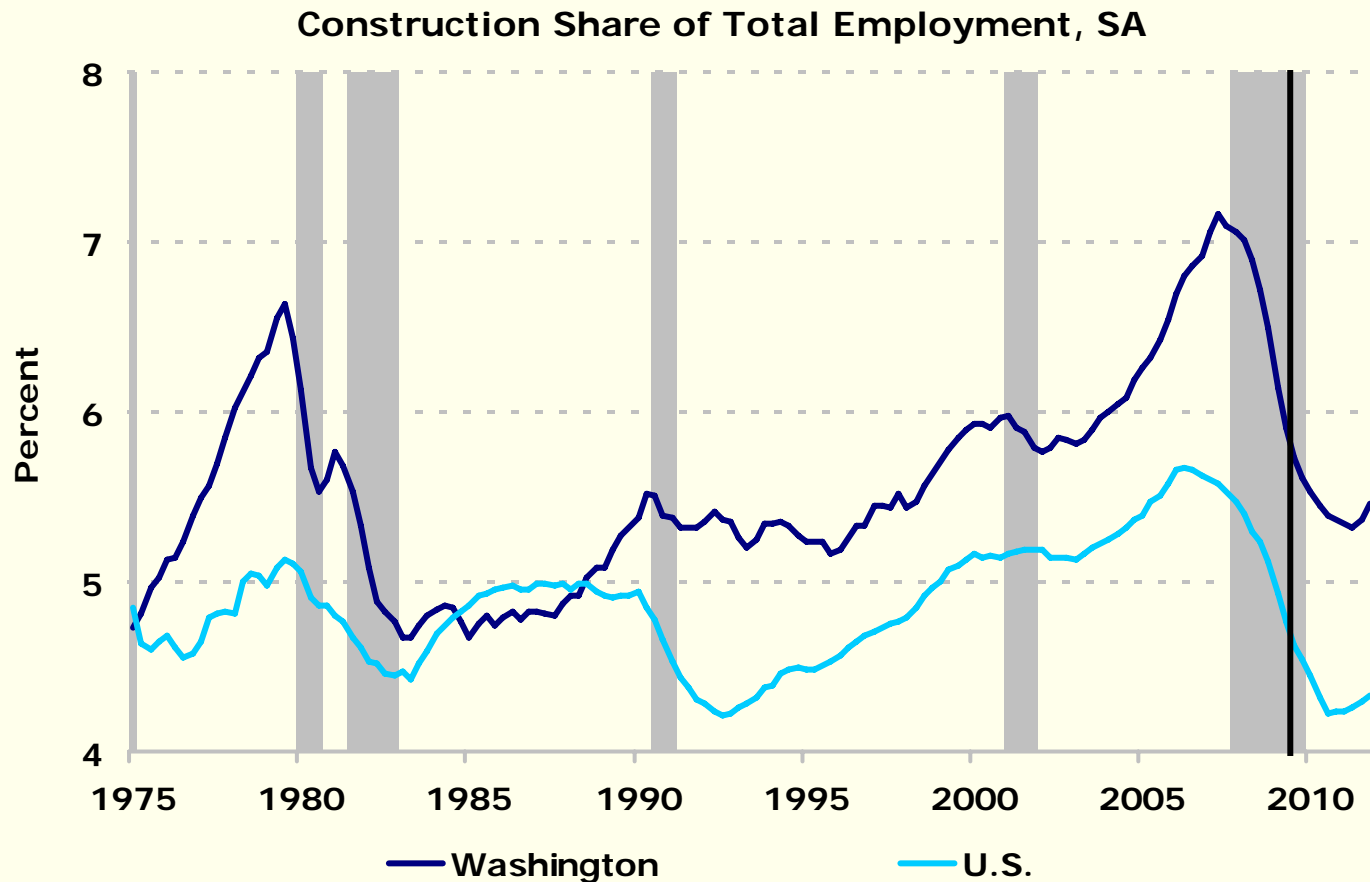


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Source: WA State ESD history through 2009Q2, ERFC forecast.



An unprecedented exposure to construction



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

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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

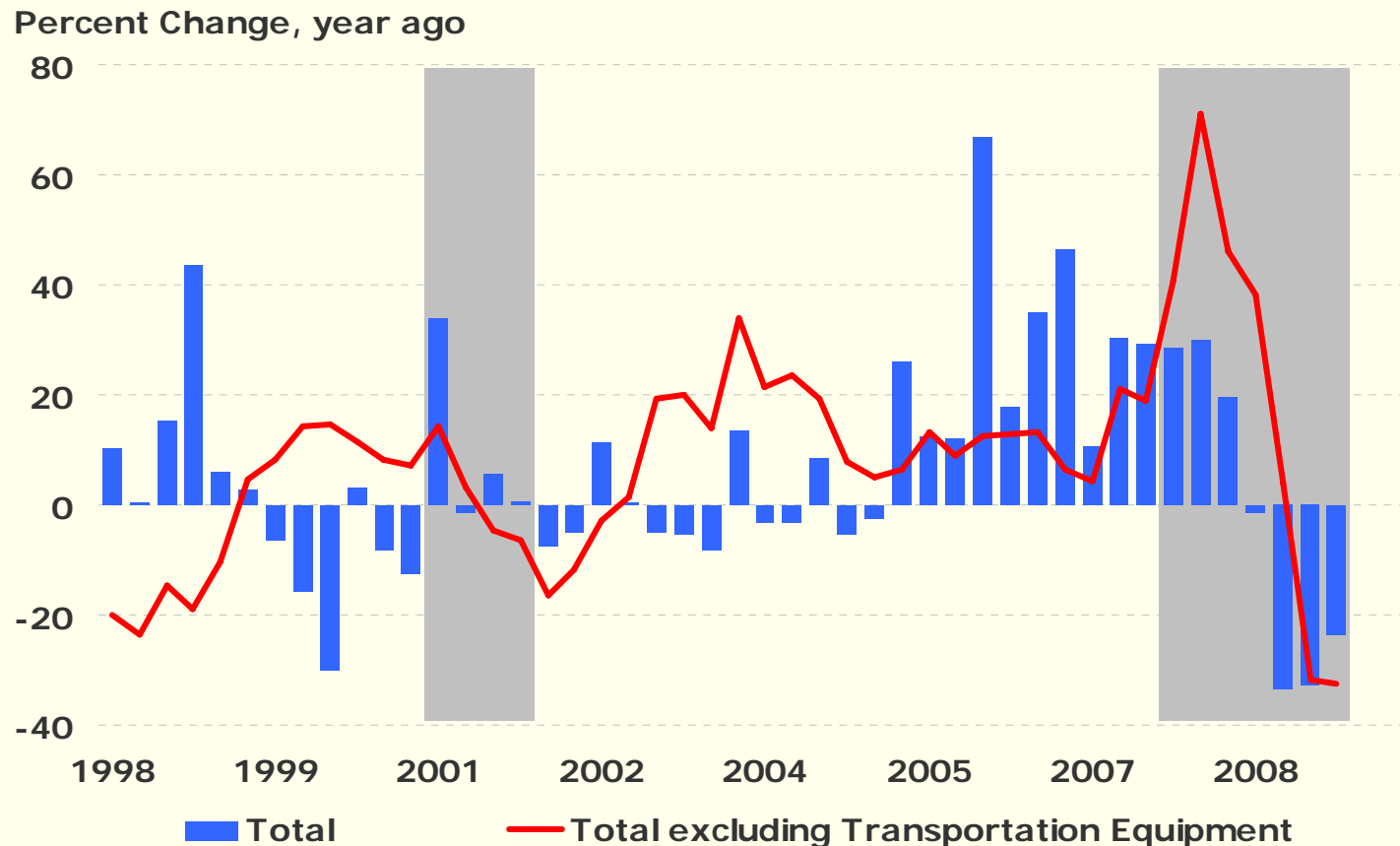
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Exports may help the state recover earlier in the cycle than we expected

2009 Q2 shows improvement over 2009 Q1 due to transportation equipment

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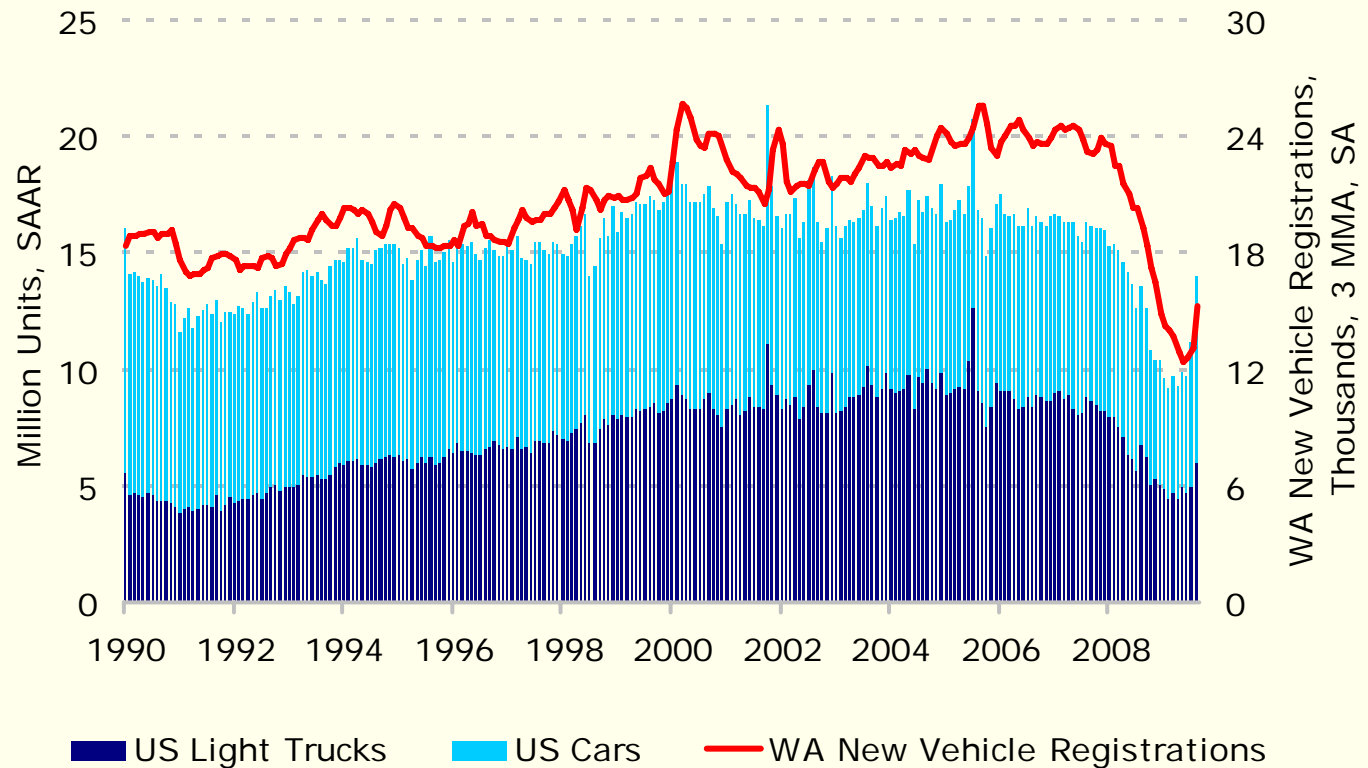


Source: Wiser Trade Data; through 2009 Q2



Automotive sales have ticked up nationally, and in the state

June boost from closing dealerships;
July and August boost from "cash for clunkers"



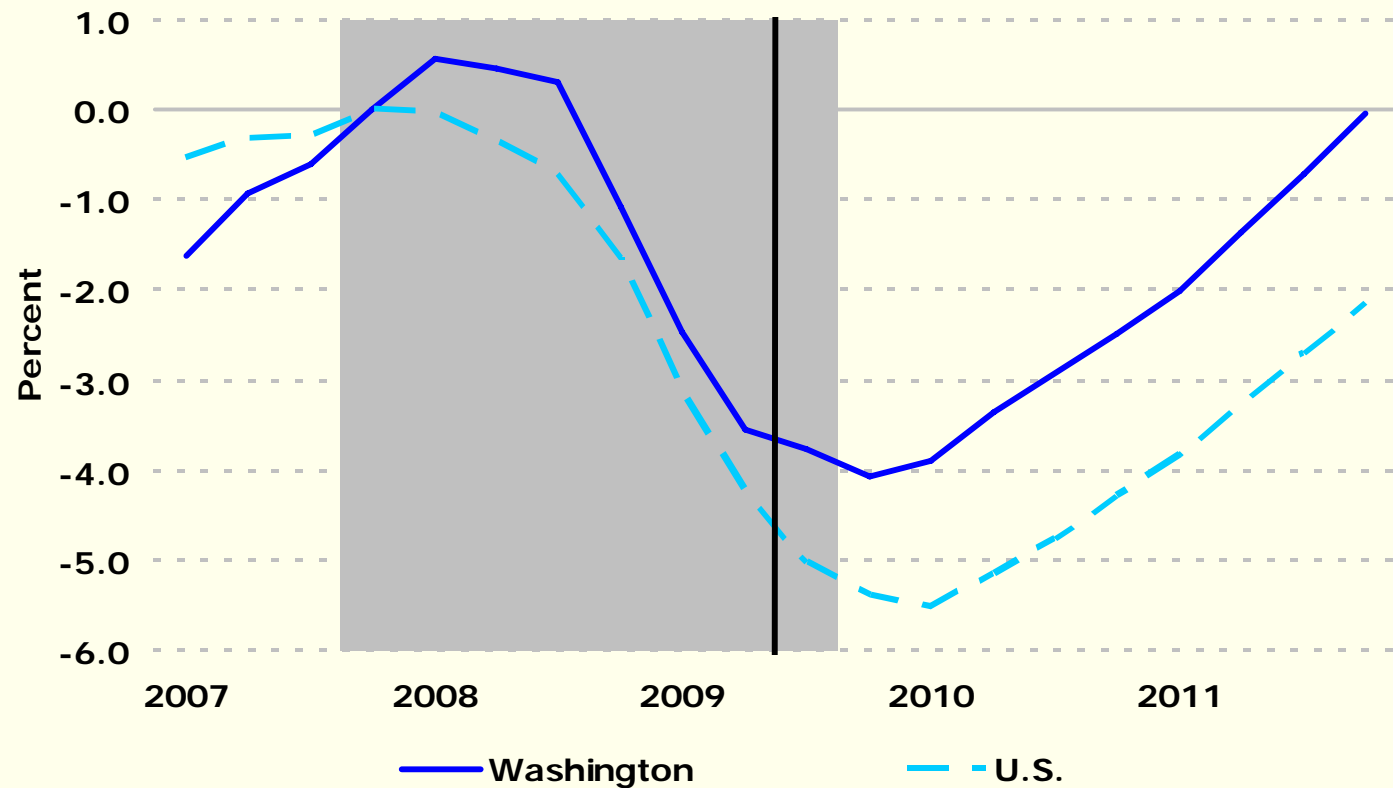
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Source: Autodata Corporation, WA DOL, ERFC estimate; data through August 2009



Washington employment is outperforming the U.S.

Employment Compared to U.S. Business Cycle Peak



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

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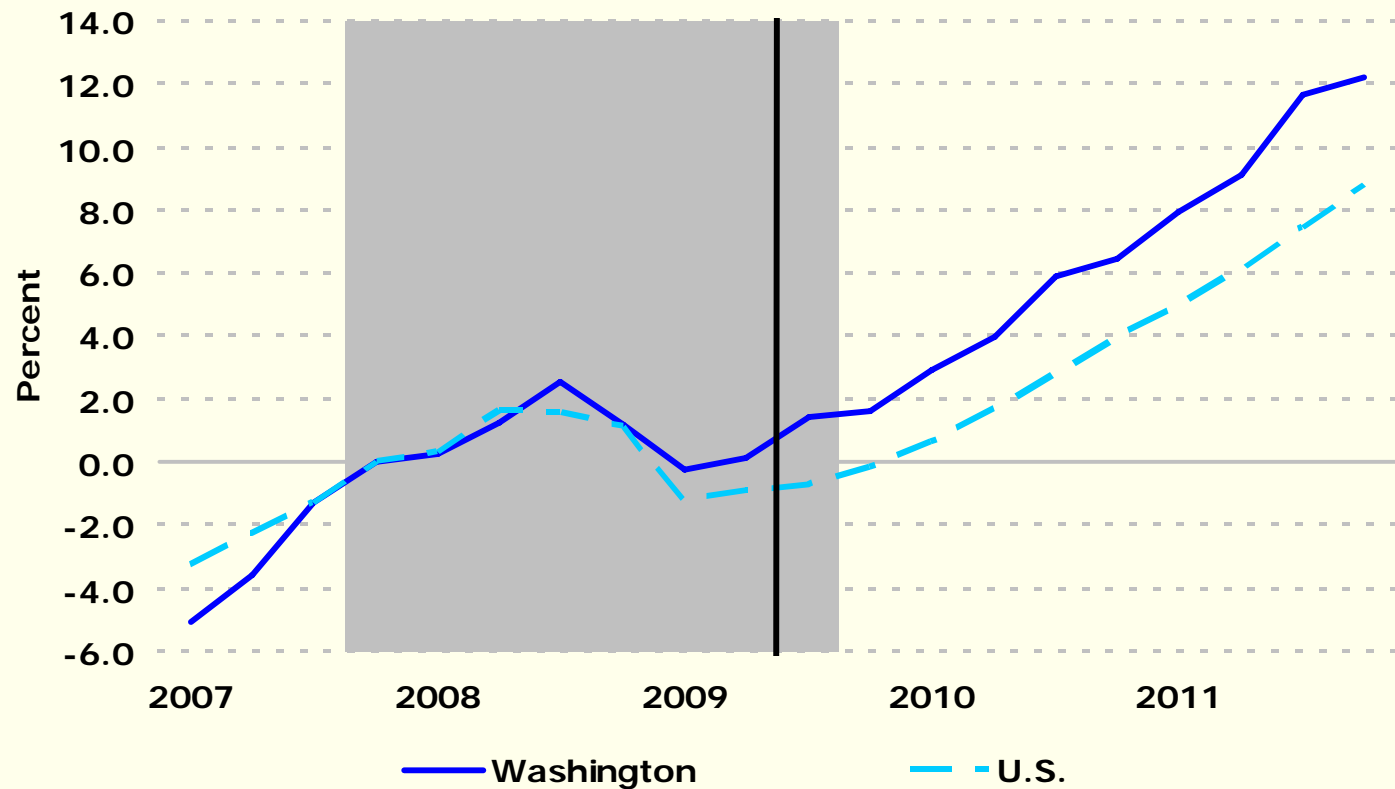
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Washington personal income is also outperforming the U.S.

Income Compared to U.S. Business Cycle Peak



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

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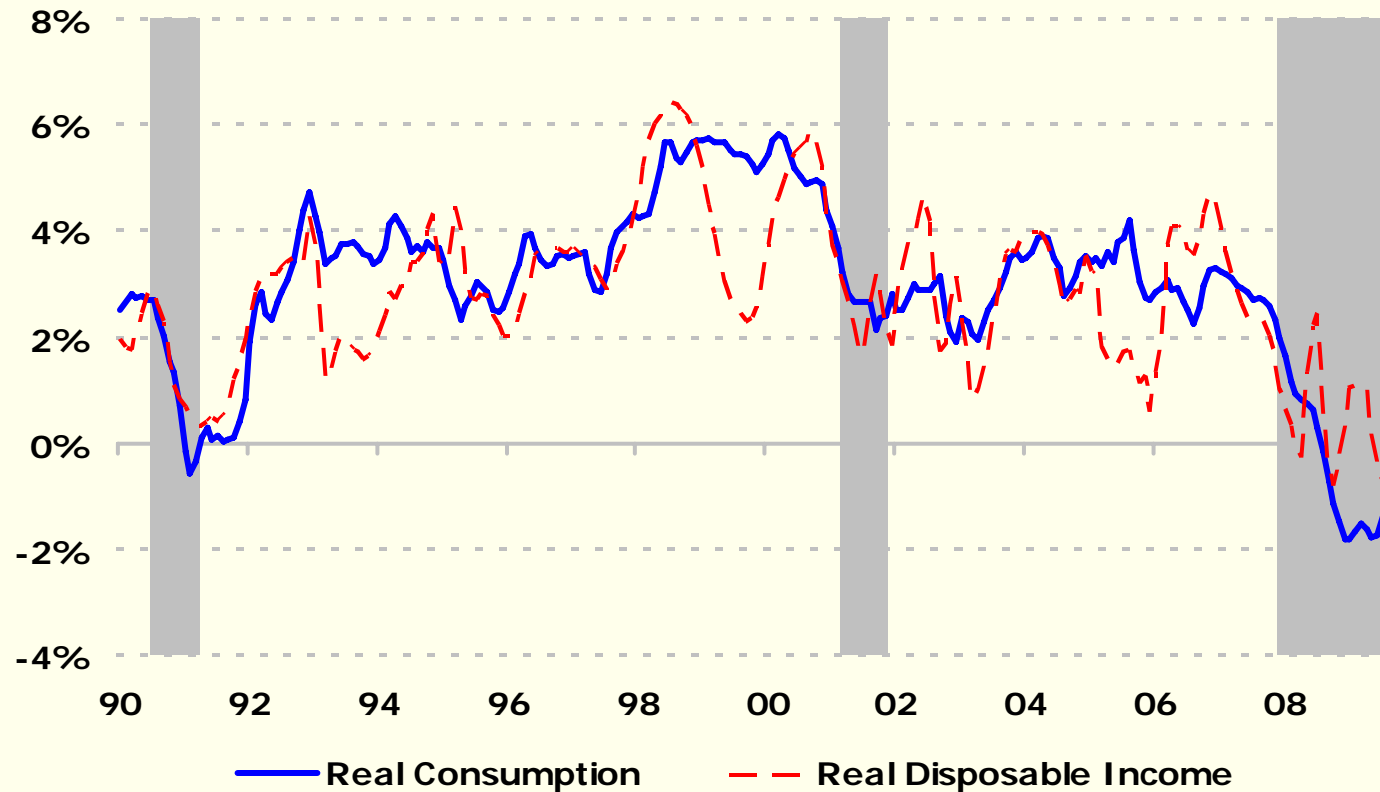
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Recovery in revenue depends on consumer spending – still a wildcard

3 MMA, Y/Y percent



Source: BEA, data through July 2009.

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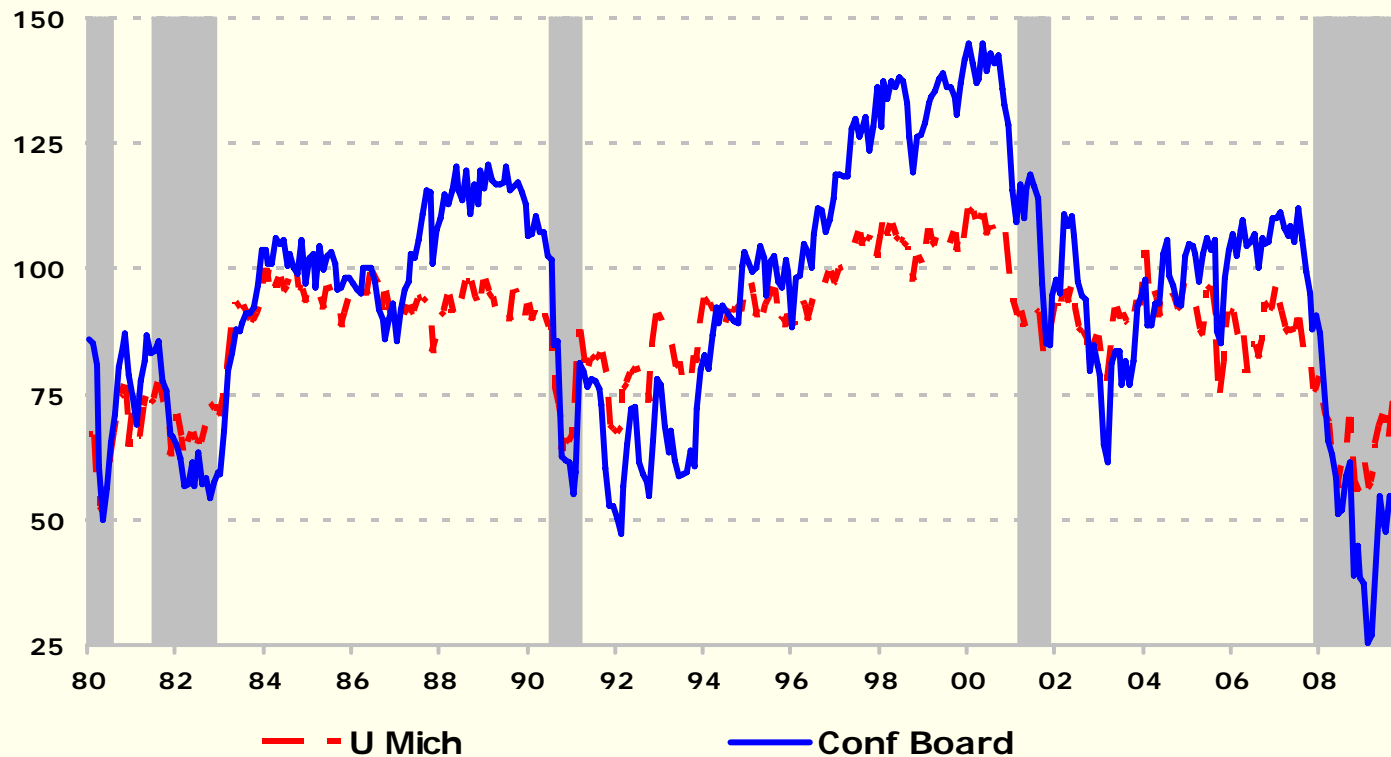


Consumer confidence is still in recessionary territory, but improving

Index

Mich: 1966Q1 = 100, SA

Conf Board: 1985 = 100, SA



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

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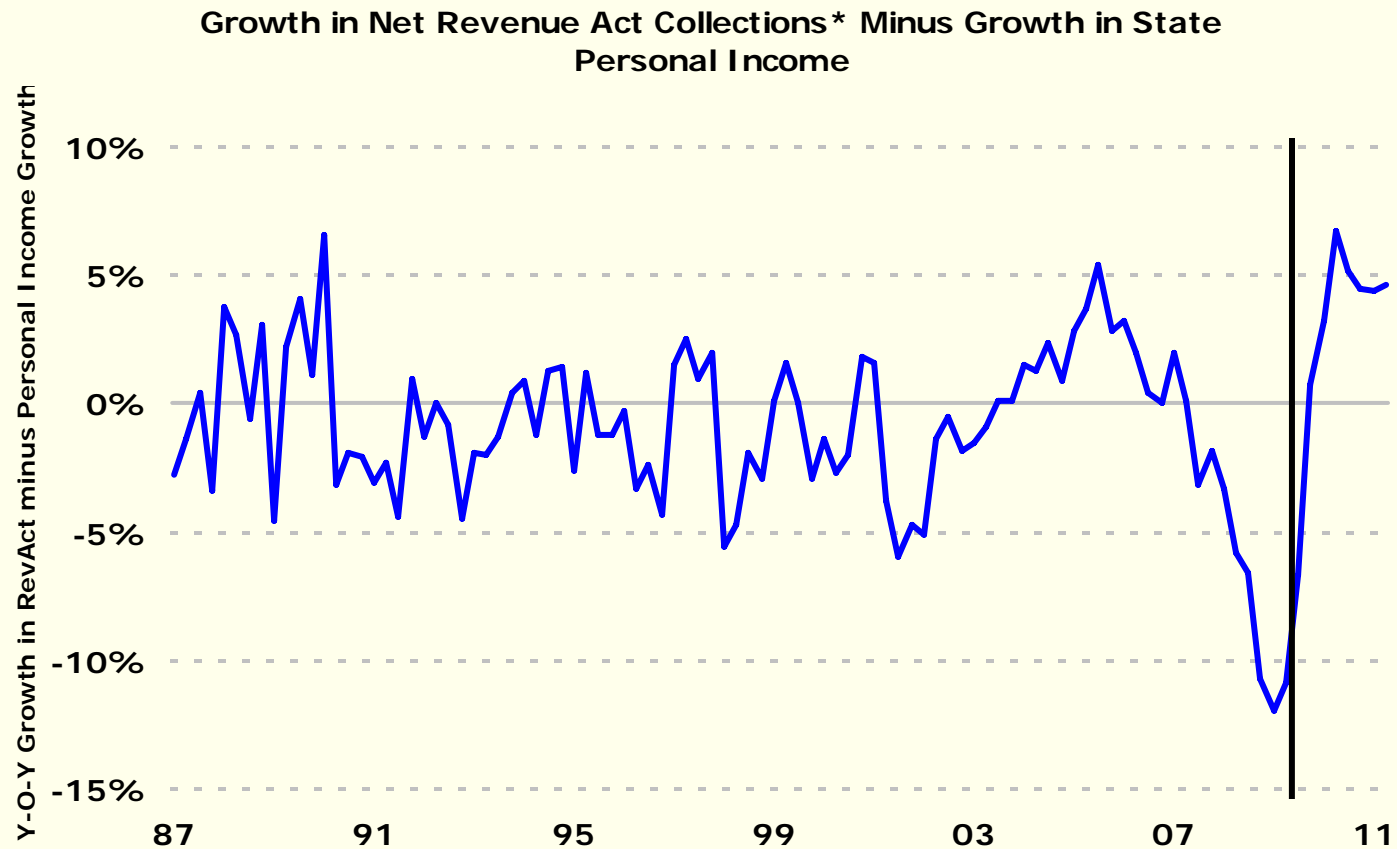
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Revenue growth relative to income growth is turning around

* Adjusted for new legislation and special factors



Source: ERFC forecast; actual data through 2009Q2

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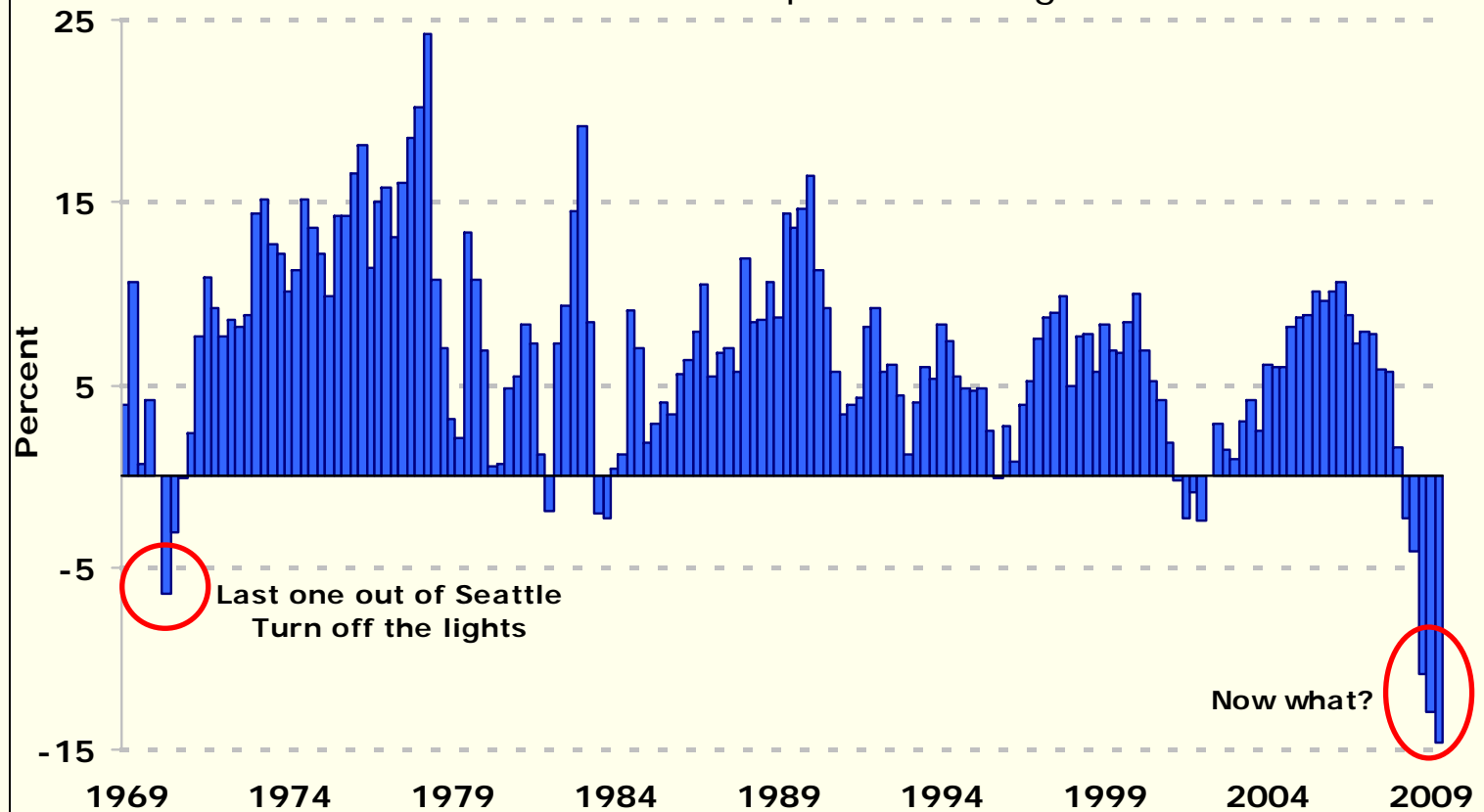
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Unprecedented decline in retail sales

Taxable Retail Sales

Year-over-Year percent change



Source: WA State Department of Revenue, Preliminary data through 2009 Q2

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Real Estate Excise Tax activity has been improving lately

Washington taxable REET activity, SA

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Billions of Dollars



Source: DOR and ERFC, data through August 2009



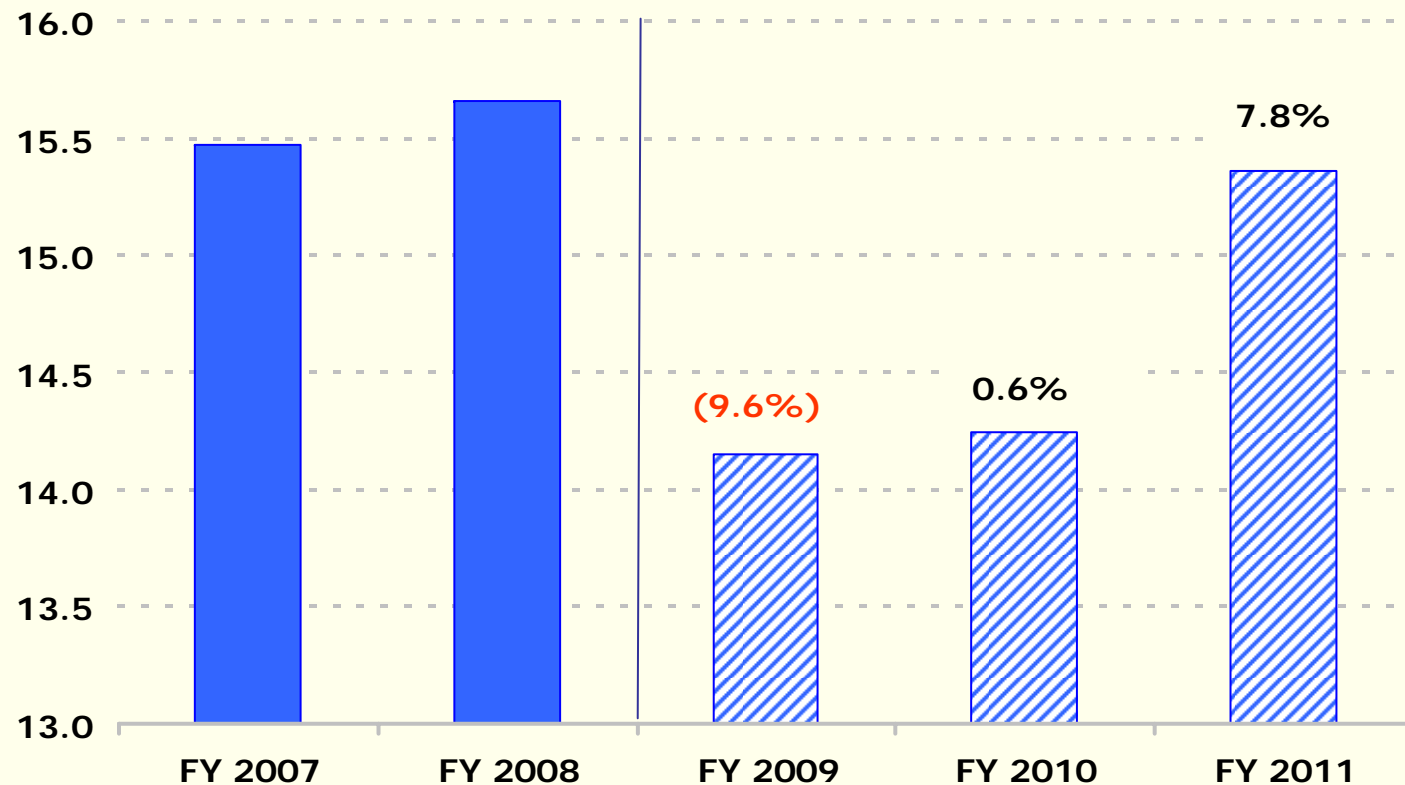
General Fund* forecast by fiscal year

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

General Fund – new definition, for FY 10, 11

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Billions of Dollars



Source: ERFC forecast, September 2009



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

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Questions

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