

Economic and Revenue Update

Presented to
DOR Business Advisory Council

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September 27, 2021



WASHINGTON STATE
ECONOMIC AND REVENUE FORECAST COUNCIL



Summary

- The Infrastructure and Jobs Act is assumed to pass; peak impact is 0.5% increase in level of GDP in 2025-26
- U.S. GDP is expected to grow 5.9% this year, will slow as stimulus ends and labor market recovers
- The WA economy is expected to outperform the national economy in employment, personal income growth
- The forecast of funds subject to the budget outlook is increased by \$927 million for 2021-23 biennium



Since the June forecast...

Positives:

- U.S. employment has increased by 2.25 million jobs
- WA employment has increased by 60,700 jobs
- WA residential real estate transactions remain strong

Negatives:

- Inflation is higher
- Rising COVID cases, hospitalizations, deaths
- Supply chain issues not fully resolved in some sectors



Forecast risks

Upside

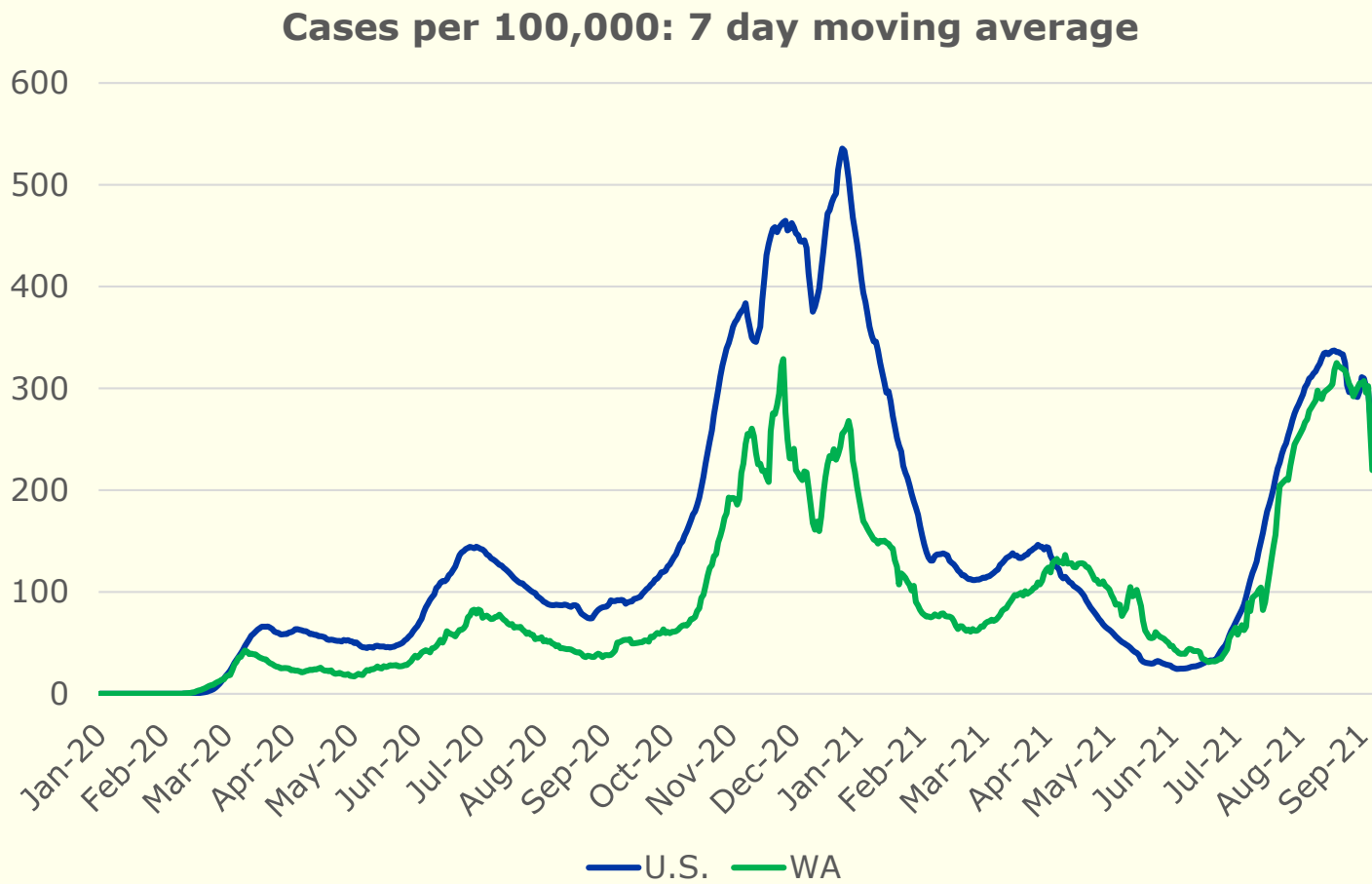
- COVID cases decline from recent peak
- The impact of the Infrastructure Investment and Jobs Act is more robust than expected
- Congress could pass additional stimulus legislation

Downside

- More infectious COVID variants lead to increased cases and hospitalizations, slowing pace of recovery
- Slower supply chain recovery and growth in labor supply lead to higher than expected inflation

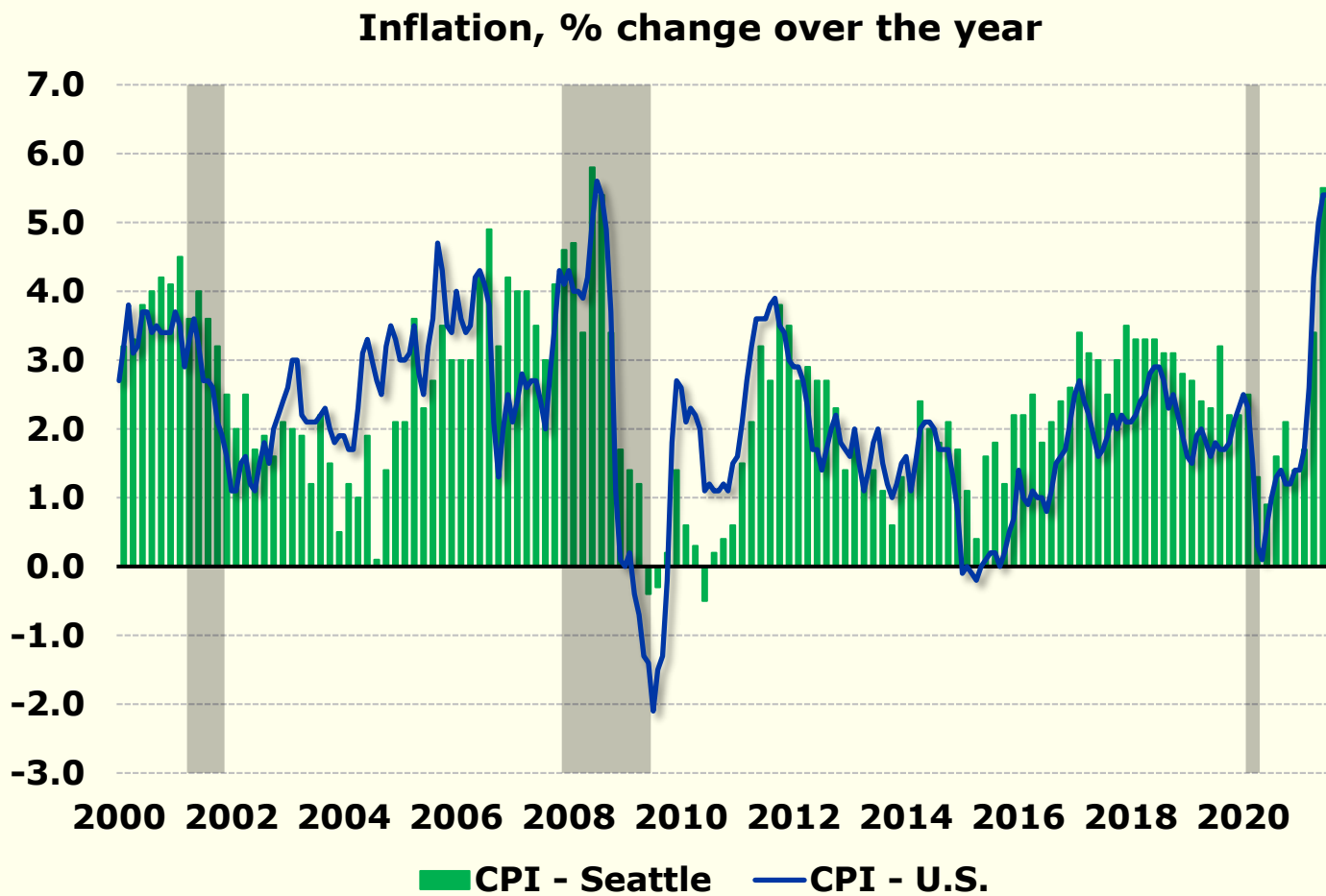


Delta variant has driven a new peak in COVID cases





Inflation remained high in August



Source: U.S. Bureau of Labor Statistics, data through August 2021

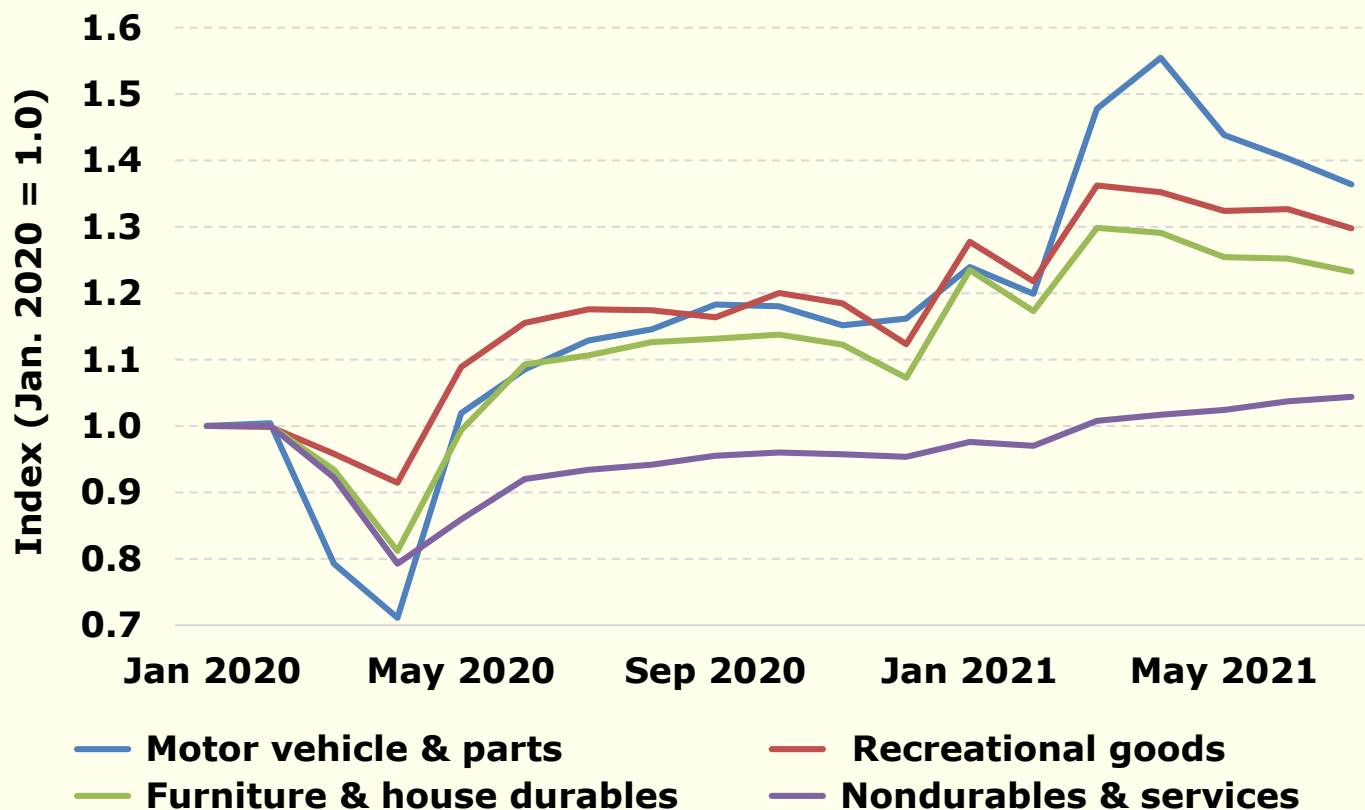
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Consumer purchases of durable goods have started to slow; nondurables, services have increased

“Nondurables & services” includes groceries, clothes, gasoline, household supplies and all household expenditures on services.

Personal consumption expenditure growth relative to January 2020



Source: U.S. Bureau of Economic Analysis, data through July 2021

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U.S. retail trade sales increased 0.7% in August

Sectors with largest sales increases in August:

Nonstore retail:
+5.3%

Furniture & home furnishings:
+3.7%

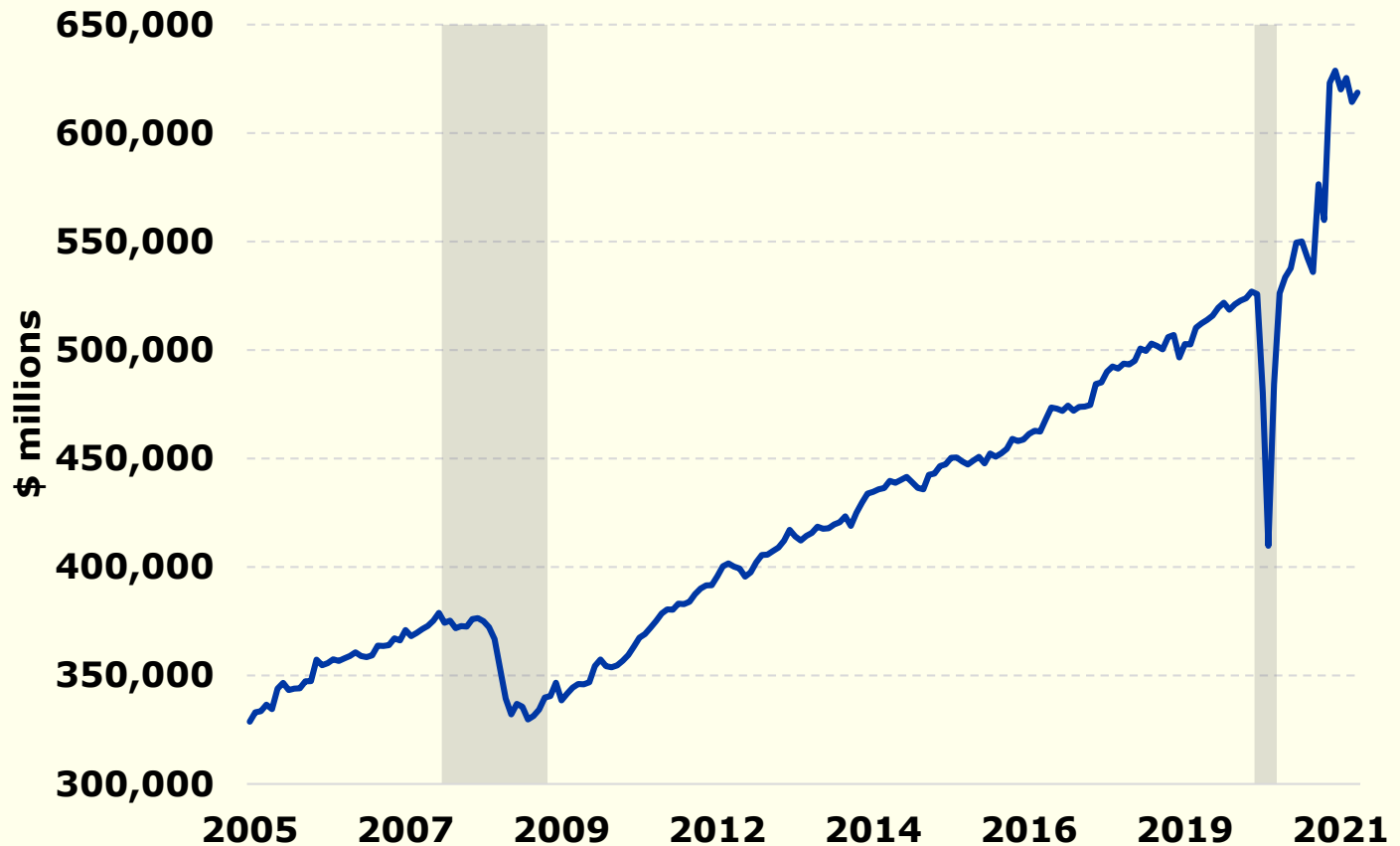
General merchandise stores: +3.5%

Grocery stores:
+2.1%

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U.S. retail trade & food service sales, SA



Source: U.S. Census Bureau; data through advanced August 2021

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New orders for U.S. manufactured goods are above pre-pandemic levels



Source: U.S. Census Bureau; data through July 2021

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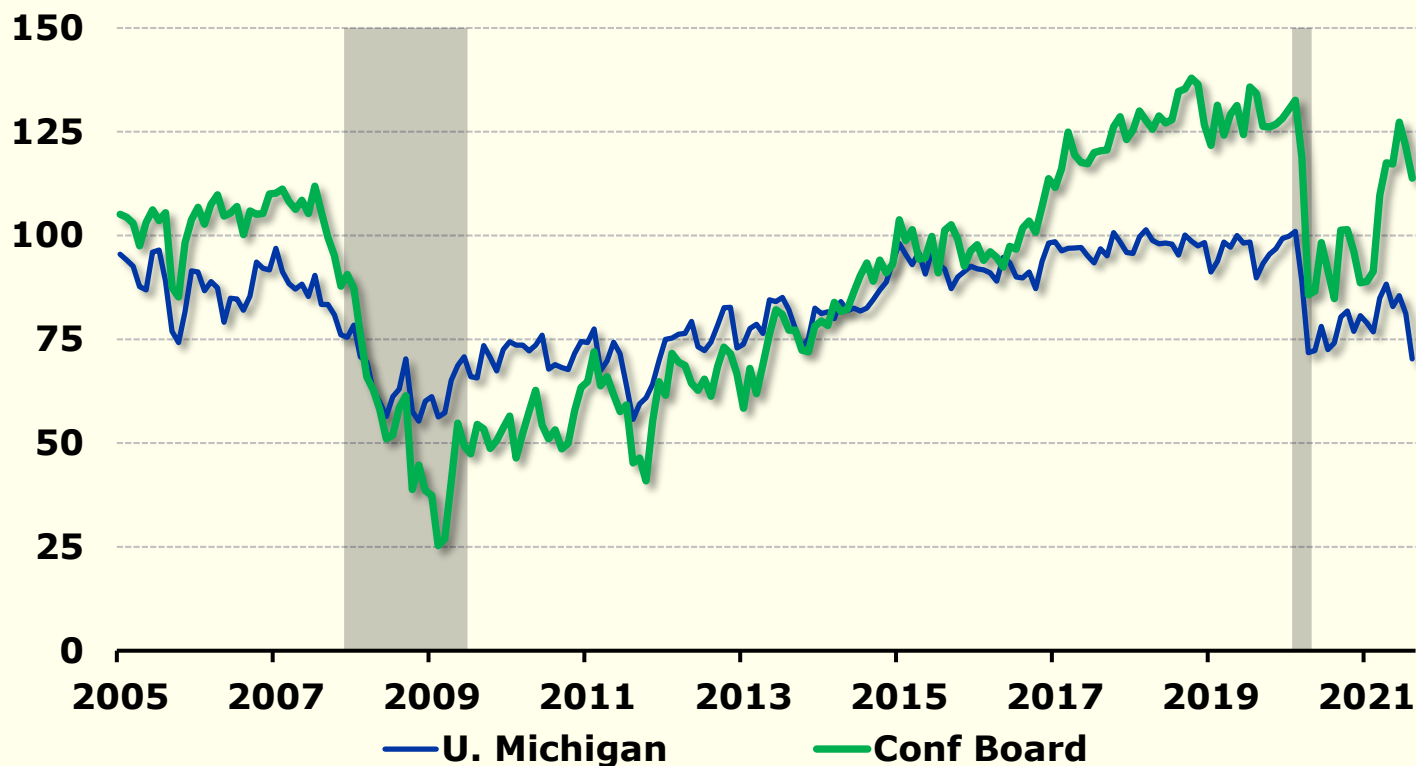


Rising COVID cases, higher inflation have reduced consumer confidence in last two months

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Mich: 1966Q1 = 100, SA

Conf Board: 1985 = 100, SA

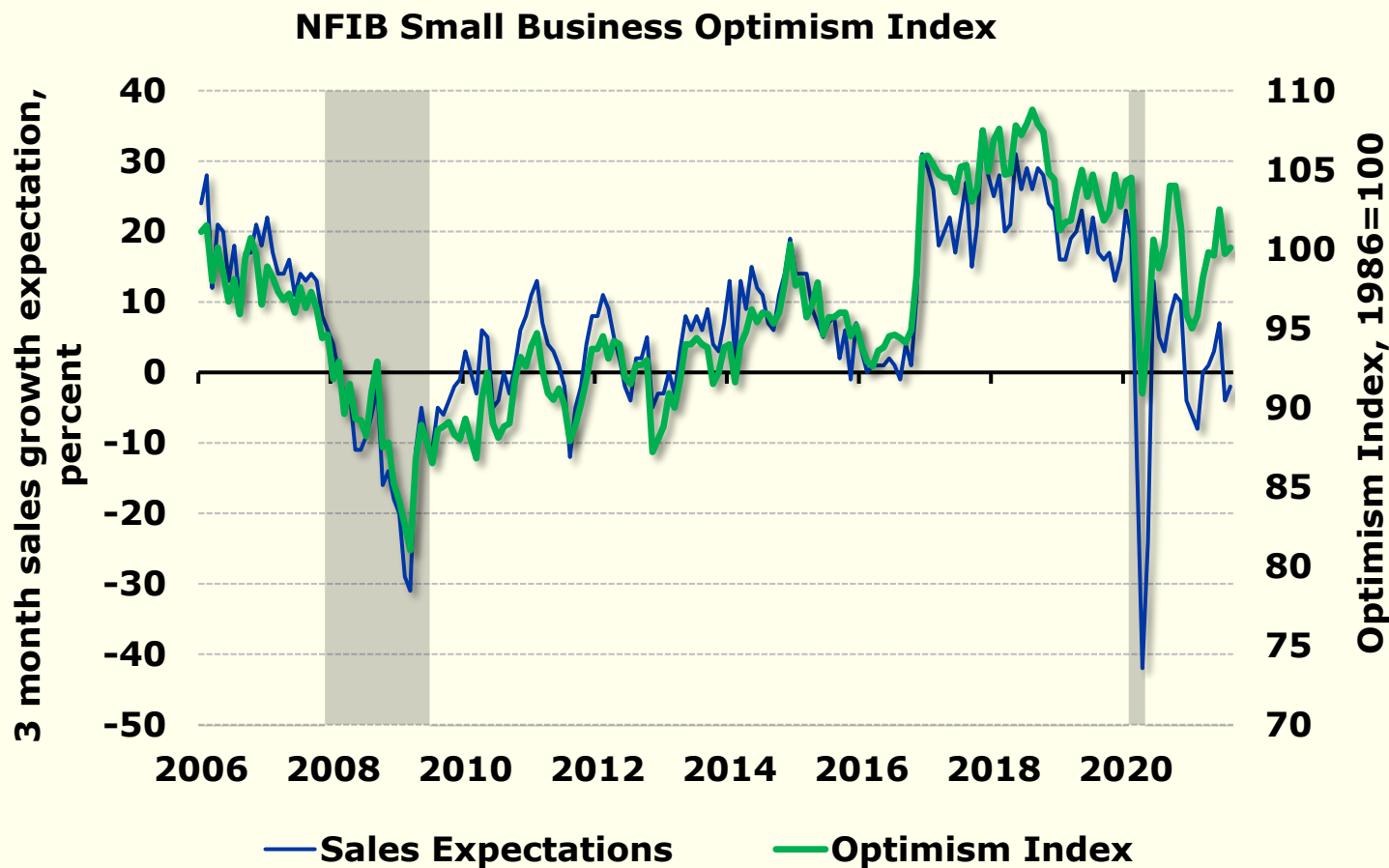


Sources: University of Michigan, Conference Board; data through August 2021

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Small business optimism, sales expectations have weakened since June



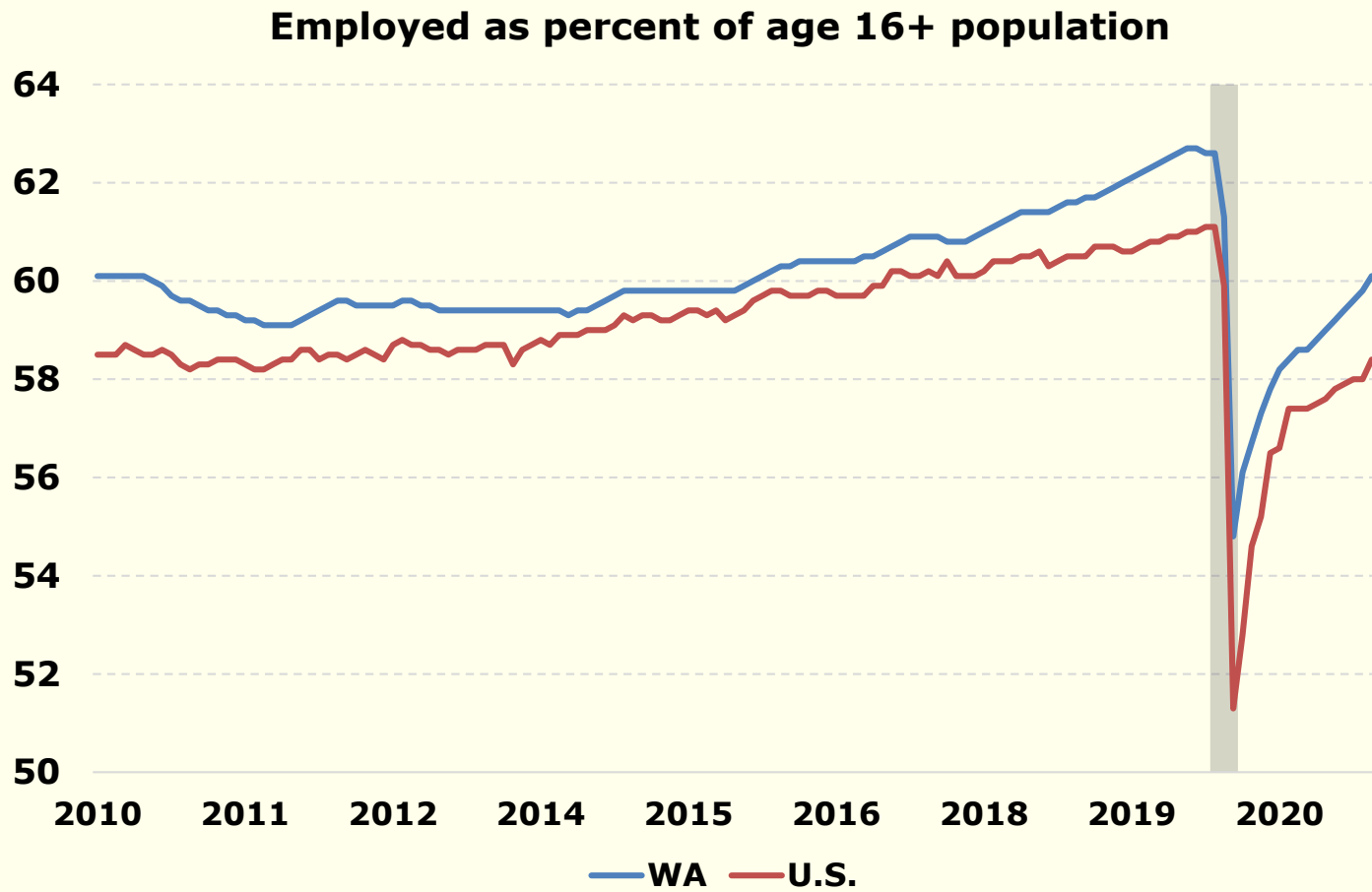
Source: National Federation of Independent Business; data through August 2021

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The employment-population ratio has improved since April 2020 but remains below pre-pandemic levels

Compared to Jan. 2020, the July 2021 employment-population ratio is 2.5% lower in WA and 2.7% lower in the U.S.

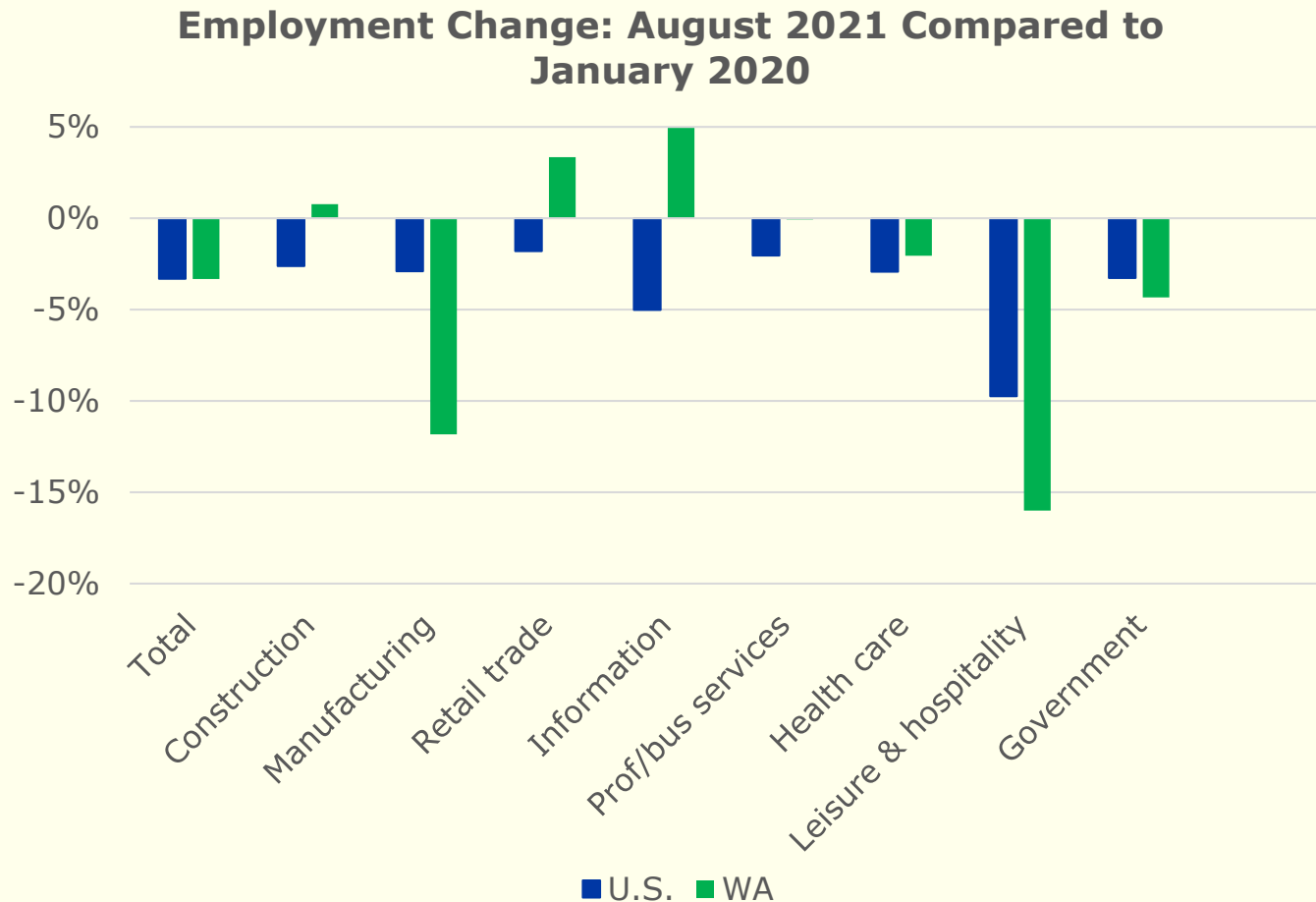


Source: U.S. Bureau of Labor Statistics, data through July 2021

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Recovery of total U.S., WA employment similar; differs across industries

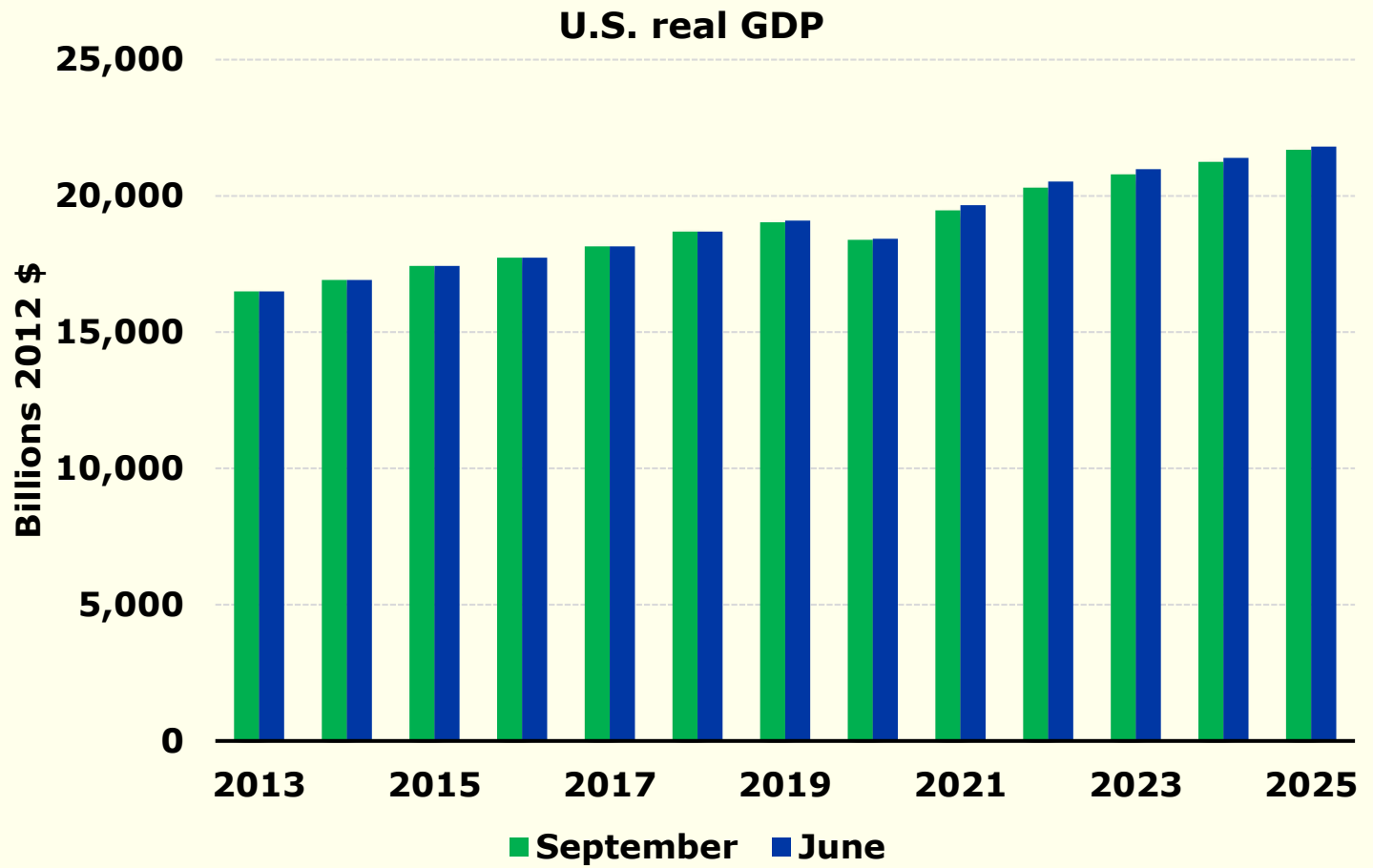


Source: ERFC, U.S. Bureau of Labor Statistics, Employment Security Dept.

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GDP is slightly lower for 2021 – 2025 as growth forecast decreased for 2021 and 2022

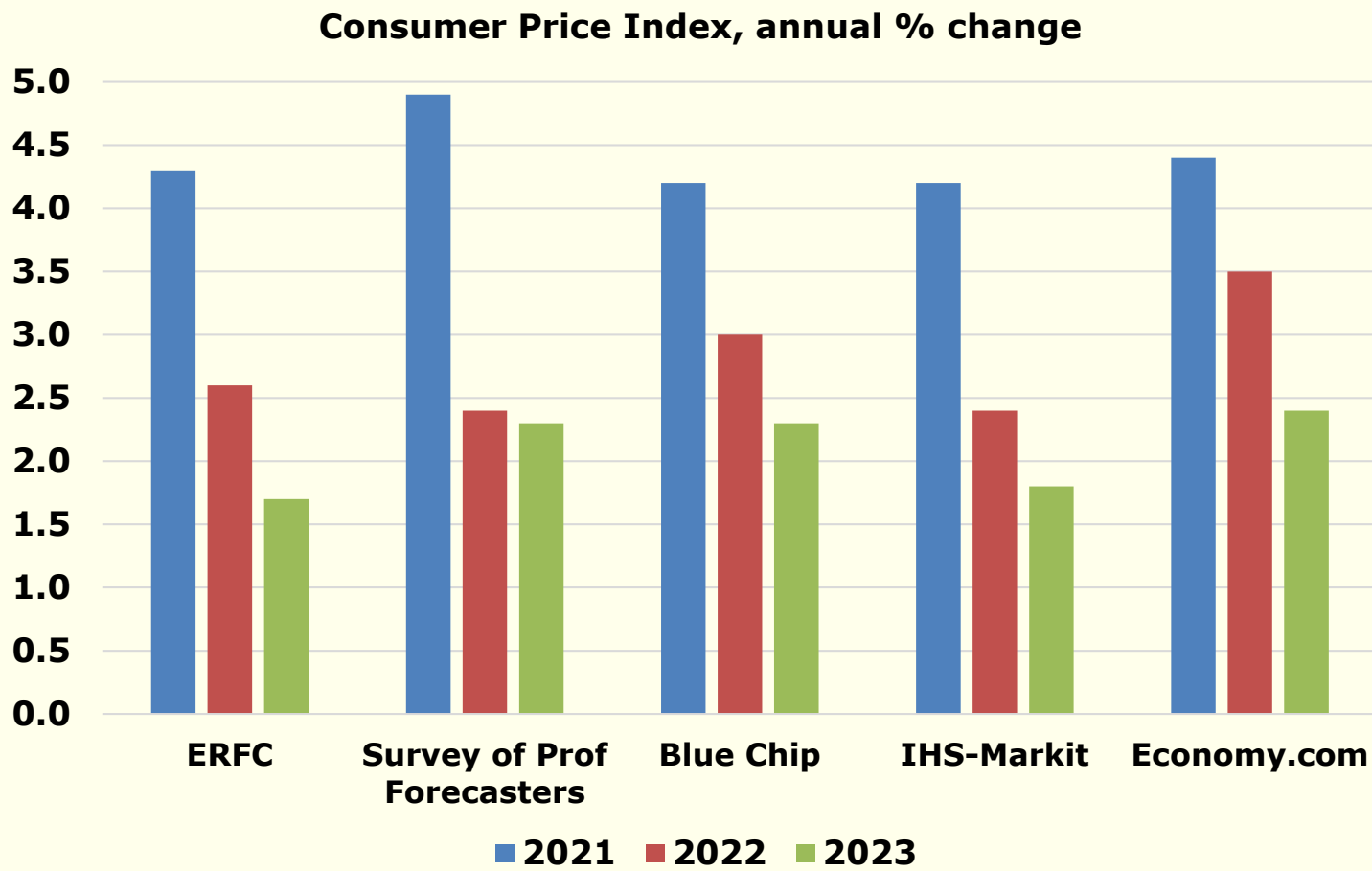


Source: ERFC September 2021 forecast; historical data through 2020

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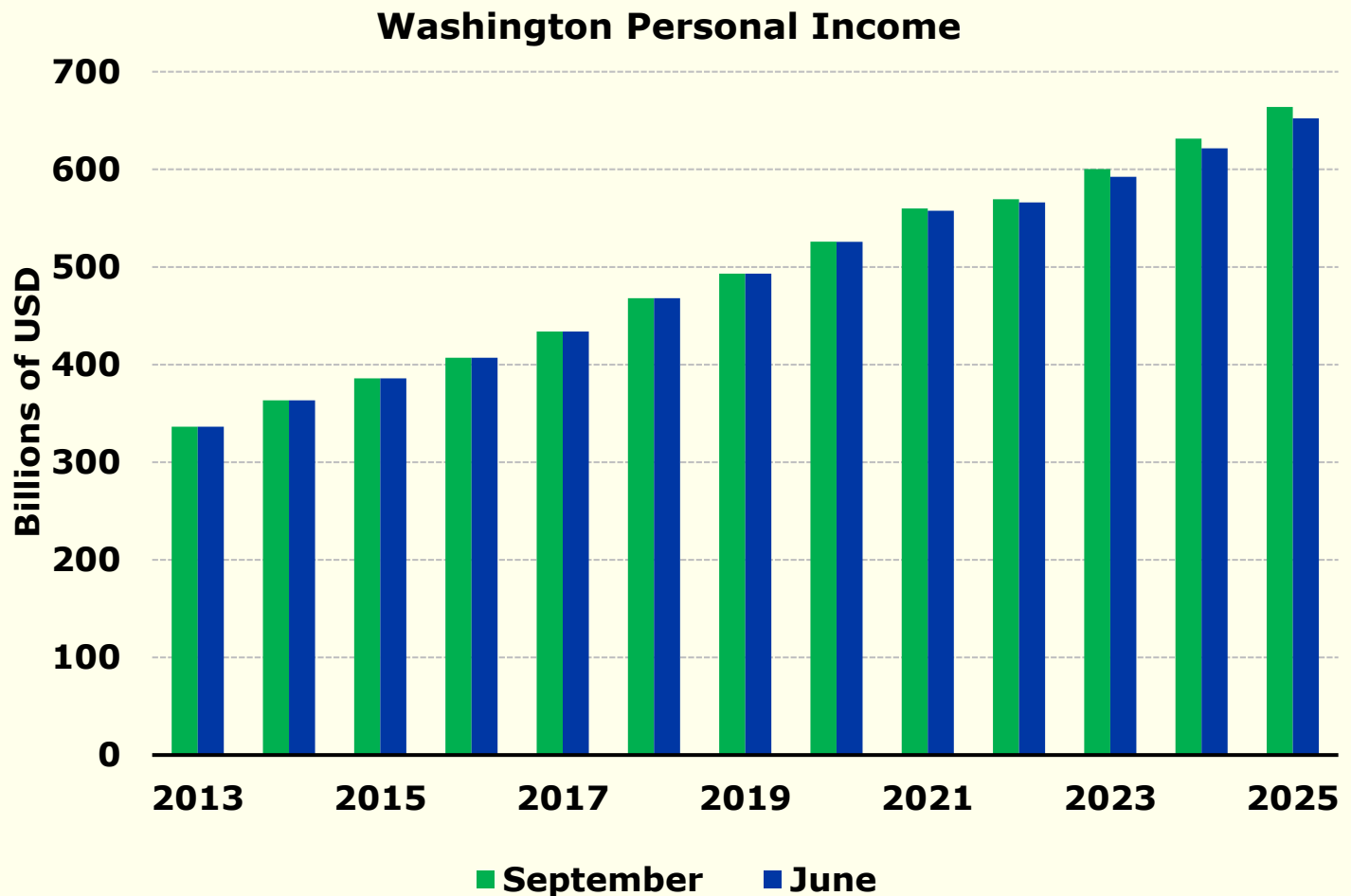


Forecasters generally expect inflation to be lower after 2021





Washington personal income is slightly higher throughout the forecast compared to June



Source: ERFC September 2021 forecast; historical data through 2020

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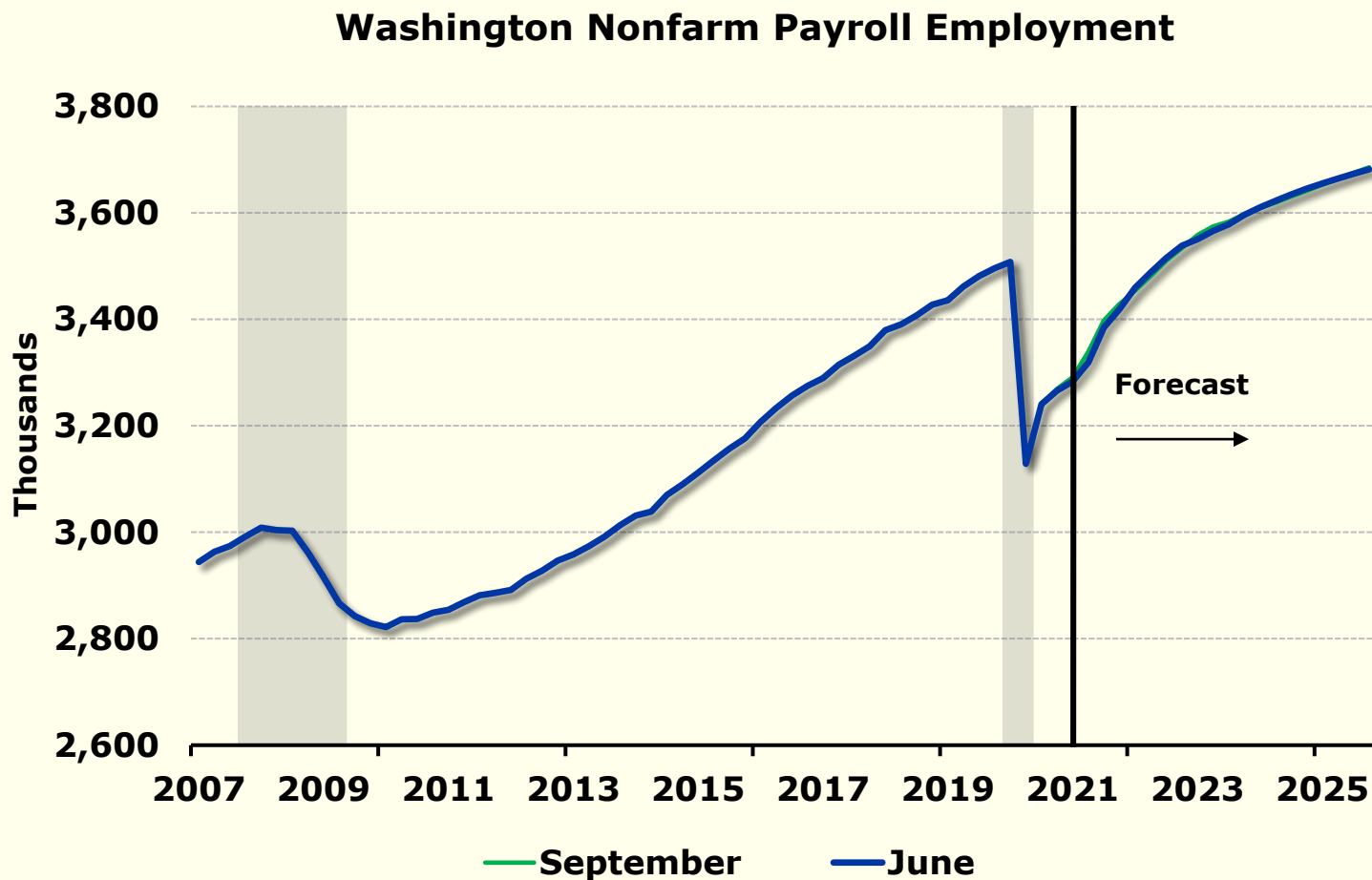


WA employment forecast is essentially unchanged from June

Average annual employment growth, 2021 to 2025:

U.S. = 1.6%

WA = 2.2%

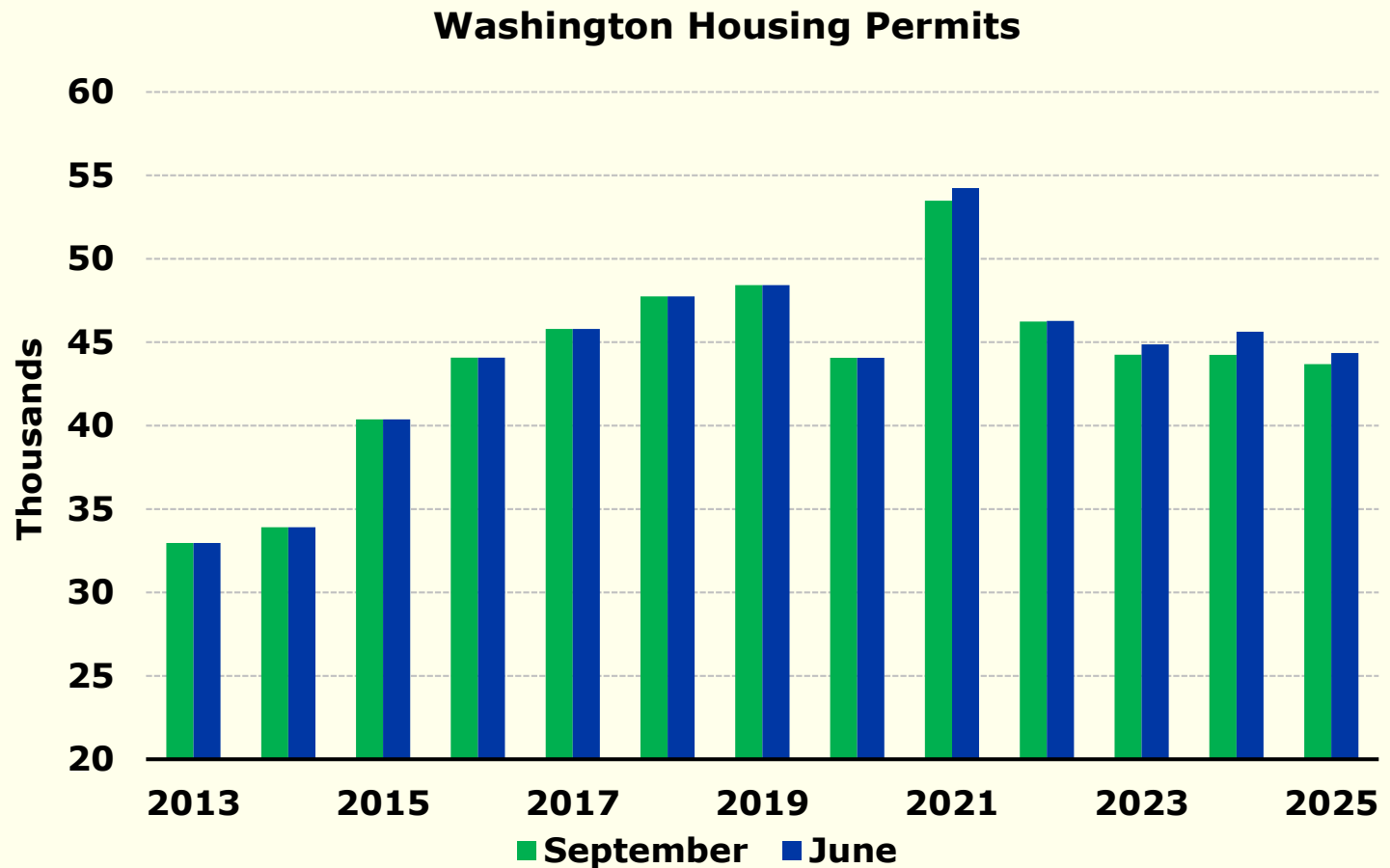


Source: ERFC September 2021 forecast; historical data through Q2 2021

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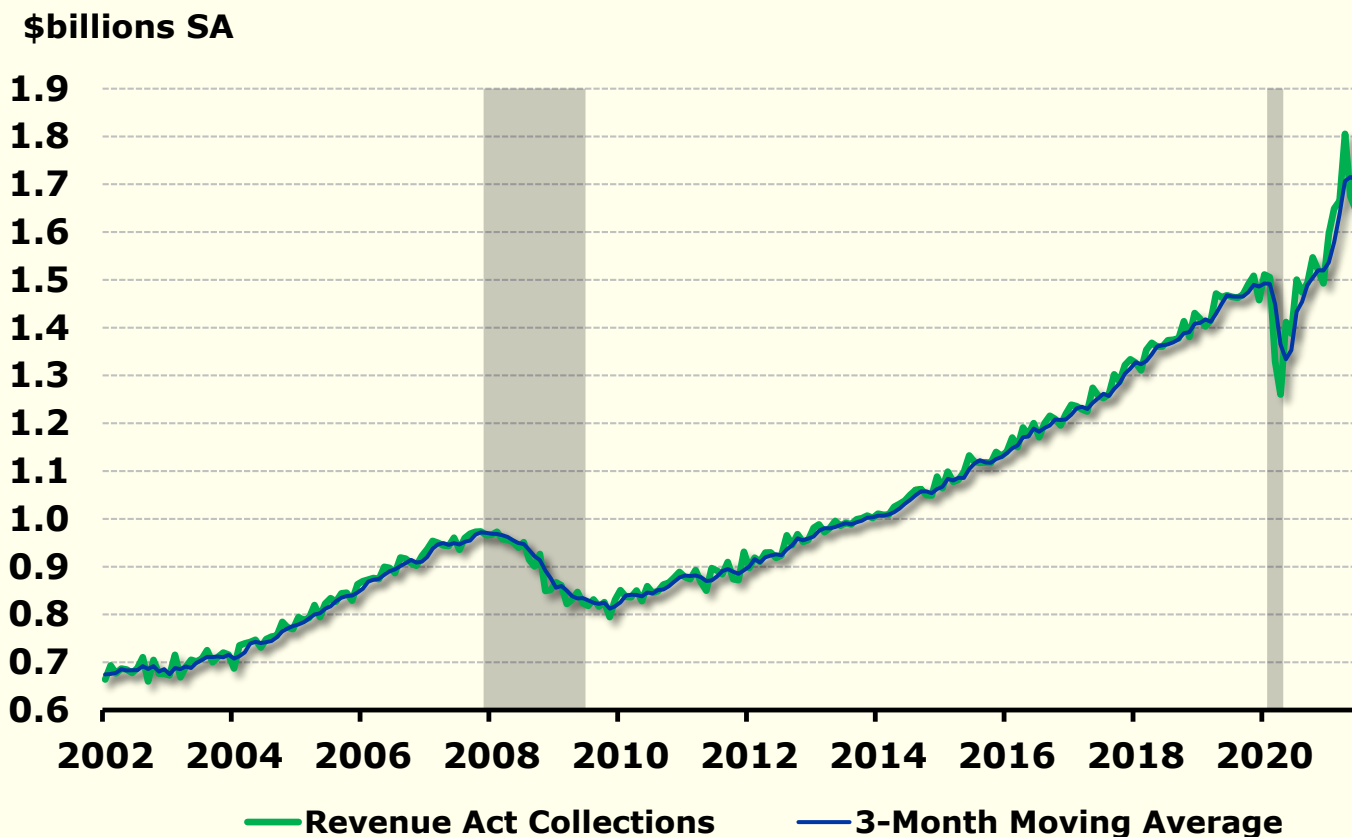
WA housing permits are slightly lower than June forecast; 2021 remains peak for residential construction



Source: ERFC September 2021 forecast; historical data through 2020



Revenue Act collections remain strong; year over year growth over 14% for July activity



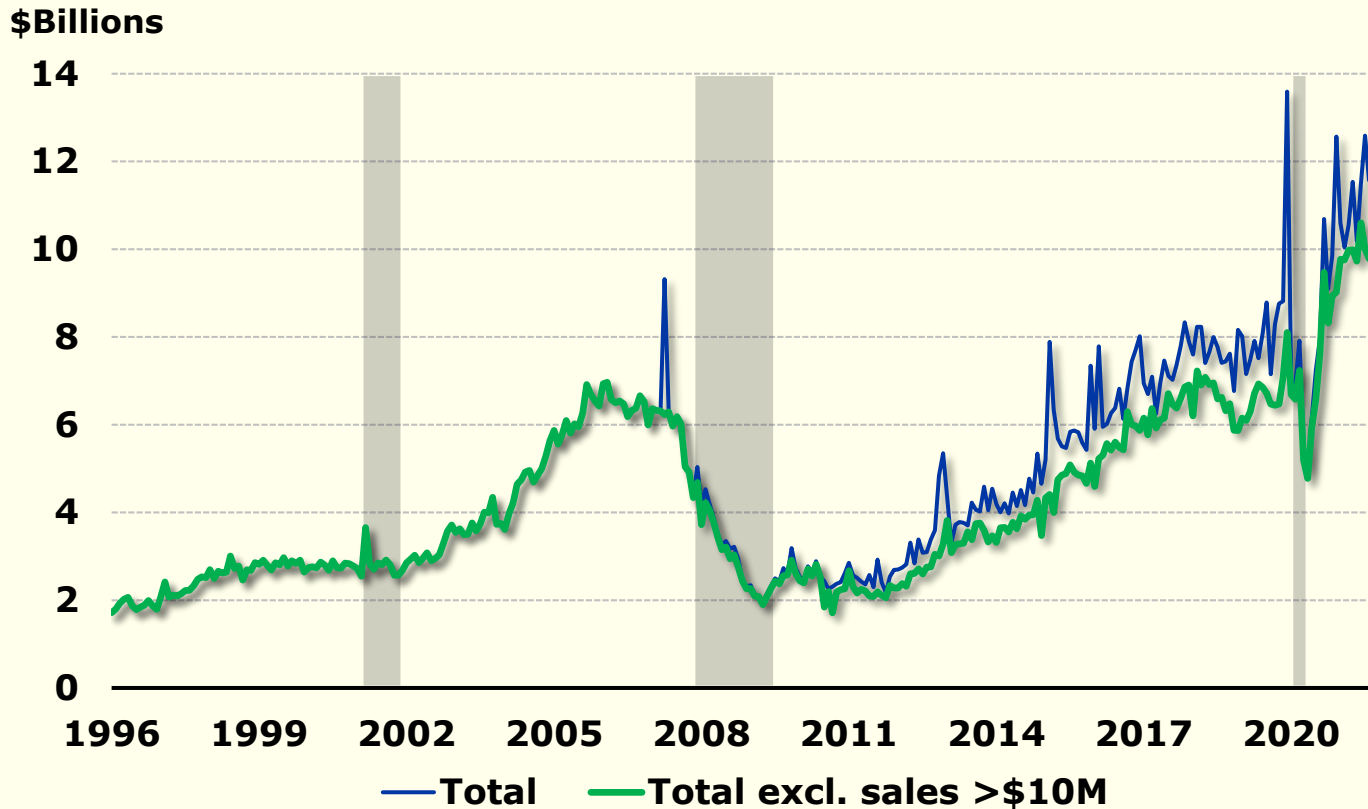
* Adjusted for large one-time transactions, amnesty payments, reporting frequency change and deferred 2020 payments, current definition of Revenue Act
Source: DOR and ERFC; monthly data through July 2021 activity



Taxable REET activity in August slowed, remains at historically high levels

Large commercial transactions in August totaled \$1.8 B, down from \$2.6 B in July; excluding large sales, SA activity decreased slightly.

Seasonally Adjusted Taxable Real Estate Excise Activity



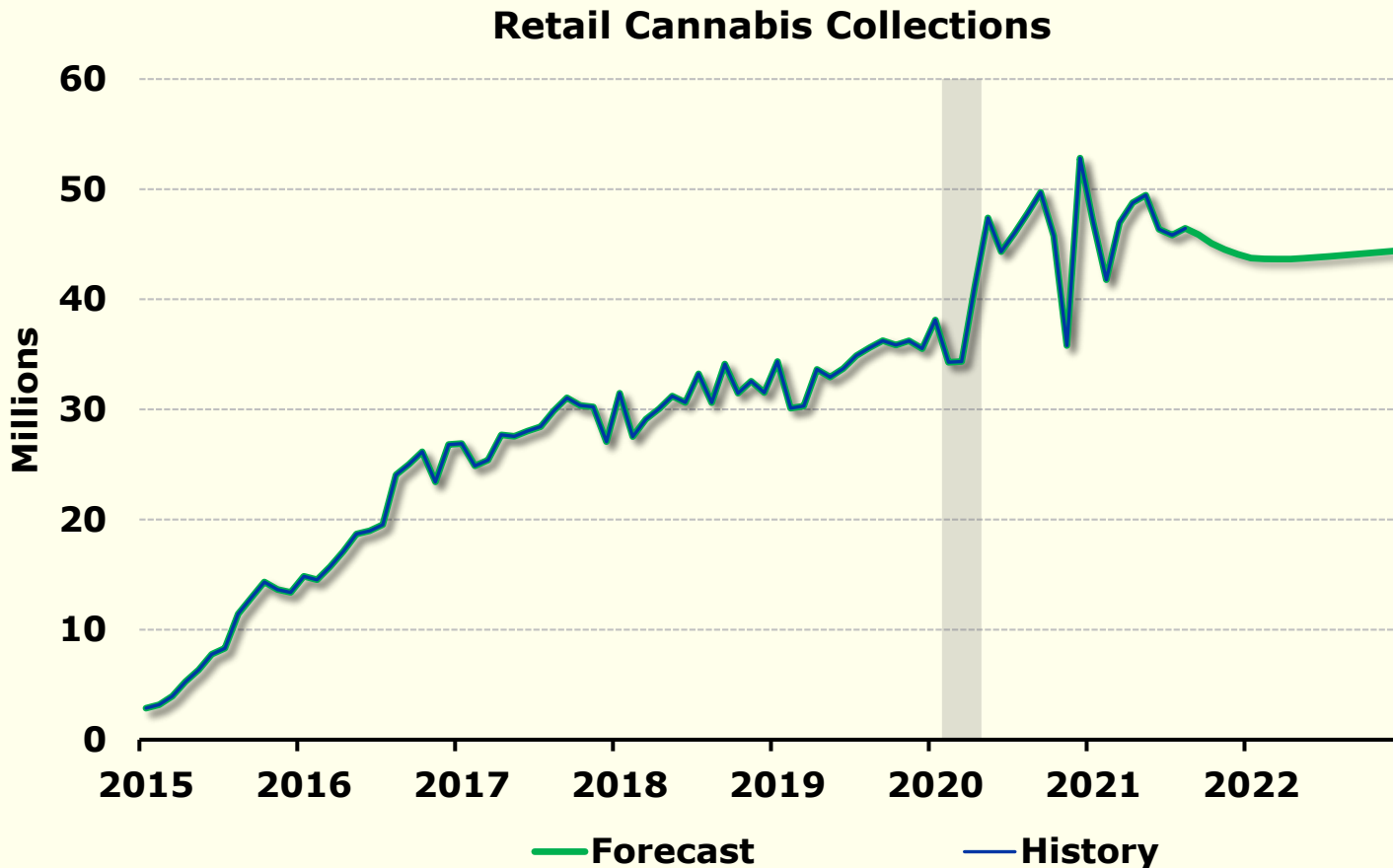
Source: ERFC; Monthly data through August 2021 estimate

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Cannabis revenues appear to be moderating

Collections came in 4.9% below the June forecast



Source: ERFC September 2021 forecast; historical data through August 2021



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

\$Millions	<u>June 2021 Forecast</u>	<u>Legislative Change</u>	<u>Forecast Change</u>	<u>Sept 2021 Forecast</u>	<u>Total Change[#]</u>
General Fund-State	\$55,611	n/a	\$845	\$56,457	\$845
Education Legacy Trust Account	\$1,793	n/a	\$74	\$1,866	\$74
WA Opportunity Pathways Account	\$349	n/a	\$1	\$349	\$1
Workforce Education Investment Account	\$661	n/a	\$8	\$668	\$8
Total	\$58,413	\$0	\$927	\$59,341	\$927

Detail may not add to total due to rounding



Forecast changes, all funds: 2023-2025 biennium, cash basis

\$Millions	<u>June 2021 Forecast</u>	<u>Legislative Change</u>	<u>Forecast Change</u>	<u>Sept 2021 Forecast</u>	<u>Total Change[#]</u>
General Fund-State	\$58,979	n/a	\$891	\$59,870	\$891
Education Legacy Trust Account	\$2,094	n/a	\$31	\$2,125	\$31
WA Opportunity Pathways Account	\$351	n/a	(\$1)	\$350	(\$1)
Workforce Education Investment Account	\$728	n/a	\$9	\$737	\$9
Total	\$62,151	\$0	\$931	\$63,082	\$931

Detail may not add to total due to rounding



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

Higher WA personal income

- Actual 1st quarter 2021 data came in higher than expected in June forecast
- Higher inflation forecast boosts most components of personal income

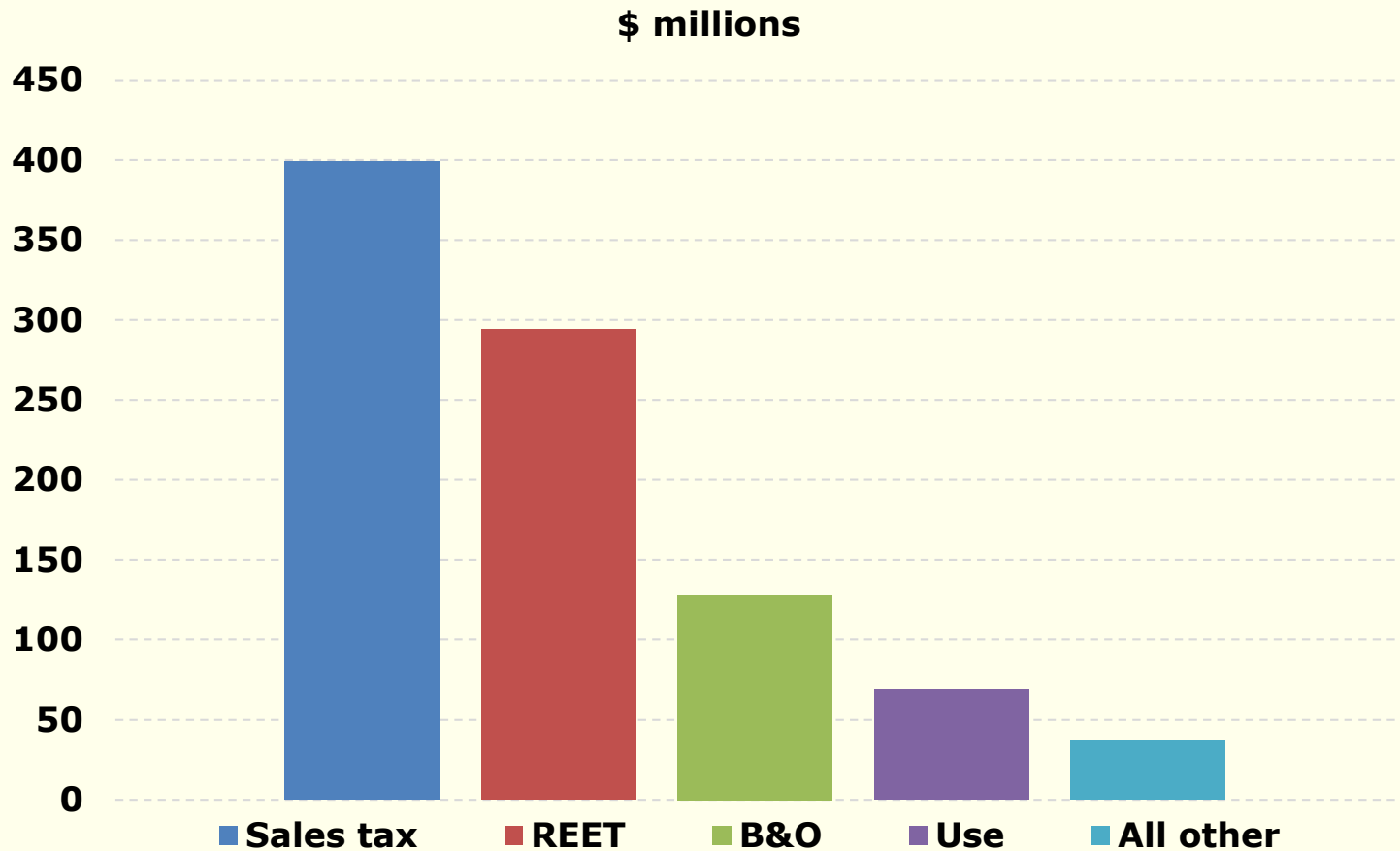
Higher WA construction employment

- Actual construction employment since June forecast higher than expected

Stronger than expected REET collections since June forecast



2021- 2023 biennium all funds forecast changes by source



Source: ERFC Sept. 2021 forecast

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2021-23 Biennium alternative General Fund-State forecasts

\$Millions (cash basis)	2021-23 Biennium	Difference From the baseline[#]
September 2021 Baseline (50%)	\$56,457	
<u>September 2021 Alternative Forecasts</u>		
Optimistic (20%)	\$59,419	\$2,962
Pessimistic (30%)	\$53,411	(\$3,046)
Probability Weighted Average	\$56,135	(\$321)
GCEA*	\$57,114	\$657

*Based on the Governor's Council of Economic Advisors' economic assumptions

[#]May not add to total due to rounding



2023-25 Biennium alternative General Fund-State forecasts

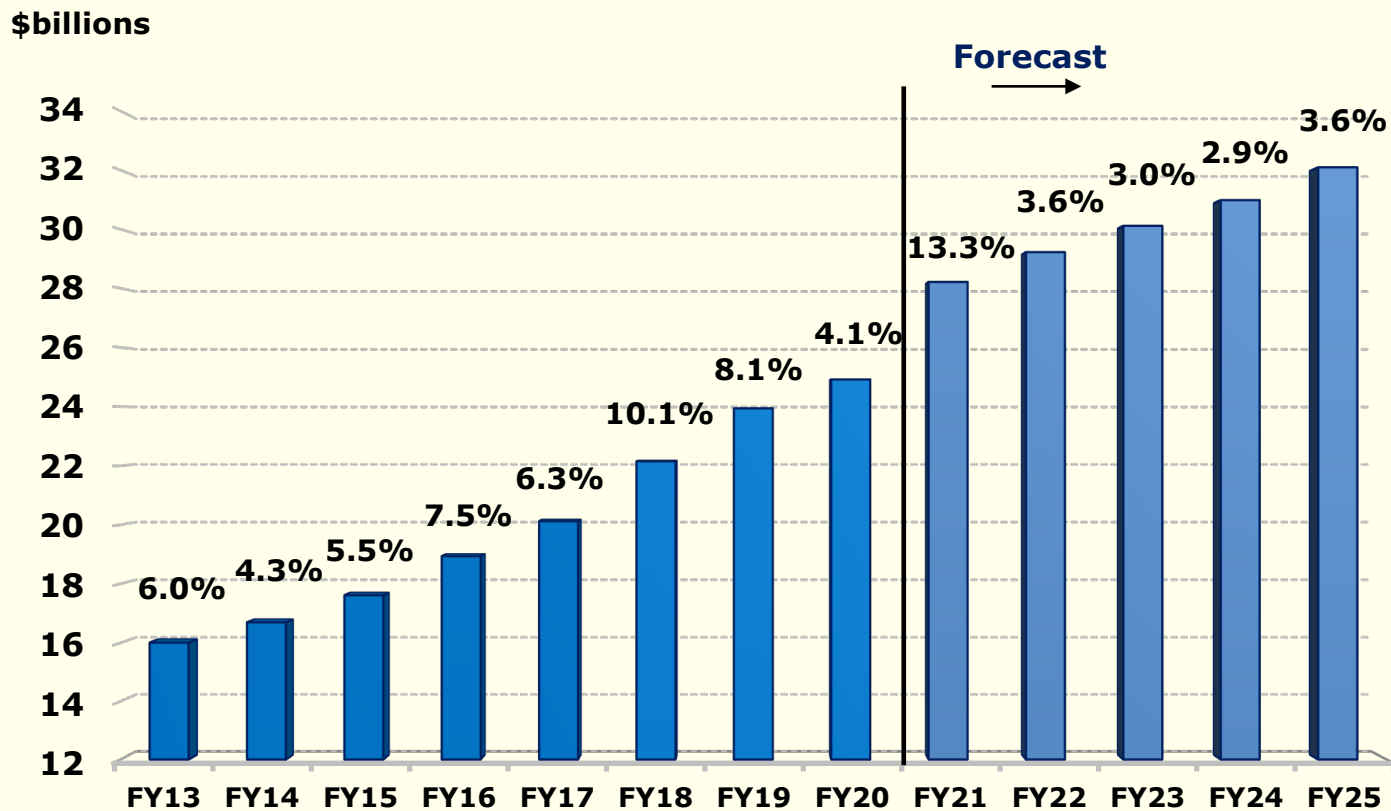
\$Millions (cash basis)	2023-25 Biennium	Difference From the baseline[#]
September 2021 Baseline (50%)	\$59,870	
<u>September 2021 Alternative Forecasts</u>		
Optimistic (20%)	\$65,512	\$5,642
Pessimistic (30%)	\$54,120	(\$5,750)
Probability Weighted Average	\$59,273	(\$597)
GCEA*	\$61,517	\$1,647

*Based on the Governor's Council of Economic Advisors' economic assumptions

[#]May not add to total due to rounding



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 2021



Conclusion

- U.S. GDP, employment forecasts similar to June; inflation is higher in 2021, 2022
- WA personal income forecast slightly higher than in June forecast; employment forecast very similar
- COVID, inflation pose forecast risks
- Total state revenues are expected to grow 11.7% between the 2019-21 and 2021-23 biennia and 6.3% between the 2021-23 and 2023-25 biennia



Questions



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