

Economic Outlook

Presented to
Central Washington University

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Chief Economist

October 25, 2011
Ellensburg, Washington



WASHINGTON STATE
ECONOMIC AND REVENUE FORECAST COUNCIL



Summary

- The economic outlook has weakened significantly since the June forecast
- Data revisions by the BEA show the U.S. economy close to stalling early this year
- We no longer expect growth to pick up momentum later this year – instead the most likely scenario is an extended period of muddle-through
- The September forecast reduced expected GF-S revenues by \$1.4 billion in the current biennium
- The global outlook remains extremely uncertain

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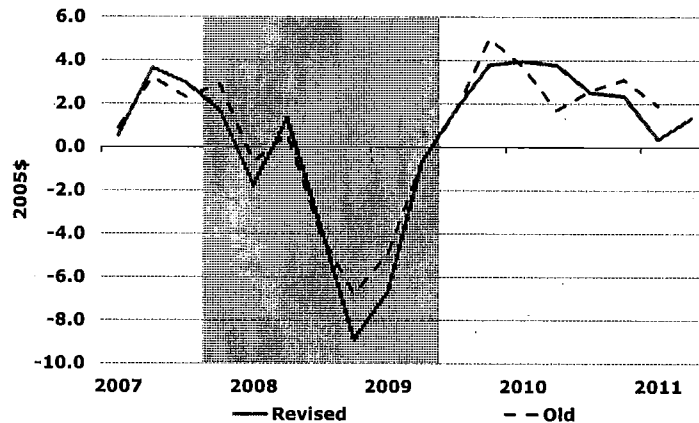
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GDP revisions show the economy close to stalling in the first half

Percent Change, SAAR



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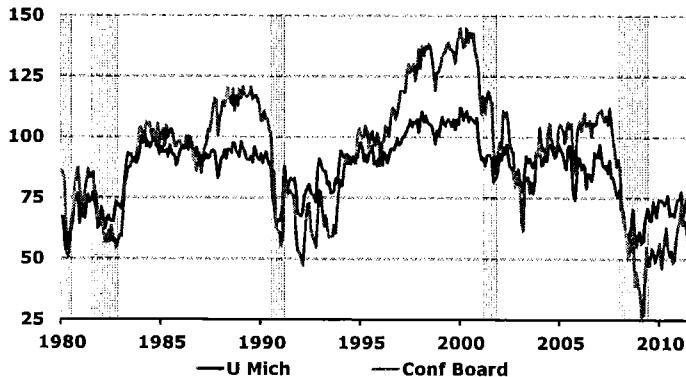
Source: BEA; data through 2011 Q2 final; revised 2003 Q1 onward

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Consumer confidence is very weak...

Index
Mich: 1966Q1 = 100, SA
Conf Board: 1985 = 100, SA



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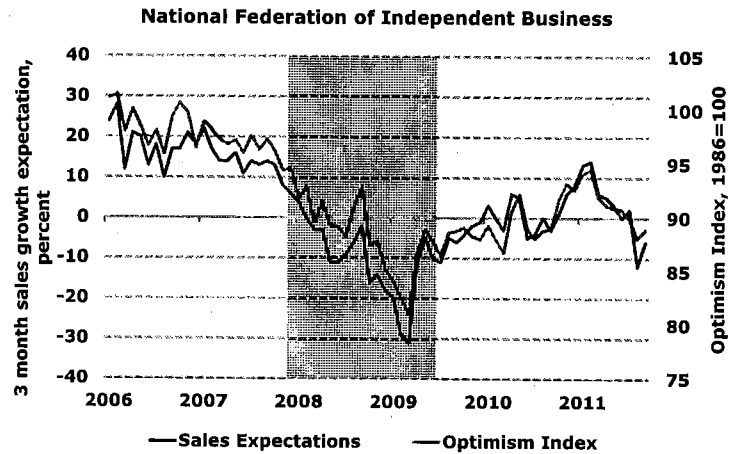
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Source: University of Michigan; Conference Board, data through September 2011

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...as are sales expectations and small business optimism



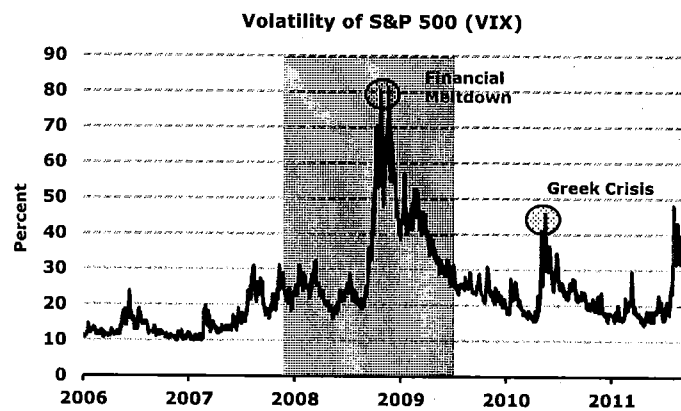
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Stock market volatility has again spiked



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Source: Yahoo! Finance; data through October 12, 2011

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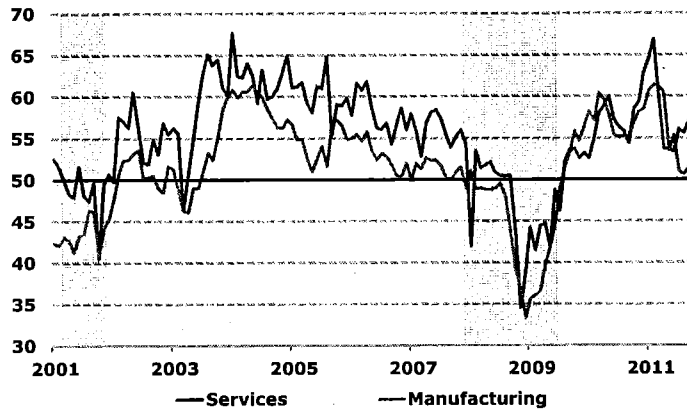
Manufacturing and service sector growth is slowing

An index greater than 50, implies growth

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Institute of Supply Management Index



Source: Institute of Supply Management; data through September 2011

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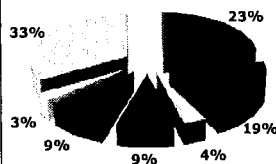
World GDP is expected to remain weak through 2012

Global GDP growth less than 3% implies the world economy is in recession

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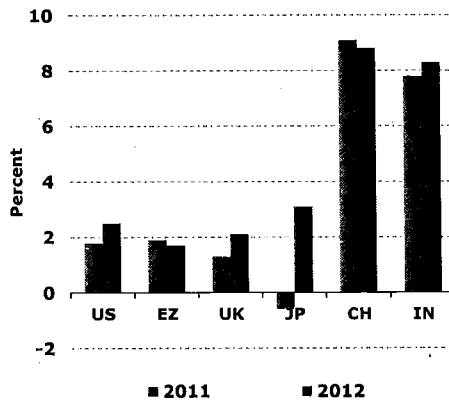
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% of World GDP



■ US ■ EZ ■ UK
 ■ JP ■ CH ■ IN
 ■ Other

Annual Real GDP Growth



Source: Blue Chip Consensus, ERFC, World Bank; data through August 2011

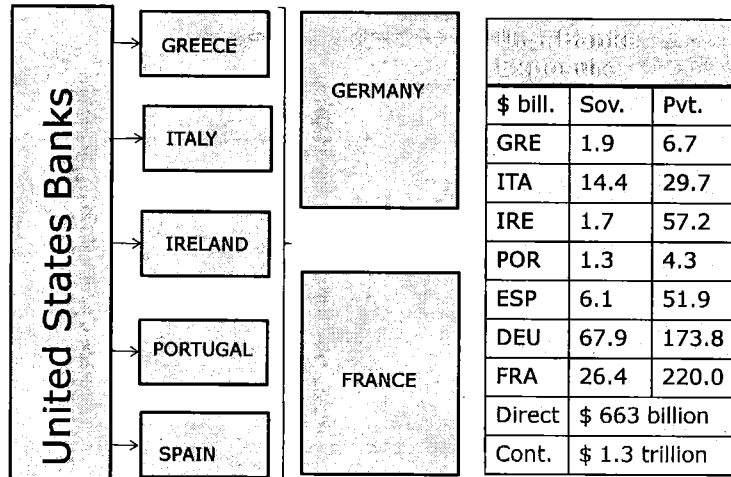
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U.S. banks' exposure to Europe is worrying

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Source: Bank of International Settlements, 2011 Q1

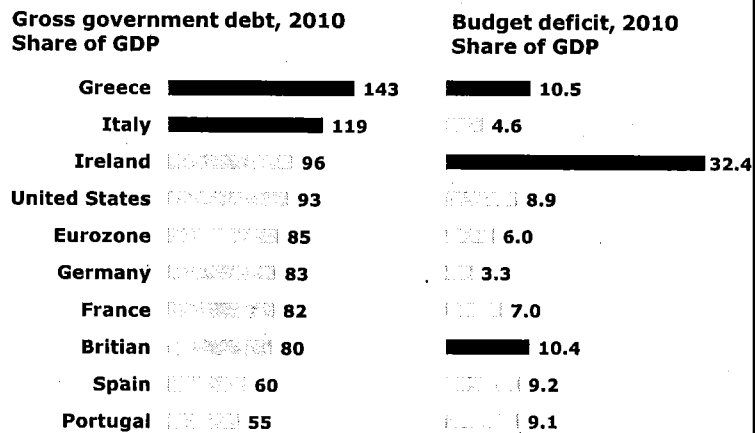
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European economies are under stress

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Source: Eurostat, U.S. Office of Management and Budget, ERF; data through 2010

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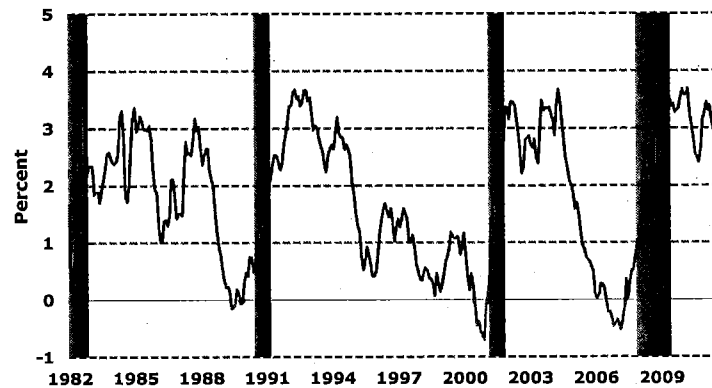
The yield curve spread is shrinking

An inverted yield curve typically precedes a recession; a shrinking yield curve spread indicates weakening growth

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Yield Curve Spread
10-Year minus 3-Month U.S. Treasuries



Source: Federal Reserve Board, ERFC; data through October 12, 2011

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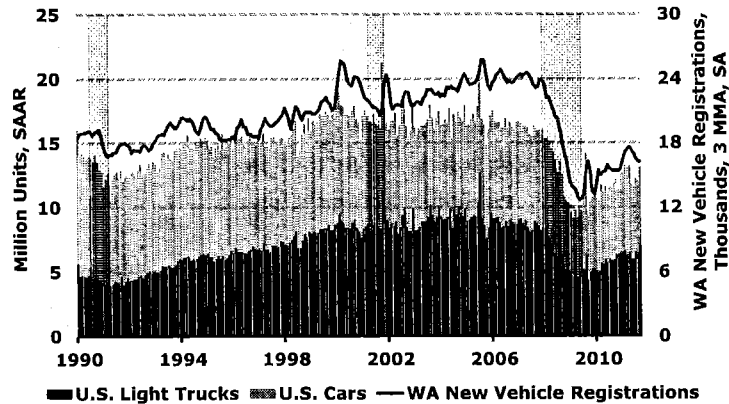


U.S. LMV sales have been adversely affected by supply-chain issues

U.S. LMV sales increased 8% in September

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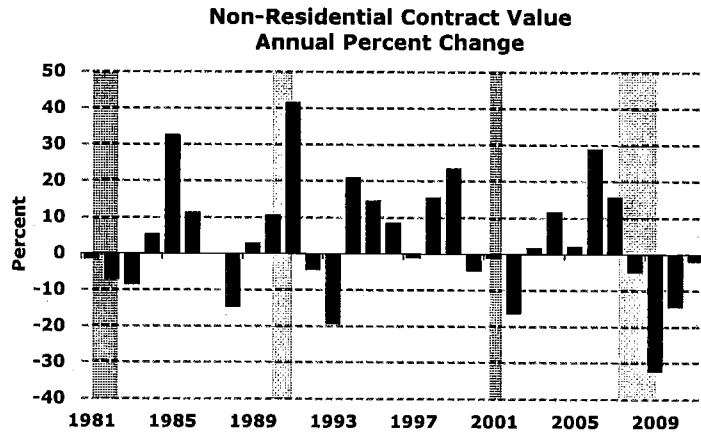


Source: Autodata Corporation, WA DOL; data through September 2011

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This is WA's worst downturn in non-residential construction in 30 years



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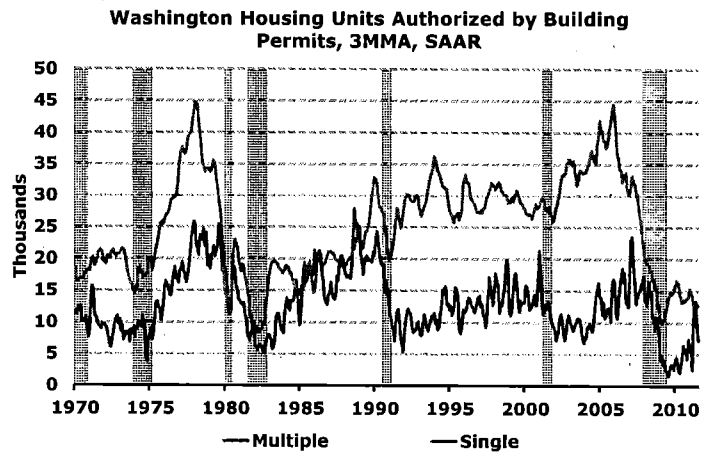
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Source: McGraw-Hill Construction, data through August 2011

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WA multi-family building permits are improving



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Source: U.S. Census Bureau; data through August 2011

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Single-family home prices continue to decline

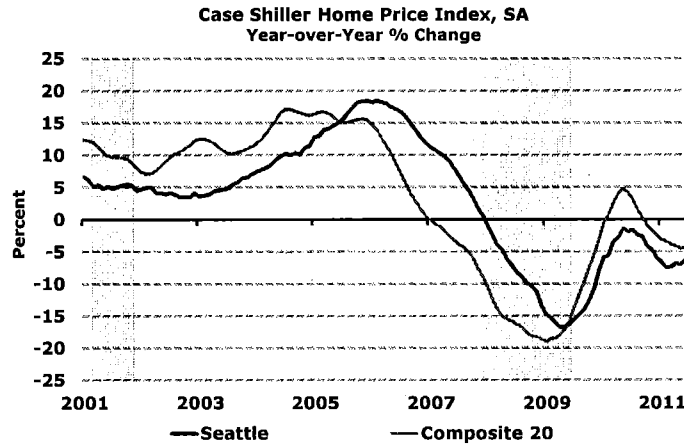
Jul 2011

U.S is down 4.2%

SEA is down 6.5%

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Source: S&P/Case-Shiller; data through July 2011

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More foreclosures can be expected...

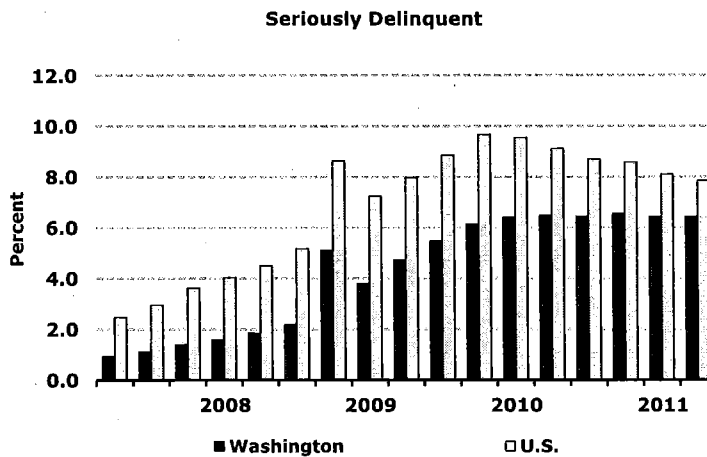
WA Rank:

2011Q1 : 23
2011Q2 : 23

Seriously Delinquent = 90+ Days Past Due or in foreclosure

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Source: Mortgage Bankers Association® National Delinquency Survey, data through 2011 Q2

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...but will eventually slow down

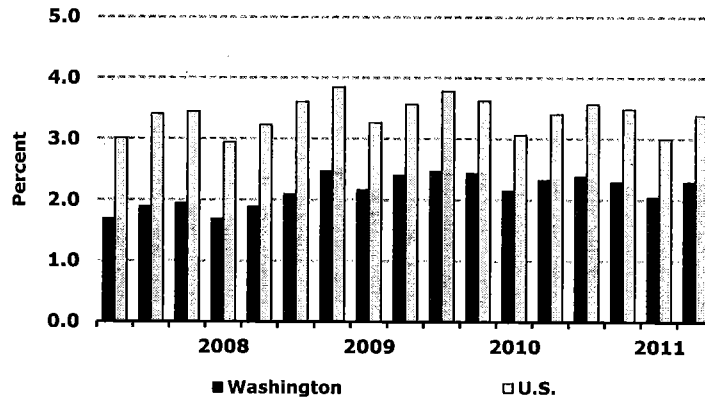
WA Rank:

2011Q1: 47
2011Q2: 47

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30 Days Past Due



Source: Mortgage Bankers Association® National Delinquency Survey, data through 2011 Q2

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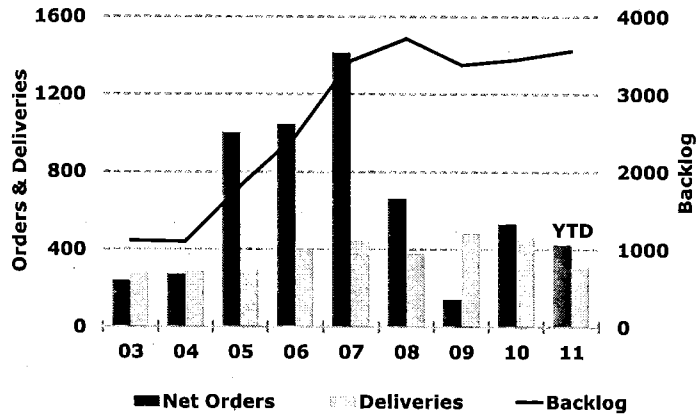


Boeing has over 7 years of commercial orders on its books

Excludes the military's new refueling tanker

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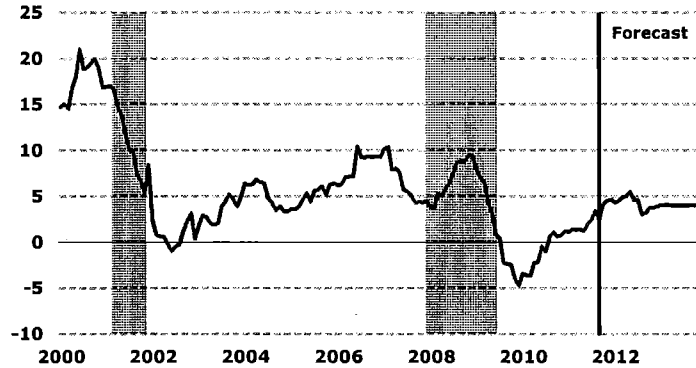
Source: Boeing, data through September 2011

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Software publishing employment is growing

Percent change, year ago



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Source: ERFC September 2011 forecast; actual through September 2011

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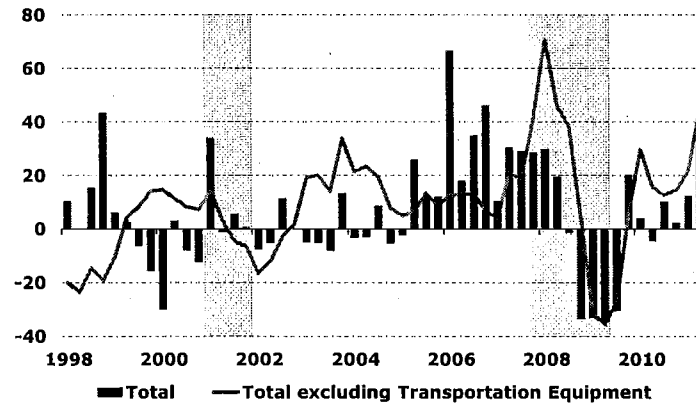
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WA export growth is strong, and will help state outperform in the recovery

Total exports were up 31.5% y/y in Q2

Exports
Percent Change, year ago



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Source: Wisser Trade Data; through 2011 Q2

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WA employment is still in the hole

Peak to
trough job
losses

1981-82:
3.3% of
labor force

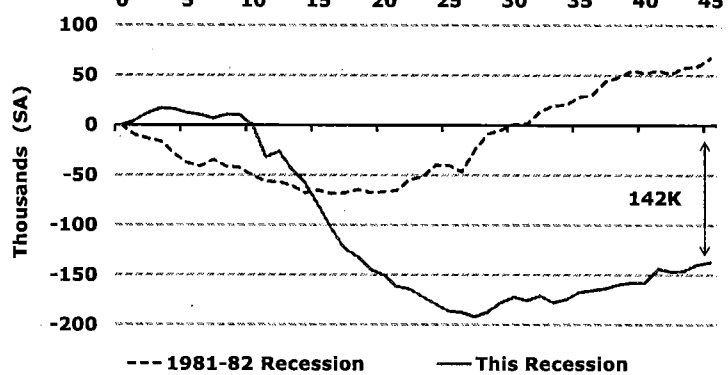
This time:
5.4% of
labor force

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Washington

Months after Recession Start



Source: WA ESD, ERFC Kalman filtered; data through September 2011

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WA employment will recover slightly faster than the U.S.

WA employment peaked 1 month after U.S. (Feb. 2008 vs. Jan. 2008)

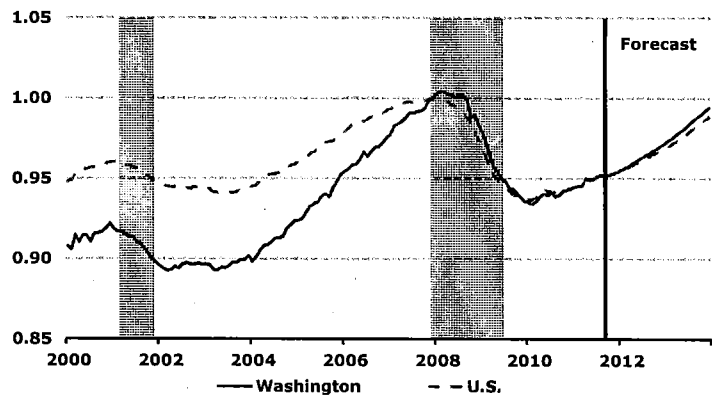
Both WA and the U.S. reached a trough in Feb. 2010

Both WA and the U.S. won't reach their previous peak until after 2013

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December 2007=1.0



Source: ERFC September 2011 forecast; actual through September 2011

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WA personal income will recover faster than that of the U.S.

Date of regaining peak:

WA:

Nominal 11Q1

Real 11Q3

U.S.:

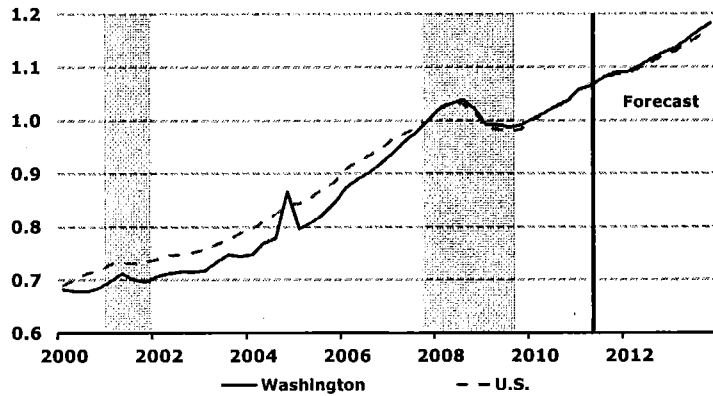
Nominal 10Q4

Real 11Q4

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2007Q4 = 1.0



Source: ERFC Preliminary September 2011 forecast; actual data through 2011Q2

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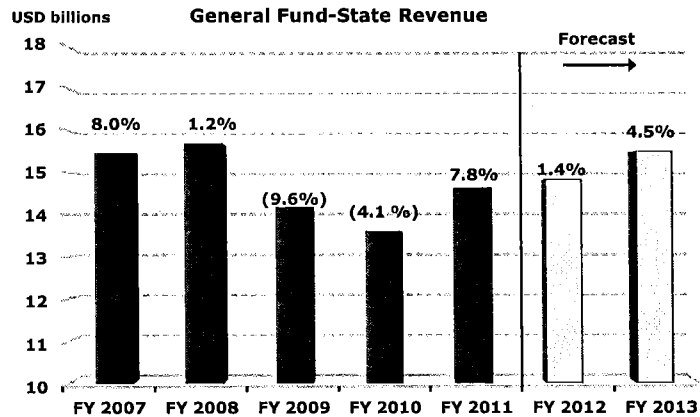


General Fund* forecast by fiscal year

FY 2011 revenues were boosted by one-time transfers of non-GF-S funds into the GF-S

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*General Fund & Related Funds for FY 07-09, General Fund - new definition for FY 10-13
Source: ERFC forecast, September 2011

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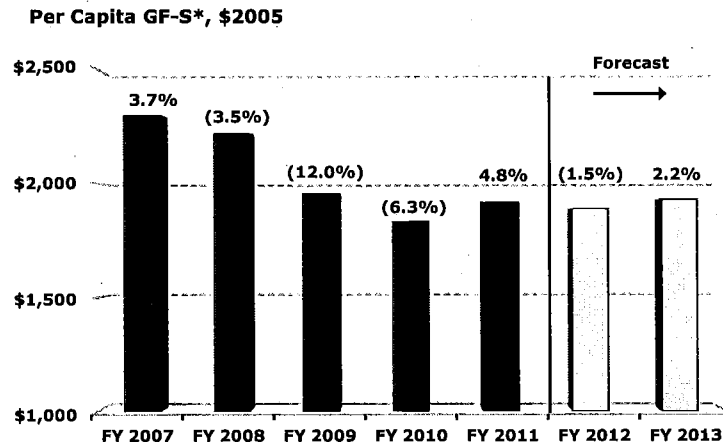
Real Per Capita General Fund*- State Revenue

* General Fund & Related Funds for FY 07-09

General Fund – new definition, for FY 10-13

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Source: ERFC forecast, September 2011

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Conclusion

- The forecast for the 2011-13 Biennium is \$1.4 billion lower due to the worsened economic outlook
- Revenues are expected to grow 7.5% between the 09-11 and 11-13 biennium
- The national and state economies appear headed for an extended period of muddle-through – slow economic and job growth, high unemployment and weak confidence
- The level of uncertainty in the baseline remains high, and downside risks outweigh upside risks

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Questions

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