

# Economic and Revenue Update

Presented to  
The Interbranch Advisory Committee

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WASHINGTON STATE  
ECONOMIC AND REVENUE FORECAST COUNCIL



# Summary

- U.S. GDP is lower than in the June forecast, interest rates are higher
- WA personal income and building permits are lower than in the June forecast
- The forecast assumes the Federal Reserve will increase interest rates by 0.75% at its meeting today (September 21<sup>st</sup>)
- The forecast of funds subject to the budget outlook is increased by \$43 million for 2021-23 biennium and decreased by \$495 million for the 2023-25 biennium



# Since the June forecast...

## Positives:

- U.S. employment has increased by 841,000 jobs
- WA employment has increased by 38,600 jobs
- WA revenue collections remain strong overall but REET collections have been slowing

## Negatives:

- Inflation remains high
- Interest rates are higher
- Supply chain and logistics bottlenecks continue to hamper production and sales



# Data updates since preliminary forecast

## **U.S.**

- August employment: +315,000 jobs
- August unemployment rate: increased from 3.5% to 3.7%
- August Consumer Price Index rose by 8.2% over the last 12 months
- GDP growth: 2022 Q2 was revised up to -0.6% from -0.9%

## **Washington**

- August employment: +9,000 jobs



# Forecast risks

## Upside

- Supply chains recover more quickly than expected, leading to increased supply of goods and services, slower inflation
- Quicker resolution of Russia – Ukraine conflict
- Consumer spending is stronger than expected

## Downside

- Rising interest rates push economy into recession
- Inflation remains elevated
- Russia – Ukraine conflict intensifies



# Recent commentary and headlines

GCEA members were asked the likelihood of the Federal Reserve successfully slowing inflation without causing a recession. Their average response: a 38% probability.

## Brookings Institution (August 2022)

- New data show long Covid keeping up to 4 million people out of work

## Evercore ISI consultancy (Sept. 9, 2022)

- State tax survey shows overall receipts pulling back for 4<sup>th</sup> straight month but remain solid

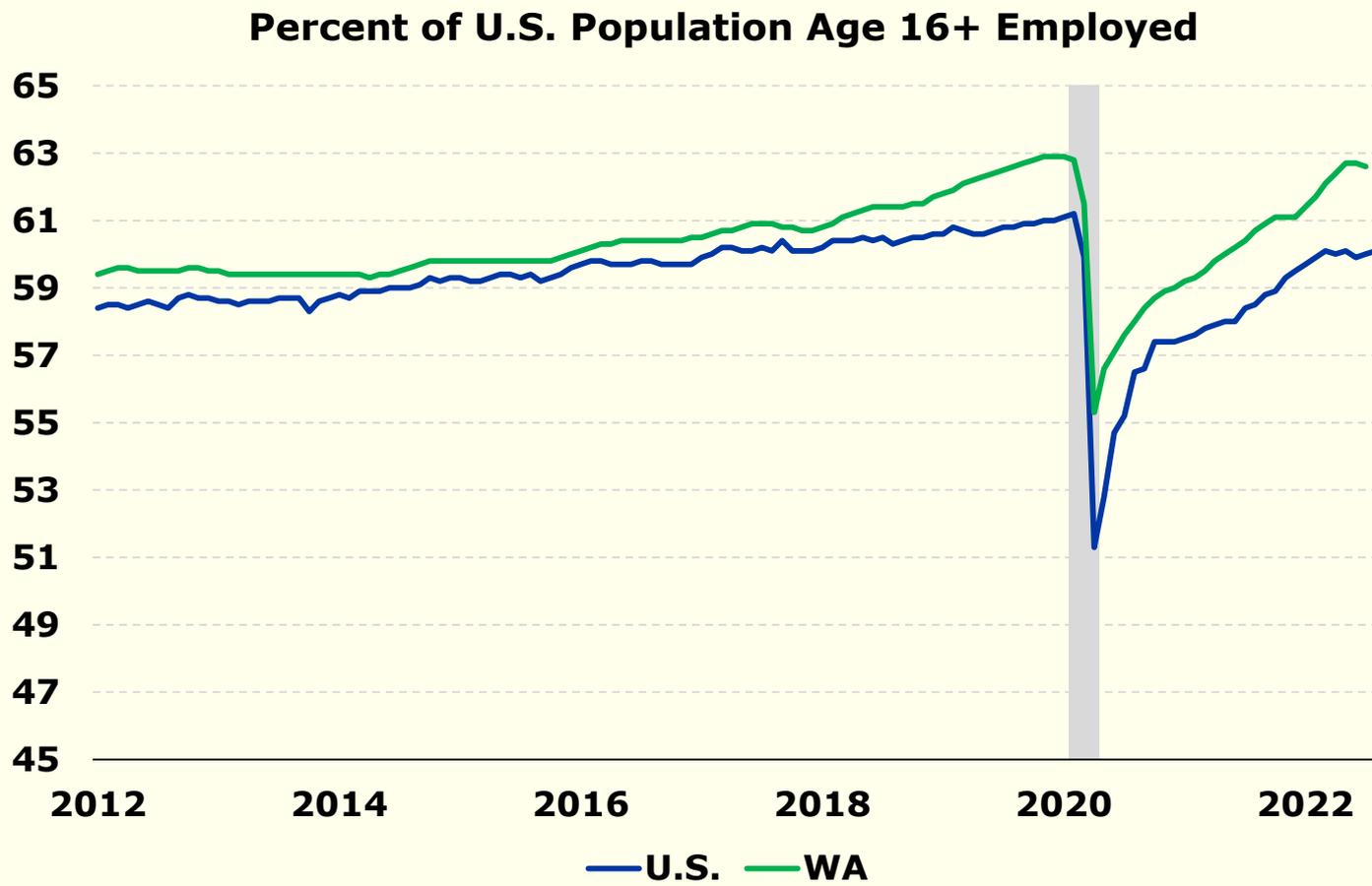
## Blue Chip Economic Indicators (Sept. 2022)

- U.S. recession probability in:
  - 2022: 42%
  - 2023: 54%

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# U.S. employment-population ratio is 1.0 percentage points lower than in January 2020; WA is 0.3% lower



Source: U.S. Bureau of Labor Statistics, data through August 2022



# Wages are growing for all educational groups but generally not keeping up with inflation

Weekly median wage growth, 2019 Q2 to 2022 Q2:

Less than HS: 17.1%

HS: 11.6%

Some college/AA degree: 13.3%

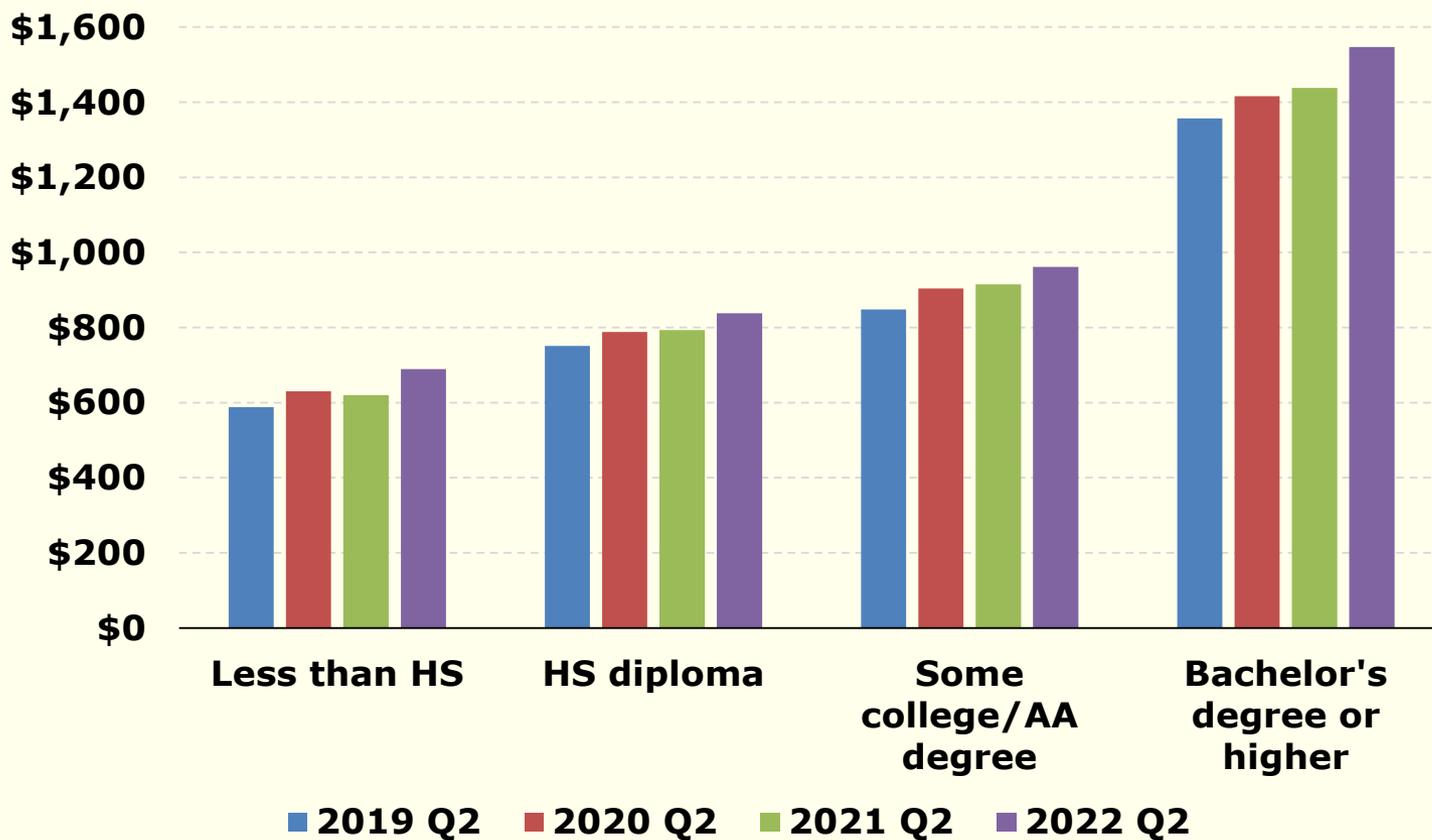
Bachelor's degree or more: 14.0%

*CPI change, 2019 Q2 to 2022 Q2: 14.3%*

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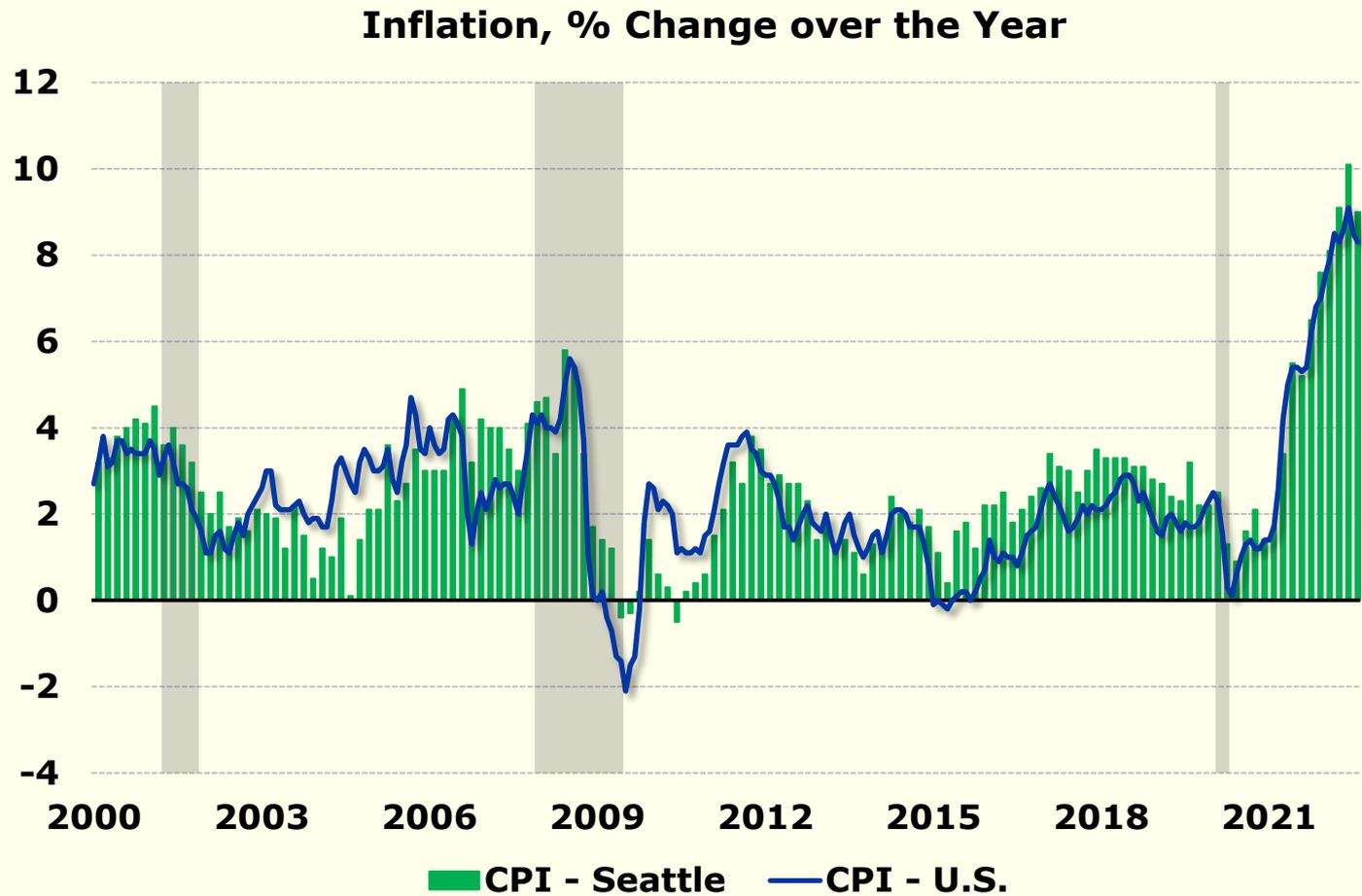
## Median Weekly Earnings, Full-time Workers



Source: U.S. Bureau of Labor Statistics, data through 2022 Q2



# In August, inflation over the year decreased slightly but remains at historically high levels

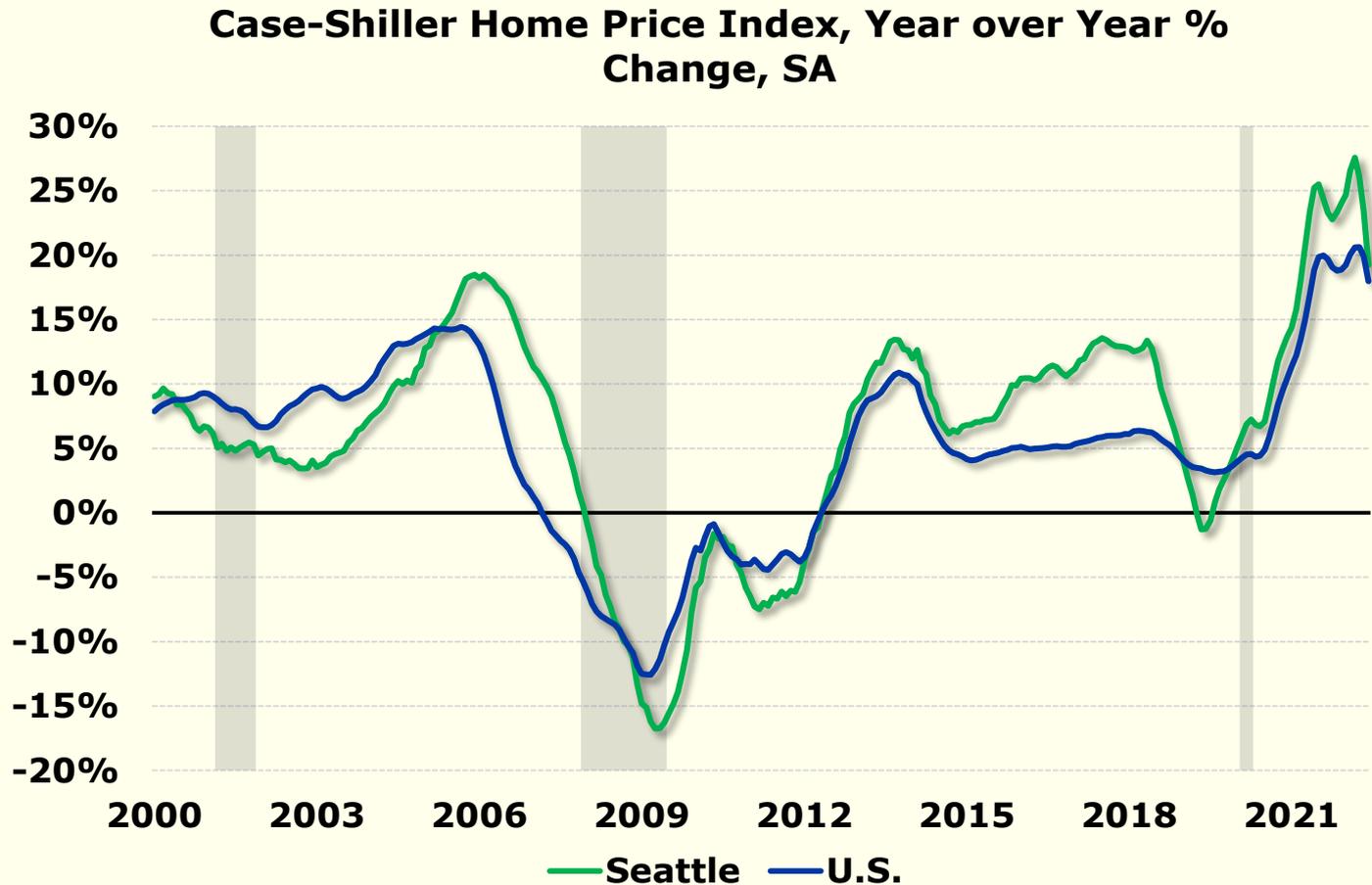


Source: U.S. Bureau of Labor Statistics, data through August 2022

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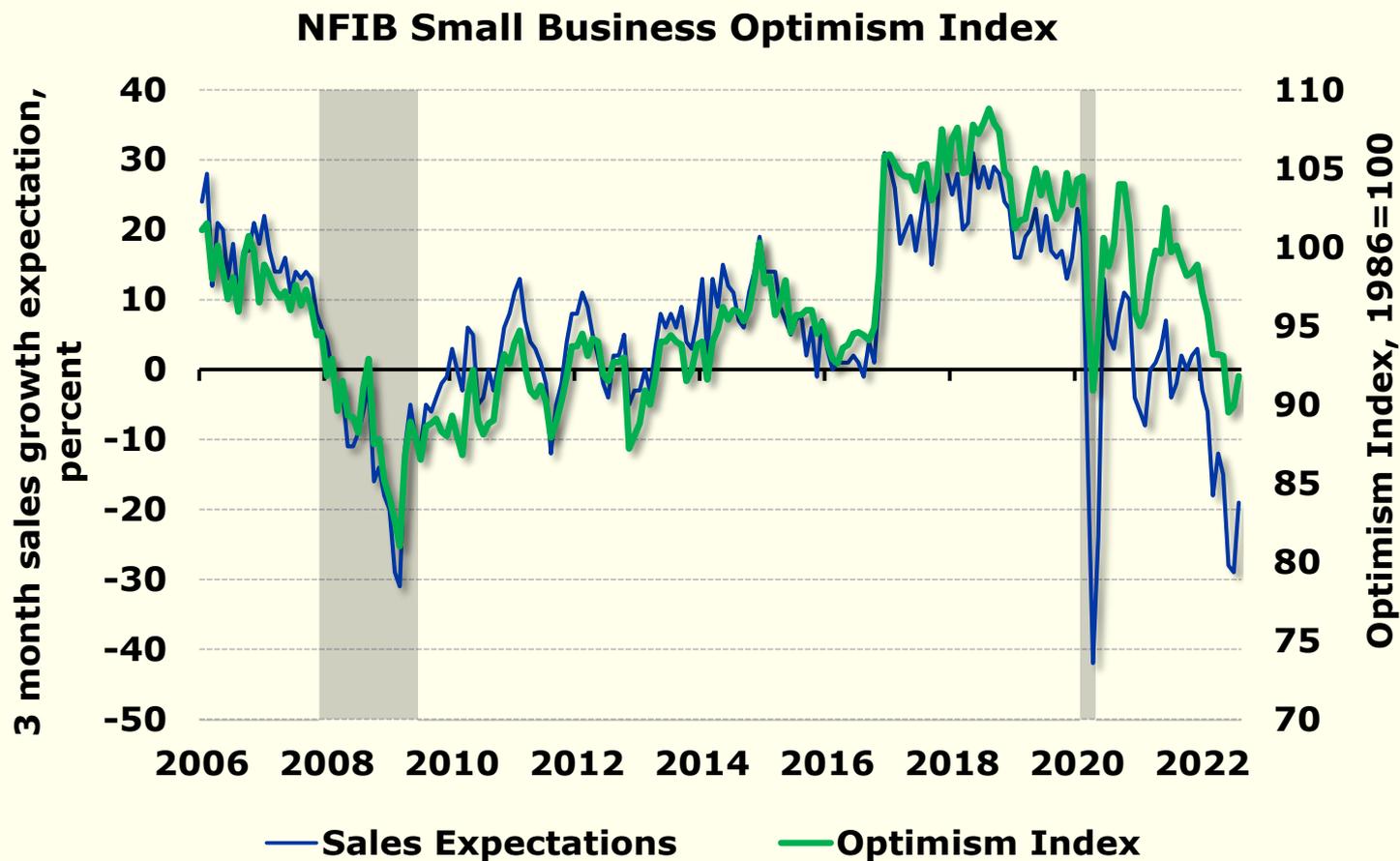
# Home price growth remains very strong but has started to slow



Source: Case-Shiller, data through June 2022



# Small business optimism, sales expectations improved in August but remain at low levels

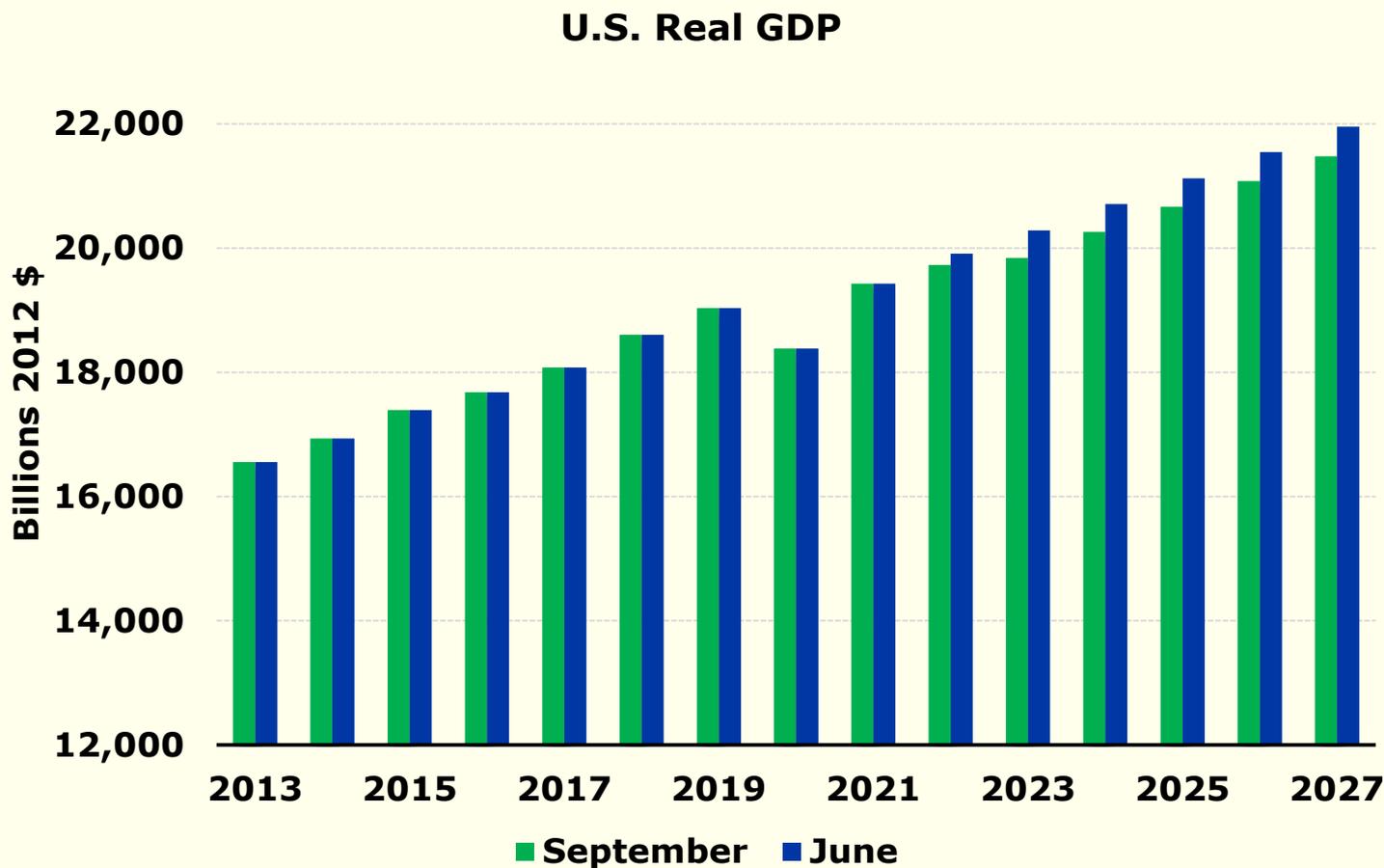


Source: National Federation of Independent Business; data through August 2022

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# GDP is lower than in the June forecast



Source: ERFC September 2022 forecast; historical data through 2021

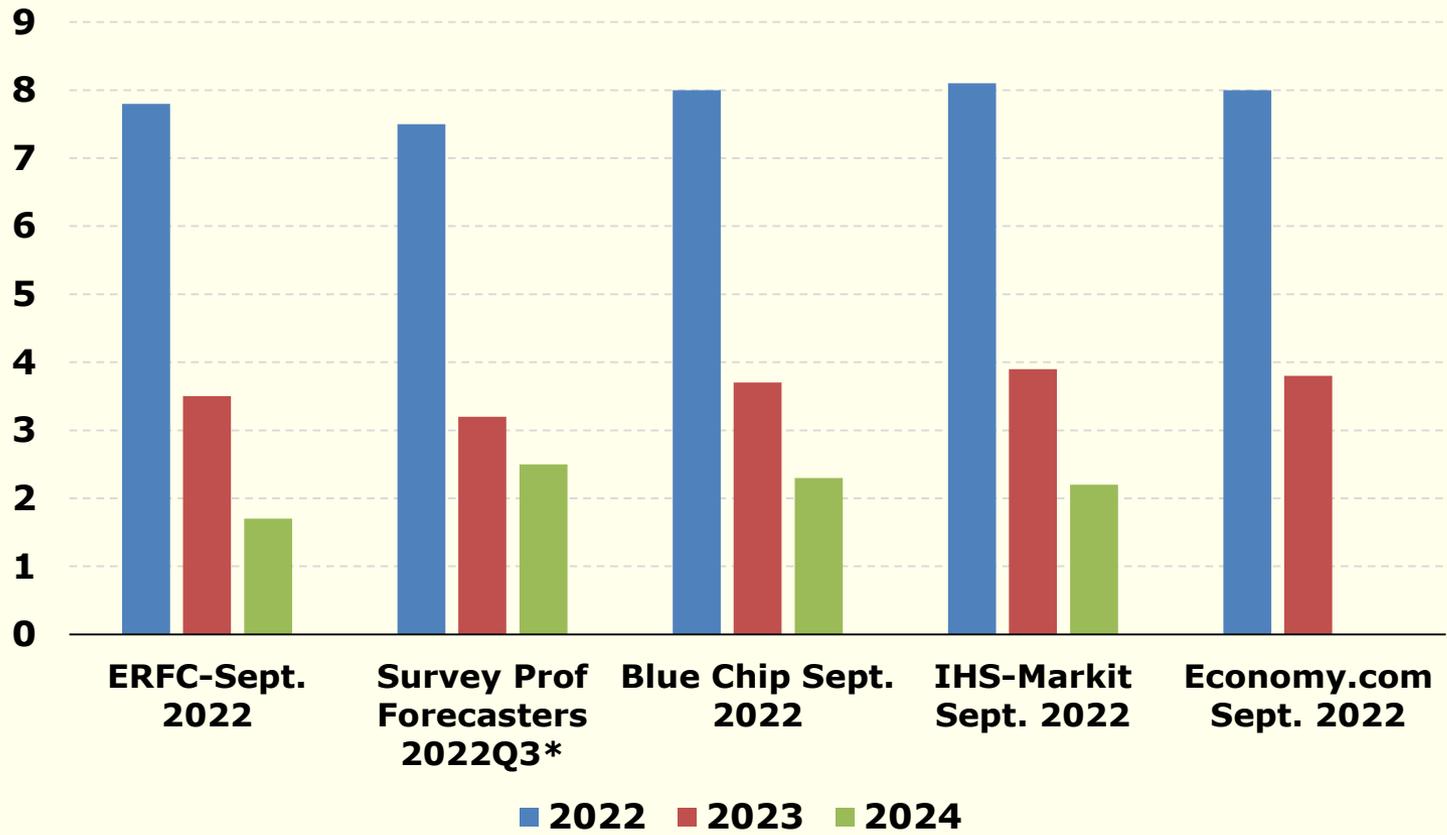
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# Inflation forecasts very similar to June, still expected to decrease after this year

The Consumer Price Index increased by 4.7% in 2021

### Consumer Price Index, Annual % Change

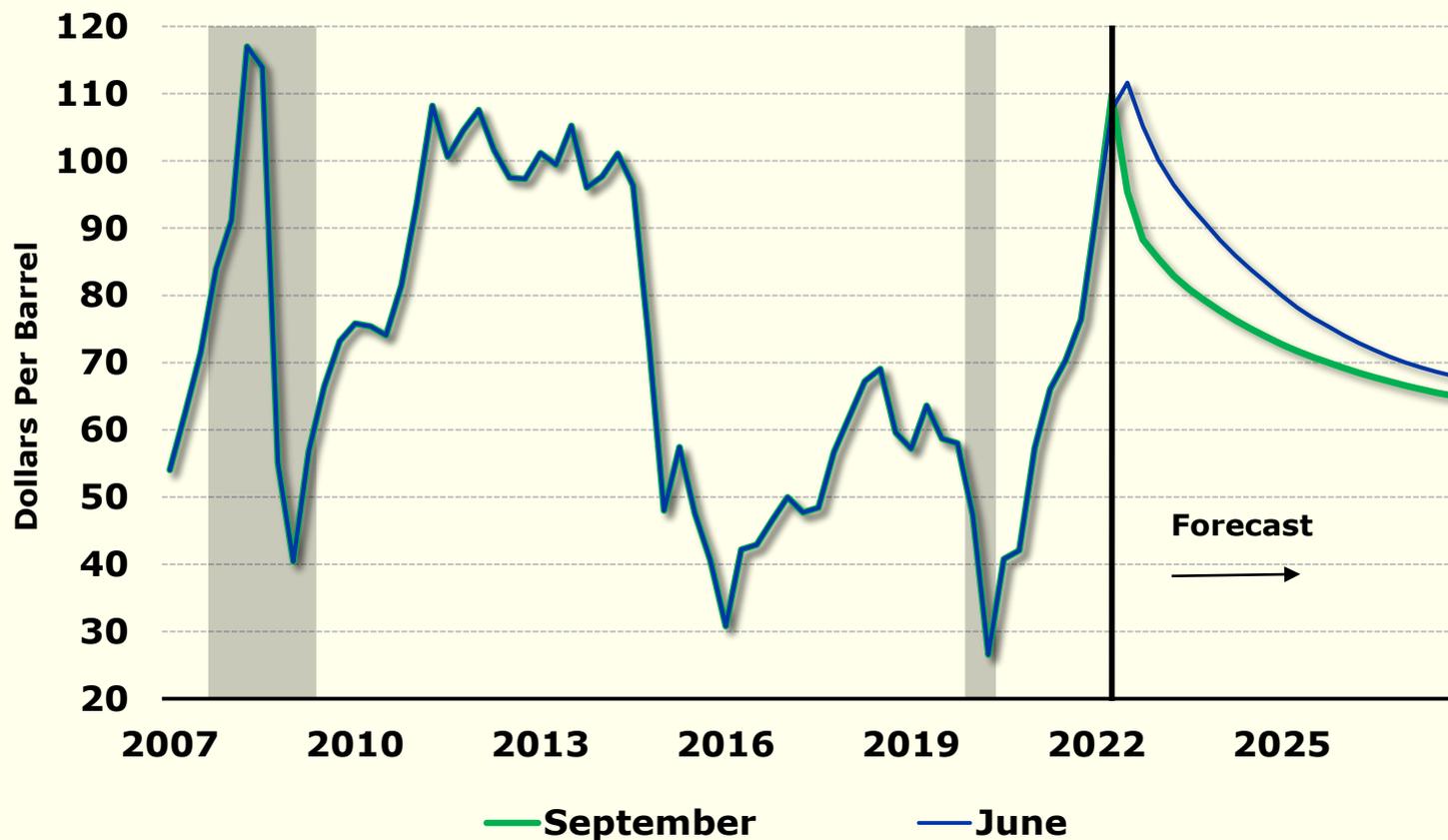


Survey of Professional Forecasters reflects change in price level in 4<sup>th</sup> quarter compared to 4<sup>th</sup> quarter of prior year; all others reflect average change over the year compared to prior year.

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# Oil prices are lower than in June forecast, 2<sup>nd</sup> quarter 2022 expected to be peak

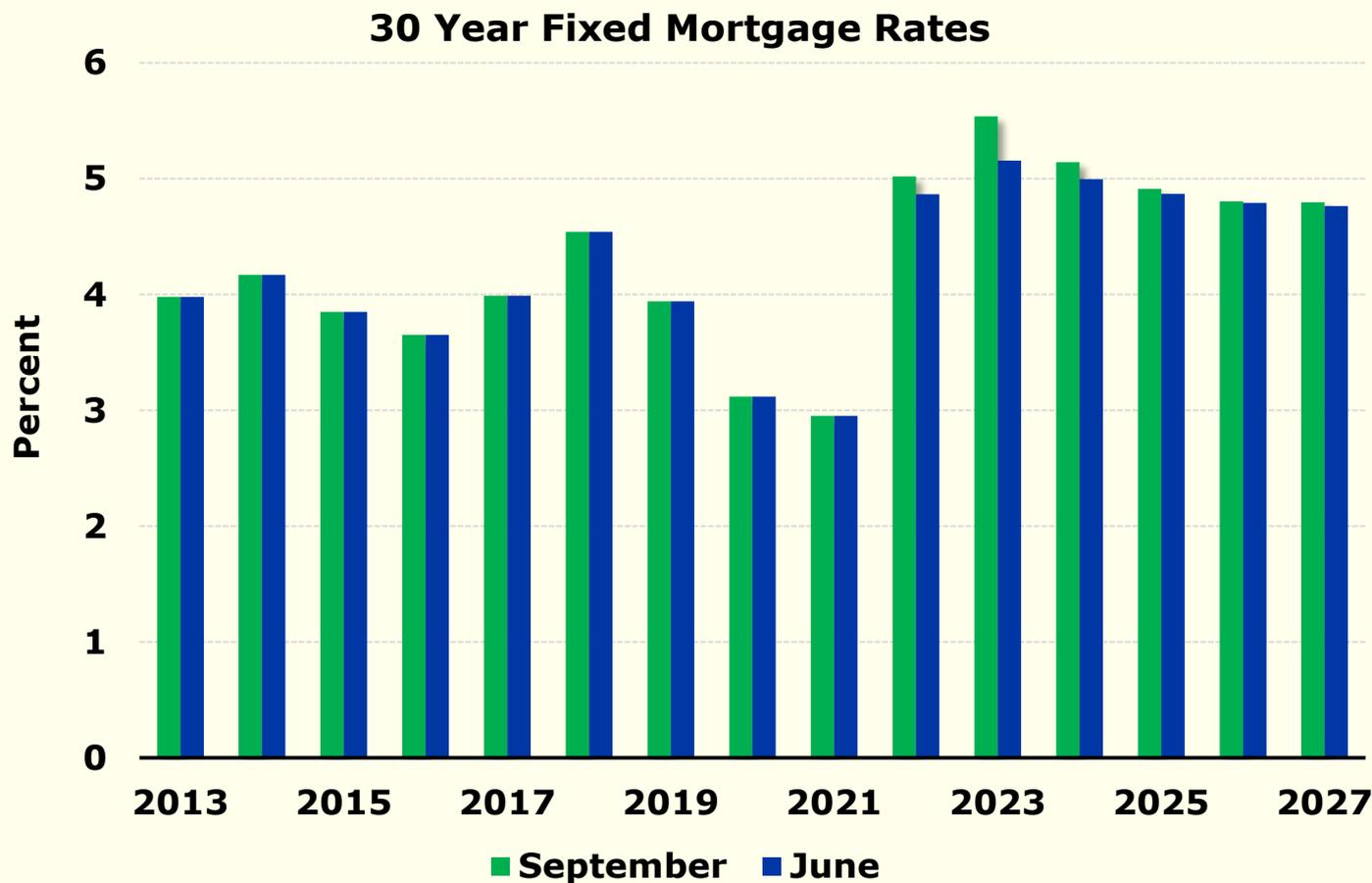


Source: Energy Information Administration, IHS Markit, ERFC; data through Q2 2022  
Note: Vertical black line indicates last actual

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# Interest rates are higher in 2022 through 2024 compared to the June forecast

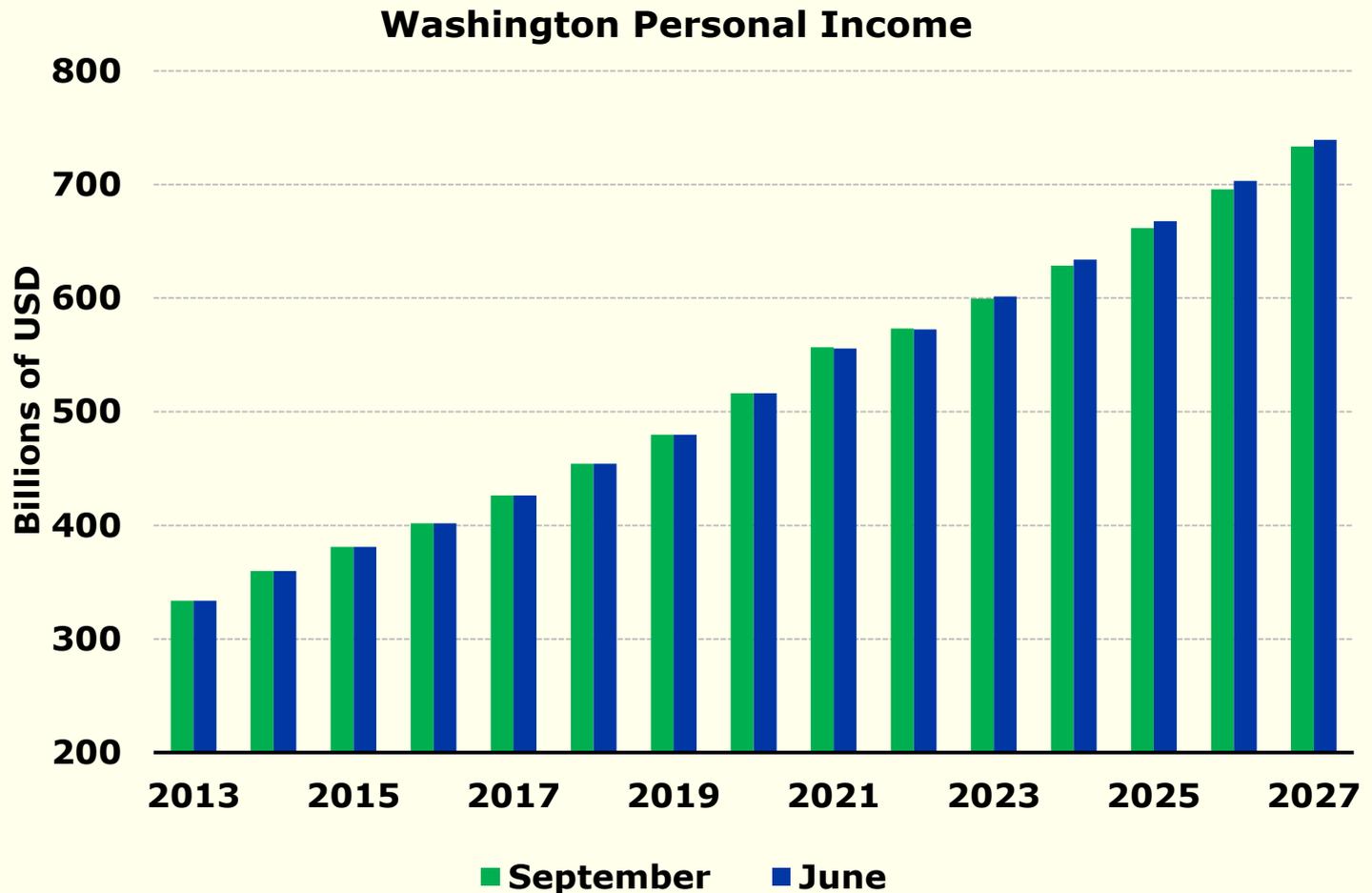


Source: ERFC September 2022 forecast; historical data through 2021

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# WA personal income is lower in 2023 through 2027 compared to the June forecast



Source: ERFC September 2022 forecast; historical data through 2021

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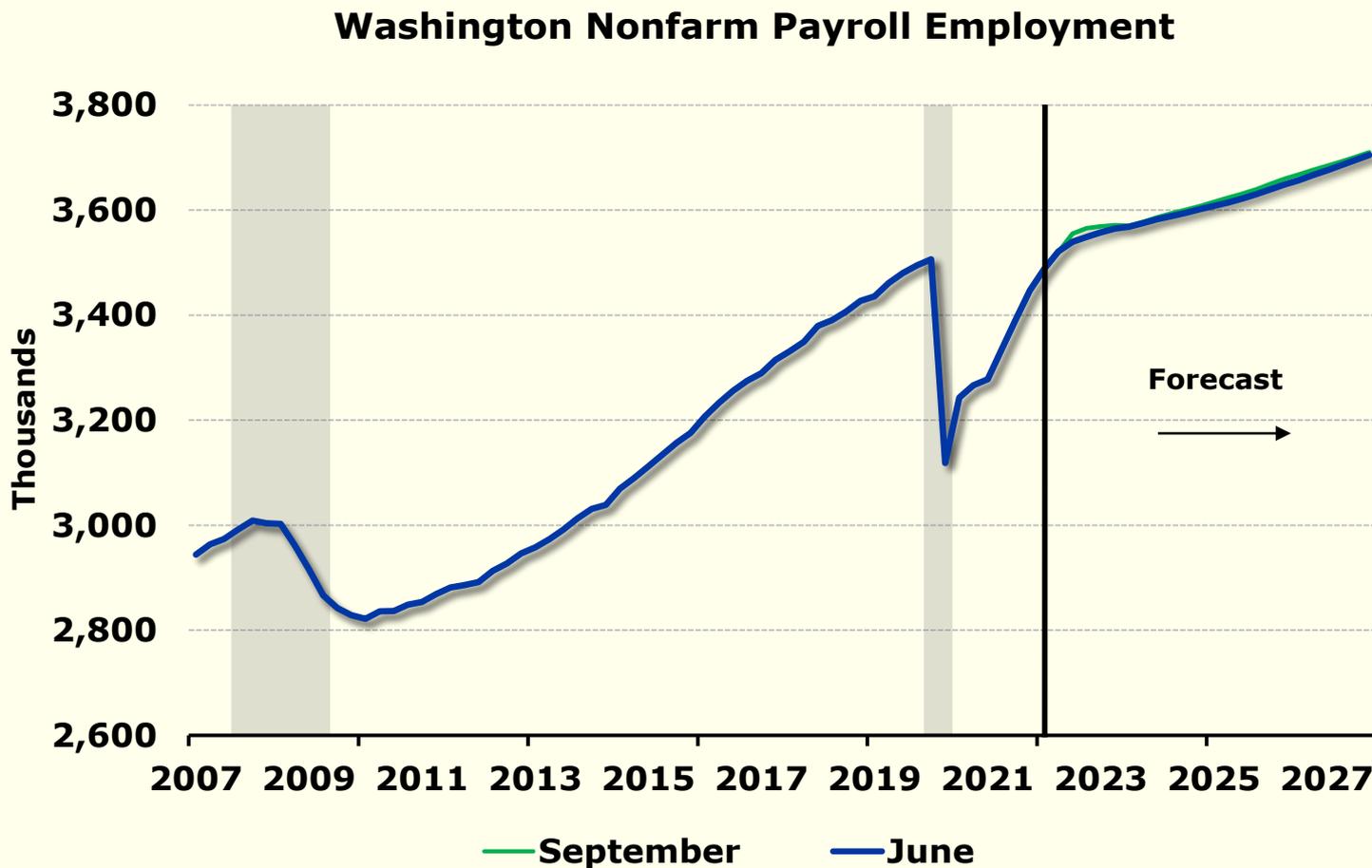


# WA employment forecast is very similar to the June forecast

Average annual employment growth, 2023 to 2027:

U.S. = 0.2%

WA = 0.9%

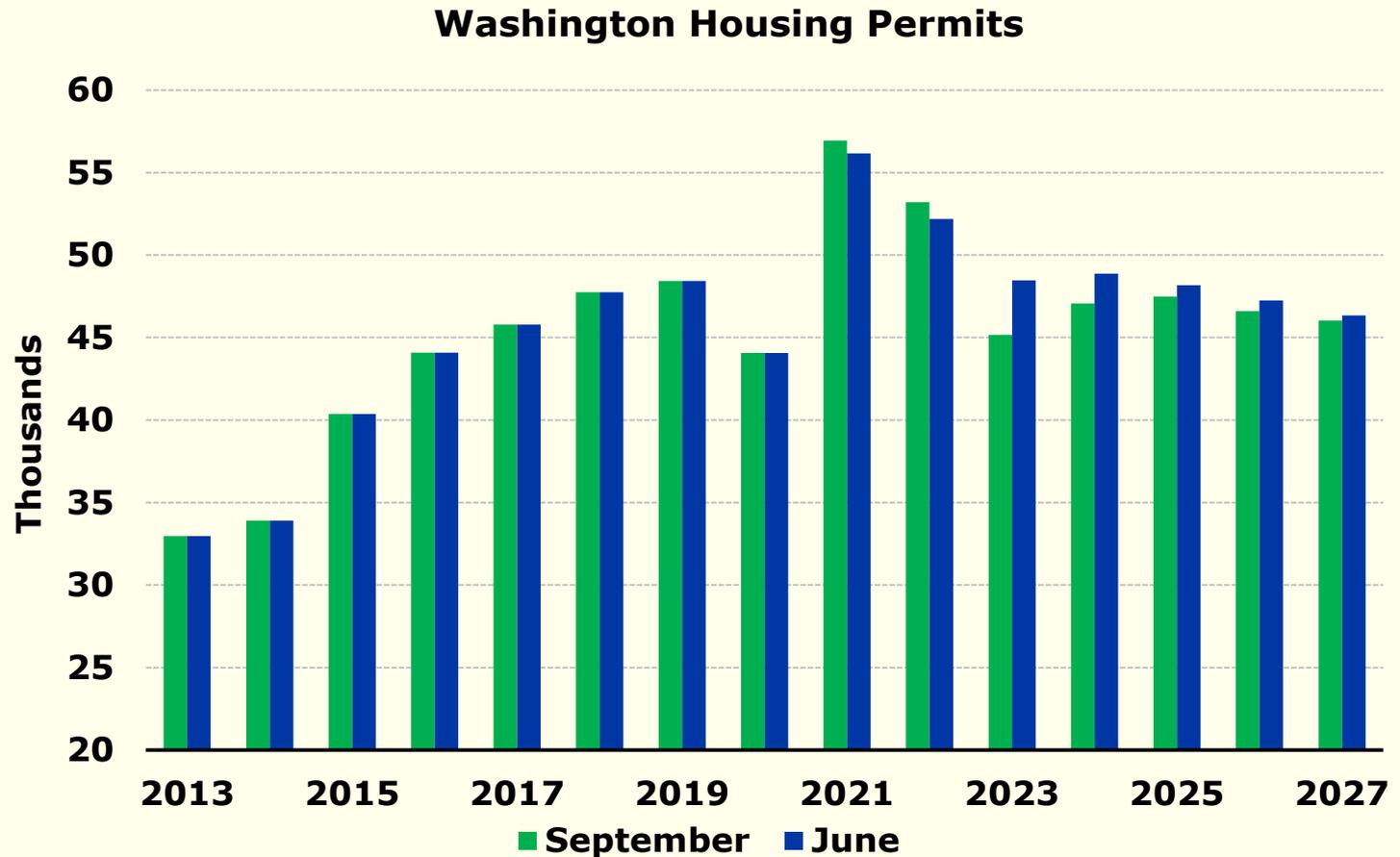


Source: ERFC September 2022 forecast; historical data through Q1 2022

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# WA housing permits for 2022 – 2027 average 1,000 units per year less than the June forecast

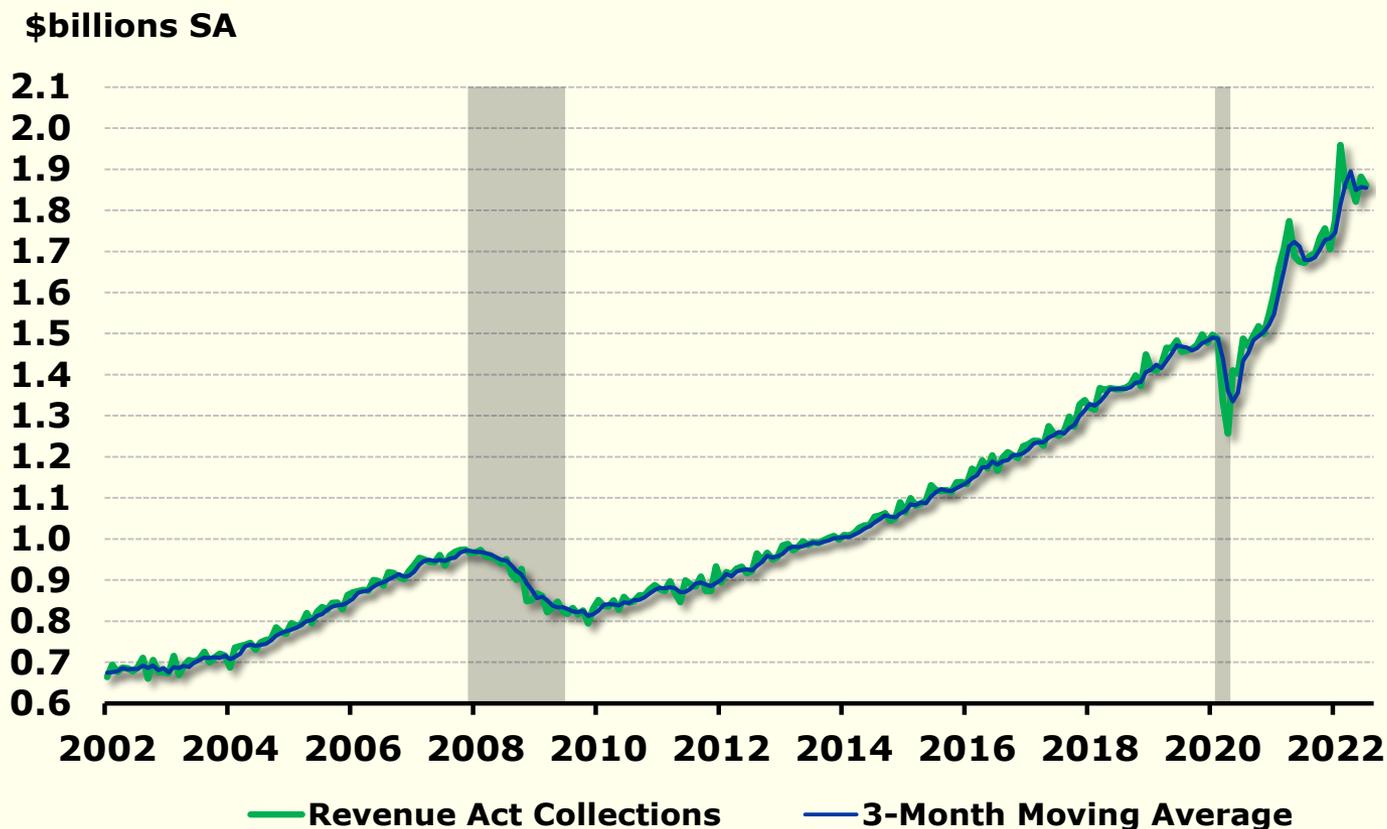


Source: ERFC September 2022 forecast; historical data through 2021

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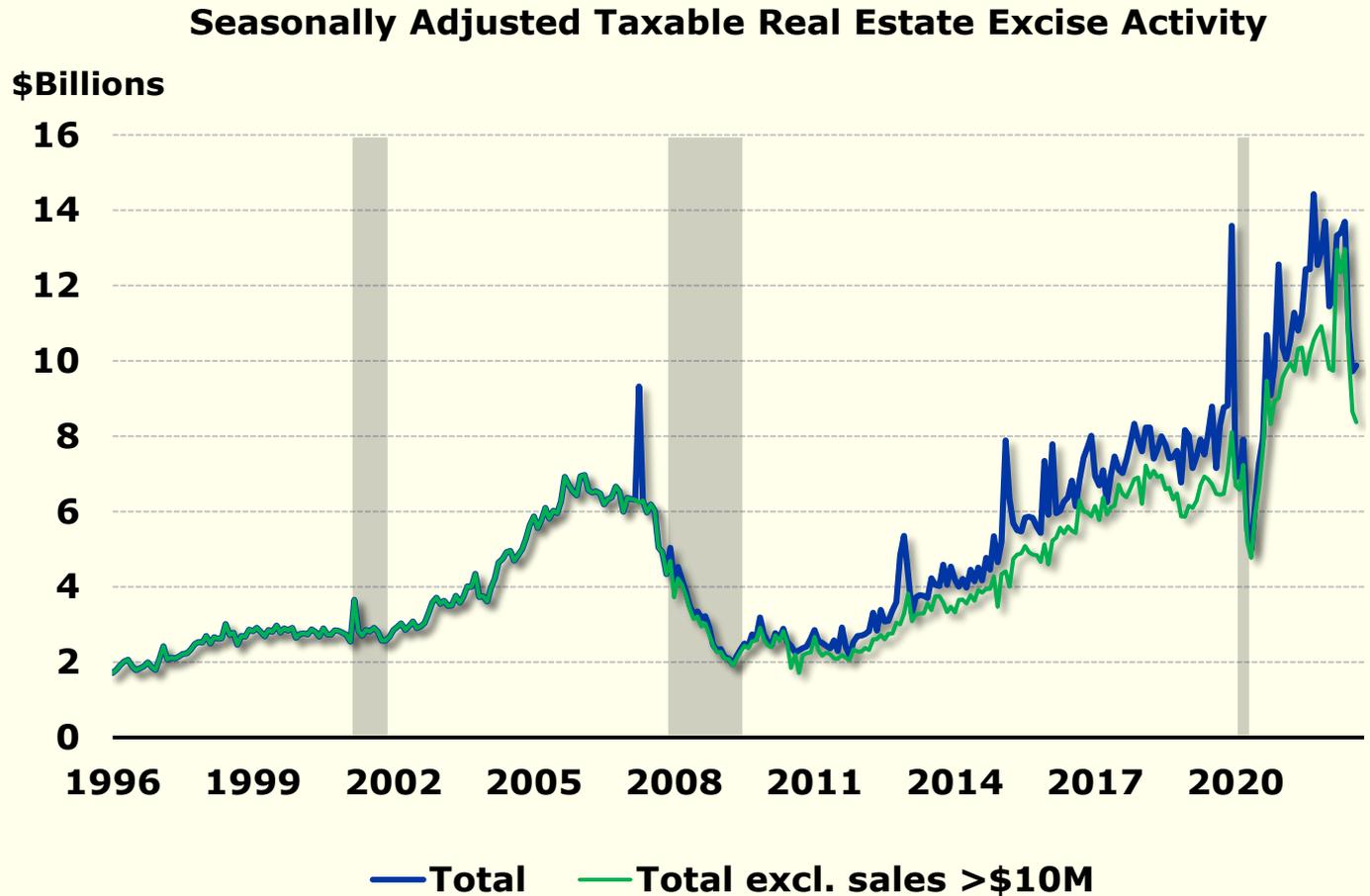
# Revenue Act collections growth was a strong 10.0% for July activity



\* 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 2022 activity



# Seasonally adjusted taxable REET activity was below \$10 billion in July and August



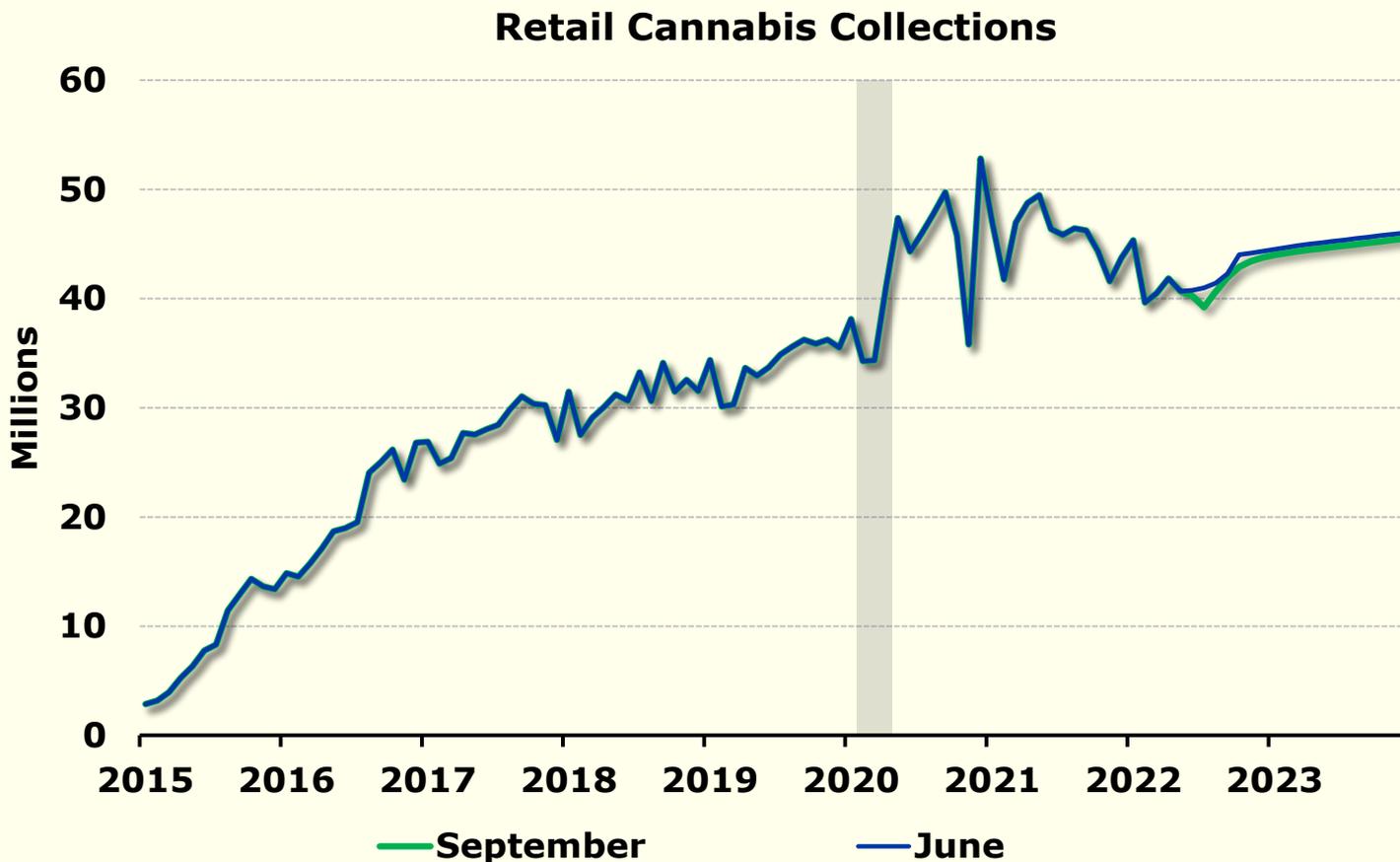
Source: ERFC; Monthly data through August 2022 estimate

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# Cannabis revenues appear to be moderating

Collections have come in 2.5% below the June forecast



Source: ERFC September 2022 forecast; historical data through August 2022

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# Cannabis excise tax and license fee estimates

Total change since June forecast:

- 2021-23  
-\$8.6 M
- 2023-25  
-\$13.1 M
- 2025-27  
-\$13.9 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	\$333	\$337	\$358
Non-GF	\$713	\$777	\$825
<b>Total</b>	<b>\$1,046</b>	<b>\$1,114</b>	<b>\$1,183</b>

Detail may not add to total due to rounding  
Source: ERFC September 2022 forecast; historical data through August 2022



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

<b>\$Millions</b>	<u>June 2022 Forecast</u>	<u>Non-economic Change</u>	<u>Forecast Change</u>	<u>Sept 2022 Forecast</u>	<u>Total Change<sup>#</sup></u>
General Fund-State	\$60,218	(\$29)	\$46	\$60,235	\$17
Education Legacy Trust Account	\$1,822	n/a	\$27	\$1,849	\$27
WA Opportunity Pathways Account	\$342	n/a	\$18	\$360	\$18
Workforce Education Investment Account	\$766	n/a	(\$19)	\$747	(\$19)
<b>Total</b>	<b>\$63,147</b>	<b>(\$29)</b>	<b>\$72</b>	<b>\$63,191</b>	<b>\$43</b>

# Detail may not add to total due to rounding



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

<b>\$Millions</b>	<u>June 2022 Forecast</u>	<u>Non-economic Change</u>	<u>Forecast Change</u>	<u>Sept 2022 Forecast</u>	<u>Total Change#</u>
General Fund-State	\$62,731	(\$117)	(\$332)	\$62,283	(\$449)
Education Legacy Trust Account	\$2,105	n/a	(\$18)	\$2,087	(\$18)
WA Opportunity Pathways Account	\$355	n/a	(\$8)	\$347	(\$8)
Workforce Education Investment Account	\$809	n/a	(\$22)	\$787	(\$22)
<b>Total</b>	<b>\$65,999</b>	<b>(\$117)</b>	<b>(\$378)</b>	<b>\$65,504</b>	<b>(\$495)</b>

# Detail may not add to total due to rounding



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

- Lower WA personal income results in slower growth of retail sales
- Lower WA residential construction and construction employment reduce collections from the construction sector
- Higher interest rates slow real estate activity and REET collections



# 2021-23 Biennium alternative General Fund-State forecasts

<b>\$Millions (cash basis)</b>	<b>2021-23 Biennium</b>	<b>Difference From the baseline<sup>#</sup></b>
<b>Sept. 2022 Baseline (50%)</b>	<b>\$60,235</b>	
<b><u>Sept. 2022 Alternative Forecasts</u></b>		
<b>Optimistic (15%)</b>	<b>\$61,689</b>	<b>\$1,455</b>
<b>Pessimistic (35%)</b>	<b>\$58,567</b>	<b>(\$1,668)</b>
<b>Probability Weighted Average</b>	<b>\$59,869</b>	<b>(\$366)</b>
<b>GCEA*</b>	<b>\$60,294</b>	<b>\$59</b>

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



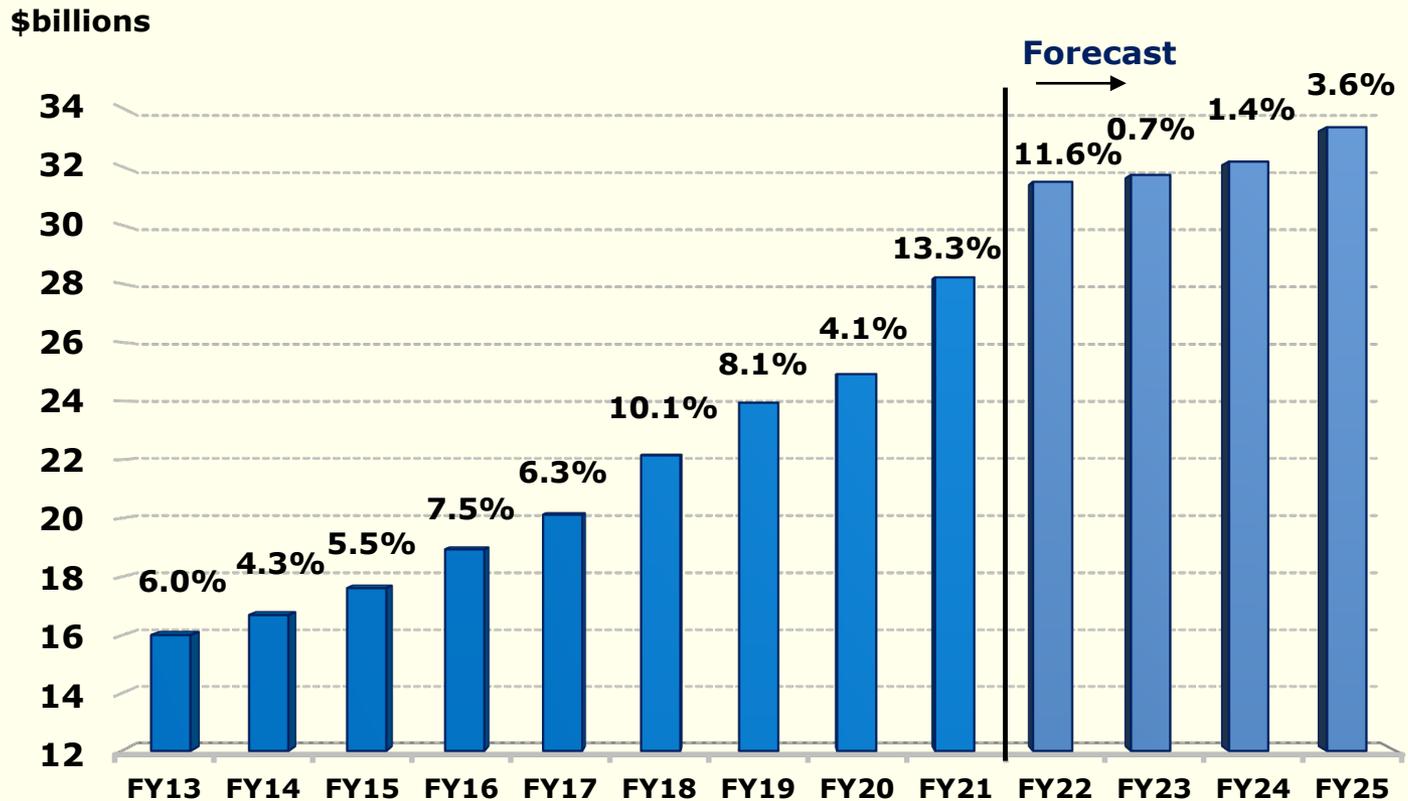
# 2023-25 Biennium alternative General Fund-State forecasts

<b>\$Millions (cash basis)</b>	<b>2023-25 Biennium</b>	<b>Difference From the baseline<sup>#</sup></b>
<b>Sept. 2022 Baseline (50%)</b>	<b>\$62,283</b>	
<b><u>Sept. 2022 Alternative Forecasts</u></b>		
<b>Optimistic (15%)</b>	<b>\$66,845</b>	<b>\$4,562</b>
<b>Pessimistic (35%)</b>	<b>\$56,712</b>	<b>(\$5,571)</b>
<b>Probability Weighted Average</b>	<b>\$61,017</b>	<b>(\$1,266)</b>
<b>GCEA*</b>	<b>\$63,026</b>	<b>\$743</b>

\*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



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\*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 2022



# Conclusion

- U.S. forecast: GDP lower, interest rates higher than June
- WA forecast: personal income, building permits lower than June
- Inflation, Ukraine – Russia conflict, recession continue to pose forecast risks
- Total state revenues are expected to grow 18.9% between the 2019-21 and 2021-23 biennia and 3.7% between the 2021-23 and 2023-25 biennia



# Questions



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