

Washington State Economic & Revenue Outlook

Presented to
Executive IT Seminar

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Lake Chelan, Washington



Washington State Economic and Revenue Forecast Council



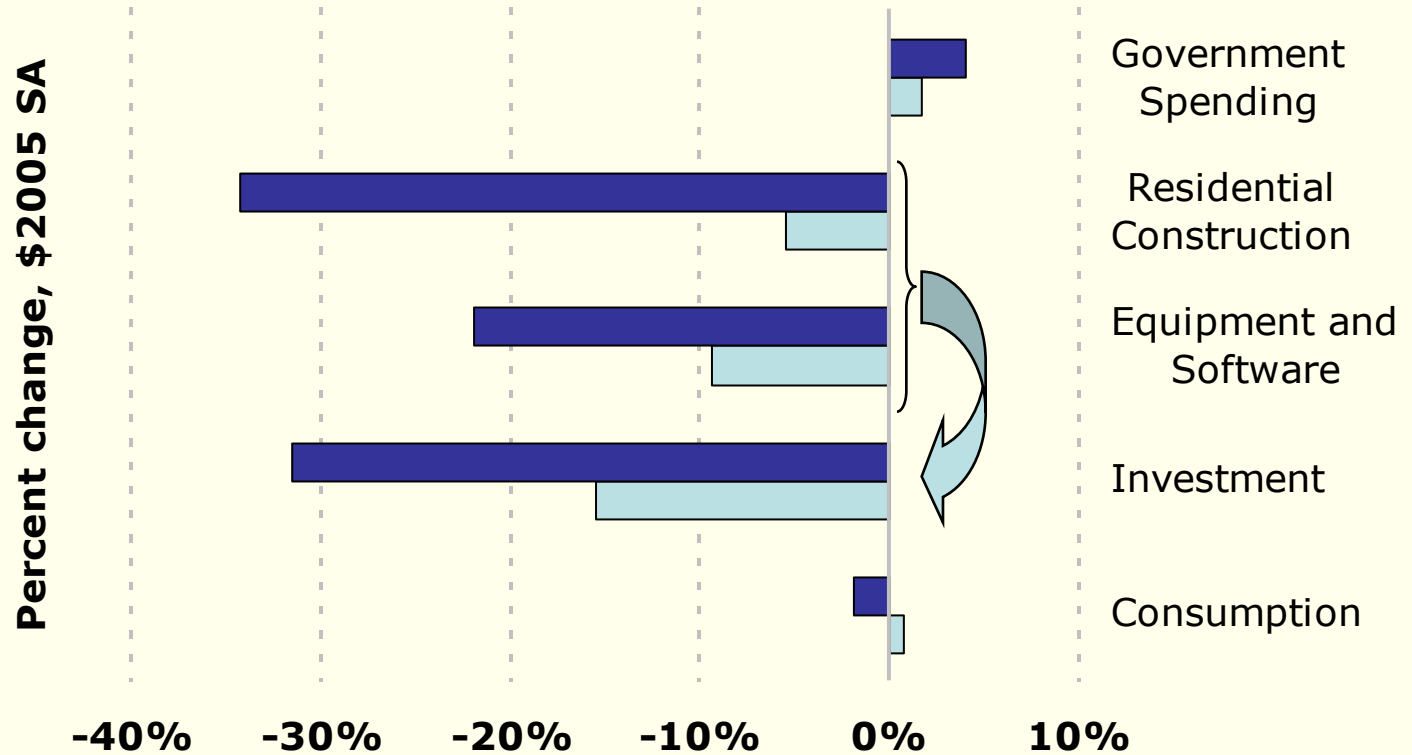
Summary

- 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



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

Peak to trough decline in GDP components



■ Prior post WWII recessions

■ This recession

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

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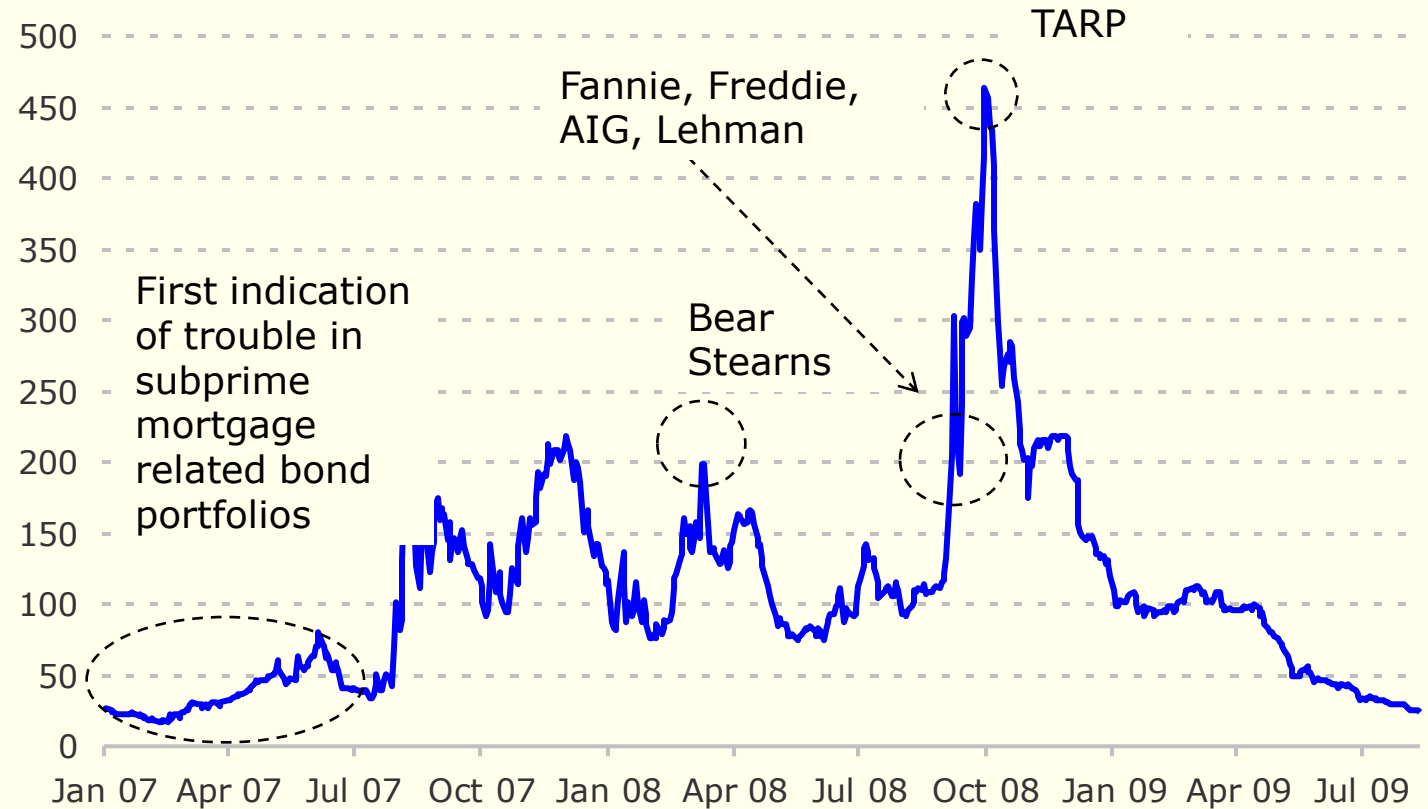


Inter-bank lending has returned to normal

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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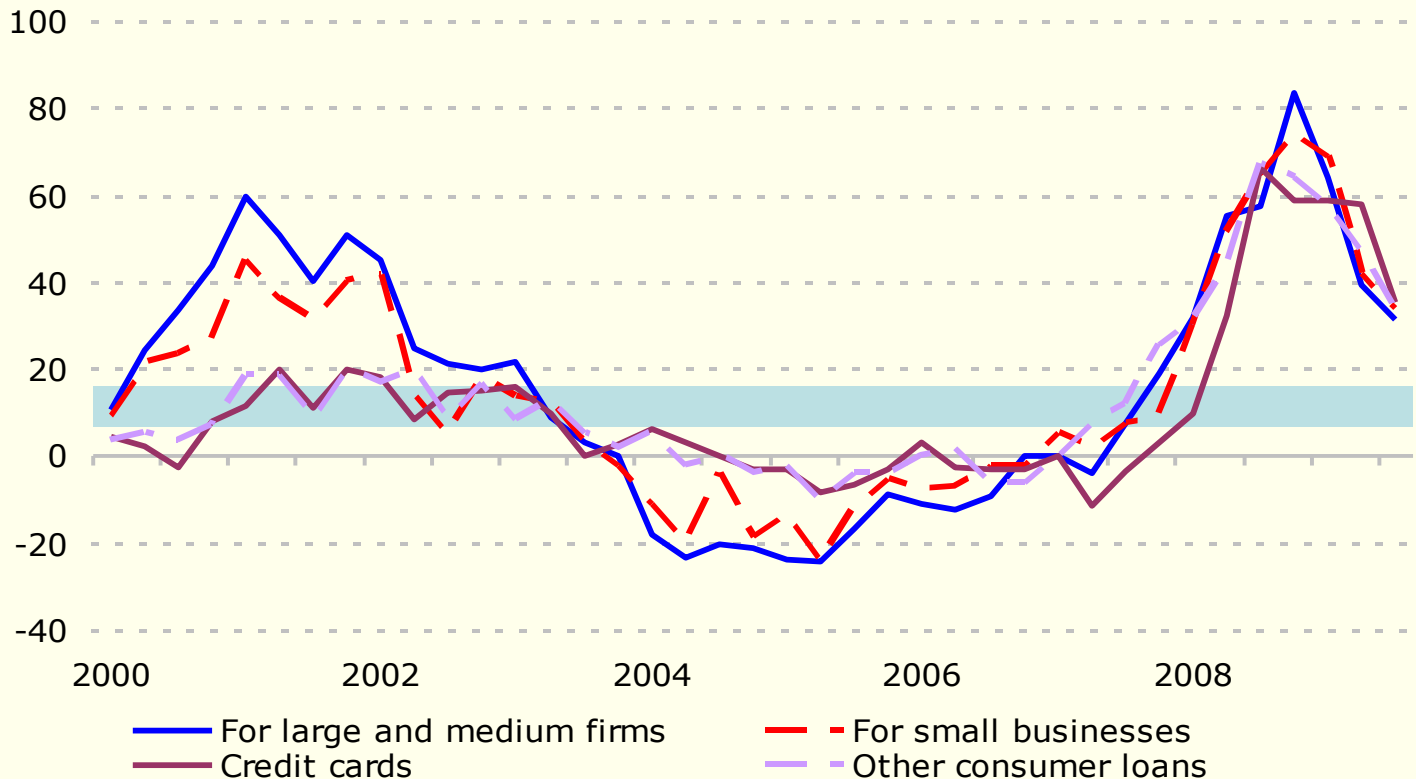
Source: British Bankers Association, US Federal Reserve Bank, ERFC; data through August 21, 2009



Bank lending to businesses and consumers is easing

Net Tightening minus Easing

Percent



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



Corporate bond issuance volume has recovered sharply

**Q/Q
growth**

2008

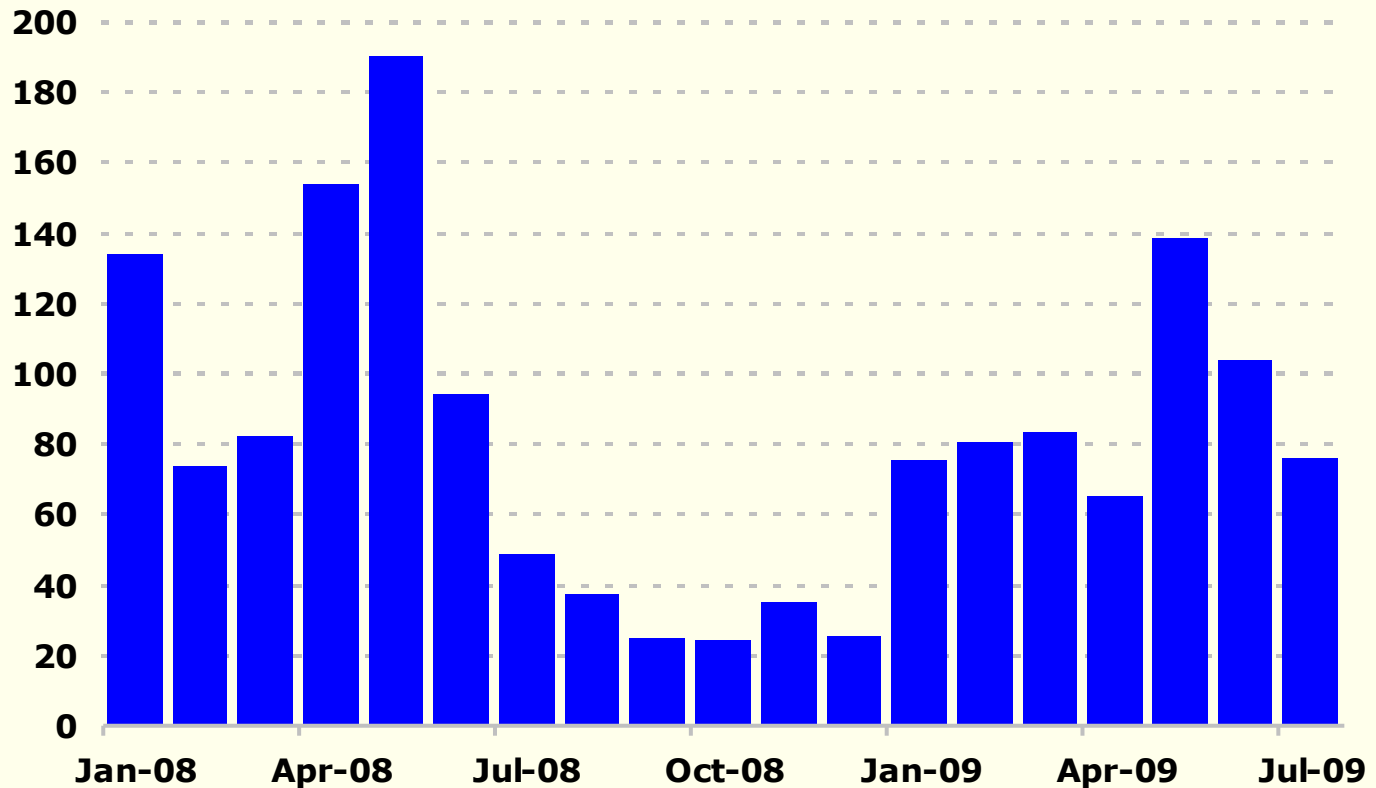
Q4: -46%

2009

Q1: 140%

Q2: 50%

USD, billions



Source: SIFMA, revised data through July 2009

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Home prices nationally have passed their point of inflection

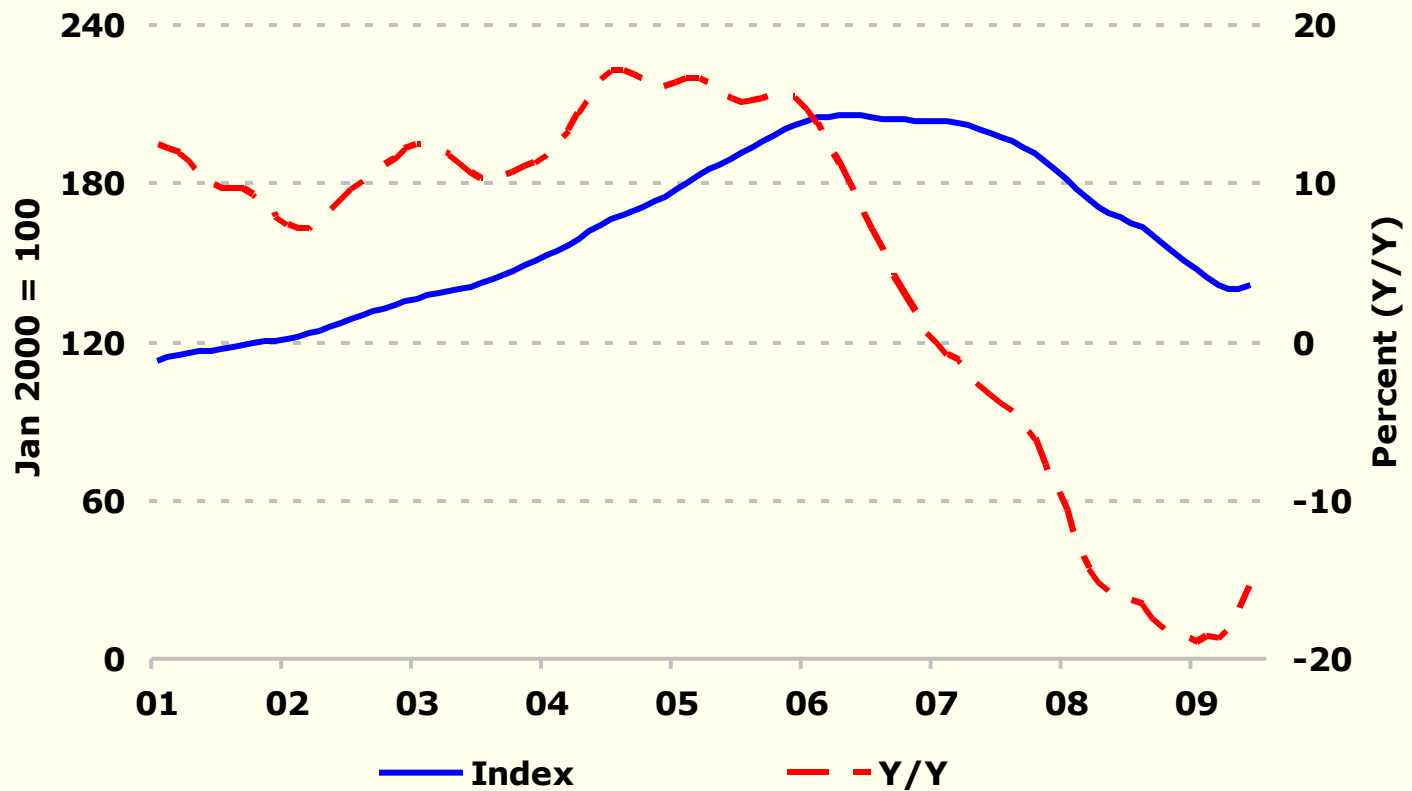
Home prices are now showing a slower rate of Y/Y decline

Home prices increased from May to June

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Case Shiller 20-City Composite House Price Index, SA

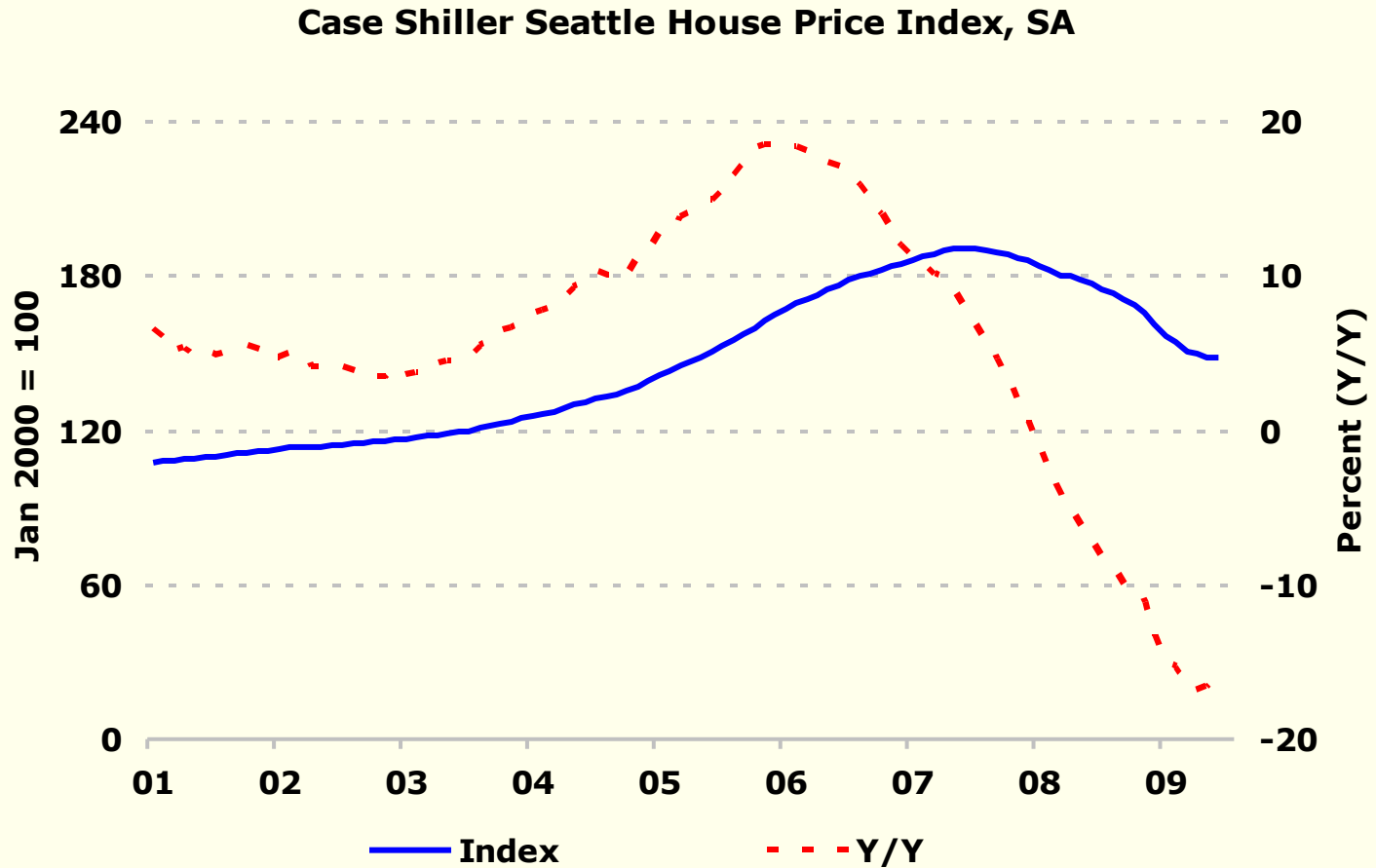


Source: S&P/Case-Shiller; data through June 2009



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 June 2009

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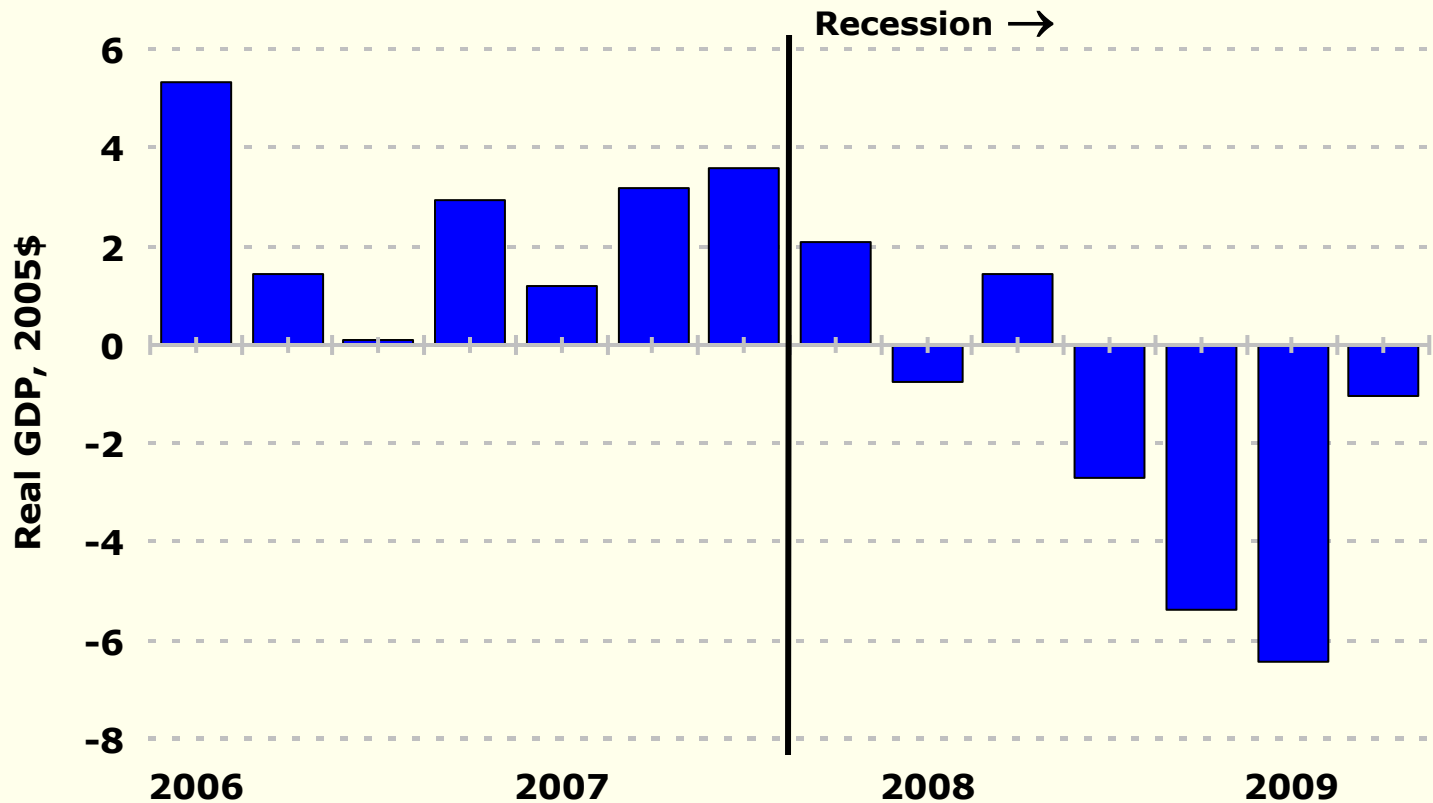
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The rate of decline in national GDP is moderating

Percent growth, SAAR

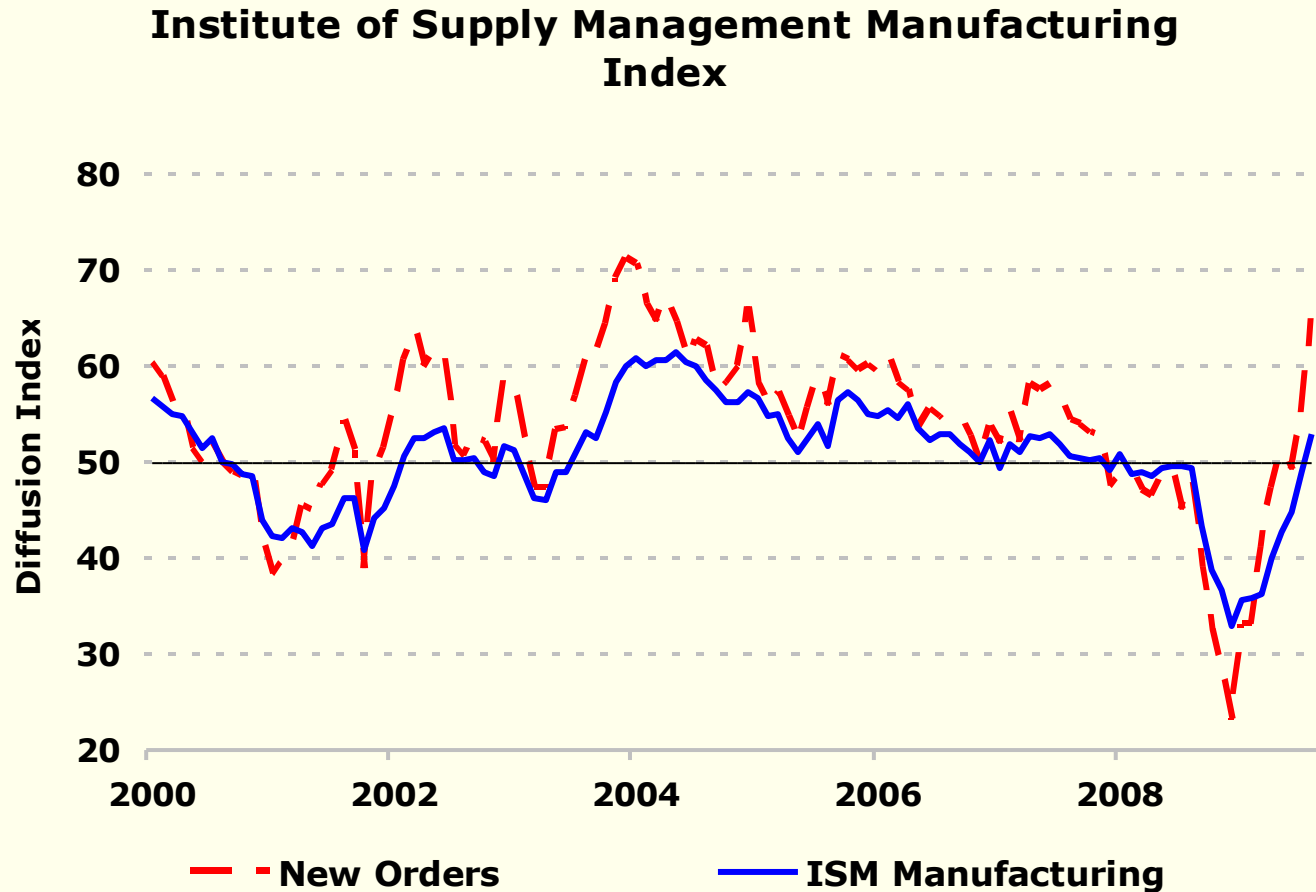


Source: BEA, data through 2009 Q2, preliminary



The manufacturing sector is seeing a rebound

Index > 50
means
growth



Source: ISM; data through August 2009

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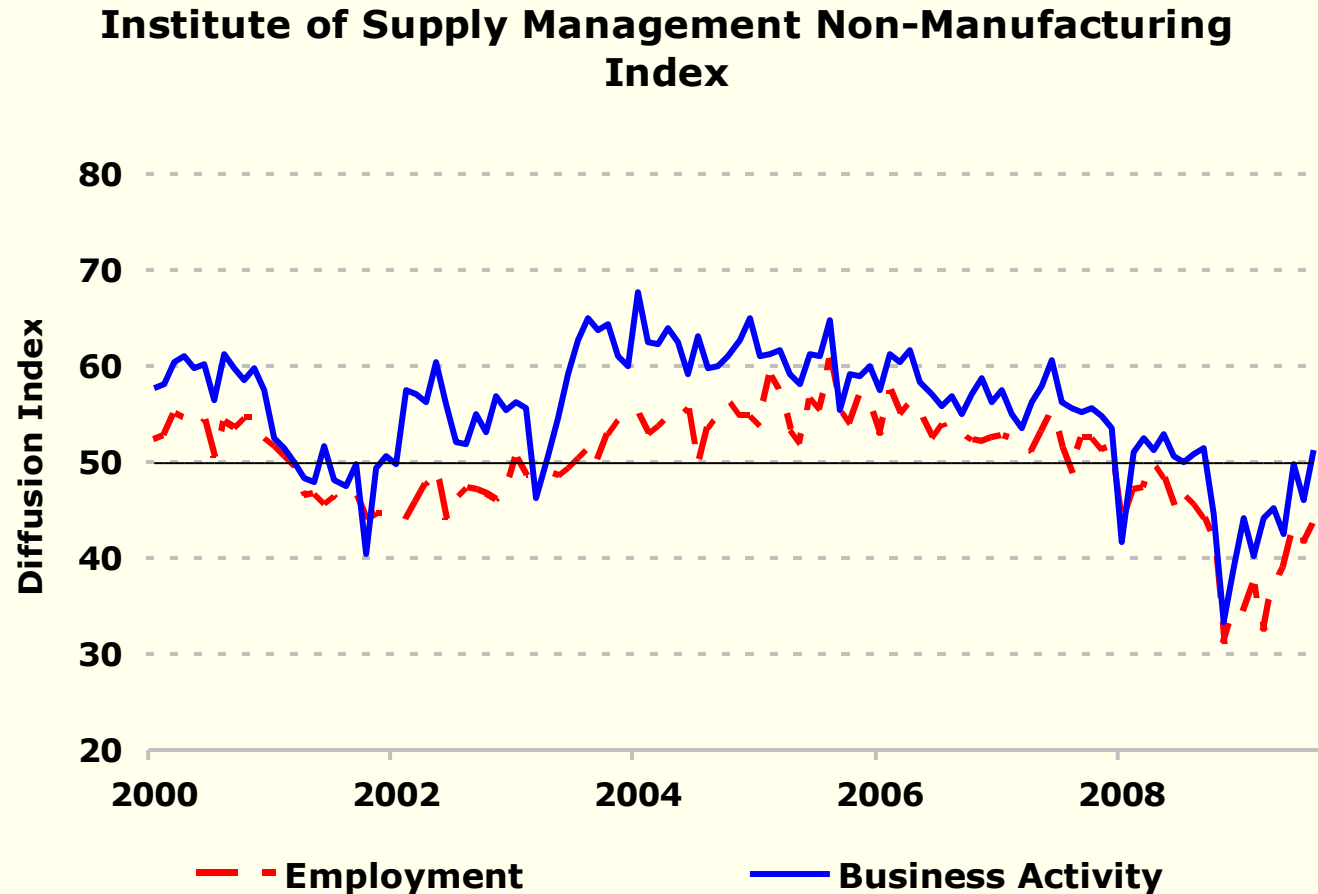
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The services sector shows a weak employment picture, but activity has started to grow

Index > 50
means
growth

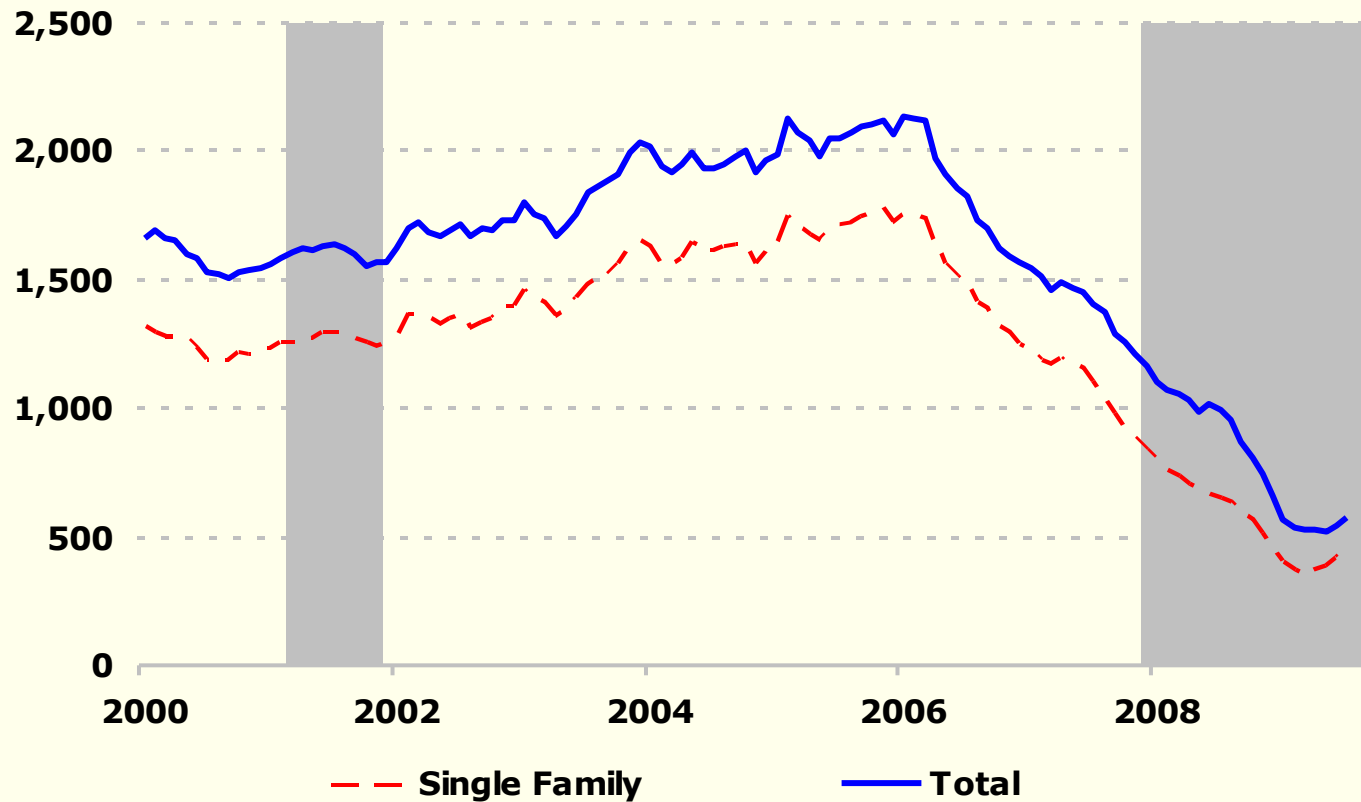


Source: ISM; data through August 2009



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

Thousands, SA, 3MMA

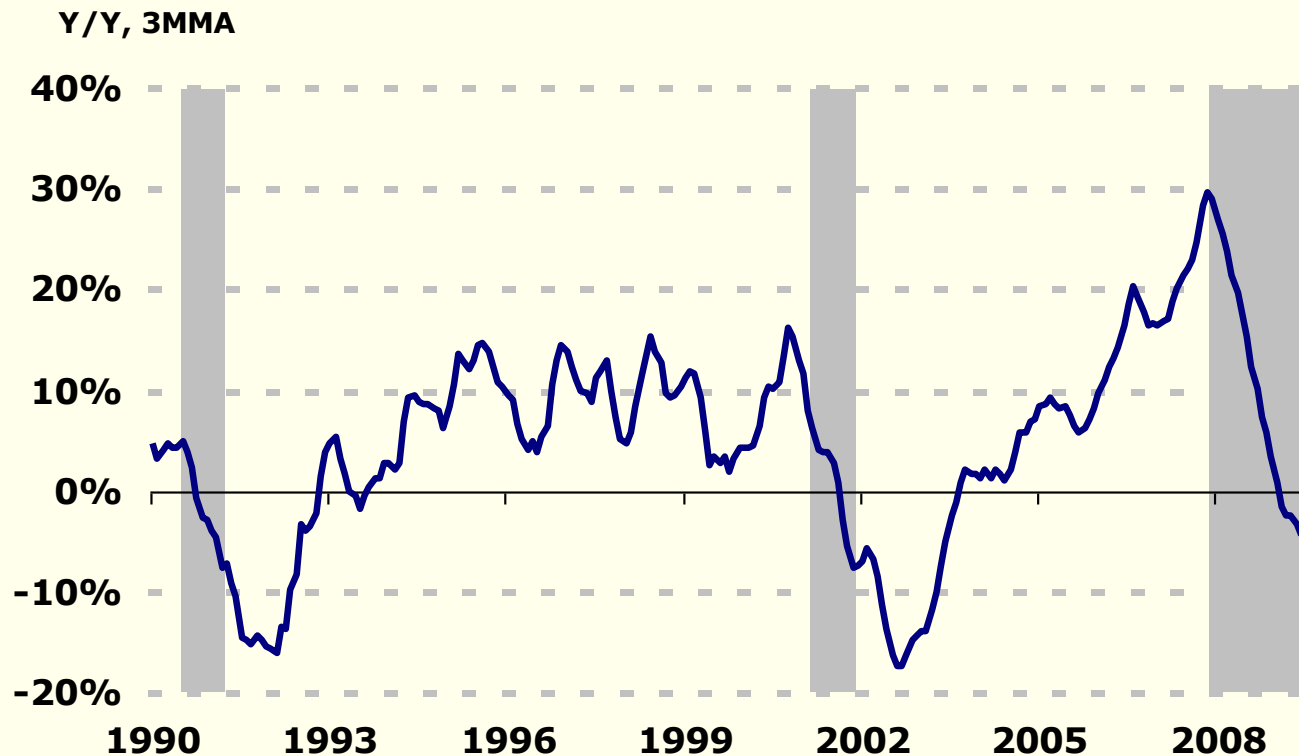


Source: U.S. Census Bureau; data through July 2009



There is further downside to the non-residential downturn

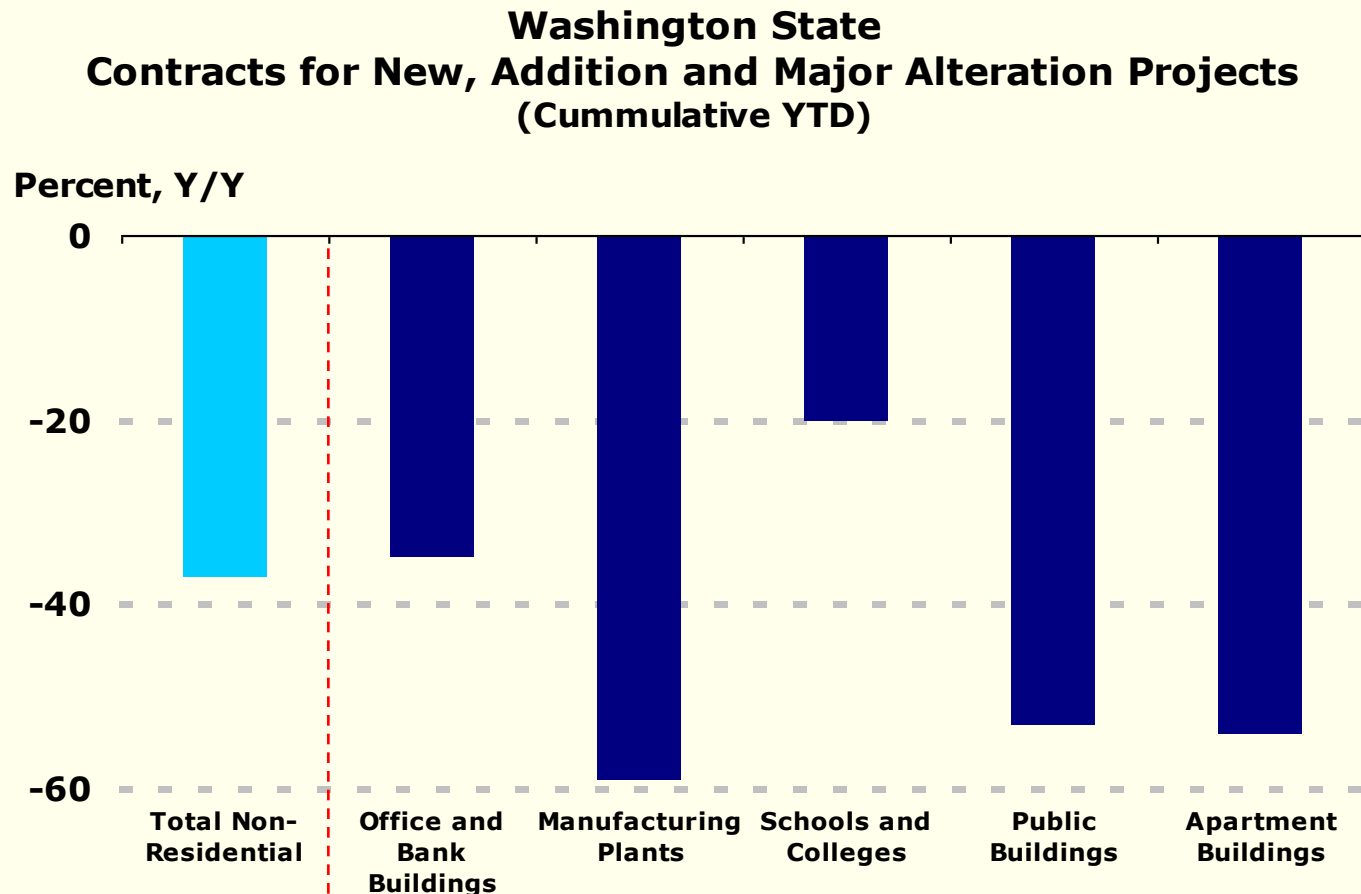
**Construction Put In Place, Private Non-Residential
\$ millions SAAR**



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



Contract data indicate WA non-res construction will remain weak



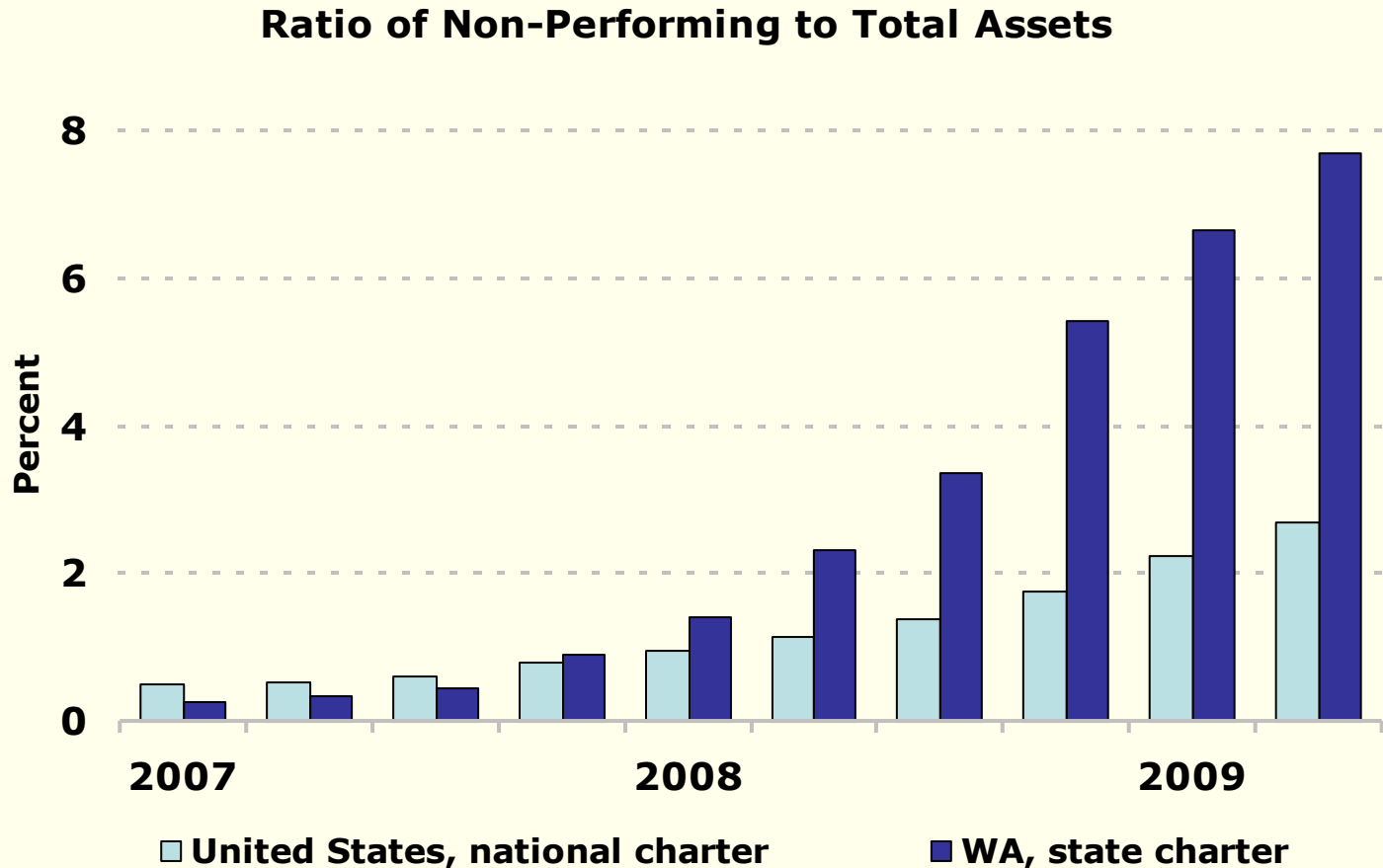
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Source: McGraw-Hill Construction, data through August, 2009



State chartered banks in Washington have experienced faster deterioration in asset quality than national banks

This is generally true for state chartered banks in other states as well



Source: FDIC, data through 2009 Q2.



We are witnessing an unprecedented global recovery

These economies represent 32% of global GDP.

The US is 25% of global GDP

	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

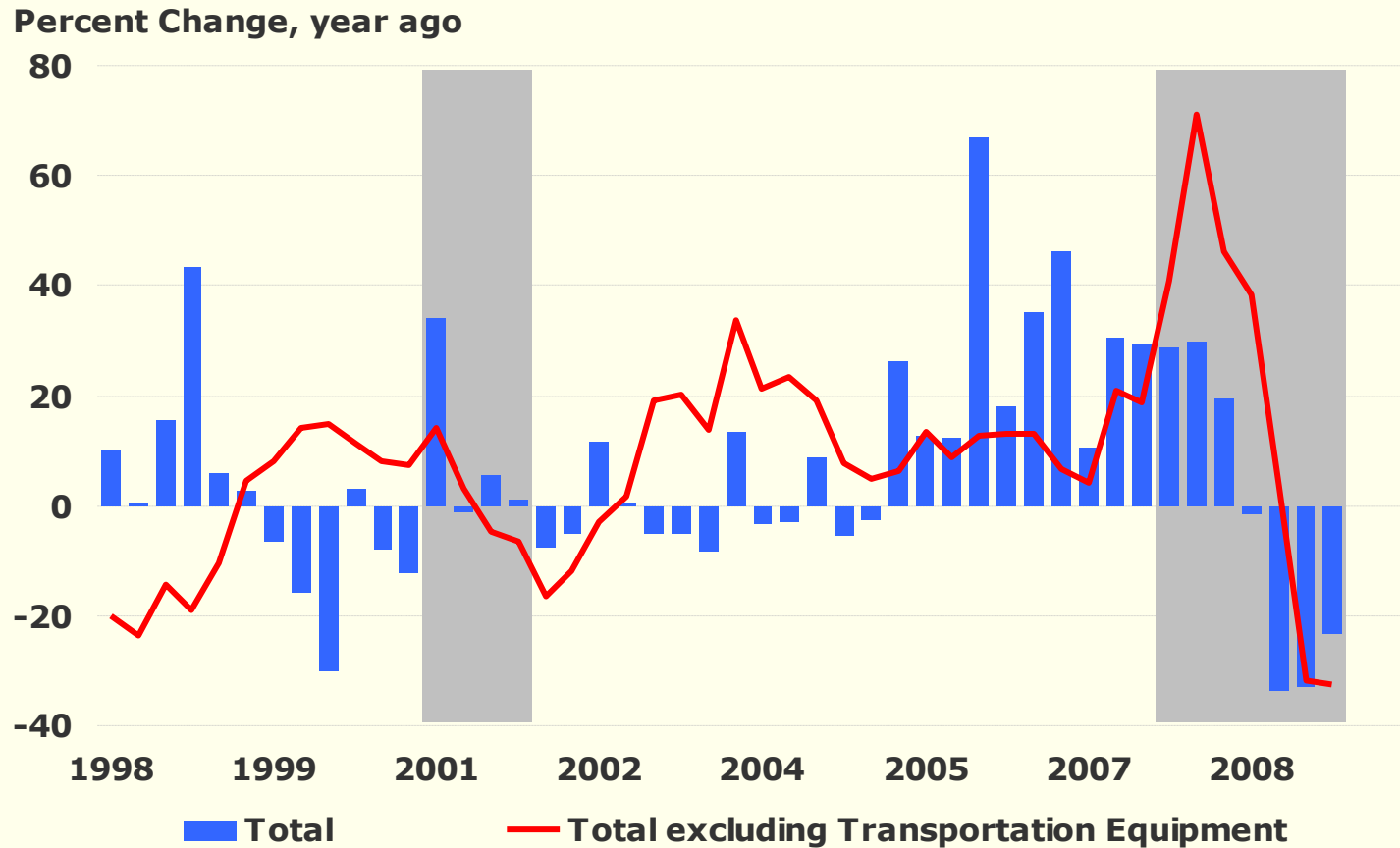
Source: IMF, ERFC

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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



Source: Wisier Trade Data; through 2009 Q2

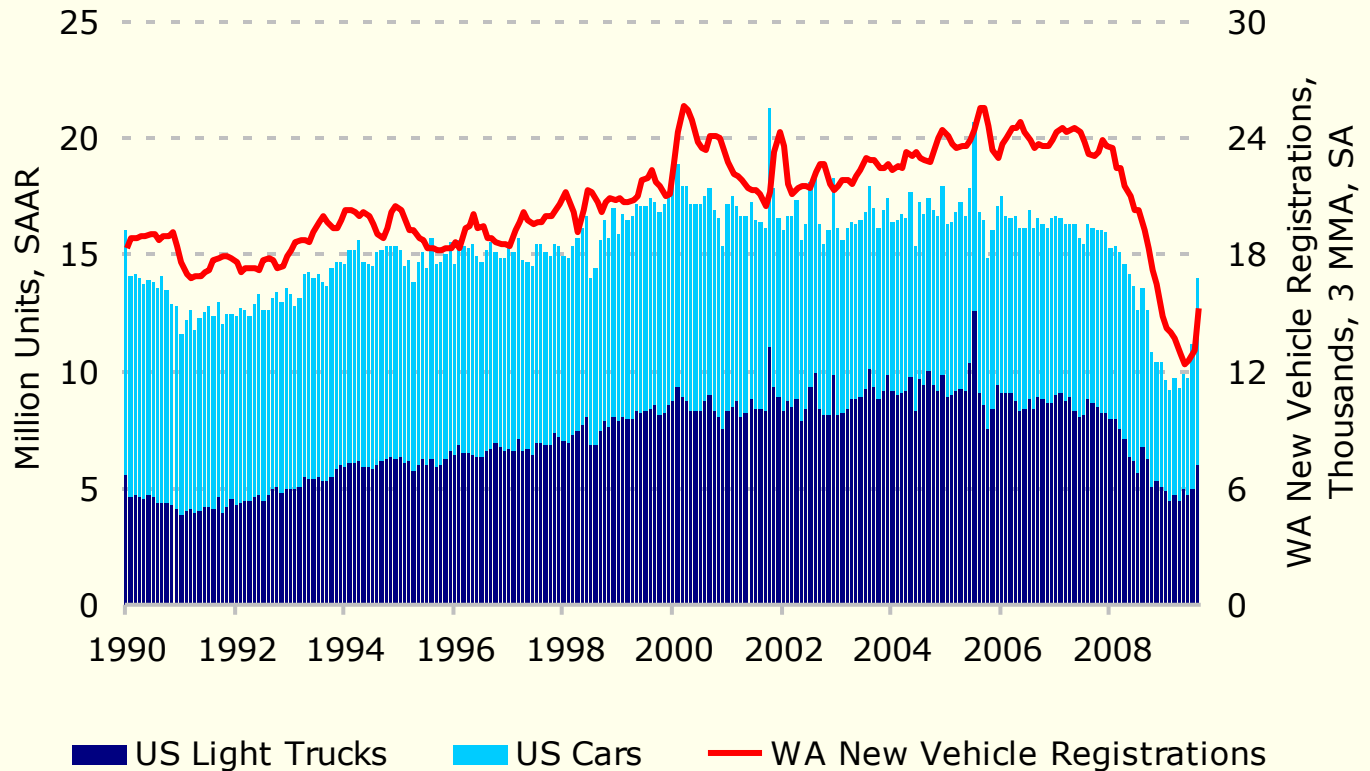
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Automotive sales have ticked up nationally, and in the state

June boost from closing dealerships;

July and August boost from "cash for clunkers"



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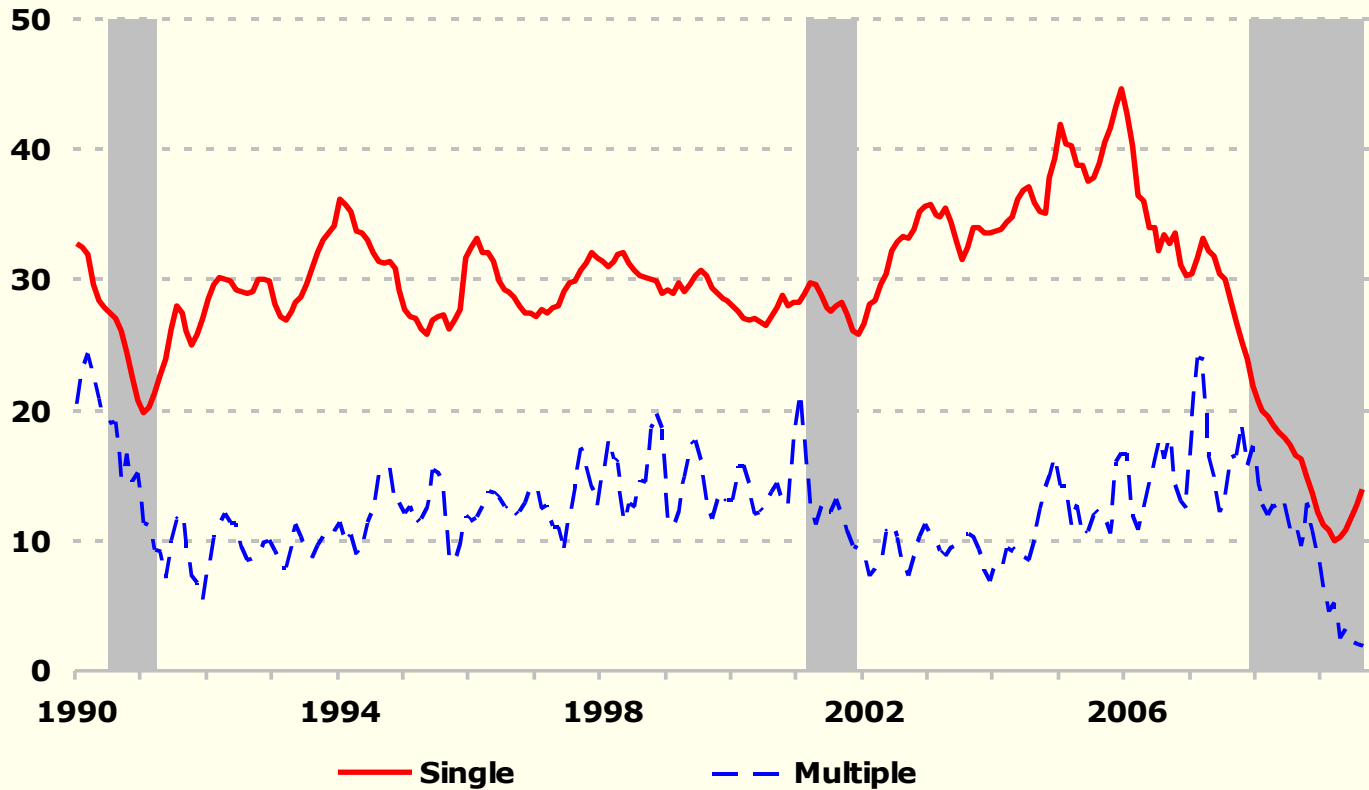
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Source: Autodata Corporation, WA DOL, ERFC estimate; data through August 2009



WA single family building permits are showing signs of recovery

Thousands, SA, 3MMA

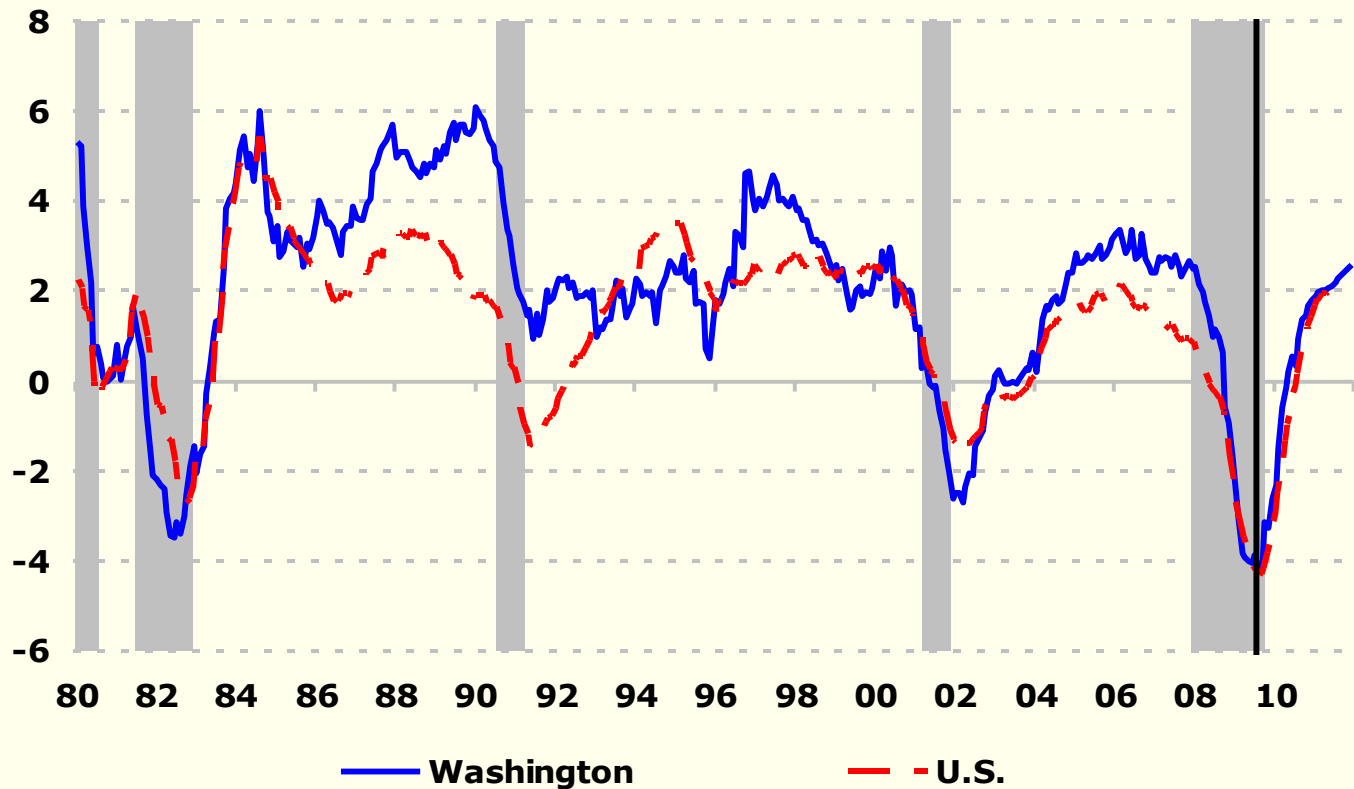


Source: U.S. Census Bureau; data through August 2009



WA employment lagged the nation in the downturn, and will recover a little faster than the nation

Percent change, year ago

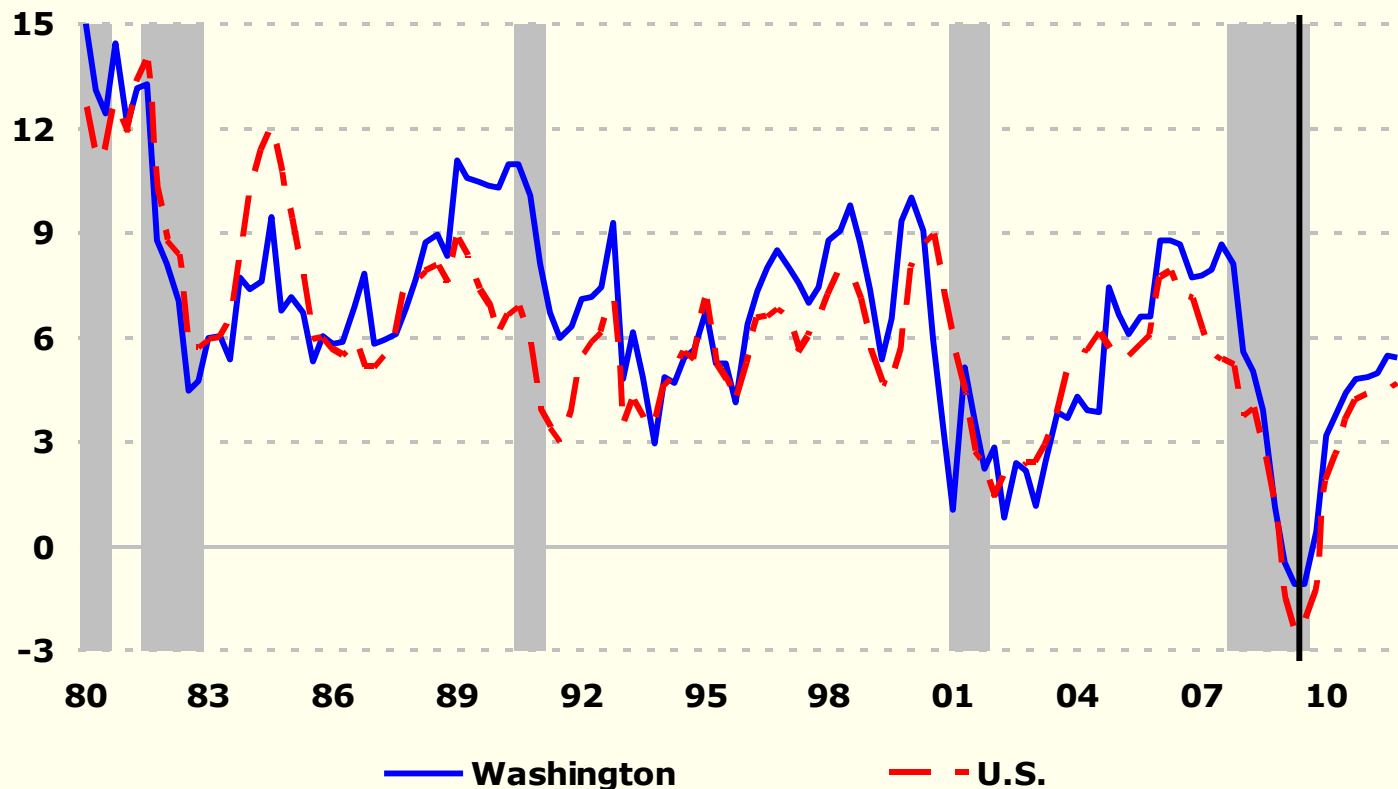


Source: ERFC September 2009 forecast; actual through August 2009



The recovery in WA personal income growth is expected to be better than the nation's

Percent change, year ago

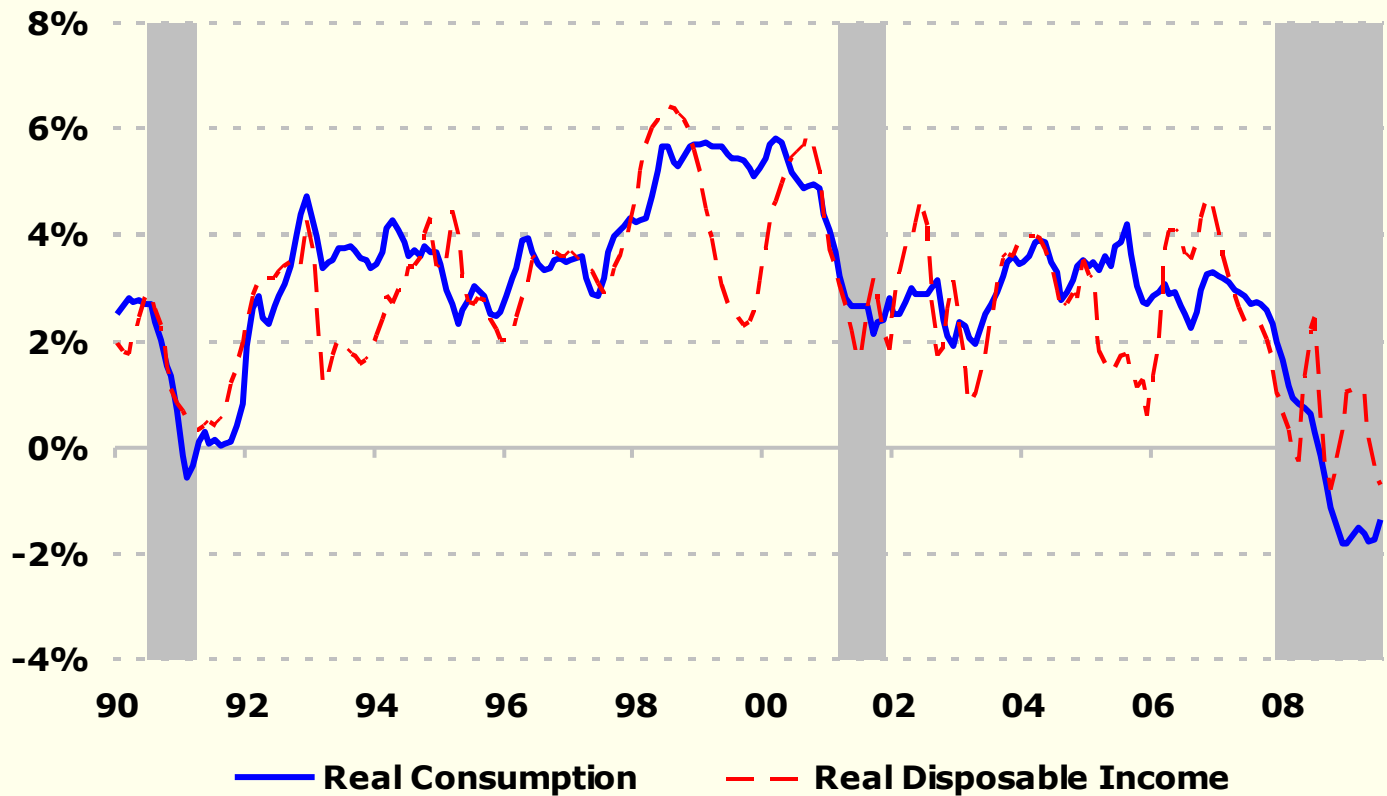


Source: ERFC September 2009 forecast; actual data through 2009Q1



Recovery in revenue depends on consumer spending – still a wildcard

3 MMA, Y/Y percent



Source: BEA, data through July 2009.

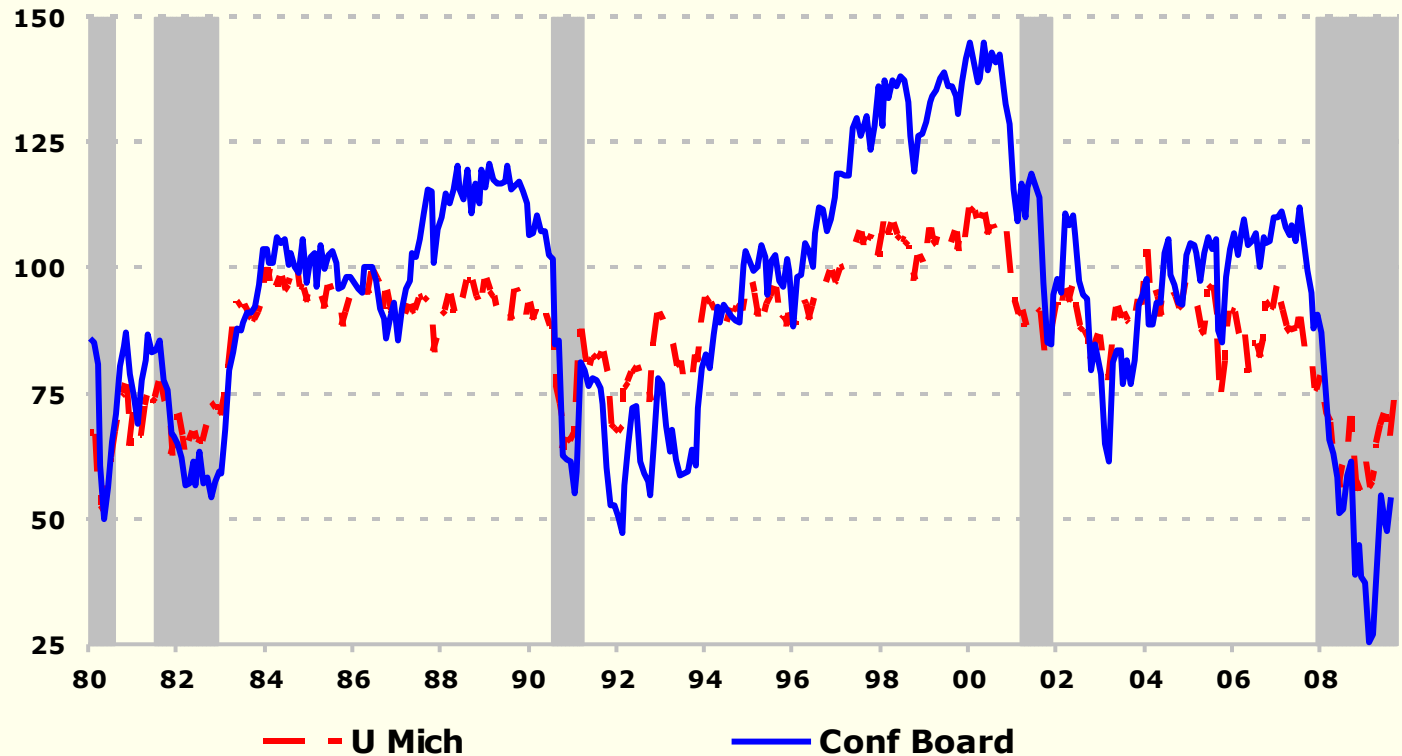


Consumer confidence is still in recessionary territory, but improving

Index

Mich: 1966Q1 = 100, SA

Conf Board: 1985 = 100, SA

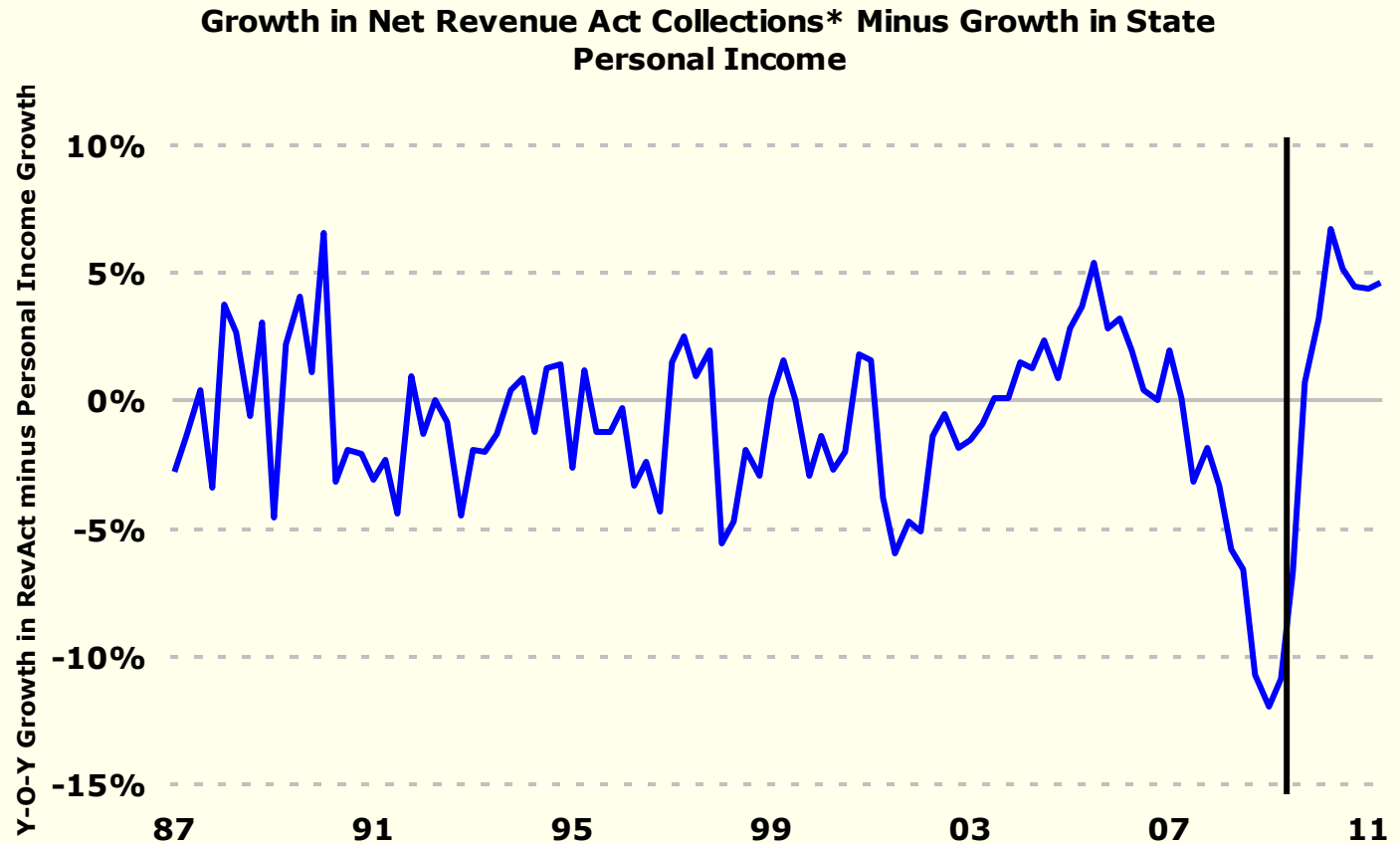


Source: University of Michigan; Conference Board, data through September 2009.



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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Forecast changes: General Fund State, 2009-2011 biennium

June Forecast:
 USD Millions
\$29,834 million

USD millions	September '09 Forecast				
	<u>Collection Experience</u>	<u>Non-economic Change</u>	<u>Forecast Change</u>	<u>Forecast</u>	<u>Total Change*</u>
Dept. of Revenue	(\$76)	(\$46)	(\$101)	\$28,138	(\$223)
All other agencies	\$1	\$0	(\$9)	\$1,465	(\$8)
Total GF-S	(\$75)	(\$46)	(\$110)	\$29,603	(\$231)

* Detail may not add to total due to rounding

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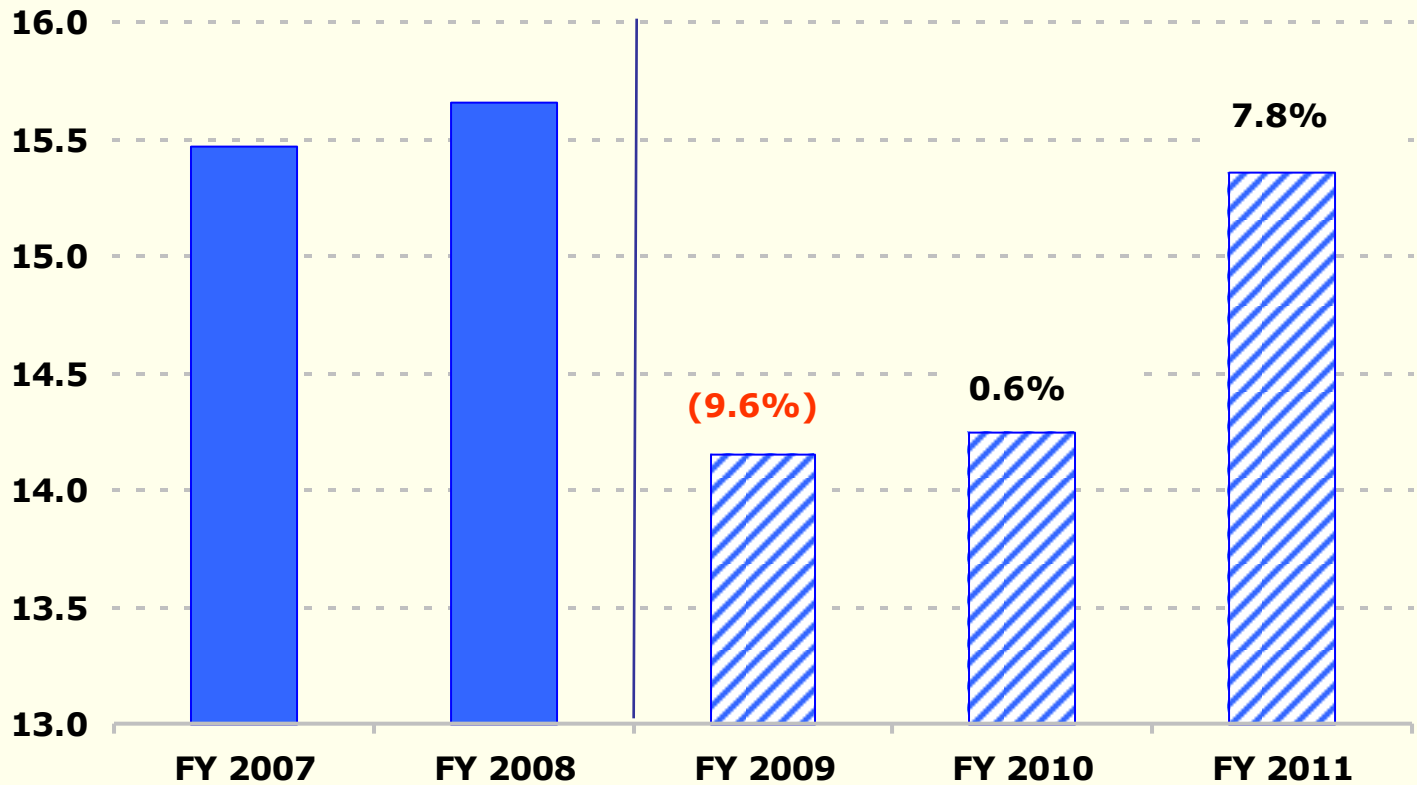


General Fund* forecast by fiscal year

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

General Fund – new definition, for FY 10, 11

USD billions



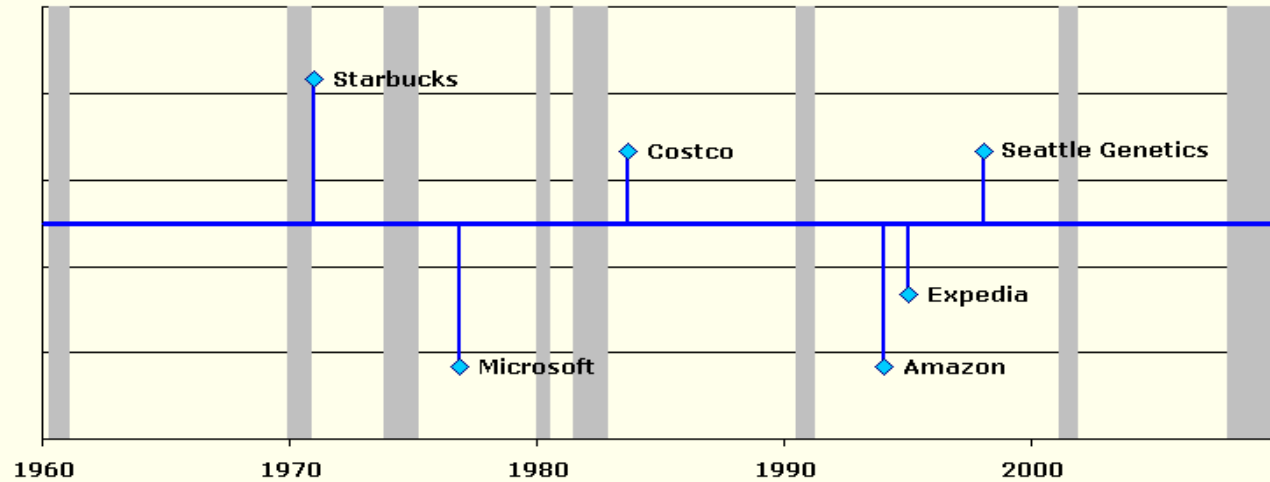
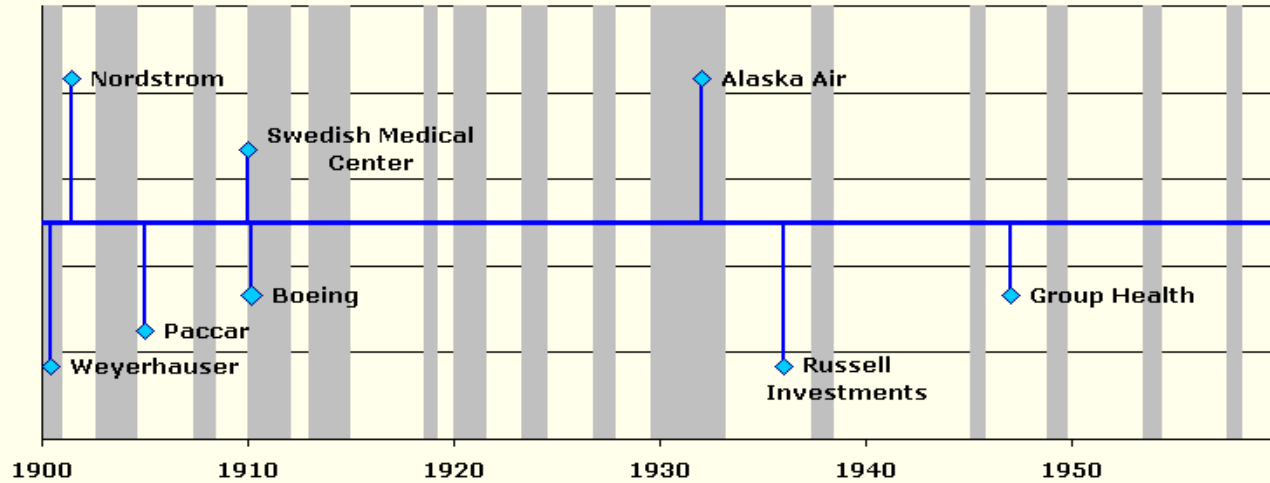
Source: ERFC forecast, September 2009

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Innovation follows recessions

Gray bars correspond to national recessions



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Conclusion

- State revenues will lag the economic recovery
- The recovery in revenues will be slow and is subject to risk
- Collections in FY 11 are expected to be USD 300 million less than in FY 08.
- Revenues in the 2009-11 biennium are expected to be 1% below their 2007-09 level



Questions



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