

# Economic and Revenue Outlook

Presented to  
Association of Washington Cities Mayors  
Exchange

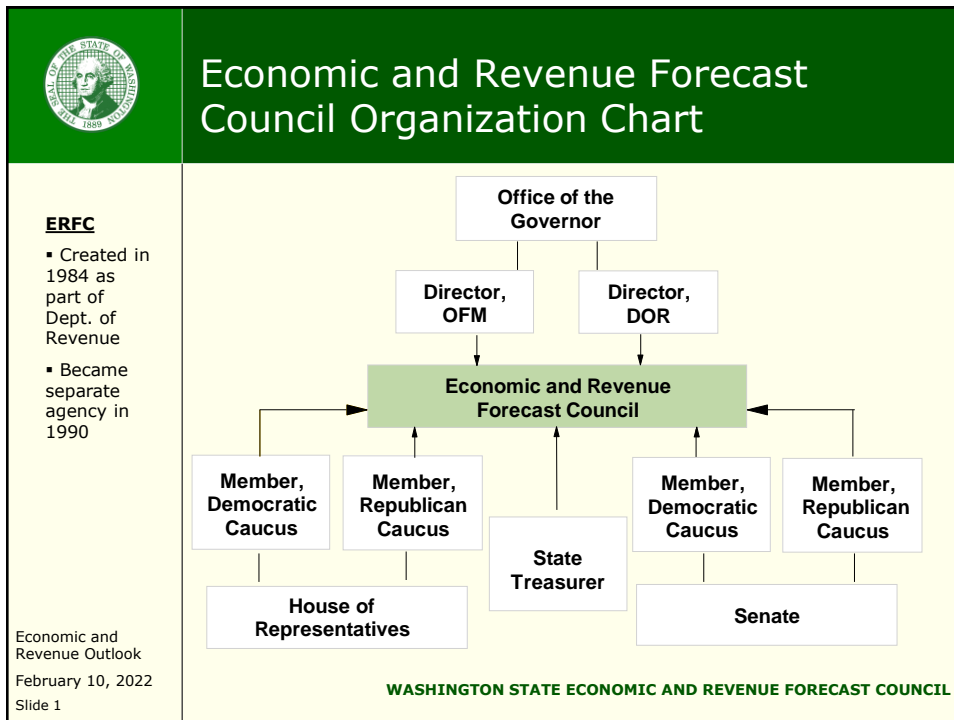
Steve Lerch  
Chief Economist & Executive Director

February 10, 2022



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## Summary

- The forecast now extends through 2027
- Inflation is expected to be higher in 2022 and 2023 compared to the November forecast
- WA personal income and building permits have been revised up slightly compared to November
- The preliminary economic forecast assumes the Federal Reserve tapers its asset purchases by mid-March and raises interest rates in the second quarter
- Revenue collections since the November forecast are \$350 million (6.4%) above expectations

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## Forecast risks

### Upside

- Recent surge in COVID cases declines faster than expected, leading to greater consumer confidence and a return to more typical spending patterns
- Supply chains recover more quickly than expected, leading to increased supply of goods and services, slower inflation

### Downside

- Rising COVID cases and hospitalizations lead to reduced consumer confidence and spending
- Supply chain issues worsen, leading to prolonged delay in production and shipment of goods
- Geopolitical risks

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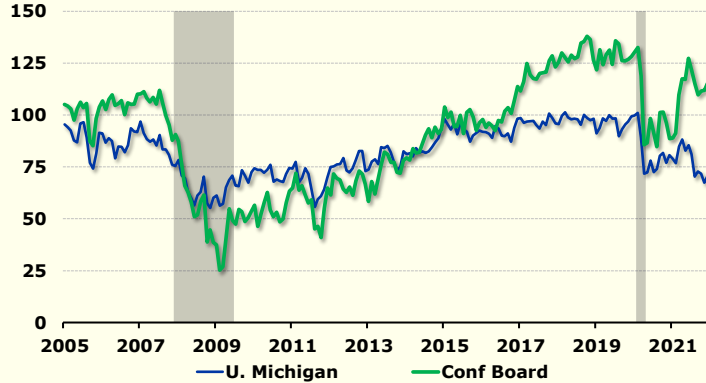
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# Consumer confidence remains well below pre-pandemic levels

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



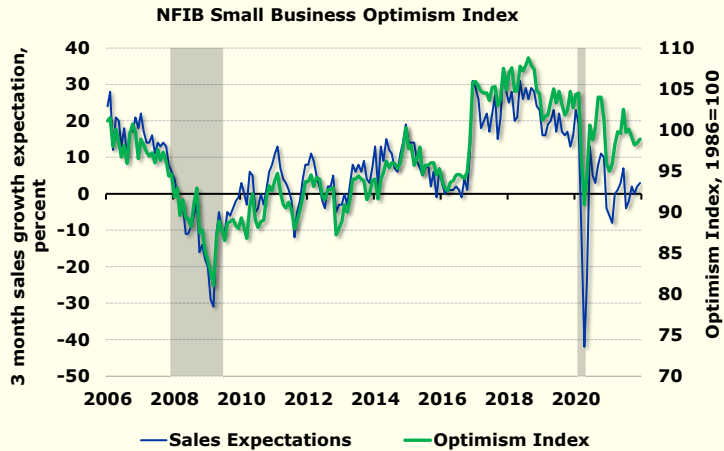
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Sources: University of Michigan, Conference Board; data through January 2022

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# Small business optimism, sales expectations have ticked up recently, still down from last summer



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

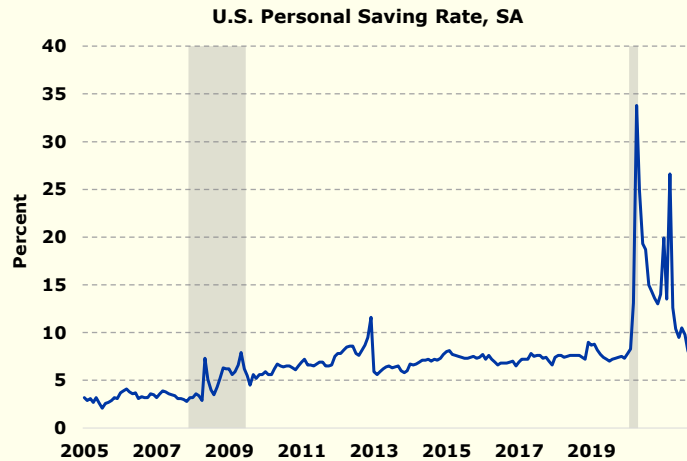
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## The saving rate appears to be heading towards more typical levels

The personal saving rate is the percentage of disposable income saved.

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Source: U.S. Bureau of Economic Analysis; data through December 2021

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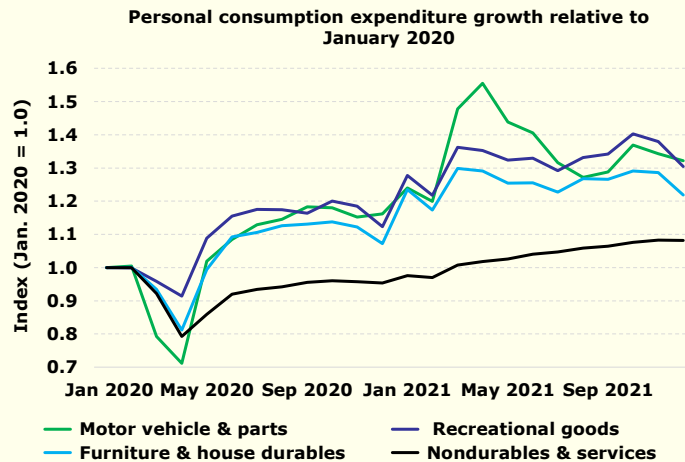
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## Consumer purchases of durable goods remain strong; nondurables, services have increased

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

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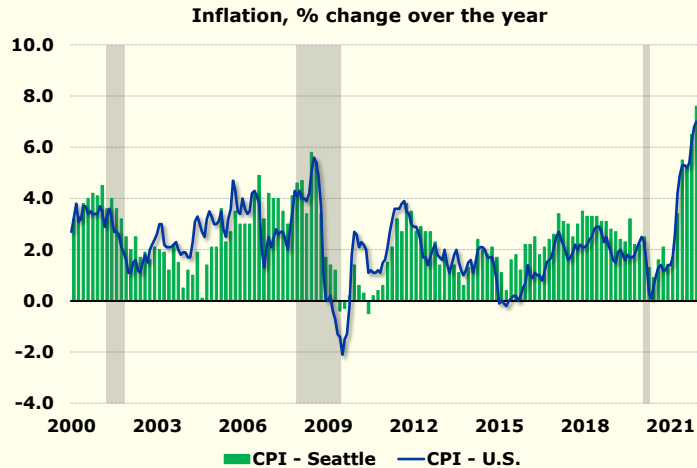
Source: U.S. Bureau of Economic Analysis; data through December 2021

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## In December, prices rose at fastest rate since June 1982



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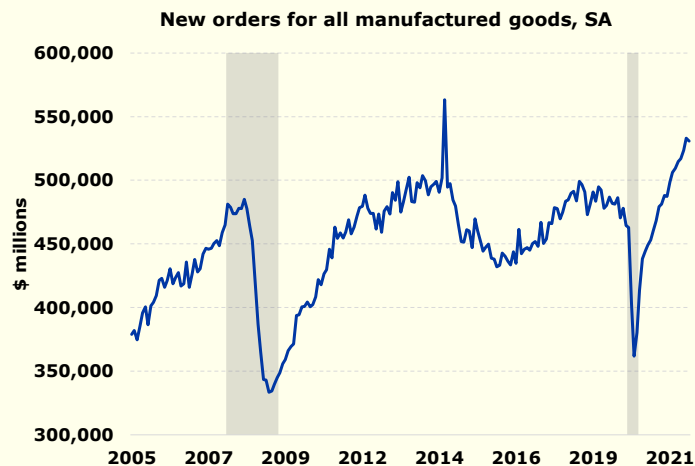
Source: U.S. Bureau of Labor Statistics, data through December 2021

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## New orders for U.S. manufactured goods are more than 13% above pre-pandemic levels



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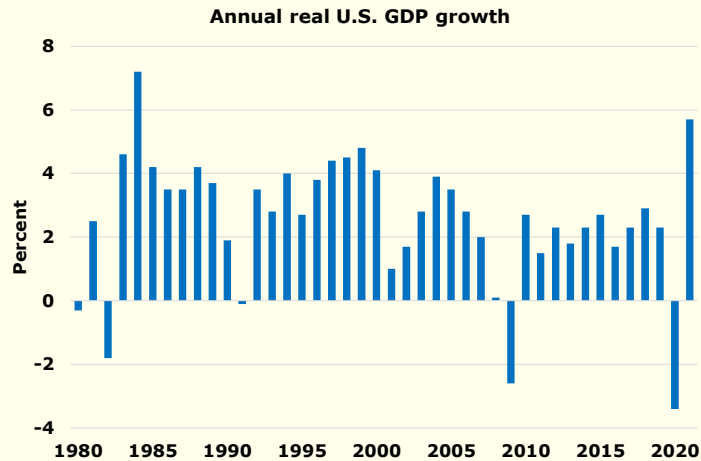
Source: U.S. Census Bureau; data through advance December 2021

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## Real GDP growth in 2021 was strongest since 1984



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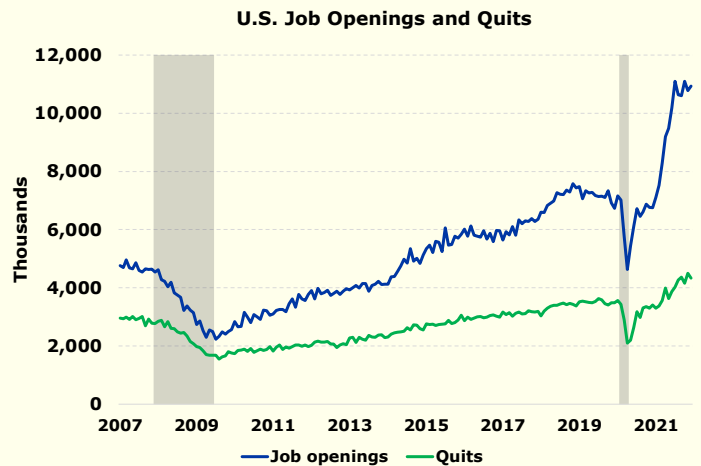
Source: U.S. Bureau of Economic Analysis, annual data through 2021

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## Job openings and quits remain at high levels



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

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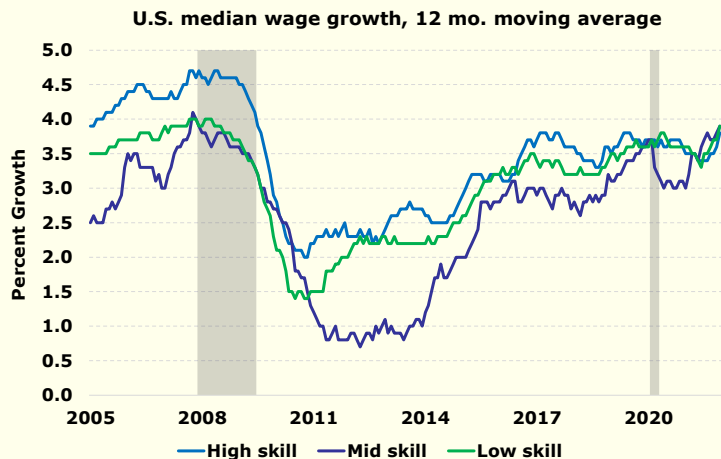
## Wage growth has increased across all occupations

**High-skill:** Managers, Professionals, Technicians

**Middle-skill:** Office & Administration, Operators, Production, Sales

**Low-skill:** Food Preparation & Serving, Cleaning, individual Care Services, Protective Services

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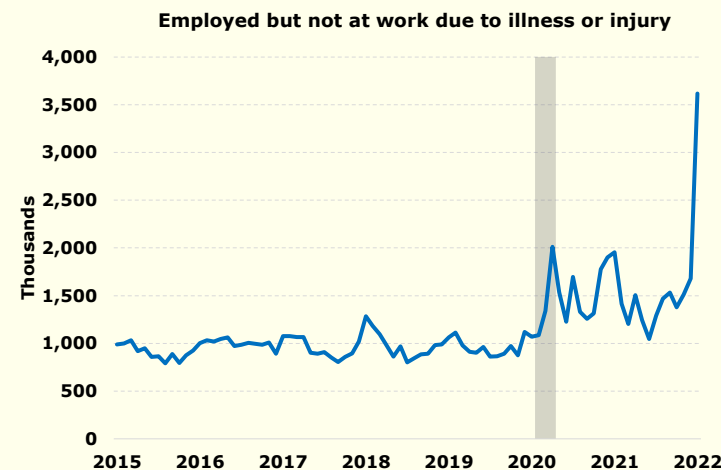
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## Number of employees not at work due to illness or injury has increased since the start of the pandemic

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

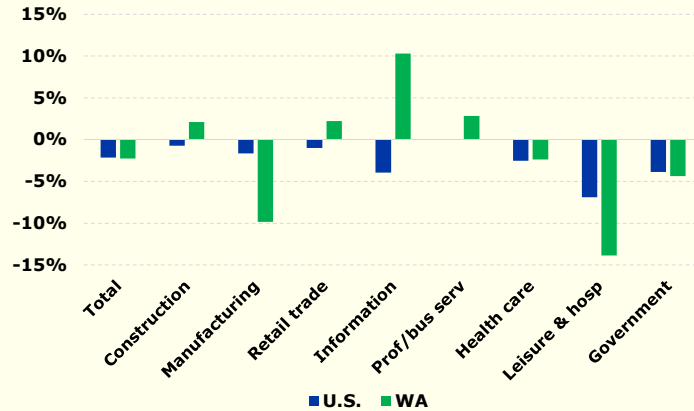
December 2021 employment:

U.S. = 2.2% below January 2020

WA = 2.3% below January 2020

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### Employment Change: December 2021 compared to January 2020



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

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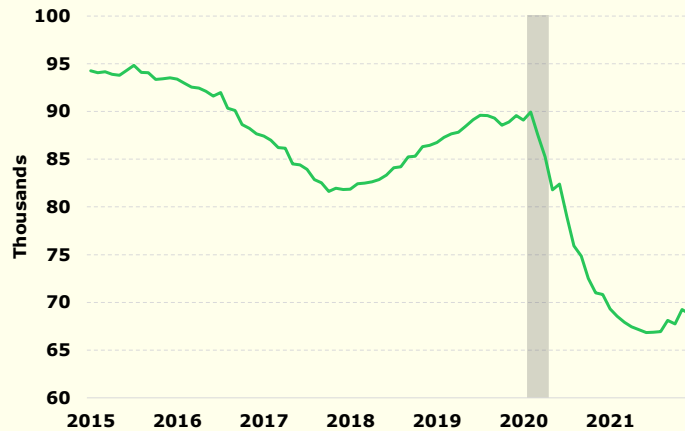
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## WA aerospace employment is up 1,900 since low point in June 2021

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### WA aerospace employment



Source: ERFC, U.S. Bureau of Labor Statistics, Employment Security Dept., data through Dec. 2021

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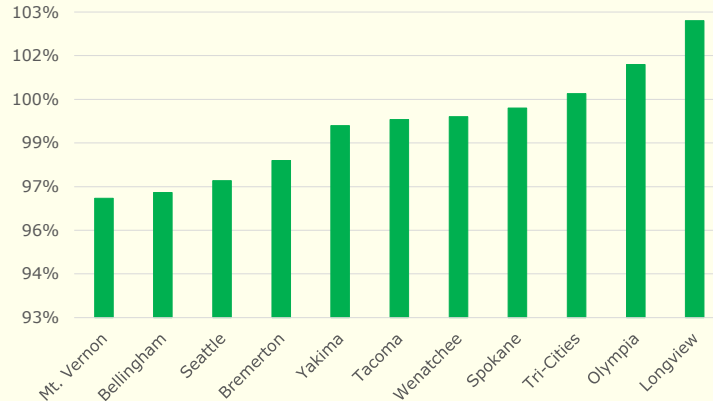
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## Tri-cities, Olympia and Longview metro employment in Dec. 2021 exceeded pre-pandemic employment

Metro area employment: December 2021 as percent of January 2020



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

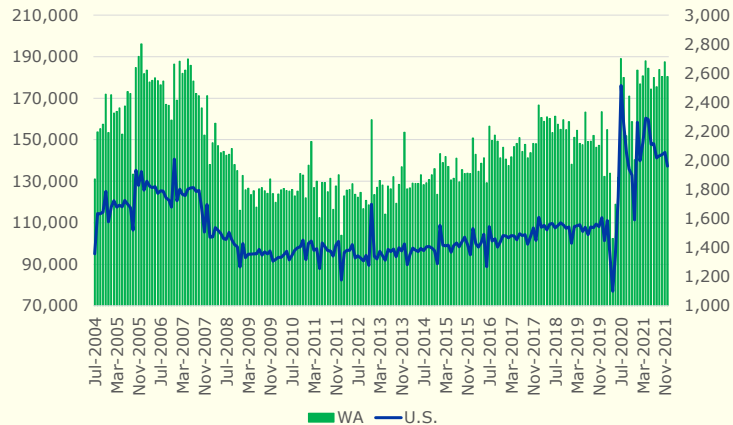
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## Nationally and in WA, new business applications are higher than before the pandemic

New "high propensity" business applications, SA



Source: U.S. Census Bureau, data through December 2021

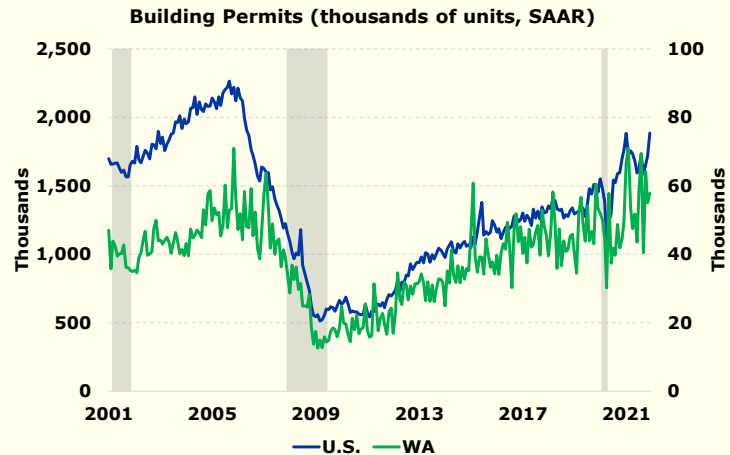
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"High propensity" business applications are those with a high likelihood of turning into businesses with a payroll based on intention to hire employees and their industry.

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## WA and U.S. residential construction have been volatile but trending up since July 2020



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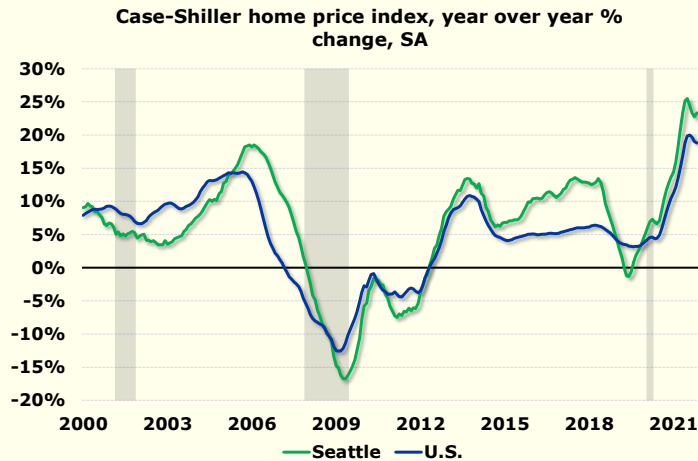
Source: U.S. Census Bureau; monthly data through December 2021

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## Home price growth remains strong



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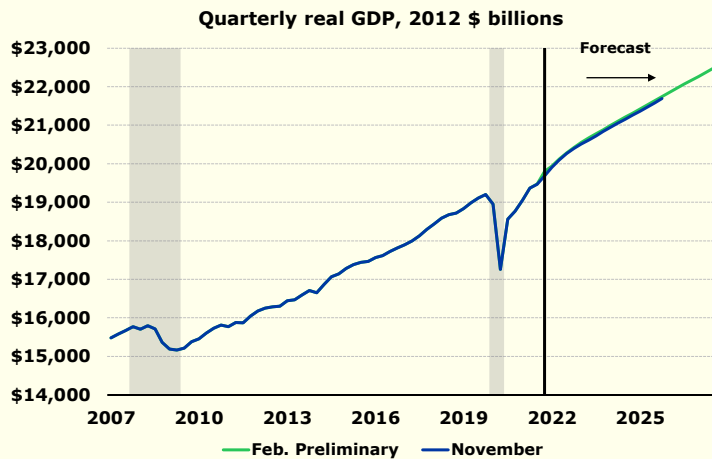
Source: Case-Shiller, data through November 2021

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## U.S. GDP forecast very similar to November



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Source: IHS Markit, ERFC Feb. 2022 Preliminary forecast; data through 2021 Q4

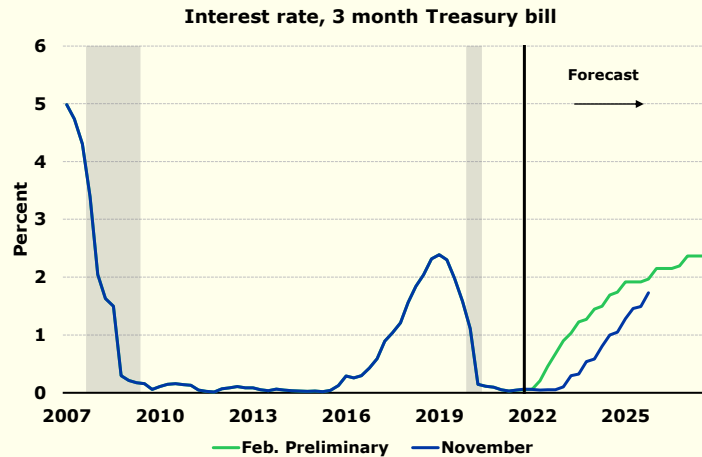
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## Interest rates are expected to gradually increase as Federal Reserve tightens monetary policy

The Federal Reserve is assumed to raise interest rates in the 2<sup>nd</sup> quarter of this year



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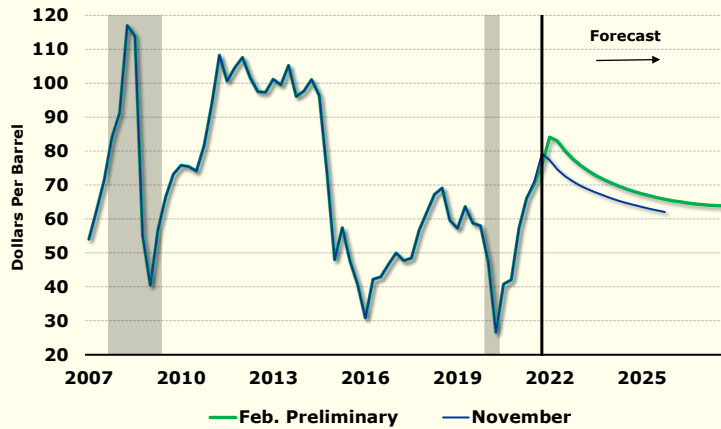
Source: IHS Markit, ERFC Feb. 2022 Preliminary forecast; data through 2021 Q4

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## Oil prices are higher than November forecast, expected to peak in 1<sup>st</sup> quarter 2022



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Source: Energy Information Administration, IHS Markit, ERFC; data through Q4 2021  
Note: Vertical black line indicates last actual

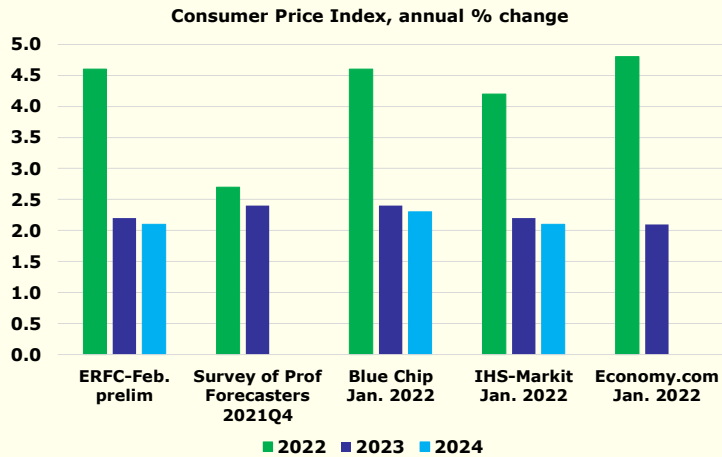
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## Forecasters generally expect inflation to decrease after this year

The Consumer Price Index increased by 4.7% in 2021



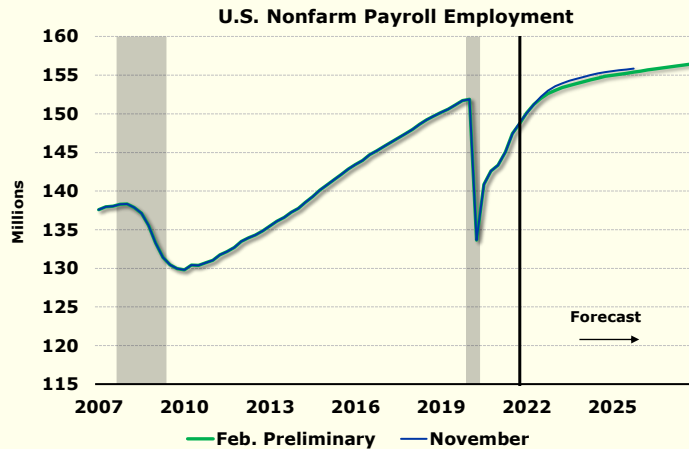
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## U.S. nonfarm employment growth is slightly weaker in 2022 and 2023 compared to November forecast



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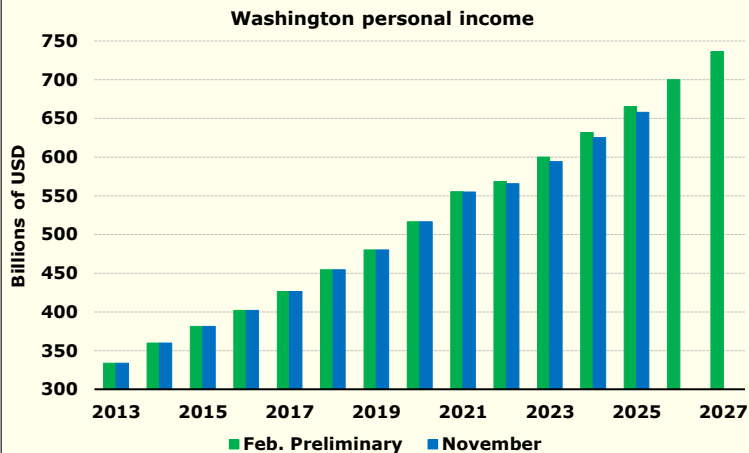
Source: IHS Markit, ERFC Feb. 2022 Preliminary forecast; data through 2021 Q4

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## WA personal income growth is slightly stronger compared to November



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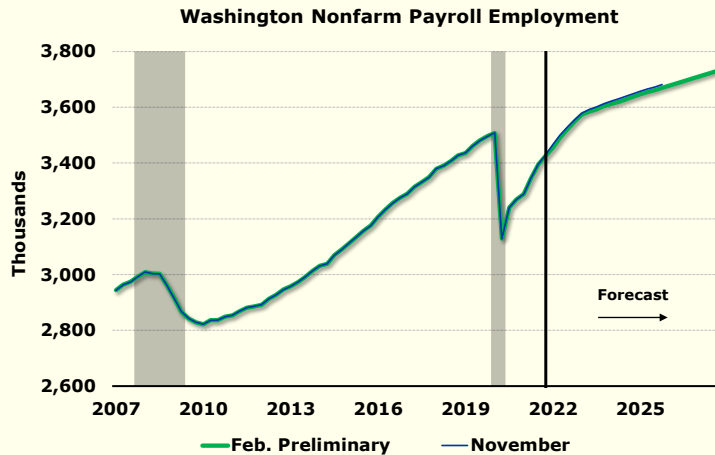
Source: ERFC Feb. 2022 Preliminary forecast; historical data through 2020

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## WA employment forecast is very similar to November



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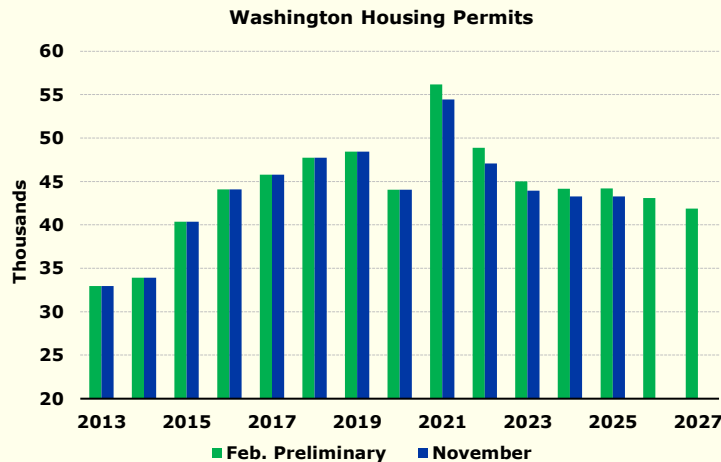
Source: ERFC Feb. 2022 Preliminary forecast; historical data through 2021 Q4

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## For 2022 – 2025, WA housing permits forecast has been increased by an average of 1,200 units



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Source: ERFC Feb. 2022 Preliminary forecast; historical data through 2021

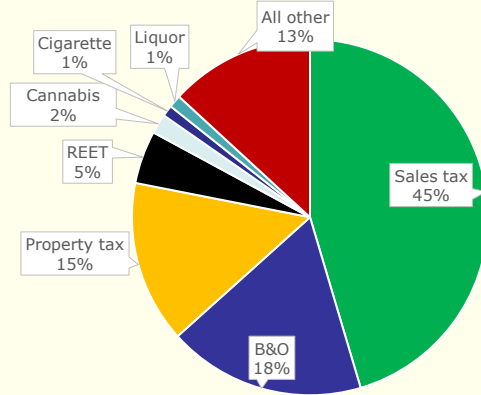
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# Operating budget funding sources

Funds subject to budget outlook, 2021-23 biennium



Source: ERFC November 2021 forecast

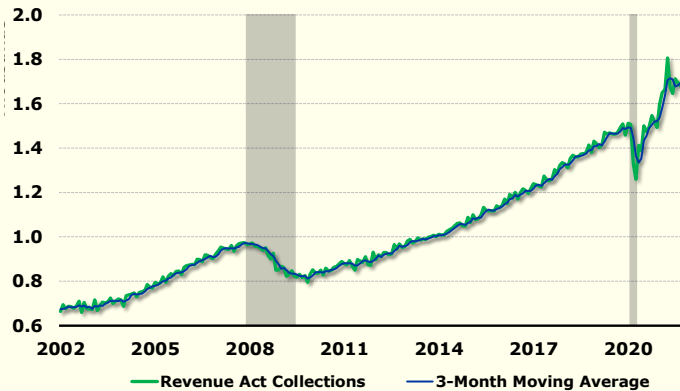
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# Revenue Act collections remain strong; over 17% year over year growth for November activity

\$billions SA



\* 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 November 2021 activity

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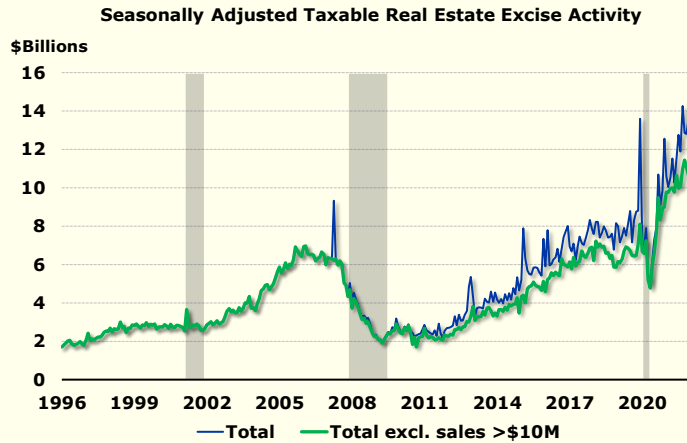
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## Seasonally adjusted taxable REET activity down from record September level but remains high

Large commercial transactions in December totaled \$2.9 B, up from \$1.7 B in November.

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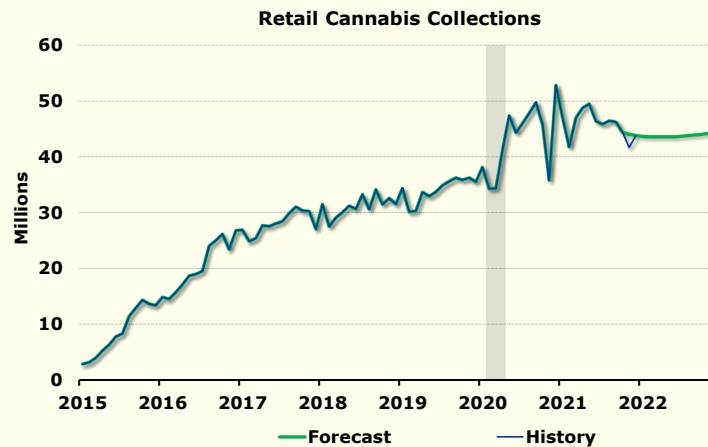
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## Cannabis revenues appear to be moderating

Collections came in 0.4% below the September forecast

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## Conclusion

- The U.S. forecast has higher oil prices and inflation than in November
- WA personal income and building permits are slightly stronger than in November forecast
- COVID-19 and higher inflation continue to pose a risk to economic activity
- The next monthly revenue collection report will be available on February 14<sup>th</sup> and the revenue forecast will be presented on February 16<sup>th</sup>

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## Questions



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