

# Economic and Revenue Forecast

## Presented to the Local Government Partnership Meeting

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July 26, 2022



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# Summary

- The state and national forecasts expect slower growth and gradually increasing unemployment over the next several years
- Inflation and gas prices are expected to peak soon
- There are considerable downside risks to the forecast



# 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

## Downside

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



# In June, prices increased at their fastest pace since November 1981

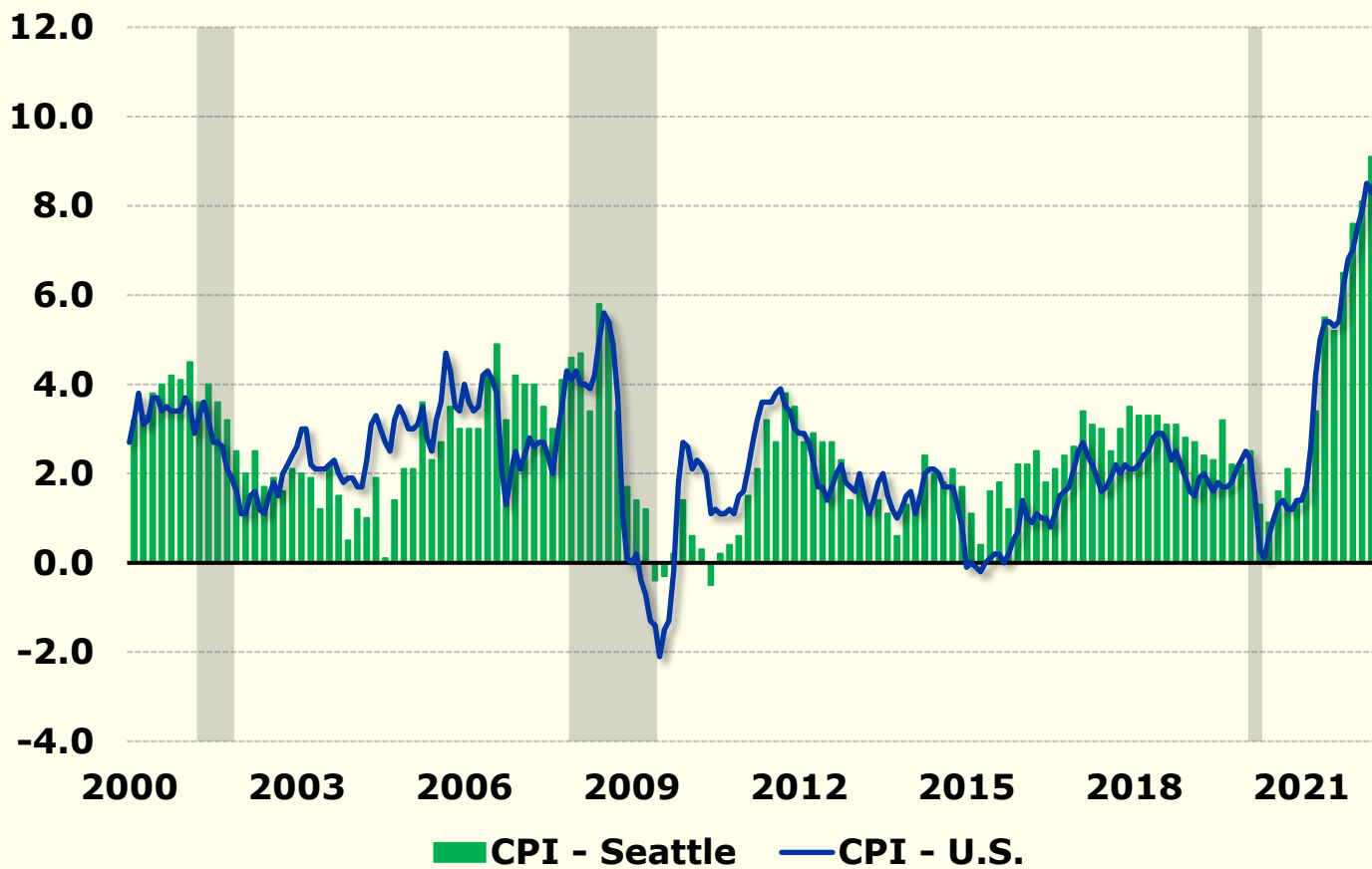
The U.S. CPI for all urban consumers rose 1.3 from May to June and was up 9.1% year over year

The Seattle CPI, which is released every two months, was up 10.1% year over year

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### Inflation, % change over the year

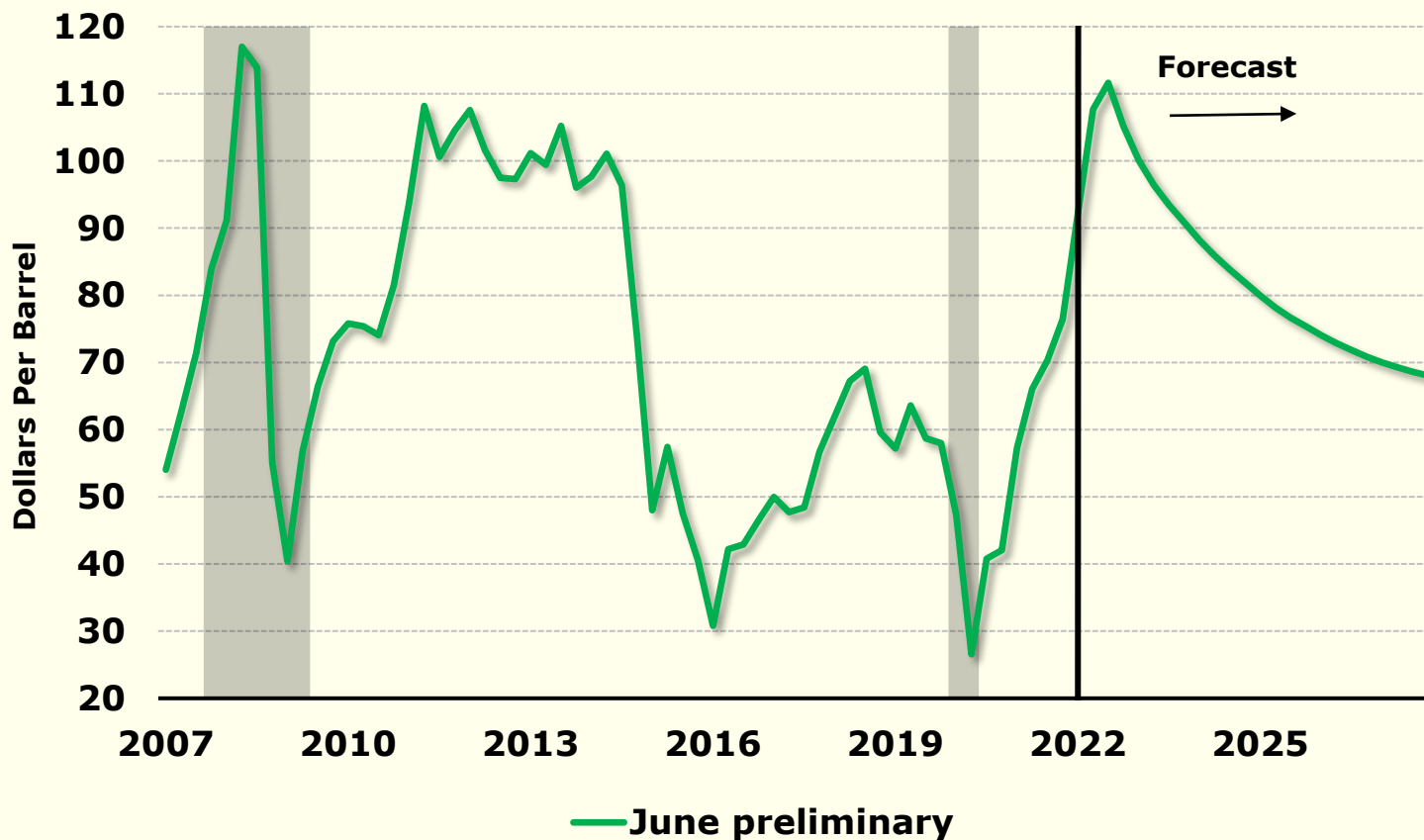


Source: U.S. Bureau of Labor Statistics, data through June 2022

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# The June forecast expected oil prices to peak in the third quarter of 2022



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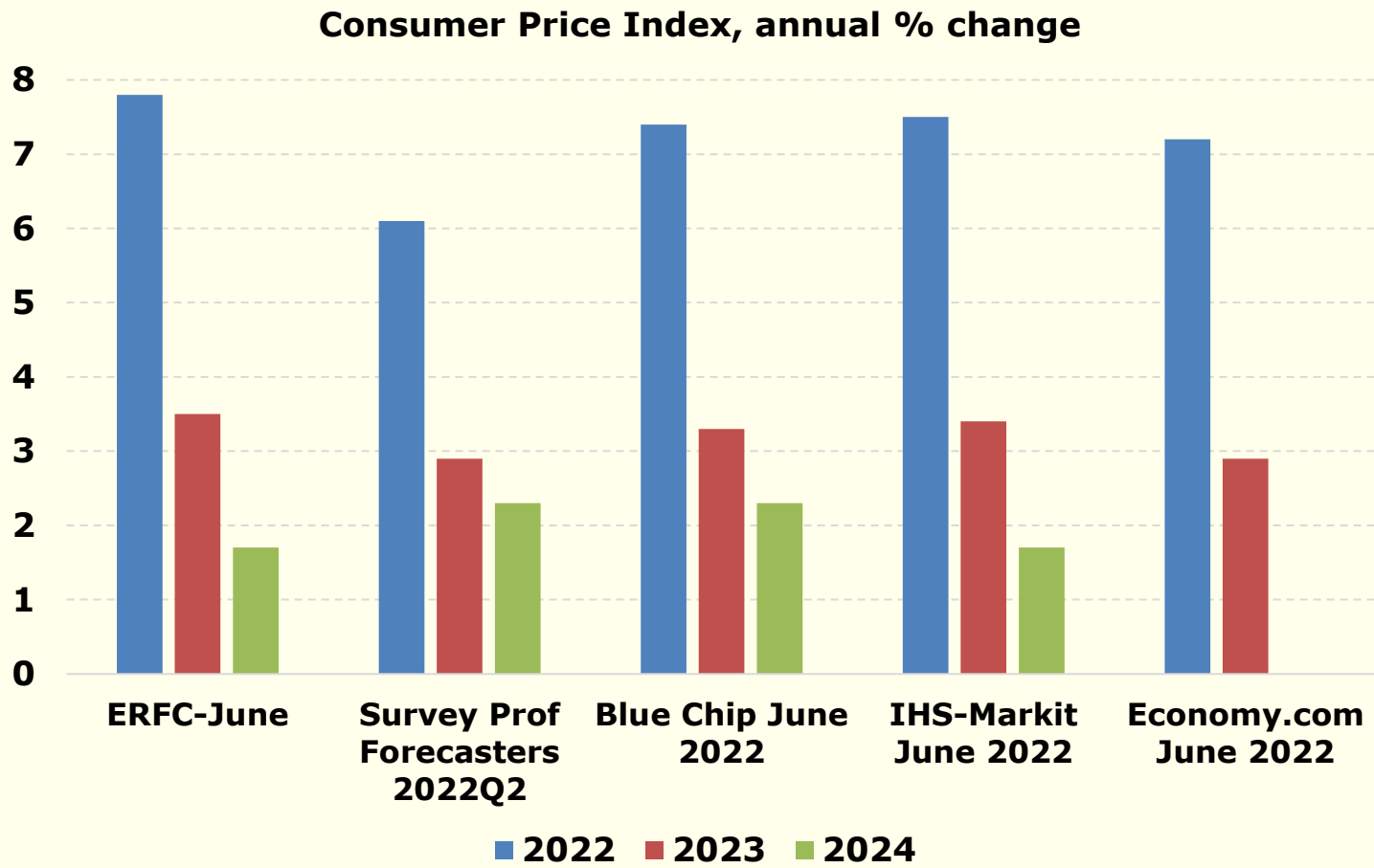
Source: Energy Information Administration, IHS Markit, ERFC; data through Q1 2022  
Note: Vertical black line indicates last actual

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# Inflation is expected to decrease after this year

The Consumer Price Index increased by 4.7% in 2021

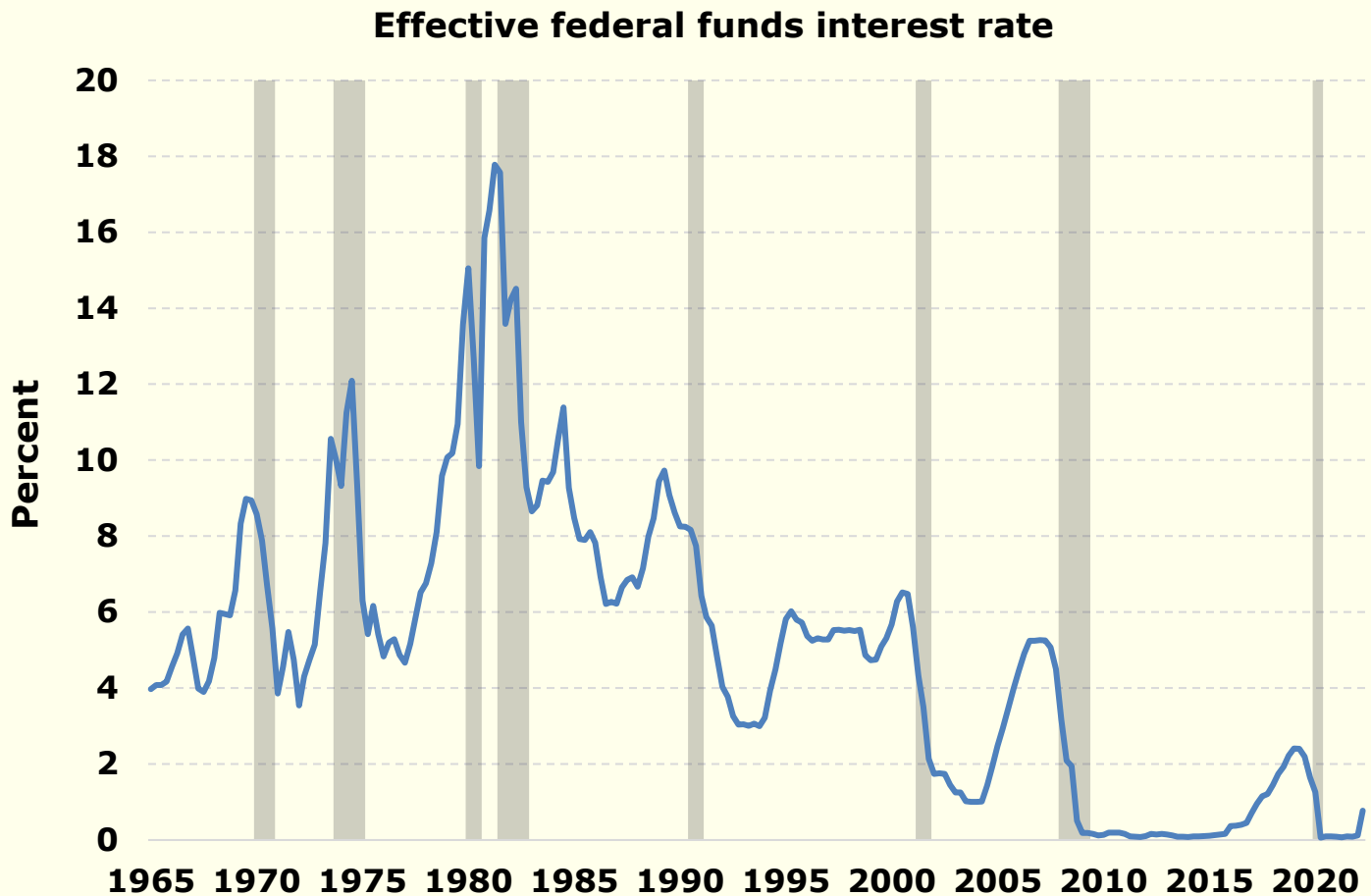


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# Recessions have frequently been preceded by the Federal Reserve raising interest rates

However, not all Fed rate increases have been followed by recession



Source: Federal Reserve Board of Governors; quarterly data through Q2 2022

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# Recent commentary and headlines

Governor's  
Council of  
Economic  
Advisors: 38%  
recession  
probability in  
next 12 months

## Evercore ISI consultancy (June 7 2022)

- U.S. economy clearly slowing, still strong
- State tax survey shows overall receipts pulling back from their highest level since 2006

## World Bank (June 2022)

- Several years of above-average inflation and below-average growth now seem likely

## Blue Chip Economic Indicators (June 2022)

- U.S. recession probability in:
  - 2022: 26%
  - 2023: 39%

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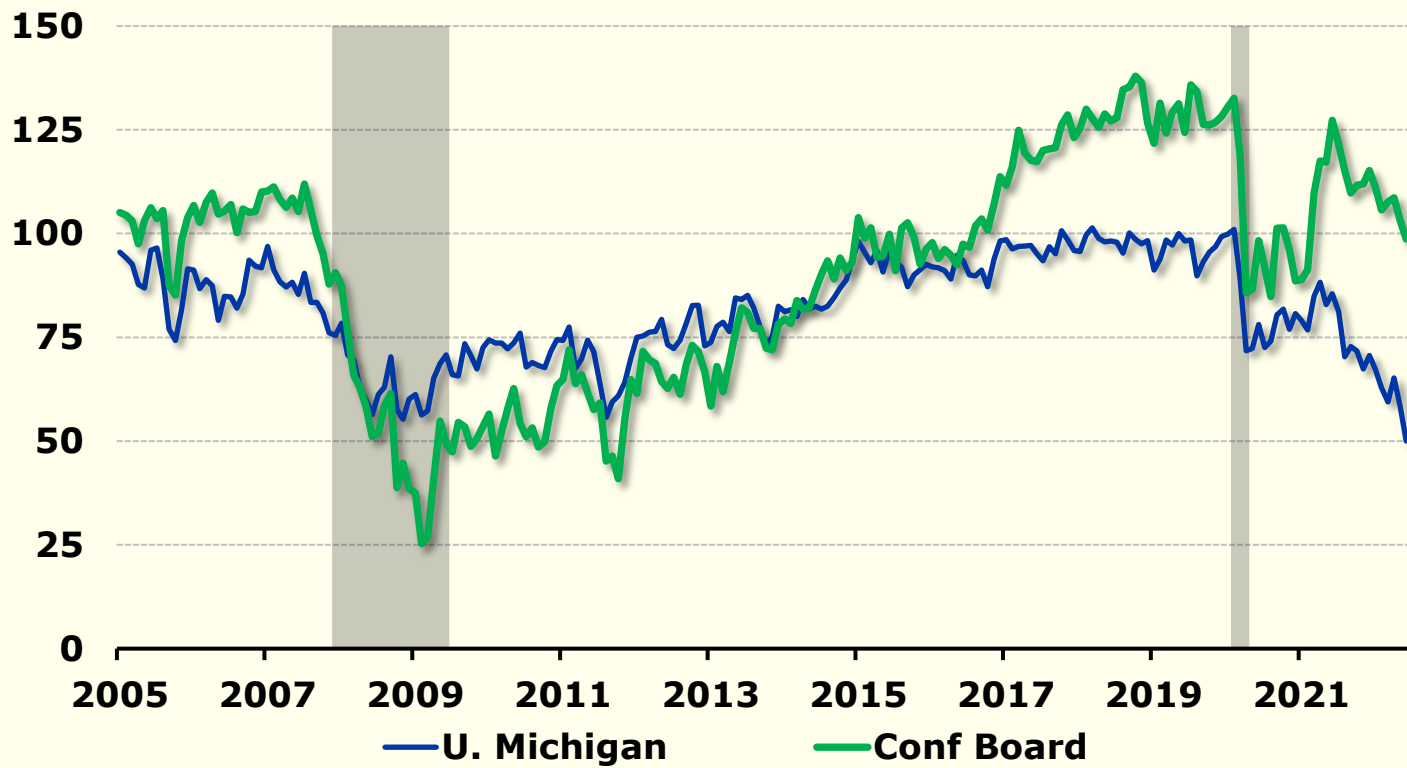


# Consumer confidence has slipped due to inflation, interest rate concerns

## Index

Mich: 1966Q1 = 100, SA

Conf Board: 1985 = 100, SA

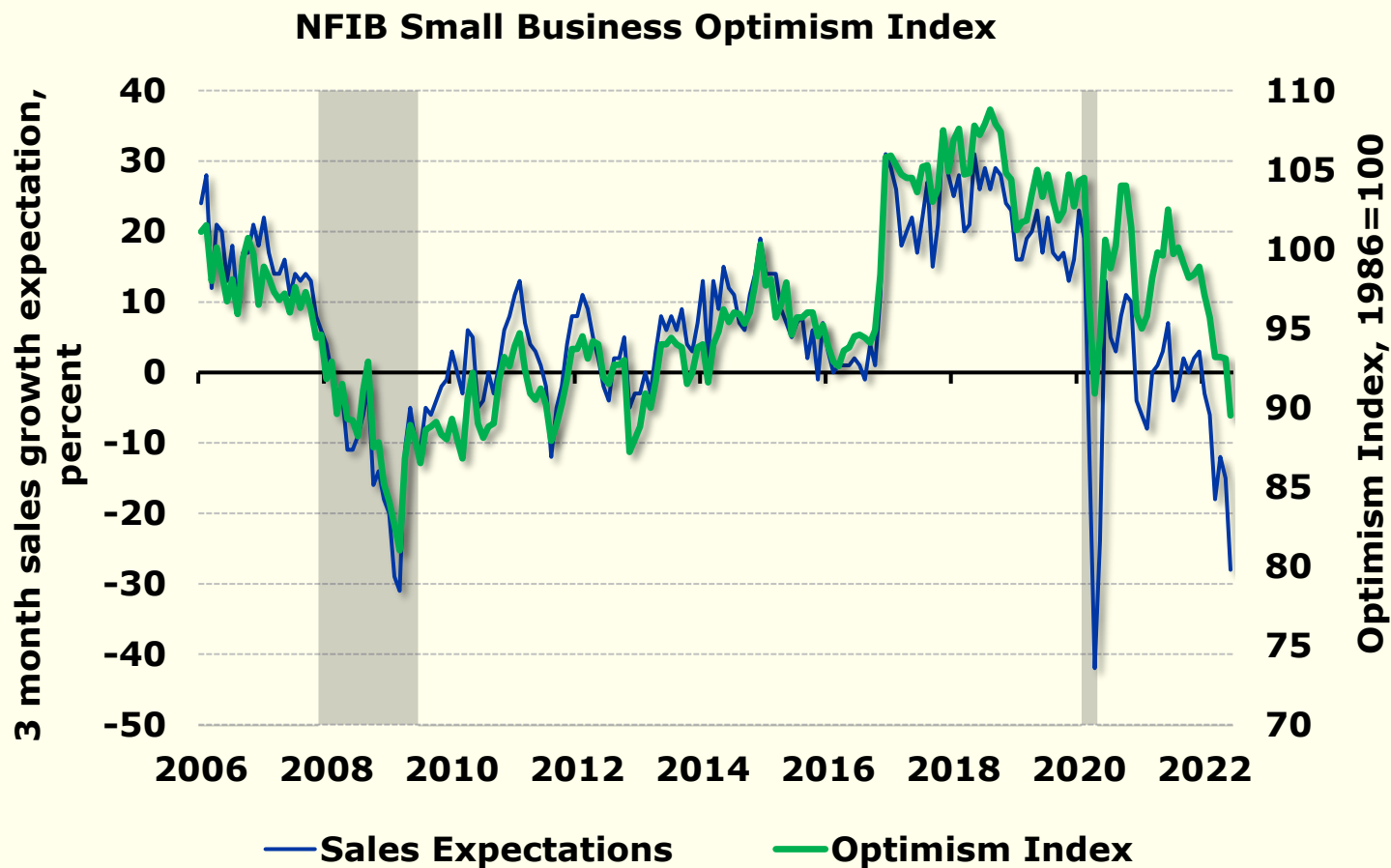


Sources: University of Michigan, Conference Board; data through June 2022 (with July UofM preliminary)

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# Small business owners expect business conditions to deteriorate over next six months



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



# U.S. retail trade sales increased by 1.0% in June

June retail sales were up 8.4% year over year

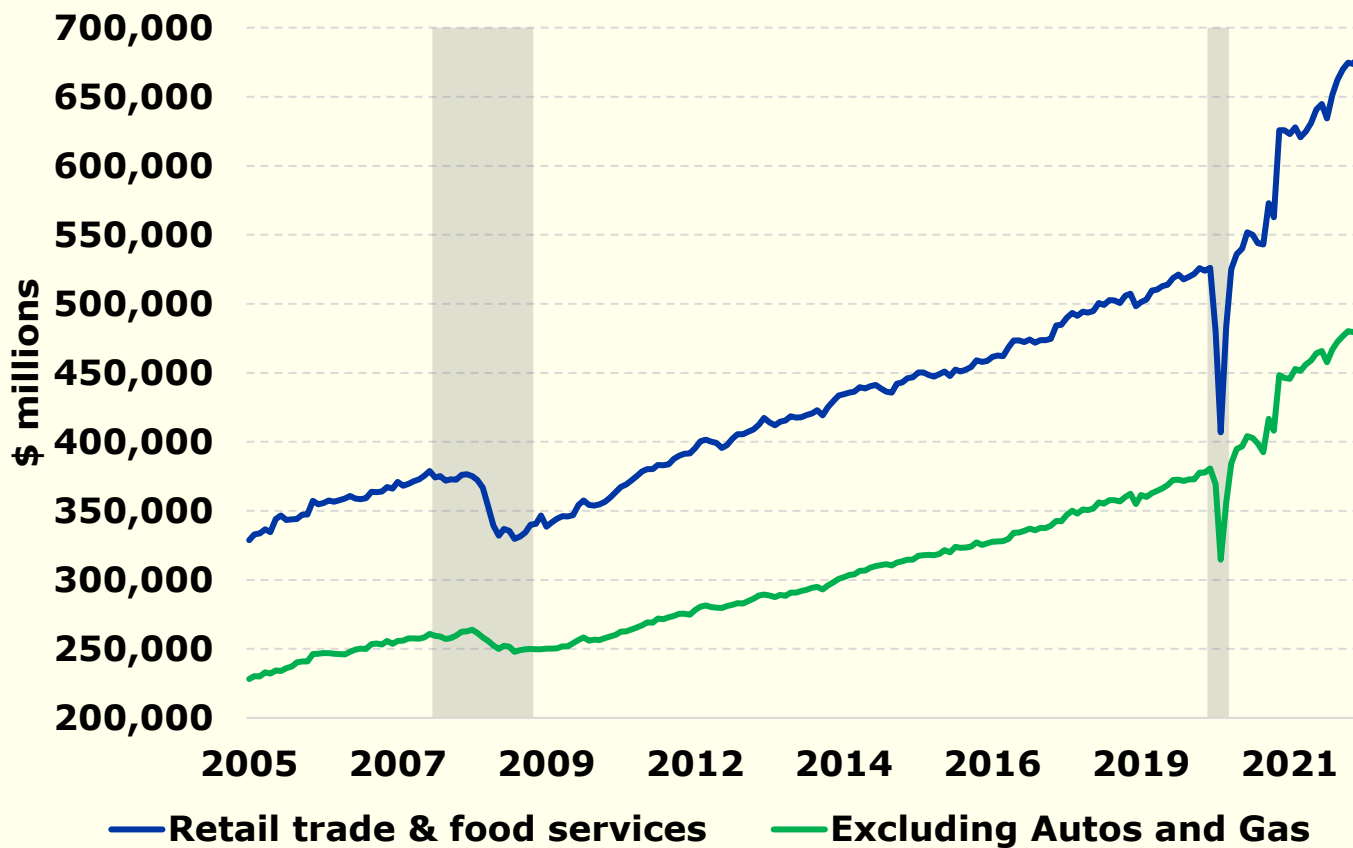
Sales decreased 0.1% in May after a 0.7% increase in April

Excluding autos and gas, sales increased 0.7% in June and were up 6.6% year over year

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

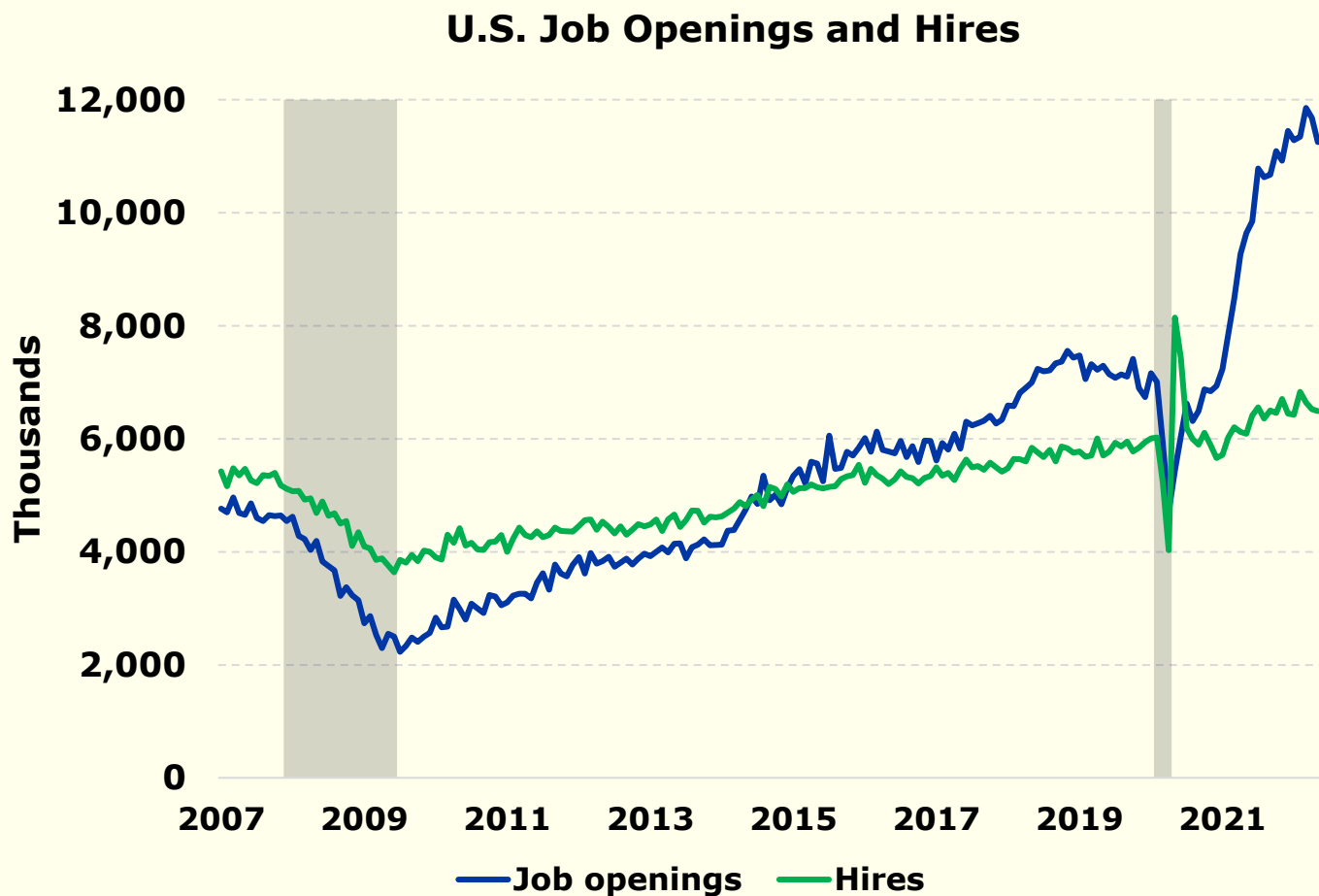


Source: U.S. Census Bureau; data through advanced June 2022

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# Job openings remain at very high levels



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

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# New vehicle sales constrained by lack of inventory, high prices

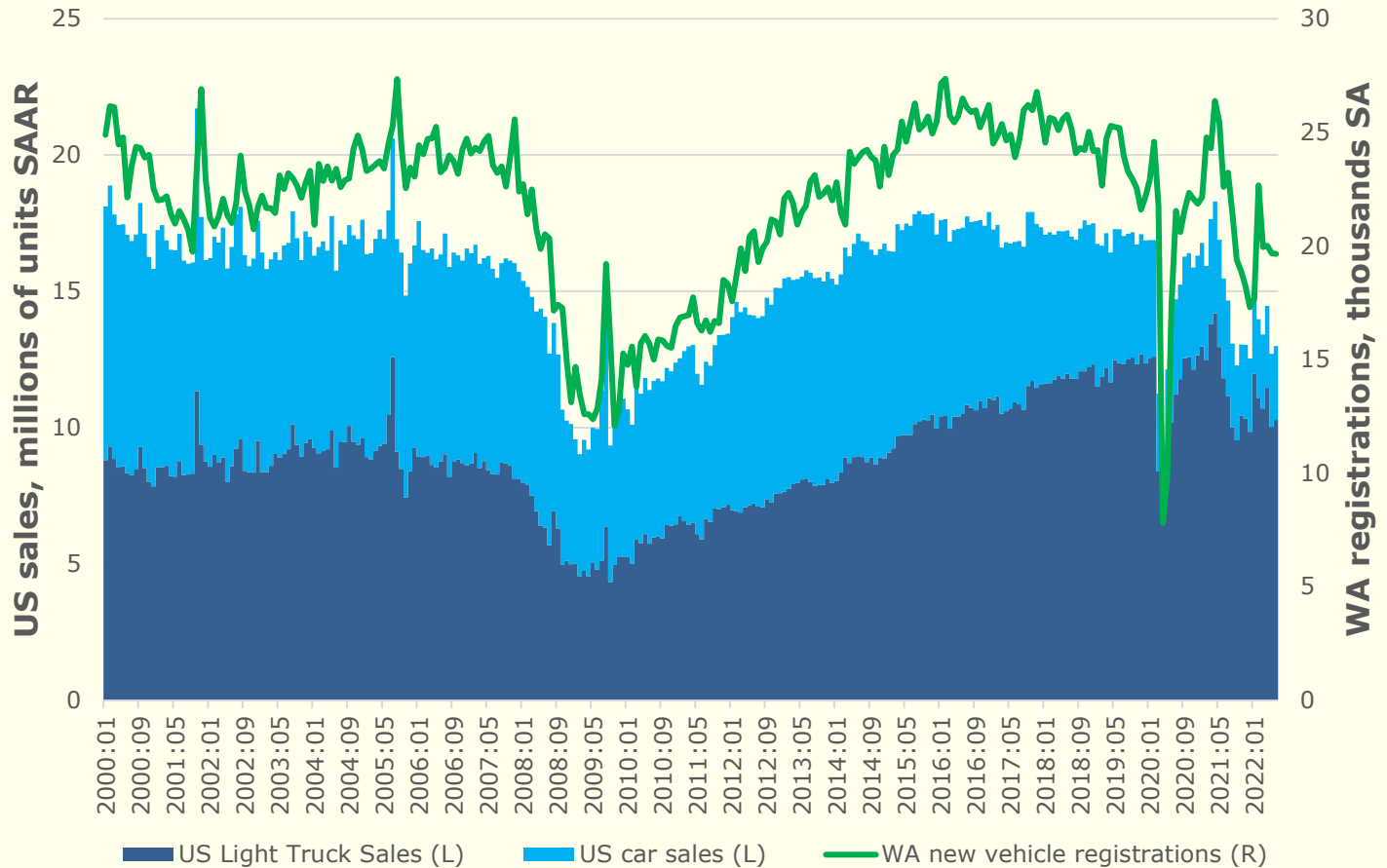
Washington new vehicle registrations were down 13% year over year in June

US light vehicle sales were down 16% year over year in June

Automakers are prioritizing production of higher profit margin vehicles, which boosts prices

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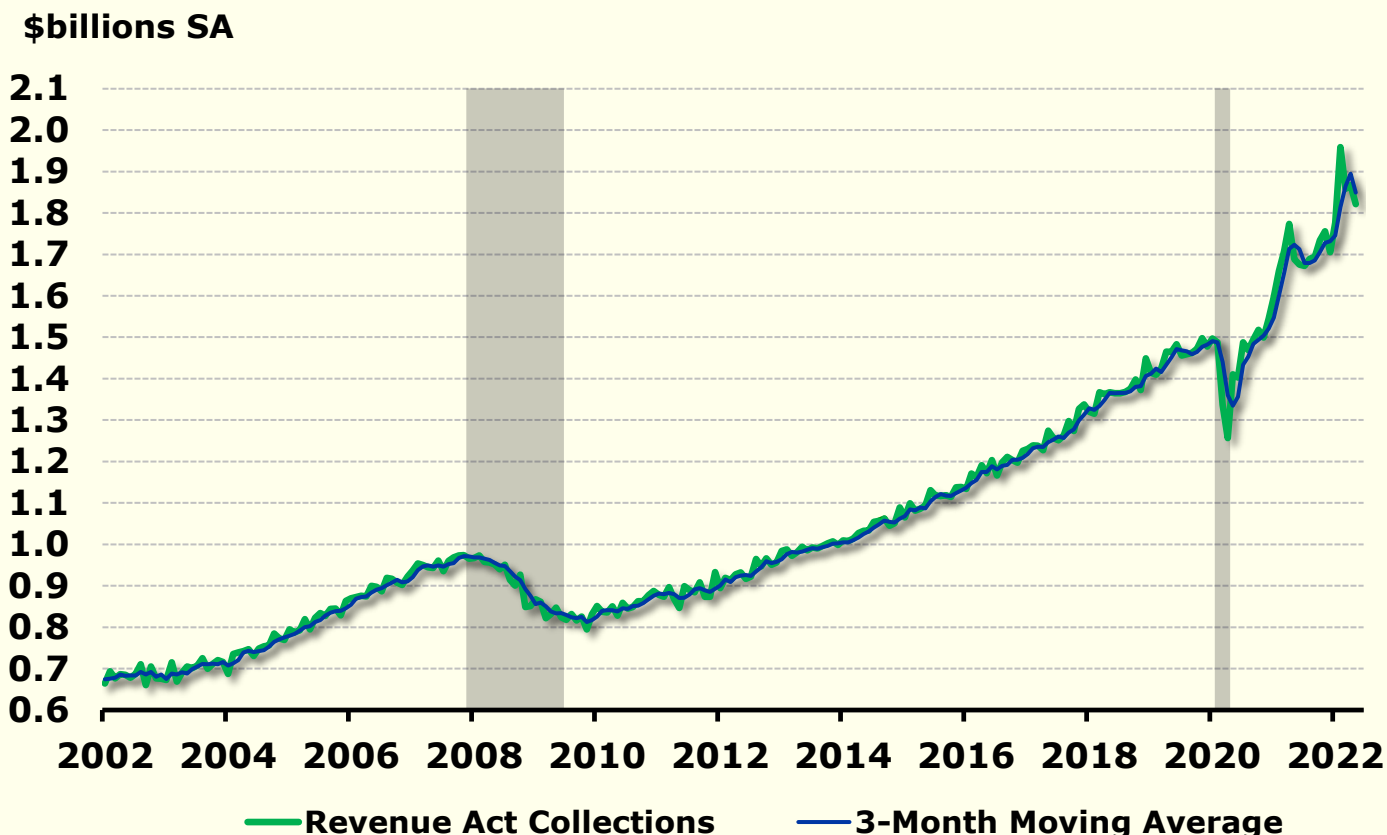
# Revenue Act collections remain strong

Revenue for May activity was up 8.9% year over year

Collections for first quarter activity were up 12.4% year over year after 13.1% growth for fourth quarter 2021 activity

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\* 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 May 2022 activity

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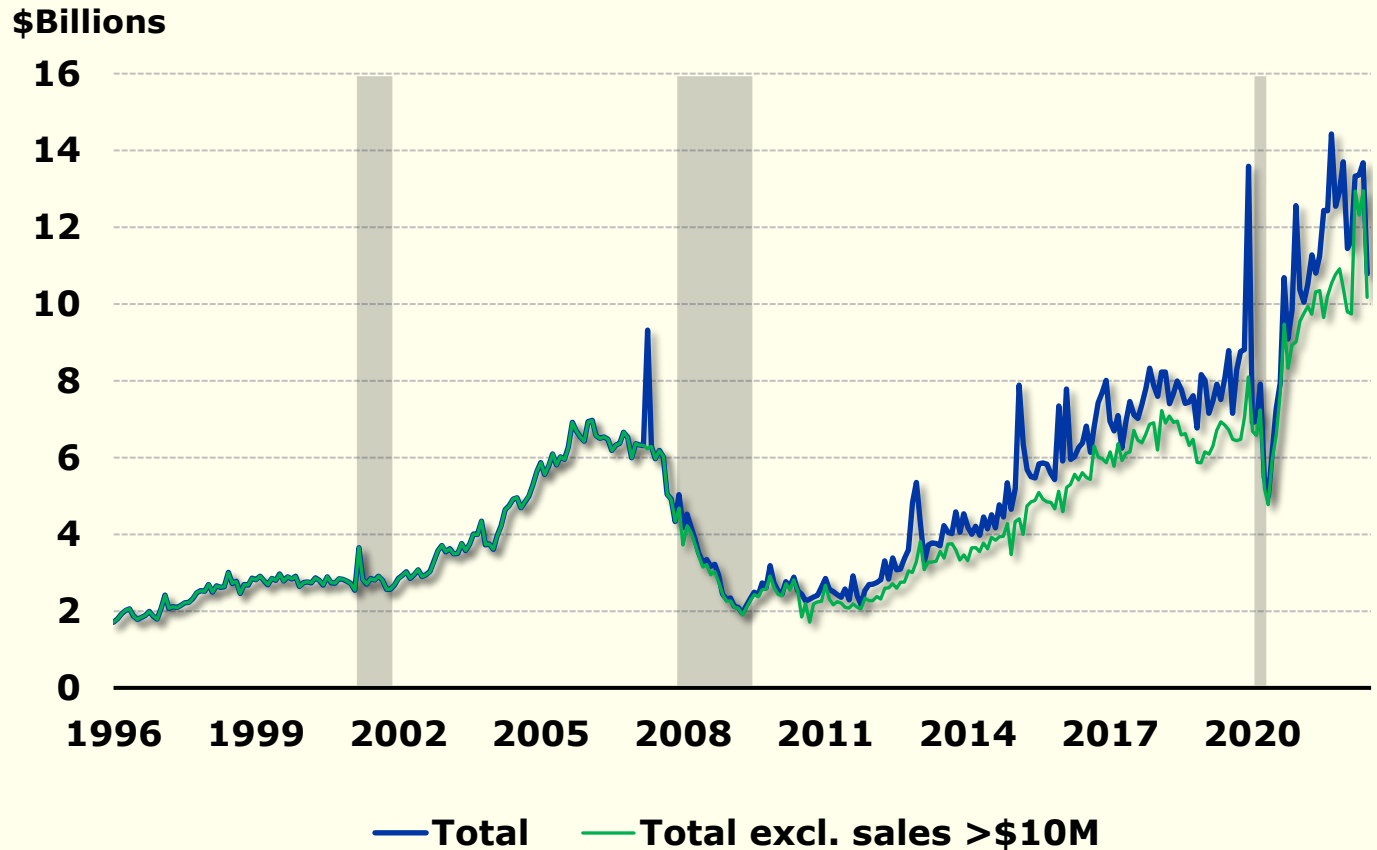


# Seasonally adjusted taxable REET activity decreased in June

Most of the June decrease was in residential sales

The forecast assumes REET collections have already peaked

## Seasonally Adjusted Taxable Real Estate Excise Activity



Source: ERFC; Monthly data through May 2022 estimate

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# WA employment forecast

Average annual employment growth, 2023 to 2027:

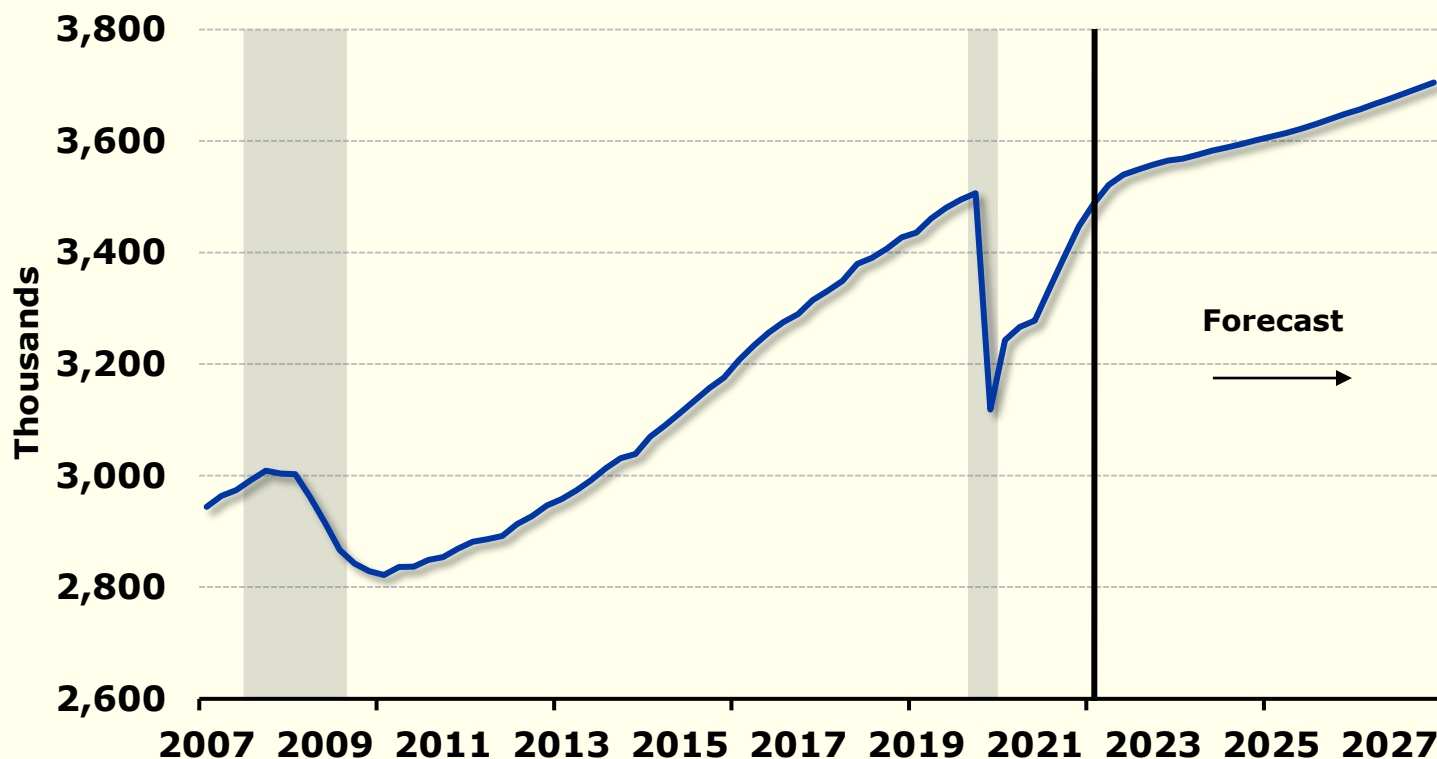
U.S. = 0.4%

WA = 0.9%

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## Washington Nonfarm Payroll Employment



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

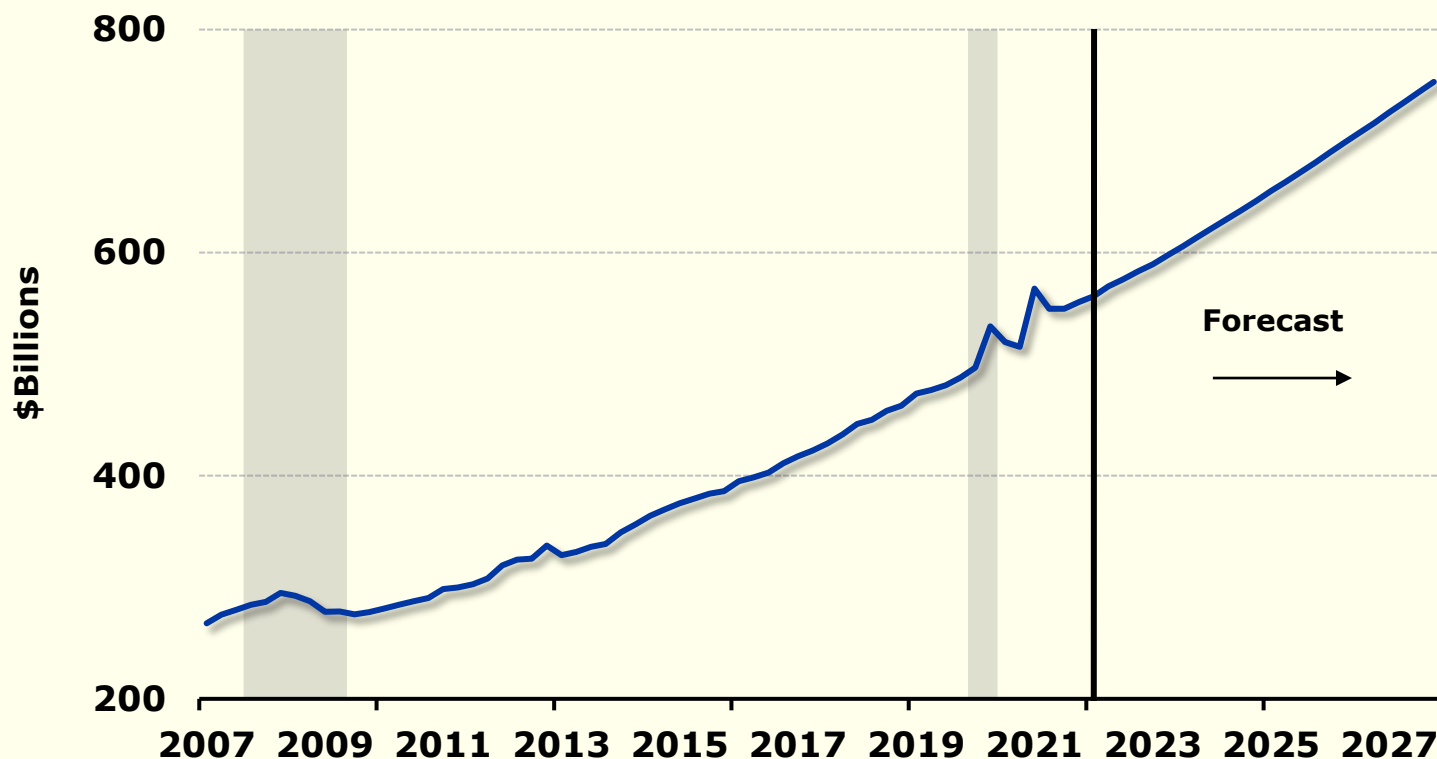
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# WA personal income forecast

State personal income is expected to grow at an annual average rate of 5.3% from 2023 to 2027



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

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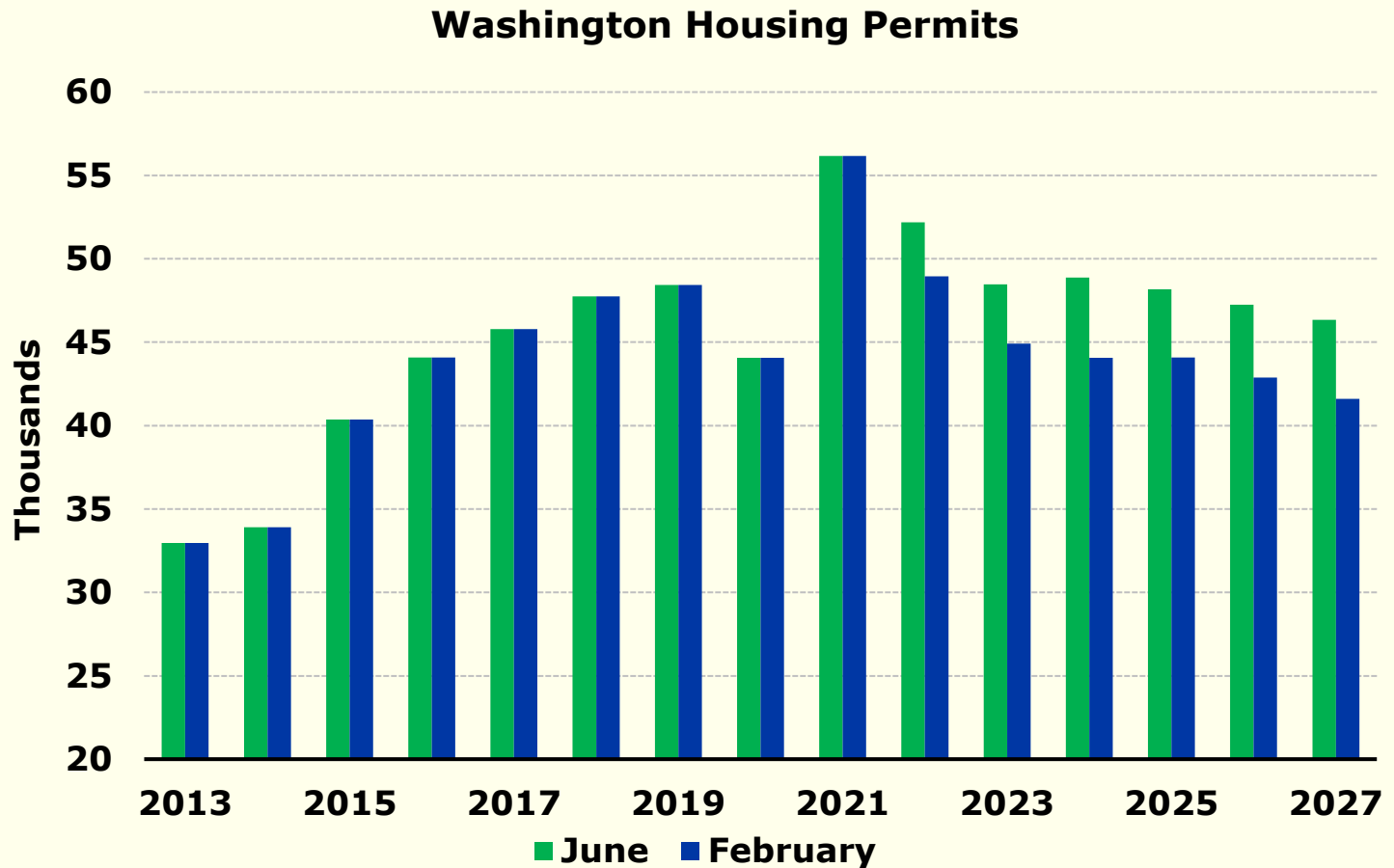


# WA housing permits higher 2022 – 25 compared to February; reflects new data on housing depreciation

Since the February forecast, U.S. Dept. of Housing & Urban Development released survey data indicating existing housing is depreciating faster than expected, requiring higher replacement rates.

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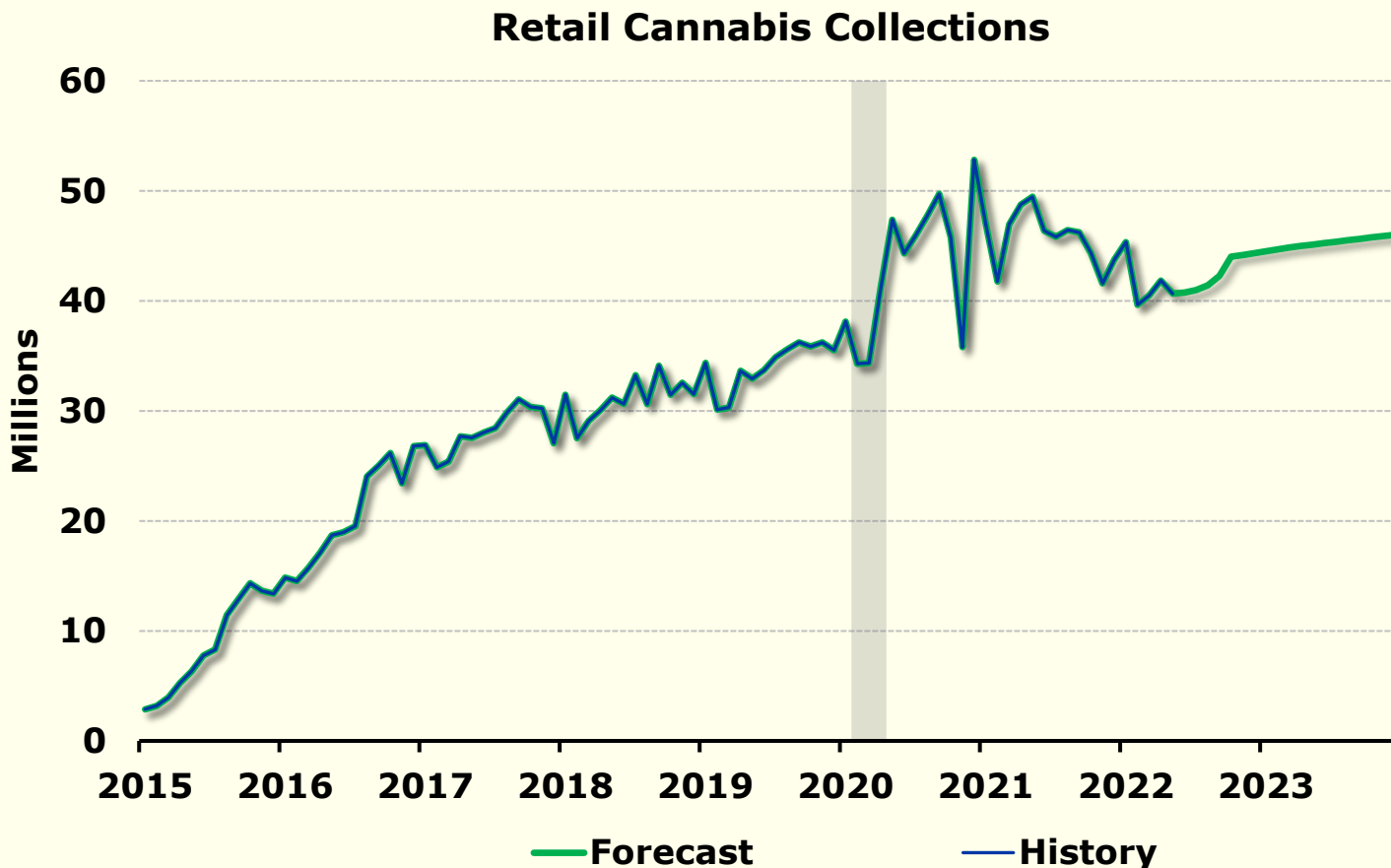
Source: ERFC June 2022 forecast; historical data through 2021

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# Cannabis revenues appear to be moderating

Collections came in 7.3% below the February forecast



Source: ERFC June 2022 forecast; historical data through May 2022

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# ERFC June Forecast – U.S.

	Year-over-year growth							
	2020	2021	2022	2023	2024	2025	2026	2027
<b>Real GDP growth</b>	-3.4%	5.7%	2.5%	1.9%	2.1%	2.0%	2.0%	1.9%
<b>Federal Funds rate</b>	0.4%	0.1%	1.2%	3.0%	2.9%	2.6%	2.6%	2.6%
<b>10-year treasury note</b>	0.9%	1.4%	2.7%	3.1%	3.2%	3.1%	3.0%	3.0%
<b>30-year fixed mortgage rate</b>	3.1%	3.0%	4.9%	5.2%	5.0%	4.9%	4.8%	4.8%
<b>CPI inflation</b>	1.2%	4.7%	7.8%	3.5%	1.7%	1.8%	1.9%	2.0%
<b>Oil price, refiner acquisition cost/bbl</b>	\$39	\$68	\$104	\$95	\$85	\$78	\$72	\$69



# ERFC June Forecast – WA

	Year-over-year growth							
	2020	2021	2022	2023	2024	2025	2026	2027
<b>Personal income</b>	7.6%	7.6%	3.0%	5.1%	5.4%	5.3%	5.3%	5.1%
<b>Real personal income</b>	6.4%	3.6%	-3.0%	1.9%	3.7%	3.5%	3.3%	3.2%
<b>Nonfarm payroll employment</b>	-5.3%	2.4%	4.8%	1.2%	0.7%	0.7%	0.9%	1.0%
<b>Housing permits</b>	-9.0%	27.5%	-7.1%	-7.1%	0.9%	-1.5%	-1.9%	-1.9%
<b>Construction Employment</b>	-2.6%	4.5%	4.4%	-0.7%	1.0%	0.8%	1.1%	0.8%
<b>Unemployment Rate</b>	8.5%	5.3%	4.1%	4.5%	4.8%	5.0%	4.9%	4.7%



# June Revenue Forecast

	Year-over-year growth							
	FY20	FY21	FY22	FY23	FY24	FY25	FY26	FY27
<b>Retail Sales</b>	1.7%	10.3%	12.3%	3.9%	3.3%	3.2%	3.3%	3.6%
<b>Business &amp; Occupation</b>	3.6%	7.9%	14.5%	1.0%	4.2%	4.6%	4.7%	4.4%
<b>Real Estate Excise</b>	-0.7%	34.4%	36.2%	-31.2%	-6.1%	3.0%	-1.0%	1.5%
<b>Property Tax - School Levy</b>	44.2%	27.3%	0.4%	2.5%	2.4%	2.5%	2.5%	2.5%



# Questions

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