

Economic Outlook and Collections Update

Presented to
Senate Ways and Means Committee

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Executive Director

November 15, 2021



**WASHINGTON STATE
ECONOMIC AND REVENUE FORECAST COUNCIL**



Summary

- U.S. GDP will grow 4.1% next year then average 2.2% for 2023 through 2025
- Inflation is expected to gradually decline to 2.0% in 2023 as supply chain and logistics issues are resolved
- Annual WA personal income growth is expected to average 4.4% for 2022 through 2025
- WA employment growth is expected to average 2.3% for 2022 through 2025
- Revenue collections since the September forecast are \$153 million (8.2%) above expectations

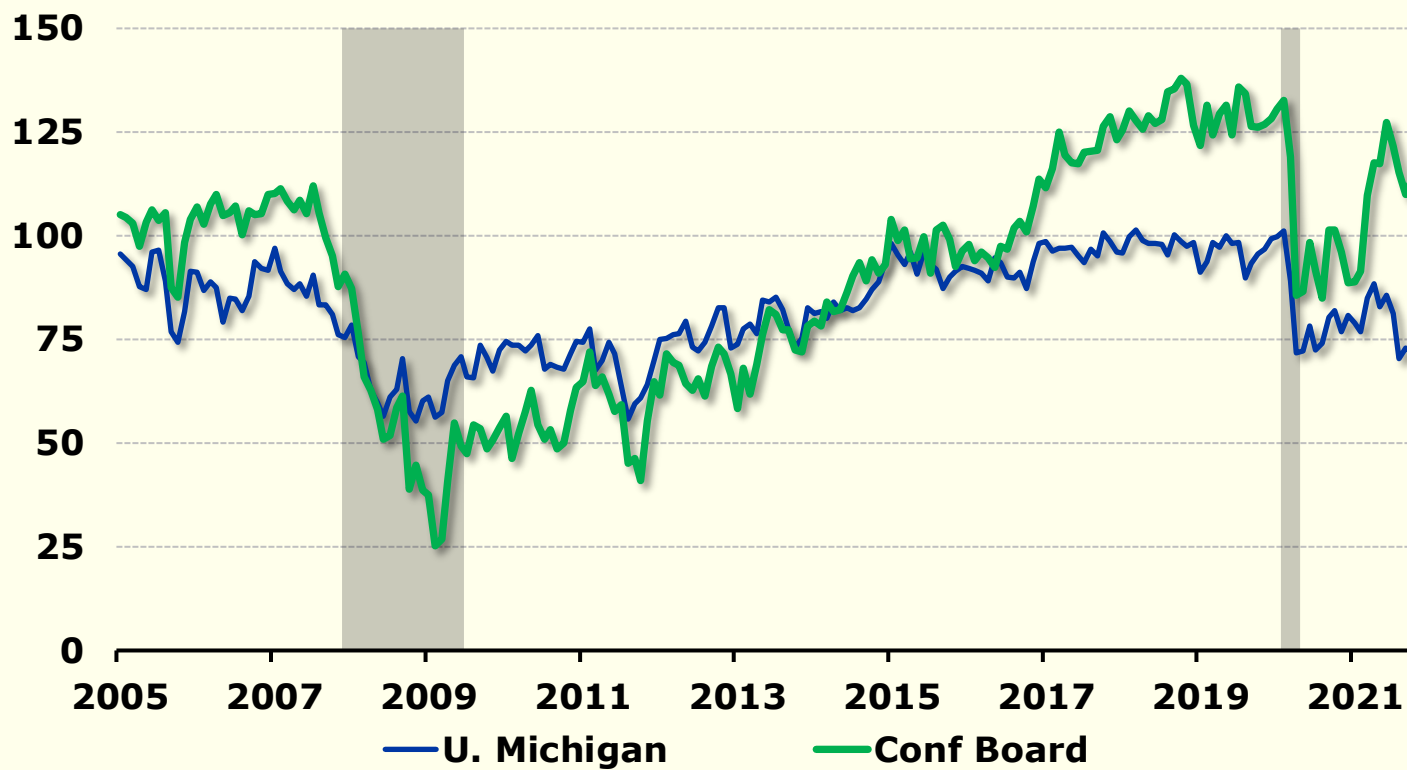


Rising COVID cases, higher inflation have reduced consumer confidence since June

Index

Mich: 1966Q1 = 100, SA

Conf Board: 1985 = 100, SA





COVID-related layoffs and furloughs have declined; other COVID-related issues relatively unchanged

Reason for not working (age 18 and over)	Jan 20-Feb 1	May 26-Jun 7	Jul 21-Aug 2	Sept 29-Oct 11
Have or caring for someone with coronavirus	5%	2%	2%	4%
Concerned about getting/spreading coronavirus	5%	3%	3%	2%
Laid off or furloughed due to coronavirus	12%	7%	6%	4%
Employer closed due to coronavirus	5%	5%	5%	2%
Did not want to be employed at this time	5%	6%	5%	5%
Caring for children not in school or daycare	6%	8%	7%	5%
No transportation to work	n/a	1%	2%	1%
Caring for elderly person	2%	2%	2%	2%
Sick (not coronavirus) or disabled	6%	7%	7%	7%
Retired	37%	43%	43%	43%
Other reason	17%	18%	20%	17%

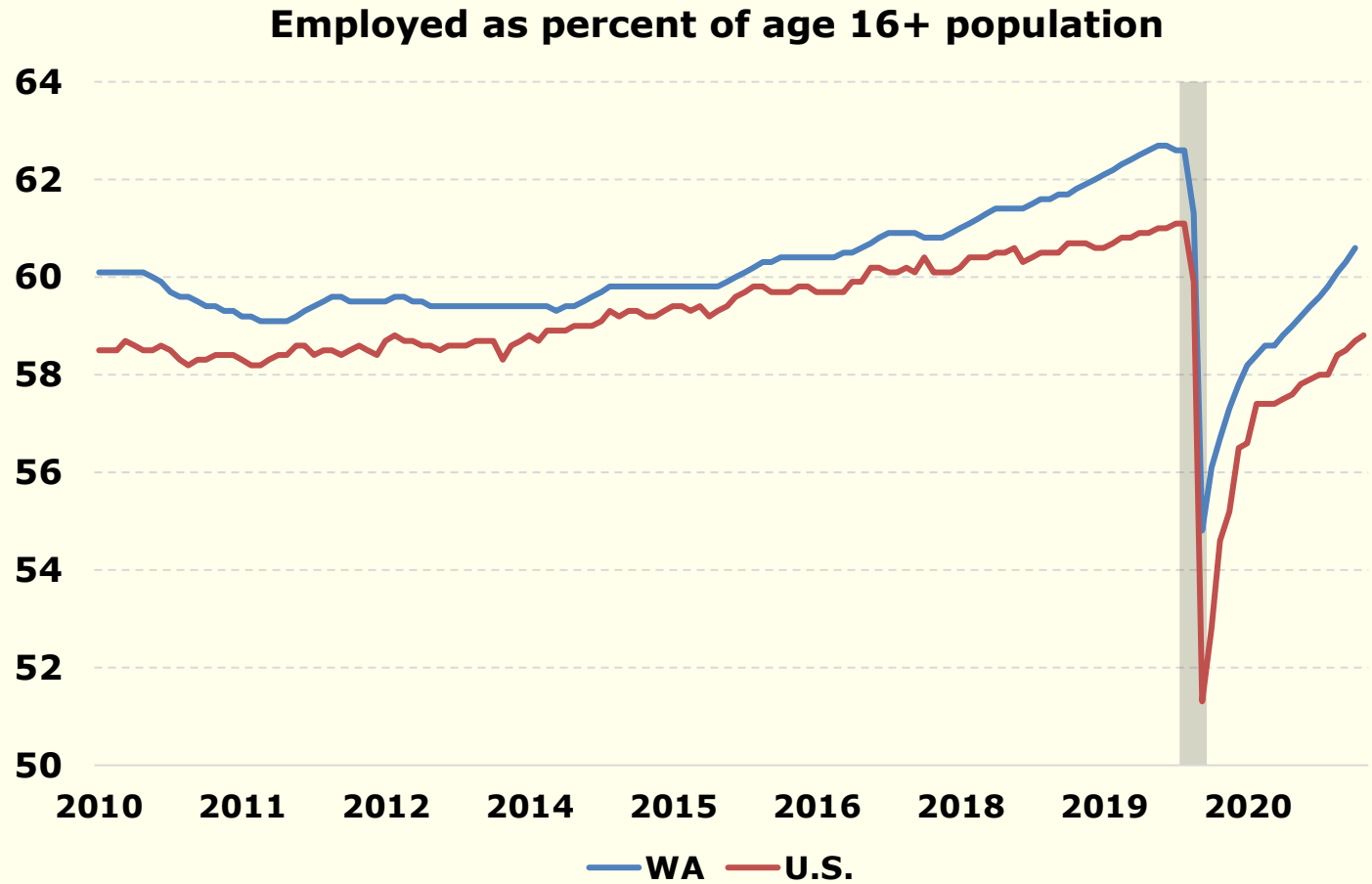
Source: U.S. Census,
Household Pulse
Survey

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The employment-population ratio continues to rise but remains below pre-pandemic levels

The Sept. 2021 employment-population ratio for the U.S. is 2.4% lower than in Jan. 2020; for WA it is 2.0% lower than Jan. 2020



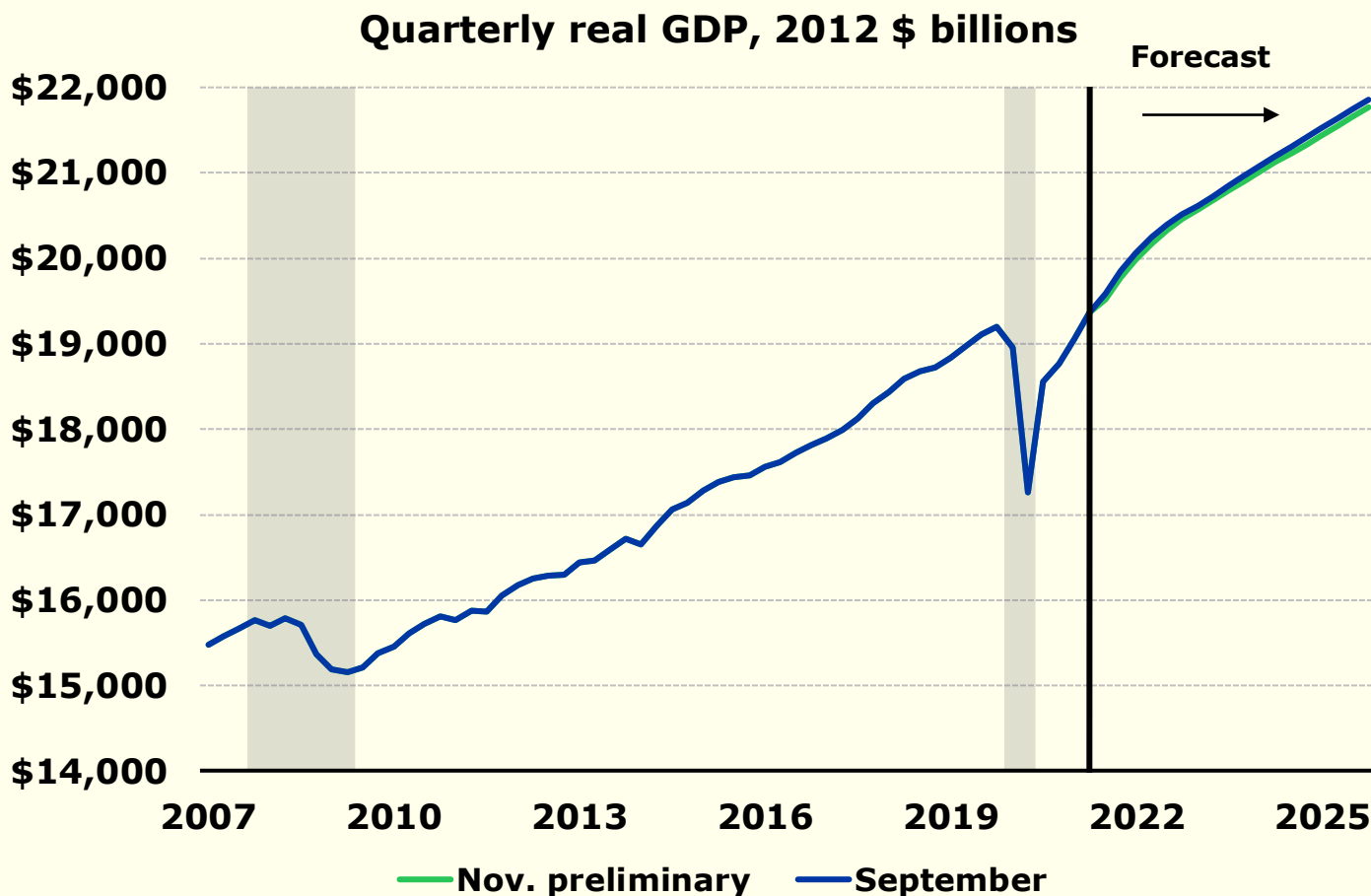
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Source: U.S. Bureau of Labor Statistics, WA data through Sept. 2021, U.S. data through Oct. 2021

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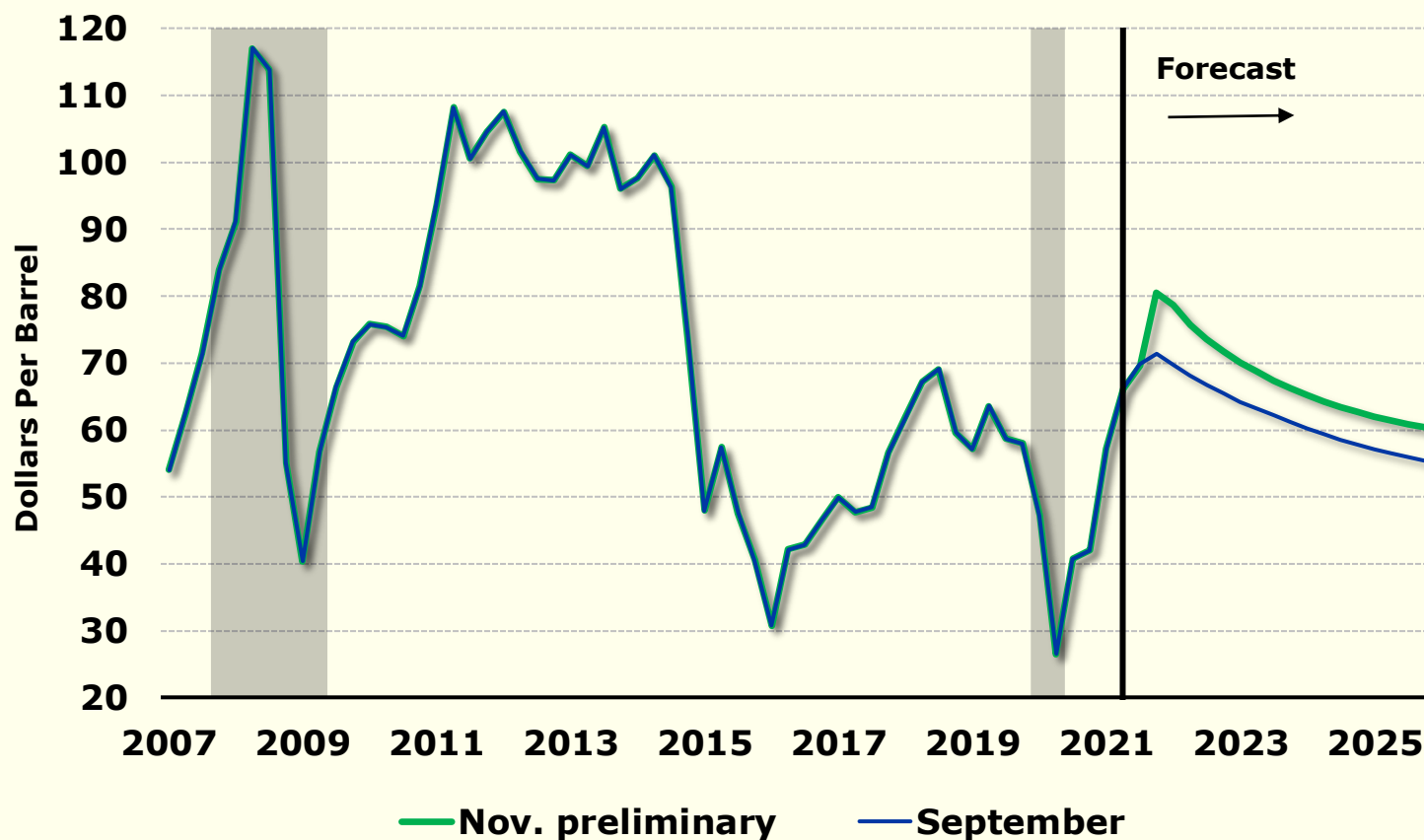


GDP levels similar to Sept. forecast; growth slightly weaker in 2021 and 2022, slightly higher in 2023





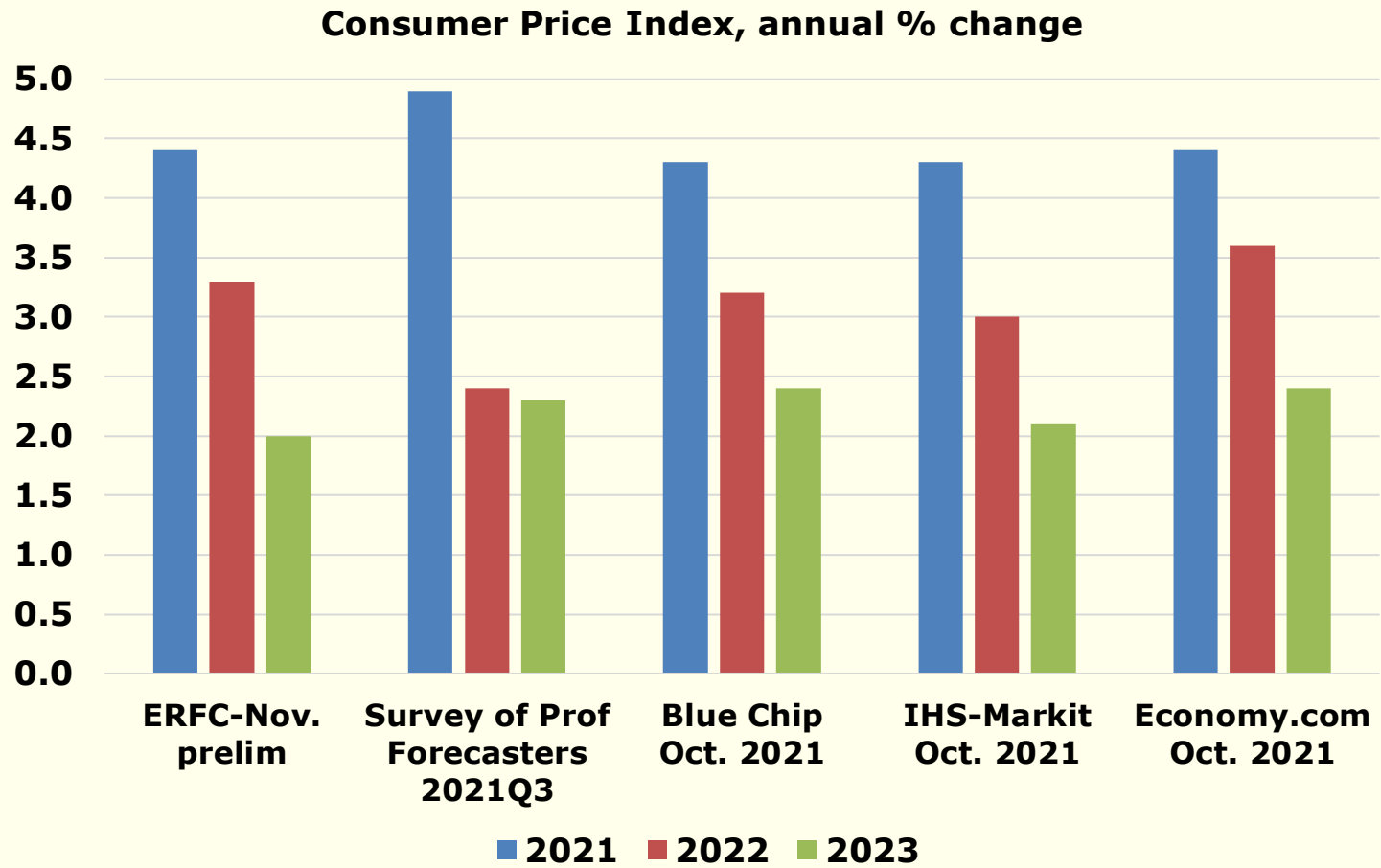
Oil prices are higher than September forecast, expected to decline after this year





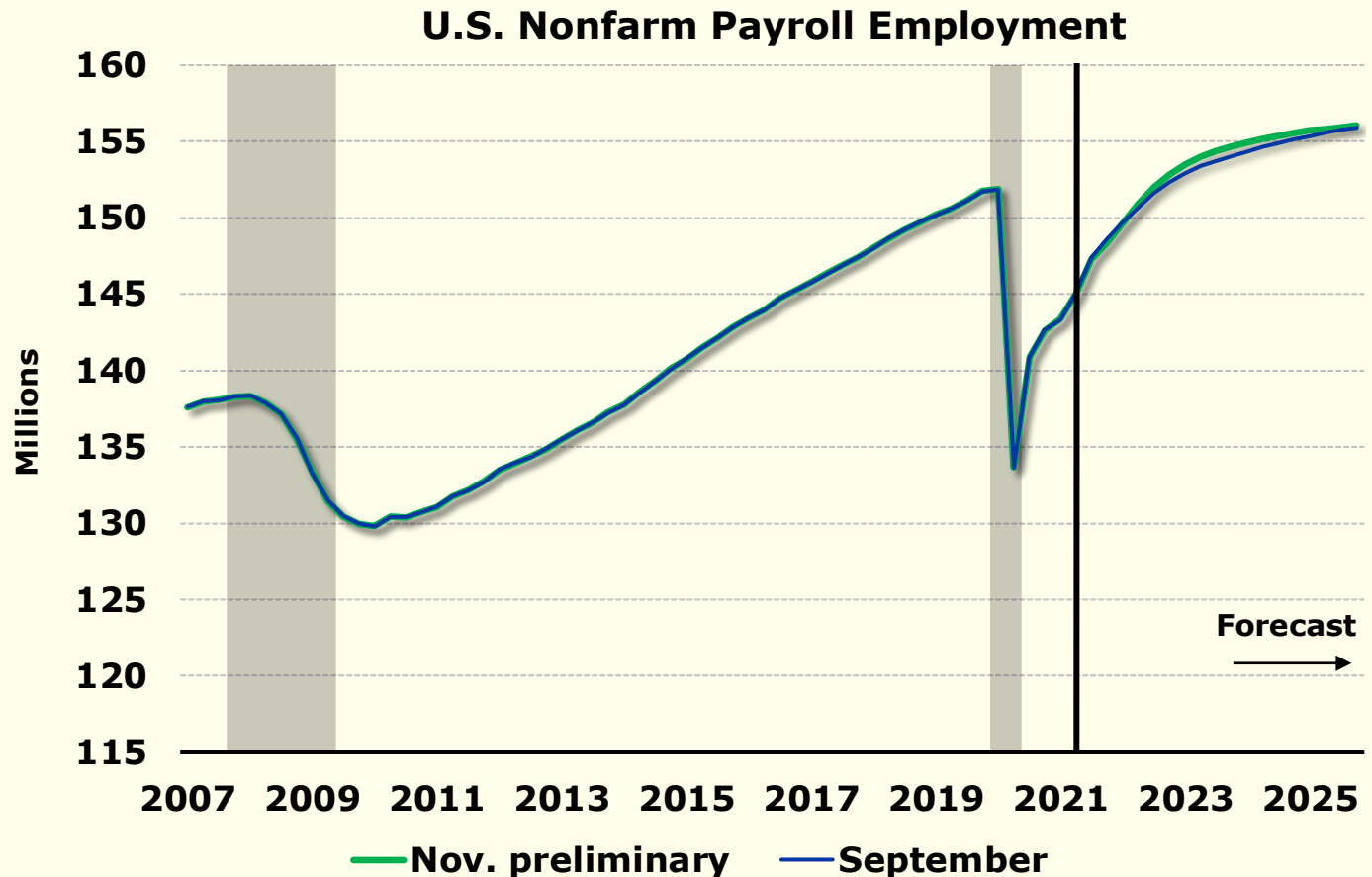
Forecasters generally expect inflation to gradually decline after 2021

October inflation increased at a 6.2% annual rate, highest rate since Nov. 1990



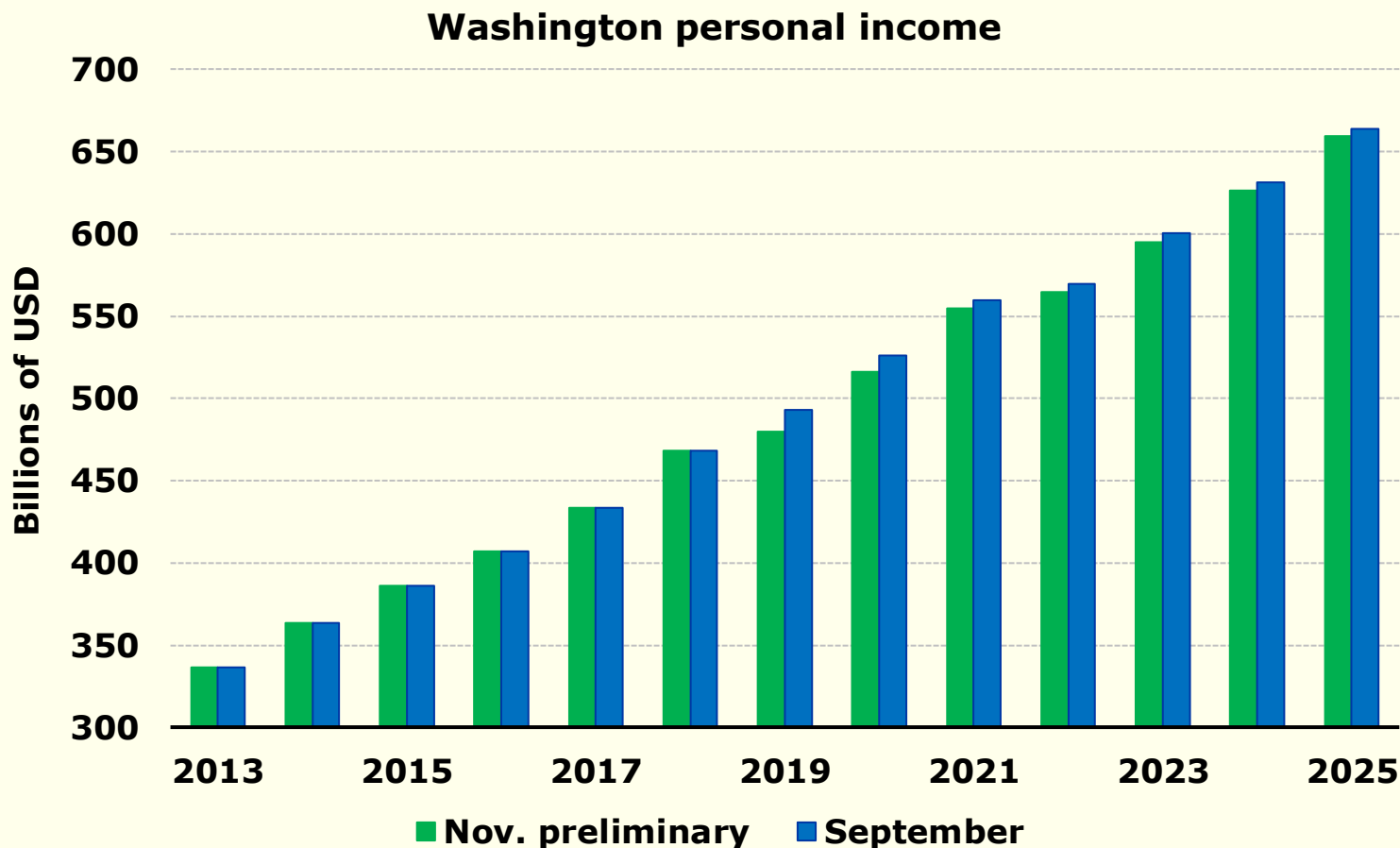


U.S. nonfarm employment growth is slightly stronger in 2022 and 2023, slightly weaker in 2024 and 2025



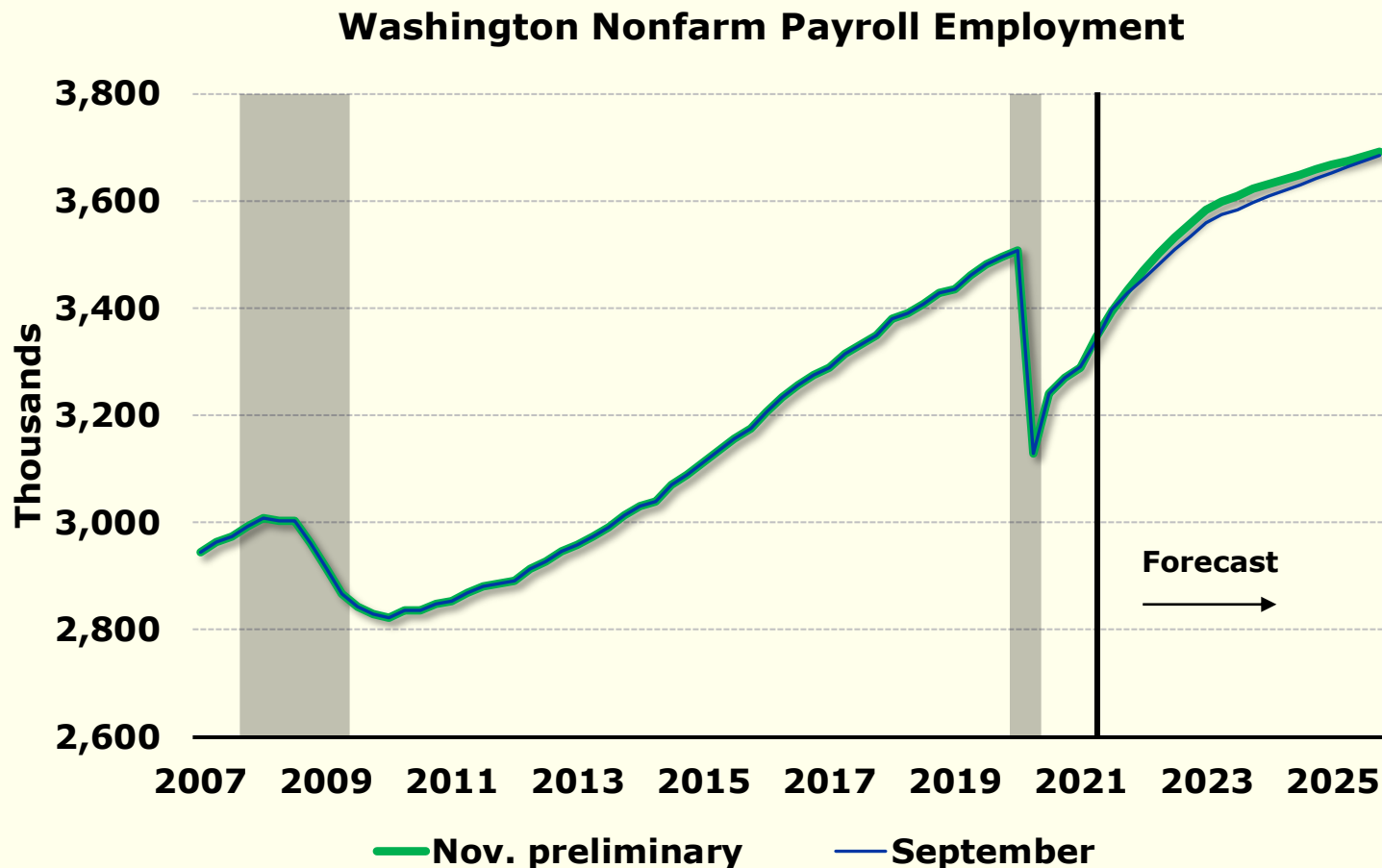


Recent WA personal income data history revised down after Sept. forecast but growth slightly stronger



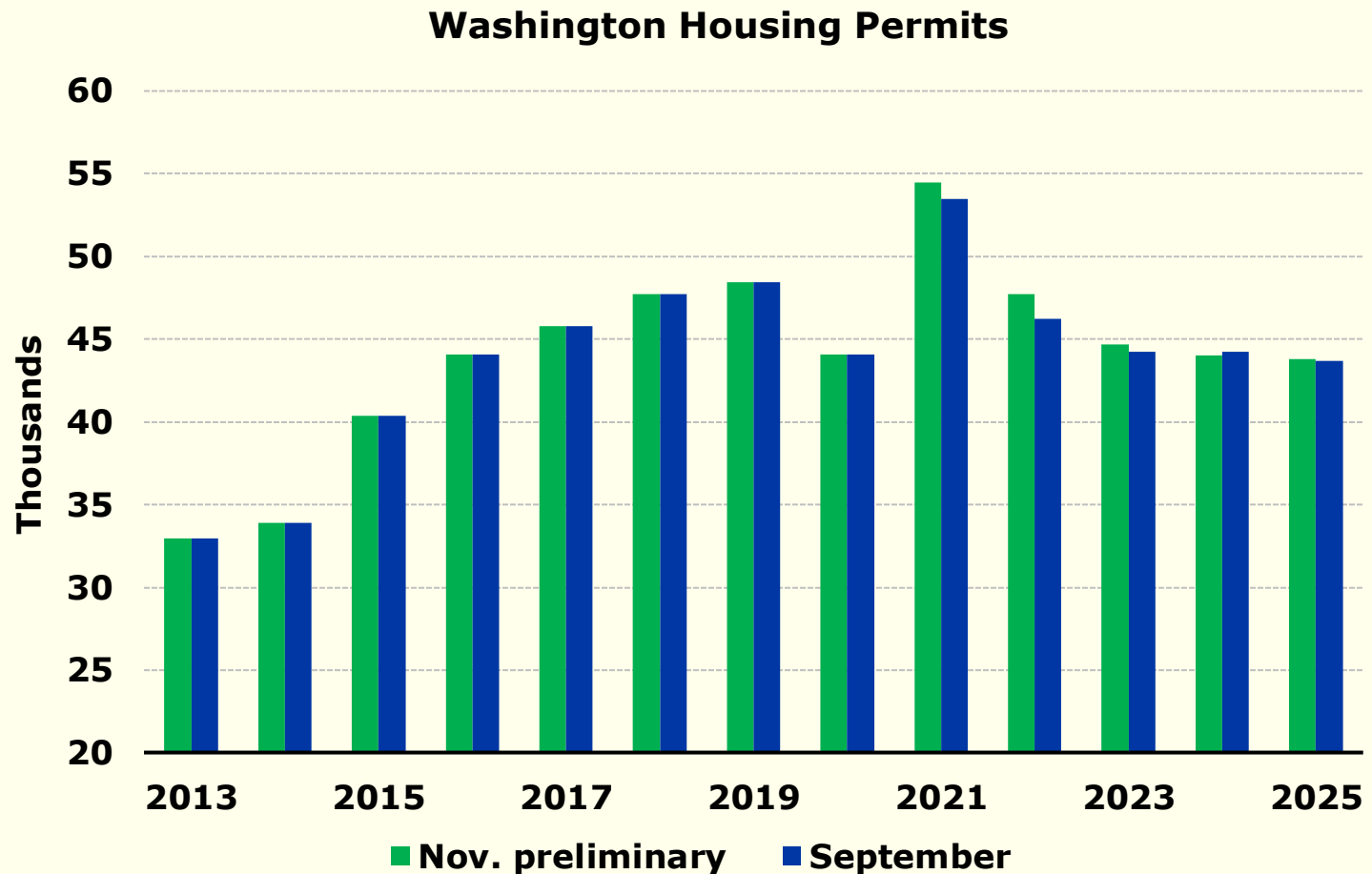


WA employment growth is slightly stronger in 2022 and 2023, slightly weaker in 2024 and 2025



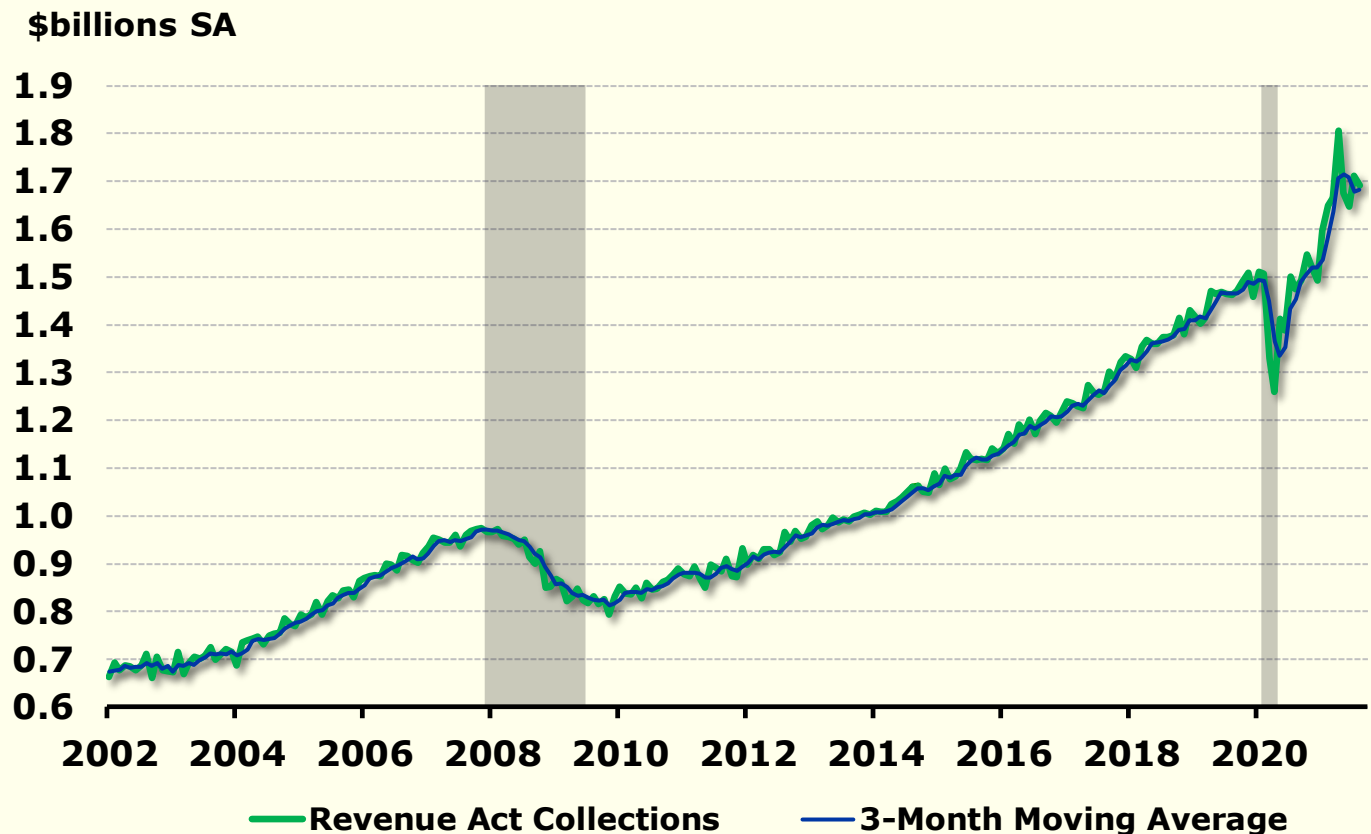


WA housing permits forecast expected to average 46,900 units over 2021-25 compared to 46,400 units in Sept.





Revenue Act collections remain strong; year over year growth 15.8% for August activity



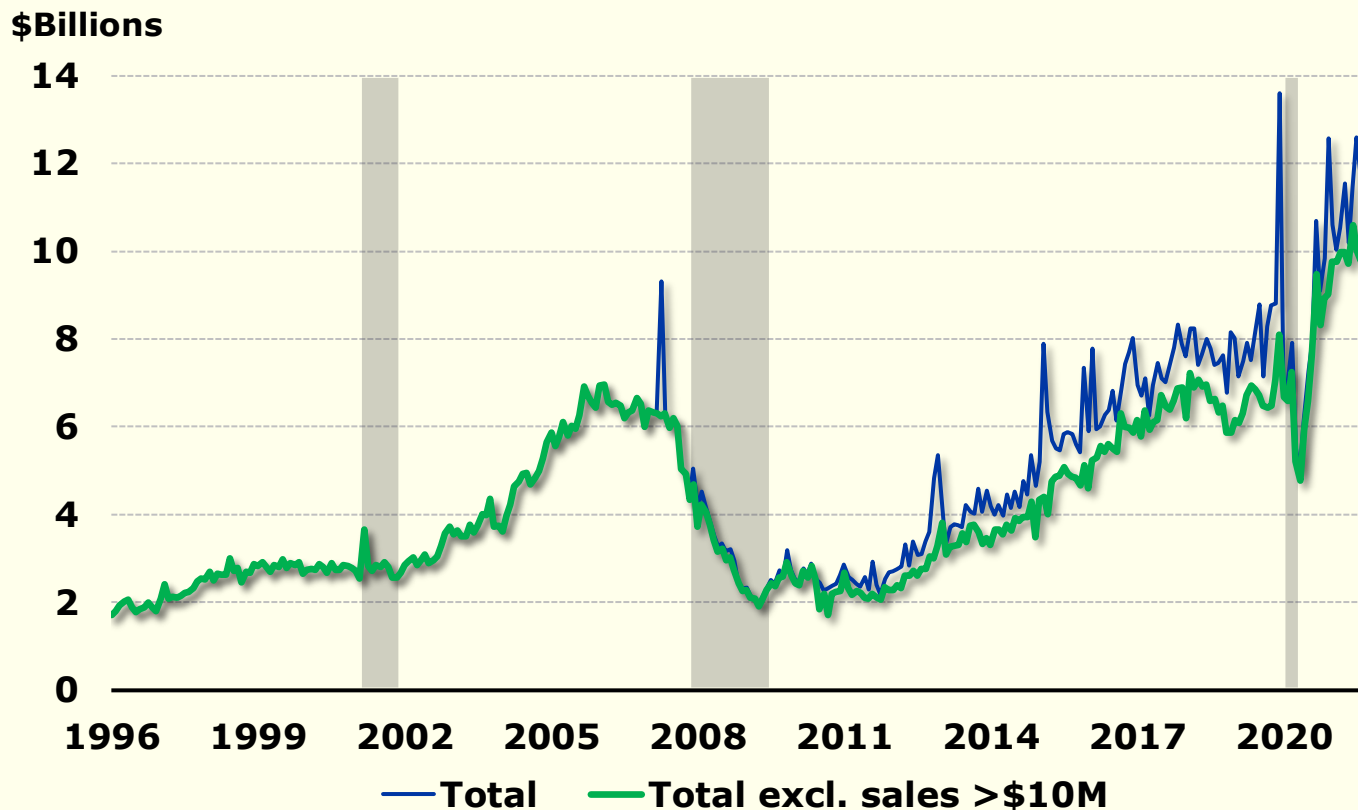
* Adjusted for large one-time transactions, amnesty payments, reporting frequency change and deferred 2020 payments, current definition of Revenue Act
Source: DOR and ERFC; monthly data through August 2021 activity



Seasonally adjusted taxable REET activity in September exceeded December 2019 peak

Large commercial transactions in September total \$3.2 B, up from \$1.8 B in August; excluding large sales, SA activity increased slightly.

Seasonally Adjusted Taxable Real Estate Excise Activity



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Source: ERFC; Monthly data through September 2021 estimate



SHB 2167 – financial institutions surtax

SHB 2167 imposed a 1.2% B&O surtax on specified financial institutions with annual worldwide net income of at least \$1 billion

- A 2019 WA Superior Court ruling found SHB 2167 in violation of the U.S. Constitution
- Following the court ruling, DOR indicated it would not actively pursue compliance of the tax; ERFC did not incorporate additional revenue from SHB 2167 in the revenue forecast
- A Sept. 2021 WA Supreme Court ruling upheld SHB 2167
- ERFC will include the fiscal note impact for FY 2022 – 2025 (\$425 M total) in the Nov. forecast



Questions



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