

# Forecast Update

Presented to  
Senate Ways and Means Committee

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Executive Director

December 1, 2022



WASHINGTON STATE  
ECONOMIC AND REVENUE FORECAST COUNCIL



# Summary

- U.S. GDP level is slightly higher than September, largely due to revised historical data
- The forecast assumes the Federal Reserve will raise the federal funds interest rate to a range of 4.75 – 5.00% by March 2023
- WA personal income is higher, building permits are lower than in the September forecast
- The forecast of funds subject to the budget outlook is increased by \$762 million for 2021-23 biennium and by \$681 million for the 2023-25 biennium



# Since the September forecast...

## Positives:

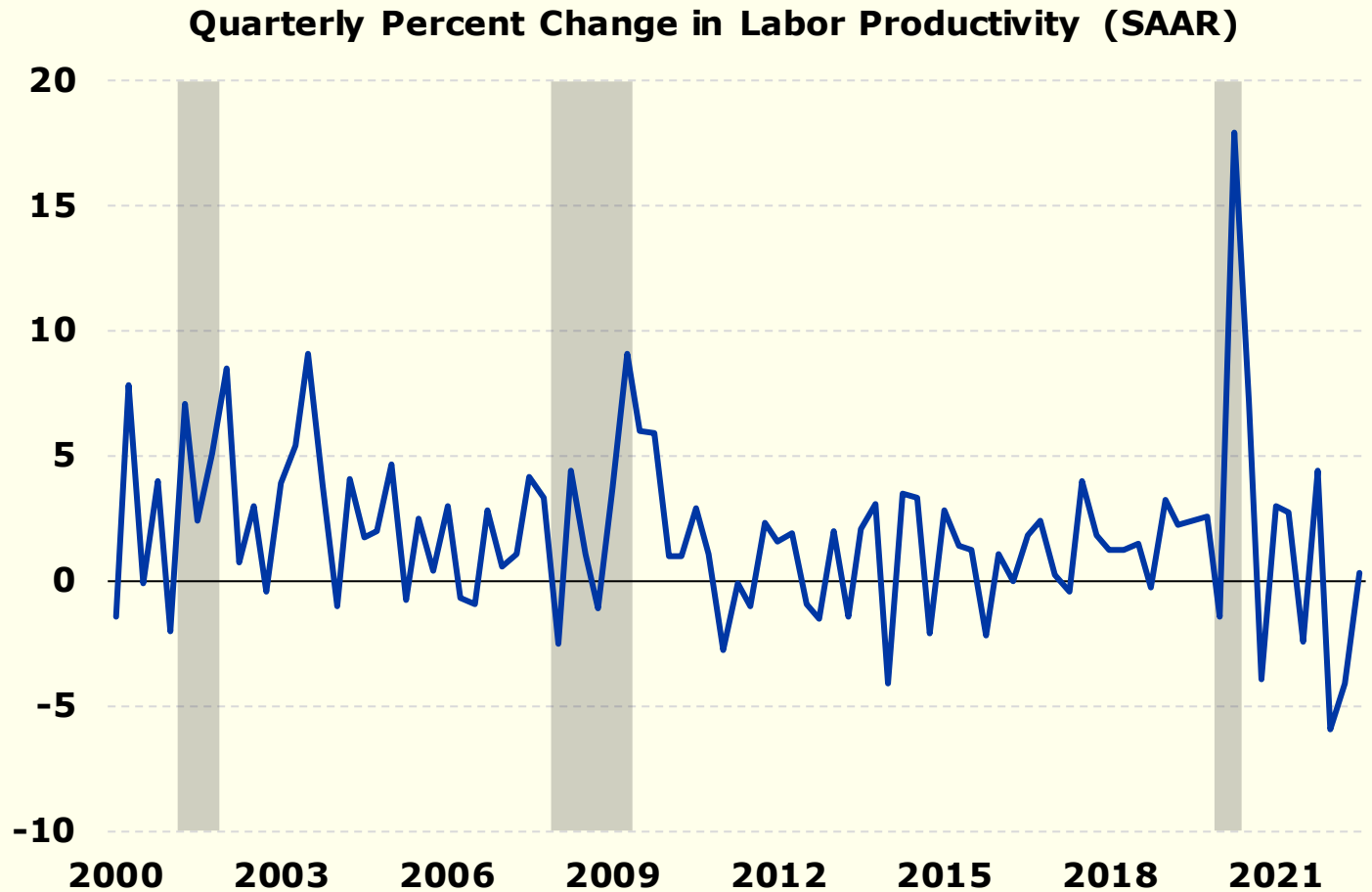
- U.S. employment has increased by 576,000 jobs
- WA employment has increased by 14,600 jobs
- WA revenue collections remain strong overall but REET collections have been slowing

## Negatives:

- Inflation decreased slightly but remains high
- Interest rates are higher
- Residential construction and sales are slowing



# Growth in labor productivity has been quite weak so far in 2022



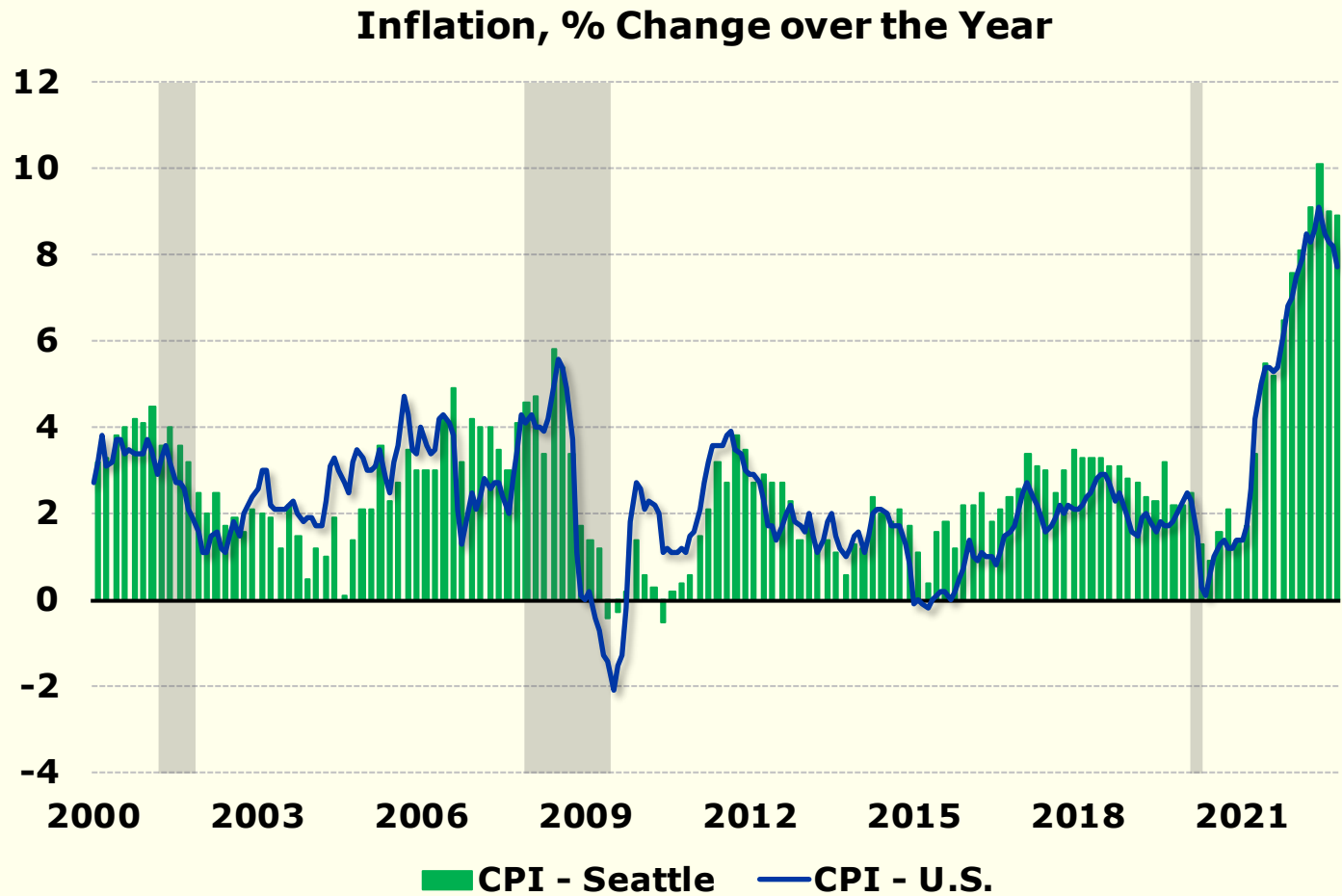
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Source: U.S. Bureau of Labor Statistics, data through 2022 Q3

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# Inflation over the year has trended down slightly since June but remains at historically high levels



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

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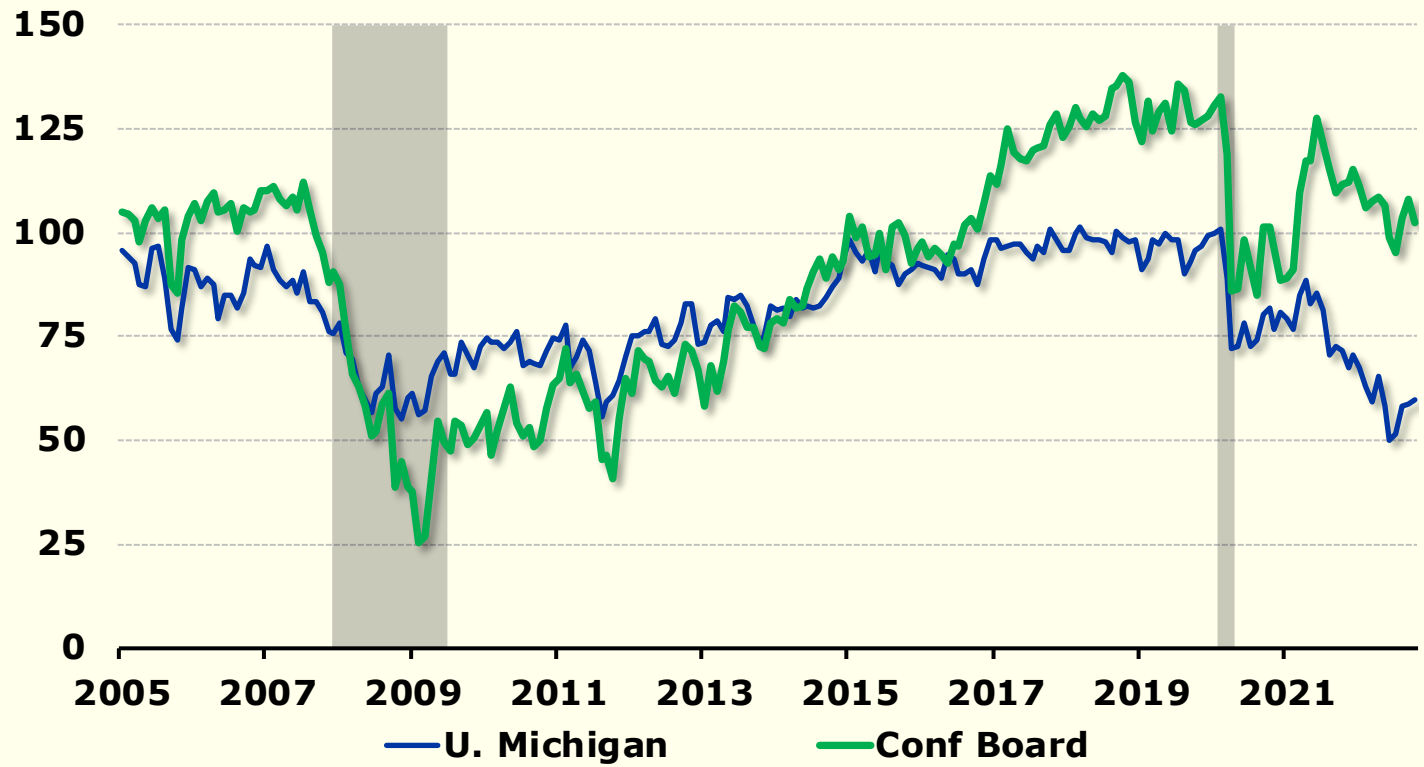


# Inflation, rising interest rates weigh on consumer confidence

## Index

Mich: 1966Q1 = 100, SA

Conf Board: 1985 = 100, SA



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

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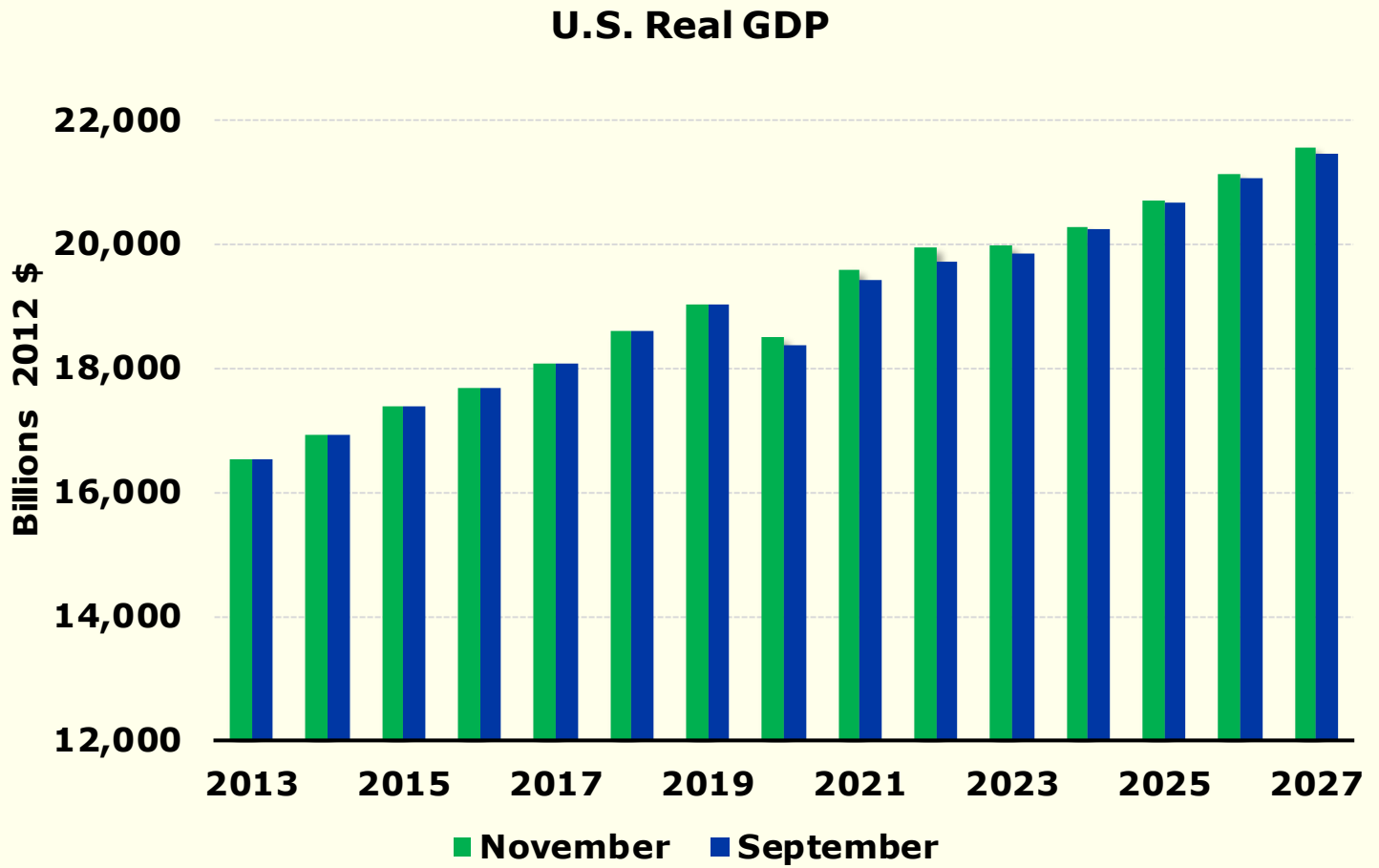


# GDP is similar to the September forecast

GDP data for 2017 Q1 through 2022 Q2 were revised after the September forecast

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Source: ERFC November 2022 forecast; historical data through 2021

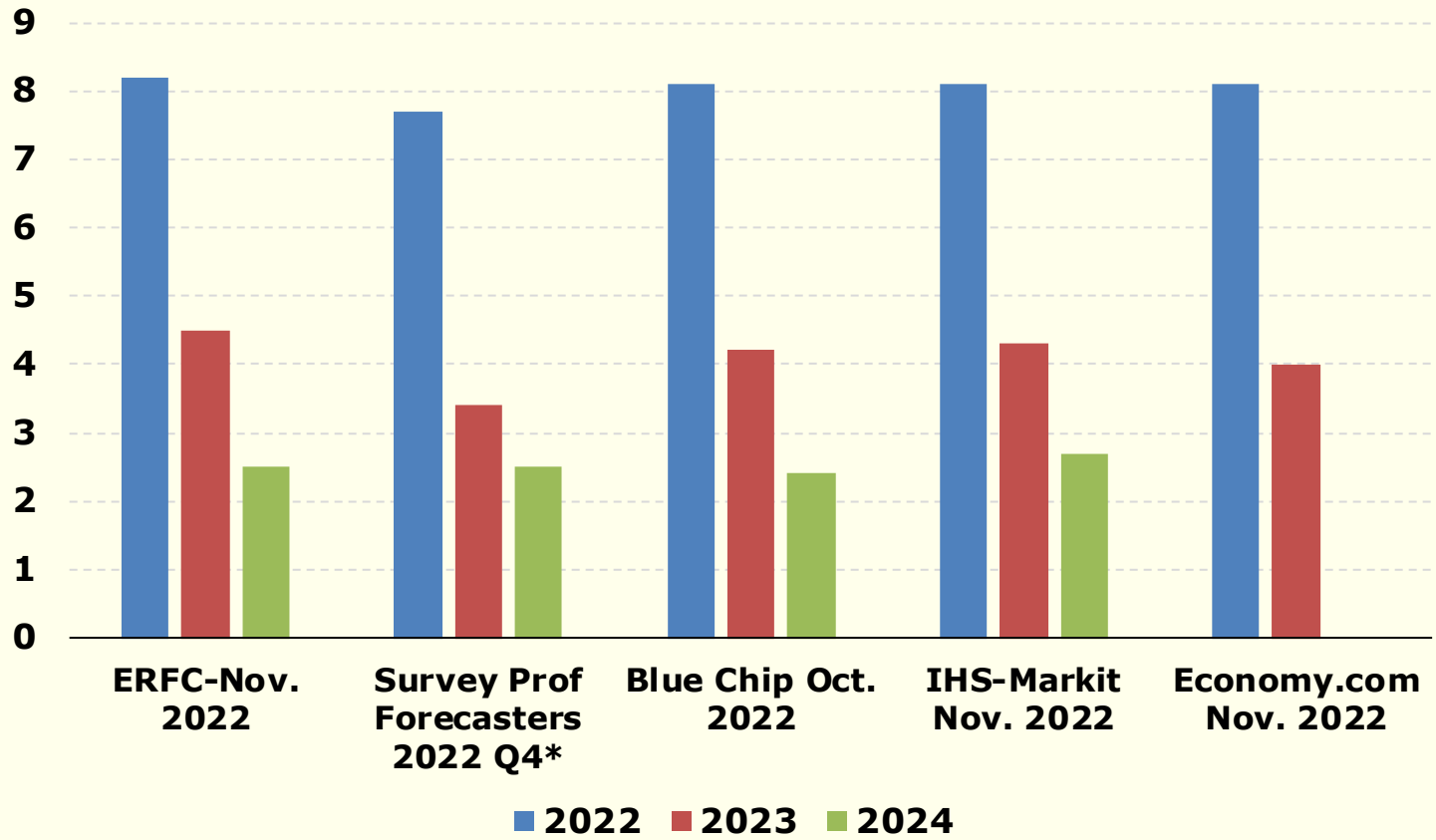
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# Inflation forecasts are slightly higher than September, still expected to decrease after this year

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.

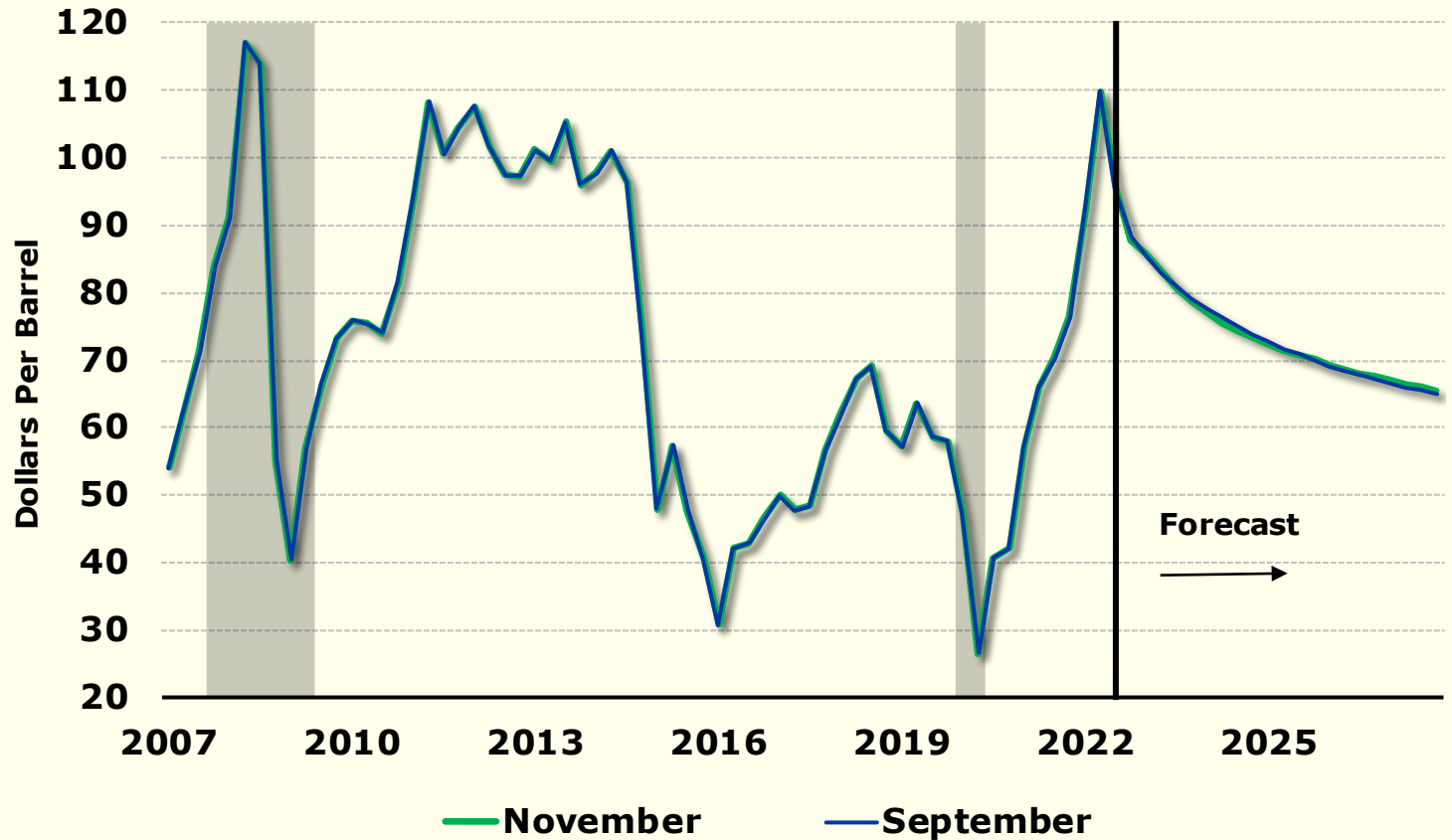
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# Oil prices are essentially unchanged from September forecast



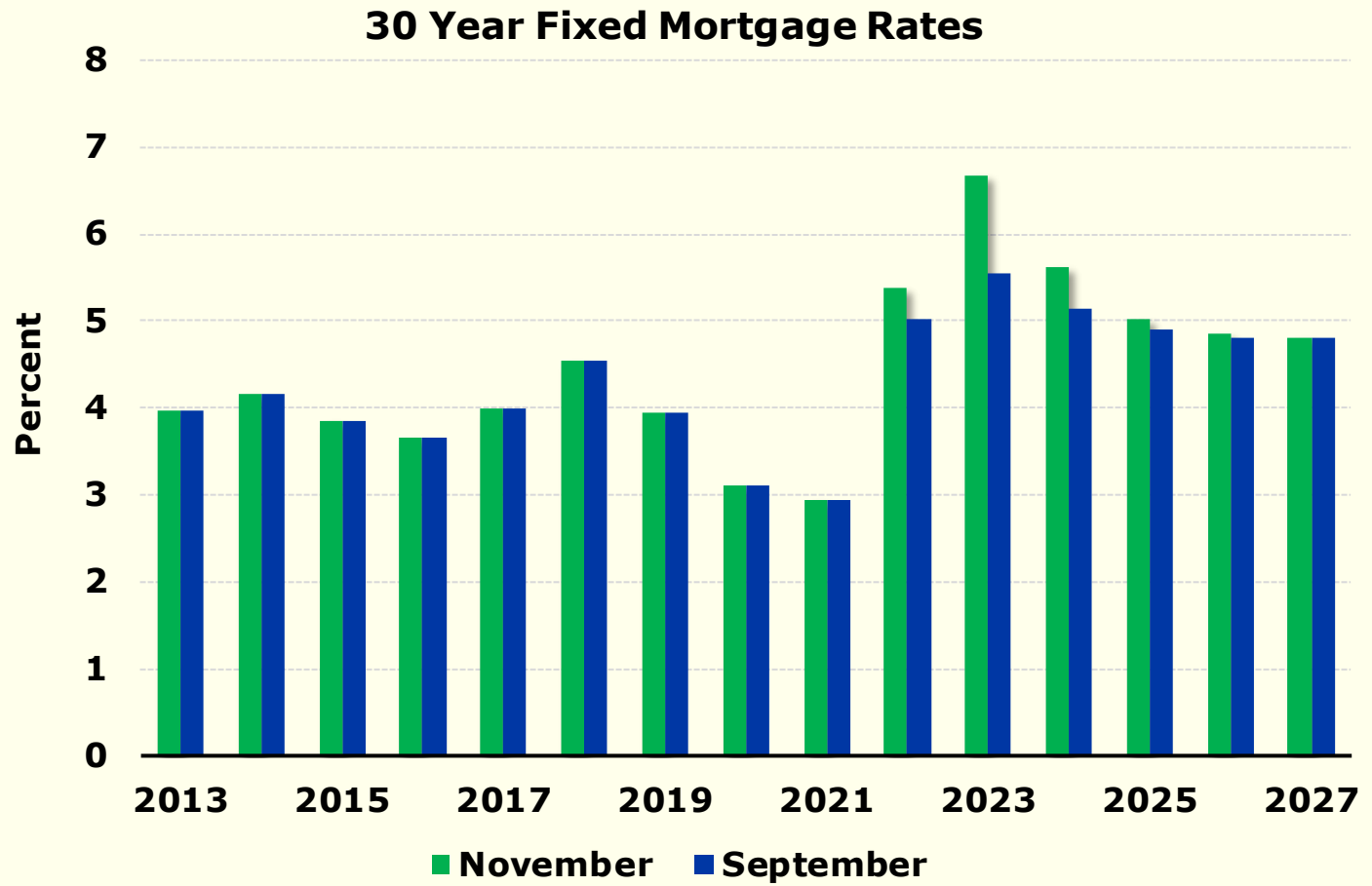
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Source: Energy Information Administration, IHS Markit, ERFC; data through Q3 2022  
Note: Vertical black line indicates last actual

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# Interest rates are higher compared to the September forecast



Source: ERFC November 2022 forecast; historical data through 2021

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# Revisions to historic data mainly responsible for higher WA personal income compared to Sept. forecast

Annual average personal income growth for 2023 to 2027:

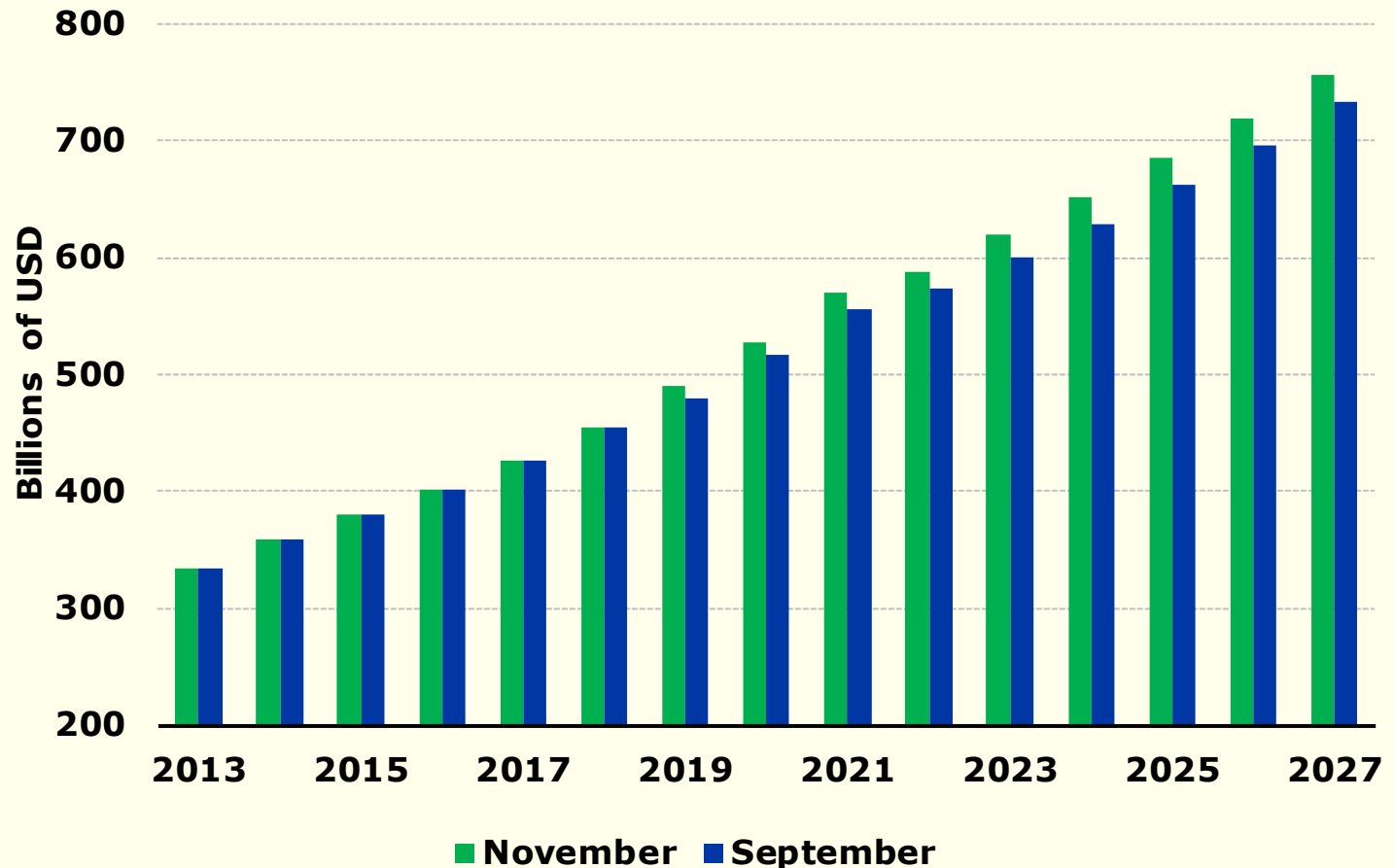
Nov. = 5.2%

Sept. = 5.0%

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## Washington Personal Income



Source: ERFC November 2022 forecast; historical data through 2021

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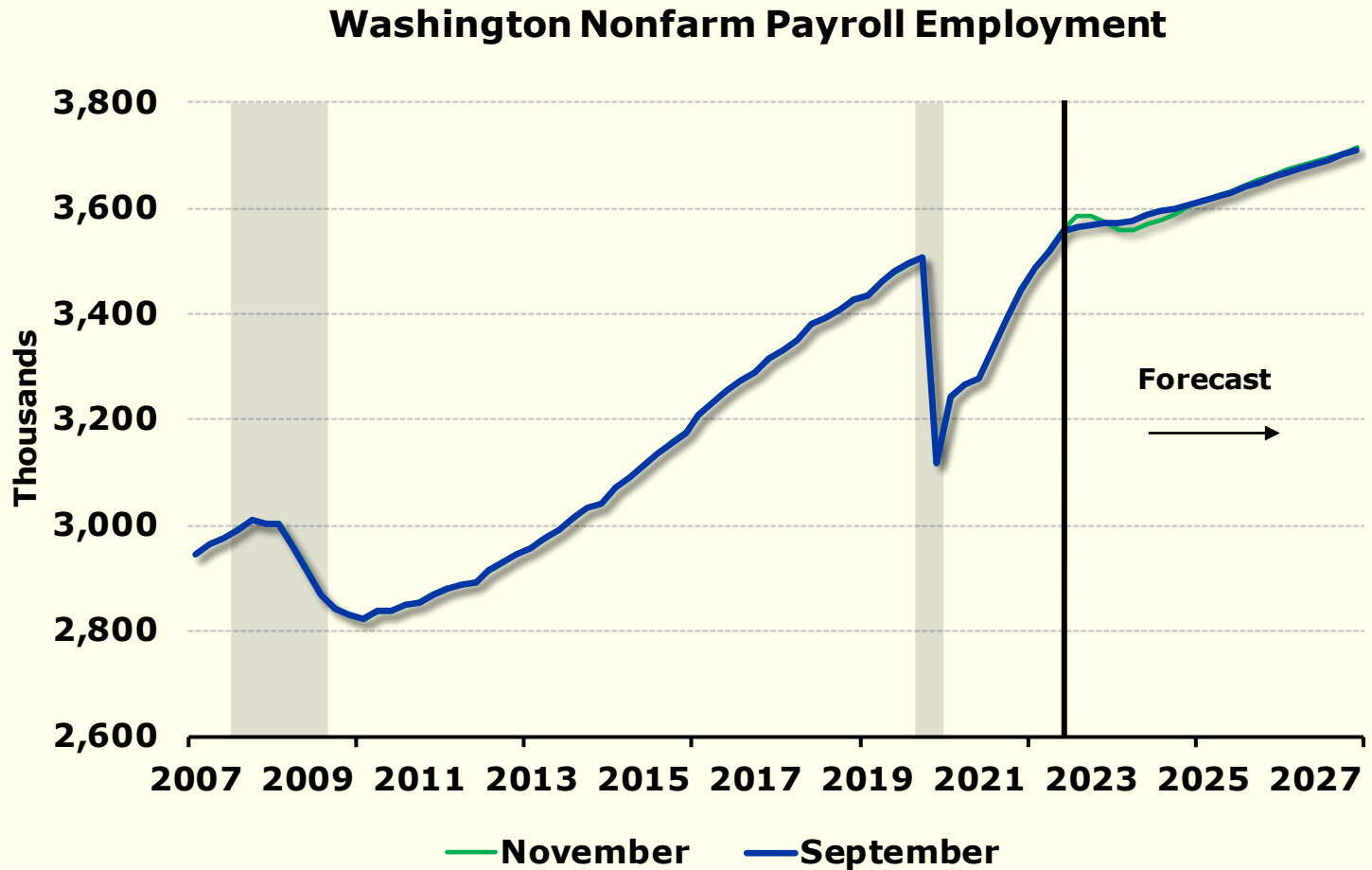


# WA employment forecast is very similar to the September forecast

Average annual employment growth, 2023 to 2027:

U.S. = 0.4%

WA = 0.9%

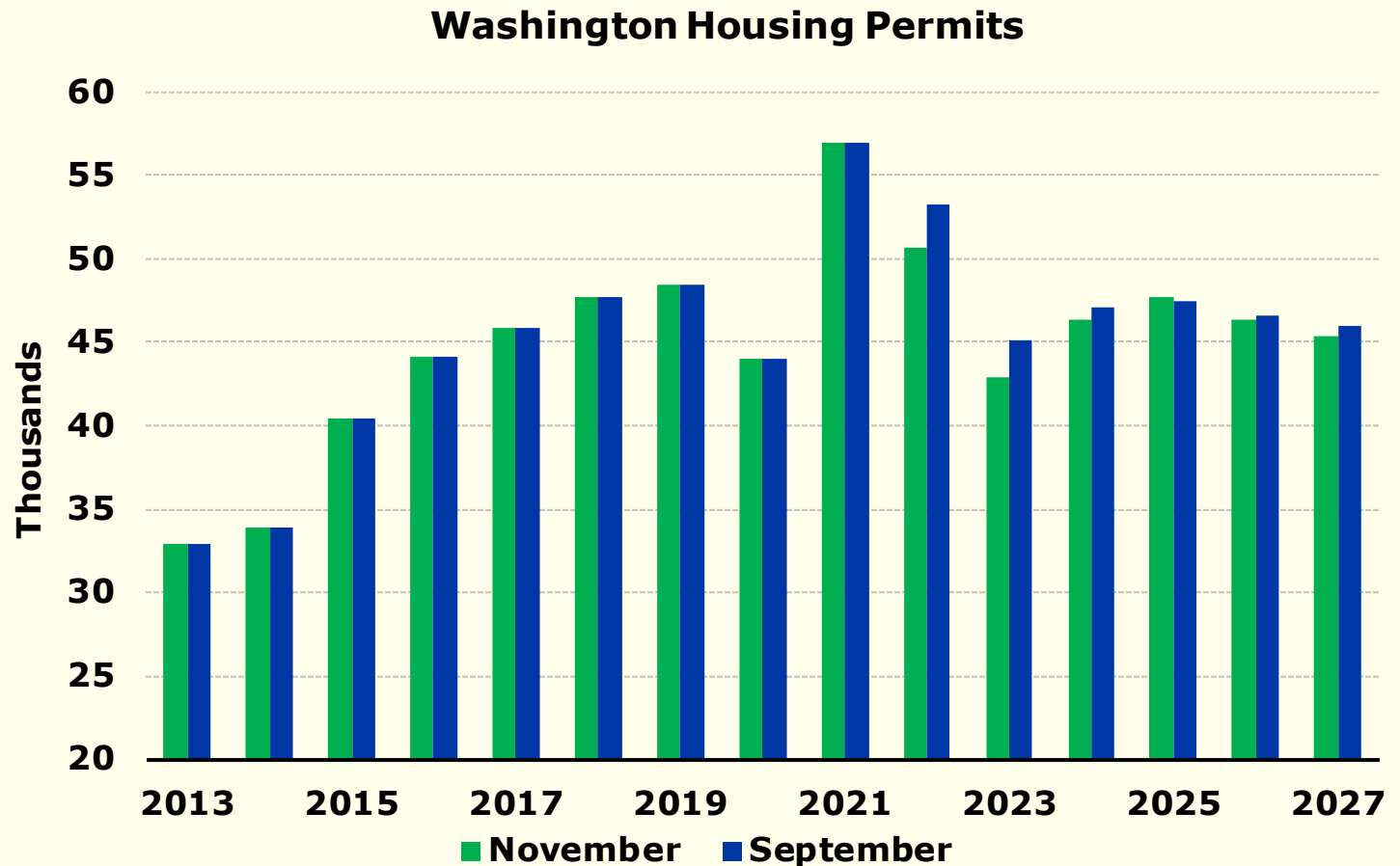


Source: ERFC November 2022 forecast; historical data through Q3 2022

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# WA housing permits for 2023 – 2027 average 800 units per year less than the September forecast



Source: ERFC November 2022 forecast; historical data through 2021

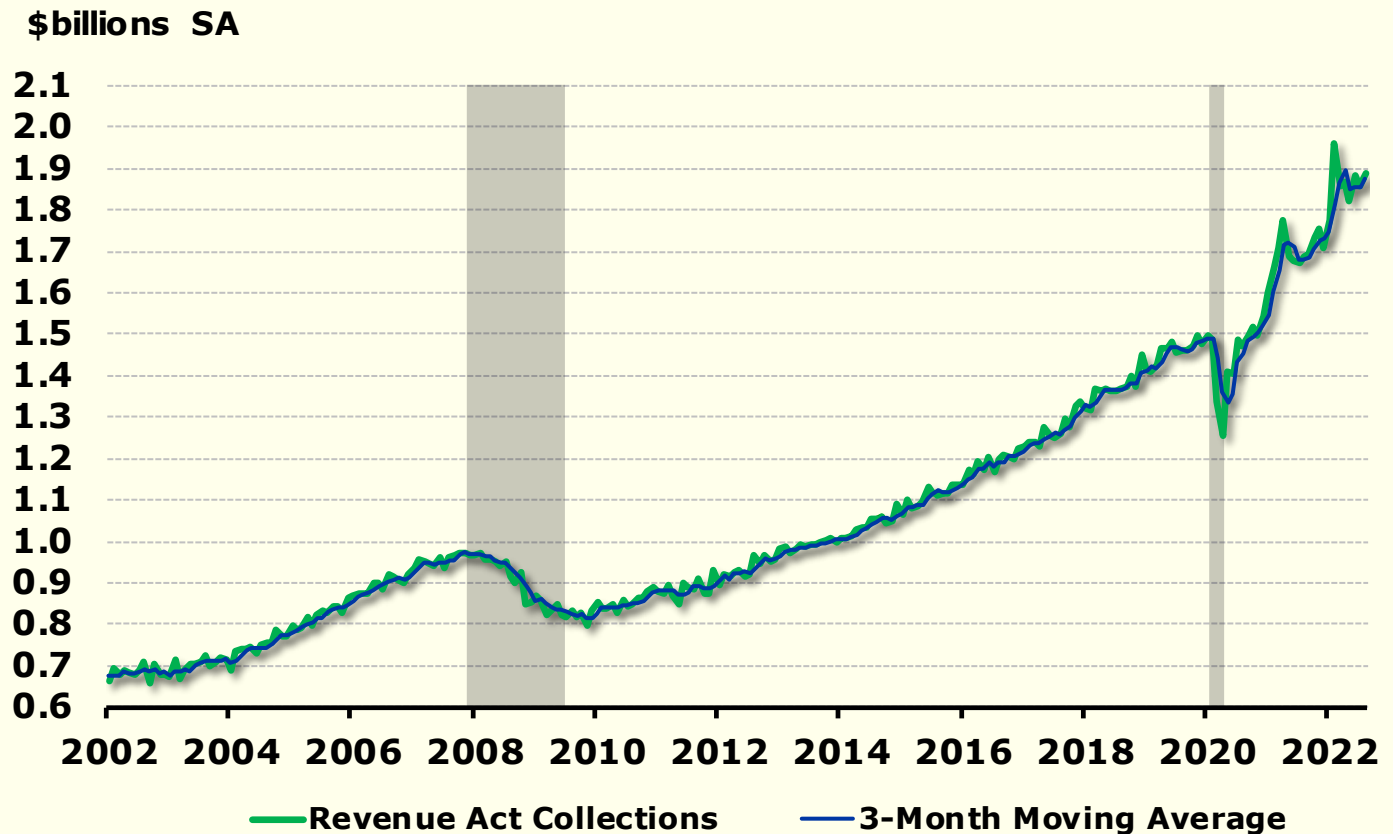
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# Revenue Act collections growth was a strong 12.0% for September activity



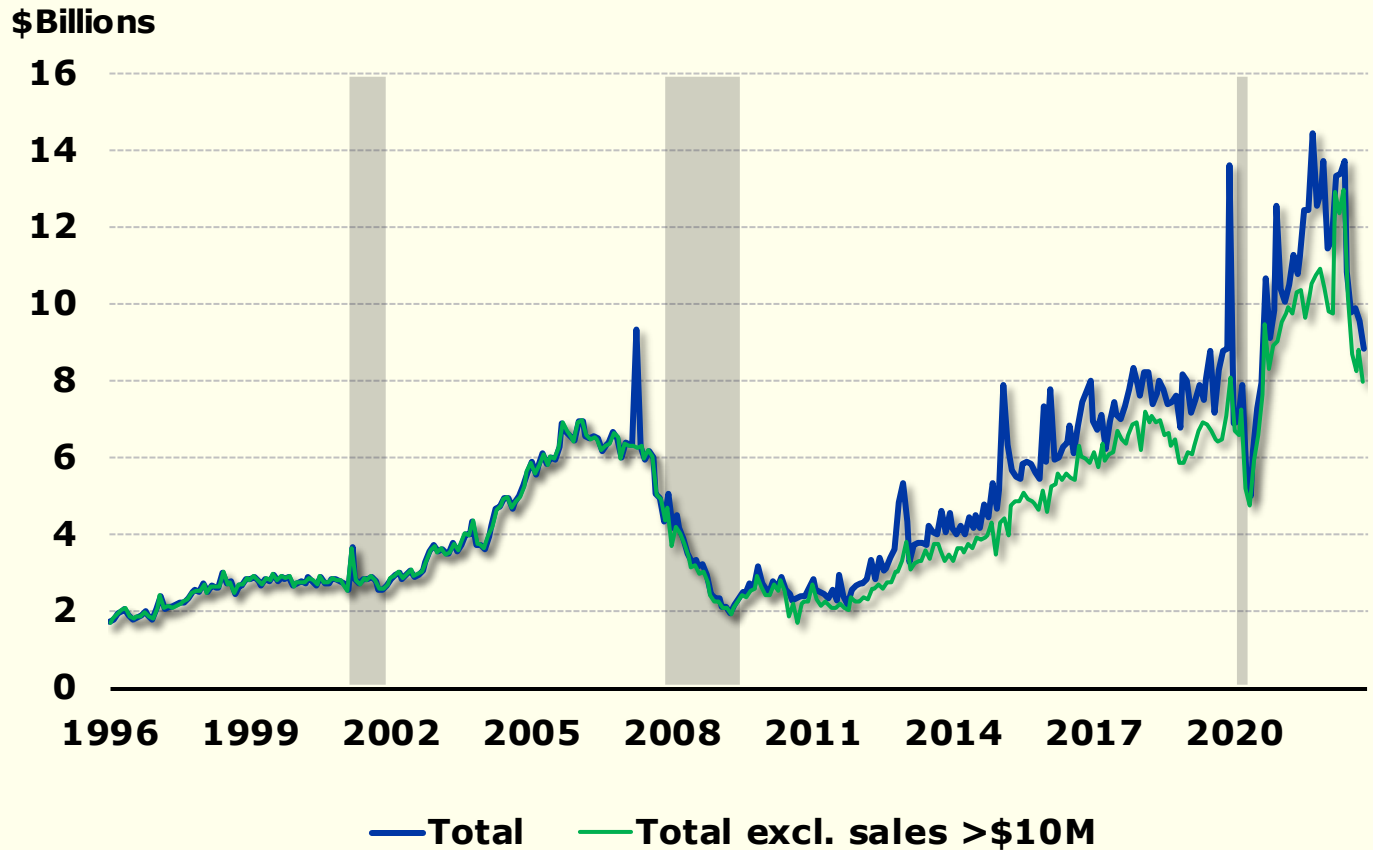
\* Adjusted for large one-time transactions, amnesty payments, reporting frequency change and deferred 2020 payments, current definition of Revenue Act  
Source: DOR and ERFC; monthly data through September 2022 activity

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# Seasonally adjusted taxable REET activity fell to \$8.8 billion in October; lowest since August 2020

## Seasonally Adjusted Taxable Real Estate Excise Activity



Source: ERFC; Monthly data through October 2022 estimate

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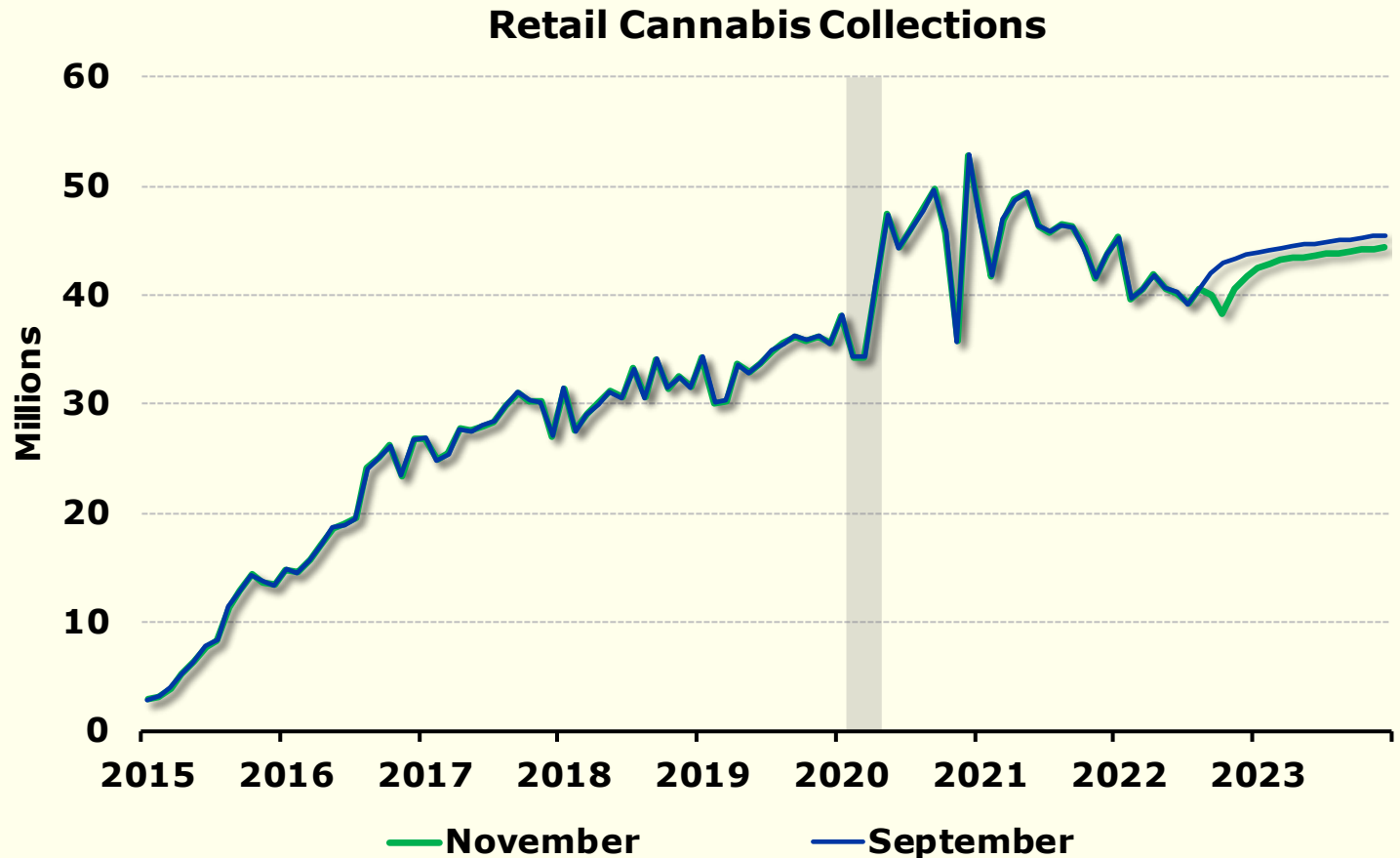
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# Cannabis revenues appear to be moderating

Collections have come in 7.7% below the September forecast



Source: ERFC November 2022 forecast; historical data through October 2022

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

<b>\$Millions</b>	<u>Sept. 2022 Forecast</u>	<u>Non-economic Change</u>	<u>Forecast Change</u>	<u>Nov. 2022 Forecast</u>	<u>Total Change<sup>#</sup></u>
General Fund-State	\$60,235	n/a	\$545	\$60,779	\$545
Education Legacy Trust Account	\$1,849	n/a	\$196	\$2,045	\$196
WA Opportunity Pathways Account	\$360	n/a	\$16	\$376	\$16
Workforce Education Investment Account	\$747	n/a	\$5	\$752	\$5
<b>Total</b>	<b>\$63,191</b>	<b>n/a</b>	<b>\$762</b>	<b>\$63,952</b>	<b>\$762</b>

# Detail may not add to total due to rounding

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

<b>\$Millions</b>	<u>Sept. 2022 Forecast</u>	<u>Non-economic Change</u>	<u>Forecast Change</u>	<u>Nov. 2022 Forecast</u>	<u>Total Change#</u>
General Fund-State	\$62,283	n/a	\$684	\$62,966	\$684
Education Legacy Trust Account	\$2,087	n/a	(\$2)	\$2,085	(\$2)
WA Opportunity Pathways Account	\$347	n/a	(\$6)	\$341	(\$6)
Workforce Education Investment Account	\$787	n/a	\$6	\$794	\$6
<b>Total</b>	<b>\$65,504</b>	<b>n/a</b>	<b>\$681</b>	<b>\$66,185</b>	<b>\$681</b>

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

- Positive \$283 million variance in last two months indicates September forecast had collections growth slowing too soon
- B&O collections primary driver of forecast increase - have been stronger than expected in September forecast
- Other forecast increases:
  - Large estate tax payments
  - Increase in auto sales
  - OST interest earnings



# 2021-23 Biennium alternative General Fund-State forecasts

<b>\$Millions (cash basis)</b>	<b>2021-23 Biennium</b>	<b>Difference From the baseline#</b>
<b>Nov. 2022 Baseline (50%)</b>	<b>\$60,779</b>	
<b><u>Nov. 2022 Alternative Forecasts</u></b>		
<b>Optimistic (15%)</b>	<b>\$61,944</b>	<b>\$1,165</b>
<b>Pessimistic (35%)</b>	<b>\$59,419</b>	<b>(\$1,360)</b>
<b>Probability Weighted Average</b>	<b>\$60,478</b>	<b>(\$301)</b>
<b>GCEA*</b>	<b>\$60,256</b>	<b>(\$524)</b>

\*Based on the Governor's Council of Economic Advisors' economic assumptions

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# 2023-25 Biennium alternative General Fund-State forecasts

<b>\$Millions (cash basis)</b>	<b>2023-25 Biennium</b>	<b>Difference From the baseline#</b>
<b>Nov. 2022 Baseline (50%)</b>	<b>\$62,966</b>	
<b><u>Nov. 2022 Alternative Forecasts</u></b>		
<b>Optimistic (15%)</b>	<b>\$67,295</b>	<b>\$4,328</b>
<b>Pessimistic (35%)</b>	<b>\$57,655</b>	<b>(\$5,311)</b>
<b>Probability Weighted Average</b>	<b>\$61,757</b>	<b>(\$1,210)</b>
<b>GCEA*</b>	<b>\$62,470</b>	<b>(\$497)</b>

\*Based on the Governor's Council of Economic Advisors' economic assumptions

#May not add to total due to rounding

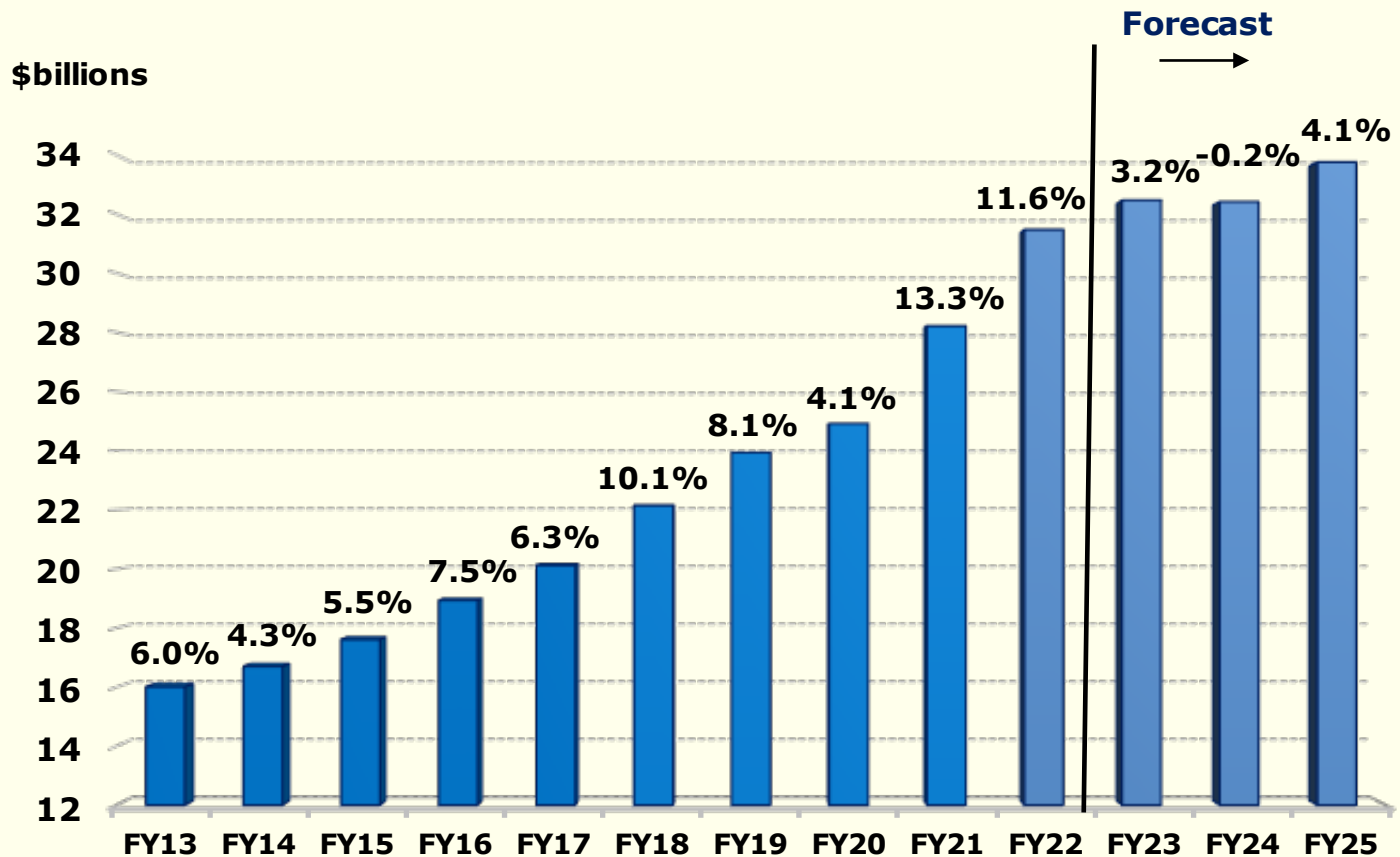
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# Forecast of funds subject to the budget outlook process\* by fiscal year



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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, November 2022

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# Conclusion

- U.S. forecast: GDP slightly higher, interest rates higher than September
- WA forecast: personal income higher, building permits lower than September
- Recession, technology sector layoffs, inflation, Ukraine – Russia conflict continue to pose forecast risks
- Total state revenues are expected to grow 20.4% between the 2019-21 and 2021-23 biennia and 3.5% between the 2021-23 and 2023-25 biennia



# Questions



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