

Economic Review Meeting

November 4, 2011



Washington State
Economic and Revenue Forecast Council

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WASHINGTON STATE
ECONOMIC AND REVENUE FORECAST COUNCIL

AGENDA

ECONOMIC REVIEW MEETING

November 4, 2011
2:30 p.m.

- De-facto approval of September 15, 2011 Meeting Minutes
- Presentation of economic outlook and revenue collection experience

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STATE OF WASHINGTON

ECONOMIC AND REVENUE FORECAST COUNCIL

Capitol Plaza Building, PO Box 40912 □ Olympia, Washington 98504-0912 □ (360) 534-1560

Meeting Minutes

Revenue Review

September 15, 2011

John A. Cherberg, Hearing Room 4

Economic and Revenue Forecast Council

Members Present

Ed Murray, Senate

Joseph Zarelli, Senate

Ed Orcutt, House of Representatives

Ross Hunter, House of Representatives

Suzan DelBene, Department of Revenue

Marty Brown, Office of Financial Management

Staff

Arun Raha, Executive Director, ERFC

Call to Order

The meeting was called to order by Representative Orcutt at 10:03 a.m.

Motion

Representative Hunter moved and Senator Zarelli seconded to adopt minutes from the Economic Review Meeting. Minutes from the June 3, 2011 Economic Review Meeting were adopted at 10:03 p.m.

Motion

Director Brown moved and Representative Hunter seconded to extend Dr. Raha's contract through 2014 at 10:04 p.m.

Presentation on Revenue Forecast

Dr. Raha presented information on the revenue forecast. Dr. Raha summarized the forecast changes and provided background information on both the U.S and Washington economies. Dr. Raha responded to questions regarding the pessimistic scenario.

Motion

Director Brown moved to adopt the baseline revenue forecast, seconded by Representative Orcutt.

Motion passed unanimously at 10:32 a.m.

Adjournment

Meeting adjourned at 10:32 a.m.

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**Economic & Revenue Forecast Council
State of Washington**



Economic Review: November 4, 2011

Executive Summary

- In the two months since the September forecast, events have unfolded as expected in the baseline scenario - a muddle-through economy, with flat growth, high unemployment and weak confidence. The difference between our September economic forecast and this one is minimal. If anything, it projects a slightly slower trajectory for growth, but from a minimally higher starting point. The factor that is common to both forecasts – the last one and this – is the extremely high level of downside uncertainty that can affect the baseline. Two months have passed since the September forecast, and nothing has gone off the rails, but it is premature to stop worrying about the future.
- Ironically, in an increasingly interconnected world from which we have mostly benefitted in the past, the main threats to Washington’s economy today lie well outside our region. It seems that for every step forward that Europe takes in resolving its financial mess it takes half a step backward, adding to global financial volatility and nervousness. The key for the U.S. and consequently Washington economies is whether the European policy authorities can be successful in containing a sovereign debt crisis in Southern Europe from turning into a full blown European banking crisis. The former would do some damage, but the latter would be devastating.
- Political gridlock in the nation’s capital has shown no signs of improvement since our last forecast. The bipartisan Congressional Super Committee continues to work behind closed doors and we won’t know until later this month what kind of debt reduction strategy will be agreed upon or the magnitude of the spending cuts or tax increases. If agreement is not reached to cut \$1.5 trillion of debt over the next ten years, and passed by Congress, then automatic cuts in both military and non-military spending will be triggered Jan 1, 2013.
- Our current forecast discounts the possibility of any significant discretionary fiscal policy prior to the next general election. We have therefore removed from our forecast Global Insight’s assumption that the current payroll tax cuts and unemployment benefits will be extended into next year, as we did in September.
- Absent Congressional action, the Bush/Obama tax cuts are scheduled to sunset at the end of 2012. Global Insight’s U.S. forecast captures the possibility that these tax cuts may not be extended either partly or wholly by assuming a tighter fiscal policy stance in 2013. We have retained that Global Insight assumption in our forecast.
- Unlike the discordant notes from fiscal policy, the stance of monetary policy has been quite clear. At their meeting on November 2, the Federal Open

Market Committee reiterated yet again its intention to continue its easy money policy. However, it looks increasingly as if the economy is caught in a classic "Liquidity Trap" where monetary policy playing a lone hand has lost its effectiveness. In such conditions, for macroeconomic policy to be effective, both monetary and fiscal policies need to be working in tandem. That does not appear likely right now.

- Data releases since the September forecast have been mildly encouraging, but only because expectations were so low. Real gross domestic product (GDP) grew at a seasonally adjusted annualized rate of 2.5% (SAAR) in the third quarter, almost twice as fast as the second quarter's 1.3% (SAAR), but still modest. Real consumer spending grew 2.4% (SAAR) in the third quarter, but its sustainability is questionable since real disposable personal income fell by 1.7% (SAAR) over the same period. The September savings rate has dropped to 3.6%, well below its post-recession peak of 5.8% in June of 2010.
- Housing remains weak. Although housing starts improved to 658,000 (SAAR) units in September, it was mainly due to the volatile multi-family segment. More importantly for the future, housing permits fell 5% to 594,000 (SAAR). New home sales, which are a small fraction of the market, grew 5.7% to 313,000 (SAAR) units. Existing home sales fell 3% to 4.9 million (SAAR) units. The Case-Shiller 20-city index was flat in August, and was 3.9% below a year ago. Prices are expected to stay weak as more foreclosed properties hit the market.
- Real GDP is now back up to its pre-recession peak, but it is being produced with 6.8 million fewer jobs. Growth in jobs has been excruciatingly slow in this recovery. As we go to press, the employment situation report for October is not yet available to us. The September employment report's establishment survey showed that the economy gained just 103,000 (SA) net new jobs that month. Private sector gains of 137,000 which included the return of 45,000 striking telecommunication workers were partially offset by public sector job losses of 34,000. Additionally, July and August's job gain numbers were revised upward by 99,000 jobs. The unemployment rate was unchanged and remains elevated at 9.1%.
- Industrial production grew 0.2% (SA) in September, following a flat August. The Institute for Supply Management's manufacturing Purchasing Managers Index for October fell by eight-tenths of a percentage point to 50.8, barely above the break-even 50 mark, which indicates growth. The non-manufacturing index which fell one-tenths of a percentage point to 52.9 also indicates continuing growth in services, albeit at a marginally slower rate. Core capital goods orders (i.e. durables excluding aircraft and military) which are a proxy for business investment, rose 2.4% (SA) in September.
- Consumer confidence is in the doldrums looking for direction. The Conference Board's index dropped to 39.8 in October, its lowest reading since March 2009. The University of Michigan consumer sentiment measure moved up marginally to 60.9, but remains at historically low levels.
- Light motor vehicle (LMV) sales ticked up 1.2% (SA) in October to 13.3 million (SAAR) units. This is more a testament to replacement demand and easing supply chain disruptions, rather than a return of confidence.

- The Blue Chip Consensus real GDP growth forecasts, our objective starting point each forecast cycle, are now at 1.7%, 2.0%, and 2.8% respectively, for 2011, 2012, and 2013. At the time of the revenue forecast in September those forecasts were marginally higher in the out years: 1.6% real GDP growth this year, 2.2% in the next, and 3.2% in 2013
- The state's economy is likely to outperform the U.S. in the near term. Boeing and Microsoft are both hiring again. The aerospace sector has added 8,800 jobs since May 2010, which is 2,800 more than the number lost during the recession, while the software sector has added 2,000 jobs since December 2009, making up for most of the jobs lost during the recession. The state's farming and export sectors are also doing well. Washington exports were up 31.5% in the second quarter of this year compared to the previous year. Construction, however, remains weak and has a disproportionately negative impact on revenue. Also the state's economy is vulnerable to the uncertainty about the prospects for the national and global economies.
- We have another month of Washington employment data since the September forecast and it was disappointing. We estimate that the Washington economy lost a total of 4,400 jobs in September, compared to our expectation of a 1,600 job gain. The loss of 4,200 government jobs due to losses in state and local education accounted for virtually all the overall decline in the month. The private sector lost 200 jobs in September. The results by industry were mixed. Manufacturing employment grew by 1,700, boosted by 1,000 net new aerospace jobs, but construction employment declined by 300. Private service-providing industries lost 1,600 jobs in September. We had expected an increase of 1,800 jobs. All these numbers will be revised upon benchmarking.
- Total housing permits came in at 21,200 units (SAAR) in the third quarter of 2011 which was slightly better than the 20,100 we had expected but down from 25,900 units in the second quarter. As expected, multi-family permits dropped sharply in the third quarter to 7,800 units from an unusually strong 13,400 units in the second quarter. Single-family permits edged up from 12,600 units in the second quarter to a still weak 13,400 units in the third quarter. We continue to believe the trend is positive in multi-family housing due to rising rents and declining apartment vacancies. The outlook for single-family construction is flat to negative.
- The Bureau of Economic Analysis (BEA) has now extended its annual revision to the national income and product accounts to the state level personal income estimates. Although the new state level personal income data were not available to us at the time of our September forecast, we anticipated most of the significant downward revisions based on the revisions to the national data. As a result, the estimates assumed for the September forecast are much closer to the revised data than were the previous BEA estimates. The peak-to-trough decline in Washington real personal income during the recession was actually 5.1%, which was much worse than the previous BEA estimate of a 1.6% drop. The BEA revisions for total personal income in 2008, 2009, and 2010 are +0.8%, -2.5%, and -2.4%. Because we anticipated most of the revision in our September forecast, our revisions in November are only +0.1%, -0.3%, and -0.5%.

- The modestly weaker national outlook is reflected in a modestly weaker state economic forecast as well. Our job growth forecast for 2011 is unchanged at 1.1% but we now expect 1.1% growth in 2012 and 2.0% in 2013 compared to the 1.4% and 2.1% expected in the September forecast. Our personal income growth forecast for 2011 is also unchanged at 4.9% but our forecast for 2012 and 2013 have been lowered to 2.7% and 4.4% from 3.0% and 4.5%.
- Cumulative revenue collections through November 2, 2011, excluding some October non-Revenue Act receipts not yet available, are \$2 million or 0.1% below what we had expected at this point in the September forecast. The official revenue collections update, showing collections through November 10 will be published on November 11, and our new revenue forecast on November 17.

Downside Risks:

- The level of uncertainty in the baseline is high. Downside risks are still very elevated.
- Failure by the Congressional Super Committee to agree upon a deficit reduction deal that can pass both houses of Congress.
- Potential Greek referendum fails to ratify the debt deal struck with Germany and France.
- Sovereign debt default contagion in Europe.
- A European banking crisis that affects U.S. banks.
- Inflationary pressures from rising wages in India and China.
- Unexpected events – natural disasters, political upheaval, etc.

Upside Risks:

- Underlying pent-up demand continues to drive the recovery.
- Hiring picks up, and triggers a virtuous cycle.
- A Greek referendum succeeds in ratifying the debt deal with Germany and France.
- European governments are able to build a firewall around their banks, so the sovereign debt crisis does not turn into a banking crisis.
- Political gridlock in the nation's capital eases.

Washington State Economic Outlook & Revenue Collection Experience

Presented to
The Economic & Revenue Forecast Council

Arun Raha
Chief Economist

November 4, 2011
Olympia, Washington



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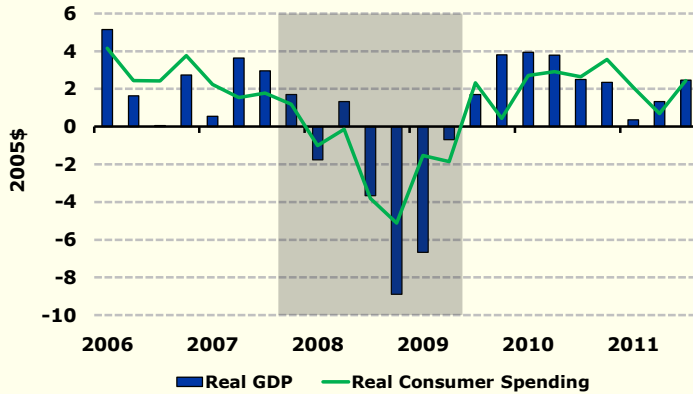
Summary

- Events are unfolding as expected in the September forecast
- However, the uncertainty in the baseline remains very high
- Revenues since the September forecast are \$2 million (0.1%) below expectations
- Factors outside the state are mostly responsible for the states current distress
 - Europe; Political gridlock in DC; weak consumer and business confidence
- Except construction, and state and local governments, the WA economy is sound



Consumer spending growth is improving

Percent growth, SAAR



Source: BEA, data through 2011 Q3, advance estimate

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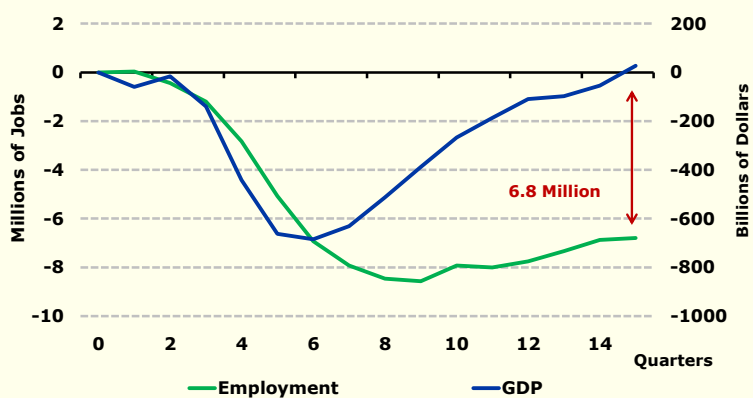
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The U.S. economy is now producing its pre-recession output with fewer jobs

U.S. GDP and Employment after Recession Start



Source: BEA, BLS, ERFC; data through 2011 Q3

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Data normalized to recession start, 2007Q4 = 0

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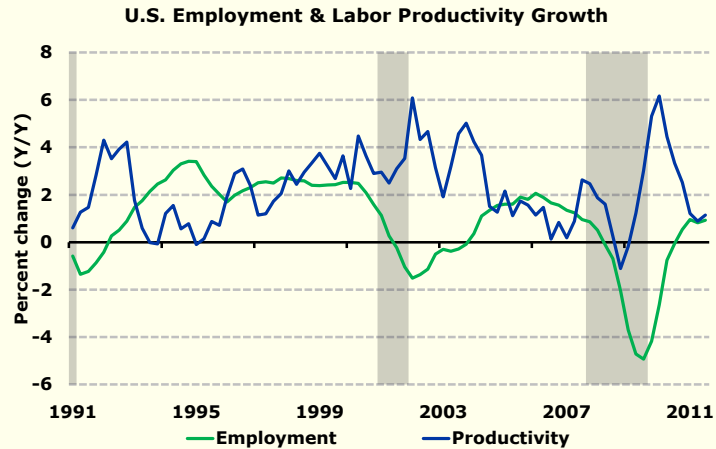


Labor productivity growth is increasing again, slowing job growth

Any increase in final demand will translate to job growth after labor productivity declines

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Source: BLS; data through 2011 Q3

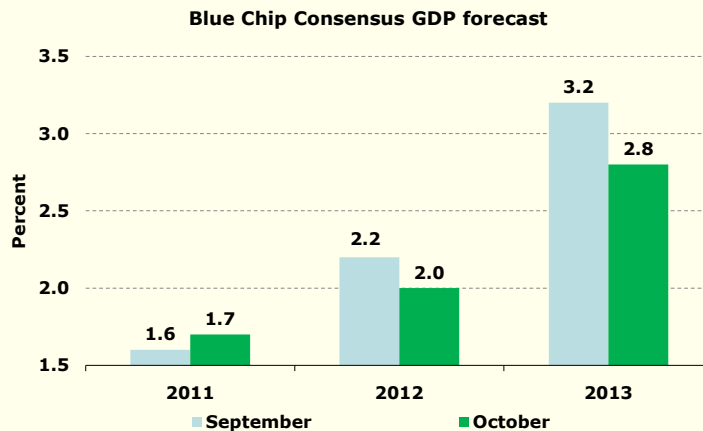
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The consensus economic outlook is marginally weaker in the out years

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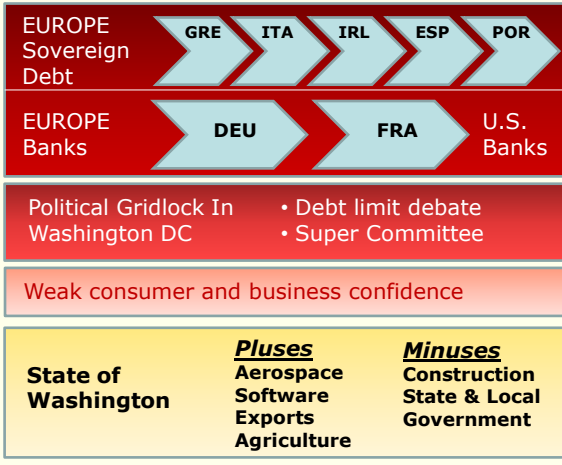
Source: Blue Chip Economic Indicators, data through October 2011

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The state's risk matrix shows most risks from outside state

Washington's Economy



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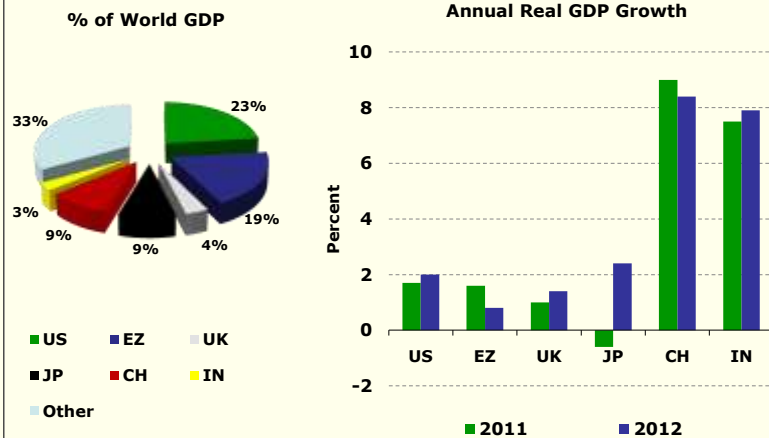
Source: ERFC

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World GDP is expected to remain weak through 2012

Global GDP growth less than 3% implies the world economy is in recession



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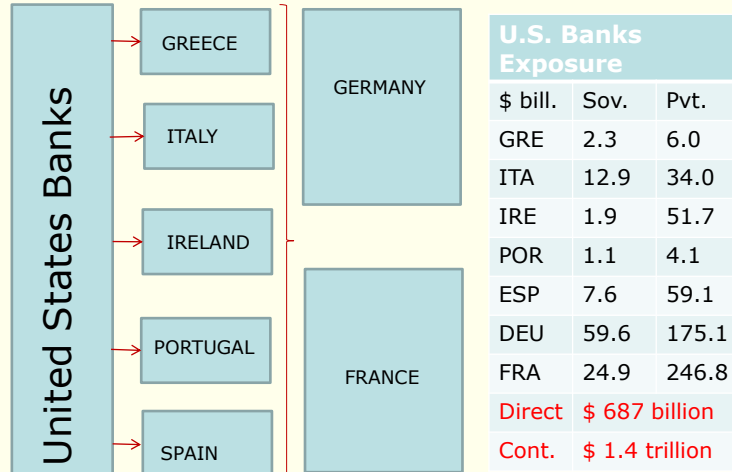
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Source: Blue Chip Consensus, ERFC, World Bank; data through October 2011

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U.S. banks' exposure to Europe is worrying



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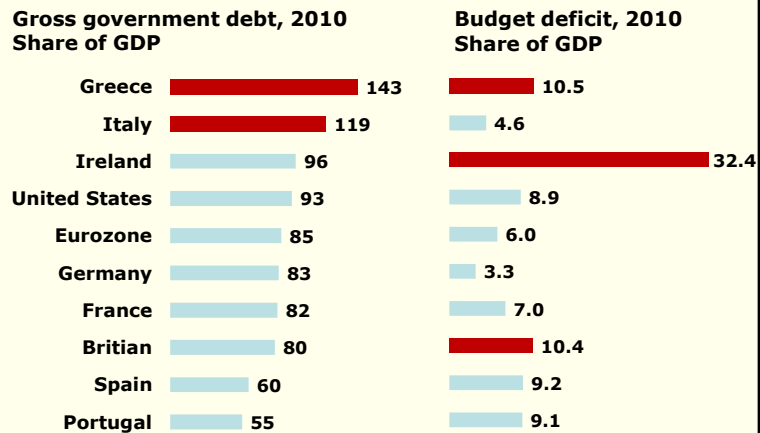
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Source: Bank of International Settlements, 2011 Q2

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European economies are under stress



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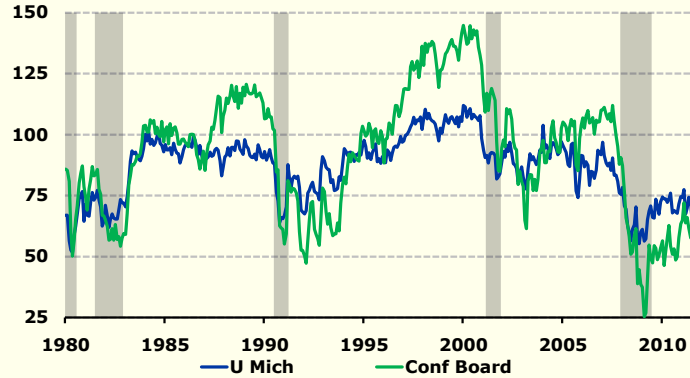
Source: Eurostat, U.S. Office of Management and Budget, ERFC; data through 2010

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Consumer confidence is very weak...

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



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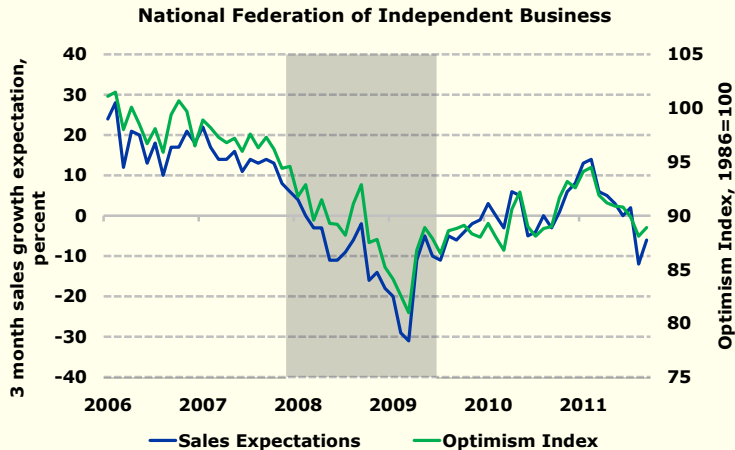
Source: University of Michigan; Conference Board, data through October 2011

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...as are sales expectations and small business optimism



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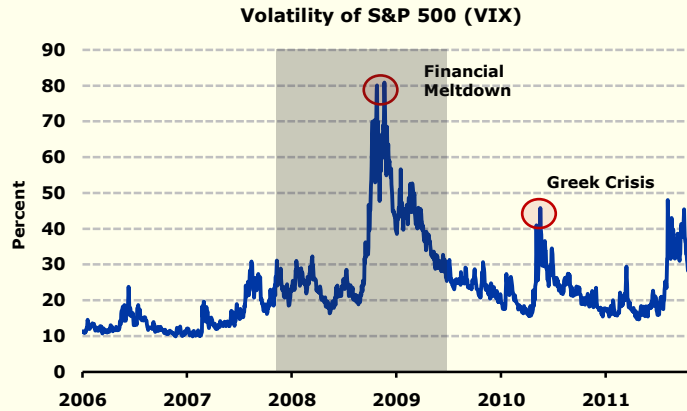
Source: National Federation of Independent Business; data through September 2011

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Stock market volatility has again spiked



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Source: Yahoo! Finance; data through November 2, 2011

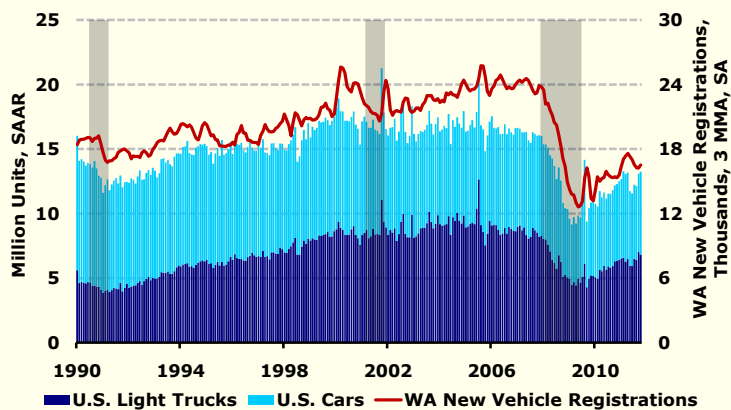
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U.S. LMV sales are recovering slowly from supply chain disruptions

U.S. LMV sales increased 1.2% in October



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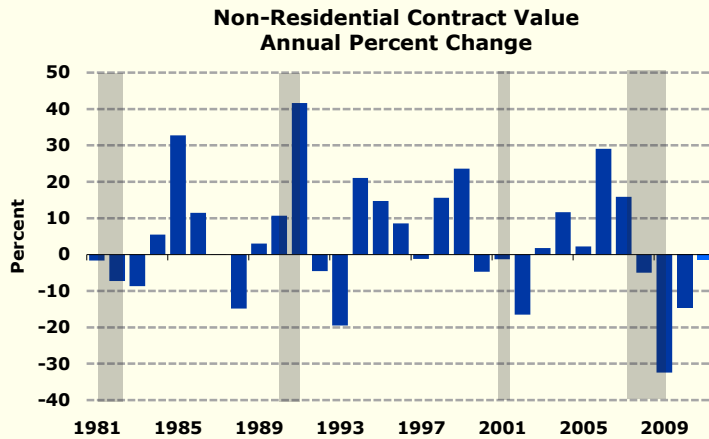
Source: Autodata Corporation, WA DOL; data through October 2011

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This is WA's worst downturn in non-residential construction in 30 years



Source: McGraw-Hill Construction, data through September 2011

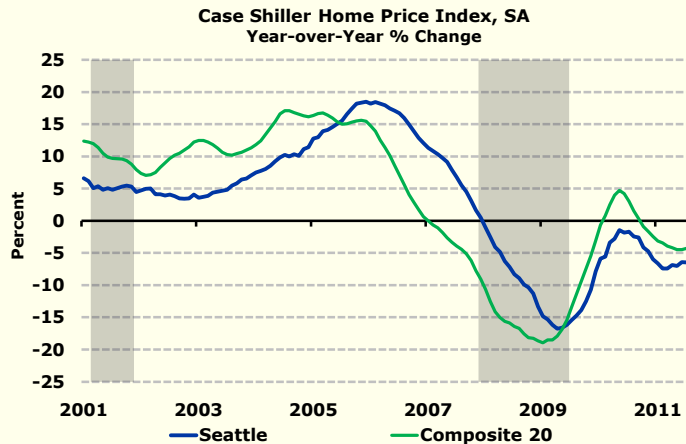
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Single-family home prices continue to decline



Source: S&P/Case-Shiller; data through August 2011

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Aug 2011

U.S. is
down
3.9%

SEA is
down 6.1%

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More foreclosures can be expected...

WA Rank:

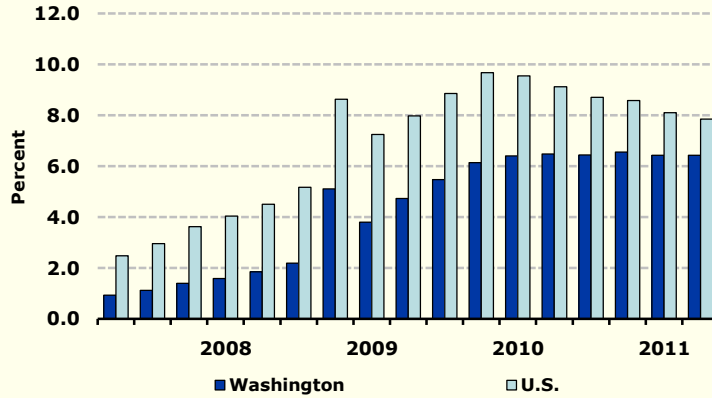
2011Q1 : 23
2011Q2 : 23

Seriously
Delinquent =
90+ Days
Past Due or
in foreclosure

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Seriously Delinquent



Source: Mortgage Bankers Association® National Delinquency Survey, data through 2011 Q2

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...but will eventually slow down

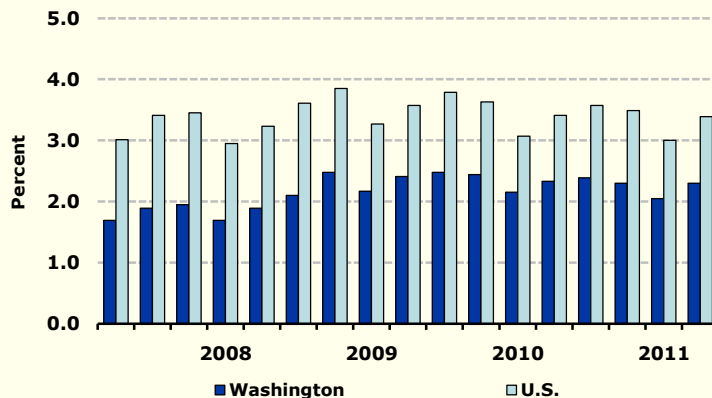
WA Rank:

2011Q1: 47
2011Q2: 47

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30 Days Past Due

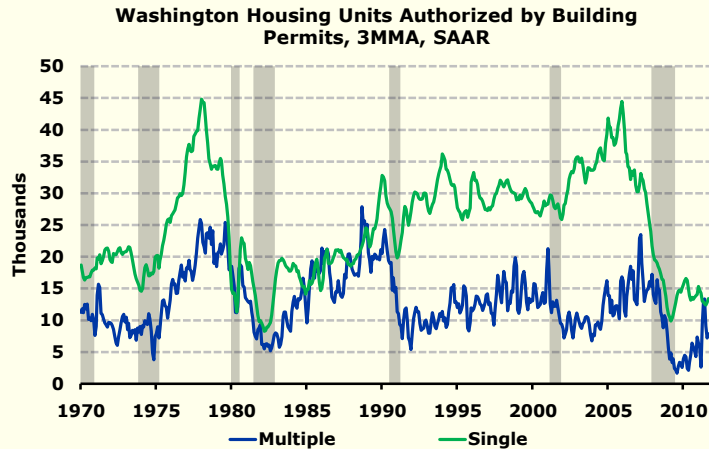


Source: Mortgage Bankers Association® National Delinquency Survey, data through 2011 Q2

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WA multi-family building permits are improving



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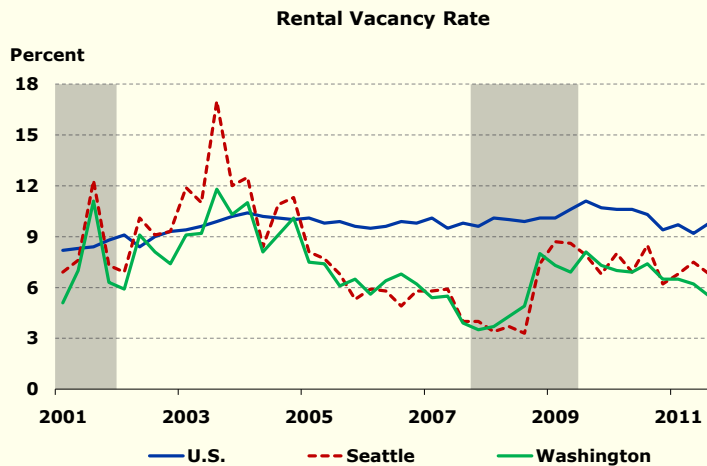
Source: U.S. Census Bureau; data through September 2011

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Rental vacancy rates are declining in Washington



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Source: U.S. Census Bureau; data through 2011 Q3

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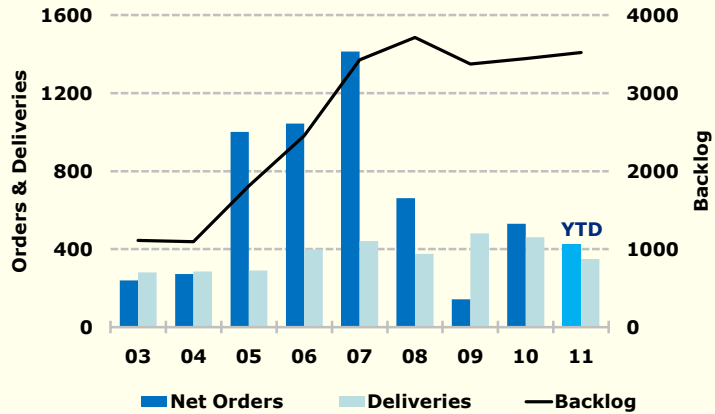


Boeing has over 7 years of commercial orders on its books

Excludes the military's new refueling tanker

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Source: Boeing, data through October 2011

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Software publishing employment is growing

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Source: ERFC Preliminary November 2011 forecast; actual through September 2011

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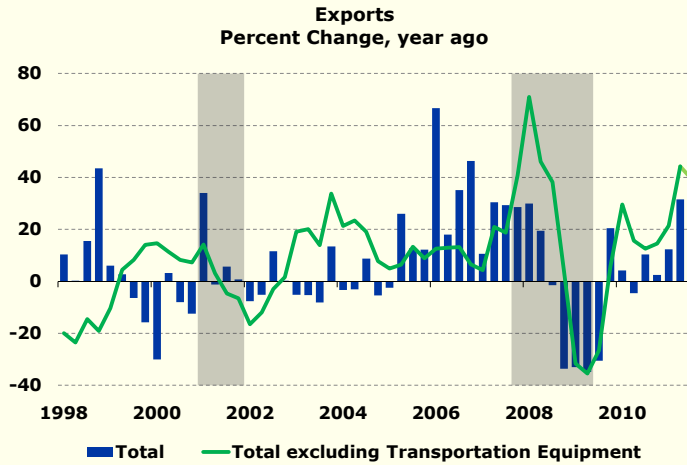
WA export growth is strong, and will help state outperform in the recovery

Total exports were up 31.5% y/y in Q2

To date exports are up 28.4% y/y in Q3

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Source: Wisier Trade Data; through August 2011

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Recent free trade agreements will benefit the state

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	Rank	USD	%	Key Industries	Detail
South Korea	4 th	\$2.7 Billion	5.1%	Agriculture, Transportation Equipment	92% of trans equip barriers eliminated immediately, 2/3 of ag barriers
Panama	27 th	\$315 million	0.6%	Transportation Equipment	Over 90% of aerospace exports become duty free immediately
Columbia	50 th	\$56 million	0.1%	Petroleum, Chemicals, Machinery	Majority of exports become duty free immediately

Source: U.S. Department of Commerce, Wisier Trade; data through 2010

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WA employment is still in the hole

Peak to
trough job
losses

1981-82:

3.3% of
labor force

This time:

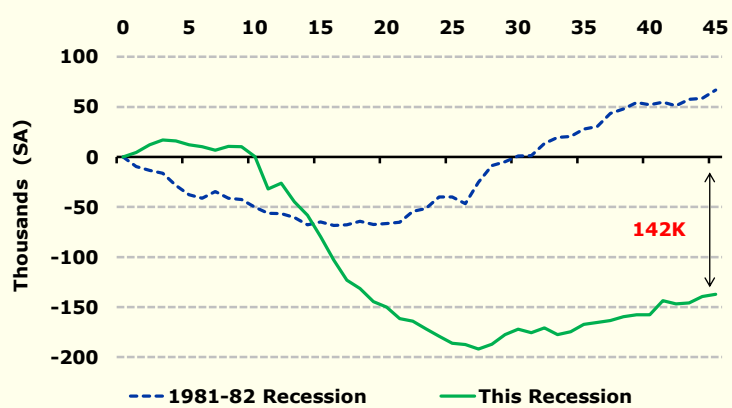
5.4% of
labor force

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Washington

Months after Recession Start



Source: WA ESD, ERFC Kalman filtered; data through September 2011

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WA employment will recover slightly faster than the U.S.

WA employment peaked 1 month after U.S. (Feb. 2008 vs. Jan. 2008)

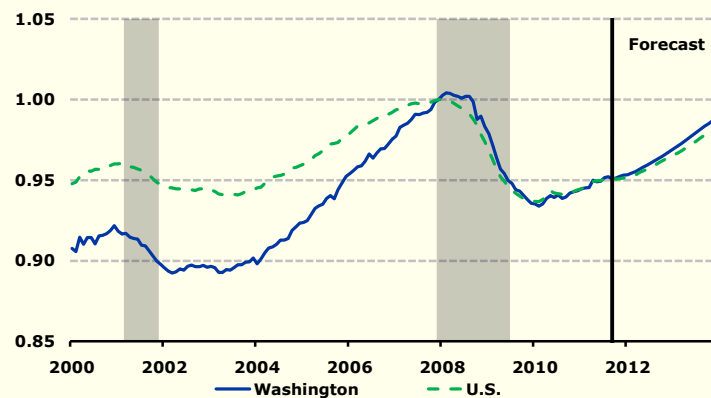
Both WA and the U.S. reached a trough in Feb. 2010

Both WA and the U.S. won't reach their previous peak until after 2013

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December 2007=1.0



Source: ERFC Preliminary November 2011 forecast; actual through September 2011

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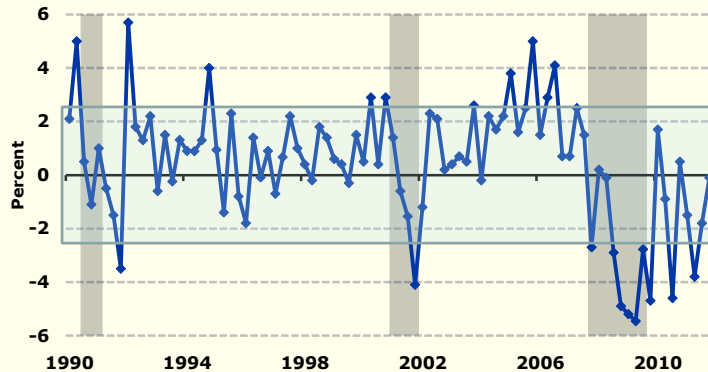
Revenues are coming in close to the September forecast

The variances reported here are net of one-time payments

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Average Adjusted Monthly Variance



Source: ERFC; collections Sept. 15 through Nov.10, 2011 estimated based on Nov. 2 collections

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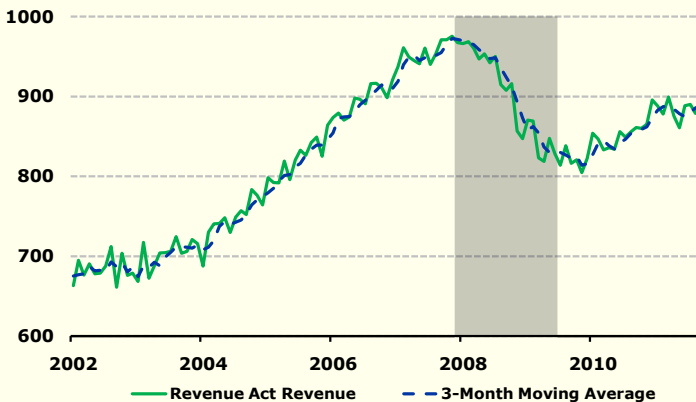
Revenue Act collections are recovering slowly from their summer slump

Preliminary year-over-year growth, adjusted for shift in payment patterns, is estimated at 4% in the October 11-November 10 collection period

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\$millions SA



* Adjusted for large one-time transactions, amnesty payments and reporting frequency change, current definition of Revenue Act

Source: DOR and ERFC; monthly data through estimated September 2011 activity

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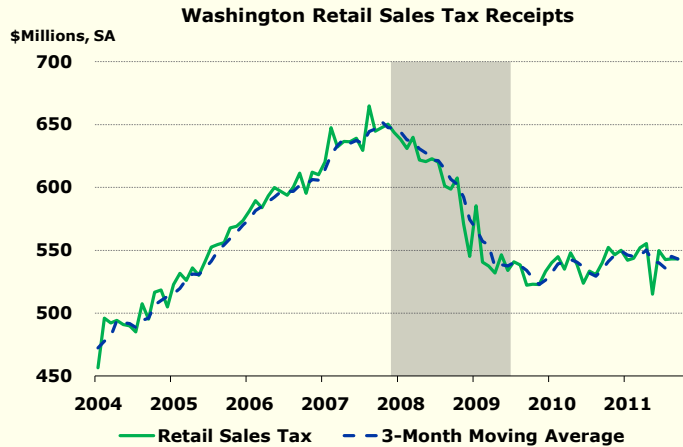


Sales tax receipts have been flat to declining in recent months

Preliminary seasonally adjusted sales tax receipts were up 1% year-over-year for September activity

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Adjusted for large payments/refunds, amnesty payments and taxpayer reporting frequency change
Source: ERFC; Monthly data through September 2011 preliminary activity

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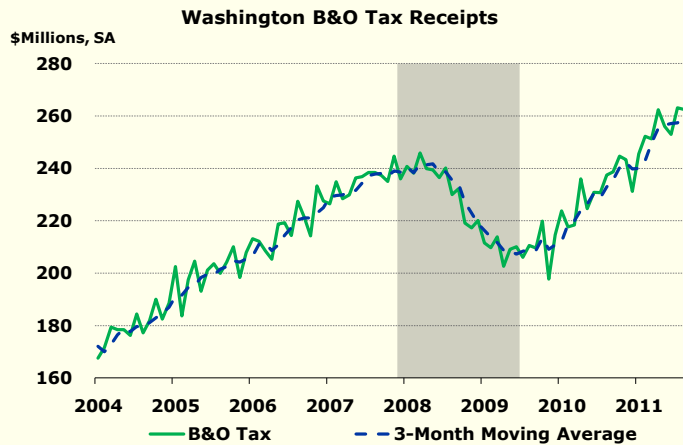


B&O tax still growing but growth rate is slowing

Receipts have surpassed their pre-recession peak and continue to trend upward after a lull in the early spring

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Adjusted for large payments/refunds, amnesty payments and taxpayer reporting frequency change
Source: ERFC; Monthly data through September 2011 preliminary activity

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Revenue Act collection growth is close to the growth rate of personal income

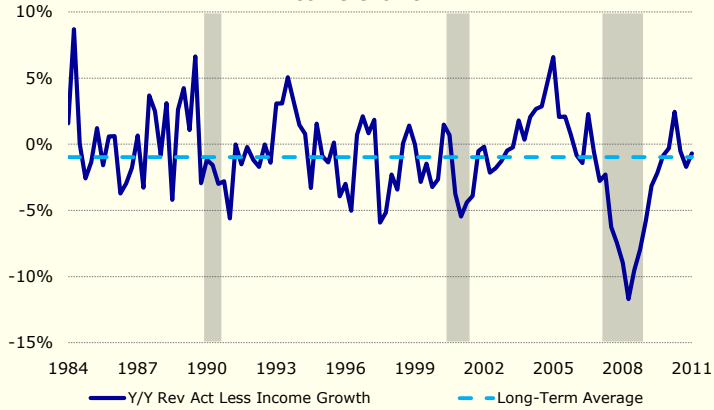
Revenue act receipts (adjusted for large payments and amnesty payments) are estimated to grow 4.0% year-over-year for third quarter activity

Income is estimated to have grown at 4.7% year-over-year in the third quarter

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Year-Over Year Rev Act* Growth Less State Personal Income Growth



*Adjusted for large one-time payments and refunds and payments under the amnesty program
Source: ERFC; Quarterly revenue data through Q3 2011 estimated, November preliminary income estimates

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REET transactions growing year over year; values jumped in August and September but still trending down

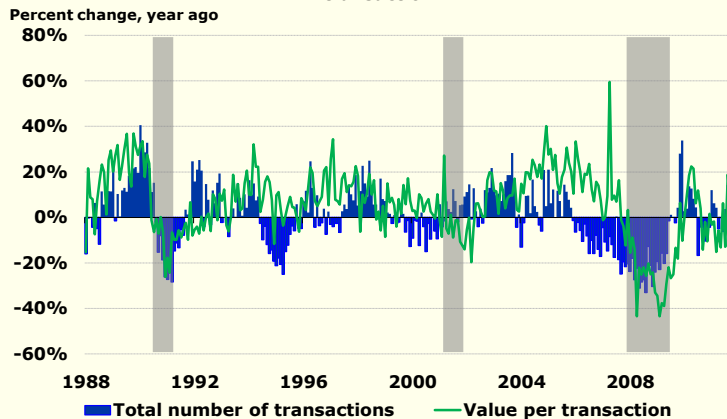
Large non-residential sales boosted growth in average value per transaction in August and September

Number of transactions has grown year-over-year for last 3 months

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Real estate activity - number of transactions and value per transaction*



*Taxable activity divided by the total number of transactions.
Source: DOR and ERFC; data through September 2011

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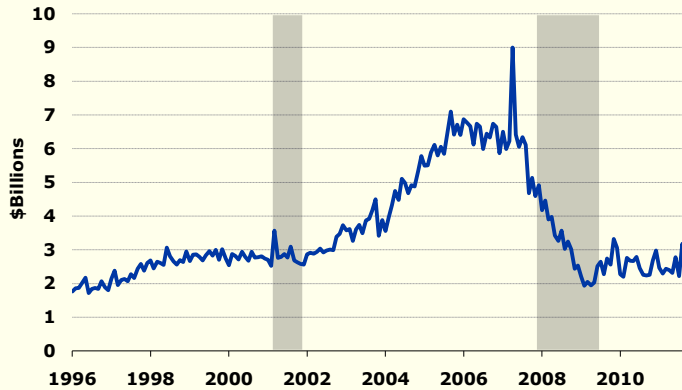
REET is bumping along the bottom

Payments received in September (August and September activity) were up 13.5% year-over-year, due mainly to last year's post-tax-credit slump

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Seasonally Adjusted Taxable Real Estate Excise Activity



Source: ERFC; monthly data through September 2011

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Conclusion

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- We continue to expect the U.S. and WA economies will experience slow growth and muddle through conditions through the biennium
- WA is still likely to outperform the nation
- Uncertainty remains high
- The risk of another recession in the U.S. remains elevated, but has receded modestly since September
- The next revenue collection update will be published on the 11th of November, and our new revenue forecast will be presented on the 17th

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Questions

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04 Nov 2011

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U.S. Forecast Comparison **Fiscal Years**

	2010	2011	2012	2013
Real GDP				
2005 USD billions				
November Preliminary Forecast	12,876	13,214	13,432	13,759
<i>Growth</i>	0.3%	2.6%	1.6%	2.4%
September Forecast	12,876	13,211	13,430	13,791
<i>Growth</i>	0.3%	2.6%	1.7%	2.7%
Difference in level	0	3	2	-32
<i>Difference in growth forecast</i>	0.0%	0.0%	0.0%	-0.2%

Real Consumption				
2005 USD billions				
November Preliminary Forecast	9,105	9,336	9,494	9,722
<i>Growth</i>	0.3%	2.5%	1.7%	2.4%
September Forecast	9,105	9,335	9,505	9,751
<i>Growth</i>	0.3%	2.5%	1.8%	2.6%
Difference in level	0	2	-10	-29
<i>Difference in growth forecast</i>	0.0%	0.0%	-0.1%	-0.2%

Implicit Price Deflator				
Index 2005 = 100				
November Preliminary Forecast	110.4	112.3	114.7	115.9
<i>Growth</i>	1.3%	1.8%	2.1%	1.1%
September Forecast	110.4	112.3	114.4	115.8
<i>Growth</i>	1.3%	1.8%	1.9%	1.2%
Difference in level	0.0	0.0	0.2	0.2
<i>Difference in growth forecast</i>	0.0%	0.0%	0.2%	-0.1%

Unemployment Rate				
Percent of Labor Force				
November Preliminary Forecast	9.7%	9.3%	9.2%	9.0%
September Forecast	9.7%	9.3%	9.1%	8.7%
<i>Difference in forecast</i>	0.0%	0.0%	0.1%	0.2%

30 Year Fixed Mortgage Rate				
Annual Average				
November Preliminary Forecast	5.0%	4.6%	4.2%	4.9%
September Forecast	5.0%	4.6%	4.3%	4.9%
<i>Difference in forecast</i>	0.0%	0.0%	0.0%	-0.1%

3 Month T-Bill Rate				
Annual Average				
November Preliminary Forecast	0.1%	0.1%	0.1%	0.1%
September Forecast	0.1%	0.1%	0.1%	0.1%
<i>Difference in forecast</i>	0.0%	0.0%	0.0%	0.0%

Washington Forecast Comparison**Fiscal Years****2010 2011 2012 2013****Real Personal Income**

2005 USD billions

November Preliminary Forecast	254.6	262.5	265.8	272.2
<i>Growth</i>	-2.5%	3.1%	1.2%	2.4%
September Forecast	256.4	263.8	268.1	275.0
<i>Growth</i>	-2.2%	2.9%	1.6%	2.6%
Difference in level	-1.8	-1.3	-2.4	-2.9
<i>Difference in growth forecast</i>	-0.3%	0.2%	-0.4%	-0.2%

Nominal Personal Income

USD billions

November Preliminary Forecast	281.0	294.8	304.8	315.6
<i>Growth</i>	-1.3%	4.9%	3.4%	3.5%
September Forecast	282.9	296.3	306.9	318.4
<i>Growth</i>	-0.9%	4.7%	3.6%	3.7%
Difference in level	-1.9	-1.4	-2.1	-2.8
<i>Difference in growth forecast</i>	-0.3%	0.2%	-0.2%	-0.2%

Nonfarm Payroll Employment, End of Period

Thousands

November Preliminary Forecast	2,785	2,814	2,840	2,894
<i>Growth</i>	-1.5%	1.1%	0.9%	1.9%
September Forecast	2,785	2,811	2,848	2,906
<i>Growth</i>	-1.5%	0.9%	1.3%	2.0%
Difference in level	0	4	-8	-11
<i>Difference in growth forecast</i>	0.0%	0.1%	-0.4%	-0.1%

Housing Permits

Units Authorized, Thousands

November Preliminary Forecast	19.1	21.5	20.3	23.6
<i>Growth</i>	-3.2%	12.3%	-5.6%	16.6%
September Forecast	19.1	21.5	20.1	23.7
<i>Growth</i>	-3.2%	12.3%	-6.3%	17.9%
Difference in level	0.0	0.0	0.2	-0.1
<i>Difference in growth forecast</i>	0.0%	0.0%	0.7%	-1.3%

**Year-Over-Year Employment Growth by Industry
(September 2010 to September 2011)
Washington vs. U.S.**

	Washington		U.S
	(000)	% Chg.	% Chg.
Total	32.8	1.2%	1.1%
Aerospace Product and Parts Manufacturing	8.2	10.1%	NA
Professional and Business Services	11.8	3.6%	3.3%
Manufacturing Excluding Aerospace	5.0	2.8%	NA
Wholesale Trade	3.1	2.6%	1.5%
Other Services	2.6	2.5%	1.2%
Software Publishers	1.2	2.4%	NA
Retail Trade	6.4	2.1%	1.2%
Leisure and Hospitality	4.3	1.6%	0.9%
Education and Health Services	5.3	1.4%	2.3%
Mining and Logging	0.1	0.9%	11.6%
Transportation, Warehousing and Utilities	0.7	0.8%	1.4%
Information Excluding Software	-0.7	-1.3%	NA
Financial Activities	-1.9	-1.4%	-0.1%
Construction	-2.1	-1.5%	0.9%
State and Local Gov Non-Education	-3.9	-1.9%	-1.7%
State and Local Gov Education	-7.0	-3.0%	-1.4%
Information	0.6	0.5%	-1.6%
Manufacturing	13.1	5.1%	1.7%

Source: WA State ERFC Kalman filtered data, U.S. Bureau of Labor Statistics

**County Taxable Retail Sales
2010 Q2 to 2011 Q2
(Dollars in Thousands)**

Rank	County	2nd Quarter, 2010	2nd Quarter, 2011	Percent Change	Taxbase Distribution
1	Garfield	4,433	9,895	123.2%	0.0%
2	Columbia	9,283	14,158	52.5%	0.1%
3	Skamania	19,710	26,540	34.7%	0.1%
4	Lincoln	20,810	27,926	34.2%	0.1%
5	Adams	51,457	67,742	31.6%	0.3%
6	Douglas	107,932	127,954	18.6%	0.5%
7	Grays Harbor	198,726	234,810	18.2%	0.9%
8	Grant	313,908	350,428	11.6%	1.4%
9	Benton	684,442	761,720	11.3%	3.0%
10	Pend Oreille	20,355	22,057	8.4%	0.1%
11	Pacific	46,459	50,318	8.3%	0.2%
12	Wahkiakum	5,014	5,401	7.7%	0.0%
13	Skagit	485,319	520,348	7.2%	2.0%
14	Whitman	108,862	116,446	7.0%	0.5%
15	Jefferson	79,936	84,693	6.0%	0.3%
16	Kittitas	150,269	158,157	5.2%	0.6%
17	King	9,520,791	9,917,670	4.2%	38.7%
18	Clark	987,013	1,027,078	4.1%	4.0%
19	Whatcom	716,003	742,636	3.7%	2.9%
20	Walla Walla	169,111	175,301	3.7%	0.7%
	Statewide	24,895,067	25,620,244	2.9%	100.0%
21	Mason	121,849	125,181	2.7%	0.5%
22	Asotin	61,520	63,074	2.5%	0.2%
23	Clallam	224,480	229,872	2.4%	0.9%
24	Spokane	1,690,372	1,729,297	2.3%	6.7%
25	Thurston	926,326	946,576	2.2%	3.7%
26	Okanogan	119,974	120,894	0.8%	0.5%
27	Stevens	83,058	83,624	0.7%	0.3%
28	Kitsap	745,332	750,393	0.7%	2.9%
29	Franklin	258,043	259,775	0.7%	1.0%
30	Ferry	13,464	13,440	-0.2%	0.1%
31	Pierce	2,611,394	2,603,979	-0.3%	10.2%
32	Yakima	683,660	681,510	-0.3%	2.7%
33	Snohomish	2,411,251	2,391,497	-0.8%	9.3%
34	Lewis	250,844	247,978	-1.1%	1.0%
35	Chelan	333,266	327,787	-1.6%	1.3%
36	Island	180,813	173,034	-4.3%	0.7%
37	San Juan	88,173	84,126	-4.6%	0.3%
38	Klickitat	48,432	45,542	-6.0%	0.2%
39	Cowlitz	342,980	301,386	-12.1%	1.2%

King/Snohomish/Pierce	14,543,436	14,913,146	2.5%	58.2%
Remainder of State	10,351,631	10,707,098	3.4%	41.8%

Governor's Council of Economic Advisor's Forecast

Calendar Years

November 4, 2011

	2011	2012	2013
<u>U.S.</u>			
Real GDP			
<i>Growth</i>			
ERFC	1.7	2.0	2.8
GCEA Average	1.6	1.8	2.4
Real Consumption			
<i>Growth</i>			
ERFC	2.1	2.0	2.3
GCEA Average	2.0	1.8	2.2
Implicit Price Deflator, PCE			
<i>Growth</i>			
ERFC	2.5	1.2	1.5
GCEA Average	2.5	1.8	2.1
Mortgage Rate			
<i>Percent</i>			
ERFC	4.5	4.6	5.0
GCEA Average	4.5	4.5	4.8
Oil Price (WTI)			
<i>USD per barrel</i>			
ERFC	93.3	89.3	90.3
GCEA Average	92.2	85.2	86.0

What is the probability of another European recession beginning with 12 months?

62%

What is the probability of another U.S. recession beginning with 12 months?

38%

Washington State

Real Personal Income

Growth

ERFC	2.4	1.4	2.8
GCEA Average	2.4	1.8	2.2

Wage and Salary Employment

Growth

ERFC	1.1	1.1	2.0
GCEA Average	1.1	1.2	1.8

Manufacturing Employment

Growth

ERFC	3.9	3.3	2.1
GCEA Average	3.6	2.8	2.0

Construction Employment

Growth

ERFC	-2.3	0.8	3.4
GCEA Average	-2.1	0.3	1.7

Housing Permits

Thousands of authorized units

ERFC	20.8	21.1	27.4
GCEA Average	20.8	21.4	24.6

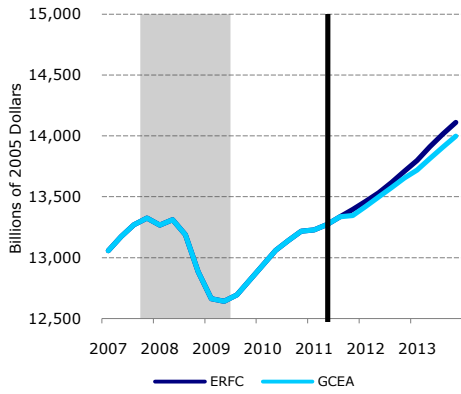
Washington Average Annual Wage

Growth

ERFC	3.0	2.4	3.2
GCEA Average	3.0	2.4	2.6

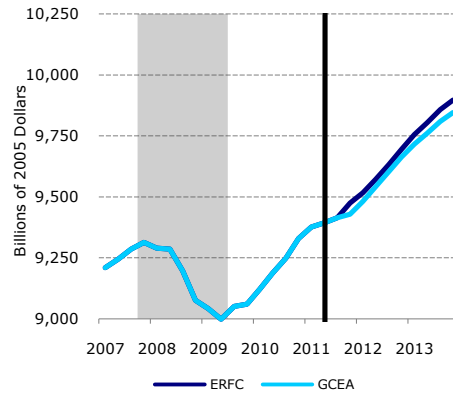
U.S. Forecast Comparison

Real GDP



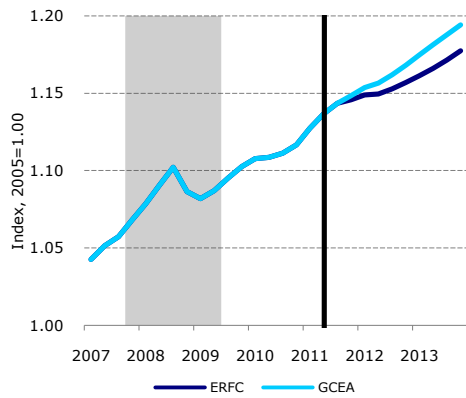
Source: BEA, ERFC, GCEA; Actual data through 2011 Q2

Real Consumption



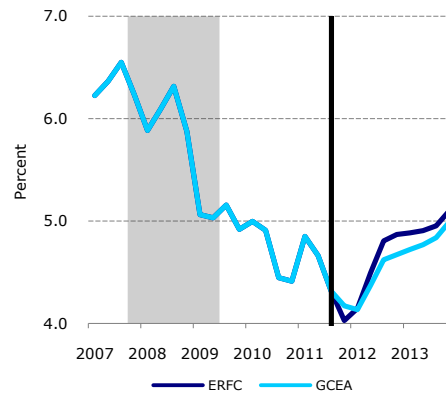
Source: BEA, ERFC, GCEA; Actual data through 2011 Q2

Implicit Price Deflator, PCE



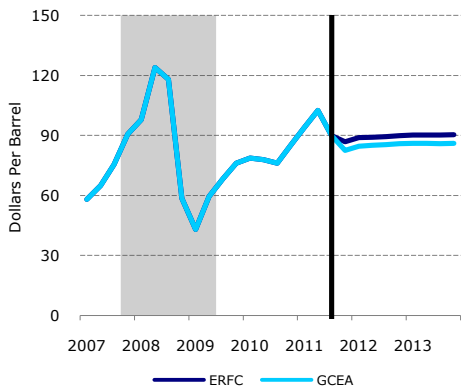
Source: BEA, ERFC, GCEA; Actual data through 2011 Q2

Mortgage Rate



Source: Freddie Mac, ERFC, GCEA; Actual data through 2011 Q3

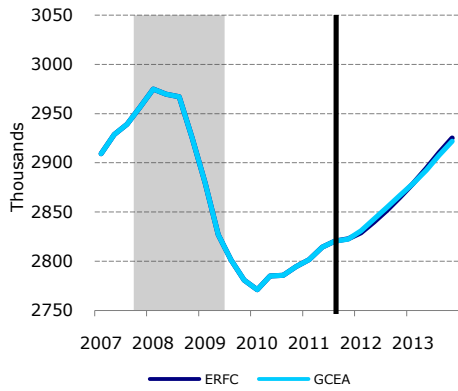
WTI Oil Price



Source: EIA, ERFC, GCEA; Actual data through 2011 Q3

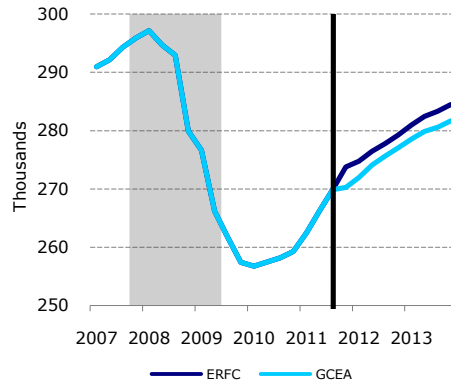
Washington Forecast Comparison

Nonfarm Payroll Employment



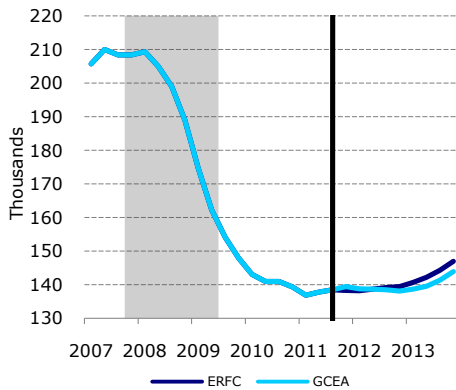
Source: ESD, ERFC, GCEA; Actual data through 2011 Q3

Manufacturing Employment



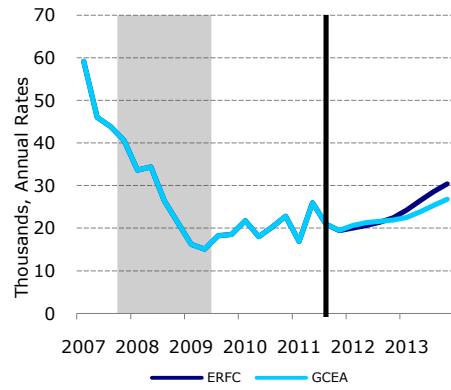
Source: ESD, ERFC, GCEA; Actual data through 2011 Q3

Construction Employment



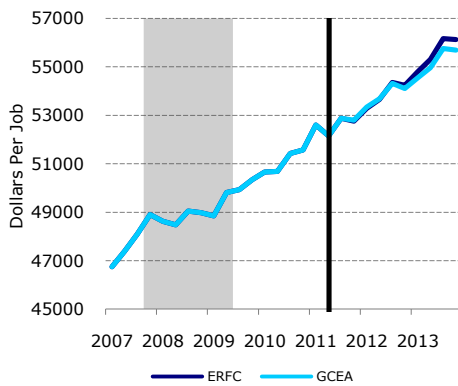
Source: ESD, ERFC, GCEA; Actual data through 2011 Q3

Housing Units Authorized



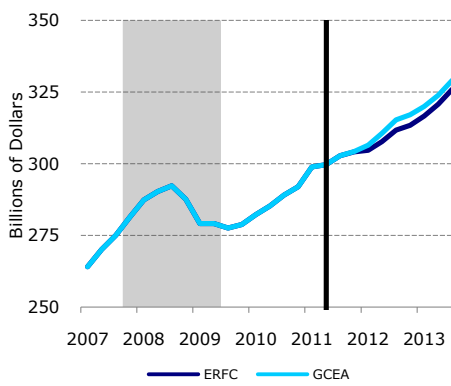
Source: Census, ERFC, GCEA; Actual data through 2011 Q3

Average Annual Wage



Source: BEA, ESD, ERFC, GCEA; Actual data through 2011 Q2

Personal Income



Source: BEA, ERFC, GCEA; Actual data through 2011 Q2