

# A Forecast for the National and Washington State Economy & Housing Markets.

*A Presentation to  
Washington Public  
Ports Association*

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Chief Economist  
Windermere Real Estate**

November 15, 2017

# Will the Economy Continue to Grow in 2018?

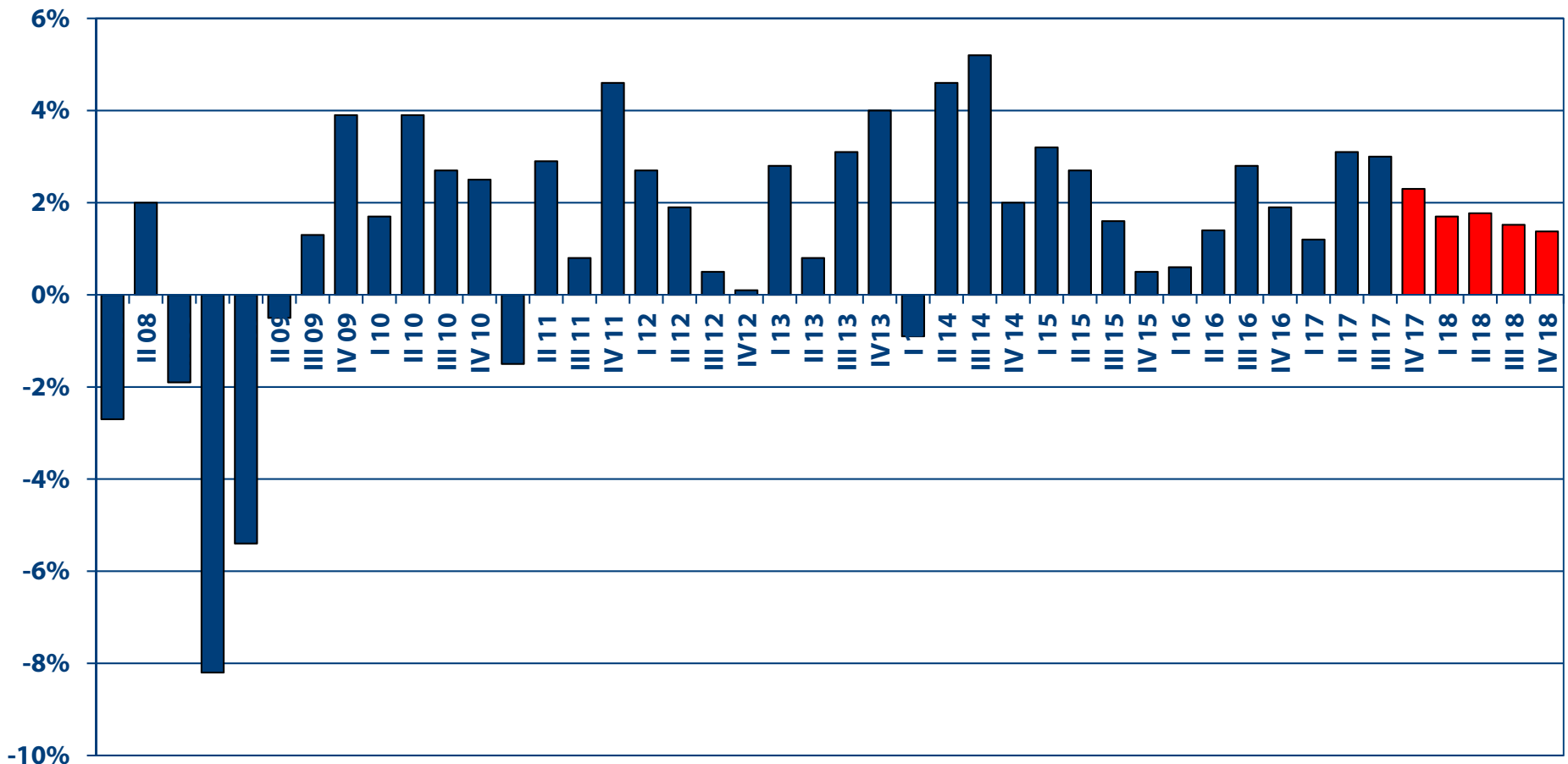
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# The U.S. Is Likely to Continue to Expand in 2018 (But Not at Stellar Rates!)



United States Gross Domestic Product  
(Quarterly Growth Rate)

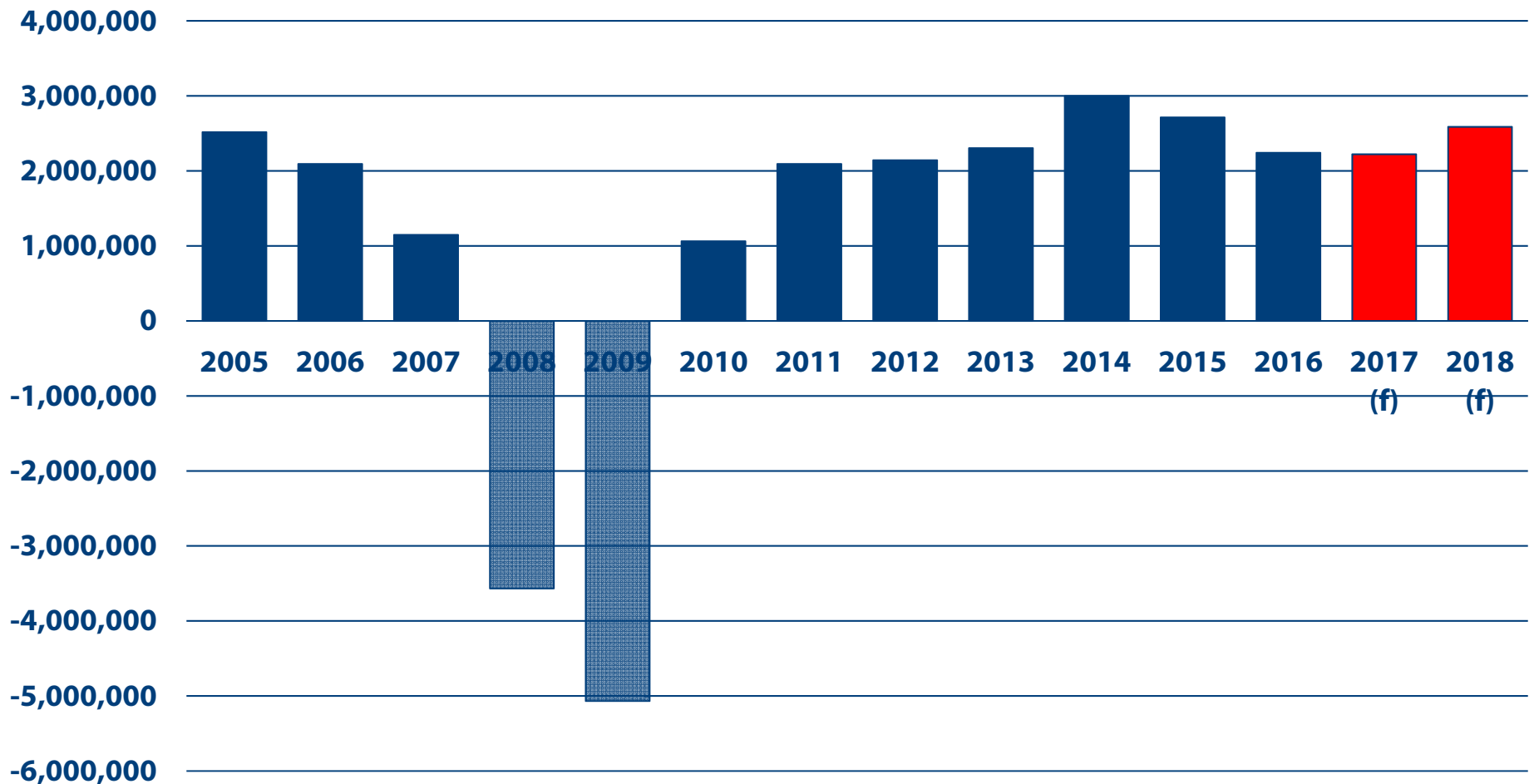


Source: BEA w/Windermere Economics Forecasts

# Job Gains Will Continue...

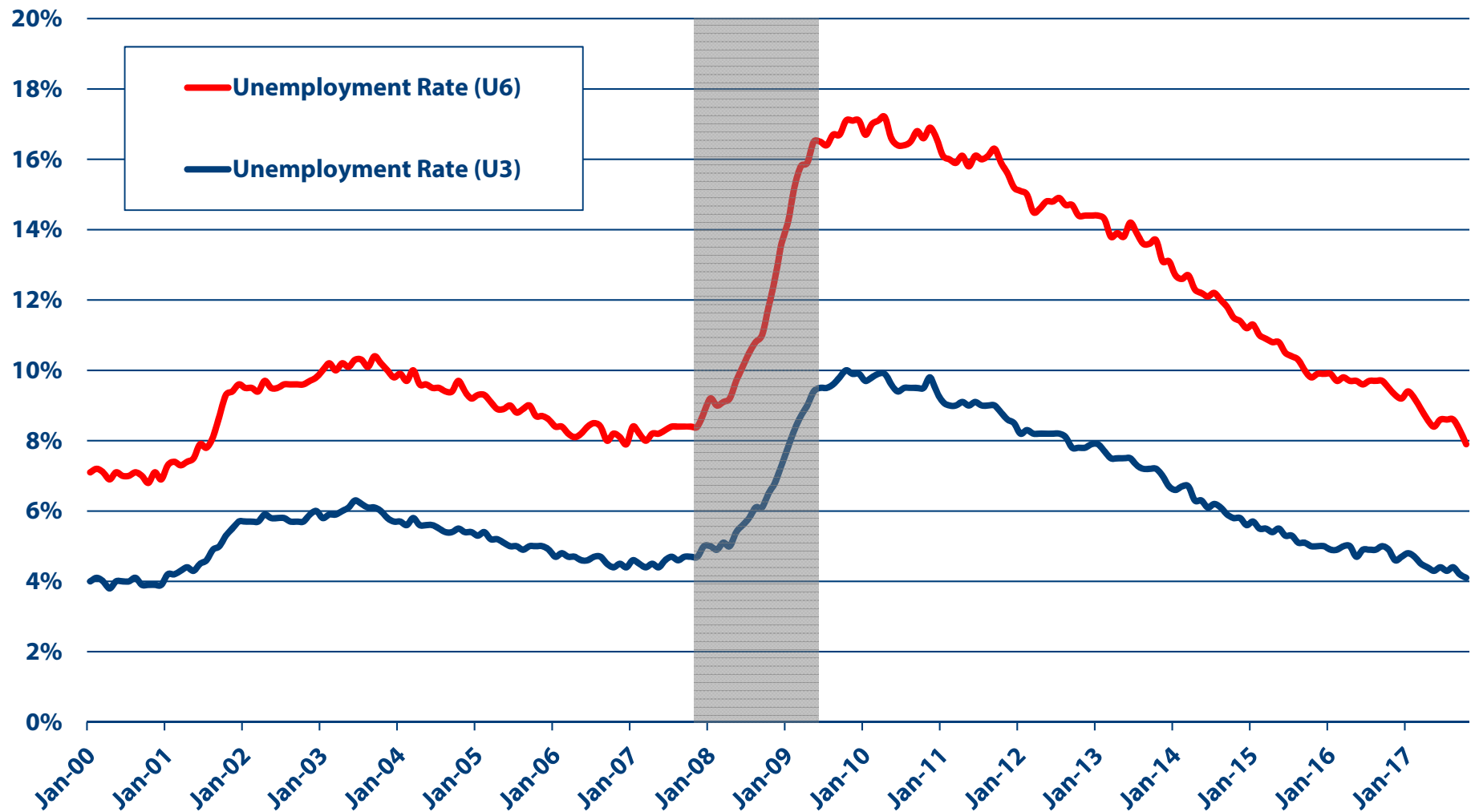


## Annual Payroll Change



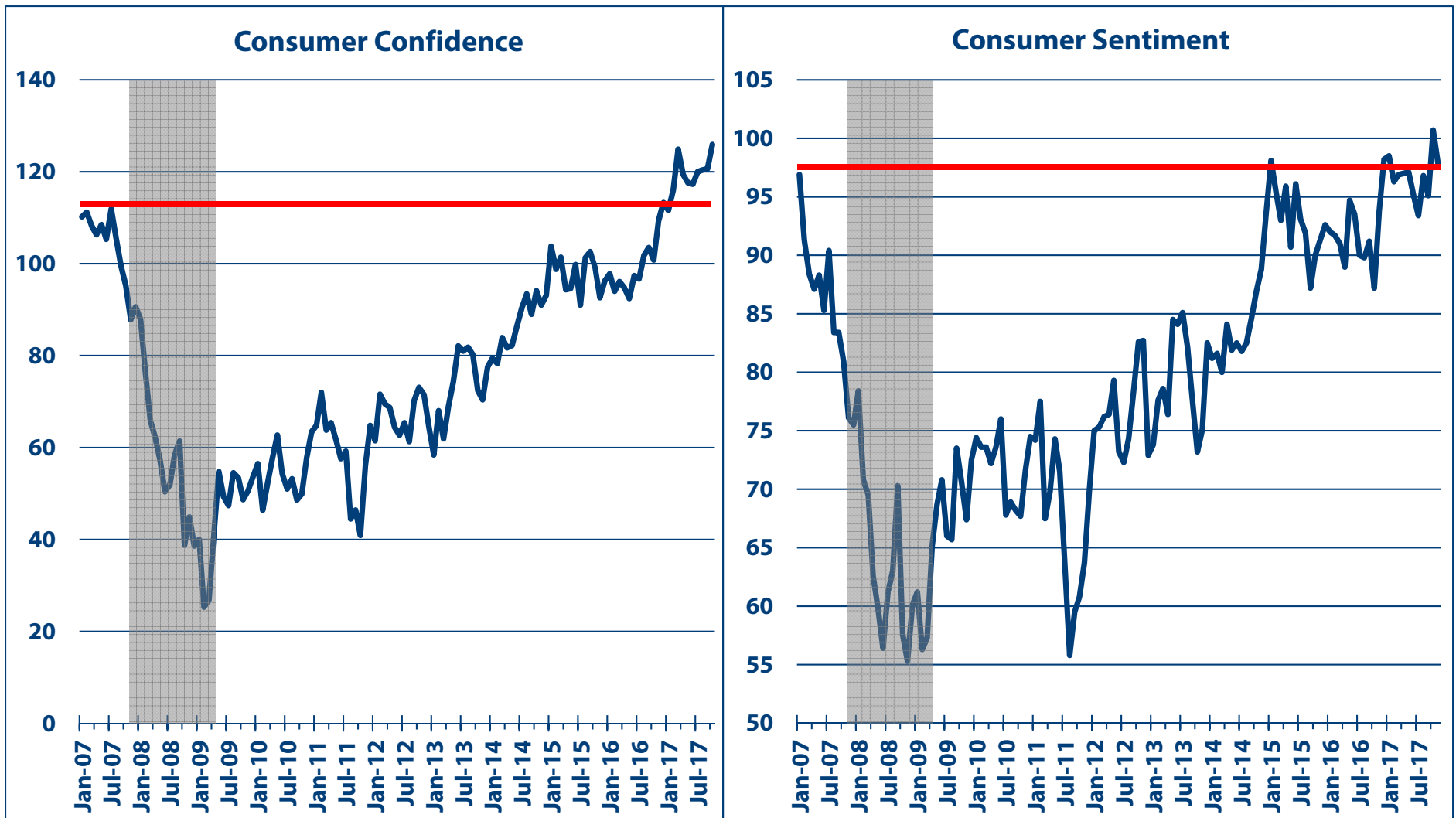
Source: BLS with Windermere Economics Forecasts

# ..& The *Real* Unemployment Rate Continues to Drop

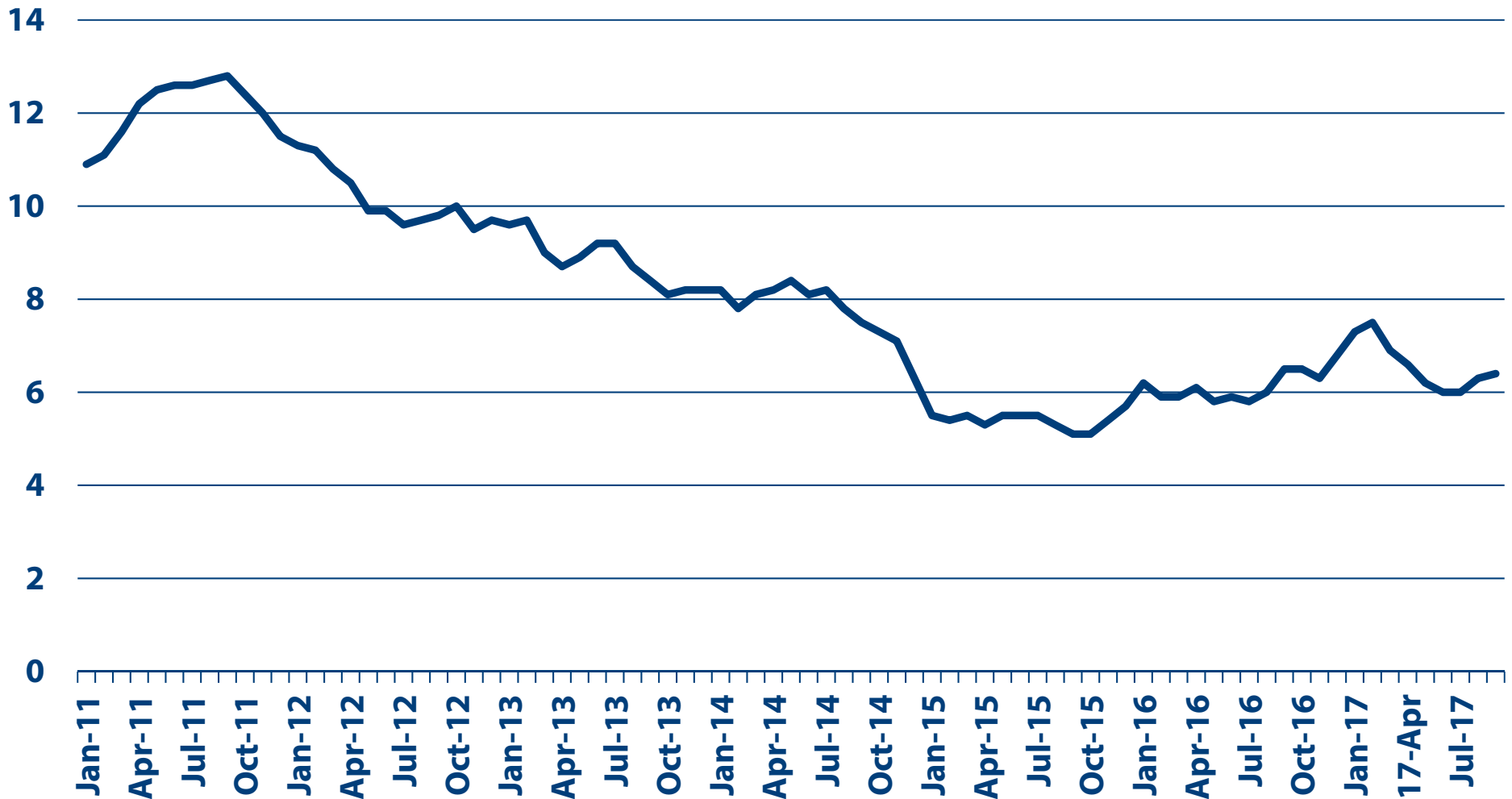


Source: BLS - Data through October 2017

# We Are Feeling Pretty Good!



# The Gardner Misery Index (Unemployment + Inflation)

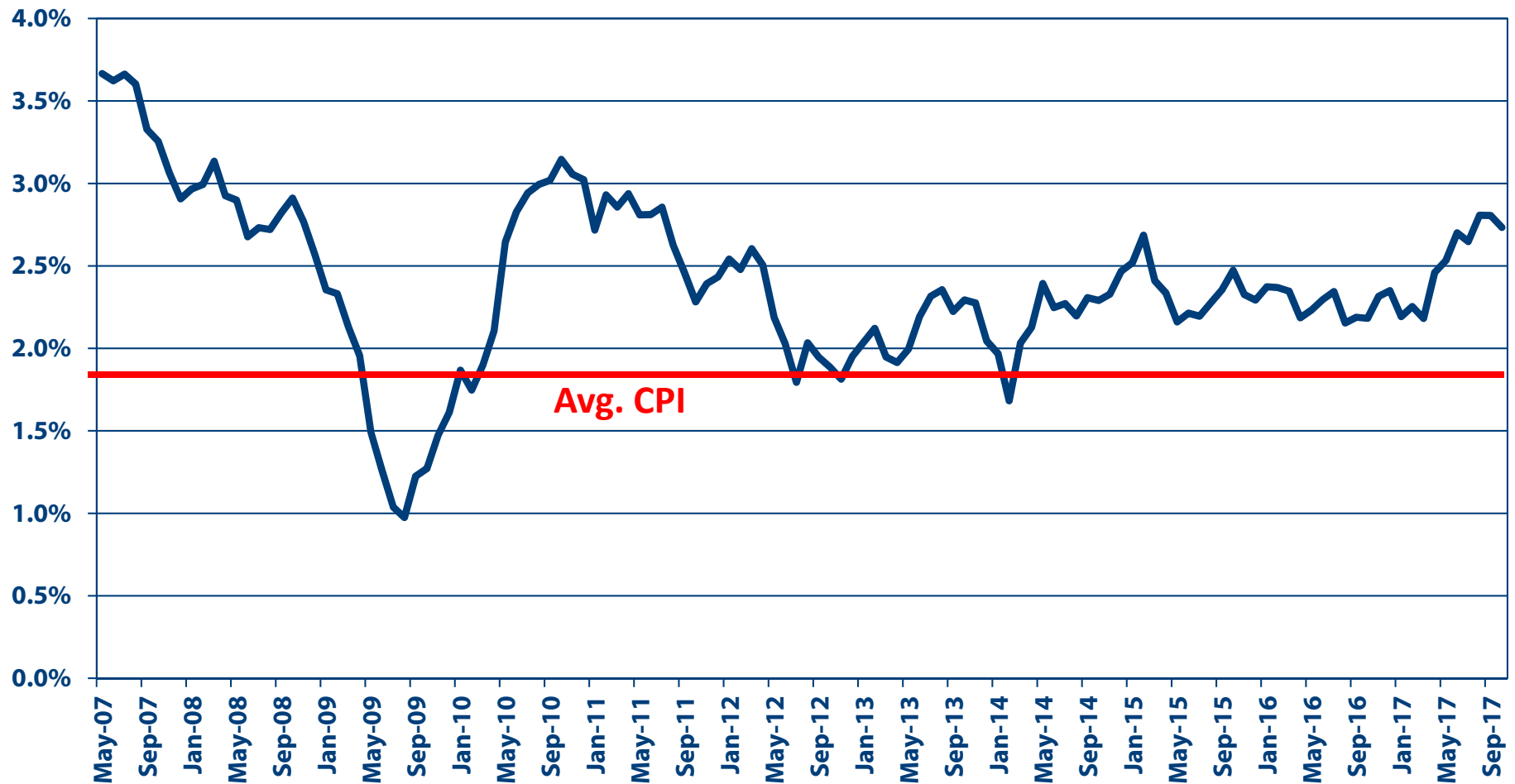


Source: BLS – Misery Index = Unemployment Rate + Annual Change in CPI

# U.S. Income Growth Not Meeting Expectations



Average Weekly Earnings (Y/Y % Change)



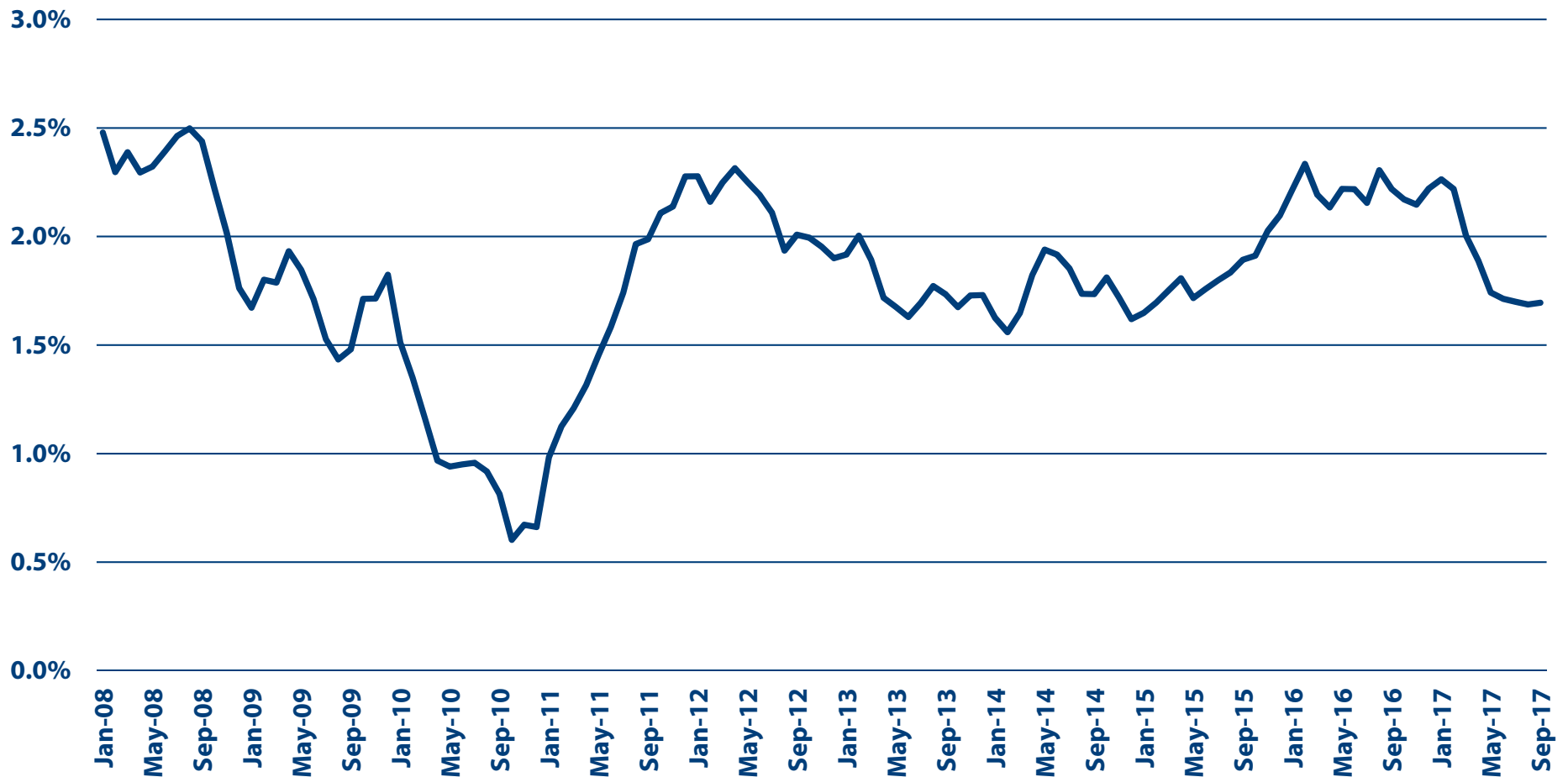
Source: BLS



# And Nor is Inflation (Core Rate)



Consumer Price Index - Annual Change (SA)



Source: BEA

# U.S. Economic Forecast



- Inflation Will Hit 2.0% by Years End, Rising to 2.2% in '18;
- 2.2% GDP Growth in 2017 & 2.0% in '18;
- 2.4M New Jobs in 2017 & 2.6M in '18;
- 4.1% Unemployment at Year End, Dropping to 4.1% in '18; and
- Fed Deleveraging Could Lead to Higher Borrowing Costs.

# U.S. Economic Forecast Cont.



- Expect the Fed to Move Rates Higher Over the Next 2 to 3 Years (to 3%);
- Full Repeal of Dodd-Frank is Highly Unlikely;
- As is Tax Reform;
- As is Infrastructure.....

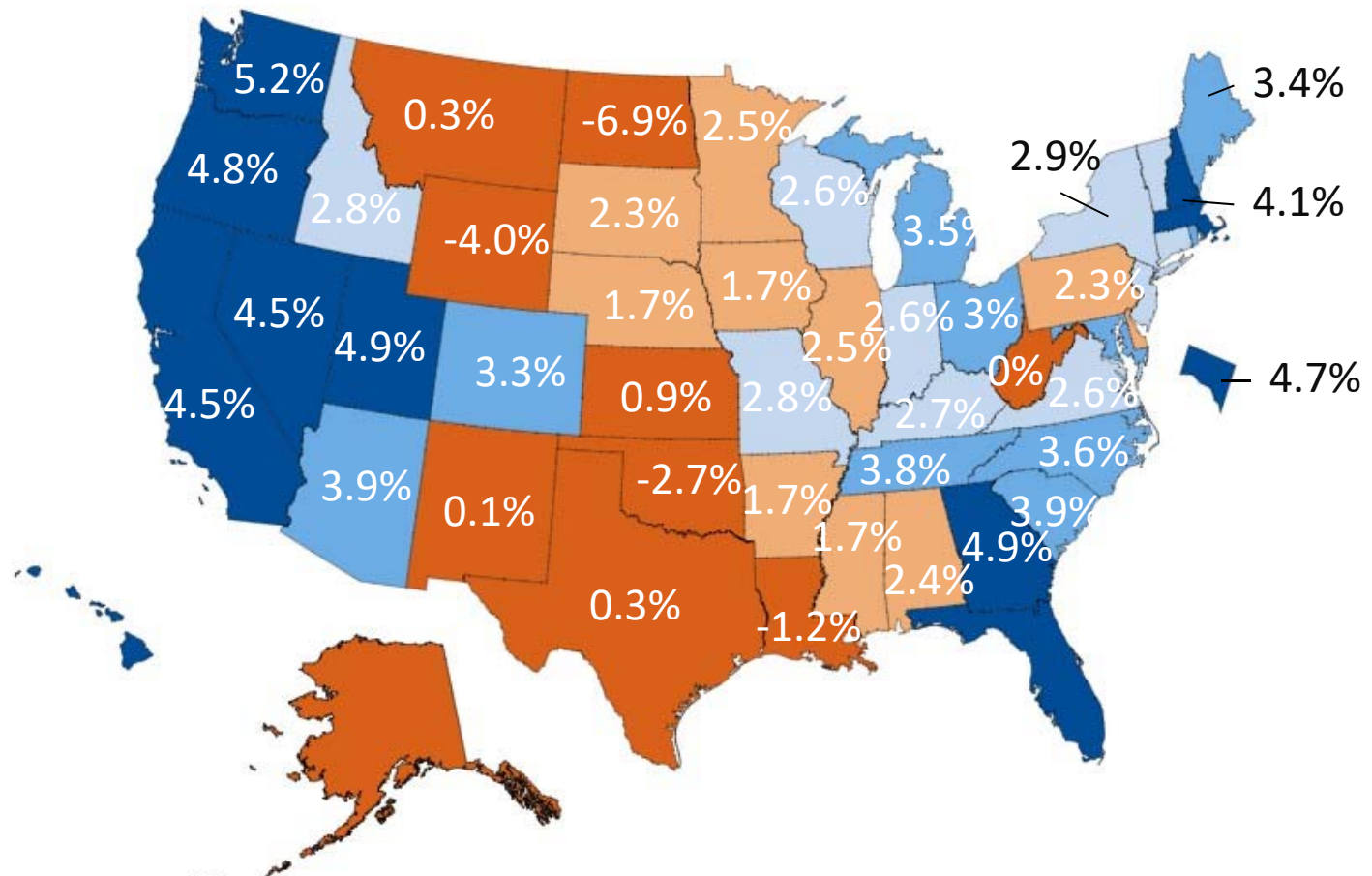
# The Washington State Economy

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# Still Performing Better than Most!



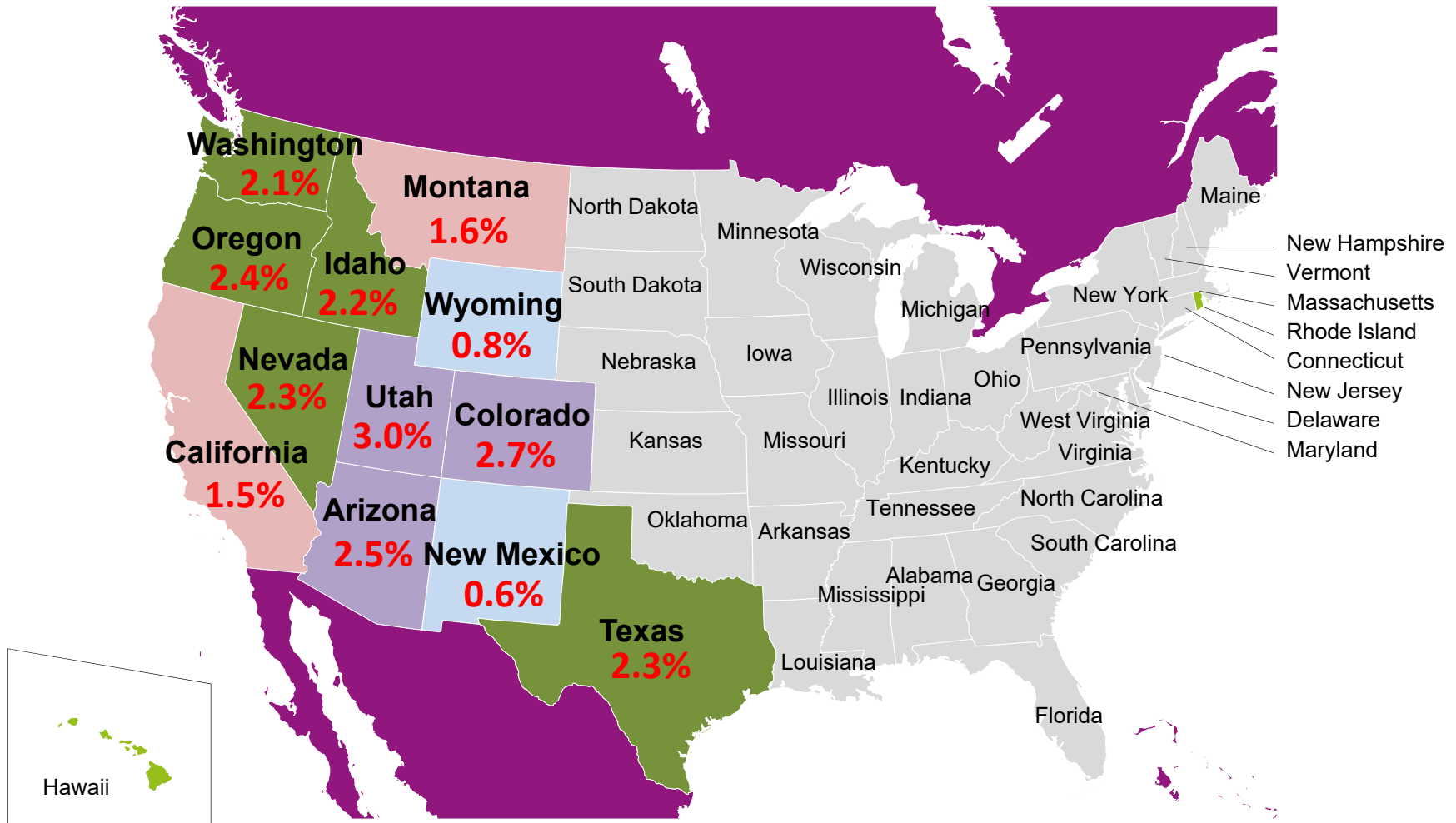
# State GDP (2016)



Source: BEA | U.S. = 3.0 %

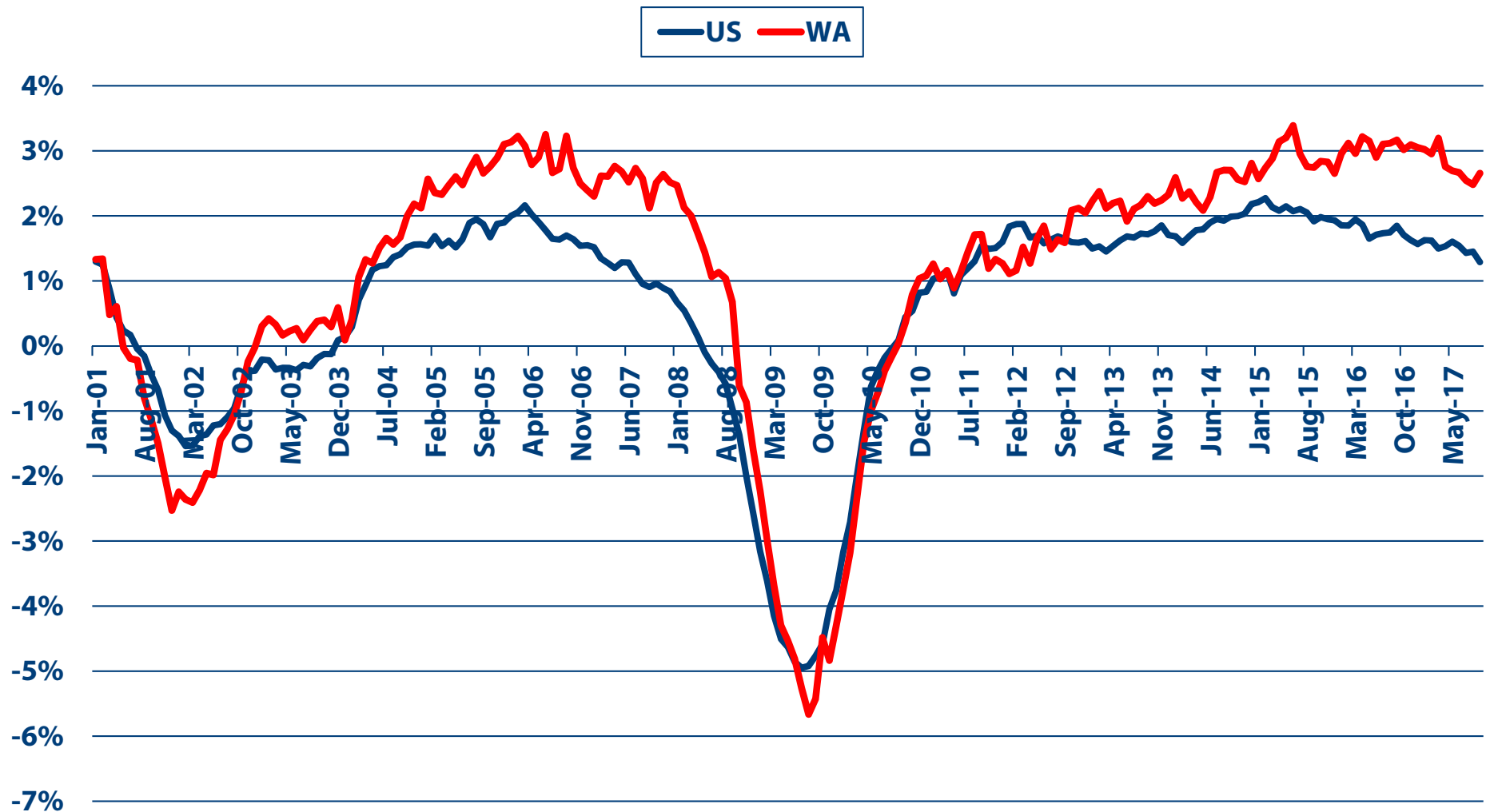
3.96 to 5.22    2.98 to 3.95    2.55 to 2.97    0.94 to 2.54    -6.86 to 0.93

# Employment Growth Forecast



Source: Windermere Economics

# WA Job Growth Substantially Faster than the U.S.

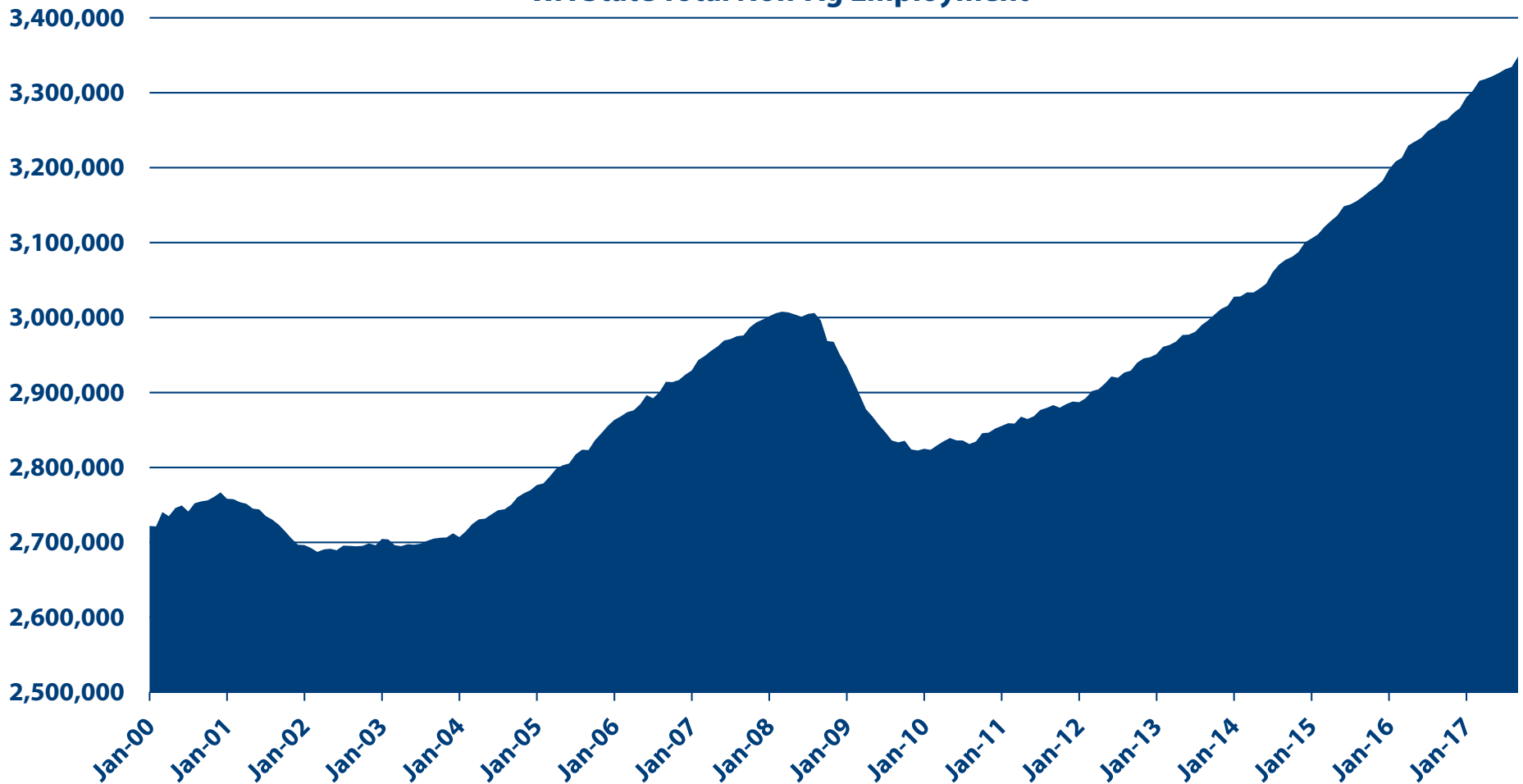


Source: BLS & Windermere Economics – 12-Mo. Change in Non-Ag Employment

# With Solid Post Recession Job Gains



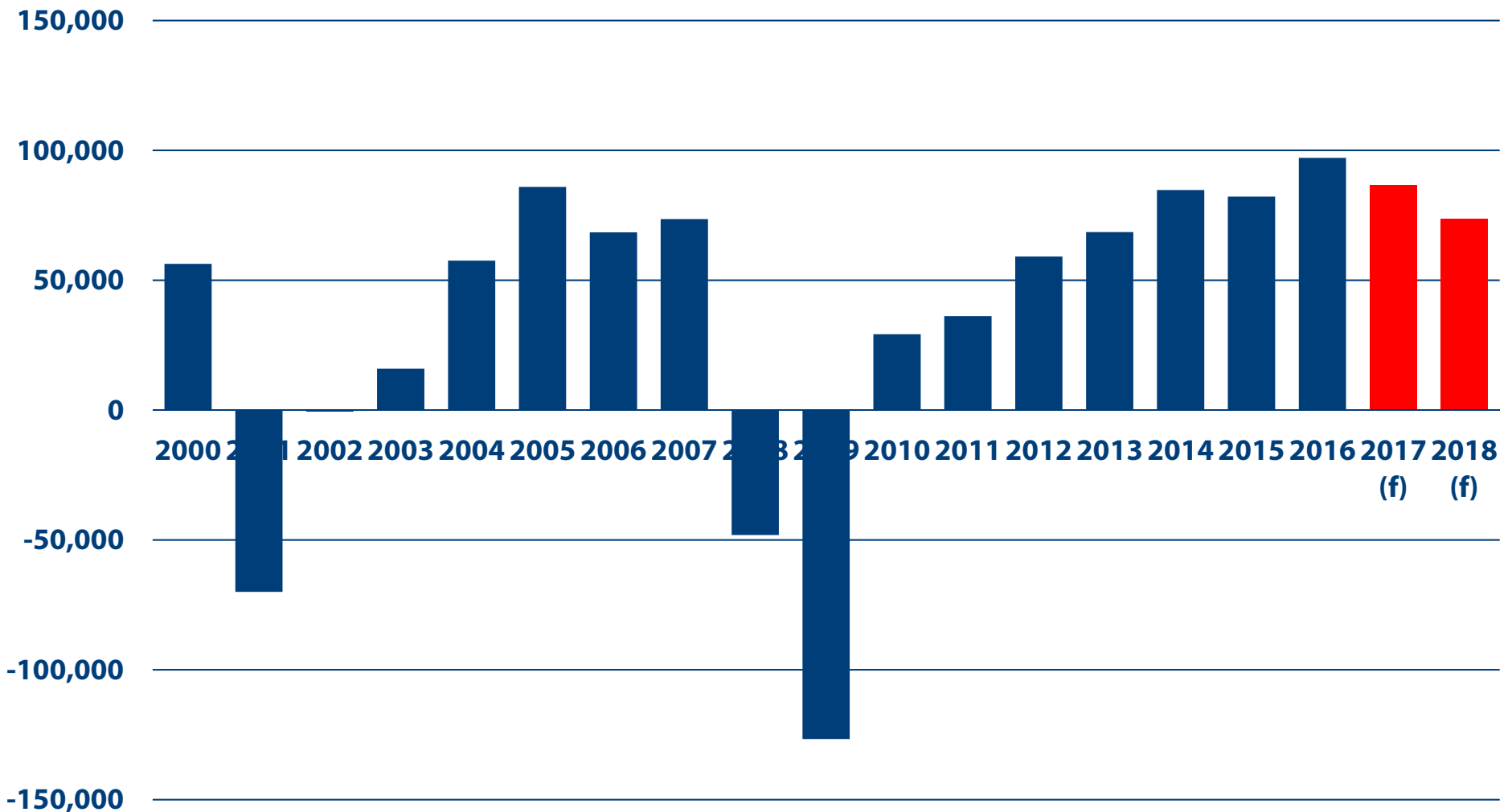
WA State Total Non-Ag Employment



Source: WA ESD & Windermere Economics



# Employment Forecast Washington State

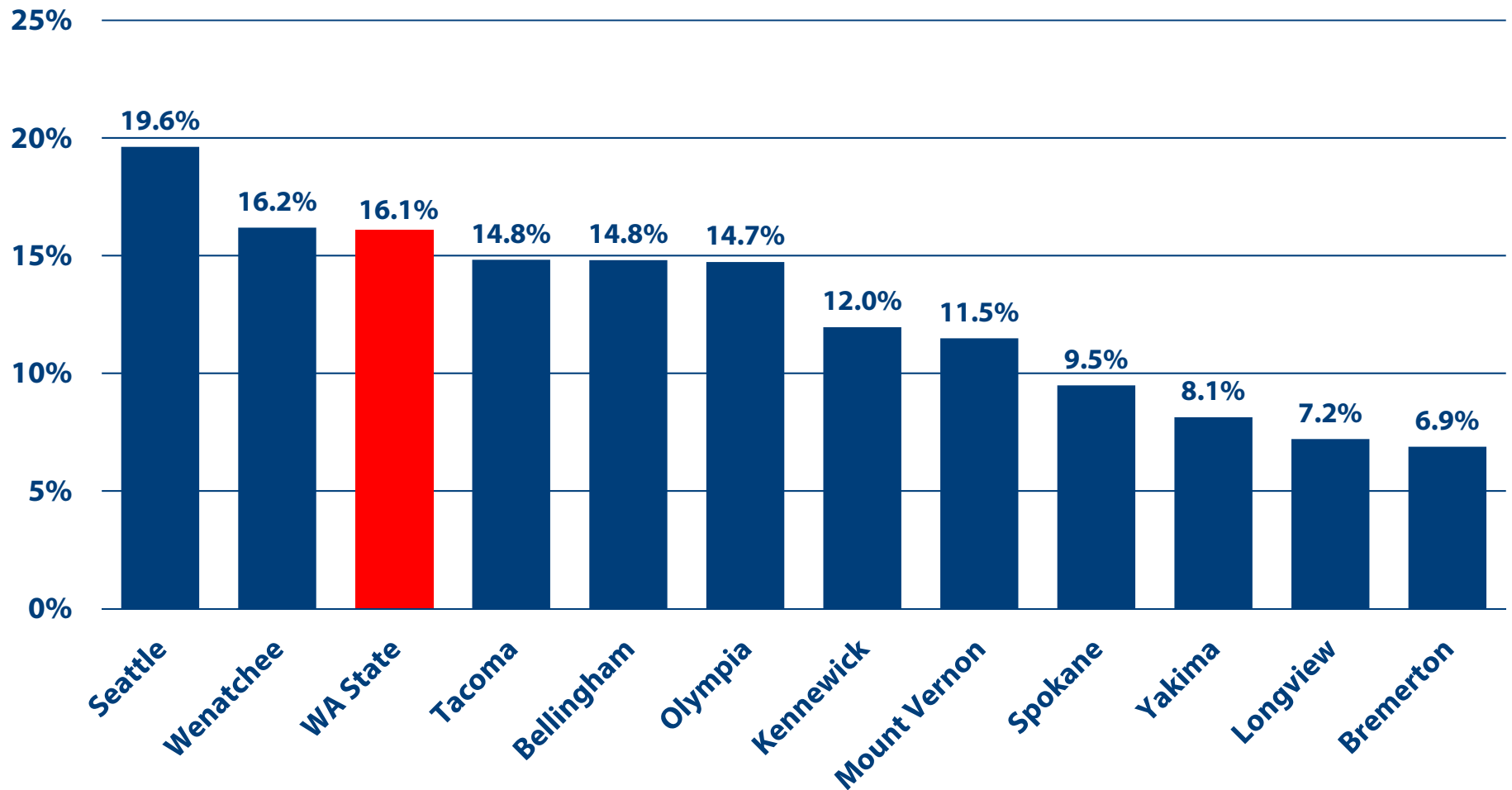


Source: WA ESD w/ Windermere Economics Forecasts

# But All Areas Not Created Equal

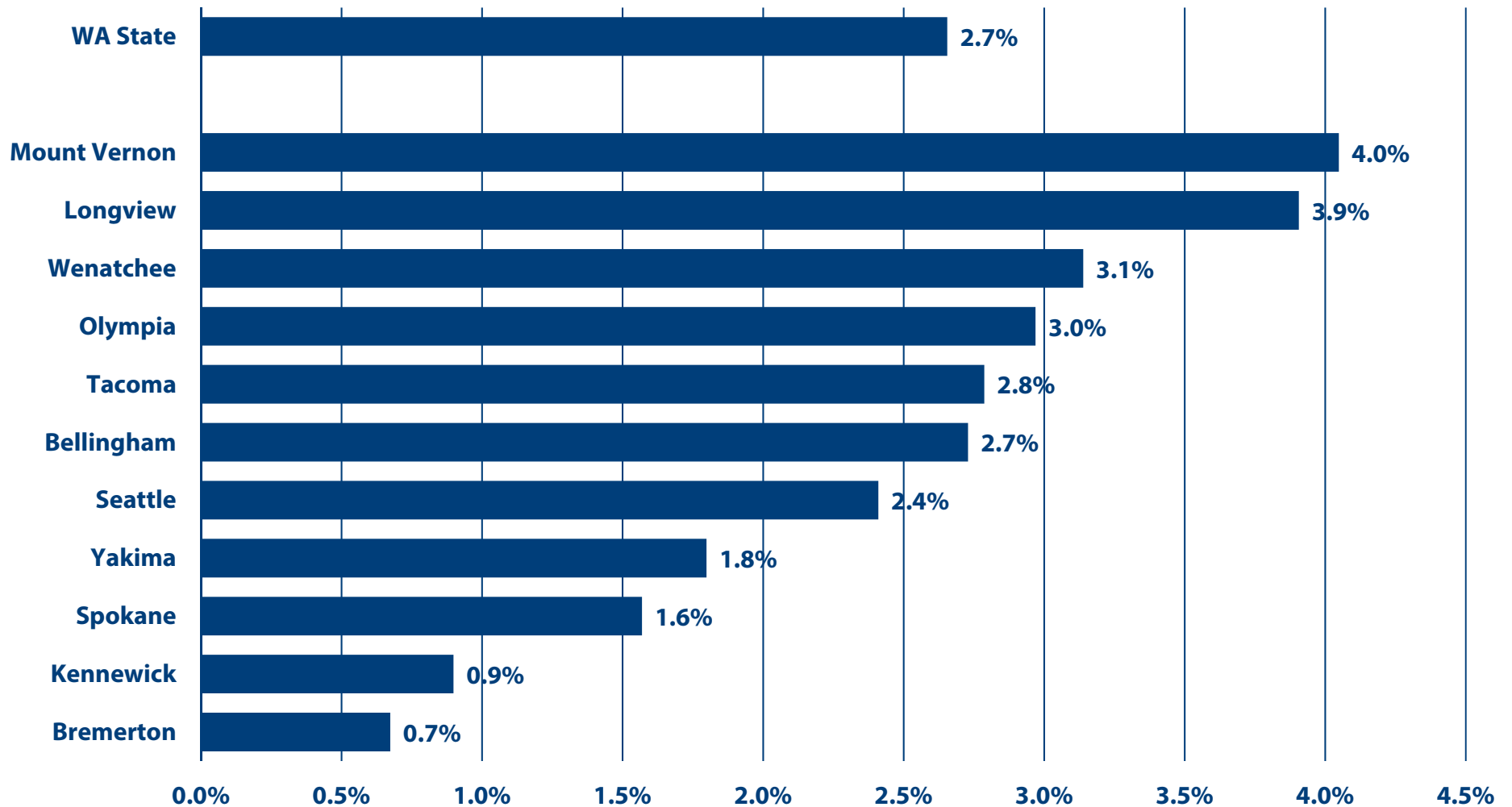


Employment Growth 2010 - 2016



Source: WA ESD

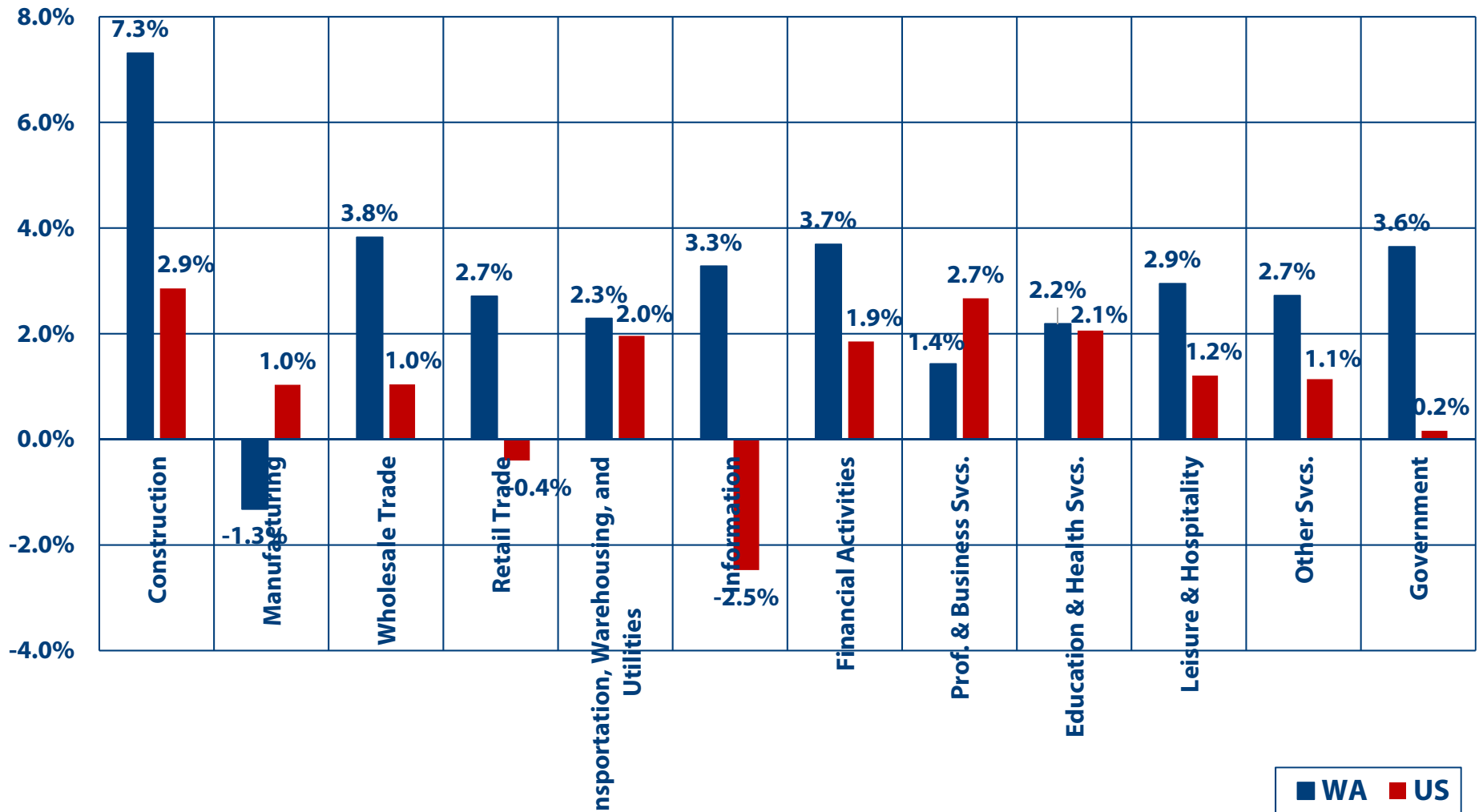
# WA Metro Employment Growth July 2016 – July 2017



Source: WA ESD

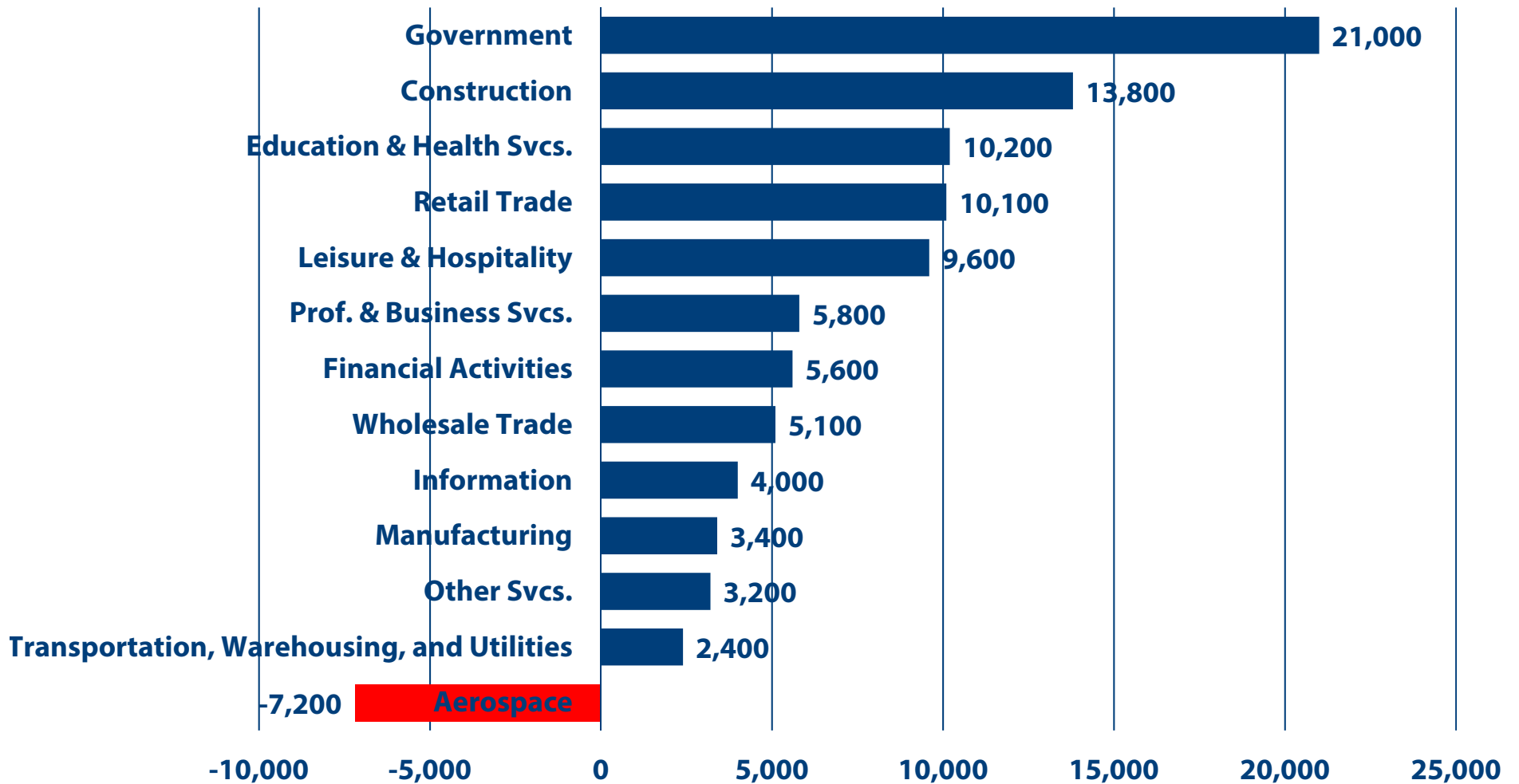
# Sectoral Growth Comparison

## Sept. 2016 to Sept. 2017



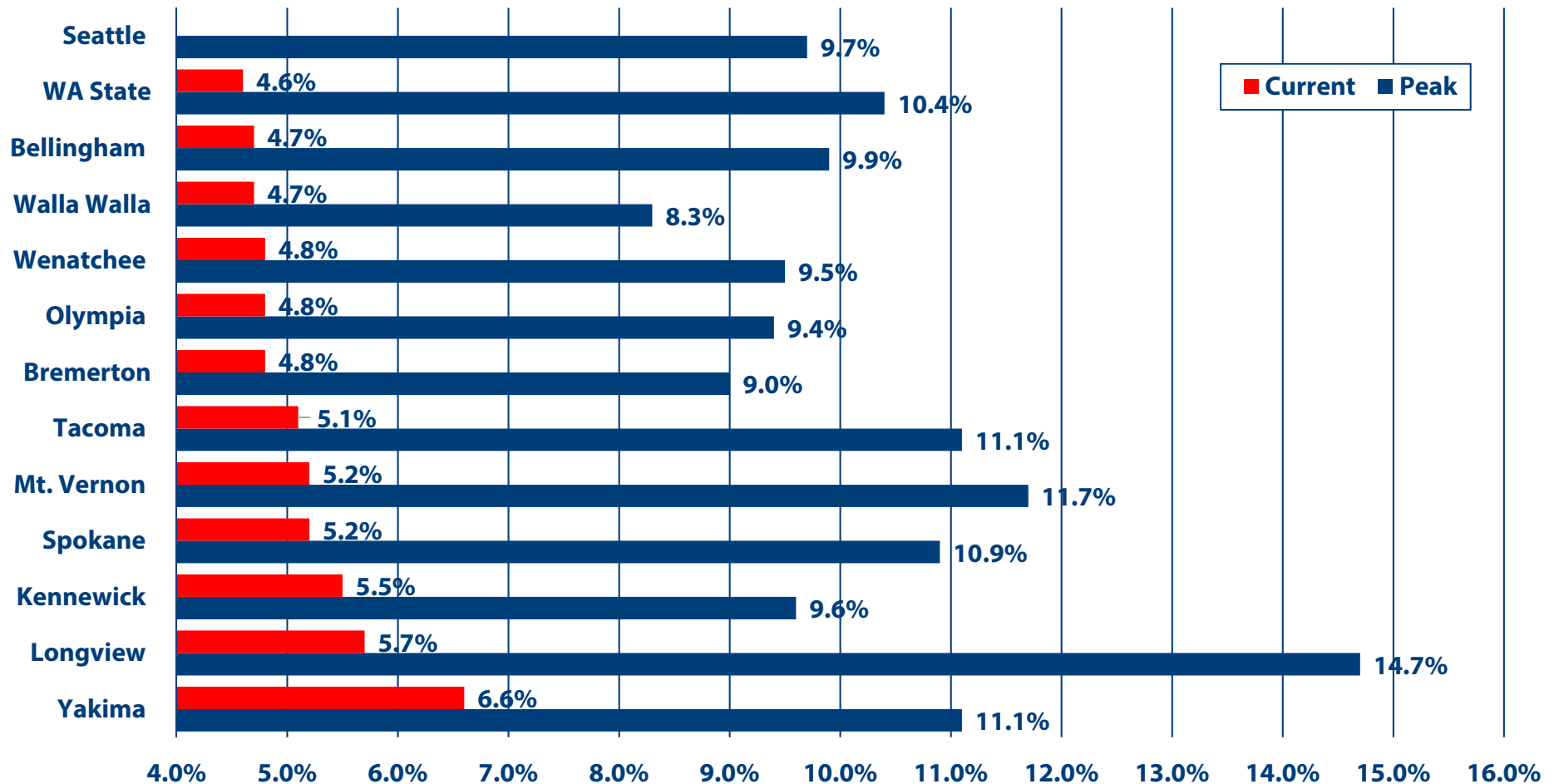
Source: WA ESD w/ Windermere Economics Forecasts

# WA Sectoral Growth Sept. 2016 to Sept 2017



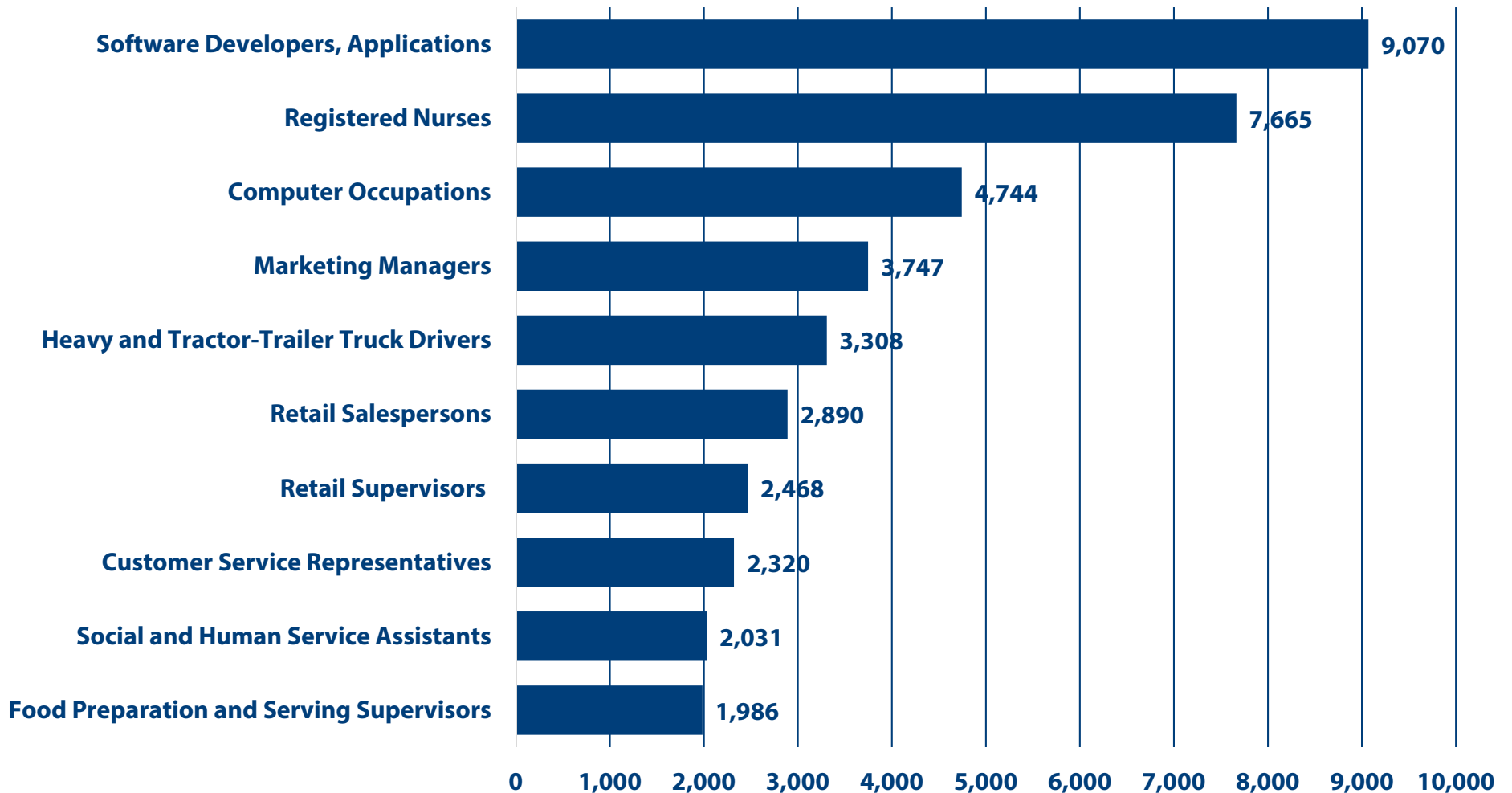
Source: WA ESD w/ Windermere Economics Forecasts

# Relative Unemployment Rates



Source: WA ESD & Windermere Economics

# What Jobs Are in Demand?



Source: WA ESD

# Employment Forecasts Washington State

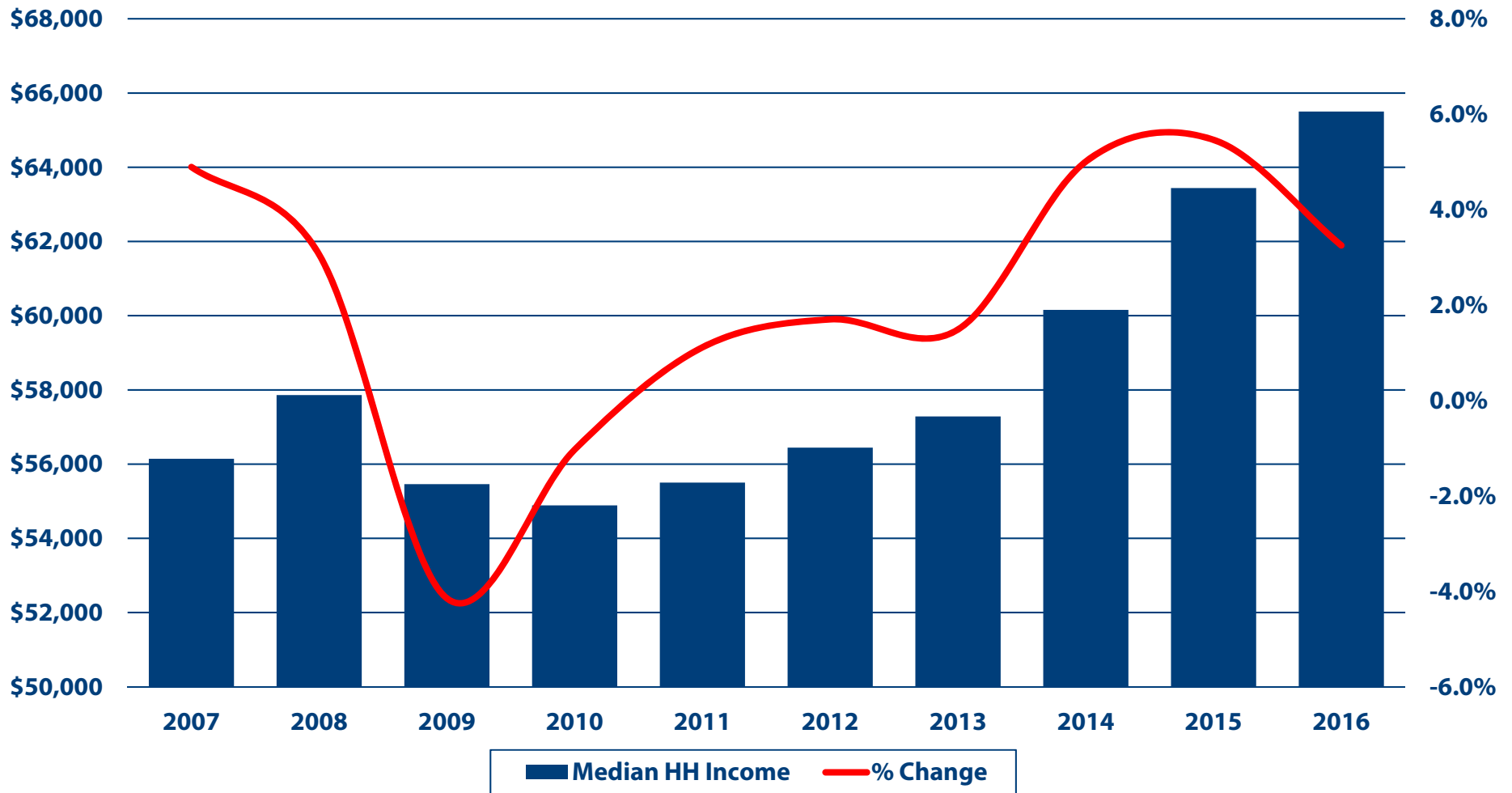


Sector	2017 Employment	2020 Forecast	Total Growth	% Change
Professional and Business Services	410,400	501,900	38,600	9.4%
Information	125,300	136,400	11,100	8.9%
Educational and Health Services	476,600	505,600	29,000	6.1%
Other Services	120,400	124,700	4,300	3.6%
Leisure and Hospitality	332,300	342,600	10,300	3.1%
Retail Trade	382,600	393,300	10,700	2.8%
Government	591,300	603,700	12,400	2.1%
Construction	201,200	204,600	3,400	1.7%
Transportation and Warehousing, & Utilities	107,800	109,400	1,600	1.5%
<b>Manufacturing</b>	<b>284,400</b>	<b>283,100</b>	<b>-1,300</b>	<b>-0.5%</b>
<b>Wholesale Trade</b>	<b>138,400</b>	<b>137,400</b>	<b>-1,000</b>	<b>-0.7%</b>
<b>Financial Activities</b>	<b>156,700</b>	<b>155,000</b>	<b>-1,700</b>	<b>-1.1%</b>

Source: WA ESD



# Income Growth in WA Continuing to Trend Up

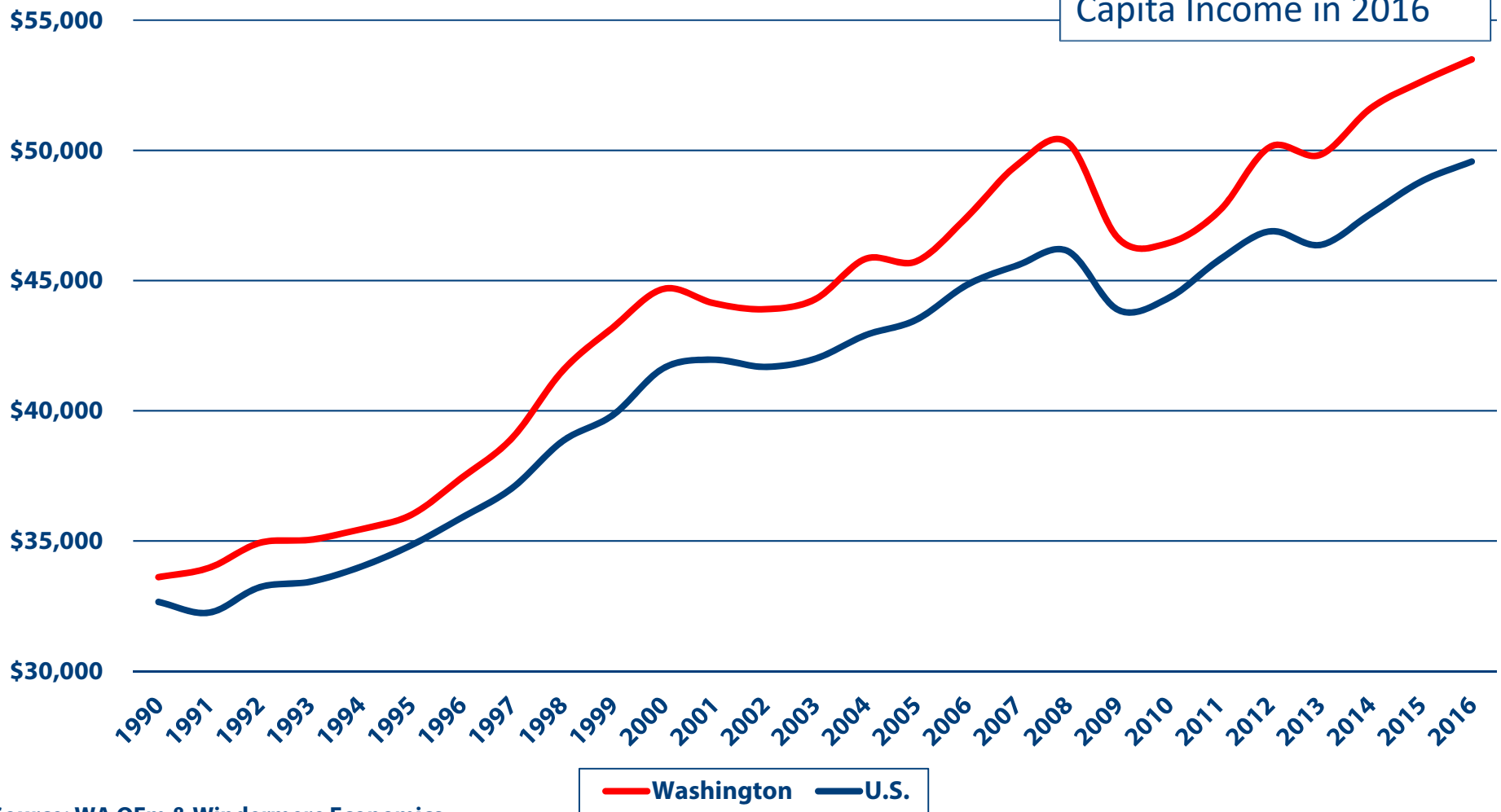


Source: WA ESD & Windermere Economics

# WA & U.S Per Capita Personal Incomes



WA State 13th in Per-Capita Income in 2016

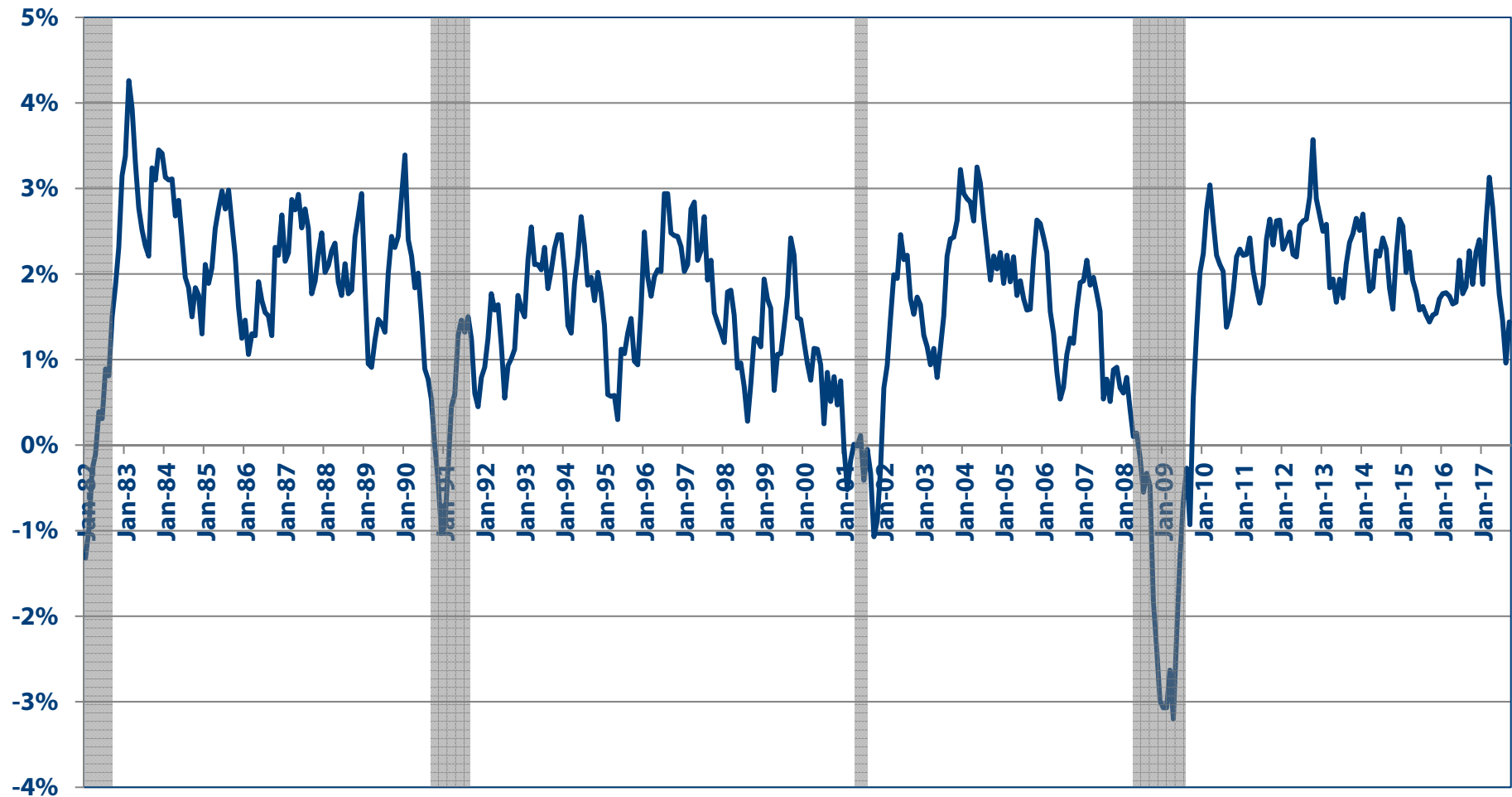


Source: WA OFm & Windermere Economics

# WA Leading Index

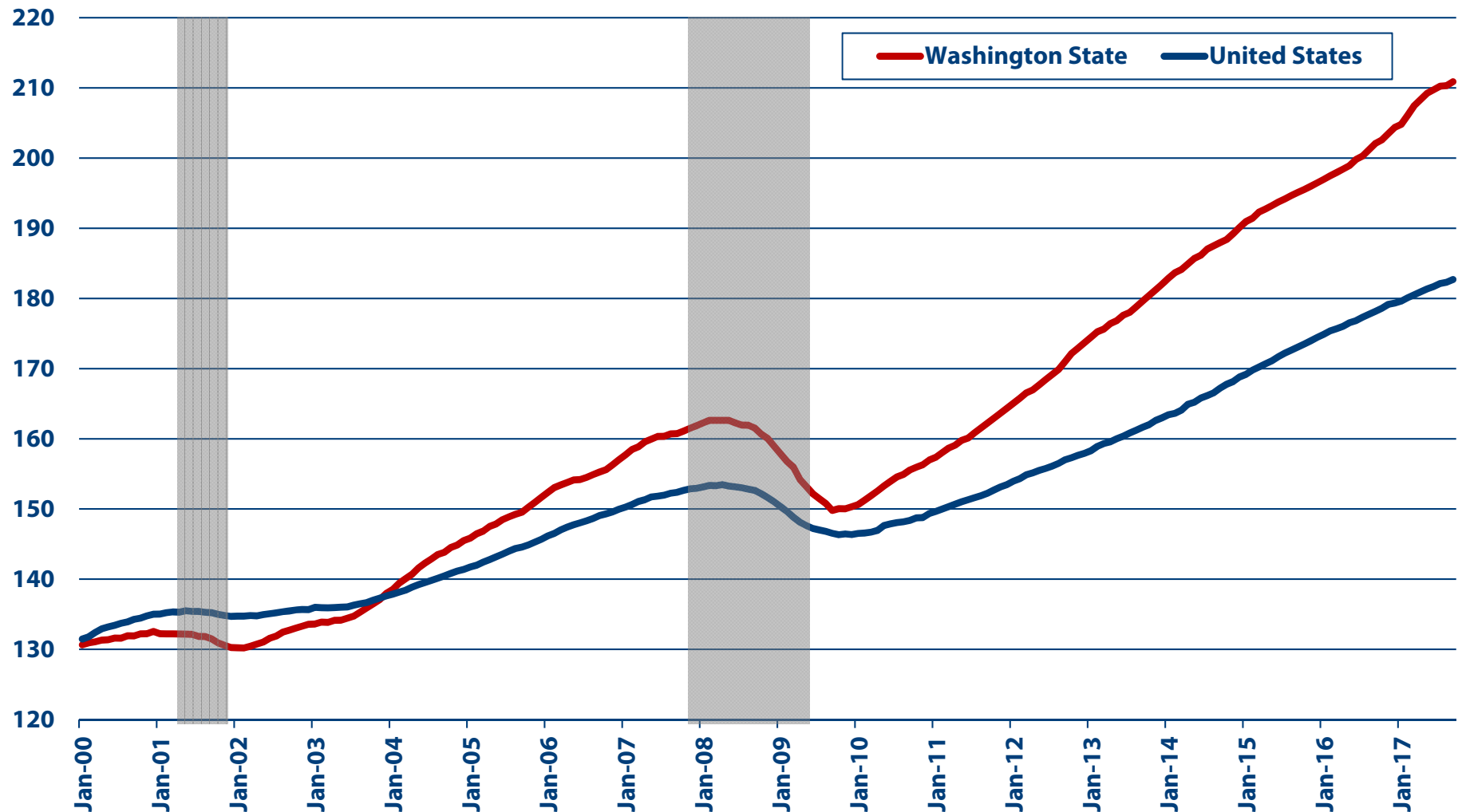


Leading Index for Washington State



Source: Philadelphia Federal Reserve

# WA Coincident Index



Source: Philadelphia Federal Reserve

# WA State Exports



Country	2014	2015	2016
China	\$20,693,342,014	\$19,485,051,492	\$16,129,777,780
Japan	\$7,366,063,810	\$6,000,562,814	\$7,134,355,046
Canada	\$9,297,591,731	\$8,018,142,826	\$7,035,406,237
United Arab Emirates	\$3,271,820,509	\$3,211,209,709	\$4,157,616,997
South Korea	\$2,752,331,638	\$4,287,441,696	\$4,155,006,603
United Kingdom	\$2,950,855,366	\$2,541,131,137	\$3,565,783,367
Taiwan	\$2,474,154,081	\$2,757,839,782	\$3,103,027,782
Saudi Arabia	\$811,310,989	\$1,875,633,137	\$2,665,578,679
Netherlands	\$889,550,582	\$1,679,037,364	\$2,172,591,796
Turkey	\$1,339,708,895	\$1,921,596,108	\$2,167,984,807
Mexico	\$2,735,147,332	\$1,872,932,403	\$1,973,117,280
Ireland	\$603,323,863	\$929,341,574	\$1,941,715,647

Significant Drops in Trade w/China & Canada BUT...

Substantial Growth in Trade with Saudi Arabia, Ireland, Switzerland & Rwanda \$164K to \$54M or +33,000%!!)

Source: Foreign Trade Division, U.S. Census Bureau

# Don't Underestimate the "Weed" Market!



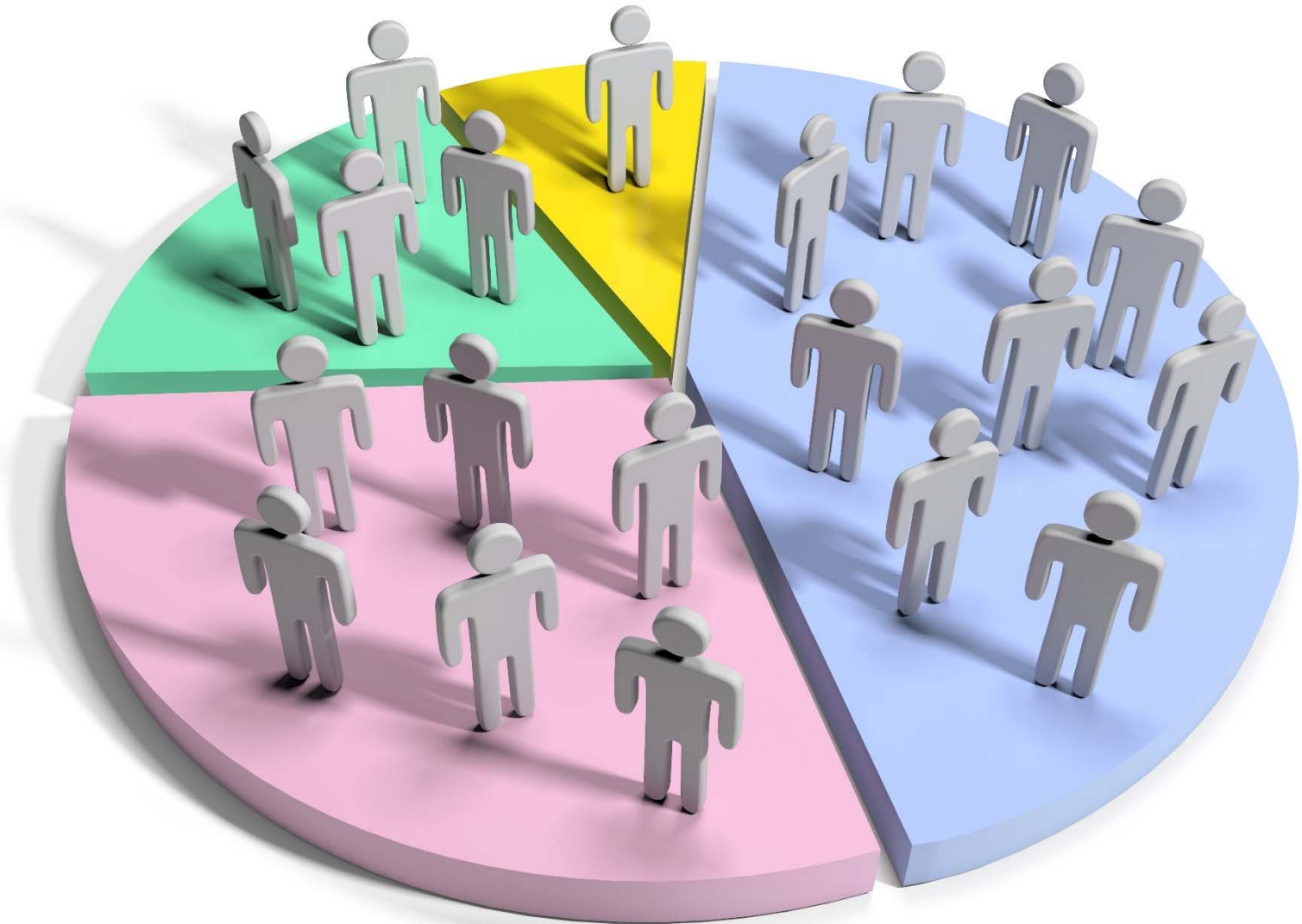
County	2016 Sales (\$)	2016 Excise
KING	\$191,485,197	\$56,009,446
SPOKANE	\$102,294,211	\$21,327,227
SNOHOMISH	\$82,463,815	\$18,436,266
PIERCE	\$59,490,375	\$18,217,965
THURSTON	\$53,168,039	\$7,172,508
CLARK	\$52,538,742	\$16,964,076
WHATCOM	\$30,679,557	\$6,410,361
KITSAP	\$19,624,233	\$6,539,792
COWLITZ	\$19,434,973	\$3,794,703
SKAGIT	\$16,114,304	\$4,040,898
CHELAN	\$15,622,307	\$1,776,153
MASON	\$15,449,541	\$1,420,506

Total Sales = \$786.4M

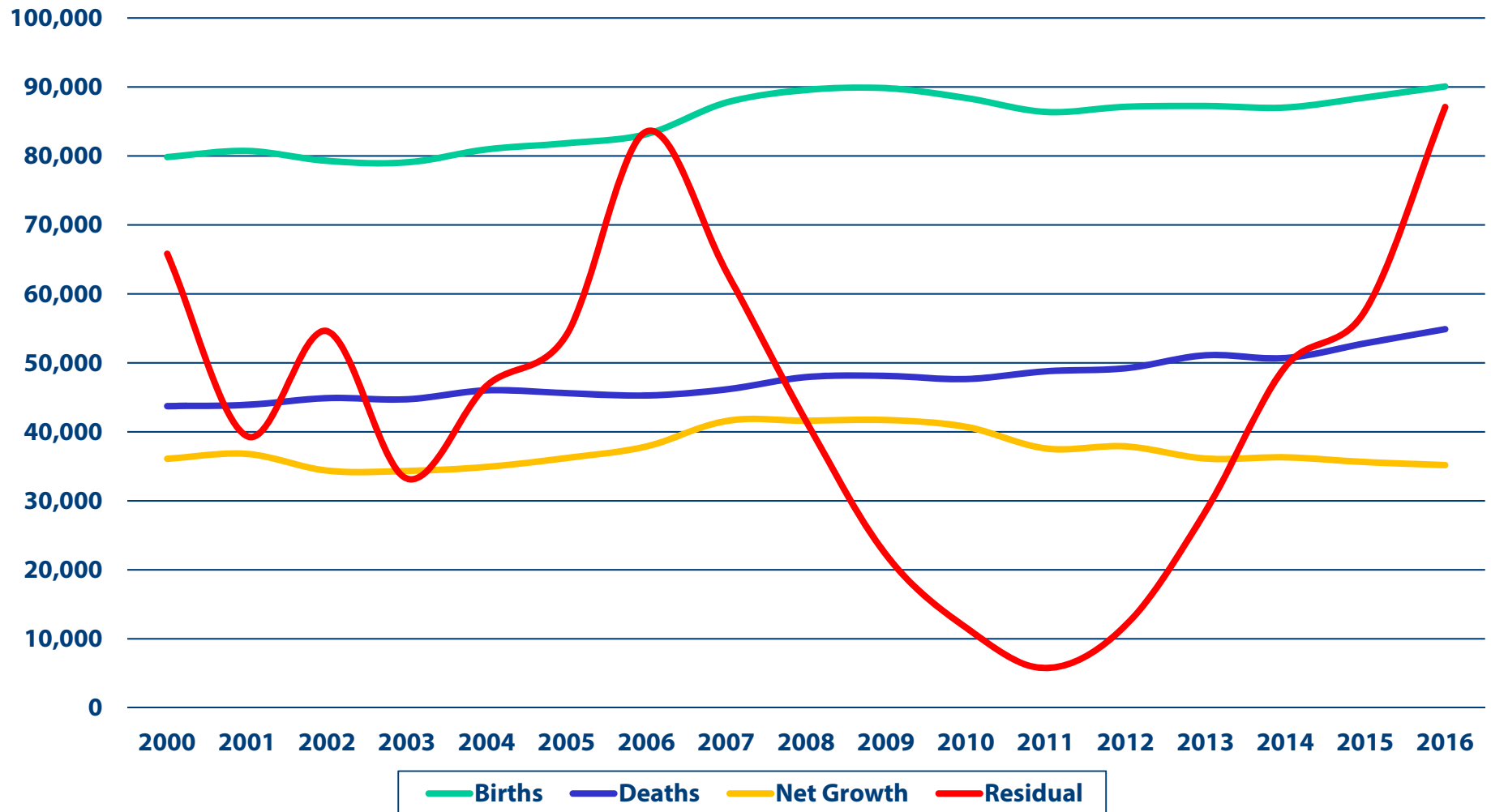
Total Excise Taxes Paid  
= \$185.7M

# Demographics

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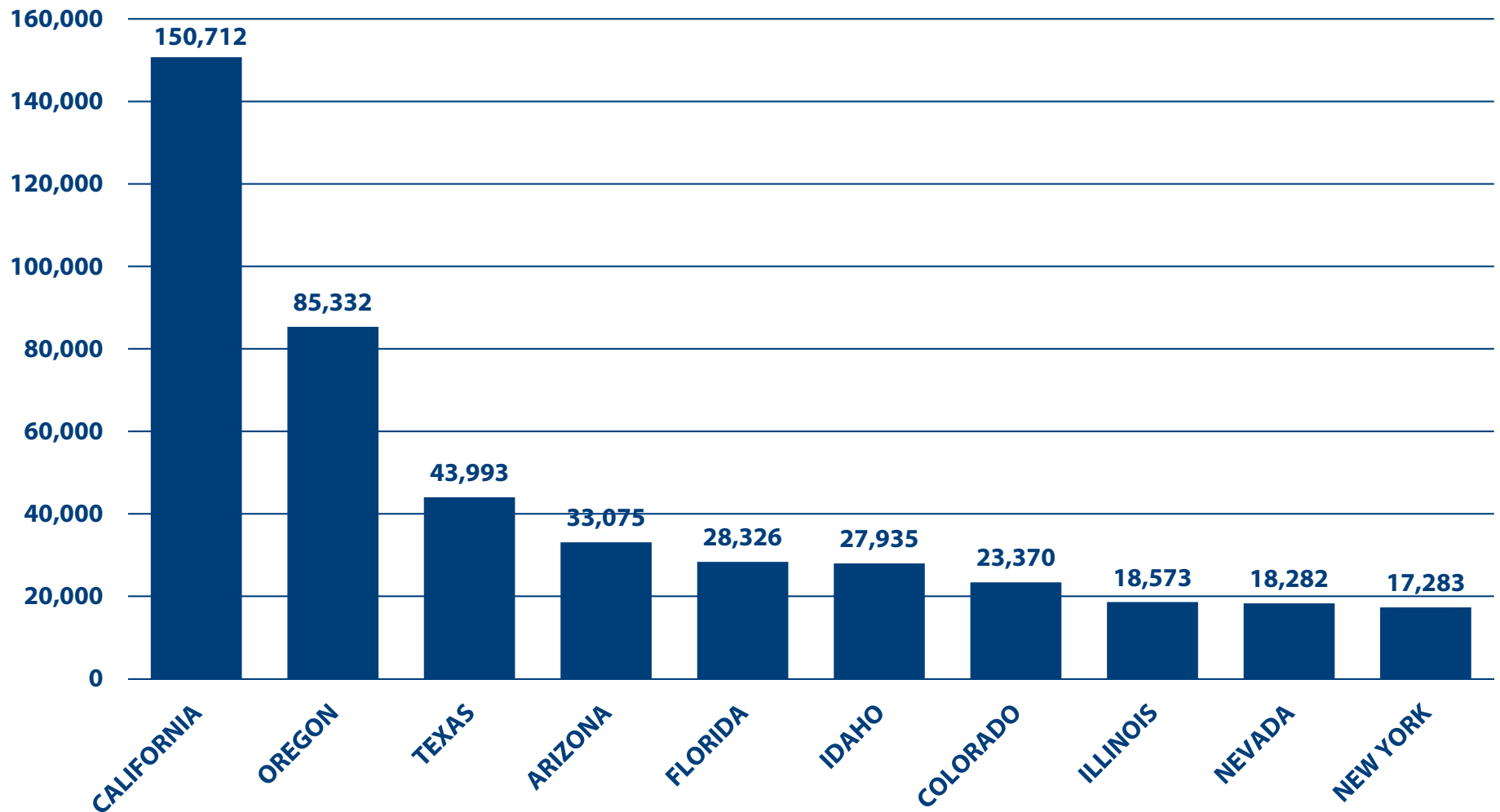
# Migration Patterns Washington State



Source: Windermere Economics, WA OFM & WA OFD

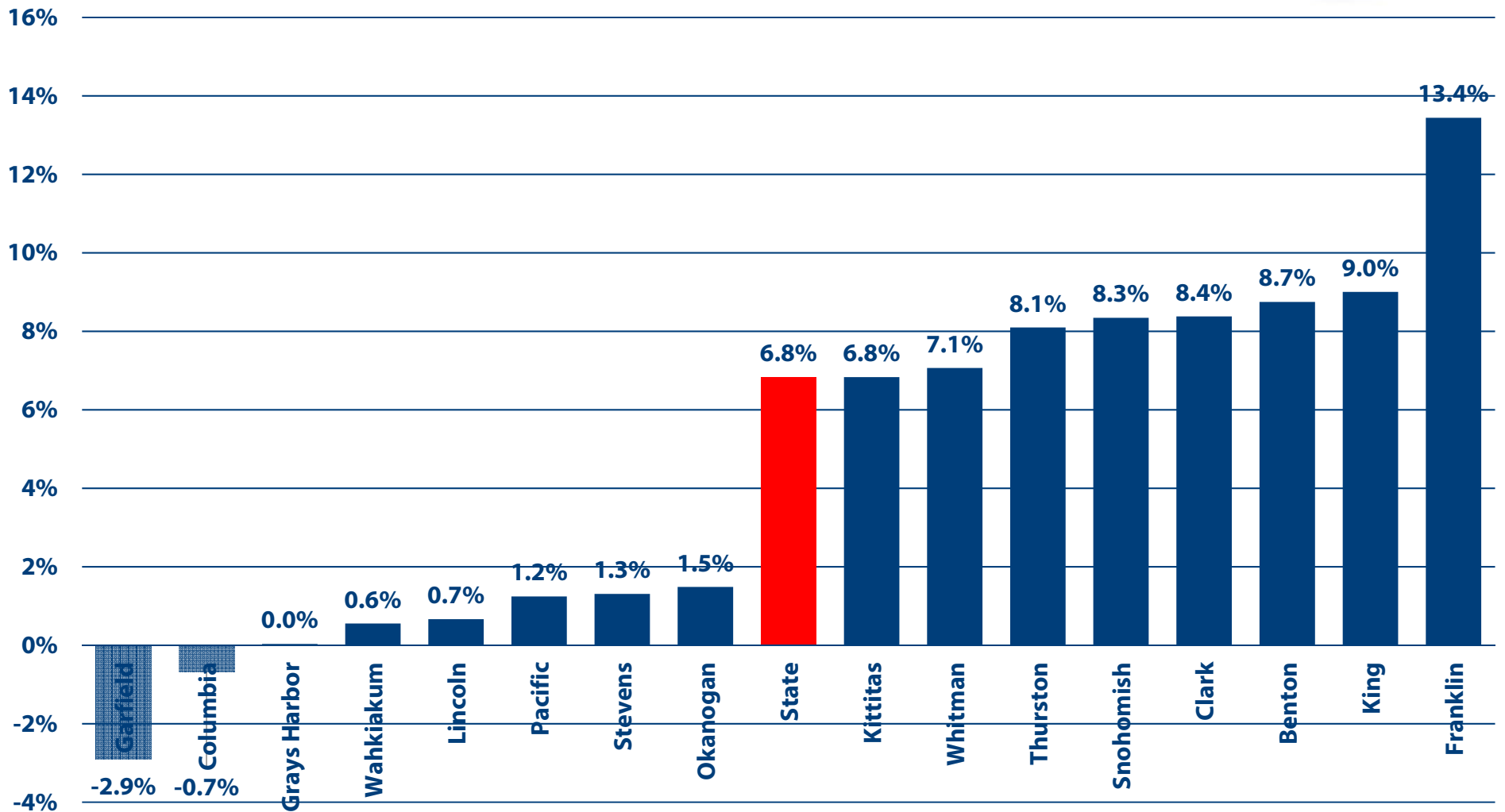


# Where are they Coming From? 5-Year Migration Patterns



Source: Windermere Economics, WA DoL

# WA Population Growth (Slowest & Fastest)



Source: Windermere Economics, WA OFM & WA OFD – 2010 - 2016

# Influence of Technology

  
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# Who Remembers This?

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# At Last! Diversity...



## TRANSPORTATION/LOGISTICS



## TECHNOLOGY



## RETAIL



## FINANCIAL



## LIFE SCIENCE



## OTHER



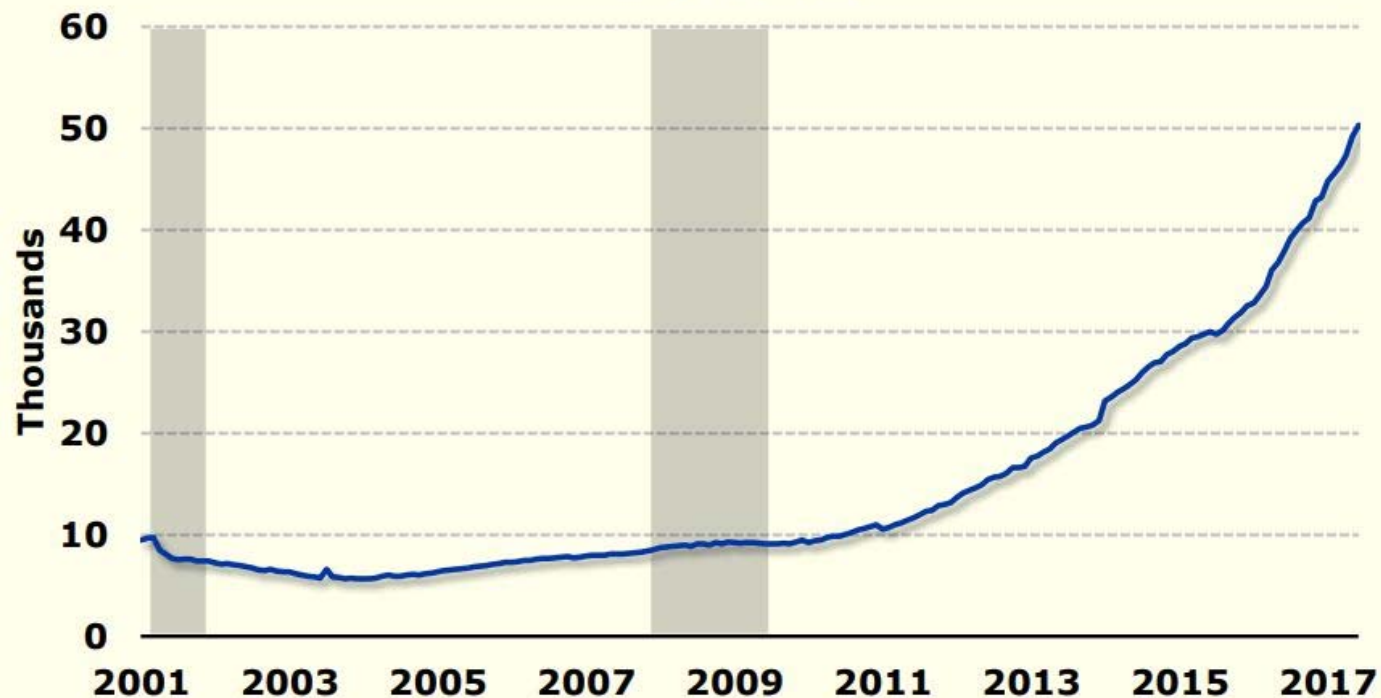
# How Important is Technology to Seattle?



# E-Shopping Employment



## Washington Electronic Shopping and Mail Order Employment



Source: Employment Security Department; Monthly data through August 2017

**WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL**

# Washington State Economic Forecast



- 2.9% Employment Growth in 2017 Dropping to 2.2% in 2018 ;
- Unemployment Drops to 4.4% in 2018 From 4.6% This Year;
- Threats to Further Expansion Come From Slower Productivity, Geopolitical Risks, & Concerns Over International Trade; but
- Incomes Will Trend Higher (At Last!)



# Washington State Economic Forecast Cont.



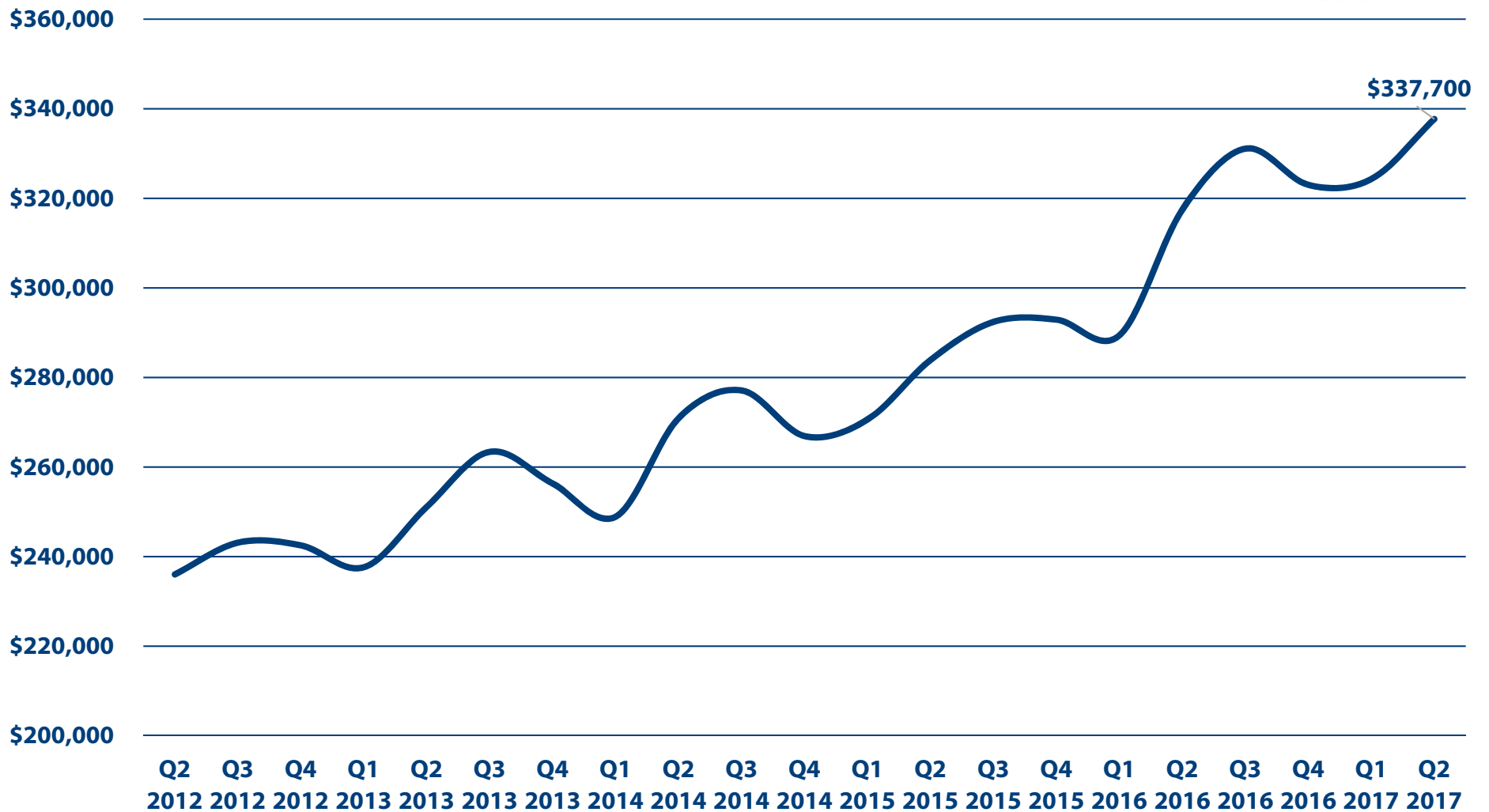
- Inflation Remains Well Above the U.S. Average as a Function of High Shelter Costs;
- Aerospace Unlikely to Be a Driver in 2018; but
- Overall Growth Will Continue at Rates That Are Expected at this Point in the Cycle.

# Housing

  
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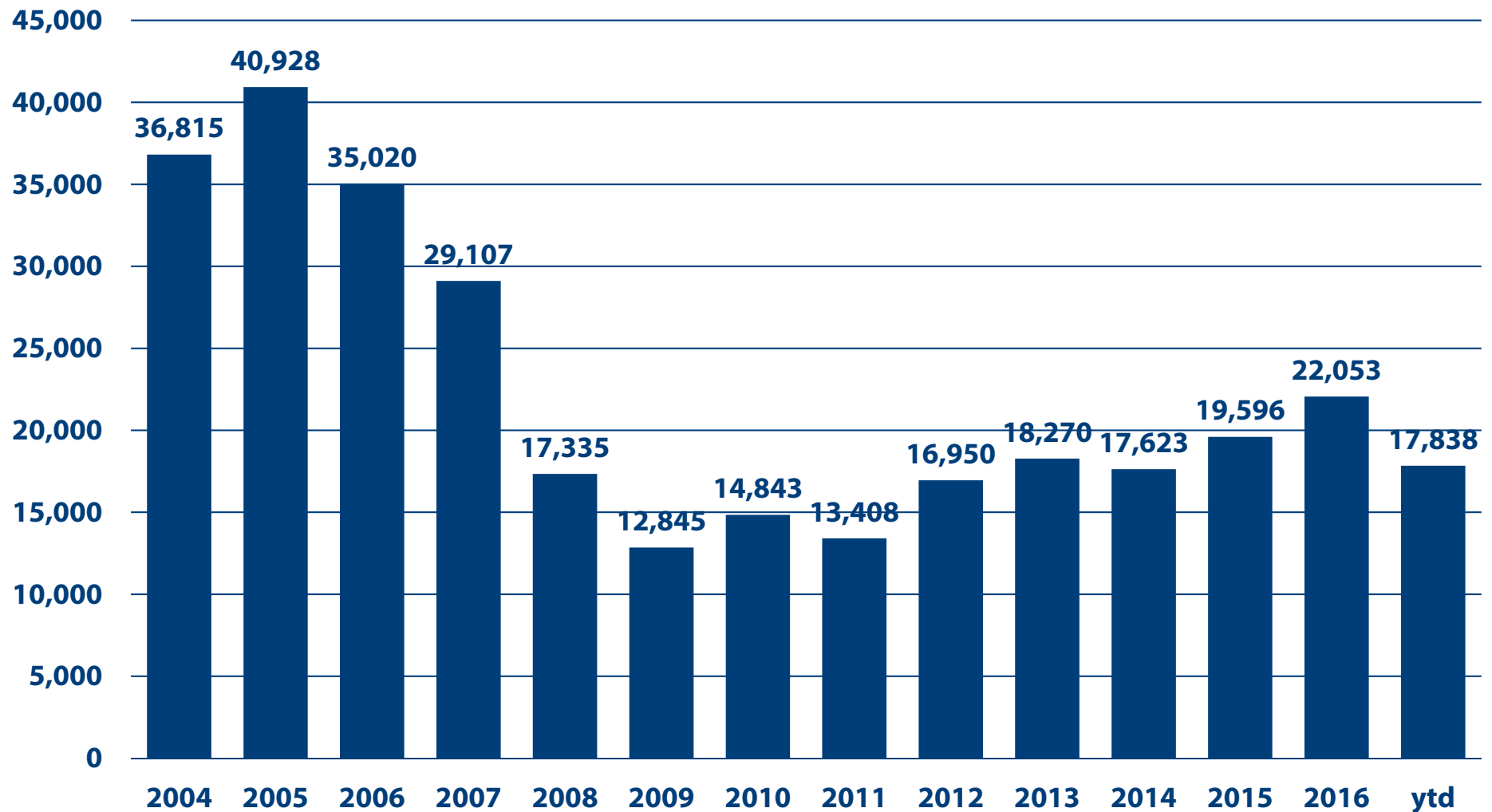


# WA Home Prices



Source: Runstad Center for Real Estate Research –University of Washington

# Single Family Permits WA State

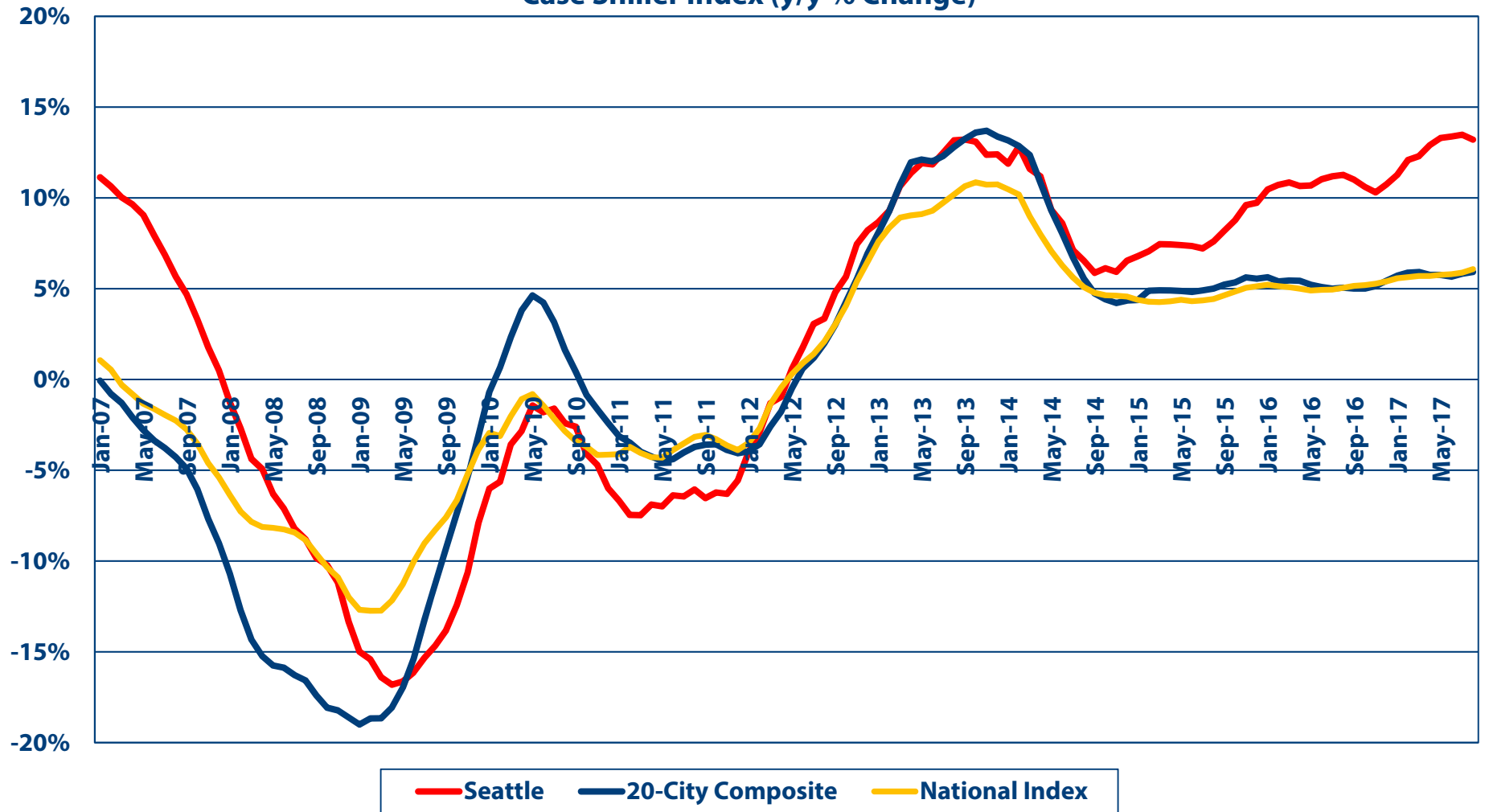


Source: Census Bureau – YTD Data thru' September

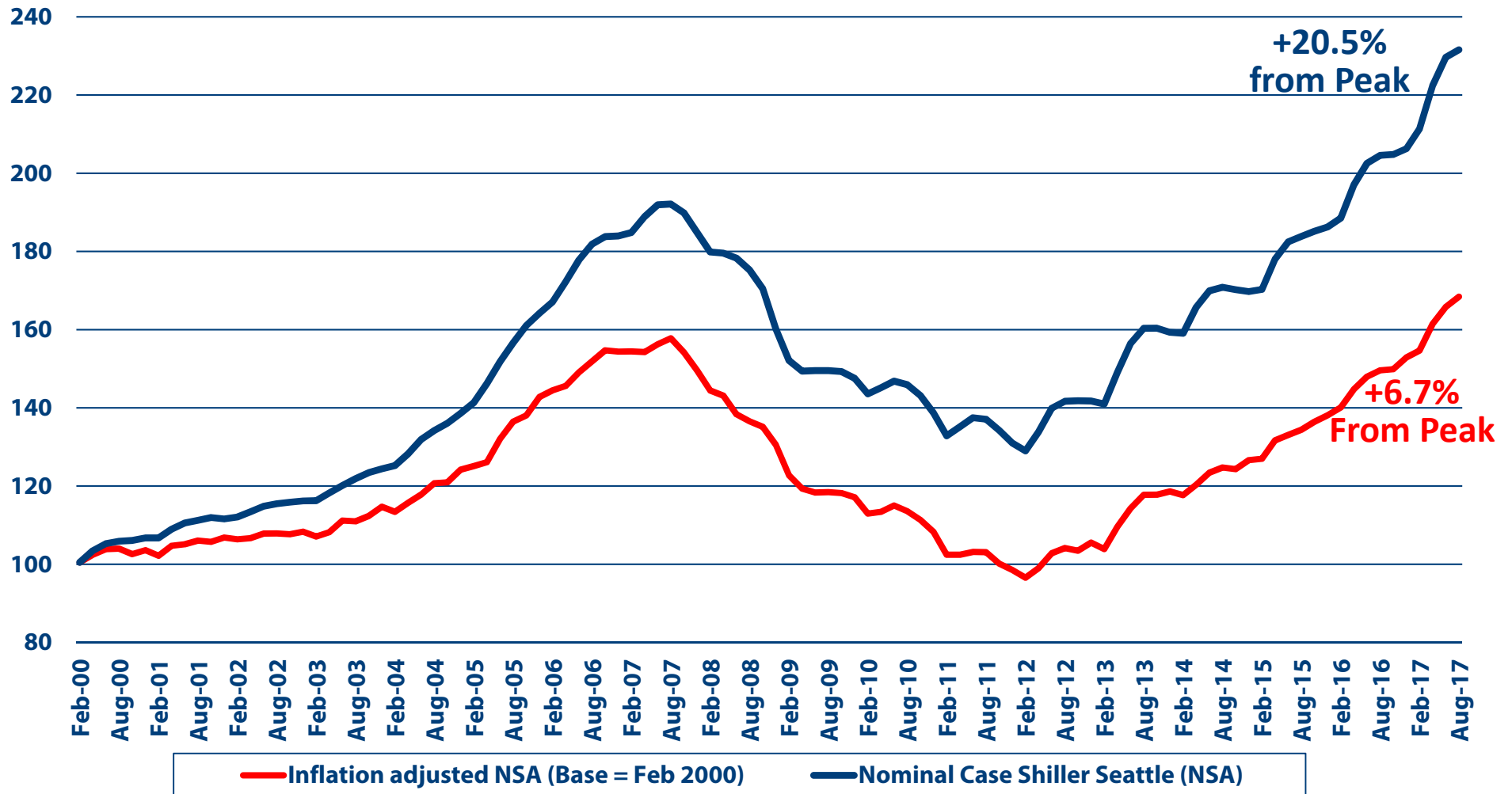
# Housing Case Shiller Index



Case Shiller Index (y/y % Change)



# All Is Not as it Seems!

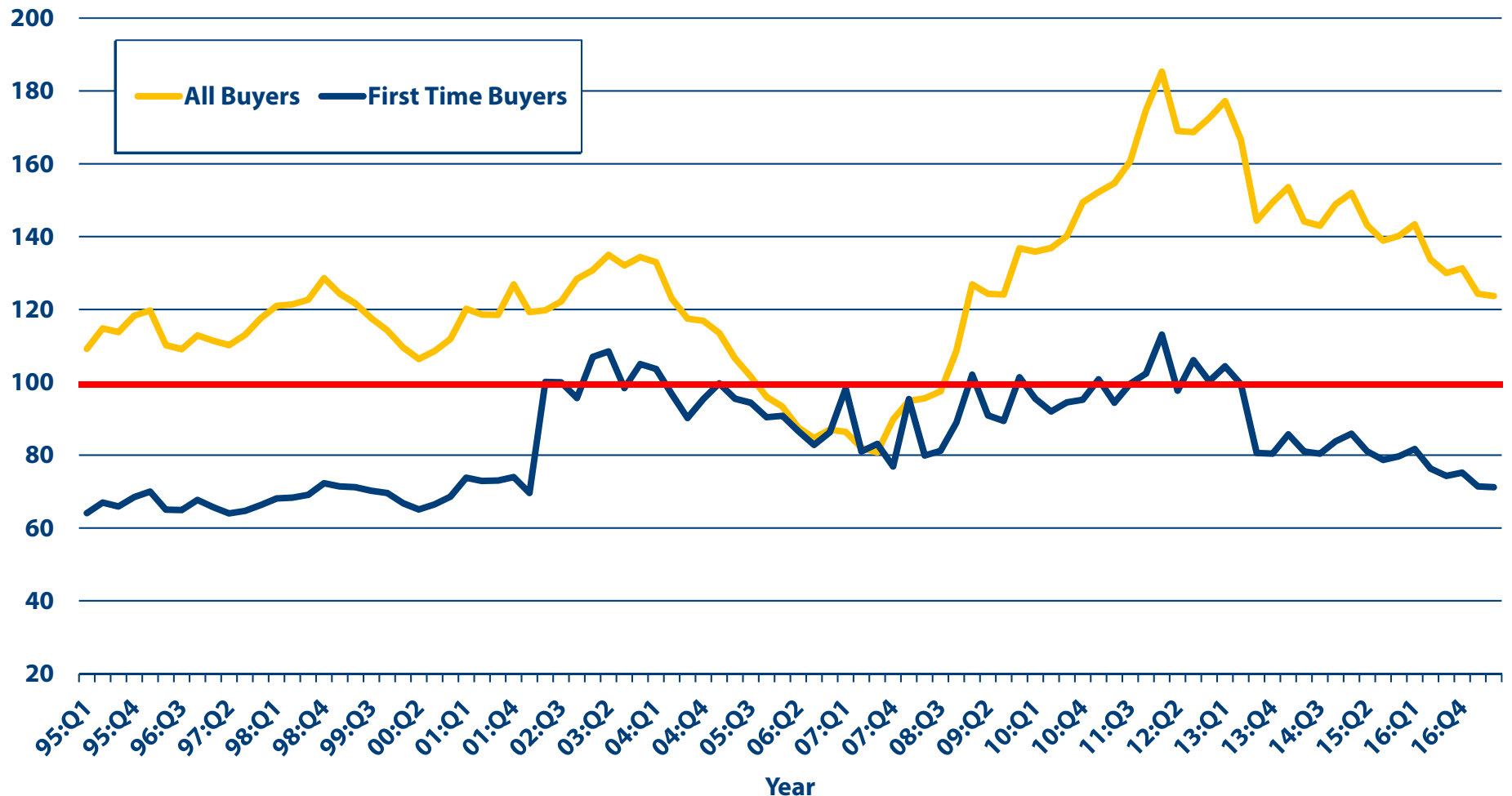


Source: BLS & Case Shiller - Data thru' August 2017

# Housing Affordability



### WA State Housing Affordability Index



Source: Runstad Center for Real Estate Research –University of Washington

# Where is Housing Currently Unaffordable?



All Buyers	
County	Affordability Index
King	79.4
San Juan	74.0

All Buyers – Marginal Affordability	
County	Affordability Index
Jefferson	107.0
Klickitat	113.4
Snohomish	108.9
Whatcom	113.6



# Where is Housing Unaffordable for First-Time Buyers?



County	Affordability Index	County	Affordability Index	County	Affordability Index
Asotin	91.1	King	46.5	Skamania	75.6
Chelan	75.9	Kitsap	97.1	Snohomish	59.8
Clark	73.2	Kittitas	59.2	Spokane	97.1
Cowlitz	94.7	Klickitat	68.1	Thurston	73.5
Douglas	72.9	Mason	54.6	Wahkiakum	43.6
Ferry	79.5	Pacific	89.1	Whatcom	65.0
Franklin	43.3	Pend Oreille	86.7	Whitman	88.3
Grant	90.8	Pierce	62.6	Yakima	81.8
Island	86.2	San Juan	34.4		
Jefferson	66.8	Skagit	46.4		

Source: Runstad Center for Real Estate Research –University of Washington

# Washington State Housing Forecast



- Housing Prices are Getting Troublesome (Think GMA, Hirst Decision, & Lets Not Forget the Mazama Pocket Gopher!);
- Housing Permits Will Rise, But Not Enough!;
- We Need to Consider if Prevailing Zoning is Appropriate; and
- Home Prices Will Rise in 2018 at Above Average Rates Given Ongoing Supply Limitations, Continued Economic Growth & Favorable Lending Rates

# Questions?



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**Facebook: MJDGardner &  
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