



Strong Economy Continues to Boost State Revenue Collections

Briefly

Reflecting better than anticipated economic performance ERFC increased the forecast by \$279 million in September and by \$304 million in November. It is likely that in February ERFC will again revise the forecast upward. As legislators prepare their supplemental budget they should not assume that this pattern of regular increases to the forecast will continue. History shows that forecasts eventually turn down and that downward revisions tend to be larger in magnitude than the upward revisions that preceded them.

The state Economic and Revenue Forecast Council (ERFC) released its monthly update on state revenue collections and the economy on Jan. 12. For the Dec. 11, 2017 to Jan. 10, 2018 period, revenue to the general fund–state account exceeded the amount that had been forecasted by \$87.8 million. The next collections update will be released on Feb. 12. ERFC will then release a revised official forecast on Feb. 15. Legislators will use this forecast when crafting the supplemental budget.

The first forecast of the GFS revenue for the 2017–19 biennium (issued in Feb. 2014) was \$38,710 million. The current (Nov. 2017) forecast is 12.5 percent higher, \$43,566 million. Of the difference, about half is ascribed to “non-economic” factors such as changes to the state tax code and budget-driven revenue and about half is due to changes in the forecast of the economy.

Every collections update since the Legislature passed the 2017–19 budget last June has shown revenues greater than forecasted. Reflecting the better-than-anticipated economic performance, ERFC increased the forecast by \$279 million in September and by \$304 million in November. The September revision to the forecast also recognized \$2,079 million

in legislated changes, the largest of which was the increase in the state property tax to fund the state’s McCleary obligation (WRC 2017).

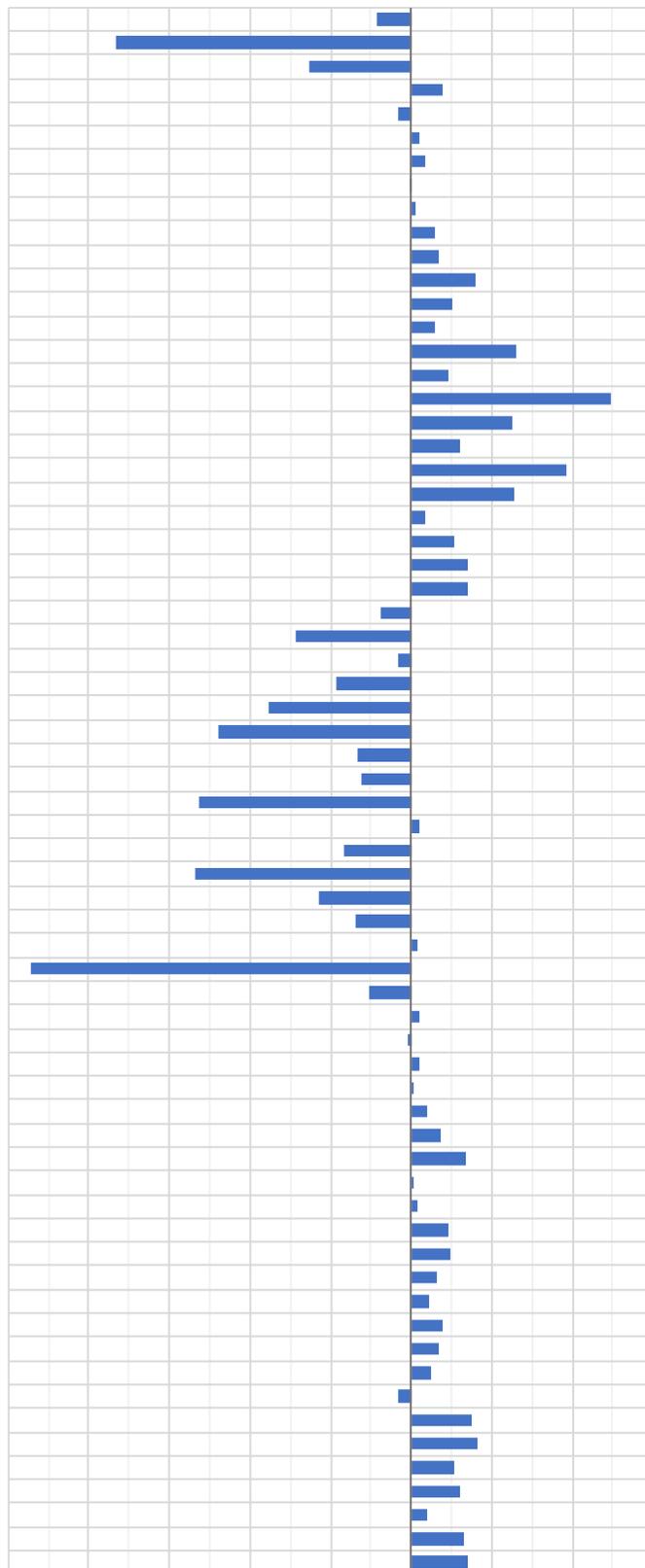
This is the second monthly collections report since the November forecast. For these two reports combined, revenues were \$121.4 million greater than had been forecasted, a 3.4 percent difference. It is likely that in February ERFC will again revise the forecast upward. As legislators prepare their supplemental budget, however, they should not assume that this pattern of regular increases to the forecast will continue indefinitely. History shows that forecasts eventually turn down and that downward revisions tend to be larger in magnitude than the upward revisions that preceded them.

Revisions to the forecast

The ERFC revises the revenue forecast four times each year. In odd-numbered years, when the Legislature’s regular session runs 105 days, the first revision is issued in March; in even-numbered years, when the regular session runs 60 days, the first revision is released in February. In all years, the second, third and fourth revisions occur in June, September and November respectively.

Economic Revisions to the Forecast of General Fund–State Revenues

-5% -4% -3% -2% -1% 0% 1% 2% 3%



Sept. '01
Nov. '01
Feb. '02
June '02
Sept. '02
Nov. '02
March '03
June '03
Sept. '03
Nov. '03
Feb. '04
June '04
Sept. '04
Nov. '04
March '05
June '05
Sept. '05
Nov. '05
Feb. '06
June '06
Sept. '06
Nov. '06
March '07
June '07
Sept. '07
Nov. '07
Feb. '08
June '08
Sept. '08
Nov. '08
March '09
June '09
Sept. '09
Nov. '09
Feb. '10
June '10
Sept. '10
Nov. '10
March '11
June '11
Sept. '11
Nov. '11
Feb. '12
June '12
Sept. '12
Nov. '12
March '13
June '13
Sept. '13
Nov. '13
Feb. '14
June '14
Sept. '14
Nov. '14
Feb. '15
June '15
Sept. '15
Nov. '15
Feb. '16
June '16
Sept. '16
Nov. '16
March '17
June '17
Sept. '17
Nov. '17

The chart to the left shows the percentage changes in the forecast of revenues for the contemporaneous biennium due to economic factors for every forecast since the 2001–03 biennium. All together there were 66 forecast revisions over the period. The largest increase, in Sept. 2005, was 2.48 percent. The largest decrease, in Sept. 2011, was -4.71 percent.

In 44 of the cases (two-thirds of the total) the forecast was increased, while in 22 of the cases (one-third of the total) the forecast was decreased. Increases were thus twice as frequent as decreases. The average gain across the 44 cases where the forecast increased was +0.52 percent. The average loss across the 22 cases where the forecast decreased was -1.24 percent. The average decrease was more than twice the size of the average increase. Across all 66 cases, the average change was -0.07 percent.

The changes follow a cyclical pattern. Upward revisions tend to follow upward revisions, and downward revisions tend to follow downward revisions. In 14 of the 22 cases where the forecast decreased (0.636 percent), the next revision was also a decrease. In 36 of the 43 cases where the forecast increased (0.837 percent), the next revision was also an increase. (We do not yet know whether the Nov. 17 increase will be followed by an increase or a decrease.)

References

Economic and Revenue Forecast Council (ERFC). 2018. [Economic and Revenue Update](#). Jan. 11.

———. Various Dates. [Washington State Economic and Revenue Forecast](#).

Washington Research Council (WRC). 2017. [Legislature Passes 2017–19 Operating Budget that Increases Spending by \\$5.3 Billion](#). PB17-12. July 18.