



PB 96:2

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## February Economic Forecast Released

On February 20, the state Economic and Revenue Forecast Council reduced its forecast of state revenues for the 1995-1997 biennium by \$109.3 million.

On February 20, the Forecast Council adopted the General Fund-State revenue forecast shown in the table below. In November the Forecast Council had forecast that "cash basis" General Fund-State revenues would equal \$17,668.5 million for the 1995-1997 biennium. Between November 11 and February 10 revenue fell \$45.3 million short of expectations. The Forecast Council has reduced its expectations for the remainder of the biennium by \$64 million. In addition, the cuts in the B&O tax rates on services, which the Legislature enacted in January over Governor Lowry's veto, are expected to reduce biennial revenue by \$132.4 million. Together the forecast and legislative changes have reduced expected biennial revenue to \$17,426.8 million.

### February Cash Forecast General Fund-State (millions of dollars)

Beginning Balance 7/1/95	661.4
November Forecast Biennial Revenues	17,668.5
Collection Shortfall 11/11/95-2/10/96	(45.3)
Change in Forecast 2/11/96-6/30/97	(64.0)
B&O Tax Cut	(132.4)
February Forecast Biennial Revenues	<u>17,426.8</u>
<b>Total Resources</b>	<b>18,088.2</b>
1995 Appropriations	17,598.8
<b>Total Expenditures</b>	<b>17,598.8</b>
Estimated Ending Balance 6/30/97	489.4

Source: Office of the Forecast Council, Legislative Fiscal Committees

The state began the biennium with a cash balance of \$661.4 million. Were expenditures for the biennium to equal the amount appropriated during the 1995 session, the estimated ending balance would be \$489.4 million, 2.8 percent of appropriations.

The revenue forecast is based upon a state economic forecast prepared by the Office of the Forecast Council. The state economic forecast is in turn based upon a national forecast prepared by DRI/McGraw-Hill, an economic consulting firm. While the overall Gross Domestic Product (GDP) forecast for the biennium changes little between November and February, the pattern of growth was somewhat different. The new national forecast shows

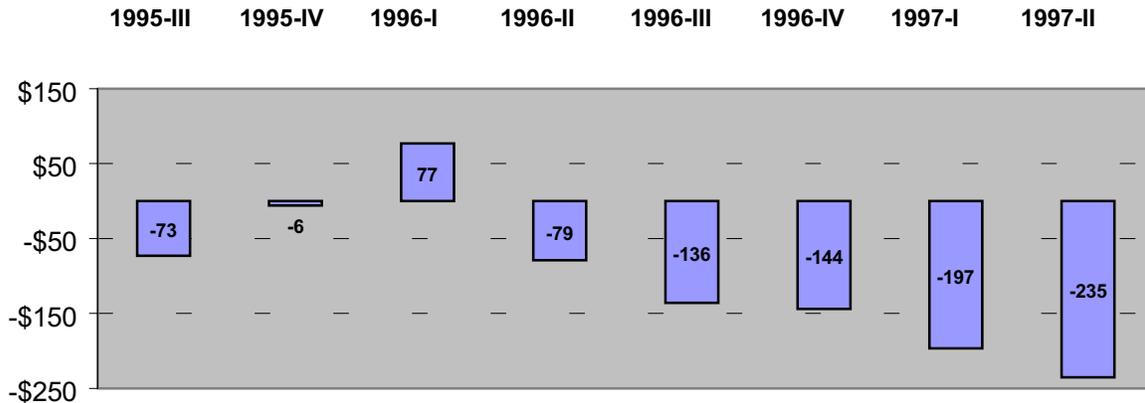
significantly slower growth in the last quarter of 1995 and the first two quarters of 1996.

The U.S. Commerce Department released its preliminary estimate of fourth quarter GDP on February 23, a month later than normal as a result of the federal shutdowns. This report seems to show that the economy was even weaker in the fourth quarter than the Forecast Council had assumed. (Although the switch-over by the Commerce Department to a new system of calculating GDP makes this comparison dicey.) News reports now mention that recession is possible.

In November, the Forecast Council had estimated that state personal income would grow at a 5.6 percent annual rate over the biennium. The February forecast reduced that annual growth rate to 5.1 percent. The first chart on page 2 shows the amount by which the quarterly forecasts of Washington state Personal Income changed between November, and overall income for the biennium, \$268.9 billion, is 0.3 percent less under the new forecast than the old. This lower personal income explains much of the decrease in the revenue forecast, especially in the final sixteen months of the biennium.

The major economic event within the state in the last quarter of 1995 was, of course, the strike at The Boeing Company. Christmas sales were weak, and the Boeing strike had much to do with this. However, the strike was anticipated in the November forecast. Although the strike extended longer than anticipated, the settlement was more generous. On balance, less personal income was lost to the strike than had been expected in the November forecast.

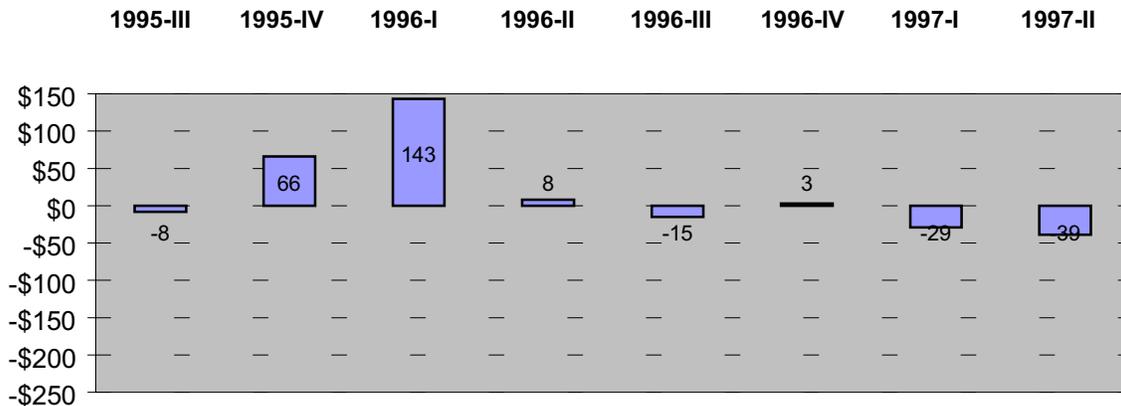
## For Seven of Eight Quarters, the February Forecast of Personal Income Was Less Than the November Forecast



**Change in Personal Income, Forecast by Quarter (millions of current dollars)**

Source: Office of the Forecast Council. November 1995, February 1996 Forecasts.

## Removing the Effects of Inflation Significantly Changes the Comparison



**Change in Personal Income, Forecast by Quarter (millions of current dollars)**

Source: Office of the Forecast Council. November 1995, February 1996 Forecasts

Looking forward, the February forecast is more bullish on Boeing employment than had been the case in November. It now seems certain that Boeing will add employees this year. The state forecast assumes that Boeing will add 2,000 employees in the second half of this year and 3,000 employees in 1997. The company may well announce its employment plans before this Policy Brief is distributed. This is an area where a pleasant surprise is conceivable.

The second chart shows the changes quarterly personal income measured in constant 1995 dollars between the two forecasts. Significantly, removing the effects of inflation makes the differences between the November and the February forecasts much less dramatic. In fact, real income over the biennium is .05 percent *greater* under the February forecast than it had been in November.

*The decrease in state personal income that is observed in the February forecast relative to the November forecast reflects lower inflation, not lower purchasing power for Washingtonians.* The better part of the revenue loss in the February forecast compared to November was therefore an illusion. The Legislature does have less money in hand to appropriate through a supplemental budget. But that is because inflation has not eroded the value of the 1995 appropriations by as much as had been anticipated.

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