

Washington Governor's Council of Economic Advisors Meeting
February 1, 2008

1. The meeting was called to order at 10:00 am in the governor's conference room. The governor was late because she was renting snowplows from Canada to help open Snoqualmie Pass.
2. The state economist presented the economic forecast for Washington, which will be the basis for the state revenue forecast. The outlook is prepared quarterly by his staff of economists using an econometric model.

The state economy will slow down in 2008, but it will still outperform the national economy. There is no recession in the forecast, but the odds of a local downturn have risen recently.

The major concern is the turmoil in the housing and financial markets. Further deterioration could cause a national recession. If the recession were severe enough, it could sink the state economy.

Even if Washington escapes a recession, the slump in the local housing market will have an adverse effect on state tax revenues. The sales tax on new construction and the real estate transactions excise tax are significant sources of state revenue.

3. Members of the Council of Economic Advisors commented on the forecast.

There were no major objections to the state forecast for 2008 and the first half of 2009, which cover the rest of the biennial budget period.

One member thought that the forecast for the following biennium, which begins July 1, 2009, was optimistic.

Everyone agreed that the housing and financial markets were significant problems. If consumers cut back on spending in response to a decline in home prices and a loss of home equity, the national economy would almost certainly fall into recession.

There was wide agreement that it was difficult, if not impossible, to predict when order would be restored in the financial markets following the collapse of the subprime mortgage market. This meant that there was a high degree of uncertainty about the national and state outlooks.

4. The council members discussed whether or not state government had the means to rebuff an economic downturn.

Using public construction projects to counteract economic cycles was considered infeasible because of the long lead-times involved in getting them started.

The state's newly created Rainy Day Fund could be used in a timely manner, but it was not large enough to forestall anything but a mild downturn.

5. The governor adjourned the meeting early at 11:45 am to check on the snowplows.