STATE OF WASHINGTON
ECONOMIC AND REVENUE FORECAST COUNCIL
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April 10, 2008

TO: Representative Jim McIntire, Chair
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Senator Craig Pridemore
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FROM: Steve Lerch, Interim Director

SUBJECT: April 10, 2008 REVENUE COLLECTION REPORT

General Fund-State (GFS) tax payments totaled $930.8 million in the March 11, 2008 - April 10, 2008 collection period. Receipts for the month were $50.2 million (5.7 percent) higher than expected, increasing the cumulative variance since the February forecast to $60.6 million (3.5 percent). The majority of the this month's positive variance was due to a large and unexpected transfer of unclaimed property money ($40.7 million) to the General Fund and is unrelated to current economic activity. Aside from the unclaimed property windfall, most major revenue sources were close to the forecast for the month. Revenue Act receipts (sales, B&O, use and public utility tax payments) and property tax payments were a little higher than expected while real estate excise tax receipts were a little weaker than expected. **Excluding special factors, collections were $9.5 million (1.1 percent) above the forecast for the month and are $19.9 million (1.1) higher than expected since the February 2008 forecast.**

Revenue Act Collections

- Revenue growth was again weak this month, although not quite as weak as expected. Revenue Act receipts this period (primarily February 2008 business activity) increased 3.5 percent from a year-ago, the same as last month. The forecast assumed a year-over-year increase of 2.3 percent for the month.
- After growing 8.9 percent in the first half of calendar 2008, spending (as measured by Revenue Act tax payments) slowed to 5.9 in the second half of the year. Growth has averaged only 3.5 percent in the last three months.
- Preliminary industry detail of tax payments for the March 11-April 10 period from electronic filers again shows weakness in many sectors but improvement from last month.
  - Tax payments by firms in the retail trade sector were 0.1 percent above the year-ago level. Tax payments from the retail trade sector declined the previous two months (-3.4 percent last month and 0.7 percent two months ago.)
  - Four of the twelve 3-digit NAICS sectors reported declines this month including: motor vehicle dealers (-4.8 percent), electronic and appliance stores (-4.9 percent), building materials/garden supply retailers (-6.3 percent) and furniture stores (-4.5 percent). In addition, general merchandise retailers reported an increase of only 1.5 percent
  - Retailing sectors with solid gains included drug and health stores (+10.7 percent), non-store retailers (+12.4 percent) and gas stations & convenience stores (+10.7 percent).
  - Non-retailing sectors reported a 7.7 percent overall increase in tax payments. Last month the increase was only 0.8 percent. Several non-retail trade sectors reported strong gains. Payments from the manufacturing sector increased 13.8 percent, similar to last month's 14.3 percent

gain. The construction sector reported a 7.0 percent increase, professional services reported a 12.7 percent increase and the information sector reported a 10.0 percent increase.

Other Collections

- Non Revenue Act tax payments were $40.9 million above the estimate for the month. The unexpectedly large unclaimed property transfer (+$40.7million) accounts for virtually the entire variance. Property tax (+$4.3 million), cigarette tax (+$275,000), and liquor taxes (+$796,000) were also higher than expected. Real estate excise tax payments (-$4.9 million) were less than expected for the month.
- There is no improvement in real estate sales. March 2008 taxable real estate activity was 37.7 percent below the year-ago level. This is the largest year-over-year decline since 1991. Last month activity declined 25.1 percent and two months ago it was down 35.6 percent. Real estate activity has declined on a year-over-year basis, fifteen of the last seventeen months.
- The weakness in activity continues to be primarily due to a decline in transactions. A breakdown of the number of transactions and value per transaction is not available for March but for the month of February the number of transactions were 18.0 percent below the year-ago level while the average value per transaction declined 8.8 percent. Transactions have declined on a year-over-year basis twenty-six of the past twenty-seven months. The value per transaction has declined on a year-over-year basis for five of the last six months.
- Department of Licensing GFS collections, which primarily reflect payment of various licenses and fees, were $140,000 higher than expected this month. DOL collections are $9,000 below the forecast cumulatively since the February forecast.

The attached Table 1 compares collections with the March 2008 forecast for the March 11-April 10, 2008 collection period and cumulatively since the February 2008 forecast. Table 2 compares revised collection figures with the preliminary numbers reported in last month's collection report.

Economic News

- The outlook for the U.S. economy remains weak. Real Gross Domestic Product (GDP) increased only 0.6 percent in the fourth quarter of 2007, after increasing 4.9 percent in the third quarter. Residential investment declined at an annual rate of 25.2 percent. This was the eighth consecutive quarter that residential investment has fallen and the drop of 25.2 percent is the largest decline since 1981.
- U.S. economy lost 80,000 payroll jobs in March 2008. Employment has now declined for three consecutive months. In addition, downward revisions to the January and February numbers confirm a weakening labor market. The U.S. unemployment rose from 4.8 percent in February 2008 to 5.1 percent in March. The March unemployment rate is the highest since 2005.
- Consumer's confidence in the economy continues to deteriorate. The Conference Board reported that its' Index of Consumer Confidence fell again in March. The index has declined three consecutive months and is at its lowest level since March 2003.
- The Conference Board also reported that its' Index of Leading Indicators fell for the fifth consecutive month in February 2008. The index has declined in six of the last seven months and is 1.5 percent below its February 2007 level.
- Conditions appear to be a little better in Washington. The Washington economy added 3,500 jobs in February 2008 and has 50,700 more wage and salary jobs than a year-ago. The state's seasonally adjusted unemployment rate in February 2008 remained unchanged from January 2008 at 4.5 percent.

Table 1
Revenue Collection Report
April 10, 2008 Collections Compared to the February 2008 Forecast
Thousands of Dollars

Period/Source	Estimate*	Actual	Difference Amount	Difference Percent
March 11 - April 10, 2008				
Department of Revenue-Total	$880,105	$930,211	$50,107	5.7%
Revenue Act** (1)	810,346	819,602	9,256	1.1%
Non-Revenue Act(2)	69,759	110,610	40,851	58.6%
Liquor Sales/Liter	10,813	11,609	796	7.4%
Cigarette	3,757	4,032	275	7.3%
Property (State School Levy)	3,224	7,504	4,279	132.7%
Estate	203	400	197	97.4%
Real Estate Excise	50,193	45,293	(4,900)	-9.8%
Timber (state share)	0	0	0	NA
Other	1,569	41,773	40,204	2561.8%
Department of Licensing (2)	504	608	103	20.5%
Lottery (5)	0	0	0	NA
Total General Fund-State***	$880,609	$930,819	$50,210	5.7%
Cumulative Variance Since the February Forecast (Feb. 11, 2008 - April 10, 2008)				
Department of Revenue-Total	$1,737,542	1,798,216	60,674	3.5%
Revenue Act** (3)	1,616,148	1,637,916	21,768	1.3%
Non-Revenue Act(4)	121,394	160,299	38,906	32.0%
Liquor Sales/Liter	21,934	22,134	200	0.9%
Cigarette	7,737	7,873	136	1.8%
Property (State School Levy)	(14,793)	(12,501)	2,292	-15.5%
Estate	405	441	36	8.9%
Real Estate Excise	86,515	81,590	(4,925)	-5.7%
Timber (state share)	1,569	1,563	(6.0)	-0.4%
Other	18,026	59,199	41,173	228.4%
Department of Licensing (4)	763	711	(53)	-6.9%
Lottery (5)	0	0	0	NA
Total General Fund-State***	$1,738,305	$1,798,926	$60,621	3.5%

1 Collections March 11 - April 10, 2008. Collections primarily reflect February 2008 activity of monthly taxpayers.
2 March 2008 collections.
3 Cumulative collections, estimates and variance since the February 2008 forecast; (Feb. 11 - April 10, 2007) and revisions to history.
4 Cumulative collections, estimates and variance since the February forecast; (January & February 2008) and revisions to history.
5 Lottery transfers to the General Fund

* Based on the February 2008 economic and revenue forecast.
**The Revenue Act consists of the retail sales, B&O, use, public utility, tobacco products taxes, and penalty and interest.
*** Detail may not add due to rounding. The General Fund-State total in this report includes only collections from larger state agencies: the Department of Revenue and the Department of Licensing.

TABLE 2
March 10, 2008 Collection Report - Revised Data
Thousands of Dollars

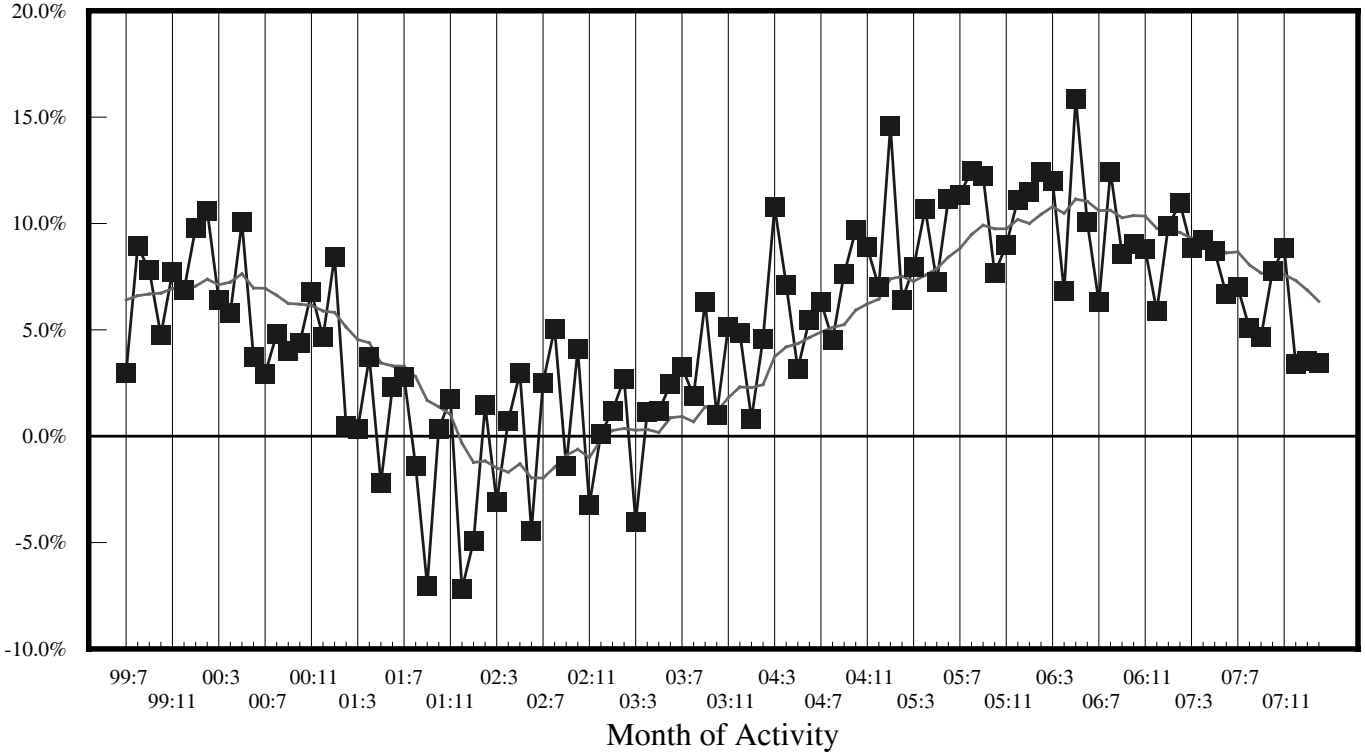
Period/Source	Collections Preliminary	Revised	Difference Amount	Difference Percent
February 11 - March 10, 2008				
Department of Revenue-Total	$868,004	$868,004	$0	0.0%
Revenue Act (1)	818,315	818,315	(0)	-0.0%
Non-Revenue Act(2)	49,690	49,690	(0)	-0.0%
Liquor Sales/Liter	11,237	11,237	0	0.0%
Cigarette	3,787	3,787	0	0.0%
Property (State School Levy)-net	(20,005)	(20,005)	0	-0.0%
Estate	41	41	0	0.4%
Real Estate Excise	36,361	36,361	0	0.0%
Timber (state share)	1,563	1,563	0	NA
Other	16,704	16,704	0	0.0%
Department of Licensing (2)	399	252	(147)	-36.9%
Lottery (2)	0	0	0	NA
Total General Fund-State***	868,403	868,256	($147)	-0.0%
Cumulative Receipts: Feb. 11 - March 10, 2008 & Revisions to History				
Department of Revenue-Total	$868,004	$868,004	$0	0.0%
Revenue Act (3)	818,315	818,315	(0)	-0.0%
Non-Revenue Act(4)	49,690	49,690	(0)	-0.0%
Liquor Sales/Liter	10,526	10,526	(0)	-0.0%
Cigarette	3,841	3,841	0	0.0%
Property (State School Levy)-net after transf	(20,005)	(20,005)	0	-0.0%
Estate	41	41	0	0.8%
Real Estate Excise	36,297	36,297	0	0.0%
Timber (state share)	1,563	1,563	0	NA
Other	17,426	17,426	(0)	-0.0%
Department of Licensing (4)	250	103	(147)	-58.8%
Lottery (4)	0	0	0	NA
Total General Fund-State* **	**$868,254**	**$868,107**	**($147)**	**-0.0%**

Preliminary. Reported in the March 10, 2008 collection report.
1 Collections Feb. 11 - March 10, 2008. Collections primarily reflect January 2008 business activity of monthly taxpayers.
2 February 1-29, 2008 collections.
3 Cumulative receipts since the February 2008 forecast: Feb. 11-March 10,2008 & revisions to history.
4 Cumulative receipts since the February 2008 forecast (Jan. 08) & revisions to history.
* Revenue consists of the retail sales, B&O, use, public utility and tobacco products taxes, and penalty and interest payments for these taxes.

Office of the Forecast Council

Revenue Act Net Collections

Year-over-Year Percent Change



Percent change from year-ago month

Average Growth (twelve month moving average.)

*growth adjusted for new legislation and unusually large assessment payments/refunds etc.