



STATE OF WASHINGTON

ECONOMIC AND REVENUE FORECAST COUNCIL

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March 12, 2007

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FROM: ChangMook Sohn, Director

SUBJECT: March 10, 2007 REVENUE COLLECTION REPORT

General Fund-State (GFS) collections totaled \$862.6 million in the February 11 – March 10, 2007 period. Revenue growth improved this month and tax payments were \$31.6 million (3.8 percent) higher than expected. Revenue Act collections (sales, use, business and occupation and public utility taxes) accounted for nearly all of the positive variance for the month. Receipts this month included a large and unanticipated audit payment (+\$3.7 million); however, the majority of the higher than expected collections was due to stronger than expected economic activity and consumer and business spending. Cumulatively, collections in the four months since the November 2006 forecast, collections are \$68.2 million (1.5 percent) higher than expected. A large part of this (\$36.7 million), however, is due to special factors, primarily large and unexpected audit payments. Excluding special factors, collections are \$31.5 million (0.7 percent) above the estimate cumulatively since the November forecast. Despite a surge in tax collections in the current month and excluding special factors, evidence for the last four months as a whole indicates that the November forecast remains pretty much on track.

Recent economic news continues to be generally positive. The U.S. unemployment rate dropped to 4.5 percent in February from 4.6 percent in January and the U.S. economy added 97,000 jobs in February 2007. The jobs increase in February was down from an upward revised 146,000 gain in January and was the smallest monthly increase since January 2005. February's increase was still better than most economists had expected and was bolstered by a 55,000 upward revisions to the previously reported gains in December and January. Washington continued to add payroll jobs in January 2007, although the state's unemployment rate rose to 5.1 percent in January from 5.0 percent in December. In other news, the Conference Board reported that the U.S. Index of Leading Indicators increased 0.1 percent in January and revisions have changed the previously reported drop in December to an increase. This Index has increased +0.7 percent over the last six months, but is still a little below its year ago level. The Conference Board also reported that its Index of Consumer Confidence rose again in February. This index has increased for four consecutive months and is at its highest level since July 2001.

After the weakest monthly increase in more than two years last month, Revenue Act collection growth rebounded strongly this month. Tax payments this period primarily reflect January activity of monthly tax payers. Collections were 9.9 percent above the year-ago level (excluding special factors). This was the strongest month year-over-over gain since August and well above last month's 5.9 increase. The November forecast expected revenue growth to begin to decelerate after more than three years of big gains. There are some signs of slowing despite this month's strong showing. Revenue growth in the fourth quarter slowed to 7.7 percent, from 9.1 percent in the third quarter and 11.4 in the first half of 2006. The forecast continues to

believe that the rebound to a near double-digit pace this month will be short-lived and that the impact of a slowing housing market will eventually spill over to other sectors of the economy.

Preliminary information on tax payments by industry from taxpayers filing electronically was mixed for the most recent period. Several sectors were quite strong; others were weak. For the month, tax payments by firms in the retail trade and food services sector increased 6.9 percent. Last month retailers reported a 7.7 percent increase. Tax payments by businesses in the auto sector, the largest retail trade category, were up 6.8 percent from the year-ago month, after increasing only 2.5 percent last month. Five of the twelve major retailing categories reported double-digit increases this month. The sectors with the strongest growth were non-store retailers (+22.9 percent), general merchandise stores (+15.8 percent), apparel and accessories stores (+14.7 percent), food stores (+10.4) and drug and health stores (+10.2 percent). Three sectors reported year-over-year declines: building materials/garden supply stores (-9.2 percent), furniture retailers (-4.1 percent) and electronic and appliance retailers (-0.2 percent). Payments by firms in non-retail trade and food services sectors were up 8.3 percent as a whole for the month, compared to only 3.5 percent last month. Despite weakening real estate excise tax payments, excise taxes paid by the construction sector remained strong this month (+9.9 percent), a little better than last month (+7.5 percent). The non-retail trade sectors with the strongest growth this month were: utilities (+22.9 percent), the finance and insurance sector (+21.7 percent), and wholesale trade (+11.6 percent). Two major non-retail trade sectors reported a year-over-year decline in tax payments this period: firms in the arts, entertainment and recreation sector reported a 2.0 percent decline and tax payment of businesses in the manufacturing sector were down 1.7 percent. Tax payments by firms in construction and housing related sectors grew only about half as fast as in other sectors of the economy. This month's preliminary data shows tax payment from construction related sectors up 4.4 percent compared to 8.5 percent for all other sectors.

Non-Revenue Act General Fund taxes were \$364,000 above the estimate for the month. Real estate excise (\$1.3 million), property tax (+\$296,000), and liquor tax (+\$458,000) payments were higher than expected and more than offset weaker than expected cigarette (-\$539,000) tax, timber tax (-\$115,000 and "other" payments (-\$1.0 million). Cumulatively in the four months since the November 2006 forecast Non Revenue receipts are close to the forecast, \$4.5 million higher than expected.

Real estate activity in the most recent period was 10.6 percent lower than a year-ago. Last month activity declined 5.4 percent. Real estate payments this month primarily reflect closings reported by counties for the January 30, 2007 through February 26, 2007. Taxable real estate activity has declined four consecutive months and in five of the last six months. Although the weakness in activity continues to be primarily due to a decline in the number of transactions, for the first time in a long time there is some indication of weakening in the value per transaction. A breakdown of the number of transactions and average value per transaction is not yet available for February, but in January, the number of transactions were 4.5 percent lower than a year-ago (the fourteenth consecutive monthly decline), while the average value per transaction declined 1.0 percent. This was the first decline in the average value per transaction since April 2002.

Department of Licensing General Fund-State collections, which primarily reflect payments of various licenses and fees, were \$157,000 above the estimate for the month and are \$274,000 higher for the four months since the November forecast.

The attached Table 1 provides a comparison of collections with the November 2006 forecast for the February 11, 2007 – March 10, 2007 collection period and cumulatively since the November forecast. Table 2 compares revised collection figures to the preliminary numbers reported in last month's collection report.

TABLE 1
Revenue Collection Report
March 10, 2007 Collections Compared to the November 2006 Forecast
Thousands of Dollars

<u>Period/Source</u>	<u>Estimate*</u>	<u>Actual</u>	<u>Difference</u>	
			<u>Amount</u>	<u>Percent</u>
Feb. 11,07 - March 10, 2007				
Department of Revenue-Total	\$830,775	\$862,219	\$31,444	3.8%
Revenue Act** (1)	765,409	796,489	31,080	4.1%
Non-Revenue Act(2)	65,366	65,730	364	0.6%
Liquor Sales/Liter	10,232	10,689	458	4.5%
Cigarette	3,947	3,408	(539)	-13.7%
Property (State School Levy)	(16,120)	(15,824)	296	-1.8%
Estate	88	73	(15)	NC
Real Estate Excise	51,022	52,344	1,322	2.6%
Timber (state share)	2,076	1,961	(115)	-5.5%
Other	14,122	13,080	(1,042)	-7.4%
Department of Licensing (2)	204	361	157	77.2%
Lottery (5)	0	0	0	NA
Total General Fund-State***	\$830,979	\$862,581	\$31,602	3.8%
Cumulative Variance Since the November 2006 Forecast (Nov. 11, 2006 - March 10, 2007)				
Department of Revenue-Total	\$4,612,842	4,680,735	67,893	1.5%
Revenue Act** (3)	3,582,816	3,646,214	63,397	1.8%
Non-Revenue Act(4)	1,030,026	1,034,521	4,496	0.4%
Liquor Sales/Liter	52,273	51,257	(1,017)	-1.9%
Cigarette	16,331	15,308	(1,023)	-6.3%
Property (State School Levy)	639,803	641,875	2,072	0.3%
Estate	351	507	156	NA
Real Estate Excise	243,279	248,182	4,903	2.0%
Timber (state share)	4,521	3,788	(733)	-16.2%
Other	73,468	73,606	138	0.2%
Department of Licensing (4)	692	965	274	39.5%
Lottery (5)	7,617	7,618	1	0.0%
Total General Fund-State***	\$4,621,151	\$4,689,318	\$68,167	1.5%

1 Collections Feb. 11 - Mar. 10, 2007. Collections primarily reflect January 2007 activity of monthly taxpayers.

2 February 2007 collections.

3 Cumulative collections, estimates and variance since the November 2006 forecast; (Nov. 11 - March 10, 2007) and revisions to history.

4 Cumulative collections, estimates and variance since the Nov. 2006 forecast; (Nov. 2006 - February 2007) and revisions to history.

5 Lottery transfers to the General Fund

* Based on the November 2006 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
February 10, 2007 Collection Report - Revised Data
Thousands of Dollars

<u>Period/Source</u>	<u>Collections</u>		<u>Difference</u>	
	<u>Preliminary</u>	<u>Revised</u>	<u>Amount</u>	<u>Percent</u>
January 11 - February 10, 2007				
Department of Revenue-Total	\$1,239,400	\$1,239,850	\$450	0.0%
Revenue Act (1)	1,148,492	1,148,942	450	0.0%
Non-Revenue Act(2)	90,907	90,907	0	0.0%
Liquor Sales/Liter	17,065	17,065	(0)	-0.0%
Cigarette	4,076	4,076	0	0.0%
Property (State School Levy)-net	(13,937)	(13,937)	(0)	0.0%
Estate	(217)	(217)	(0)	0.2%
Real Estate Excise	65,960	65,960	(0)	-0.0%
Timber (state share)	0	0	0	NA
Other	17,961	17,961	0	0.0%
Department of Licensing (2)	233	156	(77)	-33.2%
Lottery (2)	0	0	0	NA
Total General Fund-State***	1,239,633	1,240,005	\$372	0.0%

Cumulative Receipts: Nov. 11, 2006 - February 10, 2007 & Revisions to History

Department of Revenue-Total	\$3,818,066	\$3,818,516	\$450	0.0%
Revenue Act (3)	2,849,275	2,849,725	450	0.0%
Non-Revenue Act(4)	968,791	968,791	(0)	-0.0%
Liquor Sales/Liter	40,567	40,567	0	0.0%
Cigarette	11,899	11,899	0	0.0%
Property (State School Levy)-net after transf	657,699	657,699	0	0.0%
Estate	435	435	(0)	-0.1%
Real Estate Excise	195,838	195,838	(0)	-0.0%
Timber (state share)	1,827	1,827	(0)	NA
Other	60,526	60,526	0	0.0%
Department of Licensing (4)	682	688	6	0.9%
Lottery (4)	7,618	7,618	(0)	NA
Total General Fund-State***	\$3,826,365	3,826,822	\$457	0.0%

Preliminary. Reported in the February 10, 2007 collection report.

1 Collections Jan. 11 - February 10, 2006. Collections primarily reflect Dec. 2006 business activity of monthly taxpayers, q4, 06 activity of quarterly filers and cy 2006 activity of annual filers.

2 January 1-31, 2007 collections.

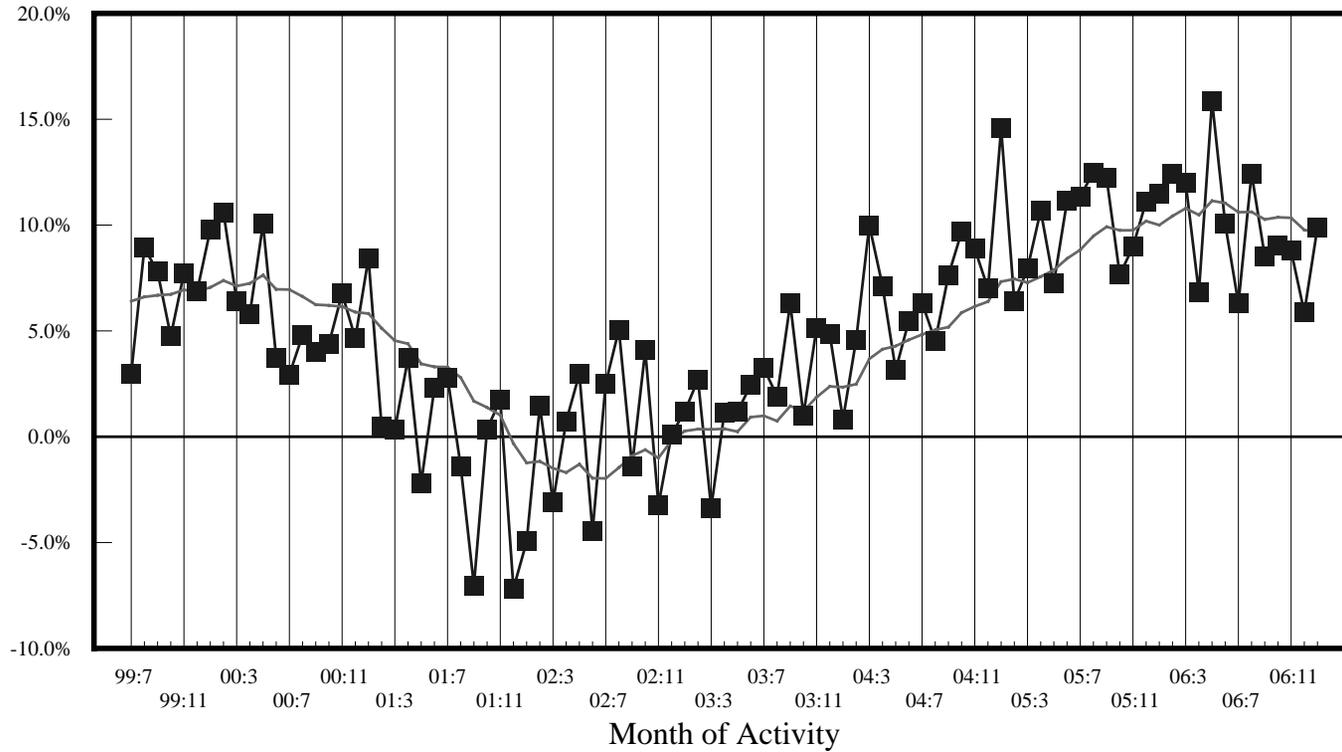
3 Cumulative receipts since the Nov. 2006 forecast: Nov. 11-February 10,2007 & revisions to history.

4 Cumulative receipts since the November 2006 forecast (November 2006-January 2007) & 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.

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.