



STATE OF WASHINGTON
ECONOMIC AND REVENUE FORECAST COUNCIL

Capitol Plaza Building, PO Box 40912 • Olympia, Washington 98504-0912 • (360) 570-6100

November 12, 2007

TO: Representative Jim McIntire, Chair
Senator Joseph Zarelli
Senator Craig Pridemore
Representative Ed Orcutt
Victor Moore, OFM, Director
Cindi Holmstrom, DOR, Director

FROM: ChangMook Sohn, Director

SUBJECT: November 10, 2007 REVENUE COLLECTION REPORT

Tax payments in the October 11 – November 10, 2007 collection period totaled \$1,216.1 million. Collections were \$37.9 million (3.0 percent) below the estimate for the month. Revenue Act (sales, business and occupation, use and public utility taxes) and real estate excise tax payments accounted for the shortfall. Revenue Act receipts were \$25.1 less than expected for the month and real estate excise tax payments were \$13.0 million below the estimate. This month's shortfall more than offsets last period's positive variance. Cumulative, for the two months since the September forecast GFS collections are \$18.4 million (-0.8 percent) below the forecast. The cumulative shortfall is understated, however, due to three unusually large audit payments received last month. Excluding these special factors, the cumulative variance is \$61.2 million (2.7 percent) below the September forecast.

Nationally, recent economic news has been mixed. The housing market has worsened and the price of oil has soared to around a \$100 a barrel, however, the labor market continues to be a positive. U.S. economy added 166,000 jobs in October and the unemployment rate remained unchanged at 4.7 percent. Despite the strong October numbers, employment appears to be slowing. Payroll jobs have increased on average only 112,000 a month in the last four months, below the average of 189,000 a month in 2006 and 134,000 a month in the first half of 2007. The Washington labor market continues to do better than the nation as a whole. September 2007 payroll jobs in Washington were 78,100 higher than a year ago, a 2.7 year-over-year increase. Nationally the year-over-year increase was only 1.2 percent in both September and October. Washington construction employment continues to be especially strong despite rapid deterioration in the residential housing market. Construction employment in the state increased 7.2 percent on a year-over-year basis in September more than twice as fast as total jobs. Although the state's unemployment rate increased from 4.6 percent in August to 4.7 percent in September, the September 2007 rate is 0.3 percent lower than a year-ago. In other news, the Conference Board reported that the U.S. Index of Leading Indicators rose in September, after falling sharply in August. The index has now increased three of the last six months, although its level is now the same as in March 2007. The Conference Board also reported that its Index of Consumer Confidence fell for the third straight month in October. The index has declined five the last eight month and is at its lowest level since October 2005.

Revenue Act collections for the month continue to weaken. Collections this period (primarily September 2007 business activity of monthly taxpayers and July through September of quarterly filers) were 4.7 percent above the year-ago level (adjusted for special factors). Last month's collections increased 5.1 percent and two months ago collections grew 7.0 percent. Growth this month was the weakest since August 2004 and well below average for the last twelve months (7.7 percent). Although revenue growth in the last couple of months has decelerated a little faster than assumed, it still remains reasonably healthy given the weak U.S. economy, a deteriorating residential housing market, and rising energy prices.

Preliminary information on tax payments by industry from taxpayers filing electronically indicates weakness in most sectors in the October 11-November 10, 2007 period (primarily September 2007 business activity). The retail trade sector again was quite weak, with tax payments up only 2.1 percent from a year-ago. Last month tax payments from retailers increased 2.5 percent and payments from two months ago increased 3.8 percent. Taxes reported by businesses in the auto sector, the largest retail trade category, declined 3.5 percent this month. Last month auto retailers reported a 0.2 percent increase. Other weak retailing sectors included: gasoline stations (-1.8 percent), furniture and appliance stores (-2.5 percent), building materials/garden supply retailers (1.6 percent), and miscellaneous retailers (-2.0 percent). General merchandise stores (+8.0 percent), sporting goods, book, toy and music stores (+7.2 percent) and electronics and appliance retailers (+6.5 percent) reported the strongest growth for the month in the retail trade sector. Payments by firms in non-retail trade and food services sectors increased 4.6 percent this period. Last month this sector increased 6.1 percent. Tax payments by businesses in the construction sector were 7.3 percent higher than a year-ago. Tax payments from the construction sector are still relatively strong despite the ongoing correction in the residential housing market; however, this increase this month is the weakest for the year. Last month this sector reported a 10.6 percent increase. Other non-retail trade sectors with strong growth this period included: wholesale trade (+8.2 percent) and finance and insurance (+12.0 percent). There was weakness in several major non-retail trade sectors this month, including: manufacturing (+0.9 percent), transportation and warehousing (-1.4 percent), professional, scientific, and technical services (-1.6 percent) and information (0.4 percent).

Non-Revenue Act General Fund taxes were \$12.8 million below the estimate for the month. Much weaker than expected real estate excise tax payments (-\$13.0 million) accounted for virtually the entire shortfall. Most other major non-Revenue Act payments were a little higher than expected for the month. Cumulatively, non-Revenue Act receipts are \$31.8 million less than expected. Again this shortfall is nearly all due to much weaker than expected real estate excise tax payments (-\$31.1 million.)

Taxable real estate activity reported by the state's thirty-nine counties for the most recent period (closings September 27th through October 28, 2007) was once again very weak. The residential housing market has been in decline for more than a year and conditions appear to be worsening. Taxable real estate activity was 22.6 percent below the year-ago level in October, after falling 25.8 percent the prior month. Activity has declined eleven of the last thirteen months with most of the weakness attributable to a drop in the number of transactions. Information on the number of transactions is not yet available for the current month, but last month the number of taxable real estate transactions was 24.9 percent below the year-ago level. Transactions have now declined in twenty-one of the last twenty-two months and the 24.9 percent drop reported last month was the largest. Last month the average value-per-transaction was 1.2 percent below the year-ago level. While this is only the second month this cycle that there has been a year-over-year decline in average value, anecdotal evidence as well as experience nationally suggests that we are likely to see more weakness in value-per-transaction in coming months.

Department of Licensing General Fund-State collections, which primarily reflect payments of various licenses and fees, were \$24,000 below the estimate for the month and are \$68,000 lower than the estimate cumulatively since the September 2007 forecast.

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

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

<u>Period/Source</u>	<u>Estimate*</u>	<u>Actual</u>	<u>Difference</u>	
			<u>Amount</u>	<u>Percent</u>
October 11 - November 10, 2007				
Department of Revenue-Total	\$1,254,003	\$1,216,074	(\$37,928)	-3.0%
Revenue Act** (1)	1,104,890	1,079,748	(25,142)	-2.3%
Non-Revenue Act(2)	149,112	136,326	(12,786)	-8.6%
Liquor Sales/Liter	12,291	11,862	(429)	-3.5%
Cigarette	4,071	4,778	707	17.4%
Property (State School Levy)	8,609	9,170	561	6.5%
Estate	84	205	122	NC
Real Estate Excise	75,350	62,354	(12,996)	-17.2%
Timber (state share)	0	0	0	NA
Other	48,706	47,956	(751)	-1.5%
Department of Licensing (2)	340	399	59	17.3%
Lottery (5)	0	0	0	NA
Total General Fund-State***	\$1,254,343	\$1,216,473	(\$37,869)	-3.0%
Cumulative Variance Since the September 2007 Forecast (Sept. 11, 2007 - Nov. 10, 2007)				
Department of Revenue-Total	\$2,297,298	2,279,001	(18,297)	-0.8%
Revenue Act** (3)	2,060,882	2,075,174	14,292	0.7%
Non-Revenue Act(4)	236,416	203,827	(32,589)	-13.8%
Liquor Sales/Liter	25,418	25,685	267	1.0%
Cigarette	8,019	9,151	1,133	14.1%
Property (State School Levy)	(1,817)	(3,672)	(1,855)	102.1%
Estate	167	209	42	NA
Real Estate Excise	151,594	120,508	(31,085)	-20.5%
Timber (state share)	0	0	0.0	NA
Other	53,035	51,945	(1,090)	-2.1%
Department of Licensing (4)	908	819	(89)	-9.8%
Lottery (5)	0	0	0	NA
Total General Fund-State***	\$2,298,206	\$2,279,820	(\$18,386)	-0.8%

1 Collections Oct. 11 - Nov. 10, 2007. Collections primarily reflect September 2007 activity of monthly taxpayers and q3, 2007 activity of quarterly filers.

2 October 2007 collections.

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

4 Cumulative collections, estimates and variance since the September 2007 forecast; (September and October 2007) and revisions to history

5 Lottery transfers to the General Fund

* Based on the September 2007 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
October 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>
September 11 - November 10, 2007				
Department of Revenue-Total	\$1,062,927	\$1,062,927	(\$0)	-0.0%
Revenue Act (1)	995,426	995,426	(0)	-0.0%
Non-Revenue Act(2)	67,501	67,501	(0)	-0.0%
Liquor Sales/Liter	13,889	13,889	(0)	-0.0%
Cigarette	4,373	4,373	(0)	-0.0%
Property (State School Levy)-net	(12,842)	(12,842)	(0)	0.0%
Estate	4	4	(0)	-6.5%
Real Estate Excise	58,154	58,154	0	0.0%
Timber (state share)	0	0	0	NA
Other	3,924	3,924	(0)	-0.0%
Department of Licensing (2)	544	465	(79)	-14.6%
Lottery (2)	0	0	0	NA
Total General Fund-State***	1,063,471	1,063,392	(\$79)	-0.0%

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

Department of Revenue-Total	\$1,062,927	\$1,062,927	(\$0)	-0.0%
Revenue Act (3)	995,426	995,426	(0)	-0.0%
Non-Revenue Act(4)	67,501	67,501	(0)	-0.0%
Liquor Sales/Liter	13,823	13,823	(0)	-0.0%
Cigarette	4,373	4,373	(0)	-0.0%
Property (State School Levy)-net after transf	(12,842)	(12,842)	(0)	0.0%
Estate	4	4	(0)	-6.5%
Real Estate Excise	58,154	58,154	0	0.0%
Timber (state share)	0	0	0	NA
Other	3,989	3,989	0	0.0%
Department of Licensing (4)	500	420	(80)	-15.9%
Lottery (4)	0	0	0	NA
Total General Fund-State***	\$1,063,427	\$1,063,347	(\$80)	-0.0%

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

1 Collections Sept. 11 - Oct. 10, 2007. Collections primarily reflect August 2007 business activity of monthly taxpayers.

2 September 1-30, 2007 collections.

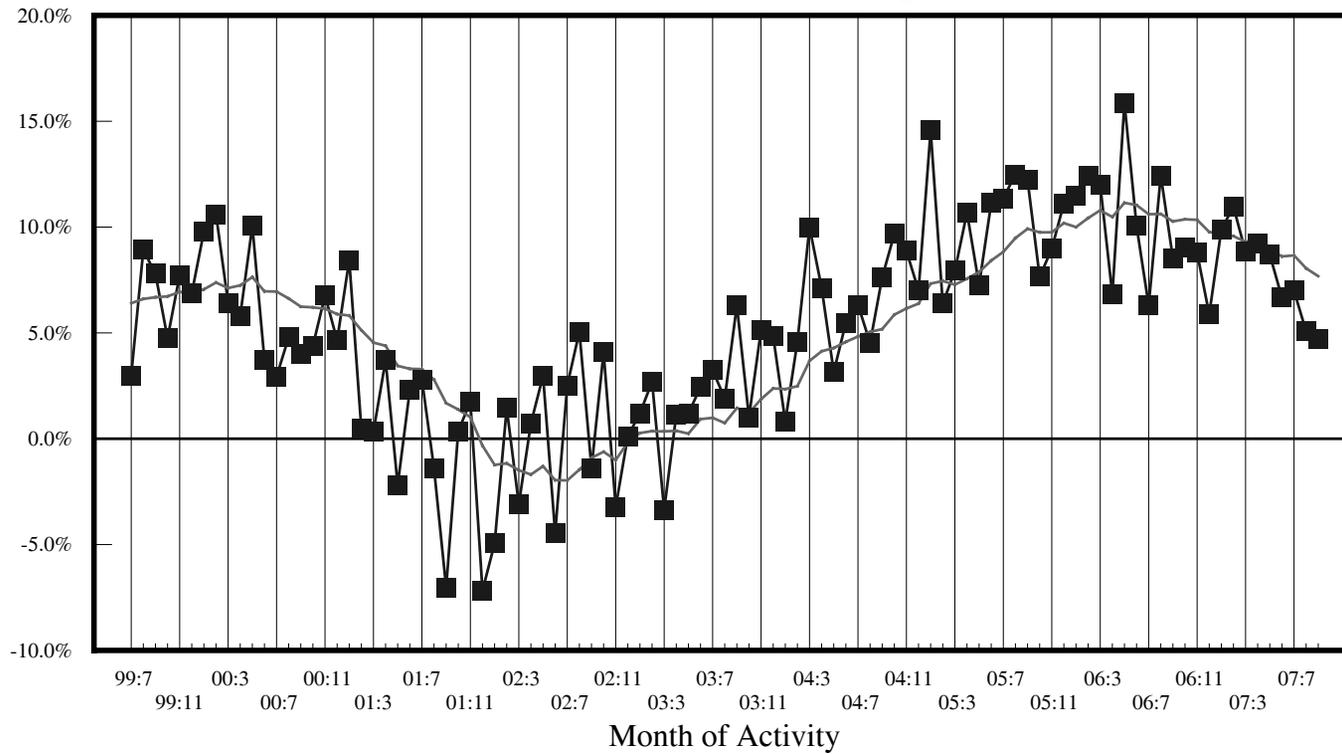
3 Cumulative receipts since the September 2007 forecast: Sept. 11-Oct. 10,2007 & revisions to history.

4 Cumulative receipts since the Sept. 2007 forecast (September 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.