



STATE OF WASHINGTON
ECONOMIC AND REVENUE FORECAST COUNCIL

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August 10, 2007

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SUBJECT: August 10, 2007 REVENUE COLLECTION REPORT

Tax payments in the July 11 – August 10, 2007 collection period were a little less than expected. Collections this month were \$10.6 million (-0.9 percent) below the estimate. This was the first monthly shortfall since the January 11-February 10, 2007 period. Less than expected Revenue Act (sales, business and occupation, use and public utility taxes) tax payments (-\$21.2 million) accounted for most of the shortfall. Payments from most other major taxes, including the real estate excise tax, (+\$7.9 million) were higher than expected for the month. The shortfall this month is not a cause for concern. Slower revenue growth has been expected for some time and economic fundamentals are still positive, despite a weak residential housing market. Cumulatively the collection variance is still positive, with receipts \$50.1 million (2.1 percent) higher than expected for the two months since the last forecast.

Recent economic news has been mixed. U.S. real gross domestic product (GDP), the broadest measure of economic performance, increased at a 3.4 percent annual rate in the second quarter of 2007. This is up from a very weak 0.6 percent in the first quarter and is higher than what was expected in the June 2007 forecast. Nationally, employment growth is slowing a bit. The U.S. economy added only 92,000 jobs in July. July's increase was down from the 126,000 jobs added last month and was the smallest increase since February. The small employment gain in July contributed to an increase in the U.S. unemployment rate to 4.6 percent from 4.5 percent in June. The Washington labor market appears a little healthier. Washington added more than 3,000 non-farm jobs in June and now has 50,800 more payroll jobs than a year ago. Despite continued weakness in residential construction, construction employment in the state has increase on a year-over-year basis more than twice as fast as total jobs. The state's unemployment rate in June was 4.5 percent, unchanged from May and is 0.1 percent lower than the year-ago rate. In other news, the Conference Board reported that the U.S. Index of Leading Indicators fell 0.3 percent in June 2007 following an increase in May. The index has declined four of the last six months falling at a 1.3 percent annual rate in the January to June 2007 period. More bullish was the Conference Board report that showed its Index of Consumer Confidence increased 6.9 percent in July 2007 and is now at a six year high. The index had declined three of the last four months prior to the rebound in July.

Revenue Act collection growth was a little weaker than expected in the current collection period. Collections for the month were 6.7 percent above the year-ago level, down from the last two months (8.7 percent last month and 9.2 percent two months ago). Receipts this period primarily reflect June 2007 activity of monthly tax payers and April through June activity of quarterly files. Despite slower revenue growth this month, growth remains healthy. Revenue growth has averaged 8.1 percent in the last three months and 8.6 percent for the last twelve months (fiscal 2007). Revenue growth continues to outpace U.S. retail sales growth and the growth of state personal income.

Preliminary information on tax payments by industry, from taxpayers filing electronically, indicates weaker growth in the June 11-July 10, 2007 period. The retail trade sector continues to grow modestly, with tax payments up 5.0 percent in the current month. This is a little weaker than last month's 5.8 percent gain but better than the 4.4 percent increase two month's ago. Tax payments by businesses in the auto sector, the largest retail trade category, were up only 3.5 percent from the year-ago month. This follows a 5.3 percent gain last month. The retail trade sectors with the strongest growth were apparel (+10.2 percent), sporting goods/books/music retailers (+7.9 percent) and miscellaneous retailers (+7.9 percent). The weakest sector in the retail trade category was the building materials/garden equipment sector which reported a 0.2 percent increase in tax payments this period. Last month this sector reported a 3.5 percent gain. Other weak sectors were gasoline retailers (+1.1 percent) and furniture and home furnishings retailers (+3.2 percent). Payments by firms in non-retail trade and food services sectors reported weaker overall growth (+4.2 percent). This was the weakest increase since last December. Last month non-retailing sectors reported a 10.2 percent increase in tax payments. Despite a weak residential real estate market, excise taxes paid by the construction sector remained strong this period (+10.2 percent). This is a little weaker than the 12.9 percent for the last two months. Other non-retail trade sectors with strong growth this month included: wholesale trade (+8.5 percent), finance and insurance (+13.8 percent), and arts, entertainment and recreation (+10.7 percent). There was signs of weakness in several major non-retail trade sectors this month, including: manufacturing (-2.7 percent), the professional/scientific/technical sector (-15.1 percent), information (-0.1 percent) and utilities (+2.3 percent).

For the month Non-Revenue Act General Fund taxes were \$9.8 million above the estimate. Higher than expected real estate excise tax payment and "other" receipts (primarily brokered natural gas tax payments) accounted for most of the current period's variance. The higher than expected real estate excise tax receipts this month includes higher than expected payments from transfers of controlling interest and the sales of several large commercial properties. Cumulatively in the two months since the June forecast, non-revenue act taxes are \$27.8 million higher than expected with most of the variance due to higher than expected real estate excise tax and "other" (primarily brokered natural gas and unclaimed property transfers). The cumulative variance includes the impact of a data revision going back to July 2006. The revision increased the fiscal 2007 year-to-date liquor tax payments by \$2.7 million.

Taxable real estate activity reported by the state's thirty-nine counties for the most recent period (closings June 28th through July 27, 2007) was 8.0 percent above the year-ago level. This is the first year-over-year increase since April. Last month activity declined 5.1 percent and for the year-to-date activity is up 2.3 percent. There were several large commercial sales in King County which bolstered this month's activity. Excluding King County activity is less robust: for the month activity is up 0.1 percent (the first increase since August of 2006) and for the first seven months of calendar year 2007, activity is 8.9 percent below the year-ago level. Despite the improvement this month, real estate activity is likely to remain weak for several more quarters.

Department of Licensing General Fund-State collections, which primarily reflect payments of various licenses and fees, were \$733,000 above the estimate for the month and are \$685,000 higher than the estimate for the two months since the June 2007 forecast.

The attached Table 1 provides a comparison of collections with the June 2007 forecast for the July 11, 2007 – August 10, 2007 collection period and cumulatively since the June 2007 forecast. The cumulative variance includes the impact of some unusual data revisions going back to July 2006. Table 2 compares revised collection figures to the preliminary numbers reported in last month's collection report. There is a larger than normal variance in Table 2 due to historical revisions to liquor tax payments.

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

<u>Period/Source</u>	<u>Estimate*</u>	<u>Actual</u>	<u>Difference</u>	
			<u>Amount</u>	<u>Percent</u>
July 11 - August 10, 2007				
Department of Revenue-Total	\$1,197,653	\$1,186,270	(\$11,382)	-1.0%
Revenue Act** (1)	1,097,141	1,075,924	(21,217)	-1.9%
Non-Revenue Act(2)	100,512	110,347	9,835	9.8%
Liquor Sales/Liter	13,090	13,117	27	0.2%
Cigarette	4,588	5,015	427	9.3%
Property (State School Levy)	(13,844)	(14,782)	(938)	6.8%
Estate	100	(522)	(622)	NC
Real Estate Excise	79,296	87,147	7,851	9.9%
Timber (state share)	0	0	0	NA
Other	17,281	20,372	3,090	17.9%
Department of Licensing (2)	2,463	3,196	733	29.7%
Lottery (5)	0	0	0	NA
Total General Fund-State***	\$1,200,116	\$1,189,466	(\$10,649)	-0.9%
Cumulative Variance Since the June 2007 Forecast (June 11, 2007 - August 10, 2007)				
Department of Revenue-Total	\$2,388,682	2,438,087	49,405	2.1%
Revenue Act** (3)	1,967,465	1,989,068	21,603	1.1%
Non-Revenue Act(4)	421,217	449,019	27,802	6.6%
Liquor Sales/Liter	25,063	28,573	3,510	14.0%
Cigarette	9,117	8,999	(118)	-1.3%
Property (State School Levy)	172,989	173,220	230	0.1%
Estate	194	(111)	(305)	NA
Real Estate Excise	165,900	182,798	16,899	10.2%
Timber (state share)	0	(0)	(0.0)	NA
Other	47,954	55,540	7,586	15.8%
Department of Licensing (4)	8,180	8,865	685	8.4%
Lottery (5)	0	0	0	NA
Total General Fund-State***	\$2,396,862	\$2,446,952	\$50,090	2.1%

1 Collections July 11 - August 10, 2007. Collections primarily reflect June 2007 activity of monthly taxpayers and q2,2007 activity of quarterly filers

2 July 2007 collections.

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

4 Cumulative collections, estimates and variance since the June 2007 forecast; (June & July 2007) and revisions to history.

5 Lottery transfers to the General Fund

* Based on the June 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
 July 10, 2007 Collection Report - Revised Data
 Thousands of Dollars

Period/Source	Collections		Difference	
	Preliminary	Revised	Amount	Percent
June 11 - July 10, 2007				
Department of Revenue-Total	\$1,249,143	\$1,249,143	(\$0)	-0.0%
Revenue Act (1)	913,144	913,144	(0)	-0.0%
Non-Revenue Act(2)	335,999	335,999	(0)	-0.0%
Liquor Sales/Liter	12,781	12,781	0	0.0%
Cigarette	3,985	3,985	(0)	-0.0%
Property (State School Levy)-net	188,002	188,002	(0)	-0.0%
Estate	410	410	0	0.1%
Real Estate Excise	95,733	95,733	(0)	-0.0%
Timber (state share)	0	0	0	NA
Other	35,088	35,088	(0)	-0.0%
Department of Licensing (2)	5,376	5,750	374	7.0%
Lottery (2)	0	0	0	NA
Total General Fund-State***	1,254,519	1,254,893	\$374	0.0%

Cumulative Receipts: June 11 - July 10, 2007 & Revisions to History

Department of Revenue-Total	\$1,249,143	\$1,251,816	\$2,673	0.2%
Revenue Act (3)	913,144	913,144	(0)	-0.0%
Non-Revenue Act(4)	335,999	338,672	2,673	0.8%
Liquor Sales/Liter	12,781	15,456	2,675	20.9%
Cigarette	3,985	3,985	(0)	-0.0%
Property (State School Levy)-net after transf	188,002	188,002	(0)	-0.0%
Estate	410	410	0	0.1%
Real Estate Excise	95,651	95,651	0	0.0%
Timber (state share)	0	(0)	(0)	NA
Other	35,169	35,168	(1)	-0.0%
Department of Licensing (4)	5,295	5,669	374	7.1%
Lottery (4)	0	0	0	NA
Total General Fund-State***	\$1,254,438	\$1,257,485	\$3,047	0.2%

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

1 Collections June 11 - July 10, 2007. Collections primarily reflect May 2007 business activity of monthly taxpayers.

2 June 1-30, 2007 collections.

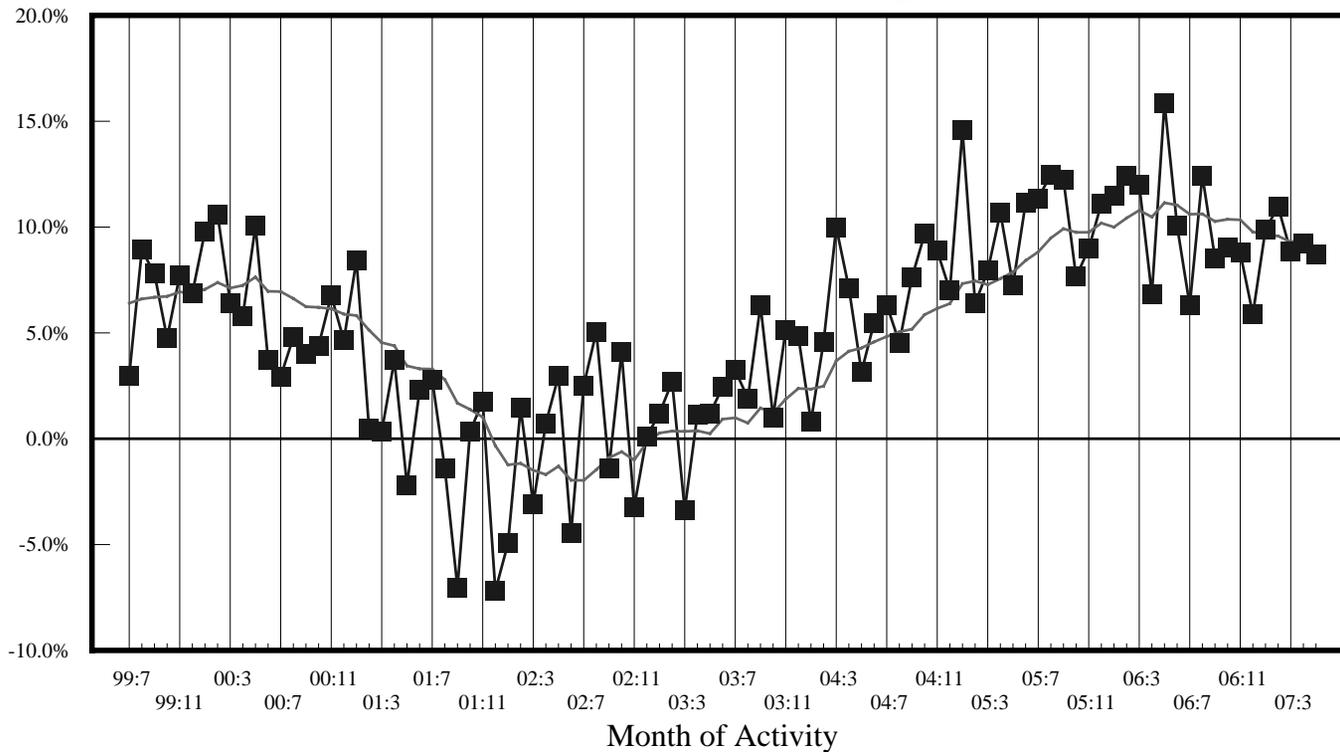
3 Cumulative receipts since the June 2006 forecast: June 11-July 10,2007 & revisions to history.

4 Cumulative receipts since the June 2007 forecast (June 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.