



STATE OF WASHINGTON
ECONOMIC AND REVENUE FORECAST COUNCIL

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July 11, 2007

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SUBJECT: July 10, 2007 REVENUE COLLECTION REPORT

Tax payments in the June 11 – July 10, 2007 collection period were again better than expected. Collections this month were \$57.8 million (4.8 percent) higher than the estimate. All major taxes with the exception of the cigarette tax were above the estimate for the month. Higher than expected Revenue Act (sales, business and occupation, use and public utility taxes) receipts (+42.8 million) and real estate excise tax payments (+\$9.1 million) accounted for the majority of this month's variance. Another month of strong collections again verifies the strength of the Washington economy. Relatively strong employment and income growth, led by rapid growth in the aerospace and software sectors, continue to trump a weak real estate market and high energy prices. Spending continues to outpace income growth. Home equity cash outs, which have slowed, although not nearly as much as expected, as well as rising stock prices continue to bolster consumer balance sheets and fuel spending. In addition non residential construction activity remains very strong, despite weak residential activity, and has contributed significantly to the strength of revenue growth.

Recent economic data is once again generally positive. The U.S. economy added 132,000 jobs in June. Although this was less than the average for the last two years, large upward revisions to the April 2007 and May 2007 job numbers make the overall June jobs report bullish. June's U.S. unemployment rate remained unchanged from May and April at 4.5 percent. The Washington labor market remains healthy. Washington now has 59,300 more payroll jobs than a year ago. The year-over-year increase in construction jobs is more than twice as fast as the increase in total jobs. Although, the state's unemployment rate increased to 4.6 percent in May 2007 from 4.4 percent in April, it remains well below the year-ago rate of 5.1 percent. In other news, the Conference Board reported that the U.S. Index of Leading Indicators rose 0.3 percent in May 2007 after falling in April. In the last six months, this index has increased 0.6 percent at an annual rate. The index is a little higher (0.3 percent) than a year ago. Less bullish was the Conference Board report that showed its Index of Consumer Confidence fell in June 2007 following an increase in May. The index has now declined three of the last four months and is 6.6 percent below its cyclical peak reached in February 2007 and is 1.4 percent below its year-ago level.

Revenue Act collection growth was again stronger than expected in the current collection period. Collections for the month were 8.7 percent above the year-ago level, about the same as the last two months (9.2 percent last month and 8.8 percent two months ago). Receipts this period primarily reflect May 2007 activity of monthly tax payers. Revenue growth has averaged 8.9 percent in the last three months and 8.8 percent for the first eleven months of 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 solid overall growth in the June 11-July 10, 2007 period. The retail trade sector remains a little subdued for the second consecutive month, with tax payments up 5.8 percent compared to an 8.3 percent overall gain. This is better than last month's 4.4 percent increase, but still weaker than the 7.5 percent increase reported two months ago. Tax payments by businesses in the auto sector, the largest retail trade category, were up 5.3 percent from the year-ago month, after increasing 4.0 percent last month. The retail trade sectors with the strongest growth were non-store retailers (+12.0 percent) and miscellaneous retailers (+9.9 percent). These sectors are relatively small, accounting for only 3.9 percent of total payments. The weakest sector in the retail trade category was again the electronics and appliance sector which reported a 5.1 percent decline in tax payments this period. Last month this sector reported an 8.5 percent drop. Other weak sectors were gasoline retailers (+0.3 percent), furniture and home furnishings retailers (+2.6 percent), and building materials and garden equipment stores (+3.5 percent). Payments by firms in non-retail trade and food services sectors reported much stronger overall growth (+10.2 percent). Last month non-retailing sectors reported an 8.9 percent increase in tax payments. Despite a weak residential real estate market, excise taxes paid by the construction sector remained very strong this period (+12.9 percent), the same as last month. Other non-retail trade sectors with strong growth this month included: manufacturing (+21.8 percent), wholesale trade (+9.3 percent) and arts, entertainment and recreation (+10.9 percent). There were no signs of weakness in any major non-retail trade sectors this month.

For the month Non-Revenue Act General Fund taxes were \$15.3 million above the estimate. Higher than expected real estate excise tax payment and "other" receipts (primarily unclaimed property transfers) account for most of the variance. Although real estate excise tax payments were \$9.1 million above this month, activity remains relatively weak. Most of the this variance was due to higher than expected audit and "transfers of controlling interest" payments, the majority of real estate excise tax payments reported by the counties on closed real property transfers remained weak and were only a little (\$3.3 million) more than expected.

Taxable real estate activity reported by the state's thirty-nine counties for the most recent period (closings May 30th through June 27, 2007) was 9.5 percent below the year-ago level. Last month activity declined 5.1 percent. Excluding some extraordinary transactions two months ago, statewide taxable real estate activity has declined on a year-over-year basis eight consecutive months and nine of the last ten months. The weakness in activity continues to be primarily due to a decline in the number of transactions. A breakdown of the number of transactions and average value per transaction is not yet available for June, but in May 2007, the number of transactions were 11.9 percent lower than a year-ago (the eighteenth consecutive monthly decline).

Department of Licensing General Fund-State collections, which primarily reflect payments of various licenses and fees, were \$344,000 below the estimate for the month.

The attached Table 1 provides a comparison of collections with the June 2007 forecast for the June 11, 2007 – July 10, 2007 collection period and cumulatively since the June 2007 forecast. The cumulative variance reported in the table is nearly identical to the variance for the month because the monthly estimates for the June forecast reflect actual collections through June 10, 2007. Differences between the monthly variance and the cumulative variance through June 10, 2007 reflect revisions to collection history since the June 2007 forecast. Table 2 compares revised collection figures to the preliminary numbers reported in last month's collection report.

TABLE 1
Revenue Collection Report
July 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>
June 11 - July 10, 2007				
Department of Revenue-Total	\$1,191,029	\$1,249,143	\$58,113	4.9%
Revenue Act** (1)	870,324	913,144	42,820	4.9%
Non-Revenue Act(2)	320,705	335,999	15,293	4.8%
Liquor Sales/Liter	11,973	12,781	809	6.8%
Cigarette	4,530	3,985	(545)	-12.0%
Property (State School Levy)	186,833	188,002	1,168	0.6%
Estate	94	410	317	NC
Real Estate Excise	86,603	95,733	9,129	10.5%
Timber (state share)	0	0	0	NA
Other	30,672	35,088	4,415	14.4%
Department of Licensing (2)	5,717	5,376	(341)	-6.0%
Lottery (5)	0	0	0	NA
Total General Fund-State***	\$1,196,746	\$1,254,519	\$57,773	4.8%
Cumulative Variance Since the June 2007 Forecast (June 11, 2007 - July 10, 2007)				
Department of Revenue-Total	\$1,191,029	1,249,143	58,113	4.9%
Revenue Act** (3)	870,324	913,144	42,820	4.9%
Non-Revenue Act(4)	320,705	335,999	15,293	4.8%
Liquor Sales/Liter	11,973	12,781	809	6.8%
Cigarette	4,530	3,985	(545)	-12.0%
Property (State School Levy)	186,833	188,002	1,168	0.6%
Estate	94	410	317	NA
Real Estate Excise	86,603	95,651	9,048	10.4%
Timber (state share)	0	0	0.0	NA
Other	30,672	35,169	4,497	14.7%
Department of Licensing (4)	5,717	5,295	(422)	-7.4%
Lottery (5)	0	0	0	NA
Total General Fund-State***	\$1,196,746	\$1,254,438	\$57,692	4.8%

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

2 June 2007 collections.

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

4 Cumulative collections, estimates and variance since the June 2007 forecast; (June 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
June 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>
May 11 - June 10, 2007				
Department of Revenue-Total	\$1,535,239	\$1,535,239	\$0	0.0%
Revenue Act (1)	838,663	838,663	0	0.0%
Non-Revenue Act(2)	696,576	696,576	0	0.0%
Liquor Sales/Liter	11,130	11,130	(0)	-0.0%
Cigarette	4,588	4,588	(0)	-0.0%
Property (State School Levy)-net	588,539	588,539	0	0.0%
Estate	498	498	0	0.0%
Real Estate Excise	73,131	73,131	(0)	-0.0%
Timber (state share)	1,542	1,542	0	NA
Other	17,148	17,148	(0)	-0.0%
Department of Licensing (2)	5,316	5,235	(81)	-1.5%
Lottery (2)	0	0	0	NA
Total General Fund-State***	1,540,555	1,540,474	(\$81)	-0.0%

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

Department of Revenue-Total	\$3,695,123	\$3,695,594	\$471	0.0%
Revenue Act (3)	2,658,141	2,658,141	0	0.0%
Non-Revenue Act(4)	1,036,982	1,037,452	470	0.0%
Liquor Sales/Liter	33,793	33,793	0	0.0%
Cigarette	12,631	12,631	0	0.0%
Property (State School Levy)-net after transf	629,005	629,005	0	0.0%
Estate	2,802	2,802	(0)	-0.0%
Real Estate Excise	310,097	310,016	(81)	-0.0%
Timber (state share)	1,072	1,542	470	NA
Other	47,581	47,663	82	0.2%
Department of Licensing (4)	9,641	9,381	(260)	-2.7%
Lottery (4)	0	0	0	NA
Total General Fund-State***	\$3,704,764	\$3,704,975	\$211	0.0%

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

1 Collections May 11 - June 10, 2007. Collections primarily reflect April 2007 business activity of monthly taxpayers and q1, 2006 activity of quarterly filers.

2 May 1-31, 2007 collections.

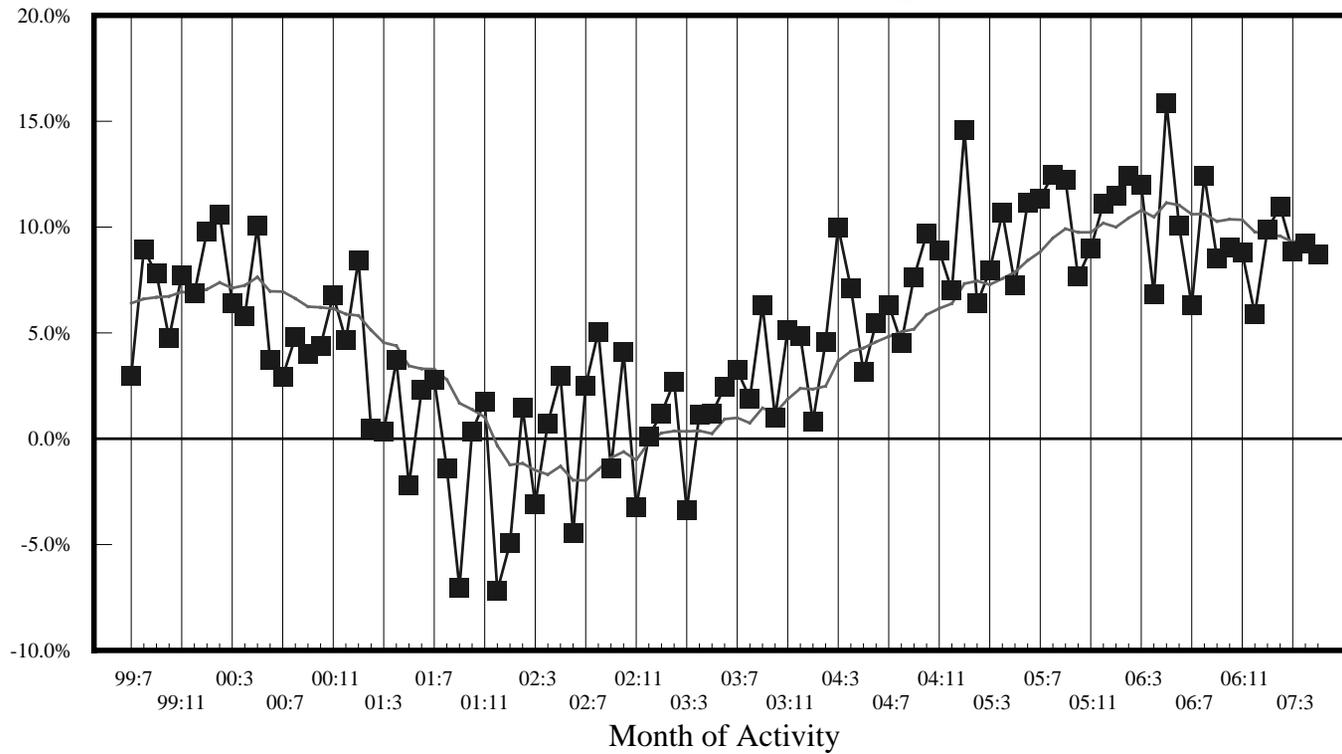
3 Cumulative receipts since the March 2007 forecast: March 11-June 10,2007 & revisions to history.

4 Cumulative receipts since the March 2007 forecast (March 2007-May 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.