The national economy is performing as expected in our forecast last month. Both economic and labor market activity weakened further in June, but there were also enough signs that this weakness is likely to be temporary, absent a low probability high impact event.

Washington’s economic activity is expected to mirror that of the national economy—short-term weakness followed by firming in the second half of the year.

Major General Fund-State (GF-S) revenue collections for the June 11 – July 10, 2011 collection period came in $22.3 million (1.7%) below the June forecast. Collections are consistent with the forecasted slowing of second quarter activity with improvement expected in the third and fourth quarters.

United States

As we had expected in our official forecast last month, June provided little relief to the U.S. economy from its current growth malaise. Job gains slowed to a crawl as private sector increases were offset by sharp losses in government jobs. Car sales softened further as supply shortages pushed both new and used car prices up. Construction activity is bumping along the bottom; and consumer confidence, still in recessionary territory, is once again treading water. Adding to the economic uncertainty is a lack of clarity about the terms of a potential debt-limit deal, even if it is achieved in time.

However, we continue to believe that this soft-patch is transitory, and that economic activity will pick up in the second half of the year, absent a low probability high impact event. Oil prices have retreated to the mid-$90 dollar range after peaking at $113 per barrel in early May. Not surprisingly, gas prices at the pump have also dropped from around $4.00 per gallon in the first part of May to $3.53 per gallon during the 4th of July weekend. This has put more money in consumers’ pockets and will increase demand. The disruptions to the manufacturing supply chain also appear to be subsiding. Manufacturing output recovered, rising 0.4% in May, after a 0.5% decline in April. The June ISM index for manufacturing too rose to 55.3 from 53.5, indicating that manufacturing output should continue to improve. A reading above 50 means growth.

There were other positive indicators as well. Same store sales (excluding Wal-Mart) reported by The International Council of Shopping Centers (ICSC) rose 6.9% year-over-year in June, higher than the 5.4% gain in May. This indicator measures sales at stores open for at least a year. Consumers are also showing a willingness to take

![U.S. employment growth has slowed](image-url)
out their credit cards once again – albeit it may have been to cover increased outlays on gas. For only the second time in the last 33 months, and the first time this year, consumers charged more on their credit cards than they paid down. Revolving debt increased by $3.4 billion in May, after having declined $0.9 billion in April.

Following gains averaging 215,000 per month from February through April, national employment has been essentially flat for the past 2 months (see figure). The May employment report for the nation had been disappointing. The June report is even more so. The economy created just 18,000 (SA) new jobs in the last month. The private sector created 57,000 (SA) jobs, while the government shed 39,000 (SA) jobs. Average hourly earnings fell by 1 cent, and average weekly hours fell by 0.1 hours to 34.3 hours. The unemployment rate, calculated from a separate survey of households ticked up yet again to 9.2%.

Washington

Economic data for Washington are released later than data for the national economy. At this time, we have only a few metrics other than the revenue collections reported in the next section to gauge the performance of the state’s economy relative to our June forecast released last month. We expect that Washington’s economic activity will mirror the national soft-patch – we’ll see weakening activity in June followed by a firming in the second half of the year.

At the time of the forecast last month, the lingering effects from higher oil and gas prices that eroded consumers’ purchasing power and confidence clouded the immediate outlook. The Japanese disaster added another level of uncertainty to the state’s recovery. Washington employment had grown by 8,400 net jobs in March and April, and there was no job growth in May. While aerospace and software were expanding, construction employment continued to slip.

The private sector added 11,100 jobs in March, April, and May but public sector employment declined by 2,700 jobs yielding a statewide gain of just 8,400 jobs. This does not include increases in the level of employment because of upward revisions to historical data, because the revisions apply to the entire period. Construction employment was unchanged over those three months while manufacturing added 2,600 of which 1,800 were in the aerospace sector. Private service-providing industries, which account for two out of three jobs in Washington, added 8,500 jobs. Consistent with the slowdown in job growth and increase in claims, the state’s unemployment rate was 9.1% in May, the same as in February.

The impact of the tragedy in Japan which disrupted manufacturing supply chains can be seen in The Institute of Supply Management - Western Washington Index (ISM-WW), which measures activity in the state’s manufacturing sector. This is one of the few indices published after our June forecast. In June the ISM-WW declined to 58.5 from 64.7 in
May and 68.2 in April (see figure). The index is still signaling growth (index readings above 50 indicate expansion) but at a slower pace than earlier this year. Fortunately, for the state’s manufacturing sector, Boeing is growing again. The aerospace sector has added 4,300 employees since last May, more than two-thirds of the 6,000 jobs lost from February 2009 through May 2010. We expect the job growth to continue. Over the next couple of years Boeing plans significant production increases in all five models of commercial aircraft. Between now and early 2013, total production will rise from the 42 planes per month to 60 planes per month, an increase of more than 40%.

The Washington housing market is experiencing cross-currents. New single-family home construction in Washington is bumping along the bottom but multi-family housing construction is trending up. Single-family housing permits were 13,800 in April, at a seasonally adjusted annual rate (SAAR) and 12,200 in May. They had averaged 14,300 in the first three months of the year. Permits for multi-family units, on the other hand, jumped to 20,800 and 14,500 in April and May from an average of just 2,600 in the first quarter. Multi-family permits are extremely volatile from month to month. We believe the trend is positive in multi-family housing due to rising rents and declining apartment vacancies but permits will retreat from the very high levels reached in April and May. The outlook for single-family construction is flat to negative. Single-family construction in Washington is in competition with a stream of foreclosures so it will likely stay weak for some time. Our June forecast expects single-family permits to drift down through mid-2012.

Purchases of new vehicles in Washington continued to recover in the first four months of 2011. Except for August 2008, which was boosted by “Cash for Clunkers,” April’s reading of 18,000 new vehicle registrations (SAAR) was the highest since July 2008. Washington new car registrations, however dipped in May and June to 16,800 and 16,300. The June data were also released after our forecast, and confirm the short-term weakness in car sales we had predicted then. Even with the declines in May and June, new vehicle registrations are up 3.6% year-over-year compared to June 2010.

Revenue Collections

Overview

Major General Fund-State (GF-S) revenues for the June 11 – July 10, 2011 collection period came in $22.3 million (1.7%) lower than our June forecast. During the period there was an unanticipated $4.1 million refund of previously-paid taxes. Without this refund, receipts would have come in $18.2 million (1.4%) below the June forecast.

Revenue Act receipts were $53.1 million (-6.1%) below the forecast while other receipts came in $31.1 million (7.4%) above the forecast due mainly to positive variances in real estate excise and property taxes.

Fiscal year 2011 ended on June 30, 2011. As of that date, the total of the GF-S revenues described in this report was $13.2 million (1.0%) below the June forecast. A preliminary estimate of total FY 2011 revenue including revenues not included in this report will be available in September, with the final tally available in November.
Revenue Act

The revenue collections reported here are for the June 11 – July 10, 2011 collection period. Collections correspond primarily to economic activity in May 2011 for monthly filers.

Revenue Act collections for the current period came in $53.1 million (6.1%) below the June forecast. During the period, collections were lowered by a $4.1 million refund. Without the refund, receipts would have come in $49.0 million (5.6%) below the June forecast.

This month’s shortfall was the result of yet another decline in seasonally adjusted collections (see figure), the third in a row (the chart of seasonally adjusted Revenue Act receipts has been adjusted for one-time payments/refunds and a change in payment patterns discussed in prior Updates). The June forecast had assumed May seasonally adjusted activity would be on par with April activity. Activity is expected to remain flat through June (July 11th-August 10th receipts) with growth resuming in the third quarter and accelerating in the fourth. The reports of strong same-store sales growth in June discussed above, however, could indicate growth resuming earlier than expected.

Revenue Act collections increased 4.7% year-over-year in the current period after adjustments for large one-time payments and refunds in current and prior periods (see figure). In the previous period adjusted revenues had increased 6.3%. As reported in earlier Economic and Revenue Updates, however, year-over-year growth rates since the December 2010 report have been distorted by the shift of a large number of taxpayers from quarterly to monthly filing status. Adjusting for both one-time payments/refunds and the estimated effect of the change in the timing of payments from new monthly taxpayers, revenues would have increased approximately 1.5% year-over-year in the current period and 3.1% year-over-year in the previous period.

Unadjusted for non-economic factors, revenue grew 2.0% year-over-year as shown in the “Key Revenue Variables” table. Preliminary ERFC monthly estimates indicate retail sales tax collections are up 0.8% year-over-year and B&O taxes are up 9.5%. Large year-overt-
year growth in B&O taxes for previous months shown in the table were the result of an increase in the tax rate for services that took effect on May 1, 2010. As of this month, the increase has been in effect for one year, diminishing its effect on year-over-year growth.

Tax payments as of June 28th from electronic filers who also paid in the June 11 – July 10 collection period of last year were up 4.7% year-over-year, weaker than the previous period’s growth rate of 5.6%.

Some details of payments from electronic filers:

- Payments in the retail trade sector were up 3.4% year-over-year. In the previous period, year-over-year payments increased 6.3%.
- Payments from the motor vehicle and parts sector were up 5.3% year-over-year. In the previous period, year-over-year payments increased 9.3%. Excluding the auto sector, payments from the retail trade sector were up 2.9% year-over-year in the current period and 5.5% in the previous period.
- The largest year-over-year increases in tax payments from other retail trade sectors were from non-store retailers (+14.3%), gas stations and convenience stores (+12.7%), electronics and appliances (+12.5%) and apparel and accessories (+6.1%). Miscellaneous retailers was the only retail trade sector to show a year-over-year decline (-3.2%).
- Payments in non-retail trade sectors were up 5.6% year-over-year in the current period and 5.1% in the previous period.
- Payments in the construction sector were down 7.3% year-over-year. Payments in the manufacturing sector were up 34.8% due to strong growth in payments from the petroleum refining and transportation equipment sectors.
- Excluding the construction sector, total payments were up 6.2% year-over-year and payments from non-retail trade sectors were up 8.3%. Excluding both construction and manufacturing, total payments were up 4.3% and payments from non-retail trade sectors were up 5.0%.

**DOR Non-Revenue Act**

June collections were $31.1 million (7.4%) above the June forecast. June DOR non-Revenue Act collections were up 54.7% year-over-year, due primarily to transfers of $145.9 million from other non-GF-S accounts into the GF-S in accordance with legislation from the 2011 session. Absent these transfers, year-over-year growth would have been 5.0%.

The largest contributor to this month’s positive variance was property tax, which came in $27.3 million (17.3%) above the forecast. The variance came from a larger-than-expected portion of spring taxes, which are due on April 30th, being reported in June rather than in May. Preliminary reports from large counties had indicated collections growth similar to May’s year-over-year growth of 0.3%. Collections from the remaining counties, however, were stronger, leading to June year-over-year growth of 13.7%. Total year-over-year growth for the April-June payment period was 2.7%.

Real estate excise taxes also came in higher than forecasted, with a positive variance of $4.8 million (14.1%). Seasonally adjusted taxable activity increased sharply from May, approaching levels last seen in December 2010 (see figure). Year-over-year collections were down 0.8%, an improvement from last month’s decline of 19.9%. As of May (the
most recent month for which transaction details are available), the number of transactions were roughly the same as those of last year while the value per transaction was down considerably. There is some evidence, such as the recent firming of the Case-Shiller price index for Seattle homes, that the average value per transaction may have begun to improve as well which would boost future real estate excise tax collections.

June cigarette tax receipts came in $578,000 (0.5%) lower than forecasted. The large collection value for the month was due to a deposit of $73.9 million in cigarette taxes which had previously been deposited into the Education Legacy Trust Account. Monthly taxes that formerly went into the account will continue to be deposited into the GF-S cigarette tax account through the next biennium as the result of new legislation from the 2011 session.

“Other” revenues were $274,000 (0.3%) lower than forecasted. June collections were inflated by a one-time deposit into the GF-S of $72.0 million in real estate and public utility taxes collected over the fiscal year that formerly were dedicated to assistance to cities and counties.

Liquor tax receipts came in $203,000 (1.2%) lower than forecasted.

Other Revenue

Department of Licensing receipts for June were $296,000 (5.1%) lower than the June forecast.

June revenue from the Administrative Office of the Courts was $334,000 (4.4%) higher than the June forecast.
### Key U.S. Economic Variables

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2009</th>
<th>2010</th>
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</thead>
<tbody>
<tr>
<td><strong>Real GDP (SAAR)</strong></td>
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<td>Jan.</td>
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<td>Feb.</td>
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<td>Mar.</td>
<td>1.9</td>
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<td>Apr.</td>
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<td>May</td>
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<td>Jun.</td>
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<tr>
<td><strong>Industrial Production (SA, 2002 = 100)</strong></td>
<td>92.7</td>
<td>85.5</td>
<td>90.1</td>
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<tr>
<td>Jan.</td>
<td>92.4</td>
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<td>Feb.</td>
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<tr>
<td>Mar.</td>
<td>92.9</td>
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<td>Apr.</td>
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<td>Jun.</td>
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<tr>
<td><strong>Y/Y % Change</strong></td>
<td>5.6</td>
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<tr>
<td>% Change</td>
<td>5.1</td>
<td>5.1</td>
<td>4.7</td>
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<tr>
<td>% Change</td>
<td>4.7</td>
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<td>% Change</td>
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<tr>
<td>ISM Manufacturing Index (50+ = growth)</td>
<td>60.8</td>
<td>46.3</td>
<td>57.3</td>
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<tr>
<td>Jan.</td>
<td>61.4</td>
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<td>Feb.</td>
<td>61.2</td>
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<td>Mar.</td>
<td>60.4</td>
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<td>Apr.</td>
<td>53.5</td>
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<td>May</td>
<td>55.3</td>
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<td>Jun.</td>
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<tr>
<td><strong>ISM Non-Manuf. Index (50+ = growth)</strong></td>
<td>59.4</td>
<td>46.2</td>
<td>54.1</td>
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<td>Jan.</td>
<td>59.7</td>
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<td>Feb.</td>
<td>57.3</td>
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<td>Mar.</td>
<td>52.8</td>
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<td>Apr.</td>
<td>54.6</td>
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<tr>
<td>May</td>
<td>53.3</td>
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<tr>
<td>Jun.</td>
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<tr>
<td><strong>Housing Starts (SAAR, 000)</strong></td>
<td></td>
<td>554</td>
<td>585</td>
</tr>
<tr>
<td>Jan.</td>
<td>636</td>
<td>-</td>
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<td>Feb.</td>
<td>518</td>
<td>-</td>
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<tr>
<td>Mar.</td>
<td>593</td>
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<tr>
<td>Apr.</td>
<td>541</td>
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<tr>
<td>May</td>
<td>560</td>
<td>-</td>
<td>-</td>
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<tr>
<td>Jun.</td>
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<tr>
<td><strong>Y/Y % Change</strong></td>
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<tr>
<td>% Change</td>
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<tr>
<td>% Change</td>
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<tr>
<td>% Change</td>
<td>-14.1</td>
<td>-</td>
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<tr>
<td>Light Motor Vehicle Sales (SAAR, mil.)</td>
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<td>10.4</td>
<td>11.6</td>
</tr>
<tr>
<td>Jan.</td>
<td>13.4</td>
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<tr>
<td>Feb.</td>
<td>13.1</td>
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<td>Mar.</td>
<td>13.2</td>
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<tr>
<td>Apr.</td>
<td>11.8</td>
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<td>May</td>
<td>11.5</td>
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<tr>
<td>Jun.</td>
<td>-</td>
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<td>-</td>
</tr>
<tr>
<td><strong>Y/Y % Change</strong></td>
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<td>11.8</td>
<td>16.9</td>
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<tr>
<td>% Change</td>
<td>13.4</td>
<td>11.8</td>
<td>16.9</td>
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<tr>
<td>% Change</td>
<td>11.5</td>
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<td>11.8</td>
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<tr>
<td>% Change</td>
<td>11.5</td>
<td>16.9</td>
<td>11.8</td>
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<tr>
<td>CPI (SA, 1982-84 = 100)</td>
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<tr>
<td>Jan.</td>
<td>221.1</td>
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<td>Feb.</td>
<td>222.3</td>
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<td>Mar.</td>
<td>223.5</td>
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<td>May</td>
<td>224.8</td>
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<td>Jun.</td>
<td>-</td>
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<tr>
<td><strong>Y/Y % Change</strong></td>
<td>2.2</td>
<td>2.7</td>
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<tr>
<td>% Change</td>
<td>2.2</td>
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<tr>
<td>% Change</td>
<td>2.7</td>
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<tr>
<td>% Change</td>
<td>2.7</td>
<td>3.1</td>
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<tr>
<td>Core CPI (SA, 1982-84 = 100)</td>
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<tr>
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<td>222.6</td>
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<td>Mar.</td>
<td>223.3</td>
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<td>Apr.</td>
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<td>May</td>
<td>224.4</td>
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<td>Jun.</td>
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<tr>
<td><strong>Y/Y % Change</strong></td>
<td>1.1</td>
<td>1.2</td>
<td>1.3</td>
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<tr>
<td>% Change</td>
<td>1.1</td>
<td>1.2</td>
<td>1.3</td>
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<tr>
<td>% Change</td>
<td>1.2</td>
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<tr>
<td>% Change</td>
<td>1.2</td>
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<tr>
<td>IPD for Consumption (2000=100)</td>
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<tr>
<td>Jan.</td>
<td>112.2</td>
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<td>Feb.</td>
<td>112.6</td>
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<td>Mar.</td>
<td>113.1</td>
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<td>Apr.</td>
<td>113.5</td>
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<td>May</td>
<td>113.7</td>
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<tr>
<td>Jun.</td>
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<tr>
<td><strong>Y/Y % Change</strong></td>
<td>1.6</td>
<td>1.9</td>
<td>2.2</td>
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<tr>
<td>% Change</td>
<td>1.6</td>
<td>2.2</td>
<td>1.9</td>
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<tr>
<td>% Change</td>
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<tr>
<td>% Change</td>
<td>1.9</td>
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<td>1.9</td>
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<tr>
<td>Nonfarm Payroll Empl., e-o-p (SA, mil.)</td>
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<td>129.3</td>
<td>130.3</td>
</tr>
<tr>
<td>Jan.</td>
<td>130.6</td>
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<tr>
<td>Feb.</td>
<td>130.8</td>
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<tr>
<td>Mar.</td>
<td>131.0</td>
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<td>Apr.</td>
<td>131.0</td>
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<tr>
<td>May</td>
<td>131.0</td>
<td>-</td>
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<td>Jun.</td>
<td>-</td>
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<tr>
<td><strong>Monthly Change</strong></td>
<td>0.07</td>
<td>0.24</td>
<td>0.19</td>
</tr>
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<td>% Change</td>
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<tr>
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<td>-</td>
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**Weighted average of U.S. dollar foreign exchange values against currencies of major U.S. trading partners, Federal Reserve.
# Key Washington Economic Variables

## Employment

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## Other Indicators

### Seattle CPI (1982-84=100)

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### Housing Permits (SAAR, 000)

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### WA Index of Leading Ind. (2004=100)

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### WA Business Cycle Ind. (Trend=50)

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### Avg. Weekly Hours in Manuf. (SA)

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### Avg. Hourly Earnings in Manuf.

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<td>-</td>
<td>11.4%</td>
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### New Vehicle Registrations (SA, 000)

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### Initial Unemployment Claims (SA, 000)

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### Personal Income (SAAR, $bil.)

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### Median Home Price ($000)

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<td>-4.1%</td>
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*Employment data has been Kalman filtered and does not match figures released by the BLS*

*Percentage Change is Year-over-Year*
### Key Revenue Variables

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<td>Aug 10</td>
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<td></td>
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*Revenue Act components: ERFC preliminary estimates
**Monthly Revenues (month of beginning of collection period)
***Detail may not add due to rounding. The GFS total in this report includes only collections from larger state agencies: the DOR, Lottery Commission, AOC and DDL. Reflects new definition of GF-S revenue after July 2009.

Note: Italic figures refer to Year-over-Year percent change.
### Revenue Forecast Variance

**Thousands of Dollars**

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<th>Period/Source</th>
<th>Estimate*</th>
<th>Actual</th>
<th>Difference Amount</th>
<th>Percent</th>
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<td>$1,270,126</td>
<td>($22,054)</td>
<td>-1.7%</td>
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<tr>
<td>Revenue Act** (1)</td>
<td>869,644</td>
<td>816,518</td>
<td>(53,126)</td>
<td>-6.1%</td>
</tr>
<tr>
<td>Non-Revenue Act(2)</td>
<td>422,535</td>
<td>453,608</td>
<td>31,073</td>
<td>7.4%</td>
</tr>
<tr>
<td>Liquor Sales/Liter</td>
<td>16,797</td>
<td>16,594</td>
<td>(203)</td>
<td>-1.2%</td>
</tr>
<tr>
<td>Cigarette</td>
<td>108,514</td>
<td>107,936</td>
<td>(578)</td>
<td>-0.5%</td>
</tr>
<tr>
<td>Property (State School Levy)</td>
<td>157,586</td>
<td>184,883</td>
<td>27,297</td>
<td>17.3%</td>
</tr>
<tr>
<td>Real Estate Excise</td>
<td>34,264</td>
<td>39,094</td>
<td>4,830</td>
<td>14.1%</td>
</tr>
<tr>
<td>Timber (state share)</td>
<td>0</td>
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<td>0</td>
<td>0.0%</td>
</tr>
<tr>
<td>Other</td>
<td>105,374</td>
<td>105,100</td>
<td>(274)</td>
<td>-0.3%</td>
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<tr>
<td>Department of Licensing (2)</td>
<td>5,779</td>
<td>5,483</td>
<td>(296)</td>
<td>-5.1%</td>
</tr>
<tr>
<td>Lottery (5)</td>
<td>6,888</td>
<td>6,651</td>
<td>(237)</td>
<td>0.0%</td>
</tr>
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<td>Administrative Office of the Courts (2)</td>
<td>7,663</td>
<td>7,997</td>
<td>334</td>
<td>4.4%</td>
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<tr>
<td><strong>Total General Fund-State</strong>*</td>
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<td>$1,290,257</td>
<td>($22,253)</td>
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<td>Department of Revenue-Total</td>
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<td><strong>Total General Fund-State</strong>*</td>
<td>$1,312,510</td>
<td>$1,290,257</td>
<td>($22,253)</td>
<td>-1.7%</td>
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</table>

3. Cumulative collections, estimates and variance since the June 2011 forecast; (June 11, 2011 - July 10, 2011) and revisions to history.
4. Cumulative collections, estimates and variance since the June forecast (June 2011) and revisions to history.
5. Lottery transfers to the General Fund

* Based on the June 2011 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, Department of Licensing, Lottery Commission and Administrative Office of the Courts.

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Economic and Revenue Forecast Council