



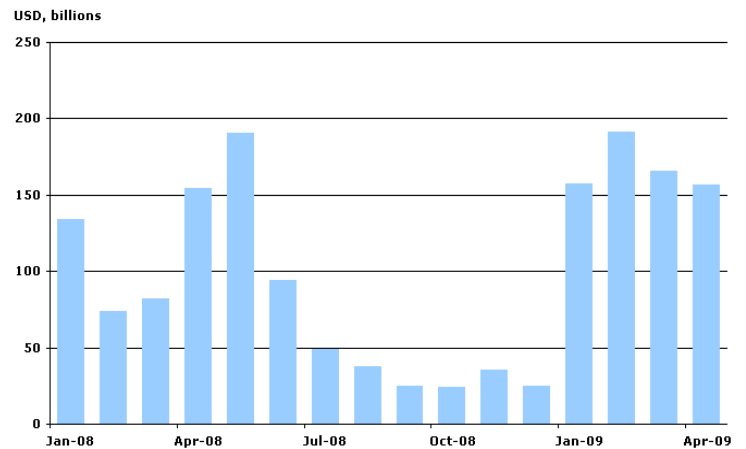
ECONOMIC & REVENUE UPDATE

JUNE 2009

U.S.

- We have consistently maintained that the key to an economic recovery is a return to health of the banking industry, and the resumption of normal credit flows. By that metric, we have passed yet another marker on the road to recovery. The U.S. Treasury has determined that 10 large banks are now healthy enough to return up to USD 68 billion in TARP funds received last October at the height of the credit crisis. This is approximately a third of the funds disbursed under TARP's Capital Purchase Program.
- What is significant about this determination, is that it follows: (a) the banking industry's first profitable quarter in a while; (b) the bank stress tests that estimated capital requirements under a worse recession scenario, to see if those banks would remain viable; and, most importantly (c) banks being able to raise significant amounts of private capital, both debt and equity, to augment their reserves – and making the government funds unnecessary. If banks continue their return to profitability, they'll be in a better position to fully recognize their housing derivatives' related losses, and credit flows can return to normalcy. We expect the process to be slow, however.
- Credit conditions have eased significantly, but not fully, since the freeze in September. Inter-bank lending spreads have come down to earth. Consumers with good credit scores now have access to reasonably priced credit. Large corporations with strong balance sheets are also able to access funds directly through the bond market (see figure).

Corporate bond issuance volume is recovering



Credit, however, still remains tight for small businesses especially in construction related activities.

- Despite these positive developments, and those mentioned in our prior two "Update" reports, we are by no means out of the woods. The recession is not yet over. We expect the trough, or bottom, in the third quarter, followed by weak growth into the middle of 2010. Job losses will continue through the end of the year, and the unemployment rate will rise into the second quarter of 2010.
- Even with the improvement in the last two months, consumer confidence still remains weak. There is significant idle capacity in the economy, both in labor and goods markets, and business investment is very weak. The housing correction is likely to drag out into next year. The automotive sector will take time to get back on its legs. The recovery, it is worth repeating, will be U-shaped.

WASHINGTON

- The freefall in the Washington economy appears to be abating. Initial claims for unemployment insurance appear to have peaked and monthly job losses are moderating. Still, the state's economy lost 9,900 net jobs in April of which 3,000

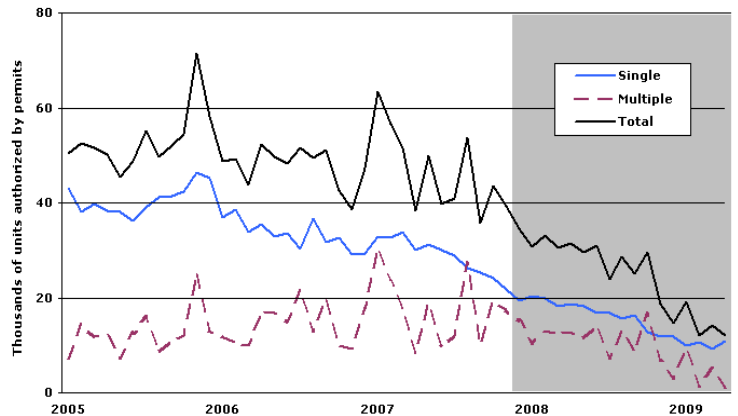
were in construction and 3,800 were in manufacturing. Job losses are expected to continue through the end of this year but the rate of loss will continue to slow. Employment growth is expected to turn positive in Washington as well as in the

WASHINGTON (Continued)

U.S. in early 2010. The state unemployment rate was unchanged in April at 9.1%, which is its highest level since 1984. We expect it to continue to rise into 2010 as unemployment peaks after the trough of the business cycle.

- As is the case nationally, single-family housing permits seem to be leveling off but multi-family permits are hitting new lows. Single-family permits improved to 10,900 (seasonally adjusted annual rate) in April, slightly better than the 10,000 average for the first three months of the year. However, multi-family permits matched February's all-time low of 1,200 (see figure). Due to a combination of financing problems and rising vacancies, construction of apartments and condominiums has all but shut down. We do not expect any significant improvement in housing permits until late this year.
- Pending home sales in the state jumped 18% year-over-year in May following an 11% increase in April according to the Northwest Multiple Listing Service. Closed sales which lag pending sales, however, are still declining on a year-over-year basis. Consequently, we expect some improvement in closed sales, but not by the full amount – anecdotal evidence indicates that contingent and short sales are not always being completed.
- Personal income growth is likely to be negative in calendar year 2009. This is not just due to the loss of jobs but

Construction of single-family homes is stabilizing



because the weak labor market will restrain wage growth. However, the tax cuts and increased transfer payments in the stimulus package will help *disposable* personal income grow modestly in 2009.

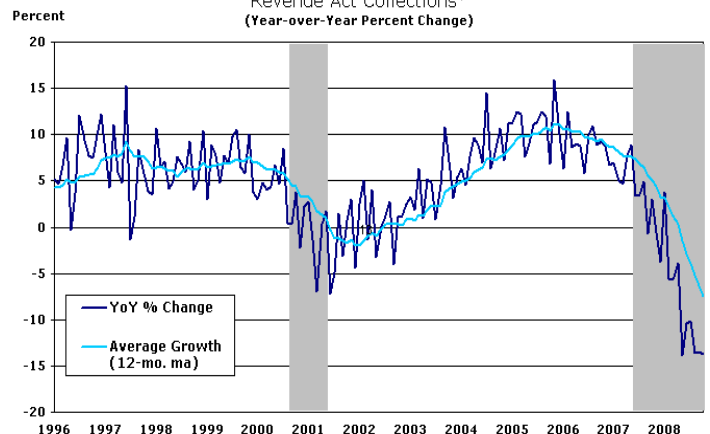
- The Washington Institute for Supply Management Index increased to 48.5 in April. This is the second consecutive increase in the index since the low of 40.9 in March. Index levels below 50 indicate more businesses are seeing a contraction in activity than expansion, but the improvement is another indication that the rate of contraction is declining.
- Inflation appears to be moderating in the Seattle area as rents and imputed rents flatten out. Core inflation in Seattle averaged only 0.9% (annual rate) during the first four months of 2009 compared to 3.6% for all twelve months of 2008.

REVENUE COLLECTIONS

Total General Fund-State Revenues

- Major General Fund-State revenues for the May 11 – June 10, 2009 collection period were \$91.3 million (6.7%) higher than our March forecast, due almost entirely to a \$161.5 million positive variance in property tax collections.

Revenue Act Collections* (Year-over-Year Percent Change)



*Growth adjusted for new legislation and unusually large assessment payments, refunds etc.

ECONOMIC & REVENUE UPDATE

REVENUE COLLECTIONS (Continued)

Consequently, cumulative total collections are just \$4.9 million (0.2%) below the March forecast. It is very likely, however, that most of the property tax variance was due to a greater-than-normal portion of taxes being paid by the April 30th due date. Since we have an estimate of the total levy, we expect June property tax receipts will fall short by an amount similar to this month's positive variance (see figure). If property tax receipts had come in as forecasted, the cumulative shortfall would have been \$166.5 million (5.3%).

- The cumulative year-over-year decline in total General Fund-State revenues is \$1.23 billion (9.5%).

Revenue Act

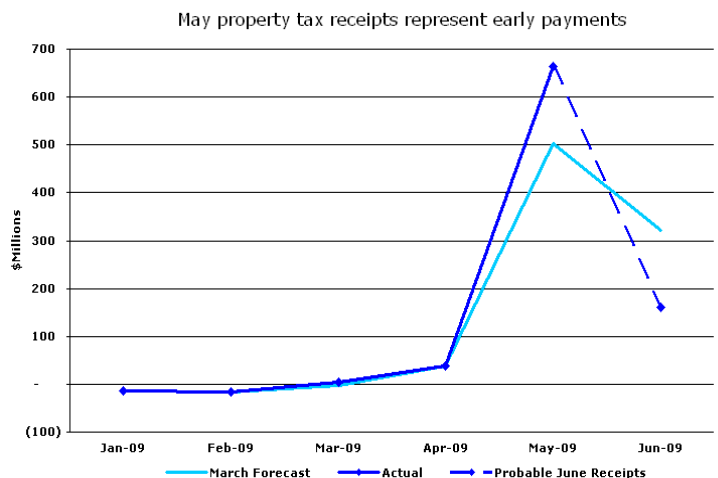
- The revenue collections reported here are for the May 11, 2009 – June 10, 2009 collection period. This corresponds to economic activity in April 2009.
- Adjusted for special factors (legislative changes between April 2008 and April 2009), collections in the current period are down 13.7% from their year-ago level (see figure). Unadjusted, the decline is 14.1%.
- Collections for this period are \$55.6 million (7.0%) below the March 2009 forecast. The cumulative shortfall from the March forecast is \$138.4 million (5.7%)
- Cumulatively, collections are down \$981 million (9.3%) from FY 2008.
- Preliminary ERFC monthly estimates indicate retail sales tax collections are down 14.5% year-over-year, while B&O taxes are down 14.3%.
- Preliminary tax payments from electronic filers who also paid in the May 11 – June 10 collection period of last year were down 11.2% year-over-year.
 - Payments in the retail trade sector were down 7.7%. The greatest drops

were in motor vehicles and parts (-20.7%); gas stations and convenience stores (-20.2%); furniture and home furnishings (-19.9%); and nonstore retailers (-13.6%)

- Payments in three major retail trade sectors showed a year-over-year increase: drug and health stores (+8.3%); food and beverage stores (+3.9%); and general merchandise stores (+2.7%).
- Payments in non-retail trade sectors were down 13.3% year-over-year.
- Payments in the construction sector were down 21.9%, while those in the manufacturing sector were down 39.2%.

Non-Revenue Act

- May collections are up 2.5% year-over-year due to the large positive variance in property tax collections as mentioned above. Non-property tax revenues were down 29.9% year-over-year.
- Collections were \$147.8 million (25.9%) above the March forecast.
- Real estate excise tax came in \$7.5 million (23.4%) below the forecast.
- "Other" revenues came in \$5.8 million (30.0%) below the forecast due mainly to the reversal of previous transfers of unclaimed property into the General Fund.



ECONOMIC & REVENUE UPDATE

REVENUE COLLECTIONS (Continued)

- July 2008-May 2009 total collections are \$261.2 million (11.1%) below year-ago levels.
- The year-over-year decline in non-Revenue Act collections is mostly due to real estate excise tax collections, which are down \$263.3 million (42.7%) cumulatively from fiscal 2008.
- May Department of Licensing receipts were \$897 thousand (18.8%) below the March forecast.

Key U.S. Economic Variables

	2008	2009					2007	2008
	Dec.	Jan.	Feb.	Mar.	Apr.	May		
Real GDP (SAAR)	-6.3	-	-	-6.1	-	-	2.0	1.1
Industrial Production (SA, 2002 = 100)	102.4	100.3	99.3	97.6	97.1	-	111.4	109.2
<i>Y/Y % Change</i>	-8.9	-10.9	-11.5	-12.9	-12.9	-	1.7	-2.0
ISM Manufacturing Index (50+ = growth)	32.9	35.6	35.8	36.3	40.1	42.8	51.1	45.5
ISM Non-Manuf. Index (50+ = growth)	40.1	42.9	41.6	40.8	43.7	44.0	-	47.4
Housing Starts (SAAR, mil.)	558	488	574	525	458	-	1,341	903
<i>Y/Y % Change</i>	-44.2	-54.1	-48.1	-46.9	-54.4	-	-26.0	-32.6
Light Motor Vehicle Sales (SAAR, mil.)	10.3	9.6	9.1	9.9	9.3	9.9	16.2	13.2
<i>Y/Y % Change</i>	-35.6	-37.7	-40.6	-34.7	-35.8	-30.5	-2.3	-18.5
CPI (SA, 1982-84 = 100)	211.6	212.2	213.0	212.7	212.7	-	207.3	215.2
<i>Y/Y % Change</i>	-0.1	-0.2	0.1	-0.4	-0.6	-	2.9	3.8
Core CPI (SA, 1982-84 = 100)	216.9	217.3	217.7	218.0	218.6	-	210.7	215.6
<i>Y/Y % Change</i>	1.7	1.7	1.8	1.8	1.9	-	2.3	2.3
IPD for Consumption (2000=100)	120.7	120.9	121.4	121.3	121.4	-	117.7	121.6
<i>Y/Y % Change</i>	0.8	0.7	1.0	0.6	0.4	-	2.6	3.3
Nonfarm Payroll Empl., e-o-p (SA, mil.)	135.1	134.3	133.7	133.0	132.5	132.2	138.2	135.1
<i>Monthly Change</i>	-0.68	-0.74	-0.68	-0.65	-0.50	-0.35	1.15	-3.08
Unemployment Rate (SA, percent)	7.2	7.6	8.1	8.5	8.9	9.4	4.6	5.8
Yield on 10-Year Treasury Note (percent)	2.42	2.52	2.87	2.82	2.93	3.29	4.63	3.67
Yield on 3-Month Treasury Bill (percent)	0.03	0.13	0.30	0.22	0.16	0.18	4.47	1.39
Broad Real USD Index** (Mar. 1973=100)	93.6	94.5	95.8	101.1	95.8	95.6	92.5	88.7
Federal Budget Deficit (\$ bil.)*	83.6	83.8	192.8	192.3	20.9	-	162.8	436.3
<i>FYTD sum</i>	485.2	569.0	761.8	954.1	975.0	-		
US Trade Balance (\$ bil.)	-41.9	-36.6	-26.1	-28.5	-29.2	-	-701.4	-695.9
<i>YTD Sum</i>	-695.9	-36.6	-62.7	-91.2	-120.4	-		

*Federal Fiscal Year 2008 runs from Oct. 1, 2007 to Sept. 30, 2008.

**Weighted average of U.S. dollar foreign exchange values against currencies of major U.S. trading partners, Federal Reserve.

Key Washington Economic Variables

	2008	2009						2007	2008
	Dec.	Jan.	Feb.	Mar.	Apr.	May			
Employment									
								<i>End-of-period</i>	
Total Nonfarm (SA, 000)	2,914.6	2,905.6	2,885.7	2,865.6	2,855.7	-	2,963.2	2,914.6	
Change from Previous Month (000)	-19.6	-9.0	-19.9	-20.1	-9.9	-	71.7	-48.6	
Construction	185.3	183.0	179.3	173.8	170.8	-	209.3	185.3	
Change from Previous Month	-5.0	-2.3	-3.7	-5.5	-3.0	-	9.0	-24.0	
Manufacturing	284.9	280.5	278.3	274.2	270.4	-	296.3	284.9	
Change from Previous Month	-3.6	-4.4	-2.2	-4.1	-3.8	-	6.2	-11.4	
Aerospace	85.5	85.3	84.8	84.3	83.7	-	82.9	85.5	
Change from Previous Month	0.2	-0.2	-0.5	-0.5	-0.6	-	6.1	2.6	
Software	53.0	52.6	52.7	52.7	52.2	-	48.4	53.0	
Change from Previous Month	0.1	-0.4	0.1	0.0	-0.5	-	2.0	4.6	
All Other	2,391.4	2,389.5	2,375.4	2,364.9	2,362.3	-	2,409.2	2,391.4	
Change from Previous Month	-11.1	-1.9	-14.1	-10.5	-2.6	-	54.5	-17.8	
Other Indicators									
								<i>Annual Average</i>	
Seattle CPI (1982-84=100)	222.6	-	224.7	-	225.9	-	215.7	224.7	
	1.7%	-	1.4%	-	1.2%	-	3.9%	4.2%	
Housing Permits (SAAR, 000)	14.8	19.2	12.1	14.1	12.1	-	45.6	27.3	
	-57.2%	-37.8%	-63.3%	-53.7%	-61.5%	-	-4.5%	-40.2%	
WA Index of Leading Ind. (2004=100)	110.8	109.9	106.8	105.3	106.1	-	115.7	115.4	
	-5.4%	-5.5%	-9.0%	-10.5%	-9.9%	-	4.9%	-0.3%	
WA Business Cycle Ind. (Trend=50)	17.2	12.7	6.5	3.5	0.3	-	59.0	36.4	
	-67.1%	-74.1%	-86.7%	-92.2%	-99.3%	-	-0.9%	-38.2%	
Avg. Weekly Hours in Manuf. (SA)	45.0	43.4	42.5	40.8	41.4	-	42.0	42.2	
	5.5%	3.3%	-0.7%	-6.2%	-5.1%	-	3.3%	0.6%	
Avg. Hourly Earnings in Manuf.	22.5	23.1	23.0	23.6	23.5	-	20.5	21.0	
	7.3%	9.4%	9.4%	11.1%	10.6%	-	3.0%	2.4%	
New Vehicle Registrations (SA, 000)	13.3	15.0	13.8	12.5	12.5	12.3	23.9	19.0	
	-41.8%	-34.8%	-36.1%	-44.0%	-39.3%	-37.6%	-1.2%	-20.5%	
Initial Unemployment Claims (SA, 000)	64.0	62.4	76.2	74.4	69.4	75.9	34.1	45.7	
	73.1%	67.1%	89.5%	89.7%	74.2%	83.7%	-0.8%	34.1%	
Personal Income (SAAR, \$bil.)	278.2	-	-	-	-	-	265.7	277.4	
	2.1%	-	-	-	-	-	8.1%	4.4%	
Median Home Price (\$000)	266.7	-	-	253.5	-	-	306.4	283.4	
	-9.3%	-	-	-13.7%	-	-	4.2%	-7.5%	

*Percentage Change is Year-over-Year
June 2009

Key Revenue Variables

	2008				2009					
	Aug 11 - Sep 10	Sep 11 - Oct 10	Oct 11 - Nov. 10	Nov. 11 - Dec. 10	Dec. 11 - Jan 10	Jan 11 - Feb 10	Feb 11 - Mar 10	Mar 11 - Apr 10	Apr 11 - May 10	May 11 - Jun 10*
Department of Revenue-Total	985,246 <i>-3.6</i>	947,715 <i>-10.8</i>	1,135,361 <i>-6.6</i>	1,565,903 <i>-2.5</i>	942,557 <i>-15.2</i>	1,103,514 <i>-11.7</i>	769,461 <i>-11.4</i>	703,544 <i>-24.4</i>	970,946 <i>-14.4</i>	1,458,783 <i>-6.6</i>
Revenue Act	936,319 <i>0.8</i>	896,300 <i>-10.0</i>	1,022,351 <i>-5.3</i>	858,807 <i>-4.7</i>	781,369 <i>-14.9</i>	1,059,501 <i>-10.6</i>	735,791 <i>-10.1</i>	663,249 <i>-19.1</i>	873,625 <i>-14.0</i>	740,002 <i>-14.1</i>
Retail Sales Tax	636,760 <i>0.8</i>	609,775 <i>-11.1</i>	675,162 <i>-6.0</i>	579,492 <i>-5.1</i>	527,414 <i>-14.8</i>	685,642 <i>-13.2</i>	485,503 <i>-8.7</i>	440,984 <i>-18.6</i>	554,314 <i>-15.2</i>	485,880 <i>-14.5</i>
Business and Occupation Tax	218,267 <i>3.4</i>	208,562 <i>-4.9</i>	267,263 <i>-2.1</i>	198,162 <i>-4.9</i>	188,824 <i>-11.8</i>	280,267 <i>-5.1</i>	173,954 <i>-12.8</i>	156,244 <i>-17.0</i>	236,433 <i>-12.7</i>	179,016 <i>-14.3</i>
Use Tax	42,498 <i>1.8</i>	42,199 <i>-9.5</i>	41,442 <i>-14.9</i>	40,891 <i>4.7</i>	28,556 <i>-33.5</i>	45,661 <i>-8.7</i>	31,088 <i>-12.4</i>	32,608 <i>-17.1</i>	35,321 <i>-19.9</i>	32,249 <i>-21.8</i>
Public Utility Tax	25,856 <i>8.6</i>	25,313 <i>-5.2</i>	27,174 <i>4.9</i>	28,969 <i>14.1</i>	24,769 <i>-19.2</i>	37,185 <i>-1.6</i>	33,398 <i>-12.4</i>	35,736 <i>-5.4</i>	36,405 <i>5.9</i>	32,381 <i>-1.0</i>
Tobacco Products Tax	993 <i>21.1</i>	832 <i>-33.0</i>	1,006 <i>25.4</i>	973 <i>13.7</i>	860 <i>3.6</i>	859 <i>15.7</i>	822 <i>-9.1</i>	993 <i>13.4</i>	959 <i>35.7</i>	890 <i>-0.8</i>
Penalties and Interest	11,945 <i>-39.1</i>	9,618 <i>-39.9</i>	10,305 <i>-19.3</i>	10,319 <i>-37.0</i>	10,945 <i>2.4</i>	9,887 <i>-16.0</i>	11,025 <i>-13.2</i>	-3,317 <i>-128.7</i>	10,193 <i>-18.1</i>	9,586 <i>3.1</i>
Non-Revenue Act**	48,927 <i>-47.5</i>	51,415 <i>-23.8</i>	113,011 <i>-17.1</i>	707,096 <i>0.4</i>	161,188 <i>-16.9</i>	44,013 <i>-31.6</i>	33,671 <i>-32.2</i>	40,296 <i>-63.6</i>	97,321 <i>-17.8</i>	718,781 <i>2.5</i>
Liquor Sales/Liter	14,259 <i>10.4</i>	14,432 <i>3.9</i>	12,282 <i>3.5</i>	13,812 <i>9.3</i>	13,466 <i>-0.8</i>	18,972 <i>4.4</i>	12,126 <i>7.9</i>	11,408 <i>-1.7</i>	12,368 <i>2.6</i>	12,433 <i>2.3</i>
Cigarette	4,214 <i>-11.6</i>	4,470 <i>2.2</i>	4,815 <i>0.8</i>	3,487 <i>-17.3</i>	3,527 <i>-5.9</i>	4,153 <i>-11.8</i>	3,498 <i>-7.6</i>	4,050 <i>0.4</i>	3,581 <i>-0.1</i>	4,237 <i>8.0</i>
Property (State School Levy)	-18,168 <i>3.1</i>	-15,964 <i>24.3</i>	9,434 <i>2.9</i>	611,756 <i>5.4</i>	111,753 <i>-6.8</i>	-13,815 <i>5.1</i>	-16,785 <i>-16.1</i>	4,201 <i>-44.0</i>	38,567 <i>7.1</i>	663,407 <i>6.7</i>
Estate	134 <i>-84.9</i>	6 <i>58.5</i>	132 <i>-35.8</i>	72 <i>-69.8</i>	-40 <i>-101.2</i>	59 <i>-108.1</i>	125 <i>204.4</i>	-65 <i>-116.2</i>	-28 <i>-125.0</i>	-42 <i>189.1</i>
Real Estate Excise	41,263 <i>-50.7</i>	44,268 <i>-23.9</i>	36,963 <i>-40.7</i>	37,142 <i>-42.2</i>	26,829 <i>-48.7</i>	19,323 <i>-48.6</i>	29,415 <i>-19.1</i>	19,815 <i>-56.3</i>	24,682 <i>-46.1</i>	24,600 <i>-44.3</i>
Timber (state share)	1,453 <i>-45.2</i>	0 <i>NA</i>	0 <i>NA</i>	1,508 <i>-27.6</i>	0 <i>NA</i>	0 <i>NA</i>	1,001 <i>-35.9</i>	0 <i>NA</i>	0 <i>NA</i>	668 <i>-32.3</i>
Other	5,772 <i>-3.2</i>	4,203 <i>7.1</i>	49,385 <i>3.0</i>	39,318 <i>-2.9</i>	5,652 <i>472.6</i>	15,321 <i>-13.6</i>	4,290 <i>-74.3</i>	887 <i>-97.9</i>	18,151 <i>-13.1</i>	13,478 <i>-24.3</i>
Department of Licensing**	881 <i>-24.7</i>	404 <i>-13.1</i>	324 <i>4.5</i>	180 <i>-38.6</i>	213 <i>3.1</i>	242 <i>35.9</i>	263 <i>4.3</i>	429 <i>-6.3</i>	5,650 <i>15.2</i>	3,882 <i>-18.3</i>
Lottery**	0 <i>NA</i>	0 <i>NA</i>	0 <i>NA</i>	11,092 <i>NA</i>	0 <i>NA</i>	0 <i>NA</i>	0 <i>NA</i>	0 <i>NA</i>	0 <i>NA</i>	0 <i>NA</i>
Total General Fund-State***	986,127 <i>-3.6</i>	948,119 <i>-10.8</i>	1,135,685 <i>-6.6</i>	1,577,175 <i>-1.8</i>	942,770 <i>-15.2</i>	1,103,757 <i>-11.7</i>	769,724 <i>-11.3</i>	703,973 <i>-24.4</i>	976,597 <i>-14.3</i>	1,462,665 <i>-6.7</i>

*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 and DOL.

Note: *Italic figures refer to Year-over-Year percent change.*

Revenue Forecast Variance

Thousands of Dollars

Period/Source	Estimate*	Actual	Difference Amount	Percent
May 11 - June 10, 2009				
June 10, 2009 Collections Compared to the March 2009 Forecast				
Department of Revenue-Total	\$1,366,595	\$1,458,783	\$92,188	6.7%
Revenue Act** (1)	795,640	740,002	(55,638)	-7.0%
Non-Revenue Act(2)	570,955	718,781	147,826	25.9%
Liquor Sales/Liter	12,659	12,433	(226)	-1.8%
Cigarette	3,859	4,237	378	9.8%
Property (State School Levy)	501,861	663,407	161,546	32.2%
Estate	36	(42)	(78)	-214.4%
Real Estate Excise	32,121	24,600	(7,521)	-23.4%
Timber (state share)	1,170	668	(503)	-43.0%
Other	19,248	13,478	(5,770)	-30.0%
Department of Licensing (2)	4,779	3,882	(897)	-18.8%
Lottery (5)	0	0	0	0.0%
Total General Fund-State***	\$1,371,374	\$1,462,665	\$91,291	6.7%

Cumulative Variance Since the March Forecast (March 11 - June 10, 2009)

Department of Revenue-Total	\$3,138,050	3,133,273	(4,776)	-0.2%
Revenue Act** (3)	\$2,415,246	2,276,875	(138,370)	-5.7%
Non-Revenue Act(4)	\$722,804	856,398	133,594	18.5%
Liquor Sales/Liter	\$37,290	36,209	(1,081)	-2.9%
Cigarette	\$11,611	11,868	257	2.2%
Property (State School Levy)	\$539,187	706,175	166,988	31.0%
Estate	\$109	(134)	(243)	-222.6%
Real Estate Excise	\$89,767	69,097	(20,671)	-23.0%
Timber (state share)	\$1,170	668	(503)	-43.0%
Other	\$43,669	32,516	(11,153)	-25.5%
Department of Licensing (4)	9,996	9,841	(155)	-1.6%
Lottery (5)	0	0	0	0.0%
Total General Fund-State***	\$3,148,046	\$3,143,114	(\$4,932)	-0.2%

1 Collections May 11, 2008 - June 10, 2009. Collections primarily reflect April 2009 activity of monthly taxpayers.

2 May 2009 collections.

3 Cumulative collections, estimates and variance since the March 2009 forecast; (March 11 - June 10, 2009) and revisions to history.

4 Cumulative collections, estimates and variance since the March forecast (March-May 2009) and revisions to history.

5 Lottery transfers to the General Fund

* Based on the March 2009 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.