



STATE OF WASHINGTON
ECONOMIC AND REVENUE FORECAST COUNCIL
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March 10, 2008

TO: Representative Jim McIntire, Chair
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Senator Craig Pridemore
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FROM: Chuck Gusak, Senior Revenue Forecaster

SUBJECT: MARCH 10, 2008 REVENUE COLLECTION REPORT

General Fund-State (GFS) tax payments totaled \$868.4 million in the February 11, 2008 - March 10, 2008 collection period. Receipts for the month were \$10.7 million (1.2 percent) higher than expected. Revenue Act receipts (sales, B&O, use and public utility tax payments) were higher than expected for the period, more than offsetting weaker than expected property tax payments. Real estate excise tax payments were virtually right on the estimate for the month. There were no known special factors this period. GFS collections are \$10.6 million (1.2 percent) higher than expected since the February 2008 forecast. Despite a continuing barrage of bad economic news, so far the February revenue forecast appears to be on track.

Revenue Act Collections

- As expected revenue growth was weak again this month, although not as weak as expected. Revenue Act receipts this period (primarily January 2008 business activity) were only 3.5 percent higher than a year-ago. Last month year-over-year growth was 3.4 percent while two months ago it was 8.8 percent. The forecast assumed a year-over-year increase of 2.0 percent for the month.
- Spending continues to decelerate. After growing 8.9 percent in the first half of calendar 2008, spending (as measured by Revenue Act tax payments) slowed to 5.9 in the second half of the year. Growth the last two months averaged only 3.5 percent.
- Preliminary Industry detail of tax payments for the February 11-March 10 period from electronic filers again shows weakness in most sectors.
 - Tax payments by firms in the retail trade sector were 3.4 percent below the year-ago level. Last month tax payments in the retail trade sector were down 0.7 percent. Until last month, this sector had not declined on a year-over-year basis since the last recession.
 - As was the case last month, the weakness in retailing was widespread with six of twelve sectors reporting declines including: motor vehicle dealers (-7.6 percent), electronic and appliance stores (-12.8 percent), and general merchandise retailers (-9.4 percent).
 - Several non-retailing sectors reported large year-over-year declines in tax payments including: finance and insurance (-10.0 percent) and utilities (-19.4 percent).
 - There were some bright spots: manufacturing was up 14.3 percent; last month payments from the manufacturing sector declined 12.1 percent. Construction again increased (+4.0 percent), but appeared not as strong as in recent months.

Other Collections

- Non Revenue Act tax payments were \$1.9 million, 3.8 percent, below the estimate for the month. Property tax (-\$2.0 million), cigarette tax (-\$161,000) and the GFS share of the estate tax (-\$161,000) were less than expected. Liquor taxes (+\$116,000) and other payments (+\$247,000) were higher than expected.
- Real estate activity remains weak. February 2008 taxable activity was 25.2 percent below the year-ago level. Although activity in February did not decline as much as last month (-35.6 percent), it is premature to say that conditions have improved. Real estate activity has declined on a year-over-year basis, fourteen of the last sixteen months and with the exception of a drop of 17.8 percent two months ago, real estate activity has declined more than 22 percent for the past six months.
- The weakness in activity continues to be primarily due to a decline in transactions. A breakdown of the number of transactions and value per transaction is not available for February, but for the month of January the number of transactions were 23.7 percent below the year-ago level while the average value per transaction declined 15.6 percent. Transactions have declined on a year-over-year basis twenty-five of the past twenty-six months.
- Department of Licensing GFS collections, which primarily reflect payment of various licenses and fees, were \$140,000 higher than expected this month and are \$9,000 below the forecast cumulatively since the February forecast.

The attached Table 1 compares collections with the February 2008 forecast for the February 11-March 10, 2008 collection period and cumulatively since the February 2008 forecast. The variance for the month is very similar to the cumulative variance because the monthly estimates in the February forecast reflect actual collections through Feb. 10, 2008. Differences between the monthly and cumulative variance in Table 1 reflect data revisions since the February 2008 forecast. Table 2 compares revised collection figures with the preliminary numbers reported in last month's collection report.

Economic News

- Economic news was again mostly negative. The U.S. labor market is weakening, consumer confidence is plunging, energy prices are rising, and there is some concern that inflation could complicate the Federal Reserves effort to simulate the economy.
- U.S. Payroll jobs fell for the second consecutive month. The U.S economy lost 63,000 jobs in February 2008 and the job loss number for January was revised up to -22,000 from the -17,000 previously reported. February's job loss was the worst since March 2003. The U.S. unemployment rate fell from 4.9 percent in January to 4.8 percent in February due to decline in the labor force.
- The Conference Board reported that its' Index of Consumer Confidence fell sharply in February. This index also declined in January and has declined nine of the last twelve months. The index is now 33 percent below its cyclical high reached in July 2007.
- The Conference Board also reported that its' Index of Leading Indicators fell for the fourth consecutive month in February 2008. The index has declined in five of the last six months and is 1.5 percent below the January 2007 level.
- The Washington economy added 5,800 jobs in January 2008 and has 61,900 more jobs than a year-ago. The state's unemployment rate fell from 4.6 percent in December to 4.5 percent in January.

Revenue Collection Report
March 10, 2008 Collections Compared to the February 2008 Forecast
Thousands of Dollars

<u>Period/Source</u>	<u>Estimate*</u>	<u>Actual</u>	<u>Difference</u>	
			<u>Amount</u>	<u>Percent</u>
Feb. 11 - March 10, 2008				
Department of Revenue-Total	\$857,437	\$868,004	\$10,567	1.2%
Revenue Act** (1)	805,803	818,315	12,512	1.6%
Non-Revenue Act(2)	51,634	49,690	(1,945)	-3.8%
Liquor Sales/Liter	11,121	11,237	116	1.0%
Cigarette	3,980	3,787	(193)	-4.8%
Property (State School Levy)	(18,017)	(20,005)	(1,988)	11.0%
Estate	203	41	(161)	NC
Real Estate Excise	36,322	36,361	39	0.1%
Timber (state share)	1,569	1,563	(6)	-0.4%
Other	16,457	16,704	247	1.5%
Department of Licensing (2)	259	399	140	53.9%
Lottery (5)	0	0	0	NA
Total General Fund-State***	\$857,696	\$868,403	\$10,707	1.2%

Cumulative Variance Since the February Forecast (Feb. 11, 2008 - March 10, 2008)

Department of Revenue-Total	\$857,437	868,004	10,567	1.2%
Revenue Act** (3)	805,803	818,315	12,512	1.6%
Non-Revenue Act(4)	51,634	49,690	(1,945)	-3.8%
Liquor Sales/Liter	11,121	10,526	(595)	-5.4%
Cigarette	3,980	3,841	(139)	-3.5%
Property (State School Levy)	(18,017)	(20,005)	(1,988)	11.0%
Estate	203	41	(161)	NA
Real Estate Excise	36,322	36,297	(25)	-0.1%
Timber (state share)	1,569	1,563	(6.0)	-0.4%
Other	16,457	17,426	969	5.9%
Department of Licensing (4)	259	250	(9)	-3.5%
Lottery (5)	0	0	0	NA
Total General Fund-State***	\$857,696	\$868,254	\$10,558	1.2%

1 Collections Feb. 11 - March 10, 2008. Collections primarily reflect January 2008 activity of monthly taxpayers.

2 February 2008 collections.

3 Cumulative collections, estimates and variance since the February 2008 forecast; (Feb. 11 - March 10, 2007) and revisions to history.

4 Cumulative collections, estimates and variance since the February forecast; (January 2008) and revisions to history.

5 Lottery transfers to the General Fund

* Based on the February 2008 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
February 10, 2008 Collection Report - Revised Data
Thousands of Dollars

Period/Source	Collections		Difference	
	Preliminary	Revised	Amount	Percent
January 11 - February 10, 2008				
Department of Revenue-Total	\$1,249,933	\$1,249,933	\$0	0.0%
Revenue Act (1)	1,185,627	1,185,627	0	0.0%
Non-Revenue Act(2)	64,306	64,306	0	0.0%
Liquor Sales/Liter	18,178	18,178	(0)	-0.0%
Cigarette	4,710	4,710	(0)	-0.0%
Property (State School Levy)-net	(13,149)	(13,149)	(0)	0.0%
Estate	(736)	(736)	0	0.0%
Real Estate Excise	37,570	37,570	0	0.0%
Timber (state share)	0	0	0	NA
Other	17,734	17,734	(0)	-0.0%
Department of Licensing (2)	327	178	(149)	-45.5%
Lottery (2)	0	0	0	NA
Total General Fund-State***	1,250,260	1,250,112	(\$148)	-0.0%
Cumulative Receipts: Nov. 11 - February 10, 2008 & Revisions to History				
Department of Revenue-Total	\$3,967,390	\$3,967,390	(\$0)	-0.0%
Revenue Act (3)	3,004,857	3,004,857	0	0.0%
Non-Revenue Act(4)	962,532	962,532	0	0.0%
Liquor Sales/Liter	43,680	42,968	(712)	-1.6%
Cigarette	12,731	12,785	54	0.4%
Property (State School Levy)-net after transf	687,055	687,055	0	0.0%
Estate	2,914	2,914	0	0.0%
Real Estate Excise	154,119	154,055	(64)	-0.0%
Timber (state share)	2,083	2,083	0	NA
Other	59,949	60,670	721	1.2%
Department of Licensing (4)	789	250	(539)	-68.3%
Lottery (4)	0	0	0	NA
Total General Fund-State***	\$3,968,179	\$3,967,640	(\$539)	-0.0%

Preliminary. Reported in the February 10, 2008 collection report.

1 Collections Jan. 11 - February 10, 2008. Collections primarily reflect December 2008 business activity of monthly taxpayers, Oct.-Dec. 2007 activity of quarterly filers and 2007 activity of annual filers.

2 January 1-31, 2008 collections.

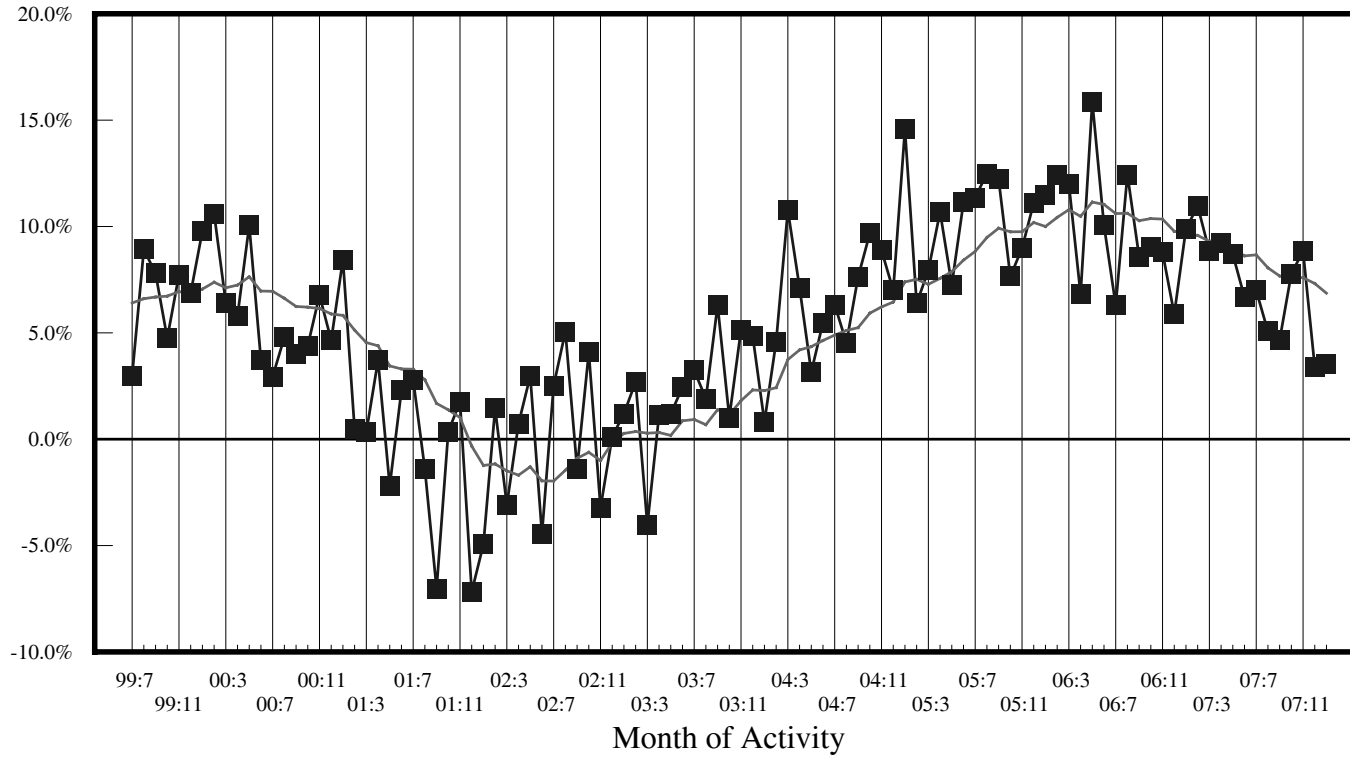
3 Cumulative receipts since the Nov. 2007 forecast: Nov 11-Feb 10,2008 & revisions to history.

4 Cumulative receipts since the Nov. 2007 forecast (Nov. 07- Jan. 08) & 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.