



STATE OF WASHINGTON
ECONOMIC AND REVENUE FORECAST COUNCIL

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September 10, 2007

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SUBJECT: September 10, 2007 REVENUE COLLECTION REPORT

Tax payments in the August 11 – September 10, 2007 collection period totaled \$1,022.2 million. This was \$25.6 million (2.6 percent) above the estimate for the month. Most tax sources were higher than expected with the majority of the variance coming from Revenue Act (sales, business and occupation, use and public utility taxes) tax payments (+\$19.9 million) and real estate excise receipts (\$3.1 million). This month's positive variance this was primarily due to an unusually large (\$23.5 million) and unexpected audit payment, not to stronger than expected economic activity. Excluding the payment collections were only \$2.3 million (0.2 percent) move than the estimate. Cumulatively for the three months since the June 2007 forecast, GFS collections are \$75.5 million, (2.2 percent) above the estimate. Adjusting for special factors the cumulative variance since the June forecast is \$52.2 million (1.5 percent). Despite weakness in the residential housing market, slower employment growth nationally, and shaky financial markets, revenue has increased a little faster than assumed in the forecast during the last three months.

Better than expected revenue growth reflects a still healthy Washington economy, however, nationally, recent economic news has turned mostly negative. The August jobs report confirmed a weakening labor market. The U.S. economy lost 4,000 jobs in August 2007. This was the first month to month decline in employment in four years. In addition, there were large downward revisions in job gains for both June and July. Job growth has decelerated from an average of 189,000 a month in 2006 and 134,000 a month in the first half of 2007 to just 44,000 a month for the last three months. Although the number of jobs declined in August, the U.S. unemployment rate remained at 4.6%, unchanged from July, due to a large drop in the labor force. The Washington labor market appears much healthier. Washington added 7,800 non-farm jobs in July and now has 89,100 more payroll jobs than a year ago, a 3.1 year-over-year increase. Nationally the year-over-year increase was only 1.2 percent. Washington construction employment remains especially strong. Despite continued weakness in residential construction, construction employment in the state again increased on a year-over-year basis more than twice as fast as total jobs (8.1). The state's unemployment rate rose from 4.5 percent in June to 4.9 percent in July, but 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 rose 0.4 percent in July 2007, reversing a decline in June. The index has increased three of the last six months and has rose or remained unchanged for seven of the last twelve months. The index in July 2007 is 0.8 percent higher than the year ago level. Less bullish was the Conference Board report that showed its Index of Consumer Confidence fell 6.3 percent in August. The index has declined four the last six month and is at its lowest level since August 2006.

Revenue Act collections for the month (primarily reflecting July 2007 business activity) were 7.0 percent above the year-ago level (adjusted for special factors). Although this is a little stronger than last month's 6.7 increase, it is below the average growth in the second quarter (8.1 percent) as well as the average growth for the last six months (8.9) percent. The forecast expected that the on-going correction in the housing market and a weaker U.S. economy to result in weaker overall spending and revenue growth. While revenue growth has slowed, the overall deceleration of revenue growth, so far at least, has been a little less than anticipated.

Preliminary information on tax payments by industry, from taxpayers filing electronically, indicates moderate growth in the August 11-September 10, 2007 period (primarily July 2007 business activity). The retail trade sector was weak, with tax payments up only 3.8 percent from a year-ago. This is a little weaker than last month's 5.0 percent gain, but well below the 7.0 percent average increase for the last twelve months. Tax payments by businesses in the auto sector, the largest retail trade category, declined 2.5 percent this month, the weakest growth for the year. Last month auto retailers posted a 3.5 percent increase in tax payments. Other weak retailing sectors included: gasoline stations (-6.6 percent), electronics and appliance retailers (-1.1 percent), building materials/garden supply retailers (+0.3 percent), furniture and appliance stores (+2.2 percent) and food stores (+2.5 percent). Three retail trade sectors reported double-digit increases: sporting goods/toys/books/music retailers (+10.3 percent), miscellaneous retailers (+15.9 percent) and non-store retailers (+12.5 percent) Payments by firms in non-retail trade and food services sectors reported weaker overall growth (+7.3 percent). Last month these sectors reported a 4.2 percent increase. Tax payments by the construction sector were up 12.8 percent from the year-ago-month despite the ongoing correction in the residential housing market. Last month this sector reported a 10.1 percent increase. Other non-retail trade sectors with strong growth this month included: wholesale trade (+13.4 percent) and real estate, rental and leasing (+7.8 percent). There was weakness in several major non-retail trade sectors this month, including: manufacturing (-2.8 percent), transportation and warehousing (-21.3 percent) and finance and insurance (+0.2 percent.)

For the month Non-Revenue Act General Fund taxes were \$5.4 million above the estimate. Higher than expected real estate excise tax payment and "other" receipts (primarily unclaimed property transfers) accounted for most of the current period's variance. Cumulatively in the three months since the June forecast, non-revenue act taxes are \$33.2 million higher than expected with most of the variance due to higher than expected real estate excise tax (\$20.0 million) and "other" (+\$9.6 million), primarily brokered natural gas and unclaimed property transfers.

Taxable real estate activity reported by the state's thirty-nine counties for the most recent period (closings July 28th through August 29, 2007) was 5.1 percent below the year-ago level. Despite last month's 7.4 percent increase, the trend for the last year has been down. Activity has decline in nine of the last eleven months and growth is expected to remain weak.

Department of Licensing General Fund-State collections, which primarily reflect payments of various licenses and fees, were \$200,000 above the estimate for the month and are \$720,000 higher than the estimate for the three months since the June 2007 forecast.

The attached Table 1 provides a comparison of collections with the June 2007 forecast for the August 11, 2007 – September 10, 2007 collection period and cumulatively 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
September 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>
August 11 - September 10, 2007				
Department of Revenue-Total	\$995,607	\$1,020,996	\$25,389	2.6%
Revenue Act** (1)	908,528	928,518	19,990	2.2%
Non-Revenue Act(2)	87,079	92,478	5,399	6.2%
Liquor Sales/Liter	13,945	12,847	(1,097)	-7.9%
Cigarette	4,661	4,766	105	2.3%
Property (State School Levy)	(18,251)	(17,616)	635	-3.5%
Estate	100	885	785	NC
Real Estate Excise	80,620	83,683	3,063	3.8%
Timber (state share)	2,004	1,882	(121)	-6.1%
Other	4,001	6,031	2,029	50.7%
Department of Licensing (2)	1,034	1,234	200	19.3%
Lottery (5)	0	0	0	NA
Total General Fund-State***	\$996,641	\$1,022,229	\$25,589	2.6%
Cumulative Variance Since the June 2007 Forecast (June 11, 2007 - September 10, 2007)				
Department of Revenue-Total	\$3,384,289	3,459,082	74,794	2.2%
Revenue Act** (3)	2,875,993	2,917,586	41,593	1.4%
Non-Revenue Act(4)	508,296	541,497	33,201	6.5%
Liquor Sales/Liter	39,007	41,420	2,413	6.2%
Cigarette	13,778	13,765	(13)	-0.1%
Property (State School Levy)	154,738	155,603	866	0.6%
Estate	294	774	480	NA
Real Estate Excise	246,519	266,481	19,962	8.1%
Timber (state share)	2,004	1,882	(121.5)	-6.1%
Other	51,955	61,571	9,616	18.5%
Department of Licensing (4)	9,214	9,934	720	7.8%
Lottery (5)	0	0	0	NA
Total General Fund-State***	\$3,393,502	\$3,469,016	\$75,514	2.2%

1 Collections August 11 - September 10, 2007. Collections primarily reflect July 2007 activity of monthly taxpayers.

2 August 2007 collections.

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

4 Cumulative collections, estimates and variance since the June 2007 forecast; (June, July, and August 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
 August 10, 2007 Collection Report - Revised Data
 Thousands of Dollars

Period/Source	Collections		Difference	
	Preliminary	Revised	Amount	Percent
July 11 - August 10, 2007				
Department of Revenue-Total	\$1,186,270	\$1,186,270	\$0	0.0%
Revenue Act (1)	1,075,924	1,075,924	(0)	-0.0%
Non-Revenue Act(2)	110,347	110,347	(0)	-0.0%
Liquor Sales/Liter	13,117	13,117	(0)	-0.0%
Cigarette	5,015	5,015	(0)	-0.0%
Property (State School Levy)-net	(14,782)	(14,782)	(0)	0.0%
Estate	(522)	(522)	0	-0.1%
Real Estate Excise	87,147	87,147	(0)	-0.0%
Timber (state share)	0	0	0	NA
Other	20,372	20,372	(0)	-0.0%
Department of Licensing (2)	3,196	3,031	(165)	-5.2%
Lottery (2)	0	0	0	NA
Total General Fund-State***	1,189,466	1,189,302	(\$164)	-0.0%

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

Department of Revenue-Total	\$2,438,087	\$2,438,087	(\$0)	-0.0%
Revenue Act (3)	1,989,068	1,989,068	(0)	-0.0%
Non-Revenue Act(4)	449,019	449,019	(0)	-0.0%
Liquor Sales/Liter	28,573	28,573	(0)	-0.0%
Cigarette	8,999	8,999	0	0.0%
Property (State School Levy)-net after transf	173,220	173,220	(0)	-0.0%
Estate	(111)	(111)	(0)	0.3%
Real Estate Excise	182,798	182,798	0	0.0%
Timber (state share)	0	(0)	(0)	NA
Other	55,540	55,540	0	0.0%
Department of Licensing (4)	8,865	8,700	(165)	-1.9%
Lottery (4)	0	0	0	NA
Total General Fund-State***	\$2,446,952	\$2,446,787	(\$165)	-0.0%

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

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

2 July 1-30, 2007 collections.

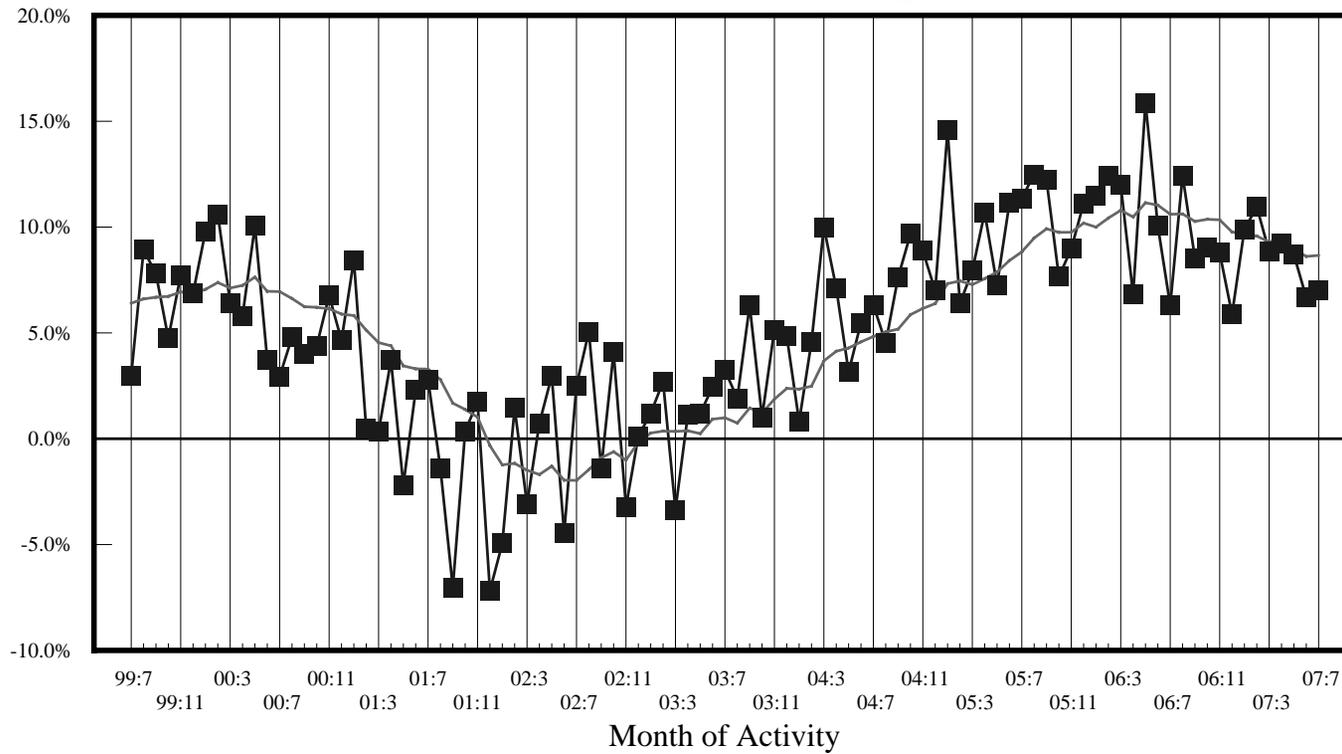
3 Cumulative receipts since the June 2006 forecast: June 11-August 10,2007 & revisions to history.

4 Cumulative receipts since the June 2007 forecast (June & July 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.