



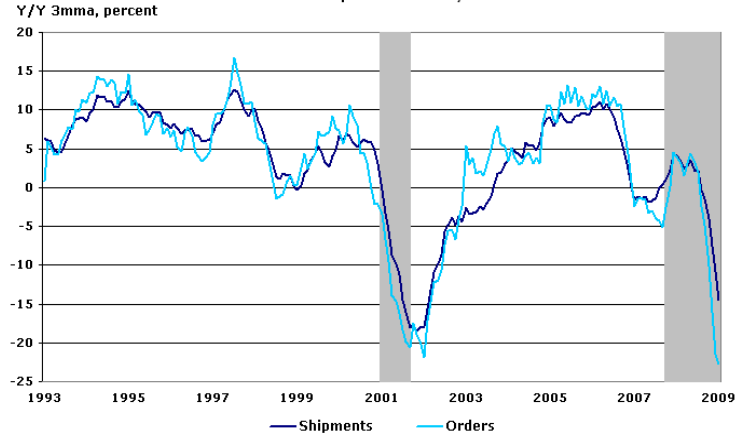
# ECONOMIC & REVENUE UPDATE

MAY 2009

## U.S.

- The economy is giving mixed signals as it typically does just prior to a recovery. In last month's publication, we noted that equity markets appear to be signaling a bottom to the recession in the third quarter; housing appears to be stabilizing; and consumer spending is bumping along the bottom. All that is still true, plus the rate of job losses appear to have peaked. However, business investment has dropped sharply, and credit still remains relatively tight. Both of these indicate that the recovery is likely to be U-shaped, and slow.
- Core capital goods orders, i.e. orders for non-defense capital goods, excluding aircraft, are running about 23% below a year ago (see figure). These are a good proxy for future business investment plans, and are indicating that business investment is likely to stay weak, even after the recovery starts. This will be a drag on the recovery, which is unlikely to pick up momentum until the middle of 2010.
- The Federal Reserve Bank's "Survey of Loan Officers" published in April, shows that credit has eased somewhat since the record tightness in October. The net tightening minus easing percent for commercial and personal loans (excluding credit cards) were in the 40-50% range, lower than the 60-80% in October, but well tighter than normal, which is 8-15%.

Sharp Decline in Business Investment Indicates a U-shaped Recovery

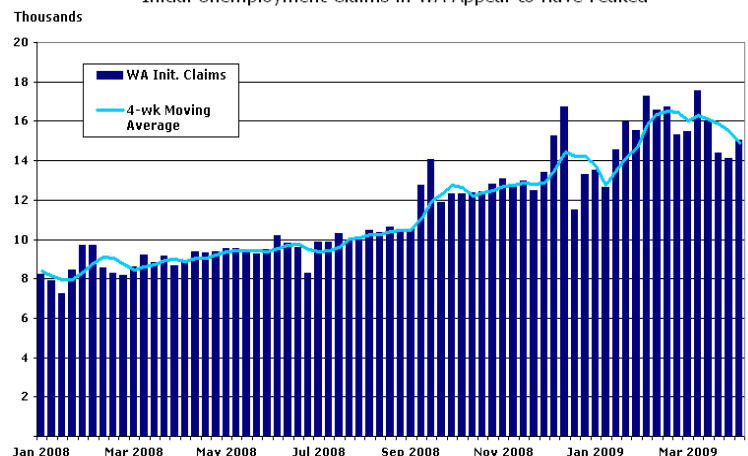


- Household de-leveraging continues. Total consumer credit outstanding fell by 5.2% in March, following February's 3.8% decline. For Q1 overall, however, the decline was 1.9%, slower than Q4's 3.0% fall. Consumer confidence has also come off its record lows, but remains weak relative to historical levels.
- The key to a sustained economic recovery is a return to normalcy in credit markets. Right now, the government is the dominant investor in secondary loan markets. For credit conditions to return to normal, private investors have to return to these secondary loan markets. The recently concluded "Bank Stress Tests" were aimed at shoring up confidence in banks. It remains to be seen whether they result in increased private investment in those banks.

## WASHINGTON

- The trend in Washington initial claims for unemployment insurance suggests that we may be nearing the bottom of the current recession in our state. The four-week moving average of initial claims has been a reliable predictor of business cycle troughs. The longer the declining trend continues, the more likely it is that a turning point is near.

Initial Unemployment Claims in WA Appear to Have Peaked



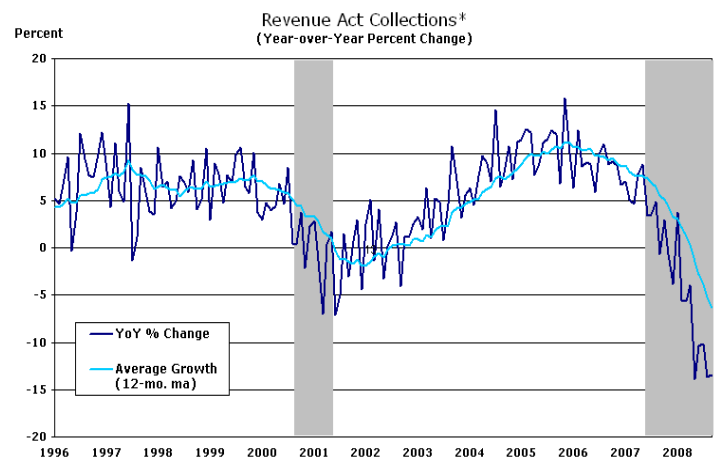
**WASHINGTON (continued)**

- The unemployment rate, however, continues to increase. It jumped from 8.3% in February to 9.2% in March as the state’s economy lost 20,000 (SA) non-farm payroll jobs. The steepest declines were in construction (-5,100), manufacturing (- 3,500), and financial activities (- 1,800), but nearly every sector declined in March. Even the health services which had bucked the trend so far, lost 1,400 jobs. The unemployment claims data suggest that the pace of job loss will decline in the coming months, but a quick upturn in jobs is not likely. We expect Washington payroll employment to continue to decline through the end of the year with the unemployment rate peaking in mid-2010.
- Both Boeing and Microsoft recently released their earnings for 2009 Q1.
  - Boeing reiterated that production of the 777 would be cut from seven per month to five in mid-2010, a 28% cut. But, although the company indicated that the 737 production rate may not need to be reduced due to ample orders, some analysts expect a reduction there as well.
  - Microsoft reported its first ever year-over-year decline in revenue due to falling PC and server sales in global markets. Microsoft indicated no change to its plan to cut 5,000 jobs worldwide through July 2010 and reaffirmed its intention to add 2,000 to 3,000 jobs over that period. Our estimate that the net effect to our region would be a loss of around 2,400 jobs through mid-2010 stands.
- Housing permits in Washington improved to 14,100 (SAAR) in March from a 27-year-low of 12,100 units in February. For Q1, permits averaged 15,100. There also appears to be increased activity in existing home sales. Pending single family home sales were up 15% y-o-y in April. However, this won’t show up in the revenue data until a couple of months after the sales close.
- In another sign the recession may be moderating, the Washington Institute for Supply Management Index improved to 46.7 in April from 40.9 in March. Although still below 50 which is the break-even level for expansion, this reading indicates a slowing rate of contraction. More encouragingly, the forward looking orders component jumped from 30.0 to 55.6.

**REVENUE COLLECTIONS**

**Revenue Act**

- The revenue collections reported here are for the April 11, 2009 – May 10, 2009 collection period. This corresponds to economic activity in March 2009.
- Adjusted for special factors (\$7.5 million in large deposits in May 2009 and \$11.3 million in large deposits in May 2008), collections in the current period are down 13.5% below their year-ago level (see figure). Unadjusted, the decline is 14.0%.
- Collections for this period are \$36.3 million (4.0%) below the March 2009 forecast. Cumulatively, they are \$82.7 million (5.1%) below.



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

- FY to date, collections are down \$859.8 million (8.8%) from the same period in FY 2008.

## ECONOMIC & REVENUE UPDATE

### REVENUE COLLECTIONS (Continued)

- Preliminary ERFC monthly estimates indicate retail sales tax collections are down 14.1% year-over-year, while B&O taxes are down 17.1%.
- Preliminary tax payments from electronic filers who also paid in the April 11 – May 10 collection period of last year were down 13.9% year-over-year.
  - Payments in the retail trade sector were down 15.1%. The greatest drops were in motor vehicles and parts (-27.2%); building materials/garden equipment (-23.4%); gas stations and convenience stores (-20.8%); and furniture and home furnishings (-18.6%).
  - Drug and health stores (+3.8%) was the only one of the 12 major retail trade sectors to show a year-over-year increase.
  - Payments in non-retail trade sectors were down 13.1% year-over-year.
  - Payments in the construction sector were down 18.2%, while those in the manufacturing sector were down 38.1%.

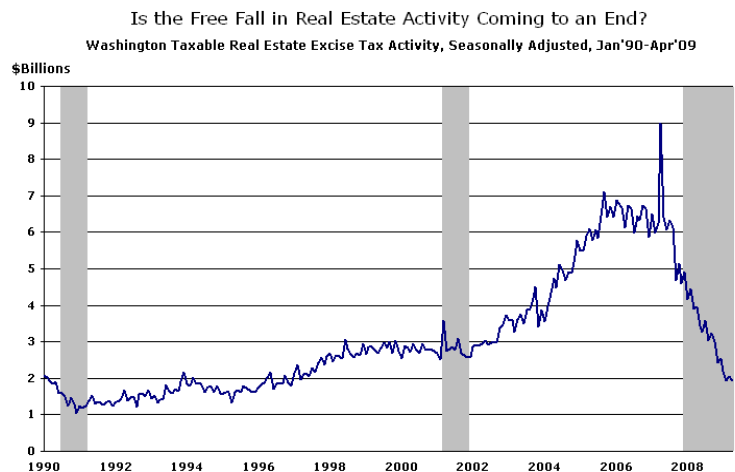
### Non-Revenue Act

- March collections are down 17.8% year-over-year.
- Collections were \$5.5 million (5.3%) below the March forecast.
- Most of the forecast variance was in the real estate excise tax (REET), which came in \$5.3 million (17.7%) below the forecast.
  - April REET taxable activity reported by the counties is down 51.2% year-over-year.
  - March REET transactions were down 15.7% year-over-year and the

average value per transaction was down 37.7% (April transaction details are not yet available).

- As shown in the figure, the rate of decline in seasonally adjusted REET activity has slowed over the last two collection periods.
- July 2008-April 2009 total collections are \$279.0 million (16.9%) 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 \$243.7 million (42.5%) cumulatively from fiscal 2008.
- While April Department of Licensing receipts were \$1,002 thousand (20.9%) above the March forecast, March receipts were revised downward by \$122 thousand, making the cumulative March variance \$880 thousand (16.9%).

The cumulative year-over-year decline in total General Fund-State (Revenue Act plus non-Revenue Act) revenues is \$1.127 billion (9.9%)



## Key U.S. Economic Variables

	2008 Nov.	2009 Dec.	2009 Jan.	Feb.	Mar.	Apr.	2007	2008
Real GDP (SAAR)	-	-6.3	-	-	-6.1	-	2.0	1.1
Industrial Production (SA, 2002 = 100)	104.8	102.5	100.3	98.8	97.4	-	111.4	109.2
<i>Y/Y % Change</i>	-6.6	-8.8	-10.9	-12.0	-13.1	-	1.7	-2.0
ISM Manufacturing Index (50+ = growth)	36.6	32.9	35.6	35.8	36.3	40.1	51.1	45.5
ISM Non-Manuf. Index (50+ = growth)	37.4	40.1	42.9	41.6	40.8	43.7	-	47.4
Housing Starts (SAAR, mil.)	655	558	488	572	510	-	1,341	903
<i>Y/Y % Change</i>	-44.4	-44.2	-54.1	-48.3	-48.4	-	-26.0	-32.6
Light Motor Vehicle Sales (SAAR, mil.)	10.2	10.3	9.6	9.1	9.8	9.3	16.2	13.2
<i>Y/Y % Change</i>	-36.7	-35.6	-37.7	-40.6	-34.9	-35.8	-2.3	-18.5
CPI (SA, 1982-84 = 100)	213.3	211.6	212.2	213.0	212.7	-	207.3	215.2
<i>Y/Y % Change</i>	1.0	-0.1	-0.2	0.1	-0.4	-	2.9	3.8
Core CPI (SA, 1982-84 = 100)	216.9	216.9	217.3	217.7	218.0	-	210.7	215.6
<i>Y/Y % Change</i>	2.0	1.7	1.7	1.8	1.8	-	2.3	2.3
IPD for Consumption (2000=100)	121.3	120.7	120.9	121.4	121.3	-	117.7	121.6
<i>Y/Y % Change</i>	1.6	0.8	0.7	0.9	0.6	-	2.6	3.3
Nonfarm Payroll Empl., e-o-p (SA, mil.)	135.8	135.1	134.3	133.7	133.0	132.4	138.2	135.1
<i>Monthly Change</i>	-0.60	-0.68	-0.74	-0.68	-0.70	-0.54	1.15	-3.08
Unemployment Rate (SA, percent)	6.8	7.2	7.6	8.1	8.5	8.9	4.6	5.8
Yield on 10-Year Treasury Note (percent)	3.53	2.42	2.52	2.87	2.82	2.93	4.63	3.67
Yield on 3-Month Treasury Bill (percent)	0.19	0.03	0.13	0.30	0.22	0.16	4.47	1.39
Broad Real USD Index (Mar. 1973=100)	95.2	93.6	94.5	95.8	101.1	98.1	93.2	90.3
Federal Budget Deficit (\$ bil.)*	164.4	83.6	83.8	192.8	192.3	-	162.8	436.3
<i>FYTD sum</i>	401.6	485.2	569.0	761.8	954.1	-	-	-
US Trade Balance (\$ bil.)	-42.5	-39.9	-36.2	-26.0	-	-	-700.3	-681.1
<i>YTD Sum</i>	-641.2	-681.1	-36.2	-62.2	-	-	-	-

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

## Key Washington Economic Variables

	2008	2009						2007	2008
	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.			
<b>Employment</b>									
								<i>End-of-period</i>	
Total Nonfarm (SA, 000)	2,942.5	2,919.5	2,911.8	2,891.1	2,871.1	-	2,963.6	2,919.5	
<i>Change from Previous Month (000)</i>	9.6	-23.0	-7.7	-20.7	-20.0	-	72.0	-44.1	
Construction	194.0	191.2	188.0	185.2	180.1	-	209.5	191.2	
<i>Change from Previous Month</i>	-1.9	-2.8	-3.2	-2.8	-5.1	-	8.9	-18.3	
Manufacturing	287.7	284.9	280.1	277.6	274.1	-	296.4	284.9	
<i>Change from Previous Month</i>	20.8	-2.8	-4.8	-2.5	-3.5	-	6.4	-11.5	
Aerospace	85.1	85.5	85.2	84.8	84.3	-	82.9	85.5	
<i>Change from Previous Month</i>	23.8	0.4	-0.3	-0.4	-0.5	-	6.1	2.6	
Software	52.2	52.6	52.1	52.2	52.2	-	48.5	52.6	
<i>Change from Previous Month</i>	-0.1	0.4	-0.5	0.1	0.0	-	2.1	4.1	
All Other	2,408.6	2,390.8	2,391.6	2,376.1	2,364.7	-	2,409.2	2,390.8	
<i>Change from Previous Month</i>	-9.2	-17.8	0.8	-15.5	-11.4	-	54.6	-18.4	
<b>Other Indicators</b>									
								<i>Annual Average</i>	
Seattle CPI (1982-84=100)	-	222.6	-	224.7	-	-	215.7	224.7	
	-	1.7%	-	1.4%	-	-	3.9%	4.2%	
Housing Permits (SAAR, 000)	18.6	14.8	19.2	12.1	14.1	-	45.6	27.3	
	-52.8%	-57.2%	-37.8%	-63.3%	-53.7%	-	-4.5%	-40.2%	
WA Index of Leading Ind. (2004=100)	110.1	110.7	109.8	107.1	104.5	-	115.7	115.3	
	-6.4%	-5.5%	-5.6%	-8.8%	-11.1%	-	4.9%	-0.3%	
WA Business Cycle Ind. (Trend=50)	21.7	17.2	12.7	6.5	3.4	-	59.0	36.4	
	-59.9%	-67.1%	-74.1%	-86.7%	-92.6%	-	-0.9%	-38.2%	
Avg. Weekly Hours in Manuf. (SA)	42.8	45.0	43.4	42.5	40.6	-	42.0	42.2	
	2.4%	5.5%	3.3%	-0.7%	-6.7%	-	3.3%	0.6%	
Avg. Hourly Earnings in Manuf.	21.4	22.5	23.1	23.0	23.6	-	20.5	21.1	
	3.4%	7.3%	9.4%	9.4%	11.3%	-	3.0%	2.7%	
New Vehicle Registrations (SA, 000)	14.4	13.3	15.0	13.8	12.5	12.5	23.9	19.0	
	-41.7%	-41.8%	-34.8%	-36.1%	-44.0%	-39.3%	-1.2%	-20.5%	
Initial Unemployment Claims (SA, 000)	56.9	64.0	62.4	76.2	74.4	69.4	34.1	45.7	
	58.6%	73.1%	67.1%	89.5%	89.7%	74.2%	-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

May 2009

## Key Revenue Variables

	2008					2009				
	Jul 11 - Aug 10	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*
<b>Department of Revenue-Total</b>	1,123,955	985,246	947,715	1,135,361	1,565,903	942,557	1,103,514	769,461	703,544	970,946
	-5.3	-3.6	-10.8	-6.6	-2.5	-15.2	-11.7	-11.4	-24.4	-14.4
<b>Revenue Act</b>	1,051,241	936,319	896,300	1,022,351	858,807	781,369	1,059,501	735,791	663,249	873,625
	-2.3	0.8	-10.0	-5.3	-4.7	-14.9	-10.6	-10.1	-19.1	-14.0
Retail Sales Tax	690,350	636,760	609,775	675,162	579,492	527,414	685,642	485,503	440,984	561,108
	-5.1	0.8	-11.1	-6.0	-5.1	-14.8	-13.2	-8.7	-18.6	-14.1
Business and Occupation Tax	277,369	218,267	208,562	267,263	198,162	188,824	280,267	173,954	156,244	224,672
	-2.3	3.4	-4.9	-2.1	-4.9	-11.8	-5.1	-12.8	-17.0	-17.1
Use Tax	45,376	42,498	42,199	41,442	40,891	28,556	45,661	31,088	32,608	37,415
	-5.8	1.8	-9.5	-14.9	4.7	-33.5	-8.7	-12.4	-17.1	-15.1
Public Utility Tax	26,862	25,856	25,313	27,174	28,969	24,769	37,185	33,398	35,736	41,084
	4.2	8.6	-5.2	4.9	14.1	-19.2	-1.6	-12.4	-5.4	19.5
Tobacco Products Tax	908	993	832	1,006	973	860	859	822	993	768
	-104.8	21.1	-33.0	25.4	13.7	3.6	15.7	-9.1	13.4	8.7
Penalties and Interest	10,377	11,945	9,618	10,305	10,319	10,945	9,887	11,025	-3,317	8,579
	9.4	-39.1	-39.9	-19.3	-37.0	2.4	-16.0	-13.2	-128.7	-31.0
<b>Non-Revenue Act**</b>	72,714	48,927	51,415	113,011	707,096	161,188	44,013	33,671	40,296	97,321
	-34.1	-47.5	-23.8	-17.1	0.4	-16.9	-31.6	-32.2	-63.6	-17.8
Liquor Sales/Liter	13,044	14,259	14,432	12,282	13,812	13,466	18,972	12,126	11,408	12,368
	-0.6	10.4	3.9	3.5	9.3	-0.8	4.4	7.9	-1.7	2.6
Cigarette	4,565	4,214	4,470	4,815	3,487	3,527	4,153	3,498	4,050	3,581
	-9.0	-11.6	2.2	0.8	-17.3	-5.9	-11.8	-7.6	0.4	-0.1
Property (State School Levy)	-14,814	-18,168	-15,964	9,434	611,756	111,753	-13,815	-16,785	4,201	38,567
	0.2	3.1	24.3	2.9	5.4	-6.8	5.1	-16.1	-44.0	7.1
Estate	245	134	6	132	72	-40	59	125	-65	-28
	-147.0	-84.9	58.5	-35.8	-69.8	-101.2	-108.1	204.4	-116.2	-125.0
Real Estate Excise	49,509	41,263	44,268	36,963	37,142	26,829	19,323	29,415	19,815	24,682
	-43.2	-50.7	-23.9	-40.7	-42.2	-48.7	-48.6	-19.1	-56.3	-46.1
Timber (state share)	0	1,453	0	0	1,508	0	0	1,001	0	0
	NA	-45.2	NA	NA	-27.6	NA	NA	NA	NA	NA
Other	20,164	5,772	4,203	49,385	39,318	5,652	15,321	4,290	887	18,151
	-1.0	-3.2	7.1	3.0	-2.9	472.6	-13.6	-74.3	-97.9	-13.1
<b>Department of Licensing**</b>	2,987	881	404	324	180	213	242	263	429	5,789
	-1.5	-24.7	-13.1	4.5	-38.6	3.1	35.9	4.3	-6.3	18.0
<b>Lottery**</b>	0	0	0	0	11,092	0	0	0	0	0
	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
<b>Total General Fund-State***</b>	1,126,942	986,127	948,119	1,135,685	1,577,175	942,770	1,103,757	769,724	703,973	976,735
	-5.2	-3.6	-10.8	-6.6	-1.8	-15.2	-11.7	-11.3	-24.4	-14.3

\*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
<b>April 11 - May 10, 2009</b>				
<b>May 10, 2009 Collections Compared to the March 2009 Forecast</b>				
Department of Revenue-Total	\$1,012,710	\$970,946	(\$41,764)	-4.1%
Revenue Act** (1)	909,903	873,625	(36,278)	-4.0%
Non-Revenue Act(2)	102,807	97,321	(5,486)	-5.3%
Liquor Sales/Liter	12,549	12,368	(181)	-1.4%
Cigarette	3,881	3,581	(300)	-7.7%
Property (State School Levy)	38,964	38,567	(397)	1.0%
Estate	36	(28)	(64)	-175.6%
Real Estate Excise	29,979	24,682	(5,297)	-17.7%
Timber (state share)	0	0	0	0.0%
Other	17,397	18,151	754	4.3%
Department of Licensing (2)	4,787	5,789	1,002	20.9%
Lottery (5)	0	0	0	0.0%
<b>Total General Fund-State***</b>	<b>\$1,017,497</b>	<b>\$976,735</b>	<b>(\$40,762)</b>	<b>-4.0%</b>

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

Department of Revenue-Total	\$1,771,455	1,674,490	(96,964)	-5.5%
Revenue Act** (3)	\$1,619,606	1,536,873	(82,733)	-5.1%
Non-Revenue Act(4)	\$151,849	137,617	(14,232)	-9.4%
Liquor Sales/Liter	\$24,631	23,776	(855)	-3.5%
Cigarette	\$7,752	7,631	(121)	-1.6%
Property (State School Levy)	\$37,326	42,768	5,442	14.6%
Estate	\$73	(92)	(165)	-226.7%
Real Estate Excise	\$57,646	44,496	(13,149)	-22.8%
Timber (state share)	\$0	0	0	0.0%
Other	\$24,421	19,038	(5,383)	-22.0%
Department of Licensing (4)	5,217	6,097	880	16.9%
Lottery (5)	0	0	0	0.0%
<b>Total General Fund-State***</b>	<b>\$1,776,672</b>	<b>\$1,680,587</b>	<b>(\$96,084)</b>	<b>-5.4%</b>

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

2 April 2009 collections.

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

4 Cumulative collections, estimates and variance since the March forecast (March-April 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.