



Economic and Revenue Forecast Council

FOR IMMEDIATE RELEASE

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Revenues Come in Above Forecast but Mask a Slowing Recovery

Olympia, 11 May 2011 – Revenue collections come in 13.3% above forecast due entirely to larger-than-anticipated revenue from the recently concluded amnesty program and other one-time payments. Excluding these payments, revenue collections are slightly below the forecast.

The economic recovery has hit yet another bump in the road. Gross domestic product (GDP) growth slowed in the first quarter, and high energy prices continue to erode consumer discretionary expenditures. Inflation, however, does not appear to be a threat. The job market is improving, but the unemployment rate remains stubbornly high and housing is still extremely weak. We mentioned this last month, but it bears repeating - tough negotiations lie ahead about raising the federal debt ceiling. If no agreement is reached, and the United States defaults on its bonds, interest rates will rise and push the economy back into recession.

The Washington economy continued to grow but at a slower pace in February and March after fairly strong growth at the end of 2010 and early 2011. Aerospace and software are expanding, but construction remains in a prolonged slump. Geopolitical developments in the Middle East and North Africa (MENA) boosted oil and gasoline prices, eroding consumers' purchasing power and confidence. The Japanese earthquake and tsunami continues to pose a threat to the state's recovery. Japan is the state's third largest export market. Eventually reconstruction activity will be a plus for our state's economy but in the near term the devastation has disrupted supply chains and reduced demand for Washington products.

Cumulatively, major General Fund-State revenues are \$162.8 million (7.9%) above the March forecast. Adjusted for the extra revenue from the amnesty program and other one-time payments and refunds, the cumulative variance is negative \$32.5 million (1.6%).

Please see our full report for more information. You can access this report at:
<http://www.ercf.wa.gov/publications/documents/may11.pdf>

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The ERFC was established under RCW 82.33 to provide the Governor and the Legislature with independent, bi-partisan, and professional forecasts of the state economy and revenues.