



# Economic and Revenue Update

## *A Briefing for the House Appropriations Committee*

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# Topics for Discussion

- National and State Economic Indicators
- September Year-to-Date Revenue Collections, Fiscal Year 2014
- Next Steps

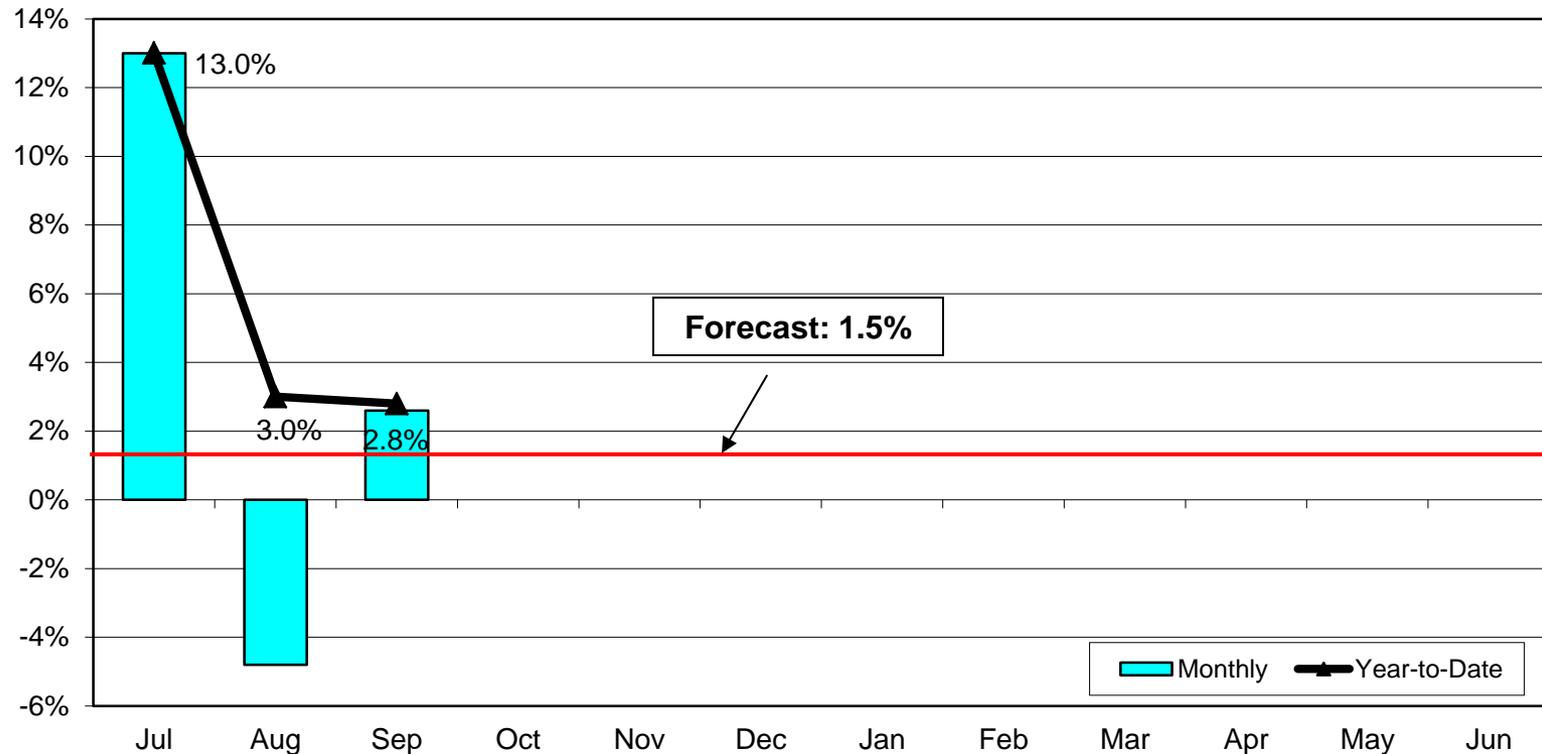
# National and State Economic Indicators

- Current national indicators suggest the economy is continuing its slow expansion.
- According to the final estimate, real GDP grew at an annualized rate of 2.5 percent in the second quarter of 2013, up from 1.1 percent in the first quarter.
- The government shutdown has delayed the Labor Department's September payroll employment and unemployment reports indefinitely.
  - ADP Research Institute estimated that private-sector employment grew by 166,000 jobs in September.
- Initial claims for unemployment rose by 1,000 to 308,000 during the week ending September 28, as low as prior to the recession.
  - The four-week moving average fell by 3,750 to 305,000.
- In August, payroll employment in Virginia grew by 0.8 percent from August of last year.
  - Compared to last year, employment increased 1.0 percent in Northern Virginia, 0.1 percent in Richmond-Petersburg and 3.1 percent in Hampton Roads.
- The unemployment rate in Virginia fell 0.2 percentage point to 5.6 percent in August and is 0.4 percentage point below August 2012.

# National and State Economic Indicators

- Activity in the manufacturing sector further improved in September, as the Institute of Supply Management index rose from 55.7 to 56.2.
- The Conference Board's index of leading indicators rose 0.7 percent in August after increasing 0.6 percent in July. This is consistent with continued slow economic growth.
- The Conference Board's index of consumer confidence fell from 81.8 to 79.7 in September, with the expectations component driving the decline.
- The CPI rose 0.1 percent in August and stands 1.5 percent above August 2012.
  - Core inflation (excluding food and energy prices) also rose 0.1 percent in August, and has increased 1.8 percent from August 2012.
- According to RealtyTrac, U.S. foreclosure activity for August declined 34.0 percent from August 2012.
  - One in every 1,019 U.S. housing units received a foreclosure notice in August.
  - In Virginia, one in every 2,126 households received a foreclosure notice.
- The saving rate was 4.4 percent in July, the same as in June.
- At its September meeting, the Federal Reserve reaffirmed that the federal funds rate target was going to remain unchanged at 0.0 to 0.25 percent.

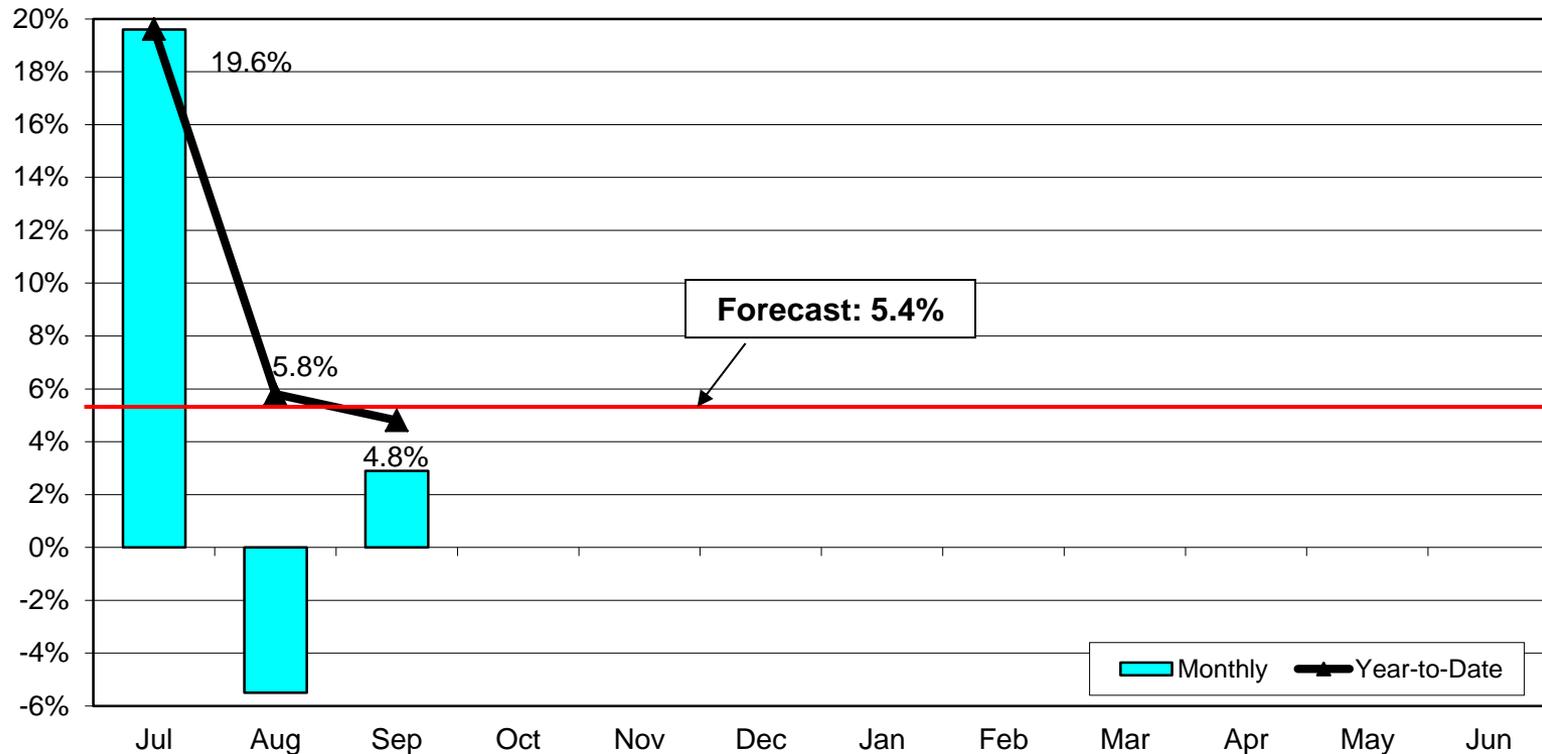
## Growth in Total General Fund Revenue Collections FY14 Monthly and Year-to-Date



Monthly Growth: 13.0%   -4.8%   2.6%

- Total general fund revenues increased 2.6 percent in September, mainly due to an increase in payroll withholding payments.
- On a year-to-date basis, total revenues increased 2.8 percent, ahead of the annual forecast of 1.5 percent growth.
  - Adjusting for HB2313 program, total revenues grew 3.5 percent through September, ahead of the economic-base forecast of 1.4 percent growth.

## Growth in Withholding TAX Collections FY14 Monthly and Year-to-Date

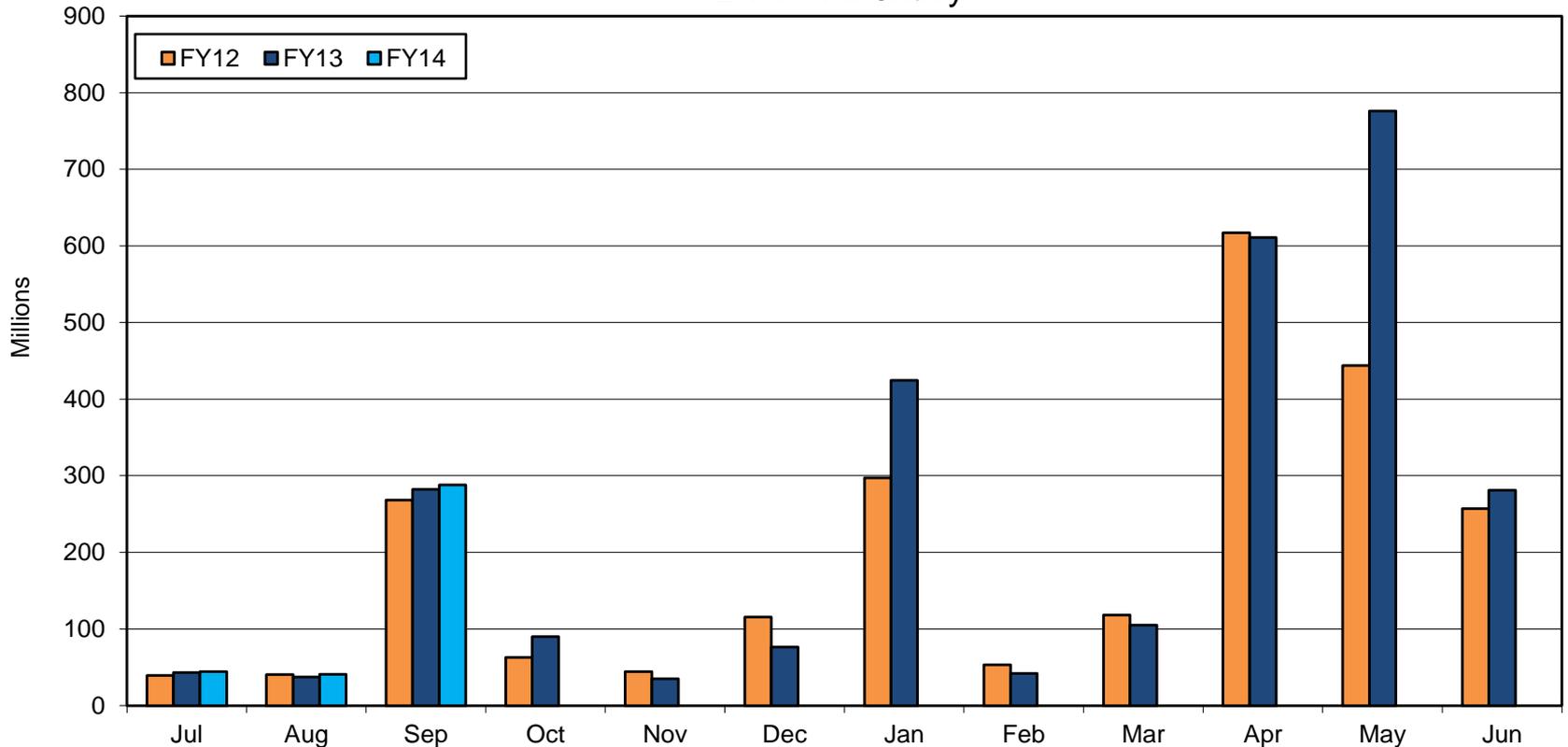


Monthly Growth:

- Collections of payroll withholding taxes increased 2.9 percent in September.
- Year to date, withholding collections increased 4.8 percent compared with the same period last year, ahead of the projected annual growth rate of 5.4 percent.

# Nonwithholding Tax Collections

FY12-FY14 Monthly



- The first individual estimated payment in fiscal year 2014 was due in September. Total monthly nonwithholding collections increased 2.1 percent.
- Year-to-date, collections through the first quarter of fiscal year 2014 were \$372.8 million compared with \$362.4 million in the same period last year, an increase of 2.9 percent and ahead of the annual estimate of a 5.9 percent decline.

## **Individual Income Tax Refunds**

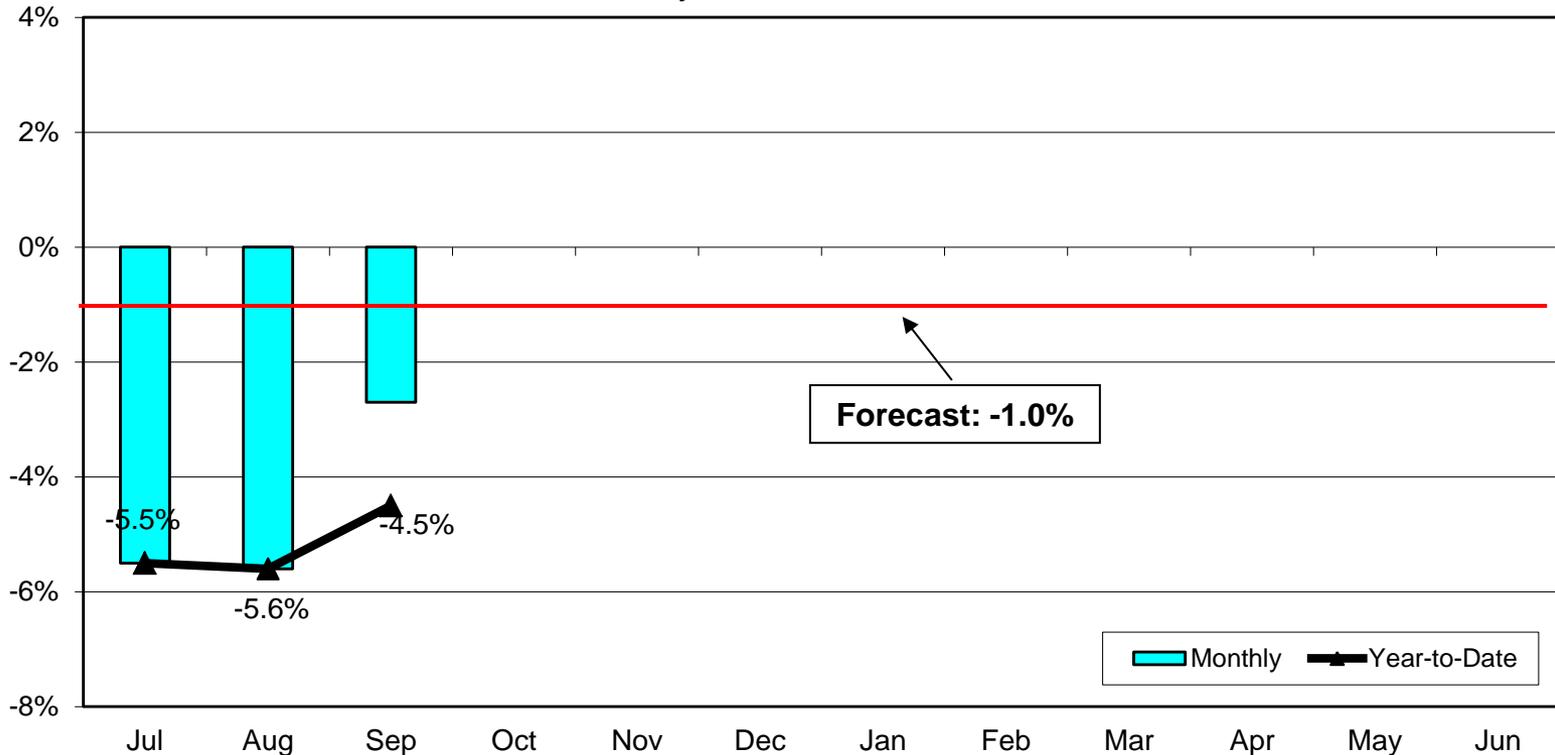
- Not a significant month.
- Through September, TAX has issued \$118.6 million in individual refunds compared with \$98.2 million in the same period last year, a 20.8 percent increase and ahead of the annual estimate of 6.3 percent growth.

## **Net Individual Income Tax**

- Through the first two months of the fiscal year, collections of net individual income tax increased 4.0 percent from the same period last year, ahead of the annual estimate of 2.5 percent growth.

## Growth in Sales Tax Collections

### FY14 Monthly and Year-to-Date



Monthly Growth: -5.5%    -5.6%    -2.7%

- Collections of sales and use taxes, reflecting August sales, decreased 2.7 percent.
- On a year-to-date basis, collections declined 4.5 percent, behind the annual estimate of a 1.0 percent decline.
  - Adjusting for AST and HB2313, sales tax collections declined 0.4 percent through September, behind the economic-base forecast of a 5.2 percent increase.

## Net Corporate Income Tax Collections

- Like nonwithholding, September is a significant month in corporate income tax collections since the first estimated payment for the fiscal year is due.
  - Collections in corporate income tax increased 16.7 percent in September.
  - This increase is due to widespread strength in payments from many large corporations.
- Through the first quarter of fiscal year 2014, collections in this source have increased 19.4 percent, ahead of the annual estimate of 5.4 percent growth.
- Through the first quarter, 26.1 percent of the projected fiscal year's gross corporate payments have been received.
  - This is slightly below the historical average of 24.1 percent.

## **Recordation Tax Collections**

- Collections of wills, suits, deeds, and contracts – mainly recordation tax collections – declined 3.8 percent in September, but are up 2.8 percent on a year-to-date basis, far ahead of the forecast of a 10.9 percent decline.
  - The last two months have seen declines in the monthly growth rate after double-digit growth in 17 of the prior 18 months.

## **Insurance Premiums Tax**

- Monthly collections of insurance premiums are being transferred to the Transportation Trust Fund per Chapter 896, 2007 Acts of the Assembly, until the required amount of \$130.8 million has been booked.
  - Adjusted for this transfer, collections have increased 9.8 percent through the first quarter of fiscal year 2014 from the same period last year, ahead of expectations of 7.0 percent growth.

# Summary of Fiscal Year 2014 Revenue Collections

July through September

Percent Growth over Prior Year

<u>Major Source</u>	<u>As a % of Total Revenues</u>	<u>YTD Actual</u>	<u>Annual Estimate</u>	<u>Variance</u>
Withholding	63.8 %	4.8 %	5.4 %	(0.6) %
Nonwithholding	15.6	2.9	(5.9)	8.8
Refunds	(10.8)	20.8	6.3	14.5
Net Individual	68.6	4.0	2.5	1.5
Sales	18.8	(4.5)	(1.0)	(3.5)
Corporate	5.0	19.4	5.4	14.0
Wills (Recordation)	2.0	2.8	(10.9)	13.7
Insurance	1.7	0.0	7.0	(7.0)
All Other Revenue	4.0	(2.3)	(2.3)	0.0
<b>Total</b>	<b>100.0 %</b>	<b>2.8 %</b>	<b>1.5 %</b>	<b>1.3 %</b>
Sales (x HB2313)		(0.4) %	5.2 %	(5.6) %
Total (x HB2313)		3.5 %	1.4 %	2.1 %

## Fall 2013 Forecasting Process

- The Joint Advisory Board of Economists (JABE) met on October 16th.
  - Members assessed recent economic developments and evaluated the revised economic outlook for the current and the next biennium.
- A meeting of the Governor's Advisory Council on Revenue Estimates (GACRE) will be held on November 25, 2013.
  - Members will evaluate JABE recommendations, revenue collections through October, and the associated revenue forecast.
- The subsequent economic and revenue outlook will serve as the basis for the Governor's amendments to the 2012-2014 biennial budget and proposed 2014-2016 biennial budget.