



Economic and Revenue Update

A Briefing for the House Appropriations Committee

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Topics for Discussion

- National and State Economic Indicators
- January Year-to-Date Revenue Collections, Fiscal Year 2011
- Mid-Session Revised Revenue Forecast

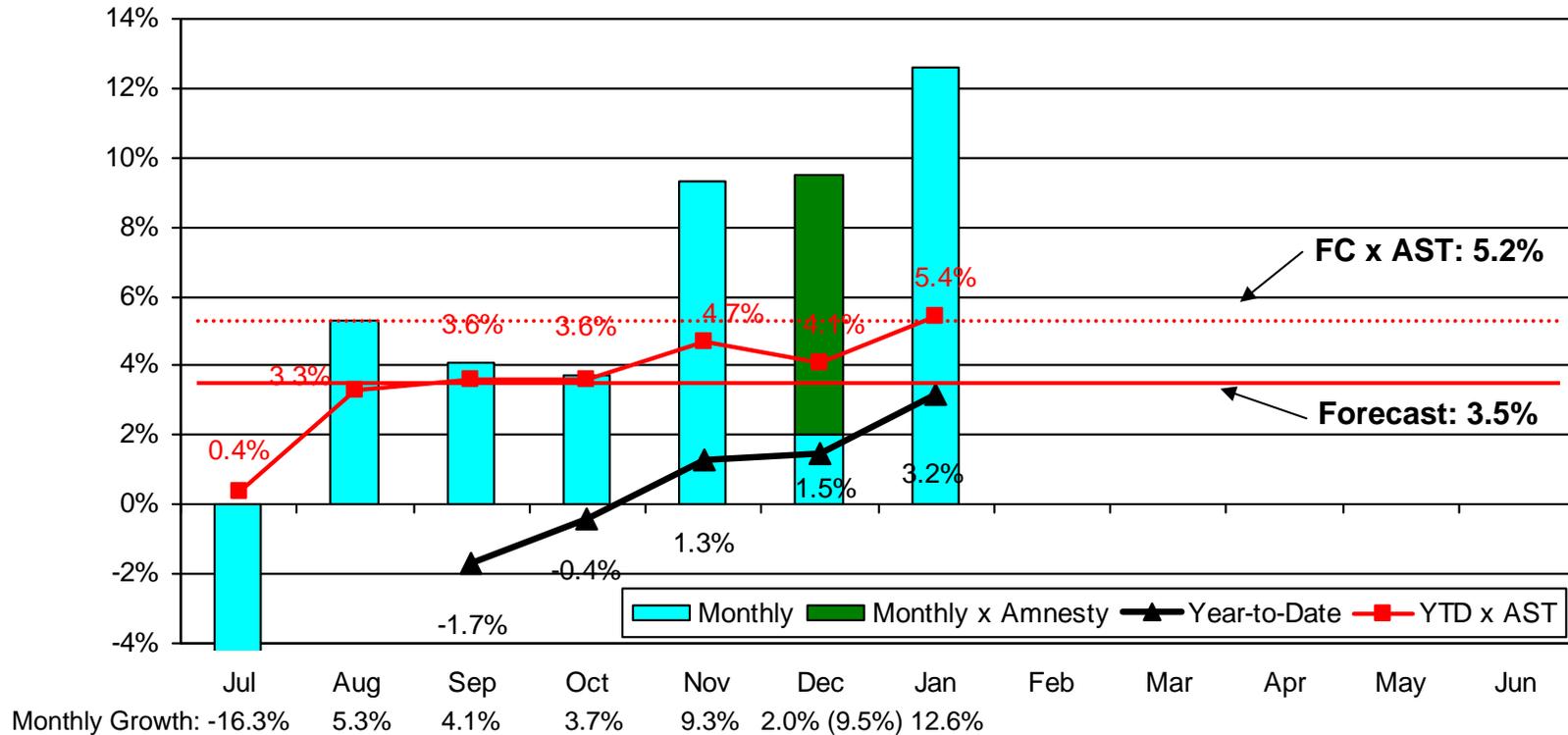
National and State Economic Indicators

- According to the advance estimate, real GDP grew 3.2 percent at an annualized rate in the fourth quarter of 2010, up from 2.6 percent in the third quarter.
 - This marked the sixth consecutive quarter of growth since the recession officially ended in June 2009.
- Payroll employment rose by only 36,000 jobs in January, the fourth consecutive monthly increase.
 - The weak gain was probably due to the harsh winter weather affecting much of the country.
- The national unemployment rate fell to 9.0 percent in January, as workers dropped out of the labor force.
- Payroll employment in the Commonwealth grew 1.0 percent in December from December of last year, the sixth consecutive month of gains.
 - Compared with December of last year, Northern Virginia posted a gain of 0.4 percent, Hampton Roads grew 1.0 percent, and Richmond-Petersburg fell 0.9 percent.
 - Annual benchmark revisions to state and regional employment will be released in March.
- The unemployment rate in Virginia fell from 6.6 percent to 6.4 percent in December, the lowest rate since April 2009, and well below the peak of 7.8 percent in February.
- Initial claims for unemployment decreased by 42,000 to 415,000 during the week ending January 29, while the four-week moving average rose from 430,000 to 431,000.
 - The initial claims data are consistent with a stagnant job market. Severe weather can also cause volatility in this indicator, although the decline is consistent with a slight improvement in the labor market.

National and State Economic Indicators

- According to RealtyTrac, foreclosure filings for January declined 17 percent from January 2010, with one in every 497 U.S. housing units receiving a foreclosure notice during the month.
 - In Virginia, one in every 1,090 households received a foreclosure notice in January 2011.
- The saving rate was 5.3 percent in December – it has been above 5 percent for two years.
- The Institute of Supply Management index rose from 58.5 to 60.8 in January, its highest level since May 2004, and its sixth consecutive increase.
 - The strength in the manufacturing sector suggests the recovery accelerated early this year.
- The Conference Board's index of leading indicators rose 1.0 percent in December, its sixth consecutive monthly increase.
 - The gain in the index was broad-based and suggests the recovery is picking up.
- The Conference Board's index of consumer confidence rose from 53.3 to 60.6 in January, reaching its highest level since May 2010.
 - Although the monthly increase indicates confidence is improving, it remains weak.
- The CPI increased 0.5 percent in December from the previous month and is 1.5 percent above December of last year.
 - Core inflation (excluding food and energy prices) rose 0.1 percent in December, and has increased 0.8 percent from December 2009.
- The Federal Reserve announced at its January meeting that it will keep the federal funds rate target unchanged at 0.0 to 0.25 percent. In addition, it will continue its quantitative easing policy of purchasing long-term treasury securities.

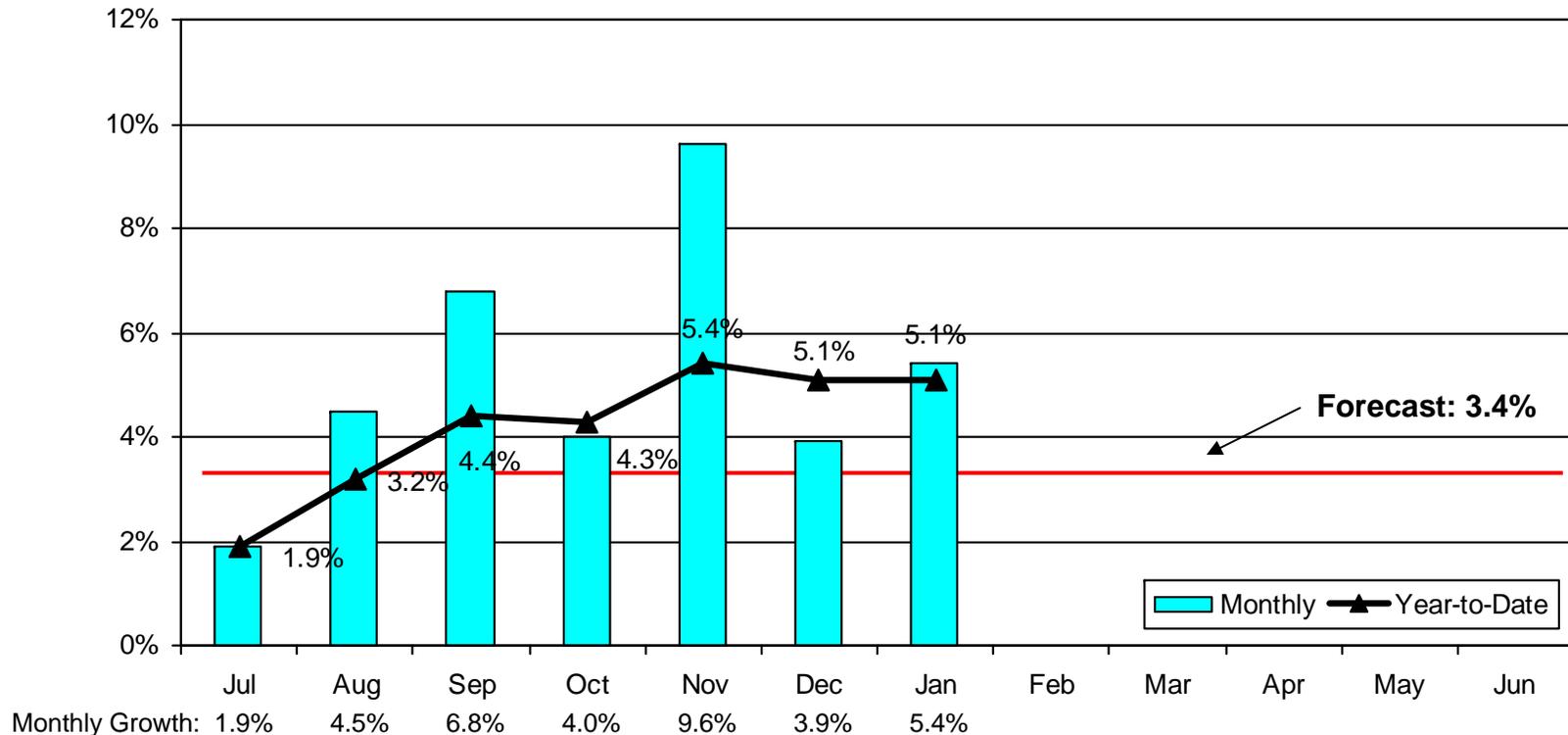
Growth in Total General Fund Revenue Collections FY11 Monthly and Year-to-Date



- Total general fund revenue collections rose 12.6 percent in January.
- On a year-to-date basis, total revenue collections rose 3.2 percent, close to the December forecast of 3.5 percent growth.
 - Adjusting for the accelerated sales tax program in June 2010, total revenues grew 5.4 percent through January, ahead of the economic-base forecast of 5.2 percent growth.

Growth in Withholding Tax Collections

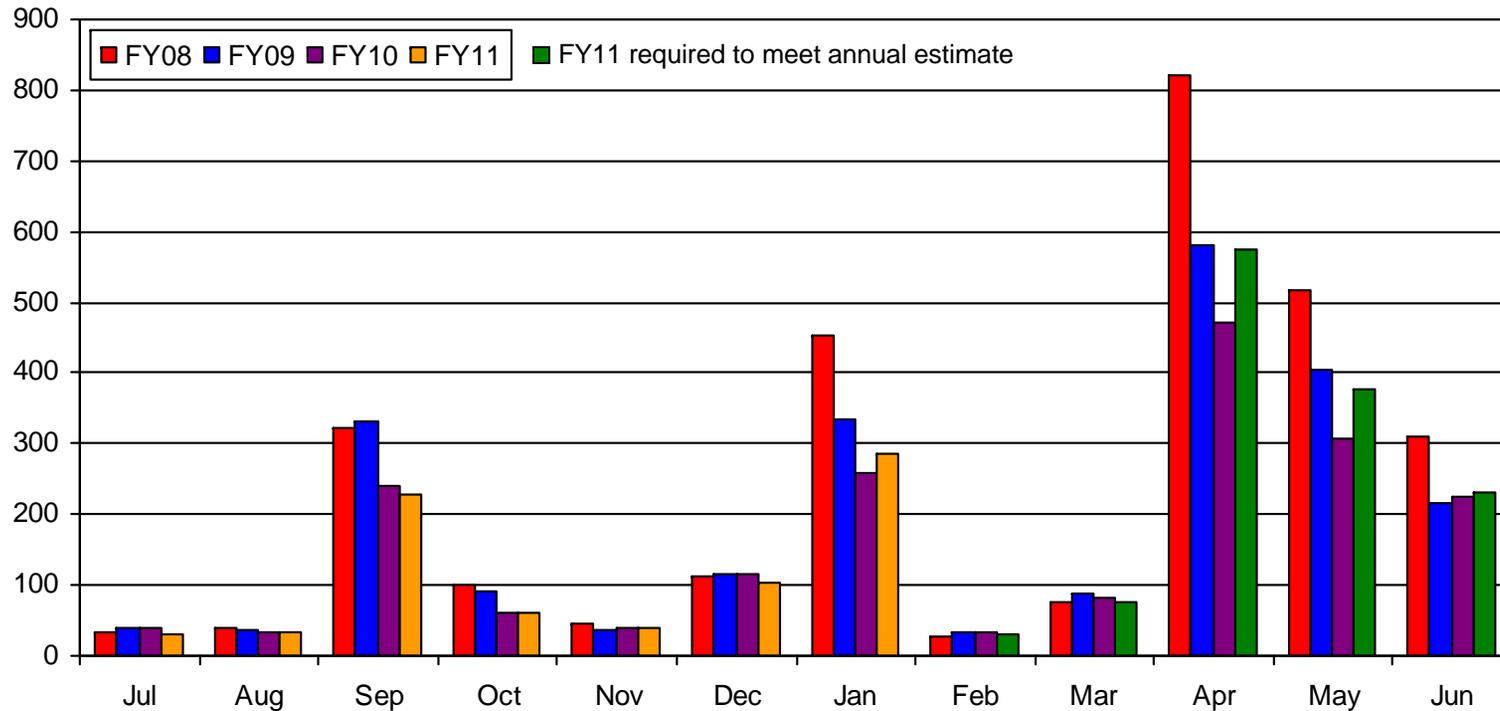
FY11 Monthly and Year-to-Date



- Collections of payroll withholding taxes grew 5.4 percent in January, the ninth consecutive month of growth in this source.
- Year-to-date withholding collections grew 5.1 percent compared with the same period last year, ahead of the projected annual growth rate of 3.4 percent.

Nonwithholding Tax Collections

FY08-FY11 Monthly



- The fourth individual estimated payment for tax year 2010 was due January 15, and some of these payments were received in December, so December and January must be considered together to assess growth in this source.
 - Receipts of estimated payments for the two-month period rose 13.2 percent from last year.
- Year-to-date, collections fell 0.7 percent from the same period last year, compared with the December annual estimate of 10.9 percent growth.

Individual Income Tax Refunds

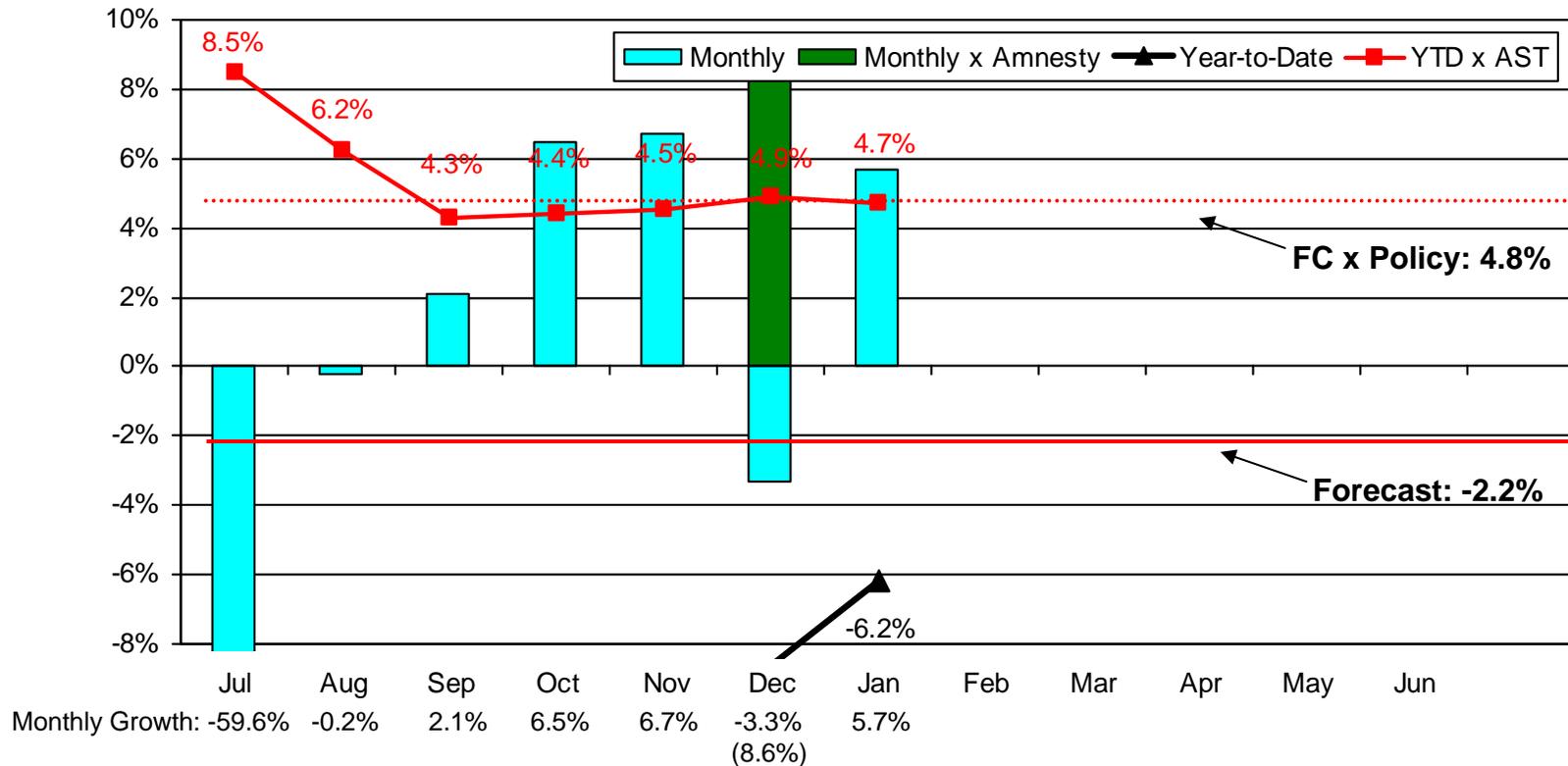
- TAX issued \$83.0 million in refunds in January compared with \$88.8 million last January.
- On a year-to-date basis, refund issuance is 13.0 percent below the same period last year, ahead of the December forecast of a 3.6 percent decline.
- The main income tax filing season will begin in February.

Net Individual Income Tax

- Through January, collections of net individual income tax rose 5.7 percent from the same period last year, trailing the December annual estimate of 6.5 percent growth.

Growth in Sales Tax Collections

FY11 Monthly and Year-to-Date



- Taken together, collections of sales and use taxes for December and January, reflecting the bulk of the holiday shopping season, rose 7.0 percent.
 - A more complete picture of the holiday shopping season will be available with February receipts, which include January post-holiday sales and gift card redemptions.
- Adjusting for the accelerated sales tax program and other policy initiatives, including amnesty and the revised dealer discount, sales tax collections have grown by 4.7 percent year-to-date, close to the economic-base forecast of a 4.8 percent increase.

Net Corporate Income Tax

- Collections of corporate income tax were \$33.6 million in January, compared with \$30.2 million last January, growth of 11.0 percent.
- On a year-to-date basis, collections in this source have fallen 2.7 percent, ahead of the estimate of a 3.1 percent decline.

Recordation Tax Collections

- Collections of wills, suits, deeds, and contracts – mainly recordation tax collections – rose 17.5 percent in January, the sixth consecutive month of growth in this source.
 - On a year-to-date basis, collections are up 1.0 percent, ahead of the forecast of a 5.6 percent decline.

Insurance Premiums Tax

- Monthly growth in this source is distorted. Last year, \$63.0 million in refunds were paid in January, while refunds have not yet been paid this year.
 - Collections in January were \$3.3 million, compared with a \$62.1 million decline in net collections in January 2010.

Summary of Fiscal Year 2011 Revenue Collections

July through January

<u>Major Source</u>	As a % of Total <u>Revenues</u>	Percent Growth over Prior Year		
		<u>YTD Actual</u>	<u>Annual *</u> <u>Estimate</u>	<u>Variance</u>
Withholding	64.8 %	5.1 %	4.3 %	0.8 %
Nonwithholding	14.0	(0.7)	8.5	(9.2)
Refunds	(12.8)	(13.0)	(4.9)	(8.1)
Net Individual	65.9	5.7	7.2	(1.5)
Sales	20.4	(6.2)	(2.2)	(4.0)
Corporate	5.3	(2.7)	(3.1)	0.4
Wills (Recordation)	1.9	1.0	(5.6)	6.6
Insurance	1.9	544.5	6.0	538.5
All Other Revenue	4.7	(2.1)	(0.3)	(1.8)
Total	100.0 %	3.2 %	4.0 %	(0.8) %
Sales (x AST, Amnesty, Dealer Discount)		4.7 %	4.8 %	(0.1) %
Total (x AST)		5.4 %	5.6 %	(0.2) %

* Mid-Session Revised Forecast (02/04/11)