



# Economic and Revenue Update

## *A Briefing for the House Appropriations Committee*

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# National and State Economic Indicators

- Current national indicators suggest that the economic expansion has weakened.
- According to the second estimate, real GDP grew at an annualized rate of 1.0 percent in the second quarter of 2011.
  - This was up from the low 0.4 percent growth in the first quarter.
- The labor market remains weak. Payroll employment was unchanged in August and the gains made in June and July were revised downwards from 46,000 to 20,000 and 117,000 to 85,000.
  - The private sector added only 17,000 jobs in August.
- The national unemployment rate also remained unchanged at 9.1 percent.
- Initial claims for unemployment increased by 11,000 to 428,000 during the week ending Sept. 10.
  - The four-week moving average increased from 415,500 to 419,500.

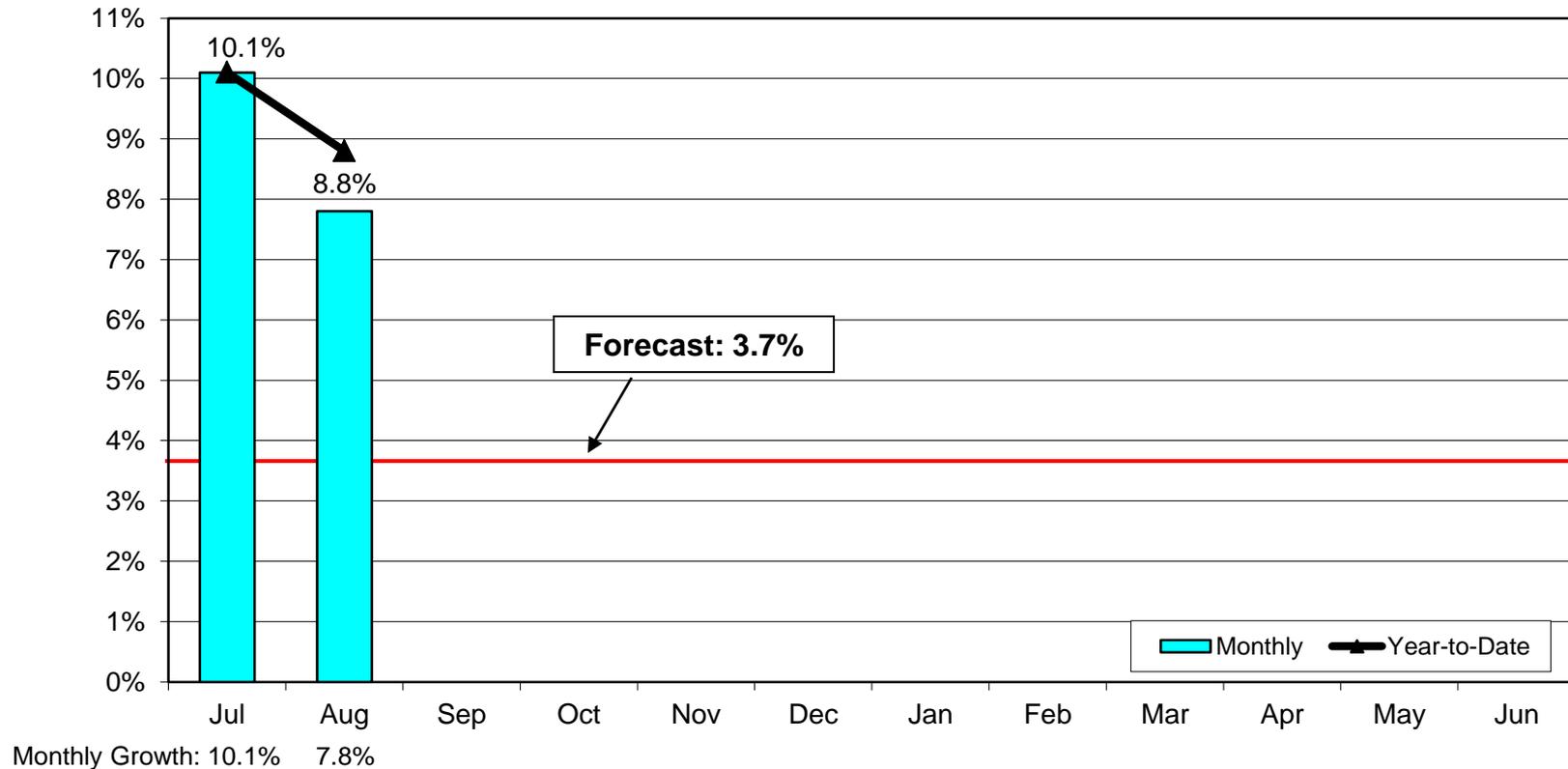
# National and State Economic Indicators

- Based on preliminary numbers, employers in Virginia have added jobs in eight of the last 12 months. Employment rose 0.1 percent from July of last year.
  - Compared with July of last year, Northern Virginia posted a gain of 0.1 percent, Hampton Roads fell 0.1 percent, and Richmond-Petersburg fell 1.7 percent.
  - All three areas experienced job loss from June to July.
- Virginia's unemployment rate fell 0.1 percent in July to 6.2 percent. It is 0.7 percentage point below the July 2010 rate of 6.9 percent.
- According to RealtyTrac, U.S. foreclosure activity for August declined 33 percent from August 2010, marking the 11th consecutive month of year-over-year declines.
  - One in every 570 U.S. housing units received a foreclosure notice in August.
  - In Virginia, one in every 780 households received a foreclosure notice.
- The manufacturing sector continues to expand, but at a very slow pace. The Institute of Supply Management index fell from 50.9 to 50.6 in August, marking the 25<sup>th</sup> consecutive month above the expansionary threshold of 50.0.
  - The index had remained above 60 for four consecutive months early in the year, but has been slowly declining since May.

# National and State Economic Indicators

- The Conference Board's index of leading indicators rose 0.5 percent in July, its third straight monthly gain.
  - The rise in the index suggests the economy should continue to modestly expand.
- The Conference Board's index of consumer confidence dropped sharply from 59.2 to 44.5 in August. Both components contributed to the decrease, although the expectations component drove the decline.
  - The index is at its lowest level since April 2009.
  - A possible contributing factor could have been the debt ceiling discussions.
- The saving rate fell to 5.0 percent in July compared to 5.5 percent in June.
- Inflation remains low – the CPI increased 0.4 percent in August from the previous month. It is now 3.8 percent above the August 2010 level.
  - This increase was broad-based, with continuing increases in the indexes for gasoline, food, shelter, and apparel.
  - Core inflation (excluding food and energy prices) rose 0.2 percent in August, and 2.0 percent since August 2010.
- The Federal Reserve announced at its August meeting that it will keep the federal funds rate target unchanged at 0.0 to 0.25 percent.

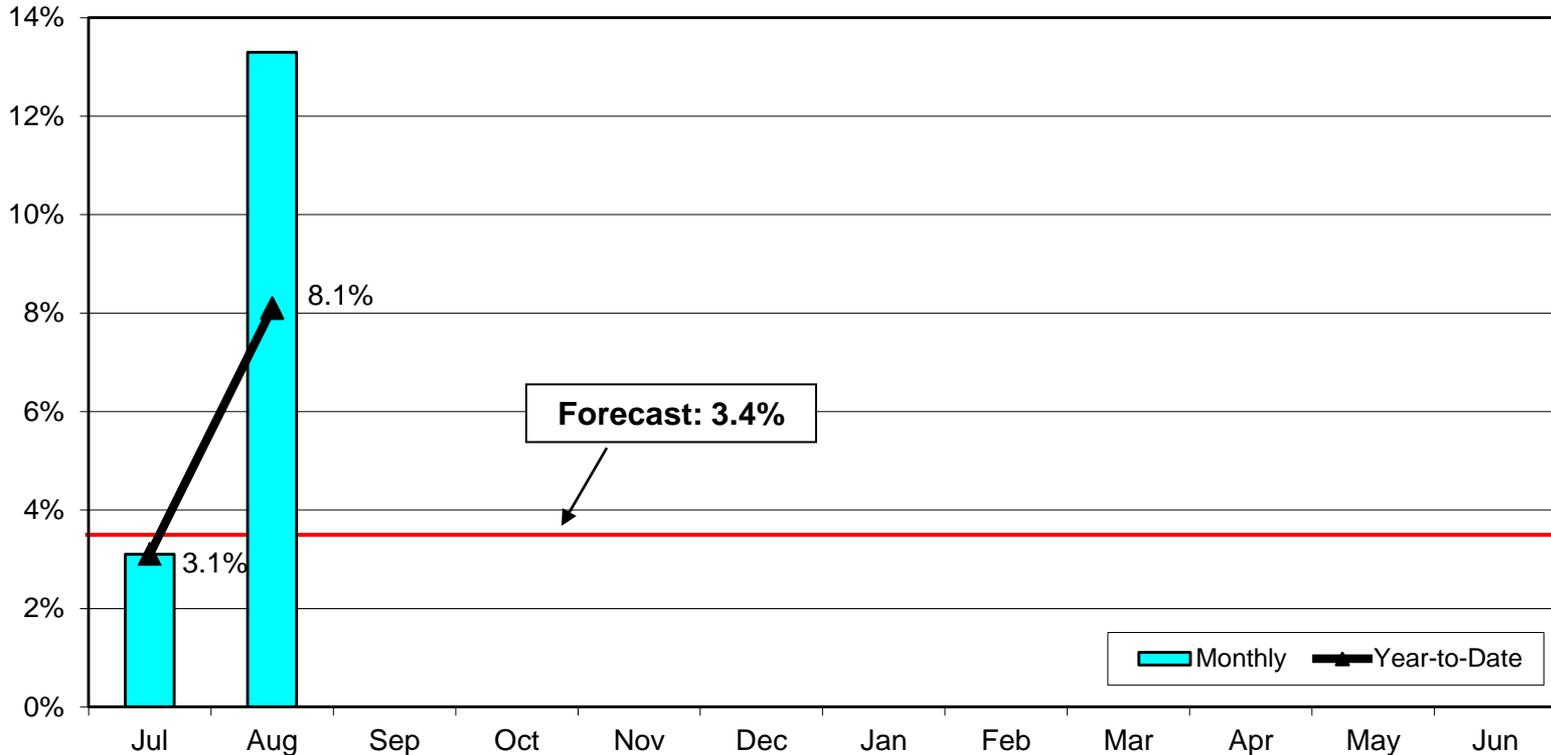
## Growth in Total General Fund Revenue Collections FY12 Monthly



- On a year-to-date basis, total revenues increased 8.8 percent, ahead of the annual forecast of 3.7 percent growth.
  - Adjusting for the accelerated sales tax (AST) program and the additional deposit day in August, total revenues grew 4.7 percent through August, ahead of the economic-base forecast of 3.5 percent growth.

## Growth in Withholding Tax Collections

### FY12 Monthly and Year-to-Date



Monthly Growth: 3.1% 13.3%

- Collections of payroll withholding taxes grew 13.3 percent in August.
  - Adjusting for the extra deposit day, withholding grew about 7.5 percent for the month.
- Year to date, withholding collections grew 8.1 percent compared with the same period last year, ahead of the projected annual growth rate of 3.4 percent.
  - Adjusting for the extra deposit day, year to date growth stands at 5.3 percent.

## **Individual Nonwithholding**

- Collections through August were \$79.7 million compared with \$64.2 million in the same period last year, increasing by 24.0 percent and ahead of the annual estimate of 2.1 percent growth.

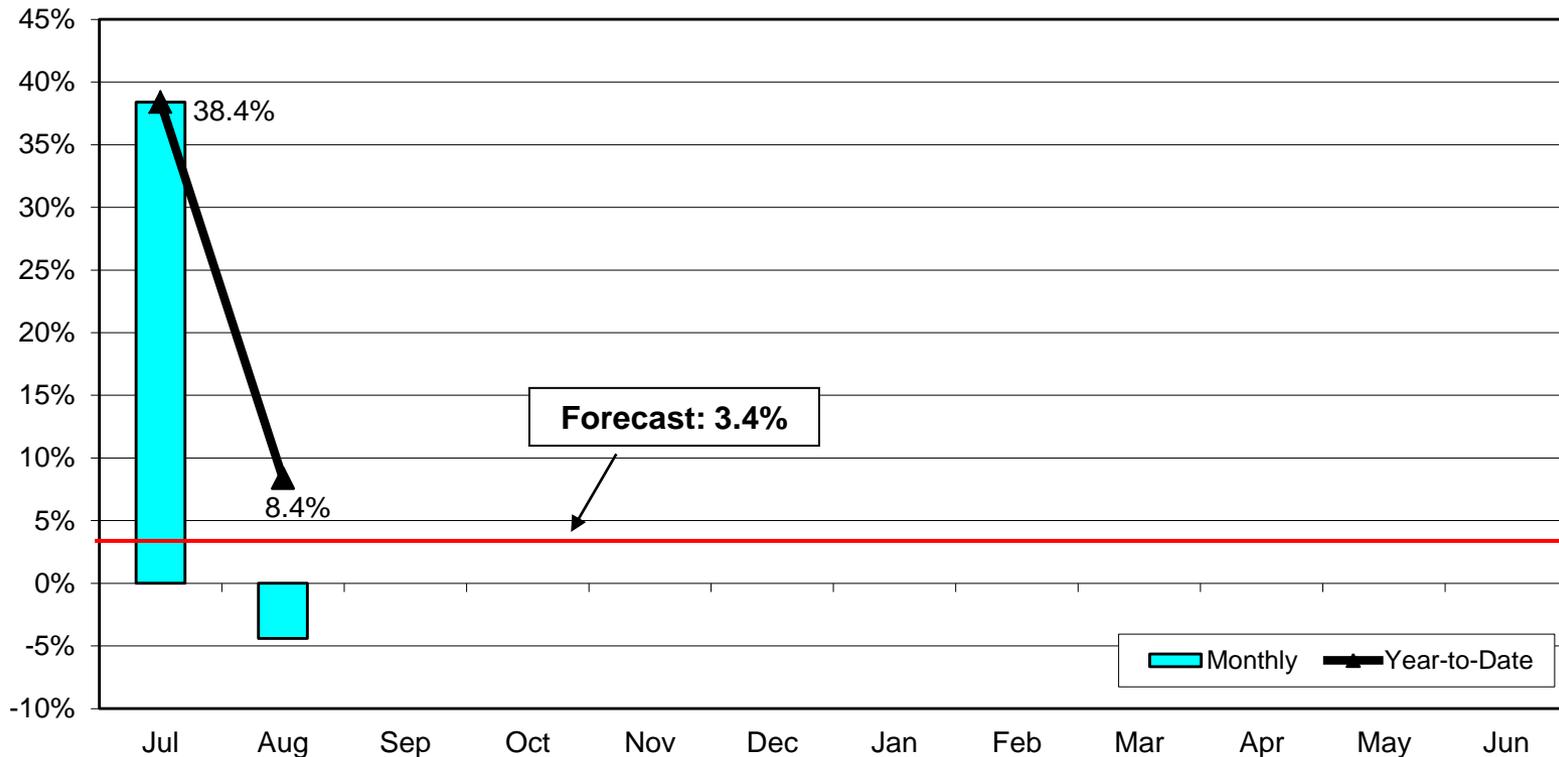
## **Individual Income Tax Refunds**

- Through August, TAX has issued \$71.2 million in individual refunds compared with \$78.8 million in the same period last year, a 9.5 percent decline and ahead of the annual estimate of a 0.9 percent decline.

## **Net Individual Income Tax**

- Through the first two months of the fiscal year, collections of net individual income tax rose 9.8 percent from the same period last year, ahead of the annual estimate of 3.9 percent.

## Growth in Sales Tax Collections FY12 Monthly and Year-to-Date



Monthly Growth: 38.4% -4.4%

- Collections of sales and use taxes, reflecting July sales, fell 4.4 percent in August.
- On a year-to-date basis, collections increased 8.4 percent, ahead of the annual estimate of a 3.4 percent increase.
  - Adjusting for AST, sales tax collections grew 0.1 percent through August, lagging the economic-base forecast of a 2.5 percent increase.

## **Net Corporate Income Tax Collections**

- Through the first two months of the fiscal year, \$2.9 million has been collected in this source, compared with \$8.4 million over the same period last year.

## **Recordation and Insurance Premiums Tax**

### Recordation

- The housing market showed some signs of stability in August as collections increased 3.4 percent for the month compared to last year. Through August, collections have increased 2.6 percent compared to last year, trailing the forecast of 3.3 percent growth.

### Insurance

- Collections are zero as the required transfers to TTF are being completed.

# Summary of Fiscal Year 2012 Revenue Collections

July through August

<u>Major Source</u>	As a % of Total <u>Revenues</u>	Percent Growth over Prior Year		
		<u>YTD Actual</u>	<u>Annual Estimate</u>	<u>Variance</u>
Withholding	63.9 %	8.1 %	3.4 %	4.7 %
Nonwithholding	14.3	24.0	2.1	21.9
Refunds	(11.9)	(9.5)	(0.9)	(8.6)
Net Individual	66.2	9.8	3.9	5.9
Sales	20.0	8.4	3.4	5.0
Corporate	5.3	(65.7)	1.1	(66.8)
Wills (Recordation)	1.9	2.6	3.3	(0.7)
Insurance	1.9	NA	2.9	NA
All Other Revenue	4.7	4.9	5.7	(0.8)
<b>Total</b>	<b>100.0 %</b>	<b>8.8 %</b>	<b>3.7 %</b>	<b>5.1 %</b>
Sales x AST		0.1 %	2.5 %	(2.4) %
Total x AST		6.7 %	3.5 %	3.2 %

## September is Next Significant Data Point

- Estimated payments are due from individuals, corporations and insurance companies.
  - Last data point to include in the revenue models.
  - Nonwithholding forecast will be driven by this payment and financial markets' performance.
- Payroll withholding will give back the August extra deposit day.
- Sales tax for August sales will complete the summer tourism season and any adjustments from the AST program will be completed.

## **Next Steps**

- Joint Advisory Board of Economists (JABE) – October
- Governor's Advisory Council on Revenue Estimates (GACRE) – November