Economic and Revenue Update

A Briefing for the
House Appropriations Committee

Richard D. Brown
Secretary of Finance
Commonwealth of Virginia
www.finance.virginia.gov

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Topics for Discussion

• National and State Economic Indicators

• Revenue Collections Through December, Fiscal Year 2013

• Next Steps
National and State Economic Indicators

• National indicators suggest slow, uneven growth will continue.

• Real GDP grew 3.1 percent in the third quarter of 2012, up from 1.3 percent in the second quarter and 2.0 percent in the first quarter.

• Payroll employment grew by 155,000 jobs in December, and November gains were revised up by 15,000 jobs.

• The unemployment rate was unchanged at 7.8 percent.

• During the week ending December 29, initial claims for unemployment rose by 10,000 to 372,000. The four-week moving average increased from 359,750 to 360,000.

• Payroll employment in Virginia grew 1.1 percent in November.
  – Employment increased 2.3 percent in Northern Virginia, 1.1 percent in Hampton Roads, and 0.8 percent in Richmond-Petersburg.

• The unemployment rate in Virginia fell slightly in November from 5.4 percent to 5.3 percent, 0.5 percentage point below the November 2011 rate.
National and State Economic Indicators

- Conditions in the manufacturing sector improved in December, as the Institute of Supply Management index rose from 49.5 to 50.7.
  - The index has risen above the expansionary threshold of 50 in only three of the last seven months.

- The Conference Board’s index of leading indicators fell 0.2 percent in November. After two monthly gains, the index has resumed alternating up and down.

- The Conference Board's index of consumer confidence dropped 6.4 points in December to 65.1, driven by deteriorating expectations.

- The CPI fell 0.3 percent in November from the previous month and stands 1.8 percent above November of last year.
  - Core inflation (excluding food and energy prices) rose 0.1 percent, and has increased 1.9 percent from November 2011.

- According to RealtyTrac, U.S. foreclosure activity for November declined 19 percent from November 2011, the 26th consecutive month of decreases in foreclosures.
  - One in every 728 U.S. housing units received a foreclosure notice in November.
  - In Virginia, one in every 1,345 households received a foreclosure notice.

- The savings rate increased from 3.4 percent in October to 3.6 percent in November.

- The Federal Reserve announced at its December meeting that it will keep the federal funds rate target unchanged at 0.0 to 0.25 percent, and rolled Operation Twist into open-ended quantitative easing.
On a year-to-date basis, total revenues increased 3.5 percent through December, close to the annual forecast of 3.6 percent growth.

- Adjusting for the accelerated sales tax (AST) program, total revenues grew 3.0 percent through November, slightly behind the economic-base forecast of 3.4 percent growth.
Collections of payroll withholding taxes rose 2.5 percent December.

Year to date, withholding collections through December increased 1.6 percent compared with the same period last year, trailing the projected annual growth rate of 3.3 percent.
December and January are significant months for collections in this source, but analysis of growth at this point is limited by the timing of payments.

- January 15th is the due date for the fourth estimated payment for tax year 2012.
- A complete assessment of growth in this source will be available at the end of January, when all 2012 quarterly payments have been received.

Year-to-date, collections through December were $563.7 million compared with $570.7 million in the same period last year, a decline of 1.2 percent and trailing the annual estimate of 6.8 percent growth.
Individual Income Tax Refunds

• Not a significant month.

• Through December, TAX has issued $207.0 million in individual income tax refunds compared with $237.8 million in the same period last year, a 12.9 percent decline and behind the annual estimate of a 0.4 percent increase.

Net Individual Income Tax

• Through December, collections of net individual income tax rose 2.0 percent from the same period last year, trailing the annual estimate of 4.5 percent growth.
• Collections of sales and use taxes, reflecting November sales, rose 2.8 percent in December.

• On a year-to-date basis, collections increased 5.0 percent, ahead of the annual estimate of a 4.1 percent increase.
  – Adjusting for AST, sales tax collections grew 2.5 percent through December, ahead of the economic-base forecast of a 3.2 percent increase.
Net Corporate Income Tax Collections

- December is a significant month since quarterly estimated payments are due from most corporations.

- Collections were $175.1 in December, compared with $131.7 last year, a 33 percent increase.

- On a year-to-date basis, collections in this source have grown 12.6 percent, ahead of the annual estimate of a 4.5 percent decline.
Recordation Tax Collections

- Collections of wills, suits, deeds, and contracts – mainly recordation tax collections – increased 10.5 percent in December.
  - Monthly growth rates have been in the double-digits 10 of the last 11 months.
  - On a year-to-date basis, collections are up 15.2 percent, far ahead of the forecast of 4.5 percent growth.

Insurance Premiums Tax

- The transfer of insurance premiums to the Transportation Trust Fund per Chapter 896, 2007 Acts of the Assembly, in the amount of $130.1 million was completed in December.
  - December collections were $79.9 million compared with $56.4 million last year.
## Summary of Fiscal Year 2013 Revenue Collections
### July through December

<table>
<thead>
<tr>
<th>Major Source</th>
<th>As a % of Total Revenues</th>
<th>YTD Actual</th>
<th>Annual Estimate</th>
<th>Variance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Withholding</td>
<td>63.1 %</td>
<td>1.6 %</td>
<td>3.3 %</td>
<td>(1.7) %</td>
</tr>
<tr>
<td>Nonwithholding</td>
<td>15.3</td>
<td>(1.2)</td>
<td>6.8 %</td>
<td>(8.0)</td>
</tr>
<tr>
<td>Refunds</td>
<td>(10.9)</td>
<td>(12.9)</td>
<td>0.4</td>
<td>(13.3)</td>
</tr>
<tr>
<td>Net Individual</td>
<td>67.6</td>
<td>2.0</td>
<td>4.5</td>
<td>(2.5)</td>
</tr>
<tr>
<td>Sales</td>
<td>19.8</td>
<td>5.0</td>
<td>4.1</td>
<td>0.9</td>
</tr>
<tr>
<td>Corporate</td>
<td>5.0</td>
<td>12.6</td>
<td>(4.5)</td>
<td>17.1</td>
</tr>
<tr>
<td>Wills (Recordation)</td>
<td>2.0</td>
<td>15.2</td>
<td>4.5</td>
<td>10.7</td>
</tr>
<tr>
<td>Insurance</td>
<td>1.6</td>
<td>41.7</td>
<td>1.1</td>
<td>40.6</td>
</tr>
<tr>
<td>All Other Revenue</td>
<td>4.0</td>
<td>(1.1)</td>
<td>(2.2)</td>
<td>1.1</td>
</tr>
</tbody>
</table>

**Total** 100.0 % 3.5 % 3.6 % (0.1) %

<table>
<thead>
<tr>
<th>Percent Growth over Prior Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales (x AST)</td>
</tr>
<tr>
<td>Total (x AST)</td>
</tr>
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</table>
Next Steps

• January receipts will serve as the next critical data point in evaluating the outlook for the current fiscal year and serve as the basis for any recommended midsession adjustment.

  – Withholding: Monthly and quarterly filers are due.

  – Nonwithholding: December and January are significant months for collections in this source. Taxpayers have until January 15 to submit their fourth estimated payment for tax year 2012. A clearer assessment of growth in this source will be possible at the end of January.

  – Sales: January receipts are needed to more accurately assess growth in this source because a large part of holiday sales occur in December.

  – Corporate: The fourth estimated payment will be received from retailers and other companies with February-January taxable years.