



# Economic and Revenue Update

## *A Briefing for the House Appropriations Committee*

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# Topics for Discussion

- National and State Economic Indicators
- Revenue Collections Through February, Fiscal Year 2013
- Next Steps

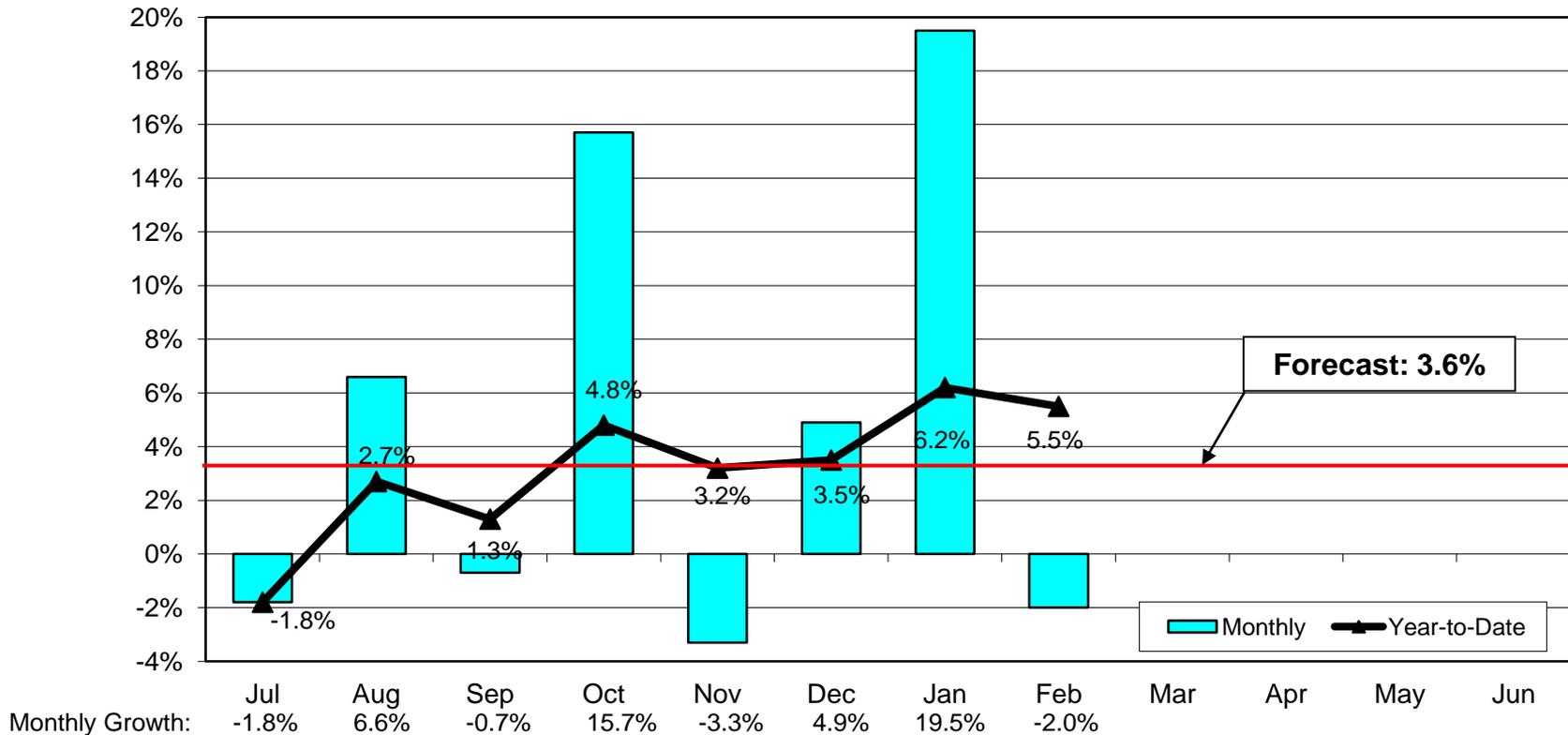
# National and State Economic Indicators

- National indicators suggest slow growth will continue.
- Real GDP rose 0.4 percent in the fourth quarter of 2012, down from 3.1 percent growth in the third quarter.
- Payroll employment grew by 236,000 jobs in February.
  - Over the past three months, the economy averaged 191,000 jobs a month.
- The unemployment rate fell from 7.9 to 7.7 percent in February.
- During the week ending March 23, initial claims for unemployment rose by 16,000 to 357,000. The four-week moving average rose by 2,250 to 343,000.
- In Virginia, employment rose by 1.0 percent in February. Payroll employment grew by 1.2 percent in Northern Virginia, 1.9 percent in Hampton Roads, and 2.3 percent in Richmond-Petersburg.
- The unemployment rate fell 0.5 percent to 5.7 percent in February, down 0.6 from February 2012.

# National and State Economic Indicators

- The manufacturing sector continues to expand, but at a slower pace. The Institute of Supply Management index fell from 54.2 to 51.3 in March.
- The Conference Board's index of leading indicators rose 0.5 percent in February. The index has risen in five of the previous six months.
- Following a sharp increase in February, the Conference Board's index of consumer confidence fell from 68.0 to 59.7 in March, with both the current conditions and expectations components declining.
- The CPI increased 0.7 percent in February from the previous month and stands 2.0 percent above February of last year.
  - Core inflation (excluding food and energy prices) rose 0.2 percent, and has also increased 2.0 percent from February 2012.
- According to RealtyTrac, U.S. foreclosure activity for February declined 25 percent from February 2012.
  - One in every 849 U.S. housing units received a foreclosure notice in February.
  - In Virginia, one in every 1,711 households received a foreclosure notice.
- The savings rate rose from 2.2 percent in January to 2.6 percent in February.
- The Federal Reserve announced at its March meeting that it will keep the federal funds rate target unchanged at 0.0 to 0.25 percent, and continued its quantitative easing program.

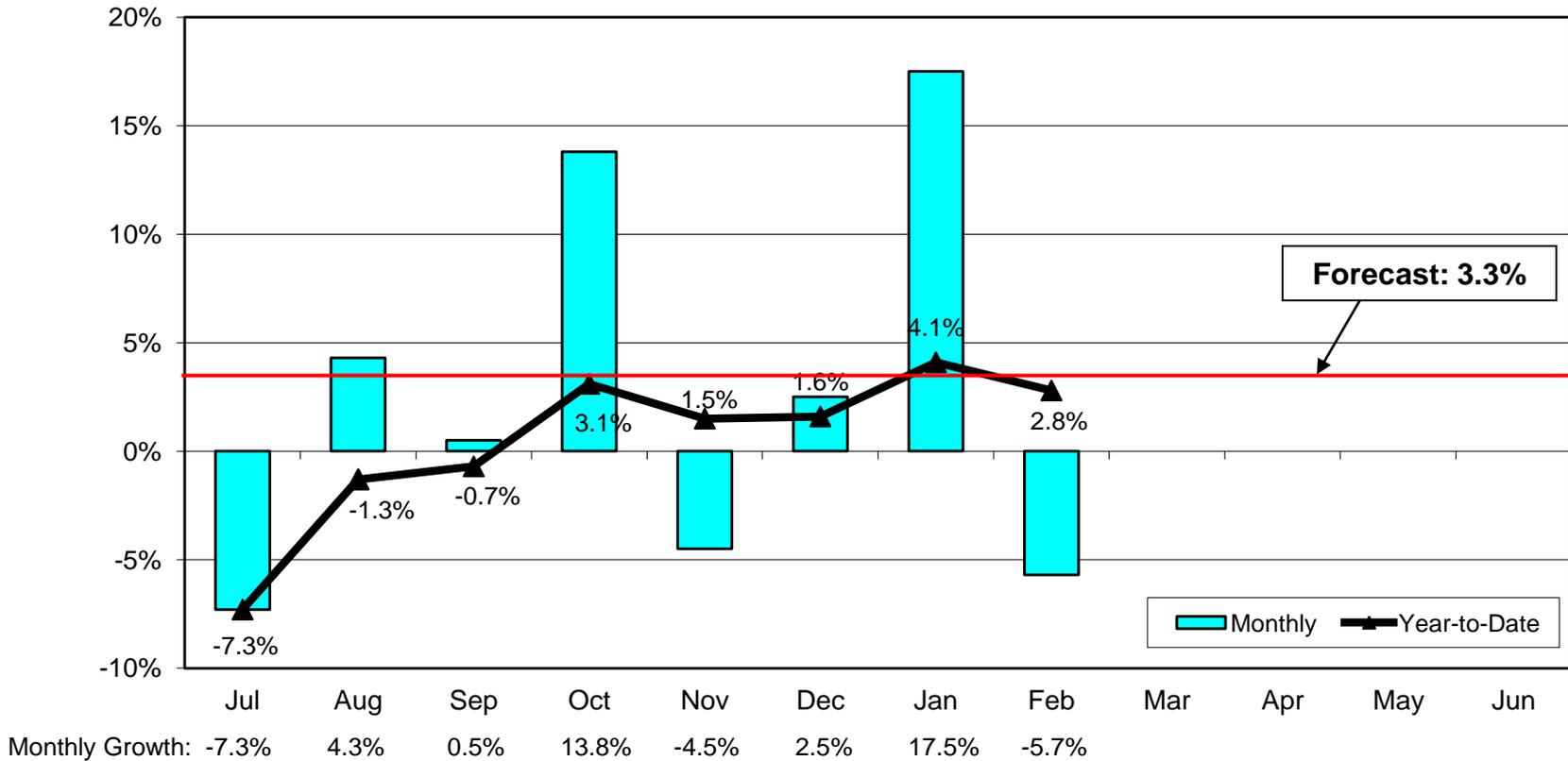
## Growth in Total General Fund Revenue Collections FY13 Monthly and Year-to-Date



- On a year-to-date basis, total revenues increased 5.5 percent through February, ahead of the annual forecast of 3.6 percent growth.
  - Adjusting for the accelerated sales tax (AST) program, total revenues grew 5.1 percent through February, ahead of the economic-base forecast of 3.4 percent growth.

## Growth in Withholding Tax Collections

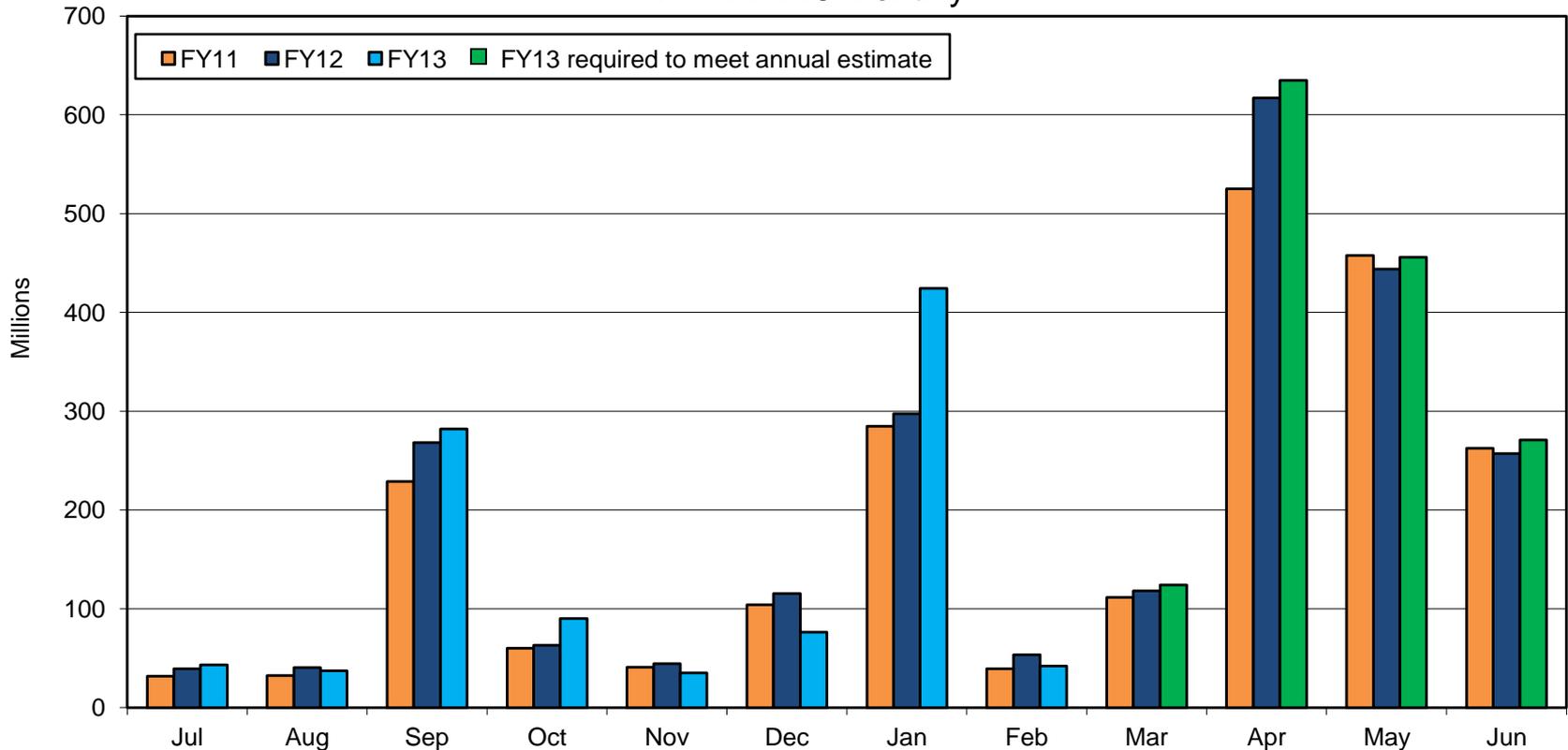
### FY13 Monthly and Year-to-Date



- Collections of payroll withholding taxes declined 5.7 percent February.
  - There was one less deposit day in the month.
- Year to date, withholding collections through February increased 2.8 percent compared with the same period last year, behind the projected annual growth rate of 3.3 percent.

# Nonwithholding Tax Collections

FY11-FY13 Monthly



- Year-to-date, collections grew 12.2 percent from the same period last year, ahead of the annual estimate of 6.8 percent growth.
- To date, roughly 40 percent of the nonwithholding forecast has been collected. The majority of the remaining 60 percent will be collected in April and May, with both final payments for tax year 2012 and estimated payments for the current year due May 1.

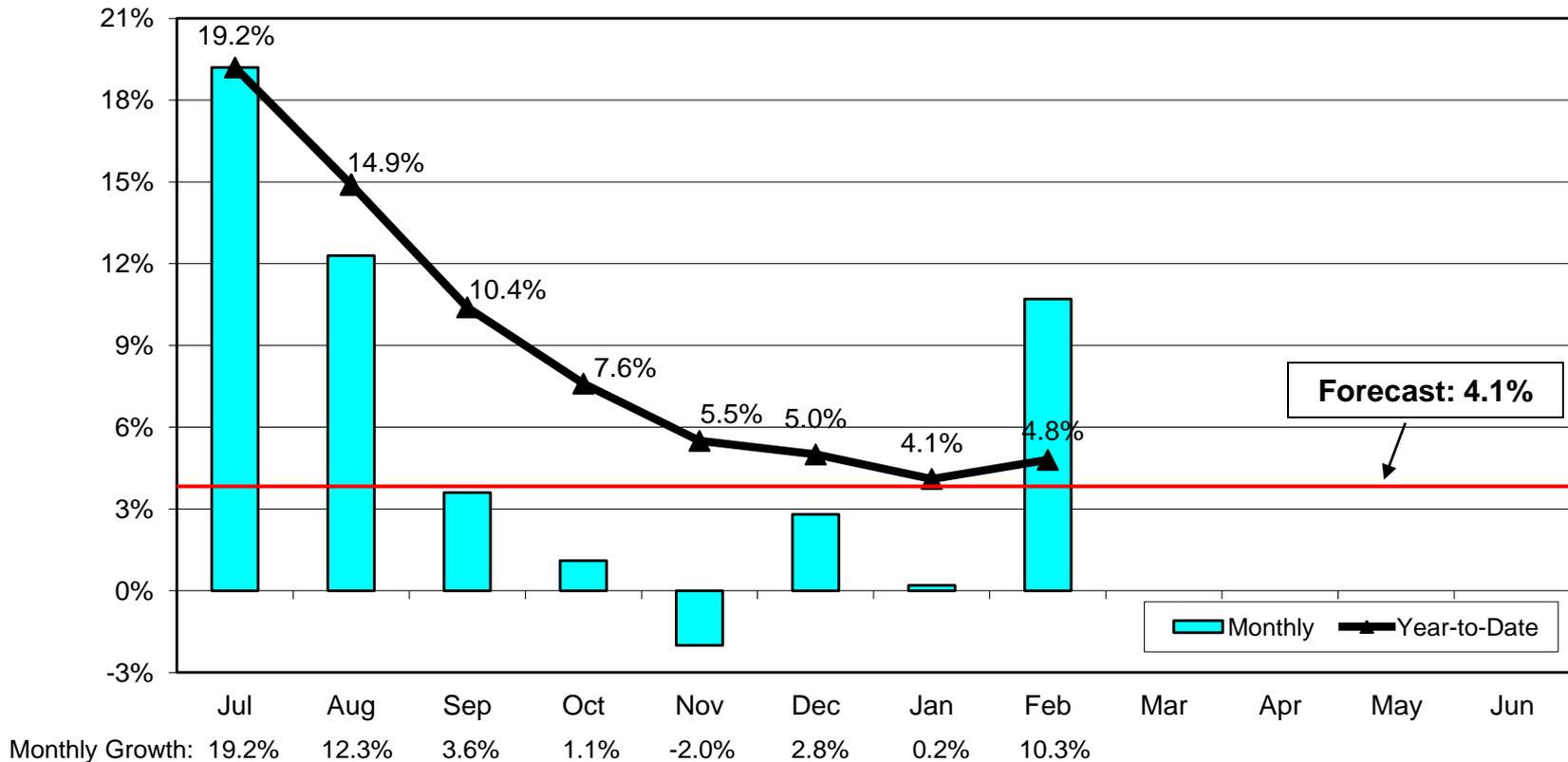
## **Individual Income Tax Refunds**

- The main filing season got underway in February: \$432.3 million in refunds were issued compared with \$421.6 million last February.
  - All of the increase is due to the delay of the federal electronic filing program in January.
    - About \$90.6 million in refunds were issued during the first 3 days of February as compared to \$54.6 million last February.
- Year-to-date, refunds declined 11.5 percent from the same period last year, behind the estimate of a 0.4 percent increase.

## **Net Individual Income Tax**

- Through February, collections of net individual income tax rose 5.7 percent from the same period last year, ahead of the annual estimate of 4.5 percent growth.

## Growth in Sales Tax Collections FY13 Monthly and Year-to-Date



- Sales during the holiday shopping season showed modest strength. Taken together, collections of sales tax in December through February, which reflect taxable sales for November through January, grew by 3.9 percent.
  - Last year, sales tax during this period grew by 4.6 percent.
- On a year-to-date basis, collections increased 4.8 percent, ahead of the annual estimate of a 4.1 percent increase.
  - Adjusting for AST, sales tax collections grew 2.9 percent through February, behind the economic-base forecast of a 3.2 percent increase.

## Net Corporate Income Tax Collections

- This is not a significant month.
- Collections fell \$6.2 million in February, compared with \$14.2 million last year.
  - Corporate extension returns from tax year 2011 are still being received and processed.
- On a year-to-date basis, collections in this source have grown 1.1 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 20.9 percent in February.
  - Monthly growth rates have been in the double-digits 12 of the last 13 months.
  - On a year-to-date basis, collections are up 18.2 percent, far ahead of the forecast of 4.5 percent growth.

## **Insurance Premiums Tax**

- This is not a significant month for collections.
  - February collections were \$11.6 million compared with -\$31.7 million last year.
  - SCC issued refunds in January this year, while last year refunds were made in February.
  - Final payments are due March 1, and estimated payments are due in April and June.

# Summary of Fiscal Year 2013 Revenue Collections

July through February

<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>	<u>Mar-June Req'd to Meet Est.</u>	<u>Prior Year Mar-June</u>
Withholding	63.1 %	2.8 %	3.3 %	(0.5) %	4.2 %	3.5 %
Nonwithholding	15.3	12.2	6.8	5.4	3.3	5.9
Refunds	<u>(10.9)</u>	<u>(11.5)</u>	<u>0.4</u>	<u>(11.9)</u>	<u>9.1</u>	<u>(7.9)</u>
Net Individual	67.6	5.7	4.5	1.2	2.5	7.9
Sales	19.8	4.8	4.1	0.7	2.9	1.3
Corporate	5.0	1.1	(4.5)	5.6	(9.2)	6.6
Wills (Recordation)	2.0	18.2	4.5	13.7	(19.3)	21.4
Insurance	1.6	79.1	1.1	78.0	(7.5)	0.0
All Other Revenue	4.0	0.4	(2.2)	2.6	(6.2)	(3.0)
<b>Total</b>	<b>100.0 %</b>	<b>5.5 %</b>	<b>3.6 %</b>	<b>1.9 %</b>	<b>0.5 %</b>	<b>5.9 %</b>

Sales (x AST)	2.9 %	3.2 %	(0.3) %	3.7 %	5.4 %
Total (x AST)	5.1 %	3.4 %	1.7 %	0.6 %	6.7 %

## Next Steps

- Monitor retail sales and payroll withholding receipts in light of the Sequester.