



Economic and Revenue Update

A Briefing for the House Appropriations Committee

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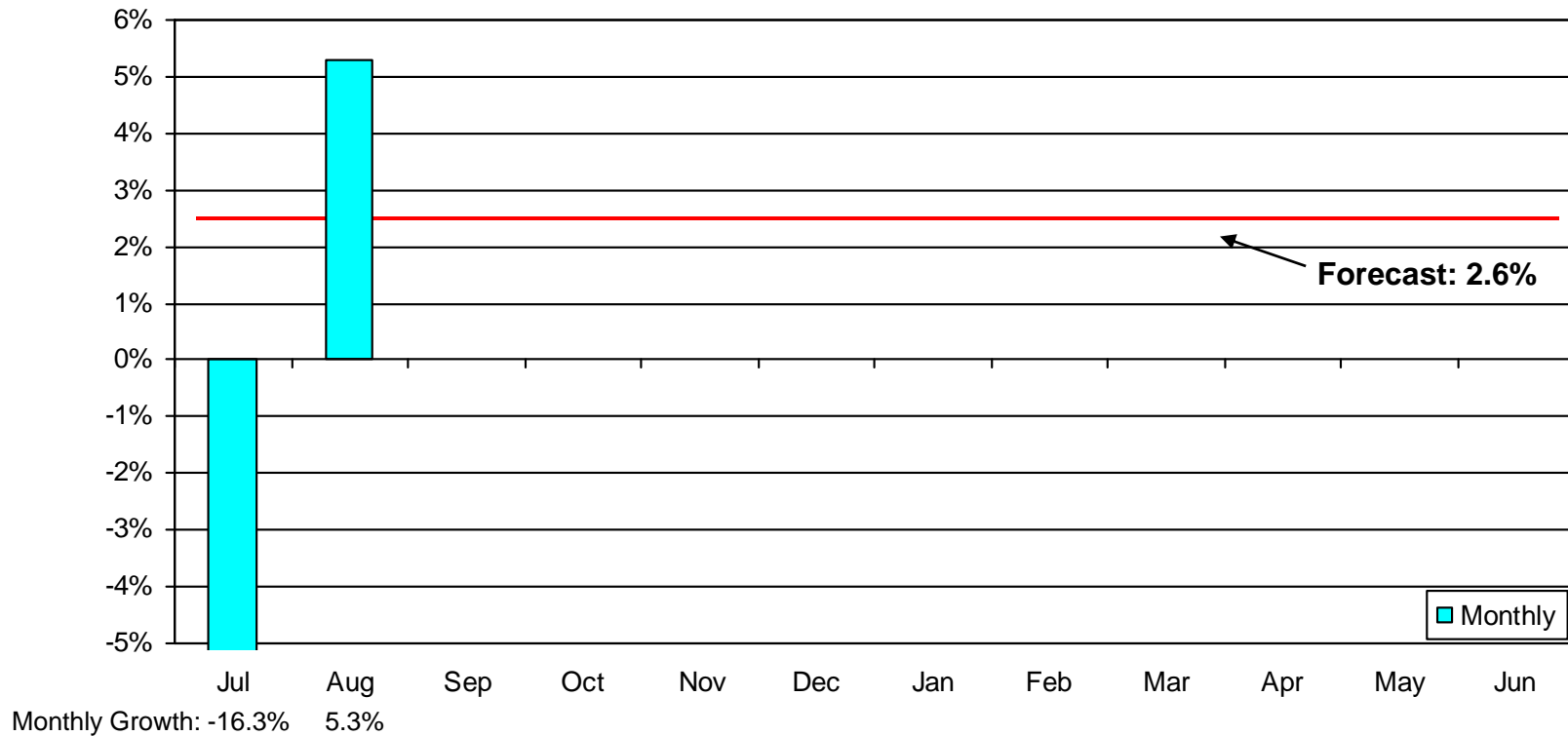
National and State Economic Indicators

- Current national indicators suggest that the slow economic expansion has weakened.
- According to the second estimate, real GDP grew 1.6 percent at an annualized rate in the second quarter of 2010.
 - Although growth slowed from the 3.7 percent rate in the first quarter, this marked the fourth consecutive quarter of growth.
- The labor market remains weak. Payroll employment fell by 54,000 jobs in August; however most of the losses were associated with the ending of the census.
 - The private sector added 67,000 jobs in August, suggesting the recovery is sustained, albeit very weak. Also, the job loss in July was revised from 131,000 to only 54,000.
- The national unemployment rate rose from 9.5 percent to 9.6 percent in August.
- In Virginia, year-over-year employment growth turned barely positive in July -- the first month of job growth since August 2008. Payroll employment in the Commonwealth grew 0.3 percent in July from July of last year.
 - Employment trends improved in all three major metro areas in Virginia. Northern Virginia posted a modest gain of 1.8 percent, and Hampton Roads grew 0.4 percent. Richmond-Petersburg fell 0.3 percent from July of last year, a much slower rate of job loss than earlier in the year.
- The unemployment rate in Virginia remained flat at 7.1 percent in July, significantly below the peak of 7.8 percent in February.

National and State Economic Indicators

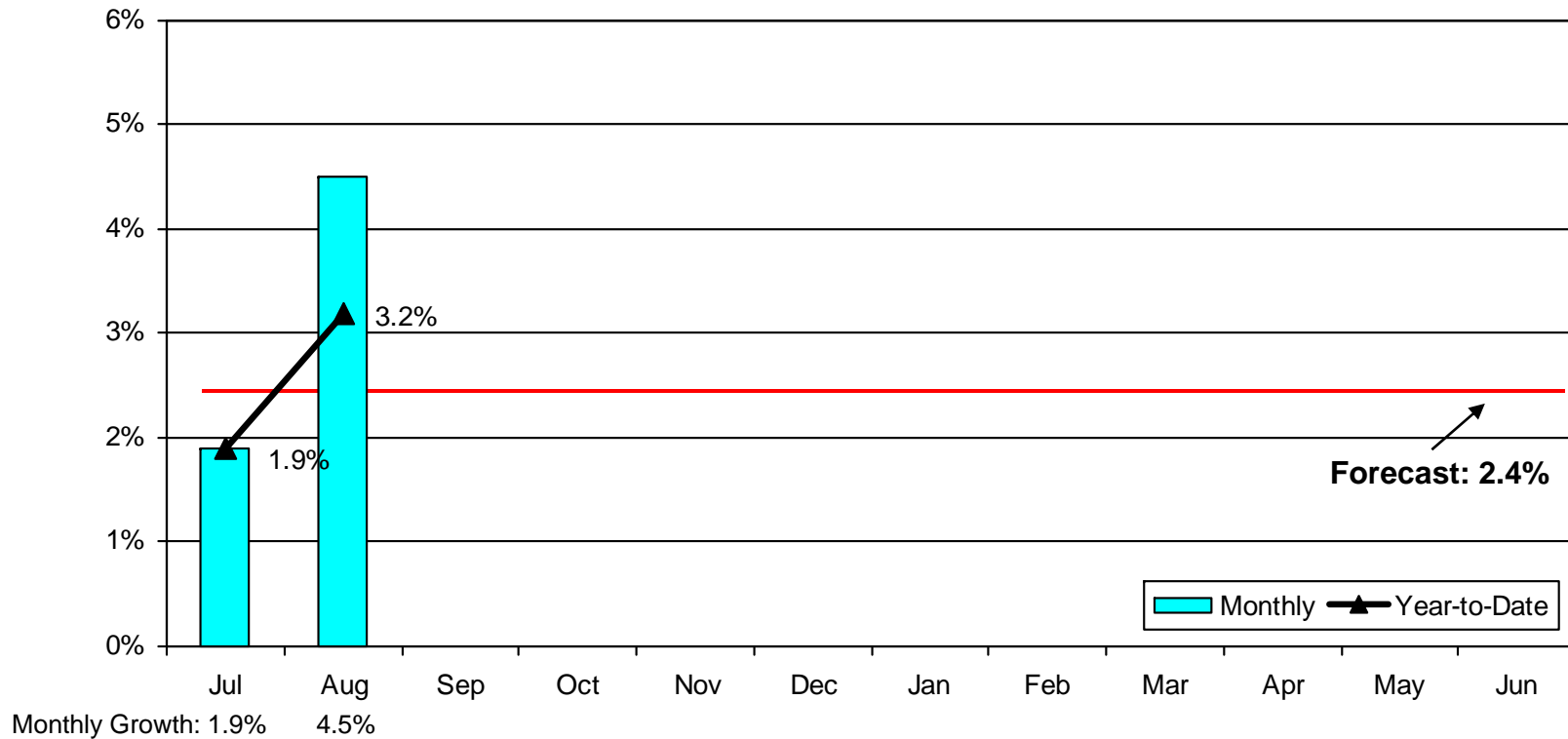
- Initial claims for unemployment fell by 6,000 to 472,000 during the week ending August 28, the second consecutive weekly decline.
 - The four-week moving average declined from 488,000 to 486,000. Although the drop in initial claims is a positive sign, claims remain at a very high level.
- The manufacturing sector continues to expand. The Institute of Supply Management index rose from 55.5 to 56.3 in August, marking the thirteenth consecutive month above the expansionary threshold of 50.0.
- The Conference Board's index of leading indicators rose 0.1 percent in July, after declining 0.3 percent in June.
 - The small gain in the index is consistent with a slow recovery.
- The Conference Board's index of consumer confidence rose from 51.0 to 53.5 in August, following declines in June and July.
 - The index remains at a very low level, suggesting consumer spending is not likely to accelerate.
- Inflation remains low – the CPI increased 0.3 percent in July from the previous month. The rise followed three consecutive monthly declines.
 - Core inflation (excluding food and energy prices) rose 0.1 percent in July and stands 0.9 percent.
- 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 FY11 Monthly



- Total general fund revenue collections rose 5.3 percent in August.
- On a year-to-date basis, total revenues fell 5.7 percent, trailing the annual forecast of 2.6 percent growth.
 - Adjusting for the accelerated sales tax (AST) program, total revenues grew 3.3 percent through August, lagging the economic-base forecast of 4.2 percent growth.

Growth in Withholding Tax Collections FY11 Monthly and Year-to-Date



- With an extra deposit day compared with last year, collections of payroll withholding taxes grew 4.5 percent in August.
- Year to date, withholding collections grew 3.2 percent compared with the same period last year, ahead of the projected annual growth rate of 2.4 percent.

Individual Nonwithholding

- Not a significant month.
- Collections through August were \$64.2 million compared with \$71.7 million in the same period last year, falling by 10.4 percent and trailing the annual estimate of 11.0 percent growth.

Individual Income Tax Refunds

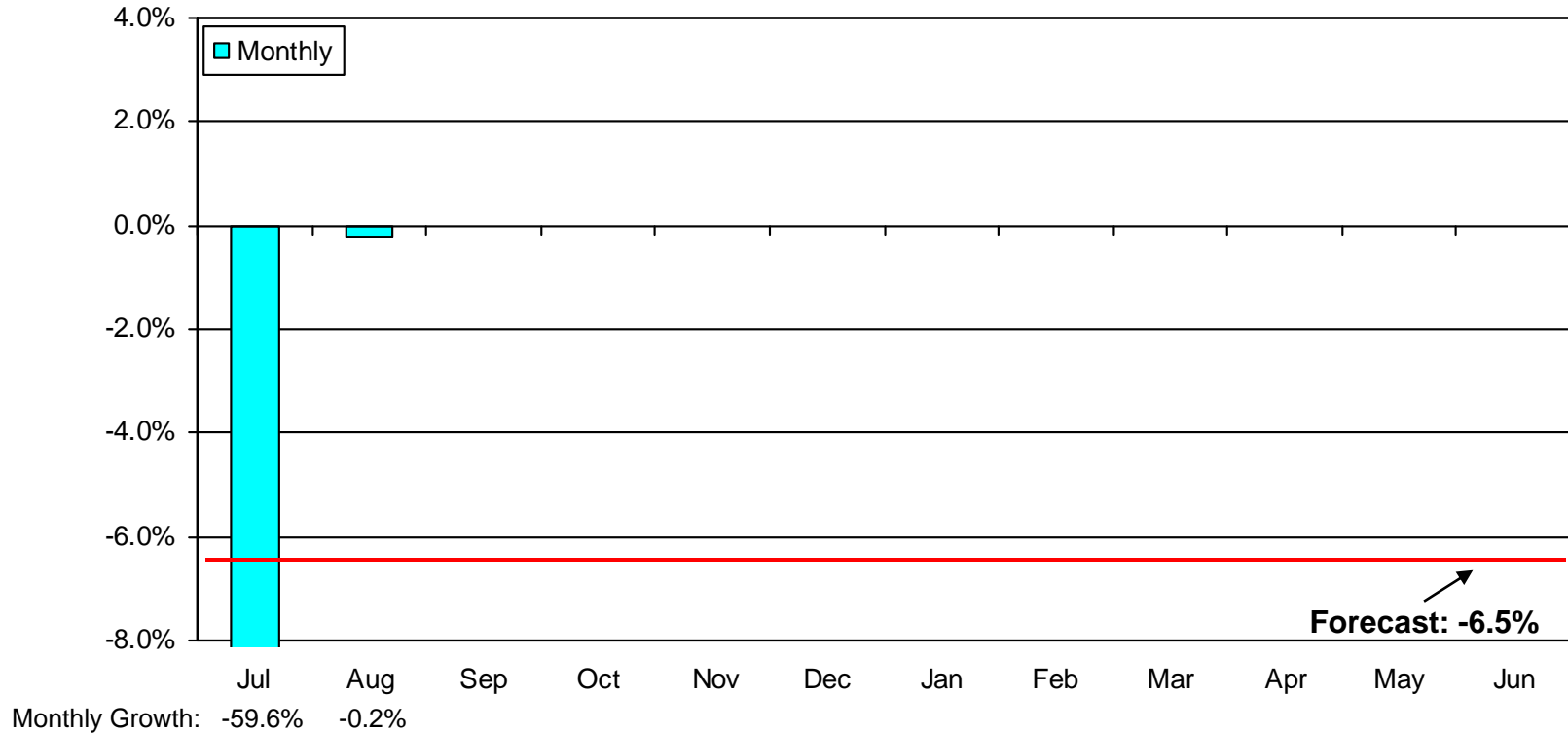
- Not a significant month.
- Through August, TAX has issued \$78.8 million in individual refunds compared with \$113.0 million in the same period last year, a 30.3 percent decline and ahead of the annual estimate of a 3.5 percent decline.

Net Individual Income Tax

- Through the first two months of the fiscal year, collections of net individual income tax rose 5.3 percent from the same period last year, close to the annual estimate of 5.5 percent.

Growth in Sales Tax Collections

FY11 Monthly



- Collections of sales and use taxes, reflecting July sales, fell 0.2 percent in August.
- On a year-to-date basis, collections declined 30.7 percent, behind the annual estimate of a 6.5 percent decline.
 - Adjusting for AST, sales tax collections grew 6.2 percent through August, ahead of the economic-base forecast of a 0.8 percent increase.

Net Corporate Income Tax Collections

- Not a significant month.
- Through the first two months of the fiscal year, \$8.4 million has been collected in this source, compared with \$27.6 million over the same period last year.
 - The drop in year-to-date collections is due to a few large corporate refunds issued in July.

Recordation and Insurance Premiums Tax

Recordation

- The housing market showed some signs of stability in August as collections increased 2.7 percent for the month. Collections have declined 9.5 percent through August, trailing the forecast of 8.2 percent growth.

Insurance

- Not a significant month.
- Collections are zero as the required transfers to TTF are being completed.

Summary of Fiscal Year 2011 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	64.4 %	3.2 %	2.4 %	0.8 %
Nonwithholding	14.5	(10.4)	11.0	(21.4)
Refunds	(13.2)	(30.3)	(3.5)	(26.8)
Net Individual	<u>65.7</u>	<u>5.3</u>	<u>5.5</u>	<u>(0.2)</u>
Sales	19.8	(30.7)	(6.5)	(24.2)
Corporate	5.4	(69.6)	(1.7)	(67.9)
Wills (Recordation)	2.2	(9.5)	8.2	(17.7)
Insurance	1.9	NA	4.8	NA
All Other Revenue	5.0	(12.1)	6.3	(18.4)
Total	100.0 %	(5.7) %	2.6 %	(8.3) %

Next Steps

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