



Economic and Revenue Update

A Briefing for the House Appropriations Committee

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Topics for Discussion

- National and State Economic Indicators
- First Quarter Revenue Collections, Fiscal Year 2011
- Fall Forecasting Process

National and State Economic Indicators

- Current national indicators suggest the slow economic expansion has weakened.
- According to the third estimate, real GDP grew 1.7 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 95,000 jobs in September.
 - Private payrolls increased by 64,000, while government employment fell by 159,000 due to the winding down of national census work and cutbacks in state and local governments.
- The national unemployment rate remained at 9.6 percent in September.
- In Virginia, employers added jobs for the second consecutive month in August. Payroll employment in the Commonwealth grew 0.5 percent in August from August of last year.
 - Employment trends were positive in all three major metro areas in Virginia. Northern Virginia posted a modest gain of 1.2 percent, Hampton Roads grew 0.9 percent, and Richmond-Petersburg rose 0.1 percent from August of last year.
- The unemployment rate remained flat at 7.0 percent in August, significantly below the peak of 7.8 percent in February.

National and State Economic Indicators

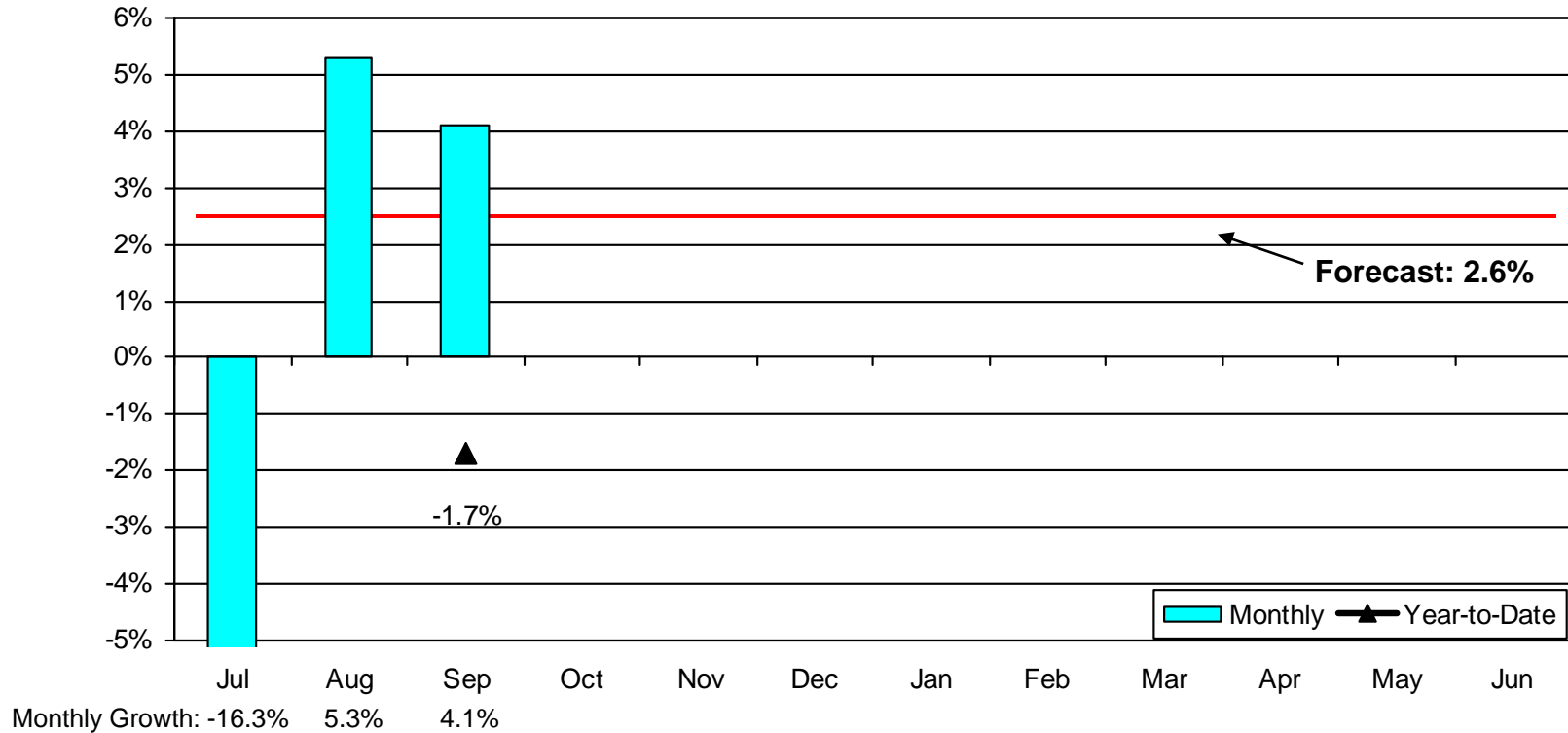
- Initial claims for unemployment fell by 11,000 to 445,000 during the week ending October 2, the second consecutive monthly decrease.
 - The four-week moving average declined from 459,000 to 456,000. Although the drop in initial claims is a positive sign, the number of claims remains at a high level.
- According to RealtyTrac, the number of foreclosure filings rose nationwide 1.1 percent in September from a year ago, with one in every 371 households receiving a foreclosure notice.
 - Activity should slow in the future as major use lenders have temporarily halted foreclosure proceedings as a review of possible abuses is initiated.
- In Virginia, foreclosure activity rose 3.4 percent in September, with one in every 556 households (5,949 in total) receiving a foreclosure notice.
 - Virginia ranked 18th in the country in terms of filings per number of homes.
- The U.S. personal savings rate increased to 5.8 percent in August, up from 5.7 percent in July
 - The rate has been above 5 percent for nearly two years.
 - From October 1998 to October 2008 the savings rate was only above 5 percent in one month, May 2008.

National and State Economic Indicators

- The manufacturing sector continues to expand, but at a slower pace. The Institute of Supply Management index fell from 56.3 to 54.4 in September, marking the fourteenth consecutive month above the expansionary threshold of 50.0.
- The Conference Board's index of leading indicators rose 0.3 percent in August, after increasing 0.1 percent in July.
 - The small gain in the index is consistent with a slow recovery.
- The Conference Board's index of consumer confidence fell from 53.2 to 48.5 in September, posting its third decline in four months.
 - 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 August from the previous month.
 - Core inflation (excluding food and energy prices) was flat in August and stands 0.9 percent above August of last year.
- The Federal Reserve announced at its September 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

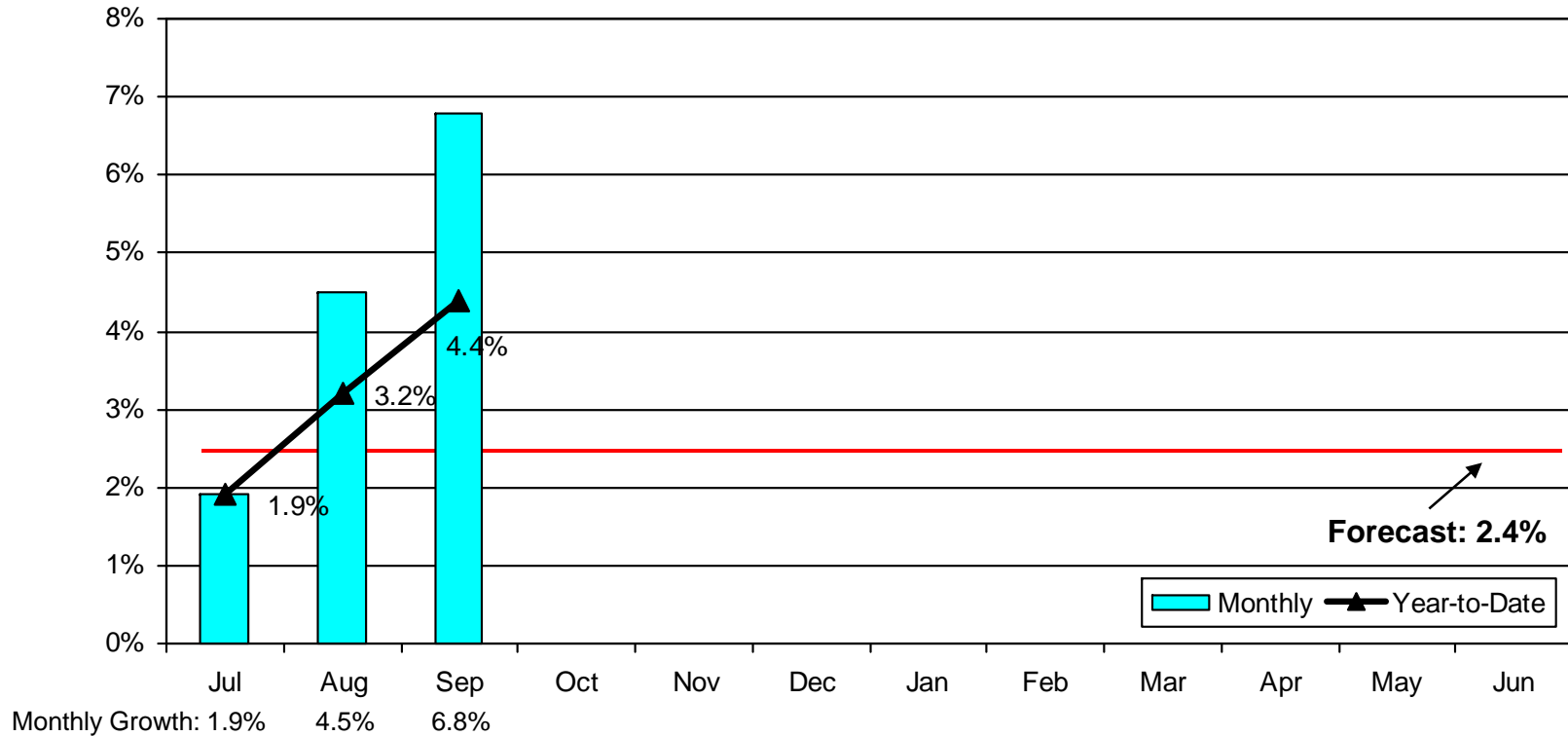
FY11 Monthly and Year-to-Date



- Total general fund revenue collections rose 4.1 percent in September.
- On a year-to-date basis, total revenues fell 1.7 percent, trailing the annual forecast of 2.6 percent growth.
 - Adjusting for the accelerated sales tax (AST) program, total revenues grew 3.6 percent through August, lagging the economic-base forecast of 4.2 percent growth.

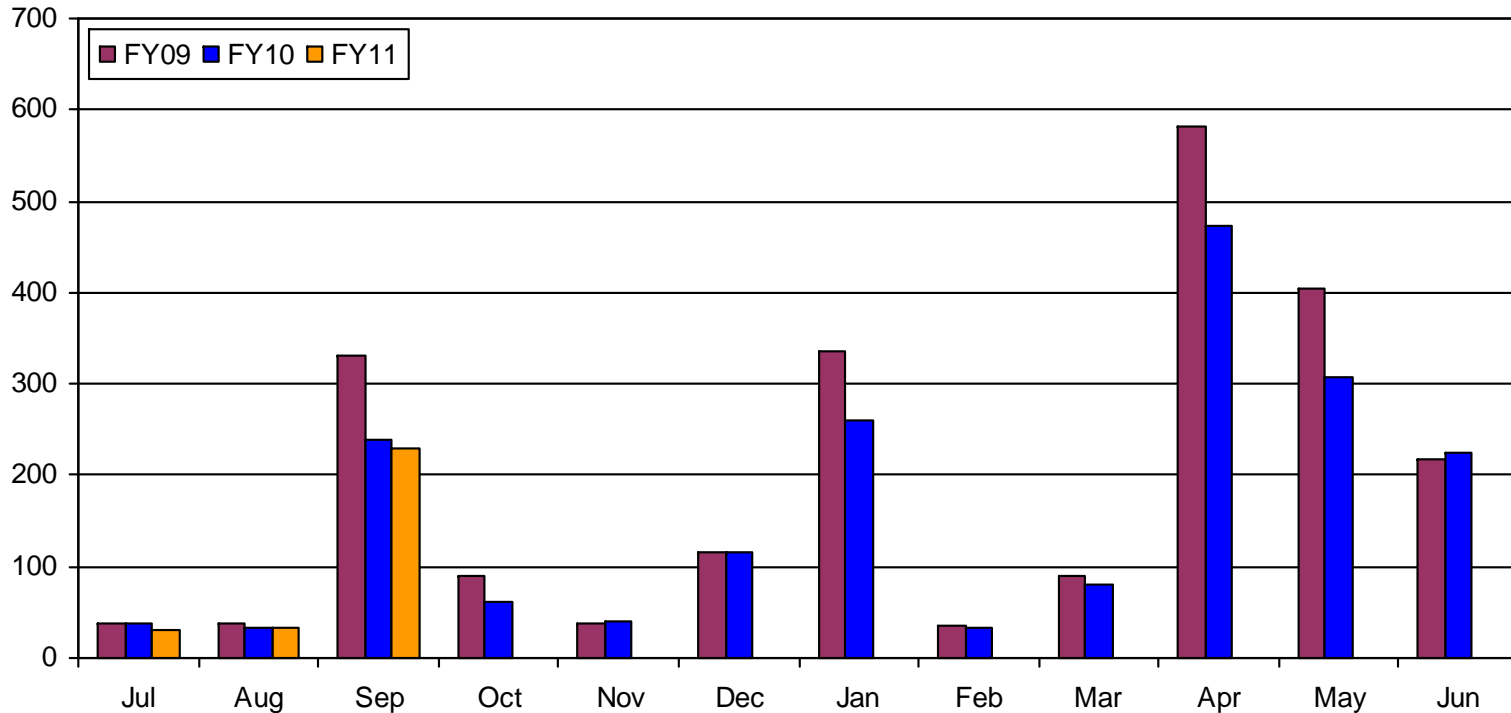
Growth in Withholding Tax Collections

FY11 Monthly and Year-to-Date



- Collections of payroll withholding taxes grew 6.8 percent in September.
- Year to date, withholding collections grew 4.4 percent compared with the same period last year, ahead of the projected annual growth rate of 2.4 percent.

Nonwithholding Tax Collections FY09-FY11 Monthly



- The first individual estimated payment in fiscal year 2011 was due in September. Monthly collections declined 4.6 percent.
- Year to date, collections through September were \$292.9 million compared with \$311.3 million in the same period last year, falling by 5.9 percent and trailing the annual estimate of 11.0 percent growth.

Individual Income Tax Refunds

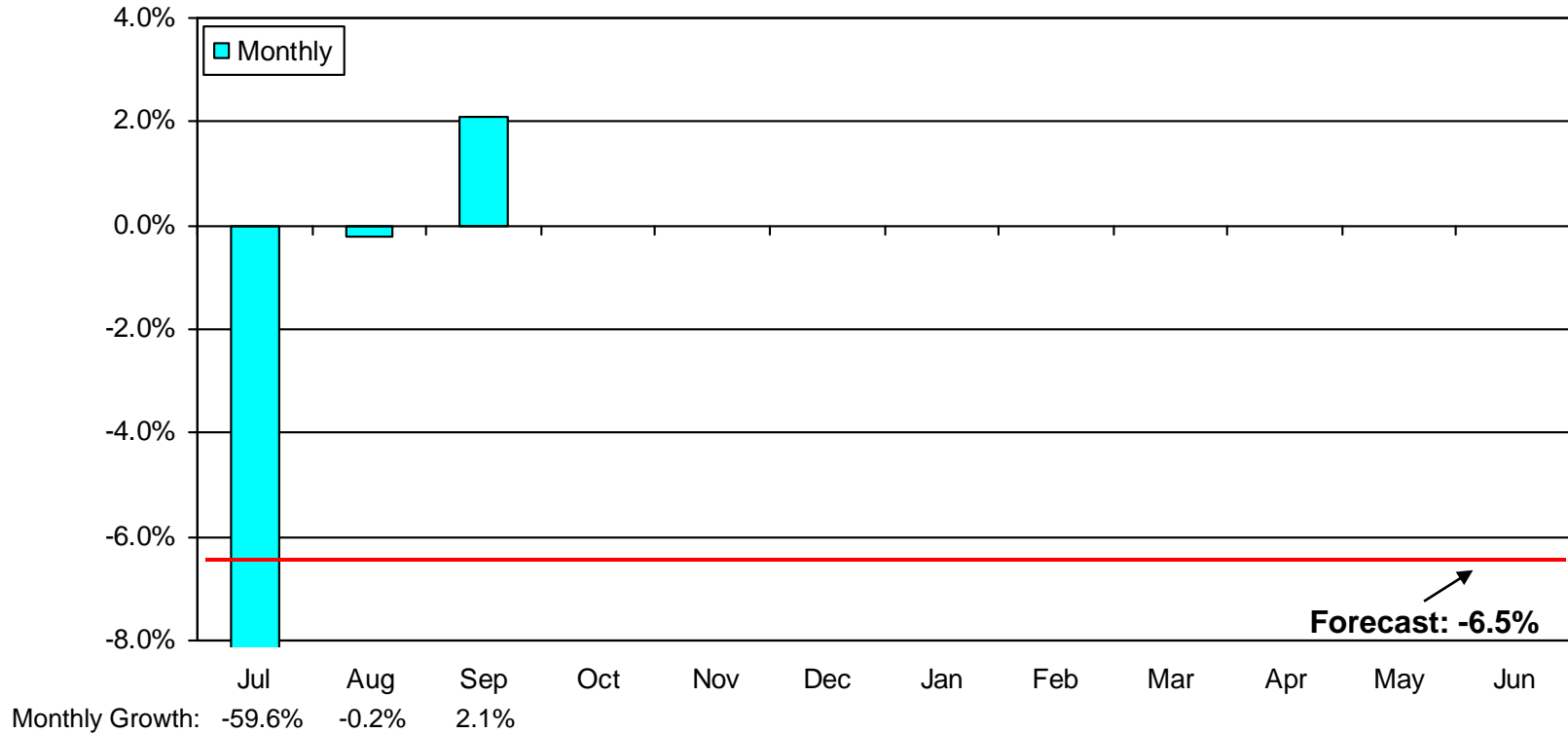
- Not a significant month.
- Through September, TAX has issued \$123.1 million in individual refunds compared with \$150.8 million in the same period last year, an 18.4 percent decline and behind the annual estimate of a 3.5 percent decline.

Net Individual Income Tax

- Through the first quarter of the fiscal year, collections of net individual income tax rose 4.5 percent from the same period last year, trailing the annual estimate of 5.5 percent.

Growth in Sales Tax Collections

FY11 Monthly



- Collections of sales and use taxes, reflecting August sales, rose 2.1 percent in September.
- On a year-to-date basis, collections have fallen 20.3 percent.
 - Adjusting for the AST program, sales tax collections have grown by 4.9 percent year to date, ahead of the economic-base forecast of a 0.8 percent increase.

Net Corporate Income Tax Collections

- As with nonwithholding, September is a significant month in corporate income tax collections, since the first estimated payment for the fiscal year is due.
 - Collections in corporate income tax grew 13.8 percent in September.
- On a year-to-date basis, collections in this source have risen 0.7 percent, ahead of the estimate of a 1.7 percent decline.
- Through September, 22.3 percent of the projected fiscal year's gross corporate payments have been received.
 - This is right on the historical average of 22.7 percent.

Recordation Tax Collections

- Collections of wills, suits, deeds, and contracts – mainly recordation tax collections – rose 2.5 percent in September, the second consecutive monthly increase.
- On a year-to-date basis, collections are down 5.9 percent, trailing the forecast of 8.2 percent growth.

Insurance Premiums Tax

- Monthly collections of insurance company premiums are being transferred to the Transportation Trust Fund per Chapter 896, 2007 Acts of the Assembly, until the required amount of \$130.3 million has been added.
 - Adjusted for this transfer, collections have declined 4.7 percent from the same period last year, below expectations of 3.0 percent growth.

Summary of Fiscal Year 2011 Revenue Collections

July through September

<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 %	4.4 %	2.4 %	2.0 %
Nonwithholding	14.5	(5.9)	11.0	(16.9)
Refunds	(13.2)	(18.4)	(3.5)	(14.9)
Net Individual	65.7	4.5	5.5	(1.0)
Sales	19.8	(20.3)	(6.5)	(13.8)
Corporate	5.4	0.7	(1.7)	2.4
Wills (Recordation)	2.2	(5.9)	8.2	(14.1)
Insurance	1.9	NA	4.8	NA
All Other Revenue	5.0	(8.6)	6.3	(14.9)
Total	100.0 %	(1.7) %	2.6 %	(4.3) %

Fall 2010 Forecasting Process

- A meeting of the Joint Advisory Board of Economists (JABE) will be held on October 20, 2010.
 - Members will assess recent economic developments and evaluate the revised economic outlook for the current biennium.
- A meeting of the Governor's Advisory Council on Revenue Estimates (GACRE) will be held in November.
 - Members will evaluate JABE recommendations, revenue collections through October, and the associated revenue forecast.
- The subsequent economic and revenue outlook will serve as the basis for the Governor's amendments to the 2010-2012 biennial budget released December 17, 2010.