



Economic and Revenue Update

A Briefing for the House Appropriations Committee

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Topics for Discussion

- National and State Economic Indicators
- December Year-to-Date Revenue Collections, Fiscal Year 2012
- Next Steps

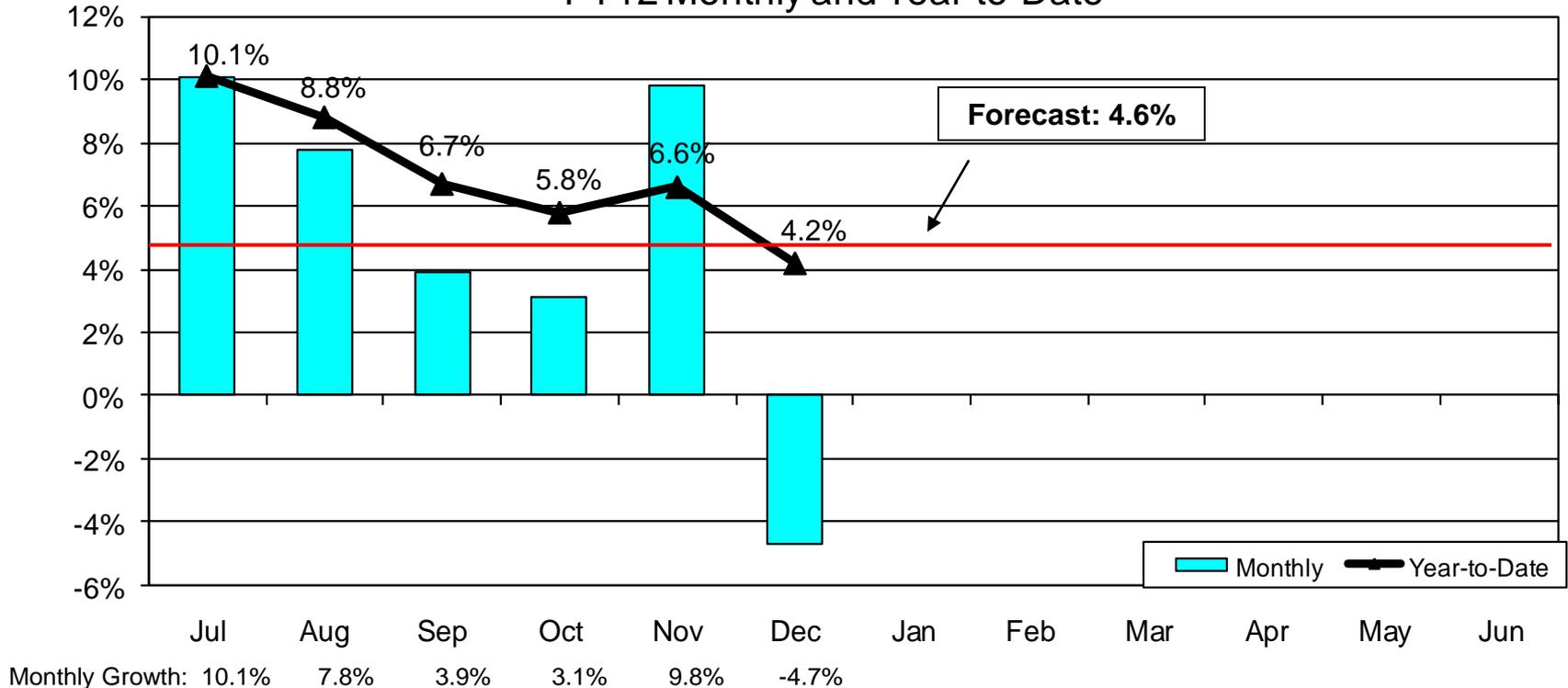
National and State Economic Indicators

- While slightly more positive, current national indicators still point to a weak recovery.
- According to the third estimate, real GDP grew at an annualized rate of 1.8 percent in the third quarter of 2011. This was up from 1.3 percent in the second quarter and 0.4 percent in the first quarter.
- The labor market continues to show signs of improvement, as payroll employment gained 200,000 jobs in December.
 - For calendar year 2011, job gains averaged 137,000 per month, compared with 78,000 per month in 2010.
- The national unemployment rate fell from 8.7 to 8.5 percent in December, its lowest level since February 2009.
- Initial claims for unemployment decreased by 15,000 to 372,000 during the week ending December 31.
 - The four-week moving average decreased from 376,500 to 373,250, the lowest level since June 2008.
 - When applications consistently drop below 375,000, this generally signals that hiring is strong enough to reduce the unemployment rate, as shown above.
- Employers in Virginia have added jobs in 11 of the last 15 months. Payroll employment in November grew just 0.5 percent from November of last year.
 - Compared to last year, employment increased 1.0 percent in Northern Virginia, but fell 1.0 percent in Richmond-Petersburg and 0.5 percent in Hampton Roads.
- The unemployment rate in Virginia fell slightly from 6.0 percent to 5.7 percent in November.

National and State Economic Indicators

- According to RealtyTrac, U.S. foreclosure activity for November declined 14 percent from November 2010, marking the 14th consecutive month of year-over-year declines.
 - One in every 579 U.S. housing units received a foreclosure notice in November.
 - In Virginia, one in every 1331 households received a foreclosure notice.
- The manufacturing sector continued to expand in December, as the Institute of Supply Management index rose from 52.7 to 53.9, its highest level since June.
 - This marks the 29th consecutive month above the expansionary threshold of 50.0.
- The Conference Board's index of leading indicators rose 0.5 percent in November marking the seventh consecutive monthly increase.
- The Conference Board's index of consumer confidence jumped in December, rising from 55.2 to 64.5, its highest level since April.
- The CPI remained unchanged in November from the previous month and stands 3.4 percent above November of last year.
 - Core inflation (excluding food and energy prices) rose 0.2 percent in November, and has increased 2.2 percent from November 2011.
- The saving rate decreased from 3.6 percent in October to 3.5 percent in November.
- At its December meeting, the Federal Reserve decided to keep the federal funds rate target unchanged at 0.0 to 0.25 percent.

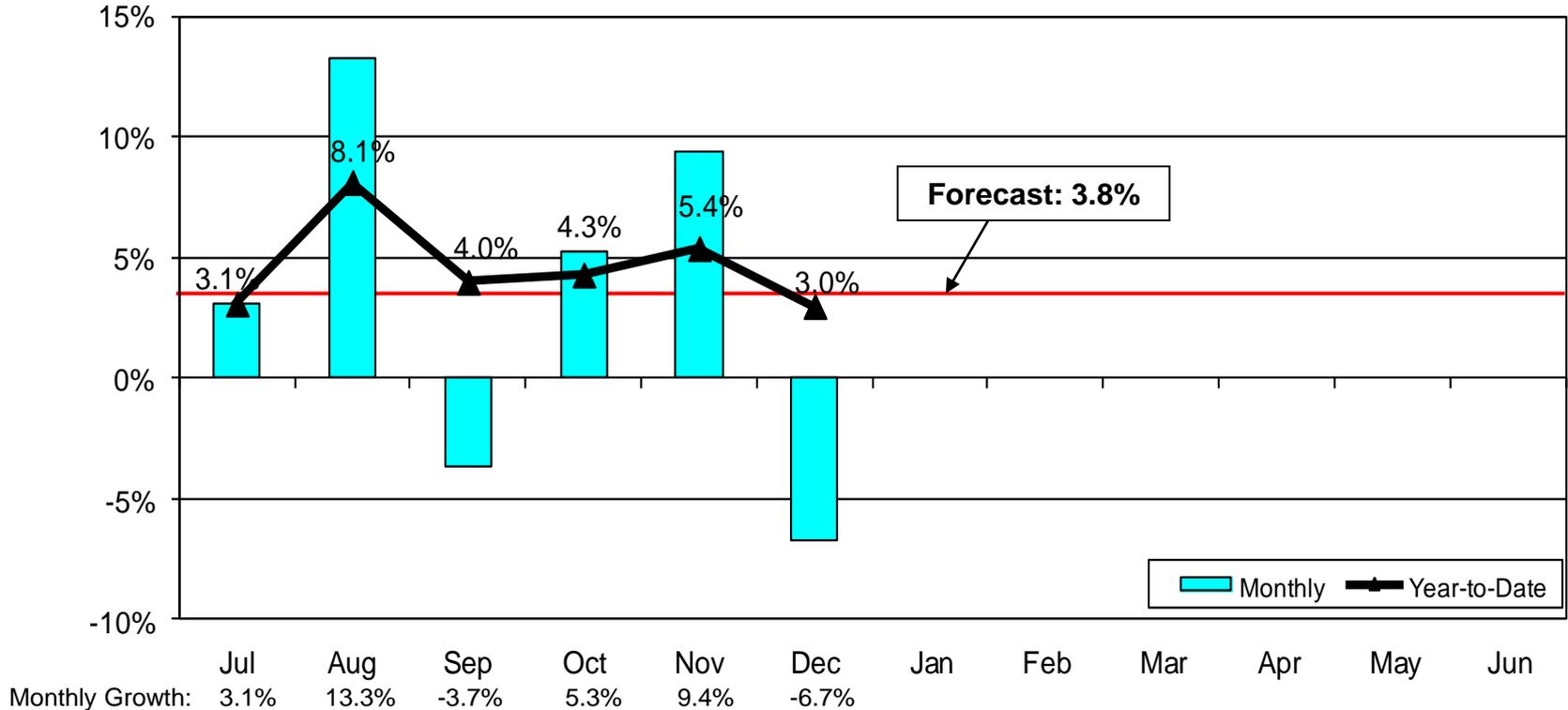
Growth in Total General Fund Revenue Collections FY12 Monthly and Year-to-Date



- On a year-to-date basis, total revenues increased 4.2 percent through December, behind the annual forecast of 4.6 percent growth.
 - Adjusting for the accelerated sales tax (AST) program, total revenues grew 3.7 percent, behind the economic-base forecast of 4.7 percent growth.

Growth in Withholding Tax Collections

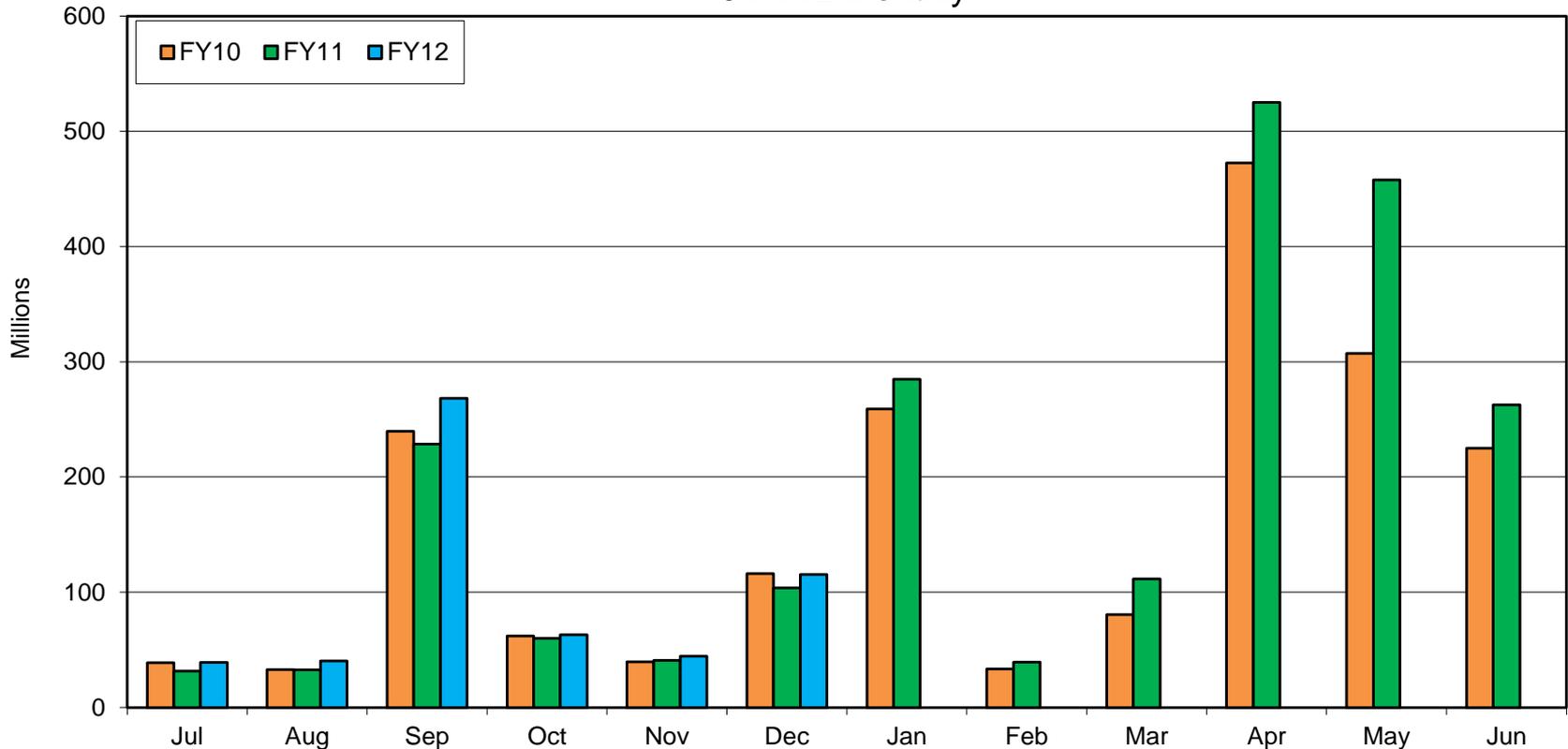
FY12 Monthly and Year-to-Date



- Collections of payroll withholding taxes fell 6.7 percent in December.
 - This was expected as December had one less deposit day than it did last year.
- Year-to-date, withholding collections grew 3.0 percent compared with the same period last year, behind the projected annual growth rate of 3.8 percent.

Nonwithholding Tax Collections

FY10-FY12 Monthly



- 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 17th is the due date for the fourth estimated payment for tax year 2011.
 - A complete assessment of growth in this source will be available at the end of January, when all 2011 quarterly payments have been received.
- Year-to-date, collections through the first half of the fiscal year grew 14.7 percent from the same period last year, compared with the revised annual estimate of 12.6 percent growth.

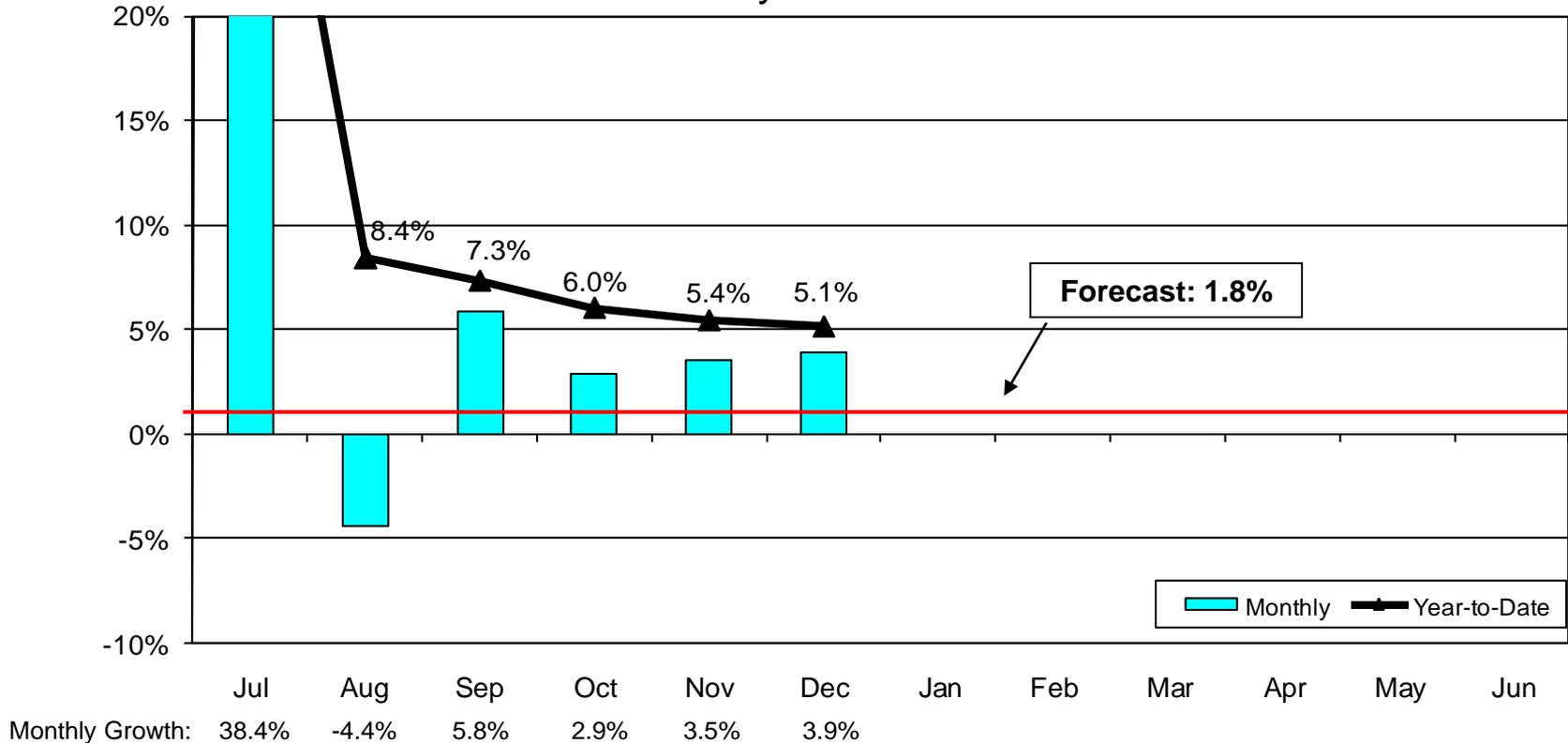
Individual Income Tax Refunds

- Through December, TAX has issued \$237.8 million in individual income tax refunds compared with \$284.0 million in the same period last year, a 16.3 percent decline. This is behind the annual estimate of a 3.0 percent increase.

Net Individual Income Tax

- Through the first six months of the fiscal year, collections of net individual income tax rose 5.3 percent from the same period last year, trailing the annual estimate of 5.9 percent growth.

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



- Collections of sales and use taxes, reflecting November sales, increased 3.9 percent in December.
- On a year-to-date basis, collections increased 5.1 percent, ahead of the annual estimate of a 1.8 percent increase.
 - Adjusting for AST, sales tax collections grew 2.6 percent through December, ahead of the economic-base forecast of a 2.5 percent increase.

Net Corporate Income Tax

- December is a significant month for collections in this source as quarterly estimated payments are due from most corporations.
- Collections of corporate income tax were \$131.7 million in December, compared with \$142.8 million last December, a 7.8 percent decrease.
- On a year-to-date basis, collections in this source have fallen 3.7 percent, behind the estimate of a 0.7 percent increase.

Recordation Tax Collections

- Collections of wills, suits, deeds, and contracts – mainly recordation tax collections – rose 8.9 percent in December.
 - On a year-to-date basis, collections are up 3.5 percent, behind the forecast of 10.8 percent growth.

Insurance Premiums Tax

- Collections of taxes on insurance premiums fell 29.9 percent in December from December 2010.
 - The required transfer of \$137.3 million to the Transportation Trust Fund (per Chapter 896 of the 2007 Acts of the Assembly) was completed in December.
 - The gross estimated payments were down 9 percent for the month, lagging the annual forecast of a 2 percent increase.

Summary of Fiscal Year 2012 Revenue Collections

July through December

<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	63.6 %	3.0 %	3.8 %	(0.8) %										
Nonwithholding	15.6	14.7	12.6	2.1										
Refunds	(12.2)	(16.3)	3.0	(19.3)										
Net Individual	67.0	5.3	5.9	(0.6)										
Sales	19.5	5.1	1.8	3.3										
Corporate	5.3	(3.7)	0.7	(4.4)										
Wills (Recordation)	2.1	3.5	10.8	(7.3)										
Insurance	1.8	(29.9)	2.0	(31.9)										
All Other Revenue	4.4	(0.9)	0.2	(1.1)										
Total	100.0 %	4.2 %	4.6 %	(0.4) %										
<table border="0" style="width: 100%; border-collapse: collapse;"> <tr> <td style="color: red;">Sales x AST</td> <td></td> <td style="color: red;">2.6 %</td> <td style="color: red;">2.5 %</td> <td style="color: red;">0.1 %</td> </tr> <tr> <td style="color: red;">Total x AST</td> <td></td> <td style="color: red;">3.7 %</td> <td style="color: red;">4.7 %</td> <td style="color: red;">(1.0) %</td> </tr> </table>					Sales x AST		2.6 %	2.5 %	0.1 %	Total x AST		3.7 %	4.7 %	(1.0) %
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Total x AST		3.7 %	4.7 %	(1.0) %										

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 17 to submit their fourth estimated payment for tax year 2011. 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.