



Economic and Revenue Update

A Briefing for the House Appropriations Committee

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Topics for Discussion

- National and State Economic Indicators
- August Year-to-Date Revenue Collections, Fiscal Year 2013
- Next Steps

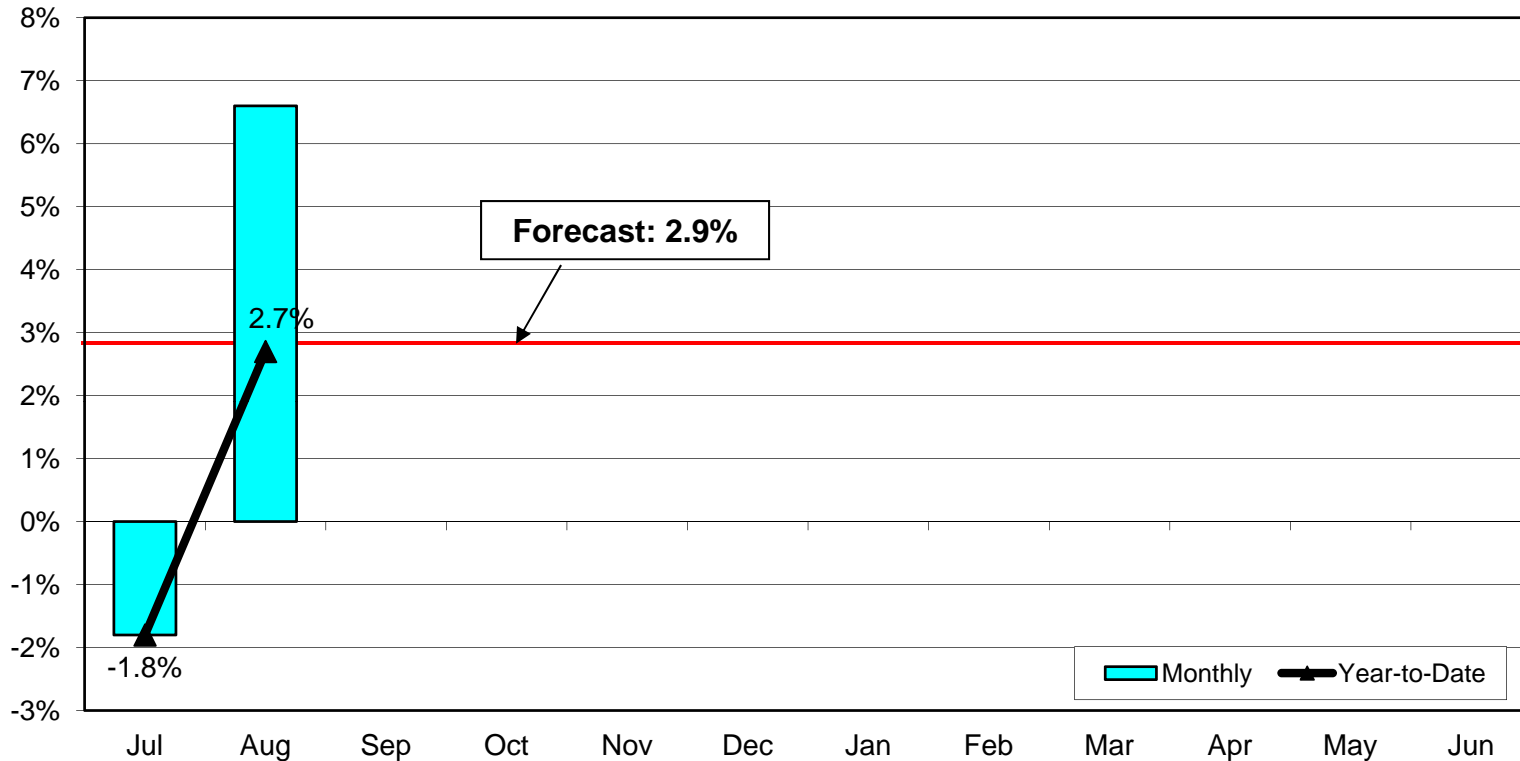
National and State Economic Indicators

- Current national indicators suggest the modest economic expansion is slowing.
- According to the second estimate, real GDP grew at an annualized rate of 1.7 percent in the second quarter of 2012, down from 2.0 percent in the first quarter.
- The labor market remains sluggish. Payroll employment rose by just 96,000 in August and the gains made in June and July were revised downwards by a total of 41,000.
- The national unemployment rate fell slightly from 8.3 to 8.1 percent in August, but the decline was mainly due to a contraction in the labor force.
- Initial claims for unemployment fell by 12,000 to 365,000 during the week ending September 1.
 - The four-week moving average increased very little from 371,000 to 371,250.
- In July, payroll employment in Virginia grew by 1.8 percent from July of last year.
 - Compared to last year, employment increased 2.4 percent in Northern Virginia, 1.1 percent in Richmond-Petersburg and 0.9 percent in Hampton Roads.
- The unemployment rate in Virginia was unchanged in July at 6.0 percent.

National and State Economic Indicators

- The manufacturing sector continued to weaken in August, as the Institute of Supply Management index decreased slightly from 49.8 to 49.6.
 - This marks the 3rd consecutive month below the expansionary threshold of 50.0.
- The Conference Board's index of leading indicators rose 0.4 percent in July after falling 0.4 percent in June. The index has now risen in four of the previous six months.
- The Conference Board's index of consumer confidence fell by 4.8 points in August from 65.4 to 60.6.
- The CPI was unchanged in July and stands 1.4 percent above July 2011.
 - Core inflation (excluding food and energy prices) rose 0.1 percent in July, and has increased 2.1 percent from July 2011.
- According to RealtyTrac, U.S. foreclosure activity for July declined 9.8 percent from July 2011. However, foreclosure activity is likely to pick up in the coming months, as processing delays are lessening.
 - One in every 686 U.S. housing units received a foreclosure notice in July.
 - In Virginia, one in every 1,257 households received a foreclosure notice.
- The saving rate decreased slightly from 4.3 percent in June to 4.2 percent in July.
- At its August meeting, the Federal Reserve reaffirmed that the federal funds rate target was going to remain unchanged at 0.0 to 0.25 percent.

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

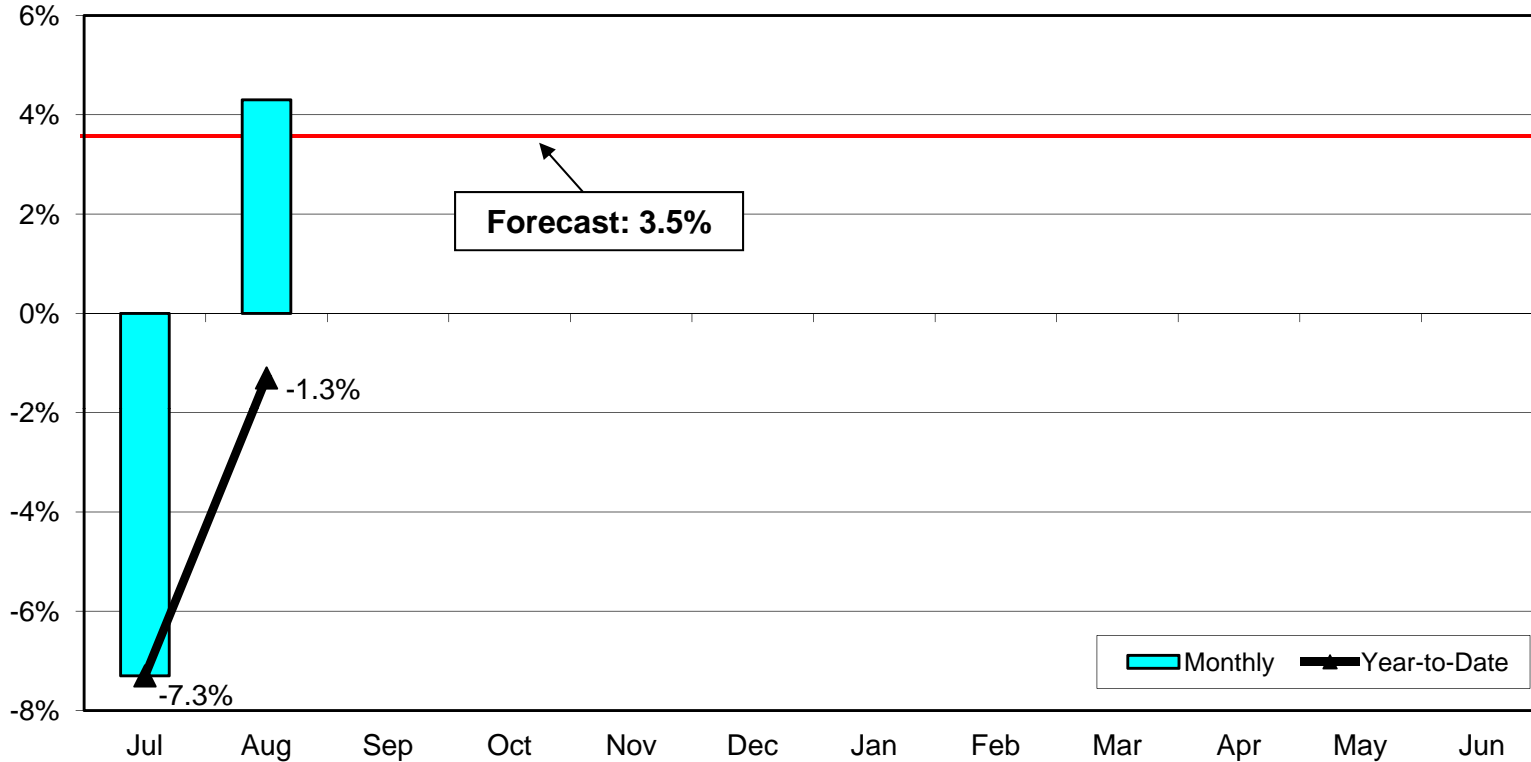


Monthly Growth: -1.8% 6.6%

- On a year-to-date basis, total revenues increased 2.7 percent, slightly behind the annual forecast of 2.9 percent growth.
 - Adjusting for the accelerated sales tax (AST) program, total revenues grew 1.1 percent through August, behind the economic-base forecast of 2.7 percent growth.

Growth in Withholding Tax Collections

FY13 Monthly and Year-to-Date



Monthly Growth: -7.3% 4.3%

- Collections of payroll withholding taxes grew 4.3 percent in August.
- Year to date, withholding collections fell 1.3 percent compared with the same period last year, trailing the projected annual growth rate of 3.5 percent.
 - Fiscal year 2013 started one day later this year, resulting in smaller collections in July 2012 compared to July 2011.

Individual Nonwithholding

- Collections through August were \$80.4 million compared with \$79.7 million in the same period last year, increasing by 0.9 percent and behind the annual estimate of 3.6 percent growth.

Individual Income Tax Refunds

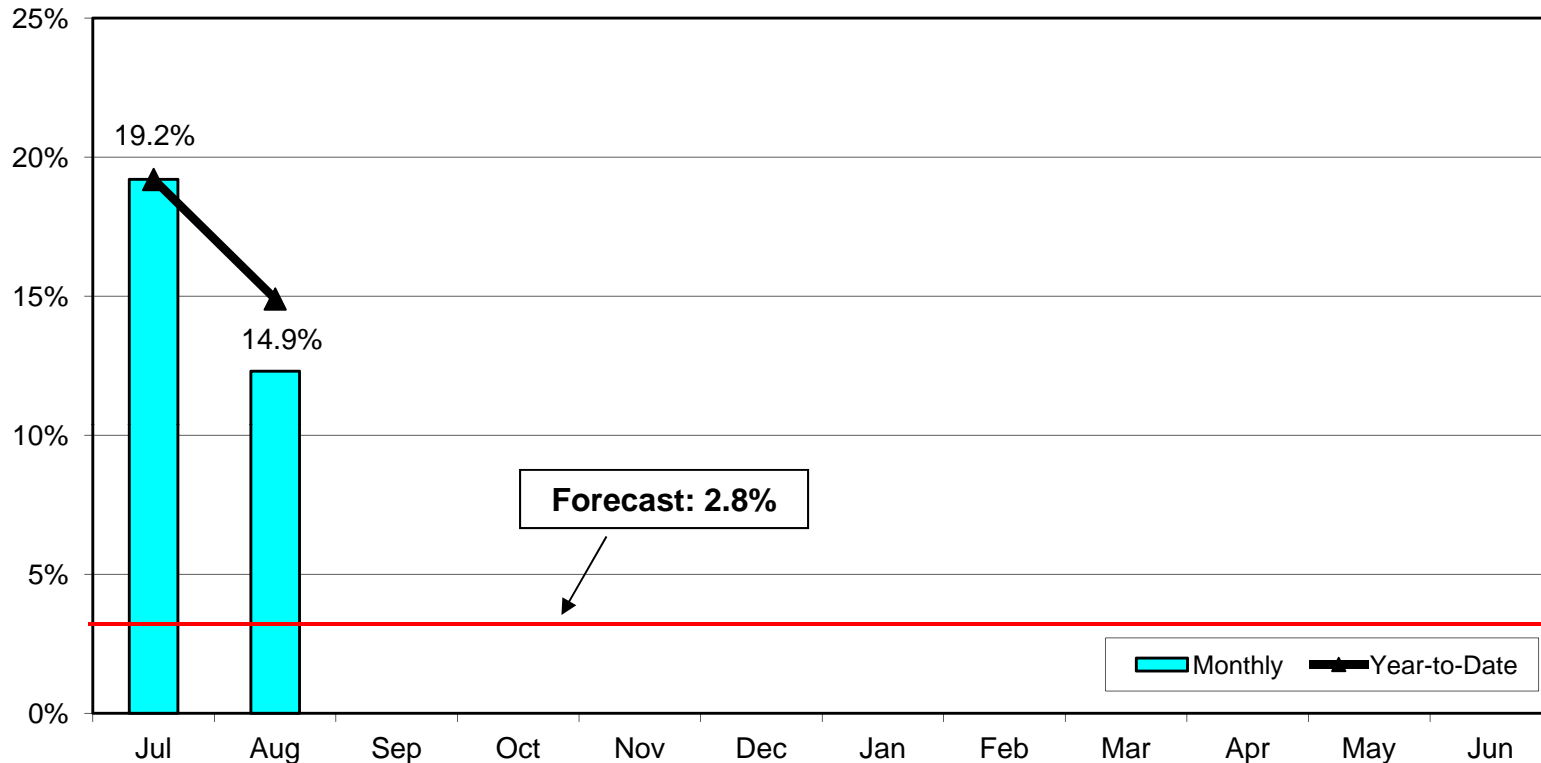
- Through August, TAX has issued \$72.6 million in individual refunds compared with \$71.2 million in the same period last year, a 2.0 percent increase and behind the annual estimate of 7.8 percent growth.

Net Individual Income Tax

- Through the first two months of the fiscal year, collections of net individual income tax fell 1.3 percent from the same period last year, behind the annual estimate of 2.8 percent growth.

Growth in Sales Tax Collections

FY13 Monthly and Year-to-Date



Monthly Growth: 19.2% 12.3%

- Collections of sales and use taxes, reflecting July sales, increased 12.3 percent in August.
- On a year-to-date basis, collections increased 14.9 percent, ahead of the annual estimate of a 2.8 percent increase.
 - Adjusting for AST, sales tax collections grew 4.5 percent through August, ahead of the economic-base forecast of a 1.7 percent increase.

Net Corporate Income Tax Collections

- Through the first two months of the fiscal year, \$13.7 million has been collected in this source, compared with \$2.9 million over the same period last year.

Recordation and Insurance Premiums Tax

Recordation

- Collections in this source continue to increase, as the housing market continues to strengthen. In August, collections increased 14.3 percent compared to last year. Year-to-date collections have increased 22.0 percent compared to last year, ahead of the forecast of 0.3 percent growth.

Insurance

- Collections are zero as the required transfers to the Transportation Trust Fund are being completed.

Summary of Fiscal Year 2013 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	63.7 %	(1.3) %	3.5 %	(4.8) %
Nonwithholding	15.0	0.9	3.6	(2.7)
Refunds	<u>(11.8)</u>	<u>2.0</u>	<u>7.8</u>	<u>(5.8)</u>
Net Individual	66.9	(1.3)	2.8	(4.1)
Sales	19.7	14.9	2.8	12.1
Corporate	5.4	375.7	3.0	372.7
Wills (Recordation)	2.0	22.0	0.3	21.7
Insurance	1.8	0.0	16.1	(16.1)
All Other Revenue	4.2	(0.1)	2.1	(2.2)
Total	100.0 %	2.7 %	2.9 %	(0.2) %

Sales (x AST)	4.5 %	1.7 %	2.8 %
Total (x AST)	1.1 %	2.7 %	(1.6) %

September is Next Significant Data Point

- Estimated payments are due from individuals, corporations and insurance companies.
 - Last data point to include in the revenue models.
 - Nonwithholding forecast will be driven by this payment and financial markets' performance.
- Sales tax for August sales will complete the summer tourism season and any adjustments from the AST program will be completed.

Next Steps

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