

Economic and Revenue Update

A Briefing for the Money Committees

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Topics for Discussion

- National and State Economic Indicators
- August Year-to-Date Revenue Collections, Fiscal Year 2022
- Next Significant Data Points
- 2021 Revenue Forecasting Schedule

National and State Economic Indicators

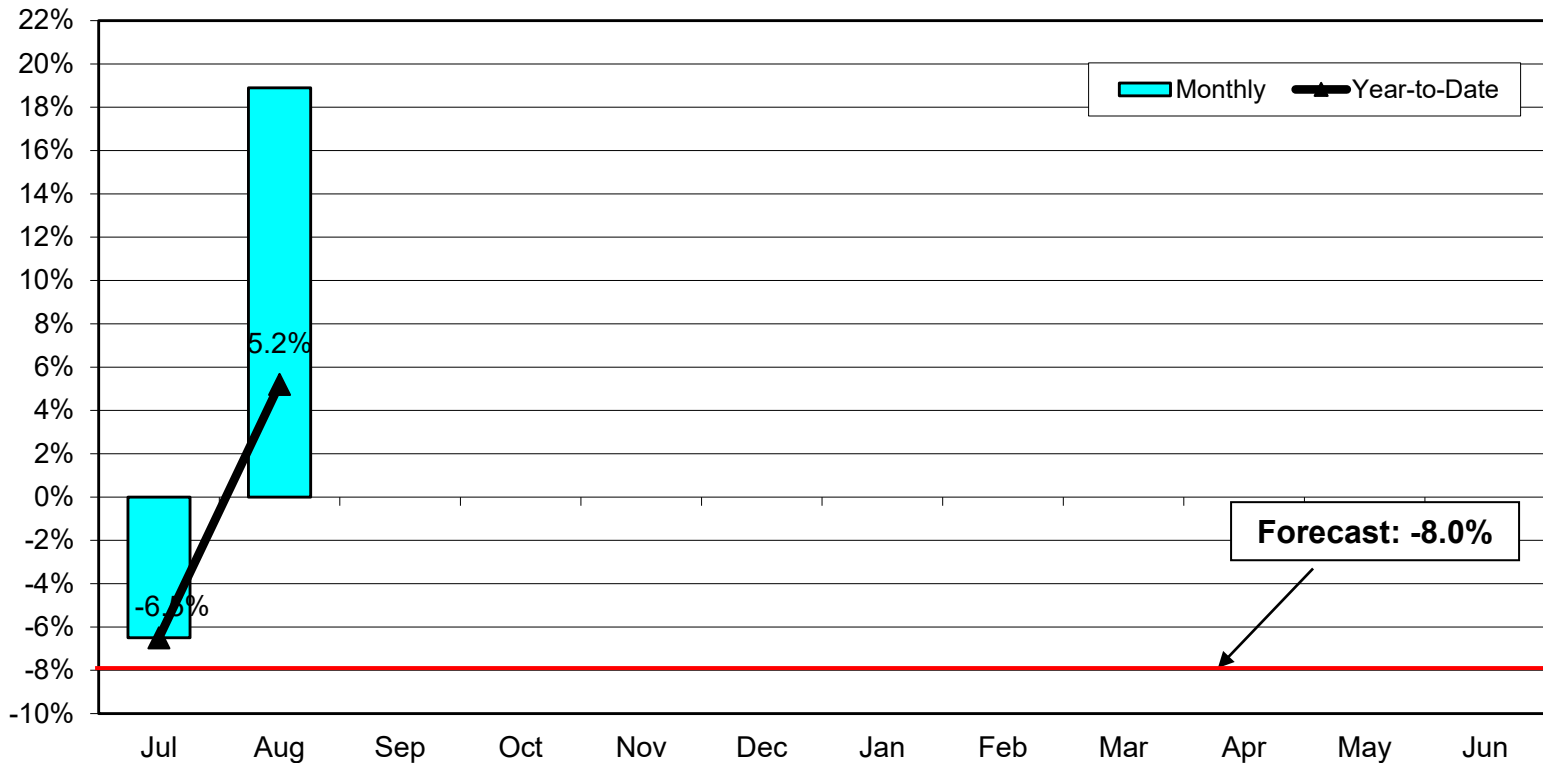
- According to the second estimate, real GDP rose at an annualized rate of 6.6 percent in the second quarter of 2021, following 6.3 percent in the first quarter.
- Following two strong months of growth, the labor market added only 235,000 jobs to payrolls in August, as the leisure and hospitality sector was flat.
 - The July gain was revised up to 1.1 million and June was revised up to 962,000.
- In a separate report, the unemployment rate fell to 5.2 percent in August.
- Initial claims for unemployment fell from 345,000 to 310,000 during the week ending September 4, the lowest level since March 2020, although the Labor Day weekend holiday could be causing distortions in the data. In a healthy economy, new filings are typically below 250,000.
- The Conference Board's index of leading indicators rose 0.9 percent in July, and follows a rise of 0.5 percent in June and 1.2 percent in May. All ten components increased for the month, suggesting a solid recovery.
- The Conference Board's index of consumer confidence fell from 125.1 to 113.8 in August with another surge in Covid-19. Both the current conditions and expectations components declined for the month.
- The Institute of Supply Management index rose from 59.5 to 59.9 in August. The index has remained above the neutral threshold of 50.0 for fifteen consecutive months.

National and State Economic Indicators

- The CPI rose 0.5 percent in July and stands 5.3 percent above July of last year.
 - Core inflation (excluding food and energy prices) rose 0.3 percent and stands 4.2 percent above a year ago.
- At its July meeting, the Federal Reserve left the federal funds target unchanged at the range of 0.0 to 0.25 percent.
- In Virginia, payroll employment rose 3.8 percent in August from August of last year. Employment in Northern Virginia rose by 5.1 percent; Hampton Roads rose 3.1 percent; and Richmond-Petersburg rose 1.9 percent.
- The seasonally adjusted unemployment rate fell 0.1 percentage point to 4.2 percent and stands 3.7 percentage points below a year ago.
- The Virginia Leading Index advanced 1.3 percent in July after also rising 1.3% in June.
 - All four components: auto registrations, future employment, initial unemployment claims, and the U.S. leading index improved in July.
 - The indexes for all metro areas increased for the month.

Growth in Total General Fund Revenue Collections

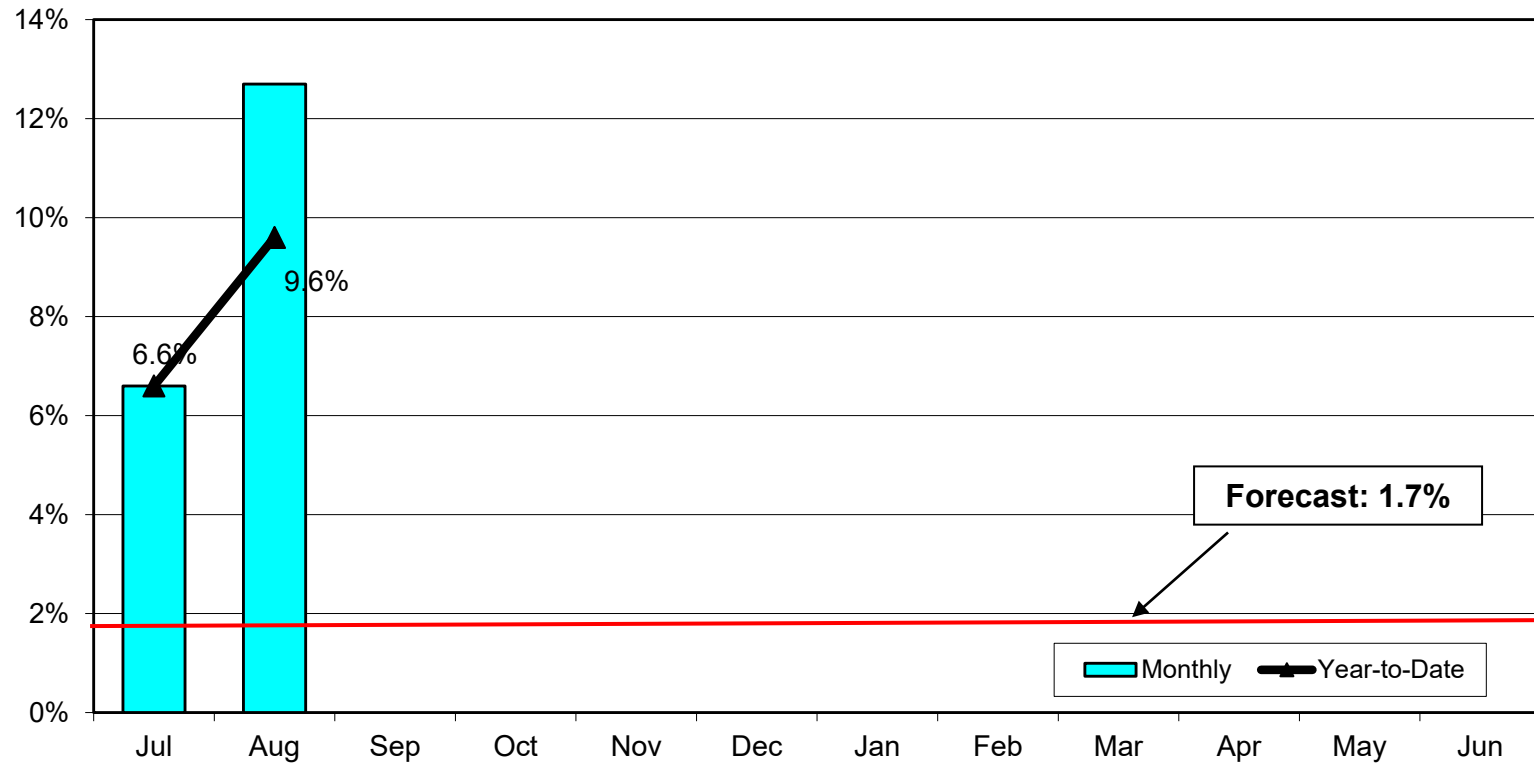
FY22 Monthly and Year-to-Date



Monthly Growth: -6.8% 18.9%

- Total general fund revenues increased 18.9 percent in August.
 - Growth driven by one additional deposit day for payroll withholding and robust sales tax collections.
- On a year-to-date basis, total revenues increased 5.2 percent, ahead of the annual forecast of an 8.0 percent decline.
 - This is comparing the fiscal year 2022 Chapter 552 forecast to actual fiscal year 2021 collections.

Growth in Withholding Tax Collections FY22 Monthly and Year-to-Date



Monthly Growth: 6.6% 12.7%

- Collections increased 12.7 percent in August.
 - August contained one additional deposit day.
- Year-to-date, withholding collections have increased 9.6 percent compared with the same period last year, ahead of the projected annual growth of 1.7 percent.

Individual Nonwithholding

- Collections through August were \$242.9 million compared with \$487.4 million in the same period last year.

Individual Income Tax Refunds

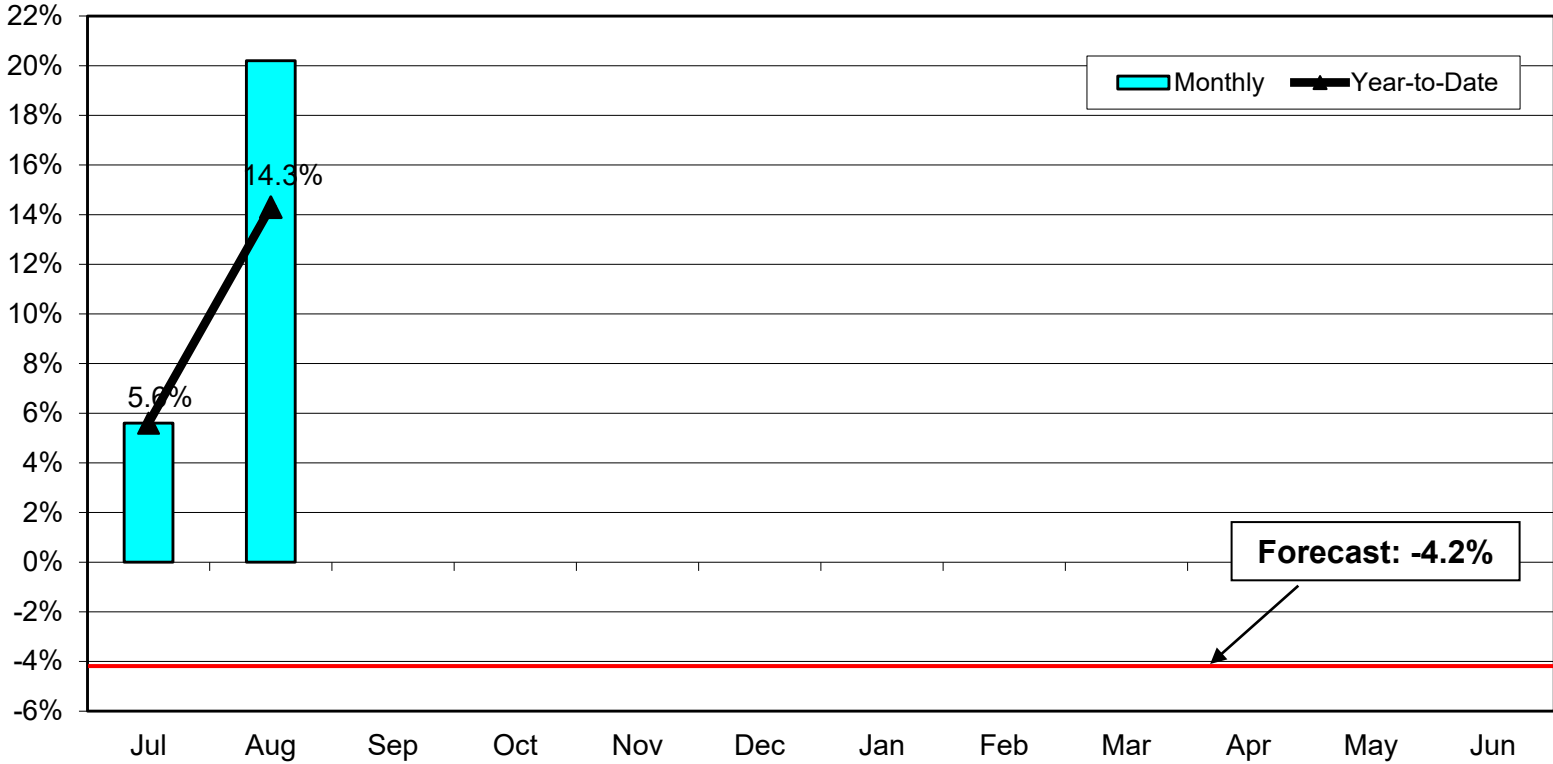
- Through August, TAX has issued \$117.3 million in individual refunds compared with \$223.2 million in the same period last year.

Net Individual Income Tax

- Through the first two months of the fiscal year, collections of net individual income tax increased 2.5 percent from the same period last year, ahead of the annual estimate of a 7.6 percent decrease.

Growth in Sales Tax Collections

FY22 Monthly and Year-to-Date



Monthly Growth: 5.6% 20.2%

- Collections of sales and use taxes, reflecting mainly July sales, increased 20.2 percent in August.
 - Broad-based growth as much of the Virginia economy was open this month as compared to last July.
- On a year-to-date basis, collections increased 14.3 percent, ahead of the annual estimate of a 4.2 percent decline.

Net Corporate Income Tax Collections

- This is not a significant month.
- On a year-to-date basis, collections in this source are \$103.9 million as compared to the same period last year of \$84.9 million.

Recordation Tax Collections

- Collections of wills, suits, deeds, and contracts – mainly recordation tax collections – increased 8.9 percent in August.
 - On a year-to-date basis, collections have increased 10.5 percent as compared to the forecast of a 31.3 percent decline.

Insurance Premiums Tax

- There are no deposits to the general fund as the required transfers to the Transportation Trust Fund must be satisfied first. Transportation must receive \$180.7 million before deposits are made to the General Fund.

Summary of Fiscal Year 2022 Revenue Collections

Chapter 552 Forecast

July through August

Percent Growth over Prior Year

<u>Major Source</u>	As a % of Total Revenues	<u>YTD Actual</u>	<u>Annual Estimate</u>	<u>Variance</u>	<u>Sep - Jun Req'd to Meet Est.</u>	<u>Prior Year Sep - Jun</u>
Withholding	62.2 %	9.6 %	1.7 %	7.9 %	0.3 %	6.0 %
Nonwithholding	17.0	(50.2)	(25.4)	(24.8)	(22.9)	28.9
Refunds	(9.4)	(47.5)	11.4	(58.9)	19.1	(1.1)
Net Individual	69.8	2.5	(7.6)	10.1	(9.1)	13.3
Sales	17.4	14.3	(4.2)	18.5	(6.8)	12.0
Corporate	5.6	22.3	(16.1)	38.4	(18.4)	46.2
Wills (Recordation)	2.0	10.5	(31.3)	41.8	(39.3)	43.3
Insurance	1.6	n/a	(0.6)	n/a	(0.6)	0.7
All Other Revenue	3.6	0.0	(4.0)	4.0	(4.6)	6.1
Total	100.0 %	5.2 %	(8.0) %	13.2 %	(9.9) %	14.9 %
Total less Nonwithholding	83.0 %	15.4 %	(3.3) %	18.7 %	(6.2) %	11.5 %

- \$414.5 million ahead of the Chapter 552 forecast through August

Next Significant Data Points

- Estimated payments are due in September 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.

2021 Revenue Forecasting Schedule

- **October 13** – *Joint Advisory Board of Economist* (JABE) reviews outlook for the current and next biennium (FY22 – FY24).
- **November 22** – *Governor’s Advisory Council on Revenue Estimates* (GACRE) reviews economic and revenue outlook for current and next biennium (FY22 – FY24).
- **December 16** – Governor releases revised forecast and budget actions for 2020 - 2022 biennium and introduces 2022 – 2024 budget.