



ECONOMIC AND REVENUE REVIEW AND UPDATE

A BRIEFING FOR THE MONEY COMMITTEES

Stephen E. Cummings

Secretary of Finance
Commonwealth of Virginia

www.finance.virginia.gov

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TOPICS FOR DISCUSSION

AUGUST YEAR-TO-DATE REVENUE COLLECTIONS, FISCAL YEAR 2023

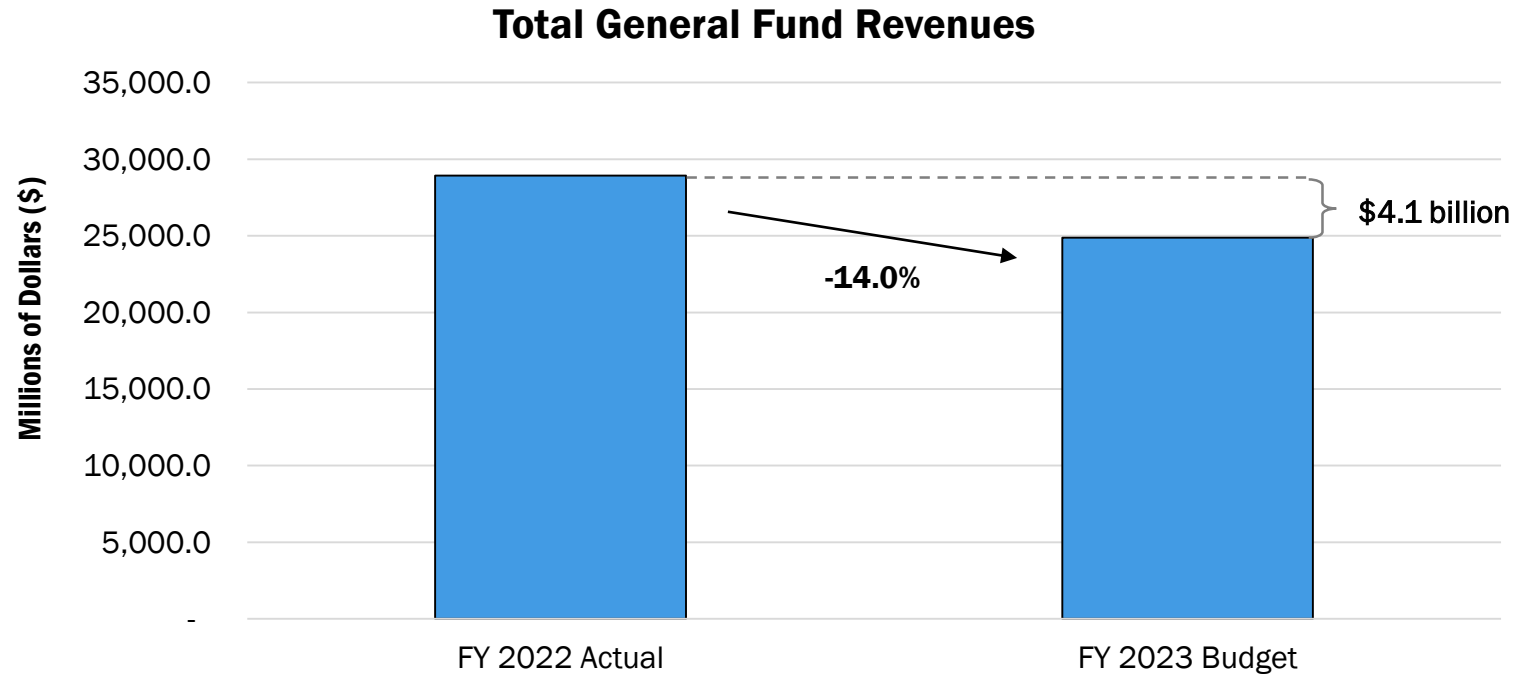
ECONOMIC REVIEW

KEY DATES AND NEXT STEPS

SUMMARY

- August is typically a smaller revenue month due to lower corporate and nonwithholding payments. Given the importance of the first estimated payments for nonwithholding and corporate payments due in September, the September year-to-date results will be the best indicators of recent trends.
- August year-over-year general fund revenues grew by 13.0 percent for the month, which was meaningfully inflated by an extra day of withholding collections, which was a large payment day. This contributed to a 19.8 percent increase in year-over-year withholding revenues.
- Adjusting for this timing impact, withholding revenues increased by 8.2 percent for the month, and are up 8.9 percent year-to-date.
- Sales and use tax collections were up 7.2 percent for the month, and up 4.3 percent year-to-date when adjusted for the repeal of accelerated sales tax (AST).
- Adjusting for both AST and the impact of the extra day of withholding payments, total general fund revenues rose by approximately 5.4 percent in August and 5.3 percent year-to-date versus the 14.0 percent decline assumed in the current budget.
- The forecasted 14.0 percent decline in revenues for fiscal year (FY) 2023 reflects the conservative decision not to change the FY 2023 revenue outlook when the February midsession forecast adjustment was made as well as the tax relief measures enacted during the 2022 general assembly session totaling \$2.3 billion in the current fiscal year (\$1 billion in tax rebates to be issued beginning in late September and approximately \$1 billion resulting from the increase in the standard deduction).
- Economic indicators are mixed: labor markets are tight and corporate profits are rising, while high inflation and rising interest rates are hurting consumer confidence and impacting the housing market.

REVENUE CUSHION IS \$4.1 BILLION IN FY 2023, BUDGET ASSUMES A SHARP DECLINE IN REVENUES



- The assumed year-over-year revenue decline reflects tax relief and the decision in February not to adjust FY23 revenues, providing a substantial cushion against a potential slowdown in growth.
- Revenue estimates will be adjusted to reflect current conditions during the normal fall consensus forecasting process.

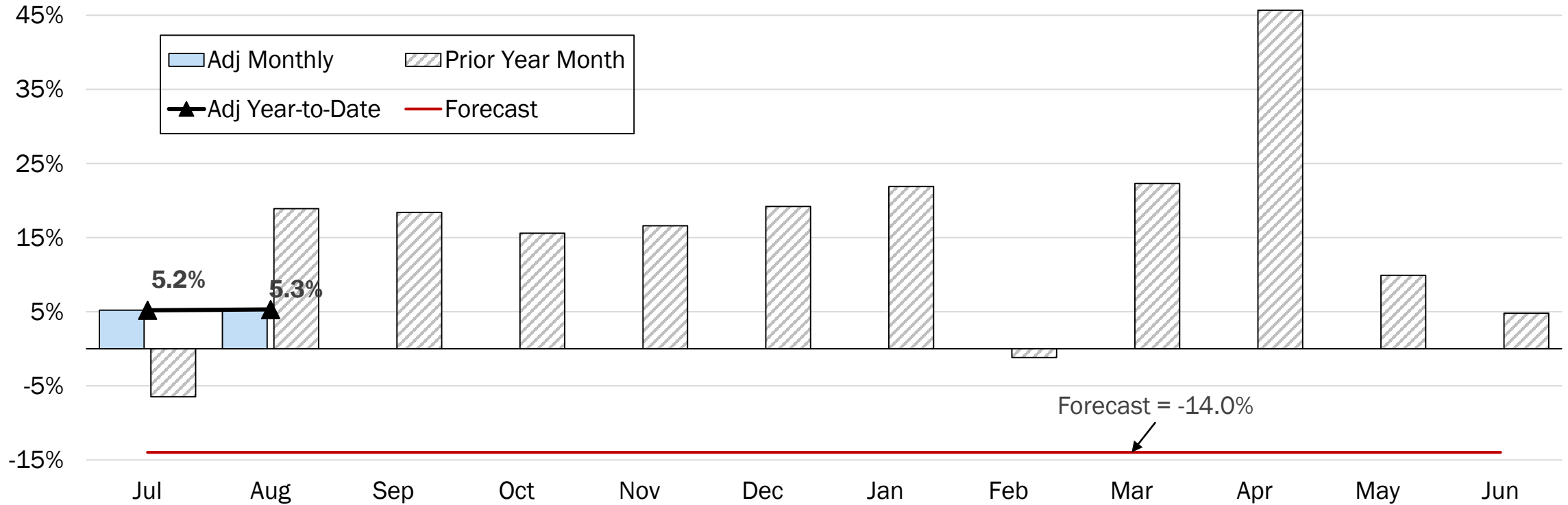
ADJUSTED FOR AST AND THE IMPACT OF AN ADDITIONAL DEPOSIT DAY IN AUGUST, GF REVENUES ARE UP 5.3 PERCENT YEAR-TO-DATE

General Fund Revenue Collections (in millions of dollars)

| Revenue | FY 2023 | Pct Chg | Percent of | August | | | | August Year-To-Date | | | | Year-To-Date |
|--|-------------------|---------------|---------------|------------------|------------------|----------------|--------------|---------------------|------------------|----------------|--------------|---------------|
| | Ch 2 Estimate | Req by Est | GF Rev | FY 2022 | FY 2023 | Change | % Change | FY 2022 | FY 2023 | Change | % Change | % of Total |
| Withholding | \$15,319.9 | -0.1% | 61.6% | \$1,120.8 | \$1,342.8 | \$222.0 | 19.8% | \$2,255.8 | \$2,587.4 | \$331.6 | 14.7% | 69.0% |
| Nonwithholding | 5,213.6 | -23.4% | 21.0% | 114.7 | 124.3 | 9.6 | 8.4% | 242.9 | 223.5 | (19.4) | -8.0% | 6.0% |
| Refunds | (3,800.9) | 118.4% | -15.3% | (42.9) | (54.7) | (11.8) | 27.6% | (117.3) | (106.5) | 10.8 | -9.2% | -2.8% |
| Sales and Use Tax | 4,497.8 | -1.3% | 18.1% | 374.2 | 401.1 | 26.9 | 7.2% | 595.1 | 759.8 | 164.7 | 27.7% | 20.3% |
| Corporate Income Tax | 1,737.0 | -12.2% | 7.0% | 39.2 | 21.9 | (17.3) | -44.2% | 103.9 | 71.6 | (32.3) | -31.1% | 1.9% |
| All Other Sources | 1,903.9 | -4.2% | 7.7% | 114.2 | 108.6 | (5.6) | -4.9% | 221.9 | 213.1 | (8.8) | -4.0% | 5.7% |
| Total GF Revenues | \$24,871.3 | -14.0% | 100.0% | \$1,720.2 | \$1,943.9 | \$223.7 | 13.0% | \$3,302.3 | \$3,748.9 | \$446.6 | 13.5% | 100.0% |
| Adjusted Sales | | | | | | | | \$798.5 | \$833.0 | \$34.5 | 4.3% | |
| Total GF Revenues, Adjusted for AST | | | | | | | | \$3,505.7 | \$3,822.1 | \$316.4 | 9.0% | |
| Adjusted Withholding | | | | \$1,120.8 | \$1,212.8 | \$92.0 | 8.2% | \$2,255.8 | \$2,457.4 | \$201.6 | 8.9% | |
| Total GF Revenues, Adjusted for AST and Withholding | | | | \$1,720.2 | \$1,813.9 | \$93.7 | 5.4% | \$3,505.7 | \$3,692.1 | \$186.4 | 5.3% | |

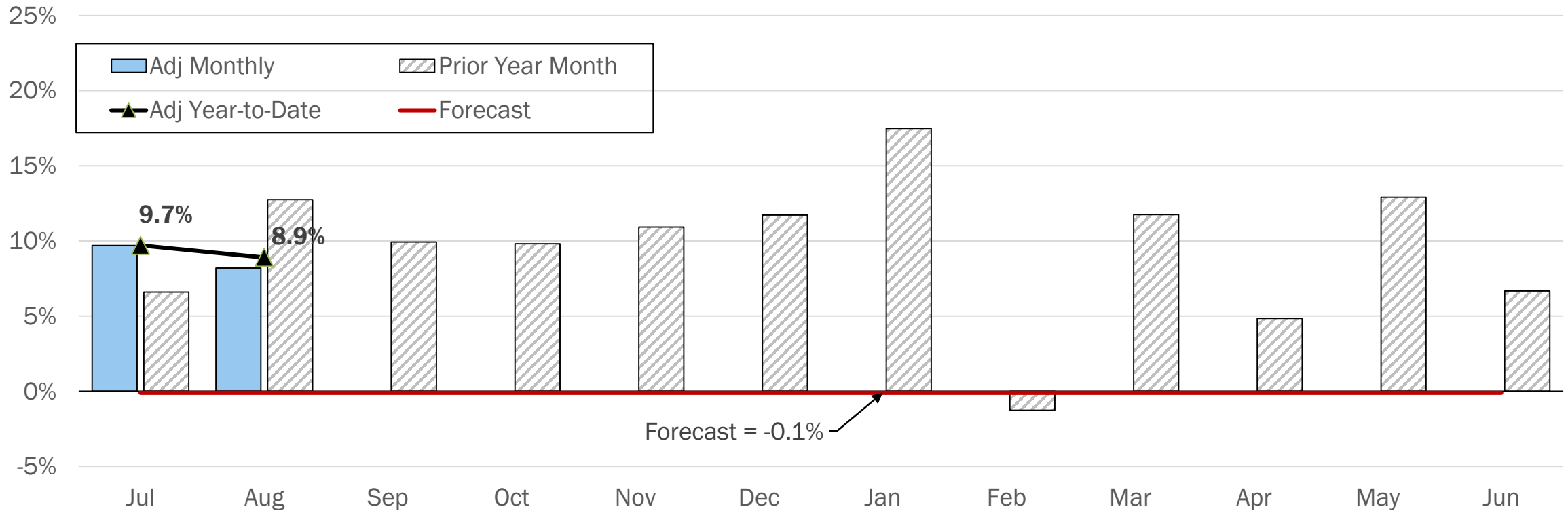
- With an additional withholding deposit day in August, total GF revenues grew 13.0 percent for the month compared to August 2021, driven mainly by withholding and sales tax collections.
- On an unadjusted basis, total GF revenues are up 13.5 percent year-to-date.

ADJUSTED FOR AST AND THE IMPACT OF AN ADDITIONAL DEPOSIT DAY IN AUGUST, GF REVENUES ARE UP 5.4 PERCENT FOR THE MONTH



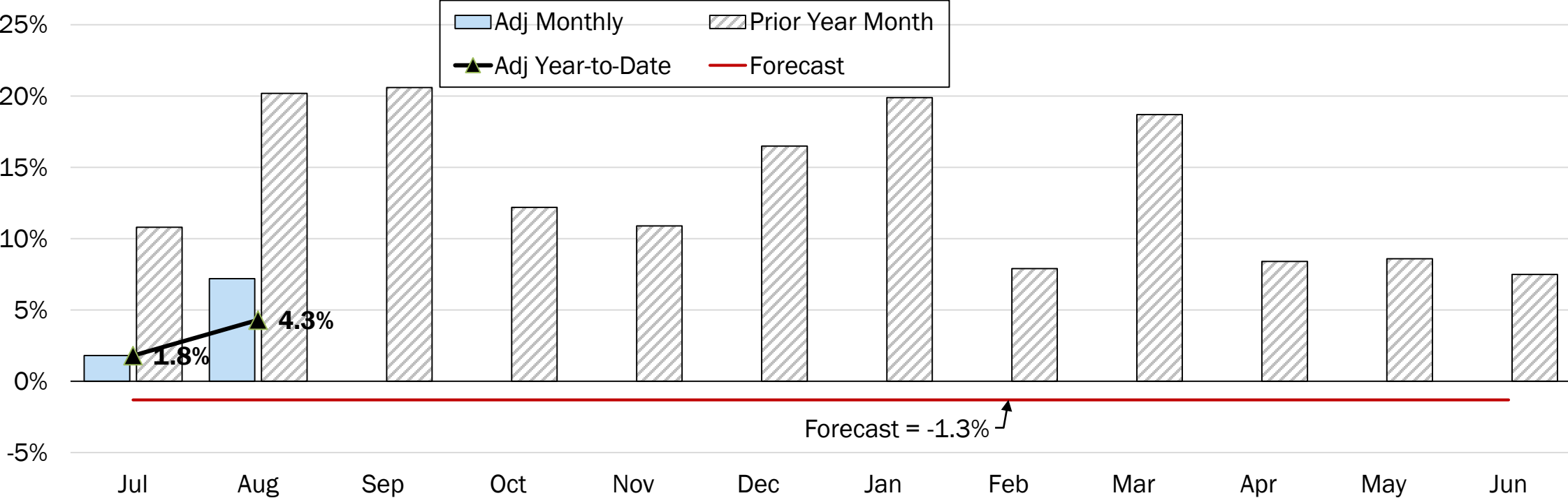
- Adjusting for both AST and the estimated impact of the extra day of withholding payments, total general fund revenues rose approximately 5.4 percent and are up approximately 5.3 percent year-to-date.
- Coming months will be more challenging as compared to prior year pandemic recovery growth rates.

COMPETITIVE LABOR MARKET UNDERPINS CONTINUED STRONG GROWTH IN WITHHOLDING TAX COLLECTIONS



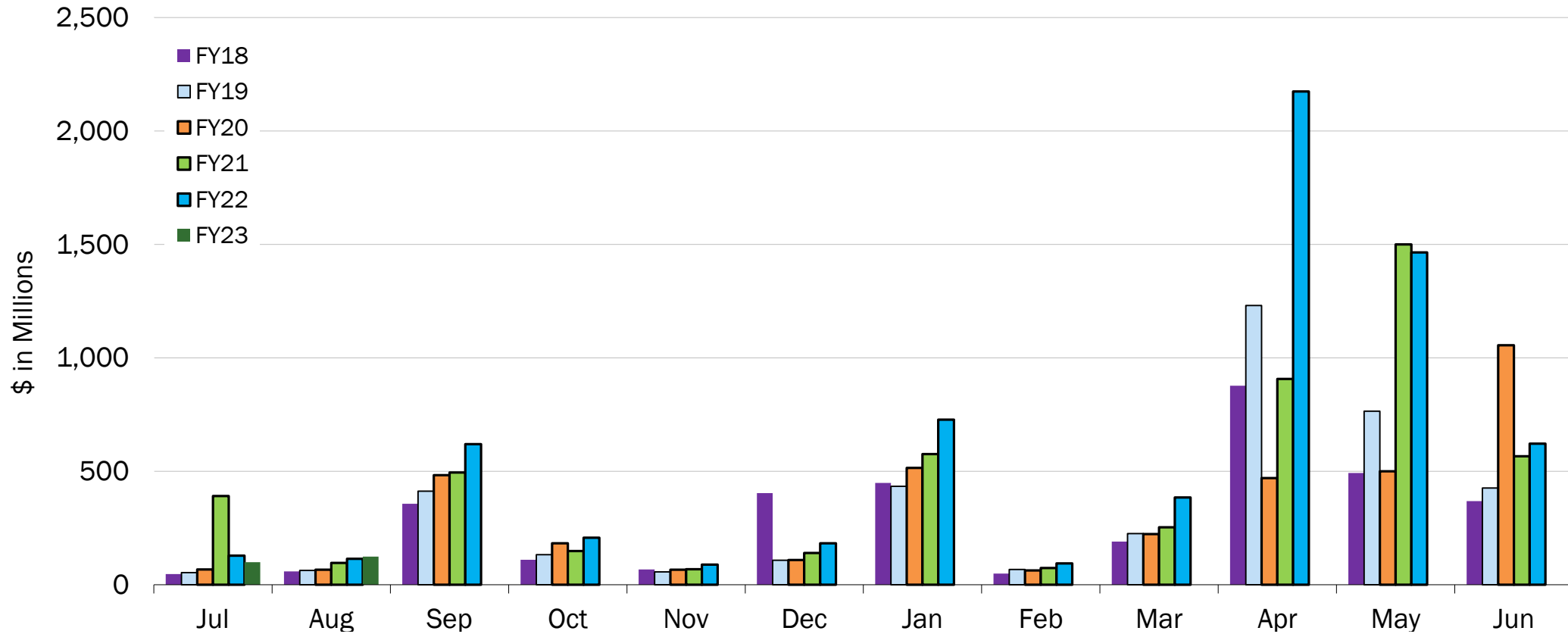
- With an additional deposit day in August, collections increased 19.8 percent for the month. Adjusting for the additional deposit day, withholding collections are up an estimated 8.2 percent for the month.
- Year-to-date, withholding collections have increased 8.9 percent (adjusted) compared with the same period last year, ahead of the projected annual decline of 0.1 percent.

SALES AND USE TAX COLLECTIONS ARE UP 7.2 PERCENT FOR THE MONTH



- Adjusted for AST, fiscal-year-to-date collections grew 4.3 percent – below the 8.5 percent increase in the July national CPI.
- Year-over-year growth is largely driven by online retailers/supercenters, retail trade, and grocery stores.

NONWITHHOLDING TAX COLLECTIONS



- July and August are not significant months for collections in nonwithholding since the first estimated payment for fiscal year 2023 is due in September.
- Through the first two months of the fiscal year, collections were \$223.5 million compared with \$242.9 million a year ago.

OTHER SOURCES

Net Corporate Income Tax

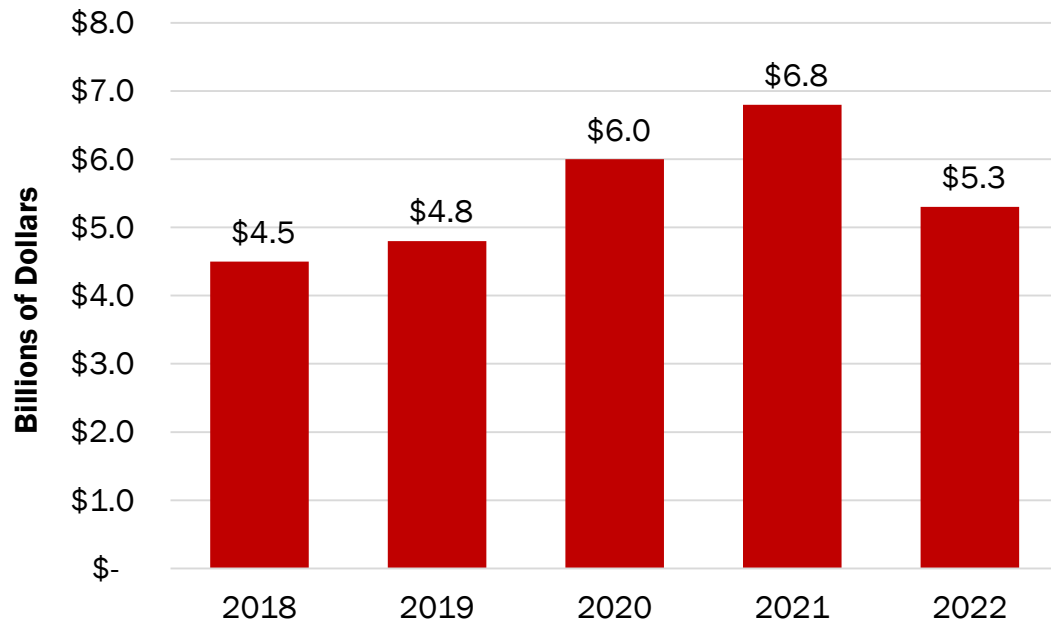
- August is not a significant month for corporate income tax collections.
- Through August, collections on corporate income taxes were \$71.6 million compared with \$103.9 million in the same period last year.

Recordation

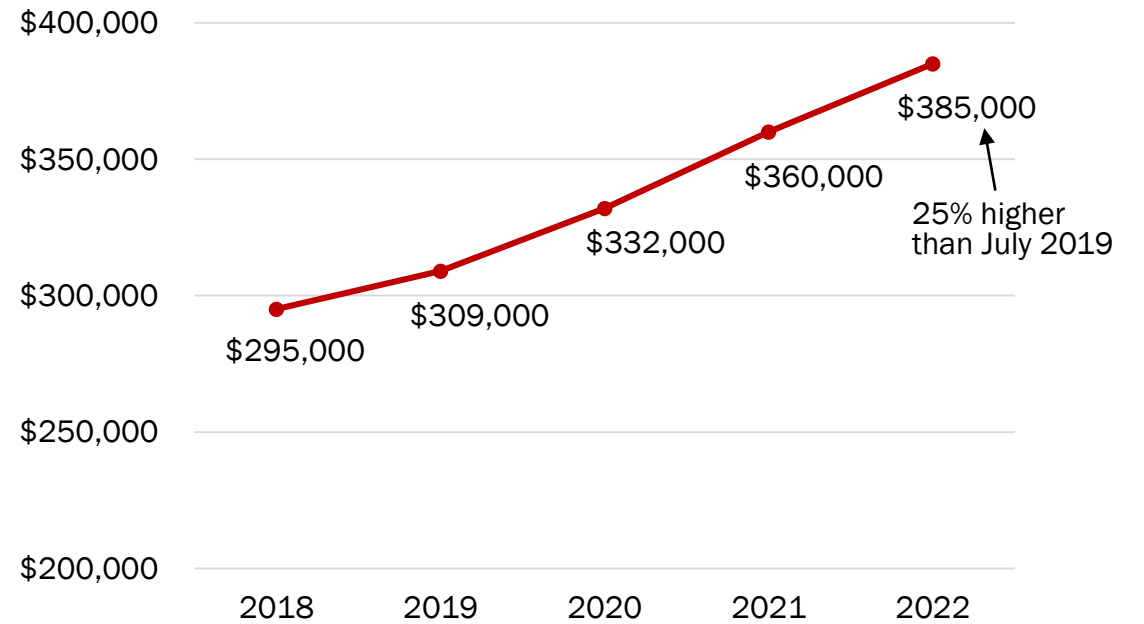
- Year-to-date collections have decreased 19.0 percent compared to last year, behind the forecast for a 9.2 percent decline. In August, collections decreased 20.0 percent compared to last year.
- According to Virginia REALTORS,
 - The July sold volume (price X number of homes sold) was \$5.3 billion across Virginia, which was a reduction of approximately \$1.5 billion or 21.0 percent. The state's housing market has declined in three of the last four months.
 - In July the median sales price in Virginia rose 6.9 percent to \$385,000 relative to a year-ago.

HOME SALES ACTIVITY HAS SLOWED, HOWEVER PRICES CONTINUE TO CLIMB

Virginia Sold Dollar Volume, July



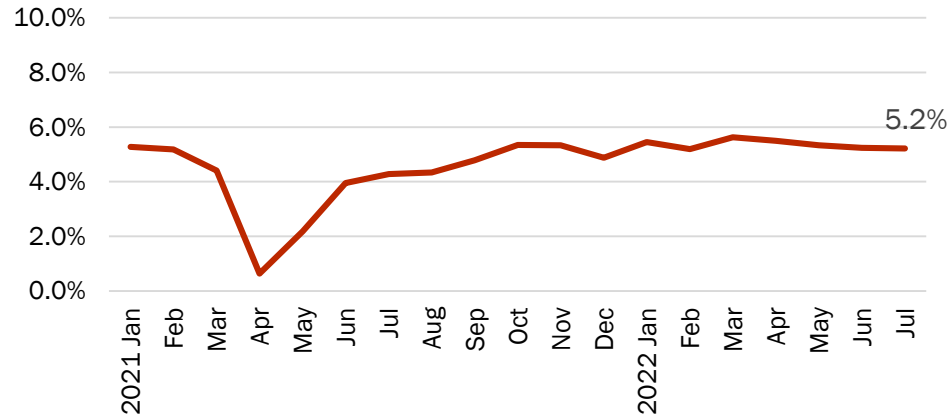
Virginia Median Home Price, July



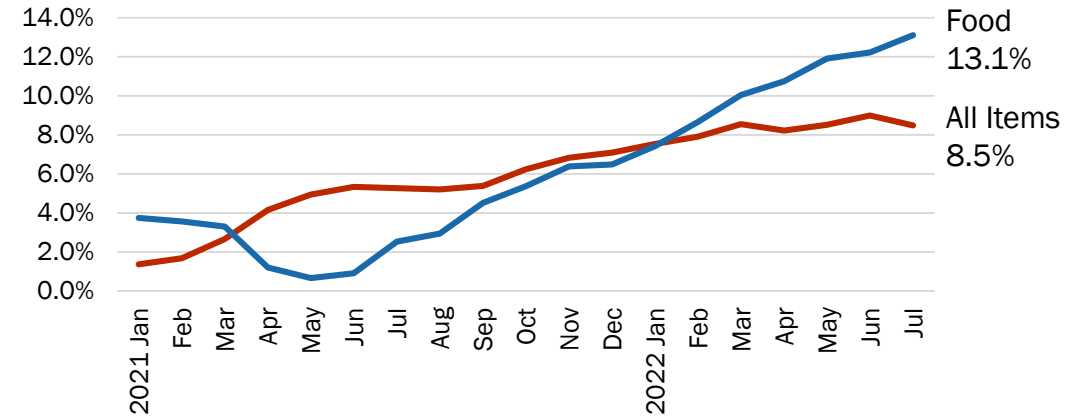
Source: Virginia Association of Realtors, Virginia Home Sales Report, July 2022

INCREASING COST OF LIVING CONTINUES TO HURT CONSUMERS

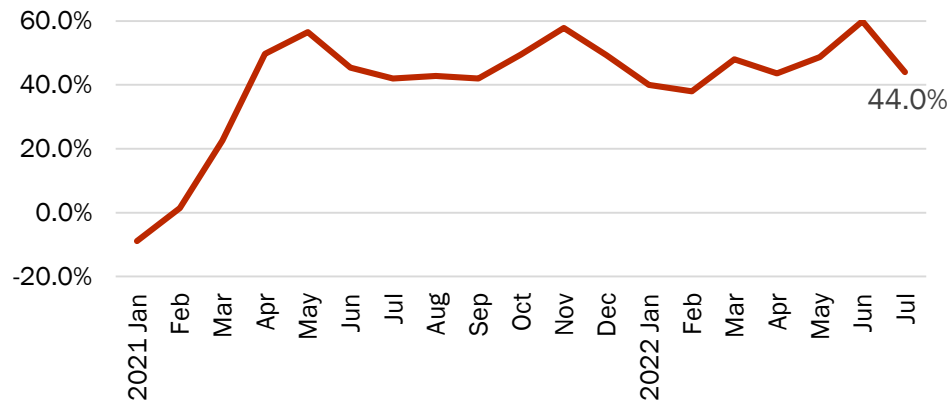
U.S. Average Hourly Earnings, YoY % Change



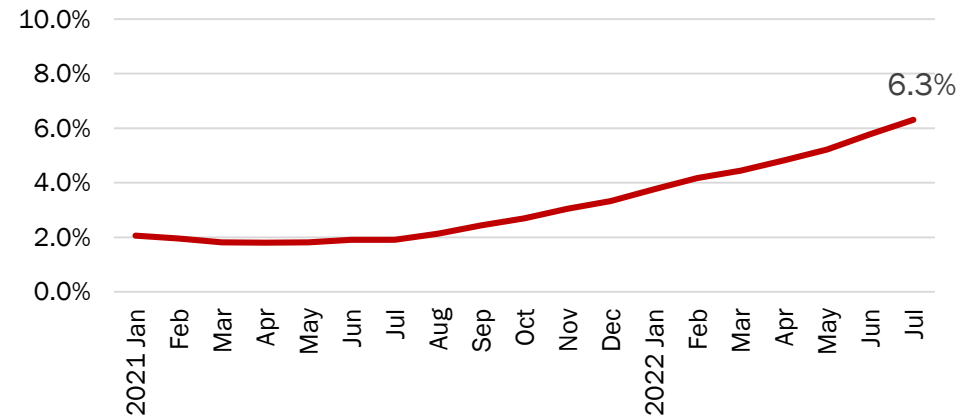
CPI, All Items and Food at Home, YoY % Change



CPI, Gasoline, YoY % Change



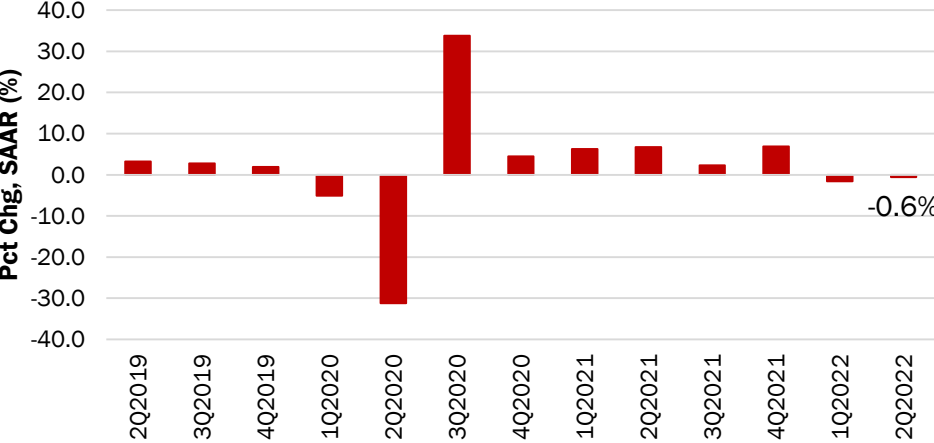
CPI, Rent of Primary Residence, YoY % Change



Source: Average Hourly Earnings of All Employees, Total Private; Consumer Price Index for All Urban Consumers; Bureau of Labor Statistics

ECONOMIC DATA ARE MIXED

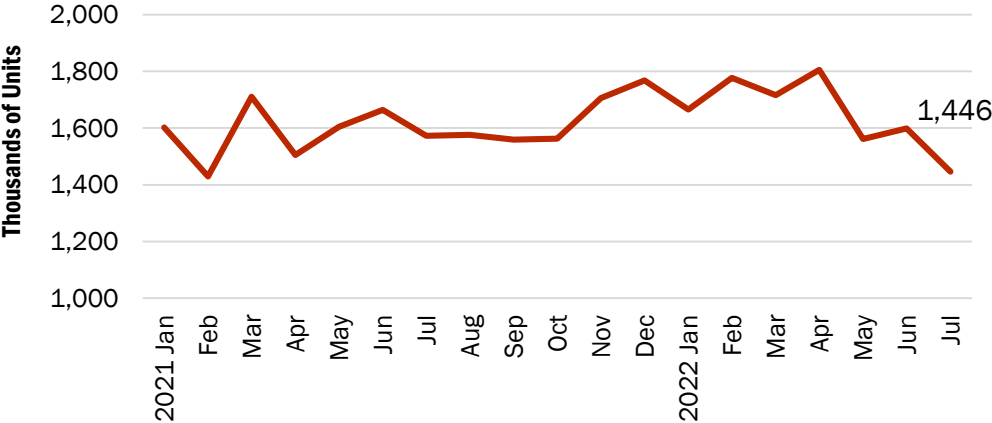
U.S. Real GDP



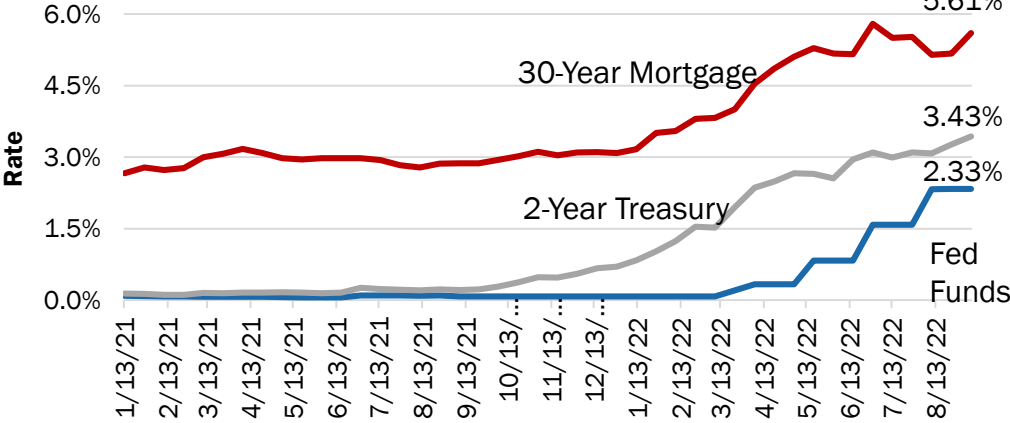
U.S. Corporate Profits



U.S. Housing Starts



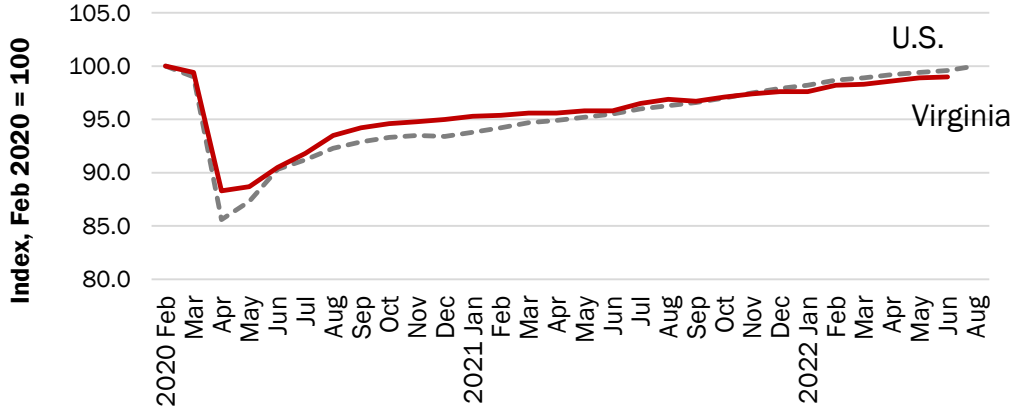
Interest Rates



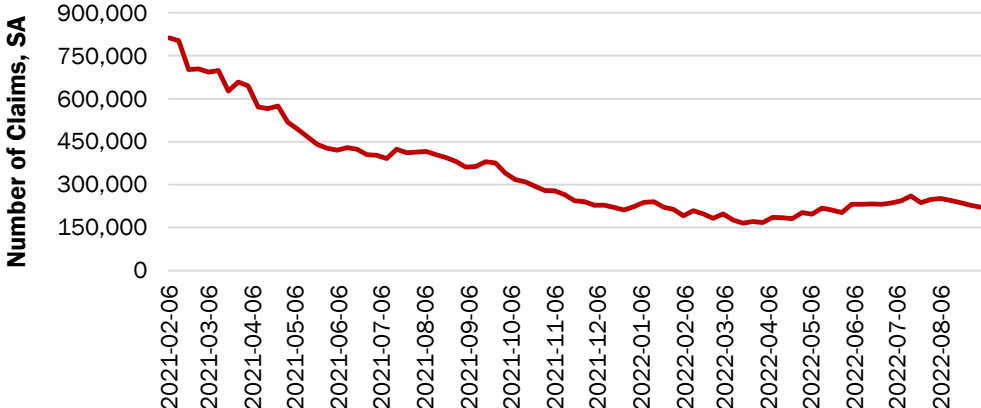
Source: Federal Reserve Bank of Saint Louis; Bureau of Labor Statistics

ECONOMIC DATA ARE MIXED

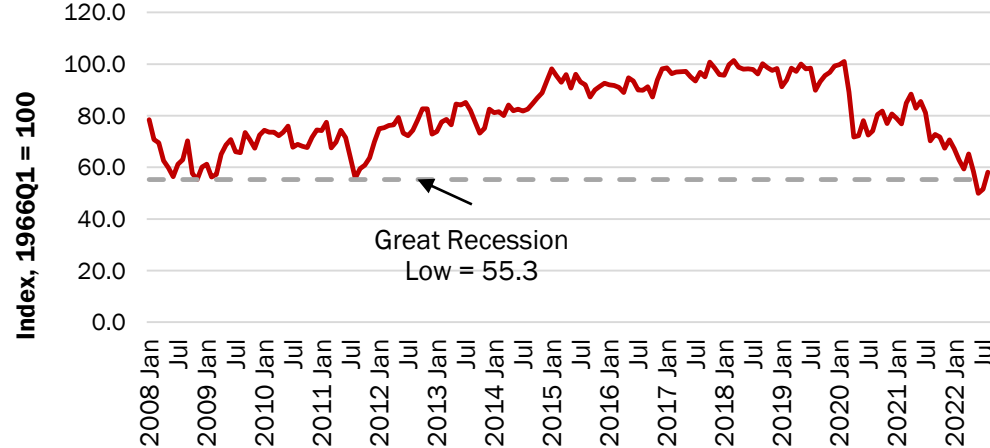
Paryoll Employment



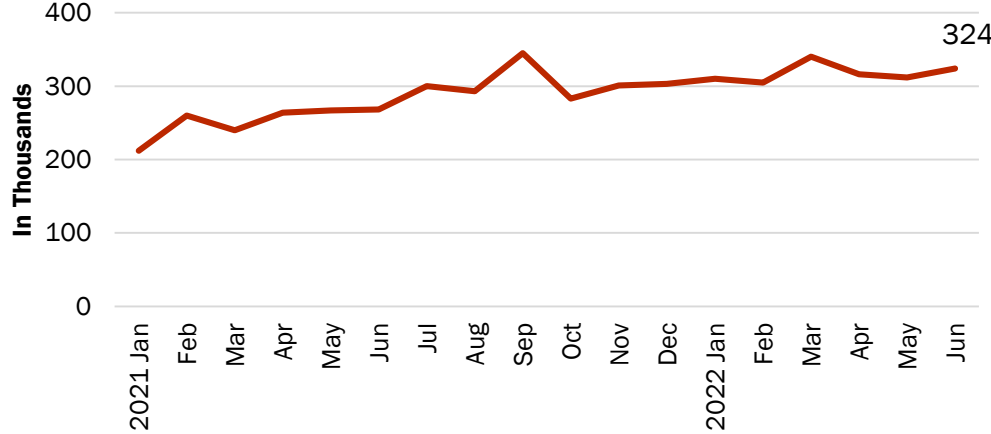
U.S. Weekly Initial Unemployment Claims



Univ of Michigan: Consumer Sentiment

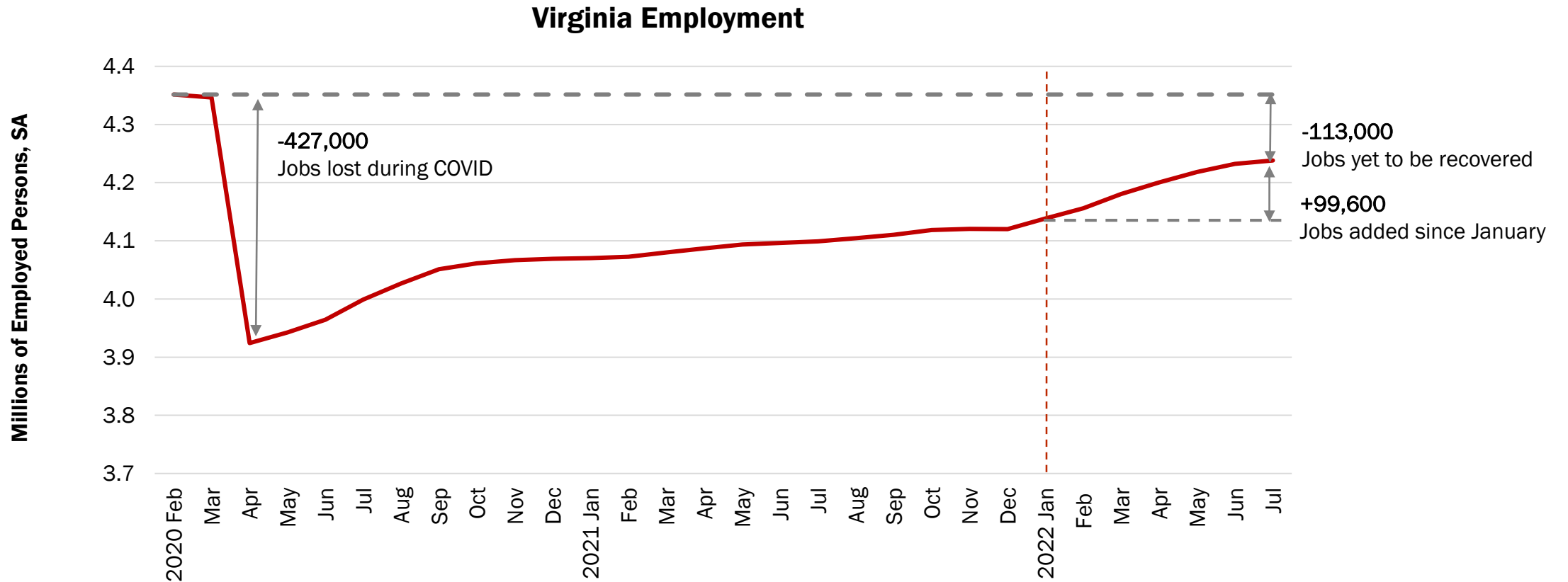


Job Openings in Virginia



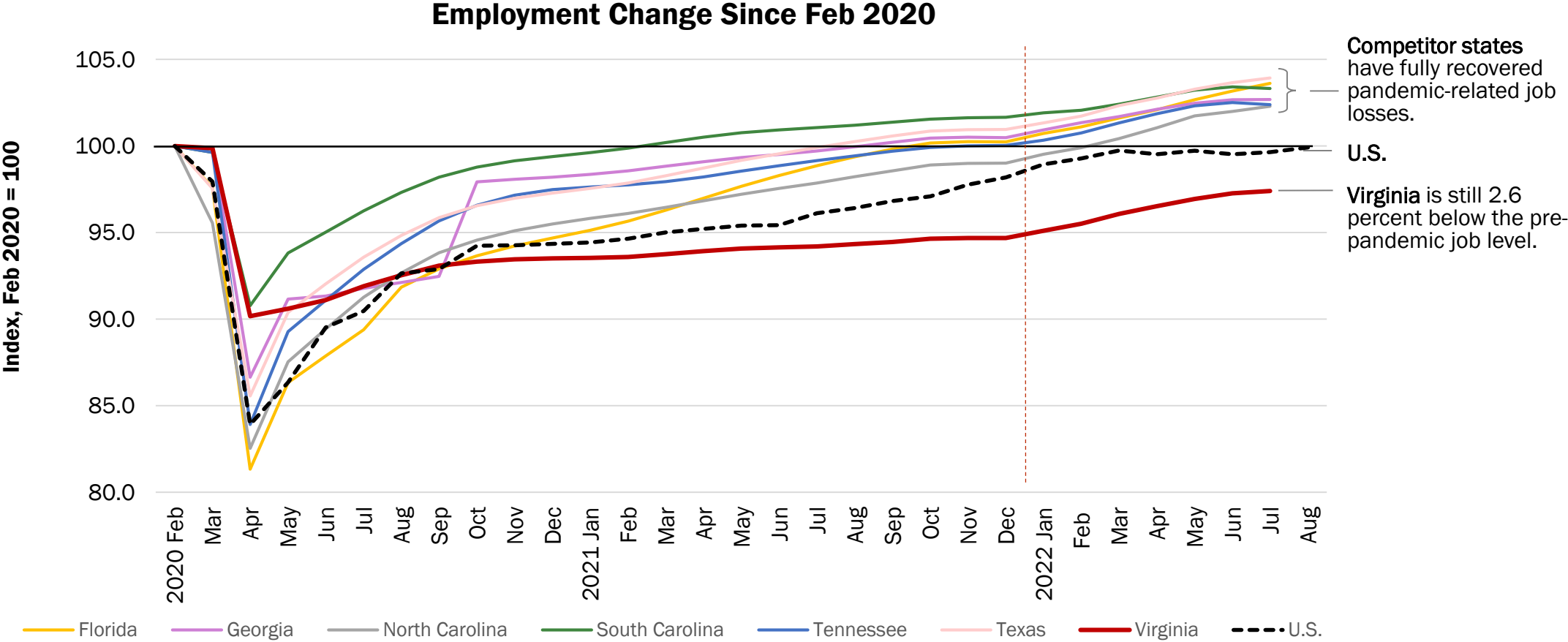
Source: Federal Reserve Bank of Saint Louis; Bureau of Labor Statistics

VIRGINIA EMPLOYMENT IS UP 99,600 SINCE JANUARY BUT REMAINS BELOW PREPANDEMIC LEVELS



Source: Local Area Unemployment Statistics, Bureau of Labor Statistics

DESPITE RECENT PROGRESS, VIRGINIA RECOVERY REMAINS BELOW OUR COMPETITORS AND THE U.S.



Source: Local Area Unemployment Statistics (states), Current Population Survey (U.S.), Bureau of Labor Statistics

CONCLUSION

- Adjusting for both the AST and the impact of an additional deposit day in August, total GF revenues rose 5.3 percent year-to-date (13.5 percent unadjusted), well ahead of the annual forecast of a 14.0 percent decline.
- With actual revenue collections in the first two months significantly exceeding projected levels, revenue collections for the remainder of FY 2023 can decline 17.6 percent year-over-year, or more than \$4 billion, for the remainder of FY 2023 and still meet projections assumed in the current appropriation act.
- September YTD results will provide an important view of nonwithholding and corporate tax receipts with estimated payments due on September 15.
- Economic data offer a mixed outlook:
 - Employment and wage growth, consistent with a tight labor market, support continued growth in withholding collections.
 - Corporate profits remain strong with some concerns as inflation and rising rates impact demand.
 - Volatility in the financial markets highlights uncertainty around nonwithholding collections.
 - While sales tax collections continue to exceed prior year totals, persistent inflation and lower consumer sentiment have the potential to impact spending in coming months.
- The revenue forecast, which reflects the impact of tax relief enacted this year and the February decision to not increase the FY 2023 forecast, will be adjusted as part of the normal fall forecasting process.

KEY DATES AND NEXT STEPS

- **September 15:** Individual, corporate, and insurance estimated payments are due.
 - Last Significant data points for inclusion in revenue models.
- **October 12:** Joint Advisory Board of Economists (JABE) reviews economic projections.
- **November 1:** Individual income tax extension returns due.
- **November 21:** Governor's Advisory Council on Revenue Estimates (GACRE) reviews revenue outlook for the 2022 - 2024 biennium.
- **December 15:** General fund revenue forecast finalized; Governor Youngkin's amendments to the 2022 - 2024 biennial budget are presented to the Joint Money Committee.