



# **ECONOMIC AND REVENUE REVIEW AND UPDATE**

**A BRIEFING FOR THE MONEY COMMITTEES**

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May 2024

# TOPICS FOR DISCUSSION

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ECONOMIC UPDATE

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APRIL FISCAL YEAR-TO-DATE REVENUE COLLECTIONS

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LOOKING AHEAD

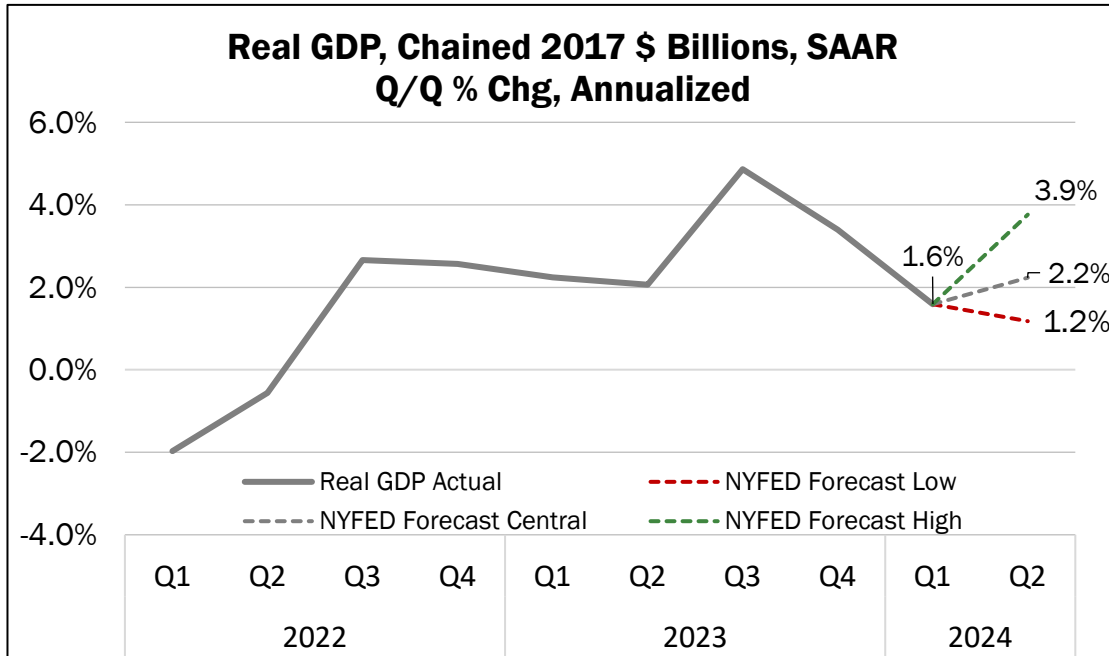
# SUMMARY

- April general fund revenue collections exceeded the forecast by \$162.6 million.
- Year-to-date revenues are ahead of projections by \$1.22 billion. Excluding nonwithholding and refunds, year-to-date collections in core revenue sources are ahead of plan by \$503.3 million, a variance of 2.4 percent.
- Compared to April last year, revenues declined 1.0 percent (\$36.3 million), but the decline was less than projected.
- On a year-to-date basis, collections are up 5.0 percent year-over-year. The increase is primarily attributable to higher payroll withholding, lower individual income tax refunds, and higher interest income.
- Collections of payroll withholding taxes were 8.3 percent higher for the month and up 4.0 percent year-to-date on an unadjusted basis. Compared to the Forecast, withholding revenues are ahead by \$502.3 million year-to-date.
- April nonwithholding collections declined 9.5 percent year-over-year and are down 3.9 percent for the year. Through April, nonwithholding receipts are \$441.6 million ahead of forecast.
- Net corporate income tax collections were down year-over-year 7.6 percent in April. On a year-to-date basis, corporate income tax revenues are down 1.6 percent. Compared to forecast, corporate income tax collections are below plan by \$134.2 million year-to-date.
- Collections of sales and use taxes, reflecting March sales, declined 0.1 percent in April and are down 1.0 percent year-to-date. Fiscal-year-to-date, sales and use tax revenues are \$125.4 million above projections.

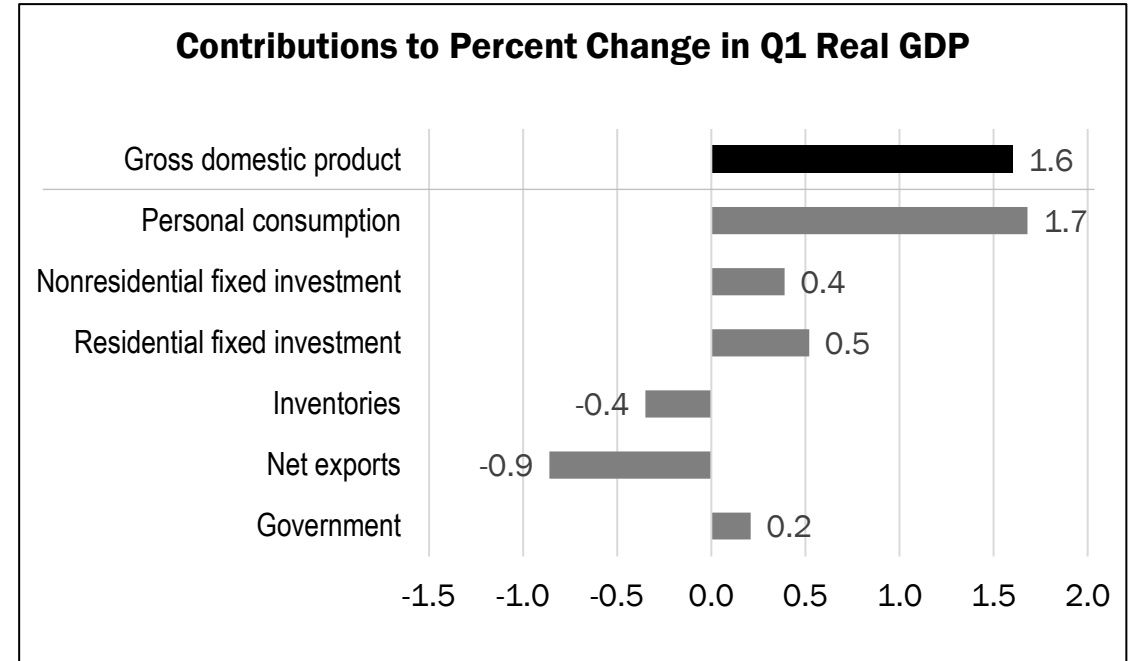
# SUMMARY (CONT'D)

- U.S. Real GDP increased at an annual rate of 1.6 percent in the first quarter of 2024. This was the slowest growth rate in nearly two years.
- The path of future economic growth remains somewhat uncertain in the near- to medium-term. Growth will depend largely on inflation and the Federal Reserve's efforts to bring it under control.
- The Federal Reserve left the target for the federal funds rate at a range of 5.25 percent to 5.50 percent at its April 30-May 1 meeting and noted that in recent months, there has been a lack of further progress toward the Fed's inflation target. Chair Jerome Powell stated that it will likely take longer than anticipated for the Fed to gain confidence that the economy is on a sustainable path toward 2-percent inflation.
- The Consumer Price Index (CPI) for all items increased 0.3 percent in April, and the twelve-month change declined slightly from 3.5 percent to 3.4 percent. The year-over-year change in "core" CPI, which excludes food and energy, also fell slightly from 3.8 percent to 3.6 percent, while the twelve-month change in the Core Personal Consumption Expenditure Price Index, the Fed's preferred inflation measure, remained at 2.8 percent in March.
- Following stronger job growth in the first quarter, U.S. nonfarm payrolls increased by just 175,000 in April, lower than the average monthly gain of 242,000 over the prior 12 months. Related measures of labor market health suggest job growth could weaken in coming months.
- Nationally, average hourly earnings grew 3.9 percent over the 12-month period ending in April, the lowest year-over-year growth since May 2021.
- In April, Virginia's nonagricultural employment, from the monthly establishment survey, increased by 3,400. This follows a month-over-month increase of 18,200 in March. The unemployment rate in April decreased by 0.1 percentage points to 2.8 percent, which is 0.1 percentage points above the rate from a year ago.

# REAL GDP GREW AT A 1.6 PERCENT RATE IN Q1 WHILE UNDERLYING GROWTH IN CONSUMPTION REMAINED HEALTHY



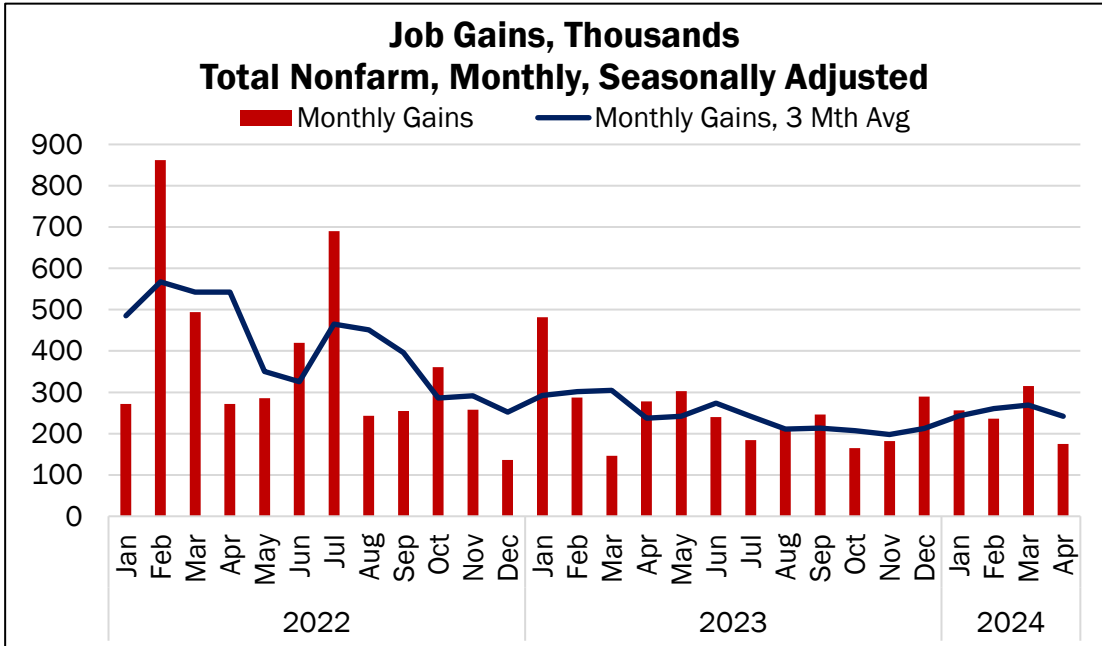
Source: U.S. Bureau of Economic Analysis; New York Fed Staff Nowcast (May 10, 2023).



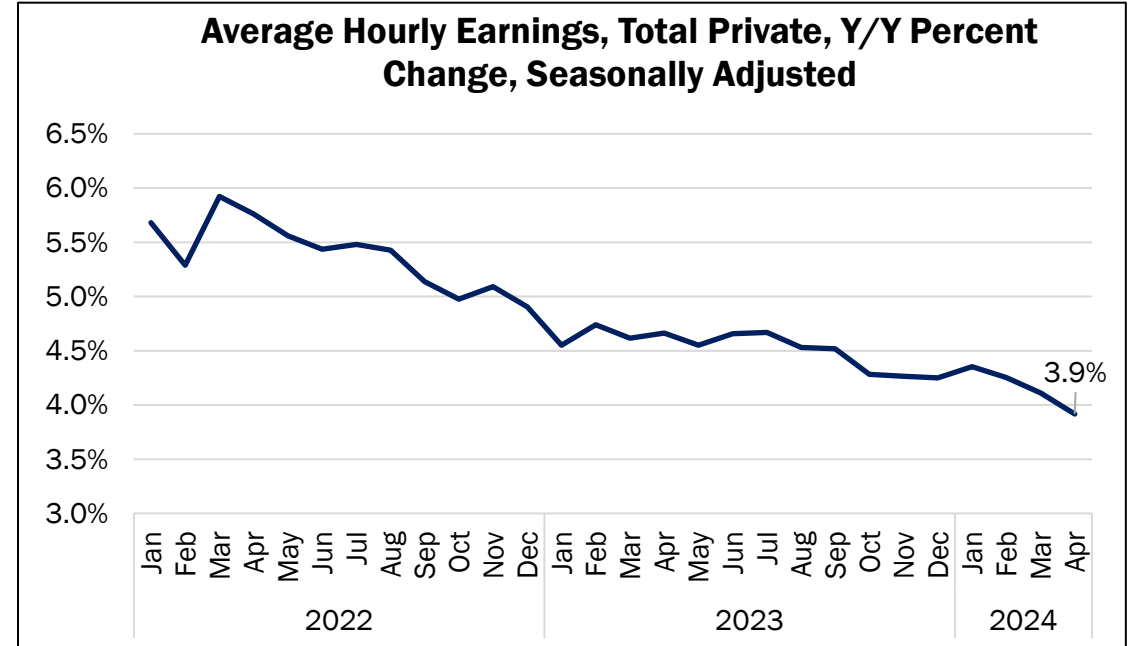
Source: U.S. Bureau of Economic Analysis, "Table 1.1.2. Contributions to Percent Change in Real Gross Domestic Product"

- Real GDP grew at a 1.6 percent annual rate in Q1 of 2024, according to the “advance” estimate, the slowest growth rate in nearly two years. The largest positive contribution to real GDP growth in Q1 came from personal consumption, while home building was also positive, and the largest drag was net exports. Growth is expected to rise in Q2.
- Net exports and inventories, which are volatile from quarter to quarter, subtracted 1.3 percentage points from GDP growth. Notably, personal consumption grew at a 2.5 percent annual rate, adding 1.7 percentage points to GDP growth.

# U.S. JOB GROWTH SLOWED IN APRIL AND WAGE GROWTH MODERATED



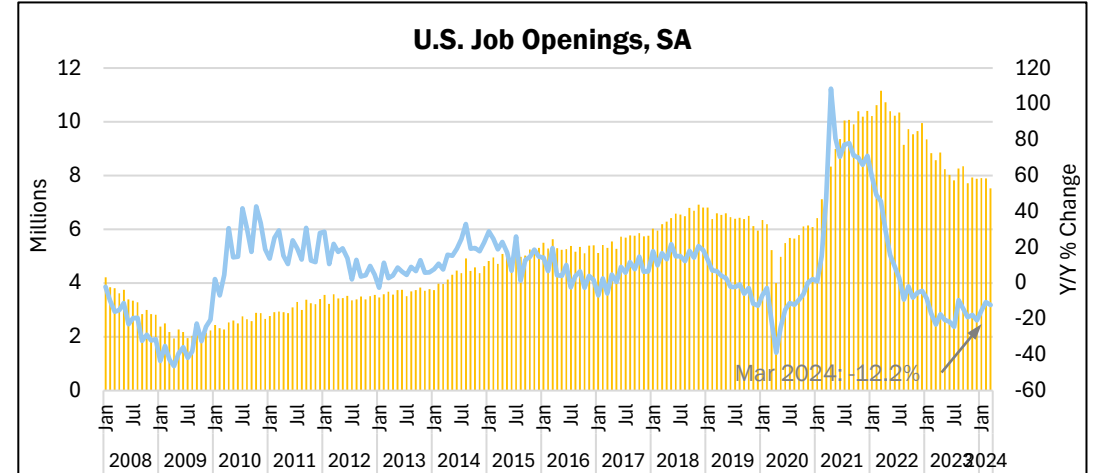
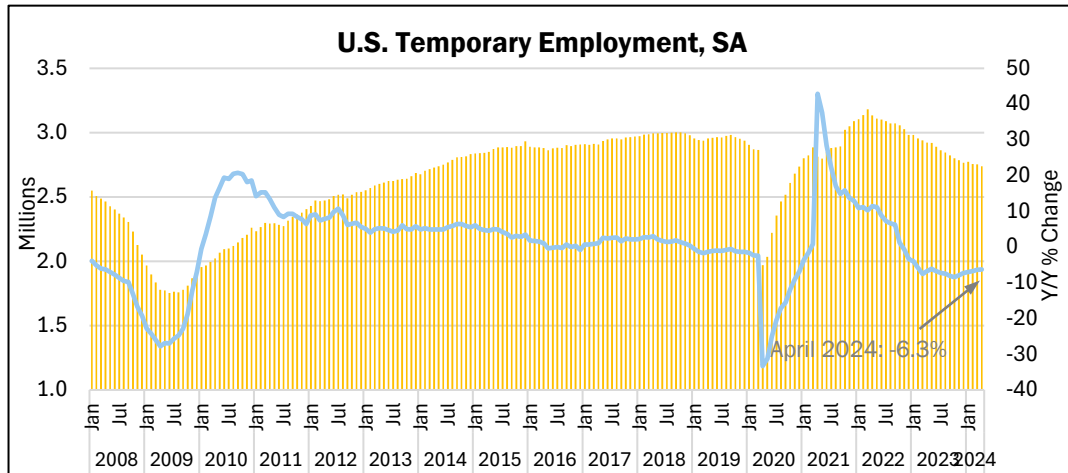
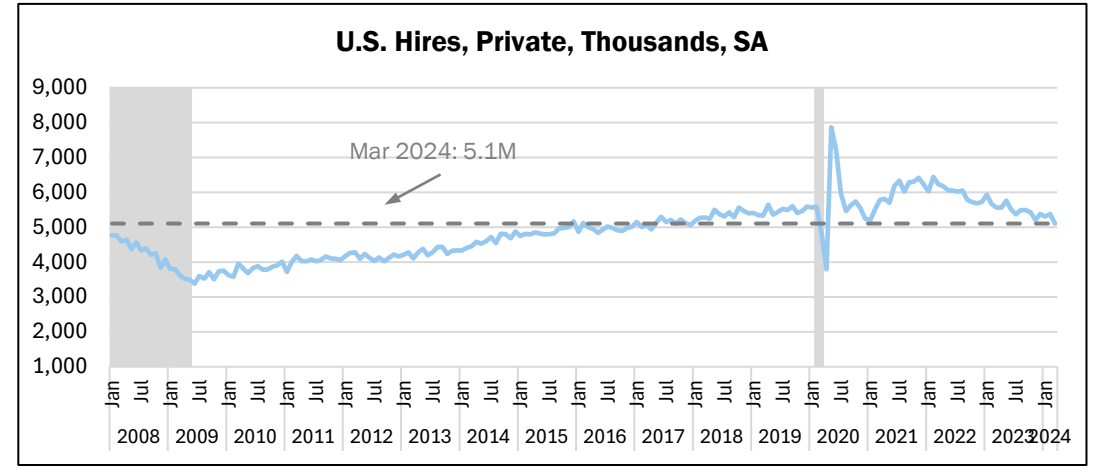
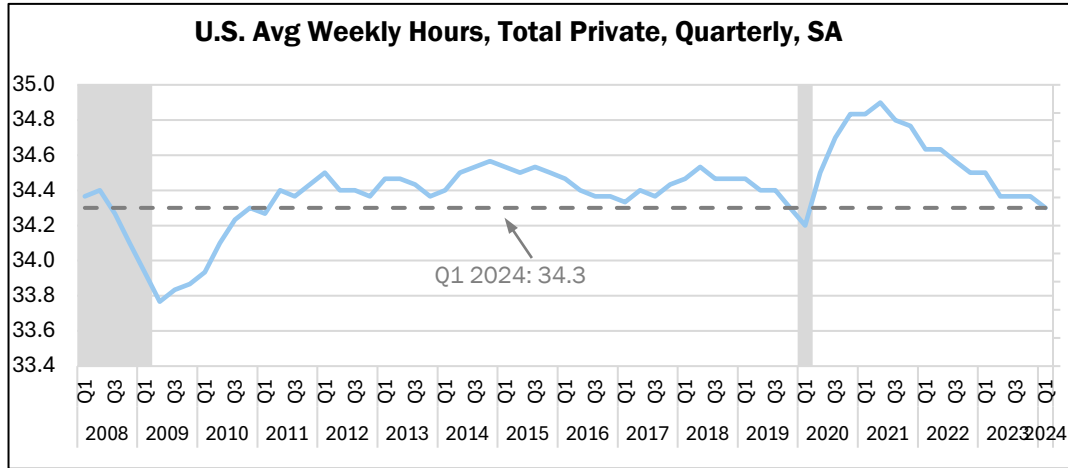
Source: US BLS (establishment survey).



Source: US Bureau of Labor Statistics.

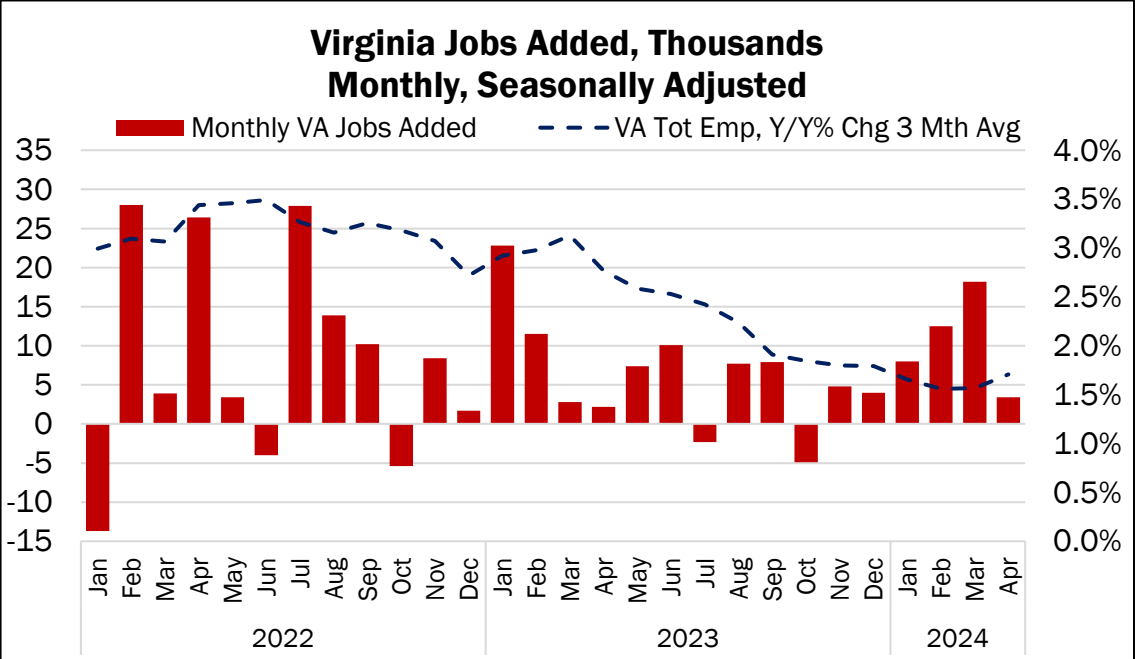
- U.S. nonfarm payrolls increased by 175,000 in April, lower than the average monthly gain of 242,000 over the prior 12 months. Job gains were broad-based with the largest increases in health care, social assistance, and transportation and warehousing. The employment change for February was revised down by 34,000, and the change for March was revised up by 12,000. With these revisions, employment in February and March combined is 22,000 lower than previously reported.
- Average hourly earnings grew 3.9 percent over the 12-month period ending in April, the lowest year-over-year growth since May 2021.

# SLOWED HIRING AND REDUCED HOURS SUGGEST FURTHER SLOWDOWN IN JOB GROWTH

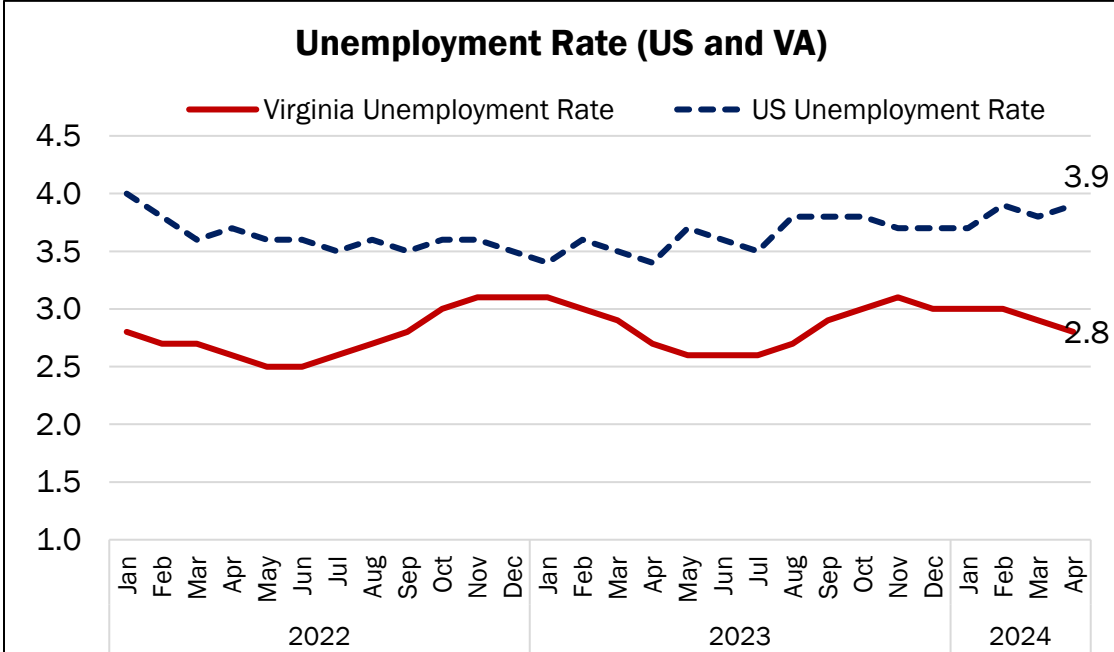


Source: Federal Reserve Bank of St. Louis; US Bureau of Labor Statistics.

# VIRGINIA ADDED 3,400 JOBS IN APRIL AFTER INCREASING BY MORE THAN 18,000 IN MARCH



Source: Federal Reserve Bank of St. Louis, BLS.

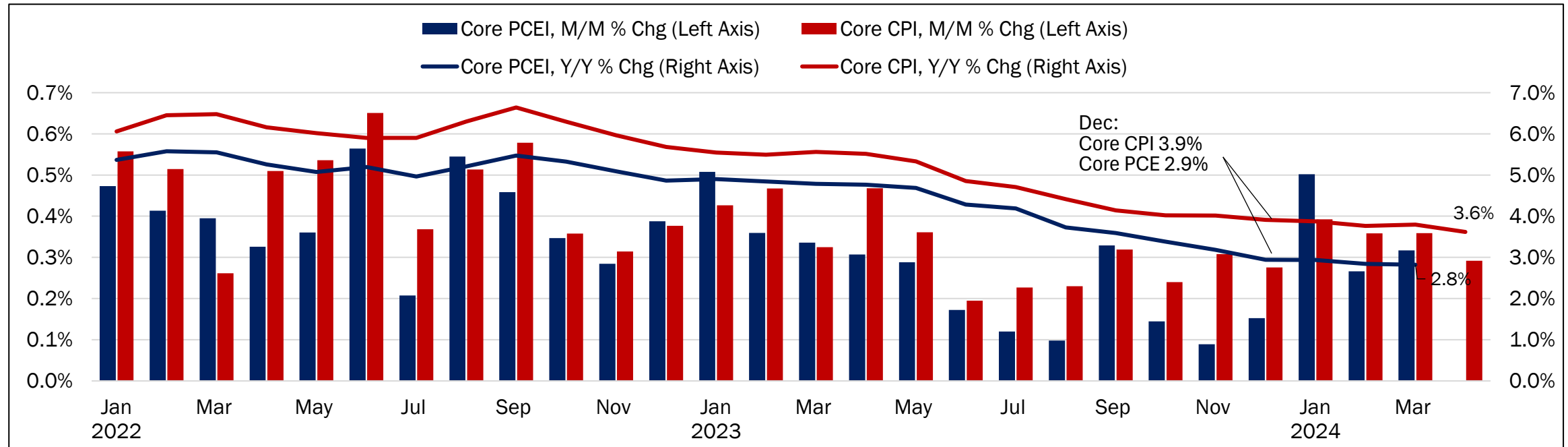


Source: US Bureau of Labor Statistics.

- In April, Virginia’s nonagricultural employment, from the monthly establishment survey, increased by 3,400 to 4,233,400, a year-over-year increase of 1.8 percent. The largest job gains occurred in Education and Health Services (+2,500) and Professional and Business Services (+1,800). In addition, March’s preliminary estimate of employment was revised up by 1,700, from a 16,500 month-over-month increase to an over-the-month increase of 18,200.
- Virginia’s seasonally adjusted unemployment rate in April decreased by 0.1 percentage points to 2.8 percent in April. Virginia’s unemployment rate is 1.1 percentage points below the national rate.



# YEAR-OVER-YEAR MEASURES OF CORE INFLATION HAVE CHANGED LITTLE IN RECENT MONTHS

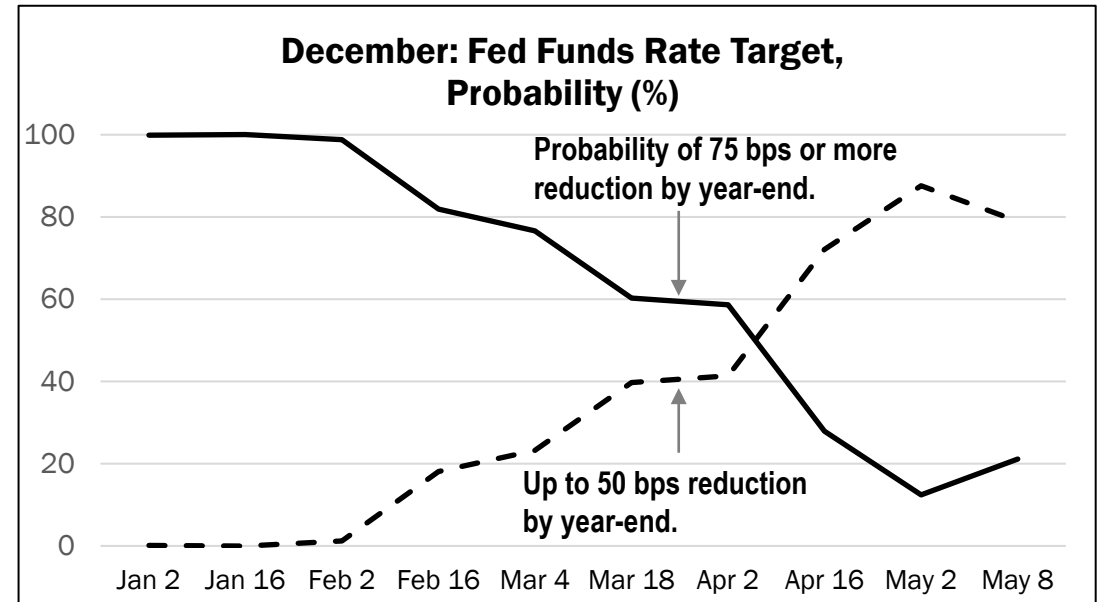


Source: U.S. Bureau of Economic Analysis; Bureau of Labor Statistics.

- In April, the twelve-month change in “Core” CPI, which excludes food and energy, fell slightly from 3.8 percent to 3.6 percent. The year-over-year change in headline CPI for all items also declined slightly from 3.5 percent to 3.4 percent.
- The twelve-month change in Core Personal Consumption Expenditure Price Index (Core PCE), the Federal Reserve’s preferred inflation measure, remained the same at 2.8 percent in March, but still well above the Fed’s two-percent target.

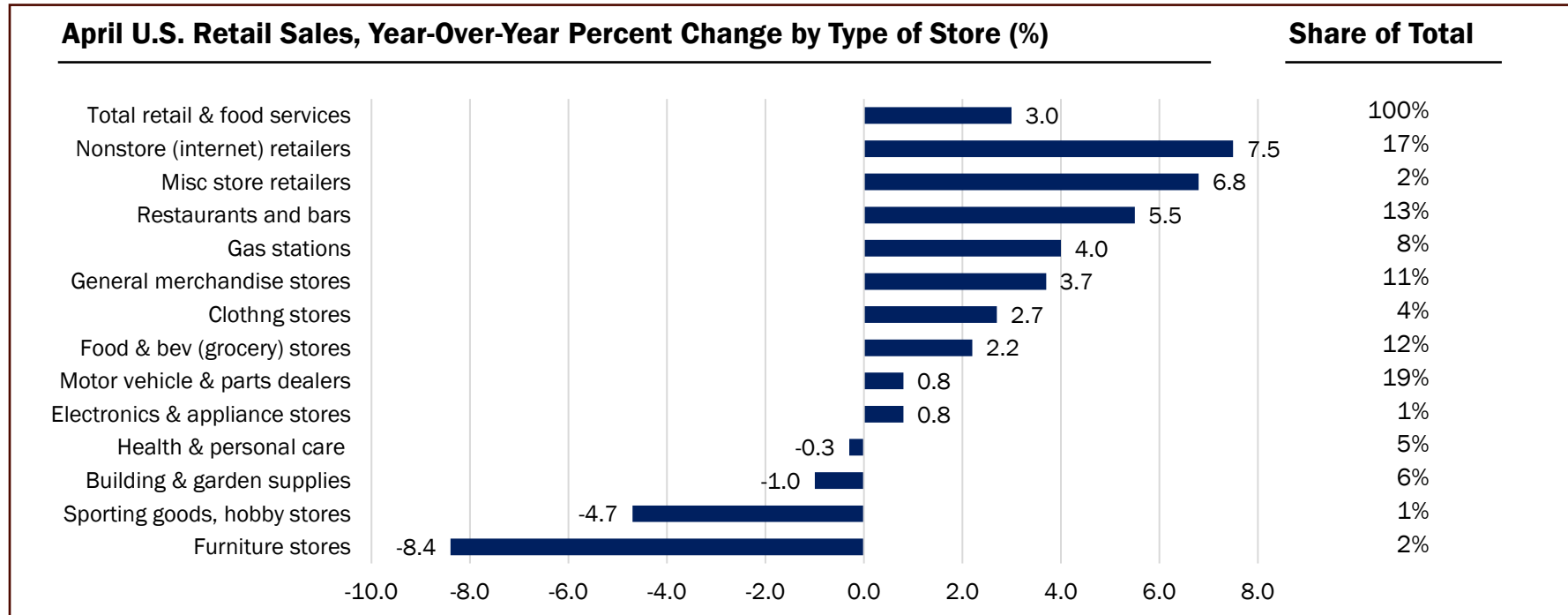
# FED LEAVES INTEREST RATES UNCHANGED; TIMING OF FUTURE RATE CHANGES UNCERTAIN

- The Federal Reserve's Federal Open Market Committee (FOMC) left the target for the federal funds rate at a range of 5.25 percent to 5.50 percent at its April 30-May 1 meeting. The FOMC has kept rates steady since July 2023.
- The FOMC noted that in recent months, there has been a lack of further progress toward the Fed's inflation target, and Chair Jerome Powell stated that it will likely take longer than anticipated for the Fed to gain confidence that the economy is on a sustainable path toward 2-percent inflation.
- In a step toward more accommodating monetary policy, the Fed confirmed that starting in June, it would slow the rate at which it's reducing the size of its balance sheet.
- According to the CME Group, which calculates interest rate probabilities based on Federal Funds futures prices, in January, financial markets were expecting several rate cuts by year-end. However, markets are now pricing in the higher likelihood of two or fewer cuts by December.
- The next meeting of the FOMC will be held June 11-12.



Source: CME FedWatch Tool (May 8, 2024).

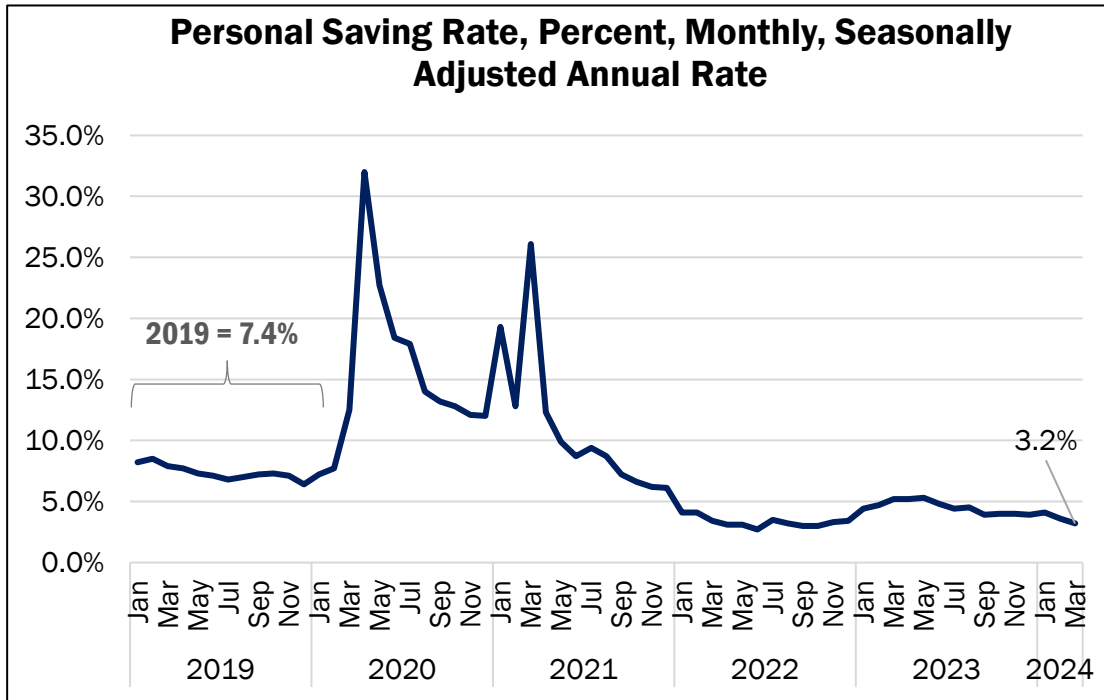
# GROWTH IN U.S. RETAIL SALES SLOWED IN APRIL



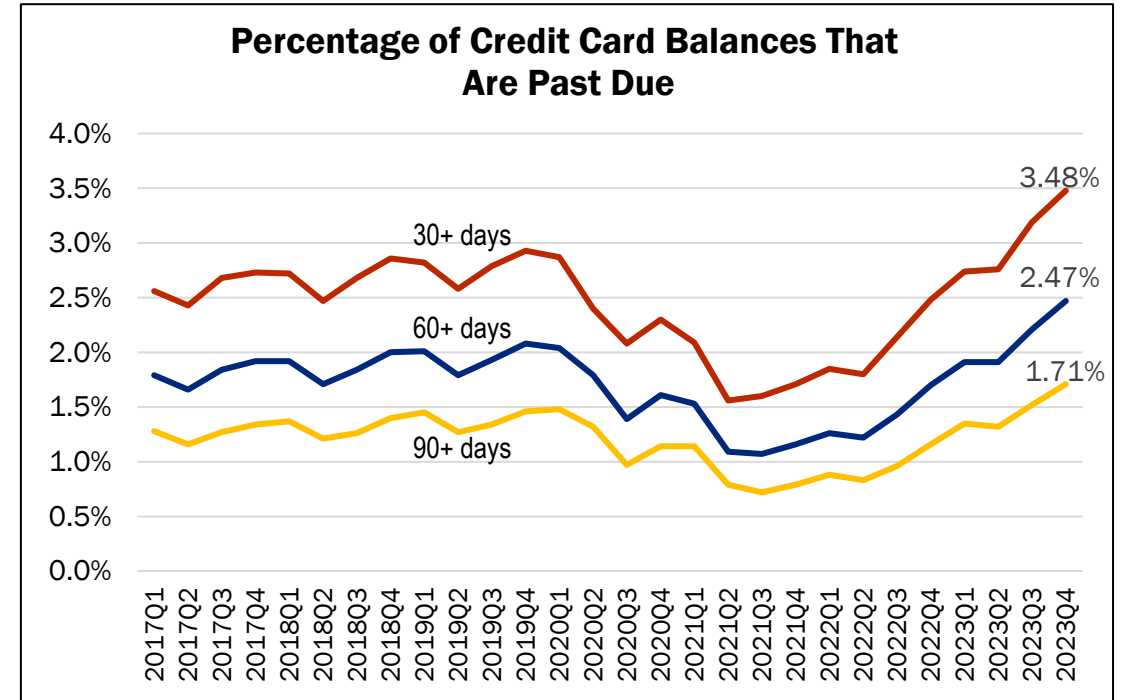
Source: U.S. Census Bureau, Advance Monthly Sales for Retail and Food Services (May 2024).

- U.S. retail sales for April were flat month-over-month and were up 3.0 percent compared to April 2023.
- The February to March percent change was also revised downward, from up 0.7 percent to up 0.6 percent. On a year-over-year basis, March sales were revised down from up 4.0 percent to up 3.8 percent.
- On a year-over-year basis, sales for non-store retailers, which includes internet sales, were up 7.5 percent in April, and sales at restaurants and bars were up 5.5 percent. The biggest year-over-year declines were in furniture stores and sporting goods and hobby stores.

# CONSUMER SAVINGS RATE IS LOWER AND CREDIT CARD DELINQUENCIES ARE HIGHER COMPARED TO PRE-PANDEMIC



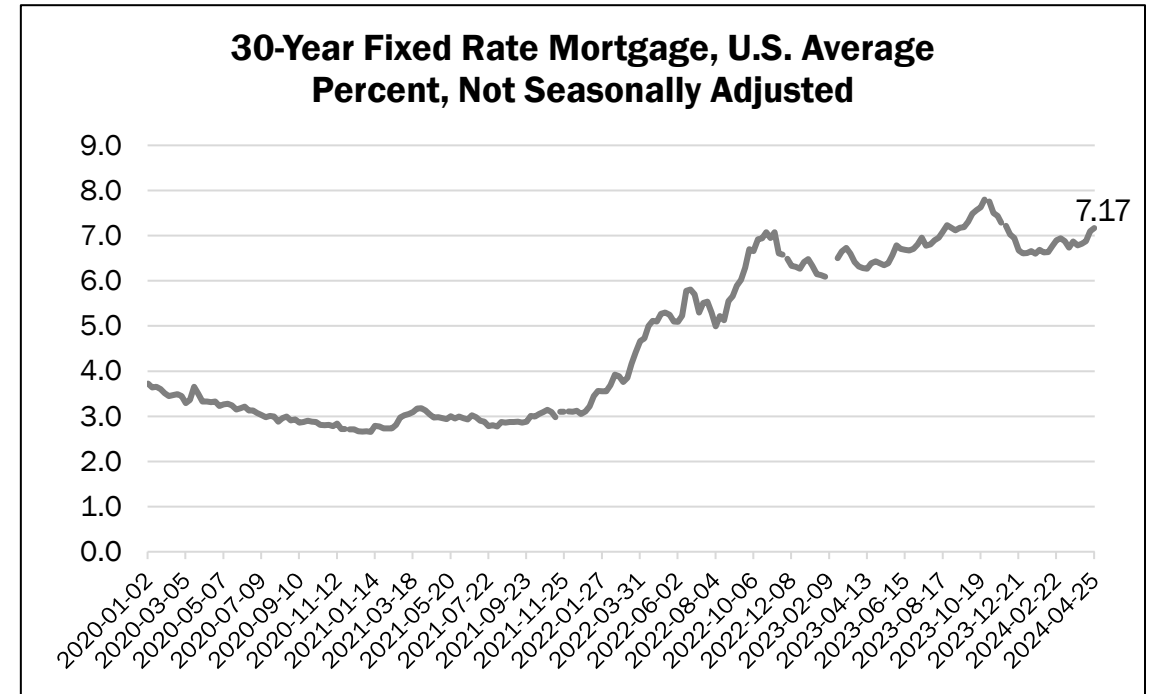
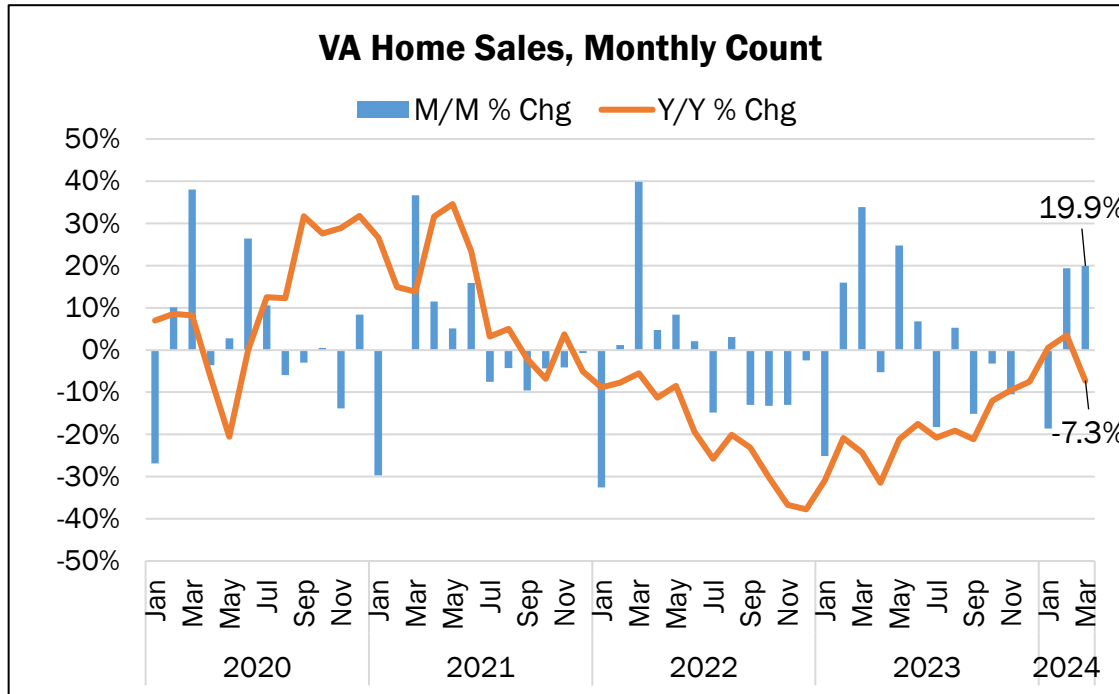
Source: Federal Reserve Bank of St. Louis.



Source: FR Y-14M Data, Federal Reserve Bank of Philadelphia.

- Consumers are saving at a rate much lower than pre-pandemic.
- Fourth quarter 2023 data shows worsening credit card delinquencies. All stages of account-based delinquency reached their highest levels since the Philadelphia Federal Reserve Bank began tracking in 2012.

# VIRGINIA HOME SALES DIPPED IN MARCH AS MORTGAGE RATES TICKED HIGHER



Source: Virginia Realtors.

Source: Freddie Mac; Federal Reserve Bank of St. Louis..

- Sold volume was down less than one percent year-over-year in March. Closed sales totaled 8,075 in March statewide, down 7.3 percent from a year ago, while the median price increased 7.3 percent to \$397,000.
- At the end of March there were 14,950 active listings on the market throughout Virginia, a 10.3 percent increase from a year ago, which is about 1,400 more listings.

# YEAR-TO-DATE COLLECTIONS ARE 5.4 PERCENT ABOVE FORECAST AND +2.4 PERCENT EXCLUDING NONWITHHOLDING AND REFUNDS

SOURCE, \$ Mil	April				FYTD			
	Actuals	Projected	Variance \$	Variance %	Actuals	Projected	Variance \$	Variance %
Withholding	\$1,379.8	\$1,326.5	\$53.3	4.0%	\$13,863.5	\$13,361.1	\$502.3	3.8%
Non-withholding	1,781.3	1,725.2	56.1	3.3%	5,049.2	4,607.6	441.6	9.6%
IIT Refunds	(610.5)	(613.0)	2.5	-0.4%	(2,716.4)	(2,989.6)	273.1	-9.1%
Net Individual Income	\$2,550.6	\$2,438.8	\$111.8	4.6%	\$16,196.2	\$14,979.2	\$1,217.1	8.1%
Sales & Use Tax	400.8	368.8	32.0	8.7%	3,906.3	3,780.9	125.4	3.3%
Corporate Income Tax	489.9	489.4	0.5	0.1%	1,597.6	1,731.8	(134.2)	-7.7%
Insurance	162.4	161.9	0.4	0.3%	309.8	284.3	25.5	9.0%
Wills, Suits, Deeds	38.6	35.5	3.1	8.8%	324.9	345.6	(20.7)	-6.0%
Interest Income	(23.1)	(40.4)	17.3	-42.8%	645.1	625.6	19.5	3.1%
All Other	42.6	45.1	(2.5)	-5.6%	609.5	624.1	(14.6)	-2.3%
<b>Total GF Revenues</b>	<b>\$3,661.7</b>	<b>\$3,499.1</b>	<b>\$162.6</b>	<b>4.6%</b>	<b>\$23,589.5</b>	<b>\$22,371.5</b>	<b>\$1,218.0</b>	<b>5.4%</b>
<b>Total, Excl. NWH and Refunds</b>	<b>\$2,490.9</b>	<b>\$2,386.9</b>	<b>\$104.0</b>	<b>4.4%</b>	<b>\$21,256.7</b>	<b>\$20,753.5</b>	<b>\$503.3</b>	<b>2.4%</b>

- Year-to-date revenues are ahead of projections by \$1.22 billion (5.4 percent). Excluding nonwithholding and refunds, year-to-date collections in core revenue sources are ahead of plan by \$503.3 million (2.4 percent).
- Withholding exceeded projections by \$53.3 million (4.0 percent) in April and are ahead of forecast by \$502.3 million year-to-date.
- Nonwithholding collections exceeded projections by \$56.1 (3.3 percent) million bringing the total variance to \$441.6 million.
- Sales tax revenues were higher than projections by \$32.0 million (8.7 percent) and are ahead of forecast by \$125.4 million on a year-to-date basis.

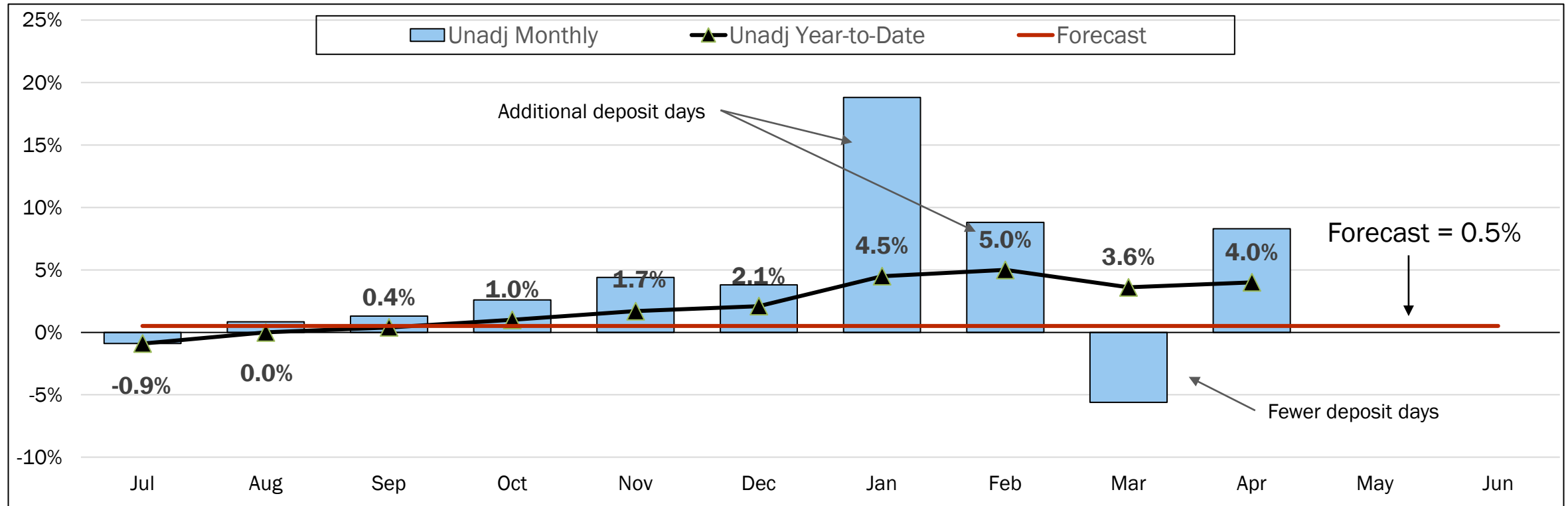
# YEAR-TO-DATE ADJUSTED REVENUES ARE 7.6 PERCENT HIGHER YEAR-OVER-YEAR

Unadjusted Revenues	April			Fiscal Year-To-Date		
	FY 24 \$	FY 23 \$	Y/Y %	FY 24 \$	FY 23 \$	Y/Y %
Withholding	\$1,379.8	\$1,273.6	8.3%	\$13,863.5	\$13,327.2	4.0%
Non-Withholding	1,781.3	1,968.6	-9.5%	5,049.2	5,252.9	-3.9%
Refunds	(610.5)	(687.8)	-11.2%	(2,716.4)	(3,224.4)	-15.8%
Sales & Use Tax	400.8	401.2	-0.1%	\$3,906.3	3,946.5	-1.0%
All Other	710.3	746.8	-4.9%	\$3,487.0	3,173.2	9.9%
<b>Total GF Revenues</b>	<b>3,661.7</b>	<b>3,702.4</b>	<b>-1.1%</b>	<b>\$23,589.5</b>	<b>22,475.4</b>	<b>5.0%</b>
<b>Total Excluding NWH and Refunds</b>	<b>2,490.9</b>	<b>2,421.7</b>	<b>2.9%</b>	<b>\$21,256.7</b>	<b>20,446.9</b>	<b>4.0%</b>

Adjusted Revenues	April			Fiscal Year-To-Date		
	FY 24 \$	FY 23 \$	Y/Y %	FY 24 \$	FY 23 \$	Y/Y %
Withholding	\$1,426.0	\$1,273.6	12.0%	\$14,300.9	13,327.2	7.3%
Non-Withholding	1,832.4	1,968.6	-6.9%	5,181.3	5,252.9	-1.4%
Refunds	(442.2)	(687.6)	-35.7%	(1,672.4)	(2,234.3)	-25.2%
Sales & Use Tax	400.8	401.2	-0.1%	4,067.6	4,018.8	1.2%
All Other	711.1	746.8	-4.8%	3,454.8	3,173.2	8.9%
<b>Total GF Revenues</b>	<b>\$3,928.1</b>	<b>\$3,702.6</b>	<b>6.1%</b>	<b>\$25,332.3</b>	<b>23,537.7</b>	<b>7.6%</b>
<b>Total Excluding NWH and Refunds</b>	<b>2,538.0</b>	<b>2,421.7</b>	<b>4.8%</b>	<b>21,823.3</b>	<b>20,519.2</b>	<b>6.4%</b>

- Steady growth in withholding continues with 8.3 percent year-over-year growth. Approximately one percentage point of this is attributable to extra minor deposit days this year relative to last.
- Nonwithholding was approximately on target for the year-over-year decline, but still ahead of plan (-9.5 percent vs -12.3 percent).
- Year-to-date, general fund revenues are up 5.0 percent on an unadjusted basis. Adjusting for the effects of PTET collections and refunds, and the associated timing of enacted policy actions, revenue collections are up 7.6 percent year-to-date.

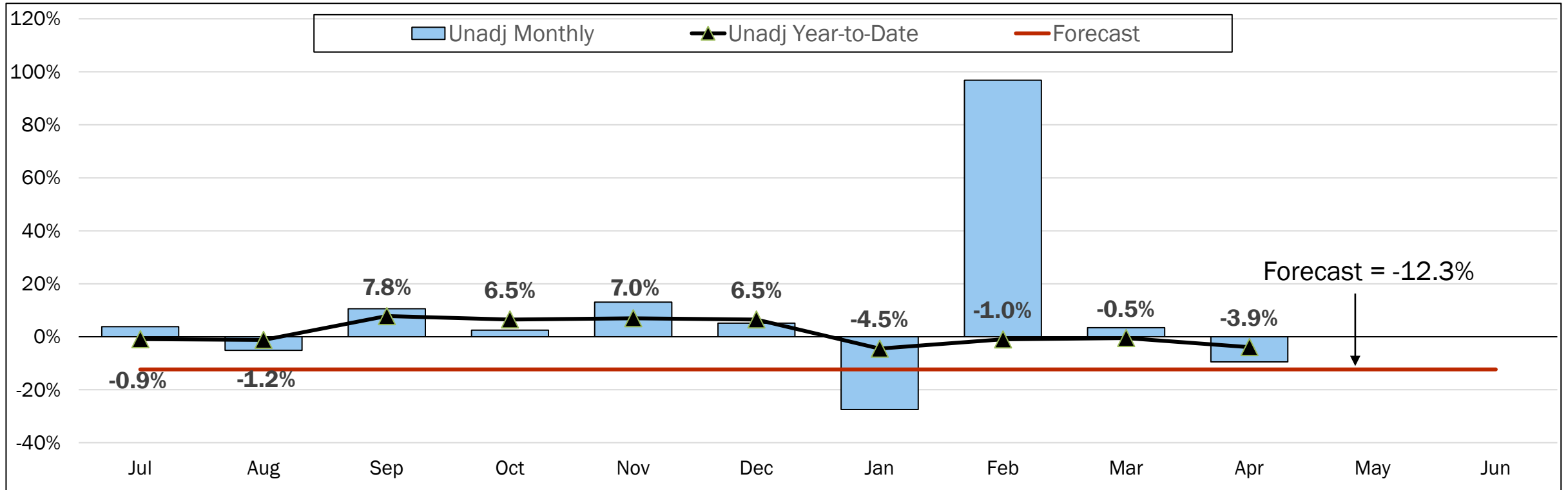
# WITHHOLDING COLLECTIONS REMAIN ABOVE FORECAST



- Collections of payroll withholding taxes were 8.3 percent higher for the month and up 4.0 percent year-to-date.
- Withholding has continued to climb as wages grow across Virginia. A large bump from bonuses in January has further bolstered growth.
- Compared to the Forecast assumed in House Bill 29, withholding revenues are ahead by \$502.3 million year-to-date.

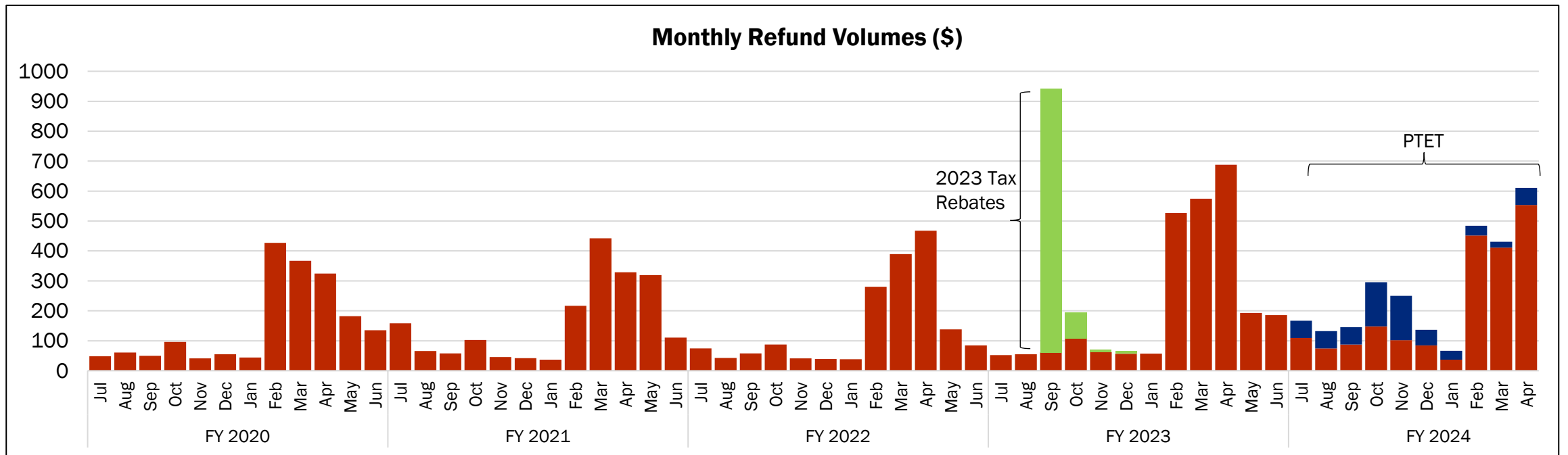


# THOUGH DOWN YEAR-OVER-YEAR, NONWITHHOLDING REVENUES ARE AHEAD OF FORECAST



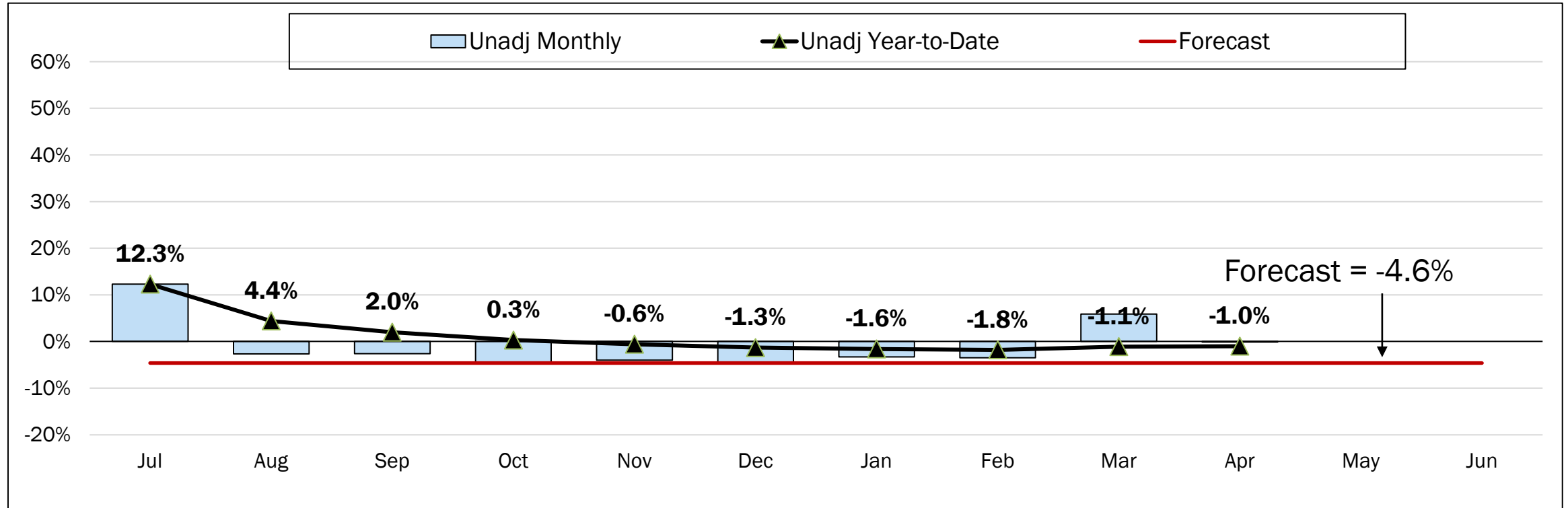
- April collections declined 9.5 percent year-over-year and are down 3.9 percent for the year. Through April, nonwitholding receipts are \$441.6 million ahead of forecast.
- Nonwitholding collections exceeded expectations in the first two fiscal quarters, however a 27.5 percent year-over-year decline in January collections was interpreted as a possible warning sign. April collections (the next major milestone), however was above forecast and indicates the year is very likely to finish in line with or above projections.

# INDIVIDUAL INCOME TAX REFUNDS ARE LOWER THAN LAST YEAR



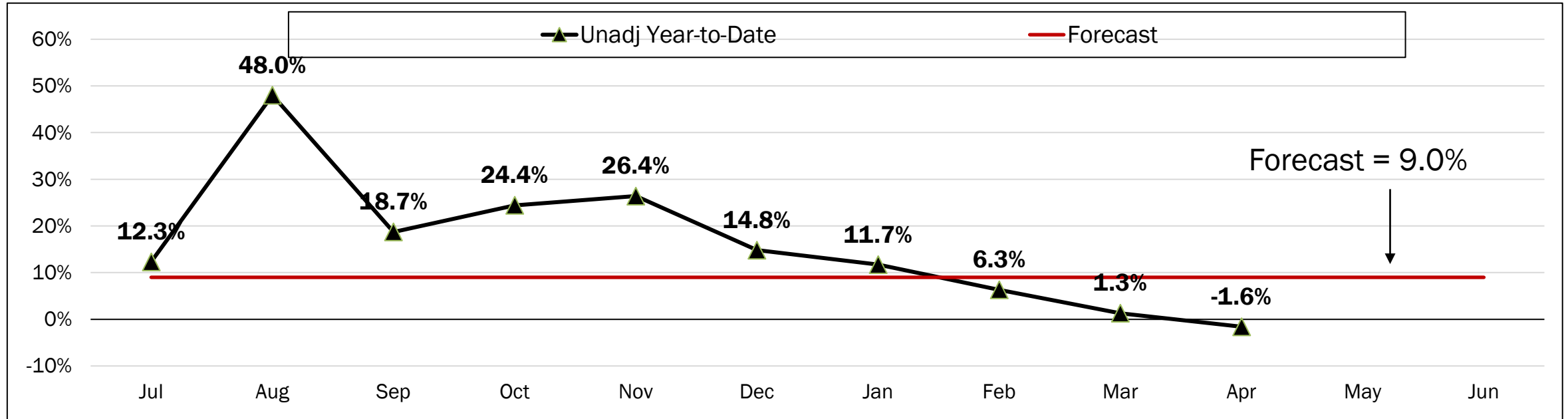
- Year-to-date, the Department has issued \$2,716.4 million in refunds compared with \$3,224.4 million over the same period last year, a decrease of 15.8 percent.
- Refunds were heavily distorted by PTET credit usage in the first 6 months of FY 2024. The remaining ~\$200 million in Taxable Year 2022 credits are expected to be redeemed in the extension filing season (July-September) of FY25. This shift is expected to ripple forward, effectively lengthening the payback timeline of the PTET surplus by approximately two quarters.

# SALES AND USE TAX COLLECTIONS WERE ESSENTIALLY FLAT IN APRIL COMPARED TO LAST YEAR AND REMAIN AHEAD OF FORECAST



- Collections of sales and use taxes, reflecting March sales, declined 0.1 percent in April and are down 1.0 percent year-to-date. Fiscal-year-to-date, sales and use tax revenues are \$125.4 million above projections.
- The economic slowdown included in the original forecast accounted for substantial cutbacks in household spending this quarter.

# NET CORPORATE INCOME TAX REVENUES ARE DOWN YEAR-OVER-YEAR DUE TO PRIOR YEAR OVERPAYMENT CREDITS AND REFUNDS



- Corporate income tax, like non-withholding, is highly volatile. It includes components stretching back many tax years as well as corporations' future expectations in the form of estimated payments.
- Until December, growth was well above forecast. In December however, Virginia Tax processed a significant backlog of corporate returns under review. This resulted in ~\$230 million in additional overpayment credits attributable to TY21 returns.
- As of April, between \$130 million and \$210 million of these overpayment credits have been accounted for via lower estimated payments.

# CONCLUSION

- With two months remaining in FY 2024, general fund revenues are ahead of forecast by \$1.2 billion, driven by better than projected personal income tax receipts, lower than expected individual income tax refunds, and higher than forecasted sales and use tax collections.
- The economy has proven to be resilient through the first ten months of the fiscal year, generally exceeding projections assumed in the economic outlook supporting our revenue forecast.
- While the outlook for continued strength in revenues seems likely in the near term, future economic growth remains less certain and will be dependent on inflation and the Federal Reserve's efforts to bring it under control.
- Recent data show that the gradual moderation in inflation that began in October 2022 has stalled, and inflation remains stubbornly higher than the Fed's target, furthering uncertainty around the timing and magnitude of potential rate cuts.
- Consumers have so far continued to spend supporting economic growth. However, savings rates have declined substantially while credit card delinquencies have risen, calling into question consumers' ability to maintain spending in the face of sustained inflationary pressures, high interest rates, and softening wage growth.
- Labor market indicators, though strong in the first quarter, suggest slower growth in coming months.
- Additionally, broader geopolitical risks, including the potential for escalating conflict in the Middle East, supports a cautious outlook in the near term.

# LOOKING AHEAD

- May
  - Key payments from individual nonwithholding received pursuant to the May 1st individual income tax filing and payment deadline.
  - Revised (“Second”) estimate of U.S. GDP growth for the first quarter will be released on May 30th.
  - Personal consumption expenditure (PCE) price index for April will be released on May 31st.
- June
  - Individual and corporate income tax and insurance premiums license tax estimated payments are due June 15th.
- July
  - Estimated date for preliminary June month-end close is July 4th.