



# **ECONOMIC AND REVENUE REVIEW AND UPDATE**

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# TOPICS FOR DISCUSSION

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ECONOMIC UPDATE

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MAY YEAR-TO-DATE GENERAL FUND REVENUES

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LOOKING AHEAD

# SUMMARY

- May revenue collections came in above expectations and are on track to exceed the Chapter 725 FY 2025 forecast which anticipates a revenue surplus of \$2.1 billion over the Common Ground Budget revenue projections (Chapter 2, 2024 Special Session I).
  - Year-to-date revenues are \$1,572.2 million (5.9%) ahead of last year and \$488.3 million (1.8%) ahead of forecast.
  - May revenues were \$86.3 million (3.0%) above last year and \$277.2 million (10.3%) above forecast.
  - Year-to-date payroll withholding, the single largest source in the general fund, is 5.3 percent ahead of last year and within 0.2 percent of forecast.
  - A timing issue pushed some payments expected in April into May resulting in a positive variance this month.
  - Year-over-year revenue collections for June can decline by up to 12.1 percent and still meet forecast.
- Recent statistics indicate a slight cooling of the labor market. Virginia remains well ahead of national averages in unemployment and labor force participation.
  - Job growth remained steady at the national level, growing by 139,000 in May.
  - Virginia's job growth was flat, adding approximately 500 jobs in April.
  - Labor force participation movement is subtle but has declined two months in a row.
  - Retail sales remain positive.
  - Inflation continues a downward trend.
- Entering the final month of the fiscal year, Virginia is in strong position to exceed forecast. Still, there may be short term disruptions as federal actions seek to reset trade balances and fiscal policy. These developments justify a cautious approach to revenues.

# U.S. NONFARM PAYROLLS INCREASED IN MAY, FEDERAL REDUCTIONS COME INTO VIEW

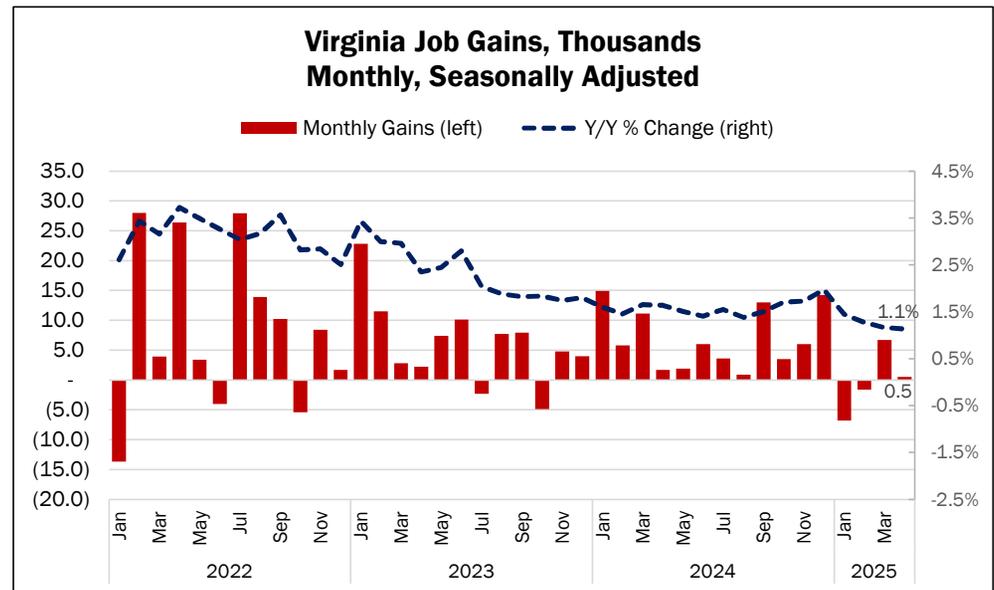


Source: US Bureau of Labor Statistics.

- U.S. total nonfarm payroll employment increased by 139,000 in May, slightly lower than the average monthly gain of 144,000 over the prior 12 months.
- The largest contributors to job growth in May were Education & Health Services (+87,000), Leisure & Hospitality (+48,000) and Financial Activities (+13,000). Growth was constrained by losses in Professional and Business Services (-18,000) and Manufacturing (-8,000). Total government employment declined by 1,000, however Federal employment declined by 22,000.

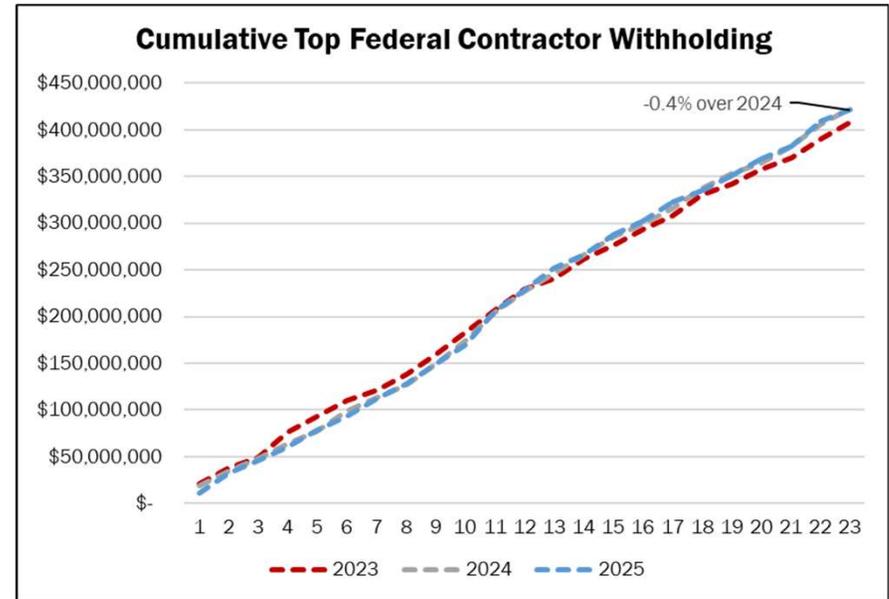
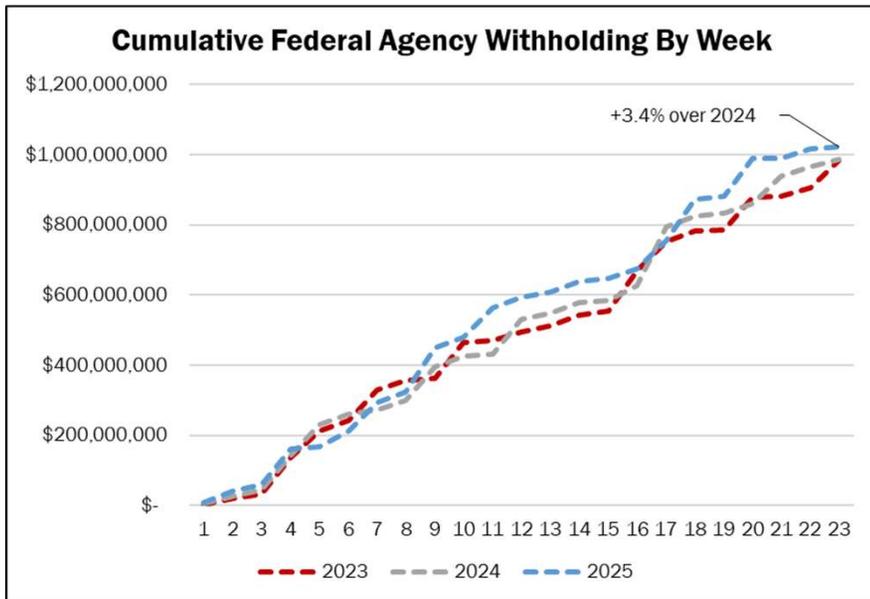
# VIRGINIA JOB GROWTH CONTINUES TO SLOW

- In April, Virginia’s nonagricultural employment, from the monthly establishment survey increased by 500, denoting a 1.1 percent year-over-year gain.
- Compared to March, April total nonagricultural employment was essentially flat.
- The overall gains in April are attributable to hiring in the Construction (+4,300), Leisure & Hospitality (+700), and Information Services (+400) sectors, constrained by job losses in the Manufacturing (-1,300), Professional & Business Services (-1,300), Total Government (-600), and Trade, Transport, & Utilities (-500) sectors.
- Federal employment in Virginia fell by 900 according to the April preliminary measure.



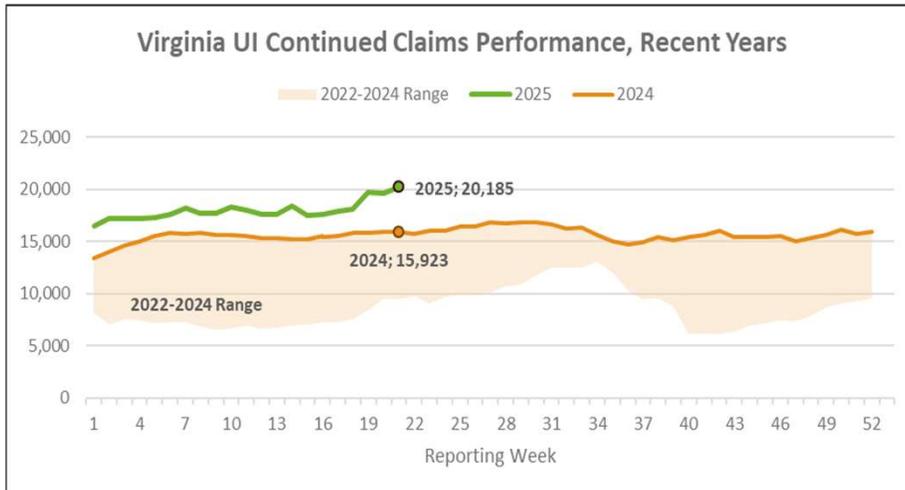
Source: Current Employment Statistics, US Bureau of Labor Statistics.

# DIRECT AND CONTRACT FEDERAL EMPLOYMENT REMAINS STEADY

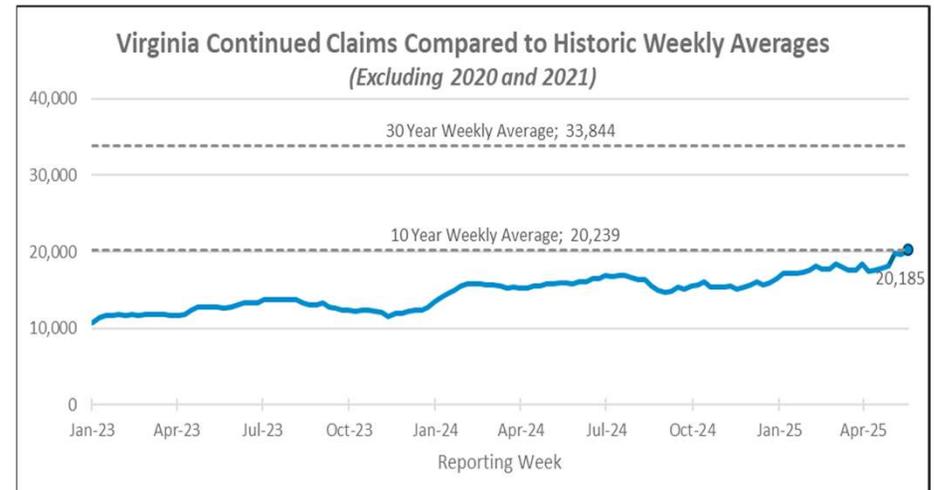


- Virginia Tax continues to monitor payroll withholding from a selection of top Federal agency and contractors with significant federal business.
- To date, through the calendar year, both agency and contractor withholding figures are steady.
- This monitoring should provide early warning should major changes occur in contracting or direct federal employment in the Commonwealth.

# VIRGINIA UNEMPLOYMENT CLAIMS HAVE TRENDED UPWARDS BUT REMAIN LOW IN HISTORICAL CONTEXT



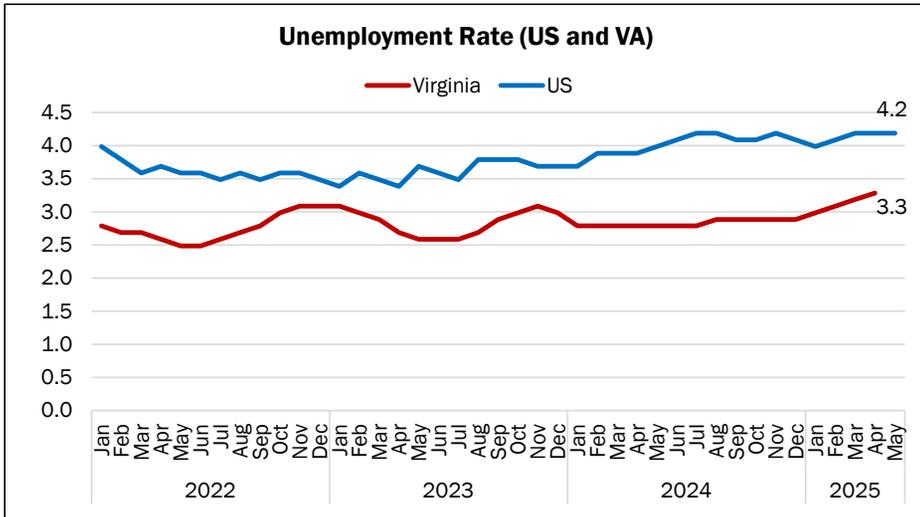
Source: US Department of Labor, Employment and Training Administration.



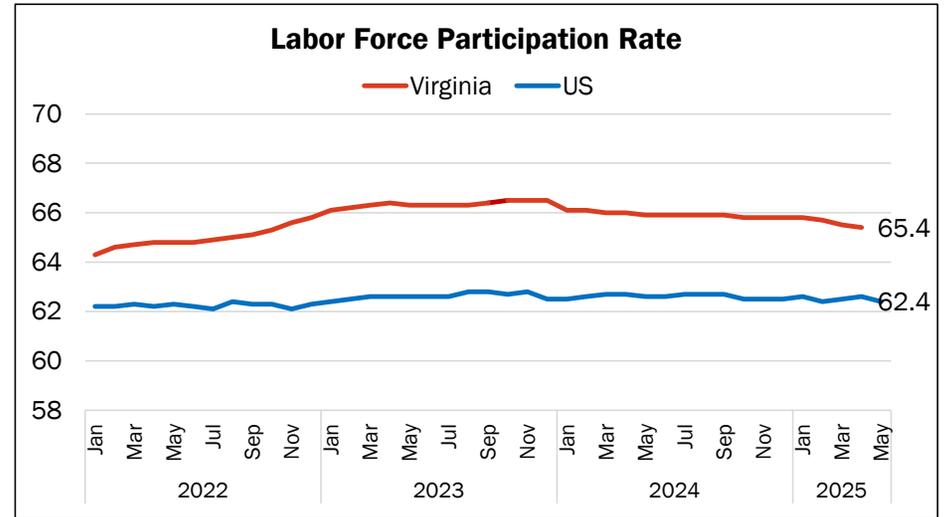
Source: US Department of Labor, Employment and Training Administration.

- Continued unemployment claims in the Commonwealth are up year-over-year. They currently sit at approximately 20,000, relative to 16,000 this time last year.
- The current number of claims is roughly at the 10-year weekly average (excluding COVID).

# NATIONAL UNEMPLOYMENT STAYED STEADY IN MAY, VIRGINIA TICKED UP



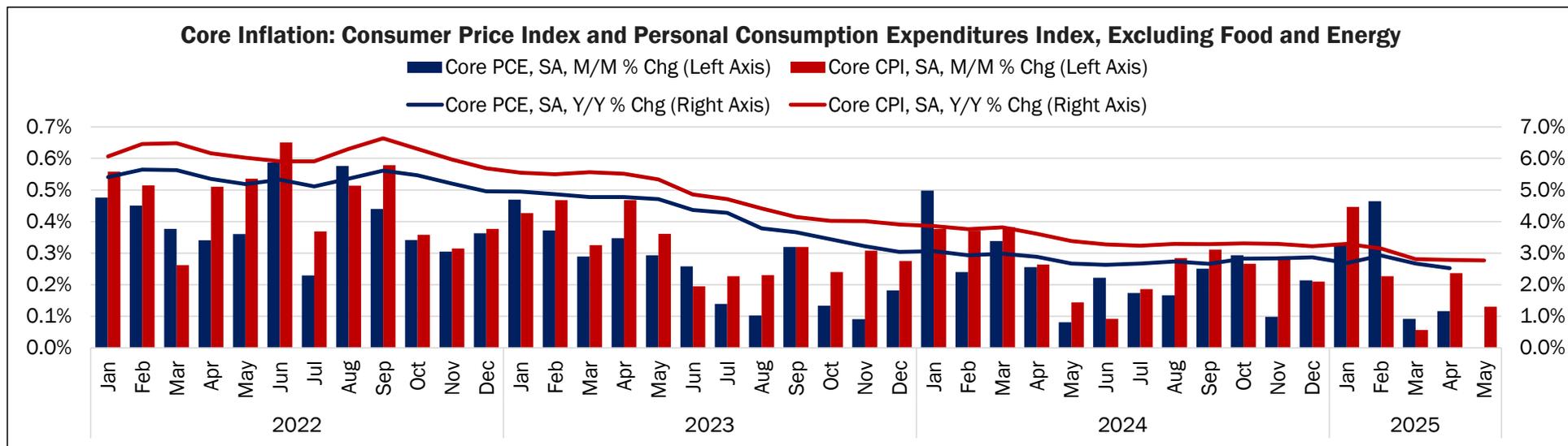
Source: Current Employment Statistics Survey, US Bureau of Labor Statistics.



Sources: US Bureau of Labor Statistics.

- In May, the U.S. unemployment rate remained unchanged at 4.2 percent for the third consecutive month. Virginia’s seasonally adjusted unemployment rate in April ticked up a tenth once again to 3.3 percent compared with March, which is a 0.5 percentage point increase compared to April 2024.
- The national labor force participation rate decreased to 62.4 in May from 62.6 in April. In Virginia, the rate decreased slightly to 65.4 in April from 65.5 in March.

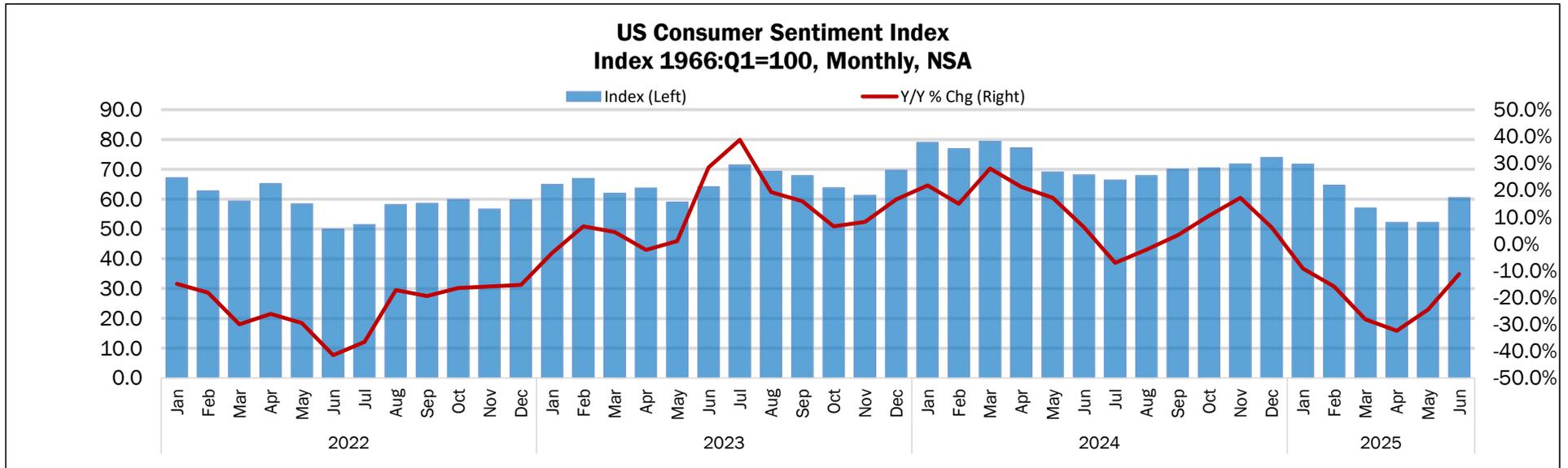
# INFLATION CONTINUES SLOW DECLINE



Source: U.S. Bureau of Economic Analysis.

- In May, the Consumer Price Index for All Urban Consumers grew 0.1 percent, seasonally adjusted, and rose 2.4 percent over the last 12 months.
- Core CPI, the index for all items less food and energy increased 0.1 percent in May, seasonally adjusted, and are up 2.8 percent over the year.
- The twelve-month change in the Core Personal Consumption Expenditure Price Index (Core PCE), the Federal Reserve's preferred inflation measure, decreased slightly to 2.5 percent in April, seasonally adjusted, remaining above the Fed's two-percent target.

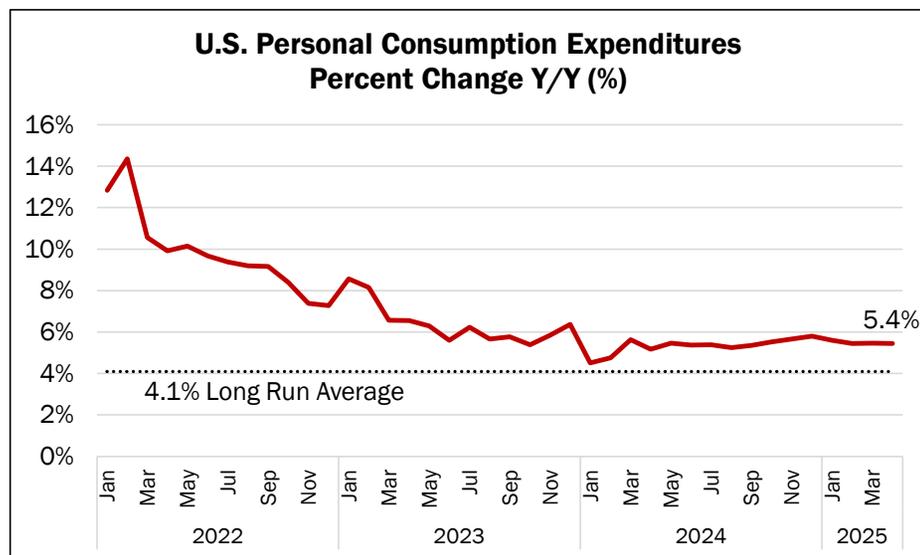
# US CONSUMER SENTIMENT EXPERIENCES FIRST INCREASE SINCE DECEMBER



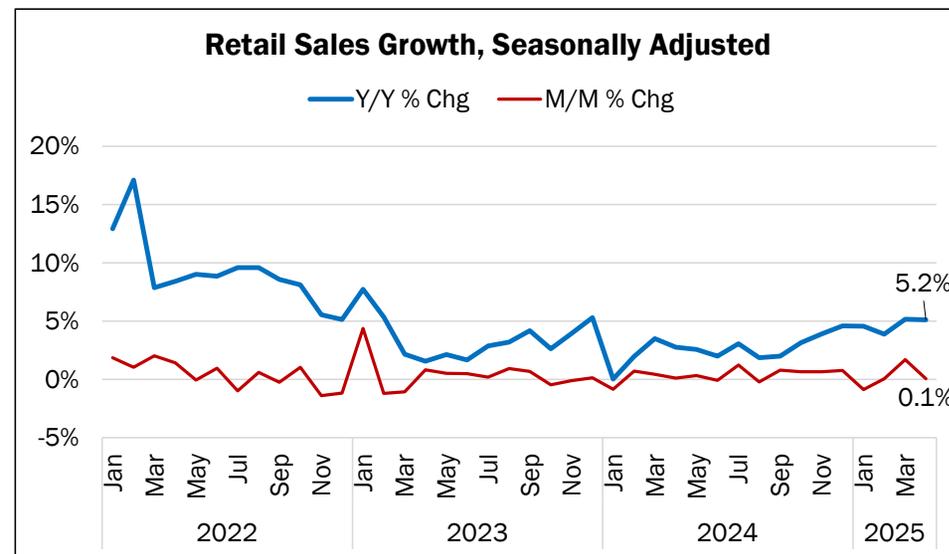
Source: University of Michigan-Survey of Consumers.

- U.S. Consumer Sentiment Index increased by 8.3 points to 60.5 in June, up from 52.2 in May, which reflects a 15.9 percent month-over-month increase but still accounts for an 11.3 percent year-over-year decline.
- The pause in tariff actions and potential path to trade dispute resolution has been reflected in consumer's recovering optimism.

# CONSUMER SPENDING AND RETAIL SALES GREW IN APRIL



Source: US Bureau of Economic Analysis.



Source: U.S. Census Bureau.

- Consumer spending rose 0.2 percent from March to April, which also denotes a 5.4 percent year-over-year increase for April.
- In April, U.S. retail sales increased 0.1 percent from March and grew 5.2 percent compared to March 2024.
- Food services/drinking places experienced an increase of 7.5 percent from April of last year, indicating not all of the increase in retail sales activity is motivated by tariff uncertainty.

## MODEST GROWTH IN MAY, YEAR-TO-DATE GROWTH IS 5.9 PERCENT

SOURCE, \$ Mil	May				FYTD			
	FY 24	FY 25	Change \$	Change %	FY 24	FY 25	Change \$	Change %
Withholding	\$1,524.1	\$1,466.1	(\$57.9)	-3.8%	\$15,387.5	\$16,209.6	\$822.0	5.3%
Non-withholding	806.1	890.8	84.7	10.5%	5,855.3	6,697.9	842.6	14.4%
IIT Refunds	(162.9)	(174.0)	(11.1)	6.8%	(2,879.3)	(3,072.9)	(193.6)	6.7%
Net Individual Income	\$2,167.3	\$2,182.9	\$15.6	0.7%	\$18,363.6	\$19,834.6	\$1,471.1	8.0%
Sales & Use Tax	390.4	412.9	22.5	5.8%	4,296.7	4,385.9	89.1	2.1%
Corporate Gross	68.3	101.8	33.4	48.9%	1,986.2	1,908.8	(77.4)	-3.9%
Corporate Refunds	(63.9)	(19.6)	44.3	-69.3%	(384.2)	(347.8)	36.5	-9.5%
Net Corporate Income Tax	4.4	82.1	77.8	1773.1%	1,602.0	1,561.0	(40.9)	-2.6%
Insurance	18.1	14.8	(3.3)	-18.2%	327.9	384.8	56.9	17.4%
Wills, Suits, Deeds	43.4	43.4	(0.0)	-0.1%	368.3	423.4	55.1	15.0%
Interest Income	124.7	97.7	(27.0)	-21.6%	769.9	653.6	(116.3)	-15.1%
All Other	140.4	141.1	0.8	0.5%	754.3	811.5	57.2	7.6%
<b>Total GF Revenues</b>	<b>\$2,888.7</b>	<b>\$2,975.0</b>	<b>\$86.3</b>	<b>3.0%</b>	<b>\$26,482.6</b>	<b>\$28,054.8</b>	<b>\$1,572.2</b>	<b>5.9%</b>

- Revenues grew \$86.3 million (3.0%) in May year-over-year. Year-to-date revenues have grown 5.9 percent (\$1.57B).
- Withholding had one fewer deposit days relative to last year and thus decreased \$57.9 million (3.8%).
- Nonwithholding was up \$84.7 million (10.5%).
- Refunds increased modestly by \$11.1 million (6.8%).
- Sales and Use Tax revenues grew \$22.5 million (5.8%).

# MAY COLLECTIONS EXCEEDED FORECAST ACROSS MOST SOURCES

SOURCE, \$ Mil	May				FYTD			
	Actuals	Projected	Variance \$	Variance %	Actuals	Projected	Variance \$	Variance %
Withholding	\$1,466.1	\$1,388.2	\$77.9	5.6%	\$16,209.6	\$16,178.2	\$31.3	0.2%
Non-withholding	890.8	801.7	89.1	11.1%	6,697.9	6,083.7	614.2	10.1%
IIT Refunds	(174.0)	(197.0)	23.0	-11.7%	(3,072.9)	(2,708.6)	(364.3)	13.4%
Net Individual Income	\$2,182.9	\$1,992.9	\$190.0	9.5%	\$19,834.6	\$19,553.4	\$281.2	1.4%
Sales & Use Tax	412.9	398.1	14.7	3.7%	4,385.9	4,376.9	9.0	0.2%
Corporate Income Tax	82.1	21.3	60.9	286.3%	1,561.0	1,480.2	80.9	5.5%
Insurance	14.8	12.0	2.8	23.2%	384.8	321.5	63.3	19.7%
Wills, Suits, Deeds	43.4	45.5	(2.1)	-4.7%	423.4	409.0	14.4	3.5%
Interest Income	97.7	102.9	(5.1)	-5.0%	653.6	668.6	(15.0)	-2.2%
All Other	141.1	125.1	16.1	12.9%	811.5	757.0	54.5	7.2%
<b>Total GF Revenues</b>	<b>\$2,975.0</b>	<b>\$2,697.8</b>	<b>\$277.2</b>	<b>10.3%</b>	<b>\$28,054.8</b>	<b>\$27,566.5</b>	<b>\$488.3</b>	<b>1.8%</b>

- Revenues exceeded projections in the budget for the month by \$277.2 million (10.3%).
- Year-to-date, revenues are ahead of projections by \$488.3 million (1.8%).
- Positive variances occurred in most sources this month.
- Net individual income tax came in \$190.0 million (9.5%) over forecast driven by:
  - Withholding payments received early in the month that were expected to be received in April.
  - A strong close of Tax Year 2024 payments and estimated payments for Tax Year 2025.
  - The final major month of the refund season had slightly fewer refunds to issue than expected.

## JUNE CAN DECLINE 12.1 PERCENT AND STILL MAKE FORECAST

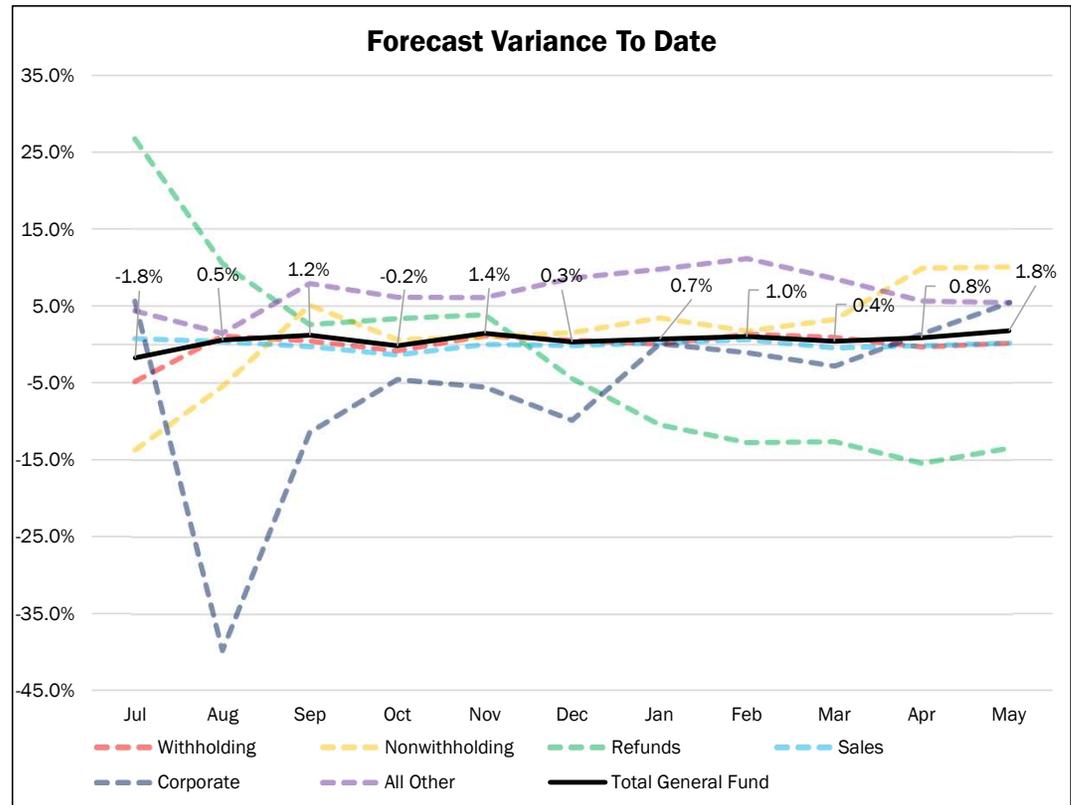
SOURCE, \$ Mil	June 2024 Actuals	June 2025 Forecast	June 2025 Rqd to Meet Budget	YTD Growth	June Growth Rqd to Meet Budget <sup>(1)</sup>	June Growth Included in Forecast <sup>(2)</sup>	Forecasted Annual Growth <sup>(3)</sup>
Withholding	\$1,330.7	\$1,402.6	\$1,371.3	5.3%	3.0%	5.4%	5.2%
Non-withholding	708.4	705.1	91.0	14.4%	-87.2%	-0.5%	3.4%
IIT Refunds	(92.2)	(103.0)	261.3	6.7%	-383.3%	11.7%	-5.4%
Net Individual Income	\$1,946.9	\$2,004.7	\$1,723.5	8.0%	-11.5%	3.0%	6.1%
Sales & Use Tax	412.9	421.1	412.1	2.1%	-0.2%	2.0%	1.9%
Corporate Income Tax	305.1	311.3	230.5	-2.6%	-24.5%	2.0%	-6.1%
Insurance	140.3	164.3	101.0	17.4%	-28.0%	17.1%	3.7%
Wills, Suits, Deeds	38.2	48.6	34.3	15.0%	-10.3%	27.2%	12.6%
Interest Income	(70.1)	(51.4)	(36.5)	-15.1%	-48.0%	-26.6%	-11.8%
All Other	192.3	195.9	141.4	7.6%	-26.5%	1.8%	0.7%
<b>Total GF Revenues</b>	<b>\$2,965.6</b>	<b>\$3,094.5</b>	<b>\$2,606.2</b>	<b>5.9%</b>	<b>-12.1%</b>	<b>4.3%</b>	<b>4.1%</b>

Notes: (1.) June Y/Y growth needed to meet full FY 2025 forecast. (2.) June Y/Y growth assumed in forecast (3.) Full FY 2025 forecasted growth.

- The forecast predicted a 4.1% growth rate for the full fiscal year.
- To date, revenues have grown 5.9 percent.
- To meet forecast over the remaining two months, revenues can decline up to 12.1 percent.

# VARIANCE ANALYSIS

- Year-to-date variances in most sources are moderately positive.
- The largest differences have come from the most difficult to predict sources: Nonwithholding and Individual Refunds.
- Nonwithholding outperformed forecast in both final payments for Tax Year 2024 and estimated payments for the first half of Tax Year 2025.
- Refunds, have been a concern in the latter half of the fiscal year as both PTET and regular refunds exceeded forecast.
- The refund season has mostly passed at this point, and it appears the negative variance in this source will be dwarfed by nonwithholding's overperformance.



# CONCLUSION

- Revenue collections are on track to exceed the FY 2025 forecast which anticipates a revenue surplus of \$2.1 billion over the April 2024 Common Ground Budget revenue projections.
- June revenues can decline 12.1 percent year-over-year and still meet targets for Fiscal Year 2025.
- Nearly every source came in above forecast in the most recent month.
- Through May, collections are up \$1,572.2M (5.9%) compared to last year and are running \$488.3M ( 1.8%) ahead of projections assumed in the current appropriation act.
- U.S. labor market growth is steady.
- Virginia's most recent statistics show a slight softening of our labor market, however the Commonwealth is still in a superior position to the national average with better unemployment and labor force participation rates.
- Consumers appear strong with retail sales up year-over-year and consumer sentiment recovering this month.
- Given the Commonwealth's financial strength, we have confidence in the FY 2025 forecast and see a pathway to achieving the current FY 2026 forecast. Still, there may be short term disruptions as federal actions seek to reset trade balances and fiscal policy. These developments justify a cautious approach to revenues.

# LOOKING AHEAD

- **June:** The close of the fiscal year includes many significant payments.
  - Individual, corporate and insurance estimated payments are due.
  - Interest income is distributed to nongeneral fund accounts.
  - Miscellaneous sources submit many of their end of year payments in June.
- **August:** The Joint Meeting of House Appropriations, House Finance, and Senate Finance and Appropriations is scheduled for August 14.
- **October:** The Joint Advisory Board of Economists (JABE) will meet to make recommendations with respect to the economic outlook.
- **November:** The Governor's Advisory Council on Revenue Estimates (GACRE) will meet to make recommendations with respect to economic assumptions and the general economic climate of the Commonwealth.
- **December:** Governor Youngkin will present proposed amendments to the FY 2026 budget and the 2026-28 biennial budget at the Joint Meeting of House Appropriations, House Finance, and Senate Finance and Appropriations in December.

# **Federal Grants Update**

# COORDINATED FEDERAL GRANT TRACKING ACROSS THE ADMINISTRATION

- With the exception of Higher Education, the Finance Secretariat and Office of Federal Affairs, have been monitoring the impact of federal grant reviews across all Executive branch agencies.
  - Higher Education institutions are being asked to identify paused or suspended federal grants as part of their six-year plan submissions.
- Grants have been paused to review compliance with the various federal Executive Orders as well as to ensure alignment with Administration priorities.
  - Paused grants have largely been tied to discretionary programs funded under the Infrastructure Investment and Jobs Act or the Inflation Reduction Act.
- Amounts under review vary week to week and totals have ranged from under \$200 million to more than \$1.2 billion.
  - As of last week, approximately \$461 million remains paused, down from \$515 million in May.
  - Actively working with federal agencies to provide necessary justification to release paused funds.
  - Approximately \$350-400 million of this amount is likely to remain frozen as the federal government reclaims balances from COVID-era grants.

# PAUSED GRANTS HAVE DROPPED SIGNIFICANTLY

## Federal Grants Update (6/13/2025)

(\$ in millions)

Secretariat	Grants Paused	Amount Paused (\$)
Agriculture & Forestry	2	21
Commerce & Trade	2	23
Education	3	34
Health & Human Resources	13	271
Natural & Historic Resources	3	7
Transportation	1	106
<b>Total</b>	<b>24</b>	<b>461</b>

Paused grants to Virginia agencies have been reduced by \$1.95B since March

