



Economic and Revenue Update

A Briefing for the Senate Finance Committee

Richard D. Brown
Secretary of Finance
Commonwealth of Virginia
www.finance.virginia.gov

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Topics for Discussion

- National and State Economic Indicators
- First Quarter Revenue Collections, Fiscal Year 2012
- Fall Forecasting Process

National and State Economic Indicators

- Current national indicators continue to depict a weak recovery.
- According to the third estimate, real GDP grew at an annualized rate of 1.3 percent in the second quarter of 2011. This was up from an even lower 0.4 percent growth in the first quarter.
- Labor market conditions improved slightly in September, as payroll employment gained 103,000 jobs.
 - However, about 45,000 of these jobs were a result of striking Verizon workers returning to work.
- The national unemployment rate remained unchanged at 9.1 percent in September for the second straight month.
- Initial claims for unemployment decreased by 1,000 to 404,000 during the week ending October 8.
 - The four-week moving average decreased from 415,000 to 408,000.
- Based on preliminary numbers, employers in Virginia have added jobs in eight of the last 12 months. Payroll employment in August grew just 0.1 percent from August of last year.
 - Employment was flat in Northern Virginia, but fell 0.2 percent in Hampton Roads and 1.5 percent in Richmond-Petersburg.

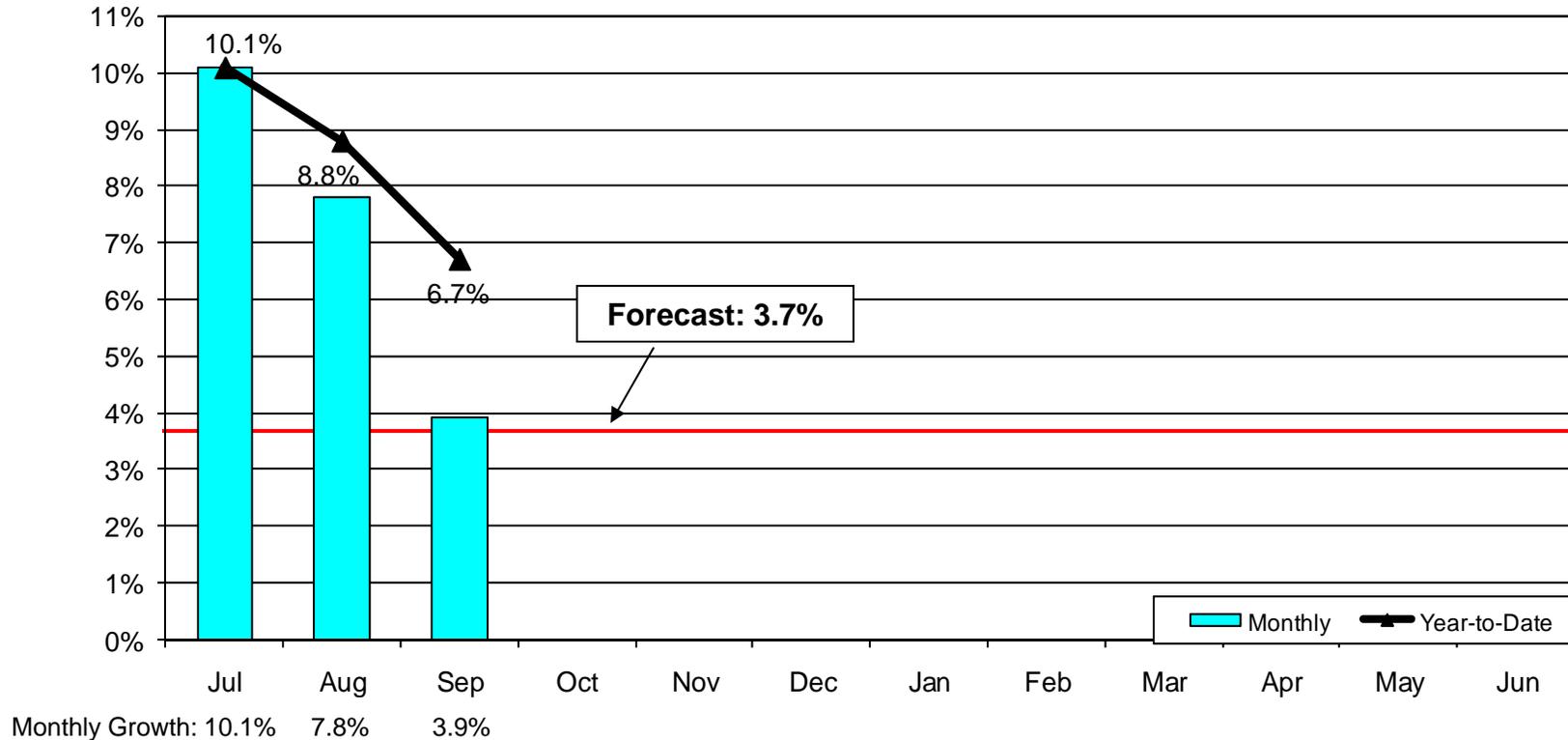
National and State Economic Indicators

- The unemployment rate in Virginia rose from 6.2 percent to 6.5 percent in August, but remains well below the national rate of 9.1 percent.
- According to RealtyTrac, U.S. foreclosure activity for September declined 38 percent from September 2010, marking the 12th consecutive month of year-over-year declines.
 - One in every 605 U.S. housing units received a foreclosure notice in September.
 - In Virginia, one in every 937 households received a foreclosure notice.
- The manufacturing sector continued to expand in September at a slightly faster pace, as the Institute of Supply Management index increased from 50.6 to 51.6.
 - This marks the 26th consecutive month above the expansionary threshold of 50.0.
- The Conference Board's index of leading indicators rose for the fourth straight month in August by 0.3 percent.
 - The rise in the index suggests that the economy should continue to modestly expand.
- The Conference Board's index of consumer confidence, which plummeted to 45.2 in August, inched up to 45.4 in September.

National and State Economic Indicators

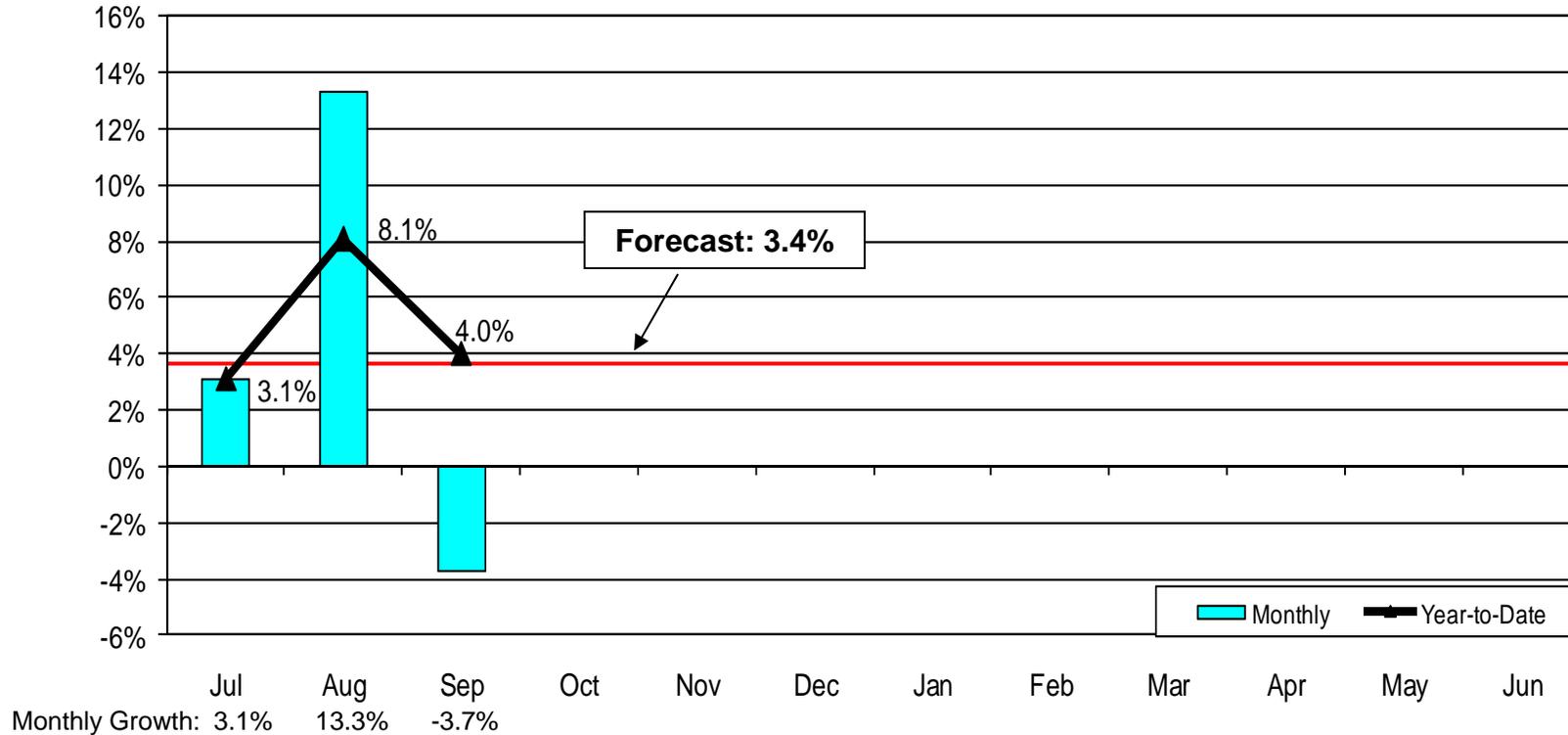
- The saving rate dropped slightly from 4.7 percent in July to 4.5 in August.
- Inflation remains low – the CPI increased 0.4 percent in August from the previous month. It is now 3.8 percent above the August 2010 level.
 - Core inflation (excluding food and energy prices) rose 0.2 percent in August, and 2.0 percent since August 2010.
- At its September meeting, the Federal Reserve decided to keep the federal funds rate target unchanged at 0.0 to 0.25 percent.
- In September, the Federal Reserve also launched “Operation Twist,” which involves selling \$400 billion in short-term Treasuries in exchange for the same amount of longer-term bonds.
 - "This program should put downward pressure on longer-term interest rates and help make broader financial conditions more accommodative."
 - It will start in October and end in June 2012.

Growth in Total General Fund Revenue Collections FY12 Monthly and Year-to-Date



- On a year-to-date basis, total revenues increased 6.7 percent, ahead of the annual forecast of 3.7 percent growth.
 - Adjusting for the accelerated sales tax (AST) program, total revenues grew 5.6 percent through September, ahead of the economic-base forecast of 3.5 percent growth.

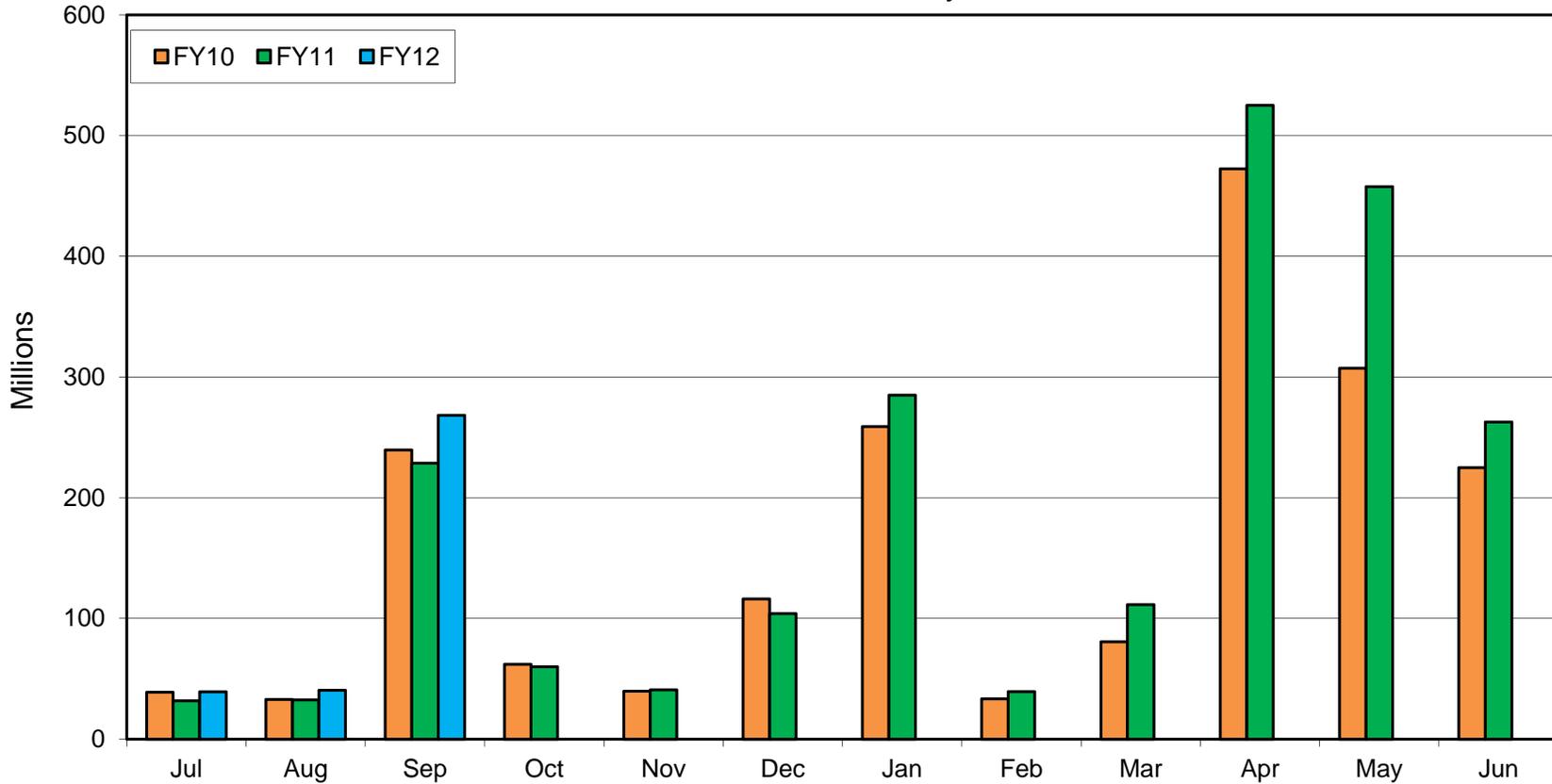
Growth in Withholding Tax Collections FY12 Monthly and Year-to-Date



- Collections of payroll withholding taxes fell 3.7 percent in September.
 - This was expected as September had one less deposit day than it did last year.
- Year to date, withholding collections grew 4.0 percent compared with the same period last year, ahead of the projected annual growth rate of 3.4 percent.

Nonwithholding Tax Collections

FY10-FY12 Monthly



- The first individual estimated payment in fiscal year 2012 was due in September. Monthly collections increased 17.3 percent.
- Year-to-date, collections through September were \$348.0 million compared with \$292.9 million in the same period last year, an increase of 18.8 percent and ahead of the annual estimate of 2.1 percent growth.

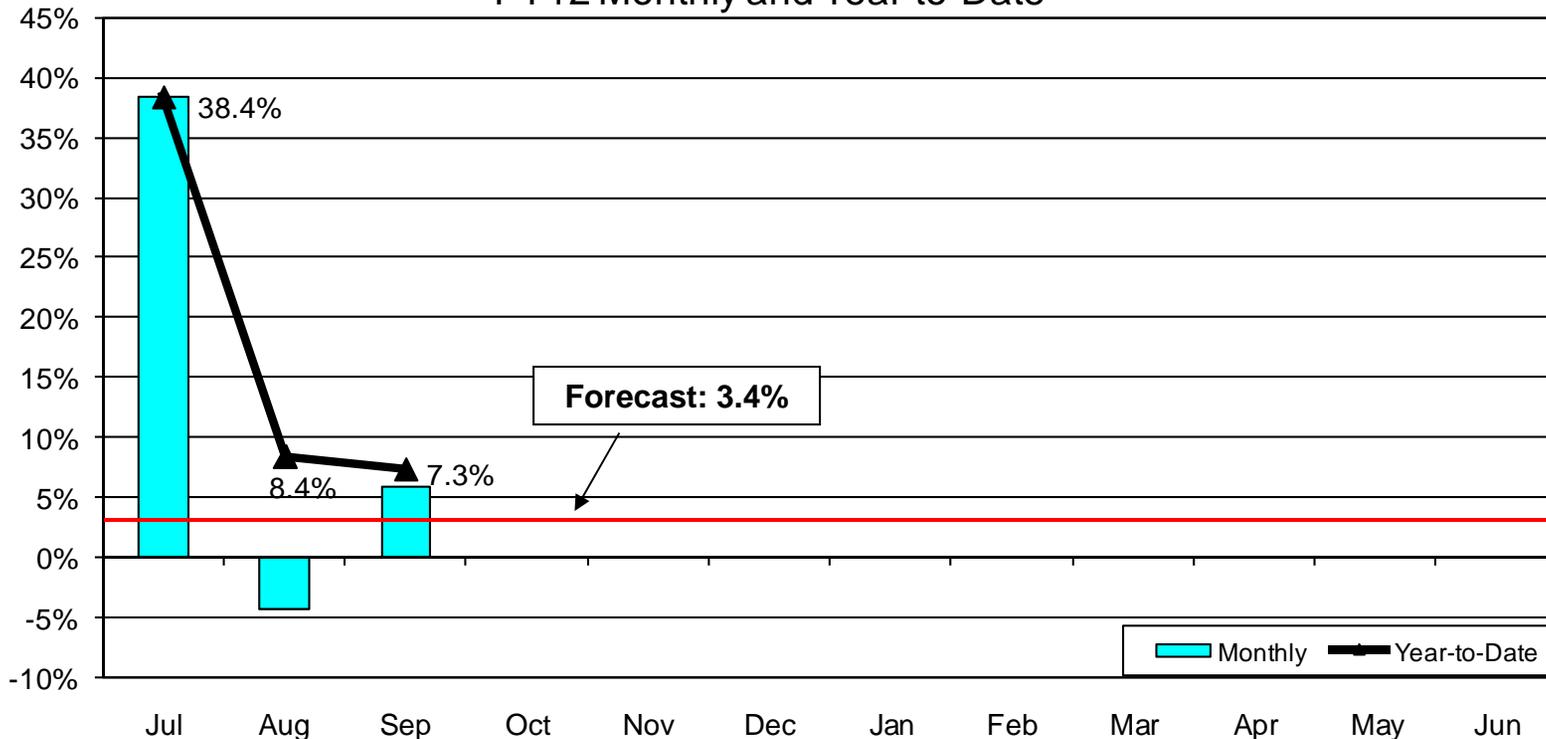
Individual Income Tax Refunds

- Not a significant month.
- Through September, TAX has issued \$105.7 million in individual income tax refunds compared with \$123.1 million in the same period last year, a 14.1 percent decline and ahead of the annual estimate of a 0.9 percent decline.

Net Individual Income Tax

- Through the first quarter of fiscal year 2012, collections of net individual income tax rose 6.8 percent from the same period last year, ahead of the annual estimate of 3.9 percent growth.

Growth in Sales Tax Collections FY12 Monthly and Year-to-Date



Monthly Growth: 38.4% -4.4% 5.8%

- Collections of sales and use taxes, reflecting August sales, increased 5.8 percent in September.
- On a year-to-date basis, collections increased 7.3 percent, ahead of the annual estimate of a 3.4 percent increase.
 - Adjusting for AST, sales tax collections grew 1.9 percent through September, lagging the economic-base forecast of a 2.5 percent increase.

Net Corporate Income Tax Collections

- As with nonwithholding, September is a significant month in corporate income tax collections since the first estimated payment for the fiscal year is due.
 - Collections in corporate income tax grew 11.4 percent in September.
- On a year-to-date basis, collections in this source have risen 7.7 percent, ahead of the annual estimate of 1.1 percent growth.
- Through September, 23.0 percent of the projected fiscal year's gross corporate payments have been received.
 - This is slightly below the historical average of 25.3 percent.

Recordation Tax Collections

- Collections of wills, suits, deeds, and contracts – mainly recordation tax collections – rose 7.5 percent in September.
- On a year-to-date basis, collections are up 4.2 percent, close to the annual forecast of 3.3 percent growth.

Insurance Premiums Tax

- Collections are zero as the required transfers to TTF are being completed.

Summary of Fiscal Year 2012 Revenue Collections

July through September

<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	63.9 %	4.0 %	3.4 %	0.6 %										
Nonwithholding	14.3	18.8	2.1	16.7										
Refunds	(11.9)	(14.1)	(0.9)	(13.2)										
Net Individual	66.2	6.8	3.9	2.9										
Sales	20.0	7.3	3.4	3.9										
Corporate	5.3	7.7	1.1	6.6										
Wills (Recordation)	1.9	4.2	3.3	0.9										
Insurance	1.9	NA	2.9	NA										
All Other Revenue	4.7	3.5	5.7	(2.2)										
Total	100.0 %	6.7 %	3.7 %	3.0 %										
<table border="0" style="width: 100%; border-collapse: collapse;"> <tr> <td style="color: red;">Sales x AST</td> <td></td> <td style="color: red;">1.9 %</td> <td style="color: red;">2.5 %</td> <td style="color: red;">(0.6) %</td> </tr> <tr> <td style="color: red;">Total x AST</td> <td></td> <td style="color: red;">5.6 %</td> <td style="color: red;">3.5 %</td> <td style="color: red;">2.1 %</td> </tr> </table>					Sales x AST		1.9 %	2.5 %	(0.6) %	Total x AST		5.6 %	3.5 %	2.1 %
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Fall 2011 Forecasting Process

- The Joint Advisory Board of Economists (JABE) met on October 12.
 - Members assessed recent economic developments and evaluated the revised economic outlook for fiscal year 2012 and the next biennium.
- A meeting of the Governor's Advisory Council on Revenue Estimates (GACRE) will be held on November 22, 2011.
 - Members will evaluate JABE recommendations, revenue collections through October, and the associated revenue forecast.
- The subsequent economic and revenue outlook will serve as the basis for the Governor's caboose budget bill for fiscal year 2012 and introduced budget bill for the 2012-2014 biennium.

Flexibility in the Face of Economic and Budgetary Uncertainty

- On September 30, the Governor, through his Chief of Staff, directed agencies to prepare contingency plans for savings.
- The savings plans are not intended to address a revenue shortfall as was the case during the last recession.
- The savings plans are intended to provide flexibility for the reallocation of resources given the uncertainty in the economy and the budgetary outlook, especially in light of federal budget issues.
- There are two types of plans.
 - Targeted reallocation plans for certain areas such as higher education, K-12 (SOQ), Medicaid, and behavioral health (intellectually and developmentally disabled). These will be developed by work groups.
 - Agencies' savings plans equivalent to two, four and six percent of 2012-2014 general fund base appropriations. Individual agencies will prepare these and they have been asked to focus the savings strategies on lower priority activities.
- The agencies' savings plans are due on October 31. The due date was changed from October 17 in order to incorporate additional information on federal grants.