



Economic and Revenue Update

A Briefing for the Senate Finance Committee

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

June 20, 2013

Topics for Discussion

- National and State Economic Indicators
- Revenue Collections Through May, Fiscal Year 2013

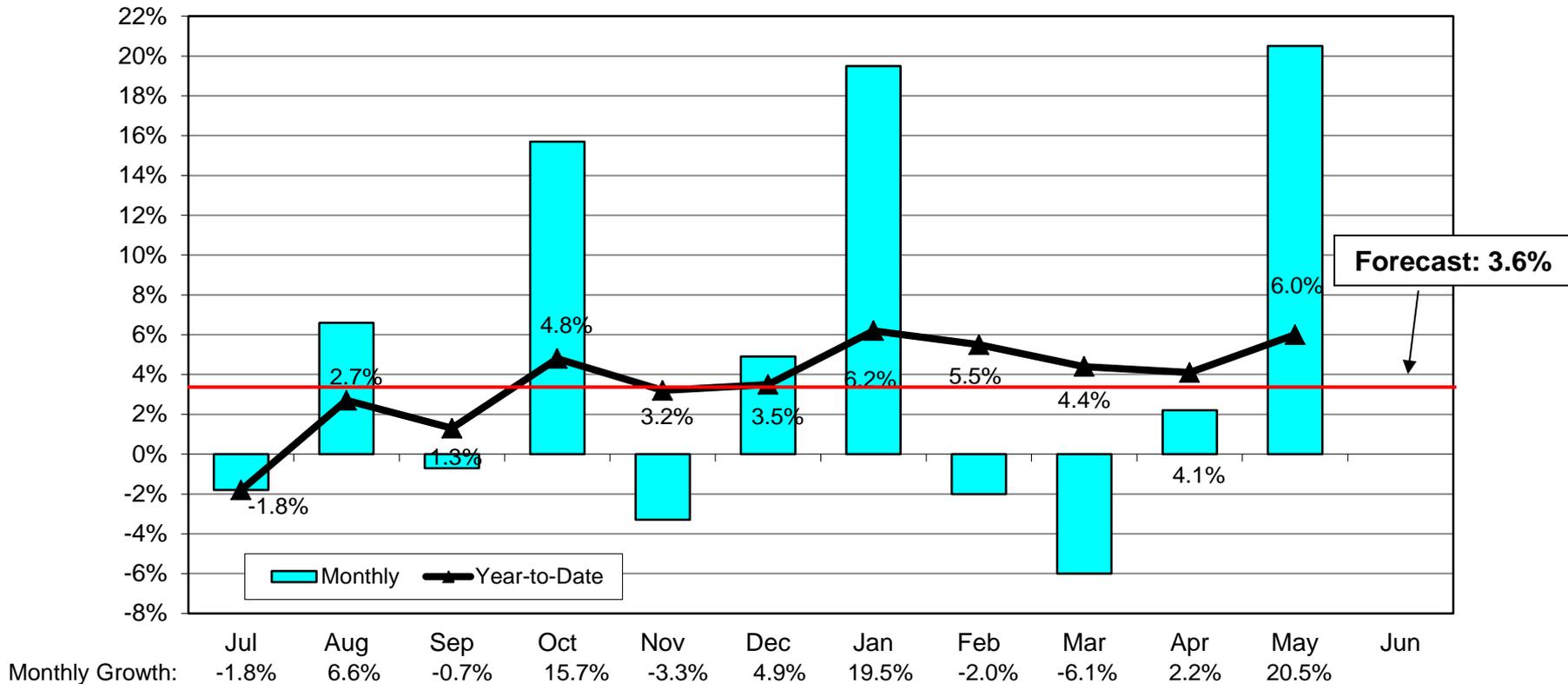
National and State Economic Indicators

- National indicators suggest slow growth will continue.
- Real GDP rose 2.4 percent in the first quarter of 2013, up from 0.4 percent in the fourth quarter of 2012.
- Payroll employment grew by 175,000 jobs in May.
 - The gain in April was revised down from 165,000 to 149,000 and March was revised up from 138,000 to 142,000.
- The unemployment rate increased from 7.5 to 7.6 percent in May as more workers entered the labor force.
- During the week ending June 1, initial claims for unemployment fell by 11,000 to 346,000. The four-week moving average increased from 348,000 to 352,500.
- In Virginia, employment rose by 1.1 percent in April. Payroll employment grew by 1.7 percent in Northern Virginia, 1.9 percent in Hampton Roads, and 1.4 percent in Richmond-Petersburg.
- The unemployment rate fell 0.2 percent to 5.0 percent in April, down 0.5 percent from April 2012.

National and State Economic Indicators

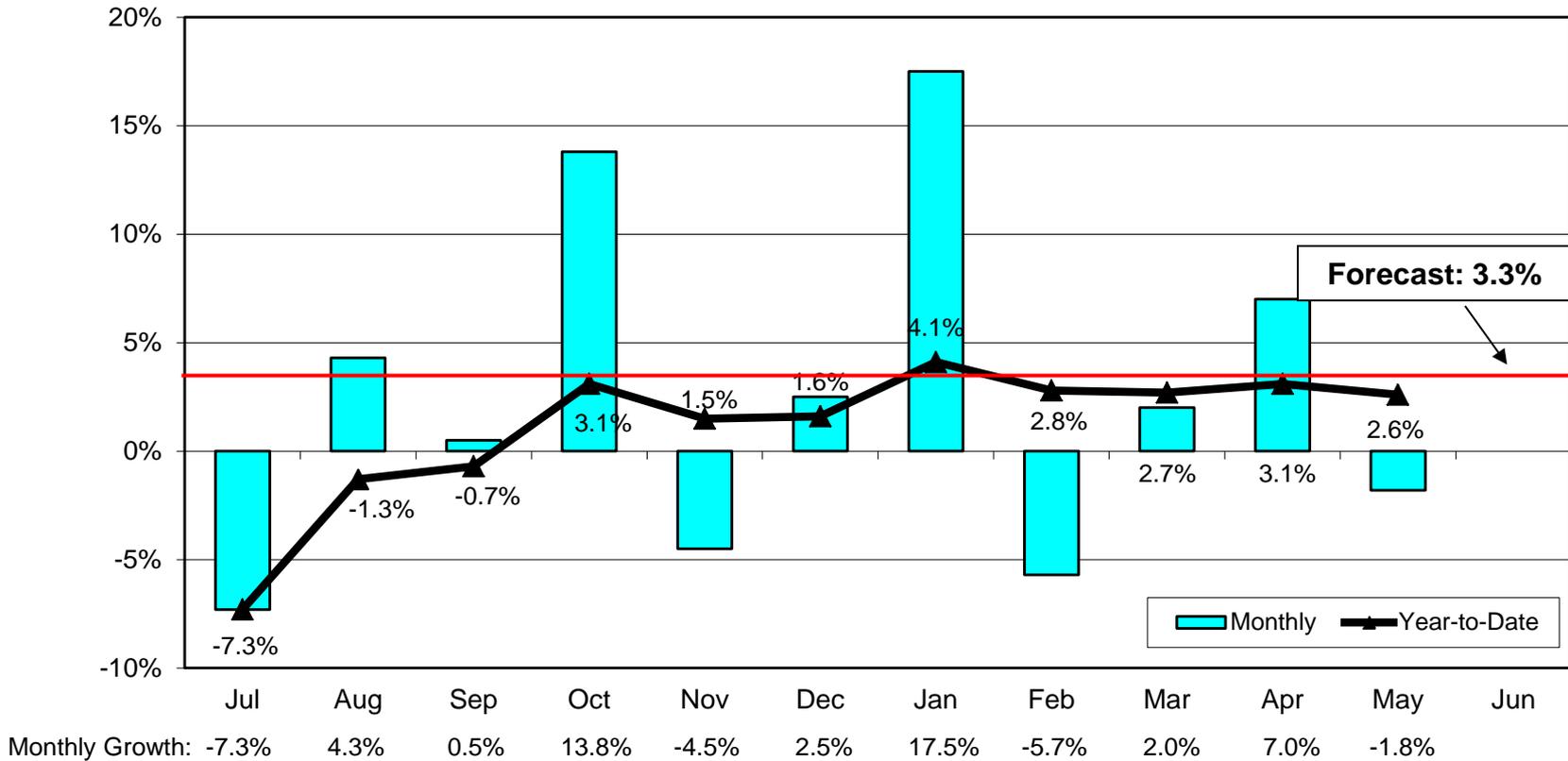
- Activity in the manufacturing sector further slowed in May. The Institute of Supply Management index fell from 50.7 to 49.0 in May, below expansionary territory for the first time since November 2012.
- The Conference Board's index of leading indicators rose 0.6 percent in April. The index has risen in six of the previous eight months.
- The Conference Board's index of consumer confidence jumped from 69.0 to 76.2 in May. Both current and future components increased with views of future conditions driving most of the gain.
- The CPI fell 0.4 percent in April from the previous month and stands 1.1 percent above April of last year.
 - Core inflation (excluding food and energy prices) rose 0.1 percent, and has increased 1.7 percent from April 2012.
- According to RealtyTrac, U.S. foreclosure activity for May declined 23 percent from May 2012.
 - One in every 360 U.S. housing units received a foreclosure notice in May.
 - In Virginia, one in every 1,543 households received a foreclosure notice.
- The savings rate was flat at 2.5 percent in April, the same as in March.
- The Federal Reserve announced at its May meeting that it will keep the federal funds rate target unchanged at 0.0 to 0.25 percent, and continued its quantitative easing program.

Growth in Total General Fund Revenue Collections FY13 Monthly and Year-to-Date



- On a year-to-date basis, total revenues increased 6.0 percent through May, ahead of the annual forecast of 3.6 percent growth.
 - Adjusting for the accelerated sales tax (AST) program, total revenues grew 5.7 percent through May, ahead of the economic-base forecast of 3.4 percent growth.

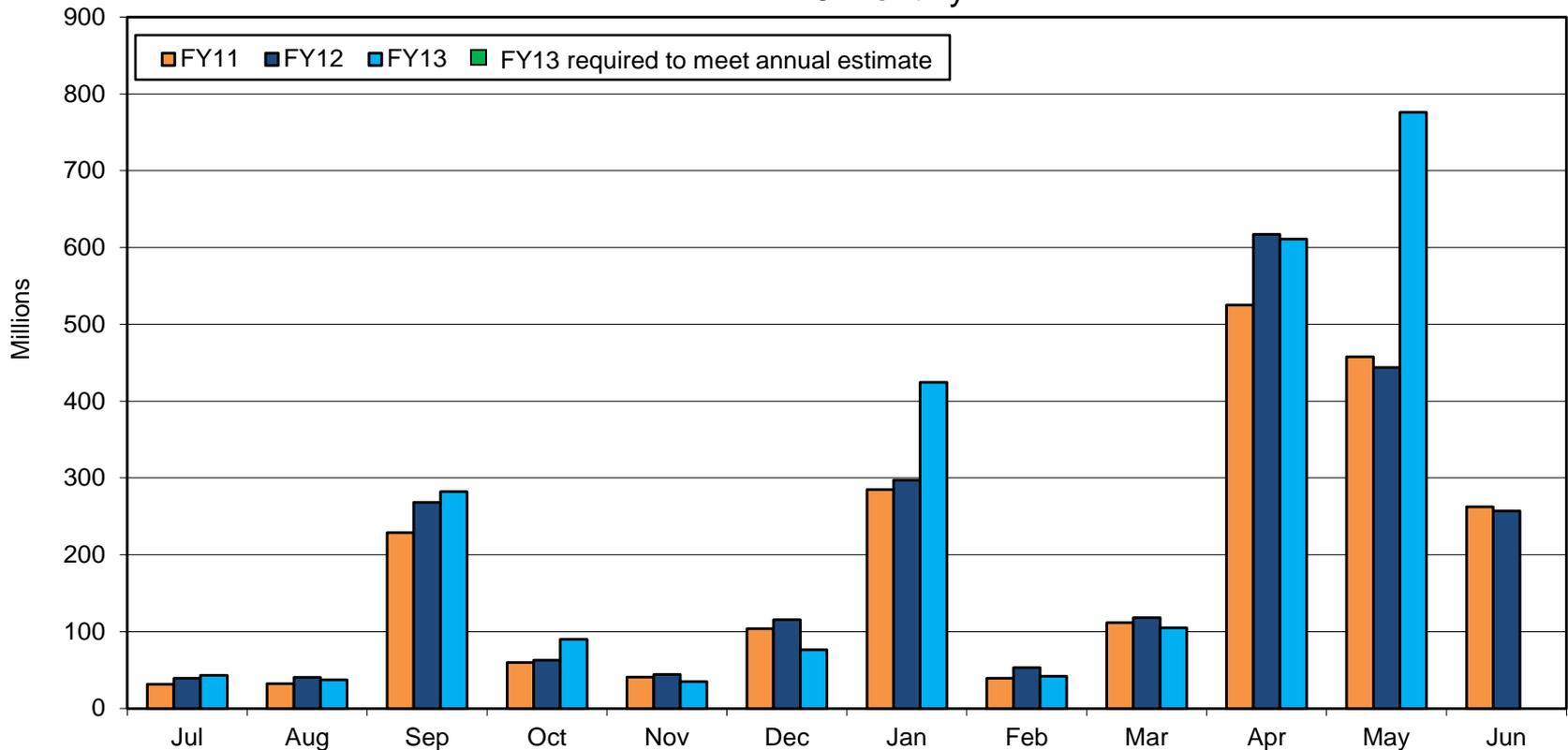
Growth in Withholding Tax Collections FY13 Monthly and Year-to-Date



- Collections of payroll withholding taxes decreased 1.8% percent in May.
- Year to date, withholding collections through May increased 2.6 percent compared with the same period last year, behind the projected annual growth rate of 3.3 percent.

Nonwithholding Tax Collections

FY11-FY13 Monthly



- To date, all of the nonwithholding forecast has been collected, and collections during this period are 20.3 percent ahead of the same period last year, behind the annual estimate of 6.8 percent growth.
- All June payments will be surplus revenues over the annual forecast.

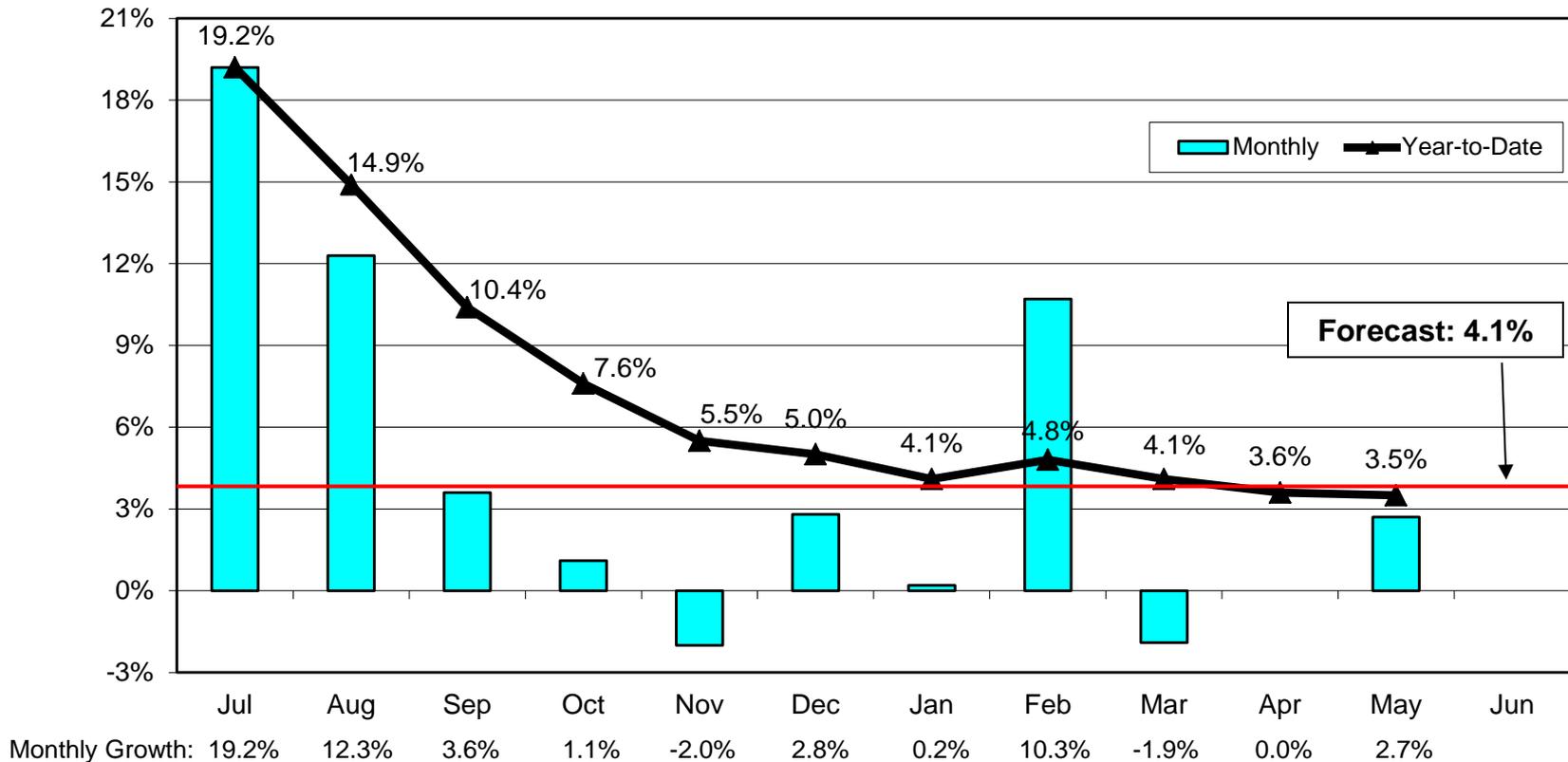
Individual Income Tax Refunds

- As the main filing season wraps up, \$144.5 million in refunds were issued in May compared with \$143.5 million last May.
- Year-to-date, refunds fell 3.8 percent from the same period last year, behind the estimate of a 0.4 percent increase.
 - Since the filing season began in January, TAX has issued 2.5 million refunds, as compared to the 2.6 million issued last year. The average check size is down about 1.0 percent.

Net Individual Income Tax

- Through May, collections of net individual income tax rose 7.7 percent from the same period last year, ahead of the annual estimate of 4.5 percent growth.

Growth in Sales Tax Collections FY13 Monthly and Year-to-Date



- Collections of sales and use taxes, reflecting April sales, were flat in May.
- On a year-to-date basis, collections grew 3.5 percent, trailing the annual estimate of a 4.1 percent increase.
 - Adjusting for AST, sales tax collections grew 2.2 percent through May, behind the ahead of the economic-base forecast of a 3.2 percent increase.

Net Corporate Income Tax Collections

- May is not a significant month.
- Collections of corporate income tax were \$21.3 million in May, compared with \$25.0 million last May, a 15.0 percent decline.
- On a year-to-date basis, collections in this source have decreased 8.5 percent, ahead of the estimate of a 4.5 percent decline.

Recordation Tax Collections

- Collections of wills, suits, deeds, and contracts – mainly recordation tax collections – increased 14.3 percent in May.
 - Monthly growth rates have been in the double-digits 15 of the last 16 months.
 - On a year-to-date basis, collections are up 17.2 percent, far ahead of the forecast of 4.5 percent growth.

Insurance Premiums Tax

- May is not a significant month.
- For the fiscal year to-date, net insurance premiums tax collections are \$165.3 million compared with \$156.0 million during the same period last year.

Summary of Fiscal Year 2013 Revenue Collections

July through May

Percent Growth over Prior Year

Major Source	As a % of Total Revenues	Percent Growth over Prior Year			June Req'd to Meet Est.	Prior Year June
		YTD Actual	Annual Estimate	Variance		
Withholding	63.1 %	2.6 %	3.3 %	(0.7) %	9.6 %	2.1 %
Nonwithholding	15.3	20.3	6.8	13.5	(103.5)	(2.1)
Refunds	(10.9)	(3.8)	0.4	(4.2)	107.6	6.7
Net Individual	67.6	7.7	4.5	3.2	(23.8)	0.8
Sales	19.8	3.5	4.1	(0.6)	7.5	(3.6)
Corporate	5.0	(8.5)	(4.5)	(4.0)	9.8	2.8
Wills (Recordation)	2.0	17.2	4.5	12.7	(112.2)	12.6
Insurance	1.6	5.9	1.1	4.8	(6.7)	(4.4)
All Other Revenue	4.1	(0.2)	(1.6)	1.4	(8.9)	(3.2)
Total	100.0 %	6.0 %	3.6 %	2.4 %	(13.3) %	(0.4) %

Sales (x AST)	2.2 %	3.2 %	(1.0) %	12.9 %	8.3 %
Total (x AST)	5.7 %	3.4 %	2.3 %	(14.3) %	1.7 %

Summary of Fiscal Year 2013 Transportation Revenue Collections

July through May

<u>Major Source</u>	As a % of Total <u>Fund</u>	Percent Growth over Prior Year		
		<u>YTD Actual</u>	<u>Annual Estimate</u>	<u>Variance</u>
Motor Fuels Taxes	33.4	(1.0)	0.6	(1.6)
Motor Vehicle Sales and Use Tax	24.7	7.6	6.7	0.9
State Sales and Use Tax	21.3	4.0	5.9	(1.9)
Motor Vehicle License Fees	9.5	3.8	0.7	3.1
All Other Revenue	11.1	(1.3)	(2.2)	0.9
Total	100.0 %	2.6 %	2.8 %	(0.2) %

Next Events

- June Collections
 - Second calendar year estimated payments due from:
 - Individuals
 - Corporations
 - Insurance Companies
 - Last deposit day will be Monday, July 1st due to June 30th falling on a weekend



A Primer on the Unemployment Rate and Labor Force Participation

*A Briefing for the
Senate Finance Committee*

June 20, 2013

Composition of the Labor Force

- Employed persons:
 - Worked as paid employees, worked in their own business or farm, or worked 15 hours or more unpaid in a family business, or
 - Were not working but had jobs from which they were temporarily absent.
 - Each employed person is counted only once, even if he holds more than one job.
- Unemployed persons:
 - Had no employment during the reference week,
 - Were available for work, and
 - Had made efforts to find work during the last four weeks.
- A person over 16, not on active military duty, not employed or unemployed is not part of the Labor Force.
 - Examples – retirees, stay at home parent, full time college student

Definitions on the Table on Labor Underutilization

- Unemployment rate:
 - The ratio of unemployed to the civilian labor force expressed as a percent.
 - $(\text{unemployed} / \text{labor force}) \times 100$
- Persons marginally attached to the labor force are those who currently are neither working nor looking for work but indicate that they want and are available for a job and have looked for work sometime in the past 12 months.
- Discouraged workers, a subset of the marginally attached, have given a job-market related reason for not currently looking for work.
- Persons employed part time for economic reasons are those who want and are available for full-time work but have had to settle for a part-time schedule.

HOUSEHOLD DATA

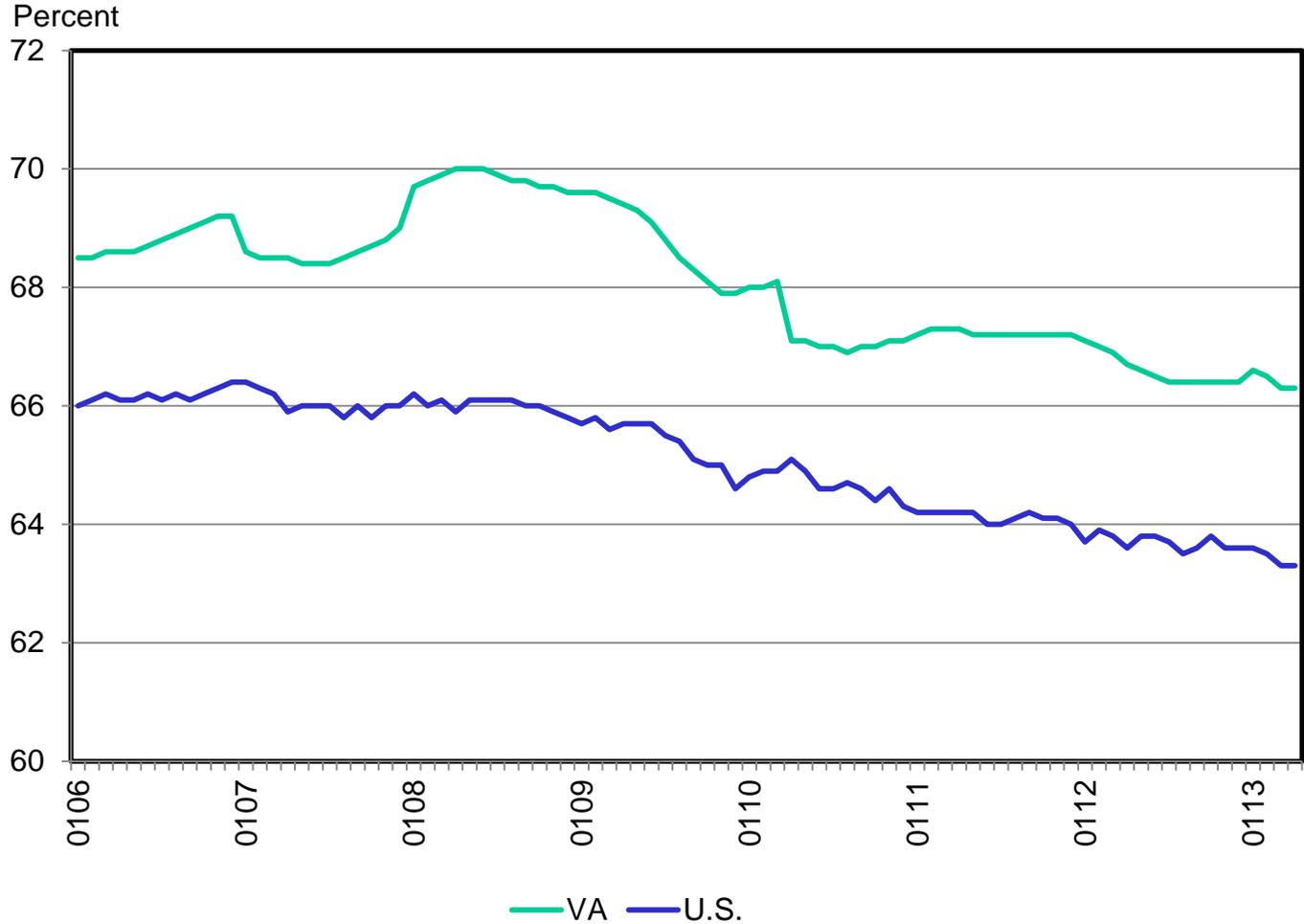
Alternative measures of labor underutilization [Percent]

Measure	Seasonally adjusted					
	April 2012	Dec 2012	Jan 2013	Feb 2013	Mar 2013	Apr 2013
U-1 Persons unemployed 15 weeks or longer, as % of civilian lab or force	4.5	4.3	4.2	4.2	4.1	4.1
U-2 Job losers and persons who completed temporary jobs, as % of civilian labor force	4.5	4.1	4.3	4.2	4.1	4.1
U-3 Total unemployed, as % of civilian labor force (official unemployment rate)	8.2	8.0	7.9	7.7	7.6	7.5
U-4 Total unemployed plus discouraged workers, as % Of civilian labor force plus	8.7	8.5	8.4	8.3	8.1	8.0
U-5 Total unemployed, plus discouraged workers, plus all others marginally attached to the labor force, as % of civilian labor force plus all marginally attached to labor force	9.5	9.4	9.3	9.2	8.9	8.9
U-6 Total unemployed, plus all marginally attached to labor force plus total employed part time for civilian labor force plus all persons marginally attached to the labor force for economic reasons, as % of the labor force	14.5	14.4	14.4	14.3	13.8	13.9

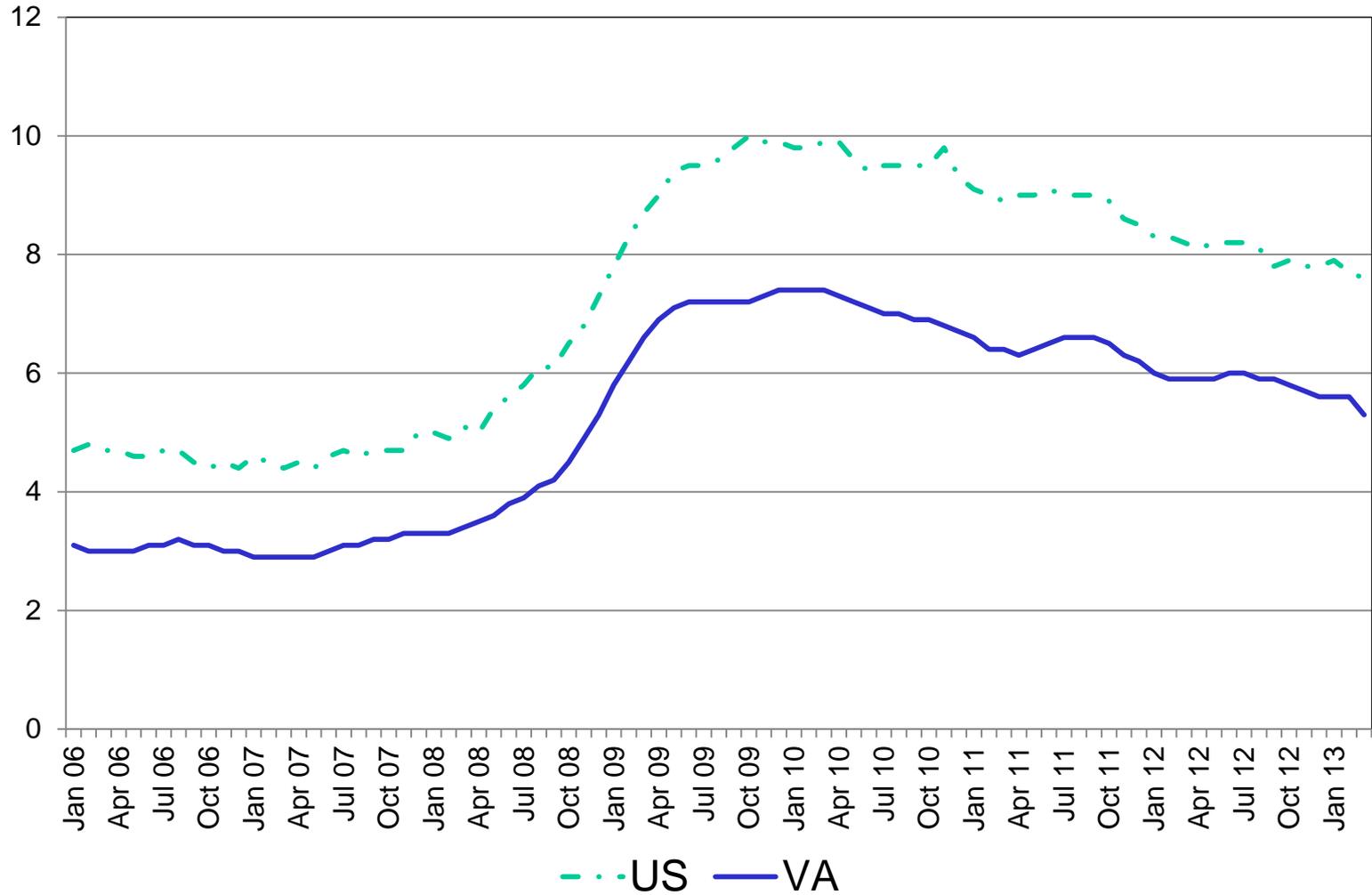
Labor Force Participation Rate

- The labor force participation rate represents the proportion of the civilian noninstitutional population that is in the labor force.
 - The rate is calculated by $\text{labor force} / \text{civilian population}$.
 - This measure grew from about 60 percent nationally in 1970 to a peak of about 67 percent in 2000, with much of the increase from increased participation of women. In 2012, the participation rate was 63.5 percent.
 - In 2012, the participation rates ranged across states from 72.3 percent in Nebraska to 54.1 percent in West Virginia.
 - In 2012, the labor force participation rate in Virginia was 66.6 percent.

Labor Force Participation Rate U.S. and Virginia 2006-2013



Monthly Unemployment Rate U.S. and Virginia 2006 through 2013



- Virginia's unemployment rate is consistently below that of the U.S.