



Economic and Revenue Update

A Briefing for the Senate Finance Committee

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Topics for Discussion

- National and State Economic Indicators
- August Year-to-Date Revenue Collections, Fiscal Year 2015
- Next Steps

National and State Economic Indicators

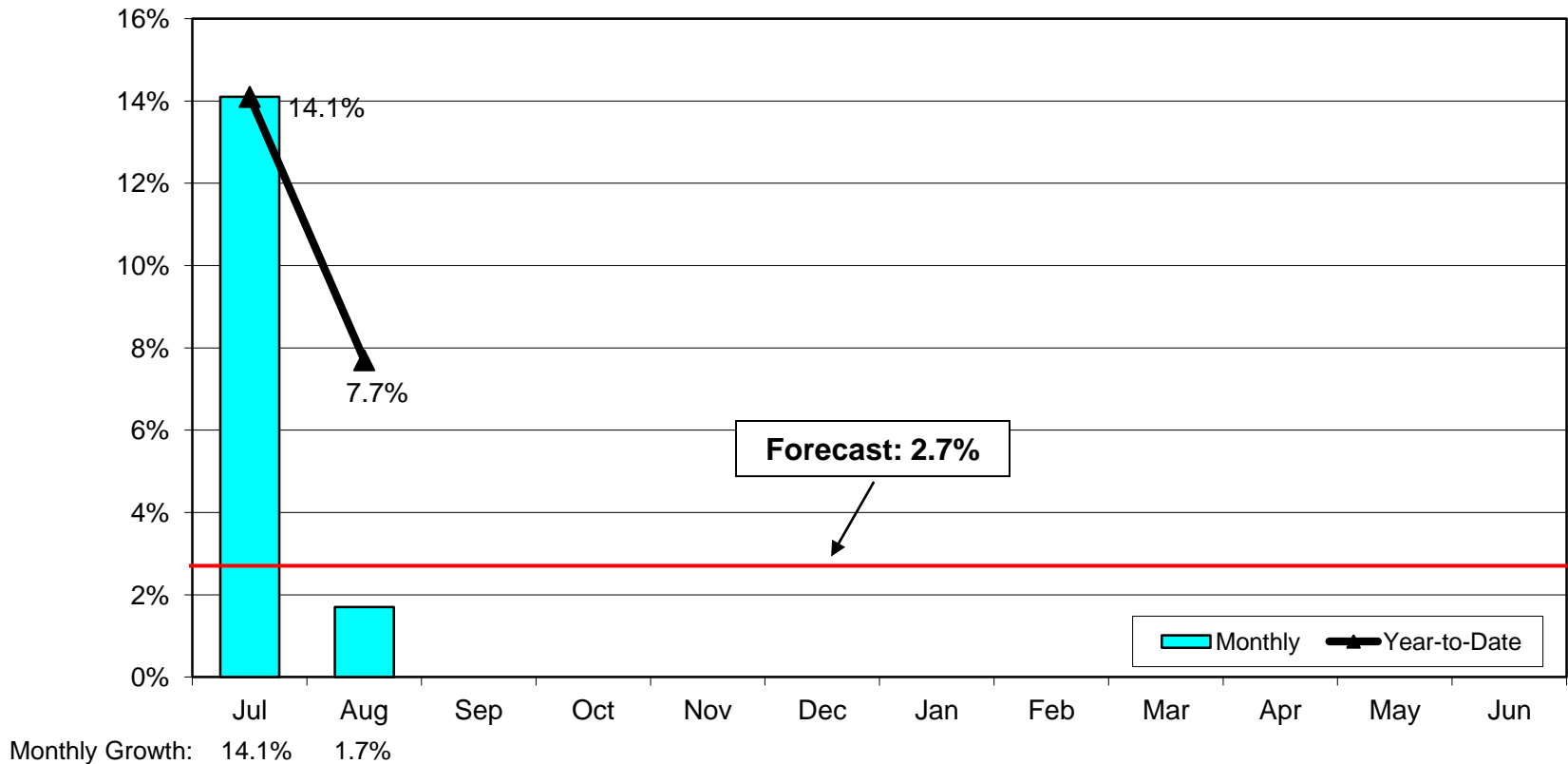
- Current national indicators suggest the economic expansion is gaining momentum.
- According to the second estimate, real GDP grew at an annualized rate of 4.2 percent in the second quarter of 2014, reversing the 2.1 percent drop in the first quarter.
- Payroll employment rose by 142,000 in August and the July gain was revised from 209,000 to 212,000.
- The national unemployment rate fell slightly from 6.2 to 6.1 percent in August.
- Initial claims for unemployment rose by 4,000 to 302,000 during the week ending August 30.
 - The four-week moving average rose from 300,000 to 302,750, consistent with an improving labor market.
- In July, payroll employment in Virginia grew by 0.8 percent from July of last year.
 - Compared to last year, employment increased 1.0 percent in Northern Virginia, 2.1 percent in Richmond-Petersburg and 0.5 percent in Hampton Roads.
- The seasonally adjusted unemployment rate in in Virginia rose 0.1 percentage point to 5.4 percent in July and is 0.3 percentage point below July 2013.

National and State Economic Indicators

- Activity in the manufacturing sector improved in August, as the Institute of Supply Management index rose from 57.1 to 59.0, its highest level since March 2011.
- The Conference Board's index of leading indicators rose 0.9 percent in July following a 0.6 percent increase in June. This is consistent with accelerating economic growth.
- The Conference Board's index of consumer confidence rose from 90.3 to 92.4 in August, its highest reading since October 2007.
- The CPI rose 0.1 percent in July and stands 2.0 percent above July 2013.
 - Core inflation (excluding food and energy prices) also rose 0.1 percent in July, and has increased 1.9 percent from last year.
- According to RealtyTrac, U.S. foreclosure activity for July declined 16.0 percent from July 2013.
 - One in every 1,203 U.S. housing units received a foreclosure notice in July.
 - In Virginia, one in every 2,468 households received a foreclosure notice.
- The saving rate was 5.7 percent in July, up from 5.4 percent in June.
- At its July meeting, the Federal Reserve reaffirmed that the federal funds rate target was going to remain unchanged at 0.0 to 0.25 percent and it will continue winding down the quantitative easing program.

Growth in Total General Fund Revenue Collections

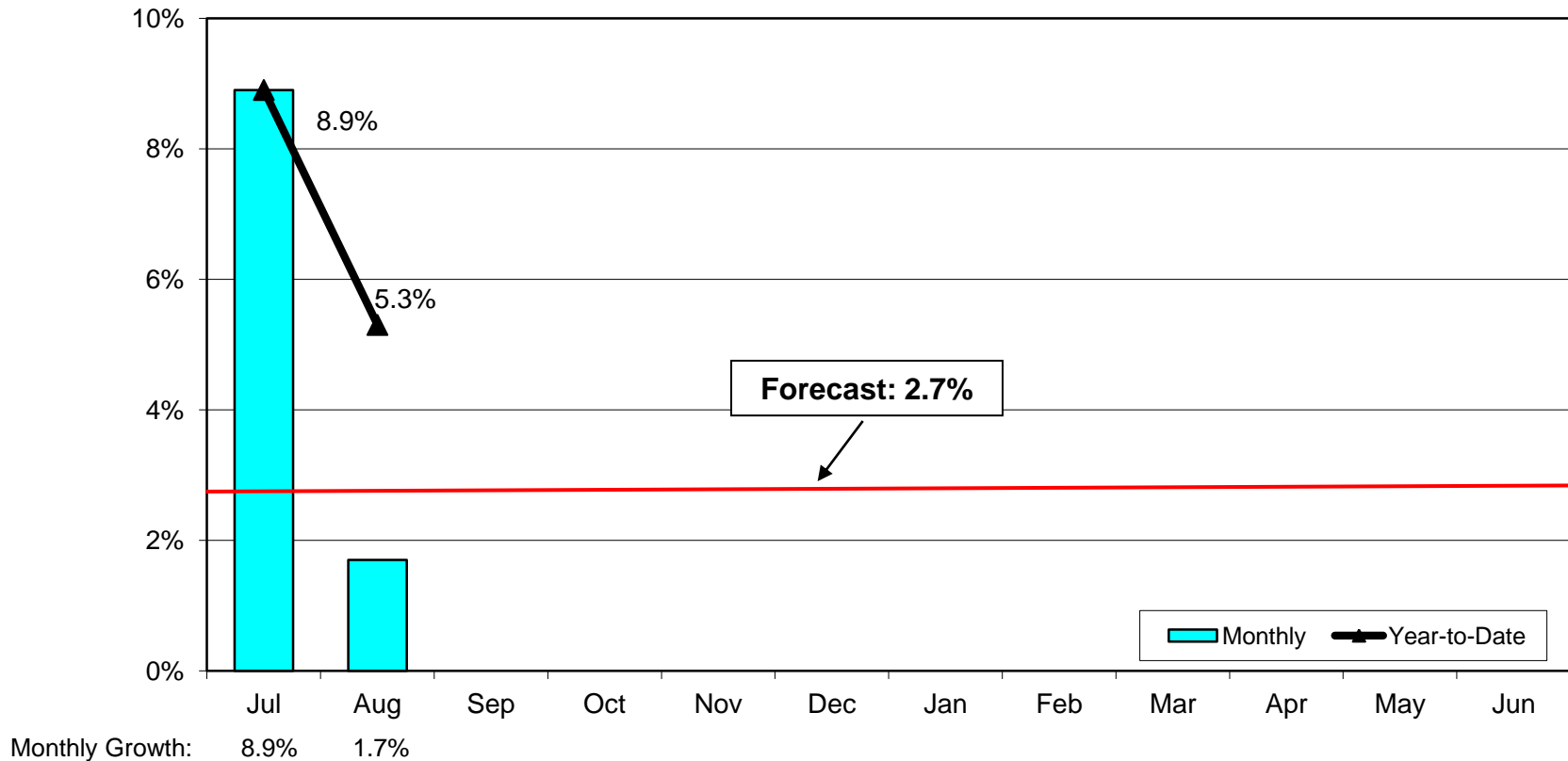
FY15 Monthly and Year-to-Date



- Total general fund revenues increased 1.7 percent in August, driven by growth in individual withholding and sales tax payments.
- On a year-to-date basis, total revenues increased 7.7 percent, ahead of the annual forecast of 2.7 percent growth.
 - Adjusting for HB2313 program, total revenues grew 7.2 percent through August, ahead of the economic-base forecast of 2.9 percent growth.

Growth in Withholding Tax Collections

FY15 Monthly and Year-to-Date



- Collections of payroll withholding taxes increased 1.7 percent in August with one less deposit day than August of 2013.
- Year-to-date, withholding collections increased 5.3 percent compared with the same period last year, ahead of the projected annual growth rate of 2.7 percent.

Individual Nonwithholding

- Collections through August were \$131.8 million compared with 85.0 million in the same period last year, increasing by 55.1 percent and ahead of the annual estimated 6.3 percent growth. However, most of the growth is due to a large amount of June certified mail being received in July of this year.

Individual Income Tax Refunds

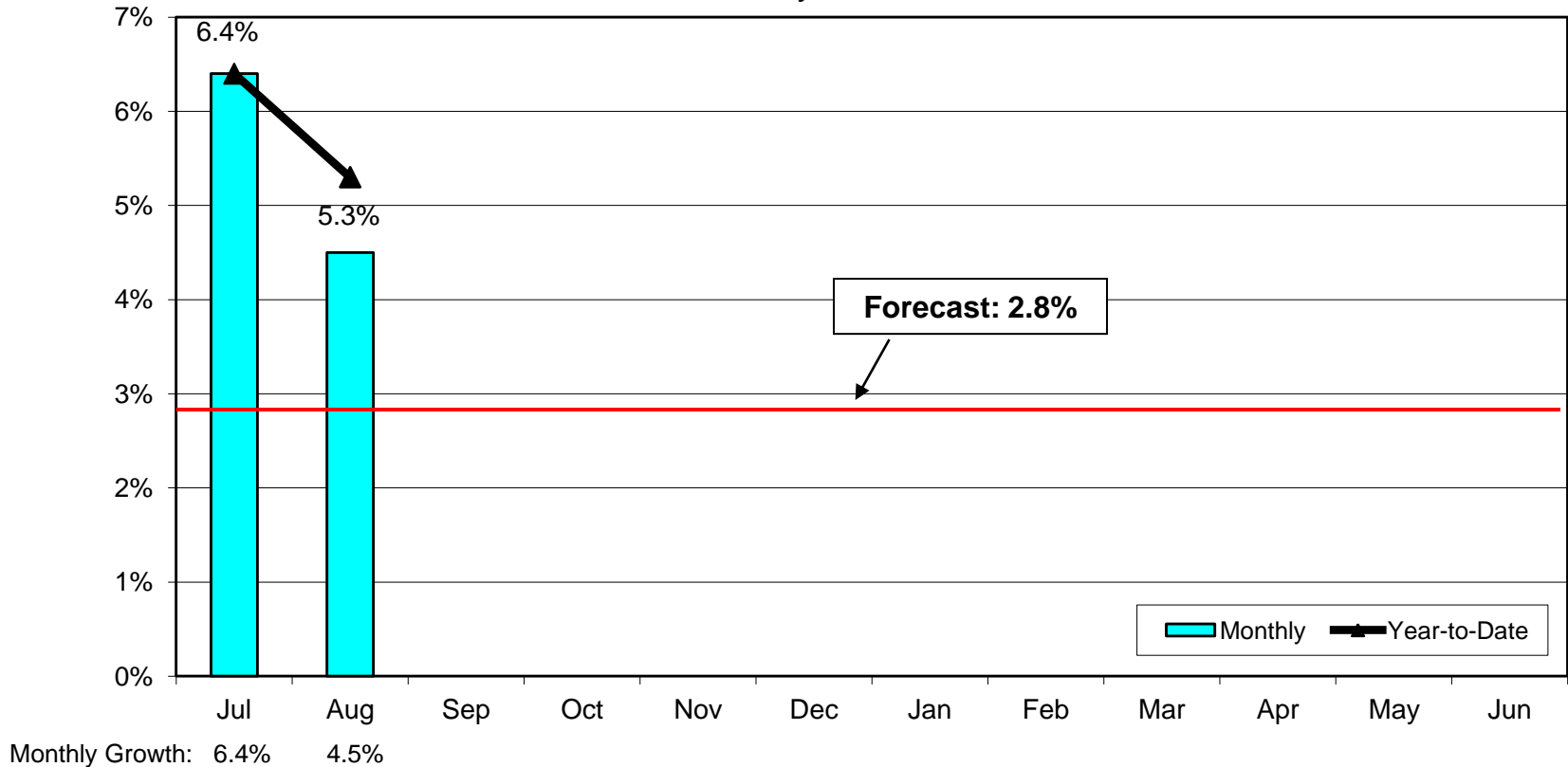
- Through August, TAX has issued \$77.9 million in individual refunds compared with \$83.6 million in the same period last year, a 6.8 percent decline and ahead of the annual estimate of 3.6 percent growth.

Net Individual Income Tax

- Through the first two months of the fiscal year, collections of net individual income tax increased 8.6 percent from the same period last year, ahead of the annual estimate of 3.4 percent growth.

Growth in Sales Tax Collections

FY15 Monthly and Year-to-Date



- Collections of sales and use taxes, reflecting July sales, increased 4.5 percent.
- On a year-to-date basis, collections increased 5.3 percent, ahead of the annual estimate of 2.8 percent growth.
 - Adjusting for AST and HB2313, sales tax collections increased 3.7 percent through August, ahead of the economic-base forecast of a 3.4 percent increase.

Net Corporate Income Tax Collections

- Through the first two months of the fiscal year, \$33.1 million has been collected in this source, compared with \$20.5 million over the same period last year. August is not typically a significant month for this source.

Recordation and Insurance Premiums Tax

Recordation

- In August, collections fell 5.7 percent compared to last year. Year-to-date collections have declined 9.2 percent compared to last year, behind the forecast of 1.2 percent growth.

Insurance

- Collections are zero as the required transfers to the Transportation Trust Fund are being completed.

Summary of Fiscal Year 2015 Revenue Collections

July through August

Percent Growth over Prior Year

<u>Major Source</u>	<u>As a % of Total Revenues</u>	<u>YTD Actual</u>	<u>Annual Estimate</u>	<u>Variance</u>
Withholding	63.9 %	5.3 %	2.7 %	2.6 %
Nonwithholding	15.9	55.1	6.3	48.8
Refunds	(10.8)	(6.8)	3.6	(10.4)
Net Individual	69.0	8.6	3.4	5.2
Sales	18.7	5.3	2.8	2.5
Corporate	4.4	61.3	(2.5)	63.8
Wills (Recordation)	1.9	(9.2)	1.2	(10.4)
Insurance	2.0	n/a	7.5	n/a
All Other Revenue	4.0	2.2	(3.9)	6.1
Total	100.0 %	7.7 %	2.7 %	5.0 %

Sales (x HB2313 & AST)	3.7 %	3.4 %	0.3 %
Total (x HB2313 & AST)	7.2 %	2.9 %	4.3 %

September is Next Significant Data Point

- Estimated payments are due from individuals, corporations and insurance companies.
 - Last data point to include in the revenue models.
 - Nonwithholding forecast will be driven by this payment and financial markets' performance.
- Sales tax for August sales will complete the summer tourism season and any adjustments from the AST program will be completed.

Next Steps

- Joint Advisory Board of Economists (JABE) – October
- Governor's Advisory Council on Revenue Estimates (GACRE) – November