Economic and Revenue Update

(Includes Post-GACRE Policy Adjustments)

A Briefing for the

Money Committees

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May 2019

Topics for Discussion

- National and State Economic Indicators
- April Year-to-Date Revenue Collections, Fiscal Year 2019
- Next Steps
- Debt Matters
- Tariffs

National and State Economic Indicators

- According to the initial estimate, real GDP grew at an annualized rate of 3.2 percent in the first quarter of 2019, following 2.2 percent in the fourth quarter.
- Payroll employment rose by 263,000 jobs in April.
  - This follows the March gain of 189,000 jobs.
- The national unemployment rate fell to 3.6 percent in April as the labor force contracted.
  - This is the lowest rate since the 1960s.
- Initial claims for unemployment fell by 2,000 to 228,000 during the week ending May 4.
  - The four-week moving average rose by 7,750 to 220,250.
- The Conference Board’s index of leading indicators rose 0.4 percent in March, following a 0.1 percent increase in February and no change in January, suggesting moderate economic growth should continue.
- The Conference Board’s index of consumer confidence rose from 124.2 to 129.2 in April. Both the expectations and current conditions components contributed to the increase.
- Conditions in the manufacturing sector weakened in April. The Institute of Supply Management index fell from 55.3 to 52.8, still consistent with continued growth.
- Total implemented US tariffs since January, 2018 are $311 billion, mostly against Chinese companies, and an additional $278 billion recently proposed. Retaliatory tariff actions taken have been $134 billion with an additional $20 billion proposed, mostly by China on US companies.
- Federal debt ceiling reached on March 2, extraordinary measures can last until early September.

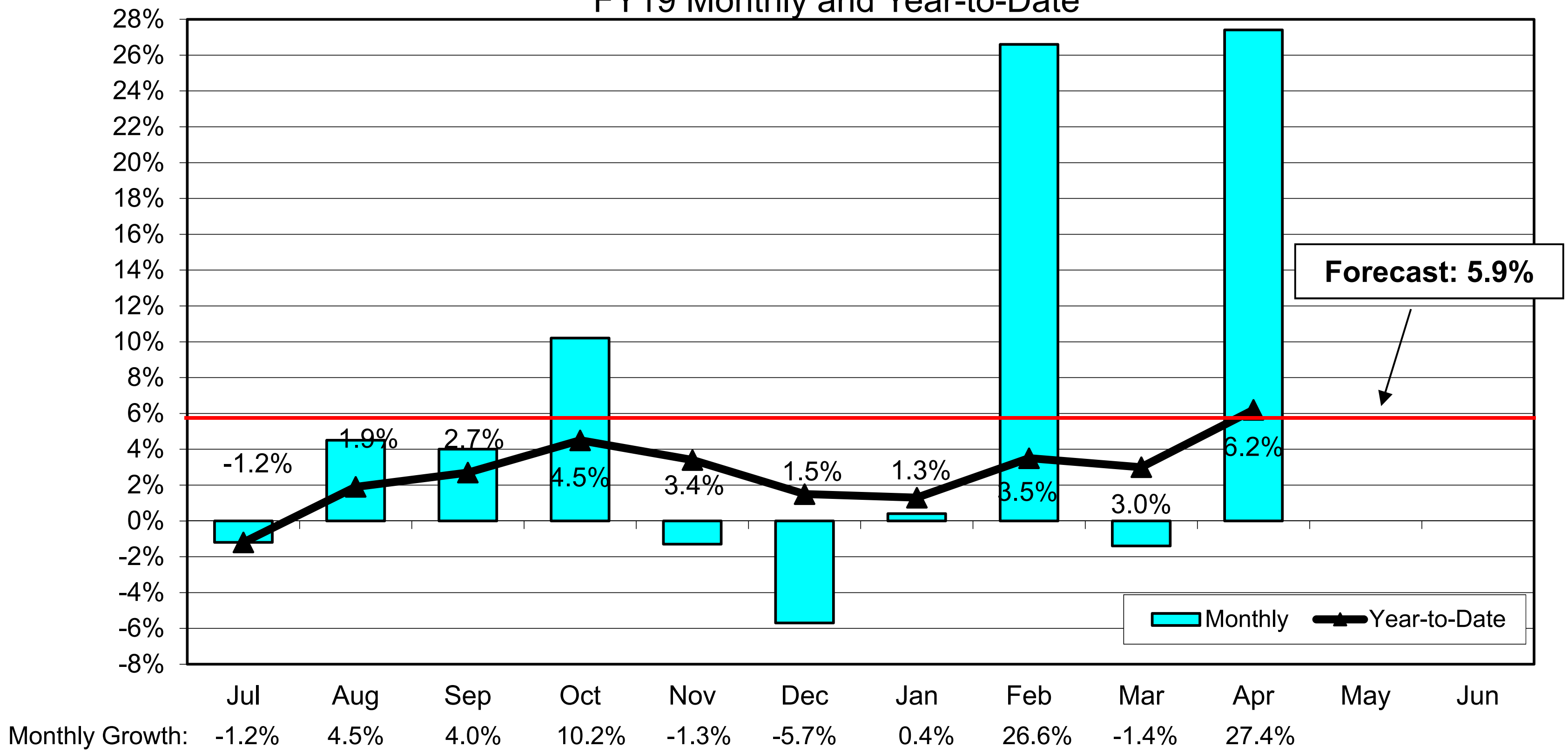
National and State Economic Indicators

- The CPI rose 0.4 percent in March following a 0.2 percent increase in February, and stands 1.9 percent above March 2018.
  - Core inflation (excluding food and energy prices) rose by 0.1 percent, and has increased 2.0 percent from last year.
- At its May meeting, the Federal Reserve left the federal funds target rate unchanged at 2.25 to 2.5 percent.
- In Virginia, payroll employment rose 0.9 percent in March compared with last year. Northern Virginia posted growth of 1.8 percent; Hampton Roads employment was unchanged; and Richmond-Petersburg rose 0.6 percent.
- The seasonally adjusted unemployment rate was unchanged at 2.9 percent in March, but remains 0.3 percent below last March.
- The Virginia Leading Index rose 0.1 percent in March after rising 0.6 percent in February.
  - The U.S. Leading Index and future employment improved in March, while auto registrations declined and initial claims increased.
  - The indexes for Roanoke, Richmond, Northern Virginia, Hampton Roads, and Harrisonburg increased in March while the indexes for Lynchburg, Charlottesville, and Blacksburg decreased. The Bristol, Winchester, and Staunton indexes were little changed.

Growth in Total General Fund Revenue Collections

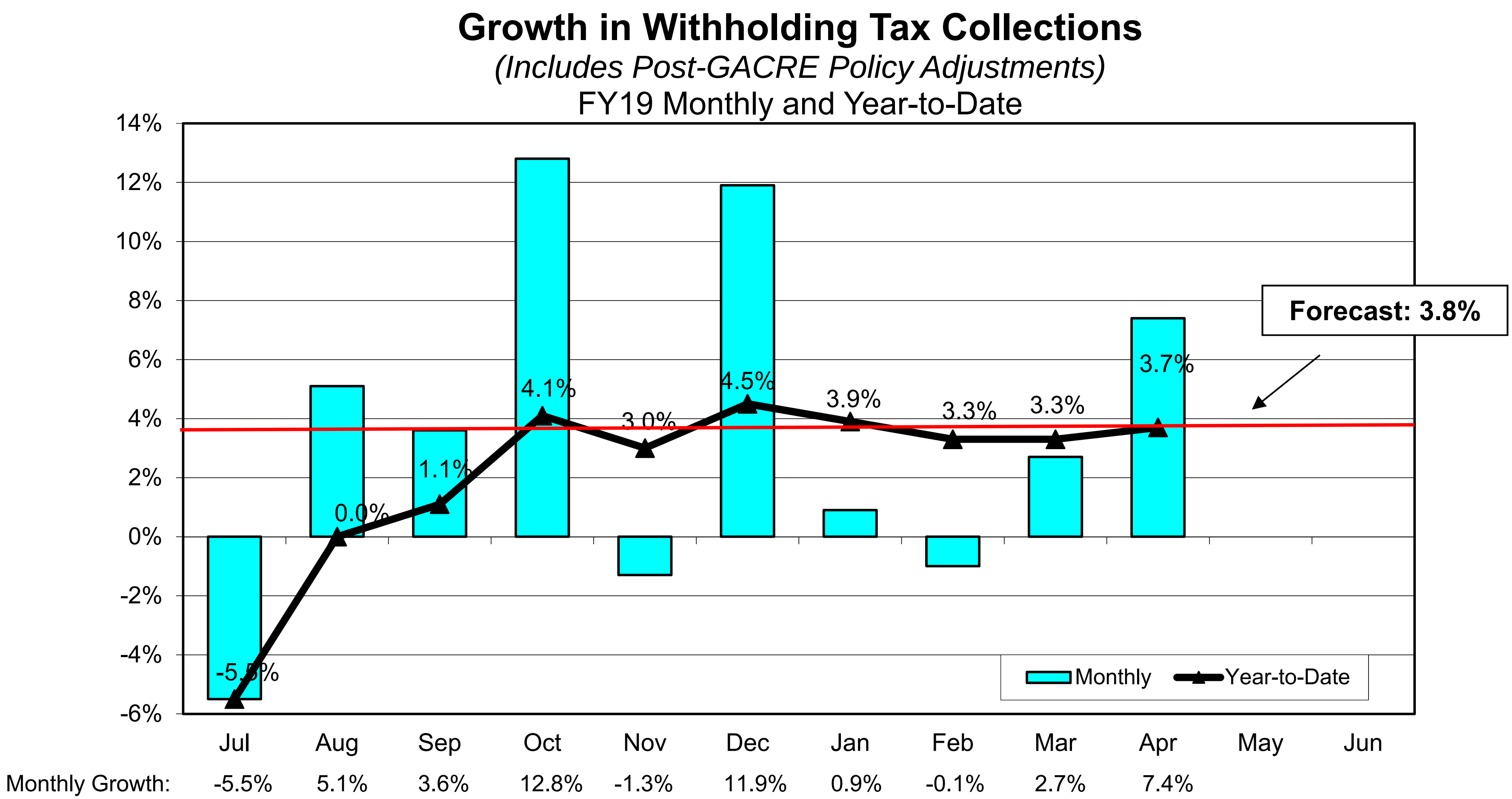
(Includes Post-GACRE Policy Adjustments)

FY19 Monthly and Year-to-Date



- Total general fund revenues increased 27.4 percent in April.
  - Most of the increase is due to individual nonwithholding payments received ahead of the May 1 filing date.
- On a year-to-date basis, total revenues increased 6.2 percent, ahead of the annual forecast of a 5.9 percent increase.

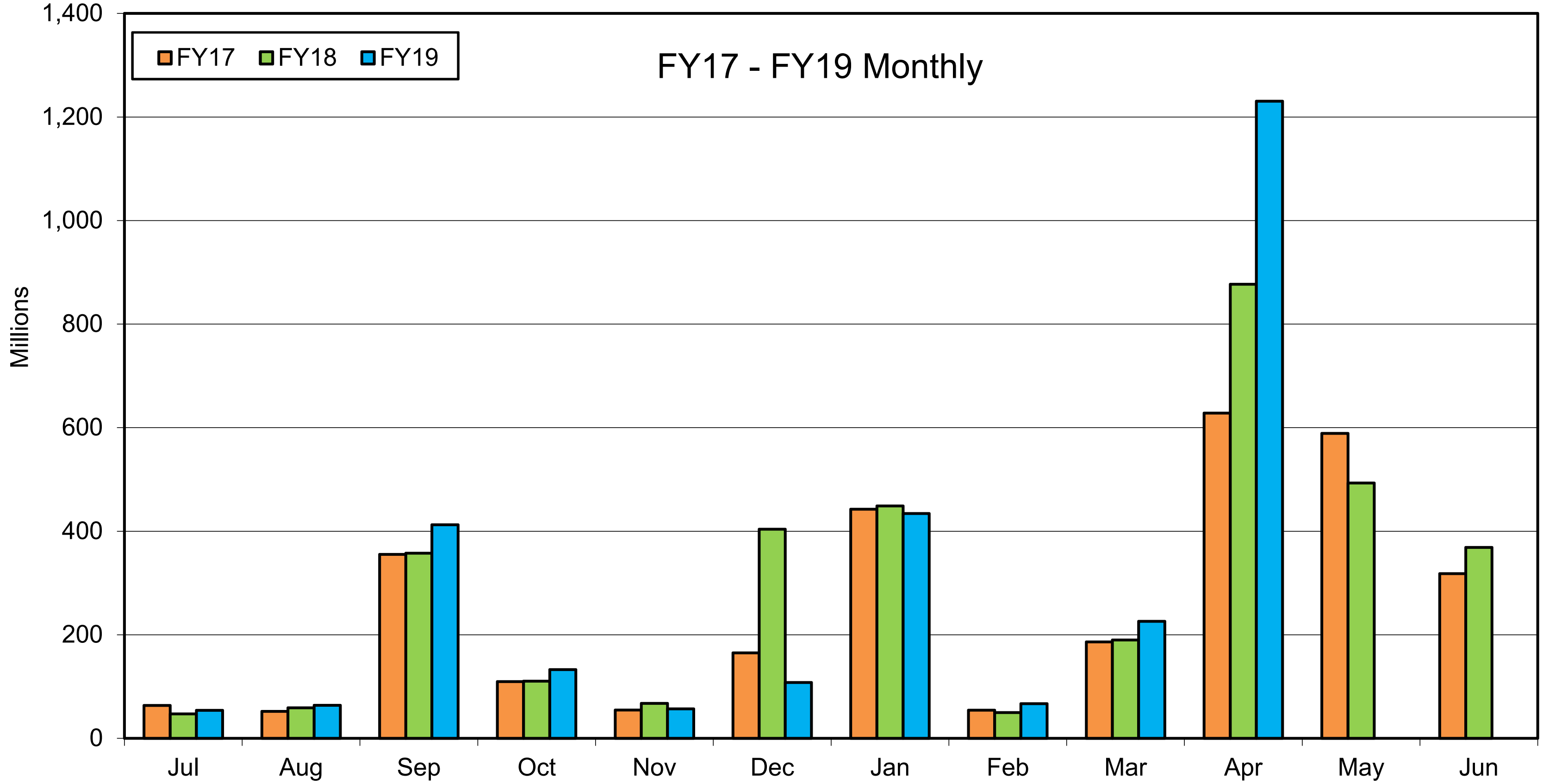
Note: Post-GACRE Policy Adjustments include Chainbridge revenue estimates (temporary and permanent provisions).



- Collections increased 7.4 percent in April.
  - This was an expected result given one additional deposit day – which made up for one less deposit day in March.
- Year-to-date, withholding collections have increased 3.7 percent compared with the same period last year, behind the projected annual growth of 3.8 percent.
- Virginia unemployment rate of 2.8 percent is well below US 3.6 percent.
- Virginia wages and salaries grew at 3.8 percent in calendar year 2018.

Nonwithholding Tax Collections

(Includes Post-GACRE Policy Adjustments)



- To date, roughly 70 percent of the nonwithholding forecast has been collected, and collections increased 6.7 percent from the same period last year, behind the annual estimate of 15.2 percent growth.
  - April's $1.2 billion in receipts includes payments due to the *Tax Cuts and Jobs Act*.
  - The average check size for May and June needs to increase by about 26 percent.
    - Through the first half of May, the average check size is up 37 percent.

- May receipts will mainly be final payments for tax year 2018 and continues to be a <u>significant unknown positive affecting the revenue forecast</u>.

Individual Income Tax Refunds

(Includes Post-GACRE Policy Adjustments)

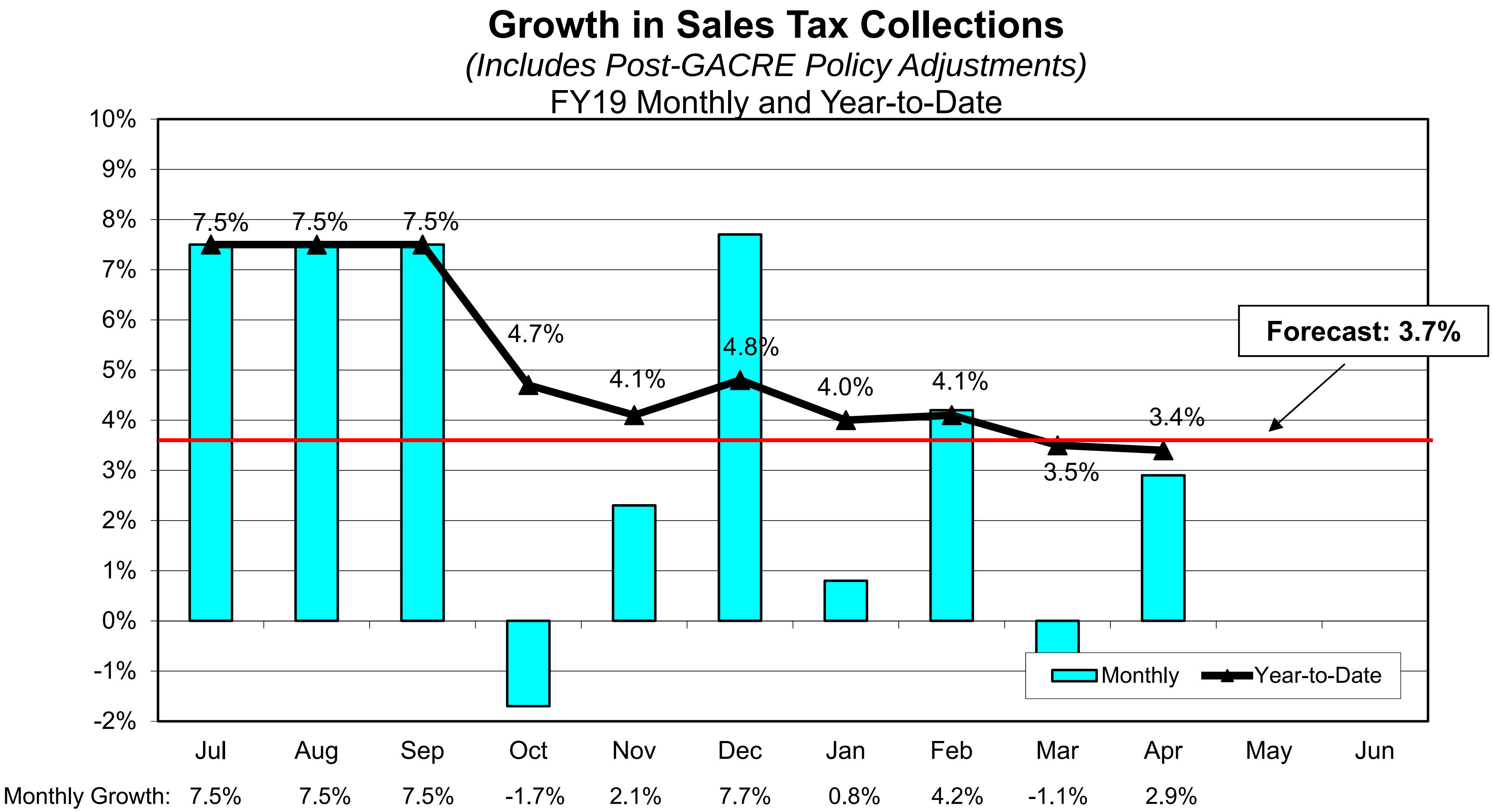
- As the main filing season continues, $454.3 million in refunds were issued in April compared with $499.8 million last April.

- Year-to-date, refunds decreased 10.0 percent from the same period last year, as compared to the estimate of a 3.3 percent increase.
  - Since the filing season began in February, TAX has issued 2.2 million refunds, about 130,000 fewer than through April of last year.
  - Part of the decline in refunds is due to the *Tax Cuts and Jobs Act* effects on Virginians.

Net Individual Income Tax

(Includes Post-GACRE Policy Adjustments)

- Through April, collections of net individual income tax rose 6.4 percent from the same period last year, behind the annual estimate of 6.7 percent growth.



- Collections of sales and use taxes, reflecting mainly March sales, increased 2.9 percent in April.
- On a year-to-date basis, collections increased 3.4 percent, behind the annual estimate of 3.7 percent growth.
  - Sales tax dealers payments have increased 1.9 percent
  - Use tax dealers (includes internet sellers) payments have increased 13.6 percent
  - Includes a large prior year refund issued last month

Net Corporate Income Tax Collections

(Includes Post-GACRE Policy Adjustments)

- Collections of corporate income tax were $272.3 million in April, compared with $181.0 million last April.
  - Most of the activity in April is from companies making final tax year 2018 payments.
  - Part of the increase is due to the *Tax Cuts and Jobs Act*, it will not be until after the returns have been processed that any analysis can be done.
    - Assumed revenue gain of $163.9 million in FY19.

- On a year-to-date basis, collections in this source have increased 13.8 percent, ahead of the estimate of 5.6 percent growth.

Recordation Tax Collections

(Includes Post-GACRE Policy Adjustments)

- Collections of wills, suits, deeds, and contracts – mainly recordation tax collections – increased 1.9 percent in April.
  - On a year-to-date basis, collections are down 3.9 percent as compared to the annual forecast of a 6.7 percent decline.

Insurance Premiums Tax

(Includes Post-GACRE Policy Adjustments)

- Insurance companies made their first estimated payment for tax year 2019 in April. Collections in this source were $136.6 million compared with $128.5 million in April of last year.
  - Estimated payments are due in June.

- For the fiscal year to-date, net insurance premiums tax collections are $247.9 million compared with $212.2 million during the same period last year.

Summary of Fiscal Year 2019 Revenue Collections

(Includes Post-GACRE Policy Adjustments)

July through April

Percent Growth over Prior Year

Major Source	As a % of Total Revenues	YTD Actual	Annual Estimate	Variance	May-Jun Req'd to Meet Est.	Prior Year May-Jun
Withholding	61.8 %	3.7 %	3.8 %	(0.1) %	4.3 %	10.5 %
Nonwithholding	19.0	6.7	15.2	(8.5)	41.0	(5.0)
Refunds	(9.4)	(10.0)	3.3	(13.3)	94.0	(7.6)
Net Individual	71.5	6.4	6.7	(0.3)	7.8	6.9
Sales	17.1	3.4	3.7	(0.3)	4.7	2.9
Corporate	4.3	13.8	5.6	8.2	(23.4)	(5.3)
Wills (Recordation)	1.8	(3.9)	(6.7)	2.8	(18.0)	2.0
Insurance	1.9	16.8	17.0	(0.2)	17.2	6.9
All Other Revenue	3.5	10.1	3.0	7.1	(12.2)	0.1
Total	**100.0 %**	**6.2 %**	**5.9 %**	**0.3 %**	**4.5 %**	**5.0 %**
Total less Nonwithholding	**81.0 %**	**6.2 %**	**3.9 %**	**2.3 %**	**(4.9) %**	**8.0 %**

- To attain the Chapter 854 enacted budget and fully fund the *Taxpayer Relief Fund* of $450 million, total fiscal year revenue growth needs to be 5.5 percent.

Next Significant Data Points

- **MAY**
  - Key payments from individual nonwithholding will be received.
  - Continue to monitor tax refunds.

- **JUNE**
  - Individual, corporate, and insurance companies have estimated payments due June 15.
  - Continue to monitor tax refunds.

Debt Matters

- March 1 marked the end of the debt ceiling suspension with the federal debt at $22 trillion.
  - The U.S. Treasury estimates it will run out of money in September 2019. *(CBO via Washington Post)*

- In June 2018, the Congressional Budget Office estimated federal debt held by the public will rise from 78 percent of GDP at the end of this year to 96 percent in 2028. That would mark the highest percentage since 1946.

- Americans owe over $1.5 trillion in student debt with about 45 million borrowers, about $521 billion more than total U.S. credit card debt. The average student in the class of 2016 has $37,172 in student loan debt. *(Make Lemonade via Forbes, and Student Loan Hero)*

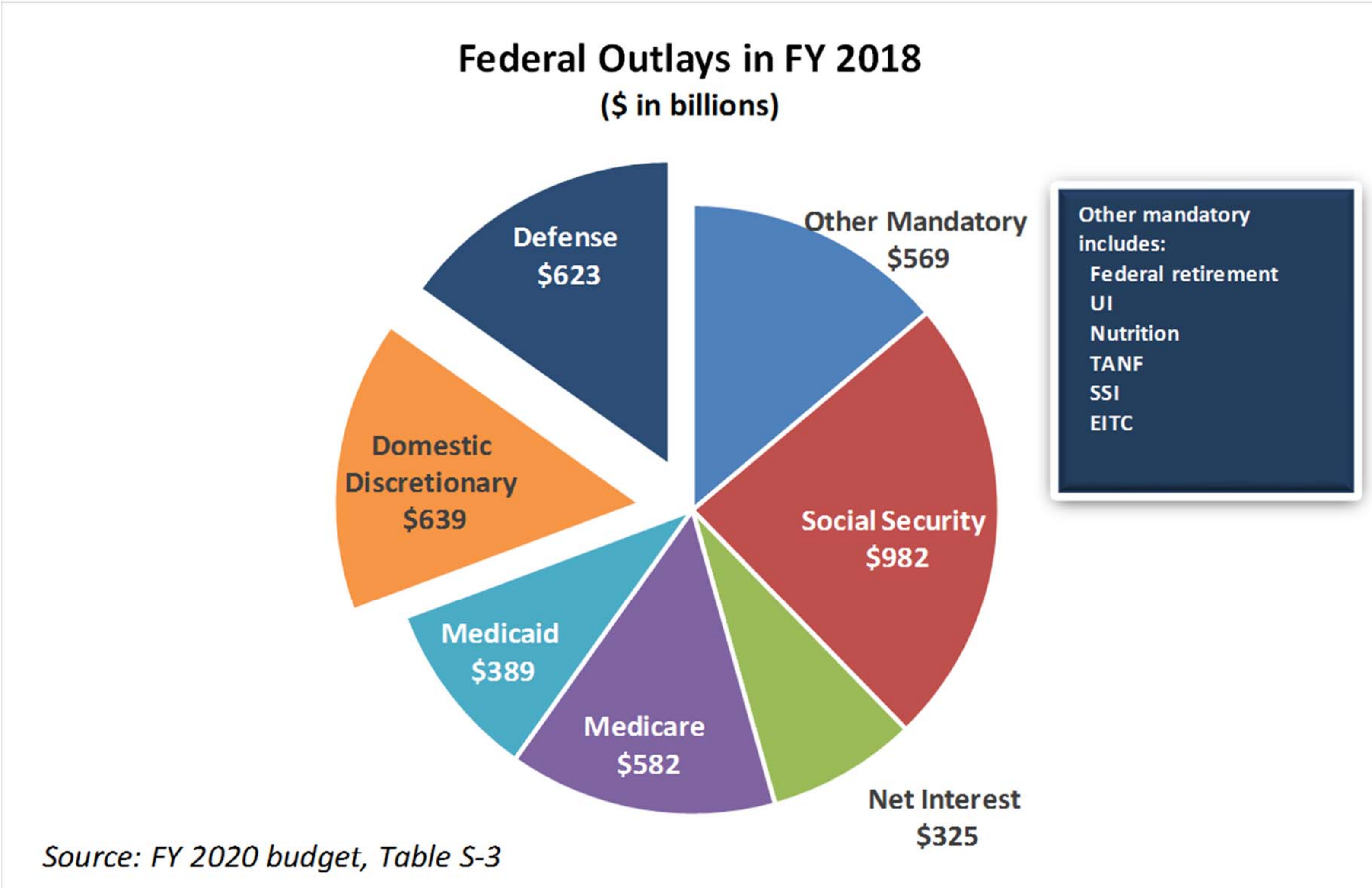
- Total credit card debt has reached its highest point ever, surpassing $1 trillion in 2017. *(Federal Reserve via cnbc.com)* The average American has a credit card balance of $6,375, up 3 percent from last year.

Debt Matters

- Companies are carrying a $9 trillion debt load. Corporate debt has swelled from nearly $4.9 trillion in 2007 as the Great Recession was just starting to break out, increasing 86 percent. *(Securities Industry and Financial Markets Association via cnbc.com)*

- U.S. corporate debt has climbed to roughly 46 percent of GDP, the highest on record. *(Federal Reserve and Commerce Department, via WSJ)*

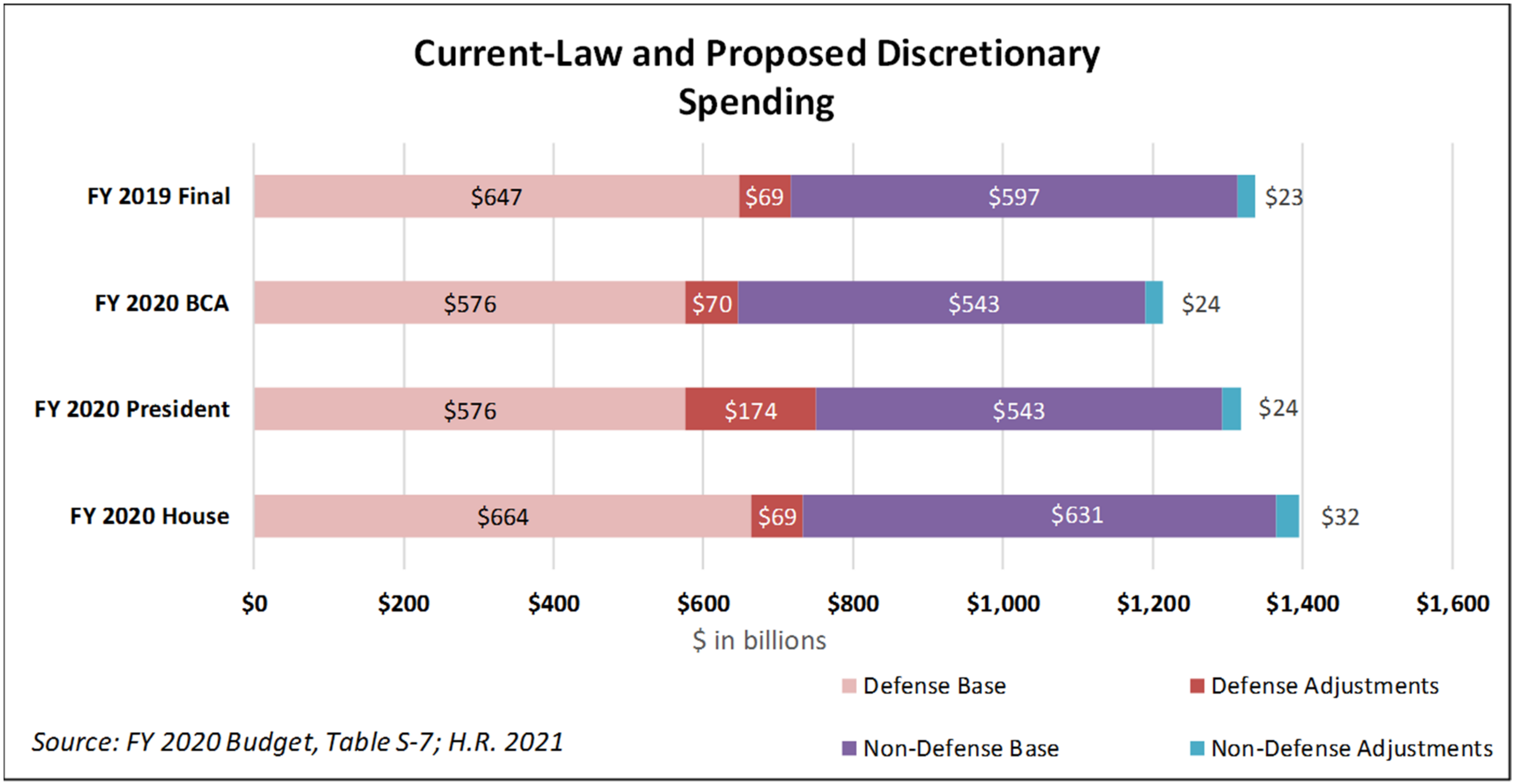
Debt Matters



Debt Matters

- Raised discretionary caps in FY 18 and FY 19
- “Side agreement” extra funding
- Extended mandatory sequestration
- Disaster relief
- Suspended debt limit until March 2019

Debt Matters



Debt Matters

FY 2020 Appropriations

- New budget agreement?
- Tied to debt limit?
- Tied to everything!

And?

- Lots of activity
- Little action
- Everything linked to the election cycle

Risks to States

- Budget deficit re-emerges as a political hot potato
- Federal shutdowns are no longer unthinkable

Federal Government is not in a position to bail out states in the next economic downturn.

Tariffs

Possible Outcomes	Impact on Virginia
• Product Substitution	- Port of Virginia import / export volumes
• Market Slow-Down	- Port of Virginia import / export volumes - State revenue decline
• Financial Market Decline	- VRS investment earnings