



COMMONWEALTH of VIRGINIA

September 14, 2012

PO Box 1475
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MEMORANDUM

TO: The Honorable Robert F. McDonnell

THROUGH: The Honorable Martin Kent

FROM: Richard D. Brown *Richard D. Brown*

SUBJECT: August Revenue Data

August is not a significant month for revenue collections, with collections mainly from withholding payments, sales taxes, and other sources that have regular monthly payments.

Total general fund revenue collections rose 6.6 percent in August, driven by solid growth in individual withholding, sales, corporate, and recordation tax receipts. On a year-to-date basis, total revenue collections rose 2.7 percent through the first two months of the fiscal year, close to the annual forecast of 2.9 percent growth. Adjusting for the accelerated sales tax program, total revenues grew 1.1 percent through August, trailing the adjusted forecast of 2.7 percent growth.

National Economic Indicators

Current national indicators suggest the modest economic expansion is slowing.

- According to the second estimate, real GDP grew at an annualized rate of 1.7 percent in the second quarter of 2012, slowing from 2.0 percent in the first quarter and 4.1 percent in the fourth quarter of 2011.
- Labor market growth again slowed in August, as employers added only 96,000 jobs. In addition, figures for June and July were revised down by a combined 41,000 jobs. In a separate report, the unemployment rate fell from 8.3 percent to 8.1 percent in August; however, this was mainly due to a contraction in the labor force. About 368,000 persons dropped out of the labor force.

- Initial claims for unemployment fell by 12,000 to 365,000 during the week ending September 1. The four-week moving average increased slightly to 371,250. Over the last few months, claims have been rising and falling, reflecting the uneven recovery in the labor market.
- The Conference Board's index of leading indicators rose 0.4 percent in July, the fourth increase in the last six months. Lower jobless claims and improving building permits contributed the most to the increase. The recent behavior of the index is consistent with a slow recovery.
- The Conference Board's index of consumer confidence unexpectedly fell from 65.4 to 60.6 in August. The expectations component led the decline as the present situation component remained essentially unchanged. This very low level suggests consumer spending is not likely to accelerate.
- Activity in the manufacturing sector slowed in August. The Institute of Supply Management index fell from 49.8 to 49.6, marking the third consecutive month below the expansionary threshold of 50.0.
- Inflation remains low. The CPI was unchanged in both June and July, and stands 1.4 percent above July 2011. Core inflation (excluding food and energy prices) rose 0.1 percent in July, and has increased 2.1 percent from July 2011.
- The Federal Reserve announced at its August meeting that it will keep the federal funds target rate at 0.0 to 0.25 percent.

Virginia Economy

In Virginia, employment rose 1.8 percent in July from July of last year. (Employment growth for July 2012 was overstated due to a Bureau of Labor Statistics procedural change in accounting for school closings in the reporting sample.) Northern Virginia posted growth of 2.4 percent; Hampton Roads grew 0.9 percent; and Richmond-Petersburg rose 1.1 percent. The unemployment rate in the Commonwealth was unchanged at 6.0 percent in July and was 0.4 percentage point below the July 2011 rate.

The Virginia Leading Index rose 0.3 percent in July after falling 0.6 percent in June. All components except initial claims contributed to the increase. The Leading Index rose in ten of the 11 major metro areas in the Commonwealth in July, while the index for Winchester fell.

August Revenue Collections

Total general fund revenue collections rose 6.6 percent in August, driven by solid growth in individual withholding, sales, corporate, and recordation tax receipts. On a year-to-date basis, total revenue collections rose 2.7 percent through the first two months of the fiscal year, close to the annual forecast of 2.9 percent growth.

Net Individual Income Tax (67% of general fund revenues): Through August, collections of net individual income tax fell 1.3 percent from the same period last year, trailing the annual estimate of 2.8 percent growth. Performance in each component of individual income tax is as follows:

Individual Income Tax Withholding (64% of general fund revenues): Collections of payroll withholding taxes rose 4.3 percent in August. Year-to-date, withholding collections fell 1.3 percent compared with the same period last year, trailing the projected annual growth rate of 3.5 percent. The decline is largely due to timing issues. Specifically, July collections started one day later this year as fiscal year 2012 ended on Monday, July 2.

Individual Income Tax Nonwithholding (15% of general fund revenues): August is not a significant month for collections in this source since the first estimated payment for fiscal year 2012 is due in September.

Through the first two months of the fiscal year, collections were \$80.4 million compared with \$79.7 million in the same period last year.

Individual Income Tax Refunds: Through August, TAX has issued \$72.6 million in refunds compared with \$71.2 million last year. Year to date, refunds have risen 2.0 percent, lagging the annual estimate of 7.8 percent growth.

Sales Tax (20% of general fund revenues): Collections of sales and use taxes, reflecting July sales, rose 12.3 percent in August. On a year-to-date basis, collections have risen 14.9 percent, compared with the annual estimate of 2.8 percent growth. The strong year-to-date growth is due to the partial repeal of the accelerated sales tax program, which ended the participation of numerous small dealers. Adjusting for this legislation, sales tax collections have grown by 4.5 percent year-to-date, ahead of the economic-base forecast of 1.7 percent growth.

Corporate Income Tax (5% of general fund revenues): As with nonwithholding, August is typically not a significant month in corporate income tax collections since the first estimated payment for the fiscal year is due in September. Through August, collections in this source were \$10.8 million above August of last year.

Wills, Suits, Deeds, Contracts (2% of general fund revenues): Collections of wills, suits, deeds, and contracts – mainly recordation tax collections – were \$32.0 million in August, compared with \$28.0 million in August of last year, a 14.3 percent increase. This was the seventh consecutive month of double digit growth in this source. On a year-to-date basis, collections are up 22.0 percent, ahead of the annual forecast of 0.3 percent growth.

Other Revenue Sources

The following list provides data on August collections for other revenue sources:

	<u>Year-to-Date</u>	<u>Annual Estimate</u>
Insurance Premiums Tax (2% GF revenues)	NA	16.1%
Interest Income (0.5% GF revenues)	9.7%	0.3%
ABC Taxes (1% GF revenues)	18.3%	-0.8%

Note: Monthly collections of insurance company premiums are being transferred to the Transportation Trust Fund per Chapter 896, 2007 Acts of the Assembly until the required amount of \$130.1 million has been deposited.

All Other Revenue (3% of general fund revenues): Receipts in All Other Revenue fell 16.3 percent in August – \$28.0 million compared with \$33.5 million last year. On a year-to-date basis, collections of All Other Revenue fell 6.1 percent, trailing the annual estimate of 3.7 percent growth.

Summary

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September collections will complete the first quarter of fiscal year 2012 and provide a clearer assessment of revenue growth. The first estimated payments from individuals, corporations, and insurance companies are due in September.