



COMMONWEALTH of VIRGINIA
Office of the Governor

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MEMORANDUM

TO: The Honorable Robert F. McDonnell

THROUGH: The Honorable Martin Kent

FROM: Richard D. Brown 

SUBJECT: October Revenue Data

October is typically not a significant month for revenue collections. Normal monthly collections are due in withholding, sales, and most minor sources. Estimated payments are also filed in October for corporations, mainly retailers, that use a February through January fiscal year.

Total general fund revenue collections rose 3.1 percent in October, driven primarily by growth in individual withholding payments. Solid growth in individual nonwithholding and sales tax collections also contributed to the increase. On a year-to-date basis, total revenue collections rose 5.8 percent through October, ahead of the revised annual forecast of 3.7 percent growth. Adjusting for the accelerated sales tax program, total revenues grew 5.0 percent through October, ahead of the adjusted forecast of 3.5 percent growth.

National Economic Indicators

Current national economic indicators suggest the modest expansion should continue, although the recovery remains vulnerable to any shock. Recent developments are generally positive, with the notable exception of the continued erosion of consumer confidence.

- According to the advance estimate, real GDP grew 2.5 percent at an annualized rate in the third quarter of 2011, a significant improvement over growth of 0.4 percent in the first quarter and 1.3 percent in the second quarter. The economy has expanded for nine

consecutive quarters, and third quarter real GDP exceeded its prerecession peak in the fourth quarter of 2007.

- Labor market activity remained sluggish in October. Payroll employment gained only 80,000 jobs, although August and September gains were revised up by a total of 102,000 jobs. Employment in professional and business services, leisure and hospitality, and health care continued to grow, while government employment continued its downward trend.
- The economy is not creating enough jobs to bring the unemployment rate down. In October, the unemployment rate fell only 0.1 percentage point to 9.0 percent.
- Initial claims for unemployment fell by 9,000 to 397,000 during the week ending October 29, while the four-week moving average fell from 407,000 to 405,000. The drop below the 400,000 threshold is a significant improvement, and is the lowest level of initial claims since late September.
- The Conference Board's index of leading indicators rose 0.2 percent in September, its fifth consecutive monthly increase. Five of the ten components of the index rose in September, with an increase in the interest rate spread driving the gain. The rise in the index is consistent with a continuing recovery.
- The Conference Board's index of consumer confidence plunged again in October, falling 6.6 points to 39.8, comparable to levels seen in the midst of the recession. Both the expectations and present situation components declined in October. The index has dropped nearly 20 points in the last three months and 32 points from its peak in February.
- Conditions in the manufacturing sector weakened in October as the Institute of Supply Management index fell from 51.6 to 50.8. Although it has remained above the expansionary threshold of 50.0 for twenty-seven consecutive months, the index has been on a downward trend.
- The CPI rose 0.3 percent in September from the previous month and stands 3.9 percent above September of last year. Core inflation (excluding food and energy prices) rose 0.1 percent in September, and has increased 2.0 percent from September 2010.
- The Federal Reserve announced at its November meeting that it will keep the federal funds rate target unchanged at 0.0 to 0.25 percent.

Virginia Economy

In Virginia, job growth has slowed significantly from its modest pace earlier in the year. Payroll employment rose 0.2 percent in September from September of last year. In Northern Virginia, employment was flat, Hampton Roads fell 0.7 percent, and Richmond-Petersburg fell 1.3 percent in September. The unemployment rate in the Commonwealth fell from 6.5 percent to 6.4 percent, and is 0.1 percentage point below September 2010.

The Virginia Leading Index fell 0.2 percent in September, following a 0.3 percent decline in August. The U.S. leading index and building permits increased in September and initial claims for unemployment fell. Future employment and auto registrations declined. The Leading Index rose in September for eight of the eleven major metro areas. The index fell in Richmond, Hampton Roads, and Bristol.

October Revenue Collections

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Net Individual Income Tax (66% of general fund revenues): Through October, collections of net individual income tax rose 6.6 percent from the same period last year, ahead of the annual estimate of 3.9 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 5.3 percent in October. Year-to-date, withholding collections grew 4.3 percent compared with the same period last year, ahead of the projected annual growth rate of 3.4 percent.

Individual Income Tax Nonwithholding (14% of general fund revenues): October is typically not a significant month for nonwithholding collections. Year-to-date collections through October were \$410.9 million compared with \$352.9 million over the same period last year, an increase of 16.5 percent and well ahead of the annual estimate of 2.1 percent growth.

Individual Income Tax Refunds: Through October, TAX issued \$163.5 million in refunds compared with \$184.1 million last year, an 11.2 percent decline, compared with the revised annual estimate of a 0.9 percent decline.

Sales Tax (20% of general fund revenues): Collections of sales and use taxes, reflecting September sales, rose 2.9 percent in October. On a year-to-date basis, collections have risen 6.0 percent, compared with the annual estimate of 3.4 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 2.1 percent year-to-date, lagging the economic-base forecast of 2.5 percent.

Corporate Income Tax (5% of general fund revenues): October collections in this source include estimated payments from corporations with a February through January fiscal year, including many retailers. Collections of corporate income tax fell in October, as a large amount

of corporate refunds were issued. Year-to-date collections have fallen 3.7 percent, lagging the annual estimate of a 1.1 percent increase.

Wills, Suits, Deeds, Contracts (2% of general fund revenues): Collections of wills, suits, deeds, and contracts – mainly recordation tax collections – rose 0.9 percent in October. On a year-to-date basis, collections are up 3.4 percent, close to the annual forecast of 3.3 percent growth.

Other Revenue Sources

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

	<u>Year-to-Date</u>	<u>Annual Estimate</u>
Insurance Premiums (2% GF revenues)*	NA	2.9%
Interest Income (1% GF revenues)**	6.8%	27.7%
ABC Taxes (1% GF revenues)	5.8%	0.9%

** 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 \$137.3 million has been reached.*

***Interest was allocated in accordance with Section 3-3.03 of Chapter 890, 2011 Virginia Acts of Assembly.*

All Other Revenue (3% of general fund revenues): Receipts in All Other Revenue grew 14.6 percent in October – \$28.6 million compared with \$25.0 million last October. For the fiscal year, collections of All Other Revenue grew 2.9 percent, trailing the annual estimate of 3.5 percent growth.

Summary

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The Joint Advisory Board of Economists (JABE) met in October to discuss the economic outlook for the current and next biennium. A meeting of the Governor's Advisory Council on Revenue Estimates (GACRE) will evaluate both the JABE recommendations and revenue collections through October. GACRE recommendations will be incorporated into the general fund revenue forecast to be released on December 19, 2011.