



COMMONWEALTH of VIRGINIA

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MEMORANDUM

TO: The Honorable Ralph S. Northam

THROUGH: The Honorable Clark Mercer

FROM: Aubrey L. Layne, Jr.

SUBJECT: October Revenue Report

October is not a significant month for revenue collections. Regular monthly collections are due in withholding, sales taxes, and most minor sources. Individual income tax extension return processing begins in October as they are due November 1.

As expected, total general fund revenues fell 2.7 percent in October due to an anticipated decline in payroll withholding. That decline was offset by solid growth in sales and recordation tax collections. On a fiscal year-to-date basis, total revenue collections rose 6.7 percent through October, well ahead of the annual forecast of a 1.8 percent decline.

National Economic Indicators

The March-April recession was the shortest but the most severe on record. This retraction was followed by a record-breaking gain in the third quarter. Most economists believe after this initial increase in activity, growth is expected to be weak in the near term amid fears of lingering effects and a second wave of COVID-19 closings.

- According to the preliminary estimate, real GDP rose an annualized rate of 33.1 percent in the third quarter of 2020, the largest gain on record and reversing about 75 percent of the second quarter decline. Prior to this, the largest gain in real GDP was 16.7 percent in the first quarter of 1950.
- The labor market continued its recovery in October. Payroll employment increased by 638,000 jobs in October, following gains of 672,000 in September and 1.5 million in

August. In a separate report, the unemployment rate fell from 7.9 percent to 6.9 percent, mostly due to a large gain in employment.

- Initial claims for unemployment fell by 7,000 to 751,000 during the week ending October 31, suggesting labor market conditions are improving, albeit slowly. Despite the ongoing decline in initial claims, the level has remained higher than any point prior to the pandemic for 32 consecutive weeks.
- The Conference Board's index of leading indicators rose 0.7 percent in September to 107.2 following increases of 1.4 percent in August and 2.0 percent in July. Although this was the fifth consecutive increase in the index, the decelerating pace suggests the recovery is slowing.
- The Conference Board's index of consumer confidence fell from 101.3 to 100.9 in October. The current conditions component improved for the month, while the expectations component fell. The index remains below pre-recession levels.
- The Institute of Supply Management index rose from 55.4 to 59.3 in October, above consensus expectations. The index has remained above the neutral threshold of 50.0 every month since June.
- The CPI rose 0.2 percent in September following a 0.4 percent increase in August. The index stands 1.4 percent above September 2019. Core inflation (excluding food and energy prices) also rose 0.2 percent and stands 1.7 percent above a year ago.
- At its November meeting, the Federal Reserve left the federal funds target rate unchanged at the range of 0.0 to 0.25 percent.

Virginia Economy

In Virginia, payroll employment fell 5.1 percent in September from September of last year. Employment in Northern Virginia fell by 4.7 percent; Hampton Roads fell 4.9 percent; and Richmond-Petersburg fell 5.0 percent. The seasonally adjusted unemployment rate increased 0.1 percentage point to 6.2 percent and stands 3.5 percentage points above a year ago.

The Virginia Leading Index rose 2.2 percent in September after rising 1.6 percent in August. All four components, the U.S. Leading index, future employment, auto sales, and initial claims for unemployment improved in September. The index for all eleven metro areas increased for the month.

October Revenue Collections

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Net Individual Income Tax (72% of general fund revenues): Through October, collections of net individual income tax rose 4.6 percent from the same period last year, ahead of the annual estimate of 0.6 percent growth. Performance in each component of individual income tax is as follows:

Individual Income Tax Withholding (64% of general fund revenues): With one less deposit day than October of last year, collections of payroll withholding taxes fell 4.6 percent for the month, after increasing 11.4 percent in September. Year-to-date, collections have risen 0.4 percent from the same period last year, trailing the annual estimate of 2.4 percent growth.

Individual Income Tax Nonwithholding (17% of general fund revenues): October is not typically a significant month for collections in this source. Collections of \$149.1 million were below the \$182.9 million collected in October of last year. Year-to-date, collections were \$1.1 billion compared with \$800.5 million in the same period last year, growing by 41.3 percent and well ahead of the annual estimate of a 3.6 percent decline. Most of the growth is attributable to payments due on June 1 being received in July.

Individual Income Tax Refunds: Through October, the Department of Taxation has issued \$383.6 million in refunds compared with \$254.6 million in the same period last year, a 50.7 percent increase.

Sales Tax (16% of general fund revenues): Collections of sales and use taxes, reflecting September sales, rose 8.6 percent in October. On a year-to-date basis, collections of sales and use taxes have risen 7.8 percent, ahead of the annual estimate of a 9.7 percent decline.

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. Corporate collections were \$35.5 million compared with \$30.8 million last year. On a year-to-date basis, collections of corporate income taxes were \$371.3 million compared with \$277.6 million in the same period last year, a 33.8 percent increase and ahead of the annual forecast of 3.0 percent growth. As with nonwithholding, part of the growth is due to payments received in July that were due in June.

Wills, Suits, Deeds, Contracts (2% of general fund revenues): As refinancing and low interest rates continue to spur the housing market, collections of wills, suits, deeds, and contracts – mainly recordation tax collections – were \$59.9 million in October, compared with \$42.3 million in October of last year, an increase of 41.5 percent. On a year-to-date basis, collections are up 37.3 percent, ahead of the annual forecast of a 12.6 percent decline.

Insurance Premiums (2% of general fund revenues): Monthly collections of insurance company premiums are transferred to the Transportation Trust Fund per Chapter 986, 2007 Acts of the Assembly until the required amount of \$181.4 million has been deposited.

Other Revenue Sources

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

	<u>Year-to-Date</u>	<u>Annual Estimate</u>
Interest Income (0.4% GF revenues)	-35.4%	-27.5%
ABC Taxes (1% GF revenues)	-6.5%	-2.6%

All Other Revenue (2% of general fund revenues): Receipts in All Other Revenue fell 5.5 percent in October, \$33.4 million compared with \$35.4 million a year ago. On a year-to-date basis, collections of All Other Revenue fell 0.8 percent from the same period last year, ahead of the annual estimate of a 6.6 percent decline.

Summary

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The *Joint Advisory Board of Economists* (JABE) met on November 4 to assess recent economic developments and the economic outlook for the current and next biennium. The *Governor's Advisory Council on Revenue Estimates* (GACRE) will meet on November 23 to evaluate both the JABE economic recommendations and revenue collections through October. The GACRE members' recommendations will be incorporated into the general fund revenue forecast to be released on December 16 when the Governor introduces his budget recommendations to the General Assembly.