



COMMONWEALTH of VIRGINIA

Office of the Governor

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MEMORANDUM

TO: The Honorable Mark R. Warner

THROUGH: The Honorable William H. Leighty

FROM: John M. Bennett

SUBJECT: January Revenue Data

This month's revenue report displays the revised forecast released with the Governor's budget on December 20 in the first column and the growth rates required to attain the forecast in the last column.

Monthly revenue collections for January were essentially flat -- increasing about 0.3 percent above January of last year. Total general fund revenue collections through January are 2.2 percent above the same time last year, ahead of the annual forecast of 1.0 percent growth. The current year-to-date growth is attributable to growth in minor revenue sources, which together account for about 15 percent of total general fund sources.

Withholding and sales tax collections, which make up more than 80 percent of total general fund revenue collections, continue to trail the growth required to meet the official estimate, with five months remaining in the fiscal year.

National Economic Indicators

Current economic indicators suggest that the national economy remains weak, with uncertainty over war with Iraq dampening consumer and business confidence.

- Real GDP grew a weak 0.7 percent in the fourth quarter, following third quarter growth of 4.0 percent. This up and down pattern has been largely driven by fluctuations in consumer spending, which has been affected by erratic auto sales. Average growth in real GDP for 2002 was 2.4 percent, which is consistent with a modest recovery.

- The economy created 143,000 jobs in January -- not enough to offset the revised December loss of 156,000 jobs. In the first week of February, the four-week average of initial claims for unemployment insurance was flat at 385,000 - the fourth consecutive week below 400,000. A steady level of initial claims around 400,000 is consistent with modest economic growth.

- Total personal income grew 0.4 percent in December, with wage and salary income growing 0.3 percent. Improving wage growth supports spending - personal consumption expenditures grew 0.9 percent in December.

- The Conference Board's index of leading indicators rose 0.1 percent in December - the third consecutive monthly gain. Over the last six months, however, the index has risen just 0.1 percent, suggesting the economy will continue to experience weak growth in the first quarter of 2003.

- The manufacturing sector expanded modestly for the second month in a row. The Institute of Supply Management index (formerly the NAPM) fell to 53.9 percent in January, but remains above the break-even 50.0 percent level, mainly due to strength in new orders.

- The Conference Board's index of consumer confidence fell in January to 79.0, the lowest level in nine years. Although consumers' assessment of current conditions improved, fear of war with Iraq and higher energy prices pushed down expectations of future economic conditions.

- At its meeting on January 29, the Federal Open Market Committee left interest rates unchanged, after acknowledging the continuing softness in the economy and negative impacts of high oil prices and the economic uncertainty surrounding Iraq.

Virginia Economy

The Virginia economy remains in a weak recovery. Payroll employment fell 0.3 percent in December from a year ago, indicating that Virginia employers continue to reduce jobs. Payroll employment fell 0.2 percent in November. In Northern Virginia, employment increased by 0.7 percent, its second consecutive monthly gain. The Virginia Employment Commission has begun its annual revisions to the last two years of payroll employment data, which will be available in February.

The Virginia Leading Index was revised due to changes in the national leading index component for November and December. After increasing for four straight months last fall, the index now reveals small declines for the last two months. The weakness in the index suggests economic growth should remain slow. For 2002, the Virginia Leading Index increased 1.1 percent.

January Revenue Collections

Revenue collections grew 0.3 percent from January of last year. On a year-to-date basis, total revenues rose 2.2 percent through January, ahead of the annual estimate of 1.0 percent growth.

Individual Income Tax Withholding (62% of general fund revenues): Collections in withholding fell by 1.4 percent from January of last year, after increasing more strongly in December. Growth in this source was about five percent last January, so a decline this year was not unexpected. Year-to-date withholding growth through January is 2.2 percent - still trailing the annual estimate of 2.7 percent growth required in the current official forecast. Over the remaining five months of this fiscal year, growth of 3.4 percent will be necessary to meet the forecast of 2.7 percent growth.

Individual Income Tax Refunds: Refunds this month were \$30.1 million compared with \$33.5 million in January of last year. The heart of the refund season begins in mid-February, so a better indication of refund patterns will not be available until next month.

Individual Income Tax Nonwithholding (12% of general fund revenues): Collections in nonwithholding fell 7.6 percent from January of last year. Taxpayers have until January 15 to submit their fourth estimated payment for the tax year 2002. Payment patterns in prior years have shown large swings between December and January. In three of the last four years December and January have shown a flip-flop, higher growth-lower growth pattern between December and January. Higher growth in December has often meant lower growth in January. In December of this fiscal year, collections in this source grew 24.2 percent, so the January decline was not unexpected.

Taking December and January together, nonwithholding receipts were 0.7 percent below collections over the same two-month period last year. Year-to-date collections in nonwithholding are down 3.6 percent through January - ahead of the forecast of a 13.2 percent decline.

The majority of the remaining collections in this source will occur in May, when Virginia's unique May 1 due date for both tax due and estimated payments will provide key information for this source. Last year, 100,000 individuals who had been making estimated payments requested a refund rather than making a final payment. The key question about the nonwithholding forecast is whether estimated payments to date are indicative of what final payments will be in May, or whether a significant number of estimated payors will again request refunds.

Sales Tax (22% of general fund revenues): Collections of sales tax grew by 6.4 percent from January of last year, following a 11.9 percent decline in December, meaning that receipts over the holiday shopping season were essentially flat.

Adjusting for the accelerated sales tax payments, year-to-date collections for sales taxes have grown about 1.6 percent through January, well below the forecast of 2.7 percent growth.

Other Revenue Sources

The following list provides data on January collections of other key taxes:

	Year-to-Date	Required to Meet Estimate
Corporate Income Tax	28.3%	3.8%
Insurance Premiums Tax (3% GF revenues)	12.4%	5.3%
ABC Taxes (1.1% GF revenues)	3.3%	0.0%
Public Service Corporations (.9% GF revenues)	24.5%	8.2%
Interest Income (0.7% GF revenues)	-29.2%	-28.3%

All Other Revenue. Revenue from all other sources grew 25.0 percent in January - about \$12.4 million more than in January of last year. The increase was driven by continued strength in collections of wills, suits, deeds and contract fees (primarily recordation taxes). On a year-to-date basis, collections of all other revenue were 23.5 percent above the same period last year, ahead of the annual forecast of 16.2 percent growth.

Lottery Revenues. In January, Lottery net income grew 6.8 percent more than last year, on strong sales driven by large jackpots in Lotto South and Mega Millions. Jackpots in both games had been building throughout the month. On a year-to-date basis, Lottery revenues have grown 9.5 percent, above the amount needed to meet the current revenue estimate.

Summary

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Withholding and sales tax collections, which make up more than 80 percent of total general fund revenue collections, continue to trail the growth required to meet the official estimate, with five months remaining in the fiscal year.

At this point in the fiscal year, the key risks to the forecast are external shocks, such as the potential economic effects of a war with Iraq, and the effects of the weak stock and financial markets on final payments and refunds.