



COMMONWEALTH of VIRGINIA

February 12, 2014

PO Box 1475
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MEMORANDUM

TO: The Honorable Terence R. McAuliffe

THROUGH: The Honorable Paul J. Reagan

FROM: Richard D. Brown *(Signature)*

SUBJECT: January Revenue Report

January is a significant month for revenue collections. Individual estimated payments, sales taxes on December sales, and corporate income taxes from large retailers are due in January. This month's revenue report compares current revenue collections to the revenue estimates included in the budget (HB 29/SB 29) introduced to the 2014 General Assembly.

Total general fund revenue collections fell 5.9 percent in January, with declines in all major sources except corporate income tax. On a year-to-date basis, total revenue collections fell 0.5 percent through January, lagging the annual forecast of 1.7 percent growth. Total revenues are tracking behind the forecast due to weak receipts of individual withholding, and nonwithholding, corporate income, and recordation taxes. Adjusting for the accelerated sales tax program and the 0.125 percent sales tax transfer required by the provisions of HB 2313, total revenues grew 0.5 percent through January, trailing the adjusted forecast of 2.9 percent growth.

National Economic Indicators

While most recent national indicators suggest economic fundamentals are gradually improving; the latest reports on the condition of the labor market do not support the otherwise optimistic outlook.

- According to the advance estimate, real GDP grew at an annualized rate of 3.2 percent in the fourth quarter of 2013, following a 4.1 percent increase in the third quarter and 2.5 percent in the second quarter.

- After stalling in December, the labor market saw only weak gains in January. Payroll employment rose by 113,000 jobs, far below consensus expectations of 175,000. The December gain was revised up by only 1,000 to 75,000 jobs, while the November number was revised up by 33,000 to 274,000. The weakness in January was largely driven by services and government. In a separate report, the unemployment rate fell from 6.7 percent to 6.6 percent, even as the labor force participation rate rose to 63 percent.
- Initial claims for unemployment fell by 20,000 to 331,000 during the week ending February 1. The four-week moving average rose by 250 to 334,000.
- The Conference Board's index of leading indicators rose 0.1 percent in December after increasing 1.0 percent in November, its sixth consecutive monthly gain. The behavior of the leading indicator is consistent with continued economic growth.
- The Conference Board's index of consumer confidence rose from 77.5 to 80.7 in January. Both the expectations and present situation components contributed positively to the index. The index is at its highest level since August, before the federal government shutdown.
- Activity in the manufacturing sector slipped in January, with the Institute of Supply Management index falling from 57.0 to 51.3. Following six consecutive months of increases, the index declined in December and January, although it remains in expansionary territory.
- Inflation remains contained. The CPI rose 0.3 percent in December, and stands 1.5 percent above December 2012. Core inflation (excluding food and energy prices) rose 0.1 percent in December, and has increased 1.7 percent from December 2012.
- The Federal Reserve announced at its January meeting that it will keep the federal funds target rate at 0.0 to 0.25 percent, and will continue winding down its quantitative easing program.

Virginia Economy

In Virginia, payroll employment rose 0.8 percent in December from December 2012. Northern Virginia posted job growth of 0.8 percent; Hampton Roads rose 1.2 percent; and Richmond-Petersburg rose 1.5 percent. The seasonally adjusted unemployment rate in the Commonwealth fell 0.2 percentage point to 5.2 percent in December and is 0.4 percentage point below a year ago.

The Virginia Leading Index rose 0.1 percent in December after increasing 0.4 percent in November. The U.S. leading index and initial claims improved in December, while auto registrations, building permits, and future employment declined. The Leading Indexes contracted in eight of the eleven metro areas: Northern Virginia, Hampton Roads, Richmond, Lynchburg, Harrisonburg, and Winchester. The indexes for the remaining metro areas advanced in December.

January Revenue Collections

Total general fund revenue collections fell 5.9 percent in January, with declines in all major sources except corporate income tax. On a year-to-date basis, total revenue collections fell 0.5 percent through January, lagging the annual forecast of 1.7 percent growth. Total revenues are tracking behind the forecast due to weak receipts of individual withholding and nonwithholding, corporate income, and recordation taxes. Adjusting for the accelerated sales tax program and the 0.125 percent sales tax transfer required by the provisions of HB 2313, total revenues grew 0.5 percent through January, trailing the adjusted forecast of 2.9 percent growth.

Net Individual Income Tax (69% of general fund revenues): Through January, collections of net individual income tax rose 0.7 percent from the same period last year, behind the annual estimate of 3.7 percent growth. Performance in each component of individual income tax is as follows:

Individual Income Tax Withholding (62% of general fund revenues): Collections of payroll withholding taxes fell 1.9 percent in January, but strong collections for the month were compared to the largest collection month ever in January of last year. Year-to-date, withholding collections rose 2.5 percent compared with the same period last year, behind the projected annual growth rate of 3.3 percent.

Individual Income Tax Nonwithholding (18% of general fund revenues): Collections in this source fell 25.3 percent in January, as the average estimated payment fell by 15 percent.

December and January are significant months for collections in this source, and receipts can be distorted by the timing of payments. The fourth estimated payment for tax year 2013 was due January 15 and some of these payments were received in December, so the two months must be considered together to assess growth. Receipts of estimated payments for the two-month period fell 13.5 percent from last year. Year-to-date collections through January fell by 3.8 percent, trailing the annual estimate of a 6.3 percent increase.

Individual Income Tax Refunds: In January, the Department of Taxation issued \$23.0 million in refunds compared with \$29.9 million last year. This is the first month of the filing season and refund activity will pick up in February. Year-to-date, refunds have risen 26.0 percent, ahead of the annual estimate of 5.1 percent growth.

Sales Tax (18% of general fund revenues): Collections of sales and use taxes, reflecting December sales, fell 8.0 percent in January; however underlying economic based sales increased 1.9 percent. On a year-to-date basis, collections have fallen 3.8 percent through January, ahead of the annual estimate of a 4.4 percent decline. Adjusting for the partial repeal of the accelerated sales tax program and the 0.125 percent sales tax transfer required by HB 2313, sales tax collections have risen by 1.4 percent year-to-date, close to the economic-base forecast of 1.6 percent growth.

Corporate Income Tax (5% of general fund revenues): Collections of corporate income tax were \$39.9 million in January, compared with \$35.2 million a year ago, a 13.3 percent increase. Year-to-date collections in this source have fallen 14.5 percent from the same period last year, trailing the estimate of 0.4 percent growth.

Wills, Suits, Deeds, Contracts (2% of general fund revenues): Collections of wills, suits, deeds, and contracts – mainly recordation tax collections – were \$21.0 million in January, compared with \$31.3 million in January of last year. This was the sixth consecutive monthly decline in this source. On a year-to-date basis, collections are down 11.2 percent, trailing the annual forecast of 0.0 percent growth.

Insurance Premiums (2% of general fund revenues): Chapter 896 of the 2007 Acts of the Assembly required that \$130.8 million of collections in this source be transferred to the Transportation Trust Fund in fiscal year 2014 before making any deposits to the general fund. The required transfer was completed during December.

Year-to-date collections through January are \$92.4 million, compared with \$33.4 million in the same period last year. Since refunds were issued in January last year, and will not be issued until February this year, it is difficult to assess growth in this source.

Other Revenue Sources

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

	<u>Year-to-Date</u>	<u>Annual Estimate</u>
Interest Income (0.5% GF revenues)	0.9%	-25.9%
ABC Taxes (1% GF revenues)	1.0%	0.8%

All Other Revenue (2% of general fund revenues): Receipts in All Other Revenue fell 11.1 percent in January, \$40.9 million compared with \$46.0 million a year ago. On a year-to-date basis, collections of All Other Revenue fell 3.4 percent from the same period last year, trailing the annual estimate of a 2.4 percent decline.

Summary

Total general fund revenue collections fell 5.9 percent in January, with declines in all major sources except corporate income tax. On a year-to-date basis, total revenue collections fell 0.5 percent through January, lagging the annual forecast of 1.7 percent growth. Adjusting for the accelerated sales tax program and the 0.125 percent sales tax transfer required by the provisions of HB 2313, total revenues grew 0.5 percent through January, trailing the adjusted forecast of 2.9 percent growth.