



COMMONWEALTH of VIRGINIA

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Secretary of Finance

September 12, 2018

P.O. Box 1475
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MEMORANDUM

TO: The Honorable Ralph S. Northam

THROUGH: The Honorable Clark Mercer

FROM: Aubrey L. Layne, Jr.

SUBJECT: August Revenue Report

August is not a significant month for revenue collections, with collections mainly from withholding, sales taxes, and other sources that have regular monthly payments. Total general fund revenues rose 4.5 percent in August, driven by solid gains in payroll withholding and sales taxes. On a fiscal year-to-date basis, total revenue collections rose 1.9 percent through August, ahead of the annual forecast of 1.5 percent growth.

National Economic Indicators

Recent national indicators suggest the economy continues to grow at a solid pace.

- According to the second estimate, real GDP rose at an annualized rate of 4.2 percent in the second quarter of 2018, following 2.2 percent growth in the first quarter.
- The labor market remains healthy. Payroll employment rose by 201,000 jobs in August, exceeding expectations. In a separate report, the unemployment rate was steady at 3.9 percent.
- Initial claims for unemployment fell by 10,000 to 203,000 during the week ending September 1, while the four-week moving average declined by 2,750 to 209,500, its lowest level since December 6, 1969. The level of claims is consistent with a labor market approaching full employment.

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- The Conference Board's index of leading indicators rose 0.6 percent in July following a 0.5 percent increase in June, suggesting the economic expansion should strengthen over the coming months. All components contributed to the increase.
- The Conference Board's index of consumer confidence rose 5.5 points to 133.4 in August, a high for this expansion. Both the expectations and present conditions components increased for the month.
- Activity in the manufacturing accelerated in August. The Institute of Supply Management index rose from 58.1 to 61.3, above consensus expectations.
- The CPI rose 0.2 percent in July after increasing 0.1 percent in June. The index stands 2.9 percent above July 2017. Core inflation (excluding food and energy prices) also rose by 0.2 percent, and is 2.3 percent above a year ago.
- At its August meeting, the Federal Reserve left the federal funds target rate range unchanged at 1.75 to 2.0 percent. Chairman Jerome Powell recently defended the Federal Open Market Committee's continued strategy of gradually raising the overnight federal funds rate to the target range of 2.25 – 2.50% by year end.

Virginia Economy

In Virginia, payroll employment rose 1.9 percent in July from July of last year. Northern Virginia posted growth of 1.9 percent; Hampton Roads rose 1.0 percent; and Richmond-Petersburg rose 1.6 percent. The seasonally adjusted unemployment rate fell 0.1 percentage point to 3.1 percent in July, the lowest rate since August 2007.

The Virginia Leading Index rose 0.2 percent in July after falling 0.2 percent in June. The U.S. leading index, future employment, and initial claims for unemployment improved in July while auto registrations declined. The indexes increased in Northern Virginia, Richmond, Roanoke, Lynchburg, Charlottesville, Harrisonburg, Blacksburg, and Staunton, while the indexes in Winchester and Bristol decreased; the Hampton Roads index was unchanged in July.

August Revenue Collections

August is not a significant month for revenue collections, with collections mainly from withholding, sales taxes, and other sources that have regular monthly payments. Total general fund revenues rose 4.5 percent in August, driven by solid gains in payroll withholding and sales taxes. On a fiscal year-to-date basis, total revenue collections rose 1.9 percent through August, ahead of the annual forecast of 1.5 percent growth

Net Individual Income Tax (70% of general fund revenues): Through the first two months of the fiscal year, collections of net individual income tax rose 0.3 percent from the same period last year, trailing 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): Collections of payroll withholding taxes rose 5.1 percent for the month. Year-to-date, collections are flat, trailing the annual estimate of 2.6 percent growth, as a timing anomaly pushed some July payments (approximately \$120 million) into June of last fiscal year.

Individual Income Tax Nonwithholding (17% of general fund revenues): August is not a significant month for collections in this source since the first estimated payment for fiscal year 2018 is due in September. Through the first two months of the fiscal year, collections were \$117.8 million compared with \$106.3 million in the same period last year.

Individual Income Tax Refunds: August is not a significant month for refunds. The Department of Taxation issued \$45.5 million in refunds compared with \$41.7 million in August of last year, an increase of 9.0 percent.

Sales Tax (18% of general fund revenues): Collections of sales and use taxes, reflecting July sales, rose 7.5 percent in August. On a year-to-date basis, collections have also risen 7.5 percent, ahead of the annual estimate of 2.5 percent.

Corporate Income Tax (5% of general fund revenues): As with nonwithholding, August is not typically a significant month for collections in this source, as the first estimated payment for the fiscal year is due in September. Through August, collections of corporate income taxes were \$38.5 million compared with \$34.7 million in the same period last year.

Wills, Suits, Deeds, Contracts (2% of general fund revenues): Collections of wills, suits, deeds, and contracts – mainly recordation tax collections – were \$36.0 million in August, compared with \$36.5 million in August of last year, a decline of 1.4 percent. On a year-to-date basis, collections are down 6.1 percent, trailing the annual forecast of 3.1 percent growth.

Insurance Premiums (2% of general fund revenues): Monthly collections of insurance company premiums are being transferred to the Transportation Trust Fund per Chapter 986, 2007 Acts of the Assembly until the required amount of \$168.7 million has been deposited.

Other Revenue Sources

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

	<u>Year-to-Date</u>	<u>Annual Estimate</u>
Interest Income (0.3% GF revenues)	70.5%	7.8%
ABC Taxes (1% GF revenues)	(11.0)%	3.4%

All Other Revenue (2% of general fund revenues): Receipts in All Other Revenue rose 8.2 percent in August, \$31.8 million compared with \$29.4 million a year ago. On a year-to-date basis,

collections of All Other Revenue rose 4.2 percent from the same period last year, compared to the annual estimate of 3.7 percent growth.

Summary

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September collections will complete the first quarter of fiscal year 2019 and provide a clearer assessment of revenue growth. The first estimated payments from individuals, corporations, and insurance companies are due in September.