



COMMONWEALTH of VIRGINIA

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Secretary of Finance

November 14, 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: 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.

Total general fund revenues rose 10.2 percent in October, driven by solid gains in payroll withholding and individual estimated payments. On a fiscal year-to-date basis, total revenue collections rose 4.5 percent through October, 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 preliminary estimate, real GDP rose at an annualized rate of 3.5 percent in the third quarter, following 4.2 percent growth in the second quarter.
- The labor market is healthy. Following the hit from Hurricane Florence in September, payroll employment rose by 250,000 jobs in October. The September gain was revised down by 16,000 jobs to 118,000, but the August gain was revised up by 16,000 jobs to a 286,000 gain. In a separate report, the unemployment rate remained steady at 3.7 percent, even as more workers entered the workforce, allowing employment to continue expanding.
- Initial claims for unemployment fell by 1,000 to 214,000 during the week ending November 3, while the four-week moving average fell by 250 to 213,750. The level of claims is consistent with a healthy labor market.

- The Conference Board's index of leading indicators rose 0.5 percent in September following a 0.4 percent increase in August, suggesting the economic expansion should continue to strengthen.
- The Conference Board's index of consumer confidence rose 2.6 points to 137.9 in October, a high for this expansion. Both the expectations and present conditions components increased for the month.
- Conditions in the manufacturing sector remained solid in October, although the Institute of Supply Management index dipped slightly from 59.8 to 57.7.
- The CPI rose 0.1 percent in September after increasing 0.2 percent in August. The index stands 2.3 percent above September 2017. Core inflation (excluding food and energy prices) also rose by 0.1 percent, and is 2.2 percent above a year ago.
- At its November meeting, the Federal Reserve left the federal funds target rate range unchanged at 2.0 to 2.25 percent.

Virginia Economy

In Virginia, payroll employment rose 1.7 percent in September from September of last year. Northern Virginia posted growth of 1.8 percent; Hampton Roads rose 0.7 percent; and Richmond-Petersburg rose 1.4 percent. The seasonally adjusted unemployment rate fell 0.1 percentage point to 2.9 percent in September, the lowest rate since June 2007.

The Virginia Leading Index rose 0.6 percent in September after advancing 0.3 percent in August. All four components -- the U.S. leading index, future employment, initial claims for unemployment, and auto registrations -- improved for the month. The indexes increased in Northern Virginia, Hampton Roads, Richmond, Roanoke, Charlottesville, Bristol, Harrisonburg, and Winchester while the indexes in Lynchburg, Blacksburg, and Staunton declined.

October Revenue Collections

Total general fund revenues rose 10.2 percent in October, driven by solid gains in payroll withholding and individual estimated payments. On a fiscal year-to-date basis, total revenue collections rose 4.5 percent through October, ahead of the annual forecast of 1.5 percent growth.

Net Individual Income Tax (70% of general fund revenues): Through October, collections of net individual income tax rose 5.5 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 an additional deposit day compared with last year, collections of payroll withholding taxes rose 12.8

percent in October. Year-to-date, collections have grown 4.1 percent, ahead of the annual estimate of 2.6 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 \$132.8 million were above the \$110.5 million collected in October of last year. Year-to-date collections were \$663.2 million compared with \$574.2 million in the same period last year, growing by 15.5 percent and well ahead of the annual estimate of a 3.0 percent decline.

Individual Income Tax Refunds: Through October, the Department of Taxation issued \$221.3 million in refunds compared with \$207.6 million in the same period last year, a 6.6 percent increase.

Sales Tax (18% of general fund revenues): Collections of sales and use taxes, reflecting September sales, fell 1.7 percent in October. On a year-to-date basis, collections have risen 4.7 percent, ahead of the annual estimate of 2.5 percent growth.

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 taxes were \$12.2 million in October compared with \$16.3 million last year. On a year-to-date basis, collections of corporate income taxes were \$239.6 million compared with \$269.0 million in the same period last year, a 10.9 percent decline compared with the annual forecast of 5.8 percent growth.

Wills, Suits, Deeds, Contracts (2% of general fund revenues): Collections of wills, suits, deeds, and contracts – mainly recordation tax collections – were \$33.3 million in October, compared with \$34.0 million in October of last year, a decline of 2.0 percent. On a year-to-date basis, collections are down 7.4 percent, trailing the annual forecast of 3.1 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	11.4%
Interest Income (0.3% GF revenues)	37.6%	7.8%
ABC Taxes (1% GF revenues)	(7.9)%	3.4%

Note: 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 \$168.7 million has been deposited.

All Other Revenue (2% of general fund revenues): Receipts in All Other Revenue rose 42.6 percent in October, \$32.9 million compared with \$23.0 million a year ago. This strong growth was due to fines and fees. On a year-to-date basis, collections of All Other Revenue rose 12.6 percent from the same period last year, compared to the annual estimate of 3.7 percent growth.

Summary

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The Joint Advisory Board of Economists (JABE) met on October 11 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 19 to evaluate both the JABE economic recommendations and revenue collections through October.

GACRE members' recommendations will be incorporated into the general fund revenue forecast to be released on December 18 when the Governor introduces his budget recommendations to the General Assembly.