



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.

Total general fund revenues rose 9.6 percent in October, driven by solid growth in payroll withholding, individual nonwithholding, sales, and recordation tax collections. On a fiscal year-to-date basis, total revenue collections rose 8.5 percent through October, well ahead of the annual forecast of 1.2 percent growth.

National Economic Indicators

Recent national indicators suggest the economy continues to moderately expand.

- According to the preliminary estimate, real GDP rose at an annualized rate of 1.9 percent in the third quarter of 2019, slowing from 2.0 percent growth in the second quarter.
- Payroll employment rose by 128,000 jobs in October, following the September gain of 180,000 and the August gain of 219,000. In a separate report, the unemployment rate rose 0.1 percentage point to 3.6 percent as more workers entered the labor force.

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- Initial claims for unemployment increased by 5,000 to 218,000 during the week ending October 26. The four-week moving average fell by 500 to 214,750. The level of claims is still at a historically low level and consistent with a healthy labor market.
- The Conference Board's index of leading indicators declined 0.1 percent in September following a 0.2 percent decrease in August, suggesting a weakened outlook for the economy.
- The Conference Board's index of consumer confidence fell from 126.3 to 125.9 in October, as an increase in the present situation component was offset by a decline in the expectations component. Given its recent volatility, the drop is not necessarily a signal that the economy is weakening.
- The Institute of Supply Management index rose from 47.8 to 48.3 in October. The modest increase follows six consecutive monthly declines. Although the readings below 50 indicate the manufacturing sector is contracting, the index remains well above the recession threshold of 42.9.
- The CPI was unchanged in September following a 0.1 percent increase in August and stands 1.7 percent above September 2018. Core inflation (excluding food and energy prices) rose 0.1 percent and stands 2.4 percent above a year ago.
- At its October meeting, the Federal Reserve lowered the federal funds rate target by 25 basis points to the range of 1.5 to 1.75 percent, the third rate cut this year.

Virginia Economy

In Virginia, payroll employment rose 0.6 percent in September compared with last year. Northern Virginia posted growth of 1.0 percent; Hampton Roads employment increased 0.6 percent; and Richmond-Petersburg rose 0.8 percent from September of last year. The seasonally adjusted unemployment rate fell 0.1 percentage point to 2.7 percent in September, and is 0.1 percentage point below a year ago.

The Virginia Leading Index rose 0.4 percent in September after declining less than 0.1 percent in August. Future employment and auto registrations improved in September while initial claims rose and the U.S. Leading index declined. The index for Lynchburg declined while the index for Blacksburg was unchanged in September; the indexes for the remaining nine metro areas increased.

October Revenue Collections

Total general fund revenues rose 9.6 percent in October, driven by solid growth in payroll withholding, individual nonwithholding, sales, and recordation tax collections. On a fiscal year-to-date basis, total revenue collections rose 8.5 percent through October, well ahead of the annual forecast of 1.2 percent growth.

Net Individual Income Tax (71% of general fund revenues): Through October, collections of net individual income tax rose 7.5 percent from the same period last year, ahead of the annual estimate of 0.2 percent growth. Performance in each component of individual income tax is as follows:

Individual Income Tax Withholding (63% of general fund revenues): Collections of payroll withholding taxes rose 5.5 percent in October. Year-to-date, collections have grown 5.7 percent, well ahead of the annual estimate of 4.2 percent growth.

Individual Income Tax Nonwithholding (18% of general fund revenues): October is not typically a significant month for collections in this source. Collections of \$182.9 million were above the \$132.8 million collected in October of last year. Year-to-date, collections were \$800.5 million compared with \$663.2 million in the same period last year, growing by 20.7 percent and well ahead of the annual estimate of a 3.5 percent decline.

Individual Income Tax Refunds: Through October, the Department of Taxation has issued \$254.6 million in refunds compared with \$221.3 million in the same period last year, a 15.0 percent increase.

Sales Tax (17% of general fund revenues): Collections of sales and use taxes, reflecting September sales, rose 8.4 percent in October. The increase is directly related to the rise in Wayfair-related revenues contained in Chapter 854. On a year-to-date basis, collections of sales and use taxes have risen 8.0 percent, ahead of the annual estimate of 4.2 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. Corporate collections were \$30.8 million compared with 12.2 million last year. On a year-to-date basis, collections of corporate income taxes were \$277.6 million compared with \$239.6 million in the same period last year, a 15.9 percent increase and ahead of the annual forecast of 9.3 percent growth.

Wills, Suits, Deeds, Contracts (2% of general fund revenues): Collections of wills, suits, deeds, and contracts – mainly recordation tax collections – were \$42.3 million in October, compared with \$33.3 million in October of last year. On a year-to-date basis, collections are up 25.8 percent, far ahead of the annual forecast of a 4.6 percent decline.

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 \$183.6 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)	69.1%	-14.3%
ABC Taxes (1% GF revenues)	20.8%	3.2%

All Other Revenue (2% of general fund revenues): Receipts in All Other Revenue rose 7.7 percent in October, \$35.4 million compared with \$32.9 million a year ago. On a year-to-date basis, collections of All Other Revenue fell 0.9 percent from the same period last year, ahead of the annual estimate of a 6.3 percent decline.

Summary

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The Joint Advisory Board of Economists (JABE) met on October 17 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 25 to evaluate both the JABE economic recommendations and revenue collections through October.

GACRE members' recommendations will be incorporated into the general fund revenue estimates for fiscal year 2020 and the next biennium to be released on December 17 when the Governor introduces his budget recommendations to the General Assembly.