

December 15, 2000

**MEMORANDUM**

**TO:** The Honorable James S. Gilmore, III  
**THROUGH:** The Honorable M. Boyd Marcus, Jr.  
**FROM:** Ronald L. Tillett  
**SUBJECT:** November Revenue Data

Revenue collections through the first five months of fiscal year 2001 grew 3.2 percent above year ago levels, 2.3 percentage points below the growth required to attain the annual revenue estimate of 5.5 percent. Revenue collections for the month of November grew 3.4 percent over last year.

Most indicators continue to depict a sound national economy that has begun to slow toward the desired trend growth level of the Federal Reserve. Revised GDP data show that the economy slowed to 2.4 percent growth in the third quarter. Employment growth was below expectations in November -- payroll jobs grew by only 94,000 and the unemployment rate rose slightly to 4.0 percent. Consumer confidence fell for the second consecutive month in November to the lowest level in a year, consistent with a slowing economy. Personal income declined 0.2 percent in October, however, excluding the distortion caused by the pattern of federal agricultural subsidy payments in September, personal income posted solid 0.5 percent growth. Consumer spending was unchanged in October. Consumer prices moderated in October, with the CPI rising 0.2 percent. At their November meeting, the Federal Reserve left interest rates unchanged -- as expected.

In Virginia, job growth has slowed. Payroll employment increased by 1.7 percent in October over last year, marking the fourth consecutive month that Virginia employment growth has been below 2 percent. The unemployment rate fell to 2.3 percent a rate that rivals April 2000 for the lowest jobless rate for any month in the last 31 years.

**Individual Income Taxes**

Net Individual income tax collections declined by 2.8 percent in November compared with last year. Year-to-date growth was 4.4 percent, 4.2 percentage points below the growth required to meet the current annual forecast.

**Withholding:** Withholding collections declined 1.6 percent from November of last year. Year-to-date growth of 6.5 percent is 3.1 percentage points below the required 9.6 percent rate.

Withholding collections fell in November due to the exceptionally large exercise of stock options last November. Underlying withholding growth remains quite strong about 10 percent growth -- in fiscal year 2001. The lack of stock options has however slowed revenue growth for this source compared to last year's growth.

**Nonwithholding:** November is typically a slow month for nonwithholding collections. Year-to-date growth of 10.7 percent is tracking the annual estimate.

**Refunds:** November is also a slow month for issuing refunds. Approximately \$17 million in refunds were issued in November, as compared to \$11.5 million last year.

**Sales**

In November, sales tax collections were up 6.6 percent. November's growth rate is somewhat misleading as it is compared to last November when collections actually fell by 0.5 percent. Year-to-date growth of 4.8 percent is just below the 5.1 percent growth needed to attain the current forecast.

The first weekend of the holiday shopping season brought out more customers than expected. National retail sales, excluding autos, advanced by only 0.2 percent in November. The November figures combined with a flat October confirm that consumer spending has clearly abated. Holiday sales are expected to show a solid increase around 4 to 5 percent -- but higher gas prices and the sluggish stock market will keep sales growth from reaching last year's lofty 9

percent.

## **Corporate Income Tax**

November is not a significant month for corporate income tax collections. November and December, however, are significant corporate extension return processing months. Once the corporate extension return processing is completed in December, a clearer picture of corporate tax collections will be available. On a year-to-date basis, net collections are down 11.8 percent, slightly ahead of the annual estimate of an 18.4 percent decline.

## **Public Service Corporations**

Receipts from public service corporations were negligible in November. For the year, growth of 2.0 percent is well ahead of the 18.1 percent decline expected in the current forecast.

## **Insurance Company Premiums**

November is typically the month of refunding activity in this source; however, refunds were issued in October this year. The year-to-date growth of 7.7 percent in this source is above the annual estimate of 4.0 percent growth.

## **Interest**

Interest income was \$29.3 million in November compared with \$18.0 million last year mainly due to increasing interest rates. Year-to-date growth of 16.4 percent is well ahead the current forecast of 9.7 percent growth.

## **ABC Taxes**

ABC taxes grew 8.9 percent in November over last year. Year-to-date growth of 5.9 percent is ahead of the current forecast of 0.1 percent.

## **All Other Revenue**

Revenue from all other sources was \$40.5 million compared with \$41.1 million received last November. On a year-to-date basis, collections in all other revenue were down 12.4 percent, trailing the 2.3 percent decline predicted in the current annual estimate.

## **Lottery Revenues**

Lottery net income was \$28.6 million in November, 6.4 percent higher than November of last year. Lottery sales were 7.8 percent higher than last November mainly due to higher Scratch game sales.

Year-to-date net income is \$130.3 million, 2.6 percent higher than last year, primarily due actual prizes for the daily games are lower than statistically expected levels.

## **Summary**

Revenue collections for the first five months of the fiscal year have grown 3.2 percent over the same period last year. November marks the fourth month out of five this fiscal year that monthly revenue growth has been below 4 percent. The soft growth in net individual income tax collections, which account for over 63 percent of total tax revenues, is an item of particular concern. Also, national signs of weakness in income growth, dampened consumer expectations, and the decline in November sales as we head into the all important holiday shopping season require us to closely monitor receipts over the next two months.

The revenue forecasting process for the current fiscal year and the next biennium will be completed with the release of the budget on December 20. The next monthly report will reflect revisions to the official forecast.