



COMMONWEALTH of VIRGINIA

Office of the Governor

James S. Gilmore, III
Governor

John W. Forbes
Secretary of Finance

November 15, 2001

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MEMORANDUM

TO: The Honorable James S. Gilmore, III
THROUGH: The Honorable M. Boyd Marcus, Jr.
FROM: John W. Forbes
SUBJECT: October Revenue Data

Revenue collections for the first four months of the fiscal year increased 0.1 percent from year-ago levels, but are still 7.4 percentage points below the growth required to attain the annual revenue estimate. For the month, revenue collections grew 8.3 percent above October of last year. The solid monthly growth is driven by a large number of September payments in all major tax sources rolling into October collections.

National indicators are now reflecting the effects of the terrorist attack of September 11. The Commerce Department reported that real GDP fell 0.4 percent in the third quarter, somewhat better than expectations. Payroll employment plunged by 415,000 jobs in October, with broad-based losses across industries. The unemployment rate jumped to 5.4 percent. Personal income growth was flat in September, increasing by less than 0.1 percent, while consumer spending dropped sharply. With deteriorating labor market conditions and the concerns of additional terrorist attacks, the Conference Board's index of consumer confidence fell sharply in October to its lowest reading since 1994. The index of leading indicators fell by 0.5 percent in September. Taken together with the coincident and lagging indicators, the leading index is confirming a recession. On November 6, the Federal Reserve Board cut the federal funds target rate by 50 basis points to 2.0 percent. Since January, the Federal Reserve Board has cut rates 10 times for a 450 basis point reduction. Three of these cuts occurred after the September 11 attack.

In Virginia, total payroll employment grew by 1.7 percent from September of last year and the unemployment rate increased 0.2 percentage points to 3.3 percent -- the highest rate in 27 months.

Individual Income Taxes

Individual income tax collections grew 9.4 percent in October over last year. Year-to-date growth of 1.5 percent remains below the rate required to meet the current annual forecast.

Withholding: Withholding tax receipts increased 7.7 percent in October, although an extra deposit day this month inflated collections in this source. On a year-to-date basis, the 4.6 percent growth rate is 4.3 percentage point below the expected 8.9 percent annual rate.

Nonwithholding: October is traditionally a slow collection month in this source, however, some September payments were not received until October. About \$15 million were received in the first few days of October. On a year-to-date basis, receipts are 1.4 percent behind last year's collections. The September and October receipts represent the third calendar year estimated payment from individuals and is consistent with the first two estimated payments in which the average payment size is down about 5 percent compared to last year.

Refunds: October is a slow month for issuing refunds. Refund checks totaling \$27.2 million were issued in October.

Sales

Sales tax collections fell by 3.8 percent in October from a year ago. These receipts are from September-based sales and highlight the decline in consumer activity following the terrorist attack on September 11. On a year-to-date basis, the decline of 0.8 percent is well below the required annual growth rate of 7.7 percent. Although energy prices have fallen rapidly over the last few weeks and interest rates are approaching levels not seen in a generation, consumers have pulled back considerably over the past few months. Next month's data will reveal how the consumers returned to shopping as we enter the all important holiday shopping season. National expectations are for a flat to slightly positive increase in sales over the next six weeks.

Corporate Income Tax

As is the case with nonwithholding, October is traditionally a slow collection month for corporate income tax. Similar to nonwithholding, corporate also received some September payments in the first few days of October. The year-to-date decline of 26.8 percent is significantly behind the annual forecast.

Public Service Corporations

Collections from consumption tax revenues were \$6.6 million this month. Consumption tax revenues continue to track toward attaining the annual forecast.

Insurance Company Premiums

Insurance premiums tax receipts are up 32.2 percent this month as refunds issued were only \$11.7 million compared to last year's \$17.2 million. With one estimated payment received and refunds issued for last year's returns, year-to-date receipts are 15.8 percent ahead of last year and ahead of the annual forecast expecting a 2.0 percent increase.

Interest

Interest collections in October reflect the distribution of interest earned on nongeneral funds in the first quarter of fiscal year 2002. As expected, net interest was -\$15.4 million this month compared to last year's -\$11.6 million. On a year-to-date basis, interest receipts are down 18.2 percent, well below the annual growth rate expecting a 4.6 percent increase.

ABC Taxes

Collections of ABC taxes (beer and beverage excise taxes only) were 3.3 percent below October of last year. This brought the year-to-date decline to 2.2 percent, close to the growth needed to attain the current forecast.

All Other Revenue

Revenue from all other sources were \$53.2 million in October as wills, suits, deeds and contracts (mainly recordation taxes) and inheritance, gift and estate taxes had a very good month. On a year-to-date basis, revenues from all other sources are 14.4 percent ahead of last year's.

Lottery Revenues

Lottery net income increased 15.5 percent for the month as higher jackpots in the Lotto and The Big Game fueled sales. Sales in scratch games and daily games (Pick 3 and Pick 4) also continued to show solid growth. On a year-to-date basis, Lottery net income has increased 3.2 percent, well ahead of the annual forecast of an expected decline of 5.7 percent.

Summary

Having collected one-third of fiscal year 2002's receipts, revenues are about equal to those of last year, increasing only 0.1 percent. After a sluggish first quarter, total revenue growth returned in October, albeit mainly due to an additional deposit day and September mail rolling into October.

The customary fall re-estimation of revenues is under way and will be concluded in December. The next critical step is the meeting of the your Advisory Council on Revenue Estimates on November 19, when Virginia's business leaders and legislators will comment on the prospects for the Virginia economy through the next biennium.