



COMMONWEALTH of VIRGINIA

Office of the Governor

Richard D. Brown
Secretary of Finance

PO Box 1475
Richmond, VA. 23218

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MEMORANDUM

TO: The Honorable Timothy M. Kaine
THROUGH: The Honorable Wayne M. Turnage
FROM: Richard D. Brown *(Signature)*
SUBJECT: August Revenue Data

This month's revenue report displays in the first column the revised revenue forecast which Governor Kaine released on August 19, 2009. The last column reflects the percent annual growth required by the estimate compared to fiscal year 2009 actual collections.

August is not a significant month for revenue collections, with collections mainly from withholding payments, sales taxes, and other sources which have regular monthly payments.

Total general fund revenue collections fell 6.6 percent in August compared with August 2008. Continued weakness in withholding and sales tax collections and higher refund activity drove the decline. On a year-to-date basis, total revenues fell 7.3 percent, trailing the revised annual forecast of a 1.6 percent decline.

National Economic Indicators

Most national indicators suggest the recession is nearing an end, with some analysts suggesting the economy may have already hit bottom. However, once the recession ends, the recovery is expected to be very slow by historical standards, particularly in the labor market.

- Real GDP fell 1.0 percent in the second quarter, a much smaller decline than the 5.4 percent decline in the fourth quarter of 2008 and the 6.4 percent decline in the first quarter of 2009.
- The labor market continued to contract in August; however, the number of job losses moderated. Payroll employment fell by 216,000 jobs in August, less than half of the average monthly job loss over the last six months. On the other hand, the unemployment rate rose to 9.7 percent from 9.4 percent.
- Initial claims for unemployment fell by 4,000 to 570,000 during the week ending August 29. The four-week moving average rose slightly from 567,000 to 571,000. Although the level of initial claims is indicative of continued weakness in the labor market, layoffs appear to be slowing.
- The Conference Board's index of leading indicators rose 0.6 percent to 101.6 in July, its fourth consecutive monthly increase. Seven of the ten components contributed to the increase. The rise in the index suggests the recession has ended and the economy will rebound in the second half of this year.
- Consumer confidence rebounded in August. The Conference Board's index of consumer confidence rose from 47.4 to 54.1 in August. The expectations component drove the increase, while the current conditions component rose only modestly. Although the index rose to its second highest level since September, it remains at recession levels.
- The manufacturing sector appears to be in recovery. The Institute of Supply Management index increased by 4.0 points in August, rising from 48.9 to 52.9. The increase leaves the index about ten points higher than the second quarter average and above the expansionary threshold of 50 for the first time since January 2008. The increase in the index over recent months also indicates that the recession is ending.
- Inflation remains very low -- the CPI was flat in July after rising gasoline prices drove a 0.7 percent increase in June. Core inflation rose 0.1 percent in July and stands 1.5 percent above July of last year.
- The Federal Reserve kept the federal funds target rate in the 0.0 to 0.25 percent range at its August meeting, and expects to maintain the rate "for an extended period."

Virginia Economy

In Virginia, payroll employment fell by 2.9 percent in July, the largest monthly drop since August 1954. Northern Virginia posted a decline of 0.8 percent, Hampton Roads fell 1.1 percent, and employment in the Richmond-Petersburg area fell 3.4 percent in July. The unemployment rate in Virginia fell from 7.3 percent to 6.9 percent.

The Virginia Leading Index rose 0.4 percent in July. A fall in initial claims for unemployment and rising auto registrations contributed positively to the index, offsetting a decline in building permits. The leading index rose in ten of the eleven metro areas in the Commonwealth in July. In Hampton Roads, the index remained unchanged.

August Revenue Collections

Total general fund revenue collections fell 6.6 percent in August compared with August 2008. Most of the decline was due to weak withholding and sales tax collections and higher refund activity than August of last year. On a year-to-date basis, total revenues fell 7.3 percent, trailing the revised annual forecast of a 1.6 percent decline.

Net Individual Income Tax (66% of general fund revenues): For the first two months of the fiscal year, collections of net individual income tax fell by 7.0 percent from the same period last year. Performance in each component of individual income tax is as follows:

Individual Income Tax Withholding (66% of general fund revenues): Collections of payroll withholding taxes fell 3.4 percent in August. Year-to-date withholding collections declined by 5.3 percent over the same period last year, trailing the projected annual growth rate of 2.1 percent.

Individual Income Tax Nonwithholding (14% of general fund revenues): August is not a significant month for nonwithholding collections, since the first estimated payment in fiscal year 2010 is due in September. Year to date, collections through August were \$71.7 million compared with \$75.9 million in the same period last year, falling by 5.5 percent and ahead of the annual estimate of a 16.8 percent decline.

Individual Income Tax Refunds: Through August, \$113.0 million in individual refunds have been issued, compared with \$94.1 million in the same period last year, exceeding the annual forecast.

Sales Tax (21% of general fund revenues): Collections of sales and use taxes, reflecting July sales, fell 5.0 percent in August. On a year-to-date basis, collections have fallen 5.5 percent, lagging the annual estimate of a 0.4 percent decline and the policy adjusted forecast decline of 4.1 percent. (Major policy adjustments include amnesty and the new sales tax remittance.)

Corporate Income Tax (5% of general fund revenues): As with nonwithholding, August is not typically a significant month in corporate income tax collections, since the first estimated payment for the fiscal year is due in September. Through the first two months of the fiscal year, \$27.6 million has been collected in this source, compared with \$25.2 million over 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 – fell 10.5 percent in August, and are down 9.7 percent on a year-to-date basis, near the forecast of a 9.6 percent decline.

Other Revenue Sources

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

	<u>Year-to-Date</u>	<u>Annual Estimate</u>
Insurance Premiums (2% GF revenues)	0.0%	0.2%
Interest Income (1% GF revenues)	-48.4%	-3.3%
ABC Taxes (1% GF revenues)	-3.4%	4.5%

All Other Revenue (3% of general fund revenues): Receipts in All Other Revenue fell 8.0 percent in August – \$26.9 million compared with \$29.2 million last August. For the fiscal year-to-date, collections of All Other Revenue fell 1.1 percent from the same period in fiscal year 2009, ahead of the annual estimate of a 9.8 percent decline.

Summary

Total general fund revenue collections fell 6.6 percent in August compared with August 2008. Continued weakness in withholding and sales tax collections and higher refund activity drove the decline. On a year-to-date basis, total revenues fell 7.3 percent, trailing the revised annual forecast of a 1.6 percent decline.

September collections will complete the first quarter of fiscal year 2010 and provide a clearer assessment of revenue growth. The first estimated payments from individuals, corporations, and insurance companies are due in September.