



**COMMONWEALTH of VIRGINIA**  
*Office of the Governor*

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**MEMORANDUM**

TO: The Honorable Robert F. McDonnell

THROUGH: The Honorable Martin Kent

FROM: Richard D. Brown 

SUBJECT: January Revenue Data

January is a significant month for revenue collections. Individual estimated payments, sales taxes on December sales, and corporate income taxes from large retailers are all due in January. This month's report compares actual revenue collections to the revenue estimates prepared in December 2009 and included in the budget introduced to the 2010 General Assembly.

Total general fund revenue collections fell 6.5 percent in January. However, the monthly decline in total revenues is overstated because the State Corporation Commission issued refunds to insurance companies in January, while last year they were issued in February. Collections in individual estimated payments, sales tax, and recordation taxes declined for the month. Individual withholding collections and corporate income tax payments posted gains. On a year-to-date basis, total revenues fell 4.7 percent, trailing the revised annual forecast of a 2.7 percent decline.

**National Economic Indicators**

Most national indicators depict an expanding economy, although growth is expected to be sluggish over the rest of the year. Gains in consumer spending are modest and consumers are likely to remain cautious given the current weak labor market conditions, tight credit, and depleted wealth. In addition, effects of the government stimulus have peaked and will have less of an impact on the economy going forward.

- According to the advance estimate, real GDP grew 5.7 percent at an annual rate in the fourth quarter of 2009, the highest rate since the third quarter of 2003 and above expectations. Most of the growth was due to businesses making smaller cuts in inventory. For calendar year 2009, real GDP fell 2.4 percent, the steepest drop since 1938.
- The January employment report incorporates annual benchmark revisions, which suggest job losses were somewhat greater than earlier reports indicated. With the revisions, total payroll employment declined by 4.78 million in 2009, compared with the 4.16 million previously reported. The January employment report suggests that the deterioration in the labor market is easing, although there are no indications that employers will be adding significantly to their payrolls in the near future. Payroll employment was essentially unchanged in January, falling by 20,000 jobs. The November monthly gain was revised up from 4,000 to 64,000 jobs, and the December loss increased from 85,000 to 150,000 jobs.
- The unemployment rate in January fell 0.3 percentage point to 9.7 percent, even as the labor force slightly increased.
- Initial claims for unemployment increased by 8,000 to 480,000 during the week ending January 30, contrary to consensus expectations of a slight decline. The four-week moving average rose from 457,000 to 468,750.
- The Conference Board's index of leading indicators rose 1.1 percent to 106.4 in December, its ninth consecutive monthly increase. Eight of the ten components contributed positively to the index. The recent growth in the index strongly suggests the economy is expanding.
- The Conference Board's index of consumer confidence rose modestly from 53.6 to 55.9 in January, the third consecutive monthly gain. Both the expectations and current conditions components increased, with most of the gain in assessments of the present situation. Although confidence is at its highest level since September 2008, it remains at historical lows.
- The recovery in the manufacturing sector continued in January. The Institute of Supply Management index rose from 54.9 to 58.4, the sixth consecutive month above the expansionary threshold of 50.0, and the highest reading since 58.5 in August 2004.
- Inflation remains low -- the CPI rose 0.1 percent in December from the previous month. Core inflation also rose 0.1 percent for the month and stands 1.8 percent above December of last year.
- At its January meeting, the Federal Reserve again announced it will keep the federal funds target rate in the 0.0 to 0.25 percent range "for an extended period."

## **Virginia Economy**

Although Virginia employment continues to decline, the pace of job losses has slowed. Payroll employment fell by 1.5 percent in December, following a 2.0 percent decline in November, the sixteenth consecutive monthly drop. Northern Virginia posted a loss of 0.1 percent, Hampton Roads fell 0.2 percent, and employment in the Richmond-Petersburg area fell 2.1 percent in December. The unemployment rate in Virginia rose from 6.4 percent to 6.7 percent in December, but remains below the June peak of 7.3 percent.

The Virginia Leading Index was unchanged in December following seven consecutive monthly gains. Initial claims for unemployment improved in December, offsetting the declines in building permits and auto registrations. The leading index contracted in seven of the eleven metropolitan areas in the Commonwealth. The index expanded in Blacksburg, Bristol, Charlottesville, and Winchester.

## **January Revenue Collections**

Total general fund revenue collections fell 6.5 percent in January. Collections in individual estimated payments, sales tax, and recordation taxes declined for the month. Individual withholding collections posted a modest gain and corporate income tax payments increased. Year to date, total revenues fell 4.7 percent, trailing the revised annual estimate of a 2.7 percent decline.

***Net Individual Income Tax (64% of general fund revenues):*** Through January, collections of net individual income tax fell by 5.7 percent from the same period last year, close to the revised annual estimate of a 5.6 percent decline. 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 grew 1.4 percent in January. Year-to-date withholding collections declined by 1.8 percent over the same period last year, trailing the projected annual growth rate of a 0.2 percent increase.

***Individual Income Tax Nonwithholding (13% of general fund revenues):*** Collections in this source fell 22.7 percent in January. December and January are significant months for collections in this source and growth can be distorted by the timing of payments. Taxpayers have until January 15 to submit their fourth estimated payment for tax year 2009. Receipts for the two-month period fell 17.0 percent from last year. Year to date, collections fell 20.0 percent from the same period last year, close to the revised annual estimate of a 21.5 percent decline.

***Individual Income Tax Refunds:*** TAX issued \$88.8 million in refunds in January compared with \$108.2 million last January. The main income tax filing season will begin in February.

**Sales Tax (22% of general fund revenues):** Collections of sales and use taxes, reflecting December sales, fell 3.7 percent in January. Taken together, collections of sales and use taxes in December and January (amnesty payments removed) declined 3.1 percent, compared with the forecast of a 3.0 percent decline. A more complete picture will be available with February receipts, which include January post-holiday sales and gift card redemptions.

On a year-to-date basis, collections have fallen 3.4 percent, compared with the annual estimate of 4.1 percent growth and the policy adjusted forecast of a 4.1 percent decline (excluding the amnesty and the accelerated sales tax program policy adjustments).

**Corporate Income Tax (5% of general fund revenues):** Collections of corporate income tax were \$30.3 million in January, compared with \$20.8 million last January, a 45.3 percent increase. On a year-to-date basis, collections in this source have risen 34.5 percent, ahead of the revised annual forecast of 8.8 percent growth.

**Wills, Suits, Deeds, Contracts (2% of general fund revenues):** Collections of wills, suits, deeds, and contracts – mainly recordation tax collections – fell 3.0 percent in January. On a year-to-date basis, collections are down 1.1 percent, ahead of the forecast of a 9.6 percent decline.

**Insurance Premiums (2% of general fund revenues):** Collections of taxes on insurance premiums were negative for the month of January and down 82.8 percent year-to-date. Chapter 896 of the 2007 Acts of the Assembly required that \$129.1 million of collections in this source be transferred to the Transportation Trust Fund in fiscal year 2010 before any deposits to the general fund could be made. The required transfer was completed in December. Refunds to insurance companies were then paid in January, while refunds were issued in February of last year.

### **Other Revenue Sources**

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

	<b><u>Year-to-Date</u></b>	<b><u>Annual Estimate</u></b>
Interest Income (1% GF revenues)	-10.8%	10.8%
ABC Taxes (1% GF revenues)	0.1%	0.9%

**All Other Revenue (3% of general fund revenues):** Receipts in All Other Revenue fell 11.3 percent in January – \$36.8 million compared with \$41.5 million last January. For the fiscal year-to-date, collections of All Other Revenue fell 14.9 percent from the same period in fiscal year 2009, lagging the annual estimate of a 4.2 percent decline.

**Summary**

Total general fund revenue collections fell 6.5 percent in January. The monthly decline is overstated because the State Corporation Commission issued refunds to insurance companies in January this year, while last year they were issued in February. On a year-to-date basis, total revenues fell 4.7 percent, trailing the revised annual forecast of a 2.7 percent decline. Further analysis of the collections data will form the basis of any recommended mid-session forecast adjustments.