

The Virginia Economy and Revenues

Fiscal Year 2011 and Recent Trends



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Both The U.S. And Virginia Economies Performed Slightly Better Than Expected In Fiscal Year 2011...

- As measured on a fiscal year basis (July through June), estimated real GDP increased 2.6 percent.
 - Rising inventories supported growth, offsetting modest consumer spending in the face of employment losses and shrinking incomes.

Summary of Key U.S. and Virginia Economic Indicators Percent Change Over the Prior Fiscal Year

	<u>FY11</u> <u>Forecast</u>	<u>FY11</u> <u>Actual</u>	<u>Actual Minus</u> <u>Forecast</u>
<u>U.S.</u>			
Real GDP	2.2	2.6	0.4
Consumer Spending	2.1	2.5	0.4
Employment	0.5	0.6	0.1
Personal Income	3.3	5.4	2.1
Wages & Salaries	2.8	3.7	0.9
<u>Virginia</u>			
Employment	0.7	1.2	0.5
Professional/Business	1.6	3.0	1.4
Construction/Mining	(3.0)	(0.3)	2.7
Personal Income	2.8	4.0	1.2
Wages & Salaries	2.6	3.3	0.7

- In Virginia, employment gains were slightly better than expected, thanks in part to gains in the high-paying professional and business services sector. Income growth also exceeded expectations.

Fiscal Year 2011 Revenues and Transfers Finished \$310.7 Million (2.1 Percent) Above Forecast...

Summary of Fiscal Year 2011 Revenue Collections (millions of dollars)

<u>Major Source</u>	<u>Forecast</u>	<u>Actual</u>	<u>Variance</u>		<u>Annual Growth</u>
			<u>Dollars</u>	<u>Percent</u>	
Withholding	\$ 9,574.8	\$ 9,635.1	\$ 60.3	0.6 %	5.0 %
Nonwithholding	2,068.4	2,178.6	110.2	5.3	14.3
Refunds	(1,897.0)	(1,869.3)	27.7	(1.5)	(6.3)
Net Individual	9,746.2	9,944.4	198.2	2.0	9.4
Sales	2,968.9	3,012.4	43.5	1.5	(2.3)
Corporate	766.6	822.3	55.7	7.3	2.0
Wills (Recordation)	274.0	291.5	17.5	6.4	0.4
Insurance	277.7	281.6	3.9	1.4	7.5
All Other Revenue	685.1	688.2	3.1	0.4	(0.3)
Total Revenues	\$ 14,718.5	\$ 15,040.2	\$ 321.7	2.2 %	5.8 %
ABC Profits	46.2	50.5	4.3	9.3	1.1
Sales Tax (0.25%)	217.3	204.0	(13.3)	(6.1)	(2.6)
Transfers	159.6	157.6	(2.0)	(1.3)	(48.8)
Total Transfers	\$ 423.1	\$ 412.1	\$ (11.0)	(2.6) %	(27.3) %
Total General Fund	\$ 15,141.6	\$ 15,452.3	\$ 310.7	2.1 %	4.5 %

- Total revenues, which finished \$321.7 million (2.2 percent) above the forecast, increased for the first time since fiscal year 2008.
 - Total revenues are still below fiscal year 2007 levels.

Small Business Hiring and Wages Have Rebounded: Withholding Collections for Small Payers Grew 6.1 Percent Between FY10 and FY11

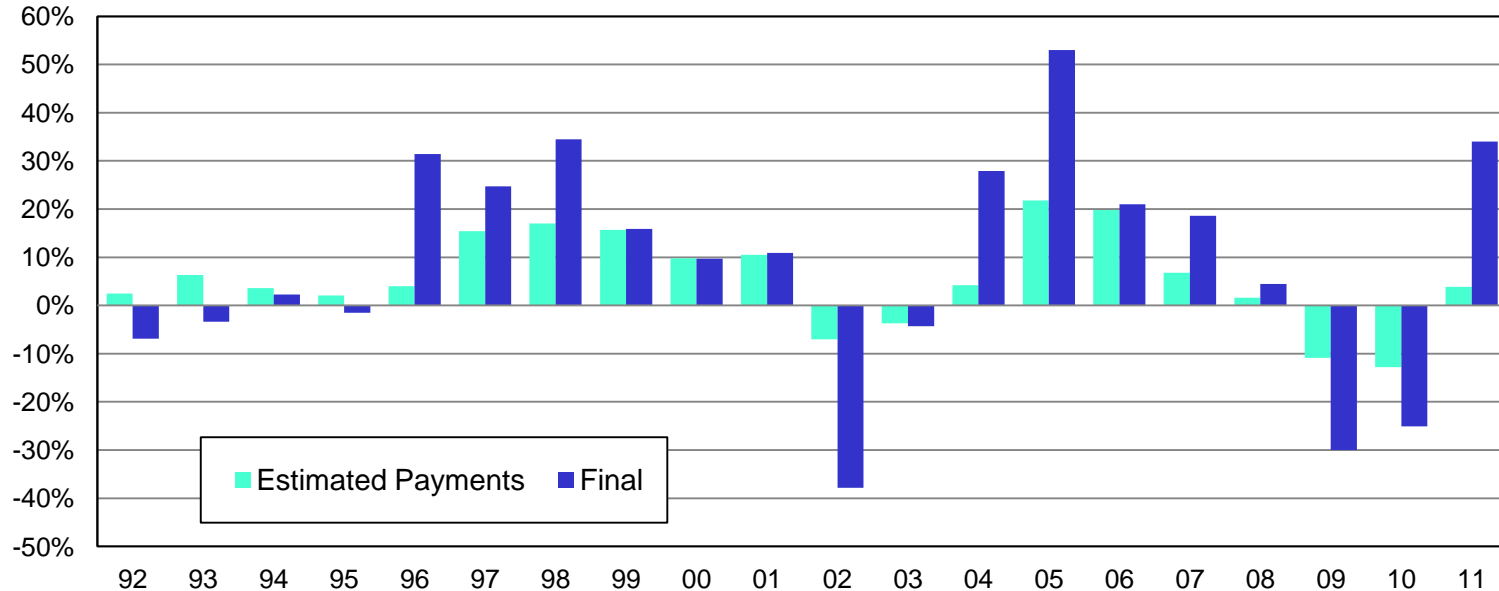
Withholding Tax Collections (millions of dollars)

Industry (% of Total, FY11)	# of Firms in FY11	FY09	FY10	FY11	% change	
					10 over 09	11 over 10
Public Administration (18%)	83	\$1,567.1	\$1,696.4	\$1,771.1	8.2%	4.4%
Education/Health (8%)	220	\$734.7	\$745.9	\$757.4	1.5%	1.5%
Federal Contractors (5%)	134	\$454.1	\$487.6	\$490.1	7.4%	0.5%
Financial (5%)	105	\$207.4	\$225.0	\$248.3	8.5%	10.3%
Professional/Business (2%)	424	\$210.0	\$201.0	\$226.1	-4.3%	12.5%
Investment (1%)	135	\$123.4	\$119.7	\$129.8	-3.0%	8.4%
Manufacturing (1%)	134	\$112.8	\$122.4	\$125.1	8.6%	2.2%
Transportation (1%)	37	\$96.6	\$97.4	\$102.5	0.9%	5.2%
Energy (1%)	43	\$87.6	\$92.5	\$98.7	5.6%	6.8%
Other (5%)	605	\$462.5	\$458.5	\$453.3	-0.9%	-1.1%
Total Large Payers (46%)	1,920	\$4,056.2	\$4,246.5	\$4,402.3	4.7%	3.7%
Total Small Payers (54%)	1,837	\$5,081.9	\$4,929.7	\$5,232.8	-3.0%	6.1%
Total DOA Withholding	3,537	\$9,138.1	\$9,176.2	\$9,635.1	0.4%	5.0%

(Number in parentheses represents percent of total DOA withholding.)

Individual Income Tax Nonwithholding Exceeded The Annual Estimate By \$110.2 Million (5.3 Percent) In Fiscal Year 2011...

Growth in Estimated and Final Payments, FY92-11
Percent Growth Over the Prior Year



- The large surplus was attributable to a better-than-expected performance in individual final payments, which increased by 34 percent compared with expectations of a 17 percent increase.
 - These payments are historically tied to non-wage income sources – mainly financial markets.
- Taken together, total nonwithholding collections grew 14.3 percent in fiscal year 2011 compared with the annual estimate of 8.5 percent growth.

After Falling in FY10, Sales Tax Collections Increased 5.1 Percent, Exceeding FY09 Collections...

Sales And Use Tax Collections Adjusted for AST (millions of dollars)

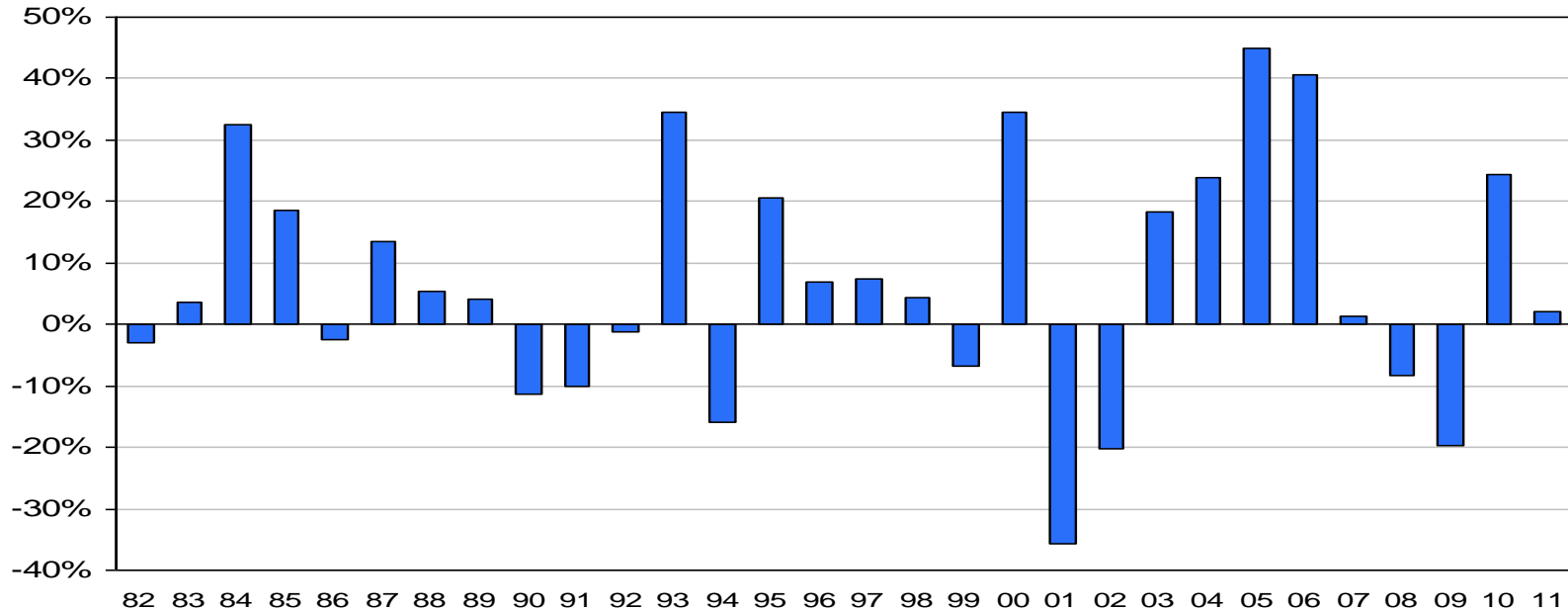
<u>Industry (% of Total, FY11)</u>	<u># of Filers in</u>			<u>% change</u>		
	<u>FY11</u>	<u>FY09</u>	<u>FY10</u>	<u>FY11</u>	<u>10 over 09</u>	<u>11 over 10</u>
Housing (13%)	174	\$405.4	\$389.0	\$404.4	-4.1%	4.0%
Warehouse Clubs/Supercenters (13%)	6	\$375.2	\$371.5	\$377.1	-1.0%	1.5%
Department Stores (12%)	113	\$348.3	\$344.9	\$353.8	-1.0%	2.6%
Grocery Stores (10%)	21	\$298.6	\$298.4	\$295.3	-0.1%	-1.0%
Retail Trade (9%)	99	\$233.2	\$246.5	\$257.4	5.7%	4.4%
Restaurants (4%)	76	\$120.9	\$124.4	\$130.7	2.9%	5.0%
Wholesale Trade (2%)	74	\$52.0	\$55.4	\$56.1	6.5%	1.4%
Gasoline Stations (2%)	17	\$47.3	\$48.8	\$51.0	3.1%	4.6%
Other (5%)	336	\$203.9	\$186.9	\$168.1	-8.4%	-10.1%
Total Large Filers (70%)	916	\$2,084.9	\$2,065.6	\$2,093.9	-0.9%	1.4%
Total Small Filers (30%)	145,031	\$818.5	\$793.1	\$909.8	-3.1%	14.7%
Total Sales (adjusted for AST)	145,947	\$2,903.4	\$2,858.7	\$3,003.7	-1.5%	5.1%

(Number in parentheses represents percent of total DOA sales tax collections adjusted for AST.)

- Largest increase in sales tax collections came from small filers.
- Only Grocery Stores and Other large filers continued to experience negative growth.

Corporate Income Tax Receipts Exceeded The Annual Estimate By \$55.7 Million (7.3 Percent) In Fiscal Year 2011...

Growth in Net Corporate Income Tax Receipts, FY82-11
Percent Growth Over the Prior Year



- Corporate income tax collections, one of the most volatile revenue sources, grew 2.0 percent in fiscal year 2011, ahead of the revised annual estimate of a 4.9 percent decline.

Positive Growth in Total Corporate Income Tax Collections Due to Small Filers....

Corporate Income Tax Collections (millions of dollars)

Industry (% of Total, FY11)	# of Filers in FY11	FY09	FY10*	FY11	% change	
					10 over 09	11 over 10
Federal Contractors (11%)	130	\$124.8	\$124.8	\$114.4	0.1%	-8.4%
Financial (8%)	82	\$38.3	\$45.2	\$77.3	18.0%	70.9%
Tobacco (7%)	10	\$53.7	\$46.4	\$68.6	-13.7%	48.1%
Energy (7%)	75	\$71.1	\$64.6	\$68.5	-9.2%	6.1%
Housing (6%)	190	\$36.8	\$41.1	\$60.1	11.6%	46.3%
Wholesale Trade (5%)	65	\$31.3	\$52.7	\$54.4	68.0%	3.2%
Manufacturing (5%)	236	\$41.3	\$79.9	\$50.5	93.5%	-36.8%
Professional and Business (4%)	237	\$63.1	\$54.1	\$42.4	-14.2%	-21.7%
Telecommunications (4%)	53	\$42.8	\$43.9	\$41.5	2.5%	-5.4%
Retail Trade (3%)	53	\$21.5	\$26.6	\$27.9	24.1%	4.9%
Other (13%)	586	\$139.9	\$164.9	\$134.6	17.9%	-18.4%
Total Large Filers (73%)	1,717	\$664.6	\$744.1	\$740.2	12.0%	-0.5%
Total Small Filers (27%)	246,641	\$209.7	\$204.8	\$277.3	-2.3%	35.4%
Total DOA Collections	248,358	\$874.3	\$948.9	\$1,017.5	8.5%	7.2%

* FY10 adjusted for a large one-time payment.

(Number in parentheses represents percent of total DOA corporate tax collections.)

- Corporate income tax collections from Federal Contractors, Manufacturing, Professional and Business, Telecommunications and Other decreased in FY11, while collections from Financial and Tobacco industries increased substantially.

Recent National and State Economic Indicators

- According to the third estimate, real GDP grew at an annualized rate of 1.3 percent in the second quarter of 2011. This was up from an even lower 0.4 percent growth in the first quarter.
- Labor market conditions improved slightly in September, as payroll employment gained 103,000 jobs.
 - However, about 45,000 of these jobs were a result of striking Verizon workers returning to work.
- The national unemployment rate remained unchanged at 9.1 percent in September for the second straight month.
- Following a decrease of 33,000 in August, initial claims for unemployment increased by 6,000 to 401,000 during the week ending October 1.
 - The four-week moving average decreased from 418,000 to 414,000.
- Based on preliminary numbers, employers in Virginia have added jobs in eight of the last 12 months. Payroll employment in August grew just 0.1 percent from August of last year.
 - Employment was flat in Northern Virginia, but fell 0.2 percent in Hampton Roads and 1.5 percent in Richmond-Petersburg.
- The unemployment rate in Virginia rose from 6.2 percent to 6.5 percent in August, but remains well below the national rate of 9.1 percent.

Recent National and State Economic Indicators

- The Conference Board's index of leading indicators rose for the fourth straight month in August by 0.3 percent.
 - The rise in the index suggests that the economy should continue to modestly expand.
- The Conference Board's index of consumer confidence, which plummeted to 45.2 in August, inched up to 45.4 in September.
- The manufacturing sector continued to expand in September at a slightly faster pace, as the Institute of Supply Management index increased from 50.6 to 51.6.
 - This marks the 26th consecutive month above the expansionary threshold of 50.0.
- The saving rate dropped slightly from 4.7 percent in July to 4.5 in August.
- Inflation remains low – the CPI increased 0.4 percent in August from the previous month. It is now 3.8 percent above the August 2010 level.
 - Core inflation (excluding food and energy prices) rose 0.2 percent in August, and 2.0 percent since August 2010.
- The Federal Reserve announced at its August meeting that it will keep the federal funds rate target unchanged at 0.0 to 0.25 percent.

The September Forecast is More Pessimistic in the Near-Term than the Official Forecast...

U.S. Economic Performance

Official (October 2010 Standard) and September 2011 Standard

Source: Global Insight

		<u>10Q4</u>	<u>11Q1</u>	<u>11Q2</u>	<u>11Q3</u>	<u>11Q4</u>	<u>12Q1</u>	<u>12Q2</u>
Real GDP (annual % change)	Official	1.9	2.2	2.2	2.7	3.7	2.7	3.1
	September	2.3	0.4	1.0	1.2	1.4	2.1	2.1
Consumer Spending (annual % change)	Official	2.2	2.6	1.8	2.6	2.9	1.7	2.1
	September	3.6	2.1	0.4	1.7	1.9	1.8	2.4
Employment (year-ago % change)	Official	0.2	0.7	1.2	1.6	2.4	2.3	2.4
	September	0.8	1.3	1.4	0.4	0.6	0.9	1.4
Personal Income (year-ago % change)	Official	3.6	2.8	3.0	3.4	3.8	3.9	4.4
	September	4.1	8.8	4.7	2.6	3.6	3.8	3.5
Wages & Salaries (year-ago % change)	Official	2.4	3.2	3.3	3.6	4.0	4.4	4.6
	September	3.3	4.4	4.0	3.6	4.1	3.4	3.1
Oil - WTI (\$ per barrel)	Official	77.0	79.5	81.2	84.0	85.7	87.7	88.7
	September	85.0	94.0	102.6	90.0	91.0	95.4	97.4
Light Vehicle Sales (millions of units)	Official	11.6	12.2	12.5	13.0	13.6	14.2	14.7
	September	12.3	13.0	12.1	12.2	12.5	12.8	13.3
Housing Starts (millions of units)	Official	0.6	0.7	0.7	0.8	0.9	1.1	1.2
	September	0.5	0.6	0.6	0.6	0.6	0.6	0.7

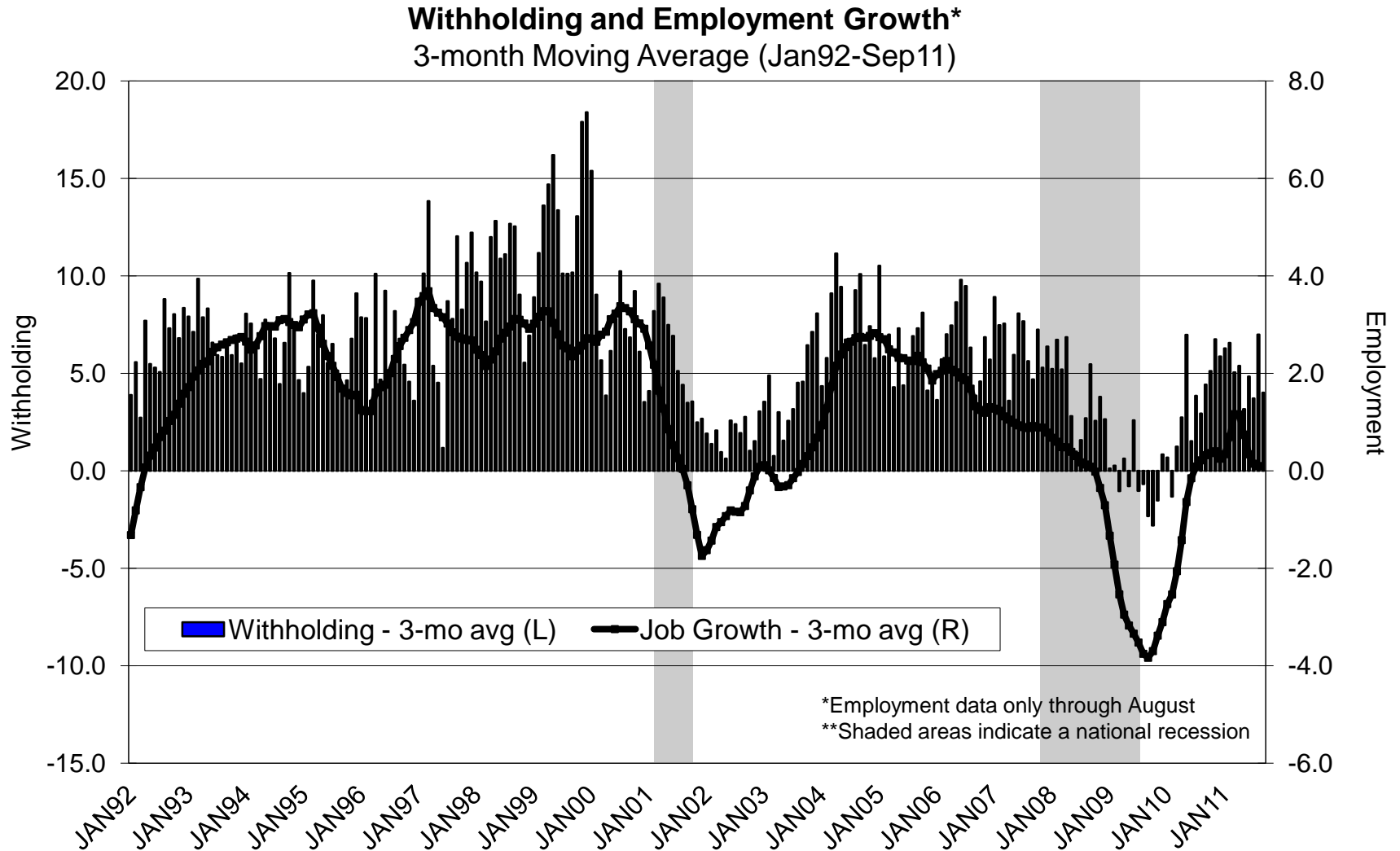
Total Revenue Collections Rose 6.7 Percent in the First Quarter of Fiscal Year 2012, Ahead of the Official Forecast of 3.7 Percent Growth....

Summary of Fiscal Year 2012 Revenue Collections

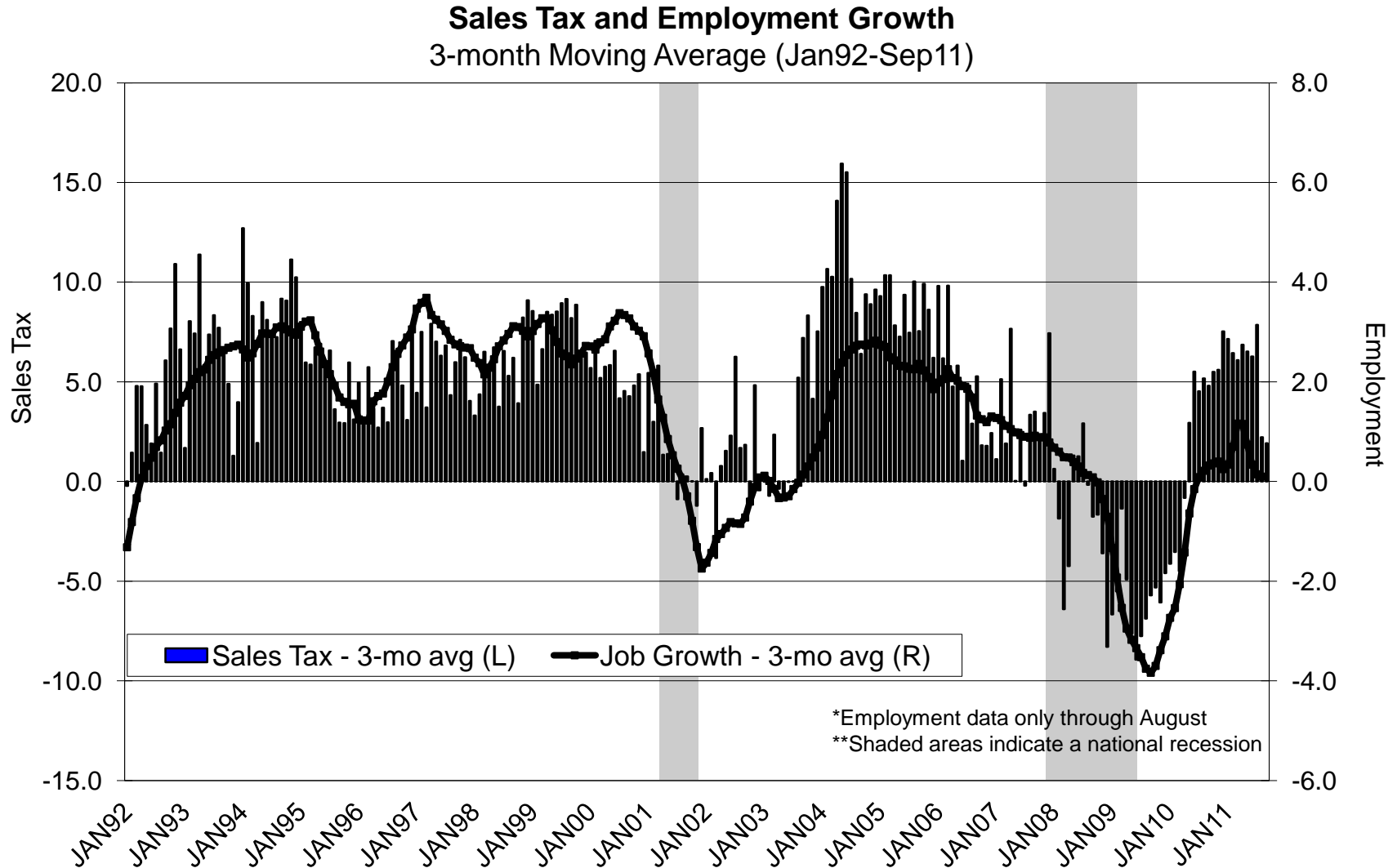
July through September

<u>Major Source</u>	As a % of Total Revenues	Percent Growth over Prior Year		
		YTD <u>Actual</u>	Annual <u>Estimate</u>	<u>Variance</u>
Withholding	63.9 %	4.0 %	3.4 %	0.6 %
Nonwithholding	14.3	18.8	2.1	16.7
Refunds	<u>(11.9)</u>	<u>(14.1)</u>	<u>(0.9)</u>	<u>(13.2)</u>
Net Individual	66.2	6.8	3.9	2.9
Sales	20.0	7.3	3.4	3.9
Corporate	5.3	7.7	1.1	6.6
Wills (Recordation)	1.9	4.2	3.3	0.9
Insurance	1.9	NA	2.9	NA
All Other Revenue	4.7	3.5	5.7	(2.2)
Total	100.0 %	6.7 %	3.7 %	3.0 %
Sales x AST		1.9 %	2.5 %	(0.6) %
Total x AST		5.6 %	3.5 %	2.1 %

Predicted Declines from Employment Survey Not Supported by Actual Withholding Data...



Recent Sales Tax Collections Are Now Lining Up With The Employment Survey...



Questions??

Thanks!!!

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