Economic and Revenue Update

A Briefing for the

House Appropriations Committee

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Topics for Discussion

- National and State Economic Indicators
- August Year-to-Date Revenue Collections, Fiscal Year 2014
- Next Steps

National and State Economic Indicators

- Current national indicators suggest the economy is continuing its slow expansion.

- According to the second estimate, real GDP grew at an annualized rate of 2.5 percent in the second quarter of 2013, up from 1.1 percent in the first quarter.

- Payroll employment rose by 169,000 in August and the gains made in June and July were revised downward by a total of 74,000.

- The national unemployment rate fell slightly from 7.4 to 7.3 percent in August, as the labor force contracted.

- Initial claims for unemployment fell by 9,000 to 323,000 during the week ending August 31.
  - The four-week moving average fell from 331,500 to 328,500.

- In July, payroll employment in Virginia grew by 1.5 percent from July of last year.
  - Compared to last year, employment increased 1.9 percent in Northern Virginia, 0.8 percent in Richmond-Petersburg and 2.8 percent in Hampton Roads.

- The unemployment rate in in Virginia fell 0.1 percentage point to 5.8 percent in July and is 0.4 percentage point below July 2012.

National and State Economic Indicators

- Activity in the manufacturing sector exceeded expectations in August, as the Institute of Supply Management index rose from 55.4 to 55.7.

- The Conference Board's index of leading indicators rose 0.6 percent in July after remaining flat in June.   This is consistent with continued slow economic growth.

- The Conference Board's index of consumer confidence rose from 81.0 to 81.5 in August and has now been over 80.0 for three consecutive months.

- The CPI rose 0.2 percent in July and stands 2.0 percent above July 2012.
  - Core inflation (excluding food and energy prices) also rose 0.2 percent in July, and has increased 1.7 percent from July 2012.

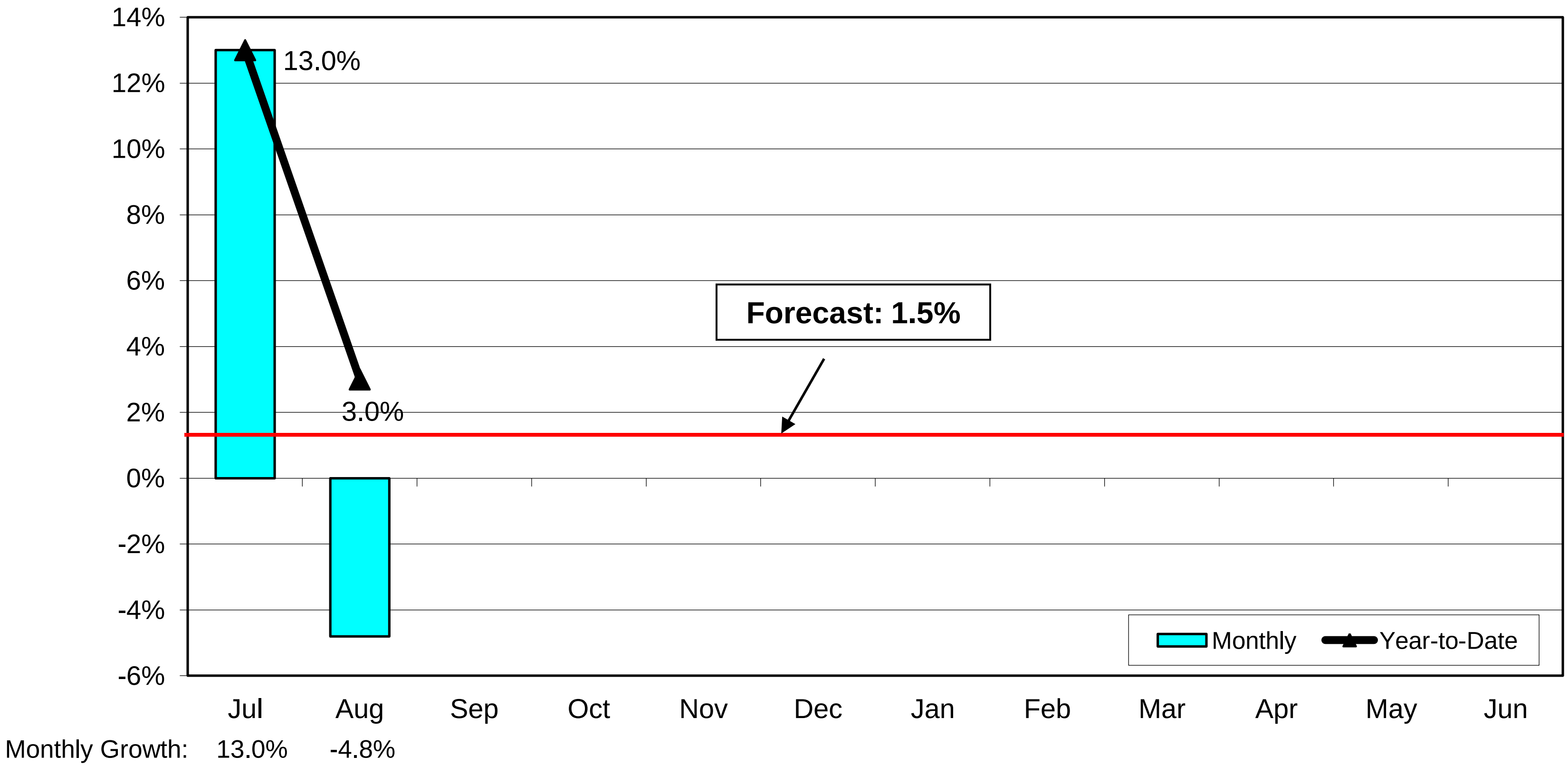
- According to RealtyTrac, U.S. foreclosure activity for July declined 32.0 percent from July 2012.
  - One in every 1,000 U.S. housing units received a foreclosure notice in July.
  - In Virginia, one in every 255 households received a foreclosure notice.

- The saving rate was 4.4 percent in July, the same as in June.

- At its July meeting, the Federal Reserve reaffirmed that the federal funds rate target was going to remain unchanged at 0.0 to 0.25 percent.

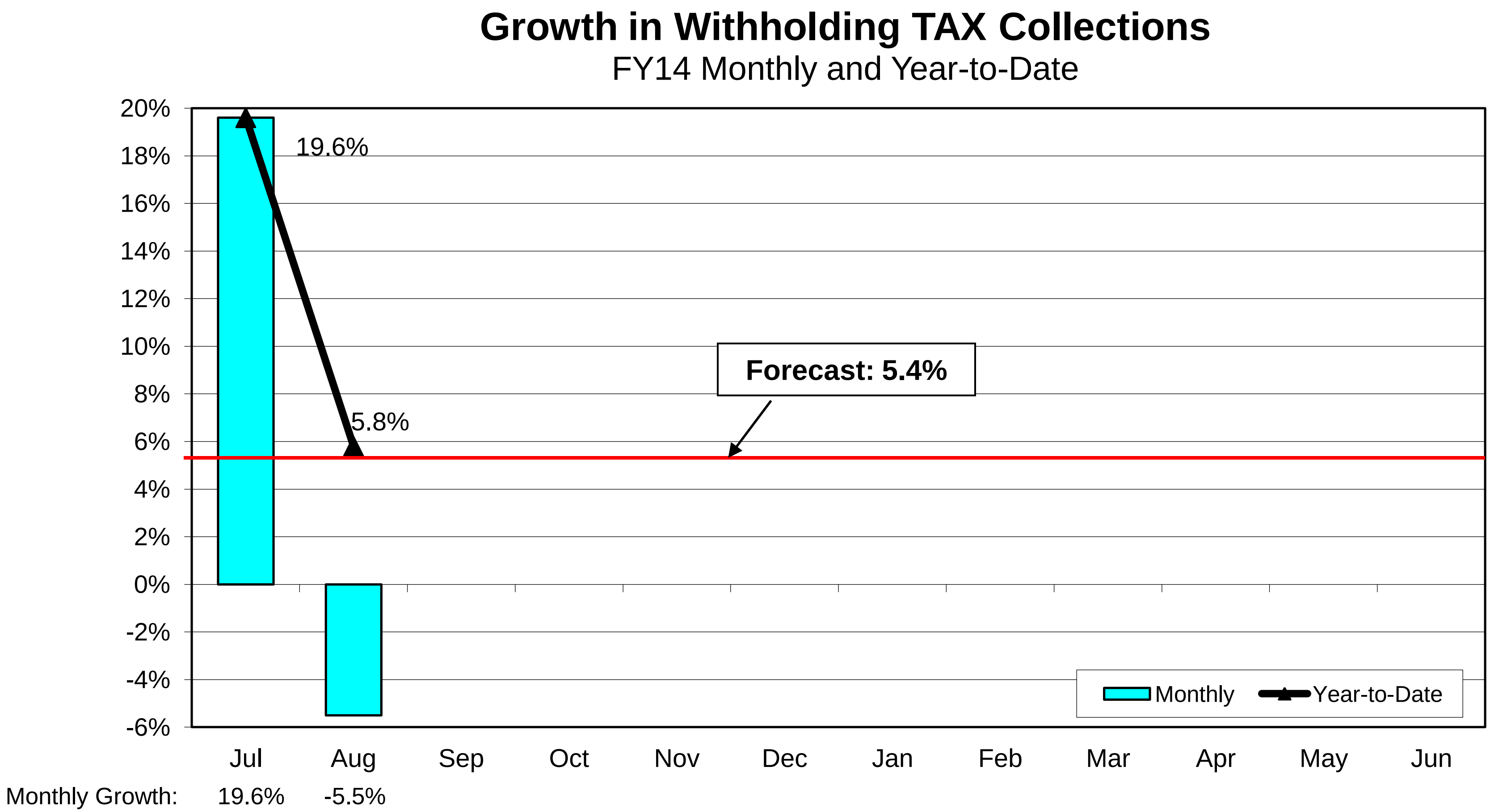
Growth in Total General Fund Revenue Collections

FY14 Monthly and Year-to-Date



- Total general fund revenues fell 4.8 percent in August, driven by a drop in individual withholding payments.

- On a year-to-date basis, total revenues increased 3.0 percent, ahead of the annual forecast of 1.5 percent growth.
  - Adjusting for HB2313 program, total revenues grew 3.6 percent through August, ahead of the economic-base forecast of 1.4 percent growth.



- Collections of payroll withholding taxes fell 5.5 percent in August with one less deposit day than August of 2012.
- Year to date, withholding collections increased 5.8 percent compared with the same period last year, ahead of the projected annual growth rate of 5.4 percent.
  - The 2 month period this year has one additional deposit day as compared to last year.

Individual Nonwithholding

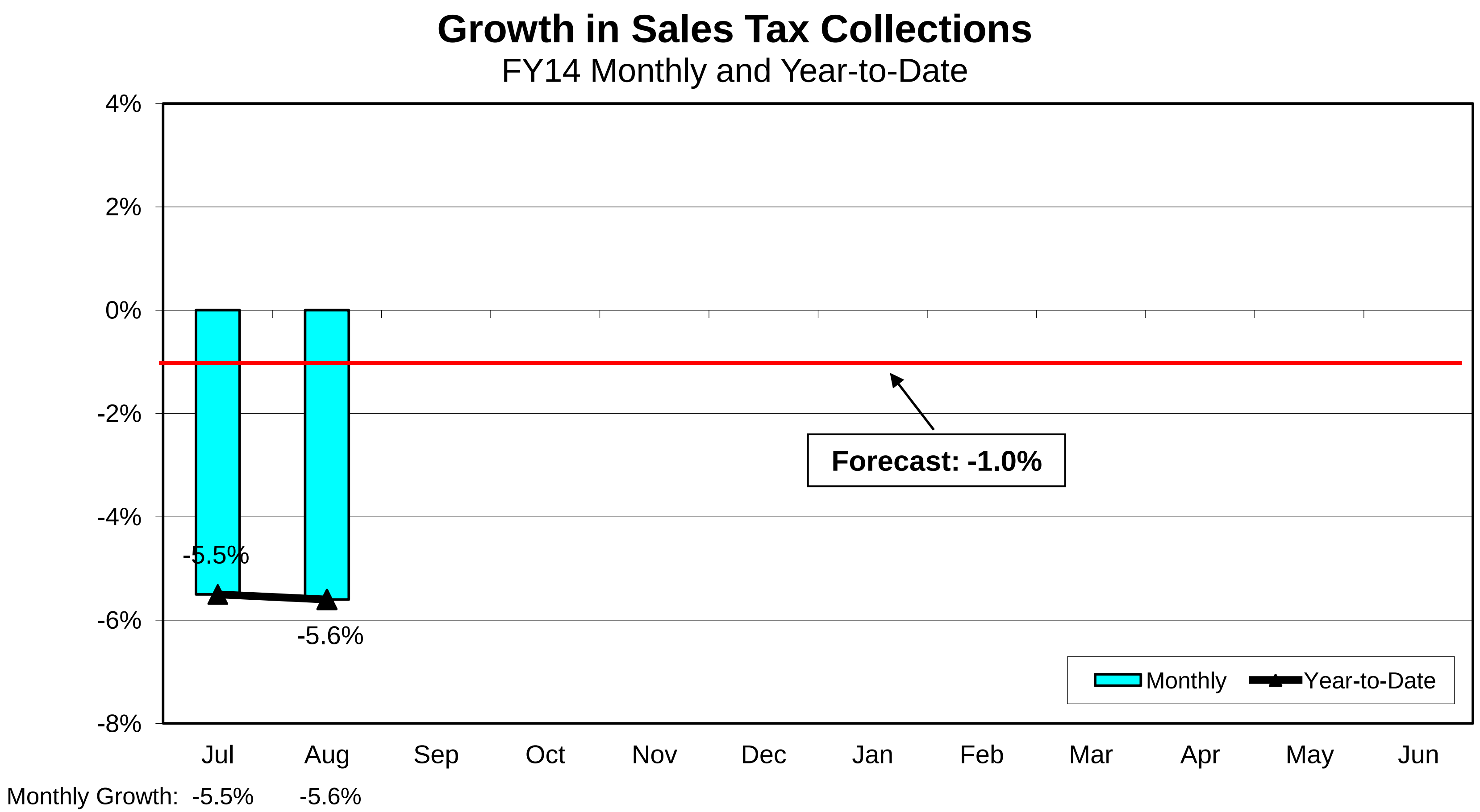
- Collections through August were $85.0 million compared with $80.4 million in the same period last year, increasing by 5.7 percent and ahead of the annual estimated 5.9 percent decline. However, August is not a significant month for this source.

Individual Income Tax Refunds

- Through August, TAX has issued $83.6 million in individual refunds compared with $72.6 million in the same period last year, a 15.1 percent increase and ahead of the annual estimate of 6.3 percent growth.

Net Individual Income Tax

- Through the first two months of the fiscal year, collections of net individual income tax increased 5.4 percent from the same period last year, ahead of the annual estimate of 2.5 percent growth.



- Collections of sales and use taxes, reflecting July sales, decreased 5.6 percent.
- On a year-to-date basis, collections declined 5.6 percent, behind the annual estimate of a 1.0 percent decline.
  - Adjusting for AST and HB2313, sales tax collections declined 1.0 percent through August, behind of the economic-base forecast of a 5.2 percent increase.

Net Corporate Income Tax Collections

- Through the first two months of the fiscal year, $20.5 million has been collected in this source, compared with $13.7 million over the same period last year. August is not typically a significant month for this source.

Recordation and Insurance Premiums Tax

Recordation

- In August, collections fell 1.9 percent compared to last year. Year-to-date collections have increased 5.6 percent compared to last year, ahead of the forecast of a 10.9 percent decline.

Insurance

- Collections are zero as the required transfers to the Transportation Trust Fund are being completed.

Summary of Fiscal Year 2014 Revenue Collections

July through August

Major Source	As a % of Total Revenues	Percent Growth over Prior Year: YTD Actual	Percent Growth over Prior Year: Annual Estimate	Percent Growth over Prior Year: Variance
Withholding	63.8 %	5.8 %	5.4 %	0.4 %
Nonwithholding	15.6	5.7	(5.9)	11.6
Refunds	(10.8)	15.1	6.3	8.8
Net Individual	68.6	5.4	2.5	2.9
Sales	18.8	(5.6)	(1.0)	(4.6)
Corporate	5.0	49.9	5.4	44.5
Wills (Recordation)	2.0	5.6	(10.9)	16.5
Insurance	1.7	0.0	7.0	(7.0)
All Other Revenue	4.0	(6.7)	(2.3)	(4.4)
Total	**100.0 %**	**3.0 %**	**1.5 %**	**1.5 %**

	YTD Actual	Annual Estimate	Variance
Sales (x HB2313)	(1.0) %	5.2 %	(6.2) %
Total (x HB2313)	3.6 %	1.4 %	2.2 %

September is Next Significant Data Point

- Estimated payments are due from individuals, corporations and insurance companies.
  - Last data point to include in the revenue models.
  - Nonwithholding forecast will be driven by this payment and financial markets' performance.

- Sales tax for August sales will complete the summer tourism season and any adjustments from the AST program will be completed.

Next Steps

- Joint Advisory Board of Economists (JABE) – October

- Governor’s Advisory Council on Revenue Estimates (GACRE) – November