



ECONOMIC AND REVENUE REVIEW AND UPDATE

A BRIEFING FOR THE MONEY COMMITTEES

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TOPICS FOR DISCUSSION

NATIONAL ECONOMIC INDICATORS

VIRGINIA'S ECONOMIC PERFORMANCE COMPARED TO THE U.S. AND
COMPETITOR STATES

APRIL YEAR-TO-DATE REVENUE COLLECTIONS, FISCAL YEAR 2022

OUTLOOK

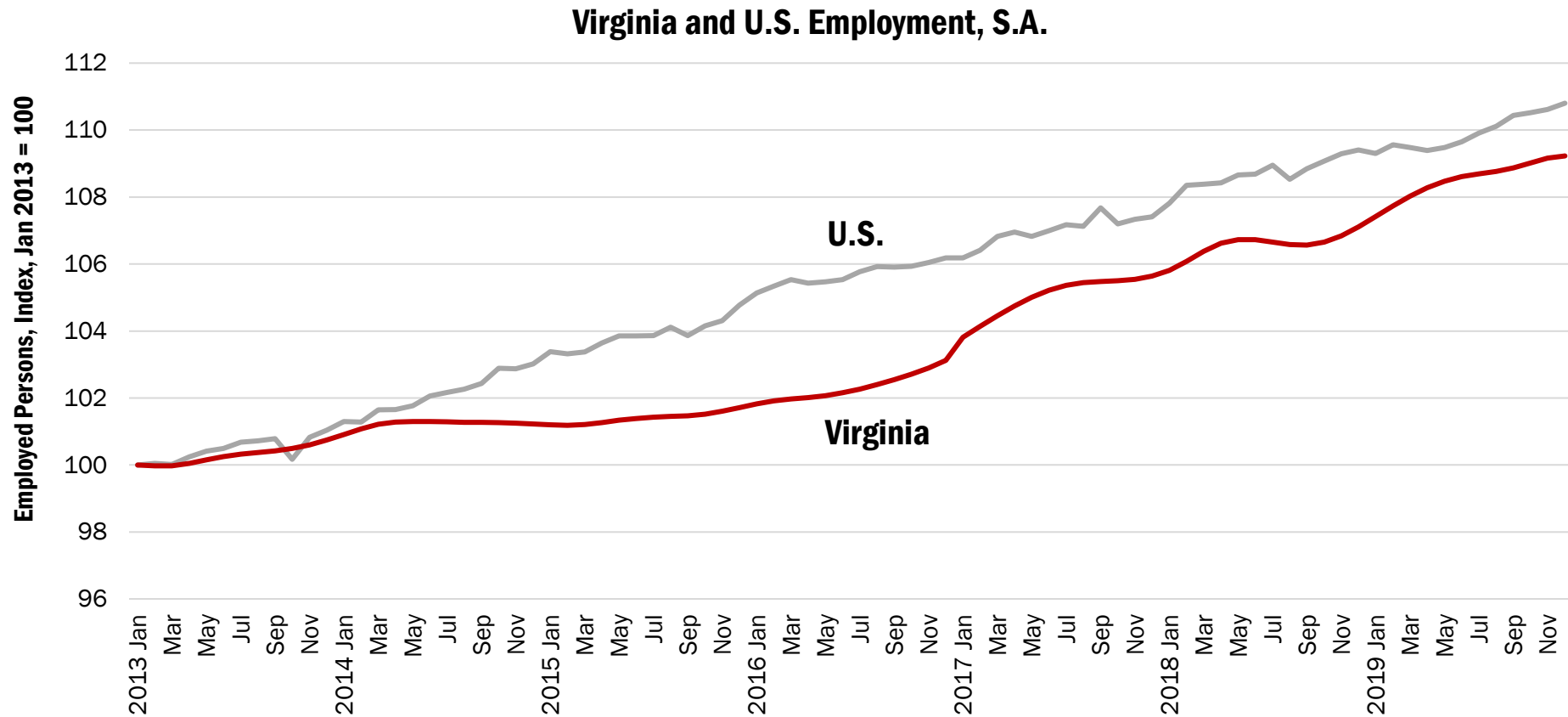
NATIONAL ECONOMIC INDICATORS

- At the national level, the economy continues to show strength with strong demand and a tight labor supply driving employment and wage growth.
- Supply side constraints continue to hinder the economy's capacity to meet strong demand, reflecting supply chain fallout from COVID-19, geopolitical instability, and labor shortages. As a result, trade deficits are increasing as we look to imports to meet consumer demand.
- High inflation persists. The CPI rose 1.2 percent in March and stands 8.6 percent above March of last year. Core inflation (excluding food and energy prices) rose 0.3 percent and stands 6.4 percent above a year ago.
- Real GDP fell at an annual rate of 1.4 percent in the first quarter of 2022, but the decrease was driven by temporary factors, mainly a surge in imports, while “core” components of GDP – personal consumption, business investment and homebuilding – all grew.
- National unemployment remains low at 3.6 percent, and the job market remains strong. The shortage of workers to fill jobs is impacting large and small employers across the country and continued job and wage growth is expected.
- The labor market added 428,000 jobs to payrolls in April. The gains were widespread, bringing the three-month average to 523,000.
- Initial claims for unemployment rose by 19,000 to 200,000 during the week ending April 30. The four-week moving average rose by 8,000 to 188,000. In a healthy economy, new filings are typically below 250,000.
- At its May meeting, the Federal Reserve raised the federal funds target rate by 50 basis points to the range of 0.75 to 1.0 percent.

VIRGINIA'S ECONOMY HAS LAGGED U.S. AND COMPETITOR STATES, BUT THE GAP IS CLOSING

- Virginia's economy underperformed the nation both during the years leading up to the pandemic and since.
- From January to March, the number of employed Virginians increased 42,000, ranking Virginia 14th among the states for employment growth during that time.
- For the pandemic as a whole, Virginia has lagged the nation and her peer states, ranking 47th in jobs recovered.
- As of March 2022, Virginia employment remains 171,000 jobs below pre-pandemic levels.
- In addition, the labor participation rate in Virginia is showing signs of improvement, increasing 0.7 percentage points since December 2021, after having fallen much more than the nation as a whole.

EMPLOYMENT GROWTH IN VIRGINIA LAGGED THE U.S. PRIOR TO THE PANDEMIC



Source: Current Population Survey (U.S.) and Local Area Unemployment Statistics (Virginia), Bureau of Labor Statistics

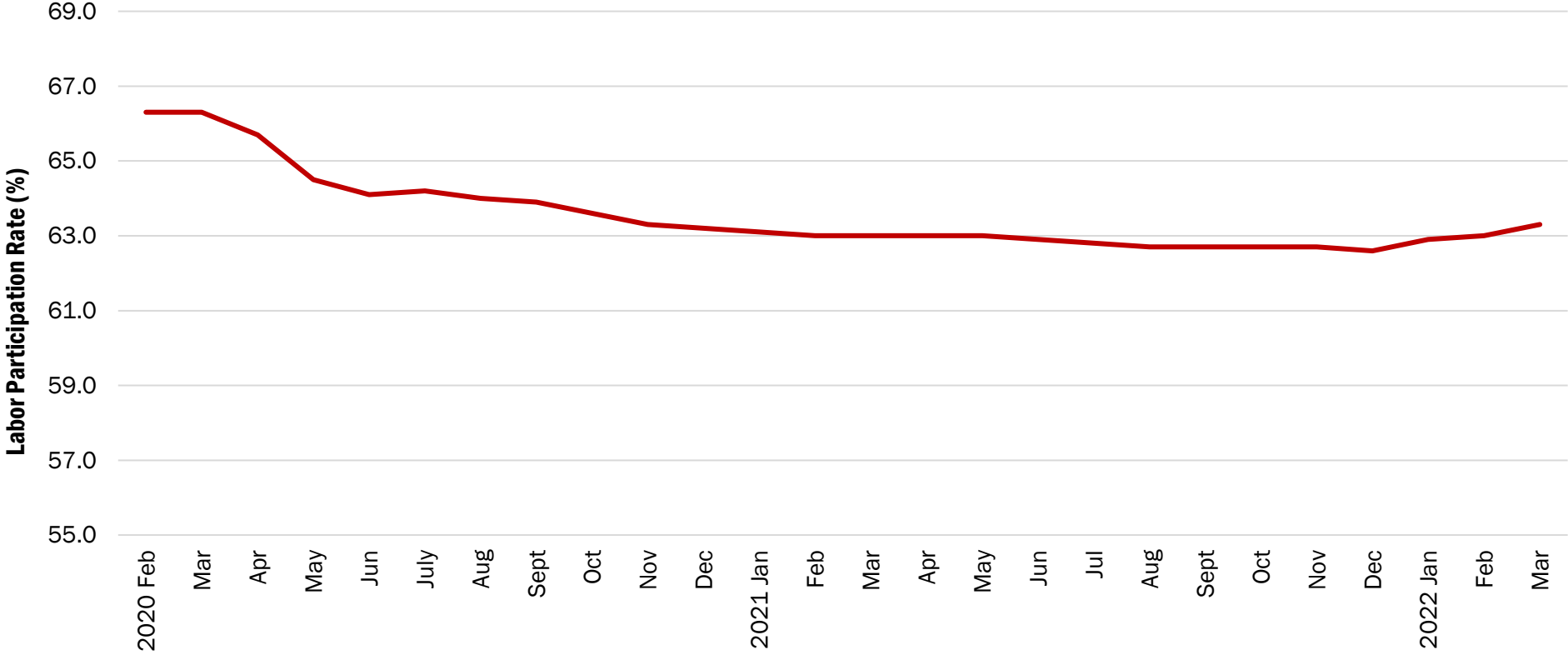
SINCE JANUARY, VIRGINIA EMPLOYMENT GROWTH HAS IMPROVED, RANKING NO. 14 NATIONALLY

State	Jan '22 - Mar '22 employment change	Jan '22 - Mar '22 % change	State rank
Illinois	71,086	1.2	9
Virginia	42,010	1.0	14
Tennessee	31,815	1.0	17
Texas	134,224	1.0	18
North Carolina	43,550	0.9	23
Florida	88,727	0.9	24
Maryland	24,543	0.8	25
Massachusetts	28,054	0.8	29
Georgia	38,798	0.8	30
Pennsylvania	43,970	0.7	35
New York	57,034	0.6	39
New Jersey	21,903	0.5	44
South Carolina	11,292	0.5	45

Source: Local Area Unemployment Statistics, Bureau of Labor Statistics

VIRGINIA'S LABOR PARTICIPATION RATE ALSO BEGAN TO IMPROVE IN THIS YEAR

Employed and Unemployed as a Percentage of the Civilian Population



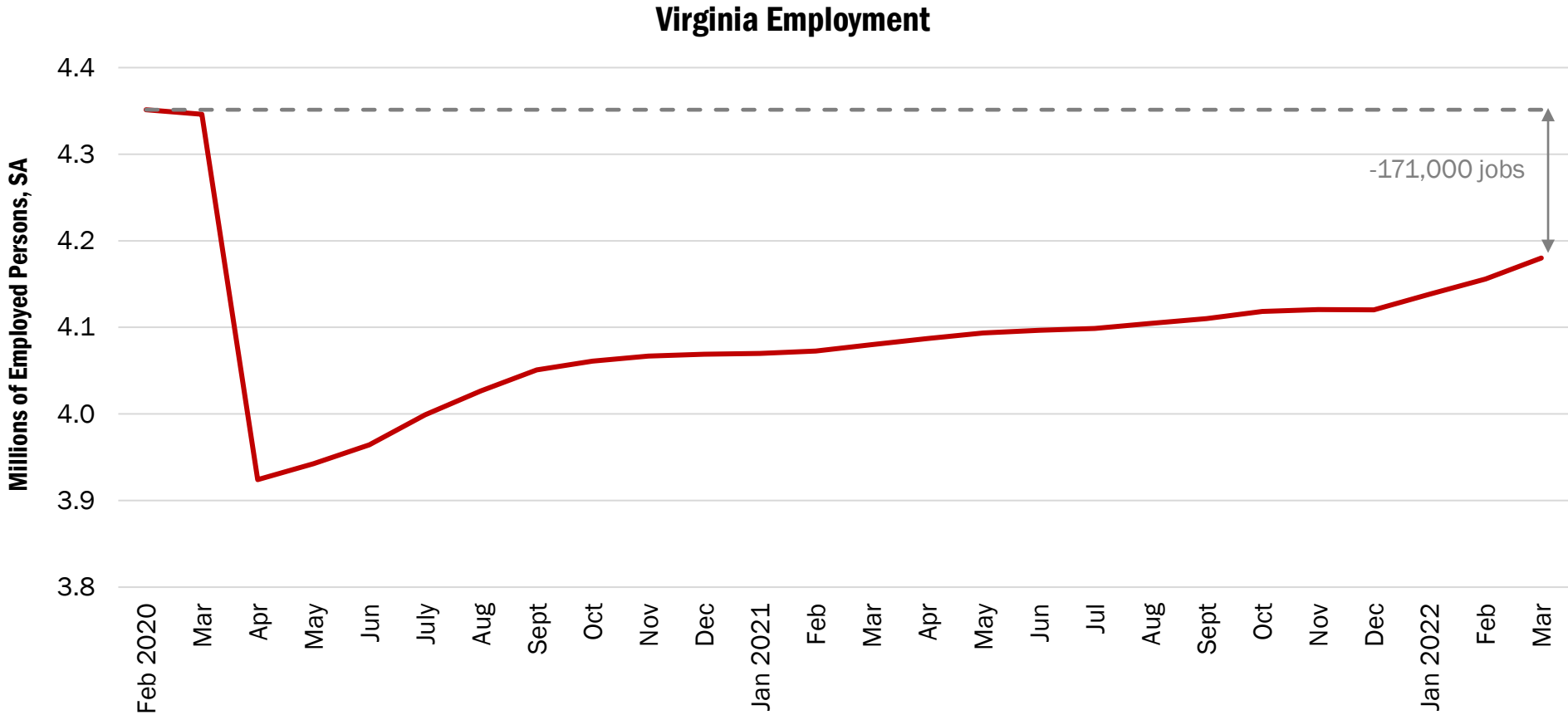
Source: Local Area Unemployment Statistics, Bureau of Labor Statistics

DESPITE GREEN SHOOTS, VIRGINIA RANKS BELOW MOST COMPETITORS IN JOB RECOVERY

State	Employment lost (Feb - Apr / May '20)	Employment recovered (by Mar '22)	Recovered %	Recovery rank
South Carolina	207,321	261,560	126	9
Texas	1,943,450	2,257,198	116	13
Georgia	667,621	752,710	113	15
Florida	1,868,820	2,030,200	109	16
Tennessee	517,770	560,458	108	17
North Carolina	843,777	864,316	102	24
Massachusetts	794,612	734,020	92	29
Illinois	1,015,011	872,748	86	33
Pennsylvania	919,678	776,479	84	36
New Jersey	740,915	607,689	82	39
New York	1,674,458	1,105,596	66	45
Virginia	427,490	256,532	60	47
Maryland	335,184	149,656	45	49

Source: Local Area Unemployment Statistics, Bureau of Labor Statistics

VIRGINIA EMPLOYMENT REMAINS 171,000 JOBS OR 4 PERCENT BELOW PRE-PANDEMIC LEVELS

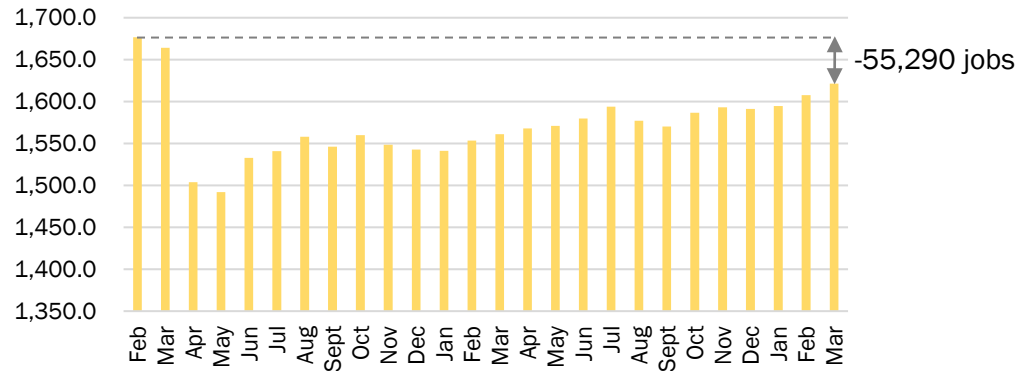


Source: Local Area Unemployment Statistics, Bureau of Labor Statistics

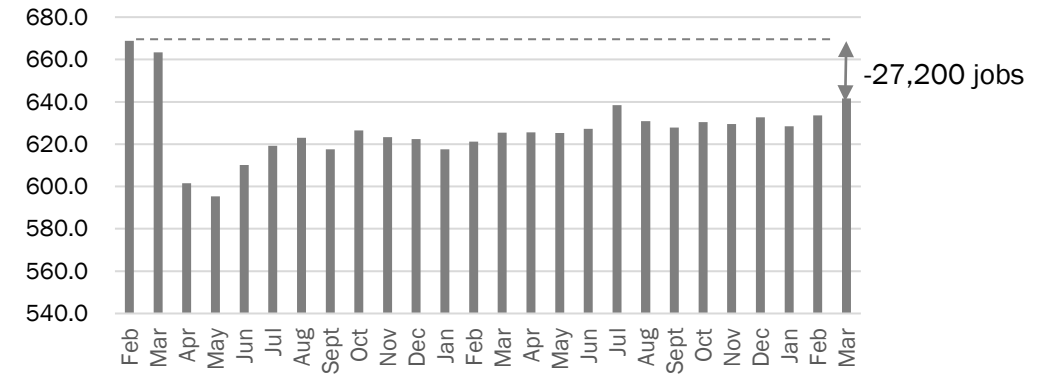
EMPLOYMENT REMAINS BELOW PRE-PANDEMIC LEVELS IN VIRGINIA'S MAJOR METRO AREAS

(In thousands)

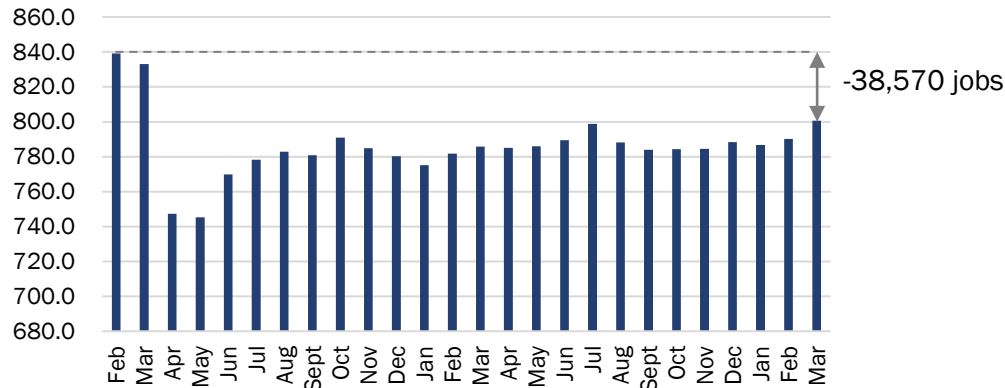
Northern Virginia



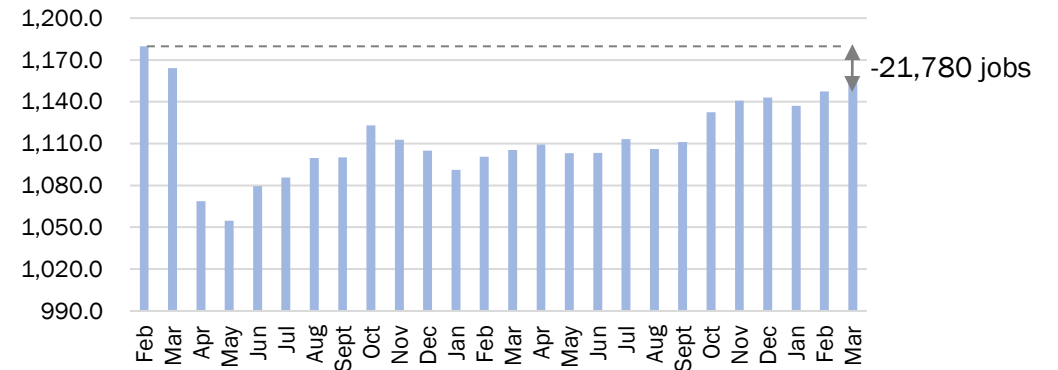
Richmond



Hampton Roads



Balance of state



Source: Local Area Unemployment Statistics, Bureau of Labor Statistics

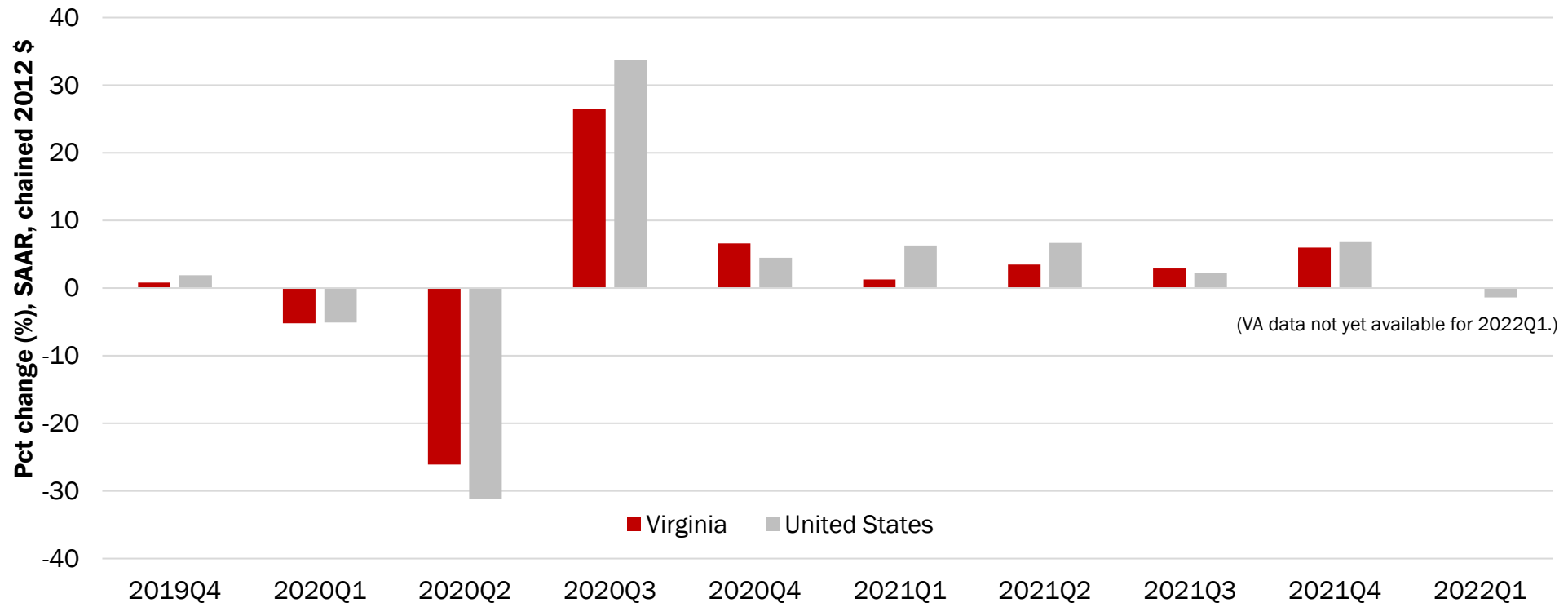
HIGHER WORKFORCE PARTICIPATION IS NEEDED TO CARRY VIRGINIA PAST THE PANDEMIC

State	Pre-pandemic (2019 avg.) (%)	State rank	March 2022 (%)	State rank
Massachusetts	66.9	12	66	12
Maryland	68.6	8	65.6	13
Illinois	64.9	19	64.2	16
Texas	63.7	27	63.4	19
Virginia	66.3	16	63.3	20
New Jersey	63.8	26	62.4	24
Georgia	62.8	31	62.1	27
Pennsylvania	63	30	61.2	31
Tennessee	61.9	36	60.6	35
North Carolina	61.5	39	59.8	38
New York	60.9	42	59.2	41
Florida	59.4	43	58.8	43
South Carolina	58	48	57.2	46

Source: Local Area Unemployment Statistics, Bureau of Labor Statistics

VIRGINIA OUTPUT HAS SUFFERED WITH THE SLOW RECOVERY OF JOBS LOST IN THE PANDEMIC

Virginia and U.S. Economic Output Since COVID-19

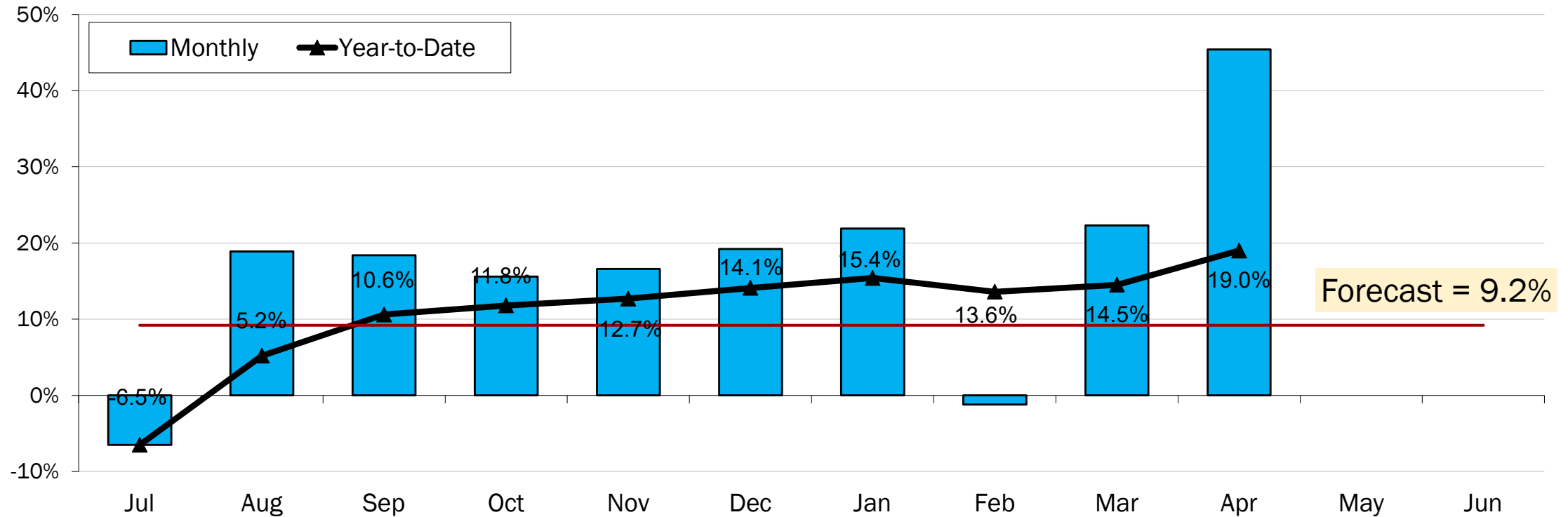


Source: Bureau of Economic Analysis

GENERAL FUND REVENUES ARE CURRENTLY RUNNING WELL ABOVE FULL-YEAR FORECAST

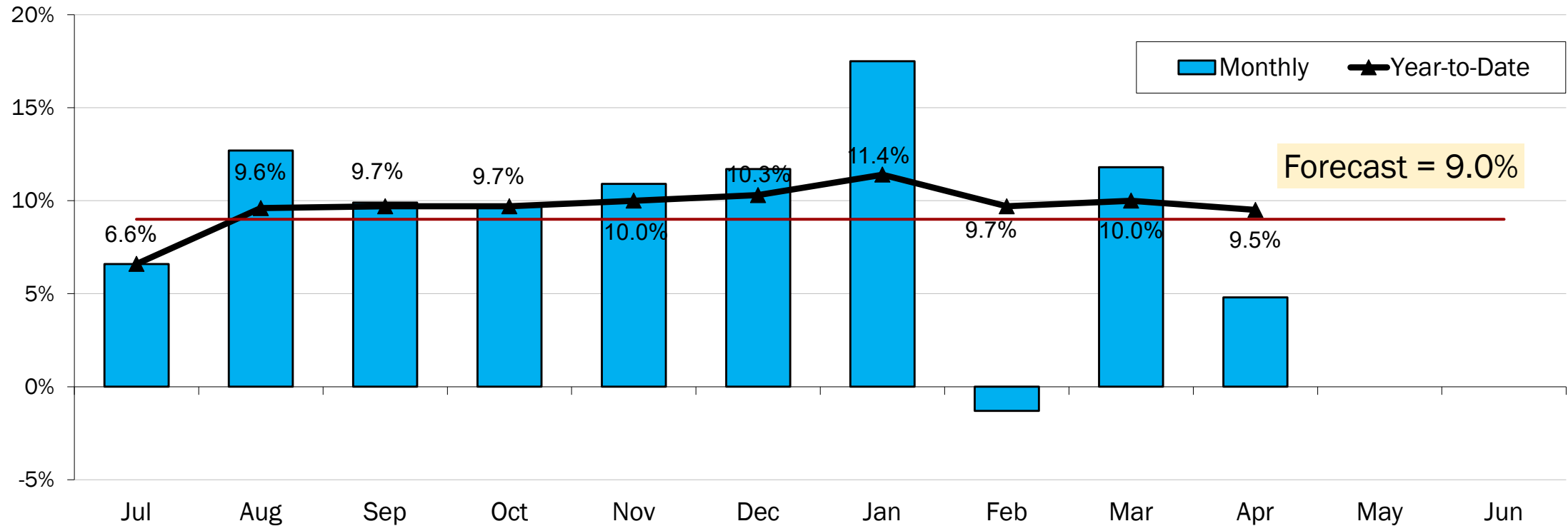
- Total general fund revenues year to date are up 19.0 percent. Adjusting for pandemic-related changes in tax return due dates, total general fund collections are up 12.1 percent.
- The February Mid-Session revised forecast projected full-year general revenue growth of 9.2 percent.
- Individual nonwithholding was up almost 140 percent for the month, but this is misleading because the majority of final payments last year were collected in May.
- For a fuller understanding of potential full-year nonwithholding collections April and May should be considered jointly.

GROWTH IN TOTAL GENERAL FUND REVENUE COLLECTIONS



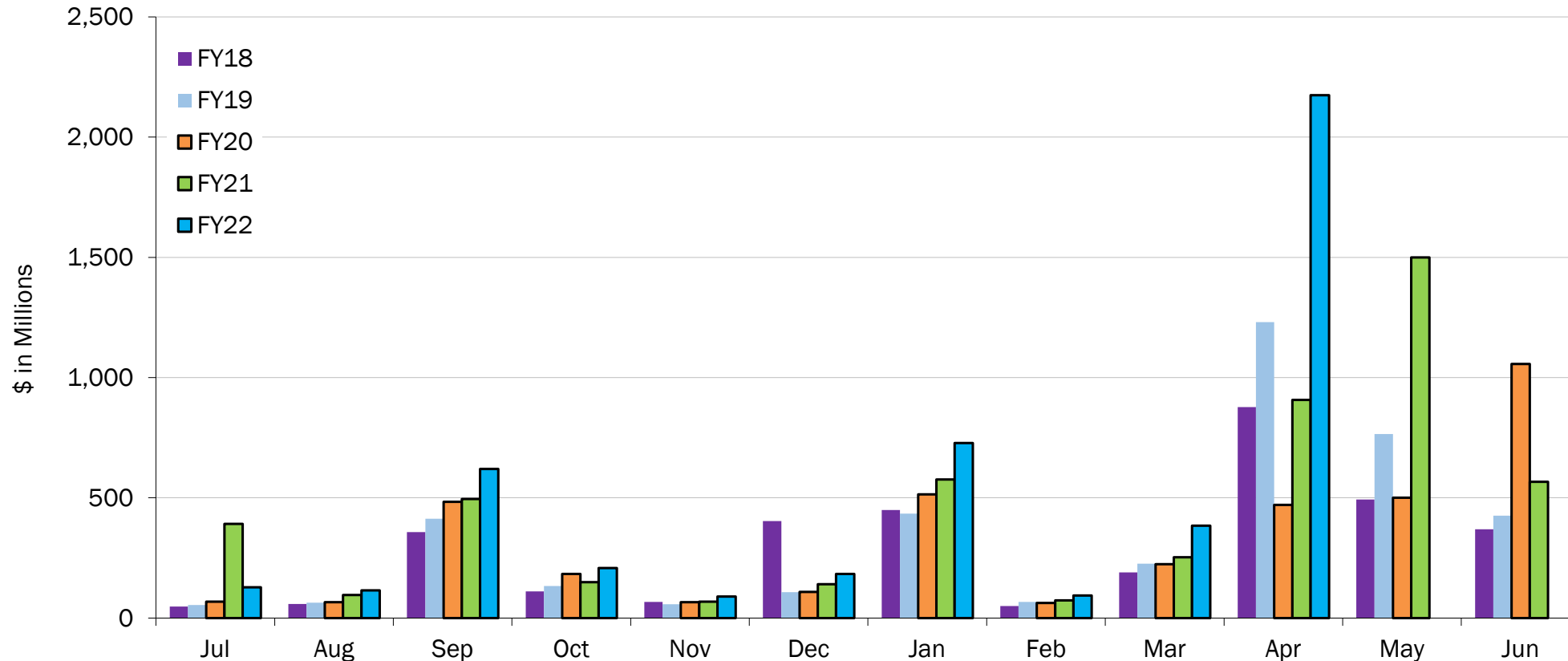
- Individual nonwithholding drove the increase this month as the federal government returned to the normal April tax filing date versus May last year. Many Virginia taxpayers complete both returns on the same day.

GROWTH IN WITHHOLDING TAX COLLECTIONS



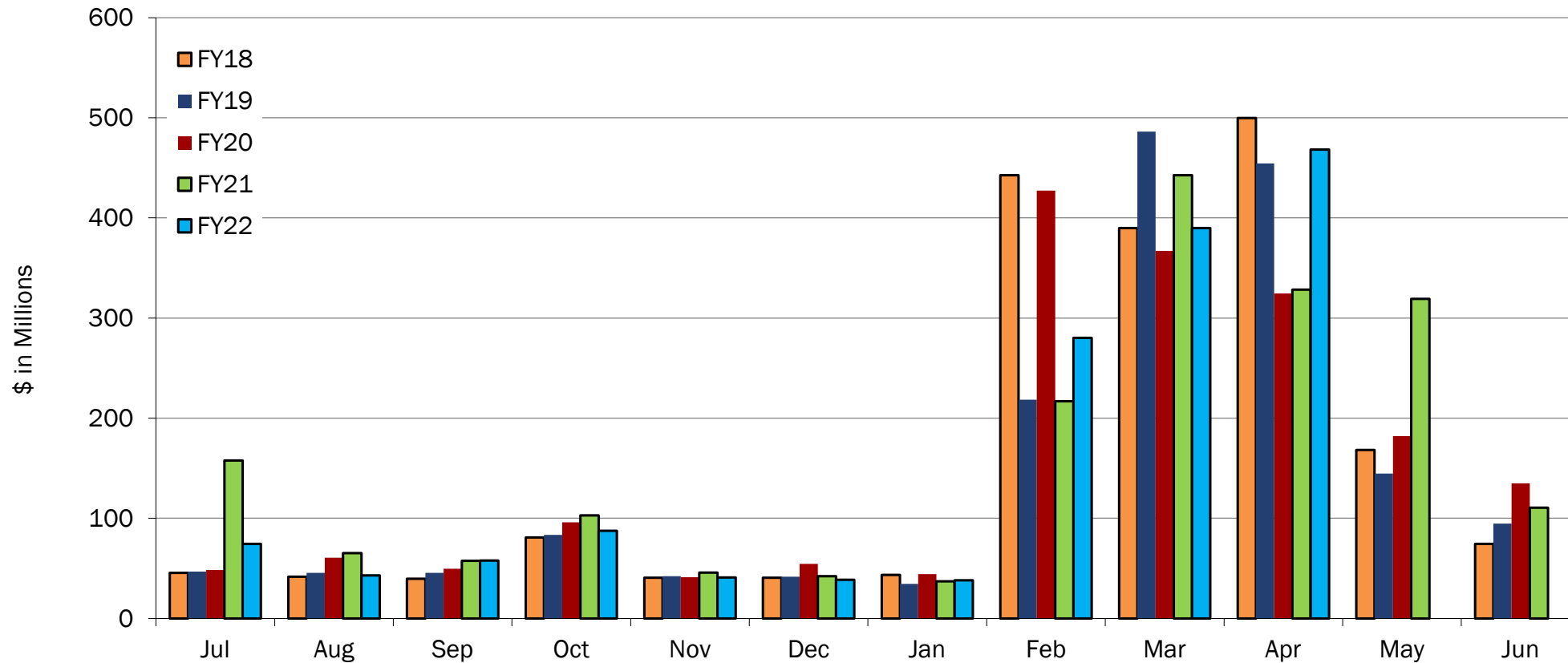
- Withholding, unaffected by the shift in tax filing deadlines, grew by 4.8 percent in April year-over-year, despite one less processing day this April.

NONWITHHOLDING TAX COLLECTIONS



- Last year, the final payment due date was May 17th to match the federal due date. This year's due date is returned to pre-COVID time periods as shown in FY18-FY19 so April and May must be examined jointly to quantify the possible year-end results.

INDIVIDUAL REFUNDS



- April marks the third month of the tax return processing season. Year-to-date, total refunds paid are up 1.4 percent compared with a projected increase of 6.4 percent.

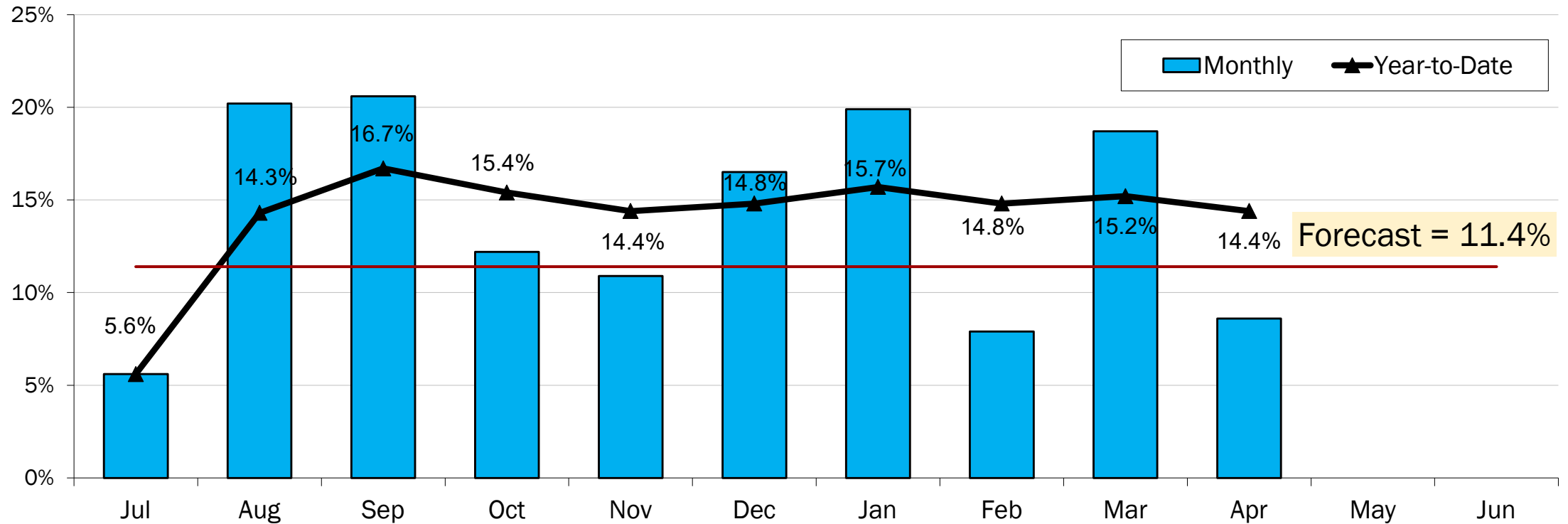
Individual Income Tax Refunds

- During the first three months of the main filing season, TAX issued about 2.1 million refunds as compared to last year's 1.9 million with the average refund increasing 2.0 percent.
- Through April, TAX has issued \$1,518.6 million in individual refunds compared with \$1,496.6 million in the same period last year.
 - Of the \$1,496.6 million issued last year, approximately \$110 million was due to refunds received for processing in July of 2020 (FY2021) versus June of 2020 (FY2020) as numerous taxpayers waited until the federal due date of July 15 to file their returns.

Net Individual Income Tax

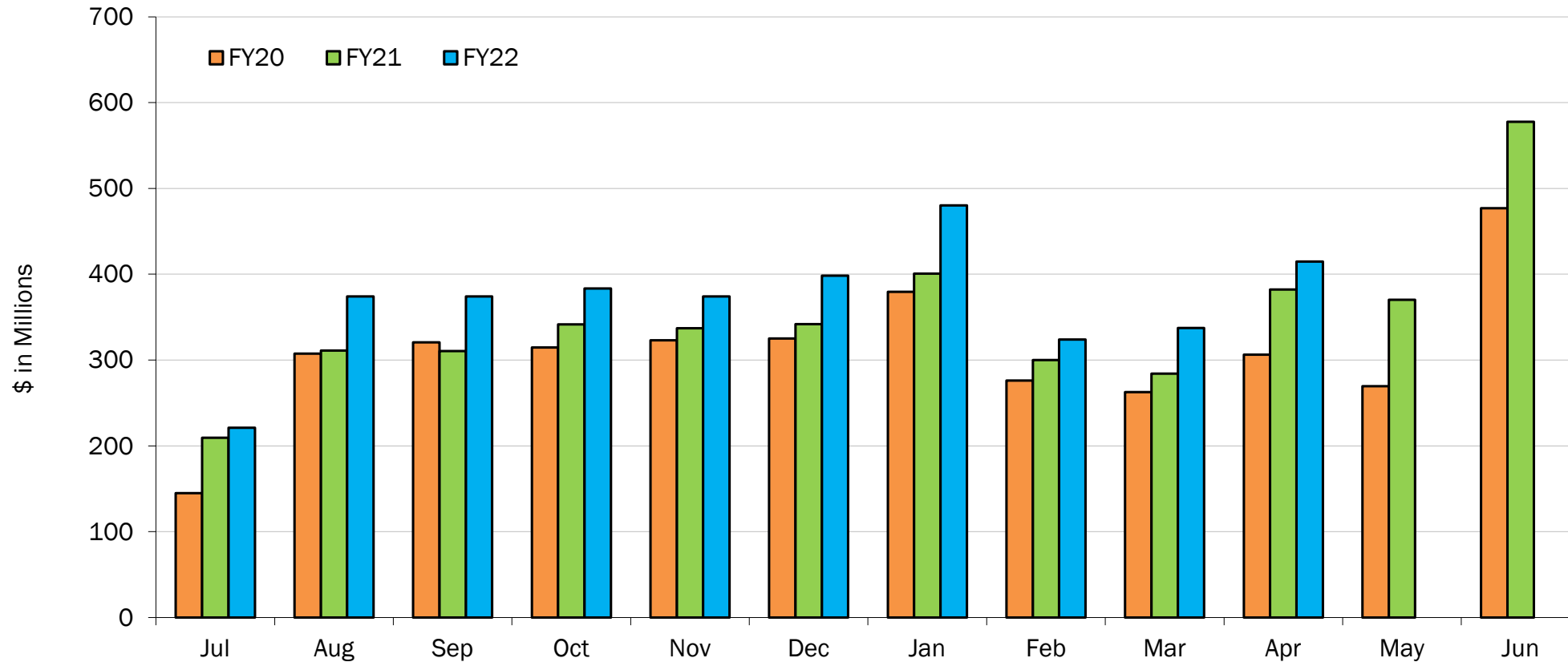
- Through the first ten months of the fiscal year, collections of net individual income tax increased 19.9 percent from the same period last year, ahead of the annual estimate of 7.2 percent growth.
- Adjusting for the returns processed in July last year that would have been completed in May and June, year-to-date growth would be higher.

GROWTH IN SALES TAX COLLECTIONS



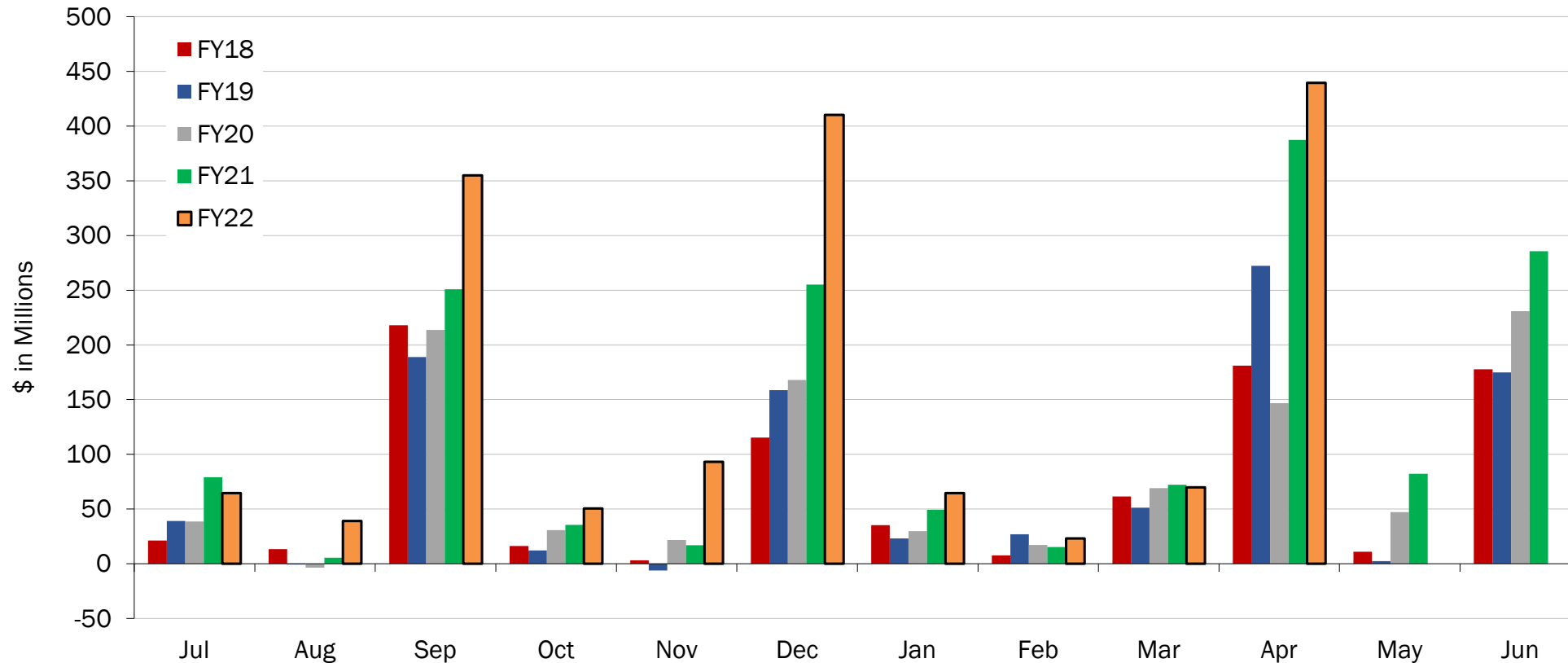
- Growth was broad-based this month across all retailers. Sales taxes are not affected by changes in the income tax filing deadline, so are a good real-time measure of economic activity.

SALES TAX COLLECTIONS



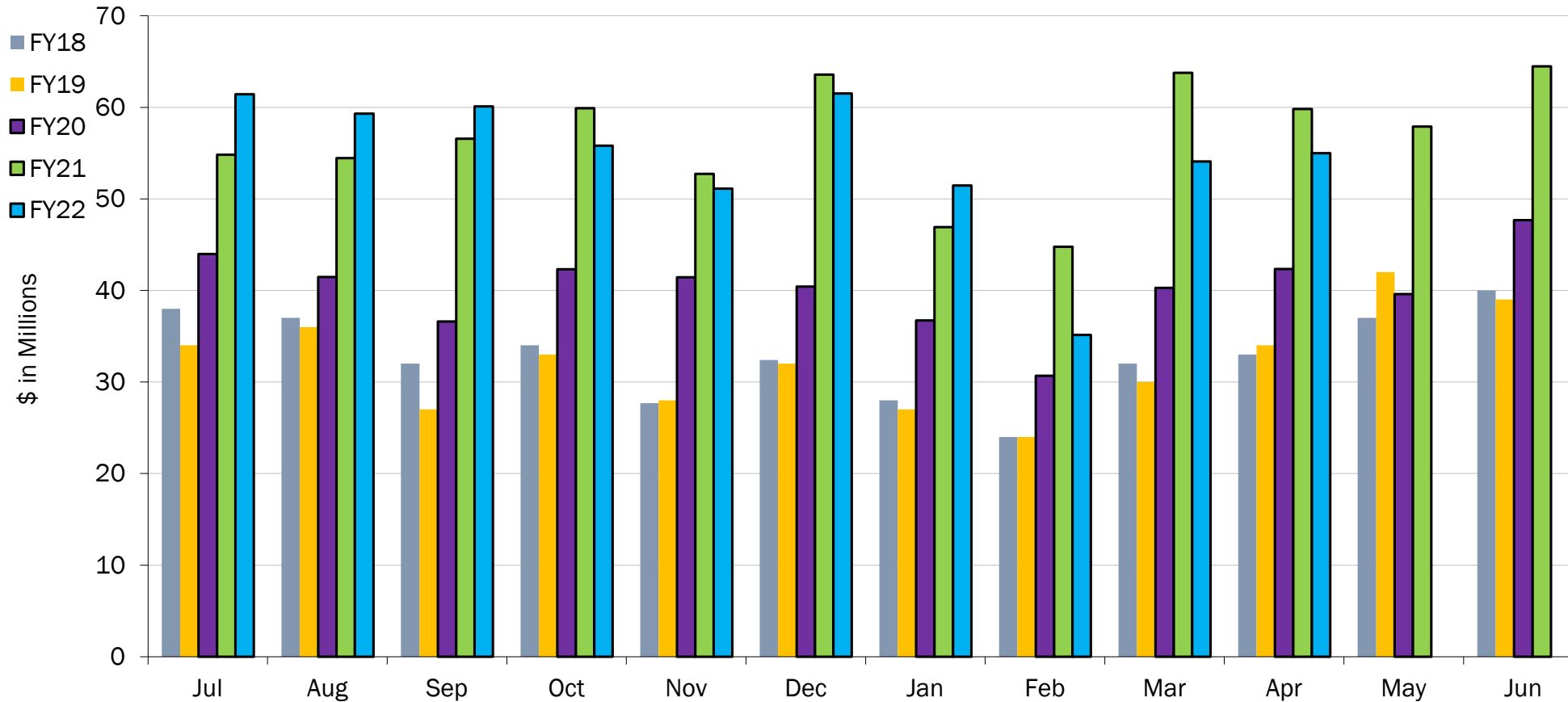
- April collections, based on March sales, were solid as employment and income gains led more consumers to retail establishments.

CORPORATE INCOME TAX COLLECTIONS



- April is a significant month as final payments from tax year 2021 and the first estimated payment for tax year 2022 were due April 18th. Year-to-date, growth in collections are up 37.5 percent compared with the forecast of 32.6 percent growth.

RECORDATION TAX COLLECTIONS



- Rising interest rates and low inventories of real property for sale have dampened receipts recently.

Recordation

- In April, collections decreased 9.3 percent compared to last year. Year-to-date collections have decreased 2.7 percent compared to last year, ahead of the forecast for a 4.3 percent decline.
- The home purchasing market and refinancing activity are expected to continue slowing this spring.

Insurance

- Collections for the month were \$142.1 million as compared to last April's \$144.5 million.
 - The activity represents the first estimated payment of 2022.

SUMMARY OF FISCAL YEAR 2022 REVENUE COLLECTIONS

Percent Growth over Prior Year

Major Source	As a % of Total Revenues	YTD Actual	Annual Estimate	Variance	May - Jun Req'd to Meet Est.	Prior Year May - Jun
Withholding	56.2 %	9.5 %	9.0 %	0.5 %	6.4 %	10.6 %
Nonwithholding	19.7	49.9	2.5	47.4	(69.8)	32.8
Refunds	(7.5)	1.4	6.4	(5.0)	23.9	35.5
Net Individual	68.4	19.9	7.3	12.6	(35.2)	18.6
Sales	17.1	14.4	11.4	3.0	1.2	27.0
Corporate	7.4	37.5	32.6	4.9	16.0	25.1
Wills (Recordation)	2.4	(2.6)	(4.3)	1.7	(12.0)	40.2
Insurance	1.5	21.4	15.5	5.9	6.3	3.6
All Other Revenue	3.2	6.1	2.9	3.2	(3.2)	17.1
Total	100.0 %	19.0 %	9.2 %	9.8 %	(23.1) %	20.1 %
Total less Nonwithholding	80.3 %	12.9 %	10.9 %	2.0 %	2.6 %	14.1 %

- Through April, total general fund revenues are \$1.9 billion ahead of the annual 9.2 percent estimate.
- Less nonwithholding due to the shifting due dates, only \$580 million ahead.

OUTLOOK: CURRENT YEAR COLLECTIONS ON PACE TO EXCEED THE FORECAST

- Key payments from individual nonwithholding were due May 2 for final payments for tax year 2021 and estimated payments for tax year 2022. Individual, corporate and insurance companies have estimated payments due June 15.
- Since last year's federal filing due date was delayed until May 17, April year-over-year comparisons may be misleading. April and May data should be examined jointly.
- Year-to-date trends in nonwithholding suggest that full year collections will exceed the forecast. We are unable to confidently project magnitude until May is closed.
- With one additional deposit day in May compared to May 2021, payroll withholding is expected to grow.
- Revenue sources unaffected by timing have performed better than expected reflecting current economic strength. Recent increases in interest rates and volatility in the financial markets suggest cautious optimism for the remainder of the year and the next biennium.