



ECONOMIC AND REVENUE REVIEW AND UPDATE

A BRIEFING FOR THE MONEY COMMITTEES

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TOPICS FOR DISCUSSION

SEPTEMBER YEAR-TO-DATE REVENUE COLLECTIONS, FISCAL YEAR 2023

ECONOMIC REVIEW

KEY DATES AND NEXT STEPS

SUMMARY

- September completes the first quarter of FY 2023. Adjusted first quarter general fund revenues were up 7.6 percent, with continued growth in all significant revenue streams.
- In the month of September, adjusting for fewer deposit days and the taxpayer rebates issued in September, total general fund revenue increased 10.7 percent for the month compared to a year ago. Unadjusted, total general fund revenues fell by 28.4 percent year-over-year primarily due to the issuance of taxpayer rebates.
- Recent economic data are increasingly pointing to the possibility that the U.S. could slip into recession in coming months. Persistently high inflation, rising interest rates, and volatility in the financial markets could dampen demand leading to reduced corporate profits and slowed job growth. The revenue outlook will be adjusted through the traditional revenue forecasting process currently underway.

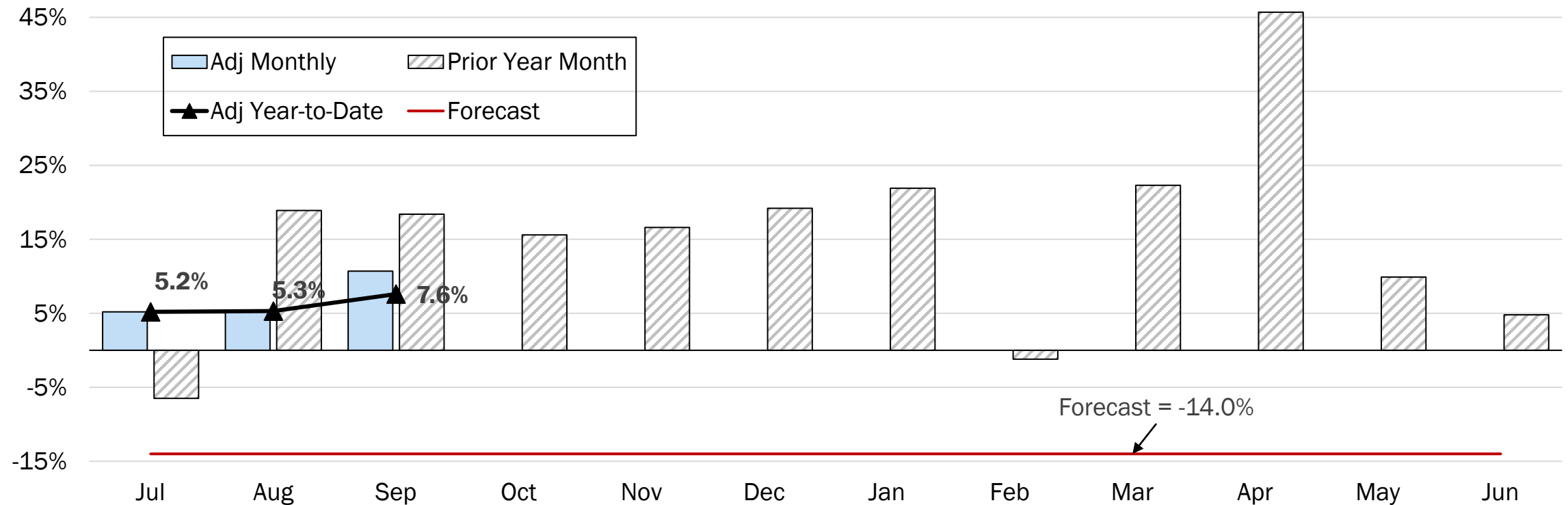
FY 2023 YEAR-TO-DATE: ADJUSTED FOR TAXPAYER REBATES AND AST REPEAL, GF REVENUES ARE UP 7.6 PERCENT

General Fund Revenue Collections
(in millions of dollars)

Revenue	FY 2023	Pct Chg	Percent of	September				Fiscal Year-To-Date				Year-To-Date
	Ch 2 Estimate	Req by Est	GF Rev	FY 2022	FY 2023	Change	% Change	FY 2022	FY 2023	Change	% Change	% of Total
Withholding	\$15,319.9	-0.1%	61.6%	\$1,215.0	\$1,218.1	\$3.1	0.3%	\$3,470.7	\$3,805.5	\$334.8	9.6%	67.7%
Nonwithholding	5,213.6	-23.4%	21.0%	619.9	704.5	84.6	13.6%	862.8	928.0	65.2	7.6%	16.5%
Refunds	(3,800.9)	118.4%	-15.3%	(57.9)	(942.5)	(884.6)	1528.1%	(175.2)	(1,049.0)	(873.8)	498.8%	-18.6%
Sales and Use Tax	4,497.8	-1.3%	18.1%	374.1	406.7	32.6	8.7%	969.2	1,166.5	197.2	20.3%	20.7%
Corporate Income Tax	1,737.0	-12.2%	7.0%	354.6	363.2	8.6	2.4%	458.5	434.8	(23.7)	-5.2%	7.7%
All Other Sources	1,903.9	-4.2%	7.7%	114.2	126.0	11.8	10.4%	336.1	339.1	3.1	0.9%	6.0%
Total GF Revenues	\$24,871.3	-14.0%	100.0%	\$2,619.9	\$1,876.0	(\$743.9)	-28.4%	\$5,922.2	\$5,624.9	(\$297.3)	-5.0%	100.0%
Adjusted Sales								\$1,172.6	\$1,239.7	\$67.0	5.7%	
Adjusted Refunds				(\$57.9)	(\$46.6)	\$11.3	-19.5%	(\$175.2)	(\$153.1)	\$22.1	-12.6%	
Adjusted Withholding				\$1,215.0	\$1,348.1	\$133.1	11.0%	\$3,470.7	\$3,805.5	\$334.8	9.6%	
Total GF Revenues, Adjusted for AST, Refunds and Withholding				\$2,619.9	\$2,900.9	\$281.0	10.7%	\$6,125.6	\$6,593.0	\$467.5	7.6%	

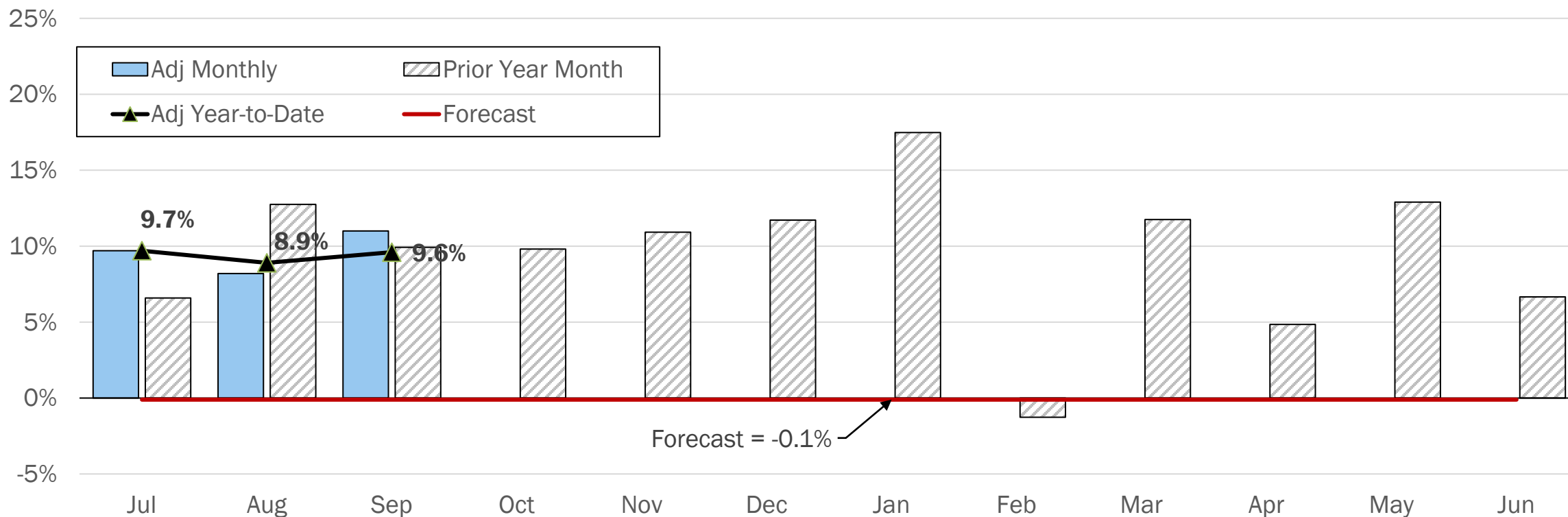
- After the rebate, withholding, and AST adjustments are accounted for, GF revenues are up 7.6 percent fiscal year-to-date.
- Payroll withholding is up 9.6 percent.
- Sales and use tax collections are up 5.7 percent.
- Corporate income tax collections are down 5.2 percent.

ADJUSTED FOR TAXPAYER REBATES AND THE IMPACT OF ONE LESS DEPOSIT DAY IN SEPTEMBER, GF REVENUES ARE UP 10.7 PERCENT FOR SEPTEMBER



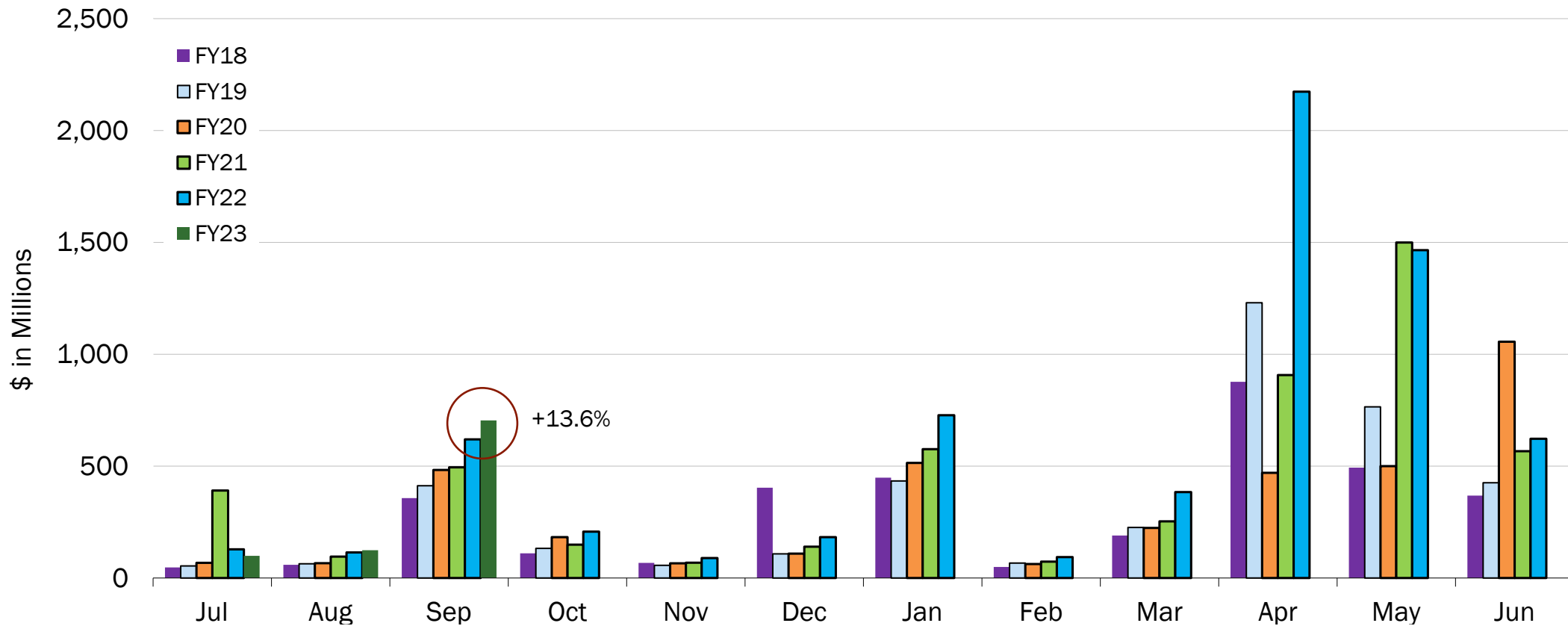
- On a fiscal year-to-date basis, adjusted first quarter general fund revenues were up 7.6 percent.
- Unadjusted, general fund collections for the first quarter declined 5.0 percent versus the budgeted revenue decline of 14.0 percent and are approximately \$500 million ahead of plan.

COMPETITIVE LABOR MARKET SUPPORTS GROWTH IN WITHHOLDING TAX COLLECTIONS



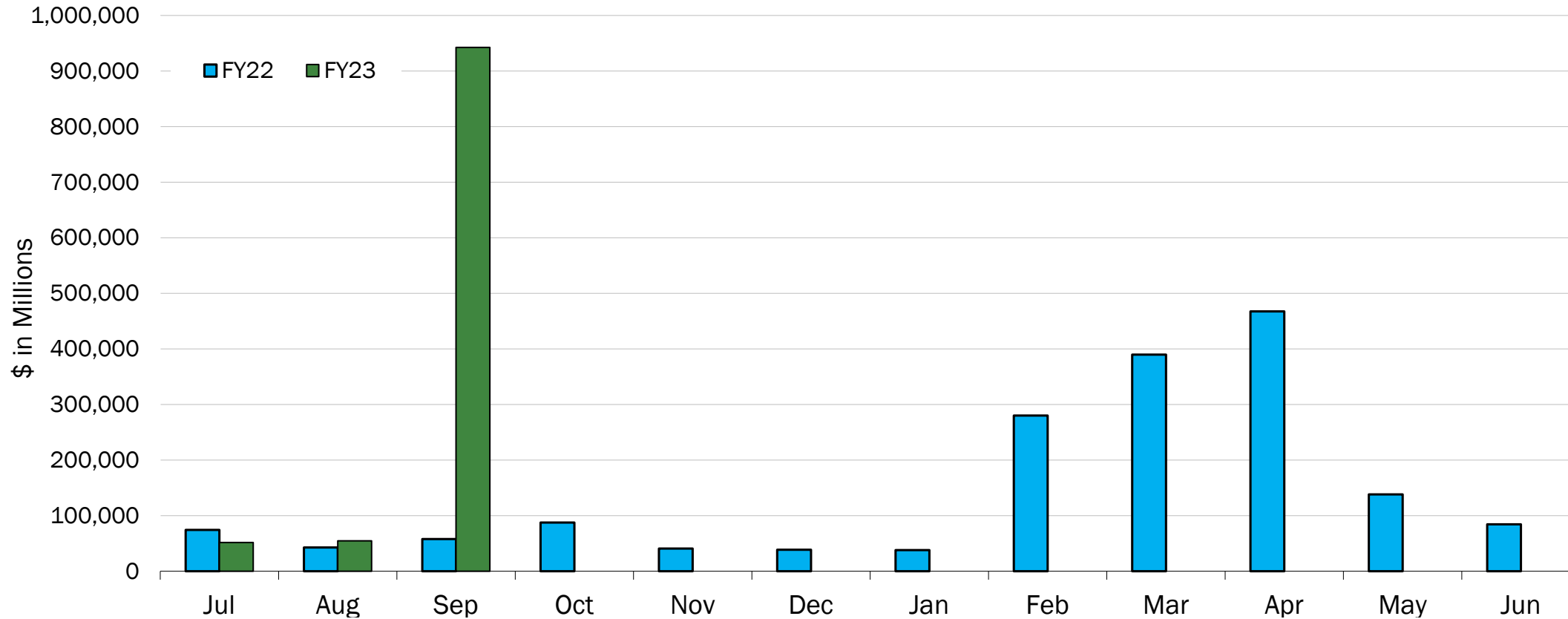
- Adjusting for timing of deposit days, withholding collections are up an estimated 11.0 percent for the month. On an unadjusted basis, collections increased 0.3 percent for the month, reflecting one less deposit day in September.
- Year-to-date, withholding collections have increased 9.6 percent compared with the same period last year, compared to the projected annual decline of 0.1 percent.

NONWITHHOLDING TAX COLLECTIONS



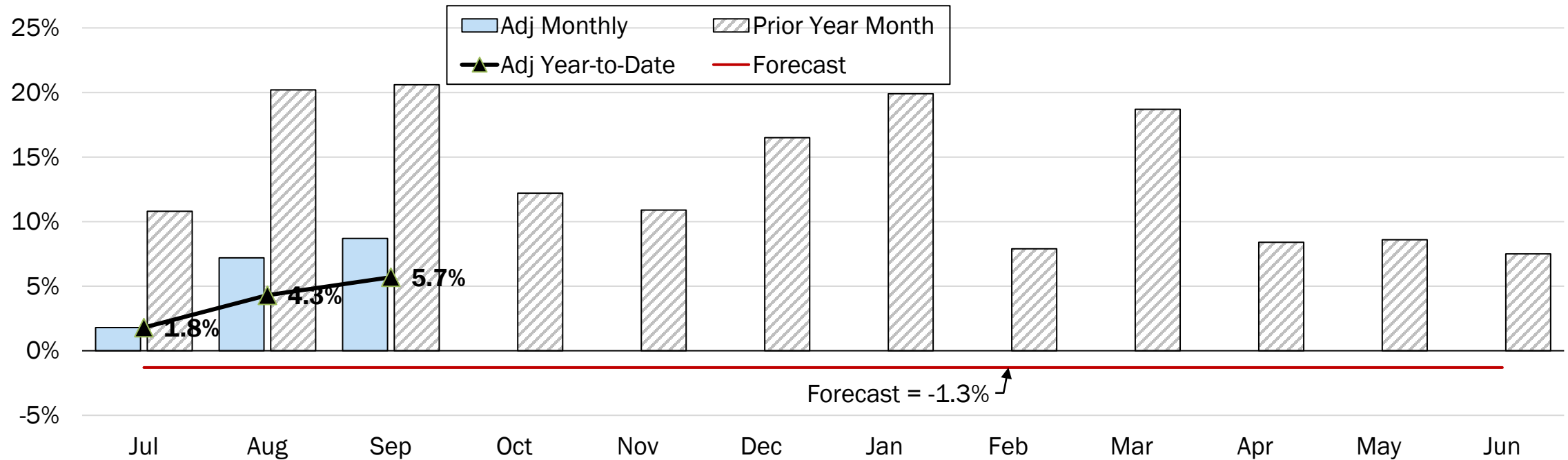
- September is a significant month for collections in this source, with the first quarterly estimated payments due.
- For the month, nonwithholding revenues were up 13.6 percent above a year ago.
- Through the first quarter, collections were \$928.0 million compared with \$862.8 million a year ago, a 7.6 percent increase.

INCOME TAX REFUNDS



- Typically, September income tax refunds run close to \$55 million; however, this September was much higher at \$942.5 million, due to the issuance of \$895.9 million of taxpayer rebates.
- In October, approximately \$45.5 million in taxpayer rebates are expected to be issued.

SALES AND USE TAX COLLECTIONS ARE UP 8.7 PERCENT FOR THE MONTH



- Adjusted for AST, fiscal-year-to-date sales tax have grown 5.7 percent.
- Unadjusted, collections of sales and use taxes have risen 20.3 percent, ahead of the annual estimate of a 1.3 percent decline.
- Year-to-date, sales and use tax collections are approximately \$55 million ahead of plan.

OTHER SOURCES

Net Corporate Income Tax

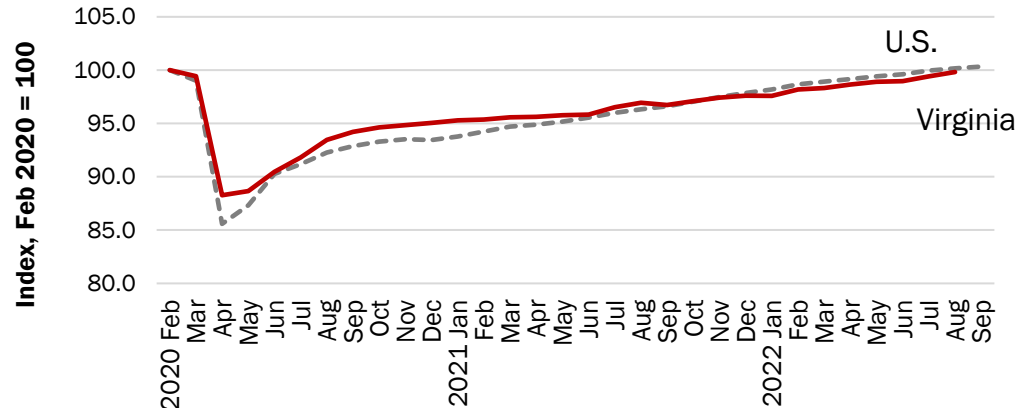
- The first estimated payments for corporate income tax collections were due in September. Collections were up 2.4 percent for the month.
- Through September, collections on corporate income taxes were \$434.8 million compared with \$458.5 million in the same period last year, a decrease of 5.2 percent.

Recordation

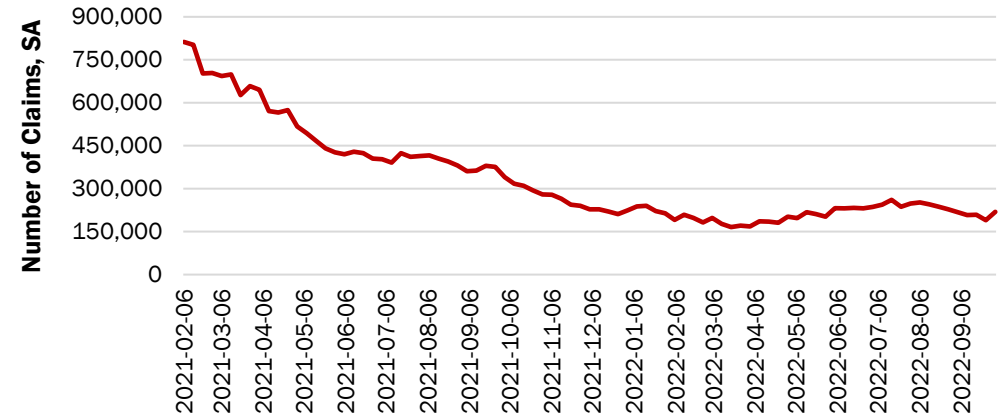
- YTD collections have decreased 25.1 percent compared to last year, behind the forecast for a 9.2 percent decline. In September, collections decreased 37.4 percent compared to last year.
- According to the Virginia REALTORS Association, the August sold volume was \$5.3 billion across Virginia, which was a reduction of approximately \$1.0 billion or 16.5 percent. The state's housing market has declined in four of the last five months.
- Nationally, refinancing activity was down 35.1 percent in the second quarter of 2022 quarter from the previous quarter and down 56.1 percent from the year-ago quarter.

THE JOB MARKET REMAINS STABLE

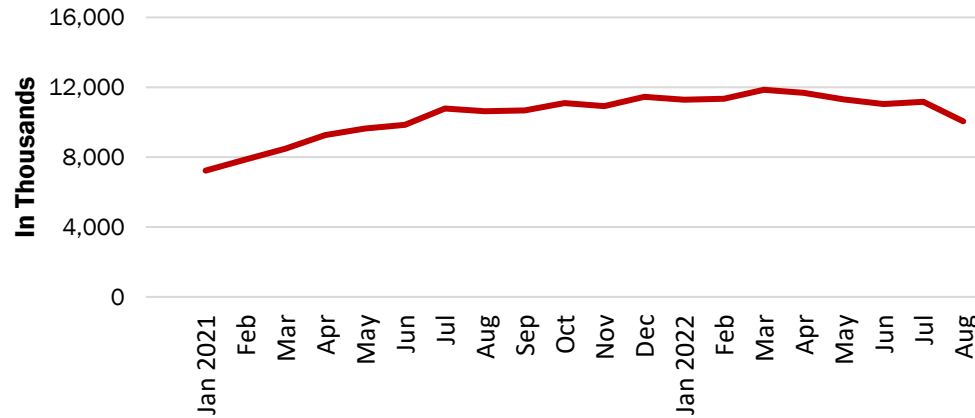
Payroll Employment



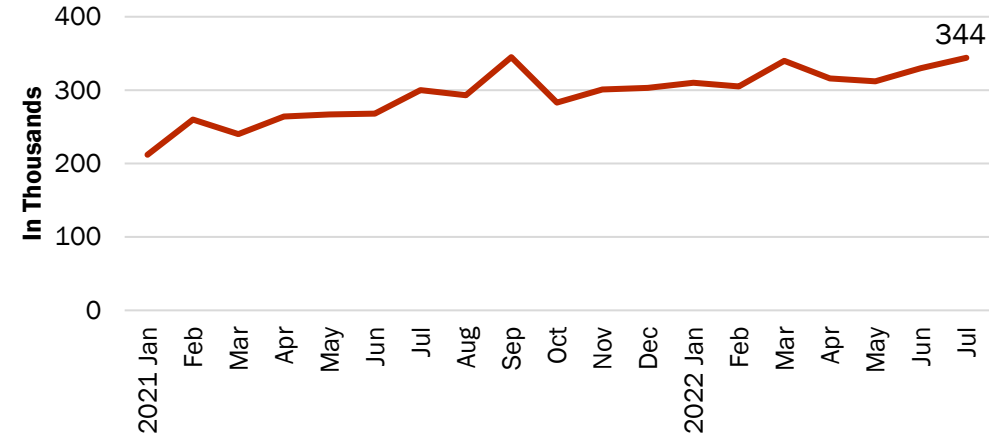
U.S. Weekly Initial Unemployment Claims



U.S. Job Openings

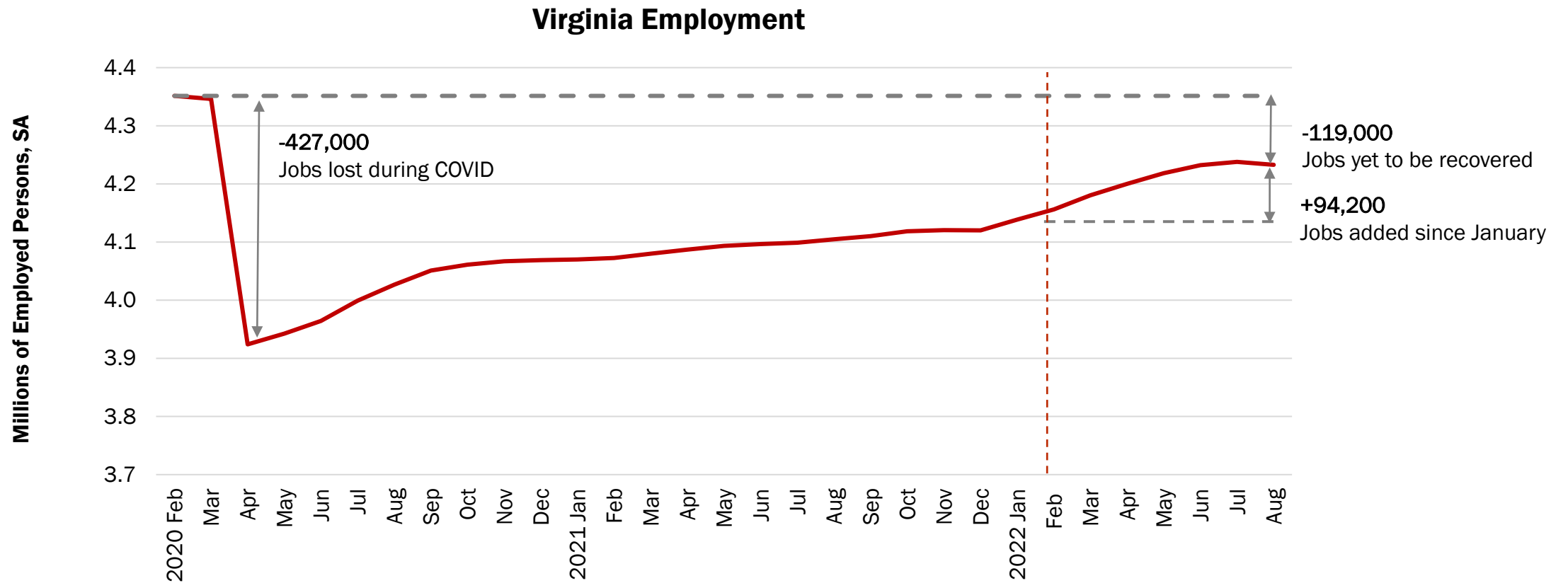


Virginia Job Openings



Source: Federal Reserve Bank of Saint Louis; Bureau of Labor Statistics

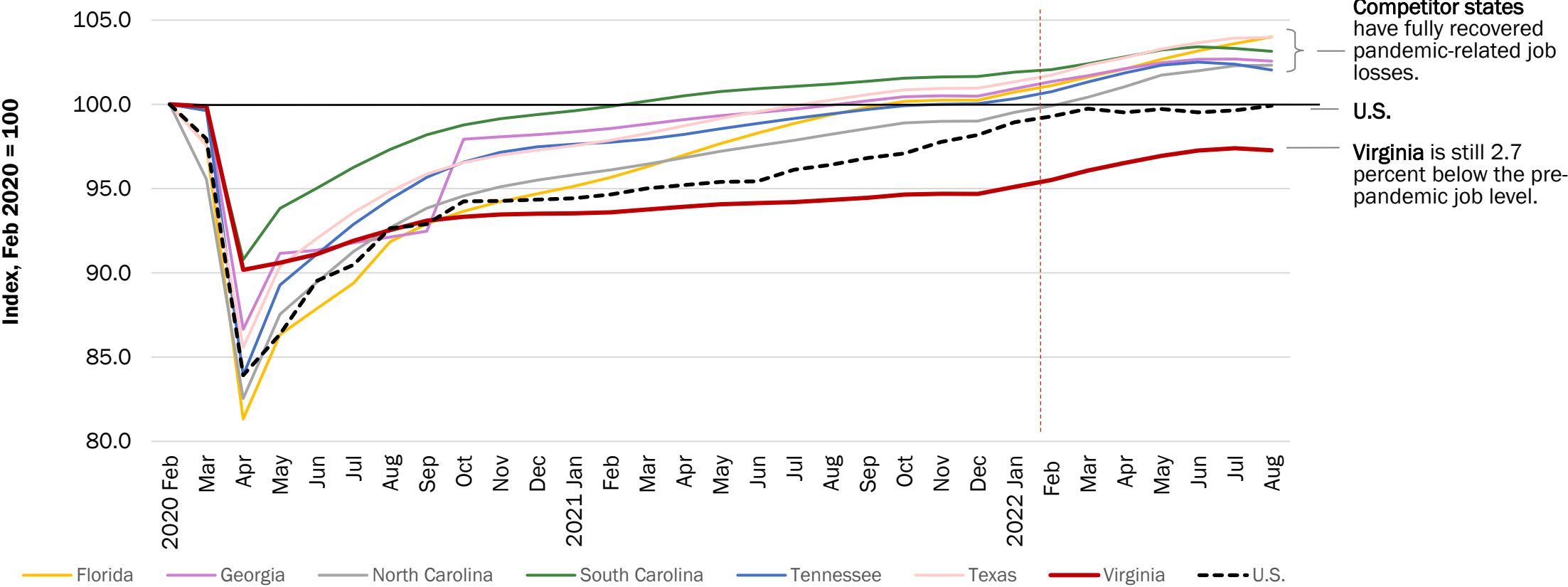
VIRGINIA EMPLOYMENT IS UP 94,200 SINCE JANUARY BUT REMAINS BELOW PREPANDEMIC LEVELS



Source: Local Area Unemployment Statistics, Bureau of Labor Statistics

DESPITE RECENT PROGRESS, VIRGINIA JOBS RECOVERY REMAINS BELOW OUR COMPETITORS AND THE U.S.

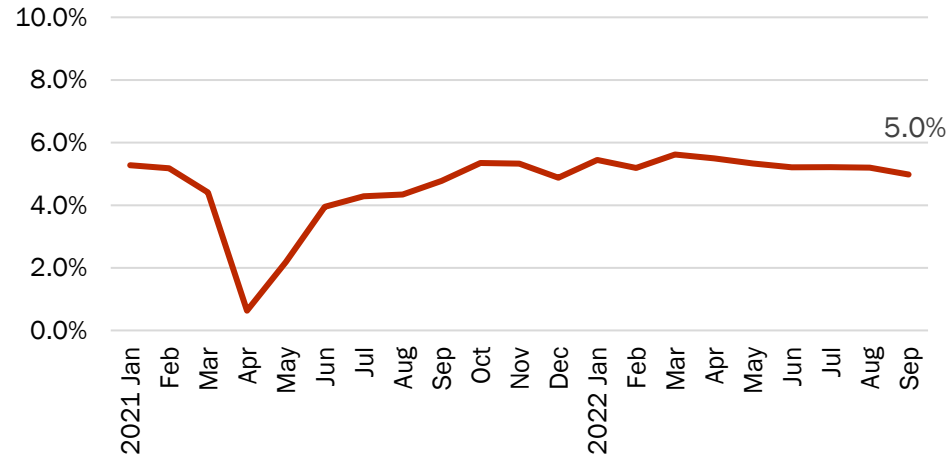
Employment Change Since Feb 2020



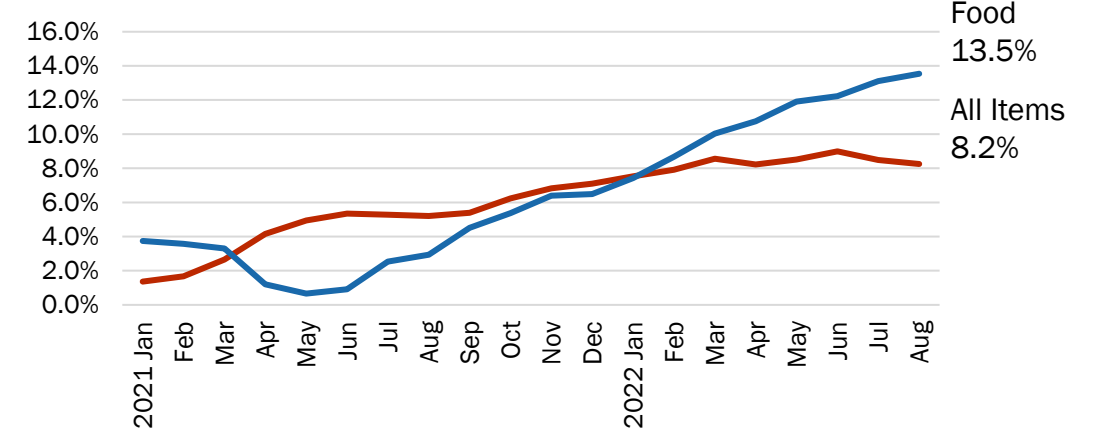
Source: Local Area Unemployment Statistics (states), Current Population Survey (U.S.), Bureau of Labor Statistics

INFLATION IS TAKING MORE OF FAMILIES' PAYCHECKS

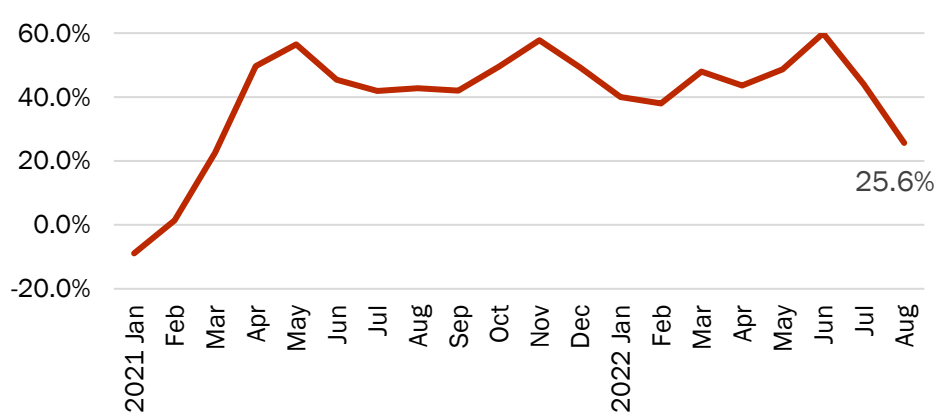
U.S. Average Hourly Earnings, YoY % Change



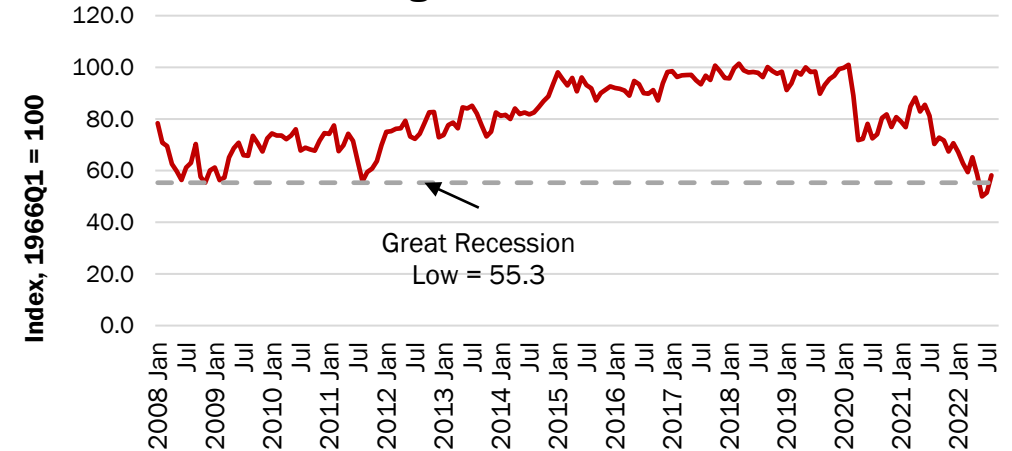
CPI, All Items and Food at Home, YoY % Change



CPI, Gasoline, YoY % Change



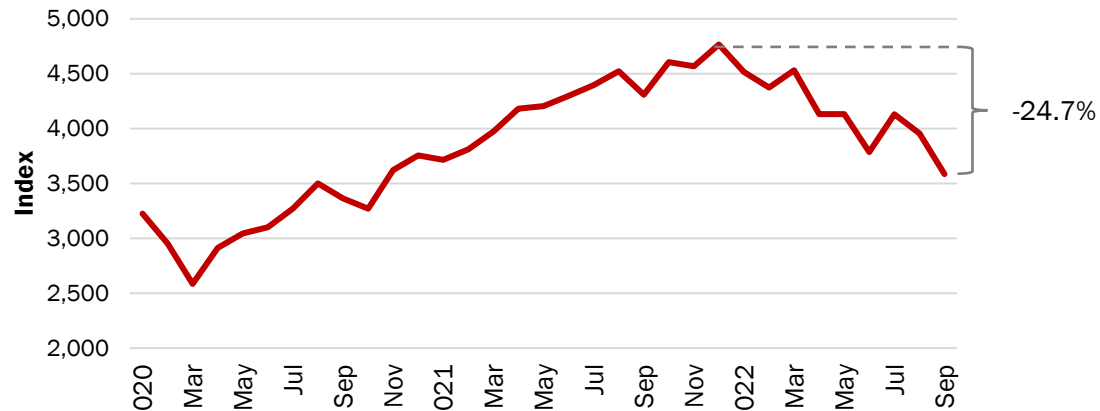
Univ of Michigan: Consumer Sentiment



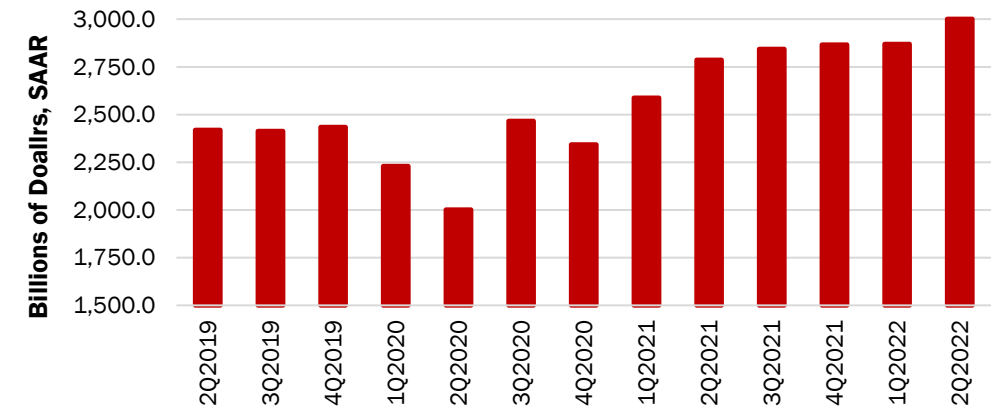
Source: Average Hourly Earnings of All Employees, Total Private; Consumer Price Index for All Urban Consumers; Bureau of Labor Statistics

OTHER ECONOMIC DATA ARE MIXED

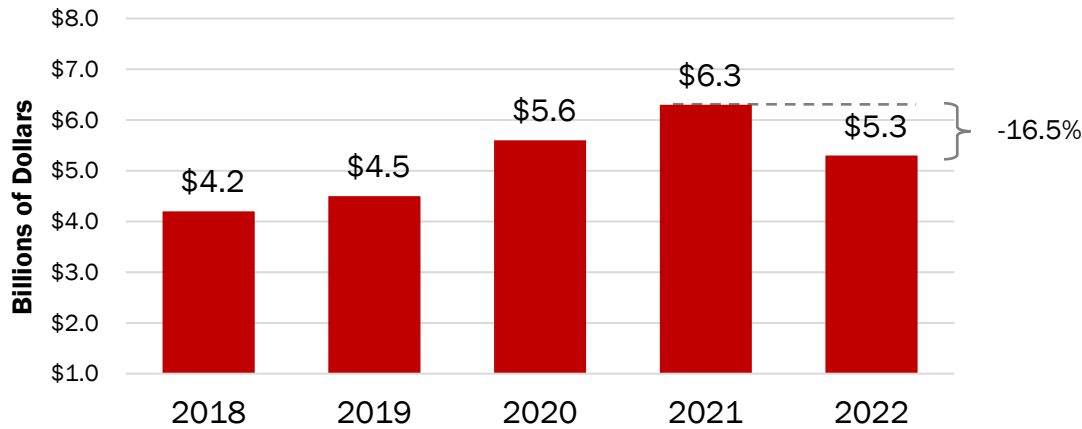
S&P 500 Index



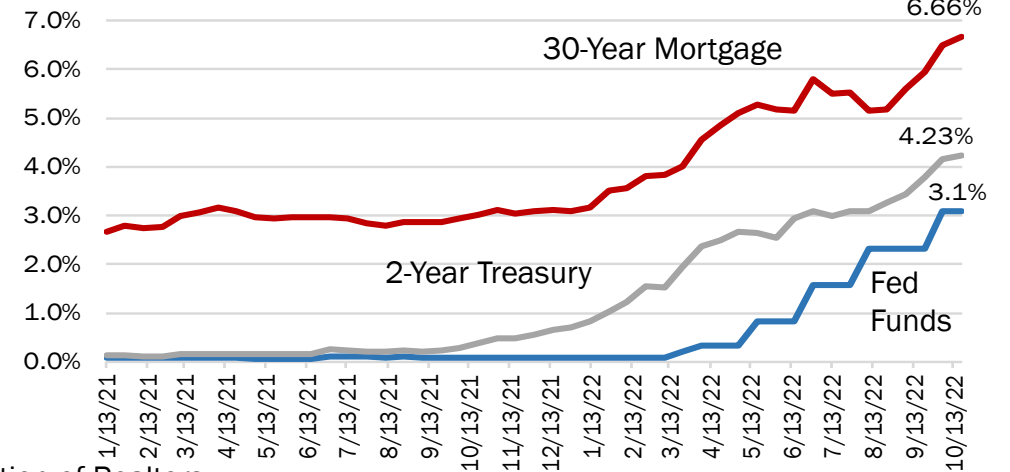
U.S. Corporate Profits



Virginia Home Sales (Dollar Volume), August



Interest Rates

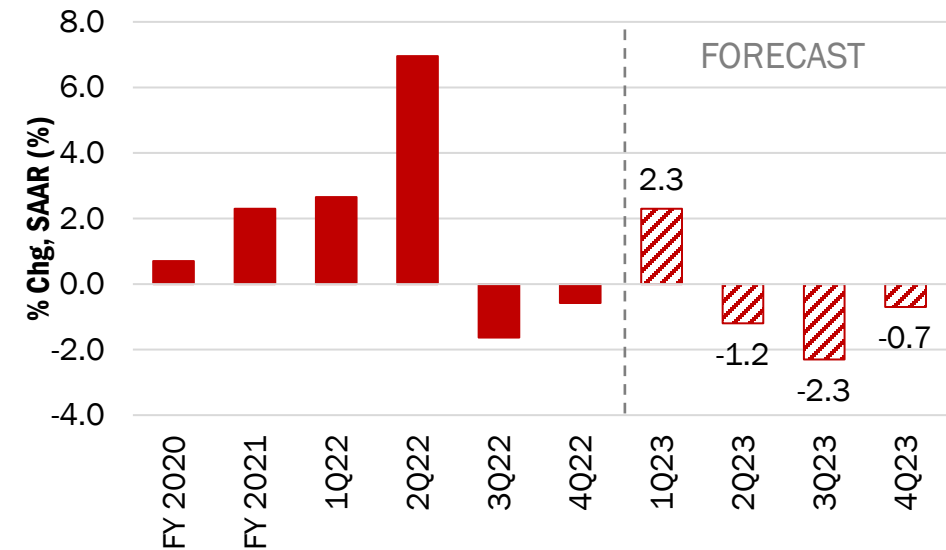


Source: Federal Reserve Bank of Saint Louis; Bureau of Labor Statistics, Virginia Association of Realtors

U.S. RECESSION IS INCREASINGLY LIKELY

- Recent economic forecasts are increasingly predicting a U.S. recession.
- The Conference Board forecasts that economic weakness will intensify and spread more broadly with a recession to begin before the end of calendar year 2022. This outlook is associated with persistent inflation and rising hawkishness by the Federal Reserve.
- The IHS Markit October standard forecast assumes a mild recession beginning in the fourth calendar quarter of 2022 with a weak recovering beginning in the second half of calendar year 2023.

U.S. Real GDP Growth Forecast, State Fiscal Quarter
IHS Markit Standard Forecast



Source:- The Conference Board (Oct 12, 2022); IHS Markit, October Standard Forecast.

CONCLUSION

- September completes the first quarter of FY 2023. Adjusted first quarter general fund revenues were up 7.6 percent, with continued growth in all significant revenue streams.
- Recent economic data suggest an increasing likelihood of a U.S. recession:
 - The job market remains stable while employment and wage growth support continued growth in withholding collections in the near term.
 - However, rapidly rising interest rates and high inflation are likely to dampen demand leading to reduced corporate profits and slowed job growth in the next 12 to 24 months.
 - While sales tax collections continue to exceed prior year totals, persistent inflation and lower consumer sentiment have the potential to impact spending in coming months.
 - Volatility in the financial markets highlights uncertainty around nonwithholding collections.
- The revenue forecast will be adjusted as part of the normal fall forecasting process to reflect current expectations with input from JABE and GACRE.

THE PROCESS FOR DEVELOPING BUDGET AMENDMENTS FOR THE 2023 GENERAL ASSEMBLY SESSION IS IN FULL SWING

September: Agency operating budget amendments reviewed by Cabinet and submitted to DPB for further analysis.

October:

- DPB provides initial analysis of agency recommendations.
- Governor's Office and Finance Secretariat triage agency recommendations and develop further policy options for the Governor's consideration.
- Joint Advisory Board of Economists reviews economic projections for current and next biennium.

November:

- Medicaid forecast finalized.
- Governor's Advisory Council on Revenue Estimates reviews revenue forecast for the 2022 - 2024 biennium.
- Preliminary decisions made on allocation of available resources.

December:

- General fund revenue forecast finalized.
- Final decisions made on allocation of available resources.
- Governor Youngkin's amendments to the 2022 - 2024 budget are presented to the Joint Money Committee on December 15.