



ECONOMIC AND REVENUE REVIEW AND UPDATE

A BRIEFING FOR THE MONEY COMMITTEES

Stephen E. Cummings
Secretary of Finance
Commonwealth of Virginia
www.finance.virginia.gov
September 2024

TOPICS FOR DISCUSSION

ECONOMIC UPDATE

AUGUST FISCAL YEAR-TO-DATE REVENUE COLLECTIONS

LOOKING AHEAD

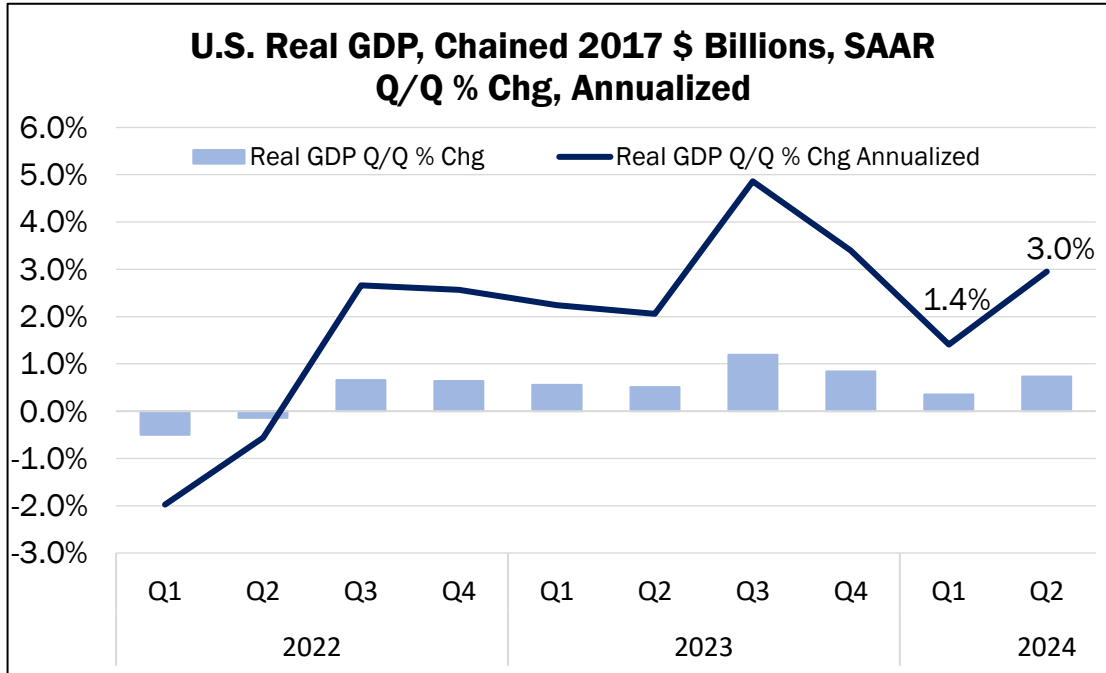
SUMMARY

- With one fewer deposit day than August of last year, general fund revenues increased 2.0 percent year-over-year. Fiscal year-to-date revenues are ahead of last year by 8.0 percent.
 - August consists mainly of payroll withholding and sales tax collections and generally is not a significant month for other sources such as corporate income and nonwithholding taxes.
- Compared to the forecast, which accounts for the reduced number of deposit days, revenues exceeded projections for the month by \$114.0 million and are ahead of projections by \$205.7 million year-to-date.
 - The forecast reflects the economic and revenue outlooks from the fall of 2023 which anticipated a mild recession in calendar year 2024 and includes minor adjustments for policy changes adopted during the 2024 General Assembly regular and special sessions. The forecast will be updated this fall.
- Payroll withholding taxes were 1.3 percent lower year-over-year for the month and up 6.1 percent year-to-date. Compared to the forecast, withholding revenues are ahead by \$157.8 million year-to-date.
- Nonwithholding collections increased 53.4 percent year-over-year and are up 31.4 percent for the year. Fiscal year-to-date, receipts are \$100.1 million ahead of the forecast.
- Sales and use taxes, reflecting July sales, increased 1.8 percent in August and are up 2.2 percent year-to-date. Fiscal-year-to-date, sales and use tax revenues are \$21.1 million above projections.
- Net corporate income tax revenues were negative \$15.2 million for the month of August, reflecting refund activity in a month when few corporate taxpayers submit estimated payments. On a year-to-date basis, corporate income tax revenues are 63.4 percent below last year and \$43.9 million below the forecast assumed in the current appropriations act.
- First quarterly estimated payments are due from individuals and corporations in September which will provide a better indicator of general fund revenue trends.

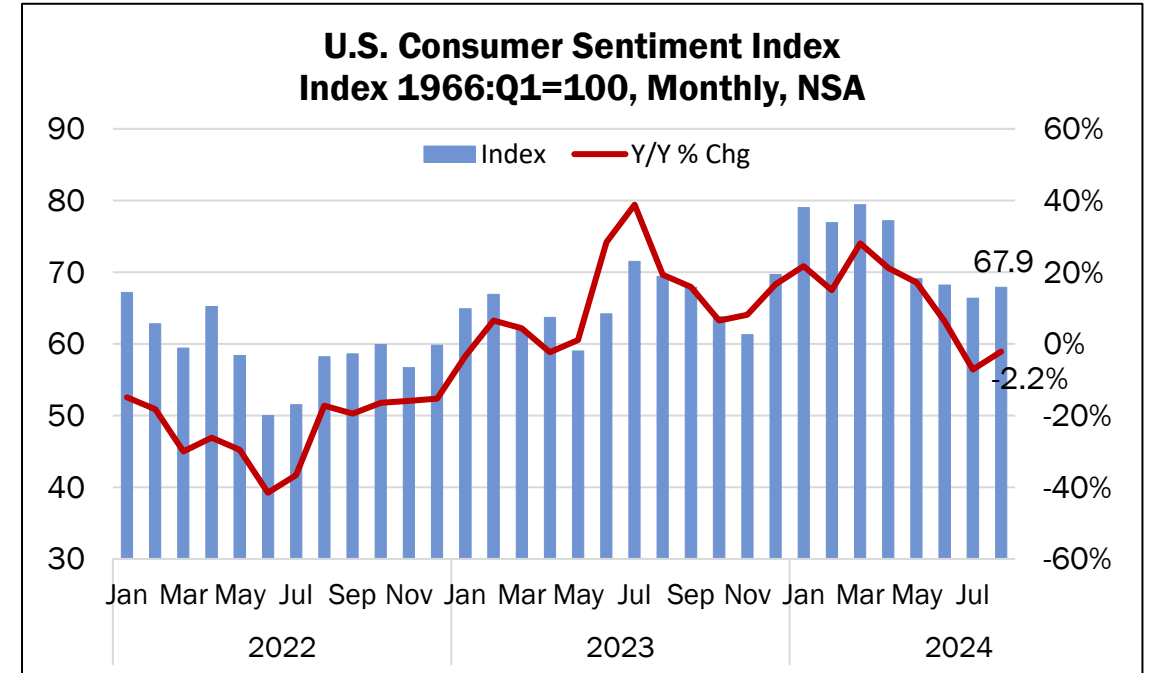
SUMMARY (CONT'D)

- U.S. real GDP growth for the second quarter of 2024 was revised upward from an annual rate of 2.8 percent to 3.0 percent in August. In the first quarter, real GDP increased 1.4 percent. The increase in the second quarter primarily reflected increases in consumer spending, private inventory investment, and nonresidential fixed investment.
- Inflation is nearing the Fed's target. The twelve-month percentage increase in the Consumer Price Index (CPI) for all items fell to 2.5 percent in August. The year-over-year percentage increase in "core" CPI, excluding food and energy, remained at 3.2 percent in August. The twelve-month percentage change in the "core" Personal Consumption Expenditure Price Index also held steady at 2.6 percent in July.
- The Fed is widely expected to lower rates at the September 17-18 meeting. Federal Reserve Chair Jerome Powell recently expressed confidence that inflation is within reach of the central bank's 2-percent target, suggested that rate cuts are imminent, and emphasized the Fed's intent to focus on maintaining a strong labor market.
- Employment growth continues to slow. U.S. nonfarm payroll employment increased by 142,000 in August, and the unemployment rate edged down slightly from 4.3 percent to 4.2 percent. Employment growth in August was in line with average job growth in recent months but was below the average monthly gain of 202,000 over the prior 12 months.
- In July, Virginia employment increased by 4,800 bringing total payroll employment to 4,256,200, an increase of 2.0 percent compared to July of last year. June's preliminary estimate was revised downward by 9,500. Virginia's unemployment rate in July remained unchanged at 2.7 percent. August employment data for Virginia will be released later this month.
- Congress returned to session last week to consider a potential short-term continuing resolution before the end of the federal fiscal year on September 30. The federal government may face a temporary shutdown if no agreement is reached.

REAL GDP GROWTH ACCELERATED IN Q2 2024; CONSUMER SENTIMENT IMPROVED SLIGHTLY IN AUGUST



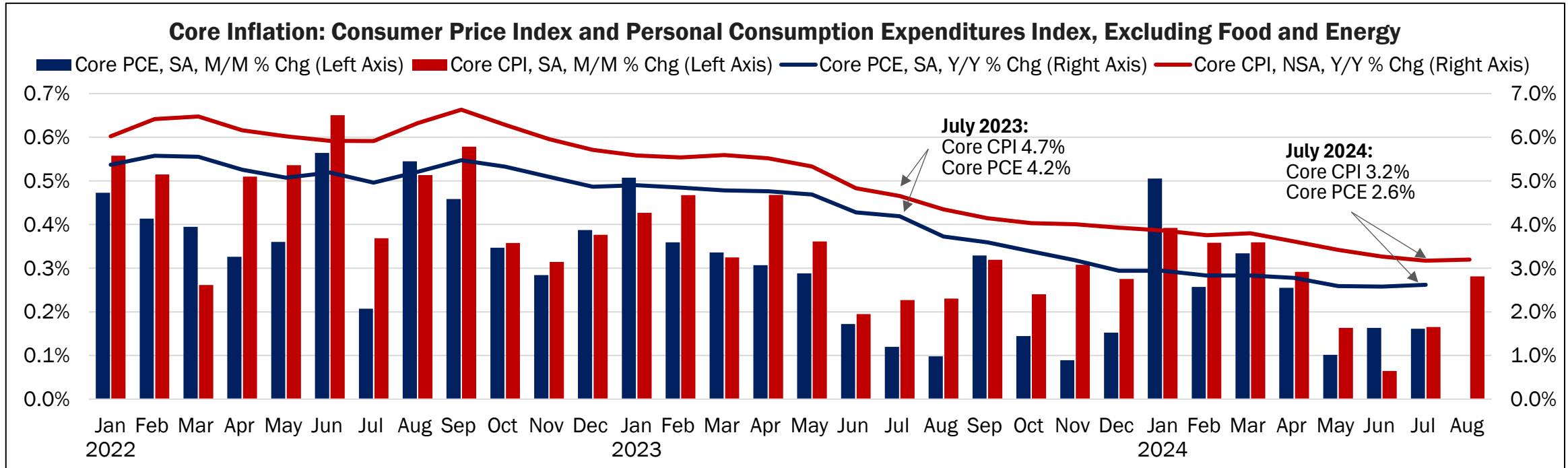
Source: U.S. Bureau of Economic Analysis.



Source: University of Michigan- Survey of Consumers

- Real gross domestic product (GDP) increased at an annual rate of 3.0 percent in the second quarter of 2024. According to the “second” estimate, Q2 growth was revised up from 2.8 percent reported in the first estimate. The increase in the second quarter primarily reflected increases in consumer spending, private inventory investment, and nonresidential fixed investment. First quarter real GDP increased 1.4 percent.
- In August, the U.S. Consumer Sentiment Index rose by 1.5 points to 67.9, a 2.3 percent month-over-month rise. Compared to the same period last year, the index was down 2.2 percent.

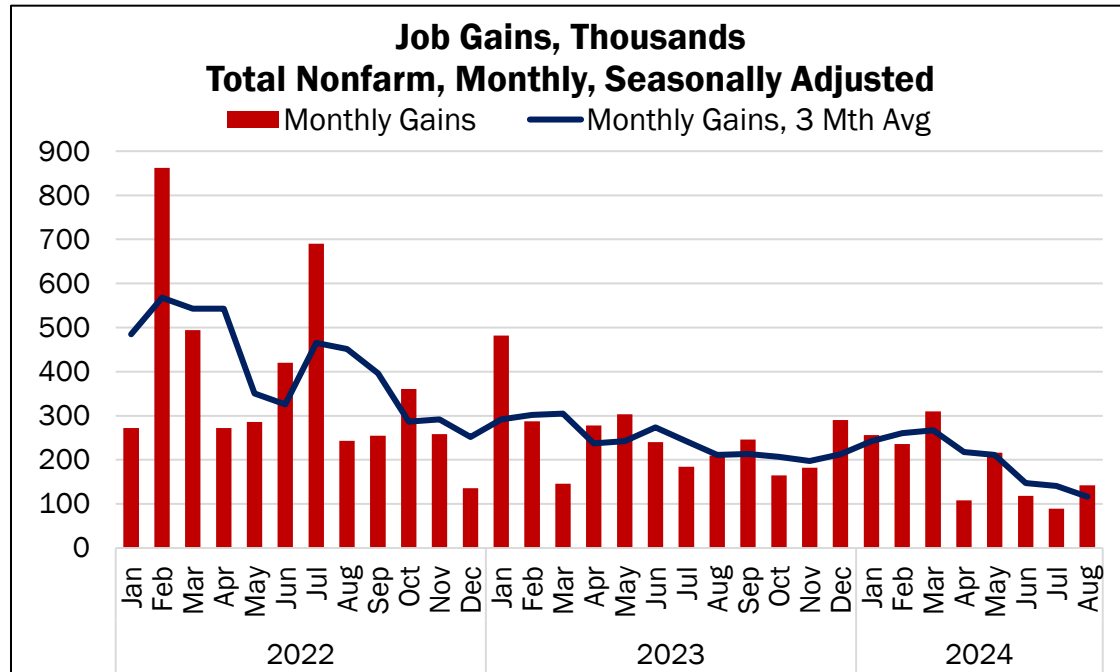
MODERATING INFLATION TURNS THE FOCUS TO JOBS



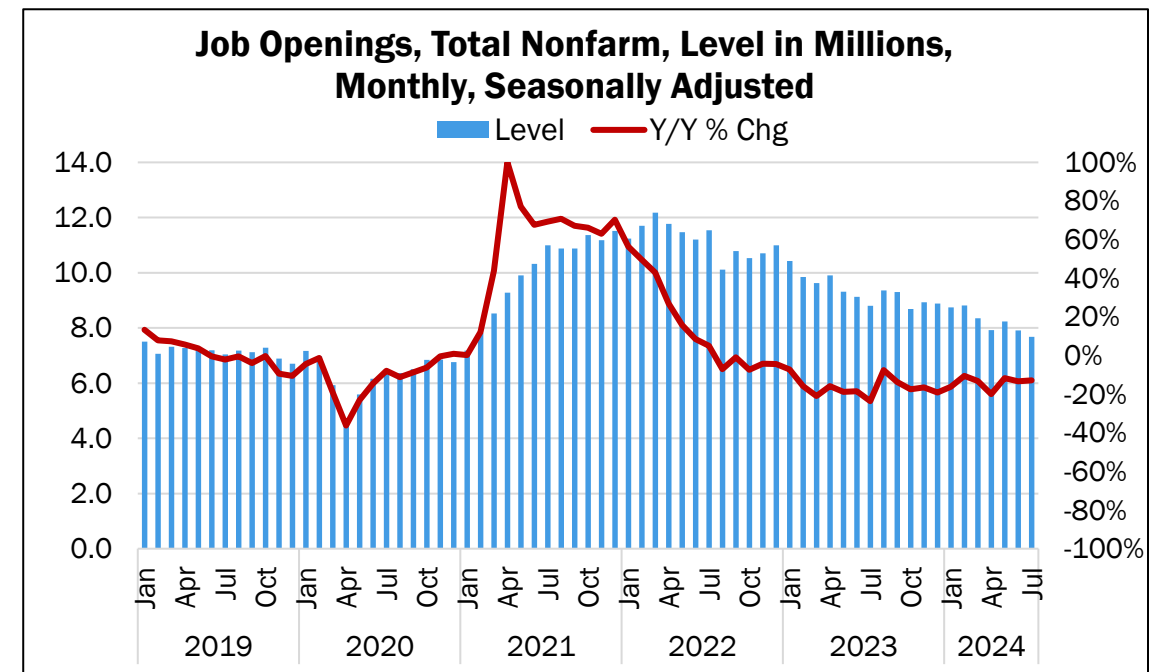
Source: U.S. Bureau of Labor Statistics; U.S. Bureau of Economic Analysis.

- Core CPI, which excludes food and energy, rose 0.3 percent in August and was up 3.2 percent year-over-year. Headline CPI, which includes all items, fell from 2.9 percent in July to 2.5 percent in August, the lowest point since early 2021.
- The twelve-month change in the Core Personal Consumption Expenditure Price Index (Core PCE), the Federal Reserve’s preferred inflation measure, held steady at 2.6 percent in July.
- Federal Reserve Chair Jerome Powell expressed confidence that inflation is within reach of the central bank’s 2-percent target, suggested that rate cuts are imminent, and emphasized the Fed’s intent to focus on maintaining a strong labor market

U.S. JOB GROWTH CONTINUES TO SLOW



Source: US BLS (establishment survey).



Source: US Bureau of Labor Statistics (JOLTS).

- U.S. nonfarm payroll employment increased by 142,000 in August, in line with average job growth in recent months but below the average monthly gain of 202,000 over the prior 12 months. The largest gains were in leisure and hospitality (+46,000), construction (+34,000), and health care (+31,000). The largest decline was in manufacturing (-24,000).
- The June estimate was revised down by 61,000, from +179,000 to +118,000, and the change for July was revised down by 25,000, from +114,000 to +89,000. With these revisions, employment in June and July combined is 86,000 lower than previously reported.
- Job openings took a further step back in July, falling from a downwardly revised 7.9 million in June to 7.7 million in July. Openings are at their lowest level since January 2021 and have been on a clearly downward trend for two years.

PRELIMINARY ANNUAL REVISIONS SUGGEST THAT JOB GROWTH WAS WEAKER THAN PREVIOUSLY REPORTED

- In August, the Bureau of Labor Statistics released the preliminary estimate of the upcoming annual benchmark revision to the establishment survey employment series. Preliminary benchmark revisions are calculated only for the month of March 2024.
- The preliminary estimate of the benchmark revision indicates an adjustment to March 2024 U.S. total nonfarm employment of -818,000 (-0.5 percent) and Virginia total nonfarm employment of -9,800 (-0.2 percent).
- The latest preliminary revision of -0.5 percent for the U.S. is larger than the plus-or-minus 0.1 percent average of the preceding 10 years and is the largest downward revision since 2009.

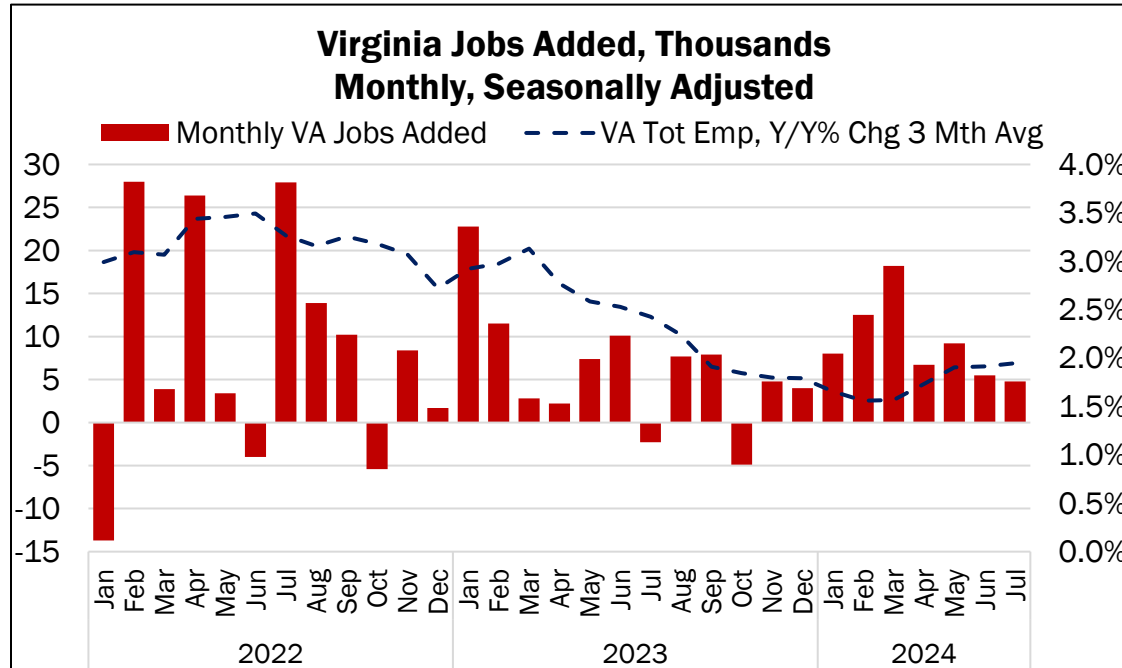
Nonfarm Employment for March 2024, In Thousands, Not Seasonally Adjusted

National / State	Before Revisions	After Revisions	Difference	% Difference
U.S. Total Nonfarm	157,210	156,392	-818	-0.5%
Virginia Total Nonfarm	4,211	4,201	-9.8	-0.2%

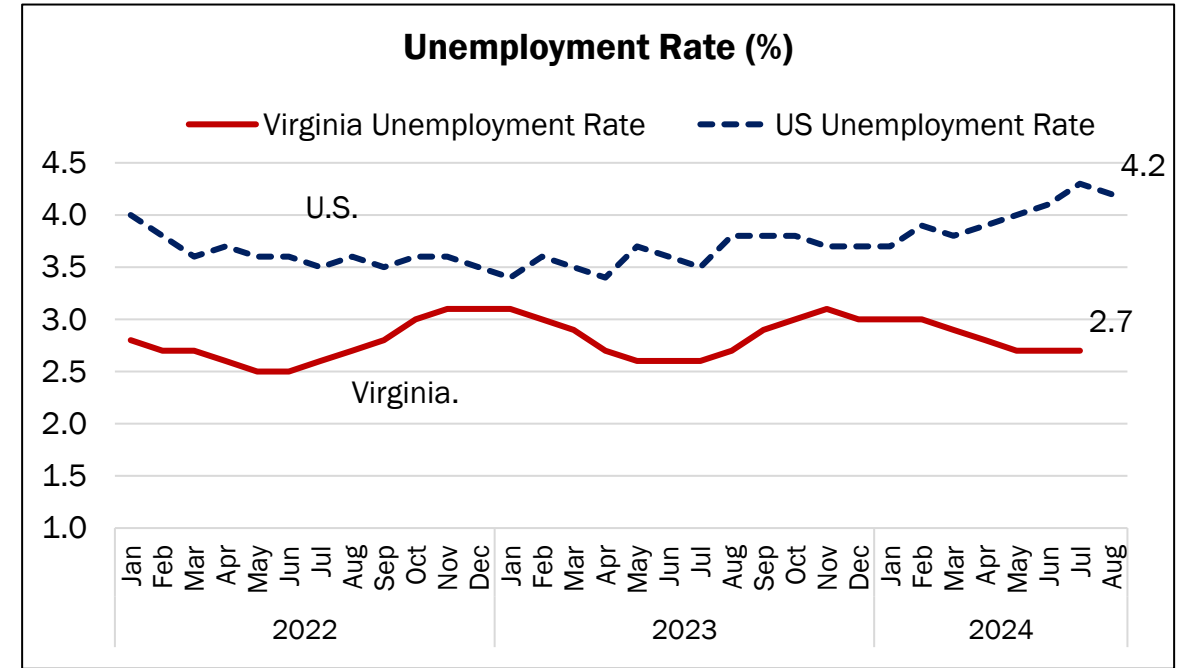
Source: U.S. Bureau of Labor Statistics (BLS).

- The final benchmark revision will be issued in February 2025 with the publication of the January 2025 employment report.

VIRGINIA ADDED 4,800 JOBS IN JULY AND THE UNEMPLOYMENT RATE WAS UNCHANGED AT 2.7 PERCENT



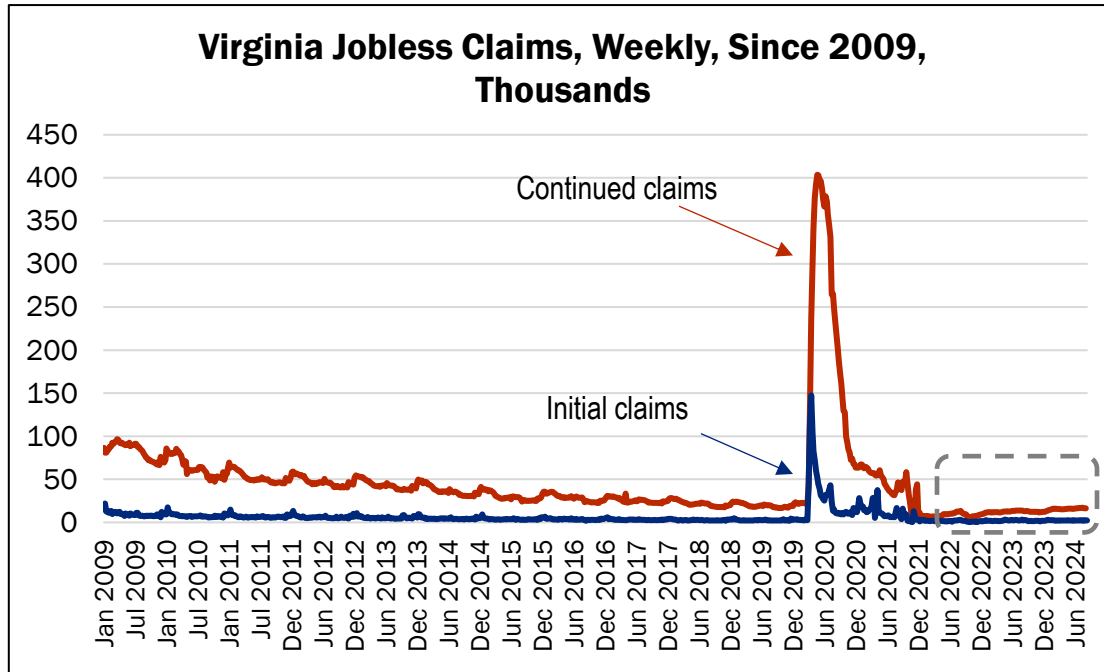
Source: Federal Reserve Bank of St. Louis, BLS (establishment survey).



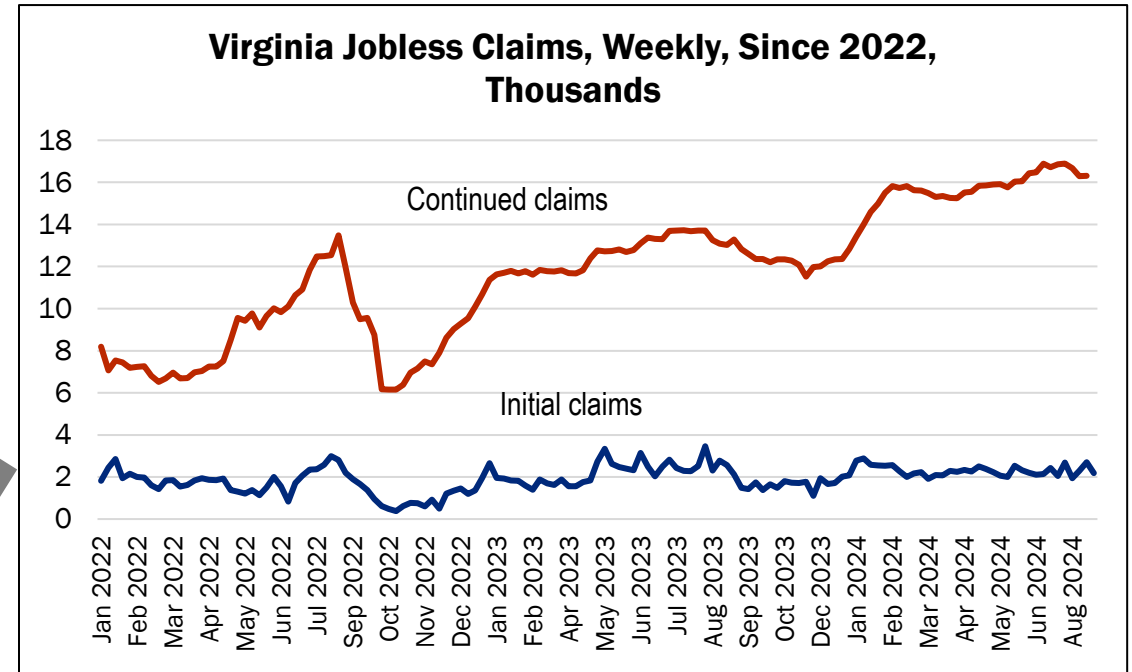
Source: US Bureau of Labor Statistics (household survey).

- In July, Virginia added 4,800 jobs, reflecting an increase of 2.0 percent compared to July of last year. Private sector employment increased by 5,300 while government employment decreased by 500. The largest job gains occurred in Leisure and Hospitality (+4,600) and Professional and Business Services (+2,100). The largest job loss occurred in Financial Activities (-1,800). In addition, June's preliminary estimate of employment was revised downward by 9,500.
- Virginia's unemployment rate was unchanged in July at 2.7 percent, while the U.S. unemployment rate edged down from 4.3 percent in July to 4.2 percent in August. Virginia's labor force participation rate stood at 66.1 percent in July versus the U.S. rate of 62.7.

WHILE LOW BY HISTORICAL STANDARDS, JOBLESS CLAIMS ARE TRENDING HIGHER



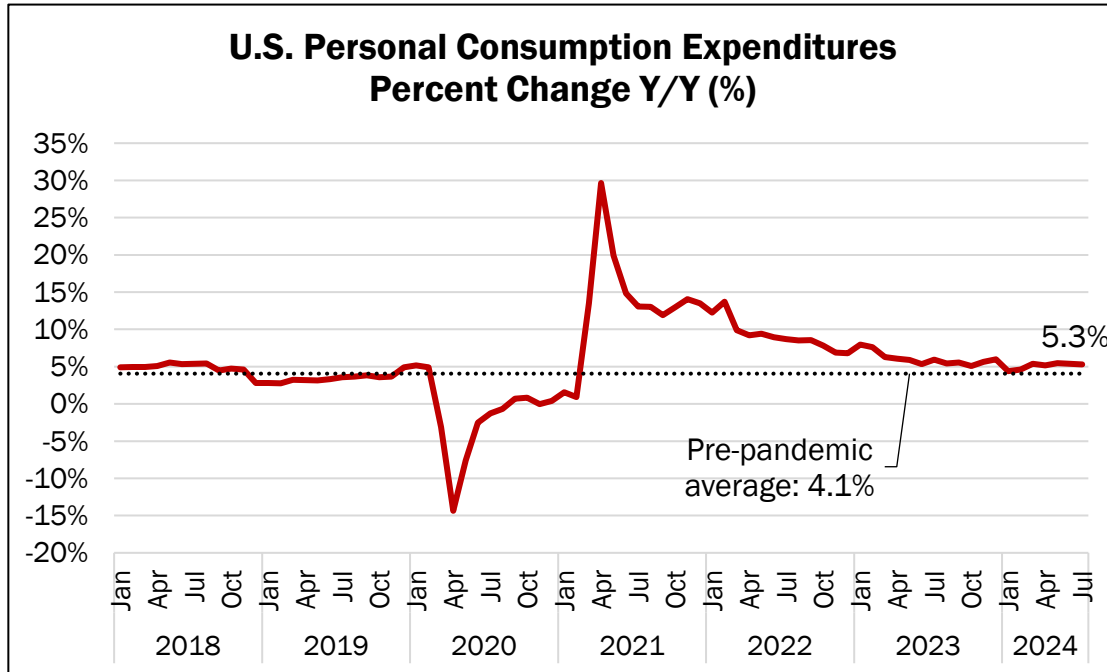
Source: Federal Reserve Bank of St. Louis.



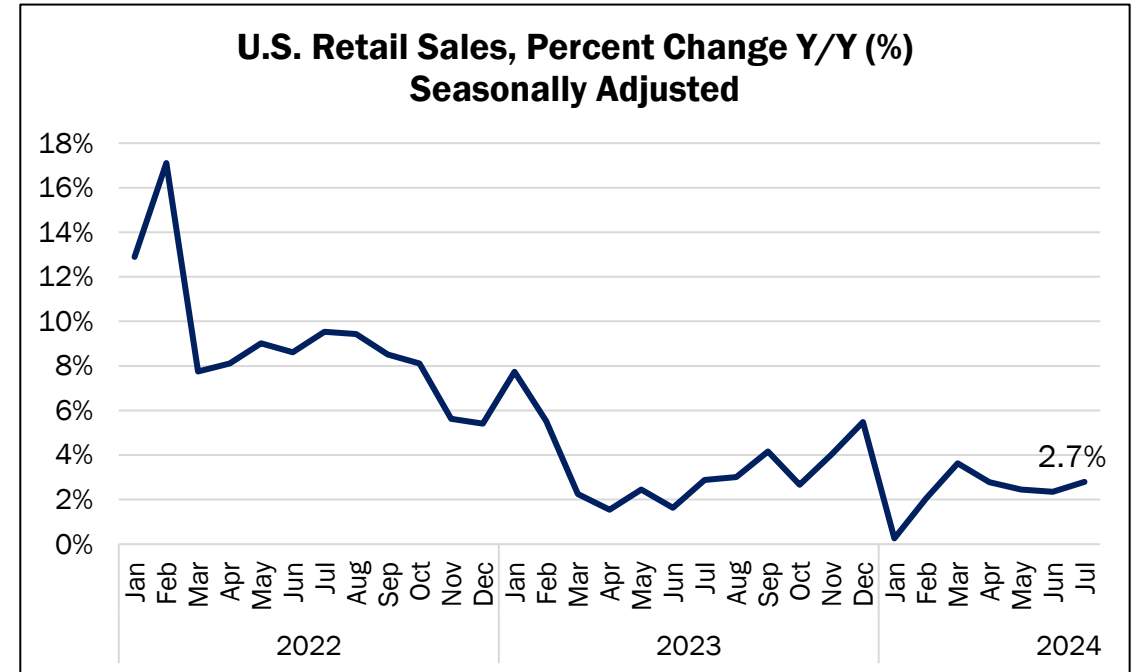
Source: Federal Reserve Bank of St. Louis.

- In Virginia, initial unemployment claims fell by 17.6 percent year-over-year in August after falling 5.4 percent in July, while continued claims increased 22.2 percent year-over-year in August compared to a 23.6 percent increase in July.

CONSUMER SPENDING CONTINUES TO GROW



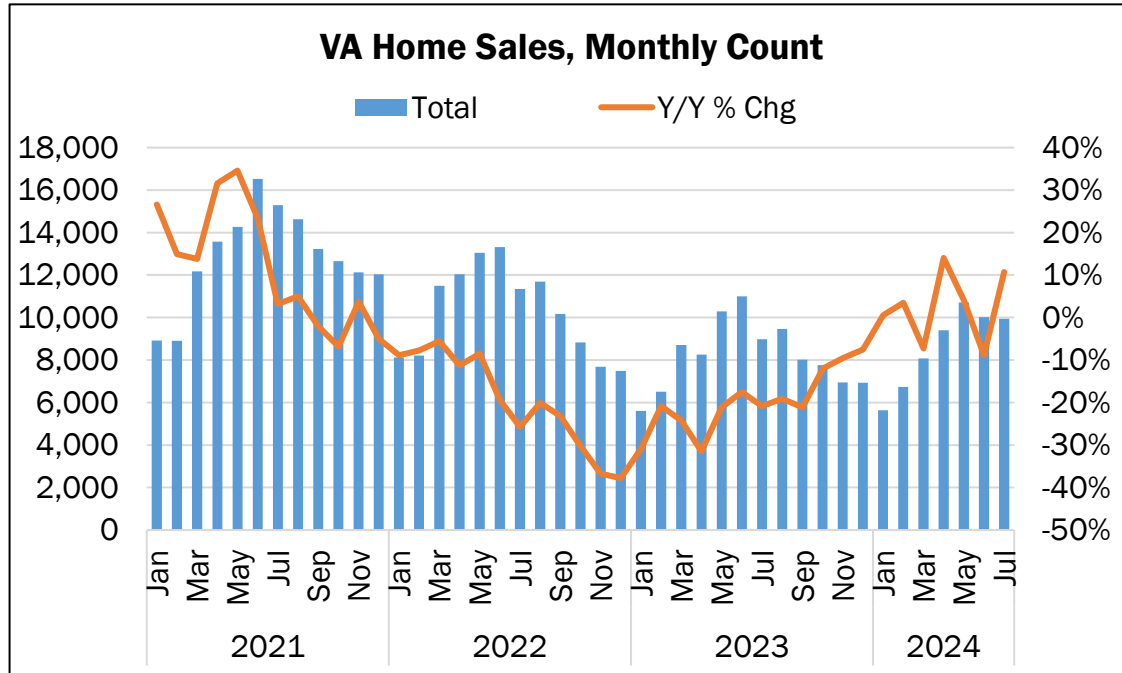
Source: US Bureau of Economic Analysis



Source: U.S. Census Bureau.

- Consumer spending rose 0.5 percent monthly in July, a 5.3 percent year-over-year increase. Although spending growth has been extraordinarily high since 2021, it's steadily slowing down and approaching the pre-pandemic trends.
- July 2024 U.S. retail sales increased 1.0 percent from the previous month and 2.7 percent year-over-year. Nonstore retailers (internet sellers) were up 6.7 percent year-over-year, and food services/drinking places experienced an increase of 3.6 percent from July last year.

VIRGINIA HOME SALES IMPROVED IN JULY WHILE HOME PRICES CONTINUED TO CLIMB



Source: Virginia Realtors.

Virginia Housing Market Activity			
	July 2023	July 2024	% Change
Sales (count)	8,985	9,947	10.7%
Median Price (\$)	\$400,000	\$426,000	6.5%
Sales Volume (\$ bil.)	\$4.4	\$5.2	18.1%
Pending Sales	8,317	8,643	3.9%
Active Listings (EOM)	14,939	19,162	28.3%
Months of Supply	1.8	2.3	25.0%
30-Year Mortgage Rate	6.81%	6.78%	(0.03 pct pt)

Source: Virginia Realtors; Federal Reserve Bank of St. Louis (30-Year Mortgage Rate is U.S. average at the end of the period).

- Sales activity in Virginia’s housing market improved modestly in July. There were 9,947 homes sold statewide in July 2024, 962 more than a year ago, a 10.7% increase. The increase in sales reflects the improvement in mortgage rates and more supply in the market.
- Mortgage rates have been trending down in recent months. The U.S. average for a 30-year fixed rate mortgage was 6.35 percent at the end of August. The average rate was 6.78 percent at the end of July and more than 7 percent in April and May.

GF REVENUES GREW 2.0 PERCENT YEAR-OVER-YEAR IN AUGUST AND ARE UP 8.0 PERCENT FISCAL YEAR-TO-DATE

SOURCE, \$ Mil	August				FYTD			
	FY 24	FY 25	Change \$	Change %	FY 24	FY 25	Change \$	Change %
Withholding	\$1,354.2	\$1,336.3	(\$17.9)	-1.3%	\$2,587.8	\$2,746.2	\$158.3	6.1%
Non-withholding	117.9	180.9	63.0	53.4%	220.9	290.4	69.4	31.4%
IIT Refunds	(132.0)	(117.9)	14.0	-10.6%	(298.6)	(213.3)	85.3	-28.6%
Net Individual Income	\$1,340.2	\$1,399.3	\$59.1	4.4%	\$2,510.1	\$2,823.2	\$313.1	12.5%
Sales & Use Tax	390.4	397.5	7.1	1.8%	793.3	810.6	17.4	2.2%
Corporate Gross	31.0	26.5	(4.5)	-14.5%	134.5	121.4	(13.1)	-9.7%
Corporate Refunds	(12.0)	(41.7)	(29.7)	247.2%	(28.6)	(82.6)	(54.1)	189.4%
Net Corporate Income Tax	19.0	(15.2)	(34.2)	-179.9%	105.9	38.8	(67.2)	-63.4%
Wills, Suits, Deeds	38.2	38.2	(0.0)	-0.1%	74.1	81.0	7.0	9.4%
Interest Income	97.0	97.0	0.0	0.0%	224.9	211.1	(13.8)	-6.1%
All Other	41.8	48.1	6.3	15.2%	74.1	120.9	46.8	63.2%
Total GF Revenues	\$1,926.6	\$1,964.8	\$38.2	2.0%	\$3,782.3	\$4,085.6	\$303.3	8.0%

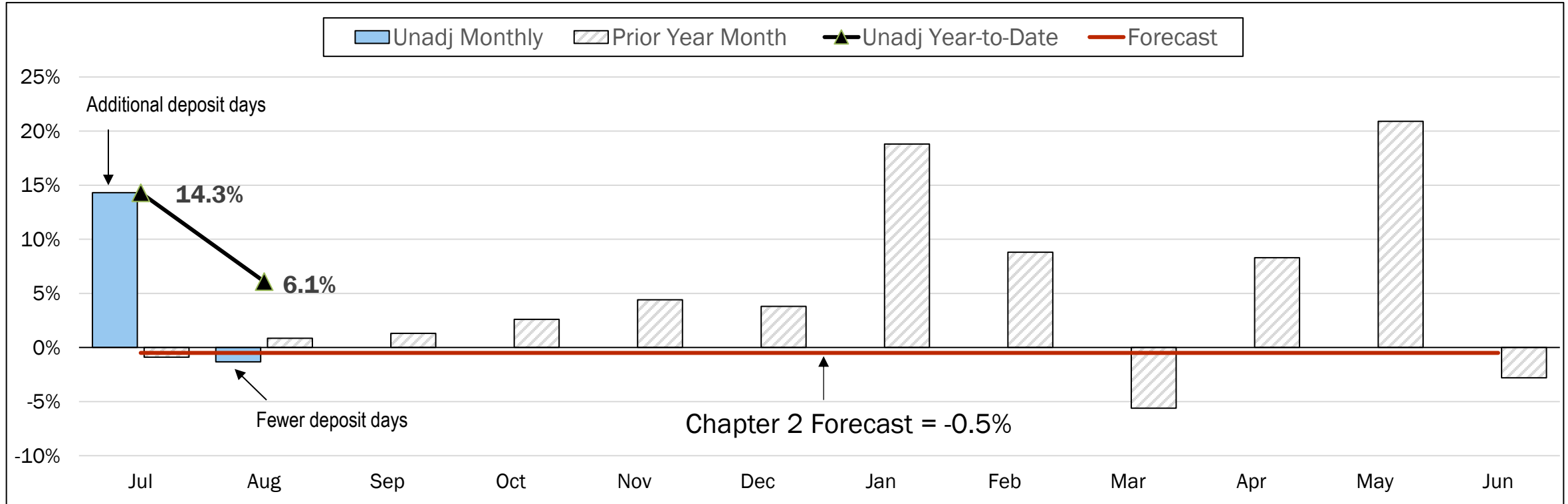
- On a year-to-date basis, general fund revenues increased 8.0 percent (\$303.3 million) through the first two months of Fiscal Year 2025, driven mainly by higher net individual income and sales taxes.
- Payroll withholding collections decreased 1.3 percent (\$17.9 million) for the month compared to last year, reflecting the impact of fewer deposit days relative to last year. Year-to-date, withholding revenue is up 6.1 percent (\$158.3 million) versus last year.
- Nonwithholding collections increased by 53.4 percent (\$63.0 million) compared to August last year, and refunds were down 10.6 percent (\$14.0 million).

YTD COLLECTIONS ARE 5.3 PERCENT ABOVE THE OFFICIAL FORECAST AND +3.9 PERCENT EXCLUDING NONWITHHOLDING AND REFUNDS

SOURCE, \$ Mil	August				FYTD			
	Actuals	Projected	Variance \$	Variance %	Actuals	Projected	Variance \$	Variance %
Withholding	\$1,336.3	\$1,212.7	\$123.6	10.2%	\$2,746.2	\$2,588.4	\$157.8	6.1%
Non-withholding	180.9	101.5	79.4	78.1%	290.4	190.3	100.1	52.6%
IIT Refunds	(117.9)	(72.7)	(45.3)	62.3%	(213.3)	(168.9)	(44.4)	26.3%
Net Individual Income	\$1,399.3	\$1,241.5	\$157.7	12.7%	\$2,823.2	\$2,609.8	\$213.4	8.2%
Sales & Use Tax	397.5	388.6	8.9	2.3%	810.6	789.5	21.1	2.7%
Corporate Income Tax	(15.2)	24.0	(39.2)	-163.3%	38.8	82.7	(43.9)	-53.1%
Insurance	-	-	-	0.0%	-	-	-	0.0%
Wills, Suits, Deeds	38.2	41.5	(3.3)	-8.1%	81.0	85.0	(3.9)	-4.6%
Interest Income	97.0	107.0	(10.0)	-9.3%	211.1	224.1	(13.1)	-5.8%
All Other	48.1	48.2	(0.1)	-0.1%	120.9	88.8	32.0	36.1%
Total GF Revenues	\$1,964.8	\$1,850.8	\$114.0	6.2%	\$4,085.6	\$3,879.9	\$205.7	5.3%
Total, Excl. NWH and Refunds	\$1,901.9	\$1,821.9	\$79.9	4.4%	\$4,008.5	\$3,858.5	\$150.0	3.9%

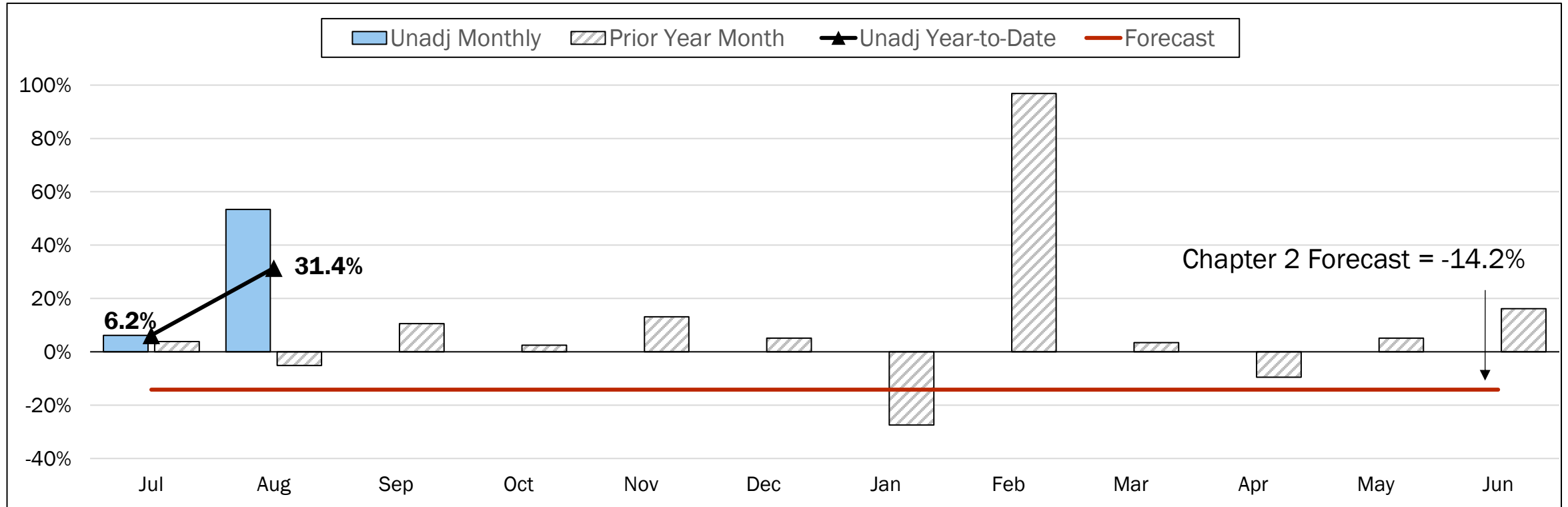
- Despite having one fewer deposit day than last year, August withholding collections exceeded projections by \$123.6 million (10.2 percent) while nonwithholding collections exceeded projections by \$79.4 million (78.1 percent).
- Year-to-date total general fund revenues are ahead of projections by \$205.7 million (5.3 percent).
- The positive variance to forecast was partially offset by lower-than-expected net corporate income tax collections and higher than projected individual income tax refunds.

WITH ONE FEWER DEPOSIT DAY, WITHHOLDING COLLECTIONS DECLINED YEAR-OVER-YEAR IN AUGUST



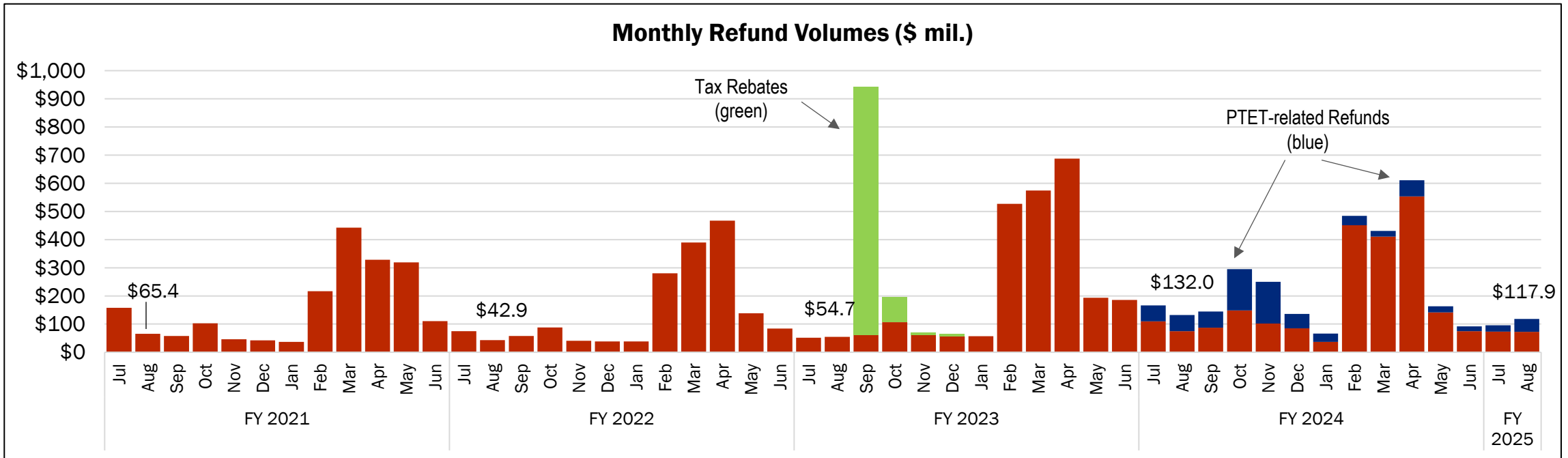
- July had an extra deposit day, while August had one fewer than normal. With one fewer deposit day, collections of payroll withholding taxes were 1.3 percent lower for the month compared to last August but were ahead of projections by \$123.6 million.
- Withholding collections are up 6.1 percent year-to-date and are ahead of projections by \$157.8 million year-to-date.

AFTER TWO MINOR COLLECTION MONTHS, NONWITHHOLDING IS AHEAD OF FORECAST



- August collections grew 53.4 percent year-over-year and are up 31.4 percent for the year.
- The first two months of the fiscal year are minor payment months, accounting for just three to four percent of full year revenues.
- The first significant payment month is September when the first estimated payments are due.

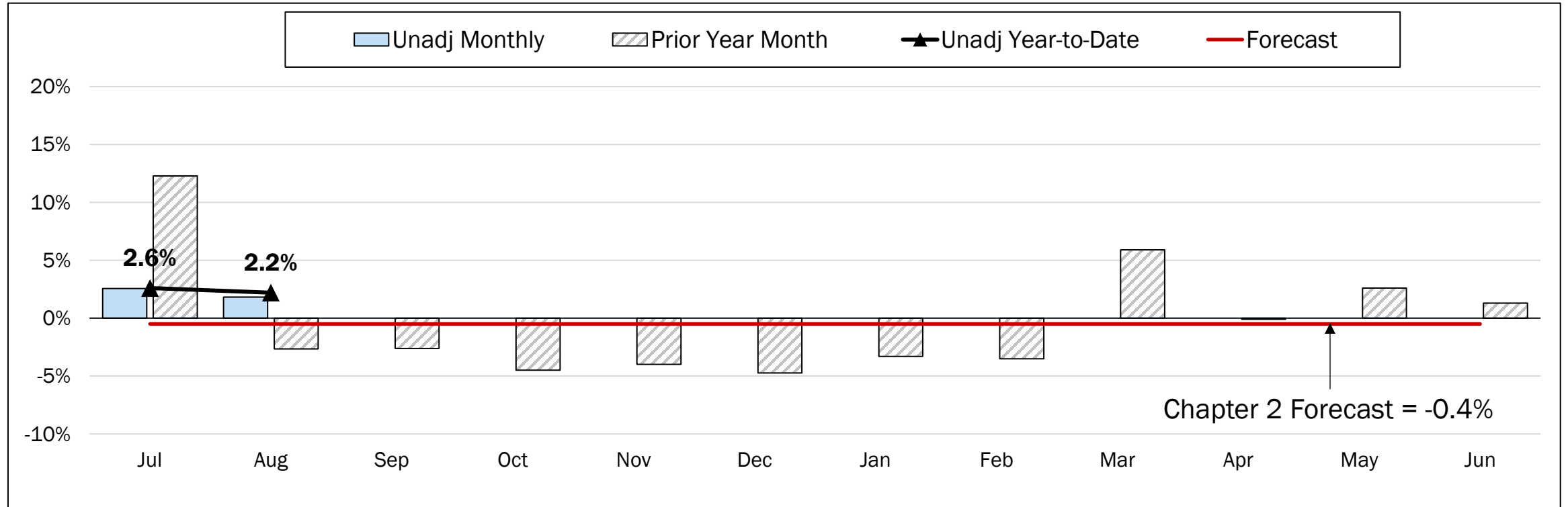
INDIVIDUAL INCOME TAX REFUNDS WERE MODESTLY HIGHER THAN ANTICIPATED IN AUGUST



2023 rebates in **GREEN**. PTET refunds in **BLUE**

- During the month of August, refunds totaled \$117.9 million versus \$132.0 million last August, a decline of 10.6 percent. Year-to-date, the Department of Taxation has issued \$213.3 million in refunds compared with \$298.6 million over the same period last year, a decrease of 28.6 percent.
- July and August are not significant months for individual income tax refunds with the majority refunds issued in February, March, and April.

SALES TAX CONTINUES MODEST GROWTH



- Collections of sales and use taxes, reflecting July sales, increased 1.8 percent in August and are up 2.2 percent year-to-date.

OTHER SOURCES

- **Wills, Suits, Deeds, Contracts** - Collections of wills, suits, deeds, and contracts – mainly recordation tax collections – were 0.1 percent lower in August compared to the previous year. On a fiscal-year-to-date basis, collections are up 9.4 percent. Compared to the forecast, collections in this source are behind projections by \$3.9 million.
- **General Fund Interest Income** – Interest income totaled \$211.1 million through August compared to \$224.9 million for the same period of the prior fiscal year. Year-to-date interest income is below forecast by \$13.1 million.
- **Insurance Premiums License Tax** – No general fund revenues in August. Monthly collections of insurance company premiums license taxes are being transferred to the Commonwealth Transportation Fund per Chapter 986, 2007 Acts of the Assembly, until the required amount, one-third of the prior year's revenues, has been deposited.

CONCLUSION

- August is not a significant month for revenue collections, consisting mainly of payroll withholding and sales tax collections.
- After two months, year-to-date revenues are up 8.0 percent (\$303.3 million), driven mainly by higher net individual income and sales taxes.
- Compared to the Chapter 2 forecast developed in the fall of 2023, which anticipated a mild recession that did not materialize, year-to-date revenues are ahead by \$205.7 million.
- The ongoing strength of the Virginia economy indicated by a strong labor market, strong consumer spending and better than forecasted non-withholding revenues support a positive near-term outlook for revenues.
- The Fed has indicated confidence that inflation is under control and the primary focus is on jobs where there are some signs of weakness
- In response, the Fed has signaled that rates may be reduced in their upcoming September meeting
- The upcoming elections will have a significant impact on the outlook for our economy that will be reflected in the December forecast.

LOOKING AHEAD

- **September** – Estimated payments are due from individuals, corporations, and insurance companies. September completes the first quarter of FY 2025 and provides the last significant data points for inclusion in revenue forecasting models.
- **October 8** - Joint Advisory Board of Economist (JABE) reviews economic outlook for the current and next biennium (FY25 to FY28).
- **November 25** – Governor’s Advisory Council on Revenue Estimates (GACRE) reviews economic and revenue outlook for current and next biennium (FY25 to FY28).
- **December 18** - Governor Youngkin’s revised revenue forecast and proposed amendments to the 2024 - 2026 biennial budget are presented to the Joint Money Committee.