



ECONOMIC AND REVENUE REVIEW AND UPDATE

A BRIEFING FOR THE MONEY COMMITTEES

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TOPICS FOR DISCUSSION

ECONOMIC UPDATE

SEPTEMBER FISCAL YEAR-TO-DATE REVENUE COLLECTIONS

LOOKING AHEAD

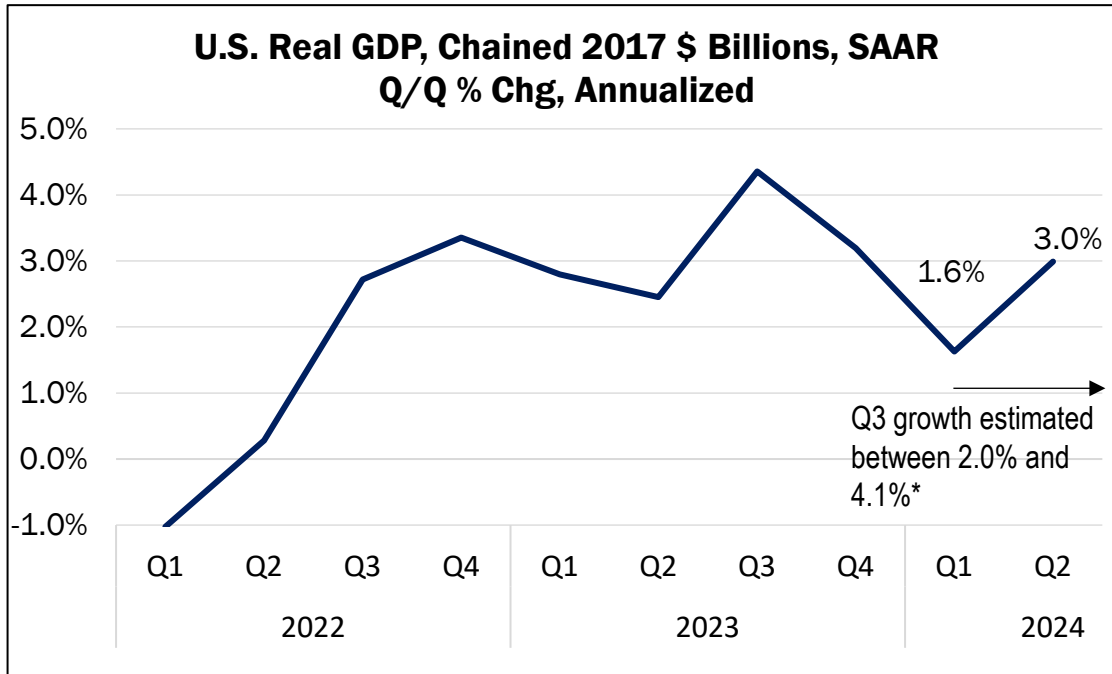
SUMMARY

- Year-to-date general fund revenues are ahead of last year by 9.9 percent (\$656.4 million), driven by a year-over-increase of net individual income taxes of 15.1 percent (\$661.9 million). Other revenue sources had a minimal net impact on total revenues.
- September revenues increased 12.4 percent (\$353.1 million) compared to last year, almost all of which was due to net individual income taxes.
- September is the first significant nonwithholding payment month of the year and 80 percent of the monthly increase was accounted for by these payments.
- Year-to-date revenues exceeded the official forecast assumed in the current appropriations act (Chapter 2) by 9.0 percent (\$601.4 million) and 14.1 percent (\$395.8 million) for the month of September. The Chapter 2 forecast from the fall of 2023 anticipated a mild recession in calendar year 2024.
- Nonwithholding collections for the month increased 35.6 percent (\$277.4 million) year-over-year and 34.7 percent (\$346.9 million) year-to-date. Compared to the year-to-date forecast, nonwithholding revenues are 56.4 percent (\$485.7 million) ahead.
- Payroll withholding taxes for the month increased 4.2 percent (\$51.9 million) year-over-year and 5.5 percent (\$210.3 million) year-to-date. Compared to the year-to-date forecast, withholding revenues are 6.4 percent (\$243.3 million) ahead.
- Sales and use taxes for the month, reflecting August sales, increased 0.1 percent (\$0.2 million) year-over-year and 1.5 percent (\$17.6 million) year-to-date. Compared to the year-to-date forecast, sales and use taxes are 2.0 percent (\$23.2 million) ahead.
- Net corporate income tax revenues for the month declined 10.3 percent (\$42.1 million) year-over-year and 21.2 percent (\$109.3 million) year-to-date. Compared to the year-to-date forecast, net corporate tax revenues are \$89.5 million below the forecast assumed in the current appropriations act.

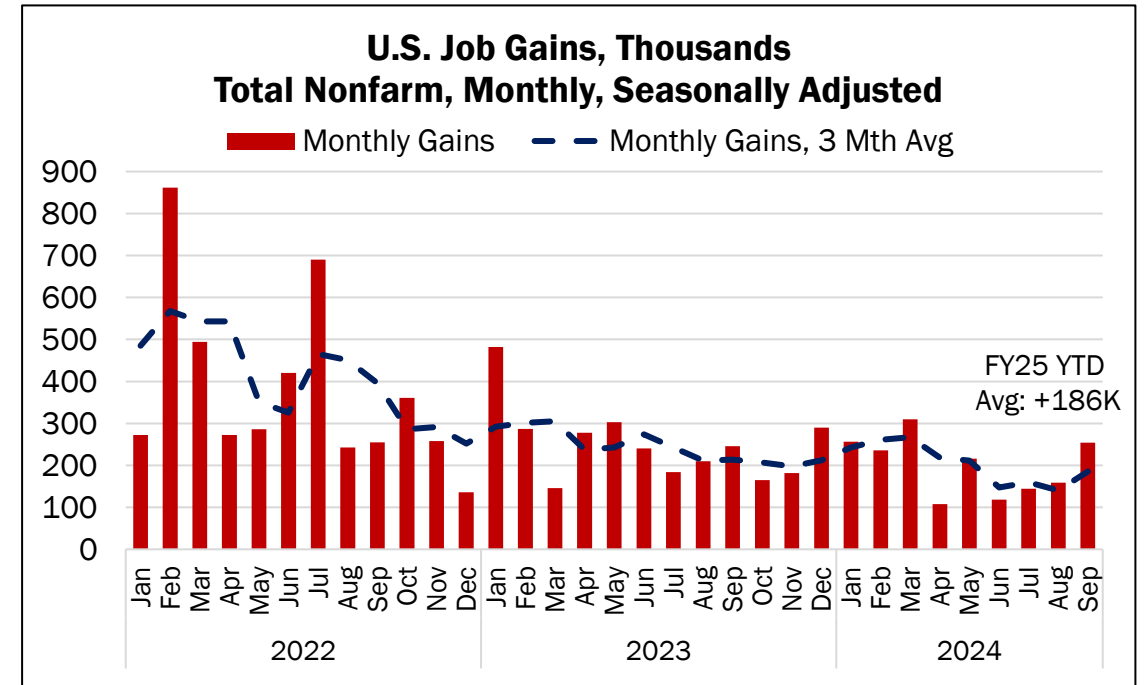
SUMMARY (CONT'D)

- The U.S. economy continues to grow. Real GDP increased at an annual rate of 3.0 percent in the second quarter of 2024 according to the 'third' estimate released by the U.S. Bureau of Economic Analysis. In the first quarter, real GDP increased 1.6 percent. The increase in the second quarter primarily reflected increases in consumer spending, inventory investment, and business investment.
- U.S. nonfarm payroll employment, from the monthly establishment survey, increased by 254,000 in September, higher than the average monthly gain of 203,000 over the prior 12 months. The change in total nonfarm payroll employment for July was revised up by 55,000, and the change for August was revised up by 17,000.
- In August, Virginia's nonagricultural employment, from the monthly establishment survey decreased by 5,800. Private sector employment decreased by 5,700 while government employment decreased by 100. July's preliminary estimate of month-over-month employment growth was also revised down from +4,800 to -4,500.
- In September, the U.S. unemployment rate changed little at 4.1 percent, a 0.1 percentage point decline from August. Virginia's unemployment rate in August increased by 0.1 percentage points to 2.8 percent.
- The Federal Reserve cut interest rates for first time in four years at its most recent September 17-18 meeting, lowering the target range for the federal funds rate by 0.5 percentage point to 4.75 to 5.0 percent. The Committee has gained greater confidence that inflation is moving sustainably toward 2 percent, and judges that the risks to achieving its employment and inflation goals are roughly in balance.
- Inflation progress stalled in September. The Consumer Price Index (CPI) rose 0.2 percent month-over-month in September, higher than the expected 0.1 percent increase. The twelve-month change fell slightly from 2.5 percent to 2.4 percent. Core CPI, the index for all items less food and energy, increased 0.3 percent in September, up 3.3 percent over the year.
- Consumer confidence is weakening, driven mostly by concerns about the job market.

U.S. ECONOMY CONTINUES TO GROW



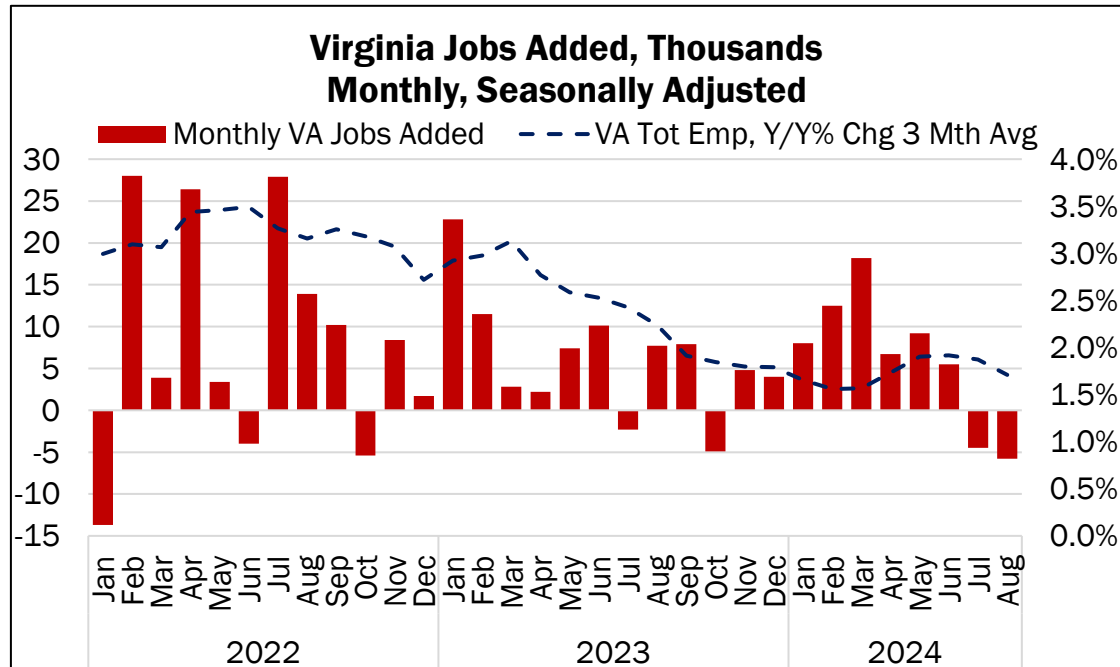
Source: U.S. Bureau of Economic Analysis. *NY Fed Nowcast Estimates.



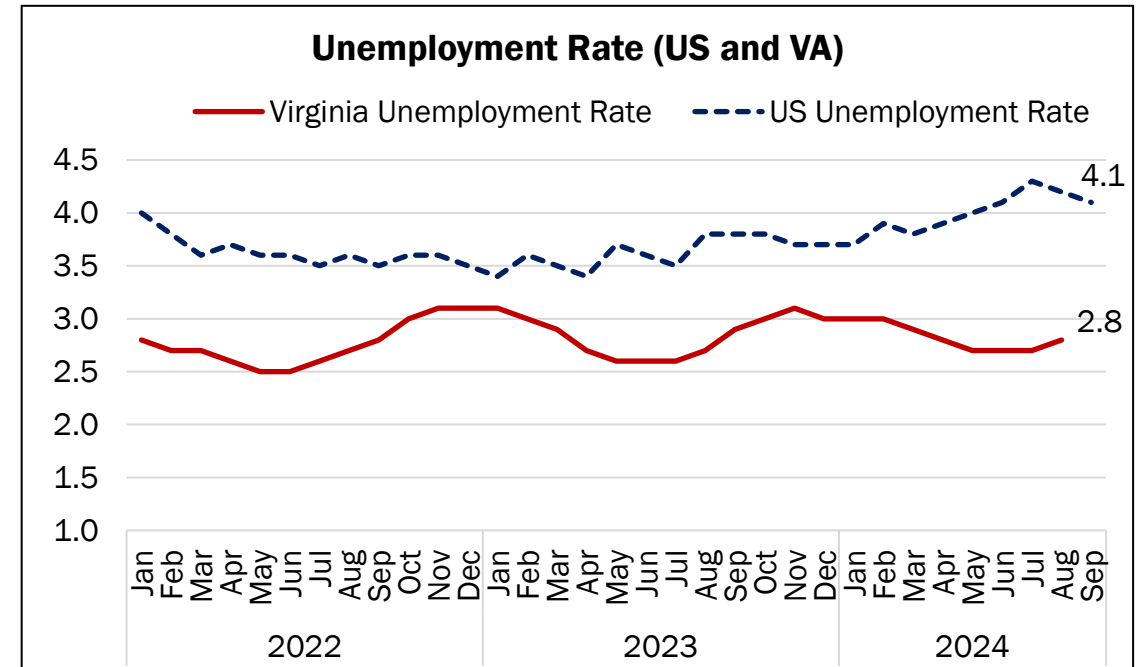
Source: US Bureau of Labor Statistics (Establishment Survey).

- Real gross domestic product (GDP) increased at an annual rate of 3.0 percent in the second quarter of 2024, according to the "third" estimate. In the first quarter, real GDP increased 1.6 percent (revised). The increase in the second quarter primarily reflected increases in consumer spending, inventory investment, and business investment.
- September jobs report surprised to the upside. U.S. total nonfarm payroll employment increased by 254,000 in September, higher than the average monthly gain of 203,000 over the prior 12 months. The change in employment for July was revised up by 55,000, from +89,000 to +144,000, and the change for August was revised up by 17,000, from +142,000 to +159,000. In September, the unemployment rate changed little at 4.1 percent.

AUGUST REPORT SHOWED MONTH-OVER-MONTH DECLINES IN VIRGINIA EMPLOYMENT; UNEMPLOYMENT REMAINS LOW



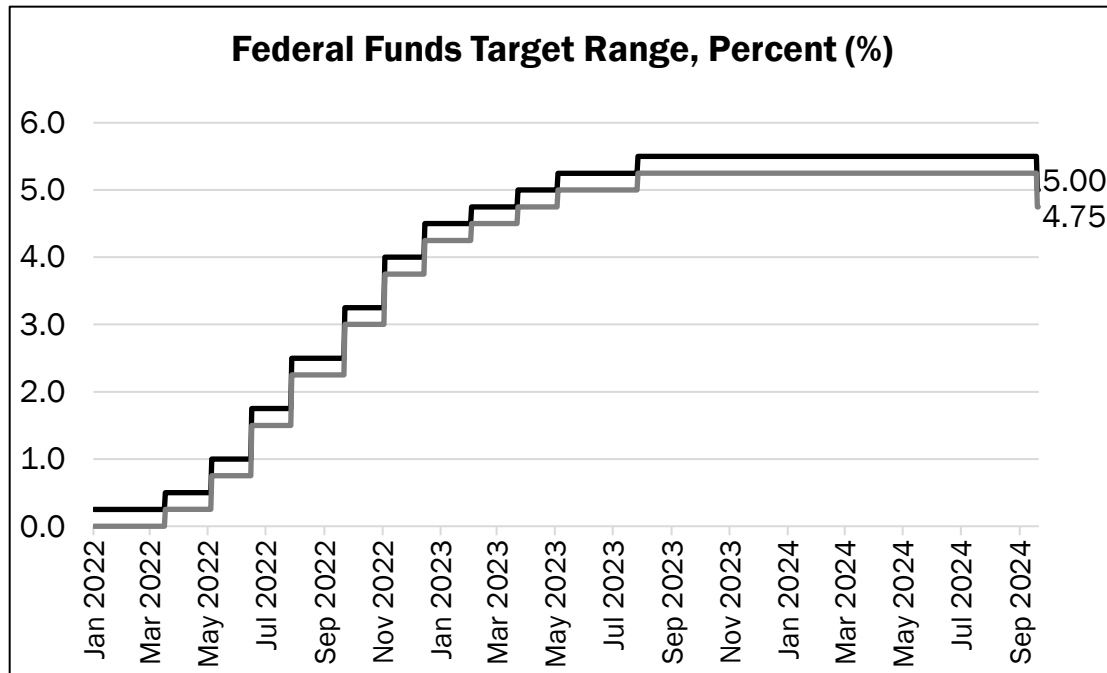
Source: US Bureau of Labor Statistics (Establishments Survey).



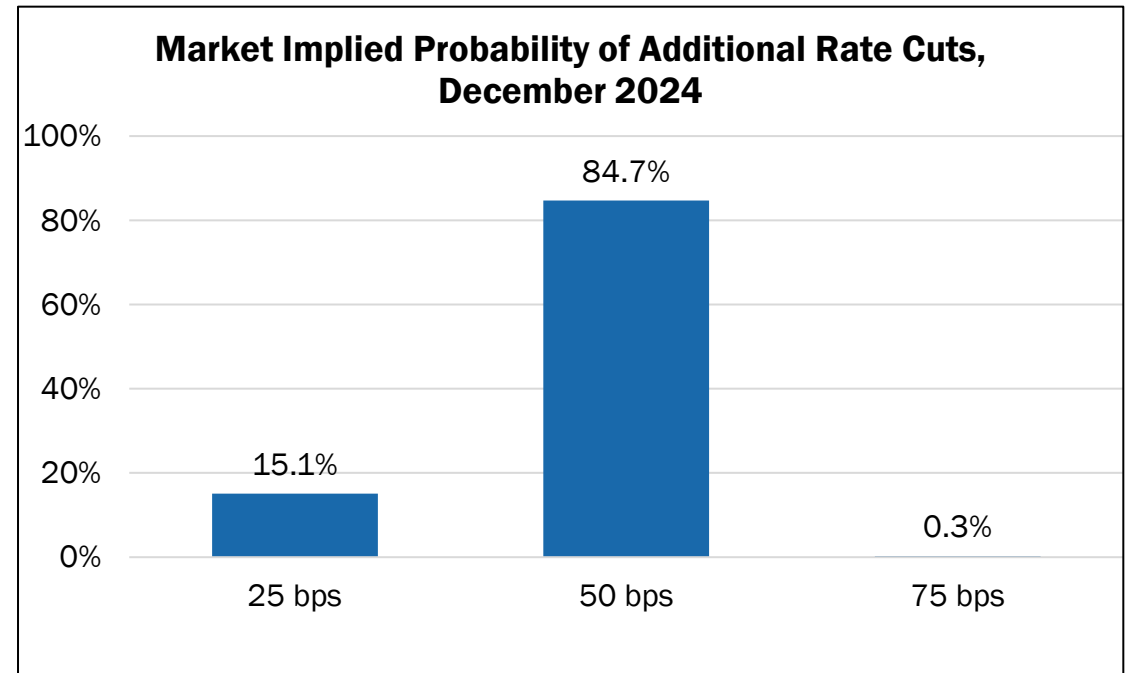
Source: Current Employment Statistics Survey, US Bureau of Labor Statistics.

- In August, Virginia’s nonagricultural employment, from the monthly establishment survey decreased by 5,800. Private sector employment decreased by 5,700 while government employment decreased by 100. July’s preliminary estimate of month-over-month employment growth was also revised down from +4,800 to -4,500.
- September’s report will be available later this month.

FED CUTS INTEREST RATES BY 50 BPS IN SEPTEMBER; FURTHER CUTS EXPECTED BEFORE YEAR-END



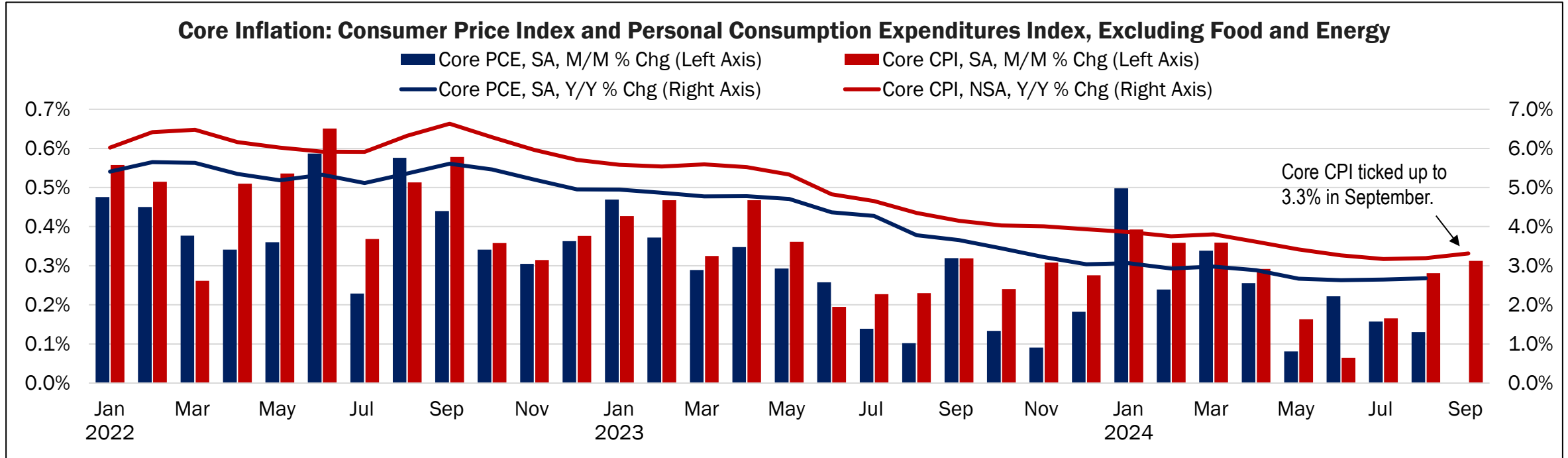
Source: Federal Reserve of St. Louis, Federal Reserve Board.



Source: CME Group, FedWatch Tool, Oct 10, 2024.

- In light of the progress on inflation and the balance of risks, the Federal Open Market Committee (FOMC) decided to lower the target range for the federal funds rate by 0.5 percentage point to 4.75 to 5.0 percent in their September 17-18 meeting.
- In considering additional adjustments to the target range for the federal funds rate, the Committee will carefully assess incoming data, the evolving outlook, and the balance of risks.

INFLATION PROGRESS STALLED IN SEPTEMBER



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

- Core CPI, the index for all items less food and energy, increased 0.3 percent in September, up 3.3 percent over the year. Headline CPI, including all items decreased from 2.5 percent to 2.4 percent in September.
- The twelve-month change in the Core Personal Consumption Expenditure Price Index (Core PCE) edged up slightly to 2.7 percent in August, in line with expectations. September's PCE report will be issued on October 31.

CONSUMER CONFIDENCE WEAKENING ON JOB WORRIES

- The Conference Board Consumer Confidence Index fell in September to 98.7 (1985=100), from an upwardly revised 105.6 in August.
- The Present Situation Index—based on consumers’ assessment of current business and labor market conditions—fell by 10.3 points to 124.3, near the lowest level in two years.
- Consumers’ assessments of current business conditions turned negative in September.
 - 18.8 percent of consumers said business conditions were “good,” down from 21.1 percent in August.
 - 20.2 percent said business conditions were “bad,” up from 17.3 percent.
- Consumers’ appraisals of the labor market deteriorated in September.
 - 30.9 percent of consumers said jobs were “plentiful,” down from 32.7 percent in August.
 - 18.3 percent of consumers said jobs were “hard to get,” up from 16.8 percent.

GF REVENUES GREW 12.4 PERCENT YEAR-OVER-YEAR IN SEPTEMBER AND ARE UP 9.9 PERCENT FISCAL YEAR-TO-DATE

SOURCE, \$ Mil	September				FYTD			
	FY 24	FY 25	Change \$	Change %	FY 24	FY 25	Change \$	Change %
Withholding	\$1,234.3	\$1,286.2	\$51.9	4.2%	\$3,822.1	\$4,032.4	\$210.3	5.5%
Non-withholding	779.1	1,056.5	277.4	35.6%	1,000.0	1,346.9	346.9	34.7%
IIT Refunds	(144.9)	(125.4)	19.4	-13.4%	(443.5)	(338.8)	104.7	-23.6%
Net Individual Income	\$1,868.5	\$2,217.3	\$348.8	18.7%	\$4,378.6	\$5,040.5	\$661.9	15.1%
Sales & Use Tax	396.0	396.2	0.2	0.1%	1,189.3	1,206.9	17.6	1.5%
Corporate Gross	419.3	383.1	(36.3)	-8.6%	553.8	504.5	(49.3)	-8.9%
Corporate Refunds	(9.1)	(15.0)	(5.8)	64.2%	(37.7)	(97.6)	(59.9)	159.1%
Net Corporate Income Tax	410.2	368.1	(42.1)	-10.3%	516.2	406.9	(109.3)	-21.2%
Wills, Suits, Deeds	30.3	34.2	3.8	12.6%	104.4	115.2	10.8	10.3%
Interest Income	102.8	138.5	35.6	34.7%	327.7	349.5	21.8	6.7%
All Other	41.3	48.0	6.7	16.3%	115.4	168.9	53.5	46.4%
Total GF Revenues	\$2,849.3	\$3,202.3	\$353.1	12.4%	\$6,631.5	\$7,287.9	\$656.4	9.9%

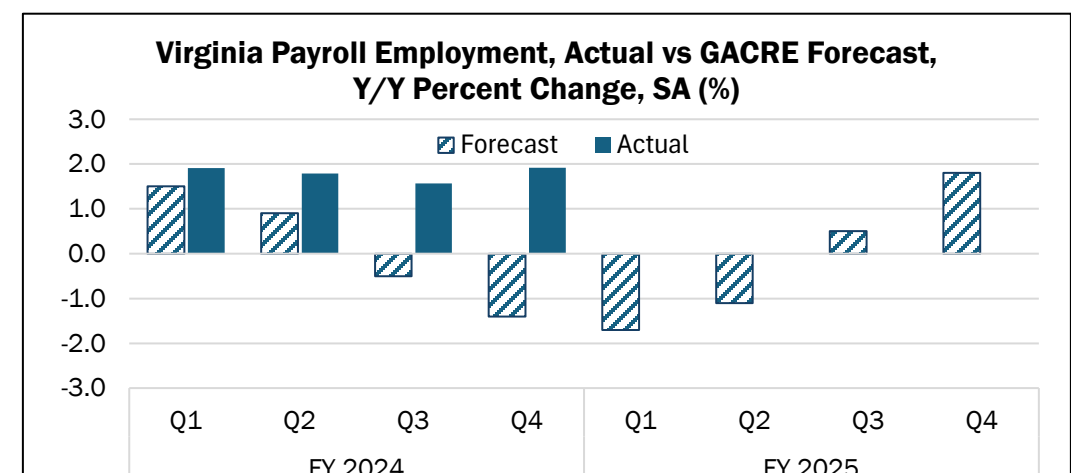
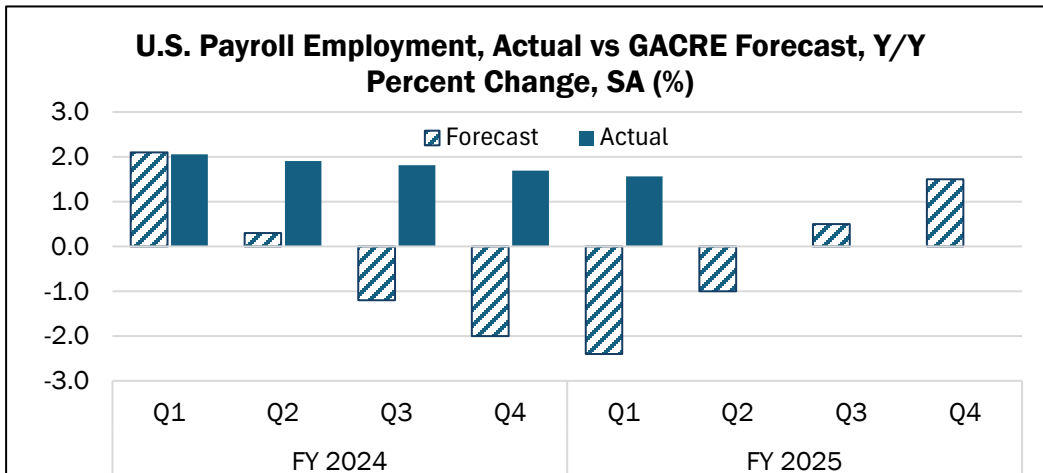
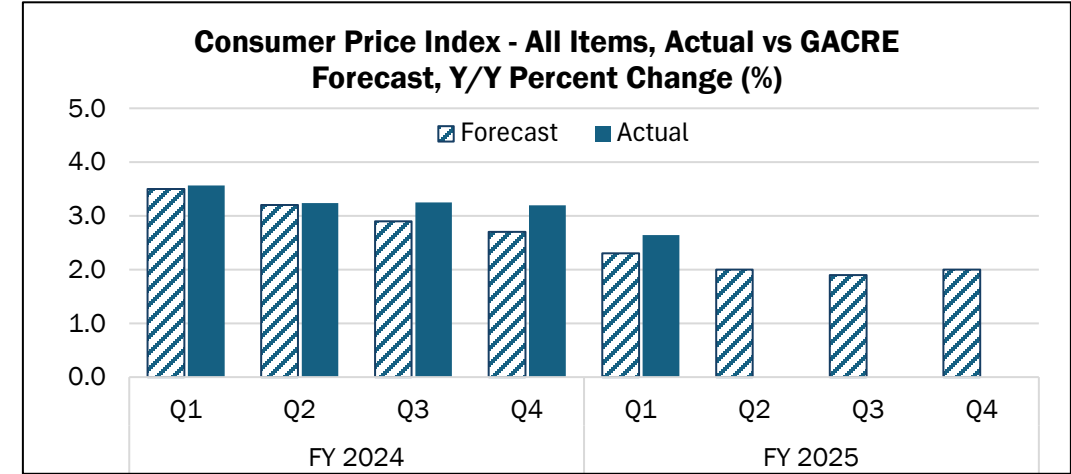
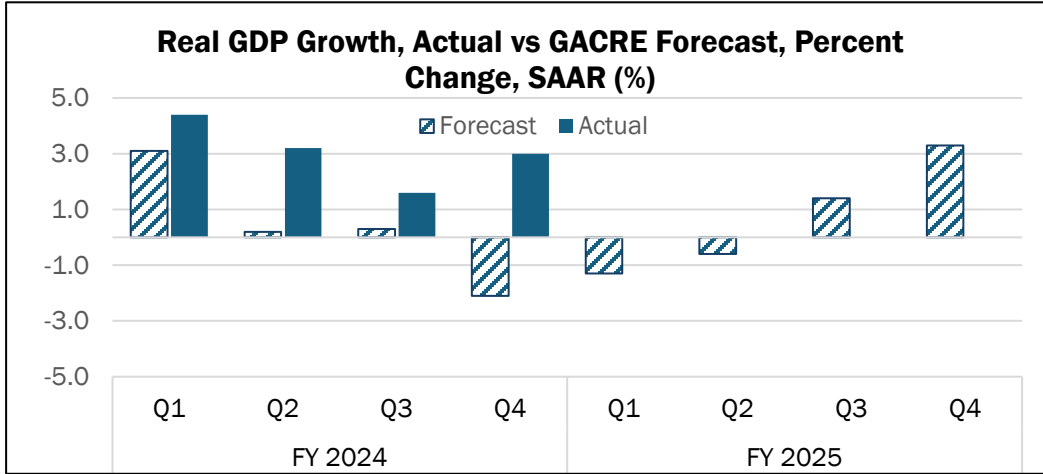
- For the month of September, general fund revenues grew 12.4 percent (\$353.1 million), driven mainly by growth in nonwithholding revenues.
- Nonwithholding collections increased by 35.6 percent (\$277.4 million) compared to September last year, and refunds were down 13.4 percent (\$19.4 million).
- On a year-to-date basis, general fund revenues increased 9.9 percent (\$656.4 million) through the first three months of Fiscal Year 2025, driven mainly by higher net individual income.

YTD COLLECTIONS ARE 9.0 PERCENT ABOVE THE OFFICIAL FORECAST AND UP 3.5 PERCENT EXCLUDING NONWITHHOLDING AND REFUNDS

SOURCE, \$ Mil	September				FYTD			
	Actuals	Projected	Variance \$	Variance %	Actuals	Projected	Variance \$	Variance %
Withholding	\$1,286.2	\$1,200.7	\$85.5	7.1%	\$4,032.4	\$3,789.1	\$243.3	6.4%
Non-withholding	1,056.5	670.9	385.6	57.5%	1,346.9	861.2	485.7	56.4%
IIT Refunds	(125.4)	(73.8)	(51.6)	69.9%	(338.8)	(242.7)	(96.1)	39.6%
Net Individual Income	\$2,217.3	\$1,797.8	\$419.5	23.3%	\$5,040.5	\$4,407.6	\$632.9	14.4%
Sales & Use Tax	396.2	394.1	2.1	0.5%	1,206.9	1,183.7	23.2	2.0%
Corporate Income Tax	368.1	413.7	(45.6)	-11.0%	406.9	496.4	(89.5)	-18.0%
Wills, Suits, Deeds	34.2	37.7	(3.5)	-9.4%	115.2	122.7	(7.5)	-6.1%
Interest Income	138.5	118.6	19.9	16.8%	349.5	342.7	6.8	2.0%
All Other	48.0	44.6	3.4	7.7%	168.9	133.4	35.5	26.6%
Total GF Revenues	\$3,202.3	\$2,806.6	\$395.8	14.1%	\$7,287.9	\$6,686.5	\$601.4	9.0%
Total, Excl. NWH and Refunds	\$2,271.3	\$2,209.5	\$61.8	2.8%	\$6,279.8	\$6,068.0	\$211.8	3.5%

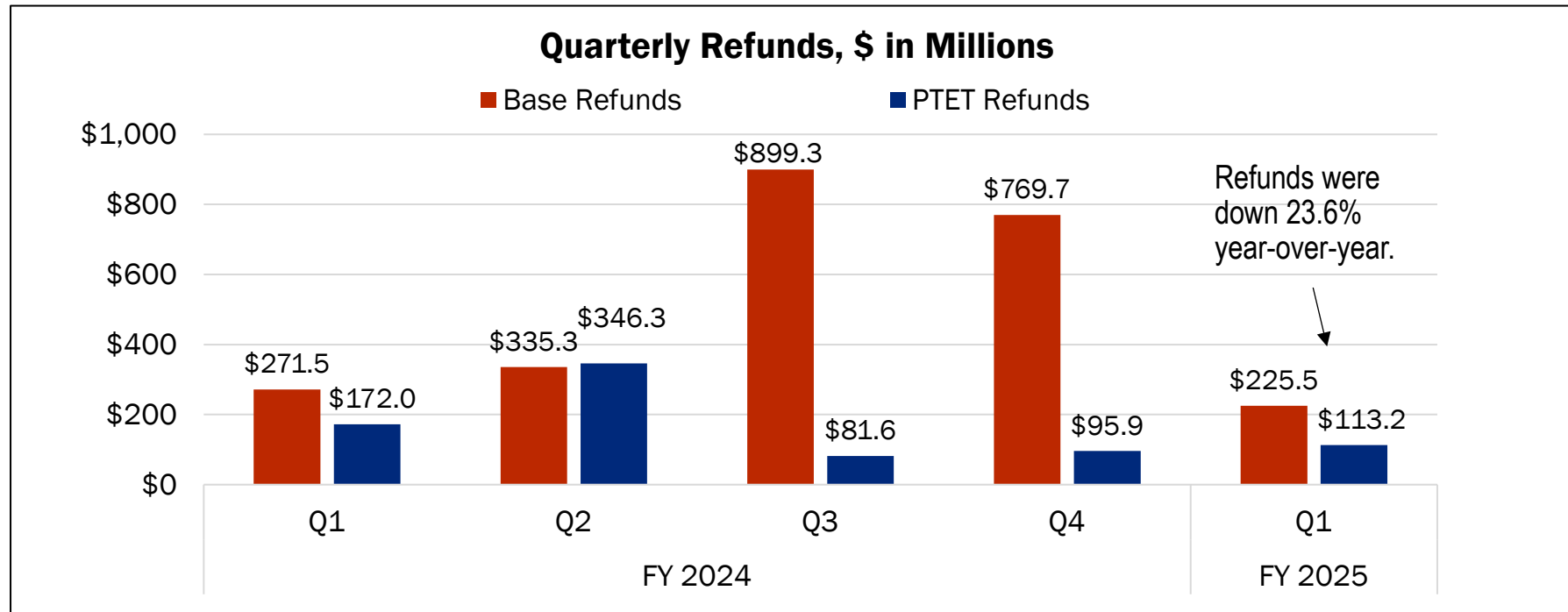
- Withholding collections continued to exceed projections this September by \$85.5 million (7.1 percent) while nonwithholding collections exceeded projections by \$385.6 million (57.5 percent).
- Year-to-date total general fund revenues are ahead of projections by \$601.4 million (9.0 percent).
- The positive variance to forecast was partially offset by lower-than-expected net corporate income tax collections and higher than projected individual income tax refunds.

THE ECONOMY IS OUTPERFORMING CHAPTER 2 ASSUMPTIONS WHICH ANTICIPATED A RECESSION



Sources: 2023 GACRE Economic Outlook, October Mild Recession Scenario; Moody's Analytics; Federal Reserve Bank of St. Louis; U.S. Bureau of Economic Analysis.

INDIVIDUAL INCOME TAX REFUNDS ARE DOWN FROM LAST YEAR



- During the month of September, refunds totaled \$125.4 million versus \$144.9 million last September, a decline of 13.4 percent.
- Year-to-date, the Department of Taxation has issued \$338.8 million in refunds compared with \$443.5 million over the same period last year, a decrease of 23.6 percent.

CONCLUSION

- September completes the first quarter of Fiscal Year 2025. With one full quarter of collections, general fund revenues are up 9.9 percent (\$656.3 million) versus last year, driven mainly by a year-over-year increase in net individual income taxes, partially offset by a year-over-year decline in corporate income tax revenues.
- 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 \$601.4 million.
- The Federal Reserve cut interest rates for first time in four years at its most recent September 17-18 meeting, lowering the target range for the federal funds rate by 0.5 percentage point to 4.75 to 5.0 percent.
- The gradual moderation in inflation showed signs of stalling in September, calling into question the timing and magnitude of future Fed rate cuts.
- Year-to-date revenue collections, additional economic data, such as Fed interest rate actions, and other factors including results of the upcoming elections will have a significant impact on the outlook for our economy and will be reflected in the December forecast.

LOOKING AHEAD

- **October 22** – State employment and unemployment for September released by the Bureau of Labor Statistics.
- **October 30** – Advance estimate of third quarter GDP released by the U.S. Bureau of Economic Analysis.
- **November 5** – Election day.
- **November 6-7** – The Federal Reserve’s Federal Open Market Committee (FOMC) meets to consider further interest rate actions.
- **November 25** – Governor’s Advisory Council on Revenue Estimates (GACRE) reviews economic and revenue outlook for current and next biennium (FY25 to FY28).
- **November 27** – Second estimate of third quarter GDP and preliminary estimate of third quarter corporate profits released.
- **December 18** - Governor Youngkin’s revised revenue forecast and proposed amendments to the 2024 - 2026 biennial budget are presented at the meeting of the Joint Money Committees.