ECONOMIC AND REVENUE REVIEW AND UPDATE

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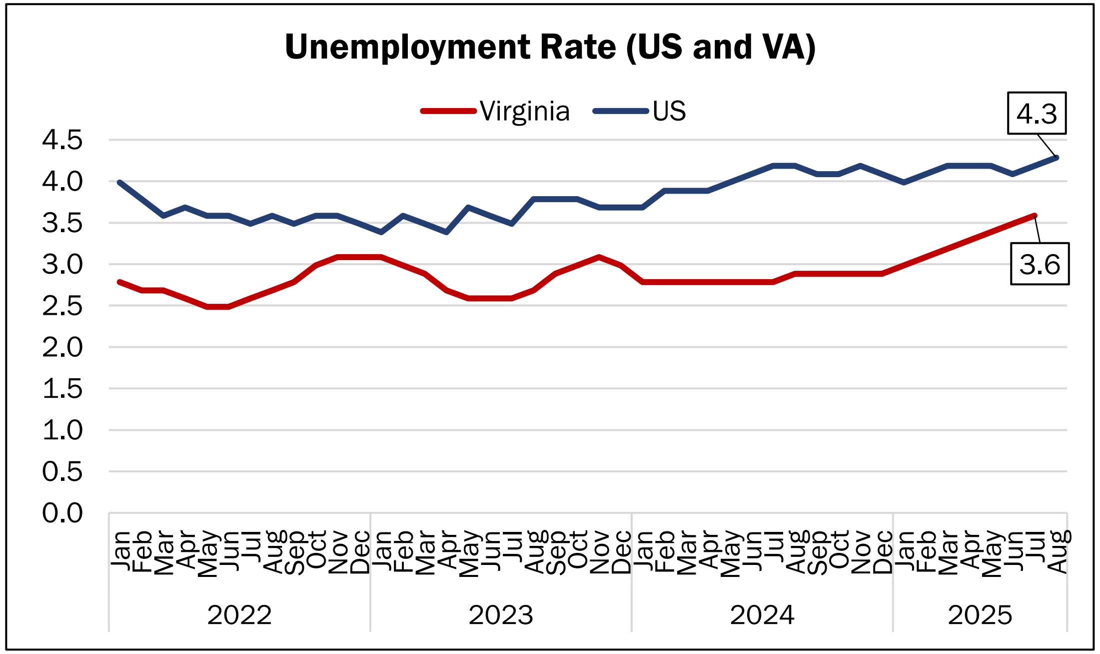
www.finance.virginia.gov

September 2025

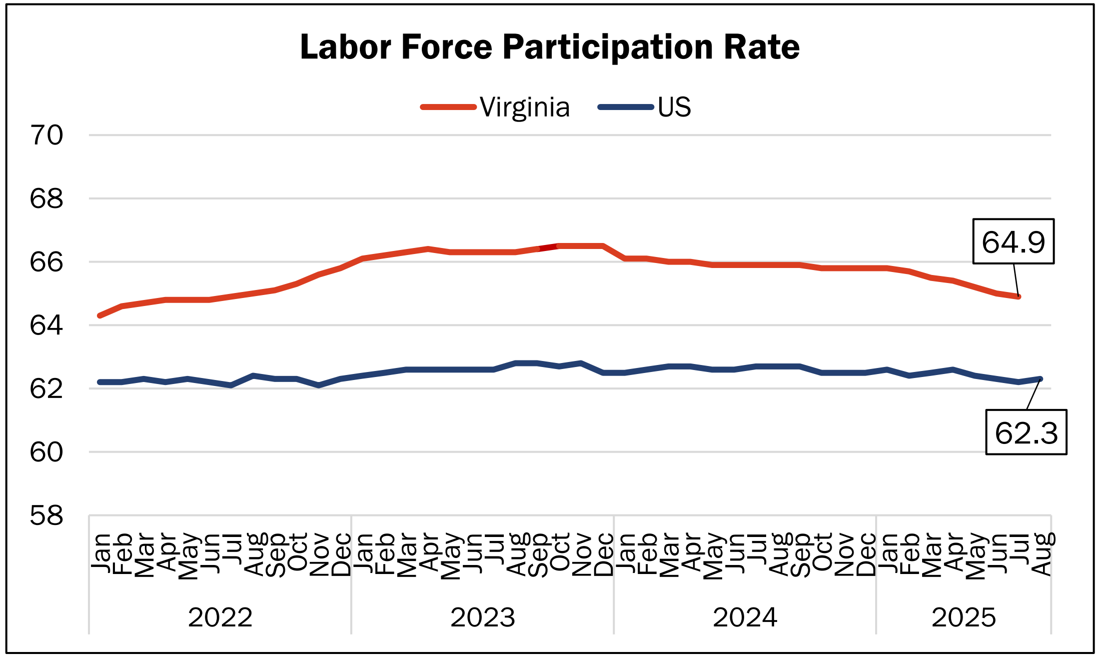
SUMMARY

- August revenues grew 6.8 percent over last year, bringing year-to-date growth to 7.0 percent or $287 million.
- Revenues exceeded forecast for the month of August by $122 million or 6.2 percent. Year-to-date, revenues are ahead of expectations by 6.5 percent or $266.5 million.
- Payroll withholding continues to be the primary driver of growth and the positive variances in the forecast.
- US and Virginia job growth have trended lower but are still positive at 0.9 and 0.8 percent year-over-year respectively.
- Virginia continues to outperform national averages on unemployment and labor force participation, though the gaps between Virginia and the nation have narrowed in 2025.
- Despite federal reductions, withholding from federal agencies and contractors has remained stable, with no statistically significant differences from last year's levels.
- Consumers sentiment, falling 4.8 percent month-over-month and down 21.0 percent year-over-year. Meanwhile, real consumption is still growing, up 2.1 percent year-over-year in July.
- Inflation has ticked up with core CPI rising from 2.8 percent in April to 3.1 percent in August, and core PCE prices increasing from 2.6 percent to 2.9 percent in July; all-item inflation shows a similar trend.
- The macroeconomy is clearly slowing, but consumers remain resilient; signs point towards a period of slow growth.

THE LABOR MARKET IS SOFTENING



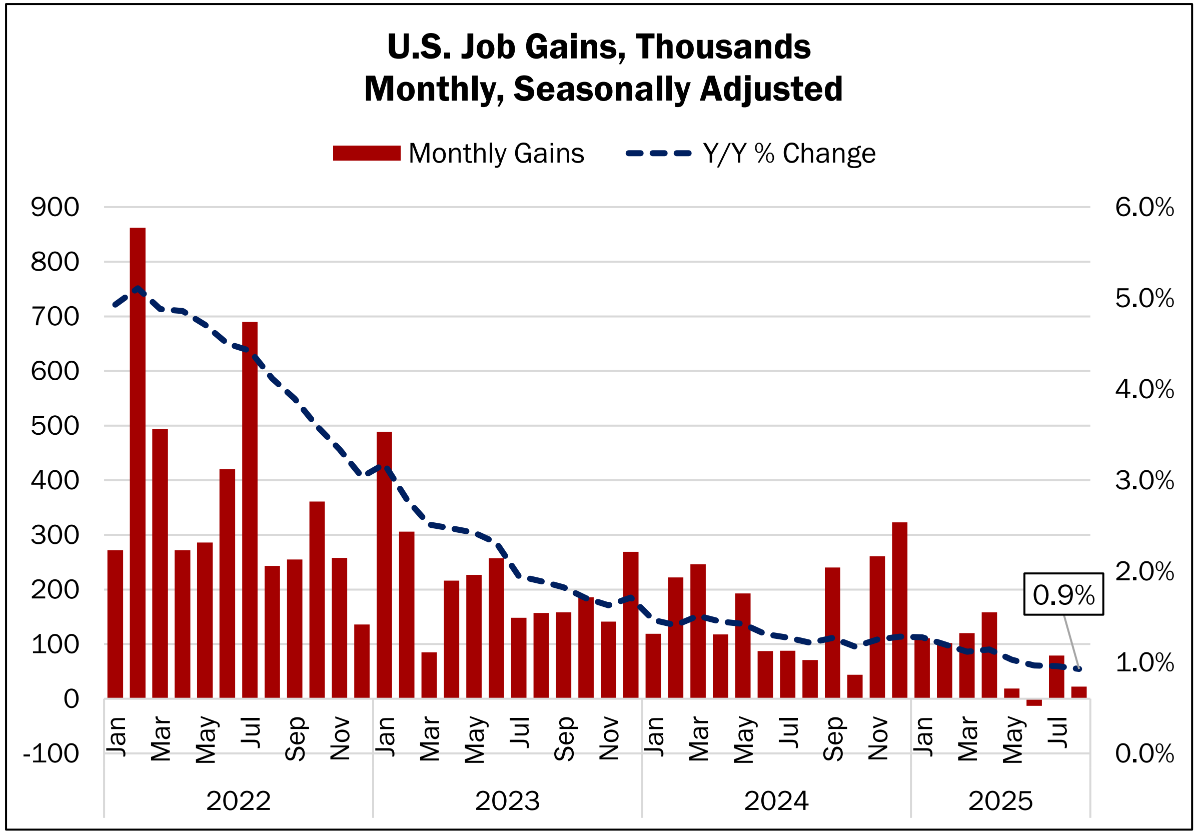
Source: US Bureau of Labor Statistics.



Source: US Bureau of Labor Statistics.

- Virginia typically has a significantly lower unemployment rate and higher labor force participation rate than the nation.
- This remains true, however both gaps have shrunk since the beginning of 2025.

U.S. NONFARM PAYROLLS CONTINUE SLOW GROWTH

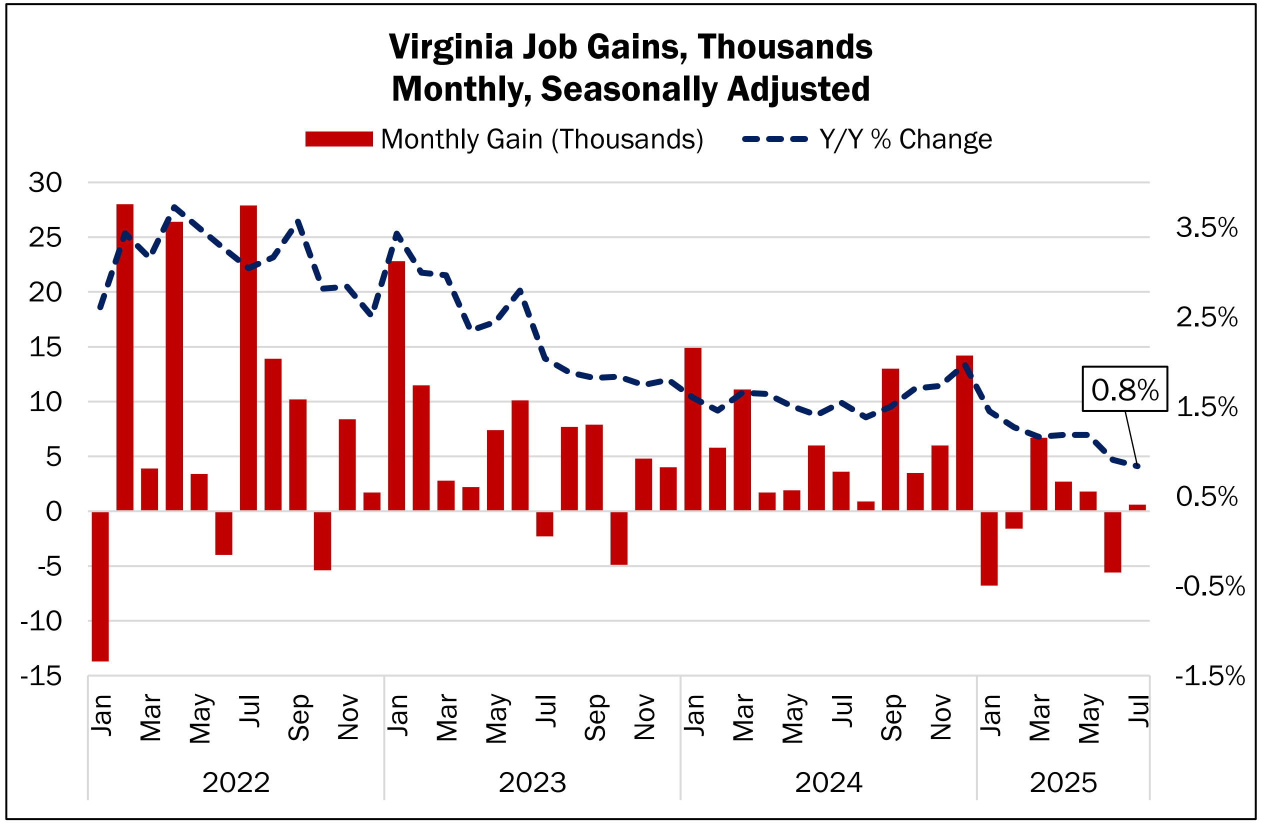


Source: US Bureau of Labor Statistics.

- U.S. total nonfarm payroll employment increased by 22,000 in August.
- Total employment is 0.9% higher than one year ago.
- The change in total nonfarm payroll employment for June was revised down by 27,000, from +14,000 to -13,000, and the change for July was revised up by 6,000, from +73,000 to +79,000.
- With these revisions, employment in June and July combined is 21,000 lower than previously reported.
- The largest contributors to job growth in August were Education & Health Services (+46,000), and Leisure & Hospitality (+28,000). Growth was constrained by losses in Professional and Business Services (-17,000) and Federal Government (-15,000).

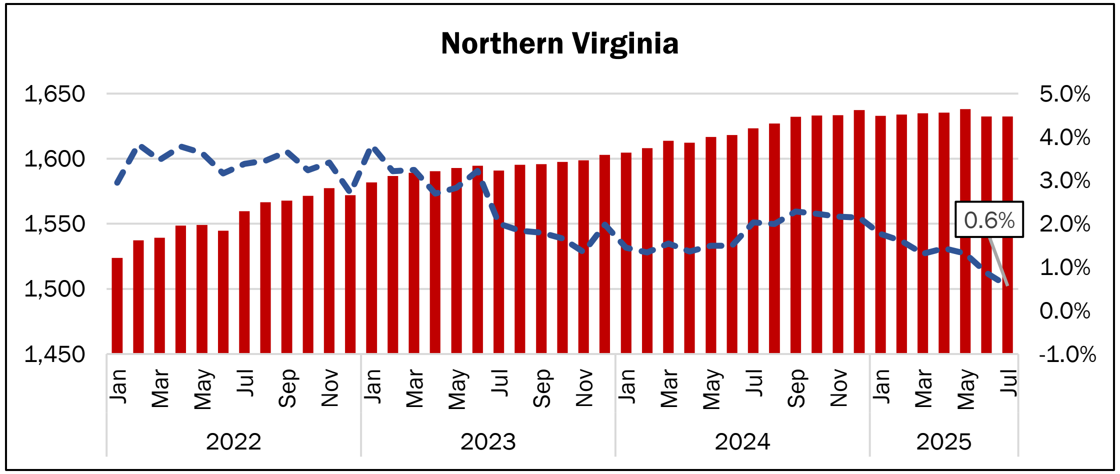
VIRGINIA'S JOB GROWTH HAS SLOWED BUT EMPLOYMENT LEVELS ARE HIGHER THAN LAST YEAR

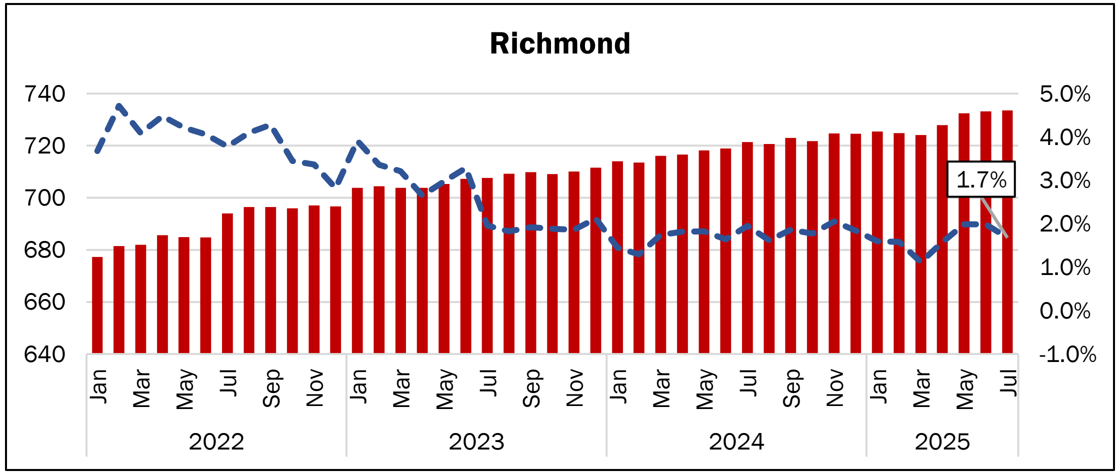
- In July, Virginia's nonagricultural employment remained essentially flat, adding 600 jobs over June.
- The largest gains were in Government (+4,200) and Healthcare (+1,900).
- The gains in Government employment were approximately evenly distributed between Federal, State, and Local levels. This is a shift from the past five months in which Federal employment declined while State and Local grew.
- The largest losses occurred in Manufacturing (-1,900) and Professional and Business Services (-1,700).
- Employment has grown 0.8 percent over this time last year.

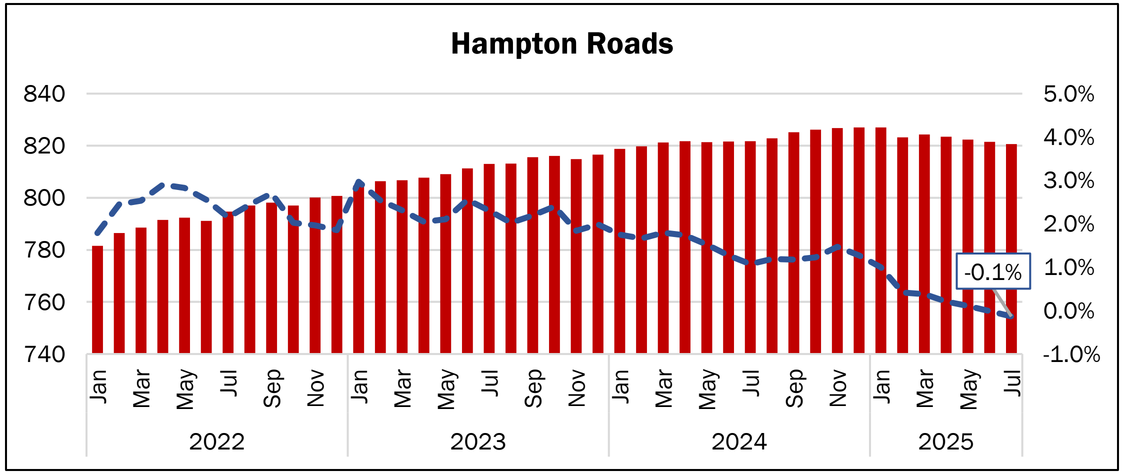


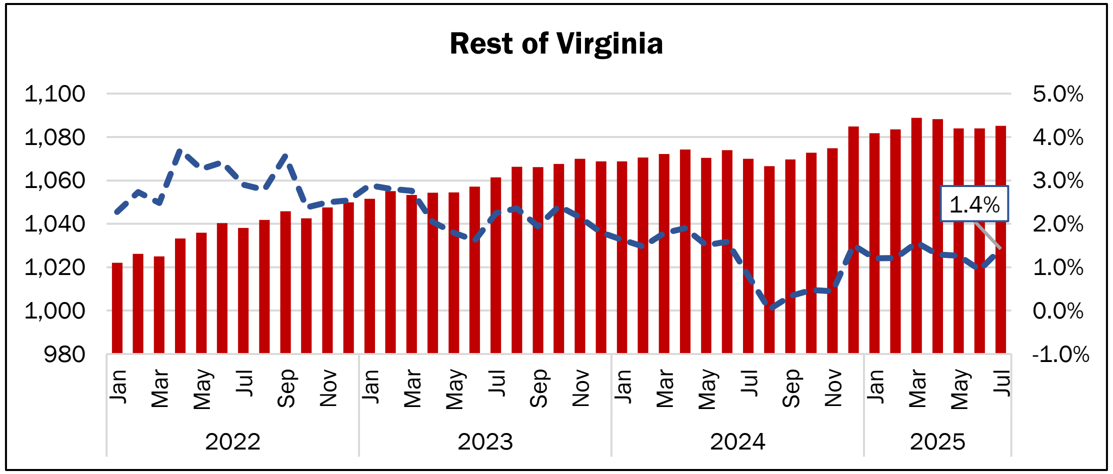
Source: US Bureau of Labor Statistics.

YEAR-OVER-YEAR EMPLOYMENT GROWTH IS POSITIVE IN MAJOR METRO REGIONS EXCEPT HAMPTON ROADS FOR THE MONTH OF JULY



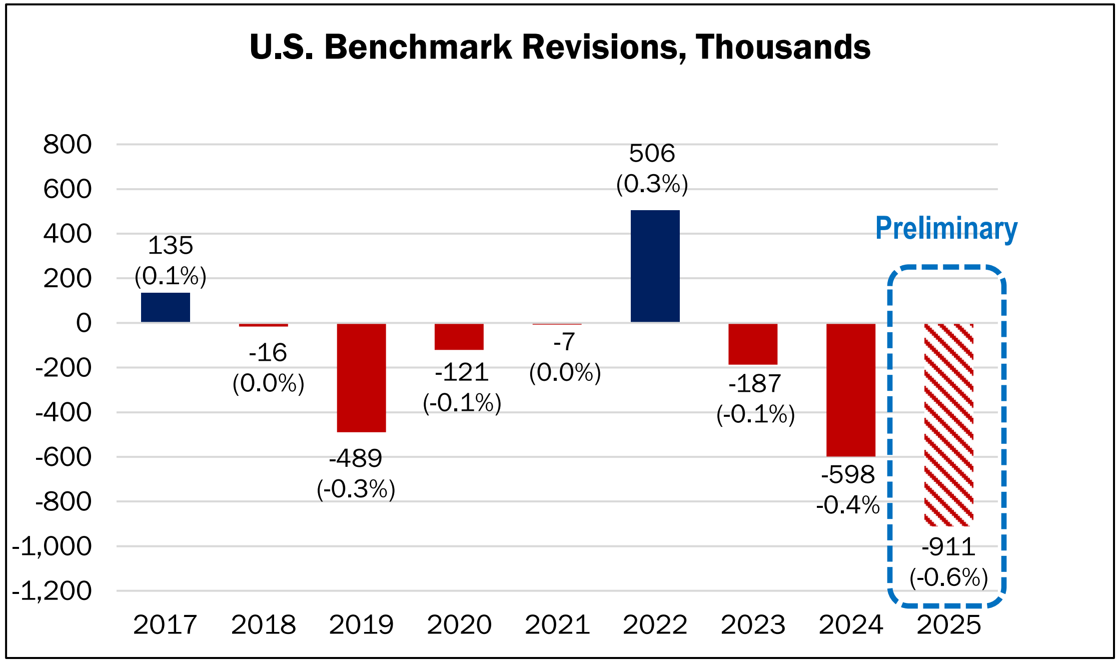




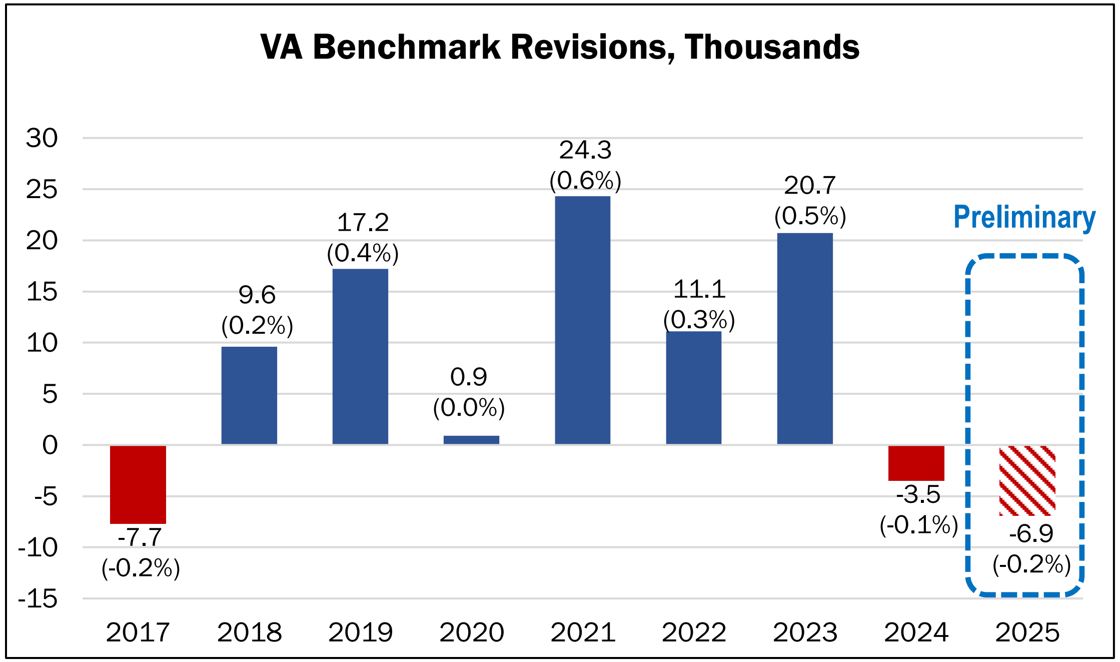


Source: Bureau of Labor Statistics, Current Employment Statistics (CES); Includes: Arlington-Alexandria-Reston Metropolitan Division, Richmond MSA, Virginia Beach-Chesapeake-Norfolk MSA. 'Rest of Virginia' calculated as VA statewide total less the three regions listed above.

FORTHCOMING ANNUAL REVISIONS SUGGEST THAT JOB GROWTH HAS BEEN WEAKER THAN PREVIOUSLY REPORTED



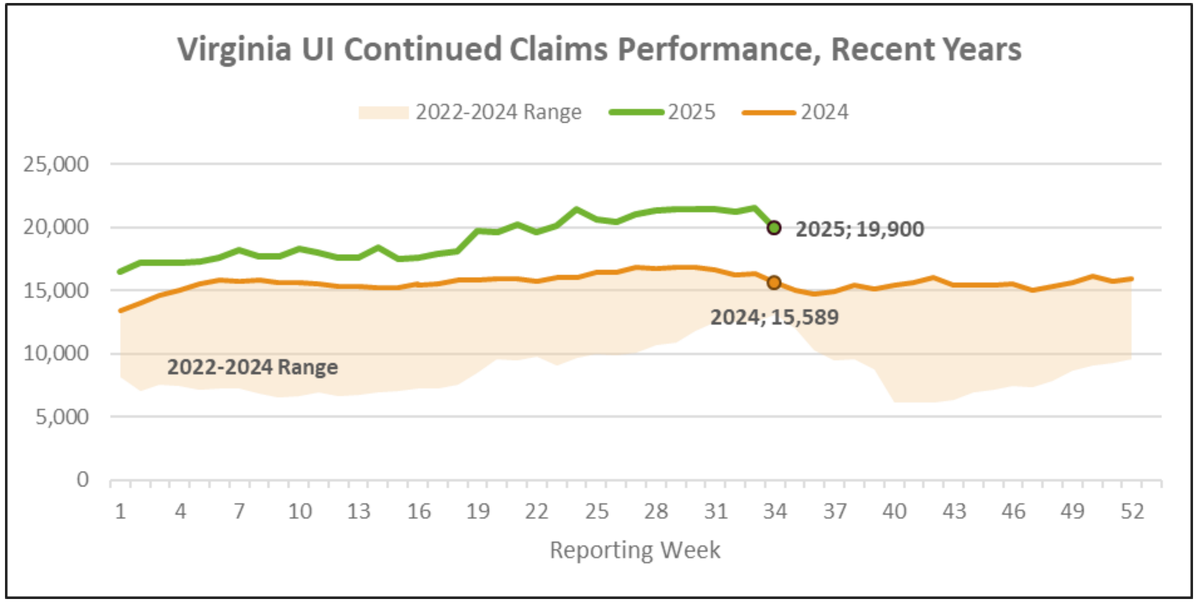
Source: U.S. Bureau of Labor Statistics.



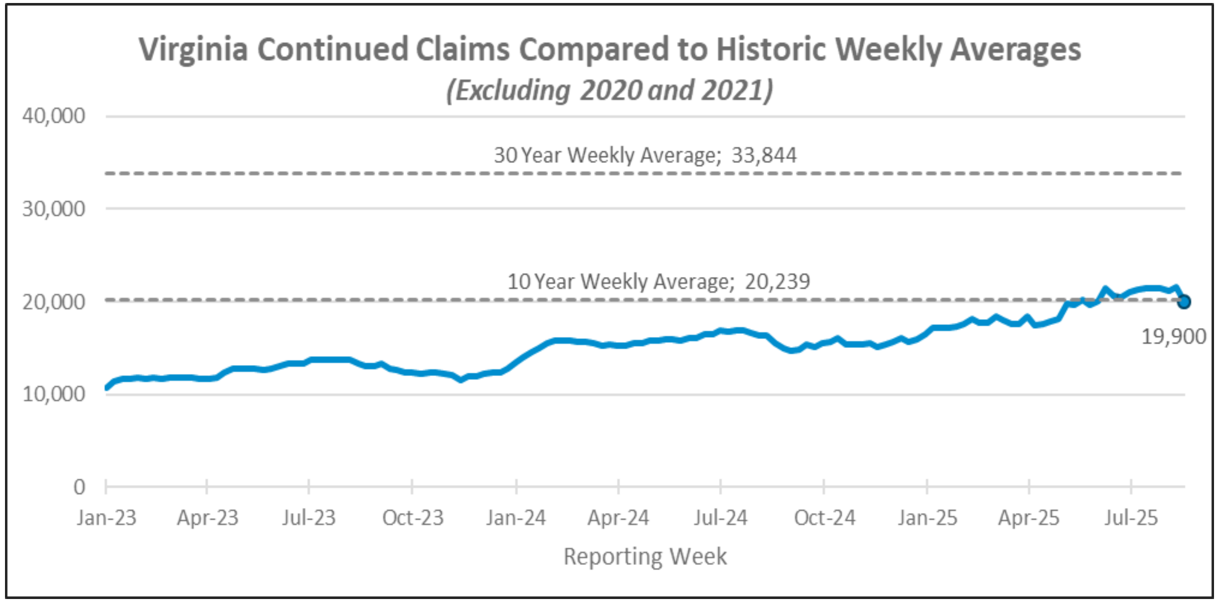
Source: U.S. Bureau of Labor Statistics.

- In September, the Bureau of Labor Statistics released the preliminary estimate of the upcoming annual benchmark revision of the establishment survey employment series. Preliminary benchmark revisions are calculated only for the month of March 2025.
- The preliminary estimate of the revision indicates and adjustment to March 2025 U.S. total nonfarm employment of -911,000 (-0.6%).
- Virginia’s preliminary estimate is a downward revision of -6,900 (-0.2%).
- The final benchmark revisions will be issued in February (U.S.) and March (States) with the publication of the January 2026 Employment reports.

UNEMPLOYMENT CLAIMS HAVE RISEN, BUT REMAIN WITHIN HISTORICAL AVERAGES



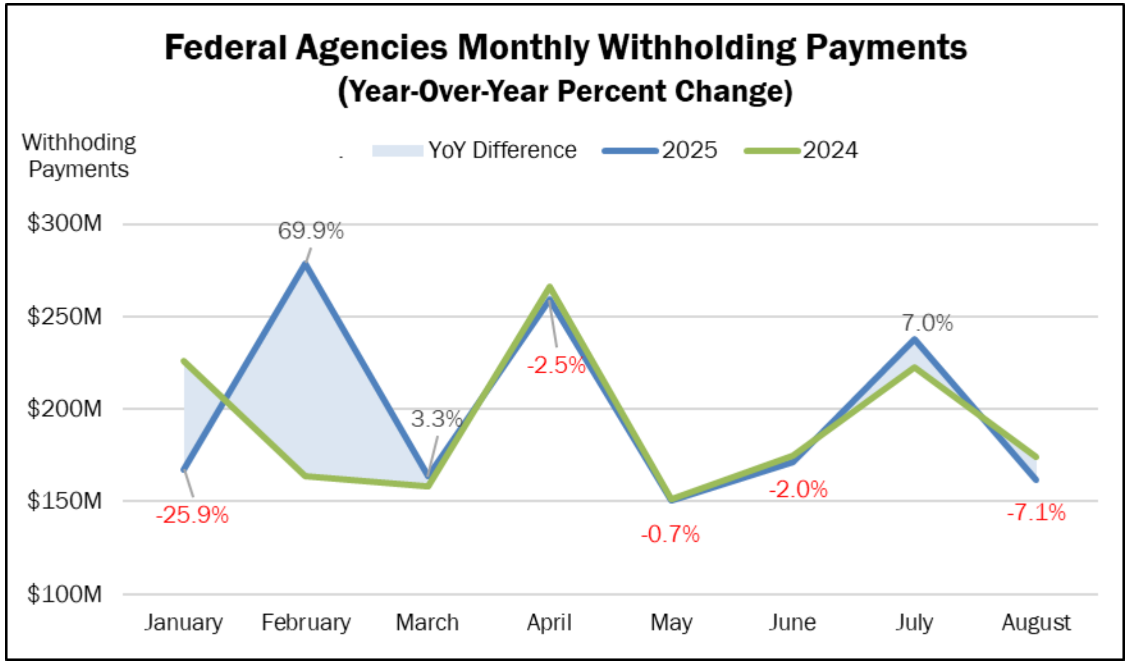
Source: *US Department of Labor, Employment and Training Administration.*

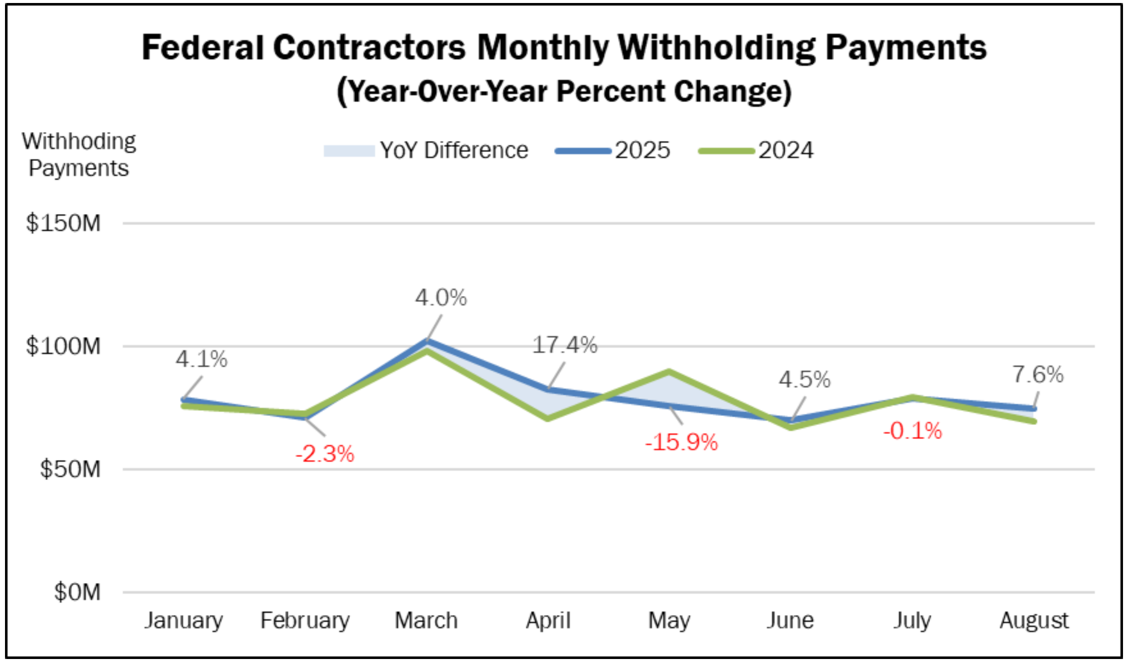


Source: *US Department of Labor, Employment and Training Administration.*

- The week ending August 30, initial claims are 30% higher and -8% lower compared to the same week in 2024 and 2023, respectively. Continued claims are up 28% and 52% compared to those same periods.
- Both initial and continued claims continue to trend lower within the last couple of weeks, reversing trends seen throughout much of the year.
- Initial and continued claims have simultaneously dipped below the 10-year average (excluding 2020 and 2021) for the first time since April 24th.

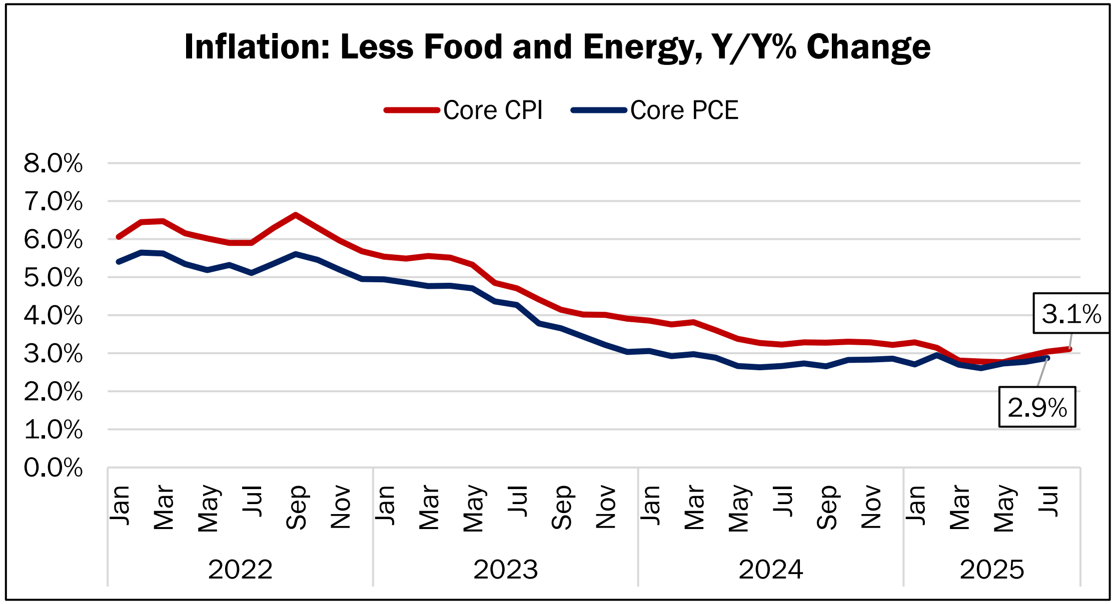
FEDERAL GOVERNMENT LINKED PAYROLLS REMAINS STEADY



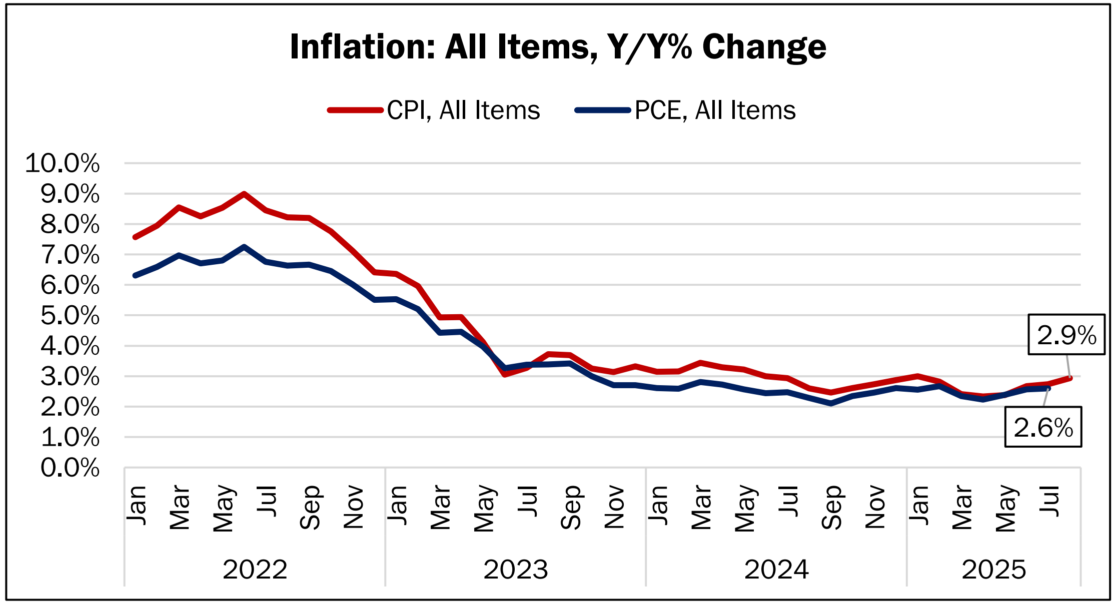


- The above charts track the payroll withholding of the largest Federal agencies and contractors with significant federal business.
- Other than a timing shift between January and February for Federal agency withholding, payments from these cohorts have been very stable, with no statistically significant differences from the year prior.

INFLATION INCHES UP



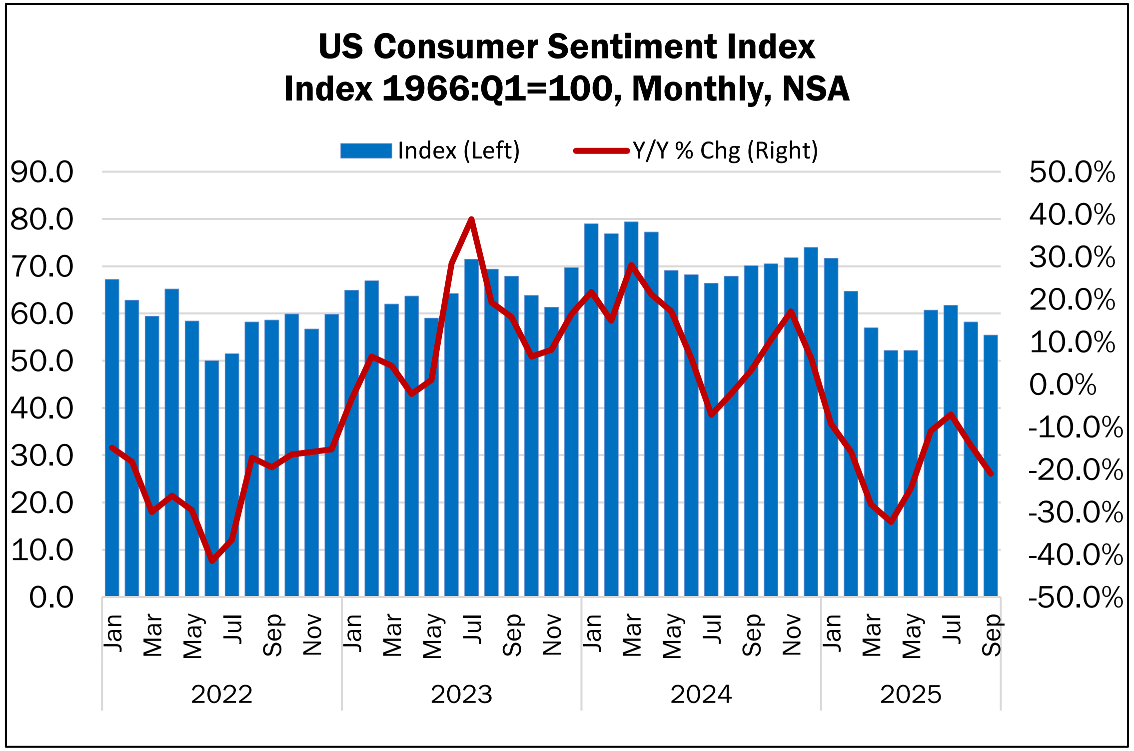
Source: U.S. Bureau of Economic Analysis; Bureau of Labor Statistics.



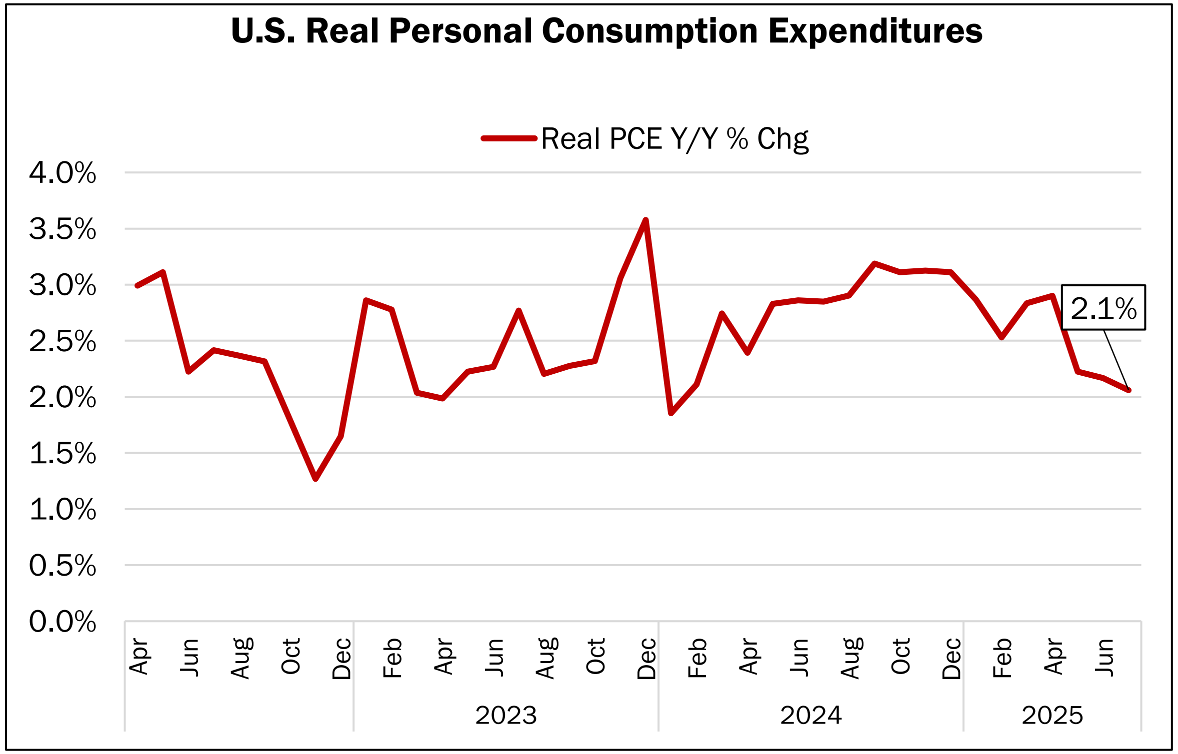
Source: U.S. Bureau of Economic Analysis; Bureau of Labor Statistics.

- Recent inflation numbers indicate a slight acceleration in both core and all item inflation.
- In August, the Consumer Price Index for all urban consumers increased by 0.4 percent for the month, a 2.9 percent year-over-year growth compared to August of last year. Core CPI, which excludes food an energy, increased by 3.1 percent over last August.
- In July, Personal Consumption Expenditure for all items increased by 0.2 percent, equating to a 2.6 percent year-over-year growth. Core PCE, the Federal Reserve’s preferred inflation measure, increased by 0.3 percent for the month, which denotes a 2.9 percent year-over-year increase.

CONSUMERS ARE SUBDUED AT THE NATIONAL LEVEL BUT NOT BEATEN



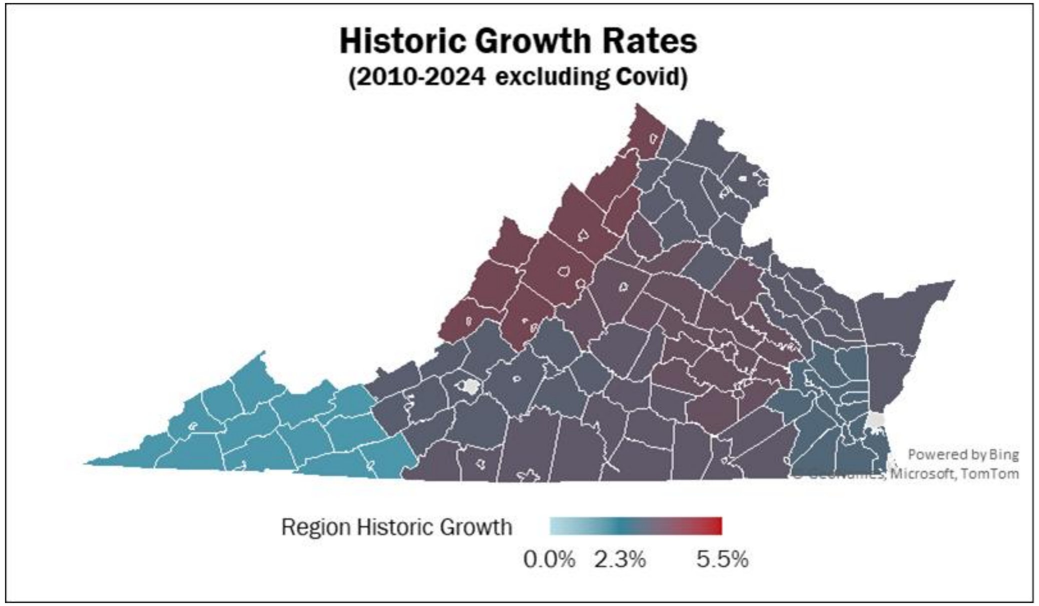
Sources: University of Michigan Survey of Consumer Sentiment.

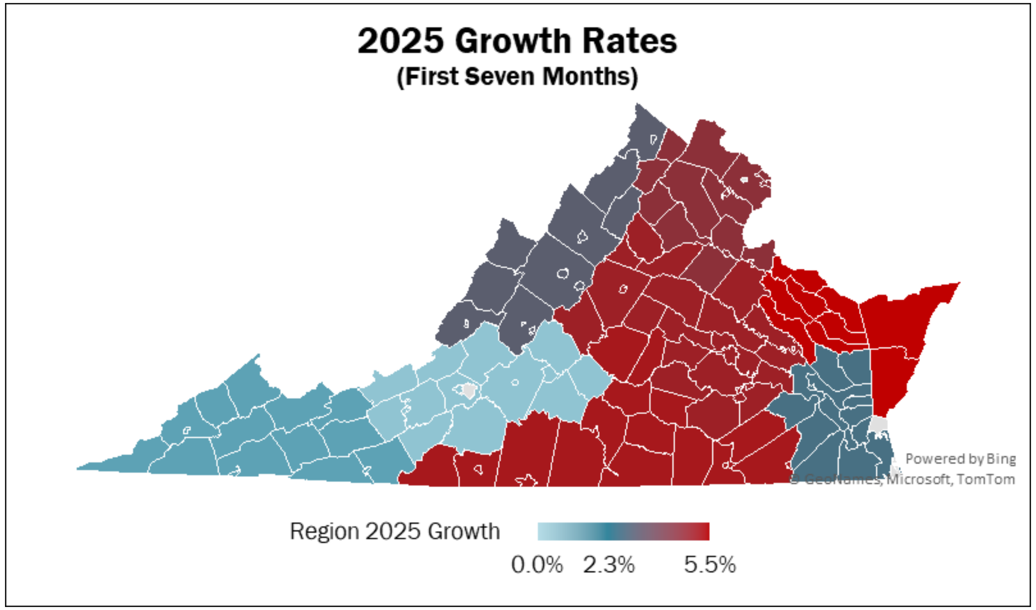


Sources: U.S. Bureau of Economic Analysis, Personal Income and Outlays.

- Consumer sentiment worsened slightly in the most recent report from the University of Michigan, dropping 4.8 percent from 58.2 to 55.4.
- Year-over-year, consumer sentiment is lower by 21.0 percent.
- Despite the worsening sentiment, real consumption continues to increase, albeit at a slightly lower rate. In April, real consumption was up 2.9 percent year-over-year. As of July, year-over-year growth is 2.1 percent.

LOCAL SALES TAX COLLECTIONS SHOW CONTINUED GROWTH ACROSS THE COMMONWEALTH

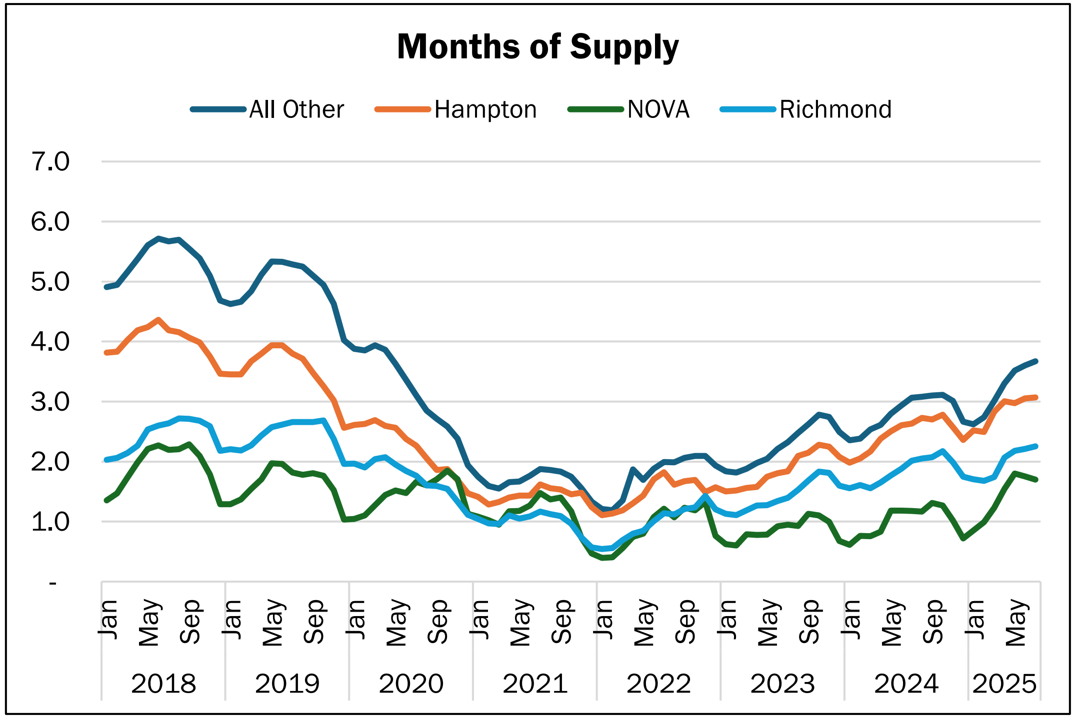


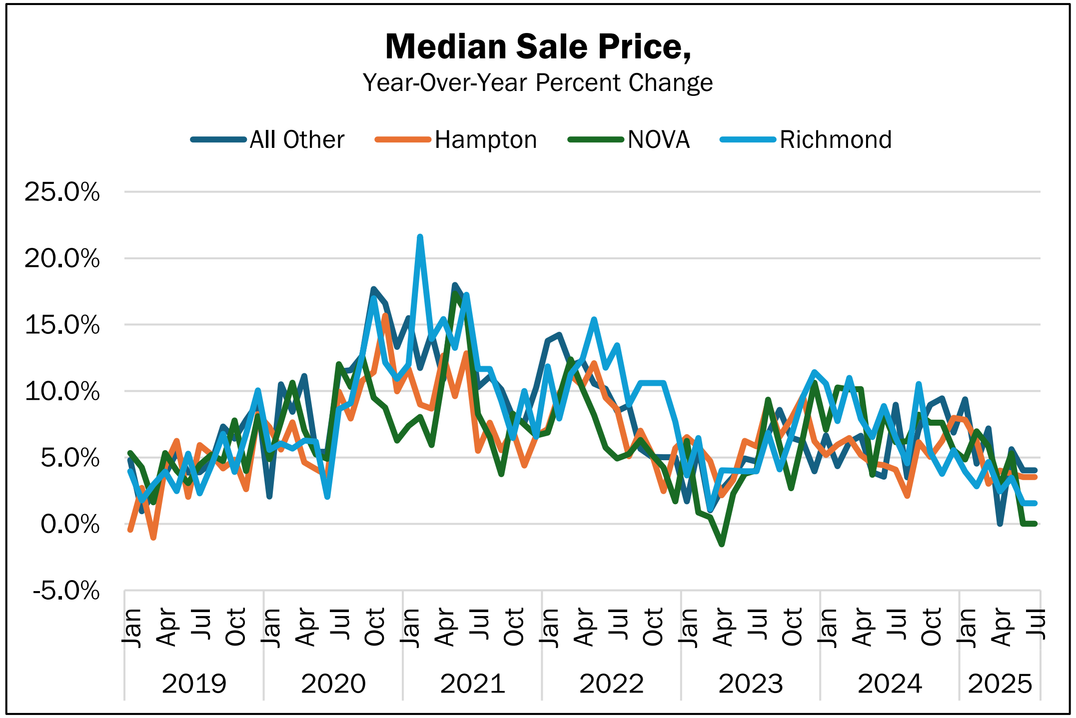


- Since 2010, Virginia has averaged a little more than 3 percent growth as measured by local option sales tax.
- In the first seven months of 2025, most regions have seen higher than average growth.

Region	Historic Growth	2025 Growth
Central	3.5%	4.7%
Eastern	3.2%	6.2%
Hampton Roads	3.0%	2.8%
Northern	3.2%	4.3%
Southside	3.3%	4.9%
Southwest	1.8%	1.5%
Valley	3.8%	3.2%
West Central	3.2%	0.7%

HOUSING SUPPLY IS IMPROVING, THOUGH STILL CONSTRAINED RELATIVE TO PRE-2020





Sources: Virginia Realtors, Virginia Tax staff analysis

- Housing became extremely scarce in the pandemic, with the total months of supply dropping below two in all regions.
- Since then, housing supply has recovered steadily, though all regions remain below their pre-pandemic levels.
- The result is that housing inflation is slowing, now below 5 percent in all regions.

AUGUST GREW 6.8%; YEAR TO DATE GROWTH IS $287 MILLION

	August				FYTD			
SOURCE, $ Mil	**FY 25**	**FY26**	**Change $**	**Change %**	**FY 25**	**FY 26**	**Change $**	**Change %**
Withholding	$1,336.3	$1,473.7	$137.4	10.3%	$2,746.2	$3,042.6	$296.5	10.8%
Non-withholding	180.9	116.0	(64.9)	-35.9%	290.4	253.7	(36.6)	-12.6%
IIT Refunds	(117.9)	(81.8)	36.1	-30.6%	(213.3)	(182.0)	31.3	-14.7%
Net Individual Income	$1,399.3	$1,507.8	$108.6	7.8%	$2,823.2	$3,114.4	$291.2	10.3%
Sales & Use Tax	397.5	429.4	31.8	8.0%	810.6	853.5	42.8	5.3%
Corporate Gross	26.5	(47.3)	(73.8)	-278.2%	121.4	28.2	(93.2)	-76.8%
Corporate Refunds	(41.7)	(11.4)	30.3	-72.6%	(82.6)	(39.2)	43.5	-52.6%
Net Corporate Income Tax	(15.2)	(58.7)	(43.5)	286.5%	38.8	(11.0)	(49.7)	-128.2%
Insurance	-	-	-	0.0%	-	-	-	0.0%
Wills, Suits, Deeds	38.2	41.4	3.3	8.6%	81.0	86.7	5.7	7.0%
Interest Income	97.0	131.6	34.6	35.7%	211.1	239.4	28.3	13.4%
All Other	48.1	46.0	(2.1)	-4.3%	120.9	89.4	(31.4)	-26.0%
Total GF Revenues	**$1,964.8**	**$2,097.6**	**$132.7**	**6.8%**	**$4,085.6**	**$4,372.4**	**$286.9**	**7.0%**

- Revenues grew $132.7 million (6.8%) in August year-over-year. Year-to-date revenues have grown $286.9 million (7.0%).
- Like last month, withholding was the largest source of growth in terms of dollars at $137.4 million (10.3%).
- Nonwithholding declined $64.9 million (-35.9%),
- Refunds decreased by $36.1 million (-30.6%).

AUGUST COLLECTIONS EXCEEDED FORECAST BY $122 MILLION

	August				FYTD			
SOURCE, $ Mil	**Actuals**	**Projected**	**Variance $**	**Variance %**	**Actuals**	**Projected**	**Variance $**	**Variance %**
Withholding	$1,473.7	$1,335.8	$137.8	10.3%	$3,042.6	$2,804.7	237.9	8.5%
Non-withholding	116.0	114.5	1.5	1.3%	253.7	214.5	39.2	18.3%
IIT Refunds	(81.8)	(91.3)	9.4	-10.3%	(182.0)	(206.6)	24.6	-11.9%
Net Individual Income	$1,507.8	$1,359.1	$148.8	10.9%	$3,114.4	$2,812.7	$301.7	10.7%
Sales & Use Tax	429.4	412.7	16.7	4.0%	853.5	840.0	13.4	1.6%
Corporate Income Tax	(58.7)	2.9	(61.7)	-2114.0%	(11.0)	57.1	(68.0)	-119.2%
Insurance	-	-	-	0.0%	-	-	-	0.0%
Wills, Suits, Deeds	41.4	46.5	(5.0)	-10.8%	86.7	94.6	(7.9)	-8.4%
Interest Income	131.6	105.6	26.1	24.7%	239.4	211.1	28.2	13.4%
All Other	46.0	48.9	(2.8)	-5.8%	89.4	90.4	(0.9)	-1.0%
Total GF Revenues	**$2,097.6**	**$1,975.6**	**$122.0**	**6.2%**	**$4,372.4**	**$4,105.9**	**$266.5**	**6.5%**

- Revenues exceeded projections in the budget for the month by $122.0 million (6.2%).
- Positive variances occurred in most sources this month.
- Net individual income tax came in $148.8 million (10.9%) over forecast driven by withholding payments coming in well above forecast by $137.8 million (10.0%).
- This is not a significant month for nonwithholding or refunds, though both came in with small positive variances.
- With two months of the fiscal year complete, revenues are above forecast by $266.5 million (6.5%).

COORDINATED FEDERAL GRANT TRACKING ACROSS THE ADMINISTRATION

- With the exception of Higher Education, the Finance Secretariat and Office of Federal Affairs have continued to monitor the impact of federal grant reviews across all Executive branch agencies.
  - Grants were paused to review compliance with the various federal Executive Orders as well as to ensure alignment with Administration priorities.
  - Paused grants have largely been tied to discretionary programs funded under the Infrastructure Investment and Jobs Act or the Inflation Reduction Act.
- A total of approximately $2.5 billion was paused for review and, as of this week, approximately $315 million remains paused, down from $515 million in May.
  - Actively working with federal agencies to provide necessary justification to release paused funds.
  - Approximately $250-300 million of this amount is likely to remain frozen as the federal government reclaims balances from COVID-era grants.
- Higher Education institutions were asked to identify any paused or suspended federal grants as part of their six-year plan submissions.
  - In their submissions, 13 institutions reported a total of 289 paused grants estimated at $269.3 million.
  - The six R1 institutions accounted for 98.6% of the total amount.
  - Two R1 institutions comprised 83.6 percent of the total amount.

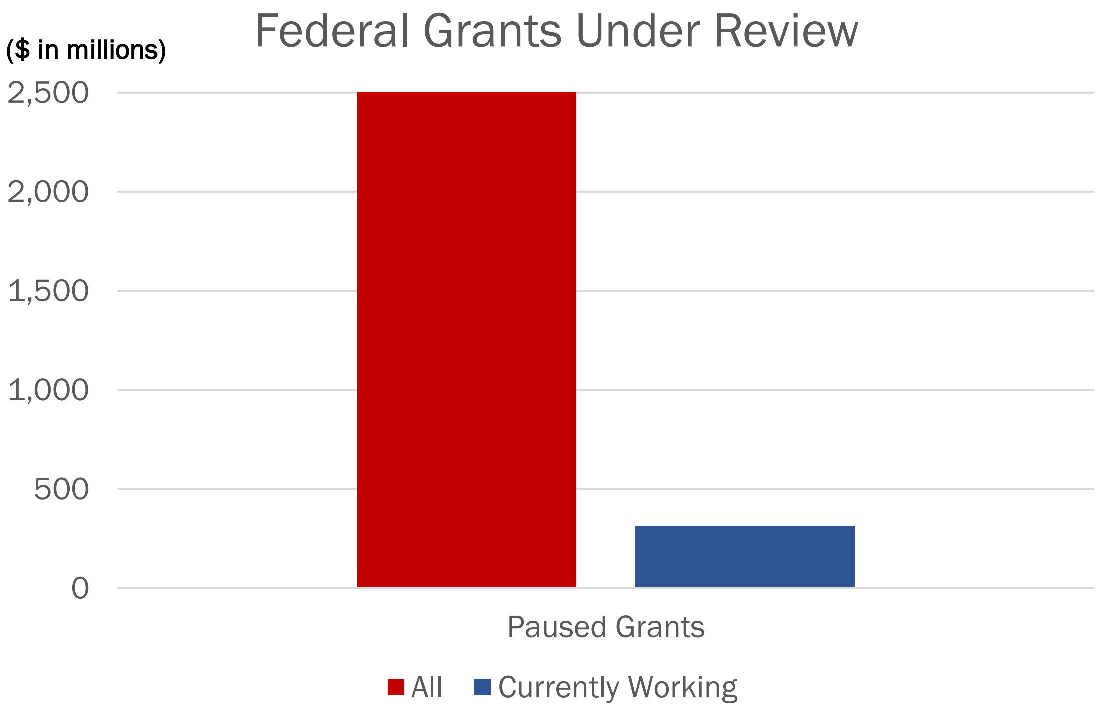
PAUSED GRANTS HAVE DROPPED SIGNIFICANTLY

Federal Grants Update (9/15/2025)

($ in millions)

Secretariat	Grants Frozen	Amount Frozen ($M)
Agriculture and Forestry	2	21
Commerce and Trade	2	23
Health and Human Resources	13	271
Natural and Historic Resources	1	1
Total	**18**	**315**

Paused grants to Virginia agencies have been reduced by $2.2B since March



CONCLUSION

- Virginia’s tax base is strong. Revenues have grown 7.0 percent in the first two months of the fiscal year and are well ahead of forecast.
- Relative to the official forecast developed in the fall of 2024 revenues to date are $266.5 million higher than projected.
- July and August consist mainly of payroll withholding and sales tax collections and generally are not significant months for other sources such as corporate income, nonwithholding taxes, and refunds.
- The first quarterly estimated payments from individuals and corporations are due in September which will provide a better indicator of general fund revenue trends.
- Economic conditions appear to be softening, but the prevailing view is of a period of slow growth.
- Virginia’s unemployment rate remains well below that of the U.S.

LOOKING FORWARD

September:

- Individual, corporate, and insurance estimated payments are due.

October:

- Joint Advisory Board of Economists reviews economic assumptions on October 8.

November:

- Individual income tax extension returns due November 1.
- Governor's Advisory Council on Revenue Estimates reviews revenue forecast for the 2026-28 biennium on November 24.

December:

- General fund revenue forecast is finalized, including post-GACRE adjustments and proposed policy changes.
- Governor Youngkin's FY 2026 budget amendments and the 2026-28 biennial budget are presented at the December Joint Money Committee meeting on December 17.