



# Economic and Revenue Update

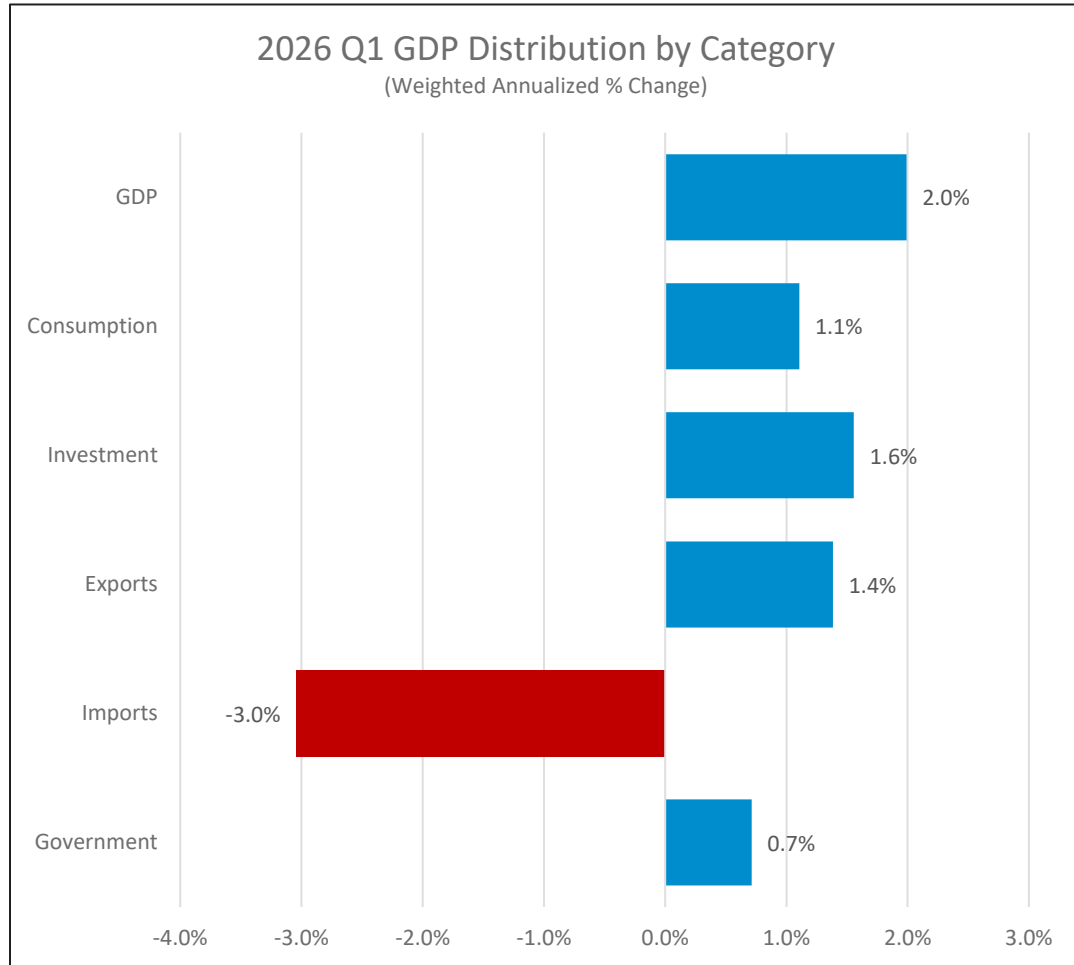
*A Briefing for the Money Committees*

May 2026

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# National Developments

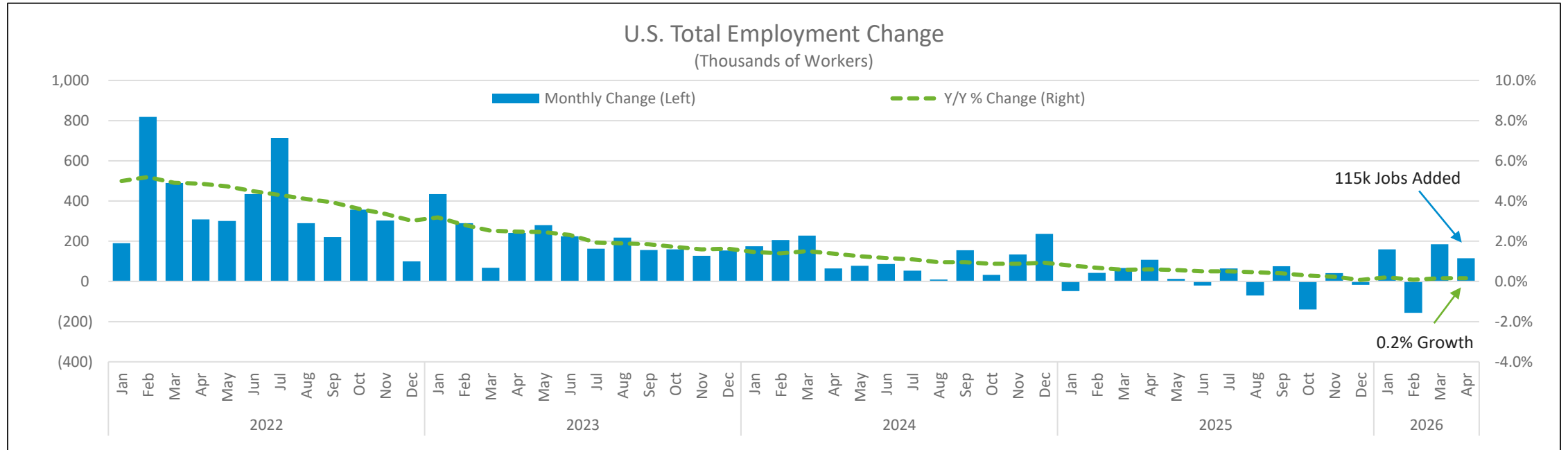
# Gross Domestic Product Grew Modestly Last Quarter



Source: U.S. Bureau of Economic Analysis (components may not sum due to residuals)

- U.S. GDP experienced 2.0 percent annualized growth according to the advance estimate from the Bureau of Economic Analysis
- Personal Consumption, the largest portion of GDP, only accounted for 1.1 percentage points of the total 2.0 percentage points of growth.
- Private Investment, was the strongest category contributing approximately 1.6 percentage points.
- Imports, which corrects the accounting in other categories to exclude non-domestic goods and services, dragged the headline down.
- Government spending, which makes up about 16.5 percent of total GDP, accounted for 0.7 percentage points of the 2.0 percent annualized growth.

# National Employment Growth Remained Low



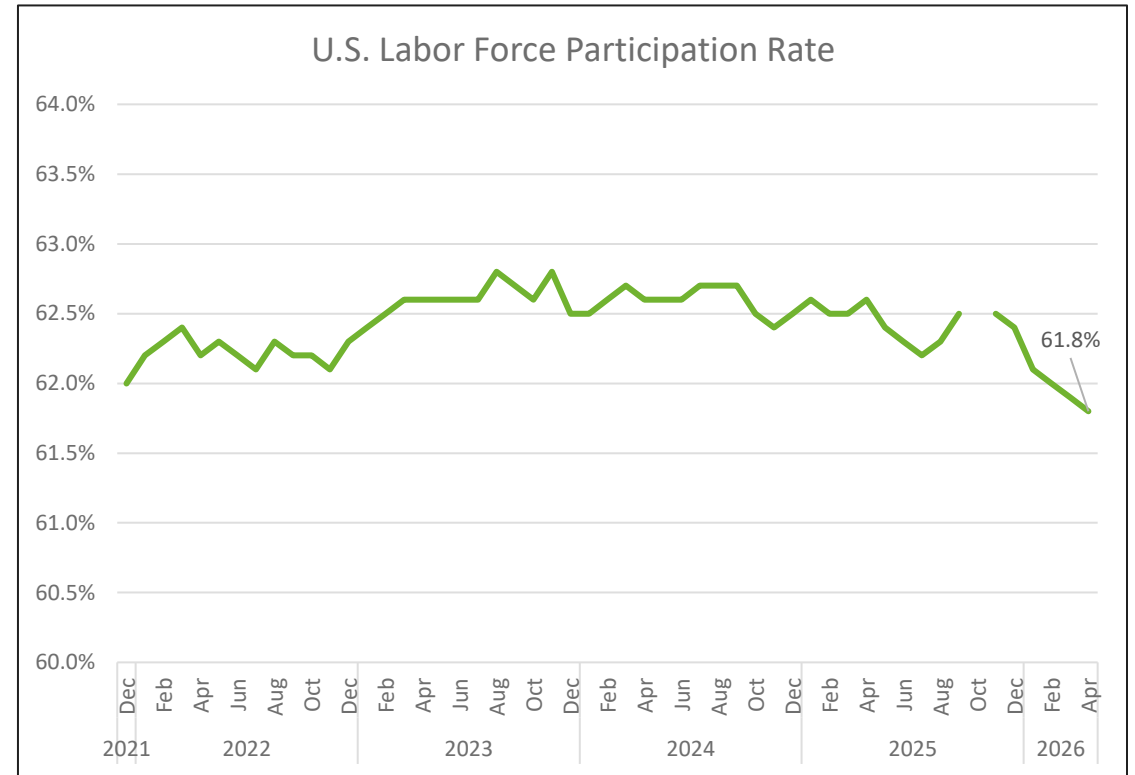
Source: U.S. Bureau of Labor Statistics

- ▶ The U.S. added 115,000 jobs in April.
- ▶ February and March jobs were revised down by a total of 39,000.
- ▶ Trade, Transportation, and Utilities led the gains with +60,000. Education and Health Services were the other major positive component with +46,000 jobs.
- ▶ Information (-13,000), Financial Services (-11,000), and Federal Government (-9,000) were the primary sources of job losses.

# Unemployment Held Steady While Labor Force Participation Fell



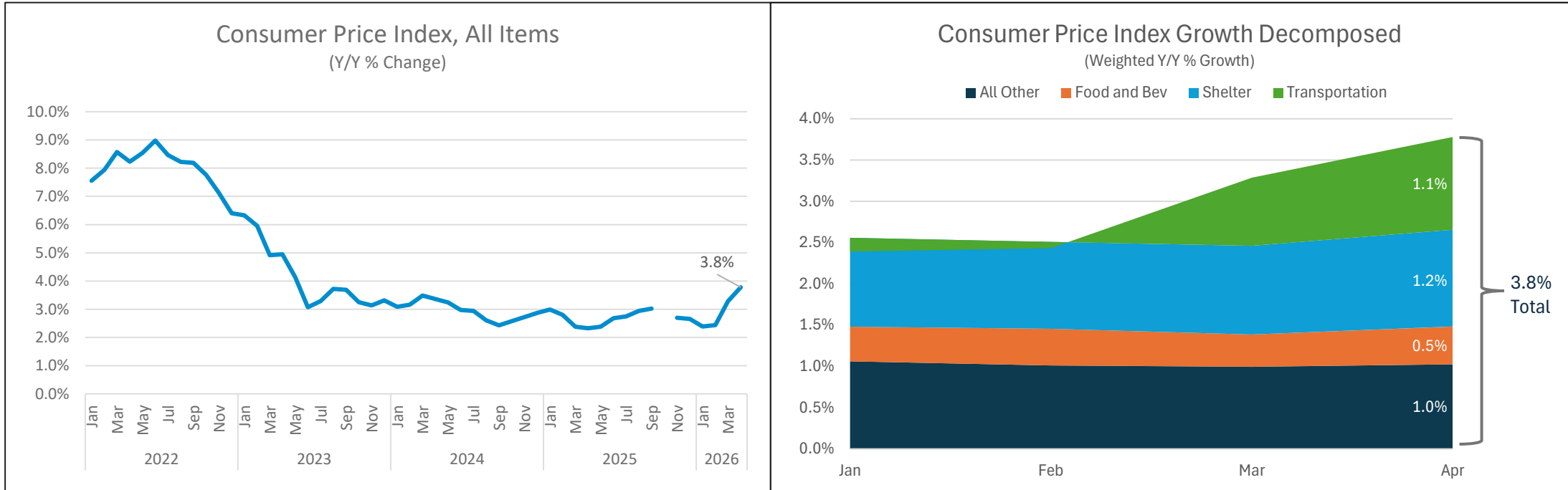
Source: U.S. Bureau of Labor Statistics



Source: U.S. Bureau of Labor Statistics

- ▶ The U.S. unemployment rate remained flat at 4.3 percent in April.
- ▶ U.S. labor force participation has been on a steady decline for the past five months. The rate now sits at 61.8 percent down from 62.5 percent in November.

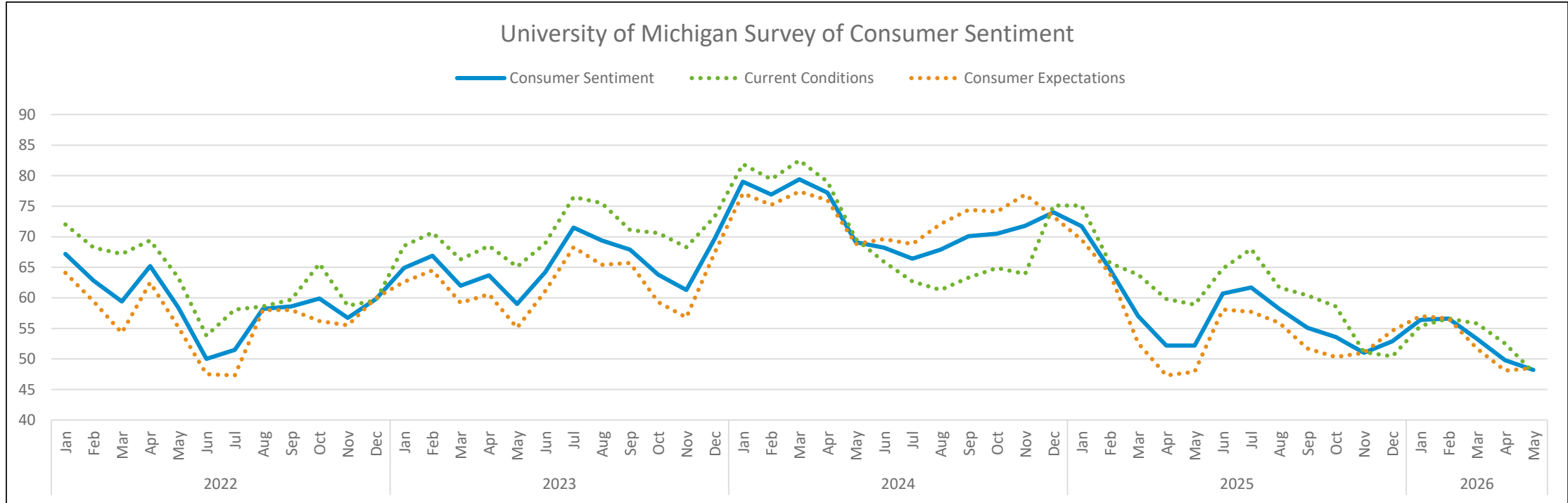
# Gas Prices Continued Spiking Inflation



Source: U.S. Bureau of Labor Statistics

- ▶ The Consumer Price Index continued to increase due to the surge in energy prices. The year-over-year growth jumped from 3.3 percent to 3.8 percent.
- ▶ Most inflation components were relatively stable, but Transportation which is dominated by fuel costs remained elevated at 6.9 percent year-over-year growth.
- ▶ Transportation accounts for just 16 percent of the measured basket, however the dramatic increase in this one component, accounted for 1.1 percentage points of the total 3.8 percent Y/Y growth in prices.

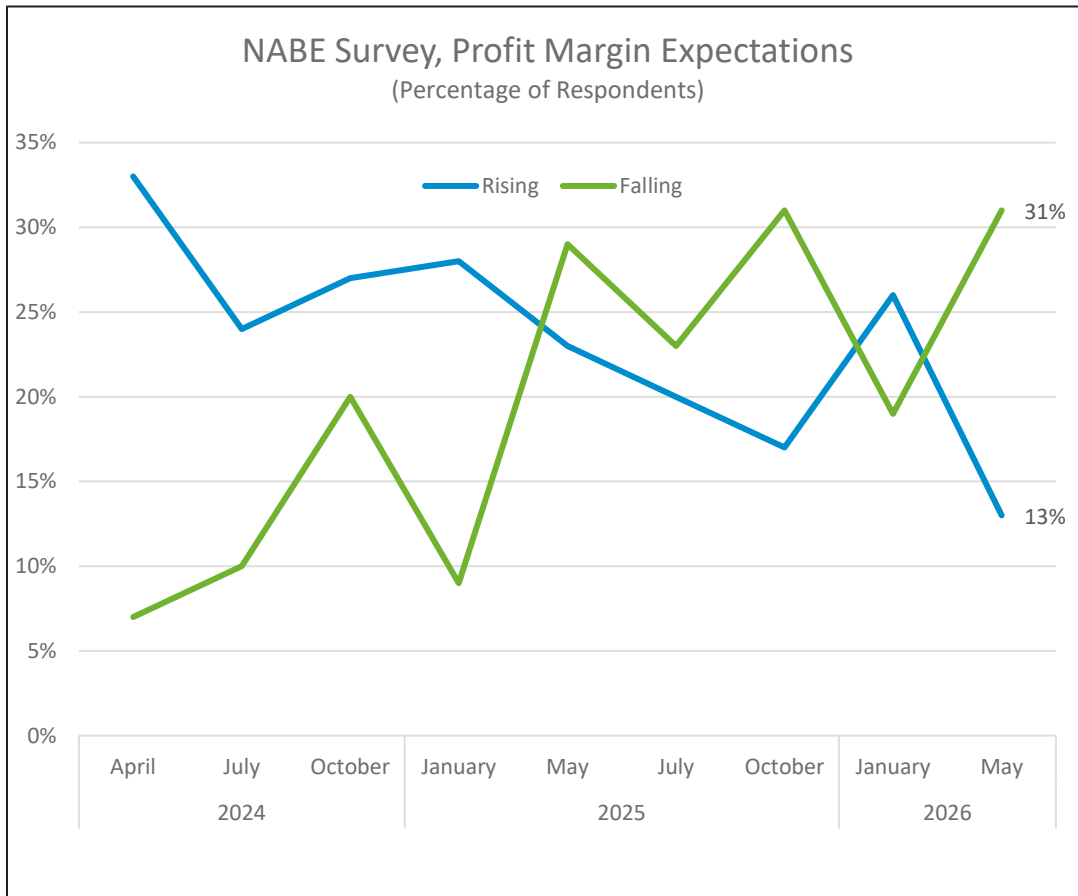
# Consumer Sentiment Declined Due to Current Conditions



Source: University of Michigan, Surveys of Consumers

- The Consumer Sentiment Index continued to decline. The index dropped 3.2% from April reaching 48.2 in May’s preliminary figure.
- The Consumer Sentiment Index is composed of both Current Economic Conditions Index and Index of Consumer Expectations. Breaking the data down by current conditions vs expectations shows that current conditions were the primary concern in the most recent data.
- The Index of Consumer Expectations showed minimal movement, ticking up 0.8% this month to 48.5, while the Current Economic Conditions Index dropped 9.0 percent to 47.8.

# Business Outlook Declines Along with Consumers

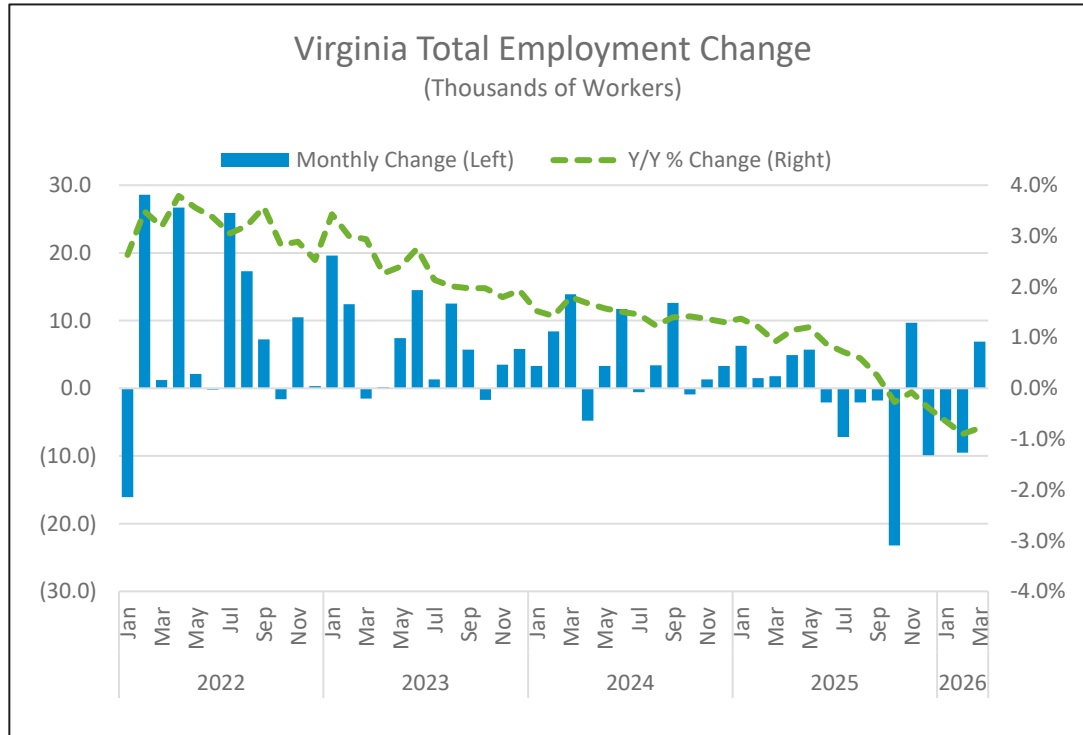


- The National Association of Business Economists (NABE) conducted a survey from April 20 through April 27, soliciting expectations from member economists about economic conditions over the coming three-month period.
- Results for profit margin expectations show concern about rising prices affecting the bottom line, with 31 percent of respondents stating that they expect future profit margins to fall, while only 13 percent of respondents expect profit margins to climb.
- The pessimistic subset of respondents has been on the rise while the optimists sharply declined in the most recent survey.

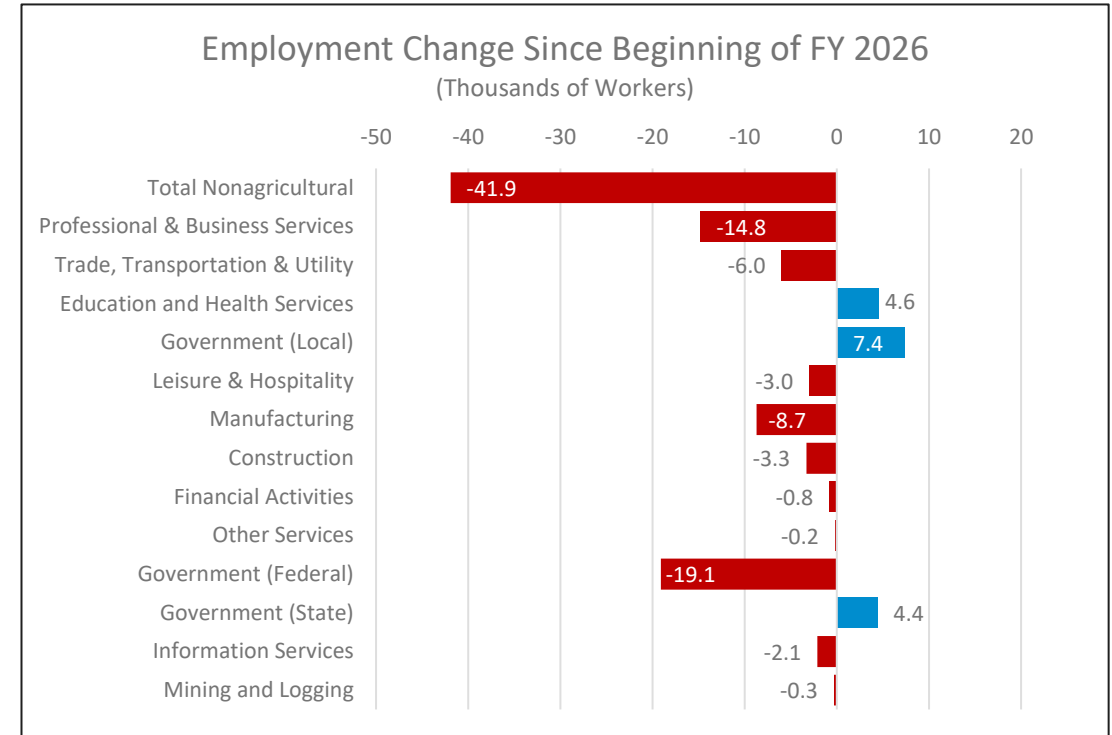
Source: National Association of Business Economists

# Virginia Developments

# Virginia Jobs Down 41,900 from Start of Fiscal Year



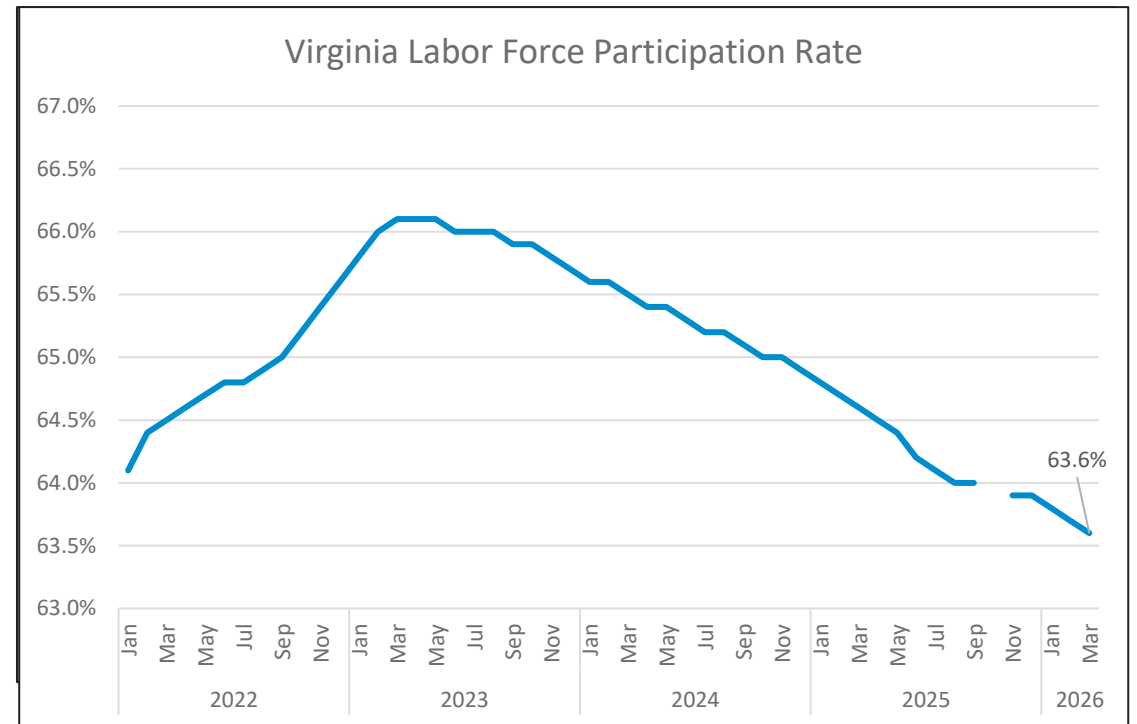
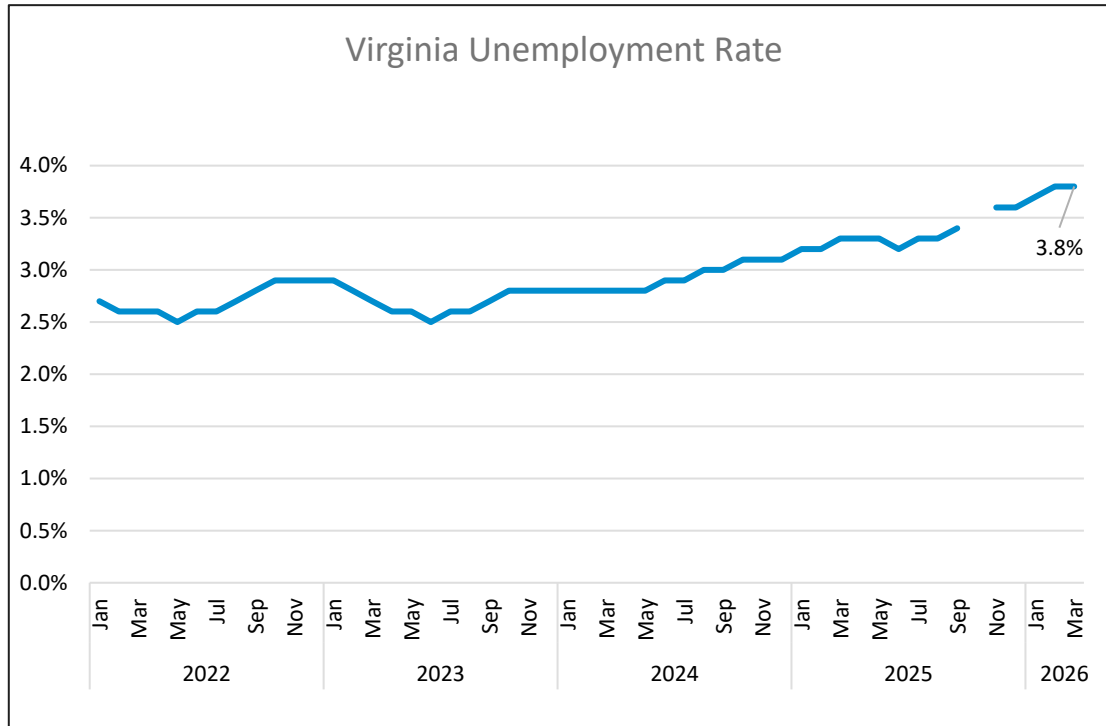
Source: U.S. Bureau of Labor Statistics



Source: U.S. Bureau of Labor Statistics

- ▶ Virginia added 6,900 jobs in March.
- ▶ That’s a modestly positive beat, however since the start of Fiscal Year 2026, Virginia has lost 41,900 net jobs.
- ▶ Only three sectors have grown this fiscal year: Local Government, State Government, and Education and Health Services.

# Virginia Unemployment Unchanged; Labor Force Continued to Slip



Source: U.S. Bureau of Labor Statistics

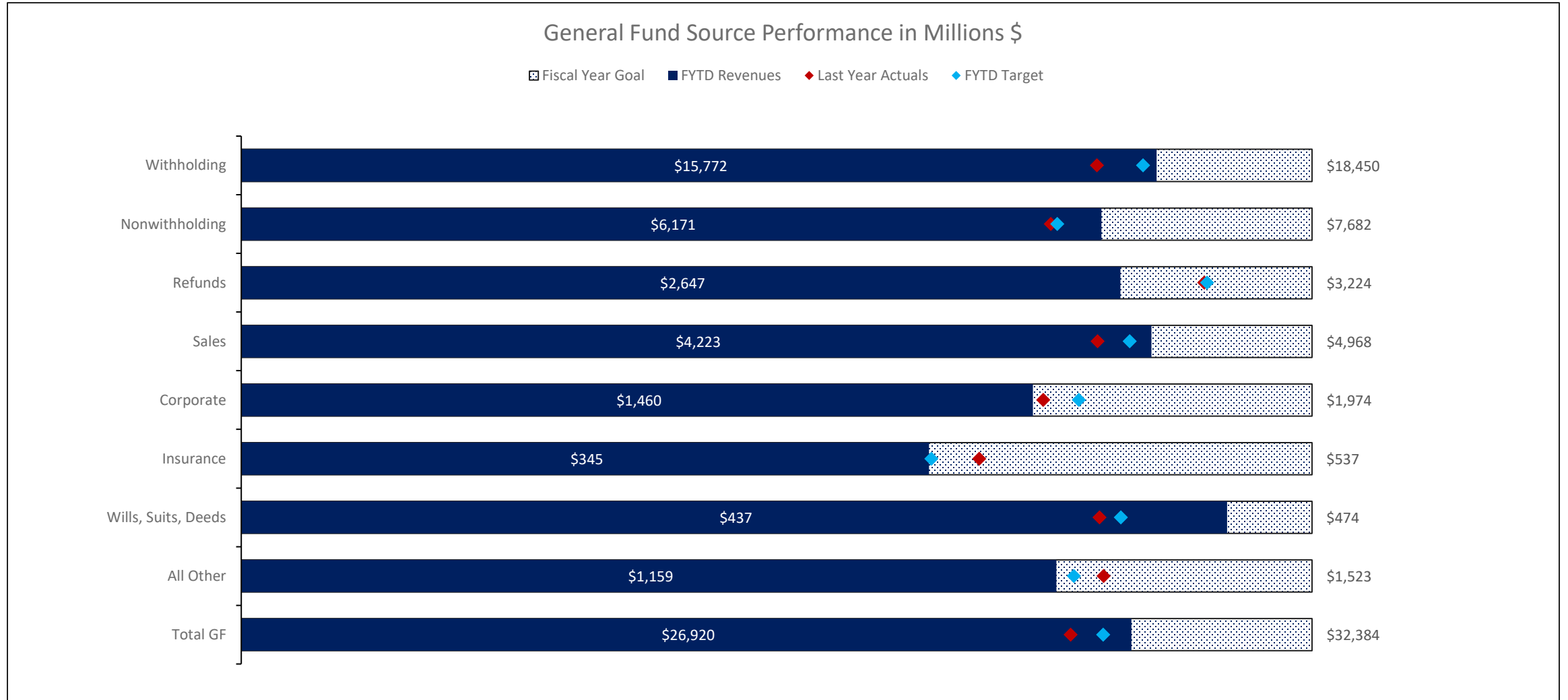
Source: U.S. Bureau of Labor Statistics

- ▶ Virginia’s unemployment rate remained unchanged at 3.8 percent. While still low by historical standards, this is the highest it has been since the pandemic.
- ▶ Labor force participation continued to decline, now hitting 63.6 percent.
- ▶ Over the last three years, the labor force participation rate has consistently retreated 0.1 percentage points per month.

# Revenues

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# Revenues Ahead of Projections

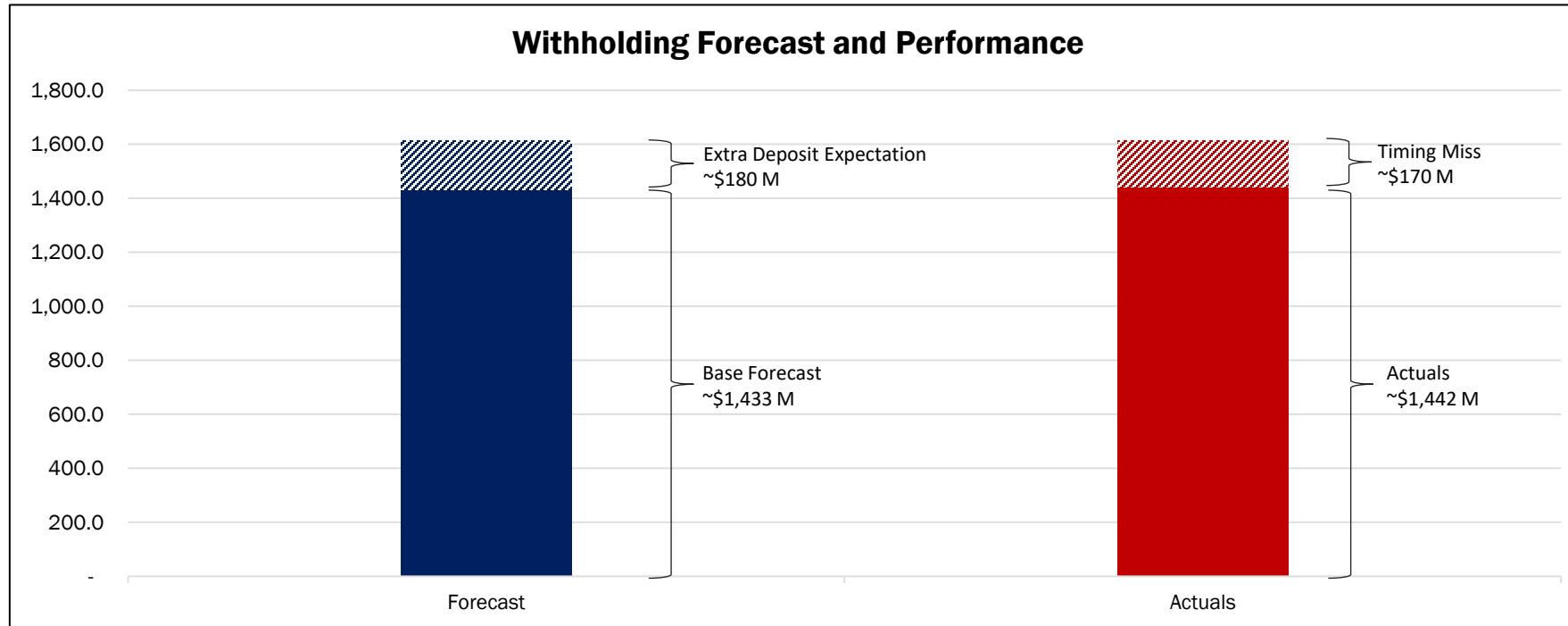


# Fiscal Year-to-Date Revenues \$851 Million Ahead of Forecast

SOURCE, \$ Mil	April Revenues Year-Over-Year				Forecast Variance FYTD			
	Apr 25	Apr 26	Change \$	Change %	Actuals	Projected	Variance \$	Variance %
Withholding	\$1,441.8	\$1,673.1	\$231.4	16.0%	\$15,771.7	\$15,537.6	234.1	1.5%
Non-withholding	2,170.7	2,214.3	43.6	2.0%	6,171.3	5,853.6	317.8	5.4%
IIT Refunds	(661.2)	(748.8)	(87.6)	13.3%	(2,646.6)	(2,907.4)	260.8	-9.0%
Net Individual Income	\$2,951.3	\$3,138.6	\$187.3	6.3%	\$19,296.4	\$18,483.7	\$812.7	4.4%
Sales & Use Tax	417.8	454.9	37.1	8.9%	4,222.9	4,121.1	101.8	2.5%
Corporate Income Tax	443.3	513.1	69.8	15.8%	1,459.8	1,544.3	(84.5)	-5.5%
Insurance	178.1	169.4	(8.7)	-4.9%	344.9	346.0	(1.2)	-0.3%
Wills, Suits, Deeds	40.4	45.4	5.0	12.3%	436.5	389.4	47.1	12.1%
Interest Income	(88.1)	(106.4)	(18.3)	20.8%	501.6	539.4	(37.7)	-7.0%
All Other	45.8	49.4	3.6	7.9%	657.5	644.6	12.8	2.0%
<b>Total GF Revenues</b>	<b>\$3,988.5</b>	<b>\$4,264.4</b>	<b>\$275.8</b>	<b>6.9%</b>	<b>\$26,919.7</b>	<b>\$26,068.7</b>	<b>\$851.0</b>	<b>3.3%</b>

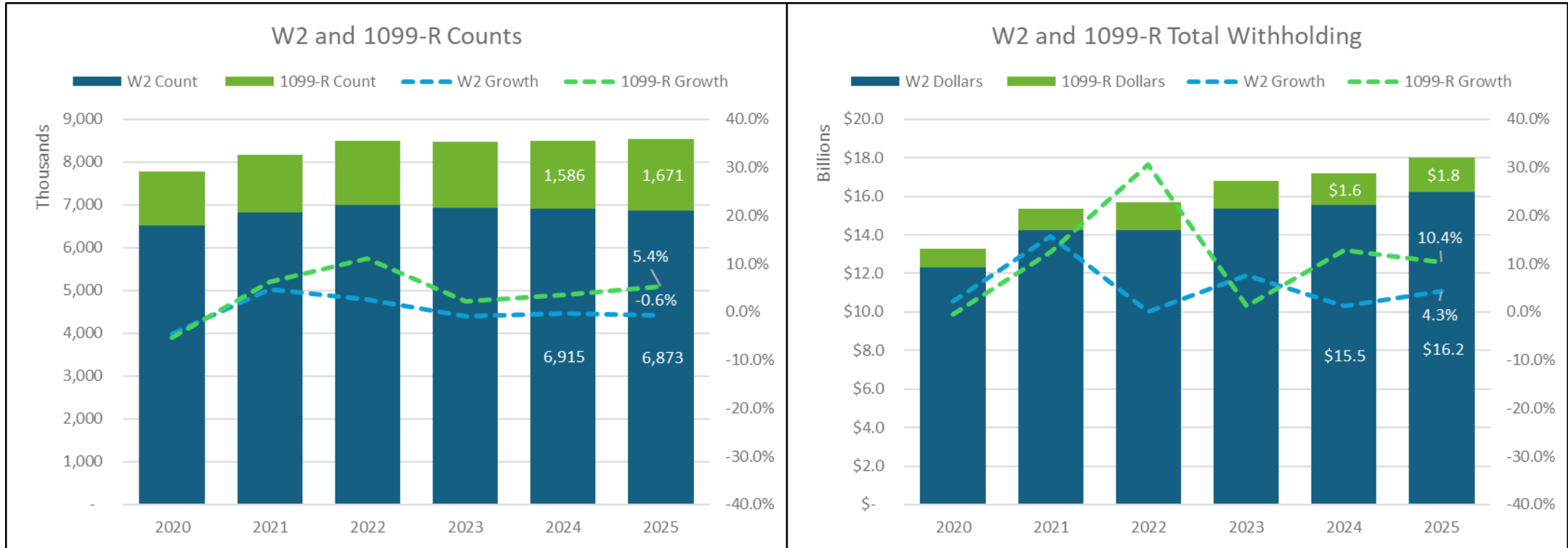
- ▶ Total General fund revenues grew \$275.8 million (6.9%) this April relative to April 2025.
- ▶ Most growth came from withholding which grew \$231.4 million (16.0%) over last April. Year-to-date forecast variance remains low at 1.5 percent.
- ▶ The Commonwealth issued \$87.6 million more in refunds than last April but is still well below forecast year-to-date with a \$260.8 million cushion.
- ▶ Sales tax variance increased meaningfully this April, as prices continue to rise and consumers continue spending down savings.

# Withholding Variance Primarily Due to Timing



- ▶ This chart was shown in May of 2025 to explain a slight timing anomaly at that time.
- ▶ Because the monthly distribution of the withholding forecast is predicated on the prior year, this anomaly was folded into this year's assumptions.
- ▶ Therefore, the dramatic year-over-year growth in April withholding and exceptional positive variance to forecast is just a temporary beat which should be subside over the next two months.

# Overall Withholding Helped by Retirement Income



Source: Virginia Department of Taxation. (Data are based on a large though non-exhaustive sample.)

- ▶ Even accounting for April’s timing oddity, withholding has performed slightly better than expected given the labor market.
- ▶ One explanatory factor is an increase in retirement withholding which can dampen the negative impact of job losses.
- ▶ A large sample of posted W2 and 1099-Rs is useful to approximate wages and salaries vs retirement income.
- ▶ These are annual tax forms and they are not aligned with our fiscal year, but the resulting trends are still informative.
- ▶ The growth in retirement income was much stronger than worker income in 2025.

# Revenues Can Decline 11.2% and Still Meet Forecast

SOURCE, \$ Mil	May -Jun Revenues			YTD Growth	Remaining Growth to Meet Dec Forecast	Forecasted Annual Growth
	FY 25 Actuals	FY 26 Forecast	Revenues Rqd to Meet Budget			
Withholding	\$2,817.7	\$2,912.7	\$2,678.6	7.0%	-4.9%	5.1%
Non-withholding	1,711.5	1,828.0	1,510.2	6.3%	-11.8%	2.2%
IIT Refunds	(288.5)	(316.2)	(577.1)	-8.7%	100.0%	1.1%
Net Individual Income	\$4,240.8	\$4,424.4	\$3,611.7	9.3%	-14.8%	4.6%
Sales & Use Tax	839.7	846.5	744.7	6.3%	-11.3%	3.2%
Corporate Income Tax	399.7	430.0	514.5	-1.3%	28.7%	5.1%
Insurance	171.4	190.9	192.0	-6.8%	12.0%	-0.8%
Wills, Suits, Deeds	91.2	84.7	37.6	14.9%	-58.7%	0.6%
Interest Income	37.9	1.3	39.1	-9.8%	3.2%	-8.9%
All Other	372.5	337.2	324.4	-1.9%	-12.9%	-5.8%
<b>Total GF Revenues</b>	<b>\$6,153.2</b>	<b>\$6,315.1</b>	<b>\$5,464.1</b>	<b>7.3%</b>	<b>-11.2%</b>	<b>3.7%</b>

- ▶ FYTD revenues are up 7.3% compared to the same period last year.
- ▶ The official forecast for Fiscal Year 2026 is for 3.7% growth.
- ▶ Revenues can decline by 11.2% over the remainder of the fiscal year and still meet this forecast.

# Summary

## Economy

- ▶ GDP growth in Q1 of this year was steady, with consumption coming in slightly low.
- ▶ National jobs remain anemic, growing just 0.2% year-over-year.
- ▶ Inflation accelerated again in April driven by energy prices.
- ▶ Jobs in the Commonwealth are down 0.8% year-over-year. At the same time, workers must push for higher wages to offset inflation pressures.

## Revenues

- ▶ General Fund revenues are strong for Fiscal Year 2026.
- ▶ The current fiscal year is ahead of forecast by more than \$850 million.
- ▶ The remaining two months of the fiscal year are very important with refund season wrapping up, and major payments due for nonwithholding and corporate income tax.
- ▶ **While Fiscal Years 2027 and 2028 will require careful analysis for planning, the surplus this year can help resolve current budget hurdles.**