



COMMONWEALTH of VIRGINIA
Office of the Governor

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January 12, 2012

MEMORANDUM

TO: The Honorable Robert F. McDonnell

THROUGH: The Honorable Martin Kent

FROM: Richard D. Brown 

SUBJECT: December Revenue Data

This month's revenue report contains general fund revenue collections for the first half of fiscal year 2012. The report incorporates the revised general fund revenue forecast included in the budget (HB/SB29) introduced on December 19. With the upward revision in December, total general fund revenues are now projected to grow by 4.6 percent in fiscal year 2012.

Total general fund revenue collections fell 4.7 percent in December. The decline was not unexpected and is largely due to calendar effects in the timing of individual withholding receipts. Wednesday is a significant day for receiving withholding payments and this December had only four Wednesdays, while December 2010 had five. On a year-to-date basis, total revenue collections rose 4.2 percent through December, slightly behind the revised annual forecast of 4.6 percent growth. Adjusting for the accelerated sales tax program, total revenues grew 3.7 percent through December, trailing the adjusted forecast of 4.7 percent growth.

December and January are significant months for revenue collections. However, growth can be distorted during this time of year due to several timing issues. In December, along with normal monthly collections of withholding and holiday sales taxes, quarterly estimated payments are due from most corporations and some fourth quarter individual estimated payments due January 17 are received. Also, some withholding payments can be delayed by a larger volume of mail over the holidays, pushing some December payments into January. In addition, the bulk of sales tax collections from the holiday shopping season will be received in January. Due to all of these

factors, the months of December and January must be analyzed together to form a complete and accurate assessment of revenue growth.

National Economic Indicators

Most national indicators suggest the economy is poised for slow growth in 2012. Modest improvement in the labor market and a recent uptick in consumer confidence reinforce evidence of a sustained, if weak, recovery. Uncertainty about domestic policy decisions and continued weakness in the Eurozone remain significant threats to growth.

- According to the final estimate, real GDP grew at an annualized rate of 1.8 percent in the third quarter of 2011, up from growth of 1.3 percent in the second quarter and 0.4 percent in the first quarter. The economy has expanded for nine consecutive quarters, and growth appears to have picked up in the fourth quarter.
- The labor market continues to show signs of improvement. Payroll employment grew by 200,000 jobs in December. For calendar year 2011, job gains averaged 137,000 per month, compared with 78,000 per month in 2010. In a separate report, the unemployment rate fell from 8.7 to 8.5 percent in December, its lowest rate since February 2009.
- Initial claims for unemployment fell by 15,000 to 372,000 during the week ending December 31, while the four-week moving average fell from 376,500 to 373,250. The four-week moving average of initial claims has been declining since late October, suggesting sustained improvement in the labor market.
- The Conference Board's index of leading indicators rose 0.5 percent in November, its seventh consecutive monthly increase. Seven of the ten components of the index rose in November, with an increase in the interest rate spread driving the gain. The rise in the index is consistent with a continuing recovery.
- The Conference Board's index of consumer confidence jumped in December, rising from 55.2 to 64.5, its highest level since April. Both the expectations and present situation components rose in December, with the expectations component leading the gain. The gain in the index suggests that consumer spending will continue to improve.
- The manufacturing sector continued to expand in December as the Institute of Supply Management index rose from 52.7 to 53.9, its highest level since June. Activity suggests that economic growth will continue.
- Following a dip of 0.1 in October, the CPI was unchanged in November from the previous month and stands 3.4 percent above November of last year. Core inflation (excluding food and energy prices) rose 0.2 percent in November, and has increased 2.2 percent from November 2010.

- The Federal Reserve announced at its December meeting that it will keep the federal funds rate target unchanged at 0.0 to 0.25 percent.

Virginia Economy

In Virginia, job growth has improved slightly over the last few months, although the pace remains modest. Payroll employment rose 0.5 percent in November from November of last year. Employment grew 1.0 percent in Northern Virginia, but fell 0.5 percent in Hampton Roads, and 1.0 percent in Richmond-Petersburg. The unemployment rate in the Commonwealth fell 0.3 percent to 5.7 percent in November, and is 0.8 percent below November 2010.

The Virginia Leading Index rose 0.5 percent in November, after remaining unchanged in October. The U.S. leading index, auto registrations, future employment, and initial claims for unemployment contributed positively to the index, while building permits declined. The Leading Index rose in November for nine of the eleven major metro areas. The index was little changed in Bristol, with only Lynchburg declining.

December Revenue Collections

Total general fund revenue collections fell 4.7 percent in December. The decline is largely due to calendar effects in the timing of individual withholding receipts. On a year-to-date basis, total revenue collections rose 4.2 percent through December, slightly behind the revised annual forecast of 4.6 percent growth. Adjusting for the accelerated sales tax program, total revenues grew 3.7 percent through December, trailing the adjusted forecast of 4.7 percent growth.

Net Individual Income Tax (67% of general fund revenues): Through the first six months of the fiscal year, collections of net individual income tax rose 5.3 percent from the same period last year, slightly behind the annual estimate of 5.9 percent growth. Performance in each component of individual income tax is as follows:

Individual Income Tax Withholding (64% of general fund revenues): Collections of payroll withholding taxes fell 6.7 percent in December. As mentioned earlier, the decline was due to December having only four Wednesdays while December 2010 had five. Year-to-date, withholding collections grew 3.0 percent compared with the same period last year, lagging the projected annual growth rate of 3.8 percent.

Individual Income Tax Nonwithholding (16% of general fund revenues): Collections in this source rose 11.0 percent in December. Year-to-date, collections through the first half of the fiscal year rose 14.7 percent over the same period last year, well ahead of the annual estimate of 12.6 percent growth.

December and January are significant months for collections in this source, and results can be distorted by the timing of payments. Taxpayers have until January 17 to submit their fourth estimated payment for tax year 2011. A clearer assessment of growth will occur at the end of January, when all quarterly payments have been received.

Individual Income Tax Refunds: In December, TAX issued \$36.6 million in refunds compared with \$47.1 million last year. Year-to-date, refunds have fallen 16.3 percent, compared with the revised annual estimate of a 3.0 percent increase.

Sales Tax (19% of general fund revenues): Collections of sales and use taxes, reflecting November sales, rose 3.9 percent in December. On a year-to-date basis, collections have risen 5.1 percent, compared with the annual estimate of 1.8 percent growth. The strong year-to-date growth is due to the partial repeal of the accelerated sales tax program, which ended the participation of numerous small dealers. Adjusting for this legislation, sales tax collections have grown by 2.6 percent year-to-date, close to the economic-base forecast of 2.5 percent.

Corporate Income Tax (5% of general fund revenues): December is a significant month for collections in this source as quarterly estimated payments are due from most corporations. Collections of corporate income tax fell 7.8 percent in December. Year-to-date collections have fallen 3.7 percent, lagging the annual estimate of a 0.7 percent increase.

Wills, Suits, Deeds, Contracts (2% of general fund revenues): Collections of wills, suits, deeds, and contracts – mainly recordation tax collections – rose 8.9 percent in December. On a year-to-date basis, collections are up 3.5 percent, lagging the annual forecast of 10.8 percent growth.

Insurance Premiums (2% of general fund revenues): Collections of taxes on insurance premiums were \$56.4 million in December, compared with \$80.5 million in December of last year. Chapter 896 of the 2007 Acts of the Assembly required that \$137.3 million of collections in this source be transferred to the Transportation Trust Fund in fiscal year 2012 before making any deposits to the general fund. The required transfer was completed during December. The gross estimated payments were down 9 percent for the month, lagging the annual forecast of a 2 percent increase.

Other Revenue Sources

The following list provides data on December collections for other revenue sources:

	<u>Year-to-Date</u>	<u>Annual Estimate</u>
Interest Income (1% GF revenues)	-1.9%	1.1%
ABC Taxes (1% GF revenues)	5.0%	1.0%

All Other Revenue (3% of general fund revenues): Receipts in All Other Revenue fell 17.0 percent in December – \$24.2 million compared with \$29.1 million last December. For the fiscal year, collections of All Other Revenue fell 2.5 percent, trailing the annual estimate of a 0.3 percent decline.

Summary

Total general fund revenue collections fell 4.7 percent in December. The decline is largely due to calendar effects in the timing of individual withholding receipts. On a year-to-date basis, total revenue collections rose 4.2 percent through December, slightly behind the revised annual forecast of 4.6 percent growth. Adjusting for the accelerated sales tax program, total revenues grew 3.7 percent through December, trailing the adjusted forecast of 4.7 percent growth.

Because a number of factors can influence the flow of payments and monthly growth rates this time of year, December and January receipts must be considered together to get a clear picture of revenue growth.