



# VIRGINIA'S ECONOMIC OUTLOOK

A PRESENTATION FOR THE STATE COUNCIL OF HIGHER EDUCATION FOR VIRGINIA:  
BOARD OF VISITORS ORIENTATION

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# TOPICS FOR DISCUSSION

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ECONOMIC UPDATE

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GENERAL FUND REVENUES

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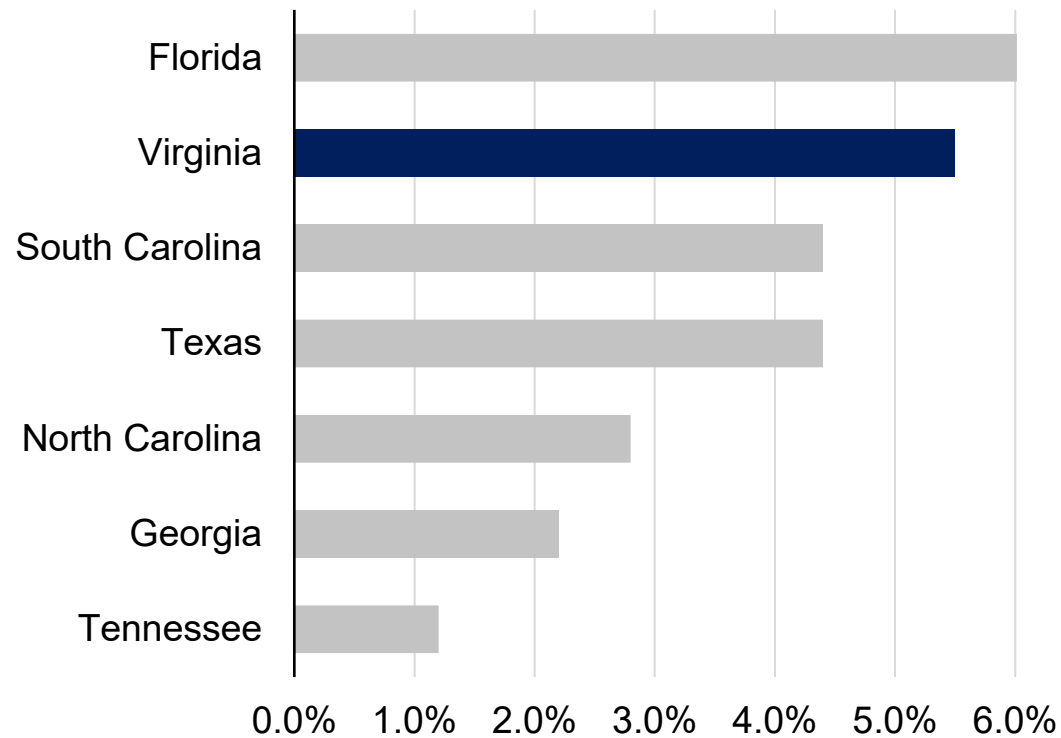
LOOKING AHEAD

# THE ECONOMY CONTINUES TO GROW BUT SIGNIFICANT DOWNSIDE RISKS REMAIN

- The U.S. economy has shown remarkable resilience even as interest rates have increased significantly. Third quarter Real Gross Domestic Product (GDP) rose by a seasonally adjusted annual rate of 4.9 percent (2.9 percent Q3/Q3). Current estimates point to continued growth of more than two percent in the fourth quarter.
- While the economy continues to grow, there are significant downside risks that warrant a conservative outlook going forward.
- Despite some improvement, inflation pressures persist. The Consumer Price Index (CPI) rose 0.4 percent in September and remains at 3.7 percent on a year-over-year basis. Given the Fed's commitment to contain inflation, another rate increase is possible in coming months.
- Other macroeconomic factors pose significant risks, including:
  - The temporary budget deal in Congress expires soon, raising concerns about the risk of an extended federal government shutdown which could cause consumer and business confidence to decline.
  - A period of persistently high interest rates will directly impact corporate profits, curtail housing market activity and reduce consumer spending.
  - Declines in European and Asian economies will hurt U.S. exports and corporate earnings.
  - Escalating conflict in the middle east and OPEC+ oil production cuts could drive significantly higher energy prices.
  - The real estate crisis in China and the resulting impact on financial markets could have ripple effects throughout the broader global economy.
  - Spend down of consumers' pandemic savings and the resumption of student loan repayments will impact consumer spending and likely dampen economic growth further.

# SINCE JAN 2022: 230,000 MORE VIRGINIANS EMPLOYED, THIRD HIGHEST GROWTH RATE IN THE NATION

January 2022 onward employment change  
%, January '22 to Sep '23, seasonally adjusted

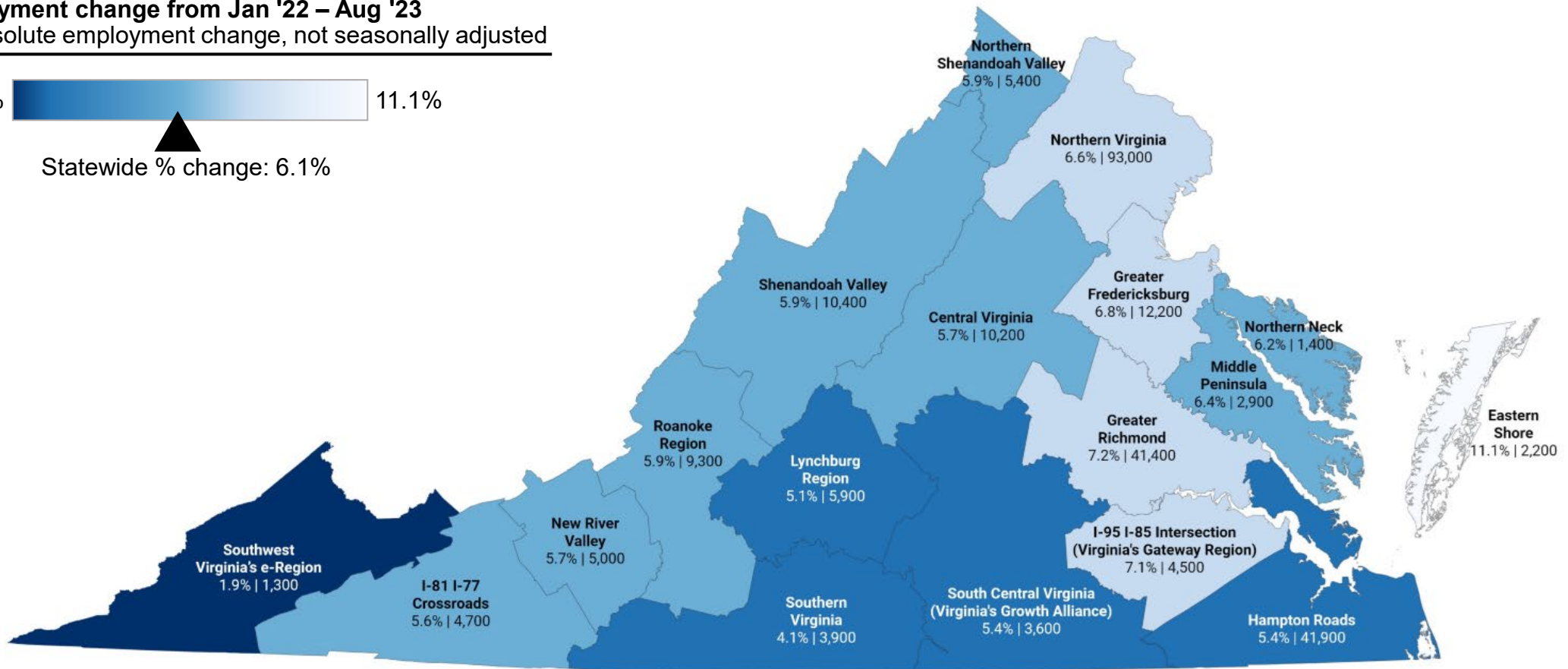
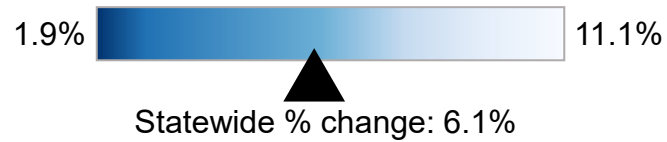


	Jan '22 to Sep '23 change	Jan '22 to Sep '23 % change	State rank
Florida	620,008	6.1%	2
Virginia	232,804	5.5%	3
South Carolina	101,650	4.4%	6
Texas	609,844	4.4%	7
North Carolina	138,373	2.8%	20
Georgia	111,328	2.2%	26
Tennessee	39,667	1.2%	38

Source: Bureau of Labor Statistics, Local Area Unemployment Statistics (seasonally adjusted); VEDP calculations.

# EMPLOYMENT GROWTH SINCE JANUARY 2022 HAS VARIED ACROSS VIRGINIA'S REGIONS

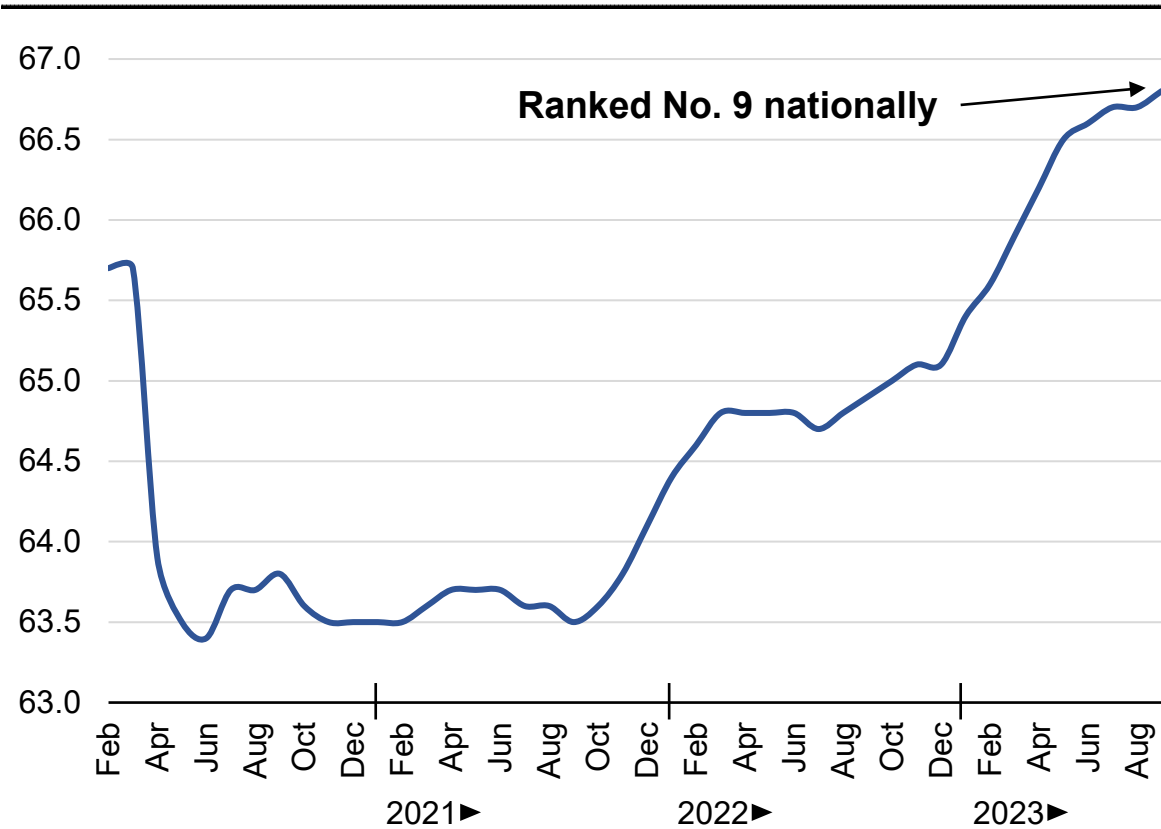
Employment change from Jan '22 – Aug '23  
% | absolute employment change, not seasonally adjusted



Source: Bureau of Labor Statistics, Local Area Unemployment Statistics; VEDP

# VIRGINIA'S LABOR PARTICIPATION RATE IS NINTH HIGHEST IN THE NATION AND RANKS HIGHER THAN OUR COMPETITOR STATES

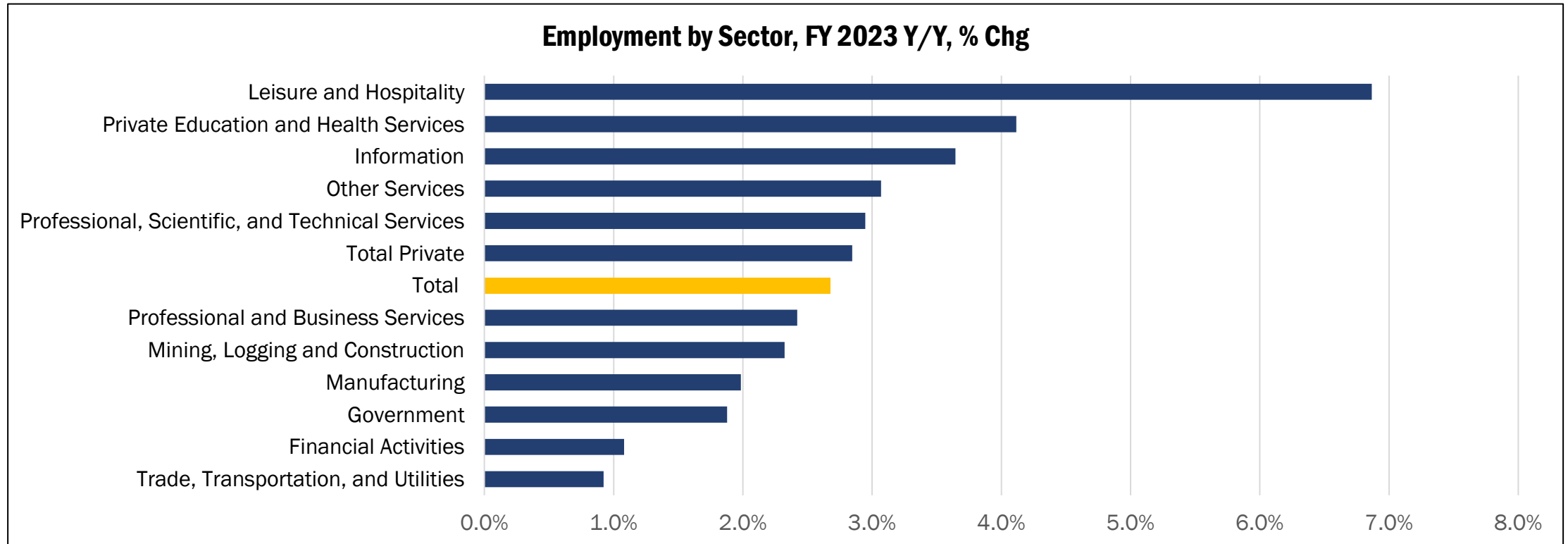
**Virginia labor force participation rate**  
% of the civilian population, Feb '20 – Sep '23, seasonally adjusted



State	Sept 2023	State Rank
Virginia	66.8%	9
Texas	64.2%	20
Georgia	61.5%	37
North Carolina	60.9%	38
Florida	59.8%	41
Tennessee	59.4%	42
South Carolina	57.0%	48

Source: Local Area Unemployment Statistics (seasonally adjusted), Bureau of Labor Statistics

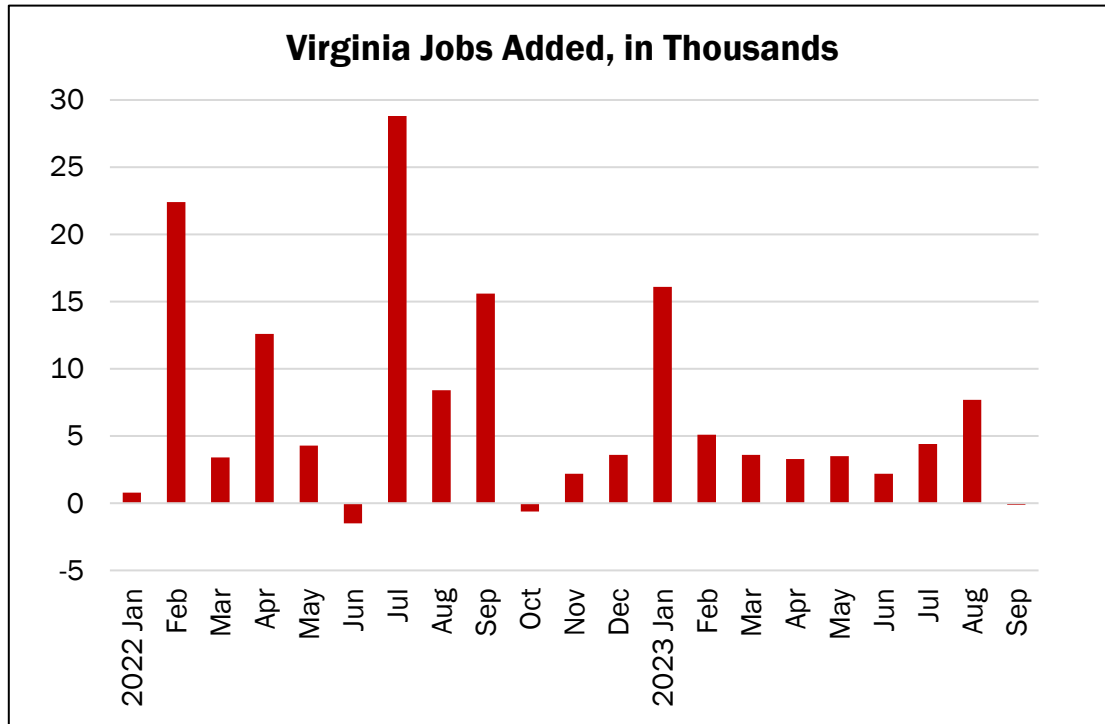
# TOTAL VA EMPLOYMENT GREW BY 2.7 PERCENT IN FY 2023, STRONGER THAN THE FORECAST GROWTH OF 2.5 PERCENT



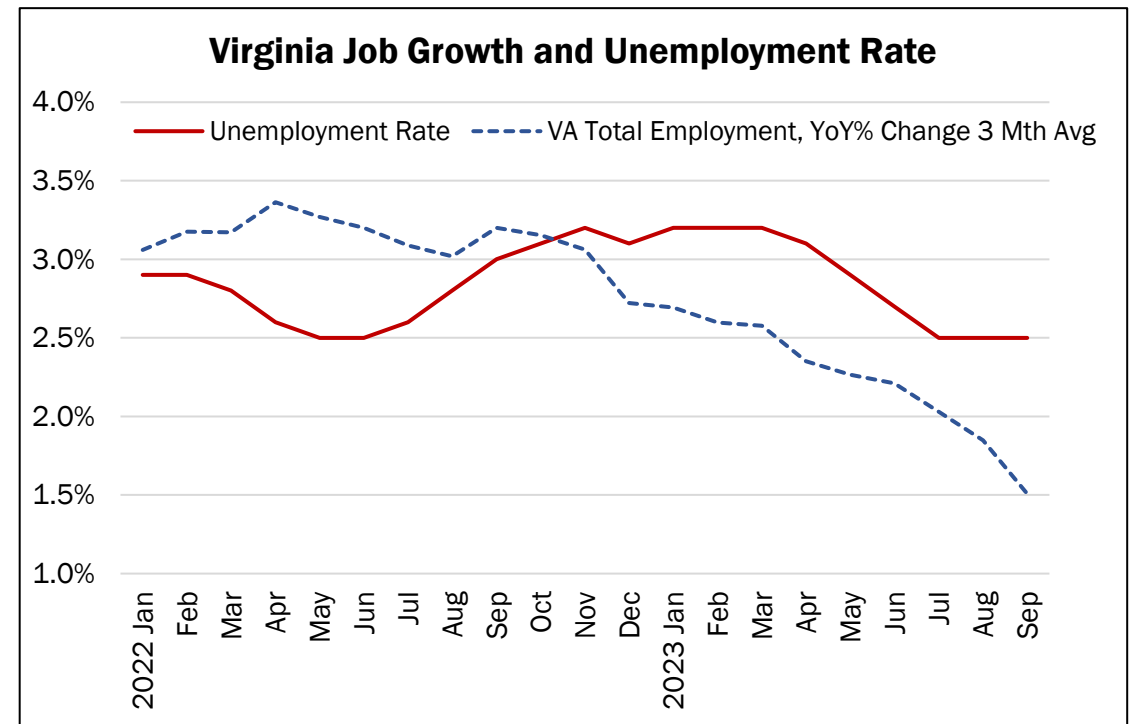
- On an annualized basis, total employment grew by 2.7 percent in FY 2023, stronger than the forecast growth of 2.5 percent as the recession we forecasted in FY 2023 did not occur.
- Growth occurred at faster pace in low-paying sectors, including leisure and hospitality, education and other services.

Source: US BLS CES Survey, VA Department of Taxation analysis.

# VIRGINIA UNEMPLOYMENT RATE UNCHANGED IN SEPTEMBER AS PACE OF JOB GROWTH SLOWS



Source: US Bureau of Labor Statistics

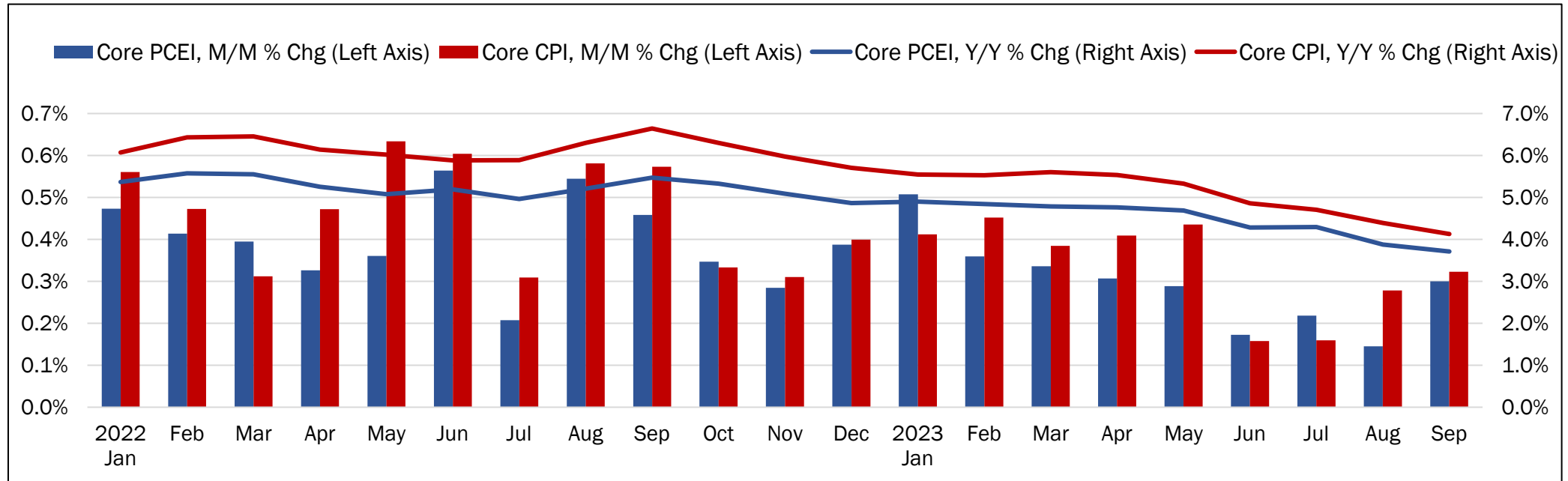


Source: US Bureau of Labor Statistics

- Virginia’s nonagricultural employment from the monthly establishment survey decreased by 100 to 4.16 million in September, the first month-over-month decline since October 2022. Private sector employment increased by 3,500 while government employment decreased by 3,600. On a year-over-year basis, Virginia employment grew 1.2 percent in September compared to September 2022.
- Virginia’s seasonally adjusted unemployment rate in September remained unchanged at 2.5 percent, which is 0.5 percentage points below the rate from a year ago.



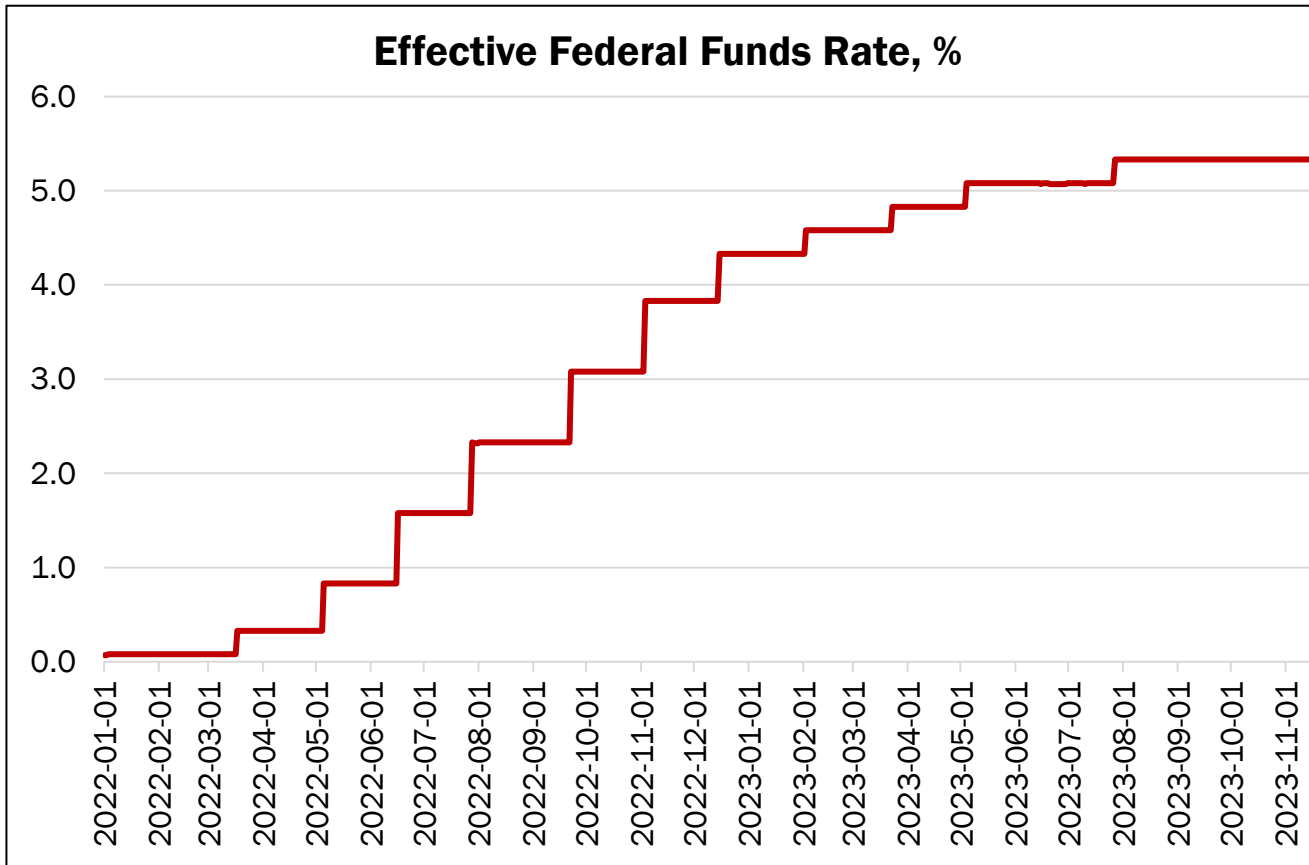
# LONG-TERM INFLATION MEASURES ARE TRENDING DOWNWARD, BUT REMAIN ELEVATED



Sources: US Bureau of Labor Statistics , US Bureau of Economic Analysis

- The CPI was up 3.7 percent year-over-year in September, the same as it was in August. Excluding food and energy prices, September’s CPI data came in as expected and show a continuation of the steady moderation that began in late 2022.
- The twelve-month change in Core Personal Consumption Expenditure Price Index (Core PCE), the Federal Reserve’s preferred inflation measure, continued to fall to 3.8 percent, though it is still well above the Fed’s two-percent target.

# MANY ECONOMISTS EXPECT ANOTHER RATE INCREASE IN COMING MONTHS

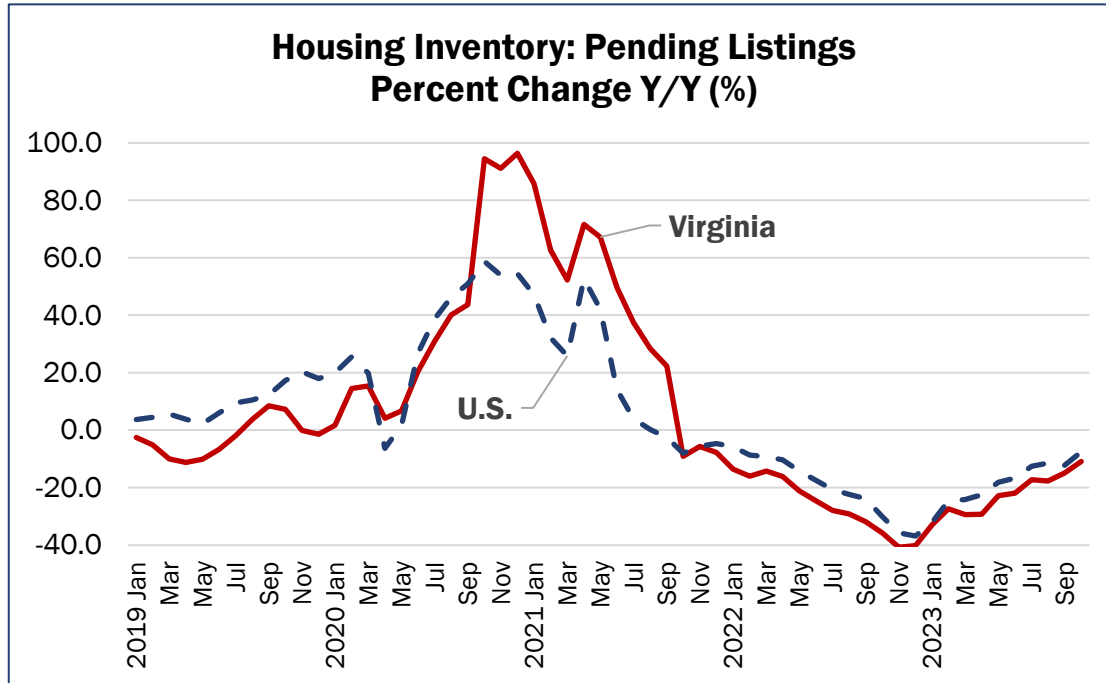


Source: Federal Reserve Board

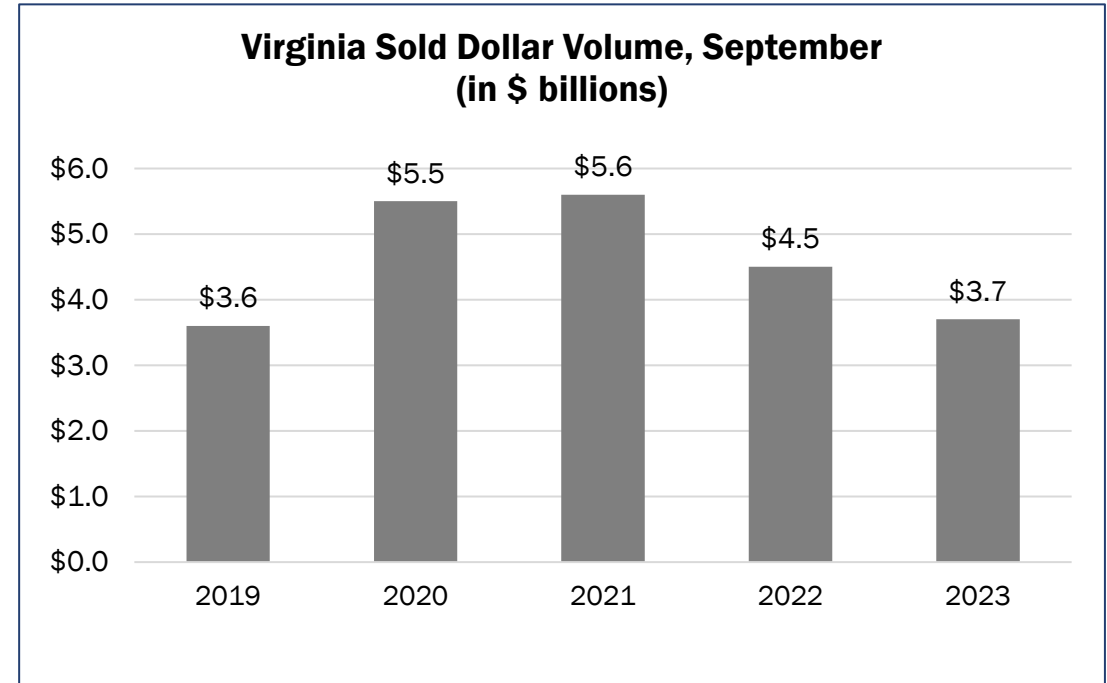
- The Federal Reserve held rates steady at their October 31 – November 1 meeting.
- The outlook for additional rate hikes is mixed with many economists expecting an additional rate increase.
- Market participants now put the probability of a January rate hike at about 20 percent.\*
- The minutes from the recent policy meeting indicate there is concern regarding the stronger than expected economic growth, and Chairman Powell has not ruled out further rate increases. The Fed will meet again December 12-13.

\*CME FedWatch Tool.

# HOUSING MARKET: INVENTORY AND HOME SALES ARE DOWN SIGNIFICANTLY OVER THE LAST TWO YEARS



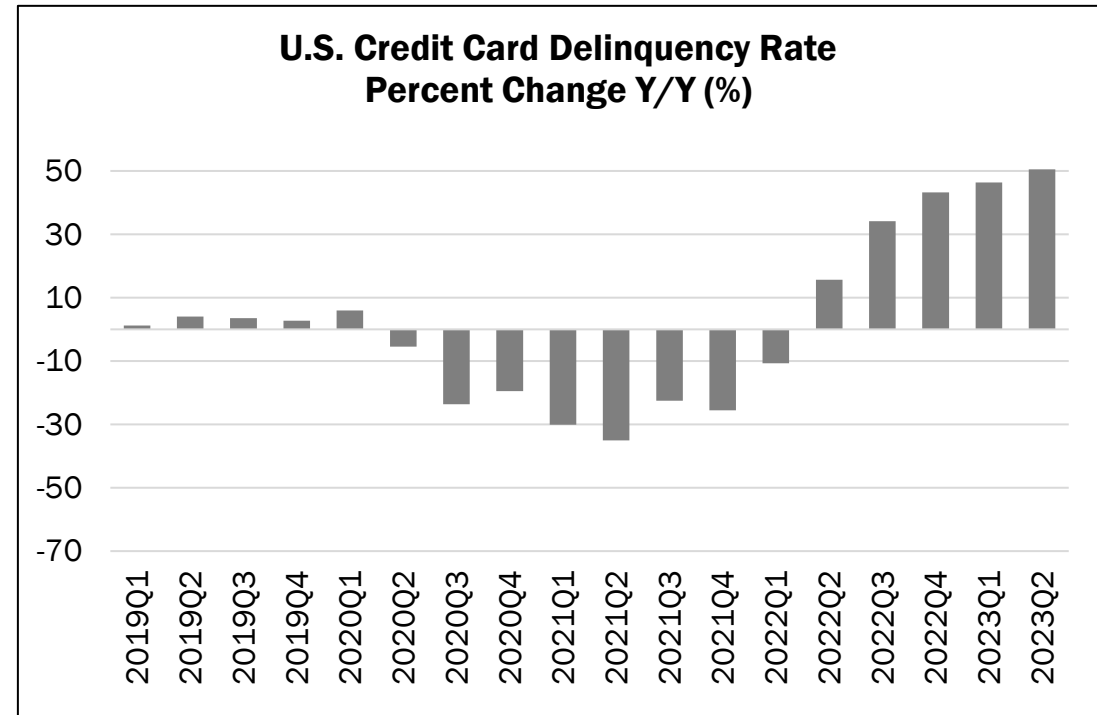
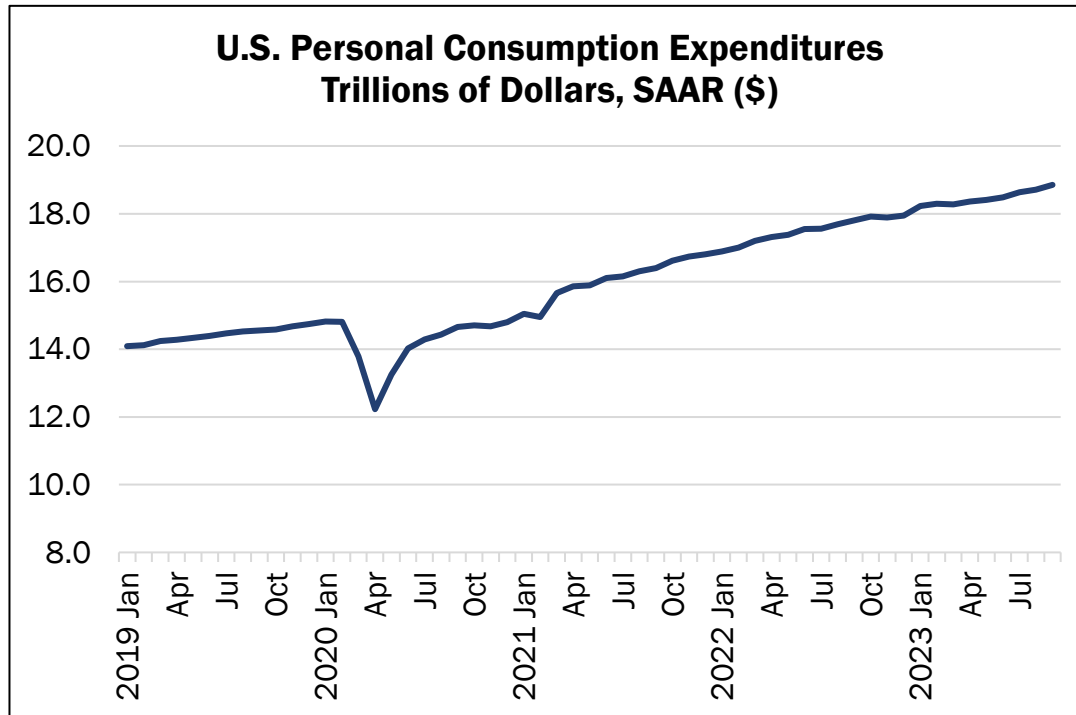
Source: Realtor.com, retrieved from Federal Reserve Bank of St. Louis.



Source: Virginia Association of Realtors.

- The total number of homes for sale in the US, including homes that were under contract but not yet sold, decreased by 7.2 percent in September compared to last year. This is the fifth month in a row that total listings have declined on a year-over-year basis.
- In Virginia, September home sales totaled 8,023 homes sold, 2,149 fewer sales than September last year, a 21.1 percent decline. There was approximately \$3.7 billion of sold volume throughout Virginia in September, a 16.5 percent reduction versus the same month last year.

# CONSUMER SPENDING HAS BEEN STRONG, BUT RISING CREDIT CARD DELINQUENCIES ARE A CONCERN



Source: Federal Reserve Bank of St. Louis.

- Delinquency rates are on the rise, suggesting that growth in spending may begin to soften as pandemic savings are spent down.
- The New York Federal Reserve Bank reported that Americans now owe \$1.08 trillion on their credit cards, while TransUnion reported that the average balance per consumer grew to more than \$6,000, the highest in 10 years.
- Persistent inflation has put many households under financial pressure, leading them to carry more debt and fall behind on payments.

# MAJOR REVENUE SOURCES ARE AT OR ABOVE PROJECTIONS

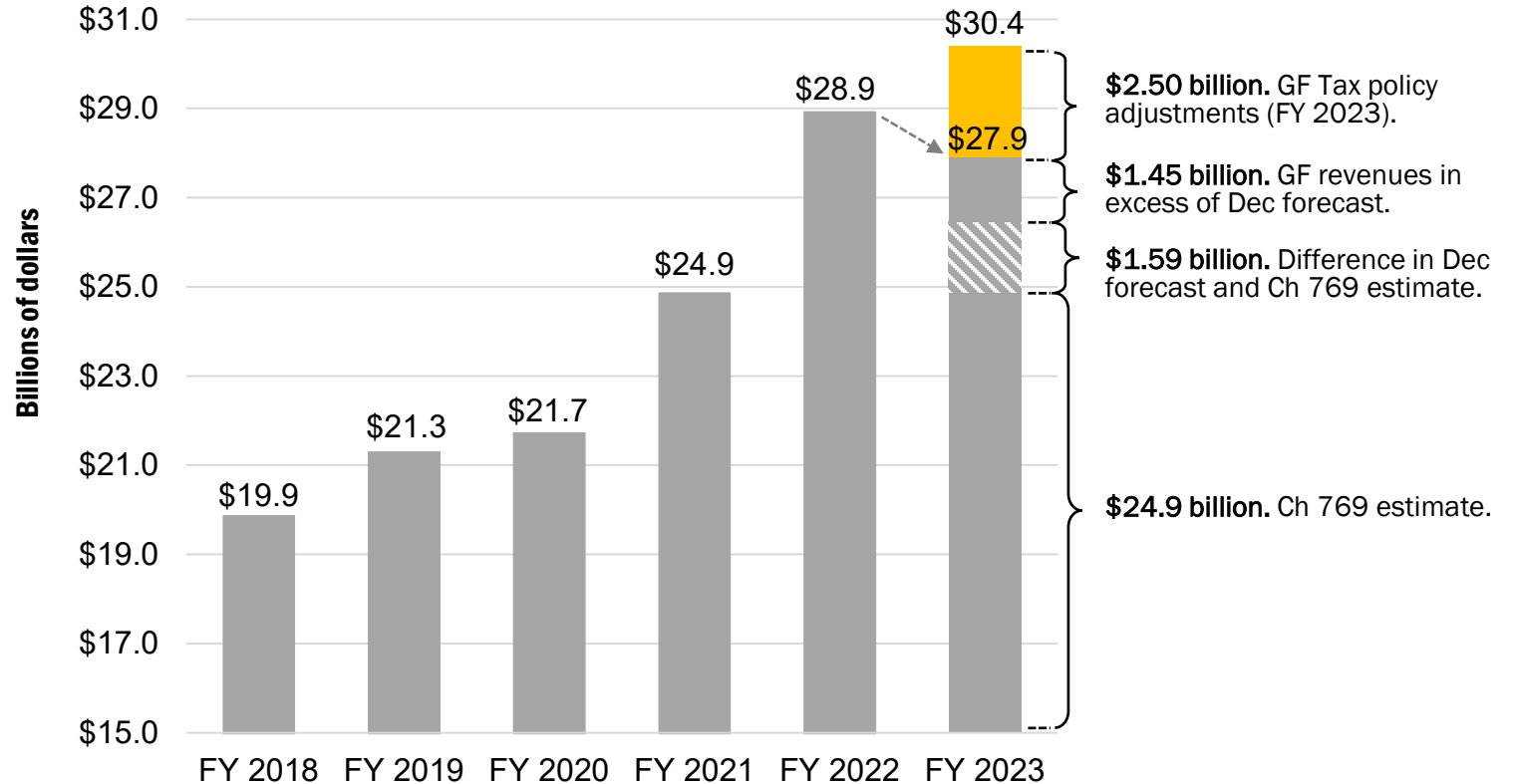
## PASS-THROUGH ENTITY TAX (PTET) CONTINUES TO DISTORT COLLECTIONS

- With four months of collections, Fiscal Year 2024 general fund revenues are ahead of projections based on the forecast assumed in the amended budget (Chapter 1) adopted in September. Major revenue sources are generally in line with or exceed expectations. However, PTET-related activity in non-withholding collections and refunds continue to distort overall revenue collections.
- Excluding non-withholding collections and refunds, GF collections are up 4.4 percent YTD versus a projected increase of 0.9 percent. The two sources most closely tied to current economic activity, withholding and sales tax, are in line with projections with variances of 2.1 percent and 1.0 percent, respectively, through October.
- Unadjusted revenues are up 12.1 percent year-to-to-date compared to the same period last year, and up 1.8 percent after adjusting for policy but excluding PTET-related refunds to better reflect underlying economic growth.
- For the month, unadjusted GF revenues declined 4.6 percent compared to October 2022, mainly reflecting an increase in individual income tax refunds. The increase in refunds is primarily related to two factors: higher individual income tax refunds resulting from the 2022 increase in the standard deduction and continuing elevated refunds of individual income tax overpayments related to PTET.
- Corporate income tax collections grew 68.3 percent in October. For the full year, corporate income tax collections are forecast to decline 6.6 percent. Higher corporate tax refunds are anticipated in November which will temper YTD growth.
- Collections of sales and use taxes declined 4.5 percent year-over year in October. Fiscal year-to-date, sales tax revenues are up 0.3 percent. Growth in sales tax will continue to moderate reflecting the elimination of the state sales tax on groceries and personal hygiene products.
- With the possibility of a recession in the second half of FY 2024, revenue growth is expected to moderate over the balance of the fiscal year.

# LAST FISCAL YEAR, GENERAL FUND REVENUES EXCEEDED THE FORECAST BY A WIDE MARGIN

## FY 2023 GF Revenues:

- \$1.0 billion below FY 2022 actuals (-3.5%).
- \$1.5 billion above FY 2022 actuals (+5.1%), adjusted for policy actions.
- \$3.0 billion higher than the Chapter 769 official estimate.
- \$1.5 billion greater than the December forecast.



*Excludes GF transfers.*

# EXCLUDING NON-WITHHOLDING AND REFUNDS WHICH CONTINUE TO SEE PTET DISTORTIONS, YTD COLLECTIONS ARE ROUGHLY ON PLAN

SOURCE, \$ Mil	OCTOBER						FYTD					
	Actuals	Projected	Variance \$	Variance %	PY	Y/Y %	Actuals	Projected	Variance \$	Variance %	PY	Y/Y%
Withholding	1,318.5	1,267.8	50.7	4.0%	1,285.1	2.6%	5,140.6	5,036.3	104.3	2.1%	5,090.6	1.0%
Non-withholding	291.0	226.7	64.3	28.4%	283.9	2.5%	1,291.0	967.6	323.4	33.4%	1,211.8	6.5%
IIT Refunds	(295.3)	(583.7)	288.4	-49.4%	(194.7)	51.7%	(738.8)	(1,032.1)	293.3	-28.4%	(1,243.6)	-40.6%
Net	1,314.2	910.7	403.4	44.3%	1,374.3	-4.4%	5,692.8	4,971.9	720.9	14.5%	5,058.8	12.5%
Sales/Use	400.1	384.7	15.4	4.0%	418.9	-4.5%	1,589.4	1,574.3	15.1	1.0%	1,585.4	0.3%
Corporate	95.4	23.2	72.3	311.6%	56.7	68.3%	611.6	497.7	113.9	22.9%	491.5	24.4%
Wills and Deeds	31.7	30.5	1.2	3.9%	35.6	-11.1%	136.0	122.8	13.2	10.8%	171.0	-20.5%
All other	12.0	37.3	(25.3)	-67.9%	57.0	-79.0%	455.0	439.2	15.9	3.6%	260.7	74.6%
<b>Total GF Revenues</b>	<b>1,853.3</b>	<b>1,386.4</b>	<b>466.9</b>	<b>33.7%</b>	<b>1,942.5</b>	<b>-4.6%</b>	<b>8,484.9</b>	<b>7,605.8</b>	<b>879.1</b>	<b>11.6%</b>	<b>7,567.4</b>	<b>12.1%</b>

- Excluding non-withholding collections and refunds, which continue to be distorted by PTET-related activity, GF collections are up 4.4 percent YTD versus a projected increase of 0.9 percent. The two sources most closely tied to current economic activity, withholding and sales tax, show variances of 2.1 percent and 1.0 percent, respectively, through October.
- Internal PTET refund tracking has only recently been introduced, allowing greater insight on progress. As of October 30<sup>th</sup>, approximately \$320 million in PTET refunds had been issued according to Virginia Tax data.
- Nongeneral fund interest distributions took place in October, reducing the YTD forecast variance in “All Other” from 10.3 percent last month to 3.6 percent this month.
- With the possibility of a recession in the second half of FY 2024, revenue growth is expected to moderate over the balance of the fiscal year.

# EXCLUDING PTET REFUNDS AND ADJUSTING FOR POLICY IMPACTS, GF REVENUES ARE UP A MODEST 1.8 PERCENT YEAR-TO-DATE

Unadjusted Revenues	FY 2023	FY 2024	Pct Chg	OCTOBER				Fiscal Year-To-Date				
	Actual	HB 6001	Req by Est	FY 2023	FY 2024	Change	% Change	FY 2023	FY 2024	Change	% Change	% of Total
Withholding	15,957.2	15,853.0	-0.7%	1,285.1	1,318.5	33.4	2.6%	5,090.6	5,140.6	50.1	1.0%	60.6%
Non-Withholding	6,629.2	4,688.3	-29.3%	283.9	291.0	7.1	2.5%	1,211.8	1,291.0	79.2	6.5%	15.2%
Refunds	(3,602.8)	(2,834.8)	-21.3%	(194.7)	(295.3)	(100.7)	51.7%	(1,243.6)	(738.8)	504.8	-40.6%	-8.7%
Sales and Use Tax	4,734.6	4,418.2	-6.7%	418.9	400.1	(18.8)	-4.5%	1,585.4	1,589.4	4.0	0.3%	18.7%
Corporate Income Tax	2,031.1	1,896.1	-6.6%	56.7	95.4	38.7	68.3%	491.5	611.6	120.1	24.4%	7.2%
All Other Sources	2,160.7	2,349.1	8.7%	92.6	43.6	(49.0)	-52.9%	431.7	591.1	159.4	36.9%	7.0%
<b>Total GF Revenues</b>	<b>\$27,909.9</b>	<b>\$26,369.3</b>	<b>-5.5%</b>	<b>\$1,942.5</b>	<b>\$1,853.3</b>	<b>(89.2)</b>	<b>-4.6%</b>	<b>\$7,567.4</b>	<b>\$8,484.9</b>	<b>917.4</b>	<b>12.1%</b>	<b>100.0%</b>

## Adjusted Revenues

Adjusted Withholding	1,285.1	1,365.5	80.4	6.3%	5,090.6	5,318.4	227.8	4.5%	59.0%
Adjusted Non-Withholding	283.9	291.4	7.6	2.7%	1,211.8	1,292.8	81.0	6.7%	14.3%
Adjusted Refunds+Rebates	(106.6)	(149.1)	(42.5)	39.9%	(274.1)	(419.4)	(145.2)	53.0%	-4.7%
Adjusted Sales (AST+Grocery Tax)	418.9	422.8	3.9	0.9%	1,585.4	1,619.0	33.6	2.1%	18.0%
<b>Total GF Revenues, Adjusted</b>	<b>\$2,030.6</b>	<b>\$2,069.7</b>	<b>39.1</b>	<b>1.9%</b>	<b>\$8,536.9</b>	<b>\$9,013.6</b>	<b>476.7</b>	<b>5.6%</b>	<b>100.0%</b>
<b>Total Excluding PTET Adjustments</b>	<b>\$2,030.6</b>	<b>\$1,923.7</b>	<b>(106.9)</b>	<b>-5.3%</b>	<b>\$8,536.9</b>	<b>\$8,694.6</b>	<b>157.7</b>	<b>1.8%</b>	<b>100.0%</b>

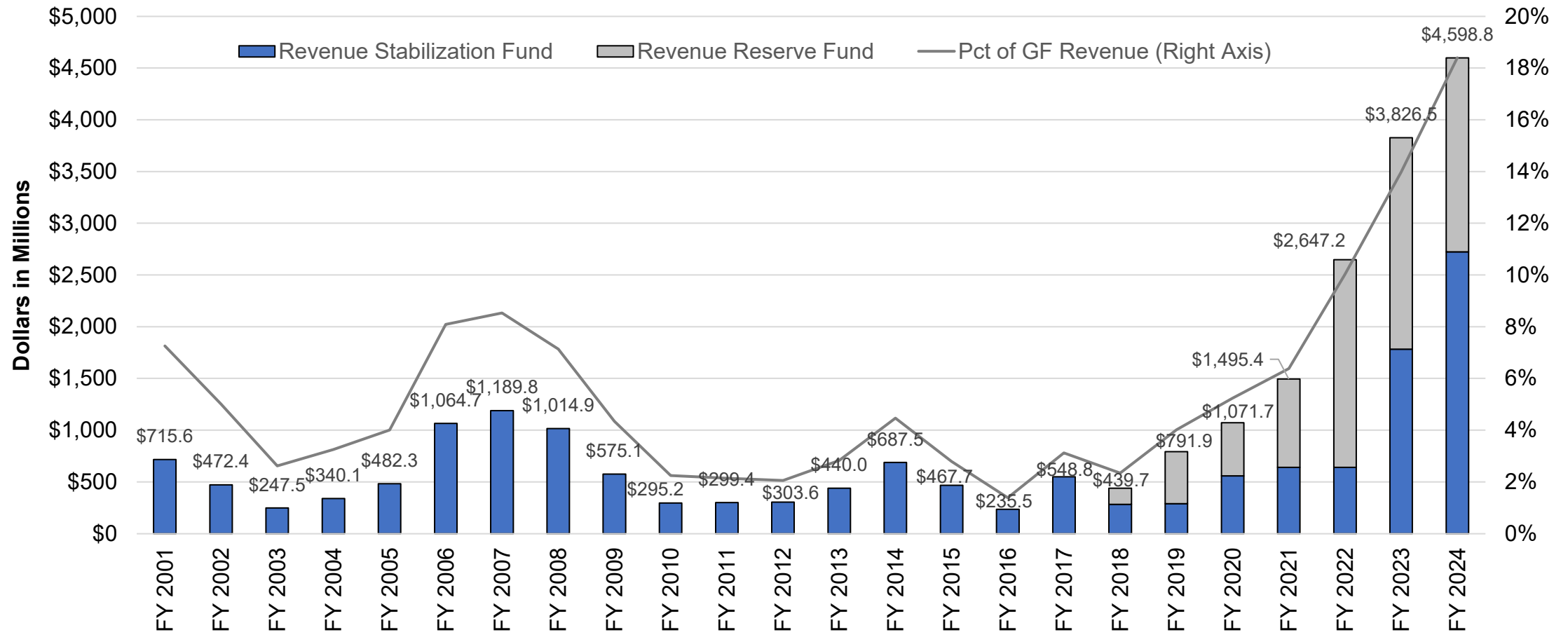
Not all sums may compute due to rounding.

- Underlying employment and wage growth has led to a 4.5 percent increase in adjusted withholding year-to-date.
- PTET-related activity continues to distort overall revenue growth. Excluding PTET refunds and adjusting for tax policy changes, revenues declined in October by 5.3 percent and are up 1.8 percent year-to-date.



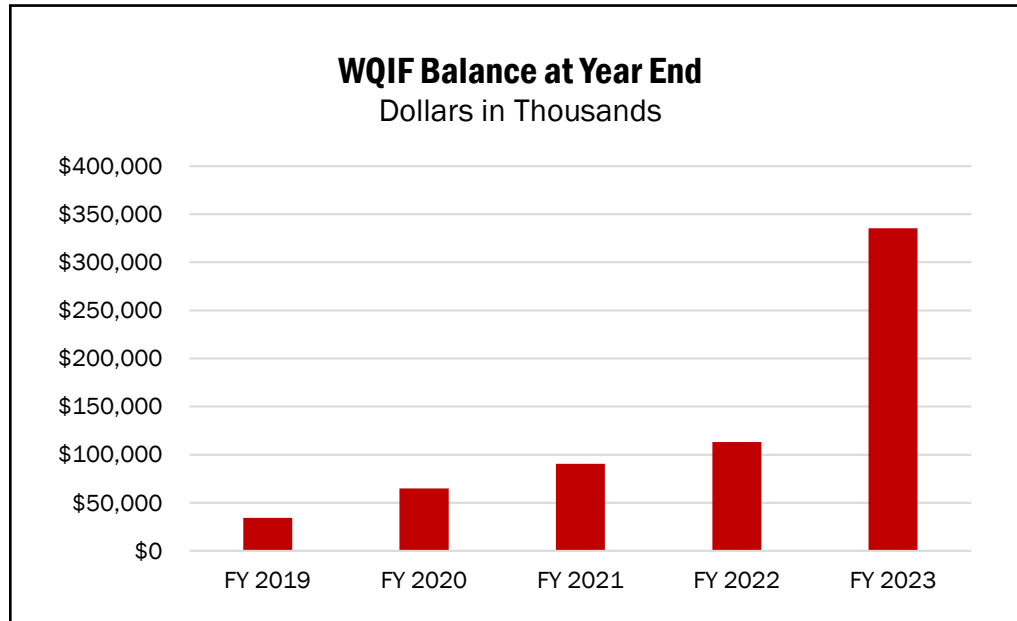
# RESERVE BALANCES TO TOTAL \$4.6 BILLION BY FY 2024

THE COMMONWEALTH HAS NEVER BEEN IN A STRONGER FINANCIAL POSITION WITH RESERVES IN EXCESS OF THE 15 PERCENT CAP PROVIDED BY CODE



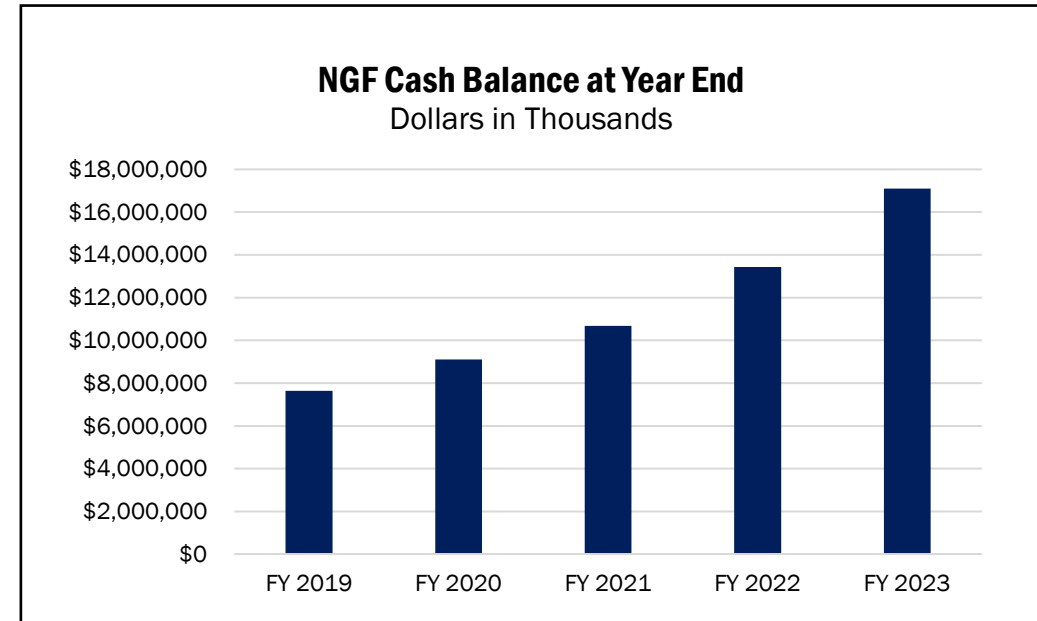
# THE COMMONWEALTH HAS NEVER BEEN IN A STRONGER FINANCIAL POSITION

### Water Quality Improvement Fund (WQIF), 2019-2023



Source: Commonwealth Preliminary Balance Sheets for FY 19 through FY 23. Note: Does not include deposits yet to be made from FY 22 balance sheet calculations for WQIF A and B (\$131 million) and future deposits to be made from FY 2023 balance sheet calculations.

### Total NGF Balances, 2019-2023



Note: Excludes Federal funds and bond proceeds/debt service.

# LOOKING AHEAD: A CONSERVATIVE OUTLOOK IS EXPECTED AS BUDGET DEVELOPMENT CONTINUES THROUGH DECEMBER

- Significant economic headwinds exist that suggest the possibility of a U.S. recession in 2024:
  - Potential federal government shutdown.
  - A period of persistently high interest rates.
  - Possible escalation of middle east conflict and OPEC+ oil production cuts that could drive significantly higher energy prices.
  - Economic decline in Europe and Asia.
  - Real estate crisis in China and the resulting impact on financial markets.
  - Potentially weakening consumer spending as consumers spend down pandemic savings and the resumption of student loan repayments.
- The Governor's Advisory Council on Revenue Estimates (GACRE) will meet on November 20 and review economic and revenue outlook for current and next biennium. Updated revenue outlook for FY 2024 and the revenue forecast for the 2024-26 biennium will be prepared based on the advice of GACRE.
- Governor Youngkin will release FY 2024 budget amendments and introduce the 2024-26 biennial budget on December 20.