

W E S T V I R G I N I A

# DEPARTMENT OF REVENUE

## **Fiscal Forecast -- FY 2025**

DEPUTY REVENUE SECRETARY **MARK B. MUCHOW**

House and Senate Finance Committees

January 11, 2024

Cabinet Secretary **Larry Pack**

# Fiscal Summary

- **Economy: Continued Growth and Lower Inflation**
  - Energy Sector-Production Up; Prices Down
  - Manufacturing foreign good export value up 11% over past year
  - Coal production up 4% over past year with average price down more than 10%
  - Natural gas prices down 80% from CY2022 to CY2023; production up 10%
  - WV electric power generation down 7.4% YTD thru October
  - Non-farm payroll employment growth of 1.0% (Nov 23 v Nov 22) [7,200]
  - Household survey employment up 0.8% (Nov 23 v Nov 22) [6,000]
- **Federal monetary tightening coming to an end as inflation cools**
  - CPI-U up roughly 4.1% in 2023 following 8.0% in 2022; trending below 3%
  - Short-term interest rate hikes of 525 basis points since March 2022
- **Strong General Revenue Fund collection patterns**
  - GRF growth: -5.5% in FY2020; 11.0% in FY2021; 18.1 in FY2022: 10.1 in FY2023
  - 21.25% personal income tax rate reduction in full effect in FY2024
  - YTD -9.4% in FY2024 versus Official Estimate of -24.7% (\$406.4 million surplus)

# U.S. Economy: S&P Global Forecast

S&P Global Baseline: November 2023

<u>Economic Variable</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>
Real GDP	2.4%	1.4%	1.4%
CPI	4.1%	2.7%	2.0%
Consumption	2.3%	1.9%	1.5%
Industrial Production	0.2%	-0.3%	0.3%
Payroll Employment	2.3%	0.7%	0.0%
Personal Income	5.2%	4.9%	5.1%
Real Disposable Income	4.0%	2.4%	3.1%
Domestic Corporate Profits	10.1%	0.0%	-6.1%
10-Year Treasury Note	4.03%	4.32%	3.63%
Fed Funds Rate	5.04%	5.38%	4.05%

# Federal Fiscal Belt Still Loose

Source: CBO *Monthly Budget Review, September 2023 & November 2023*  
 U.S. Treasury & OMB

## Revenues in FFY2023

Source	\$ Billions Revenue	Percent Change
Ind. Income	\$2,177	-17
Corp. Income	420	-1
Social Insurance	1,613	9
Other	<u>232</u>	-35
<b>Total</b>	<b><u>4,441</u></b>	<b><u>-9</u></b>

## Outlays in FFY 2023

Category	\$ Billions Outlays	Percent Change*
Defense	774	+ 7
SS Benefits	1,342	+ 11
Medicare	846	+ 18
Medicaid	616	+ 4
Refundable Tax Credits	171	- 41
Other	<u>1,671</u>	<u>- 23</u>
<b>Subtotal</b>	<b><u>5,420</u></b>	<b><u>- 6</u></b>
Debt Interest	711	+ 33
<b>Total</b>	<b><u>6,131</u></b>	<b><u>- 2</u></b>

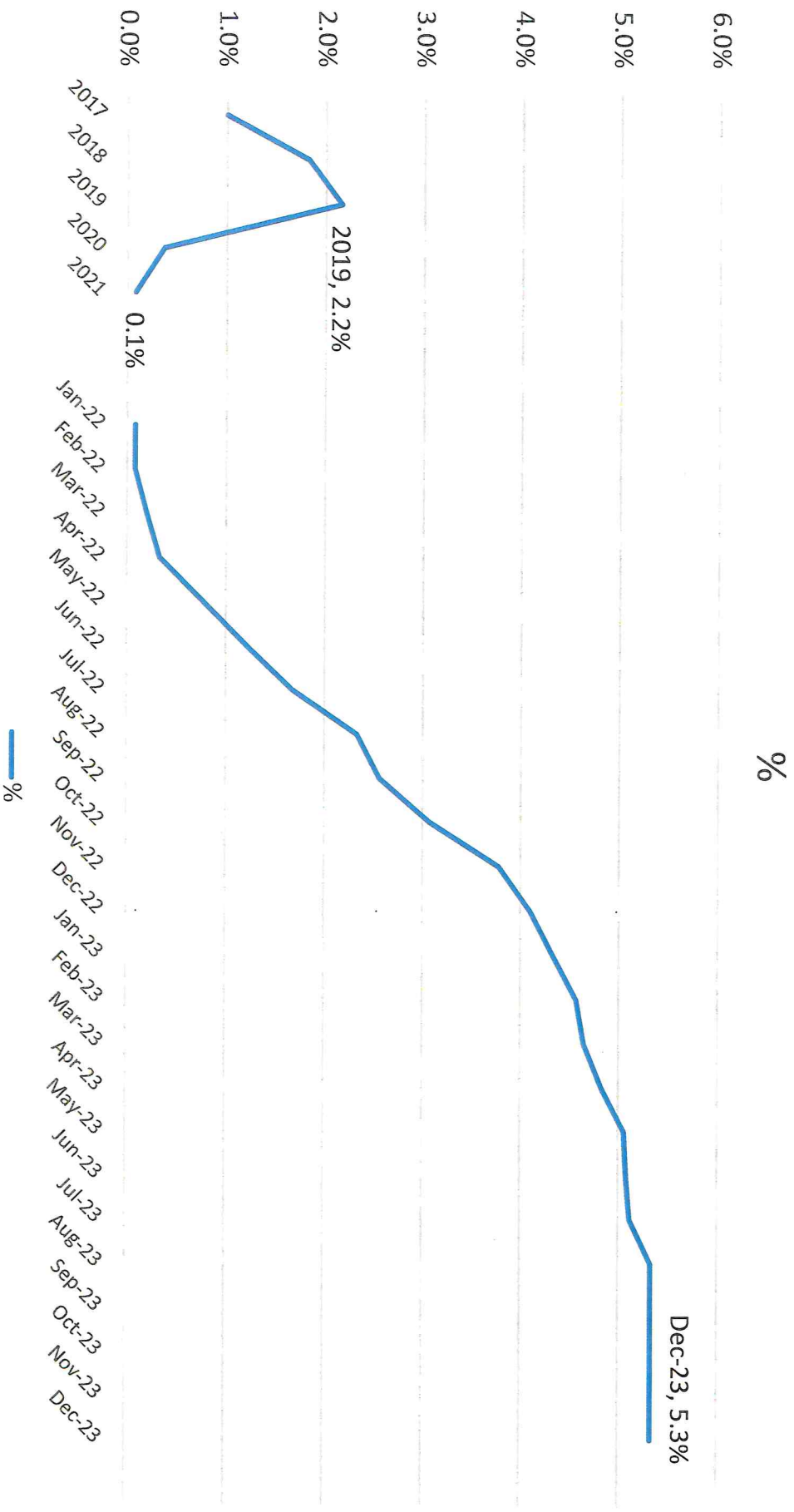
## Year-End Federal Budget Deficits

FY2007:	\$ 160.7 Billion
FY2008:	\$ 458.6 Billion
FY2009:	\$1,412.7 Billion
FY2010:	\$1,294.4 Billion
FY2011:	\$1,299.6 Billion
FY2012:	\$1,076.6 Billion
FY2013:	\$ 679.8 Billion
FY2014:	\$ 484.8 Billion
FY2015:	\$ 442.0 Billion
FY2016:	\$ 584.7 Billion
FY2017:	\$ 665.5 Billion
FY2018:	\$ 779.1 Billion
FY2019:	\$ 983.6 Billion
FY2020:	\$3,132.5 Billion
FY2021:	\$2,775.4 Billion
FY2022	\$1,375.9 Billion
FY2023 Preliminary:	\$1,695.1 Billion
FY2024 Estimate:	\$1,877.2 Billion

# Federal Funds Rate Peaks-Lower Rates Ahead

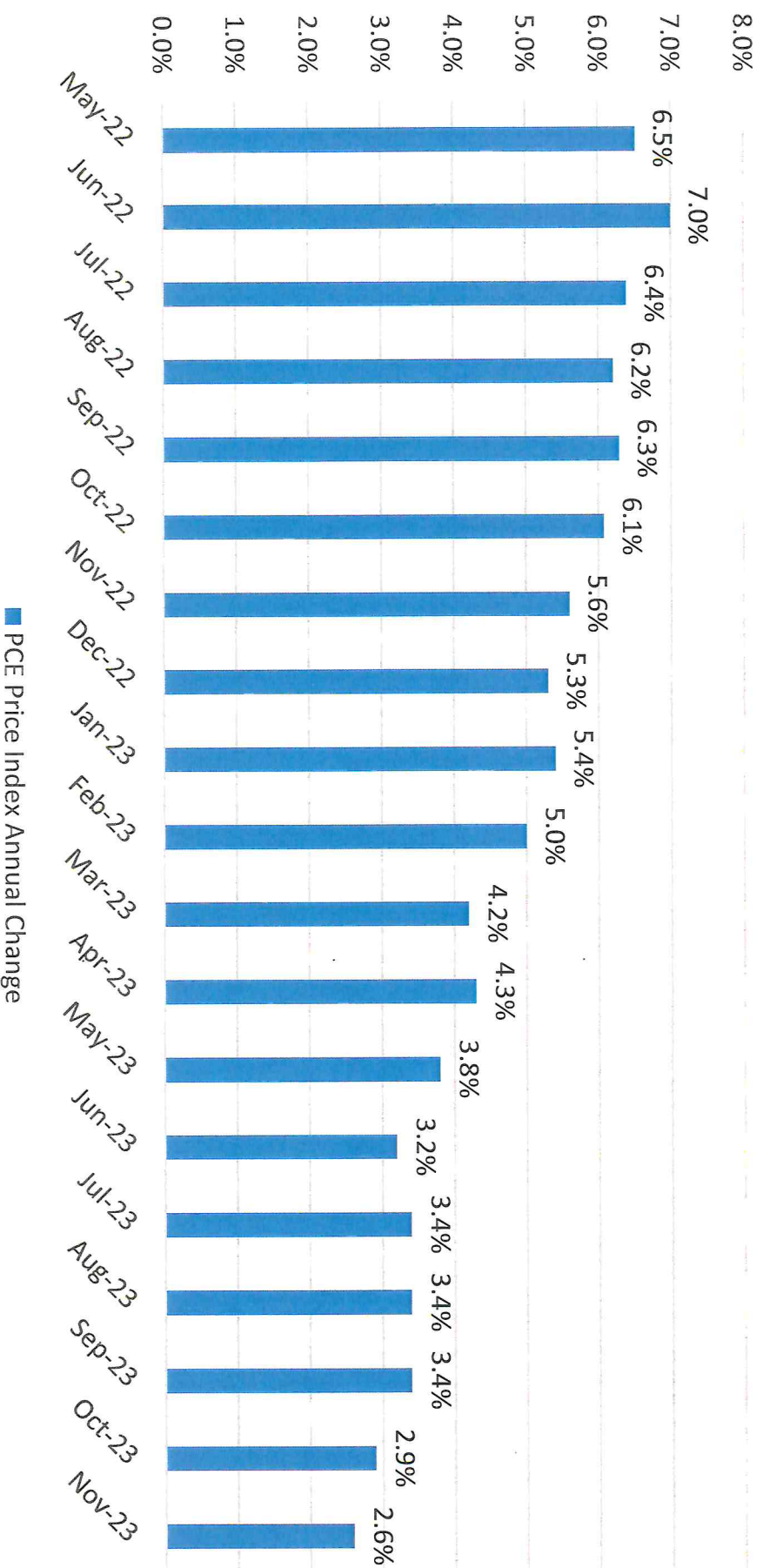
Prime Rate up from 3.25% to 8.50%

Average Rate From 1992-2001 was 4.78%; 1.31% from 2002-2021



# Inflation Trending Lower

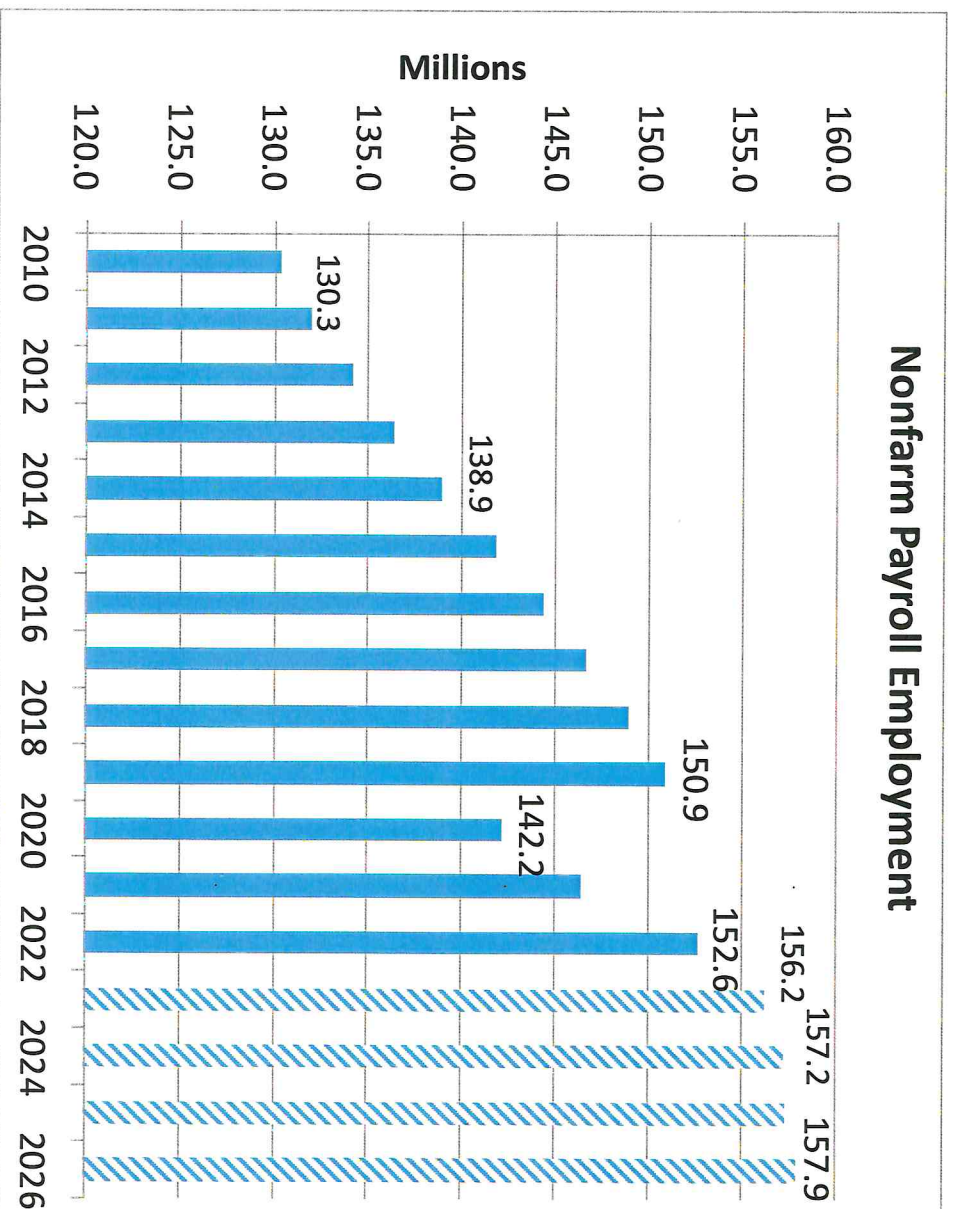
PCE Price Index - Annual Change



# 2022-2026: U.S. Employment Gains Slow after 2023

Estimates by S&P Global - U.S. Economic Baseline Forecast—November 2023

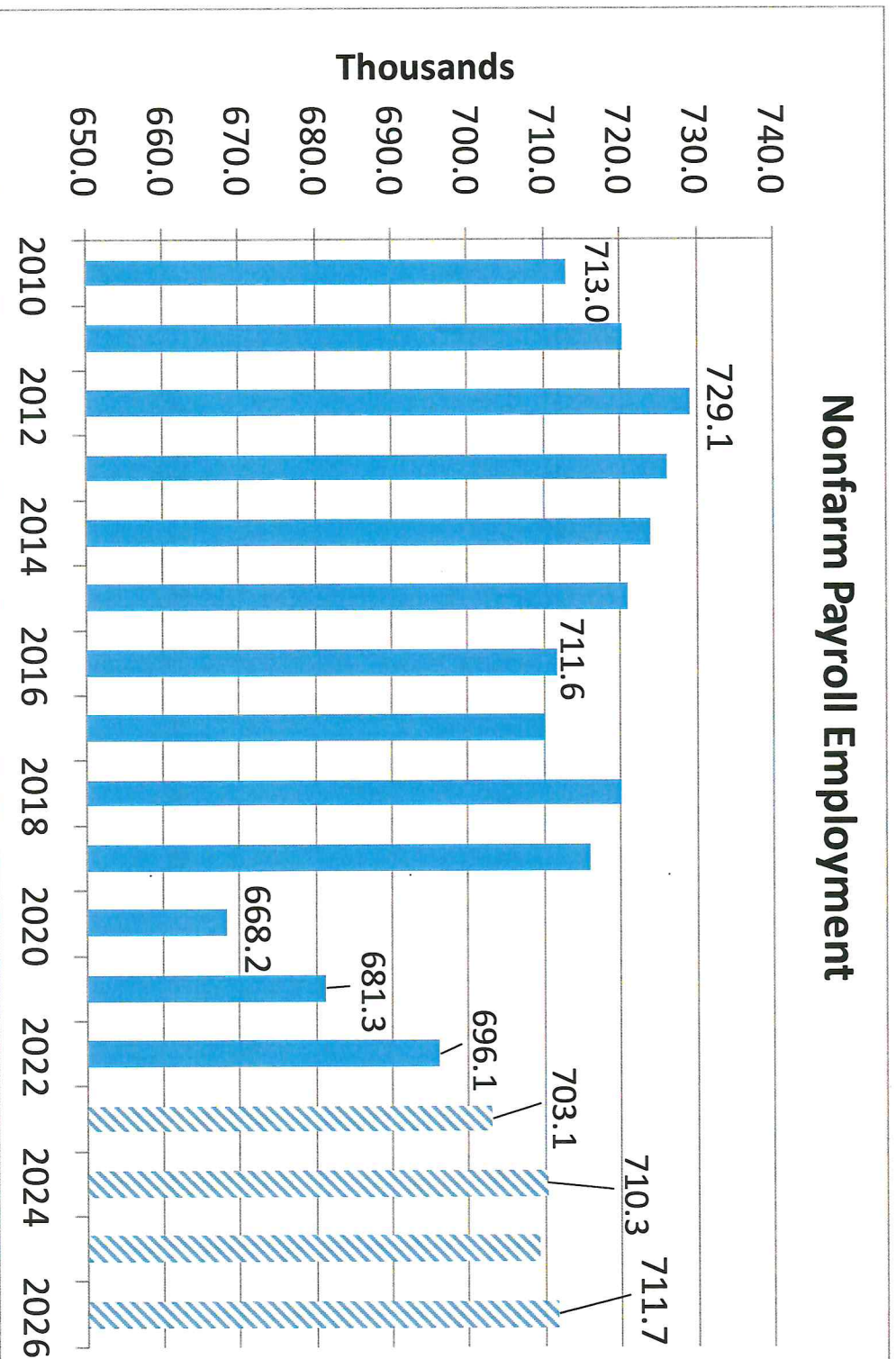
Historical Data From U.S. Bureau of Labor Statistics



# 2022-2026: WV Employment Trend Similar to U.S.

Estimates by S&P Global - U.S. Regional Service November 2023 Long Term

Historical Data from U.S. Bureau of Labor Statistics





# Nonfarm Payroll Employment Recovery

## Household Survey Shows full recovery to 758,200

(Seasonally Adjusted)

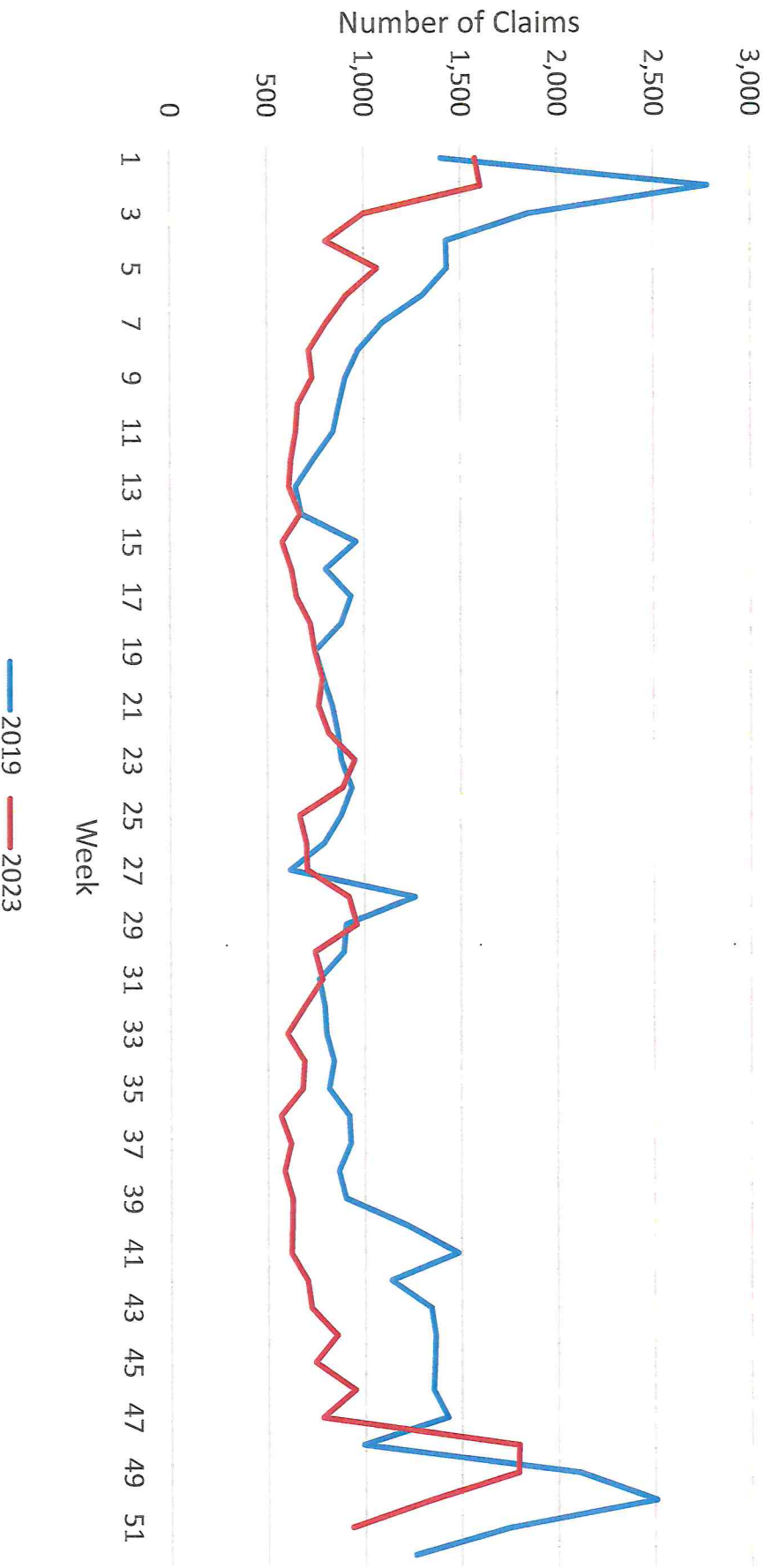
Source: Workforce WV & U.S. Bureau of Labor Statistics

INDUSTRY SECTOR	Thousands	Thousands	Thousands	% Change
	Nov 2019	Nov-2023	Change	
Leisure & Hospitality	75.3	69.5	(5.8)	-7.7%
Trade, Transportation & Utilities	126.6	120.8	(5.8)	-4.6%
Manufacturing	46.9	45.3	(1.6)	-3.4%
Information	8.1	7.9	(0.2)	-2.5%
Government	153.5	153.2	(0.3)	-0.2%
Private Education & Health Services	131.9	132.9	1.0	+0.8%
Construction	31.2	32.0	0.8	+2.6%
Mining and Logging	21.1	22.3	1.2	+5.7%
Financial Activities	24.2	26.0	1.8	+7.4%
Professional & Business Services	67.9	73.5	5.6	+8.2%
Other Services	24.2	26.3	2.1	+8.7%
Total – Private Sector	557.4	556.5	(0.9)	-0.2%
<b>TOTAL NONFARM</b>	<b>710.9</b>	<b>709.7</b>	<b>(1.2)</b>	<b>-0.2%</b>

# WV Unemployment Claim Trends: 2019 & 2023

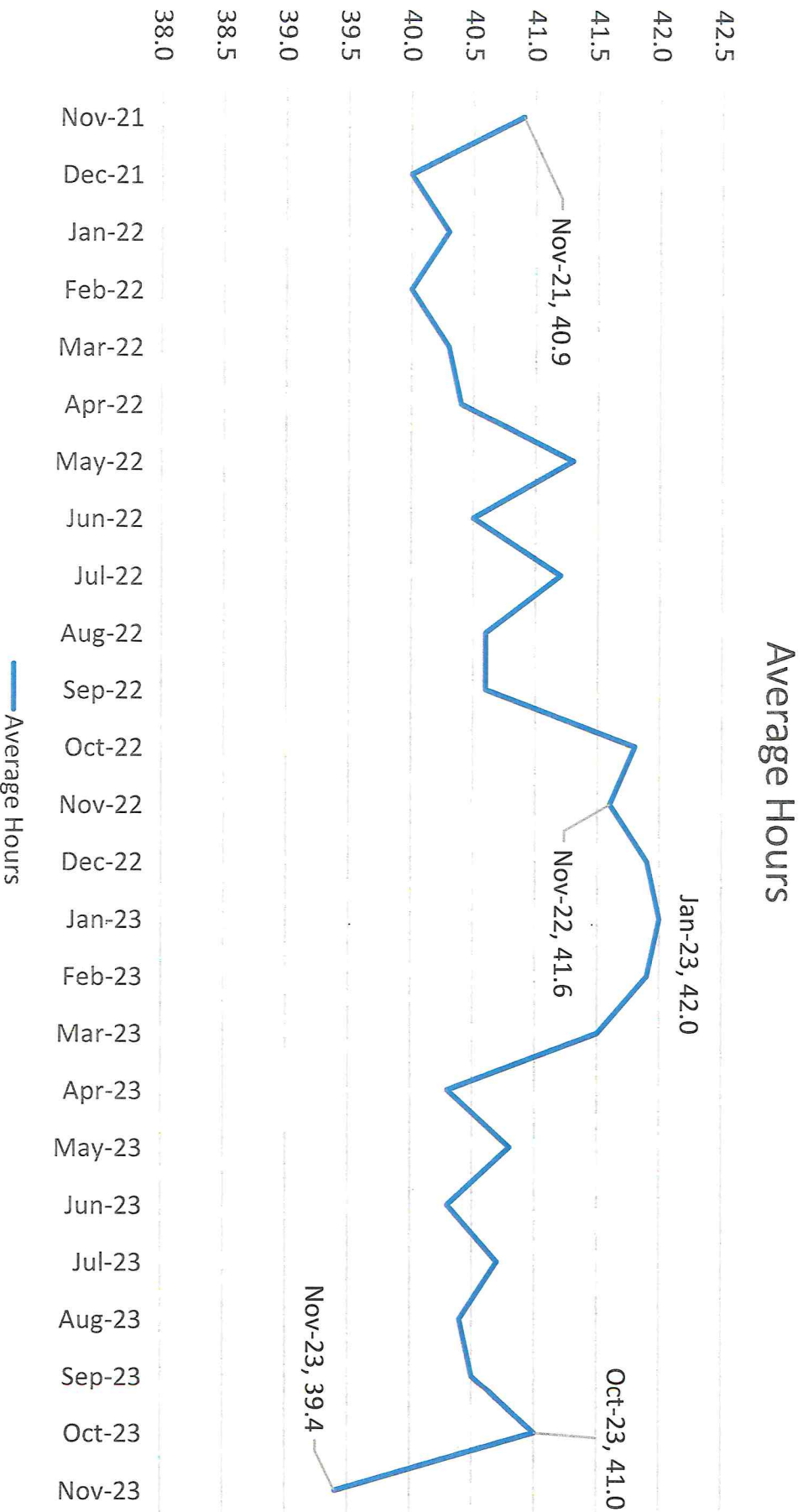
Source: United States Department of Labor (not seasonally adjusted)

### Initial Claims by Week



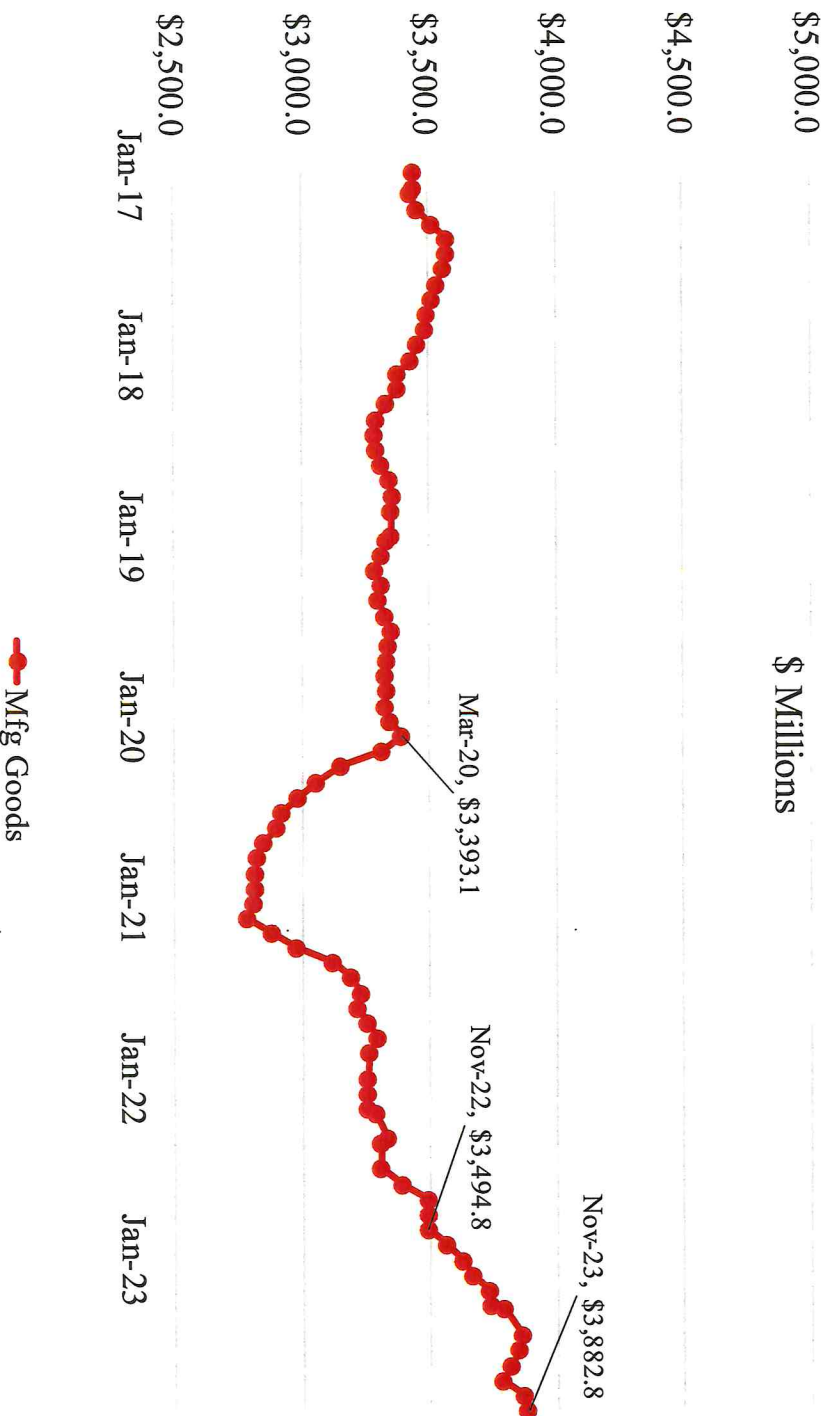
# Average Weekly Hours-Manufacturing

Source: U.S. Bureau of Labor Statistics (not seasonally adjusted)



# 12-Month Trailing Trend Value of Foreign Manufacturing Good Exports

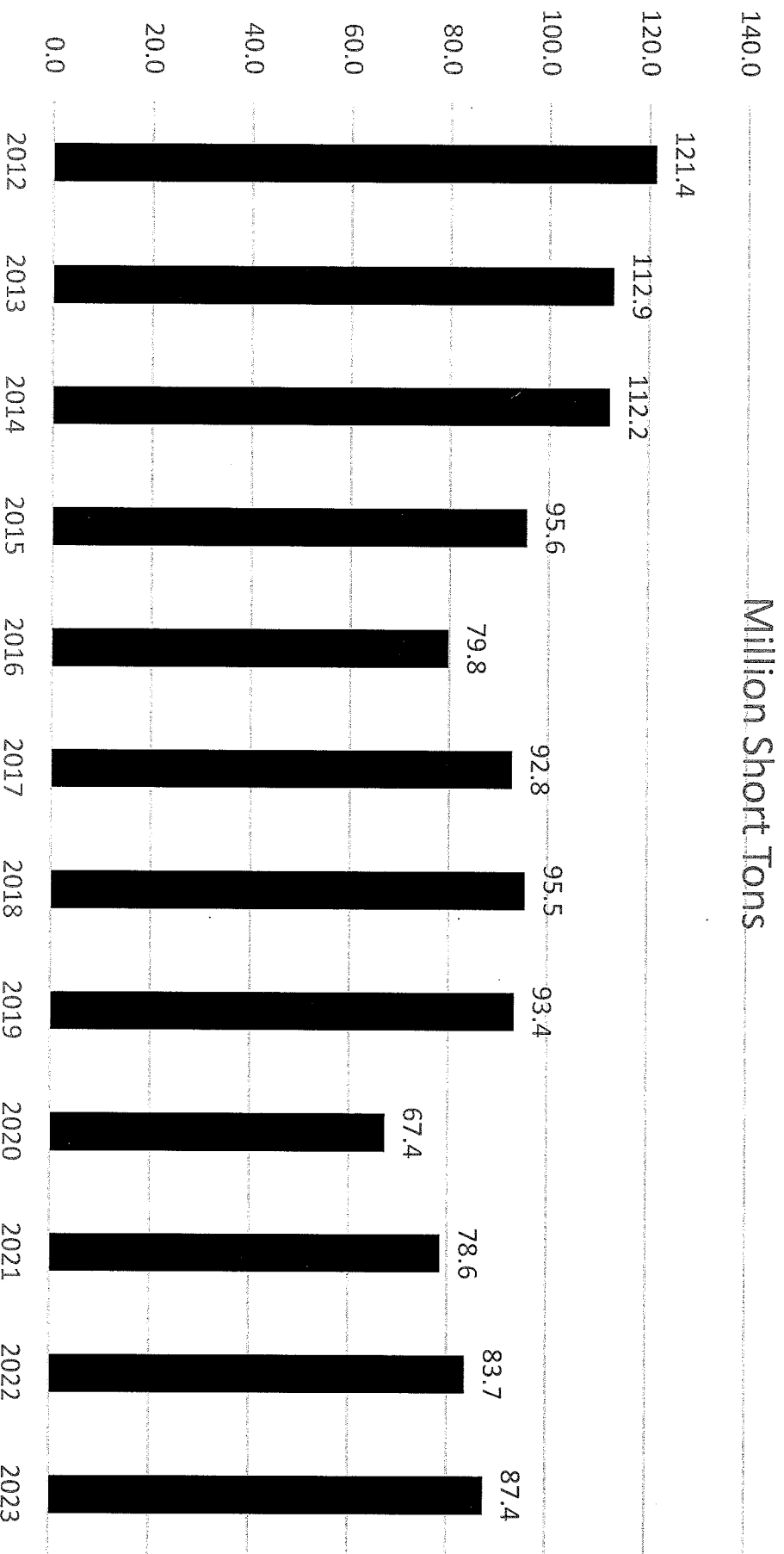
Manufacturing Good Exports Up 11% in Last 12 Months



# West Virginia Coal Production

Up 4.5% in 2023

Source: U.S. Department of Energy



# Coal Price Trends 2010-2023

Sources: U.S. Department of Energy & West Virginia Severance Tax Returns  
 Export Price is based on free alongside ship value: YTD as of 9/30/2023

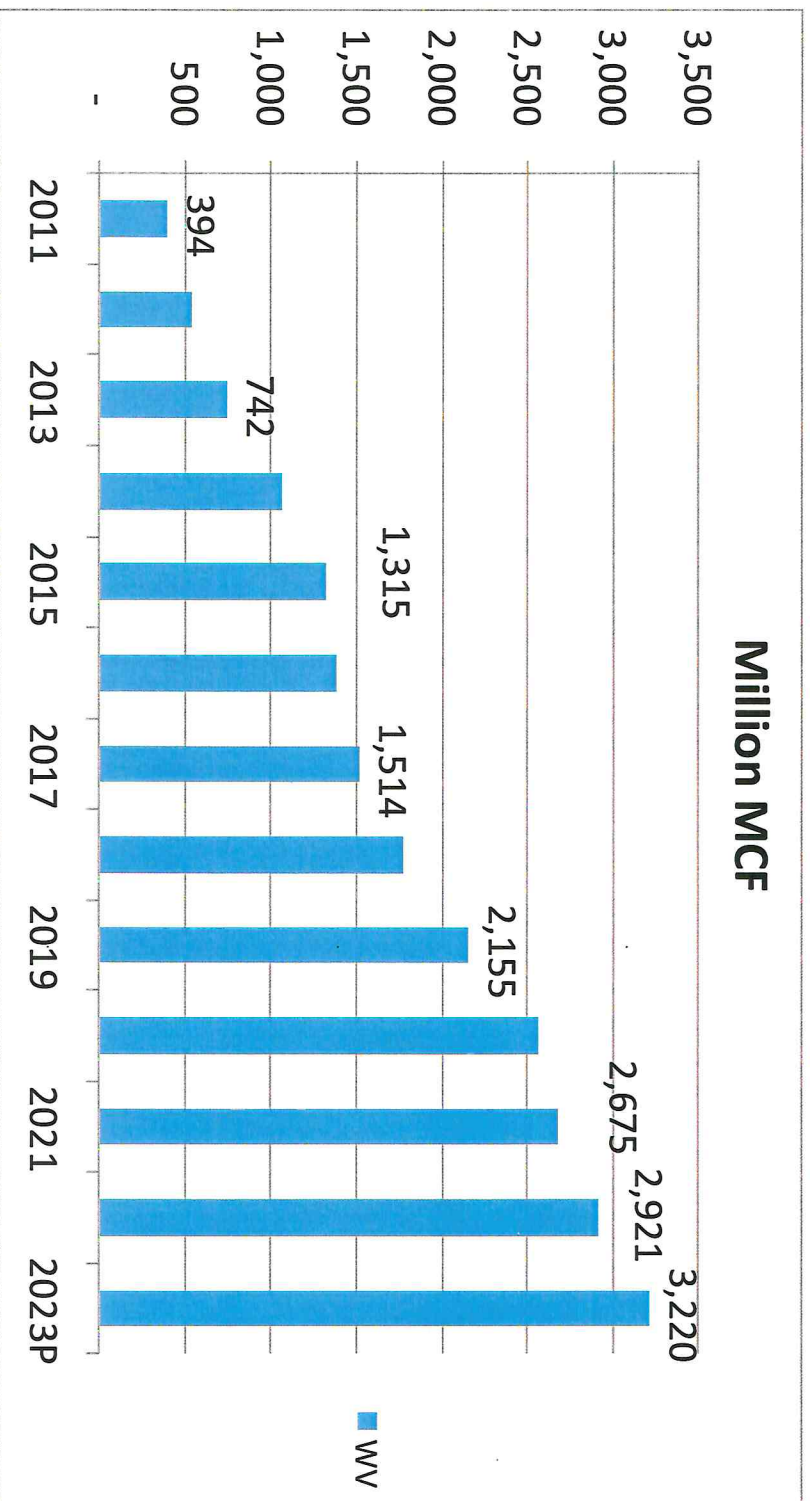


# Natural Gas Production by State 2011-2023

U.S. Production up 4.6% per year average

WV Production Up 19% per year average; 10% in 2023 (4<sup>th</sup>)

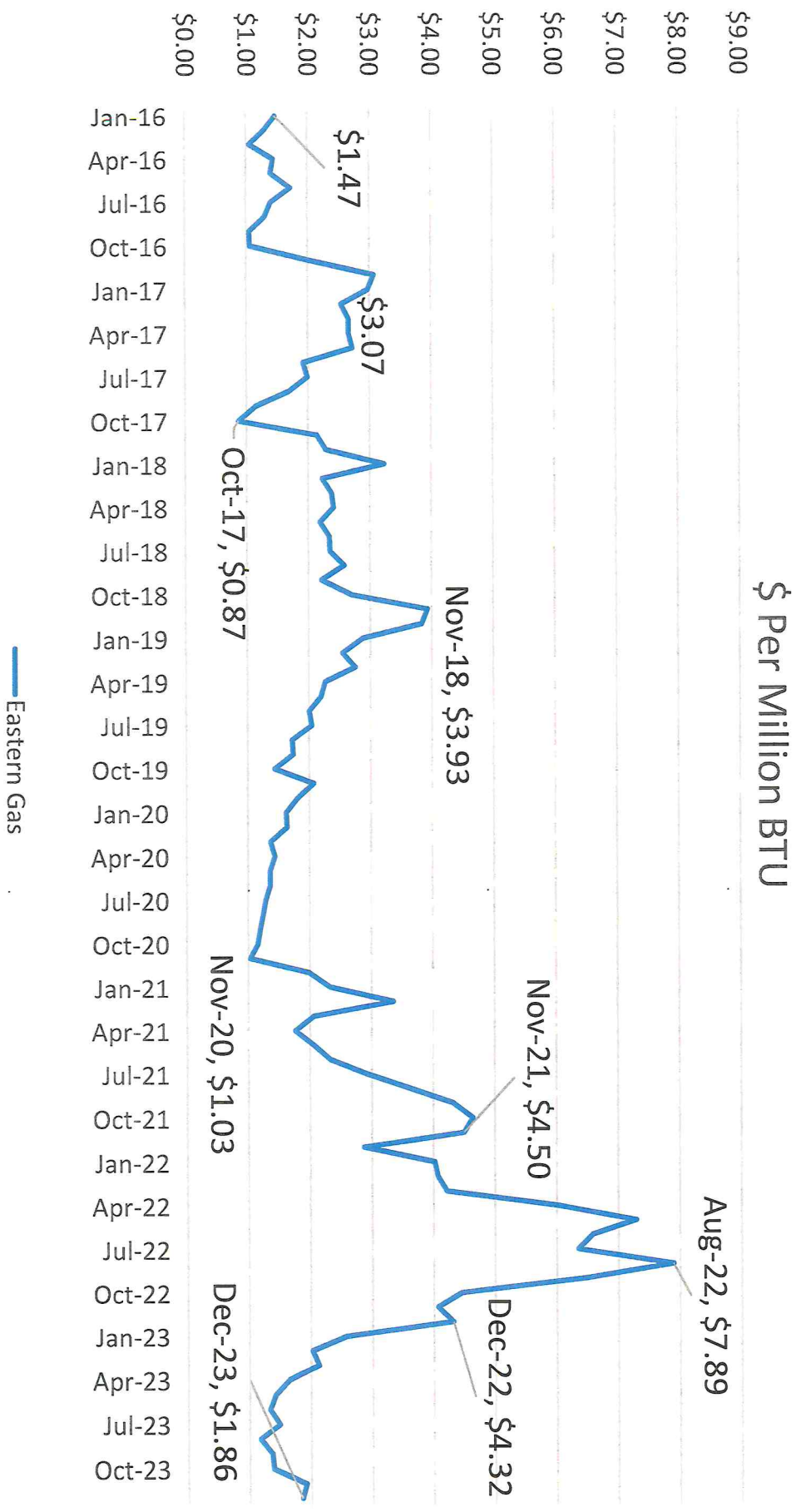
Source: U.S. Department of Energy & WV DEP



# Natural Gas Prices-Major Factor in Severance Tax Yield

Unweighted Average Price From \$1.39 in 2020 to \$5.48 in 2022 to \$1.70 in 2023

Source: Natural Gas Intelligence





# FY2023 General Revenue Fund Performance

COMPONENT	\$ Millions		\$ Millions		\$ Millions		\$ Millions	
	FY22-23 ESTIMATE	ACTUAL FY22-23	DIFFERENCE	ACTUAL FY21-22	CHANGE PERCENT	FY22 to FY23 CHANGE	FY2023 SHARE	
Consumer Sales Tax	\$1,510.488	\$1,750.434	\$ 239.946	\$ 1,655.483	5.7%	\$ 94.950	27.0%	
Personal Income Tax	\$2,190.000	\$2,663.568	\$ 473.568	\$ 2,502.828	6.4%	\$ 160.740	41.1%	
Business & Occupation Tax	\$ 100.000	\$ 116.747	\$ 16.747	\$ 110.502	5.7%	\$ 6.245	1.8%	
Severance Tax	\$ 250.000	\$ 946.486	\$ 696.486	\$ 768.794	23.1%	\$ 177.692	14.6%	
Corporate Taxes	\$ 150.000	\$ 419.965	\$ 269.965	\$ 366.316	14.6%	\$ 53.649	6.5%	
Insurance Premium Tax	\$ 92.600	\$ 112.168	\$ 19.568	\$ 135.847	-17.4%	\$ (23.679)	1.7%	
Tobacco Products Tax	\$ 162.200	\$ 155.459	\$ (6.741)	\$ 165.066	-5.8%	\$ (9.607)	2.4%	
Interest Income	\$ 5.970	\$ 132.456	\$ 126.486	\$ (1.706)	NM	\$ 134.161	2.0%	
Lottery Transfers	\$ 65.000	\$ 65.000	\$ -	\$ 65.000	0.0%	\$ -	1.0%	
All Other	\$ 109.766	\$ 121.008	\$ 11.242	\$ 119.769	1.0%	\$ 1.240	1.9%	
<b>TOTAL</b>	<b>\$4,636.024</b>	<b>\$6,483.291</b>	<b>\$1,847.267</b>	<b>\$ 5,887.899</b>	<b>10.1%</b>	<b>\$595.392</b>	<b>100.0%</b>	

# FY2024 General Revenue Fund Performance

## YTD FY2023-2024 General Revenue Fund as of December 31, 2023

COMPONENT	\$ Millions		\$ Millions		\$ Millions		\$ Millions	
	FY23-24 ESTIMATE	FY23-24 ACTUAL	FY23-24 DIFFERENCE	FY22-23 ACTUAL	FY23-24 CHANGE PERCENT	FY23 to FY24 CHANGE	FY24 Share	
Consumer Sales Tax	\$ 849.100	\$ 870.115	\$ 21.015	\$ 832.662	4.5%	\$ 37.453	31.4%	
Personal Income Tax	\$ 972.900	\$ 1,174.350	\$ 201.450	\$ 1,177.490	-0.3%	\$ (3.140)	42.4%	
Business & Occupation Tax	\$ 49.800	\$ 51.845	\$ 2.045	\$ 50.849	2.0%	\$ 0.996	1.9%	
Severance Tax	\$ 145.200	\$ 112.110	\$ (33.090)	\$ 540.852	-79.3%	\$ (428.741)	4.1%	
Corporate Taxes	\$ 109.200	\$ 218.323	\$ 109.123	\$ 193.207	13.0%	\$ 25.116	7.9%	
Insurance Premium Tax	\$ 52.150	\$ 52.042	\$ (0.108)	\$ 50.875	2.3%	\$ 1.167	1.9%	
Tobacco Products Tax	\$ 81.500	\$ 79.714	\$ (1.786)	\$ 82.933	-3.9%	\$ (3.219)	2.9%	
Interest Income	\$ 23.300	\$ 114.324	\$ 91.024	\$ 38.950	193.5%	\$ 75.374	4.1%	
Lottery Transfers	\$ 31.350	\$ 31.542	\$ 0.192	\$ 31.400	0.5%	\$ 0.142	1.1%	
All Other	\$ 45.902	\$ 62.429	\$ 16.527	\$ 53.005	17.8%	\$ 9.424	2.3%	
<b>TOTAL</b>	<b>\$2,360.402</b>	<b>\$ 2,766.795</b>	<b>\$ 406.393</b>	<b>\$ 3,052.224</b>	<b>-9.4%</b>	<b>\$ (285.429)</b>	<b>100.0%</b>	

# FY2024 General Revenue Fund Performance

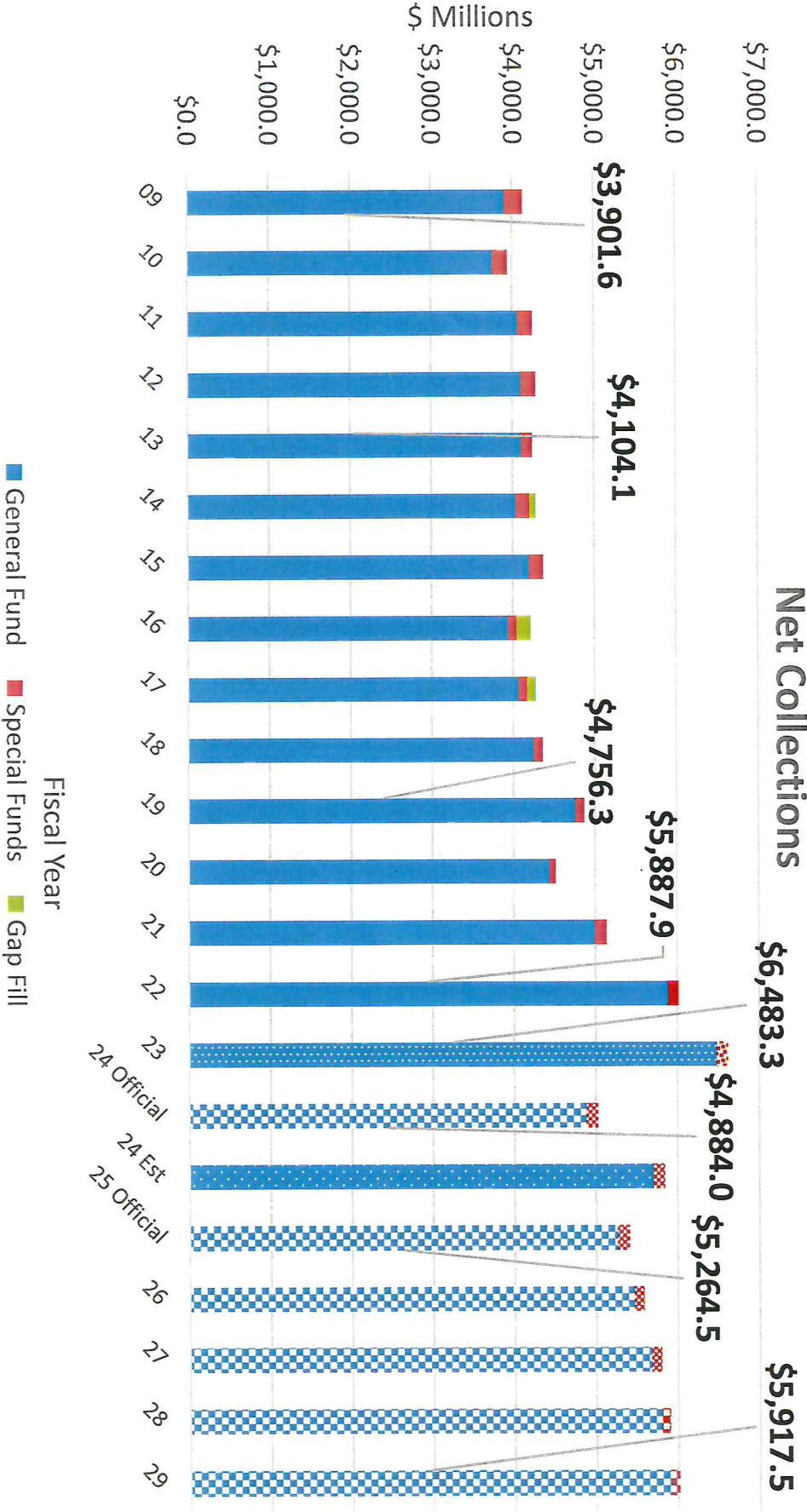
Estimated Business Income Tax Payments up in December

COMPONENT	\$ Millions		\$ Millions		\$ Millions		\$ Millions		FY24 Share
	FY23-24 ESTIMATE	ACTUAL FY23-24	DIFFERENCE	ACTUAL FY22-23	CHANGE PERCENT	FY23 to FY24 CHANGE			
Consumer Sales Tax	\$ 164.700	\$ 168.384	\$ 3.684	\$ 161.119	4.5%	\$ 7.265	30.4%		
Personal Income Tax	\$ 166.100	\$ 236.827	\$ 70.727	\$ 195.284	21.3%	\$ 41.543	42.8%		
Business & Occupation Tax	\$ 8.000	\$ 7.933	\$ (0.067)	\$ 8.188	-3.1%	\$ (0.256)	1.4%		
Severance Tax	\$ 24.300	\$ 35.820	\$ 11.520	\$ 87.255	-58.9%	\$ (51.436)	6.5%		
Corporate Taxes	\$ 40.100	\$ 56.535	\$ 16.435	\$ 59.313	-4.7%	\$ (2.778)	10.2%		
Insurance Premium Tax	\$ 0.200	\$ (0.153)	\$ (0.353)	\$ 0.031	-597.5%	\$ (0.184)	0.0%		
Tobacco Products Tax	\$ 13.400	\$ 13.549	\$ 0.149	\$ 13.059	3.8%	\$ 0.490	2.4%		
Interest Income	\$ 3.800	\$ 22.079	\$ 18.279	\$ 13.171	67.6%	\$ 8.908	4.0%		
Lottery Transfers	\$ 6.050	\$ 6.113	\$ 0.063	\$ 6.070	-4.0%	\$ 0.044	1.1%		
All Other	\$ 6.440	\$ 6.163	\$ (0.277)	\$ 9.058	-32.0%	\$ (2.895)	1.1%		
<b>TOTAL</b>	<b>\$ 433.090</b>	<b>\$ 553.248</b>	<b>\$ 120.158</b>	<b>\$ 552.547</b>	<b>0.1%</b>	<b>\$ 0.701</b>	<b>100.0%</b>		

# Total General Revenue Fund Revenues

Average Annual Growth: 2.0% 2009-2019; 8.1% 2019-2023

Projected: -1.5% 2023-2029

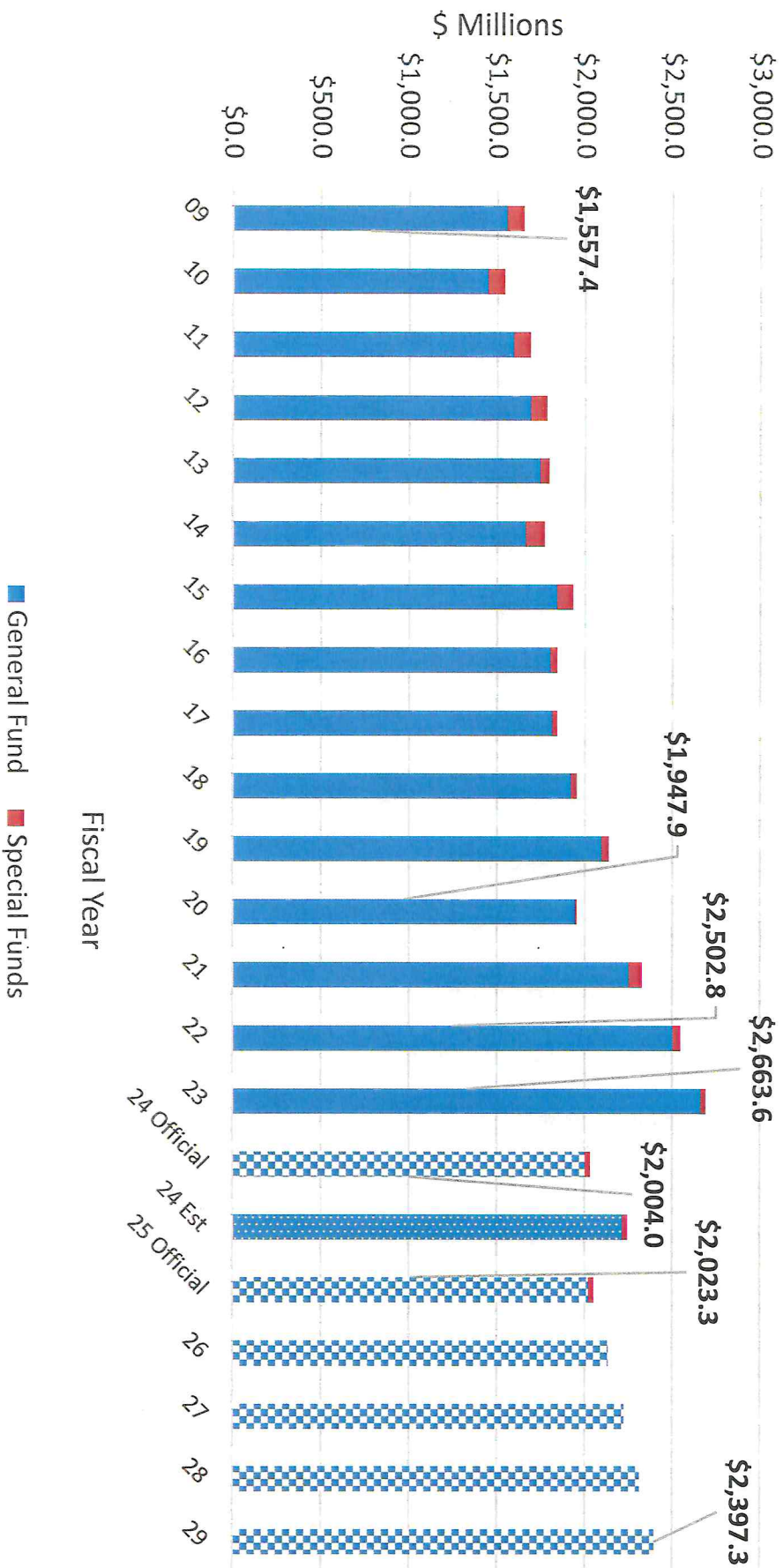


# Personal Income Tax

Average Annual Growth: 2.6% 2009-2019; 5.9% 2019-2023

Projected Average Annual Growth: -1.7% 2023-2029

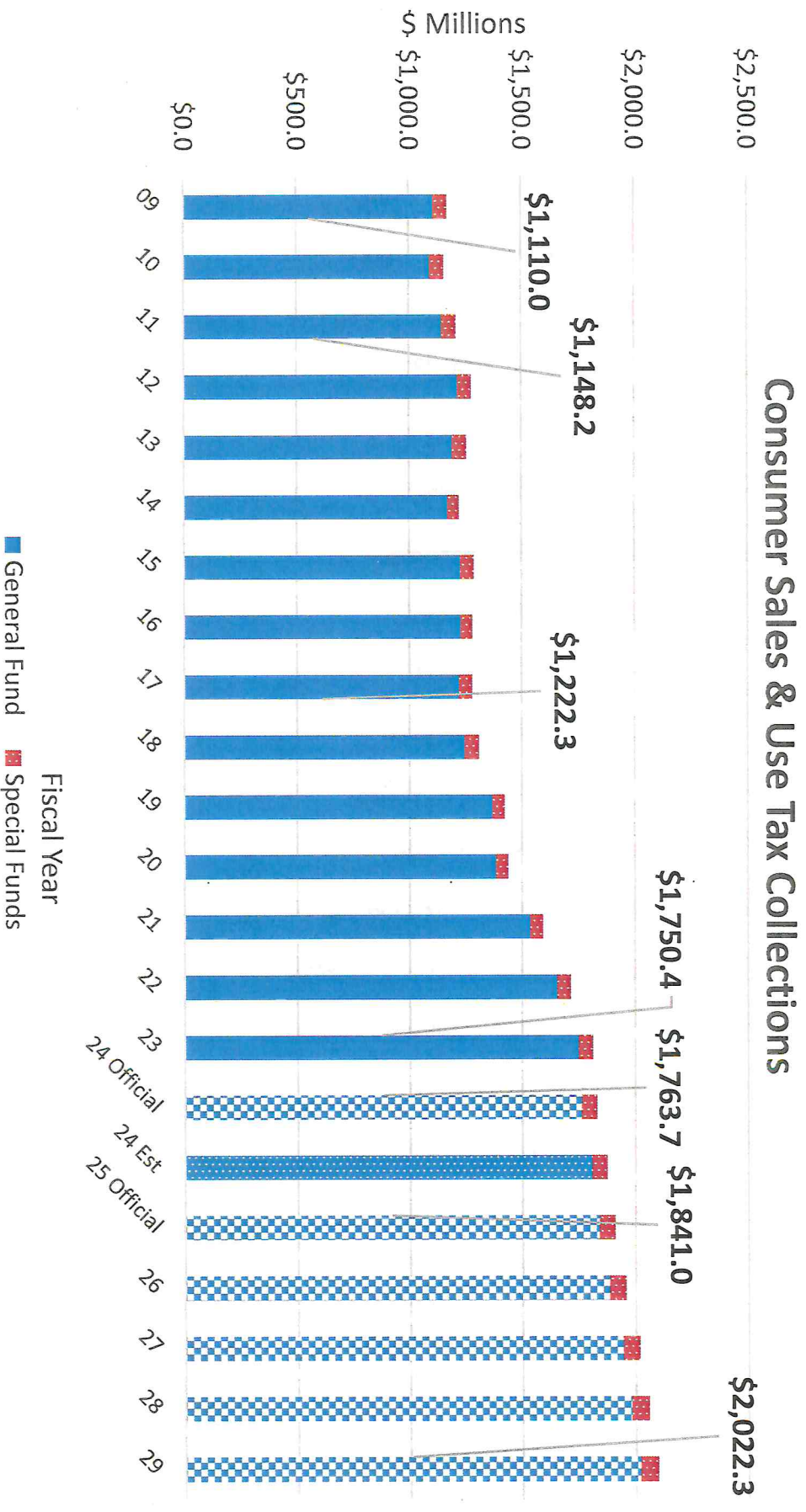
## Personal Income Tax Collections



# Consumer Sales and Use Tax

Average Annual Growth: 2.0% 2009-2019; 6.2% 2019-2023

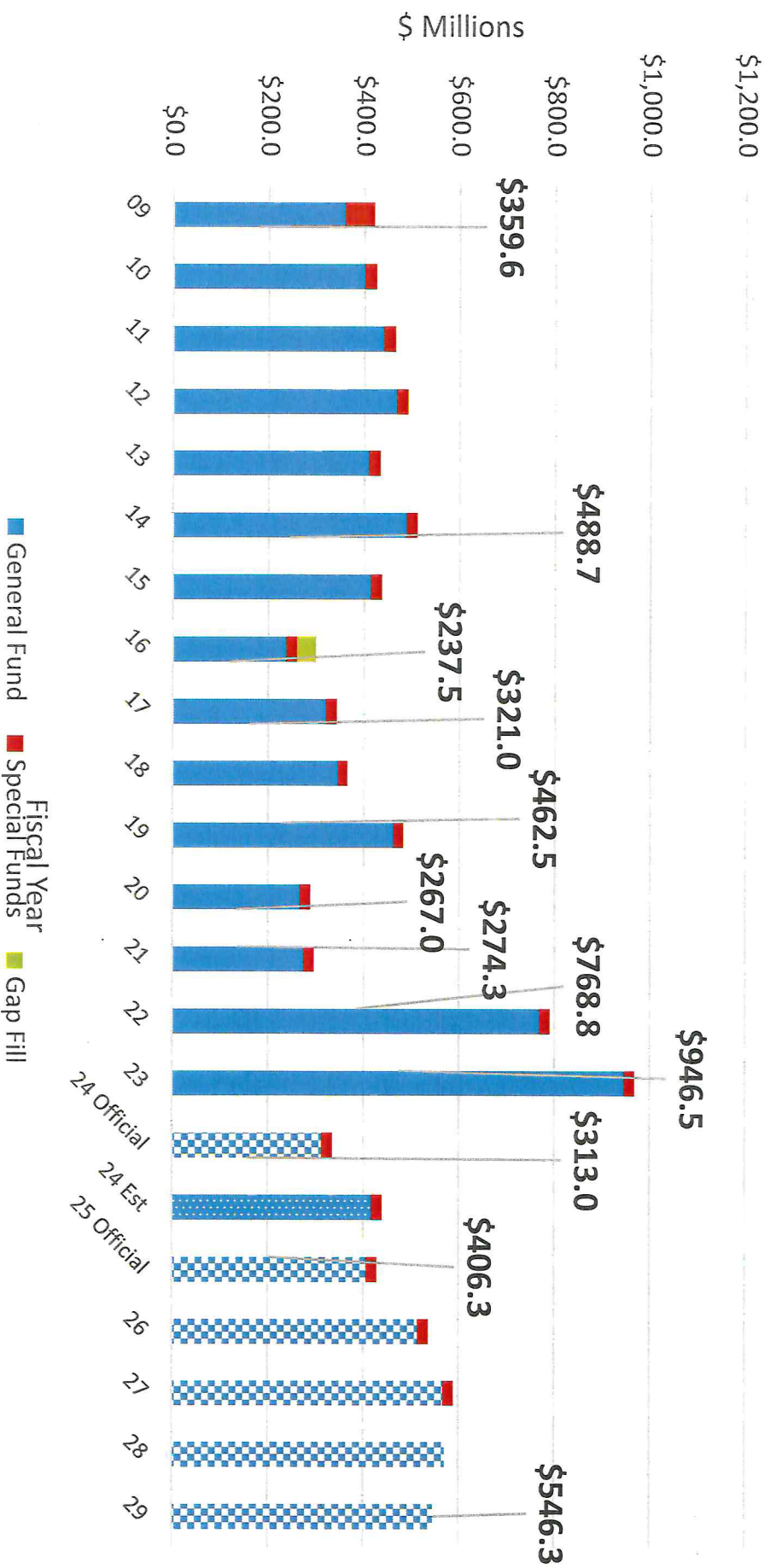
Projected Average Annual Growth: 2.4% 2023-2029



# Severance Tax

Average Annual Growth: 1.4% 2009-2019; 19% 2019-2023  
 Projected Average Annual Growth: -9.1% 2023-2029

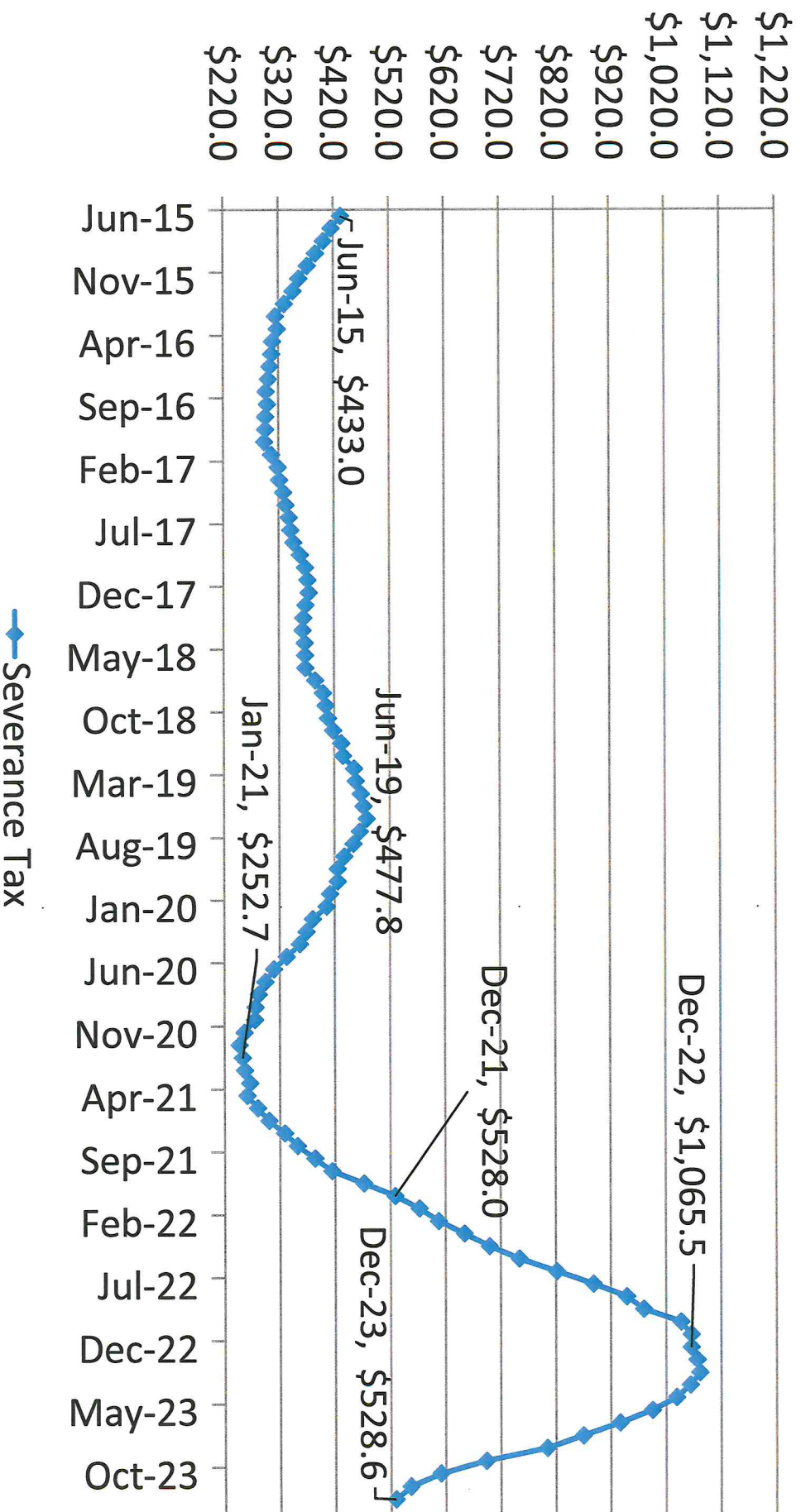
## State Severance Tax Collections



# Regular Severance Tax (June 2015-Present)

Trailing 12 Month Trend (6<sup>th</sup> of Month to 5<sup>th</sup> of Next Month)

\$ Millions

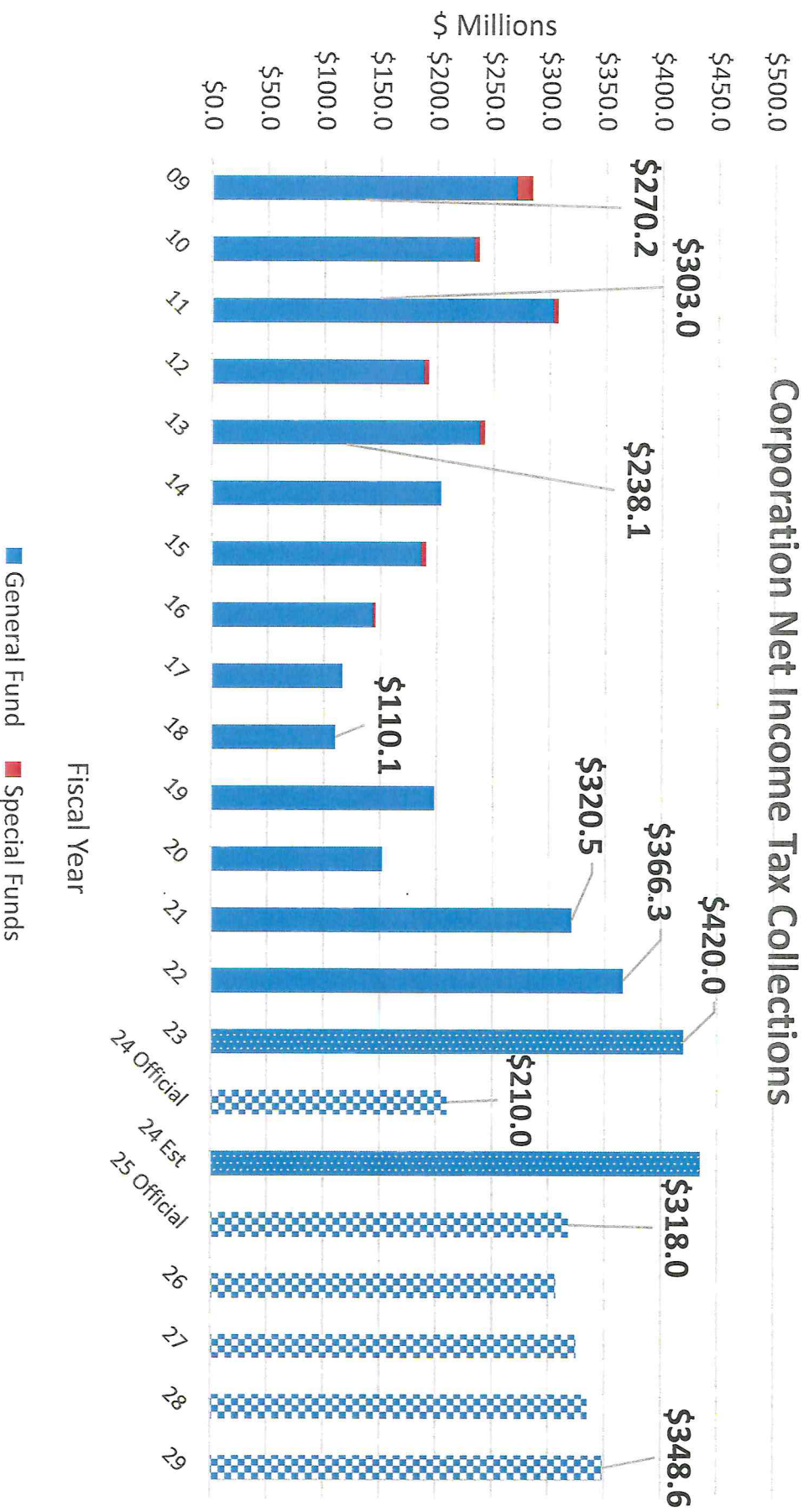




# Corporation Net Income Tax

Average Annual Growth: -3.1% 2009-2019; 20.7% 2019-2023

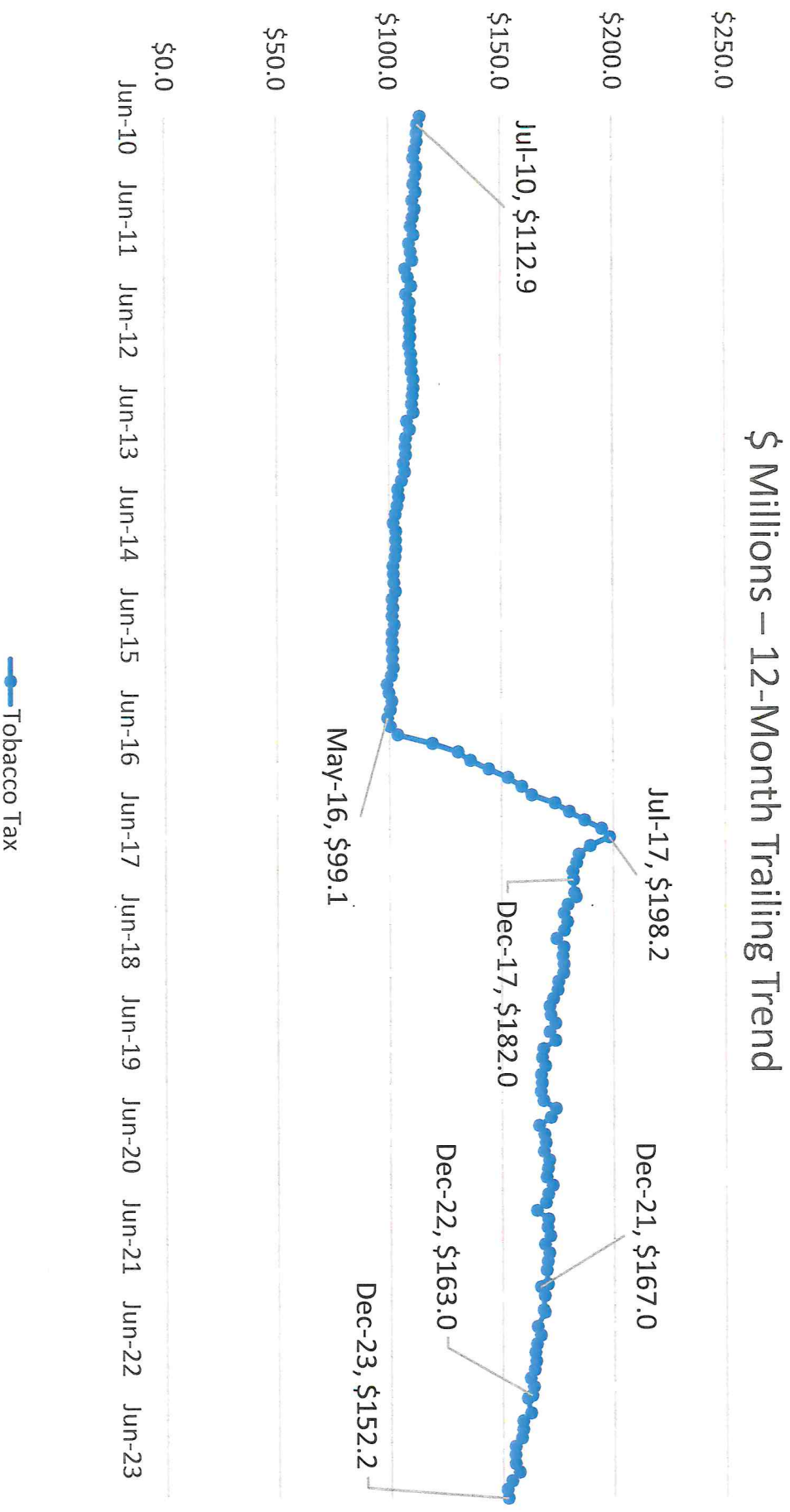
Projected Average Annual Growth: -3.1% 2023-2029



# Tobacco Products Tax Collection Trends

2008-2016: -1.7%/Year; 2017-2023: -2.9%/Year

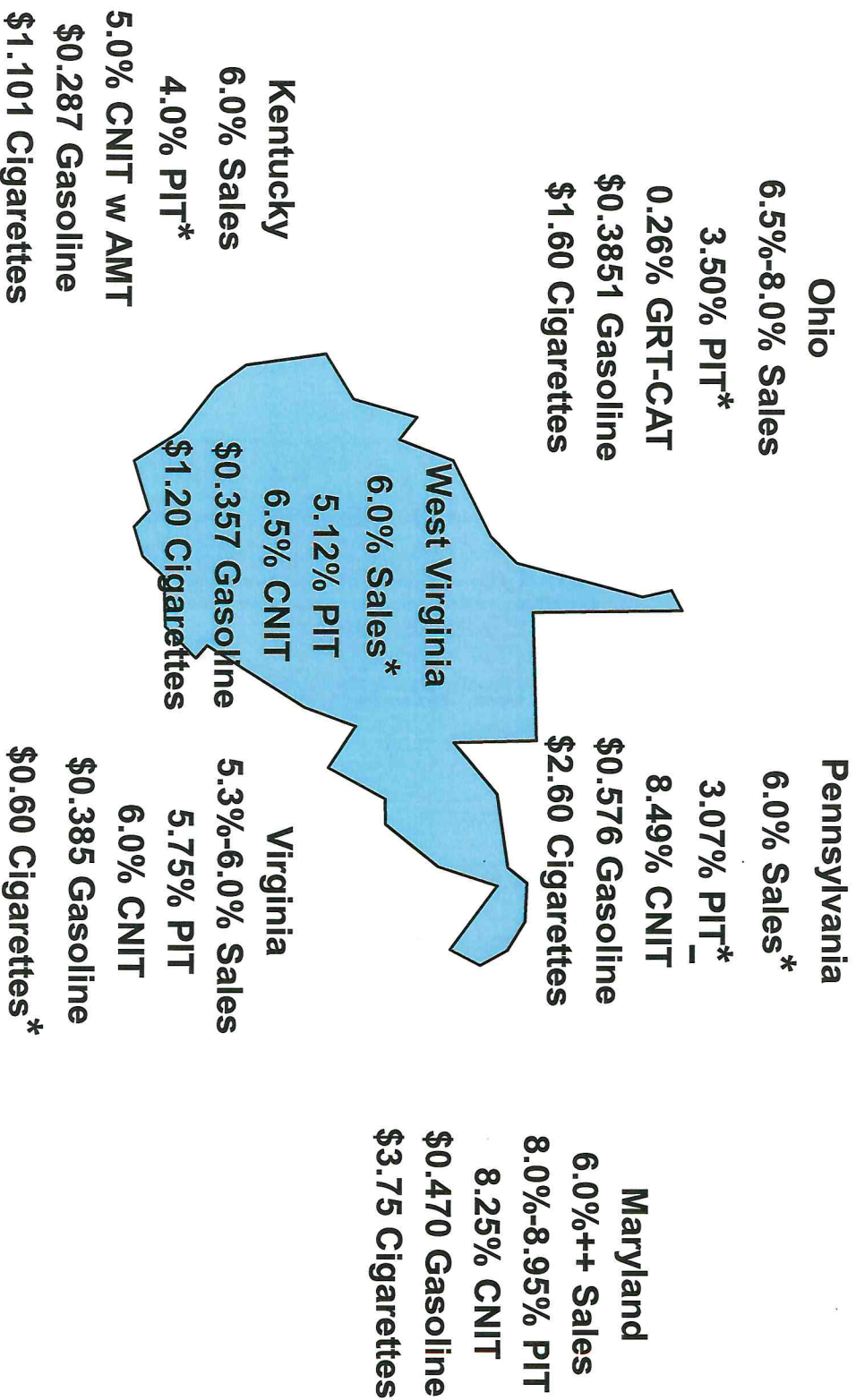
Rate from \$0.55 to \$1.20 as of July 1, 2016; OTP from 7% to 12%



# COMPARATIVE TAX RATES

As of January 1, 2024

\* Additional local taxes may apply



# Official FY2025 Estimates Versus Official FY2024 Estimates

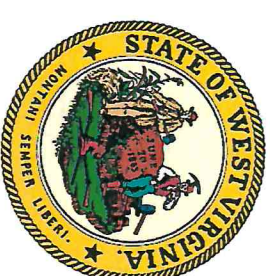
7.8% Gain  
\$ Millions

<u>Tax Source</u>	<u>FY2025</u>	<u>FY2024</u>	<u>Change</u>
Personal Income:	\$2,023.300	2,004,000	19.300
Sales & Use:	1,841.000	1,763.700	77.300
Severance:	406.300	313.000	93.300
Corp Income:	318.000	210.000	108.000
B&O:	115.000	110.000	5.000
Tobacco Excise:	147.600	157.400	( 9.800)
Insurance Premium:	120.000	117.000	3.000
Lottery-GRF:	65.000	65.000	0
All Other:	228.336	143.900	84.436
<b>Total General</b>	<b>\$5,264.536</b>	<b>\$4,884.000</b>	<b>\$380.536</b>

# **FY2024 & FY2025 Outlook**

## **Continued Growth in 2024 & 2025**

- Employment growth depends more on expansion of labor supply
- Wage gains move with lower inflation from higher-than-normal 6%+ pace
- Energy Sector Growth continues especially for natural gas
  - Natural gas prices rise modestly, and production continues to grow
  - Steam coal sales slow due to drop in domestic demand
  - Export coal markets generally stable but highly volatile
  - Long-term natural gas & liquids production trends still dependent on infrastructure improvements
- Consumer expenditures continue rising in CY24, pending interest rate cuts
- Income tax cuts still being phased-in between FY2023 and FY2025
- Federal fiscal policy direction highly uncertain, but some monetary easing expected



W E S T V I R G I N I A

# DEPARTMENT OF REVENUE

## Questions?

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