

NORTH CAROLINA'S GENERAL FUND OUTLOOK: FY 2008-09

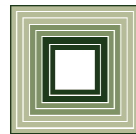


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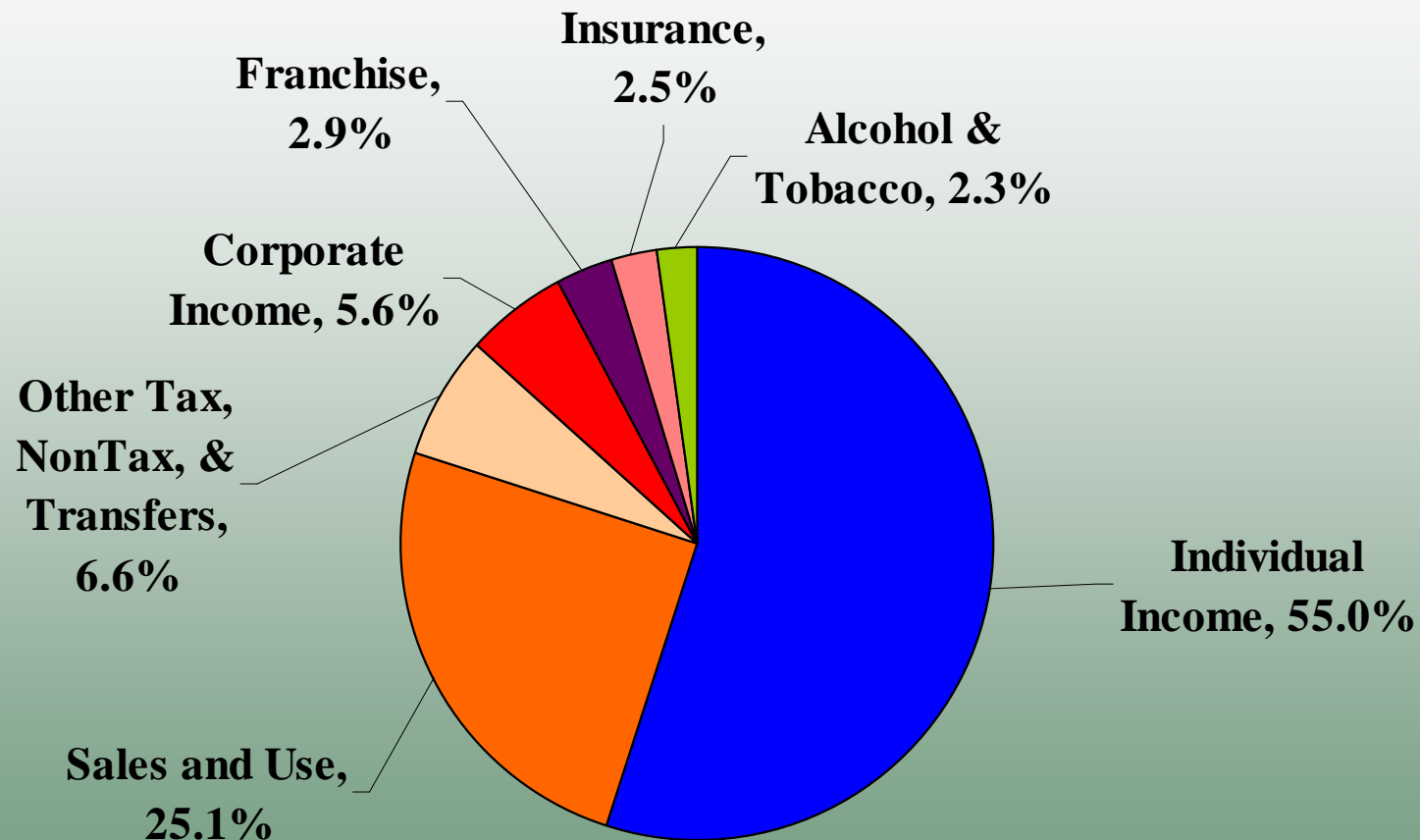
FISCAL RESEARCH DIVISION

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Overview

- First quarter revenues are 5% below target
- Housing and financial troubles push economy into recession
- State economic conditions deteriorate
- Budget pressures mount with slowdown in economy

General Fund Revenue, FY 2007-08



How Do 2008-09 Revenues Look So Far?

- First quarter collections \$235 million below \$4.6 billion target
 - Target growth only 1.8% for this quarter
 - total growth forecast for fiscal year 4%
 - Forecast envisioned economy improves second-half of FY
- Important caveats
 - Continues previous months trends (sales & personal withholding)
 - Volatile collections second half of FY

2008-09 Forecast Assumptions and Risks

- Forecast assumed below normal growth in economy-based taxes
 - 4.6% PIT withholding v. 6.4% trend
 - 3.1% SUT v. 5.5% trend (baseline)
 - 2.4% CIT v. 5.8% trend (baseline)
- General Fund revenue growth of 3.5% (baseline)

2008-09 Forecast Assumptions and Risks

- Forecasts risks
 - Significant increase in commodity price;
 - Continued decline in housing markets;
 - Tight consumer credit/Financial market turmoil;
 - Global markets weaken;
 - External shocks - war, natural disasters.

Economic Outlook

- Economic headwinds intensify
 - Housing recession continues
 - 18% decline in housing index
 - Financial market turmoil
 - Tighter private and commercial credit
 - Rising commodity prices - energy and food
 - Food up 10.5%
 - Gas was up \$1.30/ gal. (48.5% increase) spring and summer 2008



Economic Outlook

- Consumers hit hard by economic downturn
 - Falling employment
 - Lower inflation-adjusted wages
 - Loss of wealth from housing recession
 - 35-40% decline in equity markets
 - Tight credit conditions
 - High debt burden

Economic Outlook

- National recession indicators trend downward
 - Manufacturing & Trade Sales
 - Employment
 - Personal Income
 - Industrial Production
 - Consumer Confidence Index

Economic Outlook

- Improvements on the horizon?
 - Crude Oil Prices plummet
 - \$70 v. \$146
 - Housing prices stabilizing?
 - Mortgage rates decline
 - Core inflation low
 - Fed takes action to stabilize/loosen credit markets

State's Economic Outlook

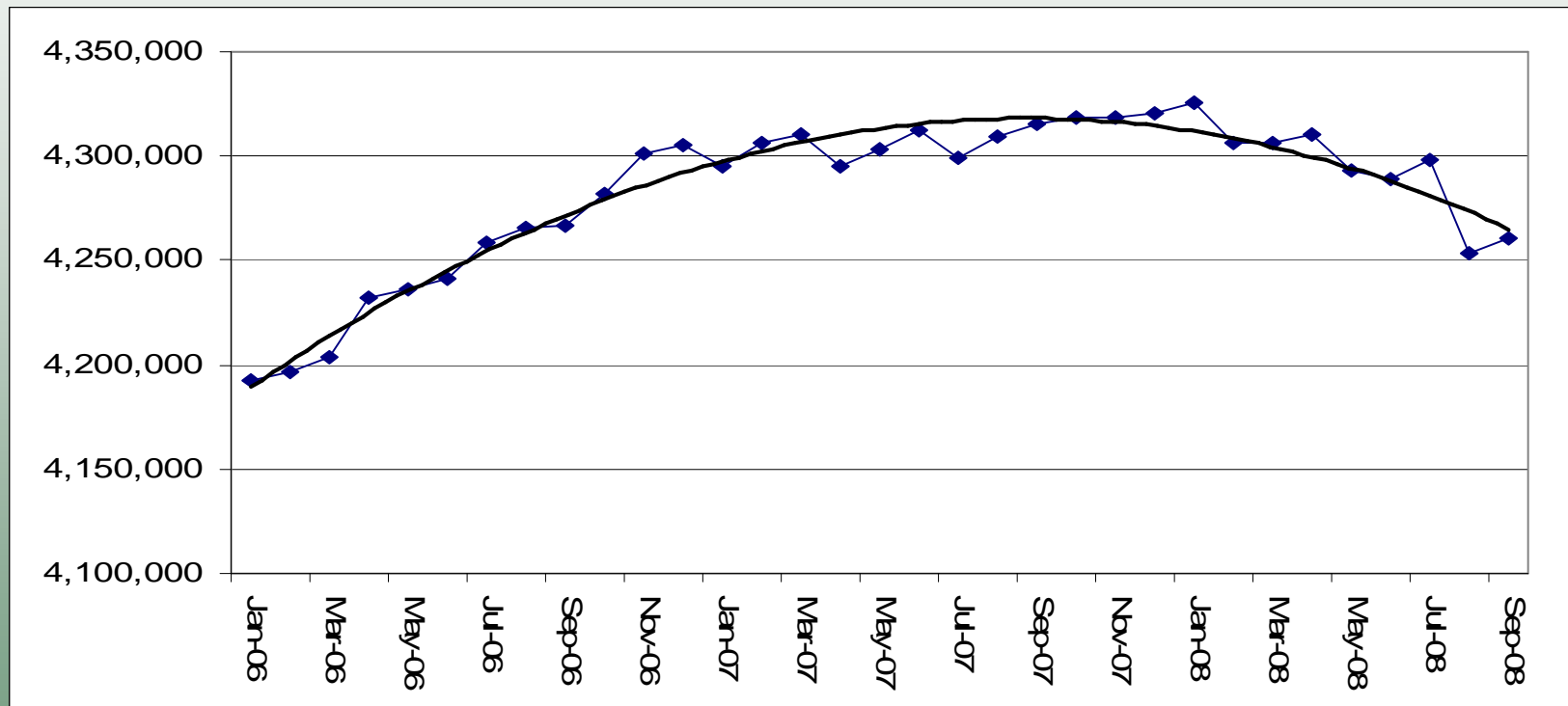
- Reduced consumer spending impacts service and retail sectors
- Manufacturing sector continues to shed jobs (rate of 2% to 3% per year)
- Financial services sector hit hard by the financial markets troubles.
 - Job losses expected in this industry over the next 4 to 6 quarters

State's Economic Outlook

- Overall employment growth will stall in the State
 - No growth envisioned for this fiscal year
 - and less than 1% in FY 2009-10
- Personal Income forecast of 2.7% growth for 2009

Key Revenue Collection Trends

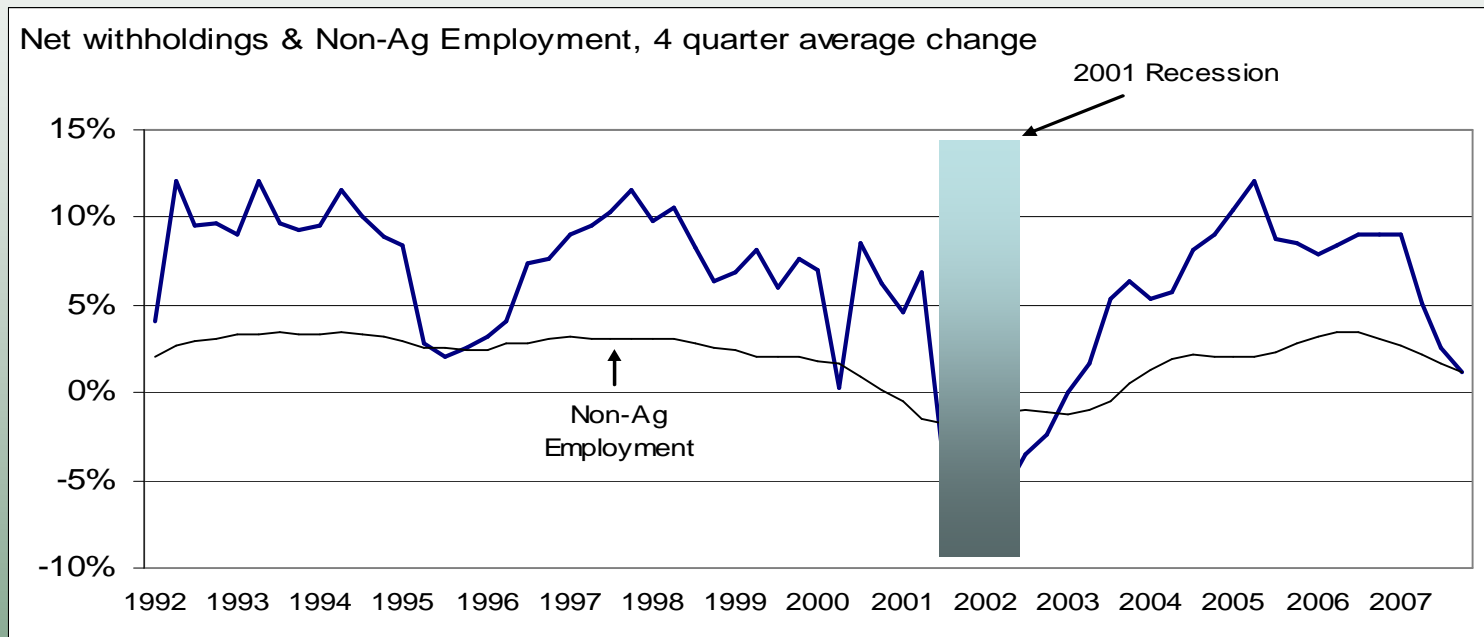
Non-Agricultural Employment, Seasonally Adjusted



Source: North Carolina Employment Security Commission

Key Revenue Collection Trends

Withholding Tax Receipts

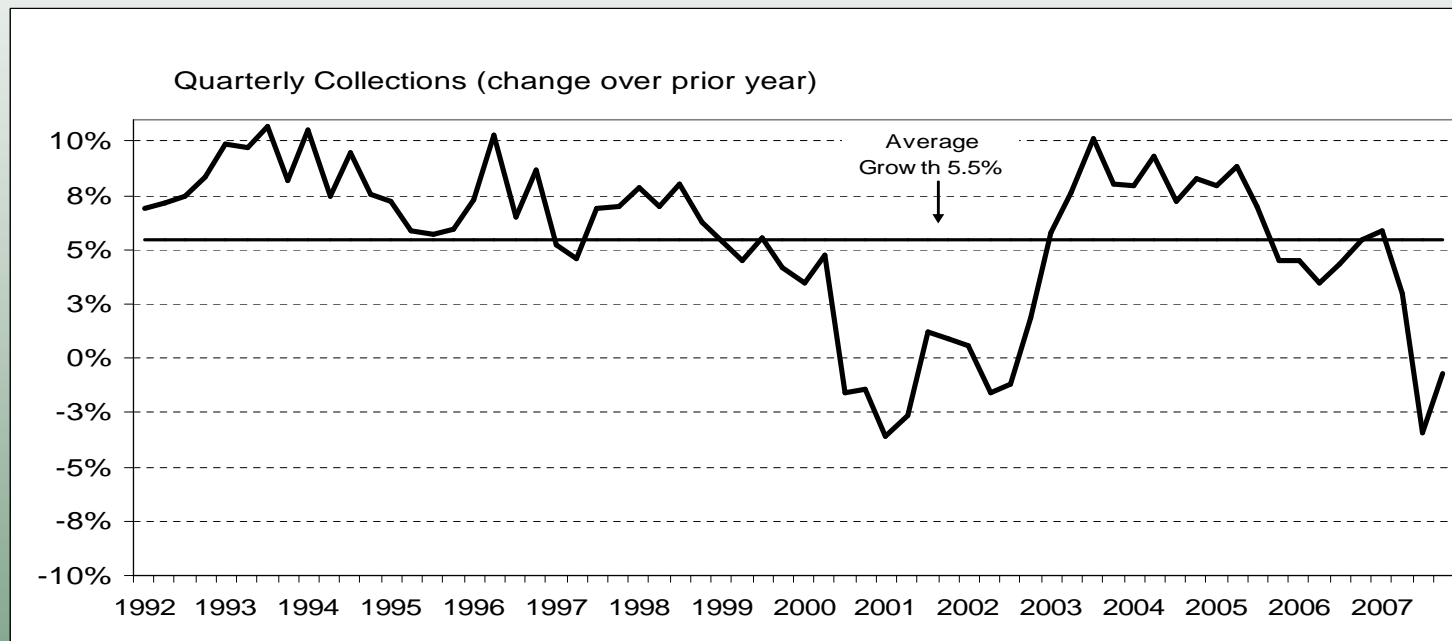


Withholding continues its downward trend coinciding with the slowdown in Non-Ag employment growth.



Key Revenue Collection Trends

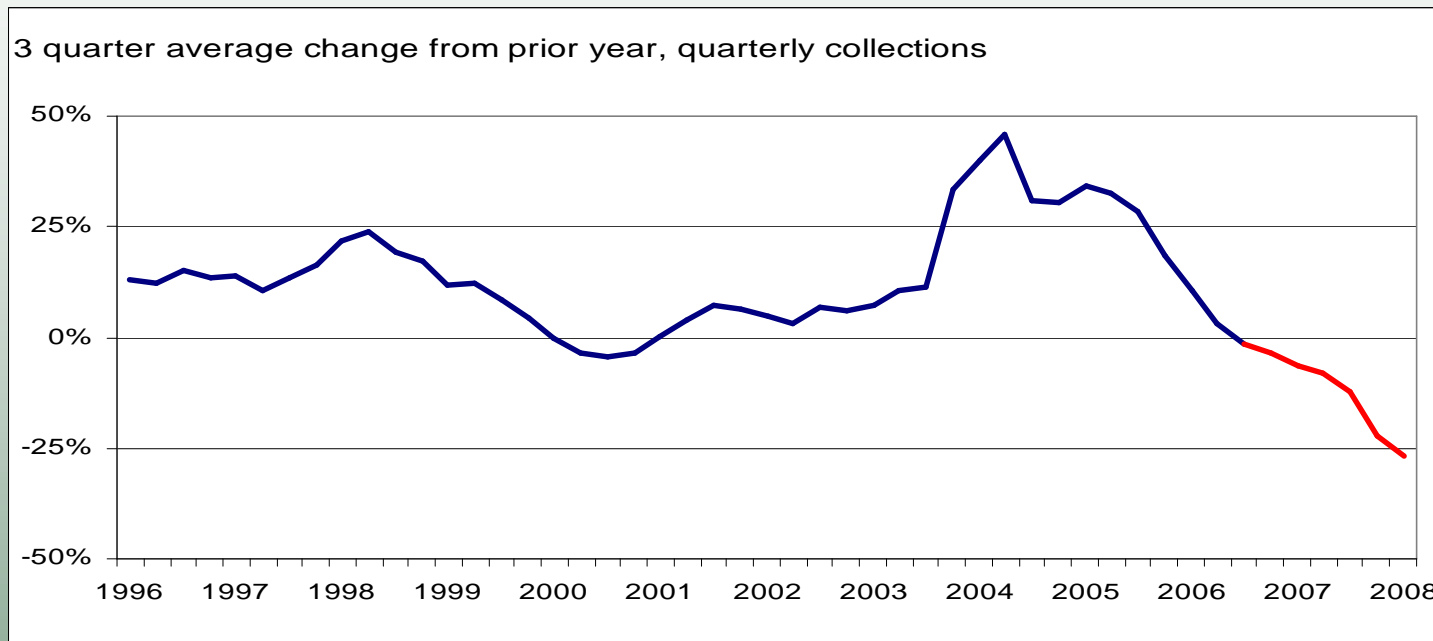
Sales & Use Tax Collections (adjusted for tax law changes)



Sales tax collections go negative the last quarter of FY 2007- 08 with only a modest rebound to start the new fiscal year.

Key Revenue Collection Trends

Real Estate Conveyance Collections



Real Estate Conveyance tax is not part of the General Fund, it does illustrate the impact of the housing slump on these collections and in turn the potential impact on other real estate related activity such as residential construction and retail furniture sales.



2008-09 State Budget Outlook

- **Budget pressures mount:**
 - Possible significant revenue shortfall
 - State Health Plan
 - Potential \$200 - \$300 million fix (FY0809)
 - Medicaid and other income assistance programs are counter-cyclical
 - Post-secondary enrollment often counter-cyclical