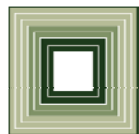


# **GENERAL FUND REVENUE REPORT & ECONOMIC OUTLOOK**



**November 2009**  
**Barry Boardman, Ph.D.**  
**Fiscal Research Division**  
**North Carolina General Assembly**



**FISCAL RESEARCH DIVISION**  
A Staff Agency of the North Carolina General Assembly

# Biennium Revenue Estimates

- Consensus budget estimates included
  - Quarterly improvements in the economy
  - Employment bottoms out early 2010
  - Took more cautious approach than national forecasters

<u>01-02</u>	<u>02-03</u>	<u>03-04</u>	<u>04-05</u>	<u>05-06</u>	<u>06-07</u>	<u>07-08</u>	<u>08-09</u>	<u>09-10</u>	<u>10-11</u>
-6.2%	- 0.4%	5.7%	9.4%	12.1%	9.2%	4.2%	-10.0%	-1.9%	3.2%

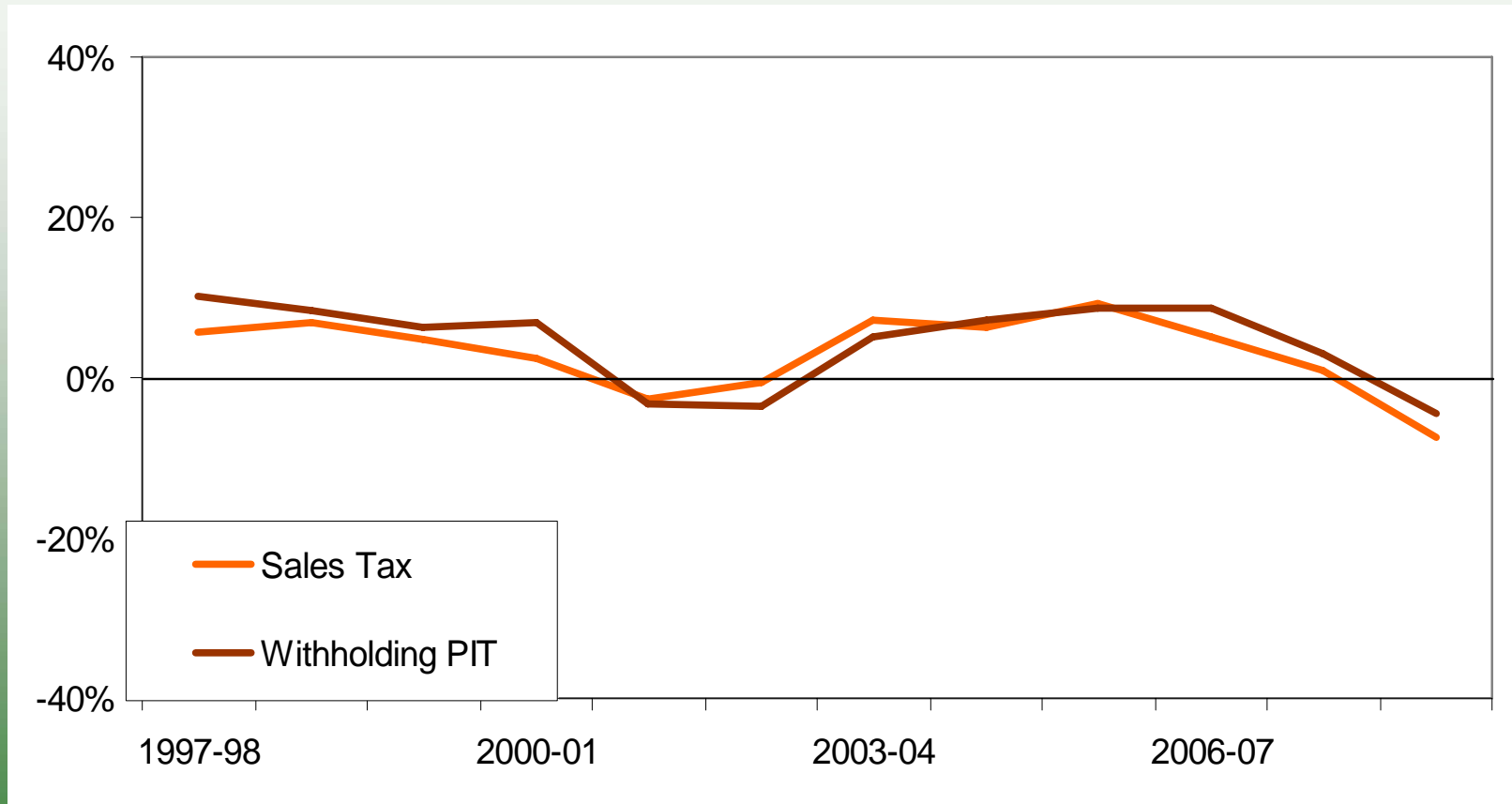


# How Do Revenues Look So Far?

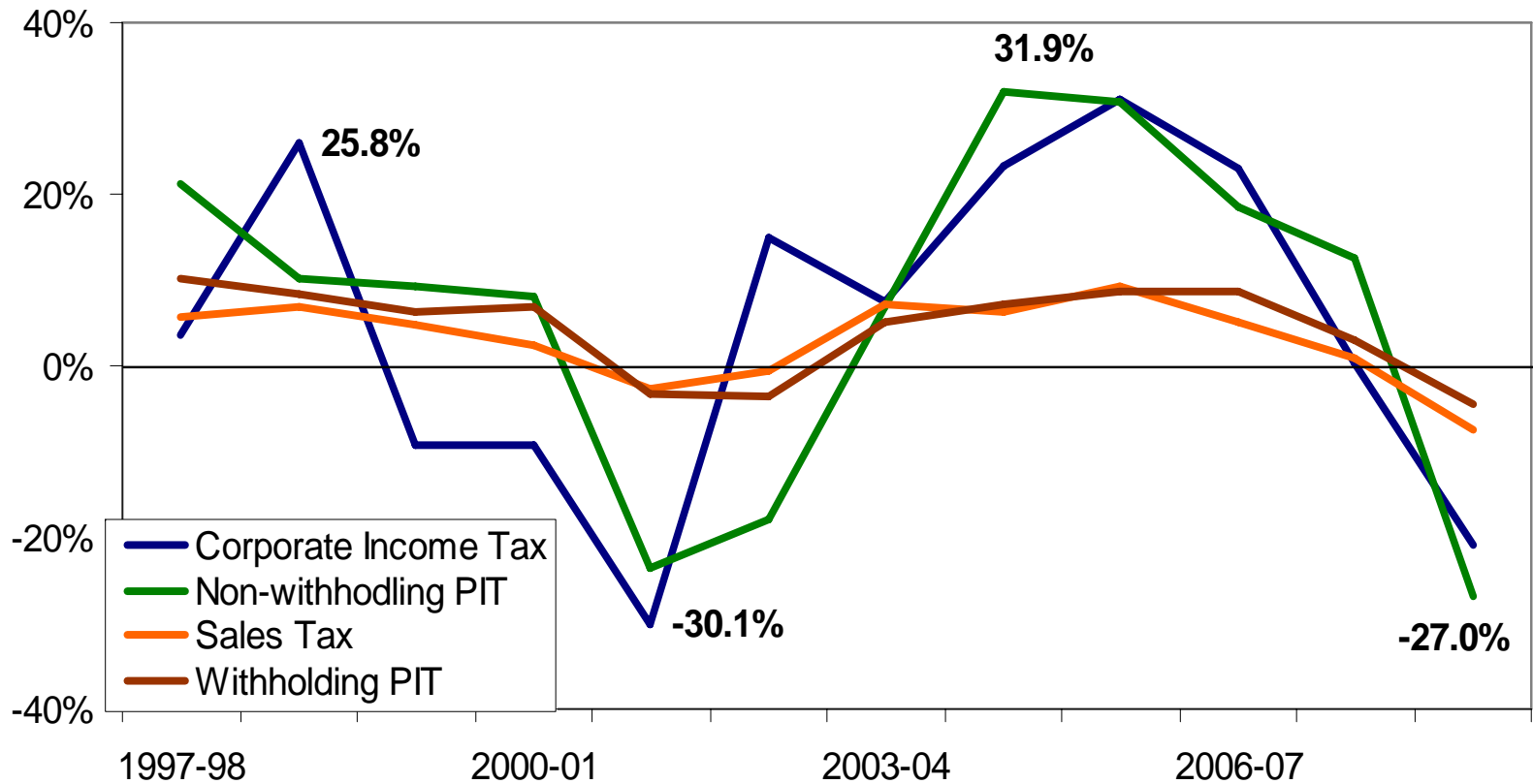
- State's collections are \$95 million below \$5.9 billion target
  - Total forecast for fiscal year -1.3%
  - 3.9% growth with tax law changes
- Important caveat
  - First half of year only 25% of forecast risk
  - Volatile collections second half of FY



# How Do Revenues Look So Far?



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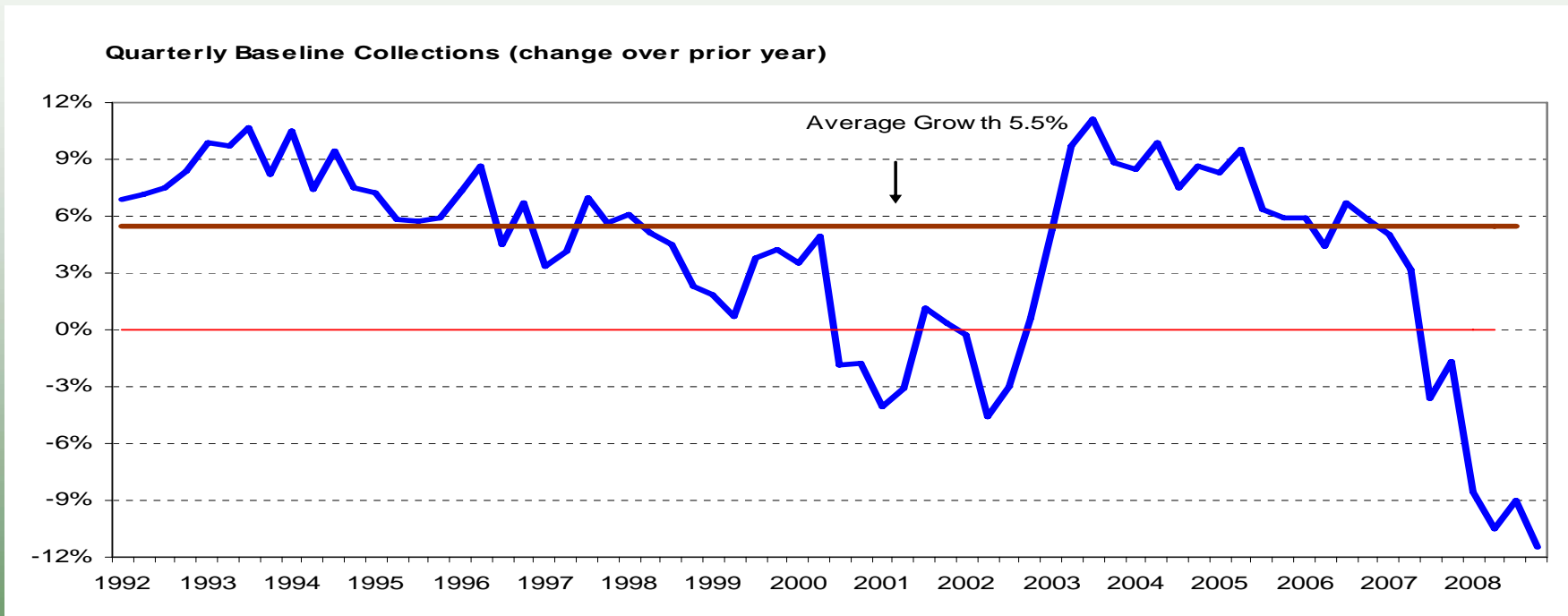
# How Do Revenues Look So Far?

- No sign of an economic recovery yet!
  - Baseline sales tax growth is down 11.7% vs. a 2.7% decline last year
  - Withholdings continue to erode and are 3.5% below last year
  - Employment woes continue



# Key Revenue Collection Trends: Sales Tax

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



Through October down 11.7% vs. 2.7% decline last year



## **Key Revenue Collection Trends: Sales Tax**

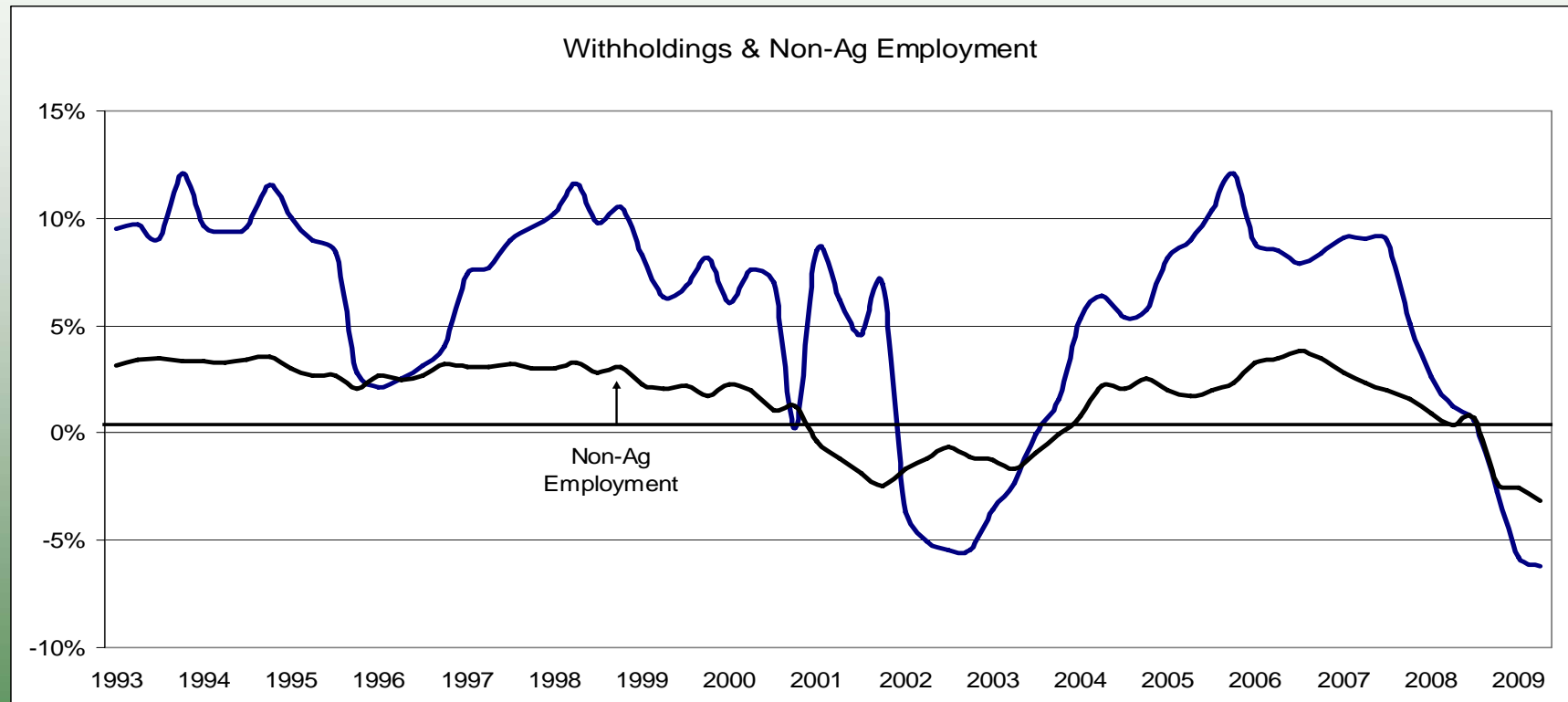
- Sales tax collections continue to perform very poorly
- 1-cent increase adds pressure to sales tax rebound
- Budget forecast included a 4% decline in baseline growth
  - current pace of decline is closer to 6%.





# Key Revenue Collection Trends: Personal Income Tax

## Withholding Tax Receipts



Withholding continues its downward trend coinciding with the decline in total employment.



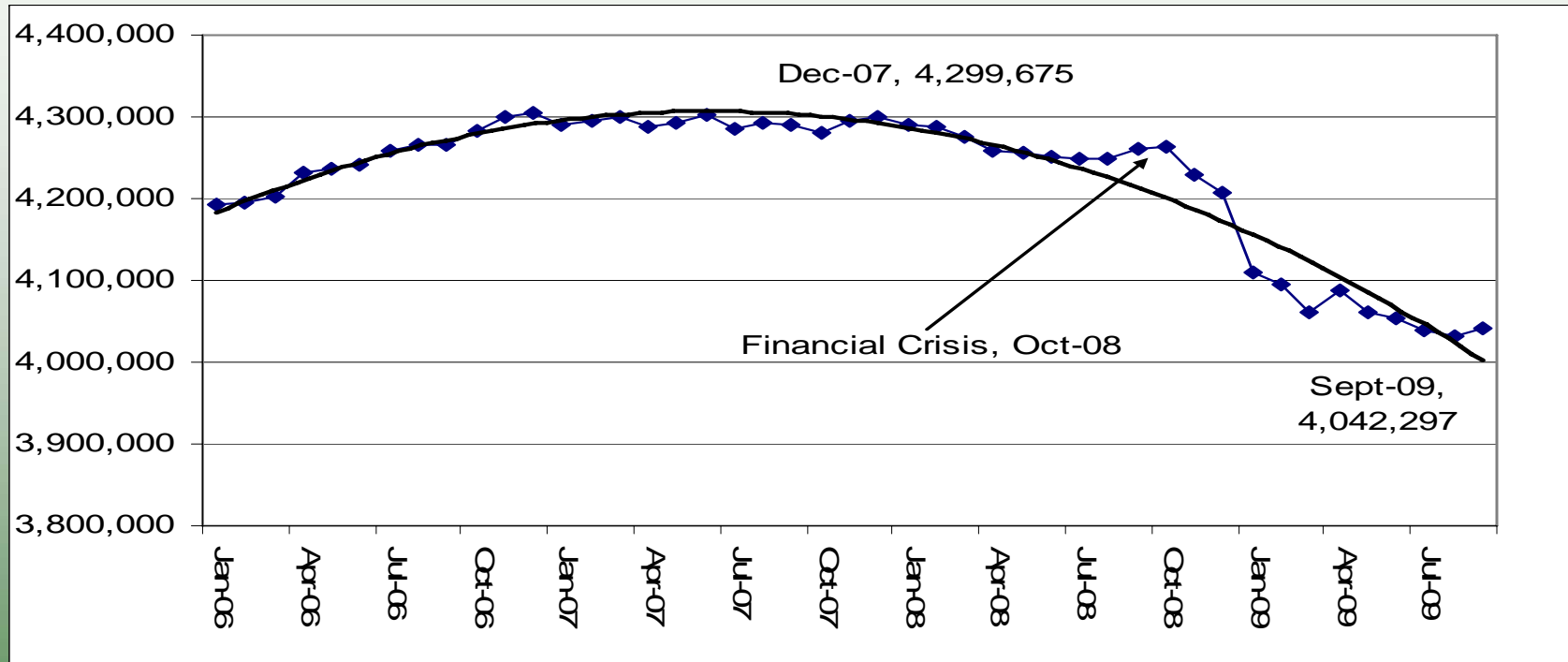
# Key Revenue Collection Trends: Personal Income Tax

- Withholdings (wage & salary income taxes) down 3.5%
- Net personal income tax is down 2.7% below target
  - By comparison, last year was 2.4% behind target
- Changing economy impacts more volatile taxes the second part of fiscal year



# Key Revenue Collection Trends

## Non-Ag Employment (seasonally adjusted)



The employment picture has a strong influence on income and sales taxes collections.



# Revenue: Things to Watch

- To meet forecast here is what has to happen
  - employment losses abate and businesses hiring picks up
  - wage & salary incomes will need to show improvements by last quarter
  - and consumer spending will have to rebound early 2010



# Revenue: Things to Watch

- The key to a sustained recovery will be employment.
  - According to various state economic forecasts, most industry sectors are expected to rebound in 2010
  - A reversal in employment losses will need to materialize early in 2010
- Are employment conditions improving?
  - The National Association of Business Economist's survey indicated "planned business hiring" decisions increased.
  - Temporary employment hires have been steadily on the rise.



# Revenue: Things to Watch

- The typical recovery
  - investment recovery
  - improvement in consumer sentiment
  - a recover in the job market
- Housing appears to be showing some signs of life
  - The extension and expansion of the home buyer's tax credit by congress may stimulate home buying decisions



## **Economic Outlook: What's next after the Great Recession?**

- Most economist agree the recession has ended, but caution that a very slow recovery is underway
  - U, V, or W shaped recovery?
- For the state, intensity of recession is easing
- Robust recovery probably a year or two away
- The Federal Reserve Board
  - “economic activity is likely to remain weak”
  - “inflation will remain subdued for some time”

