

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



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## **Presentation Outline**

- First Quarter Revenue Collections
- Economic Trends: Employment and Housing
- Risks to Revenue Forecast



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# GENERAL FUND REVENUE



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## **General Fund Collections: 1<sup>st</sup> Quarter of FY 2011-12**

- General Fund revenue was \$150 million (3.4%) above \$4.52 billion target
- Sales Tax collections were up 1%
- Personal Income collections were up 4.8%

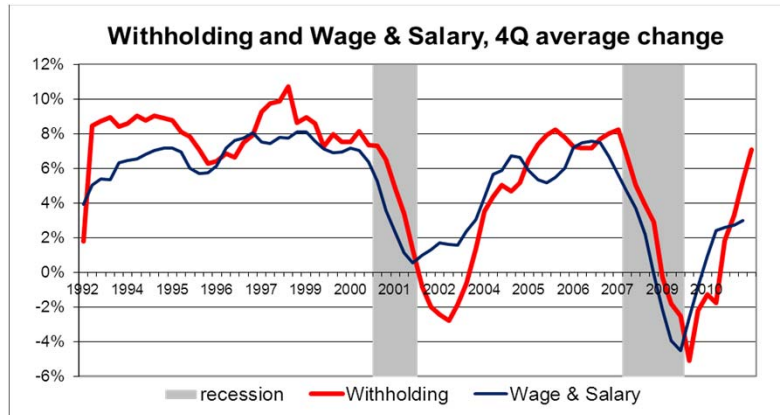


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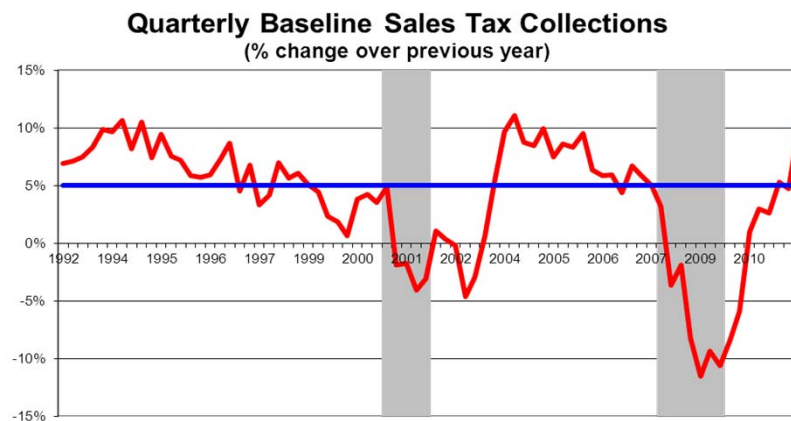
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## Tracking Economy-Based Collections

Personal income withholdings on wages and salaries continue to strengthen.

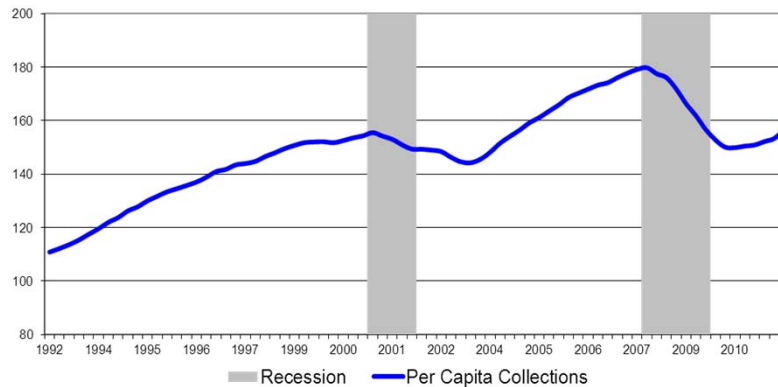


## Tracking Economy-Based Collections



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Per Capita Baseline Sales Tax Collections,  
4 quarter moving average

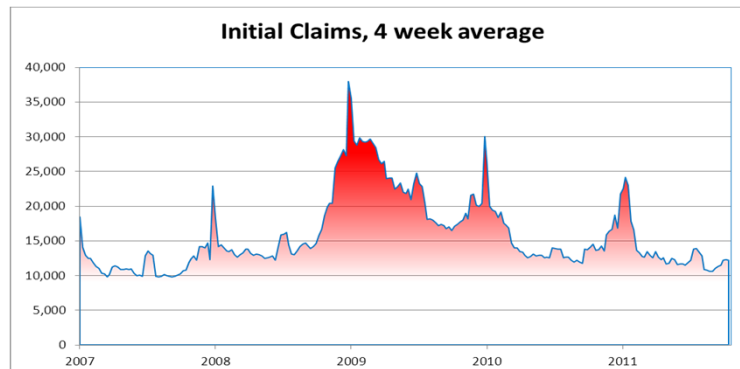


## Economic Trends: Employment and Housing



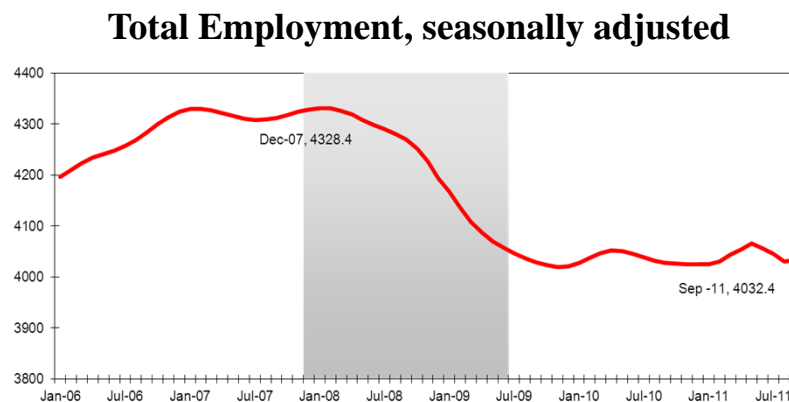
## Key Economic Trends

Initial claims, a measure of the number of jobless claims filed by individuals seeking unemployment benefits, have dropped significantly since the onset of the recession. They are close to the pre-recession levels of 2007.

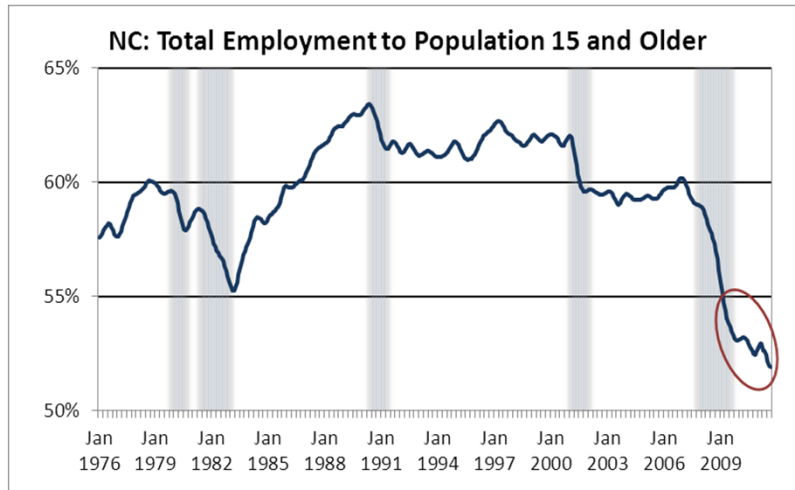


## Key Economic Trends

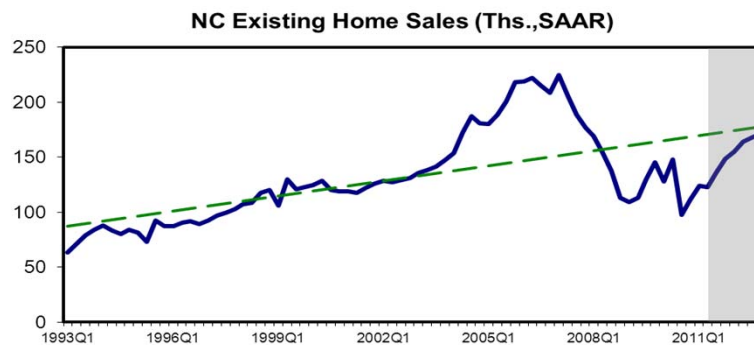
Since September 2010, total employment has increased by only 8,300 jobs (not seasonally adjusted).



## Key Economic Trends



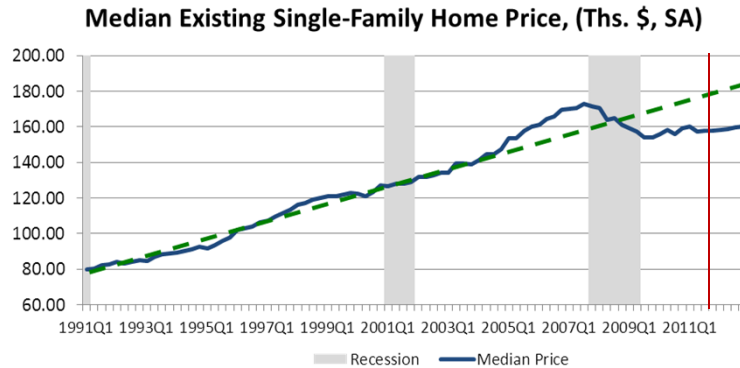
## Key Economic Trends



The dotted line traces the long range trends established in the 1990s. Existing home sales are expected to remain below this trend throughout 2011 (forecast shaded in gray).

Source: Moody's Analytics

## Key Economic Trends



The dotted line traces the long range trends established in the 1990s. Forecast is for prices to bottom-out by mid-2012.

Source: Moody's Analytics

## Key Economic Trends

Housing recession is *the* major drag on economic growth:

- Decline in household wealth continues - depressing consumer spending
- Limited opportunities for employment growth in the construction industry
  - 33% employment loss since onset of housing recession
- Retail sectors are affected by the weak housing market
- The housing problems make it difficult for homeowners to sell their homes so they can relocate for better job opportunities

## Key Economic Trends

- Economic recovery is stuck in a slow growth pattern
  - Struggling to gain enough momentum to spur job growth
  - Remains highly susceptible to negative economic shocks
  - Recent global events have lowered growth expectations

**Risks have definitely shifted to the downside**



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## Risks to Revenue Forecast



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## Revenue Outlook: Risks to Revenue Forecast

Since the revenue forecast in March, the economic forecast has been downgraded

<u>FY 2011-12 Forecast</u>	<u>March</u>	<u>September</u>
NC GSP	5.4%	3.6%
Wage & Salary Income	5.2%	3.5%
Employment	2.1%	0.3%
Unemployment Rate	9.2%	10.1%

## Economic Outlook: Risks to Revenue Forecast

- Global economic turmoil elevate risks
  - Eurozone debt
  - Mideast unrest and oil markets
- Economy is moving forward –recession chances below 50%
- Economic data mixed, mostly positive
- Forecasts expect GDP growth at or below 2.5% rest of fiscal year
- Slow growth combined with high unemployment and weak consumer demand increase chance of a downturn

## Conclusions

- General Fund revenues grow at a faster pace than economic indicators might suggest
- National and State economic data indicate recovery struggling to gain traction
- Economic forecasts expect conditions to improve - growth remains at subpar level
- Expectations of an improving economy during the fiscal year put pressure on revenue forecast
- Fragile economy susceptible to mild economic shocks raising risk to the forecast