

GENERAL FUND REVENUE REPORT & ECONOMIC OUTLOOK

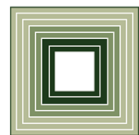


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FISCAL RESEARCH DIVISION

A Staff Agency of the North Carolina General Assembly

Highlights

- Year-to-date collections are now \$215 million over the revenue target. The revised consensus revenue forecast anticipates adding \$17.5 million more to the surplus the last two months of FY 2011-12.
- An April “surprise” from 2011 tax year final payments and refunds never materialized. Personal income withholding collections continue to improve, while other key income components are at, or just below, target expectations.
- The revised consensus forecast reflects the modest downgrade in the economy compared to what was expected last year when the biennium forecast for FY 2012-13 was developed. The result is a small upward adjustment to the forecast of \$21.0 million despite the over-collections expected this fiscal year.

Total General Fund Revenues Through April

- General Fund revenue through April is \$215 million above the \$16.3 billion target (1.3%).
- The main source of the surplus is withholding on wages and salaries. Final payments and refunds on the 2011 tax year matched expectations developed with the biennium consensus forecast, which was put together in February of last year.
- Net income tax withholding on wages and salaries, the biggest source of General Fund revenue (approximately 40%), is up 5.0% through April compared with last year. That is a modest improvement over where we were a couple of months ago.

Total General Fund Revenues Through April

- Sales tax collections continue to track close to expectations. Higher gas prices remain a concern.
 - Baseline collections (tax-adjusted) continue to surpass last year's numbers and have remained resilient in the face of rising gas prices and a weak job market.
 - Baseline collections for the first 10 months of the fiscal year are up 6.8% compared to last year, which is 1.7 percentage points higher than the original budget forecast.
 - Net collections, which deducts refunds and transfers, are 0.3% below target through April.
- Business tax collections (Corporate Income and Franchise) are 5.1% higher than at this time last year.

Total General Fund Revenues Through April

- \$215 million target surplus
 - 1.3% above \$16.3 billion target

	Year-Over-Year Growth
Personal Income	3.2%
Sales Tax*	-10.2%
Businesses Taxes	5.1%
Total Collections	1.2%

*The decline is the result of the expiration of the 1-cent increase on June 30, 2011.

Revised Consensus Forecast

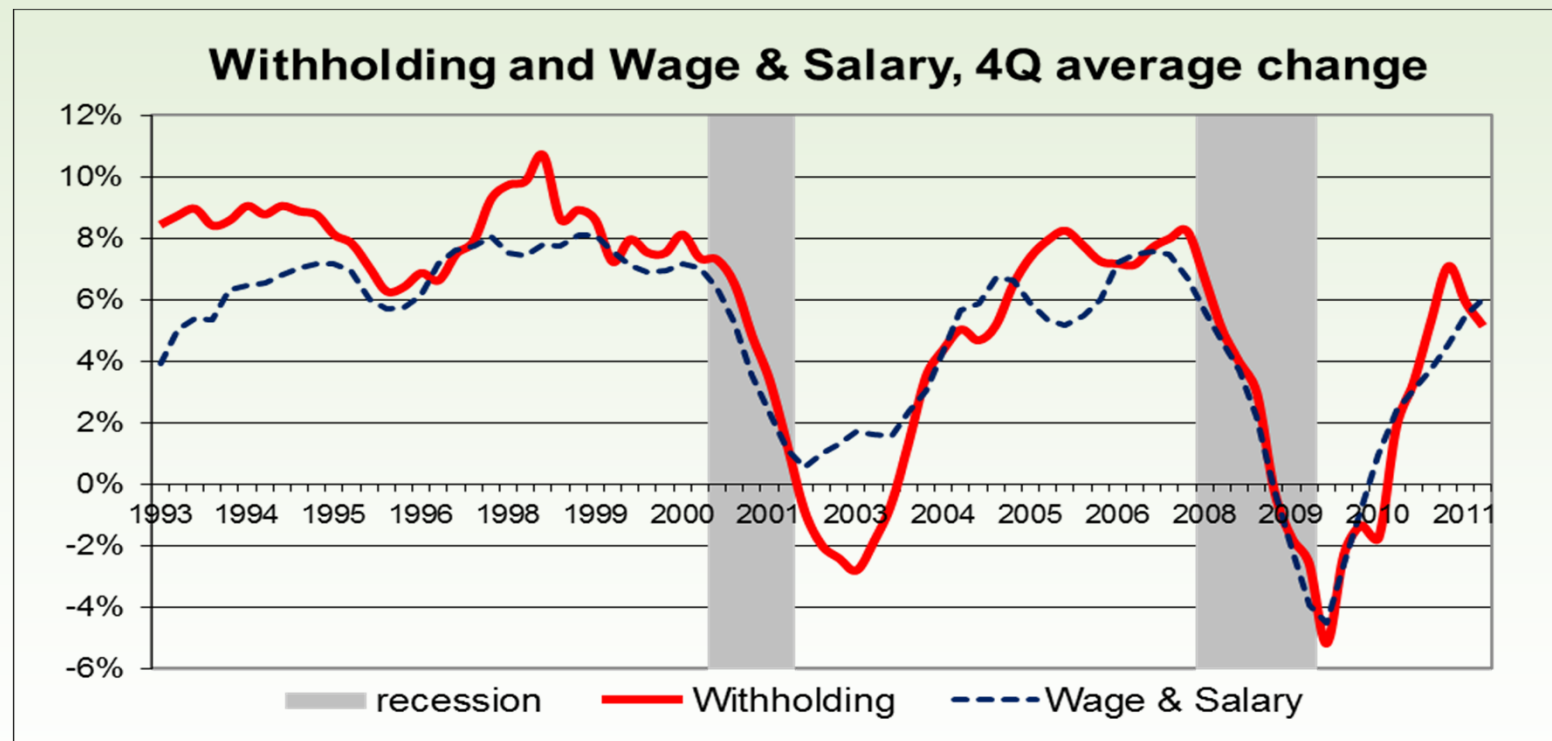
- Based on current collection and economic trends, over-collections for this fiscal year are now estimated at \$232.5 million.
- The revised revenue forecast For FY 2012-13 is based on a downgrade of the economic forecast for fiscal year compared with the biennium forecast of last year. Key factors leading to the downgrade are higher energy prices, global economic slowdowns, and the weaker than expected employment growth.
- Because of the downgrade, it was estimated that the increase in FY 2011-12's over-collections will not translate into any significant change to next year's revenues. The revised forecast has been increased by \$21.0 million.

Revised Consensus Forecast

April 2012 Consensus Revenue Forecast (\$ millions)		
	FY 11-12	FY 12-13
Revised General Fund Revenue Forecast	\$19,374.4	\$19,944.5
Original Revenue Forecast	\$19,141.9	\$19,923.5
Revision Amount	\$232.5	\$21.0

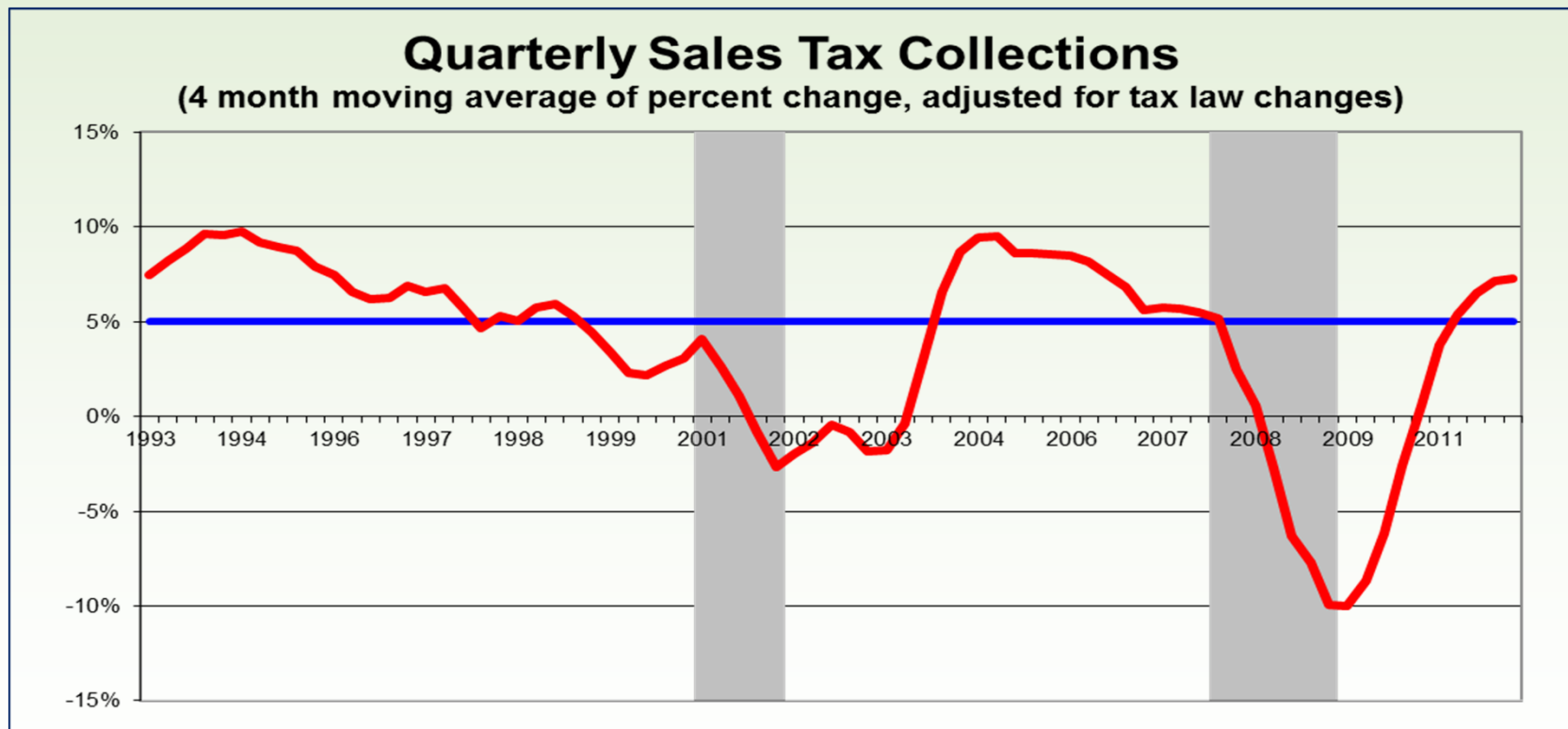
Tracking Economy-Based Collections

Personal Income has been the driving force behind the revenue target surplus. These gains have tracked improvements in wage and salary income and align better with the recently revised employment data.



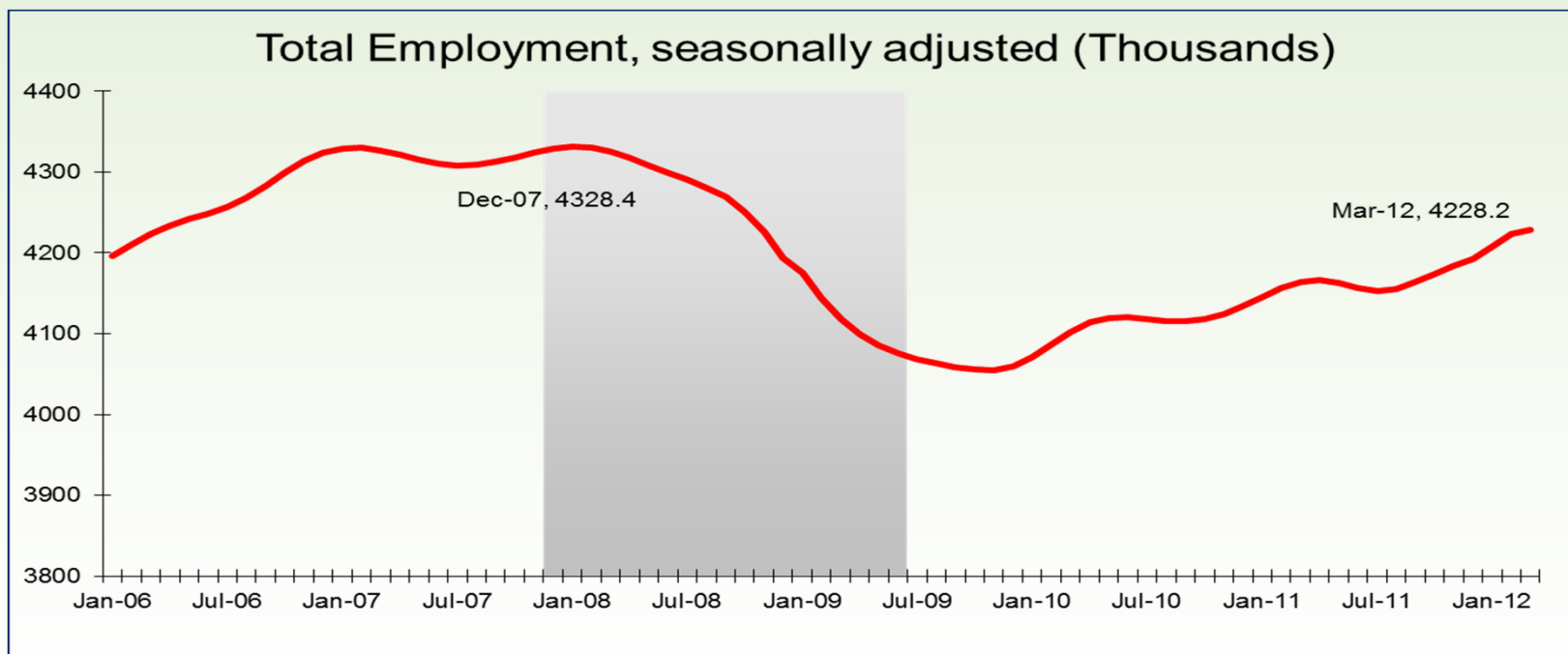
Tracking Economy-Based Collections

Baseline sales tax collections are maintaining positive, steady growth. The recent increase in gas prices had little impact on collections, but if prices start to rise again it could shift purchases away from the sales tax base.



Key Economic Trends

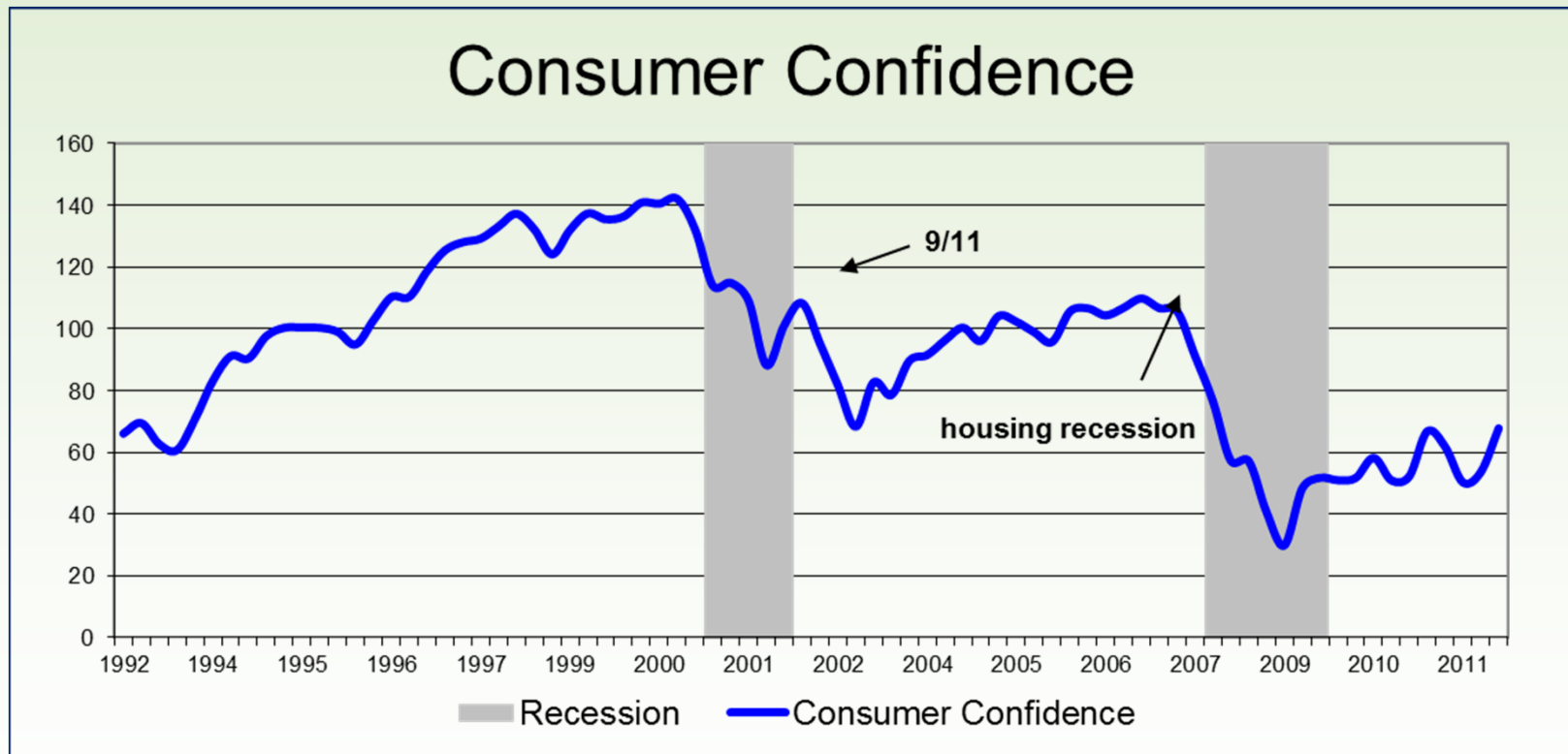
The revised employment data indicates that job losses towards the end of the recession were greater than once thought, and that the job growth since then has been a little better than once thought. Despite the improvement, there are still 100,000 fewer people employed than there were at the start of the recession 32 months ago.



Source: NC Employment Security Commission

Key Economic Trends

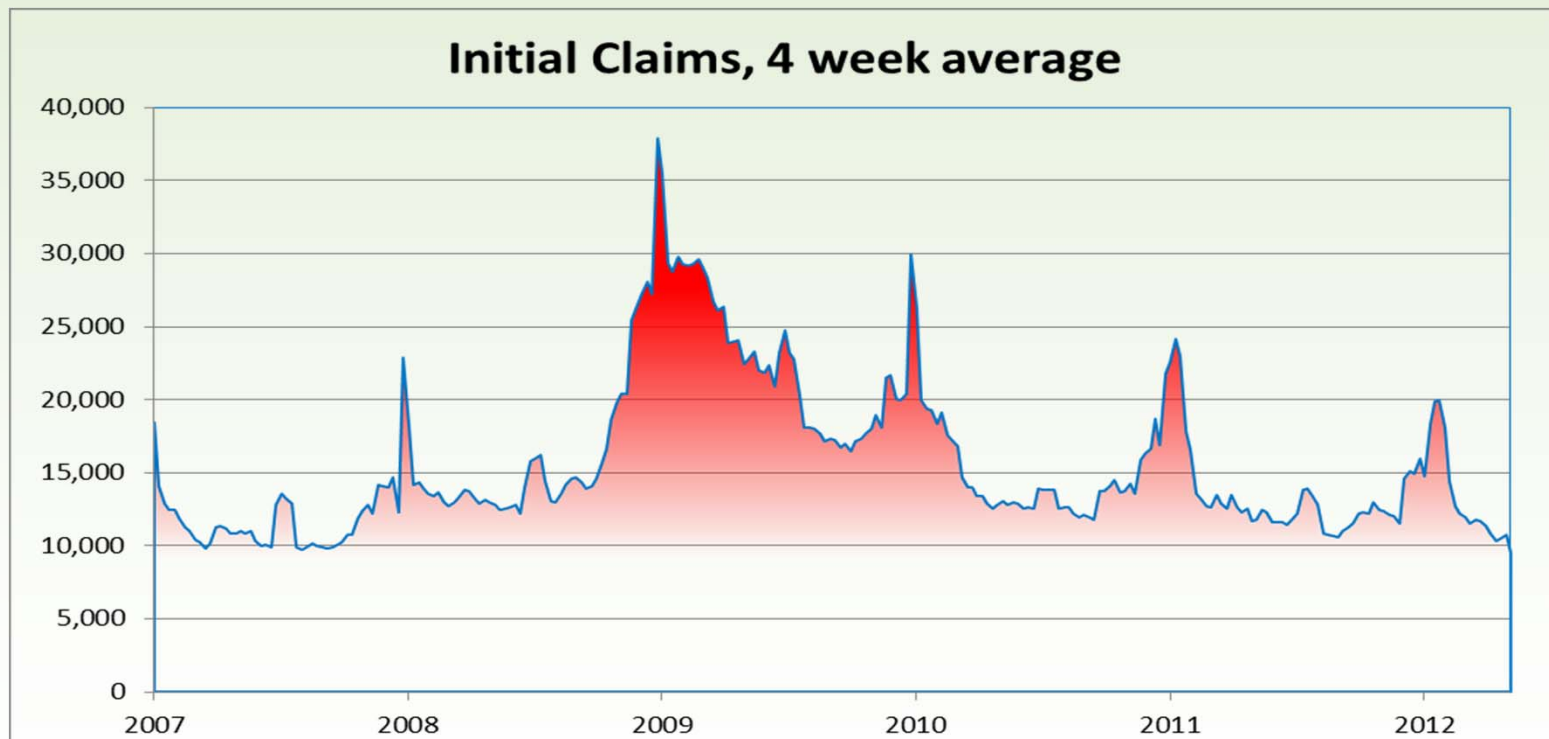
Consumer confidence is still well below pre-recession levels. The current rise in gas prices has been the latest drag. A robust job market will be needed to dramatically improve confidence.



Source: The Conference Board

Key Economic Trends

Good news! Since the end of the recession, initial claims, a measure of the number of jobless claims filed by individuals seeking State jobless benefits, have dropped significantly. The 4-week average now resembles the pre-recession levels of 2007.



Source: NC Employment Security Commission

Consensus Forecast Risks: More Upsides than Down

The Downsides

- Rising energy prices, weak employment growth, and little wage growth continue to make the economy more susceptible to economic shocks and another economic downturn.
- Several factors have driven up prices at the gas pump, most notably the increase in the global demand for oil from growing economies. Most economists think consumers and the overall economy can absorb gas pump prices in the \$3.50 to \$3.75 range. If gas prices begin to rise above \$4.00 per gallon, then the probability of an economic downturn increases.
- The Eurozone is essentially in a recession. This continues to be a drag on global economies including North Carolina's, which has been increasing its penetration into export markets.

Consensus Forecast Risks: More Upsides than Down

The Downsides

- At the Federal level the US is struggling with its own debt problems. If Congress cannot reach a budget agreement by 2013, severe austerity measures will be put into place. This could have a significant, immediate impact on the economy, especially, if the planned major military cutbacks occur here in the State.
- The housing market is beginning to show a little life, but in many areas housing prices are still falling, suppressing household wealth. Additionally, the higher prices at the gas pump and limited income growth has made consumers cautious. This has wide ranging impacts on the economy since nearly 70% of all economic activity directly related to household consumption.

Consensus Forecast Risks: More Upsides than Down

The Upsides

- The last 5 months we have had much more positive economic data than negative.
 - Consumer and business confidence is on the rise again.
 - Weather-adjusted employment numbers have stayed in positive territory (warm winter skewed some of the employment comparisons).
 - Manufacturing is rebounding and gathering steam.
- Since the low point in employment in 2009, the State has added 173,000 jobs. This was better than first thought and adds hope that the State's economy is on more solid footing. Job losses from Federal, State, and Local governments due to declining revenues are coming to an end. This had been a negative offset to private sector growth.

Biennium Forecast Risks: The Downsides and Upsides

The Upsides (cont.)

- There is plenty of room for the economy to grow. The State is operating at closer to 2007 economic levels (inflation-adjusted) and there are now an estimated 350,000 more people in the State. This should bode well for housing markets and related industries, and retail sales as we move into 2013.
- State population growth slowed to 1% in 2011, the lowest in 20 years, but is expected to pick up steam in 2012 and beyond. As the State's economy gains strength, in-migration will move the State ahead and spur growth in population-based industries. Most notably, construction jobs are expected to gradually return.
 - Note: The economic landscape of the State is changing as rural areas, supported by agricultural and certain types of manufacturing industries, will continue to shrink while growth in the urban, service-based centers will surge.

Conclusions

- The State's economy is following the path of a slow, steady recovery. Advancements in the economy have improved the revenue picture for this fiscal year leading to an estimated \$232.5 million surplus. However, a downgrade in economic expectations for FY 2012-13 resulted in a relatively small adjustment to next fiscal year's forecast.
- While there are plenty of reasons to be cautious in developing next year's revenue forecast, there seems to be more positive news than negative released each month. This would suggest the economy is gaining momentum. Nonetheless, the slow growth scenario is expected to persist into 2013.
- Until a stronger economy is established, the current upturn remains fragile. So far, the economy has been able to pull through the negative shocks of the last two years and continue along its slow, upward climb. The potential economic trouble in Europe remains the biggest threat to the momentum that has been building over the last 5 to 6 months.