

GENERAL FUND REVENUE REPORT



December 12, 2012

Barry Boardman, Ph.D.

Fiscal Research Division

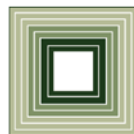
North Carolina General Assembly



Presentation Outline

- FY 2012-13 Consensus Forecast
- Collections Through November
- Risks to Revenue Forecast

FY 2012-13 Consensus Forecast



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Consensus Forecast

- Consensus developed from forecasts generated independently by Fiscal Research and Office of State Budget and Management
- Consensus discussion begin several weeks before Governor's budget
- Possible revision to consensus after April 15 collections are processed

Consensus Forecast: FY 2012-13

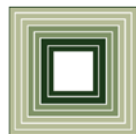
- Cautious approach needed for budgeting was complicated by the difficulty in gauging pace of recovery
- The revised forecast expected a \$235 million revenue surplus for FY 2011-12
- The surplus did not translate into an increase in the *revised* FY 2012-13 forecast
- A downgrade in economic growth for 2012 meant only a \$21 million increase in revenues

Consensus Forecast: FY 2012-13

Baseline growth forecast

- Sales Tax 3.7% (6.2%)
- Personal Income 4.7% (5.4%)
- Corporate Income 4.1% (11.6%)
- Total General Fund 4.4% (6.1%)

FY 2012-13: Collections Through November

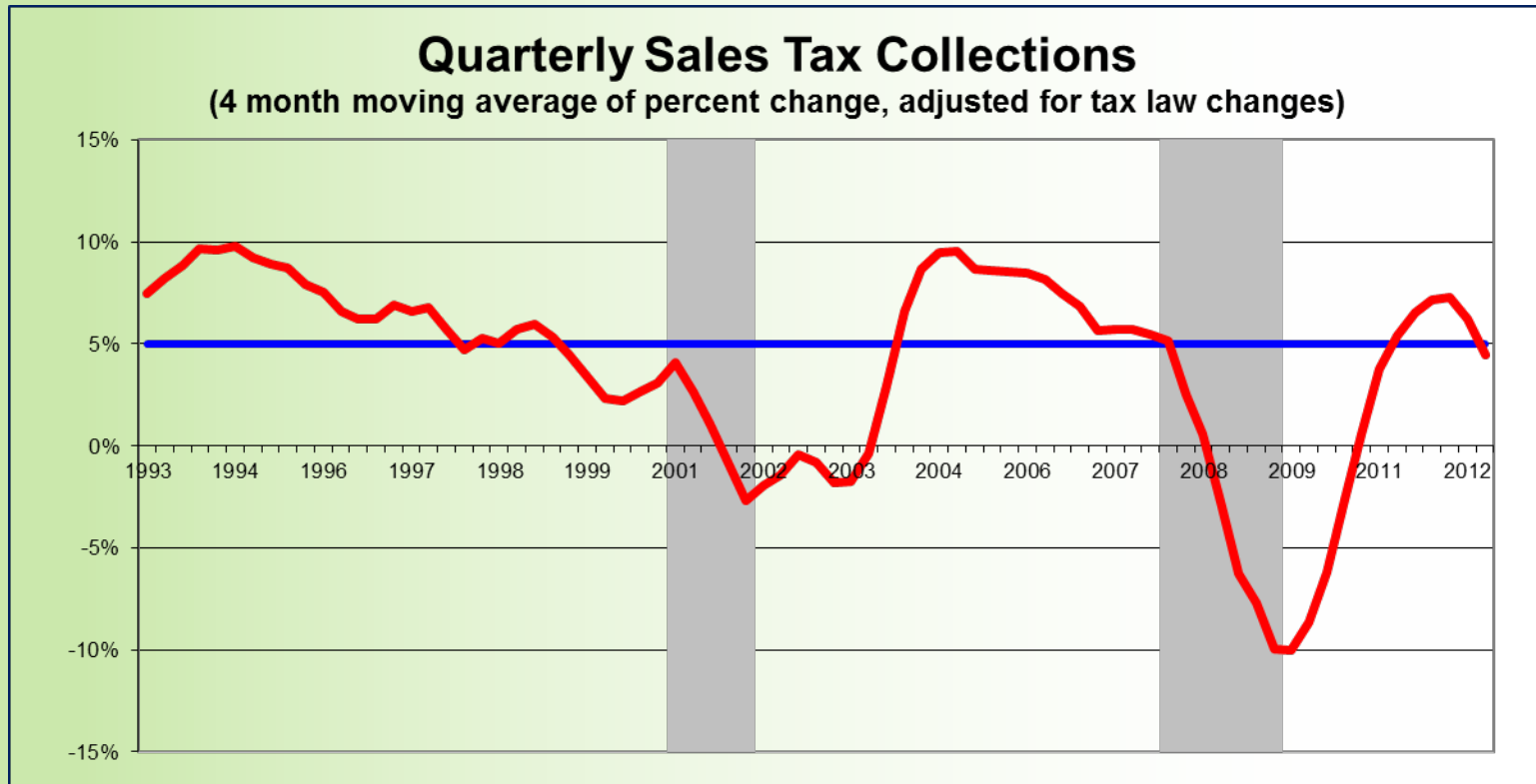


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Collections Through November

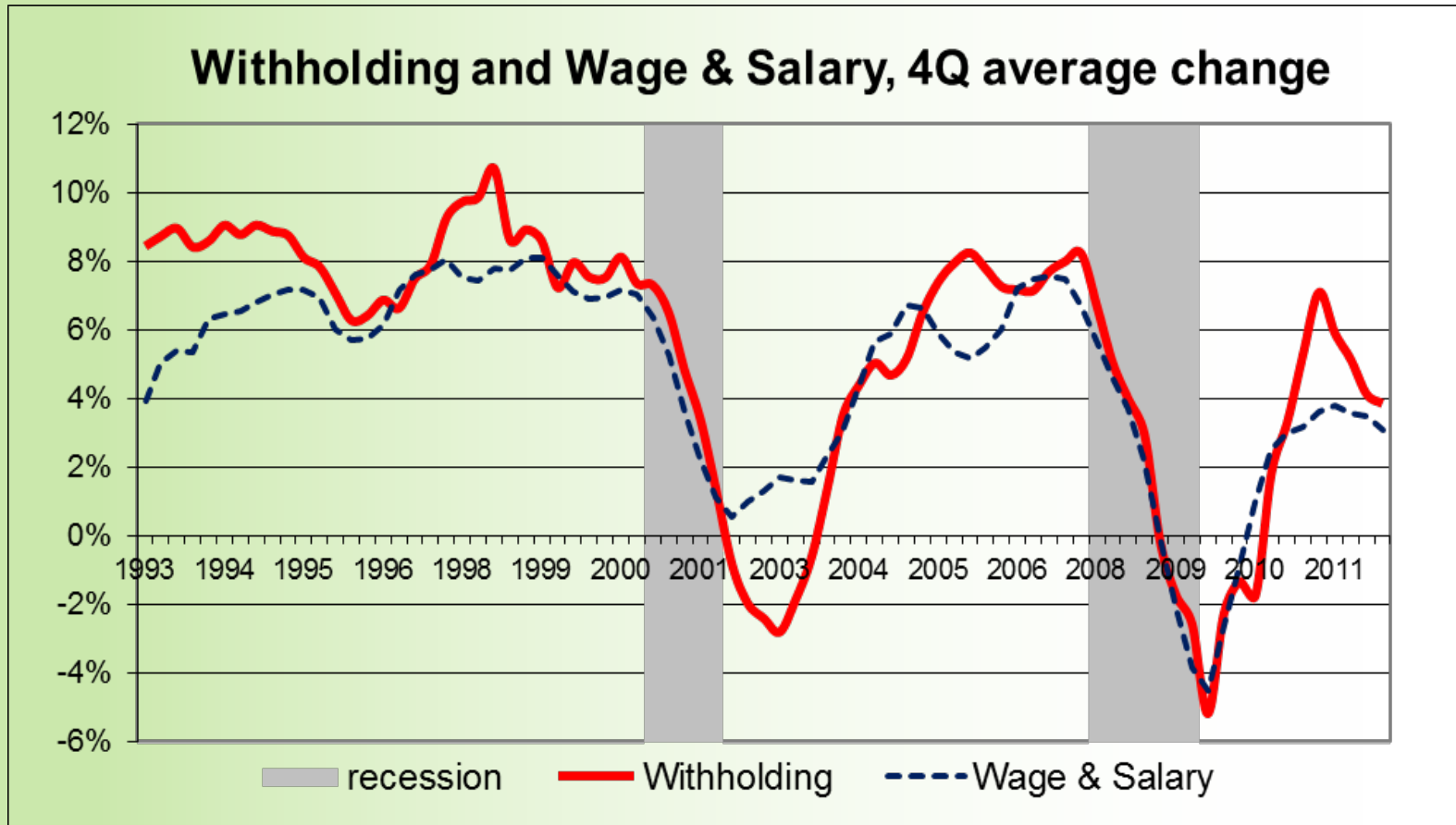
- General Fund revenue were \$15 million above \$8.0 billion target
- Sales Tax collections were \$40 million *below* \$2.3 billion target
 - 1.9% baseline growth
- Personal Income collections are right on the \$4.4 billion target
 - 4.9% over last year

Tracking Economy-Based Collections



The consensus forecast expects baseline Sales Tax growth for FY 2012-13 to be 3.7%, well-below last year's growth. Any further slowdown in collections will put pressure on the second-half of the fiscal year to meet this expectation.

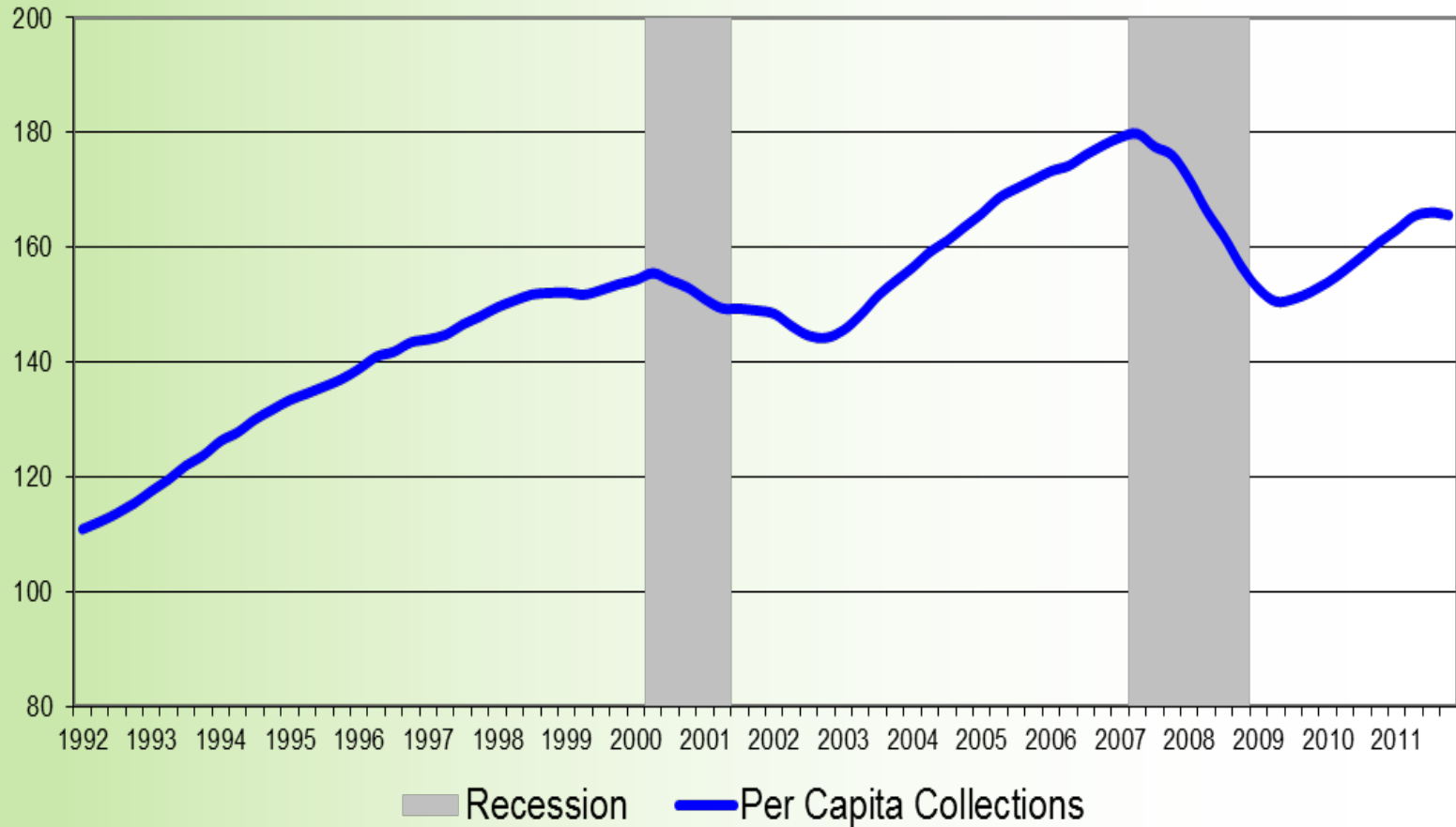
Tracking Economy-Based Collections



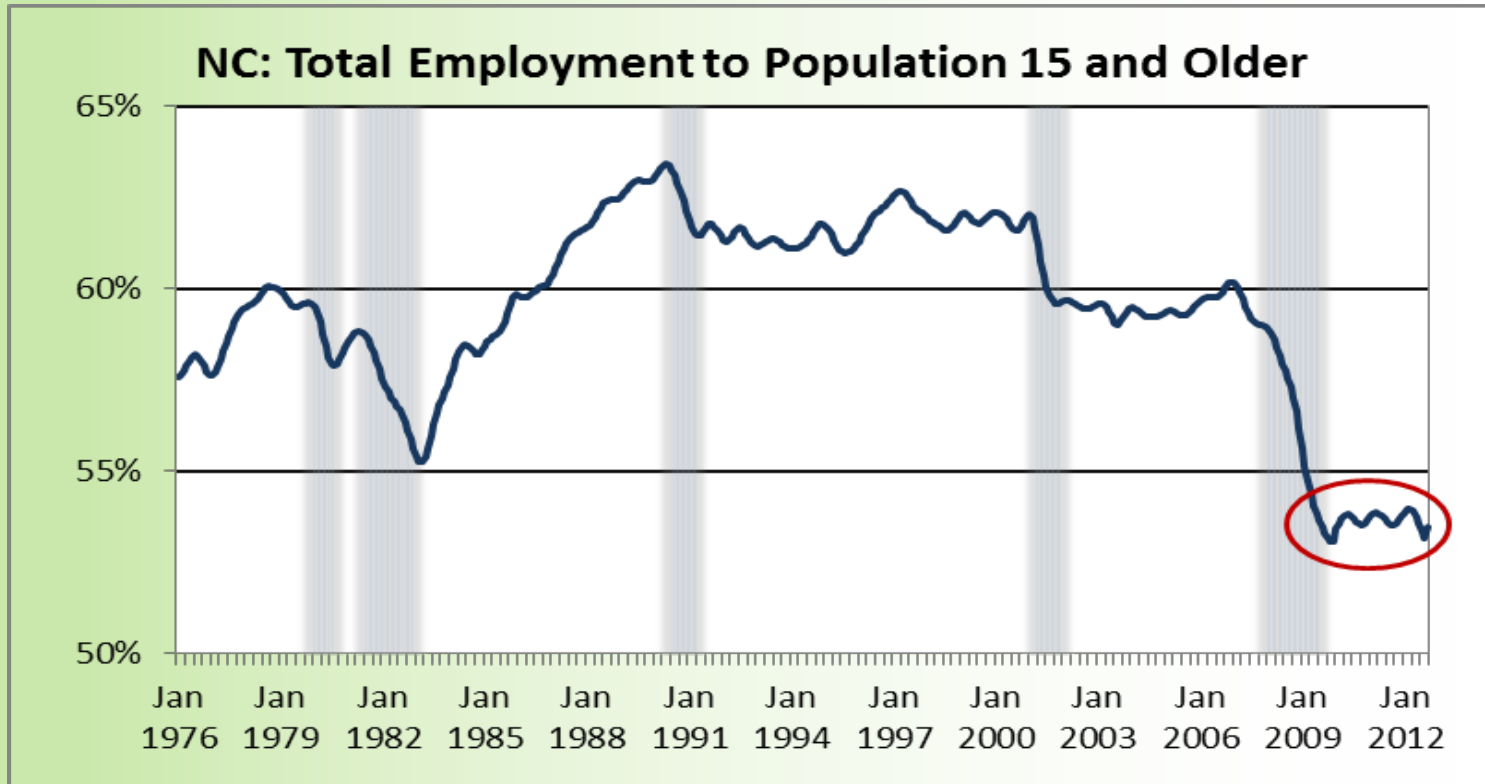
Personal income withholdings on wages and salaries slowed to long-run growth average Q2 and Q3 of 2012

Tracking Economy-Based Collections

Per Capita, Quarterly Sales Tax Collections (baseline)

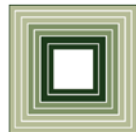


Key Economic Trends



Since employment bottomed-out after the recession, the State has added 170,000 jobs. That has not been enough to keep pace with the growth in the employment age population.

Risks to Revenue Forecast



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Risks to Revenue Forecast

Since the revenue forecast in May, the State's economic forecast has been downgraded.

<u>FY 2012-13 Forecast</u>	<u>April</u>	<u>November</u>
Gross State Product	5.6%	4.8%
Wage & Salary Income	5.4%	5.1%
Employment (Non-Ag)	1.1%	0.9%
Unemployment Rate	9.4%	9.5%
Retail Sales	6.1%	5.0%

Risks to Revenue Forecast

- Two Major Risk Factors
 - Fiscal Cliff
 - Cross-the-board tax increases
 - Spending cuts
 - GDP Growth, 2013Q1: $(2\% - 2.5\%) = -0.5\%$
 - Global demand improving but remains weak
 - Eurozone
 - China
- Bottom line: Economy though stronger than last year, still cannot withstand shocks from policy (in)decision and global turmoil.

Risks to Revenue Forecast

- Upsides –Data Momentum v. Major Risks
 - US Housing improving, poised for rebound
 - Employment stabilizing
 - Service sector gaining strength
 - Consumer confidence improving
 - Investment and hiring decisions wait it out

2013-2015 Biennium Outlook



- Steady improvement through 2013
- Employment growth accelerates into 2014
- NC outpaces US economic growth going into 2015
- Fiscal and Global Conditions require added caution