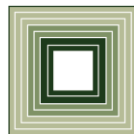


THE STATE'S REVENUE OUTLOOK

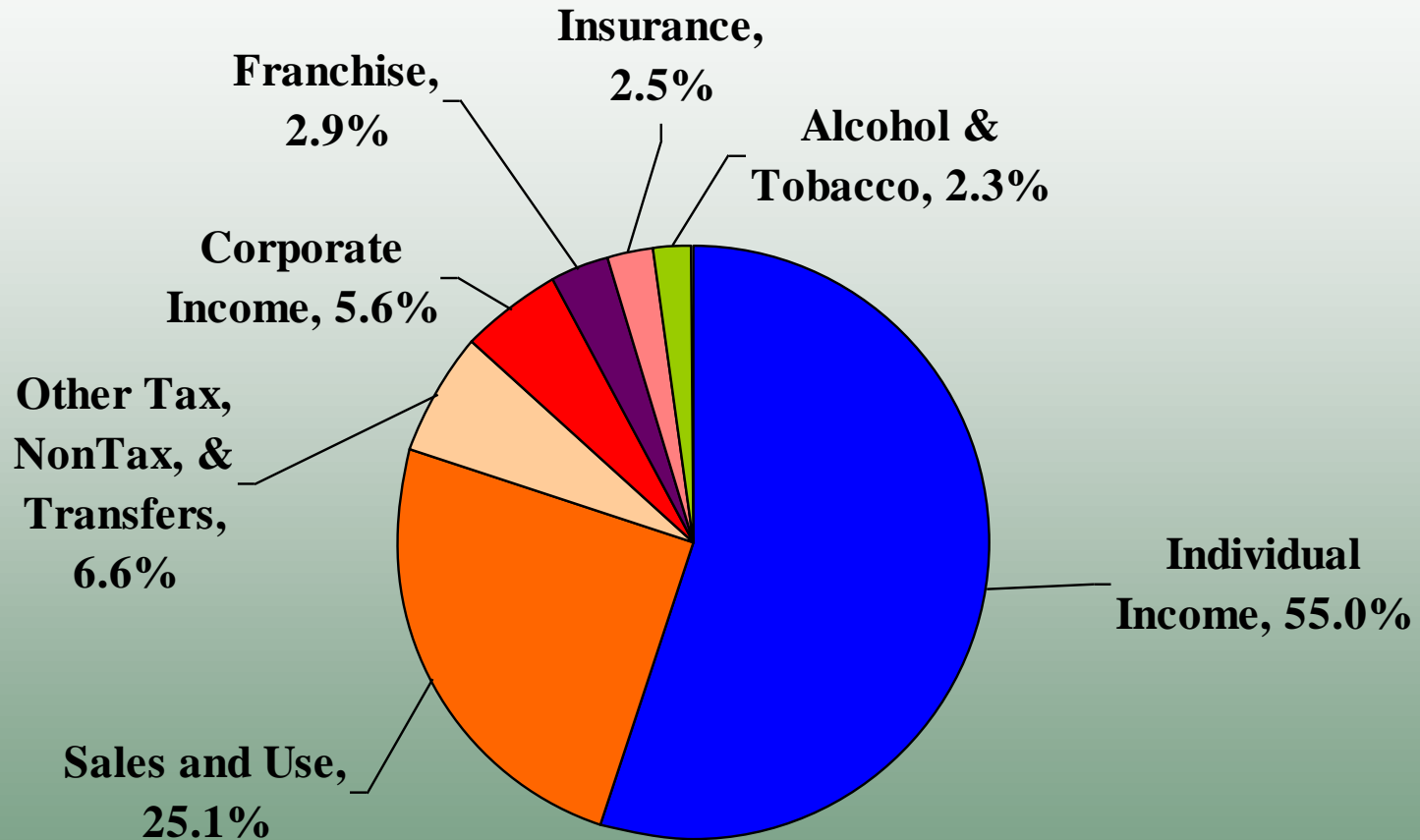


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FISCAL RESEARCH DIVISION
A Staff Agency of the North Carolina General Assembly

State General Fund, FY 2007-08



FY 2008-09 Revenues

- To date, collections are running 9.2% below forecast. This means during the first 8 months of the fiscal year revenues are nearly \$1.2 billion below a \$12.7 billion target*.
 - January was 8% below target. A result of estimated payments falling 16% compared to last year.
 - February was dragged down by dismal sales tax collections and missed the forecast target by 12%. (note less than 5% of the year's collections occur in February).

*** Targets were adjusted for changes in the timing of refund payments**

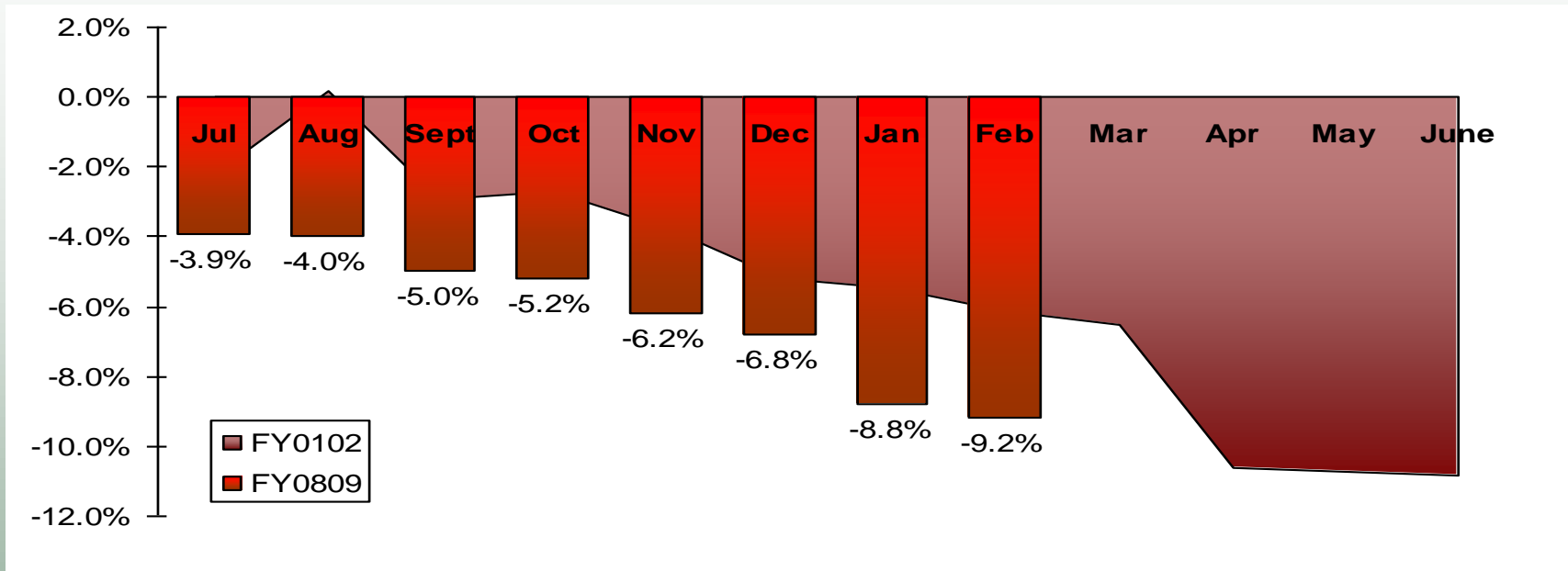
FY 2008-09 Revenues

- It is important to note that much of the forecast risk is still ahead of us. April collections represent the biggest month of collections during the fiscal year. As such, April is most likely to have the biggest swings, either up or down.
- On average, nearly 30% of the year's surplus or shortfall comes from April's Personal Income Tax payments.

FY 2008-09 Revenues

- In an effort to anticipate the outcome of this April's collection, revenues have been estimated to fall short of the budgeted amount by \$2.2 billion. This means that in the next four months (Mar. –June) revenues will continue to fall short of target by an additional \$1 billion
- A shortfall of this magnitude would represent a 5.9% decline in collections from last fiscal year. Since 1970-71, the only other time General Fund collections declined was in FY 2001-02. That year they fell 0.9%.

The Impact of April Payments & Refunds on Revenues



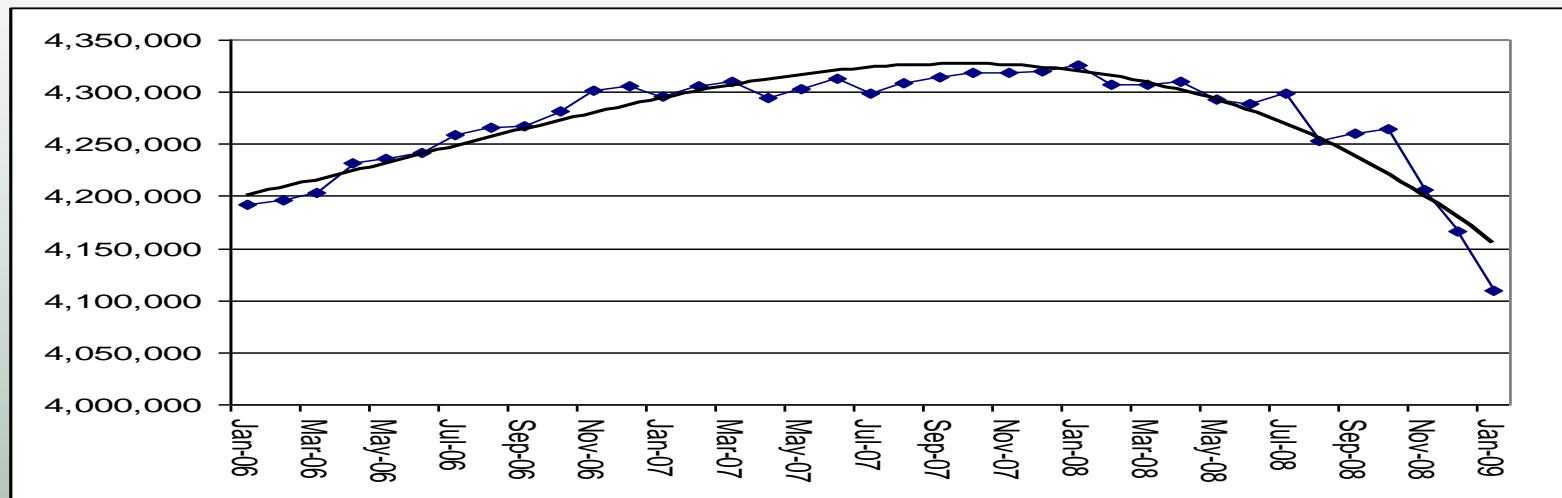
This year, unlike in FY 2001-02, the most significant declines have occurred in Sales Tax collections. This partially explains why collections compared to targets thru February are worse this year by comparison.

Business Cycles and State Revenues

<u>NBER Recession Date</u>	<u>Months</u>	<u>Revenue Shortfall</u>
July 1981 – Nov. 1982	16	FY 1981-82 -9.2%
July 1990 – March 1991	8	FY 1990-91 -8.1%
March 2001 – Nov. 2001	8	FY 2001-02 -10.8%
December 2007 – ?	15 and counting	est. -10.7%

Key Revenue Collection Trends

Non-Agricultural Employment, Seasonally Adjusted

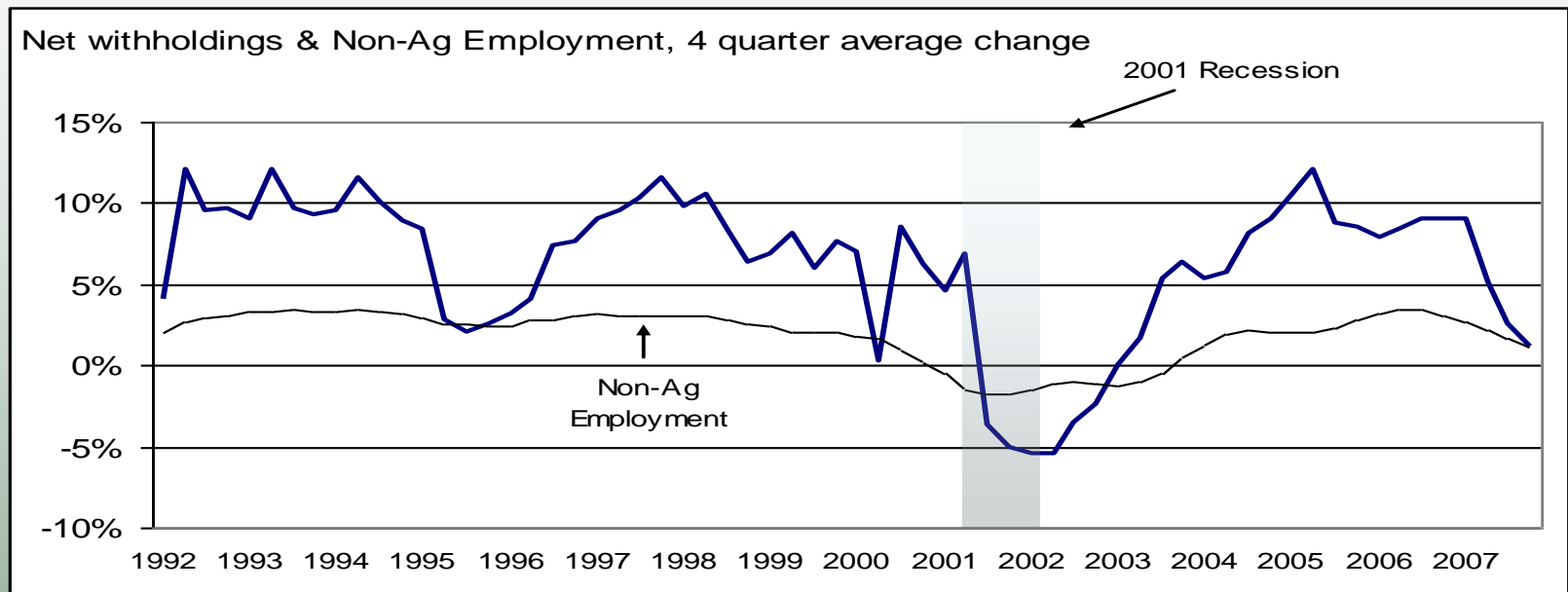


Employment, an important driver of income and spending continues to fall. Since January of last year, employment has fallen by 197,000 jobs and the unemployment rate is at 9.7%.

Source: North Carolina Employment Security Commission

Key Revenue Collection Trends

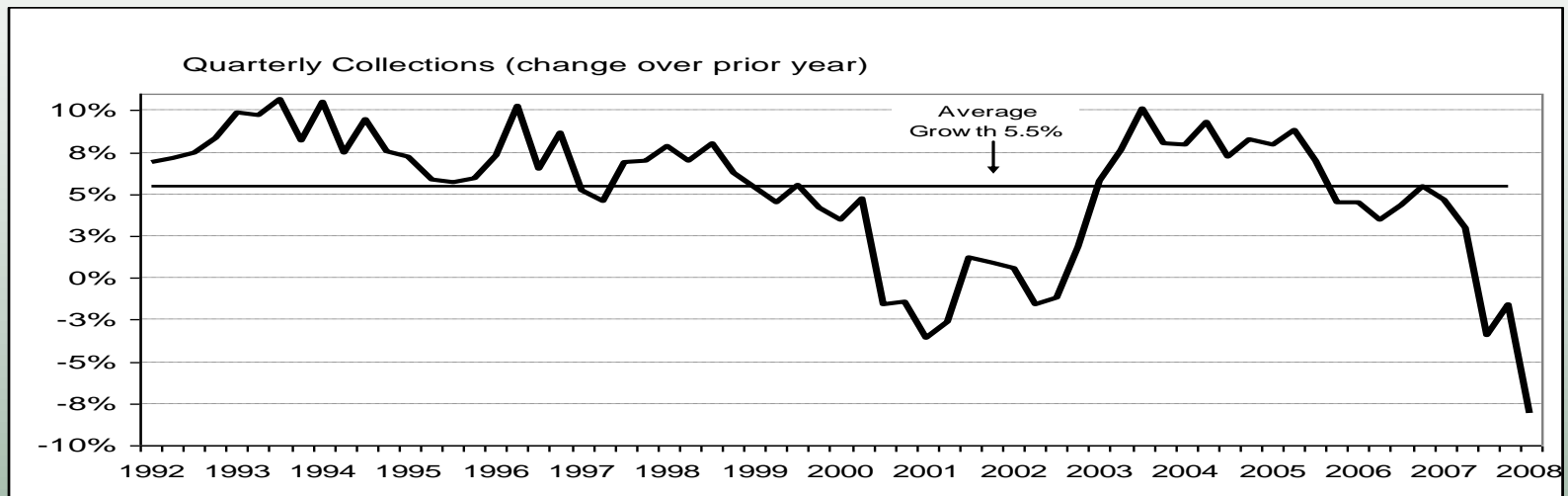
Withholding Tax Receipts



Withholding continues its downward trend coinciding with the slowdown in employment. As employment losses mount the probability increases that withholding collections will continue to decline.

Key Revenue Collection Trends

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



Sales tax collections are plummeting. There is little doubt that consumers are pulling back on consumption when viewing recent declines in sales tax collection. A double-digit baseline decline occurred in February.

Economic Outlook

- Overall employment has declined 5% in past year and another 1.5 % decline is expected this fiscal year. An additional 1% decline is forecast in FY 2009-10.
- Personal Income is forecast to grow only 2.0% in FY 2009-10, and only 1.2% wage & salary growth is expected. This compares with 5 to 7% growth rates the last several years prior to the FY 2008-09 slowdown.
- Consumers will continue to cutback on non-essentials; retails sales are projected to be down for all of 2009.

Economic Outlook: When will things improve?

Earliest economic improvement 2009:Q4

- A Wall Street Journal Survey of 50 economic forecasters and a similar survey by the Philadelphia Federal Reserve suggest that the end of the recession may come in either the third or fourth quarter of this year. The first quarter of this year is expected to be the worst of the recession, as measured by GDP growth. The recession is forecast to continue this spring, but begins to moderate. Very little or no growth is expected for this summer and into the fall.
- From the State's revenue perspective, collections will not noticeably improve until sometime in mid-2010 with employment growth lagging behind the start of the economic recovery

2009-2011 Biennium Outlook

- State's economy slips deeper into a recession
 - employment is down 197, 000 jobs
 - unemployment rate: 9.7% in January 2009
- All major Revenue collections continue to weaken, the result of
 - fewer jobs,
 - lower real wages,
 - and consumers cutting back on their spending and saving when they can.
- Net result: FY 2009-10 revenue baseline will be approximately \$2.2 billion or 10.7% lower than expected.

2009-2011 Biennium Outlook

- Based on most economic forecasts that envision a prolonged recession lasting into this fall
 - Recession-like conditions in the State will persist for much, if not all, of 2009
 - While the state is likely to come out of the recession earlier than many states, only a sluggish recovery is expected at the start of 2010.
 - Employment gains will lag 3-6 months behind the start of the recovery
- The result will be a difficult revenue picture developing in FY2009-10, and only modest revenue growth envisioned for FY2010-11.