

February 2021 Consensus General Fund Revenue Forecast

The world and economy look significantly different than nine months ago, at the time of the last consensus forecast. While the pandemic produced a rapid, substantial decline in economic activity in 2020 Q2, two waves of federal stimulus provided significant support to the economy. This support mitigated the severe and enduring negative impact economic forecasters expected earlier in the pandemic. Consumers and businesses also adapted to the pandemic and resumed economic activity as parts of the economy reopened. Consequently, revenues through the first seven months of FY 2020-21 were significantly above targets based on the May 2020 consensus.

The Consensus Forecasting Group, comprised of economists at OSBM and the General Assembly's Fiscal Research Division, anticipates FY 2020-21 revenues will exceed the May 2020 revised consensus forecast by \$4.1B (17.6%). Postponed payment and filing deadlines for many tax types shifted an estimated \$1.08B in tax collections from FY 2019-20 to FY 2020-21.

The consensus forecast anticipates a total of **\$55.8B for the next biennium**, with **\$27.4B in FY 2021-22** and **\$28.5B in FY 2022-23**.

February 2021 Consensus General Fund Revenue Forecast (Amounts in Millions)									
Revenue Source	FY 2019-20	FY 2020-21			FY 2021-22		FY 2022-23		
	Actual	May 2020	YoY Chg	Consensus	YoY Chg	Consensus	YoY Chg	Consensus	YoY Chg
Individual Income	\$12,414.7			\$14,821.6	19.4%	\$14,456.3	-2.5%	\$14,954.6	3.4%
Sales and Use	\$7,820.6			\$8,623.7	10.3%	\$8,890.5	3.1%	\$9,222.2	3.7%
Corporate Income & Franchise	\$1,303.7			\$1,845.4	41.5%	\$1,600.9	-13.2%	\$1,657.7	3.5%
All Other Tax	\$1,456.7			\$1,539.6	5.7%	\$1,637.8	6.4%	\$1,818.9	11.1%
Total Tax Revenue	\$22,995.7	\$22,627.6	-1.6%	\$26,830.3	16.7%	\$26,585.5	-0.9%	\$27,653.4	4.0%
Total Nontax Revenue	\$943.6	\$838.7	-11.1%	\$772.3	-18.2%	\$765.1	-0.9%	\$808.1	5.6%
Total General Fund Revenue	\$23,939.3	\$23,466.3	-2.0%	\$27,602.6	15.3%	\$27,350.6	-0.9%	\$28,461.5	4.1%

Source: Consensus Forecasting Group (OSBM and FRD)

The increase in collections compared to May's revised consensus forecast was driven primarily by:

- Stronger than expected individual income tax collections bolstered by federal stimulus,
- Higher sales tax collections due to consumers reallocating spending from un-taxed services to taxable goods and the implementation of a new requirement for online marketplaces to collect and remit sales tax on purchases, and
- Strong business tax collections buoyed by the federal Paycheck Protection Program and rising profits among many of the country's largest companies.

Key Assumptions

- Rates of new coronavirus infections will continue to decline as more of the population gets vaccinated.
- Congress will enact another round of stimulus that extends federal unemployment insurance programs and provides direct payments to households in the spring of 2021.
- Wage and salary earnings of North Carolina workers surpassed the pre-recession peak in the final quarter of 2020. Total employment, however, will not surpass the pre-recession peak until the end of 2021 or early 2022.
- Growth in taxable consumption will slow modestly in the second half of 2021 as the impact of stimulus fades and as consumers shift spending toward more non-taxable services.
- Federal economic relief policies, including the Paycheck Protection Program and supplemental unemployment insurance payments, provided a significant, temporary boost to state revenues in FYs 2020-21 and 2021-22.
- Due to heightened uncertainty regarding the impact of federal stimulus measures on the state's tax bases, anticipated revenues could be significantly lower or higher, even using the above economic assumptions.