

# NC Economic and Budget Conspectus

## Current Economic Conditions

### *For the Nation*

The June 2005 employment report shows continued improvement in labor market conditions. Payroll employment rose 146,000 in June, below most expectations that had centered around 180,000. However, employment growth in April and May was revised up by a combined 44,000 jobs, which compensates for the slight undershooting in June.

Employment gains have been on a roller coaster so far in 2005. The year shows two “huge” months with job gains of nearly 300,000 (February and April), combined with four “soft” months in the 100,000-150,000 range. It is important to look at trends rather than monthly gyrations. There was an average monthly job gain of 181,000 during the second quarter of 2005, following an almost-identical average monthly increase of 182,000 during the first quarter. The average monthly gain over the past 12 months is 172,000. This trend represents steady progress.

The details for June showed job growth of 150,000 in service-producing industries, led by professional and business services (up 56,000). Encouragingly, 27,000 of these jobs were in mostly better-paid professional and technical services (such as architectural and engineering services as well as computer systems design). Health services, perennially strong, added 35,000 jobs. The hot housing market, spurred on by falling long-term interest rates, helped add 9,000 jobs in credit intermediation and 6,000 jobs in real estate.

On the downside, manufacturing lost another 24,000 jobs, concentrated in transportation equipment (down 14,000), reflecting cutbacks in motor vehicle assembly and parts.

The monthly household survey showed a small drop in the unemployment rate, from 5.1% to 5.0%. Over the past year, the rate has come down from 5.6%, consistent with the steady progress on job additions shown in the payroll survey.

Consumers are still confident, in spite of higher energy prices, as job market conditions continue to improve. Excluding the very strong auto sales, retail sales were up 0.7%. After a weak May due to cool weather, clothing and general merchandise moved up just over 1%. Motor vehicles and parts blew past the checkered flag at a rate of 4.8%, as consumers jumped at excellent new car values provided by producer incentives.

The housing sectors remain very healthy. Housing starts sizzled in June, remaining above the 2-million-unit mark (annual rate) for the third consecutive month. Single-unit starts fell 2.5%, but this change was offset by a 14.2% increase in multiple-unit starts. Once again, activity in the South kept the national numbers sizzling. Existing home sales set another record in June, jumping 2.7% to 7.33 million units (annual rate), surpassing the previous high mark set in April. The housing market was so hot in June that the National Association of Realtors’ press release contained at least a dozen records. Condo/co-op sales rose to a record high for the fourth straight month to 960,000 units.

There was comforting news on inflation as the consumer price index showed no change in June. Even stripping out volatile food and energy prices, the key core price index rose just 0.1%.

### *For North Carolina*

Total nonfarm payroll employment recorded a 10,900 increase (seasonally adjusted) in June 2005. Not unexpectedly, all of the increase occurred in the service-producing sector. Government led the way, adding 9,100 jobs in June. Other industries gaining employment in June included professional and business services (up 3,700), educational and health services (up 3,300), and information (up 400). Job losses were posted by leisure and hospitality services (down 2,100) and trade, transportation, warehousing, and utilities (down 300).

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**For North Carolina continued**

The manufacturing sector lost 600 jobs in June. On a positive note, North Carolina has added 700 net new manufacturing jobs over the past twelve months. The construction sector remained nearly level in June, increasing by 100 jobs over May.

The state's nonfarm employment now stands 72,900 ahead of June 2004, representing an increase of 1.9%.

North Carolina's seasonally adjusted unemployment rate rose to 5.3% in June from 5.1% in May. The state now stands slightly above the national jobless rate of 5.0%.

**Monthly Economic Indicators**

(Seasonally Adjusted)	Jun. 2004	Jan. 2005	Feb. 2005	Mar. 2005	Apr. 2005	May 2005	Jun. 2005
<b>United States</b>							
Industrial production (index)	115.1	117.8	118.3	118.6	118.2	118.6	119.7
% change year ago	4.7	4.0	3.4	3.9	3.0	2.7	3.9
Unemployment rate (%)	5.6	5.2	5.4	5.2	5.2	5.1	5.0
Nonfarm payroll employment (mil.)	131.479	132.573	132.873	132.995	133.287	133.413	133.579
Change year ago (mil.)	1.625	2.201	2.407	2.209	2.164	2.040	2.100
Personal income (bil. of \$, annual rate)	9,643	10,045	10,091	10,131	10,199	10,222	10,275
% change year ago	5.2	6.5	6.4	6.3	6.6	6.2	6.6
Retail sales ex. food svc. (bil. of \$)	289	304	306	307	312	311	317
% change year ago	6.0	8.0	8.0	6.0	9.2	6.2	9.9
Housing starts (mil. units, annual rate)	1.817	2.188	2.228	1.833	2.027	2.004	2.004
New light-vehicle sales (mil. units, annual rate)	15.37	16.18	16.25	16.80	17.40	16.62	17.49
CPI, all urban consumers (index)	189.3	191.3	192.0	193.2	194.2	194.1	194.1
% change year ago	3.2	2.9	2.9	3.2	3.5	2.8	2.5
Federal funds rate-effective (%) <sup>1</sup>	1.03	2.28	2.50	2.63	2.79	3.00	3.04
Crude oil price (\$ per barrel) <sup>1</sup>	38.02	46.84	47.97	54.31	53.04	49.83	56.26
<b>North Carolina</b>							
Civilian unemployment rate (%)	5.6	5.0	5.4	5.2	5.3	5.1	5.3
Nonfarm payroll employment (000)	3,817.3	3,846.1	3,850.8	3,857.1	3,871.4	3,879.3	3,890.2
% change year ago	0.9	1.2	1.4	1.4	1.6	1.6	1.9
Change year ago (000)	35.0	46.3	52.1	52.7	59.7	61.6	72.9
Manufacturing employment	577.6	576.2	575.9	575.7	575.2	578.9	578.3
% change year ago	-3.9	-0.4	-0.2	-0.1	-0.4	0.2	0.1
Nonmanufacturing employment	3,239.7	3,269.9	3,274.9	3,281.4	3,296.2	3,300.4	3,311.9
% change year ago	1.8	1.5	1.6	1.6	1.9	1.9	2.2
Average weekly hours-manuf. <sup>1</sup>	40.4	40.2	39.9	39.9	39.8	39.6	40.1
Average weekly earnings-manuf. (\$) <sup>1</sup>	581.76	572.85	568.97	570.97	568.74	568.26	575.03
% change year ago	7.9	2.6	1.5	0.5	-0.3	-2.0	-1.2

1. Not seasonally adjusted

## Revenue

General Fund revenue collections began fiscal year 2005-06 on a strong note. Net tax revenue totaled \$1,108.2 million, an increase of 7.7% over the prior year. Net individual income tax collections were \$583.0 million in July, up 6.8% over 2004. As state labor market conditions improved, withholding tax payments grew by 7.8%.

Sales and use tax collections continued their strong showing of the last two years. Net sales and use tax payments were \$416.6 million in July, an increase of 7.1%. However, as consumers shift more of their incomes to meeting higher energy prices, a moderation in the rate of growth in sales tax collections is anticipated.

July is not a significant month for net corporate income tax payments, which totaled \$37.7 million. It is worthy to note that this amount is nearly double the July 2004 collection.

General Fund nontax revenue collections were \$28.5 million in July. Of this amount, judicial fees were \$11.7 million, and income from Treasurer's investments was \$9.9 million.

Overall, General Fund net revenue collections totaled \$1,136.7 million in July, or \$16.8 million above the amount projected in the authorized budget.

### 2005-06 General Fund Revenue

(Millions)

	July		
	Actual	Budget	Diff.
<b>Tax revenue</b>			
Individual income	\$583.0	\$568.5	\$14.5
Sales and use <sup>1</sup>	416.6	423.5	-6.9
Corporate income	37.7	28.5	9.2
Franchise	27.7	30.4	-2.7
Alcoholic beverage	12.3	11.1	1.2
Insurance	3.6	4.3	-0.7
Other taxes	27.3	27.7	-0.4
<b>Total taxes</b>	<b>\$1,108.2</b>	<b>\$1,094.0</b>	<b>\$14.2</b>
% Change	7.7		
<b>Nontax revenue</b>			
Treasurer's investments	\$9.9	\$7.2	\$2.7
Judicial fees	11.7	12.1	-0.4
Insurance Department	1.1	0.6	0.5
DSH <sup>2</sup>	0.0	0.0	0.0
Other nontax	5.8	6.0	-0.2
<b>Total nontax</b>	<b>\$28.5</b>	<b>\$25.9</b>	<b>\$2.6</b>
% Change	20.8		
<b>Transfers</b>			
Highway Trust Fund	0.0	0.0	0.0
<b>Total revenue</b>	<b>\$1,136.7</b>	<b>\$1,119.9</b>	<b>\$16.8</b>
% Change	8.0		

1. July 2005 sales and use taxes are tentative.

2. Medicaid Disproportionate Share Payments

## Receipts

### Summary Monthly and Year-to-Date Departmental Receipts

Fiscal Year 2004-05<sup>a</sup>

<u>Description</u>	Original Budget	2005 June	Year-to-Date Total
Education	\$ 1,952,548,217	\$ 147,491,991	\$ 2,304,433,802
Health and Human Services	9,139,957,371	1,248,143,769	10,276,484,419
Justice and Public Safety	84,662,512	(7,833,547)	265,145,086
General Government	92,081,774	27,135,278	136,211,458
Natural and Economic Resources	181,903,171	29,642,255	283,055,178
Other (debt service)	64,500,000	182,541	67,386,603
<b>Total</b>	<b>\$ 11,515,653,045</b>	<b>\$ 1,444,762,287</b>	<b>\$ 13,332,716,545</b>

## Disbursements

### Summary Monthly and Year-to-Date Disbursements

Fiscal Year 2004-05<sup>a</sup>

<u>Description</u>	Original Budget	2005 June	Year-to-Date Total
Education	\$ 8,727,889,945	\$ 919,550,782	\$ 9,185,640,531
Health and Human Services	3,788,537,572	406,203,064	3,785,482,228
Justice and Public Safety	1,585,483,431	153,533,124	1,659,557,281
General Government	346,776,598	46,921,400	351,119,643
Natural and Economic Resources	341,917,319	25,812,181	338,107,553
Other (debt service)	1,127,754,663	34,288,897	478,452,309
<b>Total</b>	<b>\$ 15,918,359,528</b>	<b>\$ 1,586,309,448</b>	<b>\$ 15,798,359,545</b>

a. Data from original certified budget (BD 307s) and monthly BD 701 budget reports