

# NC Economic and Budget Conspectus

## Current Economic Conditions

### For the Nation

The labor market picture for July is consistent with a slowing economy. Payroll employment rose 113,000 in July. This marks the fourth consecutive month of payroll employment increases in the 100,000 to 125,000 range and underscores the slowdown. Construction added a modest 6,000 jobs and mining added 8,000, while manufacturing employment decreased 15,000.

Private services industries gained 115,000 in July, an increase of 29,000 above June's gains. Demonstrating that demand for highly skilled workers is still strong, professional and technical services realized employment gains of 43,000. Leisure and hospitality services gained 42,000 jobs, almost double the gain during June. There were also solid employment gains in the health services sector (23,000).

The U.S. economy slowed in the second quarter as real GDP growth was 2.5%, below expectations of 3% and down from 4.8% growth in the first quarter. The main contributor to this decline was a 1% reduction in business equipment and software spending, the first decline since the first quarter of 2003. The disappointing drop was concentrated in information processing equipment and software, plus transportation equipment. This second-quarter weakness may simply be a payback for very strong growth in the first quarter, or it may be indicative of a sharp slowdown in growth.

Consumer prices rose an expected 0.4% in July. Food prices advanced a moderate 0.2%, while energy prices rose 2.9%, reflecting the surge in gasoline prices. Core inflation, which excludes food and energy components, fell to 0.2% in July after four months at 0.3%.

Housing starts fell sharply for the fifth time in six months, as new home sales were down while inventories

were near record highs. Single units fell 2.3%, and multiple units dropped 3.4%. Starts were slightly up in the Midwest but down in the Northeast, West, and South. Housing permits, a good indicator of future housing activity, also fell in July for the sixth straight month.

July was a good month for U.S. light-vehicle sales. The seasonally-adjusted annual selling rate was 17.2 million units, about 0.9 million units better than June and the second-best month of 2006. The July 2006 figure is certainly short of the 20.7 million unit rate from July 2005, when lucrative employee deals were in full force. The car selling rate continued to increase relative to the light truck rate, as high gas prices pushed consumers toward smaller vehicles. The car selling rate was 8.2 million units; the light truck rate was 9 million units.

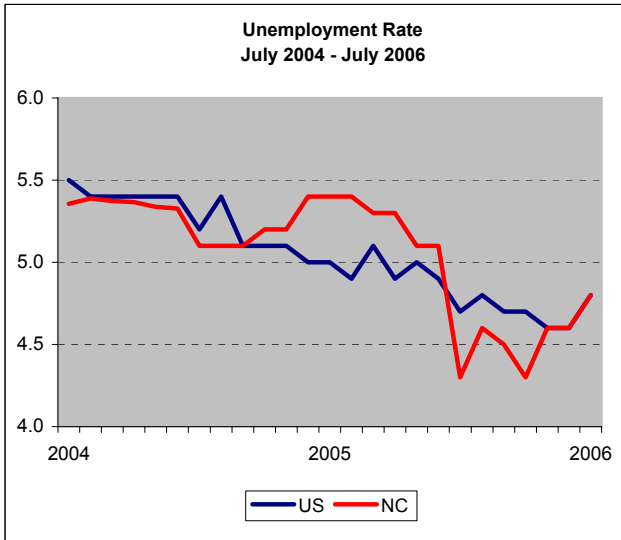
After a weak performance in June, retail sales rebounded strongly in July. Total sales climbed 1.4% in July and were led by gains in the automotive, gasoline, electronics and appliance, and nonstore retailer groups. The July sales numbers should be viewed with caution, however, as gains were fueled by auto incentives and the summer heat. Consumers will continue to struggle with high gasoline prices and a housing downturn in upcoming months.

### For North Carolina

North Carolina's seasonally adjusted rate of unemployment increased to 4.8% in July from 4.6% in June. This change marks the third consecutive month that North Carolina's unemployment rate stayed the same as the

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national rate. The July rate is 0.6 % lower than July 2005. The total number of people employed increased by 21,555 to 4,215,526.

Based on the monthly payroll survey, total nonfarm employment decreased by 1,500 jobs over the month but netted 82,400 jobs since July 2005. Monthly job gains were mainly in educational and health services (2,500 jobs), followed by professional and business services (2,200 jobs). Over the year, educational and health services added 21,100 jobs, and professional and business services gained 12,300.

### Monthly Economic Indicators

(Seasonally Adjusted)	Jul 2005	Feb 2006	Mar 2006	Apr 2006	May 2006	Jun 2006	Jul 2006
<b>United States</b>							
Industrial production (index)	108.3	110.7	111.2	112.1	112.2	113.1	113.5
% change year ago	3.1	3.1	3.7	4.6	4.4	4.4	4.9
Unemployment rate (%)	5.0	4.8	4.7	4.7	4.6	4.6	4.8
Nonfarm payroll employment (millions)	133.617	134.730	134.905	135.017	135.117	135.241	135.354
Change year ago (millions)	2.161	1.994	2.029	1.913	1.907	1.865	1.737
Personal income (billions of \$, annual rate)	10,288	10,644	10,686	10,763	10,805	10,871	0
% change year ago	6.2	5.7	5.6	6.1	6.1	6.5	-100.0
Retail sales excluding food services (billions of \$)	318.5	323.8	326.0	328.4	329.0	327.6	332.4
% change year ago	10.3	7.4	7.8	6.9	7.6	5.6	4.4
Housing starts (millions of units, annual rate)	2.070	2.132	1.972	1.832	1.953	1.841	1.795
New light-vehicle sales (millions of units, annual rate)	20.68	16.55	16.54	16.64	16.10	16.12	17.14
CPI, all urban consumers (index)	195.1	199.1	199.8	201.0	201.9	202.3	203.2
% change year ago	3.1	3.7	3.4	3.5	4.0	4.2	4.2
Federal funds rate-effective (%) <sup>1</sup>	3.26	4.49	4.59	4.79	4.94	4.99	5.24
Crude oil price (\$ per barrel) <sup>1</sup>	58.70	61.63	62.90	69.69	70.94	70.96	74.41
<b>North Carolina</b>							
Civilian unemployment rate (%)	5.4	4.6	4.5	4.3	4.6	4.6	4.8
Nonfarm payroll employment (000)	3,903.8	3,963.6	3,970.2	3,970.8	3,981.6	3,987.7	3,986.2
% change year ago	1.6	1.8	1.9	1.8	2.1	2.4	2.1
Change year ago (000)	61.9	69.5	73.0	70.4	81.8	94.7	82.4
Manufacturing employment	565.1	562.8	563.0	562.5	560.4	560.8	558.4
% change year ago	-3.0	-1.4	-1.1	-0.9	-1.2	-0.9	-1.2
Nonmanufacturing employment	3,338.7	3,400.8	3,407.2	3,408.3	3,421.2	3,426.9	3,427.8
% change year ago	2.4	2.3	2.4	2.3	2.7	3.0	2.7
Average weekly hours-manufacturing <sup>1</sup>	38.8	39.2	39.6	39.0	39.8	39.7	39.1
Average weekly earnings-manufacturing (\$) <sup>1</sup>	562.6	561.3	566.3	564.3	574.7	574.9	574.0
% change year ago	-1.9	-1.3	-0.9	-1.2	1.0	0.2	2.0

1. Not seasonally adjusted

Manufacturing experienced the largest monthly job losses (2,400 jobs). Since July 2005, the textile industry alone lost 7,400 jobs. Trade, transportation, and utilities (800 jobs) and leisure and hospitality (700 jobs) also experienced losses.

## Revenue

Fiscal year 2006-07 is off to a solid start, as General Fund net tax revenue totaled \$1,241 million in July, an increase of 12.5% above the previous year. A contributor to this strong growth was the July 2006 increase in the tax rate on tobacco products (net collections increased by \$16 million).

Despite higher energy prices and a slowing housing market, sales and use tax collections continued to

exhibit strong growth. Net sales and use tax collections grew 15.9% in July, a strong sales and use tax collections month. In fact, July is typically the second highest month of the year for this revenue category. Gross sales tax collections (prior to netting out refunds) increased by 8.2%.

Net individual income taxes grew by 8.6% in July. Gross individual income tax collections totaled \$696.5 million, an increase of 6.7%. Withholding tax payments continued to demonstrate strong growth; collections expanded by 7.2% for the month. Net corporate income tax payments were only \$15.2 million in July, which is not a significant month for this revenue category. Gross collections were down 9.9% for the month.

## General Fund Revenue, 2006-07

(\$Millions)

	July			Year-to-Date		
	Actual	Budget	Difference	Actual	Budget	Difference
<b>Tax revenue</b>						
Individual income	\$633.5	\$632.4	\$1.1	\$633.5	\$632.4	\$1.1
Sales and use <sup>1</sup>	477.0	471.6	5.4	477.0	471.6	5.4
Corporate income	15.2	23.6	-8.4	15.2	23.6	-8.4
Franchise	41.6	32.3	9.3	41.6	32.3	9.3
Alcoholic beverage	13.5	13.1	0.4	13.5	13.1	0.4
Insurance	5.2	3.8	1.4	5.2	3.8	1.4
Other taxes	55.1	46.3	8.8	55.1	46.3	8.8
Total taxes	\$1,241.0	\$1,223.1	\$17.9	\$1,241.0	\$1,223.1	\$17.9
% Change	12.5			12.5		
<b>Nontax revenue</b>						
Treasurer's investments	\$12.8	\$10.3	\$2.5	\$12.8	\$10.3	\$2.5
Judicial fees	13.7	11.9	1.8	13.7	11.9	1.8
Insurance Department	0.2	1.2	-1.0	0.2	1.2	-1.0
Disproportionate share	0.0	0.0	0.0	0.0	0.0	0.0
Other nontax	4.9	6.0	-1.1	4.9	6.0	-1.1
Total nontax	\$31.7	\$29.4	\$2.3	\$31.7	\$29.4	\$2.3
% Change	11.1			11.1		
<b>Transfers</b>						
Highway Trust Fund	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
<b>Total revenue</b>	<b>\$1,272.6</b>	<b>\$1,252.5</b>	<b>\$20.1</b>	<b>\$1,272.6</b>	<b>\$1,252.5</b>	<b>\$20.1</b>
% Change	12.5			9.6		

1. July sales and use tax collections are tentative.

For the first month of fiscal year 2006-07, total tax revenue collections were \$17.9 million above budget expectations. Including nontax revenue sources, total General Fund revenue was \$20.1 million ahead of budget expectations.