North Carolina
Office of State Budget
and Management

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Raleigh, North Carolina

NC Economic and Budget Conspectus

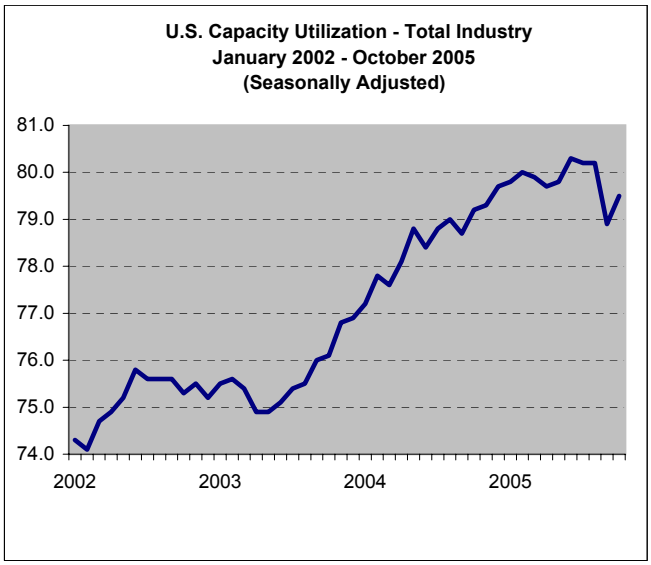
Current Economic Conditions

For the Nation

Looking back, third-quarter 2005 growth in real gross domestic product was revised up to 4.3% (from a preliminary 3.8%), the fastest growth rate since early 2004, despite the drag from hurricanes Katrina and Rita. The extent of the drag from these hurricanes is unknown but is probably in the range of 0.5-1.0 percentage point. Growth would likely have been closer to 5.0% without the hurricanes.

Payroll employment rose by 56,000 in October 2005, after falling by 8,000 in September. It is likely that hurricanes Katrina and Rita accounted for both September's drop as well as October's small gain. Since the end of August, an estimated 520,000 claims for unemployment insurance have been filed as a result of the Gulf Coast hurricanes. In Louisiana, where weekly initial unemployment claims typically run between 3,000 and 4,000, the claims for the first four weeks of October averaged 36,000, after averaging 45,000 in September. Moreover, anecdotal evidence indicates that many of Louisiana's largest employers, such as the city of New Orleans and Louisiana State University, kept workers on the payroll in September but were forced to furlough workers for budgetary reasons in October. Finally, the October national employment declines of 11,300 in educational services; 17,900 in accommodations and food services; and 18,000 in department stores bear the imprints of the storms.

Total industrial production rose 0.9% in October 2005, rebounding from a drop of 1.5% in September due to hurricanes and a Boeing strike. Utility output fell 1.9% because of the storms and milder-than-normal weather in October. Core manufacturing output (excluding high technology and vehicles) surged 1.6% after a 1.3% decline in September, with about half of the changes coming from Boeing swings. Capacity utilization remains close to 80%.



October was a disappointing and dismal month for light-vehicle sales. U.S. car and light-truck sales plunged to a seasonally adjusted annual selling rate of 14.7 million units. This figure compares with 16.3 million units in September and 16.9 million units a year earlier. This selling rate was the weakest since late 1998. While well below the expectations of most analysts (centered on 15.5 million units), the drop-off is understandable in light of the huge sales of June and July and the reduction of dealer incentives.

In October 2005, retail sales fell 0.1%, as declines at auto dealerships and gasoline stations were offset almost

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fully by gains in every other major sales channel. Non-automotive sales climbed 0.9% from September and a huge 9.9% from one year earlier. Excluding autos and gasoline, sales surged 1.1% from the previous month and 7.8% from September 2004. This news is very good for retailers worried about the holiday season.

Total housing starts fell 5.6% in October but remained above the two-million mark (annual rate). Single-unit starts fell 3.7%, while multiunit starts plummeted 14.8%. Starts fell in all four regions of the U.S., with the West (down 10.8%) and the Midwest (down 10.5%) taking the biggest hits. New housing permits dropped 6.7%, the largest percentage drop in six years. One should not be too concerned about how much starts and permits dropped in October. The residential construction market is still strong. Permits remained above the two-million mark for the 20th straight month, while starts were above the threshold for the seventh straight month.

Crude oil prices turned downward in October, following the hurricane-related supply shortages in September. The price of West Texas intermediate oil averaged $62.37 per barrel in October, after peaking at $65.57 in September.

Monthly Economic Indicators

(Seasonally Adjusted)	Oct. 2004	May 2005	Jun. 2005	Jul. 2005	Aug. 2005	Sep. 2005	Oct. 2005
United States							
Industrial production (index)	105.8	107.4	108.3	108.3	108.5	106.9	107.9
% change year ago	4.7	2.4	3.7	3.1	3.0	1.7	1.9
Unemployment rate (%)	5.5	5.1	5.0	5.0	4.9	5.1	5.0
Nonfarm payroll employment (millions)	132.162	133.413	133.588	133.865	134.013	134.030	134.074
Change year ago (millions)	2.086	2.040	2.109	2.303	2.263	2.150	1.912
Personal income (billions of $, annual rate)	9,858	10,181	10,232	10,269	10,168	10,343	10,385
% change year ago	6.3	5.7	6.1	6.0	4.4	6.0	5.3
Retail sales excluding food services (billions of $)	299.9	311.3	317.6	323.5	316.8	317.5	317.0
% change year ago	8.7	6.2	10.1	10.8	8.4	6.8	5.7
Housing starts (millions of units, annual rate)	2.062	2.041	2.065	2.062	2.081	2.134	2.014
New light-vehicle sales (millions of units, annual rate)	16.92	16.62	17.49	20.68	16.75	16.34	14.70
CPI, all urban consumers (index)	190.7	194.1	194.1	195.1	196.1	198.5	198.9
% change year ago	3.2	2.8	2.5	3.1	3.6	4.7	4.3
Federal funds rate-effective (%)[1]	1.76	3.00	3.04	3.26	3.50	3.62	3.78
Crude oil price ($ per barrel)[1]	53.13	49.83	56.26	58.70	64.97	65.57	62.37
North Carolina							
Civilian unemployment rate (%)	5.4	5.1	5.3	5.7	5.6	5.5	5.3
Nonfarm payroll employment (000)	3,842.6	3,879.3	3,890.2	3,897.0	3,899.1	3,893.2	3,888.4
% change year ago	1.3	1.6	1.9	1.4	1.1	0.9	1.2
Change year ago (000)	48.9	61.6	72.9	55.1	42.6	35.4	45.8
Manufacturing employment	579.1	578.9	578.3	575.8	574.0	570.5	571.7
% change year ago	-0.7	0.2	0.1	-1.2	-1.3	-1.7	-1.3
Nonmanufacturing employment	3,263.5	3,300.4	3,311.9	3,321.2	3,325.1	3,322.7	3,316.7
% change year ago	1.6	1.9	2.2	1.9	1.5	1.4	1.6
Average weekly hours-manufacturing[1]	40.4	39.6	40.1	38.8	39.7	39.9	41.0
Average weekly earnings-manufacturing ($)[1]	578.12	568.26	575.03	561.82	570.09	567.38	589.99
% change year ago	4.7	-2.0	-1.2	-2.0	-2.3	-2.6	2.1

1. Not seasonally adjusted

For North Carolina

North Carolina's seasonally adjusted rate of unemployment fell to 5.3% in October from 5.5% in September and its recent high of 5.7% in July. Total employment stands at 4,129,635, an increase of 2.4% over the past twelve months.

Total nonfarm employment, as measured by the payroll survey, fell by 4,800 in October 2005 from the prior month. However, the decline was centered on the government sector (-11,400), which is extremely volatile on a monthly, seasonally adjusted basis. Total private sector employment increased by 6,600 in October.

Over the past year, North Carolina has recorded a net gain of 45,800 nonfarm jobs, an increase of 1.2%.

Most sectors experienced job growth since October 2004: professional and business services (+16,800), educational and health services (+15,200), leisure and hospitality services (+6,600), construction (+4,900), information (+1,900), and government (+300). The state's manufacturing sector continued to lose jobs (-7,400), along with trade, transportation, warehousing, and utilities (-400).

Revenue

General Fund net tax revenue totaled $1,128.9 million in November 2005, an increase of 15.1% over the prior year. Although November was a solid month for tax collections, this very strong showing resulted from a techni-

General Fund Revenue

(Millions)

	Nov.			Year-to-Date		
	Actual	Budget	Difference	Actual	Budget	Difference
Tax revenue						
Individual income	$676.1	$670.2	$5.9	$3,534.6	$3,524.5	$10.1
Sales and use[1]	417.5	413.2	4.3	1,998.8	1,953.5	45.3
Corporate income	-45.2	-46.1	0.9	240.2	227.8	12.4
Franchise	36.2	33.1	3.1	186.7	170.9	15.8
Alcoholic beverage	18.4	19.1	-0.7	80.8	79.2	1.6
Insurance	-1.2	3.8	-5.0	129.5	129.2	0.3
Other taxes	27.2	34.8	-7.6	130.1	134.3	-4.2
Total taxes	$1,128.9	$1,128.1	$0.8	$6,300.7	$6,219.4	$81.3
% Change	15.1			8.5		
Nontax revenue						
Treasurer's investments	$10.4	$6.1	$4.3	$46.5	$32.0	$14.5
Judicial fees	12.2	14.1	-1.9	62.0	63.0	-1.0
Insurance Department	1.3	1.4	-0.1	11.0	10.6	0.4
DSH[2]	0.0	0.0	0.0	0.0	0.0	0.0
Other nontax	6.7	6.5	0.2	35.6	34.3	1.3
Total nontax	$30.7	$28.1	$2.6	$155.0	$139.9	$15.1
% Change	-49.3			-22.9		
Transfers						
Highway Trust Fund	$63.1	$63.1	$0.0	$126.3	$126.3	$0.0
Total revenue	$1,222.8	$1,219.3	$3.5	$6,582.0	$6,485.6	$96.4
% Change	4.8			6.6		

1. November sales and use tax collections are tentative.

2. Medicaid Disproportionate Share Payments

cal issue which boosted individual income withholding taxes by 13.5%. Consequently, growth in December withholding taxes (as reported) will be weak, resulting in an expected growth of about 6.5% for the two-month period.

Net sales and use tax collections jumped by 19.4% in November, as refunds were light (after large refunds in October). Gross sales tax collections (prior to netting out refunds) increased by a very healthy 8.7%.

Corporate income taxes were -$45.2 million in November. November is not a significant month for corporate income taxes with gross collections of only $10.1 million. The decline in net receipts resulted from $35.6 million in refunds and the quarterly transfer of $19.6 million to the Public School Capital Building Fund.

For the month, total tax revenue collections were right on schedule with budget expectations (+$800,000). For the first five months of fiscal year 2005-06, General Fund tax revenue stands $81.3 million ahead of the budget target. (The increase from the $64.5 million reported in the November *Conspectus* was largely the result of an upward revision in October 2005 state sales and use tax collections.) Including nontax revenue sources, General Fund revenue is now $96.4 million ahead of budget expectations.

Summary of Monthly and Year-to-Date Departmental Receipts and Disbursements Fiscal Year 2005-06[a]

Description	Original Budget	Jul. 2005	Aug. 2005	Sep. 2005	Yr-to-Date Total
Receipts					
Education	$9,481,737,778	$248,006,517	$329,455,595	$121,936,122	$699,398,233
Health and Human Services	4,033,235,902	902,039,122	652,876,639	1,032,022,056	2,586,937,817
Justice and Public Safety	1,719,430,954	26,437,198	25,576,427	24,996,179	77,009,805
General Government	380,477,135	64,144,578	4,301,303	7,586,893	76,032,774
Natural and Economic Resources	457,217,604	17,793,561	12,636,073	17,416,117	47,845,751
Other (debt service)	1,109,321,418	-	-	40,484,284	40,484,284
Total	$17,181,420,791	$1,258,420,976	$1,024,846,038	$1,244,441,650	$3,527,708,664
Disbursements					
Education	$9,481,737,778	$411,728,601	$697,569,481	$1,028,194,451	$2,137,492,533
Health and Human Services	4,033,235,902	219,249,761	379,193,512	394,343,331	992,786,605
Justice and Public Safety	1,719,430,954	133,800,683	144,570,591	149,755,871	428,127,146
General Government	380,477,135	(1,966,541)	29,077,794	34,150,503	61,261,756
Natural and Economic Resources	457,217,604	22,870,187	22,191,911	37,050,976	82,113,074
Other (debt service)	1,109,321,418	1,665,688	12,609,412	66,290,775	80,565,875
Total	$17,181,420,791	$787,348,379	$1,285,212,702	$1,709,785,907	$3,782,346,988

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