North Carolina
Office of State Budget
and Management

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NC Economic and Budget Conspectus

Current Economic Conditions

For the Nation

Payroll employment rose 140,000 in December 2005, about half the expected increase. The blow was cushioned by a revision which took November's gain to 354,000 (compared with an original 215,000), making it the strongest month since April 2004. Over the 12 months to December, job gains averaged 165,000, weaker than the 183,000 average gain during 2004—but this was due in part to the hurricanes, which pulled down this year's gains.

Construction jobs increased by only 5,000 in December 2005 after a 62,000 increase in November. There apparently was a lull in activity after a burst of hiring related to hurricane rebuilding and cleanup. After adding jobs in October and November, manufacturing employment fell by 1,000 in December.

The service-producing sector added 131,000 jobs, down from 269,000 in November. Retailing was a weak spot, as hiring by general merchandise stores fell by 15,000. Stores added staff in December for holiday sales, but because they added fewer than normal, the effect was a seasonally adjusted decline. Tepid expectations for holiday sales, given high energy costs, probably led to cautious hiring. In addition, the growth in online retailing means that traditional stores do not need to add as many staff as before for holiday sales.

Industrial output rose 0.6% in December 2005, marking a third consecutive solid monthly gain after storms and strikes hammered September production. The December advance was a little higher than expected, and November growth was revised up to 0.8%, from an initial estimate of 0.7%. Utility output rose 2.7% in December, as the weather reverted from being unseasonably mild to colder than normal. The manufacturing sector recorded a decent, but unspectacular, month in December, with production rising 0.2%. Motor vehicle and parts output fell 2.8% on both weak final assemblies and declining parts production.

Personal income grew by $41.1 billion in December 2005. Most of the increase was from employee compensation, which climbed $19.9 billion after rising by $21.7 billion in November. The weak employment increase in December (up 140,000) accounted for the uninspiring gains in wage and salary disbursements.

Consumer spending rose 0.7% in December 2005, a bit less than expectations. Excluding automobiles, sales were up 0.2%. Excluding autos and gasoline, sales rose a meager 0.1%. The lower-than-expected December figure follows a strong upward revision to November total sales.

December was a pleasant surprise for the auto industry, as a combination of nationwide incentives and strong dealer promotions generated a higher-than-anticipated selling rate. The seasonally adjusted selling rate for U.S. light vehicle sales was 17.2 million units. Expectations at the start of December were for a pace of between 16.5 and 16.7 million units. However, December 2005 fell short of December 2004, which reached 17.9 million and was the best month of 2004.

Housing starts tumbled 8.9% in December, slipping below the two-million-unit annual rate threshold for the first time since March 2005. The weather played a key role in December's steep drop. The wet month in the

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West (seventh wettest in history) resulted in a 21.7% decline in housing starts for the region.

For North Carolina

North Carolina's seasonally adjusted rate of unemployment fell to 4.9% in December 2005 from 5.2% in November. The state rate of unemployment stood at 5.3% in December 2004.

Total nonfarm payroll employment rose by a seasonally adjusted 4,600 jobs in December 2005. Manufacturing employment lost another 2,400 jobs in December. Construction employment expanded by 600 over November. The private service-producing sector added 5,400 jobs in December, led by trade, transportation, warehousing, and utilities (up 1,900) and professional and business services (up 1,300). Government sector employment expanded by 1,000 in December.

Over the past year, nonfarm employment increased by 52,900 jobs. Manufacturing employment fell by 13,200, a drop of 2.3%. The construction sector added

Monthly Economic Indicators

(Seasonally Adjusted)	Dec. 2004	Jul. 2005	Aug. 2005	Sep. 2005	Oct. 2005	Nov. 2005	Dec. 2005
United States							
Industrial production (index)	106.7	108.3	108.6	107.2	108.2	109.1	109.8
% change year ago	4.4	3.1	3.1	2.0	2.3	2.9	2.8
Unemployment rate (%)	5.4	5.0	4.9	5.1	4.9	5.0	4.9
Nonfarm payroll employment (millions)	132.395	133.617	133.792	133.840	133.877	134.231	134.371
Change year ago (millions)	2.097	2.161	2.205	2.076	1.775	1.996	1.976
Personal income (billions of $, annual rate)	10,291	10,275	10,059	10,360	10,419	10,464	10,505
% change year ago	9.8	6.0	3.3	6.2	5.7	5.4	2.1
Retail sales excluding food services (billions of $)	303.7	323.5	316.8	317.5	317.9	320.4	322.7
% change year ago	8.9	10.8	8.4	6.8	6.0	6.8	6.2
Housing starts (millions of units, annual rate)	2.050	2.062	2.081	2.160	2.051	2.121	1.933
New light-vehicle sales (millions of units, annual rate)	17.89	20.68	16.75	16.34	14.70	15.70	17.15
CPI, all urban consumers (index)	191.2	195.1	196.1	198.5	198.9	197.8	197.7
% change year ago	3.4	3.1	3.6	4.7	4.3	3.5	3.4
Federal funds rate-effective (%)[1]	2.16	3.26	3.50	3.62	3.78	4.00	4.16
Crude oil price ($ per barrel)[1]	43.33	58.70	64.97	65.57	62.37	58.30	59.43
North Carolina							
Civilian unemployment rate (%)	5.3	5.7	5.6	5.5	5.4	5.2	5.0
Nonfarm payroll employment (000)	3,856.7	3,897.0	3,899.1	3,893.2	3,898.4	3,905.0	3,909.6
% change year ago	1.6	1.4	1.1	0.9	1.5	1.4	1.4
Change year ago (000)	62.2	55.1	42.6	35.4	55.8	53.8	52.9
Manufacturing employment	579.0	575.8	574.0	570.5	569.7	568.2	565.8
% change year ago	0.0	-1.2	-1.3	-1.7	-1.6	-2.2	-2.3
Nonmanufacturing employment	3,277.7	3,321.2	3,325.1	3,322.7	3,328.7	3,336.8	3,343.8
% change year ago	1.9	1.9	1.5	1.4	2.0	2.0	2.0
Average weekly hours-manufacturing[1]	40.7	38.8	39.7	39.9	40.8	41.3	40.6
Average weekly earnings-manufacturing ($)[1]	585.27	561.82	570.09	567.38	583.03	591.42	577.74
% change year ago	2.6	-2.0	-2.3	-2.6	0.8	2.6	-1.3

1. Not seasonally adjusted

7,200 jobs since December 2004 (up 3.3%). The private service-producing sector added 46,200 jobs over the past 12 months, led by professional and business services (up 17,800, or 4.1%), educational and health services (up 10,900, or 2.4%), and leisure and hospitality services (up 7,100, or 2.0%). In the public sector, a total of 12,700 government jobs were added since November 2004 (up 2.0%).

Revenue

As expected, January 2006 was a strong month for General Fund net tax collections. Tax revenue totaled $1,591.3 million, an increase of 14.5% over January 2005. As previously noted, a contributor to this strong growth was the increase in the tax rate on tobacco products which occurred in September 2005. (Net collection of tobacco products tax was $21.4 million in January, compared to $3.7 million in 2004.)

Net individual income taxes grew by 13.4% in January 2006. Reflecting the increase in employment statewide, withholding tax payments expanded by 9.1% for the month. Payments of estimated income tax increased by a healthy 23.8% over 2004. (Estimated payments for the fourth quarter of tax year 2005 were due by January 15th.) Net payments of state sales and use taxes totaled $403.2 million in January, an increase of 6.5%. January was not a significant month for corporate income tax collections, as net payments totaled $14.2 million.

General Fund Revenue, 2005-06

(Millions)

	January			Year-to-Date		
	Actual	Budget	Difference	Actual	Budget	Difference
Tax revenue						
Individual income	$1,053.7	$1,041.0	$12.7	$5,496.1	$5,445.7	$50.4
Sales and use[1]	403.2	433.5	-30.3	2,883.6	2,812.2	71.4
Corporate income	14.2	21.1	-6.9	567.2	522.6	44.6
Franchise	51.1	39.2	11.9	235.2	213.6	21.6
Alcoholic beverage	16.2	15.8	0.4	115.8	114.1	1.7
Insurance	3.2	2.8	0.4	132.8	132.4	0.4
Other taxes	49.9	43.2	6.7	209.0	209.5	-0.5
Total taxes	$1,591.3	$1,596.6	-$5.3	$9,639.7	$9,450.1	$189.6
% Change	14.5			11.0		
Nontax revenue						
Treasurer’s investments	$6.8	$6.1	$0.7	$62.9	$44.2	$18.7
Judicial fees	13.0	14.1	-1.1	87.0	91.2	-4.2
Insurance Department	7.5	6.8	0.7	18.7	17.6	1.1
DSH[2]	0.0	0.0	0.0	91.2	100.0	-8.8
Other nontax	7.9	16.9	-9.0	60.7	65.2	-4.5
Total nontax	$35.2	$43.9	-$8.7	$320.6	$318.2	$2.4
% Change	-20.3			-1.1		
Transfers						
Highway Trust Fund	$0.0	$0.0	$0.0	$126.3	$126.3	$0.0
Total revenue	$1,626.5	$1,640.5	-$14.0	$10,086.5	$9,894.6	$192.0
% Change	13.5			10.4		

1. January sales and use tax collections are tentative.

2. Medicaid Disproportionate Share Payments