

NC Economic and Budget Conspectus

Current Economic Conditions

For the Nation

Payroll employment increased by 305,000 in November 2005. Job growth is now back on track after hurricane disruptions affected September and October. There were small upward revisions to both September and October employment with gains now averaging 21,000. The data now show employment growth even in September, when the effects of Katrina were at their most severe.

November was a strong month for construction sector employment with 42,000 jobs gained. Hurricane rebuilding and cleanup are giving a further boost to an already-strong sector. Manufacturers added 8,000 jobs, another positive sign. The service-producing sector added 255,000 jobs, with widespread gains across categories. There was a notable increase of 45,700 jobs at food service and drinking places, which had been buffeted in previous months by the hurricanes' damage to tourist activity.

Industrial production scored a solid gain in November 2005, up 0.8%. Mining output gains of 4.8% drove the total index higher. Manufacturers posted a more modest gain of 0.3%. A 4.8% drop in motor vehicle output restrained the overall manufacturing sector.

The Bureau of Economic Analysis reported that personal income grew \$29.8 billion (0.3%) in November. Most of the increase was from employee compensation, which climbed \$13.7 billion after rising \$53.5 billion in October. Similarly, retail sales advanced by 0.3% in November, led by a 2.6% recovery in auto dealer sales. With gasoline prices retreating sharply, service stations reported a 5.9% drop in total sales in November. Excluding autos and gasoline, retail sales increased 0.5%

in November, building on big gains in each of the three previous months.

The news on November 2005 light-vehicle sales was mixed. The selling rate of 15.7 million units (annualized) was significantly higher than October's miserable 14.7 million units, but was well below the 16.4 million units posted in November 2004. The car selling rate was 7.6 million units, up from October's 7.3 million. The light-truck rate, at 8.1 million units, was up from last month's 7.4 million units.

Despite rising mortgage rates, housing starts jumped 3.4% in November, nearly offsetting the 5.1% October drop. By region, starts increased in the Midwest, West, and Northeast, but slipped in the South.

Consumer prices fell a seasonally adjusted 0.6% in November as gasoline prices plummeted to a level less than their pre-hurricane August levels. Food prices moderated in November, posting a 0.3% increase for a third consecutive month. Core inflation (excluding food and energy prices) continued at 0.2% in November.

For North Carolina

Total nonfarm payroll employment rose by a seasonally adjusted 6,600 jobs in November 2005. Manufacturing employment lost another 1,500 jobs in November. In the private service-producing sector, leisure and hospitality services led the way with a gain of 4,800 jobs. Other

In This Issue

Monthly Economic Indicators.....	2
Revenue	3

sectors posting job increases in November were education and health services (up 1,600), information (up 500), and professional and business services (up 400). Government also grew in November, adding a total of 1,500 jobs.

Over the past year, nonfarm employment increased by 53,800 jobs. The private service-producing sector added 54,700 jobs since November 2004. With the exception of trade, transportation, warehousing, and utilities (down 3,600), all sectors experienced employment gains over the prior twelve months: professional and business services (16,400), education and health services (13,300),

leisure and hospitality services (8,700), and information (2,400). In the public sector, a total of 11,800 government jobs were added since November 2004.

Manufacturing employment continued to erode, losing another 12,700 jobs over the past year. Construction employment remained a bright spot, gaining 7,700 since November 2004.

North Carolina's seasonally adjusted unemployment rate continued to decline, falling to 5.2% in November 2005. The most recent peak in the unemployment rate was 5.7% in July 2005.

Monthly Economic Indicators

(Seasonally Adjusted)	Nov. 2004	Jun. 2005	Jul. 2005	Aug. 2005	Sep. 2005	Oct. 2005	Nov. 2005
United States							
Industrial production (index)	106.0	108.3	108.3	108.6	107.2	108.2	109.1
% change year ago	3.7	3.7	3.1	3.1	2.0	2.3	2.9
Unemployment rate (%)	5.4	5.0	5.0	4.9	5.1	4.9	5.0
Nonfarm payroll employment (millions)	132.294	133.588	133.865	134.013	134.030	134.055	134.360
Change year ago (millions)	2.039	2.109	2.303	2.263	2.150	1.893	2.066
Personal income (billions of \$, annual rate)	9,925	10,232	10,275	10,059	10,360	10,413	10,443
% change year ago	5.9	6.1	6.0	3.3	6.2	5.6	5.2
Retail sales excluding food services (billions of \$)	300.0	317.6	323.5	316.8	317.5	320.4	322.7
% change year ago	7.5	10.1	10.8	8.4	6.8	6.8	7.6
Housing starts (millions of units, annual rate)	1.807	2.065	2.062	2.081	2.160	2.051	2.121
New light-vehicle sales (millions of units, annual rate)	16.35	17.49	20.68	16.75	16.34	14.70	15.70
CPI, all urban consumers (index)	191.2	194.1	195.1	196.1	198.5	198.9	197.8
% change year ago	3.4	2.5	3.1	3.6	4.7	4.3	3.5
Federal funds rate-effective (%) ¹	1.93	3.04	3.26	3.50	3.62	3.78	4.00
Crude oil price (\$ per barrel) ¹	48.46	56.26	58.70	64.97	65.57	62.37	58.30
North Carolina							
Civilian unemployment rate (%)	5.3	5.3	5.7	5.6	5.5	5.4	5.2
Nonfarm payroll employment (000)	3,851.2	3,890.2	3,897.0	3,899.1	3,893.2	3,898.4	3,905.0
% change year ago	1.5	1.9	1.4	1.1	0.9	1.5	1.4
Change year ago (000)	56.7	72.9	55.1	42.6	35.4	55.8	53.8
Manufacturing employment	580.9	578.3	575.8	574.0	570.5	569.7	568.2
% change year ago	0.4	0.1	-1.2	-1.3	-1.7	-1.6	-2.2
Nonmanufacturing employment	3,270.3	3,311.9	3,321.2	3,325.1	3,322.7	3,328.7	3,336.8
% change year ago	1.7	2.2	1.9	1.5	1.4	2.0	2.0
Average weekly hours-manufacturing ¹	40.4	40.1	38.8	39.7	39.9	40.8	41.3
Average weekly earnings-manufacturing (\$) ¹	576.51	575.03	561.82	570.09	567.38	591.42	577.74
% change year ago	1.0	-1.2	-2.0	-2.3	-2.6	2.3	0.2

1. Not seasonally adjusted

Revenue

December 2005 was an unexpectedly strong month for General Fund net tax collections. Tax revenue totaled \$1,701.5 million, an increase of 14.4% over December 2004. Corporate income tax collections were largely responsible for the surge in December 2005 receipts. Net corporate income taxes totaled \$312.9 million compared to \$206.1 million in 2004, a 51.8% increase!

December was another solid month for sales and use tax collections. Gross collections (before refunds/reserves/transfers) were \$699.4 million, a 10.5% increase. Net sales and use tax revenue grew by 14.5%, as refunds were somewhat lower than one year ago.

Net individual income tax collections grew by 7.0% in December 2005. Withholding taxes increased by a moderate 4.0% (for largely technical reasons as explained in last month's *NC Economic and Budget Conspectus*). However, fourth quarter 2005 estimated income taxes (due January 17, 2006) surged by 27.8% over December 2004.

Compared to the budget, December 2005 tax revenue exceeded expectations by \$67.4 million. For the first six months of fiscal year 2005-06, General Fund tax revenue is \$148.0 million ahead of the budget target. Including nontax revenue sources, total General Fund revenue is now \$159.0 million ahead of budget expectations.

General Fund Revenue

(Millions)

	Dec.			Year-to-Date		
	Actual	Budget	Difference	Actual	Budget	Difference
Tax revenue						
Individual income	\$907.9	\$880.2	\$27.7	\$4,442.5	\$4,404.7	\$37.8
Sales and use ¹	435.5	425.2	10.3	2,433.6	2,378.7	54.9
Corporate income	312.9	273.7	39.2	553.1	501.5	51.6
Franchise	-2.6	3.5	-6.1	184.1	174.4	9.7
Alcoholic beverage	18.8	19.1	-0.3	99.6	98.3	1.3
Insurance	0.1	0.4	-0.3	129.6	129.6	0.0
Other taxes	29.0	32.0	-3.0	159.1	166.3	-7.2
Total taxes	\$1,701.5	\$1,634.1	\$67.4	\$8,001.5	\$7,853.5	\$148.0
% Change	14.4			9.7		
Nontax revenue						
Treasurer's investments	\$9.6	\$6.1	\$3.5	\$56.1	\$38.1	\$18.0
Judicial fees	12.0	14.1	-2.1	74.0	77.1	-3.1
Insurance Department	0.3	0.2	0.1	11.2	10.8	0.4
DSH ²	91.2	100.0	-8.8	91.2	100.0	-8.8
Other nontax	17.2	14.0	3.2	52.8	48.3	4.5
Total nontax	\$130.3	\$134.4	-\$4.1	\$285.3	\$274.3	\$11.0
% Change	206.1			1.0		
Transfers						
Highway Trust Fund	\$0.0	\$0.0	\$0.0	\$126.3	\$126.3	\$0.0
Total revenue	\$1,831.8	\$1,768.5	\$63.3	\$8,413.1	\$8,254.1	\$159.0
% Change	19.7			9.2		

1. December sales and use tax collections are tentative.

2. Medicaid Disproportionate Share Payments