

# The North Carolina Financial and Population Quarterly Report

## Current Economic Conditions

### For the Nation

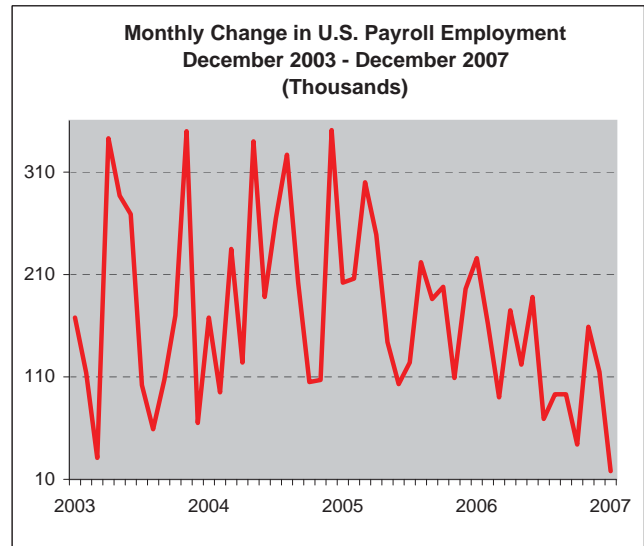
The final revision to third-quarter GDP growth yielded no change from the original estimate of 4.9% growth. This very strong growth was fueled by foreign demand, not U.S. spending (which was up just 2.5%). Growth in the fourth quarter, at 0.6%, nearly stalled. Housing conditions continue to deteriorate, consumer spending decelerated, and business investment seems to have slowed. For 2007, the economy grew only 2.2%, the weakest performance in 5 years.

Housing starts fell 14.2% in December and are down 38.2% over the past 12 months. Single-family units slid 2.9% while multi-family plummeted 40.3%, likely adjusting for the 62% gain in October. By region, starts were down 3.3% in the South, 19.6% in the West, 25.8% in the Northeast, and 30.8% in the Midwest. Housing permits, a leading indicator of future housing activity, dropped 10.1% in December and are down 34.4% over the past 12 months. Single-family permits registered their largest percentage drop since January 1995.

The December employment report was disappointing. Payroll employment rose only 18,000, finishing below expectations and significantly lower than a 115,000 gain in November. The unemployment rate jumped from 4.7% to 5.0%. Construction, retail services, and manufacturing registered heavy losses, while some parts of the service sector (healthcare and food and drinking places) remained relatively solid. Manufacturing, in particular, suffered a poor month (down 31,000 jobs). Overall, the employment numbers show an economy that is slowing quickly with GDP at risk of negative growth in the first quarter of 2008.

Retail sales grew at a 2.4% annual rate in the fourth quarter, down slightly from the 2.8% growth in the third

quarter. For the year, consumer spending grew 4.1%, ending a 3 year trend of 6.0% plus growth. Reversing a 1.0% increase in November, December sales fell 0.4%. The holiday season started strong but finished weakly. The December results were driven by a downturn in sales at building and garden supplies stores, electronic and appliance stores, electronics stores, hobby, book and music stores, and clothing stores. The December pullback



mixed with a deepening housing slump and a slowdown in employment growth suggests restrained consumer spending in the first half of 2008.

Following a 0.8% surge in November, consumer prices increased 0.3% in December. Energy prices rose 0.9%,

In This Issue	
Monthly Economic Indicators .....	2
General Fund Revenue .....	3
Highway Fund and Highway Trust Fund Revenue .....	4
People and Places: Demographic Update for North Carolina .....	5

a steep drop from the 5.7% jump in November. Food prices rose only 0.1%, following two consecutive monthly gains of 0.3%. Excluding food and energy, core consumer prices climbed 0.2%. Over the past 12 months, the headline index has increased at 5.6% rate, while the core index is running at 2.4%.

After climbing 0.3% in November, industrial production remained unchanged in December. Manufacturing was unchanged in December, but has dropped at a 1.9% annual rate in the fourth quarter as this sector remains in a shallow decline. Utility output dropped 0.2%, but was offset by a 0.1% increase in mining production. Production in “core” manufacturing (which excludes motor vehicles/parts and high-technology goods) dropped 0.1%. Total capacity utilization slipped 0.2% to 81.4%.

### For North Carolina

North Carolina’s seasonally adjusted rate of unemployment increased 0.3% to 5.0% in December. At 5.0%, the national unemployment rate and North Carolina’s unemployment rate are equal for the second consecutive month. Since December 2006, the rate has increased just 0.1%. The total number of people employed ticked down 0.1% to 4,300,998.

The monthly payroll survey of employers showed a small increase in jobs. Nonfarm employment increased by 9,600 over the month and has increased by 68,600 since December 2005. Professional and business services realized the largest monthly job gains (2,600), followed by leisure and hospitality services (2,500), and other

### Monthly Economic Indicators

(Seasonally Adjusted)

	Dec. 2006	Jul. 2007	Aug. 2007	Sep. 2007	Oct. 2007	Nov. 2007	Dec. 2007
<b>United States</b>							
Industrial production (index)	112.2	114.2	114.1	114.2	113.7	114.0	114.0
% change year ago	2.8	1.7	1.4	1.8	1.5	2.2	1.5
Unemployment rate (%)	4.5	4.6	4.7	4.7	4.8	4.7	5.0
Nonfarm payroll employment (millions)	137.167	138.066	138.159	138.203	138.362	138.477	138.495
Change year ago (millions)	2.263	1.814	1.721	1.567	1.617	1.536	1.328
Personal income (billions of \$, annual rate)	11,273	11,693	11,747	11,800	11,825	11,868	NA
% change year ago	6.1	6.4	6.5	6.5	6.1	6.1	NA
Retail sales, excluding food services (billions of \$)	330.2	339.2	339.5	342.4	342.3	346.4	344.9
% change year ago	5.2	3.2	3.3	5.0	5.1	5.9	4.4
Housing starts (millions of units, annual rate)	1.633	1.371	1.347	1.182	1.274	1.173	1.006
New light-vehicle sales (millions of units, annual rate)	16.56	15.23	16.20	16.17	15.99	16.16	16.23
CPI, all urban consumers (index)	202.8	208.0	207.7	208.3	208.9	210.6	211.2
% change year ago	2.5	2.4	1.9	2.8	3.5	4.3	4.1
Federal funds rate—effective (%) <sup>1</sup>	5.24	5.26	5.02	4.94	4.76	4.49	4.24
Crude oil price (\$ per barrel) <sup>1</sup>	62.03	74.18	72.39	79.93	86.20	94.62	91.73
<b>North Carolina</b>							
Civilian unemployment rate (%)	4.9	5.0	4.8	4.9	4.8	4.7	5.0
Nonfarm payroll employment (000)	4,064.5	4,084.9	4,098.5	4,106.3	4,116.6	4,123.5	4,133.1
% change year ago	3.1	2.6	2.7	2.6	3.1	3.2	1.7
Change year ago (000)	121.0	104.6	107.6	103.7	124.5	129.7	68.6
Manufacturing employment	551.1	544.4	542.0	542.5	542.2	541.4	540.0
% change year ago	-2.2	-2.7	-3.1	-2.5	-1.8	-1.9	-2.0
Nonmanufacturing employment	3,513.4	3,540.5	3,556.5	3,563.8	3,574.4	3,582.1	3,593.1
% change year ago	4.0	3.5	3.6	3.4	3.9	4.1	2.3
Average weekly hours—manufacturing <sup>1</sup>	41.6	41.5	41.8	41.9	41.5	41.6	41.4
Average weekly earnings—manufacturing (\$) <sup>1</sup>	622.3	627.1	630.8	631.0	624.6	627.3	630.5
% change year ago	7.7	10.9	8.5	5.8	3.4	2.5	1.3

1. Not seasonally adjusted

services (1,600). Since December 2006, Education and health services has gained the most jobs (21,400) and realized the largest percentage increase (4.3%).

Consistent with recent trends, manufacturing was the only major industry to lose jobs in December. On a seasonally adjusted basis, manufacturing lost 1,400 jobs, the largest monthly decrease since August 2007. The nation has lost 11.5% of its manufacturing jobs since December 2001, while manufacturing employment in North Carolina has dropped 19.1% during that same period.

### General Fund Revenue

General fund net tax revenue totaled \$1,566.2 million in December, a decrease of 10.5% compared to the previous year. Most of this decrease was fueled by a lackluster sales month as the holiday shopping season finished disappointingly.

Net sales and use tax collections totaled \$337.7 million in December, about 16.9% below December 2006 levels. Despite the shaky December performance, sales and use collections are 2.9% above 2006-07 through the first half of 2007-08.

Personal income tax collections continue to register solid growth. While net individual income tax collections grew by only 2.3% in December, this result is likely impacted by accounting issues as opposed to any fundamental economic changes. Withholding grew 6.0% in December and has grown 7.4% for the first half of 2007-08.

Corporate collections of \$217.6 million lagged December 2006 by a surprising \$175.1 million. However, after adjusting for a large, one-time tax settlement in December 2006, corporate collections were slightly ahead of last year's pace.

### General Fund Revenue, 2007-08

(\$Millions)

	December			Year-to-Date		
	Actual	Budget	Difference	Actual	Budget	Difference
<b>Tax revenue</b>						
Individual income	916.4	923.2	(6.8)	5,042.4	4,947.8	94.7
Sales and use (1)	337.7	407.9	(70.2)	2,590.1	2,503.0	87.1
Corporate income	217.6	211.0	6.6	470.1	517.6	(47.5)
Franchise	24.0	(1.2)	25.2	231.6	248.1	(16.5)
Alcoholic beverage	21.3	20.7	0.6	112.8	110.2	2.6
Insurance	0.1	(2.3)	2.4	152.8	147.2	5.5
Other taxes	49.1	40.2	8.8	270.8	275.6	(4.8)
<b>Total taxes</b>	<b>1,566.2</b>	<b>1,599.6</b>	<b>(33.4)</b>	<b>8,870.7</b>	<b>8,749.5</b>	<b>121.1</b>
% change from last year	-10.5%			2.4%		
<b>Nontax revenue</b>						
Treasurer's investments	28.7	17.7	11.0	135.5	106.1	29.4
Judicial fees	14.4	14.4	(0.0)	94.9	86.3	8.6
Insurance Department	0.5	5.0	(4.5)	12.3	25.1	(12.8)
Disproportionate share	-	-	-	-	-	-
Other nontax	7.4	11.6	(4.2)	44.4	69.6	(25.2)
<b>Total nontax</b>	<b>51.0</b>	<b>48.7</b>	<b>2.3</b>	<b>287.1</b>	<b>287.0</b>	<b>0.1</b>
<b>Transfers</b>						
Highway Trust Fund	-	-	-	95.4	95.4	-
<b>Total Revenue</b>	<b>1,617.2</b>	<b>1,648.3</b>	<b>(31.1)</b>	<b>9,253.1</b>	<b>9,131.9</b>	<b>121.2</b>
% change from last year	-9.6%			3.6%		

(1) December sales and use tax collections are tentative.

Through the first half of 2007-08, total tax revenue collections were \$121.1 million above budget expectations. The vast majority of the extra collections have resulted from the strength in personal income tax collections and sales tax collections. Including nontax revenue sources, total General Fund revenue is \$121.2 million ahead of budget expectations.

### Highway Fund and Highway Trust Fund Revenue

Total Highway Fund revenue collections, for the quarter ending in December 2007, exceeded forecast by 1.9% or \$16.8 million. Revenue collections from the excise tax on motor fuels and related fees outpaced expectations by 0.5% or \$2.8 million. Combined with Highway Trust Fund revenues from the excise tax, motor fuels were up 0.7% or \$5.8 million.

Total Highway Fund license and registration fee collections were 0.8% above budget or \$2.2 million. Revenues from other licenses and fees fell short of projections by

\$11.7 million while revenues from staggered registrations, driver licenses, and truck registrations increased \$13.9 million greater than expected.

For the month of December, total Highway Fund license and fee collections fell short of projections by 12.5% or \$5.7 million. Total motor fuel tax collections decreased 1.8% or \$1.7 million.

Total Highway Trust Fund revenues collections for the quarter ending in December 2007 were 2.7% or \$14.7 million below expectations. Motor fuel taxes surpassed forecast by 1.3% or \$2.6 million. Use tax collections, from car sales, fell short of expectations by \$15.4 million or 5.1% for the period. Title and miscellaneous fee collections were 5.3% or \$2.9 million short of projections in December.

For the month of December, total Highway Trust Fund motor fuels and highway use tax collections finished 5.3% or \$4.0 million behind projections. Highway Trust Fund title fees and miscellaneous fee collections were 10.3% or \$0.8 million below expectations for the period.

#### Highway Fund Revenue, 2007-08 (\$Millions)

	December 2007			Year to Date		
	Actual	Budget	Difference	Actual	Budget	Difference
Motor fuels tax	94.4	96.1	-1.7	596.4	593.2	3.2
Motor fuels inspection and regul. fees	1.1	1.2	-0.1	7.4	7.8	-0.4
Staggered registration	12.7	13.6	-0.9	94.1	92.5	1.6
International registration	4.6	5.5	-0.9	21.1	21.6	-0.5
Driver and truck licenses	17.7	17.8	-0.1	127.6	114.8	12.8
Other license and fees	4.9	8.7	-3.8	34.9	46.6	-11.7
Investment income	3.2	0.6	2.6	15.7	3.9	11.0
<b>Total Highway Fund</b>	<b>138.6</b>	<b>143.5</b>	<b>-4.9</b>	<b>897.2</b>	<b>880.4</b>	<b>16.8</b>
% change from last year	-0.7%		-3.4%	2.3%		1.9%

#### Highway Trust Fund, 2007-08 (\$Millions)

Motor fuels	31.5	31.8	-0.3	201.3	198.7	2.6
Highway use	39.7	43.4	-3.7	285.6	301.0	-15.4
Miscellaneous title fees	7.0	7.8	-0.8	51.5	54.4	-2.9
Investment income	0.1	0.0	0.1	1.2	0.2	1.0
<b>Total Highway Trust Fund</b>	<b>78.3</b>	<b>83.0</b>	<b>-4.7</b>	<b>539.6</b>	<b>554.3</b>	<b>-14.7</b>
% change from last year	-4.6%		-5.7%	16.0%		-2.7%

## People and Places: Demographic Update for North Carolina

State Population Estimates: In December, the Census Bureau released its annual state population estimates. The July 2007 population estimate for North Carolina is 9,061,032 people. This is a 2.16% increase over the July 2006 estimate of 8,869,442 people. While North Carolina continues to grow, its growth has leveled. The rate of increase between July 2005 and July 2006 was 2.19%. In terms of total population increase, the numbers are also very similar. The number of additional people totaled 190,000 between July 2005 and July 2006 compared to 191,000 additional people between July 2006 and July 2007. In contrast, the nation grew by less than 1% between July 2006 and July 2007.

The graph *North Carolina/U.S. Annual % Growth* highlights this leveling in North Carolina's growth rate.

From July 2003 to July 2006, the percent population growth in North Carolina increased rapidly and has now flattened. Although North Carolina's growth pattern is similar to that of the U.S., it has been consistently higher and more subject to fluctuations.

The July 2007 state population estimates show that North Carolina is the 10<sup>th</sup> most populous state in the U.S. Based on estimated population growth since the 2000 Census, North Carolina has been the 9<sup>th</sup> fastest growing state (12.6%) and has added the 6<sup>th</sup> most people of any state (more than 1,000,000). From July 2006 to July 2007, North Carolina grew even faster compared to other states. Over the last year, North Carolina ranked 6<sup>th</sup> in percent growth and 5<sup>th</sup> in the total number of people added. The fastest growing state for both the last year and since Census 2000 is Nevada, with Texas being the state that added the most people over the same time periods.

