

NC Economic Conspectus

Current Economic Conditions

For the Nation

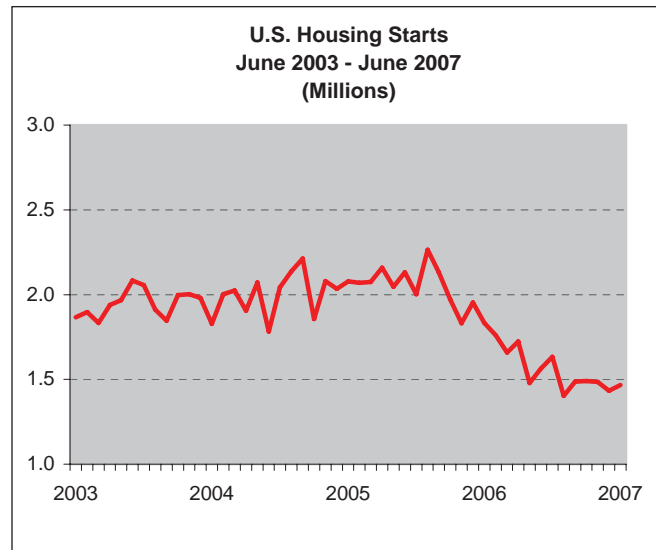
Real GDP in the first quarter of 2007 was revised up from 0.6% to 0.7%. Exports were adjusted up slightly while personal consumption growth was revised downward. In the second quarter, real GDP growth is expected to rebound (3.0% to 3.5% range) as inventory accumulation resumes and net exports improve. This improvement is expected to be temporary as consumer and business spending growth slows and housing activity continues to slide.

Housing starts rose 2.3% in June after decreasing for two consecutive months. This increase is mainly attributable to the jump in multi-unit starts (12.5% increase). Single-unit starts fell 0.2%. Revisions did adjust May's annualized estimates down from 1.474 million units to 1.434 million. By region, starts were up in the West and South, but fell in the Northeast and Midwest. Housing permits, a good indicator of future housing activity, remained on a downward trend. Overall, the housing market outlook remains dim as long-term mortgage rates have climbed and the subprime mortgage market has deteriorated.

Industrial production results were strong in June, increasing 0.5%. Manufacturing output increased 0.6%, mining output rose 0.5%, and utility output advanced 0.3%. These output gains appear valid as weather did not distort utility demand. Core manufacturing (manufacturing excluding both autos and high-technology) increased by 0.4% after no gains in both April and May. Overall capacity utilization increased 0.3% to 81.7% in June.

The June employment report was slightly better than expected and bolsters evidence that the economy bounced back in the second quarter. Payroll employment rose 132,000 in June, while April and May payroll gains were

revised up by a combined 75,000. Job losses continued in the manufacturing sector (down 18,000). Fueled by gains in the nonresidential sector, construction surprisingly added 12,000 jobs. The service sector gained an additional 135,000 jobs in June, after a 199,000 gain in May. The unemployment rate remained at 4.5% for the third consecutive month and has remained between 4.4% and 4.6% since September 2006.



Due to the dip in gasoline prices, consumer prices rose only 0.2% in June after a 0.7% increase in May. Food prices continued an upward trend, rising 0.5% due to an increase in dairy prices, which outweighed declining prices for fruits and vegetables. Energy prices as a whole dropped 0.5%, the first monthly decline since January.

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Excluding food and energy, “core” consumer prices rose just 0.2% in June. The downward trend in core consumer prices appears to be taking hold largely due to softening property rents.

Consumers are becoming increasingly cautious in response to recent increases in food and energy prices and the housing market slump. After a 1.5% gain in May, total retail sales fell 0.9% in June. The declines were broad-based. Sales at building material and garden supply stores, furniture stores, auto and parts dealers, electronics and appliance stores, clothing stores, and other miscellaneous retail stores posted some of the larg-

est losses. Even excluding the large 2.9% drop in motor vehicles and parts, sales decreased by 0.4%. However, some sectors did manage increases. Sales rose 1.2% at health and personal-care stores, 0.1% at food service places, and 0.3% at general merchandise stores.

June was a disappointing month for light-vehicle sales. The seasonally adjusted selling rate was 15.5 million units, the softest month of this year. For the year, sales are averaging about 1.5% behind the 2006 selling pace. Sales volume for light trucks and cars were about even in June. Car sales are keeping pace with 2006, however light trucks are about 6.0% behind.

Monthly Economic Indicators

(Seasonally Adjusted)

	Jun. 2006	Jan. 2007	Feb. 2007	Mar. 2007	Apr. 2007	May 2007	Jun. 2007
United States							
Industrial production (index)	111.9	111.7	112.5	112.4	112.9	112.8	113.4
% change year ago	4.3	2.4	2.9	2.2	1.8	1.7	1.4
Unemployment rate (%)	4.6	4.6	4.5	4.4	4.5	4.5	4.5
Nonfarm payroll employment (millions)	136.030	137.329	137.419	137.594	137.716	137.906	138.038
Change year ago (millions)	2.420	2.219	2.009	1.935	1.913	2.000	2.008
Personal income (billions of \$, annual rate)	10,842	11,274	11,348	11,437	11,409	11,457	NA
% change year ago	6.2	5.7	5.8	6.1	5.8	6.1	NA
Retail sales, excluding food services (billions of \$)	324.1	330.6	332.9	336.0	334.7	340.1	336.7
% change year ago	4.8	2.0	3.5	4.0	2.8	4.4	3.9
Housing starts (millions of units, annual rate)	1.833	1.403	1.487	1.491	1.485	1.434	1.467
New light-vehicle sales (millions of units, annual rate)	16.12	16.68	16.57	16.27	16.19	16.10	15.54
CPI, all urban consumers (index)	202.4	203.2	203.9	205.1	206.0	207.4	207.8
% change year ago	4.3	2.1	2.4	2.8	2.6	2.7	2.7
Federal funds rate—effective (%) ¹	4.99	5.25	5.26	5.26	5.25	5.25	5.25
Crude oil price (\$ per barrel) ¹	70.96	54.57	59.26	60.56	63.97	63.46	67.48
North Carolina							
Civilian unemployment rate (%)	4.8	4.6	4.5	4.5	4.8	4.8	4.9
Nonfarm payroll employment (000)	3,987.7	4,073.3	4,079.0	4,086.5	4,092.5	4,101.3	4,112.7
% change year ago	2.4	3.1	2.9	2.9	3.1	3.0	3.1
Change year ago (000)	94.7	123.7	115.4	116.3	121.7	119.7	125.0
Manufacturing employment	560.8	550.2	549.1	548.2	547.9	547.1	545.7
% change year ago	-0.9	-2.3	-2.4	-2.6	-2.6	-2.4	-2.7
Nonmanufacturing employment	3,426.9	3,523.1	3,529.9	3,538.3	3,544.6	3,554.2	3,567.0
% change year ago	3.0	4.0	3.8	3.8	4.0	3.9	4.1
Average weekly hours—manufacturing ¹	39.8	40.9	41.0	41.5	41.1	41.2	41.8
Average weekly earnings—manufacturing (\$) ¹	576.7	609.8	614.2	619.6	619.4	620.5	631.6
% change year ago	0.5	6.0	9.3	9.4	9.8	8.0	9.5

1. Not seasonally adjusted

For North Carolina

North Carolina's seasonally adjusted unemployment rate increased by 0.1% to 4.9% in June. Since June 2001, the North Carolina unemployment rate has dropped 0.6% while the national rate has remained unchanged. The national and state seasonally adjusted civilian labor force increased 0.2% in June. Compared to a year ago, North Carolina's labor force has increased 1.4% while the national labor force has advanced 1.1%.

The June payroll survey of employers showed an increase in jobs. Nonfarm employment increased by 11,400 jobs from May and 87,500 since last year. Government, which includes public school employees, enjoyed the largest monthly increase in jobs (6,400) and was likely caused by the changes in the North Carolina school year.

Education and health services reported the largest private sector monthly gain (3,000), followed by professional and business services (2,200). Since June 2006, education and health services have gained the most jobs (22,400) and realized the largest percentage increase at 4.6%.

The largest monthly decline occurred in trade, transportation, and utilities (-2,900). Manufacturing employment also lost jobs in June and continued its downward trend. Over the past year, manufacturing employment in North Carolina declined 1.3% or 7,200 jobs. Since June 2001, North Carolina has lost about 22.6% of its manufacturing jobs compared to a corresponding 14.9% decline in U.S. manufacturing jobs. During this six-year period, transportation equipment and food manufacturing were the only manufacturing industries to increase jobs.

General Fund Revenue, 2006-07

(\$Millions)

	June			Year-to-Date		
	Actual	Budget	Difference	Actual	Budget	Difference
Tax revenue:						
Individual income	\$937.9	\$873.9	\$64.0	\$10,508.0	\$9,635.4	\$872.6
Sales and use	\$423.1	\$358.6	\$64.5	4,995.6	\$5,032.5	-\$36.9
Corporate income	\$288.8	\$222.7	\$66.1	1,451.4	1,052.5	\$398.9
Franchise	-\$0.9	\$0.7	-\$1.6	531.4	504.9	\$26.5
Alcoholic beverage	\$22.6	\$19.8	\$2.8	212.6	209.1	\$3.5
Insurance	\$141.4	\$137.0	\$4.4	475.5	491.9	-\$16.4
Other taxes	26.6	17.8	\$8.8	538.5	505.8	\$32.7
Total taxes	\$1,839.5	\$1,630.5	\$209.0	\$18,713.0	\$17,432.1	\$1,280.9
% change from last year	2.5			9.9		
Nontax revenue:						
Treasurer's investments	\$23.4	\$10.6	\$12.8	\$202.5	\$124.4	\$78.1
Judicial fees	\$14.6	\$15.6	-1.0	167.7	164.0	3.7
Insurance Department	\$7.3	\$2.8	4.5	57.7	53.2	4.5
Disproportionate share	\$0.0	\$0.0	0.0	100.0	100.0	0.0
Other nontax	\$9.7	\$14.2	-4.5	161.0	185.4	-24.4
Total nontax	\$55.0	\$43.2	\$11.8	\$689.0	\$627.0	\$62.0
Transfers:						
Highway Trust Fund	\$0.0	\$0.0	\$0.0	\$57.5	\$57.5	\$0.0
Total Revenue	\$1,894.5	\$1,673.7	\$220.8	\$19,459.5	\$18,116.6	\$1,342.9
% change from last year	2.1			8.9		

General Fund Revenue

General fund revenue ended fiscal year 2006-07 in strong fashion. Net tax revenue totaled \$1,839.5 million in June, an increase of 2.5% above the previous year. Most of this increase was fueled by strong individual income tax and corporate tax collections.

June is one of the largest collection months of the year for individual income taxes. Net individual income tax collections were \$937.9 million in June, about the same as June 2006 collections. Withholding taxes totaled \$705.6 million, up only 1.2% above last year largely due to one less business day and some correction after very large increases in April and May. Quarterly estimated payments were \$296.5 million, 15.1% above last year.

Sales and use tax collections totaled \$423.1 million in June, slightly below June 2006 levels. While the change in state sales tax rate from 4.5% to 4.25% has reduced

collections, North Carolina's retail sales remain relatively healthy compared to national sales. Gross sales collections were up 2.3% for the month and 4.4% for the year.

Despite persistent weakness in the housing market, corporate profits have held up better than expected in 2007. Reflecting this strong business climate, June corporate receipts were very solid. Corporate income payments totaled \$288.8 million, a gain of 16.6% over 2006.

Fiscal year 2006-07 was another strong year for General Fund revenue collections. General Fund net collections totaled \$19,459.5 million, a hefty 8.9% above fiscal year 2005-06. For the second consecutive year, the total revenue surplus exceeded \$1 billion. After a \$1,056.0 million surplus in fiscal year 2005-06, the revenue surplus totaled \$1,342.9 million in fiscal year 2006-07. This expansion was fueled by strong withholding, non-wage income growth, and another solid year of corporate receipts.

Highway Fund Revenue, 2006-07 (\$Millions)

	June 2007			Year-to-Date		
	Actual	Budget	Difference	Actual	Budget	Difference
Motor fuels tax	\$104.1	\$109.4	-\$5.3	\$1,184.6	\$1,173.3	\$11.3
Motor fuels inspection and regul. fees	\$1.2	\$1.2	\$0.0	\$15.1	\$15.5	-\$0.3
Staggered registration	\$18.6	\$20.4	-\$1.9	\$199.2	\$212.9	-\$13.7
International registration	\$4.3	\$3.3	\$1.0	\$68.4	\$66.2	\$2.1
Driver and truck licenses	\$23.6	\$16.9	\$6.7	\$263.6	\$225.8	\$37.8
Other licenses and fees	\$6.2	\$4.1	\$2.1	\$69.9	\$47.7	\$22.2
Investment income	\$5.0	\$2.1	\$3.0	\$24.8	\$8.0	\$16.8
Total Highway Fund	\$163.0	\$157.5	\$5.6	\$1,825.5	\$1,749.5	\$76.1
% change from last year	7.8%			8.6%		

Highway Trust Fund, 2006-07 (\$Millions)

Motor fuels	\$34.5	\$33.0	\$1.4	\$397.5	\$391.1	\$6.4
Highway use	\$55.3	\$57.3	-\$2.1	\$605.1	\$590.4	\$14.7
Miscellaneous title fees	\$9.3	\$10.6	-\$1.2	\$109.2	\$110.7	-\$1.6
Investment income	\$1.3	\$0.2	\$1.1	\$3.3	\$2.5	\$0.8
Total Highway Trust Fund	\$100.4	\$101.2	-\$0.8	\$1,115.0	\$1,094.7	\$20.3
% change from last year	3.2%			6.1%		
Total Hwy Fund and Hwy Trust Fund	\$263.4	\$258.6	\$4.8	\$2,940.5	\$2,844.2	\$96.4
% change from last year	6.0%			7.6%		

Highway Fund and Highway Trust Fund Revenue

Total Highway Fund revenue collections for fiscal year 2006-07 exceeded projections by 4.0% or \$76.1 million. Revenue collections from the excise tax on motor fuels and related fees outpaced expectations by 1.0% or \$11 million. Combined with Highway Trust Fund revenues from the excise tax, motor fuel collections were up 1.1% or \$17.7 million.

Highway Fund license and fee collections were up 8.1% above projections or \$48.4 million as driver licenses and truck registrations increased greater than expected. For both of these schedules, this is the first full fiscal year of collecting fees at higher rates and truck plates are now registered under a staggered registration plan.

For the month of June, total Highway Fund license and fee collections exceeded projections by 17.6% or \$7.9 million. After steeper declines in recent months (e.g., 8.6% or \$9.5 million in April), total motor fuel taxes finished June 4.8% or \$5.3 million below expectations.

Total Highway Trust Fund revenue collections for fiscal year 2006-07 were 1.9% or \$20.3 million above expectations. Motor fuel taxes surpassed forecast by 1.6% or \$6.4 million. Fueled by an increase in car registrations, growth in registration of vehicles from other states, and the repeal of the \$1,500 cap on all vehicle sales, highway use tax collections outpaced forecast by 2.5% or \$14.7 million. Title and miscellaneous fee collections were 1.4% or \$1.6 million below projections.

Total Highway Trust Fund motor fuels and use tax collections were 0.7% or \$0.8 million below expectations in June. Highway Trust Fund title fees and miscellaneous fee collections finished June 1.2 million below forecast.

People and Places: Demographic Update for North Carolina

County/State Population Projections: In June, OSBM released updated state and county population projections through 2030. By 2030, the total state population of North Carolina is expected to reach over 12 million. This is more than 4 million additional people than the 2006 statewide population estimate. By 2030, the 3 most populous counties are projected to be Wake

(1.46 million), Mecklenburg (1.39 million) and Guilford (0.59 million). Nine counties are projected to lose population by 2030 compared to their 2000 Census population counts; Edgecombe County's population is expected to decline by more than 20%. The projected fastest growing nine counties are all expected to at least double their 2000 populations by 2030. Union County is expected to be the fastest growing, with an increase of nearly 184% over its 2000 population total by 2030.

County Population Estimates: In June, OSBM released its 2006 provisional county population estimates. Wake and Mecklenburg Counties had the highest estimated total growth between April 2000 and July 2006 at over 160,000 and 130,000 respectively. Six counties, Brunswick, Camden, Currituck, Hoke, Union and Wake are estimated to have had population growth of more than 25% between April 2000 and July 2006.

At the other end of the spectrum, Hyde and Edgecombe Counties both lost more than 5% of their population between April 2000 and July 2006. Edgecombe, Halifax, Lenoir and Martin each are estimated to have lost more than 1,000 people over the same time period.

The U.S. Census released its 2006 county estimates in March. Although these estimates use a different methodology, they show the same counties as the fastest growing in North Carolina. These were also some of the fastest growing nationally between April 2000 and July 2006: Union was ranked 15th, Currituck 49th, Brunswick 55th, Hoke 89th, and Wake 95th. The U.S. Census also estimated that Wake (14th), Mecklenburg (23rd), and Union (81st) were in the Top 100 Counties in terms of total population growth over the same time period. Wake County was also estimated by the U.S. Census to be one of the Top 10 total population gainers nationally between July 2005 and July 2006.

Municipal Population Estimates: The U.S. Census released its 2006 municipal population estimates in June. Nationally, Cary (8th) and Raleigh (15th) were among the fastest growing cities with populations over 100,000 between July 2005 and July 2006. Charlotte (9th) and Raleigh (12th) also were among the greatest numerical gainers in population. Overall, the U.S. Census estimates that Charlotte was the 20th largest city in the U.S. in 2006.

On the Horizon: Look for OSBM to release its certified 2006 municipal estimates in September.

