

NC Economic and Budget Conspectus

Current Economic Conditions

For the Nation

Real first-quarter GDP growth was revised up to 5.3% from the preliminary estimate of 4.8%. This strong start to 2006 followed a weak fourth quarter of 1.7% growth. Growth is likely to slow over the remainder of the year as housing weakens and consumer spending slows.

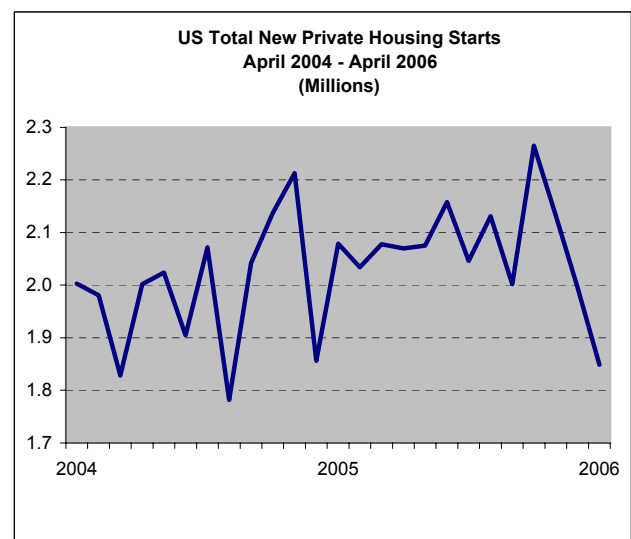
Consumer prices rose a seasonally adjusted 0.6% in April, ahead of expectations of 0.5%. Food prices remained flat during April, while energy prices continued to increase. Core consumer prices, which exclude food and energy prices, also rose more than expected by maintaining the 0.3% gain attained in March.

The overall employment picture was mixed for April. Job growth was slower than expected, suggesting a possible slowing labor market. However, wages and total hours worked increased. A longer workweek is not consistent with a softening labor market.

Payroll employment gained 138,000 in April, below expectations of 200,000. This decline was accompanied by a net downward revision of 36,000 to February and March employment. The retail sector fueled much of the April slowdown, as 36,000 jobs were lost. This loss was concentrated in department stores. However, seasonal variability around Easter may not have been accurately captured.

Outside of retail, other sectors experienced solid job growth in April. Food services and drinking places added 19,000 jobs. Mining, construction, and manufacturing added a total of 37,000 jobs. The 19,000 gain in manufacturing was its largest gain in nearly two years.

For the third straight month, housing starts declined 7.4% in April to 1.849 million units. The April figure represents the lowest level since November 2004. Single-



unit starts fell 5.6% while multiunit starts dropped 15.1%. By region, starts rose in the Northeast and Midwest and dropped in the South and West.

Despite rising gasoline prices and a cooling housing market, U.S. retail and food service sales increased 0.5% in April. This increase follows a 0.6% gain in March and represents a 6.6% increase above April 2005. The increase was fueled by strong gains at gasoline stations and improvements at electronic, grocery, clothing, and general merchandise stores. Sales at building and garden supply stores dropped 1.6% in April, after posting solid gains in February and March due to an early spring.

In This Issue

Monthly Economic Indicators.....	2
Revenue	3
Receipts and Disbursements	4

Building on solid first-quarter growth in industrial production, April was another strong month. Total industrial production rose 0.8% in April, as all three sectors experienced growth. Utilities and mining rose 0.9%, while manufacturing rose 0.7%. The overall capacity utilization rate rose 0.5% to 81.9% in April.

For North Carolina

North Carolina's seasonally adjusted rate of unemployment fell to 4.3% in April from 4.5% in March. The

state's unemployment rate has been below the 4.7% national rate since the beginning of 2006. The total number of people employed increased 22,688 over the month to 4,206,219, representing a 2.9% increase since April 2005.

Total nonfarm employment, as measured by the payroll survey, decreased by 8,000 jobs over the month but has increased approximately 61,800 jobs since last year. Increases in the education and health services sectors and leisure and hospitality services sectors have fueled most of the job gains over the past year.

Monthly Economic Indicators

(Seasonally Adjusted)	Apr. 2005	Nov. 2005	Dec. 2005	Jan. 2006	Feb. 2006	Mar. 2006	Apr. 2006
United States							
Industrial production (index)	107.2	109.1	109.8	110.3	110.8	111.4	112.3
% change year ago	3.1	2.9	2.8	3.2	3.2	3.8	4.7
Unemployment rate (%)	5.1	5.0	4.9	4.7	4.8	4.7	4.7
Nonfarm payroll employment (millions)	133.104	134.231	134.376	134.530	134.730	134.905	135.031
Change year ago (millions)	2.031	1.996	1.981	2.059	1.994	2.029	1.927
Personal income (billions of \$, annual rate)	10,145	10,431	10,483	10,553	10,590	10,638	10,696
% change year ago	6.0	5.1	1.9	5.3	5.1	5.1	5.4
Retail sales excluding food services (billions of \$)	307.3	315.6	316.8	326.4	323.8	325.9	327.5
% change year ago	8.4	6.6	5.6	9.3	7.4	7.8	6.6
Housing starts (millions of units, annual rate)	2.079	2.131	2.002	2.265	2.132	1.996	1.849
New light-vehicle sales (millions of units, annual rate)	17.18	15.70	17.15	17.58	16.55	16.54	16.69
CPI, all urban consumers (index)	194.2	197.8	197.7	199.0	199.1	199.8	201.0
% change year ago	3.5	3.5	3.4	4.0	3.7	3.4	3.5
Federal funds rate-effective (%) ¹	2.79	4.00	4.16	4.29	4.49	4.59	4.79
Crude oil price (\$ per barrel) ¹	53.04	58.30	59.43	65.51	61.63	62.90	69.69
North Carolina							
Civilian unemployment rate (%)	5.2	5.1	5.1	4.3	4.6	4.5	4.3
Nonfarm payroll employment (000)	3,900.4	3,938.2	3,943.5	3,949.6	3,963.6	3,970.2	3,962.2
% change year ago	2.3	2.3	2.3	1.6	1.8	1.9	1.6
Change year ago (000)	88.7	87.0	86.8	62.4	69.5	73.0	61.8
Manufacturing employment	567.6	563.9	563.7	562.9	562.8	563.0	560.9
% change year ago	-1.7	-2.9	-2.6	-1.5	-1.4	-1.1	-1.2
Nonmanufacturing employment	3,332.8	3,374.3	3,379.8	3,386.7	3,400.8	3,407.2	3,401.3
% change year ago	3.0	3.2	3.1	2.1	2.3	2.4	2.1
Average weekly hours-manufacturing ¹	40.0	40.7	39.6	39.8	39.2	39.6	39.4
Average weekly earnings-manufacturing (\$) ¹	571.2	593.4	577.8	575.1	561.3	566.3	568.9
% change year ago	0.1	2.9	-1.3	0.4	-1.3	-0.9	-0.4

1. Not seasonally adjusted

Over the past month, job gains were mainly attributed to growth in financial activities services. This sector grew by 1,900 jobs or 0.9%. Construction and government sector employment also grew slightly in April. Trade, transportation, and utilities experienced the largest losses (-3,800). Manufacturing continued to lose jobs (-2,100), followed by employment decreases in professional and business services (-1,200).

Revenue

General Fund net tax revenue totaled \$990.5 million in May 2006, a slight decrease of 0.2% over the previous year. The small decrease is mainly attributable to corporate income tax collections. While May is

not a significant month for this revenue category, net payments totaled only \$2 million, compared to \$38.5 million in May 2005.

Net individual income tax collections grew by 4.1% in May. Reflecting the growth in state employment, total withholding taxes increased 10.1% for the month. Sales tax collections continue to be resistant to higher interest rates and energy prices, although the rate of growth slowed in May. Gross collections grew 7.8% to \$671 million, while net sales and use tax revenue increased by a moderate 2.9%.

For the month, total tax revenue collections were \$20.1 million above budget expectations. Over the eleven months of fiscal year 2005-06, General Fund tax revenue

General Fund Revenue, 2005-06

(Millions)

	May			Year-to-Date		
	Actual	Budget	Difference	Actual	Budget	Difference
Tax revenue						
Individual income	\$498.1	\$490.6	\$7.5	\$8,459.3	\$7,980.7	\$478.6
Sales and use ¹	420.9	402.4	18.5	4,467.7	4,268.2	199.5
Corporate income	2.0	-8.3	10.3	956.5	770.4	186.1
Franchise	18.6	26.6	-8.0	476.3	493.6	-17.3
Alcoholic beverage	18.5	17.7	0.8	179.5	178.3	1.2
Insurance	-6.8	1.5	-8.3	303.1	301.7	1.4
Other taxes	39.2	39.9	-0.7	382.1	389.1	-7.0
Total taxes	\$990.5	\$970.4	\$20.1	\$15,224.5	\$14,382.0	\$842.5
% Change	-0.1			9.4		
Nontax revenue						
Treasurer's investments	\$9.9	\$6.1	\$3.8	\$104.1	\$68.6	\$35.5
Judicial fees	14.8	14.1	0.7	144.5	147.6	-3.1
Insurance Department	0.7	1.9	-1.2	43.8	42.5	1.3
Disproportionate share	8.8	0.0	8.8	100.0	100.0	0.0
Other nontax	16.2	25.0	-8.8	147.7	173.0	-25.3
Total nontax	\$50.4	\$47.1	\$3.3	\$540.2	\$531.7	\$8.5
% Change	-0.1			-1.6		
Transfers						
Highway Trust Fund	\$63.2	\$63.1	\$0.1	\$252.6	\$252.6	\$0.0
Total revenue	\$2,588.9	\$2,125.7	\$463.2	\$16,017.3	\$15,166.3	\$851.0
% Change	-0.1			8.8		

1. May sales and use tax collections are tentative.

is \$842.5 million ahead of the budget target. Including nontax revenue sources, total General Fund revenue is \$851 million ahead of budget expectations.

**Summary of Monthly and Year-to-Date
Departmental Receipts and Disbursements
Fiscal Year 2005-06^a**

Description	Original Budget	February 2005	March 2005	April 2005	Yr-to-Date Total
Receipts					
Education	\$9,481,737,778	\$157,972,937	\$152,686,850	\$164,630,842	\$2,188,940,509
Health and Human Services	4,033,235,902	714,379,551	776,581,404	735,518,899	7,988,436,956
Justice and Public Safety	1,719,430,954	16,855,806	20,480,299	16,119,026	218,781,573
General Government	380,477,135	6,286,449	8,032,351	6,009,340	132,007,824
Natural and Economic Resources	457,217,604	15,648,808	14,194,505	21,973,280	163,702,715
Other (debt service)	1,109,321,418	3,481,282	34,005,315	2,284,711	82,553,229
Total	<u>\$17,181,420,791</u>	<u>\$914,624,833</u>	<u>\$1,005,980,723</u>	<u>\$946,536,097</u>	<u>\$10,774,422,806</u>
Disbursements					
Education	\$9,481,737,778	\$853,811,079	\$926,920,707	\$855,292,244	\$8,016,032,734
Health and Human Services	4,033,235,902	319,943,039	378,169,892	199,656,036	3,129,191,129
Justice and Public Safety	1,719,430,954	144,984,968	146,674,853	147,297,606	1,457,962,002
General Government	380,477,135	35,933,103	34,902,539	34,736,058	289,576,119
Natural and Economic Resources	457,217,604	24,461,479	33,787,283	48,552,797	382,775,775
Other (debt service)	1,109,321,418	73,370,714	169,094,778	75,873,624	529,026,803
Total	<u>\$17,181,420,791</u>	<u>\$1,452,504,382</u>	<u>\$1,689,550,053</u>	<u>\$1,361,408,366</u>	<u>\$13,804,564,562</u>

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