North Carolina
Office of State Budget and Management

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NC Economic and Budget Conspectus

Current Economic Conditions

For the Nation

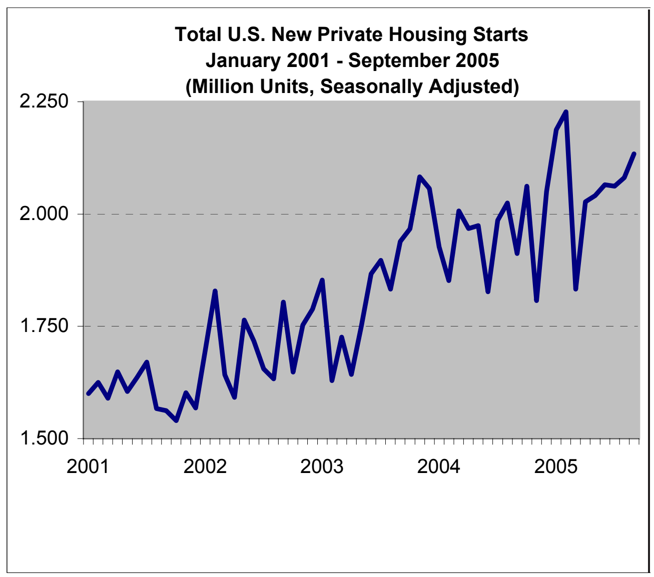
Payroll employment fell only 8,000 in September, despite the impact of Hurricane Katrina. (Because Hurricane Rita came late in September, its impact on the figures on the payroll survey was negligible.) This result beat most expectations, which had centered on a decline of around 150,000. The figure would have been even better but for the strike at Boeing, which took 18,000 workers off payrolls. In addition, job gains in July and August 2005 were revised up a combined 77,000. Employment gains in July and August 2005 now average 244,000 per month.

The Bureau of Labor Statistics made a rough estimate that Katrina deducted 230,000 jobs from payrolls, assuming the rest of the economy added jobs in line with the 194,000 average seen during the previous 12 months. Heavy job losses in retail employment (-58,000) and leisure and hospitality (-63,000) in part reflected the impact of the storm.

The U.S. unemployment rate rose from 4.9% in August to 5.1% in September, as was expected. The 17,000 job decline in household employment was in line with the payroll survey.

Personal income rose 1.7% and disposable personal income jumped 1.9% in September 2005. These two measures had dropped 0.9% and 1.1%, respectively, in August. Hurricane Katrina accounted for both the August drop and the September rebound. The Bureau of Economic Analysis (which produces the personal income estimates) reduced rental and proprietors' (noncorporate) income by $240 billion (annualized) in August because of Katrina, but only by $5 billion in September because of Rita. Wages and salaries increased $17 billion in September, after a slight $6 billion rise in August.

Despite the hurricanes, retail sales posted gains in September 2005. Total retail sales advanced 0.2% from August and 6.5% from a year earlier. Nonautomotive sales surged 1.1% from August and a huge 9.6% from September 2004. Hurricane-related sampling difficulties in the Gulf make the September 2005 report subject to errors and revisions.



September 2005 light-vehicle sales came in right on target. The seasonally adjusted annual selling rate was 16.3 million units (annualized), down from 16.7 million in August. The light-truck sector continues to suffer as a consequence of the big July 2005 sales blowout and

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skyrocketing gasoline prices. The truck-selling rate fell to 8.4 million units in September, down from 8.9 million in August. The car-selling rate inched up 100,000 units to 7.9 million.

Both new housing starts and permits were strong in September 2005. Single-family housing starts rose 2.6%, while multiple-unit starts jumped 7.8%. Starts rose in the South and Midwest but were unchanged in the West and Northeast. Permits rose 2.4% to a 32-year high of 2.189 million units (annualized), remaining above the 2-million mark for the 19th straight month. Permits for single-family homes were at a record high of 1.749 million units.

The Producer Price Index (PPI) jumped a seasonally adjusted 1.9% in September 2005. The spike in the PPI finished-goods index followed a 0.6% August increase (before Hurricane Katrina could record her deleterious impacts on domestic energy production). Hurricane Rita's impact on Gulf energy production will impact the October 2005 PPI, as she came ashore after the September survey date.

Monthly Economic Indicators

(Seasonally Adjusted)	Sep. 2004	Apr. 2005	May 2005	Jun. 2005	Jul. 2005	Aug. 2005	Sep. 2005
United States							
Industrial production (index)	115.7	118.1	118.5	119.4	119.4	119.6	118.0
% change year ago	3.9	2.9	2.5	3.7	3.0	3.1	2.0
Unemployment rate (%)	5.4	5.2	5.1	5.0	5.0	4.9	5.1
Nonfarm payroll employment (millions)	131.880	133.287	133.413	133.588	133.865	0.134	0.134
Change year ago (millions)	1.927	2.164	2.040	2.109	2.303	-131.616	-131.746
Personal income (billions of $, annual rate)	9,759	10,191	10,214	10,259	10,298	10,204	10,377
% change year ago	5.6	6.5	6.1	6.4	6.3	4.8	6.3
Retail sales excluding food services (billions of $)	297.4	312.4	311.3	317.6	323.5	316.8	317.6
% change year ago	7.4	9.2	6.2	10.1	10.8	8.4	6.8
Housing starts (millions of units, annual rate)	1.912	2.027	2.041	2.065	2.062	2.081	2.134
New light-vehicle sales (millions of units, annual rate)	17.46	17.40	16.62	17.49	20.68	16.75	16.34
CPI, all urban consumers (index)	189.6	194.2	194.1	194.1	195.1	196.1	198.5
% change year ago	2.5	3.5	2.8	2.5	3.1	3.6	4.7
Federal funds rate-effective (%)[1]	1.61	2.79	3.00	3.04	3.26	3.50	3.62
Crude oil price ($ per barrel)[1]	45.95	53.04	49.83	56.26	58.70	64.97	65.57
North Carolina							
Civilian unemployment rate (%)	5.4	5.3	5.1	5.3	5.7	5.6	5.5
Nonfarm payroll employment (000)	3,857.8	3,871.4	3,879.3	3,890.2	3,897.0	3,899.1	3,893.2
% change year ago	2.0	1.6	1.6	1.9	1.4	1.1	0.9
Change year ago (000)	76.3	59.7	61.6	72.9	55.1	42.6	35.4
Manufacturing employment	580.6	575.2	578.9	578.3	575.8	574.0	570.5
% change year ago	-1.0	-0.4	0.2	0.1	-1.2	-1.3	-1.7
Nonmanufacturing employment	3,277.2	3,296.2	3,300.4	3,311.9	3,321.2	3,325.1	3,322.7
% change year ago	2.6	1.9	1.9	2.2	1.9	1.5	1.4
Average weekly hours-manufacturing[1]	40.2	39.8	39.6	40.1	38.8	39.7	39.9
Average weekly earnings-manufacturing ($)[1]	582.50	568.74	568.26	575.03	561.82	570.09	567.38
% change year ago	4.7	-0.3	-2.0	-1.2	-2.0	-2.3	-2.6

1. Not seasonally adjusted

For North Carolina

North Carolina's unemployment rate fell to 5.5% in September 2005, down from 5.6% in August and the recent high of 5.7% in July. Total employment increased by 9,700 jobs for the month and 65,400 above September 2004.

However, according to the payroll survey, nonfarm employment fell by 5,900 jobs in September (seasonally adjusted). Contributing to the decline, the manufacturing sector lost 3,500 jobs and now stands 10,100 below September 2004. The trade, transportation, warehousing, and utilities industry also posted a sizable job loss in September (-5,800). Employment fell in both the construction (-600) and information (-400) industries. Job gains were posted by leisure and hospitality services (+4,000), professional and business services (+2,500), education and health services (+800), and government (+200).

Revenue

General Fund net tax revenue totaled $1,394.6 million in October 2005, an increase of 7.4% over the prior year. Individual income tax net collections were $713.5 million in September, a gain of 10.1% and right in line with budget expectations. Net sales and use tax collections were $399.9 million, a decrease of 2.1% from September 2004. However, the decline was caused by a

2005-06 General Fund Revenue

(Millions)

	Oct.			Year-to-Date		
	Actual	Budget	Difference	Actual	Budget	Difference
Tax revenue						
Individual income	$713.5	$712.7	$0.8	$2,858.5	$2,854.3	$4.2
Sales and use[1]	399.9	384.8	15.1	1,565.3	1,540.3	25.0
Corporate income	48.8	50.6	-1.8	285.4	273.9	11.5
Franchise	60.2	52.0	8.2	150.6	137.8	12.8
Alcoholic beverage	10.7	10.8	-0.1	62.4	60.1	2.3
Insurance	121.4	115.8	5.6	130.7	125.4	5.3
Other taxes	40.0	39.1	0.9	102.9	99.5	3.4
Total taxes	$1,394.6	$1,365.8	$28.8	$5,155.8	$5,091.3	$64.5
% Change	7.4			6.8		
Nontax revenue						
Treasurer's investments	$8.7	$6.1	$2.6	$36.0	$25.9	$10.1
Judicial fees	12.3	14.1	-1.8	49.8	48.9	0.9
Insurance Department	7.4	7.0	0.4	9.6	9.2	0.4
DSH[2]	0.0	0.0	0.0	0.0	0.0	0.0
Other nontax	8.2	6.9	1.3	28.9	27.8	1.1
Total nontax	$36.5	$34.1	$2.4	$124.3	$111.8	$12.5
% Change	3.0			4.3		
Transfers						
Highway Trust Fund	$0.0	$0.0	$0.0	$63.1	$63.1	$0.0
Total revenue	$1,431.0	$1,399.9	$31.1	$5,343.2	$5,266.2	$77.0
% Change	7.3			6.7		

1. October sales and use tax collections are tentative.

2. Medicaid Disproportionate Share Payments

jump in refunds which totaled $59.4 million, compared to $20.4 million one year ago. State gross sales and use tax receipts (before refunds) increased by a healthy 7.1% in September 2005.

October is the first significant month for insurance premiums tax collections in 2005-06. Net collections totaled $121.4 million, an increase of 5.6% over 2004.

The 25-cent-per-pack increase in the cigarette tax (and adjustments to other tobacco products) was effective on September 1, 2005, with the increase in tax collections beginning in October. Tobacco tax collections totaled $16.4 million in October 2005, up from $3.8 million in 2004. The increase was on schedule with expectations for 2005-06.

Nontax revenue totaled $36.5 million in October 2005, topping the budget target by $2.4 million for the month.

For the first four months of fiscal year 2005-06, General Fund net collections totaled $5,343.2 million, an increase of 6.7%. Compared to the authorized budget, net collections now stand $77.0 million ahead of schedule.