

NC Economic and Budget Conspectus

Current Economic Conditions

For the Nation

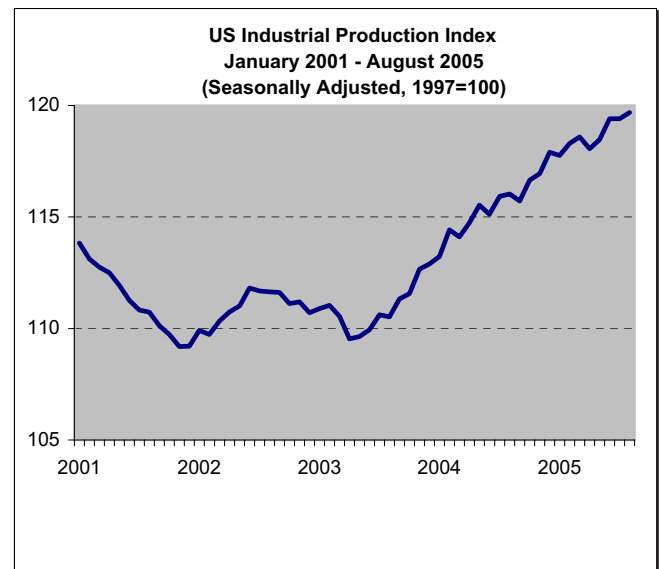
Hurricane Katrina struck Florida and then Alabama, Louisiana, and Mississippi so late in August that it did not have a significant impact on national economic performance for the month. Total industrial output inched up 0.1% in August, weaker than expected, but the Federal Reserve estimated that Katrina reduced growth by only 0.3 percentage point. However, the storm damage in the August report is just a preview of what will show up in the September report. Looking forward, October promises significant above-average gains, though, as hurricane recovery begins and facilities try to catch up on lost output.

Payroll employment rose 169,000 in August, below most expectations of about 190,000 new jobs. (The August employment report was not affected by Katrina, which occurred after the August survey period.) However, employment growth in June and July was revised up by a combined 44,000. Construction remained hot again in August, adding 25,000 jobs. There were gains across all major service categories, which reported a total gain of 156,000 jobs. Manufacturing once again lost jobs (14,000), with small declines spread across most major industries.

The civilian unemployment rate fell to 4.9% in August, as employment measured by the household survey rose by a strong 373,000. The ratio of employment to the population hit a new high for expansion at 62.9%.

Hurricane Katrina did impact personal income in August, which slipped 0.1%. Without Katrina, personal income would have risen 0.2%. The Bureau of Economic Analysis made three large adjustments to the income accounts related to the storm. First, it decreased nonfarm

proprietors' income by \$12.2 billion (annualized) to "reflect uninsured losses of business property." Second, it decreased rental income by \$88.5 billion to reflect "uninsured losses of residential property." Last, it raised other transfer receipts from business by \$70 billion to reflect "insurance benefits paid to persons." These numbers are preliminary and will certainly be revised many times over the next few years.



Housing starts fell 1.3% in August but exceeded the 2 million-unit mark (annual rate) for the fifth straight month. Single-unit starts rose 0.1%, while multiunit starts tumbled 8.5% after having fallen 6.0% in July. By region, starts fell 6.6% in the South, 5.2% in the Midwest, and 4.1% in the Northeast, but soared 13.3%

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in the West. The numbers for the South may have been weakened slightly by Hurricane Katrina.

Automobile and light truck sales fell back a bit in August after June and July's record-breaking volumes, inflated due to employee pricing programs. Sales were 16.72 million units (annual rate) for August, a healthy gain over last year's 16.58 million units. As the frenzy of employee discounts faded, the domestic Big 3 saw market share return to pre-June share, with just 55.4% in August, down significantly from July's 62.4% share. Although a large number of vehicles were destroyed by Hurricane Katrina,

a drastic alteration of short-term sales and production levels is not expected.

For North Carolina

Nonfarm payroll employment in North Carolina fell by a net 4,800 jobs in August 2005 (seasonally adjusted). However, the loss was centered on the government sector, which fell by 6,500. This number is likely a technical aberration in the seasonal adjustment process as new legislation delayed the start of the public school year until late August in 2005. Consequently, most teachers had not yet reported for work during the survey week.

Monthly Economic Indicators

(Seasonally Adjusted)	Aug. 2004	Mar. 2005	Apr. 2005	May 2005	Jun 2005	Jul. 2005	Aug. 2005
United States							
Industrial production (index)	116.0	118.6	118.1	118.5	119.4	119.4	119.7
% change year ago	5.0	3.9	2.9	2.5	3.7	3.0	3.1
Unemployment rate (%)	5.4	5.2	5.2	5.1	5.0	5.0	4.9
Nonfarm payroll employment (millions)	131.750	132.995	133.287	133.413	133.588	133.865	134.076
Change year ago (millions)	1.891	2.209	2.164	2.040	2.109	2.303	2.326
Personal income (billions of \$, annual rate)	9,740	10,122	10,191	10,214	10,259	10,294	10,288
% change year ago	5.7	6.2	6.5	6.1	6.4	6.2	5.6
Retail sales excluding food services (billions of \$)	292.2	307.1	312.4	311.3	317.6	323.9	316.3
% change year ago	4.7	6.0	9.2	6.2	10.1	10.9	8.3
Housing starts (millions of units, annual rate)	2.018	1.833	2.027	2.041	2.065	2.035	2.009
New light-vehicle sales (millions of units, annual rate)	16.56	16.80	17.40	16.62	17.49	20.68	16.75
CPI, all urban consumers (index)	189.3	193.2	194.2	194.1	194.1	195.1	196.1
% change year ago	2.7	3.2	3.5	2.8	2.5	3.1	3.6
Federal funds rate-effective (%) ¹	1.43	2.63	2.79	3.00	3.04	3.26	3.50
Crude oil price (\$ per barrel) ¹	44.94	54.31	53.04	49.83	56.26	58.70	65.57
North Carolina							
Civilian unemployment rate (%)	5.4	5.2	5.3	5.1	5.3	5.7	5.6
Nonfarm payroll employment (000)	3,856.5	3,857.1	3,871.4	3,879.3	3,890.2	3,897.0	3,892.2
% change year ago	2.2	1.4	1.6	1.6	1.9	1.4	0.9
Change year ago (000)	82.0	52.7	59.7	61.6	72.9	55.1	35.7
Manufacturing employment	581.3	575.7	575.2	578.9	578.3	575.8	573.6
% change year ago	-1.5	-0.1	-0.4	0.2	0.1	-1.2	-1.3
Nonmanufacturing employment	3,275.2	3,281.4	3,296.2	3,300.4	3,311.9	3,321.2	3,318.6
% change year ago	2.9	1.6	1.9	1.9	2.2	1.9	1.3
Average weekly hours-manufacturing ¹	40.9	39.9	39.8	39.6	40.1	38.8	38.8
Average weekly earnings-manufacturing (\$) ¹	583.23	570.97	568.74	568.26	575.03	561.82	561.82
% change year ago	7.5	0.5	-0.3	-2.0	-1.2	-2.0	-3.7

1. Not seasonally adjusted

The construction sector expanded by 1,500 new jobs in August. Other employment gains were reported by educational and health services (up 1,500), leisure and hospitality services (up 1,400), and information (up 200). On the downside were manufacturing (down 2,300); trade, transportation, warehousing, and utilities (down 2,200); and professional and business services (down 500).

The unemployment rate fell in August to 5.6%, down from 5.7% in July. The “improvement” was the result of a decline in the number of unemployed (down 3,550). Statistically, seasonally adjusted employment remains unchanged from July. Over the past twelve months, total employment increased by 1.4% (nearly 58,000 jobs).

Revenue

General Fund net tax revenue totaled \$1,560.2 million in September 2005, an increase of 7.0% over the prior year. Individual income tax net collections were \$860.7 million in September, a gain of 6.5%. Withholding taxes totaled \$618.1 million, up 1.4% largely due to one less business day versus September 2004. Quarterly estimated payments were \$246.2 million, up a hefty 21.8%.

Sales and use tax collections were \$383.7 million in September, a net gain of 8.9%. Retail sales growth in North Carolina continues at a healthy pace, despite the sharp rise in motor fuels prices.

2005-06 General Fund Revenue

(Millions)

	Sept.			Year-to-Date		
	Actual	Budget	Difference	Actual	Budget	Difference
Tax revenue						
Individual income	\$860.7	\$879.1	-\$18.4	\$2,145.0	\$2,141.6	\$3.4
Sales and use ¹	383.7	365.3	18.4	1,165.2	1,155.5	9.7
Corporate income	222.8	215.1	7.7	236.5	223.3	13.2
Franchise	23.2	12.8	10.4	90.4	85.8	4.6
Alcoholic beverage	19.6	19.0	0.6	51.7	49.3	2.4
Insurance	2.0	2.7	-0.7	9.3	9.6	-0.3
Other taxes	18.0	13.6	4.4	62.9	60.4	2.5
Total taxes	\$1,530.1	\$1,507.6	\$22.5	\$3,761.2	\$3,725.5	\$35.7
% Change	7.0			6.6		
Nontax revenue						
Treasurer's investments	\$9.4	\$6.3	\$3.1	\$27.3	\$19.8	\$7.5
Judicial fees	12.6	11.4	1.2	37.5	34.8	2.7
Insurance Department	0.4	0.0	0.4	2.2	2.2	0.0
DSH ²	0.0	0.0	0.0	0.0	0.0	0.0
Other nontax	7.6	6.2	1.4	20.7	20.9	-0.2
Total nontax	\$30.1	\$23.9	\$6.2	\$87.8	\$77.7	\$10.1
% Change	3.8			4.6		
Transfers						
Highway Trust Fund	\$0.0	\$0.0	\$0.0	\$63.1	\$63.1	\$0.0
Total revenue	\$1,560.2	\$1,531.5	\$28.7	\$3,912.1	\$3,866.3	\$45.8
% Change	7.0			6.5		

1. September sales and use tax collections are tentative.

2. Medicaid Disproportionate Share Payments

September payments of corporate income taxes totaled \$222.8 million, a gain of 2.8% over 2004. At \$23.2 million, net franchise tax payments were strong, offsetting the weak results of August.

The cigarette tax rate increased to 30 cents per pack on September 1, 2005, which will be reflected in increased revenue collections beginning in October. However, there was a noticeable increase in tobacco tax collections in September (for sales in August), as some consumers

purchased tobacco products in advance of the tax rate hike. In September, tobacco tax collections totaled \$7.0 million, nearly double the \$3.6 million collected last year.

For the first three months of fiscal year 2005-06, General Fund net collections total \$3,912.1 million, an increase of 6.5%. Compared to the authorized budget, net collections now stand \$45.8 million ahead of schedule.