North Carolina
Office of State Budget
and Management

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NC Economic and Budget Conspectus

Current Economic Conditions

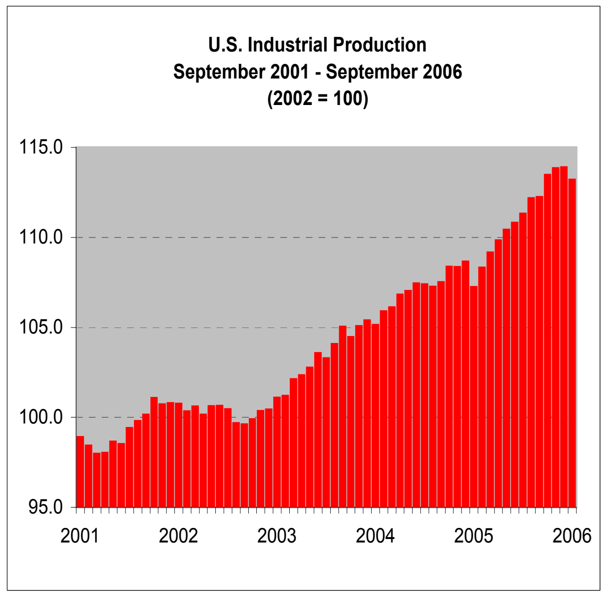
For the Nation

Real GDP growth for the second quarter was revised down to 2.6% from 2.9%. This downward correction was not large, but it does support the picture of a slowing economy. The main contributors to the decline were slower inventory accumulation and a drop in residential construction spending. Residential construction subtracted an estimated 0.7% from second-quarter growth, and this drag may be larger in the third quarter. Fortunately for the growth outlook, falling energy prices should help consumer spending.

Consumer prices rose an expected 0.2% in August after climbing 0.4% in July. The moderation in prices was driven by a deceleration in energy prices, which rose only 0.3% in August. Core inflation, which excludes food and energy components, remained at 0.2% for the second consecutive month after four months at 0.3%.

Payroll employment rose 128,000 in August, the fifth consecutive month of mediocre growth. After robust growth in the first three months of 2006, employment growth has been subpar. First-quarter employment gains averaged 176,000 jobs per month, while the last five months have averaged 119,000 additional jobs. In August, government, food services, health care and education services, and business and professional services gained jobs. Retailing and manufacturing, however, lost jobs. Construction gained 7,000 jobs, although this increase is unlikely to be sustained as housing starts drop. The August unemployment rate dropped back to 4.7% from 4.8%.

Industrial production retreated 0.1% in August. Mining output fell 0.3%, and utility output dropped 0.8% because of normal August weather. Manufacturing output was unchanged in August, but July's manufacturing output growth was revised up 0.1%. Overall capacity utilization fell to 82.4% in August from 82.7% in July. Despite these weak August figures, strong gains in June and July manufacturing should lead to solid third-quarter growth.



Dropping builder confidence, slow sales, and rising inventories continue to push housing starts lower. Housing starts fell 6.0% in August and have dropped 19.8% over the past twelve months. Single-unit starts declined 5.9%, and multiple-unit starts fell 6.7%. Housing permits, a good indicator of future housing activity, fell 2.3% in August, as builders were not enthusiastic about taking on new projects. On a regional basis, starts were down in all regions except the Northeast.

In This Issue

Consumer confidence surveys and retail sales support the picture of a cautious consumer. In August, retail sales (excluding the automobile group) rose 0.2%, following a 0.6% gain in July. The housing slowdown pushed sales at home furnishing stores down 0.3%, while sales at electronics and appliance stores and building supply dealers increased only 0.1%. Department and apparel store sales fell slightly. However, sales at sporting goods, hobby, book, and music stores increased 0.8%. Sales at restaurants, grocery stores, warehouses, and supercenters picked up as gasoline prices declined.

The seasonally adjusted annual selling rate for light-vehicle sales was 16.0 million in August, down from 17.1 million in July when dealer incentives provided a boost. In response to the volatility of gasoline prices, light-truck sales have fallen 9.5% over the year, while car sales are up 2.4%.

For North Carolina

The state's seasonally adjusted unemployment rate of 4.8% remained unchanged from July. For the first time since December 2005, North Carolina's unemployment rate is higher than the national rate of 4.7%. The rate

Monthly Economic Indicators

(Seasonally Adjusted)	Aug. 2005	Mar. 2006	Apr. 2006	May 2006	Jun. 2006	Jul. 2006	Aug. 2006
United States							
Industrial production (index)	108.6	111.2	112.1	112.2	113.4	113.8	113.8
% change year ago	3.1	3.7	4.6	4.4	4.7	5.1	4.8
Unemployment rate (%)	4.9	4.7	4.7	4.6	4.6	4.8	4.7
Nonfarm payroll employment (millions)	133.792	134.905	135.017	135.117	135.251	135.374	135.562
Change year ago (millions)	2.205	2.029	1.913	1.907	1.875	1.757	1.770
Personal income (billions of $, annual rate)	10,104	10,777	10,852	10,894	10,956	11,014	11,052
% change year ago	3.7	6.5	7.0	7.0	7.3	7.0	9.4
Retail sales excluding food services (billions of $)	312.0	326.0	328.4	329.0	327.2	332.0	331.9
% change year ago	8.2	7.8	6.9	7.6	5.5	4.2	6.4
Housing starts (millions of units, annual rate)	2.075	1.972	1.832	1.953	1.833	1.772	1.665
New light-vehicle sales (millions of units, annual rate)	16.75	16.54	16.64	16.10	16.12	17.14	16.02
CPI, all urban consumers (index)	196.1	199.8	201.0	201.9	202.3	203.2	203.7
% change year ago	3.6	3.4	3.5	4.0	4.2	4.2	3.9
Federal funds rate-effective (%)[1]	3.50	4.59	4.79	4.94	4.99	5.24	5.25
Crude oil price ($ per barrel)[1]	64.97	62.90	69.69	70.94	70.96	74.41	73.05
North Carolina							
Civilian unemployment rate (%)	5.4	4.5	4.3	4.6	4.6	4.8	4.8
Nonfarm payroll employment (000)	3,918.9	3,970.2	3,970.8	3,981.6	3,987.7	3,980.3	3,990.9
% change year ago	1.6	1.9	1.8	2.1	2.4	2.0	1.8
Change year ago (000)	62.4	73.0	70.4	81.8	94.7	76.5	72.0
Manufacturing employment	564.6	563.0	562.5	560.4	560.8	559.4	559.5
% change year ago	-2.9	-1.1	-0.9	-1.2	-0.9	-1.0	-0.9
Nonmanufacturing employment	3,354.3	3,407.2	3,408.3	3,421.2	3,426.9	3,420.9	3,431.4
% change year ago	2.4	2.4	2.3	2.7	3.0	2.5	2.3
Average weekly hours-manufacturing[1]	39.8	39.6	39.0	39.8	39.7	38.9	38.7
Average weekly earnings-manufacturing ($)[1]	569.5	566.3	564.3	574.7	574.9	564.8	559.2
% change year ago	-2.4	-0.9	-1.2	1.0	0.2	0.4	-1.8

1. Not seasonally adjusted

has dropped 0.6% since August 2005. The total number of people employed increased by 14,816 to 4,230,342.

The monthly payroll survey of employers showed a small increase in jobs. Nonfarm employment increased by 8,600 over the month and has increased by 70,000 since August 2005. Trade, transportation, and utilities realized the largest monthly job gains (2,800). Leisure and hospitality services (1,800) and government (2,000) also experienced monthly gains. The only sector that experienced a monthly loss in jobs was financial activities (100). Over the year, the services sector increased by 63,100 jobs or 2.0%. Educational and health services have gained the most jobs (15,600), based on strong growth in ambulatory health services (5,900).

Manufacturing continues to lose jobs and is the only sector experiencing a steady job loss since August 2005. Within this sector, the textile industry had the largest job loss (7,300). However, some manufacturing industries, such as transportation equipment, fabricated metal products, computer and electronic products, food, and others, have gained jobs since August 2005.

Revenue

General Fund net tax revenue totaled $1,702.4 million in September, an increase of 11.3% above the previous year. Most of this increase has been fueled by a surge in corporate tax receipts and solid growth in individual income tax collections.

General Fund Revenue, 2006-07

($Millions)

	Sept.			Year-to-Date		
	Actual	Budget	Difference	Actual	Budget	Difference
Tax revenue						
Individual income	$964.6	$935.6	$29.0	$2,334.0	$2,294.5	$39.5
Sales and use[1]	353.9	363.6	-9.7	1,236.5	1,278.6	-42.1
Corporate income	290.5	228.9	61.6	282.7	224.6	58.1
Franchise	23.2	26.8	-3.6	103.8	100.5	3.3
Alcoholic beverage	21.4	20.7	0.7	55.4	54.7	0.7
Insurance	2.7	2.2	0.5	9.7	9.7	0.0
Other taxes	46.1	35.9	10.2	139.2	119.8	19.4
Total taxes	$1,702.4	$1,613.7	$88.7	$4,161.3	$4,082.4	$78.9
% Change	11.3			10.6		
Nontax revenue						
Treasurer's investments	$17.7	$10.3	$7.4	$46.5	$30.9	$15.6
Judicial fees	13.4	11.9	1.5	42.7	35.7	7.0
Insurance Department	0.3	0.8	-0.5	1.8	2.8	-1.0
Disproportionate share	0.0	0.0	0.0	0.0	0.0	0.0
Other nontax	8.0	7.7	0.3	20.6	21.2	-0.6
Total nontax	$39.3	$30.7	$8.6	$111.6	$90.6	$21.0
% Change	78.4			-16.5		
Transfers						
Highway Trust Fund	$14.4	$14.4	$0.0	$14.4	$14.4	$0.0
Total revenue	$1,756.0	$1,658.8	$97.3	$4,287.3	$4,187.4	$99.9
% Change	12.5			9.6		

1. September sales and use tax collections are tentative.

Net corporate collections totaled $290.5 million in September, about 30% above September 2005 collections. Net franchise tax collections were $23.2 million, about the same level as collections in 2005.

Net individual income tax collections grew by 12.1% in September. Total withholding taxes were $660.3 million, up 6.8% for the month. Quarterly estimated payments totaled $290.3 million, a strong 17. 9% increase above the previous year.

Gross sales and use tax collections grew 7.0% in September; however, after subtracting transfers and refunds, net sales and use collections fell by 7.8%. Through the first three months of the fiscal year, net sales and use collections were 6.1% above the previous year.

Through the first quarter of fiscal year 2006-07, total tax revenue collections were $78.9 million above budget expectations. The vast majority of the extra collections have resulted from the surge in corporate collections (about $62 million above expectations). Including non-tax revenue sources, total General Fund revenue is $99.9 million ahead of budget expectations.