

# NC Economic Conspectus

## Current Economic Conditions

### For the Nation

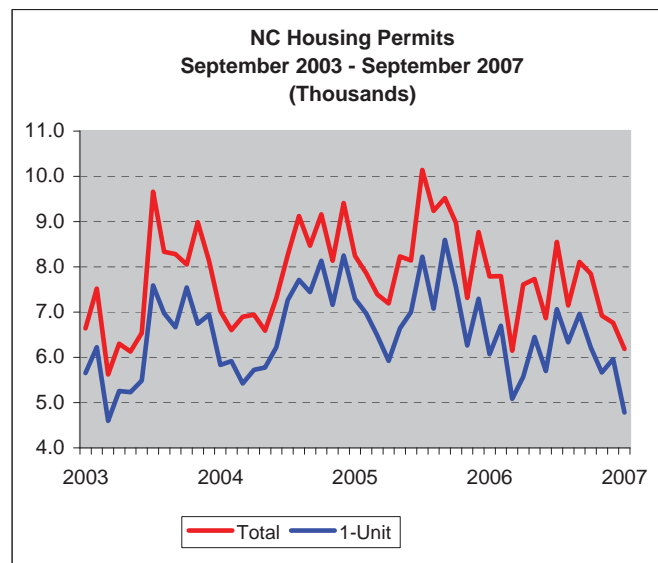
Real GDP expanded 3.8% in the second quarter of 2007, strongly ahead of the 0.6% growth in the first quarter. This increase reflected positive contributions from a variety of measures, including growth in business investment, corporate profits, and net exports. Government spending also increased 10.8% after a first-quarter decline. The outlook for the recently completed third quarter is much less optimistic. While real consumption should continue to accelerate, business investment growth and government spending will likely slow. In addition, an increase in import growth is expected to reduce the positive contributions from net exports.

After declines of 6.6% and 3.2% in the first two months of the third quarter, housing starts plunged 10.2% in September. The volatile multi-family starts dropped 34.3% and single-unit starts dipped 1.7%. For the year, total starts are 30.8% down and have reached their lowest level since March 1993. By region, starts were up in the Northeast, but down significantly in the Midwest, South, and West.

Unfortunately, the housing permits data indicate that the housing news is likely to get worse. Permits dropped 7.3% in September, with a 7.1% decline in single-family units and a 7.7% decline in multi-family units. While North Carolina has been less affected by the housing slowdown than other parts of the country, North Carolina housing permits have also trended downward in recent months (see chart).

Industrial production rose 0.1% in September, but August output was downgraded from 0.2% to unchanged. While motor vehicles and parts output fell 3.6%, overall manufacturing registered a 0.1% gain. Mining output accelerated 0.2% and utility production declined 0.1%.

Core manufacturing (manufacturing excluding both autos and high-technology) rose 0.3% in September after a decline of 0.4% in August. Total capacity utilization was unchanged in September. For the third quarter, industrial production and manufacturing output accelerated



at a strong 4.0% annual pace. However, most of the gains were frontloaded and realized in July. The weak August and September performance added a disappointing ending to the third quarter.

Payroll employment rose by 110,000 in September, while July and August payroll gains were revised upward by a combined 118,000 jobs. Almost all of the July and August revisions were in the government sector. Despite the upward revisions and gains in September, the overall

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labor market is still slowing. Manufacturing continues to lose jobs, with a decline of 18,000 jobs in September following a loss of 45,000 jobs in August. Employment sectors most closely related to the housing downturn also showed weakness. Construction jobs fell 14,000 and building material stores lost 17,000 jobs. On the positive side, the private service sector added 106,000 jobs in September and remains the key driver of job growth. The unemployment rate nudged upward to 4.7% after remaining between 4.4% and 4.6% for the past 12 months.

After falling 0.1% in August, consumer prices climbed 0.3% in September. Most of the increase can be attributed to a rise in energy prices and food prices. Following a sharp decline in August, energy prices rose 0.3%. Gasoline prices increased 0.4%, while fuel oil jumped

1.0% and natural gas rose 0.1%. Food prices continued an upward trend, rising 0.5% on price increases in fruits and vegetables and dairy products. Excluding food and energy, “core” consumer prices rose 0.2% in September. Core consumer prices rose an annualized 2.5% over the past 3 months, up from the May low of 1.6%.

September sales results were mixed, but slightly above expectations. Total retail sales rose 0.6% in September, up 0.3% above August growth. This gain is mainly attributable to strong growth at auto dealers (1.2%), gasoline stations (2.0%), and electronic stores (0.9%). Some channels registered declines. As a product of declining home sales, sales in home furnishing stores fell 0.6%. Sales were also down at clothing stores (0.4%) due to unseasonably warm weather in September. Overall third-quarter growth in real consumer spending is

## Monthly Economic Indicators

(Seasonally Adjusted)

|  | Sep.<br>2006 | Apr.<br>2007 | May<br>2007 | Jun.<br>2007 | Jul.<br>2007 | Aug.<br>2007 | Sep.<br>2007 |
|--|--------------|--------------|-------------|--------------|--------------|--------------|--------------|
| <b>United States</b>                                     |              |              |             |              |              |              |              |
| Industrial production (index)                            | 112.2        | 113.1        | 113.0       | 113.5        | 114.2        | 114.3        | 114.4        |
| % change year ago  | 6.0          | 1.9          | 1.9         | 1.5          | 1.7          | 1.6          | 1.9          |
| Unemployment rate (%)                                    | 4.6          | 4.5          | 4.5         | 4.5          | 4.6          | 4.6          | 4.7          |
| Nonfarm payroll employment (millions)                    | 136.636      | 137.716      | 137.904     | 137.973      | 138.066      | 138.155      | 138.265      |
| Change year ago (millions)                               | 2.392        | 1.913        | 1.998       | 1.943        | 1.814        | 1.717        | 1.629        |
| Personal income (billions of \$, annual rate)            | 11,077       | 11,565       | 11,620      | 11,673       | 11,734       | 11,775       | NA           |
| % change year ago  | 5.8          | 6.4          | 6.7         | 6.3          | 6.8          | 6.8          | NA           |
| Retail sales, excluding food services (billions of \$)   | 326.0        | 334.7        | 340.4       | 337.3        | 339.2        | 340.3        | 342.5        |
| % change year ago  | 5.1          | 2.8          | 4.5         | 4.1          | 3.2          | 3.6          | 5.1          |
| Housing starts (millions of units, annual rate)          | 1.724        | 1.485        | 1.440       | 1.468        | 1.371        | 1.327        | 1.191        |
| New light-vehicle sales (millions of units, annual rate) | 16.55        | 16.21        | 16.28       | 15.63        | 15.23        | 16.20        | 16.17        |
| CPI, all urban consumers (index)                         | 202.7        | 206.0        | 207.4       | 207.8        | 208.0        | 207.7        | 208.3        |
| % change year ago  | 2.1          | 2.6          | 2.7         | 2.7          | 2.4          | 1.9          | 2.8          |
| Federal funds rate—effective (%) <sup>1</sup>            | 5.25         | 5.25         | 5.25        | 5.25         | 5.26         | 5.02         | 4.94         |
| Crude oil price (\$ per barrel) <sup>1</sup>             | 63.87        | 63.97        | 63.46       | 67.48        | 74.18        | 72.39        | 79.93        |
| <b>North Carolina</b>                                    |              |              |             |              |              |              |              |
| Civilian unemployment rate (%)                           | 5.0          | 4.8          | 4.8         | 4.9          | 5.0          | 4.8          | 4.9          |
| Nonfarm payroll employment (000)                         | 4,002.6      | 4,092.5      | 4,101.3     | 4,109.9      | 4,084.9      | 4,098.5      | 4,104.2      |
| % change year ago  | 1.8          | 3.1          | 3.0         | 3.1          | 2.6          | 2.7          | 2.5          |
| Change year ago (000)                                    | 71.3         | 121.7        | 119.7       | 122.2        | 104.6        | 107.6        | 101.6        |
| Manufacturing employment                                 | 556.6        | 547.9        | 547.1       | 545.5        | 544.4        | 542.0        | 541.6        |
| % change year ago  | -1.5         | -2.6         | -2.4        | -2.7         | -2.7         | -3.1         | -2.7         |
| Nonmanufacturing employment                              | 3,446.0      | 3,544.6      | 3,554.2     | 3,564.4      | 3,540.5      | 3,556.5      | 3,562.6      |
| % change year ago  | 2.4          | 4.0          | 3.9         | 4.0          | 3.5          | 3.6          | 3.4          |
| Average weekly hours—manufacturing <sup>1</sup>          | 40.5         | 41.1         | 41.6        | 42.0         | 41.5         | 41.8         | 42.1         |
| Average weekly earnings—manufacturing (\$) <sup>1</sup>  | 596.2        | 619.4        | 624.0       | 629.2        | 627.1        | 630.8        | 634.5        |
| % change year ago  | 3.3          | 9.8          | 8.6         | 9.1          | 10.9         | 8.5          | 6.4          |

1. Not seasonally adjusted

expected to be near 3.5%, representing a nice rebound from second quarter growth of 1.4%. However, spending growth is likely to slow in coming months as job growth decelerates and the housing slump continues to worsen.

September light-vehicle sales volume was 16.15 million, about the same as August. For the year, sales are about 2.9% behind the 2006 selling pace. September car sales were down 3.6%, while light trucks declined 2.3%. In terms of market share, car sales totaled 46.4% of the market in September, down from the year-to-date share of 46.7%. The light-truck share was 53.0%, slightly above the 52.6% share last year.

## For North Carolina

North Carolina's seasonally adjusted unemployment rate increased 0.1% to 4.9% in September. The national unemployment rate, at 4.7%, also increased 0.1% over the month. For the year, the state unemployment rate has decreased 0.1% while the national rate has increased 0.1%. Since September 2001, the North Carolina unemployment rate has dropped 1.2% versus a 0.3% decline in the national rate.

The September payroll survey showed an increase in the total number of North Carolina jobs. Total nonfarm employment increased by 5,700 from August. Com-

## General Fund Revenue, 2007-08

(\$Millions)

|                         | September      |                |              | Year-to-Date   |                |              |
|-------------------------|----------------|----------------|--------------|----------------|----------------|--------------|
|                         | Actual         | Budget         | Difference   | Actual         | Budget         | Difference   |
| <b>Tax revenue</b>      |                |                |              |                |                |              |
| Individual income       | 1,037.0        | 1,007.9        | 29.1         | 2,518.2        | 2,445.7        | 72.5         |
| Sales and use(1)        | 371.7          | 356.1          | 15.5         | 1,299.3        | 1,244.2        | 55.2         |
| Corporate income        | 282.5          | 282.6          | (0.1)        | 283.9          | 303.5          | (19.6)       |
| Franchise               | 14.0           | 24.5           | (10.5)       | 93.7           | 110.3          | (16.6)       |
| Alcoholic beverage      | 23.5           | 22.2           | 1.3          | 59.7           | 58.3           | 1.4          |
| Insurance               | 1.9            | 2.9            | (1.0)        | 9.3            | 10.5           | (1.2)        |
| Other taxes             | 33.7           | 45.6           | (11.8)       | 131.2          | 141.5          | (10.3)       |
| <b>Total taxes</b>      | <b>1,764.3</b> | <b>1,741.8</b> | <b>22.5</b>  | <b>4,395.3</b> | <b>4,314.0</b> | <b>81.3</b>  |
| % change from last year | 3.9%           |                |              | 5.7%           |                |              |
| <b>Nontax revenue</b>   |                |                |              |                |                |              |
| Treasurer's investments | 22.4           | 17.7           | 4.7          | 64.8           | 53.0           | 11.8         |
| Judicial fees           | 15.5           | 14.4           | 1.1          | 47.3           | 43.1           | 4.2          |
| Insurance Department    | 0.2            | 5.0            | (4.8)        | 2.1            | 10.0           | (8.0)        |
| Disproportionate share  | -              | -              | -            | -              | -              | -            |
| Other nontax            | 7.6            | 11.6           | (4.0)        | 21.0           | 34.8           | (13.8)       |
| <b>Total nontax</b>     | <b>45.7</b>    | <b>48.7</b>    | <b>(2.9)</b> | <b>135.2</b>   | <b>141.0</b>   | <b>(5.8)</b> |
| <b>Transfers</b>        |                |                |              |                |                |              |
| Highway Trust Fund      | 4.5            | 4.5            | -            | 47.7           | 47.7           | -            |
| <b>Total Revenue</b>    | <b>1,814.6</b> | <b>1,795.0</b> | <b>19.6</b>  | <b>4,578.1</b> | <b>4,502.7</b> | <b>75.4</b>  |
| % change from last year | 3.6%           |                |              | 6.9%           |                |              |

(1) September sales and use tax collections are tentative.

pared to September 2006, North Carolina has added 68,800 jobs. Leisure and hospitality services enjoyed the largest monthly gain (4,200), followed by trade, transportation and utilities (1,500), and professional and business services (500). Since September 2006, education and health services have added the most jobs (23,400) and have also realized the largest percentage increase at 4.8%.

The government sector registered the largest monthly decline (-700). Continuing its downward trend, manufacturing also lost jobs in September (-400). However, the monthly loss was the lowest total since April. Over the past year, manufacturing employment in North Carolina declined 10,000 jobs or 1.8%. Since September 2001, North Carolina has lost about 21.2% of its manufacturing jobs compared to a corresponding 13.2% decline in U.S. manufacturing jobs.

### General Fund Revenue

General fund revenue ended the first quarter of fiscal year 2007-08 in relatively strong fashion. Net tax revenue totaled \$1,764.3 million in September, an increase of 3.9% above the previous year. Most of this increase was fueled by strong individual income tax and sales tax collections.

September is a large collection month for personal income taxes and corporate income taxes. While individual income tax collections continued to register strong growth, corporate collections have started to slow.

Net individual income tax collections totaled \$1,037.0 million in September, up a hefty 7.5% above September 2006 collections. Withholding taxes totaled \$696.4 million, up 5.5% above last year. Continuing the trend

### Highway Fund Revenue, 2007-08

(\$Millions)

|  | September 2007 |                |               | Year-to-Date   |                |              |
|--|----------------|----------------|---------------|----------------|----------------|--------------|
|  | Actual         | Budget         | Difference    | Actual         | Budget         | Difference   |
| Motor fuels tax                        | \$102.2        | \$102.2        | \$0.0         | \$301.1        | \$299.7        | \$1.4        |
| Motor fuels inspection and regul. fees | \$1.3          | \$1.3          | \$0.0         | \$3.7          | \$3.9          | -\$0.2       |
| Staggered registration                 | \$14.8         | \$15.6         | -\$0.8        | \$50.8         | \$50.3         | \$0.5        |
| International registration             | \$3.3          | \$2.6          | \$0.7         | \$10.8         | \$9.8          | \$1.0        |
| Driver and truck licenses              | \$20.2         | \$19.0         | \$1.2         | \$66.9         | \$58.2         | \$8.8        |
| Other licenses and fees                | \$2.1          | \$8.8          | -\$6.6        | \$14.8         | \$25.8         | -\$11.0      |
| Investment income                      | \$3.4          | \$0.8          | \$2.6         | \$6.3          | \$1.7          | \$4.6        |
| <b>Total Highway Fund</b>              | <b>\$147.3</b> | <b>\$150.2</b> | <b>-\$2.9</b> | <b>\$454.3</b> | <b>\$449.3</b> | <b>\$5.1</b> |
| % change from last year                | -0.9%          |                | -1.9%         | 2.3%           |                | 1.1%         |

### Highway Trust Fund, 2007-08

(\$Millions)

|                                 |               |               |               |                |                |                |
|---------------------------------|---------------|---------------|---------------|----------------|----------------|----------------|
| Motor fuels                     | \$34.0        | \$36.3        | -\$2.3        | \$103.0        | \$101.7        | \$1.3          |
| Highway use                     | \$48.5        | \$53.7        | -\$5.2        | \$151.1        | \$161.8        | -\$10.7        |
| Miscellaneous title fees        | \$8.3         | \$9.3         | -\$1.0        | \$27.7         | \$29.3         | -\$1.6         |
| Investment income               | \$0.3         | \$0.1         | \$0.2         | \$0.8          | \$0.1          | \$0.7          |
| <b>Total Highway Trust Fund</b> | <b>\$91.2</b> | <b>\$99.3</b> | <b>-\$8.2</b> | <b>\$282.5</b> | <b>\$292.8</b> | <b>-\$10.2</b> |
| % change from last year         | -7.1%         |               | -8.2%         | -2.2%          |                | -3.5%          |

from the first 2 quarters of tax year 2007, September estimated payments were 14.6% above the previous year. Reflecting a slightly weaker business climate, corporate payments totaled \$282.5 million, down 2.8% below September 2006 levels.

Despite a slowdown in other parts of the country, North Carolina sales tax collections have remained relatively healthy. Sales and use tax collections were \$371.7 million in September, up 6.3% above the previous year. Through the first 3 months of 2007-08, sales and use collections are up 5.5% above 2006-07.

Through the first quarter of 2007-08, total tax revenue collections were about \$81.3 million above budget expectations. Most of the increase is attributable to strong personal income tax collections (about \$72.5 million above expectations) and better than expected growth in sales collections (about \$55.2 million above expectations). Nontax collections are slightly below budget projections through the first 3 months of 2007-08. Including nontax revenue sources, total General Fund revenue was \$75.4 million above budget projections.

## Highway Fund and Highway Trust Fund Revenue

Total Highway Fund revenue collections, for the quarter ending in September 2007, exceeded forecast by 1.1% or \$5.1 million. Revenue collections from the excise tax on motor fuels and related fees outpaced expectations by 0.4% or \$1.2 million. Combined with Highway Trust Fund revenues from the excise tax, motor fuels were up 1.0% or \$2.7 million.

Total Highway Fund license and fee collections were 1.0% or \$0.7 million below budget. Revenues from other licenses and fees fell short of projections by \$11.0 million while revenues from staggered registrations, driver licenses, and truck registrations increased \$10.2 million greater than expected.

For the month of September, total Highway Fund license and fee collections fell short of projections by 12.0% or \$5.5 million. Total motor fuel tax collections were slightly above expectations.

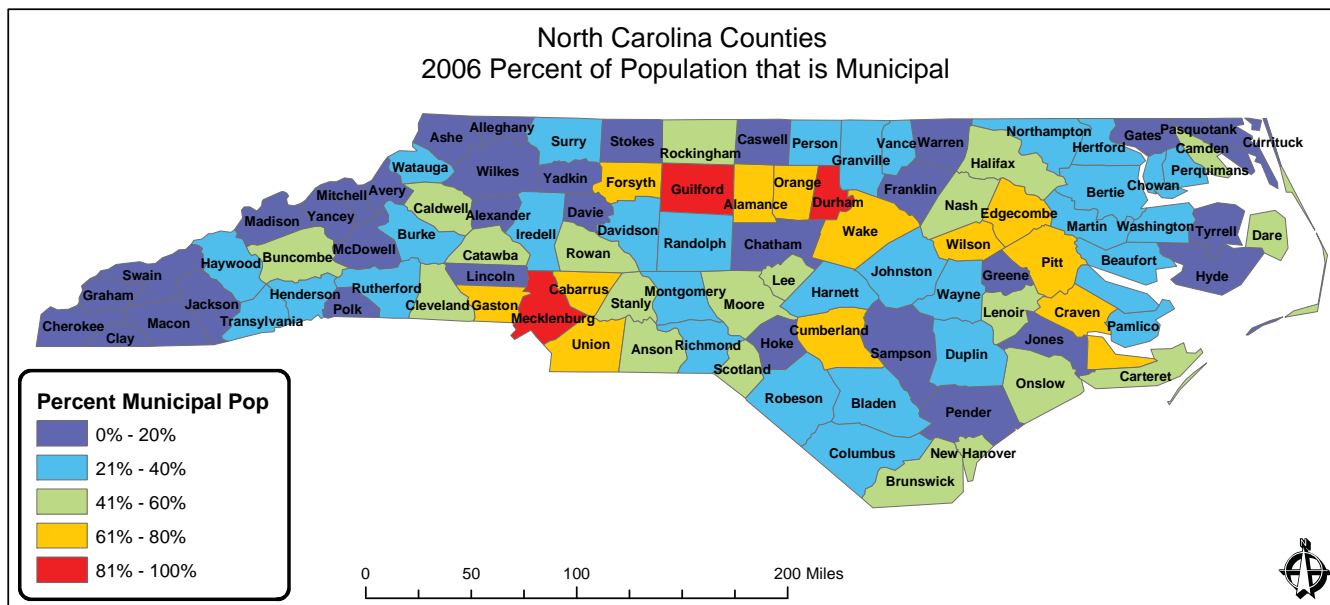
Total Highway Trust Fund revenues collections, for the quarter ending in September 2007, were 3.5% or \$10.2 million below expectations. Motor fuel taxes surpassed forecast by 1.3% or \$1.3 million, while the growth in car registrations fell short by \$10.7 million or 7.0%. Title and miscellaneous fee collections were \$1.6 million below expectations for the first quarter of 2007-08.

For the month of September, total Highway Trust Fund motor fuels and use tax collections fell short of projections by \$7.4 million. Highway Trust Fund title fees and miscellaneous fee collections were \$1.0 million below budget, while investment income slightly exceeded expectations.

## People and Places: Demographic Update for North Carolina

Municipal Population Estimates: In September, State Demographics released its 2006 municipal population estimates. North Carolina's estimated 5 largest municipalities in July 2006 were Charlotte, Raleigh, Greensboro, Durham and Winston-Salem. Charlotte's population in 2006 was estimated at more than 650,000, while Raleigh, the second largest municipality, was estimated at more than 350,000. All of North Carolina's largest municipalities, however, are giants compared to its smallest. North Carolina's smallest municipality, Spencer Mountain (with an estimated 51 people), had less than 0.01% the population of Charlotte, North Carolina's largest municipality in July 2006. The smallest 5 municipalities in 2006 were estimated to be Spencer Mountain, Love Valley, Speed, Bear Grass and Tar Heel.

Ten municipalities are estimated to have experienced more than 100% growth between April 2000 and July 2006. These 10 fastest growing municipalities are Leland, Belville, Navassa, Stallings, Brunswick, Morrisville, Marvin, St. James, Princeville and Indian Trail. Leland has grown by nearly 400% since April 2000. Much of this growth has been fueled by municipal annexations. Of the top 10 fastest growing municipalities, only 3 (Morrisville, St. James and Princeville) gained more population as a result of urban growth rather than growth through annexation. Princeville's high growth is a reflection of its recovery from Hurricane Floyd after the 2000 Census.



In terms of total growth, 6 municipalities were estimated to grow by more than 20,000 people between April 2000 and July 2006: Charlotte, Raleigh, Fayetteville, Cary, Durham and Wilmington. Charlotte is estimated to have grown by over 110,000 people. In terms of land area, 6 municipalities are estimated to have grown by more than 10 square miles during this same period: Charlotte, Fayetteville, Raleigh, Leland, Greensboro and Navassa. Charlotte and Fayetteville both annexed more than 30 square miles between April 2000 and July 2006.

In 2006, six municipalities were estimated to have population densities greater than 2,500 people per square mile. They were Lake Park, Carrboro, Sharpsburg, Raleigh, Kure Beach and Chapel Hill. The densest municipality was Lake Park with more than 3,000 people in

just under 0.8 square miles. The least dense municipality was the Town of Como, which averaged less than 22 people per square mile in July 2006.

Municipal Population and Land Area by County: What are North Carolina's most urban counties? North Carolina had 5 counties in 2006 where more than 75% of the population was estimated to live in municipalities: Mecklenburg County (93%), Durham County (88%), Guilford County (81%), Forsyth County (80%), and Wake County (78%). Mecklenburg County was the only county where more than half its land area was incorporated (72%). Only two counties had no municipal population or municipal land area: Currituck County and Hyde County.