

# NC Economic and Budget Conspectus

## Current Economic Conditions

### For the Nation

Payroll employment rose 207,000 in July 2005, above most expectations, which had centered around 180,000. Additionally, employment growth in May and June was revised up by a combined 42,000.

The details for July showed 203,000 jobs created in service-producing industries. The standout sector was retail trade, which added 50,000 jobs, its strongest monthly gain in five years. Leisure and hospitality added 33,000 jobs, almost all of which were in food services and drinking places. The strength in retail and food services overall is testament to the continued resilience of consumer spending even in the face of \$60+ per barrel of oil.

There was another solid gain in professional and technical services (up 23,000). Health services, perennially strong, added 29,000 jobs. The hot housing market, spurred on by falling long-term interest rates, helped add 6,000 jobs in credit institutions and 10,000 jobs in real estate. Also helped was construction, which added another 7,000 jobs.

Manufacturing lost jobs again (4,000), although most industries showed small gains. A decline in motor vehicles and parts (down 11,000) brought the total down. But with the recent strength in auto sales (see below), this loss will probably be reversed in August.

The household survey showed a steady unemployment rate at 5.0% in July. The details are encouraging with household employment and the labor force both up sharply.

July light-vehicle sales exceeded even the wildest expectations, coming in at a seasonally adjusted annual rate

of 20.8 million units. July 2005 now ranks just behind October 2001 and September 1986 as the third-highest selling rate ever. General Motors, Ford, Chrysler, Nissan, Honda, Toyota, Kia, Hyundai, BMW, and Mercedes-Benz all had record July sales.

As auto sales soared, retail sales advanced 1.8% in July, building on the strong 1.7% gain in June. Additionally, record-high gasoline prices contributed to the sales surge. Excluding autos and gasoline, sales were flat, hurt by lighter wallets from much higher fuel prices, hot weather, lean inventories, and a focus on autos. Warehouse and discount stores continued to gain at the expense of department stores.

Housing starts sizzled again in July, remaining above the two-million annual rate for the fourth straight month. Single-unit starts rose 0.5%, while multiple-unit starts fell 3.2%. By region, starts rose 9.1% in the Midwest, 6.5% in the Northwest, and 2.1% in the West, but slipped 5.4% in the South. Existing home sales failed to set a record in July, ebbing 2.6% to 7.16 million units (annual rate), from the upwardly revised June tally of 7.35 million. However, the July pace was the third best ever, beaten only by April and June of 2005.

The consumer price index rose a seasonally adjusted 0.5% in July, as the first taste of the latest surge in energy prices pushed into prices for gasoline, fuel oil, air fares, and utility rates. Less food and energy, the core index increased a much more modest 0.1%, as falling car and apparel prices helped offset much of the jump in energy prices.

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## For North Carolina

North Carolina's seasonally adjusted unemployment rate jumped to 5.7% in July from 5.3% in June. However, the increase is largely reflective of a healthy state labor market. Household employment increased by nearly 17,000 jumps in July over the prior month, and now stands over 63,000 jumps ahead of July 2004. The increase in the rate of unemployment was caused by a sharp increase in the number of persons classified as "unemployed," as many formerly discouraged North Carolinians reentered the labor force.

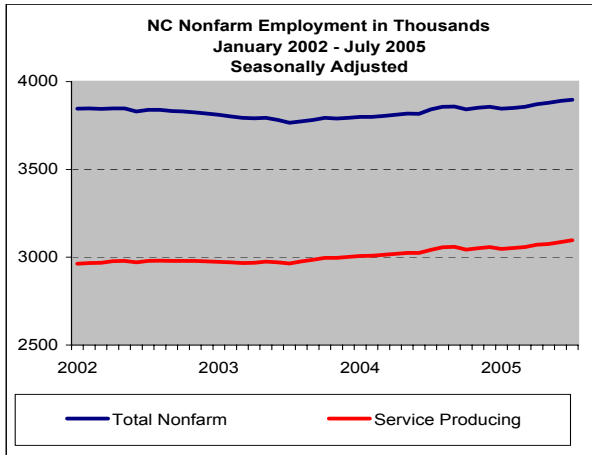
Nonfarm payroll employment increased by a slim 6,800 jumps in July (seasonally adjusted). Manufacturing employment fell another 2,500 jumps in July. Surprisingly, though, construction also posted a decline, dropping 1,000 jobs. Within the service-producing sector, professional and business services led the way, adding 4,200 jobs in July. Other employment gains were posted by trade, transportation, warehousing, and utilities (up 2,100), educational and health services (up 900), government (up 600), and information (up 400). Leisure and hospitality services employment fell by 1,200 in July.

## Monthly Economic Indicators

(Seasonally Adjusted)	Jul. 2004	Feb. 2005	Mar. 2005	Apr. 2005	May 2005	Jun. 2005	Jul. 2005
<b>United States</b>							
Industrial production (index)	115.9	118.3	118.6	118.1	118.5	119.4	119.5
% change year ago	4.8	3.4	3.9	2.9	2.5	3.7	3.1
Unemployment rate (%)	5.5	5.4	5.2	5.2	5.1	5.0	5.0
Nonfarm payroll employment (millions)	131.562	132.873	132.995	133.287	133.413	133.588	133.830
Change year ago (millions)	1.705	2.407	2.209	2.164	2.040	2.109	2.268
Personal income (billions of \$, annual rate)	9,689	10,073	10,122	10,193	10,219	10,274	10,303
% change year ago	5.5	6.2	6.2	6.5	6.1	6.5	6.3
Retail sales excluding food services (billions of \$)	292	306	307	312	311	318	324
% change year ago	6.3	8.0	6.0	9.2	6.2	10.1	10.9
Housing starts (millions of units, annual rate)	1.985	2.228	1.833	2.027	2.041	2.045	2.042
New light-vehicle sales (millions of units, annual rate)	17.20	16.25	16.80	17.40	16.62	17.49	20.68
CPI, all urban consumers (index)	189.2	192.0	193.2	194.2	194.1	194.1	195.1
% change year ago	2.9	2.9	3.2	3.5	2.8	2.5	3.1
Federal funds rate-effective (%) <sup>1</sup>	1.26	2.50	2.63	2.79	3.00	3.04	3.26
Crude oil price (\$ per barrel) <sup>1</sup>	40.69	47.97	54.31	53.04	49.83	56.26	58.70
<b>North Carolina</b>							
Civilian unemployment rate (%)	5.4	5.4	5.2	5.3	5.1	5.3	5.7
Nonfarm payroll employment (000)	3,841.9	3,850.8	3,857.1	3,871.4	3,879.3	3,890.2	3,897.0
% change year ago	2.0	1.4	1.4	1.6	1.6	1.9	1.4
Change year ago (000)	76.0	52.1	52.7	59.7	61.6	72.9	55.1
Manufacturing employment	582.6	575.9	575.7	575.2	578.9	578.3	575.8
% change year ago	-1.8	-0.2	-0.1	-0.4	0.2	0.1	-1.2
Nonmanufacturing employment	3,259.3	3,274.9	3,281.4	3,296.2	3,300.4	3,311.9	3,321.2
% change year ago	2.7	1.6	1.6	1.9	1.9	2.2	1.9
Average weekly hours-manufacturing <sup>1</sup>	39.7	39.9	39.9	39.8	39.6	40.1	38.8
Average weekly earnings-manufacturing (\$) <sup>1</sup>	573.27	568.97	570.97	568.74	568.26	575.03	561.82
% change year ago	8.4	1.5	0.5	-0.3	-2.0	-1.2	-2.0

1. Not seasonally adjusted

Over the past twelve months, nonfarm employment grew by 55,100 jobs, or 1.4%. Manufacturing employment was down 6,800 jobs, or 1.2% over this period.



Not surprisingly, the losses were concentrated in the state's traditional industries of textiles (down 4,400), apparel (down 1,900), and furniture (down 800). As the housing market surged, the construction sector gained 7,700 jobs, up 3.5% since July 2004. The service-producing sector grew by 54,200 jobs over the past twelve months, a 1.8% rate of growth. Top performers were professional and business services (up 18,000), educational and health services (up 11,600), and government (up 9,700).

### Revenue

General Fund net tax revenue totaled \$1,134.3 million in August 2005, an increase of 5.9% over the prior year. Collections were very close to the amount anticipated

### Preliminary 2005-06 General Fund Revenue

(Millions)

	August			Year-to-Date		
	Actual	Budget	Difference	Actual	Budget	Difference
<b>Tax revenue</b>						
Individual income	\$701.2	\$694.0	\$7.2	\$1,284.3	\$1,262.5	\$21.8
Sales and use <sup>1</sup>	376.5	366.7	9.8	788.0	790.2	-2.2
Corporate income	-24.0	-20.3	-3.7	13.7	8.2	5.5
Franchise	39.5	42.6	-3.1	67.2	73.0	-5.8
Alcoholic beverage	19.8	19.2	0.6	32.1	30.3	1.8
Insurance	3.7	2.6	1.1	7.3	6.9	0.4
Other taxes	17.6	19.1	-1.5	44.9	46.8	-1.9
Total taxes	\$1,134.3	\$1,123.9	\$10.4	\$2,237.5	\$2,217.9	\$19.6
% Change	5.9			6.6		
<b>Nontax revenue</b>						
Treasurer's investments	\$8.0	\$6.3	\$1.7	\$17.9	\$13.5	\$4.4
Judicial fees	13.2	11.3	1.9	24.9	23.4	1.5
Insurance Department	0.7	1.6	-0.9	1.8	2.2	-0.4
DSH <sup>2</sup>	0.0	0.0	0.0	0.0	0.0	0.0
Other nontax	7.3	8.7	-1.4	13.1	14.7	-1.6
Total nontax	\$29.2	\$27.9	\$1.3	\$57.7	\$53.8	\$3.9
% Change	0.7			4.8		
<b>Transfers</b>						
Highway Trust Fund	\$63.1	\$63.1	\$0.0	\$63.1	\$63.1	\$0.0
<b>Total revenue</b>	\$1,226.7	\$1,214.9	\$11.8	\$2,358.4	\$2,334.8	\$23.6
% Change	5.5			6.5		

1. August 2005 sales and use taxes are tentative.

2. Medicaid Disproportionate Share Payments

in the authorized budget (only \$10.4 million ahead of the budget target as shown in the table on page three). Net total individual income taxes were \$701.2 million, posting a huge 18.3% increase due to an extra business day versus August 2004. Net collections of sales and use taxes grew by only 1.1% in August due to much higher refunds compared to one year ago. The underlying trend in sales and use tax collections remains healthy as gross collections (prior to refunds) increased by 5.8%.

Reported net corporate income tax collections were minus \$24.0 million in August, as \$34.4 million was scheduled to be transferred to the Public School Capital Building Fund. Franchise taxes totaled \$39.5 million in August, a decline of 4.1% from 2004.

Nontax revenue totaled \$29.2 million in August, of which \$8.0 million was investment income and \$13.2 million from court fees. Additionally, \$63.1 million was transferred to the state General Fund from the Highway Trust Fund as specified in the authorized budget for 2005-06.

For the first two months of fiscal year 2005-06, General Fund net collections total \$2,358.4 million, an increase of 6.5%. Compared to the authorized budget, net collections now stand \$23.6 million ahead of schedule.

### Summary of Monthly and Year-to-Date Departmental Receipts and Disbursements Fiscal Year 2005-06<sup>a</sup>

Description	Original Budget	July 2005	Year-to-Date Total
<b>Receipts</b>			
Education	\$9,481,737,778	\$112,670,402	\$112,670,402
Health and Human Services	4,033,235,902	902,039,122	902,039,122
Justice and Public Safety	1,719,430,954	26,437,198	26,437,198
General Government	380,477,135	31,668,927	31,668,927
Natural and Economic Resources	457,217,604	17,793,561	17,793,561
Other (debt service)	1,109,321,418	-	-
Total	\$17,181,420,791	\$1,090,609,210	\$1,090,609,210
<b>Disbursements</b>			
Education	\$9,481,737,778	\$408,826,306	\$408,826,306
Health and Human Services	4,033,235,902	219,249,761	219,249,761
Justice and Public Safety	1,719,430,954	133,800,683	133,800,683
General Government	380,477,135	(2,362,453)	(2,362,453)
Natural and Economic Resources	457,217,604	22,870,187	22,870,187
Other (debt service)	1,109,321,418	1,665,688	1,665,688
Total	\$17,181,420,791	\$784,050,172	\$784,050,172

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