

NC Economic and Budget Conspectus

Current Economic Conditions

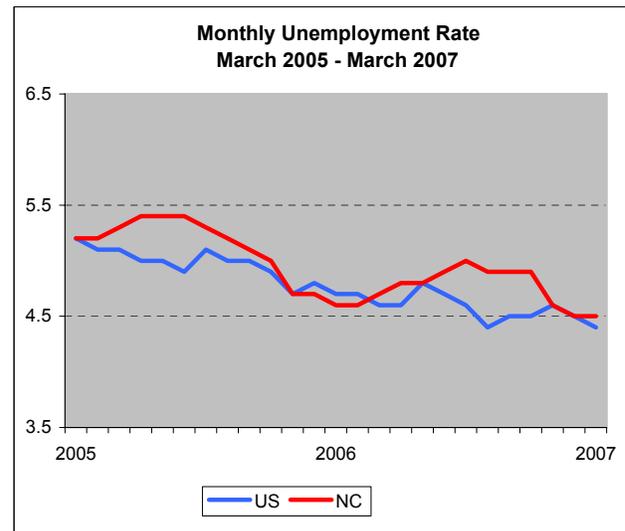
For the Nation

Fourth-quarter GDP growth was revised up from 2.2% to 2.5%, as vehicle inventories did not drop as much as expected. The latest data, however, suggest that first-quarter growth may have fallen below 2.0%. The main contributors to the decline were slower consumption growth, declines in business equipment spending, and falling housing construction. The outlook for the year remains sluggish, as GDP growth is expected to be near 2.0%.

Consumer prices rose 0.6% in March, after climbing 0.4% in February and 0.2% in January. The March increase was mainly driven by a jump in gasoline prices. Excluding food and energy, core consumer prices increased 0.1%. Core consumer prices rose an annualized 2.3% over the first quarter, compared with a 2.6% increase during 2006.

The March employment report was better than expected. Payroll employment rose 180,000, and January and February payroll gains were revised up by a combined 32,000. Most of the March boost was in construction, which added 56,000 jobs after losing 61,000 in February. This swing likely reflected an improvement in weather as opposed to market fundamentals, as many workers were unable to work because of bad weather in February. The manufacturing sector continued to lose jobs (down 16,000 in March and 11,000 in February), while the service sector gained 137,000 jobs in March and 180,000 in February. At the end of the first quarter of 2007, the unemployment rate was 4.4%, down from 4.5% in February. Since September 2006, the unemployment rate has remained between 4.4% and 4.6%. Overall, the labor market remained solid, as businesses were still hiring.

Industrial production fell 0.2% in March, after rising 0.8% in February. However, output in both months was distorted by weather fluctuations. Cold February temperatures pushed utility output up 7.6%, but warmer March temperatures reduced output by 7.0%. Manufacturing output rose 0.7% in March, and mining output increased 0.1%. Core manufacturing, which excludes motor vehicles and high technology, rose 0.5% in March



and offset declines of 0.3% and 0.1% in the first two months of 2007. Overall capacity utilization dropped in the first quarter to 79.9% from 80.1%, as output gains did not keep up with capacity increases.

Housing starts rose 0.8% in March, representing the second straight monthly increase. Building on 6.7% growth in February, single-family starts increased 2.0% in March. Multifamily starts fell 3.8% after 11.4% growth

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in February. Housing permits, a good indicator of future housing activity, also rose 0.8% in March. Single-family permits rose for only the second time in 14 months. On a regional basis, starts were down in all regions except the Midwest, where starts jumped 44.5%. While March's numbers were stronger than expected, both starts and permits will likely drop in future months due to the growing problems in the subprime mortgage market.

Real consumer spending on goods and services increased at an estimated 3.3% annual rate in the first quarter, down from the 4.2% pace in the fourth quarter. Retail and food sales registered a strong 0.7% growth in March, building on an upward revision to February's

retail sales growth of 0.4%. Bad February weather impacted sales less than anticipated. Excluding automotive sales, retail sales climbed 0.8% in March, and gains were broad based. Sales at apparel stores, general merchandise stores, restaurants, building materials dealers, and sporting goods, hobby, book, and music stores all enjoyed solid growth.

The seasonally adjusted annual selling rate for light-vehicle sales was 16.2 million in March, down from 16.6 million in February. The slight decline was mainly driven by light trucks. The truck-selling rate fell from 9.1 million units to 8.7 million, while car sales actually rose to an annual rate of 7.5 million.

Monthly Economic Indicators

(Seasonally Adjusted)

	Mar. 2006	Oct. 2006	Nov. 2006	Dec. 2006	Jan. 2007	Feb. 2007	Mar. 2007
United States							
Industrial production (index)	110.0	112.0	111.5	112.2	111.8	112.7	112.5
% change year ago	3.6	4.6	3.0	2.8	2.4	3.0	2.3
Unemployment rate (%)	4.7	4.4	4.5	4.5	4.6	4.5	4.4
Nonfarm payroll employment (millions)	135.659	136.745	136.941	137.167	137.329	137.442	137.622
Change year ago (millions)	2.842	2.394	2.239	2.263	2.219	2.032	1.963
Personal income (billions of \$, annual rate)	10,777	11,024	11,058	11,114	11,225	11,290	NA
% change year ago	7.0	5.5	5.6	5.6	5.2	5.3	NA
Retail sales, excluding food services (billions of \$)	323.2	325.8	327.1	330.2	330.6	332.7	334.7
% change year ago	7.5	4.5	4.2	5.2	2.0	3.4	3.6
Housing starts (millions of units, annual rate)	2.132	1.478	1.565	1.633	1.399	1.506	1.518
New light-vehicle sales (millions of units, annual rate)	16.57	16.11	16.00	16.70	16.68	16.57	16.27
CPI, all urban consumers (index)	199.1	201.8	201.9	202.8	203.2	203.9	205.1
% change year ago	2.4	1.3	2.0	2.5	2.1	2.4	2.8
Federal funds rate—effective (%) ¹	4.49	5.25	5.25	5.24	5.25	5.26	5.26
Crude oil price (\$ per barrel) ¹	61.63	58.88	59.37	62.03	54.57	59.26	60.56
North Carolina							
Civilian unemployment rate (%)	4.7	4.9	4.9	4.9	4.6	4.5	4.5
Nonfarm payroll employment (000)	3,963.6	3,992.1	3,993.8	4,064.5	4,073.3	4,079.0	4,080.0
% change year ago	2.9	1.6	1.4	3.1	3.1	2.9	2.8
Change year ago (000)	115.4	61.8	55.6	121.0	123.7	115.4	109.8
Manufacturing employment	562.8	552.1	552.0	551.1	550.2	549.1	547.5
% change year ago	-2.4	-2.3	-2.1	-2.2	-2.3	-2.4	-2.8
Nonmanufacturing employment	3,400.8	3,440.0	3,441.8	3,513.4	3,523.1	3,529.9	3,532.5
% change year ago	3.8	2.2	2.0	4.0	4.0	3.8	3.7
Average weekly hours—manufacturing ¹	39.2	41.0	41.2	41.6	40.9	41.0	41.5
Average weekly earnings—manufacturing (\$) ¹	561.7	603.9	611.8	622.3	609.8	614.2	620.0
% change year ago	9.3	2.5	3.1	7.7	6.0	9.3	9.5

1. Not seasonally adjusted

Oil and gasoline prices fluctuated considerably over the quarter due to inventories, the weather, and changes in the Middle East. In January, crude oil futures fell to a 19-month low of \$54.00 a barrel due to rising inventories from a warmer-than-usual winter. Prices for both crude oil and gasoline fluctuated during February, as refiners started preparing for regularly scheduled maintenance and retooling to make cleaner-burning, summer gasoline blends. As the month continued into March, refineries experienced production problems due to fires and accidents. U.S. refinery output was 85% of capacity. In addition, a greater-than-expected driving demand was pushing the retail price of gasoline towards \$2.55 a gallon. By the middle of March, OPEC signaled it would restrict the world supply of crude oil, and traders grew nervous over the conflict between Britain and Iran. Oil

prices reached \$62.28 a barrel. By the end of March, the average retail price per gallon of gasoline was \$2.65.

For North Carolina

North Carolina's seasonally adjusted unemployment rate in March was 4.5%, unchanged from February's rate and 0.1% lower than the 4.6% recorded a year ago. Compared to the national rate, North Carolina's unemployment rate was 0.1% higher. The number of people employed fell 2,209 to 4,319,254 in March, while the number of unemployed rose 0.2% to 201,717.

The monthly payroll survey of employers showed an increase in jobs in March. Nonfarm employment increased by 1,400 jobs from February and by 89,600

General Fund Revenue, 2006-07

(\$Millions)

	March			Year-to-Date		
	Actual	Budget	Difference	Actual	Budget	Difference
Tax revenue						
Individual income	\$551.9	\$496.5	\$55.4	\$6,893.3	\$6,571.1	\$322.2
Sales and use ¹	357.8	372.7	-14.9	3,728.1	3,776.8	-48.7
Corporate income	322.2	246.6	75.6	1,003.4	709.9	293.5
Franchise	158.0	158.2	-0.2	461.2	449.3	11.9
Alcoholic beverage	17.4	20.0	-2.6	157.0	157.2	-0.2
Insurance	45.8	62.8	-17.0	201.8	218.4	-16.7
Other taxes	52.5	46.6	5.9	410.5	388.4	22.1
Total taxes	\$1,505.6	\$1,403.4	\$102.2	\$12,855.2	\$12,271.1	\$584.1
% change from last year	5.9			9.5		
Nontax revenue						
Treasurer's investments	\$11.4	\$10.4	\$1.0	\$144.9	\$93.0	\$51.9
Judicial fees	15.4	15.4	0.0	125.5	117.6	7.9
Insurance Department	15.2	6.9	8.3	37.4	32.5	4.9
Disproportionate share	0.0	0.0	0.0	100.0	100.0	0.0
Other nontax	16.8	24.5	-7.7	87.2	112.2	-25.0
Total nontax	\$58.8	\$57.2	\$1.6	\$495.0	\$455.3	\$39.7
Transfers						
Highway Trust Fund	\$0.1	\$0.1	\$0.0	\$43.3	\$43.2	\$0.0
Total Revenue	\$1,564.5	\$1,460.7	\$103.8	\$13,393.5	\$12,769.6	\$623.8
% change from last year	6.6			8.6		

1. March sales and use tax collections are tentative.

since last year. Government had the largest over-the-month gain in jobs (2,300). Professional and business services reported the largest private-sector monthly gain (1,400), followed by construction (1,100). Professional and business services also had the largest net over-the-year increase (20,100). Health services added 19,300 jobs. Since March 2006, financial activities reported the largest percentage growth at 4.4%.

The manufacturing industry continued to lose jobs. Since March 2001, North Carolina has lost about one-quarter of its manufacturing jobs, compared to a corresponding 16.8% decline in U.S. manufacturing jobs. During this six-year period, transportation equipment and food manufacturing were the only manufacturing industries to increase jobs. Over the past year, manufacturing employment in North Carolina declined 0.9% or 4,800 jobs.

General Fund Revenue

General Fund net tax revenue totaled \$1,505.6 million in March, an increase of 5.9% above the previous year. Most of this increase was fueled by a surge in corporate tax receipts and solid growth in individual income tax collections.

March is the largest collection month of the year for corporate and franchise taxes. Net corporate collections totaled \$322.2 million in March, about \$67.6 million above March 2006 collections. This increase was fueled by increased enforcement activities and continued consumer demand for goods and services. Net franchise tax collections were \$158 million, slightly above collections in 2006.

Net individual income tax collections were slightly below March 2006 levels. This result reflected timing of payments rather than economic fundamentals. Total withholding taxes were \$796.6 million, about flat for the month.

Net sales and use collections totaled \$357.8 million in March, about the same as March 2006 levels. Since the state sales tax rate was reduced to 4.25% from 4.5% in December 2006, net sales tax collections have been about 1.9% above the previous year. Over the entire fiscal year, net sales tax collection growth was about 4%.

Through the first three quarters of fiscal year 2006-07, total tax revenue collections were about \$584 million above budget expectations. The vast majority of the extra collections resulted from the surge in corporate collections (about \$294 million above expectations) and strong growth in individual income collections (about \$322 million above expectations). Including nontax revenue sources, total General Fund revenue was \$624 million ahead of budget expectations.

Highway Fund and Highway Trust Fund Revenue

Year-to-date for the quarter ending in March, the Highway Fund revenue collections exceeded the forecast by \$52.11 million or 4%. Collection for all revenue sources was strong except for staggered registrations, which fell short of projections. In March, total Highway Fund revenues failed to meet projections by 1% or \$1.6 million. Revenue collections in all schedules were on target except for the motor fuel tax, staggered registrations, and a slight decline in miscellaneous licenses and fees.

The Highway Trust Fund revenues fell short of projections in March by 2% or \$1.83 million. The decline in motor fuel taxes for both the Highway and Highway Trust Funds was attributable to the run-up in the retail price of motor fuels since the middle of February. However, year-to-date total collections for the Highway Trust Fund were above projections by 2.5% or \$20.2 million.

For the quarter ending in March, year-to-date revenues were up 3.5% or \$72.31 million over the forecast.

Highway Fund Revenue, 2006-07
(\$Millions)

	March 2007			Year-to-Date		
	Actual	Budget	Difference	Actual	Budget	Difference
Motor fuels tax	\$90.40	\$93.50	-\$3.10	\$881.80	\$854.53	\$27.27
Motor fuels inspection and regul. fees	1.16	1.28	-0.12	11.49	11.58	-0.09
Staggered registration	18.34	21.25	-2.91	141.78	153.98	-12.20
International registration	7.50	5.66	1.84	50.21	53.44	-3.23
Driver and truck licenses	25.53	22.98	2.55	191.10	177.02	14.08
Other licenses and fees	3.12	4.38	-1.26	52.10	36.35	15.75
Investment income	2.04	0.61	1.43	15.15	4.61	10.54
Total Highway Fund	\$148.09	\$149.66	-\$1.57	\$1,343.63	\$1,291.51	\$52.12
% Change	-1.0%			4.0%		
Highway Trust Fund, 2006-07						
(\$Millions)						
Motor fuels	\$30.10	\$31.20	-\$1.10	\$296.88	\$285.02	\$11.86
Highway use	54.36	54.27	0.09	444.10	434.31	9.79
Miscellaneous title fees	10.23	10.93	-0.70	80.92	80.98	-0.06
Investment income	0.19	0.30	-0.12	0.91	2.30	-1.39
Total Highway Trust Fund	\$94.88	\$96.70	-\$1.83	\$822.81	\$802.61	\$20.20
% Change	-1.90%			2.50%		
Total Hwy Fund and Hwy Trust Fund	\$242.97	\$246.36	-\$3.40	\$2,166.44	\$2,094.12	\$72.32
% Change	-1.4%			3.5%		