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**THE NORTH CAROLINA ECONOMIC OUTLOOK, 3st QUARTER 2018**

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**TEN NORTH CAROLINA ECONOMIC HEADLINES FOR 2018 AND 2019**

1. **The broadest measure of economic output – real Gross State Product – increased faster in North Carolina than in the nation in 2017 and is on track to do the same in 2018.**
2. **From the first quarter of 2017 to the first quarter of 2018, the top five expanding economic sectors in North Carolina were durable manufacturing, education services, nondurable manufacturing, information, and clerical services.**
3. **The growth rate in residential building permits in North Carolina in 2018 is on track to be lower than the growth rate in 2017.**
4. **Payroll employment growth in North Carolina is expected to exceed national payroll employment growth in 2018.**
5. **The broadest measure of unemployment – the “U6” rate which includes discouraged workers and part-time workers wanting full-time work – was lower in North Carolina than the national rate in 2017 and continues to be lower than the national rate in 2018.**
6. **Average wage rates adjusted for inflation have been stagnant in both North Carolina and the nation in 2017 and 2018. However, since 2014 North Carolina’s average wage rate has moved closer to the national average rate.**
7. **The economic occupational divide narrowed in North Carolina in 2017 and thus far in 2018 as a result of much stronger growth in middle-paying jobs in both years.**
8. **Similarly, the economic geographic divide improved in 2017 and in the first half of 2018 as more robust job growth occurred in small metros and rural areas.**
9. **North Carolina real Gross State Product is forecasted to increase 3.2% in 2018 and 3.4% in 2019.**
10. **The end-of-the-year “headline” unemployment rate in the state is projected to be 4.1% in 2018 and 3.8% in 2019, with 75,000 payroll jobs added in each of the years.**

**Statewide and Sector Trends**

Complete data for 2017 now show the broadest measure of economic growth – the growth rate in real (inflation-adjusted) Gross State Product (GSP) - was higher in North Carolina than in both the nation and the Southeast states.[[1]](#footnote-1) This now means in three of the last five years (2013-2017) North Carolina’s broadest economic growth rate exceeded the national and regional rates (Figure 1).

If the trends during the first half of 2018 continue for the entire year, it appears North Carolina’s real GSP growth rate will again surpass both the national and Southeast growth rates. The annualized growth rates for 2018 in Figure 1 are based only on available state data for the first quarter of 2018.[[2]](#footnote-2) Already released national data show national growth rates have significantly increased after the first quarter. If this also occurs for North Carolina, then the final state GSP growth rate could surpass the 2017 rate. It is conceivable North Carolina’s real GSP growth rate could reach or exceed 3% in 2018.

**Figure 1. Real GDP Annual Growth Rate (%) in North Carolina, the US, and Southeast Economies, 2010-2018.**

Source: U.S. Bureau of Economic Analysis. Rates for 2018 are annualized based on the first quarter.

**Figure 2. Economic Sector Output Growth Rate (%) in North Carolina, 1st Quarter 2017 to 1st Quarter 2018.**

Source: U.S. Bureau of Economic Analysis.

Using First Quarter 2017 to First Quarter 2018 data, Figure 2 shows the annual growth rates in output for major economic sectors in North Carolina. The two manufacturing sectors – durable and non-durable – took two of the top three slots. Positive growth was a turnaround for recent trends in non-durable manufacturing, which is dominated by tobacco products, textiles, and apparel. For the first seven years (2009-2016) of the economic recovery from the Great Recession, output in this sector declined by double-digit rates. But this negative growth turned to positive growth in the year spanning early 2017 to early 2018.

Also among the top five expanding sectors were educational services, the information sector, and clerical services. Three sectors did decline in output: hotels/food service, financial services, and farming. The decline in farming was significant and reflects weakness in the prices of many farm commodities.

**Figure 3. Growth Rates in Residential Building Permits, NC, US, and SE, 2015-18.**

Rates for 2018 are annualized based on data from January to June data

Source: U.S. Census Bureau.

Figure 3 shows trends in residential building permits in North Carolina, the nation, and the Southeast. Unless activity becomes stronger in the second half of 2018, it appears permit growth will be slower in the state in 2018. This would be consistent with national trends but the opposite of an apparent acceleration in permits in the Southeast.

**Statewide Labor Market Trends**

If the trends of the first half of 2018 continue for the second half, then North Carolina’s job growth in 2018 will be the highest since the end of the Great Recession (Figure 4). The state’s job growth rate will also far exceed the national growth rate and will be the seventh year in a row in which North Carolina’s addition of jobs was faster than the nation’s gain in jobs.

North Carolina – and the nation – also had improvement in each of the three major unemployment rates during 2017 and early 2018 (Figure 5). The “headline” jobless rate is the most often quoted, but it has a high standard for counting an individual as unemployed – requiring that the person has no job, wants a job, and has looked for a job in the past month. The “U5” measure only requires the individual not to have a job and to want a job in order to be counted as unemployed. The “U6” rate is the broadest measure of unemployment, including those counted as unemployed by the “U5” rate as well as those individuals working part-time only because full-time work cannot be found.

**Figure 4. Annual Job Growth Rates (%) in North Carolina and the US, 2010-2018.**

Source: Nonfarm payroll employment numbers from the U.S. Bureau of Labor Statistics based on December to December values. Rates for 2018 are annualized based on available data for the first half of the year. All data are seasonally adjusted.

**Figure 5. Alternative Unemployment Rate (%) Measures for NC and the US, 2017 and 2018.**

Source: U.S. Bureau of Labor Statistics; annual averages. Rates for 2018 are based on averages for the third quarter of 2017 through the second quarter of 2018.

North Carolina’s “headline” and “U5” rates – although lower in 2018 than in 2017 – were still higher than their national counterparts in 2018. But for the broadest jobless rate – “U6” – the state’s level continued to be under that national level in 2018, just as it was in 2017.

The average real (inflation-adjusted) wage rate for North Carolina workers was unchanged in 2018 compared to 2017 (Figure 6). In contrast, national workers lost 6 cents per hour in inflation-adjusted pay in 2018 from 2017. Wages in both the nation and North Carolina have been essentially flat since 2016 when inflation is taken into account. However, the gap in real wages between the nation and North Carolina has shrunk between 2014 and 2018. In 2014, the average national wage rate was $2.87 higher than the average North Carolina wage rate in real dollars; in 2018 the difference had dropped to $2.27.

Last, there is good news about the “occupational divide” – also known as the “hollowing out” of the labor force – in North Carolina. In contrast to the period 2009-2016, when the largest job gains – by far – were in high-paying and low-paying economic sectors in the state, in both 2017 and 2018 this pattern appears to have changed (Figure 7). In 2017, the fastest growth was in high-paying jobs, the second-fastest growth was in middle-paying jobs, and the lowest growth was in low-paying jobs.[[3]](#footnote-3) In 2018, high-paying jobs also had the fastest growth,

**Figure 6. Annual Real Wage Rates, NC, and US (2018 $).**

Source: U.S. Bureau of Labor Statistics; June of each year using the CPI deflator; private sector wages.

**Figure 7. Changes in North Carolina Jobs by Level of Pay, 2009-2016, 2017, and 2018 (Annualized Percentage Change).**

Source: U.S. Bureau of Labor Statistics. Data for 2018 are annualized based on data for first half of the year.

with middle-paying and low-paying having recording similar rates of growth. Construction and manufacturing jobs led the “middle-paying” rebound.

**Regional Trends**

If the first-half trends continue for the entire year, there will be a shake-up in the regional job growth rankings in 2018 (Figure 8). The Triangle (Raleigh and Durham) will be among the top growing regions, but rather then Charlotte placing in the upper echelon, Rural North Carolina will be one of the leaders in job growth. Greenville will be in the top four, with a job growth rate above the state average. Also notable is Rocky Mount, which has struggled since the Great Recession. It is on track to post a solid 2.22% job growth rate in 2018.

Of course, these rankings do not mean the majority of job growth will be outside the larger metros – due to their size, the state’s five largest metropolitan areas (Charlotte, Raleigh-Cary, Durham-Chapel Hill, Greensboro, and Winston-Salem) are still expected to account for 62% of the job growth in 2018. But job growth has accelerated in smaller metros and rural areas

**Figure 8. Job Growth Rates (% Change) in North Carolina Regions, 2018.**

Source: U.S. Bureau of Labor Statistics, based on seasonally-adjusted non-farm employment and annualized from data for the first half of 2018. Rural includes counties outside the listed metropolitan areas.

as a result of the tighter labor markets in the big urban regions. Indeed, from June 2017 to June 2018, 70% of the counties with the highest job growth (2% annual rate or above) were rural counties, compared to only 16% for the period June 2010 to June 2017.

Figure 9 reinforces these points. Although job growth rates in all the geographical categories are trending to substantial increases in 2018, the biggest jumps are in the small metros and rural (or non-metro) categories.

**Forecasts**

The NCSU Index of North Carolina Leading Economic Indicators (Figure 10) has followed a modest upward trend since late 2015, suggesting gradual improvement in economic growth for the remainder of 2018 and into early 2019. Importantly, there is no indication of a downward trend in the Index, thus suggesting no occurrence of a recession in the immediate future. As Figure 10 shows, the Index was successful in predicting the 2007-2009 Great Recession by over a six-month lead.

**Figure 9. Annualized Payroll Job Growth Rates in North Carolina Regions Classified by Size, 2017 and 2009-2016.**

Source: U.S. Bureau of Labor Statistics. Large metros are Charlotte, Durham-Chapel Hill, Greensboro, Raleigh, and Winston-Salem; medium metros include Asheville, Burlington, Fayetteville, Greenville, Hickory, and Wilmington; small metros are composed of Goldsboro, Jacksonville, New Bern, and Rocky Mount; and rural areas are counties not included in the large, medium, and small metro categories. Rates for 2018 are annualized based on data for first half of the year.

**Figure 10. NCSU Index of North Carolina Leading Economic Indicators**

The national economy is always a key driver of state economies. Although there are many questions and issues related to the national economy – trade negotiations, the Federal Reserve’s interest rate policies, international tensions, and the future composition of the Congress – most economists do see continued economic growth for the remainder of 2018 and in to 2019. The consensus seems to be a recession – if it occurs – will not arrive until 2020.

I forecast **North Carolina real GDP will increase by 3.2% in 2018 and by 3.4% in 2019. Payroll job growth will be 1.7% in both 2018 and 2019, resulting in approximately 75,000 net new jobs in each of the years.**

Predicting the most-used unemployment rate – the “headline rate” - is difficult. The rate will drop as more jobs are added and nothing else changes. But if some individuals who had left the labor force because they could not find work – and therefore are not officially counted as unemployed – resume looking for work as labor market conditions improve, the jobless rate can remain the same, or even rise, as jobs increase.

The “headline” unemployment rate is challenging to predict because it is based on more than simply job growth. Also important are the number of new individuals moving to the state, the number of people choosing to be in the labor force, and the number who actively seek work. Still, with labor market conditions expected to improve for both the rest of 2018 as well as 2019, I anticipate **a year-end “headline” jobless rate in North Carolina of 4.1% at the end of 2018 and 3.8% at the end of 2019.**

Regional “headline” unemployment rate forecasts for the state’s key metropolitan areas are presented in Table 1. Asheville, Durham, and Raleigh are predicted to have the lowest end-of-year jobless rates in 2019, at between 3% and 3.5%. Fayetteville, Rocky Mount, and Greenville will have the highest rates.

With economic growth continuing over the next 18 months, the economic geographic divide should continue to lessen somewhat, as firms search for more economic opportunities and labor availability outside of the large metropolitan regions. The status of the economic occupational divide will depend importantly on advances in technology. There have been significant gains in middle-paying construction and manufacturing jobs in recent years. Much of this is tied to rebounds in economic activity in those sectors. But both job categories – especially manufacturing – are susceptible to technology substituting for labor. This potential will largely determine the workforce trends in middle-paying occupations.

In terms of the signs to follow for an on-coming recession, it’s always advisable to look for emerging “excesses” in the economy that are prone for reversing. Currently it appears the sectors to watch are equity investments (the stock markets), where many indicators suggest inflated values, and business borrowing, where higher-risk loans have been increasing. Signs of trouble in either of these areas may be the best forecast of a broad economic downturn.

But for now, there appear to be sunny days in the near future for the economy, both nationally and in North Carolina.

**Table 1. North Carolina Regional “Headline” Unemployment Rate Forecasts.**

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| **Region** | **June 2018 Rate** | **Forecasted June 2019 Rate** |
| Asheville | 3.4% | 3.2% |
| Burlington | 4.2% | 3.9% |
| Charlotte | 3.9% | 3.7% |
| Durham | 3.8% | 3.5% |
| Fayetteville | 5.4% | 4.9% |
| Greensboro | 4.5% | 4.0% |
| Greenville | 4.9% | 4.4% |
| Goldsboro | 4.6% | 4.3% |
| Hickory | 3.9% | 3.7% |
| Jacksonville | 4.0% | 3.8% |
| New Bern | 4.3% | 4.1% |
| Raleigh | 3.7% | 3.4% |
| Rocky Mount | 6.3% | 5.8% |
| Wilmington | 3.9% | 3.6% |
| Winston-Salem | 4.1% | 3.8% |

Source: U.S. Bureau of Labor Statistics; author’s forecasts; not seasonally-adjusted.

1. The U.S. Department of Commerce’s definition of Southeast is used and includes Alabama, Arkansas, Florida, Georgia, Kentucky Louisiana, Mississippi, North Carolina, South Carolina, Tennessee, West Virginia, and Virginia. [↑](#footnote-ref-1)
2. Second quarter data will not be available until November. [↑](#footnote-ref-2)
3. For the definitions of “high-paying”, “middle-paying”, and “low-paying”, see Michael L. Walden, “North Carolina’s ‘U-Turn’ and Alternative Economic Paths of the State’s Regions,” *Studies in the North Carolina Economy,* July 2017. [↑](#footnote-ref-3)