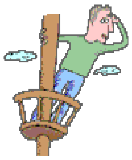

THE NORTH CAROLINA ECONOMIC OUTLOOK, 3rd QUARTER 2019

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TEN NORTH CAROLINA ECONOMIC HEADLINES FOR 2019 AND 2020

1. **In 2018, the broadest measure of economic output in North Carolina – real Gross Domestic Product – expanded at near the same rate as the nation and exceeded the Southeast rate.**

2. **However, in 2019 real GDP growth in North Carolina is on track to underperform both the nation and Southeast.**

3. **Information, professional services, and entertainment have been the leading growth sectors in North Carolina during the past year. Conversely, farm output suffered a significant reduction, much of it based on trade tensions.**

4. **If current trends continue, residential building permits will decline in 2019 in both North Carolina and the nation.**

5. **Job growth in North Carolina underperformed the nation in 2018 and is projected to do the same in 2019.**

6. **Average North Carolina wage rates continue to be 10% under national wage rates, due to both a lower cost-of-living and lower educational attainment in the state.**

7. **Middle-paying jobs are expanding faster in the state in 2019 than in 2018 but are still exceeded by growth in lower-paying jobs.**

8. **Asheville and Charlotte had the fastest job growth rates in the state in the past year**

9. **Annualized real GDP growth in North Carolina is forecasted to be in a range of 2.2% to 2.5% in both 2019 and 2020.**

10. **Asheville will have the lowest unemployment rate in the state in 2020 and Rocky Mount will have the highest.**

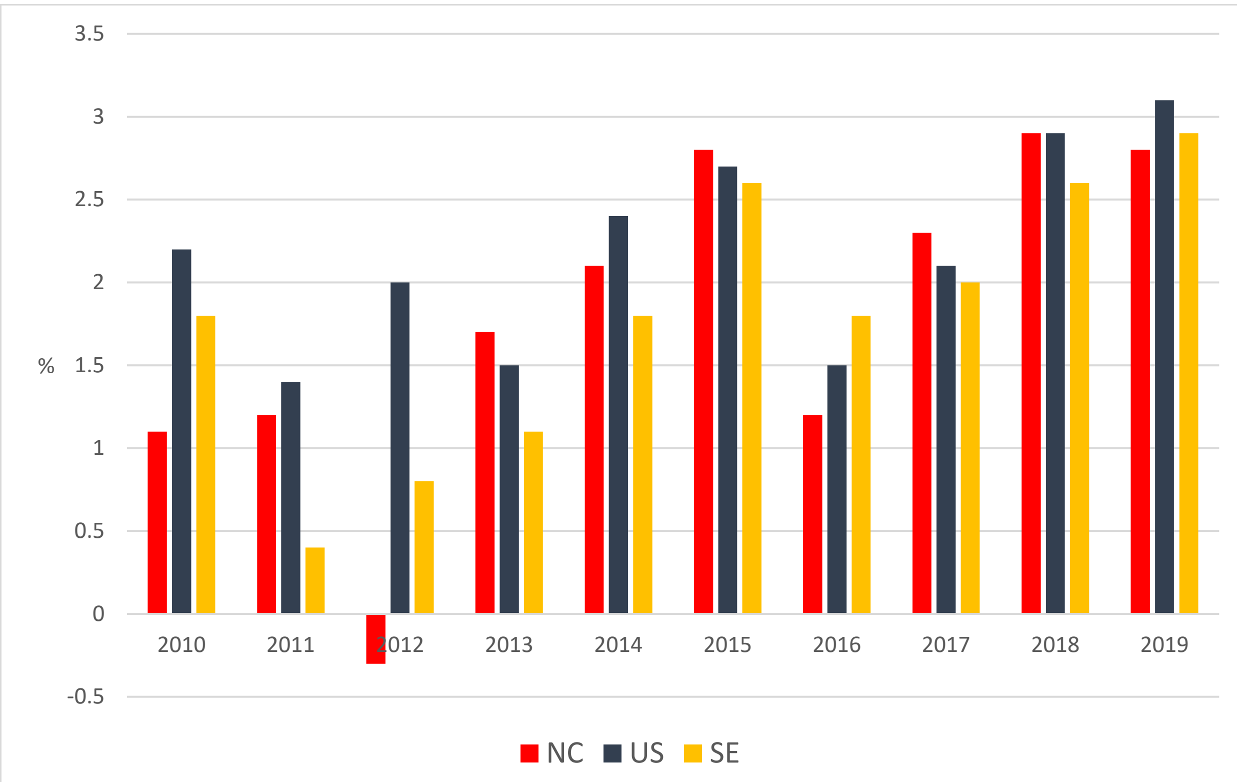
Statewide and Sector Trends

North Carolina completed 2018 with a 2.9% increase in real (inflation-adjusted) Gross Domestic Product (GDP), an indicator of the aggregate production of goods and services in the state. While only first quarter numbers are available for the state in 2019, the value was positive, suggesting economic growth has continued in 2019 (Figure 1).

Although North Carolina's GDP growth rate has trended higher since 2016, it has exceeded the national rate in just one of those years (2017). Likewise, the state GDP growth rate has only outpaced the rate for the Southeast in one of the last four years (also 2017).[1]

Figures 2 and 3 look more closely at the changes in North Carolina GDP during the past year, measured from 1st Quarter 2018 to 1st Quarter 2019. Figure 2 shows the economic sectors where the state GDP growth rate exceeded the national growth rate. Among them are information, professional services, and financial services. These are sectors with both high productivity and high wages per worker.

Figure 1. Real GDP Annual Growth Rate (%) in North Carolina, the US, and Southeast Economies, 2010-2019.



Source: U.S. Bureau of Economic Analysis. Rates for 2019 are annualized based on the first quarter of the year.

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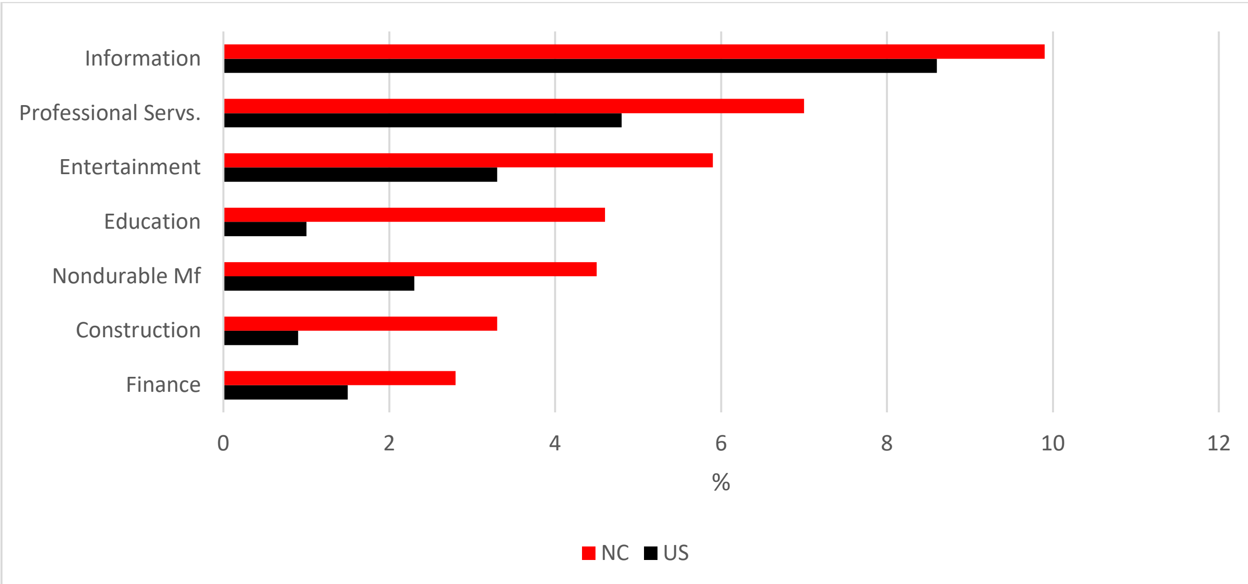
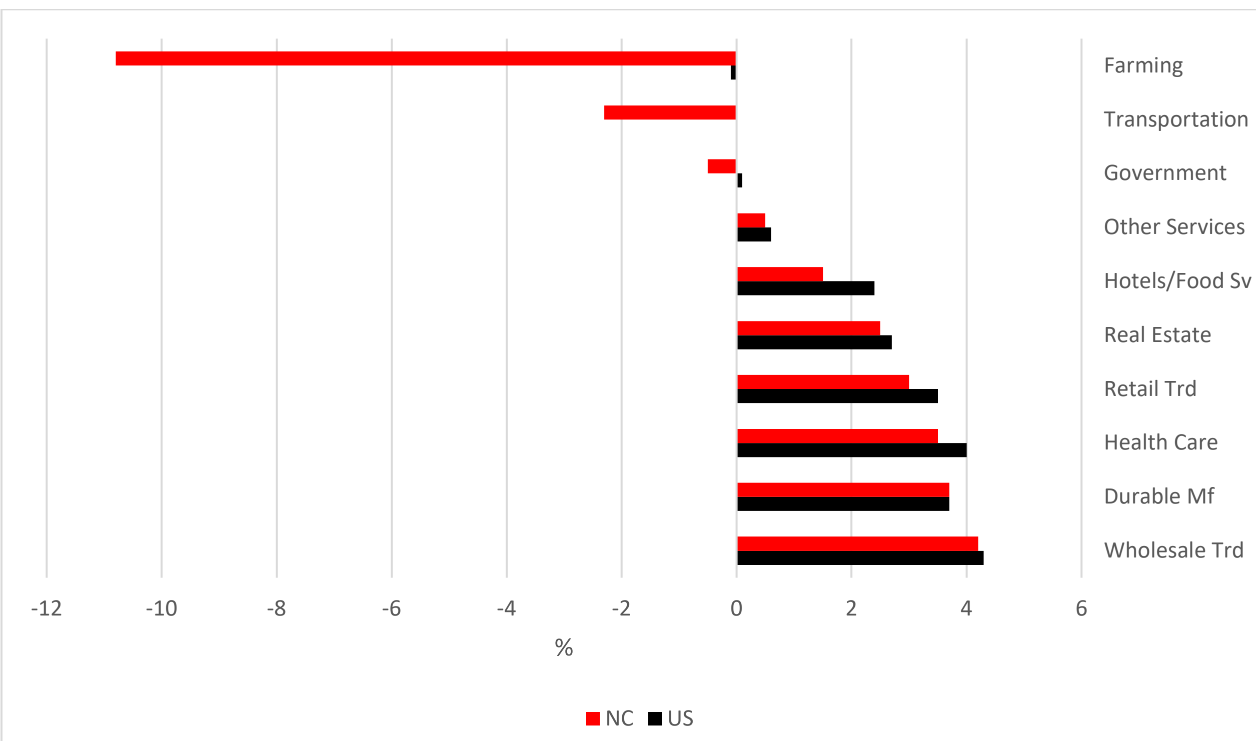
[1] The U.S. Department of Commerce's definition of Southeast is used and includes Alabama, Arkansas, Florida, Georgia, Kentucky Louisiana, Mississippi, North Carolina, South Carolina, Tennessee, West Virginia, and Virginia.

Figure 2. Economic Sectors Where NC Growth Rate Exceeded National Growth Rate, 1st Quarter 2018 to 1st Quarter 2019.



Source: U.S. Bureau of Economic Analysis.

Figure 3. Economic Sectors Where NC Growth Rate Was Below National Growth Rate, 1st Quarter 2018 to 1st Quarter 2019.

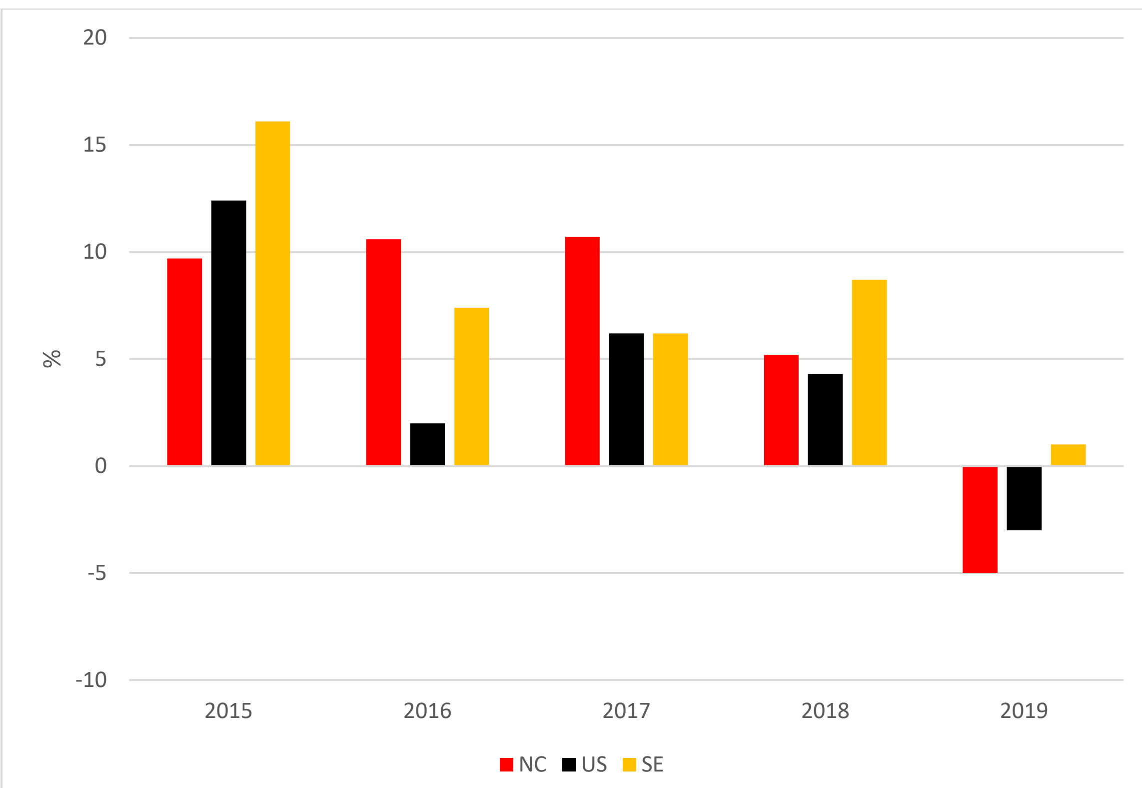


Source: U.S. Bureau of Economic Analysis.

Figure 3 shows sectors that have underperformed their national counterparts during the year. Noticeable is the large reduction of over 10% in North Carolina farm production compared to the modest decline of 0.1% for the national sector. This comparison suggests the trade tensions with China – a country that has traditionally been a major buyer of US farm commodities – have adversely impacted North Carolina farmers to a much greater extent than farmers in the country.

Another important macroeconomic metric is activity in the construction market, particularly the market for residential real estate. Figure 4 shows changes in residential building permits in North Carolina, the US, and the Southeastern states during each of the last five years. For the years from 2015 to 2018, there were increases in residential building permits in all three geographic areas, although the trend in the growth rates was declining. Through the first half of 2019, residential building permits in North Carolina and the US declined, while there was a modest increase in the Southeastern states. Higher interest rates paired with rising housing prices were likely the reasons for the pullback in permits. However, with the Federal Reserve already decreasing their key interest rate once in 2019 (in July), and with the prospects for more rate cuts, there may be support for a rebound in residential building permits.

Figure 4. Growth Rates in Residential Building Permits, NC, US, and SE, 2015-19.



Rates for 2019 are based on comparing year-to-date for June in each year.

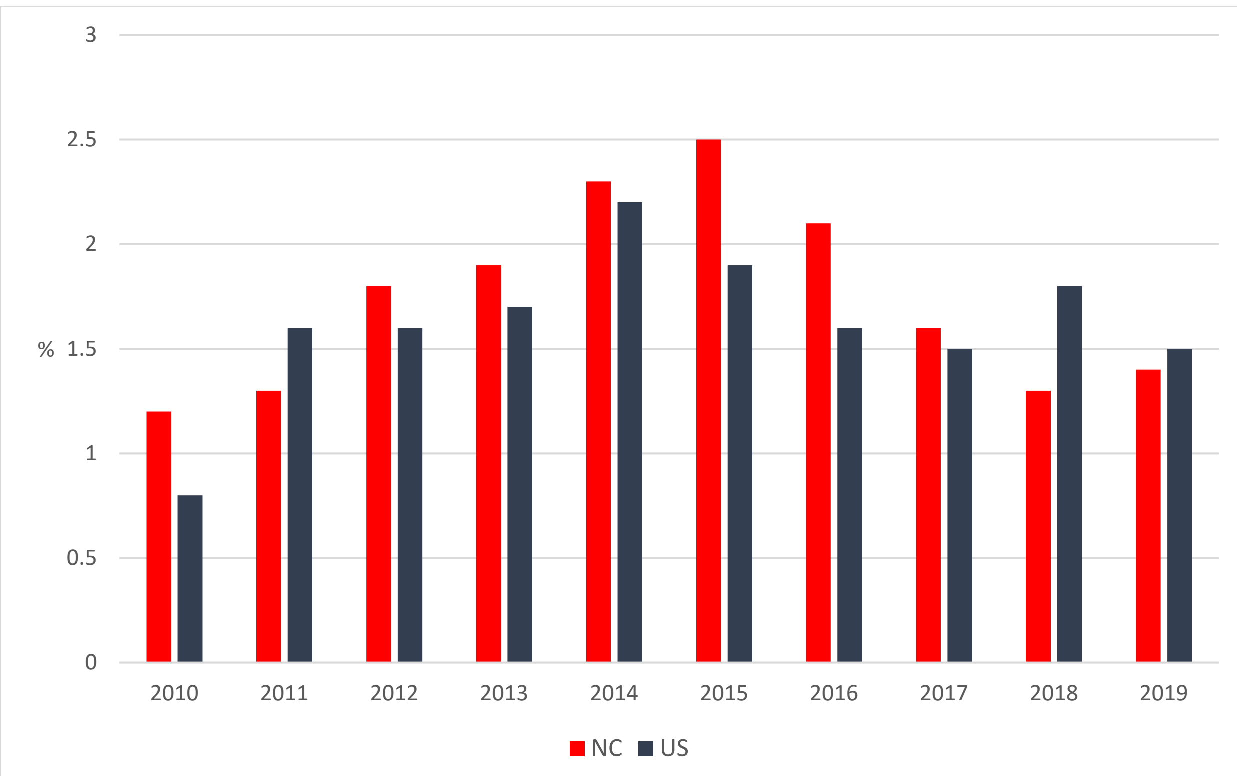
Source: U.S. Census Bureau.

Statewide Labor Market Trends

North Carolina underperformed the nation in 2018 and thus far in 2019 on payroll job growth. This was in contrast to 2010 to 2017 when the state's job growth rate exceeded the nation's growth rate in seven of the eight years (Figure 5). The difference in 2018 was substantial, with North Carolina payroll jobs growing 1.3% compared to a 1.8% growth rate for the nation. For the year June 2018 to June 2019 the growth rates were much closer: 1.4% for North Carolina compared to 1.5% for the nation.

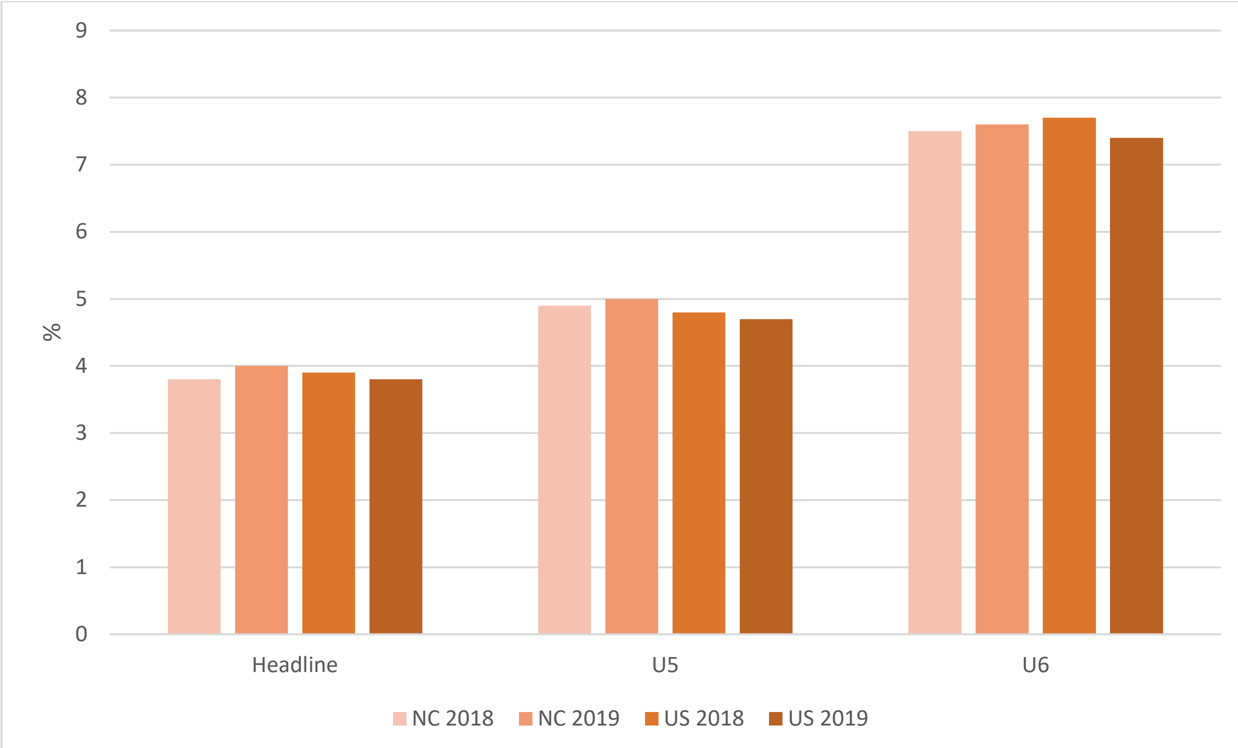
There has been little change in North Carolina's three key unemployment rates: the headline rate which counts an individual as unemployed only if the person is actively looking for work; the U5 rate which considers a person unemployed if they have no job and want a job, even if they're not looking for work; and the U6 rate which adds persons working part-time only because they can't find full-time work as unemployed (Figure 6).

Figure 5. Annual Job Growth Rates (%) in North Carolina and the US, 2010-2019.



Source: Nonfarm payroll employment numbers from the U.S. Bureau of Labor Statistics based on December to December values. Rates for 2019 are annualized based on June 2018 to June 2019 changes. All data are seasonally adjusted.

Figure 6. Alternative Unemployment Rate (%) Measures for NC and the US, 2018 and 2019.



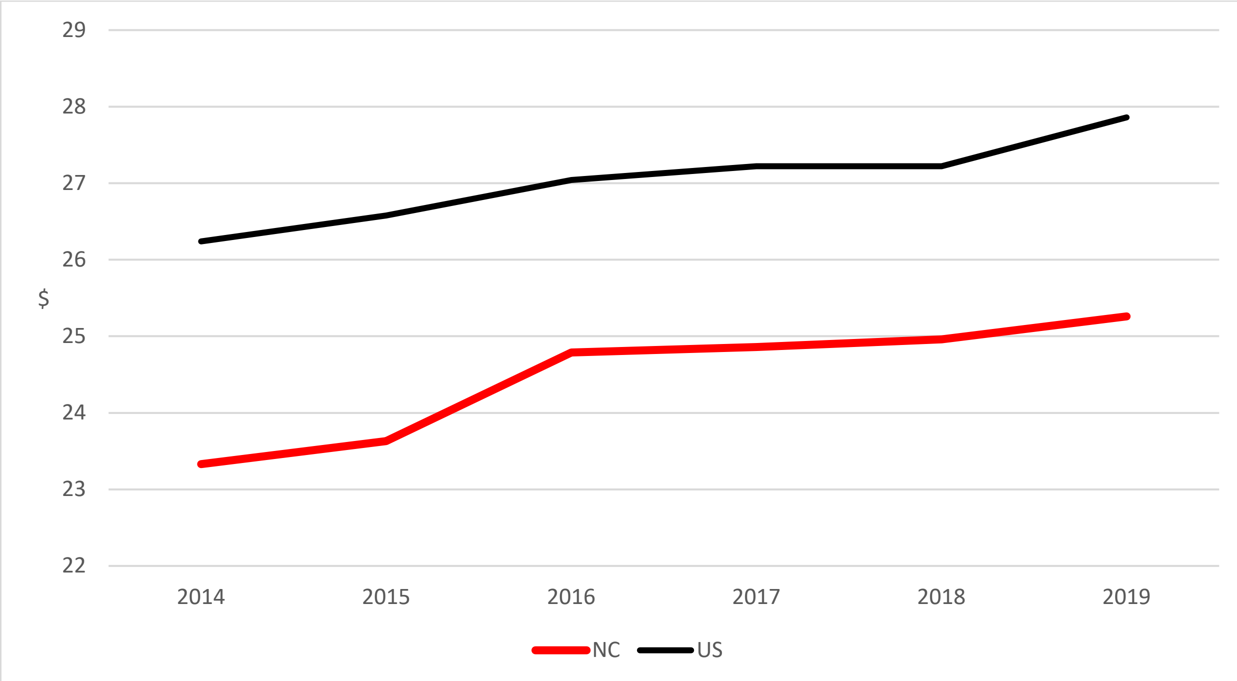
Source: U.S. Bureau of Labor Statistics; annual averages. Rates for 2019 are based on averages for the third quarter of 2018 through the second quarter of 2019.

North Carolina has been able to sustain job growth with little change in the jobless rate for two reasons. First, the proportion of individuals in the working population (ages 16 to 64) continues to increase, from a recent low of 60.9% in late 2018 to 61.6% in mid-2019. Second, North Carolina remains one of the top states in "net in-migration," a measure calibrating the number of people moving to the state from other states compared to the number moving out of the state to other states. Both factors add to the available labor force in the state.

The average wage rate adjusted for inflation (real wage rate) continued to trend upward in both the nation and North Carolina in 2019 (Figure 7). Still, the state's average real wage rate is about 10% under the national rate. Half the difference is due to a lower cost-of-living in North Carolina, and most of the rest is a result of slightly lower average educational attainment in the state.

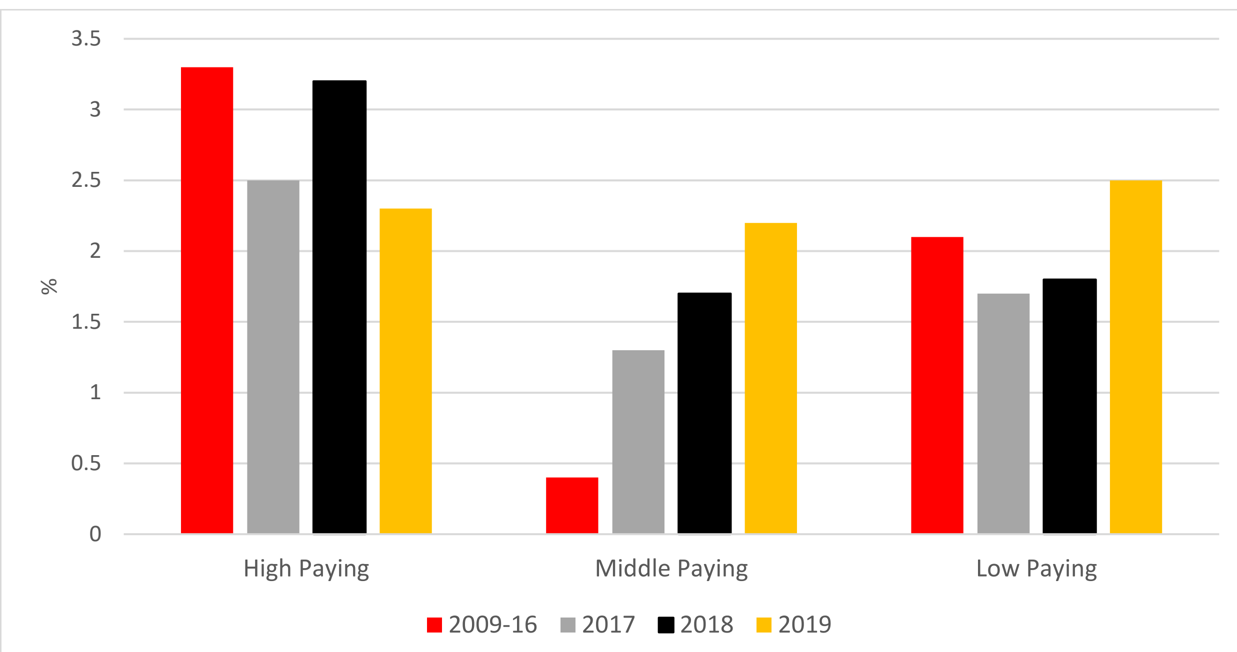
There continued to be good news on the occupational divide in North Carolina (Figure 8). From the years 2009 to 2016 job growth was predominantly in the high-paying and low-paying job sectors, with little growth in middle-paying jobs. In 2017 and 2018 job growth improved in the middle-paying sector. Thus far in 2019, growth in the three sectors has become much more equal.

Figure 7. Annual Real Wage Rates, NC, and US (2019$).



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

Figure 8. Changes in North Carolina Jobs by Level of Pay, 2009-2019, (Annualized Percentage Change).



Source: U.S. Bureau of Labor Statistics. Values for 2019 are annualized based on data for January to June.

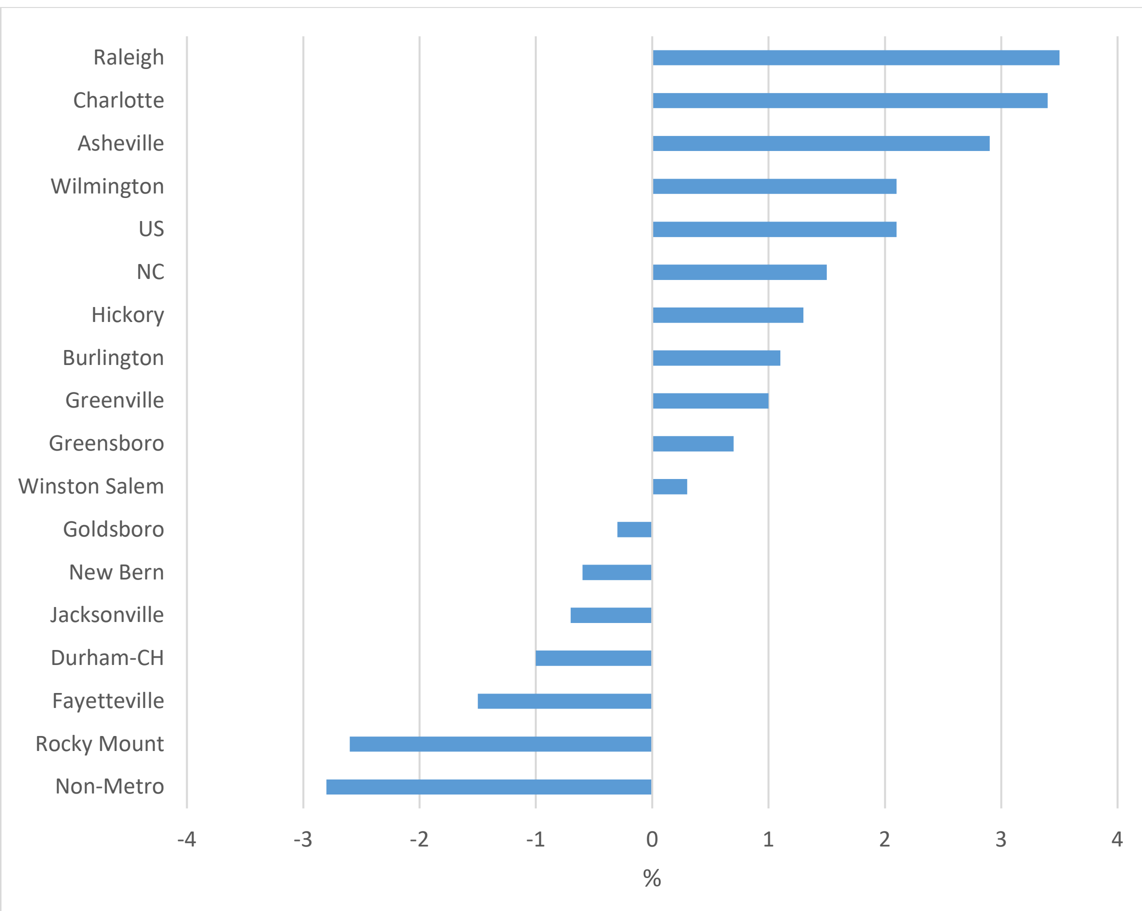
Regional Trends

Unfortunately, GDP values for local regions are released by the federal government with a considerable lag, with 2017 being the latest available data. Still, looking at growth rates in real GDP for the current decade is helpful in identifying long-run trends.

Figure 9 shows the fastest expanding areas in North Carolina this decade have been Raleigh, Charlotte, Asheville, and Wilmington, with each having an annual average real GDP growth rate above both the nation and the state. Hickory, Burlington, Greenville, Greensboro, and Winston-Salem also had smaller, but positive, growth rates.

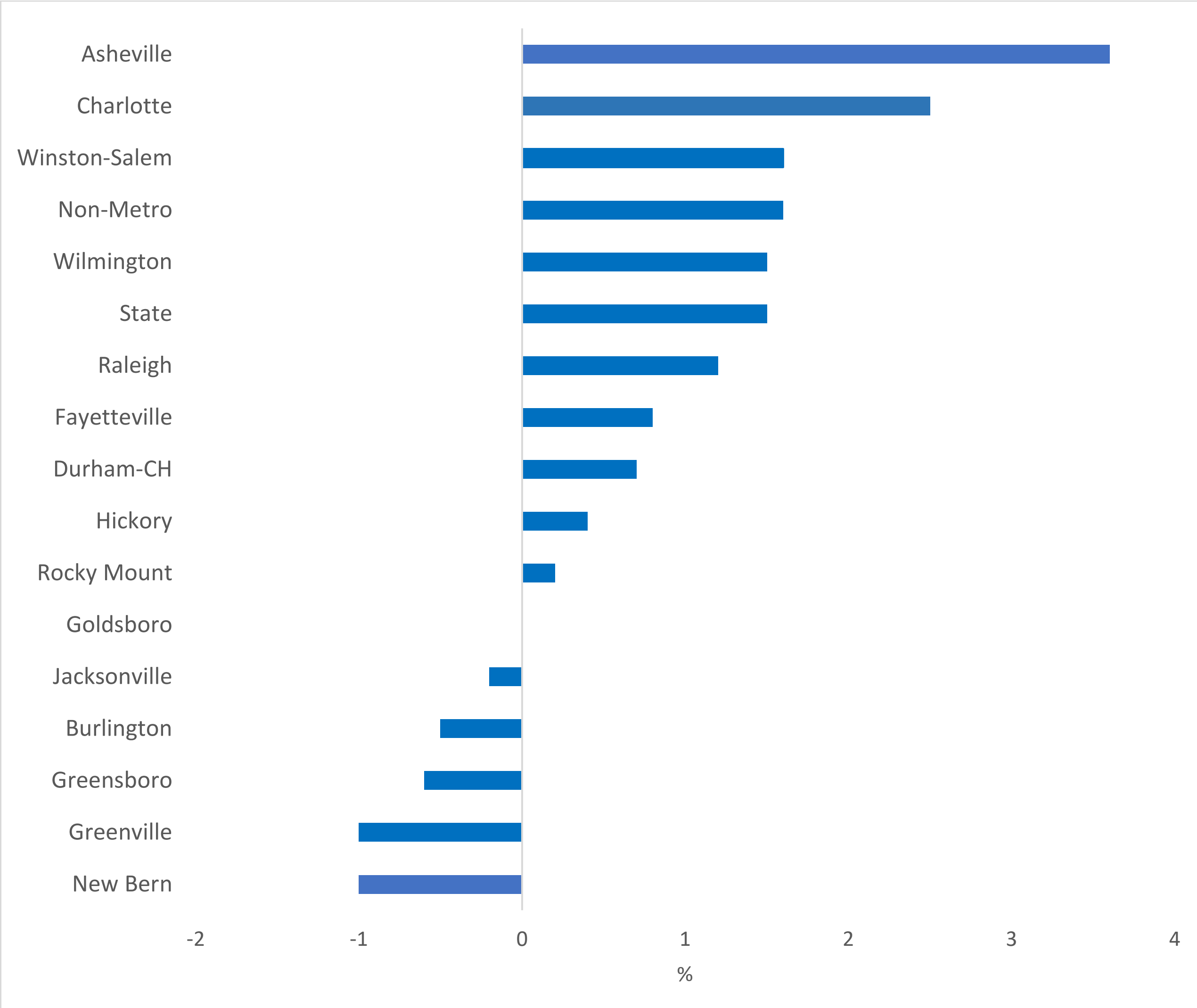
Seven regions – Goldsboro, New Bern, Jacksonville, Durham-Chapel Hill, Fayetteville, Rocky Mount, and Non-Metro areas (which also can be considered "rural") had negative average annual growth rates. The decline in Durham-Chapel Hill's real GDP was due to a large (6%) drop in the area's manufacturing production.

Figure 9. Average Annual Growth Rate in Real GDP for NC Regions, 2010-2017.



Source: U.S. Bureau of Economic Analysis.

Figure 10. Job Growth Rates (% Change) in North Carolina Regions, June 2018- June, 2019.



Source: U.S. Bureau of Labor Statistics, based on seasonally-adjusted payroll employment. Non-Metro includes counties outside the metropolitan areas.

More current information about local economies can be derived by examining recent job growth rates (Figure 10). Asheville, Charlotte, Winston-Salem, Non-Metro, and Wilmington have each experienced faster job growth rates then the state in the last year. The high ranking of the Non-Metro region coincides with some positive economic announcements and trends in rural areas during 2018 and 2019.

On the "down" side, five regions – Jacksonville, Burlington, Greensboro, Greenville, and New Bern – did lose jobs in the last year, and Goldsboro had no change in total jobs.

Forecasts

The NCSU Index of North Carolina Leading Economic Indicators (Figure 11) trended upward in 2018 until Hurricane Florence, which sent the Index tumbling in September. However, this was a temporary decline, with half of the drop eliminated in October. Yet since that rebound the Index has showed little change – essentially moving sideways. One interpretation is the Index is signaling slower growth in the months ahead.

Indeed, slower growth – but no recession – is exactly in line with many national forecasts. In early 2019 real GDP in North Carolina grew at an annualized rate of 2.8%. An **annualized real GDP growth rate in the range of 2.2% to 2.5%** seems to be reasonable for late 2019 and early 2020. An annual payroll jobs growth rate of 1.4% would continue recent labor market trends and generate **65,000 net new jobs in the state in both 2019 and 2020**.

There has been little trend in the state unemployment rate in the last year as gains from new jobs are accommodated by increases in the number of individuals actively looking for work. As suggested earlier, this is a good situation because it means jobless workers who have been on the sidelines not seeking work have become encouraged to look for – and in many cases - obtain employment. Hence, I predict the **state jobless rate will continue in a range of 3.8% to 4.1%** for the foreseeable future.

Several external factors could influence these predictions either positively or negatively. First and foremost are trade negotiations with China, but also with the EU, UK, and Japan. Successful agreements will boost the economy and economic forecasts, while failure to achieve agreements – or worse – an intensification of disagreements, would reduce growth in the economy now and in the future.

Likewise, a trade agreement already made, the USMCA (US, Mexico, Canada Agreement) is awaiting ratification in the US Congress. Failure of the treaty to be ratified would be a negative influence on both the national and North Carolina economies.

Then there are possible geo-political disputes, with Iran in the Middle East, North Korea on the Korean Peninsula, and even with Russia in several regions, that could become more contentious and cause consumer and business confidence, the stock market, and the entire economy to drop.

Table 1 shows the most current (June 2019) and year-ahead forecasts of unemployment rates in the state's regions. In June 2020, the lowest unemployment rate will be in Asheville (3.5%) and the highest rate will be in Rocky Mount (5.7%). Jobless rates in all regions are expected to drop between June 2019 and June 2020. However, the reductions will be modest.

Figure 11. NCSU Index of North Carolina Leading Economic Indicators.

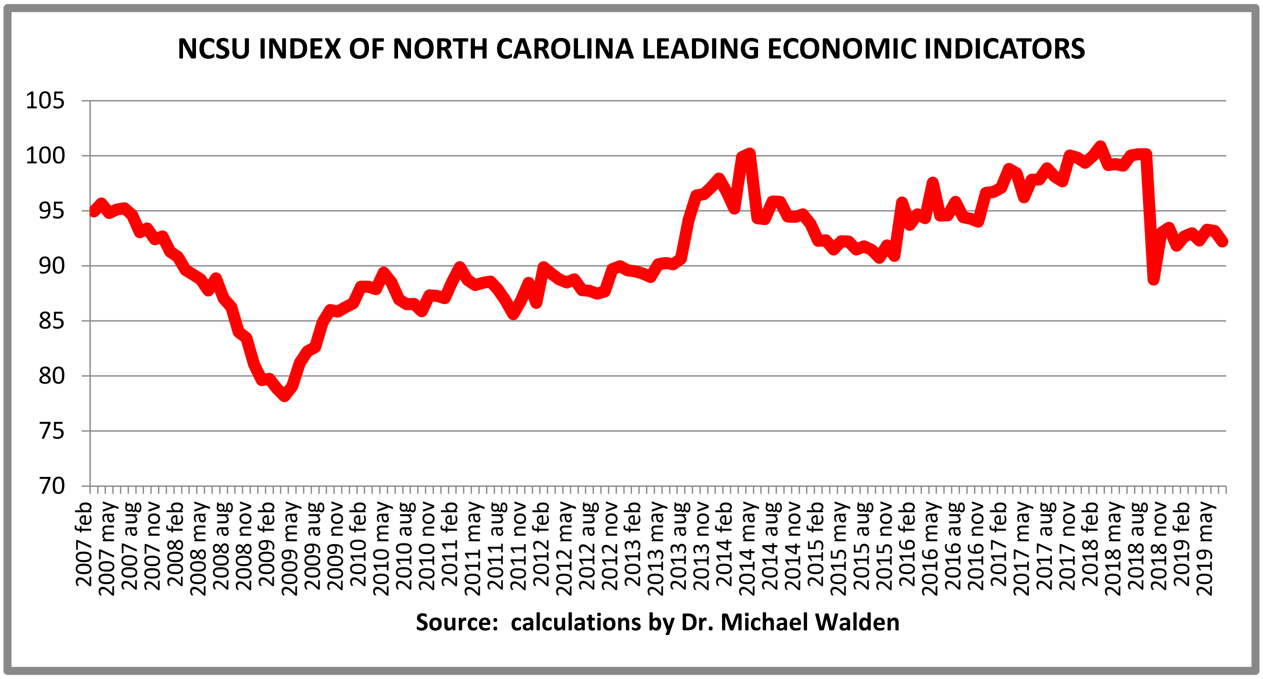


Table 1. North Carolina Regional "Headline" Unemployment Rate Forecasts.

Region	June 2019 Rate	Forecasted June 2020 Rate
Asheville	3.6%	3.5%
Burlington	4.4%	4.1%
Charlotte	4.1%	3.8%
Durham	4.1%	3.6%
Fayetteville	5.7%	5.5%
Goldsboro	4.8%	4.5%
Greensboro	4.8%	4.6%
Greenville	5.2%	4.8%
Hickory	4.3%	3.9%
Jacksonville	5.3%	4.9%
New Bern	4.7%	4.5%
Raleigh	4.0%	3.4%
Rocky Mount	6.1%	5.7%
Wilmington	4.1%	3.8%
Winston-Salem	4.3%	3.9%
Non-Metro	5.4%	5.1%

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