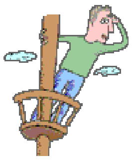

THE NORTH CAROLINA ECONOMIC OUTLOOK, 1st QUARTER 2019

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TEN NORTH CAROLINA ECONOMIC HEADLINES FOR 2018 AND 2019

1. **The broadest measure of economic output in North Carolina – real Gross Domestic Product – is on track to increase faster in 2018 than in 2017. However, the state's 2018 rate is slower than the nation's rate.**

2. **The Information, Transportation, and Professional Services were the top three expanding economic sectors in the state in 2018.**

3. **Payroll job growth in the state will likely exceed the national job growth rate by over 40% in 2018.**

4. **The three major measures of unemployment all dropped in North Carolina in 2018.**

5. **The broadest measure of unemployment – including discouraged and under-employed workers – ended lower in North Carolina than in the nation in 2018.**

6. **The average wage rate – adjusted for inflation – remained flat in North Carolina in 2018, but the rate declined in the nation.**

7. **All regional groups of North Carolina counties experienced job growth in 2018, with rural counties registering the fastest rate.**

8. **North Carolina's real Gross Domestic Product is expected to increase 2.5% in 2019, slightly slower than 2018's rate.**

9. **Close to 85,000 net new payroll jobs are projected to be added in North Carolina in 2019, less than the 100,000 jobs gained in 2018.**

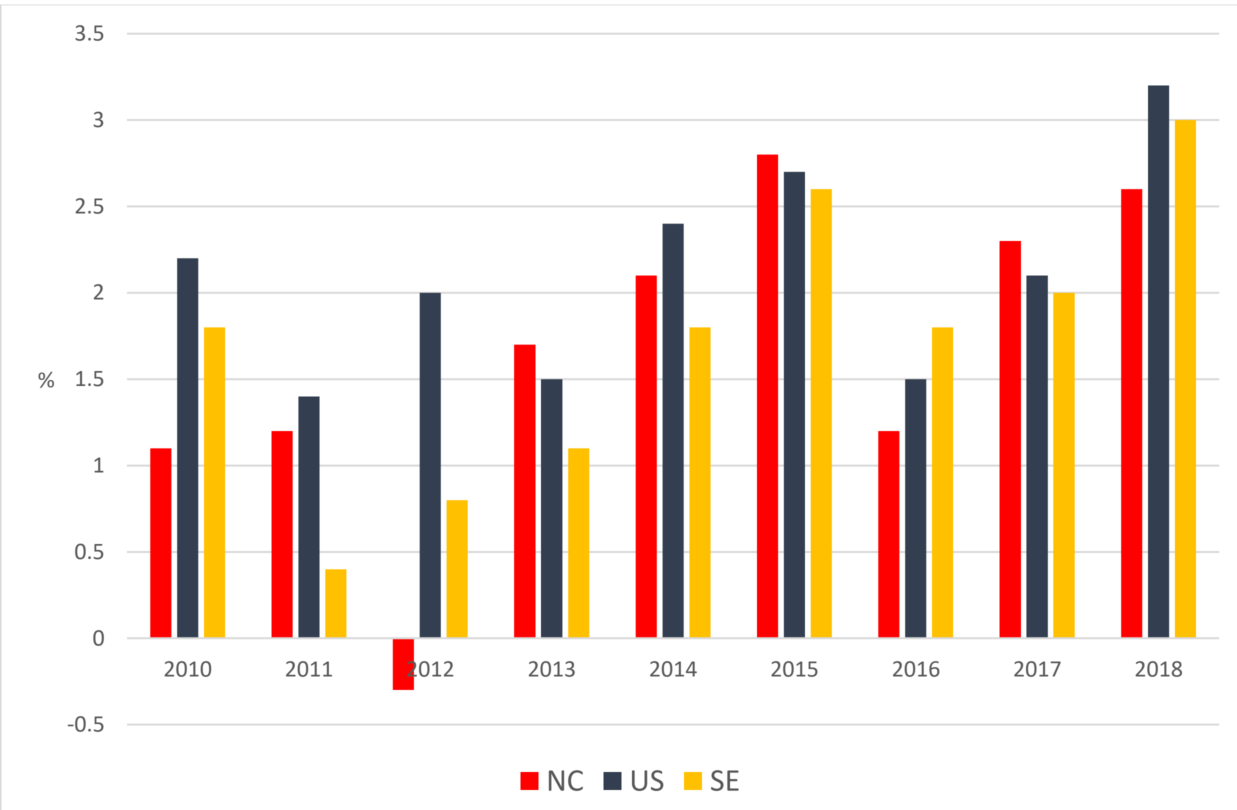
10. **Asheville, Durham, and Raleigh are forecasted to end 2019 with "headline" unemployment rates under 3%.**

Statewide and Sector Trends

Based on available data for the first two quarters of 2018, North Carolina's broadest measure of the economy – Gross Domestic Product (GDP) – will register another year of positive growth, the eighth in the last nine years. Both the national and Southeast economies are also on track to post GDP gains for 2018 (Figure 1).[1]

However, if the pace of GDP growth is sustained in the third and fourth quarters, North Carolina's growth rate will fall short of the growth rates for the US and Southeast state economies. The last year in which this comparison occurred was in 2016. North Carolina's annualized 2018 growth rate is projected to be 2.6%, compared to 3% in the Southeast and 3.2% in the nation. Of course, these growth rates are subject to change as complete GDP data for the nation and the states become available later in 2019.

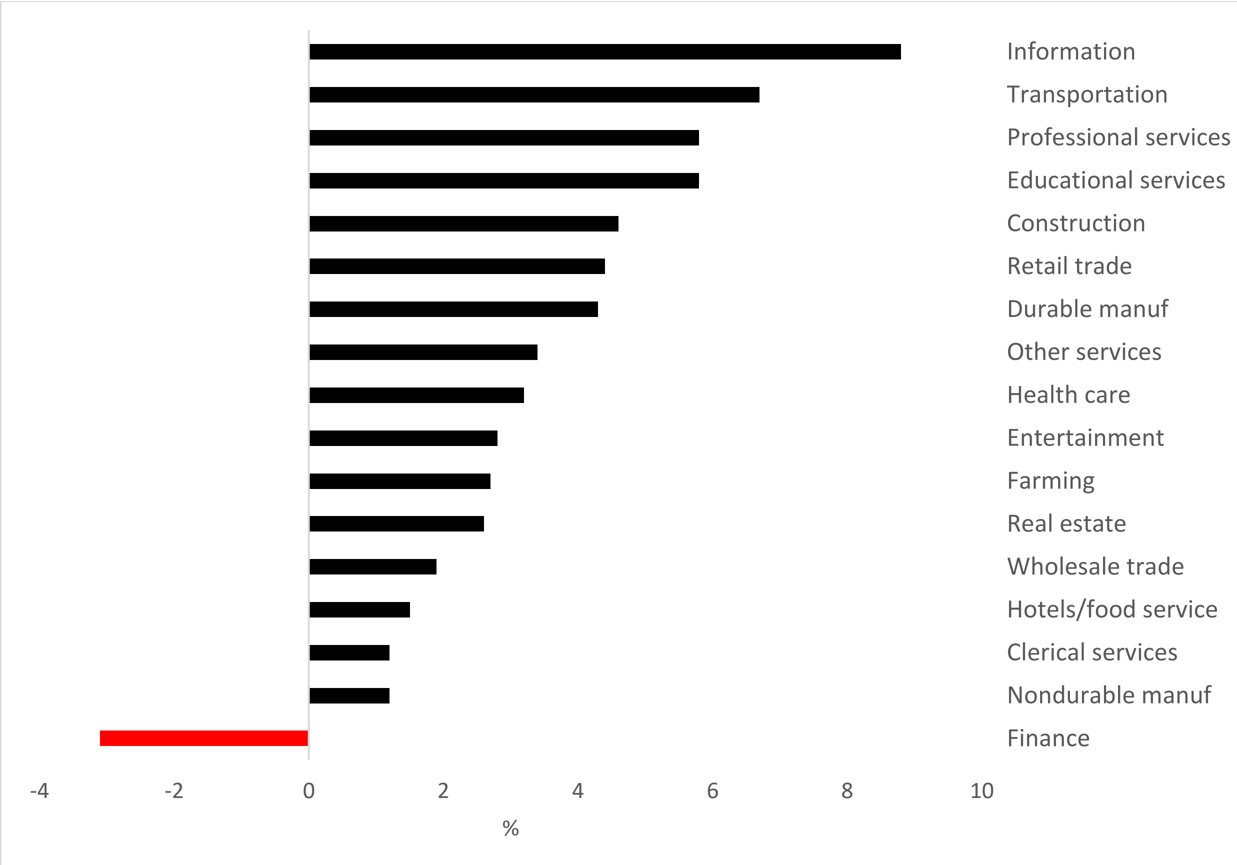
Figure 1. Real GDP Annual Growth Rate (%) in North Carolina, the US, and Southeast Economies, 2010-2018.



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

[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.

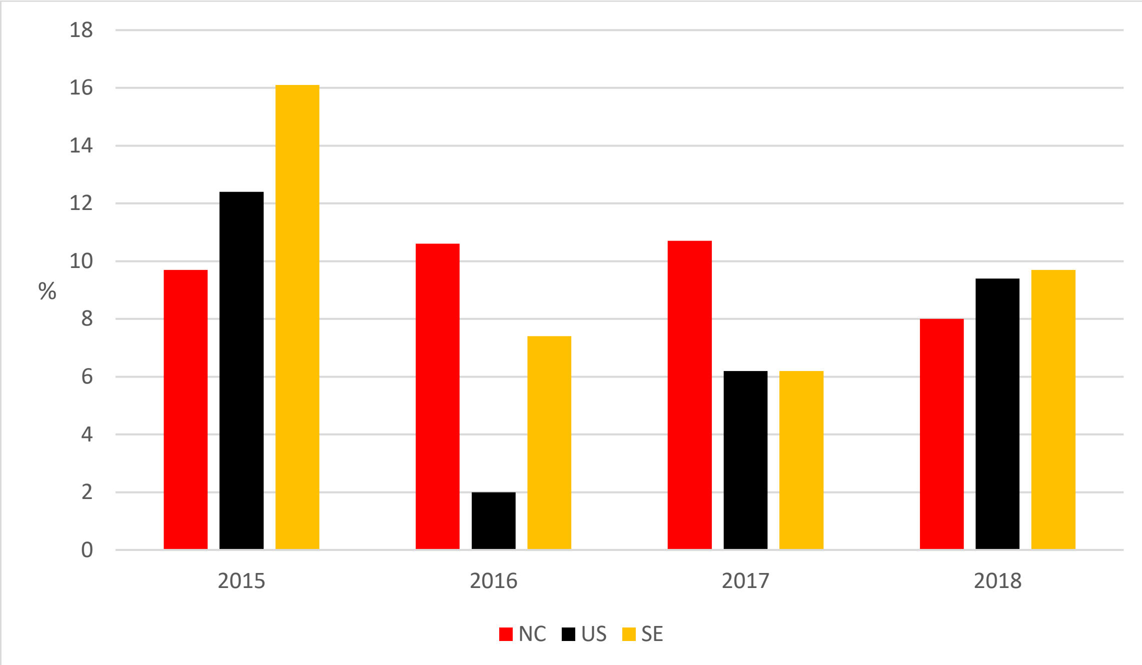
Figure 2. Economic Sector Output Growth Rate (%) in North Carolina, 2nd Quarter 2017 to 2nd Quarter 2018.



Source: U.S. Bureau of Economic Analysis.

Using available Second Quarter 2017 to Second Quarter 2018 data, Figure 2 shows the annual growth rates in output for major economic sectors in North Carolina. All sectors expanded except finance, where consolidation continues to occur. The top five leading sectors in growth were information, transportation, professional services, educational services, and construction. Comparing the two manufacturing sectors, durable manufacturing had a much more robust growth rate than non-durable manufacturing. Indeed, non-durable manufacturing was the second slowest growing economic sector, while durable manufacturing was the seventh fastest expanding sector. This comparison continues a trend observed in North Carolina for the past forty years, where durable manufacturing has gradually replaced non-durable manufacturing for dominance in the state.

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 October.

Source: U.S. Census Bureau.

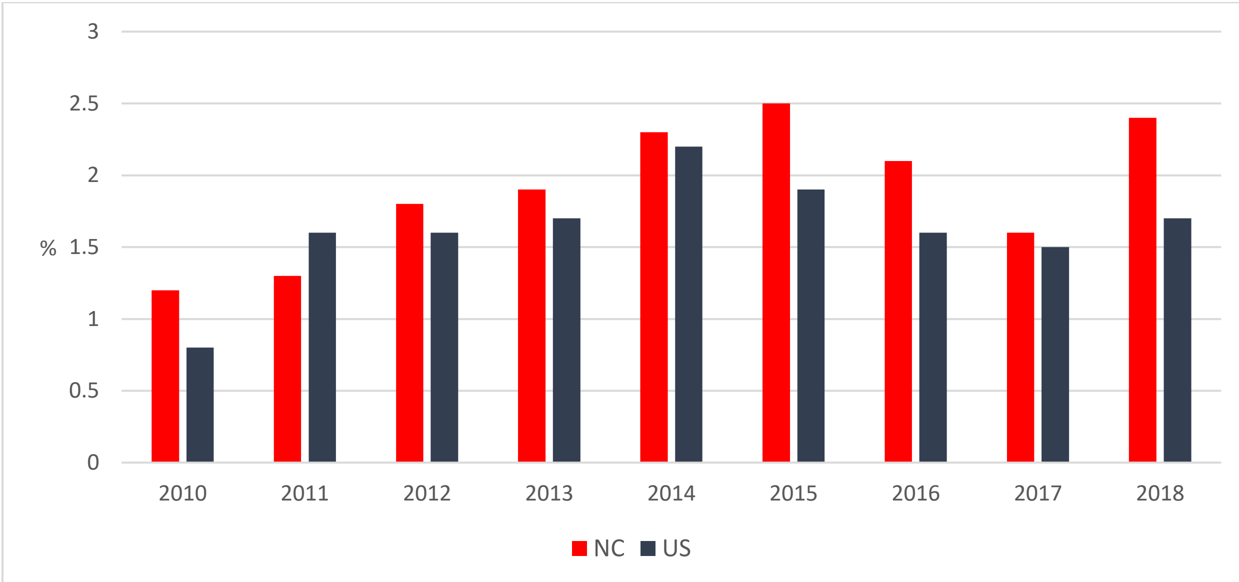
Figure 3 shows trends in residential building permits in North Carolina, the nation, and the Southeast. It appears North Carolina's growth rate in building permits in 2018 will fall short of the growth rates in both the nation and Southeast. This is opposite the pattern in 2017, when North Carolina's growth rate in building permits beat both the national and Southeast growth rates. Part of the reason may be Hurricane Florence, which curtailed construction activity in the southeast part of the state in September and October. Another factor may be the movement of construction firms and labor to storm-related rebuilding in Florida.

Statewide Labor Market Trends

In contrast to the findings for GDP growth – where North Carolina appears to have under-performed the nation – the state substantially out-performed the nation in payroll job growth (Figure 4). Comparing the year spanning October 2017 to October 2018, North Carolina's job growth rate was 2.4% compared to the nation's 1.7%. Both the North Carolina and national job growth rates improved in 2018 compared to 2017, but the improvement was much larger in North Carolina.

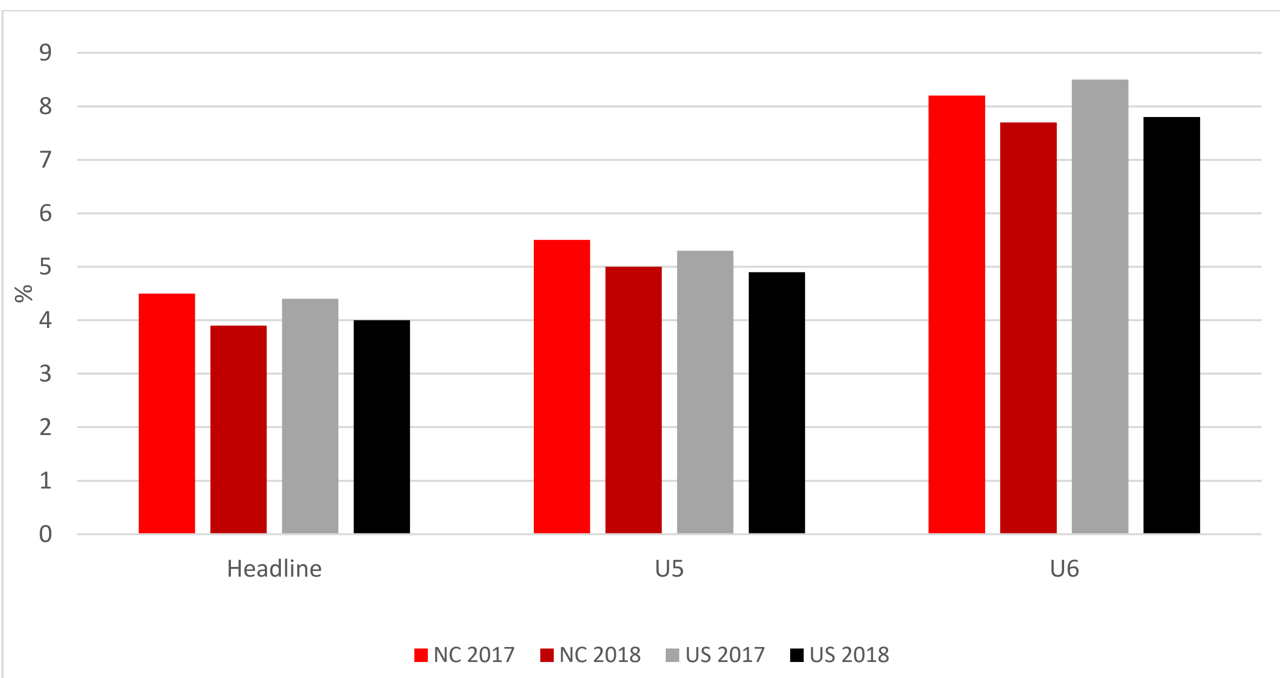
North Carolina also showed improvement in the three key unemployment rates - the headline rate, which does not include discouraged workers as unemployed; the U5 rate, which does include discouraged workers as unemployed; and U6, which also counts underemployed workers as unemployed. In 2018, each of these jobless rates dropped in North Carolina as well

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 October 2017 to October 2018 changes. All data are seasonally adjusted.

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



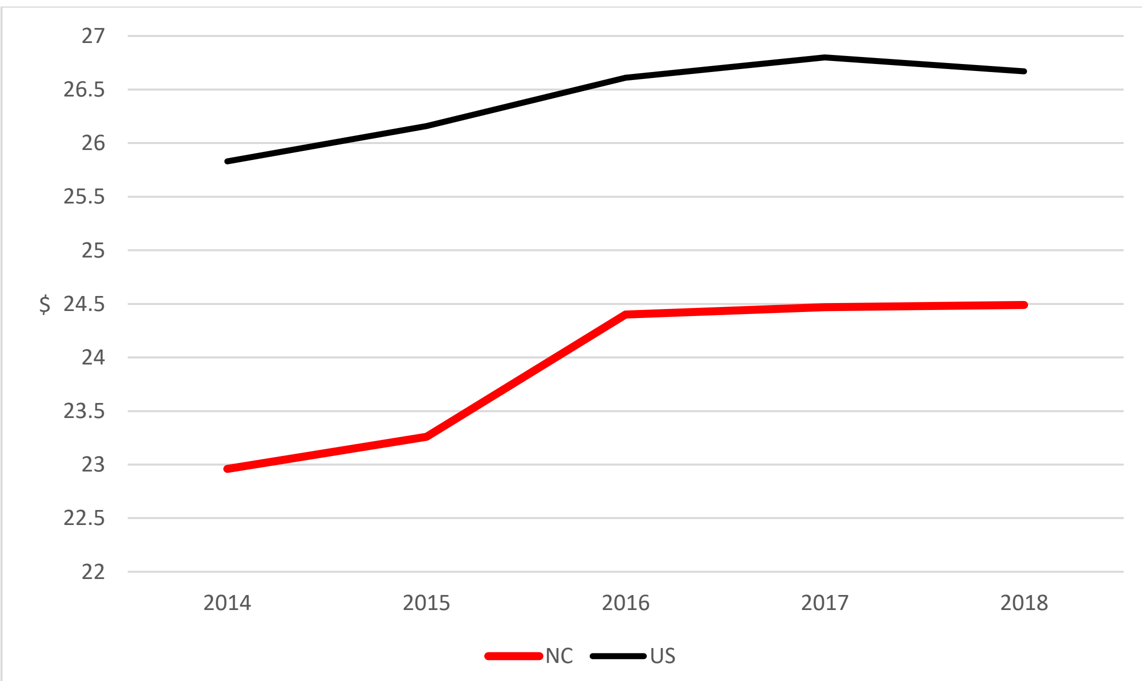
Source: U.S. Bureau of Labor Statistics; annual averages. Rates for 2018 are based on averages for the fourth quarter of 2017 through the third quarter of 2018.

as in the nation (Figure 5). North Carolina's headline and U6 rates were slightly lower than the comparable national rates for the period compared (Fourth Quarter 2017 to Third Quarter 2018).

The average wage rate adjusted for inflation (real wage rate) dipped slightly for the nation but was maintained for North Carolina in 2018 (Figure 6). Still, the state's average real wage rate is about 9% under the national rate. Half the difference is due to a lower cost-of-living in North Carolina, and half is a result of slightly lower average educational attainment in the state.

There continued to be good news on the occupation divide in North Carolina (Figure 7). In 2017 job growth in middle-paying jobs rebounded from the very low levels recorded in the initial years after the Great Recession.[2] This rebound continued in 2018, with the growth rate for middle-paying jobs approaching the rate for low-paying jobs.

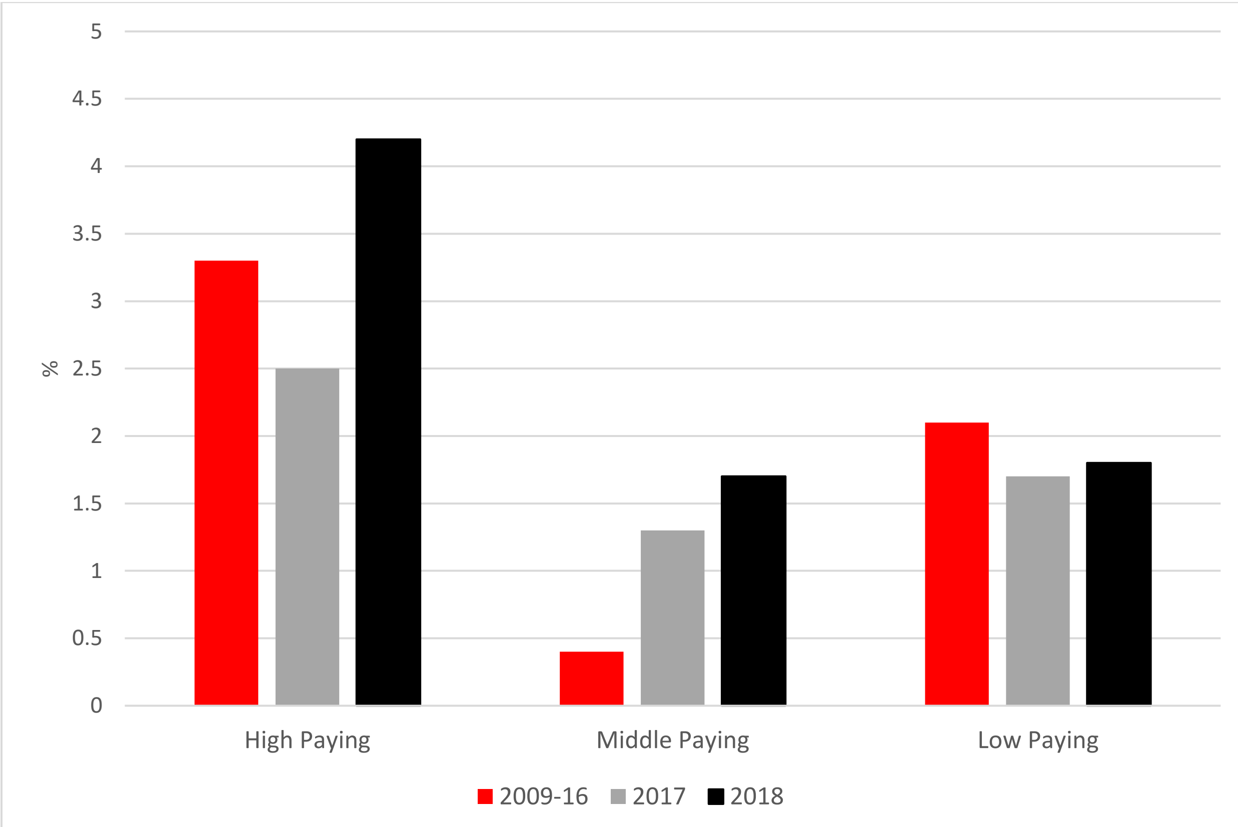
Figure 6. Annual Real Wage Rates, NC, and US (2018 $).



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

[2] For the definitions of high-paying, middle-paying, and low-paying jobs cited in Figure 7, 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.

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 January to October.

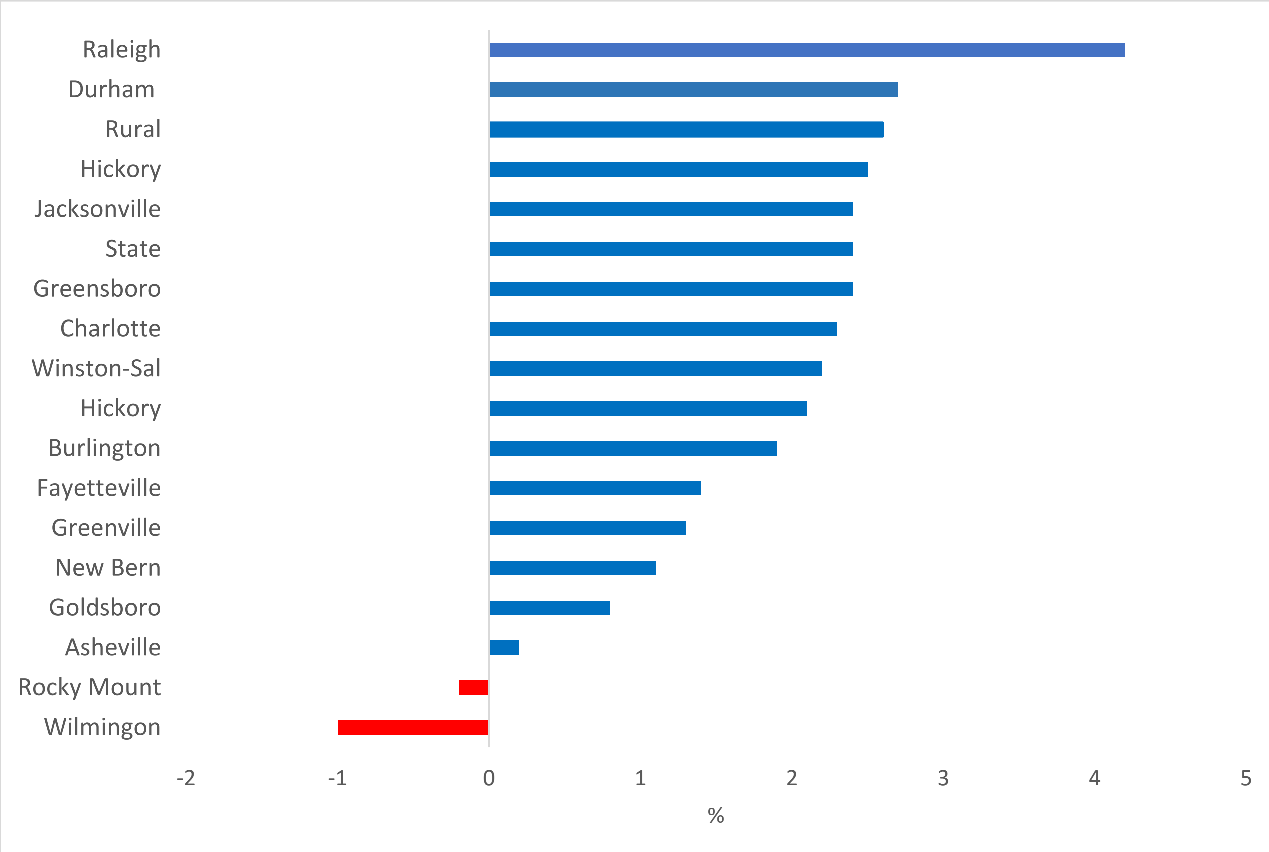
Regional Trends

Figure 8 shows job growth rates in North Carolina's regions in 2018. Perhaps not surprising, the two Triangle metropolitan regions – Raleigh and Durham – were the top two growing areas in payroll jobs. Yet what may be surprising is that Rural North Carolina – those areas outside metropolitan regions – was the third fastest growing area in job growth. In fact, this is the second straight year Rural North Carolina was among the leading regions in job growth. The strong growth rate outside the state's urban areas is likely a result of strong job growth in general and very low unemployment rates, especially in the urban centers. To find available labor, expanding companies have had to increasingly look to rural counties.

Rocky Mount posted a decline in payroll job growth as the region works to restructure its economy based on new sectors. There have been some exciting announcements in the region which should result in significant job additions in coming months and years.

The surprising decline in payroll jobs in Wilmington is entirely due to Hurricane Florence, particularly in the months of September and October. Wilmington's economic structure,

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 January to October. Rural includes counties outside the listed metropolitan areas.

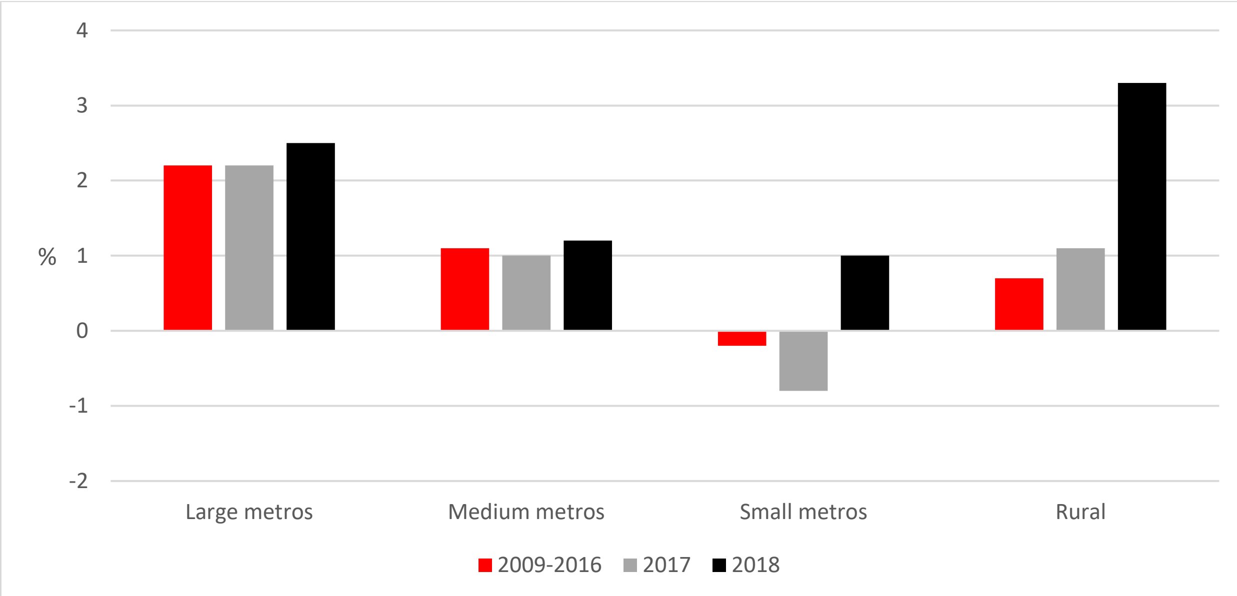
anchored by tourism, retirement living, and growing professional and tech sectors, is strong and dynamic.

Figure 9 shows the regional growth in payroll jobs in the state's regions classified by size. Importantly, each of the regions had job growth in 2018.

Forecasts

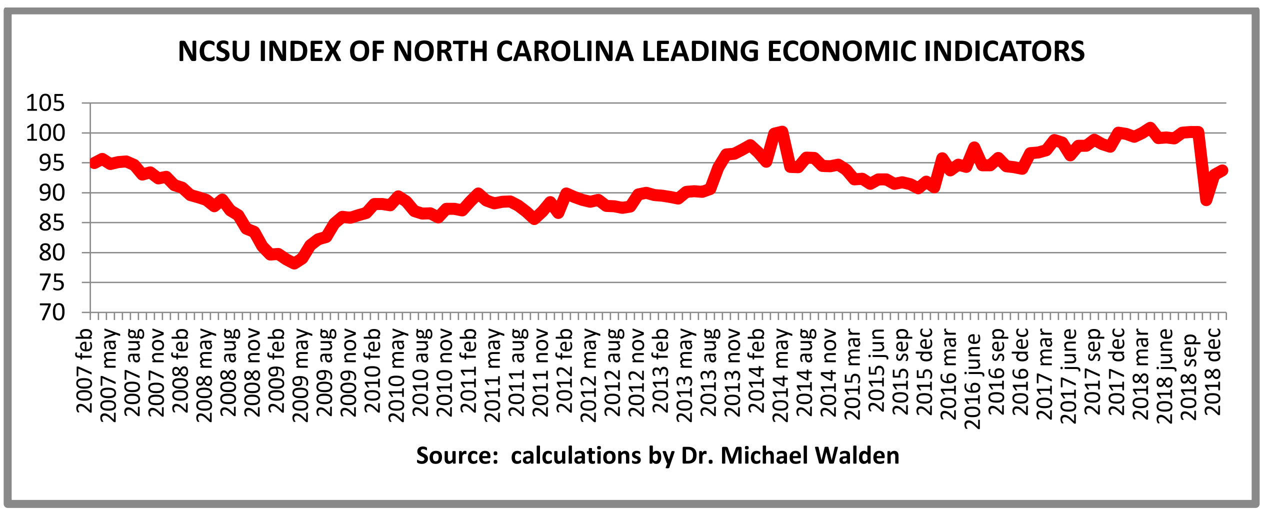
The NCSU Index of North Carolina Leading Economic Indicators (Figure 10) trended upward in 2018 until Hurricane Florence, which sent the Index tumbling in September. However, this was a temporary decline, with half of the drop eliminated in October. Yet while initial claims for unemployment returned to near normal levels in November, other components of the Index showed little change that month. One interpretation is that the Index is signaling a transition to somewhat slower growth in the state economy in 2019.

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 January to October.

Figure 10. NCSU Index of North Carolina Leading Economic Indicators



Indeed, the North Carolina Economic Outlook predicts North Carolina real GDP will grow by 2.5%, payroll job growth will be 1.8%, and payroll jobs will increase by 85,000 in 2019. While these are good numbers, they are all less than the state's performance in 2018.

A question is how the new jobs in 2019 will be filled. The state's jobless rate – measured by the "headline rate" – was in the mid 3% range at the end of 2019. The most recent lowest headline jobless rate in North Carolina was 3% in April 1999. So, there is room for the jobless rate to fall further. But North Carolina's labor force participation rate has changed very little in recent years, suggesting there is little "slack" in the labor market. Thus, in 2019 the state may rely more on attracting workers from other states, something – fortunately – the state has been a leader in among all states for several decades.

A looming decision that will have a significant impact on North Carolina's 2019 economy will be the vote on approving the revised NAFTA trade agreement (now re-named the U.S.-Mexico-Canada Agreement, or USMCA). USMCA must be ratified by the legislators in the three countries, and passage in the U.S. Congress is not assured. Two big North Carolina winners from USMCA would be farmers – who have large exports to Mexico and Canada – and auto supply workers. Auto supply workers would benefit from the USMCA increasing the percentage of auto parts that must be made in North America from 62% to eventually 75%. Since North Carolina is a major auto parts maker, parts manufacturing would likely expand in the state. There is also a treaty requirement increasing the wages of Mexican auto workers, which could result in North Carolina becoming more attractive to future auto assembly plants.

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 2.4% and 2.8%. Fayetteville, Rocky Mount, and Jacksonville will have the highest rates.

With economic growth continuing over the next 12 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 have suggested 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 positive trends – although flanked by uncertainty - in the near future for the economy, both nationally and in North Carolina.

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

Region	October 2018 Rate	Forecasted October 2019 Rate
Asheville	2.8%	2.6%
Burlington	3.2%	3.1%
Charlotte	3.2%	2.8%
Durham	3.0%	2.7%
Fayetteville	4.5%	4.0%
Goldsboro	3.8%	3.4%
Greensboro	3.5%	3.1%
Greenville	3.7%	3.4%
Hickory	3.1%	3.0%
Jacksonville	4.4%	3.8%
New Bern	4.1%	3.7%
Raleigh	2.9%	2.4%
Rocky Mount	4.8%	4.5%
Wilmington	3.7%	3.2%
Winston-Salem	3.2%	3.0%

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