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2020 ECONOMIC OUTLOOK: DOWN OR JUST SLOWDOWN?

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North Carolina's Economy in Perspective

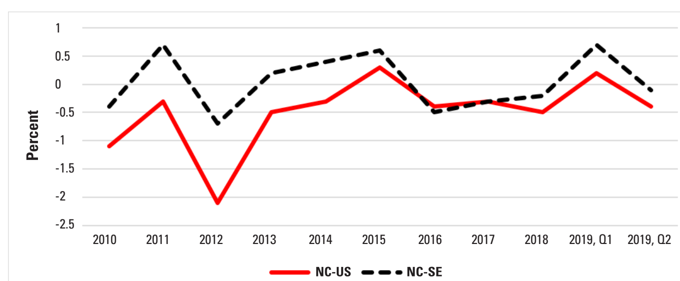
North Carolina's economy expanded overall in 2019, but by inconsistent levels in each quarter. Available data show the broadest measure of the economy—real (inflation-adjusted) Gross Domestic Product (GDP)—rose at an annualized rate of over 3% in the first quarter, but only 1.6% in the second quarter. North Carolina's GDP growth rate exceeded both the national and regional Southeast rates in the first quarter, but underperformed the nation and Southeast in the second quarter.

GDP Growth Rate: State, Regional, and National Performance

These differences are highlighted in Figure 1, which shows the percentage point differences between North Carolina's GDP growth rate and the corresponding rates for the United States (U.S.) and the Southeast for the period 2010 to 2019, Q2. North Carolina's GDP growth rate usually hovers near the Southeast state average, with some years being slightly lower and other years being slightly higher. When compared to the U.S., North Carolina's GDP growth rate has steadily moved closer to the national average. North Carolina's rate was significantly under the national rate in the early years of the decade, but starting in 2013, North Carolina's growth rate moved much closer to the national rate. Since then, the rate remained slightly under the national rate.

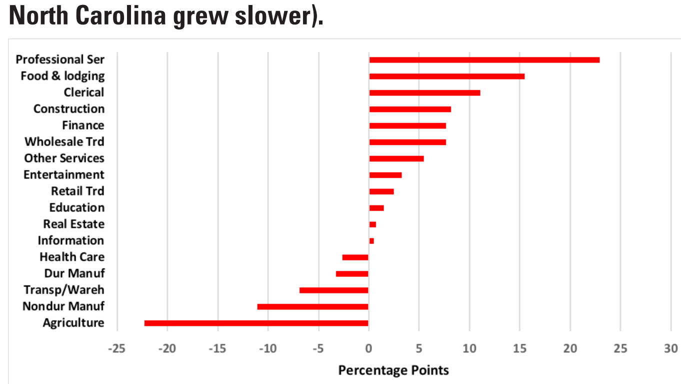
Figure 2 goes deeper into the differences between the recent changes in GDP for North Carolina and the nation. The figure breaks out the individual economic components of GDP and plots the differences in the growth rates for each sector in North Carolina and in the nation between 2010 and 2019. North Carolina out-performed the nation in several sectors, including professional services, trade, education and information. In contrast, North Carolina under-achieved in health care,

Figure 1. Difference in Real GDP Annual Growth Rates, North Carolina vs. the U.S., and North Carolina vs. the Southeast, 2010-2019.



Source: U.S. Bureau of Economic Analysis. Southeast is defined by the U.S. Bureau of Economic Analysis.

Figure 2. Real GDP Growth Rates by Sector for North Carolina Compared to the U.S., 2010-2019 (positive indicates North Carolina grew faster; negative indicates North Carolina grew slower).



Source: U.S. Bureau of Economic Analysis. Comparing Annual Q2 Values both sectors of manufacturing, transportation/warehousing and agriculture. Some of the recent contraction in manufacturing and agriculture is likely due to the protracted trade disputes with China. The patterns are similar for the comparison of North Carolina to the Southeast.

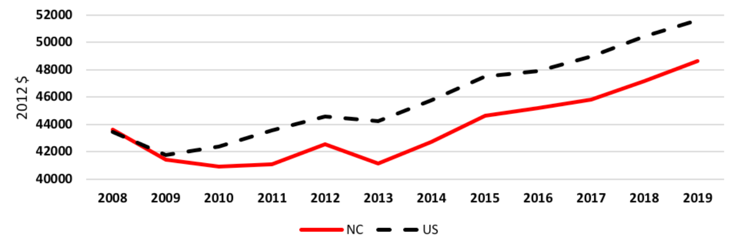
Income Trends

Gains in real per capita income suggest the average individual is acquiring enough financial resources to outpace inflation and improve his or her standard of living.

Figure 3 shows trends in real per capita income for North Carolina and the U.S. for the time period 2008 to 2019. The adjustments for inflation are based on separate purchasing power measures for North Carolina and the country. Typically, North Carolina's cost-of-living is under the national average. Also, inflation—changes in the cost-of-living—can be different for the nation and any state. Figure 3's values account for these factors.

There is a demonstrable U-shaped pattern in Figure 3. For both North Carolina and the U.S., real per capita income fell in the early part of the period and then rose. Over the entire 2008-2019 period, real per capita income rose $5,034 in North Carolina and $8,196 in the nation.

Figure 3. North Carolina and U.S. Real (Inflation-Adjusted) per Capita Income from 2008 to 2019 (2012 purchasing power dollars).



Source: U.S. Bureau of Economic Analysis. 2019 is 2nd quarter. Purchasing power dollars for North Carolina for 2018 and 2019 are estimated using data from the Missouri Economic Research and Information Center.

National real per capita began to recover from the Great Recession in 2009. Yet real per capita income in North Carolina didn't begin to consistently recover until 2013. As a result, North Carolina's real per capita income has remained under the nation's real per capita income for the last decade.

The three factors that underlie these divergent patterns in real per capita income for North Carolina and the nation are manufacturing, trade and recession. Manufacturing is traditionally a more dominant economic sector in North Carolina than in the nation. The most recent data show manufacturing's share of the state economy is almost two-thirds larger than in the nation (18% vs. 11%). Manufacturing employment took a big hit in the last quarter-century due to automation and trade deals. Regarding the latter, the original North American Free Trade Agreement (NAFTA) in the mid-1990s and the acceptance of China into the World Trading Organization in 2000 resulted in downsizing and offshoring of a significant part of U.S. manufacturing. Particularly hard hit industries included furniture, textiles and apparel—sectors that have a large presence in North Carolina. The Great Recession of 2007-2009 exacerbated both of these other factors.

As a result, North Carolina lost almost half (48%) of its manufacturing employment between 1995 and 2010, compared to a 33% loss for the nation. Since 2010, manufacturing employment has recovered modestly—by close to 10%—in both North Carolina and the U.S., but remains well below 1995 levels.

Further, while displaced manufacturing workers often find alternative work, data from the U.S. Department of Labor show 40% of the re-employed workers earn a salary lower than at their previous factory job.

The combination of North Carolina manufacturing workers losing jobs between 1995 and 2010, the relatively smaller recovery in factory jobs in North Carolina than in the rest of the nation since 2010 and the fact that factory workers who find alternative work often earn lower pay, resulted in North Carolina's lag in real per capita income.

Labor Market Trends

North Carolina out-performed both the nation and the Southeast in growth of non-farm employment (Figure 4), the first year North Carolina outpaced both since 2015. In contrast, two of the three most-followed unemployment rates rose in North Carolina in 2019, while all three rates dropped in the nation (Figure 5). Jobless rates can rise as employment grows if the labor force—those employed plus those looking for employment—increases faster than those holding jobs. North Carolina is a leading state in net in-migration (a surplus of people moving to the state from other states over those leaving the state), and the state's strong job market motivates people who had stopped looking for work to resume looking, so it is possible for strong labor force growth to statistically push the unemployment rate higher. In the first 10 months of 2019, North Carolina's labor force expanded four times faster than the nation's.

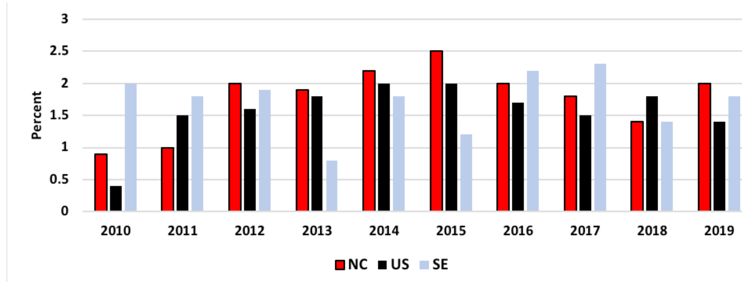
The occupation divide—highlighted by the strongest job growth being in upper-paying and lower-paying jobs—continued in North Carolina in 2019 (Figure 6). The gain in middle-paying jobs was significantly greater than during the 2009-2016 period.

Regional Trends

Wilmington, Asheville, Raleigh, Winston-Salem and Charlotte achieved the fastest regional job growth rates in non-farm employment in 2019 (Figure 7). Three regions—Rocky Mount, Hickory and Goldsboro—lost jobs. Areas outside metro areas (labeled "non-metro" in Figure 7) increased their employment by 1.3%, somewhat below the state average of 2%.

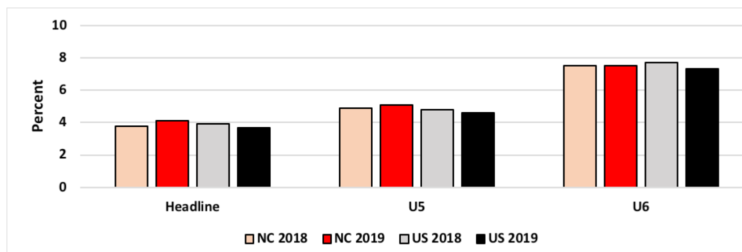
The medium-sized metro areas of Wilmington and Asheville exceeded the growth of the larger metros of Raleigh and Charlotte. Retirees, second-home owners and tourism drove a significant portion of growth in Asheville and Wilmington and should continue to drive growth in coming decades. Rapid growth in Asheville recently created debates about the impacts of growth

Figure 4. Annual Job Growth Rates (%) in North Carolina, the U.S., and the Southeast, 2010-2019.



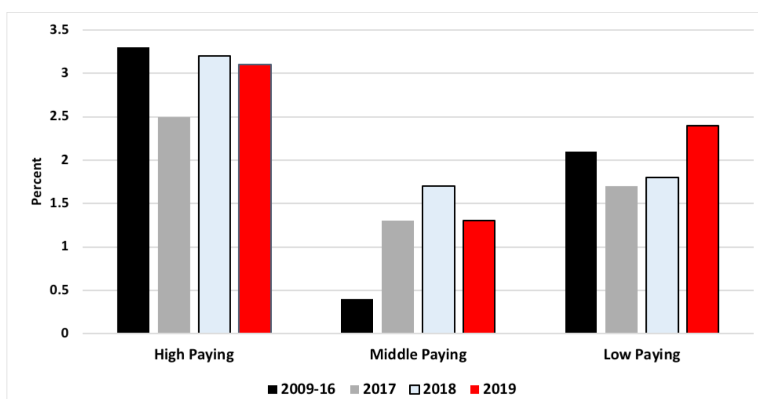
Source: Nonfarm payroll employment numbers from the U.S. Bureau of Labor Statistics based on October to October comparisons.

Figure 5. Alternative Unemployment Rate Measures for North Carolina and the U.S., 2018 and 2019.



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

Figure 6. Changes in North Carolina Jobs by Level of Pay, 2009-2019, (Annualized Percentage Change).



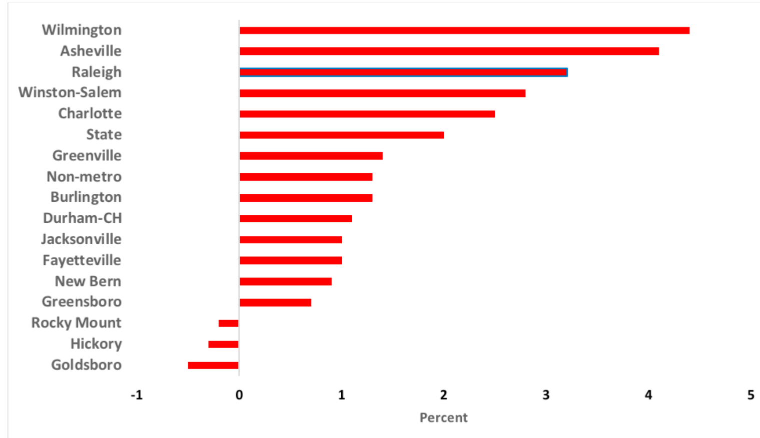
Source: U.S. Bureau of Labor Statistics. Values for 2019 are based on year over year changes from October.

on the quality of life and the cost of living.

Growth in Raleigh and Charlotte creates issues of housing affordability and traffic congestion. While likely not enough to derail future growth, the issues may temper the pace of expansion and support continuing pressure for innovative growth management solutions.

There are two unpredictable factors in local growth projections: technology and mini-cities. Technological innovations like autonomous vehicles, drone delivery and enhanced abilities for remote working could benefit growth of smaller metros and non-metro regions at the expense of larger metros. Mini-cities are large "live, work, play" developments that are effectively self-contained communities for many daily functions. They can reduce the need for commuting and can incorporate energy-saving and environmentally-friendly innovations. Mini-cities require large tracts of land and are best suited for construction on the edge of metro areas.

Figure 7. Job Growth Rates (% Change) in North Carolina Regions, Oct. 2018 – Oct. 2019.

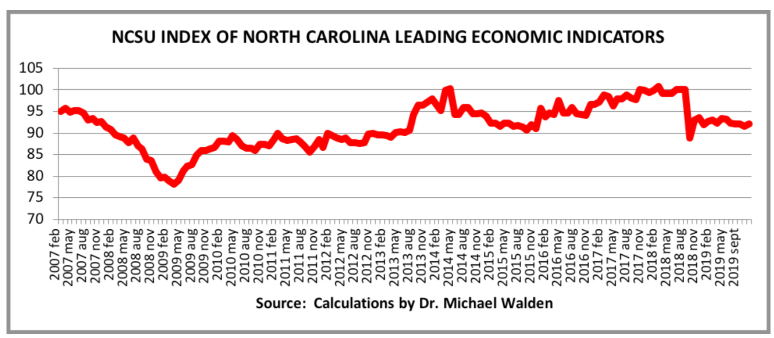


Source: U.S. Bureau of Labor Statistics, based on seasonally-adjusted nonfarm payroll employment. Non-Metro includes counties outside the metropolitan areas.

Forecasts

The NC State University Index of North Carolina Leading Economic Indicators (Figure 8) showed little change in the last year, although the level was below that for the previous three years. The interpretation is that the North Carolina economy will continue to expand in 2020, but at a slower rate. The forecast is a deceleration in growth, not a recession.

Figure 8: NC State University Index of Leading North Carolina Leading Economic Indicators



North Carolina created 90,000 non-farm jobs in 2019. The forecast for 2020 is for more modest job growth—between 60,000 and 70,000 net new non-farm jobs. Additionally, the statewide unemployment rate of nearly 4% at the end of 2019 could edge upward to between 4.3% and 4.5% by the end of 2020. Real GDP growth in the state is expected to range between 1.5% and 1.7%, similar to the projected national performance.

At the end of 2019 there were two positive developments on the trade disputes between the U.S. and foreign countries. The United States–Mexico–Canada Agreement (USMCA)—the successor to the North American Free Trade Agreement (NAFTA)—appeared to be headed toward final approval in the U.S Congress. Estimates suggest the successful implementation of the agreement could add as much as 0.3% points to annual economic growth. In North Carolina, the pharmaceuticals, vehicle parts and farming sectors are expected to benefit from the USMCA.

Also, there was an agreement in principle between the U.S. and China to an initial phase in the settlement of their on-going trade dispute. A complete agreement could add one-half of one percentage point to annual GDP growth in both the nation and North Carolina.

Table 1. North Carolina Regional Headline Unemployment Rate Forecasts.

Metro City	September 2019	Forecast fo September 2020
Asheville	2.7%	3.0%
Burlington	3.4%	3.8%
Charlotte	3.1%	3.5%
Durham	3.1%	3.4%
Fayetteville	4.6%	4.9%
Goldsboro	3.7%	4.0%
Greensboro	3.7%	4.1%
Greenville	3.9%	4.3%
Hickory	3.3%	3.8%
Jacksonville	4.1%	4.6%
New Bern	3.6%	4.1%
Raleigh	3.1%	3.4%
Rocky Mount	4.8%	5.3%
Wilmington	3.1%	3.5%
Winston-Salem	3.3%	3.8%
Non-Metro Areas	4.6%	5.0%

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

Table 1 shows the most current (September 2019) and year-ahead forecasts of unemployment rates in the state's regions. Forecasts for the state indicate that the unemployment rate is expected to rise in all regions over the next year. In September 2020, the lowest jobless rates will be in Asheville, Durham, Raleigh, Wilmington and Charlotte. The highest jobless rates are expected to be in Rocky Mount, non-metro areas, Fayetteville and Jacksonville.

Answering the Big Question

In conclusion, it appears the economy will continue to expand in 2020 and there will not be a recession. Indicators suggest growth will continue, albeit more slowly than in 2019. Supporting this positive picture for 2020 is low inflation, relatively low debt levels and an accommodating Federal Reserve that is willing to lower interest rates in the face of international tensions.

If these international tensions are moderated, particularly in the form of a full trade resolution with China, then the picture for 2020 is even more positive. Conversely, domestic or international "surprises" that concern investors and households could lead to slower growth.