



THE NORTH CAROLINA OUTLOOK ECONOMIC WINTER 2009

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Executive Summary

The two year economic decline – called by some the “Great Recession” – is coming to an end. Like the nation, North Carolina will return to economic growth in 2010 and 2011. Already output from the state’s factories has increased, and activity in the all-important housing market has passed its recessionary bottom and is moving higher.

Job losses continue, but at a slower pace, putting the state’s employment market on track to generate gains in the first quarter of 2010. At that point, the state’s unemployment rate will peak between 11.3% and 11.5%, although adding those former workers who have quit the labor force would push the rate to a full percentage point higher. Still, we predict the state’s jobless rate will fall to 9.8% by the end of 2010 and to 8.9% at the end of 2011. Also, while the pace of economic activity will be stronger in North Carolina than in the nation, recovery in the job market will proceed at a slower rate than after previous recessions.

Economic disparity will continue among North Carolina’s regions. Unemployment rates will drop in all of North Carolina’s metropolitan areas in late 2010 and 2011. Yet job growth will be strongest in the Charlotte, Triangle, and Wilmington regions, and several regions will continue to have unemployment rates above 10% at the end of 2011.

Has a Turning Point Arrived?

The losses from the “Great Recession” have continued to mount in North Carolina. Between December 2007 (the official start of the recession) and September 2009, employment in the state fell by over 250,000. This represented a decline of 6% from the December 2007 job base, more than the comparable 5.2% reduction at the national level.

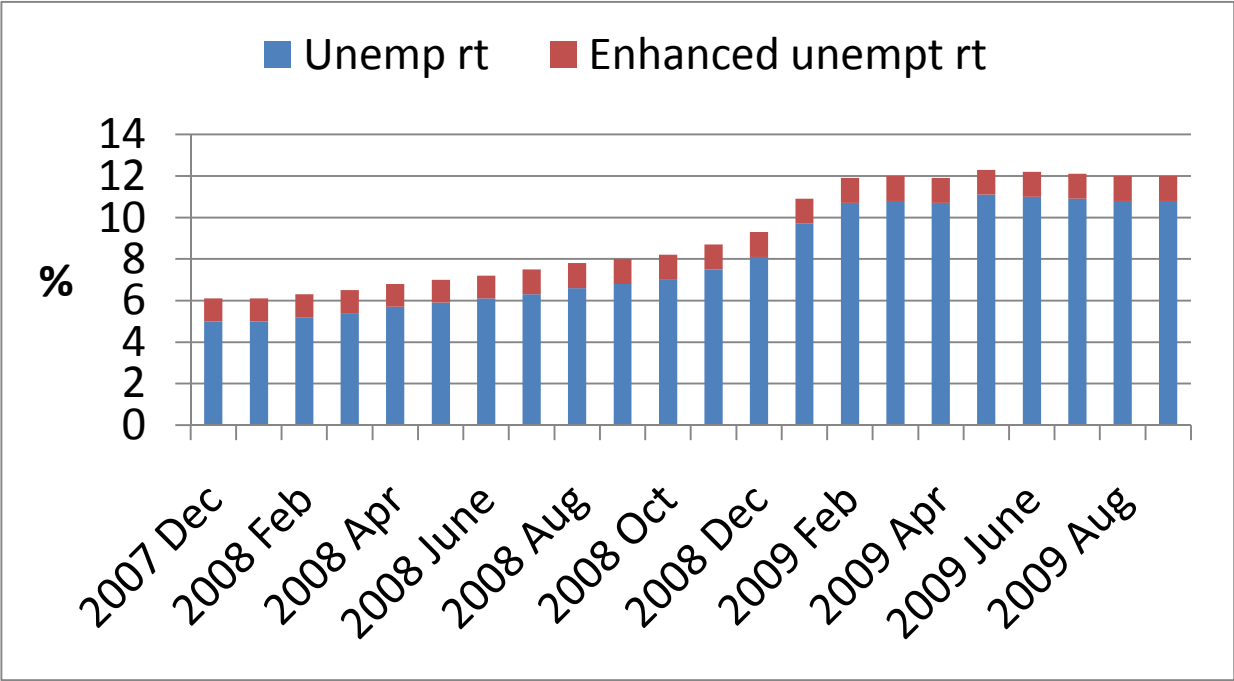
The state unemployment rate has also dramatically climbed, rising from 5% in December 2007 to 11.1% in May 2009. However, some optimism has developed from the fact the state unemployment rate trended downward slightly from May to September 2009, when the rate registered 10.8%. Could this improvement in the jobless rate represent the long awaited turnaround in the state’s economy?

Before giving an answer, a measurement issue must be discussed. One problem with the official unemployment rate is its omission of “discouraged workers” from the count of the unemployed. To be listed as unemployed, a person must (1) be without a job, (2) wanting a job, and (3) actively looking for a job. By actively looking for a job is meant sending out resumes, contacting businesses, and going on job interviews. If a person isn’t doing these activities, then the person is not counted as unemployed. Such individuals – called “discouraged workers” – typically become more numerous as recessions persist.

The U.S. Bureau of Labor Statistics has begun keeping statistics on discouraged workers for states. Figure 1 shows the trend in the official state unemployment rate (blue bar) and the trend in the state unemployment rate including discouraged workers (blue + red bars). In September 2009, this “enhanced” unemployment rate stood at 12%. However, this rate is also lower than the 12.3% level set in May.

So the good news is the state unemployment rate – even including discouraged workers – didn’t worsen in the four months from May to September 2009. Indeed, the level of statewide employment appears to have leveled off in recent months (Figure 2), and job losses – whether measured by the household survey or the employer survey – have slowed from those occurring in the November 2009 – March 2009 period (Figure 3).

Figure 1. Trends in North Carolina’s Official Unemployment Rate and Enhanced Unemployment Rate (seasonally-adjusted).

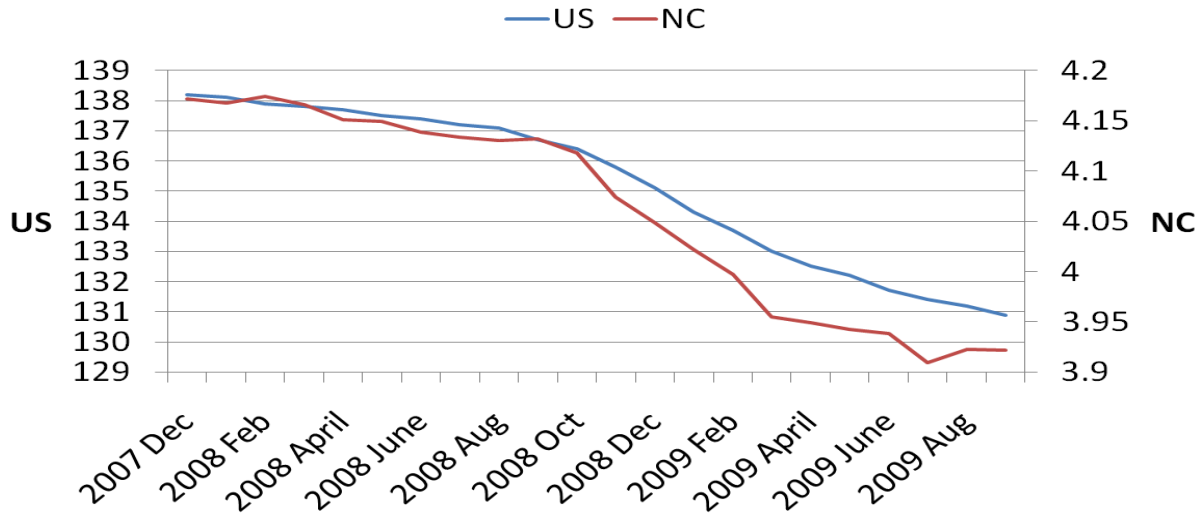


Source: U.S. Bureau of Labor Statistics

There’s also some encouraging news from examining employment trends in four key sectors that have been adversely impacted by the recession – manufacturing, professional services, construction, and financial services. Employment levels in all four sectors appeared to have stabilized during the summer and early fall (Figure 4). In fact, there was a modest increase in construction employment, probably tied to improvement in housing sales (discussed later).

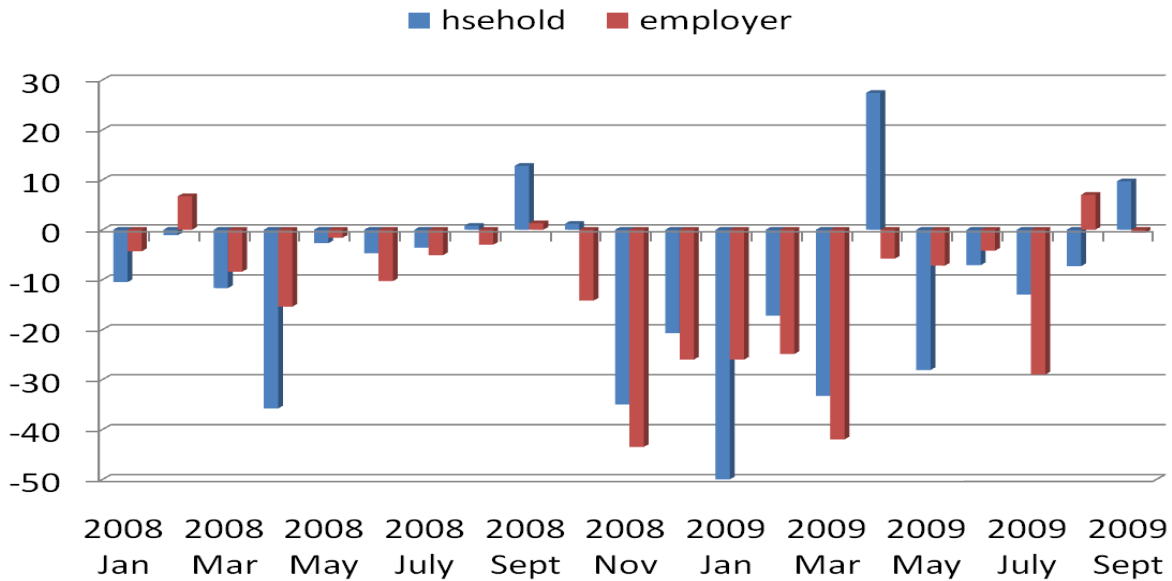
The manufacturing sector usually revives early in the economic recovery cycle. Preliminary estimates of *output* from North Carolina’s factories show that, after a major decline in 2008 and early 2009, manufacturing output has actually increased in the second and third quarters of 2009 (Figure 5). This is in line with national trends and is an encouraging indicator suggesting the bottom of the recession has possibly been passed.

Figure 2. U.S. and North Carolina Non-farm Employment, thousands (seasonally-adjusted).



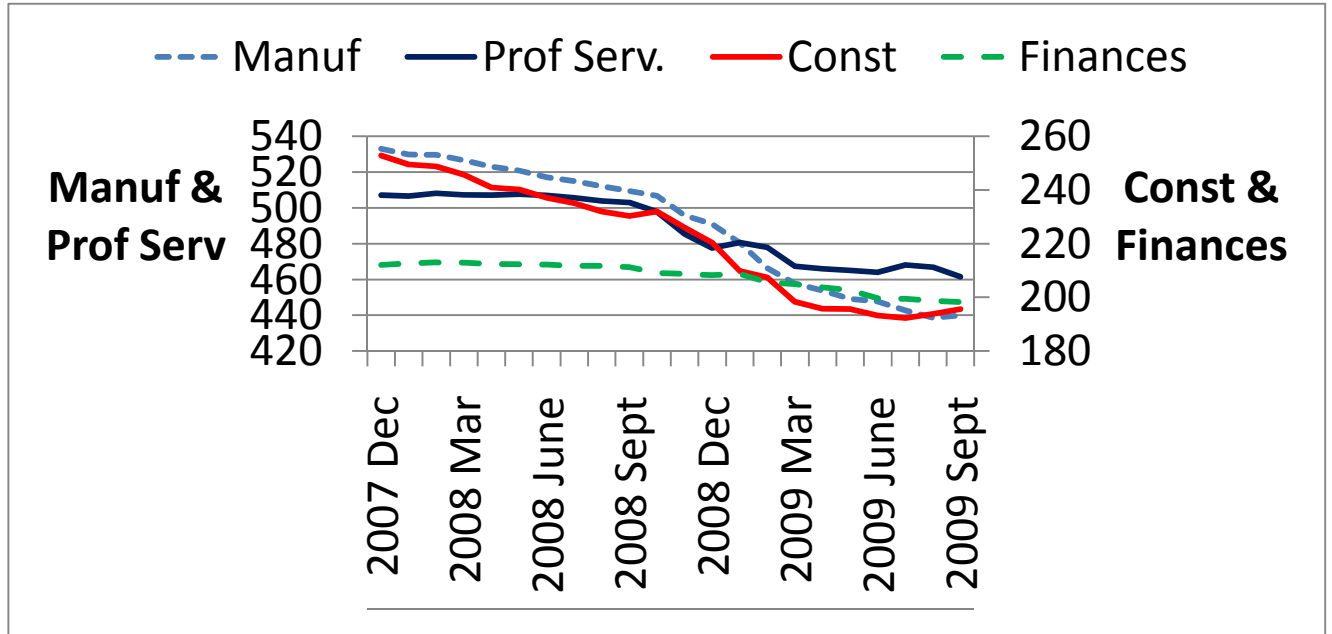
Source: U.S. Bureau of Labor Statistics

Figure 3. North Carolina Job Losses from the Household and Employer Job Surveys, thousands (seasonally-adjusted)



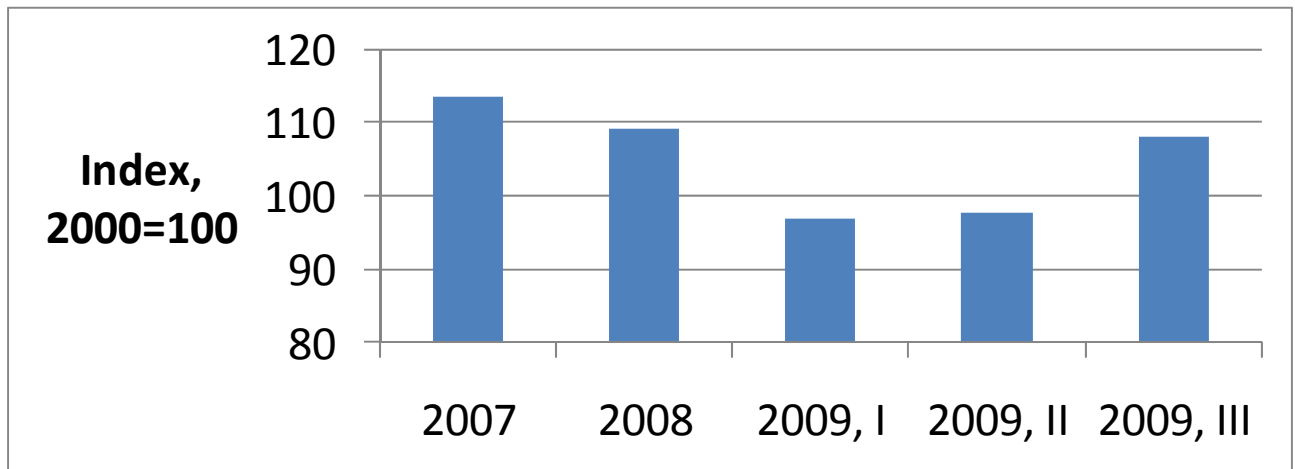
Source: U.S. Bureau of Labor Statistics; Employment Security Commission of North Carolina

Figure 4. Employment Trends in Selected North Carolina Sectors, thousands (seasonally-adjusted).



Source: U.S. Bureau of Labor Statistics

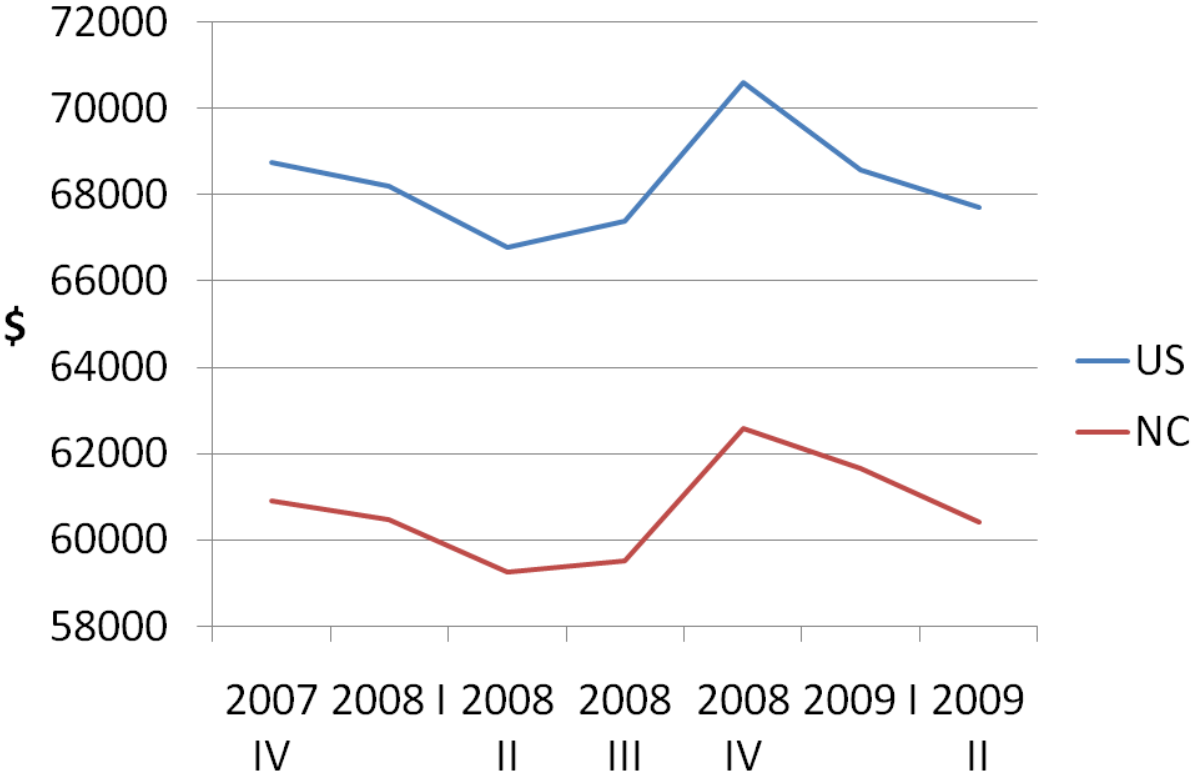
Figure 5. Index of North Carolina Manufacturing Output.



Source: U.S. Bureau of Economic Analysis; author's calculations

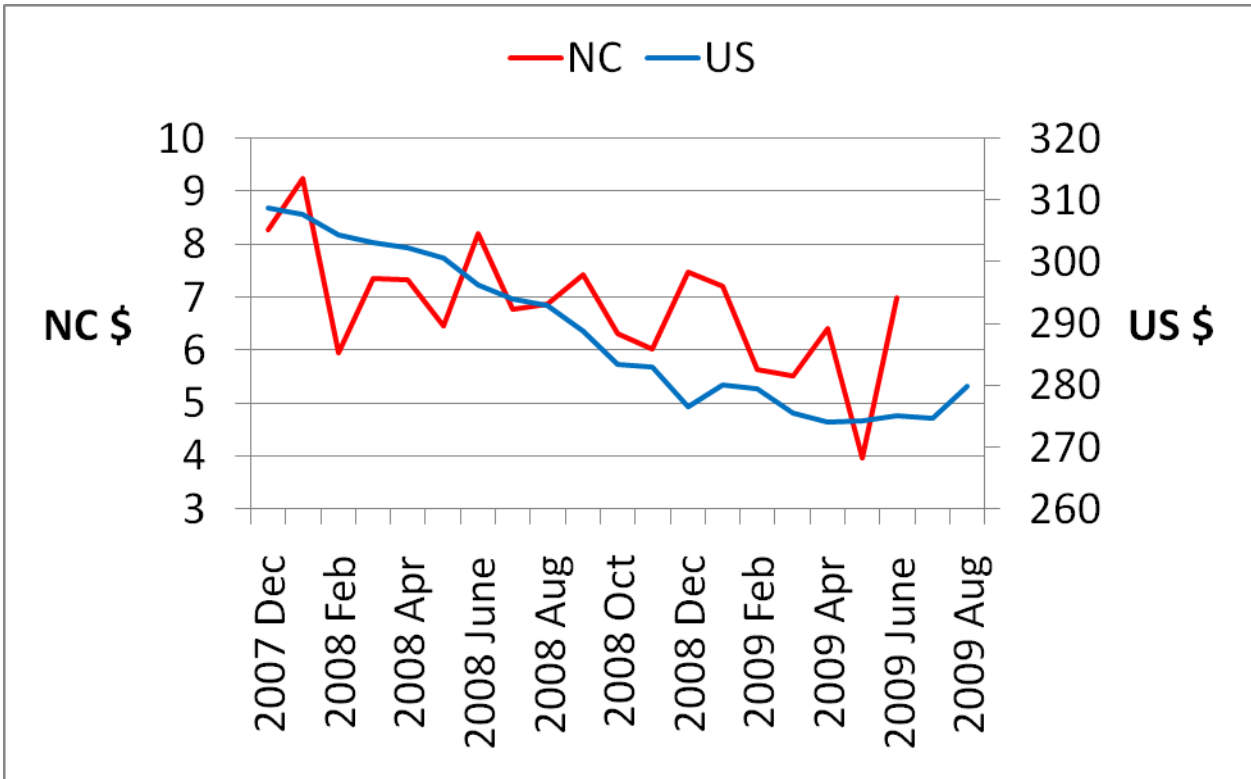
Two other broad measures of the economy are earnings per worker and retail sales. Inflation-adjusted earnings per worker received a boost in late 2008 due to the drop in gas prices, but since then they have trended downward (Figure 6). The pattern in North Carolina closely follows national trends. Likewise, inflation-adjusted retail sales have trended downward in both the U.S. and North Carolina. However, the latest readings show a slight upward movement in the nation and the state (Figure 7).

Figure 6. Inflation-Adjusted Earnings per Worker in the U.S. and North Carolina.



Source: U.S. Bureau of Economic Analysis

Figure 7. U.S. and North Carolina Retail Sales, 2000 billions \$, (seasonally-adjusted).



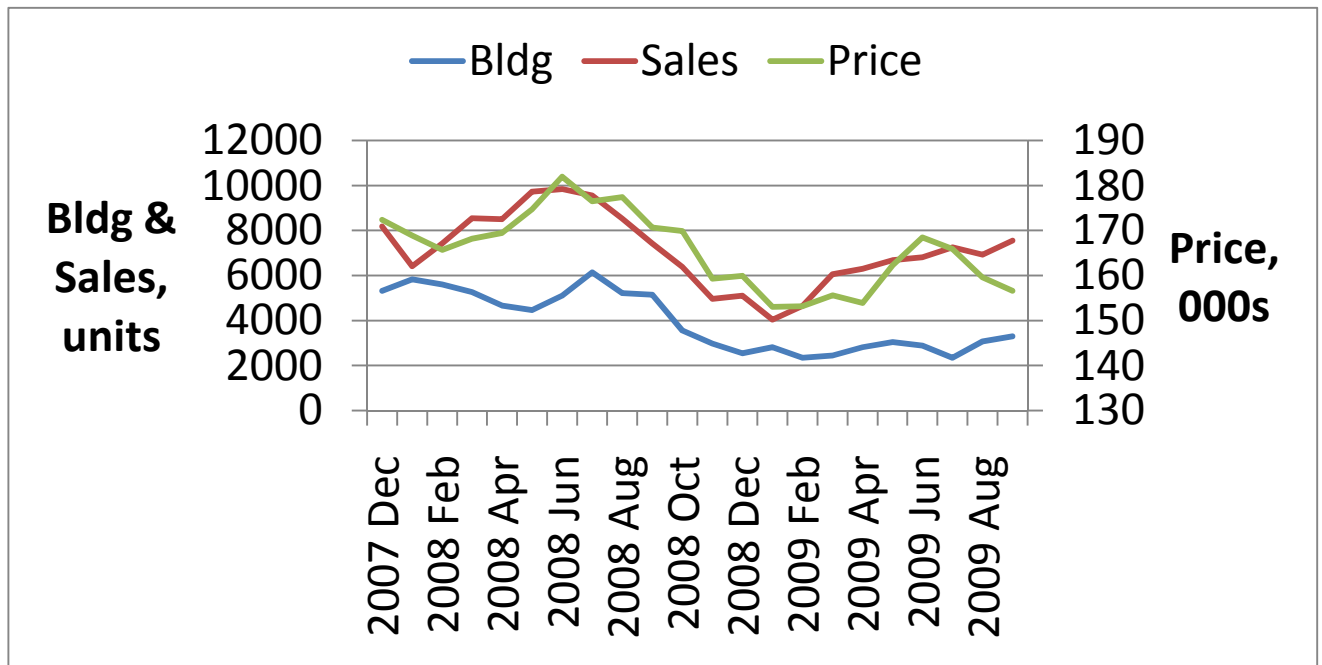
Source: U.S. Census Bureau; North Carolina Department of Revenue

The housing market has been at the center of the recession, and recovery in housing is vital to recovery of the entire economy. Both sales and building have plummeted during the recession, with each dropping by two-thirds from the peak of activity to the bottom. Prices of existing homes sold have also been off by between 8% and 12%.

Fortunately, the bottom of the housing market in North Carolina appears to have occurred in early 2009 (Figure 8). Since then, sales have moved higher, prices have trended upward, and building has stabilized. While housing has not yet enjoyed a strong rebound, the period of substantial declines seems to have passed. Foreclosures in the state were also down 18% during January to September 2009 compared to the same period in 2008.

So a turning point in the state economy appears to have been reached. The question is, are we on the verge of sustained improvement?

Figure 8. Trends in North Carolina Building Permits, Existing Home Sales, and Average Sales Price of Existing Homes Sold (seasonally-adjusted).



Source: U.S. Census Bureau; National Association of Realtors; North Carolina Association of Realtors

Outlook for the State

Most economists agree the recession either has ended or will soon end. However, it is important to understand exactly what the term “recession ended” means. It *doesn't* mean the economy immediately returns to pre-recessionary levels. It simply means the economy is no longer *receding* – that is, declining – and the process of returning to pre-recessionary levels has begun. How fast the economy returns to pre-recessionary levels will be determined by how fast the economy grows.

Economic forecasters are (as usual) all over the map, but the consensus seems to be that the recovery from the recession will be slow – that is, the

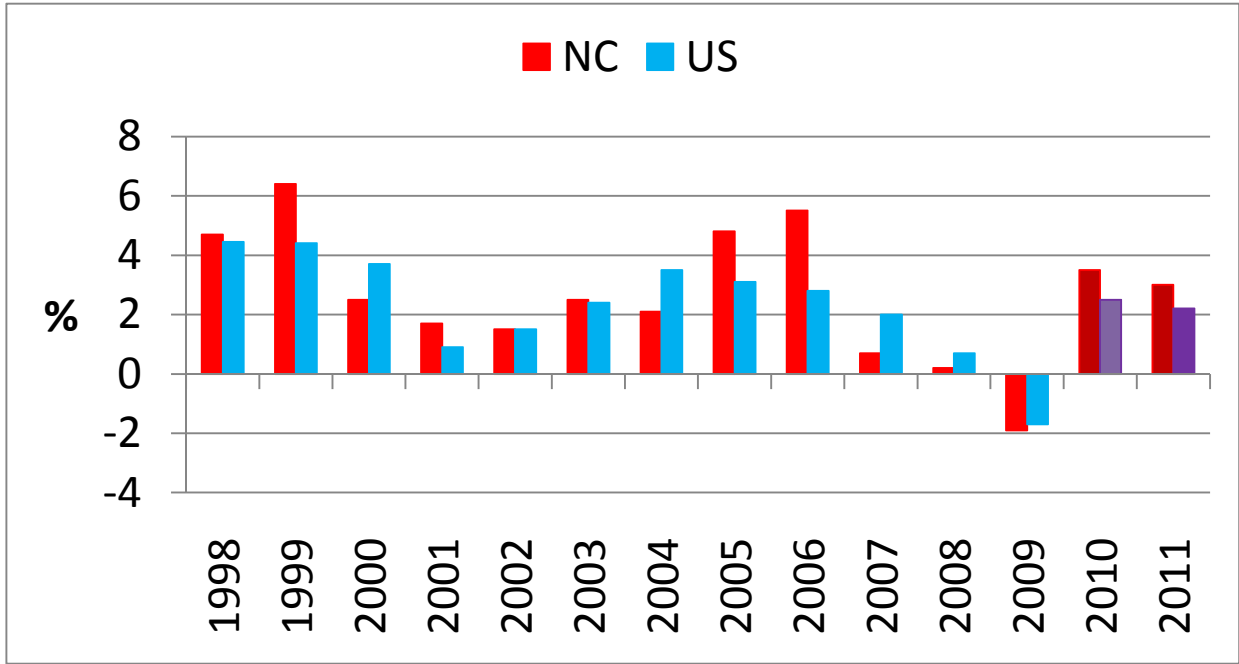
economic growth rate will be modest. The major reason given is consumer debt levels. Households went into this recession with historically high outstanding debt. These debts were able to be carried because household assets were equally high. The recession has significantly reduced the value of household assets, thereby leaving their debts exposed. Without a sharp rebound in asset values, households will need to save more and spend less in order to reduce the relative size of their debts. Since households are the major driving force in the economy, the expected modest gains in consumer spending will translate into a slow economic recovery.

Traditionally, North Carolina's economy has rebounded from recessions faster than the national economy. In the three recessions of the mid-70s, early 80s, and early 90s, real (inflation-adjusted) economic growth in North Carolina in the first year after the recession averaged 2.4 percentage points higher than growth at the national level. The exception was the recession of 2001, where North Carolina's growth rate failed to exceed the national growth rate in the year after the recession.

We think the recovery after the 2001 recession was an exception for North Carolina. Economic growth in the state lagged national growth because of the tremendous structural changes taking place in the state as a result of the implementation of the GATT trade agreements and the admission of China into the World Trade Organization. In the economic recovery year of 2010, North Carolina will resume its tradition of growing faster than the nation. We predict a growth rate of 3.5% in North Carolina's real gross domestic product (GDP) in 2010 compared to a growth rate of 2.5% for the nation, and a North Carolina growth rate of 3% in 2011 compared to a national growth rate of 2.2% (Figure 9).

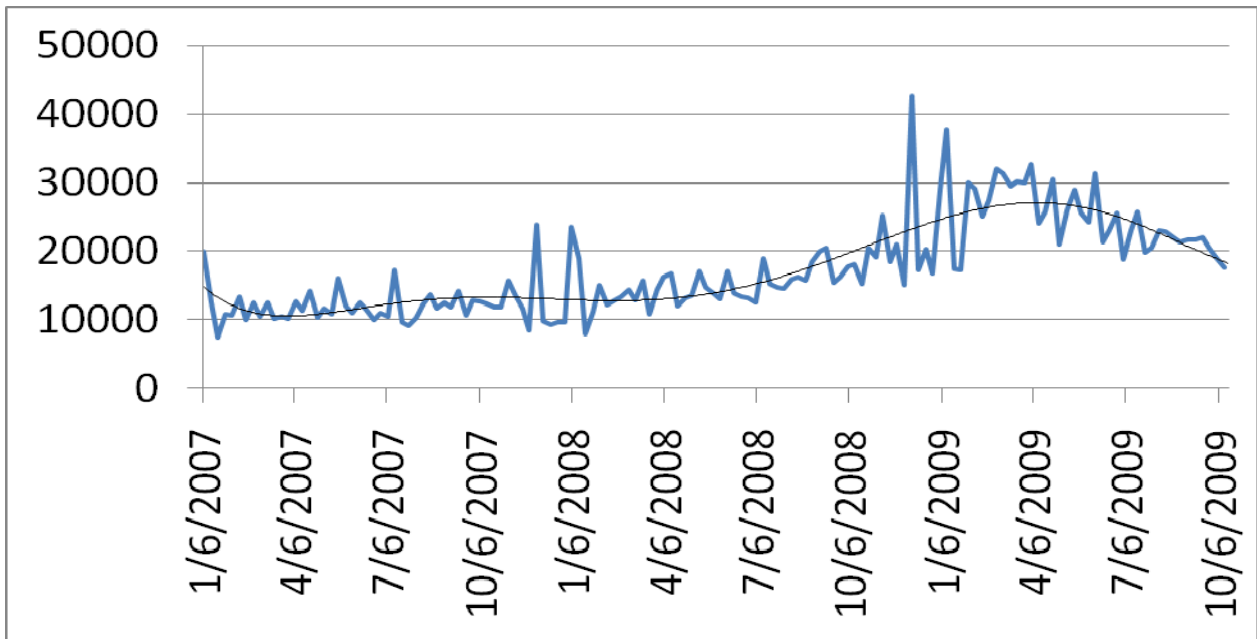
With economic growth returning to the state in 2010 and 2011, the employment market should also improve. Indeed, the continuing downward trend in initial claims for unemployment insurance is already signaling a better future job picture (Figure 10). If the recent trend continues, initial claims will reach the 10,000 weekly level in the first quarter of 2010, after which net employment gains in the state should occur. Therefore, we predict North Carolina's seasonally-adjusted unemployment rate will peak in the first quarter of 2010 at between

Figure 9. Actual and Forecasted (2010, 2011) Annual Growth Rates in U.S. and North Carolina Real Gross Domestic Product.



Source: U.S. Bureau of Economic Analysis; author's forecasts

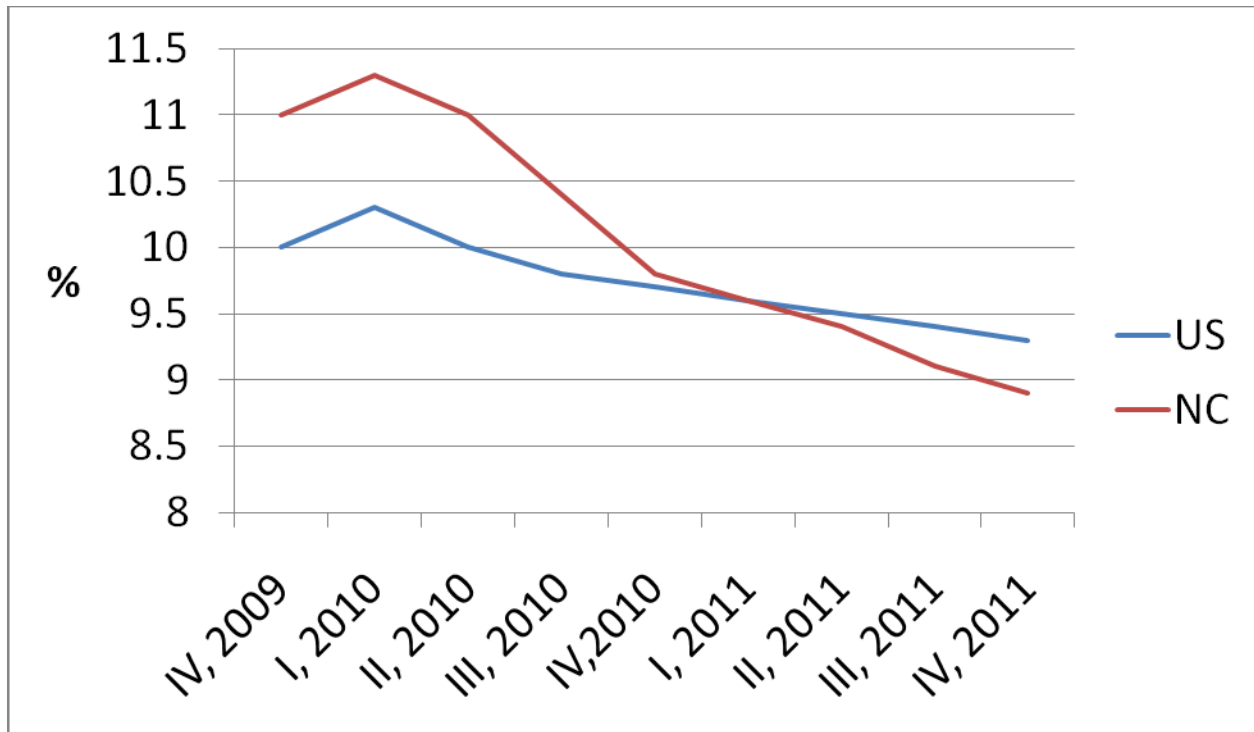
Figure 10. Initial Claims for Unemployment Insurance, North Carolina



Source: U.S. Bureau of Labor Statistics

11.3% and 11.6% and then begin a slow decline throughout the remainder of the year, ending at 9.8% in the fourth quarter. At that point the state’s unemployment rate will be only slightly above the national rate. The decline in the state’s unemployment rate will continue in 2011, with the fourth quarter rate averaging 8.9%, almost one-half percentage point below the national average (Figure 11). Although progress will have been made in two years, unemployment in North Carolina will still remain uncomfortably high. Also, the forecasts do not count “discouraged workers” as unemployed, which – if included – could add as much as one percentage point to the unemployment rate.

Figure 11. Forecasted U.S. and North Carolina Unemployment Rates.



Source: Author’s forecasts

Table 1 includes forecasts for other key indicators of North Carolina’s economy. Job growth in the state in 2010 and 2011 will be significantly better than in 2009, yet will still be weak by historical standards. For example, in the economic expansion of 1991-1999, annual state job growth averaged 2.9%, and in the job expansion of 2003-2007, the annual average gain was 2.4%. Likewise, real (inflation-adjusted) retail sales will rebound in the next two years but growth rates will still be lower than in previous expansionary periods. The most positive change will be in the housing market. Two years of declining activity will be replaced by significantly more building and buying. However, a return to the “go-go” years of the mid-decade is not on the horizon.

Table 1. North Carolina Forecasts.

	2009	2010 forecast	2011 forecast
Unemployment rate, year-end (%)	11.2	9.8	8.9
Employment (% change)	-5.0	2.0	2.3
Real retail sales (% change)	-12.0	3.5	4.0
Existing home sales (% chg)	-15.0	4.2	5.5

All data are seasonally adjusted, and dollar values are converted to real amounts using the Consumer Price Index. 2009 values based on data available in November and annualized for the year. Forecasts for 2010 and 2011 are by the author.

Regional North Carolina Forecasts

New to *The North Carolina Economic Outlook* in this issue are analysis and forecasts for metropolitan regions in the state. For ease of observation, the regions are divided into large metropolitan areas (Asheville, Charlotte, Greensboro-High Point, Hickory, the Triangle, and Winston-Salem) and small metropolitan areas (Burlington, Fayetteville, Greenville, Rocky-Mount, and Wilmington) based on the level of nonfarm employment in late 2009.

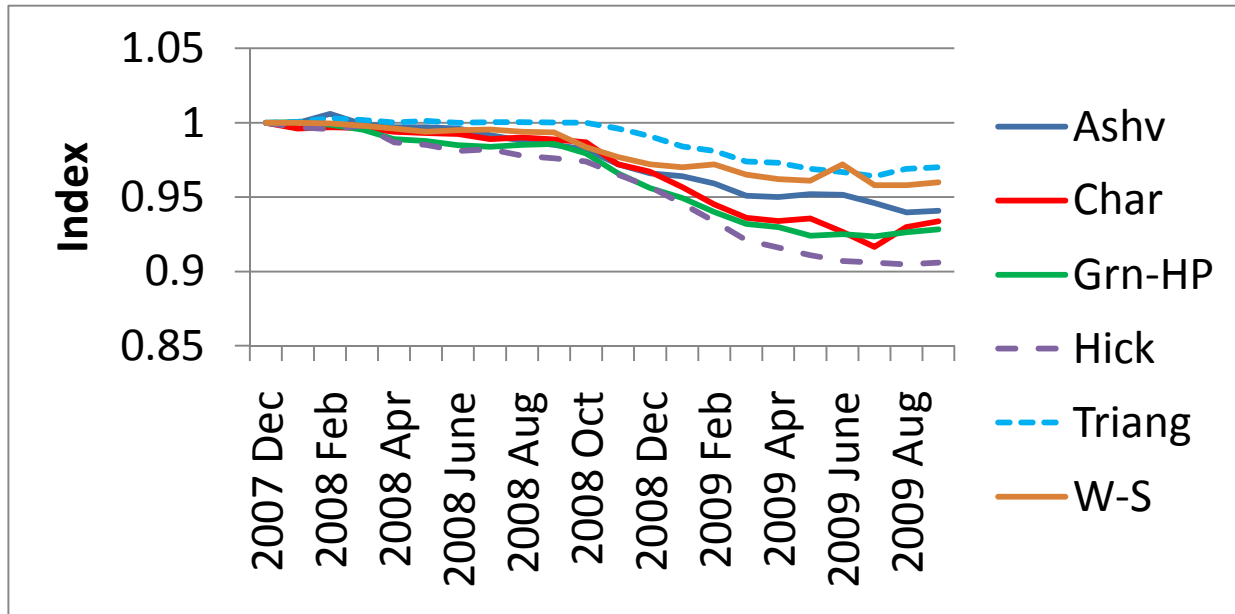
Figure 12 gives employment trends for the large metropolitan areas during the recession and Figure 13 presents the employment trends for the small metropolitan areas. For ease of comparison, seasonally-adjusted nonfarm employment is presented as an index number with 100 set for December 2007, the official start of the recession.

Among the large metropolitan regions, the Triangle has had the shallowest decline in employment, with job losses of 2.5% in September 2009 compared to December 2007. At the other end of the spectrum, Hickory has had the largest decline in employment, with jobs off almost 10% in September 2009 from December 2007. The ranking of relative jobs losses, from smallest to largest, in September 2009 compared to December 2007 is the Triangle, Winston-Salem, Asheville, Charlotte, Greensboro-High Point, and Hickory.

By the end of 2009, job losses in all the large metro areas have leveled off. In fact, some of the metro areas – most notably Charlotte, Greensboro-High Point, and the Triangle, registered job gains between July and September. However, a look at the details of the job improvements during that period reveals no increases in private sector jobs – all the gains were in public (government) jobs.

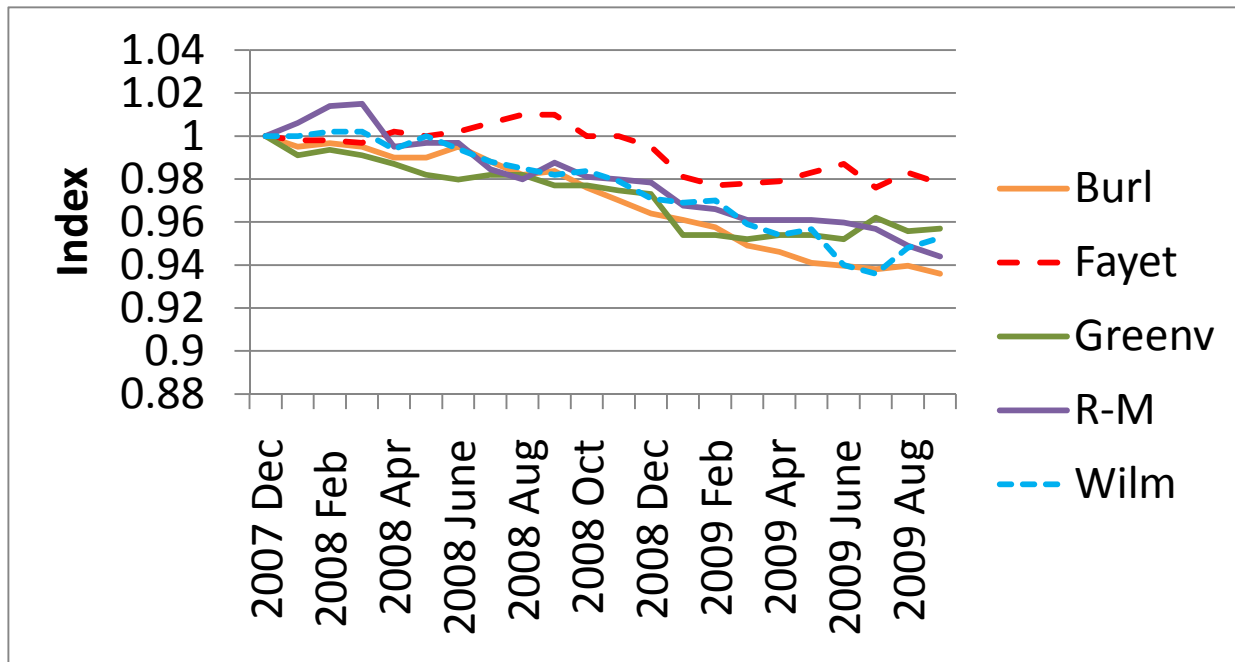
Trends in seasonally-adjusted nonfarm jobs in the state's small metropolitan areas (Figure 13) also show variation between the regions. The Fayetteville job market has held up the best during the recession, with employment down only 2% in September 2009 compared to December 2007, while the Burlington region has suffered the largest relative job loss during the period with a decline of over 6%.

Figure 12. Trends in Nonfarm Employment Among North Carolina's Large Metropolitan Regions (seasonally-adjusted).



Source: U.S. Bureau of Labor Statistics

Figure 13. Trends in Nonfarm Employment Among North Carolina's Small Metropolitan Regions (seasonally-adjusted).



Source: U.S. Bureau of Labor Statistics

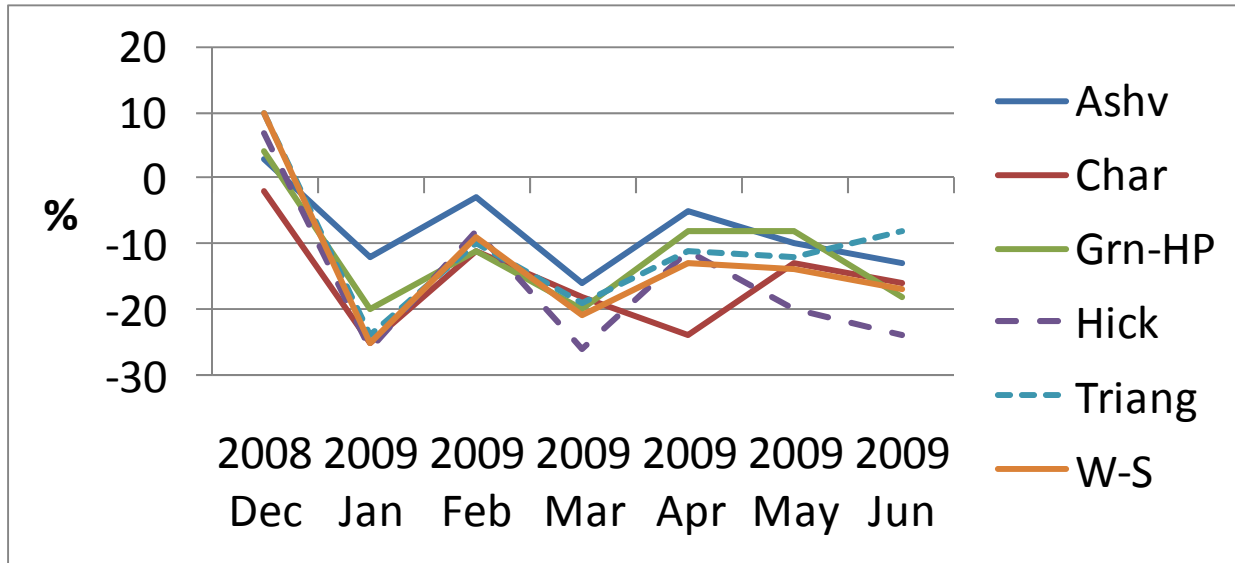
The ranking of relative job losses, from smallest to largest in September 2009 compared to December 2007, among the small North Carolina's small metropolitan regions is Fayetteville, Greenville, Wilmington, Rocky-Mount, and Burlington. From July to September Wilmington had the largest relative increase in jobs, although all of the net gain was in the public sector.

Figures 14 and 15 show trends in monthly retail sales in the state's metropolitan areas. The data are retail sales in the current month as a percentage of retail sales in the same month in the previous year. Because this information is released with a considerable lag, the latest available data are for sales made in June. For the large metropolitan areas (Figure 14), all the rates are negative in 2009, implying falling sales. Asheville has experienced the smallest relative decline in sales over the year, while Hickory and Charlotte have had the largest relative declines. Retail sales trends are the most encouraging in the Triangle, where the rate of decline has become significantly smaller since March.

Figure 15 indicates that retail sales have also trended negatively for the state's small metropolitan regions in 2009. However, for two of the regions – Burlington and Fayetteville – sales grew in some early months of the year and then declined modestly in mid-year. Weakness in retail sales was also more modest in Rocky Mount in the summer, with declines averaging under 10%. These are more encouraging numbers than found for the larger metro areas, and may suggest that rural and small town households have been shopping closer to home during the recession. Among the small metropolitan areas, Rocky Mount and Wilmington showed the most promising trends in May and June.

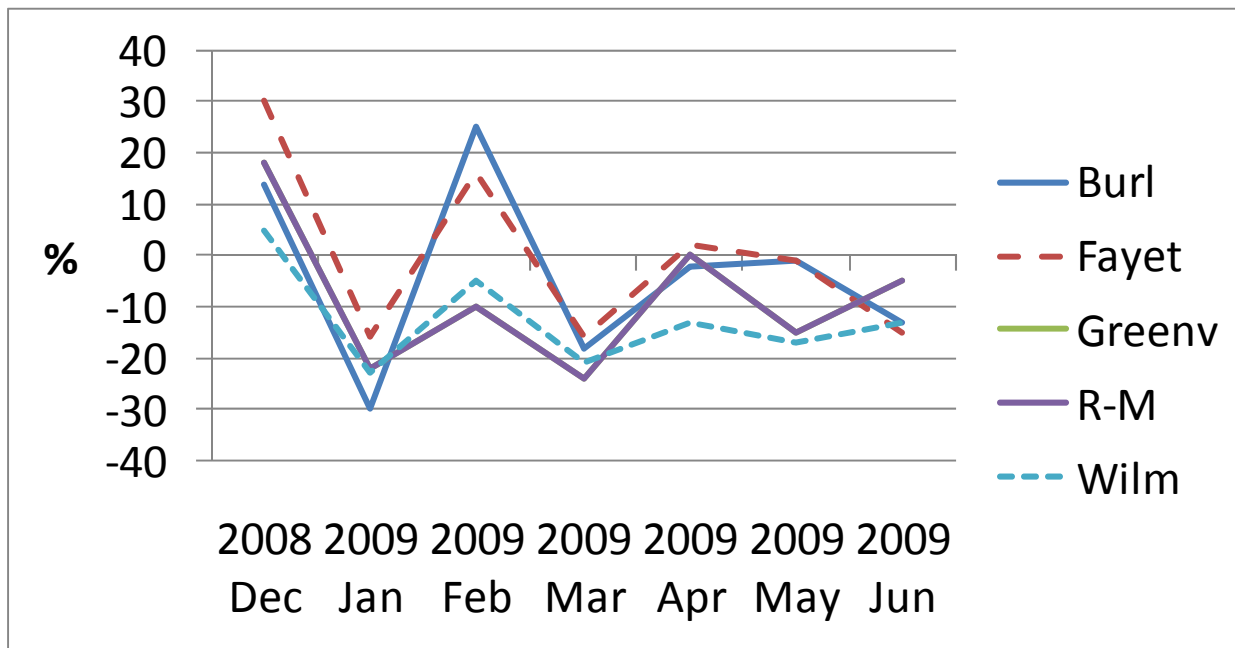
Figures 16 and 17 give trends in the housing markets of the state's large and small metro areas. Each data point is existing home sales in that month as a percentage of existing home sales in the same month of the previous year. Both regional categories show the same pattern. The housing market seems to have bottomed-out in early 2009. Since then declines in home sales have become progressively smaller, and by September 2009 three (Asheville, Hickory, the Triangle) of the five large metro areas and three (Greenville, Rocky Mount, Wilmington) of the four small metro areas had existing home sales that were greater than in the previous year.

Figure 14. Monthly Retail Sales as a Percentage of Previous Year's Same Month's Retail Sales Among North Carolina's Large Metropolitan Regions.



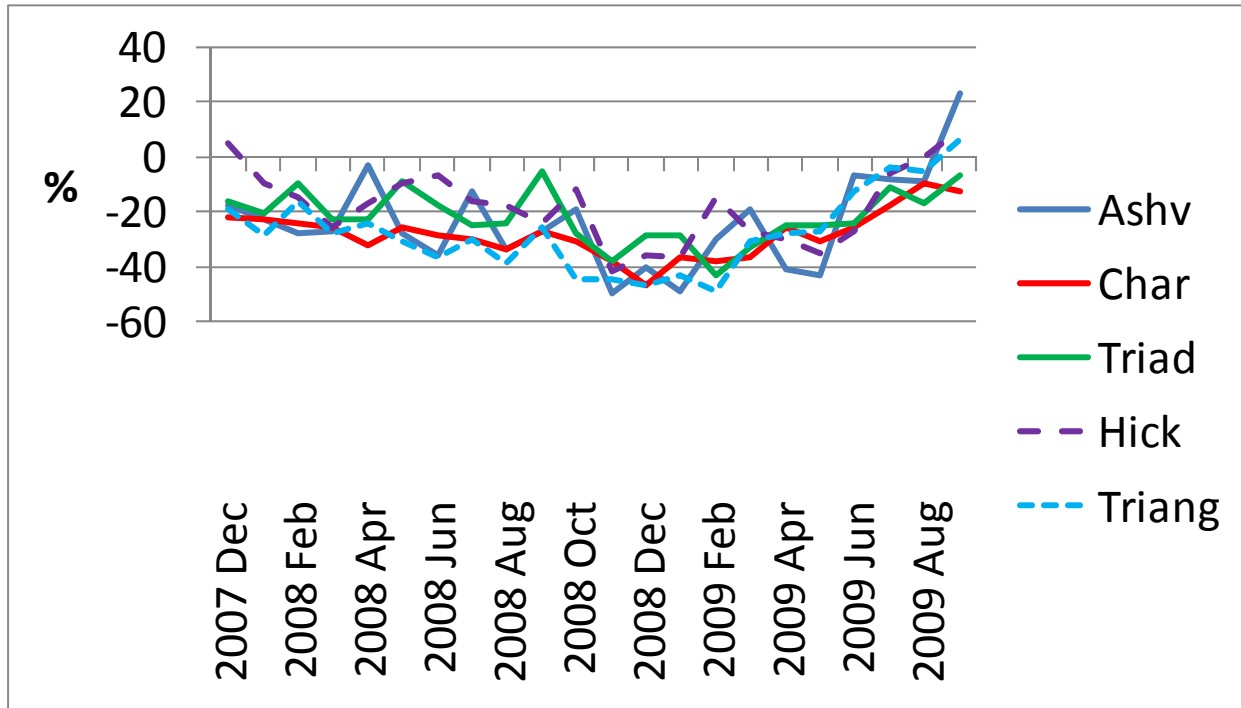
Source: North Carolina Department of Revenue

Figure 15. Monthly Retail Sales as a Percentage of Previous Year's Same Month's Retail Sales Among North Carolina's Small Metropolitan Regions.



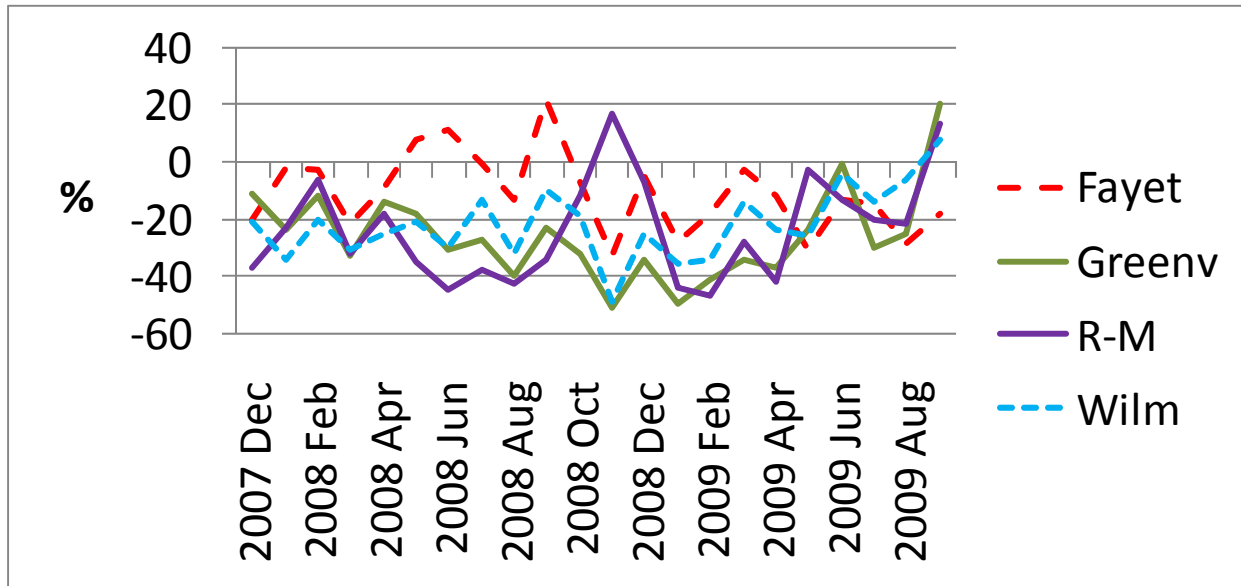
Source: North Carolina Department of Revenue

Figure 16. Existing Home Sales as a Percentage of Previous Year's Same Month's Existing Home Sales Among North Carolina's Large Metropolitan Regions.



Source: North Carolina Association of Realtors

Figure 17. Existing Home Sales as a Percentage of Previous Year's Same Month's Existing Home Sales Among North Carolina's Small Metropolitan Regions.



Source: North Carolina Association of Realtors

The conclusion is that all of North Carolina's metropolitan areas have suffered from the recession. The region experiencing the mildest losses has been Fayetteville – likely due to economic stability provided by the large military presence. The good news is that by the end of 2009, the rate of deterioration had slowed, possibly signaling a return to growth in 2010.

Table 2 gives the forecasts for the metropolitan regions for four key economic indicators – the unemployment rate, growth rate in nonfarm employment, growth rate in real retail sales, and growth rate in existing housing sales. All regions are expected to see improvement on the indicators in both 2010 and 2011. Year-end unemployment rates, the most watched indicator, will range from a low of 7.7% in the Triangle to a high of 13.7% in Hickory in 2010. In 2011, the range is forecasted to be a low of 6.8% in the Triangle to a high of 12.9% in Hickory. Several regions will still have double-digit unemployment rates at the end of 2011. In general, the projections suggest a more rapid economic recovery in the larger metropolitan regions and a more modest recovery in the small metro areas.

While the next two years are expected to be ones of economic expansion, challenges still remain for North Carolina and for the state's regions. Reducing unemployment to levels deemed “acceptable” by most residents – likely to be no higher than 5%, will not be achieved for several years. Also, little evidence suggests the levels of economic disparity between the state's regions will be reduced in the upcoming years. Still, economic activity in the state is expected to be more robust than in the nation, and this will be a distinct advantage for the state in recruiting and attracting new businesses and enterprises.

Table 2. North Carolina Metropolitan Area Forecasts.

	Unemployment		Employment		Retail Sales		Home Sales	
	2010	2011	2010	2011	2010	2011	2010	2011
State	9.8	8.9	2.0	2.3	3.5	4.0	4.2	5.5
Asheville	7.8	7.0	2.0	2.3	4.0	4.3	4.2	5.0
Charlotte	10.9	10.1	2.4	2.6	4.5	5.0	5.5	7.0
Hickory	13.7	12.9	1.4	1.8	2.0	2.3	2.0	3.0
Triad	10.3	10.0	1.3	1.6	2.0	2.5	2.0	3.0
Triangle	7.7	6.8	2.4	2.6	4.5	5.0	5.5	7.0
Burlington	11.5	10.8	1.6	1.6	1.5	1.8	1.5	2.5
Fayetteville	8.3	6.6	2.0	2.2	3.0	3.3	3.5	5.0
Greenville	9.6	8.6	2.0	2.2	2.7	3.0	3.0	3.5
Rocky-Mt	13.0	12.3	1.6	2.0	1.5	2.0	1.5	2.5
Wilmington	9.1	8.0	2.3	2.6	3.5	3.7	3.5	5.5

Unemployment: percent, year-end, seasonally-adjusted

Employment: nonfarm, percentage change, seasonally-adjusted

Retail sales: real, percentage change, seasonally-adjusted

Home sales: existing, percentage change, seasonally-adjusted