

# THE NORTH CAROLINA ECONOMIC OUTLOOK

FALL 2005

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## THE ECONOMY CONTINUES TO GROW

This issue of *The North Carolina Economic Outlook* presents analysis of economic performance in the state and seven economic development regions for 2003 and 2004 together with forecasts for 2005 and 2006.

Four important economic measures are analyzed for each geographic area. *Employment* and the *unemployment rate* are taken from the household employment survey. The percentage change in employment and the change in percentage points in the unemployment rate are the specific measures used. The percentage change in *real retail sales* measures the growth in retail sales volume after deleting the effect of price changes. Last, the percentage change in *real annual wages per employee* is a measure of income gains for workers in excess of price inflation.<sup>1</sup>

### State

|   | 2003 | 2004 | 2005 forecast | 2006 forecast |
|---|------|------|---------------|---------------|
| Employment,<br>% change                 | 0.0% | 1.7% | <b>1.5%</b>   | <b>1.7%</b>   |
| Unemploy. rt.,<br>chg in % pt.          | -0.3 | -0.3 | <b>-0.4</b>   | <b>-0.2</b>   |
| Real Retail<br>Sales, % chg.            | 2.1% | 4.9% | <b>8.0%</b>   | <b>6.0%</b>   |
| Real Wages per<br>Employee, %<br>change | 0.2% | 1.0% | <b>0.7%</b>   | <b>1.5%</b>   |

After little improvement in 2003, noticeable economic progress occurred in the state in 2004. Jobs grew, the unemployment fell, real retail sales gained almost 5%, and real wages per employee rose by 1%.

Gains are expected to continue in both 2005 and 2006. Employment growth will remain in the 1.5% to 2% annual rate range, and the unemployment rate will drop each

year by between one-quarter and one-half percentage point. Real retail sales growth will be strongest in 2005, at 8%, with some slowing in the growth rate in 2006. Higher energy prices will hold down real wage growth in 2005, but a reduction in energy prices and a tighter labor market in 2006 will lead to stronger real wage growth in that year.

**Advantage West** (Alleghany, Ashe, Avery, Buncombe, Burke, Caldwell, Cherokee, Clay, Graham, Haywood, Henderson, Jackson, McDowell, Macon, Madison, Mitchell, Polk, Rutherford, Swain, Transylvania, Watauga, Wilkes, and Yancey counties)

|                                   | 2003  | 2004 | <b>2005 forecast</b> | <b>2006 forecast</b> |
|-----------------------------------|-------|------|----------------------|----------------------|
| Employment, % change              | -1.0% | 2.8% | <b>1.5%</b>          | <b>1.7%</b>          |
| Unemploy. rt., chg in % pt.       | -0.6  | -0.6 | <b>-0.1</b>          | <b>-0.2</b>          |
| Real Retail Sales, % chg.         | 0.5%  | 3.7% | <b>11.0%</b>         | <b>8.0%</b>          |
| Real Wages per Employee, % change | -0.2% | 0.7% | <b>0.5%</b>          | <b>0.8%</b>          |

A major turnaround occurred in the Advantage West labor market in 2004. After declining in 2003, employment grew in the region by almost 3%. Positive gains were also made in real retail sales and real wages per employee in 2004 as compared to 2003.

The regional employment market will continue to improve in 2005 and 2006, although at a somewhat slower pace than in 2004. However, stronger gains will be made in real retail sales, and real wage growth will be strongest in 2006.

**Charlotte Region** (Alexander, Anson, Cabarrus, Catawba, Cleveland, Gaston, Iredell, Lincoln, Mecklenburg, Rowan, Stanley, and Union counties)

|                                   | 2003 | 2004 | <b>2005 forecast</b> | <b>2006 forecast</b> |
|-----------------------------------|------|------|----------------------|----------------------|
| Employment, % change              | 0.4% | 1.9% | <b>2.5%</b>          | <b>2.8%</b>          |
| Unemploy. rt., chg in % pt.       | 0.4  | -1.2 | <b>-0.2</b>          | <b>-0.3</b>          |
| Real Retail Sales, % chg.         | 0.3% | 4.0% | <b>10.0%</b>         | <b>9.0%</b>          |
| Real Wages per Employee, % change | 0.2% | 1.6% | <b>1.3%</b>          | <b>1.8%</b>          |

The Charlotte Region enjoyed one of the stronger regional economies in both 2003 and 2004. The region added jobs in both years, and real wages per employee grew two-thirds faster than in the state in 2004.

Continued strong job growth in both 2005 and 2006 will push the regional unemployment down by a combined one-half percentage point over the two years. Real retail sales growth in both years will be near 10%, and real wage growth will also exceed the state average.

**Piedmont Triad** (Alamance, Caswell, Davidson, Davie, Forsyth, Guilford, Montgomery, Randolph, Rockingham, Stokes, Surry, and Yadkin counties)

|                                   | 2003  | 2004 | <b>2005 forecast</b> | <b>2006 forecast</b> |
|-----------------------------------|-------|------|----------------------|----------------------|
| Employment, % change              | -1.0% | 1.9% | <b>1.8%</b>          | <b>1.9%</b>          |
| Unemploy. rt, chg in % pt.        | 0.1   | -1.0 | <b>-0.2</b>          | <b>-0.2</b>          |
| Real Retail Sales, % chg.         | -1.6% | 1.4% | <b>4.5%</b>          | <b>4.0%</b>          |
| Real Wages per Employee, % change | 0.5%  | 0.7% | <b>0.4%</b>          | <b>1.0%</b>          |

After three of the four regional economic measures retreated in 2003, the Piedmont Triad region experienced positive trends in all four indicators in 2004. The largest improvement was in employment. After falling by 1% in 2003, the number of jobs grew by 1.9% in 2004.

These positive trends are expected to continue in both 2005 and 2006. The strongest gains will be in employment, with gains of almost 2% in both years. However, although positive, the gains in real retail sales and real wages per employee will be more modest than for the state in 2005 and 2006.

**Research Triangle** (Chatham, Durham, Franklin, Granville, Harnett, Johnston, Lee, Moore, Orange, Person, Vance, Wake, and Warren counties)

|                                   | 2003 | 2004 | <b>2005 forecast</b> | <b>2006 forecast</b> |
|-----------------------------------|------|------|----------------------|----------------------|
| Employment, % change              | 1.7% | 0.8% | <b>1.5%</b>          | <b>2.5%</b>          |
| Unemploy. rt, chg in % pt.        | -0.6 | -0.6 | <b>-0.2</b>          | <b>-0.3</b>          |
| Real Retail Sales, % chg.         | 2.9% | 4.2% | <b>10.0%</b>         | <b>9.0%</b>          |
| Real Wages per Employee, % change | 0.2% | 0.9% | <b>1.1%</b>          | <b>1.6%</b>          |

Bucking the state trend, the Research Triangle region had strong employment gains in 2003 which resulted in a drop in the regional unemployment rate by more than on-half percentage point. However, employment growth slowed in 2004, although gains continued in the other three indicators.

Look for faster job growth in the region in 2005, and even faster in 2006. There will also be an acceleration in real wage growth. The strongest performing sector will be retail sales, with real growth rates of 10% and 9% respectively in 2005 and 2006.

**Southeast** (Bladen, Brunswick, Columbus, Cumberland, Hoke, New Hanover, Pender, Richmond, Robeson, Sampson, and Scotland counties)

|                                   | 2003  | 2004 | <b>2005 forecast</b> | <b>2006 forecast</b> |
|-----------------------------------|-------|------|----------------------|----------------------|
| Employment, % change              | 2.5%  | 2.0% | <b>2.0%</b>          | <b>1.2%</b>          |
| Unemploy. rt., chg in % pt.       | -0.6  | -1.2 | <b>-0.2</b>          | <b>-0.1</b>          |
| Real Retail Sales, % chg.         | 0.3%  | 6.6% | <b>7.0%</b>          | <b>6.0%</b>          |
| Real Wages per Employee, % change | -0.2% | 0.7% | <b>0.5%</b>          | <b>0.6%</b>          |

Although the Southeast region added jobs and had a fall in the unemployment rate in 2003, minimal real retail sales growth and falling real wages dimmed the region's economic performance in that year. In 2004, these indicators turned positive, and the region moved ahead on jobs, retail sales, and real wages.

For 2005 and 2006, the region is projected to gain jobs and realize an increase in real wages. Improvements in real retail sales will be the strongest performer.

**Eastern** (Carteret, Craven, Duplin, Edgecombe, Greene Jones, Lenoir, Nash, Onslow, Pamlico, Pitt, Wayne, and Wilson counties)

|                                   | 2003 | 2004 | <b>2005 forecast</b> | <b>2006 forecast</b> |
|-----------------------------------|------|------|----------------------|----------------------|
| Employment, % change              | 3.0% | 1.0% | <b>1.0%</b>          | <b>1.0%</b>          |
| Unemploy. rt., chg in % pt.       | -0.4 | -0.8 | <b>0.0</b>           | <b>-0.1</b>          |
| Real Retail Sales, % chg.         | 1.9% | 6.8% | <b>3.0%</b>          | <b>2.8%</b>          |
| Real Wages per Employee, % change | 1.0% | 0.3% | <b>0.2%</b>          | <b>0.3%</b>          |

Contrary to the statewide trend, the Eastern Region experienced a relatively strong economy in 2003, with employment rising a healthy 3% and both real retail sales and real wages gaining. Job growth and real wage growth slipped in 2004, while activity in the retail sales sector improved.

Looking ahead, the region is expected to increase its job base by 1% in both 2005 and 2006. Annual real retail sales growth will hover near 3%, and real wages per employee will improve modestly.

**Northeast** (Beaufort, Bertie, Camden, Chowan, Currituck, Dare, Gates, Halifax, Hertford, Hyde, Martin, Northampton, Pasquotank, Perquimans, Tyrrell, and Washington counties)

|                                   | 2003 | 2004 | <b>2005 forecast</b> | <b>2006 forecast</b> |
|-----------------------------------|------|------|----------------------|----------------------|
| Employment, % change              | 5.1% | 0.3% | <b>1.1%</b>          | <b>1.3%</b>          |
| Unemploy. rt., chg in % pt.       | -0.6 | -0.6 | <b>-0.1</b>          | <b>-0.2</b>          |
| Real Retail Sales, % chg.         | 4.4% | 4.8% | <b>3.0%</b>          | <b>3.0%</b>          |
| Real Wages per Employee, % change | 0.5% | 0.6% | <b>0.3%</b>          | <b>0.4%</b>          |

Like the Eastern Region, the Northeast Region enjoyed strong job growth in 2003, followed by much more modest improvement in 2004. In both years the regional unemployment rate dropped a healthy 0.6 percentage points, real retail sales increased by between 4% and 5%, and real wages per employee rose close to 0.5%.

These positive trends are forecasted to continue in 2005 and 2006. Job growth will be near 1% annually, real retail sales growth will be 3%, and real wages per employee will rise near one-third percent.

### **Regional Comparisons**

The rankings of the regions in terms of **2006 forecasted growth** in employment, real retail sales, and real wages per employee are:

| <u>Employment</u> | <u>Real Retail Sales</u> | <u>Real Wages per Employee</u> |
|-------------------|--------------------------|--------------------------------|
| Charlotte         | Charlotte                | Charlotte                      |
| Research Triangle | Research Triangle        | Research Triangle              |
| Piedmont Triad    | Advantage West           | Piedmont Triad                 |
| Advantage West    | Southeast                | Advantage West                 |
| Northeast         | Piedmont Triad           | Southeast                      |
| Southeast         | Northeast                | Northeast                      |
| Eastern           | Eastern                  | Eastern                        |

Overall, metropolitan regions are expected to lead the state in economic growth, continuing a long standing trend in the North Carolina economy.

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<sup>1</sup> Data are from the Employment Security Commission of North Carolina, the North Carolina Department of Revenue, and the U.S. Bureau of Labor Statistics. Forecasts are by the author.