

THE NORTH CAROLINA ECONOMIC OUTLOOK

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AN AMAZINGLY RESILIENT ECONOMY: CAN IT LAST?

The 2007 national economy has started out cold, but not freezing. The broadest measure of economic activity, the growth rate in real Gross Domestic Product, barely edged upward at less than a 1% annual growth rate in the first quarter. However, forecasts for second quarter growth have appeared to be more robust, and projections for the second half of 2007 are even stronger. So the national economic landscape seems to be encouraging for the remainder of 2007 and in to 2008.

With this backdrop, what is the outlook for North Carolina at the state and regional levels? To answer this question, the past, present, and future performance of the North Carolina economy and the economies of the state's seven economic development regions are analyzed using four key economic measures. The *percentage change in employment* and the *change in the unemployment rate* are taken from the household employment survey. The *percentage change in real retail sales* calibrates the growth in retail sales volume after subtracting the effect of price changes. The *percentage change in real weekly wages per employee* measures income gains for workers in excess of inflation.¹ Actual data for 2006 are presented along with forecasts for 2007 and 2008.

NORTH CAROLINA

	2006	2007 forecast	2008 forecast
Employment, % change	3.4%	2.8%	3.0%
Unemploy. rt., Chg in % pts.	-0.4	-0.1	-0.1
Real Retail Sales, % chg.	3.2%	2.6%	2.8%
Real Wages per Employ, % chg.	-1.1%	1.5%	1.5%

North Carolina had a strong employment market in 2006, with jobs increasing almost 3.5% and the unemployment rate falling by 0.4 percentage points. The growth in jobs also pushed up real retail sales by over 3%. However, wage growth fell short of inflation, resulting in a decline in average real (inflation adjusted) wages per employee.

The employment and retail sales markets are expected to improve in the state in both 2007 and 2008, although at levels shy of their performance in 2006 as the current economic expansion matures. However, the tighter labor conditions will result in real wage improvement in both years.

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)

	2006	2007 forecast	2008 forecast
Employment, % change	2.1%	1.7%	1.8%
Unemploy. rt., Chg in % pts.	-0.4	-0.1	-0.1
Real Retail Sales, % chg.	8.8%	4.0%	5.0%
Real Wages per Employ, % chg.	-4.1%	1.0%	2.0%

The economy in the Advantage West region had a good labor market in 2006 and a very strong retail market, likely prompted by tourist spending and by purchases from vacation home owners. The economy did suffer from a large decline in real wages for employees working in the region.

Slower performances are predicted for the employment and retail sales markets in the regional economy in both 2007 and 2008. Gains will be made, but at a more modest pace than in 2006. The most noticeable changes will be a turnaround in real wage growth, turning from a negative in 2006 to a positive in 2007 and 2008.

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

	2006	2007 forecast	2008 forecast
Employment, % change	4.3%	3.0%	2.8%
Unemploy. rt., Chg in % pts.	-0.5	-0.3	-0.2
Real Retail Sales, % chg.	1.6%	3.0%	3.0%
Real Wages per Employ, % chg.	0.1%	2.0%	2.0%

Job gains in the Charlotte region were very strong in 2006, with employment rising over 4% and the unemployment rate plunging one-half percentage point. Consumers, however, did not spend freely, as real retail sales improved by only 1.6%. Real wage gains were also very modest, although still positive.

A more balanced economic outlook is expected for the region in 2007 and 2008. Reasonably strong job gains will still occur, with parallel declines in the unemployment rate. The healthy employment market should result in decent real wage gains and moderate increases in real retail sales.

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

	2006	2007 forecast	2008 forecast
Employment, % change	2.3%	1.5%	1.7%
Unemploy. rt., Chg in % pts.	-0.4	-0.1	0.0
Real Retail Sales, % chg.	0.3%	1.5%	1.7%
Real Wages per Employ, % chg.	-2.1%	1.5%	1.5%

The Piedmont Triad posted good economic numbers in 2006 except for one area - real wages. As a result of the continuing shift in the region out of traditional manufacturing jobs to services and other jobs, real wages dropped by over 2%. The weak wage performance was probably responsible for the merger gain in real retail sales.

The region will still face transitional challenges in 2007 and 2008. Employment gains will be much more modest than in other regions, resulting in very small declines in the unemployment rate and small gains in real retail sales. On the positive side, real wages will rise.

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

	2006	2007 forecast	2008 forecast
Employment, % change	4.6%	3.5%	3.3%
Unemploy. rt., Chg in % pts.	-0.4	-0.3	-0.2
Real Retail Sales, % chg.	6.1%	4.5%	3.5%
Real Wages per Employ, % chg.	-0.2%	3.0%	3.0%

The Triangle region had one of the strongest job markets in the nation in 2006. The number of jobs rose 4.6% and the unemployment rate fell 0.4 percentage points. However, with more Triangle jobs being added in the service sector and fewer in the high paying tech sector, real wages actually declined. Despite this, the strong labor market made for a strong gain in real retail sales.

The hot Triangle should cool off somewhat in 2007 and 2008. Job growth will be in the 3% to 3.5% range in both years, and the unemployment rate will fall more modestly. But as the labor market tightens, real wages will rise. Real retail sales should also post solid, although more modest, gains.

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

	2006	2007 forecast	2008 forecast
Employment, % change	3.3%	2.0%	2.5%
Unemploy. rt., Chg in % pts.	-0.3	-0.1	-0.1
Real Retail Sales, % chg.	7.2%	3.5%	4.5%
Real Wages per Employ, % chg.	-2.1%	1.5%	2.0%

Despite turmoil in the construction and housing markets in the Southeast regional economy during 2006, the area enjoyed gains in employment and a fall in the unemployment rate. Tourists and local residents also boosted real retail sales by a healthy 7.2% rate. Yet, one apparent fall-out of the easing in real estate activity was real wages, which fell by over 2%.

Employment gains will be steady in 2007 and 2008, rising 2.5% and 2% respectively, and these improvements should cause the unemployment rate to fall. The good job market, combined with an expected solidification in the housing market, will

give a positive push to real wages. Retail sales will cool off, but still post reasonable improvements.

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

	2006	2007 forecast	2008 forecast
Employment, % change	2.9%	2.0%	1.8%
Unemploy. rt., Chg in % pts.	-0.5	-0.3	-0.1
Real Retail Sales, % chg.	-2.7%	2.0%	2.2%
Real Wages per Employ, % chg.	-2.8%	0.0%	1.0%

There were two parts to the Eastern regional economy in 2006. The job market part performed reasonably well, with gains in jobs and a drop in the unemployment rate. But the real retail sales and real wage part backtracked, as declines occurred in both measures.

These two parts are expected to come together in 2007 and 2008, but the general description of the regional economy will be for modest gains. All measures will improve very slowly as the Eastern region faces challenges presented by the competitive, global economy.

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

	2006	2007 forecast	2008 forecast
Employment, % change	1.0%	1.0%	2.2%
Unemploy. rt., Chg in % pts.	-0.2	-0.0	-0.2
Real Retail Sales, % chg.	5.4%	3.5%	3.3%
Real Wages per Employ, % chg.	0.2%	1.0%	1.2%

The Northeast economy moved forward, albeit at a slow pace, in 2006, with all four market measures showing improvement. The most notable gain was an over 5% increase in real retail sales. Certainly the slowdown in the coastal housing market had a major influence on the measures.

This general pattern in the Northeast is expected to continue in 2007 and 2008. Small, but positive, gains are forecasted in the job, retail sales, and wage markets in both years, with stronger gains in 2008 resulting from the expected rebound in coastal real estate.

¹ Data are from the Employment Security Commission of North Carolina, the North Carolina Department of Revenue, and the U.S. Bureau of Labor Statistics. Employment and unemployment rate changes are annually for 2006. Real retail sales changes for 2006 are based on a comparison of data for January - July 2006 to January - July 2005, the latest data available. Also, real wage changes for 2006 are measured from the third quarter of 2005 to the third quarter of 2006, again the latest data available at the time of publication.