



THE NORTH CAROLINA ECONOMIC OUTLOOK

SUMMER 2009

Prepared by Dr. Michael L. Walden, William Neal Reynolds Distinguished Professor, Department of Agricultural and Resource Economics, North Carolina State University¹

Contact Methods: phone: 919-515-4671; e-mail: michael_walden@ncsu.edu

Executive Summary

The worst post-war (World War II) recession in North Carolina is expected to continue throughout the second half of 2009. Most economic indicators will continue to deteriorate, although at slower rates than in late 2008 and early 2009.

However, there is an emerging consensus the economy will begin a positive turn in late 2009 or early 2010. The recent downward trend in initial unemployment claims is signaling such a move. It is forecasted North Carolina's unemployment rate will peak at 13% in the first quarter of 2010 before beginning a decline in the following three quarters of 2010. As in the past, North Carolina's unemployment rate will fall faster than the national rate and reach the national unemployment rate of 10.3% by the end of 2010.

All of North Carolina's regions will follow a similar pattern, with the highest unemployment rates in early 2010 being registered in the Charlotte and Triad regions and the lowest peak rate being found in the Triangle region.

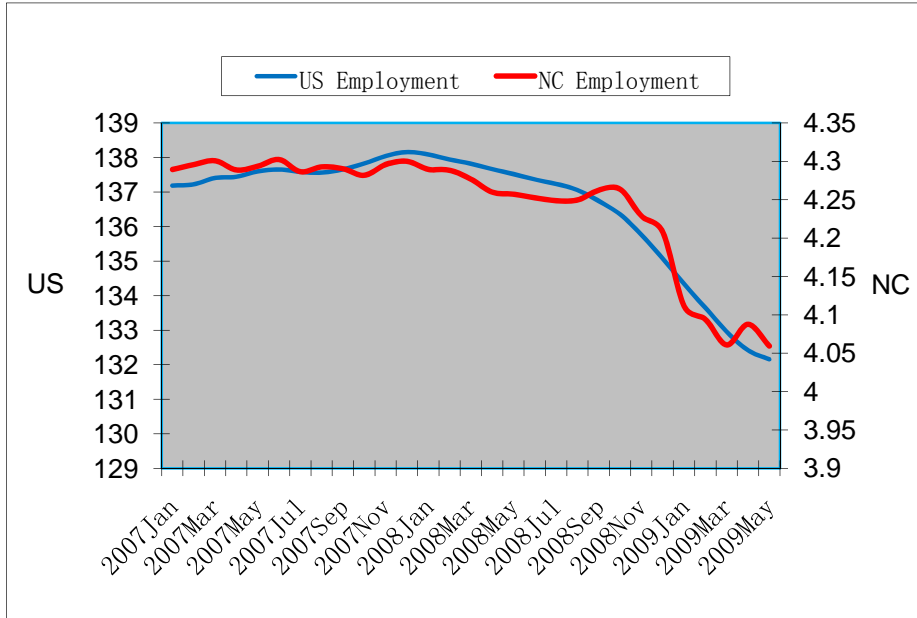
Is the End in Sight?

Potentially the worst recession since the 1929-1933 downturn (better known as the “Great Depression”) officially began in December 2007. Since that date, North Carolina has lost an unprecedented 240,000 jobs. The depth of the deterioration in the job market can be seen in Figure 1. North Carolina’s employment losses have tracked those at the national level. However, not revealed by the graph is that North Carolina’s losses have been relatively greater: 5.6% versus 4.3% for the nation since December 2007.²

The employment losses have been widespread across most industries (Figure 2). Only the government, leisure/hospitality, and education/health sectors have registered modest job gains during the recession at both the national and North Carolina levels. Of the remaining six sectors, North Carolina’s losses have been larger, on a percentage basis, in all of them except financial services.

The losses in construction have been particularly large – almost two-thirds greater on a percentage basis in North Carolina than in the nation. This reflects the significant expansion in real estate and construction in the state during the real estate boom of the early and mid 2000s and then the tremendous pullback in that sector as the real estate bust materialized in late 2007 and early 2008.

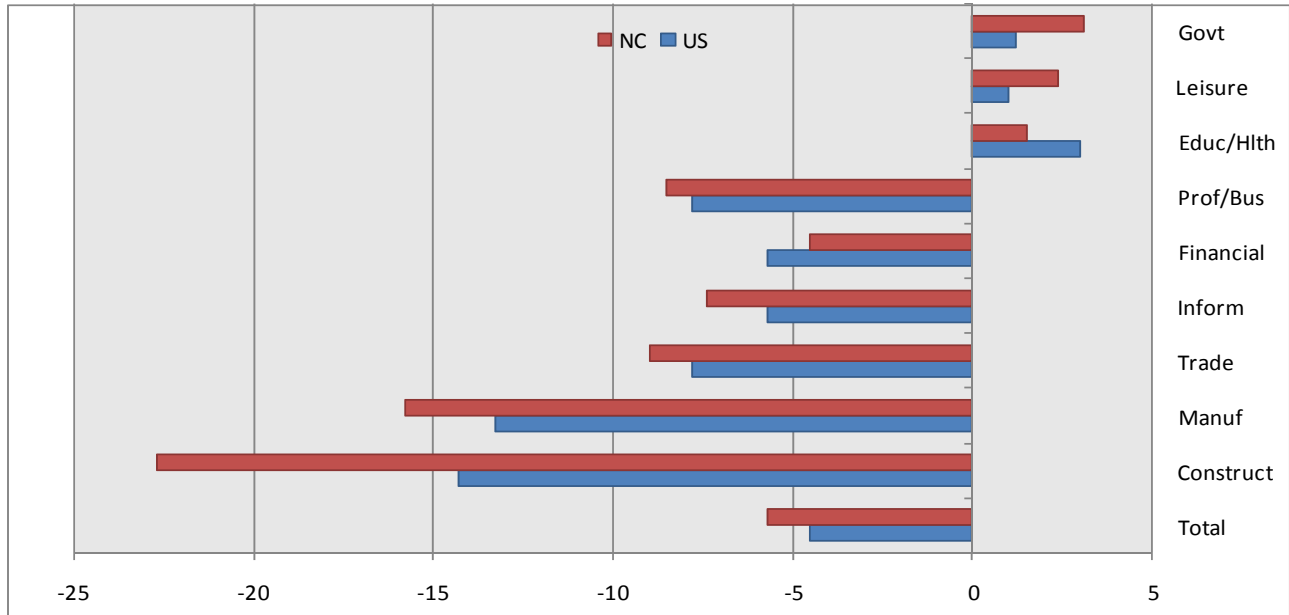
Figure 1. U.S. and N.C. Employment, Seasonally Adjusted, millions



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

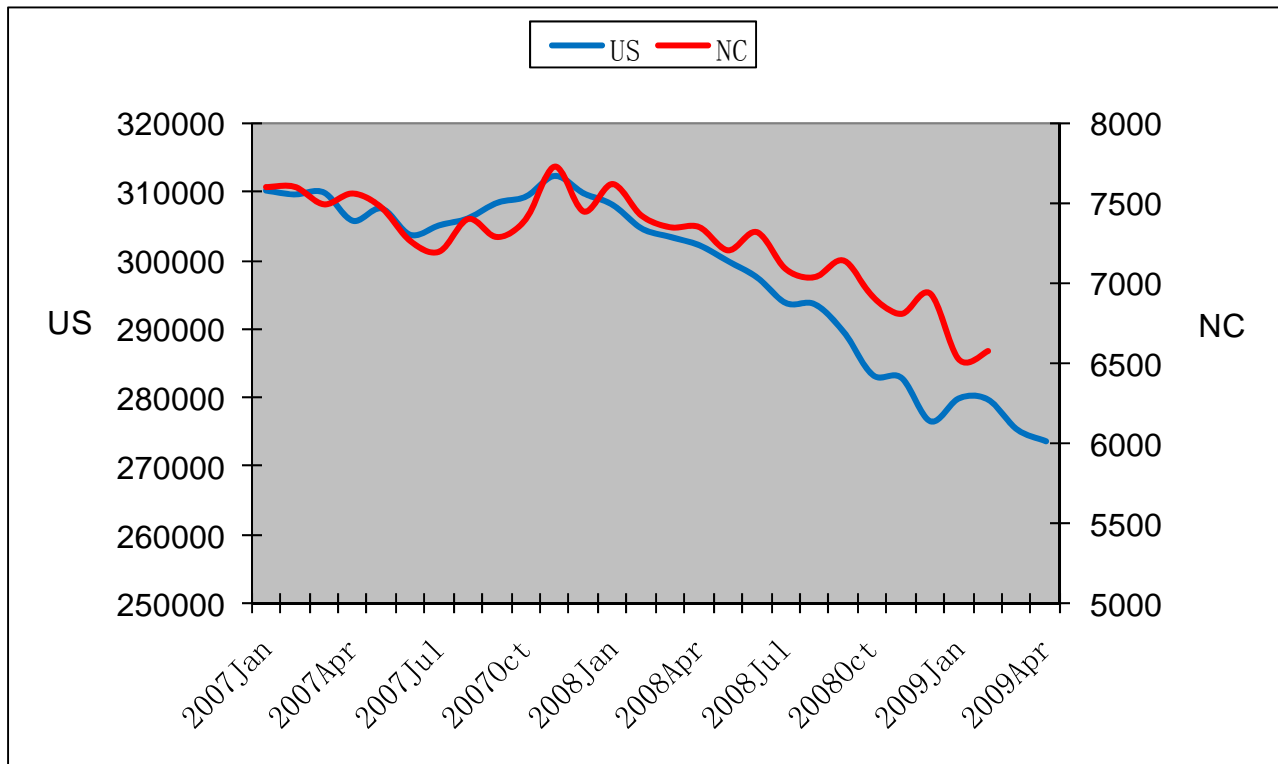
Other broad measures of economic activity confirm the depth of the recession. Figure 3 shows trends in real (inflation-adjusted) retail sales in the nation and North Carolina. After peaking in the fourth quarter of 2007, both have trended downward. Consumers' reductions in spending reflect both the adverse effects of a weak labor market as well as the 20% loss in household wealth during the recession. Another sign of the poor economy is the 2% drop in real seasonally-adjusted weekly wages from the end of 2007 to the end of 2008.

Figure 2. U.S. and N.C. Job Losses by Industry, December 2007 – May 2007 (%).



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

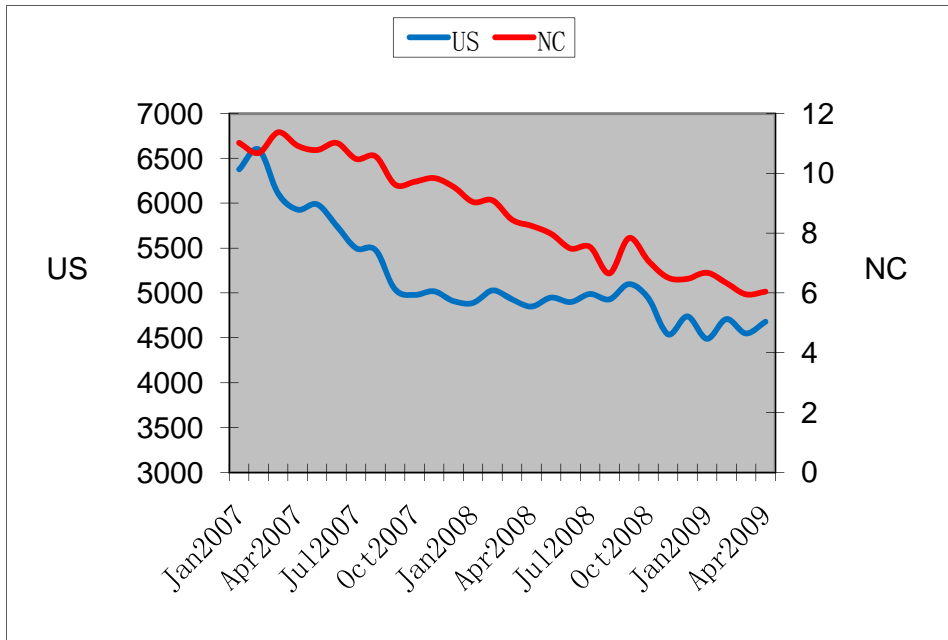
Figure 3. U.S. and N.C. Real Retail Sales, Four-Month Moving Average of Seasonally Adjusted Data, millions of 2000\$.



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

The recession began in the housing market, and this sector continues to hold the key to the economic recovery. Figure 4 shows the pattern of existing home sales (by far the largest component of total home sales) during the recession. The bad news is that home sales remain weak. The good news is the deterioration in sales appears to have stopped at the national level, although it is too early to make the same conclusion for North Carolina.

Figure 4. U.S. and N.C. Seasonally-Adjusted Existing Home Sales (U.S.: thousands at an annual rate; N.C.: thousands at a monthly rate).



Source: National Association of Realtors, North Carolina Association of Realtors with seasonal adjustments by the author.

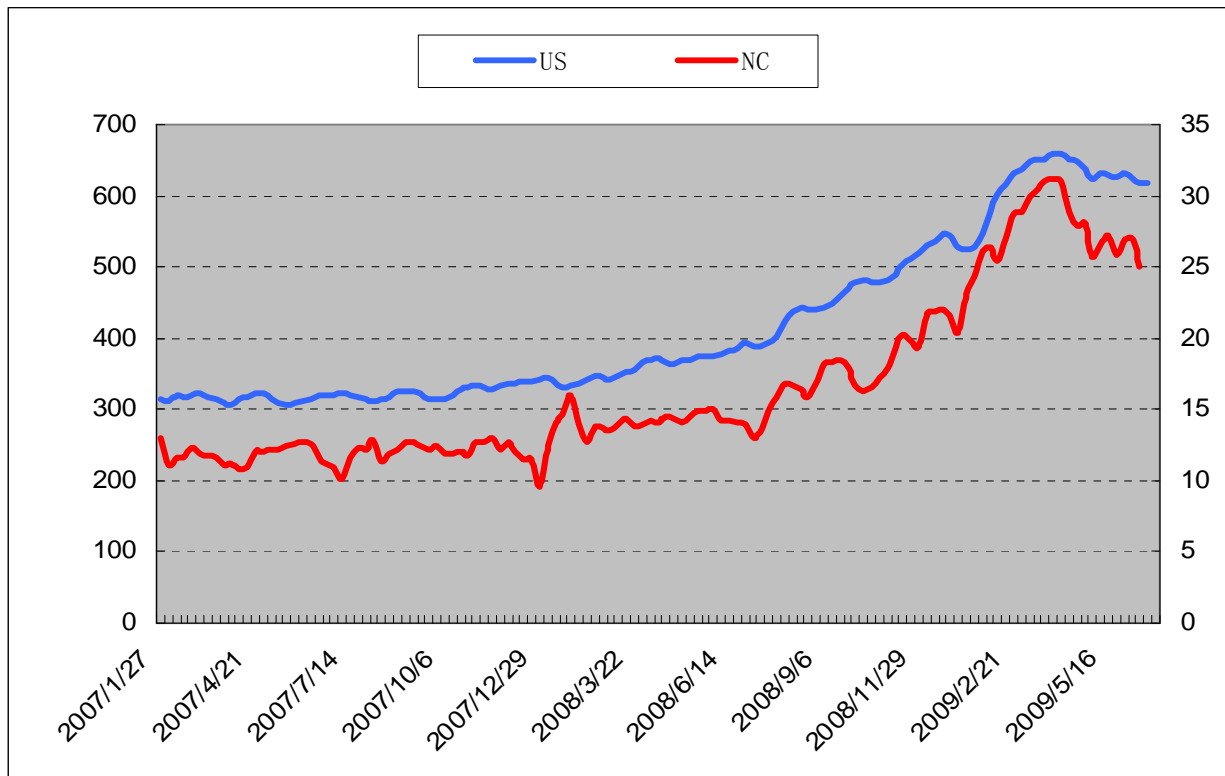
However, home prices continue to fall. Nationally, in the fourth quarter of 2008, home prices dropped 8.3% from the same quarter in 2007, and in the first

quarter of 2009 the decline was 7.1% from a year earlier. In North Carolina, the comparable declines were 3.2% for the fourth quarter of 2008 but only 0.8% for the first quarter of 2009.³

So are there any signs of improvement in the economy? Perhaps the best that can be said at this point is that while losses continue, the rate of decline has slowed. To use a military analogy, the panicked rout that occurred in the fall and winter of 2008 has turned in to an organized retreat.

Perhaps the best evidence for this viewpoint is the downward trend recently displayed in initial unemployment claims (Figure 5). This measure is a good indicator of future changes in the labor market. The fact that both the national and North Carolina series have trended downward in recent weeks is encouraging.

Figure 5. U.S. and N.C. Initial Weekly Claims for Unemployment, Seasonally-Adjusted Four-Week Moving Average, thousands.

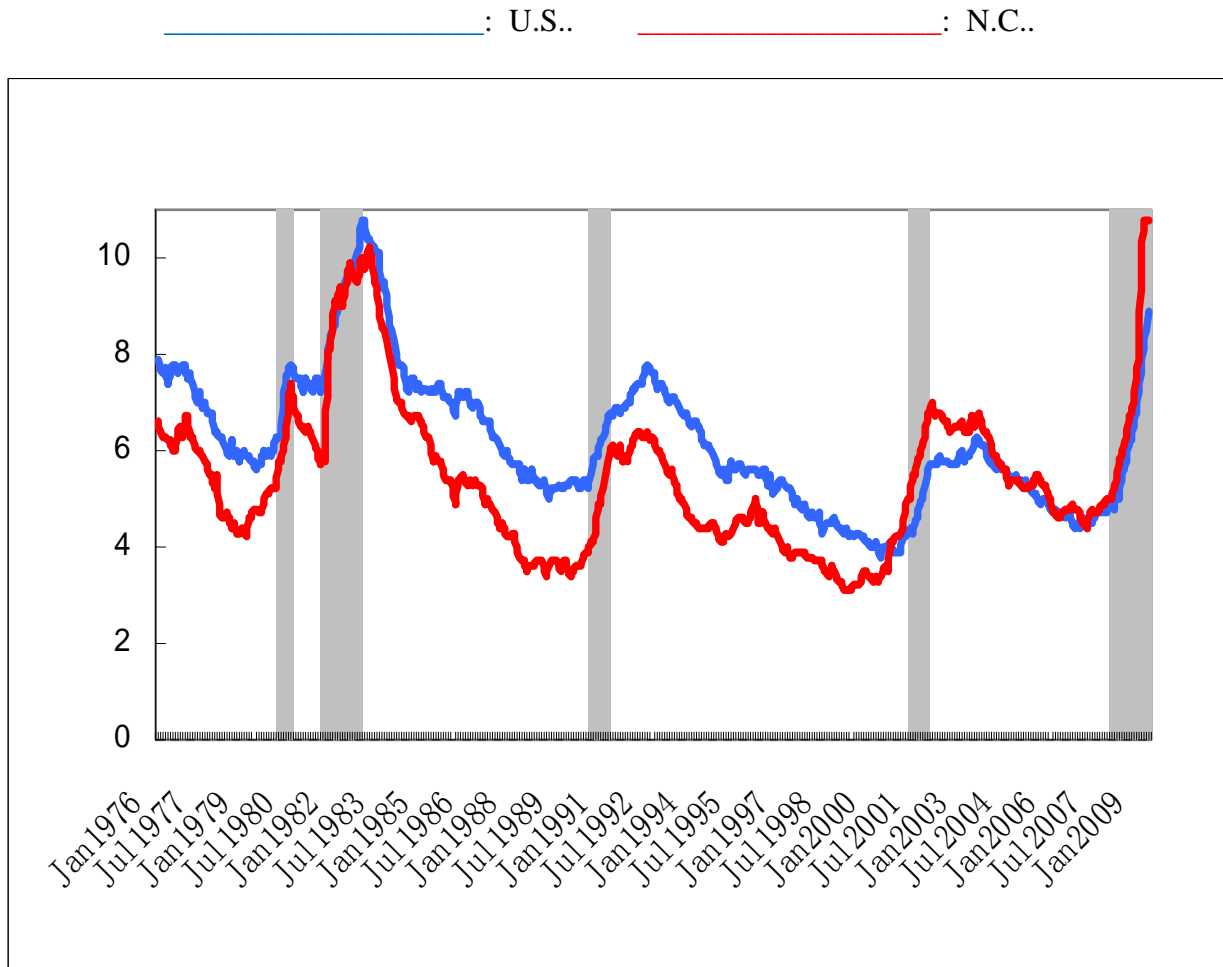


Source: U.S. Bureau of Labor Statistics.

However, a decline in initial unemployment claims is not sufficient for a near-term future decline in the unemployment rate. Initial claims must be under 400,000 at the national level and under 12,000 in North Carolina for claims to signal an upcoming lower unemployment rate. So while claims are moving in the right direction, they need to drop much more for a lower unemployment rate to be on the immediate horizon.

Most national forecasts put the economic recovery beginning at the end of 2009 with the job market starting to improve in the second quarter of 2010.⁴ During the last four recessions, North Carolina's unemployment rate has tracked the national rate fairly closely (Figure 6). The beginning of the decline in the North Carolina unemployment rate lagged the national rate after the 1981-82

Figure 6. U.S. and N.C. Seasonally Adjusted Unemployment Rates (%), 1976-2009 (shaded areas are recessions).



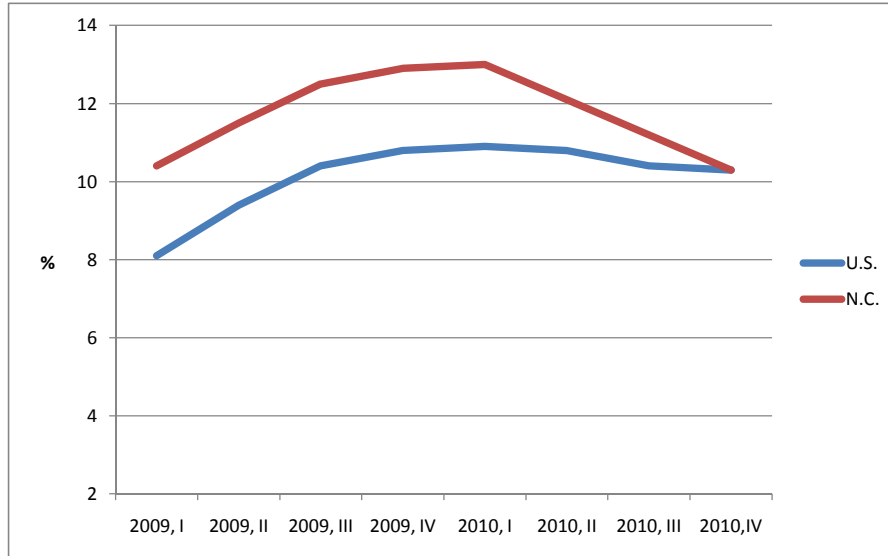
Source: Employment Security Commission of North Carolina, U.S. Bureau of Labor Statistics.

recession, led the national rate after the 1990-91 recession, and was coincidental with the national rate after the 1980 and 2001 recessions.⁵ Therefore, as a forecasting tool, it is reasonable to expect the North Carolina rate to begin trending downward at about the same time as the national rate.

Current trends suggest the national unemployment rate will continue to rise in 2009 and peak in the early part of 2010 before beginning a slow decline. Given the structural changes that have occurred in the economy since 2000, it is assumed North Carolina's future unemployment rate will follow the same path of the 2001 recession and recovery. This means the state's unemployment rate peaking in the same quarter as the national rate and then declining at a faster pace and reaching the national rate within three quarters. Hence, if the national unemployment rate peaks in the first quarter of 2010, then North Carolina's rate will also peak then but decline and reach the national unemployment rate by the fourth quarter of 2010.

The forecasted pattern of the national and North Carolina unemployment rates is shown in Figure 7. The North Carolina rate tops out in the first quarter

Figure 7. Forecasted Path of U.S. and N.C. Unemployment Rates.



of 2010 at 13%, 2.1 percentage points higher than the peak national rate of 10.9%. However, the North Carolina rate falls throughout the remaining quarters of 2010 and reaches the projected national rate of 10.3% by year's end.

Table 1 gives the annual average forecasts for the unemployment rate and four other key economic measures for the state for 2009 and 2010 and compares them to the actual performance in 2008.

Table 1. North Carolina Forecasts

	2008	2009 forecast	2010 forecast
Unemployment rate (%)	6.3%	11.8%	11.6%
Employment (% change)	-2.1%	-5.5%	2.5%
Real retail sales (% change)	-1.2%	-13.5%	4.5%
Real wages per employee (% change)	-2.4%	-3.5%	-1.5%
Existing home sales (% change)	-26.6%	-27.5%	8.5%

All data are seasonally adjusted, and dollar values are converted to real amounts using the Consumer Price Index.

Regional North Carolina Forecasts

As observers of North Carolina's economy know well, the state is composed of distinct regions with significant differences in economic structures. This section uses the state's seven economic development zones to provide analysis and suggest projections for identifiable geographic regions within the state.

Table 2 clearly shows the recession has not affected all North Carolina regions equally. Using the regional unemployment rate as the measure of economic distress, the first column gives the ranking of the regions by the level of their unemployment rate in May 2009. Charlotte, the Triad, and Advantage West ranked first, second, and third with the highest regional unemployment rates, and

the Research Triangle ranked last with the lowest rate. However, the second column shows a different ranking if economic distress is measured by the percentage increase in the unemployment rate from December 2007 (the beginning of the national recession) to May 2009. All regions have suffered a percentage gain in the unemployment rate of more than 100%, but now the Southeast leads

Table 2. Economic Distress Measures in North Carolina's Regions.

Ranking by Level of May 2009 Unemployment Rate	Ranking by Percentage Increase in Unemployment Rate, December 2007 to May 2009
Charlotte Region (12.5%)	Southeast (194.4%)
Piedmont Triad (11.8%)	Northeast (173.8%)
Advantage West (11.4%)	Charlotte Region (145.1%)
Eastern (10.9%)	Advantage West (137.5%)
Northeast (10.6%)	Piedmont Triad (136.0%)
Southeast (10.5%)	Research Triangle (130.0%)
Research Triangle (9.2%)	Eastern (113.7%)

Source: Employment Security Commission of North Carolina; not seasonally adjusted rates.

with almost a 200% gain, followed by the Northeast and Charlotte, and now the East and Research Triangle regions have the smallest gains.

The following sections look more closely at the performance of the seven North Carolina regions by examining trends in their labor markets, retail sales, and housing markets. Forecasts for 2009 and 2010 are compared to actual performance in 2008.



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)

	2008	2009 forecast	2010 forecast
Unemployment rate (%)	6.4%	11.9%	11.7%
Employment (% change)	-2.4%	-4.8%	1.5%
Real retail sales (% change)	-9.2%	-12.0%	4.0%
Existing home sales (% change)	-21.5%	-30.0%	15.0%

The unemployment rate in the Advantage West region will average just under 12% in 2009, but the rate will begin a slow decline in 2010. Retail sales and home sales will both rebound in 2010 from very low levels in 2009. Jobs will increase in 2010 but at a rate under the state average. The recession has re-emphasized to regional leaders the importance of diversifying the local economy to sectors expected to have above-average growth in coming decades.



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

	2008	2009 forecast	2010 forecast
Unemployment rate (%)	6.6%	12.6%	11.7%
Employment (% change)	-0.6%	-8.0%	3.0%
Real retail sales (% change)	-8.2%	-17.0%	4.0%
Existing home sales (% change)	-29.3%	-30.0%	10.0%

The Charlotte Region has never seen a downturn like the 2007-2009 recession. The recession struck at the core of the region’s modern economy – financial services, motor vehicle parts, and real estate. A look at the key economic numbers for 2009 – an unemployment rate of 12.6%, a 17% drop in real sales, and home sales off 30% - shows how devastating the economic retreat has been.

It will take several years for the region to recover, but a start will be made in 2010. Although still high, the unemployment rate will drop almost a full percentage point, and home sales will register a double digit gain. However, the over 11% unemployment rate will keep retail sales gains very modest.



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

	2008	2009 forecast	2010 forecast
Unemployment rate (%)	6.5%	12.4%	11.9%
Employment (% change)	-1.2%	-7.5%	1.9%
Real retail sales (% change)	-5.8%	-15.0%	2.3%
Existing home sales (% change)	-21.1%	-27.0%	4.0%

The Piedmont Triad region suffered significant losses across all parts of its economy in 2009, at rates worst than the downturns in 2008. The declines in employment and retail sales were second only to those posted by the Charlotte Region.

The good news is that growth should return to the region in 2010. While improvements will be slight, they will be improvements nonetheless. A positive economic outlook for 2010 will aid the region in its continuing transformation from 20th century to 21st century industries.



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

	2008	2009 forecast	2010 forecast
Unemployment rate (%)	5.3%	9.1%	8.4%
Employment (% change)	0.9%	-4.0%	3.5%
Real retail sales (% change)	-6.0%	-15.0%	6.5%
Existing home sales (% change)	-32.6%	-30.0%	12.5%

If ever a two-year period conclusively demonstrated the Research Triangle region is *not* recession-proof, it is the years 2008 and 2009. Although the region eked out a tiny increase in jobs in 2008, the retreat in retail and home sales foreshadowed bad economic news for 2009. Indeed, in 2009, jobs fell by an unprecedented (for the region) 4%, and retail and home sales both pulled back at double-digit rates.

The dynamic Triangle should move forward in 2010, with employment, retail sales, and home sales growth among the leaders in the state. Still, the area's unemployment rate will remain uncomfortably high at over 8%, and while home sales will rise, a "buyer's market" in real estate will persist.

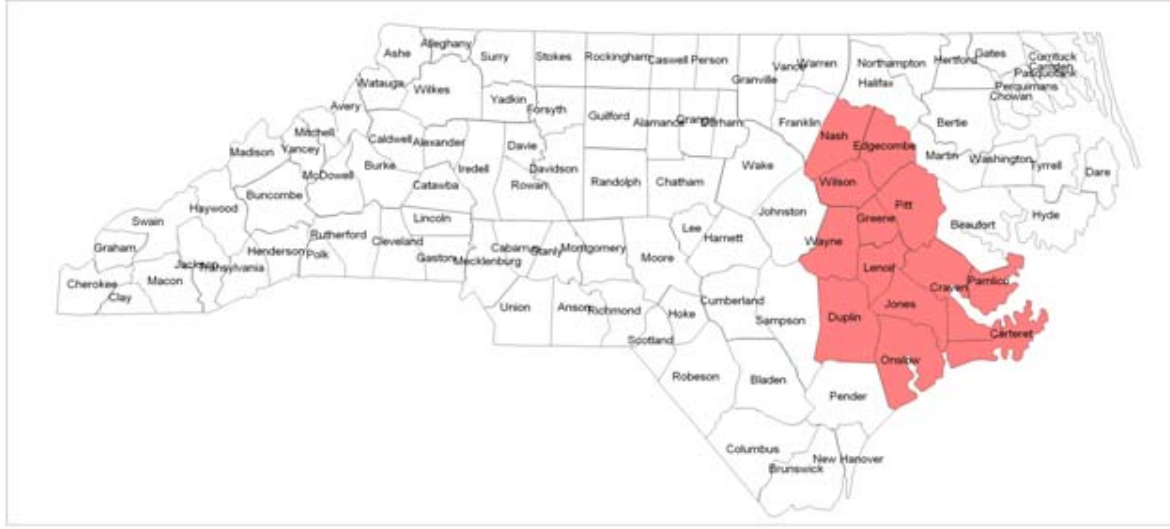


Southeast (Bladen, Brunswick, Columbus, Cumberland, Hoke, New Hanover, Pender, Richmond, Robeson, Sampson, and Scotland counties)

	2008	2009 forecast	2010 forecast
Unemployment rate (%)	6.7%	10.9%	10.0%
Employment (% change)	-0.1%	-4.0%	3.5%
Real retail sales (% change)	-9.1%	-14.5%	5.0%
Existing home sales (% change)	-12.5%	-18.0%	7.5%

Although the Southeast region’s economic numbers look relatively good versus other parts of North Carolina, the picture changes when the region is compared to itself. Yes, the forecasted 10.9% unemployment rate is almost a full percentage point under the state rate for 2009. But since the beginning of the recession, no other region has seen a greater *percentage* increase in its unemployment rate than the Southeast.

The economic sky should be sunnier – but not with bright sun – for the Southeast in 2010. All the economic numbers will move in a positive direction. Still, compared to past “boom” years, 2010 will feel tepid. Yet most residents will likely take a tepid economy over an ice-cold one!



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

	2008	2009 forecast	2010 forecast
Unemployment rate	6.8%	11.3%	10.8%
Employment (% change)	-1.5%	-4.5%	3.0%
Real retail sales (% change)	-0.5%	-8.5%	2.0%
Existing home sales (% change)	-18.1%	-22.0%	5.0%

While the Eastern regional economy didn't see some of the economic declines registered by other regions, residents certainly know the economy has been in a recession. All three major measures – employment, retail sales, and homes sales – declined in both 2008 and 2009.

Fortunately, 2010 should not add to this record. Gains should be made across the board and the regional unemployment rate will retreat. The military complex centered in Onslow County and the medical industry anchored around East Carolina University will provide the springboard for economic growth in 2010 and beyond.



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

	2008	2009 forecast	2010 forecast
Unemployment rate (%)	7.2%	12.0%	11.1%
Employment (% change)	-4.2%	-4.0%	2.5%
Real retail sales (% change)	-2.5%	-10.0%	2.3%
Existing home sales (% change)	-21.8%	-22.0%	5.5%

The Northeast region entered the recession with the highest unemployment rate among all regions in 2008, and in 2009 that rate became even higher. The increase in the regional unemployment rate since the recession began has been the second-fastest (behind the Southeast) among all regions.

Fortunately, a turnaround is expected for 2010. The regional unemployment rate is expected to fall just shy of one percentage point, yet still leaving the rate above 11%. Modest improvements are also projected for jobs, retail sales, and home sales.

Notes

¹ The able research assistance of Junlin Gao is acknowledged.

² Measured by the household employment survey, December 2007 to May 2009.

³ Office of Federal Housing Enterprise Oversight.

⁴ The job market recovery usually lags the broader economic recovery for two reasons. First, employers need evidence of a permanent improvement in economic conditions before increasing hiring. Second, signs of an improving economy prompt “discouraged workers” – unemployed workers who have stopped looking for work and therefore aren’t officially counted as unemployed – to re-enter the job market and therefore increase the number of unemployed and the unemployment rate.

⁵ There was actually a double peak in the North Carolina unemployment rate after the 2001 recession. The national rate peaked at 6.3% in June 2003. The North Carolina rate hit 7% in January 2002, declined to 6.4% in January, February, and March 2003, then reversed course and rose to 6.8% in July 2003 before beginning a permanent cyclical decline. The second peak was coincidental in time to the national peak.