UNC Charlotte Economist notes Five Areas to Watch for N.C. Economy


Connaughton presented the Babson Capital Management/UNC Charlotte Economic Forecast today. In his talk, he highlighted five areas of the economy to watch in the near term:

- **Size of economic growth:** Connaughton said, “We had become used to 3 to 4 percent GDP growth during the 1990s, yet we need to realize that going forward it will be difficult to achieve that level of growth for a variety of demographic and structural reasons.” N.C. Gross State Product (GSP) is now forecasted to record an annualized real growth rate of 2.5 over the 2014 level. Based on the expected growth in 2015, the average GSP growth during the six-year period would be only 2.0 percent. Since 2000, both the U.S. and North Carolina economies have been unable to achieve an average 3.0 GDP growth rate that had been a fairly consistent benchmark during the second half of the 20th century.

- **Interest rates:** Connaughton said the Federal Reserve has changed its forward guidance on interest rates as of March of this year. The Fed indicated that it would be “patient” going forward with interest rate adjustments and suggested that the near-zero interest rates would be increased as the economy continues to grow. However, Connaughton said the Fed has waited so long to raise rates that if there is an economic downturn this year, they won’t have any flexibility. Connaughton added, “While raising interest rates would hold off potential inflation, the recent strength of the dollar poses a considerable risk to the Federal Reserve. Raising interest rates would further increase the value of the dollar, and would effectively reduce exports to Europe and could potentially push the economy into another downturn.”

- **Unemployment numbers:** The North Carolina economy has added 28,400 establishment jobs in the first four months of 2015, including 11,100 in April. Meanwhile, the unemployment rate went up in April from 5.4 percent to 5.5 percent, even though both the establishment and household employment increased. How is this possible? Connaughton said a number of discouraged workers (those who gave up on their job search) entered the labor force, causing the number of people unemployed to rise, while employment also rose. So even though jobs were added, the unemployment rate rose as well. By December 2015, the North Carolina unemployment rate is expected to be at 5.0 percent. The state is expected to gain 82,100 net jobs by the end of 2015, an increase of 2.0 percent over last year.
**Strength of the dollar:** Connaughton said the value of the dollar started increasing during the second half of 2014 and continued during the first quarter of 2015. It has recently declined somewhat in May, but seems to be strengthening again. Connaughton said, “The dollar gained some strength in the second half of 2014 going from $1.34/Euro on August 1, 2014 to $1.25/Euro by December 16, 2014. After December 16th, the dollar value began to increase sharply, reaching a peak of $1.05/Euro on March 13, 2015. The implication, says Connaughton, “is that the strengthening of the U.S. dollar has a mixed effect on the state’s economy. On the one hand, it reduces exports, which is a short-run issue. On the other hand, it increases foreign investment in the longer run, especially European foreign investment, in the state.”

**Gas prices:** While we aren’t going to see cheaper gas prices this summer, Connaughton expects them to dip a bit this fall, back to the levels we saw during early 2015.

“Overall, the economic forecast is not the brightest but not the bleakest. We have continued growth at a slow rate and there are mostly positive economic indicators for the future,” Connaughton said. “Fourteen of the state’s 15 economic sectors are forecast to experience output increases in 2015.”

Connaughton presented his quarterly forecast to members of the Charlotte business community and the media at a luncheon held at UNC Charlotte’s Center City campus. The Forecast is funded by Babson Capital Management LLC.

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Accredited by AACSB International, the Belk College of Business at UNC Charlotte offers outstanding business education programs at the undergraduate, graduate, doctoral and executive levels, including nationally-ranked MBA and Mathematical Finance programs based at UNC Charlotte Center City. The Belk College is committed to building strong partnerships in the Greater Charlotte region and beyond as a vital part of our mission as North Carolina's urban research business school. Find the Belk College of Business online at [belkcollege.uncc.edu](http://belkcollege.uncc.edu).

The full Forecast report is available at [http://www.belkcollege.uncc.edu/forecast](http://www.belkcollege.uncc.edu/forecast).

Connaughton will release his next Forecast report on September 9, 2015.

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