

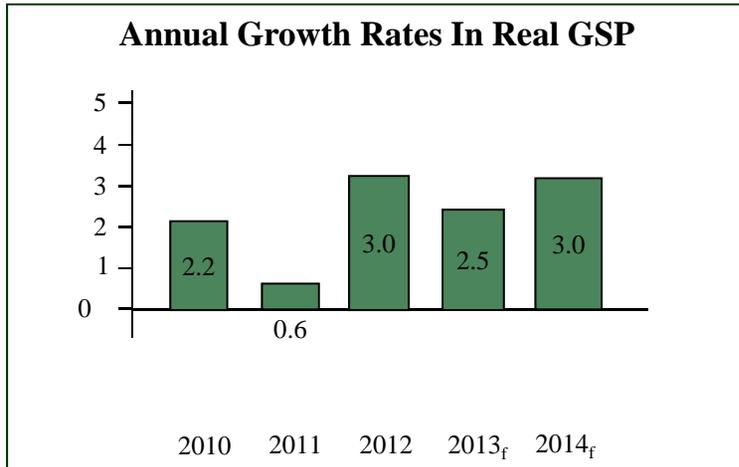
# Babson Capital/UNC Charlotte Economic Forecast

March 11, 2014

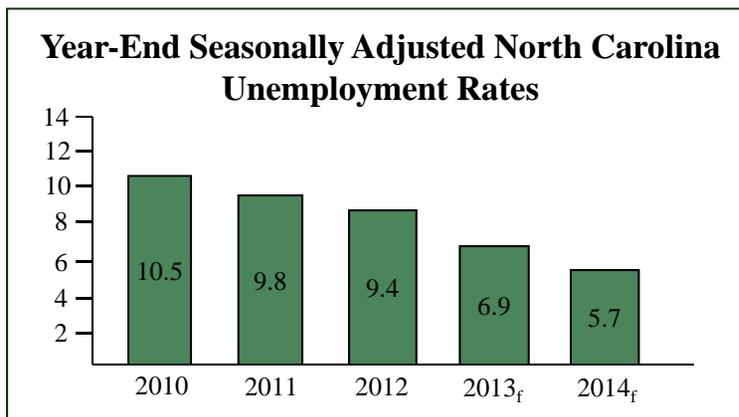


The data used in this report comes from the websites for the U.S. Department of Commerce's Bureau of Economic Analysis ([www.bea.gov](http://www.bea.gov)) and the North Carolina Employment Security Commission ([www.ncesc.com](http://www.ncesc.com)) as of February 25, 2014. The opinions expressed in this Forecast by Professor Connaughton (the Babson Capital Professor of Economics at the Belk College of Business) and UNC Charlotte do not necessarily represent the views of Babson Capital Management LLC or its affiliates.

## FORECAST HIGHLIGHTS



GSP/Gross State Product is a yardstick that measures the total output of a state's economy for a given year. It is analogous to the U.S. Gross Domestic Product (GDP).



- For 2013, NORTH CAROLINA real GDP is forecast to increase by 2.5 percent over the 2012 level.

- Fourteen of the state's fifteen economic sectors are forecast to experience output increases during 2013. The sectors with the strongest expected growth are agriculture with a projected real increase of 22.7 percent; educational and health services with a projected real increase of 4.9 percent; transportation, warehousing, and utilities (TWU) with a projected real increase of 4.3 percent; and business and professional services with a projected real increase of 4.1 percent.

- For 2013, NORTH CAROLINA establishments added 64,500 net additional jobs, an increase of 1.6 percent.

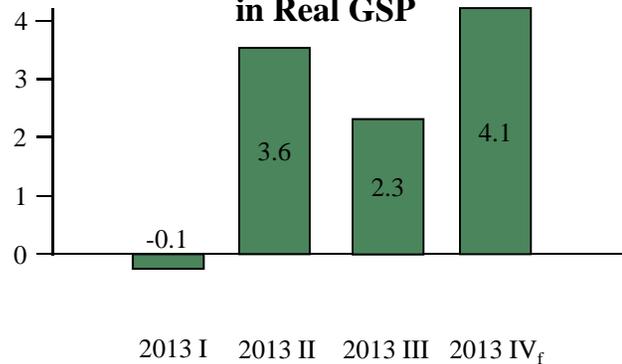
- For 2014, NORTH CAROLINA real GDP is forecast to increase by 3.0 percent over the 2013 level.

- All fifteen of the state's economic sectors are forecast to experience output increases during 2014. The sectors with the strongest expected growth are agriculture with a projected real increase of 11.9 percent, construction with a projected real increase of 4.2 percent, other services with a projected real increase of 4.1 percent, government with a projected real increase of 3.8 percent, and wholesale trade with a projected real growth rate of 3.6 percent.

- For 2014, NORTH CAROLINA establishments are forecast to add 60,200 net additional jobs, an increase of 1.5 percent.

- By December of 2014, the North Carolina unemployment rate is expected to be around 6.0 percent.

### Quarterly Growth Rates in Real GSP



### 2013 Highlights

	2013 *	Percent Change
<b>Current Dollars</b>		
Total Gross Product	474,699.9	4.1
<b>Constant (2000 Dollars)</b>		
Total Gross Product	405,233.8	2.5
Agricultural	3,332.9	22.7
Mining	113.5	1.2
Construction	12,950.7	1.9
Manufacturing	80,499.4	0.1
Durable Goods	36,982.5	0.7
Nondurable Goods	43,516.9	-0.5
TWU	15,044.8	4.3
Wholesale Trade	20,304.1	3.6
Retail Trade	23,429.9	1.8
Information	14,502.8	2.0
FIRE	88,001.6	2.9
B & P	42,867.7	4.1
E & H	29,537.2	4.9
H & L	12,815.7	2.1
Services	7,903.4	2.9
Government	53,930.1	1.7

\* millions of dollars

## 2013 GSP

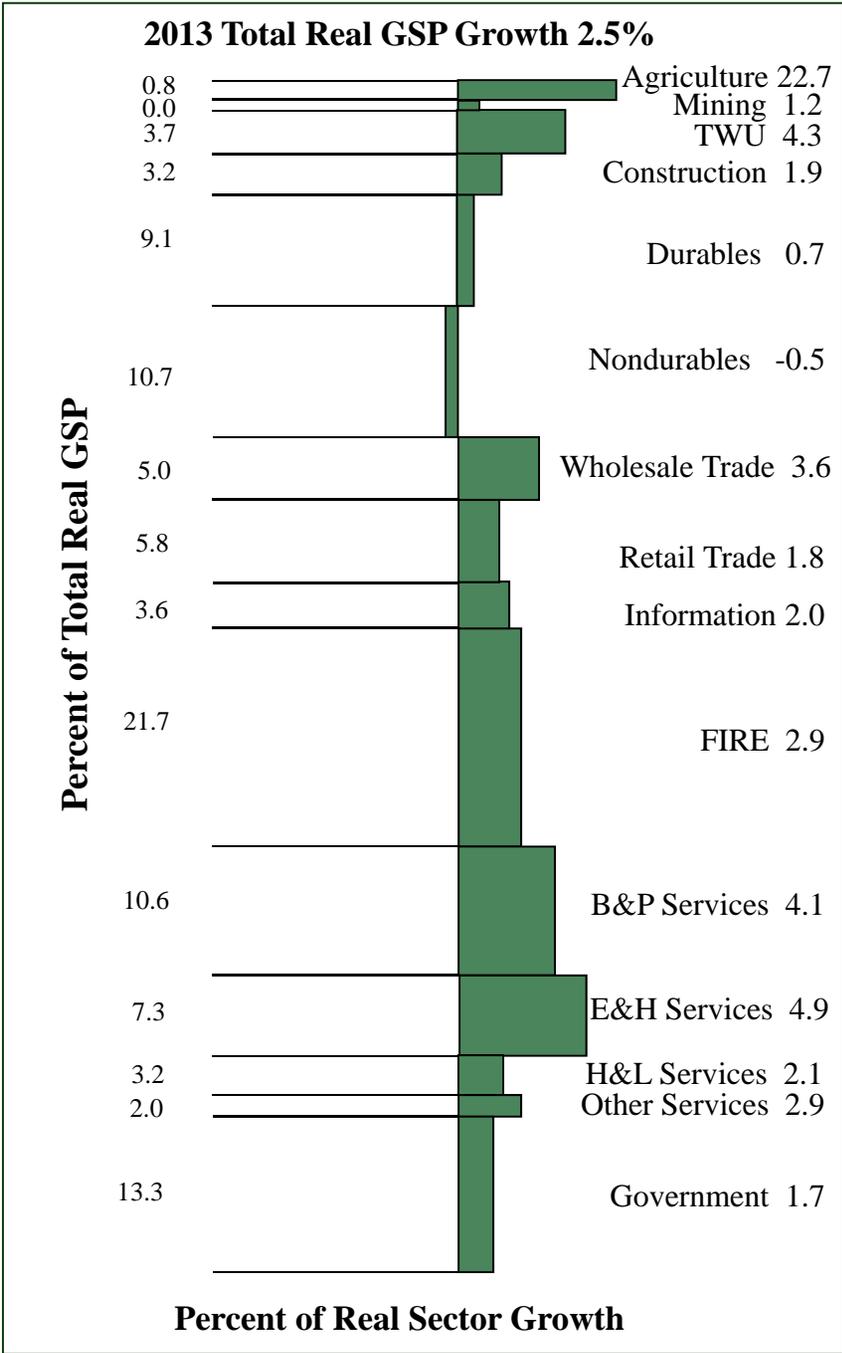
Gross State Product (GSP) is expected to reach a level of \$474,699.9 million in 2013. Real (inflation-adjusted) GSP is expected to increase by 2.5 percent over the 2012 level. This growth forecast in 2013 would follow a moderate GSP increase of 3.0 percent in 2012.

For 2013, first quarter GSP declined slightly by an annualized real rate of 0.1 percent. During the second quarter, GSP growth increased substantially to an annualized real rate of 3.6 percent. In the third quarter, GSP recorded an annualized real growth rate of 2.3 percent. In the fourth quarter of 2013, GSP is expected to grow at an annualized real rate of 4.1 percent.

After a disappointing 2011, the state's economy showed signs of life in 2012 with a 3.0 percent GSP increase. During the first quarter of 2013, this moderate growth pattern slowed dramatically as a result of the fiscal measures put into place the first of the year. However, the US economy overall was strong enough to absorb the first of the year tax increase and the sequestration cuts that came later in the first quarter. Stronger growth emerged during the second and third quarters of the year as consumer confidence rose and, for the first time in this recovery, the housing sector is starting to show some life.

Consumer confidence stands at 78.1 in February, and has been in the 70 to 80 range during the past six months. With consumer purchases making up almost 70 percent of GDP, a strong recovery can only happen if consumers are comfortable taking on large ticket purchases and debt.

A second factor supporting stronger growth is improvement in the housing market. For the first time in five years we are seeing sustained increases in housing prices, indicating increased demand. The Case-Shiller Home Price Index increased by 13.4 percent from December of 2012 to December 2013.



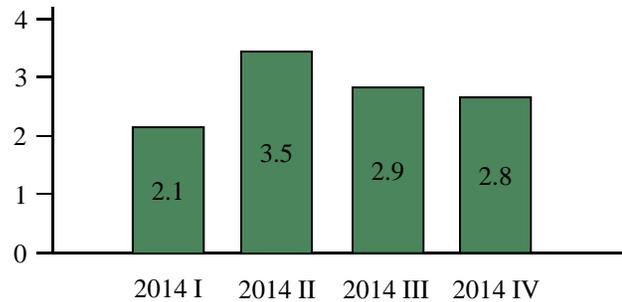
## 2013 GSP SECTOR ANALYSIS

The chart to the left presents the projected contributions of each major economic sector to North Carolina's Gross State Product (GSP). The real (inflation-adjusted) growth rate for 2013 is forecast to increase by 2.5 percent. Projected real growth rates for each sector (displayed in black type) are plotted on the horizontal axis. Projected percentages of GSP contributed by each sector (displayed in green type) are plotted on the vertical axis. The resulting rectangles show the expected weighted importance of each sector's growth during 2013. All of the sector information presented in the table to the left is based on the new North American Industry Classification System (NAICS) definitions.

Fourteen of the state's fifteen economic sectors are forecast to experience output increases during 2013. The sectors with the strongest expected growth are agriculture with a projected real increase of 22.7 percent; educational and health services with a projected real increase of 4.9 percent; transportation, warehousing, and utilities (TWU) with a projected real increase of 4.3 percent; business and professional services with a projected real increase of 4.1 percent; wholesale trade with a projected real increase of 3.6 percent; other services with a projected real increase of 2.9 percent; and finance, insurance, and real estate with a projected real increase of 2.9 percent.

Seven sectors are also expected to record increases in 2013, at rates less than the overall state growth rate of 2.5 percent. These sectors are hospitality and leisure services, information, construction, retail trade, government, mining, and durable goods manufacturing. Only nondurable goods manufacturing is expected to experience a decline in output during 2013.

### Quarterly Growth Rates in Forecasted Real GSP



### 2014 Highlights

	2014 *	Percent Change
<b>Current Dollars</b>		
Total Gross Product	498,354.1	5.0
<b>Constant (2000 Dollars)</b>		
Total Gross Product	417,417.0	3.0
Agricultural	3,731.0	11.9
Mining	115.6	1.9
Construction	13,496.2	4.2
Manufacturing	82,643.7	2.7
Durable Goods	38,051.4	2.9
Nondurable Goods	44,592.3	2.5
TWU	15,558.7	3.4
Wholesale Trade	21,045.9	3.6
Retail Trade	24,003.0	2.4
Information	14,808.6	2.1
FIRE	90,905.8	3.3
B & P	43,650.1	1.8
E & H	30,199.9	2.2
H & L	13,028.3	1.7
Services	8,229.0	4.1
Government	56,001.3	3.8

\* millions of dollars

## 2014 GSP

Gross State Product (GSP) is expected to reach a level of \$498,354.1 million in 2014. Real (inflation-adjusted) GSP is expected to increase by 3.0 percent over the 2013 level. This growth in 2014 would follow two years of modest growth in North Carolina GSP, and for the first time during this recovery, generate a sustained period of uninterrupted economic growth.

For 2014, first quarter GSP is expected to increase at an annualized real rate of 2.1 percent. During the second quarter, GSP is expected to increase at an annualized real rate of 3.5 percent. In the third quarter, GSP is expected to record an annualized real growth rate of 2.9 percent. In the fourth quarter of 2014, GSP is expected to grow at an annualized real rate of 2.8 percent.

Several recent developing factors suggest that 2014 could represent a breakout year for the North Carolina economy. First, for the first time in years the U.S. Congress has passed a budget. This effectively puts a closure on sequestration and allows for government agencies to cut spending, without furloughing employees. Second, consumers are returning to the economy. The February 2014 consumer confidence index stood at 78.1, stringing together six months of good performance. Third, for the first time in five years we are seeing sustained increases in housing prices. The Case-Shiller Home Price Index increased by 13.4 percent from December of 2012 to December 2013, for the 20 City Composite. Finally, because of the improvement in the economy during 2013, the projected budget deficit for the 2013 fiscal year is down to \$680 billion, or 4.1 percent of GDP. This compares to the 2012 fiscal year budget deficit of \$1.1 trillion, which was the fourth consecutive year of budget deficits in excess of one trillion dollars. All of these factors will contribute to a 2014 growth rate that, for the first time in 5 years, will feel like a recovery.

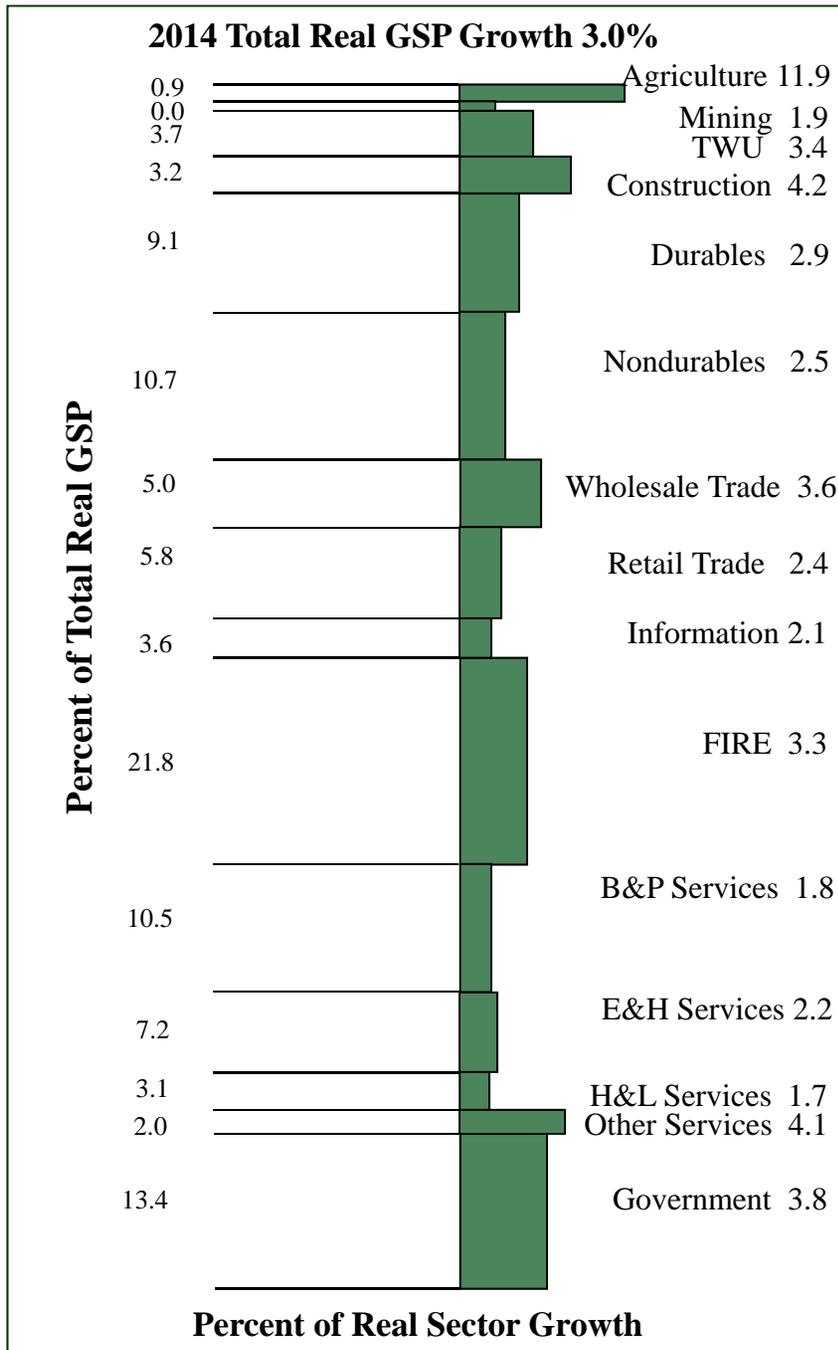
## 2014 GSP SECTOR ANALYSIS

The chart to the left presents the projected contributions of each major economic sector to North Carolina's Gross State Product (GSP). The real (inflation-adjusted) growth rate for 2014 is forecast to increase by 3.0 percent. Projected real growth rates for each sector (displayed in black type) are plotted on the horizontal axis. Projected percentages of GSP contributed by each sector (displayed in green type) are plotted on the vertical axis. The resulting rectangles show the expected weighted importance of each sector's growth during 2014. All of the sector information presented in the table to the left is based on the new North American Industry Classification System (NAICS) definitions.

All fifteen of the state's economic sectors are forecast to experience output increases during 2014. The sectors with the strongest expected growth are agriculture with a projected real increase of 11.9 percent; construction with a projected real increase of 4.2 percent; other services with a projected real increase of 4.1 percent; government with a projected real increase of 3.8 percent; wholesale trade with a projected real growth rate of 3.6 percent; transportation, warehousing, and utilities with a projected real increase of 3.4 percent; and finance, insurance, and real estate with a projected real increase of 3.3 percent.

Five other sectors are expected to experience strong growth rates, but at levels slightly below the overall 3.0 percent GSP growth rate. These sectors are durable goods manufacturing with a projected real increase of 2.9 percent, nondurable goods manufacturing with a projected real increase of 2.5 percent, retail trade with a projected real increase of 2.4 percent, education and health services with a projected real increase of 2.2 percent, and information with a projected real increase of 2.1 percent.

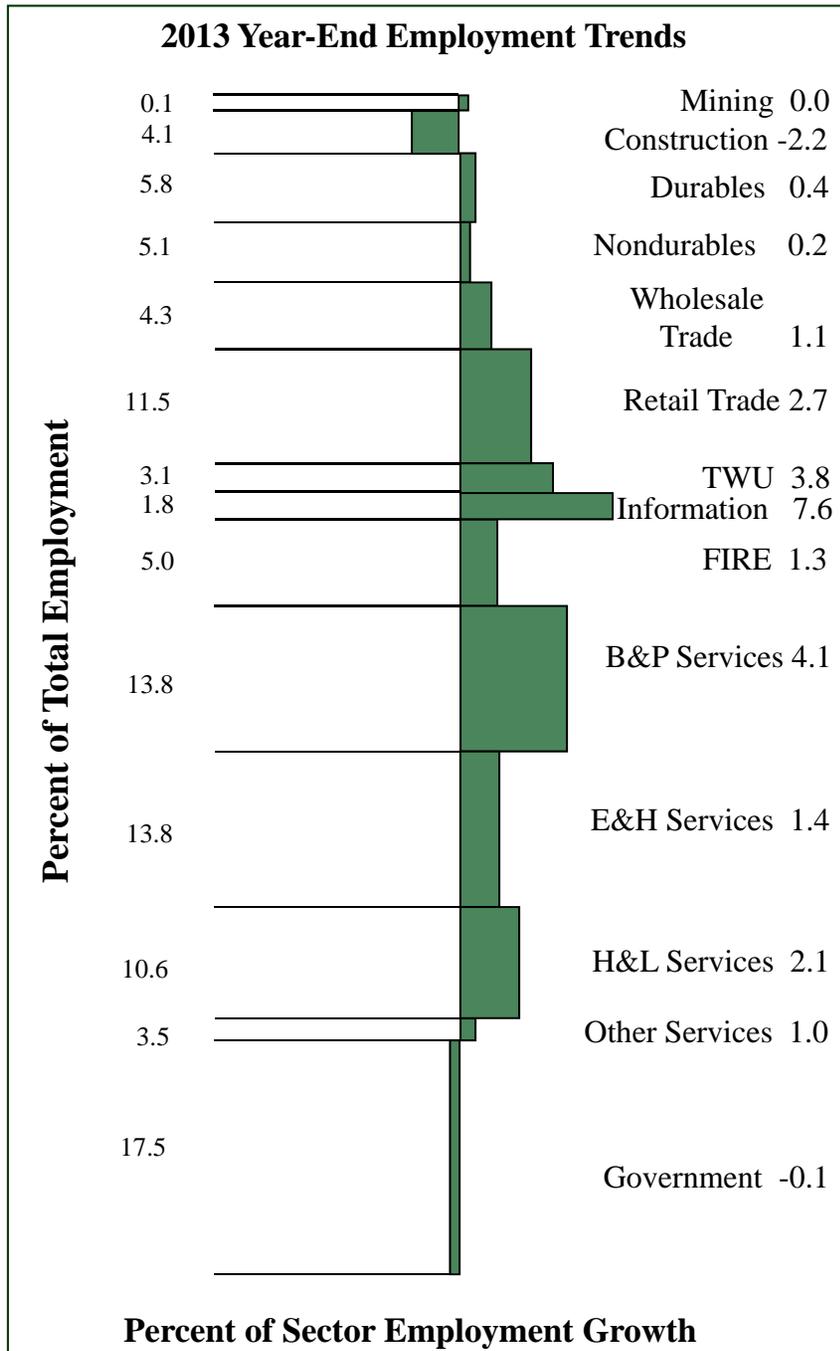
Three sectors are also expected to record increases in 2014, at rates less than 2.0 percent. These sectors are mining, hospitality and leisure services, and business and professional services.



## 2013 EMPLOYMENT SECTOR ANALYSIS

The sector employment analysis presented on this page is based on the new North American Industrial Classification System (NAICS). Seasonally adjusted nonagricultural employment in North Carolina reached 4,096,800 persons in December 2013, an increase of 1.6 percent over the employment level in December 2012. The state gained 64,500 net jobs during the year.

Eleven of the state's fourteen nonagricultural sectors of the economy experienced employment increases during 2013. The sectors with the strongest employment increases in 2013 are information at 7.6 percent, business and professional services at 4.1 percent, and TWU at 3.8 percent.



### 2013 Employment Highlights

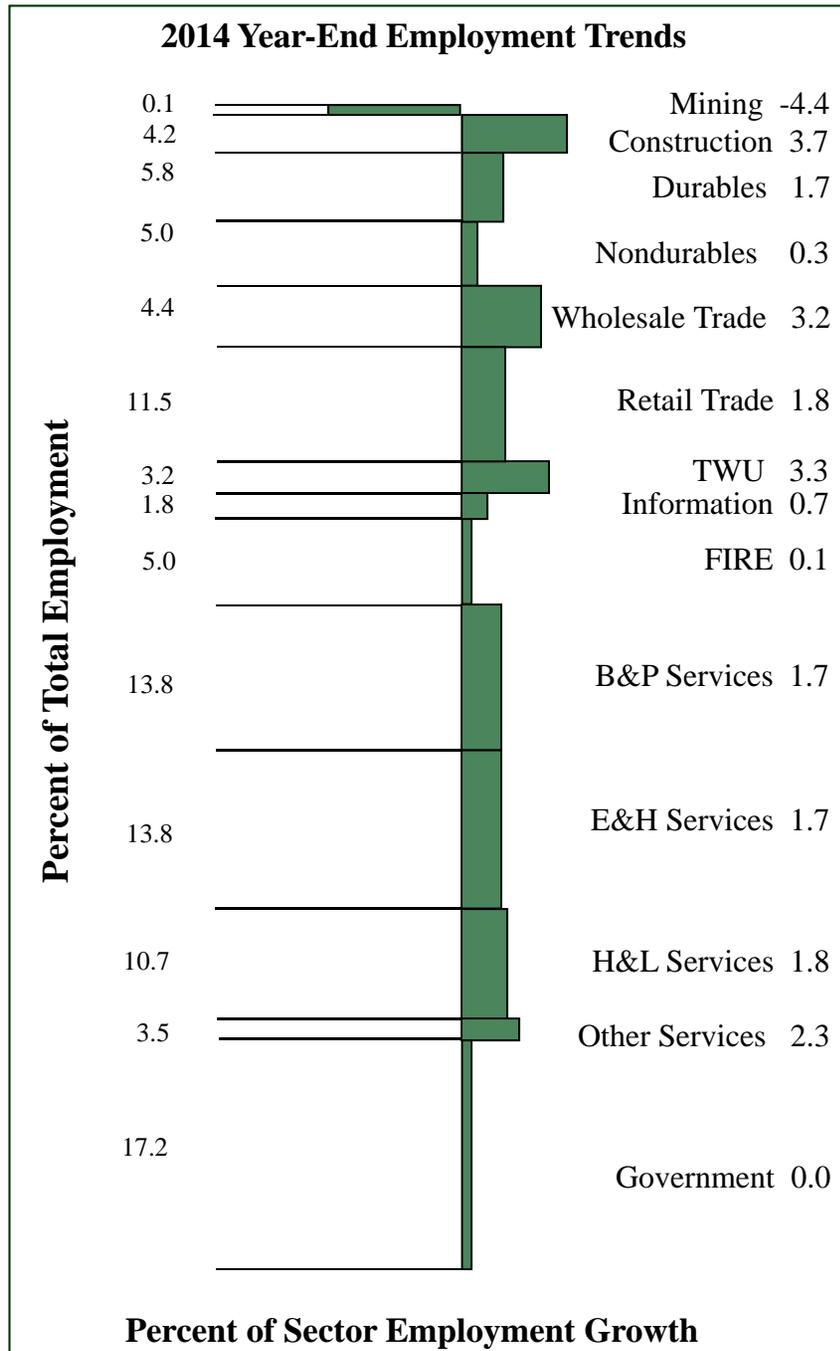
	Year-End*	Percent Change
Total Establishment		
Employment	4,096.8	1.6
Mining	5.5	0.0
Construction	166.4	-2.2
Manufacturing	444.2	0.3
Durable Goods	236.8	0.4
Nondurable Goods	207.4	0.2
Wholesale Trade	176.6	1.1
Retail Trade	470.6	2.7
TWU	127.2	3.8
Information	74.7	7.6
FIRE	206.7	1.3
B&P Services	565.0	4.1
E&H Services	565.6	1.4
H&L Services	435.5	2.1
Other Services	144.5	1.0
Government	714.3	-0.1

\*thousands of persons

# 2014 EMPLOYMENT SECTOR ANALYSIS

The sector employment analysis presented on this page is based on the new North American Industrial Classification System (NAICS). Seasonally adjusted nonagricultural employment in North Carolina is expected to reach 4,157,000 persons in December 2014, an increase of 1.5 percent over the employment level in December 2013. The state is expected to gain 60,200 net jobs during the year.

Twelve of the state's fourteen nonagricultural sectors of the economy are expected to experience employment increases during 2014. The sectors with the strongest employment increases in 2014 are construction at 3.7 percent, TWU at 3.3 percent, and wholesale trade at 3.2 percent.

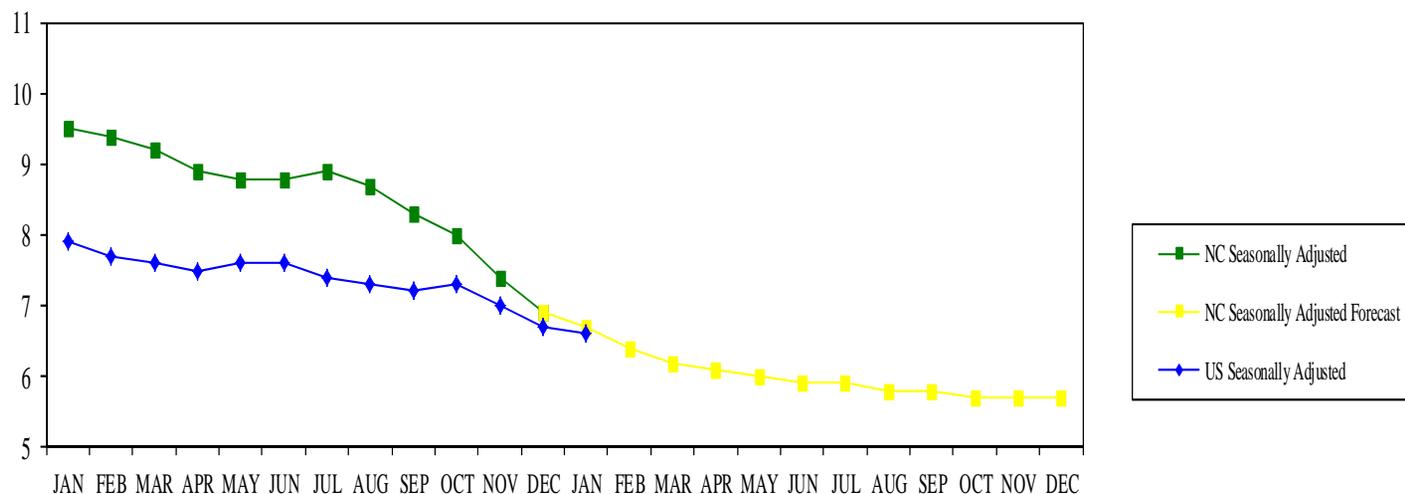


**2014 Employment Highlights**

	Year-End*	Percent Change
Total Establishment		
Employment	4,157.0	1.5
Mining	5.3	-4.4
Construction	172.5	3.7
Manufacturing	448.9	1.0
Durable Goods	240.9	1.7
Nondurable Goods	208.0	0.3
Wholesale Trade	182.3	3.2
Retail Trade	479.3	1.8
TWU	131.3	3.3
Information	75.2	0.7
FIRE	206.9	0.1
B&P Services	574.6	1.7
E&H Services	575.3	1.7
H&L Services	443.3	1.8
Other Services	147.8	2.3
Government	714.2	0.0

\*thousands of persons

# 2013-2014 NORTH CAROLINA UNEMPLOYMENT RATE



FORECAST reports historical seasonally adjusted monthly unemployment rates for North Carolina and the United States and forecasts the seasonally adjusted monthly unemployment rate for North Carolina. The seasonal adjustment accounts for variations in labor market conditions that cause regular fluctuations in the unemployment level each month.

The graph at the top of this page provides a summary of the monthly unemployment rates for 2013-2014. The solid green line represents the North Carolina seasonally adjusted historic unemployment rate. The seasonally adjusted unemployment rate for the United States is represented by the solid blue line. The North Carolina seasonally adjusted unemployment rate forecast is represented by the solid yellow line. The seasonally adjusted rates for the United States and North Carolina can be compared directly and provide more reliable estimates than the unadjusted rates.

The North Carolina seasonally adjusted unemployment rate began 2013 at 9.5 percent, while the United States rate was 7.9 percent. By December the North Carolina rate had fallen to 6.9 percent, while the United States rate had fallen to 6.7 percent. Both the U.S. and North Carolina unemployment rates are expected to continue the same downward trend throughout 2014, and by December the North Carolina unemployment rate is expected to be around 6.0 percent.