

# Barings/UNC Charlotte

## Economic Forecast

May 30<sup>th</sup>, 2019



UNC CHARLOTTE

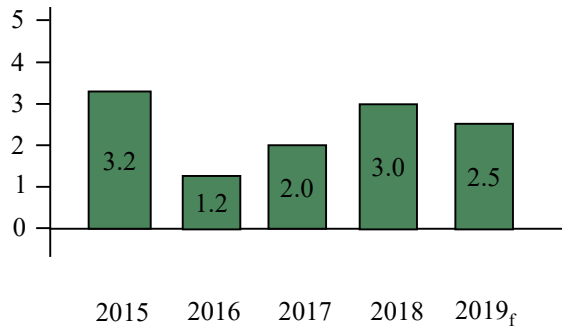
BELK COLLEGE *of* BUSINESS

BARINGS

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 May 8, 2019. The opinions expressed in this Forecast by Professor Connaughton (the Barings Professor of Financial Economics at the Belk College of Business) and UNC Charlotte do not necessarily represent the views of Barings.

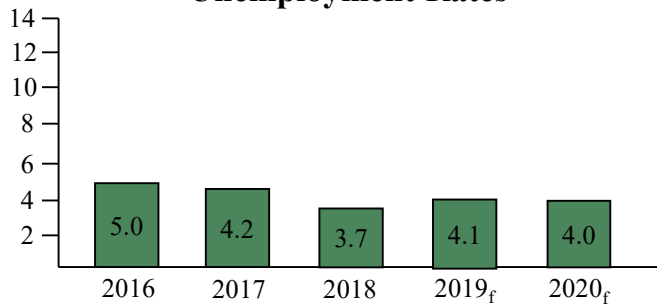
# FORECAST HIGHLIGHTS

### Annual Growth Rates In Real GDP



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).

### Year-End Seasonally Adjusted North Carolina Unemployment Rates



- For 2018, NORTH CAROLINA real GDP is increased by 3.0 percent over the 2017 level.

- Twelve of the state's fifteen economic sectors experienced output increases during 2018. The sectors with the strongest growth were information with a real increase of 8.1 percent; business and professional services with a real increase of 5.3 percent; durable goods manufacturing with a real increase of 5.2 percent; construction with a real increase of 4.8 percent; transportation, warehousing, and utilities (TWU) with a real increase of 4.7 percent; and nondurable goods manufacturing with a real increase of 4.1 percent.

- For 2018, NORTH CAROLINA establishments added 50,500 net additional jobs, an increase of 1.1 percent.

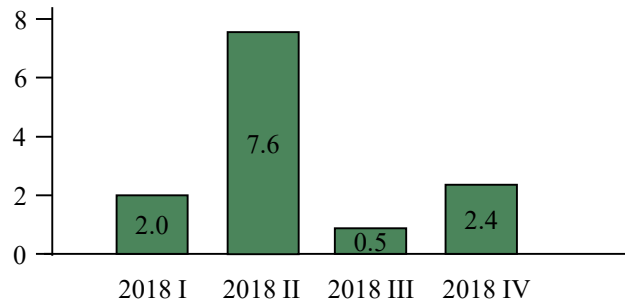
- For 2019, NORTH CAROLINA real GDP is forecast to increase by 2.5 percent over the 2018 level.

- Thirteen of the state's fifteen economic sectors are forecast to experience output increases during 2019. The sectors with the strongest expected growth are information with a projected real increase of 8.6 percent; business and professional services with a projected real increase of 4.8 percent; wholesale trade with a projected real increase of 4.0 percent; mining with a projected real increase of 3.4 percent; and durable goods manufacturing with a projected real increase of 3.2 percent.

- For 2019, NORTH CAROLINA establishments are forecast to add 116,900 net additional jobs, an increase of 2.6 percent.

- By December of 2019, the North Carolina unemployment rate is expected to be around 3.7 percent.

### Quarterly Growth Rates in Real GDP



### 2018 Highlights

	2018 *	Percent Change
<b>Current Dollars</b>		
Total Gross Product	565,800.8	5.2
<b>Constant (2012 Dollars)</b>		
Total Gross Product	497,989.0	3.0
Agricultural	5,077.4	-3.8
Mining	536.1	-8.1
Construction	16,581.5	4.8
Manufacturing	91,470.4	4.6
Durable Goods	41,318.3	5.2
Nondurable Goods	50,152.1	4.1
TWU	18,841.0	4.7
Wholesale Trade	31,209.4	2.4
Retail Trade	28,142.5	3.4
Information	22,494.2	8.1
FIRE	89,122.9	1.5
B & P	63,320.8	5.3
E & H	40,961.2	3.7
H & L	16,780.5	0.6
Services	9,512.1	2.1
Government	62,656.2	-0.6

\* Millions of dollars

## 2018 GSP

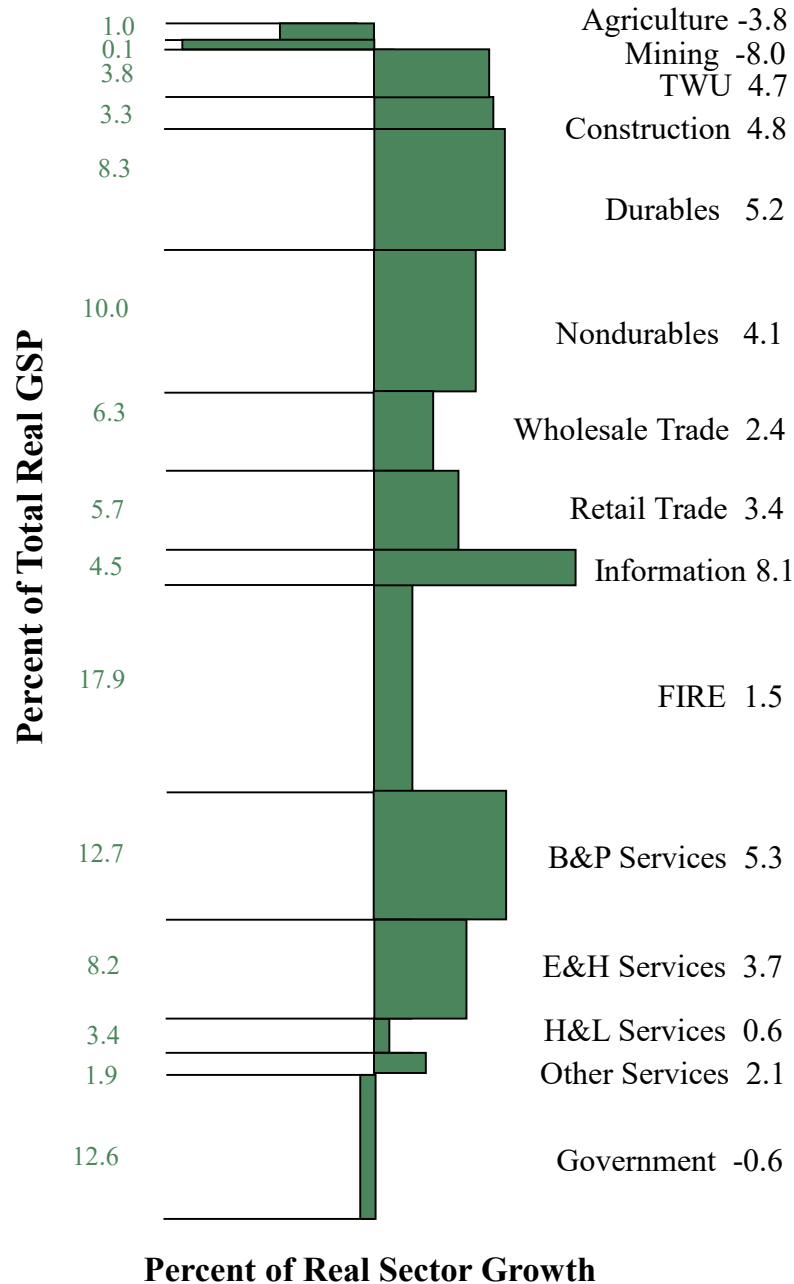
Gross State Product (GSP) reached a level of \$565,800.8 million in 2018. Real (inflation-adjusted) GSP is expected to increase by 2.6 percent over the 2017 level. This growth in 2018 represents the ninth consecutive year of growth since this expansion began in 2010.

For 2018, first quarter GSP increased by an annualized real rate of 2.0 percent. During the second quarter, GSP increased by an annualized real rate of 7.6 percent. In the third quarter, GSP increased by an annualized real rate of 0.5 percent. In the fourth quarter of 2018, GSP increased by an annualized real rate of 2.4 percent.

While nine consecutive years of economic growth is impressive, the size of that economic growth until recently has been somewhat lacking. During the second and third quarters of the year, it appears that the U.S. economy began to feel the impact of the 2018 tax decrease. However, for North Carolina GSP growth only popped during the second quarter. Third quarter GSP growth was down considerably. This was primarily due to a severe decline in the farm sector, which decreased at an annualized rate of 76.3 percent in the third quarter. North Carolina overall fourth quarter GSP did show a rebound once the significant farm sector decline cleared.

What remains to be seen is whether this newfound economic growth resulting from the tax cut can be sustained over the longer term. The longer term growth question is facing a fundamental challenge as there are only two sources of potential GDP growth. The first is labor force growth and the second is productivity growth. Since 2010 the average annual U.S. labor force growth rate has been only 0.63 percent and the average annual productivity growth has only been 0.80 percent. If these labor force and productivity average annual growth rates continue, the economy will be hard pressed to continue a 3.0 percent annual GDP growth rate, despite the recent legislation to lower income tax rates.

## 2018 Total Real GSP Growth 3.0%



## 2018 GSP SECTOR ANALYSIS

The chart to the left presents the contributions of each major economic sector to North Carolina's Gross State Product (GSP). The real (inflation-adjusted) growth rate for 2018 was 3.0 percent. Real growth rates for each sector (displayed in black type) are plotted on the horizontal axis. Actual percentages of GSP contributed by each sector (displayed in green type) are plotted on the vertical axis. The resulting rectangles show the weighted importance of each sector's growth during 2018. All of the sector information presented in the table to the left is based on the North American Industry Classification System (NAICS) definitions.

Twelve of the state's fifteen economic sectors experienced output increases during 2018. The sectors with the strongest growth were information with a real increase of 8.1 percent; business and professional services with a real increase of 5.3 percent; durable goods manufacturing with a real increase of 5.2 percent; construction with a real increase of 4.8 percent; transportation, warehousing, and utilities (TWU) with a real increase of 4.7 percent; nondurable goods manufacturing with a real increase of 4.1 percent; educational and health services with a real increase of 3.7 percent; and retail trade with a real increase of 3.4 percent.

Four other sectors are experienced growth rates, but at levels at or below the overall 3.0 percent GSP real growth rate. These sectors were wholesale trade with a real increase of 2.4 percent; finance, insurance, and real estate (FIRE) with a real increase of 1.5 percent; other services with a real increase of 2.1 percent; and hospitality and leisure services with a real increase of 0.6 percent.

Three sectors are experienced output declines in 2018. Mining with a real decrease of 8.3 percent, agriculture with a real decrease of 3.8 percent, and government with a real decrease of 0.6 percent.

## 2019 GSP

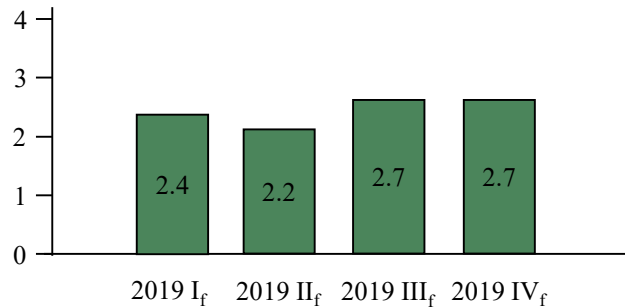
Gross State Product (GSP) is expected to reach a level of \$589,808.2 million in 2019. Real (inflation-adjusted) GSP is expected to increase by 2.5 percent over the 2018 level. Positive economic growth in 2019 would represent the tenth consecutive year of economic growth for the North Carolina economy since this expansion began in 2010.

For 2019, first quarter GSP is expected to increase by an annualized real rate of 2.4 percent. During the second quarter, GSP is expected to increase by an annualized real rate of 2.2 percent. In the third quarter, GSP is expected to increase by an annualized real rate of 2.7 percent. In the fourth quarter of 2019, GSP is expected to increase by an annualized real rate of 2.7 percent.

The bump up in the U.S. GDP growth experienced during the second and third quarters of 2018, is very likely temporary and is expected to fall back to a more modest rate of growth by 2019. In fact, fourth quarter U.S. GDP increased by a modest 2.2 percent. The mid-year 2018 bump up resulted from the fiscal policy tax rate decreases and an initial response to the rollback of government regulations on business. However, by 2019 the overriding longer term forces of stagnate labor force growth and modest productivity growth will dictate slower potential GDP and GSP growth rates.

Despite what is likely to be the short lived spike in GSP growth during 2018, the longer term outlook, at a more modest rate of growth, is fairly optimistic. Consumer Confidence still remains high despite the politics in Washington. In April the index settled at 129.2 up from the March index of 124.2. With the national unemployment rate consistently below 4.0 percent, more job openings than job seekers, modest interest rates (in a historical context), and continued consumer optimism, it will take a considerable negative event to slow the economy during 2019 or in to 2020.

### Quarterly Growth Rates in Forecasted Real GSP

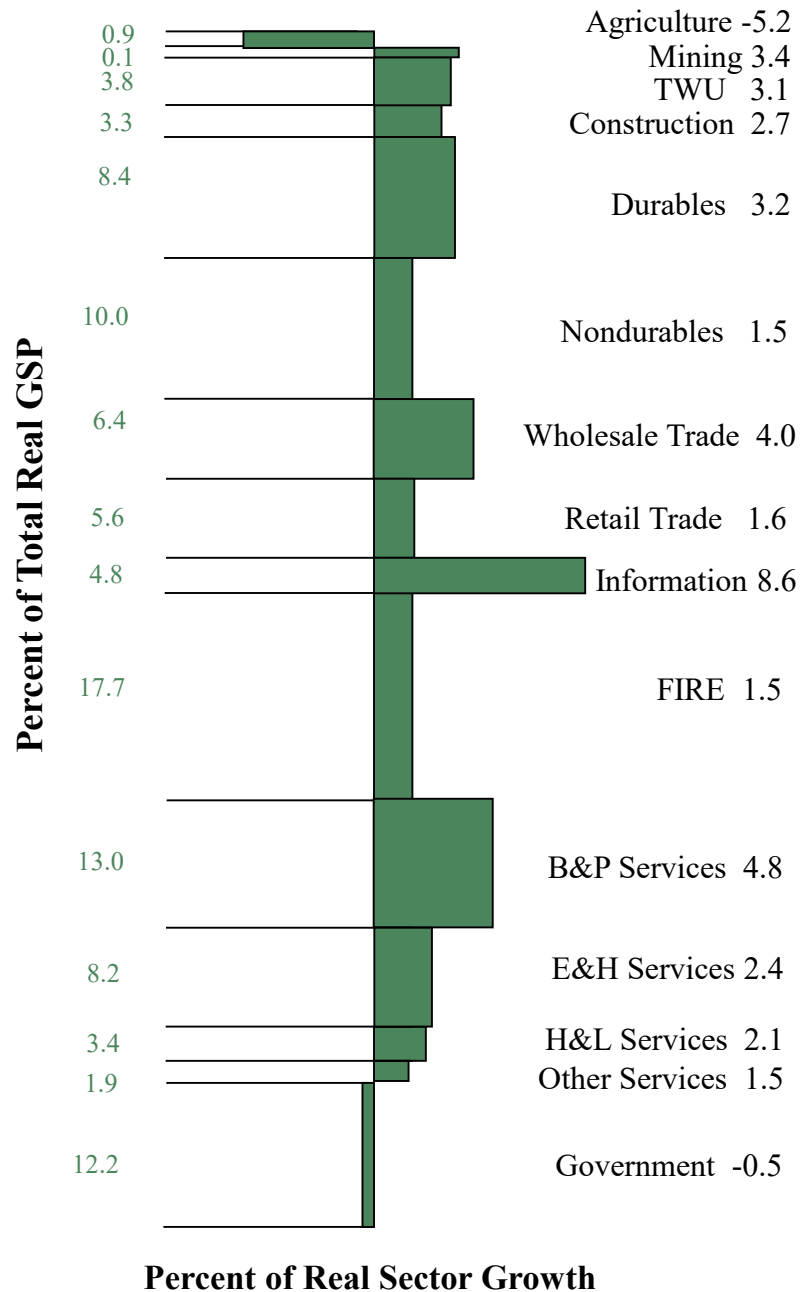


### 2019 Highlights

	2019 *	Percent Change
<b>Current Dollars</b>		
Total Gross Product	589,808.2	4.2
<b>Constant (2012 Dollars)</b>		
Total Gross Product	510,399.9	2.5
Agricultural	5,339.1	-5.2
Mining	554.1	3.4
Construction	17,028.4	2.7
Manufacturing	93,509.2	2.2
Durable Goods	42,629.2	3.2
Nondurable Goods	50,880.0	1.5
TWU	19,421.5	3.1
Wholesale Trade	32,464.1	4.0
Retail Trade	28,592.6	1.6
Information	24,435.2	8.6
FIRE	90,479.3	1.5
B & P	66,384.3	4.8
E & H	41,947.5	2.4
H & L	17,138.5	2.1
Services	9,653.2	1.5
Government	62,313.0	-0.5

\* millions of dollars

## 2019 Total Real GSP Growth 2.5%



## 2019 GSP SECTOR ANALYSIS

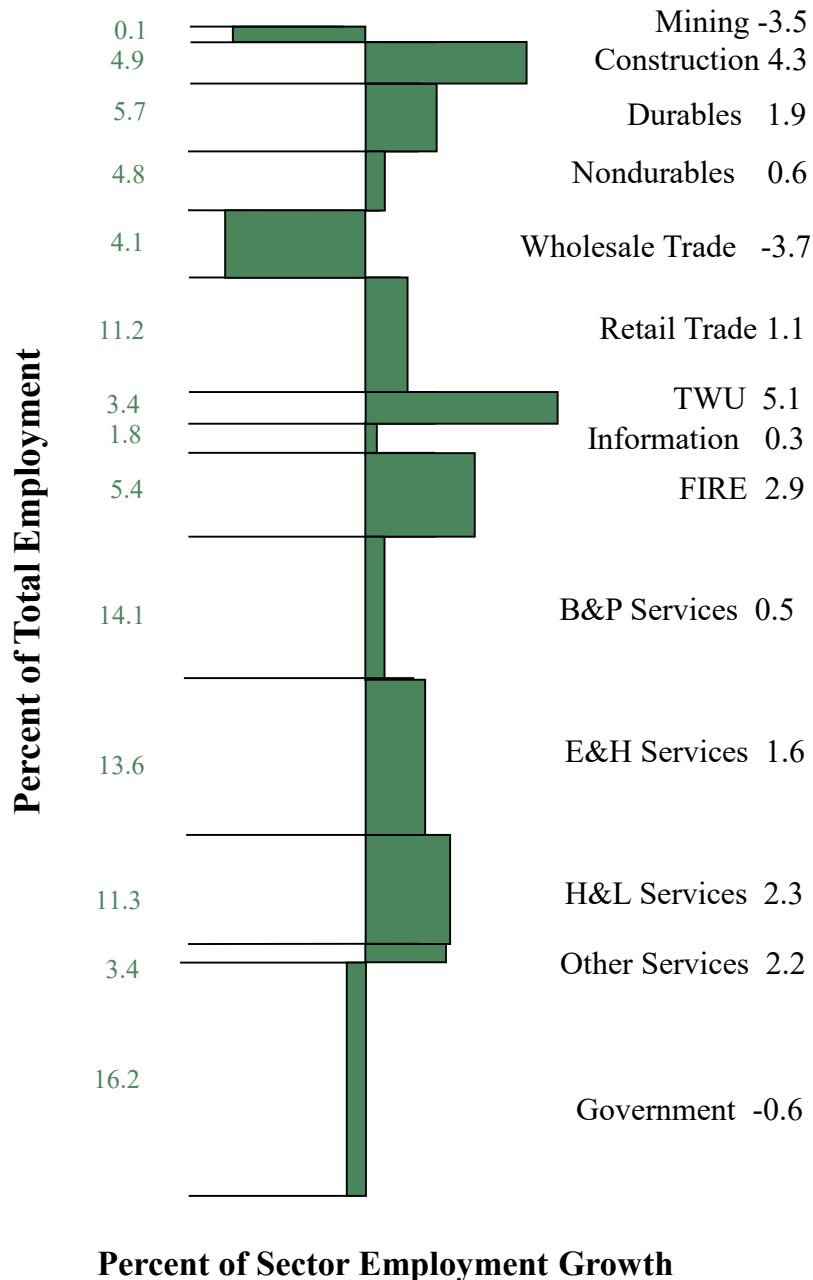
The chart to the left presents the projected contributions of each major economic sector to North Carolina's Gross State Product (GSP). The real (inflation-adjusted) growth rate for 2019 is forecast to increase by 2.5 percent. Projected real growth rates for each sector (displayed in black type) are 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 2019. All of the sector information presented in the table to the left is based on the new North American Industry Classification System (NAICS) definitions.

Thirteen of the state's fifteen economic sectors are forecast to experience output increases during 2019. The sectors with the strongest expected growth are information with a projected real increase of 8.6 percent; business and professional services with a projected real increase of 4.8 percent; wholesale trade with a projected real increase of 4.0 percent; mining with a projected real increase of 3.4 percent; durable goods manufacturing with a projected real increase of 3.2 percent; transportation, warehousing; utilities (TWU) with a projected real increase of 3.1 percent; and construction with a projected real increase of 2.7 percent.

Six other sectors are expected to experience growth rates, but at levels at or below the overall 2.5 percent GSP real growth rate. These sectors are educational and health services with a projected real increase of 2.4 percent; hospitality and leisure services with a projected real increase of 2.1 percent; retail trade with a projected real increase of 1.6 percent; nondurable goods manufacturing with a projected real increase of 1.5 percent; finance, insurance, and real estate (FIRE) with a projected real increase of 1.5 percent; and ; other services with a projected real increase of 1.5 percent.

Only agriculture and government are expected to experience an output decline in 2019.

## 2018 Year-End Employment Trends



## 2018 EMPLOYMENT SECTOR ANALYSIS

The sector employment analysis presented on this page is based on the new North American Industrial Classification System (NAICS) and a major BLS benchmarking adjustment released in March of 2019. As a result, seasonally adjusted nonagricultural employment in North Carolina reached 4,499,700 persons in December 2018, an increase of only 1.1 percent over the employment level in December 2017. With the new benchmarked data, the state added 50,500 net jobs in 2018.

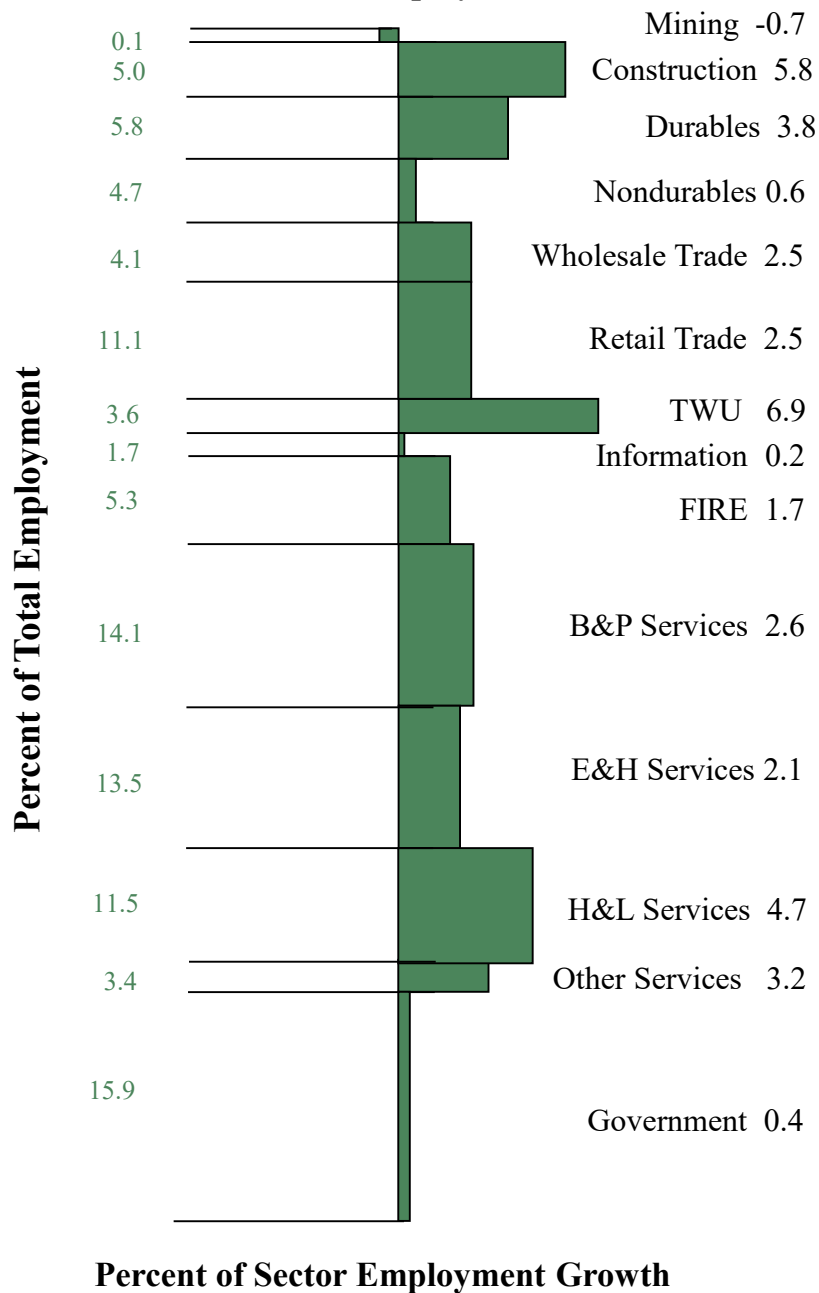
Eleven of the state's fourteen nonagricultural sectors of the economy experienced employment increases during 2018. The sectors with the strongest employment increases in 2018 were TWU at 5.1 percent, construction at 4.3 percent and FIRE at 2.9 percent.

### 2018 Employment Highlights

	Year-End*	Percent Change
Total Establishment		
Employment	4,499.7	1.1
Mining	5.5	-3.5
Construction	219.6	4.3
Manufacturing	474.2	1.3
Durable Goods	258.6	1.9
Nondurable Goods	215.6	0.6
Wholesale Trade	182.8	-3.7
Retail Trade	502.1	1.1
TWU	154.6	5.1
Information	80.0	0.3
FIRE	241.7	2.9
B&P Services	634.8	0.5
E&H Services	612.1	1.6
H&L Services	507.9	2.3
Other Services	154.1	2.2
Government	730.3	-0.6

\*thousands of persons

## 2019 Year-End Employment Trends



## 2019 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 4,616,600 persons by December 2019, an increase of 2.6 percent over the employment level in December 2018. The state is expected to gain 116,900 net jobs during the year.

Thirteen of the state's fourteen nonagricultural sectors of the economy are expected to experience employment increases during 2019. The sectors with the strongest expected employment increases in 2019 are TWU at 6.9 percent, construction at 5.8 percent, and hospitality and leisure services at 4.7 percent.

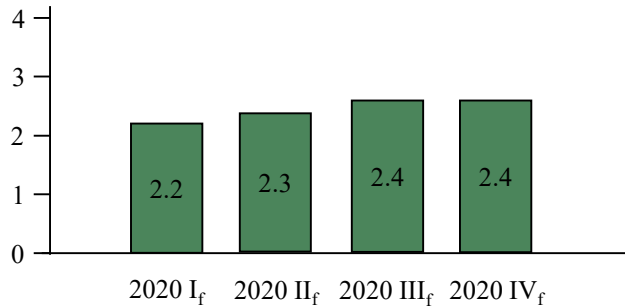
### 2019 Employment Highlights

	Year-End*	Percent Change
Total Establishment		
Employment	4,616.6	2.6
Mining	5.5	-0.7
Construction	232.3	5.8
Manufacturing	485.5	2.4
Durable Goods	268.5	3.8
Nondurable Goods	217.0	0.6
Wholesale Trade	187.3	2.5
Retail Trade	514.6	2.5
TWU	165.3	6.9
Information	80.1	0.2
FIRE	245.8	1.7
B&P Services	651.6	2.6
E&H Services	625.0	2.1
H&L Services	531.7	4.7
Other Services	159.1	3.2
Government	732.9	0.4

\*thousands of persons



### 2020 Quarterly Growth Rates in Forecasted Real GSP



## 2020 OUTLOOK

Gross State Product (GSP) is expected to reach a level of \$616,061.6 million in 2020. Real (inflation adjusted) GSP is expected to increase by 2.4 percent over the 2019 level. This growth in 2020 would follow 2.5 percent growth in 2019 and result in eleven years of modest, but sustained economic growth for the North Carolina economy. The North Carolina economy is expected to add 104,300 jobs in 2020, reducing the unemployment rate to around 3.5 percent by December 2020.

### 2020 GSP Highlights

	2020 *	Percent Change
<b>Current Dollars</b>		
Total Gross Product	616,061.6	4.5
<b>Constant (2012 Dollars)</b>	522,665.4	
Total Gross Product	5,109.7	2.4
Agricultural	553.5	-4.3
Mining	17,567.9	-0.1
Construction	95,854.8	3.2
Manufacturing	43,988.9	2.5
Durable Goods	51,865.9	3.2
Nondurable Goods	20,177.6	1.9
TWU	33,318.4	3.9
Wholesale Trade	29,372.3	2.6
Retail Trade	26,160.4	2.7
Information	92,051.2	7.1
FIRE	68,682.7	1.7
B & P	42,906.86	3.5
E & H	17,588.17	2.3
H & L	9,865.1	2.6
Services	62,313.2	2.2
Government		0.0

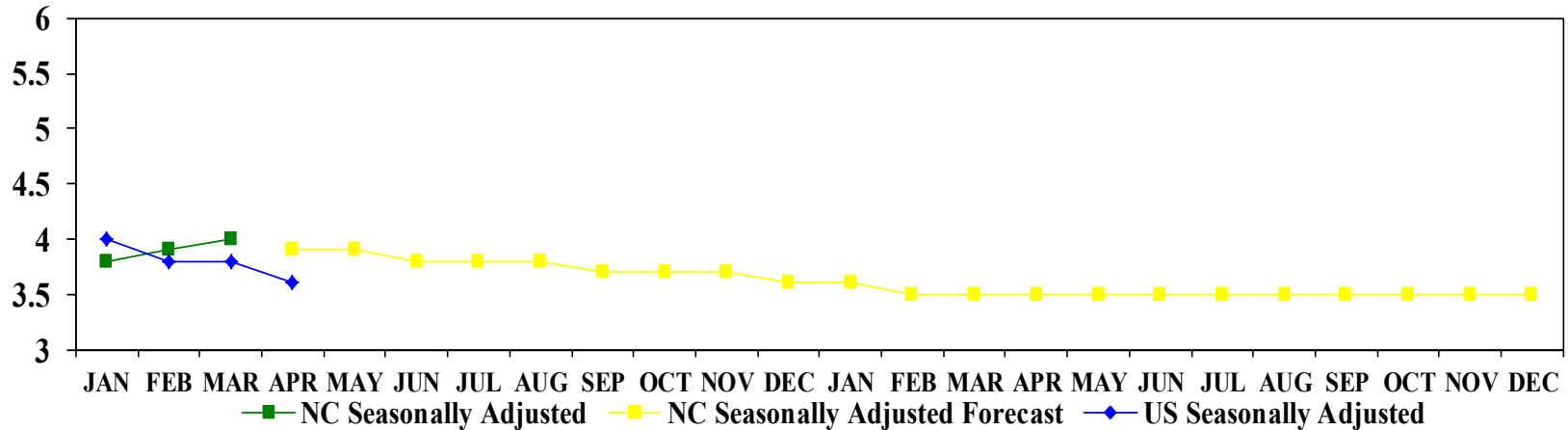
\* millions of dollars

### 2020 Employment Highlights

	Year-End*	Percent Change
<b>Total Establishment</b>		
Employment	4,720.8	2.3
Mining	5.4	-0.8
Construction	243.3	4.7
Manufacturing	503.4	3.7
Durable Goods	282.3	5.1
Nondurable Goods	221.1	1.9
Wholesale Trade	190.9	1.9
Retail Trade	528.1	2.6
TWU	177.4	7.3
Information	80.1	0.0
FIRE	250.0	1.7
B&P Services	664.1	1.9
E&H Services	631.9	1.1
H&L Services	547.6	3.0
Other Services	163.4	2.7
Government	735.1	0.3

\*thousands of persons

# 2019-2020 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 2018 and 2019. 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 United States started 2019 with an unemployment rate of 4.0 percent, which has declined to 3.6 percent by April. North Carolina started the year with a 3.8 percent rate of unemployment, which increased to 4.0 percent by March. The North Carolina unemployment rate is expected to drop to 3.7 percent by December 2019 and 3.5 percent by December of 2020.