

# Economic Conditions

PIMA's 2013 Mid-Year Meeting

May 14, 2013

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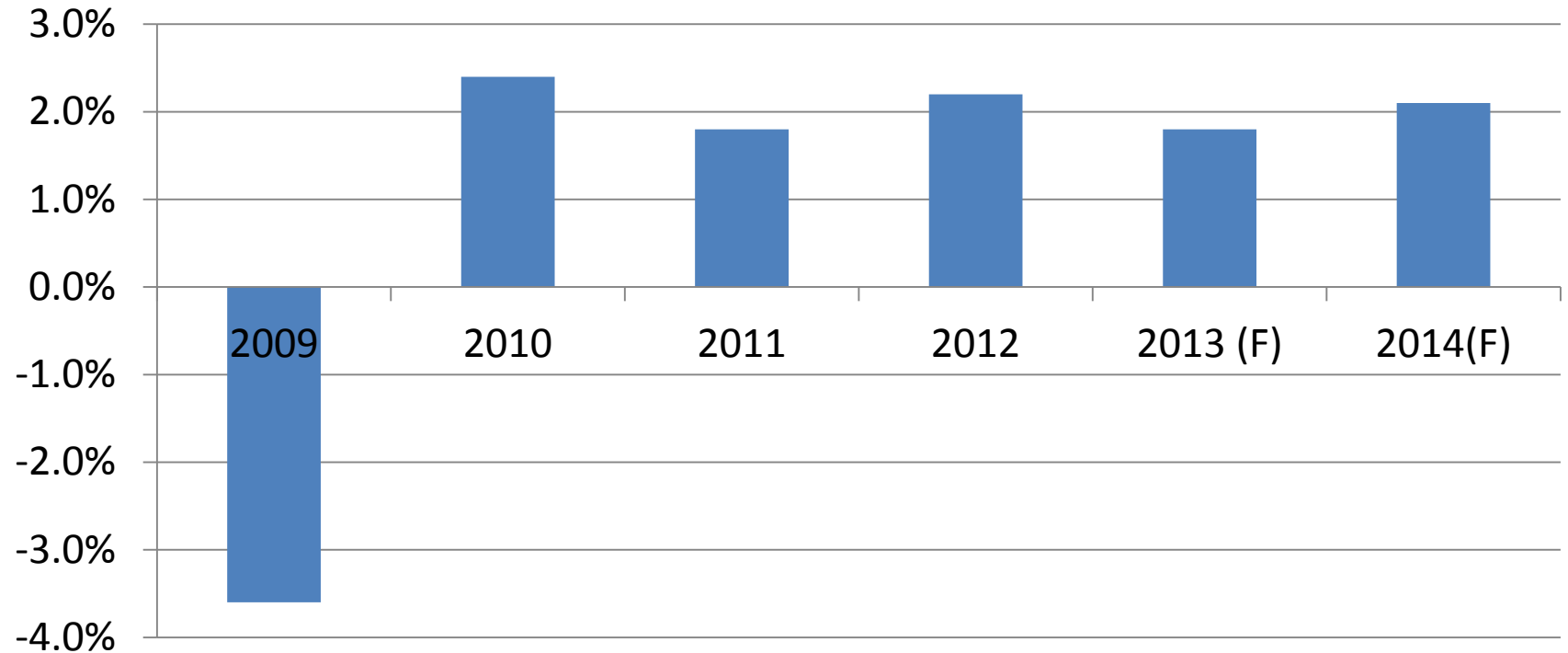
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# Web Slides

- <http://www.csb.uncw.edu/cbes/events/index.htm>

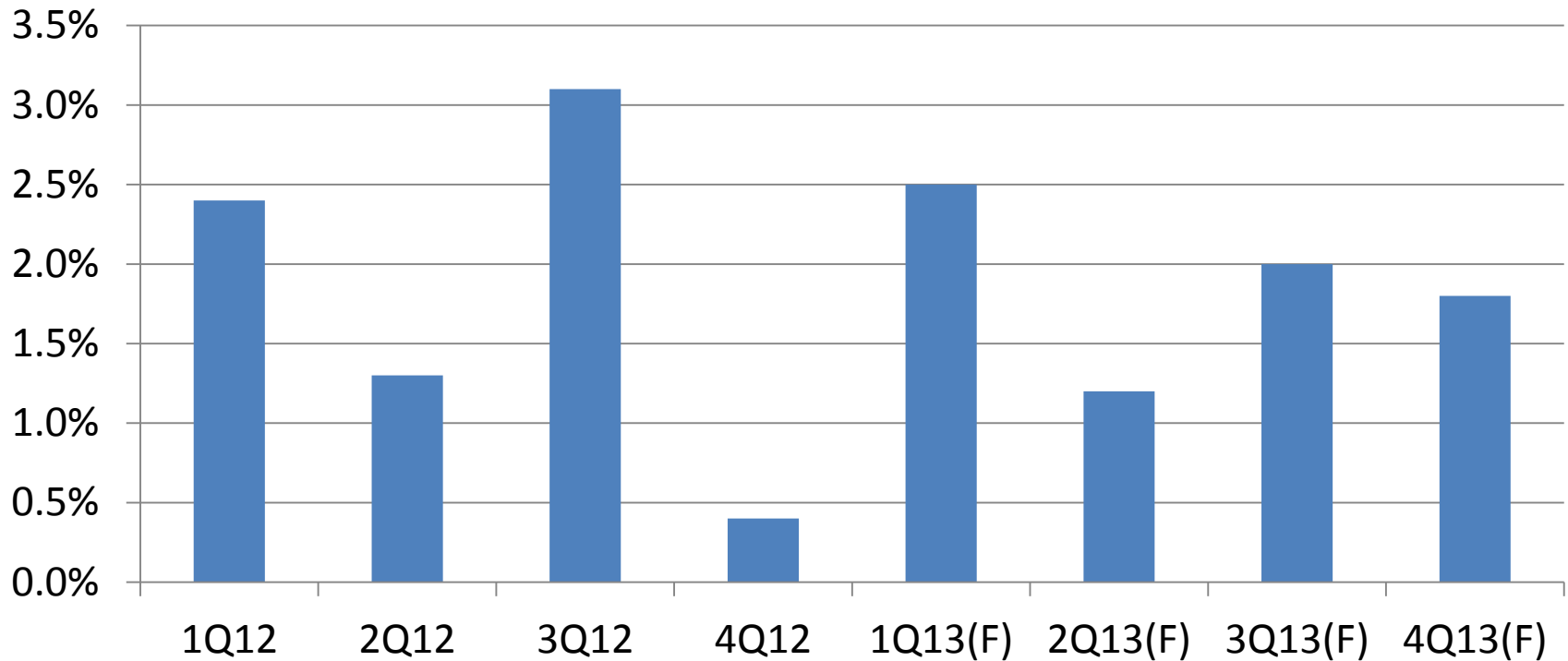
# Real US Gross Domestic Product Growth Rates



Source: Bureau of Economic Analysis, U. S. Department of Commerce; Economics Group, Wells Fargo Securities, Weekly Economic & Financial Commentary, May 10, 2013.

# Real US Gross Domestic Product Growth Rates

## (Quarterly Change at an Annual Rate)



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# The US Economy

- Growth in 2013 US real GDP will likely be “soft” in the middle part of the year.
  - Job growth will continue, but at a “modest” pace.
    - There were broad-based employment gains in most industries in April.
    - Average weekly hours at work fell 0.6% in April.
    - Unemployment claims
      - Layoffs continue to fall.
      - First-time unemployment claims fell 4,000 last week to 323,000, a five-year low.
      - Continuing claims are trending lower.
  - Growth in personal income and spending has slowed.
    - Auto sales grew at a slower rate in April.
    - Average hourly earnings rose only 0.2% over April.
    - Consumption spending will likely “downshift” to around a 2% annual rate in 2Q13, down from a 3.2% annual rate over 1Q2013.

# The US Economy cont.

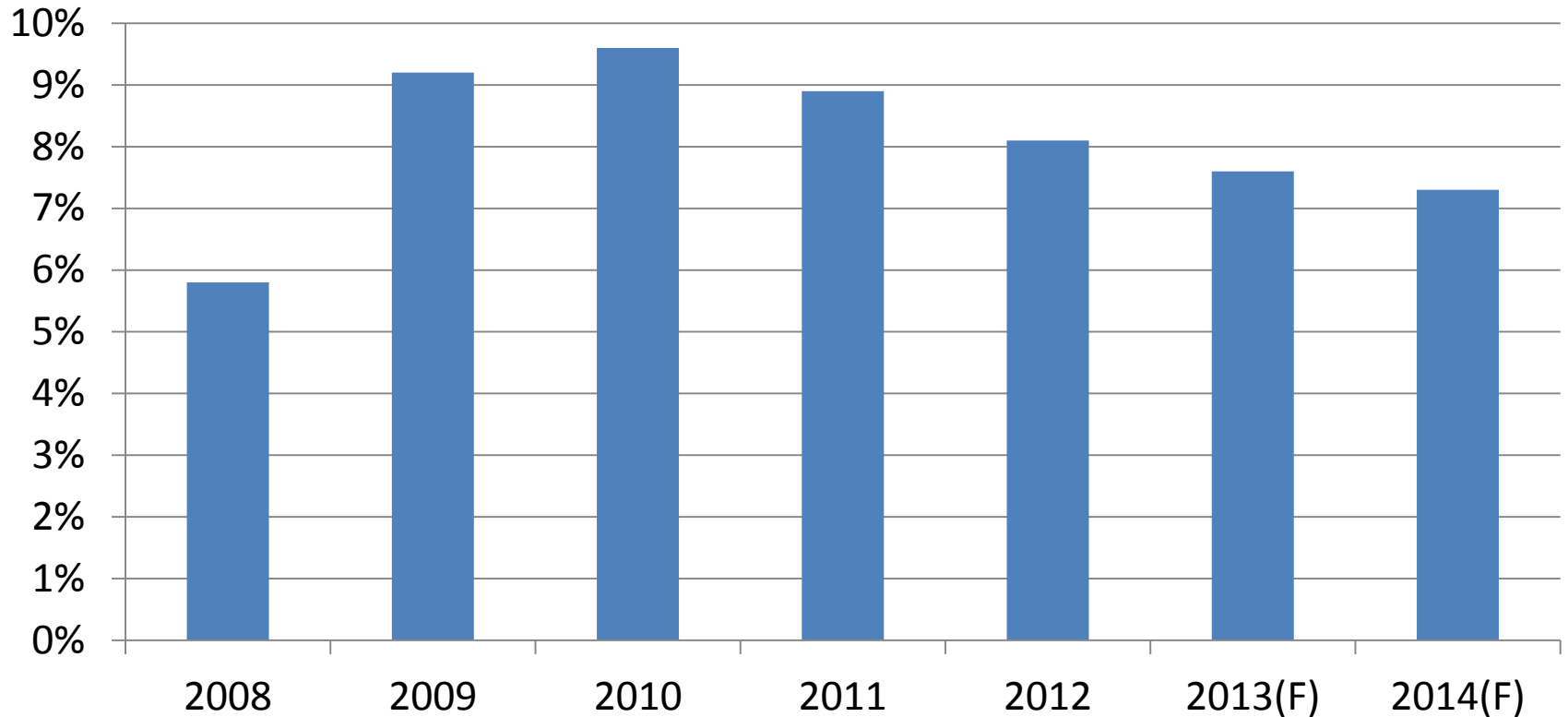
- Hiring fell in March.
  - There were 192,000 fewer hires and 55,000 fewer job openings.
    - The fall in new hires was largely concentrated in retail trade and manufacturing.
    - The fall in job openings was mainly concentrated in professional and business services, government, health care, and social services.
- The quit rate, which measures the number of workers voluntarily quitting their jobs as a share of total employment, was 1.5% in March, the same as it was a year ago.
  - The unwillingness of workers to move on to possibly better jobs is likely a sign that many workers see the improvement in the labor market as tenuous.
  - When the labor markets strengthen to the point where a larger proportion of workers voluntarily quit their jobs, a substantial boost in economic activity will likely follow.

# The European Central Bank (ECB)

- The main ECB policy interest rate (LIBOR) was reduced from 0.75% (where it had been since July 2012) to 0.5% in May.
  - The ECB has committed to keeping its policy stance “accommodative for as long as needed.”
  - However, this rate cut will not likely have a major effect on Euro (Germany, France, Italy, and Spain) economic growth.
    - It’s probably not large enough.
    - Lending standards are more important now than interest rates.
- To spur lending, the ECB *may* develop a market for asset-backed securities collateralized by business loans.
  - Presumably, banks would be more willing to lend if they knew that they could eventually get those loans off their balance sheets via securitization.



# The U. S. Unemployment Rate

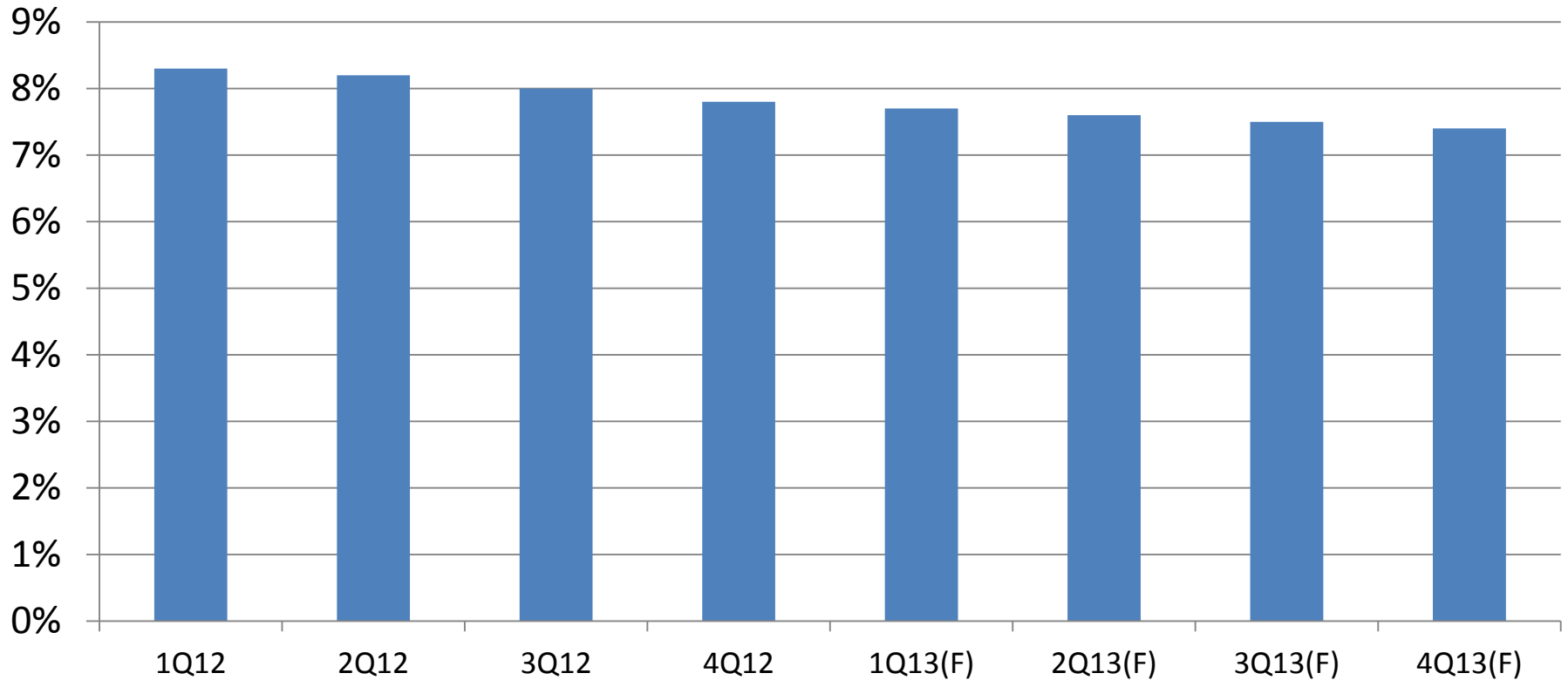


Source: Bureau of Labor Statistics, US Department of Labor; Economics Group, Wells Fargo Securities, Weekly Economic & Financial Commentary, May 10, 2013.





# The U. S. Unemployment Rate



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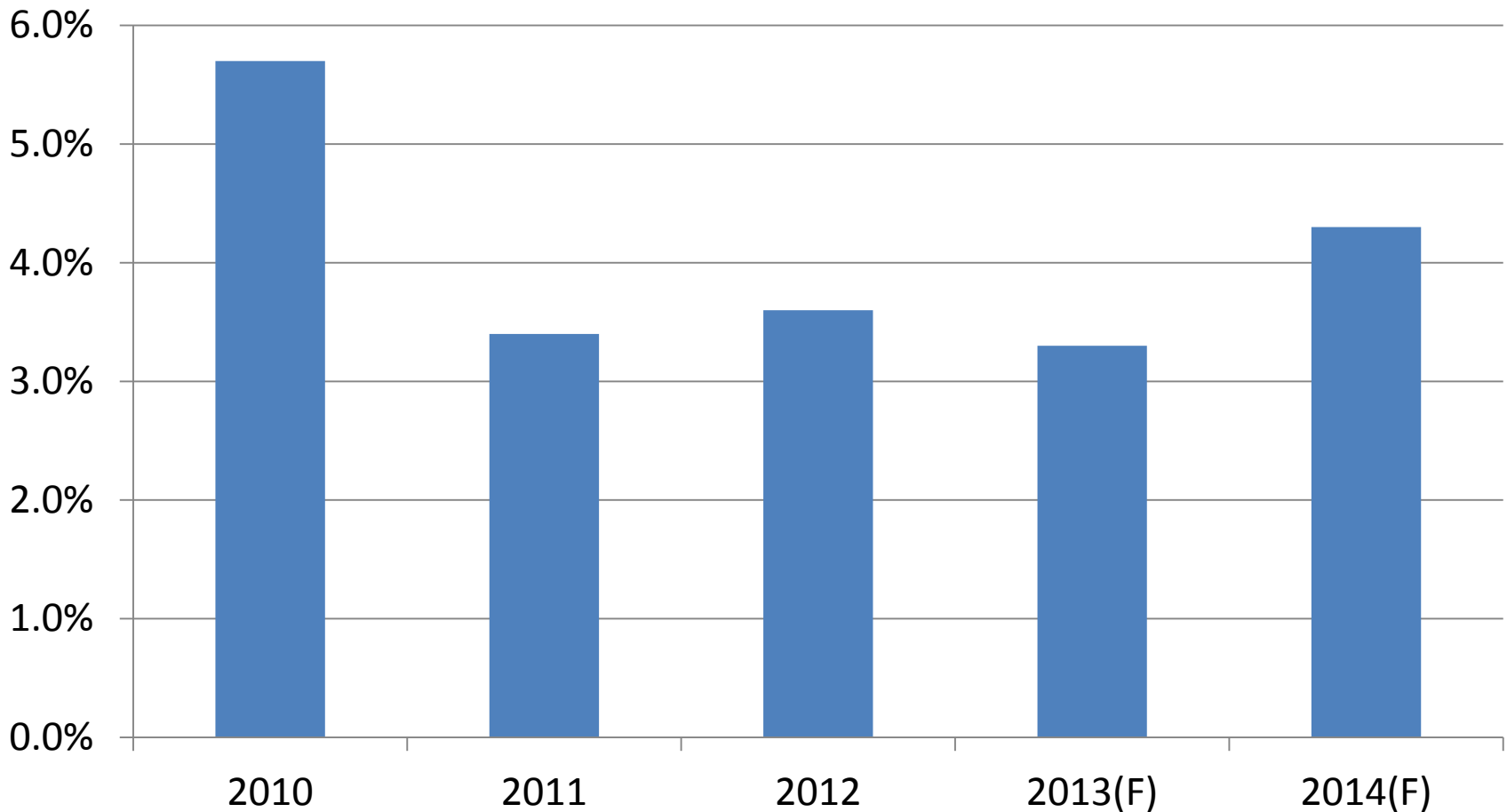
# US Employment

- The Bureau of Labor Statistics (BLS) May 2013 Employment Situation Summary showed that employment rose by 165,000 in April 2013.
  - Employment rose in professional and business services, food services and drinking places, retail trade, and health care.
- The national unemployment rate was little changed from March 2013 at 7.5%.
  - Down 40 basis points (0.4 percentage points) from January 2013
  - The number of unemployed persons was 11.7 million, little changed from March 2013 but down 673,000 from January 2013.
  - The number of long-termed unemployed (unemployed for 27 or more weeks) fell 258,000 to 4.4 million.
    - 37.4% of total unemployment, down 220 basis points from March 2013 and 310 basis points from April 2012

# April 2013 Unemployment

Group	Unemployment Rate (%)	Change from March 2013
Adult women	6.7%	Down
Adult men	7.1%	None
Teenagers	24.1%	None
Whites	6.7%	None
Blacks	13.2%	None
Hispanics	9%	None
Asians (NSA)	5.1%	None

# US Industrial Production Growth Rates

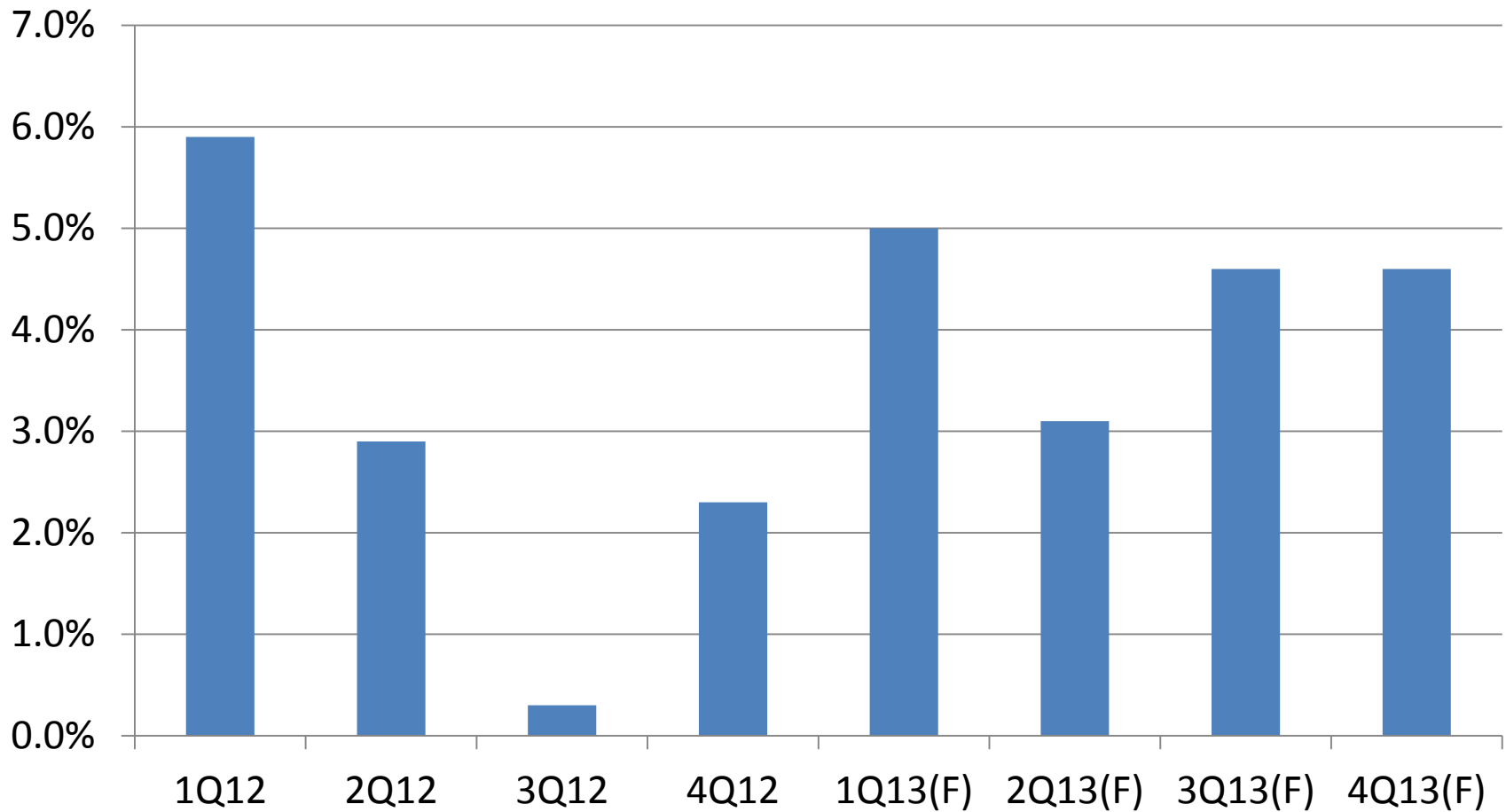


Source: Board of Governors, Federal Reserve System; Economics Group, Wells Fargo Securities, Weekly Economic & Financial Commentary, May 10, 2013.



# US Industrial Production Growth Rates

(Compound Annual Growth Rate, Quarter-over-Quarter)



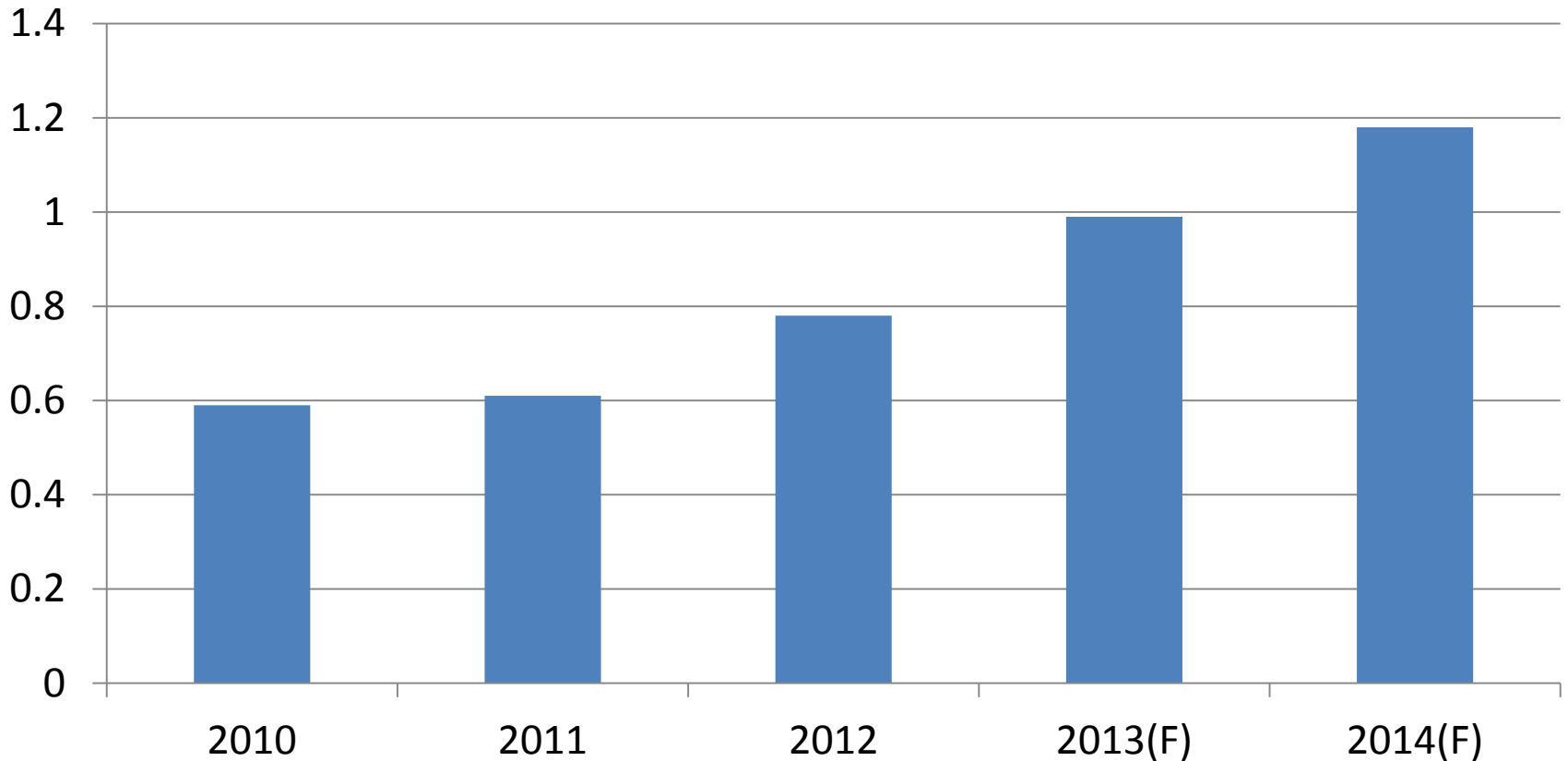
Source: Board of Governors, Federal Reserve System; Economics Group, Wells Fargo Securities, Weekly Economic & Financial Commentary, May 10, 2013.



# Housing

- The number of homes in foreclosure continues to fall.
  - During 1Q2013, the foreclosure rate fell 19 basis points to 3.55%.
- Home prices were 10.3% higher in March 2013 than a year earlier.
- However, the home ownership rate continues to fall.
  - It reached an 18-year low of 65% during 1Q2013.
  - It is difficult to envision a sustainable recovery in housing with fewer homeowners.
- On the plus side, mortgage applications have risen and are up 12.1% over March 2012.

# Housing Starts (Millions of Units)

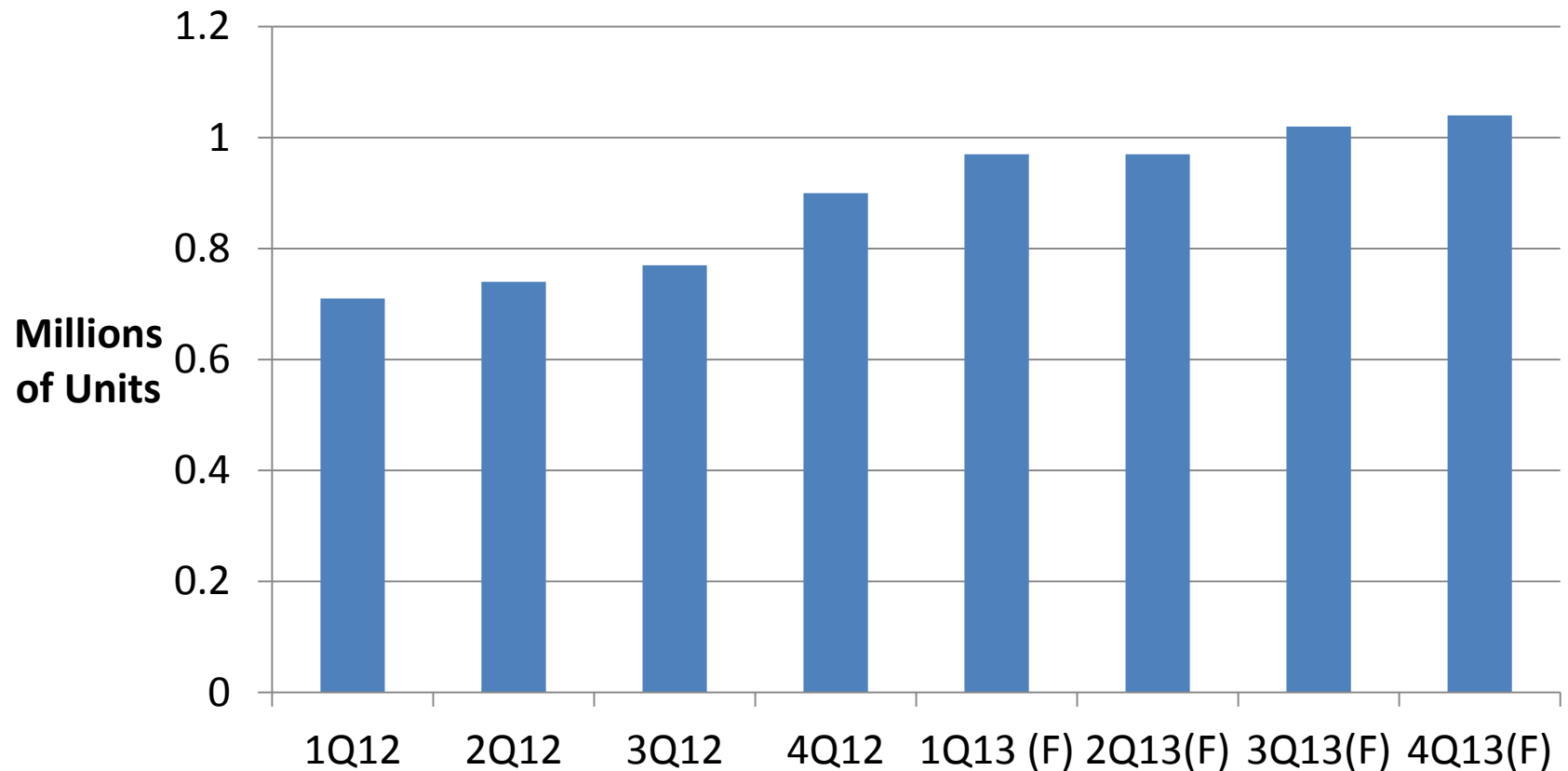


Source: US Department of Commerce; Economics Group, Wells Fargo Securities, [Weekly Economic and Financial Commentary](#), May 10, 2013.



# Housing Starts

## (Quarterly Change at an Annual Rate)



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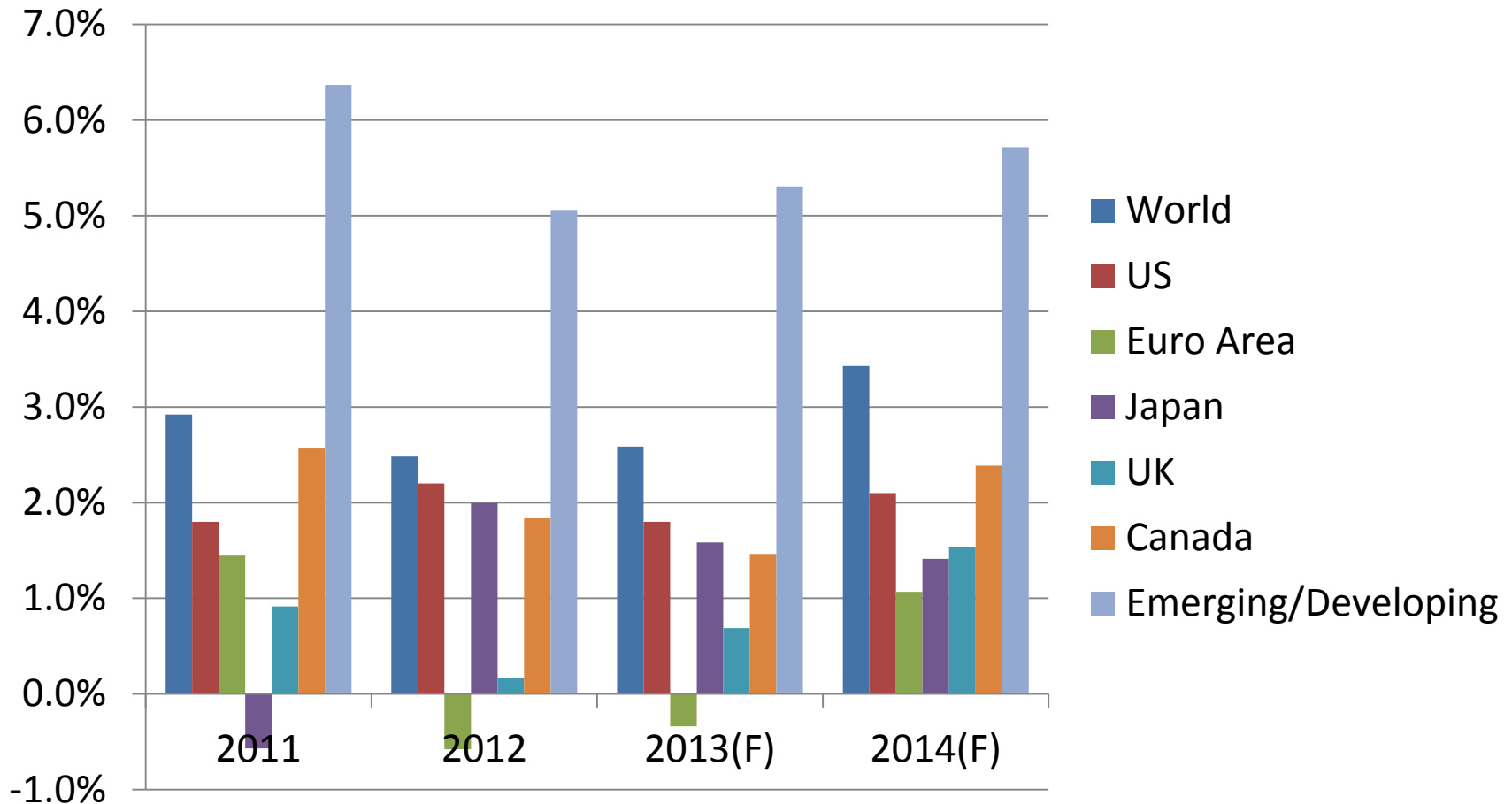
# US Manufacturing

- Despite the widely held view that US manufacturing is in decline, the industrial sector remains an important sector.
  - However, the same can not be said about manufacturing employment.
    - Late 1970s
      - Manufacturing employment represented 20% of total employment.
      - At its height in June 1979, manufacturing employed 19.5 million.
- Manufacturing processes have become more capital intensive.
  - There is less need for labor.
    - In March 2013, manufacturing employed 11.9 million.
  - Skill requirements for labor employed in manufacturing have risen.
  - These shifts are necessary for the US to maintain global competitiveness.
  - See The Evolution of U.S. Manufacturing at <https://www.wellsfargo.com/com/insights/economics/special-reports>.

# Policy Uncertainty and Sequestration

- Given higher taxes, ongoing policy uncertainty, and \$44 billion of sequestration currently scheduled for FY 2013, growth prospects for the first half of 2013 will likely be at a below-average pace of around 2.5%.
- The US economy should be able to withstand these effects given continued strength in housing, solid motor vehicle sales activity, and a rise in exports as growth abroad gradually improves.

# Global Economic Growth



Source: International Monetary Fund; Bureau of Economic Analysis, US Department Of Commerce; Economics Group, Wells Fargo Securities, Weekly Economic & Financial Commentary, May 10, 2013.

# Annual Compound Growth Rates (2011-14)

Area	Annual Compound Growth Rate (%)	Doubling Time (Years)
World	2.9	25
United States	2.0	36
Euro Area	0.4	180
Japan	1.2	60
United Kingdom	0.9	80
Canada	2.1	34
Emerging/Developing Countries	5.7	13

# The Global Economy in 2013

- A gradual upturn in global economic activity is expected.
- Euro area (Germany, France, Italy, Spain)
  - Overall economic activity is expected to fall 0.2% in 2013.
  - The reasons include continued tight lending conditions and still-high uncertainty about the ultimate resolution of the debt crisis.

# The Global Economy in 2013 (cont.)

- Japan
  - The current recession is expected to be short-lived.
    - The effects of temporary factors, e.g., the car subsidy and disruptions to trade with China, will subside.
    - A sizable fiscal stimulus and further monetary easing will boost growth as will a rise in exports and a weaker yen.

# The Global Economy in 2013 (cont.)


- Emerging market and developing countries
  - Growth of 5.5% is projected over 2013.
    - Lower than the high rates of 2011-12
    - Weakness in exports
    - Lower commodity prices
    - Supply bottlenecks
    - Policy uncertainty

# Special Thanks






# Quarterly Barometer



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## Economic Barometer



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Volume V, Issue 1

April 2013

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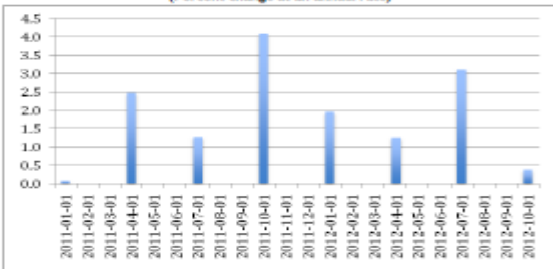
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### The U.S. Economy: Are Green Chutes Emerging?

News on the economy in recent months has on balance been upbeat, suggesting that growth may have shifted up from the sluggish pace of 2012. This seems to have happened even as taxes were increased as a result of the January 1 agreement to avoid the worst of the "fiscal cliff," and as sequester cuts in federal spending kicked in on March 1. Does this mean that the economy may finally be emerging from the doldrums?

The chart below illustrates growth in real GDP through the end of last year. While growth was sluggish over the year, it ended on an especially weak note. This weakness was compounded by the disruption from Hurricane Sandy and some other one-off factors. Clearly, more economic vigor is long overdue.

**Growth in Real GDP**  
(Percent change at an annual rate)



Quarter	Annual % Change
2011-01-01	0.0
2011-02-01	0.0
2011-03-01	0.0
2011-04-01	2.5
2011-05-01	0.0
2011-06-01	1.5
2011-07-01	0.0
2011-08-01	0.0
2011-09-01	0.0
2011-10-01	4.2
2011-11-01	0.0
2011-12-01	0.0
2012-01-01	2.0
2012-02-01	0.0
2012-03-01	0.0
2012-04-01	1.5
2012-05-01	0.0
2012-06-01	0.0
2012-07-01	3.1
2012-08-01	0.0
2012-09-01	0.0
2012-10-01	0.5

### Readings on the Labor Market More Upbeat

Overall, readings on the labor market have been more favorable over recent months. Even with a pause in March, private sector payrolls have grown an average of 200 thousand per month since last fall, well above the pace required to absorb labor force entrants. Beyond this, employers have been upping the hours of work for their em-

Learn about our benefactors, H. David and Diane Swain at [www.csb.uncw.edu/swaincenter](http://www.csb.uncw.edu/swaincenter)