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The U.S. Economy: Is this Really the New Normal?

Thomas D. Simpson, Ph.D.
Recent Growth in Perspective

- Despite a pickup in Q3, growth thus far in 2016 has been disappointing.
- Through Q3, real GDP has expanded at a 1-1/2% pace.
- Our ability to grow has dropped appreciably, too.
Growth in Potential Output

- Slowdown in labor and productivity have contributed to slowdown in growth in potential real GDP

<table>
<thead>
<tr>
<th>Period</th>
<th>1950-73</th>
<th>1974-90</th>
<th>1990-01</th>
<th>Current</th>
</tr>
</thead>
<tbody>
<tr>
<td>Growth in potential</td>
<td>4.0</td>
<td>3.2</td>
<td>3.3</td>
<td>1.8</td>
</tr>
<tr>
<td>Growth in labor</td>
<td>1.6</td>
<td>2.1</td>
<td>1.3</td>
<td>0.4</td>
</tr>
<tr>
<td>Growth in productivity</td>
<td>2.4</td>
<td>1.1</td>
<td>2.0</td>
<td>1.4</td>
</tr>
</tbody>
</table>
Key to Productivity Growth is **Investment**

- But growth in business investment has been negative, despite favorable conditions

Growth in Real Business Fixed Investment
Favorable Investment Climate

• High investment returns

• Continued favorable financing conditions

Source: FRB San Francisco
Forward Investment Indicators Remain Soft

Orders for Nondefense Capital Goods
Household Spending a Plus

- Attributable to continued job growth, solid wealth positions, and light debt-servicing burdens
Outlook: Small Pickup Ahead

• Consumption will continue to be the workhorse
• To a lesser extent residential construction
• Drag from business investment and exports will lessen
• A small boost from budgets of federal and state and local governments
• Growth in real GDP will average a little above Potential
• Forecast: 2.1%
Slack Absorbed Slowly

- Growth a touch above potential, slack will diminish slowly
- The measured unemployment rate, however, will stay around recent levels
Workers Returning Will Buoy Unemployment

• Underlying trend decline in participation rate will continue to be interrupted by return of discouraged workers
• This will keep the unemployment rate from falling

![Participation Rate Graph]

- Percent: 62, 63, 64, 65, 66, 67, 68
Remaining Slack Will Hold Inflation Low

- Inflation will stay below Fed’s 2% target

12-Month Core PCE Inflation

Fed target
Fed Dilemma

• Persistent shortfalls of inflation pose a conflict for the Fed
• Continue to normalize the federal funds rate or hold off until inflation moves higher
• Neutral level of the federal funds rate is around 3%
  • Considerably above current level
  • May be causing excesses to build
Excesses Most Evident in CRE Market

Commercial Property Price Index

Source: Moody’s
Inflation Expectations May Be Drifting Lower

- Market-based measures are low and well below 2%
The Fed’s Credibility is at Stake

- Market does not buy into Fed’s prediction of year-end fed funds rate
- Confidence in the Fed is down
- Loss of credibility undermines its effectiveness

Expectations of Year-End Fed Funds Rate

- 2016
- 2017
- 2018

Market
Fed
Conclusions

• The “new normal” is slower growth and lower interest rates
• A revival in business investment is needed to break out of low productivity growth
• Fed is trapped between the need to raise rates to curb inflated asset prices and concerns about low inflation becoming entrenched
The Regional Outlook: Sunny with a Chance of Showers*

(* Some may be severe...)

Adam T. Jones, PhD
Regional Perspective

• High degree of uncertainty
  • Both political and economic
• Slow national growth
• Region will outperform
Southeastern US

• Fed’s Beige Book
  • Overall – “modest”
  • Richmond
    • Growth slowed
      • Manufacturing and retail softened
      • Manufacturing sales down, expectations up
      • Real Estate increased moderately
  • Atlanta
    • Activity expanded at a modest pace
      • Some activity softened but expectations are positive
Growth History

Source: Bureau of Economic Analysis
Labor Market

Number of workers and jobs


Labor Force

Employment

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Labor Market

Number of workers and jobs


Labor Force  Employment  LF Ext w. dem.
Unemployment Rate

Three County Area vs United States


- Three County Area
- United States
Hours and Earnings Growth

Source: Bureau of Labor Statistics
Consumption Growth

Taxable Sales

NHC Taxable Sales
(3m MA, millions)

Brunswick, Pender Sales
(3m MA, millions)

Source: NC Dept. of Revenue
Tourism Sector

Occupancy Taxes

Collections (000s)


Collections (SA)  Trailing 12m collections

Trailing Col. (000s)

0  20  40  60


Med. HH Income

1 1.5  2

9.5  11.5  13.5

1980  1990  2000  2010

Debt Service as % DPI

Source: New Hanover County, BOG FRS, Census
Low Layoff Levels

Source: US Emp. And Training Admin.
Job Openings Remain Elevated

Year: 2008 to 2016

- New Hanover
- Pender
- Brunswick

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Housing Market

Housing Market

Home Prices by Size

Source: Zillow.com
Foreclosures Stabilizing

Monthly Court Filings (SA)

Source: Nccourts.org
Incorporations

Source: NC Secretary of State
Business Support Infrastructure

Prof. & Bus. Serv. Employment

Thousands of Jobs

Wilmington MSA

Source: Bureau of Labor Statistics
Business Support Infrastructure

**Air Travel**
- Passenger traffic trend improving
- Larger Aircraft
- Load factors increasing

➡ More choices for local firms

![Graph showing air travel trend](source: Federal Aviation Administration)
Overview

Households, Customers, and Consumers

▲ Home Values (Wealth)
▲ Incomes
▼ Business Expectations

Local Business’ Output

▲ Sales Taxes
▲ Incomes (taxes)
▲ Room Occupancy Tax

Business Support Infrastructure

▲ Prof. and Bus. Serv. Trend
▼ P&B Serv. Recent
▲ Airport Capacity
Sectoral Growth

- Govt
- Oth Serv.
- Leis & Hosp
- Ed. & Hlth
- Prof & Bus Serv
- Finance
- Info
- TTU
- Manuf.
- Const.

YoY (Aug 16) vs 2010-2015
Chance of Showers

- Policy Uncertainty
  - National election
  - HB2
  - Special use permit
- Real Estate
  - Additional shadow inventory
  - Commercial real estate heating up
- Interest Rates
  - Increased income
  - Decreased wealth
Takeaways

• Positioned for growth
• Likely to exceed state and national growth
• Risks to be monitored
Economic Barometer

- Economic Barometer
  - More concise and frequent
  - Web format
  - Valuable and timely information for you!

- Sign-up: swain@uncw.edu
  - Subject line: Barometer
Panel: The Business of Healthcare

Jack Barto
CEO and President
NHRMC

Stephan Kutzer
CEO
Alcamí
Thank you

Check out professional development opportunities through the Swain Center: www.uncw.edu/swain

Save the date for October 5th 2017 for the next Economic Outlook Conference.