

Economic Conditions

NC Local Government Budget Association

July 11, 2013

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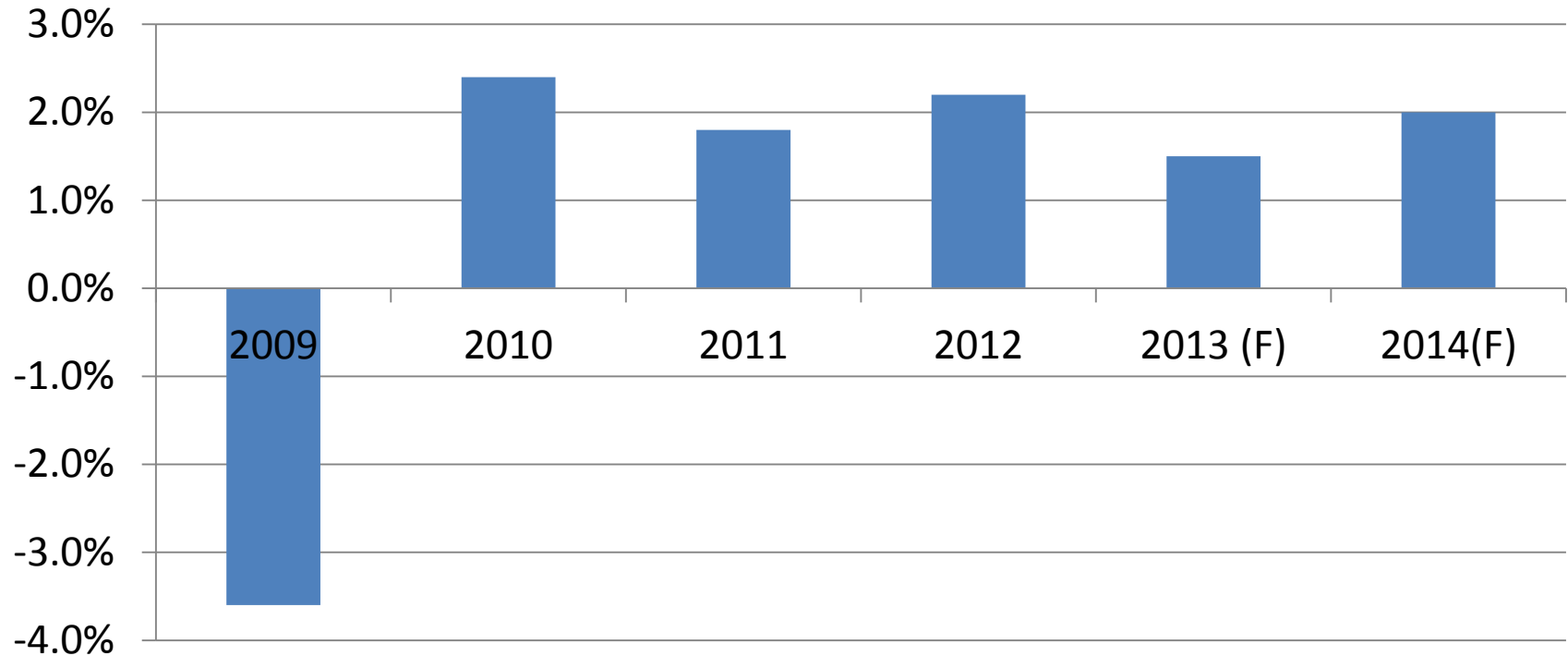


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Web Slides

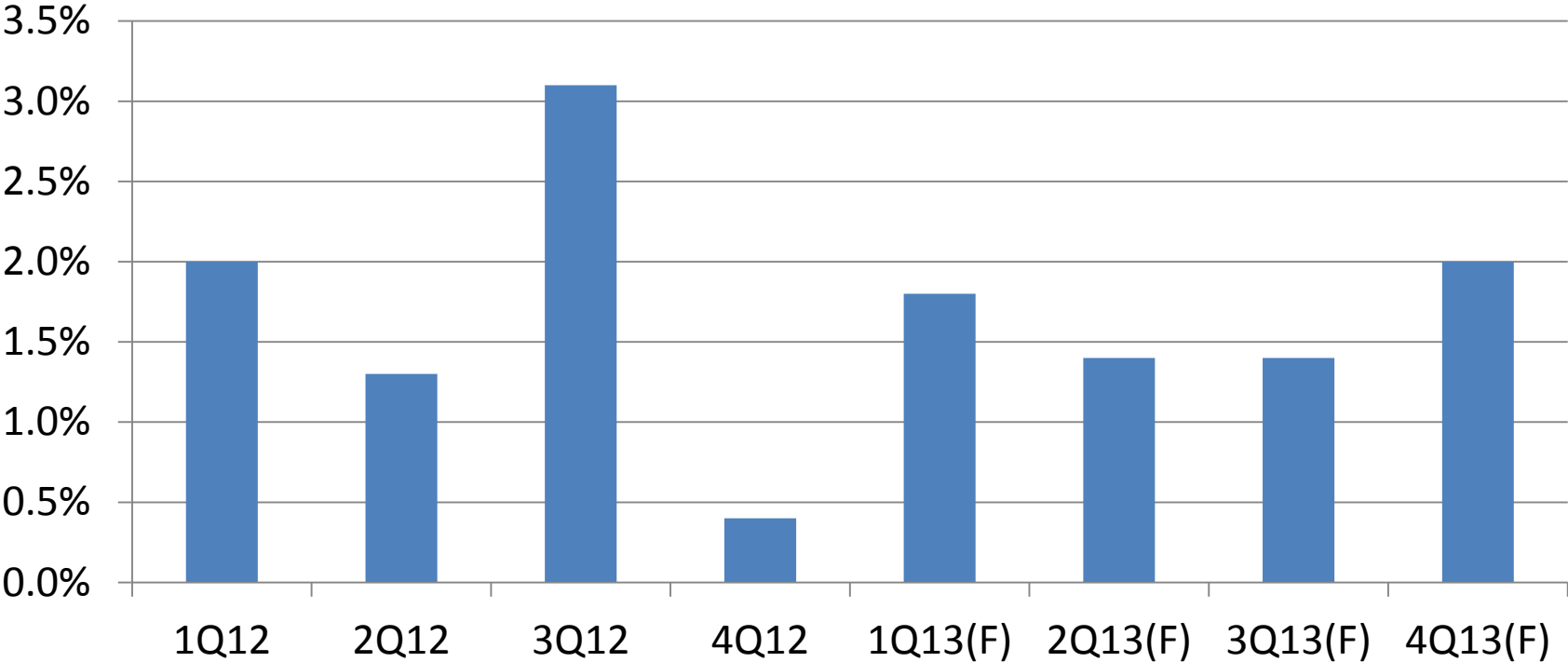
- <http://www.csb.uncw.edu/cbes/events/index.htm>

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, July 5, 2013.

Real US Gross Domestic Product Growth Rates (Quarterly Change at an Annual Rate)



Source: Bureau of Economic Analysis, U. S. Department of Commerce; Economics Group, Wells Fargo Securities, Weekly Economic & Financial Commentary, July 5, 2013.



The US Economic Outlook

- Sustained “modest” growth
- Low inflation
- Federal Reserve easing?

Sustained Modest Growth

- No acceleration back to trend
- Pickup expected during the second half of 2013
 - Business investment
 - Housing
 - The labor market will likely generate 190,000-200,000 jobs per month with an accompanying slow fall in the unemployment rate.
- Federal, state and local government spending will be reduced in line with what is sustainable over the long run given the slowdown in potential GDP growth based upon labor force and productivity trends.

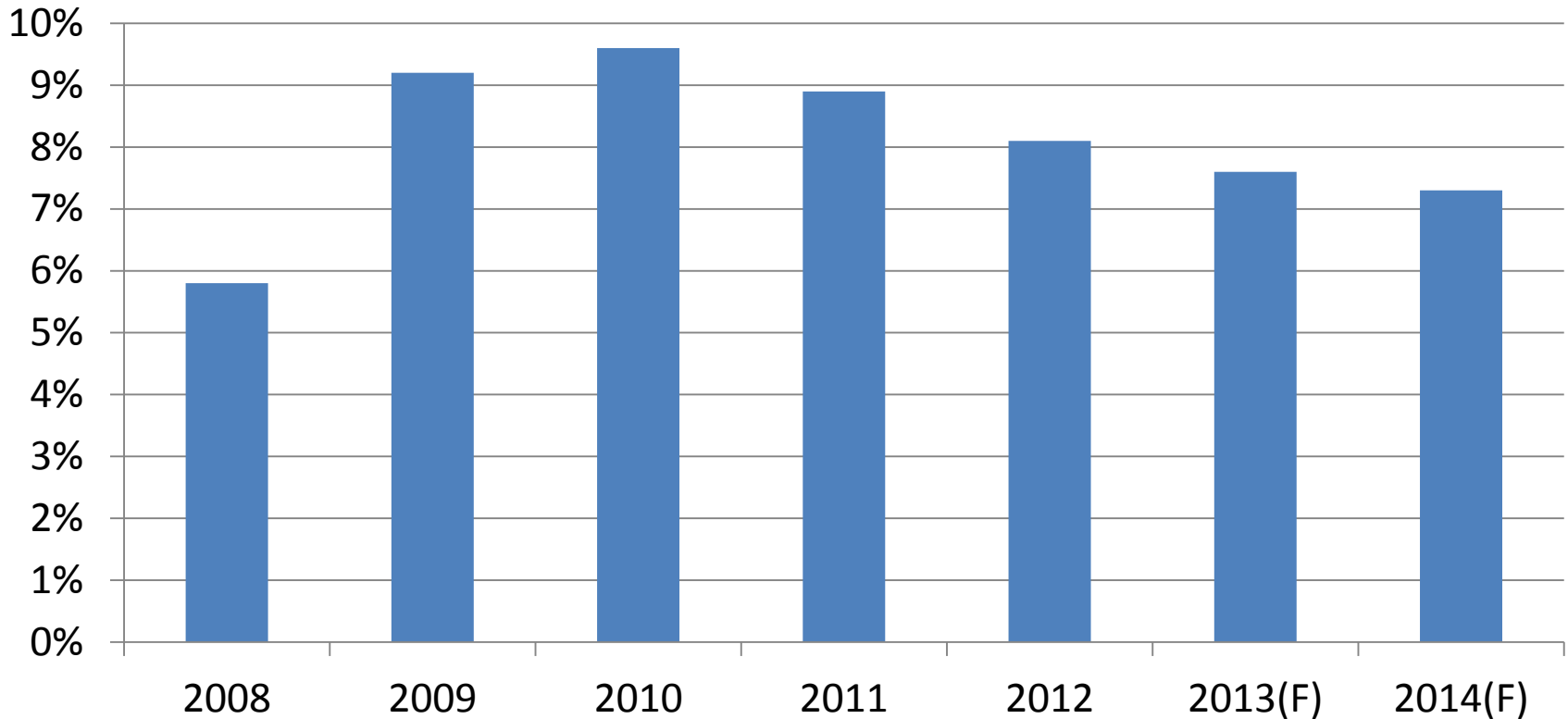
Low Inflation

- The PCE (personal consumption expenditure) deflator remains in the 1-1.5% range.
 - Below any sort of trigger for Federal Reserve action
- Interest rates on many “safe” instruments remain low.
 - The yield on the benchmark 10-year US Treasury bond is likely to stay below 2% for at least the next six months.

Consumers

- Sentiment
 - The University of Michigan index of consumer sentiment has strengthened to the highest level of the current recovery.
- Credit
 - Consumer credit, excluding mortgages, is up almost 6% over last year.
 - Driven by non-revolving credit, particularly educational and auto loans
 - Revolving credit is only up slightly more than 1%.
 - As the economy continues to improve and households and lenders feel more secure in consumers' income prospects (lower default risk), consumer credit should continue to grow.

The US Unemployment Rate



Source: Bureau of Labor Statistics, US Department of Labor; Economics Group, Wells Fargo Securities, Weekly Economic & Financial Commentary, July 5, 2013.

US Employment

- The Bureau of Labor Statistics (BLS) July 2013 Employment Situation Summary showed that employment rose by 195,000 in June 2013.
 - Employment rose in leisure and hospitality, professional and business services, retail trade, health care, and financial activities.
- The number of unemployed people (11.8 million) and the national unemployment rate were unchanged from June 2013 (7.6%).
 - Both measures have shown little change since February 2013.
 - The number of long-termed unemployed (unemployed for ≥ 27 weeks) was essentially unchanged at 4.3 million.
 - 36.7% of total unemployment
 - The number of long-termed unemployed has declined by 1.0 million over the past twelve months.

June 2013 US Unemployment Rates

Group	Unemployment Rate (%)	Change from May 2013
Overall	7.6	None
Adult women	6.8	Up
Adult men	7.0	Little or None
Teenagers	24.0	Little or None
Whites	6.6	Little or None
Blacks	13.7	Little or None
Hispanics	9.1	Little or None
Asians(NSA)	4.3	Down from 6.3% in June 2012

“Unsettling” US Employment Changes in June 2013

- A relatively large proportion of the June 2013 gains in nonfarm payroll employment was in lower-paying sectors, namely, leisure and hospitality (+ 75,000 jobs) and retail trade (+ 37,000 jobs).
 - When added to temporary services and home health care employment gains, a total of 128,300 jobs were created by these four sectors, accounting for almost 2/3 of all jobs created.
 - However, these four sectors comprise only 0.09% of total nonfarm employment.

US Employment Changes in June 2013 (cont.)

- Employment in many higher-paying sectors has weakened.
 - Manufacturing
 - Manufacturing employment fell by 6,000, with most of the fall in nondurable goods.
 - Manufacturing employment has fallen for four consecutive months.
 - Aggregate hours worked in manufacturing did not change.
 - Manufacturing is likely bearing the brunt of the global economic slowdown, which has reduced export growth.
 - Businesses employed in distribution (e.g., railroads, trucking firms, shipping firms, and storage and warehousing businesses) also reduced employment.

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.
 - In the late 1970s, manufacturing employed one out of five workers (20%).
 - At its height in June 1979, manufacturing employed 19.5 million.
- Manufacturing processes have become more capital intensive.
 - There is less need for labor.
 - Manufacturing now employs around 12 million (down 39% from June 1979).
 - 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>.
- Over 2009-early 2013, NC was 16th in manufacturing job creation.



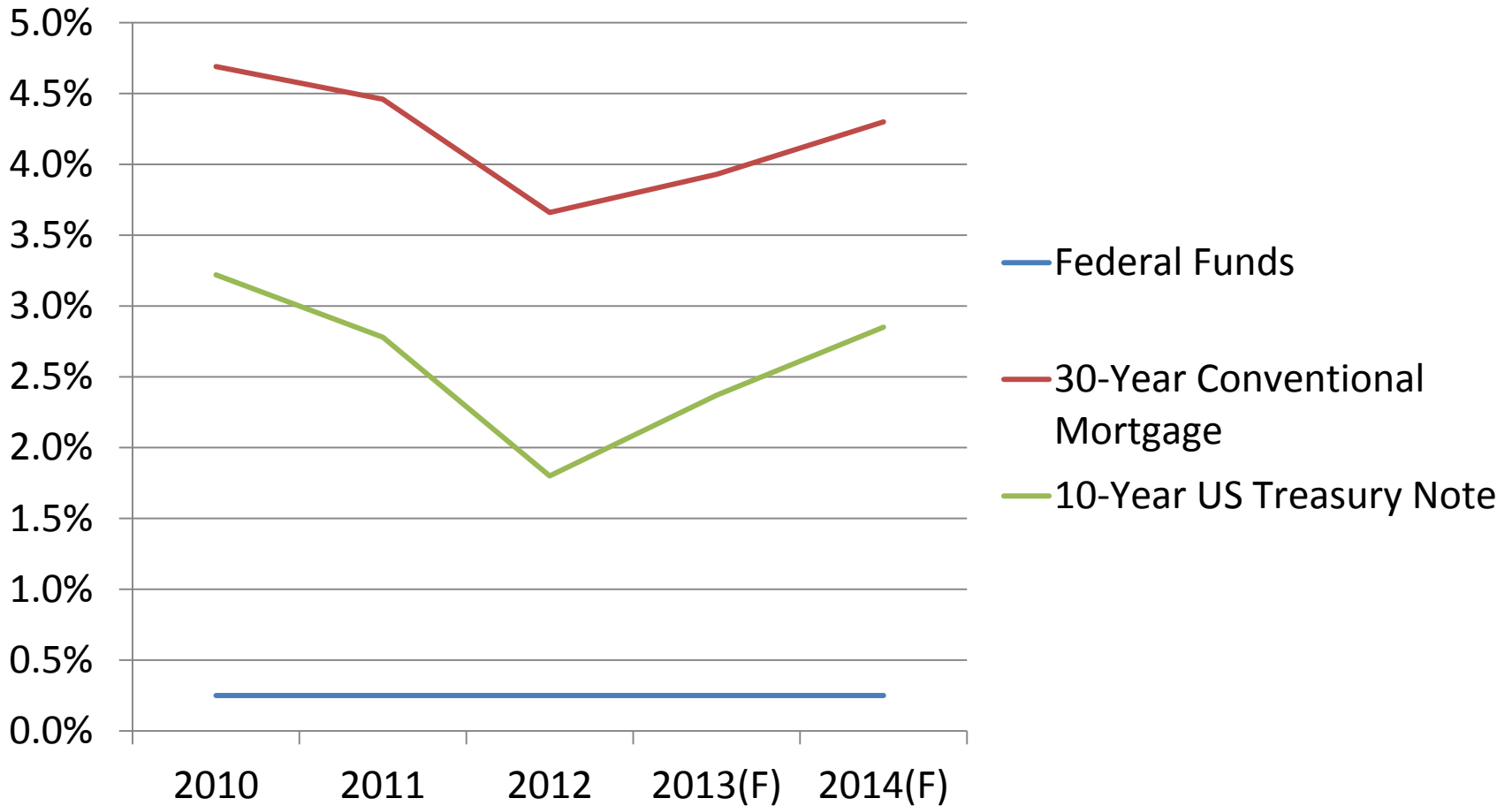
The Federal Reserve

- The Federal Reserve System has consistently placed a high value on data pertaining to manufacturing and related sectors.
 - The information is timely and rarely revised substantially.
- With the loss in growth momentum, will the Federal Reserve System continue the quantitative easing (QE) wind-down?
 - Possible scale back beginning in September

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 (code for no likely recession) given continued strength in housing, solid motor vehicle sales activity, and a possible rise in exports as growth abroad gradually improves.

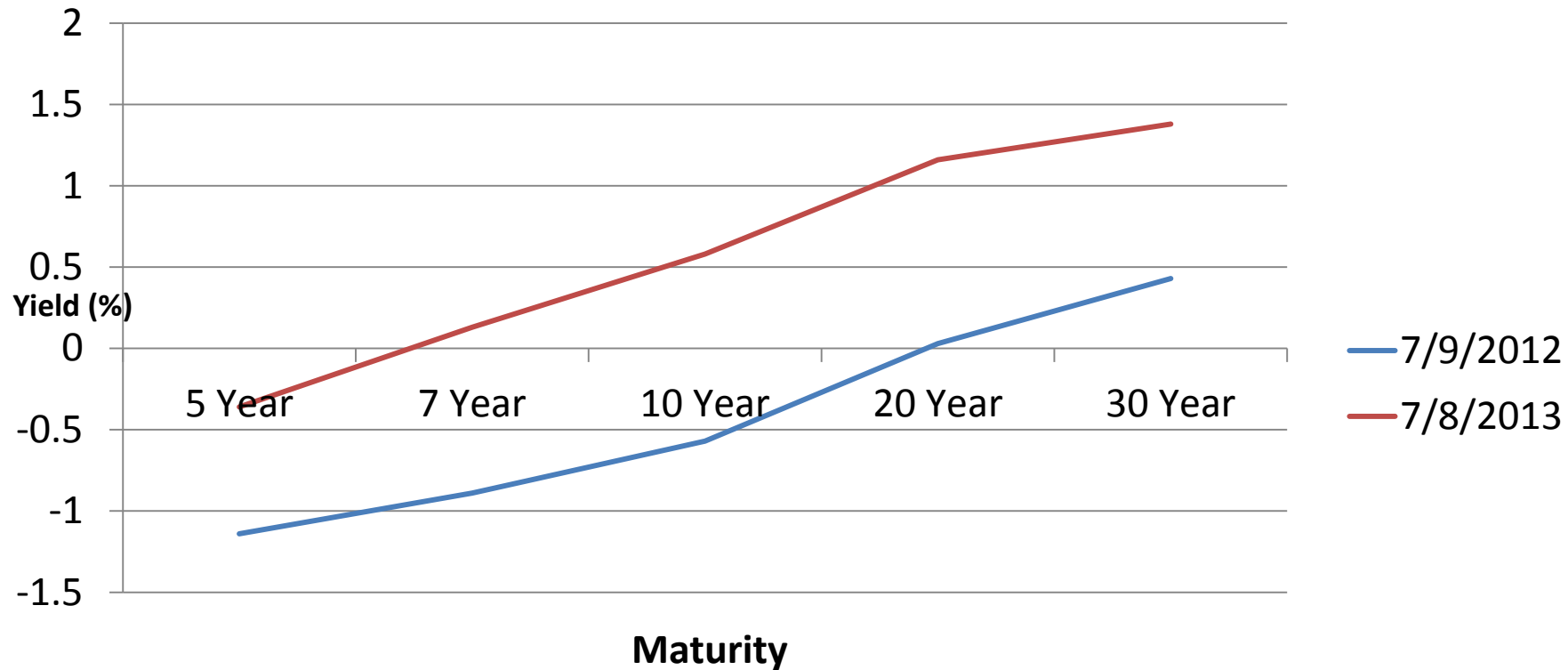
Interest Rates



Source: Federal Reserve System Board of Governors; Economics Group, Wells Fargo Securities, Weekly Economic & Financial Commentary, July 5, 2013.



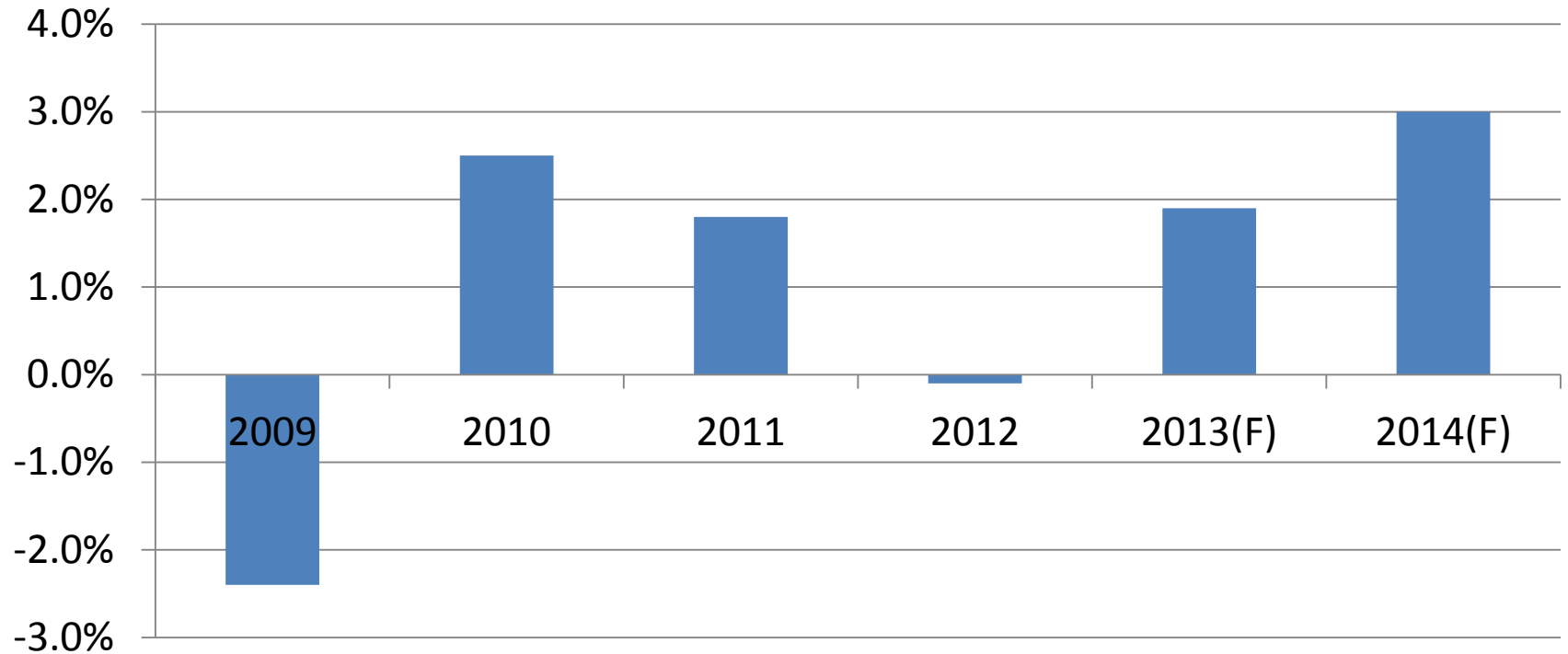
US Treasury Securities Yield Curve (Real)



Source: U. S. Treasury.



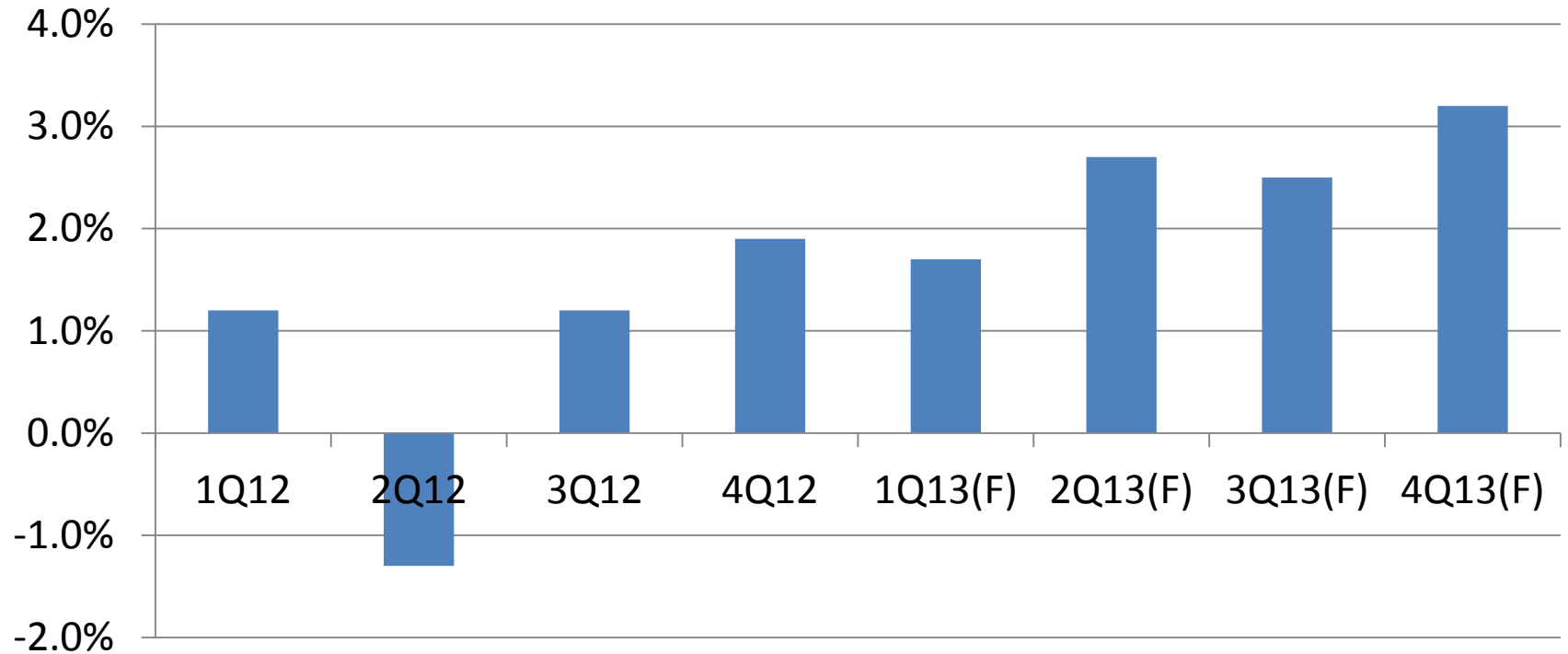
Real North Carolina Gross Domestic Product (GDP) Growth Rates



Source: <http://www.bea.gov/regional>; Babson Capital/UNC Charlotte Economic Forecast, June 4, 2013.



Real NC GDP Growth Rates (Quarterly Change at an Annual Rate)



Source: <http://www.bea.gov/regional>; Babson Capital/UNC Charlotte Economic Forecast, June 4, 2013.



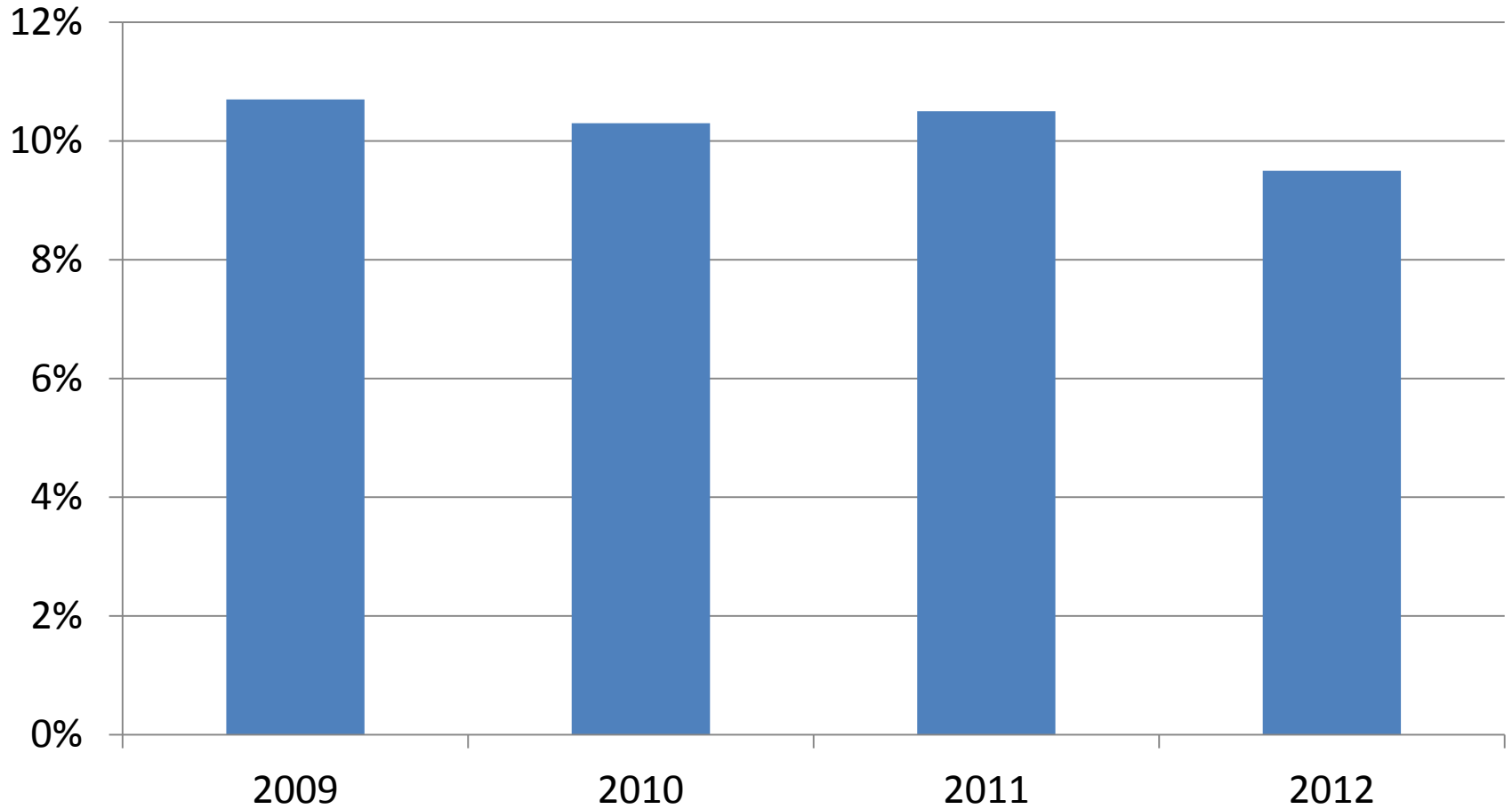
2012 Largest NC Employers

NAICS Sector	% of Total Employment	Average Annual Wage (% of Overall Average)
Health Care & Social Assistance	12.3	101.8
Retail Trade	9.9	58.5
Manufacturing	9.5	122.9
Local Government	9.4	91.6
Educational Services	8.0	93.2
Accommodation & Food Services	7.8	35.3
Administrative & Waste Services	5.7	74.2
Public Administration	4.6	101.3
Professional & Technical Services	4.3	161.5
State Government	3.9	105.4

Source: Division of Employment Security, NC Department of Commerce.



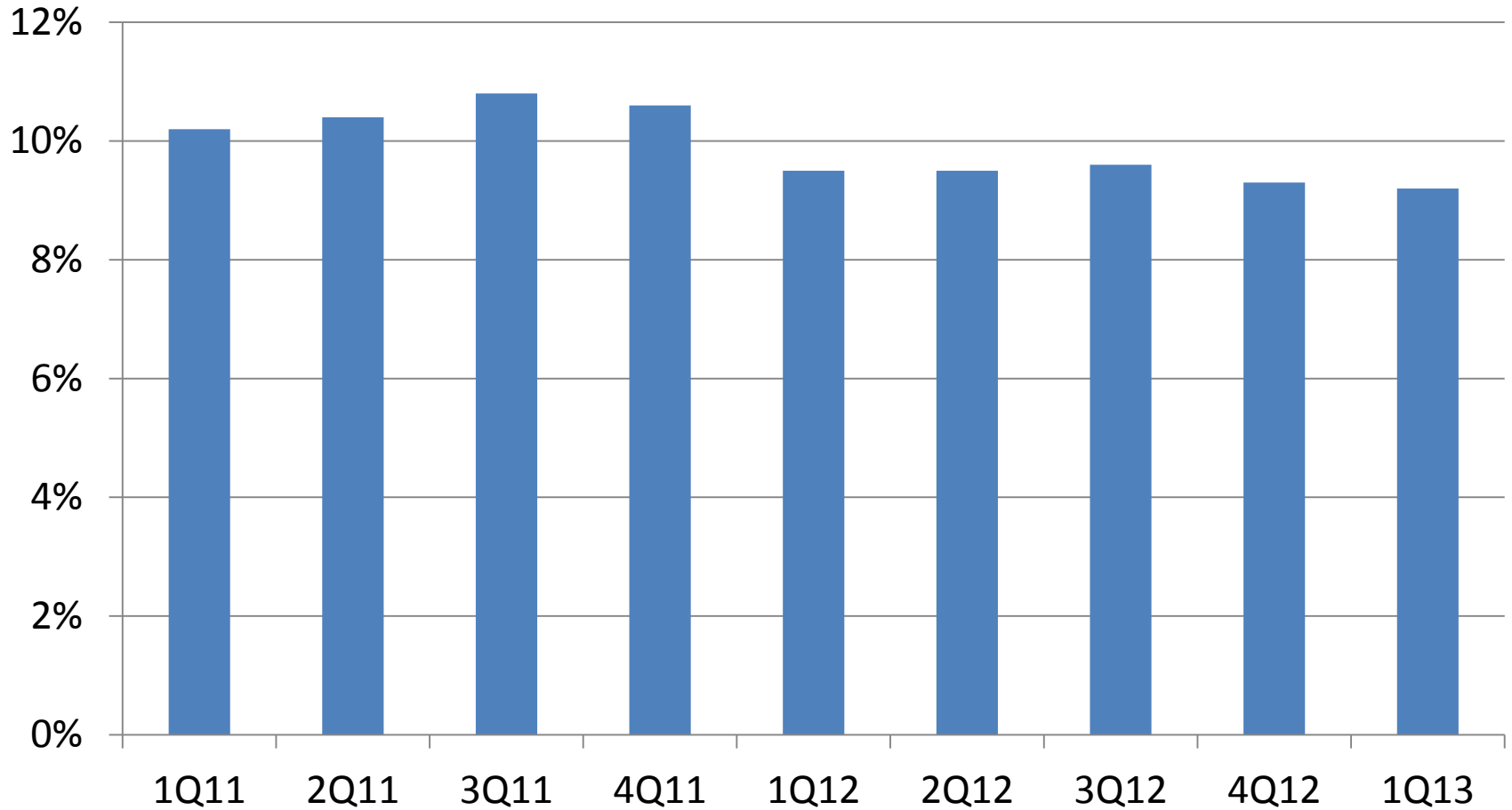
NC Unemployment Rate



Source: Division of Employment Security, NC Department of Commerce.



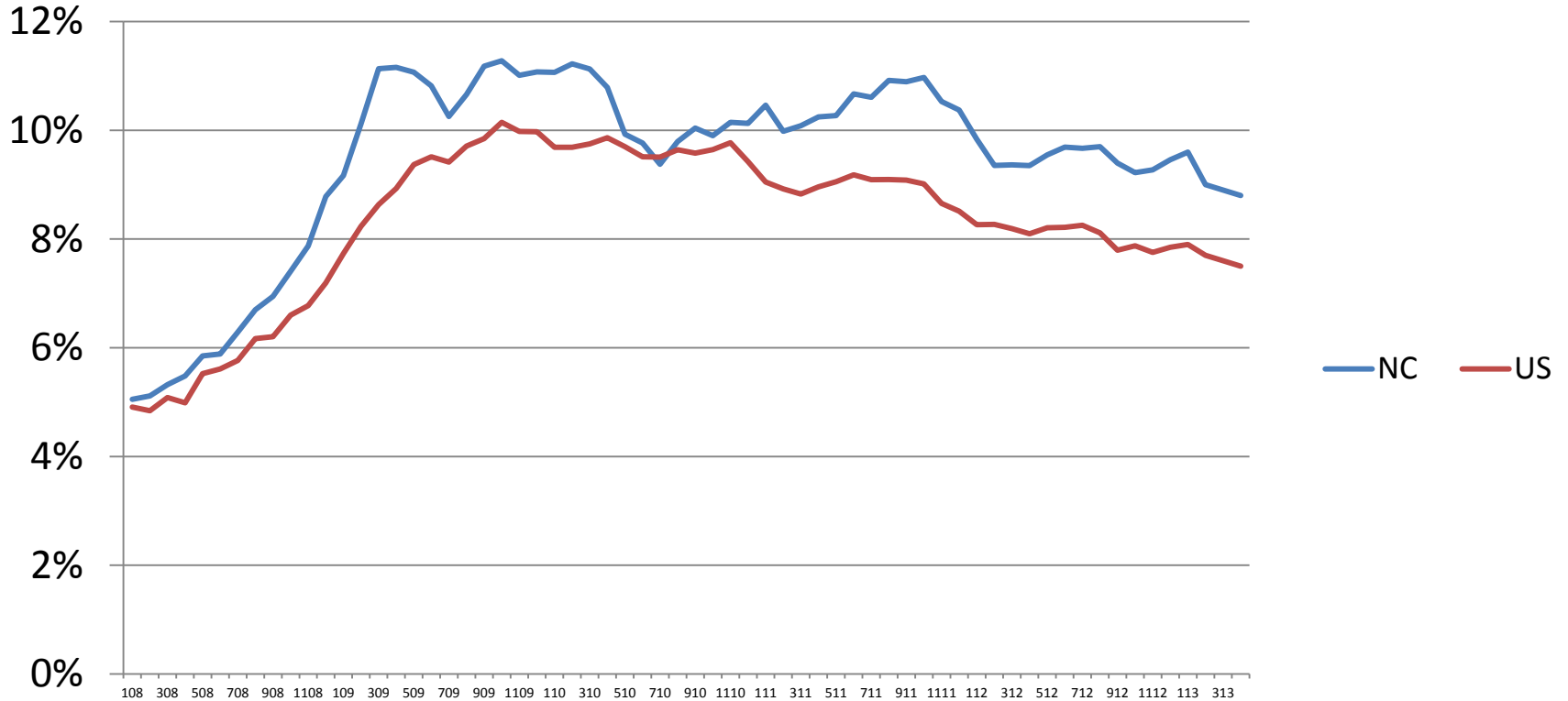
NC Unemployment Rate



Source: Division of Employment Security, NC Department of Commerce.



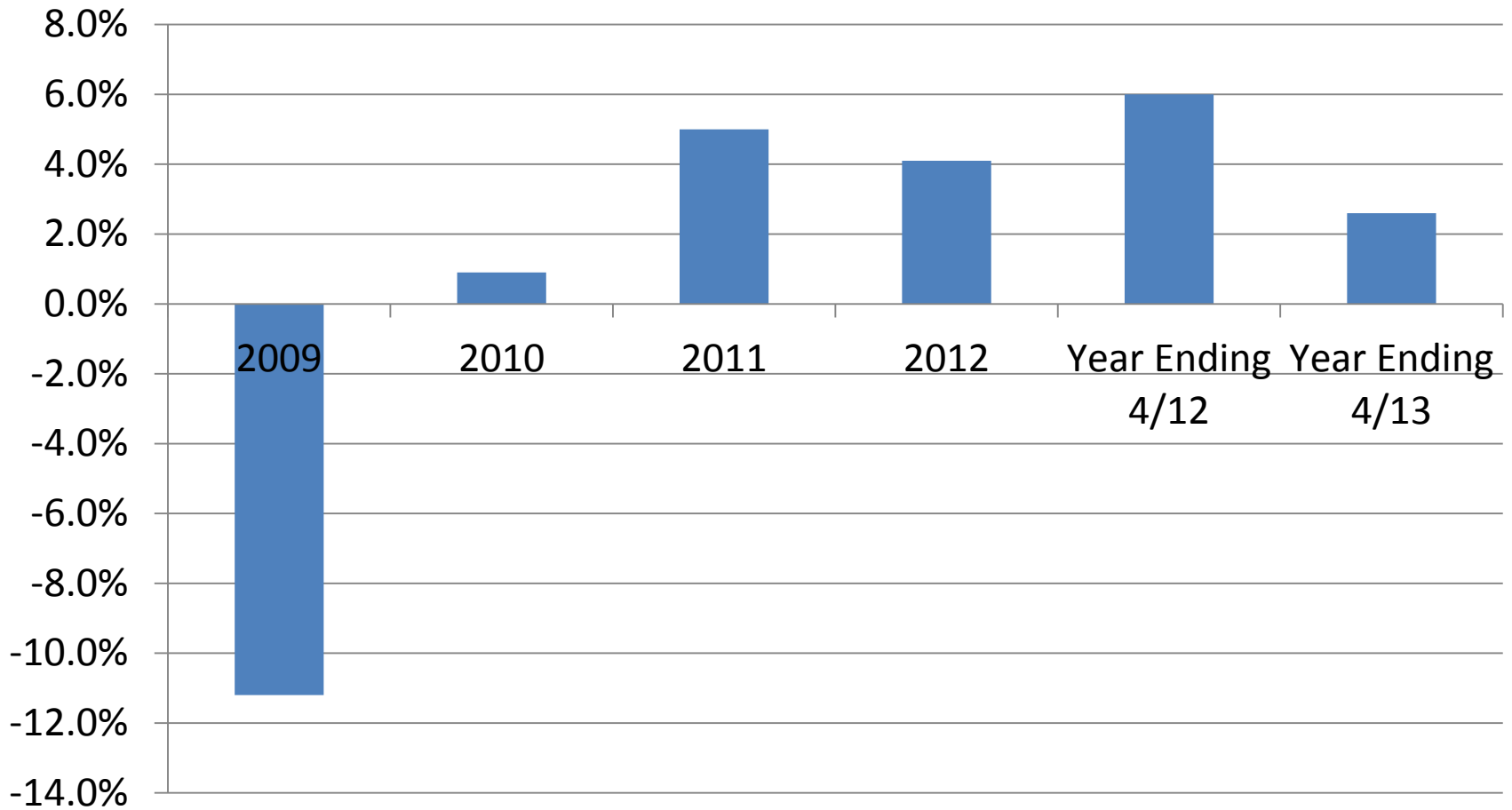
Unemployment Rates (Seasonally Adjusted)



Source: Division of Employment Security, NC Department of Commerce.



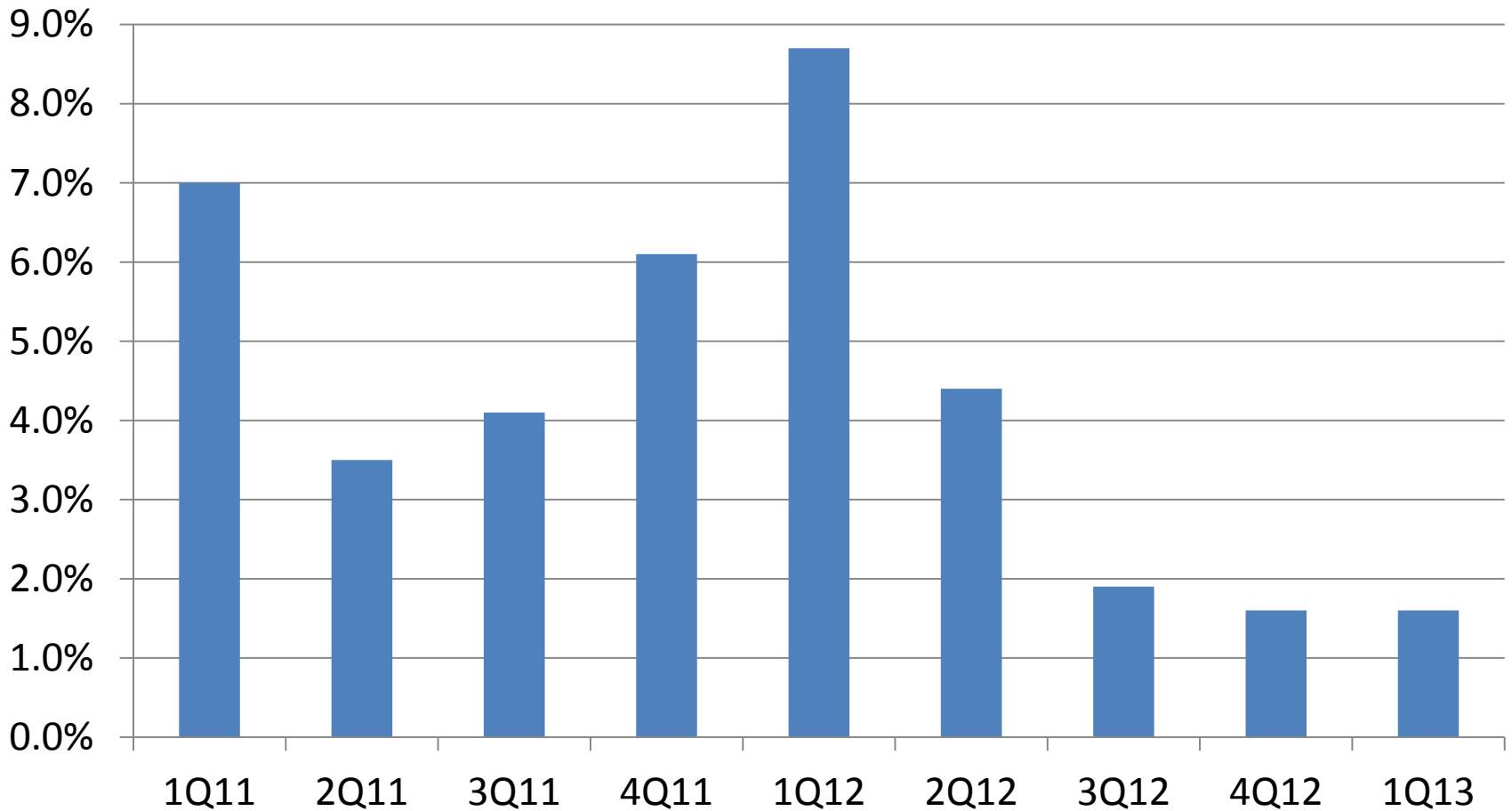
North Carolina Retail Sales Growth Rates



Source: NC Department of Revenue.



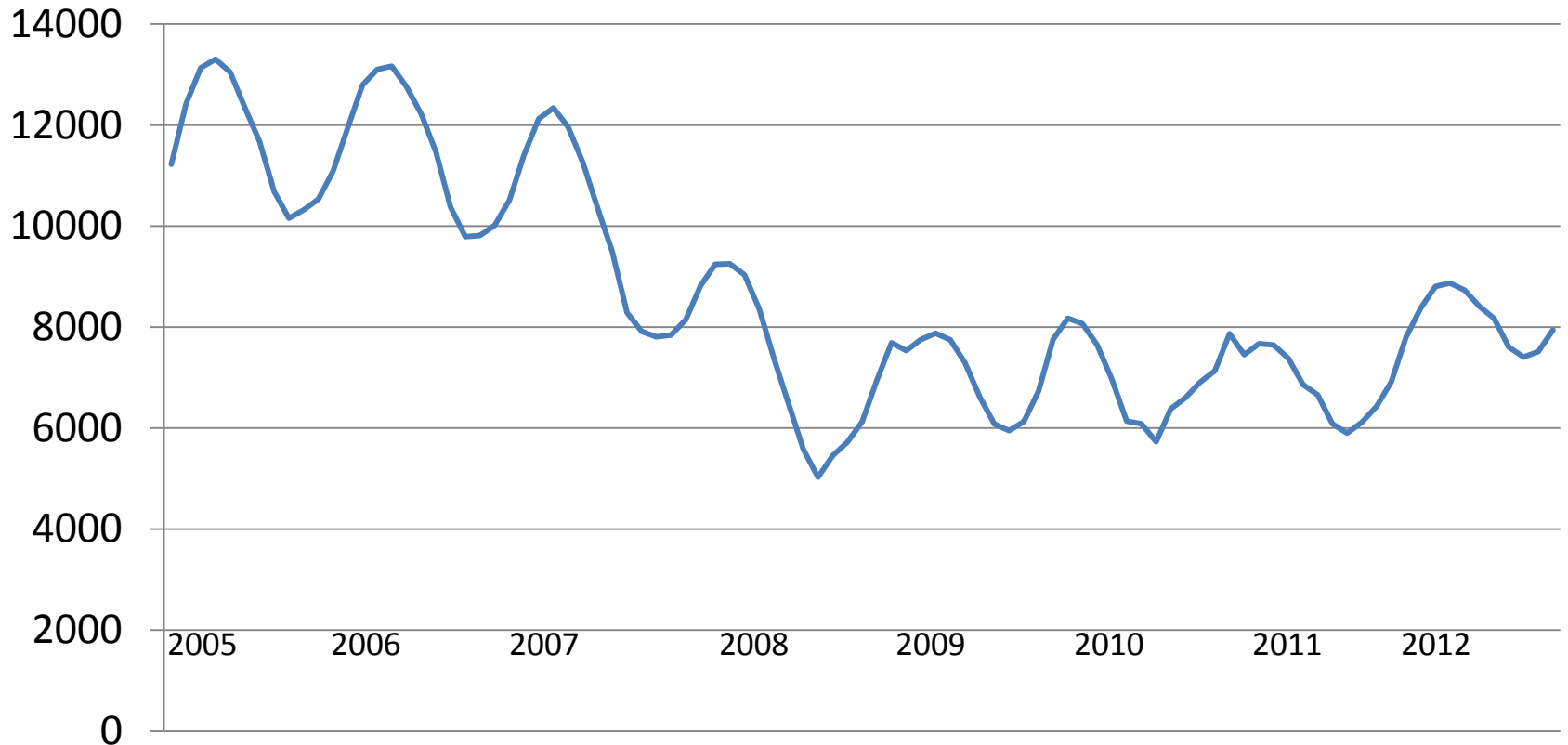
North Carolina Retail Sales Growth Rates (Compared to Year-Earlier Quarter)



Source: NC Department of Revenue.



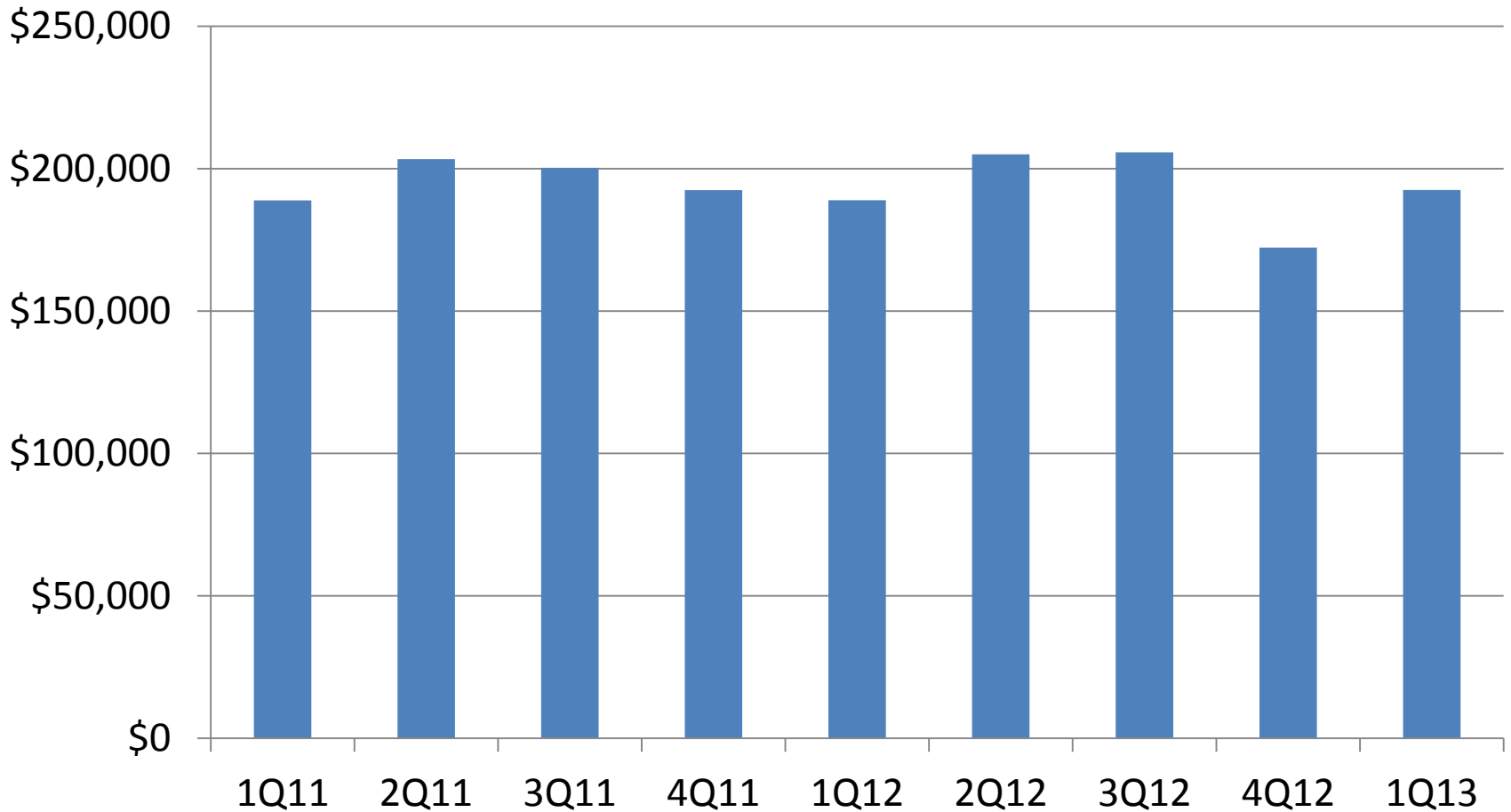
NC Sales of Existing Single-Family Homes (5-Month Centered Moving Average)



Source: NC Association of Realtors.



Average Sales Prices of Existing Single-Family Home Sales in NC



Source: NC Association of Realtors.



North Carolina Foreclosure Filings

Time Period	Number	% Change
2010	66,281	10.0
2011	53,239	-19.7
2012	54,749	2.8
Year Ending May 2012	50,995	-18.1
Year Ending May 2013	54,082	6.1

Source: <http://www.nccourts.org/Citizens/SRPlanning/Statistics/Default.asp>



2013 Forecasted NC Output Changes

Sector	% Change	Sector	% Change
Business & Professional Services	5.8	Retail Trade	2.8
Mining	3.2	Finance, Insurance, & Real Estate	1.5
Transportation, Warehousing, & Utilities	3.1	Durables Manufacturing	1.1
Other Services	3.0	Construction	0.9
Education & Health Services	2.8	Nondurables Manufacturing	0.8
Wholesale Trade	2.4		
Hospitality & Leisure Services	2.2	Agriculture	-0.5
Information	2.1	Government	-0.2

Source: Babson Capital/UNC Charlotte Economic Forecast, June 4, 2013.



2013 Forecasted NC Nonagricultural Employment Changes

Sector	% Change	Sector	% Change
Information	4.4	Other Services	1.1
Hospitality & Leisure Services	2.8	Construction	0.9
Durables Manufacturing	2.0	Wholesale Trade	0.9
Business & Professional Services	1.9	Finance, Insurance, & Real Estate	0.7
Retail Trade	1.7	Nondurables Manufacturing	0.7
Education & Health Services	1.4	Transportation, Warehousing, & Utilities	----
Government	1.3	Mining	-6.1

Source: Babson Capital/UNC Charlotte Economic Forecast, June 4, 2013.




Special Thanks

Bank of America




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Economic Barometer



Volume V, Issue 1

April 2013

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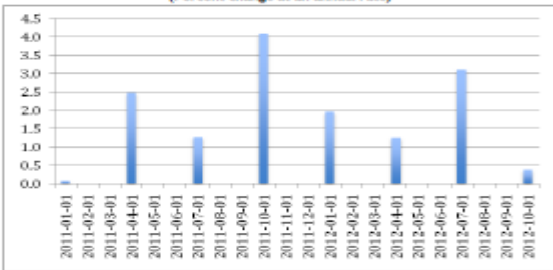
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The U.S. Economy: Are Green Chutes Emerging?

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	4.0
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	0.5
2012-08-01	3.0
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-