

The National Outlook

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January 9, 2018

Growth Has Picked Up

- Q4 2017 growth likely to be in the 3 percent area, near the pace of the second and third quarters
- Contrasts with the 2.1 percent pace that had characterized this expansion
- Notable in this uptick has been a revival of BFI
- Its contribution to growth has risen from under 0.2 percentage points in 2016 to more than 0.7 in 2017

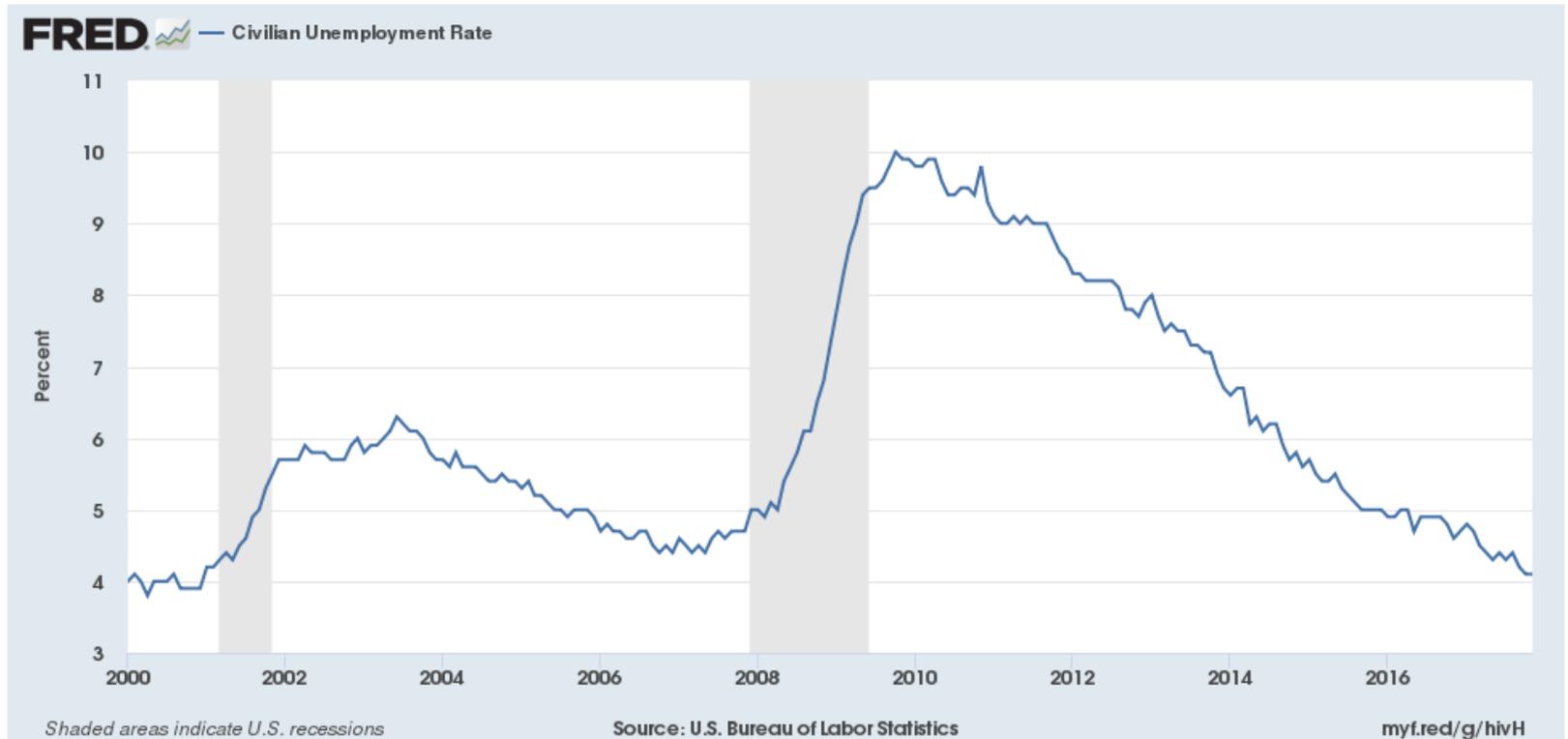
Our Capacity to Grow Has Shrunk

- Owes to slower growth in both labor input and productivity



| | Current | 1990-01 | 1974-89 | 1950-73 |
|-----------|---------|---------|---------|---------|
| Potential | 1.8 | 3.3 | 3.2 | 4.0 |
| Labor | 0.5 | 1.3 | 2.1 | 1.6 |
| Prod. | 1.3 | 2.0 | 1.1 | 2.4 |
| | | | | |

Explains Why Unemployment Has Fallen So Much



Near-term Outlook: Brisk

- Paced by BFI
- Business optimism is high—attributed to regulatory rollback and tax bill
- Tax bill: 40 percent cut in corporate profits tax rate and full expensing raises the rate of return on investing
- Bodes well for a rebound in productivity over the years ahead

Capital Goods Orders Up Already



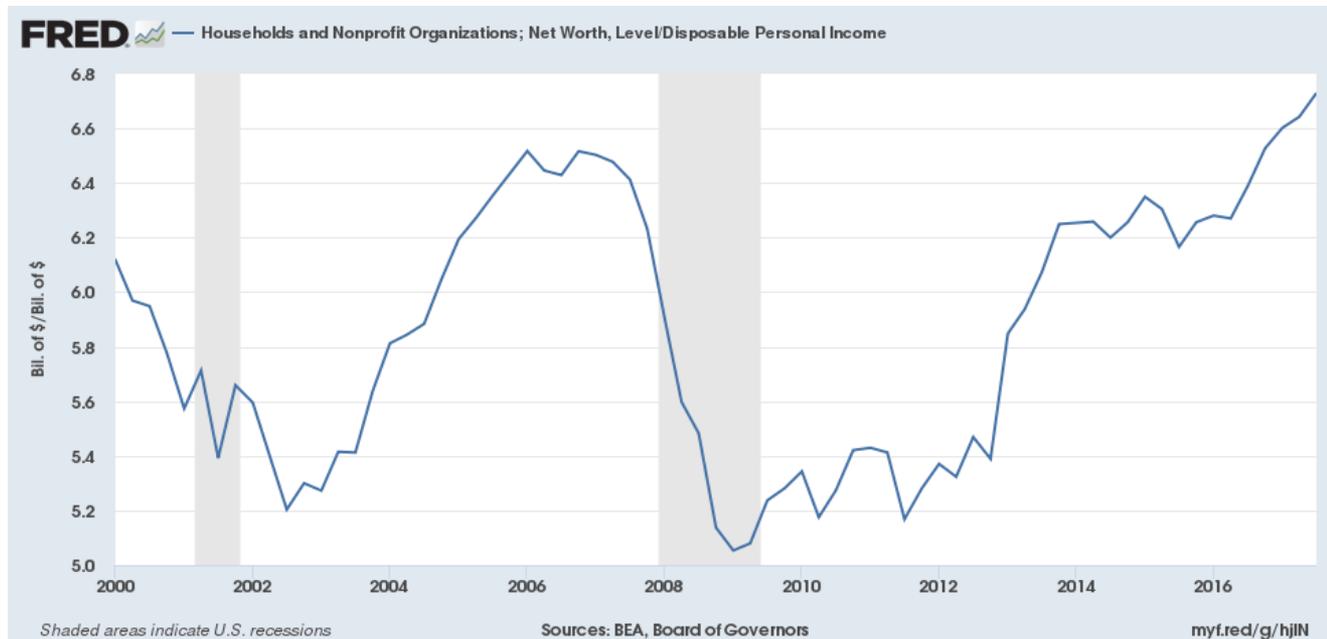
External Sector Also a Plus

- Growth abroad revised higher, especially Europe and China, and synchronized globally
- Weaker dollar also giving a lift



Household Spending to be Solid

- Supported by tax cuts and job and wage gains
- Further boosted by huge gains in wealth

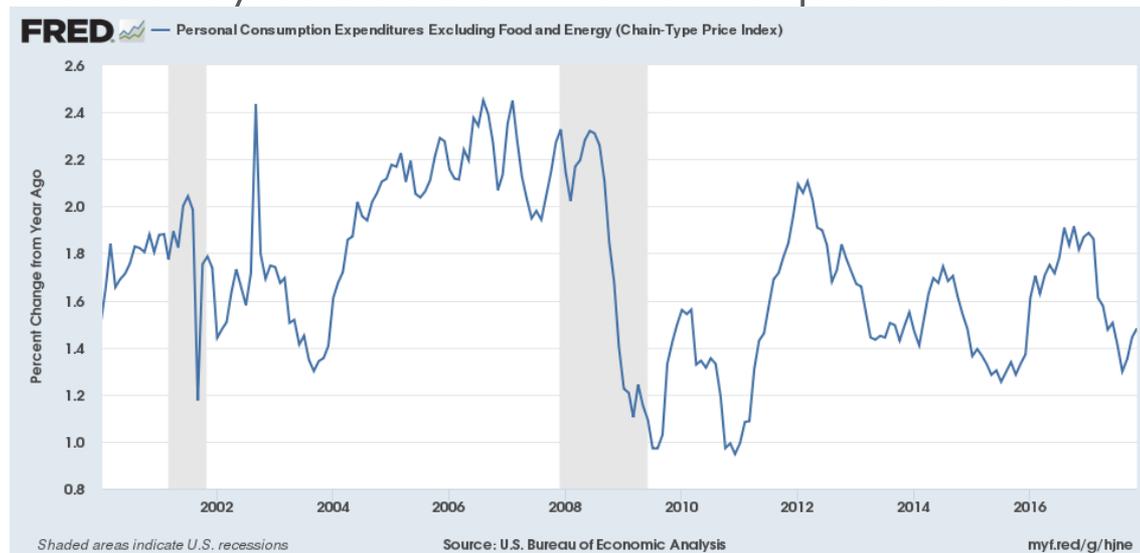


Growth Will Place Strains

- Growth of 3+ percent in 2018 and 2-1/2 percent in 2019 will reduce unemployment even further
- Already widespread reports of labor shortages, and indications of a pickup in wages
- Will the Fed fall behind the curve?

Inflation Has Been Tame

- Core inflation still well below the Fed's 2 percent target, anchored by subdued inflation expectations



But Expectations Have Drifted Up



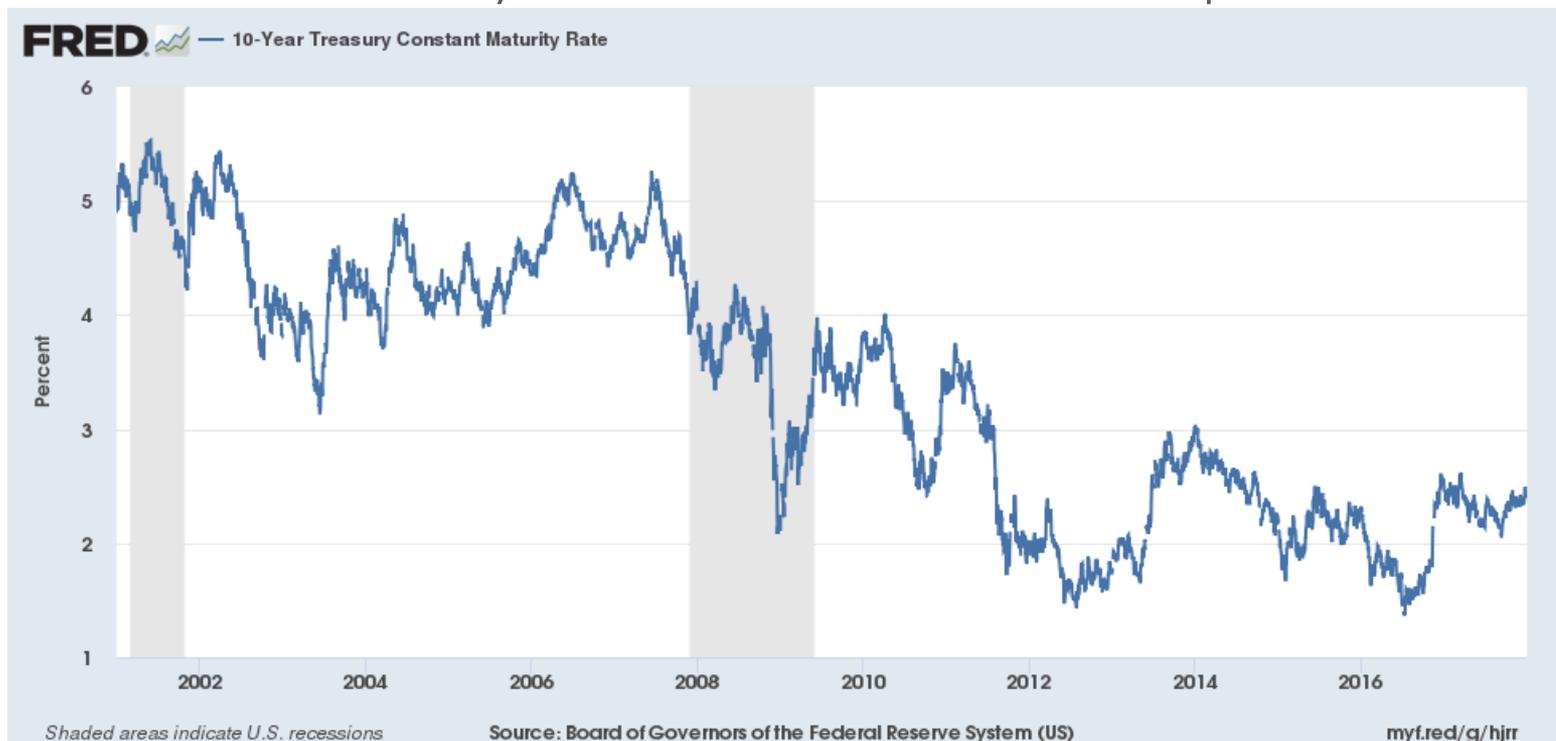
The Market Has Priced in Only Tepid Tightening

- The Fed envisions much more

| Year-end | Market | | Fed |
|-------------|--------|------|-----|
| 2017-actual | | 1.38 | |
| 2018 | 1.9 | | 2.1 |
| 2019 | 2.1 | | 2.7 |
| 2020 | 2.2 | | 3.1 |

Markets Could be in for a Surprise

- Current Treasury benchmark rates are still quite low



An Outsider Looking “In” and “Forward”

Dr. Adam T. Jones

Associate Professor and Regional Economist

The Swain Center

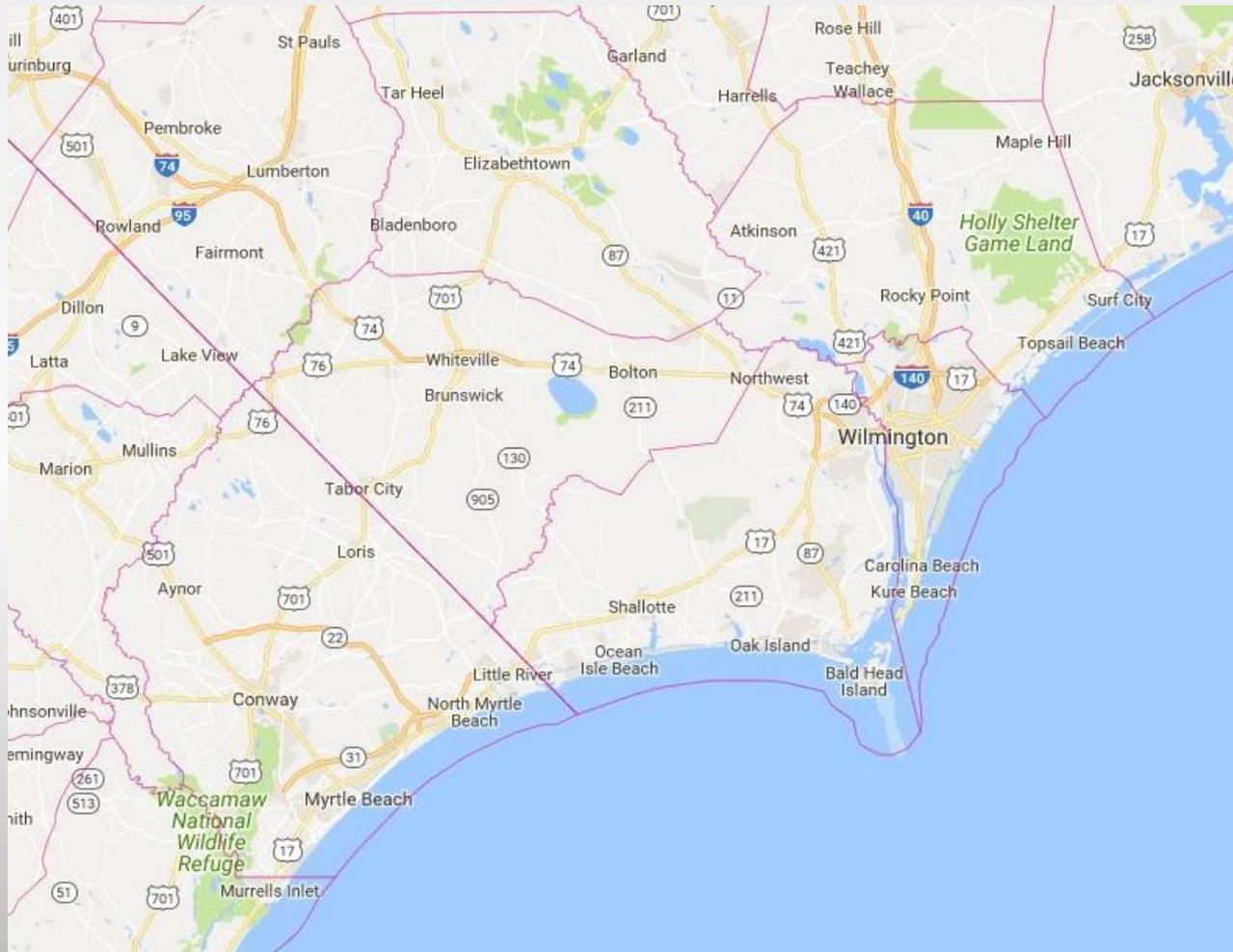
- Executive Education
 - Leadership Development
 - Project Management
 - Customer Delight
 - Data Analytics
- Customized Training
- Economic Services
 - Economic Research
 - Impact Studies
- UNCW Entry Point



Thoughts For A Morning

- Outsider
- Perspective on past
- Today
- Short-run outlook
- Medium/Long Run

Brunswick County

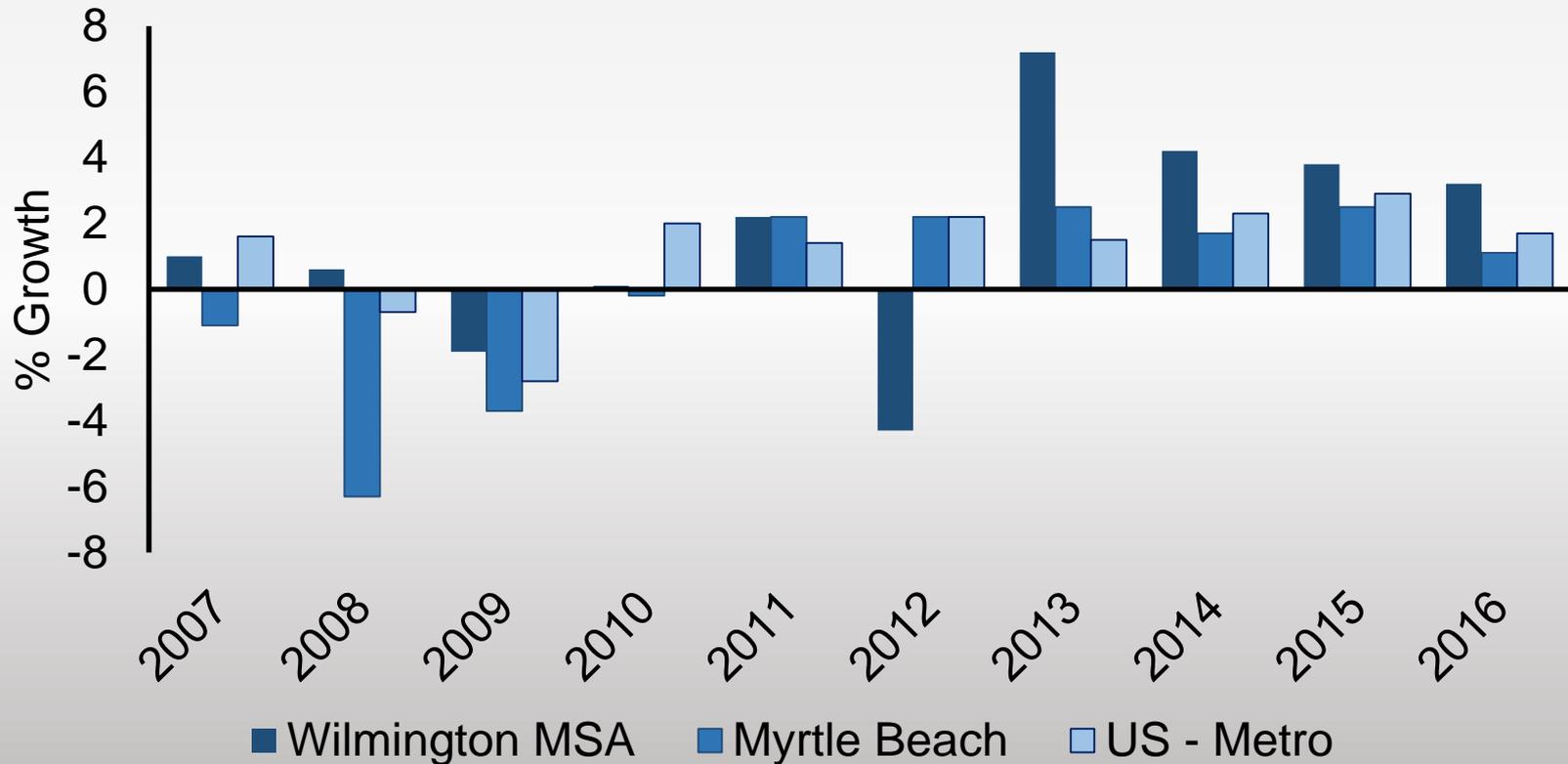


Cruising Speed...



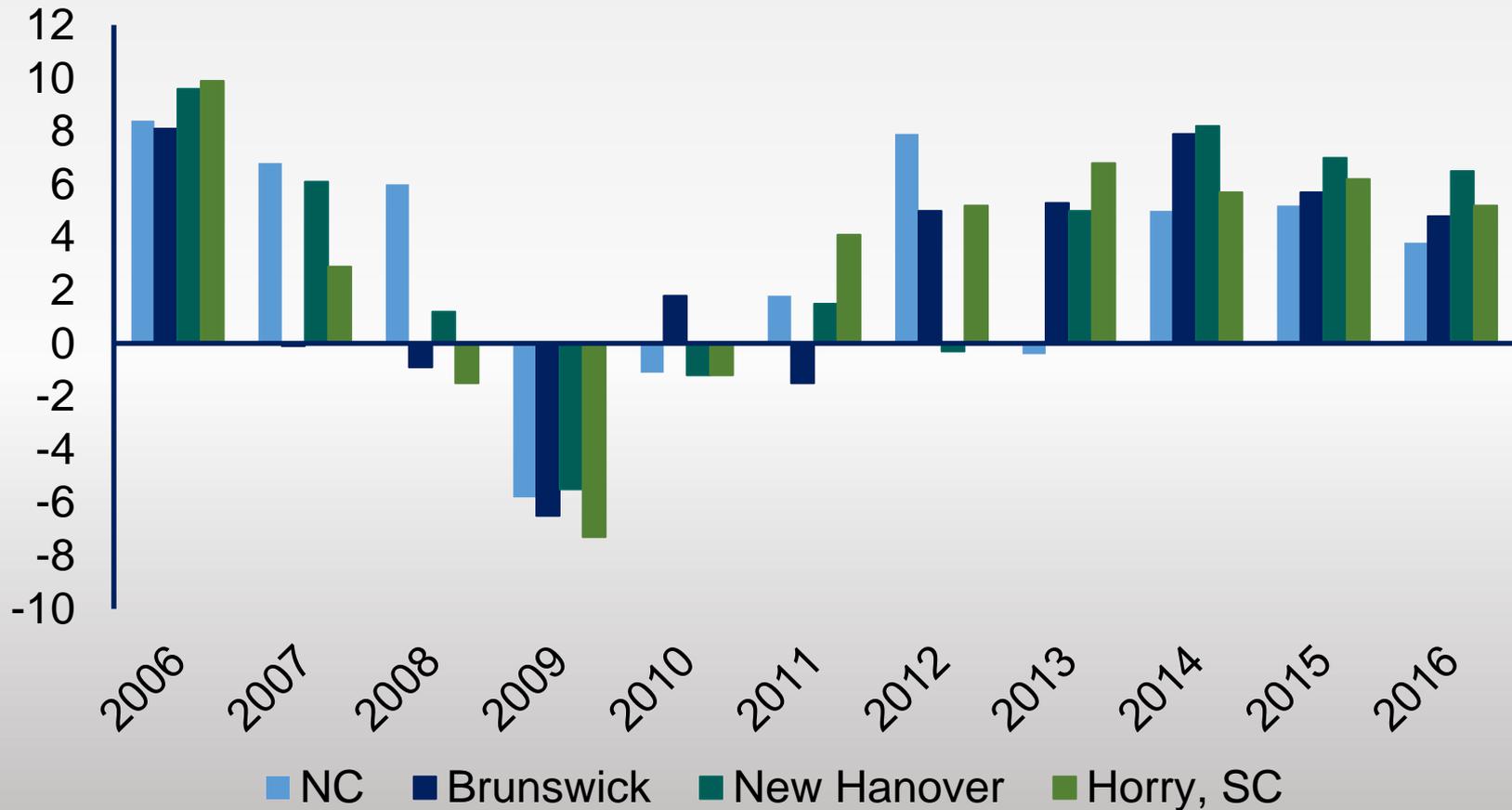
Neighboring Growth Mixed

Gross Domestic Product Growth



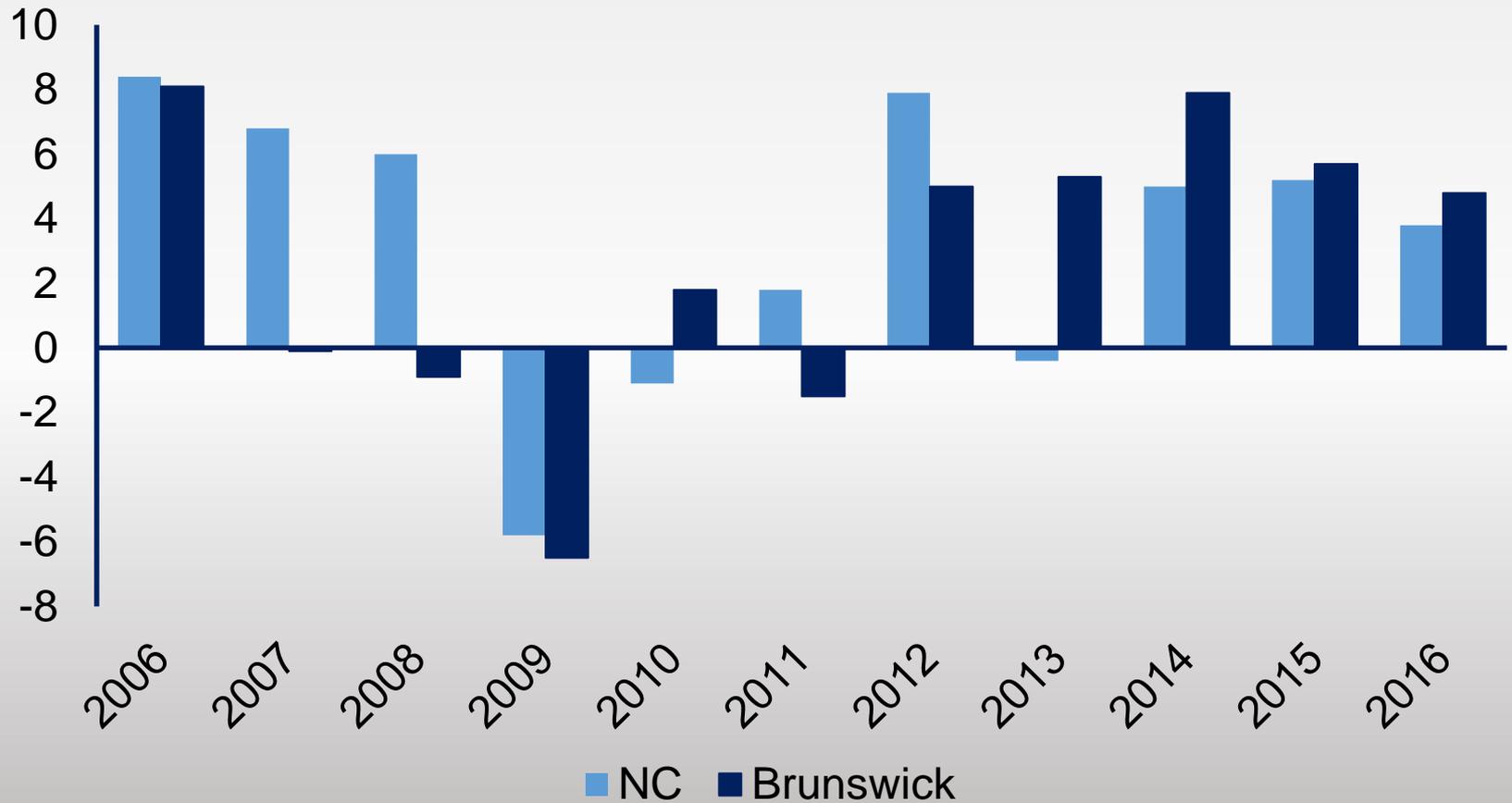
Income Growth

Earnings by Place of Work

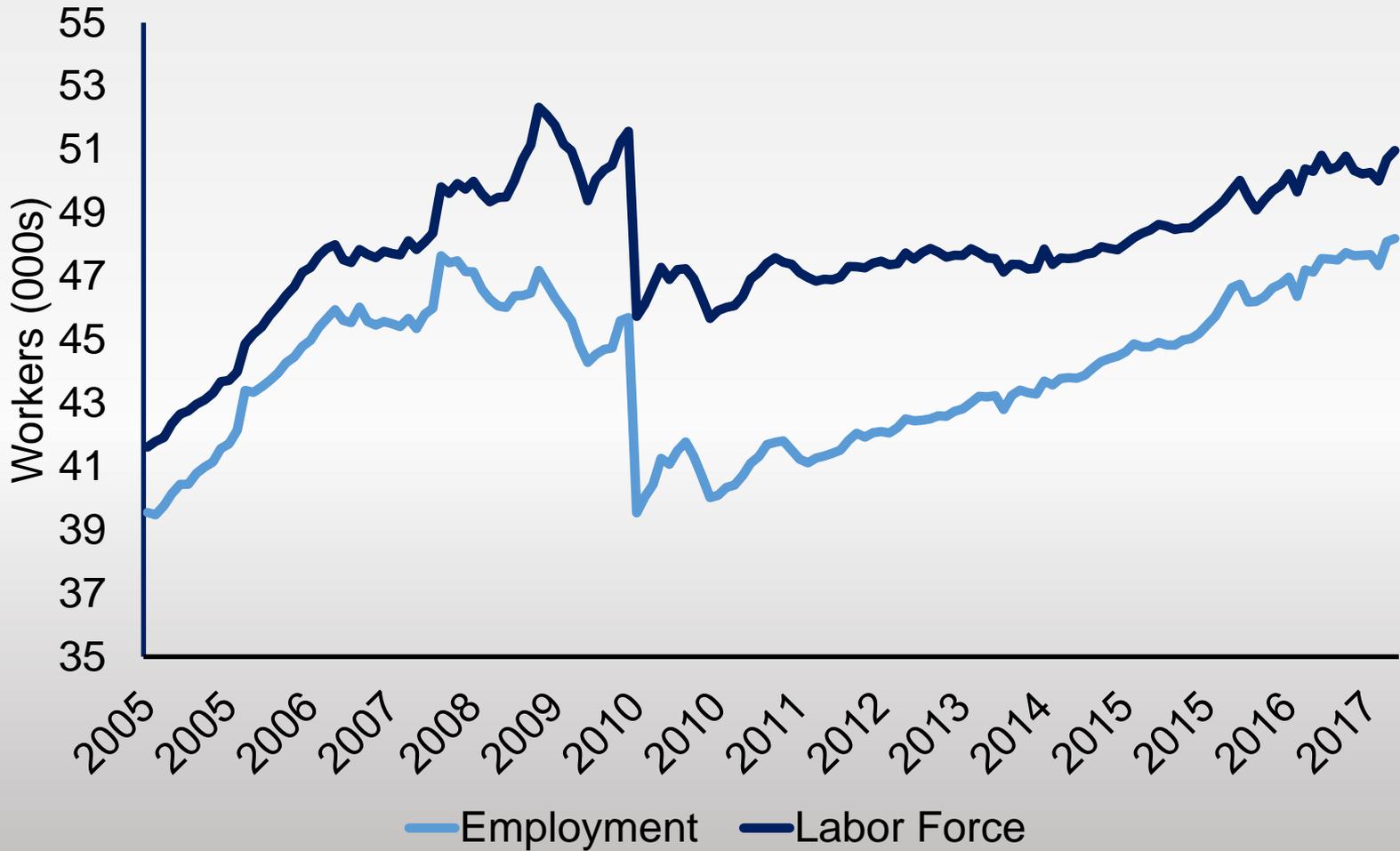


Income Growth

Earnings by Place of Work



Surplus Labor Shrinking



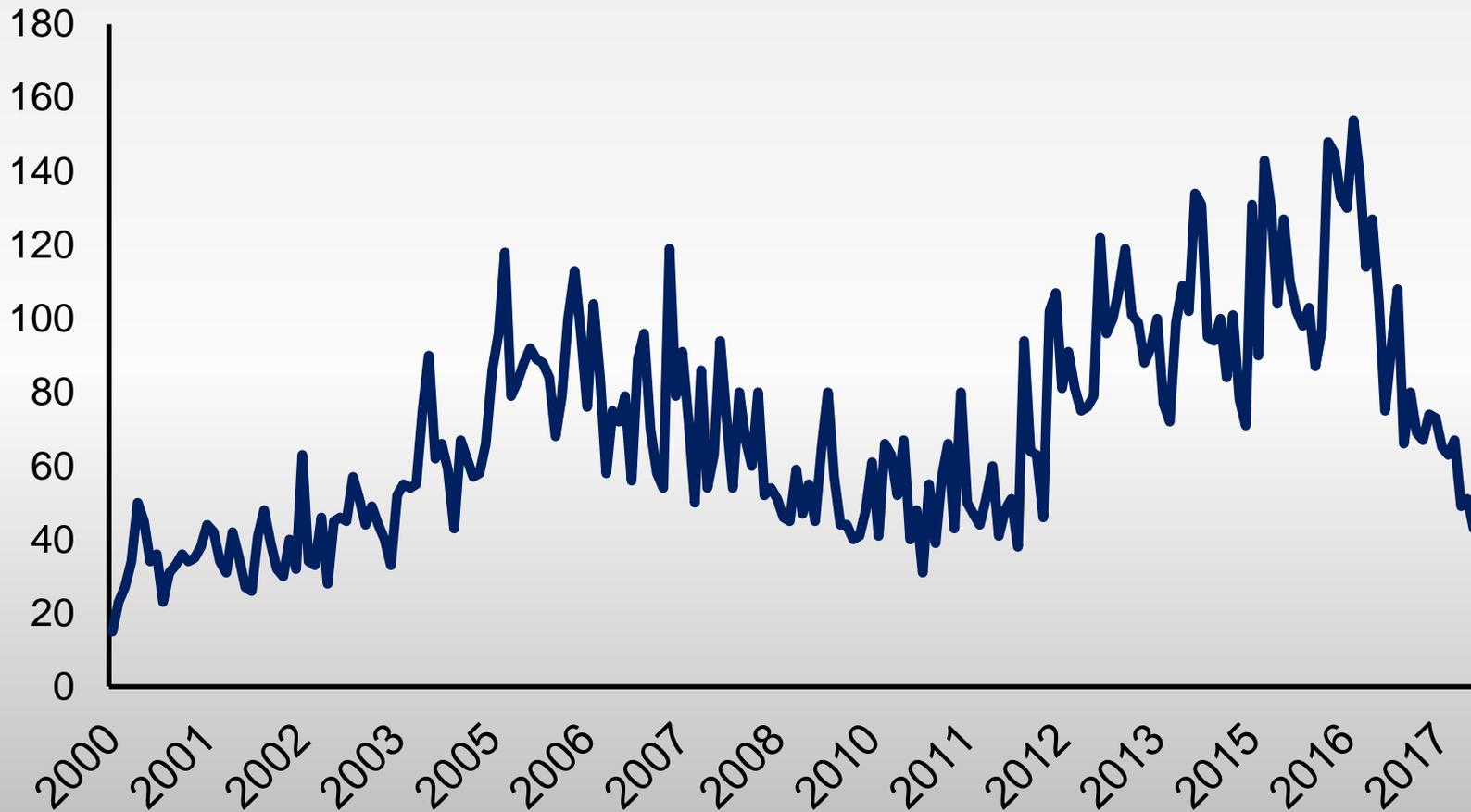
Unemployment Rate

Brunswick Unemployment



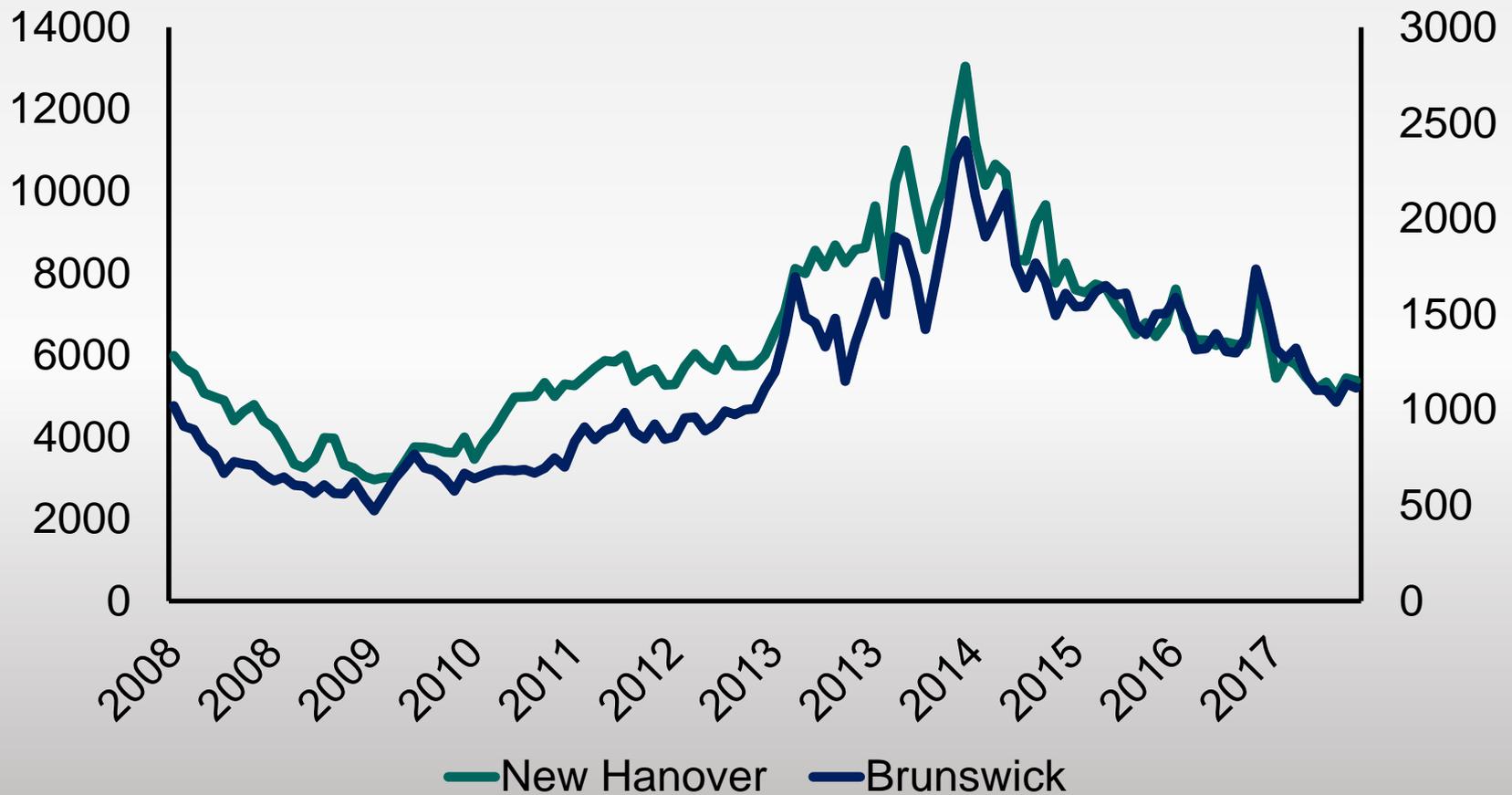
Incorporations Slowing

Monthly Incorporations



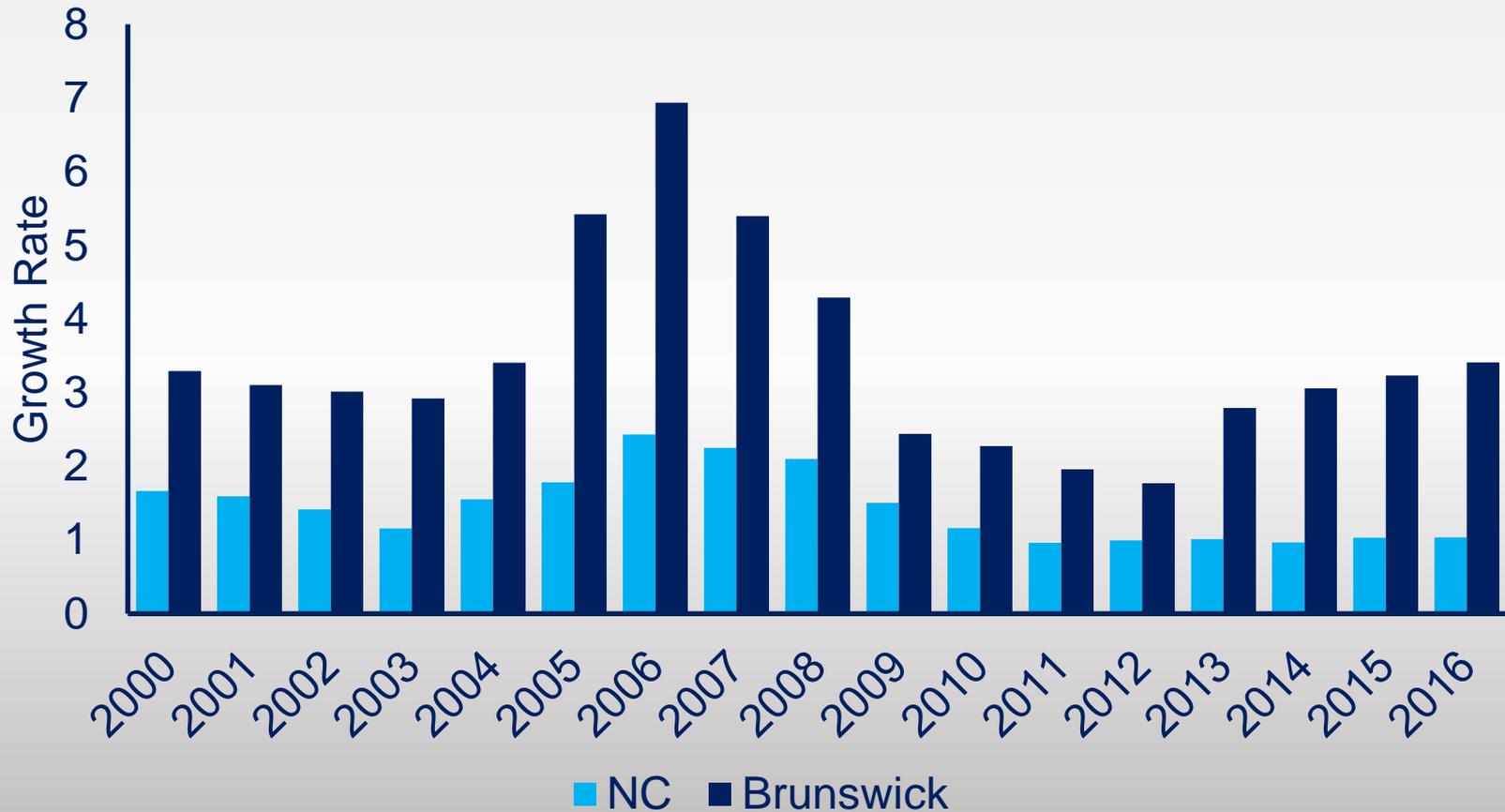
Hiring Slowing

Job Openings



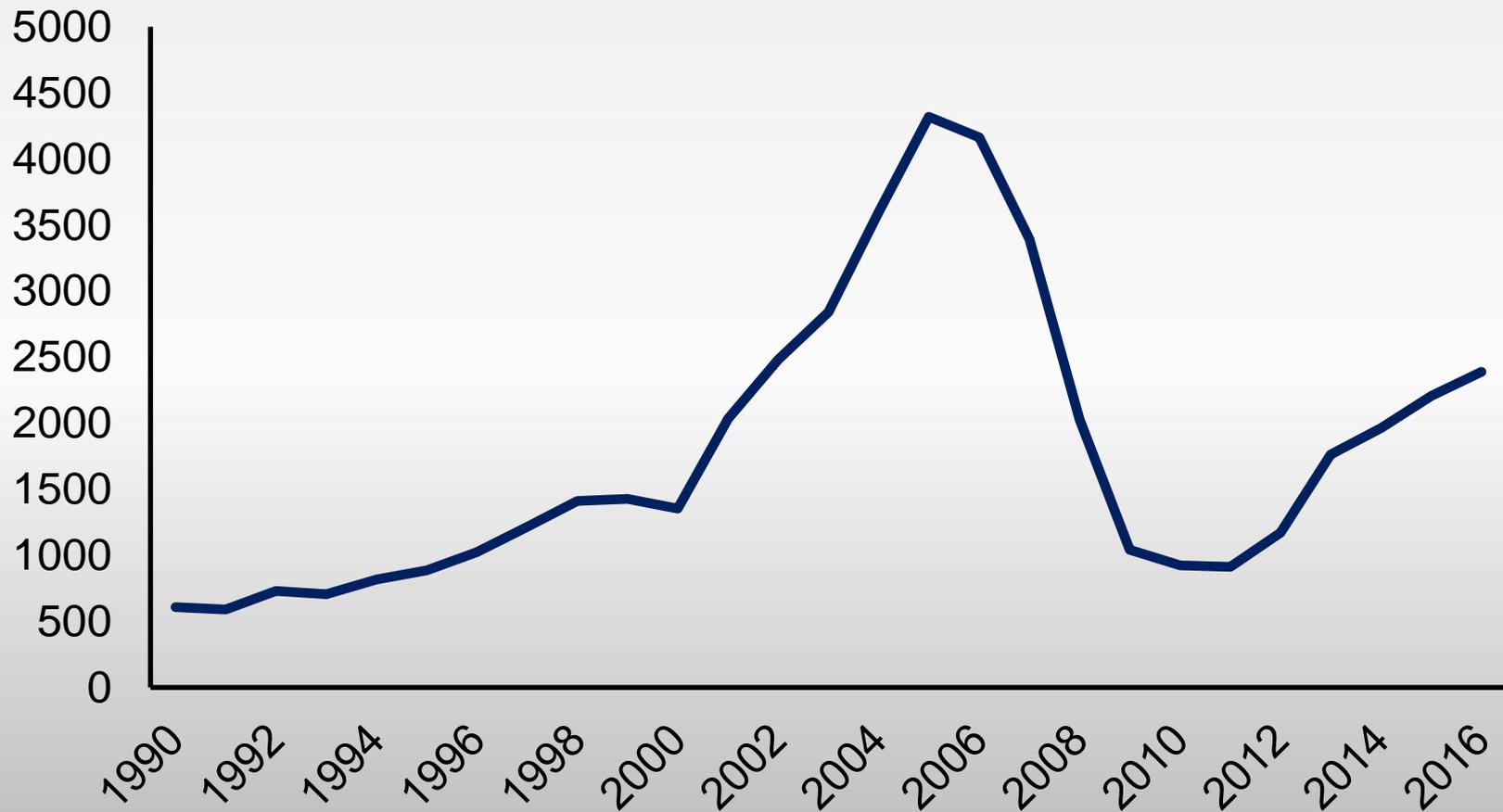
Population Growth Picking Up

Population Growth



Residential Construction Picking Up

Building Permits



The Present Situation

- Employment expanding
- Nearing “Full Employment”
 - Although slack remains
- Residential growth picking up momentum

Outlook

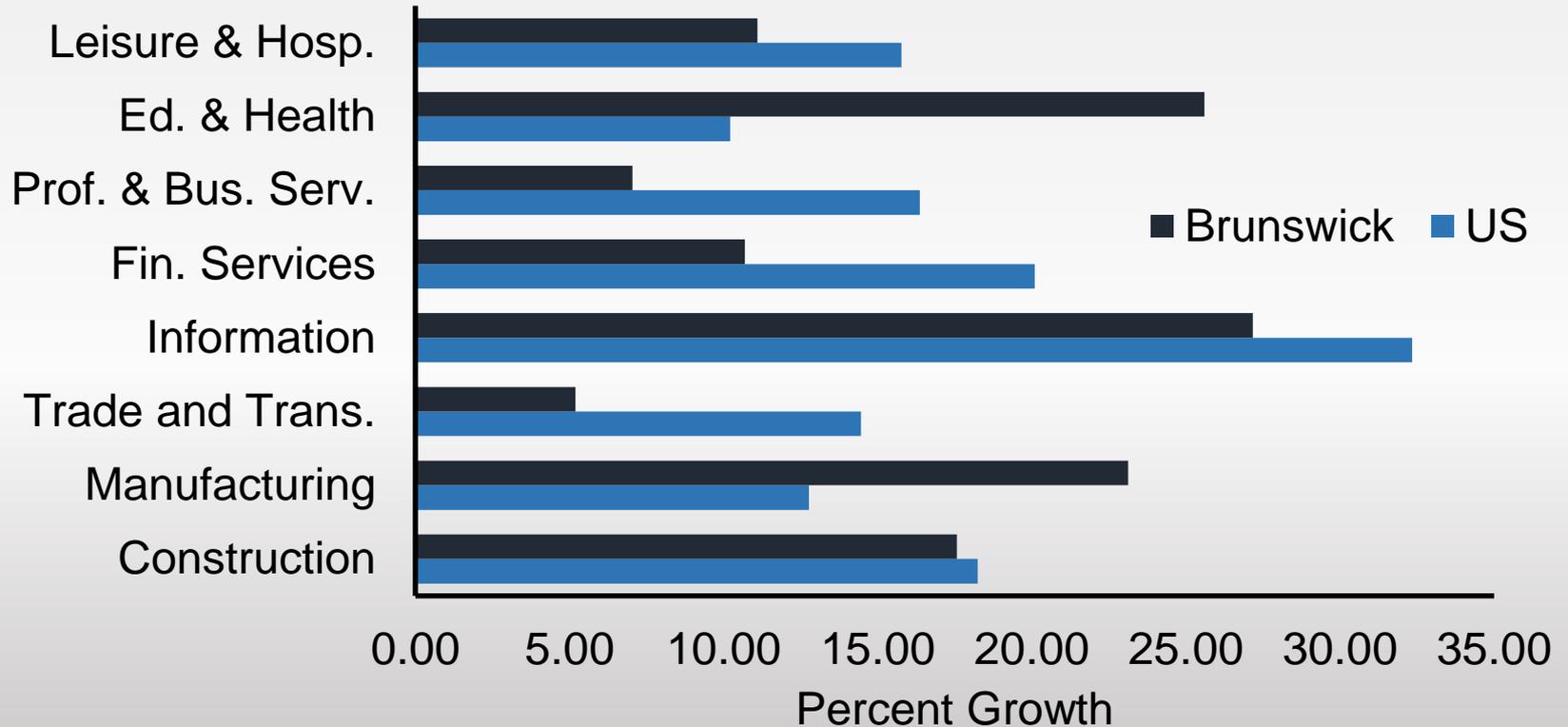
- Positive outlook for short and medium run
- Employment outpacing “Labor Force” growth

| <u>Time Period</u> | <u>July 2010 → July 2016</u> | <u>%</u> |
|--------------------|------------------------------|----------|
| Population | 108,181 → 126,953 | 17.4% |
| Labor Force | 49,988 → 53,243 | 6.5% |
| Employment | 44,382 → 50,050 | 12.8% |

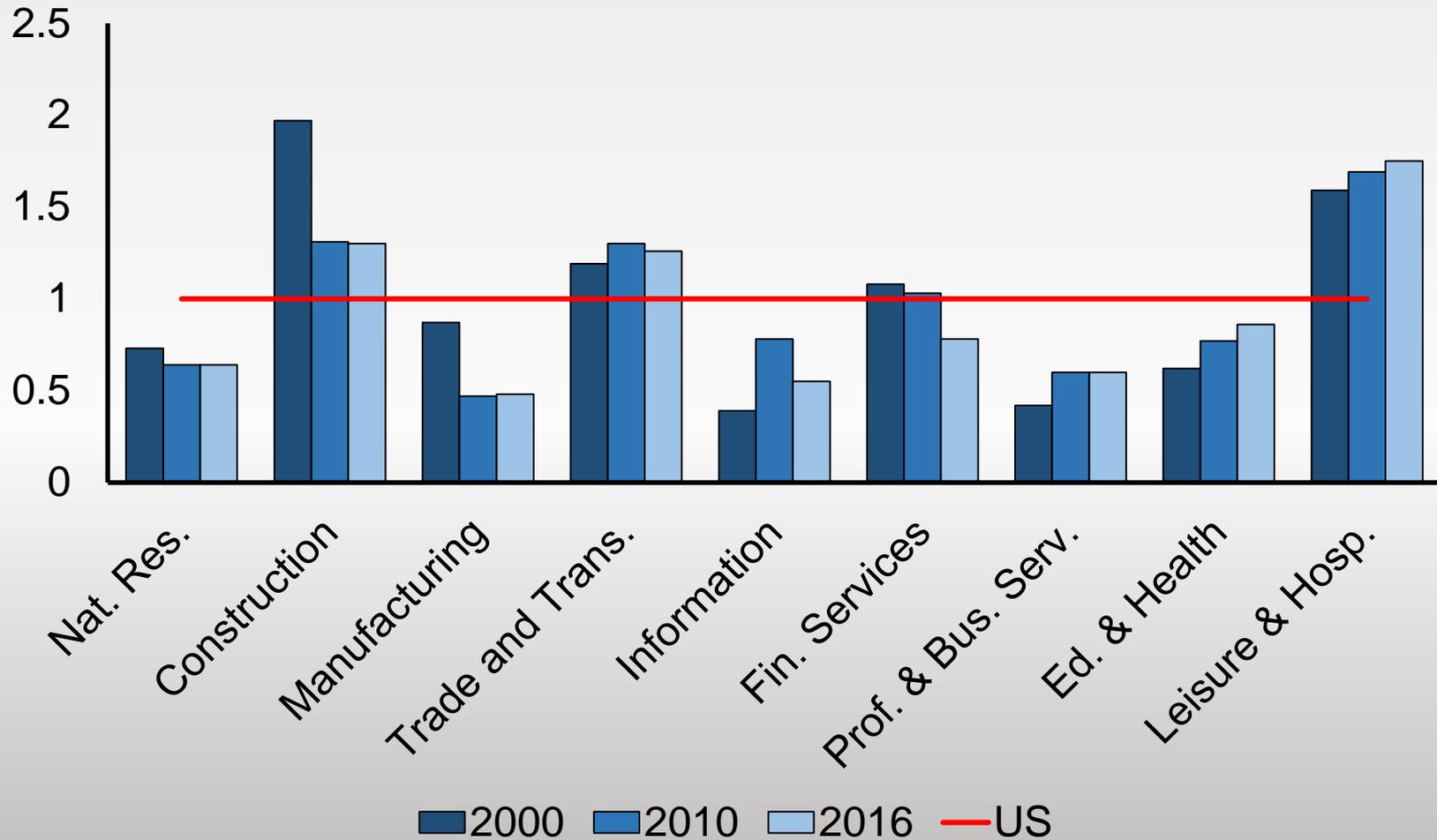
- “Shadow Unemployment” will restrain wage growth

Wage Growth

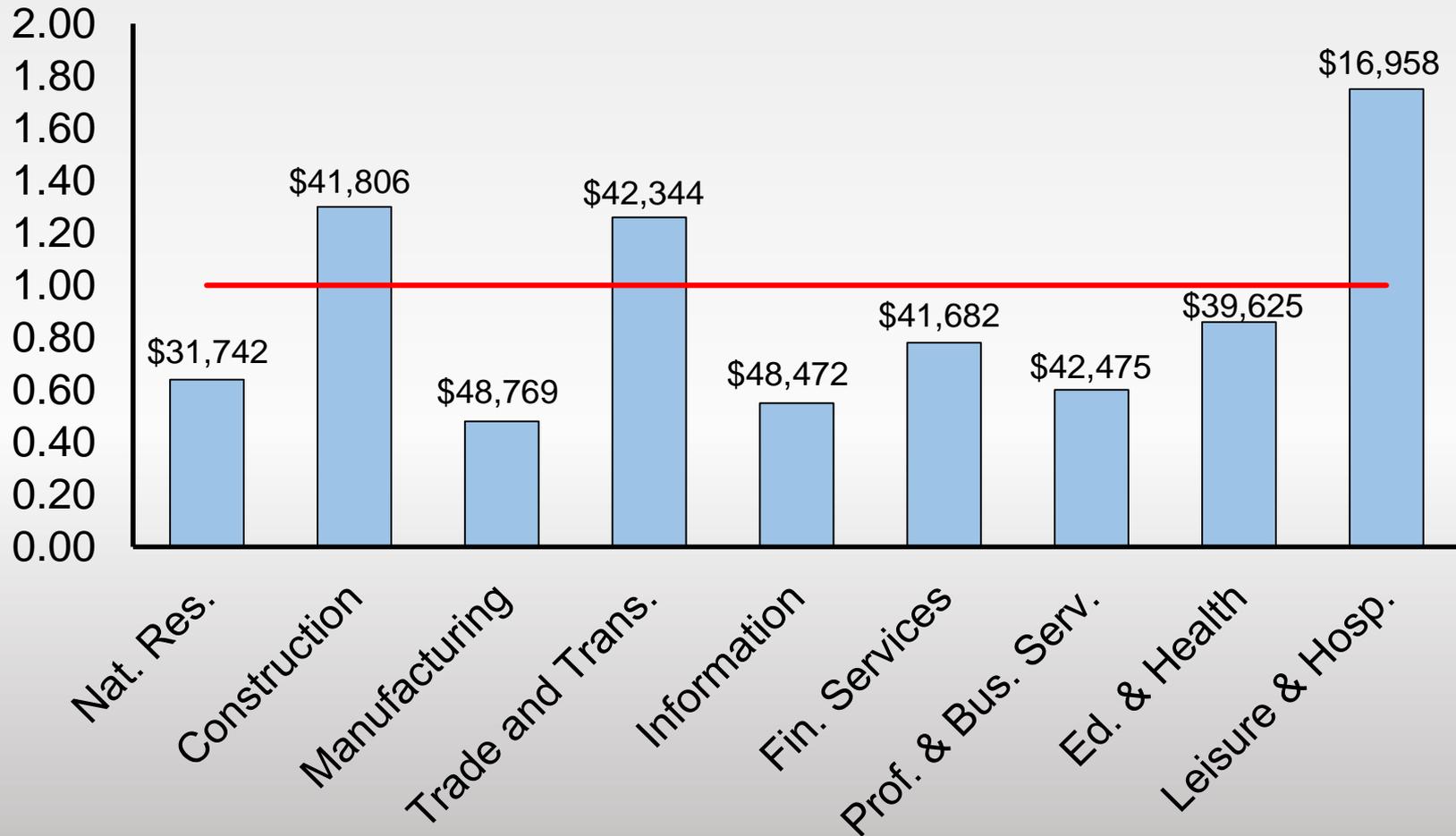
Wage Growth 2010 → 2016



Sectoral Strength

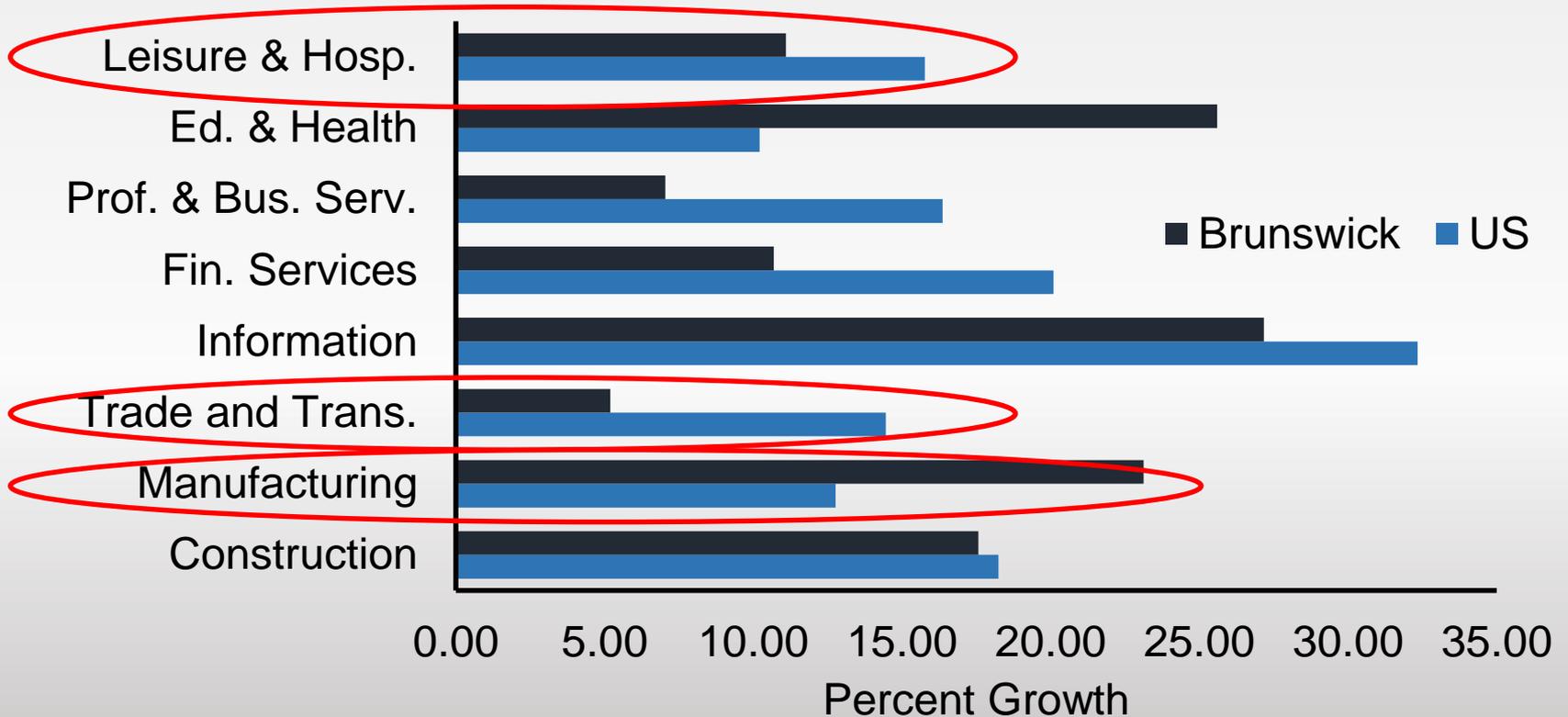


Brunswick Location Quotient and Wage



Wage Growth

Wage Growth 2010 → 2016

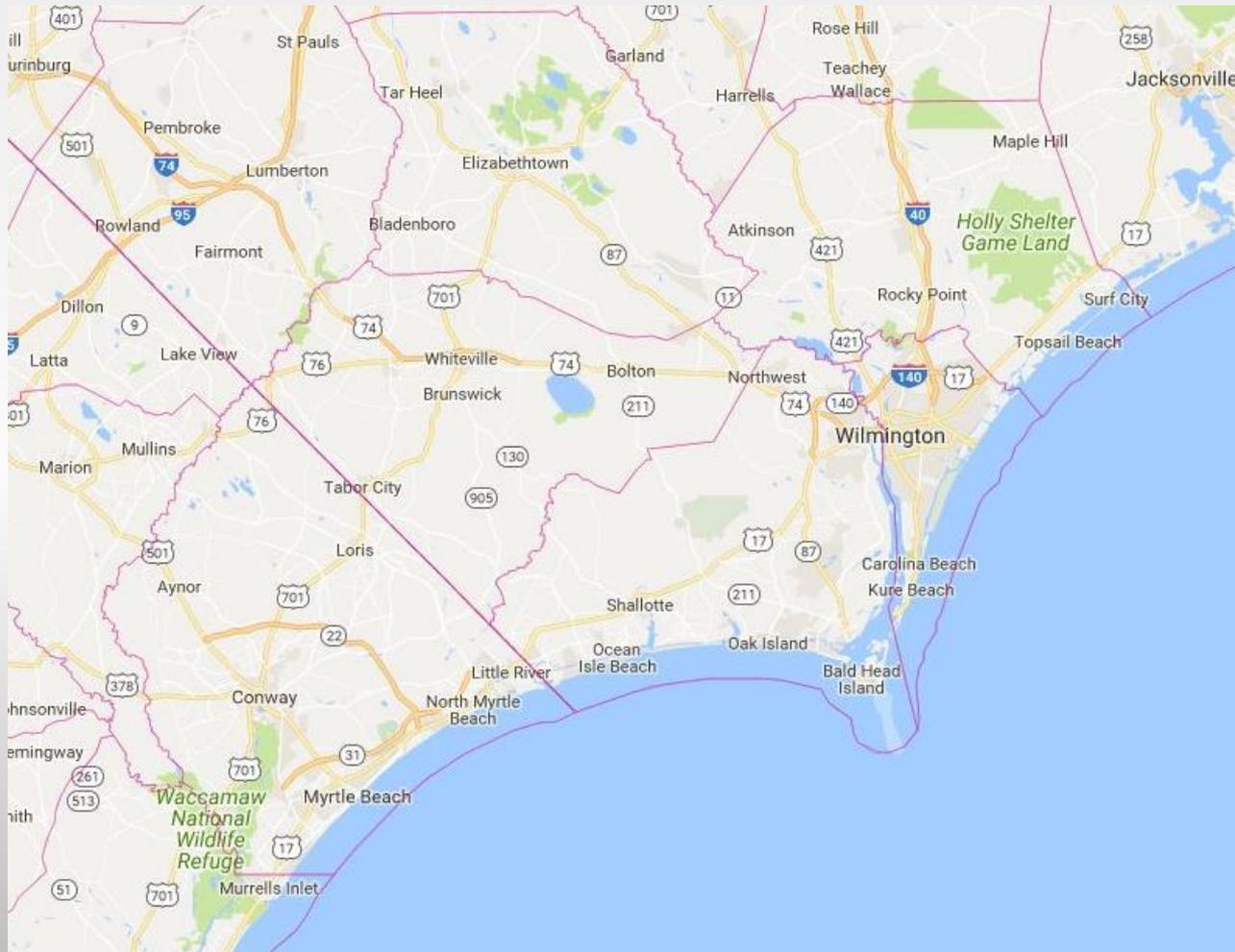


Thoughts for the Long Run

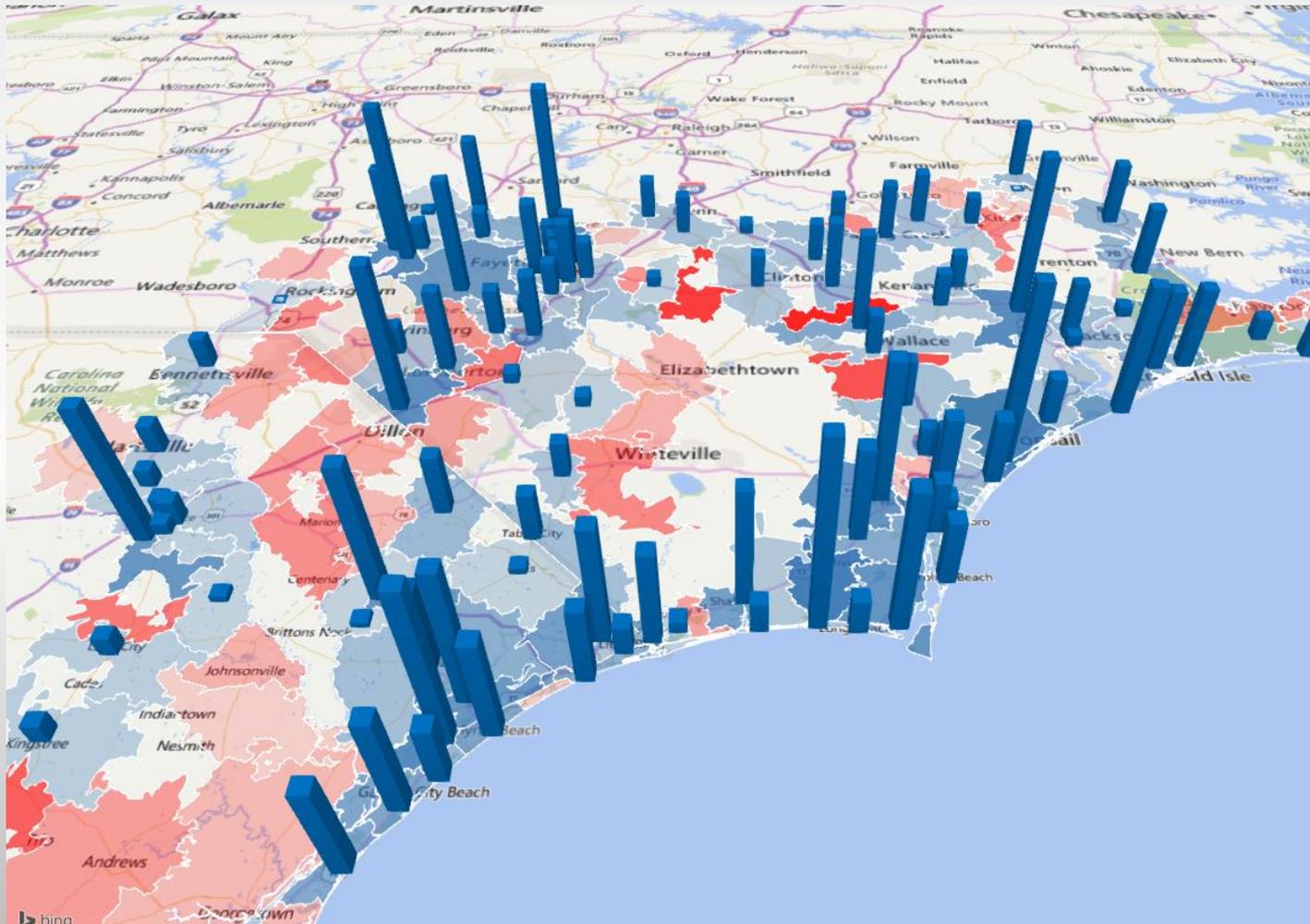
Urbanization

- Migration from rural areas to urban areas
- Opportunities...
- Brunswick County mixed land types
 - Some near urban areas
 - Much rural
 - Coastal

Brunswick County



Urbanization and Expansion



Growth

- Residential Growth Pushing in from Wilmington
- Improved transportation:
 - Increased demand for property
 - Upward pressure on prices
 - Decreased desire to avoid crossing river
 - Upward pressure on wages
 - Brunswick and New Hanover as functional region
 - But lines drawn around political jurisdictions

Cost of Services

- $Ratio = \frac{Public\ Service\ Expenditure}{Revenues\ from\ Land\ Use}$

| <u>Land Use Type</u> | <u>Cost Ratio</u> |
|---------------------------|-------------------|
| Residential | 1.18 |
| Commercial / Industrial | 0.44 |
| Agricultural / Open Space | 0.50 |

Looking Forward

- Near term:
 - Expect growth to continue and labor market to continue to tighten
 - Likely will not “catch” national rate anytime soon
 - Wage increases will lag national
- Longer term
 - Residential expansion from Wilmington
 - Need to balance with commercial/industrial development (team effort)

SWAIN CENTER

Thank you.

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