The upturn in real GDP that began in the third quarter of 2009—output grew at a 2.2 percent annual rate—is projected to continue. However, to make much of a dent in unemployment, the pace will need to pick up. Indeed, output would need to grow around a 5 percent rate over the next three years to absorb the large slack that developed during the Great Recession. For this reason, many observers do not expect the economy to return to full employment (potential GDP) for several years.

The chart below, from the Congressional Budget Office, illustrates the current huge shortfall of real GDP from potential GDP (the blue line illustrates what the gap would be in the absence of the 2009 fiscal stimulus package). It shows that at a projected average annual growth of 4 percent over coming years the output gap will not be closed until around 2014. As a consequence, the unemployment rate will be slow to return to a more normal 5 percent rate, especially in the period just ahead as employers will be expanding employment by adding hours to those currently underemployed before hiring new workers and possibly as ongoing productivity gains reduce the need for additional workers.
As shown in the chart, previous recoveries have been characterized by sharp increases in residential construction. Housing has been an important early contributor to previous overall expansions.

The very low level of mortgage rates (the blue line) aided by very low Treasury benchmark rates (the red line) and the Fed's program to purchase mortgage assets—is helping to lift housing activity. Moreover, sales of new homes have been steadily outpacing construction and at some point production will need to move up to be more in line with sales. However, the mortgage market has not reopened to a large number of borrowers—those who cannot qualify for a conforming mortgage, including those in need of a jumbo mortgage. Also without access to the market are homeowners wanting to trade up but for whom the bursting of the housing bubble has erased their home equity. On balance, these factors foreshadow a milder recover in housing than has been the norm.
Nonresidential Investment

Elsewhere in the construction sector, commercial real estate will be a drag going forward owing to the overhang of income-producing property—evidenced by high and rising vacancy rates and softening rents.

Supporting the Recovery

Providing support to the recovery in the quarters ahead will be the inventory situation. As shown in the chart below, production (red line) has fallen well short of sales (blue line) for several quarters—implying a massive drawdown of inventories.

This cannot go on much longer. Production will soon need to ramp up to catch up with demand. The corresponding end to inventory liquidation will be a source of real GDP growth in the quarters ahead. The weakening dollar over the past year and improving growth abroad will be buoying our net exports. Also, prospective healing of the financial system and an easing of the credit crunch will be lifting an important restraint on business and household spending and adding to the sustainability of the expansion. Nonetheless, as noted, this recovery is likely to be more subdued than most and the slack will persist.
With the exception of the third quarter of 2008, area retail sales fell dramatically over 2008. The decline was especially large during the fourth quarter of 2008 and continued into the first quarter of 2009. Sales rebounded during second quarter of 2009 and the third quarter of 2009. Compared to the year ending September 2008, area county retail sales are down 9-14 percent throughout the area. They are down more than 13 percent statewide. There is preliminary evidence that the sales decline may have slowed during late summer.

Area county unemployment rates reached 25-year highs during October 2009. The October 2009 seasonally adjusted rates ranged from 3.9 to 4.7 percentage points above comparable October 2008 rates. The North Carolina rate was 3.9 percentage points higher.
After peaking in mid 2005, average monthly sales of existing single-family structures in Brunswick County (BCAR) had decreased 75 percent by year-end 2007. They rose through the third quarter of 2008, and then fell through the first quarter of 2009, only to rebound during the next two quarters. After peaking in the second quarter of 2007, average prices had fallen more than 55 percent by the second quarter 2009. They rose during the third quarter of 2009. After peaking in the second quarter of 2009, Wilmington area sales (WRAR) had decreased more than 70 percent by the first quarter of 2009. They rebounded during the next two quarters. After peaking in the second quarter of 2007, average prices had fallen 20 percent by the first quarter of 2009. They rose during the second quarter of 2009, only to fall during the third quarter of 2009.

Collections from the two three-percent room occupancy taxes levied in New Hanover County have fallen since the third quarter of 2007. For the year ending September 2009, collections are down 8.3 percent. This sector was especially hard hit during the second half of 2008 and the first part of 2009. There is preliminary evidence that the tax collection decrease may have slowed toward the end of the summer.
Passenger boardings and deboardings at the Wilmington International Airport (ILM) have been falling since year-end 2007. These declines were especially large during the second half of 2008 and the first quarter of 2009. Traffic rose over the next two quarters. For the year ending November 2009, both passenger boardings and deboardings were down 1.1 percent.

With the exception of the second quarter of 2008, container tonnage passing through the state port facilities at Wilmington declined throughout 2008. Tonnage rose during the first three quarters of 2009. Growth during the second quarter of 2009 was especially strong.

The H. David and Diane Swain Center for Business and Economic Services at UNC Wilmington is the business research and outreach division for the Cameron School of Business. Center staff collect and analyze local, state, and national economic data that impact our region and its growth. The H. David and Diane Swain Center for Business and Economic Services also provides professional and executive educational opportunities for organizations and professionals with major emphasis on business training, entrepreneurship and real estate.

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