The U.S. economy continued to register subpar growth in the second quarter of this year. With the exception of the fourth quarter of last year, real GDP has grown at less than a 2-1/2 percent rate—the pace that normally would be associated with stable unemployment—since the summer of 2010.

Ironically, the unemployment rate has fallen 1-1/4 percentage points over this period, to 8-1/4 percent. Standard relationships would suggest that the unemployment rate would have risen over the past couple years, rather than decline. As noted in the previous issue of the Barometer, some of the decline in the unemployment rate, especially since last fall, can be attributed to a more normal realignment by employers of work forces with production, after a prolonged period of businesses trying to get by with extremely lean payrolls.

Beyond this, dropouts from the labor force—many discouraged by poor employment prospects—have held down the measured unemployment rate. Indeed, the decline in the labor force participation rate—the share of adults who deem themselves to be in the labor force and get counted as either employed or unemployed—since the summer of 2010 can account for as much as one percentage-point decline in the unemployment rate. In other words, if these people had stayed in the labor force, the unemployment rate would have been roughly a percentage point higher than the current measured rate.

As shown in the chart below, the participation rate has dropped more than two percentage points since 2008, more than double the decline over the past two years. While some of this likely owes to demographic forces—namely baby boomers entering their retirement years—the bulk is cyclical. This means that many people not currently included in the labor force will be moving back into it once labor market conditions begin to look more promising, which will act to hold up the measured unemployment rate.
Prospects for a Pickup in Demand

An improvement in economic growth will require that demand pick up in the consumer or business categories or in net exports. What are the prospects for each of these? First, the outlook for consumer spending is being shaped by the slow growth in income that has resulted from the meager job gains of recent months combined with slow advances in compensation, as well as an erosion of household wealth positions. Even though home prices may have reached bottom of late, the selloff of stocks has taken its toll on household wealth. As the chart below illustrates, growth in consumer spending has slowed appreciably since earlier in the year, at a time when spending on big-ticket durable goods has actually fallen. These considerations, along with slumping consumer sentiment, do not point to much improvement in the consumer sector in the period ahead.

As shown in the chart below, business spending on equipment and software—the bulk of business investment—has been losing momentum over recent quarters. Moreover, new orders for capital goods—the following chart—have been going sideways over the past year, suggesting that the near-term outlook for investment is anything but robust.
Prospects for a Pickup in Demand Continued

Tepid investment is occurring against a backdrop of high profits, massive business holdings of cash assets, and generally favorable access to credit, especially for larger firms. Businesses cite a high degree of uncertainty about the tax and regulatory environment as key reasons for caution in making capital outlays, along with sluggish demand and potential spillover effects from Europe. Caution in making capital outlays has been mirrored in hiring decisions. Regardless of the reasons for subpar investment spending, the consequences down the road will be smaller advances in labor productivity, which will translate into less growth in output and labor earnings. The consequences of such will be serious, including those on tax receipts.

Turning to net exports, the final possibility, the chart below illustrates that this sector has not been a contributor since the recession. Importantly, the competitiveness of U.S exports has been hurt by the turmoil in Europe, which has interrupted the slide in the dollar (the following chart). Owing to our unsustainably large external deficit, the dollar is under chronic downward pressure, which acts to strengthen our exports. However, the flight to safety prompted by the ongoing crisis in Europe is short-circuiting this process and impeding an improvement in exports and the expansion in the United States. Moreover, the downturn in Europe—which is undercutting growth elsewhere, too—is further stalling recovery in our external sector. As a consequence, prospects for net exports are not very favorable, either.
The Outlook

Putting all this together, the outlook is for continued disappointing growth in the United States. While growth should pick up a little in the quarters ahead, it is unlikely to exceed by much the roughly 2-1/2 percent pace required to keep the margin of slack—including the unemployment rate—unchanged. This implies that a return to economic normalcy is still a long way off. The ongoing slack in the economy will hold inflation in check, even once the dollar resumes declining. As the chart below illustrates, core inflation has been running a bit below the Fed’s target of a 2 percent annual rate and is likely to stay in that vicinity for the foreseeable future. Thus, Fed policy is unlikely to be constrained by inflation and can continue to focus on the sluggish economy.
The Outlook Continued

Nonetheless, there is little that macroeconomic policy can do to invigorate the economy at this point. The Fed could purchase more long-term assets—launch QE 3—in an effort to lower benchmark long-term interest rates further. However, the consensus within policy-making councils at the Fed for such action has long since disappeared and it is not clear how much impact another round of QE would have, especially on key borrowing rates.

Moreover, gridlock has gripped fiscal policy, reflecting both the large debt outstanding and sharp political differences over the desirability and efficacy of additional fiscal stimulus. Indeed, a cloud that is likely to be hanging over the economy over coming months is the so-called fiscal cliff—sharp increases in tax rates after year-end as the Bush tax cuts expire and large cutbacks in federal spending under the sequestration provisions of the debt-ceiling agreement of last August. Progress on this front—along with some others—is unlikely before November. Thus, headwinds coming from the fiscal sector—federal, state, and local—will continue to be a drag on the economy.

Retail Sales

Brunswick County retail sales rose 8.5 percent between 2010 and 2011 to $1 billion. They rose 11.7 percent in New Hanover County to $3 billion and 15.8 percent in Pender County to $284.6 million. Statewide, sales rose 5.2 percent to $99.9 billion.

For the year ending April 2012 (May 2010-April 2012), retail sales in Brunswick County were up 8.4 percent to $1.06 billion. They were up 10.4 percent in New Hanover County to $3.1 billion, 9.8 percent in Pender County to $287.4 million, and 6.0 percent in North Carolina to $102.3 billion.

Source: NC Department of Revenue.
Employment and Wages

The largest four employment sectors in the Wilmington MSA (Brunswick, New Hanover, and Pender Counties) in 2011 were healthcare and social assistance, retail trade, local government, and accommodations and food services. Combined, these four sectors accounted for almost 56 percent of total employment. The sector paying the lowest wage was the accommodations and food services sector. Although not shown in the table, the sector paying the highest wage was the utilities sector which paid an average annual wage of $96,000 in 2011, 155 percent above the average across all sectors.

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

Unemployment Rates

Unemployment rates in area counties have fluctuated between 8 and 11 percent since 2009. Seasonally adjusted unemployment rates in Brunswick and Pender Counties were higher in May 2012 than they were in May 2011. With few exceptions, unemployment rates in area counties have been above those for the nation since 2008.

Airport Traffic

Air passenger traffic at the Wilmington International Airport fell 1.7 percent between 2010 and 2011 to 810,410. Passenger boardings fell 1.8 percent to 403,580, and de-boardings fell 1.6 percent to 401,830. For the year ending May 2012 (June 2011-May 2012), passenger traffic was down 0.6 percent to 828,670. Both boardings and de-boardings were down 0.6 percent to 415,580 and 413,090, respectively.

Source: Wilmington International Airport Manager’s Office.
The market for existing single-family homes in the area served by the Brunswick County Association of Realtors (BCAR) has been relatively stable since the end of 2006. The same can be said for the area served by the Wilmington Regional Association of Realtors (WRAR) since year-end 2008. Since stabilizing, both areas show an annual cycle with virtually no growth. In general, average prices in the BCAR area have exceeded those in the WRAR area, and both have been above those for the state. Even though sales have likely stabilized, home prices will likely continue to fall, although they are falling less rapidly than they were 9-12 months ago.

Source: NC Association of Realtors.
Foreclosures

Home foreclosures in Brunswick County fell 13.9 percent between 2010 and 2011 to 1,391. They fell 17.1 percent in New Hanover County to 1,559 and 19.6 percent in Pender County to 419. Statewide, they fell 19.7 percent to 53,218. For the year ending May 2012 (June 2011-May 2012), foreclosures were down 16.1 percent in Brunswick County to 1,323, 0.7 percent in New Hanover County to 1,777, and 22 percent in Pender County to 389. Statewide, they were down 18.1 percent to 50,972.

Source: NC Administrative Office of the Courts.

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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