Recent Output and Unemployment Developments

After struggling over much of last year, U.S output strengthened in the final months of the year and unemployment dropped noticeably.

To put things in perspective, the decline in the unemployment rate over the final three months of 2011—half a percentage point—likely overstates the pickup in growth in output. Translating this decline using standard rules of thumb, one would expect that real GDP would have grown at more than a six percent annual rate in the fourth quarter—a good bit above consensus estimates.

A small portion of the decline in unemployment owes to withdrawals from the labor force of discouraged workers. More importantly, it appears that employers have found themselves unable to continue to meet production schedules with the overly lean work forces that they have been managing in recent years and have gingerly turned to hiring more workers. It is unlikely that this factor will persist much longer, and, once it plays out, unemployment will mirror more closely the strength of output growth.

Beyond this, the firming in real GDP growth in the fourth quarter likely reflects inventory restocking, which will not go on much longer. In view of these circumstances, what are the prospects for faster growth in output and solid ongoing declines in joblessness? To answer this question, we need to turn to sources of aggregate demand.
Household Demand

Growth in final sales—aggregate demand—was less robust in the latter part of the year than production (real GDP). Retail sales, shown below net of its volatile motor vehicle sales component, tended to fizzle out at the end of the year. The fundamentals—such as housing and stock market wealth—are not buoyant and do not point to appreciable gains in consumer spending in coming quarters. Weighing on household sentiment continues to be the depressed housing market, where more than a fifth of homeowners with mortgages are underwater. With a clogged pipeline of prospective foreclosures and distressed sales, this cloud is not expected to lift any time soon, and will continue to hold down homebuilding, along with consumption spending.

![Retail Sales and Food Services Excluding Motor Vehicles and Parts Dealers (RSFSXMV)](source: U.S. Department of Commerce: Census Bureau)

Business Investment

The business sector, which has been subject to crosscurrents, is not expected to be a locomotive either in the period ahead. The overhang of commercial properties will continue to hold down nonresidential construction. Turning to the larger equipment and software category, this component had registered solid expansion over the past several quarters—importantly owing to replacement needs. However, new orders for such capital goods have tailed off in recent months, as shown in the chart below.

![Manufacturers' New Orders: Nondefense Capital Goods Excluding Aircraft (NEWORDER)](source: U.S. Department of Commerce: Census Bureau)
This slowdown has been somewhat puzzling. Profitability is at a historic high, seen in the chart below, which should be spurring strong investment spending.

Drilling down some, heightened uncertainty likely has been prompting business managers to put investment projects—with otherwise attractive returns—on hold. The VIX index, reflecting uncertainty about the direction of stock prices, has been high over recent months—as seen in the chart below. Concerns about the spillover of the European sovereign debt crisis to the United States have contributed to this uncertainty, as have worries about the unsustainable U.S. fiscal situation. This is adding to uncertainty about future taxes—and combined with angst about the regulatory reach of government—is acting as a damper on prospective investment returns. This uncertainty also is weighing on the stock market and keeping the high profitability from being converted into high share prices.
External Sector

Neither is the external sector likely to be providing much lift in the period ahead. Importantly, turmoil in Europe is likely to be a drag on our external sector. Growth in Europe has been restrained by the crisis, which is showing through to demand for our exports. Also, the flight from European investments is keeping upward pressure on the dollar and reducing the global competitiveness of U.S. goods, at a time when fundamentals would be pushing down the dollar and giving our external sector a boost.

Outlook

Putting these pieces together, growth in output will stay tepid in the quarters ahead, though it is expected to beat the sub-2 percent rate of 2011. Along with the forces noted above, strains on fiscal positions at all levels of government will be holding down growth. In these circumstances, further reductions in the unemployment rate will come grudgingly. With slack in the economy remaining large, inflation is expected to be subdued. In this context, the Fed can be expected to retain its highly accommodative monetary posture and interest rates will continue at historic lows.

Gross Domestic Product

After falling 1.5 percent during 2009, real (inflation-adjusted) Gross Domestic Product, a measure of total production in the Wilmington Metropolitan Statistical Area (Brunswick, New Hanover and Pender Counties), rose 2 percent over 2010. GDP is forecast to rise 3 percent over 2011 and 2 percent over 2012. The comparable forecasted growth rates for the state and nation are 1.7 percent for both over 2011 and 1.9 percent for the state and 2 percent for the nation over 2012.
Local Employment Percentage

The chart below shows the proportion that employment in the Wilmington MSA was of its recession low for the 25 months preceding and the 25 months following the end of the recession for the three most recent national recessions (July 1990-March 1991, April 2001-December 2001, and January 2008-June 2009). As can be seen, compared to earlier recessions, the decline in employment leading up to the end of January 2008/June 2009 recession was very pronounced while the recovery was very weak. Two years after the end of the 2008-09 national recession, MSA employment was only 0.8 percent above its level at the end of the recession. The comparable percentages for the two earlier recessions were 2.3 and 14.4 percent, respectively.

Retail Sales

After falling dramatically in 2008 and 2009, area county and state retail sales rebounded in 2010. For the year ending in both November 2010 and November 2011, sales were up noticeably in all of the counties in the Wilmington MSA.
Airport Traffic

Passenger traffic at the Wilmington International Airport fell in 2009. This fall was offset by growth in 2010. The growth rebound pales in comparison to the growth that occurred over 2007. For the year ending November 2011, passenger boardings were down 1.4 percent, and passenger deboardings were down 1.3 percent.

Tonnage Growth Rates

Following a decline in container tonnage handled by the state port facilities at Wilmington in 2008, tonnage grew in both 2009 and 2010. For the year ending November 2011, tonnage was up 12.2 percent.
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. Since year-end 2008, the same can be said for the area served by the Wilmington Regional Association of Realtors (WRAR). 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 of North Carolina.

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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