Recent Developments on the National Economy

**Slow growth.** The U.S. economy this year has continued to register the kind of sluggish growth that has been characteristic of this recovery. As shown in the table below, growth in real GDP has averaged only a 2-percent annual pace this year. Moreover, a third of growth this year has come from a buildup in inventories, implying that final demand has grown at less than a 1-1/2 percent rate.

<table>
<thead>
<tr>
<th>Year</th>
<th>Q1</th>
<th>Q2</th>
<th>Q3</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>2.0</td>
<td>2.1</td>
<td>2.5</td>
</tr>
<tr>
<td>2011</td>
<td>2.5</td>
<td>2.0</td>
<td>2.8</td>
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<tr>
<td>2012</td>
<td>2.5</td>
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<td>2013</td>
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To be sure, growth this year has been held down by restrictive federal fiscal measures that have taken the form of tax increases and sequester cuts in defense and non-defense spending. At the same time, monetary policy has been highly accommodative.
Diminished headwinds. Many of the headwinds that had been restraining growth have diminished. Earlier in the recovery, tight credit—a credit crunch—was restraining the economy. However, businesses with access to the bond market have been enjoying very favorable interest rates and availability of credit. Indeed, riskier below-investment-grade borrowers are paying the lowest interest rates in decades, as shown below. Moreover, rates have stayed low even as these borrowers have issued record volumes of bonds.

Turning to commercial banks, they had curbed credit to business and household borrowers, but have been steadily unwinding this restraint, as shown in the next chart. As shown, since early 2010, they have been easing standards for loans to small business (easing occurs when the line is below zero noted by the red arrow) in every survey but one.
Another headwind had been huge losses of household wealth from the plunge in the stock market and the big drop in home prices. However, stock prices have hit record highs lately and home prices have recovered about a third of their losses. As a consequence, household wealth in relation to income has been marching steadily upward, shown in the chart below.

Still another headwind had been faced in the external sector. Fiscal and banking troubles in Europe had caused a recession in Europe and a stronger dollar, both of which had been holding down U.S. export growth. However, Europe has been emerging from its recession and the dollar has shown signs of resuming its slide, next chart, helping our exports.
Heightened uncertainty. Likely weighing on the expansion is a high level of uncertainty about public policy. This came to a head in October with the federal government shutdown and another playing out of brinksmanship on the federal debt. The chart below illustrates that uncertainty about economic policy has been high throughout this economic recovery.

Underlying this uncertainty is an unsustainable projected debt situation occasioned by a very serious shortfall of revenues from outlays in the decades ahead. With little being done to address this problem, concerns are likely to continue mounting about the draconian measures that will be needed once the crisis hits. Moreover, businesses routinely report that they are extremely concerned about costs of healthcare and regulatory policies, which has led them to be very cautious in hiring employees and making investment outlays. As shown below, the portion of GDP accounted for by business fixed investment has stayed unusually low.

Ironically, businesses have been holding back at a time when they are sitting on massive amounts of cash, are enjoying high profits, and more and more businesses are gaining improved access to credit.
Outlook. The outlook over the coming year is for continued subpar growth, although some small pickup is expected as fiscal restraint diminishes. As such, economic slack, including unemployment, will diminish only gradually. The unemployment rate will remain above the 5-1/2-percent area that is associated with normal performance of the economy for some time to come. In these circumstances, the Fed will continue with a highly accommodative policy. While tapering of asset purchases is expected to begin early in the coming year, the time when the Fed will begin to raise its policy interest rate from its current zero-percent floor is still some time away—likely somewhere around mid-2015 or later.

Inflation should not be a concern going forward, despite the gargantuan amounts of liquidity entering the banking system from the Fed’s large-scale asset purchases. Slack will continue to keep inflation below the Fed’s 2-percent target (see the personal consumption expenditure or PCE Index chart below).
The data and commentary which follow show that, with a few exceptions, local economic activity has shown slight growth over the recent past. However, growth in many sectors has slowed. The outlook for the near-term future is for continued slow growth.

Real (inflation-adjusted) gross domestic product (GDP) in the Wilmington, North Carolina area composed of Brunswick, New Hanover, and Pender Counties grew 2 percent over 2012. After declining 1.6 percent over 2009, real area GDP grew 1 percent over 2010 and 1.4 percent over 2011. Real area GDP is forecast to grow 2 percent over 2013 and 2.5 percent over 2014.

Unemployment rates in the Wilmington area have been trending downward since the third quarter of 2011. Despite these declines, recent area county unemployment rates are more than twice their 2007 levels, the year preceding the start of the 2008-09 national recession. Source: Division of Employment Security, NC Department of Commerce.

Average monthly Wilmington area employment gains continue to be relatively small. Four years (16 quarters) following the end of the July 1990/March 1991 and January 2008/June 2009 recessions these gains were dramatically below those for the same period following the April 2001/December 2001 recession. Source: Division of Employment Security, NC Department of Commerce.
Although relatively small, recent employment growth in the Wilmington area has been across-the-board. Of the ten largest employment sectors in the area, only employment in public administration saw no growth between the first quarter of 2012 and the first quarter of 2013. Compared to the first quarter of 2008, only half of these sectors, viz., health care and social assistance, local government, accommodation and food services, public administration, and administrative and waste services, show employment gains. Employment levels in two sectors, manufacturing and construction, remain well below their first quarter 2008 levels.

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

Data on new incorporations send mixed messages. New incorporations rose every year over 2010-2012 in Brunswick County. Following growth in 2010, they were virtually unchanged in New Hanover County between 2010 and 2011, only to fall by more than a third over 2012. New incorporations fell over 2010 and 2011 in Pender County but rose over 2012. For the year ending August 2013 (September 2012 -August 2013), they were up in Brunswick County but down in both New Hanover and Pender Counties.

Source: NC Secretary of State.
The retail sector has regained virtually all that it lost during the 2008-09 national recession. Retail sales growth was quite volatile over 2010-2012. For the year ending August 2013 (September 2012-August 2013), retail sales were up 6.3 percent in Brunswick County, 2.1 percent in New Hanover County, 3.6 percent in Pender County, and 2.8 percent in North Carolina.
Source: NC Department of Revenue.

After rising over 2010 and 2011, container tonnage traveling through the Port of Wilmington fell by almost 7.5 percent over 2012 and was virtually unchanged for the year ending May 2013 (June 2012-May 2013).
Source: NC State Ports Authority.
The residential real estate market has stabilized and has resumed moderate growth. Since year-end 2008, sales of existing single-family homes (five-month centered moving average) have risen throughout Southeastern North Carolina, with the most recent data showing that they have rebounded to their late-2007 levels. From their low reached in late 2007, current sales in the area served by the Brunswick County Association of Realtors (BCAR) were up 138 percent as of the third quarter of 2013. The comparable rise in the area served by the Wilmington Area Association of Realtors (WRAR) from the low reached in late 2007 was 133 percent. Despite this growth, current sales in the area served by the BCAR are less than their high in mid-2005, while the same in the area served by the WRAR are slightly more than 50 percent above their high in mid-2005.

Source: NC Association of Realtors.