Over its first year and a half, the expansion that began in mid-2009 has been subdued. Growth has averaged three percent over this period, only half of typical postwar expansions. Inventory investment has made a typical contribution to the recovery over this period, while household spending on consumption and housing and net exports have been notable laggards.

Subdued Expansion Continues

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Consumption Spending

Looking ahead, the contribution from inventories will fade, implying that other sectors will need to step up to the plate. At the top of the list is consumption outlays.

As the chart illustrates, consumption spending has registered solid expansion for a number of months, which should be sustained by the end-of-year fiscal package and by pent-up demands, in part arising from the need to replace aging motor vehicles. In addition, we can look to the external sector to help fill the gap.
Trade Balance

As shown in the chart below, net exports have turned up since mid-2010 as the weaker dollar and vigor abroad have added to the demand for U.S. goods.

Ongoing declines in the dollar and elevated growth abroad should provide steady improvement in net exports and a continuing lift for the U.S. expansion. Much needed, but less certain, is business investment spending on equipment and software (E&S). E&S outlays have grown smartly since the latter part of 2009, owing in part to replacement needs. However, businesses have displayed considerable caution in committing to new projects, frequently citing heightened uncertainty about prospective tax and regulatory policies.

Capital Goods

Consequently, the chart above illustrates that the rebound in new orders for capital goods (excluding volatile aircraft orders) has paused recently. Orders are expected to pick up some, but it is unclear whether the pickup will be sufficient to boost growth in real GDP much beyond the pace experienced over the recovery to date.
Putting it all together, growth in output over the next year or so is unlikely to surpass 3 ½ percent. Even at that pace, standard rules of thumb suggest that the unemployment rate would decline only about ½ percent per year—an unpleasant prospect. Helping to lower unemployment by more could be some unwinding of the extreme reluctance of firms to hire that has been evident over the past few years. Nonetheless, the improvement in the labor market will continue to be a source of angst.

As a consequence, economic slack will remain substantial for some time to come—which will be putting downward pressure on inflation. As the chart below illustrates, CPI inflation (excluding the volatile food and energy categories) has fallen from above a 2 ½ percent rate in 2007 to less than 1 percent recently. Acting to keep it from falling much further, despite continued slack, will be the declining dollar and the indirect effects of climbing food and energy prices. Something to be watching in the months ahead will be inflation expectations, which could lead inflation to move above or below its recent pace. As shown in the chart below, inflation compensation required by financial market participants (largely inflation expectations) has varied around 2 percent over the past couple years. However, should concerns about the Fed’s very aggressive easing strategy or the consequences of massive federal deficits intensify, the recent upturn could be extended, which would cloud the outlook for output, employment, and inflation.
This table shows the extent to which employment in the Wilmington MSA (Brunswick, New Hanover, and Pender Counties) was affected by the 2008-09 recession. Of the ten largest employment sectors, only two, health care and social assistance and public administration, showed employment gains between the second quarter of 2008 and the second quarter of 2010. Especially hard hit were the construction, manufacturing, and retail trade sectors.

Average monthly unemployment rates rose steadily over 2008 and into the second quarter of 2009. Rates were relatively stable over the last half of 2009, only to rise during the first quarter of 2010. Rates fell over the second and third quarters of 2010. November 2010 seasonally adjusted rates were virtually the same as the November 2009 rates. Brunswick and Pender County rates exceed New Hanover County rates. New Hanover County rates are below the state rate and similar to the national rate.
Sales of existing single-family homes (five-month centered moving average) in the area served by the Brunswick County Association of Realtors (BCAR) show a relatively steep decline between mid-2005 and late 2006. Since then, they have shown an annual cycle with a slight upward trend. The decline from the monthly high of 380 reached in mid-2005 to the low of around 90 reached in late 2006 and again in late 2007 was more than 75 percent. Sales in the area served by the Wilmington Regional Association of Realtors (WRAR) show an annual cycle super-imposed on a downward trend over the period mid-2005 through late 2008. Sales have shown an annual cycle since then. The decline from the monthly high of around 900 reached during mid-2005 to the low of around 260 reached in late 2008 was close to 70 percent.

After falling during the recession years of 2008 and 2009, area county retail sales and those for the state have bounced back. For the year ending September 2010 (October 2009 – September 2010), sales are up 9.2 percent in Brunswick County, 6.9 percent in New Hanover County, and 14.1 percent in Pender County. Sales are down 1.3 percent statewide.
Air passenger traffic at the Wilmington International Airport fell dramatically in the fourth quarter of 2008 and again during the first quarter of 2010. Traffic grew during the second and third quarters of 2010. Growth was especially strong during the third quarter of the year.

Container tonnage moving through the state port facilities at Wilmington was volatile over 2008. There was substantial growth over 2009, with especially strong growth during the second quarter of the year. After falling during the first quarter of 2010, traffic rebounded dramatically during the second quarter of the year. Traffic did not change much between the second and third quarters of the year.

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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