The Recovery

As the chart below illustrates, the economic recovery that began in mid-2009 has been very sluggish by historical standards. This is especially notable because steep downturns, like the recent one, are typically followed by sharp upturns. Noteworthily, the chart shows that the contributions of inventory investment to first-year growth was fairly typical. Looking ahead, this factor is unlikely to be providing much further impetus to the expansion, as business inventories appear to have been replenished and stocks are broadly in line with sales. This raises concern about whether the recovery will have legs going forward. Fortunately, some of the forces that have held down spending over the past couple years have been improving.
Going forward, the external sector is expected to be contributing importantly to the expansion. The dollar has recently resumed its downward slide, after being buoyed for some time by safe-have demands from the global financial crisis and the European sovereign debt crisis. Combined with stronger growth abroad, this should be helping our export sector and discouraging purchases of imports.
Favoring business spending are improving financing conditions. The charts below illustrate that banks have finally begun to ease their standards for making business loans, and that the bond market has become quite receptive to those businesses with access. Moreover, replacement needs will continue to drive business spending on equipment and software in the quarters ahead. On top of these, an improving regulatory environment would go a long way toward encouraging businesses to tap their piles of cash to take advantage of attractive prospective returns on new investments. This would also lead to some easing of extreme businesses caution toward hiring.

The Bottom Line

Putting the pieces together, the recovery will continue and pick up some steam beyond the coming few quarters—buoyed by net exports and business and consumer spending. However, this expansion will continue to be subpar and the unemployment rate will fall only gradually. The ongoing slack will keep inflation low, even in the face of a declining dollar and rising energy prices. In these circumstances, the Fed will retain its extremely accommodative monetary stance.
The accompanying chart shows growth in total personal income in the three counties comprising the Wilmington Metropolitan Statistical Area (MSA) over 2000-2010. Total personal income is income from all sources earned by individuals. There was a large drop in the growth rate in 2002, the year following the 2001 national recession. There was also a large decrease in 2008, the first year of the last national recession. The 2008-2010 growth rate of around three percent is less than half the size of the annual compound growth rate over 1990-2007 of almost eight percent. Income is forecast to increase approximately three percent in 2011 over 2010 levels.

Average monthly unemployment rates rose steadily over 2008 and into the second quarter of 2009. Rates were relatively stable over the rest of 2009 and into the first quarter of 2010. Rates fell during the second quarter of 2010. August 2010 seasonally adjusted rates were virtually the same as the second quarter 2010 average monthly rates.
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-1995 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.
Following two consecutive quarters of decline with an especially sharp fall in the first quarter of 2010, passenger traffic at the Wilmington International Airport rebounded during the second quarter of 2010. At its low point during the last recession reached in early 2009, traffic was down more than 17 percent from the high prior to the start of the recession which was reached in late 2007.

Collections from the two 3-percent room occupancy taxes levied in New Hanover County fell in both 2008 and 2009. They remain down for the twelve months ending May 2010. The bulk of this decline occurred during the second half of 2009. Collections have risen over the first half of 2010.

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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