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2000 - ECONOMIC OUTLOOK

General Trends - National and North Carolina

National Economy

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Economic Fundamentals

Almost like a broken record - but a good broken record - the nation's economy again performed well in 1999. Indeed, 1999 was the eighth uninterrupted year of economic growth, and all signs point to more of the same in 2000.

The happy confluence of good growth, low unemployment, and low inflation continued in 1999 (see Table 1). Real (inflation-adjusted) Gross Domestic Product grew at a robust 4% rate. The average unemployment rate fell to a generation low 4.3% during the year. And what continues to be most impressive is that these gains were achieved with very little inflation.

However, 1999's inflation rate (2.3%) was somewhat higher than the super low 1.6% rate in 1998. A major reason was higher oil and energy prices. Excluding these, 1999's inflation rate was comparable to the rate posted in 1998.

On average for the year, interest rates were little changed in 1999 compared to 1998. However, the averages mask the fact that interest rates moved lower at the end of 1998 and steadily trended upward during most of 1999. The Federal Reserve raised short-term interest rates three times in 1999, counteracting a similar drop in rates in 1998 in reaction to the Asian financial crisis.

Workers realized solid gains in compensation in 1999, but somewhat less than in 1998. Real compensation (wages and benefits) per hour rose 2%, slightly lower than the 2.6% increase in 1998. Part of the reason for the lower real gain was 1999's higher inflation rate. However, the fact that workers are seeing compensation gains that exceed inflation is a sign of the relatively tight labor market.

But the other reason for workers' good news is the continuing dramatic improvements in productivity. Driven by information technology and other productivity-enhancing investments, labor productivity (output per hour) surged 2.6%, up from 1998's 2.2%. Businesses could afford to pay workers more in 1999 because workers were producing substantially more output per hour during the year.

Information technology and modern inventory management systems decreased the inventory/sales ratio from 1.4 in 1998 to 1.3 in 1999. This is important because it means any future slowdown in business sales will be moderated by the lean rate of inventories.

The stock market turned in another stellar performance in 1999, with the S & P 500 Index gaining over 23%, about the same as in 1998. In part, these strong investment gains motivated consumers to add to their debt loads. The ratio of consumer installment debt to income rose significantly from 1998 to 1999.

For the second consecutive year, the federal government ran a unified budget surplus. Although the majority of the surplus is due to Social Security, the non-Social Security part of the budget is also moving toward surplus.

Monetary policy was less expansive in 1999 than in 1998, reflecting the Federal Reserve's goal of slowing the economy in 1999. The trade deficit (net exports/GDP) expanded in 1999 for two reasons. First, the U.S. economy grew faster than the economies of many trading partners. Second, a low valued dollar made imports relatively inexpensive.

Outlook

The economy should continue growing in 2000. The year may begin slowly as businesses avoid spending during the Y2K transition period. But Y2K should cause no permanent disruption to the economy, and growth will rebound during the rest of the year.

The consensus view among most economists is that economic growth will be slower in 2000 than in 1999. The growth rate for 2000 is forecasted to be 3% (Table 1). There are two reasons for this forecast of slower growth. One is that, with the expansion in its ninth year, inputs needed for growth will become increasingly scarce. Second, forecasted higher interest rates in

Table 1. Key U.S. Economic Statistics

	1998	**1999**[a]	**2000 Forecasts**
Real U.S. GDP growth	3.9%	4.0%	3.0%
Unemployment rate	4.5%	4.3%	4.3%
Labor force growth	1.0%	0.7%	0.5%
Inflation rate	1.6%	2.3%	2.6%
90-day T-bill rate	4.8%	4.5%	4.8%
30-year T-bond rate	5.6%	5.7%	6.0%
Real wage growth	2.6%	2.0%	2.0%
Growth of output per hour	2.2%	2.6%	2.6%
Growth of disposable personal income	2.3%	2.0%	2.0%
Business inventory/sales ratio	1.4	1.3	1.3
Consumer installment debt/income	17.8%	18.0%	18.1%
S & P 500 Index	+ 24.3%	+23.3%	+15.0%
Federal budget balance	+ $69 billion	+ $120 billion	+$161 billion
M2 growth rate	8.5%	5.6%	5.5%
Net changes in exports/GDP	-3.2%	-4.1%	-3.5%

a. Annualized rates based on data available in November, 1999.
Sources: U.S. Dept. of Commerce, Federal Reserve Bank, Congressional Budget Office, forecasts by Mike Walden

2000 will increase the cost of business expansion.

The unemployment rate will remain unchanged in 2000, but inflation and interest rates will be slightly higher. Reflecting the slower growing economy and faster rising costs, stock market gains will be lower in 2000.

There are two threats to this optimistic economic outlook. One is from an unexpected slowdown in productivity growth. If productivity gains stall, labor costs will jump, thereby pushing inflation even higher. Higher inflation, of course, reduces all real gains.

The second threat is from consumer debt. Consumer debt loads are at historic highs. High stock market gains have motivated much of the additional borrowing. If, for some reason, consumers become concerned about making their debt payments, they will reduce their spending. Since consumers account for the majority of the spending in the economy, any slowdown on their part will dramatically slow the economy.

North Carolina Economy

Table 2 summarizes the performance and forecasts for the North Carolina economy. The economy grew very well in 1999, with real (inflation-adjusted) Gross State Product rising 5% and the statewide unemployment rate dropping to 3%.

However, there was substantial variation in employment growth among sectors. The biggest job gains were in services and financial services. The 5% job reduction in non-durable good manufacturing was due to employment downsizing in apparel and textiles.

Table 2. Key North Carolina Economic Statistics

	1998	**1999[a]**	**2000 Forecast**
Real NC Gross State Product growth	5.5%	5.0%	4.5%
Unemployment rate	3.5%	3.0%	3.1%
Total employment growth	3.0%	2.7%	2.0%
Employment growth by sector			
Durable goods manufacturing	0.0%	0.9%	1.0%
Nondurable goods manufacturing	-3.5%	-5.0%	-3.5%
Transportation and utilities	1.4%	2.6%	2.0%
Wholesale trade	2.8%	-1.1%	1.5%
Retail trade	2.4%	2.3%	2.0%
Financial services	6.1%	3.1%	2.5%
Services	2.9%	5.5%	3.5%
Government	2.5%	2.3%	2.0%

a. Analyzed rate based on January-September.

Sources: Employment Security Commission of North Carolina, FORECAST of UNCC, forecasts by Mike Walden

The North Carolina economy will continue growing in 2000. The rebuilding and recovery in the eastern part of the state due to Hurricane Floyd will actually add to the state's growth. Nevertheless, the state's economy is expected to grow somewhat slower in 2000 than in 1999 for the same reasons as in the national economy.

Employment shifts will also continue in the state in 2000. Specifically, textile and apparel job losses will reduce non-durable goods manufacturing employment, but other sectors will have job gains.

Economic prosperity will also continue to vary geographically in North Carolina. In general, metropolitan counties have been growing faster, while many rural counties have struggled to maintain their job base. Since 1991, over 60% of the net new jobs created in North Carolina have been in just nine metropolitan counties, while twenty-four rural counties have actually *lost* jobs. Much of this disparity results from new manufacturing and business service jobs locating in urban counties, while many rural counties are coping with the loss of apparel and tobacco jobs.

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