

Charlotte Forecast 2013: The Economy

Charlotte projects to lead state in job growth, with housing recovery playing key role in expectations

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All signs — and economists — point to a clear recovery under way in the Carolinas, with Charlotte leading the way for job and income growth. But the unemployment rate here is still above the national average. And will remain so through 2013. Also, the fiscal cliff could sharply change the trajectory of the global economy, ultimately stalling the momentum building throughout key industries such as residential real estate and manufacturing. Still, the new normal is starting to look, well, normal.

Charlotte's economy is poised to take another small step forward in 2013 as housing, employment and white-collar industries are expected to enjoy a modest recovery.

Economists polled by the *Charlotte Business Journal* say fiscal policy and uncertainty will slow growth. But most believe there are enough green shoots to overcome challenges in the year ahead.

"In North Carolina we tend to sputter the first few years of economic recoveries and then take off in year three or four," N.C. State economist Mike Walden says. "We're about to begin year four."

Walden predicts "an acceleration of growth" next year. He forecasts North Carolina will gain 68,000 net new jobs, up from the 40,000-plus net new jobs expected this year. And he says during the past two years, Charlotte has become the state's leader in job growth, adding jobs at a 6% clip — double the state and national average.

His optimism is buoyed by two themes: an improved housing market and healthy household balance sheets. Walden says Charlotte's home market is in the early stages of a sustained recovery.

"We have increased values, sales and construction," he notes. "The recession started in housing, so that has to be a major part of the recovery."

He also says U.S. households for nearly five years have been paying down debt and saving more to offset declining asset values, mainly their homes. Since consumer spending accounts for 70% of economic growth, improved household balance sheets bode well for growth in 2013.

The biggest risk to growth will be fiscal policy as lawmakers seek to strike a balance between spending cuts and tax increases to avoid the so-called fiscal cliff.

"We could perhaps have a temporary pull-back in early 2013" if fiscal-cliff negotiations remain bumpy, Walden says.

At UNC Charlotte, economist John Connaughton also predicts growth. However, his outlook has a more bearish tone as he weighs the obstacles.

"The state's economy is still at risk," he said in a report released this week. "Continued uncertainty in Europe and uncertainty about tax increases and spending cuts in 2013 are the main concerns and the principal reason that growth in 2013 will again be sluggish.

"Should the Congress and president not agree on a tax plan and the Bush tax cuts phase out and the sequestration spending cuts begin, the modest growth currently forecast for 2013 becomes a recession."

That worst-case scenario is unlikely, most observers say.

Connaughton forecasts North Carolina will add 56,700 net new jobs next year, a 1.4% increase and an improvement from the 1% job growth projected in 2012. He expects the state's economy to grow 1.8% in 2013, improving from a forecasted 0.6% growth rate this year. Business and professional services are expected to grow here by 6.2% in 2013, leading all sectors, he says.

Charlotte has several factors in its favor. **Wells Fargo & Co.** senior economist Mark Vitner says residential real estate is recovering around the city, leaving the rural areas as the remaining spots where housing still suffers. "We haven't completely cleared the foreclosure overhang, but we've cleared enough," he says.

He expects apartment construction to remain strong in 2013, but says activity is reaching high-water marks and could slow by 2014, leading to some discounting.

As for commercial development, Vitner suggests 2013 might hold some surprises if the economy gains steam quickly. "I'm not predicting any new major projects will be announced uptown," he says. "But if you're thinking about a big project, you'd want to be the first one out of the ground."

Vitner says Charlotte's transportation infrastructure continues to aid the recovery. He says industrial, manufacturing and distribution companies are drawn to the region's transportation network, which will be boosted by a new intermodal facility at Charlotte Douglas International Airport. "That will help bring jobs back, especially to rural areas," he says.

And he says white-collar employers continue to invest in Charlotte because of its airport. He cites Wells' recent decision to build a new Charlotte trading floor for its capital-markets division as an example.

Vitner, who projects local economic growth at 2.5%, says Charlotte's strategic shift to target the energy industry will begin to pay dividends. He says aging nuclear power plants and the region's electric grid will need to be upfitted. "The payoff has been slower than many people expected, but a lot of that work will be engineered in Charlotte," he says. "We're hitting all the right notes. Even the financial-services sector is grinding its way back."

Economist Mekael Teshome of Pittsburgh-based PNC Financial Services Group says Charlotte's economic recovery will be aided by population growth. The city's Southern location, dynamic mix of industries and improving housing market are attracting more outside investment to the region. The number of established businesses in the city is increasing, a promising sign of small-business investment.

Teshome sees Charlotte payrolls increasing 2.1% in 2013, compared with 1.4% nationally. And he forecasts Charlotte's unemployment rate will dip to 8.7% in a year, remaining elevated from the national average because of an increase in the size of the labor force, which is a positive sign.

"I'm pretty optimistic about Charlotte," he says. "We see Charlotte as an above-average performer across our footprint."

Despite tempered optimism in the private sector, N.C. State's Walden says state government must tackle major challenges in the year ahead — and they all have consequences for the economy.

Leaders of North Carolina's General Assembly want to overhaul the state's tax code in what Walden says will be the most dramatic changes since the 1930s. He says rising Medicaid costs and the need to address inadequacies in secondary education also hold economic repercussions.

"Do we want to continue to push students into four-year colleges, or do we want to push more into technical training beginning in high school?" he asks. "The General Assembly is going to be interesting to watch this year."

BETTER DAYS AHEAD

A growing labor force fueled by continued relocations to the region will keep the jobless rate above the national average, according to most projections. But Charlotte will continue

to see steady gains in earnings and payrolls as diversification efforts continue to pay dividends across the region.

JOB GROWTH

68,000 : N.C. State's Mike Walden projects 68,000 net new jobs will be created in North Carolina next year, with Charlotte being the top job producer.

2.1%: PNC's Mekael Teshome forecasts Charlotte payrolls will increase 2.1% in 2013, compared with payroll increases of 1.4% across the U.S.

ECONOMIC GROWTH

1.8%: UNC Charlotte's John Connaughton forecasts the state's economy will grow 1.8% in 2013.

2.5%: Wells Fargo's Mark Vitner says Charlotte's economy is projected to grow 2.5% in 2013, compared with Wells' 1.4% projection nationally.

Adam O'Daniel covers banking, entrepreneurs and technology for the Charlotte Business Journal.