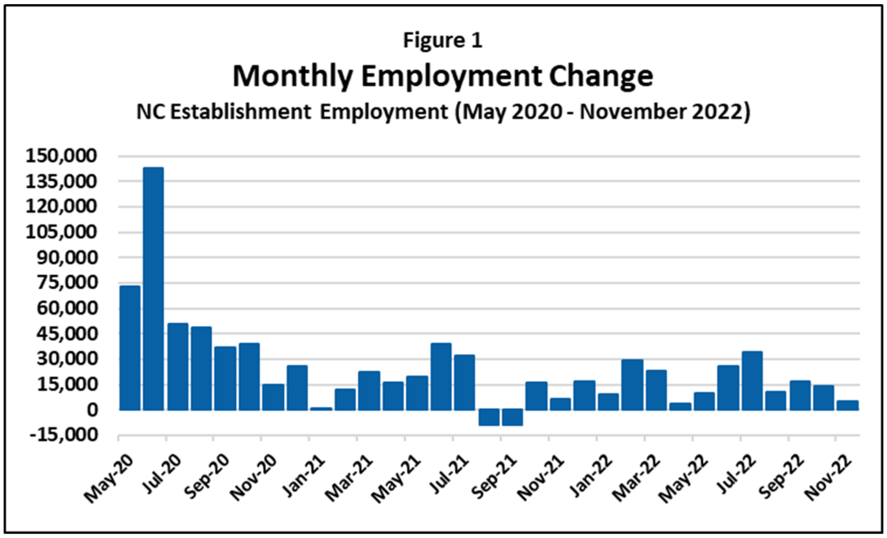
Monthly Economic Update

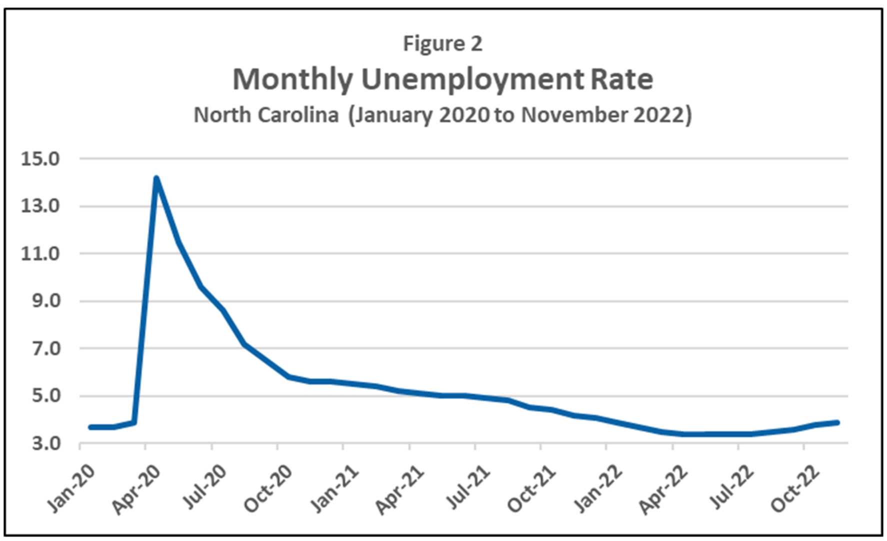
December 2022

North Carolina's Positive Growth Continues

North Carolina's establishment employment[1] grew by 5,300 workers over the month, bringing the state's payroll employment to 4,838,100 in November 2022. The change from October to November was the 14th consecutive monthly climb and brought the state's establishment job count to an all-time high – a total that is 4.7 percent above the count registered before the Covid-induced recession (4,620,400 during February 2020). The monthly change in this indicator is provided in **Figure 1**.



The November change was the second smallest during the fourteen-month climb. Only April 2022 was lower (at 3,400). Hopefully, the relatively slower growth will be short-lived, and employment will begin to expand more quickly once again. However, there is a good possibility that the slowing is a prelude to an expected national recession or slowdown. When explored in connection with the labor force data[2], such as the climbing unemployment rate found in **Figure 2**, the latter view seems more likely.



A closer look at the labor force profile in **Table 1** solidifies the case for a slowing economy. The number of employed North

[1] The establishment employment count comes from a survey of businesses and estimates the number of employees based on where they work. If a person has two jobs, each job would be included in the total.

[2] The labor force totals come from a household survey that estimates the number of employed and unemployed workers. A person is counted once, and the count is based upon where they reside. The unemployed worker must be actively seeking a job to be included in the overall count.

Carolinians fell by nearly 8,400 while the number of residents seeking jobs climbed by over 6,400. This was the third month in a row that resident employment fell and the fourth consecutive month that North Carolina realized a climb in the number of unemployed. The unemployment rate sits at 3.9 percent in November, up from a low of 3.4 percent found earlier this year (April 2022 to July 2022). Still, the rate remains below its year-ago counterpart by 0.3 percent.

Table 1

North Carolina's Labor Force

November 2022

	Labor Force	Employed	Unemployed	Unemployment Rate(%)	Labor Force Participation Rate(%)
Nov-2022	5,126,047	4,925,524	200,523	3.9%	60.4%
Oct-2022	5,127,986	4,933,905	194,081	3.8%	60.5%
Nov-2021	4,994,770	4,784,132	210,638	4.2%	59.7%
Monthly Change	-1,939	-8,381	6,442	0.1%	-0.1%
	-0.04%	-0.17%	3.32%		
Annual Change	131,277	141,392	-10,115	-0.3%	0.7%
	2.6%	3.0%	-4.8%		

While the unemployment rate is higher today than before the 2020 downturn (3.7 percent in February 2020), the unemployment insurance numbers continue to tell a positive story. In the 11 weeks of 2020 preceding the Covid-induced downturn, initial claims averaged 3,314 per week. During the same period continuing claims averaged 21,419 per week. For the most recent reporting period in December both counts were lower: 3,240 for initial claims and 15,170 for continuing claims. However, we are currently seeing a slight upturn in these numbers over the respective 2022 averages.

Table 2 provides a sectoral overview of establishment employment performance during the past year. The table additionally shows how each industry is recovering from the Covid-induced downturn.

The State of North Carolina added 199,100 jobs over the past year. This was a 4.3

Table 2

North Carolina Establishment Employment
Annual Changes and Overall Recovery

Employment is in Thousands

	Nov-22	Nov-21	Absolute Change	Percent Change	Percent Recovered*
Total Establishment Employment	4,838.1	4,639.0	199.1	4.3%	104.7%
Mining & Logging	5.5	5.6	-0.1	-1.8%	94.8%
Construction	248.6	237.2	11.4	4.8%	106.1%
Manufacturing Durable Goods	257.3	253.8	3.5	1.4%	100.0%
Manufacturing Nondurable Goods	219.4	211.1	8.3	3.9%	101.2%
Wholesale Trade	200.4	192.9	7.5	3.9%	106.5%
Retail Trade	512.1	509.8	2.3	0.5%	102.0%
Transportation, Warehousing, & Utilities	194.9	193.2	1.7	0.9%	117.6%
Information	83.0	79.6	3.4	4.3%	108.6%
Finance & Insurance	221.8	210.2	11.6	5.5%	113.7%
Real Estate & Rental Leasing	66.7	64.2	2.5	3.9%	106.0%
Professional, Scientific, & Technical Services	321.3	296.4	24.9	8.4%	119.2%
Management of Companies	77.9	75.9	2.0	2.6%	91.4%
Administrative & Waste Management	339.4	315.8	23.6	7.5%	113.2%
Educational Services	101.0	97.7	3.3	3.4%	103.4%
Health Care & Social Services	563.3	534.7	28.6	5.3%	106.0%
Arts, Entertainment, & Recreation	76.7	65.9	10.8	16.4%	101.3%
Accommodation & Food Services	445.3	411.9	33.4	8.1%	100.2%
Other Services	173.0	165.5	7.5	4.5%	102.5%
Federal Government	76.1	76.4	-0.3	-0.4%	101.5%
State Government	196.9	201.1	-4.2	-2.1%	95.5%
Local Government	457.5	440.1	17.4	4.0%	99.1%

* Percent Recovered in relation to February 2020. This month was the peak of the recent business cycle and the month before the March 2020-April 2020 pandemic recession began.

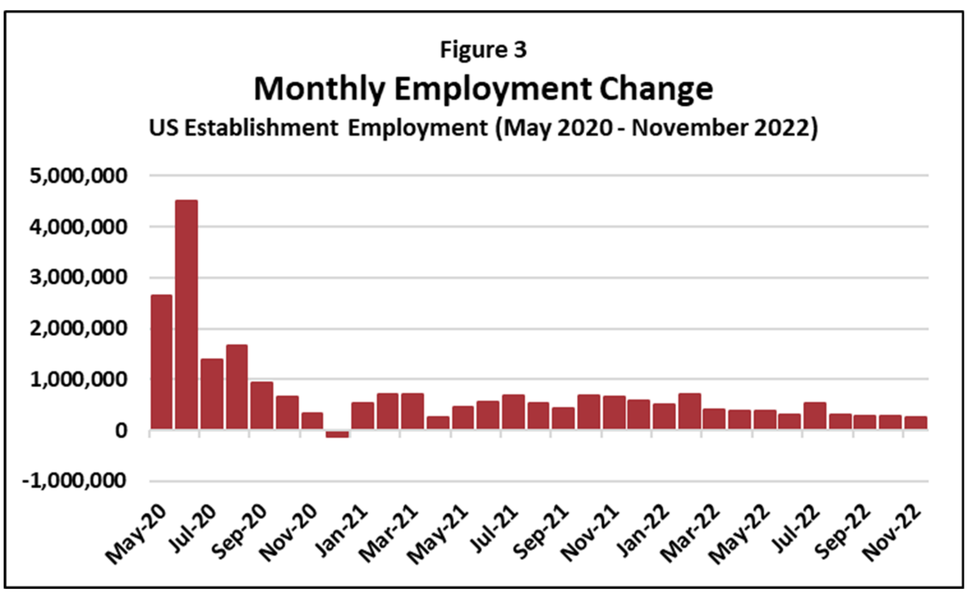
percent change between November 2021 and November 2022. Seventeen of the twenty-one industries found in **Table 2** have also expanded beyond their respective pre-Covid count.

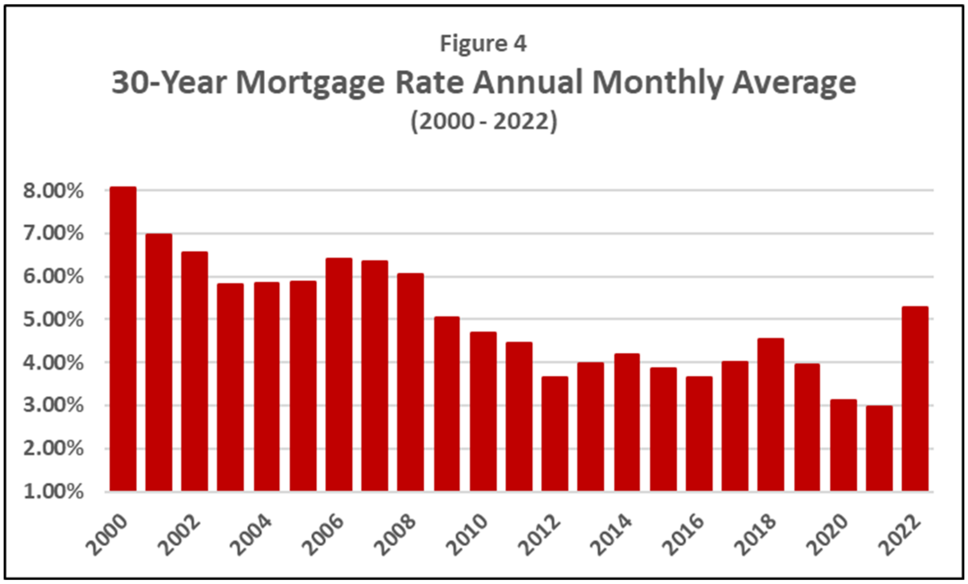
Eighteen of the 21 sectors increased their respective establishment employment totals during the past year. However, only 17 of the sectors have recovered their lost employment. The four sectors that remain below their pre-Covid high include *Management of Companies* (down 8.6 percent); *Mining & Logging* (down 5.2 percent); *State Government* (down 4.5 percent); and *Local Government* (down 0.9 percent). Two of these laggards realized employment growth during the past year: *Local Government* (up 17,400 or 4.0 percent and *Management of Companies* (up 2,000 or 2.6 percent). The other two sectors that have not surpassed their pre-Covid count lost employment. *State Government* fell by 4,200 (down 2.1 percent) and *Mining & Logging* lost 100 (down 1.8 percent).

Four of the seventeen industries have surpassed their pre-Covid count by more than 10.0 percent. These industries include *Administrative & Waste Management* (up 13.2 percent); Finance & Insurance (up 13.7 percent); *Transportation, Warehousing, & Utilities* (up 17.6 percent); and *Professional, Scientific, & Technical Services* (up 19.2 percent).

During the past year eight industries have grown by more than 10,000 employees while four of these sectors have added over 20,000 workers. The growth leaders include *Accommodation & Food Services* (up 33,400 or 8.1 percent); *Health Care & Social Services* (up 28,600 or 5.3 percent); *Professional, Scientific, & Technical Services* (up 24,900 or 8.4 percent); and *Administrative & Waste Management* (up 23,600 or 7.5 percent). As mentioned above, the *Local Government* sector remains below its pre-Covid count, but its employment is up 17,400 (4.0 percent) over the past year. The other sectors that have grown more than 10,000 include *Finance & Insurance* (up 11,600 or 3.9 percent); *Construction* (up 11,400 or 4.8 percent); and *Arts, Entertainment, & Recreation* (up 10,800 or 16.4 percent).

The nation's economy continued to expand in November, despite signs of weakness. Establishment employment in the United States rose by 263,000. However, other than December 2020 when employment fell by 115,000, the November change matched the smallest monthly gain (also 263,000 in April 2021) since the recovery began in May 2020. **Figure 3** provides the monthly review of this indicator during the thirty-one months following the end of the Covid-induced recession.



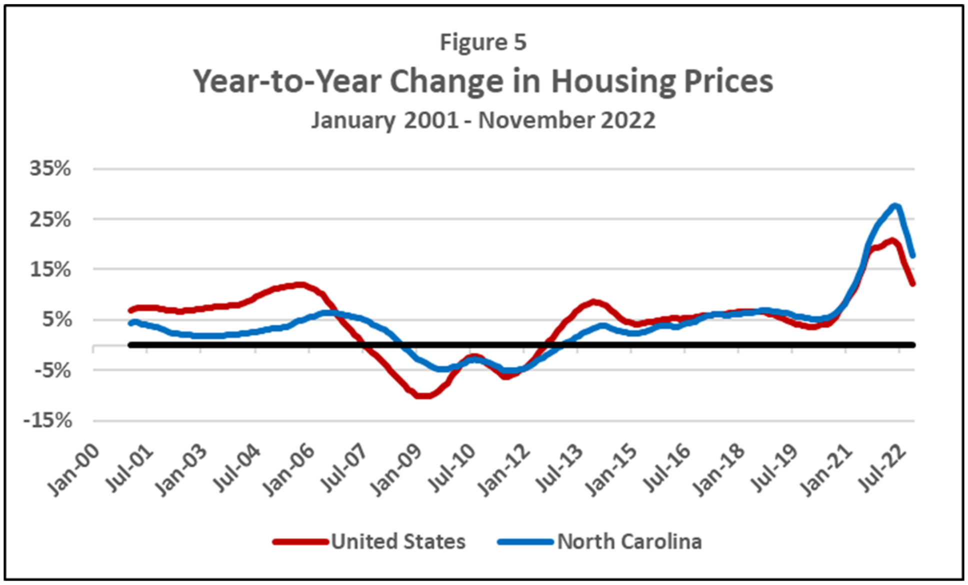


Weakness also was realized in the national labor force data. Resident employment fell for the second month in a row and the labor force participation rate dropped for the third consecutive month. Fortunately, the unemployment rate remained unchanged over the month at 3.7 percent. However, the United States unemployment rate is 0.2 percent above the post-recessionary low of 3.5 percent found this past July.

The national economy continued to expand during the month, but headwinds remain. Inflation continues to be the principal problem. The primary solution for dampening the rise is rising prices is higher interest rates. Higher interest rates come with a cost, however.

One of the most illustrative examples of the impact of inflation and higher interest rates is found in the housing market. First, inflation impacts virtually everything that we buy – including the price of housing. The Federal Reserve has raised the Federal Funds rate in its attempt to reduce inflation and this action causes the market-driven interest rates (i.e., mortgage rates) to respond. The higher borrowing rates mean that the typical consumer with a mortgage will have more expensive monthly payments. For example, during December the 30-year mortgage rate has averaged 6.36 percent. For a $200,000 loan, the monthly payment (principal and interest) would be $1,246. As recently as last year (2021) the 30-year mortgage rate was often below 3.0 percent. In fact, in 2021 the average annual rate was 2.96 percent. At this average rate the monthly payment on a $200,000 loan was only $839 – over $400 lower than the December 2022 average.

Figure 4 provides a look at mortgage interest rates since 2000. The annual average for 2022 is expected to land at approximately 5.3 percent – the highest average annual level since 2008. However, the December rate is close to what was recorded in 2006 and 2007. As more interest rate hikes are expected from the Fed, it would not be surprising to see 2023 rates once again approach or surpass 7.0 percent.



The increase in rates makes purchasing the house more expensive for the home buyer. That said, the seller is often motivated to lower their asking price for the transaction to happen. We can see a moderation of prices already taking place in **Figure 5**, which shows how prices have changed in North Carolina and the nation. Year-over-year price changes peaked in May 2022 at 20.7 percent in the nation and 27.8 percent in North Carolina. Prices continue to rise above year-ago levels but at a much slower pace. You can see how price levels are flattening, but not falling, in **Figure 6**. November once again recorded an all-time high, at $357,544 for the nation and $330,00 for North Carolina.

We all would like to know if the county will fall into a recession because of the Fed's actions. Individual forecasts vary across the spectrum. Some economists believe that the nation's economy is already in a downturn, while the most optimistic argue that a recession can be avoided. This is why

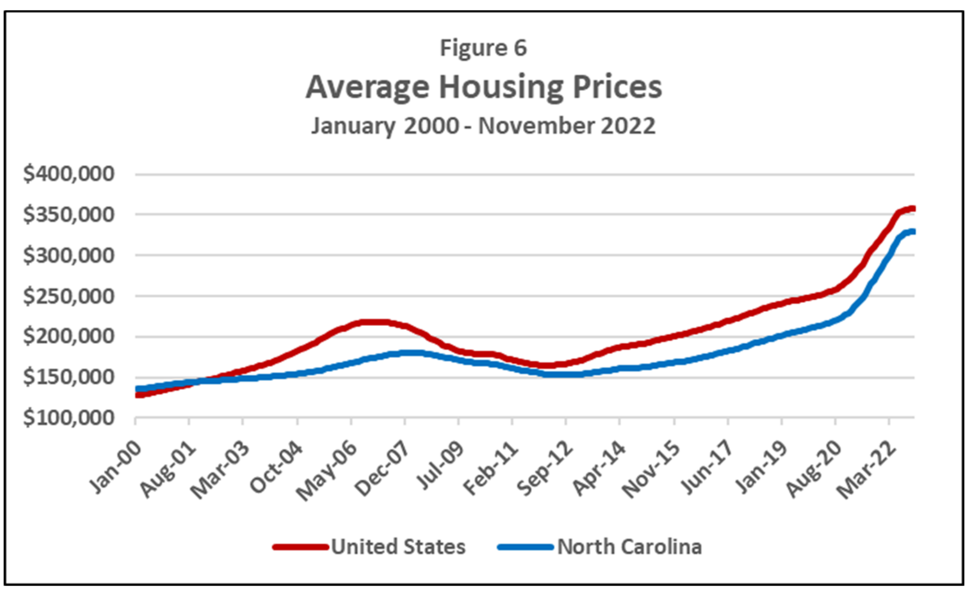


Table 3
NABE Outlook: December 2022
Quarterly Median Forecasts of Selected Major Indicators

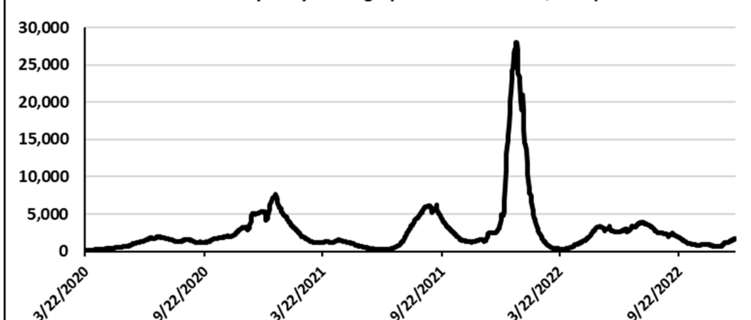
		Real GDP (Annual Rate)	**Unemployment Rate** (Quarterly Average)	**Establishment Employment** (Average Monthly Change)	**Core OCE Price Index** (Annual Rate)
2022q1	Actual	-1.6%	3.8%	539,000	5.6%
2022q2	Actual	-0.6%	3.6%	349,000	4.7%
2022q3	Actual	2.9%	3.6%	366,000	4.6%
2022q4	*Forecast*	0.8%	3.7%	211,000	4.4%
2023q1	*Forecast*	0.0%	3.9%	103,000	3.8%
2023q2	*Forecast*	-0.1%	4.2%	74,000	3.1%
2023q3	*Forecast*	0.7%	4.4%	50,000	2.8%
2023q4	*Forecast*	1.2%	4.5%	75,000	2.6%

a panel of experts is appealing when considering the nation's economic future, as a panel's average or consensus forecast does not represent a single view of the future economy.

The National Association for Business Economics (NABE) December 2022 Economic Outlook[3] presented in **Table 3** provides one such scenario. This consensus forecast shows Real GDP and employment slowing in late 2022, before starting to rebound in the second half of 2023. The unemployment rate rises to 4.5 percent in 2023q4. Importantly, however, this scenario shows a steadily falling rate of inflation. Thus, the result suggests that this panel of forecasters expects the current Fed policy to succeed. The results also suggests that any recession that might occur would be mild and short-lived.

Covid cases in North Carolina remain relatively low, although they are rising. Covid hospitalizations are also drifting upwards. **Figure 7** shows the seven-day average number of new cases and **Figure 8** provides a view of Covid-related hospitalizations in the state. Cases have also been rising in other parts of the United States and other countries. The World Health Organization is particularly concerned with COVID-19 surges in China, as that

Figure 7
NC COVID-19 Cases
Seven-Day Daily Average (thru December 17,2022)



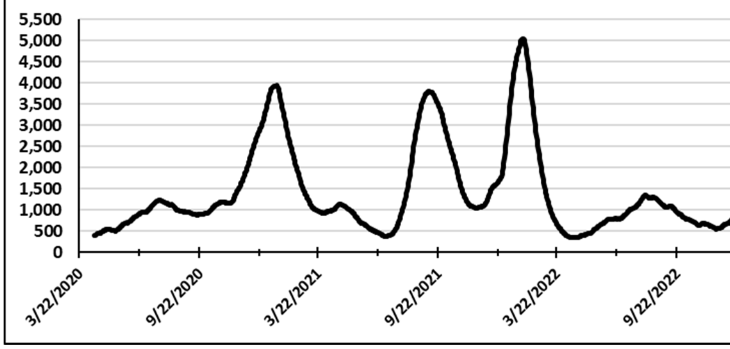
[3] National Association for Business Economics, NABE Outlook: December 2022, December 5, 2022. https://nabe.com/NABE/Surveys/Outlook_Surveys/December_2022_Outlook_Survey_Summary.aspx

nation has largely eliminated its zero-Covid shutdowns and has its borders open to foreign travel.[4] Additionally, US domestic flu cases and RSV (respiratory syncytial virus) cases are also increasingly becoming a burden in North Carolina and the nation. Taken together these three viruses could potentially overwhelm hospitals and the healthcare system in the coming months – especially since social distancing and mask-earing are no longer a priority for much of the population.

Figure 8

NC COVID-19 Hospitalizations

Seven-Day Daily Average (thru December 17,2022)



The hope is that North Carolina and the nation can put both the negative impact of all viruses and rising prices in the rearview mirror in 2023. The sooner these goals can be achieved, the greater the chance that a recession can be avoided.

James W. Kleckley, PhD
Senior Economic Advisor

Susanna Z. Miesel, MPP
Policy Analyst

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[4] "COVID-19: China infection surge on agenda at WHO coronavirus meeting." January 3, 2023. UN News. [COVID-19: China infection surge on agenda at WHO coronavirus meeting | UN News]