



Year Ends Strong, Starts Strong

Released April 9, 2012

AFTER MONTHS OF LANGUISHING, the Charlotte economy is showing strong signs of life. In December, Mecklenburg County added 1,500 jobs, and 9,000 have been added since the beginning of 2011. According to a new release from the NC Division of Employment Security, the number of employed residents in the county grew by 25,000 in January 2012 alone; however, we believe actual job growth to be substantially lower. Finally, the gains indicated by our leading economic index during 2Q11 are beginning to materialize. Do we still have a long way to go to regain jobs lost during the recession? Are there threats to the near-term outlook? Sure there are. But many indicators are pointing in the right direction for solid, if modest, growth through much of this year.

(2004=100). Our Leading Index has increased in eight of the last 12 months, and it appears that its sizable gains last February through July are beginning to translate into real gains over the past few months (see Figure 1). Thus, substantial increases in the leading index during 2Q11 foretold the gains we are beginning to see for 1Q12. This, of course, is welcome news.

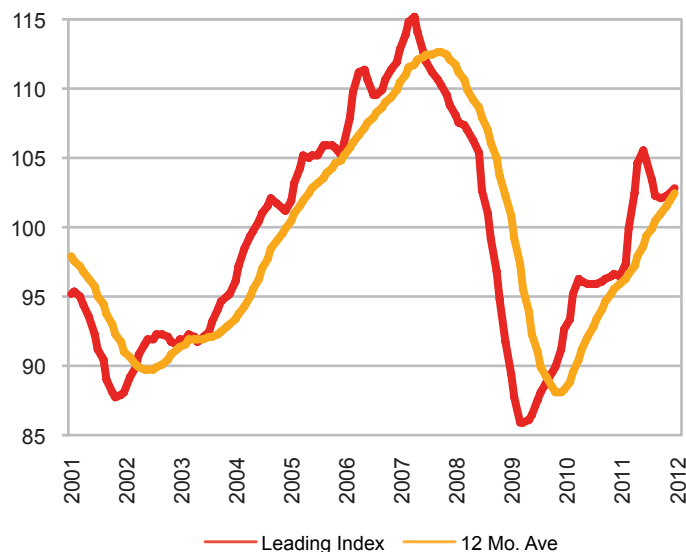
Over the year the leading index has increased 6.7 percent and is above its own 12-month moving average, which is a good sign that there is not a double-dip recession on the near horizon. The only troubling news from the Leading Index is the downward trend during 3Q11, which could translate to a slowing of our recent robust growth during the middle months of 2012.

Interestingly, for all of the job growth, our unemployment rate remained unchanged from December at 10.2 percent.

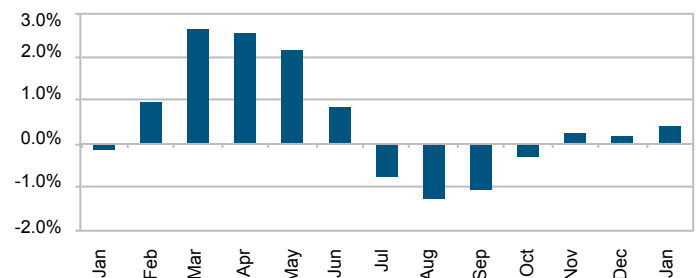
January Leading Index

Charlotte's leading economic index increased again in January. Posting a solid 0.4 percent gain, it now stands at 102.9

Fig. 1: Charlotte Leading Index
2004 = 100



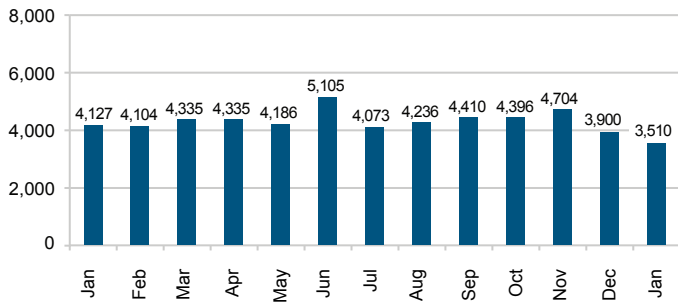
Leading Index Monthly Change



Leading Index Components		Jan-12
New Cars	▲	2.7%
Residential Permits	▼	-1.6%
Hours in Mfg	▼	-0.3%
Initial Unemployment Claims	▲	-3.5%
US Leading Index	▲	0.2%
Charlotte Leading Index	▲	0.4%
12-Month Change	▲	6.7%

Fig. 2: Initial Unemployment Claims

Seasonally adjusted, not smoothed



The reason for this is that the area's labor force grew as fast as employment such that the unemployment rate was unaffected. However, as shown in Figure 2, after smoothing and seasonal adjustment, first-time claims for unemployment fell 3.5 percent from December to January and are 11.3 percent lower than they were in January 2011. Thus, as the employment picture improved, more workers were drawn into the labor force. Because the unemployment rate is a lagging indicator, it will be among the last of the important indicators to change. However, reductions in first-time claims are the first indication that such a change may be in our future. Furthermore, recent trends in jobs and first-time claims might

Recent Trends in the Indices

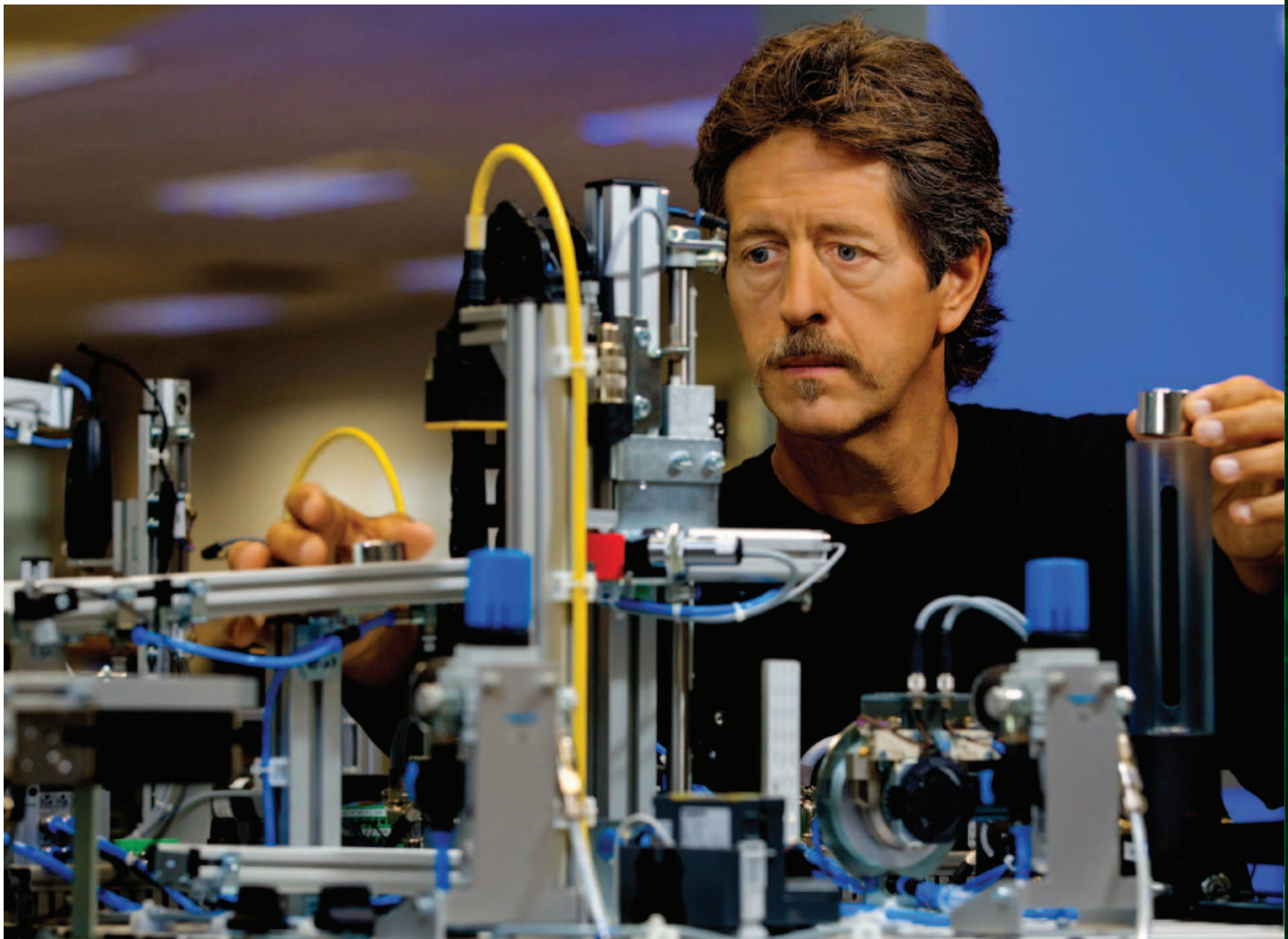
Month	Leading Index	Coincident Index	Change from Previous Month	
			Leading	Coincident
Jan '12	102.9p	102.1p	0.4%	0.8%
Dec	102.5r	101.3p	0.2%	0.1%
Nov	102.3r	101.3	0.2%	0.2%
Oct	102.0r	101.1	-0.3%	0.0%
Sep	102.3r	101.1	-1.1%	-0.3%
Aug	103.4r	101.4	-1.3%	-0.4%

p = Preliminary, r = Revised

Note: All coincident index values revised with the most recent benchmark employment data.

later translate into improved consumer confidence, a critical factor in sustaining growth. Below, we present more evidence that this might, in fact, be occurring.

Another indicator making a positive contribution to the leading index was new vehicle registrations, which closely mirrors new vehicle purchases. New vehicles are an important indicator of local consumer confidence because they are typically financed over a number of years. Therefore, increases in the number of new vehicles reveal local consumers'





expectations for the future. As shown in Figure 3, after smoothing and seasonal adjustment, new vehicle registrations increased 2.7 percent in January and were up more than 33 percent over the year. While it will take some time to return to the 10,000 new vehicles per month we witnessed in 2006-07, it is clear that some consumers are more confident about their current circumstances and more positive in their expectations for the future.

The contributions of the U.S. Leading Index and average work week hours in regional manufacturing presented mixed signals in January. Charlotte's regional economy is part of a much larger economic system, so the outlook for the nation as measured by the U.S. Leading Index clearly has implications for our regional outlook. Shown in Figure 4, the U.S. Leading Index increased 0.2 percent in January, marking its ninth increase in 12 months. Over the year, it is up 3.3 percent. Although the Conference Board, which produces the national index, is cautious in its optimism, the U.S. Leading Index is on

an upward trajectory, which should spell good news for the Charlotte region and the nation as a whole. On the other hand, average workweek hours in manufacturing, our measure of local production, slipped 0.3 percent in January but is up 1.1 percent over the year. Although manufacturing is a smaller part of the local economy than in years past, the measure is a good leading indicator because manufacturing is famously cyclical, and employers typically extend work hours before expanding payroll employment. However, consistent with reported weakness in the purchasing managers index for new orders, average workweek hours in regional manufacturing have been sliding over the past few months – a trend we hope does not continue.

Obviously, lingering areas of concern are the housing and real estate markets. It is true that there have some positive reports of high profile commercial projects going forward and that the difference between the asking price and selling price of existing homes appears to be narrowing; however,

Fig. 3: New Vehicle Registrations
Seasonally adjusted, not smoothed

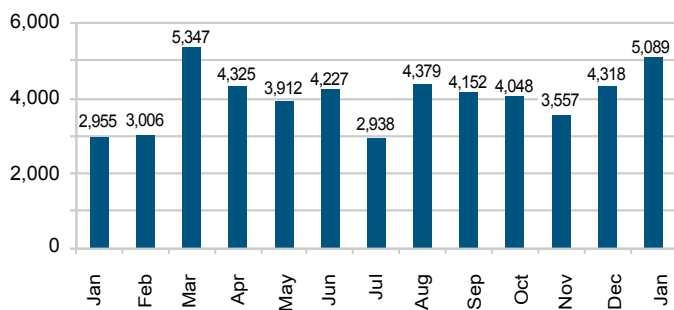


Fig. 4: Manufacturing Hours & U.S. Leading Index
Seasonally adjusted, not smoothed

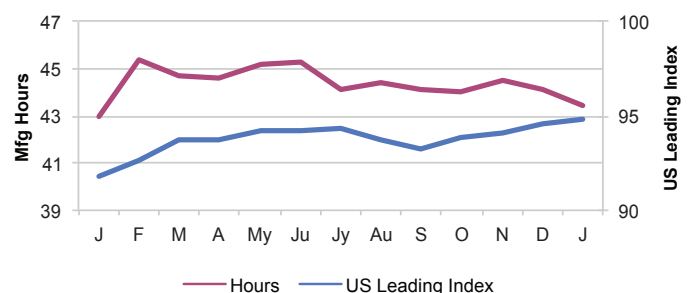
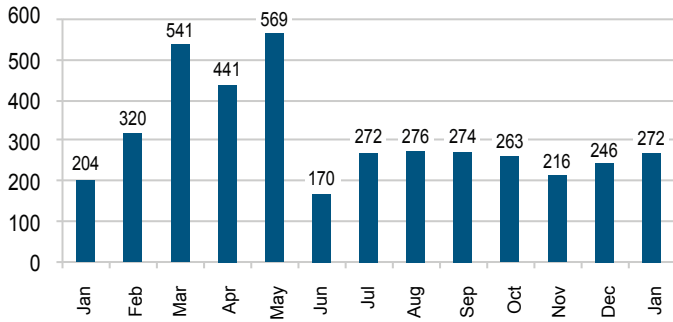


Fig. 5: Residential Permits

Seasonally adjusted, not smoothed



the backlog of existing homes and “new” construction that either was never completed or never found buyers continues. In spite of a noticeable uptick in residential building permits during the spring of 2011 (see Figure 5), the heyday of 2006 when 1,200 permits were issued monthly is gone and will not return for sometime. Why? First, there is an obvious glut in the housing market (e.g., foreclosures, near-foreclosures and the general recessionary impacts on the housing market). Second, even though the Charlotte area topped the list for urbanized population growth over the past 10 years, many developers are finding it difficult to secure financing for new construction even if they believe there is sufficient demand. Finally, we can look to the basic laws of supply and demand. While area home sales have risen during 2011, prices have dropped 10.3 percent. That is what happens when supply outpaces demand – prices fall. The only bright spot is that pending sales are up, which over time will help clear the current inventory of existing homes and make room in the market for new home and apartment construction.

Current Conditions

Data comprising the Coincident Index provide us with a mixed picture about job growth and retail sales (Figure 6). Noted above, month-over-year job growth amounted to approximately 9,000 new jobs in the Charlotte area, and reported job growth in January alone was a hefty 25,000. After smoothing and seasonal adjustment, the figure is closer to 5,600 but is still a remarkable one-month change from December. As shown in Figure 6, the Charlotte area has added jobs in each of the past five months. However, retail sales (current through December 2011) provide a mixed picture. Despite various holiday news reports, November retail sales were essentially unchanged from the month before and December sales were 3.2 percent below November. On balance, the holiday season was not, in fact, a good one for area retailers. So, it appears that the summer bump in retail sales was confined to just a few months, and consumer spending on taxable retail goods and services is not robust. Employment gains, however, were strong enough to push Charlotte’s Coincident Index up 1.1 percent. It now stands at 102.1 (2004=100).

One way to view the current local economic situation is to compare trends in Charlotte’s Coincident Index with its own 12-month moving average (also shown in Figure 6). As a general rule, the local economy is expanding when the index is above its 12-month trend line. Conversely, growth is slowing when the index falls below the 12-month trend. Recent growth in the Coincident Index has caused it to surpass its own 12-month average, which is a good sign that growth is resuming.

Outlook

There has been an abundance of good news to report in recent months: Job growth is up, local indicators of consumer

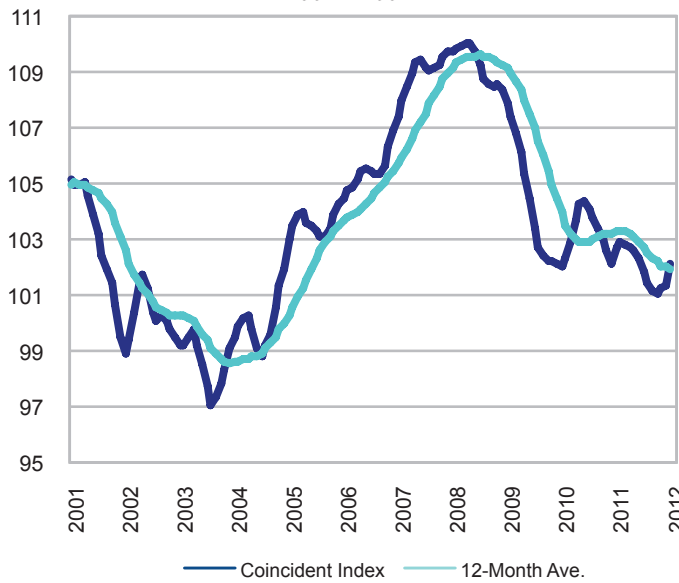
Appendix Data

Economic Indicator	Estimates			Percent Change	
	Jan 12	Dec 11	Jan 11	Dec 11 to Jan 12	Jan 11 to Jan 12
Charlotte Index (2004=100)					
Coincident Index	102.1	101.3	102.7	0.8%	-0.6%
Leading Index	102.9	102.5	96.4	0.4%	6.7%
Components (Smoothed, Seasonally Adjusted)					
Nonfarm Employment [1]	534,777	529,186	533,967	1.1%	0.2%
Taxable Retail Sales (\$Mill) [2]	\$1,021	\$1,055	\$992	-3.2%	2.9%
New Cars	4,136	4,026	3,100	2.7%	33.4%
Mfg Hours [3]	44.1	44.2	43.6	-0.3%	1.1%
Residential Permits	250	254	188	-1.6%	32.7%
Initial Unemployment Claims	4,240	4,394	4,782	-3.5%	-11.3%
U.S. Leading Index	94.8	94.6	91.8	0.2%	3.3%

[1] Nonfarm wage and salary employment, federal government excluded. [2] In 2004 price levels. Current as of December 2011. [3] Estimated

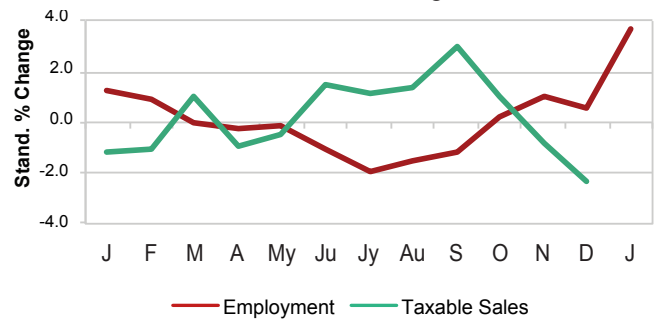
Fig. 6: Charlotte Coincident Index

2004 = 100



Employment & Taxable Sales

Standardized Change



Coincident Index Components		Jan-12
Employment	▲	1.1%
Taxable Retail Sales (May)	▼	-3.2%
Coincident Index	▲	0.8%
12-Month Change	▼	-0.8%



confidence are rebounding and our Leading Index posted strong gains over the year. The job gains we experience now were predicted by our Leading Index during 2Q11. Although our unemployment rate remains stubbornly high, it is largely due to labor force growth, which is by itself a positive indicator reinforced by declining first-time claims for unemployment. While it is true that the housing market continues to struggle, especially with respect to home prices and new housing starts, home sales are on the rise. This will eventually help clear the inventory of existing homes, particularly in light of the region's

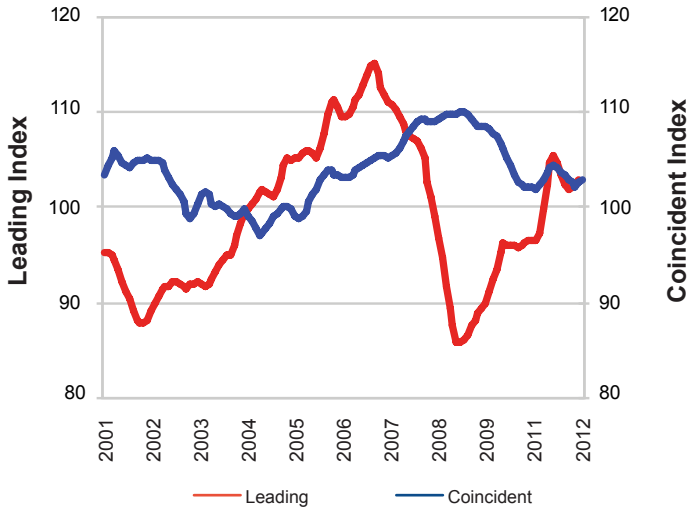
fast pace of population growth. As far as our Leading Index is concerned, the only area of caution is its trend during 3Q11, which could point to growth moderation during 2Q12.

Other factors to watch include U.S. consumer confidence, GDP growth, energy prices, federal housing policy and European financial woes. While there is evidence that local consumers are beginning to feel more confident about the future, local retail sales are struggling, national consumer confidence slipped 5.1 percent in January and consumer confidence in the South Atlantic region fell 4.9 percent. Thus, the consumer confidence picture is mixed. Recent reports from the Bureau of Economic Analysis indicate national GDP grew 3.0 percent during 4Q11, which is a welcome trend given that annual GDP growth was only 1.7 percent. Energy has become one of the hot ticket items to watch. Oil is now over \$103 per barrel and is projected to rise as high as \$130 by summer's end, meaning that the national average price of gasoline of \$4.05 will probably rise, curtailing consumers' ability to purchase other goods and services. On the upside, \$338 million of the \$25 billion federal foreclosure settlement should flow to North Carolina — more than half of which is reported to help homeowners facing pending foreclosures with principal reduction. European financial woes, especially with respect to Greece and to a lesser extent Portugal and Spain, loom large as potential problems in international financial markets.

How these external events play out locally cannot be known with certainty. Over the course of 2011, job growth was modest by Charlotte standards, but adding 9,000 new jobs over the year is a definite improvement. No matter which January new job numbers you believe (25,000 reported by the NC DES or the 5,600 we believe to be more likely), the year is clearly off to a very strong start. While it is a bit early to pop the cork on our economic champagne, most local indicators are moving in the right direction, and it is only a matter of time before other indicators (especially in housing) do the same. As shown in Figure 7, despite a decrease in our Leading Index

Fig. 7: Charlotte Coincident Index

2004 = 100



during 3Q11, the trajectory of the Leading Index is clearly upward, correctly foretelling the most recent upswing in the county's job picture.

Therefore, some of our economic news is very encouraging and some continues to point to a wait-and-see period, which, in the aggregate, is part of our nation's economic problem. Given trends in the Leading Index over the last six to nine months, we should expect improvements in employment and/or retail sales through 2Q12 with a possible lull during 3Q12. **Given these trends, we expect the Charlotte area economy to grow at an annualized rate of about 2.0 percent through 3Q12.**

*Harrison S. Campbell, Jr., Associate Professor of Geography
University of North Carolina at Charlotte*

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Produced by:



Department of Geography and
Earth Sciences, UNC Charlotte
9201 University City Blvd., Charlotte, N.C. 28223
704-687-5997

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330 South Tryon Street; P.O. Box 32785
Charlotte, N.C. 28232
704.378.1300
www.charlottechamber.com