

# Economics Group

## Special Commentary

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# North Carolina Economic Outlook: February 2015

## Executive Summary

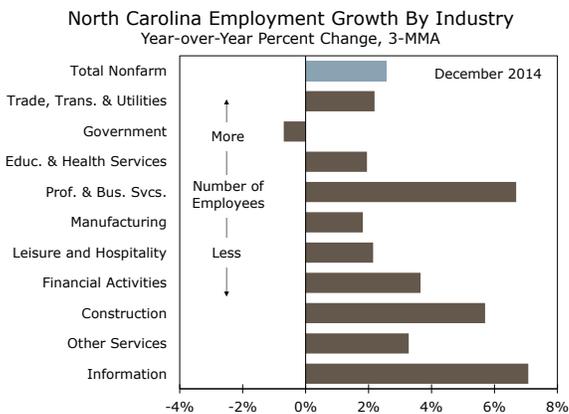
North Carolina continued to outperform the nation in 2014. Nonfarm payrolls added 115,400 jobs on their way to a 2.8 percent increase, outpacing the nation's 2.3 percent increase. Personal income growth strengthened towards the second half of 2014, rising 3.7 percent year over year in the third quarter, which marks the strongest year-over-year growth since 2012. Growth has been broad-based, with the outsized public sector remaining the lone drag. Technology employment has led the way in new hiring, particularly in the larger metros. Manufacturing employment also made a comeback, along with industries tied to the state's growing population and rising incomes including retail trade and the leisure & hospitality sector. In addition, employment in financial services turned around in a meaningful way, after lagging earlier in the recovery.

The greater Raleigh and Charlotte areas have led the recovery for the past few years and grew much faster than the rest of the state from 2010 to 2013. More recently, however, growth has picked up outside of these major metros. Charlotte and Raleigh combined have seen nonfarm employment rise 2.8 percent over the past year. The rest of the state added jobs at the very same pace and most of North Carolina's metropolitan areas have seen employment conditions improve considerably over the past year and unemployment rates have tumbled across the state.

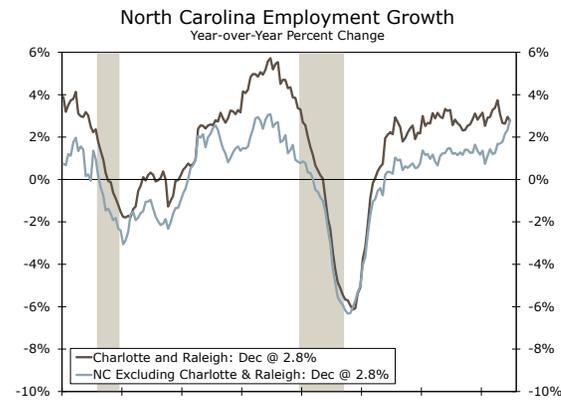
**More recently, however, growth has picked up outside of the major metros.**

Professional & business services employment has been a driver in this pickup outside of Charlotte and Raleigh. Excluding the major metros, professional & business services increased 7.7 percent from a year ago, with the high-paying professional & technical services industry rising an impressive 9.7 percent year over year. Better-than-average population growth has supported gains in the state; North Carolina's population increased 1.0 percent in 2014 to 9.9 million, and the Tar Heel State moved past Michigan to become the nation's ninth largest state.

**Figure 1**



**Figure 2**



Source: U.S. Department of Labor and Wells Fargo Securities, LLC

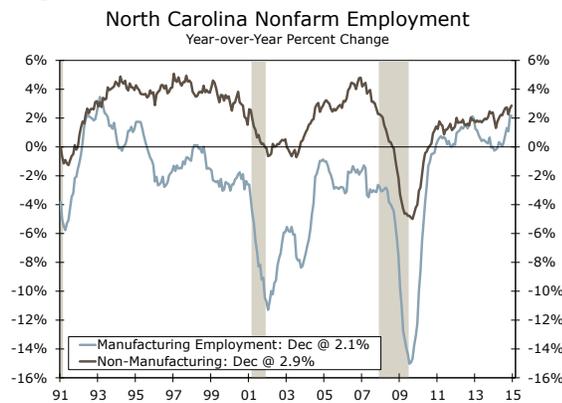


### Manufacturing Is Making a Comeback

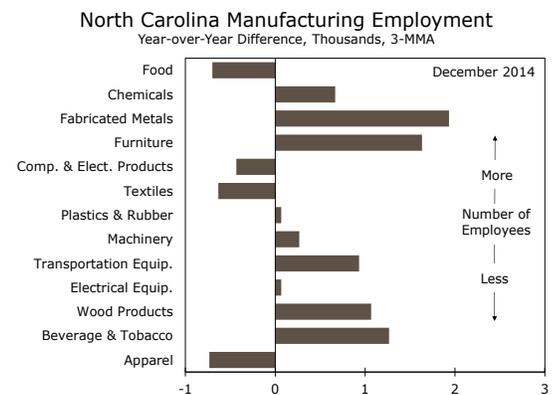
Growth has spread from the high-tech industries to the manufacturing sector, which strengthened considerably toward the end of 2014. While the growth in manufacturing employment has trailed overall job growth, the state’s factory sector has added 21,000 jobs since bottoming in March 2010, marking the longest run of job growth since the 1980s. While modest, gains have been fairly broad based and include some traditional sectors, such as furniture and wood products. Manufacturing exports increased 12.4 percent year over year in the fourth quarter and anecdotal reports from manufacturers in the state suggest employers are struggling to find skilled labor. A number of training and educational programs should help on this front, but the older average age of the typical factory worker means that staffing skilled positions will likely remain a challenge. The North Carolina Triangle Apprentice Program is one such program that provides hands-on training and educational schooling in the Triangle area and initiatives such as this will help train workers and lure new industry. Year over year, manufacturing employment increased 2.1 percent in December.

Fabricated metals manufacturing added the most jobs of all manufacturing sub-industries in 2014, followed closely by furniture, beverage & tobacco, wood products, and transportation equipment. Computer & electronic products, food, textiles and apparel were the only manufacturing sub-industries to post year-over-year job declines last year. The smaller overall gains in manufacturing employment reflect the more capital-intensive nature of the business. Capital investment has increased much more than manufacturing payrolls in recent years, and newer factories tend to employ far fewer, but more higher-skilled, workers than existing factories do or plants that are closing once did. Increased competition from abroad may hurt some sectors, as the stronger dollar makes imports less expensive and makes exports less competitive, at least initially.

**Figure 3**



**Figure 4**



Source: U.S. Department of Labor and Wells Fargo Securities, LLC

**North Carolina also is a significant hub for high-tech manufacturing.**

North Carolina also is a significant hub for high-tech manufacturing. While it is difficult to show this with the government employment data, it is evident in several initiatives taking place around the state as well as the types of manufacturers expanding. North Carolina State University’s Institute of Manufacturing Innovation is among the initiatives geared at increasing manufacturing efficiency through the use of technology. This particular program focuses on clean energy. North Carolina is increasingly focusing on clean energy and is a leader of such technology in the Southeast.<sup>1</sup> North Carolina is particularly strong in solar energy. The state currently ranks fourth in the nation in installed solar capacity, according to the Solar Energy Industries Association. Employment in semiconductors and related device manufacturing, the industry that

<sup>1</sup> “Clean Economy Rising: Solar Shines in North Carolina.” The Pew Charitable Trusts. October 2014.

includes solar cell manufacturing, increased 0.8 percent from a year ago on a three-month moving average basis through June. This industry is extremely capital-intensive, meaning there is an incredibly large amount of output per worker. Nationally employment in this sector is down 3.1 percent year-over-year, further exemplifying the state's better relative performance.

### **Commercial Real Estate**

Strong growth in office-using employment has yet to make a significant dent in vacancy rates of the state's largest metros. Part of the problem is that there has been a great deal of sublease space available. In addition, businesses are using fewer square feet per office worker and there are many more shared spaces today.

Supply has also increased. Raleigh has experienced a slew of new completions over the past year, which kept the vacancy rate elevated. Demand also appears to be strong, as office-using employment increased an astounding 9.2 percent in Raleigh over the past year.

Charlotte is a bit of a different story. Although office-using employment increased by a relatively strong 2.6 percent over the past year, demand has been somewhat soft. An uptick in the fourth quarter helped bring the office vacancy rate down, amid the backdrop of zero net completions for the year. There are a number of large projects in the pipeline, however, including Capital Towers in South Park, 300 South Tryon and 615 South College, which bodes well for the metro area and provides the space for continued growth in office-using employment. Charlotte also landed a huge relocation this past year, when Sealed Air Corporation announced it would relocate its corporate headquarters from New Jersey, bringing 1,262 jobs to the city and build a new corporate campus.

The resurgence in manufacturing has supported demand for industrial space in North Carolina's largest metros. Demand for warehouse space has been particularly strong, driving the vacancy rates down to 7.5 percent in Raleigh and 6.0 percent in Charlotte. Nationally, the vacancy rate is 7.0 percent. In addition, the region's growing population and improved labor market growth is helping drive demand for retail space. This has been the case particularly in Raleigh, where the vacancy has fallen 0.7 percentage point to 9.0 percent from a year ago.

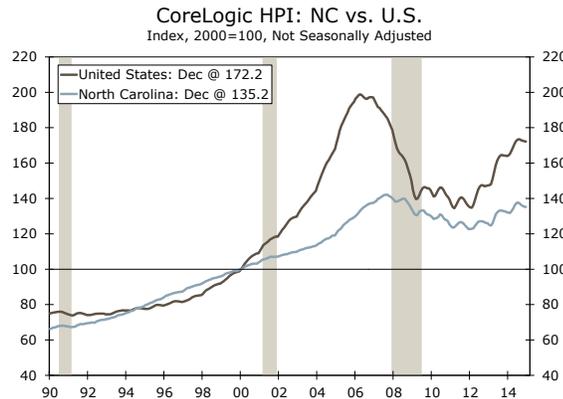
The apartment market has been particularly strong in North Carolina, although this boom has shown some signs of its age recently. Vacancy rates have ticked up from their recent lows in both Charlotte and Raleigh as supply outpaced demand in 2014. Although demand should remain strong in 2015 as people continue to move to these metros, significant supply is also in the pipeline, which may cause vacancy rates to drift up further. Of the more than 16,700 units under construction or in advanced stages of development in Charlotte, 5,100 are slated to be completed in 2015. This number is slightly below 2014 completions, but still represents a significant amount of supply coming onto the market. Raleigh has a similar trend with an expected 5,300 units to be completed in 2015. Much of the growth of apartments is occurring close in to the Center City in both markets, and marks a major transformation for both areas.

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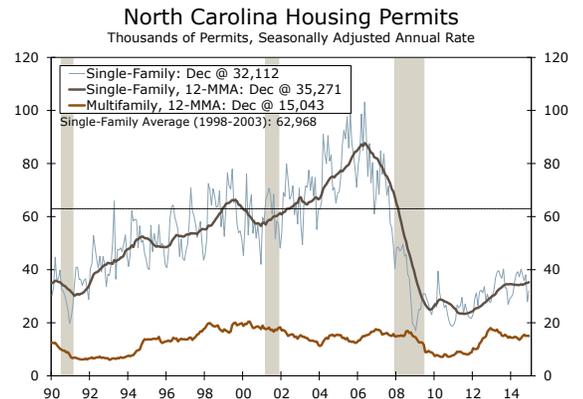
### **Housing Gains Moderate**

The housing boom and bust cycle occurred later and was less severe in North Carolina than in the rest of the nation. Home prices fell by much less than the nation as a whole during the down years, so they bounced back less dramatically during the ensuing recovery. That said, home prices are only 4.8 percent below their prerecession peak in North Carolina compared to the nation, which is still 13.4 percent below its prerecession peak. Home sales in North Carolina slowed in 2014. In addition, the share of homeowners who owe more than their house is worth is significantly lower in North Carolina, at 7.4 percent, compared to the national average of 10.3 percent. Single-family permits have been roughly flat over the past year and remain well below their historical norm. Multifamily permits, on the other hand, recovered strongly and remain near their post-recession high.

**Figure 5**



**Figure 6**



Source: CoreLogic, U.S. Department of Commerce and Wells Fargo Securities, LLC

**Summary & Outlook**

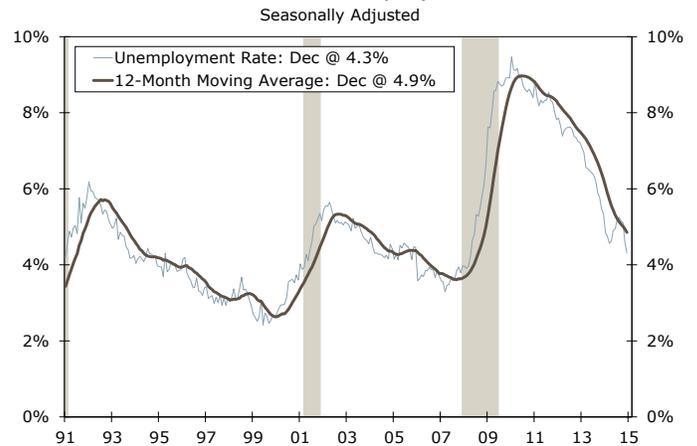
***North Carolina's economy has gained considerable momentum over the past year and appears set for another solid year in 2015.***

North Carolina's economy has gained considerable momentum over the past year and appears set for another solid year in 2015. Strong job growth, particularly in the tech sector, has led the recovery. We have begun to see more significant improvement in the state's traditionally important factory sector more recently, which has also boosted hiring in transportation and warehousing. The state's highly educated population should continue to attract new businesses and residents, particularly to the larger metros. In addition, as North Carolina's population continues to grow, retail trade, education & health services and leisure & hospitality services should continue to add jobs. Stronger overall growth should also eventually turn around employment trends in state and local government. We expect to see more of the growth in single-family home construction in 2015, as job growth has now been strong enough for a long enough period of time that household formations are rising. The boom in multifamily construction is showing signs of topping out. Apartment vacancy rates have ticked up slightly over the past year and a whole slew of projects remain in the pipeline.

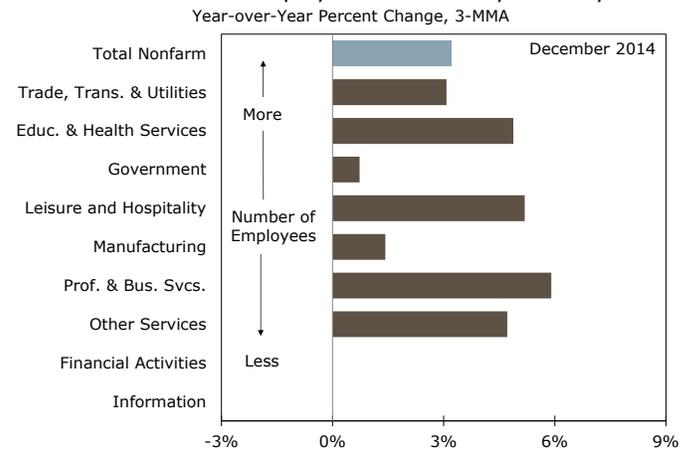
## Asheville

- Asheville's economy continues to grow rapidly, with nonfarm employment rising 3.2 percent over the past year on a three-month moving average basis. Growth has broadened, with professional & business services and education & health services leading the way. Government, manufacturing and financial activities have also all begun to contribute in a meaningful way. The unemployment rate has plummeted to just 4.3 percent, down from a peak of 9.5 percent five years ago.
- Industries tied to Asheville's growing population and burgeoning tourist trade continues to drive job growth. Employment in education & health services and the leisure & hospitality sector rose 4.8 percent and 6.0 percent year-over-year, respectively. Retail trade has also been posted strong gains. While Asheville draws new residents of all ages, retirees are a large and growing proportion of the population, which should continue to drive demand for healthcare, retailing and restaurants.
- Employment in professional & business services has been a key source of strength recently. This sector includes much of the creative sector and tends to be better paying. Manufacturing has also been a bright spot. GE Aviation opened its new ceramic jet engine component plant in October and has plans for additional investment in the metro area.
- Although Asheville experienced rapid home price gains following the recession, home price appreciation slowed in 2014, more so than for the nation as a whole. Even though home price appreciation has moderated, sales activity increased in 2014. Existing home sales rose 5 percent in 2014. This gain exceeded that seen in both the state and nation. Permits, however, have leveled off in recent months and new construction should post only modest gains in 2015.
- Asheville's growth is coming from more than just tourism. The metro has attracted numerous industries and now boast a large and vibrant creative sector. Job growth has picked up across nearly all sectors of the economy. Population growth also remains strong and looks to strengthen further.

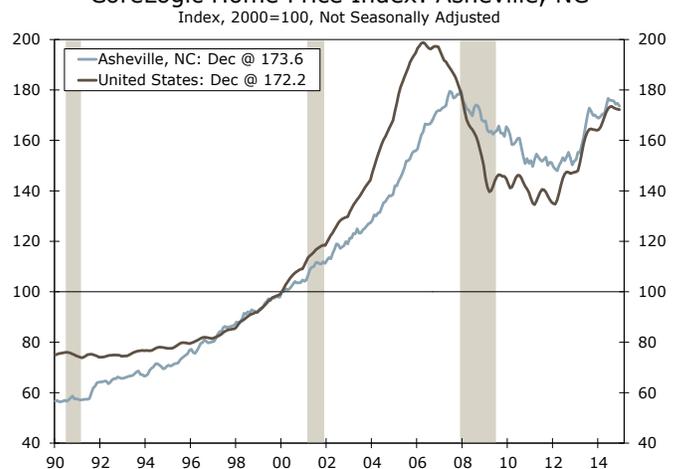
Asheville MSA Unemployment Rate



Asheville MSA Employment Growth By Industry



CoreLogic Home Price Index: Asheville, NC

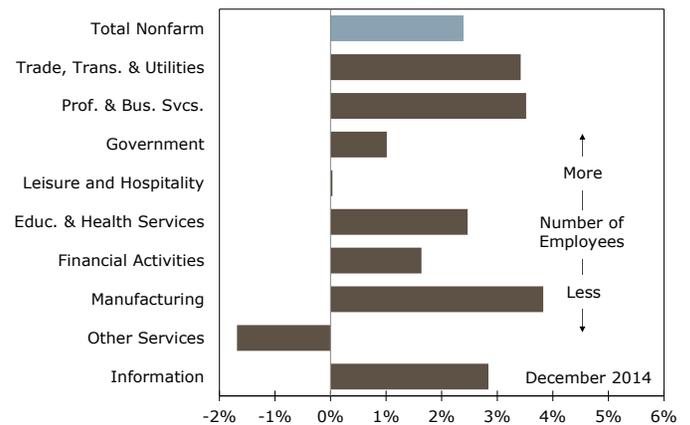


Source: U.S. Dept. of Labor, CoreLogic and Wells Fargo Securities, LLC

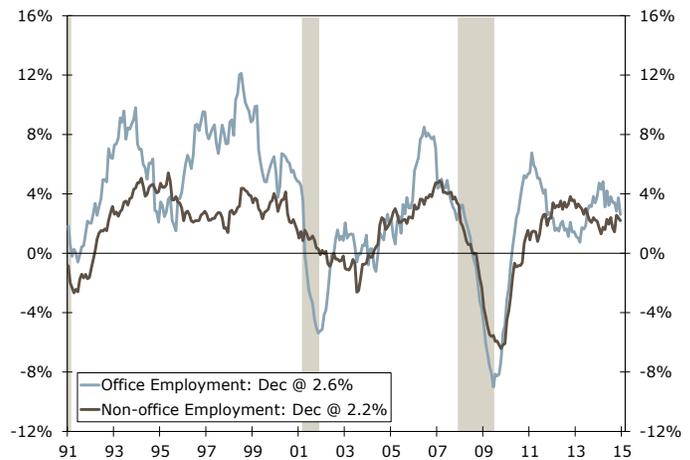
## Charlotte

- Charlotte has experienced strong growth for several years now. Nonfarm employment has rose 2.4 percent year-over-year on a three-month moving average basis. Moreover, the QCEW data show significant positive revisions may be coming. Professional & business services led the way, reflecting gains in the metro area's emerging technology sector. Manufacturing employment has also improved more recently.
- Strong in-migration, aided by a rising tide of corporate relocations and expansions, has fueled demand for consumer services. As a result, sizable gains have been seen in retail trade and the education & health services sector.
- The technology sector has become a major employment driver. Velocity Technology, AvidXchange, RingCentral and Aramark are just some of the major companies expanding in the metro area, pushing professional & business services payrolls higher. While some of these gains have been in the lower-paying support positions, the higher-paid professional & technical services industry added 1,300 jobs over the past year, marking a 2.7 percent gain.
- Manufacturing employment, which slowed in early 2014 has picked up again and is now growing faster than the nonmanufacturing sector. One notable recent development has been the staffing up for Alevo's massive battery and fuel cell plant in Concord, which may ultimately employ more than 2,500 workers.
- Charlotte's housing market continues its improvement. Existing home sales increased 5 percent from year-ago levels, although home prices rose just 4.1 percent year over year in December. The deceleration in price appreciation is likely due to investors stepping back from home purchases. Multifamily housing permits remain near their recent highs. Apartment construction has grown tremendously, particularly in areas close to the Center City. Charlotte is currently one the nation's most active apartment markets.
- We expect growth to remain strong in 2015. Strong population growth and broad-based employment gains should support incomes. This, in turn, should drive further improvement in residential and commercial construction.

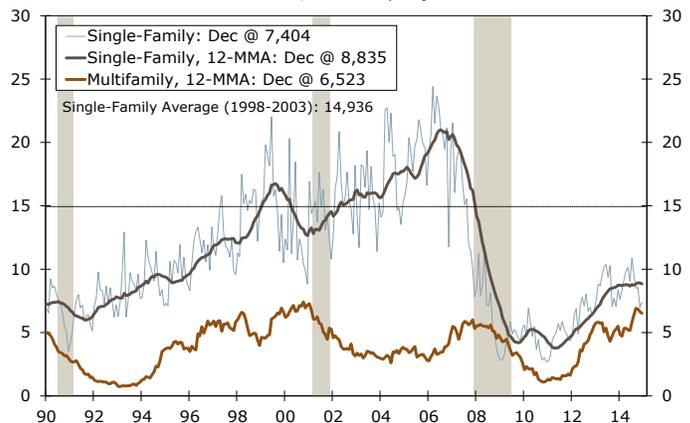
Charlotte MSA Employment Growth By Industry  
Year-over-Year Percent Change, 3-MMA



Charlotte MSA Nonfarm Employment  
Year-over-Year Percent Change



Charlotte MSA Housing Permits  
Thousands of Permits, Seasonally Adjusted Annual Rate

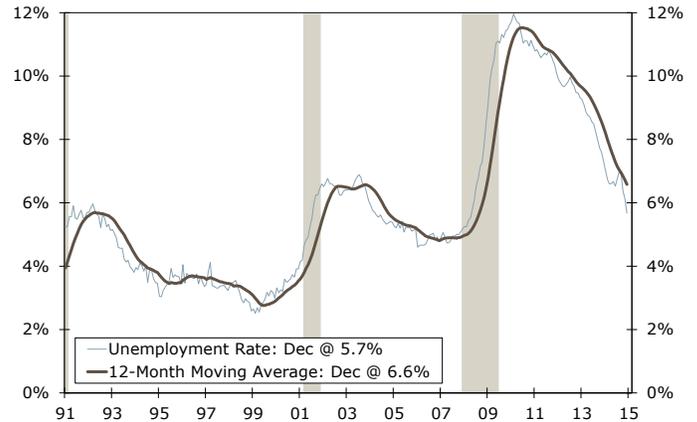


Source: U.S. Dept. of Labor, U.S. Dept. of Commerce and Wells Fargo Securities, LLC

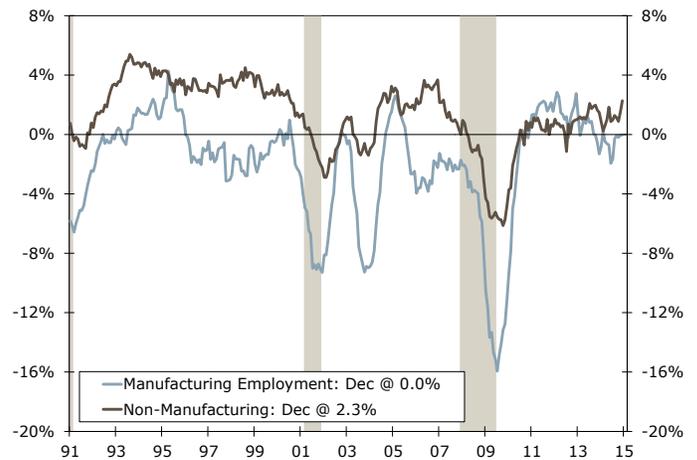
## Greensboro

- After struggling earlier, Greensboro’s recovery finally gained some traction this past year. Modest gains in population and employment has weighed on many sectors of the metro’s economy. The unemployment rate remains somewhat elevated at 5.7 percent. Government employment has been a major drag on the metro area, although private industry gains look more encouraging, albeit still lagging major metros in the state.
- The outsized manufacturing sector has been a weak performer and employment in the industry is flat from a year ago. High Point is well known for its furniture business, and manufacturing of furniture has yet to make a notable recovery from the large losses experienced leading up to and during the recession.
- Greensboro’s economy is transitioning away from its dependence on traditional manufacturing, although this will likely take some time. Professional & business services have perked up recently; however, the majority of these gains came in the relatively low-paying administrative & support positions. Employment in education & health services has been a notable bright spot, reflecting growth at private universities, principally High Point University. The Gateway University Research Park is another promising area of development, which may bring new R&D facilities and innovative industries to the Triad.
- Home prices rose 0.1 percent year over year in December and have been roughly flat since the recession. Existing home sales in the Triad decreased 13 percent year over year in 2014 and construction activity has yet to make a notable recovery. While multifamily permits have recovered slightly, they remain well below prerecession levels.
- Relatively slow population growth has weighed on the Greensboro metro area. Improvement in service sector should help kick start job growth, although the transition away from manufacturing remains slow and painful. The region’s furniture industry is doing better and stands to benefit from further improvement in U.S. home sales and residential construction.

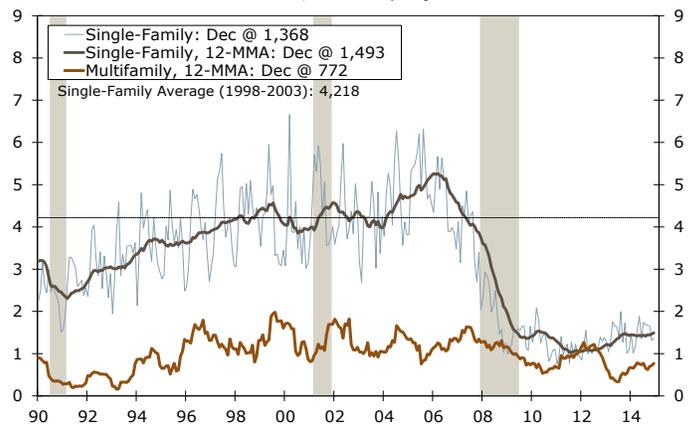
Greensboro MSA Unemployment Rate  
Seasonally Adjusted



Greensboro MSA Nonfarm Employment  
Year-over-Year Percent Change



Greensboro MSA Housing Permits  
Thousands of Permits, Seasonally Adjusted Annual Rate

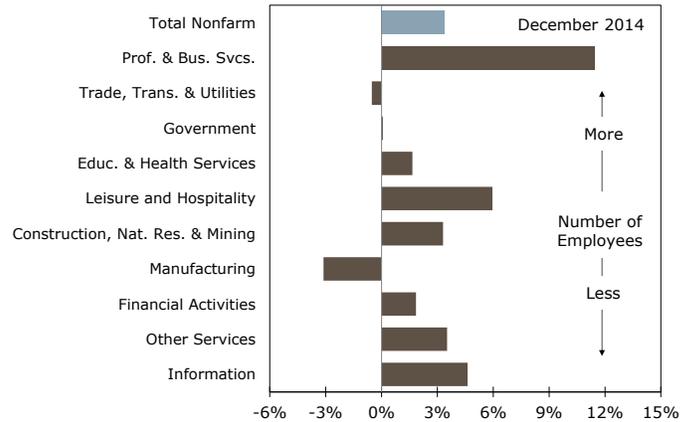


Source: U.S. Dept. of Labor, U.S. Dept. of Commerce and Wells Fargo Securities, LLC

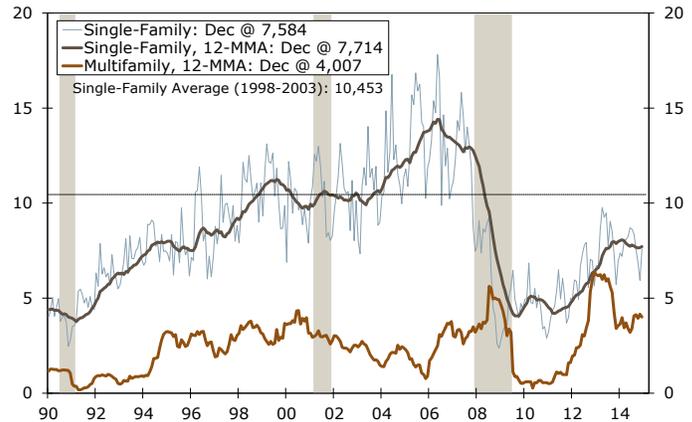
## Raleigh

- Businesses continue to add jobs in the Raleigh area at a rapid pace. The pace of hiring has slowed somewhat in recent months, however. Nonfarm payrolls increased 3.5 percent year over year in December. High-tech industries have been the key driver of growth and are showing no sign of letting up. A recent Brookings Institution report ranked Raleigh third in economic performance from 2013-2014 of all domestic metros and 41st in the world.<sup>2</sup>
- Growth has been relatively broad-based, although a few sectors have moderated recently. Manufacturing is continuing to see declines, which is not unusual in tech areas. Tech hardware manufacturing has become much more capital intensive in recent years. Efforts are being made to broaden the employment base. One of the more popular is the Institute of Manufacturing Innovation, which recently opened at NC State University. Employment in retail trade has also slowed, following unusually strong gains during the prior year.
- Raleigh remains one of the nation's fastest growing tech centers. Employment in professional & technical services increased 13.6 over the past year. The numerous research institutions in the area should support growth, as more firms locate to the Triangle region to be closer to the area's highly-educated population.
- Home prices in Raleigh area rose 3.6 percent over the past year. Home sales, however, moderated in 2014. Strong population growth has supported growth in construction activity. Residential building permits have retreated recently, however, particularly in multifamily. The apartment market has been red hot. Rapid construction over the past few years has pushed the vacancy rate up to 6.7 percent in the third quarter, which has likely contributed to the pullback in multifamily building permits.
- Strong population growth, a highly educated population and a whole host of growing tech firms remain a powerful draw for the Raleigh area. Although there are some headwinds in the housing market, stronger job growth should support sales and new home construction going forward.

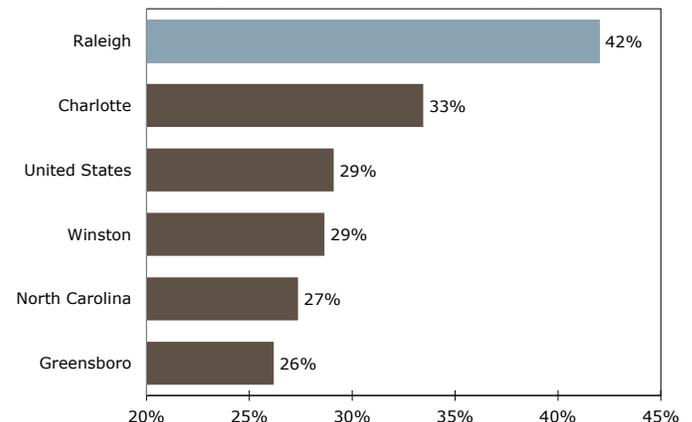
Raleigh MSA Employment Growth By Industry  
Year-over-Year Percent Change, 3-MMA



Raleigh MSA Housing Permits  
Thousands of Permits, Seasonally Adjusted Annual Rate



Educational Attainment  
Percent of Population with a Bachelor's Degree or Higher, 2012



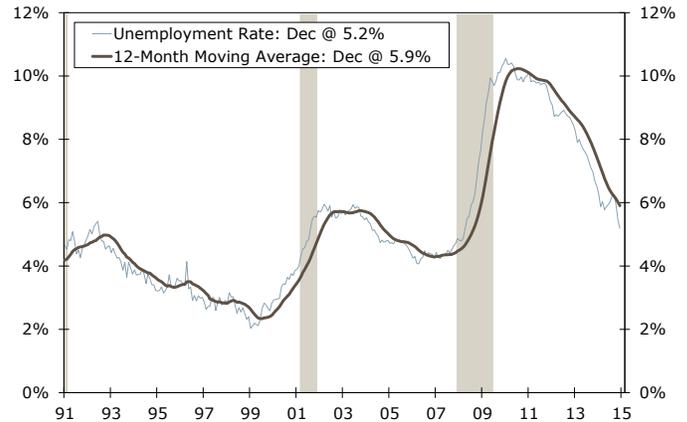
Source: U.S. Dept. of Labor, U.S. Dept. of Commerce and Wells Fargo Securities, LLC

<sup>2</sup> Global Metro Monitor 2014: An Uncertain Recovery. Brookings Institution (2015).

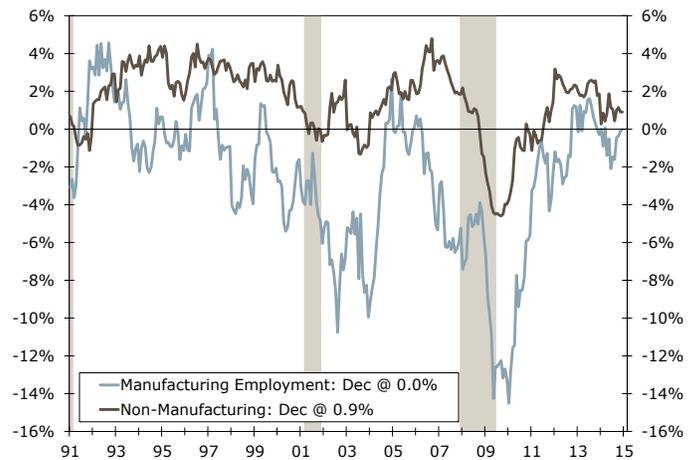
## Winston-Salem

- Employment growth was slower in 2014 than what was seen in the previous two years, increasing only 0.9 percent year over year. The unemployment rate continues to decline, reaching 5.2 percent in November.
- Population growth has been below the national average since the recession ended, and it appears that sectors with the most exposure to population growth are moderating. Leisure and hospitality employment decreased 2 percent in 2014, while employment in the education and health services sector has flattened out recently but remains near all-time highs. Baptist Medical Center and Wake Forest University should provide stability to the sector.
- An interesting theme in the Winston-Salem economy is the divergence between manufacturing and professional & business services. Professional & business services employment has been expanding at a rapid rate, up 2.9 percent year over year. This has helped offset persistent weakness in manufacturing payrolls, which has traditionally been important for the metro. This changing composition has helped Winston-Salem diversify its economy and should help it avoid the negative fallout from the stronger dollar and weak global growth that will likely hurt many manufacturers.
- Winston-Salem's housing market did not experience the same boom and bust cycle that the nation did. Since the recession, however, home prices have been roughly flat. Home prices fell 0.6 percent year over year in December, compared to a 5.0 percent rise nationwide. In addition, it appears housing demand has slowed. Home sales moderated in 2014 and construction activity remains in low gear, with building permits essentially flat since the recession ended.
- Despite relatively sluggish job growth, the unemployment rate has declined steadily and fell to just 5.2 percent in December 2014. We expect growth will remain modest in coming years, as weakness in the region's traditionally important manufacturing sector offsets modest growth in other promising areas, including life sciences, advanced manufacturing and tourism.

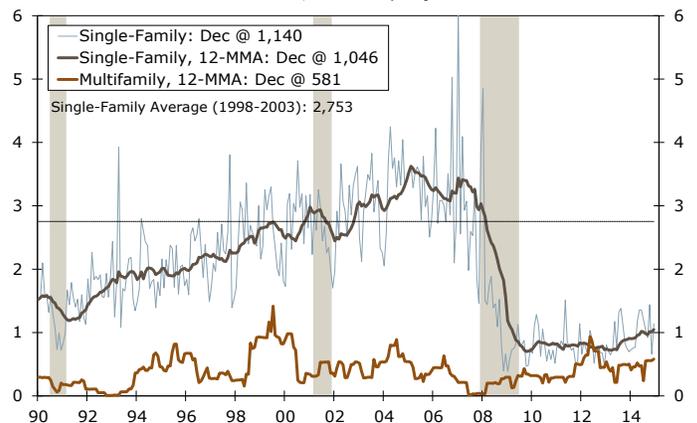
Winston-Salem MSA Unemployment Rate  
Seasonally Adjusted



Winston-Salem MSA Nonfarm Employment  
Year-over-Year Percent Change



Winston-Salem MSA Housing Permits  
Thousands of Permits, Seasonally Adjusted Annual Rate



Source: U.S. Dept. of Labor, U.S. Dept. of Commerce and Wells Fargo Securities, LLC

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