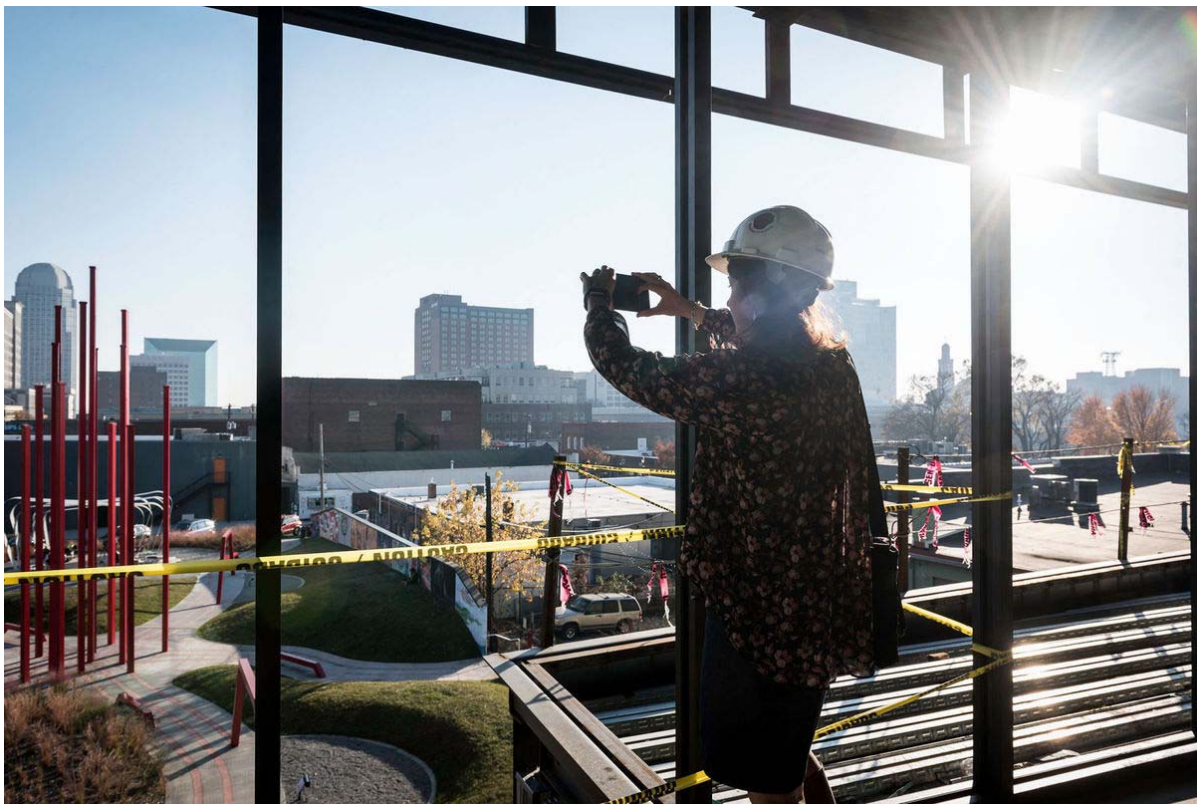


# WINSTON-SALEM JOURNAL

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## Economists project another year of mixed growth for Triad, N.C.

By Richard Craver Winston-Salem Journal January 1, 2017



The Triad's economy is expected to continue to lag that of its larger rivals, Charlotte and Raleigh, in 2017. Residential and commercial construction is expected to be one of the stronger categories, one economist predicts. One construction project underway in Winston-Salem is the new downtown headquarters of Art for Art's Sake. Sylvia Green, the art organization's vice chairwoman, photographs the view from the third floor.

More of the same economically is on tap for North Carolinians in 2017 — with two major caveats — according to projections from economists and analysts.

As in years past, the state's two economic engines — Charlotte and the Triangle — will likely continue to generate much of the net gain in job creation. The Triad will chug along behind its larger rivals, and the state overall will piggyback on the U.S. economy.

That performance, however, may provide more insight into whether there indeed was a “Carolina comeback,” touted by the McCrory administration as spurred primarily by tax-reform initiatives.

Several economists surveyed by the Winston-Salem Journal project a net gain of about 100,000 jobs in 2017, about 25 percent more than the 75,000 annual average during McCrory's term in office.

### **The caveats?**

There's the uncertainty of how much House Bill 2, the so-called “bathroom bill,” will continue to stifle the state economy in terms of missed corporate expansions and relocations, and lost tourism and travel spending. Forbes magazine has estimated the economic damages to the state as exceeding \$600 million since March 23 when McCrory signed HB2 into law.

There's also the question of how much stimulus the state could gain from a potential \$1 trillion infrastructure initiative being discussed by the Trump administration, along with expectations of reduced or eliminated federal regulations in several key economic sectors.

“We stand on the knife's edge with respect to the economy because the incoming administration seems to take pride in providing confusing signals as to what he has planned,” Zagros Madjd-Sadjadi, an economics professor at Winston-Salem State University, said of President-elect Donald Trump.

“While such actions may work well when one is negotiating with another party or to confuse an enemy as one stakes out a military endeavor, playing one's cards close to one's vest as a matter of government economic policy only creates uncertainty,” Madjd-Sadjadi said.

“If there is one thing business does not like, it is uncertainty.”

### **'A fascinating year'**

Republican Gov. Pat McCrory and Republican legislative leaders touted during his failed re-election campaign that the state had a net gain of at least 300,000 jobs during his term.

However, about 38 percent of those jobs have been in low- to minimum-wage jobs, such as retail, leisure and hospitality.

Michael Walden, an economics professor at N.C. State University, and Mark Vitner, a senior economist with Wells Fargo Securities, each project a net gain of at least 100,000 jobs this year, in large part as a carryover of the state's economic performance for 2016.

If that proves to be the case, it will be intriguing to see how much credit Democratic Gov. Roy Cooper gets as a job creator, especially if Trump is able to enact some of his pro-business growth initiatives, which already have led to a post-election stock market boost in expectation.

“For the economy, 2017 should be a fascinating year, both nationally and in North Carolina,” Walden said.

“North Carolina enjoyed a positive year for four top economic measures — real gross domestic product, labor force, payroll jobs and real (inflation-adjusted) wage rate,” he said. “Each of those gains exceeded their counterparts at the national level.”

Walden’s projections for the North Carolina economy in 2017: a 2.6 percent increase in real gross domestic product (up from 2.3 percent in 2016); a 1.8 percent increase in the labor force (down from 2.2 percent); a 2.3 percent increase in payroll jobs (up from 2 percent); and a 1.5 percent real wage rate (down from 2.4 percent).

Vitner forecasts a slight decrease in the jobless rate statewide and in the major metropolitan areas.

“Charlotte and Raleigh will continue to add jobs at a much faster rate than the rest of the state,” he said. “This past decade has seen job gains cluster around larger metropolitan areas.

“The Triad should see stronger gains, however, with manufacturing and distribution gaining strength,” Vitner said. “Construction should also turn in stronger performance, reflecting gains in both residential and commercial building.”

Walden cautioned that North Carolina’s recovery from recessions “has been progressively less robust during the last three business cycles,” citing faster growth in the leisure and hospitality, personal services and administrative services sectors, and slower growth in utilities, finances and nondurable manufacturing.

Walden cited a “hollowing out” of the state job market, with a slight uptick in middle-paying jobs this year, still leaving high-tech, high-skilled job creation mostly in urban areas, and low-skilled jobs still predominant in rural parts of the state.

Walden said the two biggest positive economic factors for North Carolina that could result from Trump administration initiatives would be increased military spending (but not necessarily more military personnel) and potential energy exploration off the coast that was not banned by the Obama administration in December. Walden said the state could gain 17,000 permanent jobs from tapping into the largest undersea oil deposits on the Eastern Seaboard.

However, energy exploration also could affect the state’s tourism industry.

Walden said a potential negative from a Trump administration could be trade wars, shrinking the state’s exports in advanced manufacturing, agriculture, auto parts and information technology.

Vitner said he is taking a wait-and-see approach to how quickly the Trump administration can move on tax reform and cutting unnecessary regulatory hurdles.

“This could create some upside potential for both the nation and North Carolina,” he said.

"I feel like Trump has the wind at his back right now," Vitner said. "Manufacturing appears to be making a little bit of a comeback, and his support would certainly help."

### **'Albatross of HB2'**

The recent failure of the Republican-controlled General Assembly to repeal HB2 is likely to have a significant — though possibly hard to see — effect on the state's economy in 2017.

"There was real hope among national job creators that we deal with that (and) 2017 would begin with HB2 being repealed," said John H. Boyd, a corporate site-selection consultant based in New Jersey.

"The legislature's failure to deal with this mess serves to double down on the state's economic development misfortune and poor judgment," Boyd said.

He said HB2 fallout will offset another decrease in the state corporate tax rate in 2017. The 2013 corporate income tax rate of 6.9 percent declines today from 4 percent to 3 percent.

Boyd said the state that could benefit the most from North Carolina's HB2 issues is South Carolina, "which had a string of impressive wins in 2016."

"Expect an even bigger year in 2017 for the Palmetto State as it continues to attract an enormous amount of investment from Asian and European companies," he said.

"What a horrible time for N.C. to continue to shoot itself in the foot and lose projects to South Carolina and other low-cost right-to-work states," Boyd said. "The albatross of HB2 is still around the neck of North Carolina. It will surely have choking effect on the state's ability to attract new corporate investment and jobs."

Madjd-Sadjadi said the "continued overhang of HB2, as well as perceptions that the state government may be less conciliatory than it once was, could contribute to investment pullbacks, especially in urban areas of the state."

"Boycotts of the state will probably intensify if HB2's repeal is not reconsidered, but this may become moot as cases related to it work their way through the court system," Madjd-Sadjadi said

Mitch Kokai, a policy analyst with the John Locke Foundation, a conservative-leaning research group, said economic projections for 2017 will be particularly tricky given "the state and national governments could see major shifts in fiscal policy because of new administrations of the opposite party from those that preceded them."

"The state and local economies will largely follow the national lead, but North Carolina will perform better than its peers — as it has for the past four years — if new Gov. Roy Cooper realizes that tax, spending and regulatory reforms have paid dividends for the state," Kokai said.

"If he decides instead to call for higher taxes, the resulting fight with the General Assembly will do nothing to help the economy," he said.

“The extent to which Cooper personally drives business away by continuing to focus on House Bill 2 also could play a role in limiting North Carolina’s economic potential,” Kokai said.

## **Prosperous pockets**

Some economists project modest job growth and a jobless rate statewide and in the state’s metro areas of below 5 percent.

For nearly 70 years, an unemployment rate of 5 percent has been considered the point at which everyone who wants a job has one, employers have the skilled workers they need and there is limited inflationary pressure on wages.

However, several economists stress that the state and most of the metro areas are not at that labor force balance.

Rob Schofield, a policy analyst with left-leaning N.C. Policy Watch, argues that McCrory, Republican legislative leaders and officials with the N.C. Commerce Department overstate the state’s economic rebound, in particular as it relates to the job market.

“There are communities not fortunate enough to be located in prosperous pockets of the Raleigh-to-Charlotte corridor,” Schofield said.

North Carolina’s labor market is likely to perform on par since the onset of the recovery in 2010, said John Quintero, a principal with South by North Strategies Ltd., a research firm specializing in economic and social policy,

Quintero said the level of job growth is “unlikely to put any real upward pressure on worker wages, household incomes and overall living standards.”

He said he will observe closely to determine which economic policy will emerge from Washington during 2017.

“On the one hand, the Federal Reserve appears to have committed itself to a policy of gradually tightening monetary policy — a tightening that will weigh on the labor market,” Quintero said.

“On the other hand, the new president and Congress may pursue some form of fiscal expansion, though the ultimate form that expansion might take and ultimate effectiveness is unclear.

“Suffice it to say, however, that whatever policy is pursued is apt to benefit higher income individuals and have only more indirect effects on working people,” he said. “Those same working people are apt to be caught in the middle, if fiscal and monetary policy move in opposite directions.”

Madjd-Sadjadi cautioned that with all the positive economic talk, there is a potential for the national economy to enter a recession in the latter part of 2017 or early 2018.

“Our current expansion is especially long in the tooth, and while our labor force participation rate has not recovered to its prior levels, much of this is due to retirements as opposed to long-term unemployment, leading to a disinclination to seek work due to despondency,” Madjd-Sadjadi said.

“Thus, we simply do not have sufficient slack in the economy to rapidly grow it, he said, “especially if we constrain immigration and fail to address the skills mismatch that plagues our current workforce.”