

THE ECONOMY: WHERE WE'VE BEEN, WHERE WE ARE, WHERE WE'RE HEADED

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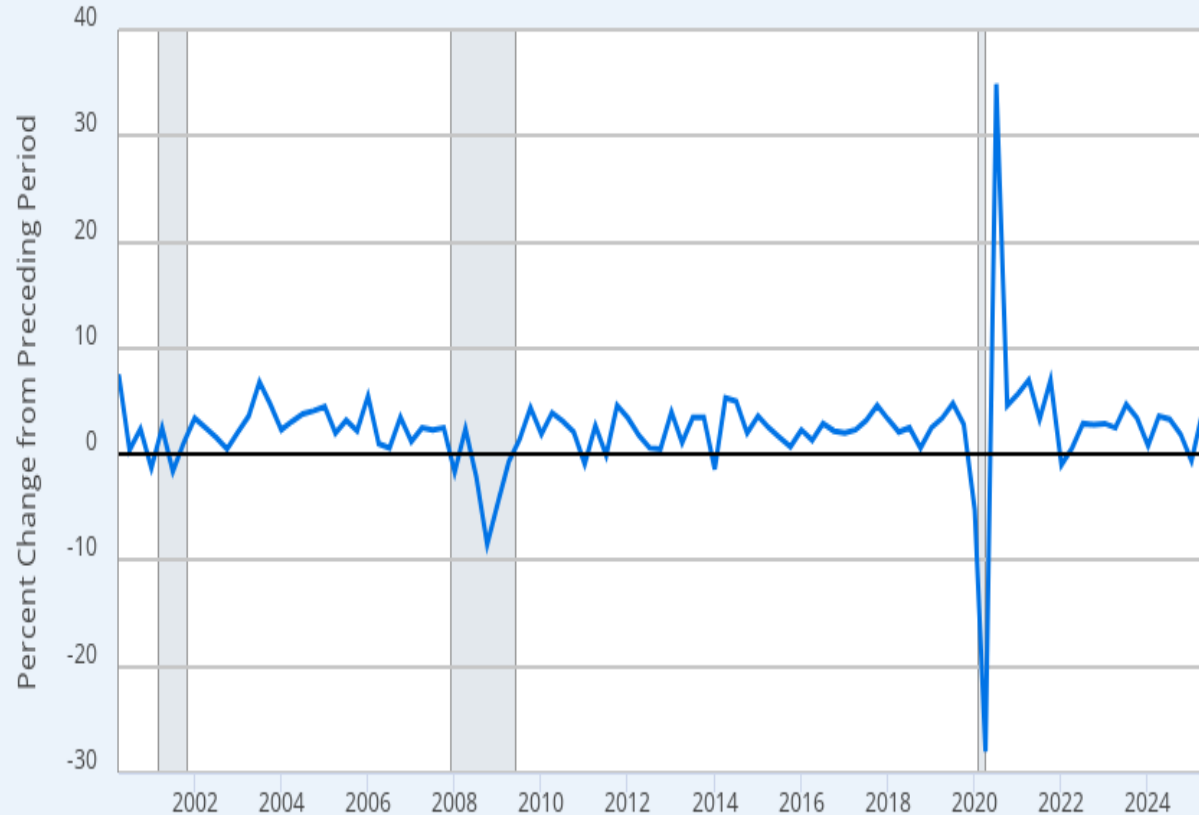
CONDITION OF THE ECONOMY



ECONOMY

ECONOMIC GROWTH CONTINUES, BUT SLOWER, AND NORTH CAROLINA IS BETTER THAN THE COUNTRY

FRED  Real Gross Domestic Product



Source: U.S. Bureau of Economic Analysis via FRED®

Shaded areas indicate U.S. recessions.

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NC and US COMPARISON

2023-2024

2024-2025

US

3.1%

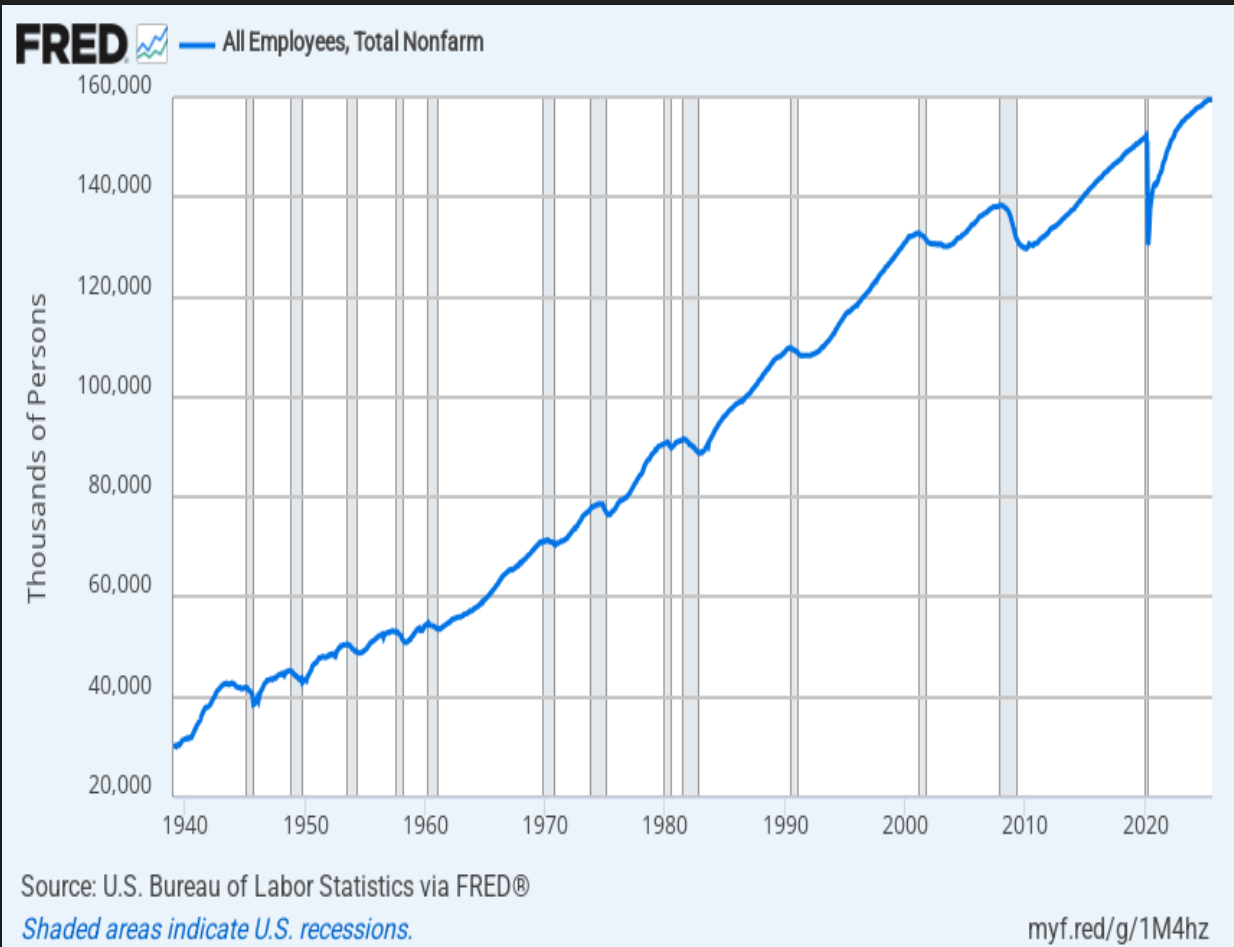
2.1%

NC

3.9%

2.7%

JOB GROWTH CONTINUES, BUT SLOWER IN THE NATION; YET FASTER IN NORTH CAROLINA



NC and US COMPARISON

	<u>2023-2024</u>	<u>2024-2025</u>
US	1.2%	0.9%
NC	1.3%	1.6%

TRENDS IN UNEMPLOYMENT RATE

US

Recent Rise from 3.6% to 4.3%

NC

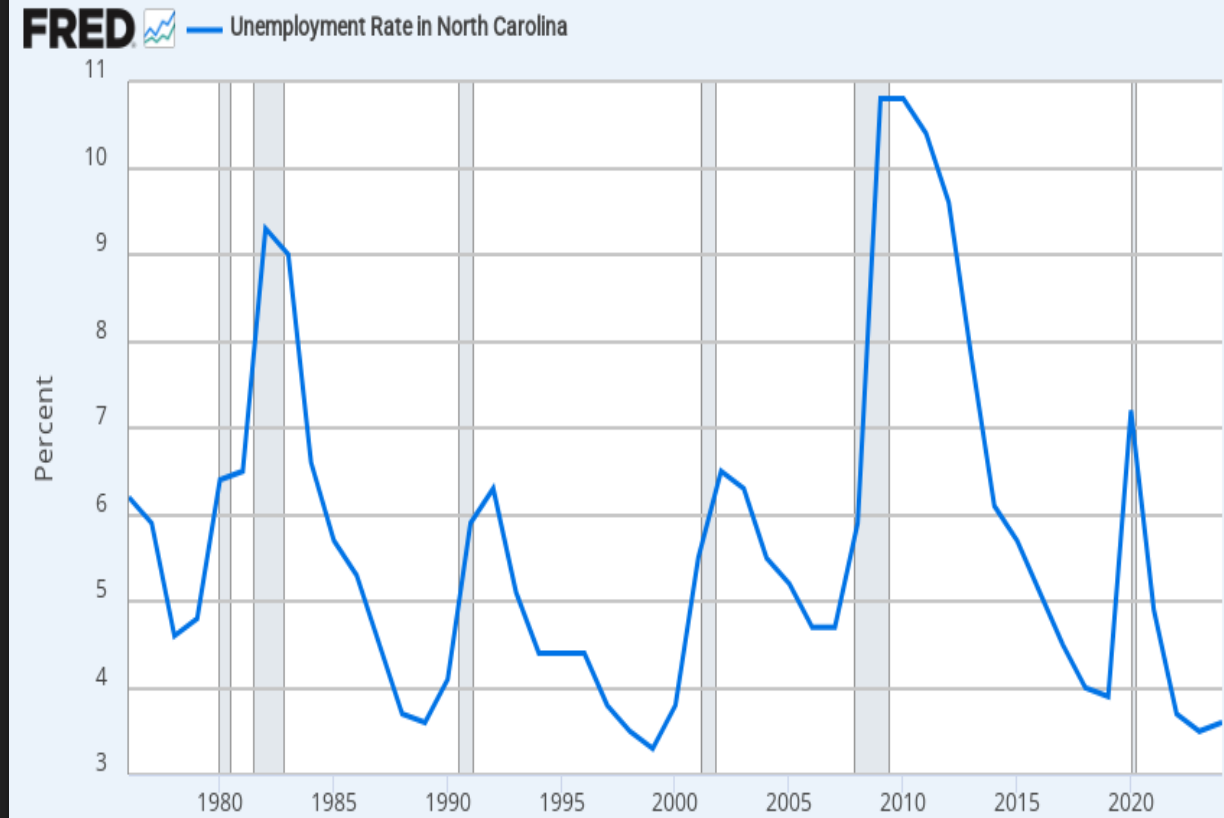
Recent Rise from 3.4% to 3.7%



Source: U.S. Bureau of Labor Statistics via FRED®

Shaded areas indicate U.S. recessions.

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Source: U.S. Bureau of Labor Statistics via FRED®

Shaded areas indicate U.S. recessions.

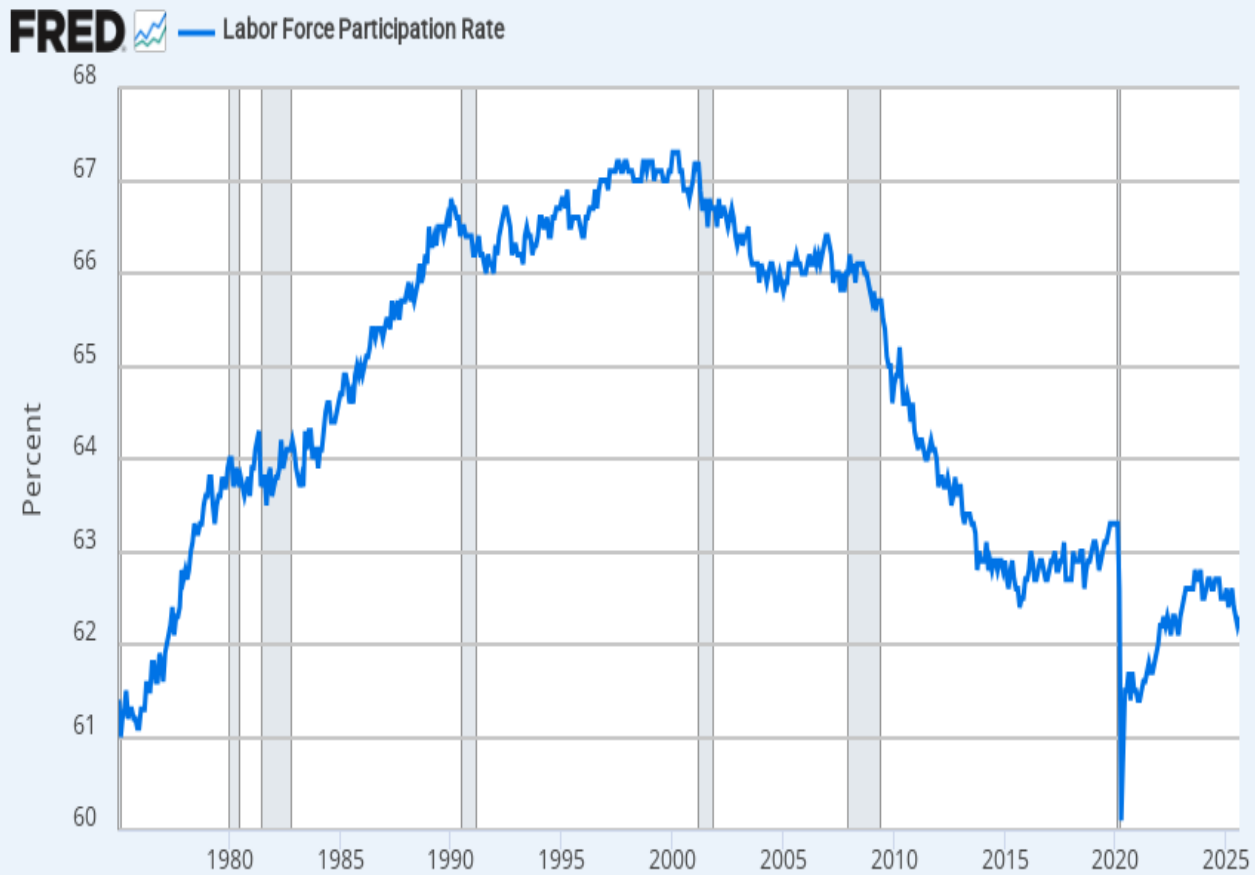
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LABOR FORCE PARTICIPATION RATE – US & NC BOTH DROPPING

(female workers drove rate up; retirees drove rate down)

US

NC



Source: U.S. Bureau of Labor Statistics via FRED®

Shaded areas indicate U.S. recessions.

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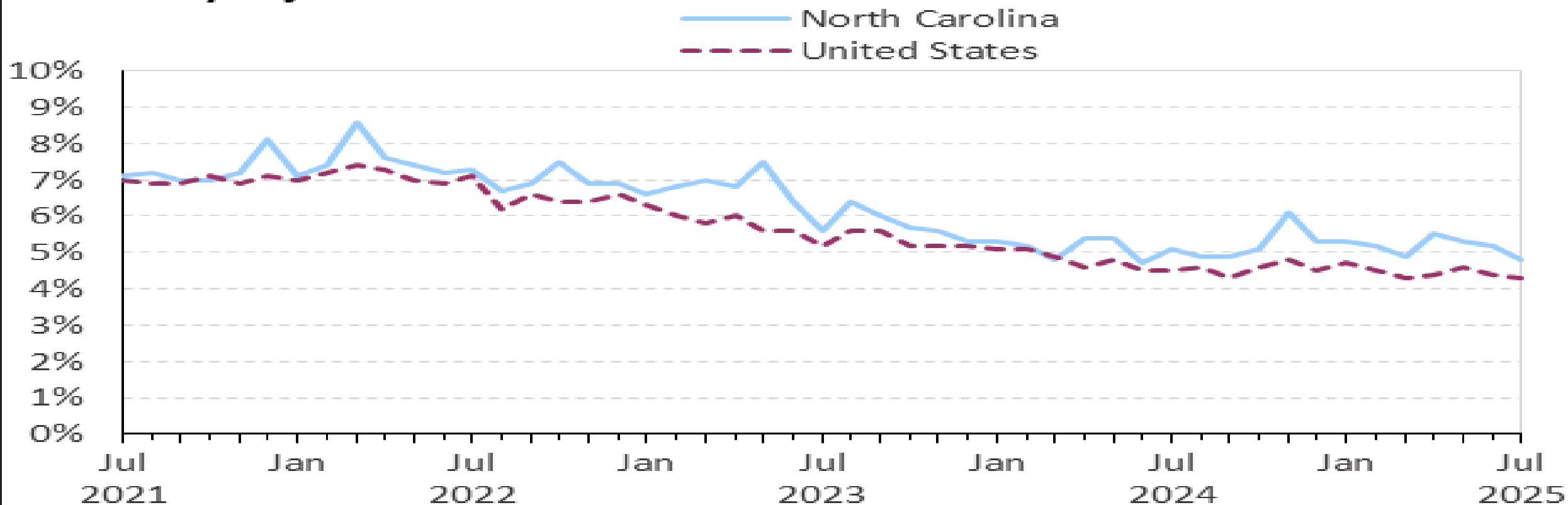
Source: U.S. Bureau of Labor Statistics via FRED®

Shaded areas indicate U.S. recessions.

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JOB OPENINGS ARE TRENDING DOWNWARD IN BOTH THE US AND NC

Chart 1. Job openings rates for the United States and North Carolina, seasonally adjusted



Source: U.S. Bureau of Labor Statistics.

US AND NC RETAIL SALES CONTINUE TO EXPAND, BUT WITH SOME BUMPS

US

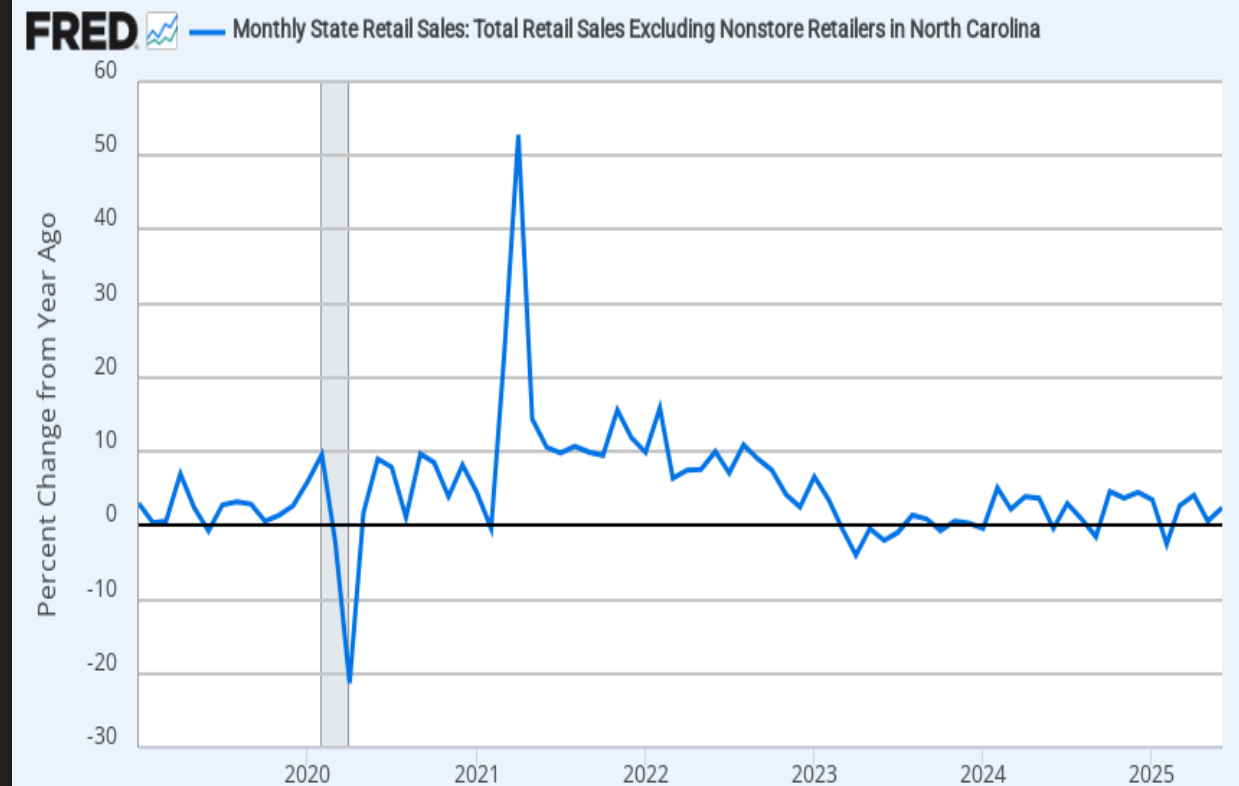
NC



Source: U.S. Census Bureau via FRED®

Shaded areas indicate U.S. recessions.

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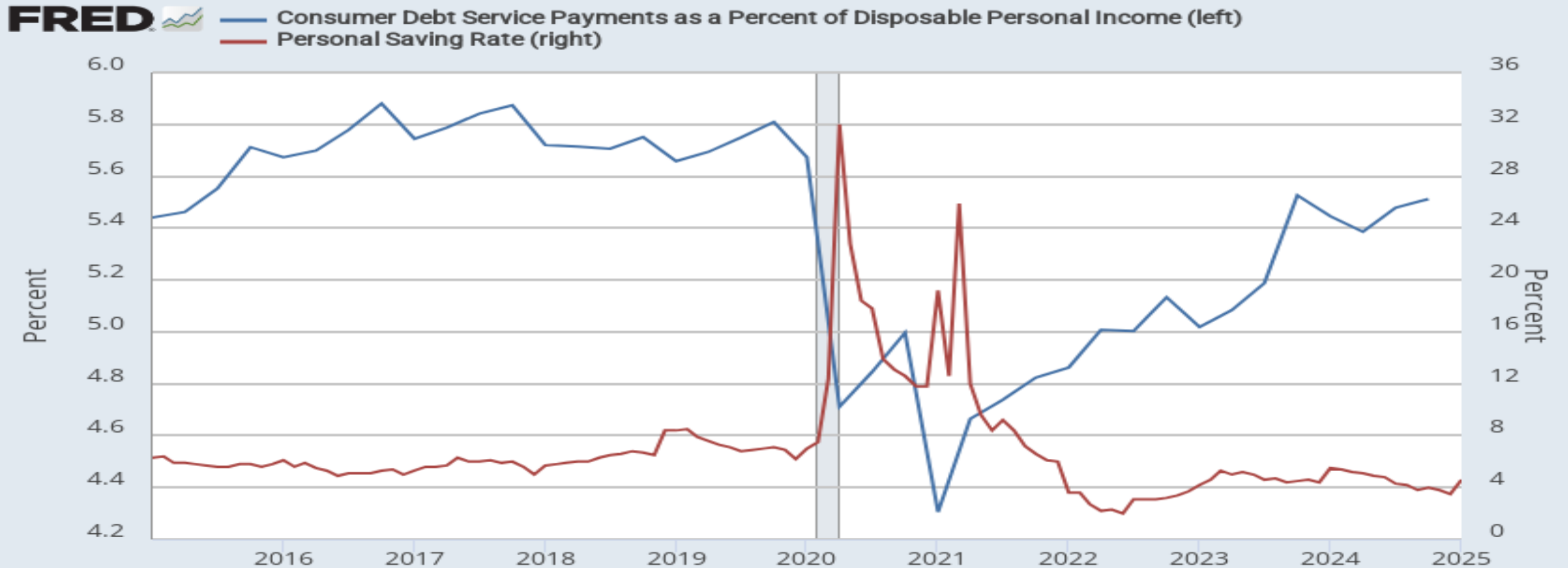


Source: U.S. Census Bureau via FRED®

Shaded areas indicate U.S. recessions.

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TWO WORRIES: HOUSEHOLDS ARE BORROWING MORE AND SAVING LESS (US DATA)



Sources: Board of Governors of the Federal Reserve System (US); U.S. Bureau of Economic Analysis via FRED®

Shaded areas indicate U.S. recessions.

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LOAN DELINQUENCIES HAVE RISEN, BUT NOT TO DANGEROUS LEVELS



Source: Board of Governors of the Federal Reserve System (US) via FRED®

Shaded areas indicate U.S. recessions.

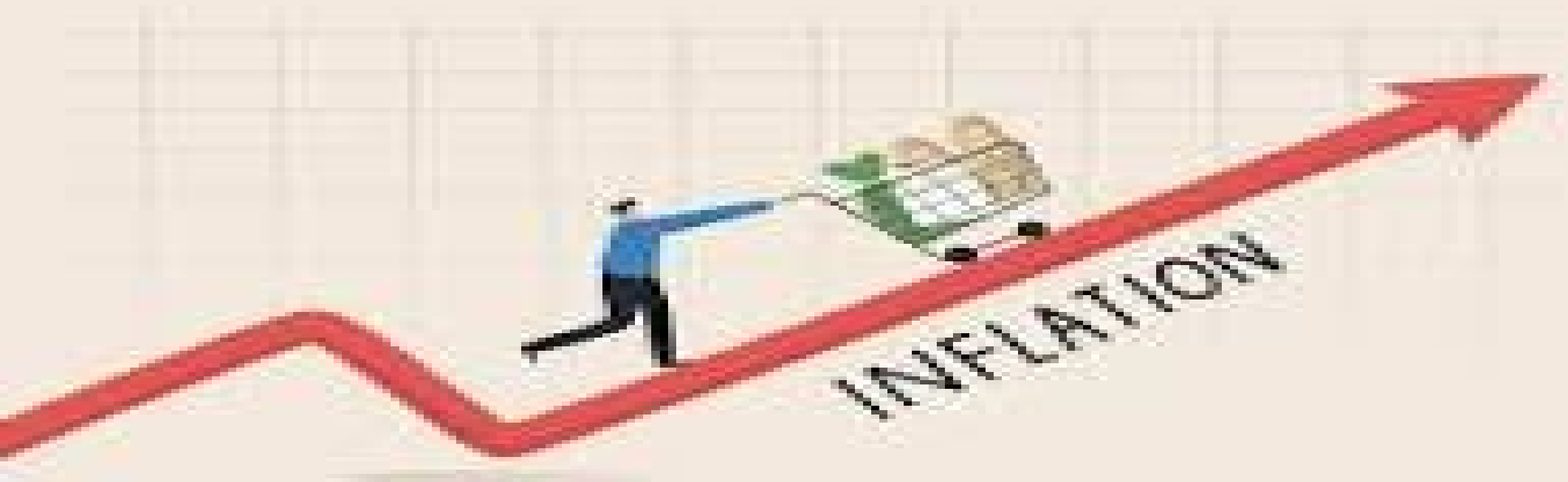
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CONCLUSION



ECONOMY IS STILL EXPANDING, BUT MORE SLOWLY
NORTH CAROLINA IS EXPANDING MORE THAN THE NATION
PRIVATE DEBT IS AN ISSUE
NO IMMEDIATE SIGN OF AN ECONOMIC DECLINE
BUT ECONOMISTS ARE WATCHING

INFLATION



LINGERING ISSUE IS INFLATION

ANNUAL CPI INFLATION RATE, 2020-2025

DOWN FROM 9.1% TO 2.7%, BUT RECENTLY UPWARD PRESSURE

12-month percentage change, Consumer Price Index, selected categories, not seasonally adjusted

- All items
- Food at home
- Energy
- Electricity
- All items less food and energy
- Apparel
- Medical care commodities
- Shelter
- Education and communication
- Food
- Food away from home
- Gasoline (all types)
- Natural gas (piped)
- Commodities less food and ener...
- New vehicles
- Services less energy services
- Medical care services



Source: U.S. Bureau of Labor Statistics.



CAUSE OF BIG INFLATION JUMP: TOO MUCH DEMAND AND TOO LITTLE SUPPLY

ON DEMAND SIDE: \$6 TRILLION OF STIMULUS

ON SUPPLY SIDE: SUPPLY CHAIN SHUTDOWNS
AND THE “GREAT RESIGNATION”

TODAY’S PROBLEM: TARIFFS



WILL PRICES FALL TO PRE-PANDEMIC LEVELS?

SOME WILL; MOST WON'T

"DEFLATION" HAPPENS IN BAD TIMES

FOR THE AVERAGE PRICE TO FALL, WAGES MUST FALL

SOLUTION IS FOR WORKER EARNINGS TO INCREASE
FASTER THAN PRICES

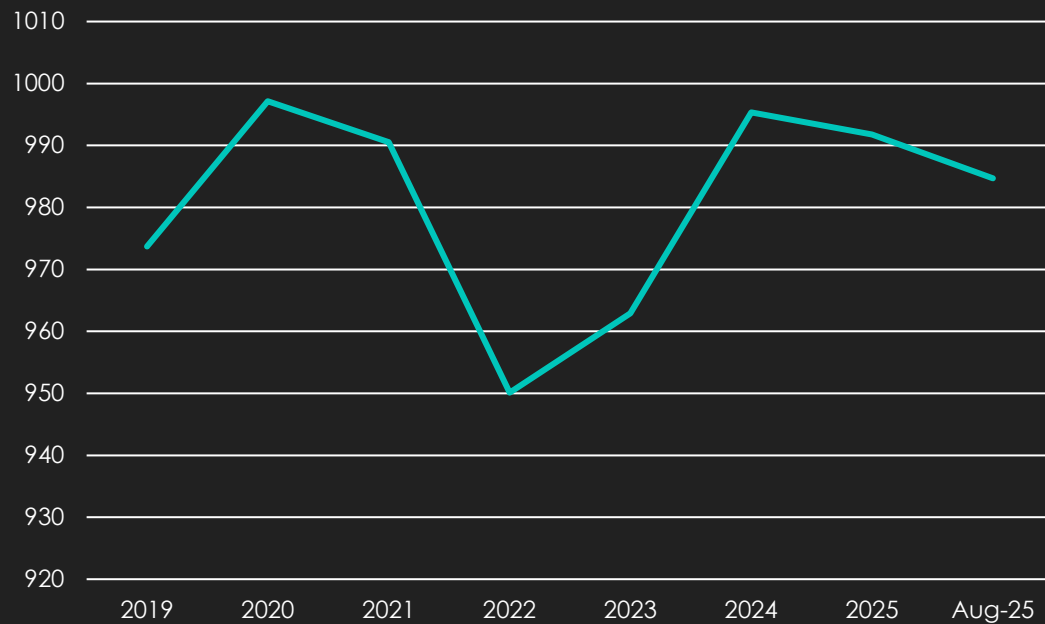


AVERAGE WEEKLY EARNINGS, INFLATION-ADJUSTED

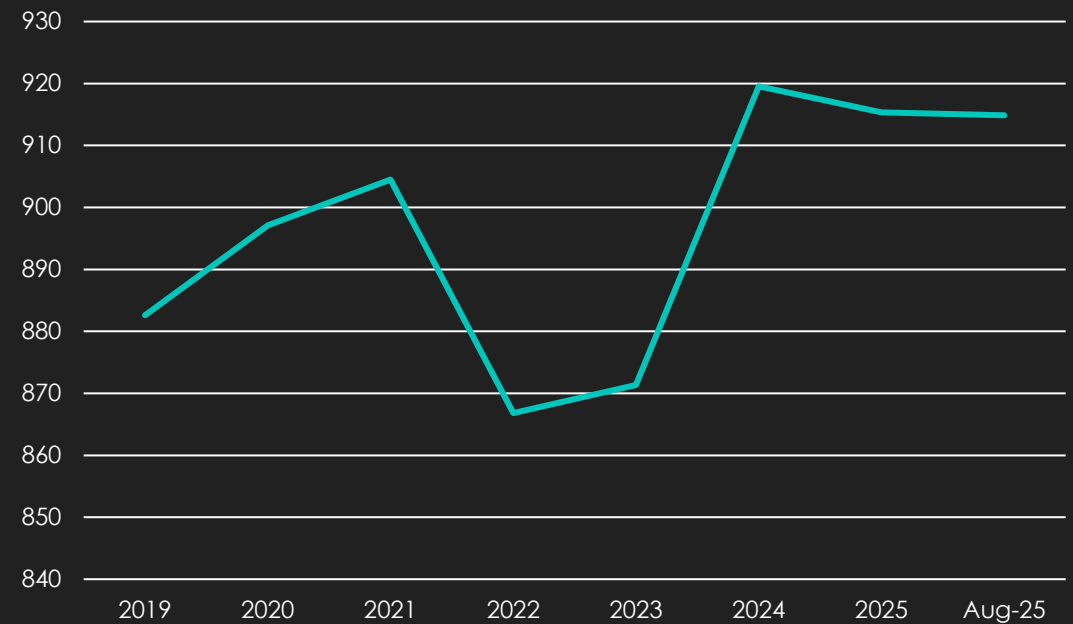
US

NC

US AVERAGE WEEKLY EARNINGS, 2019
PURCHASING POWER (\$)

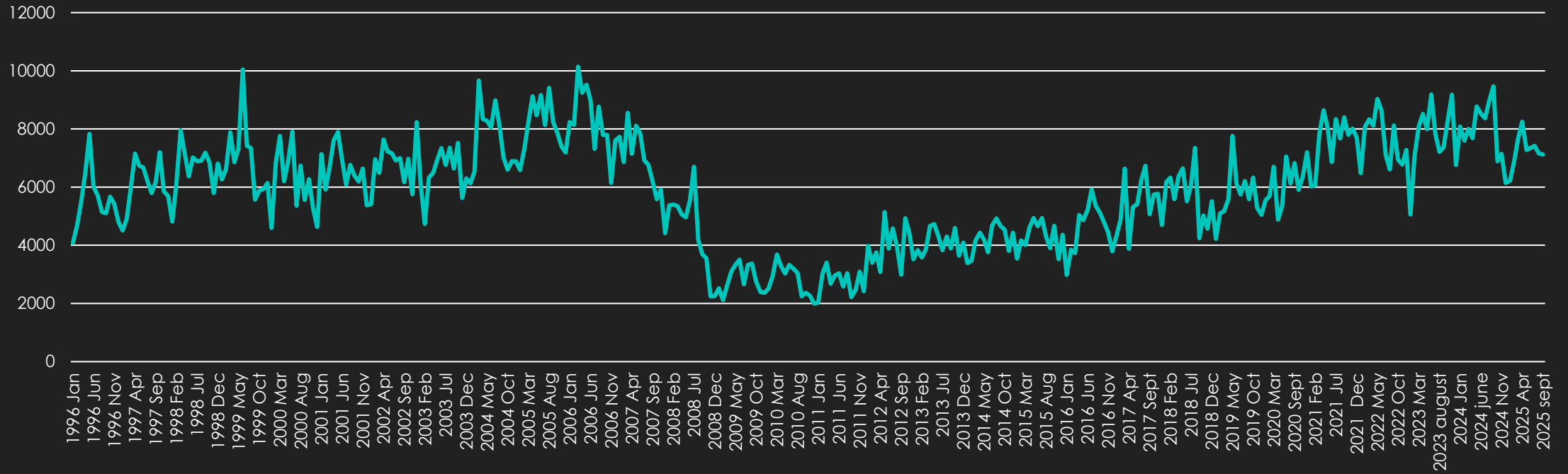


NC AVERAGE WEEKLY EARNINGS, 2019
PURCHASING POWER (\$)



NORTH CAROLINA MONTHLY BUILDING PERMITS

PERMITS



TRENDS IN MORTGAGE INTEREST RATES

FRED



— 30-Year Fixed Rate Mortgage Average in the United States



Source: Freddie Mac via FRED®

Shaded areas indicate U.S. recessions.

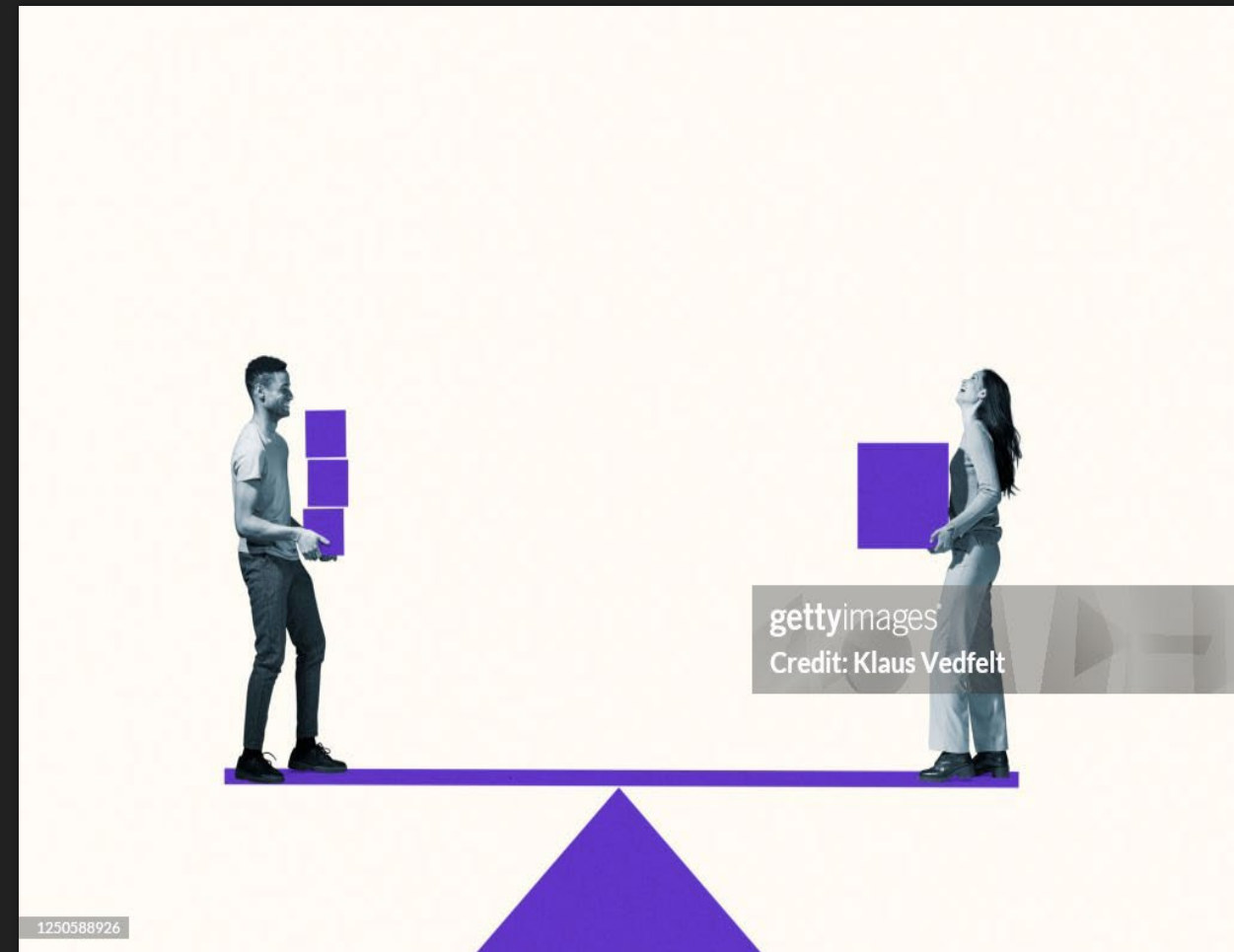
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FEDERAL RESERVE POLICY



THE BALANCING ACT OF THE FEDERAL RESERVE

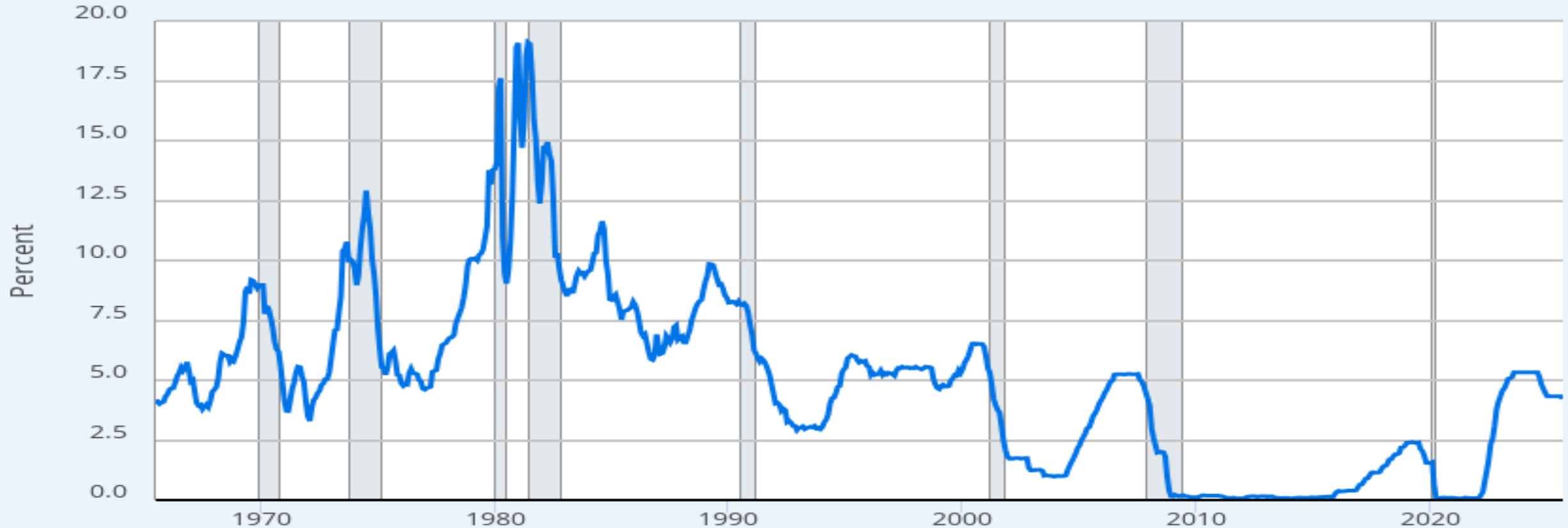
THE "FED" IS MANDATED TO KEEP
BOTH THE INFLATION RATE LOW
AND THE JOBLESS RATE LOW



THE FED'S RECENT INTEREST RATE POLICY

FRED

— Federal Funds Effective Rate

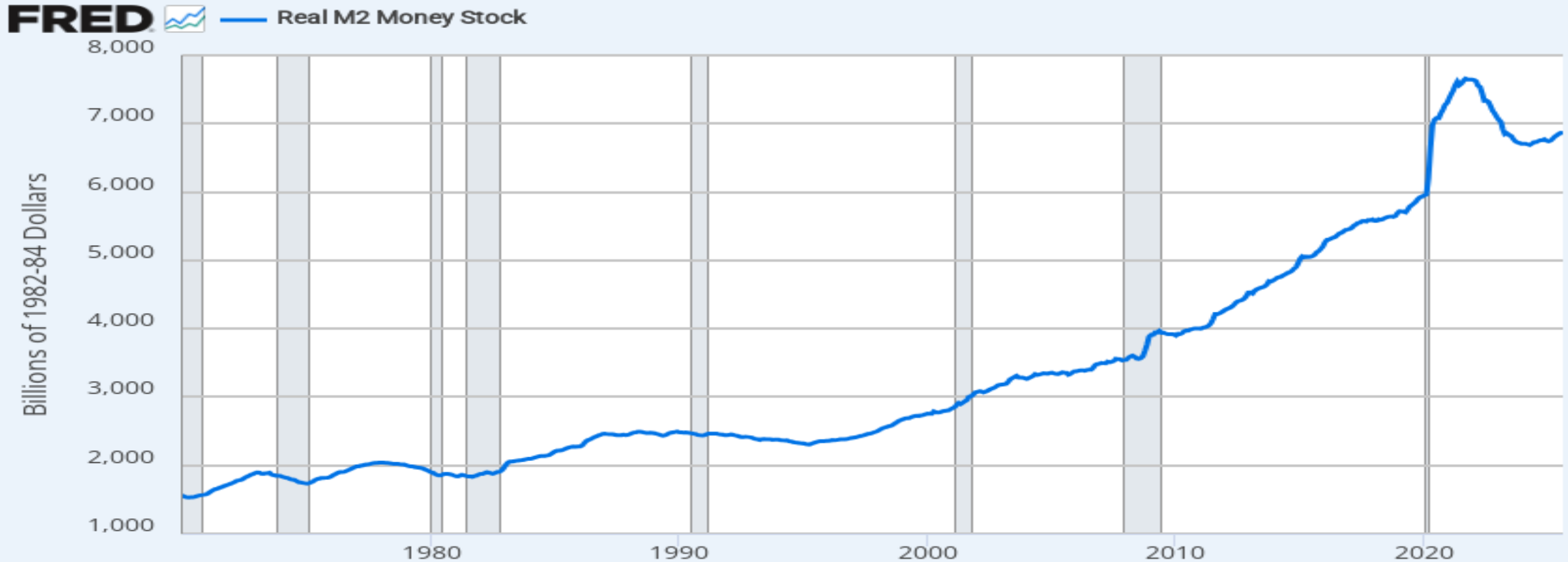


Source: Board of Governors of the Federal Reserve System (US) via FRED®

Shaded areas indicate U.S. recessions.

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THE FED'S RECENT MONEY SUPPLY POLICY



Source: Federal Reserve Bank of St. Louis via FRED®

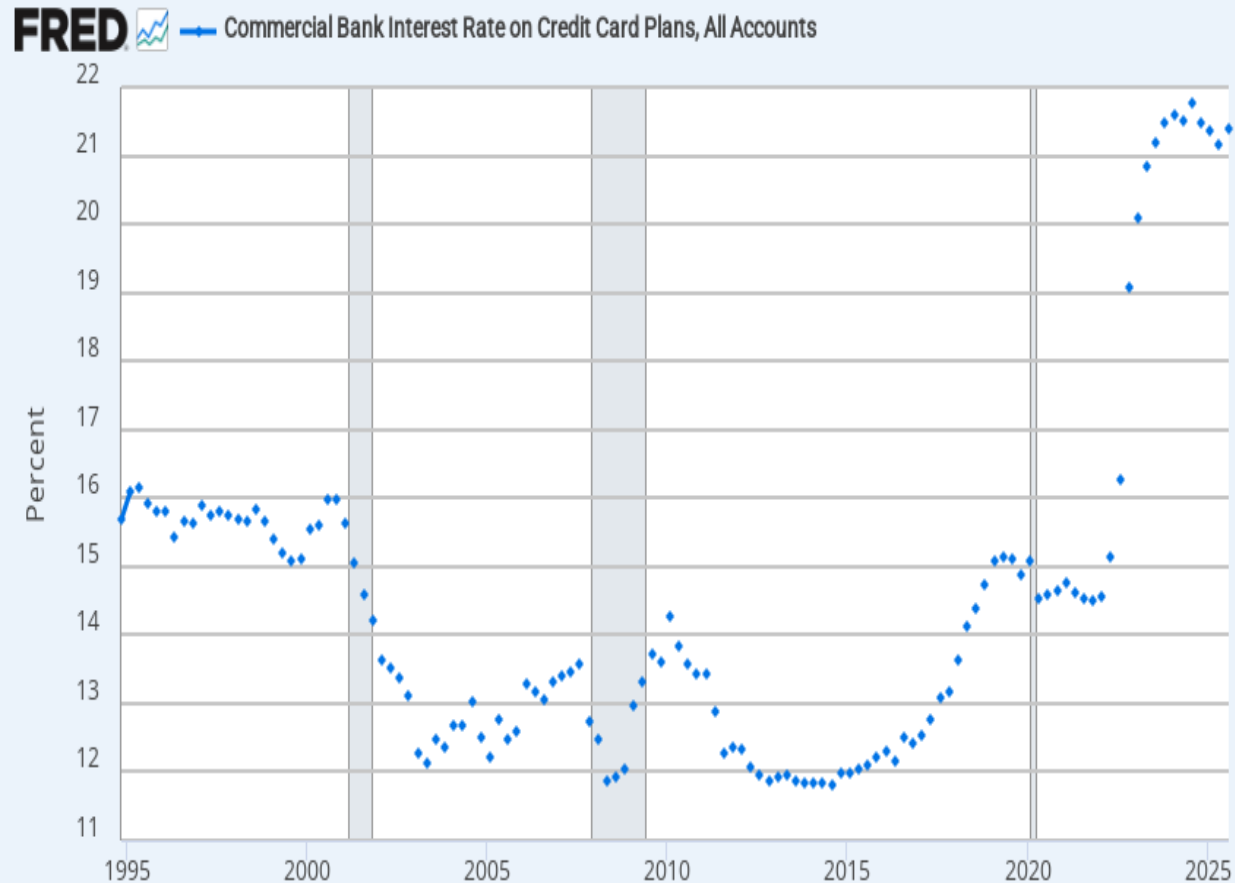
Shaded areas indicate U.S. recessions.

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KEY CONSUMER RATES' TRENDS

CREDIT CARD RATE

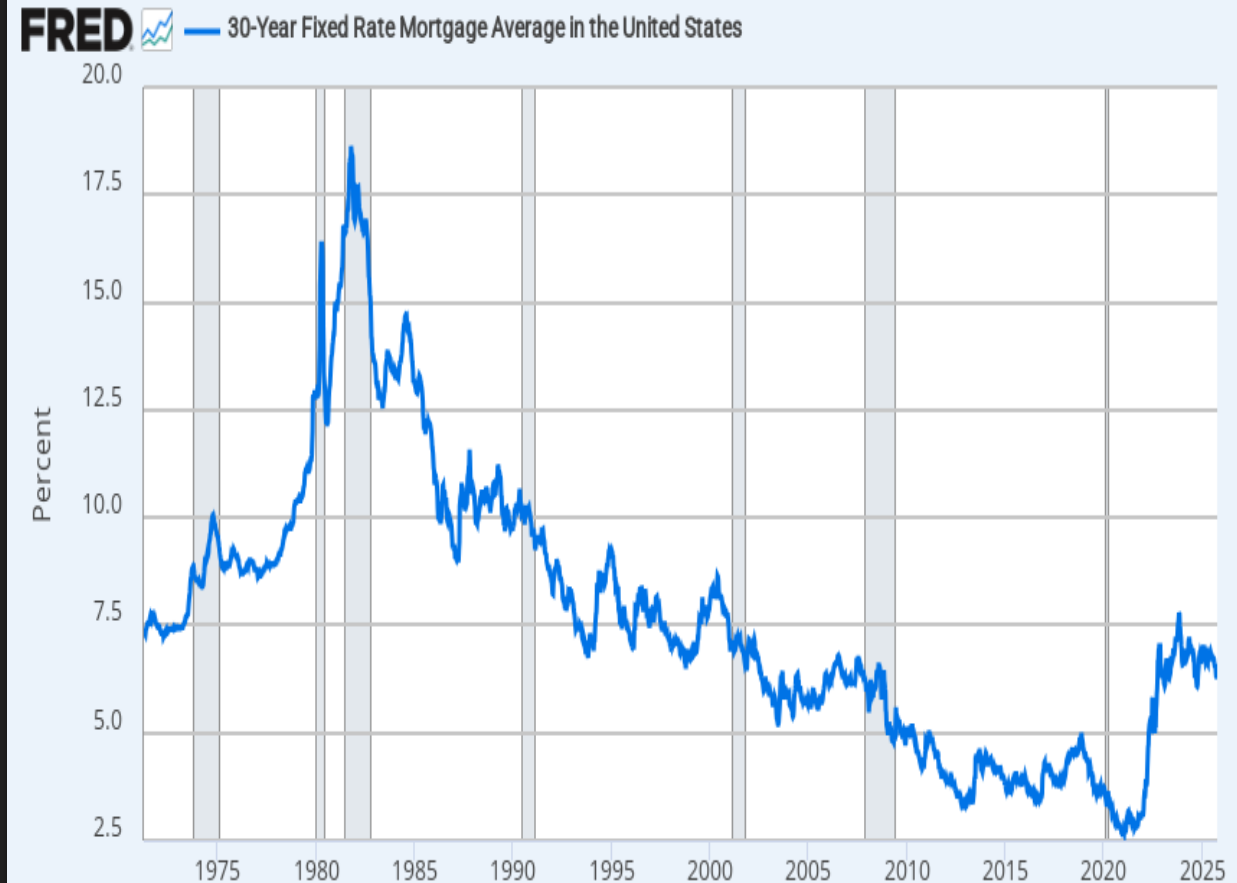
30-YEAR MORTGAGE RATE



Source: Board of Governors of the Federal Reserve System (US) via FRED®

Shaded areas indicate U.S. recessions.

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Source: Freddie Mac via FRED®

Shaded areas indicate U.S. recessions.

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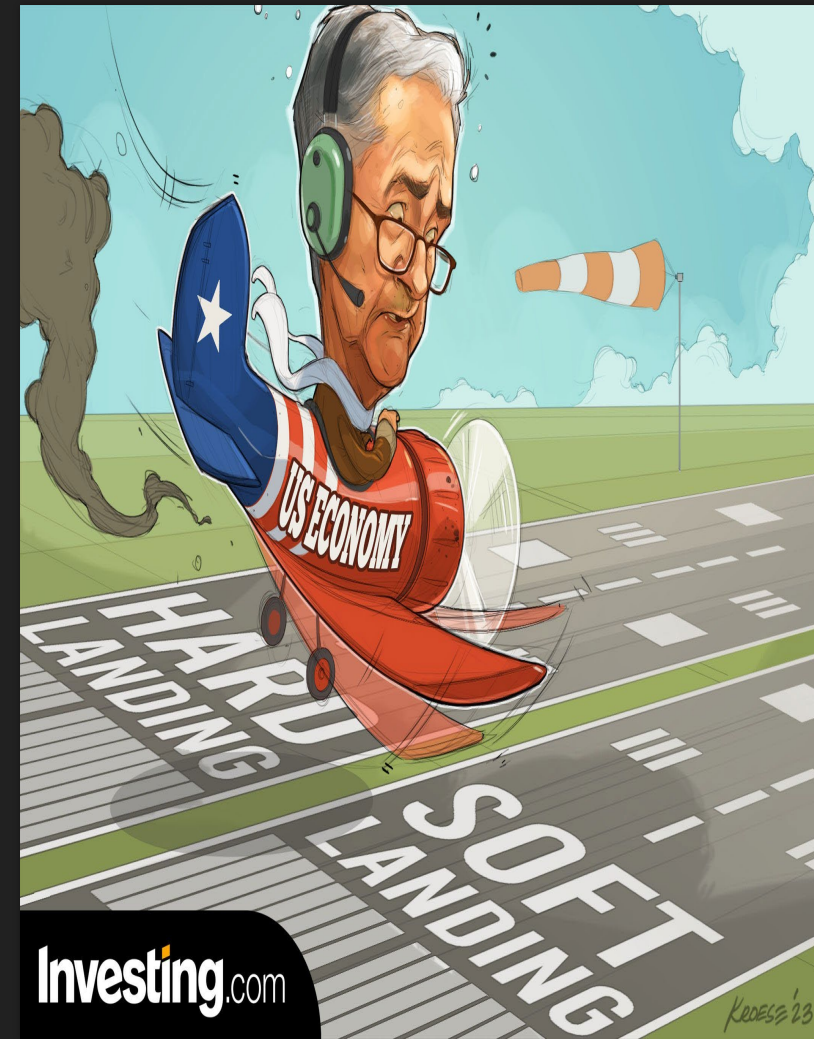
WHERE IS THE FED HEADED?

FED IS WORRIED ABOUT INFLATION AND JOBLESS RATE

UNCERTAINTY ABOUT POLICY, MAINLY TARIFFS

FED HAS HINTED THEY WANT MORE CUTS LATER IN THE YEAR

WORRY THAT IF CUT TOO FAST, SPENDING WILL JUMP AND INFLATION WILL RISE FASTER



IMPACTS OF FEDERAL FISCAL POLICIES



THE “BIG, BEAUTIFUL BILL”

BEHIND THE IMPORTANT DEBATES ABOUT TAX CUTS AND CHANGES TO SOCIAL PROGRAMS, THE BIG QUESTION IS HOW THE BILL WILL IMPACT **BUSINESS INVESTMENT AND GROWTH**



TARIFFS

1. WHAT ARE TARIFFS, AND WHO PAYS THEM?
2. WHAT IS ADMINISTRATION TRYING TO ACHIEVE?
3. WILL NEW TRADE “DEALS” BE ACHIEVED?
4. IF DEALS OCCUR, WILL POLICY BE A SUCCESS?

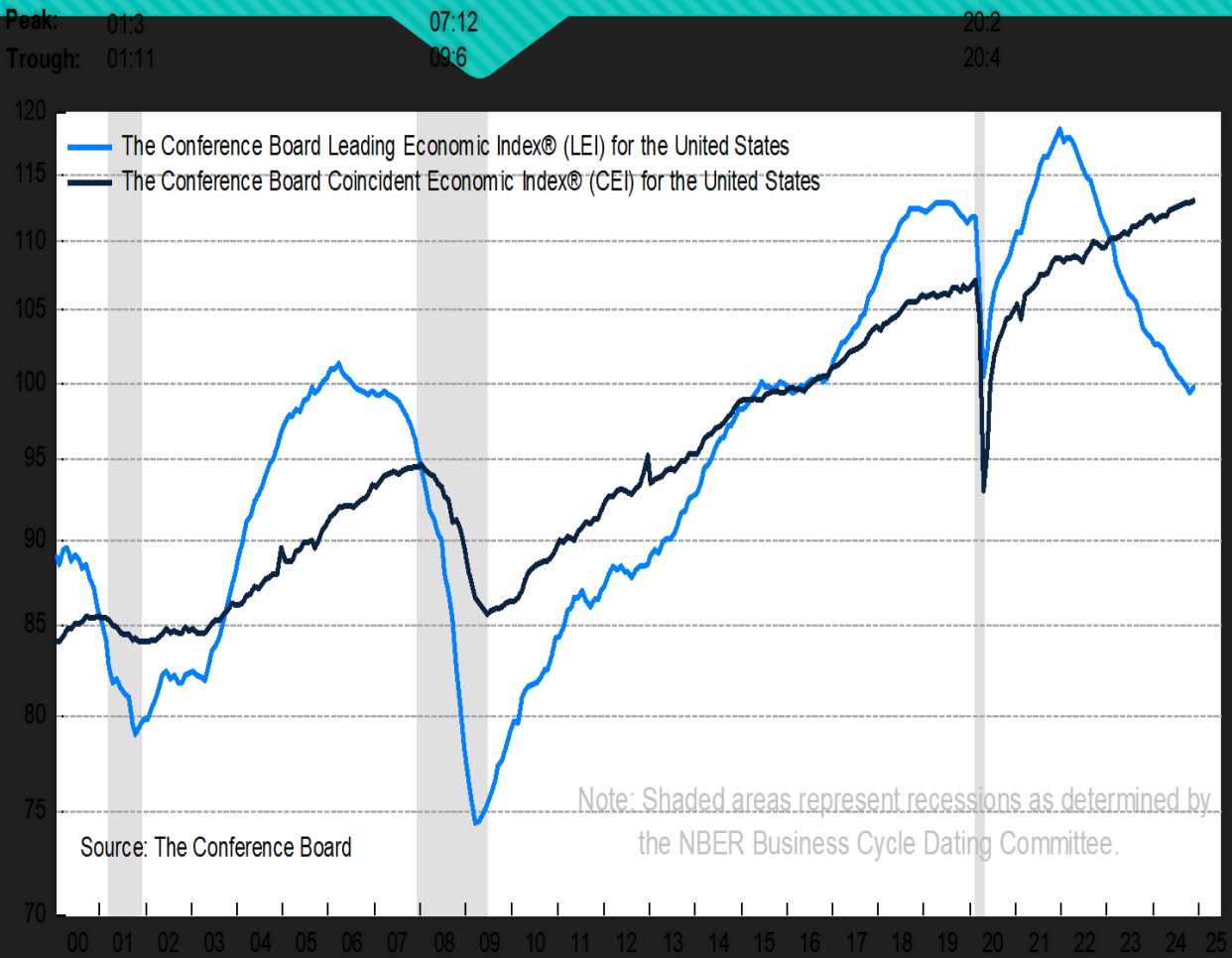


FORECASTS

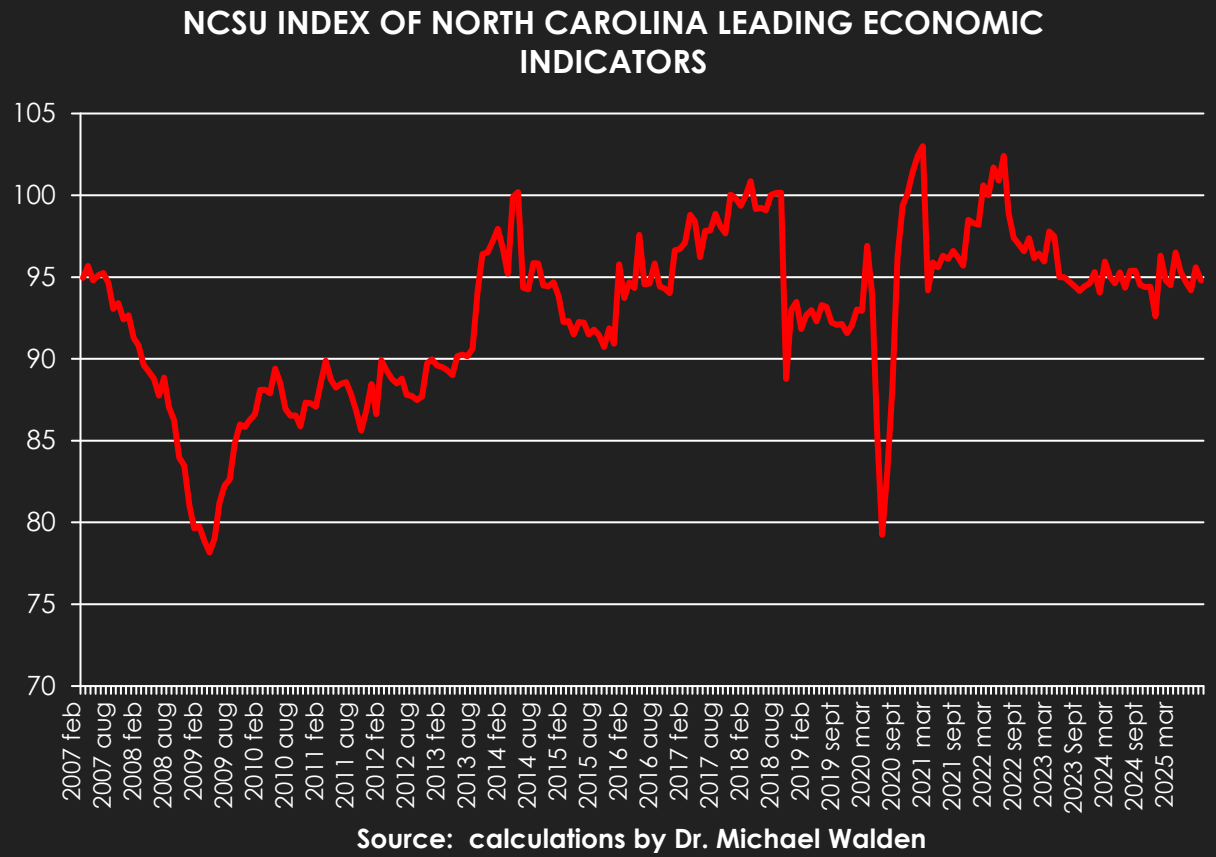


LEADING ECONOMIC INDICES POINT TO SLOWER GROWTH

NATIONAL



NORTH CAROLINA



SPECIFIC FORECASTS

FED WILL MODESTLY LOWER THEIR KEY RATE IN SECOND HALF OF 2025

ECONOMY WILL GROW IN THE 1% TO 2% ANNUAL RANGE

JOBLESS RATE WILL STAY IN THE 4.0% TO 4.5% RANGE

ANNUAL INFLATION RATE WILL APPROACH 3% RANGE

"WILD CARD" IS THE FEDERAL GOVERNMENT SHUTDOWN, WHICH COULD REDUCE THE ANNUAL GDP GROWTH RATE BY BETWEEN 0.1 AND 0.2 PERCENTAGE POINTS FOR EVERY WEEK SHUTDOWN CONTINUES

EXAMPLE: IF SHUTDOWN CONTIUES FOR A YEAR (52 WEEKS), IT WOULD REDUCE THE ANNUAL GRWOTH RATE BY BETWEEN 5.2% AND 10.4%, ENOUGH TO CAUSE A RECESS ION WITH A CURRENT 4% GROWTH RATE



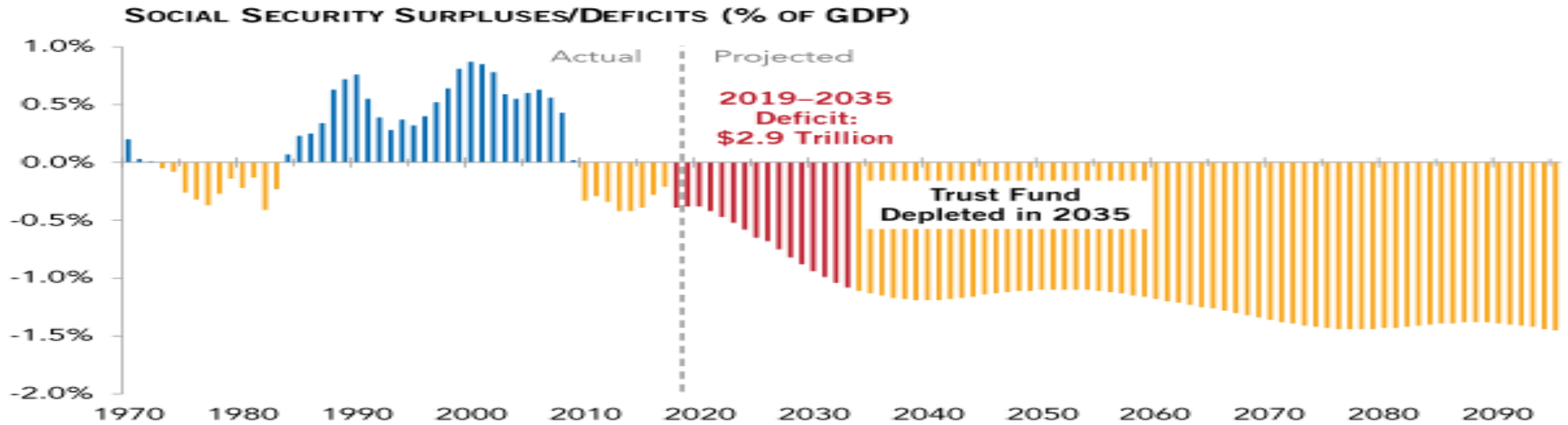
BIG ISSUES



BIG ISSUE – SOCIAL SECURITY



Social Security will run a cumulative cash deficit of \$2.9 trillion between now and 2035



SOURCE: Social Security Administration, *The 2019 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds*, April 2019. Compiled by PGPF.

NOTE: Surplus/deficit numbers exclude interest income. The total deficit of \$2.9 trillion is the present value of the cash deficits between 2019 and 2035. The Old-Age & Survivors Insurance trust fund is projected to be depleted in 2034 and lead to a 23 percent cut in benefits that year; the Disability Insurance trust fund is projected to be depleted in 2052 at which time benefits would be reduced by nine percent.

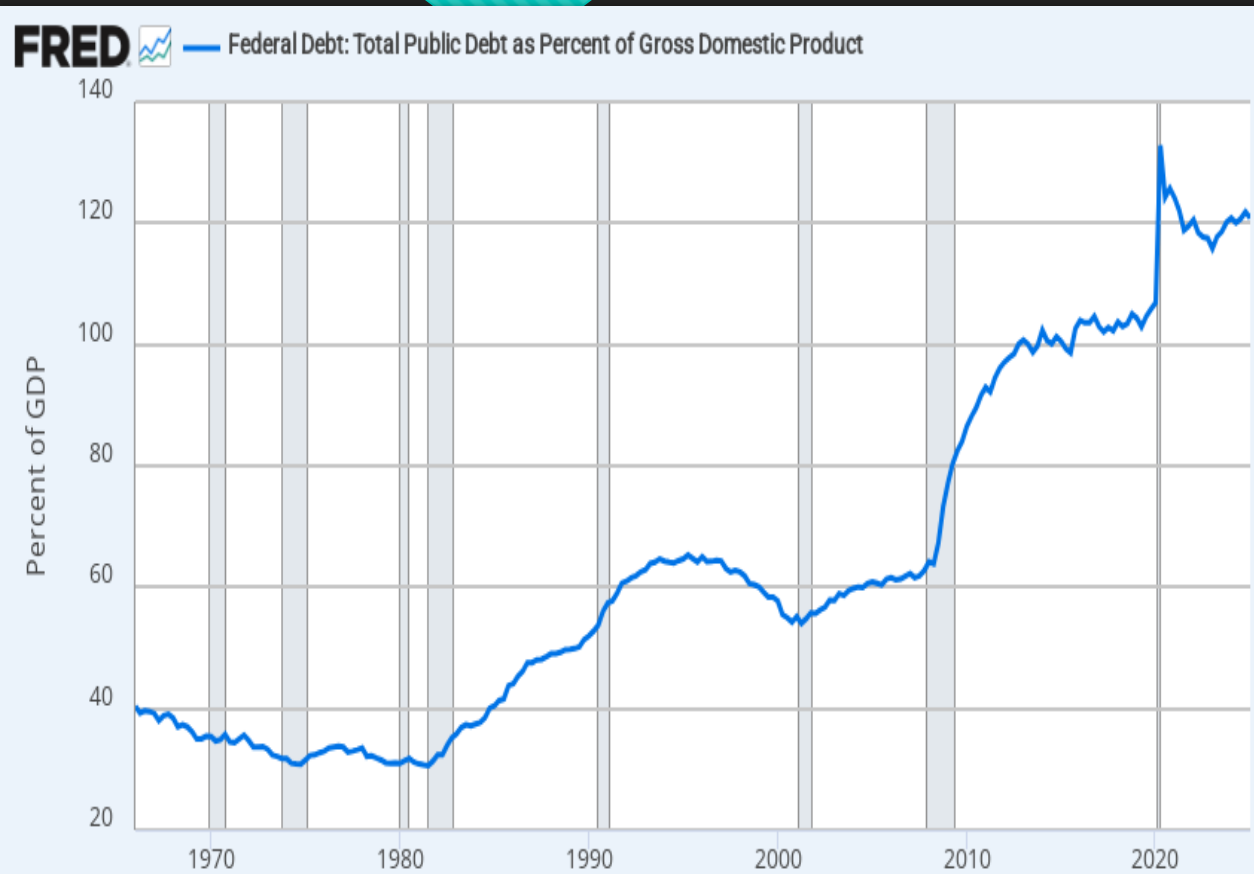
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BIG ISSUE – NATIONAL DEBT

TOTAL DEBT AS % OF GDP

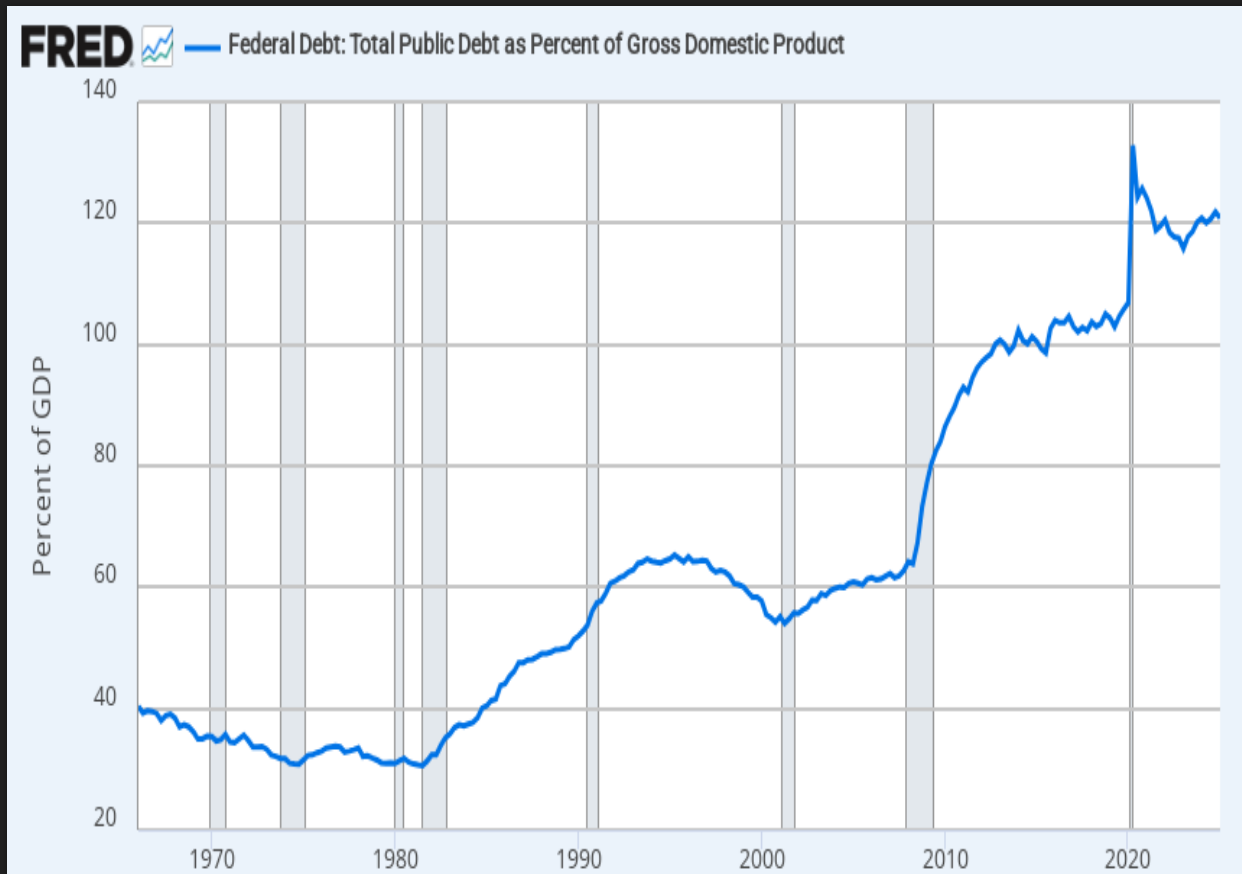
INTEREST PAYMENTS AS % OF GDP



Sources: Federal Reserve Bank of St. Louis; U.S. Office of Management and Budget via FRED®

Shaded areas indicate U.S. recessions.

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Sources: Federal Reserve Bank of St. Louis; U.S. Office of Management and Budget via FRED®

Shaded areas indicate U.S. recessions.

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CONSEQUENCES OF HIGHER DEBT

DOWNGRADING OF US DEBT

HIGHER INTEREST RATES

LOWER INTERNATIONAL VALUE OF DOLLAR



IDEAS FOR CONTAINING THE NATIONAL DEBT

HIGHER TAXES TRIGGERED BY INCREASE IN DEBT LEVEL
LIMITS ON DEBT TO GDP AND DEBT INTEREST TO GDP RATIOS

DIVIDING BUDGET INTO OPERATING BUDGET AND
CAPITAL BUDGET – BORROWING ONLY ALLOWED FOR
CAPITAL BUDGET

BALANCED BUDGET AMENDMENT



BIG ISSUE: AI AND LABOR MARKET CHANGE

DISPLACEMENT OF COGNITIVE WORK
JOBS DELETED AND CREATED
NEEDED RE-TRAINING FOR MILLIONS
OVERAL OF HIGHER EDUCATION
POTENTIALLY 500,000 JOBS CUT IN NC

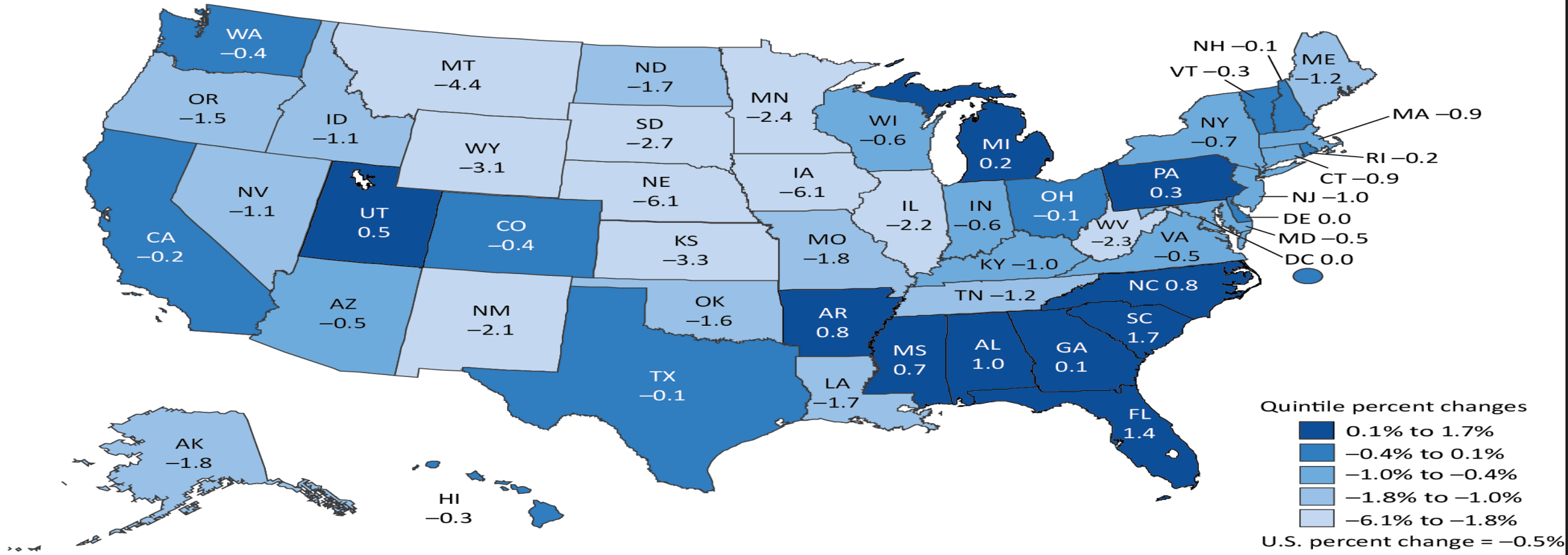


NC IS A LEADING STATE IN ECONOMIC DEVELOPMENT



NC HAS ONE OF FASTEST GROWING ECONOMIES IN THE US

Real GDP: Percent Change at Annual Rate, 2024:Q4–2025:Q1



OTHER BENEFITS OF NORTH CAROLINA

RELATIVELY LOW TAXES

RELATIVELY LOW REGULATIONS

INCREASING INTERNATIONAL FLIGHTS

PRICE-COMPETITIVE HIGHER EDUCATION

ATTRACTIVE CLIMATE

STATE GOVERNMENT WORKS TOGETHER IN ECONOMIC
DEVELOPMENT



STATES' RANKINGS ON NET IN-MIGRATION, 2025

SC: #1
NC #2
IDAHO #3



WALDEN'S RECENT BOOKS – SOMETHING FOR EVERYONE! NEW BOOK COMING FROM UNC PRESS: "NORTH CAROLINA IN THE ANXIOUS AGE"

