

NC Economy Watch

September 2024

Andrew Berger-Gross

Senior Economist

Jonathan Guarine

Economist

NC Department of Commerce

Labor & Economic Analysis Division (LEAD)

September 17, 2024

The “Two-Track Economy”

The economy is still growing, despite recession warnings over the past two years

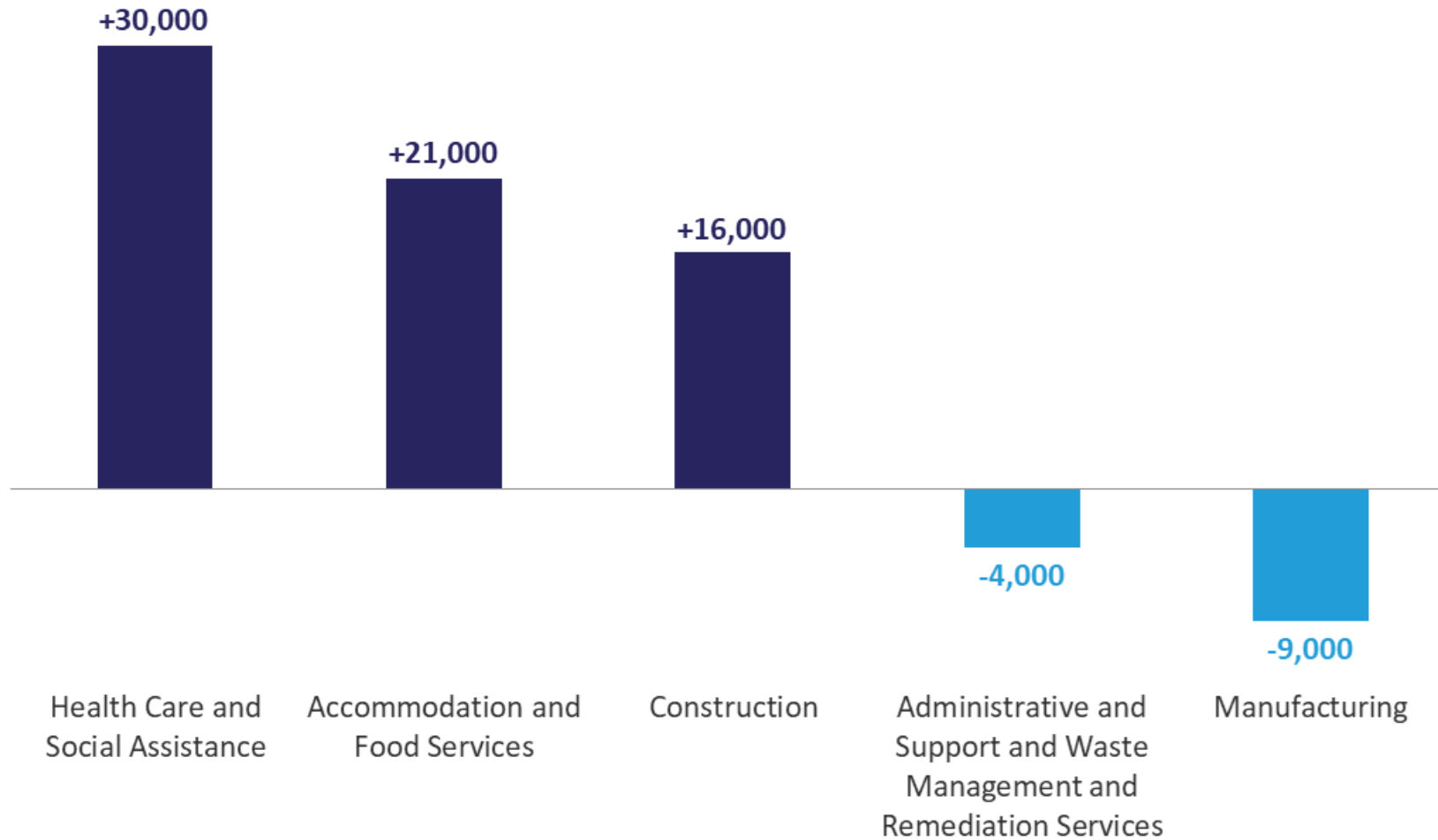
But even when the economy is growing, some households and businesses tend to do better than others

Right now, the economy is operating on “**two tracks**”:

- Bad for **jobseekers** (hiring freezes), good for **incumbent workers** (very few layoffs)
- Bad for **manufacturing**, good for **other sectors** (healthcare, leisure/hospitality, construction)
- Bad for **borrowers**, good for **savers**
- Bad for **credit card** borrowers, good for **homeowners**, especially those who locked in low mortgage rates pre-2022

Some Sectors Are Adding Jobs, While Other Sectors Are Losing Jobs

Over-the-year employment growth in North Carolina (2023q4 vs. 2022q4) by selected sector



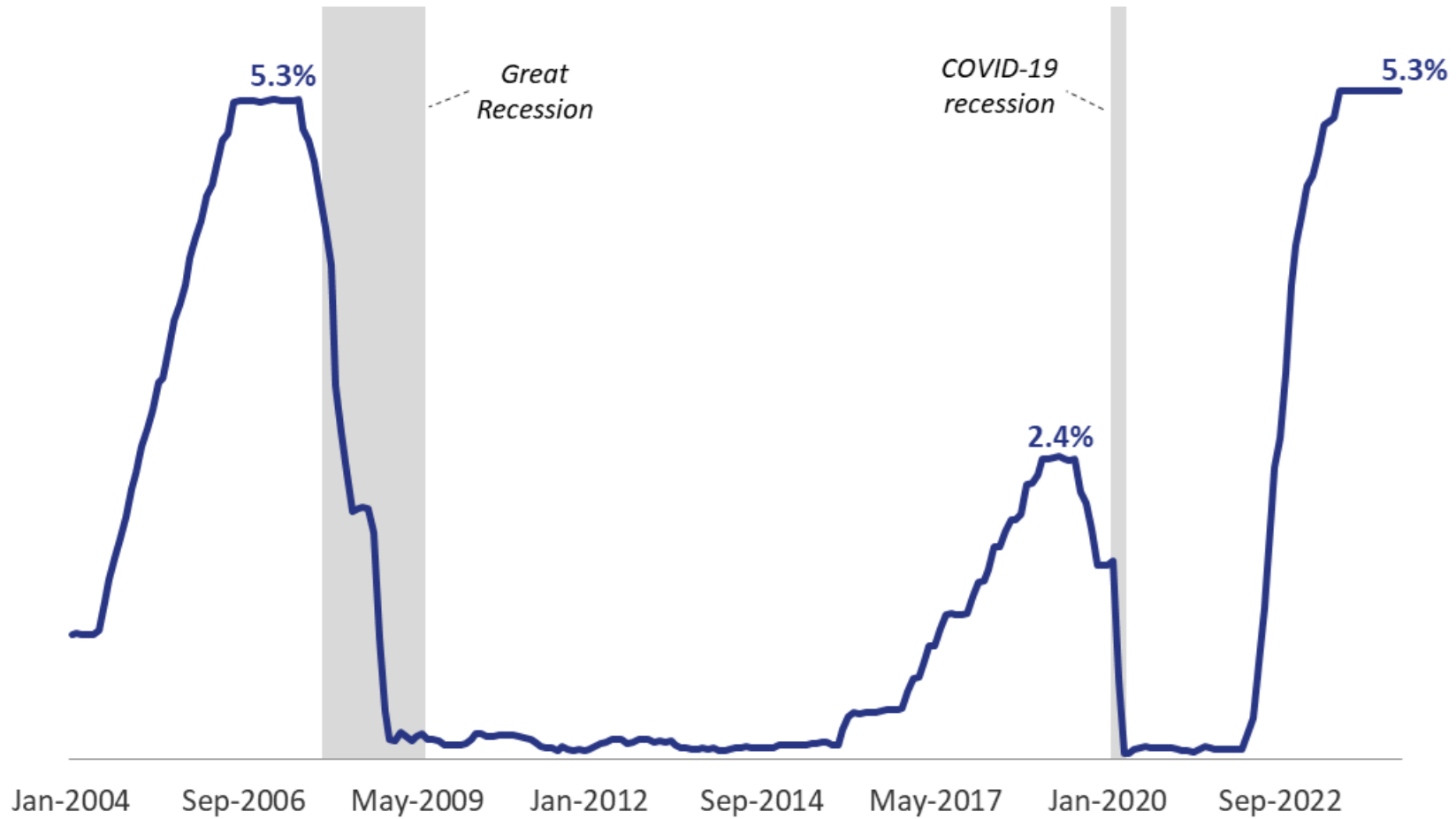
NC Department of Commerce, Labor & Economic Analysis Division (LEAD)

Source: LEAD / US Bureau of Labor Statistics (Quarterly Census of Employment and Wages)

Note: employment figures are rounded to the nearest 1,000

Highest Interest Rate Since 2007: Good for Savers, Bad for Borrowers

Average federal funds effective rate (Jan 2004 - Jul 2024)

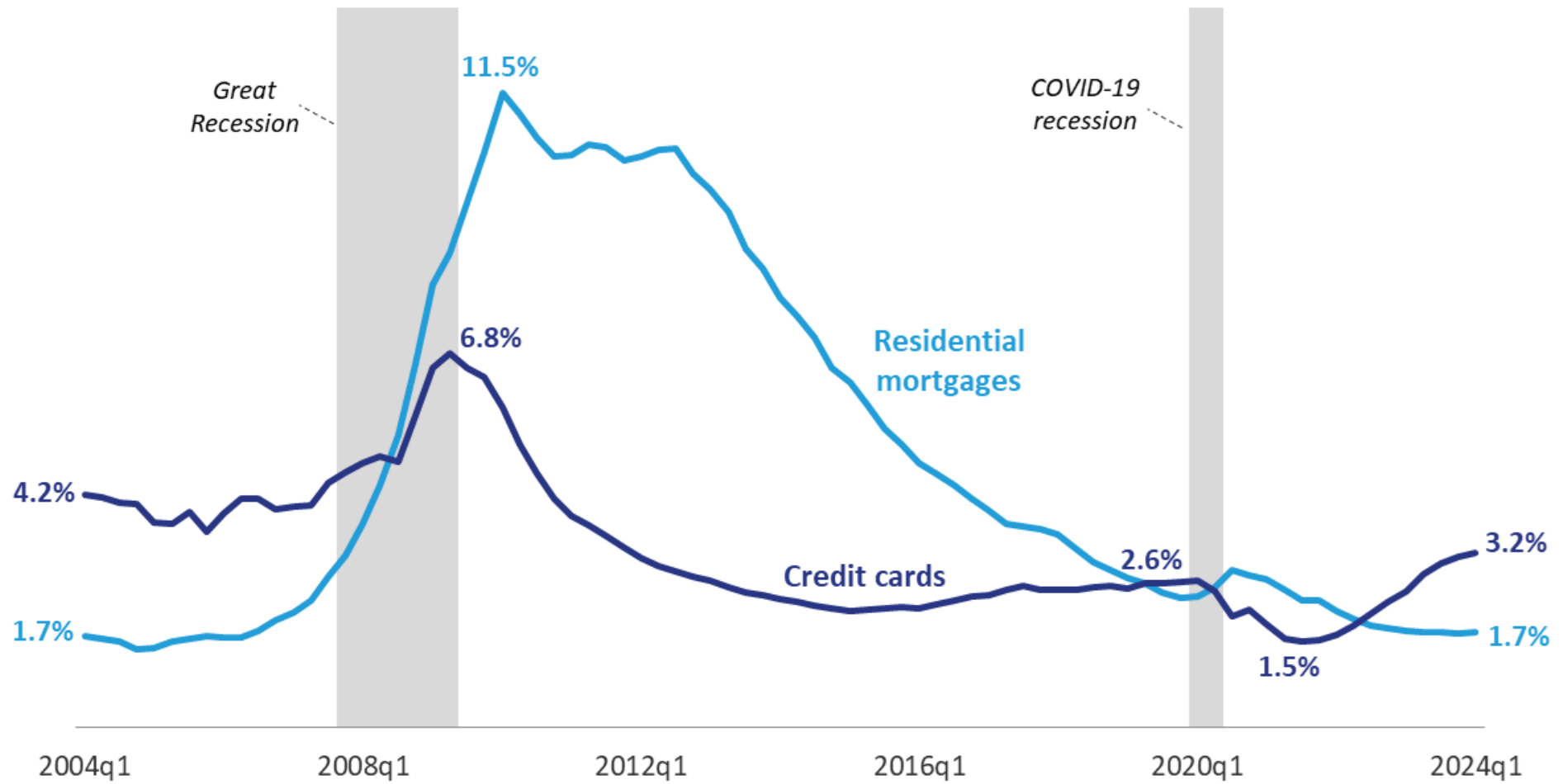


NC Department of Commerce, Labor & Economic Analysis Division (LEAD)

Source: Federal Reserve

Homeowners Are in Good Shape, But Credit Card Borrowers Are Under Pressure

Delinquency rate on loans (2004q1 - 2024q1)



NC Department of Commerce, Labor & Economic Analysis Division (LEAD)

Source: Federal Reserve

The housing market is still red-hot

That's a good thing...and a bad thing

Interest rate increases make mortgages more expensive, which often leads to **downturns** in the housing market and **recessions** in the broader economy

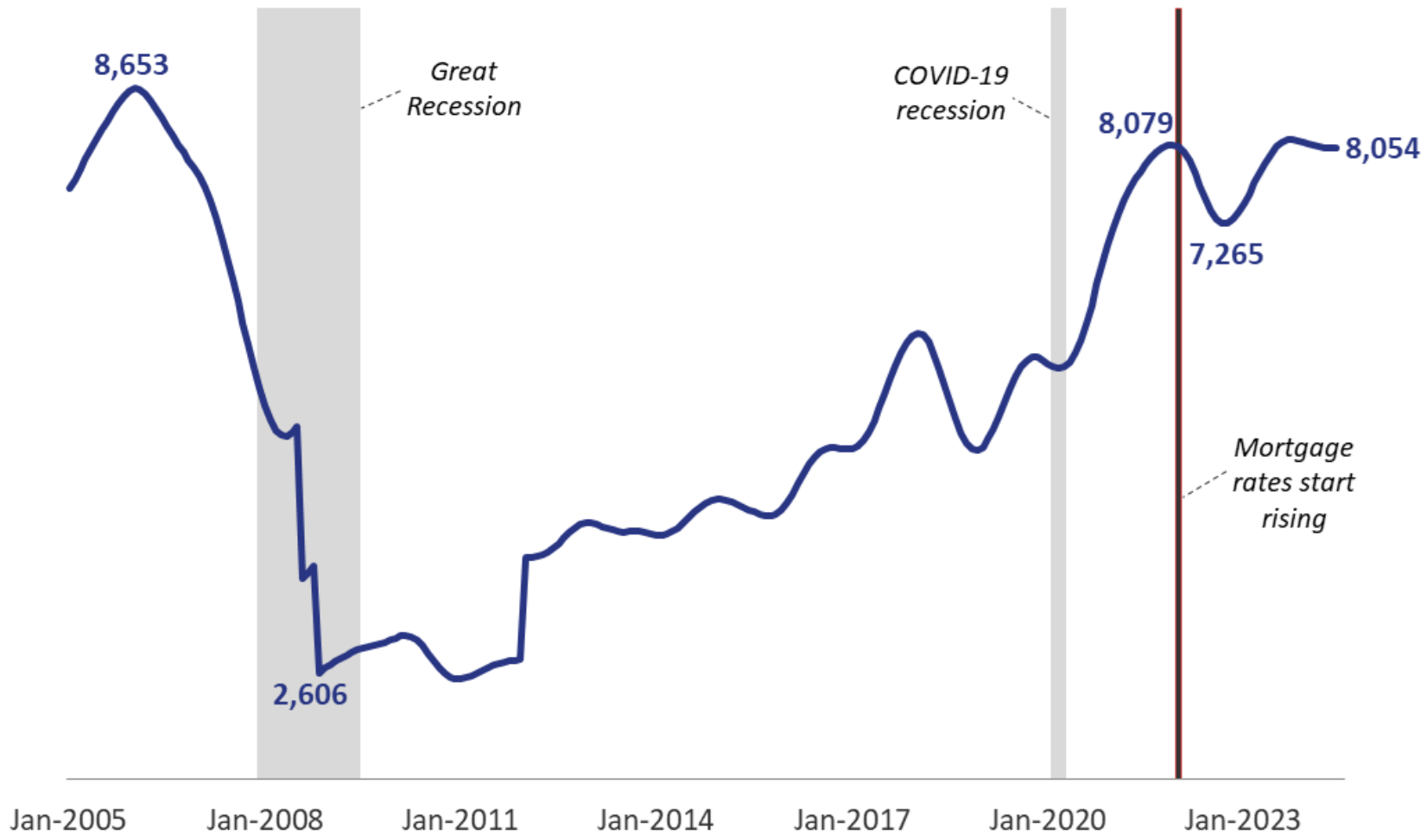
This time, rising home values, strong household balance sheets, and intervention from the federal government have helped us avoid the worst-case scenario

But high interest rates and expensive homes have also created an **affordability crisis**

- Another example of the “**two-track economy**”: rising home values make existing homeowners wealthier but also prevent many individuals from being able to afford a new home

Homebuilding Stalled Following Rate Hike, But Didn't Collapse

Residential building permits in North Carolina (Jan 2005 - Jun 2024)



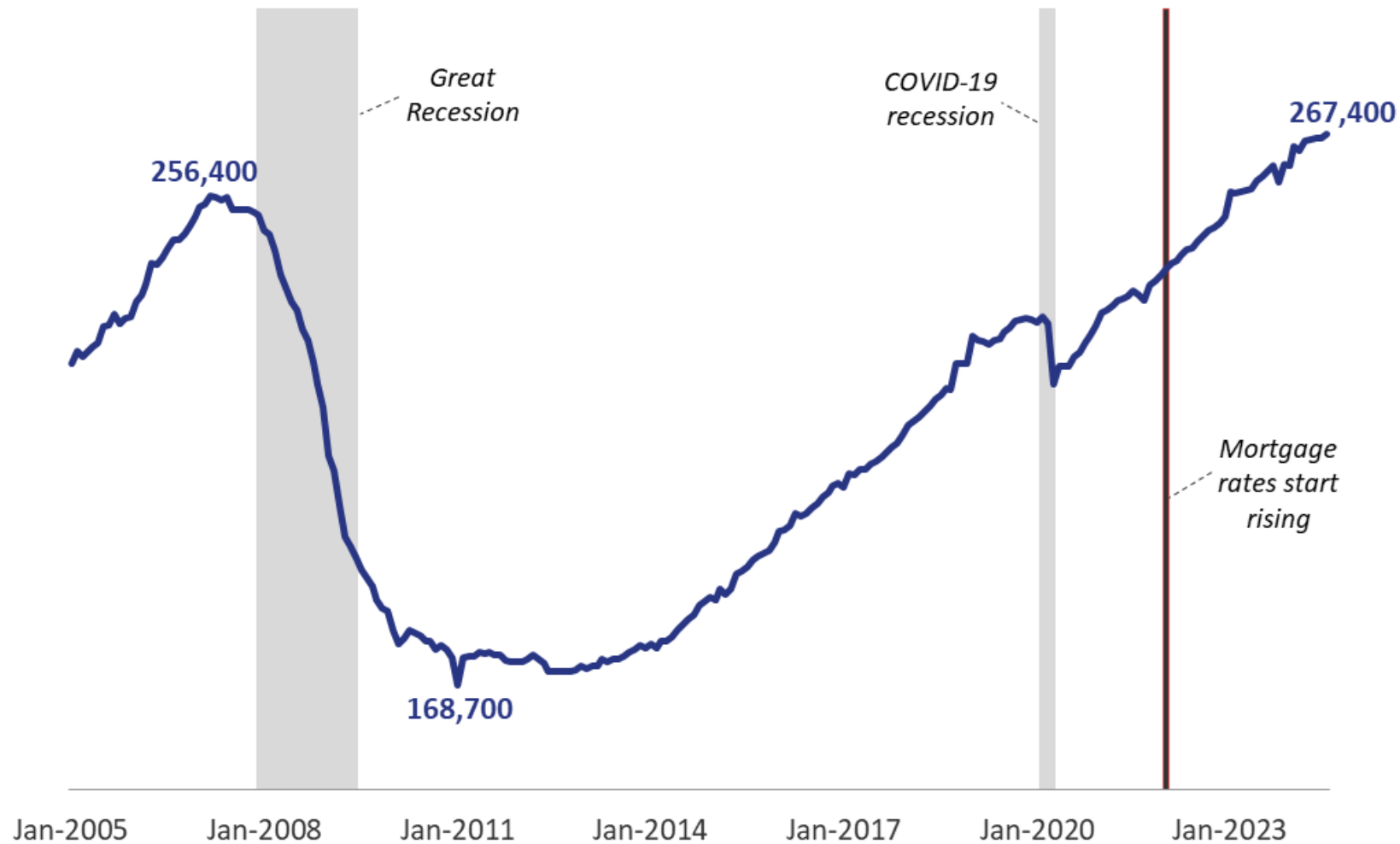
NC Department of Commerce, Labor & Economic Analysis Division (LEAD)

Source: US Census Bureau (Building Permits Survey)

Note: includes multi-unit structures. Data are seasonally adjusted and smoothed by LEAD.

Construction Employment Is Still Growing, Despite Housing Slowdown

Construction employment in North Carolina (Jan 2005 - Jul 2024)

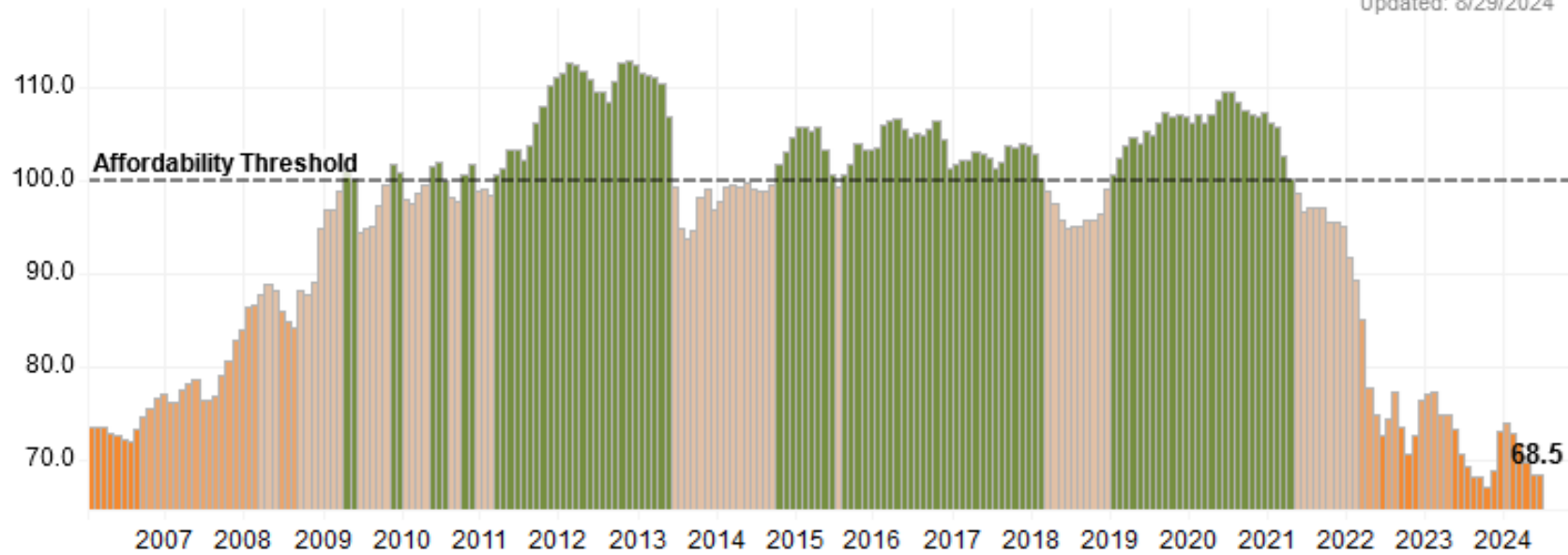


NC Department of Commerce, Labor & Economic Analysis Division (LEAD)

Source: US Bureau of Labor Statistics (Current Employment Statistics)

Federal Reserve Bank of Atlanta National Home Ownership Affordability Monitor (HOAM) Index Data through June 2024

Updated: 8/29/2024



The outlook

Are we approaching a turning point?

The **Federal Reserve** is widely expected to start **lowering interest rates** this month

However, any improvements in our economic trajectory are likely to be **gradual**

- Interest rate cuts are expected to be small, and rates are unlikely to return to the low levels seen in 2020
- Fed policy primarily affects short-term interest rates. Long-term rates (e.g., mortgages) could remain elevated
- Impact of interest rates is “long and variable” – might take awhile for lower interest rates to have an effect

While we’re waiting, how will our economy hold up? Will things get better, or worse?

Stay tuned! We’ll talk more about interest rates during our next LMI Tuesday session

Resources of interest

August 2024 NC Economy Watch

The Two-Track Economy

<https://www.commerce.nc.gov/news/the-lead-feed/august-2024-nc-economy-watch>

September 2024 NC Economy Watch

The Pros and Cons of a Hot Housing Market

<https://www.commerce.nc.gov/news/the-lead-feed/september-2024-nc-economy-watch>

Follow us on social media:

- [LEAD Feed blog](#)
- [LinkedIn](#) and [X \(formerly Twitter\)](#)
- Newsletters: contact LEAD@commerce.nc.gov to subscribe

“Thank you!”

Andrew Berger-Gross

Senior Economist

andrewbg@commerce.nc.gov

Jonathan Guarine

Economist

jonathan.guarine@commerce.nc.gov