

WHAT'S IN STORE FOR N.C.?

At this month's round table, experts share their thoughts on the state of North Carolina's economy and what to expect in 2019.



From left:

Mark Steckbeck, associate professor of economics, *Campbell University*

Scott Saylor, president, *North Carolina Railroad Co.*

Scott Daugherty, state director, *N.C. SBTDC*

Kimberly J. Ripberger, partner, CPA, *Bernard Robinson & Co.*

Asa Fleming, president, *NC REALTORS*

Chris Chung, president & CEO, *Economic Development Partnership of N.C.*

Ravila Gupta, president & CEO, *Council for Entrepreneurial Development*

Phillip Neuhart, manager of institutional portfolio strategy, *First Citizens Bank*

The round table was sponsored by **Campbell University, Bernard Robinson & Co., NC REALTORS**, and the **North Carolina Railroad Co.** The event was hosted by **Campbell University**. The transcript was edited for brevity and clarity.



ECONOMIC FORECAST ROUND TABLE

HOW ARE GENERAL CONDITIONS IN N.C.?

STECKBECK Overall, things are looking really good. The information, tech and durable-goods sectors are all strong. Utilities are experiencing some of the fastest growth. Finance, agriculture and retail trade are growing more slowly. Those numbers are consistent around the country, other than agriculture, which went up. North Carolina agriculture has actually gone down a little bit in terms of GDP growth. Personal income has been increasing, which we expected. We're still 40th in the nation overall in terms of per capita personal income. That's a little misleading. In North Carolina, 20% of our population is in rural areas. Most of the job growth is in the major metro areas of Raleigh-Durham, Charlotte, Asheville and the Triad. About 80% to 85% of all job growth is in those areas. The bigger areas are doing really well. Raleigh is doing outstanding. Charlotte is doing outstanding. Asheville is really, really good. Durham is actually one of the best as far as the economy goes. Things are not as good in the rural areas. Overall, unemployment is 3.4%. That's down from last year, which is good. We're heading into a lot of uncertainty, though. The value of the dollar has increased 7.2% since last year. Part of that is seeing an increase in interest rates. The trade wars and some of the export sectors are a concern. In North Carolina, 7.2% of GDP is in exports, so this can have an impact. Especially with the exchange rate going up, the dollar becomes stronger, and it's more costly to buy our products. The interest rate is another concern.

NEUHART We do not see a recession this year. We think that that is further down the road, but we could be wrong. There are downside risks. One is China. China is slowing. We cannot ignore that. The Fed is hiking interest rates. They indicated that they would like to hike it two more times in their forecast in 2019. If you look at the future, the market is



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ASA FLEMING
NC REALTORS

pricing no hikes in 2019. I would take the market's side on that. Nonetheless, if we see markets calm, the Fed will likely continue to hike.

Real estate will flatten and probably invert, as well. I don't see a major reason that longer term rates would move sharply higher. It is tighter economic conditions. If the market continues to sell off very hard, you'll incur deferring severely. Commodity prices are falling sharply. The dollar is strengthening dramatically. And finally, trade, while it's

hard to find the actual precise economic impact, I think there's a behavioral impact. I can't think of anything that drives more uncertainty than trade wars. The 1970s were an example of that.

The consumer is still very strong in the U.S. and in North Carolina. The labor market is strong. The labor market tends to be more of a coincidental or lagging indicator, not much of a leading indicator. We have seen a lot of wage growth, finally, after a very small wage-growth cycle. We do think that is a positive.



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The consensus does expect earnings to grow this year. If the consensus is wrong, that's a major problem.

WHAT'S THE STATUS OF BUSINESS RECRUITMENT?

CHUNG We are entering 2019 with about 210 active projects. Those projects represent a little bit north of 40,000 potential jobs. That's actually

down a little bit, about 40 or 50 deals from where we were a year ago at this time. Some of that is because some of those projects have matured into wins, and in some cases, losses, and in some cases, companies just canceling their plans altogether. Those, of course, get picked out of our pipeline.

Normally, for us in the recruitment world, economic developers usually know that when you get toward the

holidays, like a lot of industries, things slow down considerably. We actually saw things slow down starting in late August and early September. Other states are seeing the same slowdown in new inquiries. Was that because people thought the midterm election would be as transformative as a presidential election could be? Or are they slowing things down because they, themselves, are forecasting slower demand or a softer economy? We'll see.

WHAT IS THE OUTLOOK FOR SMALL BUSINESSES?

DAUGHERTY I think we will see some sort of slowdown in 2019. I don't think it will be catastrophic. I do have some concerns about small business. First of all, we have a high-visibility startup culture in the United States. But it's heavily present in major metropolitan areas. In Raleigh, you have three or four venues downtown where you can get some help to start a business. Not so many in Robeson County. So, that's a concern. Actually, startups have fallen to half the level they were in 1978. I don't think that's a good sign. There are a lot of risks in starting a small business. There are a lot of failures. You need volume to create new companies to grow up and become a Red Hat or something like that. Also disconcerting is that millennials are half as likely to start a new business as someone over 50 years old. Small to midsized businesses matter a lot in this state. Ninety-eight percent of all firms in North Carolina are small businesses. They employ 1.6 million people. They contribute 45% in gross state profit, and they represent 26% of our exports. They have challenges with access to capital. I think they also have major challenges in our state at the moment in terms of access to labor. We have a tight labor market. We have relatively modest unemployment. Small to midsized companies find it difficult to compete with

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WHAT ARE SOME GENERAL BUSINESS ISSUES IN THE STATE?

RIPBERGER There's an urban and rural divide. Affordable housing is also a hot topic. People are talking about the need for people who work in Raleigh, Durham, Greensboro or Charlotte to afford the revitalized areas of downtown. How do we come up with solutions? Hopefully, we can continue with that discussion. Another hot topic is cybersecurity. You know, most of the incidences that occur in any organization will be by an employee who will click on some phishing email, thinking it's harmless. So just build some awareness within your organization about that. Businesses also need to have strong disaster-recovery plans, as we've seen following recent storms and hurricanes.



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— Asa Fleming, 2019 President



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ECONOMIC FORECAST ROUND TABLE

WHAT TRENDS CAN WE EXPECT IN HOUSING?

FLEMING During and after the recession, you couldn't get anyone to even look at buying a home. Everyone was trying to sell. Now, we have less than a six-month housing supply. That's a seller's market. We're hearing residents say, 'I [would] love to sell, but if I sell, where do I go?' because affordability has become a problem. Looking at next year, we feel there will be higher interest rates. Existing home sales are what we would call nonexistent. We have folks going around begging people to put their homes on the market right now. New home starts can't keep up. They are being outpaced by the demand. We still have a lot of people coming into the state. Inbound migration is huge. We're going to have some uncertainty going into this year, but it will remain somewhat the same and return back to normal. Are we going to experience a bubble? No, we're not seeing the high levels of appreciation like the [U.S.] West is. It's just going to be a normal progression. We do think that a recession is coming. Maybe in 2020 or 2021. It won't be another full-blown crisis. We think people are being a lot more stable and a lot more conscientious about how they spend their money. They aren't getting upside down in homes.

WHAT IS IN THE PICTURE FOR VENTURE-CAPITAL INVESTING?

GUPTA In 2018, we had a record year of venture capital and financing funding in North Carolina. We had \$2.7 billion invested in our state in venture capitalism. There was a huge outlier — Epic Games. They raised \$1.25 billion. Even if you take Epic out of that equation, it was still \$1.45 billion that was raised, which is a record year for North Carolina. We're also seeing deals that are bigger overall. The number of deals went down last year to 200 from 244 in 2016. But the price tag on the deals was higher. We had an average of \$17 million per deal. If you take Epic out of that, it was \$7 million. A



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MARK STECKBECK
Campbell University

really important statistic is 70% of that money came from outside of North Carolina. That's a sign to us that we're a very attractive place for investments of venture capitalists. We suffer in this region from a lack of venture-capital funding, so we're always trying to get

more venture capitalists interested in opportunities in North Carolina.

Innovation tends to happen in a period of downturn. Some of the big firms were started during downturns. Entrepreneurs in private markets tend not to be as affected by what's happen-

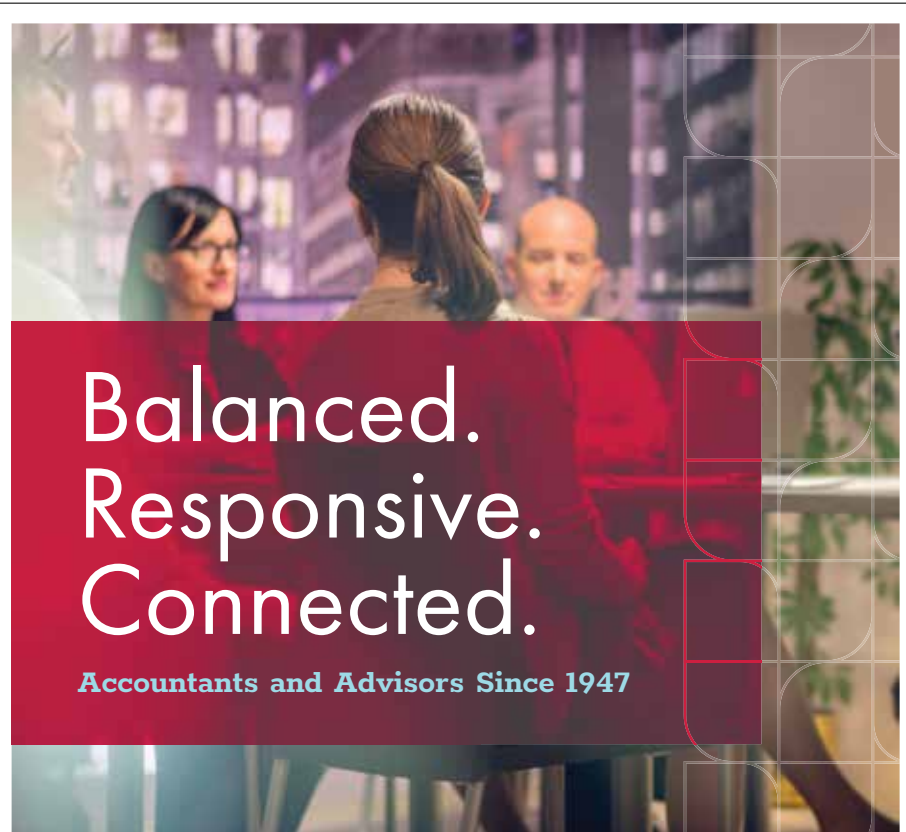
ing in the public market. North Carolina continues to be an attractive investment option. We see a lot of interest. We are encouraged by the amount of money being held by these firms, ready to be invested. A downturn for us signals a time that innovation may flourish.

WHAT ABOUT THE STATE OF RAILROADS?

SAYLOR For the last three quarters in the railroad industry, carload traffic has been above all of the previous years. North Carolina is becoming a very strong state for rail-served industries. What can make a difference when you have a manufacturing project looking at the state is that you can deliver the infrastructure. That's really what we do. We are involved in trying to deliver that last mile of infrastructure for large manufacturing projects. It's capital intensive. We have some resources to do that and leverage that. Other states don't have that capability. Other states don't own railroad companies that generate capital. Over the last 18 months, the state had announcements of over 2,000 jobs in which we were a partner. That took about \$11 million of capital commitments by us for those 2,000 jobs. The projects generated \$1.5 billion of capital investment. These projects range from a 50-job plastics project in Halifax County to an 800-job wood-based manufacturing company in Davidson County and a similar 800-job project at Triangle Tyre over in Edgecombe County. With regard to passenger rail, we continue to see increased transit-oriented development. The freight trains that you see are North Carolina's economy moving through the state. All of the freight that you see here moving through Raleigh is coming from eastern North Carolina, inbound or outbound traffic, including the military installations. And that's an important part, also, particularly in eastern North Carolina. Our railroad serves three military installations, and railways are critical to those bases. The same track that carries freight trains can also carry passenger trains, but passenger trains are even more capital

intensive. The tracks have to be maintained at a higher level than for a freight train. Lastly, our tracks are 14 feet apart. We can move a million tons of freight on one of those tracks very easily. You can also move a passenger train on that same track if built to the required standards. The increases that most of the CEOs in class-one railroad companies predicted for this year have to do with intermodal. The containers that you see going up

and down the state and across the state, that's where a lot of the volume growth is predicted. Charlotte is a major gateway. Greensboro is a major gateway. Raleigh is becoming a gateway because all routes go through Raleigh from the east and west. Protecting those charters and protecting the integrity of those charters is really critical to the future because it's an irreplaceable kind of asset. ■



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