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Economics Group

WELLS FARGO SECURITIES

Special Commentary

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Raleigh-Durham Economic Outlook

The Research Triangle is Poised for Another Strong Year of Growth

Economic momentum continues to build throughout the Raleigh-Durham region. Even as growth has ramped up nationwide, the Triangle region remains one of the fastest-growing areas in the country. National real GDP growth will likely end 2018 at 2.9%, backed by robust consumer spending and fiscal stimulus. We anticipate growth to moderate slightly to a still-solid 2.6% rate in 2019, as some of these tailwinds fade. The Raleigh-Durham area will continue to play a starring role in the national economic growth story, given the area's booming tech and life sciences clusters which continue to attract new businesses and residents to the area. Raleigh ranks as the 8th fastest growing major metropolitan area in terms of real GDP growth from 2011 to 2017. The combined statistical area has added 240,000 residents during this period, lifting its population to 2.2 million.

The Triangle will continue to see robust population and employment growth.

The region's economic success is most clearly evident in the Triangle's labor market. Both the Raleigh-Cary and Durham-Chapel Hill metro areas have seen their unemployment rates fall over the course of the past year and now sit well below the national rate at 3.1% and 3.2%, respectively. This comes as no surprise as the region has also been adding jobs at a pace well above the rest of the country. As of November, Raleigh payrolls have surged 3.2% year-over-year, propelled in large part by a booming tech industry. Job growth in Durham was slightly more moderate, but still grew 2.0%, which is ahead of the 1.7% growth seen nationwide. We suspect Durham's slightly more modest expansion may also be underestimating growth. The Quarterly Census of Employment and Wages, which is a more complete accounting of payrolls and lags the monthly survey data by six months, shows significantly stronger job growth in Durham's key education & health and professional & business services sectors, suggesting the preliminary estimates of job growth will be revised higher to a rate more consistent with neighboring Raleigh. Furthermore, overall employment growth in both metro areas has accelerated more recently, making the prospects for growth throughout 2019 increasingly bright.

Figure 1

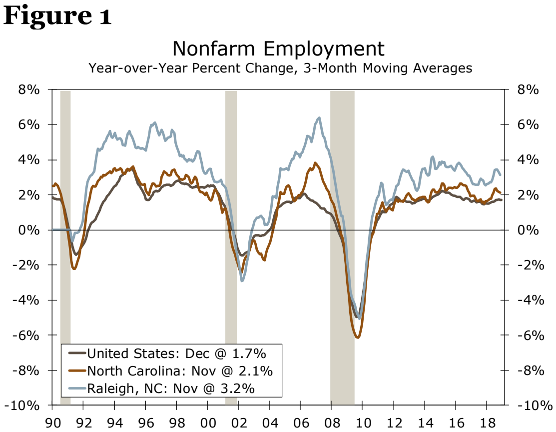
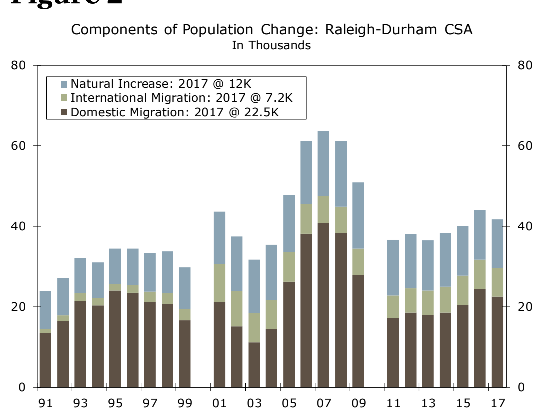


Figure 2



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

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Rapid employment growth continues to fuel a rapid influx of businesses and new residents to the area. North Carolina was the 10th fastest growing state in 2018, as population grew 1.1% in the 12 months ending in July. State-to-state movers once again bolstered growth, as North Carolina saw a net increase of nearly 67,000 new residents from out of state. The Raleigh-Durham area was likely on the receiving end of much of this increase. In 2017, the latest year available for data at the metro level, an estimated 22,500 residents moved to the Raleigh-Durham combined statistical area, which equated to roughly 35% of the total net increase from movers to the Tar Heel State that year.

Strong economic conditions will benefit commercial and residential real estate throughout the region.

Given our expectation of sturdy economic growth in the Triangle in 2019, stronger than average population growth should continue. The region's overall lower cost of living, temperate climate and abundance of natural amenities are huge draws for retirees. Robust tech and life science employment growth has also become a beacon for job seekers looking to relocate from less affordable areas in California and the Northeast. The corporate income tax rate in North Carolina, which was already the lowest of any state that imposes such a tax, was also recently lowered from 3.0% to 2.5%, which will keep the area near the top of the list for site selectors as more tech investment is dispersed outside of Silicon Valley.

The Triangle's ability to attract and retain a highly educated workforce is among its greatest strengths. Raleigh and Durham both boast a significantly higher proportion of the population with bachelors or masters level degrees, which continues to attract high-paying industries looking to harvest the abundant tech talent resources from UNC-Chapel Hill, Duke and NC State. While the Triangle missed out on Amazon and Apple this past year, the region scored a huge win late this past year when Advance Auto Parts announced they would relocate its corporate headquarters from Roanoke, creating more than 400 jobs over the next five years.

Strong employment and population growth will continue to benefit residential and commercial development. New and expanding businesses continue to drive demand for office space, pulling Raleigh's vacancy rate to a cycle low of 5.0% and pushing up rents at one of the fastest rates in the entire country, albeit from a relatively low base. Despite a wave of new deliveries in the urban parts of Raleigh and Durham, apartment vacancy rates have plummeted after trending higher for much of 2017. New multifamily building permits have also ramped back up after a pause in 2017, which means apartment construction will likely remain elevated in coming years.

Single-family homebuilding has been slower to get back on track. Single-family permits strengthened considerably towards the end of 2017, however activity has been more moderate recently. Home sales have also lost momentum alongside higher mortgage rates and years of price appreciation. As a result of softer sales, price appreciation in Raleigh has decelerated somewhat over the past year. By contrast, home values in relatively more affordable Durham continue to gain steam. Overall, we expect home values to continue to rise throughout the Triangle in 2019, supported by continued robust employment and population growth.

Figure 3

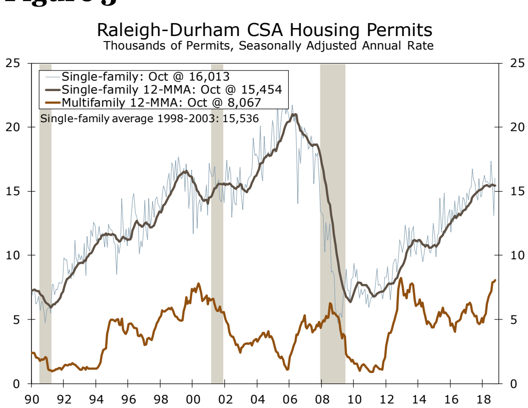
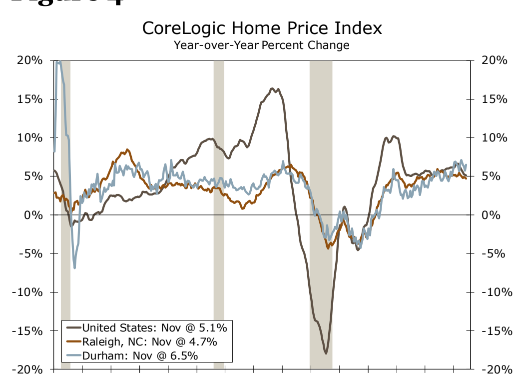


Figure 4



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

Raleigh-Durham Employment Outlook: Total Additions to Payrolls

	Actual						Forecast		
	2012	2013	2014	2015	2016	2017	2018	2019	2020
North Carolina	70,200	71,200	83,050	100,775	100,650	73,900	91,067	89,000	85,000
Yr/Yr Percent Change	*1.8%*	*1.8%*	*2.0%*	*2.4%*	*2.4%*	*1.7%*	*2.1%*	*2.0%*	*1.8%*
Raleigh-Durham CSA	22,081	18,261	25,212	29,167	30,001	19,795	28,044	24,300	21,200
	2.6%	*2.1%*	*2.9%*	*3.2%*	*3.2%*	*2.1%*	*2.8%*	*2.4%*	*2.0%*
Raleigh-Cary MSA	15,526	16,904	18,107	22,723	19,852	14,222	20,180	18,010	16,010
	3.1%	*3.3%*	*3.4%*	*4.2%*	*3.5%*	*2.4%*	*3.3%*	*2.9%*	*2.5%*
Durham-Chapel Hill MSA	5,747	1,493	7,134	3,927	7,955	4,095	7,040	6,201	5,142
	2.2%	*0.6%*	*2.6%*	*1.4%*	*2.8%*	*1.4%*	*2.4%*	*2.1%*	*1.7%*
Wake County	14,227	17,810	16,550	21,049	19,094	12,996	19,100	17,100	14,100
	3.2%	*3.9%*	*3.5%*	*4.3%*	*3.7%*	*2.4%*	*3.5%*	*3.0%*	*2.4%*
Durham County	5,228	(604)	5,022	2,201	4,417	3,659	4,770	4,170	3,250
	2.9%	*-0.3%*	*2.7%*	*1.2%*	*2.3%*	*1.9%*	*2.4%*	*2.0%*	*1.6%*
Orange County	774	2,065	1,869	1,315	3,301	373	2,505	1,750	1,720
	1.3%	*3.3%*	*2.9%*	*2.0%*	*4.9%*	*0.5%*	*3.5%*	*2.4%*	*2.3%*
All Other Counties in CSA	1,852	(1,010)	1,771	4,602	3,189	2,767	1,669	1,280	2,130
	1.2%	*-0.6%*	*1.1%*	*2.9%*	*1.9%*	*1.6%*	*1.0%*	*0.7%*	*1.2%*

Sources: U.S. Department of Labor and Wells Fargo Securities
Forecast as of: January 08, 2019

North Carolina Economic Outlook

	Actual						Forecast		
	2012	2013	2014	2015	2016	2017	2018	2019	2020
Real Gross Domestic Product by State, $ Millions	439,571	445,361	453,629	467,913	473,034	484,308	496,900	511,310	522,559
Annual Rate	0.1%	1.3%	1.9%	3.1%	1.1%	2.4%	2.6%	2.9%	2.2%
Nominal Personal Income, $ Millions	379,031	375,057	397,411	419,889	433,766	454,307	476,114	500,395	526,916
Nominal Personal Income, Percent Change	7.0%	-1.0%	6.0%	5.7%	3.3%	4.7%	4.8%	5.1%	5.3%
Real Median Household Income, $	44,446	48,840	48,490	52,559	54,920	50,343	51,400	52,634	53,634
Population, Thousands	9,749	9,844	9,934	10,033	10,157	10,271	10,384	10,496	10,605
Change in thousands	92	94	90	99	124	114	113	113	109
Percent Change	1.0%	1.0%	0.9%	1.0%	1.23%	1.1%	1.1%	1.1%	1.0%
Nonfarm Employment, Thousands	3,985	4,057	4,140	4,240	4,341	4,415	4,506	4,595	4,680
Change in thousands	70	71	83	101	101	74	91	89	85
Percent Change	1.8%	1.8%	2.0%	2.4%	2.4%	1.7%	2.1%	2.0%	1.8%
Unemployment Rate, Annual Average	9.3%	8.0%	6.3%	5.7%	5.1%	4.6%	4.1%	3.8%	3.6%
Total Housing Permits	47,828	50,787	50,642	53,512	57,090	65,009	67,821	66,215	65,797
Single-Family Permits	29,564	34,941	35,456	37,465	41,174	46,500	48,128	49,475	50,564
Multi-Family Permits	18,264	15,846	15,186	16,047	15,916	18,509	19,694	16,740	15,233
FHFA Home Price Index, Percent Change	-1.6%	0.9%	2.4%	4.5%	5.4%	6.1%	7.2%	6.3%	4.9%

Sources: National Association of Realtors, Federal Housing Finance Authority, U.S. Department of Commerce,
U.S. Department of Labor, Moody's Analytics & Wells Fargo Securities
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