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Charlotte's economy: Where we stand

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4/13/2007 Big days ahead for the banks as they report earnings amid mortgage woes and gather for their annual meetings. Bank of America, left and Wachovia, right, in uptown Charlotte. LAYNE BAILEY - lbailey@charlotteobserver skyline

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To judge the strength or weakness of a region's economy, economists look at many indicators. Our jobs, our homes and our debts all provide clues to the Charlotte area's financial health.

In some cases, indicators are intertwined. Building 100 single-family houses puts an estimated 284 people to work – from carpenters and bankers to sod farmers and appliance salespeople. A person with a steady job is more likely to buy stuff than someone who is unemployed.

Below is an overview of four key parts of the Charlotte region's economy, as well as what to watch in the months ahead. -- **Jefferson George**

JOBS

Where we are: At 6.8 percent, the local unemployment rate is at a five-year high, rising sharply since April. Because of the region's population growth, the Charlotte area in July had a record number of unemployed people – nearly 59,000.

The region saw its normal dropoff of total jobs in June and July, when companies have fewer employees over the summer. The decline wasn't as big as in recent years.

In addition, many companies have scaled back workers' hours. For instance, said Bill

Parmelee, chief financial officer at National Gypsum, positions that once required 40 hours a week and offered overtime pay now are less than 40 hours.

What to watch: Federal officials will release August employment numbers for the Charlotte area Friday. How much those numbers increase from July will help paint the employment picture for the rest of the year.

The region's total number of jobs typically jumps from July to August, and a small increase – or worse, a loss – could send unemployment surging even higher. The last time the unemployment rate jumped this high, this fast, was in 2001, and it kept going up for more than a year and didn't start falling steadily until mid-2003.

Besides opportunities for workers, growth in jobs also will illuminate the overall health of Charlotte businesses.

As John Silvia, chief economist at Wachovia, explained, “Companies that don't make money don't hire people.” -- **Jefferson George**

HOUSING

Where we are: New home construction has slowed, and existing home sales are down – both hurt by rising foreclosures and tighter lending. That's a stark contrast from just a year ago, when many homeowners didn't worry about selling their house before building or buying a new one.

“Today, they want to know that an existing home is sold before they commit to the new purchase contract,” said Charles Teal, the chief executive and an owner of Charlotte homebuilder Saussy Burbank. “People are being more cautious about taking on risk.”

Economists say the housing industry accounts for at least one-fifth of the economy, and Charlotte's housing market remains healthier than most parts of the U.S. Prices never shot up as high as they did elsewhere and haven't fallen nearly as hard.

Still, the area is dotted with “price-reduced” home-sale signs, and transplants to the region are renting in bigger numbers, often waiting for their houses elsewhere to sell.

What to watch: As long as sales are weak, prices are unlikely to stabilize. Experts say a rebound likely won't come for at least a year, and maybe not until 2010.

With easy lending, no-money-down deals dead, people with sketchy credit likely can't qualify for mortgages. Other potential buyers are too worried about layoffs and sinking investments to take the plunge or are waiting to see if prices drop even more. -- **Stella M. Hopkins**

RETAIL

Where we are: After years of growth, consumer spending has slowed to a crawl in the region.

From July 2007 to June 2008, Mecklenburg County retail sales increased less than 1 percent, the lowest since 2002. In recent years, sales growth ranged from almost 3 percent to more than 12 percent.

Sales were even slower in surrounding counties, declining year to year, according to the N.C. Department of Revenue.

Consumer spending drives two-thirds of the U.S. economy, so less buying means less work for retail employees and companies that supply stores. Many families are holding back because they're worried about their jobs and what the stock market is doing to their retirement nest eggs, said Richard Warr, associate professor of finance at N.C. State University's Jenkins Graduate School of Management.

The higher cost of gas and food hasn't helped, making people even more cautious about buying luxury items.

What to watch: Retail sales likely will lag through the winter holidays.

"It's not going to be a lot of fun," said John Silvia, chief economist at Wachovia Corp. "Christmas shopping is going to be disappointing." The key to kick-starting spending will be an uptick in employment, which provides a steady source of income. In addition, a rebound in home construction could lead to more purchases of such household items as furniture, appliances and electronics. Lower home prices and easier credit requirements – a possibility if the government removes some debt from banks – also could loosen purse strings. -- **Jen Aronoff and Jefferson George**

COMMERCIAL CONSTRUCTION

Where we are: Construction cranes still dot the uptown skyline, and 4.6 million square feet of office buildings are under way in the region, according to Karnes Research Co.

The Charlotte office vacancy rate dropped to 11.5 percent in the second quarter from 12.6 percent a year earlier. But the warehouse vacancy rate rose 1.4 percent – reflecting less demand for space – and the regional retail vacancy rate rose 0.7 percent in the first half of 2008.

In July, the developers of The Bridges at Mint Hill shopping mall put construction on hold for at least five months. As retailers have put expansion plans on hold – due to the homebuilding decline – shopping centers in general have found it harder to sign tenants.

"Right now, most developers are in a bit of a standby position," said real estate analyst Frank Warren of Warren & Associates.

What to watch: With tighter restrictions on borrowing, it will be tougher for developers to get financing for new projects. Warren expects the first half of next year to be slow, with a rebound coming in the second half.

Uptown Charlotte – where 3 million square feet of space will be added in the next couple of years – could be vulnerable. One concern is how much space Wachovia and Bank of America, amid belt-tightening, actually will occupy in their planned towers.

Too much office space could increase vacancy and drive down rental rates, shifting leverage from landlords to tenants. -- **Doug Smith**