

# Charlotte Poised to Perform as US Economy Slows

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The long-anticipated recession may finally arrive early next year, with Charlotte and Raleigh poised to weather the downturn far better than most cities.

In fact, Charlotte is expected to be the eighth-fastest-growing economy in the country among the 50 largest microeconomies.

## OUR EXPERTS



**GERALD COHEN**  
CHIEF ECONOMIST  
*Kenan Institute of  
Private Enterprise*

Gerald provides strategic vision and leadership of the translational economic research and policy initiatives at the Institute.

He has worked in both the public and private

sectors focusing on the intersection between financial markets and economic fundamentals. During the Obama Administration, Gerald was Deputy Assistant Secretary for Macroeconomic Analysis at the U.S. Department of Treasury where he helped formulate and evaluate the impact of policy proposals on the U.S. economy. Prior to Treasury, he co-managed a global macro fund at Ziff Brothers Investments.

Gerald holds a bachelor's of science from the Massachusetts Institute of Technology and a Ph.D. in Economics from Harvard University and is a contributing author to "30-Second Money" as well as a co-author of "Political Cycles and the Macroeconomy."



**JEFF KORZENIK**  
CHIEF ECONOMIST  
*Fifth Third  
Commercial Bank*

In this role, Jeff provides research and analysis that impacts the Bank's key markets, providing insight to business leaders and policymakers throughout the country.

He is an award-winning

author whose writings have been featured in the Wall Street Journal, Harvard Business Review, Newsweek and many other national and regional publications, and Jeff has appeared regularly on CNBC, Bloomberg and Fox Business News. Policymakers have sought his expertise on a variety of topics leading to his testifying before state legislatures and on Capitol Hill.

His groundbreaking book, "Untapped Talent: How Second Chance Hiring Works for Your Business and the Community" (HarperCollins Leadership, April 2021), shares the business case and best practices of hiring people with criminal records. He was elected to membership in the Council on Criminal Justice in recognition of his work on the intersection of the justice system and the labor market.

Jeff is a graduate of Princeton University with an A.B. in Economics and a Certificate of Proficiency in Near Eastern Studies.

Through advanced economic data and intelligence developed at the Kenan Institute of Private Enterprise and local market color from Fifth Third's bankers, economists now have the ability to drill down to individual microeconomies and compare their relative strengths and weaknesses. Empowering American Cities delivers advanced economic data so business owners, investors and community decision-makers can drive growth and investment. The initiative is a collaborative project launched earlier this year by Fifth Third Bank and UNC Kenan-Flagler Business School.

"Business leaders lack the relevant data needed to have localized market insights," says Lee Fite, regional president of Fifth Third Bank in the Carolinas.

"It is our responsibility to provide the right knowledge, experience and training to help business owners and community development leaders make sound decisions rooted in data."

Joining Fite at the Empowering American Cities presentation in uptown Charlotte on June 25 was Mary Margaret Frank, dean of UNC Kenan-Flagler, and the leading economists for both organizations: Jeff Korzenik, chief economist for Fifth Third Bank, and Gerald Cohen, chief economist at the Kenan Institute and a research professor at UNC Kenan-Flagler.

"We are thinking about data and what factors affect creating a more inclusive, more prosperous economy," says Frank. "That leads to the impact businesses have on society."

Korzenik provided an overview of the national economy and Cohen took a deeper dive into the specific drivers of Charlotte's economy. Cohen oversees the Kenan Institute's American Growth Project, which provides economic data analysis of towns, cities and counties across the country in an effort to help government officials, business leaders and other decision-makers navigate our nation's continuing economic transformation. Korzenik is a national expert on private sector models for hiring people with criminal records and advancing public safety through employment.

### ECONOMY PUMPING BRAKES

Two years after the Federal Reserve aggressively began raising interest rates, the economy keeps chugging along but at a slower speed. Unlike conditions when the 2008 recession roiled banks and the housing market, Korzenik says, fundamental underpinnings of the U.S. economy are stronger now. For that reason, the U.S. has avoided recession despite a rapid run-up in interest rates.

"Back in 2022, the consensus in the industry was that we were heading to a recession," Korzenik says. Fifth Third Bank pushed back because of areas of resiliency in the economy that didn't exist in 2008 during the Great Recession. The U.S. banking system is much stronger in 2024 with greater capitalization to withstand shocks. Likewise, consumers have a lower debt burden today, with many homeowners locked into 3% mortgage rates that insulate them from housing inflation.

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**GERALD COHEN**, *Kenan Institute, UNC Kenan-Flagler*

### LABOR MARKET WARNINGS

Labor markets are the crux of the economy's future performance.

"Through most of modern American history, the labor markets were typically defined by having more job seekers than job openings," Korzenik says. "But starting in 2018, that started to slip and today we have a pronounced labor shortage as measured by having more job openings than job seekers."

That labor imbalance injects resiliency into the national economy because month after month, some job seekers find some of those job openings, leading to increases in monthly payrolls.

"The problem is this tight labor market that is giving us resiliency at this point in the cycle is also driving inflation," Korzenik says. "This is causing the Fed to keep tightening. It's really hard to deal with because this is a structural issue that's not going away."

Tightening immigration policies, retiring baby boomers – including a surge at the start of the pandemic – and slower birth rates from 20 and 30 years ago have reduced the available labor force. The problem is only going to get worse, hampering opportunities for future growth and putting upward pressure on wage inflation and general inflation.

There are two solutions: add more people to the workforce through immigration or slow the economy through other means. The lack of workers is a risk to the economy's ability to grow, he said.

Some states are beginning to show weakness in labor markets, such as California, which raised its minimum wage to \$20 an hour. Such moves could help bring down inflation, Korzenik said. But economists fear that labor markets have tipping points when rising unemployment starts to weaken the consumer base, which can trigger cascading layoffs.

"It is not clear whether 20 states hitting a tipping point spreads nationally, but it's certainly a warning sign that conditions in the labor markets are eroding."

### CHARLOTTE'S STRENGTHS AND WEAKNESSES

Using advanced economic data analyzed by the Kenan Institute, Cohen examined how Charlotte is likely to compete as the overall economy is slowing and considered what factors drive Charlotte's performance.

"Charlotte is a beneficiary of strong growth and of strong migration patterns, and of healthy productivity, and as a result, in 2024, we expect it to be the eighth-fastest-growing area in the United States, of the largest 50 microeconomies," Cohen says. "And, by the way, the Triangle is expected to be the third fastest."

The Empowering American Cities data of the 150 largest microeconomies in the country – which together make up nearly 90% of the U.S. economy – show that all but one region is expected to grow this year. Only Allentown, Pennsylvania, is expected to see negative growth. Austin, Texas, is expected to have the fastest growth rate of 4.6%. San Francisco is the second-fastest-growing microeconomy because of Palo Alto and a cluster of technology companies.

Among the 150 microeconomies, North Carolina has eight, trailing only Texas, California and Florida – all much larger states – for the number of microeconomies in the country.

"We actually have some of the most diverse economic outcomes in the United States," Cohen said.

While the Triangle and Charlotte are among the fastest growing microeconomies, Greensboro is among the slowest. The project aims to understand the differences in industry that drive the diversity and the growth trajectories.

Charlotte's microeconomic area comprises 13 counties, and towns and cities such as Rock Hill, South Carolina, to the south, Albemarle to the east, Shelby to the west and Statesville to the north. For Charlotte, growth will come from relatively strong demand for consumption and housing. Job creation



will be fairly modest in the near term.

### CHARLOTTE'S EMPLOYMENT FORECAST

Education and healthcare jobs are still growing, but job growth in finance, an area where Charlotte is overweighted, will be flat next year, Cohen predicted. Charlotte is also heavily supplied in business services roles, where negative job growth is expected. Cohen pointed to 120 people moving to Charlotte every day, and they tend to be young and highly educated. Charlotte's airport also fuels growth.

"Even though there is lots of migration, you're going to see a slowing in job creation here," Cohen says.

While finance, real estate and business services will likely undergo a cyclical downturn, structurally those industries make the local economy strong.

"The story for 2024 is one of cyclical weakness, structural strength," Cohen says. "All of this adds up to an economy that's expected to grow faster than the United States overall but still not as fast as areas like Austin."

### A FOCUS ON PRODUCTIVITY

Charlotte has a positive industry mix. An assessment of the data comparing employment to output reveals that some of Charlotte's key industries – including finance, real estate and manufacturing – are not as productive as in some other cities or the nation overall.

In finance and real estate, for example, which accounts for 9% of local jobs, Charlotte's productivity is lower than New York City's.

Manufacturing is somewhat less productive than the national average.

"Where Charlotte outperforms and I actually think has great potential to grow is business services," Cohen says. Business services are less productive but the gap is narrow, suggesting the region's manufacturers are more productive than the United States.

Cohen pointed out that only 7% of Charlotte's GDP is in science and technical services, and that's another potential area for growth.

Cohen pointed out that the Triangle often touts its cluster of top-tier research universities and that graduates tend to stay there to work in biotech or biomanufacturing. In the Triangle, biotech is 12% of GDP.

Cohen says the sector presents a huge growth opportunity for Charlotte.

Already, Atrium Health is making a \$1.5 billion investment in The Pearl, an innovation and biotech hub that will also include the Wake Forest University School of Medicine. Cohen says bringing innovative people to The Pearl will ultimately translate into innovations in other areas of the Charlotte economy.

"There's significant spillover effects of having innovative people because they don't just stay in biotech, they move to finance and others," Cohen says.

### DISCONNECT ON THE ECONOMY

Even as economists point out resilience in the greater economy and Charlotte's relatively superior position, Korzenik addressed why so many people are pessimistic about the economy.

Just because the rate of inflation has slowed doesn't mean prices are coming down. They just aren't going up at the previous rate.

"If you are a renter or if your consumption mix is weighted toward things like food and rent and gasoline, you're feeling the pain," Korzenik says.

Consumers also feel diminished by the decrease in customer service since the pandemic, driven by higher wages and fewer available workers.

“You ask if the quality of those experiences of travel or restaurants is better or worse today, and I think most people will answer worse,” Korzenik says. “Economists are good at dealing with inflation when it’s dealing with quality of goods, but I don’t think they’re very good at adjusting for things that are worse in the service economy.”

Cohen says that while people may feel good about their job and personal finances and how the stock market is doing, they don’t feel good about going to the grocery store when the bill is 25% more expensive than a few years ago.

### IMPENDING ELECTION IMPACT

In a highly polarized presidential election year, Cohen and Korzenik say those political viewpoints tend to color people’s perception of the economy.

“If they’re Republicans, their view of the economy when a Democrat is in office is substantially worse, and if you’re a Democrat and a Republican is in office, your view of the economy is substantially worse than it was,” Cohen says. “It’s this polarization.”

Perceptions of an election’s potential outcome tend to affect economic conditions, with business leaders and others moving to a holding pattern until after the election is held.

“People don’t know what’s going to happen on Election Day and so they stopped doing anything,” Korzenik says. “Doing nothing is actually a bad outcome. You should be preparing for what could be a set of eventualities.”

From an economic viewpoint, the labor shortage should be a concern to business leaders. Both parties, he says, have embraced policies on immigration that make it harder to create the labor force needed to keep wage inflation down.

“We have to flag it as a political risk,” Korzenik says. “It’s really both parties now because of President Biden’s executive order and former President Trump’s administration’s significant decrease in foreign-born workers participating in the economy. That’s a risk

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that is quite significant to the economy and one that really hasn’t been on our radar.”

### ABUNDANT JOB OPENINGS

The number of open jobs hit an all-time high of 12 million in 2022. That has fallen to 8 million open jobs in 2024. The remainder are a result of a number of factors, including skills mismatch and geographical mismatch.

“There was a study done that showed that over 40% of job seekers have a criminal record, so that can be an exclusionary factor in many cases as well,” Korzenik says.

Japan, which is famously closed to immigration, faced similar demographic challenges to its labor force for decades, but the country has recently improved its labor availability.

“Japan has done a remarkable job in building its labor force and has grown it by over 4 ½ million workers, even as their population was declining,” Korzenik says. The country grew its workforce by dramatically increasing its guest worker programs. Immigrants were welcomed into the country to, in part, build facilities for the Tokyo Olympics. After the Games, the country did not force those new residents to leave.

“I think for us as American citizens, maybe that’s the path that we will be able to follow because as long as both parties make hay out of the conflict over immigration continuing, it’s going to be very hard to do.”

Cohen says economists on both the left and the right agree that increasing the number of immigrants would be beneficial to the economy.

“The economy would be a trillion dollars larger if we reformed immigration,” Cohen says.

### ON CLOSING CHARLOTTE’S WEALTH GAP

Since Charlotte was named last among large cities for the ability of residents to work their way out of poverty, the city has focused on improving upward mobility. While a wealth gap can never be erased in a capitalist society, it can be narrowed, the economists say.

Increasing upward mobility comes from providing workforce training to populations who were previously excluded from such opportunities, including second-chance workers who are entering the labor force after law enforcement involvement.

Cohen also pointed out that the gap in 2022 personal income per capita between Chester County, South Carolina, and Mecklenburg County is stark, with Mecklenburg’s almost double that of Chester. As people move to Chester County for more affordable housing, the disparity may level out.

The business community’s changing its hiring practices to provide opportunity for employees it might have not considered in the past makes a difference, along with doing away with over-credentialing, upskilling, and not requiring college degrees for so many roles.

“Not everyone needs a college degree and certainly not everyone needs a high-cost private college degree,” Korzenik says. “What we need are more pathways, and that often includes higher education and community college as part of the solution to building up the skills and also making sure we aren’t overly exclusionary. Nineteen million Americans in the United States have a felony conviction. We all understand that the burden of the aftermath of this conviction is not felt equally across all communities.”

With its first event complete, **Empowering American Cities** next moves to Nashville for a breakfast presentation July 24. Visit [empoweringamericacities.com](https://empoweringamericacities.com) for information on coming events as well as economic data that will allow you to compare microeconomies across the country.

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