

How Will the Economy Fare in 2007?

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North Carolina State professor Dr. Michael Walden is an economist and not an airplane pilot, but he uses aviation terminology to discuss the prospects for the U.S. economy in the next 12 months.

“The national economy can go one of two ways,” Walden says. “It can further decelerate and crash into a full-fledged recession – this is the so-called ‘hard landing.’ Or, it can softly land on the runway, rest and refuel, and then take off for a new round of economic growth – the ‘soft landing’ scenario.”

Walden says that the consensus view among economists right now is for a “soft landing,” mainly because economic fundamentals – low interest rates, moderate inflation, low unemployment rates and rising household net worth – are good. Even so, Walden forecasts a period of slower growth at the beginning of the year with the economy picking up steam as the year proceeds.

“I think the biggest surprise in 2007 will be interest rates,” Walden says. “Most economists look for interest rates to fall in 2007 – not by much, but we definitely expect them to trend downward.” He says cuts in interest rates would give a boost to economic activity and to both consumer and investor confidence.

Walden says the housing market slump is expected to end in 2007 and housing construction will pick up again, contributing to economic growth. Even the trade deficit may shrink as a lower valued dollar makes U.S. exports more attractive to foreign buyers. He says the stock market

will gain, but not as much as in 2006, and with slowing federal revenues, the budget deficit will widen modestly.

On the state level, Walden predicts North Carolina will continue to see an upward trend in 2007, though not at the same growth rate that the state saw in 2006.

“The North Carolina economy bounced back from a hard-hitting recession and outperformed the nation in 2006,” Walden says. “Growth in payroll employment, real (inflation-adjusted) retail sales, and real personal income were all stronger than their corresponding measures at the national level. State tax revenues, as reflected in monies going to the General Fund, rose at a double-digit rate.”

Walden says the state’s strong performance was recorded despite the fact that the decline in manufacturing jobs actually accelerated in 2006. The key economic sectors of the state’s economy in the 20th century – tobacco, textiles, and furniture – have had their share of the overall economy cut in half in the past 30 years. Pharmaceuticals, finance and meat processing are each now more important economic sectors in North Carolina than is tobacco, Walden says.

“With the entry of China into the World Trade Organization in 2000, globalization’s effects have been fully felt in North Carolina this decade,” Walden says. “Workers with advanced skills and training have benefited from globalization, while workers without these attributes have found themselves in competition with millions of like workers worldwide.” Walden says that since 2000, the only workers in North Carolina whose wage rates have exceeded inflation have been individuals with college degrees.

Walden forecasts that although growth will likely continue in the state in 2007, the pace will be a little slower than in 2006. He foresees two

major economic challenges confronting the state. The first is managing the ongoing economic transformation, which requires a two-front approach of attracting good paying jobs while also upgrading the skills and academic talents of the workforce, especially in more rural areas of the state. The second challenge is building and maintaining the necessary public infrastructure – including roads, bridges, and schools – that is key to economic growth.

A new state-level commission will study the state’s entire fiscal system this year and make recommendations for changes. “Evaluating and implementing these recommendations will be crucial to the long-term health of North Carolina’s dynamic economy,” Walden says.

Everyone should keep in mind, however, that economic predictions can change at any moment due to unexpected events such as terrorist attacks, deadly storms or pandemics.

“Foreign policy challenges, from Iraq, Iran, and the Middle East, to North Korea and China, and even to Russia and South America, abound and make us wary of what some dangerous event could do to shake consumer and business confidence and the stability of markets,” Walden says. “The economy requires constant monitoring, and forecasts need continuous updating to account for unfamiliar paths and directions.”

Source: NC State University

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