



2020 COVID

Year in Review



In the beginning of the year, the United States was experiencing record employment, a robust economy, and increases in job participation rates by historically underserved populations. North Carolina continued to rank among the tier of states with a positive economic environment, a growing population, and a robust innovation ecosystem. The state had a 3.6 percent unemployment rate in January and February, a decrease of 0.4 percent from January 2019. The number of unemployed was dropping, and the civilian labor force had grown to 5,110,694.

By March of this year, the disease that literally shut down China had traveled to this country, and life as we once knew it ceased to exist in North Carolina and across our nation. Governor Roy Cooper issued the first “stay at home” order, effective March 30, for 30 days, during which time people could not generally leave their homes except for grocery shopping, essential medical services, and employment in “essential services” sectors.

Over time, as we advanced through several response “phases,” the state has afforded increasing amounts of freedom to engage in daily activities. However, limits on social gatherings remain in place, masks continue to be mandated in public, and certain businesses continue to operate under significant restrictions. In addition, many schools continue to conduct class virtually for many or all students, and sports events are required to limit attendance at levels well below their normal spectator capacity. With cases rising in December, future restrictions may be forthcoming, which could exacerbate already depressed economic conditions.

Authors

Kelly Fuller

President, NC Chamber Foundation

Dan Gerlach

Dan Gerlach LLC

**NC Chamber consultant*

Executive Summary

- The spread of COVID-19 and measures implemented to combat the virus caused substantial demographic, health, and economic disruptions across the globe. North Carolina was not immune to its effects.
- North Carolina’s methods to combat the virus were more stringent than many of our neighbors, perhaps contributing to lower infection rates but also greater economic distress.
- Economic sectors were affected unequally in both North Carolina and the U.S., including substantial and sustained losses in the leisure and hospitality sector. Manufacturing employment in North Carolina was hit notably harder than in neighboring states.
- North Carolina’s General Fund budget has not been as negatively impacted as many feared, with conservative practices providing some cushion – at least to date – against cutbacks in government employment and services. Many other states are not as fortunate.
- Bankruptcies, evictions and foreclosures, and commercial real estate disruption continue to be headwinds as we move into 2021.
- However, North Carolina’s high quality of living may allow the state and its communities to benefit from interest in more remote work, supply-chain resiliency and redundancy, and likely growth in the state’s historically strong presence of biopharma and other innovation sector companies.

Each state has addressed the pandemic differently, with some issuing limited orders and restrictions and others assuming a more aggressive posture. North Carolina, with the most restrictive orders in our region by many measures, has experienced the slowest economic recovery of these same states. Our [COVID-19 positive rate](#) trends somewhat below neighboring states, while case trends for the Southeast, as a whole, are generally more stable than many parts of our country (*as of mid-December*).

7d Rolling Positive Test Rate vs. Similar States



Consumer Spending vs. Similar States



Data Sourced from [Opportunity Insights](#)

How North Carolina Has Changed

Demographically

As the pandemic affected states in varying ways, their residents reacted accordingly. Areas with tight restrictions, and often high positive case rates, experienced significant out-migration. Some states, including North Carolina, were prime beneficiaries of those trends.

While the population impact will not be fully known for many months, anecdotal information helps paint an early picture. Many people in California and New York sought to leave their states, and North Carolina has been a net gainer in population as a result, along with Florida, Texas, Tennessee, and Nevada. In two separate studies by [Redfin](#), a national real estate brokerage, Raleigh ranked third, Charlotte ranked tenth, and Greensboro/High Point ranked sixteenth for [in-migration](#). In addition, United Van Lines ranked North Carolina seventh on the [list of states](#) that saw the biggest influx of new moves between March and August of this year.

Health Status

An estimated 257,000 people in North Carolina lost their health insurance due to job loss during the first six months of the COVID-19 pandemic, according to estimates in the [North Carolina Medical Journal](#). This increase translates into an almost 3 percent rise in our uninsured rate statewide. More than 1.1 million people were already [uninsured](#) in North Carolina in 2019, approximately 11.4 percent of the state's [population](#).

In August, 2,337,492 North Carolinians were covered by Medicaid, up from 2,186,142 people in February, according to the North Carolina Department of Health and Human Services. This amounts to an increase of 151,350 North Carolinians on Medicaid, a rise of 7 percent. Increases in caseloads will translate into a higher state budget obligation for the foreseeable future. In addition, the uninsured population will continue to seek necessary care in hospitals, where the cost is eventually passed on to commercial market payors. In other words, businesses will ultimately pay higher premiums to compensate for uninsured care.

Of note, the disparities between minority populations in both health status and access have widened since the onset of the pandemic. Black and Latino [populations](#) have experienced poorer outcomes and higher death rates from COVID-19 and have become [uninsured](#) at a higher rate than white populations. These [populations](#) are also the least trusting of the safety of a coronavirus vaccine and more hesitant to receive one when it becomes available.

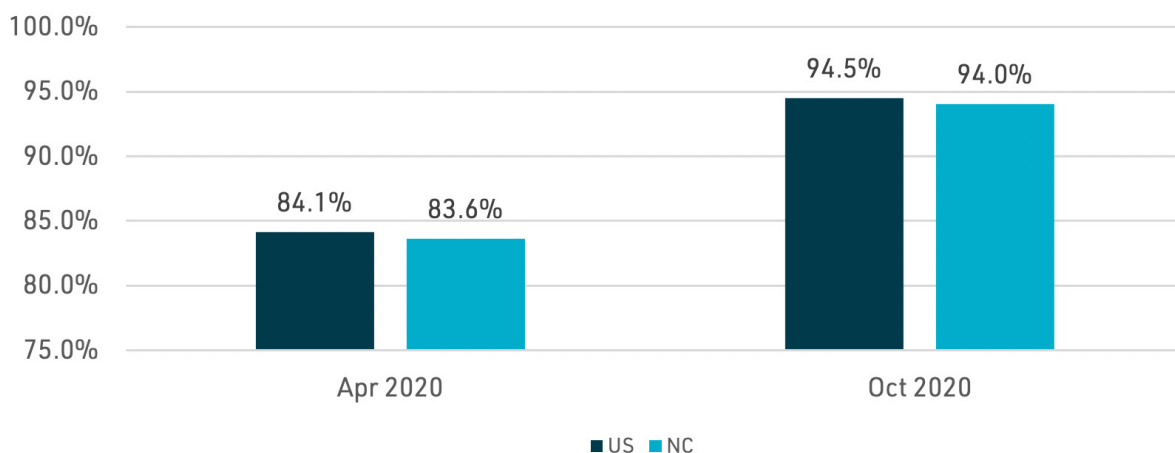
Emotional, psychological, and social effects of isolation and disrupted daily routines, financial insecurity, and constant worry of the virus harming us and our loved ones have enforced the significance of mental health care. Living in a pandemic, facing both health and financial crises simultaneously, our world is united in coping with stress, anxiety, and fear. Fostering a proactive mental health culture in our professional and personal lives is more vital than ever.

Economically | Employment Compared to the Nation

North Carolina was not immune from the economic effects of the pandemic. By both measures of employment and jobs – monthly surveys of households and payroll employers – the nation and North Carolina were hit hard.

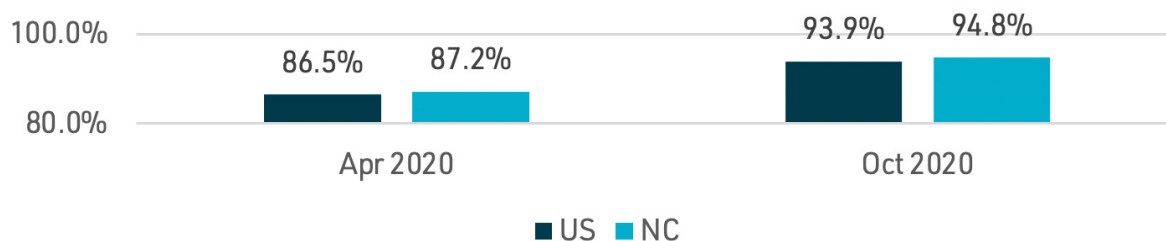
The trough came in April 2020, where the survey of North Carolina households showed a decline of 16.5 percent in employment from October 2019 levels, compared to 15.9 percent nationally. The survey results have since indicated a partial recovery, with October 2020 employment showing a 6 percent decline for North Carolina households from October 2019 levels (5.5 percent nationally).

Employment Trends as % of October 2019 Levels, US v. NC



A similar pattern exists with payroll employer surveys, where North Carolina fares slightly better than the nation (as opposed to the household survey, where the state fared slightly worse). In April, North Carolina payrolls had fallen 12.8 percent from October 2019 levels, compared to 13.5 percent nationally. The payroll survey results for the state recovered to a 5.2 percent decline from October 2019 levels (6.1 percent nationally).

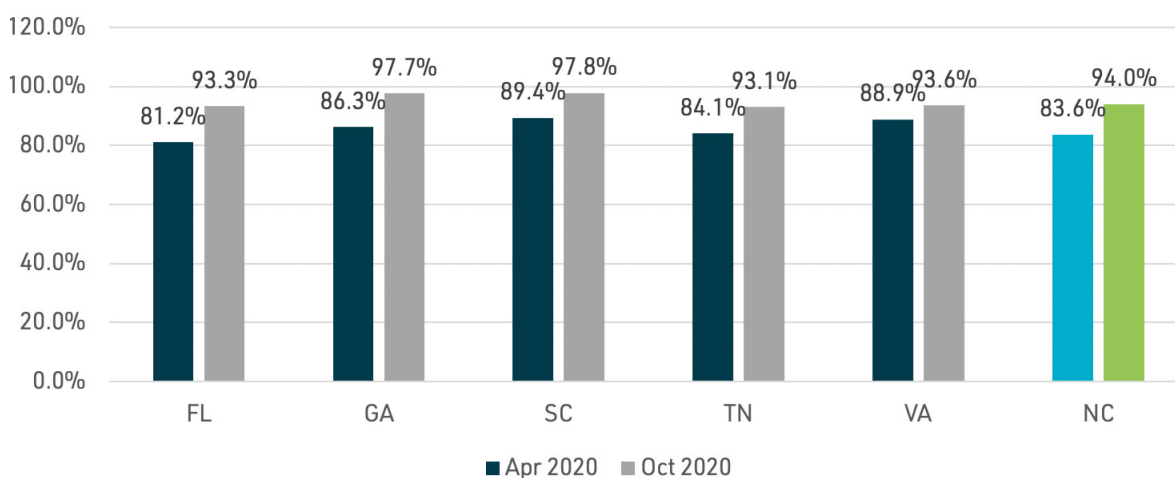
Payroll Employment as % of October 2019 Employment, US v. NC



Employment Compared to Other States in the Region

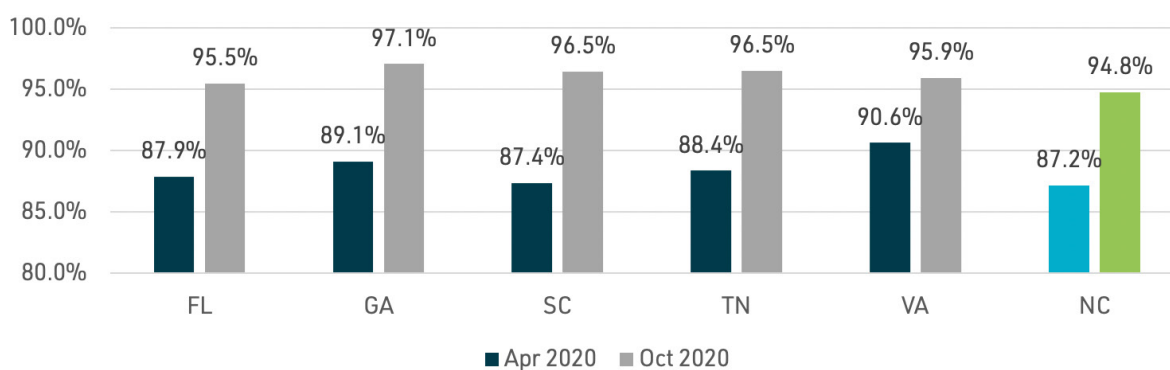
By April of this year, North Carolina's employment decline was greater than most other Southeastern states, except Florida. However, the state recovered more than most to rank in the middle of neighboring states by October 2020.

Employment in SE States v. NC, Benchmarked to October 2019



The results regionally are not as positive when looking at the payroll survey responses. Throughout the year, North Carolina trailed its neighbors and Florida in terms of payroll employment decline. If North Carolina had recovered at the same rate as the median of our neighbors, 78,000 more North Carolinians would have been on our payrolls.

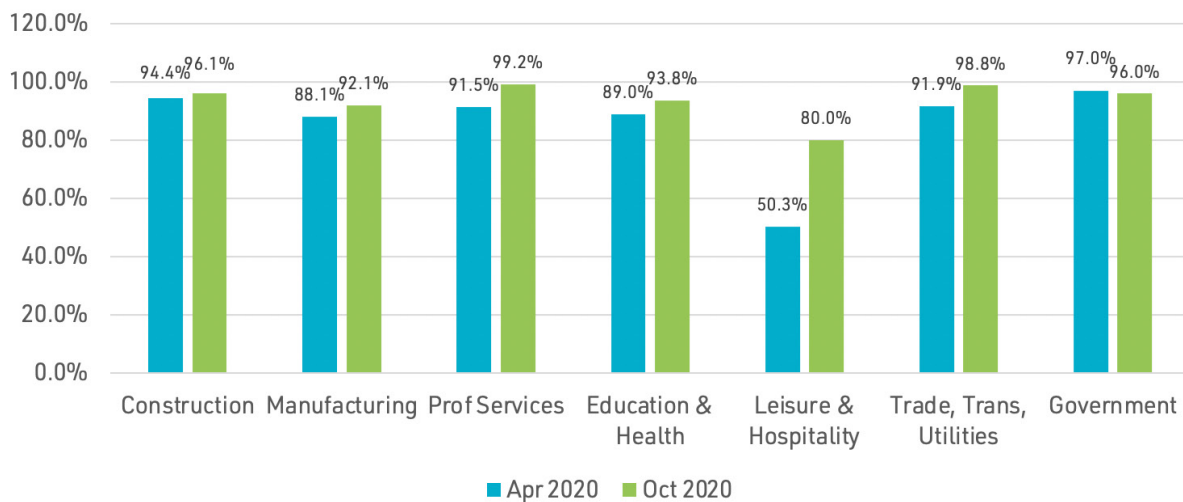
Employment in SE States v. NC, Benchmarked to October 2019



Specific Economic Sectors

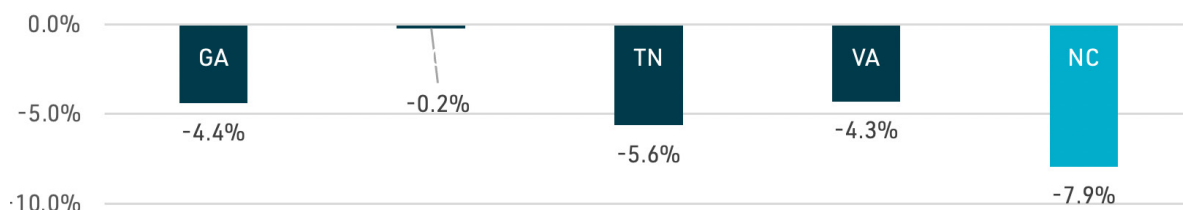
Leisure and hospitality payrolls are 20 percent lower than a year ago, both for the state and the nation. That sector holds its status as the industry most impacted by the pandemic. North Carolina fared better regionally with the recovery of professional services and trade, transportation, and utility sectors. The state fared worse, however, in the recovery of the manufacturing, education and health, and construction sectors.

NC Sector Employment as % of October 2019 Levels



Our challenges with the manufacturing sector explain most of the differences between North Carolina and neighboring states. The chart below shows that our manufacturing sector lost 7.9 percent of its jobs, which is 3.3 percent more than the regional median, and a difference of almost 16,000 manufacturing jobs.

% Decline in Manufacturing Jobs in NC & Neighbors, October 2019 – October 2020

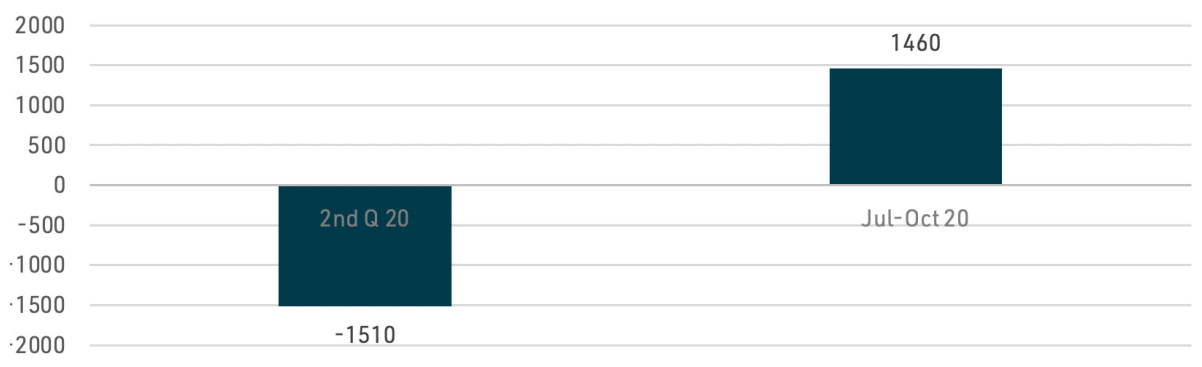


State Budget Impacts

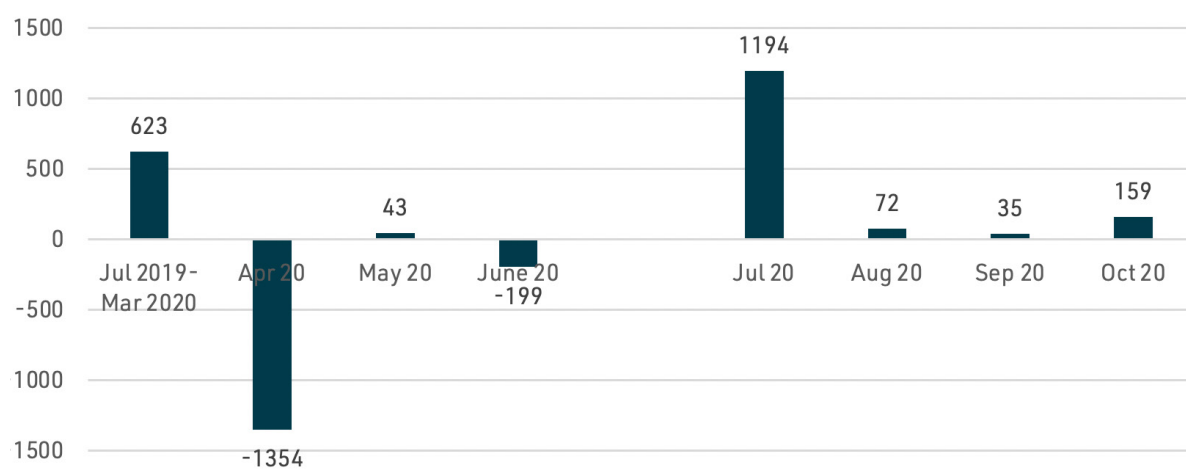
Early in the pandemic, forecasters were rightfully concerned about the impact on the state government budget. Thus far, the stabilization efforts have taken hold. State revenues declined by \$1.5 billion from prior year levels in the last quarter of state Fiscal Year 2020/2021 (April to June of this year), driven in large part by delays in the filing of final income tax payments from April 15 to July 15. State revenues for the first four months of the fiscal year (July-October) were up by \$1.4 billion from the prior year.

Importantly, sales tax revenues – an important bellwether – showed increases from the prior year in July, August, and September 2020. While the increases are not on par with the increases of previous years, this trend is still a positive sign of vitality. Of note, consumers are spending more on goods (as opposed to services) since the beginning of the pandemic, as people are choosing to spend more on their homes and less on leisure and dining activities.

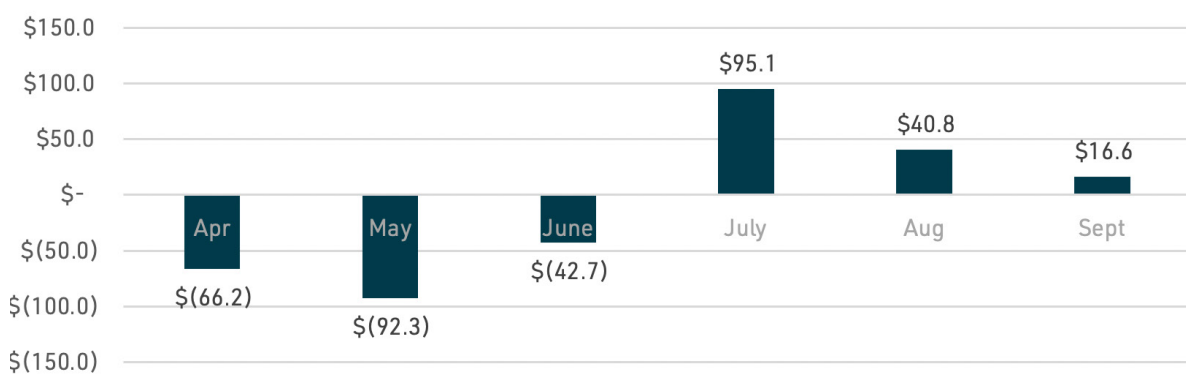
Change in Revenues from Prior Year, 2nd Quarter 2020 Compared to July-October 2020



General Fund Change from Prior Year (million \$)



Sales Tax Receipts Compared to Previous Year (millions \$)



Future Trends

The coronavirus pandemic has accelerated many workforce and economic trends, as well as exposed weaknesses in supply chains and operating models. Most facets of our economic lives are forever altered.

First, “**work from anywhere**” as a workforce policy will have a dramatic effect on how people work in the future. After experiencing flexibility, many workers, particularly millennials, will continue to demand alternative ways to do their jobs. In addition, businesses will have to creatively structure their workplaces and policies in order to ensure that onsite employees feel safe and have access to some of the flexibility options available to others. Remote working also adds extra complexity when employees need to simultaneously juggle personal and professional demands with increased child and parent care obligations.

Second, the use of **e-commerce** has grown exponentially during the pandemic. The rapid contraction of the brick-and-mortar [retail sector](#) will only exacerbate employee displacement and local shopping limitations. As a result, many people will choose – or will be required – to purchase essential goods and services online without viable local in-person shopping options.

Third, methods by which employers **attract and retain workers** have become critically important and more nuanced. Recruiting and maintaining a skilled workforce has always required creativity and a focus on evaluating employee satisfaction. People want to feel valued, and if they do not feel appreciated in their company culture, many will choose to find employment elsewhere. This was already a challenge in the tight labor market that existed before the pandemic. The trend toward remote work that occurred during the pandemic has introduced new factors for consideration, requiring employers to be even more creative if they wish to accurately assess employee satisfaction. In addition, employers may choose to rely more on gig workers to reduce costs and become more flexible – particularly those employers that must strictly base operational decisions on production needs during a given period.

Finally, **supply chain resiliency** is now a business imperative. The pandemic exposed the risks of overreliance on either single suppliers or potentially unreliable foreign sources due to events outside of a company’s control. The need to build resiliency into a company’s supply chain is now a critical part of operations. Businesses are therefore investigating the reshoring of their suppliers’ sources. Economies across North America stand to benefit from this movement, and North Carolina’s economy stands to benefit more than others due to our geographic and workforce advantages.

Observations

The events of 2020 have been unlike any seen or experienced in generations. North Carolina faces both challenges and opportunities as we embark upon a new year. Challenges include:

- Matching the unemployed with job openings;
- Providing the reskilling needed for displaced workers or those seeking employment change;
- Dealing with a decentralized workforce development structure that does not always meet the needs of businesses;
- Developing adequate childcare and schooling options for children.

Businesses will need to reconsider the ways they both recruit and retain talent. Some of the industries that are most in need of workers, such as the manufacturing sector, will have to reintroduce themselves to the market, while others will need to provide significant training opportunities to meet the continually evolving nature of many companies and industries.

While challenges abound, numerous **opportunities** lie ahead for North Carolina. A bright spot on the horizon is the **reexamination of supply chain sourcing**. Many companies’ overreliance on single sources of certain goods and materials became a glaring weakness in operational models. Manufacturing these products domestically bodes well for North Carolina, which has the largest manufacturing workforce in the Southeast. Coupled with our favorable business climate and low cost of living, our manufacturing sector stands to gain from this supply chain repositioning.

In addition, North Carolina's history in the **biopharma sector and other innovation-driven fields**, including pharmaceuticals, makes it a national leader in this type of production. The state's strong university system and research institutions are building blocks for future economic success, and our logistics capacity is one of the best in the country. By strategically connecting our intermodal assets, the state can leapfrog our competitors in both production and delivery capacity.

Finally, with the greater emphasis placed on remote working options, employees have more flexibility to live further from their places of work. **Suburban and more rural areas** of the state are positioned to attract new workers by offering them the best of both worlds: a well-paying job in a larger metropolitan area and a slower pace of living that many suburban and rural communities enjoy.

Headwinds into 2021

While no one can predict what 2021 will hold, there are areas to monitor that will affect our ability to emerge from our current economic state. First and foremost, uncertainty about the future is the overarching cloud on the horizon. The increased **uncertainty** of economic forecasting arising from the pandemic has produced a dampening effect on the entire economy. Companies are reticent to invest capital, hire additional employees, or expand without a guaranteed return on investment. Business [surveys](#) in various states show the hesitance of many in the [corporate](#) community. In addition, economists are [predicting](#) a slow beginning to 2021 and a long horizon for full recovery with the duration of this pandemic. 2020 has taught one lesson most clearly: hope for the best but plan for the worst.

Personal and financial bankruptcies are also expected to rise in the absence of future government assistance such as PPP loans and enhanced unemployment benefits. The retail sector provides an example of the impact of recent disruptions. This sector – including electronics, clothing, department, and jewelry stores – traditionally sees at least 20 percent of annual revenue during November and December, according to U.S. Census Bureau data. Specifically, jewelry stores' revenues in those two months accounted for 27.5 percent of total annual sales in 2019. Unfortunately, many of these businesses have already lost significant [revenues](#) in 2020, with some down 46 percent compared to March of last year. Clothing stores have dropped 35 percent year over year.

In addition, **many evictions and foreclosures** will occur as the moratorium on rent and mortgage payments expires. Both landlords and banks will need to recoup their investments, which in turn will leave many individuals and businesses homeless and without commercial space. While the downstream impact of this situation is difficult to quantify, it is expected to cause an exponential ripple of negative effects throughout the economy.

Finally, the disruption in the **commercial real estate space** – including the associated impacts on businesses and restaurants – has yet to fully manifest. As companies gradually reexamine their physical footprints and factor in enhanced use of "work-from-anywhere" policies, the negative economic impact will likely be seen in waves. The tax base associated with these businesses will also dwindle, and local governments will be left redesigning their revenue generation options.

Conclusion

2020 will be a year for the record books. The sheer number of lives lost, businesses closed, and children struggling to master necessary skills will mark this period as one of significant economic and social disruption. However, there are silver linings and stories of resiliency that stand out.

"Pivot" is the word of the year in many ways. As our country and our state take this word to heart, our leaders have an opportunity to ensure our economy can reemerge stronger and better suited for the challenges ahead. While the economic devastation we have seen should not be minimized, there are bright spots on the horizon. With intentional focus and concentrated effort, we can harness the lessons of COVID-19 to create a new economic blueprint that can benefit North Carolina for generations to come.



701 Corporate Center Drive, Suite 275
Raleigh, NC 27607

ncchamber.com/foundation