



Mixed messages mark Metro Economy Outlook

by Daniel Walton - November 7, 2019

The longest economic party in U.S. history isn't quite over yet, economist **Bernard Baumohl** told a capacity crowd at the Metro Economy Outlook hosted by the Asheville Area Chamber of Commerce on Oct. 24. Over 200 area business leaders and elected officials had gathered at The Venue in downtown Asheville to hear Baumohl, recognized by *The Wall Street Journal* as the most accurate economic forecaster of 2018, prognosticate about what risks and opportunities might lie ahead.

Although market fundamentals remain strong into the 11th consecutive year of American economic expansion, Baumohl said, he sees "a clear undercurrent of fear and anxiety and concern" about a possible recession among his economist colleagues. And if the U.S. and China fail to resolve their ongoing trade disputes, he predicts a 35% chance of economic downturn during 2020.

"It is really difficult — very, very difficult — for a \$22 trillion, free-market, open, highly liquid economy to actually have a recession," Baumohl emphasized. But just like the dot-com bubble of the early 2000s and the subprime mortgage crisis that caused the Great Recession, he said, "acts of human folly" could derail continued growth.

Trade troubles

One impact of the trade war, Baumohl said, had already become evident in the hospitality and hotel industry, among the most important sectors of the Western North Carolina economy. Leisure travel from China to the U.S. has "shut down," he explained, cutting off the flow of Chinese tourists and their average spending of \$6,000 to \$7,000 per visit — twice as much money as is spent by visitors of any other foreign nationality.

In 2018, the Buncombe County Tourism Development Authority reported on an attempt to court the Chinese market through a familiarization trip for 16 international travel buyers called "Southern Pearls." No such effort is included in the BCTDA's sales and marketing plan for the current fiscal year.

Companies of all sorts, Baumohl added, are wrestling with increased uncertainty about U.S. economic policy. He'd recently talked with the head of a major supply chain firm, he said, who summed up attitudes toward what the business community sees as "erratic, impulsive" decisions coming from the administration of President Donald Trump.

“I can’t plan for crazy,” Baumohl recounted as the CEO’s take. “And this is crazy.”

However, the economist noted that several key domestic indicators are still positive. Fuel prices are low, Baumohl said, keeping more money in consumers’ pockets. And unemployment is at a historic low, with more job openings available nationally in August than there were unemployed laborers to fill them in September.

That trend holds in Buncombe County, which continues to boast the lowest unemployment rate in the state (2.6% in September, the most recent month for which data is available). According to the N.C. Justice Center, the number of jobs in the Asheville metropolitan statistical area grew by 5.6% from August 2018 to last August, North Carolina’s best year-over-year improvement.

Spending shifts

Another national trend of particular interest to the region is the weak consumer spending Baumohl has observed among millennials. People between the ages of 20 and 39 make up a disproportionately high percentage of Asheville’s population compared with statewide averages, with 9.2% of the city’s residents in the 25-29 range, more than any other five-year division.

Economists, Baumohl said, have hoped that millennials would take up the spending baton as baby boomers enter their retirement years, simplify their lives and reduce their household expenses. But the data on spending among the younger generation, he continued, suggests that shift is not taking place.

“They are really budget conscious — they have to be,” Baumohl said of millennials. High levels of college debt, concerns over the solvency of safety net programs such as Social Security and Medicare and lingering trauma from the Great Recession, he explained, have made young people especially cautious about making big purchases.

“They saw friends, families, neighbors lose their homes and declare bankruptcy,” noted Baumohl about the recession’s legacy for millennials. “For the first time, they got to see that no, home prices do not have this divine right to appreciate.”

Countering millennials’ reluctance to spend, Baumohl said, is the growth of e-commerce. The ease of online shopping and widespread availability of digital payments, he noted, has led to an unprecedented uptick in impulse buying. “That’s what’s keeping consumer spending so active,” he said.

Take cover

Many of the current threats to prosperity, Baumohl acknowledged, are beyond the influence of business. Geopolitical flashpoints such as the South China Sea, Iran and Kashmir could trigger strife that spooks the global economy, he said — and those in power may not have learned their lessons from previous conflicts. “My concern always is that people who are making policy have a historical memory that goes back a little further than breakfast,” he quipped.

In response to the threat of cyber attacks, Baumohl's top-listed worry, the economist urged firms of all sizes to buy cyber theft insurance, upgrade software and have their operations tested for vulnerability. "There are only two types of companies out there: those that have already been hacked and those that don't yet know they're being hacked," he said.

With the world situation so uncertain, Baumohl said, business leaders should prepare for unexpected shocks and be ready to operate under disruptive circumstances. "Buckle up, because it's going to be quite a bumpy ride," he said.

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