ECONOMIC OUTLOOK

QUARTERLY REPORT – Q4 2025

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Prepared by

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Abstract

The Economic Outlook quarterly report uses the North Carolina Forecast Model developed by Dr. Jeremy Jackson to predict economic trends for the greater Fayetteville metropolitan area, the state of North Carolina, and the nation. The model uses past trends and empirical relationships in data to predict (forecast) future trends. These forecasts focus on key economic indicators such as wage growth, labor force participation, unemployment, and the housing price index. Like all forecast models, this method faces limitations and the specific values in the forecast should not be direct cause for decision-making. Rather, forecasting provides information about what is possible and can help establish expectations.

The Economic Outlook report is released each quarter with updated data from the forecast model.

Introduction

The Lloyd V. Hackley Endowed Chair for the Study of Capitalism and Free Enterprise has developed a forecast model to showcase the economic outlook for the national economy, the state of North Carolina, and the Fayetteville MSA. This report presents the model results for the fourth quarter of 2025 (2025q4). The model run was performed on December, 23 2025.

The forecast focuses on key economic indicators such as wage growth, labor force participation, unemployment, and the housing price index. The data used to create these forecasts come primarily from the St. Louis Federal Reserve. Each figure illustrates the model's projections with each panel showing both the actual forecast and the confidence interval (CI) around the forecasted number. The confidence interval represents the range of values that are possible with 90% confidence. This means that, statistically, we can be 90% confident that the value in the given quarter will fall between the upper and lower CI limits. Interconnected variables are incorporated into the model to demonstrate how national conditions impact the state-level predictions, state-level conditions impact predictions for metropolitan areas. All projections are based on the trends of the data in the past. As explained below, a forecast model does not and cannot account for unforeseen factors and changes that may affect economic performance. For more information about the North Carolina Forecast Model, see the technical appendix at the end of the report.

Limitations

Forecasting has long been a mainstay in the field of economics. It conveys much needed information about the world we live in and trends in economic variables that can be useful for public and private decision-makers. However, it is important to acknowledge the limitations of any forecast. There are many reasons a forecast model may not produce correct predictions. The model uses historical data and past trends to predict (forecast) future trends. As a result, unexpected changes in economic conditions, public policy or other factors may disrupt the accuracy of the forecasts. Similarly, the model cannot incorporate all of the complexity and uncertainty surrounding an economic system.

Executive Summary

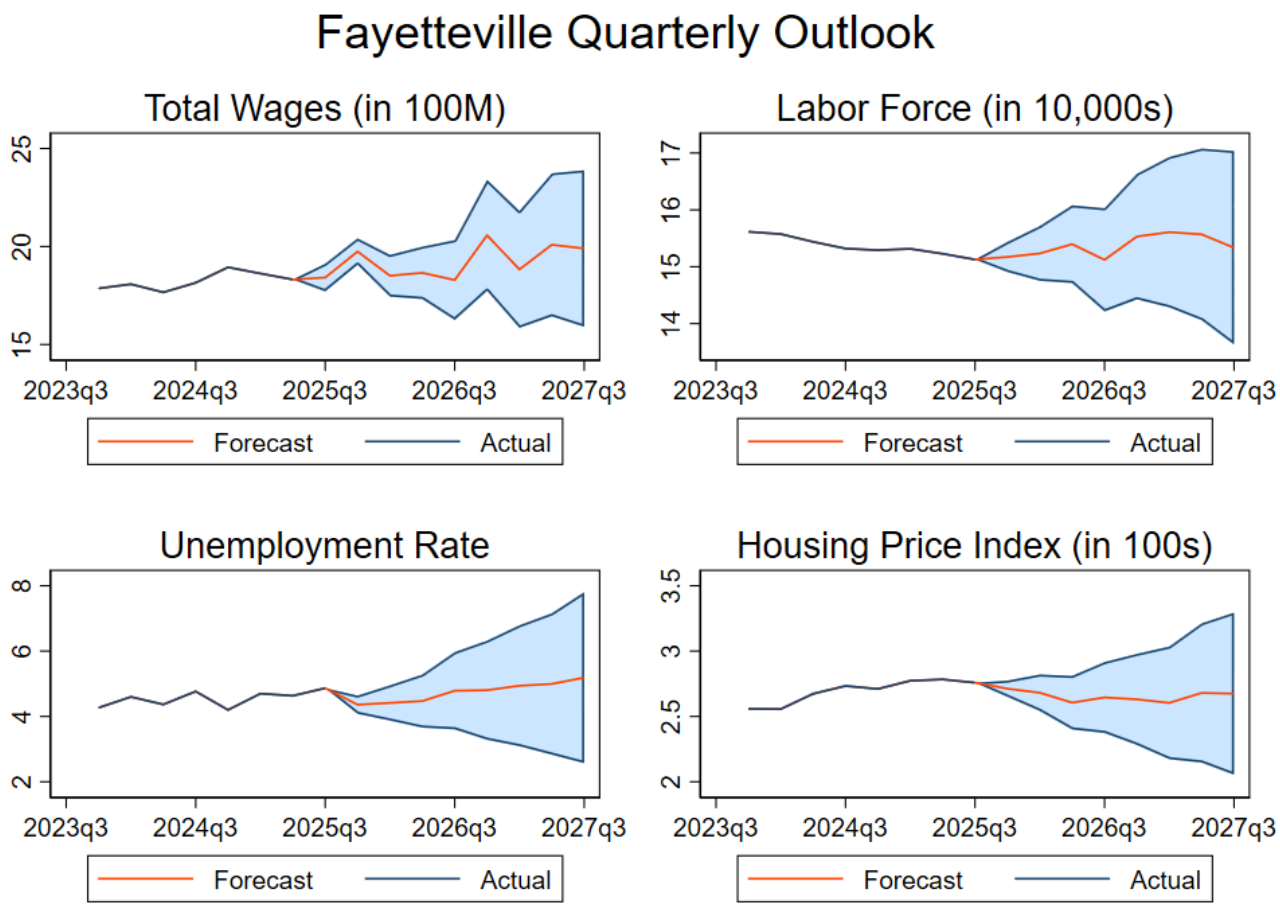
The economic outlook for the U.S. economy remains positive. Economic growth continues to be supported by strong consumer expenditures. There are signs that economic growth may stagnate as the unemployment rate increases and net investment falls. Corporate profits may fall in the short term.

The North Carolina economy continues to perform well with growth in gross state product and total wages and salaries expected to continue. The labor market will continue to see low unemployment with a possible slight expansion in the labor force.

While the state and national economies have a positive outlook, the outlook for the Fayetteville Metropolitan Area is more mixed. Wages in the metro area have been declining, although the forecast includes a potential increase in 2026. The local unemployment rate should remain at current levels. There has been a recent decline in the local labor force which should level off in 2026. Housing prices look to continue the recent slight downward trend.

Key Points

- The economic outlook for the national economy is positive with slight cause for concern as net investment and corporate profits fall.
- The outlook for North Carolina is positive, with low unemployment and a growing state product expected.
- The outlook for the Fayetteville Metropolitan Area is mixed.
- Wages in Fayetteville have seen a recent decline, but this may reverse in 2026.
- Housing prices in Fayetteville are expected to continue their current downward trend.



Wages

Wages in Fayetteville showed a general positive trend through 2024 into 2025, ending Q2 2025 with a 3.7% year-over-year increase. This was achieved despite small decreases in wages in Q1 and Q2 of 2025. Forecasts closing out 2025 and into 2026 follow a historic cyclical pattern with growth expected in the fourth quarter of 2025 and 2026. Overall, wages over the next year are expected to be flat.

Labor Force

The labor force has been in decline showing a 1.27 percent decrease over the last year. Forecasts show a relatively flat labor force over 2026 with possibility of modest growth into 2027.

Unemployment Rate

Unemployment rate has had some volatility but has had a slight upward trend with the most recent unemployment rate being 4.87 in Q3 if 2025. The unemployment rate is expected to decline in Q4 of 2025 and then return to a pattern of modest growth.

Housing Index

While there was a year-over-year gain of almost 1% in housing values, Q3 housing values declined .9% from the previous quarter. This trend of slight decline is expected to continue over the next year.

Total Wages and Salaries

Wages in North Carolina increased steadily through 2024, and into Q2 2025. Wage growth was 1.61% from Q1. Year-over-year growth was 6%. Forecasts indicate continued growth in the short term and into 2027.

Labor Force

The labor force has been extremely stable. Year-over-year, the labor force declined by 0.01%. Forecasts indicate a potential for a growing labor force to end 2025 through 2026. Although any growth is expected to be modest.

Unemployment Rate

Unemployment has held steady at 3.70 through Q2 2025. Forecasts indicate the unemployment rate will remain stable through 2027.

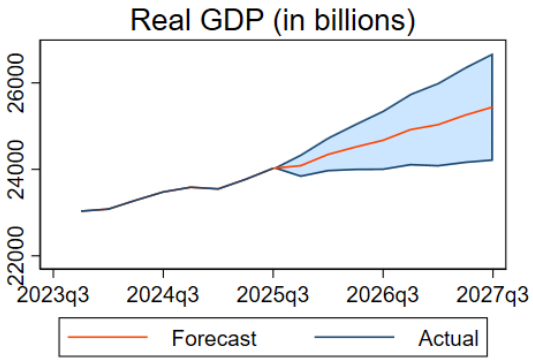
Real Gross State Product

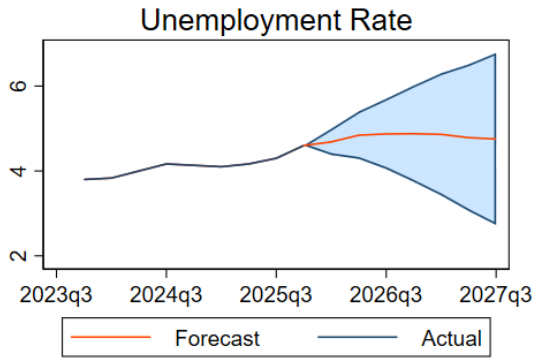
North Carolina's GSP rose by .92% in Q2 2025 from the previous quarter. The year-over-year gain was 2.68%. Forecasts indicate a continued growth through mid 2026.

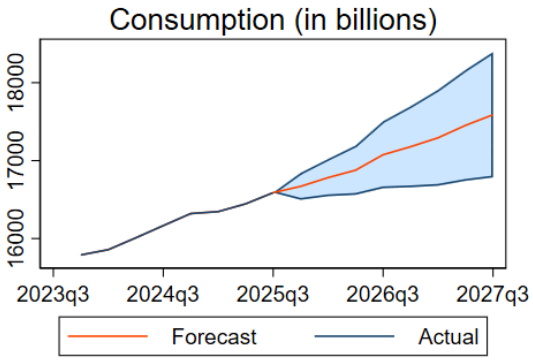
Tax Revenues

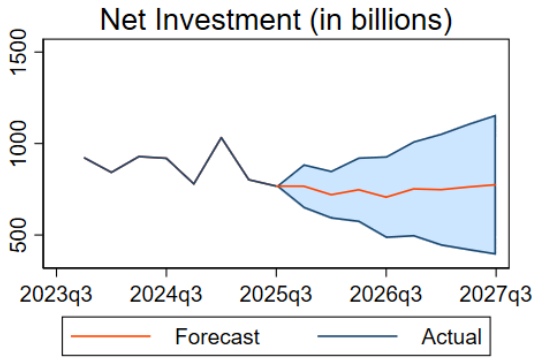
Tax revenues follow a highly cyclical trend with Q2 2025, representing a year-over-year gain of 3.45%. Forecasts show a general increasing trend while following established cyclical patterns.

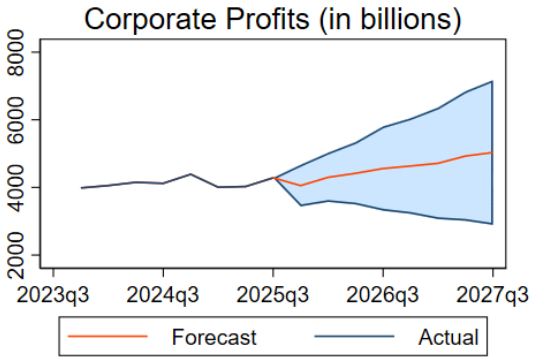
National Quarterly Outlook

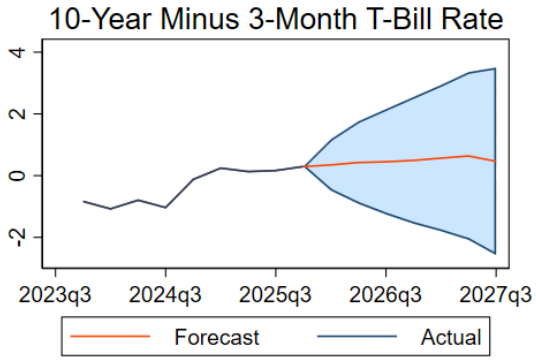


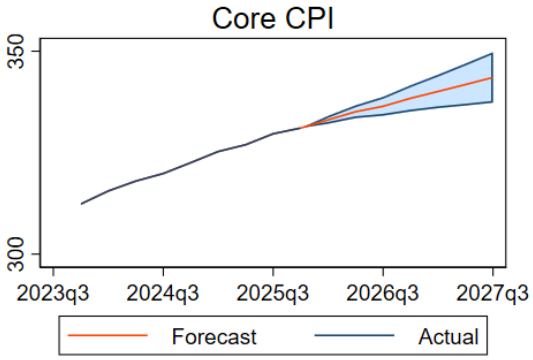












Gross Domestic Product

GDP grew by 1.07% in Q3 2025. In the previous quarter GDP growth was .95%. Year-over-year growth was 2.33%. Forecasts show steady growth expected through 2027.

Unemployment Rate

The Unemployment Rate has increased for thee quarters in a row currently standing at approximately 4.6%. This is up from 4.13% in Q4 2024. Forecasts suggest gradual increase over the next year.

Consumption

Consumption grew by .87% in Q3 2025 which is an increase in the growth rate of .61% in the previous quarter. Year-over-year growth was 2.62%. Forecasts indicate continued growth in consumption.

Net Investment

Net Investment fell by 4.38% in Q3 2025 which is a slowdown from the 22.32% decrease experienced in Q2. Year-over-year, the decline was 16.59%. Forecasts show continued slight declines in 2026 before leveling off into 2027.

Corporate Profits

Corporate Profits increased by 6.39% in Q3 2025. Year-over-year the gain was 3.93%. Forecasts show a decline in Q4 2025 followed by a return to strong growth.

Yield Spread

The yield spread has remained positive, although very close to zero throughout 2025. It was negative last in Q4 of 2024. Forecasts indicate slow growth in the yield spread. A negative yield spread is a predictor of recession.

Core Consumer Price Index

Core CPI grew by .43% in Q4 2025 with year-over-year growth at 2.65%. Forecasts suggest continued inflation at the same rate.

Technical Appendix:

The methodology used in the NC Forecast Model is a nested Vector Autoregression Regression (VAR) system.

VAR is a regression methodology that uses lagged values of endogenous variables (variables that the model predicts and determines) and lagged values of exogenous variables (variables that are determined outside of the model and that the model takes as given) in a system of equations whereby future values of each endogenous variable is predicted based upon its own lagged values and lagged values of the other endogenous and exogenous variables.

VAR has been demonstrated in the literature to be an effective method for forecasting variables that follow certain dynamic patterns. VAR models are data driven and do not rely on theoretical assumptions regarding empirical relationships among the data. VAR has also been found to be effective for forecast models that are relatively small in scale.

The NC Forecast Model is nested in that it starts with a minimal model of the US economy. This model of the U.S. economy has a set of endogenous variables (GDP, unemployment, etc.) and takes commodity prices as exogenous. The relationship amongst these variables are econometrically measured separately from other components of the larger model. A separate model of the NC economy has a set of North Carolina endogenous variables (GDP, unemployment, etc.) and takes as exogenous the variables from the US economy model and commodity prices. This NC economy VAR model is econometrically measured separately from the other components. Lastly, there are three models for each of the major metro areas inside NC: Fayetteville, Charlotte, and Raleigh. Each metro VAR model has a set of endogenous variables and takes variables from the NC economy and US model as exogenous. There is also a VAR model that incorporates commodity prices as endogenous variables.

The overall NC Forecast Model is nested because the metro models are nested inside the state model and the state model is nested inside the model of the U.S. economy.

The model uses quarterly data. Some data used is available daily. Daily data is converted to quarterly by taking a simple average of all data values in that quarter. All data used is downloaded from the FRED database maintained by the St. Louis Federal Reserve Bank. VAR as a method requires that each time series used meet a requirement known as stationarity. Most time series economic data do not meet this requirement; however the differences of the data do meet stationarity requirements. Therefore when we implement the ND Forecast Model we first take the natural logarithm of the data and then take the first difference. For reporting, all data is converted back to original values. All VAR systems inside the model take 3 lags.