ECONOMIC OUTLOOK

QUARTERLY REPORT – Q1 2026

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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

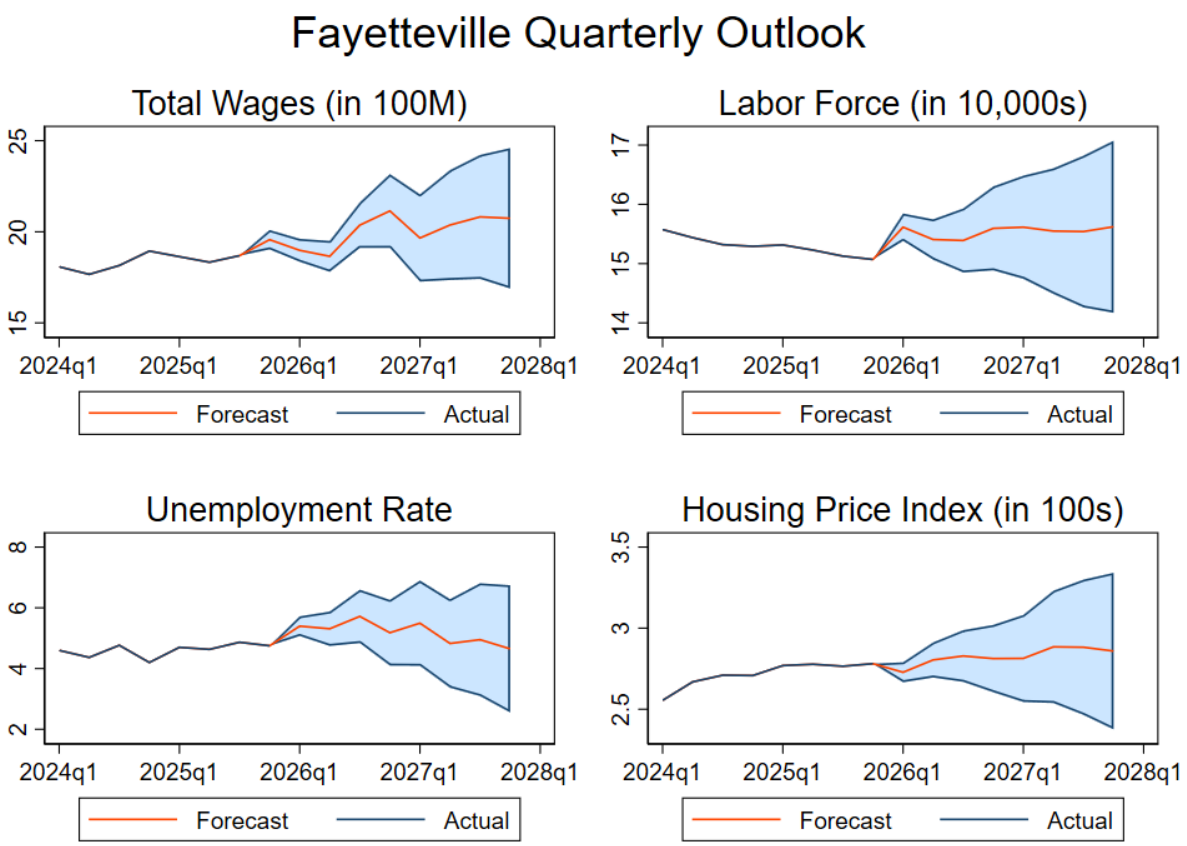
The economic outlook for the U.S. economy remains positive. Economic growth is expected to continue supported by growth in consumer expenditures and a falling unemployment rate. While both net investment and corporate profits may decline in Q1 of 2026, a growth pattern is forecast to begin in Q2. Inflation is expected to continue at its current rate.

The North Carolina economy continues to perform well with strong growth in total wages and salaries expected to continue. Gross state product may see a short-term downturn but the overall trend is towards growth. The labor market will continue to see low unemployment with a possible slight expansion in the labor force. Tax collections remain in a growth pattern.

The outlook for the Fayetteville Metropolitan Area remains mixed but is improved from the previous report. Wages in the metro area are forecast to increase in 2026. Housing prices are forecast to increase mildly in 2026 and 2027. The unemployment rate is forecast to increase in 2026.

Key Points

- The economic outlook for the national economy is positive. GDP, Consumption, and Profits are expected to grow while the unemployment rate is on the decline.
- The outlook for North Carolina is positive, with growing wages and salaries expected. Gross state product may have a slight downturn in the short term but looks to grow into 2027.
- The outlook for the Fayetteville Metropolitan Area is improved from the previous report.
- Wages in Fayetteville are forecast to grow in 2026.
- While housing prices in Fayetteville may fall in Q1 2026, the forecast shows this pattern reversing in Q2 with growth into 2027.
- The Fayetteville unemployment rate is forecast to increase in 2026.



Wages

Wages in Fayetteville showed a general positive trend through 2024 into 2025, ending Q3 2025 with a 3 percent year-over-year increase. After decreasing in Q1 and Q2, Q3 showed growth which is expected to continue in Q4. Forecasts through 2026 and 2027 follow a historic cyclical around a general pattern of growth.

Labor Force

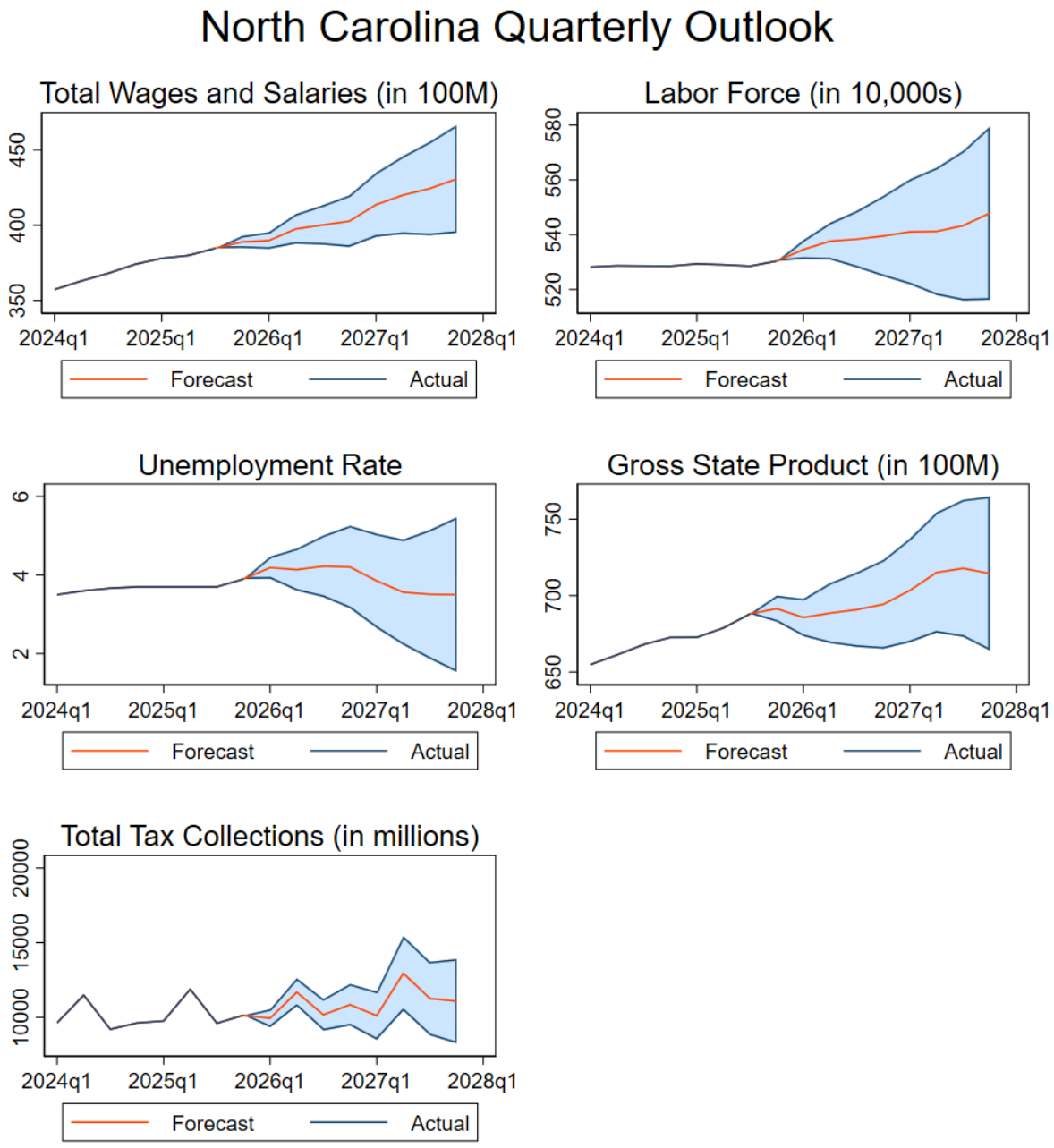
The labor force has been declining, with a 1.44 percent decrease over the last year. While the forecast for 2025 Q4 shows a sharp uptick, there is reason to be skeptical that any increase in the labor force will be very large. The forecast shows a relatively flat labor force from 2026 to 2027.

Unemployment Rate

The unemployment rate in Q4 2025 is down slightly from its level in Q3. The unemployment rate has grown over the previous year and is expected to continue growing until Q4 2026.

Housing Index

Housing values are relatively flat with a slight decrease experienced in Q4 2025 which is expected to deepen in Q1 of 2026. The downward trend may reverse to growth in Q2 2026 into 2027.



Total Wages and Salaries

Wages in North Carolina were up 1.26 percent in Q3 2025 which contributed to the year-over-year increase of 4.5 percent. The forecast indicates continued growth into 2027.

Labor Force

The labor force has been extremely stable indicating slight growth in Q4 2025. Year-over-year, the labor force has grown by 0.35 percent. The forecast shows a potential for a growing labor force through 2027. While this supports optimism that the labor force may grow in the short term, growth may not be as pronounced as the model predicts.

Unemployment Rate

The unemployment rate grew by 5.41 percent in Q4 2025 compared to Q3 increasing from 3.7 percent to 3.9 percent. This was the first change in the unemployment rate for several quarters. As the labor force is forecast to increase in 2026, so will the unemployment rate. The unemployment rate is, however, forecast to decrease in 2027.

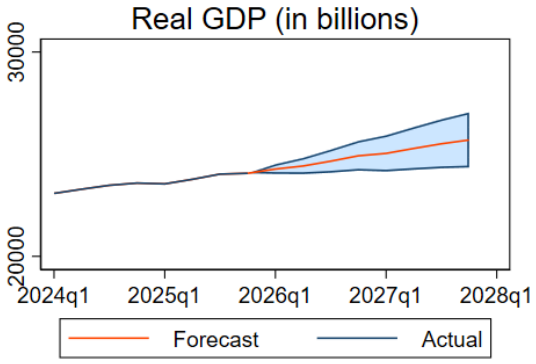
Real Gross State Product

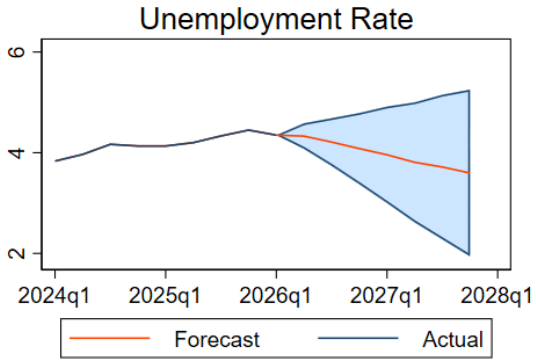
North Carolina's GSP rose by 1.36 percent in Q3 2025 from the previous quarter which represents a quickening rate of growth. The year-over-year gain was 3 percent. Forecasts show growth in Q4 2025 followed by a slight downturn in 2026 before picking up again in 2027.

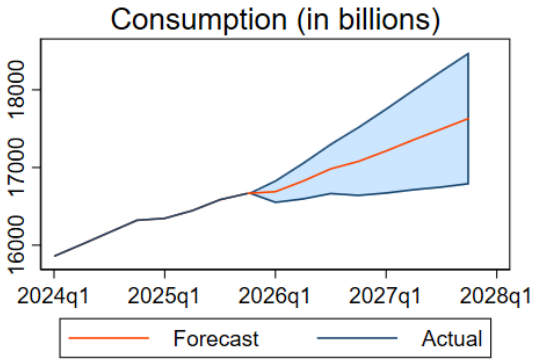
Tax Revenues

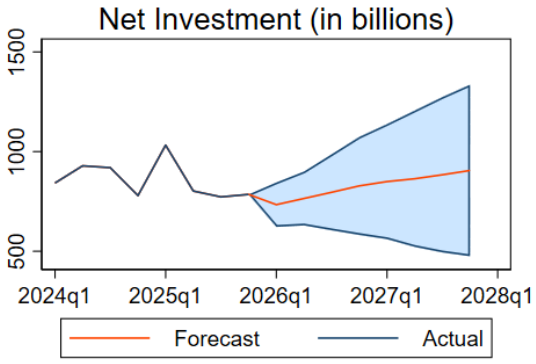
Tax revenues follow a highly cyclical trend with Q4 2025 representing a year-over-year gain of 5.3 percent. Forecasts show a general increasing trend while following established cyclical patterns.

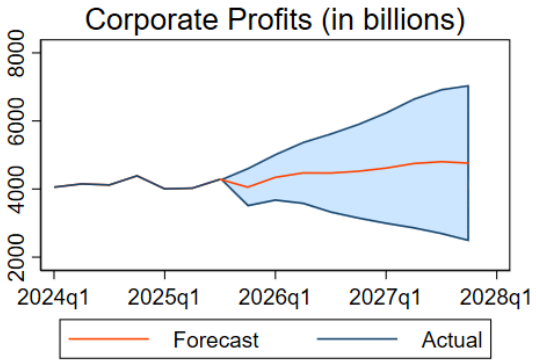
National Quarterly Outlook

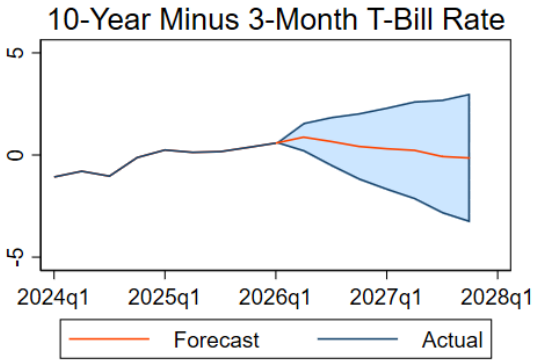


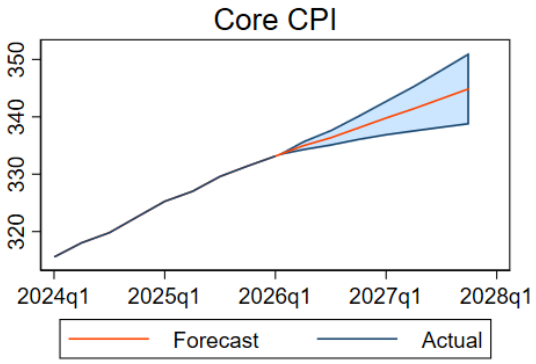












Gross Domestic Product

GDP grew by 0.16 percent in Q4 2025. In the previous quarter GDP growth was 1.08 percent. Year-over-year growth was 2.03 percent. Forecasts show steady growth expected through 2027.

Unemployment Rate

The Unemployment Rate fell in Q1 2026 to 4.35 percent from 4.45 percent in Q4 2025. Year-over-year, the unemployment rate grew by 2.1 percent (not percentage points). Forecasts show that the unemployment rate is expected to gradually decline through 2027..

Consumption

Consumption grew by .49 percent in Q4 2025. Year-over-year growth was 2.12 percent, demonstrating a steady rate of growth. Forecasts indicate that consumption is expected to continue its current growth trend.

Net Investment

Net Investment increased by 1.62 percent in Q4 2025 after having declined in the prior quarter. Year-over-year, net investment has grown by 0.77 percent. While net investment is forecast to decline in Q1 2026 it is expected to return to a growth pattern following Q1 and through 2027.

Corporate Profits

Corporate Profits increased by 6.43 percent in Q3 2025, the most recent quarter for which data is available. Year-over-year the gain was 3.97 percent. Forecasts show a decline in Q4 2025 followed by a return to 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 the yield curve may increase further in Q2 2026 but then go into a steady decline. A negative yield spread is a predictor of recession.

Core Consumer Price Index

Core CPI grew by 0.52 percent in Q1 2026 with year-over-year growth at 2.43 percent. Forecasts suggest continued inflation at a slightly reduced 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.