

ECONOMIC OUTLOOK

QUARTERLY REPORT – Q3 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, Charlotte, and Raleigh metropolitan areas, 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, Charlotte, and Raleigh MSAs. This report presents the model results for the third quarter of 2026 (Q3 2026). The model run was performed on September 30, 2026.

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 outlook for the U.S. economy remains positive. GDP and consumer spending are expected to continue growing steadily, and the unemployment rate is forecast to keep declining. Net investment and corporate profits are expected to grow through 2027. Core inflation has eased slightly, and the yield spread has widened to its highest level since 2022, a sign that does not point toward recession.

The North Carolina economy continues to perform well. Total wages and salaries and gross state product are forecast to keep growing, and the unemployment rate is expected to continue falling. The labor force has declined over the past year but is forecast to recover in 2027. Tax collections continue to follow their historic cyclical pattern.

The outlook for the Fayetteville Metropolitan Area is mixed. The unemployment rate is below its level of a year ago and is forecast to continue its downward trend, and wages are forecast to grow slowly. However, the labor force has fallen nearly 4 percent over the past year and is forecast to continue declining into 2027. The housing index is forecast to ease slightly from its current level.

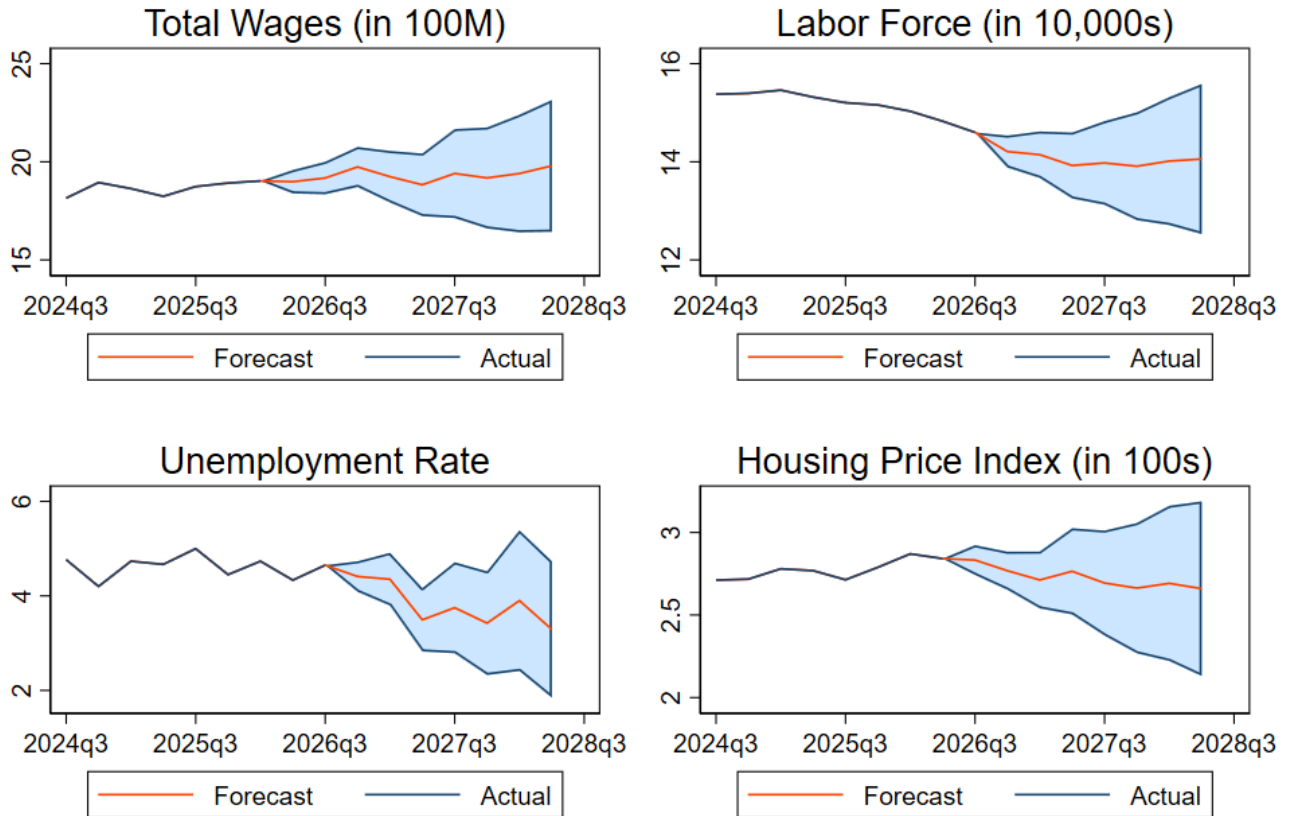
The outlook for the Charlotte Metropolitan Area is positive. Wages are forecast to continue growing, the labor force is expected to begin expanding in 2027, and the unemployment rate is forecast to decline. The housing index is forecast to rise steadily.

The outlook for the Raleigh Metropolitan Area is also positive. Raleigh has the lowest unemployment rate of the three metropolitan areas, and it is forecast to decline further. Wages are forecast to continue growing and the labor force to grow modestly. The housing index is expected to hold steady before rising in late 2027 and 2028.

Key Points

- The economic outlook for the national economy is positive. GDP, Consumption, Net Investment, and Profits are expected to grow, while the unemployment rate is expected to decline.
- The outlook for North Carolina is positive, with growing wages, salaries, and gross state product and a falling unemployment rate.
- The outlook for the Fayetteville Metropolitan Area is mixed.
- Wages in Fayetteville are forecast to grow slowly through 2027.
- The Fayetteville unemployment rate is lower than a year ago and is expected to continue its downward trend.
- The Fayetteville labor force has declined nearly 4 percent over the past year and is forecast to continue declining into 2027.
- The Fayetteville housing index is forecast to ease slightly from its current level.
- In the Charlotte Metropolitan Area, wages, the labor force, and the housing index are forecast to grow, while the unemployment rate is expected to decline.
- The Raleigh Metropolitan Area has the lowest unemployment rate of the three metro areas, with continued wage growth and a modest expansion of the labor force expected.

Fayetteville Quarterly Outlook



Wages

Total wages in Fayetteville rose 0.58 percent in Q1 2026 and were up 2.10 percent from a year earlier. Forecasts follow the historic seasonal pattern around a general trend of slow growth, a somewhat lower path than in last quarter's forecast.

Labor Force

The labor force fell 3.98 percent over the past year to about 146,000. Unlike last quarter's relatively flat forecast, the forecast now shows further decline into 2027 before leveling off near 140,000, which may be a concern for local employers looking to hire.

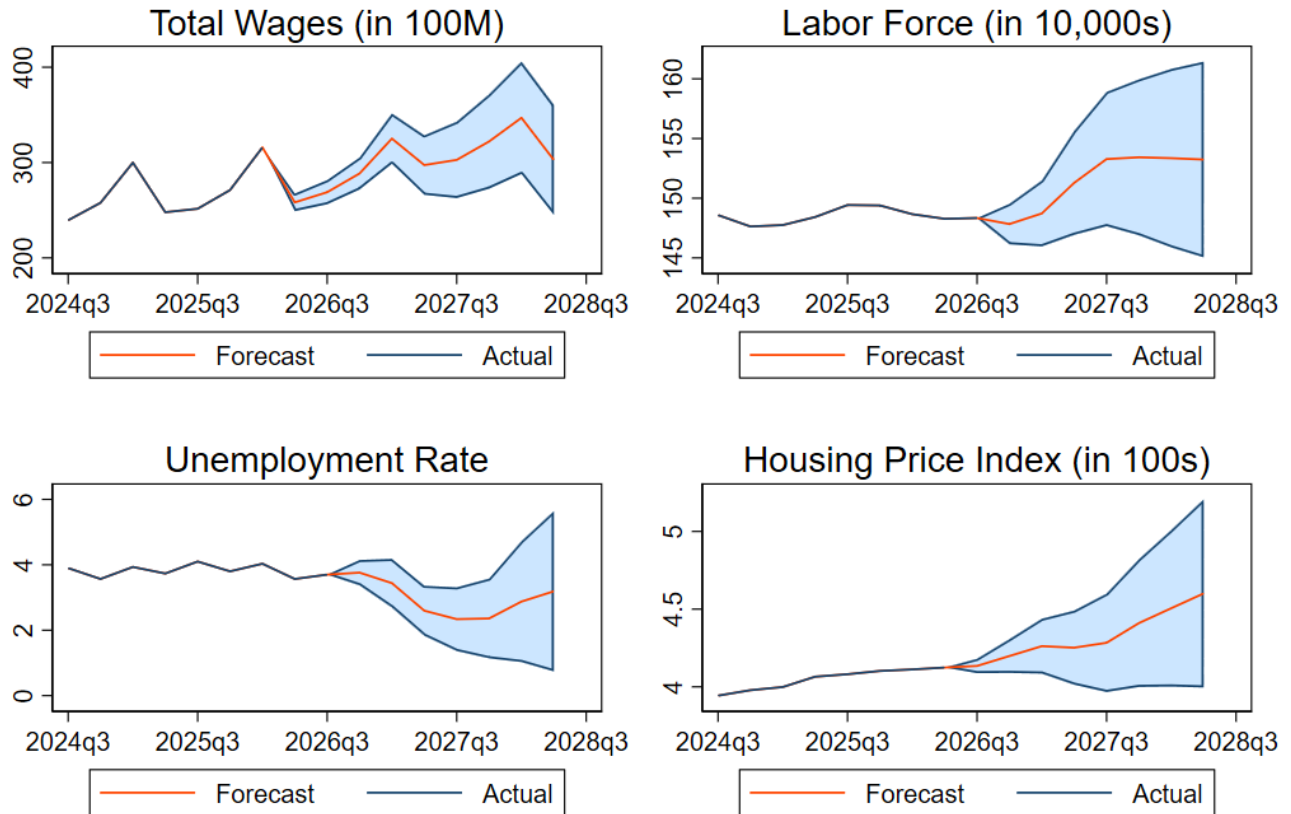
Unemployment Rate

The unemployment rate rose to 4.65 percent in Q3 2026, in line with its usual seasonal pattern, but was below the 5.0 percent rate of Q3 2025. The downward trend is expected to continue, with the rate possibly falling to between 3.3 and 3.9 percent from mid-2027 into 2028.

Housing Index

The housing index slipped 1.0 percent in Q2 2026 but was 2.63 percent above its year-earlier level. The index is forecast to ease gradually to around 2.7 by the end of 2027, a softer outlook than last quarter's flat forecast.

Charlotte Quarterly Outlook



Wages

Total wages in the Charlotte metro area follow a strong seasonal pattern, with large gains in the first quarter of each year followed by declines in the second. Wages rose 16.5 percent in Q1 2026 and were 5.33 percent higher than in Q1 2025. The forecast shows this seasonal pattern continuing around a steady upward trend through 2027 and into 2028.

Labor Force

Charlotte's labor force has been essentially flat over the past year at about 1.48 million, down 0.73 percent from a year earlier. The forecast shows the labor force beginning to grow in 2027, reaching about 1.53 million by the end of 2027, although the confidence interval around the trend is wide.

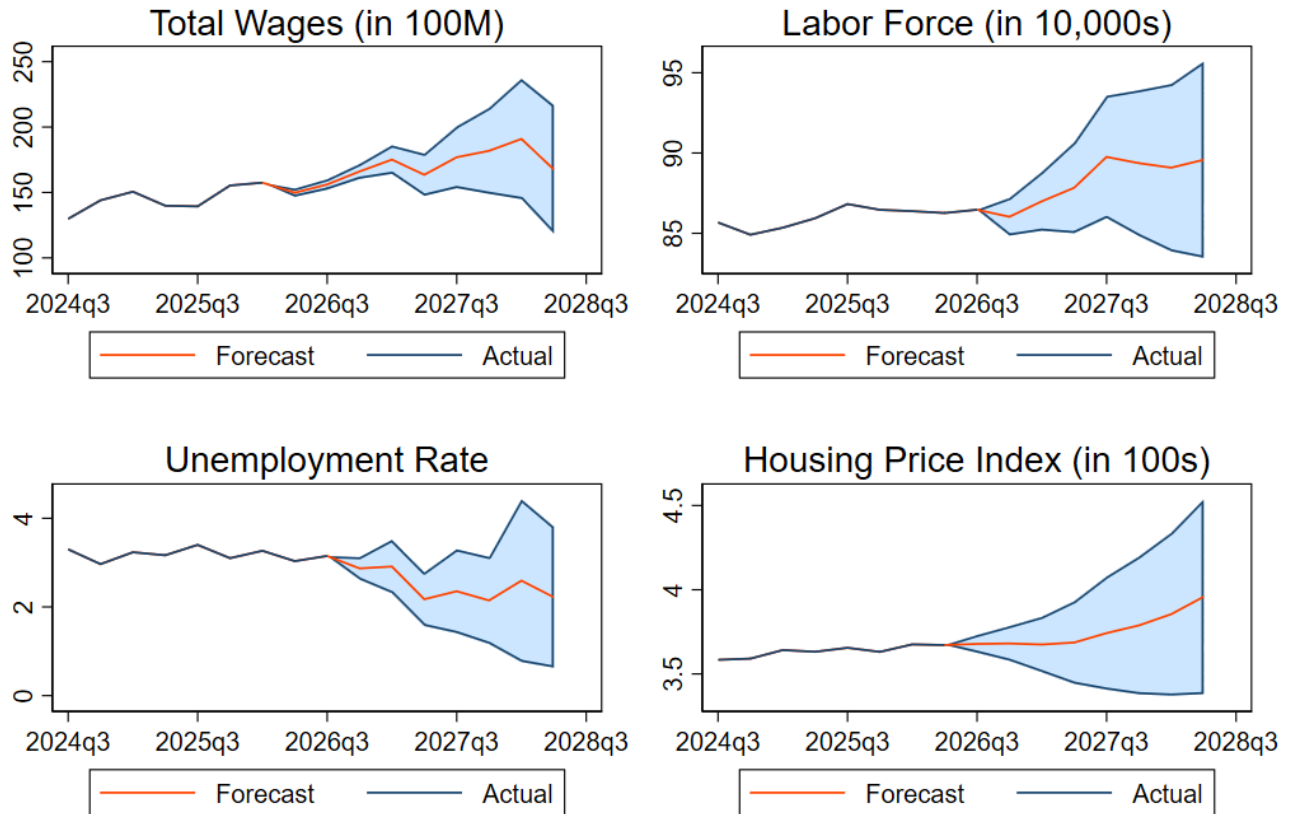
Unemployment Rate

The unemployment rate was 3.70 percent in Q3 2026, down from 4.10 percent a year earlier. The forecast shows the rate declining through 2027, possibly to below 3 percent, before edging back up in 2028.

Housing Index

The housing index has risen steadily, gaining 1.45 percent over the past year. The forecast shows growth picking up, with the index rising about 12 percent from its current level by mid-2028.

Raleigh Quarterly Outlook



Wages

Total wages in the Raleigh metro area grew 1.38 percent in Q1 2026 and were up 4.57 percent from a year earlier. Like Charlotte, Raleigh wages follow a seasonal pattern, and the forecast shows continued growth around this pattern through 2027 and into 2028.

Labor Force

Raleigh's labor force was about 865,000 in Q3 2026, roughly unchanged from a year earlier (down 0.41 percent). The forecast shows modest growth beginning in 2027, with the labor force reaching about 895,000 by mid-2028.

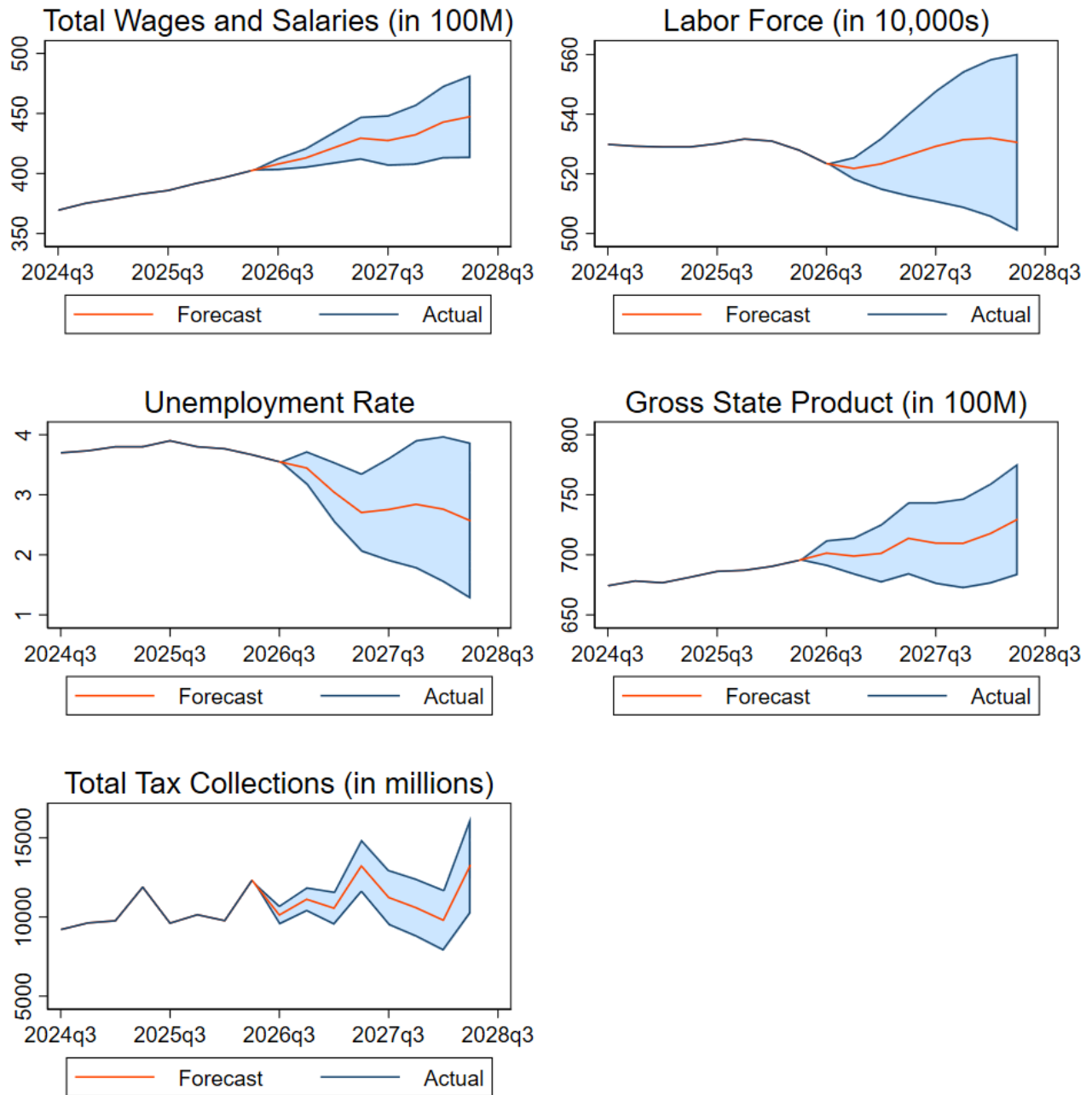
Unemployment Rate

At 3.15 percent in Q3 2026, Raleigh has the lowest unemployment rate of the three metro areas in this report, down from 3.40 percent a year earlier. The forecast shows the rate continuing to decline, ranging between roughly 2.2 and 2.9 percent through 2027.

Housing Index

The housing index has been nearly flat over the past year, up 1.10 percent. The forecast shows the index holding near its current level through mid-2027 before rising gradually into 2028.

North Carolina Quarterly Outlook



Total Wages and Salaries

Total wages and salaries in North Carolina rose 1.47 percent in Q2 2026, contributing to a year-over-year increase of 5.06 percent. Total wages and salaries are forecast to continue this steady rate of growth into 2028.

Labor Force

The labor force declined 0.85 percent in Q3 2026 and is down 1.25 percent from a year earlier, a larger decline than reported last quarter. The forecast shows the labor force bottoming out in late 2026 and recovering to about its 2025 level during 2027. However, the confidence interval around the trend is wide, indicating a possibility of continued decline.

Unemployment Rate

The unemployment rate fell to 3.55 percent in Q3 2026, its fourth consecutive quarterly decline, and is down from 3.90 percent a year earlier. The unemployment rate is forecast to continue declining, possibly falling below 3 percent in 2027.

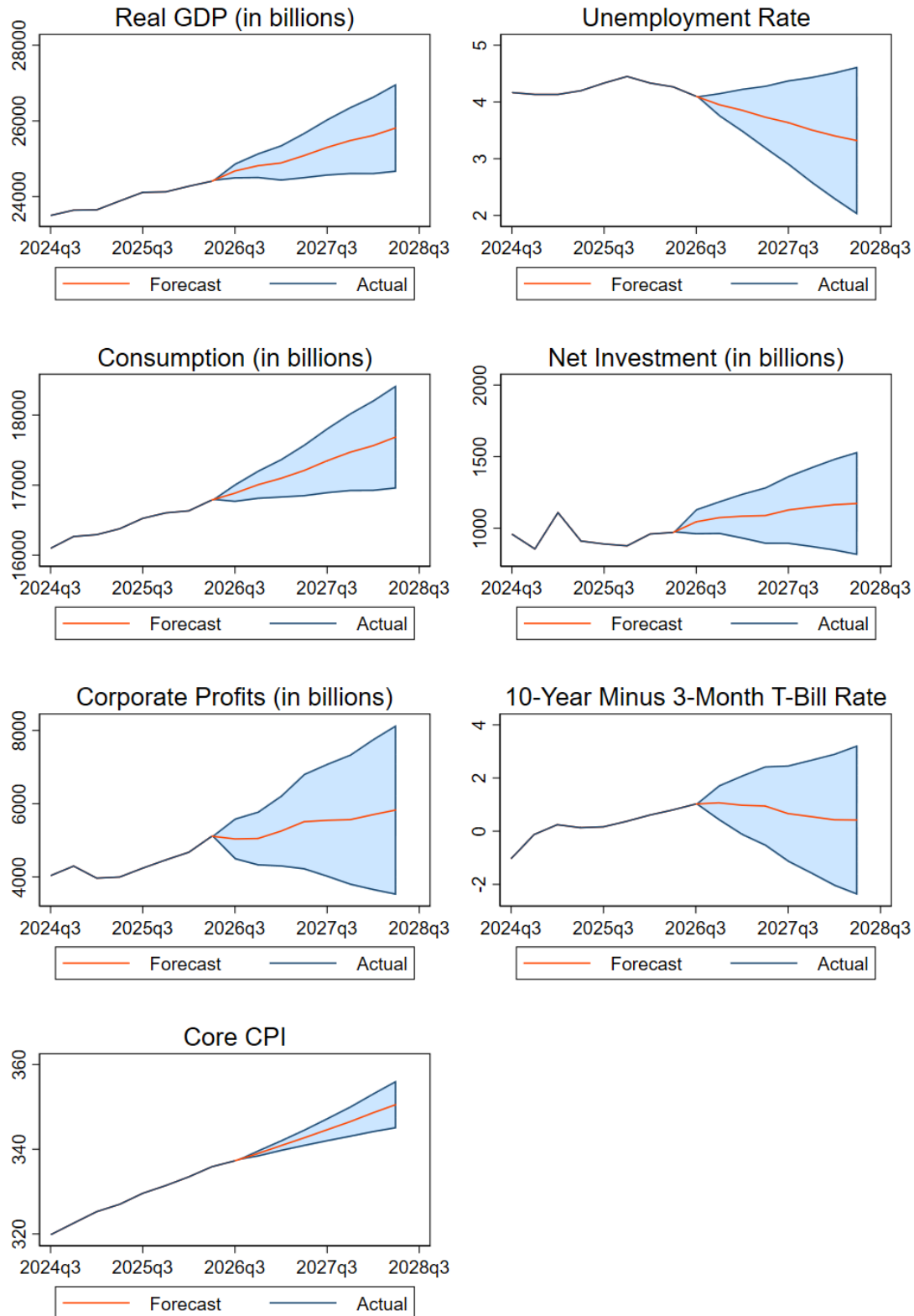
Real Gross State Product

North Carolina's real GSP grew 0.73 percent in Q2 2026, and year-over-year growth was 2.07 percent. Forecasts show continued growth through mid-2028, with a brief pause in late 2026.

Tax Revenues

Tax revenues follow a highly cyclical trend, with the usual second-quarter peak in Q2 2026. Collections were 3.68 percent higher than in Q2 2025. Forecasts show the same cyclical pattern continuing with a slight upward trend.

National Quarterly Outlook



Gross Domestic Product

GDP grew by 0.55 percent in Q2 2026, and year-over-year growth was 2.19 percent. The forecast shows steady growth continuing through 2027 and into 2028.

Unemployment Rate

The unemployment rate fell to 4.10 percent in Q3 2026 from 4.27 percent in Q2 and is below its year-earlier level of 4.33 percent. The forecast shows the unemployment rate continuing its gradual decline through 2027, reaching about 3.5 percent by the end of 2027.

Consumption

Consumption grew by 0.93 percent in Q2 2026. Year-over-year growth was 2.51 percent, demonstrating a steady rate of growth. Forecasts indicate that consumption is expected to continue its current growth trend.

Net Investment

Net investment rose 1.18 percent in Q2 2026 and was 6.61 percent higher than a year earlier, reversing the year-over-year decline reported last quarter. Net investment is expected to continue growing through 2027, although the wide confidence interval reflects the volatility of this series.

Corporate Profits

Corporate profits increased by 9.39 percent in Q2 2026, their fifth consecutive quarterly gain. Year-over-year the gain was 27.88 percent. Forecasts show a brief pause in the second half of 2026 before growth resumes at a slower rate in 2027.

Yield Spread

The yield spread widened to 1.02 percentage points in Q3 2026, its highest level since 2022. The spread has been positive since Q1 2025, after being negative from late 2022 through 2024. Forecasts indicate the spread is expected to narrow through 2027 and into 2028 but remain positive. A negative yield spread is a predictor of recession.

Core Consumer Price Index

Core CPI grew by 0.42 percent in Q3 2026, with year-over-year growth of 2.33 percent, down from 2.68 percent last quarter. Forecasts suggest continued inflation at a rate slightly above 2 percent per year.

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.