

District Economic

BY ROBERT LACY

An upswing in payroll employment numbers in the first quarter of 2004 was just the tonic for a District economy suffering from a touch of “jobless expansion” anxiety. Output of goods and services continued to increase at a solid pace, but stiff price hikes for key commodities rattled the District’s manufacturing and commercial construction sectors.

Did You Know . . .

Loudoun County, Va., less than an hour’s drive from Washington, D.C., is blessed with beautiful scenery and rich equine and hunting traditions. It’s a great place to visit and, for an increasing number of people, to live. The population there increased by 30.7 percent from April 2000 to July 1, 2003, making it the fastest-growing county in the nation. Six other counties in the sprawling Washington metropolitan area were also among the top 100 fastest growing in the United States during that period.

The Fifth District economy expanded at a somewhat quicker pace in the first quarter of 2004, boosted by stronger manufacturing activity and a pickup in employment. Growth in the broad services sector was brisk and the housing and retail sectors showed solid gains. But prices of some raw materials—steel, oil, natural gas, and lumber in particular—surged, raising production costs for manufacturers and construction costs for commercial builders.

Manufacturing Shows Strong Gains

Despite higher costs, the Fifth District’s manufacturing sector posted impressive gains in the first quarter. Our contacts tell us that shipments and new orders rose at the strongest pace in several years.

There were even scattered reports of a pickup in the textiles industry. A manager at a North Carolina textiles firm reported in February that shipments, new orders, and capacity utilization were all higher, adding, “Business has improved each month for the last six months.”

Manufacturing job losses have slowed or ended in most District states, though North Carolina remained a troubled area.

Labor Markets Coming Around

First-quarter payroll employment in the Fifth District was 0.7 percent higher than a year ago. Employment growth was particularly strong in Virginia, up 1.9 percent year over year.

North Carolina managed slight growth in total employment during the quarter, despite continued losses in manufacturing jobs.

The District’s unemployment rate continues to trend lower. At 4.9 percent in the first quarter, the Fifth District’s rate remained well below the U.S. rate of 5.6 percent. Unemployment rates in Virginia and Maryland were at or below 4.0 percent in March, and North Carolina’s rate dropped to 5.2 percent, its best showing in three years.

Housing Hot

Declining mortgage interest rates throughout much of the first quarter fueled strong growth in the District’s housing markets. Home buying activity was reported to be frenzied in some areas as mortgage rates slipped below 5.5 percent. Multiple offers on houses for sale were commonplace, and home prices rose rapidly in many markets. New construction was very active; the number of residential building permits issued during the quarter was 16 percent higher than a year earlier.

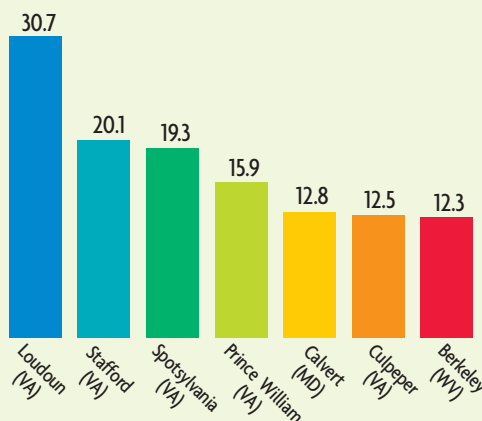
Raw Materials Prices Rising

Expanding output in the District was accompanied by substantially higher prices for raw materials in the first quarter. Price hikes in excess of 30 percent for steel and lumber roiled the manufacturing and construction industries. Strong demand for materials destined for rebuilding efforts in Iraq and Afghanistan and rapid economic expansion in China were among the reasons cited for the surge in prices.

“Surcharges from steel suppliers have thrown us for a loop, causing us to increase our prices,” reported a machinery manufacturer in North Carolina, expressing a concern typical of those coping with escalating raw materials prices. Suppliers in a few instances invoked “force majeure” clauses in contracts because they couldn’t secure the steel needed to manufacture products.

Lumberyards reported substantially higher lumber and plywood prices and a host of District businesses experienced rising oil and natural gas costs.

Population Growth (%), April 2000 to July 2003



Developments

Nonfarm Employment First Quarter 2004

	Employment (Thousands)	% Change (Year Ago)
DC	670	0.5
MD	2,492	0.7
NC	3,807	0.1
SC	1,824	0.5
VA	3,556	1.9
WV	723	-0.7
5th District	13,071	0.7
US	130,367	0.2

Unemployment Rate Percent

	1st Qtr. 2004	1st Qtr. 2003
DC	6.5	6.8
MD	4.1	4.5
NC	5.7	6.4
SC	6.4	6.5
VA	3.5	4.1
WV	5.4	6.3
5th District	4.9	5.4
US	5.6	5.8

Personal Income Fourth Quarter 2003

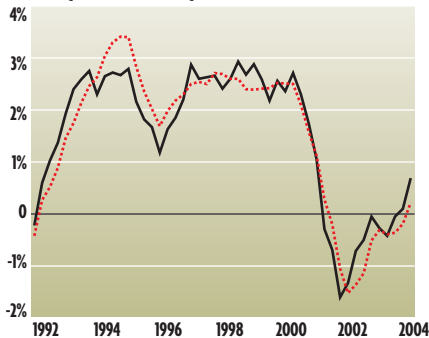
	Income (\$ billions)	% Change (Year Ago)
DC	27.6	2.9
MD	209.2	4.8
NC	241.5	4.1
SC	110.2	4.4
VA	253.1	5.2
WV	44.7	3.4
5th District	886.3	4.5
US	9,362.3	4.3

————— Fifth District

- - - - - United States

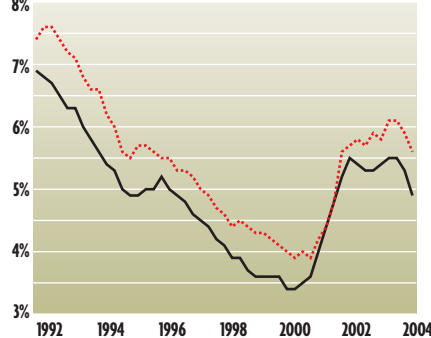
Nonfarm Employment Change From Prior Year

First Quarter 1992 - First Quarter 2004



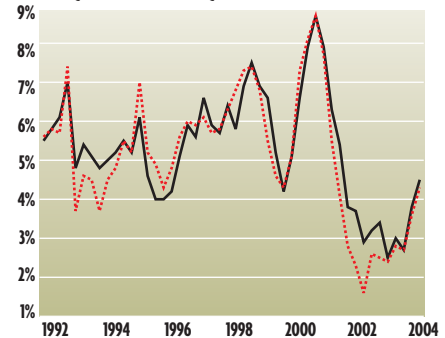
Unemployment Rate

First Quarter 1992 - First Quarter 2004



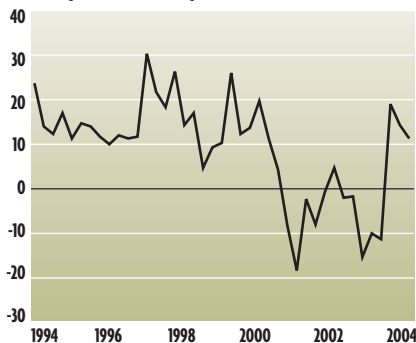
Personal Income Change From Prior Year

First Quarter 1992 - Fourth Quarter 2003



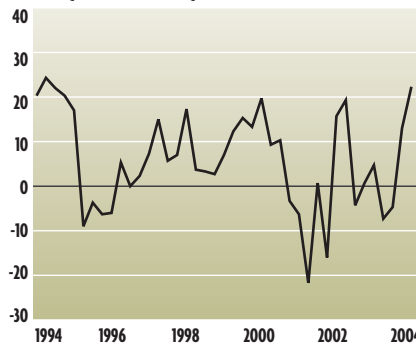
FRB—Richmond Services Revenues Index

First Quarter 1994 - First Quarter 2004



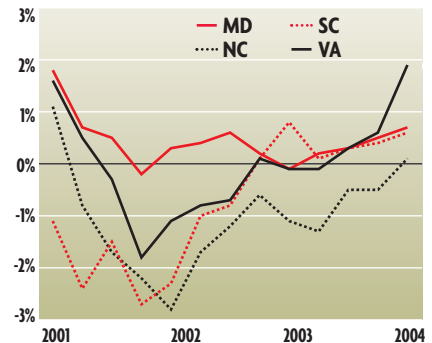
FRB—Richmond Manufacturing Shipments Index

First Quarter 1994 - First Quarter 2004



Nonfarm Employment Change From Prior Year

First Quarter 2001 - First Quarter 2004



NOTES:

- 1) All data series are seasonally adjusted.
- 2) FRB-Richmond survey indexes are diffusion indexes. Positive numbers represent expansion, negative numbers contraction.
- 3) State nonfarm employment estimates are based on surveys of establishments. These employment figures differ from those used to calculate state unemployment rates.

SOURCES:

Income: Bureau of Economic Analysis, U.S. Department of Commerce, <http://www.bea.doc.gov>
 Unemployment rate: LAUS Program, Bureau of Labor Statistics, U.S. Department of Labor, <http://stats.bls.gov>
 Employment: CES Survey, Bureau of Labor Statistics, U.S. Department of Labor, <http://stats.bls.gov>

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DISTRICT OF COLUMBIA

BY ANDREA HOLLAND

Despite the rapid appreciation of District of Columbia home prices in the last several years, the housing stock remains relatively affordable and home sales continue to soar.

As shown in the chart, the house price affordability index for the Washington, DC MSA broadly tracked the national and districtwide indexes from 1996 to 2000. Since the onset of the 2001 recession, however, the index has inched lower, indicating that housing has become somewhat less affordable for Washington, DC MSA residents earning the average salary.

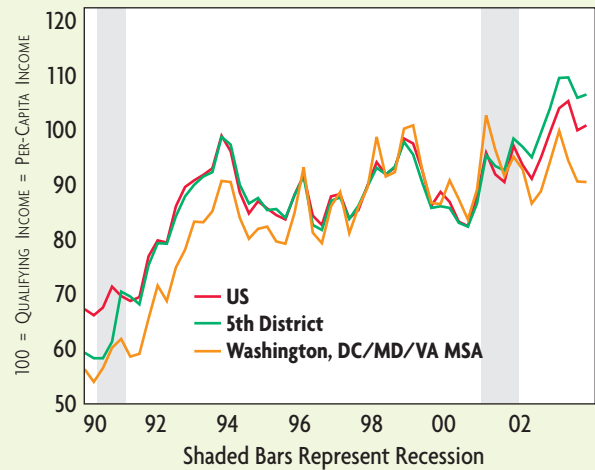
Housing affordability is influenced by a number of economic fundamentals, such as home price appreciation, interest rates, and personal income growth. The dip in affordability in the Washington, DC MSA in recent years is a result of above-average appreciation in house prices and a sharp decline in personal income, which combined, outweighed the effect of a favorable interest rate environment.

Looking first at home price appreciation, annual growth in the Washington, DC MSA has been roughly double the national rate each year since 2001. Over the 12-month period ending in March of this year, average house prices rose 14.3 percent, the fourth fastest growth rate nationally.

Turning next to personal income, the District of Columbia recorded the steepest drop in income growth among Fifth District jurisdictions during the last recession, pushing home ownership out of reach for some residents. The latest data show that personal income began to rebound in early 2003, however, positive growth has yet to increase affordability.

The modest decline in affordability in recent years hasn't kept prospective buyers at home. In the first quarter of 2004, sales of existing housing units hit 16,400, slightly below the fourth-quarter level, but well above year-ago levels. Adding to the positive news, new building permit authorizations also rose, nearly doubling from their fourth-quarter level.

Housing Affordability Index



NOTE: MSA=Metropolitan Statistical Area
SOURCE: National Association of Realtors, Bureau of Economic Analysis, and author's calculations

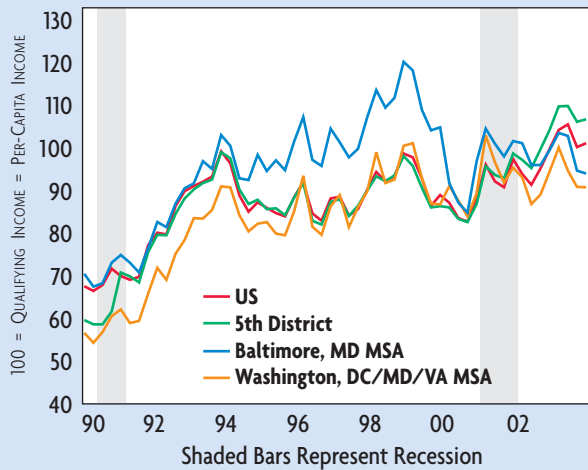
	Percent Change at Annual Rate From		
	1st Qtr 2004	4th Qtr 2003	1st Qtr 2003
Nonfarm Employment	669.8	3.2	0.5
Manufacturing, NSA	2.5	-14.7	-5.1
Professional/Business Services	143.8	5.0	2.5
Government	230.4	-0.7	-0.7
Civilian Labor Force	304.6	5.0	0.6
	1st Qtr 2004	4th Qtr 2003	1st Qtr 2003
Unemployment Rate	6.5	7.0	6.8
Building Permits, NSA	153	87	619
Home Sales	16.4	16.7	14.3

NOTES:
Nonfarm Employment, thousands of jobs, seasonally adjusted (SA); Bureau of Labor Statistics (BLS)/Haver Analytics
Manufacturing, thousands of jobs, not seasonally adjusted (NSA); BLS/Haver Analytics
Professional/Business Services, thousands of jobs, SA; BLS/Haver Analytics
Government, thousands of jobs, SA; BLS/Haver Analytics
Civilian Labor Force, thousands of persons, SA; BLS/Haver Analytics
Unemployment Rate, percent, SA; BLS/Haver Analytics
Building Permits, number of permits, NSA; U.S. Census Bureau/Haver Analytics
Home Sales, thousands of units, SA; National Association of Realtors®



BY ANDREA HOLLAND

Housing Affordability Index



NOTE: MSA=Metropolitan Statistical Area

SOURCE: National Association of Realtors, Bureau of Economic Analysis, and author's calculations

In the first quarter, Maryland ranked sixth nationwide in terms of the fastest home price appreciation rate over the last 12 months. Even so, home sales continue to set records in the state, due in part to the continued affordability of the housing stock.

As depicted in the chart, the house price affordability index for the Baltimore MSA has edged lower since the onset of the recession in early 2001, indicating that housing affordability has declined slightly. By comparison, homes nationally and districtwide have become more affordable.

Housing affordability is influenced by a number of measures of economic activity, such as home price appreciation, interest rates, and personal income growth. Despite historically low interest rates — which decrease the cost of buying a home — sluggish personal income growth during the last recession and the sharp spike in home prices have caused housing affordability in the Baltimore MSA to decline in recent years.

On the price front, annual home appreciation in Maryland has run at a double-digit pace since 2002. In the first quarter of 2004, Maryland home prices were 12.9 percent above a year ago.

Turning to personal income, annual growth has been less than 3 percent each year since 2001 — not enough to offset the run-up in home prices. But recent income data suggests improvement. In the fourth quarter of 2003, Maryland posted the second fastest personal income growth rate in the Fifth District — 3.2 percent compared to the same time last year.

The modest decline in affordability has not squelched the demand for Maryland homes. Sales of existing housing units reached 141,900 in the first quarter of 2004, surpassing the level posted in the last quarter of 2003 as well as the year-ago level. First-quarter building permit authorizations were not as positive, however; they registered a modest loss from a year ago.

	Percent Change at Annual Rate From		
	1st Qtr 2004	4th Qtr 2003	1st Qtr 2003
Nonfarm Employment	2,491.7	0.8	0.7
Manufacturing	144.7	-0.6	-4.1
Professional/Business Services	361.4	1.4	0.2
Government	460.3	0.5	-0.3
Civilian Labor Force	2,940.9	4.6	1.4
Unemployment Rate	4.1	4.5	4.5
Building Permits, NSA	5,876	6,878	5,931
Home Sales	141.9	139.3	130.7

NOTES:
 Nonfarm Employment, thousands of jobs, seasonally adjusted (SA); Bureau of Labor Statistics (BLS)/Haver Analytics
 Manufacturing, thousands of jobs, SA; BLS/Haver Analytics
 Professional/Business Services, thousands of jobs, SA; BLS/Haver Analytics
 Government, thousands of jobs, SA; BLS/Haver Analytics
 Civilian Labor Force, thousands of persons, SA; BLS/Haver Analytics
 Unemployment Rate, percent, SA; BLS/Haver Analytics
 Building Permits, number of permits, not seasonally adjusted (NSA); U.S. Census Bureau/Haver Analytics
 Home Sales, thousands of units, SA; National Association of Realtors*



NORTH CAROLINA

BY ANDREA HOLLAND

Compared to other Fifth District states, home price appreciation in North Carolina has been relatively slow. As a result, housing has become increasingly affordable and the residential real estate market continues to thrive.

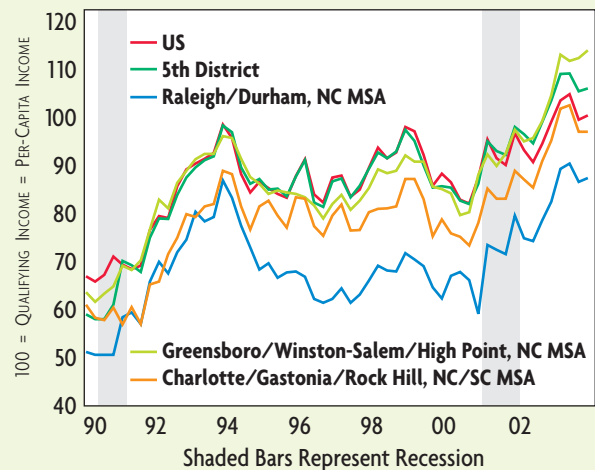
Although the level of housing affordability varies greatly by MSAs across North Carolina, the affordability index has trended higher in all MSAs since the onset of the recession in early 2001. As shown in the chart, the Greensboro/Winston-Salem/High Point MSA boasts the most affordable housing, followed closely by the Charlotte/Gastonia/Rock Hill MSA. The Raleigh/Durham MSA is the outlier, with housing affordability significantly less than the Fifth District or national average.

Housing affordability is influenced by a number of economic factors, such as home price appreciation, mortgage interest rates, and personal income growth. In North Carolina, affordability has increased since the last recession due to favorable interest rates and sluggish house price acceleration, which has offset a steep decline in personal income growth. The disparity in the Raleigh/Durham MSA stems in part from the high-tech sector, which spurred the development of high-end housing stock but also contributed to a sharp drop in income growth, when that sector stumbled following high growth in the late 1990s.

Housing price appreciation in North Carolina ranked 44th nationally in 2003 — the slowest rate in the Fifth District. In the first quarter, home prices in the state were only 3.9 percent above a year ago and 0.8 percent above the previous quarter. Looking next at personal income growth, North Carolina was the only state in the District to post two consecutive quarters of contraction during the 2001 recession. But growth has firmed of late — personal income expanded 2.5 percent in the fourth quarter, marking the strongest annual growth rate since early 2001.

Sluggish income growth, however, proved not enough to decrease the demand for new homes. As shown in the table, sales of existing housing units rose to 282,000 in the first quarter of 2004, slightly below the number sold in the last quarter of 2003 but well above the number recorded a year before. First-quarter building permit data — often used as a gauge for future demand — were also bright, surpassing levels recorded during the first quarter of 2003.

Housing Affordability Index



NOTE: MSA=Metropolitan Statistical Area

SOURCE: National Association of Realtors, Bureau of Economic Analysis, and author's calculations

	Percent Change at Annual Rate From		
	1st Qtr 2004	4th Qtr 2003	1st Qtr 2003
Nonfarm Employment	3,807.0	0.0	0.1
Manufacturing	587.1	-1.8	-5.2
Professional/Business Services	423.8	-0.7	1.4
Government	649.4	-2.4	1.8
Civilian Labor Force	4,198.2	-5.4	0.3
	1st Qtr 2004	4th Qtr 2003	1st Qtr 2003
Unemployment Rate	5.7	6.3	6.4
Building Permits, NSA	22,329	19,448	17,122
Home Sales	282.0	299.1	255.2

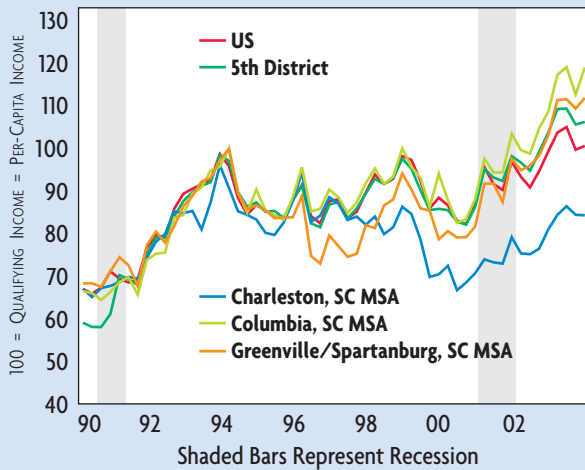
NOTES:

Nonfarm Employment, thousands of jobs, seasonally adjusted (SA); Bureau of Labor Statistics (BLS)/Haver Analytics
 Manufacturing, thousands of jobs, SA; BLS/Haver Analytics
 Professional/Business Services, thousands of jobs, SA; BLS/Haver Analytics
 Government, thousands of jobs, SA; BLS/Haver Analytics
 Civilian Labor Force, thousands of persons, SA; BLS/Haver Analytics
 Unemployment Rate, percent, SA; BLS/Haver Analytics
 Building Permits, number of permits, not seasonally adjusted (NSA); U.S. Census Bureau/Haver Analytics
 Home Sales, thousands of units, SA; National Association of Realtors*



BY ANDREA HOLLAND

Housing Affordability Index



NOTE: MSA=Metropolitan Statistical Area

SOURCE: National Association of Realtors, Bureau of Economic Analysis, and author's calculations

Modest home price appreciation in South Carolina in recent years has promoted affordable housing for the average resident and led to higher home sales in the state.

With the exception of the Charleston MSA, housing is more affordable in South Carolina MSAs than in the Fifth District or nation. As shown in the chart, the Columbia MSA lays claim to the most affordable housing in the state, followed closely by the Greenville/Spartanburg MSA. Also depicted in the chart, housing has become increasingly affordable in South Carolina since the onset of the recession in early 2001.

Housing affordability is influenced by a number of economic fundamentals, including home price appreciation, interest rates, and personal income growth. In South Carolina, declines in interest rates coupled with modest increases in house prices since the 2001 recession has countered a sharp decline in personal income growth and resulted in an increase in housing affordability.

The pace of house price appreciation in South Carolina has been measured — ranking only 37th nationally in 2003. In this year's first quarter, home prices in South Carolina were 4.0 percent higher from a year ago and 0.8 percent above the level recorded at year-end 2003.

Switching gears, income growth has finally begun to recover from the loss of high-paying factory jobs during the last recession. In the fourth quarter, personal income grew 2.8 percent over the year, the best performance since late 2000.

With lower interest rates offsetting sluggish income growth in recent years, home sales in South Carolina have generally been strong. Sales of existing housing units hit 152,300 in the first quarter of 2004, slightly below the number sold in the last quarter of 2003 but well above the number recorded at the same time last year. Suggesting strong activity going forward, first-quarter building permits were also positive, exceeding the number of authorizations recorded in the first quarter of 2003.

	Percent Change at Annual Rate From		
	1st Qtr 2004	4th Qtr 2003	1st Qtr 2003
Nonfarm Employment	1,823.7	2.3	0.5
Manufacturing, NSA	270.1	-5.5	-4.0
Professional/Business Services, NSA	184.1	-8.4	0.4
Government	331.0	-1.2	1.2
Civilian Labor Force	2,042.9	5.5	3.0
Unemployment Rate	6.4	6.9	6.5
Building Permits, NSA	9,474	8,212	8,439
Home Sales	152.3	152.9	130.6

NOTES:
 Nonfarm Employment, thousands of jobs, seasonally adjusted (SA); Bureau of Labor Statistics (BLS)/Haver Analytics
 Manufacturing, thousands of jobs, not seasonally adjusted (NSA); BLS/Haver Analytics
 Professional/Business Services, thousands of jobs, NSA; BLS/Haver Analytics
 Government, thousands of jobs, SA; BLS/Haver Analytics
 Civilian Labor Force, thousands of persons, SA; BLS/Haver Analytics
 Unemployment Rate, percent, SA; BLS/Haver Analytics
 Building Permits, number of permits, NSA; U.S. Census Bureau/Haver Analytics
 Home Sales, thousands of units, SA; National Association of Realtors®



VIRGINIA

BY ANDREA HOLLAND

Over the last 12 months, home prices in Virginia have risen at the 11th fastest rate nationwide. Still, home sales continue to set records, largely because the Old Dominion boasts some of the most affordable housing in the Fifth District.

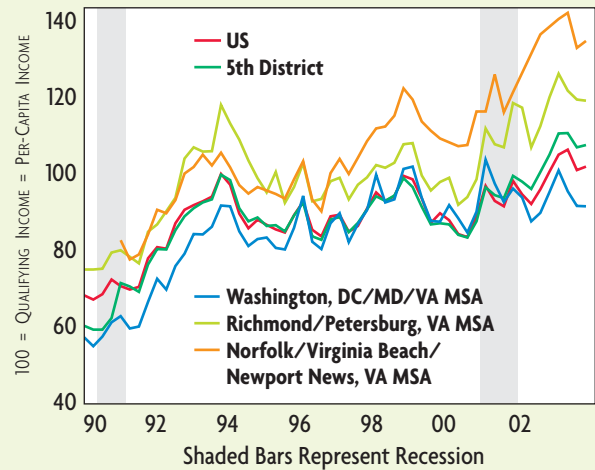
As depicted in the chart, housing in the Richmond/Petersburg MSA and Norfolk/Virginia Beach/Newport News MSA is significantly more affordable than average housing in the nation, the Fifth District, and the nearby Washington, DC MSA. Tracking the national and districtwide trend, both affordability indexes have been steadily rising since early 2000, indicating that housing has become increasingly affordable for the average resident since the beginning of the last recession.

Housing affordability is influenced by a number of economic factors, such as home price appreciation, interest rates, and personal income growth. Since the recession began in 2001, home prices have risen markedly across most Virginia MSAs, but low interest rates tended to contain the cost of buying a home and personal income declined modestly compared to other Fifth District states. As a result, affordability has increased, enabling more residents to become homebuyers.

As noted above, home prices have accelerated rapidly in Virginia. First-quarter home prices were 10.1 percent higher than the level recorded a year ago and 1.7 percent above the price in the fourth quarter of 2003. Recent income growth has also advanced at a healthy clip, however, making up for some of the rise in prices. In the fourth quarter of 2003, Virginia posted the fastest personal income growth rate in the Fifth District — 3.6 percent compared to 12 months earlier.

Increased affordability has led to solid growth in Virginia's residential real estate market. Sales of existing housing units reached 173,900 in the first quarter of 2004, slightly under the level posted in the last quarter of 2003, but well above the level recorded at the same time last year. First-quarter building permit authorization data were also bright, with growth jumping 12.4 percent from the same time last year.

Housing Affordability Index



NOTE: MSA=Metropolitan Statistical Area

SOURCE: National Association of Realtors, Bureau of Economic Analysis, and author's calculations

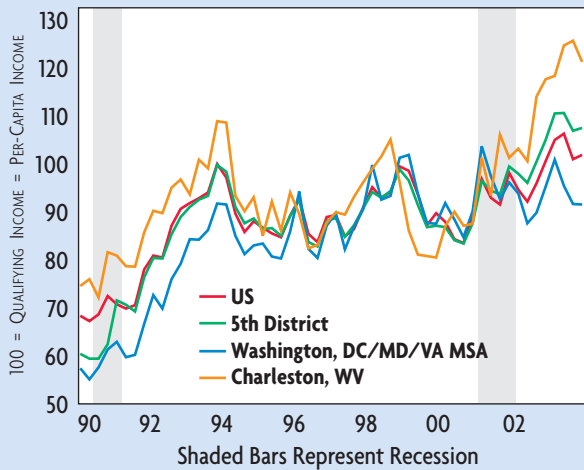
	Percent Change at Annual Rate From		
	1st Qtr 2004	4th Qtr 2003	1st Qtr 2003
Nonfarm Employment	3,556.2	4.5	1.9
Manufacturing	295.7	-1.7	-5.8
Professional/Business Services	568.1	9.5	4.4
Government	644.1	1.5	1.4
Civilian Labor Force	3,833.7	5.2	2.0
	1st Qtr 2004	4th Qtr 2003	1st Qtr 2003
Unemployment Rate	3.5	3.9	4.1
Building Permits, NSA	14,931	14,069	13,278
Home Sales	173.9	185.7	165.4

NOTES:

Nonfarm Employment, thousands of jobs, seasonally adjusted (SA); Bureau of Labor Statistics (BLS)/Haver Analytics
 Manufacturing, thousands of jobs, SA; BLS/Haver Analytics
 Professional/Business Services, thousands of jobs, SA; BLS/Haver Analytics
 Government, thousands of jobs, SA; BLS/Haver Analytics
 Civilian Labor Force, thousands of persons, SA; BLS/Haver Analytics
 Unemployment Rate, percent, SA; BLS/Haver Analytics
 Building Permits, number of permits, NSA; U.S. Census Bureau/Haver Analytics
 Home Sales, thousands of units, SA; National Association of Realtors®

BY ANDREA HOLLAND

Housing Affordability Index



NOTE: MSA=Metropolitan Statistical Area

SOURCE: National Association of Realtors, Bureau of Economic Analysis, and author's calculations

Sluggish population growth in West Virginia has kept housing demand from overheating in recent years and led to a more modest acceleration in home prices than recorded nationally. With prices largely in check, the state's housing remains relatively affordable and home sales have advanced at a balanced pace.

As shown in the chart, the Charleston MSA affordability index has trended higher since the beginning of the 2001 recession, suggesting that homeownership has become more feasible for the average resident. Housing is more affordable in the Charleston MSA, on average, than in the Fifth District or the nation.

Housing affordability is influenced by a number of measures of economic activity, including home price appreciation, mortgage interest rates, and personal income growth. In West Virginia, modest increases in house prices and lower interest rates offset a steep decline in personal income growth during the 2001 recession. The combination of these measures boosted affordability and increased homeownership.

Looking first at home price growth, price appreciation in West Virginia over the last 12 months ranked 31st nationally. In the first quarter of this year, home prices were 4.8 percent above a year ago and 0.6 percent above the level recorded in the last quarter of 2003.

Turning to personal income, the state is only recently beginning to recover from the loss of high-paying goods-producing jobs during the 2001 recession. West Virginia posted the second weakest growth rate districtwide in the fourth quarter; personal income advanced only 1.9 percent over the year.

Despite sluggish income growth, existing home sales hit 31,800 in early 2004, slightly below the number sold in the fourth quarter of 2003, but well above the level recorded at the same time last year. Adding to the good news, first-quarter building permit data forged ahead — authorizations were nearly double the number recorded in the first quarter of 2003.

	Percent Change at Annual Rate From		
	1st Qtr 2004	4th Qtr 2003	1st Qtr 2003
Nonfarm Employment	722.9	0.4	-0.7
Manufacturing	64.4	3.0	-1.8
Professional/Business Services	56.8	3.6	-0.1
Government	142.0	3.5	-0.5
Civilian Labor Force	796.7	8.7	0.6
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	1st Qtr 2004	4th Qtr 2003	1st Qtr 2003
Unemployment Rate	5.4	5.7	6.3
Building Permits, NSA	1,255	1,126	860
Home Sales	31.8	34.4	28.0

NOTES:
 Nonfarm Employment, thousands of jobs, seasonally adjusted (SA); Bureau of Labor Statistics (BLS)/Haver Analytics
 Manufacturing, thousands of jobs, SA; BLS/Haver Analytics
 Professional/Business Services, thousands of jobs, SA; BLS/Haver Analytics
 Government, thousands of jobs, SA; BLS/Haver Analytics
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 Unemployment Rate, percent, SA; BLS/Haver Analytics
 Building Permits, number of permits, not seasonally adjusted (NSA); U.S. Census Bureau/Haver Analytics
 Home Sales, thousands of units, SA; National Association of Realtors*

For more information regarding state summaries, call 804-697-8273 or e-mail Andrea.Holland@rich.frb.org.