

# DISTRICT ECONOMIC OVERVIEW

BY ANDREA HOLMES

The Fifth District economy expanded at a steady pace in the first quarter of 2006. Payroll employment advanced at a healthy clip, and the unemployment rate receded sharply in all District jurisdictions. Brisk growth occurred despite some moderation in activity within services establishments and residential real estate markets. Also encouraging, manufacturers noted a sharp turnaround, with nearly all measures of output strengthening late in the quarter.

## Labor Markets on Track

In the first quarter, District payroll employment was 1.8 percent higher than a year earlier, outpacing the 1.5 percent growth rate nationwide. The bulk of the increase could be traced back to stronger activity in the trade, transportation, and utilities sector and in education and health services businesses. Perhaps reflecting gains in those industries, some Fifth District contacts reported offering substantially higher wages to nurses and truck drivers in order to address shortages of qualified applicants in some areas.

The District's unemployment rate edged down to 4.1 percent in the first quarter, despite strong expansion of the civilian labor force. Improvement

## The Fifth District economy expanded at a steady pace in the first quarter of 2006.

was apparent across all District states, with only South Carolina posting a jobless rate above the national level of 4.7 percent.

## Services Growth Moderates

Momentum in the Fifth District's services sector wound down somewhat as the first quarter drew to a close. Retail establishments in particular noted a deceleration in activity following hefty growth at the beginning of the year. Among retailers, sales were flat at grocery stores and grew less rapidly at big-box establishments, reportedly because higher gasoline prices caused some customers to trim their purchases. Shopper traffic and big-ticket sales also declined noticeably in the first quarter, with Fifth District contacts noting automobile and light truck sales as particularly sluggish. News from District service providers was less

glum — revenues advanced, but at a slower pace.

## Residential Real Estate Slows

Residential real estate activity slowed in the first quarter, with home sales declining 5.6 percent compared to modest growth in late 2005. Reports from District real estate agents were generally in line with the latest data. One agent in Washington, D.C., said, "It's definitely a buyers' market and they [the buyers] are holding off." Consistent with the slowdown in demand across the District, the pace of home price appreciation also cooled in many areas. First-quarter home prices in the District were only 8.6 percent higher compared to a quarter earlier, marking the first period of single-digit appreciation in two years.

## Manufacturing Rebounds

District manufacturing conditions rebounded strongly in the first quarter. Indicators that were generally subdued in January, such as factory shipments, new orders, and employment, were growing briskly by the end of the quarter. Highlighting the turnaround, the March readings of the above measures were the strongest in two years. Sizable increases in capacity utilization, vendor lead time, and employment were also reported by District manufacturers over the period. Among industries, some of the largest gains were again reported by producers of electronics and electric equipment.

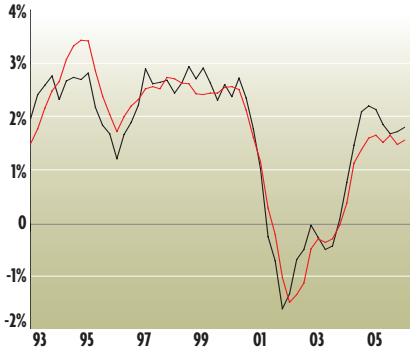
Manufacturers also reported that the pace of growth in raw materials and finished goods prices was more measured in March, following a sharp uptick earlier in the year. Some manufacturers, however, noted an increased difficulty in passing higher costs to their customers. A North Carolina furniture manufacturer, for instance, said that the higher fuel surcharges he was facing on raw materials deliveries were "eating into profits."

### Economic Indicators

	1st Qtr. 2006	4th Qtr. 2005	Percent Change (Year Ago)
<b>Nonfarm Employment (000)</b>			
Fifth District	13,579	13,513	1.8
U.S.	134,722	134,161	1.5
<b>Real Personal Income (\$bil)</b>			
Fifth District	901.6	892.1	2.0
U.S.	9,354.8	9,272.3	2.1
<b>Building Permits (000)</b>			
Fifth District	63.9	56.5	10.3
U.S.	492.3	480.0	4.9
<b>Unemployment Rate (%)</b>			
Fifth District	4.1%	4.7%	
U.S.	4.7%	4.9%	

### Nonfarm Employment

Change From Prior Year  
First Quarter 1993 - First Quarter 2006



### Unemployment Rate

First Quarter 1993 - First Quarter 2006



### Real Personal Income

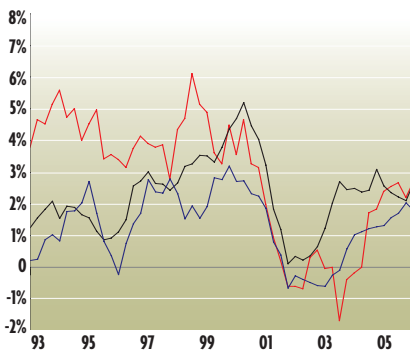
Change From Prior Year  
First Quarter 1993 - First Quarter 2006



— Fifth District — United States

### Nonfarm Employment Metropolitan Areas

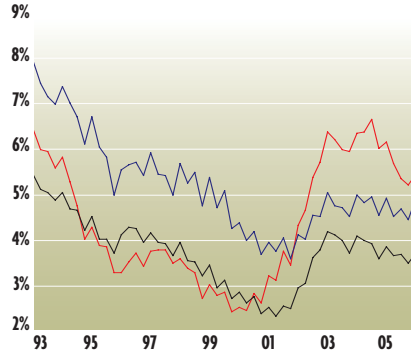
Change From Prior Year  
First Quarter 1993 - First Quarter 2006



— Charlotte — Baltimore — Washington

### Unemployment Rate Metropolitan Areas

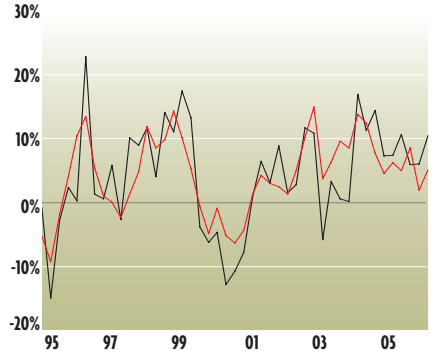
First Quarter 1993 - First Quarter 2006



— Charlotte — Baltimore — Washington

### Building Permits

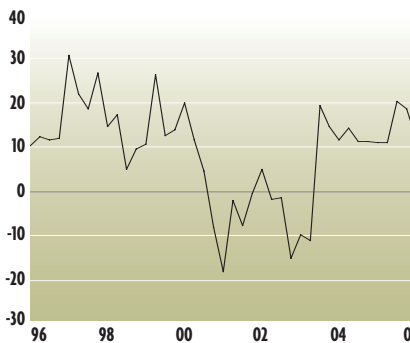
Change From Prior Year  
First Quarter 1995 - First Quarter 2006



— Fifth District — United States

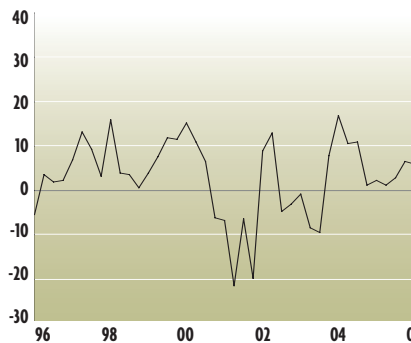
### FRB—Richmond Services Revenues Index

First Quarter 1996 - First Quarter 2006



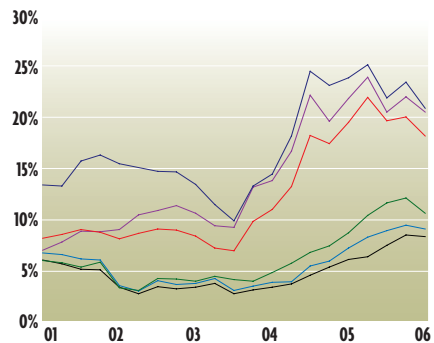
### FRB—Richmond Manufacturing Composite Index

First Quarter 1996 - First Quarter 2006



### House Prices

Change From Prior Year  
First Quarter 2001 - First Quarter 2006



**NOTES:**

1) FRB—Richmond survey indexes are diffusion indexes representing the percentage of responding firms reporting increase minus the percentage reporting decrease. The manufacturing composite index is a weighted average of the shipments, new orders, and employment indexes.  
2) Metropolitan area data, building permits, and house prices are not seasonally adjusted (nsa); all other series are seasonally adjusted.

**SOURCES:**

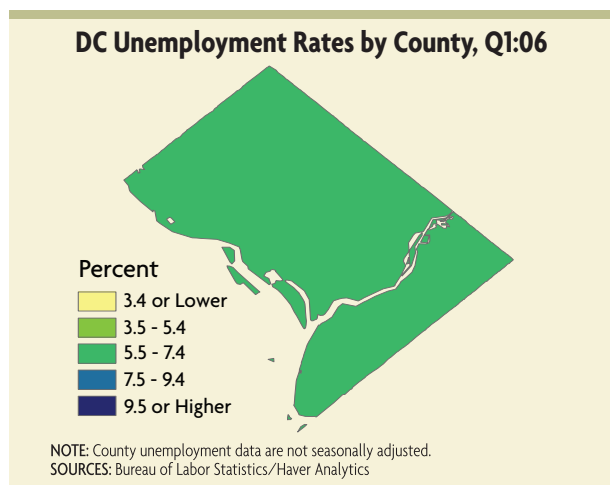
Income: Bureau of Economic Analysis/Haver Analytics  
Unemployment rate: LAUS Program, Bureau of Labor Statistics, U.S. Department of Labor, <http://stats.bls.gov>.  
Employment: CES Survey, Bureau of Labor Statistics, U.S. Department of Labor, <http://stats.bls.gov>.  
Building permits: U.S. Census Bureau, <http://www.census.gov>.  
House prices: Office of Federal Housing Enterprise Oversight, <http://www.ofheo.gov>.

# STATE ECONOMIC CONDITIONS

BY ANDREA HOLMES

## District of Columbia

Economic activity in the District of Columbia continued to gain momentum in early 2006. The first quarter saw a pickup in payrolls as well as a decline in the jobless rate. On the business front, venture capital investment was robust, but the residential real estate market advanced at a slower pace.



District of Columbia payrolls expanded 3.2 percent in the first quarter of 2006, the strongest quarterly gain posted since 2001. Robust first-quarter job growth in nearly all industry sectors, particularly professional and business services, offset modest job losses at education and health services and government establishments.

Indicators of household labor market conditions, such as the unemployment rate, also showed improvement in the first quarter. The jobless rate posted a 0.7 percentage point drop to a seasonally adjusted 5.3 percent in early 2006. Also positive, personal income continued to expand in the first quarter. Compared to a year ago, incomes stood 2.4 percent higher in the District of Columbia.

Measures of private investment into District of Columbia businesses were also encouraging. First-quarter venture capital activity rebounded strongly, with the most recent data showing a \$29.3 million increase in venture investment between January and March of this year, exceeding the investment level for all of 2005.

The District of Columbia's residential real estate market, however, showed signs of cooling. First-quarter sales of existing homes were flat compared to the quarter earlier and 18.2 percent below last year's level. The slowdown in demand was reflected in slower home price growth. District of Columbia recorded price acceleration of only 6.0 percent, marking the first period of single-digit growth in nearly three years.

## Maryland

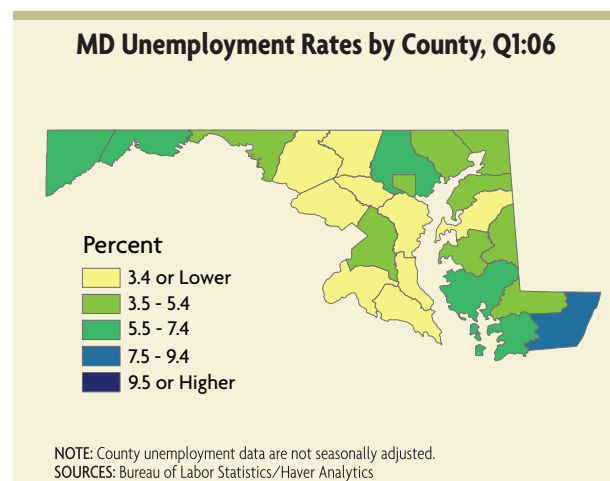
Maryland's economy grew on pace in the first quarter. The latest economic reports showed a rebound in job numbers and continued strength in household finances. Private investment into state businesses, however, expanded at a somewhat slower clip, and residential real estate activity was more restrained than in late 2005.

According to the Bureau of Labor Statistics, business hiring in Maryland continued to accelerate in the first quarter. Payrolls expanded 1.4 percent, equal to 8,800 jobs. By sector, the bulk of the job creation occurred on the services side of the economy, with only information and leisure and hospitality establishments reporting losses. Payrolls were also boosted at goods-related businesses, with the exception of factory jobs, which were trimmed in the first quarter.

Matching the pickup in hiring, first-quarter personal income expanded 2.6 percent from a year earlier, and state households reported a decline in the share of unemployed. Maryland's first-quarter jobless rate came in at 3.5 percent, well below measures from the prior quarter and a year earlier.

Compared to the state, unemployment at the county level was mixed, with the lowest rates recorded in the counties within the Baltimore-Washington Corridor. Baltimore City posted a low 3.9 percent jobless rate, but the strength of the measure is due in part to the city's labor participation rate, which is much lower than in the surrounding counties.

Maryland's residential real estate market advanced at a more conservative pace in early 2006. Sales of existing housing units dropped 1.9 percent in the first quarter and new permit growth fell 12.9 percent. Demand for housing,



however, remained strong enough to boost prices by 13.3 percent in the first quarter, the largest quarterly jump recorded districtwide.

First-quarter venture capital investment into Maryland, another measure of business activity, failed to match the fourth-quarter level but remained well above the year-ago amount. Early 2006 inflows totaled \$95.7 million, double the level recorded a year earlier.



## North Carolina

Economic conditions in North Carolina advanced steadily in the first quarter. Signals from labor markets were generally upbeat, and indicators of business and household conditions were positive across the board. Real estate conditions were more muted, with a pullback in demand cooling price acceleration.

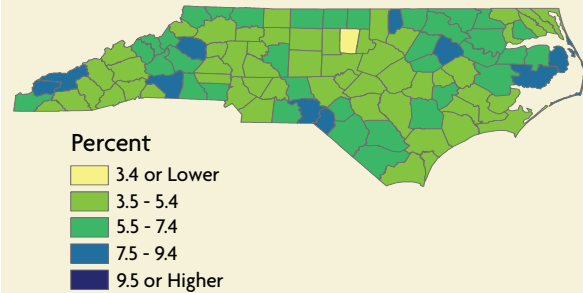
North Carolina posted the strongest net employment gain among District states in the first quarter, with jobs increasing by 23,800. Goods-producing firms trimmed payrolls, with the exception of construction establishments, which added more than 2,200 jobs. By comparison, first-quarter employment growth was more widespread at services companies, with losses recorded only in the information and financial activities sectors.

Measures of activity at North Carolina households were also encouraging. Reflecting strong payroll expansion, personal income rose 0.9 percent in the first quarter, matching activity recorded in the fourth quarter, and the jobless rate declined significantly. The share of unemployed persons in the labor force fell 0.7 percentage point to 4.5 percent, marking a return to the state's prerecession level. As shown in the map, areas of high unemployment are still scattered throughout the state, but unlike South Carolina and West Virginia, the jobless rate remains under 9.5 percent in each county.

The latest indicators of business activity in North Carolina strengthened, with venture capital investment coming in just over the \$100 million mark in the first quarter. At \$103 million, the first-quarter reading slightly outpaced late 2005 measures but fell a little short of the year-ago level. Compared to other District states, North Carolina attracted the bulk of the first-quarter funding — accounting for more than 35 percent of districtwide inflows.

The most recent data suggested further moderation in North Carolina's residential real estate market. First-quarter sales of existing housing units contracted 3.2 percent, marking the first quarterly decline since late 2004. Moderating demand has also slowed the rate of appreciation of North Carolina's housing stock. Home prices increased only 6.9 percent in the first quarter after growth, peaking at 11.8 percent during the previous period.

### NC Unemployment Rates by County, Q1:06



NOTE: County unemployment data are not seasonally adjusted.  
SOURCES: Bureau of Labor Statistics/Haver Analytics



## South Carolina

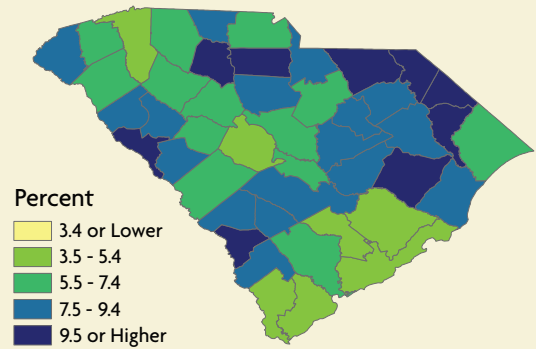
A long-awaited firming of economic conditions in South Carolina appears to be underway. First-quarter measures of labor market activity advanced steadily, and financial conditions at South Carolina households and businesses remained on track. Residential real estate markets showed some signs of moderation, falling in line with reports from most other District states.

South Carolina payrolls advanced 3.8 percent in the first quarter, the strongest quarterly growth rate districtwide. By sector, the strongest job gains were recorded at trade, transportation, and utilities, education and health services, and construction establishments. By comparison, the largest loss occurred among professional and business services firms, the state's largest industry sector.

The upturn in job growth over the last year aided South Carolina household finances, as personal income expanded at a 2.0 percent annual rate in the first quarter. Steady payroll expansion was also reflected in South Carolina's first-quarter unemployment rate, which edged 0.8 percentage point lower to 6.4 percent, the lowest reading in approximately three years. Notwithstanding the first-quarter improvement, South Carolina still recorded the highest jobless rate districtwide, with more than half of the state's counties posting unemployment rates in excess of 7.5 percent.

News from South Carolina's residential real estate markets was somewhat less encouraging. First-quarter existing home sales moderated 8.8 percent from the fourth-quarter level, though new permit applications expanded briskly. The abatement in sales slowed the rate of home price appreciation, which moved up only 7.6 percent in the first quarter, the lowest quarterly appreciation rate recorded since mid-2004.

### SC Unemployment Rates by County, Q1:06



NOTE: County unemployment data are not seasonally adjusted.  
SOURCES: Bureau of Labor Statistics/Haver Analytics

Other indicators from South Carolina's business front were more upbeat. Venture capital funding, for instance, rebounded in the first quarter. Inflows totaling \$9.7 million were recorded, a significant increase from the flat activity recorded in the last three out of four quarters.

### Virginia

First-quarter measures of Virginia's economy moved forward at a steady pace compared to the previous period. Employment and household conditions advanced steadily, though indicators of activity at Virginia businesses and within the residential real estate markets were less robust.

Virginia firms boosted payrolls 1.1 percent the first three months of 2006, following a 2.0 percent gain in late 2005. The first-quarter addition of 5,733 new construction jobs helped offset losses in Virginia's other industry sectors, including information and financial activities, where first-quarter payrolls were trimmed by more than 1,000 each.

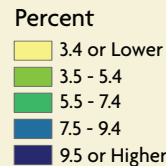
Financial conditions at Virginia households also brightened. First-quarter personal income measures were generally on track, with Virginia incomes rising 2.5 percent in the first quarter of the year. Additionally, the overall pickup in hiring at Virginia businesses was reflected in the first-quarter jobless rate, which declined 0.4 percentage point to 3.0 percent, the lowest unemployment rate districtwide. As illustrated in the chart, 85 percent of the Fifth District counties boasting a jobless rate under 3.5 percent hail from Virginia.

First-quarter reports from state businesses were less favorable. Virginia recorded a decline in venture capital inflows, tracking districtwide and national activity. In terms of attracting capital, Virginia's \$55 million first-quarter influx was nearly two-thirds less than the fourth-quarter amount and marked the smallest quarterly inflow in nearly two years.

Growth of Virginia's residential real estate market was also limited in early 2006. Compared to year-ago levels, new building permit authorizations rolled in at a slightly higher pace but first-quarter existing home sales declined 17.7 percent. Moderation in demand was also apparent when viewed against data from the fourth quarter of 2005 — home sales were down 10.4 percent.

The slowdown in demand further dampened the pace of home price acceleration in Virginia. First-quarter home prices were 11.2 percent higher compared to late-2005, marking the third quarter of a deceleration in growth, following the 25.3 percent peak reached in mid-2005.

### VA Unemployment Rates by County, Q1:06



NOTE: County unemployment data are not seasonally adjusted.  
SOURCES: Bureau of Labor Statistics/Haver Analytics

### West Virginia

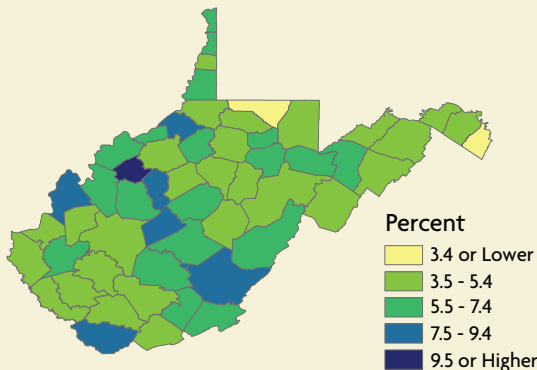
The most recent data suggest that West Virginia's economy remained generally on track in early 2006. The state's labor market tightened further, despite limited first-quarter payroll growth. Outside of labor market activity, household indicators were more upbeat than measures of business activity, and signs of moderation became more pronounced in the residential real estate markets.

First-quarter payroll activity was generally flat in West Virginia. Employment losses at natural resources and mining, construction, education and health services, and leisure and hospitality establishments dampened overall growth, resulting in a net gain of only 67 jobs during the first three months of the year.

Household financial conditions in West Virginia were more upbeat. Personal income advanced 1.3 percent in early 2006, bringing total annual growth to 1.8 percent. By comparison, districtwide annual income growth was slightly higher, amounting to 2.0 percent.

Also suggesting a rosier outlook for households, West Virginia's labor market continued to tighten in early

### WV Unemployment Rates by County, Q1:06



NOTE: County unemployment data are not seasonally adjusted.  
 SOURCES: Bureau of Labor Statistics/Haver Analytics

2006 despite the limited rise in payrolls. According to the Bureau of Labor Statistic's household employment survey,

the state's jobless rate dropped one full percentage point to 3.9 percent, marking the lowest unemployment rate recorded over the 30-year history of the data series. As shown in the chart, however, pockets of high unemployment are still prevalent across the state. For example, at 9.5 percent, Wirt County posted the highest nonseasonally adjusted jobless rate statewide in the first quarter.

Compared to household activity, certain indicators of business activity in West Virginia were less encouraging. For example, first-quarter venture capital inflows were flat, following a surge of \$1.6 million in late-2005.

West Virginia's latest home sales data also moderated. According to the National Association of Realtors, first-quarter home sales were 3.3 percent below the fourth-quarter level and 7.4 percent below the year-ago level. The pullback in West Virginia home sales appears to have dampened home price growth. First-quarter prices increased only 4.4 percent, the smallest quarterly gain in three years.

## Behind the Numbers: Why So Many Indicators?

Predicting the direction of the economy can look easy sometimes. During much of the 1990s, for example, multiple economic indicators were sending consistent signals. By the end of the decade, though, things were less certain. Many economic forecasters were slow to see the technology crash and the 2001 recession that followed it.

The difficulty in identifying economic turning points is the reason why economists watch an array of indicators instead of relying on just one or two. For one thing, indicators don't always move together closely. Recently, for example, employment has grown more slowly than output. And sometimes even indicators that are supposed to be tracking the same sector of the economy don't tell the same story, such as when the so-called "payroll" and "household" employment surveys contradict each other.

Then there are cases when indicators behave differently across business cycles. As mentioned above, employment has recovered relatively slowly since the last recession. This is in contrast to many previous recoveries. One explanation is that women are no longer entering the labor force at the same strong rate as in years past. Additionally, a lot of

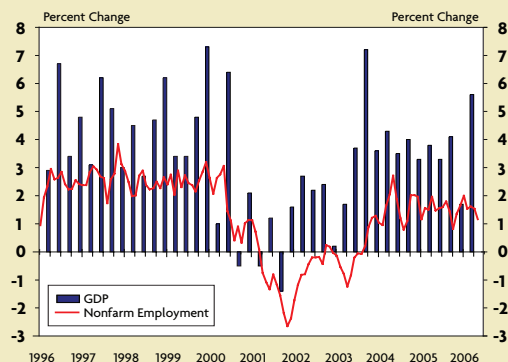
economists right now are skeptical that an inverted yield curve means we're headed into recession, even though the curve has predicted many downturns.

Economists use time-series models to help them forecast future economic performance, plugging in an array of data from different indicators. But even after gleaning the computer-generated results, economists usually take a closer look at individual variables. "It may be that individual indicators are suggesting that something unusual is going on that might not be getting picked up in the mechanical forecasting process," says, Matthew Martin, an economist at the Richmond Fed's Charlotte branch.

To deal with all this uncertainty, economic forecasters create multiple scenarios as a way to highlight potential risks: What if home prices follow a different path than expected? What if energy prices begin to pass through to core price indexes? Granted, you might not want to respond to every wiggle. But any one of these indicators could make a difference, which is why all of them are analyzed. "More information is always better," Martin says.

— DOUG CAMPBELL

### Up and Down: Output and Employment Don't Always Track Closely



SOURCES: Bureau of Economic Analysis and Bureau of Labor Statistics

## State Data, Q1:06

	DC	MD	NC	SC	VA	WV
<b>Nonfarm Employment (000)</b>	690.7	2,575.9	3,961.1	1,889.3	3,710.8	751.1
Q/Q Percent Change	3.2	1.4	2.4	3.8	1.1	0.0
Y/Y Percent Change	1.5	1.5	1.8	1.9	2.1	1.2
<b>Manufacturing Employment (000)</b>	2.1	138.7	562.9	258.1	295.7	61.5
Q/Q Percent Change	14.0	-2.1	-0.9	-0.4	0.8	0.7
Y/Y Percent Change	-6.1	-2.3	-1.3	-2.7	-0.7	-1.4
<b>Professional/Business Services Employment (000)</b>	152.1	388.5	450.3	201.6	619.7	59.5
Q/Q Percent Change	10.0	1.1	0.7	-17.0	0.3	1.1
Y/Y Percent Change	3.1	2.2	2.4	2.4	3.8	1.9
<b>Government Employment (000)</b>	231.4	467.7	674.3	333.6	664.7	144.1
Q/Q Percent Change	-1.7	0.6	3.6	1.7	-0.3	1.0
Y/Y Percent Change	-0.8	1.3	1.9	2.5	1.2	0.1
<b>Civilian Labor Force (000)</b>	293.5	2,971.5	4,371.6	2,103.5	3,976.7	808.9
Q/Q Percent Change	0.3	2.3	0.2	-0.1	1.6	2.2
Y/Y Percent Change	-2.0	2.1	1.7	2.0	2.0	1.8
<b>Unemployment Rate (%)</b>	5.3	3.5	4.5	6.4	3.0	3.9
Q4:05	6.0	4.0	5.2	7.2	3.4	4.9
Q1:05	7.0	4.2	5.1	6.6	3.4	4.8
<b>Personal Income (\$bil)</b>	27.5	214.1	240.4	110.0	264.6	45.0
Q/Q Percent Change	1.3	1.0	0.8	1.1	1.3	1.3
Y/Y Percent Change	2.4	2.6	0.9	2.0	2.5	1.8
<b>Building Permits</b>	1,327	6,291	26,517	14,474	13,806	1,472
Q/Q Percent Change	1,795.2	-12.9	95.0	76.5	16.3	276.1
Y/Y Percent Change	134.9	-18.8	19.7	14.4	2.6	10.2
<b>House Price Index (1980=100)</b>	618.6	509.4	315.0	299.5	450.6	226.6
Q/Q Percent Change	6.0	13.3	6.9	7.6	11.2	4.4
Y/Y Percent Change	20.8	20.5	8.3	9.1	18.1	10.6
<b>Sales of Existing Housing Units (000)</b>	10.8	126.4	231.6	112.0	154.4	35.2
Q/Q Percent Change	0.0	-1.9	-3.2	-8.8	-10.4	-3.3
Y/Y Percent Change	-18.2	-6.5	17.0	7.3	-17.7	-7.4

**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, Personal Income, billions of chained 2000\$, Bureau of Economic Analysis/Haver Analytics, Building Permits, number of permits, NSA; U.S. Census Bureau/Haver Analytics, House Price Index, 1980=100, NSA, Office of Federal Housing Enterprise Oversight/Haver Analytics, Sales of Existing Housing Units, thousands of units, SA: National Association of Realtors®

## Metropolitan Area Data, Q1:06

	Washington, DC MSA	Baltimore, MD MSA	Charlotte, NC MSA
<b>Nonfarm Employment (000)</b>	2,937.4	1,277.8	800.1
Q/Q Percent Change	-3.6	-8.4	-3.3
Y/Y Percent Change	2.6	1.7	2.6
<b>Unemployment Rate (%)</b>	3.0	4.0	4.7
Q4:05	3.0	3.9	4.9
Q1:05	3.7	4.9	5.4
<b>Building Permits</b>	8,691	2,377	6,148
Q/Q Percent Change	160.2	-20.7	85.5
Y/Y Percent Change	4.7	13.2	29.9
	Raleigh, NC MSA	Charleston, SC MSA	Columbia, SC MSA
<b>Nonfarm Employment (000)</b>	274.2	285.6	359.1
Q/Q Percent Change	1.0	2.8	-0.4
Y/Y Percent Change	2.5	4.4	2.9
<b>Unemployment Rate (%)</b>	3.8	5.2	5.6
Q4:05	4.0	5.4	5.8
Q1:05	4.4	5.6	5.9
<b>Building Permits</b>	1,179	2,566	2,057
Q/Q Percent Change	188.0	45.6	117.4
Y/Y Percent Change	7.4	1.7	13.6
	Norfolk, VA MSA	Richmond, VA MSA	Charleston, WV MSA
<b>Nonfarm Employment (000)</b>	757.9	618.3	147.7
Q/Q Percent Change	-6.8	-3.7	-5.4
Y/Y Percent Change	2.0	2.0	0.9
<b>Unemployment Rate (%)</b>	3.7	3.4	4.6
Q4:05	3.7	3.3	4.1
Q1:05	4.4	3.9	5.9
<b>Building Permits</b>	2,310	2,319	84
Q/Q Percent Change	-47.9	44.5	57.4
Y/Y Percent Change	-4.8	-17.8	23.5

For more information, contact Andrea Holmes at 804-697-8273 or e-mail [Andrea.Holmes@rich.frb.org](mailto:Andrea.Holmes@rich.frb.org).