

District Economic Developments

BY ROBERT LACY

The Fifth District economy continued to expand at a solid pace in the third quarter of 2004. Payroll employment growth was large enough to finally nudge Fifth District employment above the peak reached prior to the 2001 recession. And while retail sales were sluggish, output of goods and services overall was nicely higher.

Economic growth in Fifth District states was relatively strong in the third quarter of 2004. The broad services sector expanded at a brisk pace, despite softness in retail sales, and manufacturing maintained good momentum through the summer. Personal income and employment moved higher as well, while the District's unemployment rate edged lower. By late fall, economic growth had slowed somewhat, but the District's economic expansion remained firmly intact.

Services Sector Expands but Retail Soft

The Fifth District's services sector expanded at a solid pace during the third quarter. Continuing gains in employment and personal income helped stoke demand for most District services businesses, boosting their revenues during the period.

Retail sales, however, remained a weak spot. District retailers told us that higher energy prices were partly to blame for lackluster third-quarter sales. Discount chains reported particularly soft sales as higher gasoline prices strained the already-tight budgets of lower-income customers. And by late fall, an increasing number of retailers were expressing concern that a sharp rise in heating bills might constrain spending even further this winter.

District Manufacturing Expands

District manufacturers recorded substantially higher output in the third quarter. Our indexes of shipments and capacity utilization rose throughout the period. And despite hefty price increases for some raw materials — most notably oil, steel, copper, and lumber — final goods prices rose only moderately.

Manufacturing activity began to slow in the fourth quarter. However, District manufacturers generally remained optimistic about future sales prospects, and a number of them announced plans to expand production facilities in 2005. Dell's plans to build a computer manufacturing facility in the Triad area of North Carolina was cheered in an area of the state staggered by job layoffs in the textiles industry. The new plant is expected to open in the fall of 2005 and eventually employ 1,500 people.

But the manufacturing news from Maryland was not as upbeat. In November, General Motors announced it would close its Broening Avenue assembly plant in Baltimore in 2005. Approximately 1,100 jobs are expected to be lost. Built in 1935 and in its heyday employing more than 7,000 people, the plant was a mainstay of Baltimore's once considerable manufacturing economy.

A Jobs Recovery

Employment in the District continued to expand in the third quarter. While the pace of growth was slower than in the second quarter, year-over-year growth in employment was a respectable 1.8 percent. With the third-quarter growth, payroll employment in the District finally exceeded the prerecessionary peak reached in December 2000.

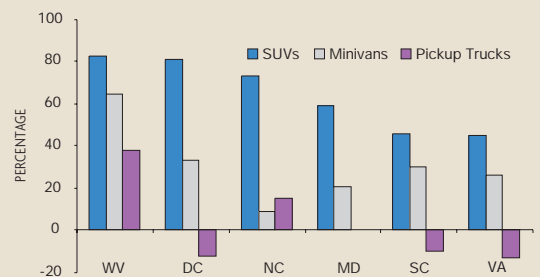
State Economic Indexes Up

The Federal Reserve Bank of Philadelphia now publishes indexes of economic performance for all 50 states. Its coincident indexes are measures of overall economic performance and are based on payroll employment, unemployment rates, average hours worked in manufacturing, and real wage and salary disbursements. These indexes suggest that economic activity rose in all District states in the third quarter but was strongest in North Carolina and West Virginia.

Did You Know . . .

You may be a truck driver and not even know it. Most sport-utility vehicles (SUVs) and minivans are classified as light trucks by the U.S. Department of Transportation because they are built on truck chassis or have truck-like features. If you are one of those SUV "truck" drivers you have lots of company these days. According to the Census Bureau's 2002 survey of the nation's trucks, in Fifth District states there was about one SUV for every 12 people.

**SUVs, Minivans & Pickup Trucks
Growth in Registrations (1997-2002)**



Nonfarm Employment Third Quarter 2004

	Employment (Thousands)	% Change (Year Ago)
DC	672	1.6
MD	2,535	2.1
NC	3,863	1.2
SC	1,835	1.3
VA	3,591	2.5
WV	736	1.3
5th District	13,232	1.8
US	131,521	1.3

Unemployment Rate (Percent)

	3rd Qtr. 2004	3rd Qtr. 2003
DC	7.8	7.0
MD	4.2	4.5
NC	5.0	6.5
SC	6.4	7.0
VA	3.5	4.2
WV	5.3	6.2
5th District	4.7	5.5
US	5.5	6.1

Personal Income Third Quarter 2004

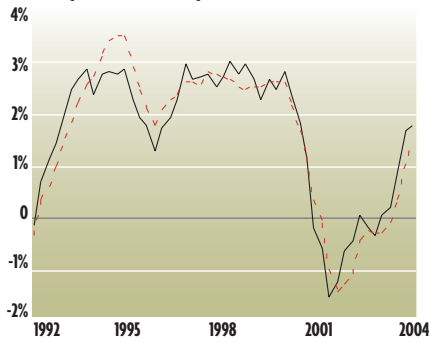
	Income (\$ billions)	% Change (Year Ago)
DC	28.3	5.6
MD	218.6	5.5
NC	251.2	5.1
SC	114.3	5.2
VA	264.7	6.1
WV	47.3	5.7
5th District	924.4	5.5
US	9,670.6	5.2

———— Fifth District

- - - - - United States

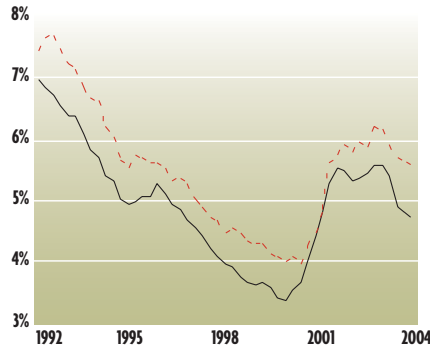
Nonfarm Employment

Change From Prior Year
First Quarter 1992 - Third Quarter 2004



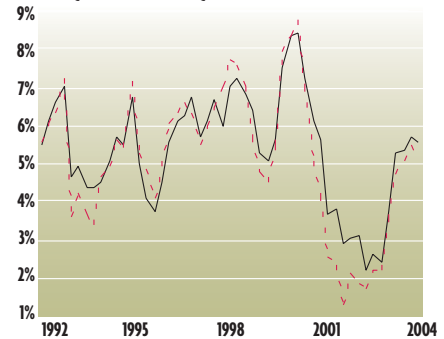
Unemployment Rate

First Quarter 1992 - Third Quarter 2004



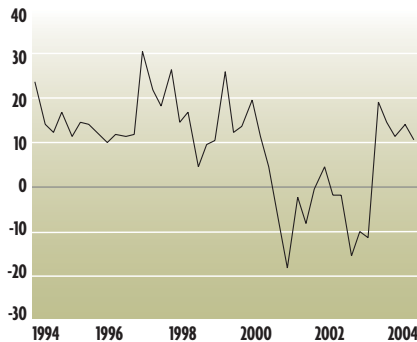
Personal Income

Change From Prior Year
First Quarter 1992 - Third Quarter 2004



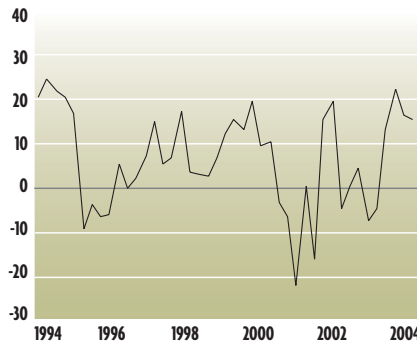
FRB—Richmond Services Revenues Index

First Quarter 1994 - Third Quarter 2004



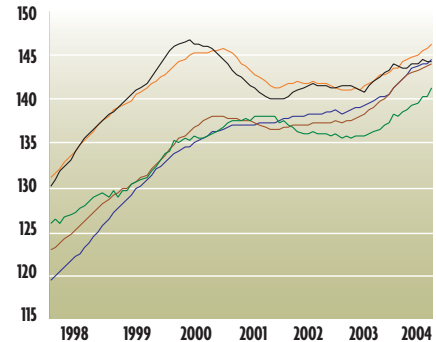
FRB—Richmond Manufacturing Shipments Index

First Quarter 1994 - Third Quarter 2004



Coincident Economic Activity Index

(July 1992=100)



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>
 Coincident economic activity index: Federal Reserve Bank of Philadelphia, <http://www.philadelphiafed.org>

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District of Columbia

BY ANDREA HOLLAND

Among Fifth District jurisdictions, economic activity during the current recovery has been relatively weak in the District of Columbia. The labor market and household and business financial conditions remain subdued, and performance of the residential real estate market continues to lag activity districtwide.

Since the end of the 2001 recession, District of Columbia job numbers have expanded 2.3 percent, the third strongest growth rate districtwide. Measures of payroll employment in the District of Columbia, however, mostly reflect increases in commuters from Maryland and Virginia into the city, rather than resident job growth.

Because commuters cloud the job growth numbers, an alternative indicator of labor market conditions is initial unemployment insurance claim statistics. This measure shows that initial claims have dropped only 15.4 percent during the recovery — a relatively shallow decline compared to the Fifth District decline of 45.8 percent, suggesting a comparatively weaker labor market picture.

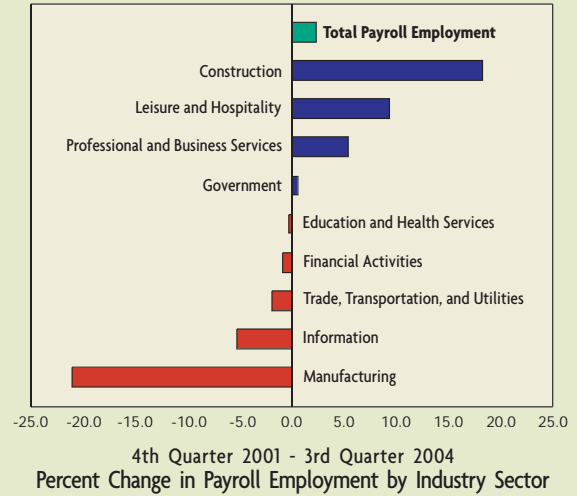
With fewer residents holding jobs, measures of personal income in the District of Columbia have also stagnated since the start of the recovery. Incomes have grown only 3.8 percent since late 2001, the slowest rate among Fifth District jurisdictions.

Not all economic news was bad for District of Columbia households, though. Personal bankruptcies have declined 22.4 percent — the largest drop among Fifth District jurisdictions.

Adding to this good news, business bankruptcies in D.C. have also fallen the most districtwide — easing 52.2 percent during the recovery period. In contrast, venture capital investment has lessened. Compared to late 2001, capital inflows stand 65.7 percent lower.

Switching gears, D.C.'s residential real estate market has continued to move ahead during the recovery, but not at the breakneck pace as seen in other district states. Building permits have risen steadily by 7 percent — the second smallest growth rate in the Fifth District. Existing home sales activity posted a 16.9 percent growth rate during the same time period but trailed districtwide growth of 42.3 percent.

Payroll Employment Growth



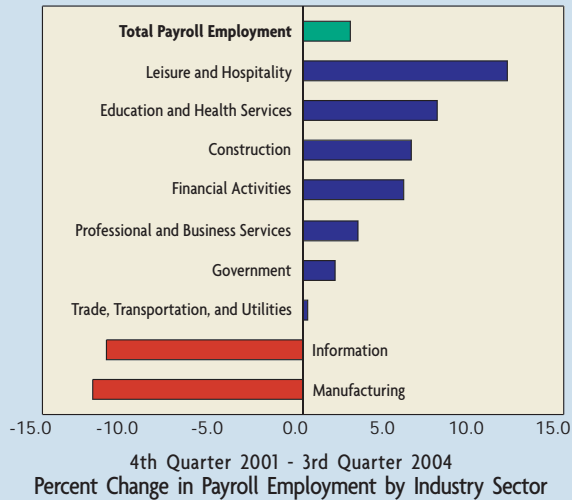
SOURCE: Nonfarm Payroll Employment, BLS/Haver Analytics

	Percent Change at Annual Rate From		
	3rd Qtr 2004	2nd Qtr 2004	3rd Qtr 2003
Nonfarm Employment	672.0	1.0	1.6
Manufacturing, NSA	2.6	0.0	-1.3
Professional/Business Services	145.8	3.6	3.1
Government	232.1	2.3	0.9
Civilian Labor Force	301.2	0.6	-0.4
	3rd Qtr 2004	2nd Qtr 2004	3rd Qtr 2003
Unemployment Rate	7.8	7.3	7.0
Building Permits, NSA	335	760	182
Home Sales	15.2	179	16.1

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®



Payroll Employment Growth



SOURCE: Nonfarm Payroll Employment, BLS/Haver Analytics

Three years into the recovery, the latest data suggest that Maryland's economy has rebounded quickest among Fifth District states. Nearly all indicators of the labor market and financial conditions have posted strong growth.

According to the Bureau of Labor Statistics, business hiring in Maryland has been robust over the current recovery. Payrolls in the state have expanded 2.7 percent since late 2001, the second strongest growth rate districtwide. By sector, leisure and hospitality payrolls have rebounded the most, while manufacturing and information job performance has been the weakest, still showing a net loss.

Tracking the aggregate pickup in hiring, initial unemployment insurance claims have fallen 37.9 percent during the recovery, exceeding the decline nationwide. Also positive, personal bankruptcy filings have declined 21 percent, marking the second largest drop districtwide.

Personal income is also a beneficial gauge of growth. Over the course of the recovery, income growth has expanded 7.4 percent in Maryland, ranking highest among district states and coming in well above the national growth rate of 4.8 percent. By industry, earnings expanded the most in management of companies and enterprises, and real estate and rental and leasing.

Real estate markets continue to boom in the state. Existing home sales in Maryland currently total 30.2 percent more than at the beginning of the recovery. Likewise, the number of new building permits issued has expanded, though not as fast as in other district states.

Outside of the real estate market, bankruptcy data suggest broad improvement at other business establishments. The number of business bankruptcies has fallen 36.5 percent lower over the course of the recovery. On a less positive note, however, the only measure not to improve in Maryland — or in any other district state for that matter — was venture capital activity, where inflows have declined by about one-third.

	Percent Change at Annual Rate From		
	3rd Qtr 2004	2nd Qtr 2004	3rd Qtr 2003
Nonfarm Employment	2,535.4	2.7	2.1
Manufacturing, NSA	144.4	-2.6	-0.7
Professional/Business Services	374.0	2.1	3.9
Government	466.0	4.0	0.3
Civilian Labor Force	2,952.6	0.6	1.6
	3rd Qtr 2004	2nd Qtr 2004	3rd Qtr 2003
Unemployment Rate	4.2	3.9	4.5
Building Permits, NSA	7,435	7,636	6,602
Home Sales	154.1	146.0	143.8

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®



North Carolina

BY ANDREA HOLLAND

North Carolina businesses have enjoyed broad gains during the current recovery period, but a rebound in labor market and household financial conditions has yet to fully materialize.

Growth in nonfarm payrolls at North Carolina establishments (0.3 percent) has matched West Virginia's during the course of this recovery — posting the weakest growth rates in the Fifth District. By sector, education and health services have posted the strongest gains, while goods-producing sectors such as manufacturing, and natural resources and mining recorded negative job growth.

More positively, initial unemployment insurance claims in North Carolina — a measure of future labor market activity — have decreased 48.9 percent since the end of the last recession, the largest decline in the Fifth District.

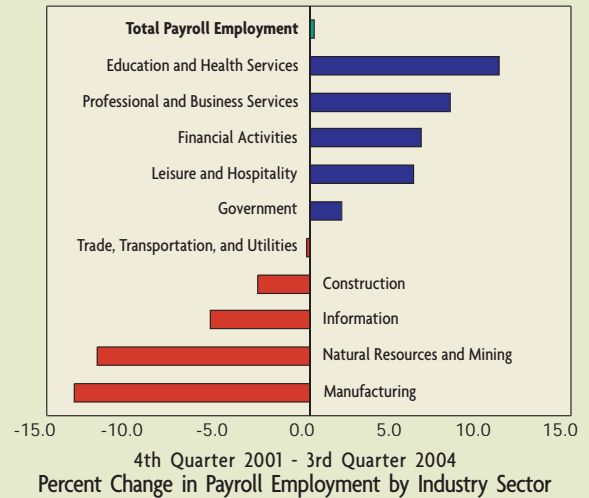
Slow job growth has weighed on North Carolina households in the last few years. Personal income growth has been weaker than in all but one other district jurisdiction since the end of the last recession, recording only a 4.7 percent gain. Earnings have also expanded modestly, with weakness persisting in construction, retail trade, and transportation and warehousing.

Weak income growth is likely a reason personal bankruptcies have risen; new filings stand 5.2 percent higher than at the end of the recession — marking the second slowest recovery rate districtwide.

Indicators of the financial health of North Carolina firms were more encouraging. Business bankruptcies have declined 37.9 percent over the recovery, the second strongest contraction districtwide. And venture capital inflows into North Carolina stand only 19.3 percent lower than at the beginning of the recovery — the second smallest decrease among district jurisdictions.

Conditions in real estate markets were also positive. The number of third-quarter building permits exceeded the number authorized in the last quarter of the 2001 recession by 32.6 percent. In addition, existing home sales in North Carolina have expanded 52.9 percent, the strongest increase districtwide.

Payroll Employment Growth



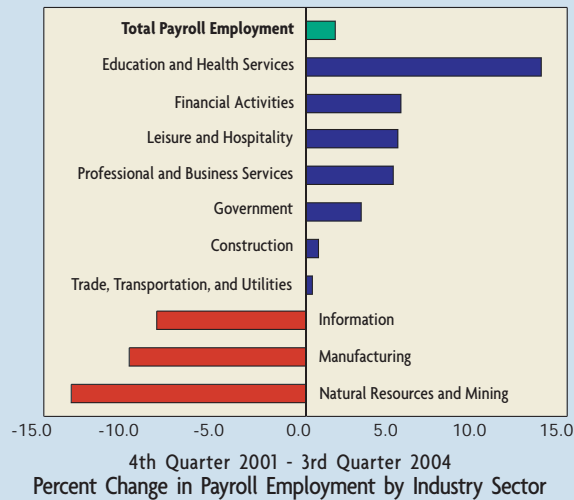
SOURCE: Nonfarm Payroll Employment, BLS/Haver Analytics

	Percent Change at Annual Rate From		
	3rd Qtr 2004	2nd Qtr 2004	3rd Qtr 2003
Nonfarm Employment	3,862.5	2.3	1.2
Manufacturing, NSA	582.2	-0.8	-2.4
Professional/Business Services	443.9	2.4	4.3
Government	654.6	-0.1	0.8
Civilian Labor Force	4,178.2	-2.1	-1.7
	3rd Qtr 2004	2nd Qtr 2004	3rd Qtr 2003
Unemployment Rate	5.0	5.4	6.5
Building Permits, NSA	24,137	24,664	20,761
Home Sales	361.7	337.4	307.9

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®



Payroll Employment Growth



SOURCE: Nonfarm Payroll Employment, BLS/Haver Analytics

An economic upturn appears to be taking hold in South Carolina, but the state has yet to regain footing lost during the last recession. The most recent information suggests that employment activity and household and business conditions in South Carolina remain short of their peak, though growth in the residential real estate market remains robust.

South Carolina payrolls have picked up by 1.7 percent during the current recovery – slightly below the districtwide average of 1.8 percent. By sector, education and health services, and financial activities have bounced back the most, while growth in manufacturing, and natural resources and mining jobs remains in negative territory.

The sluggish job market recovery is reflected in South Carolina's initial unemployment insurance claims. Although claim submittals have declined since the start of the recovery, the rate of decline has been slightly slower in South Carolina than it has been districtwide.

Despite lackluster job growth, earnings have risen in almost all industry sectors since the end of the recession – including manufacturing – boosting total personal income in the state. Personal income has expanded 5.6 percent in South Carolina since the fourth quarter of 2001, outpacing the nationwide gain of 4.8 percent.

Notwithstanding solid income growth, personal bankruptcy filings have risen 2.3 percent higher during the recovery period.

Business bankruptcies have also continued to climb during the expansion – filings in South Carolina have risen 17.1 percent higher, the biggest gain districtwide. In other business news, venture capital investment into South Carolina has been spotty during the recovery, posting two quarters of flat inflows.

But not all news was glum on the business front. Turning to real estate, new building permits have continued to climb during the recovery, with South Carolina recording the second largest expansion districtwide. Likewise, existing home sales continue to set records, coming in 45.9 percent above the fourth quarter of the 2001 level.

	Percent Change at Annual Rate From		
	3rd Qtr 2004	2nd Qtr 2004	3rd Qtr 2003
Nonfarm Employment	1,834.9	-0.2	1.3
Manufacturing, NSA	270.4	-1.1	-1.5
Professional/Business Services	192.6	1.5	1.5
Government	334.6	5.1	1.7
Civilian Labor Force	2,072.6	3.4	3.1
	3rd Qtr 2004	2nd Qtr 2004	3rd Qtr 2003
Unemployment Rate	6.4	6.5	7.0
Building Permits, NSA	10,821	11,249	9,703
Home Sales	165.5	165.5	153.6

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®



Virginia

BY ANDREA HOLLAND

Virginia's economy has rebounded sharply since the end of the 2001 recession. The employment situation and financial conditions of Virginia households have improved markedly and the real estate market continues to forge ahead. Financial conditions have brightened at Virginia firms as well, though gains have been less pronounced.

Since the end of the recession, Virginia firms have boosted payrolls by 2.9 percent, the best recovery among district states. Also positive, third-quarter unemployment insurance claims were about half the amount recorded in the last quarter of the recession, marking the second best pickup districtwide.

Employment gains over the recovery period have been centered in the construction and financial activities sectors, reflecting a booming real estate market. Existing home sales have expanded 36.3 percent and new building permits have risen 38.2 percent since the end of the 2001 recession.

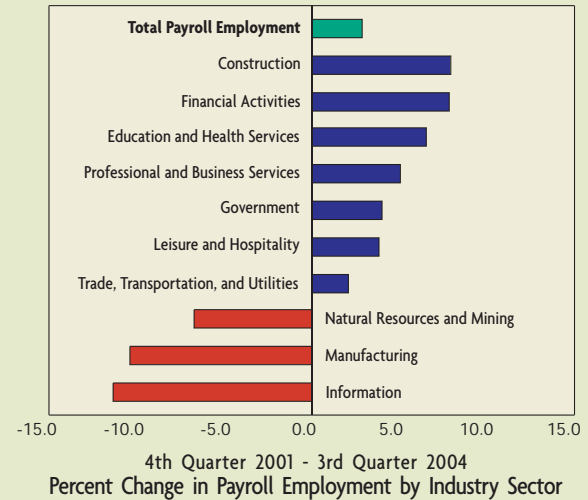
Strong job creation has boosted earnings in Virginia households. Personal income has grown 6.8 percent since the end of the 2001 recession, the second fastest districtwide. Earnings expanded the most in construction, management of companies and enterprises, and real estate and rental and leasing — again reflecting continued strength in residential real estate.

Higher earnings have also limited personal bankruptcies in Virginia — third-quarter filings are 5.6 percent lower than at the start of the recovery, marking the third largest drop districtwide.

The positive news from the household side is slowly making its way to Virginia businesses. Business bankruptcy filings have moderated since the last quarter of 2001, though only by a modest 1.5 percent, the second weakest decline districtwide.

In contrast to all this good news, Virginia continues to experience weak venture capital inflows, recording the most pronounced contraction among district states.

Payroll Employment Growth



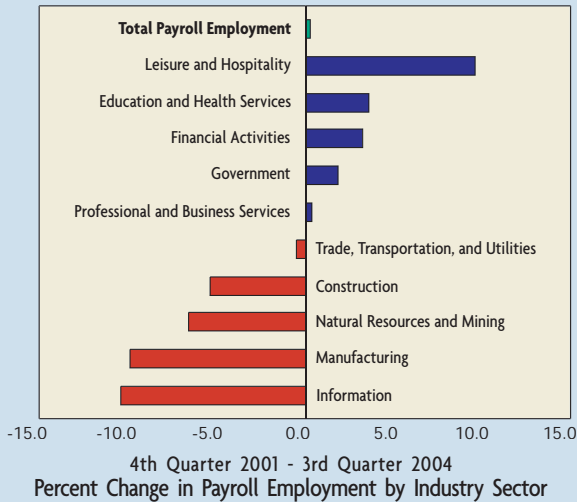
SOURCE: Nonfarm Payroll Employment, BLS/Haver Analytics

	Percent Change at Annual Rate From		
	3rd Qtr 2004	2nd Qtr 2004	3rd Qtr 2003
Nonfarm Employment	3,591.0	1.0	2.5
Manufacturing, NSA	295.4	-2.6	-2.4
Professional/Business Services	581.0	4.7	5.8
Government	654.0	4.0	2.3
Civilian Labor Force	3,842.1	-0.2	1.6
	3rd Qtr 2004	2nd Qtr 2004	3rd Qtr 2003
Unemployment Rate	3.5	3.5	4.2
Building Permits, NSA	16,125	17,237	14,230
Home Sales	203.2	200.4	185.8

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®



Payroll Employment Growth



SOURCE: Nonfarm Payroll Employment, BLS/Haver Analytics

	Percent Change at Annual Rate From		
	3rd Qtr 2004	2nd Qtr 2004	3rd Qtr 2003
Nonfarm Employment	736.4	5.2	1.3
Manufacturing, NSA	63.4	-3.5	-1.6
Professional/Business Services	57.0	0.7	1.7
Government	144.0	9.4	1.3
Civilian Labor Force	802.7	2.9	1.9
	3rd Qtr 2004	2nd Qtr 2004	3rd Qtr 2003
Unemployment Rate	5.3	5.2	6.2
Building Permits, NSA	1,466	1,544	1,291
Home Sales	37.6	31.6	31.9

NOTES:
 Nonfarm Employment, thousands of jobs, seasonally adjusted (SA); Bureau of Labor Statistics (BLS)/Haver Analytics
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 Building Permits, number of permits, 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.

Recent economic data suggest that West Virginia's economy has expanded slowly during the current recovery. Indicators of employment activity and household and business financial conditions have yet to perk up, though real estate activity was positive across the board.

Payroll employment has risen only 0.3 percent in West Virginia during the current recovery, tying North Carolina for the weakest growth districtwide. Some sectors have posted solid gains — leisure and hospitality, and education and health services — but the jobs performance remains weak in the information and manufacturing sectors.

Lackluster job growth shows through to the state's unemployment insurance statistics. Although third-quarter initial claims numbered 32.5 percent fewer than claims at the start of the recovery, the rate of improvement in West Virginia remains well below both the national and district average.

With sluggish job growth, income measures have also been slow to improve in the state. Personal income has expanded only 5.5 percent over the course of the recovery. Earnings rose modestly in most industries, but declines were recorded in transportation and warehousing, mining, utilities, construction, and information. Unfortunately, the modest gain in earnings did not pull down the rate of personal bankruptcy filings, which stand 28.3 percent higher than in late 2001.

On the flip side, the number of business bankruptcy filings have decreased 27.9 percent during the recovery — exceeding the national decline. But other indicators of business activity are less encouraging. Venture capital investment remains generally stagnant in West Virginia — inflows over the current recovery would be best characterized as spotty.

Real estate activity continues to forge ahead though. Existing home sales have grown 33.3 percent since the start of the recovery period. Also positive, housing permits have expanded at a breakneck pace in West Virginia, posting the strongest growth rate districtwide.