

DISTRICT ECONOMIC OVERVIEW

BY SONYA RAVINDRANATH WADDELL

Economic activity in the Fifth District grew at a somewhat softened pace in the fourth quarter of 2007 and the first quarter of 2008 as weakness in housing and retail sales offset growth in other sectors of the service-providing industries. Employment and income continued to grow, but at a slower pace.

Healthy Labor Markets

District labor market conditions remained generally healthy in the end of 2007 and into 2008. Payroll employment in the Fifth District grew 1.0 percent over the year ending in the first quarter of 2008, a rate double the 0.5 percent national payroll growth over the same period. Although household unemployment ticked up 0.3 percentage point over the six months spanning the end of 2007 and the beginning of 2008, Fifth District joblessness settled at 4.5 percent by the end of March 2008 — a solid 0.6 percentage point below the national jobless rate of 5.1 percent.

Employment growth over the year reflected solid growth in the service-providing industries, although employment growth within this sector was mixed. While education and health services payrolls grew 3.0 percent, employment in the financial activities and information sectors

declined 0.8 percent and 0.4 percent, respectively. Other indicators of service-sector activity were also mixed over the last quarter of 2007 and the first quarter of 2008. According to our surveys, while revenue growth in non-retail services firms was steady or growing over the period, retail firms

orders and shipments fell and demand for certain products weakened. Toward the end of the first quarter, however, there was some indication of potential turnaround in the manufacturing sector with growth in export demand.

Real Estate Weakens

Residential real estate activity weakened further in the final quarter of 2007 and first quarter of 2008. Permit issuance declined 34.5 percent over the year ending in March 2008, with declines of more than 20 percent reported in all Fifth District jurisdictions. Housing starts and home sales also declined across all jurisdictions, with 30.3 percent and 25.6 percent drops, respectively, in the Fifth District as a whole over the year.

Declining sales activity coincided with cooling house price growth. After many quarters of declining house price growth, Fifth District house prices fell outright over the first quarter of 2008 (0.1 percent) and since the first quarter of 2007 (0.3 percent). Although North Carolina, South Carolina, and West Virginia still saw growth in house prices over the quarter, prices in the District of Columbia, Maryland, and Virginia all declined, with D.C. and Maryland house prices experiencing declines of between 1.0 and 2.0 percent over the quarter and the year.

Economic activity in the Fifth District grew at a somewhat softened pace in the first quarter of 2008.

experienced sizeable drops in sales, particularly of big-ticket items. Similarly, retail price growth picked up, particularly in the first three months of 2008, while overall service-sector price growth remained steady.

The biggest job losses in the Fifth District were in the goods-producing industries — manufacturing firms shed 28,700 jobs for a 0.3 percent decline in payrolls and mining and construction shed 5,000 jobs for a 0.6 percent decline. Other manufacturing indicators from our survey also describe a cooling of activity as new

Economic Indicators

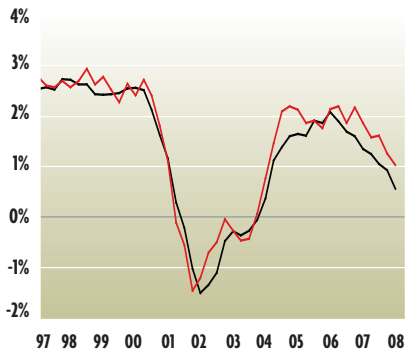
	1st Qtr. 2008	4th Qtr. 2007	Percent Change (Year Ago)
Nonfarm Employment (000)			
Fifth District	14,005	13,979	1.2
U.S.	137,917	138,031	0.9
Real Personal Income (\$bil)			
Fifth District	949.0	946.8	2.2
U.S.	9,998.9	9,970.7	2.7
Building Permits (000)			
Fifth District	36.1	35.7	-24.2
U.S.	226.7	262.8	-26.1
Unemployment Rate (%)			
Fifth District	4.4%	4.3%	
U.S.	4.9%	4.8%	

Households Faring Well

Household financial conditions remained solid in the last quarter of 2007 and the first quarter of 2008, as personal income continued to grow at a 1.0 percent annualized rate between the fourth quarter 2007 and the first quarter 2008 — approximately on par with national income growth. In addition, although mortgage delinquency rates rose in the final quarter of 2007, delinquency rates fell in every jurisdiction of the Fifth District in the first quarter of 2008.

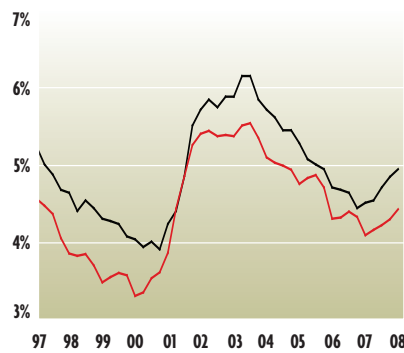
Nonfarm Employment

Change From Prior Year
First Quarter 1997 – First Quarter 2008



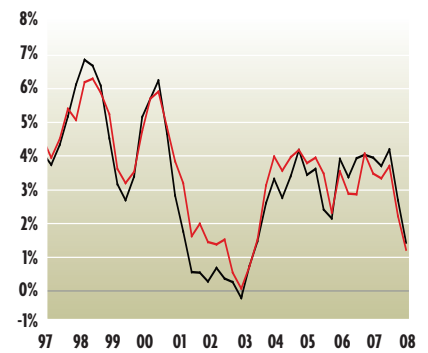
Unemployment Rate

First Quarter 1997 – First Quarter 2008



Real Personal Income

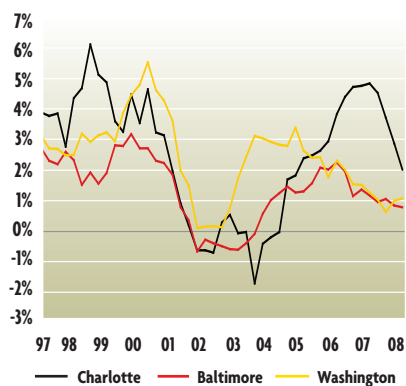
Change From Prior Year
First Quarter 1997 – First Quarter 2008



Fifth District — **United States**

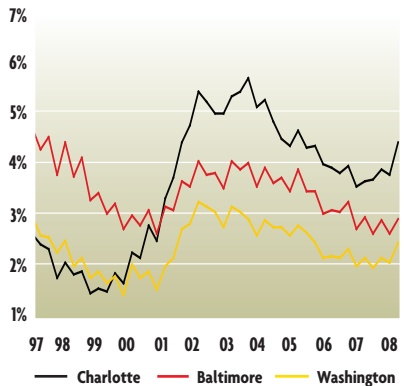
Nonfarm Employment Metropolitan Areas

Change From Prior Year
First Quarter 1997 – First Quarter 2008



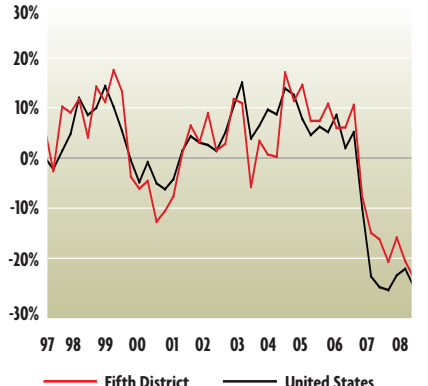
Unemployment Rate Metropolitan Areas

Change From Prior Year
First Quarter 1997 – First Quarter 2008



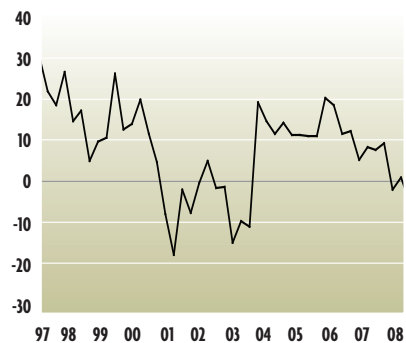
Building Permits

Change From Prior Year
First Quarter 1997 – First Quarter 2008



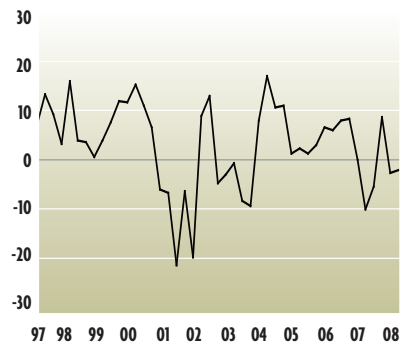
FRB-Richmond Services Revenues Index

First Quarter 1997 – Fourth Quarter 2008



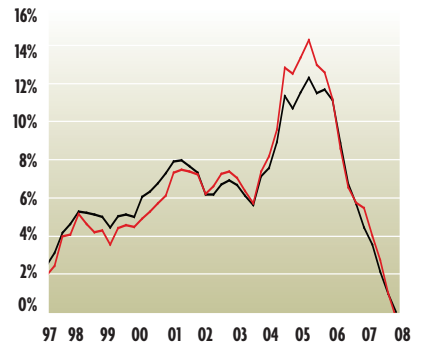
FRB-Richmond Manufacturing Composite Index

First Quarter 1997 – First Quarter 2008



House Prices

Change From Prior Year
First Quarter 1997 – First Quarter 2008



Fifth District — **United States**

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:

Real Personal 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>.

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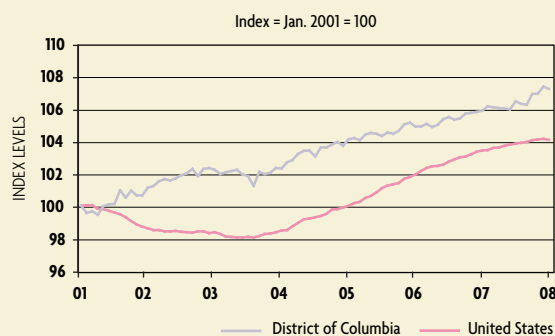
STATE ECONOMIC CONDITIONS

BY SONYA RAVINDRANATH WADDELL

District of Columbia

Economic conditions in the District of Columbia were mixed in the last quarter of 2007 and into the first quarter of 2008. Real estate conditions weakened as house prices, permitting activity, housing starts, and existing home sales fell and foreclosures grew over both quarters. Nonetheless, despite the rise in the household unemployment rate, payrolls in the area grew and income growth remained steady.

U.S. and D.C. Employment Growth Since Jan. 2001



SOURCE: Nonfarm Payroll Employment, BLS/Haver Analytics

Conflicting reports from the payroll and household employment surveys indicated mixed conditions in the D.C. labor market. Firms in the district added 4,900 jobs in the fourth quarter of 2007 and 1,200 jobs in the first quarter of 2008, for 0.9 percent growth over the two quarters. Payroll growth in professional and business services and government employment fueled much of the increase, although government employment fell slightly in the first quarter of 2008. Despite the payroll increases, however, household unemployment ticked up to 6.2 percent in the beginning of 2008 after remaining unchanged at 5.7 percent at the end of last year. By the end of the first quarter of 2008, unemployment settled at 6.1 percent.

Housing market conditions in the District of Columbia deteriorated further over the two quarters. Its House Price Index fell 1.0 percent in the final quarter of 2007 and a further 1.8 percent in the first quarter of 2008. This is the first time that the jurisdiction has seen two straight quarters of house price decline since 1997. In addition, new residential construction fell over the period as residential permitting activity and housing starts dropped over the six months. Furthermore, existing home sales in the district fell 13.0 percent in the fourth quarter and 5.0 percent in the first

quarter, marking the third and fourth consecutive quarters of decline.

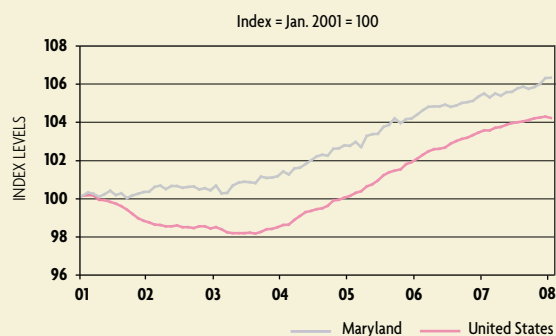
On a more positive note, households remained in decent financial condition overall, as real personal income growth advanced at a 1.8 percent annualized rate in the first quarter of 2008. In addition, although overall mortgage delinquency rates rose in the final quarter of 2007 (for the third consecutive quarter), they fell back in the first quarter of 2008. This decrease was spurred entirely by drops in the percentage of mortgages more than 30 days past due. The percentage of mortgages more than 90 days past due continued to creep up in the first quarter, for the seventh consecutive quarter. Meanwhile, the rate of foreclosures continued to climb to its highest level since 2001.

Maryland

According to recent data, Maryland's economy showed signs of continued weakness in the real estate market, although household employment and financial conditions remained solid. Residential permitting activity, house prices, and home sales all fell over the six months spanning the end of 2007 and the beginning of 2008, while mortgage delinquency rates and foreclosures were up. On the other hand, payrolls grew at a healthy clip, unemployment rates remained steady, and household balance sheets were buttressed by growth in real personal income.

Labor markets in Maryland continued to advance toward the end of 2007 and into 2008. Firms added 6,400 jobs to the state economy (0.2 percent growth) in the last quarter of 2007, and 11,700 jobs (0.4 percent growth) in the first quarter of 2008. The latest period marks the 20th consecutive quarter of payroll growth in the state. The strongest and

U.S. and MD Employment Growth Since Jan. 2001



SOURCE: Nonfarm Payroll Employment, BLS/Haver Analytics

most consistent growth over the six months was in the professional and business services, educational and health services, and leisure and hospitality sectors. Only the manufacturing sector shed jobs over both quarters. Unemployment rates in the state remained steady, between 3.5 percent and 3.6 percent throughout 2007 and into 2008. At 3.5 percent unemployment in the first quarter of 2008, Maryland tied with Virginia for the lowest unemployment of all Fifth District jurisdictions.

Housing market conditions were less rosy. According to the House Price Index, house prices fell 0.1 percent in the last quarter of 2007 and 1.2 percent in the first quarter of 2008, for the second and third consecutive quarters of decline. This marks the first time since 1994 that the state has seen three straight quarters of house price decline. House prices in the first quarter of 2008 were 1.3 percent lower than year-ago levels, marking the first quarter of year-over-year decline since 1997.

In addition, according to the National Association of Realtors, home sales have fallen for four consecutive quarters, although the last quarter's decline of 0.6 percent is far less than the previous three quarters of declines that each exceeded 10.0 percent. The number of house foreclosures continued their rise over the last quarter of 2007 and into the first quarter of 2008, for the sixth and seventh quarters of consecutive quarterly increases.

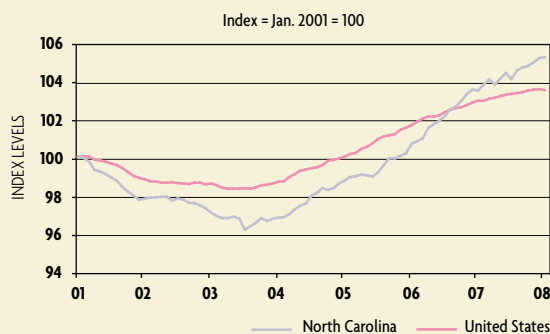
Despite the clear contraction, the housing market showed some positive signs. Although mortgage delinquency rates were up over the last quarter of 2007, peaking at 5.7 percent (the highest rate since 2002), they fell to 5.2 percent over the first three months of 2008. Furthermore, looking forward, residential permitting activity edged up 4.8 percent over the first three months of 2008 after having dropped 25.3 percent in the fourth quarter of 2007. Finally, real personal income continued to grow at an annualized 1.4 percent rate in the fourth quarter of 2007 and 1.5 percent rate in the first quarter of 2008, indicating that household financial conditions remain solid.



North Carolina

North Carolina's economy showed signs of both weakness and rebound toward the end of 2007 and into 2008. Labor market conditions softened somewhat in the first quarter of 2008, with reduced growth in payrolls, a jump in unemployment, and no income growth. Nonetheless, housing market conditions showed signs of improvement, with growth in house prices, increases in residential permitting activity, and drops in mortgage delinquencies and foreclosures.

U.S. and NC Employment Growth Since Jan. 2001



SOURCE: Nonfarm Payroll Employment, BLS/Haver Analytics

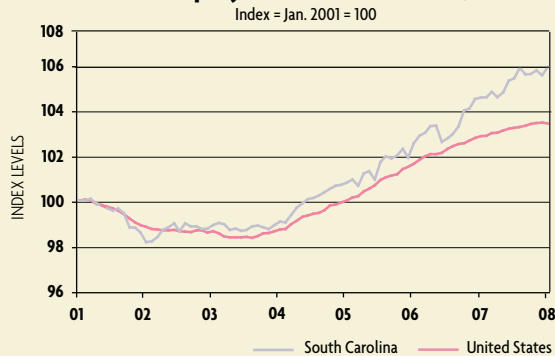
Employment surveys indicated that while labor market conditions improved in the final quarter of 2007, they softened heading into 2008. Payroll employment grew 0.6 percent (25,000 jobs) in the fourth quarter of 2007, but only 0.2 percent (9,600 jobs) in the first quarter of 2008. The first-quarter increase marked the smallest number of jobs added to the state economy in a quarter since early 2005. The biggest loss in the first three months of 2008 was in manufacturing (4,500 jobs). In addition, 400 professional and business services jobs were lost in the first quarter of 2008 after 6,300 jobs were added in that sector in the final quarter of 2007.

Household unemployment data painted a similar picture to payroll data. State unemployment remained steady at 4.7 percent in the last quarter of 2007, but jumped up to 5.0 percent in the first quarter of 2008, for the highest quarterly unemployment since 2005. Household earnings reflected the employment data; real personal income rose 0.5 percent (1.8 percent annualized) in the last quarter of 2007 and was flat over the first quarter of 2008.

Data on real estate conditions, while mixed, indicated a slight improvement in housing market conditions heading into 2008. Although home sales dropped for the fourth consecutive quarter, house prices, according to the House Price Index, continued on their 17-year growth streak and rose 1.1 percent in the fourth quarter of 2007 and 0.8 percent in the first quarter of 2008. Although residential permitting activity was down 19.9 percent in the fourth quarter (the third straight quarter of decline), activity edged up 1.2 percent in the first quarter of 2008.

Finally, both mortgage delinquencies and foreclosures fell in the first quarter of 2008. Mortgage delinquencies declined 0.7 percentage point after three quarters of increase, and the percent of mortgage foreclosures initiated edged lower by 0.04 percentage point after two quarters of increase.

U.S. and SC Employment Growth Since Jan. 2001



SOURCE: Nonfarm Payroll Employment, BLS/Haver Analytics



South Carolina

Economic conditions were mixed in South Carolina in the six months spanning the end of 2007 and the beginning of 2008. Payroll employment figures indicated a weakening in the labor market, although unemployment declined over the first three months of 2008. Conditions in the real estate market varied, with house prices and home sales growing while permit levels fell.

South Carolina's labor markets weakened somewhat over the last three months of 2007 and first three months of 2008. Firms added 200 jobs over the fourth quarter of 2007, but shed 2,000 net jobs in the first quarter of 2008. The starkest losses were felt in the construction sector (5,000 jobs) and the trade, transportation, and utilities sector (1,700 jobs). The first quarter of 2008 marked the largest loss of jobs in a single quarter in South Carolina since early 2003.

Although the number of employed persons in the state declined over the first quarter, so did the number of unemployed persons, and the steeper drop in the labor force led to a 0.3 percentage point drop in the unemployment rate (after a 0.3 percentage point rise in the fourth quarter of 2007). South Carolina, therefore, ended the first quarter of 2008 with the same 5.8 percent unemployment rate recorded in the third quarter of 2007.

Household balance sheets seemed to be improving, as mortgage delinquencies rose 0.3 percentage point in the final quarter of 2007, but then dropped 0.9 percentage point in the first three months of 2008. Foreclosures also declined in the first quarter of 2008 after two quarters of increase. In the aggregate, real personal income levels continued along their five-year growth streak at a moderate pace, with a 0.9 percent annualized increase in the final quarter of 2007

and a 0.4 percent increase in the first quarter of 2008. In per-capita terms, however, real quarterly personal income levels fell over the period by 0.5 percent and 1.1 percent annualized in the end of 2007 and the beginning of 2008, respectively.

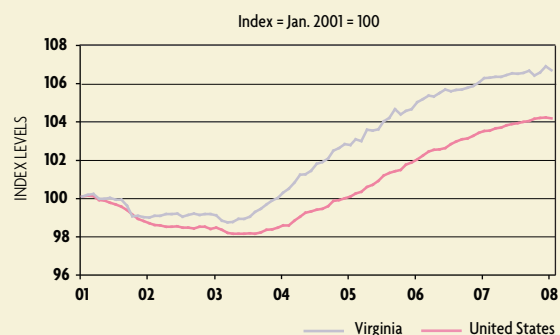
In the real estate market, conditions were mixed. On the one hand, house prices, according to the House Price Index, continued along their 17-year growth streak, with 1.8 percent house price growth in the final quarter of 2007, and 0.9 percent growth in the first quarter of 2008. Similarly, home sales edged up 3.1 percent in the first quarter after two quarters of decline. On the other hand, permit levels fell 12.8 percent in the fourth quarter and a further 3.9 percent in the first quarter. This left South Carolina with its largest year-over-year decline in permit levels in any quarter since 1989.



Virginia

In Virginia economic conditions remained somewhat shaky in the last quarter of 2007 through the first quarter of 2008. The Commonwealth experienced tepid payroll growth and increases in unemployment. Real income and mortgage delinquencies showed signs of improvement, but with high delinquency rates, increases in foreclosure rates, declining house prices, and falling home sales, Virginia's housing sector remained in a somewhat weakened state.

U.S. and VA Employment Growth Since Jan. 2001



SOURCE: Nonfarm Payroll Employment, BLS/Haver Analytics

Firms added 1,800 jobs in the final quarter of 2007 and 4,700 in the first quarter of 2008. Although this is the 18th consecutive quarter of payroll increases, these are some of the lowest quarterly payroll increases that the state has seen since the 2001-2003 period. The goods-producing sector continued to shed jobs as the construction and manufacturing sectors lost 1,700 jobs and 1,800 jobs, respec-

tively, in the first quarter of 2008. The tepid payroll growth can partially explain, then, a steadily increasing household unemployment rate that reached 3.2 percent in the final three months of 2007 and 3.5 percent in the first three months of 2008. Virginia is still tied with Maryland, however, for the lowest unemployment in the Fifth District.

Real personal income fell slightly in the fourth quarter of 2007 but rebounded in the first quarter of 2008, buttressing household balance sheets. Similarly, mortgage delinquencies fell in the first quarter after three quarters of increase. Still, fourth-quarter delinquencies hit their highest point since 2001. In addition, the percentage of mortgages past due by 90 days or more rose to 1.22 percent — a series high by a wide margin. Foreclosure rates continued to grow, hitting a record high of 0.7 percent in the first quarter of 2008.

The housing market remained sluggish although there were signs of possible turnaround. The quarterly decline in home sales flattened to zero in the first quarter of 2008 — home sales were down 24.8 percent since the first quarter of 2007. Meanwhile, according to the House Price Index, Virginia house prices fell 0.2 percent for the third consecutive quarter of decline, marking the first quarter of year-over-year decline since 1995. Looking forward, however, permitting activity grew 9.1 percent in the first quarter, after two straight quarters of decline.

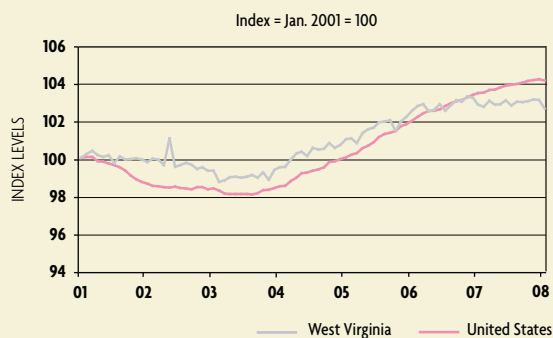


West Virginia

Economic conditions in West Virginia showed some signs of improvement in the six months spanning the end of 2007 and the beginning of 2008. Although there was little change in employment and some weakness in the state's housing markets, the state did see some encouraging indicators, including positive real income growth, reduced delinquency and foreclosure rates, and relatively steady house price appreciation.

Data on West Virginia labor markets indicated that conditions have changed little since the third quarter of 2007. Firms added 1,100 jobs in the fourth quarter of 2007 and 400 jobs in the first quarter of 2008, for just under 0.2 percent growth and 0.1 percent growth, respectively. Relatively small gains and losses were felt across sectors in

U.S. and WV Employment Growth Since Jan. 2001



SOURCE: Nonfarm Payroll Employment, BLS/Haver Analytics

both quarters, with only the construction and manufacturing sectors experiencing declines in both quarters while educational and health services and leisure and hospitality increased in both quarters. Not surprisingly, then, household unemployment surveys indicated that unemployment rates remained at 4.6 percent for both quarters — down from 4.7 percent in the third quarter of 2007.

The housing market was steady in West Virginia, although there was a strong decline in residential permitting activity in the first quarter of 2008. According to the House Price Index, house prices increased 0.8 percent in the first quarter of 2008 after edging up 0.5 percent in the fourth quarter of 2007. Home sales were also up in both the fourth quarter and in the first quarter. On a less positive note, first-quarter residential permitting activity was down after growth in the final quarter of 2007. In fact, the last quarter marked the largest quarterly decline in permitting activity since 1997.

Household financial conditions in West Virginia were similar to, though slightly better, than those in the third quarter of 2007. Real personal income grew slightly (0.4 percent annualized) in the final quarter of 2007 and flatlined in the first quarter of 2008, as did per-capita income. After three quarters of increase, mortgage delinquency rates fell 1.1 percentage points in the first quarter. Foreclosure rates also fell slightly.



For the latest in Fifth District economic conditions, check out our **new** regional **Snapshot** publication at www.richmondfed.org/research/regional_conditions/snapshot

State Data, Q1:08

	DC	MD	NC	SC	VA	WV
Nonfarm Employment (000's)	700.8	2,630.3	4,187.3	1,958.0	3,770.1	758.3
Q/Q Percent Change	0.2	0.4	0.2	-0.1	0.1	0.1
Y/Y Percent Change	1.2	1.0	1.6	1.0	0.4	0.3
Manufacturing Employment (000's)	1.6	130.8	531.4	247.6	273.3	57.9
Q/Q Percent Change	-4.0	-0.3	-0.8	-0.4	-0.7	-1.1
Y/Y Percent Change	-5.9	-1.6	-2.8	-1.2	-2.9	-2.7
Professional/Business Services Employment (000's)	156.0	402.6	508.1	223.8	648.5	61.3
Q/Q Percent Change	0.1	0.5	-0.1	-2.6	0.3	1.4
Y/Y Percent Change	1.6	1.9	3.4	0.7	1.4	2.1
Government Employment (000's)	233.4	482.3	702.8	341.0	691.8	145.0
Q/Q Percent Change	-0.1	0.5	0.0	0.7	0.6	-0.1
Y/Y Percent Change	1.2	1.3	1.9	1.9	1.4	-0.2
Civilian Labor Force (000's)	331.3	2,994.0	4,541.5	2,138.0	4,099.5	812.7
Q/Q Percent Change	1.1	0.1	0.2	-0.5	0.4	0.3
Y/Y Percent Change	1.9	0.6	0.8	0.4	1.8	0.7
Unemployment Rate (%)	6.1	3.5	5.0	5.8	3.5	4.6
Q4:07	5.7	3.6	4.7	6.1	3.2	4.6
Q1:07	5.7	3.6	4.5	5.8	2.9	4.4
Real Personal Income (\$Mil)	30,834.3	221,698.7	261,262.1	117,411.6	272,116.5	45,715.0
Q/Q Percent Change	0.5	0.4	0.0	0.1	0.4	0.0
Y/Y Percent Change	2.0	1.2	1.3	1.7	0.8	0.6
Building Permits	153	3,662	16,119	7,060	8,247	849
Q/Q Percent Change	-7.8	4.8	1.2	-3.9	9.1	-32.0
Y/Y Percent Change	-81.7	-32.9	-30.4	-32.8	-14.5	-3.6
House Price Index (1980=100)	652.0	532.5	346.4	327.8	471.4	235.8
Q/Q Percent Change	-1.8	-1.2	0.8	0.9	-0.2	0.8
Y/Y Percent Change	-1.5	-1.3	4.0	3.8	-0.1	2.5
Sales of Existing Housing Units (000's)	7.6	68.0	181.6	94.4	102.0	29.6
Q/Q Percent Change	-5.0	-0.6	-2.2	3.1	0.0	7.2
Y/Y Percent Change	-34.5	-38.6	-25.6	-16.9	-24.8	-11.9

NOTES:

Nonfarm Payroll Employment, thousands of jobs, seasonally adjusted (SA) except in MSAs; Bureau of Labor Statistics (BLS)/Haver Analytics. Manufacturing Employment, thousands of jobs, SA in all but DC and SC; BLS/Haver Analytics. Professional/Business Services Employment, thousands of jobs, SA in all but SC; BLS/Haver Analytics. Government Employment, thousands of jobs, SA; BLS/Haver Analytics. Civilian Labor Force, thousands of persons, SA; BLS/Haver Analytics. Unemployment Rate, percent, SA except in MSAs; BLS/Haver Analytics. Building Permits, number of permits, NSA; U.S. Census Bureau/Haver Analytics. Sales of Existing Housing Units, thousands of units, SA; National Association of Realtors®

Metropolitan Area Data, Q1:08

	Washington, DC MSA	Baltimore, MD MSA	Charlotte, NC MSA
Nonfarm Employment (000's)	2,415	1,307.9	862.1
Q/Q Percent Change	-1.0	-1.9	-1.2
Y/Y Percent Change	1.0	0.7	2.0
Unemployment Rate (%)	3.4	3.9	5.4
Q4:07	3.0	3.6	4.7
Q1:07	3.1	3.9	4.6
Building Permits	4,388	1,232	3,583
Q/Q Percent Change	-10.1	-8.1	-6.0
Y/Y Percent Change	-31.3	-29.3	-36.4
	Raleigh, NC MSA	Charleston, SC MSA	Columbia, SC MSA
Nonfarm Employment (000's)	522.8	297.8	368.7
Q/Q Percent Change	-0.9	-0.9	-1.1
Y/Y Percent Change	3.9	2.0	2.0
Unemployment Rate (%)	4.1	4.7	5.1
Q4:07	3.5	4.8	5.3
Q1:07	3.6	4.6	5.3
Building Permits	3,117	1,333	1,036
Q/Q Percent Change	8.8	7.9	-10.1
Y/Y Percent Change	-23.3	-6.4	-38.1
	Norfolk, VA MSA	Richmond, VA MSA	Charleston, WV MSA
Nonfarm Employment (000)	768.0	631.0	149.1
Q/Q Percent Change	-1.5	-1.1	-0.9
Y/Y Percent Change	0.8	0.6	0.4
Unemployment Rate (%)	4.1	3.9	4.6
Q4:07	3.3	3.2	3.7
Q1:07	3.2	3.1	4.7
Building Permits	1,363	1,671	39
Q/Q Percent Change	10.6	28.4	5.4
Y/Y Percent Change	-35.5	-7.6	-48.0

For more information, contact Sonya Ravindranath Waddell at (804) 697-2694 or e-mail sonya.ravindranath@rich.frb.org