

# DISTRICT ECONOMIC OVERVIEW

BY ROBERT LACY

The Fifth District economy expanded at a moderate pace in the fourth quarter of 2005. Services and retail firms reported fairly strong gains in revenues, and manufacturers said that new orders and shipments moved higher during the quarter. Personal income and employment rose as well, and the District's unemployment rate edged lower. Although the manufacturing and real estate sectors slowed toward the end of the quarter, the District's economic expansion remained firmly intact heading into 2006.

## Services Sector Growth Continues

Retailers and services businesses in the District reported relatively strong sales gains in the fourth quarter. Retail sales during the holiday season turned out better than expected, and the increasing popularity of gift cards provided considerable retail sales momentum into January 2006. Big-ticket sales in the fourth quarter were spotty at times though; automobile and light truck sales were particularly variable, surging when dealers offered price discounts, only to tail off when incentive programs ended.

In contrast to the strength of

## The Fifth District's economic expansion remained fully intact heading into 2006.

activity in most services sectors, residential real estate activity slowed in the fourth quarter. Real estate agents tell us that homes for sale tended to stay on the market longer and that sales slumped in many areas. Home prices, however, continued to rise at a steep pace in much of the region. According to HUD's Office of Federal Housing Enterprise Oversight, home prices in the District of Columbia, Maryland, and Virginia were 20 percent to 22 percent higher than a year earlier.

## Manufacturing Output Rises

District manufacturers said shipments, new orders, and capacity utilization grew at a solid pace in October and November. December activity, however, was somewhat sluggish. Electronics manufacturers and producers of rubber and plastics products tended to report the best gains during the quarter. "We are still very busy; new orders

and backlog are up," according to a Fifth District plastics manufacturer in October. Declining textile production contributed to the slower manufacturing environment in December — a North Carolina textile manufacturer cautioned "domestic manufacturing is still shaky at best" and expected a "flood" of Chinese imports to present significant challenges for U.S. manufacturers in 2006.

The District's manufacturing sector received a boost in the fourth quarter with the opening of Dell's computer manufacturing facility in Winston-Salem, N.C., in October. The 750,000 square-foot facility is the company's largest in the United States. MeadWestvaco's announcement that it would relocate its headquarters from Stamford, Conn., to Richmond, Va., creating 400 executive and administrative jobs in the area, was also welcome news. MeadWestvaco makes packaging, coated and specialty papers, and consumer and office products.

## Labor Markets Healthy

Fifth District payroll employment in the fourth quarter was 1.7 percent higher than a year earlier, a bit stronger than the 1.4 percent growth rate nationwide. Across District states, employment gains tended to be centered in professional and business services and in construction industries, contrasted by a general decline in manufacturing employment.

The District's unemployment rate edged down to 4.8 percent in the fourth quarter. Among District states, Virginia and Maryland continued to record the lowest unemployment rates, in part because of the vibrant labor market in the Washington, D.C., metropolitan area. The unemployment rate in that area dropped to 3.1 percent, the lowest level in four years.

### Economic Indicators

	4th Qtr. 2005	4th Qtr. 2004	Percent Change (Year Ago)
<b>Nonfarm Employment (000)</b>			
Fifth District	13,513	13,289	1.7
U.S.	134,161	132,244	1.4
<b>Real Personal Income (\$bil)</b>			
Fifth District	897.9	879.5	2.1
U.S.	9,318.2	9,163.6	1.7
<b>Building Permits (000)</b>			
Fifth District	56.5	53.4	5.9
U.S.	480.0	471.7	1.8
<b>Unemployment Rate (%)</b>			
Fifth District	4.8%	4.9%	
U.S.	5.0%	5.4%	

### Nonfarm Employment

Change From Prior Year  
First Quarter 1992 - Fourth Quarter 2005



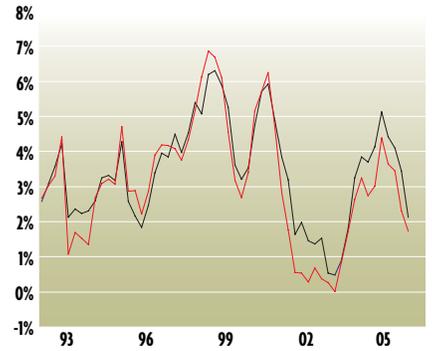
### Unemployment Rate

First Quarter 1992 - Fourth Quarter 2005



### Real Personal Income

Change From Prior Year  
First Quarter 1992 - Fourth Quarter 2005



— Fifth District

— United States

### Nonfarm Employment Metropolitan Areas

Change From Prior Year  
First Quarter 1992 - Fourth Quarter 2005



— Charlotte — Baltimore — Washington

### Unemployment Rate Metropolitan Areas

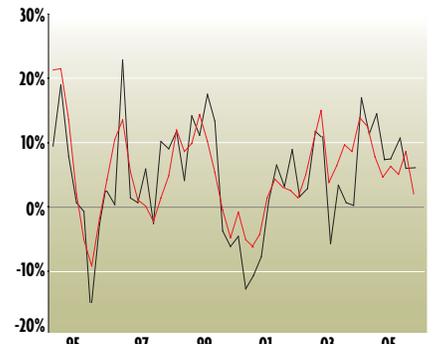
First Quarter 1992 - Fourth Quarter 2005



— Charlotte — Baltimore — Washington

### Building Permits

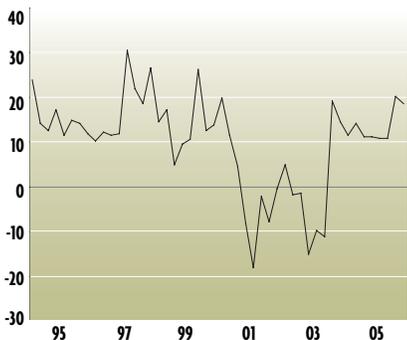
Change From Prior Year  
First Quarter 1994 - Fourth Quarter 2005



— Fifth District — United States

### FRB—Richmond Services Revenues Index

First Quarter 1994 - Fourth Quarter 2005



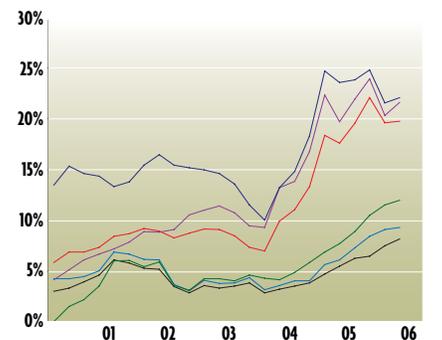
### FRB—Richmond Manufacturing Composite Index

First Quarter 1994 - Fourth Quarter 2005



### House Prices

Change From Prior Year  
First Quarter 2000 - Fourth Quarter 2005



#### 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>.

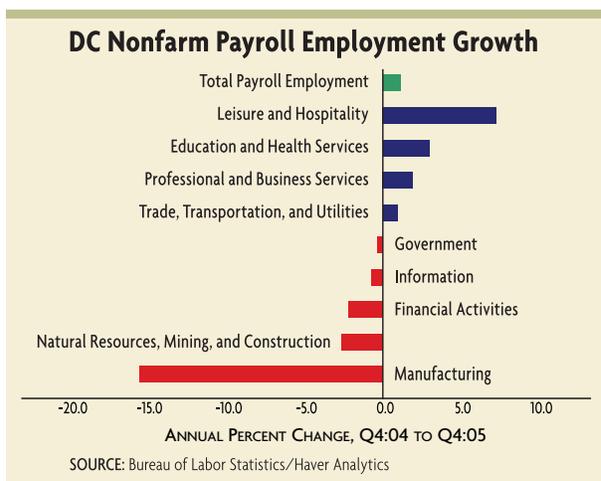
# STATE ECONOMIC CONDITIONS

BY ANDREA HOLMES

## District of Columbia

As 2005 drew to a close, District of Columbia business and household financial conditions showed solid expansion. Furthermore, real estate activity remained steadfast, despite continued price acceleration amid evidence of moderation nationally.

Businesses in the District of Columbia continued to expand payrolls in the fourth quarter. Job numbers rose 3.1 percent, reversing two quarters of job losses and marking the strongest quarterly job growth since late 2001. For all of 2005, the leisure and hospitality sector led payroll growth, with total employment rising 7.3 percent. The



increased work force proved advantageous with the National Cherry Blossom Festival in early 2006, as hotel occupancy in the area is typically boosted by 12 percent.

Other recent economic indicators also pointed to an upturn at businesses. Venture capital inflows into District of Columbia firms totaled \$13 million in the fourth quarter, up from a relatively shallow inflow of \$2 million a quarter earlier.

Household financial conditions also brightened. The District of Columbia's unemployment rate fell 0.3 percentage point to 6.0 percent in the fourth quarter — the lowest rate since early 2001. Adding to the positive tone, the number of unemployment benefits claimants decreased in the fourth quarter, reversing a slight uptick the quarter before. And personal income advanced 0.9 percent at year's end, bringing total growth for 2005 to 2.8 percent, the second-strongest annual growth rate districtwide.

Turning to the District of Columbia's real estate market, home prices advanced briskly in the fourth quarter, with prices rising 22 percent over a year earlier. Sharply higher prices, however, appear to have not yet deterred buyers. More than 12,500 homes were sold during the fourth

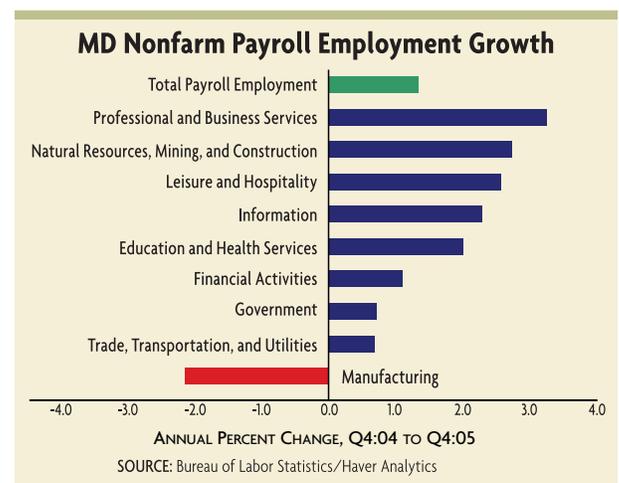
quarter, roughly 2,000 more than a quarter earlier. The continued strength of the housing market was apparent in readings on future construction as well, as fourth-quarter permit applications outnumbered third-quarter levels.

News from the broadly defined Washington, D.C., MSA was even more upbeat than in the District of Columbia proper. Fourth-quarter payrolls expanded 4.4 percent, and the unemployment rate dropped 0.3 percentage point to 3.1 percent. Real estate markets beyond the city borders were less robust by comparison, however, with fourth-quarter new construction applications 13 percent below year-earlier levels.

## Maryland

Maryland's economic prospects continued to brighten in late 2005. Businesses in the state boosted payrolls 1.0 percent in the fourth quarter, marking three straight years of positive job growth. For the year as a whole, employment growth came almost entirely from service-providing establishments. The exception to this rule was the construction sector, where steady demand for new housing in 2005 fueled job growth.

Adding to the upbeat tone at businesses, venture capitalists infused \$155 million into Maryland in the fourth quarter, more than matching the third-quarter inflow and registering the largest net gain in exactly one year. Significantly, seed stage companies represented 40 percent of the businesses receiving funding, suggesting a firming in investor confidence.



Financial conditions at Maryland households also brightened. In line with stronger payroll growth, the jobless rate fell 0.2 percentage point to 4.0 percent, nearly a full percentage point below the national rate. Additionally,

initial jobless claims were 4.0 percent lower than the previous year, marking two straight years of improvement in what is another indication of labor market improvement. Fourth-quarter personal income measures were also generally on track — Maryland incomes rose 0.6 percent in the last quarter of the year.

By most measures, Maryland residential real estate activity decelerated in late 2005. Mirroring activity in most other District states, fourth-quarter existing homes sales declined compared to both the previous quarter and a year earlier. New building permit authorizations also dwindled in late 2005, coming in 9.7 percent below year-earlier levels. The pace of quarterly home price appreciation in Maryland, while still historically high at 19.2 percent, also eased somewhat in the fourth quarter, influenced perhaps by diminished demand.

The Baltimore metro area economy generally matched activity recorded statewide. Payrolls rose by a solid 5.7 percent in the fourth quarter, and the jobless rate plummeted 0.5 percentage point to 4.1 percent. New construction activity in Baltimore, however, outperformed the state as a whole — building permits jumped at a 4.7 percent annual rate in the fourth quarter.

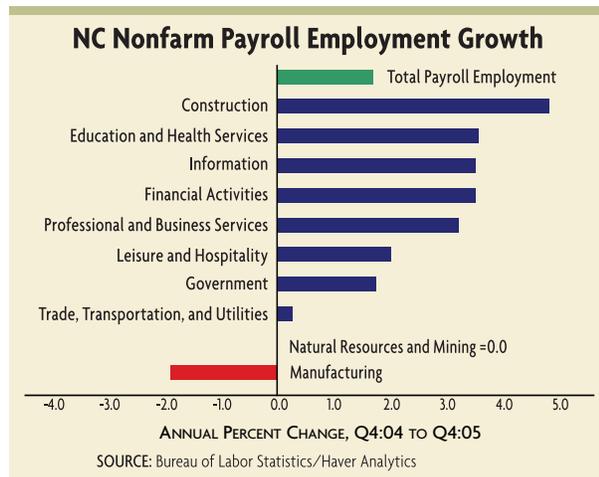


## North Carolina

Heading into 2006, economic momentum was more in evidence in North Carolina than a year earlier. Businesses in the state continued to boost payrolls in the fourth quarter, causing nonfarm employment to increase 2.0 percent. Looking back over the year, job numbers expanded the most at construction firms and education and health services establishments. By comparison, weakness remained firmly entrenched in the goods-producing sectors — natural resources and mining payrolls were flat for the year, and manufacturers trimmed jobs by 1.9 percent.

Year-end numbers on venture capital investment were also more encouraging. Fourth-quarter inflows totaled \$91 million, with the majority of the capital slotted for the expansion of existing firms. Although the fourth-quarter reading marked the smallest quarterly injection in all of 2005, investment for the year totaled \$508 million, the largest annual inflow since 2002.

Outside of business activity, household financial conditions remained steady. With the fourth quarter's solid payroll employment gain, the unemployment rate inched lower to 5.2 percent, even though more than 22,000 new persons entered the labor force over the same time period. The solid pace of job growth aided household finances as personal income expanded at a 0.9 percent annual rate in the fourth quarter. On a less positive note, however, the number of state residents applying for unemployment benefits for the first time rose by 14.6 percent in the fourth quarter, following two quarters of improvement.



Indicators of North Carolina's housing markets sent mixed signals in the fourth quarter. Existing home sales declined 21.6 percent in the last quarter of the year, suggesting a considerable loss of market momentum. Indicators of future construction also cooled somewhat — new building permit authorizations edged lower in the fourth quarter, following a shallower decline a quarter earlier. So far, the slight downshifting in demand has yet to filter through to home prices, however. According to the latest data, the average home price moved 10.4 percent higher in the fourth quarter — the largest quarterly appreciation rate in the history of the series.

North Carolina's metro areas also saw steady job growth in late 2005. In the fourth quarter, Charlotte and Raleigh-Durham posted payroll employment gains of 8.3 percent and 6.7 percent, respectively. Likewise, both metros saw a decline in their jobless rates. In real estate, new construction activity in Charlotte and Raleigh-Durham mirrored that of the state — both posted declines in new building permit authorizations from the third quarter.



## South Carolina

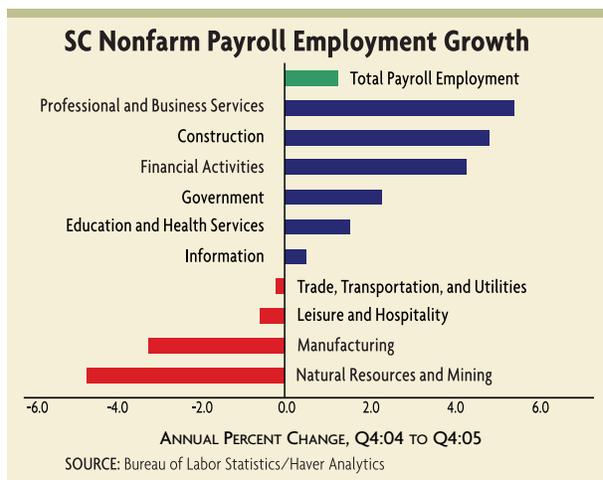
Although much improved from a year earlier, economic activity in South Carolina advanced at a slower pace in 2005 than in other District jurisdictions. In the fourth quarter, South Carolina added 13,667 jobs, nearly three times the third-quarter gain. As shown in the chart, the professional and business services sector displayed the most strength in 2005 — payrolls expanded by 5.4 percent. In contrast, weakness persisted in the goods-producing sectors, with manufacturing employment and natural resources and mining payrolls contracting 3.2 percent and 4.7 percent, respectively.

Business activity was a bit more subdued at less established firms as well. For instance, although venture capitalists injected \$1.2 million dollars into a startup semiconductor firm in the fourth quarter, total 2005 venture capital funding amounted to only \$5 million, the smallest annual inflow in over a decade.

Among South Carolina households, the latest data indicated continued optimism regarding the strength of the labor market, as the number of job seekers increased by nearly 18,700 in the fourth quarter. This sizable increase in the labor force, however, pushed the unemployment rate up 0.4 percentage point to 7.2 percent, the highest jobless rate in more than a decade. On a brighter note though, fourth-quarter personal income growth was the strongest districtwide, posting a 1.1 percent gain from a quarter earlier.

As in other Fifth District states, the median price for a South Carolina home continued to move higher in 2005, rising by 8.1 percent in the fourth quarter alone. Evidence suggests that demand continues to push prices higher — fourth-quarter existing home sales were 15.6 percent above the year-ago level, marking the strongest growth rate districtwide. Prospects for new construction also remained on track — new building permits filed in the fourth quarter were significantly higher over the year.

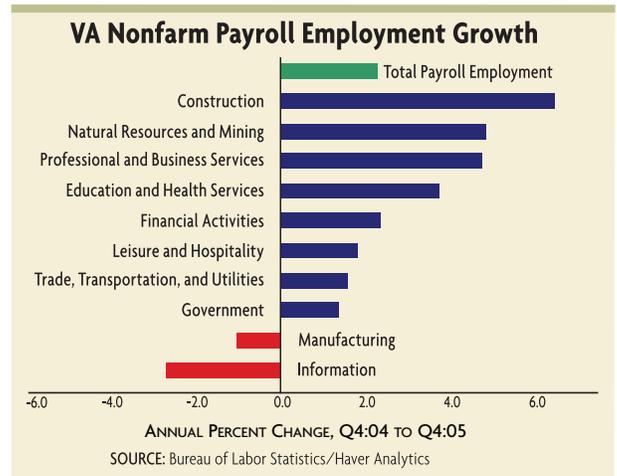
Economic activity in South Carolina's metro areas mirrored that of the state. Payroll employment expanded at



a 10.2 percent rate in Columbia while Charleston experienced a smaller pickup of 3.3 percent. Also, both metros recorded similarly strong gains in their labor forces, resulting in somewhat higher jobless rates in the fourth quarter. New construction also slowed in both metropolises in the fourth quarter, but as seen statewide, remained well above year-ago levels.



Most barometers of Virginia's economic health were positive in late 2005, with the state posting the lowest fourth-quarter unemployment rate districtwide. Payrolls increased by 2.0 percent, or 18,600 jobs, in the



last quarter of the year, marking over two consecutive years of positive job growth. Among major industries, construction establishments created the most new jobs in 2005 as demand for new housing remained generally robust in Virginia's major metro areas in the early part of the year.

Backed by a stable labor market, household conditions also remained on course in the fourth quarter. The jobless rate dropped 0.2 percentage point to 3.4 percent, despite an inflow of 12,500 job seekers into the labor market. And although the number of first-time claimants for unemployment insurance increased by 7.1 percent, the level remained below that of a year ago. Personal income also continued to expand in the fourth quarter. Compared to a year ago, incomes stood 2.9 percent higher, the strongest annual increase recorded among District states.

Business activity also firmed across the state, despite venture capital investment into Virginia businesses edging lower in the fourth quarter. Capital inflows totaled \$56 million, roughly one-third less than the amount recorded in the third quarter. On the upside, however, annual investment totaled \$402 million, marking the largest annual infusion in three years.

Economic activity in Virginia's metro areas also continued to look up, with businesses in the Norfolk and Richmond metro areas boosting payrolls by 2.0 percent and 5.8 percent, respectively. In line with strengthening labor markets, the jobless rate also posted healthy declines in both areas.

On the real estate front, the pace of home price appreciation in Virginia decelerated in the later part of the year, yet still remained historically high — the state recorded a 15.5 percent jump in the fourth quarter alone. The moderation in prices is likely in response to the recent slowdown in demand growth, as illustrated by the 11.3 percent decline in fourth-quarter home sales. New

construction also advanced at a more moderate pace – the number of building permits issued in the fourth quarter were below those recorded a quarter earlier.



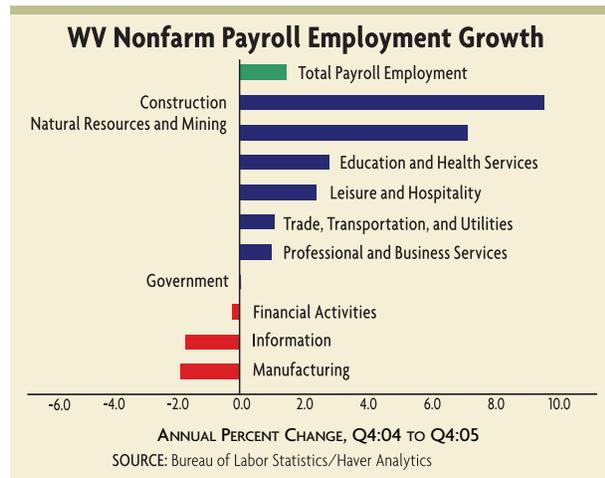
## West Virginia

West Virginia's economy expanded strongly through the end of 2005, with the most recent data showing a steady improvement in both household and business financial conditions. Real estate markets made solid headway over the year, though activity moderated somewhat at the end of the year.

Fourth-quarter payroll employment advanced 1.8 percent in West Virginia, more than double the job growth in the third quarter. Also positive, employment growth for all of 2005 was equally robust – the state added jobs at a slightly quicker pace than in 2004. By sector, construction and natural resources and mining payrolls posted the strongest growth in 2005. The latter was most likely due to rising coal prices, which have spurred West Virginia's mining establishments to boost production in recent years. In 2005, state coal production totaled 158.6 million tons, up 3.3 percent from a year earlier.

Other indicators of business conditions were also positive. Venture capital investment into West Virginia businesses amounted to \$1.6 million in the fourth quarter, bringing total 2005 inflows to \$10.6 million, double the capital investment recorded in 2004.

The bounceback among households, which was slower to take hold in West Virginia than in other District states, also appears to have firmed. The state's fourth-quarter jobless rate fell 0.3 percentage point to 4.9 percent, reflecting recent labor market health, and personal income rose 0.9 percent during the same period, reversing the



slight contraction recorded in the third quarter.

Economic activity was also upbeat in the Charleston metro area in late 2005. Payrolls in that area continued to climb, rising 1.2 percent in the fourth quarter. In line with the improvement in hiring activity, Charleston's jobless rate fell 0.8 percentage point to 4.2 percent, the lowest rate in the history of the data series.

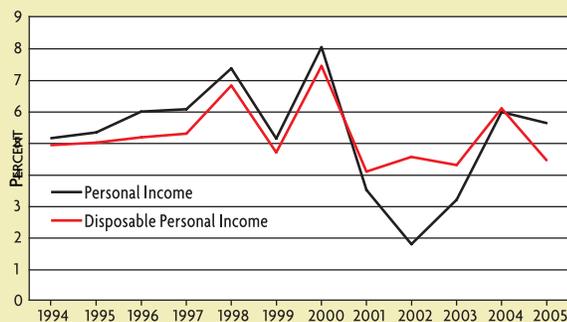
Despite the comparatively recent firming of household financials, West Virginia's real estate market has been steadily advancing for a number of years. The most recent data, however, has begun to suggest moderation. Sales of existing housing units moved 10.9 percent lower in the fourth quarter, following a smaller decline of 3.7 percent a quarter earlier. The slowdown in home sales dampened home price acceleration – the average price of a West Virginia home continued to gain value through the end of 2005, posting a fourth-quarter increase of 9.7 percent, but the pace of growth slowed for the second straight quarter.

## Behind the Numbers: The Gap

Every quarter this magazine publishes changes in personal income nationwide and in the Fifth District. Personal income is a broad measure that encompasses wages and salary, dividends, income to proprietors, and rental income to landlords, among other items. As a general reading of how well the country is doing, personal income isn't bad.

But to learn how much cash Americans really have in their pockets, it's necessary to look at a different measure – disposable personal income. This measure accounts for, among other things, the tax bite on U.S. paychecks. That's why, in looking at a historical trend line, you sometimes see gaps between changes in personal income and disposable personal income. The accompanying graphic shows one such gap, which is generally attributed to tax cuts that became effective between 2001 and 2003. Even as growth in

Year-to-Year % Change in Personal Income and Disposable Personal Income



personal income declined, disposable income maintained its growth rate.

— DOUG CAMPBELL

## State Data, Q4:05

	DC	MD	NC	SC	VA	WV
<b>Nonfarm Employment (000)</b>	685.3	2,567.1	3,937.3	1,871.9	3,700.5	751.1
Q/Q Percent Change	3.1	1.0	2.0	3.0	2.0	1.8
Y/Y Percent Change	1.1	1.4	1.7	1.2	2.3	1.5
<b>Manufacturing Employment (000)</b>	2.0	139.4	564.2	258.3	295.1	61.4
Q/Q Percent Change	-12.3	-2.4	-0.5	-2.8	-0.8	0.7
Y/Y Percent Change	-15.5	-2.2	-1.9	-3.2	-1.0	-1.9
<b>Professional/Business Services Employment (000)</b>	148.5	387.4	449.5	211.2	619.3	59.3
Q/Q Percent Change	0.6	1.9	3.8	9.4	6.2	3.7
Y/Y Percent Change	1.9	3.3	3.2	5.4	4.7	1.0
<b>Government Employment (000)</b>	232.4	467.0	668.5	332.2	665.1	143.7
Q/Q Percent Change	-1.9	0.7	3.8	4.0	0.2	0.1
Y/Y Percent Change	-0.4	0.7	1.8	2.3	1.4	0.0
<b>Civilian Labor Force (000)</b>	293.2	2,954.8	4,369.6	2,104.0	3,960.8	804.5
Q/Q Percent Change	-3.2	1.1	2.1	3.6	1.3	0.1
Y/Y Percent Change	-1.4	1.9	2.3	2.3	2.0	1.5
<b>Unemployment Rate (%)</b>	6.0	4.0	5.2	7.2	3.4	4.9
Q3:05	6.3	4.2	5.4	6.8	3.6	5.2
Q4:04	7.4	4.3	5.3	6.9	3.6	5.1
<b>Personal Income (\$bil)</b>	27.5	211.9	240.1	109.3	264.3	44.8
Q/Q Percent Change	0.9	0.6	0.9	1.1	0.9	0.9
Y/Y Percent Change	2.8	1.8	1.5	1.8	2.9	1.9
<b>Building Permits</b>	636	6,512	22,441	12,558	13,295	1,057
Q/Q Percent Change	14,812.2	-46.9	-42.7	-22.0	-43.0	-77.2
Y/Y Percent Change	83.3	-9.7	10.1	17.6	-2.7	-2.3
<b>House Price Index (1980=100)</b>	606.2	492.6	310.2	295.0	446.2	224.3
Q/Q Percent Change	24.0	19.2	10.4	8.1	15.5	9.7
Y/Y Percent Change	22.0	21.5	8.1	9.2	19.7	11.9
<b>Sales of Existing Housing Units (000)</b>	12.5	128.2	198.8	120.5	164.0	35.1
Q/Q Percent Change	23.8	-8.2	-21.6	-0.1	-11.3	-10.9
Y/Y Percent Change	-21.9	-11.5	13.4	15.6	-16.3	-10.9

**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, 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, Q4:05

	Washington, DC MSA	Baltimore, MD MSA	Charlotte, NC MSA
<b>Nonfarm Employment (000)</b>	2,964.2	1,306.1	806.8
Q/Q Percent Change	4.4	5.7	8.3
Y/Y Percent Change	2.1	2.0	2.1
<b>Unemployment Rate (%)</b>	3.1	4.1	4.9
Q3:05	3.4	4.6	5.3
Q4:04	3.6	4.4	5.2
<b>Building Permits</b>	6,843	2,519	5,268
Q/Q Percent Change	-41.4	4.7	-44.2
Y/Y Percent Change	-13.0	-12.7	13.5

	Raleigh, NC MSA	Charleston, SC MSA	Columbia, SC MSA
<b>Nonfarm Employment (000)</b>	273.6	278.0	352.6
Q/Q Percent Change	6.7	3.3	10.2
Y/Y Percent Change	1.5	0.7	0.6
<b>Unemployment Rate (%)</b>	4.1	5.3	5.8
Q3:05	4.6	5.2	5.6
Q4:04	4.2	5.3	5.8
<b>Building Permits</b>	905	2,336	1,694
Q/Q Percent Change	-66.1	-36.6	-29.1
Y/Y Percent Change	0.2	13.5	2.7

	Norfolk, VA MSA	Richmond, VA MSA	Charleston, WV MSA
<b>Nonfarm Employment (000)</b>	771.3	624.2	149.8
Q/Q Percent Change	2.0	5.8	1.2
Y/Y Percent Change	1.8	1.8	0.4
<b>Unemployment Rate (%)</b>	3.8	3.4	4.2
Q3:05	4.2	3.8	5.0
Q4:04	4.0	3.6	4.5
<b>Building Permits</b>	2,719	2,115	75
Q/Q Percent Change	23.0	-60.4	-30.0
Y/Y Percent Change	3.7	-0.6	10.3

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