

# District Economic

BY ROBERT LACY

**Economic growth in the Fifth District was subpar in the second quarter of 2003. Consumer spending was lackluster, particularly at retail establishments, and employment growth was slight, leading to increased concern about a “jobless recovery.” A few signs of accelerating growth emerged near the end of the quarter, however, raising hopes for stronger performance in the second half of the year.**

Economic growth in the Federal Reserve’s Fifth District remained lukewarm in the second quarter of 2003. Consumer spending was subdued, particularly in those areas of Virginia and the Carolinas where textile and furniture manufacturers were laying off workers. Businesses throughout the District remained hesitant to make large capital investments in a still uncertain economic environment. But business sentiment brightened by early summer, and signs of accelerated economic growth began to emerge.

## Services and Retail Sluggish

District retailers and services businesses we survey reported lower revenues throughout much of the second quarter of 2003. Retailers told us that sales of big-ticket items were particularly weak. Although unusually wet spring weather was partly to blame for slumping sales, modest income growth and concerns with job prospects also played a role in squelching consumer demand.

District services providers fared a little better than retailers did in the second quarter. Services revenues expanded, albeit at a modest pace, and employment in the sector grew. On a year-over-year basis, services sector employment rose at a 0.6 percent rate in the second quarter — still subpar, but better than the anemic 0.2 percent annual employment growth rate in the retail sector.

While sales and employment expanded only modestly in the second quarter, both services businesses and retailers were optimistic that business activity would pick up in the second half of the year. And evidence of stronger retail sales and employment did emerge in July, particularly at discount chains. A discount retailer in Chesapeake, Va., for example, reported substantially higher sales and employment in July, noting there was “a lot of demand for our product.”

## Manufacturing Shaky

The District’s manufacturing sector wobbled in April, but steadied in May and June. Shipments and new orders were essentially flat in the last two months of the quarter. But manufacturing employment in the District continued to tumble — down 4 percent in the second quarter compared to a year ago.

The news from the District’s textiles and apparel industries has been especially disappointing in recent months. Pillowtex Inc., filed for bankruptcy in July and joined the swelling ranks of textiles and apparel companies announcing job layoffs and plant closings this year. From January through July of this year, employment in textile mills in North Carolina alone has declined by 9,300.

The Pillowtex announcement means nearly 5,000 manufacturing workers will lose their jobs in North Carolina communities such as Kannapolis and Eden, where the textile plants are located. Federal assistance, including a \$13 million job retraining grant, has been made available to laid-off workers. This assistance will help retrain dislocated workers for jobs in other fields, such as medical professions and construction trades.

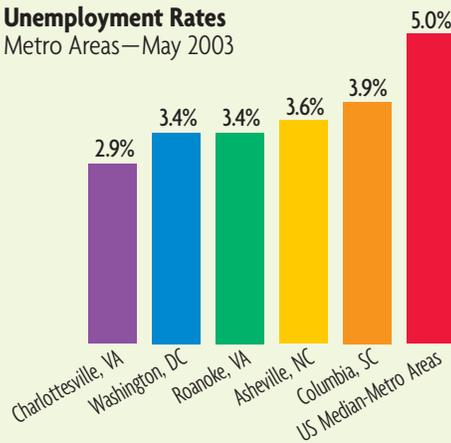
## Personal Income Growth Steady

Personal income in Fifth District states grew at an annual rate of 3.4 percent in the first quarter of 2003, matching the growth of personal income for the United States as a whole. While District personal income growth has trended up over the last year, the current growth rate is well off the pace of the 1990s.

### Did You Know . . .

Unemployment rates in several Fifth District metropolitan areas are among the lowest in the country. Washington, D.C.’s rate of 3.4 percent in May 2003 was the best among 51 metropolitan areas with population exceeding 1 million people. Charlottesville, Va., recorded a rate of only 2.9 percent in May, ranking it 16th out of all 331 metropolitan areas in the country.

**Unemployment Rates**  
Metro Areas—May 2003



# Developments

## Nonfarm Employment Second Quarter 2003

	Employment (Thousands)	% Change (Year Ago)
DC	663	-0.2
MD	2,495	0.7
NC	3,850	0.3
SC	1,789	-1.1
VA	3,506	0.3
WV	732	-0.1
5th District	13,034	0.1
US	129,987	-0.3

## Unemployment Rate Percent

	2nd Qtr. 2003	2nd Qtr. 2002
DC	6.8	6.5
MD	4.4	4.5
NC	6.4	6.8
SC	6.3	5.8
VA	4.0	4.2
WV	6.1	6.2
5th District	5.3	5.5
US	6.2	5.9

## Personal Income First Quarter 2003

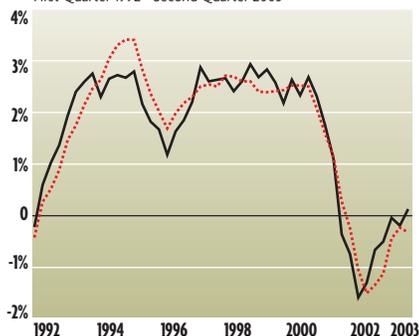
	Income (\$ billions)	% Change (Year Ago)
DC	25.5	5.3
MD	202.1	4.0
NC	233.2	2.4
SC	106.0	3.0
VA	243.6	3.8
WV	43.5	3.1
5th District	854.0	3.4
US	9,066.7	3.4

— Fifth District

- - - - - United States

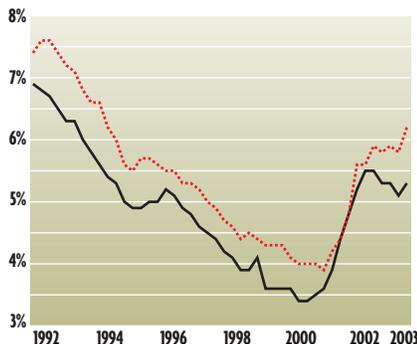
### Nonfarm Employment Change From Prior Year

First Quarter 1992 - Second Quarter 2003



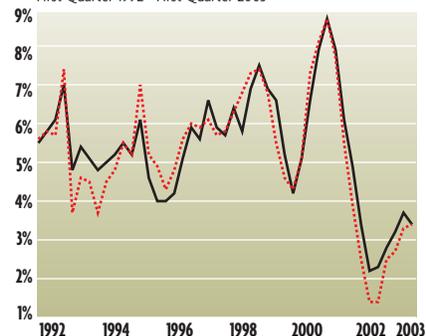
### Unemployment Rate

First Quarter 1992 - Second Quarter 2003



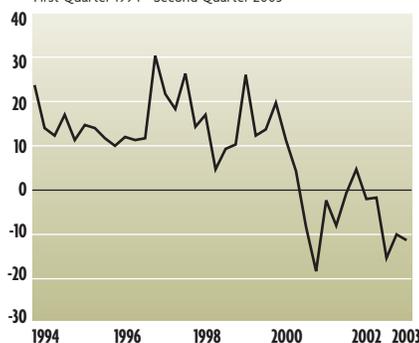
### Personal Income Change From Prior Year

First Quarter 1992 - First Quarter 2003



### FRB—Richmond Services Revenues Index

First Quarter 1994 - Second Quarter 2003



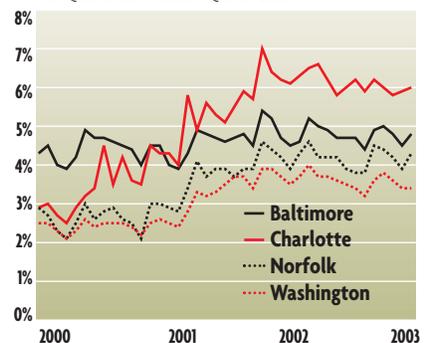
### FRB—Richmond Manufacturing Shipments Index

First Quarter 1994 - Second Quarter 2003



### Unemployment Rate Major Metropolitan Areas

First Quarter 2000 - Second Quarter 2003



#### NOTES:

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

#### SOURCES:

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

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BY ANDREA HOLLAND

In contrast to activity in other Fifth District jurisdictions, the employment level in the District of Columbia continued to expand during the 2001 recession. As a result, although payrolls have grown only 0.3 percent six quarters into the recovery period, job numbers remain 2.9 percent higher than at the start of the recession.

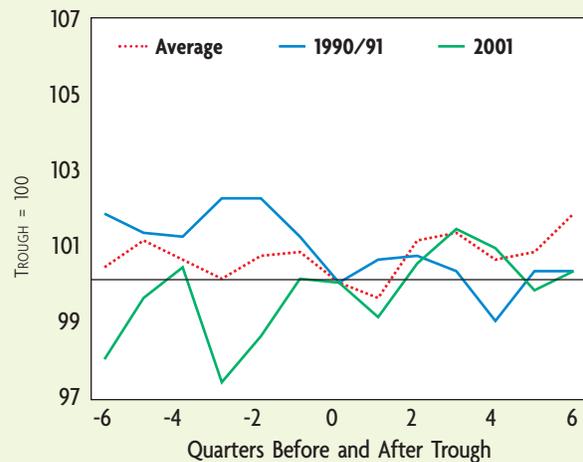
By and large, the 2001 recovery has been weaker both nationally and in the Fifth District than the 1991 recovery — except in the District of Columbia. With a 0.3 percent growth rate in jobs six quarters from the trough, the District of Columbia tied with Maryland for the highest recovery pace in the Fifth District. In contrast, the District of Columbia had an identical 0.3 percent growth rate during the first six quarters of the 1991 recovery, which at the time was the lowest recovery pace in the Fifth District.

Personal income growth, another key indicator of economic well-being, has also been robust in the District of Columbia in the post-2001 period — expanding 2.9 percent more than the average recovery pace in the postwar era. In contrast, personal income growth was 1.2 percent less five quarters into the 1991 recovery than it would have been under the typical scenario.

In part, the District of Columbia was more sharply affected by the 1990 recession than other Fifth District states because of overinvestment in commercial real estate and the downsizing of government-related jobs. By contrast, the jurisdiction was partly insulated from the 2001 slowdown because it has little employment in the hard-hit manufacturing sector and more employment in the relatively stable government sector.

Despite the District of Columbia's favorable record during the 2001 recovery, some recent figures have been mixed. Payroll employment slipped in the second quarter of 2003 and the jobless rate kicked up further. Real estate activity was also mixed: existing home sales were nearly 11 percent higher over the year, but permit authorizations declined modestly in the second quarter. In the first quarter, personal income growth was slower and personal bankruptcies edged higher. But not all first quarter news was bad. The percentage of mortgage past dues moderated, general sales and gross receipts were up from a year ago, business bankruptcy filings dropped off, and venture capital investment picked up significantly.

## DC Nonfarm Payroll Employment Index



SOURCE: Nonfarm Payroll Employment, NSA, Bureau of Labor Statistics/Haver Analytics

	Percent Change at Annual Rate From		
	2nd Qtr 2003	1st Qtr 2003	2nd Qtr 2002
<b>Nonfarm Employment</b>	662.8	-1.9	-0.2
Manufacturing, NSA	2.8	0.0	-4.5
Professional/Business Services	141.1	3.8	0.8
Information	25.9	5.3	0.1
<b>Civilian Labor Force</b>	307.5	4.3	0.9
Home Sales	14.7	11.7	10.5
	2nd Qtr 2003	1st Qtr 2003	2nd Qtr 2002
<b>Unemployment Rate</b>	6.8	6.4	6.5
<b>Housing Permits, NSA</b>	539	619	98

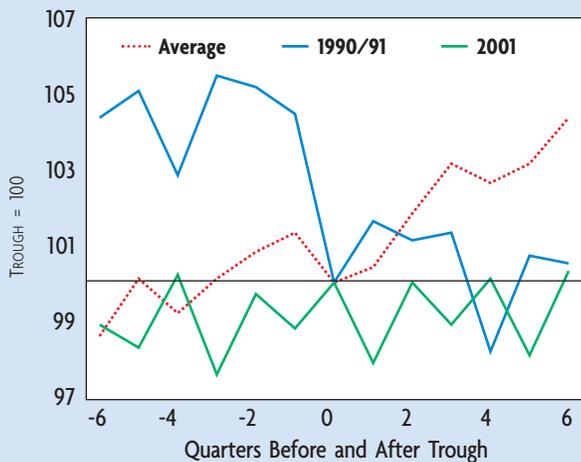
NOTES: Nonfarm Employment, thousands of jobs, seasonally adjusted (SA); Bureau of Labor Statistics (BLS)/Haver Analytics  
Manufacturing, thousands of jobs, NSA; BLS/Haver Analytics  
Professional/Business Services, thousands of jobs, SA; BLS/Haver Analytics  
Information, thousands of jobs, SA; BLS/Haver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

The average post-war recovery period for each state is calculated by using employment data from the business cycles between 1960 and 1989, and excludes the 1991 recovery because it is atypical. The employment and personal income gaps are calculated by taking the difference between the current level and a theoretical level that is estimated by using the projected growth rate of an average recovery.



BY ANDREA HOLLAND

## MD Nonfarm Payroll Employment Index



SOURCE:  
Nonfarm Payroll Employment, NSA, Bureau of Labor Statistics/Haver Analytics

	Percent Change at Annual Rate From		
	2nd Qtr 2003	1st Qtr 2003	2nd Qtr 2002
Nonfarm Employment	2,494.5	3.9	0.7
Manufacturing	153.8	-1.9	-3.0
Professional/Business Services	367.6	7.7	1.7
Information	50.9	-2.1	-6.3
Civilian Labor Force	2,933.9	0.7	1.1
Home Sales	124.3	-29.2	-0.4
	2nd Qtr 2003	1st Qtr 2003	2nd Qtr 2002
Unemployment Rate	4.4	4.3	4.5
Housing Permits, NSA	8,849	5,931	7,427

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  
Information, thousands of jobs, SA; BLS/Haver Analytics  
Civilian Labor Force, thousands of persons, SA; BLS/Haver Analytics  
Home Sales, thousands of units, SA; National Association of Realtors®/Haver Analytics  
Unemployment Rate, percent, SA; BLS/Haver Analytics  
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The pattern of employment growth following the 1990 and 2001 recessions was nearly identical in Maryland for the six quarters following the economy's trough. Emphasizing the recent sluggishness in labor markets, however, Maryland posted one of the slowest growth rates (0.5 percent) in the Fifth District in 1991, but tied with the District of Columbia for the fastest growth rate (0.3 percent) in 2001.

Maryland experienced a particularly slow recovery in jobs (relative to other Fifth District states) after the 1990 recession due largely to downsizing in the manufacturing and government sectors. Since manufacturing jobs never rebounded, this moderated the severity of the 2001 recession, as job losses in the U.S. economy were centered largely in that sector.

Despite Maryland's strong comparative performance, payroll growth remains fundamentally weak in the state. Looking at past recessions, Maryland payrolls have typically grown 4.3 percent six quarters into recovery. This record would imply average gains following the 2001 recession of 107,000 new jobs by the second quarter of 2003. Actual employment, however, expanded by only 8,000 jobs over the period, resulting in a 3.8 percent employment gap in Maryland.

Personal income growth, another significant measure of economic activity, also performed below trend during the last two recovery periods. On average, personal income in Maryland expands 6.4 percent though the first five quarters of recovery. Since early 2001 though, personal income in Maryland expanded 3.1 percent less than it would have under the average pace. But personal income growth remains stronger than in 1991, when income grew 5 percent less than it would under a typical recovery.

More recently, second quarter economic data have been generally positive in Maryland. Despite a slight uptick in the unemployment rate, payrolls expanded at a steady pace and activity in Maryland's real estate market remained favorable. New housing authorizations moved higher in the second quarter, and although existing home sales eased somewhat, they remained high by historical standards.

In addition, data available from the first quarter show commercial vacancy rates receding somewhat in the Baltimore metro area, strong income growth, and a decline in business bankruptcy filings. But venture capital investment plummeted to \$105 million and personal bankruptcies continued to edge higher.



# NORTH CAROLINA

BY ANDREA HOLLAND

Typically, when output begins to expand after a recession, employment growth follows with a small lag. But in a so-called “jobless recovery,” employment growth remains weak well past the beginning of the recovery. By this standard, the last two recoveries in North Carolina have been “jobless,” the 2001 recovery especially so.

Six quarters into a typical recovery, the total number of jobs in North Carolina grows, on average, 6.1 percent. Following the 1990 recession, payrolls in the state expanded only 3.1 percent. In contrast, payroll employment has contracted 0.7 percent since the end of the 2001 recession.

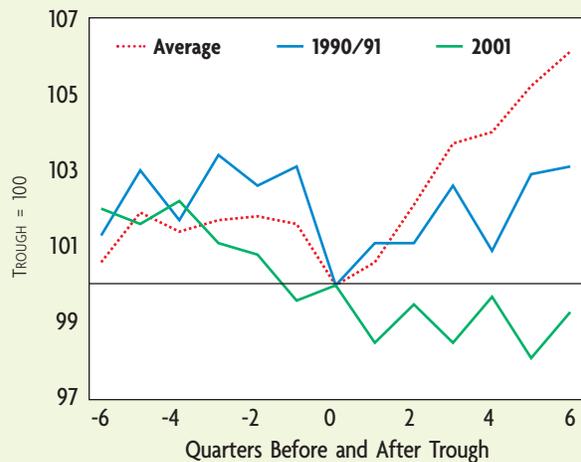
Employment growth remains well below its long-run average in North Carolina for a number of reasons. Foremost, the ongoing decline in manufacturing continues to put downward pressure on the aggregate employment level, and was likely the cause for some of the sluggishness of the 1991 recovery.

But whereas the 1990 recession was centered in the real estate and government sectors, the 2001 recession was firmly rooted in manufacturing. As a result, North Carolina was dealt a double blow because manufacturing is such a large presence in the state’s economy. Rising productivity also has allowed employers to increase output to meet demand without substantially increasing employment.

Personal income broadly tracks employment conditions in North Carolina. Five quarters into the 2001 recovery, personal income growth was significantly weaker than the historical average and during the 1991 recovery. Personal income only expanded 1.5 percent since the recent trough — 6.8 percent less than it would have under the average recovery pace. Data for the first quarter of 2003 recorded a modest expansion over the quarter, but growth remained nearly flat over the year.

Other indicators of recent economic activity in North Carolina also remain sluggish. Although payroll employment rose in the second quarter, most of the gain stemmed from seasonal adjustment factors and will likely be revised downward. In addition, the jobless rate rose by 0.4 percentage points in the second quarter to 6.4 percent. But some bright spots have emerged. Second quarter new home sales and new housing authorizations continued to climb and first quarter mortgage loans past due edged lower.

## NC Nonfarm Payroll Employment Index



SOURCE:  
Nonfarm Payroll Employment, NSA, Bureau of Labor Statistics/Haver Analytics

	Percent Change at Annual Rate From		
	2nd Qtr 2003	1st Qtr 2003	2nd Qtr 2002
Nonfarm Employment	3,850.2	1.9	0.3
Manufacturing	616.0	-2.6	-4.6
Professional/Business Services	422.9	5.7	1.7
Information	78.9	4.5	0.0
Civilian Labor Force	4,172.7	1.3	-0.2
Home Sales	266.8	21.2	8.7
	2nd Qtr 2003	1st Qtr 2003	2nd Qtr 2002
Unemployment Rate	6.4	6.0	6.8
Housing Permits, NSA	20,776	17,122	22,023

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  
Information, thousands of jobs, SA; BLS/Haver Analytics  
Civilian Labor Force, thousands of persons, SA; BLS/Haver Analytics  
Home Sales, thousands of units, SA; National Association of Realtors®/Haver Analytics  
Unemployment Rate, percent, SA; BLS/Haver Analytics  
Housing Permits, number of permits, NSA; U.S. Census Bureau/Haver Analytics

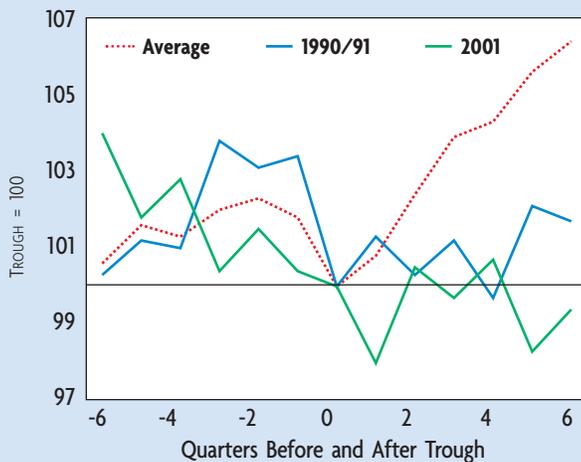
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The employment and personal income gaps are calculated by taking the difference between the current level and a theoretical level that is estimated by using the projected growth rate of an average recovery.



BY ANDREA HOLLAND

## SC Nonfarm Payroll Employment Index



SOURCE:  
Nonfarm Payroll Employment, NSA, Bureau of Labor Statistics/Haver Analytics

	Percent Change at Annual Rate From		
	2nd Qtr 2003	1st Qtr 2003	2nd Qtr 2002
Nonfarm Employment	1,789.0	-2.9	-1.1
Manufacturing, NSA	279.2	-3.8	-4.5
Professional/Business Services, NSA	177.7	8.9	-3.7
Information, NSA	27.5	0.5	-1.0
Civilian Labor Force	2,027.9	0.4	3.2
Home Sales	131.0	-9.5	10.9
	2nd Qtr 2003	1st Qtr 2003	2nd Qtr 2002
Unemployment Rate	6.3	6.1	5.8
Housing Permits, NSA	9,471	8,439	9,133

NOTES:  
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Professional/Business Services, thousands of jobs, NSA; BLS/Haver Analytics  
Information, thousands of jobs, NSA; BLS/Haver Analytics  
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Because manufacturing activity has surged during most postwar economic recoveries, South Carolina, with its large proportion of factory workers, has typically posted the strongest average job recovery rate in the Fifth District. But for the last two recovery periods, that has not been the case.

In South Carolina, job growth has been much weaker during the current recovery than after the 1990 recession. In 1990, job growth turned positive five quarters after the low-point of economic activity, or trough. Six quarters into the 2001 recovery, however, South Carolina's employment level contracted an additional 11,000 jobs.

Job losses during the 1990 recession in South Carolina were widespread across the goods-producing and service-providing industries. In the recovery that followed, manufacturing employment remained tepid, but payrolls were boosted by job gains in the non-manufacturing sector.

This time around, South Carolina manufacturing jobs continued to be lost during the recovery and there are few expectations for a rebound. So the state must see a fairly sharp turnaround in service jobs to get payrolls growing again. But the availability of temporary employees may enable employers to increase output without adding new permanent positions.

Turning to personal income, growth rates during the 1991 and 2001 recoveries have been similar. Five quarters from the 2001 trough, total personal income had expanded only 2.2 percent — 6.0 percent less than it has during an average recovery. In 1991, personal income expanded only 2.3 percent — 5.8 percent less than under the typical recovery.

As noted earlier, labor market conditions in South Carolina continue to weigh on the state's overall economic performance. Payroll employment fell 2.9 percent in the second quarter of 2003 and the unemployment rate hit 6.3 percent, the highest rate recorded since 1994. Also discouraging, personal income contracted 0.4 percent in the first quarter.

But on the upside, the percentage of mortgages past due eased in the first quarter and venture capital investment inflows increased significantly, reaching \$13 million. The best news continued to be residential real estate: second quarter new home sales were firm and new housing authorizations headed higher.



# VIRGINIA

BY ANDREA HOLLAND

When benchmarked against the average postwar economic recovery in Virginia, employment growth in the both the 1991 and 2001 recoveries has been weak. Looking at the 1991 recovery period, job growth was slow, but positive, six quarters after the recession ended. In contrast, although overall economic activity has picked up since the recent trough, Virginia has yet to record job gains.

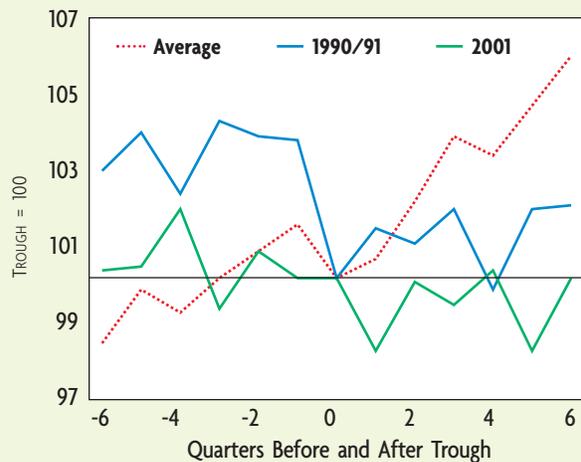
On average, Virginia employment grows 5.8 percent in the eighteen-month period following a recession. If payrolls had expanded in this manner, Virginia's job level would have reached 3.7 million in the second quarter of 2003. But actual employment growth was flat, resulting in an employment gap of about 203,000 jobs, or 5.5 percent. In contrast, the employment gap following the 1991 recession was only 3.7 percent.

Personal income, another indicator closely watched by economists, typically grows 7.5 percent in the five quarters following a recession. Personal income in Virginia expanded 1.8 percent since the end of the 2001 downturn, 5.3 percent less than it would have under the average recovery scenario. Large losses in the high-paying information services industry are partly responsible for weaker income growth.

Nationally, the 2001 recession was centered in the manufacturing sector. But states with a high concentration of information technology workers, such as Virginia, also took a hit. In particular, labor markets in northern Virginia were significantly weakened by the bursting of the "dot-com" bubble and commercial real estate conditions declined considerably as a result.

Despite flat job growth for the past six quarters ending June 2003, nonfarm payrolls expanded in the second quarter of the year and the unemployment rate dropped by 0.1 percentage points. Other positive readings included first quarter general sales and gross receipts and venture capital investment: Virginia was the only Fifth District jurisdiction to record gains for the quarter and the year. Also, first quarter personal income in Virginia grew by 2.4 percent, 1.5 percent higher than a year ago. Second quarter residential real estate activity moved forward, with home sales solid and new housing authorizations soaring.

## VA Nonfarm Payroll Employment Index



SOURCE:  
Nonfarm Payroll Employment, NSA, Bureau of Labor Statistics/Haver Analytics

	Percent Change at Annual Rate From		
	2nd Qtr 2003	1st Qtr 2003	2nd Qtr 2002
Nonfarm Employment	3,505.6	2.5	0.3
Manufacturing	309.8	-4.9	-3.8
Professional/Business Services	549.9	6.2	0.3
Information	100.6	-4.0	-6.4
Civilian Labor Force	3,795.7	0.2	1.6
Home Sales	169.8	-9.9	6.3
	2nd Qtr 2003	1st Qtr 2003	2nd Qtr 2002
Unemployment Rate	4.0	4.1	4.2
Housing Permits, NSA	15,801	13,278	15,172

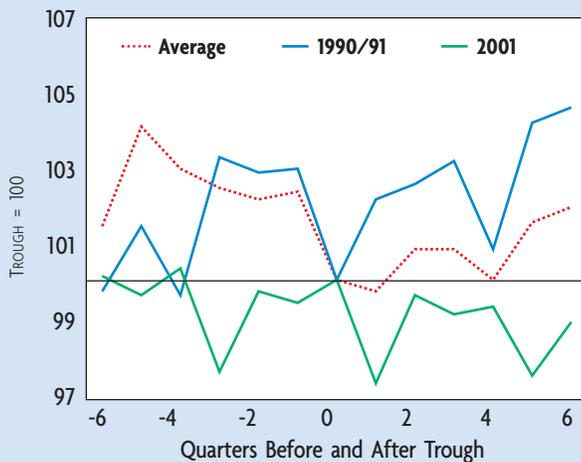
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BY ANDREA HOLLAND

## WV Nonfarm Payroll Employment Index



SOURCE:  
Nonfarm Payroll Employment, NSA, Bureau of Labor Statistics/Haver Analytics

	Percent Change at Annual Rate From		
	2nd Qtr 2003	1st Qtr 2003	2nd Qtr 2002
Nonfarm Employment	731.6	-0.9	-0.1
Manufacturing	66.2	-1.4	-4.2
Professional/Business Services	59.6	3.9	5.2
Information, NSA	12.9	1.0	-3.0
Civilian Labor Force	803.5	-1.4	-0.6
Home Sales	24.5	-34.2	1.2
	2nd Qtr 2003	1st Qtr 2003	2nd Qtr 2002
Unemployment Rate	6.1	5.7	6.2
Housing Permits, NSA	1,315	860	1,156

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Information, thousands of jobs, NSA; BLS/Haver Analytics  
Civilian Labor Force, thousands of persons, SA; BLS/Haver Analytics  
Home Sales, thousands of units, SA; National Association of Realtors®/Haver Analytics  
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For more information regarding state summaries, call 804-697-8273 or e-mail [Andrea.Holland@rich.frb.org](mailto:Andrea.Holland@rich.frb.org).

West Virginia's labor market conditions have improved more slowly during the current recovery than during both the 1991 recovery and the typical post-war recovery. West Virginia continued to shed jobs six quarters after the 2001 trough, whereas employment had turned around and started to expand in the second quarter of 1991— just the first quarter into recovery.

Payrolls in West Virginia typically grow 1.9 percent eighteen months into recovery. Average gains following the 2001 recession would have implied 22,500 new jobs by the second quarter of 2003, but the actual employment level contracted by more than 8,000 jobs, resulting in a 3.0 percent employment gap in West Virginia.

Among Fifth District jurisdictions, West Virginia demonstrated the strongest growth in employment six quarters into the 1991 recovery, but this time the Mountain State's employment numbers have been the weakest in the region. One reason job growth was so much stronger after the 1990 recession was because the downturn was largely centered in commercial real estate and government, which plays a lesser role in West Virginia's economy than in other Fifth District states. But the 2001 recession was focused in the manufacturing sector, which encompasses a significant share of total employment in the state. Also, high worker productivity is lessening businesses' urgency to add workers, delaying the pickup in jobs.

In other sectors of the West Virginia economy, recent data suggest generally lackluster economic conditions. First quarter personal income was generally flat over the year and personal bankruptcies edged higher. Venture capital investment fell in the first quarter, as did sales taxes, with receipts slipping 2.4 percent from a year ago.

Turning to real estate conditions, West Virginia recorded modest declines in second quarter existing home sales. New housing authorizations climbed higher, however. Also positive, business bankruptcy filings and the percentage of mortgage past dues edged lower in the first quarter.