

DISTRICT ECONOMIC OVERVIEW

BY MATTHEW MARTIN

Economic activity in the Fifth District strengthened somewhat in the first quarter as growth in the District's service sector offset weakness in manufacturing. Housing markets remained generally soft across most of the District, though some markets reported slight improvements.

Labor Markets Robust

Reports on District labor market activity in the first quarter were generally positive, with ongoing job growth and declining unemployment. District payrolls expanded 1.4 percent during the first three months of 2007 — a solid performance that was only slightly below the 1.5 percent national pace over the same period. Employment gains were concentrated in the service sector, with the largest increases in education and health services as well as professional and business services.

Service-sector strength in the first quarter was also reflected in the results from the Richmond Fed's survey. First-quarter results showed that revenue growth expanded steadily at services firms. And although respondents — particularly retailers — indicated a softening in the pace of hiring during the quarter, business expectations were generally stronger for the six months ahead.

Solid job growth trimmed the District unemployment rate to 4.2 percent — the lowest rate posted since early 2001. Unemployment rates

Economic activity in the Fifth District strengthened somewhat in the first quarter.

declined across all District jurisdictions, with the most substantial improvements occurring in West Virginia and South Carolina. Even with the improvement, South Carolina's unemployment rate led the District at 6.1 percent, while Virginia retained the lowest mark at just 2.9 percent — more than 1.5 percentage points below the national rate of 4.5 percent.

Manufacturing Sector Slows

Weakness in the District's manufacturing sector persisted as declining orders and rising inventories accompanied a pullback in production and a decrease in payrolls. District manufacturing activity continued to lose momentum after contracting modestly at the end of 2006. Product demand was notably weaker in the apparel and textiles, fabricated metals, furniture,

and paper industries. The combined drop in shipments, orders, and employment pulled the Richmond Fed's composite index of manufacturing activity slightly into negative territory for the first time in nearly two years.

Weaker current conditions did not dampen respondent optimism regarding future demand, though, as the index of anticipated new orders for the second and third quarter increased by 10 percentage points over the previous period.

Housing Markets Mixed

Residential real estate markets across the District were mixed as existing home sales increased, but new home construction declined. Existing home sales rose on a seasonally adjusted basis, though sales remained below year-ago levels in Maryland, Virginia, and South Carolina. Despite the modest gain in quarterly sales, home price appreciation generally eased across the District. While median home prices remained above year-ago levels, the pace of growth slowed — in some cases, to the low single digits. Low- to middle-priced homes remained the best sellers, though some reports indicated that houses in this category were difficult to find because of a shallow inventory.

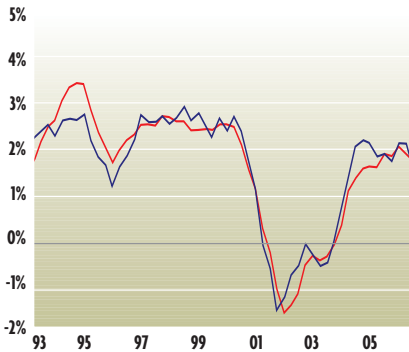
The improvement in existing home sales did not extend to new home construction. Permitting activity was well below year-ago levels for all jurisdictions in the District. However, commercial activity generally held up well, with rising rents and evidence of new construction in many areas. Commercial construction activity helped to boost District construction payrolls, though Virginia saw construction employment decline 0.5 percent from a year earlier. By contrast, construction remained one of the faster-growing sectors in North Carolina, with employment up 4.7 percent from the same period last year. **RF**

Economic Indicators

	1st Qtr. 2007	4th Qtr. 2006	Percent Change (Year Ago)
Nonfarm Employment (000)			
Fifth District	13,816	13,752	1.4
U.S.	137,447	136,951	1.5
Real Personal Income (\$bil)			
Fifth District	934.9	923.5	3.1
U.S.	9,762.3	9,630.1	3.5
Building Permits (000)			
Fifth District	50.5	47.2	-21.0
U.S.	361.5	355.3	-26.6
Unemployment Rate (%)			
Fifth District	4.2%	4.4%	
U.S.	4.5%	4.5%	

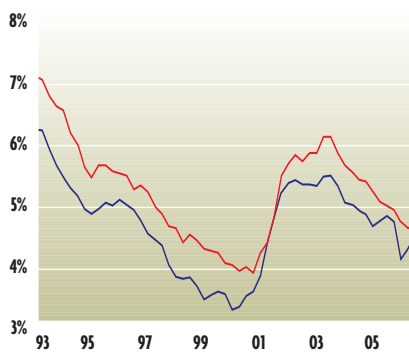
Nonfarm Employment

Change From Prior Year
First Quarter 1993 - Fourth Quarter 2006



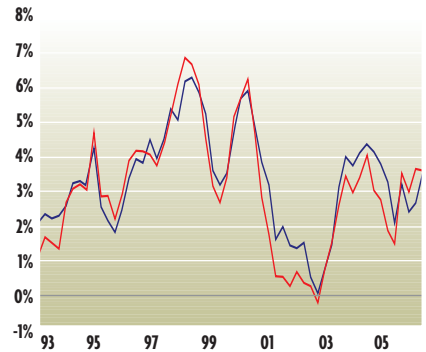
Unemployment Rate

First Quarter 1993 - Fourth Quarter 2006



Real Personal Income

Change From Prior Year
First Quarter 1993 - Fourth Quarter 2006

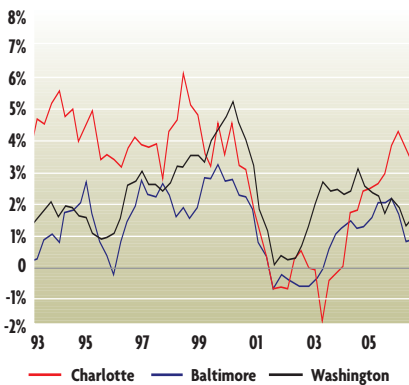


— Fifth District

— United States

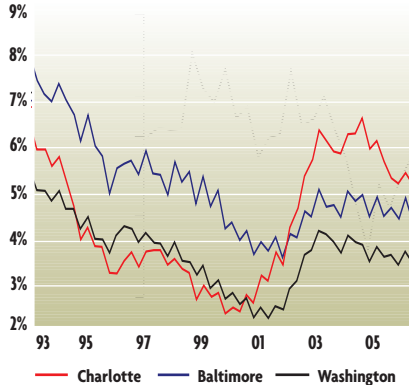
Nonfarm Employment Metropolitan Areas

Change From Prior Year
First Quarter 1993 - Fourth Quarter 2006



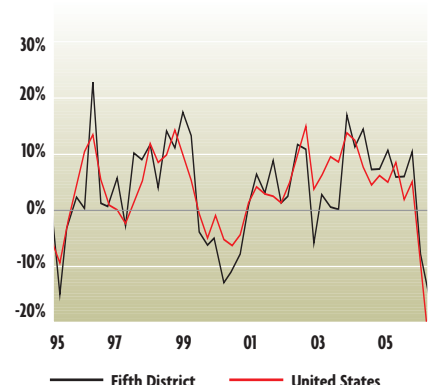
Unemployment Rate Metropolitan Areas

First Quarter 1993 - Fourth Quarter 2006



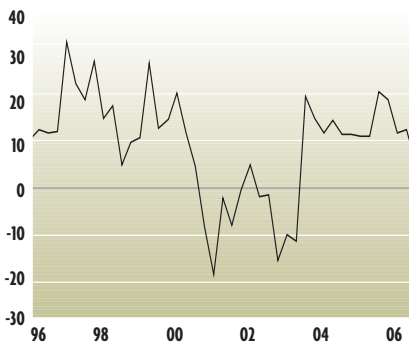
Building Permits

Change From Prior Year
First Quarter 1995 - Fourth Quarter 2006



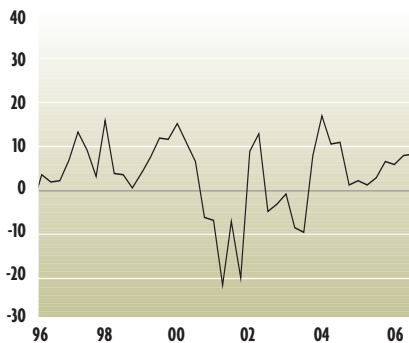
FRB—Richmond Services Revenues Index

First Quarter 1996 - Fourth Quarter 2006



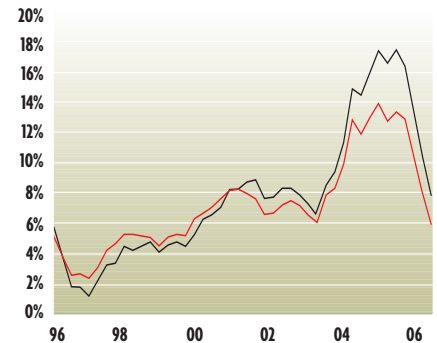
FRB—Richmond Manufacturing Composite Index

First Quarter 1996 - Fourth Quarter 2006



House Prices

Change From Prior Year
First Quarter 1996 - Fourth Quarter 2006



NOTES:

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

SOURCES:

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>.

For more information, contact Matthew Martin at 704-358-2116 or e-mail Matthew.Martin@rich.frb.org.

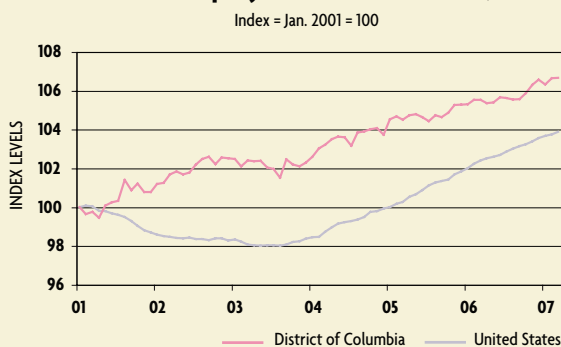
STATE ECONOMIC CONDITIONS

BY MATTHEW MARTIN

District of Columbia

The District of Columbia's economy performed well in the first quarter as overall growth stayed nearly on pace with that of the previous quarter. One particularly encouraging sign came from the household survey, which reported that the area's unemployment rate fell 0.3 percentage point to finish at 5.8 percent. And although that rate stood well above the national figure, the district's rate was at its lowest mark since the end of 2000. The drop in the unemployment rate was especially encouraging because it occurred amidst strong growth in the area's labor force, which expanded at a 3.8 percent annual rate during the first quarter of 2007 — its largest increase in two years.

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



SOURCE: Nonfarm Payroll Employment, BLS/Haver Analytics

Other measures of labor market activity were mixed. Payroll employment growth in the District of Columbia eased in the first quarter compared to the previous period, though the moderation followed an especially large gain during the final quarter of 2006. Payrolls expanded at a 1.1 percent annual rate in the first quarter on the strength of a 4.7 percent increase in professional and business services employment. However, job growth was constrained by quarterly declines in both the government and financial activities sectors. Employment in those sectors was also lower than year-earlier levels, constraining overall job growth to just 1.0 percent.

Turning to real estate, stronger sales of existing homes during the first three months of 2007 helped to inject some life into the District of Columbia's housing market. Sales activity rebounded in the first quarter, following an especially weak final quarter of 2006 when sales fell to their lowest level in a decade. Home sales reached an annual rate of 11,800 units sold during the quarter, the highest mark since the fall of 2005. Not all reports on the area's housing market were positive, however. Building permit levels

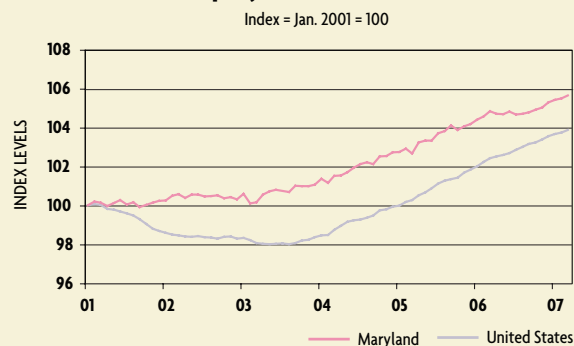
declined 37.2 percent compared to a year earlier — 2006 was a first-quarter record for permits — but remained well above levels recorded two years earlier. The decline in new home construction also accompanied a further deceleration in home price appreciation. Home price growth in the area slowed during the quarter to a 2.0 percent annual rate compared to 9.0 percent in the previous period, marking the slowest pace for home price growth since 1998.

Maryland

Maryland's economy retained its momentum of late 2006, posting another solid performance during the first quarter. Payroll employment increased at a 1.7 percent annual rate in the quarter — moderately faster than in the last quarter of 2006. A 7.7 percent jump in leisure and hospitality employment combined with a 5.9 percent increase in professional and business services payrolls accounted for a bulk of the growth. Construction employment also held up, increasing 5.2 percent. Employment gains in these sectors were enough to overcome the loss of jobs in several other sectors. In addition to the persistent loss of manufacturing jobs, the state shed jobs in the information and government sectors. Compared to a year earlier, however, government payrolls increased slightly, while manufacturing and information services firms trimmed workers.

First-quarter data from the household sector also suggested an overall improvement in Maryland's labor market. The unemployment rate fell 0.2 percentage point to 3.7 percent in the first quarter — the state's lowest mark in a year. However, the labor force contracted at a 0.6 percent annual rate in the first quarter, marking the state's first quarterly decline since early 2004. But the dip wasn't persistent as labor force growth in the state remained in

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



SOURCE: Nonfarm Payroll Employment, BLS/Haver Analytics

positive territory compared to a year earlier.

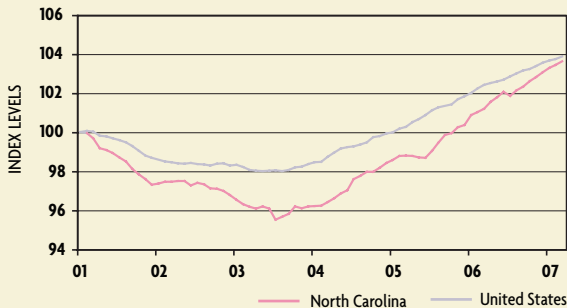
On the real estate front, the housing market remained a weak spot in the state's economy, though softer housing activity has been less pronounced than in other District jurisdictions. Existing home sales actually rose during the first quarter, but were 10.0 percent below year-earlier levels. Additionally, new home construction declined further during early 2007, with permits down 13.3 percent compared to last year. In comparison to the rest of the District, however, Maryland's decline in permits has been less sharp. The recent softness in sales and construction activity has contributed to slower home price appreciation. Prices increased at a mild 1.9 percent annual rate in the first quarter, though they were up 6.4 percent since the first quarter of 2006.

North Carolina

North Carolina's economy remained strong in the first quarter of 2007, though the pace of growth eased somewhat. Payroll employment growth slowed a bit, increasing at a 2.4 percent annual rate in the first quarter, compared to a 2.9 percent rate in the previous period. Nonetheless, job growth in the first quarter was enough to

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

Index = Jan. 2001 = 100



SOURCE: Nonfarm Payroll Employment, BLS/Haver Analytics

trim the state's unemployment rate to its lowest level since the end of 2000. The unemployment rate fell 0.4 percentage point to finish at 4.5 percent. North Carolina's mark remains higher than the overall unemployment rate for the District, however, due in part to large increases in the state's labor force in recent years.

Slightly slower job growth in the first quarter was due to a pullback in the pace of service-sector job growth. Employment growth in financial services slowed considerably, inching up just 0.2 percent on an annualized basis on

the heels of a 6.3 percent increase in the final quarter of 2006. Job gains in professional and business services were solid at a 4.0 percent annual rate, though a bit softer than the 4.4 percent rate posted in the previous quarter. An acceleration of job losses in manufacturing also contributed to the state's overall slower job growth figures.

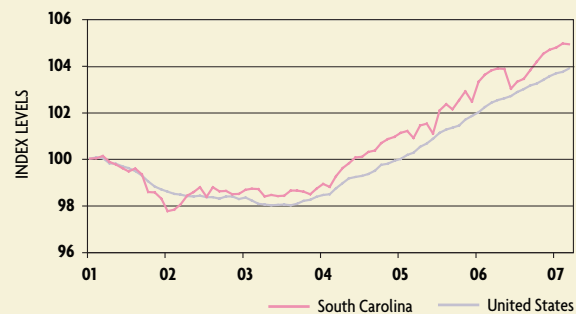
Assessments of North Carolina's housing market during the first quarter of 2007 were mixed. The most substantial change was on the construction side. First-quarter building permits were 12.7 percent lower than year-earlier levels, although 2006 was a record-setting year for permit issuance. Existing home sales were more buoyant, however, rising 0.7 percent in the first quarter compared to the previous year. Measures of both new home construction and existing home sales compared favorably to other District jurisdictions, as did measures of home appreciation. Home prices rose 6.9 percent on an annual basis in the first quarter and were up 8.0 percent since the first quarter of 2006 — both District bests.

South Carolina

The South Carolina economy improved in the first quarter of 2007 as steady job growth added to a sizable reduction in the state's unemployment rate. The unemployment rate fell 0.5 percentage point in the first quarter to 6.1 percent — the lowest since the third quarter of 2002. Strong service-sector employment growth helped fuel the overall improvement in job numbers. Job growth over the past year was strongest in the state's education and health services industry. Employment in the sector increased 6.6 percent compared to a year earlier. Financial and construction services were also among the fastest-growing segments of

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

Index = Jan. 2001 = 100



SOURCE: Nonfarm Payroll Employment, BLS/Haver Analytics

the economy during this period, with job growth rates of 4.3 percent and 3.0 percent, respectively. Manufacturing jobs continued to be the only drag on the state's overall job growth with factory employment falling 3.7 percent compared to a year earlier.

Despite the strong job numbers, weakness in South Carolina's housing markets persisted during the first three months of 2007. Permit issuance declined sharply in the first quarter, with declines concentrated in coastal markets, particularly Charleston and Hilton Head. New permits declined 44.3 percent compared to a year earlier in Charleston during the quarter, which accounted for a substantial share of the state's overall decline. Inland markets fared somewhat better, with permit levels off 18.6 percent in Columbia and up 6.6 percent in Greenville. The decline in new home building was partially in response to the growing inventory of homes and slower sales activity experienced across the state. The slowdown in overall housing activity also led some home builders to trim payrolls in the first quarter. Increased commercial construction over the past year helped mask the losses, however, and prevented an overall decline in construction employment in the first quarter.



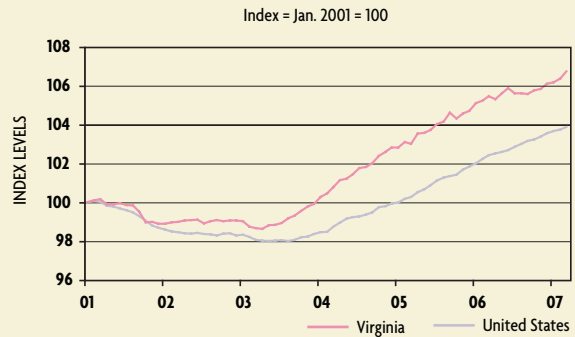
Virginia

Virginia's economy continued to expand during the first quarter of 2007 and it remained among the healthiest economies in both the District and the nation. Results from the household employment survey during the quarter provided a clear signal of the state's economic strength. The unemployment rate fell 0.1 percentage point to 2.9 percent, the lowest mark in the District by nearly a full percentage point and more than 1.5 percentage points below the national rate.

Payroll job growth in Virginia was on par with the rest of the District during the first quarter. Service-sector growth remained strong, led by a 4.3 percent increase in professional and business services employment. The professional and business services sector has been the fastest-growing in the state over the past year, followed by education and health services, leisure and hospitality, and financial services. As with the rest of the District, state manufacturers continued to trim payrolls as the sector remained the state's weakest, in terms of employment performance.

Though its overall economy remained strong, Virginia's housing sector continued to be a weak spot during the first three months of 2007. First-quarter data indicated that the housing market cooling in the state continued to be generally more pronounced than in the rest of the District. New

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



SOURCE: Nonfarm Payroll Employment, BLS/Haver Analytics

building permits for residential construction declined 30.1 percent compared to the previous year, while existing home sales were off 5.7 percent. Weakness in building and sales activity during the period also contributed to a reduction in the state's construction payrolls. Construction employment began to decline in the second half of last year as housing market activity softened, but the decline in construction employment intensified in the first quarter of 2007. Construction payrolls were down 1.3 percent compared to the first quarter of last year, making the state the only District jurisdiction to experience a year-over-year decline in construction employment. On a brighter note, the state's overall mortgage delinquency rate edged lower during the fourth quarter and — at 3.1 percent — remained below readings in other District jurisdictions.



West Virginia

Economic growth in West Virginia slowed in the first quarter as a sluggish labor market constrained income growth and weakness in residential real estate persisted.

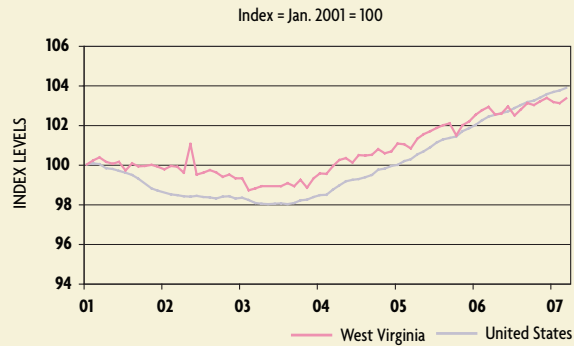
Employment in the state treader water in the first quarter, with payroll levels unchanged from the fourth quarter. Several sectors of the state's economy weighed on job growth. Manufacturing payrolls in West Virginia continued to contract at a faster pace than in other District jurisdictions with the exception of South Carolina. The state also suffered its first quarterly decline in mining employment since the end of 2003. There were bright spots, however. The largest employment gain was in trade, transportation and utilities employment, which increased at a 4.0 percent annual rate. This sector posted the strongest employment gains over the past year as well, followed by increases in construction and leisure and hospitality payrolls.

Nonetheless, West Virginia experienced the weakest employment growth in the District over the past 12 months, with total employment increasing by less than 1.0 percent.

West Virginia's residential real estate markets also continued to be a drag on the state's overall economy in the first quarter of 2007. Home prices fell 0.8 percent during the first three months of the year, marking the first quarterly decline in home values in the state since the fourth quarter of 1999. In addition, housing construction activity continued to slump as first-quarter permit levels dropped off 40.1 percent compared to the same period a year earlier. Despite the lackluster price and construction numbers, West Virginia experienced a 1.4 percent uptick in home sales – the state's first year-over-year increase in sales activity in more than a year.

RF

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



SOURCE: Nonfarm Payroll Employment, BLS/Haver Analytics

Behind the Numbers: Youth Employment

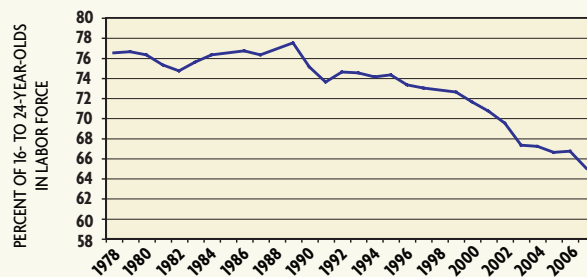
The percentage of young people who seek summer jobs is on the decline. According to recent data from the Bureau of Labor Statistics (BLS), the labor force participation rate for people aged 16 to 24 was 65 percent in July 2007, well down from its 1989 peak of 77.5 percent.

But there may be no need to fret the younger generation's work ethic. As the BLS notes, the decrease in labor force participation for the youth has coincided with growing enrollment in summer school. Since future earnings are highly tied to education, young people may be making a wise choice in putting off employment to attend school.

As it does every year, the number of employed youths increased between April and July of this year. But the 2007 increase of 2.3 million was less than last year's seasonal increase of 2.5 million. Unemployment among younger workers grew by 548,000, a slightly smaller gain than in 2006.

The youth labor force reached 24.3 million in July, with 21.7 million of those employed. Young men represent a greater share of the labor force, with a 67.9 percent participation rate compared with young women's 62.1 percent.

July Youth Labor Force Participation



SOURCE: Bureau of Labor Statistics

Labor force participation for whites aged 16 to 24 was 68 percent; for blacks, 54.1 percent; and Hispanic, 59.5 percent. Unemployment was lowest among Asians (7.7 percent) and highest for blacks (20.5 percent).

About one in four employed youths works in the leisure and hospitality industry (which includes restaurants). Almost one in five works in retail. Come fall, almost 2 million youths are expected to give up employment, presumably returning to the classroom.

A more detailed look at the composition of the youth work force was provided in a landmark 2001 BLS report. Data from a national longitudinal survey of 14- and 15-year-old taken in 1997 showed that most youths who chose to work did so during both the school year and the summer. Of the 31.9 percent of surveyed youths with jobs, only 7 percent worked exclusively during the summer.

Early teens from relatively wealthy families were more likely to hold jobs in the first place. According to the survey, 38.9 percent of 14- and 15-year old from families with more than \$70,000 in annual income had jobs during some part of the year; it was 24.1 percent of youths from families earning less than \$25,000 a year.

— DOUG CAMPBELL

State Data, Q1:07

	DC	MD	NC	SC	VA	WV
Nonfarm Employment (000)	693.8	2,605.7	4,079.6	1,922.9	3,755.5	758.6
Q/Q Percent Change	0.3	0.4	0.6	0.4	0.5	0.0
Y/Y Percent Change	1.0	0.9	2.4	1.3	1.1	0.5
Manufacturing Employment (000)	1.6	133.9	546.0	244.2	285.3	59.4
Q/Q Percent Change	-4.0	-1.2	-1.1	-1.2	-0.1	-1.4
Y/Y Percent Change	-11.1	-1.9	-1.0	-3.7	-1.7	-3.2
Professional/Business Services Employment (000)	155.6	392.2	478.6	214.0	631.7	59.3
Q/Q Percent Change	0.0	-1.4	-0.9	-2.3	-0.5	-2.0
Y/Y Percent Change	4.4	1.8	4.2	0.3	2.6	-0.4
Government Employment (000)	231.9	470.6	678.4	331.6	674.9	144.6
Q/Q Percent Change	-0.3	-0.4	0.5	0.4	0.2	-0.3
Y/Y Percent Change	-0.7	0.4	0.9	0.1	0.6	0.2
Civilian Labor Force (000)	320.8	3,026.2	4,518.2	2,160.0	4,051.4	812.6
Q/Q Percent Change	0.9	-0.2	0.2	0.7	0.6	0.1
Y/Y Percent Change	1.8	1.4	2.4	2.3	2.2	1.6
Unemployment Rate (%)	5.8	3.7	4.5	6.1	2.9	4.2
Q4:06	6.1	3.9	4.9	6.6	3.0	5.1
Q1:06	5.9	3.7	4.7	6.5	2.9	4.6
Personal Income (\$bil)	28,960.2	222,413.7	257,281.0	114,549.1	266,383.7	45,327.9
Q/Q Percent Change	1.3	1.2	1.3	1.3	1.2	0.9
Y/Y Percent Change	2.8	3.3	3.8	3.4	2.2	3.1
Building Permits	834	5,456	23,149	10,510	9,646	881
Q/Q Percent Change	149.7	-8.6	7.4	12.5	6.0	-0.7
Y/Y Percent Change	-37.2	-13.3	-12.7	-27.4	-30.1	-40.1
House Price Index (1980=100)	662.0	540.1	337.2	322.6	474.2	233.5
Q/Q Percent Change	0.5	0.5	1.7	1.3	0.7	-0.2
Y/Y Percent Change	5.9	6.4	8.0	7.6	5.4	3.9
Sales of Existing Housing Units (000)	11.8	115.5	244.1	116.8	149.0	36.9
Q/Q Percent Change	40.5	13.7	8.2	14.1	18.6	26.4
Y/Y Percent Change	9.3	-10.0	0.7	-2.7	-5.7	1.4

NOTES:

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

Metropolitan Area Data, Q1:07

	Washington, DC MS	Baltimore, MD MS	Charlotte, NC MS
Nonfarm Employment (000)	2,396.1	1,288.8	832.2
Q/Q Percent Change	-0.8	-2.1	-0.5
Y/Y Percent Change	1.7	0.5	3.2
Unemployment Rate (%)	3.2	4.2	4.6
Q4:06	2.9	3.8	4.7
Q1:06	3.1	4.1	4.8
Building Permits	6,391	1,742	5,635
Q/Q Percent Change	40.4	-4.5	-6.1
Y/Y Percent Change	-26.5	-26.7	-8.3

	Raleigh, NC MS	Charleston, SC MS	Columbia, SC MS
Nonfarm Employment (000)	488.7	291.5	363.7
Q/Q Percent Change	-1.1	0.6	-0.7
Y/Y Percent Change	3.6	4.1	1.9
Unemployment Rate (%)	3.6	4.9	5.5
Q4:06	3.6	5.1	5.5
Q1:06	3.8	5.2	5.5
Building Permits	4,064	1,424	1,674
Q/Q Percent Change	19.6	-26.4	22.5
Y/Y Percent Change	-15.1	-44.5	-18.6

	Norfolk, VA MS	Richmond, VA MS	Charleston, WV MS
Nonfarm Employment (000)	762.2	628.9	148.6
Q/Q Percent Change	-1.2	-0.9	-1.3
Y/Y Percent Change	1.3	2.2	1.0
Unemployment Rate (%)	3.3	3.2	4.5
Q4:06	3.1	2.9	4.2
Q1:06	3.5	3.3	4.9
Building Permits	2,113	1,809	75
Q/Q Percent Change	5.8	21.7	44.2
Y/Y Percent Change	-8.5	-22.0	-10.7

For more information, contact Matthew Martin at 704-358-2116 or e-mail Matthew.Martin@rich.frb.org.