

FIFTH DISTRICT ECONOMIC REPORT

The Fifth District economy was weak through much of 2009, though signs of a recovery emerged in the middle of the year and began to take hold toward the end. Where housing markets had been the weakest—the District of Columbia, Maryland, and Northern Virginia—signs of recovery developed. And labor markets, which had contracted across the Fifth District, began to stabilize. Still, the recovery has so far not been as rapid as those following previous recessions and concerns regarding particular areas of the economy—such as commercial real estate and conditions for small businesses—lingered.

Labor Market Conditions

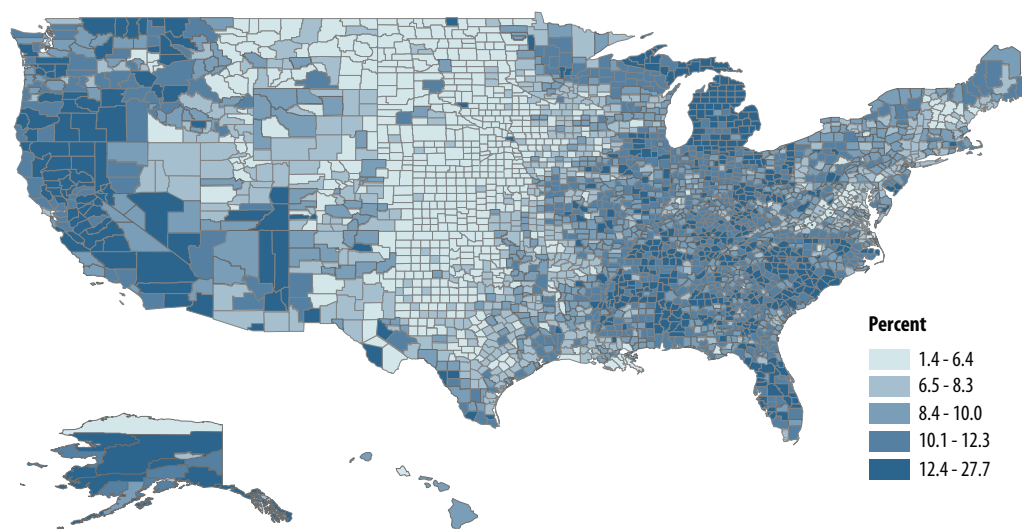
Although employment in the Fifth District was weak throughout 2009, almost 80 percent of the 453,200 job cuts were reported from January through June. The professional and business services sector, for example, lost 69,200 jobs in the first half of 2009 but then added 23,100 jobs in the second half for a net loss of 46,100 jobs over the year.

The bulk of the Fifth District's 2009 employment decline—over 50 percent—was in the goods-producing sector. The professional and business services industry

was also hit particularly hard, accounting for more than 10 percent of the 2009 job cuts in the Fifth District. North Carolina continued to have the weakest labor market of Fifth District states. Although the Tarheel State accounted for a little under 30 percent of all Fifth District payroll employment in the beginning of 2009, it accounted for almost 40 percent of the job losses during the year. Total employment in North Carolina contracted 4.1 percent compared to 3.5 percent in West Virginia, 3.5 percent in South Carolina, 3.2 percent in Virginia, and 2.8 percent in Maryland. In contrast, the District of Columbia saw employment decline only 0.2 percent in 2009—the growth in the District of Columbia's leisure and hospitality sector (1.6 percent) and government sector (3.8 percent) almost offset employment decline in all other sectors.

Nonetheless, labor conditions improved at the state level as every state saw a flattening employment decline over the year. South Carolina was the most extreme case of the diminishing job decline: Almost 99 percent of the jobs lost in South Carolina were lost in the first half of the year.

FIGURE 1:
Unemployment Rate
December 2009



Sources: Bureau of Labor Statistics, Haver Analytics

Most of the major metro areas also experienced weakness in their labor markets in 2009. The employment contraction in the Charlotte Metropolitan Statistical Area, home to many financial services firms, was the deepest of the Fifth District's major metro areas, losing 49,500 jobs (5.8 percent of the total labor force) over the year. Most of the job losses in Charlotte were in the first half of the year, however; metro area firms cut only 2,200 jobs in the second half of the year. Although some metro areas regained jobs in the second half of the year, employment in most Fifth District metro areas continued to contract throughout 2009, albeit at a considerably slower pace.

Household Conditions

The economic environment continued to challenge Fifth District households. The Fifth District unemployment rate rose to 9.2 percent in 2009—one of the highest rates on record for the region. Still, joblessness remained in the single digits and thereby outperformed the nation, which posted 10.0 percent unemployment in December.

Unemployment rates also rose in every Fifth District jurisdiction during 2009. The District of Columbia, North Carolina, and South Carolina all posted record unemployment rates in December (11.9 percent, 10.9 percent, and 12.4 percent, respectively), with South Carolina maintaining one of the five highest unemployment rates in the country throughout 2009. Jobless rates in Maryland and Virginia were at their highest points since the recession of the early 1980s (7.4 percent and 6.8 percent, respectively) and West Virginia's unemployment rate in December (9.0 percent) was the highest it has been since the early 1990s.

Housing Market and Commercial Real Estate Conditions

The housing market slowdown that began in 2007 and worsened in 2008 stabilized somewhat toward the end of 2009, particularly in the northern areas of the Fifth District. The increase in residential refinance activity spurred by low interest rates gradually gave way to increased purchase activity, particularly for low- and middle-tier homes, as the year progressed. In the District of Columbia, Maryland, and Virginia, house values that had depreciated considerably throughout

2008 continued to trend downward in 2009, but the rate of decline flattened. Existing home sales, meanwhile, remained volatile, but began to stabilize or increase toward the middle and the end of the year.

The housing situation in the Carolinas, however, was slightly different. House prices remained relatively stable in 2008, but housing conditions showed signs of weakness in 2009 as existing home sales fell and house values began to depreciate at historic rates for those states. Meanwhile, delinquency and foreclosure rates across the Fifth District continued to rise to new records—a phenomenon not expected to improve until house prices and employment conditions stabilize fully.

Commercial real estate conditions also deteriorated in 2009. Both leasing and sales activity in the Fifth District were depressed and very little new construction was reported. Property and rental prices decreased and tenant concessions became increasingly common as office, industrial, and retail vacancy rates rose in metro areas across the region.

Business Conditions

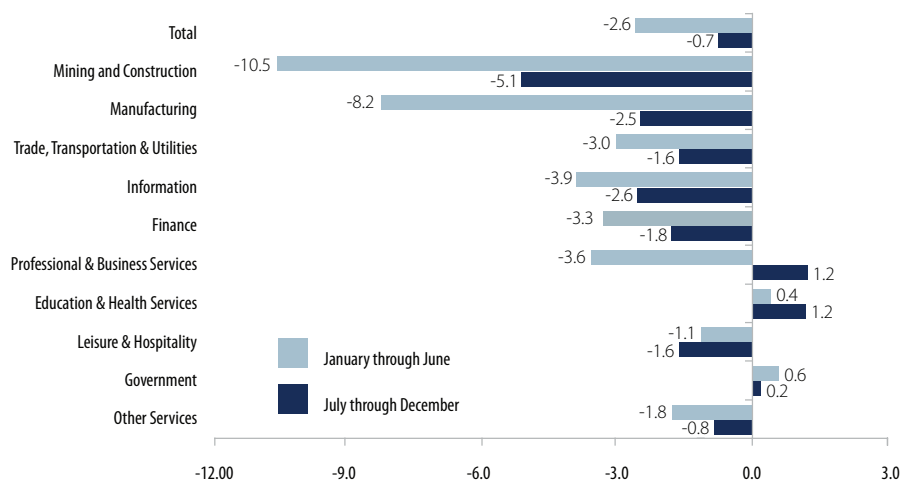
Persistent economic uncertainty plagued Fifth District businesses and consumers in the first half of 2009. But as activity began to pick up (or at least decline at a slower pace) toward the middle and end of the year, conditions for regional firms improved.

Although export activity began to recover somewhat in the Carolinas at the beginning of the year, exports continued to fall through the first half of the year in Maryland and Virginia. With domestic consumer demand in decline, the Richmond Fed's surveys on manufacturing activity continued to reach record lows through the spring. By summer, however, conditions had improved considerably for Fifth District manufacturers, who began to express increased optimism about the future.

Services sector activity also began the year in contraction and although services firms continued to report generally falling revenue through December, the decline slowed substantially over the year. The decline in retail revenues also seemed to flatten somewhat, although the continued depressed sales of big-ticket items such as automobiles and furniture kept the Richmond Fed's retail revenues survey index rather deep in negative territory

FIGURE 2:

Fifth District Payroll Employment Year-over-Year Percent Change, December 2008-December 2009



Sources: Bureau of Labor Statistics, Haver Analytics

until the final quarter of the year. Consumer traffic was slow throughout 2009 but improved toward the end of the year, and holiday sales in 2009 were better than those in 2008.

The economic environment for small businesses has been particularly difficult in this recession. That trend continued in 2009. As in the rest of the country, small businesses have seen sharp sales declines but, unlike in earlier recessions, many small businesses in the Fifth District responded by cutting employment. Obtaining credit became more difficult for small businesses in 2009, according to a survey by the National Federation of Independent Businesses, with most firms reporting that credit is the tightest it has been since the 1980-82 recessionary period. However, despite the generally widespread pessimism among small businesses in the Fifth District in 2009, there were modest improvements in expectations over the second half of the year.

Looking Ahead

The past year was not an easy one for the Fifth District or for the nation. The national recession lasted well into the year and although the deterioration ebbed, fragile

economic conditions persisted throughout 2009. Even now, continued weakness in commercial real estate markets and labor markets, as well as the limited optimism still expressed among small business contacts, suggests that the economic recovery might not be as strong or as sharp as some had hoped. Furthermore, although the Fifth District has generally performed better than the nation, the rebound in some sectors, such as manufacturing, appeared weaker locally than nationally toward the end of 2009. Overall, there are signs that 2010 will be a year of steady—albeit slow—growth in the Fifth District economy as the region moves back to its pre-recession levels. ■■

The data presented and discussed are accurate as of March 19, 2010.