

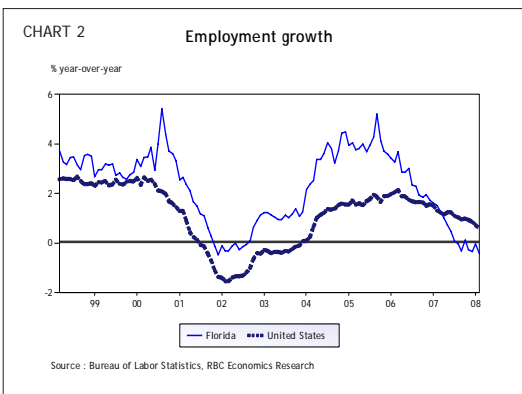
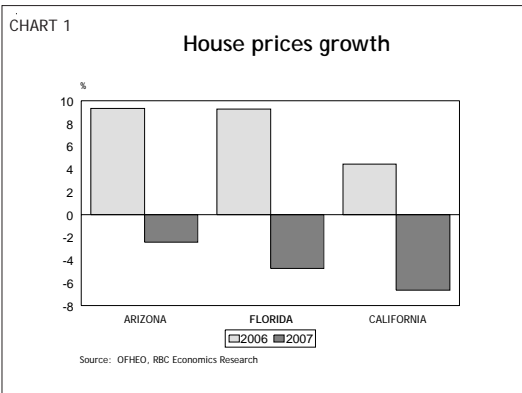
U.S. STATE MONITOR

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States in focus



Southeast region: Virginia, North Carolina, South Carolina, Georgia, Alabama, Florida



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Recession a reality in Florida

To the same extent that Florida was at the forefront of the housing boom, the state is now the recession leader and the monthly numbers hold out little hope for a quick reversal. Going forward, the main issue in Florida is how responsive the state's economy will be to the Fed's rate cuts and the fiscal stimulus package. Florida is right in the eye of the storm and while these measures should have a positive effect, the degree and timing of the impact will be critical in avoiding a more prolonged downturn.

Sunshine state's dark clouds

Florida ranks fourth in the United States in terms of price declines for both new and existing homes. The differential between price growth (chart 1) in 2007 compared to 2006 starkly illustrates the rapidity of the shock. The state ranks third in the country for home sales declines since 2005 and the percentage of sub-prime mortgages in foreclosures has spiked to 16%. From the latest trends, the number of foreclosures should exceed housing starts this year. Florida's real estate housing market has woken up with a rude hangover from the party that has left Orlando, Tampa, Miami and Jacksonville among the top 10 U.S. cities for homeowner vacancy rates.

The fact that affordability is improving offers little encouragement since, as in other deeply affected markets, price and rate decline trends are putting Florida's first-time buyers in waiting mode. Interstate migration is also taking a hit as many non-Floridians are shying away from the state's troubled landscape and houses in other parts of the US have become harder to sell. The state had been enjoying one of the strongest and steadiest rates of population growth in the past 20 years (2.2% per year on average), only to see that rate dip to only 1.1% in 2007, the slowest pace in about 60 years.

It is too early to say for certain whether or not the U.S. economy has entered into a recession, but the argument for Florida is more compelling. The construction industry laid off 76,000 workers in 2007, while manufacturing cut another 19,000. Some modest job gains in other areas limited the total hit to 30,000 job losses in 2007, but it was still the first yearly decline since the last recession (chart 2). Layoffs, shrinking household wealth and credit tightening worked to send sales tax receipts growth, a proxy for consumption spending, into negative territory in 2007 for the first time since the last recession (chart 3).

Hopes geared towards a quick recovery

The good news is that some factors are adjusting in a favourable manner. Mortgage rates have dropped 100 basis points since the 2007 peak, facilitating long-term financing for households who were solvent but were mainly hit by

ARMs resets. Also, tax rebate checks are expected to reach consumers by late spring and Floridians should be among the prime beneficiaries. The top debates in the current election campaign are whether there is a need for further public assistance and, more critically, who should be the chief beneficiaries — lenders or borrowers. In reality, one solution would hardly be optimal without the other. Focusing exclusively on distressed borrowers would alleviate some of the short-term pressures on foreclosures, but the tightening of credit would still weigh on overall growth. Alternatively, bailing out lenders exclusively wouldn't protect much against further household wealth erosion, which in turn would extend the housing supply overhang and economic downturn in affected areas like Florida.

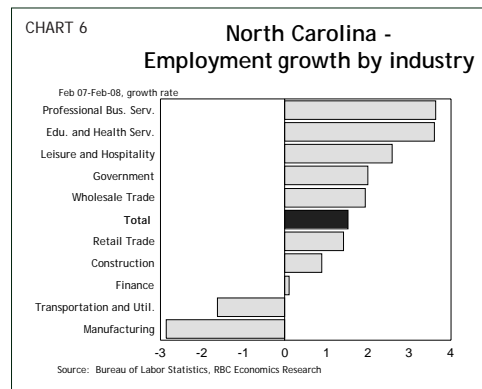
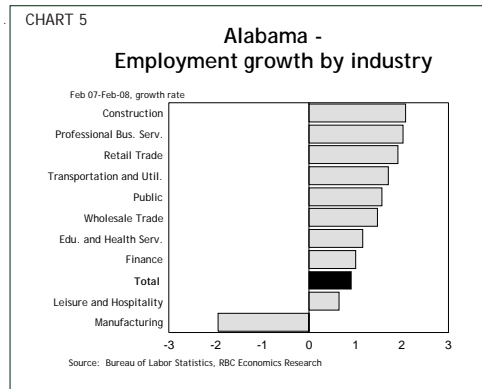
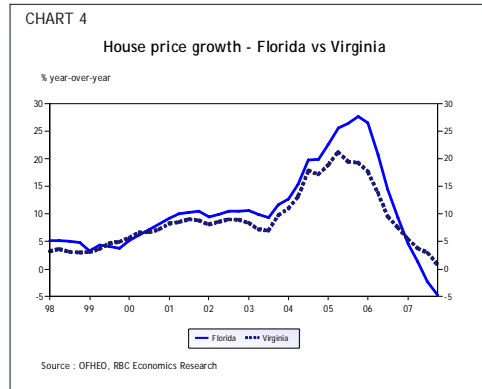
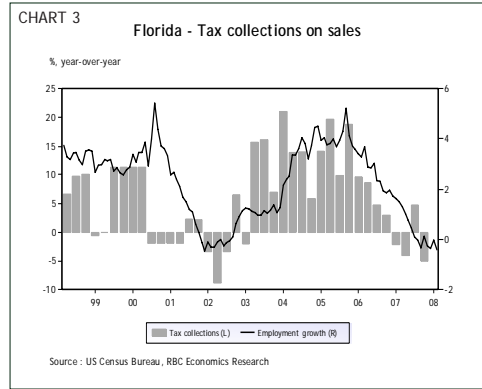
Virginia and Georgia following?

House prices in Virginia are the highest in the southeast and have been following a trend similar to Florida's (chart 4). At the current pace, the risks point to Virginia following Florida in recording price declines after a period when Virginia's housing market has been less affected than other US southeastern states. Also worrying in Virginia is the thinning of job creation, with services and government employment growth now hardly offsetting heavy job losses in manufacturing, construction and financial services. These three industries are also shedding jobs in Georgia and, even though job growth is still running at 0.9% annual rate, Georgia's economy seems to be closely following the nation's path. In particular, the steady rise in jobless claims and a severely hit housing market highlight elevated recession risks in the state.

Alabama and the Carolinas on firmer footing

Despite these areas of concern, the job market is still holding up well in some other states. For example, Alabama has posted positive job growth in all industries except for manufacturing, where the decline has, nevertheless, been lower than the country's average (chart 5). Alabama is one of the two states, along with South Carolina, where the unemployment rate has declined, although in the latter case a decrease in the labour force was a contributing factor. Alabama is probably in the best position to escape a recession as big-ticket capital spending in a steel facility, potential new announcements in the aerospace industry and a billion dollars of spending on school construction will all support job gains in 2008 and beyond.

North Carolina's job creation fared the best among states in the region, with employment growth running at 1.5% (chart 6). Non-residential construction is helping to pick up the slack from housing and North Carolina is one of only two southeastern states (the other being Alabama) to record positive construction job growth in February. The number of ongoing capital projects in the state is high, with spending on education infrastructure being the biggest driver as several pre-approved projects of expansion of university facilities are currently under way,



U.S. southeast current economic indicators

REAL ESTATE PROFILE

	Latest data	North Carolina	South Carolina	Virginia	Georgia	Alabama	Florida	United States
At seasonally adjusted annual rates, unless otherwise indicated								
Housing starts	Dec-07	75,144	32,809	38,487	49,828	20,488	78,164	1,000,000
Annual % change (3-month moving ave.)		-15.1%	-22.8%	-15.0%	-38.9%	-26.2%	-43.4%	-25.6%
Housing permits	Feb-08	64,752	24,972	29,124	38,940	18,180	70,440	874,800
Annual % change (3-month moving ave.)		-31.3%	-26.9%	1.8%	-50.7%	-32.5%	-37.3%	-33.5%
Home prices (median)								
Existing homes	2007Q3	\$136,489	\$118,658	\$234,539	\$137,902	\$109,394	\$205,551	\$220,300
Annual % change		6.4%	6.1%	2.9%	2.1%	3.8%	-4.6%	-2.2%
New homes	2007Q3	\$180,879	\$159,739	\$327,105	\$188,320	\$142,345	\$298,907	\$241,800
Annual % change		9.7%	8.6%	7.7%	5.1%	5.7%	-0.8%	2.6%
Home price index (weighted repeat sales)								
Annual % change	2007Q4	6.6%	4.9%	2.9%	3.7%	5.7%	-2.2%	2.2%
Existing single family home sales ¹	2007Q4	202,800	101,600	108,400	204,000	117,200	252,800	5,420,000
Annual % change		-13.0%	-10.6%	-19.1%	-17.5%	-5.2%	-32.0%	-13.8%
Vacancy rates ²								
Industrial	2007Q4	9.4%	n/a	15.5%	19.3%	n/a	10.1%	9.9%
Office	2007Q4	11.6%	n/a	10.0%	7.7%	n/a	18.5%	12.6%

1. Including apartments, condominiums, and cooperatives

2. Charlotte-Gastonia-Rock Hill, NC; Washington, DC-MD-VA-WV; Atlanta, GA; Ave of major MSA's, FL for office and Jacksonville for industrial.

ECONOMIC PROFILE

		North Carolina	South Carolina	Virginia	Georgia	Alabama	Florida	United States
Employment								
Level (Feb-08)		4,138,600	1,933,600	3,725,500	4,152,400	2,005,300	8,043,700	136,451,000
Annual % change		1.5%	0.9%	0.5%	0.9%	0.9%	-0.4%	0.6%
Unemployment rate (%)								
February-08		5.0%	5.5%	3.5%	5.2%	3.7%	4.6%	4.8%
February-07		4.5%	5.8%	2.9%	4.2%	3.3%	3.7%	4.5%
Personal income								
Annual % change (2007Q4)		5.7%	5.9%	5.7%	6.0%	5.7%	5.6%	5.9%

Employment Conditions - February 2008

	North Carolina	South Carolina	Virginia	Georgia	Alabama	Florida	United States
Employment (non-agricultural)							
y/y % change [share of employment]							
Total	1.5	0.9	0.5	0.9	0.9	-0.4	0.6
Government	2.0 17%	1.8 18%	1.4 19%	1.5 17%	1.6 19%	2.0 14%	1.1 17%
Manufacturing	-2.8 13%	-1.5 13%	-3.6 7%	-2.9 10%	-1.9 15%	-5.5 5%	-2.2 10%
Professional & business services	3.6 12%	-0.2 11%	1.5 17%	1.7 14%	2.0 11%	-0.2 17%	1.3 13%
Education & health services	3.6 13%	3.9 11%	2.7 11%	3.0 11%	1.2 10%	3.2 13%	2.9 14%
Retail trade	1.4 11%	0.5 12%	-0.1 11%	1.2 12%	1.9 12%	0.3 13%	-0.1 11%
Wholesale trade	1.9 4%	4.1 4%	0.0 3%	0.9 5%	1.5 4%	0.5 4%	1.3 4%
Leisure & hospitality	2.6 9%	1.1 11%	1.6 9%	2.1 9%	0.7 8%	1.3 12%	2.5 10%
Transportation & utilities	-1.6 3%	3.3 3%	1.0 3%	2.9 5%	1.7 4%	0.5 3%	0.1 3%
Construction	0.9 6%	-1.7 6%	-1.5 6%	-0.8 5%	2.1 6%	-12.1 7%	-3.3 5%
Financial services	0.1 6%	2.2 6%	-1.7 6%	-1.7 5%	1.0 6%	-1.4 7%	-1.4 5%
Unemployment rate (%)							
February-07	4.5	5.8	2.9	4.2	3.3	3.7	4.5
February-08	5.0	5.5	3.5	5.2	3.7	4.6	4.8

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