

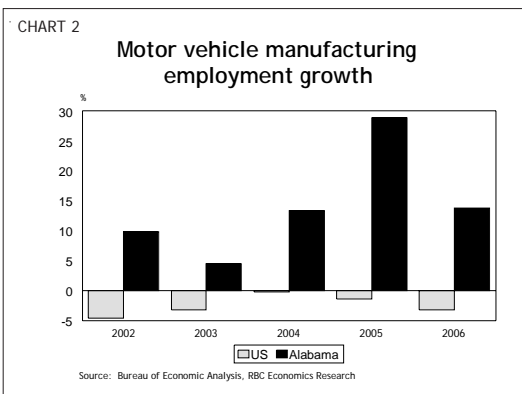
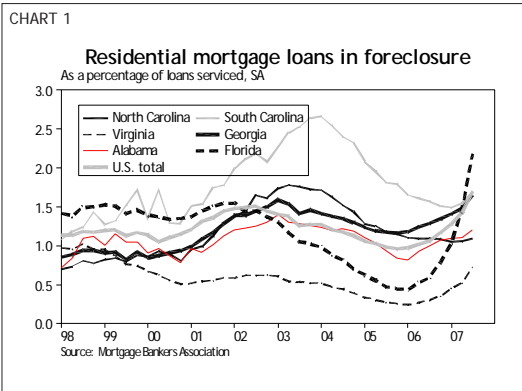
U.S. STATE MONITOR

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States in focus



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



**Jimmy Jean**  
Economist  
(416) 974-6525  
jimmy.jean@rbc.com

**Some bright spots amid the housing market gloom**

Given that consumption spending accounts for 70% of the U.S. economy, the impact of the wealth effect on consumer spending has come to the forefront of analyses of the transmission of housing market woes to the real economy. We estimate that a housing wealth effect has the potential to cut as much as US\$200 billion from consumer spending, a significant figure, although not enough on its own to trigger a consumer-led recession. In fact, the largest determinant of spending growth remains income growth and, hence, the job market situation. While the housing market downturn will remain *à l'ordre du jour* in 2008, steps are being taken to at least attempt to limit foreclosures spikes. But, while U.S. labour market indicators are mixed, there are some worrisome signs of a downward direction. On the plus side, the nationwide unemployment rate remains low at 4.9% and only one of the six states that we track had an above-average unemployment rate as of December 2007. But, a moderating trend has already started to unfold and is expected to continue to play out through much of 2008. As far as the southeastern states are concerned, however, the relative tightness in labour markets across the region will remain a key support to the consumer and, therefore, to the broader economy even as the housing market correction persists.

**Sweet homes in Alabama**

Alabamians have good reasons to be singing. Their home prices remain among the most affordable in the country. And, although housing starts dropped 26% in 2007, the drop in permits is much less pronounced, especially compared to Florida and Georgia, which might suggest that the outlook may not be as bad as in the other states. Foreclosures, for instance, have risen only slightly from their 2006 lows (chart 1); median prices for existing homes remain at around one-half the national average; and the unemployment rate has gained only 0.3% because of impressive job growth in motor vehicle manufacturing (chart 2) and aerospace. There are certainly downside risks for motor vehicle manufacturing in 2008 as the potential for a recession will lead to a further slowdown in new car sales. However, real personal income growth has not lost any ground and households in Alabama should continue to be healthy spenders and good borrowers.

**Georgia's housing market taking a hit, but job market holding up**

Georgia's housing market is taking a beating right now. Housing starts lost just under 40% in 2007 and starts dropped 50% on the back of weak sales. Industrial vacancy rates are 10% higher than the U.S. average and the outlook for real estate is not good. Yet, on the positive side, house prices are still growing as are jobs in construction. The service sector's contribution to job growth has greatly offset manufacturing's drag during the past five years (chart 3), with high-quality public sector jobs representing one-half the job gains. Even construction jobs have

benefited from high infrastructure investments. As in many nearby states, Georgia's unemployment rate has not ticked up significantly yet and personal income growth at 4.2% has been growing just slightly less than its 2005 peak. Hence, although foreclosures are on the rise as is to be expected given the severity of the real estate correction, they are still closely tracking the U.S. average. The strength of the job market and the rapidity of the correction will likely represent key supports to the Georgian economy in 2008.

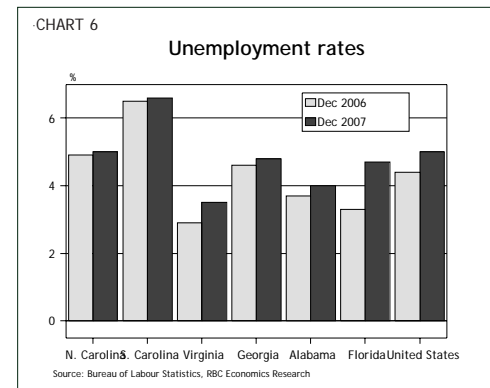
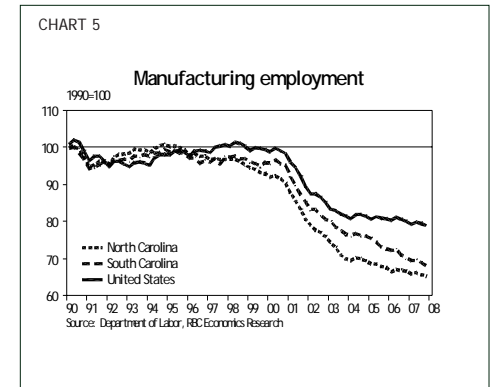
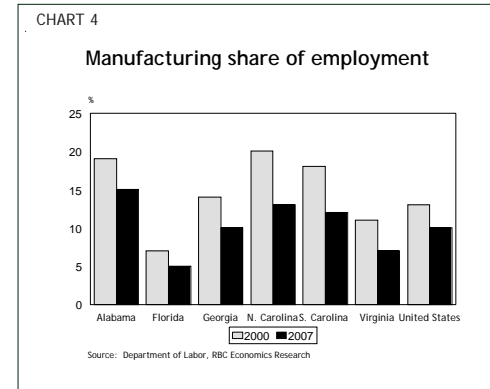
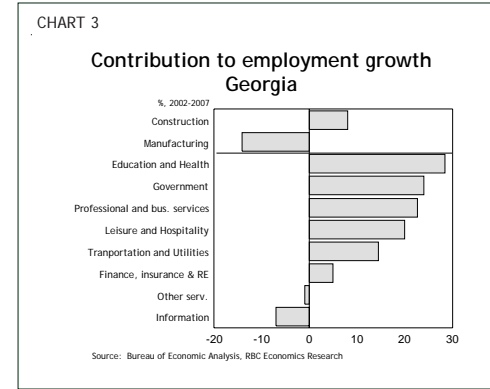
### Wealth effect weighs on Florida

Florida remains one of the hallmark examples of the housing market correction in the United States. Price growth are still falling after the big overshoot of earlier years; the inventory of homes in foreclosure is skyrocketing; and sales are plummeting. The unemployment rate has jumped 1.4% in a year, while real personal income growth edged down to 3.4% in the third quarter, far from its 2004 peak of 8.2%. The negative housing wealth effect on spending is translating into flat employment growth in retail trade. In fact, the employment picture could have been much worse if it were not for the support of the leisure and hospitality sector where employment is still growing at a robust clip because the low U.S. dollar has made Florida a cheaper destination for foreign vacationers.

### Slow adjustment in South Carolina

South Carolina, North Carolina and Virginia have been shielded so far from the drop in real estate values and prices are still holding up well, especially in the new homes segment. But, while inventories of homes in foreclosure remain near the national average in North Carolina and Virginia, they are spiking from already-high levels in South Carolina (chart 1). Employment growth is particularly robust in Virginia and North Carolina on the back of healthy job creation in professional services and construction industries. Virginia still has a tight job market, with an unemployment rate of only 3.5% in December, which actually constitutes a significant increase from the cycle low of 2.9% reached a year earlier. The Virginian housing market overall appears to be in good shape compared to other nearby states and there was even a small rise in housing starts in December.

Continued losses in manufacturing and construction are offsetting job creation in South Carolina's public sector, which doesn't help income growth. A difficult adjustment in the manufacturing sector is arguably the main reason why South Carolina's unemployment rate remains significantly above the national average and the highest in the southeast. No less than 95,000 manufacturing jobs have been slashed to date in this decade in South Carolina, a 28% decline (charts 4 and 5). Only North Carolina has performed worse in the region with a near 30% (220,000 jobs) shrinkage in manufacturing employment since 2000. Manufacturing in these two states now represents about 13% of total employment, down from 20% and 18% for North and South Carolina, respectively, in 2000.



## U.S. southeast current economic indicators

### REAL ESTATE PROFILE

	<u>North Carolina</u>	<u>South Carolina</u>	<u>Virginia</u>	<u>Georgia</u>	<u>Alabama</u>	<u>Florida</u>	<u>United States</u>
At seasonally adjusted annual rates, unless otherwise indicated							
Housing starts	75 144	32 809	38 487	49 828	20 488	78 164	1 006 000
Annual % change (3-month moving ave.)	-15.1%	-22.8%	-15.0%	-38.9%	-26.2%	-43.4%	-25.5%
Housing permits	53 028	31 104	35 472	33 780	17 292	69 900	884 400
Annual % change (3-month moving ave.)	-24.6%	-21.0%	-12.8%	-49.0%	-16.7%	-45.7%	-27.0%
Home prices (median)							
Existing homes	\$136 489	\$118 658	\$234 539	\$137 902	\$109 394	\$205 551	\$220 800
Annual % change	6.4%	6.1%	2.9%	2.1%	3.8%	-4.6%	-2.0%
New homes	\$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	6.5%	5.1%	2.9%	3.5%	5.3%	-2.1%	1.8%
Existing single family home sales <sup>1</sup>	202 800	101 600	108 400	204 000	117 200	252 800	5 423 000
Annual % change	-13.0%	-10.6%	-19.1%	-17.5%	-5.2%	-32.0%	-13.7%
Vacancy rates <sup>2</sup>							
Industrial	9.4%	n/a	15.5%	19.3%	n/a	10.1%	9.9%
Office	11.6%	n/a	10.0%	18.5%	n/a	10.7%	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

	<u>North Carolina</u>	<u>South Carolina</u>	<u>Virginia</u>	<u>Georgia</u>	<u>Alabama</u>	<u>Florida</u>	<u>United States</u>
Employment	4 133 100	1 938 500	3 809 600	4 171 000	2 021 700	8 155 400	138 119 000
Annual % change (3-month moving ave.)	1.7%	1.0%	1.7%	1.7%	1.3%	1.1%	0.9%
Unemployment rate	5.0%	6.6%	3.5%	4.8%	4.0%	4.7%	5.0%
Labor force	4 525 983	2 159 017	4 093 642	4 899 276	2 219 258	9 311 717	153 866 000
Annual % change (3-month moving ave.)	0.5%	0.3%	1.4%	2.2%	-0.2%	2.3%	0.8%
Personal income growth (annual % change)	6.7%	6.4%	5.8%	6.3%	5.9%	5.5%	6.5%

### Employment Conditions - December 2007

	<u>North Carolina</u>	<u>South Carolina</u>	<u>Virginia</u>	<u>Georgia</u>	<u>Alabama</u>	<u>Florida</u>	<u>United States</u>
<b>Employment (non-agricultural)</b>							
y/y % change [share of employment]							
<b>Total</b>	<b>1.7</b>	<b>1.0</b>	<b>1.7</b>	<b>1.7</b>	<b>1.3</b>	<b>1.1</b>	<b>0.9</b>
Government	0.2 17%	3.1 18%	1.7 18%	3.2 17%	2.1 19%	2.0 14%	1.1 16%
Manufacturing	-2.0 13%	-2.9 12%	-0.3 7%	-2.6 10%	-1.7 15%	-2.2 5%	-1.8 10%
Professional & business services	3.0 12%	0.2 11%	3.2 17%	2.2 13%	2.4 11%	1.0 17%	2.0 13%
Education & health services	4.3 12%	3.2 11%	1.8 11%	3.0 11%	2.3 10%	3.2 12%	2.9 13%
Retail trade	1.9 12%	0.0 12%	1.9 12%	2.8 12%	-0.2 12%	0.0 13%	0.7 12%
Wholesale trade	0.7 4%	2.4 4%	1.7 3%	1.9 5%	3.0 4%	1.8 4%	1.8 4%
Leisure & hospitality	3.7 9%	3.6 11%	2.1 9%	3.0 9%	4.3 9%	3.2 11%	2.8 10%
Transportation & utilities	-1.5 3%	-0.2 3%	1.4 3%	1.7 5%	2.4 4%	1.7 3%	0.2 3%
Construction	3.1 6%	-2.1 6%	2.0 7%	0.7 5%	3.7 6%	-3.3 7%	-3.0 5%
Financial services	3.0 5%	1.2 5%	0.8 5%	-0.6 6%	-1.4 5%	0.6 7%	-1.2 6%
<b>Unemployment rate (%)</b>							
December-07	5.0	6.6	3.5	4.8	4.0	4.7	5.0
December-06	4.9	6.5	2.9	4.6	3.7	3.3	4.4
<b>Labor force</b>							
y/y % change	-0.4	-0.1	1.0	1.6	3.3	1.7	0.7

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