

U.S. STATE MONITOR

January 2007

States in focus



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

Southeast employment growth outpacing the national rate

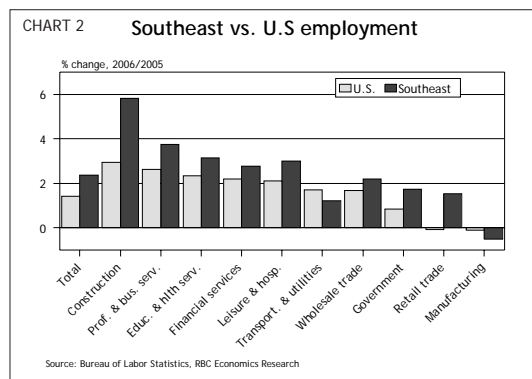
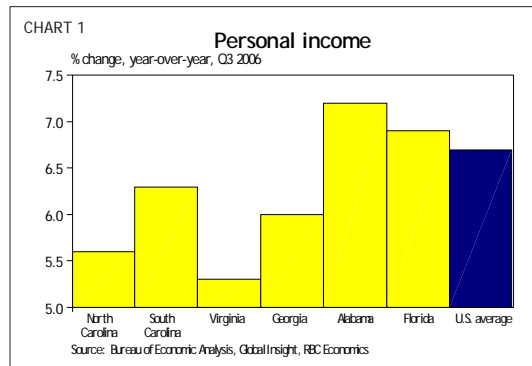
Consumer spending remained buoyant in the final quarter of 2006, supported by strong employment gains and accelerating wage growth. Even as a housing-led slowdown continues to plague the nation, strong employment numbers continue to indicate a resilient U.S. economy (see our recent report entitled [Why the U.S. consumer can withstand weaker housing markets](#)). The U.S. economy generated 167,000 new jobs in December; average hourly earnings were up 4.2% compared to year-ago levels; and the unemployment rate remains close to its lowest rate in five and a half years. The employment picture in the southeast region is also a healthy one. Last year, southeast regional employment growth tracked at an average pace of 2.4%, significantly above the national average rate of 1.4%. Florida and South Carolina reported the fastest growth among the southeast states, while Alabama and North Carolina reported the slowest.

Manufacturing weakness persists, but service sector and construction employment pick up the slack

These healthy national job numbers indicate sustained tight labour markets but continue to mask a distinct industry-specific story. Last month, the goods sector continued to lose jobs (manufacturing was down 12,000 and construction down 3,000), while the service sector remained a key support to the economy by adding 178,000 jobs. The regional trend of service sector strength offsetting manufacturing weakness nicely parallels the national story. The entire southeast region experienced declines in manufacturing employment compared to year-ago levels. But the latest employment numbers indicate that, while the overall trend of job shedding continues, the pace of decline looks to be cooling off. With energy prices now well off recent summertime peaks and major job losses already having been incurred, there are now signs that the worst of the restructuring may now be over. The service sector continues to pick up the slack behind a retreating manufacturing sector, reporting widespread employment gains across key sectors. Construction employment across the southeast region (up nearly 6% in 2006) has held up well and continues to outperform the national average.

North Carolina experiences biggest manufacturing job losses in the region

The pace of employment growth in North Carolina remains decent, up year-over-year 1.4% in December, but continues to track at a pace below the national rate. The economy added roughly 70,000 jobs throughout the year. The strongest gains were in the construction and financial services industries. North Carolina has been the most affected of the southeast states by manufacturing losses with the strongest annual pace of declines (down 2.4%) as well as the largest outright number of lost jobs (down 13,600) in December. Unemployment dropped from 5.1% a year ago to 4.9% in December 2006 and personal income growth expanded at a healthy 5.6% clip in the third quarter of 2006.



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South Carolina's shows service sector strength

The state put in a solid rate of employment growth throughout 2006, averaging a pace of about 2.4% and adding roughly 45,000 jobs to the state's economy. While its unemployment rate still remains the highest in the southeast, it has declined by 0.6 percentage points during the last year, hitting 6.6% in December. Furthermore, personal income growth is rising at a healthy pace, coming in at an annual pace of 6.3% in the third quarter of 2006. South Carolina stood out as a leader in service sector employment growth through 2006, with the strongest growth in the financial services industry, leisure and hospitality, and education and health services.

Virginia's wholesale employment puts in a solid year

Annual employment growth in the state has averaged about 1.7% throughout 2006, with its unemployment rate of 2.9% in December still at the lowest level in the southeast region. In December of 2006, the state reported declines in its manufacturing sector (down 0.6% year-over-year) and its transportation and utilities sector (down 1% year-over-year). Wholesale employment remained a bright spot in Virginia's economy, witnessing an expansion of nearly 4% in 2006, which is more than double the national rate and well above the remainder of the southeast region.

Broad-based service sector gains in Georgia

Annual employment growth in Georgia averaged 2% in 2006. The state added roughly 80,000 jobs during the last year. Apart from weakness in the manufacturing sector, the gains were fairly broad-based. The strongest annual gains in December were witnessed in the education & health services sector (up 3.6%), leisure & hospitality sector (up 3.5%), and the retail sector (up 3.2%). While the manufacturing sector contracted year-over-year in December, the decline was fairly modest relative to the rest of the southeast region.

Florida's construction markets hammering on

Although Florida has already experienced a fairly strong correction in its residential construction, its job market is still holding up well. Job growth is running at just under twice the national rate and the unemployment rate dropped to 3.3% in December. While residential construction is contracting at a fairly aggressive pace, overall construction employment (which includes the non-residential sector) is still holding up. Through 2006, Florida's construction industry was its fastest-growing sector in terms of employment and continued to lead through 2006 with the fastest pace in the southeast region. Construction employment was up 7.2% for the year in 2006. However, while 2006 was still a strong year, it is still quite a relative slip from its 2005 pace when employment growth in the construction industry was expanding at roughly 11% throughout the year.

Alabama's manufacturing employment held on in 2006

Employment growth in Alabama was the weakest among the southeastern states with December employment up just shy of 1% year-over-year. Alabama was the only state to actually experience a mild expansion in manufacturing employment through the year (up 1% in 2006), although the gains were modest. Alabama's financial services sector was also the only state to witness declines in annual employment gains for a third consecutive month. Despite some weak spots, personal income growth is reporting the strongest gains in the region, up year-over-year 7.2% in the third quarter of 2006.

CHART 3

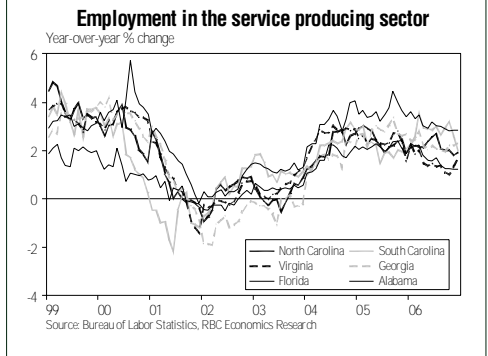


CHART 4

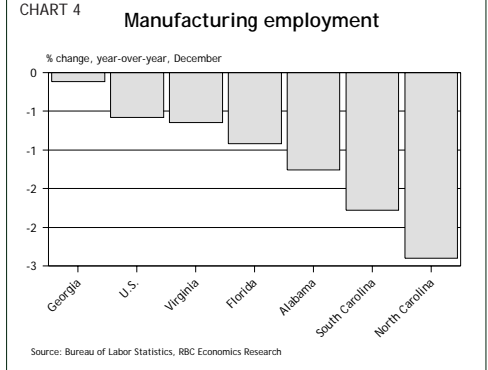
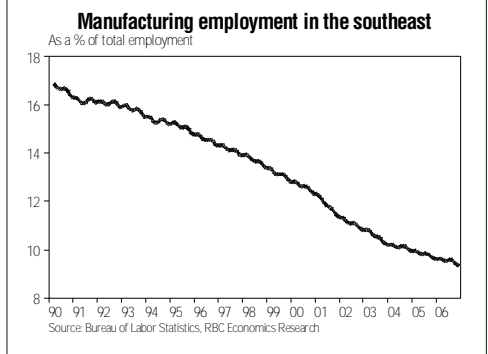


CHART 5



CHART 6



U.S. southeast current economic indicators

REAL ESTATE PROFILE

| | | <u>North</u> <u>Carolina</u> | <u>South</u> <u>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 | September-06 | 110,146 | 57,858 | 44,111 | 105,575 | 40,403 | 201,977 | 1,724,000 |
| Annual % change (3-month moving ave.) | | 6.9% | 1.1% | -26.5% | -2.1% | 26.5% | -27.7% | -18.4% |
| Housing permits | November-06 | 73,740 | 35,868 | 34,296 | 77,484 | 18,276 | 129,312 | 1,324,800 |
| Annual % change (3-month moving ave.) | | -7.7% | -21.6% | -26.3% | -18.1% | -14.0% | -44.7% | -29.4% |
| Home prices (median) | | | | | | | | |
| Existing homes | Q3 2006 | \$133,519 | \$118,440 | \$227,606 | \$141,024 | \$107,991 | \$210,775 | \$224,900 |
| Annual % change | | 8.5% | 7.8% | 9.9% | 5.5% | 8.9% | 15.2% | -1.2% |
| New homes | Q3 2006 | \$158,405 | \$148,695 | \$261,401 | \$170,015 | \$135,896 | \$254,721 | \$232,300 |
| Annual % change | | 1.0% | 1.6% | -4.6% | -2.9% | 4.6% | 0.0% | -1.7% |
| Home price index (weighted repeat sales) | | | | | | | | |
| Annual % change | Q3 2006 | 8.4% | 7.8% | 9.9% | 5.5% | 8.9% | 15.1% | 7.7% |
| Existing single family home sales ¹ | Q3 2006 | \$242,600 | \$119,200 | \$136,000 | \$253,700 | \$121,700 | \$367,300 | \$6,270,000 |
| Annual % change | | 9.7% | 0.7% | -24.4% | 2.5% | -4.6% | -34.2% | -12.7% |
| Vacancy rates ² | | | | | | | | |
| Industrial | Q3 2006 | 10.9% | n/a | 13.6% | 18.4% | n/a | 11.9% | 9.5% |
| Office | Q3 2006 | 14.8% | n/a | 9.2% | 19.4% | n/a | 9.6% | 13.2% |

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</u> <u>Carolina</u> | <u>South</u> <u>Carolina</u> | <u>Virginia</u> | <u>Georgia</u> | <u>Alabama</u> | <u>Florida</u> | <u>United States</u> |
|---------------------------------------|-------------|---------------------------------|---------------------------------|-----------------|----------------|----------------|----------------|----------------------|
| Employment | December-06 | 3,999,700 | 1,907,200 | 3,755,100 | 4,110,900 | 1,976,200 | 8,156,100 | 136,214,000 |
| Annual % change (3-month moving ave.) | | 1.4% | 1.8% | 1.5% | 2.0% | 0.8% | 2.7% | 1.4% |
| Unemployment rate | | 4.9% | 6.6% | 2.9% | 4.6% | 3.6% | 3.3% | 4.5% |
| Labor force | | 4,512,234 | 2,158,223 | 4,048,877 | 4,784,351 | 2,238,499 | 9,169,805 | 152,775,000 |
| Annual % change (3-month moving ave.) | | 2.9% | 2.1% | 2.0% | 2.8% | 2.7% | 4.6% | 1.6% |
| Personal income growth (annual % cl) | Q3 2006 | 5.6% | 6.3% | 5.3% | 6.0% | 7.2% | 6.9% | 6.7% |

EMPLOYMENT PROFILE

| | | <u>North</u> <u>Carolina</u> | <u>South</u> <u>Carolina</u> | <u>Virginia</u> | <u>Georgia</u> | <u>Alabama</u> | <u>Florida</u> | <u>United States</u> |
|--|--|---------------------------------|---------------------------------|-----------------|----------------|----------------|----------------|----------------------|
| December-06 | | | | | | | | |
| Employment (non-agricultural) | | | | | | | | |
| Annual % change (<i>share of employment</i>) | | | | | | | | |
| Total | | 2.6 | 2.1 | 1.1 | 1.5 | 1.3 | 1.8 | 1.7 |
| Government | | 1.3 17 | -0.4 18 | 1.7 18 | 2.1 16 | 2.1 19 | 1.4 14 | 1.2 16 |
| Manufacturing | | -1.4 13 | -3.3 13 | -2.5 8 | -2.1 11 | -1.7 15 | -1.5 5 | -0.6 10 |
| Professional & business services | | 5.1 12 | 4.7 11 | 2.5 17 | 2.2 13 | 2.4 11 | 3.2 17 | 2.8 13 |
| Education & health services | | 4.7 12 | 5.6 10 | 2.4 11 | 2.8 11 | 2.3 10 | 2.7 12 | 2.8 13 |
| Retail trade | | 1.8 12 | 0.9 13 | 0.2 12 | 0.3 12 | -0.2 12 | 1.0 13 | -0.2 12 |
| Wholesale trade | | 0.9 4 | 5.8 4 | 1.6 3 | 0.7 5 | 3.0 4 | 2.3 4 | 2.2 4 |
| Leisure & hospitality | | 4.3 9 | 2.9 10 | 1.8 9 | 3.4 9 | 4.3 9 | 1.8 11 | 3.8 9 |
| Transportation & utilities | | 0.7 3 | 1.4 3 | -0.6 3 | 1.0 5 | 2.4 4 | -0.4 3 | 3.0 3 |
| Construction | | 5.5 6 | 6.2 7 | -0.5 7 | 5.1 5 | 3.7 6 | 2.3 8 | 2.1 5 |
| Financial services | | 5.1 5 | 5.3 5 | 2.2 5 | 1.9 6 | -1.4 5 | 0.7 7 | 2.4 6 |
| Unemployment rate (%) | | | | | | | | |
| December-06 | | 4.9 | 6.5 | 2.9 | 4.6 | 3.7 | 3.3 | 4.5 |
| December-05 | | 5.0 | 6.9 | 3.3 | 5.0 | 3.6 | 3.5 | 4.9 |
| Labour force | | | | | | | | |
| Annual % change | | 3.6 | 2.9 | 2.5 | 3.0 | 3.3 | 3.7 | 1.8 |

Source: Bureau of the Census, Bureau of Economic Analysis, Bureau of Labor Statistics, OFHEO, National Association of Realtors, Global Insight, RBC Economics

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