U.S. STATE MONITOR

October 2007

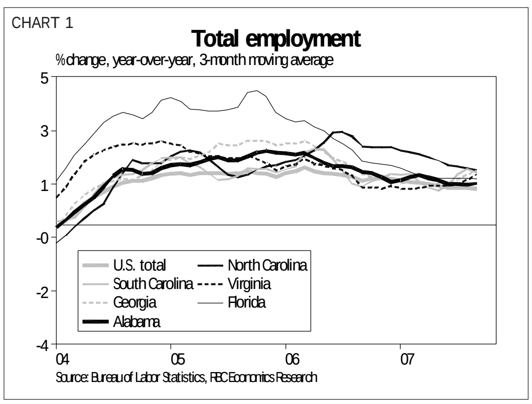
States in focus

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

Southeast employment holds on

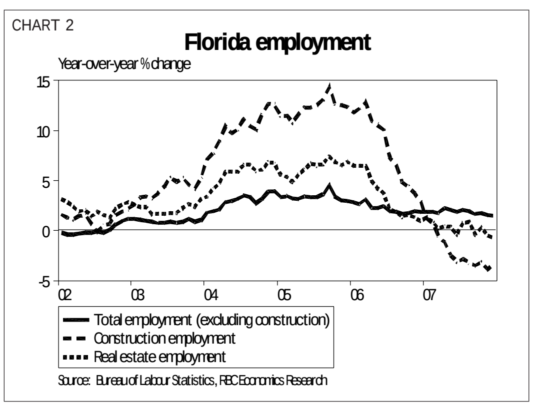
A key near-term risk to the US economy is whether the weakness in housing spreads to other areas of the economy. All eyes were peeled to last month's employment numbers for any significant signs of overflow into the broader economy. The solid gain in September payroll employment numbers helped tentatively alleviate some concerns of contagion into the economy. However, the Fed is expected to remain cautious as the recent housing data continues to show sings of marked weakness and as some pressures from the recent financial market volatility persist. In fact, we are assuming that the Fed will cut the Fed funds rate by another 25 basis points before the end of the year as insurance against these problems undermining the greater economy.

Trends in the southeast region employment numbers are trending in the same direction as the U.S numbers (chart 1) but at a slightly stronger pace. Strength in job numbers across the southeast continues to be skewed towards the service-producing sector led by increases in both the government and leisure & hospitality sectors. The goods-sector remained a drag on job gains with manufacturing employment down in all six states and construction still dragging on job numbers in Florida. We are anticipating some moderation in job gains in reaction to housing market weakness. This moderating trend has already started to unfold and is expected to continue to play out through the remainder of 2007 and into 2008. But even as the housing market correction persists, the relative tightness in labour markets across the southeast region will remain a key support to the consumer, and therefore to the broader economy.



Construction woes in Florida

Florida remains the notable outlier among the southeast region as the housing market correction weighs on the economy. The economy continues to produce jobs, but the pace of growth has decelerated significantly over the last year tracking at a 1.6% year-over-year pace so far in 2007. This marks a sizeable slowdown from the 4% pace of job growth witnessed in 2005 and the 2.6% pace witnessed in 2006. Softer job growth has put some upward pressure on the unemployment rate which has edged up from 3.2% to 4% over the last twelve months. Employment in the construction sector has been on a declining trend for almost a year as Florida is still heavily weighed down by housing weakness (chart 2). However, strength in the state's service sector - particularly in the leisure & hospitality sector - has been a major positive offset to weakness in the construction sector. In the third quarter, the leisure & hospital sector added roughly 42,000 jobs compared to a year ago while the construction sector lost about 20,000 jobs.



With some slack in labour markets now evident, growth in personal incomes has also started to moderate. However, even amidst current housing weakness personal incomes were still running at a healthy 6.6% annual pace in the second quarter and continue to be a critical support to the Floridian consumer.

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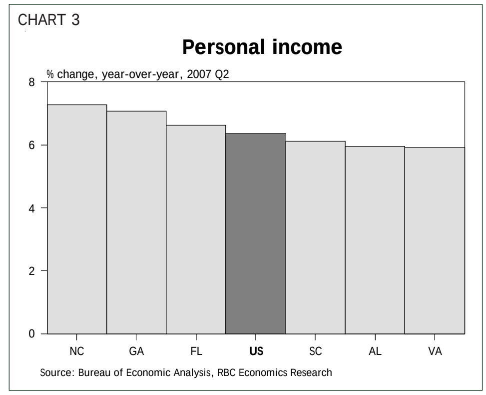
North and South Carolina shed manufacturing jobs

Employment growth in the Carolinas is holding at an annual pace of growth above the national average. Unemployment in North Carolina has held close to the 5% range while South Carolina has seen its unemployment rate drop from 6.5% down to 5.7% over the last twelve months. Personal incomes were up 7.3% in North Carolina - the strongest pace of growth among the southeast (chart 3).

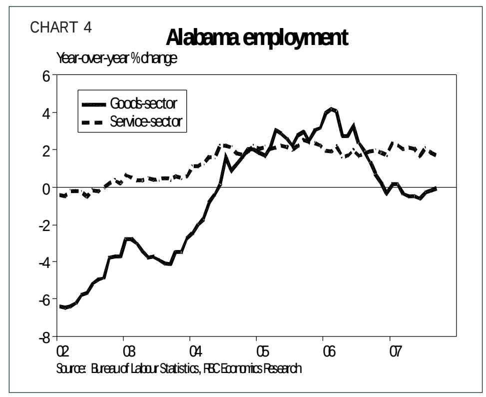
Both continue to see a steady downward trend in manufacturing jobs which accounts for roughly 13% of each of their local economy's employment. Outside of manufacturing, however, the other key sectors are holding up well. North Carolina has witnessed strong growth in several sectors, but has lost jobs more recently in the public sector. South Carolina's public sector has been expanding with employment growth up almost 3% year-over-year in the third quarter of 2007.



Service sector strength supports Alabama job growth

Apart from continued manufacturing weakness, most other key sectors in Alabama's economy reported healthy job gains. Job growth has moderated in 2007 to about a 1.4% year-over-year pace - in line with the national rate. The unemployment rate ticked up from earlier in the year and has stabilized in the 3.7% range through the third quarter. The pace of personal income growth is softer compared to the other southeast states but is still healthy.

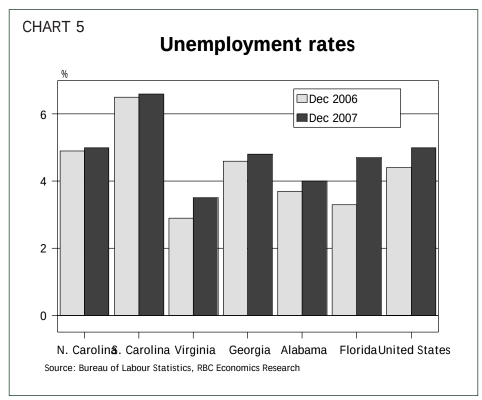
The service sector reported strong gains in the third quarter compared to a year ago across a broad range of industries including leisure & hospital, professional & business services, and trade, transportation & utilities (chart 4). Relative to several other states, where construction sector employment is actually contracting, employment in Alabama's construction sector is modestly expanding. Instead, the drag on goods-sector employment is coming from declines in manufacturing employment. Maufacturers cut employment by about 3,400 jobs in the third quarter compared to a year ago.



Virginia's unemployment rate drops below 3%

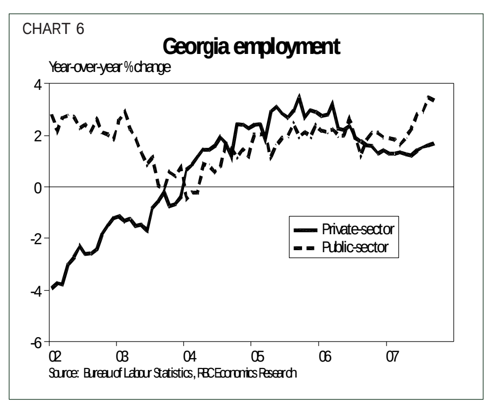
Third quarter job gains in Virginia were led by increases in the public sector, the professional & business services sector, and the trade, transportation, and utilities sector. Job losses in the manufacturing sector so far into 2007 appear to have stabilized after sizeable declines through much of 2006. The unemployment rate has been hugging the 3% range consistently through 2006 and 2007 and dropped to 2.9% in September (chart 5). Virginia has the lowest unemployment rate in the southeast region and among one of the lowest rates across all states.

Similar to Florida, Virginia's housing market is in the midst of a significant moderation in the pace of house price gains. The severity of the housing market correction in Virginia makes the economy more vulnerable to spillover effects, but employment so far is holding up and personal incomes are still growing at a healthy clip.



Public-sector employment supports Georgia's labour markets

Annual job growth in Georgia was up a healthy 1.8% in the third quarter of 2007, fuelled largely by an increase in public-sector employment which added about 21,000 jobs in the third quarter compared to a year ago (chart 6). The manufacturing sector has shed jobs fairly aggressively losing 12,000 in the third quarter compared to a year ago. The unemployment rate was at 4.5% in the third quarter with growth in the labour force and employment running at about the same pace. Relative tightness in Georgia's labour markets is still supportive of healthy wage gains. Personal incomes are growing at a healthy 7.1% pace year-over-year in the second quarter



RBC

U.S. southeast current economic indicators

REAL ESTATE PROFILE

At seasonally adjusted annual rates, unless otherwise indicated

		North Carolina	South Carolina	Virginia	Georgia	Alabama	Florida	United States
Housing starts	June-07	88,071	42,803	36,703	80,641	24,183	121,682	1,468,000
Annual % change (3-month moving ave.)		-8.7%	-13.2%	-24.8%	-21.3%	-8.7%	-43.9%	-21.2%
Housing permits	August-07	81,192	34,932	36,144	68,964	28,200	105,984	1,467,600
Annual % change (3-month moving ave.)		-13.6%	-26.5%	-12.6%	-35.2%	-31.7%	-46.4%	-23.8%
Home prices (median)								
Existing homes	Q2 2007	$134,585	$117,397	$234,558	$139,241	$109,580	$213,951	$223,800
Annual % change		6.2%	4.7%	2.3%	3.6%	5.1%	-0.4%	-1.5%
New homes	Q2 2007	$177,505	$157,610	$324,486	$189,749	$142,613	$309,820	$240,500
Annual % change		6.6%	5.2%	1.2%	3.5%	6.0%	-1.6%	-2.4%
Home price index (weighted repeat sales)								
Annual % change	Q2 2007	7.1%	6.3%	3.7%	4.7%	6.6%	1.3%	3.2%
Existing single family home sales[1]	Q2 2007	231,200	113,600	124,000	226,400	124,800	247,200	5,913,000
Annual % change		-4.5%	-9.3%	-15.3%	-13.1%	-3.1%	-41.3%	-10.8%
Vacancy rates[2]								
Industrial	Q2 2007	13.2%	n/a	14.4%	20.1%	n/a	8.5%	9.8%
Office	Q2 2007	12.4%	n/a	10.1%	19.7%	n/a	10.1%	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	September-07	4,104,200	1,935,900	3,793,400	4,168,500	2,019,000	8,145,200	138,265,000
Annual % change (3-month moving ave.)		1.7%	1.4%	1.8%	1.9%	1.3%	1.3%	1.2%
Unemployment rate		4.9%	5.7%	2.9%	4.5%	3.7%	4.0%	4.7%
Labor force		4,546,961	2,150,903	4,064,790	4,869,287	2,217,889	9,269,735	153,464,000
Annual % change (3-month moving ave.)		1.1%	0.8%	1.0%	1.9%	-0.3%	2.5%	1.0%
Personal income growth (annual % c	Q2 2007	7.3%	6.1%	5.9%	7.1%	6.0%	6.6%	6.4%

EMPLOYMENT PROFILE

Sept-07	North Carolina		South Carolina		Virginia		Georgia		Alabama		Florida		United States	
Employment (non-agricultural)														
y/y % change [share of employment]														
Total	**2.3**		**3.2**		**0.9**		**1.4**		**1.2**		**-0.1**		**0.9**	
Government	2.5	17%	4.0	17%	1.7	18%	1.8	16%	2.5	19%	2.5	14%	0.7	16%
Manufacturing	-3.1	13%	-0.3	13%	-3.4	7%	-3.8	10%	-2.0	15%	-4.8	5%	-2.1	10%
Professional & business services	3.8	12%	4.9	12%	2.4	17%	1.8	14%	2.1	11%	0.1	16%	1.9	13%
Education & health services	4.9	12%	5.1	10%	2.8	11%	4.8	11%	2.1	10%	3.1	13%	2.9	13%
Retail trade	2.7	11%	1.2	12%	1.4	11%	2.4	11%	2.9	12%	0.3	12%	1.0	11%
Wholesale trade	2.8	4%	4.0	4%	1.2	3%	1.8	5%	1.0	4%	0.9	4%	2.0	4%
Leisure & hospitality	3.7	10%	5.1	11%	1.9	9%	3.2	10%	1.3	9%	1.5	11%	2.9	10%
Transportation & utilities	-1.1	3%	3.9	3%	0.3	3%	2.4	5%	0.7	4%	-0.4	3%	1.4	3%
Construction	2.1	6%	2.9	7%	-3.7	6%	-0.9	5%	2.5	6%	-11.3	7%	-1.8	6%
Financial services	1.7	5%	3.1	5%	-0.8	5%	-0.4	6%	1.6	5%	-1.5	7%	-0.8	6%
Unemployment rate (%)														
September-07	4.7		5.9		3.1		4.5		3.5		4.2		4.7	
September-06	4.9		6.3		3.2		4.5		3.6		3.4		4.5	
Labor force														
y/y % change	1.1		1.0		1.3		1.8		1.1		2.0		1.2	