

Economic Update First Quarter 2010

This report is prepared for the Virginia Economic Development Partnership's allies, and monitors economic issues relevant to Virginia's investment and export activities. Any opinions expressed are those of the authors, and not those of VEDP or the Commonwealth of Virginia.

Short-Term Trends

United States

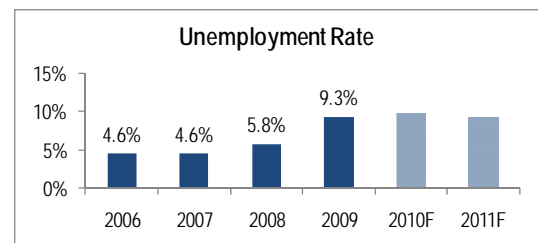
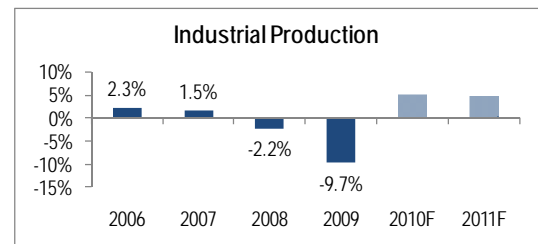
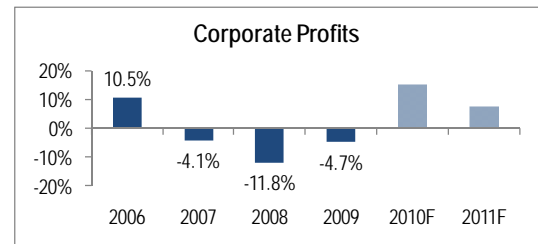
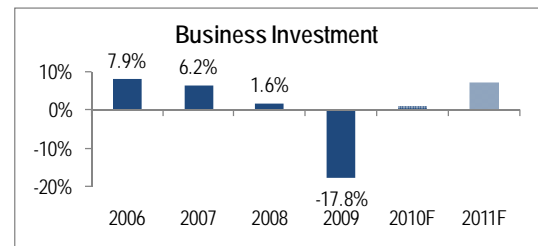
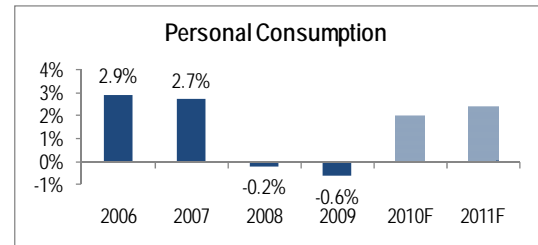
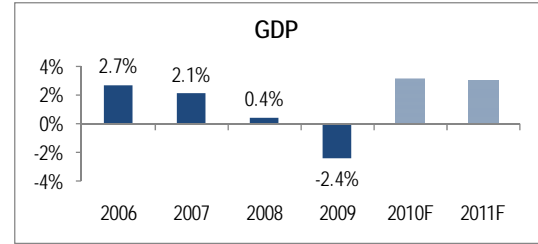
- ◆ **Overview** – Government stimulus spending has helped the quarterly GDP data stay positive, but consumer spending remains mild. The employment picture will not improve until the economy can grow on its own.
- ◆ **Gross Domestic Product** – The fourth quarter 2009 GDP data were revised to an annualized increase of 5.9%, better than the 2.8% increase for the third quarter of 2009 and the 3.1% reduction for the fourth quarter of 2008. The rate of decline slowed for inventories and business investment. Personal consumption was revised downward, sparking fears about the strength of the recovery. GDP is forecast to increase at a slower rate in the first quarter of 2010 before accelerating again in the second quarter. (Bureau of Economic Analysis, *Consensus Forecasts*)
- ◆ **Labor Market** – Job creation remains elusive in the aggregate, but the Professional and Business Services sector added jobs in each of the last four months. The unemployment rate moderated slightly, but probably will increase again as unemployed workers who stopped looking for work return to the labor force and begin to look for work again as the economy improves. (Bureau of Labor Statistics, *The Kiplinger Letter*)
- ◆ **Retail Sales** – The monthly data from the Census Bureau show retail sales stayed active in January, but the weekly data from the International Council of Shopping Centers show sales cooling considerably in February. This weakening consumer activity suggests most people do not see their personal finances improving yet.

International

- ◆ **Canada** – The Winter Olympic Games were expected to boost Vancouver's economy, but the results may fall short of expectations. The regional economic impact was estimated at \$10.1 billion, but other studies suggest it may be as low as \$943 million. Additionally, there has been little impact on employment in the Vancouver area. The only sector which seems to have responded favorably is retail and wholesale trade, where employment spiked in the second quarter of 2009 despite a drop in consumer spending. This suggests some firms were hiring in anticipation of the Games. (Dismal Scientist)
- ◆ **Brazil** – Brazil's economy is at risk of overheating. Even though inflation forecasts remain near the 4.5% target for 2010 and 2011, Brazil's Central Bank is concerned about a potential inflation scenario for the future. Recovery in domestic demand was seen in higher levels for utilization of industrial capacity, the job market, and inflation expectations. Additionally, wages, retail sales, and credit all are growing at paces above their potential. The Brazilian economy is expected to grow between 5% and 6% this year. (*Chronicle Herald, Brazil Magazine*)
- ◆ **India** – Serious concerns are mounting over the rising prices of food in India, as food prices have risen 17% over the last year. This places pressure on the hundreds of millions of poor families which spend up to 55% of their household budget on food, and could threaten the wider economy. India's economy is forecast to grow at 7%. This vigor, however, coupled with rising food costs, means wholesale price inflation is forecasted to reach 8.5% by the end of March, up from an earlier prediction of 6.5%. (*Consensus Forecasts, Financial Times*)

U.S. Forecasts

Source: *Consensus Forecasts*, February 2010



Long-Term Trends

United States

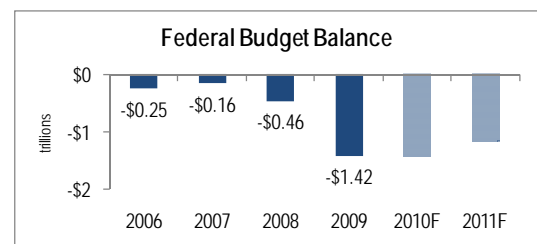
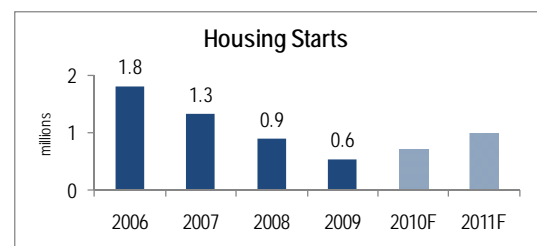
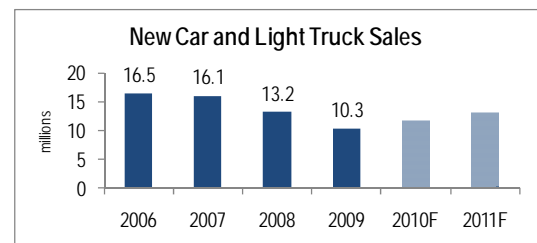
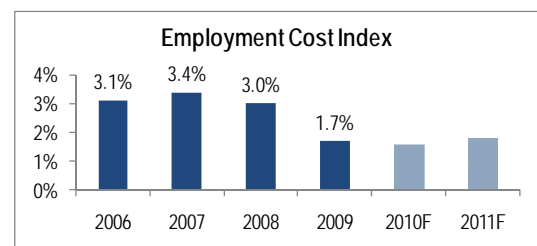
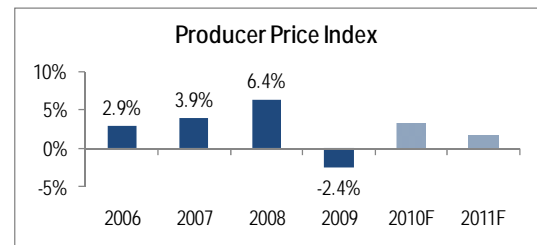
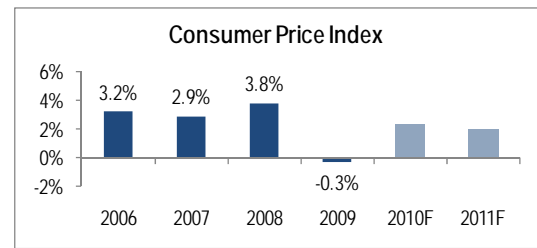
- ◆ **Overview** – The GDP forecast for 2011 is impressive, but mild growth in personal consumption and high levels of unemployment suggest underlying weaknesses in the economy.
- ◆ **Federal Reserve** – Meeting in January, the Federal Reserve chose to maintain a target range of 0% to 0.25% for its inter-bank overnight rate. Then in an unscheduled meeting in February, the Fed announced an increase from 0.5% to 0.75% in the rate it charges banks for overnight loans. This subtle change indicates the Fed believes economic conditions have improved enough for banks to rely on each other for overnight lending to maintain their reserve balances. The Fed is unlikely to raise the inter-bank rate anytime soon but this decision signals it will when the conditions are right. (*Federal Reserve, Wall Street Journal*)
- ◆ **Bankruptcies** – The growth rate for bankruptcy filings slowed down in the fourth quarter of 2009, although the number of filings remained high. Bankruptcies seemed to have peaked in second quarter 2009. Going forward, a lower bankruptcy rate translates into greater stability for businesses and workers. (*Economy.com*)
- ◆ **Leading Indicators** – The Weekly Leading Index from the Economic Cycle Research Institute suggests the economic recovery will be stronger than the average produced by *Consensus Forecasts*. ECRI's analysis shows a recovery stronger than any other since the index began in 1968.
- ◆ **The Dollar** – The euro zone's debt crisis is a mixed blessing for the dollar. On the one hand, a higher exchange rate for the dollar will lower the cost of foreign goods in the U.S. On the other hand, U.S. exporters will face higher costs for their goods and services. (*The Kiplinger Letter*)

International

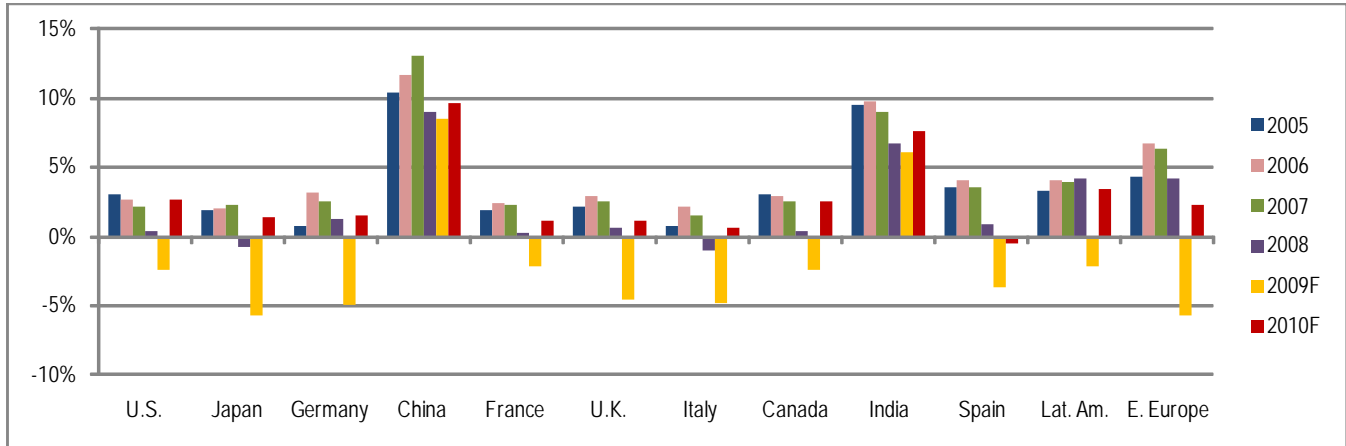
- ◆ **Spain** – Amidst the euro zone's economic crisis, Spain could determine if the 16-nation currency stands or falls. Spain has an unemployment rate of 19%, a deflating housing bubble, big debts, and a large budget deficit. Spain's GDP contracted 3.6% in 2009 and is expected to shrink further in 2010. Spain lacks the traditional methods to help its economy: it cannot devalue its currency (the euro's value is driven by Germany's larger economy), slash interest rates or print more money (the European Central Bank makes those decisions), or stimulate growth through tax cuts or spending increases (previous stimulus spending swelled its budget deficit beyond EU limits). (*Wall Street Journal*)
- ◆ **China** – Over the next ten years China expects double-digit annual growth in milk demand. Investment in technology, people, and genetics will be needed to grow a safe, secure, and sustainable milk supply in China. The Chinese dairy industry has expanded rapidly in recent years as the country's economy grows and affluent consumers develop a taste for milk, yogurt, and other dairy products. This presents an opportunity for dairy producers to export their milk powders and other dairy products to China. (*BusinessWire, Financial Times*)
- ◆ **Egypt** – A recent study indicates Egypt's construction sector is expected to increase to \$7.3 billion by 2015. A steady influx of foreign investments into the country combined with many government-initiated development programs that have focused on developing healthcare facilities and infrastructure are also expected to further bolster Egypt's economic development. Egypt's economy grew 4.5% in 2009 and received a government-funded stimulus package of \$2.7 billion in 2009. In recent years, Egypt's efforts to introduce investment-friendly policies and incentives, and its focus on developing basic infrastructure have led to an overwhelming increase in foreign investment projects. (*Al Bawaba*)

U.S. Forecasts

Source: *Consensus Forecasts*, February 2010



Gross Domestic Product Trends

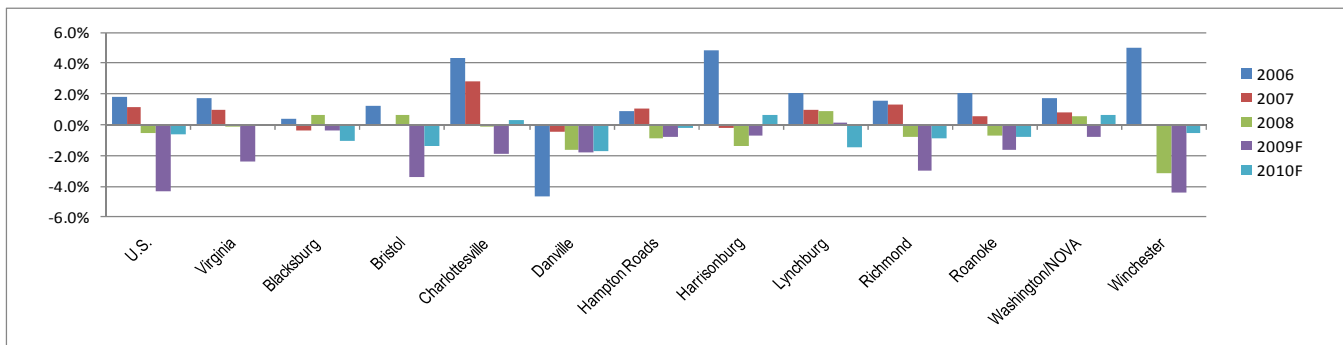


Sources: *Consensus Forecasts*, February 2010; *Asia Pacific Consensus Forecasts*, February 2010.

Industry Trends

- ◆ **Backshoring** – Some U.S. manufacturers are reversing earlier decisions to outsource or offshore manufacturing to low-wage countries. Reasons for this change include growth in production costs in China, concerns about intellectual property, increased shipping costs, and disruptions between the development and production stages. Offshoring or outsourcing remains a viable strategy for commodity items, but the manufacture of complex products may benefit from backshoring to U.S. plants. (*strategy+business*)
- ◆ **Shipping** – The shipping company Maersk has experimented with running its ships at a slower speed from China to Germany. The run took a week longer, but fuel costs and greenhouse emissions were reduced by 30%. Operating at a slower speed required Maersk to add two more ships to the route to maintain schedules, as well as pay crews for the additional time. Despite those added expenses, the lower fuel costs still made the change profitable for Maersk. (*New York Times*)
- ◆ **Financing** – Legislation in Congress would expand the Small Business Administration's microlending program by increasing the size of the program and raising the cap on individual loans. State and local governments also are expanding financing programs. One popular approach is investing in locally-owned "second stage" companies which have progressed past the start-up phase but still need help with financing. These companies are small but are seen as important creators of jobs. (*The Kiplinger Letter*)
- ◆ **Energy** – Wood is expected to gain market share as a renewable fuel. Utilities in Georgia, Florida, Mississippi, Alabama, North Carolina, and South Carolina plan to start using wood-fired generators in coming years. By 2015, these plants could require 30 million tons of wood, or about 25% of the Southeast's 2006 paper and wood product consumption. Other users of wood and wood products will face competition for suppliers and higher prices. European utilities already use wood pellets, often from the U.S., in their coal-fired plants to reduce pollution and increase use of a renewable resource. (*The Kiplinger Letter, Wall Street Journal*)
- ◆ **Growth Industries** – The economic research group Economy.com forecasts the following industries will see employment and revenue growth in 2010 and 2011: biotechnology, computer and software services, environmental services, industrial services, investment services, medical services, and pharmaceutical manufacturing.

Annual Employment Change

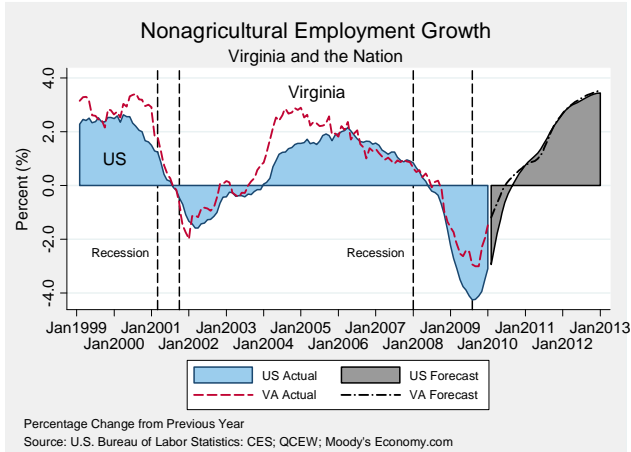


Note: The MSAs of Bristol, Hampton Roads, Washington and Winchester include communities of neighboring states.

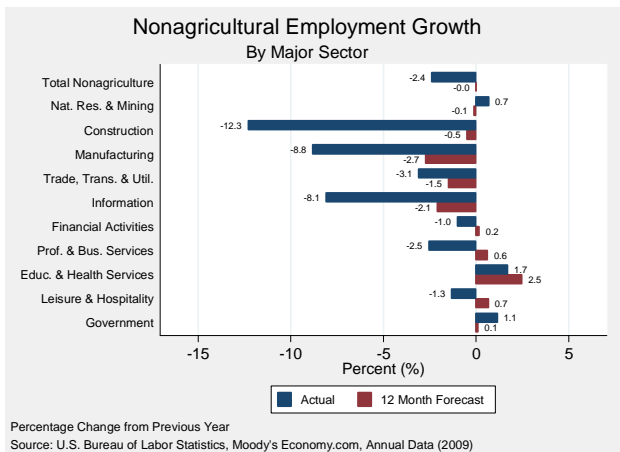
Source: Moody's Economy.com

Virginia and Regional Trends

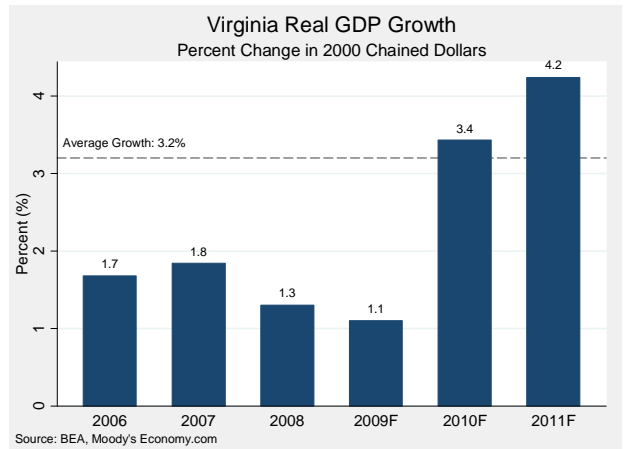
- ◆ Job losses are moderating. The economy continues to lose jobs, but at a smaller rate, and Virginia's decline in payrolls is better than the national decline. Total nonagricultural employment in Virginia fell in December by 1.5% from the same period one year ago (seasonally adjusted) while U.S. payrolls fell 3.1% in December and decreased 3.7% for the year.



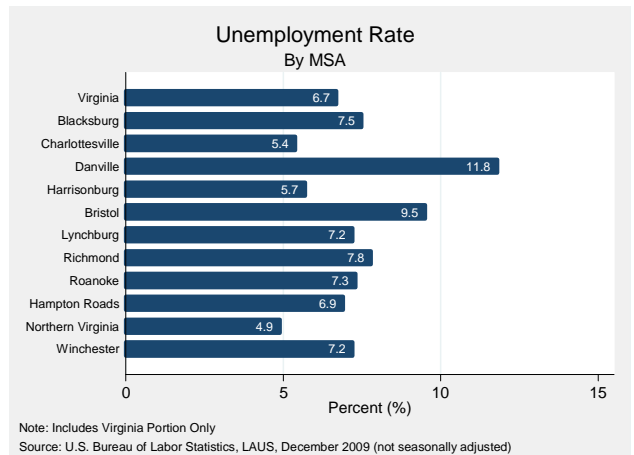
- ◆ In 2009, employment fell 2.4% in the Commonwealth. With few exceptions, job losses were widespread across major industry sectors during the year. Construction was hit hardest with a 12.3% decline in payrolls. Other sectors suffering large declines in employment were manufacturing (down 8.8%) and information, which includes publishing, broadcasting and telecommunication. Modest gains were reported in Natural Resources and Mining, Education and Health Services, and Government. Over the next twelve months, the rate of job losses are projected to fall in most sectors with moderate job gains forecasted in some industries. Overall Virginia payrolls are expected to change little in 2010 compared to 2009.



- ◆ The Virginia economy may have performed better in calendar year 2009 than previously thought. Moody's Economy.com now estimates that Real GDP grew by 1.1% last year. When this newsletter was last published in November, the forecast for 2009 stood at 0.1%. Moody's is even more optimistic going forward, forecasting GDP growth of 3.4% in 2010 and 4.2% in 2011. Over the last 10 years, the Virginia economy has grown on average about 3.2% per year. Official Gross State Product estimates for 2009 will not be published until later this year.



- ◆ In December, the Virginia unemployment rate increased by 0.3 percentage points to 6.7% (not seasonally adjusted) and 6.9% on a seasonally adjusted basis. The chart below shows unemployment for each of Virginia's metropolitan areas as of December which is the most recent month that MSA-level unemployment data is available. Northern Virginia continues to have the lowest unemployment rate at 4.9% while Danville's unemployment rate continues to be the state's highest at 11.8%.



Virginia Export Trends January – December 2009

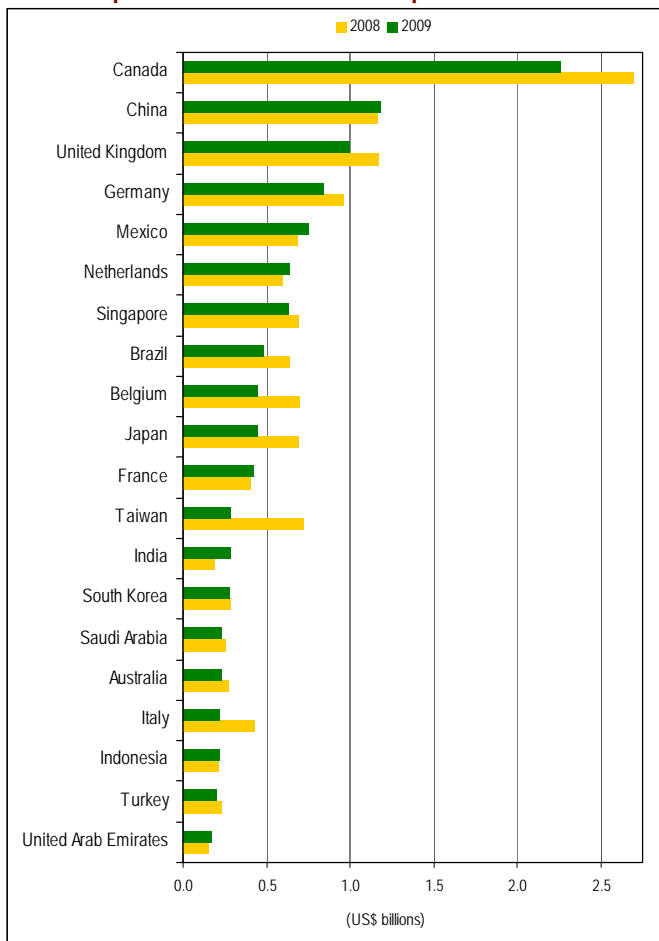
Trade Overview

Total cumulative exports of goods* via Virginia for January-December 2009 amounted to \$15.04 billion, a 20% decrease as compared to the same period in 2008. Total exports from the U.S. for 2009 were valued at \$1.05 trillion, a decrease of 17% over the same period in 2008. Virginia ranked as the 21st largest exporting state in the U.S. for January-December 2009. Manufactured goods represented 79% of Virginia's exports. Agricultural exports** via Virginia decreased by 4% for January-December 2009 as compared to the same time period in 2008, amounting to \$1.48 billion. Top 10 export destinations of agricultural products via Virginia for January-December 2009 were Canada, China, Morocco, Indonesia, Venezuela, Egypt, Cuba, Malaysia, Turkey and Ireland. Exports of coal and tobacco for January-December 2009 were valued at \$1.54 billion. Coal exports (mostly bituminous coal) amounted to \$928.22 million, a decrease of 45% as compared to the same time period in 2008. Tobacco exports totaled \$620.68 million, a decrease of 11% from the same time period in 2008.

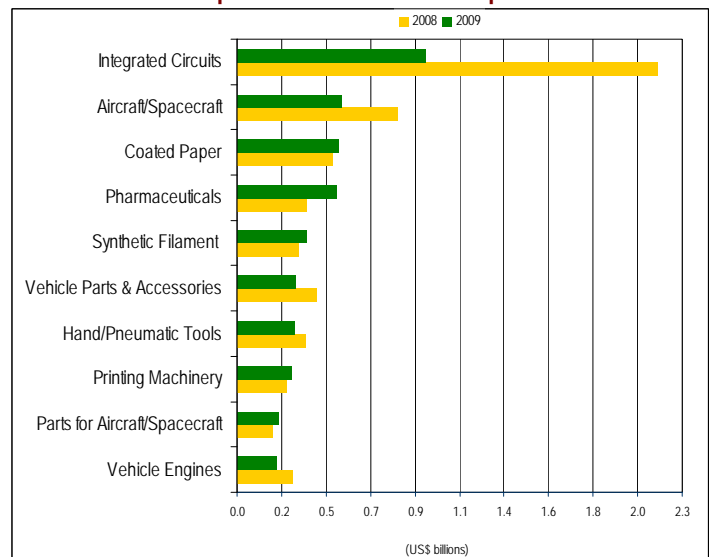
*Includes manufactured goods, agricultural goods, coal, and tobacco.

** Agricultural exports do not include tobacco.

Top 20 Destinations for Exported Goods*



Top 10 Manufactured Exports



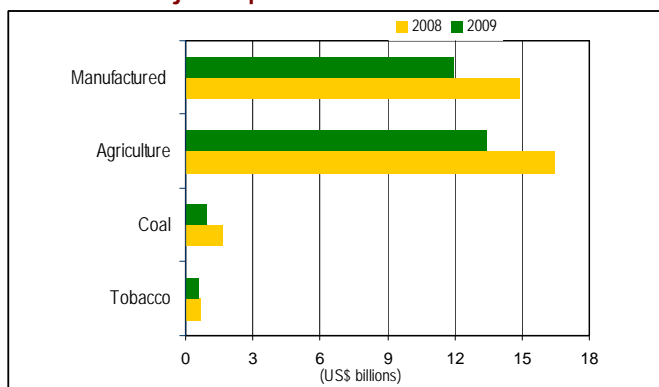
Source for Text and Graphs: World Trade Atlas

Top 10 Manufactured Exports with Destination

Product	Top Destinations
Integrated Circuits	Singapore, Taiwan, China, Portugal, South Korea
Aircraft/Spacecraft	UK, Germany, Belgium, France, Canada
Coated Paper	Mexico, China, Japan, Germany, South Korea
Pharmaceuticals	Netherlands, France, Mexico, Australia, China
Synthetic Filament	Belgium, China, Indonesia, South Korea, Russia
Vehicle Parts and Accessories	Canada, Mexico, Afghanistan, Venezuela, Saudi Arabia
Hand/Pneumatic Tools	Germany, Russia, France, Canada, UK
Printing Machinery	Canada, Mexico, Brazil, Netherlands, France
Parts for Aircraft/Spacecraft	Germany, Finland, UK, France, Israel
Vehicle Engines	UAE, Jordan, Saudi Arabia, Lebanon, Canada

Source for Text and Graphs: World Trade Atlas

Major Export Sectors for Goods

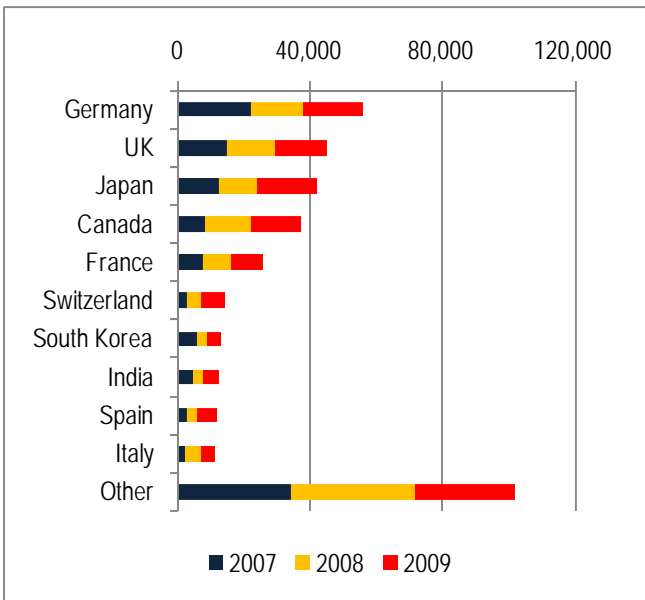


Note: World Trade Atlas data come from the U.S. Department of Commerce's "Origin of Movement" set of state exports. The Origin of Movement of a product is not always the same as its place of production, since products from one state can be consolidated for export in another state.

International Investment Trends

United States

Announced New Jobs by Country

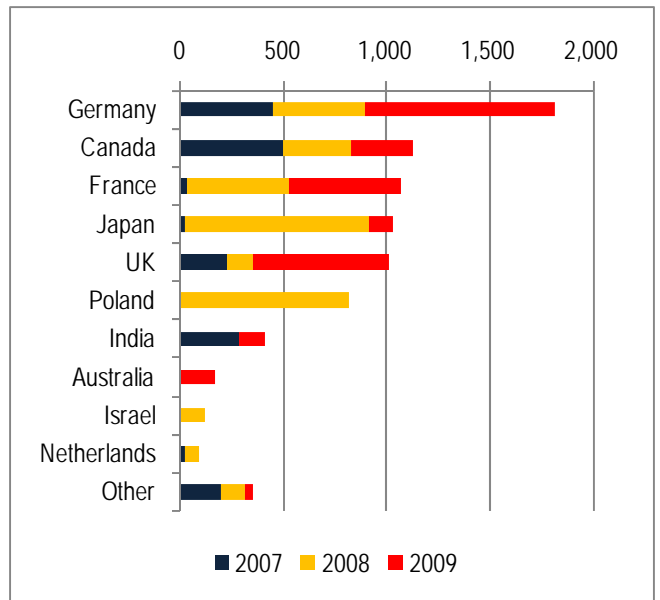


Source: fDiMarkets.com

- ◆ Foreign companies announced plans to create over 133,250 new jobs in the U.S. in 2009.
- ◆ The ten major countries accounted for 78% of all announced jobs created by foreign investment in 2009.
- ◆ Germany, Japan, the U.K., and Canada accounted for 51% of announced foreign investment jobs in 2009.

Virginia

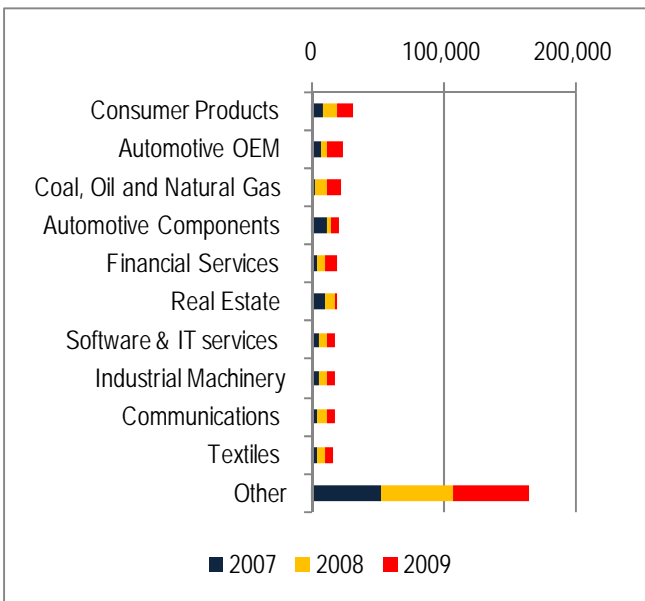
Announced New Jobs by Country



Source: fDiMarkets.com

- ◆ Foreign companies announced plans to create over 2,850 new jobs in Virginia in 2009.
- ◆ Germany, the U.K., and France were the leading countries and accounted for 74% of all announced jobs created by foreign investment in 2009.

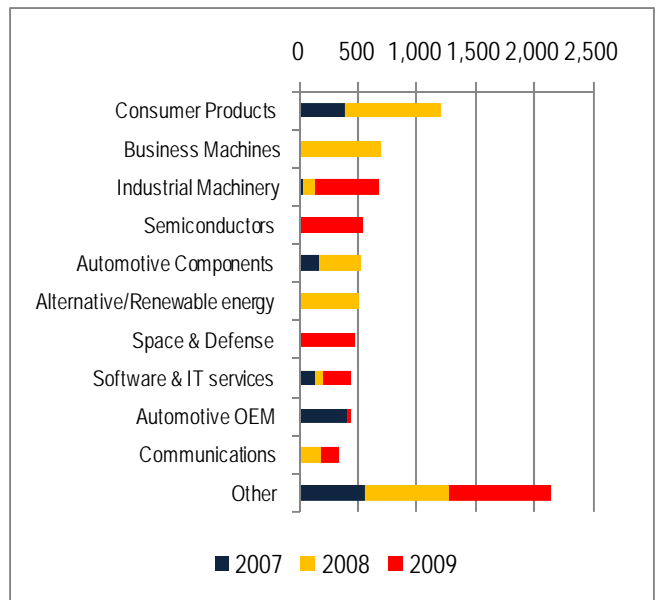
Announced New Jobs by Industry



Source: fDiMarkets.com

- ◆ The ten major industry sectors accounted for 56% of all announced jobs created by foreign investment in 2009.
- ◆ Consumer Products; Automotive OEM; and Coal, Oil and Natural Gas accounted for 26% of the jobs announced in 2009.

Announced New Jobs by Industry



Source: fDiMarkets.com

- ◆ The ten major industry sectors accounted for 70% of all announced jobs created by foreign investment in 2009.
- ◆ The top sources for announced jobs created by foreign investment in 2009 are Semiconductors, Industrial Machinery, Space & Defense, Software & IT Services, and Aerospace.