

Economic Update November 2009

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

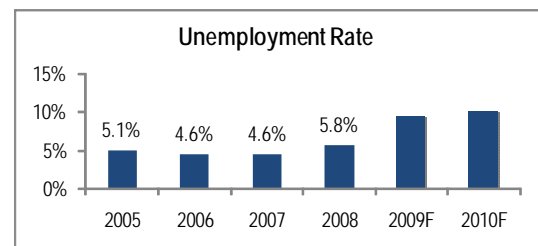
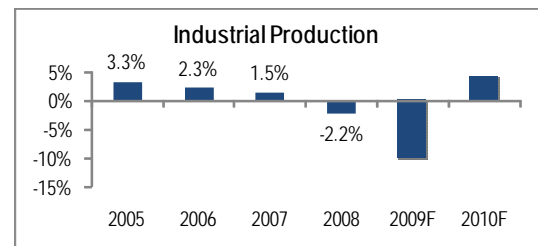
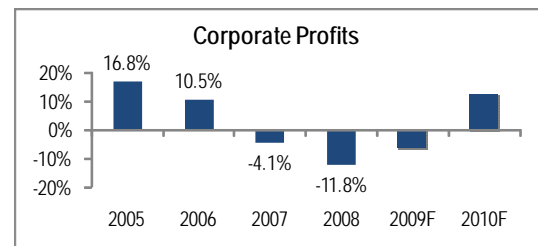
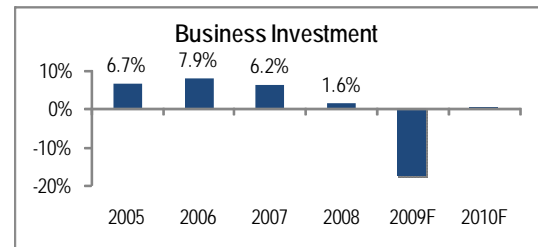
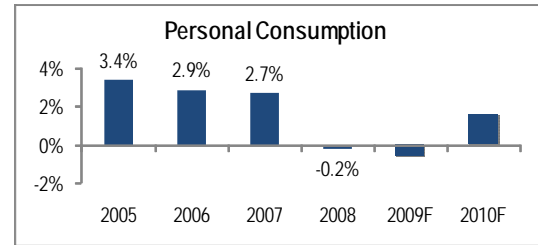
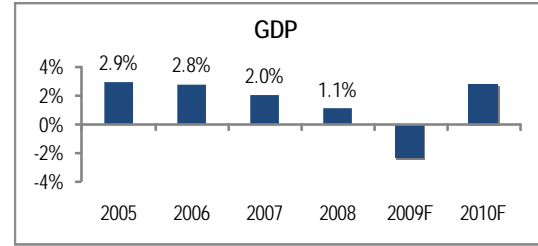
- ◆ **Overview** – The increase in third quarter GDP unofficially marks the end of the recession, but the recession will not feel “over” to most people until the labor market improves. Unfortunately, job creation will lag behind economic growth.
- ◆ **Gross Domestic Product** – The third quarter 2009 GDP data were revised to an annualized increase of 2.8%, better than the 0.7% decline in the second quarter of 2009 and the 2.7% reduction in the third quarter of 2008. Inventories continued to drop and business investment shrank again. Personal consumption increased, but the government’s stimulus spending is currently driving the recovery. GDP is forecast to increase at a slower rate in the fourth quarter of 2009, but then GDP growth will accelerate in the next two quarters. (*Consensus Forecasts, Economy.com*)
- ◆ **Labor Market** – Approximately 125,000 jobs must be created every month to support the increase in the U.S. population. Even as successful companies add new workers, the natural growth of the labor force will dampen the employment outlook. The hours in the average work week remain low so employers can increase hours before hiring more workers. (*Bureau of Labor Statistics, The Kiplinger Letter*)
- ◆ **Jobless Claims** – New weekly unemployment claims have declined on a year-ago basis for the last three weeks and on a week-ago basis for nine of the last twelve weeks. Job losses continue to run at a very high level but appear to have peaked. (*Bureau of Labor Statistics*)
- ◆ **Corporate Profits** – After three years of declines, corporate profits will increase in 2010. Corporate profits peaked at \$1.6 trillion in 2006, but will total \$1.1 trillion in 2009 and \$1.2 trillion in 2010. (*Bureau of Economic Analysis, Consensus Forecasts*)

International

- ◆ **Thailand** – Thailand’s economy grew for a second straight quarter between July and September thanks to the government’s economic stimulus plan and increased global demand for its manufactured goods. The outlook for the fourth quarter is positive as the Thai economy is expected to benefit from improved exports, tourism, consumption and continued government spending. (*BBC*)
- ◆ **Japan** – Yukio Hatoyama of the Democratic Party of Japan is Japan’s new prime minister. Political goals include reviving Japan’s sagging economy and strengthening ties with Asian neighbors. Proposed plans to jump start the economy include income support for farmers, monthly allowances for job seekers in training, a higher minimum wage, and tax cuts. Japan’s unemployment rate recently spiked to a record 5.7%. Improving Japan’s relations with its neighbors potentially signals a weakening of its close military and economic relationship with the U.S. (*AP, TIME*)
- ◆ **Dubai** – The inability of the government of Dubai to refinance massive debts taken on by its largest owned company, Dubai World, shocked banks and financial markets across the world. Dubai asked creditors of Dubai World for a six-month payment standstill on \$59 billion of liabilities. The problem may be little more than a big real estate bust in Dubai, but it could be the start of a new global crisis as investors pull out of emerging markets and make it difficult for heavily indebted countries to finance their plans for growth. (*Gather, TIME*)

U.S. Forecasts

Source: *Consensus Forecasts, November 2009*



Long-Term Trends

United States

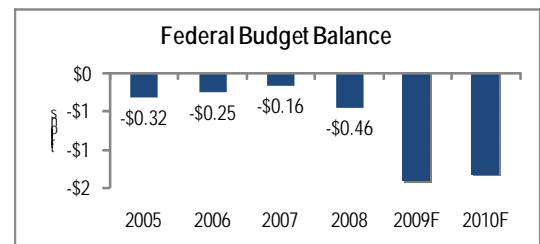
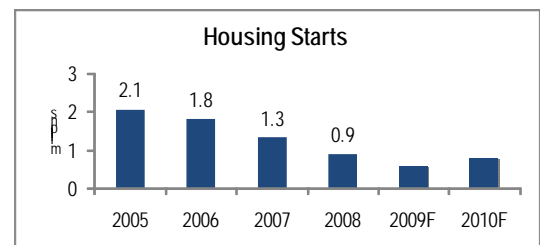
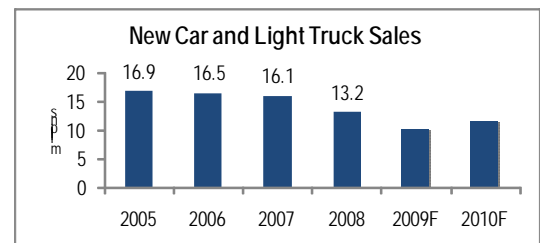
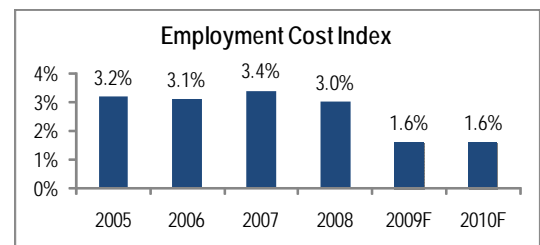
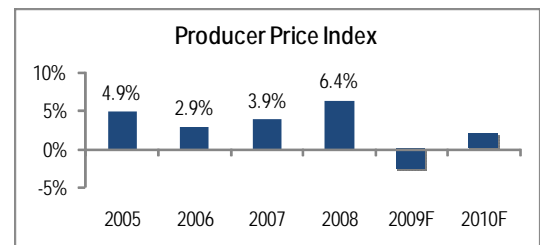
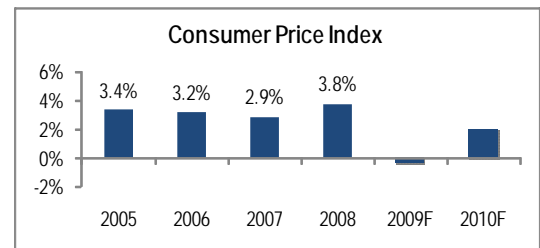
- ◆ **Overview** – The uneven pace of the recovery will continue to play out in 2010 and 2011. The GDP outlook is for an upward trend, but the employment outlook remains weak.
- ◆ **Federal Reserve** – The Federal Reserve kept a target range of 0% to 0.25% for its overnight rate at its last meeting in an effort to stimulate economic activity. The Fed will continue to buy securities to help keep other interest rates low, but will phase out these purchases by the end of the first quarter of 2010. Expectations are for an interest rate increase to 0.5% in late 2010. Even with an overlap between the Fed's meeting schedule and the 2010 elections, the Fed will focus on the economic situation more than the political situation. With the mild pace of the economic recovery, the Fed is expected to increase interest rates gradually and slowly. (*Federal Reserve, The Kiplinger Letter, Wall Street Journal*)
- ◆ **Office Space** – Office vacancies remain high and are not expected to recover until employment growth returns. Growing companies can take advantage of low rents, and some companies will be able to consolidate operations from separate locations into one site. (*Wall Street Journal*)
- ◆ **Bankruptcies** – Research by PayNet Inc., a credit analysis provider, showed half of small businesses which declared bankruptcy were current with at least one of their creditors. Usually, companies are delinquent with most or all of their creditors when they file for bankruptcy. (Reuters)
- ◆ **Inflation** – The outlook for inflation is reasonable for 2010, with growth rate of 2.0% for retail prices, 2.0% for the wholesale prices, and 1.6% for employment costs according to *Consensus Forecasts*. The weak labor market will keep employment costs under control even longer. Going forward, the CPI and PPI face threats from the weak dollar if prices of oil and other commodities are driven higher.

International

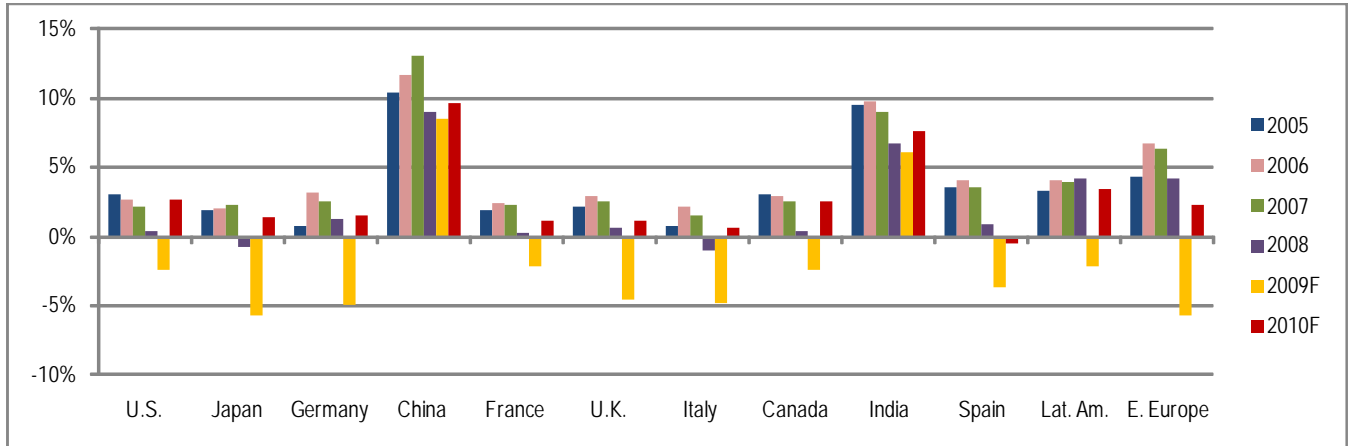
- ◆ **Brazil** – Brazil will host the 2016 Olympic Games and the 2014 World Cup. Brazil will need to improve its electrical system, roads, railways, and airports, as well as add hotel beds to help cope with the expected influx of visitors. A recent power outage threw half the country into darkness, spurring concern about Brazil's energy infrastructure. Brazil gets more than 90% of its energy from hydro-electric sources. It currently has a capacity of around 70,000 megawatts and will add another 20,000 megawatts, most of it hydro-electric, by 2014. (*Christian Science Monitor*)
- ◆ **Canada** – The Canadian government recently announced funding for the construction of the world's largest carbon-capture and storage pipeline in Alberta, the center of Canada's emissions-heavy oil sands industry. The pipeline will be able to transport up to 14.6 million tons of carbon-dioxide emissions per year, the equivalent emissions created annually by 2.6 million cars. Construction is scheduled to begin in 2011, and the line will be operational in 2012. The project will reach its full capacity within 10 years of operation. (*Wall Street Journal*)
- ◆ **European Union** – Nearly half of Europe's unemployed stay out of work for at least a year, making long-term unemployment in the E.U. a serious threat. Strict employment protection legislation tends to increase long-term unemployment. E.U. nations with a high number of people out of work for long periods may need to implement new rules which make it easier for companies to hire and fire workers. The E.U. is expected to lose 7 million jobs with unemployment rising to over 10% in 2010. Jobless rates have risen the fastest in Spain, Ireland, Latvia, Lithuania and Estonia. Economic conditions in the E.U. are not expected to fully recover until 2011. (AP)

U.S. Forecasts

Source: *Consensus Forecasts*, November 2009



Gross Domestic Product Trends

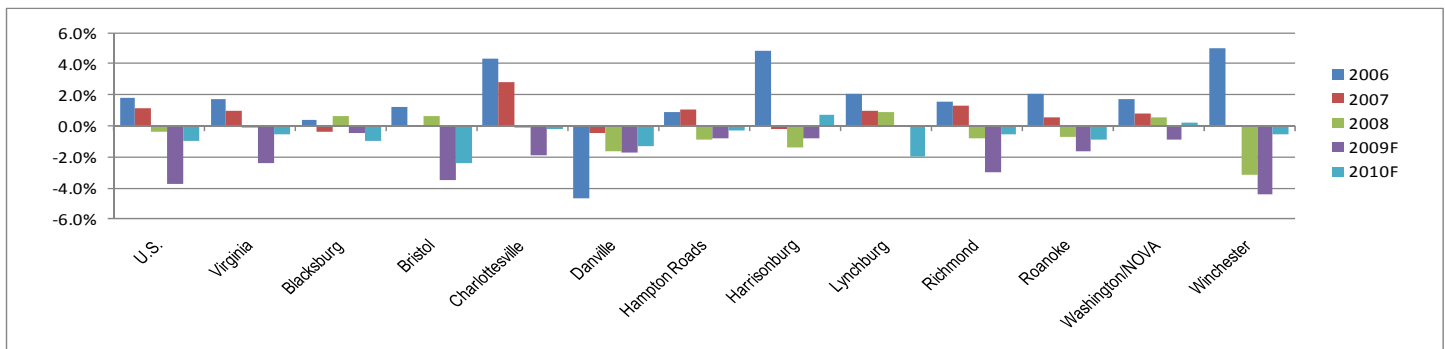


Sources: *Consensus Forecasts*, November 2009; *Asia Pacific Consensus Forecasts*, November 2009.

Industry Trends

- ◆ **Cyber Security** – The U.S. government is expected to hire at least 2,000 cyber security specialists in the next three years. Important skills include computer forensics, firewall construction, and malware detection. Federal agencies will increase spending on computer security by 44% by 2013. Companies in the private sector also are beefing up cyber security efforts since power grids, banking, and communications are vulnerable to cyber attacks. (*Defense Technology International, The Kiplinger Letter*)
- ◆ **Logistics** – Retailers and retail producers are halting a decade-long trend of using two or three centralized distribution centers by returning to numerous regional distribution centers. Factors behind this switch include bottlenecks and higher costs at major ports. Looking further ahead, the widening of the Panama Canal is expected to be completed in 2014. Ports which could see increased activity as a result of this decentralization include Baltimore, MD; Charleston, SC; Mobile AL; and Norfolk, VA. (*The Kiplinger Letter*)
- ◆ **Automotive** – The long-term outlook for the electric vehicle market remains strong, but near term success remains constrained by high prices and the lack of a recharging infrastructure. Electric vehicles' ability to impact the U.S. fuel-efficiency standards make them appealing to automakers. Although electric vehicles often are perceived as having no emissions, the pollution is merely shifted from the vehicle to the source of the electricity. In the U.S., the source is often a coal-burning power plant. Global production of electric vehicles is expected to grow from essentially zero in 2009 to at least 600,000 vehicles in 2015. (PricewaterhouseCoopers Automotive Institute)
- ◆ **Semiconductors** – U.S. semiconductor production seems to be emerging from a 14-month slump, as shipments grew in September and October. Shipments continued to decline at a slower rate in Europe, Japan, and the rest of Asia. In July, U.S. semiconductor machinery manufacturers ended a 29-month period of shipments exceeding new orders. (Economy.com)
- ◆ **Food Products** – Heavy rains during the fall prevented farmers from harvesting much of 2009's pumpkin crop. Nestle, which controls about 85% of the U.S. canned pumpkin market, issued an apology saying its Libby's brand will run out of canned pumpkin by Thanksgiving. Retail supplies may run out before Christmas. The 2008 harvest was small, so there was not much surplus to cover this year's shortage. In August 2010, Nestle will begin harvesting and canning its next crop. (*Los Angeles Times*)

Employment Trends

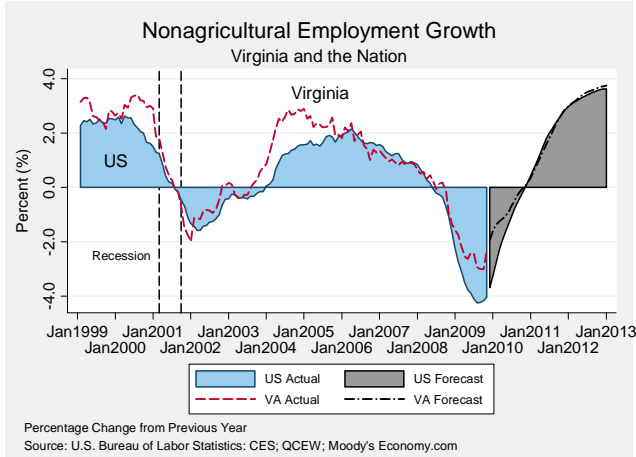


Note: The MSAs of Bristol, Hampton Roads, Washington and Winchester include communities of neighboring states.

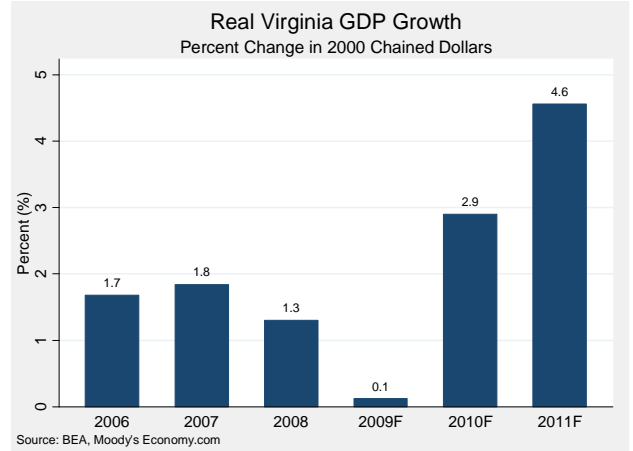
Source: Moody's Economy.com

Virginia Trends

- ◆ The Virginia economy continues to lose jobs, though losses appear to be moderating. Total nonagricultural employment fell in October by 2.4% from the same period one year ago (seasonally adjusted). Though the labor market continues to contract, Virginia's decline in payrolls is better than the national 4% decline over the last twelve months. While the situation may be improving, year-over-year gains in payrolls are not expected until the second half of 2010.

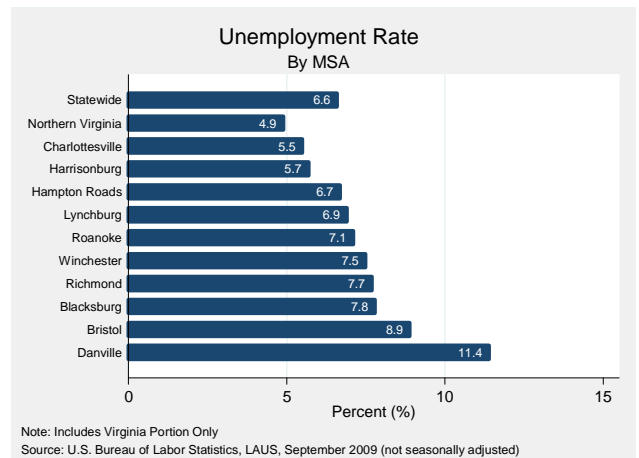
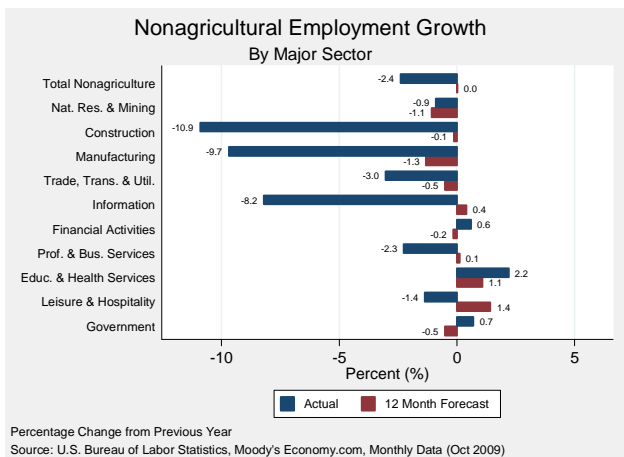


- ◆ When calendar year 2009 comes to a close, data will likely show that the Virginia economy grew very little, if at all, during the twelve months ending December 31. Moody's Economy.com projects full year real GDP will have risen only one-tenth of one percent for the year. Moody's is more optimistic going forward, forecasting GDP growth of 2.9% in 2010 and 4.6% in 2011. Over the last 10 years, the Virginia economy has grown on average about 3% per year.



- ◆ With few exceptions, job losses were widespread across major industry sectors during the last twelve months. The largest year-over-year declines are in construction and manufacturing which fell by 10.9% and 9.7%, respectively. Gains were reported in Finance, 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. One year from now, overall Virginia payrolls are expected to change little from October's levels.

- ◆ In October, the Virginia unemployment rate fell by 0.3 percentage points to 6.3% (not seasonally adjusted), but held steady at 6.6% on a seasonally adjusted basis. The chart below shows unemployment for each of Virginia's metropolitan areas as of September 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 11.4%.



Virginia Export Trends January – September 2009

Trade Overview

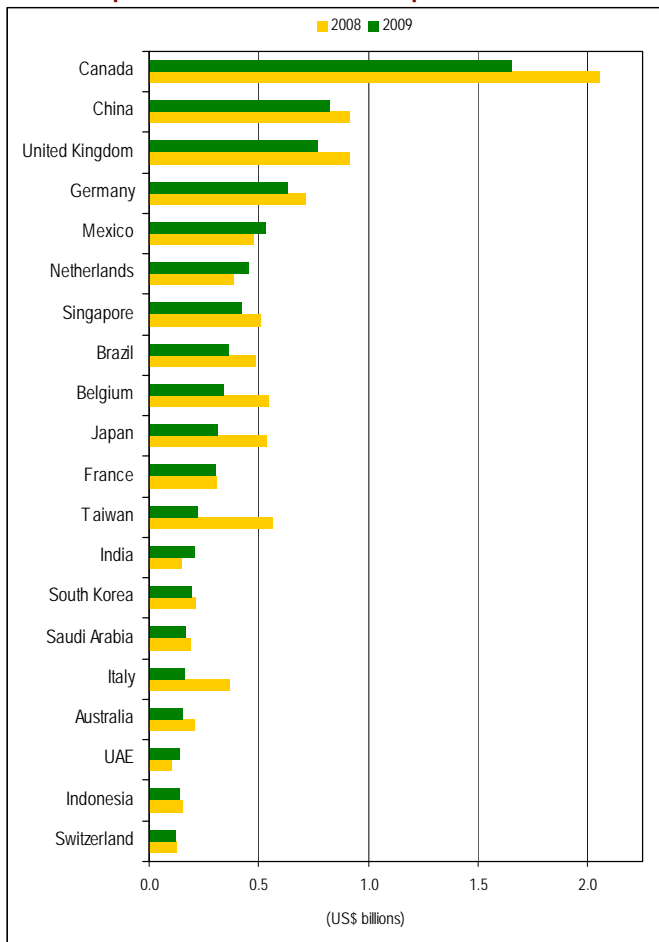
Total cumulative exports of goods* via Virginia for January-September 2009 amounted to \$10.85 billion, a 24% decrease as compared to the same period in 2008. Total exports from the U.S. for this period were valued at \$762.76 billion, a decrease of 23% over the same period in 2008. Virginia ranked as the 21st largest exporting state in the U.S. for January-September 2009.

Exports via Virginia of manufactured goods were valued at \$8.77 billion for January-September 2009, a 23% decrease from the same time period in 2008. Manufactured goods represented 80% of Virginia's exports.

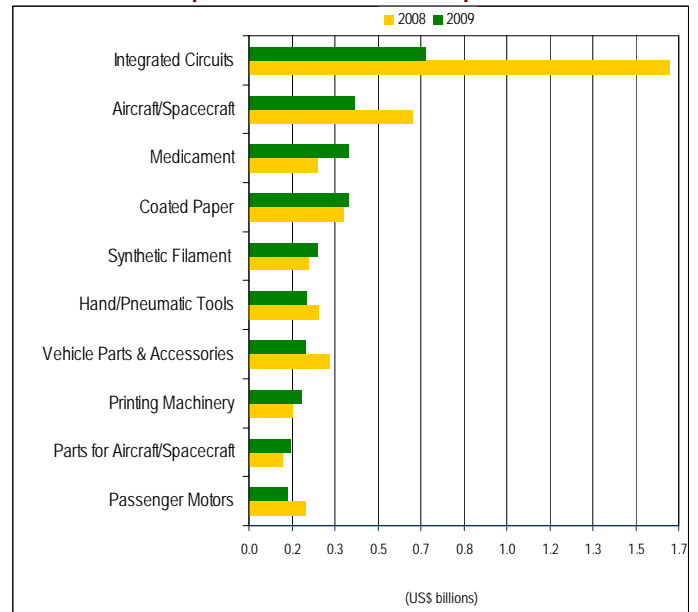
*Includes manufactured goods, agricultural goods, coal, and tobacco.

**Agricultural exports do not include tobacco

Top 20 Destinations for Exported Goods*



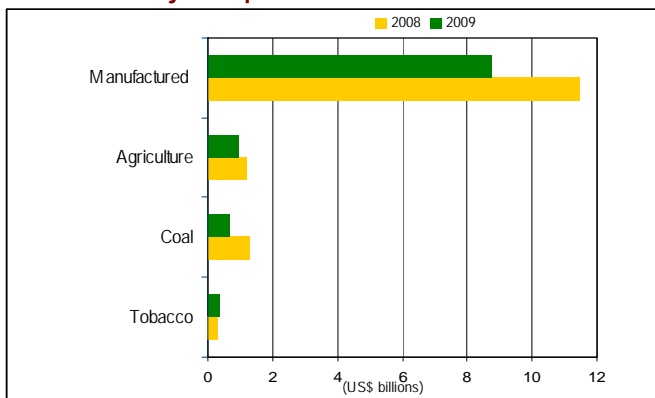
Top 10 Manufactured Exports



Top 10 Manufactured Exports with Destination

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

Major Export Sectors for Goods



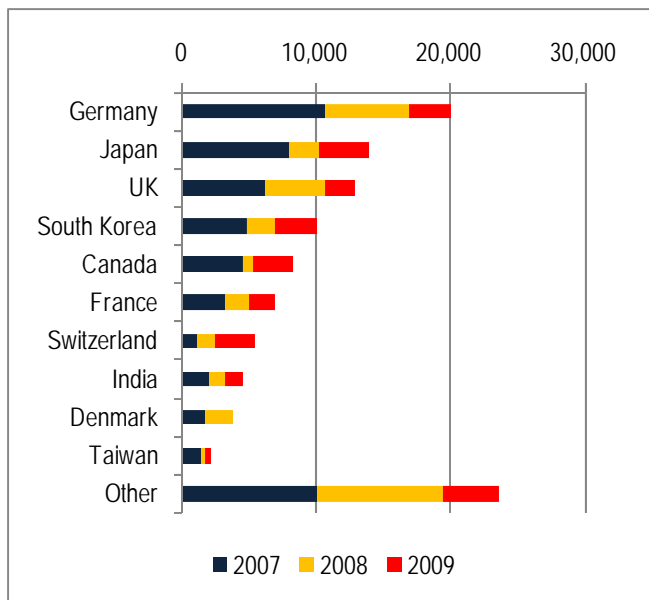
Source for Text and Graphs: World Trade Atlas

Note: The 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

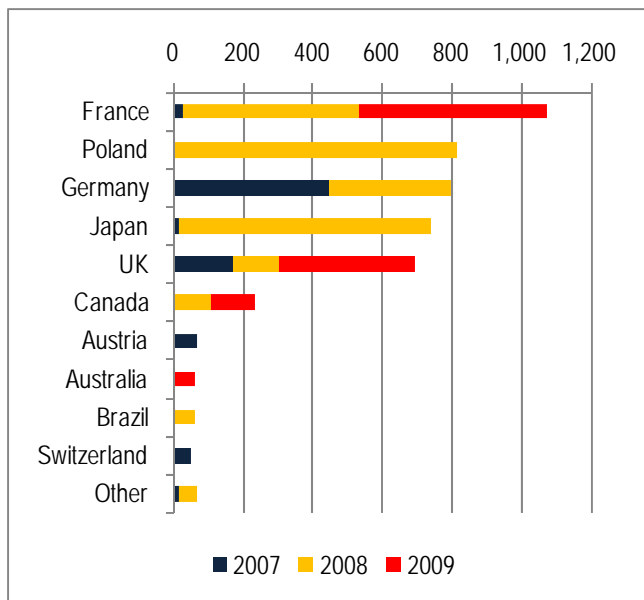


Source: fDiMarkets.com

- ◆ Foreign companies announced plans to create almost 26,300 new jobs in the U.S. between January and September 2009.
- ◆ The ten leading countries accounted for 84% of all announced jobs created by foreign investment in 2009.
- ◆ Germany, Japan, and South Korea accounted for 38% of the announced foreign investment jobs in 2009.

Virginia

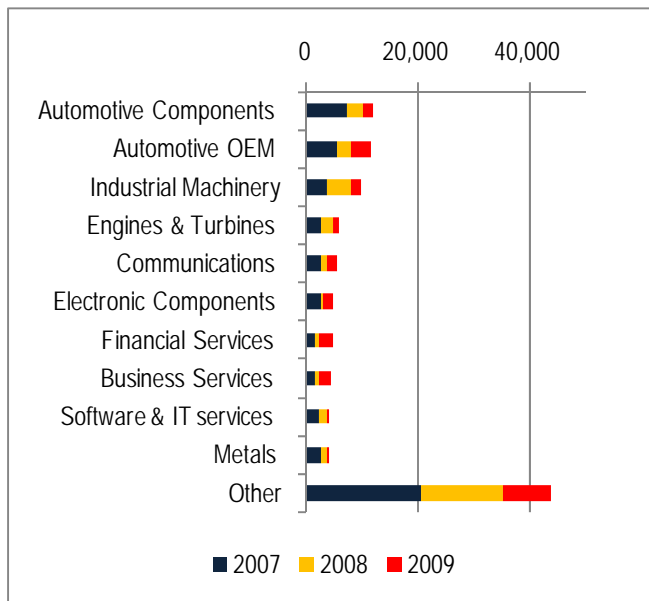
Announced New Jobs by Country



Source: fDiMarkets.com

- ◆ Foreign companies announced plans to create over 1,100 new jobs in Virginia between January and September 2009.
- ◆ The sources for announced jobs created by foreign investment in 2009 are France, the U.K., Canada, and Australia.

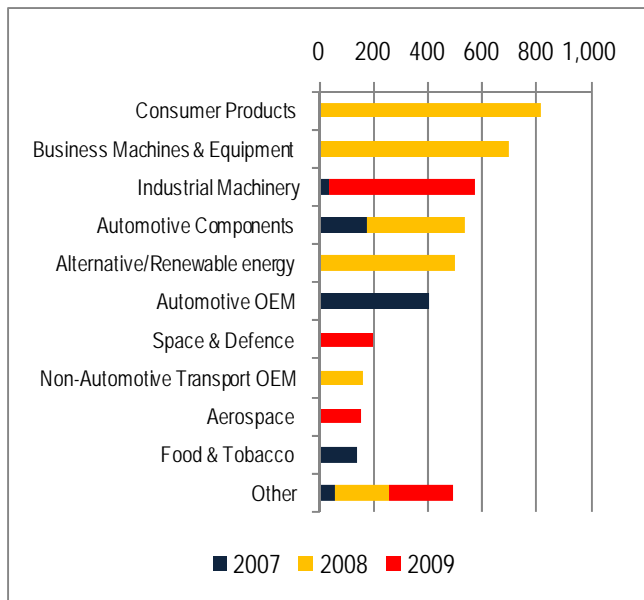
Announced New Jobs by Industry



Source: fDiMarkets.com

- ◆ The ten leading industry sectors accounted for 67% of all announced jobs created by foreign investment in 2009.
- ◆ Automotive OEM, Financial Services, and Electronic Components accounted for 31% of the jobs announced in 2009.

Announced New Jobs by Industry



Source: fDiMarkets.com

- ◆ The ten leading industry sectors accounted for 79% of all announced jobs created by foreign investment in 2009.
- ◆ The sources for announced jobs created by foreign investment in 2009 are Industrial Machinery, Space & Defense, Aerospace, Software & IT Services, Metals, Financial Services, and Paper, Printing & Packaging.