

# Economic Update Fourth Quarter 2011

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

## Short Term Trends

### United States

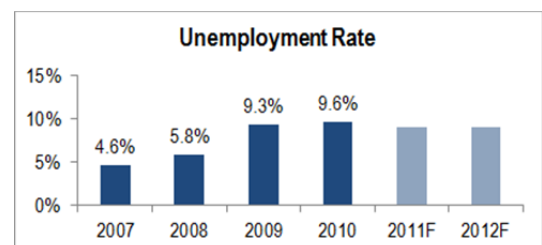
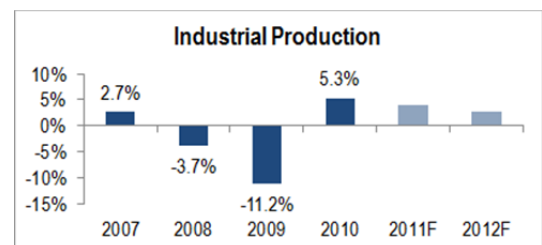
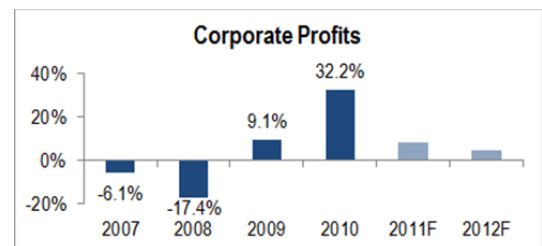
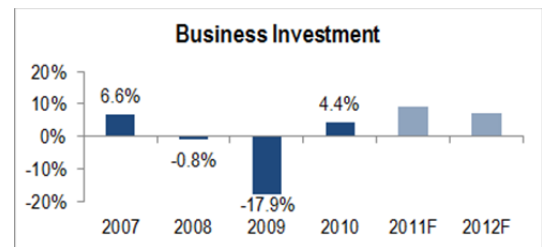
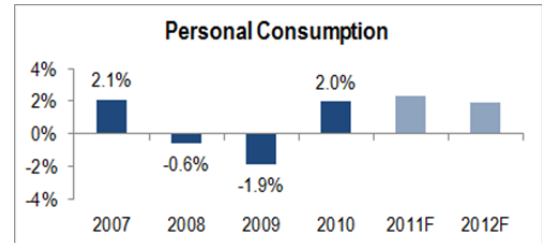
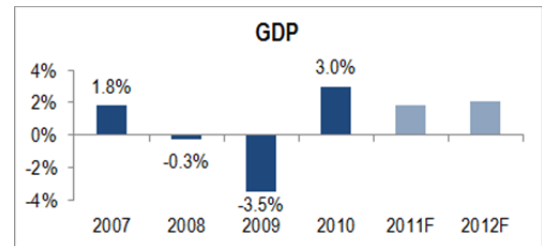
- ◆ **Overview** – Economic data for the second quarter of 2011 were weaker than expected, but the third quarter data were stronger than expected, so the holiday sales season may end up defining the year as a whole. The weekly chain store sales data from the International Council of Shopping Centers for the first three weeks of the shopping season were stronger than 2008 and 2009 but weaker than 2010.
- ◆ **Gross Domestic Product** – The second revision to the third quarter 2011 GDP data showed an annualized increase of 2.0%, better than the 1.3% increase for second quarter 2011 but worse than the 2.5% increase for third quarter 2010. Inventories shrank for the first time since 2009. Retailers tend to stock up on merchandise for the holidays in the third quarter, so this could indicate the economy is weakening.
- ◆ **Employment** – Revisions to the Bureau of Labor Statistics' monthly employment data boosted the August job creation number from zero to 104,000. The data show 120,000 jobs were added in November. Only two of the last seven months have exceeded the 125,000 new jobs needed each month in order to absorb people entering the labor market. The strongest sectors for job creation were Retail and Professional & Business Services. The Government sector lost 20,000 jobs: 11,000 jobs at the Local level, 5,000 at the State level, and 4,000 at the Federal level.
- ◆ **Recession Risk** – The recession risk index from Moody's Analytics shows the U.S. still faces an elevated risk of recession within six months, but the threat may be easing. After peaking at a 45% probability in September, the October figure came in at 40%. Going into the last two recessions, this index zoomed through the forties on its way to higher levels. This time, the economy is weak but may be able to stay out of recession.

### International

- ◆ **Central Banks** – In the U.S., Canada, England, Japan, Switzerland, and the European Union, central banks are injecting liquidity into the global financial system as the Euro Zone's financial crisis threatens to squeeze credit worldwide. The banks agreed to lower the pricing on current temporary U.S. liquidity swap arrangements by 50 basis points. This move will make more dollars available to banks at a cheaper rate, thereby easing worries about the availability of funds to banks. Similarly, China reduced bank reserve levels to boost lending and spur growth, the first easing of Chinese monetary policy in three years. (Associated Press, *MSNBC*)
- ◆ **South Korea** – After a more than four-year-long effort, South Korea's president signed the 14 bills needed to implement the country's free trade deal with the U.S. The Korea-U.S. Free Trade Agreement will make 95% of consumer and industrial products traded between the two countries duty-free within three years. Products include electronic machinery and parts, auto parts, power generation and medical equipment, and many agricultural and wood products. (Associated Press, *Pittsburg Tribune-Review*)
- ◆ **Brazil** – Brazil's central bank signaled it will keep cutting interest rates at its current half-point pace as it tries to prevent Europe's debt crisis from stunting growth in Latin America's biggest economy. At its most recent meeting, the bank's board voted to reduce the benchmark rate by 50 basis points for the third meeting in a row, bringing the rate to 11%. Brazilian economists have reduced their forecasts for growth this year to 3.1%, down from 3.79%. Last year, Brazil's GDP grew by 7.5%, its fastest pace in more than two decades. (BGov)

## U.S. Forecasts

Source: Consensus Forecasts, November 2011



## Long Term Trends

### United States

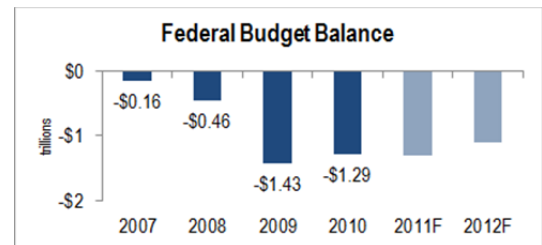
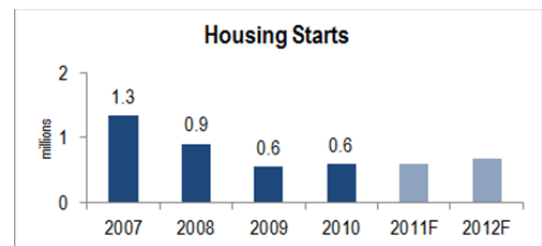
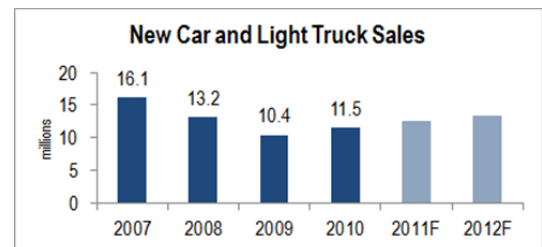
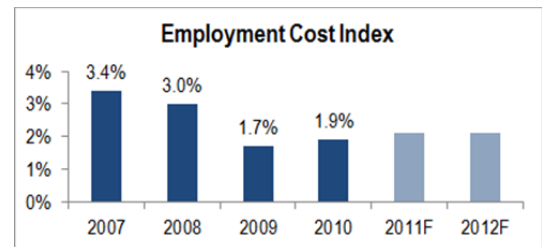
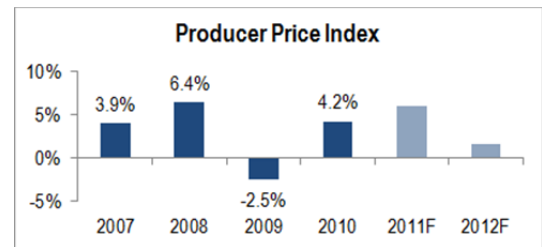
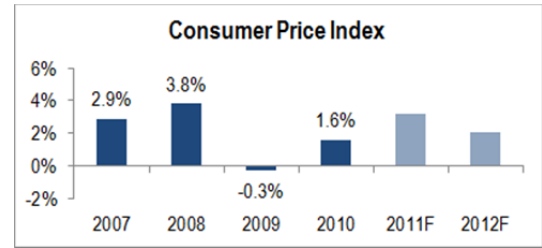
- ◆ **Overview** – Despite the positive short term trends in the third quarter data, the forecasts for 2012 have been downgraded again. The GDP growth rate from *Consensus Forecasts* is 2.1%, which is better than the ten-year average annual growth rate of 1.7% but below the 20-year rate of 2.5%.
- ◆ **Interest Rates** – The Federal Reserve's short term interest rates have been at essentially zero since December 2008, so it is trying a different approach to influencing long term interest rates. The Fed is rebalancing its \$2.65 trillion securities portfolio with more long term U.S. Treasury bonds and mortgage debt. The goal is to reduce long term interest rates and encourage businesses to invest in new equipment. (*Wall Street Journal*)
- ◆ **Business Investment** – Businesses continue to invest in new equipment and building improvements, although the growth rate may have peaked. The latest U.S. Manufacturing Technology Orders report showed slower growth for orders of metalworking equipment, while the business investment data from the Bureau of Economic Analysis showed only a slight increase from the previous quarter. Since the USMTO data have a six-month lead on the BEA data, weaker investment growth is expected in 2012. Business investment still should exceed \$1.5 trillion in 2012.
- ◆ **Jobs** – Michigan State University's College Employment Research Institute recently reported large employers (more than 4,000 workers) expect to hire more new college graduates than the previous year for the second year in a row. Small employers (fewer than 500 workers) expect to hire about the same number of new grads as last year. The mid-sized employer range, which covers many state and local government agencies, expect to hire fewer new grads at the end of the 2011-2012 school year.
- ◆ **Growth Sectors** – VEDP analysis of national industry forecasts and Virginia industry data indicate the following sectors have growth potential for the Commonwealth: Business and Professional Services, Business Support Services, Food Processing, Machinery, and Plastics and Rubber.

### International

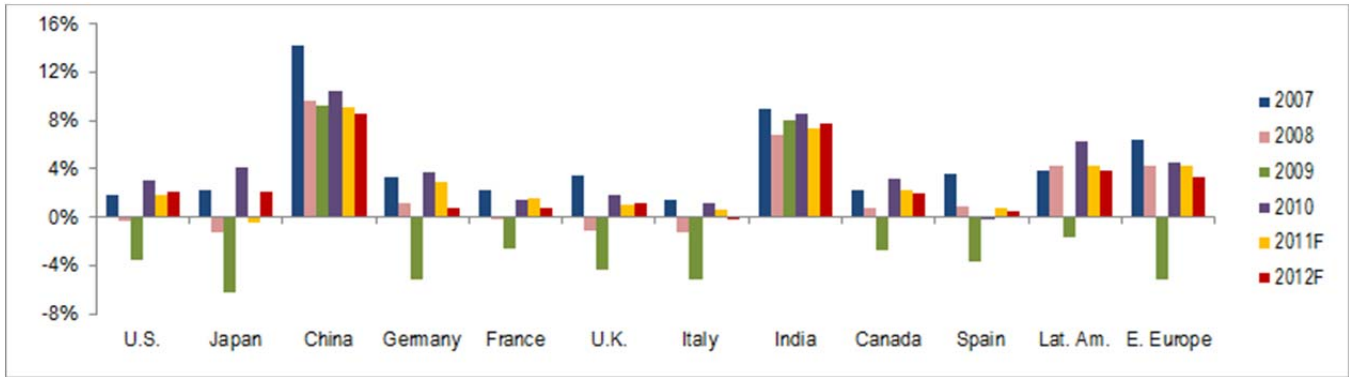
- ◆ **China** – Over the next several years, China's vaccine makers will gear up to increase exports, which should lower costs of immunizations for the world's poor and create competition for Western pharmaceutical companies. China's more than 30 vaccine companies have an annual production capacity of nearly 1 billion doses. It will take a few years for Chinese biotech companies to upgrade their facilities and improve procedures to meet the country's stricter safety and quality standards. Then the companies are required to submit vaccines to the U.N. health agency for approval, which also is a lengthy process. (*Associated Press*)
- ◆ **Myanmar** – With natural resources including oil, gas, timber, and gems as well as the potential to be a major rice and seafood exporter, Myanmar is positioned to become a foreign investment hot spot. Myanmar has low manufacturing wages, its intellectual class speaks English, and its legal system is rooted in British common law. Obstacles include an unreliable electricity infrastructure, crumbling roads and ports, an immature financial system, and slow-moving political reform. (*Wall Street Journal*)
- ◆ **Car Batteries** – As the automotive industry develops alternative to fossil fuels, automakers are finding more opportunities for collaboration. Most recently, BMW and Toyota have agreed to partner on research and development of lithium ion battery technology. BMW also will supply Toyota with small diesel engines starting in 2014. Such partnerships allow car companies to share research and development costs while addressing gaps in their technology portfolios. (BGov)

## U.S. Forecasts

Source: *Consensus Forecasts*, November 2011



## Annual Gross Domestic Product Change

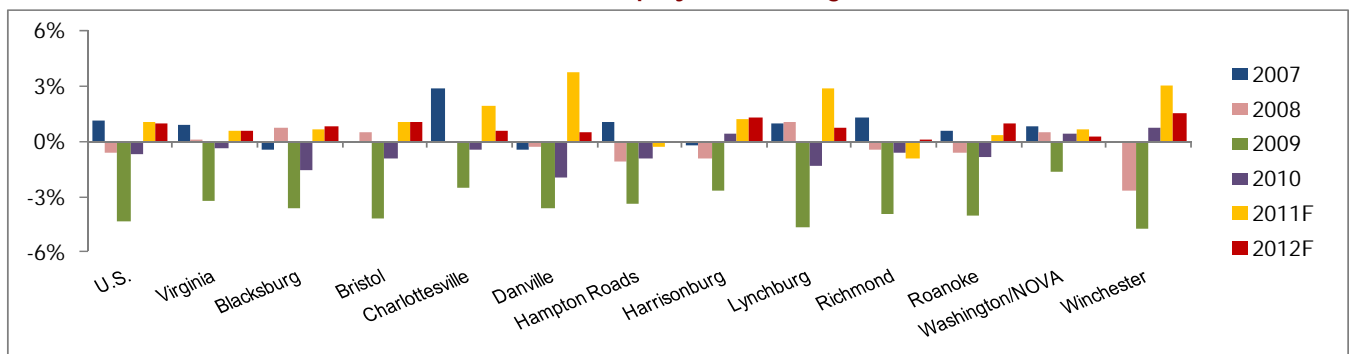


Sources: *Consensus Forecasts*, November 2011; *Asia Pacific Consensus Forecasts*, November 2011.

## Industry Trends

- ◆ **Plastics** – Sales of injection molding machines are expected to increase by 15% in 2011 to 2,400 units. In 2009, sales totaled only 1,285 units. 2012 should see another small increase, but will remain below the 3,000 unit level last seen in 2007. Demand from the automotive and packaging sectors is fuelling the increase. In addition to replacing older equipment, companies buy new equipment to increase production speeds and reduce energy costs. Capacity utilization for plastics and rubber factories remains around 75%, which is too low to support industry-wide demand for new equipment. (*Plastics News*)
- ◆ **Solar Power** – Owners of some large warehouses are renting out the roofs of their buildings for “farms” of solar cells. The roof of a 1.7 million square-foot warehouse in California will house a solar farm which will supply Southern California Edison with enough electricity to power 5,200 houses. The solar system will cost about \$35 million but would have cost twice as much three years ago. This is the first U.S. rooftop project for Dexus, the Australian company which owns the building. ProLogis, another warehouse company, currently has 50 MW of solar capacity on the roofs of its buildings and expects to add at least 25 MW annually. Existing warehouses may not have strong enough roofs for solar farms but new ones are often built to support them. (*Wall Street Journal*)
- ◆ **Defense** – The Department of Defense is a major player in alternative energy. The Navy plans on testing biofuel in jets during an aircraft carrier exercise in the Pacific during 2012. Biofuel costs five times more than traditional jet fuel, although the DoD reports the per-gallon price is half of what it paid in 2009. The Army hopes to reduce its fuel consumption by using diesel-electric hybrid engines in land-based fighting vehicles and cargo trucks. (*Defense News, The Kiplinger Letter*)
- ◆ **Logistics** – Speculative distribution centers are being built again in the Inland Empire region of California, the seventh-largest warehouse market in the country. Developers are trying to build facilities with better technology systems to increase throughput speeds in order to differentiate them from older buildings on the market. (*Wall Street Journal*)
- ◆ **Biotechnology** – Scientists have developed genetically modified male mosquitos containing a defect which causes them to die before they are old enough to reproduce. The technique may work on other insects as well. Tests in the Caribbean showed mosquito populations falling by 80% after introducing the modified mosquitos. The tests also revealed 3.5% of the mosquitos lived to adulthood despite the modification and 0.5% of them turned out to be females, which bite people and spread disease. (*New York Times*)

## Annual Employment Change

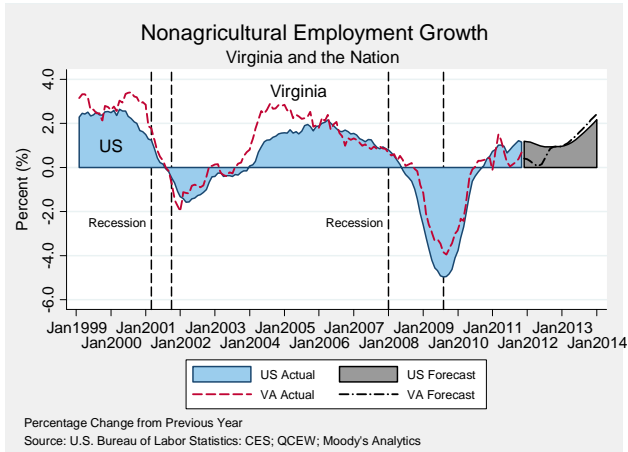


Note: The MSAs of Bristol, Hampton Roads, Washington and Winchester include communities of neighboring states.

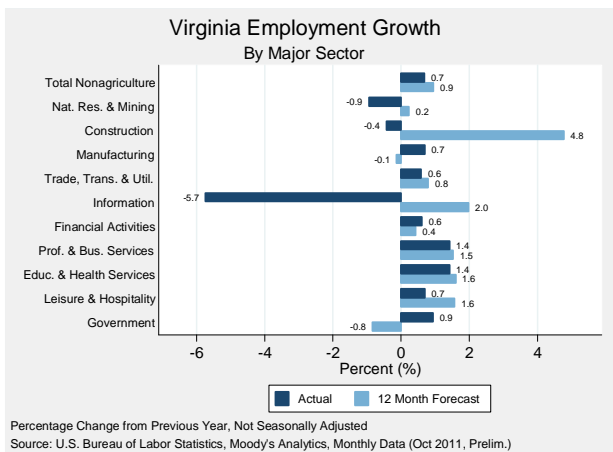
Sources: U.S. Bureau of Labor Statistics; Moody's Analytics

## Virginia and Its Regions

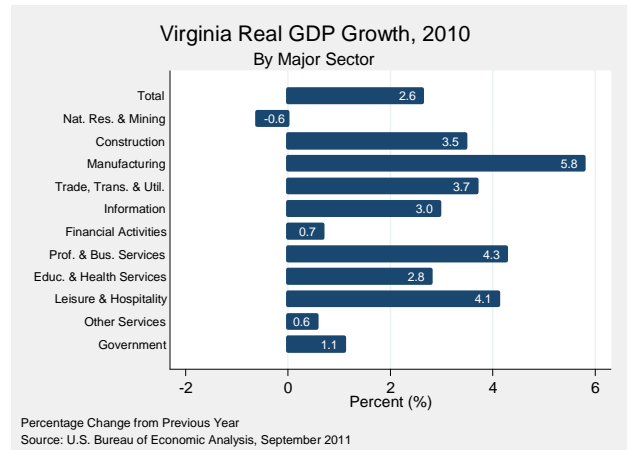
- Virginia nonfarm payroll employment increased by 26,900 jobs in October 2011 to 3,681,600 and was higher by 24,800 jobs as compared to a year ago (+0.7%). September job growth was revised higher, showing a month-over-month gain of 23,500 versus the previously reported 15,500 gain, and September year-over-year job growth was 14,200 (+0.4%). Nationwide, employment grew by 1.2% in both October and November as compared to year-ago levels.



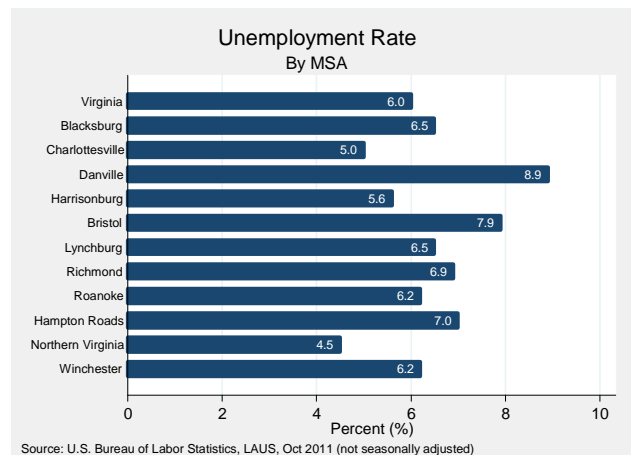
- Employment grew by 0.7% in October 2011 compared to year-ago levels. The Professional and Business Services sector continues to realize the largest job gains year-over-year. The sector added 9,400 jobs or 1.4%. Private Education and Health Services added 6,600 jobs, a 1.4% gain over October 2010. Government added 6,600 jobs as well, with 8,500 jobs added in state and local government which were partially offset by losses of 1,900 in the federal government. The largest employment decline from last October occurred in the Information sector, down 4,400 jobs or 5.7%. Over the next twelve months, Moody's Analytics forecasts statewide year-over-year employment gains of just 0.9%.



- The Virginia economy grew by 2.6% in real terms in 2010, according to U.S. Bureau of Economic Analysis GDP by State estimates released earlier this year. Professional & Business Services, which accounts for 18% of Gross State Product, grew 4.3% in 2010, adding seven-tenths of one percent to GSP growth. Manufacturing saw the largest year-over-year percentage gain of 5.8%, and the Trade, Transportation and Utilities sector, which makes up 14% of state output, grew 3.7%. These sectors combined contributed nearly one percentage point of growth to state GDP. Forecasts by Moody's Analytics predict real growth of 2.3% and 3.3% in 2011 and 2012, respectively.



- The Virginia unadjusted unemployment rate was down 0.4 percentage point to 6.0% in October 2011. On a seasonally adjusted basis, the statewide rate decreased 0.1 percentage point to 6.4% in October. The chart below shows unemployment for each of Virginia's metropolitan areas. The Danville metropolitan area continues to have the highest unemployment rate among Virginia MSAs at 8.9%. The unemployment rate in Northern Virginia is the state's lowest at 4.5%.



# Virginia Export Trends

## Trade Overview

Total exports from the U.S. for January-September 2011 were valued at \$1.10 trillion, a 17.79% increase over the same period in 2010. Virginia ranked as the 24<sup>th</sup> largest exporting state in the U.S. for January-September 2011.

Total cumulative exports of goods<sup>1</sup> via Virginia for January-September 2011 amounted to \$13.58 billion, a 6.41% increase as compared to the same period in 2010.

During this period, manufactured goods represented 80.41% of Virginia's exports.

Agricultural exports<sup>2</sup> via Virginia increased 31.10% for January-September 2011 as compared to the same time period in 2010, amounting to \$1.36 billion. The top 10 export destinations of agricultural products via Virginia for January-September 2011 were Morocco, Canada, Egypt, China, Cuba, Venezuela, Saudi Arabia, Jamaica, Indonesia, and Hong Kong.

Virginia exports of coal and tobacco for January-September 2011 were valued at \$1.18 billion. Coal exports (mostly bituminous coal) amounted to \$1.03 billion, an increase of 29.32% as compared to the same time period in 2010. Tobacco exports totaled \$142.29 million, a decrease of 54.26% from the same time period in 2010.

### Percentage of Virginia Export Trade

Free Trade Agreement	January - September	
	2010	2011
Country	2010	2011
Canada	17.73%	15.90%
Mexico	4.88%	5.00%
Morocco	1.03%	2.53%
Singapore	6.13%	2.25%
Australia	1.71%	1.90%
Korean Republic <sup>3</sup>	2.27%	1.86%
Chile	0.45%	0.87%
Honduras	0.67%	0.82%
Colombia <sup>3</sup>	0.47%	0.75%
Dominican Republic	0.79%	0.73%
Israel	0.54%	0.46%
Peru	0.31%	0.45%
Guatemala	0.20%	0.34%
El Salvador	0.09%	0.32%
Jordan	0.31%	0.26%
Nicaragua	0.09%	0.24%
Panama <sup>3</sup>	0.11%	0.13%
Costa Rica	0.09%	0.11%
Bahrain	0.07%	0.08%
Oman	0.05%	0.03%

**Notes:**

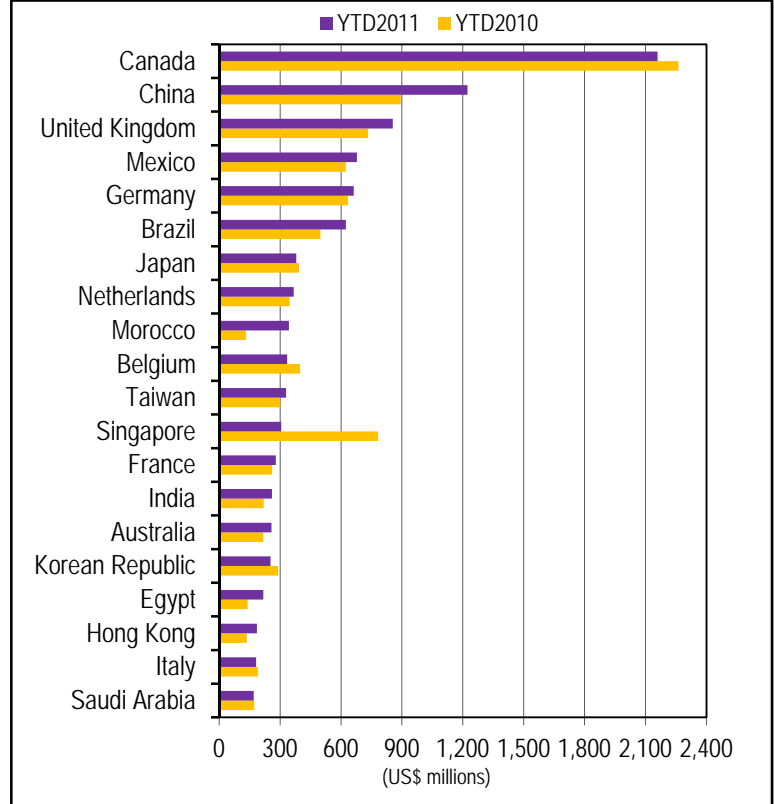
All information sourced from World Trade Atlas data which comes from the U.S. Department of Commerce's "Origin of Movement" set of state exports. The Origin of Movement of a product is not always the same as its place of production, since products from one state can be consolidated for export in another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

<sup>1</sup> Includes manufactured goods, agricultural goods, coal, and tobacco.

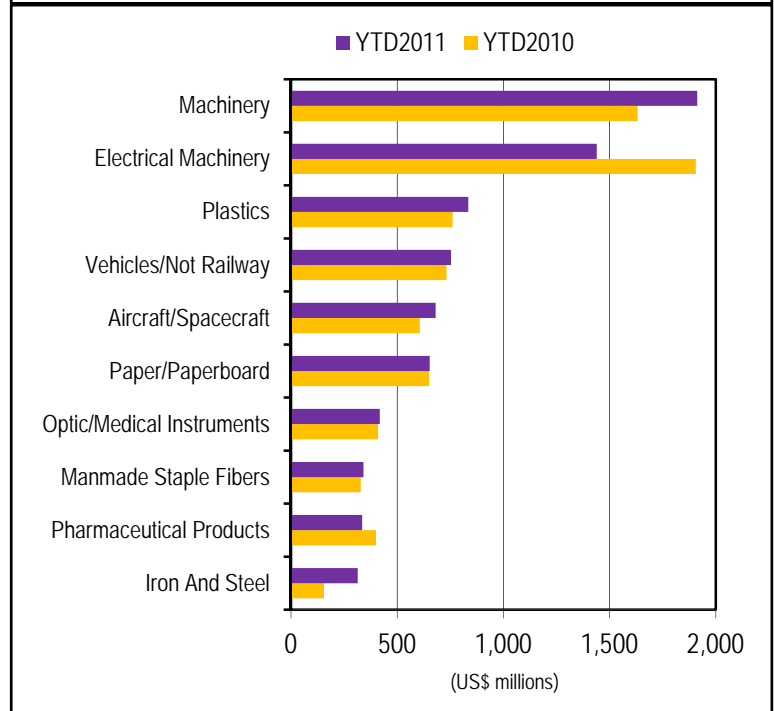
<sup>2</sup> Agricultural exports do not include tobacco.

<sup>3</sup> Free Trade Agreement Pending

### Top 20 Export Destinations for Virginia Goods<sup>1</sup>



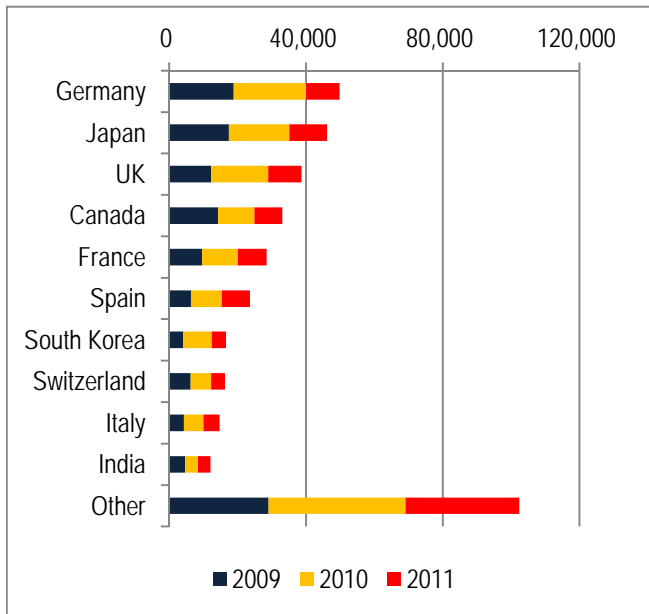
### Top 10 Manufactured Goods Exported Via Virginia



## International Investment Trends

### United States

Announced New Jobs by Country

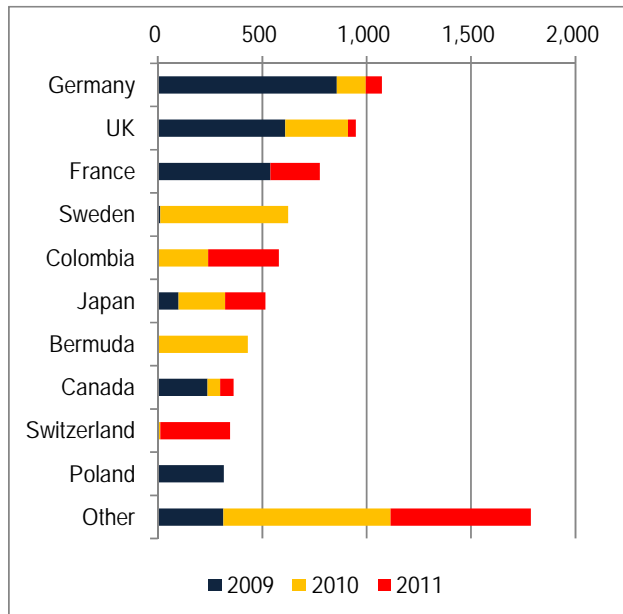


Source: fDiMarkets.com

- ◆ Foreign companies announced plans to create over 105,200 new jobs in the U.S. in the first nine months of 2011.
- ◆ The ten major countries accounted for 68% of all announced jobs created by foreign investment in 2011.

### Virginia

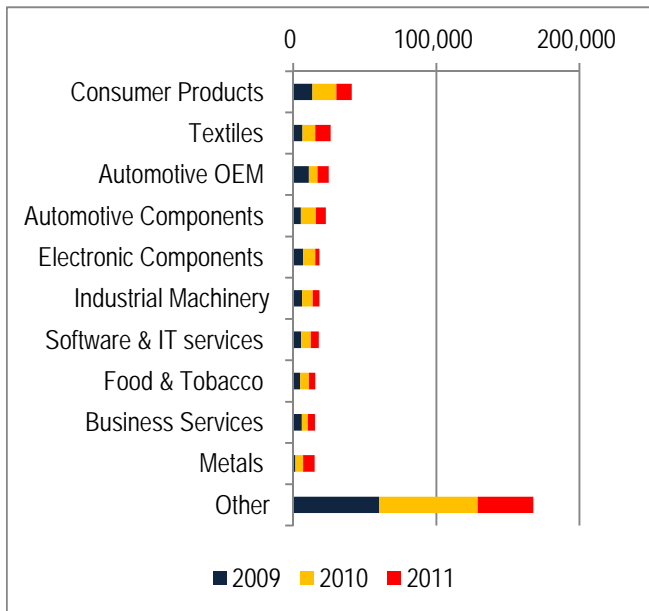
Announced New Jobs by Country



Source: fDiMarkets.com

- ◆ Foreign companies announced plans to create over 1,950 new jobs in Virginia during the first nine months of 2011.
- ◆ Colombia, Switzerland, and France accounted for 47% of all announced jobs created by foreign investment in 2011.

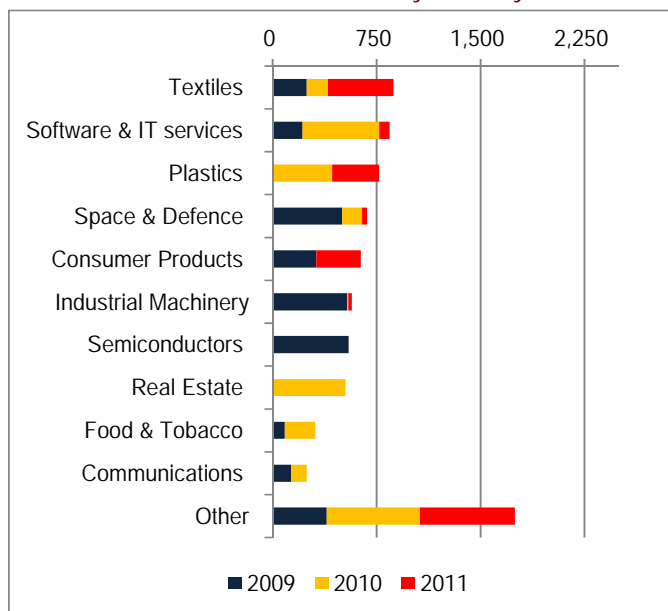
Announced New Jobs by Industry



Source: fDiMarkets.com

- ◆ The ten major industry sectors accounted for 63% of all announced jobs created by foreign investment in 2011.
- ◆ Consumer Products, Textiles, Metals, Automotive OEM and Automotive Components were the largest industry sectors accounting for 42% of the announced jobs.

Announced New Jobs by Industry



Source: fDiMarkets.com

- ◆ The ten major industry sectors accounted for 65% of all announced jobs created by foreign investment in 2011.
- ◆ The three leading industries, Textiles, Plastics and Consumer Products, accounted for 58% of the announced jobs.