Economic Assumptions

For the United States and Virginia

Calendar Years 2008, 2009, and 2010 • Program Years 2008 and 2009

Virginia Employment Commission • Economic Information Services Division

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Introduction

Again this year, projections appearing in the Virginia Employment Commission's (VEC's) *Economic Assumptions* are based on long-term forecasts produced for the Commonwealth of Virginia by Global Insight (formerly DRI-WEFA) of Lexington, Massachusetts, and Eddystone, Pennsylvania. The VEC shares the Global Insight contract with the Virginia Department of Taxation, the principal instate subscriber.

By using the Virginia Global Insight model, we are able to offer detailed Virginia labor force and employment forecasts on an industry-by-industry basis in our summary tables. To further assist analysis, detailed industry forecasts have been summarized by Calendar Year (CY) and Program Year (PY) by the Economic/Operations Research unit of the Economic Information Services Division of the VEC. Also, we can now offer a quarter-by-quarter breakout of the by-industry data for the forecast periods.

In order to make the *Economic Assumptions* available to program planners at the beginning of CY 2008, labor force and employment estimates for 2007 were made using preliminary data before final figures and the normal end-of-the-year benchmark revisions become available in March 2008. The use of preliminary data may cause slight level differences from the benchmarks when they become available, but these differences should not alter projected trends. Also, in order to have the data available to program planners in time for the program planning cycle, the Global Insight baseline forecast for Virginia labor force and employment projections was used as our basis. This may make the projections in *Economic Assumptions* differ in some details from the final amended official Virginia forecast from the Department of Taxation. It is suggested that as the year wears on that users also consult our quarterly *Virginia Economic Indicators* publication for summary forecast updates.

This year, it seems an unusually large number of situations impacting on the current economy had their beginnings around the year 2000. Because of this and so that our readers would have the full background details, we have, in many cases, chronicled these situation trends back to 2000 in the "Major Forecast Assumptions" part of the book. For those just interested in the current and projected future numbers, we would suggest skipping to the latter part of each of these assumption categories.

Copies of this publication may be obtained by calling

Labor Market and Demographic Analysis at (804) 786-8223

or visiting the VEC's website at www.VaEmploy.Com.

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January 2008


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U.S. Forecast Highlights

The economy has been very erratic for the last two years. Just when it looked like things were slowing down, they would speed-up again. It also is amazing that most situations currently impacting the U.S. economy had their beginnings back around the year 2000.

In July 2007, when all the contributing agencies had updated their information to the latest and best benchmark estimates, it turned out GDP in the U.S. grew at only an annual average rate of 2.9 percent in CY 2006. (GDP is the output of goods and services produced by labor and property located in the United States and is the key measure of economic gain or loss.)

For the first time in three years, since CY 2003, U.S. GDP growth failed to quite meet the 3.0 percent average growth rate for the past two decades. The slightly below trend-line growth in CY 2006 resulted from lackluster business spending, the developing slump in home building, and the impact of energy prices. Consumer spending, exports, and federal government spending, however, remained fairly strong.

The U.S. economy at the beginning of CY 2007 appeared headed for the classic "7-year" slowdown that has happened in four of the five previous decades. GDP growth slowed to only 0.6 percent in the first quarter.

When GDP figures for Second Quarter 2007 rolled in, it looked like the economy was growing much faster than thought (in spite of a gas price hike). It appeared the 2007 economic "soft landing" had already occurred in the first quarter (only 0.6 percent growth), and the economy was now taking off again. Consumer spending for services, rising exports, booming commercial construction, federal government defense purchases, and increased software purchases were behind the good second quarter gain.

Rapid growth in Third Quarter 2007 and a still strong labor market suggested the economy was doing great, picking up steam from the "speed-bump" slowdown early in CY 2007. Storm clouds, however, started to gather on the horizon after midyear from two sources:

(1) The mortgage situation

(2) Energy prices

The mortgage situation

On August 9, 2007, the media blared headlines about "the quickly worsening plight of the residential building and mortgage industries" as the inventory of unsold homes and foreclosures skyrocketed, especially in the sub-prime market, and home prices nosedived.

These problems resulted from super low interest and mortgage rates from CY 2002 to CY 2004, many flexible rate mortgages, and much real estate speculation. Interest rates started going up in CY 2004; and by CY 2006, many buyers found they could not pay mortgages on property that had started to decline in value.

The Federal Reserve, like the cavalry, came to the rescue, dropping the Fed Funds rate 100 basis points, from 5.25 percent to 4.25 percent between September 18 and December 11.

The Federal Reserve's actions have probably put a floor under the financial markets, but the housing market still has a ways to fall, probably not bottoming out until mid-CY 2008. Look for:

» more foreclosures

» fewer homebuyers

» home price drops nationally of 2.7 percent in CY 2007 and 6.2 percent in CY 2008.

Energy Prices

CY 2007 saw two spikes in gasoline prices to $3 per gallon—one in May because of reduced U.S. refinery capacity and one in November due to high world demand. At the end of December 2007, oil and gasoline prices were rising again.

As a result of the impact of the recent mortgage market/credit crunch and energy shocks to the U.S. economy and their effects on consumer spending, at the end of CY 2007, the danger of recession in the U.S. is greater than it has been at anytime since the March-November 2001 recession. The recession risk is up to about 40 percent. Any further shock could easily tip the economy into recession.

CY 2007 in review

- First Quarter CY 2007 saw growth slow to only 0.6 percent, the poorest quarterly growth since Fourth Quarter 2002. The predicted CY 2007 "soft landing" of the economy appeared at hand.
- Surprisingly, second quarter GDP growth spiked to 3.8 percent even with the price for regular gasoline reaching $3 per gallon by May. The economy now accelerated again after the first quarter's "speed bump."
- Third quarter GDP annualized growth was even better with GDP increasing an impressive 4.9 percent as a result of positive contributions from exports, personal consumption, government spending, software purchases, and booming commercial construction. On the other hand, the worsening mortgage situation and the bust in residential construction were negatives. The Federal Reserve in August lowered the discount rate at which banks can borrow and dropped the Fed Funds rate 50 basis points from 5.25 percent to 4.75 percent in September.
- Final Fourth Quarter 2007 GDP numbers will not be available until late First Quarter 2008, but it now looks like very little (zero to one percent) GDP growth in CY 2007's final quarter as the housing and credit crunch and near $100 per barrel oil threaten "double shocks" to the economy.
  - The Federal Reserve in efforts to bolster the seemingly weakening economy lowered the Fed Funds rate 25 basis points each at its October 30 and December 11 six-week-interval Open Market Committee meetings. The Fed Funds rate was 4.25 percent at the end of CY 2007.
  - President Bush also proposed a bailout plan for some over-extended mortgage holders, and the Federal Reserve is in the process of issuing new guidelines for the mortgage banking industry.
  - After fairly good sales Thanksgiving weekend, holiday sales were lackluster for much of December, hampered also by frequent snow and ice storms in the Midwest and Northeast.
  - After spiking to $3 per gallon for regular gasoline in November, gasoline prices were on the rise again at year's end.

CY 2007, fortunately, had no major hurricanes to hit the U.S. mainland, but there were devastating wind-driven fires in California both early and late in the year, and a crippling ice storm struck Oklahoma in December.

Basic economic number averages for CY 2007 should turn out as follows:

- Economic growth in CY 2007 should average 2.2 percent GDP gain because of fairly strong second and third quarters (3.8 percent and 4.9 percent GDP gain, respectively). A weak first quarter (only 0.6 percent growth) and little growth in the final quarter will pull the annual average down.
- Consumer spending growth should average 2.9 percent. Light vehicle sales should average a fairly good 16.1 million units. Business spending has been mediocre all year at 4.5 percent average growth. Housing has been where most of the CY 2007 economic weakness occurred. New housing starts fell .46 million units, or 25.4 percent, from 1.81 million units in CY 2006 to 1.35 million units in CY 2007. Existing home sales were down .83 million units, or 12.7 percent, from 6.51 million units in CY 2006 to 5.68 million units in CY 2007. Federal government spending should average 2.1 percent growth. State and local governments (nationwide) should spend 2.2 percent more in CY 2007 from previous revenues.
- After leaving the Fed Funds rate unchanged at 5.25 percent from June 2006 to September 2007, the Federal Reserve lowered the Fed Funds rate 50 basis points to 4.75 percent at the September 18, 2007, Open Market Committee meeting and then lowered the rate 25 basis points two more times (October 30, 2007, and December 11, 2007), ending the year at 4.25 percent. This 1.00 percent reduction in the Fed Funds rate in CY 2007 was to ease problems stemming from the worsening mortgage market/credit crunch situation. The Fed Funds rate averaged 5.03 percent for CY 2007.
- The slowing economy in CY 2007 reduced consumer prices (or inflation) from a 3.2 percent rate of increase in CY 2006 to a 2.9 percent rate of increase in CY 2007. Consumer price inflation was kept fairly high in CY 2007, by two spikes in energy prices—one in May, to $3 per gallon for regular gasoline and the other in

November, again to $3 per gallon for regular gasoline. Oil prices were on the rise again in the last days of CY 2007.

- The U.S. job growth rate for nonagricultural employment slowed from an average of 1.9 percent in CY 2006 to 1.3 percent in CY 2007 as the mortgage/credit crunch situation and high-energy prices began to impact the labor market. The national unemployment rate average held at 4.6 percent for CY 2007, although some softening became evident by year's end. The job market has thus far been amazingly resilient.

The Future

Not since CY 2001, in the days right after the September 11 terrorist attacks, has the U.S. economy been this difficult to predict. The worsening mortgage/credit crunch appears to still have a ways to run before bottoming out in mid-CY 2008. There were—it now becomes obvious—a lot of bad mortgage loans issued in the cheap credit period of CY 2002 to CY 2005. No one quite seems to know the depth of the problem. The Federal Reserve seems to be trying to get a handle on the situation by its series of Fed Funds rate reductions in CY 2007 that are expected to extend into CY 2008. It now seems worldwide investors, even Chinese banks, are stepping in to shore-up troubled mortgage lenders. With the weak U.S. dollar value currently, exports are growing rapidly and should give a big boost to the U.S. economy. World oil prices are still high. It looks like the U.S. economy will *narrowly* avoid recession, but will see three quarters of little to minimal GDP growth (Fourth Quarter CY 2007 through Second Quarter CY 2008). [A recession is generally considered to be two, or more, consecutive quarters of *negative* growth.] The big problem is any kind of further shock to the economy could probably tip the balance toward recession. The current probability of recession is an unusually high 40 percent. After mid-CY 2008, the economy is expected to start growing again.

Outlook for CY 2008

- The first half of CY 2008 is expected to be the greatest chance of recession. After minimal GDP gain in the first part of the year, growth is expected to slowly return in the last half. GDP growth is expected to average just 1.9 percent for CY 2008.

- Consumer spending will retrench to just a 1.9 percent average rate of gain as consumers bear-up under the weight of lost home equity, high fuel prices, and a lackluster job market. Light vehicle sales will average lower at 15.5 million units. Housing should finally bottom-out in CY 2008 at only an average 1.03 million new housing starts and only an average 4.70 million existing home sales. National nominal home prices should drop 6.2 percent in CY 2008. Businesses will also be tightening their belts with business spending rising a disappointing 2.7 percent on average. Federal government spending in the 2008 presidential election year will average 3.3 percent growth to forward congressional projects, try to wrap up the war in Iraq, and cover some major military projects, like ships, that will be coming to completion. Combined nationwide state and local government spending will be reined in as a result of declining revenues to 1.7 percent average growth.

- Slow economic growth the first part of the year will reduce job growth to only an 0.8 percent average, and the national unemployment rate will ratchet up to an average 5.1 percent, just over the 5.0 percent level considered to be "full employment."

- With consumer price inflation (down to 2.2 percent on average) not being a great threat, it now looks like the Federal Reserve will lower the Fed Funds rate a couple more times to 3.50 or 3.25 percent by the end of the first half. The Fed Funds rate should average 3.82 percent for the year.

Outlook for CY 2009

- GDP will be starting to recover, but will still average below the 3.0 percent long-range growth trend line, at 2.7 percent gain.

- The consumer, the biggest part of the economy, will be starting to spend again, with consumer spending growth averaging 2.5 percent. Light vehicle sales will be up to an average of 16.0 million units as interesting new models come on line. Housing will start to finally recover with new housing starts averaging 1.31 million and existing home sales averaging 5.04 million. Business spending disappoints at only 2.5 percent growth as the CY 2008 slowdown has reduced profits. Federal government spending is essentially flat (0.1 percent). State and local government spending will only increase an average 0.8 percent as reduced revenues from declining profits and falling real estate values hit home.
- Nonfarm job growth will only be slightly stronger, at 1.1 percent, and the national unemployment rate stays at 5.1 percent.
- The Federal Reserve will keep the Fed Funds rate unchanged the first part of the year but gradually inch up the Fed Funds rate late in the year as the economy recovers. Look for the Fed Funds rate to average 4.03 percent for CY 2009. Consumer price inflation will only average 1.6 percent in the aftermath of the CY 2008 slowdown.

Outlook for CY 2010

- GDP growth will average 2.8 percent in CY 2010, still below the 3.0 percent long-range trend line. Things will be gradually improving with some quarters late in the year at trend line as the CY 2008 slowdown fades into the past. Consumer spending will be rebounding, increasing 2.8 percent on average. Light vehicle sales will improve to 16.4 million units. Housing will finally be on the mend with housing starts rising to 1.54 million and existing home sales up to 5.45 million. Home prices will be starting to appreciate again. Business spending should be better with 3.4 percent growth. Federal government spending will be down 0.5 percent. Collective state and local government spending will still be feeling the effects of a couple years of reduced revenues and will rise only 0.9 percent.
- The labor market will be coming back with job growth up to 1.3 percent, as labor market demand is upped by baby boomers starting to retire. The national unemployment rate recedes to 5.0 percent, right at the "full employment" level.
- The Federal Reserve, as the economy improves, will turn its attention once again to its primary objective of controlling inflation with the Fed Funds rate averaging 4.75 percent. Consumer price inflation, while starting to creep up, will still be only 1.9 percent.

The baseline forecast has a 50 percent probability.

Major Assumptions

- The Federal Reserve on August 17, 2007, lowered the discount rates at which banks can borrow, making more money available and calming, to some extent, the mortgage and stock market fears. At the September 18, 2007, Open Market Committee meeting, the Federal Reserve, after holding the Fed Funds rate at 5.25 percent since June 2006, lowered the Fed Funds rate 50 basis points, to 4.75 percent. This, in turn, lowered interest rates on many other financial instruments. At subsequent six-week-interval Open Market Committee meetings on October 30 and December 11, the Federal Reserve again dropped the Fed Funds rate 25 basis points each time, ending the year with a Fed Funds rate of 4.25 percent. As it has done in the past, the Federal Reserve once again turned from its primary objective of keeping inflation in check to warding off dangers to economic growth and stability.

  The Federal Reserve seems to be getting a handle on the mortgage situation by its series of Fed Funds rate reductions in CY 2007 that are expected to extend into CY 2008. The Federal Reserve still has more work to do. Further cuts to nullify the recession risks will likely take place in the first half of CY 2008, bringing the Fed Funds rate down to either 3.50 percent or 3.25 percent. The Fed Funds rate should average 3.82 percent for CY 2008. Faster growth by CY 2009 should cause the Federal Reserve to reverse its actions with the Fed Funds rate averaging 4.03 percent. There should be more tightening in CY 2010 as the economy gets back nearly on track with the Fed Funds rate averaging 4.75 percent for CY 2010.

  Consumer Price Inflation is projected to be 2.9 percent in CY 2007. Consumer Price Inflation is expected to be 2.2 percent in CY 2008, 1.6 percent in CY 2009, and 1.9 percent in CY 2010 after a spike of inflation at the beginning of CY 2008 as energy prices feed through.

- No major tax initiatives are now expected before the CY 2008 presidential election. Federal budget deficits are now expected to be $163 billion in CY 2007, $294 billion in CY 2008, $340 billion in CY 2009, and $351 billion in CY 2010. Federal government spending is expected to increase 3.3 percent in CY 2008, then show almost no change in CY 2009, and be down 0.5 percent in CY 2010. An all-out attempt to win the war in Iraq in CY 2008 will mean higher spending that year. The Iraq war should wind down by CY 2009, regardless of which party sits in the White House. CY 2010 should see spending down 0.5 percent. At press time, it looks like there now may be individual and business tax rebates.

- Job growth in CY 2007 is expected to be 1.3 percent as the mortgage/credit crunch situation and high energy prices begin to slow things down. The forecast is for nonfarm payroll employment growth in the U.S. to be only 0.8 percent in CY 2008 as the economy slows even more; then job growth will rebound at a rate of 1.1 percent in CY 2009 and 1.3 percent in CY 2010.

- The national unemployment rate is projected to be 4.6 percent in CY 2007. The slow-to-no-growth economy will push unemployment back up to an average 5.1 percent in both CYs 2008 and 2009 (unemployment is always the "caboose of the economic train"). Then unemployment will be headed back down, receding to average 5.0 percent ("full employment") by CY 2010.

- Declining interest rates and slower growth in the U.S. have been reducing the value of the U.S. dollar. This makes imported goods more expensive to U.S. consumers, but it greatly improves the competitive position of U.S. goods producers. The U.S. trade (or current account) deficit peaked in CY 2006 at $812 billion. CY 2007 should see the trade deficit slide to $747 billion as exports increase faster than imports. This is the first improvement in the trade deficit since the CY 2001 recession. The trade deficit is expected to further improve to $675 billion in CY 2008 and $656 billion in CY 2009. By CY 2010, stronger growth in the U.S. with its big demand for exports will bring the trade deficit back up to $678 billion. The recent and continuing strong improvement in U.S. exports is a key reason why the baseline forecast has the U.S. economy skirting recession in the first part of CY 2008.

- The averages for CY 2007 are expected to be 1.35 million housing starts and 5.68 million existing home sales, down significantly from a peak 2.07 million housing starts and 7.08 million existing home sales in CY 2005. CY 2008 should see a bottoming out of 1.03 million average housing starts and 4.70 million average existing home sales; CY 2009 should see recovery at 1.31 million average housing starts and 5.04 million average existing home sales; and CY 2010 should have 1.54 million average housing starts and 5.45 million average existing home sales.

- U.S. light vehicle sales averaged a still fairly good 16.1 million units for all of CY 2007, and the forecast is for sales to average 15.5 million units in CY 2008, 16.0 million units in CY 2009, and 16.4 million units in CY 2010. The domestic vehicle producers will have to continue to battle the more fuel-efficient foreign-based producers for vehicle market share throughout the forecast period.

- World oil prices averaged $72 per barrel in CY 2007. Regular gasoline spiked to $3 per gallon in May and November and was on the rise at year's end. World oil prices are expected to average $77 per barrel in CY 2008, then average $74-75 per barrel in CYs 2009 and 2010 as world demand softens. The very volatile energy sector is the key risk to the forecast.

Forecast Alternatives

The **pessimistic alternative** with the housing situation worsening and oil prices going to $100 per barrel and staying there (probability is an unusually high 40 percent).

The **optimistic alternative** sees technological progress increasing productivity and jobs, and this counters the drains from housing and energy (probability is only 10 percent).


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Forecast Analysis

Last year our lead statement was "The trend-altering events that would set the pace for much slower economic growth at the end of CY 2006 and into CY 2007 actually had their beginnings sometime earlier; but the U.S. economy would go on something of a roller coaster ride—weak quarter, boom quarter, and then, subsequently weakening quarters from late CY 2005 through CY 2006 before the slowing became apparent." This trend largely came true and then extended through CY 2007. The economy has been very erratic for the last 2 years. Just when it looked like things were slowing down, they would speed up again. It is also amazing that most situations currently impacting the U.S. economy had their beginnings back around the year 2000.

The projection last spring when all the initial figures were in was 3.3 percent annual average Gross Domestic Product (GDP) growth in CY 2006, which was more than the 3.1 percent average GDP growth for all of CY 2005. (GDP is the output of goods and services produced by labor and property located in the United States and is the key measure of economic gain or loss. The three major subgroups of GDP are roughly broken down: consumer spending, 70 percent; business spending, 12 percent; and total government spending, 18 percent.) The U.S. Department of Commerce, like most all government agencies, revises its figures several times as more complete and better data becomes available. In July 2007, when all the contributing agencies had updated their information to the latest and best benchmark estimates, it turned out GDP in the U.S. grew at only an annual average rate of 2.9 percent in CY 2006.

For the first time in three years, since CY 2003, U.S. GDP growth failed to quite meet the 3.0 percent average growth rate for the past two decades. The slightly below trend-line growth in CY 2006 resulted from lackluster business spending, the developing slump in homebuilding, and the impact of energy prices. Consumer spending, exports, and federal government spending, however, remained fairly strong.

The U.S. economy at the beginning of CY 2007 appeared headed for the classic "7-year" slowdown that has happened in four of the five previous decades. The "7-year" slowdowns have been:

- ♦ CY 1957-1958—when there was a recession due to lost confidence after President Eisenhower had a heart attack.
- ♦ CY 1967—when there was negative GDP growth in the second quarter due to Vietnam War homeland production policies.
- ♦ CY 1987—when a high U.S. dollar value damaged U.S. exports and accelerated the flight of manufacturing overseas.
- ♦ CY 1997—when action by the Federal Reserve in lowering the Fed Funds rate prevented the collapse of Asian economies from turning into a recession here. The U.S. had only a mild slowdown while most of the rest of the world suffered recession.

There was no slowdown in CY 1977 because the U.S. economy was still recovering from the deep CY 1974-75 recession, which was brought on by worldwide shortages and energy problems.

The pattern seems to be: after a recession at the start of the decade (The 1940's was the only one of the last eleven decades not to have a recession in the "0 to 3" years), the economy sees good growth in the "4 to 6" years, but needs a pause by the "7 year." Usually growth is renewed in the last years of the decade.

CY 2007 seemed to be falling into the familiar "7-year" pattern with GDP growth slowing to only 0.6 percent in the first quarter. Most forecasters predicted the economy would touchdown for the "soft landing" about mid-year. A March-to-May gasoline price spike to about $3 per gallon for regular gasoline, caused by a lack of U.S. refinery capacity at the start of the summer driving season, seemed to assure the slower pace.

When GDP figures for Second Quarter 2007 rolled in, it looked like the economy was growing much faster than thought (in spite of the gas price hike). It appeared the 2007 economic "soft landing" had already occurred in the first quarter (only 0.6 percent growth), and the economy was now taking off again. Consumer spending for services, rising exports, booming commercial construction, federal government defense purchases, and increased software purchases were behind the good second quarter gain.

Rapid growth in Third Quarter 2007 and a still strong labor market suggested the economy was doing great, picking up steam from the "speed-bump" slowdown early in CY 2007. Storm clouds, however, started to gather on the horizon after midyear from two sources:

(1) The mortgage situation

(2) Energy prices

The mortgage situation

On August 9, 2007, the media blared headlines about "the quickly worsening plight of the residential building and mortgage industries" as the inventory of unsold homes and foreclosures skyrocketed, especially in the sub-prime market, and home prices nosedived.

These problems resulted from:

- Super-low interest and mortgage rates in CYs 2002, 2003, and 2004 as the Federal Reserve tried to "jump start" the then-stalled economy.
- Marginal buyers got mortgages, many of them flexible rate mortgages, in the above period; and when interest rates started to rise after June 2004, they could not afford to keep their new property purchases.
- When mortgage rates were low and the high demand was pushing up home prices, there was much speculation—buying properties, holding them a few months, then re-selling them for big profits, and repeating the cycle all over again. About CY 2006, speculators found themselves with rising mortgage rates on properties that were worth less than they had paid shortly before.

The Federal Reserve, like the cavalry, came to the rescue.

- The Federal Reserve on August 17, 2007, lowered the discount rates at which banks can borrow, making more money available and calming, to some extent, the mortgage and stock market fears. This was a somewhat "unusual" move in that the Federal Reserve does not normally make policy shifts between its six-week interval Open Market Committee meetings.
- At the next regularly scheduled Open Market Committee meeting on September 18, 2007, the Federal Reserve, after holding the Fed Funds rate at 5.25 percent since June 2006, lowered the Fed Funds rate 50 basis points, to 4.75 percent. This, in turn, lowered interest rates on many other financial instruments. At subsequent six-week-interval Open Market Committee meetings on October 30 and December 11, the Federal Reserve again dropped the Fed Funds rate 25 basis points each time, ending the year with a Fed Funds rate of 4.25 percent. Even with these accommodations, there were still grumblings from the mortgage and financial communities that the Federal Reserve should have done more by lowering the Fed Funds rate even further.
- As it has done in the past, the Federal Reserve once again turned from its primary objective of keeping inflation in check to warding off dangers to economic growth and stability.

As the mortgage situation worsened, President Bush came out in December 2007 with a plan to freeze interest rates for some sub-prime borrowers, thus limiting foreclosures. However, there is no way to avoid the overhang of unsold properties and further declines in home prices.

The Federal Reserve's actions have probably put a floor under the financial markets, but the housing market still has a ways to fall, probably not bottoming out until mid-CY 2008. Look for:

» more foreclosures

» fewer homebuyers

» home price drops nationally of 2.7 percent in CY 2007 and 6.2 percent in CY 2008.

Energy Prices

- After the spike to nearly $3 per gallon for regular gasoline in spring 2007, caused by U.S. refineries being pulled out of service to do permanent repairs to 2005 hurricane damage, gasoline prices declined about $.30-$.40 per gallon for regular gasoline in the August-September 2007 period.

- By October, oil and gasoline prices were on the rise again, this time being boosted by pressures from high world demand, especially being accelerated by the needs of rapidly expanding economies in China and India.
- By November, world oil prices were near $100 per barrel and regular gasoline again reached the $3 per gallon mark.
- Prices eased slightly from the above peaks in early December, but it now seems pretty obvious that high-energy prices will be around for the foreseeable future.
- As we go to press in the last days of the year, we are seeing oil prices in the mid-$90 per barrel range and regular gasoline right at $3 per gallon; and both seem to be heading higher. Concerns about tight inventories and supply disruptions are driving the latest rise. Price speculation is also a factor.

As a result of the impact of the recent mortgage market/credit crunch and energy shocks to the U.S. economy and their effect on consumer spending, at the end of CY 2007, the danger of recession in the U.S. is greater than it has been at anytime since the March-November 2001 recession. The recession risk is up to about 40 percent. Any further shock could easily tip the economy into recession.

CY 2007 in review

- First Quarter CY 2007 saw growth slow to only 0.6 percent, the poorest quarterly growth since Fourth Quarter 2002. Rising imports and a decline in business inventories slowed growth, but strong consumer spending kept the economy moving barely forward. Adding to the problems were spiking gasoline prices. The predicted CY 2007 "soft landing" of the economy appeared at hand.
- Surprisingly, second quarter GDP growth spiked to 3.8 percent even with the price for regular gasoline reaching $3 per gallon by May. The economy now accelerated again after the first quarter's "speed bump." Consumer spending for services, rising exports, booming commercial construction, federal government defense purchases, and increased software buying were behind the good performance.
- Third quarter GDP annualized growth was even better with GDP increasing an impressive 4.9 percent as a result of positive contributions from exports, personal consumption, government spending at all levels, equipment and software purchases, and booming commercial construction. On the other hand, the worsening mortgage situation and the bust in residential construction were negatives. Also, inventory buildups, which boosted the third quarter growth figures, are unlikely to continue into the next couple of quarters.
  - » In order to calm rising fears of major collapses in the mortgage and banking industries and stop runs on hedge funds where investors' money was tied up in illiquid mortgage assets, the Federal Reserve on August 17, 2007, lowered the discount rates at which banks can borrow, a somewhat unprecedented move between six-week-interval Open Market Committee meetings.
  - » The Federal Reserve at its next scheduled Open Market Committee meeting on September 18, 2007, lowered the Fed Funds rate 50 basis points to 4.75 percent after holding the Fed Funds rate at 5.25 percent for 15 months, since June 2006.

  - » The Federal Reserve at this time shifted away from its primary objective of keeping inflation at bay to warding off dangers to economic growth and stability.
- Final Fourth Quarter 2007 GDP numbers will not be available until late First Quarter 2008, but it now looks like very little (zero to one percent) GDP growth in CY 2007's final quarter as the housing and credit crunch plus near $100 per barrel oil threaten "double shocks" to the economy.
  - » The Federal Reserve in efforts to bolster the seemingly weakening economy lowered the Fed Funds rate 25 basis points each at its October 30 and December 11 six-week-interval Open Market Committee meetings.

» There was an outcry from the stock market and financial communities after the December 11 Fed Funds lowering that the Federal Reserve should have "done more."

» The Fed Funds rate stood at 4.25 percent at the end of CY 2007.

» President Bush also proposed a bailout plan for some over-extended mortgage holders, and the Federal Reserve is in the process of issuing new guidelines for the mortgage banking industry.

» After fairly good sales Thanksgiving weekend, holiday sales were lackluster for much of December, hampered also by frequent snow and ice storms in the Midwest and Northeast.

» After reaching $3 per gallon for regular gasoline in November, gasoline prices eased about $.15 per gallon in early December, but then began edging up again in the last days of the year.

CY 2007, fortunately, had no major hurricanes to hit the U.S. mainland, but there were devastating wind-driven fires in California both early and late in the year, and a crippling ice storm struck Oklahoma in December.

At press time, it looks like there may now be individual and business tax rebates.

Basic economic number averages for CY 2007 should turn out as follows:

♦ Economic growth in CY 2007 should average 2.2 percent GDP gain because of the fairly strong second and third quarters (3.8 percent and 4.9 percent GDP gain, respectively). A weak first quarter (only 0.6 percent growth) and little growth in the final quarter will pull the annual average down.

♦ Consumer spending growth by the 95.4 percent of the labor force that still have jobs should average 2.9 percent as consumers have been slow to forego purchases in spite of declining home equity and higher energy costs. Light vehicle sales should average a fairly good 16.1 million units, although the motor vehicle manufacturers have had to use incentives and rebates all year to keep sales this high. Business spending has been mediocre all year at 4.5 percent average growth, as businesses too have experienced higher energy and other costs. Housing has been where most of the CY 2007 economic weakness occurred. New housing starts fell .46 million units, or 25.4 percent, from 1.81 million units in CY 2006 to 1.35 million units in CY 2007. Existing home sales were down .83 million units, or 12.7 percent, from 6.51 million units in CY 2006 to 5.68 million units in CY 2007. Federal government spending should average 2.1 percent growth. State and local governments (nationwide) should spend 2.2 percent more in CY 2007 from previous revenues.

♦ After leaving the Fed Funds rate unchanged at 5.25 percent from June 2006 to September 2007, the Federal Reserve lowered the Fed Funds rate 50 basis points to 4.75 percent at the September 18, 2007, Open Market Committee meeting and then lowered the rate 25 basis points two more times (October 30, 2007, and December 11, 2007), ending the year at 4.25 percent. This 1.00 percent reduction in the Fed Funds rate in CY 2007 was to ease problems stemming from the worsening mortgage market/credit crunch situation. In December some financial/stock market critics felt the Federal Reserve should have lowered the Fed Funds rate even more. The Fed Funds rate averaged 5.03 percent for CY 2007.

♦ The slowing economy in CY 2007 reduced consumer prices (or inflation) from a 3.2 percent rate of increase in CY 2006 to a 2.9 percent rate of increase in CY 2007. Consumer price inflation was kept fairly high in CY 2007, by two spikes in energy prices—one in the March to May period to $3 per gallon for regular gasoline caused by repairs to U.S. refineries damaged by 2005 hurricanes and the other in the September to November period, again to $3 per gallon for regular gasoline, caused by a tightening world demand/supply situation. In November 2007 world oil prices were near $100 per barrel. Oil prices were on the rise again in the last days of CY 2007 after being down slightly in early December.

♦ The U.S. job growth rate for nonagricultural employment slowed from an average of 1.9 percent in CY 2006 to 1.3 percent in CY 2007 as the mortgage/credit situation and high-energy prices began to impact the labor market. The national unemployment rate average held at 4.6 percent for CY 2007, although some softening became evident by year's end. The job market has thus far been amazingly resilient, and unemployment is always the last indicator to turn around in both good times and bad.

The Future

Not since CY 2001, in the days right after the September 11 terrorist attacks, has the U.S. economy been this difficult to predict. The worsening mortgage/credit crunch appears to still have a ways to run before bottoming out in mid-CY 2008. One problem is that once mortgages are issued, they become a negotiable instrument that can be resold to investors anywhere in the world. There were—it now becomes obvious—a lot of bad mortgage loans issued in the cheap credit period of CY 2002 to CY 2005. No one quite seems to know the depth of the problem. The Federal Reserve seems to be trying to get a handle on the situation with its series of Fed Funds rate reductions in CY 2007 that are expected to extend into CY 2008. Also, the Federal Reserve has a plan to restrain mortgage lenders from making more bad loans, and the President has proposed a plan to bailout some borrowers from foreclosure. It now seems worldwide investors, even Chinese banks, are stepping in to shore-up troubled mortgage lenders. With the weak U.S. dollar value currently, exports are growing rapidly and should give a big boost to the U.S. economy. World oil prices are still high. It looks like the U.S. economy will *narrowly* avoid recession, but will see three quarters of little to minimal GDP growth (Fourth Quarter CY 2007 through Second Quarter CY 2008). [A recession is generally considered to be two, or more, consecutive quarters of *negative* growth.] The big problem is any kind of further shock to the economy could probably tip the balance toward recession. The current probability of recession is an unusually high 40 percent. After mid-CY 2008, the economy is expected to start growing again, but it is not expected to reach the long-range 20-year trend-line average of 3.0 percent GDP gain until the very end of CY 2010.

Outlook for CY 2008

- The first-half of CY 2008 is expected to be the greatest chance of recession. After minimal GDP gain in the first part of the year, growth is expected to slowly return in the last half. GDP growth is expected to average just 1.9 percent for CY 2008.

- Consumer spending will retrench to just a 1.9 percent average rate of gain as consumers bear-up under the weight of lost home equity, high fuel prices, and a lackluster job market. Light vehicle sales will average lower, but not all that much lower, at 15.5 million units. Housing should finally bottom-out in CY 2008 at only an average 1.03 million new housing starts and only an average 4.70 million existing home sales. National nominal home prices should drop 6.2 percent in CY 2008. Businesses will also be tightening their belts with business spending rising a disappointing 2.7 percent on average. Federal government spending in the 2008 presidential election year will average 3.3 percent growth to forward congressional projects, try to wrap up the war in Iraq, and cover some major military projects, like ships, that will be coming to completion. Combined nationwide state and local government spending will be reined in as a result of declining revenues to 1.7 percent average growth.

- Slow economic growth the first part of the year will reduce job growth to only an 0.8 percent average, and the national unemployment rate will ratchet up to an average 5.1 percent, just over the 5.0 percent level considered to be "full employment." There should be more jobless claims from construction, factories, financial institutions, and the retail and services sectors. Personal income should grow 4.9 percent.

- With consumer price inflation (down to 2.2 percent on average) not a great threat, it now looks like the Federal Reserve will lower the Fed Funds rate a couple more times to 3.50 or 3.25 percent by the end of the first half. Also, there is the Federal Reserve plan for tighter control on mortgage lenders and to inject more liquidity into the financial system. The Fed Funds rate should average 3.82 percent for the year.

Outlook for CY 2009

- GDP will be starting to recover, but will still average below the 3.0 percent long-range growth trend line, at 2.7 percent gain.

- The consumer, the biggest part of the economy, will be starting to spend again, with consumer spending growth averaging 2.5 percent. Light vehicle sales will be up to an average of 16.0 million units as interesting new models come on line. Housing will start to finally recover with new housing starts averaging 1.31 million and existing home sales averaging 5.04 million. Business spending disappoints at only 2.5 percent growth as the CY 2008 slowdown has reduced profits. Federal government spending is essentially flat (0.1 percent) as a new administration just taking office only has time to slightly modify the previous administration's budget. CY 2009 is something of an "in-between" year in long-range defense purchases anyway. State and local government spending will only increase an average 0.8 percent as reduced revenues from declining profits and falling real estate values hit home.

- Nonfarm job growth will only be slightly stronger, at 1.1 percent, and the national unemployment rate stays at 5.1 percent, just over the 5.0 percent "full employment" level. Employment and unemployment are always the last to turn around in both good times and bad times. Personal income is projected to rise 4.8 percent.

- The Federal Reserve will keep the Fed Funds rate unchanged the first part of the year but gradually inch up the Fed Funds rate late in the year as the economy recovers. Look for the Fed Funds rate to average 4.03 percent for CY 2009. Consumer price inflation will only average 1.6 percent in the aftermath of the CY 2008 slowdown.

Outlook for CY 2010

- GDP growth will average 2.8 percent in CY 2010, still below the 3.0 percent long-range trend line. Things will be gradually improving with some quarters late in the year at trend line as the CY 2008 slowdown fades into the past. Consumer spending will be rebounding, increasing 2.8 percent on average. Light vehicle sales will improve to 16.4 million units. Housing will finally be on the mend with housing starts rising to 1.54 million and existing home sales up to 5.45 million. Home prices will be starting to appreciate again. Business spending should be better with 3.4 percent growth. Federal government spending will be down 0.5 percent as the new administration establishes programs and priorities and defense spending shifts from Iraq to long-range projects. Collective state and local government spending will still be feeling the effects of a couple years of reduced revenues and will rise only 0.9 percent.

- The labor market will be coming back with job growth up to 1.3 percent, as labor market demand is upped by baby boomers starting to retire. The national unemployment rate recedes to 5.0 percent, right at the "full employment" level. Personal income is expected to increase 5.2 percent.

- The Federal Reserve, as the economy improves, will turn its attention once again to its primary objective of controlling inflation with the Fed Funds rate averaging 4.75 percent. Consumer price inflation, while starting to creep up, will still be only 1.9 percent.

The baseline forecast has a 50 percent probability.

In Summary

The dangerous combination of the mortgage market meltdown/credit crunch and high-energy prices escalated by high world demand have pushed the U.S. economy close to the brink of recession at the end of CY 2007 with an unusually high 40 percent chance of recession. The probable scenario in the baseline forecast is little to no growth for about three quarters followed by gradual recovery (a recession is usually two, or more, consecutive quarters of *negative* growth). The best estimate is that the U.S. economy will *narrowly* miss falling into recession and begin a slow recovery, thanks to the Federal Reserve's astute manipulation of the Fed Funds rate, reforms in mortgage lending; greater foreign trade, thanks to the weak U.S. dollar making U.S. goods cheaper in world markets, and world oil prices stabilizing around $75 per barrel. Any further shock—from energy, natural disasters, or political upheaval—could easily push the economy into recession in CY 2008.

Major Forecast Assumptions

The preceding forecast is based on the following:

Monetary policy

In CY 2001 in the aftermath of the 2001 recession and the September 11, 2001, terrorist attacks, the Federal Reserve lowered the Fed Funds rate (which in turn controls interest rates) to a 40-plus-year low of 1.00 percent. This shored-up the economy and prevented the important light vehicle and housing sectors from experiencing a recession. The Federal Reserve left the Fed Funds rate at this historic low level for almost three years, until June 2004, by which time the economy had fully recovered from the 2001 March-to-November recession. By mid-CY 2004, the Federal Reserve considered the threat of rising inflation more of a concern than boosting economic growth. In June 2004, the Federal Reserve set upon a policy of raising the Fed Funds rate 25 basis points at each of its six-week interval Open Market Committee meetings. By June 2006 the Fed Funds rate had risen 4.25 percent to 5.25 percent. Inflation had also risen, largely thanks to skyrocketing energy and home prices and higher federal deficits, with consumer price inflation up 3.2 percent in CY 2006; and GDP growth had continued (2.9 percent) in CY 2006, with the business expansion not being cut off.

The Federal Reserve, sensing the economy was cooling off, did not change the Fed Funds rate from June 2006 to September 2007, leaving it at 5.25 percent. With the bad mortgage situation, which has become much more apparent in CY 2007, twenty-twenty hindsight now tells us the Federal Reserve erred by keeping the Fed Funds rate low, too long—from CY 2001 to CY 2004—allowing excesses to build in the mortgage industry.

On August 9, 2007, the media blared headlines about "the quickly worsening plight of the residential building and mortgage industries" as the inventory of unsold homes and foreclosures skyrocketed, especially in the sub-prime market, and home prices nosedived.

These problems resulted from:

- ♦ Super-low interest and mortgage rates in CYs 2002, 2003, and 2004 as the Federal Reserve tried to "jump start" the then stalled economy.
- ♦ Marginal buyers got mortgages, many of them flexible rate mortgages, in the above period; and when interest rates started to rise after June 2004, they could not afford to keep their new property purchases.
- ♦ When mortgage rates were low and the high demand was pushing up home prices, there was much speculation—buying properties, holding them a few months, then re-selling them for big profits, and repeating the cycle all over again. About CY 2006, speculators found themselves with rising mortgage rates on properties that were worth less than they had paid shortly before.

The Federal Reserve, like the cavalry, came to the rescue.

- ♦ The Federal Reserve on August 17, 2007, lowered the discount rates at which banks can borrow, making more money available and calming, to some extent, the mortgage and stock market fears. This was a somewhat "unusual" move in that the Federal Reserve does not normally make policy shifts between its six-week interval Open Market Committee meetings.
- ♦ At the next regularly scheduled Open Market Committee meeting on September 18, 2007, the

Federal Reserve, after holding the Fed Funds rate at 5.25 percent since June 2006, lowered the Fed Funds rate 50 basis points, to 4.75 percent. This, in turn, lowered interest rates on many other financial instruments. At subsequent six-week-interval Open Market Committee meetings on October 30 and December 11, the Federal Reserve again dropped the Fed Funds rate 25 basis points each time, ending the year with a Fed Fund rate of 4.25 percent. Even with these accommodations, there were still grumblings from the mortgage and financial communities that the Federal Reserve should have done more by lowering the Fed Funds rate even further.

- As it has done in the past, the Federal Reserve once again turned from its primary objective of keeping inflation in check to warding off dangers to economic growth and stability.

The Federal Reserve's actions have probably put a floor under the financial markets, but the housing market still has a ways to fall, probably not bottoming out until mid-CY 2008. Look for:

» more foreclosures

» fewer homebuyers

» home price drops nationally of 2.7 percent in CY 2007 and 6.2 percent in CY 2008.

The Federal Reserve seems to be getting a handle on the mortgage situation by its series of Fed Funds rate reductions in CY 2007 that are expected to extend into CY 2008. Also, the Federal Reserve has a plan to restrain mortgage lenders from making more bad loans, and the President has proposed a plan to bailout some borrowers from foreclosure. Worldwide investors, even Chinese banks, are stepping in to shore-up troubled mortgage lenders.

The Federal Reserve still has more work to do. Further cuts to nullify the recession risks will likely take place in the first half of CY 2008, bringing the Fed Funds rate down to either 3.50 percent or 3.25 percent. The Fed Funds rate should average 3.82 percent for CY 2008. Faster growth by CY 2009 should cause the Federal Reserve to reverse its actions with the Fed Funds rate averaging 4.03 percent. There should be more tightening in CY 2010 as the economy gets back nearly on track. The Fed Funds rate should average 4.75 percent for CY 2010.

Consumer Price Inflation is projected to be 2.9 percent in CY 2007.Consumer Price Inflation is expected to be 2.2 percent in CY 2008, 1.6 percent in CY 2009, and 1.9 percent in CY 2010 after a spike of inflation at the beginning of CY 2008 as energy prices feed through.

Fiscal policy

Because of the then booming economy and cuts in federal expenditures, the federal budget posted surpluses in CYs 1998,1999, 2000, and 2001, with the biggest surplus of $236 billion occurring in CY 2000. Things changed after that with the CY 2001 recession and the lackluster recovery in CYs 2002 and 2003. The wars in Iraq and Afghanistan, the increase in homeland security after September 11, 2001, and the 2003 tax cuts, all put such a strain on the federal budget that deficits of $160 billion in CY 2002, $375 billion in CY 2003, and $411 billion in CY 2004 occurred. Fiscal policy in the form of the 2003 Income Tax Reform Act—which lowered income tax schedules for individuals, gave refunds of over-withheld 2003 taxes, and accelerated depreciation credits on equipment purchases made by businesses—was one of the chief measures used to jog the sluggish economy into recovery in CYs 2003 and 2004. The problem was at the end of CY 2004 that efforts to end the recession, although largely successful, had helped increase the federal deficit to $411 billion.

The federal deficit actually shrunk a bit in CY 2005 to $321 billion and even more to $248 billion in CY 2006 and $163 billion in CY 2007 because of increased revenues from the much stronger economy. Before the CY 2004 election, Congress extended most of the tax cuts for individuals in the 2003 Income Tax Reform Act, but most business tax cuts expired December 31, 2004, and have not been reinstated. Also, in CY 2005, in addition to the on-going expenditures for the Iraq and Afghanistan situations, homeland security, maintaining federal domestic programs, and paying interest costs on the federal debt, there was tsunami relief to South Asia, and much federal spending in CY 2005 and CY 2006 for hurricane rescue and relief. Federal government expenditures are expected to be up 2.1 percent in CY 2007, largely because of the efforts in Iraq.

The forecast assumes that Congress will not allow all of the Bush administration's personal tax reductions to expire, although the Democratic-controlled Congress that took office in January 2007 gives them a much harder look. It is assumed Congress will tinker enough to raise federal personal income tax receipts, little by little, back toward their historic average of 8.2 percent of GDP, to the level necessary to maintain the federal government. CY 2008 will likely see another temporary "fix" that will prevent the individual Alternative Minimum Tax (AMT) from raising the tax burden. Thereafter, the President and Congress will prevent the AMT from kicking in too strongly, but they will gradually broaden the income tax base in order to make up the lost revenues. No major new tax initiatives are now expected before the CY 2008 presidential election.

Federal budget deficits are now expected to be $294 billion in CY 2008, $340 billion in CY 2009, and $351 billion in CY 2010. Federal government spending is expected to increase 3.3 percent in CY 2008, then show almost no change in CY 2009, and be down 0.5 percent in CY 2010. An all-out attempt to win the war in Iraq in CY 2008 will mean higher spending that year and there are long-range projects coming to completion then. The Iraq war should wind down by CY 2009, regardless of which party sits in the White House, and this is an off-year for federal defense projects. Federal spending is expected to see little change (+0.1 percent). CY 2010 should see spending down 0.5 percent. State and local government spending was up 2.2 percent in CY 2007 and should expand 1.7 percent in CY 2008, 0.8 percent in CY 2009, and 0.9 percent in CY 2010. The slowdown in the rise of real estate values will affect local property taxes, and revenues in general will be down.

At press time, it looks like there now may be individual and business tax rebates.

Every four years when the national presidential elections are held, people expect to see instantaneous *change* in federal spending and policies. It just does not happen that way. The federal government is so big, it is like a battleship—it takes time to turn it around. When the new President takes office at the end of January, the current federal fiscal year is already 4 months' old, or one-third over. Appropriations have long been made and some already spent. The next fiscal year starting in October is already well along in the budget process. About all the new President can do is hope to modify some appropriations. It is October of the following year (20 months after taking office) that the new President really has a large say in the spending and policy process.

Employment and income

National nonagricultural payroll employment (the job count) was off for three years, showing no growth in CY 2001 and losses of 1.1 percent in CY 2002 and 0.3 percent in CY 2003 on average. Job growth resumed in March 2004, but it was spotty, coming in fits and spells all year. Nevertheless, U.S. nonagricultural payroll employment registered 1.1 percent average job growth for CY 2004.

In CY 2005, the job growth expansion finally got going as large states that had no job growth in CYs 2002, 2003, and 2004 resumed expansion. By the end of CY 2005, the U.S. economy had created over 2,000,000 more jobs than the previous peak of 131.8 million jobs achieved in CY 2000. U.S. job expansion was 1.7 percent in CY 2005. The U.S. job expansion in CY 2006 was 1.9 percent as upward revisions were made in the figures in some large states. Job growth in CY 2007 is expected to be 1.3 percent as the mortgage/credit crunch situation and high energy prices begin to slow things down. The forecast is for nonfarm payroll employment growth in the U.S. to be only 0.8 percent in CY 2008 as the economy slows even more; then job growth will rebound at a rate of 1.1 percent in CY 2009 and 1.3 percent in CY 2010.

The point was reached where additional workers needed to be hired to handle the increased demand, and productivity growth slackened from 2.7 percent in CY 2004 to 1.9 percent in CY 2005, and 1.0 percent in CY 2006. Productivity is expanding 1.7 percent in CY 2007 with the weaker economy. Productivity is expected to grow 1.8 percent in CYs 2008, 2009, and 2010. Off-shoring will continue to cost the U.S. economy jobs as the pressure on companies to use every possible means of cutting costs in order to maintain their competitive edge continues. Most vulnerable sectors will continue to be manufacturing and call centers. With labor markets still fairly tight, wage increases are projected to be in the 3.0 percent range annually.

The federal minimum wage began rising from $5.15 to $7.25 per hour in three annual increments of $.70 each on July 24, 2007. With it being nearly a decade since the minimum wage has changed and the market having already bid the wage level well above $6 per hour in most places, the higher minimum wage will have relatively little impact on the overall economy. In fact, the new minimum wage levels will act something like a tax cut, giving a slight boost to economic growth each time they rise. Workers at the minimum spend all their wage increase, and they spend most of it at the same retail and service establishments where they work. Thus, the rise in the minimum wage increases the circulation of money and means more business for these same retail and service establishments. In the short run, it slightly stimulates the economy, but down the road, it also causes slightly higher inflation.

The high-wage, high-skilled professional and business service categories will still be where the most and best jobs may be found. The information industry nationally is starting to see job growth again. The trade, leisure and hospitality, finance, and service sectors will need additional workers to meet demand and turnover. The airline industry is expanding again. Durable goods manufacturing may barely hold its own, but more losses are likely in nondurables. Construction employment will be waning in many places.

The national unemployment rate, a lagging economic indicator, moved up from a 31-year low of 4.0 percent in CY 2000 to 4.7 percent in CY 2001, 5.8 percent in CY 2002, and 6.0 percent in CY 2003. The unemployment rate peaked at 6.3 percent in mid-CY 2003 and then receded to a 5.5 percent average in CY 2004 and a 5.1 percent average in CY 2005. In CY 2006, the jobless rate fell below the 5.0 percent "full employment" level to a 4.6 percent average and is projected to be 4.6 percent again in CY 2007. The slow-to-no-growth economy in CY 2008 will push unemployment back up to average 5.1 percent in both CY 2008 and CY 2009 (unemployment is always the "caboose of the economic train"). Then unemployment will be headed back down, receding to average 5.0 percent ("full employment") by CY 2010.

Because of low domestic birth rates twenty to thirty years ago, the U.S. economy increasingly has to import workers just to grow and fill all the jobs that need filling. This problem will become more acute a few years out as the baby-boom generation begins to retire in large numbers. Providing a well-trained labor force will become even more challenging as time goes on.

Foreign trade

Declining interest rates and slower growth in the U.S. have been reducing the value of the U.S. dollar. This makes imported goods more expensive to U.S. consumers, but it greatly improves the competitive position of U.S. goods producers. The significant cumulative reduction in dollar value since CY 2002 has greatly improved the U.S. foreign trade position. Much of the rest of the world in CY 2007 was showing signs of *finally* recovering from the CY 2001 recession, and this means they are now able to buy more goods from us. Growth in the Asian countries still looks strong, but the high value of the Euro is beginning to slow growth in Europe as European products are becoming less competitive to U.S. goods. The U.S. trade (or current account) deficit peaked in CY 2006 at $812 billion. CY 2007 should see the trade deficit slide to $747 billion as exports increase faster than imports. This is the first improvement in the trade deficit since the CY 2001 recession. The trade deficit is expected to further improve to $675 billion in CY 2008 and $656 billion in CY 2009. By CY 2010, stronger growth in the U.S. with its big demand for exports will bring the trade deficit back up to $678 billion. Except for Asia and some commodity-exporting countries, world growth is expected to slow following the U.S.'s lead. High oil prices will benefit Canada, Mexico, Great Britain, and Russia. Economic growth in Europe and Japan will slow because of strong currencies, the credit crunch, and high oil prices. Since mortgages are now traded around the world, the U.S. housing situation will be a drag on some countries. China is expected to continue to lead the world in growth (growing over 10 percent annually) until the August 2008 Beijing Olympics, after which there may be some credit tightening. Growth in India, which is domestic-led, should advance in the 8-9 percent range.

The recent and continuing strong improvement in U.S. exports is a key reason why the baseline forecast has the U.S. economy skirting recession in the first part of CY 2008.

Housing and light vehicles

The Federal Reserve, to prevent the U.S. economy from sinking into a deeper recession after the March to November CY 2001 recession and in the low-growth period that followed in CYs 2002 and 2003, instituted the lowering of the Fed Funds rate, and, in turn, interest rates, to a historically unprecedented 1.00 percent low. The Fed Funds rate stayed at the extremely low 1.00 percent rate for almost three years, until June 2004.

These very low interest rates allowed the housing and motor vehicle industries, two important sectors of the economy that usually collapse at the first sign of recession, to boom from CY 2002 into CY 2006.

Housing—The lower mortgage rates allowed by the low interest rates permitted many renters to become first-time homeowners and existing homeowners to trade-up to larger houses, using the equity built-up in their previous homes. The sellers' housing market was so good that things began to overheat, especially in some West and East Coast markets, with people quickly turning over houses on speculation for big profits and the average U.S. home price more than doubling.

The Federal Reserve had been increasing the Fed Funds rate and, in turn, mortgage rates since June 2004, increasing the Fed Funds rate by 4.25 percent by June 2006 to 5.25 percent, at which time, it ceased to increase, and then left it unchanged until September 2007. The housing market peaked in First Quarter CY 2006, with housing starts being 2.12 million and existing home sales being 6.79 million, as consumers enjoyed "one last fling" before rising home prices and mortgage rates made housing unaffordable. Since the First Quarter CY 2006, new housing starts and existing home sales have both plummeted, being down to 1.17 million for starts and 4.96 million for existing home sales by Fourth Quarter CY 2007. Mortgage refinancing all but dried up. The averages for CY 2007 are expected to be 1.35 million housing starts and 5.68 million existing home sales, down significantly from 2.07 million housing starts and 7.08 million existing home sales in CY 2005. CY 2008 should see a bottoming out of 1.03 million average housing starts and 4.70 million average existing home sales; CY 2009 should see recovery of 1.31 million average housing starts and 5.04 million average existing home sales; and CY 2010 should have 1.54 million average housing starts and 5.45 million average existing home sales.

On August 9, 2007, the media blared headlines about "the quickly worsening plight of the residential building and mortgage industries" as the inventory of unsold homes and foreclosures skyrocketed, especially in the sub-prime market, and home prices nosedived.

These problems resulted from:

- Super-low interest and mortgage rates in CYs 2002, 2003, and 2004 as the Federal Reserve tried to "jump start" the then-stalled economy.
- Marginal buyers got mortgages, many of them flexible rate mortgages, in the above period; and when interest rates started to rise after June 2004, they could not afford to keep their new property purchases.
- When mortgage rates were low and the high demand was pushing up home prices, there was much speculation—buying properties, holding them a few months, then re-selling them for big profits, and repeating the cycle all over again. About CY 2006, speculators found themselves with rising mortgage rates on properties that were worth less than they had paid shortly before.

- The problem is that once a mortgage is issued, it is like any other negotiable instrument—it is sold and resold over and over, often going anywhere in the world, thus you have foreigners holding bad U.S. mortgages. No one seems to know the full scope and magnitude of the problem.

The Federal Reserve, like the cavalry, came to the rescue.

- The Federal Reserve on August 17, 2007, lowered the discount rates at which banks can borrow, making more money available and calming, to some extent, the mortgage and stock market fears. This was a somewhat "unusual" move in that the Federal Reserve does not normally make policy shifts between its six-week interval Open Market Committee meetings.
- At the next regularly scheduled Open Market Committee meeting on September 18, 2007, the Federal Reserve, after holding the Fed Funds rate at 5.25 percent since June 2006, lowered the Fed Funds rate 50 basis points, to 4.75 percent. This, in turn, lowered interest rates on many other financial instruments. At subsequent six-week-interval Open Market Committee meetings on October 30 and December 11, the Federal Reserve again dropped the Fed Funds rate 25 basis points each time, ending the year with a Fed Fund rate of 4.25 percent. Even with these accommodations, there were still grumblings from the mortgage and financial communities that the Federal Reserve should have done more by lowering the Fed Funds rate even further.

- As it has done in the past, the Federal Reserve once again turned from its primary objective of keeping inflation in check to warding off dangers to economic growth and stability.

As the mortgage situation worsened, President Bush came out in December 2007 with a plan to freeze interest rates for some sub-prime borrowers, thus limiting foreclosures. However, there is no way to avoid the overhang of unsold properties and further declines in home prices.

The Federal Reserve's actions have probably put a floor under the financial markets, but the housing market still has a ways to fall, probably not bottoming out until mid-CY 2008. Look for:

» more foreclosures

» fewer homebuyers

» home price drops nationally of 2.7 percent in CY 2007 and 6.2 percent in CY 2008.

The mortgage and foreclosure problems are much worse in about five states:

» California, Florida, and Nevada, where there has been much speculation in the condo market.

» Michigan and Ohio where auto industry workers have lost jobs and subsequently lost their houses.

Northern Virginia is the only Virginia market which has been significantly impacted by the mortgage situation.

Commercial construction has been strong in CY 2007, held up by rising utilization rates, and falling office vacancy rates. Although financing rates are higher now, they are still moderate by past commercial standards. Engineering and architectural firms are still working on a large number of projects, and many projects already underway will take a couple of more years to complete. Also many commercial projects underway are for roads and schools which are financed differently.

Light vehicles—The low financing costs from CY 2002 into CY 2006 also boosted the light vehicle market. Whenever vehicle sales would show signs of slowing, the vehicle manufacturers would come up with new financing schemes to keep vehicles moving out of the showrooms. Of course, the vehicle makers pushed high-content sport utility vehicles (SUVs) and light trucks because there was so much more profit for the manufacturers in producing them rather than more fuel-efficient cars. American consumers, because of the long distances traveled and the variety of things hauled, always seem to prefer big vehicles to smaller ones, provided the fuel to run them is cheap. For a time, interest rates were so low, that the manufacturers could afford to give away the financing, if consumers would just buy the highly profitable SUVs and light trucks.

The CYs 2006 and 2007 gasoline price spikes to $3 per gallon in the U.S. for regular gasoline have put a damper on the market for big SUVs and pickup trucks and reduced light vehicle sales from 17.0 million units in CY 2005 to 16.5 million units in CY 2006 and 16.1 million units in CY 2007. The fact that some domestic manufacturers continued to produce vehicles after sales softened in Second and Third Quarters CY 2006, because under their contracts with the auto workers' union, they had to pay the workers whether they produced any vehicles or not, bloated vehicle inventories at the start of CY 2007. The manufacturers have done quite an amazing job through rebates and the various incentives to sell as many vehicles as they have in CY 2006 and CY 2007. The problem is the rebates and incentives have caused the domestic manufacturers to lose more money. There is some question as to how long Ford and Chrysler, LLC can survive their current financial situations.

The domestic vehicle producers are still stuck with a fairly fuel-inefficient inventory of vehicles at the start of CY 2008 because of the problem that it takes at least three years to get a new vehicle from design conception to showroom. Much of the current inventory and those new models just now coming into the showrooms were designed back in the now relatively "cheap" gasoline days of CY 2003 and CY 2004 when U.S. consumers said they wanted "big vehicles" with "high horsepower engines." The Japanese- and Korean-based vehicle producers, perhaps because they sell more products in the rest of the world where fuel prices are higher than the domestics, have done a better job of producing fuel-efficient hybrids and alternate fuel vehicles. A problem with the alternate fuel vehicles is that there are less than 1,000 service stations nationwide that sell E-85 ethanol and these are concentrated in the middle of the country. Therefore, Toyota, Honda, and the Koreans continue to take vehicle market share away from the domestic vehicle makers.

U.S. light vehicle sales averaged a still fairly good 16.1 million units for all of CY 2007, and the forecast is for sales to average 15.5 million units in CY 2008, 16.0 million units in CY 2009, and 16.4 million units in CY 2010. These are not really bad vehicle sales numbers, everything considered, but the domestic vehicle producers will have to continue to battle the more fuel-efficient foreign-based producers for vehicle market share throughout the forecast period.

Oil and energy

In the low-economic growth period, in CYs 2001 and 2002, world oil prices were around $26 per barrel, and the pump price for regular gasoline in the U.S. slipped to $1 per gallon, lower than a decade earlier. Between CY 2003 and CY 2004, the U.S.-instigated Iraq War, general political upheavals and supply dislocations in the Middle East oil-producing countries, and hurricanes in the U.S. Gulf Coast region caused world oil prices to inflate to about $41 per barrel and the U.S. pump price for regular gasoline to double. Adding pressure to the world oil market were the sharply higher fuel demands of the emerging economies of China and India.

Spring 2005 saw a continued heightening of demand and concerns over government change in Iran, a major oil producer, boost oil prices past $60 per barrel. The August-September 2005 period saw hurricanes Katrina and Rita devastate the U.S. Gulf Coast oil-producing facilities; and as a result, world oil prices topped $70 per barrel with U.S. pump prices for regular gasoline up to $3 per gallon. At the end of CY 2005, OPEC (the oil cartel) stepped up oil production and the damaged U.S. Gulf Coast refineries started to come back into production, so world oil prices slid to $60 per barrel and the U.S. pump price for regular gasoline fell to about $2.15 per gallon.

This respite was short-lived as continued high world demand, the fear of more political unrest in the volatile Middle East, and more U.S. storm fears pushed world oil prices to $80 per barrel by July 2006, and the U.S. pump price for regular gasoline went over $3 per gallon. By October 2006, the impact of a slowing economy generating less demand, a calmer Middle East, and no major hurricanes in the U.S. that year lowered world oil prices below $59 per barrel and the U.S. pump price for regular gasoline back to right at $2 per gallon. World oil prices averaged $66 per barrel for CY 2006.

In the March-to-May period of CY 2007, there was a spike to nearly $3 per gallon for regular gasoline as U.S. refineries were pulled out of service to do permanent repairs to 2005 hurricane damage. World oil prices stayed $65-$70 per barrel. Gasoline prices declined about $.30-$.40 per gallon for regular gasoline in the August-September 2007 period after the peak summer driving season was over.

By October 2007, oil and gasoline prices were on the rise again, this time being boosted by pressures from high world demand, especially being accelerated by the needs of rapidly expanding economies in China and India.

By November, world oil prices were near $100 per barrel, and regular gasoline again reached the $3 per gallon mark.

Prices eased slightly from the above peaks in early December.

As we go to press in the last days of the year, we are seeing oil prices in the mid-$90 per barrel range and regular gasoline right at $3 per gallon, and both prices seem to be heading higher. Concerns about tight inventories and supply disruptions are driving the latest rise. Price speculation is also a factor.

World oil prices averaged $72 per barrel in CY 2007. They are expected to average $77 per barrel in CY 2008, then average $74-75 per barrel in CY 2009 and CY 2010 as world demand softens. The very volatile energy sector is the key risk to the forecast.

Forecast Alternatives

The pessimistic alternative with the housing situation worsening and oil prices going to $100 per barrel and staying there (probability is an unusually high 40 percent).

Housing starts fall below 870,000 in CY 2008, and existing home sales do not bottom out until CY 2009 with home prices dropping another 10 percent. The national unemployment rate rises to 6.1 percent by CY 2009. The combination of falling home equity wealth, high energy costs, and lost jobs spooks consumers, who retrench further on spending, pushing light vehicle sales below 14. 5 million units. Another shock, either natural or political, in the current vulnerable situation easily triggers a recession. There is little GDP growth in CY 2008 (three slightly negative quarters) and less than 1.5 percent GDP gain in CY 2009. Business spending and export growth are also weaker. The Federal Reserve drops the Fed Funds rate to 3.00 percent late in CY 2008, and the economy starts a weak recovery. A recession in CY 2008 would probably be fairly mild, like the March-to-November 2001 recession. Unfortunately, the more talk there is about recession, the more likely one is to occur as consumers and businesses get spooked and stop spending.

It is possible a recession could be spotty. Some areas that have excesses in real estate speculation, like California, Florida, and Nevada, will sink into recession while other areas that are strong in business, health, and education services, like Virginia, may escape recession.

The optimistic alternative sees technological progress increasing productivity and jobs, and this counters the drains from housing and energy (probability is only 10 percent).

In this scenario, technology and productivity resurface to lead the economy on another growth spurt into the next decade—a period similar to the late 1990s. The Federal Reserve's and the President's fixes to the mortgage/credit crunch situation work better and faster than expected, and U.S. exports strengthen even more. Increased supply lowers world oil prices to the mid-$60 per barrel range. Lastly, CY 2008 is a presidential election year in the U.S., and the economy historically usually improves in presidential election years.

U.S. Forecast Data Summary

(Baseline Forecast Averages)

	Percent (except as noted)			
	CY 2007	CY 2008	CY 2009	CY 2010
Real GDP	2.2	1.9	2.7	2.8
Personal Income	6.2	4.9	4.8	5.2
Consumer Spending (*Real*)	2.9	1.9	2.5	2.8
Business Investment (*Real*)	4.5	2.7	2.5	3.4
Federal Government Spending (*Real*)	2.1	3.3	0.1	-0.5
State and Local Government Spending (*Real*)	2.2	1.7	0.8	0.9
Housing Starts (*Million*)	1.35	1.03	1.31	1.54
Existing Home Sales (*Million*)	5.68	4.70	5.04	5.45
Light Vehicle Sales (*Million Units*)	16.1	15.5	16.0	16.4
Nonagricultural Employment	1.3	0.8	1.1	1.3
Unemployment Rate (*Levels*)	4.6	5.1	5.1	5.0
Consumer Price Inflation	2.9	2.2	1.6	1.9
Oil Prices (*$ per Barrel*)	72	77	74	74
Industrial Production	1.9	1.6	2.6	2.5
Federal Government Surplus (*Billion Dollars*)	-163	-294	-340	-351
Current Account Balance (*Billion Dollars*)	-747	-675	-656	-678
Federal Funds Rate (*Levels*)	5.03	3.82	4.03	4.75
3-month T-Bill Rate (*Levels*)	4.36	3.07	3.84	4.58

The baseline forecast has a 50 percent probability.

Virginia Forecast

Our projections show that calendar year (CY) 2007 was another good year for job growth in Virginia. The projected statewide job gain for CY 2007 is 55,600 for a 1.5 percent rate of gain from the CY 2006 nonfarm employment average of 3,726,200 to 3,781,800. While still a good showing, the projected 2007 Virginia job growth is expected to be slightly less than the 61,800, or 1.7 percent, job gain recorded in CY 2006. Average annual job growth for the 3-year period from CY 2005 to CY 2007 was 66,000, or 1.8 percent. Like in the nation, the job expansion in Virginia after several excellent years was being slowed by the still worsening mortgage market/ credit crunch situation and its impact on housing construction and sales and generally high energy prices. Both the mortgage and energy situations were reducing consumer confidence and consumers' ability to spend. Job growth in Virginia (on an annual basis) slowed to 1.3 percent in both First and Second Quarters 2007, but then sprinted to 1.8 percent in the third quarter as the state appeared to shake off the slight slump in the first half of 2007. Factors causing the third quarter surge in Virginia were the large amount of commercial construction going on here and a record tourist season spearheaded by the national attention that the Jamestown 400th anniversary celebration has attracted. When these travelers came to Virginia, they spent at the state's retail stores. Also helping the Virginia economy in CY 2007 were the large almost recession-proof professional and business services and private education and health care sectors. The professional and business services and private education and health care industries alone provided almost one-half, (48.8 percent) of this year's new jobs. U.S. job growth was 1.7 percent in CY 2005, 1.9 percent in CY 2006, (large upward benchmark revisions in several largest states), and 1.3 percent in CY 2007 (projected).

For the unemployment side of the labor force equation, Virginia was consistently among the four or five states with the lowest jobless rates in the country through most of CY 2007. This year, the little western and Rocky Mountain states of Idaho, Utah, Montana, Wyoming, North Dakota, and South Dakota have had quite low unemployment rates because of expanding energy and technology industries. There has been a trend for some technology industries to escape the high cost of doing business in California to move from Silicon Valley to small towns in these rural western states. When these technology companies come into the small population western states, they drive unemployment down to the 2.0 percent, or less, labor shortage levels. Virginia consistently has the lowest unemployment rate of the 12 largest states with nonfarm employment bases over 3.5 million jobs. Only Florida, of the largest states, is anywhere close to having as low an unemployment rate as Virginia. Unemployment in Florida has increased in recent months because of so many bad mortgages there.

Virginia's CY 2007 job growth continues to be led by the high-tech, high-wage professional and business services sector, booming commercial construction activities, and an expanding private education and health care sector, especially in the regional centers that serve all of Virginia as well as other parts of the upper South. Still adding to Virginia's employment base were the state's many defense and national security contractors, although these activities appear to have now plateaued.

Virginia's average labor force and total place-of-residence employment also saw growth in CY 2007. The state's labor force expanded by 57,100, or 1.4 percent, to a record 4,055,700; and total employment grew by 55,100, or 1.4 percent, to 3,934,100. The number of unemployed workers rose by 2,100 to 121,700. The state unemployment rate was a projected 3.0 percent in CY 2007, unchanged from CY 2006 with some months being lower and some months being higher. With Virginia having such a low jobless rate compared to other states and all the technology job opportunities in this state, Virginia is attracting job seekers from other places. They quickly find work here, but while they are conducting their job search, they add to Virginia's unemployment numbers. The national unemployment rate is projected to average 4.6 percent in CY 2007, which is still considerably higher than Virginia's low jobless rate.

Nonagricultural employment in Virginia by the NAICS* industry sectors in CY 2007

*NOTE: Industry projections are all based on the North American Industry Classification System (NAICS), which was implemented nationwide by the U.S. Bureau of Labor Statistics, with benchmark revisions in 2003. Industry comparisons are by the NAICS codes, which replace the Standard Industrial Classification (SIC) codes formerly in use.

Total nonagricultural place-of-work employment is expected to average 3,781,800 in CY 2007; this represents a 55,600, or 1.5 percentage point, increase over CY 2006.

A. Industries with rising employment averages in CY 2007.

- The large **professional and business services** sector was again the job growth leader in CY 2007, providing exactly one-third (33.3 percent) of the year's job gain, adding 18,500 jobs, or 3.0 percent, to a total of 645,900. The professional and business services growth was concentrated in Northern Virginia, the state's largest metropolitan area, but this industry also saw gains in most of the state's other metro areas. The professional and business services industry was where large numbers of new college graduates found employment in CY 2007. Subsectors where much of this growth took place were computer systems software design, engineering and architectural services, scientific and consulting services, management of companies, and professional employment service specialists. A portion of the growth was as a result of these firms contracting with the federal government, especially in Northern Virginia and Hampton Roads, but the bulk of their work is now with the private sector. It was pretty much a repeat of the boom times of the 1980s and 1990s for this industry in Virginia in CY 2007.

- **Wholesale and retail trade employment** added 9,600 jobs for a 1.8 percent gain to a level of 552,800. The travelers attracted to Virginia by all the publicity about the 400th anniversary Jamestown celebration spent money at Virginia retail stores. Virginia's increasingly popular sales tax holiday for back-to-school shopping in August, again, also gave a boost to retailers. High fuel prices hurt motor vehicle sales this year as well as reducing business at discount and bargain merchandise stores. The slowdown in home sales reduced demand at furniture and appliance stores. Building material dealers benefited from the very strong commercial construction market. Virginia's 1.8 percent trade job gain this year was faster than the 1.5 percent historic growth average for this industry.

- **Private education and health services employment** advanced by 8,600 jobs, or 2.1 percent, to a total of 413,300 with much of the gain being in the medical, nursing home, and private social services fields. Private schools and colleges also added additional staff in CY 2007. Virginia has a number of centers, including Richmond, Norfolk, Roanoke, Charlottesville, Lynchburg, Harrisonburg, and Blacksburg that provide health and educational services to both statewide and regional clients.

- **Total government employment** added 6,900 workers, or 1.0 percent, to a level of 681,100. Combined state and local government employment grew 7,600, or 1.5 percent, to 528,200. Most of the additions were in local school systems. In many smaller jurisdictions the local school system is the largest single employer. Federal government employment, at an average of 153,000, was 600, or 0.4 percent, lower in CY 2007 as all federal agencies faced severe budget restraints due to Iraq war costs. Federal employment accounts for four percent of Virginia's employment base—double the national average.

- The **leisure and hospitality industry** managed to add 5,700, or 1.7 percent, more jobs to a level of 343,800 in CY 2007. Most of the job gain was in the large food service and accommodations portion of this industry. These increases came in spite of high gasoline prices all year that were highest during the May to July peak travel season. The travel industry's big event this year was the 400th anniversary Jamestown celebration which kicked off with the May visit of Queen Elizabeth II of England and the May 13 Commemorative ceremony. Jamestown brought Virginia national attention and attracted many travelers to the state. Business during the fall leaf season was fairly good even though the fall foliage display was later than usual and fuel prices were rising again.

- **Finance, insurance, and real estate employment** grew by 2,900 jobs, or 1.5 percent, to a total of 198,600. Many subsectors saw some growth. Banks and commercial real estate seemed to have the most expansion. There were layoffs in mortgage banking and consumer credit, especially late in the year.

- **Transportation, warehousing, and utilities** had a much better year in CY 2007 than it has had in the past several years, growing by 2,800 jobs, or 2.3 percent, to a level of 122,600. The airlines rebounded with more people traveling than anytime since the September 11, 2001, terrorist attacks, although there was much frustration with late and cancelled flights and lost luggage. The trucking and shipping lines had much merchandise to move. The Jamestown events attracted more travelers to Virginia and the low value of the U.S. dollar made Virginia an attractive destination for foreign visitors.

- **Miscellaneous services employment** was up 2,500 jobs, or 1.4 percent, to a level of 184,200. Much of the increase was in the traditional categories of personal and repair services. Employment at Virginia-based charity and grant-making organizations was also up.

- **Mine employment** in Virginia grew by 100 jobs, or 0.9 percent, to 11,400. The demand for Virginia-mined coal always rises with total energy prices as some utilities switch to the cheapest alternative fuel. Virginia mines are also having to hire new workers to replace retiring miners who first went to work in the 1970's coal boom. On the other hand, some Virginia coal seams are running out and there is much competition from mines in the Rocky Mountain states.

- **Information industry** average employment for CY 2007 was unchanged from the CY 2006 average level at 92,000. There was slight growth in the news media and printing, but the large telecommunications subsector remains very competitive. America On Line (AOL) has reduced Virginia employment as its dominance of the internet has waned.

B. Industries with declining employment averages in CY 2007

- **Construction employment** ended the year with its employment average of 249,200 being 200, or 0.1 percent, below the 249,400 average job level for CY 2006. All of the decline is in single family home building because of the mortgage situation. Commercial construction, on the other hand, soared to new highs in Virginia in CY 2007, pushing total construction to a new all-time high of 256,500 in August. Construction totals were off slightly from corresponding CY 2006 monthly levels in the first and second quarters, but thanks to all the commercial work, surpassed all previous levels for the third quarter. Still, in the end, residential losses slightly outweighed commercial gains, and the average construction employment level was slightly off from CY 2006.

- **Manufacturing employment,** at 286,900, was down 1,800, or 0.6 percent with losses of 1,000, or 0.8 percent, in nondurable goods and 900, or 0.5 percent, in durable goods. The biggest single factory loss in Virginia this year was the 2,400 reduction with the closing of the Norfolk Ford Motor Company truck assembly plant in June 2007. Durable goods also saw sizable losses this year in furniture manufacturing. Textile mill employment continued to dwindle, but at least there were no closings of the magnitude of the CY 2006 Dan River Mills and Burlington, Hurt, Virginia, plants. Textile mill employment in Virginia, now at 8,500, is one-fifth the size it was in the early 1970s when it was Virginia's largest factory sector. The current largest Virginia factory sector at 37,300, is transportation equipment. Even with the Ford loss this year, the significant-sized shipbuilding portion of transportation equipment was holding steady. Total manufacturing in Virginia last saw job growth in CY 1997 with foreign competition accounting for much of the job reduction.

All ten Virginia metropolitan and most non-metropolitan areas saw positive job growth in CY 2007.

All ten Virginia metropolitan areas experienced annual job growth in CY 2007. Even the Danville area, which has had big job losses in recent years, turned positive in CY 2007. The best percentage job gains this year were in the state's six smaller- and medium-sized metropolitan areas—Charlottesville, Harrisonburg, Winchester, Virginia/West Virginia, Lynchburg, Blacksburg-Christiansburg-Radford, and Danville, especially those with dominant educational institution employers. Still, these six metropolitan areas only account for 12 percent of Virginia's nonagricultural employment. Because of a lot less mortgage/real estate activities, a lackluster federal sector, and higher energy costs, job growth has slowed to around the 1.5 percent state average in the four largest metropolitan areas—Northern Virginia, Virginia Beach-Norfolk-Newport News, Virginia/North Carolina, Richmond, and Roanoke—which constitute 76 percent of the state nonfarm employment base. Although Northern Virginia growth has slowed from 2.4 percent in CY 2006 to 1.5 percent in CY 2007 for the above reasons, Northern Virginia still provided 36.0 percent of all the new jobs in Virginia. The robust professional and business services and private education and health care sectors, concentrated mostly in the metropolitan areas, are "the engines" of Virginia's job growth. Many of the rural areas (which make up the remaining 12 percent of Virginia nonfarm employment) saw job growth with the exceptions being the Martinsville micropolitan area (smaller than a metropolitan area) and the Galax labor market area, which saw more factory job losses. Rural areas in the upper-half of the state generally continue to outpace those in the lower-half of the state.

- **Charlottesville** is consistently one of the best smaller job markets in the United States. Annual employment gains are 3,500, or 3.4 percent, and the area's nonfarm job base is now 104,000, having topped 100,000 for the first time in CY 2006.The driver of the local economy is the University of Virginia and the University Medical Center-state government institutions, which together comprise over one-fifth of area employment. Also helping are the retail and support industries that go along with the university and the research and development, professional and business services, and health-related industries that have located nearby. Thomas Jefferson's home at Monticello, the Skyline Drive, and the Wintergreen resort boost tourism activities. Most manufacturing that is left in the area is high-tech.

  Unemployment in the Charlottesville area has averaged just above labor shortage in the low 2 percent range in CY 2007. Charlottesville area unemployment is usually ranked in the best half-dozen of the nation's 369 metropolitan areas and has ranked first or second several times in the recent past. Albemarle, Fluvanna, and Greene counties sometimes have labor shortage, 2.0 percent or less, unemployment rates.

- **Harrisonburg** is also one of the best small job markets in the country with the anchor James Madison University state government complex and its research and support industries. The area has a stable mix of agricultural products, heavy industry, high technology, and a start-up biotech center. The Harrisonburg area is expected to see 2,000 new jobs, or 3.0 percent, job growth in CY 2007 to its 67,000 nonfarm employment base.

  Unemployment remains low to mid-2 percent also putting Harrisonburg among the nation's dozen best small metropolitan areas.

- **Winchester, Virginia/West Virginia** added 1,400 jobs, or 2.5 percent, to its 61,000 nonfarm employment base. In recent years, the Winchester area has metamorphosed from a largely agricultural and manufacturing economy to a services-based economy, much like its large neighbor to the east, Northern Virginia. Many of the same economic influences that benefit Northern Virginia now also benefit the Winchester area. Some housing-related furloughs, however, did surface in CY 2007.

Unemployment in the Winchester area was close to 3.0 percent in CY 2007 with vehicle- and housing-related furloughs in Frederick County and in neighboring Shenandoah County and West Virginia, where some Winchester area residents commute, having some slight impact.

- **Lynchburg** saw job growth of about 2,500 jobs, or 2.2 percent, to its 112,000 nonfarm employment base. Growth at the area's several private colleges, as usual, provides much of the area's job increase. The private colleges and their support industries give a boost to the Lynchburg economy much as the public educational institutions benefit **Charlottesville, Blacksburg-Christiansburg-Radford, and Harrisonburg**. The still important manufacturing sector was positive as was just about everything else in CY 2007.

  Unemployment in the Lynchburg area was right at the state average of 3.0 percent in CY 2007.

- **Danville,** after several years of job loss in the recent past, appears to have turned the corner in CY 2007. There have been no new big permanent factory furloughs this year; and the large Goodyear tire plant has worked the whole year, whereas in CY 2006, it was on strike for the entire fourth quarter (strikers are counted as neither employed nor unemployed for statistical purposes). There has been something of a resurgence in the service-providing industries with retailers and distribution centers adding workers. It looks like CY 2007 will see the Danville area add 900 jobs to its 43,000 nonfarm base for 2.1 percent job growth.

  Unemployment in the Danville area has fallen to the 5 to 6 percent range, but Danville still has the highest jobless rate of all the ten Virginia metropolitan areas.

- **Blacksburg-Christiansburg-Radford** added 900 jobs, or 1.2 percent, to its 74,000 nonfarm employment base. The combined employment of Virginia Tech, Radford University, and the support industries that go along with them constitute better than a fifth of the local employment base and provided most of the job growth in CY 2007. The vehicle- and furniture-related manufacturing industries had some layoffs in CY 2007.

  Unemployment in this area has been 3 to 4 percent in CY 2007 because of the factory furloughs.

- **Northern Virginia**, which now has one-third of all the jobs in the state with a 1.32 million nonfarm employment base, continued to provide the largest total number of jobs in CY 2007, adding about 20,000 new jobs for a 1.5 percent rate of increase. Northern Virginia's job gain accounted for 36.0 percent of all the jobs added in the entire state. Northern Virginia's "powerhouse" professional and business services, at 348,000 employment, added 9,000 new jobs in the past year and by itself provided 16 percent of the state's job gain. Northern Virginia professional and business services remains a chief source of Virginia's job growth. The Northern Virginia professional and business services sector again leads the way for state and even national job growth. These firms in software design, engineering, architecture, research and development, and business management and consulting, clustered in Alexandria, Arlington County, Fairfax County, Loudoun County, and around the Capital beltway have become the nation's and, to some extent, the world's thinkers, innovators, and creators; and they have to do "their thing" before much of the rest of the nation and the world can prosper. As always, these firms are undergirded by their contracting with the U.S. federal government, which is why many of them located where they did in the 1960s, 1970s, and 1980s; but contracting with the federal government now constitutes only 30 to 40 percent of their business, and the rest is with customers throughout the world. This sophisticated range of service-providing enterprises is made up of many innovative, flexible, and ambitious small firms. Much of Virginia's recent population expansion is the result of highly trained workers moving to Northern Virginia to go to work for these firms. With this region having one of the nation's top household and per capita income levels, trade and transportation employment has added over 5,000 jobs. The private education and health care industry is growing by nearly 3,000 jobs per year. Leisure and hospitality and miscellaneous services have added 2,000 jobs each this year. Total government is up 1,000 jobs mostly in education, and manufacturing has now resumed positive job growth. There was a reduction of about 1,300 information industry jobs, the sixth year of decline for this sector, here. The thing that has slowed Northern Virginia job growth in CY 2007 is the slump in residential construction, but commercial building has taken up much of the slack, leaving the area with only a 1,500 net loss in construction jobs. Northern Virginia has been the Virginia metropolitan area most impacted by the national mortgage situation. The residential slump has slightly increased unemployment rates in some outer Northern Virginia counties.

- **Overall Unemployment** in Northern Virginia appears to average 2.2 percent in CY 2007, the same as in CY 2006. Northern Virginia's combination of good job growth, high-quality, high-pay jobs available, and very low unemployment make it one of the best labor markets in the entire world. Northern Virginia's technology employers say they could hire even more, if there were more people available who could meet their high-skill requirements. In the national unemployment rankings, Northern Virginia is not treated as a separate area, but as part of the larger Washington-Arlington-Alexandria, D.C./Virginia/Maryland/West Virginia area. If it were treated as a separate area, it would undoubtedly be, by far, the largest area with the lowest unemployment rate in the country.

- **Virginia Beach, Norfolk, Newport News, Virginia/North Carolina,** the state's second-largest metropolitan area, has a nonfarm employment base of 783,000. This area, which continued to add jobs right through the CY 2001 and CY 2002 recession years, thanks to stepped-up national defense and security measures, remained on a relatively steady 12,000 jobs, or 1.5 percent, growth track in CY 2007. The growth trend continues even with the negative impact of deployments of military personnel stationed in the area to Iraq and Afghanistan. The negative impact of the deployments to the local economy is to some extent offset by the fact that much of the supplies to support the military efforts in Iraq and Afghanistan are shipped through the port of Hampton Roads. Both the 105,000-strong professional and business services and the 22,000-strong shipbuilding sectors benefit from defense and military contracts, and federal civilian government employment provides 45,000 area jobs. The above sectors, though key to the local economy, appear to have plateaued in CY 2007, although professional and business services gained 3,000 jobs. This area was the main beneficiary of the 2007, 400th anniversary Jamestown celebration, which helped add

3,000 jobs to the 87,000-job leisure and hospitality sector this year. Tourism, long a staple of this area's economy, seemed to benefit from higher gas prices, causing travelers from the nearby populous Northeast to vacation at Virginia oceanfront resorts, theme parks, and historic attractions rather than journeying to farther away vacation destinations. Trade and transportation, also buoyed by Jamestown tourism, added 3,000 jobs. Residential construction was down, but very strong commercial building activities caused a net construction job increase of 2,500. Private education and health care added approximately 1,500 jobs. Miscellaneous services, finance, information, and local governments all added some workers. The major employment decline is in manufacturing, down about 1,500 jobs because of the closing of the Norfolk Ford Truck assembly plant.

Unemployment in Hampton Roads has dropped to 3.0 percent in CY 2007, which is very good considering the Ford closing and the fact that the normal turnover of military dependents in this area adds at least 1 percentage point to the jobless rate. Hampton Roads this year was usually included in the best five major metropolitan areas with lowest unemployment.

- **Richmond**, the third-largest Virginia metropolitan area, has seen job gains of about 9,500, or 1.5 percent, to its 636,000 nonfarm employment base. A still very strong commercial construction sector, with river front, downtown, and shopping center projects, added 2,500 building jobs. Private education and health care, professional and business services, and trade and transportation each added 2,000 jobs. There were also job increases in miscellaneous services, finance, information, and local government. Factory employment dwindled by 1,500 jobs.

Unemployment in the Richmond area has declined to 3.0 percent. The Richmond area has consistently ranked among the two- or three-best areas in the country for unemployment among the nation's 49-largest metropolitan areas this year and has ranked first a couple of months.

- **Roanoke**, Virginia's fourth-largest metropolitan area, has seen job growth of 2,500, or 1.5 percent, to its 166,000 nonfarm employment base. Much of this growth has been in the Roanoke area's employment mainstays of trade and transportation, professional and business services, and private education and health care—service functions, which Roanoke has traditionally provided to much of the rest of Southwest Virginia. Manufacturing, finance, and construction also have added some workers. The single thing that has stood out this year is the gradual expansion of Carilion health services as it strives to make Roanoke a world-class health center.

Unemployment in the Roanoke area is right around the 3.0 percent mark, right at the statewide average.

- The **non-metropolitan balance of the state** experienced an overall small net job gain of about 400 jobs in CY 2007. Generally the nonmetro areas above Interstate 64 saw job growth while those below this major highway suffered job losses. The worst job losses were generally in the Southside jurisdictions along the North Carolina border, especially the Martinsville micropolitan area and the Galax labor market area where new factory closings occurred. The **Southwest Virginia** coalfield counties generally experienced unemployment in the 4 to 5 percent range as the nation's energy situation kept coal demand good. On the other side of the ledger were jurisdictions with very low jobless rates. Most of these were in the upper part of the state. Some jurisdictions with very low unemployment were **Arlington County, Greene County, Albemarle County, Fairfax County, Loudoun County, Clarke County, Fluvanna County, Rappahannock County, Spotsylvania County**, and **Stafford County**.

Forecast

The Virginia economy, like the national economy, is expected to see below-typical trend-line growth in CY 2008, then move back closer to "more normal" growth for CY 2009 and CY 2010. As usual, Virginia is expected to do better than the nation as a whole throughout the forecast period. The service-providing industries, especially the dominant professional and business services and private education and health care, should continue to provide a big boost for this state's economy. Also helping will be the state government institutions of higher education, which are an export industry for Virginia (i.e., Virginia educates many students from outside the state). These colleges are the engine of growth in some local economies. The trio of professional and business services, health care, and public and private higher education are almost recession-proof and should continue to provide the bulk of Virginia's job gains.

High energy prices, expanding debt burdens, and the housing slowdown represent major risks to consumer spending. Expectations are that consumer fundamentals will remain healthy overall, leading to continued job growth in the retail sector. Continued defense-related spending as well as low business costs, Virginia's number one ranking as a "good state to do business," and strong population growth should all bode well for Virginia's economic performance throughout the forecast period. Manufacturing is the only sector that is expected to continue to see significant job losses. Construction employment is expected to be slightly negative in CY 2008 and CY 2009, but should return to positive job growth by the end of the forecast period. Virginia's 3.0 percent unemployment rate is only expected to rise by one to two tenths of a percentage point early in the forecast period, and this will partly be caused by the many new people attracted to Virginia by its low jobless level. Virginia is expected to remain the large state with the lowest unemployment rate. Virginia should continue to be among the half-dozen best states for unemployment with only a few small population western states sometimes being as low, or lower.

Nonagricultural employment* in Virginia is expected to slow slightly from the 55,600, or 1.5 percent, projected CY 2007 rate of gain to grow by 42,300 jobs, or 1.1 percent, to 3,824,100 in CY 2008. After that, the pace will quicken again with nonfarm employment up 50,800 jobs, or 1.3 percent, to 3,874,900 in CY 2009 and 52,200 jobs, or 1.3 percent, to 3,927,100 in CY 2010.

*Note: Detail may not add to totals due to rounding.

Professional and business services continues to be the mainstay of economic growth in Virginia, adding 14,500 jobs, or 2.3 percent, to 660,400 in CY 2008; 25,500 jobs, or 3.9 percent, to 685,900 in CY 2009; and 24,100 jobs, or 3.5 percent, to 710,000 in CY 2010. By 2010, this becomes Virginia's largest employing industrial sector. Virginia established a fundamental base of technological know-how, specialized physical structures, and human skills over the past two decades that should give its professional and business services employers a real jump on the rest of the nation. Computer programming consultants are preparing the next wave of software packages, and architectural and engineering firms are busy on new projects, especially in redeveloped downtown areas. As always, contracting with the federal government is a significant portion of Virginia consulting firms' work. Temporary employment services will be supplying workers for special and temporary needs. Providing highly trained specialty field temporary service professionals to meet many and varying demands is now a big part of this industry. Human resource professionals claim professional and business services in Virginia could expand even faster than it is already doing, if more highly skilled and qualified workers could be found. Virginia should attract in many professionals from other states.

Private education and health care services will add 10,600 jobs, or 2.6 percent, to 423,900 in CY 2008; 9,900 jobs, or 2.3 percent, to 433,700 in CY 2009; and 6,000 jobs, or 1.4 percent, to 439,800 in CY 2010. Health care, social services, and nursing facilities will expand to meet the needs of an affluent, aging population. Advances in technology today cause the public to expect and demand so much more in the way of health services. These demands will expand even more as health insurance coverage grows. Private education will be expanding gradually with the growing population. The major health care and education facilities located in centers throughout the state use the latest equipment and technologies to serve not only the Old Dominion, but a big portion of the upper South. Paramount to these projections is Carilion health care's plan to make the Roanoke area into a world-class health care center similar to the Mayo Clinic.

Trade employment is expected to expand 8,200 jobs, or 1.5 percent, to 561,000 in CY 2008; 8,700 jobs, or 1.5 percent, to 569,600 in CY 2009; and 3,300 jobs, or 0.6 percent, to 572,900 in CY 2010. Consumer spending will grow with the economy. Tourism should help retail sales in Virginia. Merchants will be expanding to serve a growing population, but they will be using all the labor-saving and cost-cutting measures possible in order to stay competitive. Discount and big box retailers will grow, but there will also be the need for specialty and niche marketers.

The **leisure and hospitality industry** is expected to grow by 6,400 jobs, or 1.9 percent, to 350,200 in CY 2008; add 4,900 jobs, or 1.4 percent, to 355,100 in CY 2009; and 4,200 jobs, or 1.2 percent, to 359,200 in CY 2010. CY 2007 marked the 400th anniversary of the first permanent English settlement in the new world at Jamestown, Virginia, in 1607. Even with the wind-down from the Jamestown activities, this industry continues to add workers. The extra workers from the Jamestown celebration have moved on and caused little excess unemployment. High gasoline prices will be a concern, but with the nearby population centers of the Northeast and Midwest, Virginia should receive many visitors. The Virginia travel business is expected to remain good in the years after the Jamestown festivities.

Total government employment should gain 7,600 jobs, or 1.1 percent, to 688,800 in CY 2008; 3,900 jobs, or 0.6 percent, to 692,600 in CY 2009; and 5,800 jobs, or 0.8 percent, to 698,400 in CY 2010. Federal government employment is expected to be off slightly by 200 jobs, or 0.2 percent, because of budget restraints to 152,700 in CY 2008, but be up 100, or 0.1 percent, to 152,800 in CY 2009, and then add 1,600 jobs, or 1.1 percent, in CY 2010. There may be some winding down in Iraq war activities by CY 2008. Also, Base Closure and Realignment Commission (BRAC) recommendations will come into play very late in the forecast period and will cause a reshuffling of some Virginia federal personnel. Generally, the BRAC recommendations cause some federal payroll reductions in Hampton Roads and Northern Virginia (although much of this is a shifting to different facilities), but big gains in the Richmond area will be happening by CY 2010. Combined state and local government employment is expected to increase 7,900 jobs, or 1.5 percent, in CY 2008; 3,800 jobs, or 0.7 percent, in CY 2009; and 4,200 jobs, or 0.8 percent, in CY 2010. Most of this increase will be in local public education to meet an expanding school population. Employment is also expected to expand at growing state institutions of higher learning. Higher education is an "export industry" in Virginia, and state colleges have other means of revenue other than the state general budget, such as grants, tuition fees, user fees, and alumni support. Some other state government agencies will have to add personnel to serve the needs of a growing population.

Finance, insurance, and real estate is projected to add 800 jobs, or 0.4 percent, to 199,400 in CY 2008; 3,200 jobs, or 1.6 percent, to 202,600 in CY 2009; and 4,000 jobs, or 2.0 percent, to 206,600 in CY 2010. More jobs will be lost in the near-term at mortgage lenders before the mortgage situation bottoms out. Wachovia Securities is moving many jobs out of Richmond to St. Louis, Missouri, as a result of its recent merger with A.G. Edwards, a St. Louis broker. Also, Virginia-based Capital One Financial is still downsizing. The commercial side of the real estate industry is expected to remain relatively strong, and banks and insurance companies will be expanding to meet the public's needs. Financial sector growth is better later in the forecast period.

Transportation, Warehousing, and Utilities is expected to add 600 jobs, or 0.5 percent, to 123,200 in CY 2008; 1,000 jobs, or 0.8 percent, to 124,200 in CY 2009; and 1,100 jobs, or 0.9 percent, to 125,300 in CY 2010. The airlines are expected to do much better than in the recent past in the forecast period. Virginia airports are expected to show increased traffic. Trucking and shipping lines should also handle more merchandise. Electric utilities need to increase capacity to meet the ever-growing energy demands. High-energy costs are a concern to all subsectors of the transportation and utilities industry.

Other, or miscellaneous, services should grow by 3,700 jobs, or 2.0 percent, to 187,900 in CY 2008; then lose 1,000 jobs, or 0.5 percent, to 186,900 in CY 2009; and be down 200 jobs, or 0.1 percent, to 186,700 in CY 2010. These traditional service providers, like barber shops, beauty parlors, and other personal services, repair shops, and nonprofit and charity organizations (subgroups that originally made up services under the SIC codes) should grow with the economy. Charities may see fewer donations as consumers cope with falling home equity and rising energy prices.

Natural resources and mining is expected to see relatively little employment change in the forecast period. Employment should be 11,500 in CY 2008, compared to 11,400 in CY 2007. Employment in this industry then climbs slightly to 11,600 for both CY 2009 and CY 2010. This industry is expected to follow energy markets. On the plus side, utilities use more coal when oil prices are high and the mines are having to recruit replacements for an aging workforce. On the downside, Virginia coal seams are becoming more difficult to extract economically, and there is stiff competition from newer mines in the western states.

The **information industry** is expected to hold its own in CY 2008 with employment rising 500, or 0.5 percent, to 92,400, then slide 1,200, or 1.3 percent, to 91,300 in CY 2009. A further slide of 400, or 0.5 percent, to 90,800 is expected for CY 2010. The news media and printing may see slight job growth, but there will be intense competition and weeding out of weaker players in telecommunications. Also, some firms have a tendency to escape this sector to be recorded in professional and business services.

Construction employment is expected to drop 6,600 jobs, or 2.6, to 242,600 in CY 2008 and fall 800 jobs, or 0.3 percent, to 241,800 in CY 2009. By CY 2010 there should be recovery with 3,800 jobs, or 1.6 percent gain, to 245,700. Residential construction has fallen off a cliff because of the mortgage situation. Northern Virginia is the most impacted area, but even it is not nearly as bad off as states like California, Florida, and Nevada, which have experienced huge building booms and busts. The rest of Virginia is holding up comparatively well. Overall, commercial construction in Virginia remains healthy. The credit crunch has relatively little impact on commercial construction where investors have money they want and need to invest. Also, a good portion of commercial construction is with government entities for projects like schools and highways, which are not as susceptible to credit issues. Much BRAC-related construction will be starting shortly at Virginia military bases, especially the mammoth Fort Lee expansion.

Manufacturing is still the most negative of all Virginia industrial sectors. Expected reductions are 4,000, or 1.4 percent, to 282,900 in CY 2008 and 3,400, or 1.2 percent, to 279,600 in CY 2009. By CY 2010, there may be some leveling out as factory employment is projected to inch up a net 600, or 0.2 percent, to 280,100. Both durable and nondurable goods will continue to dwindle with nondurable goods losing the most—1,800 jobs, or 1.5 percent, to 115,600 in CY 2008; 1,800 jobs, or 1.5 percent, to 113,900 in CY 2009; and 1,300 jobs, or 1.2 percent, to 112,500 in CY 2010. Textile mills which employed over 40,000 Virginia workers in the 1970s are expected to see employment fall from 8,500 in CY 2007 to only 6,700 by CY 2010. Foreign competition remains a big factor in nondurables. Durable goods is expected to lose 2,200 jobs, or 1.3 percent, to 167,300 in CY 2008 and 1,600 jobs, or 1.0 percent, to 165,700 in CY 2009. For CY 2010, durable goods should be up 1,900 jobs, or 1.1 percent, to 167,600. By CY 2010, the vehicle- and housing-related factory furloughs should be over. Another reason for better figures by 2010 is that Virginia shipyards will be completing projects for the Navy in CY 2008 and CY 2009 with some layoffs both years.

The next phase of updating the naval fleet should start by CY 2010. (Northrop Grumman's Newport News shipyard is the only U.S. facility that is capable of building all types of large naval vessels.)

Labor force data (place of residence)

Virginia's **labor force** is expected to expand in the forecast period, both from natural growth within the state and from workers outside of Virginia being attracted here by the good job opportunities and the low jobless rate. The civilian labor force is expected to grow by 39,300, or 1.0 percent, to 4,095,000 in CY 2008; 40,400, or 1.0 percent, to 4,135,400 in CY 2009; and 44,200, or 1.1 percent, to 4,179,600 in CY 2010. **Total employment** (which also includes agricultural, self employed, and domestic household workers) is projected to increase 30,300, or 0.8 percent, to 3,964,300 in CY 2008; 41,600, or 1.0 percent, to 4,005,900 in CY 2009; and 46,400, or 1.2 percent, to 4,052,300 in CY 2010. The **unemployment level** will be boosted by new workers attracted to the job opportunities in Virginia, who will slightly swell the ranks of the unemployed while they are conducting their job search even though they should quickly find work. The number of unemployed should rise 9,000 to 130,700 in CY 2008; fall 1,200 to 129,500 in CY 2009; and then be down 2,200 to 127,300 in CY 2010. The **unemployment rate** is expected to average 3.2 percent in CY 2008; 3.1 percent in CY 2009; and be back to 3.0 percent in CY 2010. Really not all that much change is expected in joblessness. The Virginia unemployment rate should keep its historic relationship of being only 65 to 75 percent of the national jobless rate. It also should remain well below the 5.0 percent level considered to be "full employment."

Regional forecasts

- **Northern Virginia** continues as Virginia's job growth leader, at least on a numeric basis, as it has been for the past three decades, accounting for better than one-half of statewide job growth. Gains of about 22,000 jobs, or 1.7 percent, in CY 2008; 28,000 jobs, or 2.1 percent, in CY 2009; and 30,000 jobs, or 2.2 percent, in CY 2010 are expected. Paramount in this growth leadership will be the high-tech, high-wage professional and business services, which in this region should produce 10,000 to 15,000 new jobs per year. The worst of the residential construction job loss may already be past. Overall commercial construction in the region is healthy, but it has slowed in the Dulles corridor. By CY 2009 construction of facilities to move all the defense personnel now housed in rental space onto military bases as required by the BRAC recommendations will be started. The vacated rental spaces will mean more office space will be available to meet the demands of growing private-sector tenants. There will continue to be much competition and reshuffling in the telecommunications industry. Both the professional and business services and the telecoms still will be doing much contracting with the federal government, especially in the homeland security and defense areas. Health care, and retail trade will be expanding to meet the needs of a growing high-income population. The low value of the U.S. dollar is attracting foreign shoppers to the area. Volkswagen of America is relocating its U.S. headquarters to Herndon, Virginia. Another significant terrorist attack on the nation's capital would impact this area.

The Northern Virginia **unemployment** rate is expected to remain in the low 2 percent range with new people coming to this booming area to seek work, keeping it from dropping even lower. In both quality and quantity of jobs, Northern Virginia should continue to be one of the best job markets in the world. The two concerns in this booming job market are not enough trained workers and traffic gridlock.

- The **Virginia Beach-Norfolk-Newport News, Virginia/North Carolina** area should see nonfarm employment growth of about 9,200 jobs, or 1.1 percent, in CY 2008; 8,900 jobs, or 1.1 percent, in CY 2009; and 13,000 jobs, or 1.6 percent, in CY 2010. The important local tourism economy should continue to be good with the low value of the U.S. dollar attracting foreign visitors. After-Jamestown cutbacks do not seem to be much of a problem. CY 2009 may be an "in-between year" for defense contracts, but new shipyard projects are expected to start by CY 2010. The area benefits from supplying the war efforts, but a return of the troops would boost local retail activities. An end to the Iraq war may mean some cuts at defense contractors; and, farther out, with the BRAC recommendations coming to pass, both the Peninsula and Southside Hampton Roads could see defense reductions.

  Unemployment in the region should remain in the 3 percent range with perpetual turnover in military dependants. Traffic congestion remains a problem for this area, especially around the tunnels.

- The **Richmond** area should see job gains of 6,800, or 1.1 percent, in CY 2008; 9,200, or 1.4 percent, in CY 2009; and 8,500, or 1.2 percent, in CY 2010. Private education and health care and professional and business services should lead employment growth. State and local government should do limited staffing, especially in public education and transportation. Downtown and riverfront development projects and expansion of the biotech park should continue as well as more shopping center development in suburban areas. New arrivals to the area from Westvaco and Phillip Morris should continue to add to the employment base. The new Rolls-Royce aircraft engine plant in Prince George County should open in CY 2009. Near the end of the forecast period, the start-up of the BRAC recommendations to more than double the size of Fort Lee will mean much development for the Petersburg portion of the area. This is one of the biggest military base expansions in the entire country.

  The **unemployment** rate should be in the low 3 percent range.

- The **Charlottesville** area should continue to see the best job growth of the state's small- and medium-size areas. Job expansion should be 3 percent annually, or better; and Charlottesville may supplant Lynchburg as Virginia's fifth-largest metropolitan area by the end of the forecast period, although Lynchburg has recently had a growth spurt. This growth will be driven, as usual, by the large University of Virginia, University Medical Center, and their support industries, but professional and business services, private education and health care, trade and transportation, and leisure and hospitality, all should be strong.

  The **unemployment** rate should be low-2 percent, keeping Charlottesville one of the very best smaller job markets in the entire nation.

- The **Roanoke** area should see slow, but steady, job growth in the 1 to 1.5 percent range with Roanoke's mainstays of trade and transportation, professional and business services, and private education and health care providing the most jobs. The Carilion health care's plan to link up with Virginia Tech to make Roanoke a world-class health care center should provide many new jobs. Factory employment should hold its own.

  The **unemployment** rate should be around 3 percent.

- The **Lynchburg** area should see about 2 percent job growth, led, as usual, by the private colleges and their support industries. Professional and business services should prosper, and manufacturing is expected to remain positive.

  The **unemployment** rate should be right around 3 percent.

- The **Winchester Virginia/West Virginia** area should see 2 percent plus job growth with continuing influence from its large and prosperous neighbor to the east, Northern Virginia.

  The **unemployment** rate should be around 3 percent. Preventing the rate from being even lower are possible jobless claims from the motor vehicle- and housing-related industries, both in the area and in nearby West Virginia where some Winchester residents work.

- The **Harrisonburg** area should continue to see 3 percent job growth led by the large James Madison University complex and the support industries that go along with it. Ground has recently been broken for a new biotech center and Merck and Company has a $300 million expansion underway at its Stonewall plant to produce Gardasil®, the new cervical cancer vaccine. Also, several technology firms from Northern Virginia have recently opened.

  The **unemployment** rate in the Harrisonburg area has been extremely low in CY 2007 and that trend should continue with just over 2 percent unemployment, making Harrisonburg one of the best small areas for unemployment in the nation.

- The **Blacksburg-Christiansburg-Radford** area should continue to see good job growth in its combination of Virginia Tech, Radford University, and the technology complex in Montgomery County that goes along with the colleges. Pulaski County's motor vehicle-related manufacturers have announced more cutbacks for CY 2008.

  The area **unemployment** rate may move back to the 4 percent range because of the above already announced factory furloughs.

- The **Danville** area saw some job growth for the first time in years in CY 2007. This trend should continue with more new service-providing employers. Also, a new furniture plant has been announced for the area.

  The **unemployment** rate should fall to the 5 percent range provided there are no new major plant closings.

The nonmetropolitan **Balance of the State** should continue to present a diversified and mixed picture. Generally, the more services-oriented upper half of the state should see more job growth and do better than the lower half factory-oriented part. The **Shenandoah Valley**, **eastern slopes of the Blue Ridge Mountains**, **Middle Peninsula**, **Northern Neck**, and **Eastern Shore** should generally see low unemployment rates aside from historic seasonal patterns in the Northern Neck and Eastern Shore. Even these seasonal patterns are less pronounced now than they used to be as more year-round industries move in. The large and prosperous Northern Virginia metropolitan area now exerts some influence over the entire upper part of Virginia. The **Middle Peninsula** and **Northern Neck** could see good job growth as their economies become more service-oriented like their urban neighbors. The **Staunton-Waynesboro** and **Culpeper** micropolitan areas should continue to thrive with mid-2 to mid-3 percent unemployment. The **Allegheny-Covington** highlands should see 3 to 4 percent unemployment. Far **Southwest** Virginia should see unemployment in the 3 to 5 percent range with new industries moving into some coalfield areas and the mines doing some replacement hiring. The **Emporia-Greensville** area is gradually recovering from previous plant closings with state institution employment providing a solid base for the local economy. The **western Southside** and **Piedmont** communities along the North Carolina border that have suffered much from mill and plant closings should see gradual improvement as economic developers valiantly try to bring in new niche employers, but this region likely will have the state's highest unemployment during much of the forecast period. The **Martinsville** micropolitan area suffered some reverses in the form of factory layoffs in CY 2007, but hopefully in the forecast period will return to the road to recovery. The **Galax** and **South Boston** areas have recently weathered manufacturing layoffs and now, hopefully, these areas will begin to see improvement with new employers moving in.

Program Year Forecast

The state's civilian labor force should grow by 42,700, or 1.0 percent, in Program Year* (PY) 2008 to 4,115,200 and increase by 41,700, or 1.0 percent, to 4,156,900 in PY 2009.

*Note: The various federally funded programs are on the Program Year cycle that runs from July to June. For example, PY 2008 runs from July 2008 to June 2009.

Total employment, on a place-of-residence basis, will increase 38,400, or 1.0 percent, to a total of 3,984,200 in PY 2008. In PY 2009, the total employment gain will be 44,500, or 1.1 percent, for a total of 4,028,800.

Unemployment, expressed in the number of jobless workers, is expected to increase 4,400 to 131,000 in PY 2008. For PY 2009, the number of jobless will fall 2,800 to 128,200. The PY 2008 increase in the number of jobless will result from slower job growth in PY 2007 and the technology jobs still available here enticing trained workers from other places to apply for work. While they are conducting their brief job searches, they will show up as unemployed. Also, Virginia's labor force will be experiencing natural growth caused by the higher number of the mid- to late-1980's births.

The calendar year **unemployment rate** averages in the state will gradually creep up and then level out for the above reasons, being 3.0 percent in CY 2007, 3.2 percent in CY 2008, 3.1 percent in CY 2009, and 3.0 percent again in CY 2010. On a program year basis, the jobless rate will be at 3.1 percent for PY 2007, 3.2 percent for PY 2008, and 3.1 percent again for PY 2009.

Nonagricultural employment** in PY 2008 on a place-of-work basis should increase 44,000, or 1.2 percent, to average 3,848,700 jobs.

**Note: Detail may not add to total due to rounding.

Nonmanufacturing employment will be the source of all the job gain, adding 49,500 jobs, or 1.4 percent, for a total of 3,568,200. Professional and business services will be the job growth leader, adding 20,300 jobs, or 3.1 percent, to an employment level of 672,400 for Virginia's largest private industry category under the NAICS classification system. Computer software producers will be providing the software businesses need to grow, architects and engineers will be trying to accommodate the building demand, and consulting firms will be doing projects for both federal and private clients. Northern Virginia will see the largest share of this growth, but other metropolitan areas will also share in the increase. An expanding private education and health care sector, which serves an upper-South client base, will hire 10,900, or 2.6 percent, to 429,400. An affluent, growing population will want to make more purchases, so employment in the trade sector will need to expand by 8,400 jobs, or 1.5 percent, to

a level of 565,500. The leisure and hospitality industry will be adding 6,600 jobs for a 1.9 percent increase to 353,000. Total government employment should increase 4,600, or 0.7 percent, to 690,700 with most all of the gain being in local and state education. The finance sector should grow 1,700, or 0.8 percent, to 200,800. Miscellaneous services will grow 1,100, or 0.6 percent, to a level of 187,400. Transportation, warehousing, and utilities should add 700 jobs, or 0.6 percent, to 123,600. As a result of the energy market, natural resources and mining should expand 100, or 0.8 percent, to 11,500. The information industry will be unchanged at just over 92,000 employment. Cutbacks in residential building will lower construction employment 4,900 jobs, or 2.0 percent, from PY 2007 to 241,700.

Manufacturing will continue to see declines with employment falling 5,500 jobs, or 1.9 percent, to average 280,500. Durable goods will be responsible for much of the loss, being down 3,500 jobs, or 2.1 percent, to a level of 165,900. The loss will be in vehicle- and housing-related manufacturing. Nondurable goods manufacturing will also be down, but the loss will only be 2,000 jobs, or 1.7 percent, to a level of 114,600. Traditional textile and apparel manufacturers continue to move production offshore.

Nonagricultural employment** in PY 2009 should see growth of 52,700 jobs, or 1.4 percent, to 3,901,400. Again, all of the increase will be in nonmanufacturing, which rises 53,700 jobs, or 1.5 percent, to 3,621,900. Once again, professional and business services will lead the expansion with an increment of 26,000 jobs, or 3.9 percent, to 698,300. Professional and business services will become Virginia's largest single employing segment. The still increasing private education and health care sector should add 7,600 jobs, or 1.8 percent, to 437,000. The trade sector will increase 6,300 jobs, or 1.1 percent, to 571,900. The total government sector will grow by 5,800 jobs, or 0.8 percent, to 696,400. Most of the growth will be in state and local education, up 4,000, or 0.7 percent, but the federal subsector will also be adding 1,800 jobs, or 1.2 percent. Leisure and hospitality is still expected to add 3,700 jobs, or 1.0 percent, to 356,700. Finance will expand 3,800 jobs, or 1.9 percent, to 204,600. Construction employment will be growing again, adding 1,200 jobs, or 0.5 percent to 242,900. Transportation, warehousing, and utilities will be 1,100, or 0.9 percent, higher at 124,700. The natural resources and mining sector will add 100 jobs, or 0.7 percent, to 11,600. Miscellaneous services will be off 700 jobs, or 0.4 percent, to 186,700. The information sector should lose 1,200 jobs, or 1.3 percent, to 90,900.

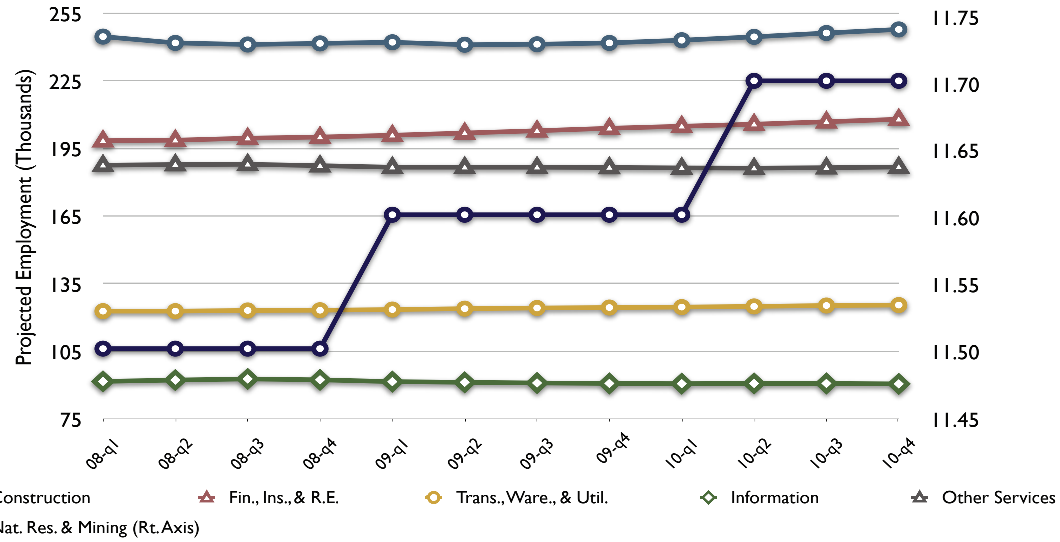
Manufacturing will still lose jobs in PY 2009, being down 1,000, or 0.3 percent, to a total of 279,500. Nondurable goods will now fall 1,600 jobs, or 1.4 percent, to 113,000 as the long-run decline in these industries, especially textiles, continues. Durable goods will add 600 jobs, or 0.4 percent, to a total of 166,500.

**Note: Detail may not add to total due to rounding.

Charts and Tables

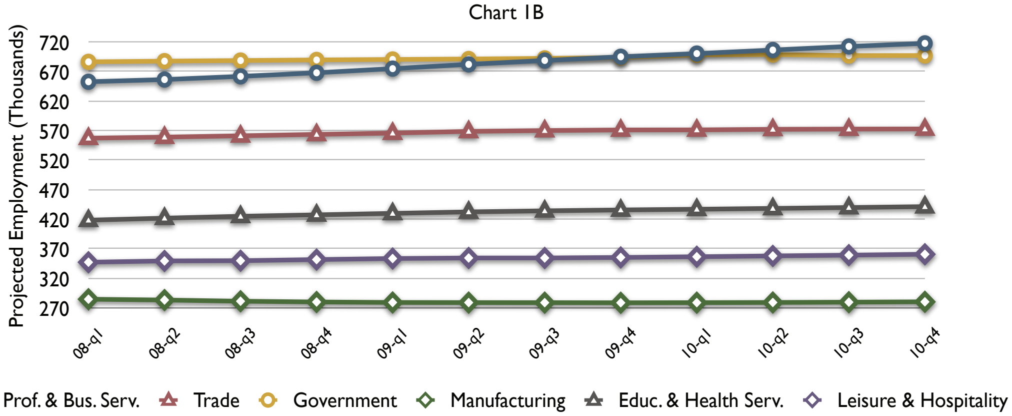
Virginia Employment - Major Industries
2008 - 2010

Chart 1A



Virginia Employment - Major Industries
2008 - 2010

Chart 1B



Unemployment Rates - Virginia and U.S.
2008 - 2010

Chart 2

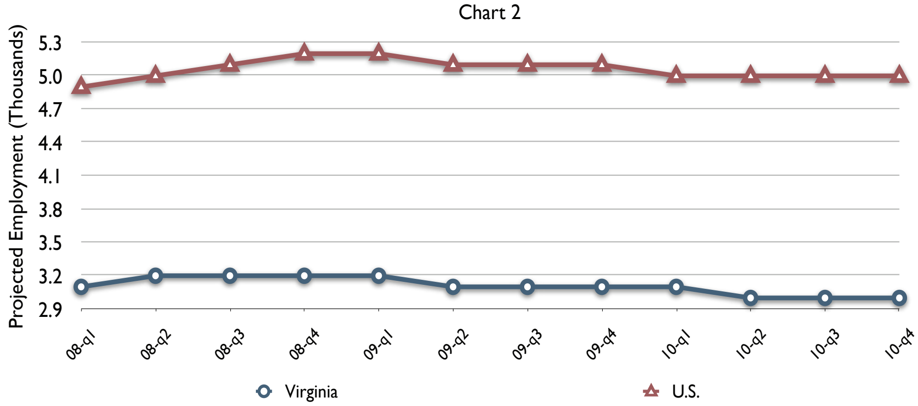


Table 1 - Virginia Labor Force and Employment Projections - Calendar Year

(Numbers in Thousands)

					CY 2007 to CY 2008		CY 2008 to CY 2009		CY 2009 to CY 2010	
Subject	CY 2007*	CY 2008	CY 2009	CY 2010	Change	% Change	Change	% Change	Change	% Change
Labor Force Data (Place of Residence)										
Labor Force	4055.7	4095.0	4135.4	4179.6	39.3	1.0	40.4	1.0	44.2	1.1
Resident Employment	3934.1	3964.3	4005.9	4052.3	30.3	0.8	41.6	1.0	46.4	1.2
Unemployed	121.7	130.7	129.5	127.3	9.0	7.4	-1.2	-0.9	-2.2	-1.7
Unemployment Rate (%)	3.0	3.2	3.1	3.0	0.2	-	-0.1	-	-0.1	-
Establishment Data (Place of Work)										
Total Nonag. Wage & Sal.	3781.8	3824.1	3874.9	3927.1	42.3	1.1	50.8	1.3	52.2	1.3
Total Manufacturing	286.9	282.9	279.6	280.1	-4.0	-1.4	-3.4	-1.2	0.6	0.2
Durables	169.5	167.3	165.7	167.6	-2.2	-1.3	-1.6	-1.0	1.9	1.1
Transportation Equipment	37.3	37.0	36.9	36.9	-0.3	-0.9	0.0	-0.1	0.0	0.0
Furniture and Related Products	18.1	16.8	16.5	17.2	-1.3	-7.4	-0.3	-1.9	0.7	4.2
Other Durables	114.1	113.5	112.3	113.5	-0.5	-0.5	-1.3	-1.1	1.2	1.1
Nondurables	117.4	115.6	113.9	112.5	-1.8	-1.5	-1.8	-1.5	-1.3	-1.2
Textile Mills	8.5	7.7	7.2	6.7	-0.7	-8.5	-0.6	-7.7	-0.4	-6.1
Other Nondurables	108.9	107.9	106.7	105.8	-1.1	-1.0	-1.2	-1.1	-0.9	-0.8
Total Nonmanufacturing	3494.9	3541.2	3595.4	3647.0	46.3	1.3	54.1	1.5	51.7	1.4
Natural Resources & Mining	11.4	11.5	11.6	11.6	0.0	0.2	0.1	0.9	0.1	0.7
Construction	249.2	242.6	241.8	245.7	-6.6	-2.6	-0.8	-0.3	3.8	1.6
Trade	552.8	561.0	569.6	572.9	8.2	1.5	8.7	1.5	3.3	0.6
Wholesale Trade	122.6	123.3	124.2	125.2	0.7	0.6	0.9	0.7	1.0	0.8
Retail Trade	430.1	437.6	445.5	447.7	7.5	1.7	7.8	1.8	2.3	0.5
Transportation, Warehousing, and Utilities	122.6	123.2	124.2	125.3	0.6	0.5	1.0	0.8	1.1	0.9
Information	92.0	92.4	91.3	90.8	0.5	0.5	-1.2	-1.3	-0.4	-0.5
Finance, Insurance, and Real Estate	198.6	199.4	202.6	206.6	0.8	0.4	3.2	1.6	4.0	2.0
Professional and Business Services	645.9	660.4	685.9	710.0	14.5	2.3	25.5	3.9	24.1	3.5
Prof., Scientific, and Technical Services	359.4	371.0	383.7	396.5	11.6	3.2	12.7	3.4	12.8	3.3
Mgmt. of Companies and Enterprises	77.7	79.0	80.2	81.4	1.2	1.6	1.2	1.6	1.2	1.5
Adm. and Support and Waste Mgmt.	208.7	210.4	221.9	232.0	1.7	0.8	11.5	5.5	10.1	4.5
Educational and Health Services	413.3	423.9	433.7	439.8	10.6	2.6	9.9	2.3	6.0	1.4
Educational Services	80.4	83.0	84.9	86.3	2.6	3.3	1.9	2.3	1.4	1.6
Health Care and Social Assistance	332.9	340.8	348.8	353.5	7.9	2.4	8.0	2.3	4.6	1.3
Leisure and Hospitality	343.8	350.2	355.1	359.2	6.4	1.9	4.9	1.4	4.2	1.2
Arts, Entertainment, and Recreation	45.6	46.4	47.2	47.9	0.9	1.9	0.8	1.7	0.6	1.4
Accommodation and Food Services	298.3	303.8	307.9	311.4	5.5	1.8	4.1	1.4	3.5	1.1
Other Services	184.2	187.9	186.9	186.7	3.7	2.0	-1.0	-0.5	-0.2	-0.1
Government	681.1	688.8	692.6	698.4	7.6	1.1	3.9	0.6	5.8	0.8
Federal Government	153.0	152.7	152.8	154.5	-0.2	-0.2	0.1	0.1	1.6	1.1
State & Local Government	528.2	536.0	539.8	544.0	7.9	1.5	3.8	0.7	4.2	0.8

*Forecast Period begins with fourth quarter of CY 2007. NOTE: Detail may not add to totals due to rounding.

Table 2 - Virginia Labor Force and Employment Projections - WIA Program Year

(Numbers in Thousands)

Subject				PY 2007 to PY 2008		PY 2008 to PY 2009	
	PY 2007*	PY 2008	PY 2009	Change	% Change	Change	% Change
Labor Force Data (Place of Residence)							
Labor Force	4072.4	4115.2	4156.9	42.7	1.0	41.7	1.0
Resident Employment	3945.9	3984.2	4028.8	38.4	1.0	44.5	1.1
Unemployed	126.6	131.0	128.2	4.4	3.5	-2.8	-2.1
Unemployment Rate (%)	3.1	3.2	3.1	0.1	-	-0.1	-
Establishment Data (Place of Work)							
Total Nonag. Wage & Sal.	3804.6	3848.7	3901.4	44.0	1.2	52.7	1.4
Total Manufacturing	286.0	280.5	279.5	-5.5	-1.9	-1.0	-0.3
Durables	169.4	165.9	166.5	-3.5	-2.1	0.6	0.4
Transportation Equipment	37.0	36.9	37.0	-0.1	-0.2	0.0	0.1
Furniture and Related Products	17.7	16.4	16.8	-1.2	-6.8	0.3	2.0
Other Durables	114.7	112.5	112.7	-2.2	-1.9	0.3	0.2
Nondurables	116.6	114.6	113.0	-2.0	-1.7	-1.6	-1.4
Textile Mills	8.1	7.4	6.9	-0.7	-8.9	-0.5	-6.7
Other Nondurables	108.5	107.2	106.1	-1.3	-1.2	-1.1	-1.0
Total Nonmanufacturing	3518.7	3568.2	3621.9	49.5	1.4	53.7	1.5
Natural Resources & Mining	11.4	11.5	11.6	0.1	0.8	0.1	0.7
Construction	246.6	241.7	242.9	-4.9	-2.0	1.2	0.5
Trade	557.1	565.5	571.9	8.4	1.5	6.3	1.1
Wholesale Trade	123.0	123.7	124.7	0.7	0.5	1.0	0.8
Retail Trade	434.1	441.8	447.2	7.7	1.8	5.4	1.2
Transportation, Warehousing, and Utilities	122.9	123.6	124.7	0.7	0.6	1.1	0.9
Information	92.2	92.1	90.9	0.0	-0.1	-1.2	-1.3
Finance, Insurance, and Real Estate	199.2	200.8	204.6	1.7	0.8	3.8	1.9
Professional and Business Services	652.1	672.4	698.3	20.3	3.1	26.0	3.9
Prof., Scientific, and Technical Services	365.2	377.1	390.3	11.8	3.2	13.2	3.5
Mgmt. of Companies and Enterprises	78.4	79.6	80.9	1.2	1.5	1.3	1.6
Adm. and Support and Waste Mgmt.	208.4	215.7	227.2	7.3	3.5	11.5	5.3
Educational and Health Services	418.5	429.4	437.0	10.9	2.6	7.6	1.8
Educational Services	82.0	84.1	85.7	2.1	2.5	1.6	1.9
Health Care and Social Assistance	336.5	345.3	351.3	8.8	2.6	6.0	1.7
Leisure and Hospitality	346.4	353.0	356.7	6.6	1.9	3.7	1.0
Arts, Entertainment, and Recreation	46.1	46.8	47.6	0.7	1.6	0.7	1.5
Accommodation and Food Services	300.3	306.2	309.2	5.9	2.0	2.9	1.0
Other Services	186.3	187.4	186.7	1.1	0.6	-0.7	-0.4
Government	686.1	690.7	696.4	4.6	0.7	5.8	0.8
Federal Government	152.6	152.8	154.6	0.2	0.1	1.8	1.2
State & Local Government	533.5	537.9	541.9	4.4	0.8	4.0	0.7

*Forecast Period begins with fourth quarter of CY 2007.   NOTE: Detail may not add to totals due to rounding.

Table 3 - Virginia Labor Force Projections by Quarters, 2007:1 - 2010:4*

(Numbers in Thousands)

Subject	2007:1	2007:2	2007:3	2007:4	2008:1	2008:2	2008:3	2008:4	2009:1	2009:2	2009:3	2009:4	2010:1	2010:2	2010:3	2010:4
Labor Force Data (Place of Residence)																
Labor Force	4051.4	4051.0	4053.3	4067.2	4079.3	4090.0	4100.8	4110.2	4119.6	4130.2	4140.6	4151.3	4162.2	4173.6	4185.5	4197.0
Resident Employment	3933.3	3929.4	3931.7	3941.9	3950.9	3959.1	3968.9	3978.4	3989.0	4000.5	4011.4	4022.8	4034.4	4046.4	4058.5	4070.0
Unemployed	118.1	121.6	121.6	125.4	128.4	130.9	131.8	131.7	130.5	129.8	129.2	128.4	127.8	127.2	127.0	127.0
Unemployment Rate (%)	2.9	3.0	3.0	3.1	3.1	3.2	3.2	3.2	3.2	3.1	3.1	3.1	3.1	3.0	3.0	3.0
Establishment Data (Place of Work)																
Total Nonag. Wage & Sal.	3755.5	3779.4	3793.1	3799.3	3808.4	3817.7	3828.9	3841.6	3855.1	3869.1	3881.3	3894.1	3908.3	3921.8	3933.1	3945.3
Total Manufacturing	286.2	286.8	287.4	287.3	285.3	283.9	281.9	280.6	279.8	279.6	279.5	279.3	279.5	279.8	280.3	280.9
Durables	168.0	169.3	170.4	170.4	168.8	167.8	166.7	165.9	165.4	165.4	165.8	166.2	166.7	167.2	167.9	168.5
Transportation Equipment	37.6	37.6	37.0	37.0	37.0	37.0	36.9	37.0	36.9	36.9	37.0	36.9	37.0	37.0	36.9	36.9
Furniture and Related Products	18.1	18.1	18.3	18.1	17.4	16.9	16.6	16.4	16.4	16.4	16.5	16.7	16.9	17.1	17.3	17.5
Other Durables	112.3	113.5	115.1	115.3	114.4	113.9	113.2	112.5	112.1	112.1	112.3	112.6	112.9	113.2	113.7	114.1
Nondurables	118.2	117.6	116.9	116.9	116.5	116.1	115.2	114.7	114.4	114.1	113.7	113.2	112.8	112.5	112.4	112.4
Textile Mills	8.6	8.5	8.4	8.3	8.0	7.8	7.6	7.5	7.3	7.2	7.1	7.0	6.9	6.8	6.7	6.6
Other Nondurables	109.6	109.0	108.5	108.7	108.5	108.3	107.6	107.2	107.1	106.9	106.6	106.2	105.9	105.8	105.7	105.8
Total Nonmanufacturing	3469.3	3492.6	3505.8	3512.0	3523.1	3533.9	3546.9	3561.0	3575.3	3589.5	3601.8	3614.8	3628.9	3642.0	3652.9	3664.4
Natural Resources & Mining	11.6	11.4	11.4	11.5	11.5	11.5	11.5	11.5	11.6	11.6	11.6	11.6	11.6	11.7	11.7	11.7
Construction	247.6	249.7	251.6	247.8	244.9	242.1	241.4	241.9	242.4	241.3	241.5	242.1	243.3	244.8	246.5	248.1
Trade	549.0	551.2	555.3	555.5	557.9	559.7	561.9	564.3	566.5	569.4	570.8	571.8	571.9	572.9	573.3	573.5
Wholesale Trade	122.3	122.3	122.8	123.1	123.1	123.2	123.4	123.6	123.7	124.0	124.3	124.6	124.7	125.0	125.3	125.6
Retail Trade	426.7	428.9	432.5	432.4	434.8	436.5	438.5	440.7	442.8	445.4	446.4	447.2	447.2	447.9	447.9	447.9
Transportation, Warehousing, and Utilities	122.3	122.5	122.6	122.8	123.0	123.0	123.3	123.4	123.7	124.1	124.4	124.6	124.8	125.1	125.5	125.7
Information	91.7	91.6	92.6	91.9	91.8	92.4	92.9	92.5	91.7	91.4	91.1	90.9	90.8	90.9	90.9	90.7
Finance, Insurance, and Real Estate	197.2	198.4	199.9	199.1	198.7	198.9	199.8	200.3	201.1	202.1	203.1	204.2	205.1	206.0	207.1	208.2
Professional and Business Services	638.5	647.3	646.9	650.7	653.4	657.1	662.5	668.6	675.6	682.8	689.4	695.7	701.1	707.1	713.2	718.4
Prof., Scientific, and Technical Services	355.5	357.5	360.8	363.8	366.8	369.5	372.3	375.4	378.6	382.0	385.5	388.8	392.0	395.0	398.0	401.1
Mgmt. of Companies and Enterprises	77.2	77.5	78.0	78.3	78.6	78.8	79.1	79.4	79.7	80.1	80.4	80.7	81.0	81.3	81.6	81.9
Adm. and Support and Waste Mgmt.	205.8	212.3	208.1	208.6	208.1	208.7	211.0	213.9	217.3	220.7	223.6	226.2	228.1	230.9	233.6	235.5
Educational and Health Services	408.9	411.8	415.3	417.1	419.1	422.5	425.7	428.1	430.6	433.1	434.9	436.4	437.6	439.0	440.5	442.0
Educational Services	77.9	80.7	81.3	81.7	82.2	82.8	83.3	83.9	84.3	84.8	85.2	85.5	85.8	86.2	86.5	86.8
Health Care and Social Assistance	331.0	331.1	334.1	335.4	336.9	339.7	342.4	344.3	346.3	348.3	349.7	350.8	351.7	352.9	354.0	355.2
Leisure and Hospitality	344.1	343.5	343.2	344.6	347.9	350.1	350.5	352.4	354.2	355.1	355.1	356.0	357.2	358.6	359.9	361.4
Arts, Entertainment, and Recreation	45.0	45.4	45.9	46.0	46.2	46.3	46.5	46.7	46.9	47.1	47.3	47.5	47.6	47.8	47.9	48.1
Accommodation and Food Services	299.1	298.1	297.3	298.5	301.7	303.8	303.9	305.7	307.3	307.9	307.7	308.5	309.5	310.8	311.9	313.3
Other Services	183.6	184.1	183.9	185.3	187.8	188.1	188.2	187.6	186.9	186.9	186.9	186.8	186.6	186.5	186.7	187.0
Government	674.8	680.9	683.1	685.7	687.1	688.3	689.3	690.3	691.1	691.9	693.0	694.5	698.9	699.4	697.7	697.8
Federal Government	153.6	153.2	152.5	152.6	152.7	152.7	152.8	152.8	152.8	152.7	152.6	153.2	156.5	155.9	153.2	152.2
State & Local Government	521.2	527.7	530.6	533.1	534.5	535.6	536.5	537.5	538.3	539.2	540.4	541.4	542.4	543.4	544.5	545.6

*Forecast Period begins with fourth quarter of CY 2007.   NOTE: Detail may not add to totals due to rounding.

Economic Assumptions
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