Economic Assumptions
For the United States and Virginia

Calendar Years 2010, 2011, and 2012 ♦ Program Years 2010 and 2011

Virginia Employment Commission ♦ Economic Information Services Division

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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 IHS Global Insight (formerly DRI-WEFA) of Lexington, Massachusetts. 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.

Introduction

In order to make the *Economic Assumptions* available to program planners at the beginning of CY 2010, labor force and employment estimates for 2009 were made using preliminary data before final figures and the normal end-of-the-year benchmark revisions become available in spring 2010. 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.

Production and distribution of *Economic Assumptions*, like most Virginia Employment Commission projects, are financed through specifically-earmarked U.S. Department of Labor grants and **do not use Virginia state funding sources**.

A personal note from William F. Mezger, Chief Economist, Economic Operations Research, Economic Information Services Division, Virginia Employment Commission:

This is the forty-first *Economic Assumptions for the United States and Virginia* that I have written, starting with the 1970 issue in 1969. I am retiring on December 31, 2009, at the age of seventy, after nearly 47 years of service in the Economic Information Services Division and its predecessor the Research, Statistics, and Information Division. It has been a great adventure, and I am thankful and owe a great debt to all the people who have assisted me over the years.

A word about the upcoming 2010 Census:

Please cooperate and participate in the upcoming U.S. Census in spring 2010. Every government and business statistic produced in the U.S. has its basis in census data. It is the only actual count of many items. It is vital that the count be as correct and complete as possible. By law, no census information on individuals can be divulged and there are very stiff federal penalties for such violations.

Copies of this publication may be obtained by calling
Labor Market and Demographic Analysis at (804) 786-5880
or visiting the VEC's website at www.VirginiaLMI.com.
For additional information or explanation of the contents of this document, you may contact
Economic/Operations Research ♦ Economic Information Services Division ♦ Virginia Employment Commission
(804) 786-5669 or (804) 786-3177

December 2009

United States and Virginia Assumption Highlights

United States

- CY 2009 has not been as tumultuous a year economically as the two previous calendar years, but unemployment in the U.S. has risen steadily all year.
- While the 2007-2009? recession is the longest recession since the Great Depression of the 1930s, U.S. unemployment has yet to reach the 10.8 percent peak recorded in November 1982, although U.S. unemployment was 10.2 percent in October 2009. U.S. November unemployment was back to 10.0 percent.
- What has made this recession seem so bad is that it has been *absolutely devastating* to certain selective segments of the economy, like construction, manufacturing (in general), motor vehicles (in particular), information, and finance; and with the across-the-board lack of job creation, there seems to be no end in sight to the problems for the individuals affected. The recession seems to feed on itself. This recession was caused by over-speculation in the real estate market, which spread to the financial sector, which financed the mortgages, and then to other sectors of the economy because consumers, feeling unsure and thinking they might lose their jobs, stopped buying.
- At the end of CY 2009, some portions of the economy appear to be recovering, while others seem to be sinking deeper.

A. Those sectors recovering have generally been big businesses.

- The federal government through the Troubled Asset Relief Program (TARP) has loaned billions of dollars to shore up the big banks and insurance companies, that had invested heavily in the bad mortgage assets, and brought them back from the brink of destruction. In the summer and fall of 2009 as their business has improved, they have been repaying the TARP loans.
  - *On the other hand*, these banks that were just rescued with taxpayer monies have been reluctant to loan to other businesses and free up credit. Also, they have fought stricter banking regulations intended to keep them in the future out of the sort of loan mess they were just in. They have started again paying lavish bonuses to their top executives.
  - The above practices have incurred the wrath of the public and President Obama, who in a December 13, 2009, meeting with the nation's major bankers, demanded that the banks "make more credit available to businesses and consumers."
- In spring 2009, the impending failures of General Motors and Chrysler forced the federal government to bail them out with loans after restructuring and bankruptcies. The new salvaged companies are much smaller than they formerly were with many "underperforming" dealer franchises being terminated. Hopefully, the new smaller, leaner companies will be able to better compete in the current marketplace. The July and August "cash for clunkers" program was designed to aid the two newly restructured domestic vehicle producers, but because of the vehicle inventory mix on hand, seems to have been more beneficial to rival Ford (which did not seek a government bail-out) and the Japanese-owned vehicle producers.
- In February 2009, Congress passed the $75 billion Homeowners Affordability and Stability Plan to save the best bad mortgages and the $787 billion American Recovery and Reinvestment Act, which, in addition to rescuing the motor companies (see above), provided stimulus monies to the states for Medicaid, education, infrastructure improvements, and to pay extended unemployment benefits.
- One of the chief means of getting the stimulus monies into the economy has been through spending for projects on the military bases, and since Virginia has so many military bases, it has benefited more than most states.

B. Parts of the economy that have been slow to see recovery:

- The nearly fifteen million unemployed have had a very tough time, even though unemployment benefits have been extended several times, because job creation has been very slow to filter through the labor market.

- The fact the major banks have been very slow to expand credit to the medium-sized and small businesses and other credit-worthy borrowers has slowed the recovery. Without a free-flow of credit, plus the fear of impending higher taxes, businesses are very reluctant to create new jobs and hire.

- The backlog of foreclosed and unwanted real estate is still a major problem in some areas of the country. Extension of the tax credit to first-time home buyers until spring 2010 is a help.

In the forecast, the U.S. economy finally emerges from the longest, but not quite the worst recession of the post-World War II period—a recession that was brought on by over-speculation in the real estate and financial markets. Massive stimulus spending and years of near zero interest rates are necessary to bring the economy back, but to have not taken these corrective actions would likely have meant a deep, decade-long recession. A year after the CY 2008 financial crisis, progress to restore credit/liquidity to all sectors of the economy and revive job creation in the dominantly service economy seems painfully slow. It is CY 2012 before things seem to be getting back to normal. The expansion needs time to build on itself. Gross Domestic Product (GDP) growth is expected to be below three percent for CY 2010 and CY 2011. By CY 2012 and beyond, GDP growth should climb above three percent. As the economy grows again, tax revenues return, and the $1.4 trillion federal deficit is whittled down to less than $900 billion with inflation and interest rates staying moderately low. Energy prices rise moderately over the forecast period, but never get out of hand as they did in CY 2008.

Major Forecast Assumptions

- The Federal Reserve is expected to extend its low interest rate policies into the forecast period in an effort to create more credit/liquidity. Only toward the end of CY 2010 is it expected to start to tighten monetary policy and raise interest rates, but even then, it will be just a little bit of tightening. The Fed Funds rate is projected to average 0.24 percent for CY 2010, 1.70 percent for CY 2011, and 3.34 percent for CY 2012.

- Out of the stimulus package, it is assumed about $600 billion will be spent in CY 2009 and CY 2010. The stimulus has added nearly one percent to CY 2009 GDP and will add over one percent to CY 2010 GDP. It should save over two million jobs by the end of CY 2010. Federal government spending even with the start of the stimulus package rose only another 5.3 percent in CY 2009. Going forward, federal government spending should increase 4.0 percent (the surge in Afghanistan and more stimulus spending) in CY 2010. As the stimulus and Afghanistan wind down, federal government spending should decrease by 3.3 percent in CY 2011 and 3.7 percent in CY 2012.

- Nonfarm employment nationally is expected to recede another 0.9 percent in CY 2010, but gain back 1.8 percent in CY 2011 and 2.7 percent in CY 2012. Even with these losses, the stimulus package is expected to have saved over 2 million jobs. A characteristic of service-based economies is that they grow slowly.

- The national unemployment rate, a lagging economic indicator, averaged 5.8 percent in CY 2008. Unemployment is expected to average 9.3 percent in CY 2009 and average 10.2 percent in CY 2010. (Unemployment is usually highest the year after the recession ends because it takes time for the displaced to be rehired.) There are some who feel President Obama's attention has been diverted away from the unemployment problem in CY 2009 by Afghanistan and the health insurance issue. Perhaps CY 2010 will see more emphasis on lowering unemployment. Unemployment should be receding to 9.6 percent in CY 2011 and 8.6 percent in CY 2012.

- The current account deficit should be $533 billion in CY 2010, $613 billion in CY 2011, and $692 billion in CY 2012. The trade deficit will widen again because the U.S. economy will be growing faster than economies in most of the developed countries.

- New housing starts and existing home sales have both plummeted, being down to a projected 558,000 annualized new starts for CY 2009 and 4.89 million annualized existing home sales for CY 2008. Existing home sales actually rose to a projected 5.18 million in CY 2009 because of tax credits to first-time home buyers and more affordable prices. These averages are down significantly from 2.07 million housing starts and 7.08 million existing home sales at the peak in CY 2005. The projections are for an average 812,000 new housing starts and 5.18 million existing home sales in CY 2010; 1.24 million new housing starts and 5.34 million existing home sales in CY 2011; and 1.59 million new housing starts and 6.10 million existing home sales in CY 2012.

- New light vehicle sales, even with "cash for clunkers," are expected to be only 10.3 million units in CY 2009. Projected future sales are expected to be 11.2 million units in CY 2010, 13.8 million units in CY 2011, and 15.6 billion units in CY 2012. In the past, the domestic vehicle producers needed 14 to 15 million unit sales volume to be profitable, but the new revamped companies are supposed to now be better able to compete. In the meantime, Ford, who did not get a bailout loan, has sold off a good part of its assets to get money to develop a new product line and appears to be becoming profitable again.

- After a very volatile year in CY 2008 with per barrel oil prices spiking to $147 and averaging $100, CY 2009 was relatively calm, with prices rising

moderately much of the year, but averaging only $62. Gasoline prices were well within the $2.00 to $3.00 per gallon range. The recession was keeping prices in check with even CY 2009's price run-up being more than the market warranted. Fuel prices are expected to gradually rise, being $68 per barrel in CY 2010, $77 per barrel in CY 2011, and $83 per barrel in CY 2012. As always, the energy sector can quickly become very volatile.

Forecast Alternatives

The **pessimistic** scenario has a second dip to the recession in CY 2010, and this is followed by anemic growth for years to come (probability is 20 percent).

The **optimistic** scenario has monetary and fiscal policies gaining traction better than originally thought, and GDP growth rises to 4.0 percent in CY 2010 and stays there for the remainder of the forecast period (probability is 20 percent).

Virginia

Our projections show, with the full impact of the recession hitting in Calendar Year (CY) 2009, that nonfarm place-of-work payroll employment lost 92,600 jobs, or 2.5 percent, falling from an average of 3,757,500 in CY 2008 to an average of 3,664,900 in CY 2009. Nonfarm employment fell a minimal 3,900, or 0.1 percent, in CY 2008 as the recession started in Virginia late in the third quarter of that year. In CY 2007, Virginia had added 34,900 jobs for a 1.7 percent job growth rate. While Virginia's CY 2009 job loss appears to be 2.5 percent, job loss in the nation in the similar period is projected to be 3.7 percent.

Virginia in CY 2008 with a 4.0 percent average unemployment rate, had the ninth-lowest unemployment rate in the nation. Even though Virginia's unemployment rate increased in CY 2009 and is expected to average 6.7 percent for CY 2009, after having peaked in June 2009 at 7.3 percent, the states that had lower unemployment rates than Virginia in CY 2008 have also experienced rising unemployment in CY 2009. In CY 2009's fourth quarter, only about a half-dozen small, largely agricultural, upper

Midwest and Rocky Mountain states had unemployment rates below Virginia. Of the thirteen largest states with over 3.5 million nonfarm employment bases, Virginia had by far the lowest unemployment rate. Texas was the next lowest large state, and it had over 8 percent unemployment in Fourth Quarter 2009. The U.S. jobless rate in CY 2009 is expected to average 9.3 percent and as of this writing was at 10.0 percent.

Virginia's average civilian labor force is expected to continue to see growth in CY 2009, rising by 24,000, or 0.6 percent, to a record 4,148,800. Total place-of-residence employment, succumbing to the recession, is expected to be down by 89,100, or 2.2 percent, to a level of 3,870,900. The number of jobless individuals rose by 113,000, or 68.6 percent, to 277,800.

Most Virginia metropolitan areas saw job loss in CY 2009.

The least job loss was in the college-oriented **Lynchburg** and **Harrisonburg** metropolitan areas, which have from month to month bounced back and forth from a few hundred jobs negative to a few hundred jobs positive. The large **Virginia Beach-Norfolk-Newport News, Virginia/North Carolina** and **Northern Virginia** metropolitan areas, aided by the stability of many defense installations and defense contractors and stimulus spending on these military installations, have each had one percent, or less, job loss. The **Blacksburg-Christiansburg-Radford** area has seen significant job losses in its vehicle and vehicle component manufacturing sector, but they have been blunted to some extent by employment increase in its two large state universities (Virginia Tech and Radford). **Charlottesville** and **Roanoke** have experienced around two percent job loss from the manufacturing and service industries, but health care and higher education gains have tended to balance out some of the losses. The **Danville** area with about three percent job loss (mostly from temporary layoffs) generally has not suffered as much in this recession as other Southside Virginia communities. The **Richmond** metropolitan area with about 25,000 jobs lost because of major business closings in trade/transportation, manufacturing, and finance has lost the most jobs in this recession. **Winchester, Virginia/West Virginia** has had the biggest percentage reduction of nearly five percent due to housing- and vehicle-related cutbacks and some retrenchment in services. The nonmetropolitan rural **balance-of-state** has lost 31,800 net jobs, or over eight percent, of its employment base. As usual, more of the job loss was in the southern half of the balance-of-state.

Forecast

The U.S. economy has been in recession since December 2007 (according to the National Bureau of Economic Research [NBER], the Princeton, New Jersey, group that officially designates U.S. recessions). Virginia's job growth ended in August 2008 when nonagricultural employment turned negative. Virginia nonfarm employment was, however, only negative by an average 3,900, or 0.1 percent, for all of CY 2008. The recession hit full in CY 2009 with average job loss of 92,600, or 2.5 percent. Job loss in Virginia appears to end in Fourth Quarter 2009, with nonfarm employment at 3,641,900. Between Fourth Quarter 2009 and Fourth Quarter 2010 there are expected to be 50,600 jobs added (or 1.4 percent), bringing employment to 3,692,500, just above the 3,690,200 level of First Quarter 2009. The average forecast employment level for CY 2010 is expected to be 3,665,200, only 400 jobs higher than the CY 2009 average of 3,664,900. While CY 2009 lost jobs most of the year, CY 2010 will see very modest job growth, making the averages for the two years nearly identical. Job growth for CY 2011 is expected to be 87,100, or 2.4 percent; and CY 2012 should see job gains of 103,300, or 2.8 percent. It should be about Third Quarter 2011 before nonfarm employment is back to CY 2007's previous peak average of 3,760,700.

Virginia's unemployment rate appears to have peaked at a 7.0 percent average in Second Quarter 2009, fell to a 6.6 percent average in Third Quarter 2009, then is expected to bump up to a 6.8 percent average for both Fourth Quarter 2009 and First Quarter 2010 due to a so-so holiday season, a lack-luster post-holiday winter economy, and previously announced closings in the new year. Unemployment starts a long-range downturn in Second Quarter 2010, ending at 5.2 percent by Fourth Quarter 2012. Expected jobless averages are 6.6 percent for CY 2010; 6.0 percent for CY 2011; and 5.4 percent for CY 2012. A services-based economy expands very slowly. Virginia is expected to remain in the top ten states for low unemployment and should continue to have the best jobless rate of the thirteen very largest states. The kinds and types of industries in a state have a lot to do with the magnitude of unemployment. Virginia has a nearly ideal industry mix.

Reasons for Virginia's Expected Continued Good Showing are:

1. Virginia proportionately has more military and federal government installations than any other state. Federal government civilian employment is 167,000, and military station strength is 126,000.

2. With the federal government increasing the troop strength in Afghanistan by 30,000, this should mean more activity for Virginia bases. Also, much of the supplies to Afghanistan and Iraq are shipped through Virginia ports. While military activity is costly to the national economy, it usually benefits the Virginia economy.

3. The military installations seem to be the prime means the present administration uses to get stimulus monies into the economy, and this process should continue to benefit Virginia.

4. Professional and business services is expected to return to positive employment in CY 2010, and 30 to 40 percent of this industry in Virginia is contracting with the federal government.

5. Health care, with major centers in Richmond, Hampton Roads, Roanoke, and Charlottesville and minor centers in other places, is still the most recession-proof industry.

6. Higher education, both the state universities and private colleges, is an export industry for Virginia, training students from many other places in both the U.S. and the world. The state universities have many funding sources, such as tuitions, research grants, endowments, alumni, and user and athletic fees, other than the state general fund budget. In recessions, many people go back to college.

7. Virginia tourism always benefits from its proximity to the populous Northeast and Great Lakes states, and the moderate gasoline prices may permit more short trips to Virginia attractions.

8. Factory employment in Virginia is now only about 240,000, or 6.5 percent, of employment. Proportionately, Virginia has much less factory employment than do the high unemployment Carolinas. About 10 percent of Virginia factory employment is in government-supported shipbuilding.

Nonagricultural employment in Virginia is forecast to improve from the 92,600, or 2.5 percent, loss in CY 2009 with average employment of 3,664,900 to 400 average job growth (no percent change) with a nonfarm level of 3,665,200 in CY 2010. Better job growth of 87,100, or 2.4 percent, to 3,752,300 and 103,300, or 2.8 percent, to 3,855,600 should return for CY 2011 and CY 2012, respectively.

Labor Force Data (Place of Residence)

Virginia's labor force is growing, both from natural increase and from in-migration, because of Virginia's relatively low unemployment rate, compared to much of the rest of the country. Labor force growth should average 13,100, or 0.3 percent, to 4,161,800 in CY 2010; 55,300, or 1.3 percent, to 4,217,100 in CY 2011; and 59,300, or 1.4 percent, to 4,276,400 in CY 2012. Total employment averages (which also include agricultural, self-employed, and domestic household workers) are projected to increase 17,400, or 0.4 percent, to 3,888,300 in CY 2010; 74,700, or 1.9 percent, to 3,963,000 in CY 2011; and 81,400, or 2.1 percent, to 4,044,500 in CY 2012. The number of average unemployed should fall 4,300 to 273,500 in CY 2010; 19,500 to 254,000 in CY 2011; and 22,100 to 232,000 in CY 2012. The unemployment rate is expected to drop from a projected 6.7 percent average in CY 2009 to average 6.6 percent in CY 2010, 6.0 percent in CY 2011, and 5.4 percent in CY 2012. The Virginia unemployment rate should keep its historic relationship of being 65 to 75 percent of the national jobless rate.

Regional Forecasts

Both the **Virginia Beach-Norfolk-Newport News, Virginia/ North Carolina** and **Northern Virginia** metropolitan areas, which together contain about 60 percent of Virginia's jobs, are expected, aided by the strong federal government presence and stimulus spending, to return quickly to positive job growth in CY 2010. The heavily college-influenced **Lynchburg** and **Harrisonburg** metro areas, which have remained barely positive in CY 2009, should continue to see some job growth. The also heavily college-influenced **Blacksburg-Christiansburg-Radford** and **Charlottesville** metro areas should return to positive

job growth in CY 2010, provided budget cuts to state universities are not too severe. The **Roanoke** and **Danville** metro areas, which have not had really bad downturns, will, because of factory losses, probably not return to positive job growth until CY 2011. The **Winchester, Virginia/West Virginia** metro area, which had the biggest percentage job loss in CY 2009 because of housing- and vehicle-related factory furloughs, may return to positive job growth in CY 2010 because of a strong rebound in its service-providing sector. The Winchester services component is similar to this industry in neighboring Northern Virginia. The **Richmond** metropolitan area, which has been harder hit by this recession than many areas in Virginia, because of the recent unfortunate series of employer failures, moves, and consolidations, probably will not return to positive job growth until about CY 2011. Because of revenue and budget problems, state and local governments are expected to have further layoffs. Health care, higher education, and employment associated with the Fort Lee expansion are expected to be the main sources of hires. The nonmetropolitan **balance-of-state** should gradually improve with the state and national economies. The large and usually prosperous Northern Virginia area exerts some influence on all the rural areas in the upper half of the balance-of-state (above Interstate-64), and as in the past, the upper half will likely do better than the lower half of the balance-of-state.

Forecast on a Program Year Basis

The recession will be starting to fade by the time the focus program years (PY 2010 and PY 2011) are upon us. The **state's civilian labor force** should grow by 39,500, or 1.0 percent, in Program Year (PY) 2010 to 4,185,200 and increase by 63,100, or 1.5 percent, to average 4,248,300 in PY 2011. **Total employment**, on a place-of-residence basis will increase 53,100, or 1.4 percent, to an average of 3,922,100 individuals in PY 2010. In PY 2011, the total employment gain will be 82,400 individuals, or 2.1 percent, for an average of 4,004,500. The **unemployment rate** should be 6.3 percent for PY 2010, and 5.7 percent for PY 2011. **Nonagricultural employment in PY 2010** on a place-of-work, job count basis should add 56,300, or 1.5 percent, to average 3,704,900. All of the improvement will be in nonmanufacturing. **Nonagricultural employment in PY 2011** should be rebounding by 97,700 jobs, or 2.6 percent, to 3,802,700.

Last year in *Economic Assumptions*, we said this recession was probably going to be the longest recession of the post-World War II period and that seems to have proven correct with this recession being longer than the two previous longest post-World War II recessions of 1973-75 and 1981-82, which were each 16 months in length. Last year when *Economic Assumptions* was being written, the National Bureau of Economic Research (NBER), the Princeton New Jersey group that officially designates recessions in the U.S., had issued a statement on December 1, 2008, saying the U.S. economy had been in recession for one year, beginning on December 1, 2007. While the NBER has yet to declare this recession officially over, signs are mounting that a modest recovery began in Third Quarter 2009. The NBER usually does not declare a recession "officially over" until it has had months to study all the data and make certain its call is correct. What happened was that this recession was in its thirteenth month (December 2008) before the NBER officially declared "the U.S. economy was in recession," although *at that time* there had been significant *reported* negative Gross Domestic Product (GDP) growth in only one quarter (Third Quarter 2009 was down 2.7 percent). There had been positive GDP growth in Second Quarter 2008 of 1.5 percent, but the NBER said on December 1, 2008, that the economy had been in such "a weakened state" that it had been in recession all of CY 2008. (GDP is the sum of the output of all the goods and services produced by labor and property in the U.S. economy and is a key measure of economic gain or loss. Normally at least two consecutive quarters of negative GDP growth are considered necessary to have a recession.) In March 2009, GDP in Fourth Quarter 2008 was reported down 5.4 percent. GDP then declined for the first two quarters of CY 2009, being down 6.4 percent in First Quarter 2009 and 0.7 percent in Second Quarter 2009. This makes 19 months of recession from December 2007 through June 2009 for the longest recession in post-World War II history. Although the NBER, as of this writing, has yet to officially declare the recession over, it appears a weak recovery sparked by the boost in vehicle sales from the "cash for clunkers" program, replenishing of worked-down inventories, incentives to first-time home buyers, federal spending, and a slight spurt in exports began in Third Quarter 2009 with 2.2 percent GDP gain.

While the 2007-2009? recession is the longest recession since the Great Depression of the 1930s, U.S. unemployment has yet to reach the 10.8 percent peak recorded in November 1982, although U.S. unemployment was 10.2 percent in October 2009. U.S. November unemployment was back to 10.0 percent. We had said in last year's *Economic Assumptions* that a mature U.S. labor force and the need to bring in large numbers of foreign workers (many of whom have since gone home) to fill jobs would probably keep unemployment just below the 10.8 percent CY 1982 peak. An unusually good projected 3.1 percent rate of productivity in CY 2009 has allowed employers to get through this year with their existing workforce without making hires.

What has made this recession seem so bad is that it has been *absolutely devastating* to certain selective segments of the economy, like construction, manufacturing (in

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general), motor vehicles (in particular), information, and finance; and with the across-the-board lack of job creation, there seems to be no end in sight to the problems for the individuals affected. The recession seems to feed on itself. This recession was caused by over-speculation in the real estate market, which spread to the financial sector, which financed the mortgages, and then to other sectors of the economy because consumers, feeling unsure and thinking they might lose their jobs, stopped buying. This cut-off in consumer spending caused more job losses (consumer spending is about 70 percent of GDP), and the people who lost their jobs could not pay their mortgages, which in turn hurt the finance sector, which foreclosed on more mortgages, putting more unwanted houses on an already glutted real estate market.

Now one year later, some portions of the economy appear to be recovering, while others seem to be sinking deeper.

A. Those sectors recovering have generally been big businesses.

- The federal government through the Troubled Asset Relief Program (TARP) has loaned billions of dollars to shore up the big banks and insurance companies, that had invested heavily in the bad mortgage assets, and brought them back from the brink of destruction. In the summer and fall of 2009 as their business has improved, they have been repaying the TARP loans.
  - *On the other hand*, these banks that were just rescued with taxpayer monies have been reluctant to loan to other businesses and free

up credit. Also, they have fought stricter banking regulations intended to keep them in the future out of the sort of loan mess they were just in. They have started again paying lavish bonuses to their top executives.

- » The above practices have incurred the wrath of the public and President Obama, who in a December 13, 2009, meeting with the nation's major bankers, demanded that the banks "make more credit available to businesses and consumers."

✷ In spring 2009, the impending failures of General Motors and Chrysler forced the federal government to bail them out with loans after restructuring and bankruptcies. To not have saved these two major car makers would have meant the demise of many major component suppliers and caused double-digit unemployment in the middle of the country for years to come. The new salvaged companies are much smaller than they formerly were with many "underperforming" dealer franchises being terminated. Hopefully, the new smaller, leaner companies will be able to better compete in the current marketplace. The July and August "cash for clunkers" program was designed to aid the two newly restructured domestic vehicle producers, but because of the vehicle inventory mix on hand, seems to have been more beneficial to rival Ford (which did not seek a government bail-out) and the Japanese-owned vehicle producers.

✷ In February 2009, Congress passed the $787 billion American Recovery and Reinvestment Act, which, in addition to rescuing the motor companies (see above):

- » Raised the amount to be paid to states for Medicaid and pays for health clinics, community health centers, and meals for low-income seniors.
- » Provides a fiscal stabilization fund to states, the major part of which goes to education—grades K-12, special education, and needy students.
- » It also provided tax cuts to families and small businesses, education tax credits, "shovel-ready" infrastructure improvements, investments in health care and energy, extended jobless benefits, and support to local governments.

- One of the chief means of getting the stimulus monies into the economy has been through spending for projects on the military bases, and since Virginia has so many military bases, it has benefited more than most states (see Virginia forecast portion of this publication beginning on page 25.)

B. Parts of the economy that have been slow to see recovery:

- The nearly fifteen million unemployed have had a very tough time, even though unemployment benefits have been extended several times, because job creation has been very slow to filter through the labor market.

- The fact the major banks have been very slow to expand credit to the medium-sized and small businesses and other credit-worthy borrowers has slowed the recovery. Even Small-Business-Administration-backed loans have been difficult to come by and get processed. Without a free-flow of credit, plus the fear of impending higher taxes, businesses are very reluctant to create new jobs and hire.

- The backlog of foreclosed and unwanted real estate is still a major problem in some areas of the country. Extension of the tax credit to first-time home buyers until spring 2010 is a help.

- There has been much controversy, anger, and wrangling over attempts by Congress and the Obama Administration to get far-reaching expanded health care coverage legislation passed. Also, fear and hesitation about the cost of this legislation have probably slowed economic recovery in CY 2009.

The Federal Reserve through its monetary policy of keeping interest rates near zero and its special attempts to facilitate liquidity have done more than people realize to get the economy through last year's crisis and on the road to recovery.

CY 2009 in Review

- In the aftermath of the housing crisis in CY 2007 and the financial crisis and the passage of the TARP legislation in CY 2008, First Quarter 2009 started out with the new Obama Administration being inaugurated in January. In short order (February), the new administration pushed through Congress the $75 billion Homeowner Affordability and Stability Plan and the $787 billion American Recovery and Reinvestment Act (the stimulus plan) to shore up the troubled economy. Things were still in a state of "free fall" in First Quarter 2009 with GDP dropping 6.4 percent with most sectors being negative. This recession already equaled the 1973-75 and 1981-82 recessions in length.

- The recession continued into Second Quarter 2009, but the rate of decrease slowed to 0.7 percent. The federal government shepherded the failed General Motors and Chrysler through managed bankruptcies with them emerging as more viable entities, supposedly more able to compete in the present-day car market. In the process many "underperforming" dealerships were terminated. Gasoline prices gradually drifted up during the summer driving season, but the gains were modest in comparison with CY 2008 increases. The recession extends to nineteen months, making it the longest in the post-World War II period.

- Third Quarter 2009 saw GDP return to slightly positive growth, being up by 2.2 percent, spurred by the "cash for clunkers" program. Light vehicle sales were briefly up to 11.5 million units at an annual rate. Also, helping the economy were replenishment of inventories, export sales, and housing sales induced by tax credits for first-time home buyers.

- Fourth Quarter 2009 is expected to see modest GDP growth much like the third quarter. The merchants are hoping for a better holiday sales season after three poor holiday sale seasons. "Black Friday" sales indicate sales volume about 3 percent above last year. Holiday sales events abound, but CY 2009 has only four weekends between Thanksgiving and Christmas, where some years have had five. Much of the eastern U.S. was hit by a major winter storm in the last weekend before Christmas. The battle rages in Congress over health care. Gasoline prices drifted moderately higher as the year wore on. Most big banks have paid back their TARP loans by the fourth quarter. The U.S. unemployment rate reached 10.2 percent in October, but was back to 10.0 percent in November. Trying to stimulate more business, the Federal Reserve kept the Fed Funds rate near zero all year.

- Final Fourth Quarter 2009 GDP numbers will not be available until the end of March 2010. Other than high and rising unemployment, CY 2009 has not been as tumultuous a year economically as the two previous calendar years.

Basic Economic Number Averages for CY 2009 Should Turn Out as Follows:

- Economic growth in CY 2009 should average 2.5 percent negative because of the severe drop in the first quarter (6.4 percent) and a smaller reduction (0.7 percent) in the second quarter. It looks like an anemic recovery started in the third quarter and continued into the fourth quarter.

- Consumer spending should average 0.6 percent negative for the year as consumers shocked by the loss of equity in real estate, the decline in retirement and investment portfolios in CY 2008, and fearful of job losses in CY 2009 ceased spending for all but essentials. Many consumers still could not get financing for big-ticket purchases. Bright spots were the summer "cash for clunkers" program and the tax incentive to first-time home buyers. New light vehicle sales fell from 13.2 million units average in CY 2008 to 10.3 million units average in CY 2009 even with the "cash for clunkers" program. Housing seems to be bottoming out in CY 2009. New starts were

down from 900,000 in CY 2008 to 558,000 in CY 2009, but existing home sales were up from 4,893,000 in CY 2008 to 5,175,000 in CY 2009. Business spending was depressed by the recession and the lack of credit availability, being down from 1.6 percent positive in CY 2008 to 17.9 percent negative in CY 2009. Even with all the stimulus monies in CY 2009, federal government spending grew less (5.3 percent) than in CY 2008 (7.7 percent). CY 2008 had the surge in Iraq and the first of the TARP loans. State and local government spending for goods and services was unchanged from CY 2008. State and local tax revenues were falling, but there were federal stimulus grants to the states and localities.

- In an effort to stimulate the economy, the Federal Reserve kept the Fed Funds rate at an average low 0.16 percent. Because of the recession, consumer price inflation fell 0.3 percent for the year. Rising food and fuel prices were offset by falling real estate values and vehicle price discounts and bargains. Although oil prices rose moderately from $43 per barrel in the first quarter to $77 per barrel by the fourth quarter, they averaged $62 per barrel for the year, which was much less than CY 2008's $100 per barrel average.

- The labor market shed jobs all year, averaging a 3.7 percent nonfarm job loss, or down about a net six million jobs. Other than those jobs created as a result of stimulus spending, there has been little new job creation. The national unemployment rate moved up all year, averaging 9.3 percent versus a 5.8 percent average in CY 2008.

- The federal deficit will reach a record $1,417 billion dollars.

The Future

The U.S. economy is like a battleship, it does not turn on a dime. All of CY 2009, fiscal policy, in the form of stimulus spending, and monetary policy, in the form of low (nearly zero) interest rates, have been battling to offset the forces unleashed and the damage done by the housing market crisis in CY 2007 and the ensuing financial market crisis in CY 2008. Unemployment, always worse in the year or so after the crisis, has risen steadily throughout CY 2009, topping ten percent in October 2009. One year after the last big crisis, the big banks and insurance companies and General Motors and Chrysler have been rescued from failure and restored to operations. Many of the big banks have paid back their TARP loans. Stimulus monies in the form of health, education, and energy projects have put a floor under state and local governments, although most all are having problems from lost tax revenues. What has not been completely fixed, yet, is the full restoration of credit/liquidity, especially to smaller businesses. Without the return of credit/liquidity, consumers are reluctant to

spend and businesses are reluctant to expand and create jobs. The President, Congress, and the Federal Reserve appear intent on forcing the rescued big banks into making more credit available. This should come in time, realizing a service-type economy like the U.S. by its nature expands slowly. The expansion needs time to build on itself. GDP growth is expected to be below three percent for CY 2010 and CY 2011. By CY 2012 and beyond, GDP growth should climb above three percent.

Outlook for CY 2010

- Unemployment may ratchet up one more time to over ten percent in winter 2010 before starting to recede for good. GDP is growing, but at an anemic 2.2 percent for the yearly average. Consumers are spending, but very slowly and cautiously, at a 1.8 percent growth rate. New light vehicle sales will be a little better, averaging 11.2 million units per year. New housing starts, urged upward by extended first-time home buyer tax credits, will be 812,000. Existing home sales will be the same as last year at 5.18 million. Federal government spending will be up 4.0 percent with more stimulus monies and paying for the military surge in Afghanistan. State and local government spending will be down 0.2 percent as reduced tax revenues outweigh federal stimulus aid. Although the credit/liquidity situation is starting to improve, business spending will still be down by 1.4 percent.

- Late in the year as business improves, the Federal Reserve will inch up the Fed Funds rate, but it will still average only 0.24 percent for the year. Inflation will have returned, but only at a benign 1.7 percent. Oil prices will be just a little higher at $68 per barrel.

- The labor market will still be negative with nonfarm employment dropping 0.9 percent. Unemployment will average 10.2 percent.
- The federal deficit will be just about as high as last year because of stimulus spending and the surge in Afghanistan at $1,411 billion.

Outlook for CY 2011

- CY 2011 will be just a little bit better with GDP growth averaging 2.9 percent (still below the 3.0 percent level considered the norm). Consumers will be feeling better and spending at a 2.4 percent rate of gain. Improving will be light vehicle sales at 13.8 million units, housing starts at 1.24 million, and existing home sales at 5.34 million. The combination of improving credit/liquidity and stimulus monies reaching small businesses will turn business spending positive for 10.3 percent growth.
- Federal government spending will be negative by 3.3 percent as the stimulus payments and Afghanistan wind down. Still low tax revenues will reduce state and local government spending 0.6 percent.
- The Federal Reserve will be cautiously inching up the Fed Funds rate to average 1.70 percent as inflation is now 2.0 percent (a level the Federal Reserve considers ideal).
- The labor market will finally be improving with nonfarm employment growing 1.8 percent and the unemployment rate receding to 9.6 percent.
- More revenues as business revives, the expiration of the Bush tax cuts, and less stimulus and defense spending should lower the federal deficit to $1,093 billion.

Outlook for CY 2012

- The economic numbers appear more normal as recession problems fade into the past. For the first time since CY 2005, GDP growth is over the three percent mark at 3.8 percent. Consumers are spending at a 2.7 percent rate of increase, which is boosting light vehicle sales to an average 15.6 million units, housing starts to 1.59 million, and existing home sales to 6.10 million. Business spending is now increasing by 14.5 percent. With the recovery now well along and Afghanistan hopefully ending, or moving in that direction, federal government spending is down 3.7 percent. State and local government spending is up 0.4 percent.
- The Fed Funds rate is expected to have moved up to average 3.34 percent, but inflation is staying in check at an almost ideal 1.9 percent. Oil prices move up to $83 per barrel.
- Job creation is up to 2.7 percent and the unemployment rate slides to 8.6 percent.
- Tax revenues are better, the stimulus loans have been paid back, and the federal deficit is down to $891 billion dollars.

The baseline forecast has a 60 percent probability.

In Summary

In the forecast, the U.S. economy finally emerges from the longest, but not quite the worst recession of the post-World War II period—a recession that was brought on by over-speculation in the real estate and financial markets. Massive stimulus spending and years of near zero interest rates are necessary to bring the economy back, but to have not taken these corrective actions would likely have meant a deep, decade-long recession. A year after the CY 2008 financial crisis, progress to restore credit/liquidity to all sectors of the economy and revive job creation in the dominantly service economy seems painfully slow. It is CY 2012 before things seem to be getting back to normal. As the economy grows again, tax revenues return, and the $1.4 trillion federal deficit is whittled down to less than $900 billion with inflation and interest rates staying moderately low. Energy prices rise moderately over the forecast period, but never get out of hand as they did in CY 2008.

The preceding forecast is based on the following:

Monetary Policy

After heroic efforts in the last half of 2008 to rescue the economy from the threat of total collapse, the Federal Reserve had pretty much run through its bag of conventional methods to control the economy. At its December 16, 2008, open market committee meeting, it dropped the Fed Funds rate to a historic low target range of 0.0 to 0.25 percent. In essence, this has been the primary monetary policy for all of CY 2009. In this major effort to get the economy going again, the Fed Funds rate has averaged only 0.16 percent for CY 2009. Behind the scenes the Federal Reserve has been working to shore-up the banking system, merging weaker banks with stronger ones, and buying up mortgage-based securities and securitized consumer loans. It has thus far had only limited success in getting the banks to make more credit available, especially to smaller borrowers.

The Federal Reserve is expected to extend its low interest rate policies into the forecast period in an effort to create more credit/liquidity. Only toward the end of CY 2010 is it expected to start to tighten monetary policy and raise interest rates, but even then, it will be just a little bit of tightening. The Fed Funds rate is projected to average 0.24 percent for CY 2010, 1.70 percent for CY 2011, and 3.34 percent for CY 2012.

The reason the Federal Reserve can take its time about raising the Fed Funds rate is that, except for some recent rises in commodity prices, inflation is very dormant because of worldwide excesses in production capacity and labor markets. The recession actually caused 0.3 percent deflation in CY 2009 (why there is no CY 2010 cost-of-living increase in Social Security benefits). Inflation is expected to return in CY 2010, but it is expected to be moderate and well within the 2.0 percent inflation rate that the Federal Reserve considers ideal. (Most economists now consider a small amount of inflation much better for the economy than deflation.) Consumer price inflation is expected to average 1.7 percent in CY 2010, 2.0 percent in CY 2011, and 1.9 percent in CY 2012.

Fiscal Policy

In recent years, up until late CY 2008, fiscal policy had taken a backseat to monetary policy, but this time because of the Federal Reserve having largely already used up most of its bag of tricks to control the economy, fiscal policy has become the primary means to get the U.S. economy out of the recession.

In addition to the Troubled Asset Relief Program (TARP) passed in October 2008, the new Obama administration, once it was in office, pushed through Congress in February 2009:

- The $75 billion Homeowner Affordability and Stability Plan that will help save the best of bad mortgages through Fannie Mae and Freddie Mac

Major Forecast Assumptions

- The $787 billion American Recovery and Reinvestment Act to stimulate the economy.

  The American Recovery and Reinvestment Act:

  » Raised the amount to be paid to states for Medicaid and pays for health clinics, community health centers, and meals for low-income seniors

  » Provides a fiscal stabilization fund to states

  - The major part goes to education—grades K-12, special education, and needy students
  - General fund benefits are provided, such as tax cuts to families and small businesses, education tax credits, infrastructure improvements (“shovel-ready”), investments in health care and alternative energy, support to local governments in the downturn, and extended jobless benefits

- ✷ Appointed federal offices to administer the resolution of General Motors' and Chrysler's problems
- ✷ Further stimulus plans are in the Fiscal Year 2010 federal budget.

The purposes of all the rescue and stimulus plans are to:

1. Put a floor under home prices
2. Restore credit/liquidity to the banking system so that lending will be restarted and the nation can recover from the recession

It will take time for the stimulus and recovery plans to work.

Out of the stimulus package, it is assumed about $600 billion will be spent in CY 2009 and CY 2010. The stimulus has added nearly one percent to CY 2009 GDP and will add over one percent to CY 2010 GDP. It should save over two million jobs by the end of CY 2010.

Federal government spending rose 7.7 percent in CY 2008 because of the surge in Iraq, the Afghanistan war, and the first part of the TARP bailout. Federal government spending even with the start of the stimulus package rose only another 5.3 percent in CY 2009. Going forward, federal government spending should increase 4.0 percent (the surge in Afghanistan and more stimulus spending) in CY 2010. As the stimulus and Afghanistan wind down, federal government spending should decrease by 3.3 percent in CY 2011 and 3.7 percent in CY 2012.

The stimulus package; financial bailouts of banks, insurance companies, and motor companies; and other recession costs, like extended unemployment benefits, will have boosted the federal budget deficit from $455 billion in CY 2008 to $1,417 billion in CY 2009. The federal budget deficit is expected to be almost as high, at $1,411 billion dollars, for CY 2010. Beyond that, the economy should be improving, tax revenues will be increasing, the Bush administration tax cuts expire, and Afghanistan should be winding down. President Obama will have to make spending priorities and taxes will eventually have to be raised. Failure to reduce the deficit will not necessarily mean inflation will surge, but interest rates will rise. Our forecast is for the federal deficit to slide to $1,093 billion in CY 2011 and $891 billion in CY 2012.

State and local governments will continue to face challenges, since they cannot create money like the federal government and have to by law have balanced budgets. Gasoline tax revenues are down from CY 2008. Real estate and property tax values have fallen sharply in the recession. Stimulus monies to the states and localities have helped and saved many government jobs as tax revenues slide. Thanks to the stimulus monies, combined state and local government spending was unchanged from CY 2008 to CY 2009. The slide in tax revenues will reduce combined state and local government spending by 0.2 percent in CY 2010 and 0.6 percent in CY 2011. By CY 2012 tax revenues will start to improve, and state and local government spending to fund postponed projects will be up by 0.4 percent.

Employment and Income

National nonagricultural payroll employment (the job count) rose at an average 1.1 percent in CY 2007, reaching a level of 138 million jobs in December 2007 as the business cycle peaked. Average job loss in CY 2008 was 0.4 percent. Average job loss in CY 2009 is projected to be 3.7 percent with nonfarm employment projected down to 130 million by December. Nonfarm employment nationally is expected to recede another 0.9 percent in CY 2010, but gain back 1.8 percent in CY 2011 and 2.7 percent in CY 2012. Even with these losses, the stimulus package is expected to have saved over 2 million jobs. A characteristic of service-based economies is that they grow slowly.

Productivity in the U.S. economy was up an average 1.8 percent in CY 2008. Productivity is expected to rise an average 3.1 percent in CY 2009 as the recession worsened (in recessions, usually the least productive jobs are eliminated, so overall productivity rises). Productivity growth is expected to average 3.2 percent in CY 2010, but slow to 0.1 percent in CY 2011, and 0.7 percent in CY 2012.

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 the recession, annual wage increases will likely be from zero to 2.0 percent, one of the reasons inflation is not a major concern in the forecast.

The federal minimum wage rose to $7.25 per hour on July 24, 2009, in the third of three yearly increases of $.70 each passed by Congress in CY 2007. Increases in the federal minimum wage give a slight boost to economic growth each time they take place. Workers at the minimum spend their wage increase, and they spend most of it at the same retail and service establishments where they work. Thus, the rise in minimum wage increases 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. Overall inflation should not be a great concern during the forecast.

The highly professional health care and education sectors are the most recession-proof industries and should continue to see some job growth. The high-skill, high-wage professional and business services has seen job losses in CY 2009 in architects, engineers, advertising, general services to business, and at temporary worker providers. These subsectors should start to rebound by CY 2010 as these groups have to go back to work to help the rest of the economy rebound. Extra management consultants and tax and legal specialists are being hired to guide businesses through the recession, and the recovery package means additional federal contracting. The trade, leisure and hospitality, and service industries will soon be filling positions. The information industry will continue to see stiff competition. Manufacturing will continue to see big losses in both durable and nondurable goods, especially in nondurables. Construction employment likely will see more job losses before commercial construction bottoms out in CY 2010, but federal public works projects may help. State and local governments will have to reduce forces because of lower tax revenues, but federal public works monies will help here, also.

The generally considered parameters for unemployment rates are as follows:

- Unemployment of 2.0 percent, or less, is considered a labor shortage. Many employers have difficulty keeping jobs filled, especially those with odd hours and lower pay.
- Unemployment rates of 2.0 percent to 5.0 percent are considered to be satisfactory and desirable, with joblessness of 3.0 percent to 4.0 percent seeming to be ideal—at this level most employers can find qualified workers and most workers can easily move into jobs. Economic developers maintain areas with less than 3.0 percent unemployment are more difficult to sell to prospective employers.
- An unemployment rate of 5.0 percent, or less, is generally considered to be "full employment."
- Unemployment rates from 5.0 percent to 6.0 percent are generally considered acceptable, but workers may experience some difficulty finding work.
- Unemployment rates above 6.0 percent are cause for some concern, and unemployment rates above 7.5 percent are generally considered to be too high. Efforts need to be taken to bring joblessness lower.
- Unemployment is a very personal problem and sympathies and wishes for a speedy rehire are extended to anyone reading this who is jobless. Still, the unemployment problem is not really widespread with an average 90.7 percent of the U.S. labor force being employed in CY 2009.

Unemployment is very much a regional problem with Michigan (motor vehicles), California and Nevada (real estate speculation), and the Carolinas (loss of textile manufacturing) being hardest hit. By contrast, states in the upper Midwest (North Dakota is currently lowest) and Rocky Mountains are generally below 6.0 percent unemployment.

The national unemployment rate, a lagging economic indicator, averaged 5.8 percent in CY 2008. Unemployment is expected to average 9.3 percent in CY 2009 and average 10.2 percent in CY 2010. (Unemployment is usually highest the year after the recession ends because it takes time for the displaced to be rehired.) There are some who feel President Obama's attention has been diverted away from the unemployment problem in CY 2009 by Afghanistan and the health insurance issue. Perhaps CY 2010 will see more emphasis on lowering unemployment. Unemployment should be receding to 9.6 percent in CY 2011 and 8.6 percent in CY 2012. Service type economies take longer to recover than manufacturing economies because the hiring process just takes longer for professional workers. Factory workers can be recalled quickly when production resumes, but many jobless professional service workers have to find completely new jobs because in many cases their former employer no longer exists.

Because of low domestic birth rates twenty to thirty years ago, the U.S. economy recently has had 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. In CY 2010, everyone born before the end of World War II will be over the normal retirement age. Providing a well-trained labor force will become even more challenging as time goes on. For the above reasons, U.S. unemployment probably will not climb much over 10.0 percent in this current recession. Also, many factory inventory layoffs now occur in China and India.

Foreign Trade

The U.S. trade (or current account) deficit peaked in CY 2006 at $804 billion. The trade deficit slid to $727 billion in CY 2007 and $706 billion in CY 2008 as exports increased faster than imports. This was the first improvement in the trade deficit since the CY 2001 recession. The trade deficit is projected to improve even more to $446 billion in CY 2009, but world trade is down drastically because of the recession. After mid-2008, the rest of the world quickly followed the U.S. into recession as the financial markets imploded. The bad mortgages had been traded around the world, and many other countries also had inflated real estate markets. Exports and imports have deteriorated sharply but exports to China and India rebounded late in 2009. Europe and Japan had deeper recessions than the U.S. and likely will take longer to rebound. Growth in most emerging countries will rebound faster in CY 2010 than growth in the developed countries. The current account deficit should be $533 billion in CY 2010, $613 billion in CY 2011, and $692 billion in CY 2012. The trade deficit will widen again because the U.S. economy will be growing faster than economies in most of the developed countries.

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 1.00 percent. The Fed Funds rate stayed at the 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. As a result of the excesses then, both industries have now experienced severe collapses. The burst of the housing bubble caused the collapse of financial markets, which, in turn, has thrown the U.S. and the rest of the world into recession (as detailed elsewhere in this publication). This recession has been devastating to both the housing and vehicle markets.

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 increased the Fed Funds rate and, in turn, mortgage rates after June 2004, increasing the Fed Funds rate by 4.25 percent to 5.25 percent by June 2006, at which time, it ceased to increase, and then left the rate unchanged until September 2007. The housing market peaked in CY 2005, with new housing starts being 2.07 million annualized and existing home sales being 7.08 million annualized before rising home prices and mortgage rates made housing unaffordable. 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. In the CY 2006 to CY 2008 period, the inventory of unsold homes and foreclosures skyrocketed, especially in the sub-prime market, and home prices nosedived. New housing starts and existing home sales have both plummeted, being down to a projected 558,000 annualized new starts for CY 2009 and 4.89 million annualized existing home sales for CY 2008. Existing home sales actually rose to a projected 5.18 million in CY 2009 because of tax credits to first-time home buyers and more affordable prices. These averages are down significantly from 2.07 million housing starts and 7.08 million existing home sales at the peak in CY 2005. The projections are for an average 812,000 new housing starts and 5.18 million existing home sales in CY 2010; 1.24 million new housing starts and 5.34 million existing home sales in CY 2011; and 1.59 million new housing starts and 6.10 million existing home sales in CY 2012.

The problem was that once a mortgage was 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. The full scope and magnitude of the problem is still being determined.

The Federal Reserve tried valiantly to contain the housing and financial crises; but in the fall of 2008, it teamed up with the U.S. Treasury to ask Congress for new legislation to shore up the failing economy. That legislation, passed in October 2008, was the TARP (which is covered in more detail elsewhere in this publication). At first the TARP was supposed to buy up many of the bad mortgages held by financial institutions; but it turned out to be more of a bailout of the troubled financial institutions in the hope that credit/liquidity, which had all but dried up, could be restored to financial markets.

The mortgage and foreclosure problems are worse in California, Florida, Nevada, and Arizona, where there was much real estate speculation, and in Michigan and Ohio, where many autoworkers have lost their jobs and, in turn, their homes.

For the economy to truly recover, two things need to happen:

1. A floor needs to be put under plummeting home prices, which now appear to be near a bottom. The loss of equity in home values has caused consumers to stop spending for big-ticket durables.

2. Credit/liquidity needs to be restored to financial markets so lending and normal commerce can resume. Many prospective home and car buyers have not been able to get financing.

Commercial construction may also be close to a bottom. When commercial rental leases come up for renewal, they are being renegotiated downward by 20 to 30 percent. New public works projects to improve the infrastructure should help commercial construction.

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 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 manufacturers did quite an amazing job through rebates and the various incentives to sell as many vehicles as they did in CY 2006 and CY 2007.

The domestic vehicle producers were 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 inventory was designed back in the 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, have done a better job than the domestics of producing fuel-efficient hybrids and alternate fuel vehicles. Therefore, Toyota, Honda, and the Koreans continued to take vehicle market share away from the domestic vehicle makers.

Light vehicle makers then encountered big new obstacles to sales in CY 2008:

- World oil prices started rising from less than $100 per barrel at the beginning of CY 2008, skyrocketing to $147 per barrel by July. The sharp spike was much higher than the supply/demand situation would appear to have warranted, but oil prices were driven by speculation and high-anticipated demand from emerging economies, especially associated with the needs of the much publicized summer World Olympics in Beijing, China, in August. Sales of all light vehicles plummeted, but the sales of U.S. manufacturers plummeted more than the sales of Japanese and Korean manufacturers.
- In recent years, the U.S. manufacturers had de-emphasized less profitable fuel-efficient cars in favor of more profitable pickup trucks and SUVs. Pickup truck sales, which peaked in CY 2001 at 3.3 million units, were largely bought by home improvement and construction workers, and the collapsed housing market killed those sales.
- To make matters worse, the values of pickups and SUVs bought in the last few years plummeted, so when prospective buyers tried to trade-in their recent model truck or SUV for a more fuel-efficient car, they found they could not make a trade because they still owed more on their vehicle than it was now worth in the used vehicle market.
- Finally, just as fuel prices started to moderate, the crisis in the finance market hit and lending liquidity dried up. Better than half the prospective vehicle purchasers could not get financing.

Oil prices then nosedived once the Olympics and the CY 2008 summer driving season were over, but not before world and especially the U.S. demand for vehicles had been significantly altered. In the U.S., the sales of light vehicles plummeted from 16.1 million units annually in CY 2007 to only 13.9 million units annually in CY 2008, and the Big Three domestic auto producers—General Motors, Ford, and Chrysler—were on the verge of collapse. Many dealerships failed, workers were laid off, and many other dealerships were put up for sale, but there were no buyers.

In the U.S. presidential transition period, the Big Three domestic automakers sent executives to Congress to ask for loan assistance to keep them afloat until more fuel-efficient vehicles could be developed. After twice being rebuffed for loans by Congress (Ford dropped out of the quest along the way), they then got loans from TARP to tide them over until March 2009, after the new Obama administration had taken office.

After the Obama administration took office, a "car czar" was appointed to deal with General Motors and Chrysler who were about to fail. The federal government rescued General Motors and Chrysler, put them through managed bankruptcies, and ended up owning parts of both, but in the end, a big part of Chrysler was sold to Italian automaker Fiat, who will provide management and technical support. In the process the companies were supposed to become leaner, meaner, and more able to compete in today's car market. Many "underperforming" dealer franchises were terminated.

The managed bankruptcies, with the U.S. government's backing, appear to be the best choice for the companies, the country, and the economy as a whole. To have allowed the companies to expire would have wiped out the machine tool industry and the vehicle component industry, which are a big chunk of U.S. manufacturing. Much of the Midwest would be devastated with U.S. unemployment rising to the mid-teens. It probably would mean the demise of the Ford Motor Company, also, as Ford and the foreign brands assembled in the U.S. by themselves could not support the U.S. vehicle component industry. It appears much better to take the supply and dealer dislocations now than to have the entire domestic industry wiped out altogether. From a military standpoint, the U.S. needs to keep these production capabilities in this country. Also, if the rescues go as planned, the U.S. government should ultimately make money on the vehicle industry recovery as it did on the early 1980's bailout of Chrysler.

In Third Quarter 2009, the U.S. government backed the "cash for clunkers" program where the buyer of a new fuel-efficient vehicle could get up to $4,000 trade-in, regardless of condition, for a fuel-inefficient vehicle, but the traded vehicle had to be destroyed. The program was originally intended to benefit the just-bailed-out General Motors and Chrysler.

The "cash for clunkers" program gave a boost to light vehicle sales in July and August, although dealers were complaining about the paperwork and the slowness of being reimbursed by the federal government. Probably the worst aspect of the "cash for clunkers" program was that it seems to have helped the foreign vehicle producers of Toyota, Honda, Hyundai, and Subaru more than General Motors and Chrysler, the domestic vehicle makers it was initially intended to benefit. The foreign producers had more fuel-efficient vehicles in their inventories this past summer than did the domestic producers. Also, the removal from the market of used vehicles by the program boosted the average used car price by about $1,000. In September, after “cash for clunkers” had expired, light vehicle sales plummeted by nearly forty percent.

The real dilemma facing the domestic manufacturers, aside from finances, is—will U.S. consumers really buy the new fuel-efficient vehicles being developed, now that gasoline prices are likely to be moderate for the next several years? Per barrel oil prices are now projected to average $62 in CY 2009, $68 in CY 2010, $77 in CY 2011, and $83 in CY 2012, which would mean regular gasoline below $3.00 per gallon. The Chevrolet Volt, on sale in late 2010, will be the first of the new breed of super fuel-efficient vehicles.

New light vehicles sales, even with “cash for clunkers,” are expected to be only 10.3 million units in CY 2009. Projected future sales are expected to be 11.2 million units in CY 2010, 13.8 million units in CY 2011, and 15.6 billion units in CY 2012. In the past, the domestic vehicle producers needed 14 to 15 million unit sales volume to be profitable, but the new revamped companies are supposed to now be better able to compete. In the meantime, Ford, who did not get a bailout loan, has sold off a good part of its assets to get money to develop a new product line and appears to be becoming profitable again.

Oil and Energy

After a very volatile year in CY 2008 with per barrel oil prices spiking to $147 and averaging $100, CY 2009 was relatively calm, with prices rising moderately much of the year, but averaging only $62. Gasoline prices were well within the $2.00 to $3.00 per gallon range. The recession was keeping prices in check with even CY 2009’s price run-up being more than the market warranted. Fuel prices are expected to gradually rise, being $68 per barrel in CY 2010, $77 per barrel in CY 2011, and $83 per barrel in CY 2012. As always, the energy sector can quickly become very volatile.

Forecast Alternatives

The alternative forecasts differ from the baseline in the strength and timing of the recovery:

The pessimistic scenario has a second dip to the recession in CY 2010, and this is followed by anemic growth for years to come (probability is 20 percent).

In this worst-case scenario, there is a second slump that is worse than a recession, but not quite as bad as a depression. The financial crisis is not fully resolved, and credit/liquidity is not restored to the economy. As a result, after moderately positive GDP growth in Third and Fourth Quarters 2009, GDP declines for most of CY 2010. Consumer and business spending retrenches. Instead of bottoming out, the housing market and housing values fall even more. The U.S. unemployment rate climbs almost to 11.0 percent for CY 2010 and CY 2011. Most of the stimulus monies have been spent. They have done some good, but they are now bucking stronger headwinds; and with the mounting federal deficit, the Obama administration is reluctant to provide more stimulus. Foreign economies also grow slower, so exports fail to pick up. The Federal Reserve responds to the crisis by creating too much money, which, with higher oil prices, causes more inflation. The economy emerges weaker and GDP growth is not much above 2.0 percent for years.

The optimistic scenario has monetary and fiscal policies gaining traction better than originally thought, and GDP growth rises to 4.0 percent in CY 2010 and stays there for the remainder of the forecast period (probability is 20 percent).

In the best case scenario, the rapid response to the recession in the form of the Federal Reserve's low interest rates and the Obama administration's stimulus package start to achieve traction, boosting GDP growth to 4.0 percent by early 2010, and growth stays there for the remainder of the forecast period. The big banks work to restore credit/liquidity. The world recovers faster, too, and the U.S. exports more goods. All this builds consumer and business confidence and spending. The U.S. unemployment rates fall to 9.0 percent in CY 2010 and 7.0 percent by CY 2012.

U.S. Forecast Data Summary

(Baseline Forecast Averages)

	Percent (except as noted)			
	CY 2009	CY 2010	CY 2011	CY 2012
Real GDP	-2.5	2.2	2.9	3.8
Personal Income	-1.4	3.3	4.2	5.1
Consumer Spending *(Real)*	-0.6	1.8	2.4	2.7
Business Investment *(Real)*	-17.9	-1.4	10.3	14.5
Federal Government Spending *(Real)*	5.3	4.0	-3.3	-3.7
State and Local Government Spending *(Real)*	0.0	-0.2	-0.6	0.4
Housing Starts *(Million)*	0.56	0.81	1.24	1.59
Existing Home Sales *(Million)*	5.18	5.18	5.34	6.10
Light Vehicle Sales *(Million Units)*	10.3	11.2	13.8	15.6
Nonagricultural Employment	-3.7	-0.9	1.8	2.7
Unemployment Rate *(Levels)*	9.3	10.2	9.6	8.6
Consumer Price Inflation	-0.3	1.7	2.0	1.9
Oil Prices *($ per Barrel)*	62	68	77	83
Industrial Production	-9.9	3.3	4.3	4.8
Federal Government Surplus *(Billion Dollars)*	-1,417	-1,411	-1,093	-891
Current Account Balance *(Billion Dollars)*	-446	-533	-613	-692
Federal Funds Rate *(Levels)*	0.16	0.24	1.70	3.34
3-month T-Bill Rate *(Levels)*	0.15	0.46	2.13	3.35

The baseline forecast has a 60 percent probability.

Our projections show, with the full impact of the recession hitting in Calendar Year (CY) 2009, that nonfarm place-of-work payroll employment lost 92,600 jobs, or 2.5 percent, falling from an average of 3,757,500 in CY 2008 to an average of 3,664,900 in CY 2009. Nonfarm employment fell a minimal 3,900, or 0.1 percent, in CY 2008 as the recession started in Virginia late in the third quarter of that year. In CY 2007, Virginia had added 34,900 jobs for a 1.7 percent job growth rate. The 92,600, or 2.5 percent, Virginia job loss in CY 2009 was more than the 22,400, or 0.6 percent, job loss in CY 2002, the 67,400, or 2.3 percent, job loss in CY 1992, and the 14,400, or 0.7 percent, job loss in CY 1982. Those three previous recessions straddled at least two consecutive years, whereas CY 2009 has born the full impact of the current recession. The nonfarm employment base is also now 70 percent larger than in the early 1980's recessionary period. While Virginia's CY 2009 job loss appears to be 2.5 percent, job loss in the nation in the similar period is projected to be 3.7 percent.

Virginia in CY 2008 with a 4.0 percent average unemployment rate, had the ninth-lowest unemployment rate in the nation. Even though Virginia's unemployment rate increased in CY 2009 and is expected to average 6.7 percent for CY 2009, after having peaked in June 2009 at 7.3 percent, the states that had lower unemployment rates than Virginia in CY 2008 have also experienced rising unemployment in CY 2009. In CY 2009's fourth quarter, only about a half-dozen small, largely agricultural, upper Midwest and Rocky Mountain states had unemployment rates below Virginia. Of the thirteen largest states with over 3.5 million nonfarm employment bases, Virginia had by far the lowest unemployment rate. Texas was the next lowest large state, and it had over 8 percent unemployment in Fourth Quarter 2009. The U.S. jobless rate in CY 2009 is expected to average 9.3 percent and as of this writing was at 10.0 percent.

Virginia's average civilian labor force is expected to continue to see growth in CY 2009, rising by 24,000, or 0.6 percent, to a record 4,148,800. Total place-of-residence employment, succumbing to the recession, is expected to be down by 89,100, or 2.2 percent, to a level of 3,870,900. The number of jobless individuals rose by 113,000, or 68.6 percent, to 277,800.

Caution: All of the figures used here are from the Virginia forecasting model, which was run in late 2009, using as a base the monthly Current Employment Statistics (CES) estimates available for Virginia before benchmarking to the Quarterly Census of Employment and Wages (ES-202 unemployment insurance tax records) in First Quarter 2010. This is done in order to have projections available in time for the planning cycle several months before the benchmarks are available. The past history of benchmarkings in Virginia is that in good times the CES estimates are usually below the benchmarked figures, and in bad times the CES estimates usually run above the benchmarked figures. This just seems to be the nature of the prescribed U.S. Bureau of Labor Statistics CES estimating procedures. With this said, CY 2009 job loss could be greater than the projections indicate when the benchmarked data becomes available in spring 2010.

Virginia Forecast

Nonagricultural Employment in Virginia by NAICS* Industry Sectors in CY 2009

*NOTE: The projections use the North American Industrial Classification System (NAICS) as revised in 2007. The NAICS codes replaced the Standard Industrial Classification (SIC) codes used prior to 2003.

Total nonagricultural place-of-work payroll employment is expected to average 3,664,900 in CY 2009; this represents a 92,600, or 2.5 percentage point, reduction from CY 2008.

A. Industries with rising or stable employment averages in CY 2009

- **Total government employment** added 7,300 jobs for a 1.1 percent increase to an average of 701,900. Much of this increase was at federal government installations, such as Fort Lee and Quantico, which altogether added 6,500 jobs, or 4.1 percent, to federal civilian payrolls of 166,700. Much of the federal stimulus monies are being spent at military bases, and proportionately Virginia has more federal installations than any other state. Combined state and local government should add a net 600 jobs, or 0.1 percent, to a level of 535,100.

  While reduced tax revenues because of the recession were beginning to significantly impact state and local governments, enrollments were up at all of Virginia's public universities. The universities have other funding sources than tax revenues (such as tuitions, user fees, and various grants), and stimulus monies were going to some government entities.

- **Private education and health services employment** has continued to add jobs right on through the recession with gains of 7,200, or 1.6 percent, to 445,400. Much of this increase has come from the health care industry—the medical, nursing home, and social services fields—where there was a combined 6,400, or 1.8 percent, job gain as this industry with its many treatment breakthroughs caters to an aging population. Of course, many health care services are covered by health insurance. Private schools and colleges, like the public institutions, have seen enrollments increase. Private educational institutions are expected to add 800 jobs, or 1.0 percent, to their payrolls in CY 2009.

- **Mine employment** in Virginia on average is unchanged from CY 2008 at 11,100. Virginia's high quality coal continued to be in demand at the nation's electric power producers.

B. Industries with declining employment averages in CY 2009

- **Transportation, warehousing, and utilities** lost 1,400 jobs, or 1.2 percent, to an employment level of 117,600. These losses have mostly been in trucking, shipping, and rail transportation with less merchandise being shipped because of the recession. Airline employment has actually increased slightly because of lower fuel costs, increased user fees, and concentrations of services at Virginia terminals.

- The **finance, insurance, and real estate sector** declined by 2,500 jobs, or 1.3 percent, to a projected average of 186,300. The big Virginia job losses in Wachovia Securities and Land American actually occurred in CY 2008 and the failed big New York securities firms had little employment in Virginia. Most firms in this industry now provide basic financial services to the general public. Real estate employment in Virginia seems to have bottomed out in the summer of 2009.

- **Miscellaneous services employment** should be down by 3,800, or 2.0 percent, to 184,900, with cutbacks because of the recession in personal services, repair services, and at some charity organizations.

- The **leisure and hospitality industry** should have job losses of 5,100, or 1.5 percent, to 343,400. Tourism got off to a slow start in CY 2009, but seemed to improve as the season wore on with more travelers coming to the greater Washington, D.C. area, perhaps attracted by the new Obama administration. Also, there was fairly good late summer activity at the beaches. The fall foliage season saw a number of travelers in spite of rain on the weekends.

- **Information industry employment** in Virginia is expected to average 80,900 in CY 2009 with losses of 6,700, or 7.6 percent, because of intense competition in telecommunications and curtailments in the print media due to declining advertising and circulation.

- **Professional and business services** is down 17,200 jobs, or 2.6 percent, to a total of 637,900. Over 10,000 of this job loss is in the temporary employment service providers as way fewer contract workers were needed. Also, the architects and engineers reduced staffs as commercial construction waned. Many other professional services managed to maintain existing staffing levels while computer programmers, systems analysts, and software writers continued to be hired right through the recession. Professional service firms that were contracting with the federal government were generally adding workers.

- **Trade employment** lost 18,800 jobs, or 3.5 percent, to a level of 520,400 with both wholesalers and retailers experiencing losses. Some of the retail job loss was at auto dealers as the General Motors and Chrysler bankruptcies caused a number of dealer franchises to be terminated. The bankrupt Virginia-based Circuit City electronics retailer closed out as did a number of smaller retailers who were having difficulty getting financing.

- **Manufacturing employment** was expected to be down 23,700, or 9.0 percent, in CY 2009 to a level of 240,900. This is the lowest factory employment level in Virginia since 1950. Both durable and nondurable goods saw plant closings and temporary layoffs. Durable goods employment fell 13,800, or 9.0 percent, to 139,500; and nondurable goods employment was down 9,900, or 8.9 percent, to 101,500.

In CY 2008 the Virginia factory workweek averaged around 43 hours because a lot of goods were being produced for export. After the recession put a damper on the export market, the Virginia average workweek fell to right at 40 hours. In the last couple of months, the Virginia factory workweek has been back up close to 43 hours again as the world economy has started to improve and depleted inventories, especially in vehicle components, need to be replenished. With the loss of nearly 24,000 jobs over the last year, this means a lot fewer workers have to be worked more overtime to get out the same production. A lengthened workweek is usually one of the first signs of recovery. The state's 23,000-job shipbuilding industry has had stable employment in CY 2009 and is starting on new military contracts.

- The **construction** industry is expected to recede 28,100 jobs, or 12.6 percent, to a level of 194,100. The residential building industry collapsed in CY 2007 and CY 2008. In CY 2009 commercial construction turned sharply down. Bright spots were construction on military bases and the "shovel-ready" federal stimulus monies to some localities. Virginia never had the overbuilt problems that states like California, Florida, Nevada, and Arizona have.

Most Virginia Metropolitan Areas Saw Job Loss in CY 2009.

The least job loss was in the college-oriented **Lynchburg** and **Harrisonburg** metropolitan areas, which have from month to month bounced back and forth from a few hundred jobs negative to a few hundred jobs positive. The large **Virginia Beach-Norfolk-Newport News, Virginia/North Carolina** and **Northern Virginia** metropolitan areas, aided by the stability of many defense installations and defense contractors and stimulus spending on these military installations, have each had one percent, or less, job loss. The **Blacksburg-Christiansburg-Radford** area has seen significant job losses in its vehicle and vehicle component manufacturing sector, but they have been blunted to some extent by employment increase in its two large state universities (Virginia Tech and Radford). **Charlottesville** and **Roanoke** have experienced around two percent job loss from the manufacturing and service industries, but health care and higher education gains have tended to balance out some of the losses. The **Danville** area with about three percent job loss (mostly from temporary layoffs) generally has not suffered as much in this recession as other Southside Virginia communities. The **Richmond** metropolitan area with about 25,000 jobs lost because of major business closings in trade/transportation, manufacturing, and finance has lost the most jobs in this recession. **Winchester, Virginia/West Virginia** has had the biggest percentage reduction of nearly five percent due to housing- and vehicle-related cutbacks and some retrenchment in services. The nonmetropolitan rural **balance-of-state** has lost 31,800 net jobs, or over eight percent, of its employment base. As usual, more of the job loss was in the southern half of the balance-of-state.

- **Lynchburg** has had the best performance of all the metro areas in CY 2009, by a narrow margin, with nonfarm employment remaining barely positive by a few hundred jobs most months. The few months nonfarm employment has not been positive, it has been negative by only a couple of hundred. Continued growth in the area's private colleges, which have experienced record enrollments, has been enough to offset the impact of mostly temporary factory layoffs in the still fairly large manufacturing sector. Some professional hires in the region's green/nuclear manufacturing industry have also helped.

  Unemployment has risen to the six to seven percent range because of fairly frequent inventory factory furloughs.

- **Harrisonburg** has also seen nonfarm employment near neutral in CY 2009. The large James Madison state university with its research and support industries kept employment a few hundred jobs positive the first part of the year. After mid-year, Harrisonburg nonfarm employment turned a few hundred jobs negative because of state budget cuts at the university and mostly temporary layoffs in manufacturing. Like Lynchburg, this area's employment base seems minimally impacted by the recession.

  Unemployment has been in the five to six percent range, making Harrisonburg consistently the third-lowest Virginia metropolitan area.

- **Virginia Beach-Norfolk-Newport News, Virginia/ North Carolina** has fared the best of Virginia's three large metropolitan areas this year because of the large federal defense presence in this area. Nonfarm employment has generally averaged less than one percent negative with a loss of 5,000 to 8,000 jobs, compared to the same month a year ago. Job losses have been less than one percent. Federal civilian employment has been boosted by about 1,500 jobs to 50,000. Both the 100,000-job professional and business services and the 23,000-job shipbuilding sectors have expanded slightly. The federal stimulus monies are funding construction and other projects on the military bases. Health care and higher education have augmented staff levels this year. Tourism got off to a slow start this past spring, but seemed to be much stronger after July. Keeping nonfarm employment slightly negative in CY 2009 have been reductions in construction, retail trade, finance, and the shipment of merchandise through the ports.

  Unemployment in Hampton Roads has been in the six to seven percent range, up from the four to five percent range last year due to the general sluggish economy. Even with this year's higher unemployment, Hampton Roads has usually placed in the top five best U.S. major metro areas for unemployment. Hampton Roads was the second-best major area in October 2009.

- **Northern Virginia** has had job losses of about 13,000, or one percent, in CY 2009. The biggest cutbacks have been in construction, trade, information, and miscellaneous services. Professional and business services turned negative after mid-year because of losses in temporary employment services and at architectural and engineering firms. The computer software writers have continued to hire. Tourism got off to a slow start this past spring, but by summer appeared to be booming. The new administration in Washington has apparently attracted a lot of additional travelers to the greater Washington, D.C. area this year. Federal civilian government employment of 85,000 has expanded by about 1,500, and there has been a slight increase in state higher education jobs. Stimulus monies are being spent on projects at Quantico and other military posts.

  Unemployment has increased from three percent last year to nearly five percent now by the generally sluggish economy, but Northern Virginia still has the lowest jobless rate of any large U.S. metro area. (Northern Virginia is not treated as separate from the greater Washington, D.C. metropolitan area in national statistics.)

- **Blacksburg-Christiansburg-Radford** has seen nonfarm employment negative by about one percent due to temporary and permanent layoffs in its vehicle- and vehicle component-related manufacturing sector. Increased enrollments at the two large state universities (Virginia Tech and Radford) and gains in their supporting industries have blunted much of the factory losses.

  Unemployment has averaged seven to eight percent because of the factory layoffs.

- **Charlottesville** has experienced about two percent job loss in CY 2009, mostly in trade, services, construction, tourism, and the general economy. The large University of Virginia/University Medical Center, which comprises about one-fifth of area nonfarm employment, appears more affected by state budget cuts than some other state educational institutions. Federal government employment has expanded with new agencies moving to the area.

  Unemployment continues to be the second best of Virginia's ten metro areas with joblessness in the five percent range.

- The **Roanoke** area has had job losses in the two percent range stemming from general cutbacks in construction, manufacturing, trade/transportation, business services, information, finance, and tourism. The one bright spot has been continued job expansion at Carilion Clinic.

  Unemployment has averaged in the seven percent range.

- The **Danville** area, Virginia's smallest metro area, has had job losses in the two to three percent range, mostly as a result of temporary inventory layoffs in its proportionately large manufacturing sector. Recent new factory and higher education employers have helped, and Danville has not suffered as much in this recession, proportionately, as neighboring Southside Virginia communities.

  Unemployment was the highest of the state's ten metro areas going into the recession, and it is still the highest, averaging between eleven and twelve percent.

- The **Richmond** area, which historically has weathered recessions better than most U.S. metro areas, has been hit fairly hard in this recession. An unfortunate series of failures of locally headquartered corporations, such as Circuit City, Land America, Qimonda, and Wachovia Securities, has caused a job loss of about 25,000, or four percent. The DuPont plant has also laid off workers. This has created significant job losses in construction, manufacturing, retailing, and finance. The Richmond area used to weather recessions better than many U.S. areas because of a diversified core of conservative local and regional businesses that were so astutely managed that they did not usually get caught up in national downturns. In the last three decades, most of the above businesses either expanded nationally, or were bought up, or merged with, national concerns with the decision-making process often being removed from the local area. Now when recessions come, these firms seem to get quickly caught up in national downturns. The Richmond area still has some things going for it with an expansion of about 8,000 jobs in the health care and higher education component and the mammoth federal expansion project at Fort Lee.

  The recent layoffs have boosted **unemployment** to the seven to eight percent range. Were it not for the health care and higher education expansion and the Fort Lee project, the Richmond area would probably have double-digit unemployment like some other southern metro areas, such as Charlotte, North Carolina, and Atlanta, Georgia. The Richmond area still barely remained in the top ten best U.S. metro area listing for unemployment.

- **Winchester, Virginia/West Virginia** had the largest percentage job loss of the Virginia metro areas at better than four percent. The Winchester area lost about 2,500 jobs from its 54,000 nonfarm employment base. Winchester's manufacturing sector is oriented to making products for the construction and motor vehicle industries, and it recently has experienced significant job losses. Construction is also down like almost everywhere else. The good thing is service industry losses have been relatively minor. Also, there have been recent expansions in health care and at federal government installations in the area.

  Unemployment is in the seven percent range because of the factory layoffs, but in bad times, Winchester also picks up unemployment from area residents, who had formerly been working outside the metropolitan area in neighboring communities.

- With the ten metropolitan areas combined showing an average net job loss of 60,800, or 1.9 percent, out of the 92,600 statewide net job loss, the nonmetropolitan rural **balance-of-state** lost an average net 31,800 jobs, or over eight percent, of its employment base. As usual, most rural areas above Interstate 64, as a whole, lost proportionately fewer jobs than the smaller factory-oriented rural areas below that highway. Of Virginia's three micropolitan areas (defined labor markets smaller than a metropolitan area), **Culpeper County** lost 800 jobs with unemployment in the seven percent range; **Staunton-Waynesboro-Augusta County** lost 2,700 jobs with unemployment in the six percent range; and **Martinsville-Henry County** lost 2,400 jobs with unemployment over fifteen percent. The **Southwest Virginia** coalfields saw unemployment rise from the five percent range to the seven percent range, but proportionately have not been hit as hard by this recession as some other areas. The rural areas along the North Carolina border west of Interstate 95 have generally had double-digit unemployment. **Arlington County**, with unemployment in the four percent range, has consistently in CY 2009 had the lowest jobless rate. **Martinsville city** has consistently been the highest Virginia jurisdiction this year with twenty percent unemployment.

Forecast

The U.S. economy has been in recession since December 2007 (according to the National Bureau of Economic research [NBER], the Princeton, New Jersey, group that officially designates U.S. recessions). Virginia's job growth ended in August 2008 when nonagricultural employment turned negative. Virginia nonfarm employment was, however, only negative by an average 3,900, or 0.1 percent, for all of CY 2008. The recession hit full in CY 2009 with average job loss of 92,600, or 2.5 percent. Job loss in Virginia appears to end in Fourth Quarter 2009, with nonfarm employment at 3,641,900. Between Fourth Quarter 2009 and Fourth Quarter 2010 there are expected to be 50,600 jobs added (or 1.4 percent), bringing employment to 3,692,500, just above the 3,690,200 level of First Quarter 2009. The average forecast employment level for CY 2010 is expected to be 3,665,200, only 400 jobs higher than the CY 2009 average of 3,664,900. While CY 2009 lost jobs most of the year, CY 2010 will see very modest job growth, making the averages for the two years nearly identical. Job growth for CY 2011 is expected to be 87,100, or 2.4 percent; and CY 2012 should see job gains of 103,300, or 2.8 percent. It should be about Third Quarter 2011 before nonfarm employment is back to CY 2007's previous peak average of 3,760,700.

A word of caution here: The 2009 estimates, used in the *Economic Assumptions* forecast are based on Current Employment Statistics (CES) data for the first half of CY 2009 projected to the full year and before First Quarter 2010 benchmarking to the Quarterly Census of Employment and Wages (formerly called the ES-202 unemployment insurance tax records). Although the CES staff, as of this writing, believes revisions this year will be small, the reader should be aware of historical patterns. The CES has historically in Virginia (because of the way the sample is mandated by BLS, relying on older, established employers), underestimated nonfarm employment in good years and overestimated nonfarm employment in poor years. It is possible CY 2009 nonfarm job levels may be lower than stated in this publication when revisions are made in First Quarter 2010. (If that proves to be the case, projected change going forward should be of the same magnitude even if CY 2009 base levels change slightly with the upcoming 2010 revisions.)

Virginia's unemployment rate appears to have peaked at a 7.0 percent average in Second Quarter 2009, fell to a 6.6 percent average in Third Quarter 2009, then is expected to bump up to a 6.8 percent average for both Fourth Quarter 2009 and First Quarter 2010 due to a so-so holiday season, a lack-luster post-holiday winter economy, and previously announced closings in the new year. Unemployment starts a long-range downturn in Second Quarter 2010, ending at 5.2 percent by Fourth Quarter 2012. Expected jobless averages are 6.6 percent for CY 2010; 6.0 percent for CY 2011; and 5.4 percent for CY 2012. A services-based economy expands very slowly. Virginia is expected to remain in the top ten states for low unemployment and should continue to have the best jobless rate of the thirteen very largest states. The kinds and types of industries in a state have a lot to do with the magnitude of unemployment. Virginia has a nearly ideal industry mix.

Reasons for Virginia's Expected Continued Good Showing are:

1. Virginia proportionately has more military and federal government installations than any other state. Federal government civilian employment is 167,000, and military station strength is 126,000.

2. With the federal government increasing the troop strength in Afghanistan by 30,000, this should mean

more activity for Virginia bases. Also, much of the supplies to Afghanistan and Iraq are shipped through Virginia ports. While military activity is costly to the national economy, it usually benefits the Virginia economy.

3. The military installations seem to be the prime means the present administration uses to get stimulus monies into the economy, and this process should continue to benefit Virginia.

4. Professional and business services is expected to return to positive employment in CY 2010, and 30 to 40 percent of this industry in Virginia is contracting with the federal government.

5. Health care, with major centers in Richmond, Hampton Roads, Roanoke, and Charlottesville and minor centers in other places, is still the most recession-proof industry.

6. Higher education, both the state universities and private colleges, is an export industry for Virginia, training students from many other places in both the U.S. and the world. The state universities have many funding sources, such as tuitions, research grants, endowments, alumni, and user and athletic fees, other than the state general fund budget. While some of these funds may be hurt by the downturn, probably not all of them will dry up. In recessions, many people go back to college.

7. Virginia tourism always benefits from its proximity to the populous Northeast and Great Lakes states, and the moderate gasoline prices may permit more short trips to Virginia attractions.

8. Factory employment in Virginia is now only about 240,000, or 6.5 percent, of nonfarm employment. Proportionately, Virginia has much less factory employment than do the high unemployment Carolinas. About 10 percent of Virginia factory employment is in government-supported shipbuilding. The big-three domestic automakers now have no direct employment in Virginia. This state saw growth in auto component manufacturers in the past decade, one of the few benefits of the North American Free Trade Agreement (NAFTA), but much of this production goes to vehicles assembled in Mexico by the world's automakers, or for after-market replacement parts.

Nonagricultural employment* in Virginia is forecast to improve from the 92,600, or 2.5 percent, loss in CY 2009 with average employment of 3,664,900 to 400 average job growth (no percent change) with a nonfarm level of 3,665,200 in CY 2010. Better job growth of 87,100, or 2.4 percent, to 3,752,300 and 103,300, or 2.8 percent, to 3,855,600 should return for CY 2011 and CY 2012, respectively.

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

Private education and health care services should continue to grow, adding 14,100 jobs, or 3.2 percent, to 459,500 in CY 2010; 15,200 jobs, or 3.3 percent, to 474,700 in CY 2011; and 11,400 jobs, or 2.4 percent, to 486,000 in CY 2012. 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 methods and technologies to serve not only the Old Dominion, but a big portion of the upper South. Paramount to these projections is Carilion Clinic's on-going plan to make the Roanoke area into a world-class health care center similar to the Mayo Clinic.

Professional and business services, already Virginia's largest private employing sector, is expected to rebound in the forecast period, adding 10,200 jobs, or 1.6 percent, to 648,100 in CY 2010; 34,800 jobs, or 5.4 percent, to 682,800 in CY 2011; and 35,100 jobs, or 5.1 percent, to 717,900 in CY 2012. Jobs lost in the CY 2009 recession year of 17,200, or 2.6 percent, will be made up by Fourth Quarter 2010. Much of the CY 2009 job loss was at the temporary employment service providers. Demand for these workers will spike as the economy revives as this is an easy way for employers to test the strength of the economic recovery. Employment among the architects and engineers should revive with many of the workers who lost jobs in CY 2009 starting their own firms, successfully competing for business, and eventually hiring workers of their own. This is the way this industry recovers from recessions with the birth of new firms. Professional and business service firms contracting with the federal government should need more workers with some of the salaries paid by stimulus monies. The demand for computer software writers, accountants, and legal professionals should continue strong. New demands should be created for firms dealing with environmental issues and waste management and control.

The **leisure and hospitality** sector, which started to rebound late in CY 2009, should see growth of 4,200 jobs, or 1.2 percent, to 347,600 in CY 2010; 2,900 jobs, or 0.8 percent, to 350,500 in CY 2011; and 5,200 jobs, or 1.5 percent, to 355,700 in CY 2012. As the recession's grip loosens, people will feel more free to take postponed vacations. Virginia's proximity to the populous Northeast and Great Lake states always helps as do moderate gasoline prices. Media advertising will continue to be aimed at these markets. Virginia benefits from people taking shorter vacations closer to home. The greater Washington, D.C. area and Virginia's beaches should continue to be popular travel destinations.

Other, or miscellaneous services, should add 4,000 jobs, or 2.2 percent, to 188,900 in CY 2010; 10,600 jobs, or 5.6 percent, to 199,400 in CY 2011; and 8,300 jobs, or 4.1 percent, to 207,700 in CY 2012. 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 rebound with the economy. Charities may see better donations as the recession's grip loosens.

Total government employment, Virginia's largest single employment sector, should see job growth of 500 jobs, or 0.1 percent, to 702,400 in CY 2010 with most of the gain in the federal civilian sector, up 5,400 jobs, or 3.2 percent, to 172,100, as more stimulus monies are spent, support is provided for the surge in Afghanistan, and expansion continues on military installations. However, reduced tax revenues and budget cuts will dig in at state and local governments with combined employment losses of 4,900 jobs, or 0.9 percent, to 530,200. Reduced tax revenues will be a big problem for state and local governments because, unlike the federal government, they by law cannot run a deficit in their operating budgets. In CY 2011, total government employment is expected to decrease by 5,600 jobs, or 0.8 percent, to a level of 696,800. In the federal government sector, most of the stimulus monies will have been spent by then and the Afghanistan deployment should be peaking, so federal civilian employment in Virginia will fall 3,900 jobs, or 2.2 percent, to 168,300. State and local governments combined, still feeling the pinch of revenue shortfalls, will be down 1,700 jobs, or 0.3 percent, to 528,500. Total government employment should expand 6,200 jobs, or 0.9 percent, to 702,900 for CY 2012. Federal government employment will still be contracting as the Afghanistan situation winds down with civilian employment down 1,200 jobs, or 0.7 percent, to 167,100. The revenue shortfall problems should be easing for state and local governments with combined job gains of 7,300, or 1.4 percent, to 535,800.

Transportation, warehousing, and utilities employment should start to expand as the economy shakes off the recession and travel and goods shipments increase with gains of 400 jobs, or 0.4 percent, to 118,100 in CY 2010; 1,900 jobs, or 1.6 percent, to 120,000 in CY 2011; and 1,600 jobs, or 1.9 percent, to 121,900 in CY 2012. The airlines should benefit from moderate fuel prices and streamlined security procedures. Electric utilities need to increase capacity to meet the ever-growing energy demands. Energy costs are a concern to all subsectors of the transportation and utilities industry.

Finance, insurance, and real estate has yet to recover from the recession with job losses of 1,700, or 0.9 percent, to 184,600 in CY 2010. The commercial real estate and housing markets are still bottoming out. Virginia's surplus real estate properties appear less than in many other states. Growth in this industry resumes by CY 2011 with gains of 6,600 jobs, or 3.6 percent, to 191,200. CY 2012 sees growth of 5,800 jobs, or 3.0 percent, to 197,000.

The **information industry**, where competition in telecommunications is fierce and newspapers are losing advertising and circulation, is expected to be down by 3,100 jobs, or 3.8 percent, to 77,800 in CY 2010. Things improve in CY 2011, with 300 jobs added, or 0.4 percent, to employment of 78,100. CY 2012 again sees a loss of 900 jobs, or 1.1 percent, to 77,200.

The **trade** sector still loses employment in CY 2010 by 7,300 jobs, or 1.4 percent, to a level of 513,100. The job losses will be at small, marginal independent retailers, building supply firms, car dealers, and the Virginia outlets of some bankrupt national chains. Growth resumes after CY 2010 with gains of 14,600 jobs, or 2.8 percent, to 527,700 in CY 2011 and 10,800 jobs, or 2.0 percent, to

538,500 in CY 2012. The consumer comes back into the marketplace with the rising economy.

Natural resources and mining should see relatively little employment change over the forecast period. Employment is down 100 jobs, or 0.6 percent, to 11,000 in CY 2010; is unchanged in CY 2011; and then rises 500 jobs, or 4.1 percent, to 11,500 in CY 2012. This industry is expected to follow energy markets. On the plus side, utilities use more coal when oil prices are up 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. There are increasing environmental concerns about coal usage.

Construction employment is expected to continue to lose jobs in CY 2010, being down by 9,500 jobs, or 4.9 percent, to 184,600. Most of the CY 2010 job loss will be in commercial construction as residential building is already near the bottom of its slide. Growth should return by CY 2011 with 2,600 jobs added, or 1.4 percent, to 187,200. CY 2012 should see 11,200 jobs added, or 6.0 percent, to 198,400. Virginia's worst construction problems have been largely in Northern Virginia, but most other areas have seen declines also. Still, Virginia is not nearly as overbuilt as states like California, Florida, Nevada, and Arizona. Stimulus public works projects and expansion on military bases should continue to help the Virginia construction industry.

The **manufacturing sector** is expected to lose employment through CY 2010, being down 11,400 jobs, or 4.7 percent, to 229,600. The projected CY 2010 factory level would be the lowest since Virginia started keeping records in the late 1940s. All factory sectors, except transportation equipment (boosted by military shipbuilding contracts), will see reductions. Durable goods is expected to lose 4,700 jobs, or 3.3 percent, to 133,600. Nondurable goods employment should be down 5,500 jobs, or 5.4 percent, to 96,000. Total factory employment is projected to turn slightly positive after CY 2010, being up 3,300 jobs, or 1.4 percent, to 232,900 in CY 2011; and 7,900 jobs, or 3.4 percent, to 240,800 in CY 2012. Durable goods should add 4,200 jobs, or 3.1 percent, to 137,800 in CY 2011; and 7,600 jobs, or 5.5 percent, to 145,400 in CY 2012. Transportation equipment, furniture, and other durables are expected to show increases both years. Nondurable goods will continue to lose employment until 95,100 in CY 2011, being down 5,500, or 5.4 percent, in CY 2010, and 900, or 0.9 percent, in 2011. For CY 2012 nondurables will add back 400 workers, or 0.4 percent, for a total of 95,400. The decline in textile mills, which continue to lose employment throughout the forecast period, are the main reason for the further drop in nondurables. Textile mills, once Virginia's largest factory sector at over 40,000 jobs, is expected to have employment of only 3,700 by CY 2012.

Labor Force Data (Place of Residence)

Virginia's labor force is growing, both from natural increase and from in-migration because of Virginia's relatively low unemployment rate compared to much of the rest of the country. Labor force growth should average 13,100, or 0.3 percent, to 4,161,800 in CY 2010; 55,300, or 1.3 percent, to 4,217,100 in CY 2011; and 59,300, or 1.4 percent, to 4,276,400 in CY 2012. Total employment averages (which also include agricultural, self-employed, and domestic household workers) are projected to increase 17,400, or 0.4 percent, to 3,888,300 in CY 2010; 74,700, or 1.9 percent, to 3,963,000 in CY 2011; and 81,400, or 2.1 percent, to 4,044,500 in CY 2012. The number of average unemployed should fall 4,300 to 273,500 in CY 2010; 19,500 to 254,000 in CY 2011; and 22,100 to 232,000 in CY 2012. The unemployment rate is expected to drop from a projected 6.7 percent average in CY 2009 to average 6.6 percent in CY 2010, 6.0 percent in CY 2011, and 5.4 percent in CY 2012. The Virginia unemployment rate should keep its historic relationship of being 65 to 75 percent of the national jobless rate.

Regional Forecasts

Virginia Beach-Norfolk-Newport News, Virginia/North Carolina was by a narrow margin the best performing of Virginia's three large metropolitan areas with less than one percent job loss in CY 2009. This region contains about one quarter of the state's employment and is probably more impacted by the federal government than any other Virginia area with 50,000 federal civilian employees and about 88,000 military personnel. Because of the federal government's presence, this recession has been milder here, and in the less severe 2001-2002 recessionary period, the benchmarking showed the region never went into recession. The current data shows a mild recession in CY 2009, but the surge in military activity in Afghanistan, more shipyard contracts in the coming years, and continued spending of stimulus monies on the military bases likely will bring the local economy back to positive job gains by CY 2010. The military provides underlying support for the region's professional and business services, information, and shipbuilding. The Navy plans a long-range modernization program by CY 2011. The large private education and health care sector is expected to continue to see positive employment growth. A recovering national economy will bring more traffic to the ports and more travelers for the significant-sized leisure and hospitality industry. The closing of the International Paper Company mill on the western fringe of the metro area will mean hard times for the city of Franklin, Isle of Wight, Surry, Southampton, and Sussex counties, but should have only a minimal impact on the overall Hampton Roads metro area. Any big change at Oceana Naval Air Station, or the movement of a nuclear carrier out of the area, would be unlikely to take place during the forecast period.

Unemployment in this region should remain near the state average. The deployments keep unemployment down, because when the enlisted military are out of the area, they cannot compete for moonlighting jobs in the local economy. This area should continue to be among the nation's best large areas for unemployment.

Northern Virginia is Virginia's largest metropolitan area, representing about 35 percent of statewide employment. Northern Virginia has had some recession with the loss of about 13,000 jobs in construction, trade, service, finance, information, and professional and business services. The region has had more of a real estate bubble burst than the rest of Virginia, but nothing like, or as bad as, California, Florida, Nevada, and Arizona. The real estate market already seems to be on the mend. Most professional and business service jobs lost were at the temporary employment service providers and with architects and engineers. When the professional services in this region have layoffs, the talented workers form new businesses, compete for contracts, and soon are hiring workers, which creates the next wave of recovery in this industry—and that is already starting to happen. The market has continued strong and growing for accountants, lawyers, and computer software writers. This area's health care and higher education sectors have continued to add jobs, and the pace will quicken with the recovery. The leisure and hospitality industry got a boost in CY 2009 from people coming to the Washington, D.C. area to view the new Obama administration, and this trend should continue into the forecast period. Some expansion can be expected in the region's 86,000 civilian and 27,000 military federal personnel. Ongoing expansion projects at Quantico, Fort Belvoir, and other military installations should continue. A main way of spending the stimulus monies is through the military bases. Northern Virginia employment is expected to return to positive job growth in CY 2010 led by professional and business services and federal government.

Unemployment is expected to be in the three to four percent range for the best jobless figures in Virginia.

The **Richmond** metropolitan area, which has been harder hit by this recession than many areas in Virginia, because of the recent unfortunate series of employer failures, moves, and consolidations, probably will not return to positive job growth until about CY 2011. At present, there is an oversupply of job applicants with computer, financial, and retail skills. Because of revenue and budget problems, state and local governments are expected to have further layoffs. Health care, higher education, and employment associated with the Fort Lee expansion are expected to be the main sources of hires.

Unemployment is expected to remain in the seven to eight percent range into CY 2011 and then gradually recede.

The **Lynchburg** area was generally the best Virginia metro area in CY 2009 with employment staying barely positive for most months. That trend led by the several private colleges should continue into the forecast period. At the present time, changes at Babcock and Wilcox with the move of its headquarters from Lynchburg to Charlotte, North Carolina, do not appear to significantly negatively affect Lynchburg area employment. The area's significant factory sector will probably continue to have temporary furloughs into CY 2011.

Unemployment is expected to remain in the six to seven percent range because of factory furloughs.

Harrisonburg will probably see slightly positive job growth, but state budget cuts at James Madison University could slow or alter this trend. Long-range, technology industries should continue to be attracted to this area. Revival in the domestic auto industry should help area manufacturing.

Unemployment should be in the five percent range.

The **Blacksburg-Christiansburg-Radford** area could return to positive job growth in CY 2010, but when this will happen hinges on the amount of state budget cuts Virginia Tech and Radford university will have to take and when the domestic vehicle industry resumes growth.

Unemployment is likely to be in the seven percent range for awhile because of vehicle-related furloughs.

The **Charlottesville** area's return to positive job growth depends on revival of the general economy and how much more in the way of state budget cuts the large University of Virginia/University Medical Center (about one-fifth of area employment) has to take.

Unemployment should be in the upper four percent/lower five percent range.

The **Roanoke** area, which has not had a bad recession, will probably continue to see little job growth except for the on-going expansion programs at Carilion Clinic.

Unemployment is expected to be in the six to seven percent range.

The **Danville** area will continue largely dependent on manufacturing fortunes. Recent factory, service, and education additions seem to make it a little less vulnerable to downtrends.

Unemployment should stay near the double-digit level because of frequent temporary factory furloughs.

The **Winchester, Virginia/West Virginia** area should benefit from a revival of the large, nearby Washington, D.C. area's service economy (of which it is really an extension). Better conditions in the national vehicle and construction industries should help Winchester manufacturing.

Unemployment in this area has already started to improve and will probably drop to the five to seven percent range.

The nonmetropolitan **balance-of-state** should gradually improve with the state and national economies. The large and usually prosperous Northern Virginia area exerts some influence on all the rural areas in the upper half of the balance-of-state (above Interstate-64), and as in the past, the upper half will likely do better than the lower half of the balance-of-state. The **Culpeper** and **Staunton-Waynesboro** micropolitan areas should follow the trend of the upper half of the balance of state, once workers from recent factory layoffs have been absorbed. The **Eastern Shore, Middle Peninsula, and Northern Neck** should continue to see an influx of new people, many of them retirees, that should bring incomes and a demand for more services with them. The **Southwest Virginia** coalfields should continue to enjoy their recent energy-related prosperity. The dozen or so largely rural jurisdictions along the North Carolina border will probably continue to see double-digit unemployment because of the gradual demise of nondurable goods manufacturing. Unfortunately, this line of double-digit unemployment jurisdictions along the North Carolina border will extend east to include **Southampton County** and the city of **Franklin** because of the closing of the International Paper Company mill. The **Martinsville** micropolitan area will likely see lower unemployment, but will still remain double-digit. New employers need to be brought into these Southside areas to create new jobs, but this is a daunting task.

The state's **civilian labor force** should grow by 39,500, or 1.0 percent, in Program Year* (PY) 2010 to 4,185,200 and increase by 63,100, or 1.5 percent, to average 4,248,300 in PY 2011.

Total employment, on a place-of-residence basis will increase 53,100, or 1.4 percent, to an average of 3,922,100 individuals in PY 2010. In PY 2011, the total employment gain will be 82,400 individuals, or 2.1 percent, for an average of 4,004,500.

Program Year Forecast

Unemployment, expressed in the number of jobless workers, is expected to decrease 13,600 to average 263,100 in PY 2010 and then contract 19,300 to average 243,800 in PY 2011. PY 2009 has most of the downturn while things should be starting to improve by PY 2010 and PY 2011.

The calendar year **unemployment rate** averages will be 6.7 percent in CY 2009, 6.6 percent in CY 2010, 6.0 percent in CY 2011, and 5.4 percent by CY 2012. Unemployment rates often lag about a year behind the recovery. On a program year basis, the jobless rate should be 6.7 percent for PY 2009, 6.3 percent for PY 2010, and 5.7 percent for PY 2011.

Nonagricultural employment** in PY 2010 on a place-of-work, job count basis should add 56,300, or 1.5 percent, to average 3,704,900. All of the improvement will be in nonmanufacturing.

Nonmanufacturing employment overall should be positive by 59,200 jobs, or 1.7 percent, to an average of 3,475,000. The best gains will be in the large professional and business services sector as it returns to strongly positive, adding 28,200 jobs, or 4.4 percent, to 664,800. In addition to government contracts and stimulus monies, this sector provides the thinkers and innovators needed to return the rest of the economy to prosperity. The private education and health care sector, which continued to add jobs right on through the recession, will again add 14,700 jobs for 3.2 percent gain to 467,100. Starting to grow again will be miscellaneous services, adding 9,900 jobs, or 5.4 percent, to a level of 194,800. As consumers start to spend again, trade employment will be boosted by 8,200 jobs, or 1.6 percent, to 520,300. Expanded tourism with an improving economy, will add 5,200 jobs, or 1.5 percent, to leisure and hospitality for a total of 349,900. Finance, insurance, and real estate should gain 2,000 jobs, or 1.1 percent, to 187,000. The information industry picks up with the economy, adding 1,000 jobs, or 1.3 percent, to 79,400. Improving commerce adds 900 jobs, or 0.7 percent, to transportation, warehousing, and utilities employment of 118,800. There are some nonmanufacturing sector job losses. Mining is down 100 jobs, or 1.2 percent, to 10,900. Also, construction is expected to recede further by 5,200 jobs, or 2.7 percent (mostly in commercial construction), to 183,900. Total government employment, with reduced tax revenues and the stimulus monies coming to an end, will be down 5,600 jobs, or 0.8 percent, to 698,000.

Manufacturing will still be negative with employment losses of 2,800, or 1.2 percent, to a total 229,900, about the lowest job figure recorded in Virginia in the post-World War II period. Nondurable goods employment will be

negative by 2,700, or 2.8 percent, to 95,100 as job losses continue in textile mills and the miscellaneous nondurable industries. Durable goods will still be negative, but only by 100 jobs, or 0.1 percent, to 134,900. New shipbuilding contracts will be adding jobs in transportation equipment, and there should be a few hires in furniture.

Nonagricultural employment** in PY 2011 should be rebounding by 97,700 jobs, or 2.6 percent, to 3,802,700.

Nonmanufacturing employment should again lead in the job gain, being up 90,900, or 2.6 percent, to 3,565,900 with all major sectors positive except information. Professional and business services will again have the biggest increase as the recovery picks up steam, being up 35,600 jobs, or 5.4 percent, to 700,400. Second will be private education and health care, up 14,400 jobs, or 3.1 percent, to 481,500 as its subsectors continue to expand. A healthier economy will add 13,800 jobs, or 2.6 percent, to the trade total of 534,100. The growing economy will also add 8,400 jobs, or 4.3 percent, to miscellaneous services employment of 203,300. Construction employment will have finally turned the corner, adding 8,200 jobs, or 4.4 percent, to 192,000. Finance, insurance, and real estate will be gaining 7,700 jobs, or 4.1 percent, to 194,700. More travelers to Virginia should mean increases of 2,400 jobs, or 0.7 percent, to 352,300 in leisure and hospitality and 2,200 jobs, or 1.9 percent, to 121,000 in transportation, warehousing, and utilities. Total government employment will be up 600 jobs, or 0.1 percent, as tax revenues start to improve. Mining will now add 400 jobs, or 3.3 percent, to 11,300. Only the information industry where stiff competition persists in telecommunications will be down 2,700 jobs, or 3.4 percent, to 76,600.

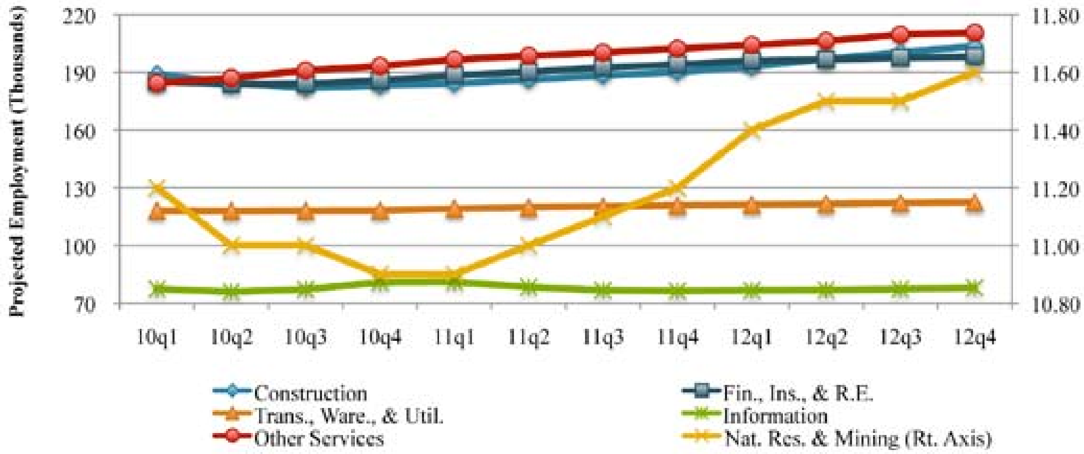
Even **manufacturing** will have by now turned slightly positive, being up by 6,800 jobs, or 3.0 percent, to 236,800. Durable goods will account for most of the increase, 6,600 jobs, or 4.9 percent, to 141,500, with gains in transportation equipment, furniture, and miscellaneous durables. Nondurable manufactured goods will be up a net 200 jobs, or 0.2 percent, to 95,300, but losses in textile mills will persist with this industry that once employed over 40,000 workers in Virginia, now being down to only 3,800 jobs.

***Note**: The various federally funded programs are on the Program Year cycle that runs from July 1 to June 30. For example, PY 2010 runs from July 1, 2010, to June 30, 2011.

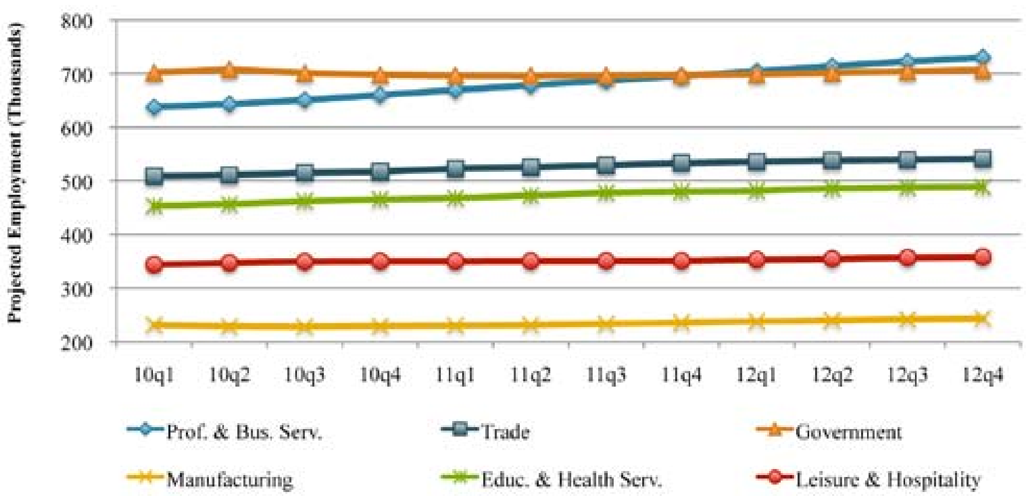
****Note**: Details may not add to totals due to rounding.

Graphs and Tables

Virginia Employment - Major Industries, 2010-2012
Graph 1A



Virginia Employment - Major Industries, 2010-2012
Graph 1B



Unemployment Rates - Virginia and United States, 2010-2012
Graph 2

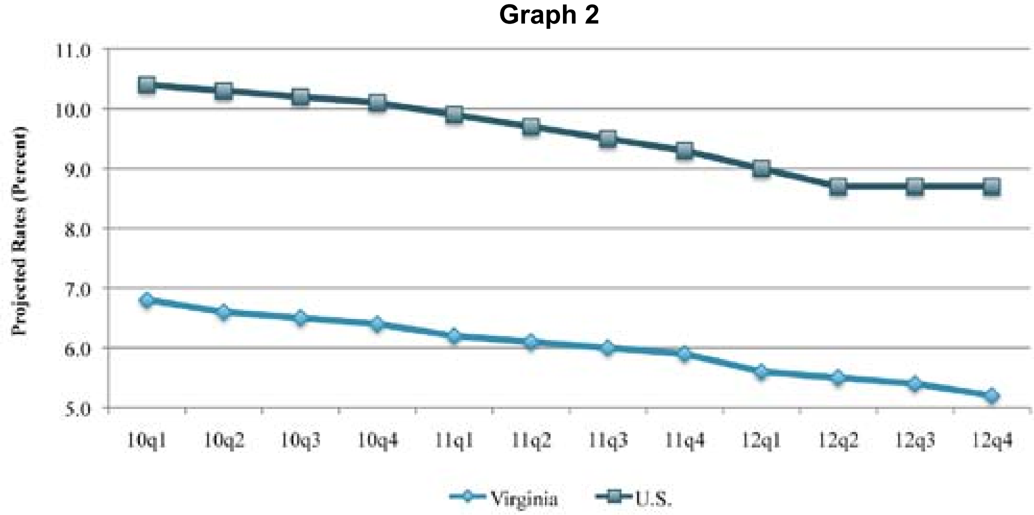


Table 1 - Virginia Labor Force and Employment Projections - Calendar Year
(Numbers in Thousands)

					CY 2009 to CY 2010		CY 2010 to CY 2011		CY 2011 to CY 2012	
Subject	CY 2009*	CY 2010	CY 2011	CY 2012	Change	% Change	Change	% Change	Change	% Change
Labor Force Data (Place of Residence)										
Labor Force	4148.8	4161.8	4217.1	4276.4	13.1	0.3	55.3	1.3	59.3	1.4
Resident Employment	3870.9	3888.3	3963.0	4044.5	17.4	0.4	74.7	1.9	81.4	2.1
Unemployed	277.8	273.5	254.0	232.0	-4.3	-1.5	-19.5	-7.1	-22.1	-8.7
Unemployment Rate (%)	6.7	6.6	6.0	5.4	-0.1	-	-0.6	-	-0.6	-
Establishment Data (Place of Work)										
Total Nonag. Wage & Salary	3664.9	3665.2	3752.3	3855.6	0.4	0.0	87.1	2.4	103.3	2.8
Total Manufacturing	240.9	229.6	232.9	240.8	-11.4	-4.7	3.3	1.4	7.9	3.4
Durables	139.5	133.6	137.8	145.4	-5.9	-4.2	4.2	3.1	7.6	5.5
Transportation Equipment	33.4	33.5	34.6	36.4	0.1	0.4	1.1	3.3	1.8	5.2
Furniture and Related Products	11.5	10.9	11.5	12.1	-0.6	-4.9	0.6	5.4	0.5	4.5
Other Durables	94.6	89.2	91.7	96.9	-5.4	-5.7	2.5	2.8	5.2	5.7
Nondurables	101.5	96.0	95.1	95.4	-5.5	-5.4	-0.9	-0.9	0.4	0.4
Textile Mills	4.6	4.1	3.9	3.7	-0.5	-9.8	-0.3	-6.9	-0.2	-5.4
Other Nondurables	96.9	91.8	91.2	91.8	-5.1	-5.2	-0.6	-0.7	0.6	0.6
Total Nonmanufacturing	3423.9	3435.7	3519.5	3614.8	11.7	0.3	83.8	2.4	95.4	2.7
Natural Resources & Mining	11.1	11.0	11.0	11.5	-0.1	-0.6	0.0	0.1	0.5	4.1
Construction	194.1	184.6	187.2	198.4	-9.5	-4.9	2.6	1.4	11.2	6.0
Trade	520.4	513.1	527.7	538.5	-7.3	-1.4	14.6	2.8	10.8	2.0
Wholesale Trade	112.6	111.5	113.9	116.2	-1.0	-0.9	2.4	2.1	2.3	2.0
Retail Trade	407.8	401.6	413.8	422.3	-6.2	-1.5	12.2	3.0	8.5	2.1
Transportation, Warehousing, and Utilities	117.6	118.1	120.0	121.9	0.4	0.4	1.9	1.6	1.9	1.6
Information	80.9	77.8	78.1	77.2	-3.1	-3.8	0.3	0.4	-0.9	-1.1
Finance, Insurance, and Real Estate	186.3	184.6	191.2	197.0	-1.7	-0.9	6.6	3.6	5.8	3.0
Professional and Business Services	637.9	648.1	682.8	717.9	10.2	1.6	34.8	5.4	35.1	5.1
Prof., Scientific, and Technical Services	375.8	376.6	390.2	407.8	0.8	0.2	13.6	3.6	17.6	4.5
Mgmt. of Companies and Enterprises	72.4	72.0	73.1	74.8	-0.5	-0.6	1.1	1.6	1.6	2.3
Adm. and Support and Waste Mgmt.	189.7	199.5	219.5	235.3	9.8	5.2	20.0	10.0	15.8	7.2
Educational and Health Services	445.4	459.5	474.7	486.0	14.1	3.2	15.2	3.3	11.4	2.4
Educational Services	82.5	85.8	89.1	92.8	3.3	4.0	3.3	3.9	3.7	4.1
Health Care and Social Assistance	362.9	373.7	385.6	393.3	10.8	3.0	11.9	3.2	7.7	2.0
Leisure and Hospitality	343.4	347.6	350.5	355.7	4.2	1.2	2.9	0.8	5.2	1.5
Arts, Entertainment, and Recreation	45.7	47.9	49.7	51.2	2.3	4.9	1.7	3.6	1.5	3.0
Accommodation and Food Services	297.7	299.7	300.8	304.5	1.9	0.6	1.2	0.4	3.7	1.2
Other Services	184.9	188.9	199.4	207.7	4.0	2.2	10.6	5.6	8.3	4.1
Government	701.9	702.4	696.8	702.9	0.5	0.1	-5.6	-0.8	6.2	0.9
Federal Government	166.7	172.1	168.3	167.1	5.4	3.2	-3.9	-2.2	-1.2	-0.7
State & Local Government	535.1	530.2	528.5	535.8	-4.9	-0.9	-1.7	-0.3	7.3	1.4

*Forecast Period begins with third quarter of CY 2009.

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 2009*	PY 2010	PY 2011	PY 2009 to PY 2010 Change	PY 2009 to PY 2010 % Change	PY 2010 to PY 2011 Change	PY 2010 to PY 2011 % Change
Labor Force Data (Place of Residence)							
Labor Force	4145.7	4185.2	4248.3	39.5	1.0	63.1	1.5
Resident Employment	3869.0	3922.1	4004.5	53.1	1.4	82.4	2.1
Unemployed	276.7	263.1	243.8	-13.6	-4.9	-19.3	-7.3
Unemployment Rate (%)	6.7	6.3	5.7	-0.4	-	-0.6	-
Establishment Data (Place of Work)							
Total Nonag. Wage & Salary	3648.6	3704.9	3802.7	56.3	1.5	97.7	2.6
Total Manufacturing	232.8	229.9	236.8	-2.8	-1.2	6.8	3.0
Durables	135.0	134.9	141.5	-0.1	-0.1	6.6	4.9
Transportation Equipment	33.1	34.0	35.5	0.9	2.8	1.5	4.3
Furniture and Related Products	11.0	11.2	11.8	0.2	1.8	0.6	5.4
Other Durables	90.9	89.7	94.2	-1.2	-1.4	4.6	5.1
Nondurables	97.8	95.1	95.3	-2.7	-2.8	0.2	0.2
Textile Mills	4.4	4.0	3.8	-0.4	-8.7	-0.2	-5.8
Other Nondurables	93.4	91.1	91.5	-2.3	-2.5	0.4	0.5
Total Nonmanufacturing	3415.8	3475.0	3565.9	59.2	1.7	90.9	2.6
Natural Resources & Mining	11.1	10.9	11.3	-0.1	-1.2	0.4	3.3
Construction	189.0	183.9	192.0	-5.2	-2.7	8.2	4.4
Trade	512.1	520.3	534.1	8.2	1.6	13.8	2.6
Wholesale Trade	111.7	112.4	115.2	0.7	0.7	2.8	2.5
Retail Trade	400.4	407.9	418.9	7.5	1.9	11.0	2.7
Transportation, Warehousing, and Utilities	117.9	118.8	121.0	0.9	0.7	2.2	1.9
Information	78.4	79.4	76.6	1.0	1.3	-2.7	-3.4
Finance, Insurance, and Real Estate	185.1	187.0	194.7	2.0	1.1	7.7	4.1
Professional and Business Services	636.6	664.8	700.4	28.2	4.4	35.6	5.4
Prof., Scientific, and Technical Services	373.5	382.7	398.8	9.3	2.5	16.1	4.2
Mgmt. of Companies and Enterprises	71.8	72.5	74.0	0.7	1.0	1.5	2.1
Adm. and Support and Waste Mgmt.	191.4	209.6	227.6	18.2	9.5	18.0	8.6
Educational and Health Services	452.4	467.1	481.5	14.7	3.2	14.4	3.1
Educational Services	84.9	87.1	91.2	2.1	2.5	4.1	4.7
Health Care and Social Assistance	367.5	380.0	390.3	12.5	3.4	10.3	2.7
Leisure and Hospitality	344.7	349.9	352.3	5.2	1.5	2.4	0.7
Arts, Entertainment, and Recreation	47.5	48.7	50.5	1.2	2.6	1.7	3.5
Accommodation and Food Services	297.2	301.2	301.8	4.0	1.3	0.7	0.2
Other Services	184.9	194.8	203.3	9.9	5.4	8.4	4.3
Government	703.6	698.0	698.6	-5.6	-0.8	0.6	0.1
Federal Government	170.8	169.7	167.6	-1.1	-0.6	-2.2	-1.3
State & Local Government	532.8	528.3	531.1	-4.5	-0.8	2.8	0.5

*Forecast Period begins with third quarter of CY 2009.

NOTE: Detail may not add to totals due to rounding.

Table 3 - Virginia Labor Force Projections by Quarters, 2009:1 - 2012:4*

(Numbers in Thousands)

Subject	2009:1	2009:2	2009:3	2009:4	2010:1	2010:2	2010:3	2010:4	2011:1	2011:2	2011:3	2011:4	2012:1	2012:2	2012:3	2012:4
Labor Force Data (Place of Residence)																
Labor Force	4152.9	4166.0	4135.3	4140.9	4151.4	4155.3	4164.4	4176.3	4191.7	4208.4	4226.9	4241.3	4255.4	4269.6	4283.4	4297.2
Resident Employment	3885.2	3873.0	3864.3	3861.2	3870.8	3879.7	3894.3	3908.4	3933.1	3952.6	3973.9	3992.6	4016.5	4035.0	4054.1	4072.3
Unemployed	267.7	293.0	270.9	279.7	280.6	275.6	270.1	267.9	258.6	255.8	253.0	248.8	238.9	234.6	229.4	224.9
Unemployment Rate (%)	6.4	7.0	6.6	6.8	6.8	6.6	6.5	6.4	6.2	6.1	6.0	5.9	5.6	5.5	5.4	5.2
Establishment Data (Place of Work)																
Total Nonag. Wage & Salary	3690.2	3672.9	3654.5	3641.9	3643.0	3654.9	3670.4	3692.5	3717.6	3739.1	3764.4	3788.3	3814.1	3843.9	3871.0	3893.5
Total Manufacturing	251.8	241.4	236.2	234.4	231.8	228.8	228.2	229.4	230.5	231.6	233.4	235.8	238.1	239.8	241.7	243.6
Durables	145.6	139.5	137.1	135.7	134.5	132.7	132.8	134.4	135.7	136.6	138.3	140.6	142.7	144.4	146.2	148.0
Transportation Equipment	34.7	33.1	32.7	32.9	33.3	33.3	33.5	33.9	34.2	34.4	34.7	35.2	35.8	36.2	36.6	37.1
Furniture and Related Products	12.1	11.6	11.3	11.0	10.9	10.8	10.9	11.1	11.3	11.5	11.6	11.8	11.9	12.0	12.1	12.2
Other Durables	98.8	94.8	93.0	91.7	90.3	88.6	88.4	89.3	90.2	90.7	92.0	93.7	95.1	96.2	97.5	98.8
Nondurables	106.2	101.9	99.1	98.7	97.3	96.1	95.4	95.0	94.8	95.0	95.1	95.2	95.3	95.4	95.5	95.5
Textile Mills	4.8	4.6	4.5	4.5	4.3	4.2	4.1	4.0	3.9	3.9	3.8	3.8	3.7	3.7	3.6	3.6
Other Nondurables	101.4	97.3	94.6	94.2	93.0	91.9	91.3	91.0	90.9	91.2	91.3	91.4	91.6	91.7	91.8	92.0
Total Nonmanufacturing	3438.4	3431.5	3418.3	3407.5	3411.2	3426.2	3442.2	3463.1	3487.1	3507.5	3530.9	3552.5	3576.1	3604.1	3629.3	3649.9
Natural Resources & Mining	11.2	11.1	11.0	11.1	11.2	11.0	11.0	10.9	10.9	11.0	11.1	11.2	11.4	11.5	11.5	11.6
Construction	201.2	192.5	192.6	190.2	189.0	184.4	181.9	183.1	184.2	186.1	188.3	190.1	192.9	196.9	200.3	203.6
Trade	528.2	524.6	517.0	511.7	508.8	510.9	515.3	517.5	522.9	525.5	529.1	533.5	535.7	538.0	539.4	541.1
Wholesale Trade	114.6	112.0	111.9	111.8	111.4	111.6	111.6	111.6	112.8	113.6	114.4	115.0	115.4	116.0	116.6	117.0
Retail Trade	413.6	412.6	405.1	399.9	397.4	399.3	403.7	406.0	410.1	411.9	414.8	418.6	420.3	422.0	422.8	424.2
Transportation, Warehousing, and Utilities	117.7	117.3	117.9	117.7	118.1	118.0	118.1	118.2	119.1	119.7	120.3	120.8	121.2	121.6	122.1	122.5
Information	82.8	80.7	79.6	80.6	77.4	75.9	77.2	80.8	81.0	78.4	76.7	76.3	76.7	76.9	77.3	78.1
Finance, Insurance, and Real Estate	187.5	186.3	185.9	185.5	185.1	183.8	184.0	185.7	188.4	190.1	192.4	194.0	195.9	196.6	197.5	198.1
Professional and Business Services	645.0	641.2	633.2	632.3	637.7	643.4	651.0	660.2	669.4	678.7	687.4	695.8	704.5	714.1	722.9	730.2
Prof., Scientific, and Technical Services	378.6	378.5	373.5	372.6	373.0	374.7	377.7	380.9	384.4	388.0	392.0	396.5	401.0	405.8	410.2	414.2
Mgmt. of Companies and Enterprises	74.3	72.0	71.8	71.7	71.7	71.8	72.0	72.4	72.6	72.8	73.1	73.9	74.3	74.6	74.9	75.2
Adm. and Support and Waste Mgmt.	192.1	190.7	187.9	188.0	193.0	196.8	201.2	207.0	212.5	217.9	222.3	225.4	229.2	233.6	237.7	240.7
Educational and Health Services	439.7	442.5	448.8	450.6	453.5	456.6	462.3	465.4	468.0	472.5	478.0	480.1	481.9	486.0	487.4	488.8
Educational Services	80.2	80.2	84.6	84.8	84.9	85.3	85.7	87.1	87.5	88.0	90.2	90.6	90.9	93.1	93.4	93.7
Health Care and Social Assistance	359.5	362.2	364.2	365.8	368.6	371.2	376.6	378.4	380.5	384.5	387.8	389.5	391.1	392.9	394.1	395.1
Leisure and Hospitality	339.4	346.6	344.1	343.6	344.0	347.2	349.3	350.0	350.0	350.4	350.8	350.8	352.9	354.7	356.9	358.2
Arts, Entertainment, and Recreation	41.8	46.1	47.4	47.4	47.5	47.8	48.0	48.5	48.7	49.7	49.9	50.3	50.4	51.2	51.3	51.7
Accommodation and Food Services	297.6	300.5	296.7	296.2	296.5	299.4	301.2	301.5	301.3	300.7	300.9	300.5	302.4	303.5	305.6	306.5
Other Services	185.8	185.6	185.4	182.8	184.4	187.0	190.9	193.2	196.6	198.6	200.2	202.3	204.2	206.3	209.6	210.6
Government	700.0	703.2	702.9	701.3	702.0	708.2	701.3	697.9	696.6	696.4	696.7	697.5	698.7	701.6	704.2	707.2
Federal Government	163.7	166.8	168.2	168.2	169.8	177.1	172.1	169.4	168.9	168.4	168.0	167.7	167.4	167.2	167.0	166.8
State & Local Government	536.4	536.4	534.7	533.1	532.2	531.0	529.2	528.5	527.7	527.9	528.7	529.8	531.3	534.5	537.3	540.3

*Forecast Period begins with third quarter of CY 2009.

NOTE: Detail may not add to totals due to rounding.

Economic Assumptions
Economic Information Services Division

Virginia Employment Commission

P.O. Box 1358

Richmond, Virginia 23218-1358

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