

Virginia Municipal League Economic Update: Will We See a Double Dip?

October 22, 2002

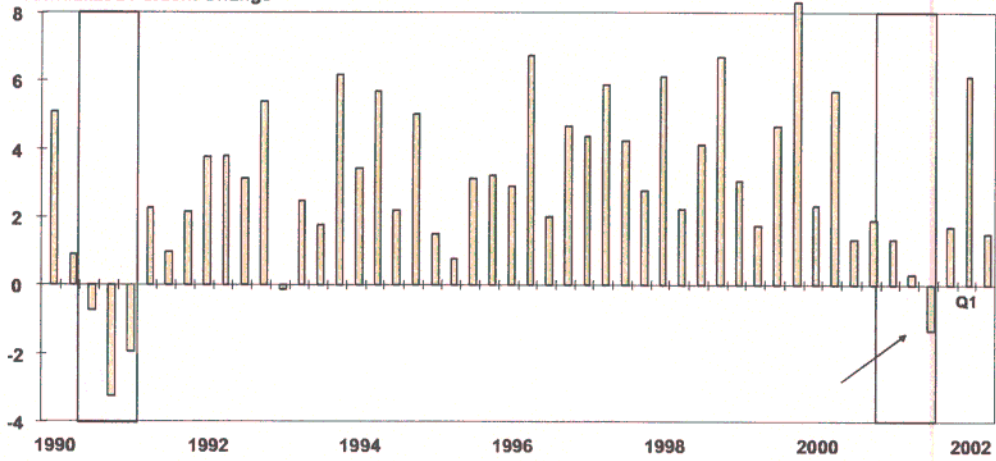
Prepared by
Chmura Economics & Analytics
www.chmuraecon.com

Overview

- National economy is expanding, but risks remain on the downside
 - High-tech sector struggling
 - Corporate accounting issues plaguing stock market
 - Consumer confidence is down
- Expect sluggish recovery...risk of 'double dip' rising
- Virginia growth lagging the nation
- Significant variation by region

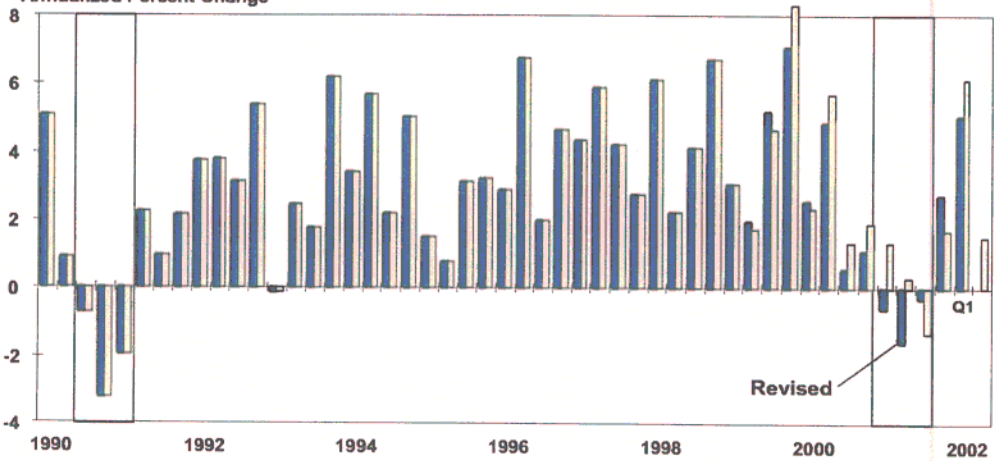
Real GDP

Annualized Percent Change



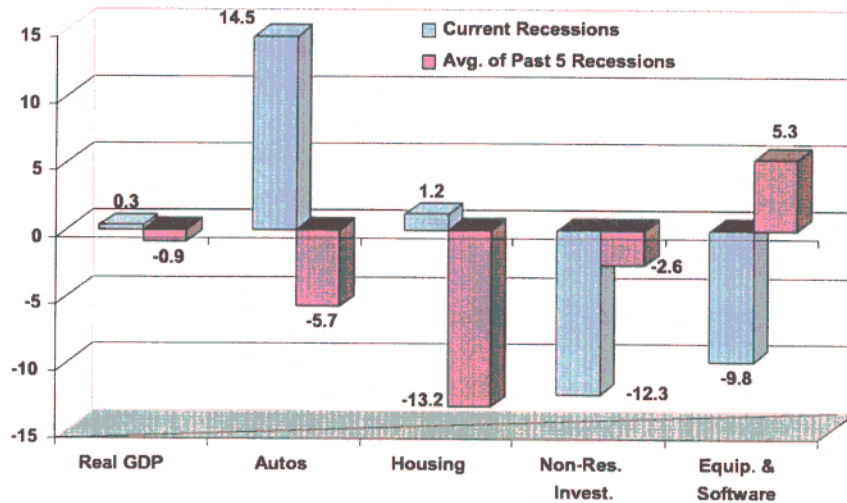
Revised Real GDP

Annualized Percent Change



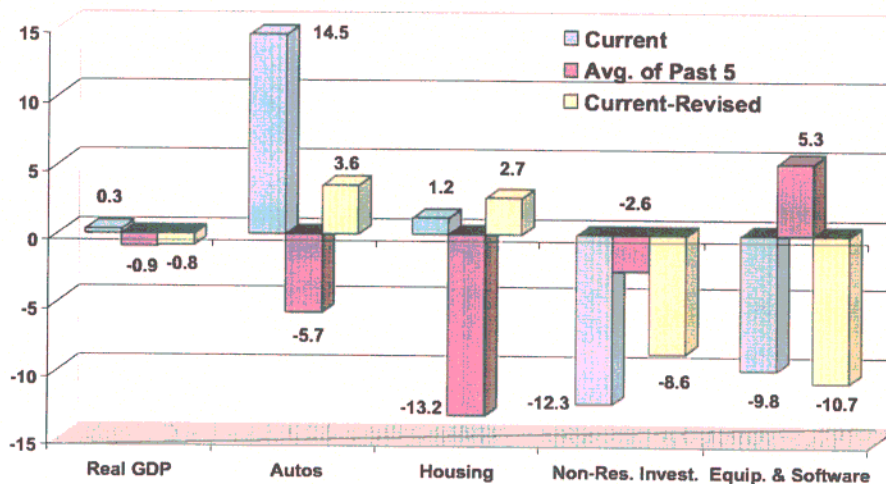
Recession "Official" but not "Typical" 3-Quarter % Change

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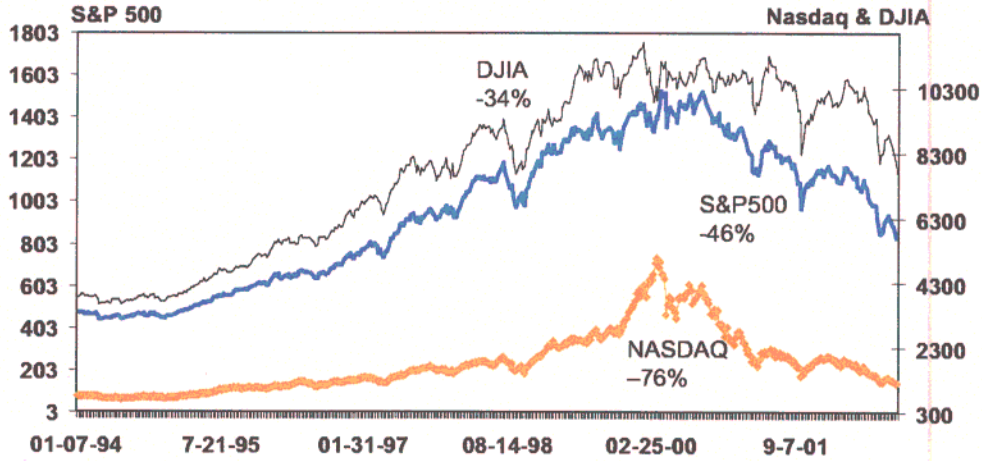
Recession "Official" but not "Typical" 3-Quarter % Change

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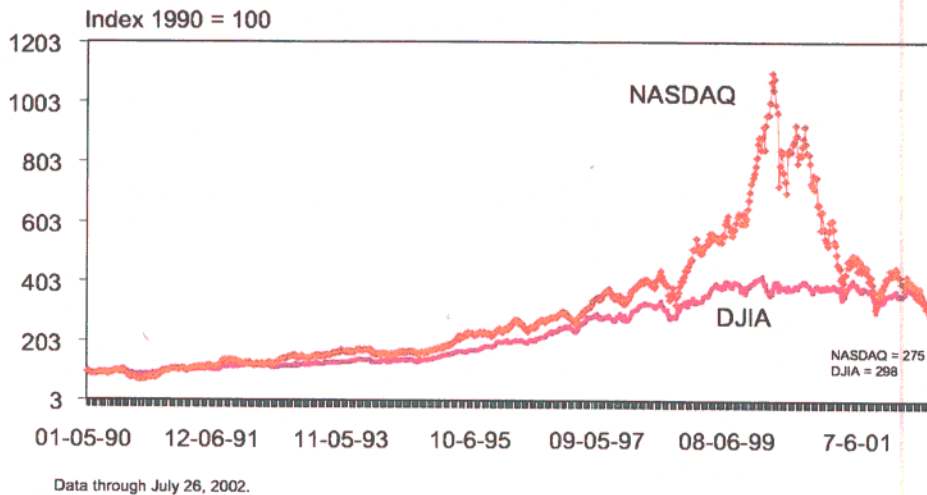
Stock Market Continues to Drop, Weekly Data

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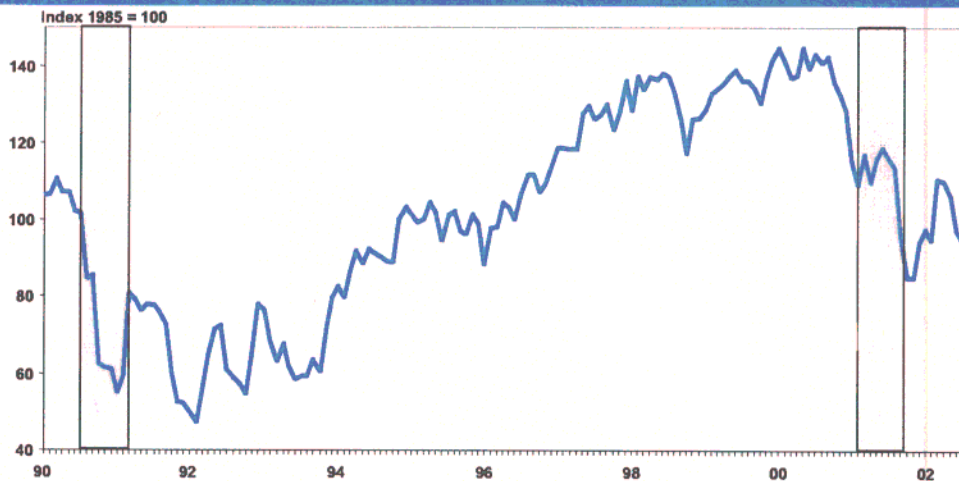
DJIA and NASDAQ Increase Close Over 12-Years

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Consumer Confidence is Slipping

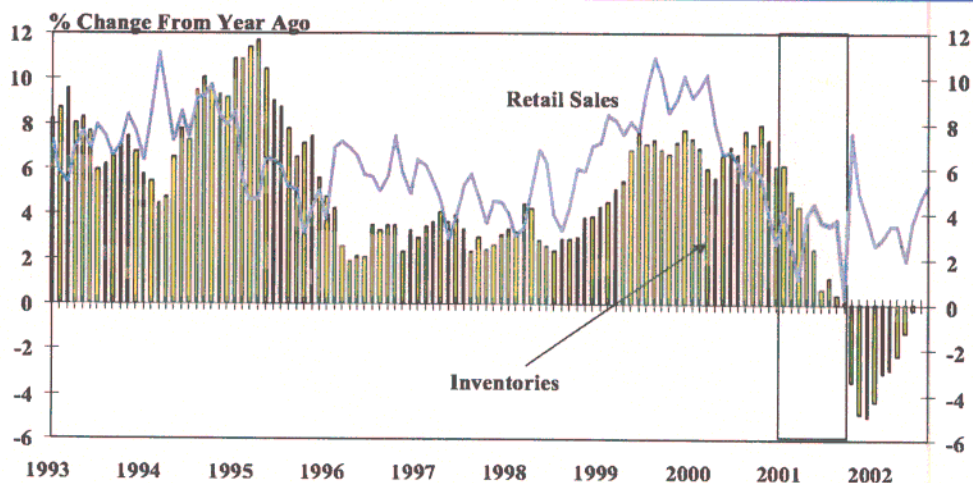
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Data through September 2002.
Recessions are shaded.

Retail Sales are Moderate; Inventories are Coming Back in Line

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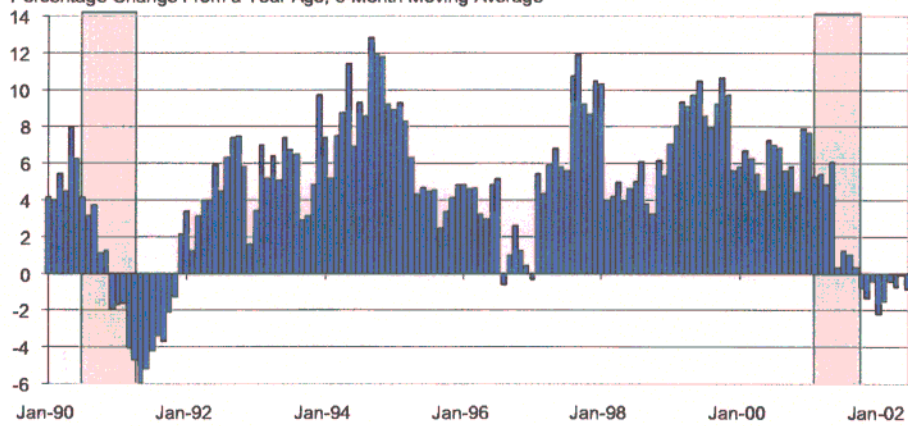


Retail data through August 2002.
Recessions are shaded.

Retail Sales in Virginia

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Percentage Change From a Year Ago, 6-Month Moving Average

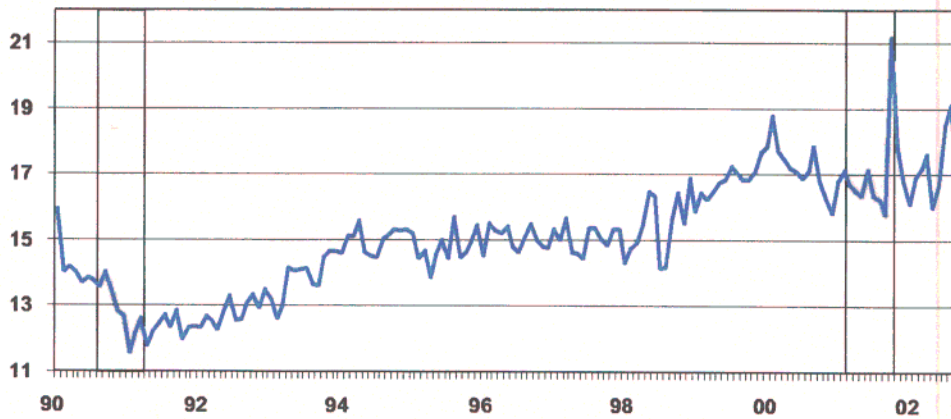


Data through June 2002.

U.S. Auto and Light Truck Sales

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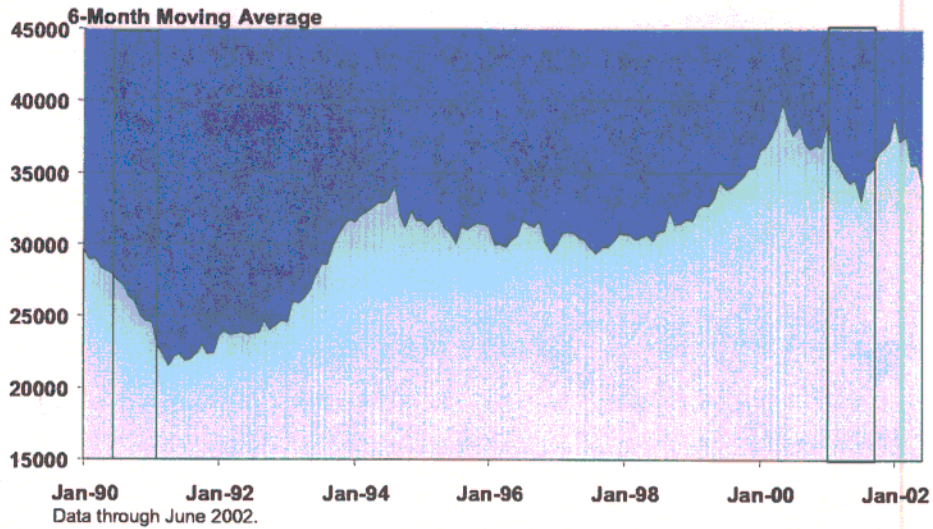
Millions of Units, Annualized Rate



Data through September 2002.

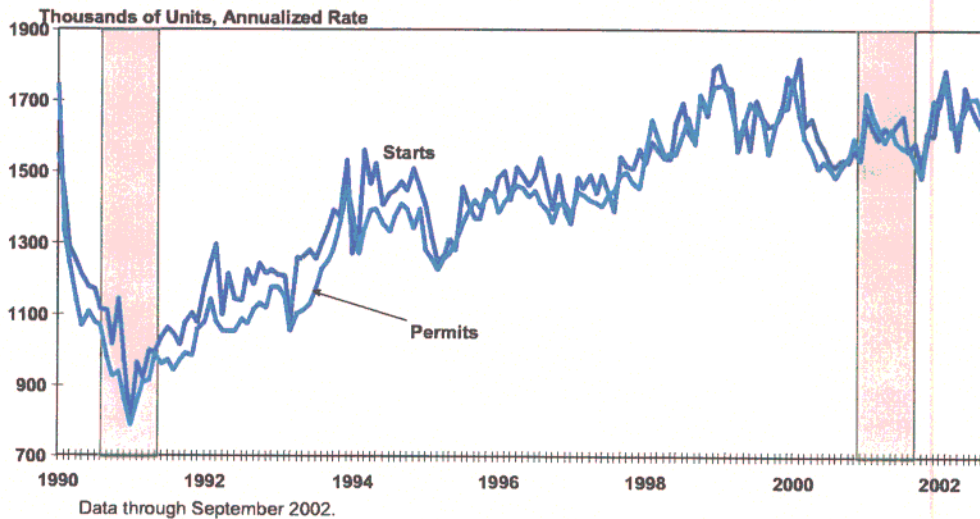
Virginia Auto Sales (Registrations)

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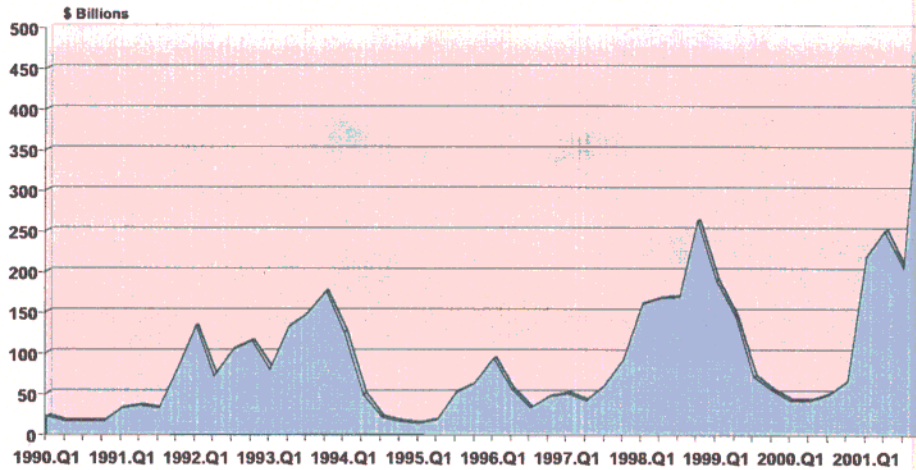
Housing Activity Remains Strong National Data

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Refinancing Activity Supported Growth

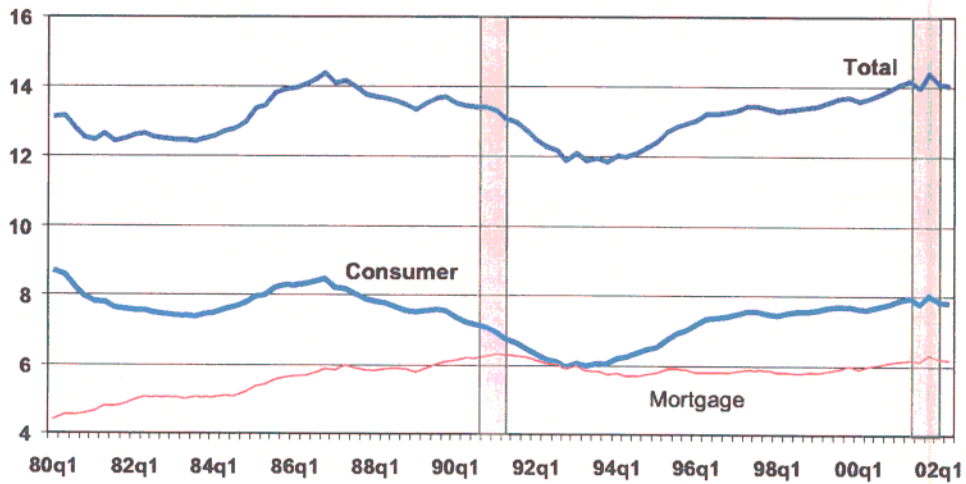
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Data through 1st Quarter 2001.

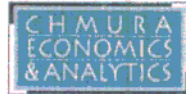
Household Debt Service Levels Remain High

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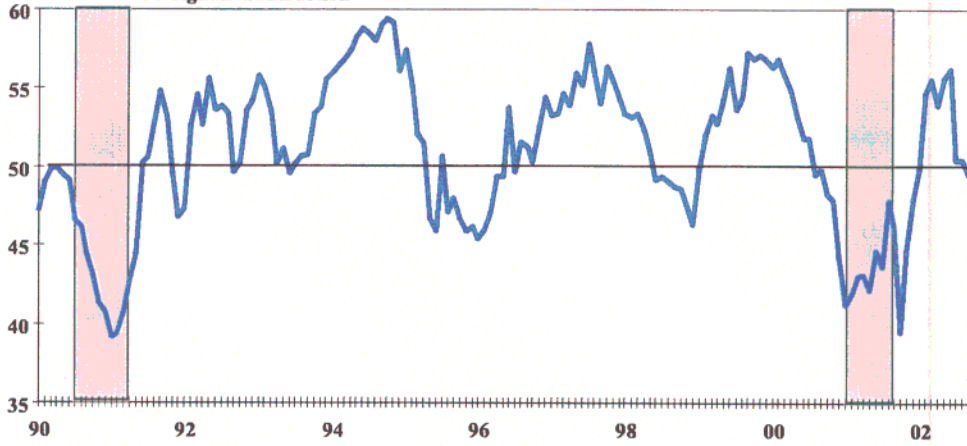


Data through 2nd Quarter 2002.

Manufacturing Activity Has Weakened (Purchasing Mgr's Index)



Index Value < 50 Signals Contraction

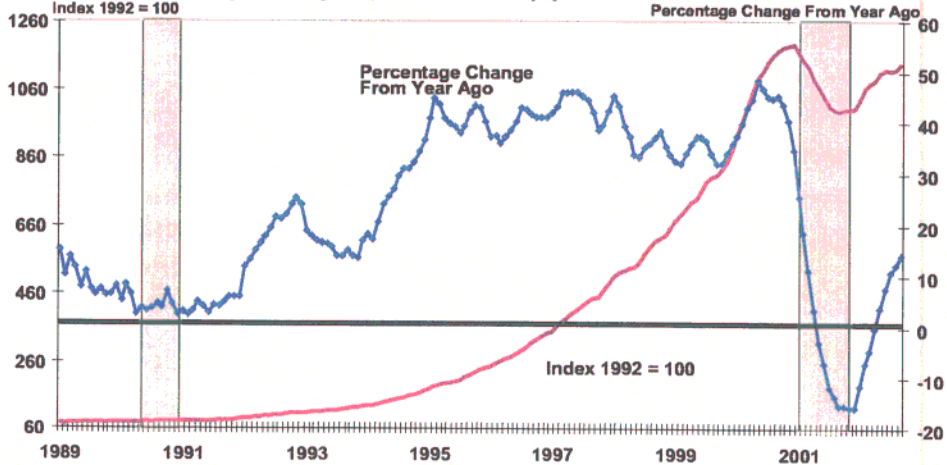


Data through September 2002.
Recessions are shaded.

High-Tech Rebound Has Slowed



Output of Computers, Communication Equipment and Semiconductors



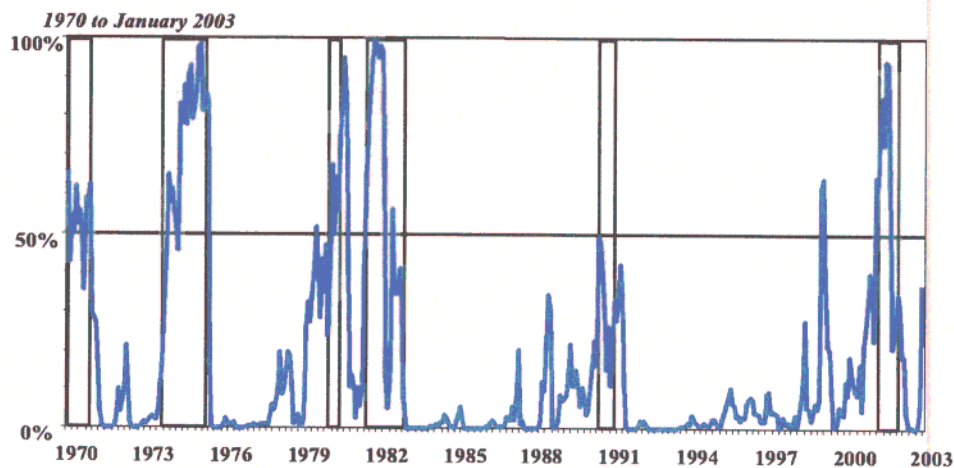
Data through September 2002.
Recessions are shaded.

Risks of Slower-Than-Expected Growth Remain



- Consumer purchases have been relatively strong
 - Low mortgage rates supported home purchases
 - Incentives accelerated purchases
 - Little pent-up demand
 - Debt loads remain high
- Corporate profits remain sluggish
 - Points to further cost cutting (layoffs)
 - Suggests capital expenditures will be delayed
- Confidence issues
 - Accounting disclosures are weighing on the stock market
 - Unemployment rates continue to rise during recovery phase
 - War in the Mid-East
- Higher oil prices reduce corporate profits/consumer purchasing power
- Risks point to lower interest rates

Recession Probability is Elevated



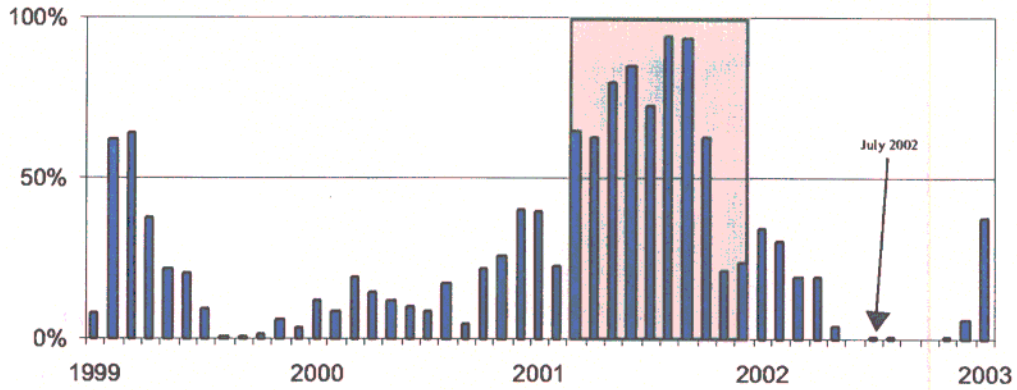
Source: <https://secure.chmuraecon.com/epubs/Login.asp>

Recession Probability is Elevated



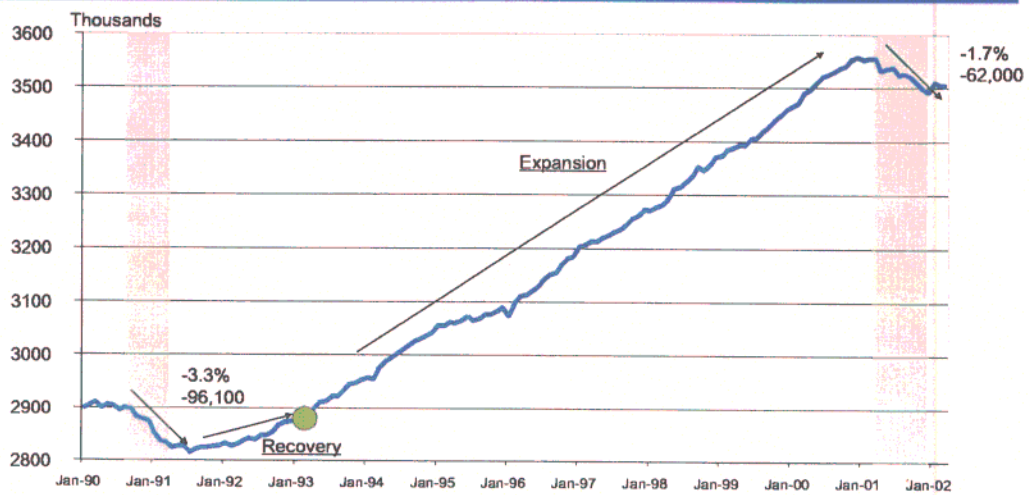
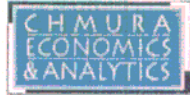
Six Months following July 2002

Monthly Probability



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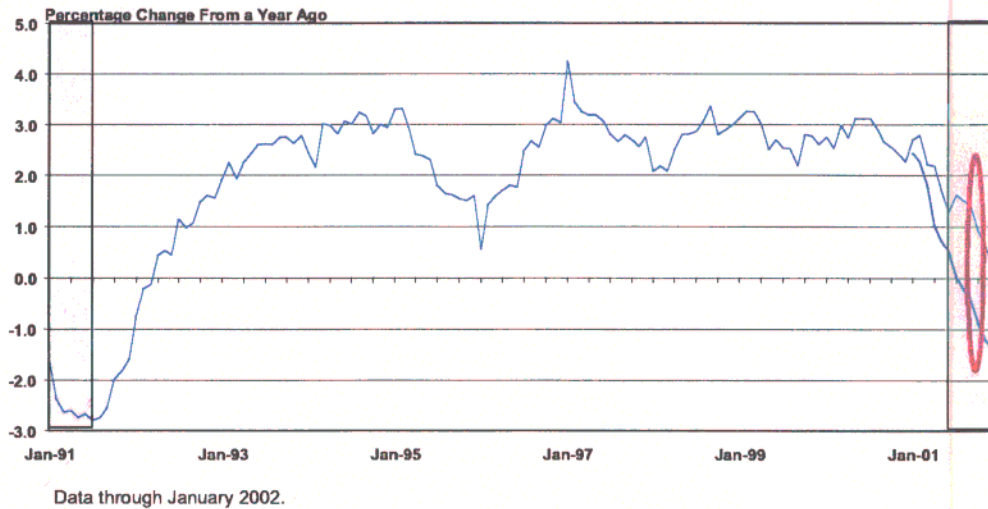
Virginia's Nonfarm Employment Growth



Data through June 2002.

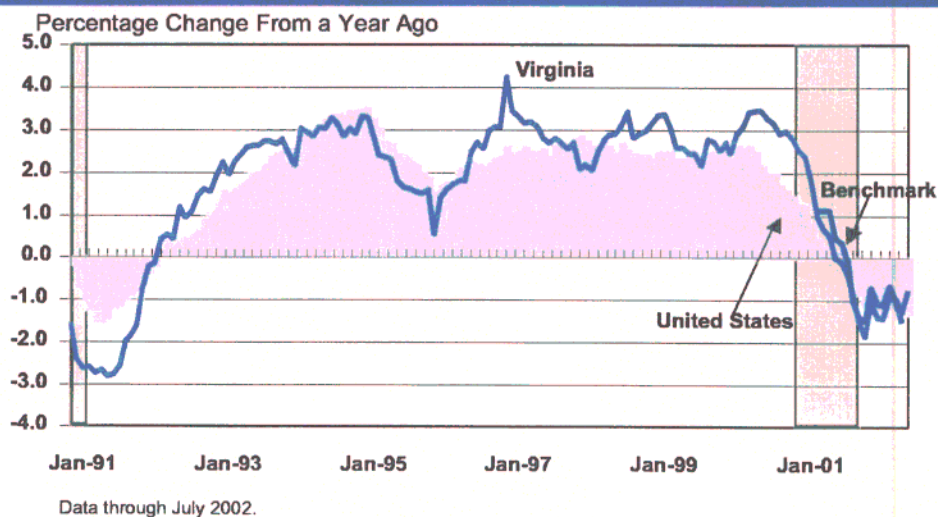
Virginia NonFarm Employment Fell 1.4% in 12-Months Ending Jan.

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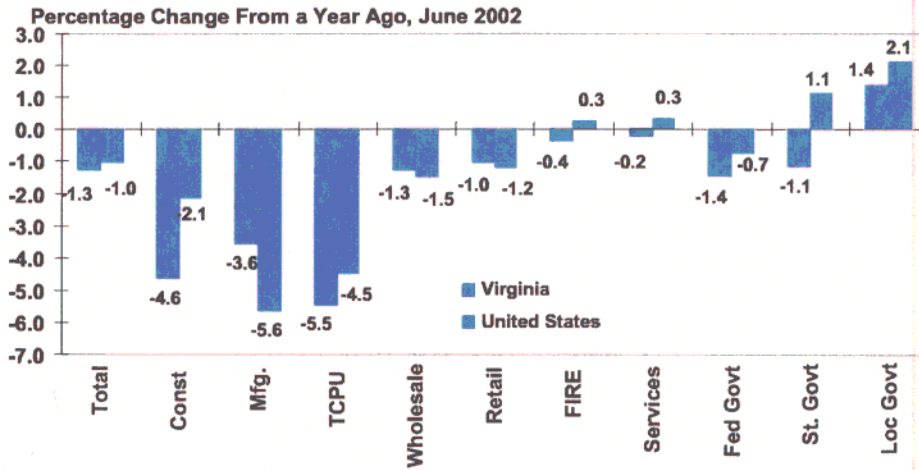
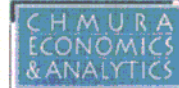


Nonfarm Employment Growth in Virginia

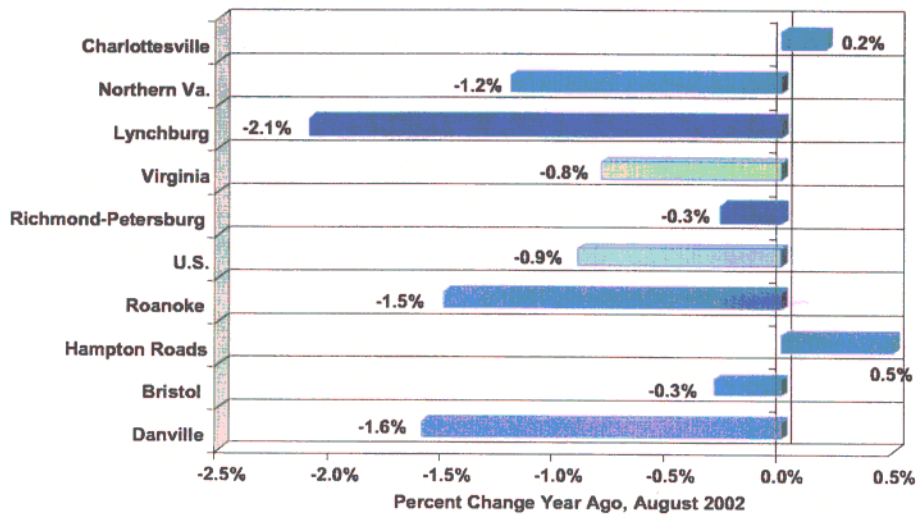
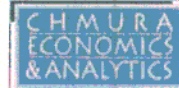
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Nonfarm Employment Growth By Sector



Nonfarm Employment Growth

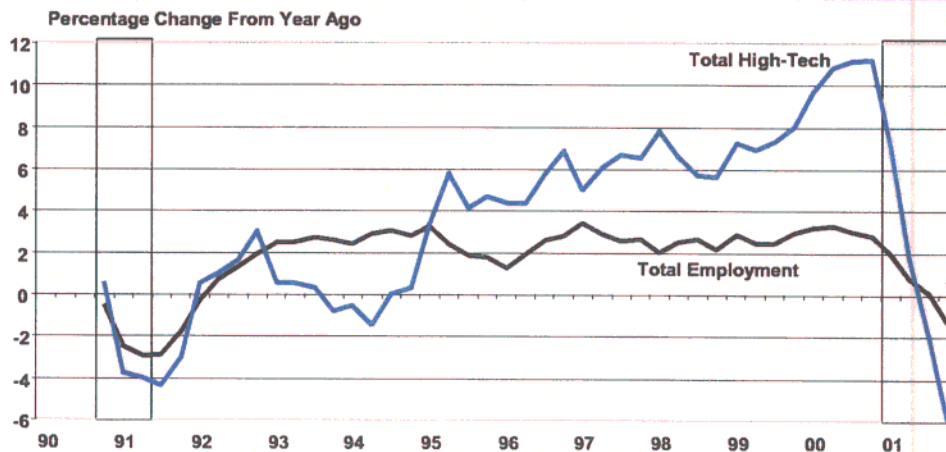


Virginia Forecast Summary: Most-Likely Scenario, Percentage Change From Year Ago



	Actual		Forecast	
	2000	2001	2002	2003
Virginia				
Total Nonagricultural Employment	3.1%	0.4%	-0.6%	2.3%
Wages and Salaries*	9.8%	5.4%	0.0%	2.0%
Real Retail Sales	4.0%	-1.9%	2.2%	8.3%
Northern Virginia				
Total Nonagricultural Employment	5.8%	1.8%	-1.5%	4.5%
Wages and Salaries*	15.3%	10.6%	6.5%	9.0%
Real Retail Sales	8.4%	-2.1%	0.8%	11.4%
Hampton Roads				
Total Nonagricultural Employment	1.6%	0.5%	0.5%	1.8%
Wages and Salaries*	6.0%	5.1%	4.5%	5.6%
Real Retail Sales	1.5%	-0.3%	8.2%	8.6%
Richmond/Petersburg				
Total Nonagricultural Employment	2.0%	0.7%	-0.3%	1.8%
Wages and Salaries*	6.7%	5.5%	4.0%	6.0%
Real Retail Sales	4.3%	-2.9%	4.0%	8.7%
Roanoke				
Total Nonagricultural Employment	1.8%	-0.2%	0.8%	1.8%
Wages and Salaries*	5.0%	5.2%	6.9%	7.3%
Real Retail Sales	-0.7%	-2.2%	1.2%	6.9%
Lynchburg				
Total Nonagricultural Employment	1.9%	-2.9%	-0.1%	3.0%
Wages and Salaries*	4.7%	1.2%	4.7%	7.3%
Real Retail Sales	2.8%	2.9%	-13.0%	12.8%
Charlottesville				
Total Nonagricultural Employment	3.1%	-0.1%	-0.2%	4.2%
Wages and Salaries*	9.4%	4.4%	6.9%	6.4%
Real Retail Sales	3.8%	-1.2%	1.9%	8.5%

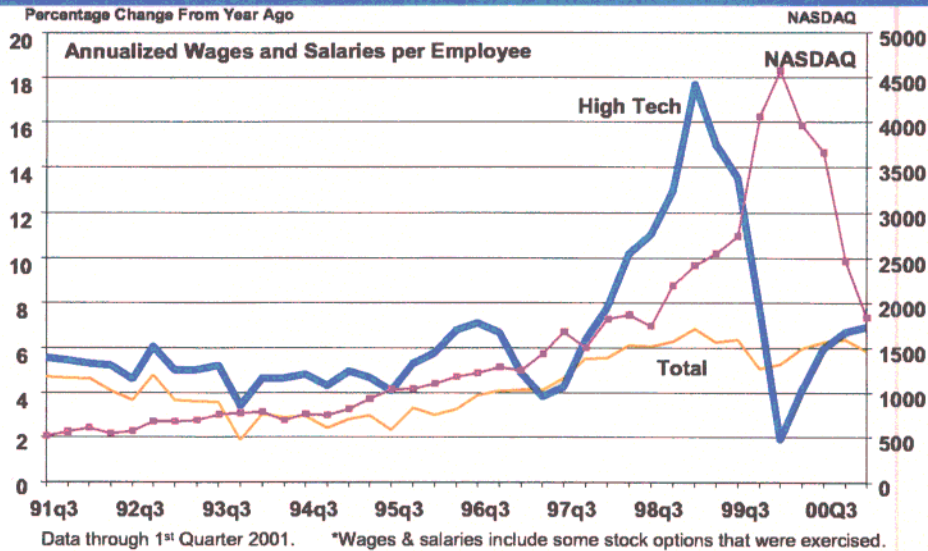
High-Tech Employment in Virginia is Contracting



Data through Fourth Quarter 2001.

High-Tech Wages and Salaries* Soared in the Late 1990s

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High-Tech "Income*" is Contracting in Northern Virginia

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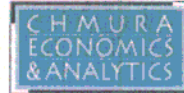
Northern Virginia

SIC	Industry	Employment				Wages and Salaries Thousands of Dollars*			
		2000Q4	2001Q4	Change	% Change	2000Q4	2001Q4	Change	% Change
	Total Employment	1,160,404	1,149,551	-10,853	-0.9	14,200,109	14,477,798	277,689	2.0
	Total High Technology	205,349	195,319	-10,030	-4.9	4,112,511	4,072,071	-40,439	-1.0
481	Telephone communications	27,844	29,420	1,576	5.7	555,153	563,467	8,315	1.5
871	Engineering and architectural services	29,876	30,267	392	1.3	515,203	555,733	40,530	7.9
737	Computer and data processing services	123,717	111,874	-11,844	-9.6	2,661,847	2,549,484	-112,363	-4.2
873	Research, development, testing services	13,832	12,286	-1,545	-11.2	231,133	222,229	-8,903	-3.9

Data through Fourth Quarter 2001.

*Includes some options that were exercised.

Conclusions:



- The recovery in the nation **expected to continue** but slow in quarters 3 and 4...Overcapacity in high-tech industries remains an issue
 - Corporate accounting disclosures and global uncertainty weighing heavy on the stock market
 - Risks remain for slower-than-expected growth (war; further stock market decline)
 - Fed may leave rates low, longer than expected
 - Consumer and business spending are key
- Virginia tracks national growth
- Copy of Presentation: www.chmuraecon.com