



# ECONOMIC INDICATORS

**CITY OF NORFOLK**  
**OFFICE OF BUDGET AND MANAGEMENT**

Last Update: September 9, 2011

The Office of Budget and Management has compiled *Economic Indicators*, a report highlighting indicators of economic activity in the city as well as selected indicators for the region, state and nation. This document is designed to provide the reader with information regarding the local employment situation, retail sales, building permit activity and the housing market. Comparable indicators at the regional, state and national level that may impact the local economy are also included in the report. The report is updated as current data become available.

## IN THIS ISSUE.....

### EMPLOYMENT

- Norfolk's unemployment rate in July stood at 9 percent (not seasonally adjusted), which is just 0.1 percentage point higher than the previous month's rate of 8.9 percent (June 2011), but is 0.7 percentage point below the previous year's rate of 9.7 percent (July 2010).
- Employment in Hampton Roads totaled 739,400 in July, which is 0.05 percent (or 400 jobs) below last year, the 43rd consecutive month of year-over-year decline; however, the year-over-year decline in July was the smallest in 43 months.
- Nationally, non-farm payroll employment was unchanged in August from the previous month. Year-to-date, the economy added 872,000 jobs, which was revised downward from last month's estimated total of 930,000 jobs.

### SALES TAX REVENUE

- In the first month of FY 2012, Norfolk's sales tax revenue totaled \$2.34 million, which is approximately 1.2 percent or \$28,800 more than the previous year. In comparison, sales tax receipts increased 0.6 percent for all of FY 2011.

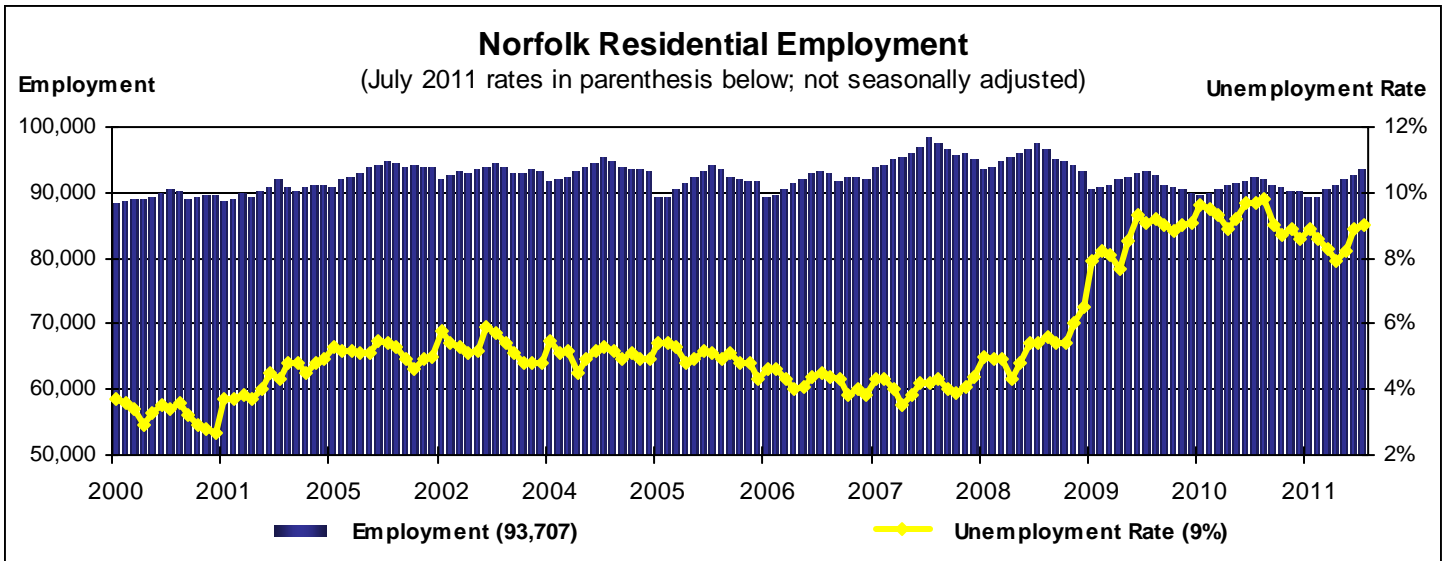
### REGIONAL AND NATIONAL HOUSING MARKET & BUILDING PERMITS

- From January to July 2011, the average sales price of homes sold in Norfolk and in Hampton Roads declined by 12.6 percent and 9.8 percent, respectively, from the same period last year.
- In Norfolk, the number of homes sold increased 13.1 percent from January to July over the same period last year. Homes sold in Hampton Roads increased 1.3 percent.
- The total number of housing units authorized by building permits in Norfolk from January to July 2011 increased by 179 units to 413 units from 234 units last year. The majority of the increase was due to units permitted in new multi-family structures.

### OTHER ECONOMIC INDICATORS

- Growth decelerated in the first half of 2011. The economy grew 1.0 percent in the second quarter of 2011, which follows a 0.4 percent growth in the first quarter of 2011 (revised). In comparison, real GDP grew 3.0 percent in 2010 (revised).
- Consumer confidence, as measured by the Conference Board's Consumer Confidence Index, fell to its lowest level in August in more than two years (April 2009).

# RESIDENTIAL EMPLOYMENT AND UNEMPLOYMENT—NORFOLK, REGIONAL, AND STATE

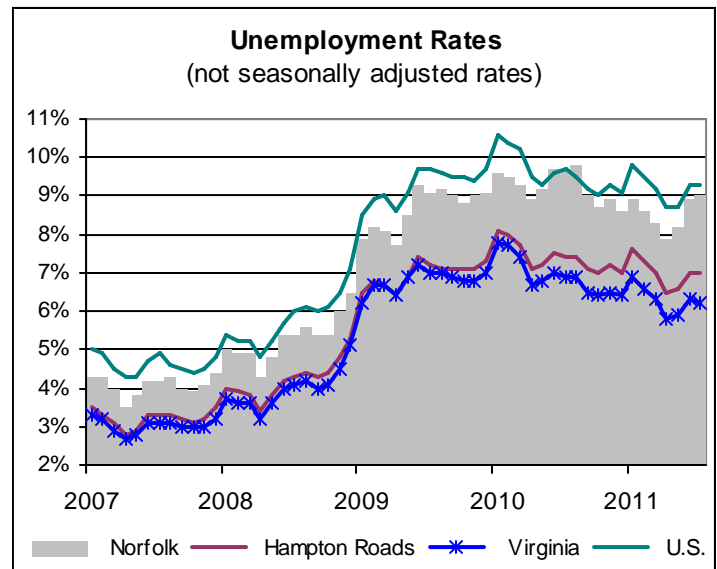


## July 2011 Residential Employment

- According to the Virginia Employment Commission (VEC), the number of employed Norfolk residents in July rose to 93,707 (not seasonally adjusted), which is 1,285 (or 1.4 percent) more employed residents than last year and 1,019 (or 1.1 percent) more employed residents than the previous month (June 2011).
- In July, the unemployment rate in Norfolk stood at 9 percent (not seasonally adjusted), which is just 0.1 percentage point higher than the previous month's rate of 8.9 percent (June 2011), but is 0.7 percentage point below the previous year's rate of 9.7 percent (July 2010). The unemployment rate is a measure of the number of jobless people who are available for work and are actively seeking jobs, expressed as a percentage of the labor force. Norfolk's unemployment rate continues to remain below the national unemployment rate of 9.3 percent (not seasonally adjusted).
- The Hampton Roads' unemployment rate held steady in July from June at 7 percent (not seasonally adjusted) but is 0.4 percentage point lower than the previous year's rate of 7.4 percent. Virginia's unemployment rate (not seasonally adjusted) fell to 6.2 percent in July, which is 0.7 percentage point lower than last year and is 0.1 percentage point lower than last month. The VEC indicated that by July, most college and high school students that entered the labor force in June have either found work or stopped looking. Virginia had the ninth lowest unemployment rate among the 50 states and the District of Columbia in July.

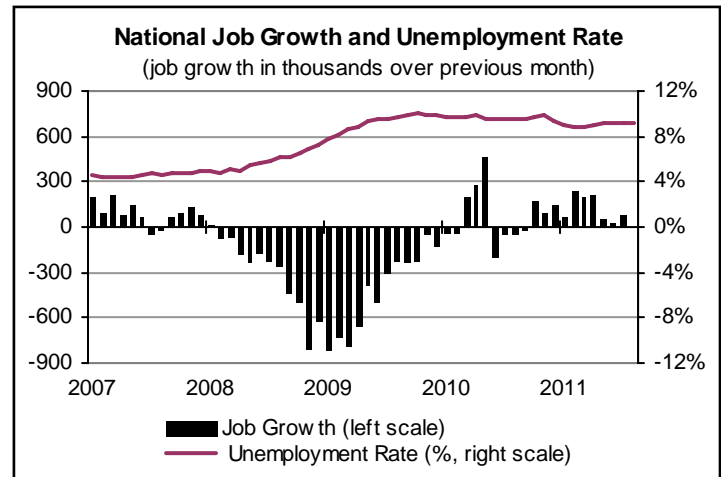
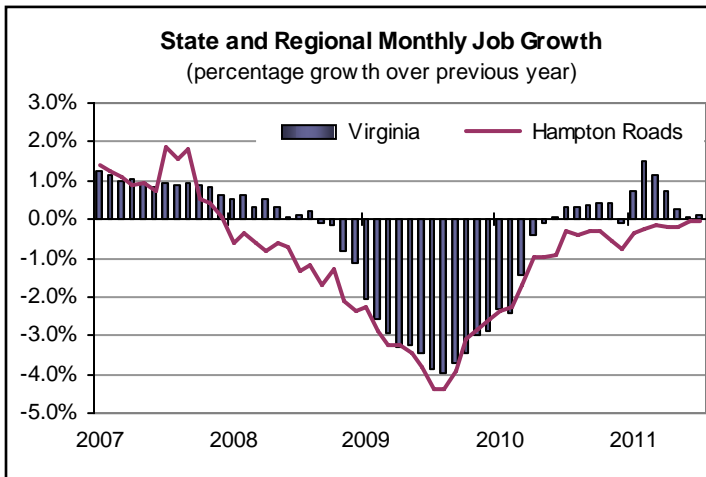
**Hampton Roads Unemployment Rate**  
(not seasonally adjusted)

	July 2011	June 2011	July 2010	5-Year Average
<b>Norfolk</b>	<b>9.0%</b>	<b>8.9%</b>	<b>9.7%</b>	<b>6.3%</b>
Chesapeake	6.7%	6.7%	7.1%	4.7%
Hampton	8.0%	8.0%	8.4%	5.7%
Newport News	7.1%	7.3%	7.4%	5.5%
Portsmouth	8.7%	8.7%	9.3%	6.3%
Suffolk	7.3%	7.4%	8.3%	5.1%
Virginia Beach	5.9%	6.0%	6.3%	4.3%
Hampton Roads	7.0%	7.0%	7.4%	5.0%
Virginia	6.2%	6.3%	6.9%	4.8%



Source: Virginia Employment Commission and U.S Bureau of Labor Statistics. Compiled by the Office of Budget and Management.

## REGIONAL, STATE, AND NATIONAL JOB GROWTH



### State and Hampton Roads Job Growth

The Virginia Employment Commission reported that the statewide non-seasonally adjusted nonfarm employment in June totaled 3,634,500, which is an increase of approximately 0.09 percent (or 3,400 jobs) from July 2010, which is slightly better than the 0.05 percent (revised) year-over-year increase reported in June. Since June 2010, jobs in Virginia have been growing year-over-year every month except in December 2010.

In Hampton Roads, the number of jobs stood at 739,400 in July, which is 0.05 percent (or 400 jobs) below last year, the 43rd consecutive month of year-over-year decline, but the year-over-year decline in July was the smallest in 43 months. Similar to the nation, the private sector added jobs in the region (100 jobs), while the public sector shed 500 jobs.

A summary of the year-over-year job growth for key sectors in the state and region is shown below.

### July Job Growth in Major Sectors

(not seasonally adjusted; July growth is from previous year)

	Hampton Roads	Virginia
Construction	-800	-6,800
Manufacturing	500	1,700
Trade (Retail & Wholesale)	-5,000	5,000
Transportation & Utilities	100	200
Information	-900	-3,600
Financial Activities	-2,100	-800
Professional & Business Services	-1,100	13,700
Educational & Health Services	1,900	200
Leisure & Hospitality	6,900	-5,900
Government	-500	900
<i>Federal Government</i>	200	-6,000
<i>State Government</i>	-300	4,500
<i>Local Government</i>	-400	2,400

### National Job Growth

The Bureau of Labor Statistics (BLS) reported that nonfarm payroll employment (seasonally adjusted) was unchanged in August. Moreover, job growth in July and June were revised down by 32,000 jobs and 26,000 jobs, respectively, which were mainly in the public sector. Year-to-date, the nation added 872,000 jobs, revised down from last month's total of 930,000 jobs. Job growth decelerated in the private sector, adding only 17,000 jobs, compared to 156,000 jobs added in July. The biggest decline was in the information sector, due to the 45,000 Verizon workers being on strike in August. According to BLS, the return of 22,000 Minnesota state workers after a partial government shutdown mitigated public sector job losses that totaled 17,000 jobs. In August, the seasonally adjusted unemployment rate remained at 9.1 percent.

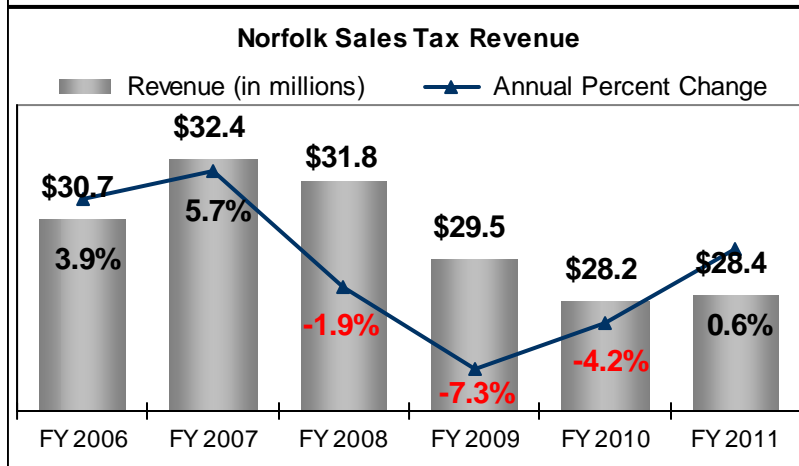
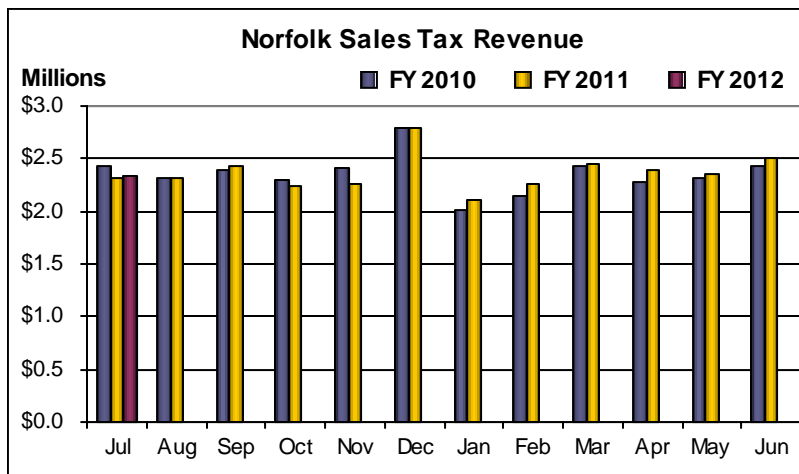
### National Job Growth

(seasonally adjusted; July/Aug. growth is from previous month)

	July 2011*	August 2011**	August YTD**
Mining & Logging	9,000	5,000	69,000
Construction	7,000	-5,000	26,000
Manufacturing	36,000	-3,000	192,000
Trade, Transportation & Utilities	27,000	-8,000	192,000
Information	-3,000	-48,000	-63,000
Finance	-7,000	3,000	-12,000
Professional & Business Svcs.	28,000	28,000	309,000
Educational & Health Services	46,000	34,000	264,000
Leisure & Hospitality	12,000	2,000	142,000
Other Services	1,000	9,000	43,000
Government	-71,000	-17,000	-290,000
<i>Federal Government</i>	-5,000	-2,000	-31,000
<i>State Government</i>	-17,000	5,000	-61,000
<i>Local Government</i>	-49,000	-20,000	-198,000
<b>Total Job Growth</b>	<b>85,000</b>	<b>0</b>	<b>872,000</b>

Source: Virginia Employment Commission and U.S Bureau of Labor Statistics. Compiled by the Office of Budget and Management.  
\* Revised. \*\* Preliminary.

## SALES TAX—NORFOLK AND REGION



### Norfolk Sales Tax Revenue

In the first month of FY 2012, Norfolk's sales tax revenue totaled \$2.34 million, which is approximately 1.2 percent or \$28,800 more than the previous year. In comparison, sales tax receipts increased 0.6 percent for all of FY 2011.

Sales tax receipts in Norfolk have been increasing year-over-year for eight consecutive months since December 2010. Over the past eight months, sales tax revenues have grown cumulatively by approximately 2.5 percent or \$467,000 from the same period last year.

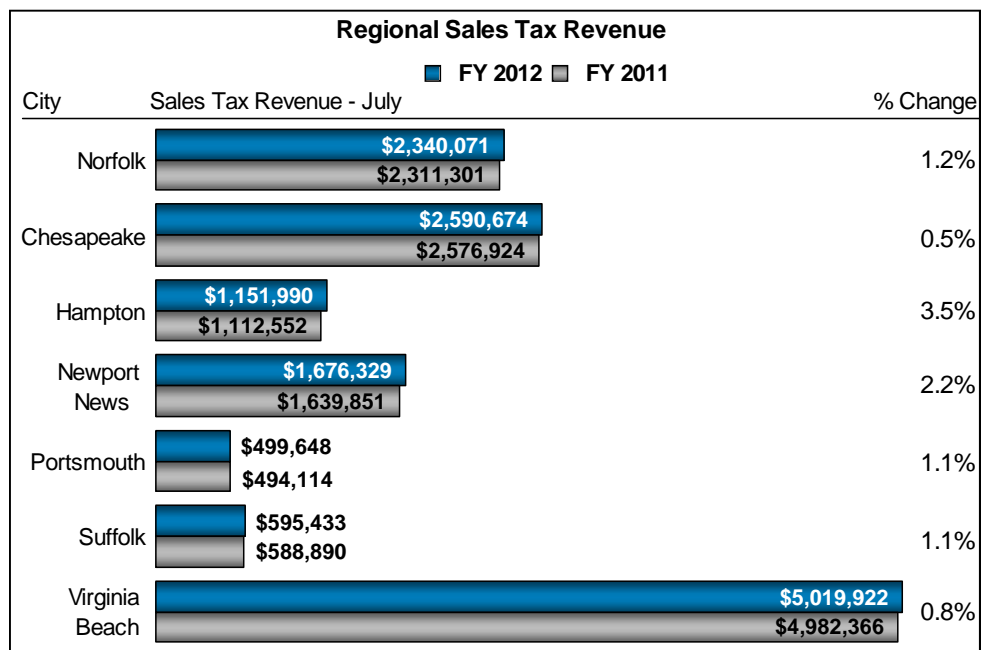
Although sales tax receipts increased 0.6 percent in FY 2011, the first increase since FY 2007, it is important to note that the \$28.4 million received in FY 2011 is approximately 12.3 percent or \$4 million below the peak revenue of \$32.4 million that was received in FY 2007 prior to the 2007-2009 recession. At the rate of growth that was seen in the past eight months, it would take about five to six years for sales tax receipts in Norfolk to be back to the pre-recession level seen in FY 2007.

### Neighboring Localities

Sales tax collections in Norfolk's neighboring cities have also continued to increase in July. Hampton had both the highest percentage growth (3.5 percent), and the highest dollar growth (\$39,400) in July.

Nationally, the U.S. Census Bureau reported that national retail and food services sales increased from the previous month by 0.5 percent in July (preliminary) and 0.3 percent in June (revised). Over the previous year, July sales grew 8.5 percent, while June sales grew 8.3 percent. The 0.5 percent growth in July from the previous month was driven by sales at gas stations (due to higher prices at the pump), motor vehicles dealers, grocery stores, and miscellaneous and nonstore retailers such as, online retailers and catalogs.

Sales at gas stations accounted for about 40 percent of July's monthly increase. According to the U.S. Department of Energy, the price of regular gas had risen steadily during the month of July, from about \$3.57 per gallon in the last week of June to about \$3.70 per gallon in the last week of July. However, excluding sales at gas stations, July retail and food service sales still registered a growth of 0.3 percent.



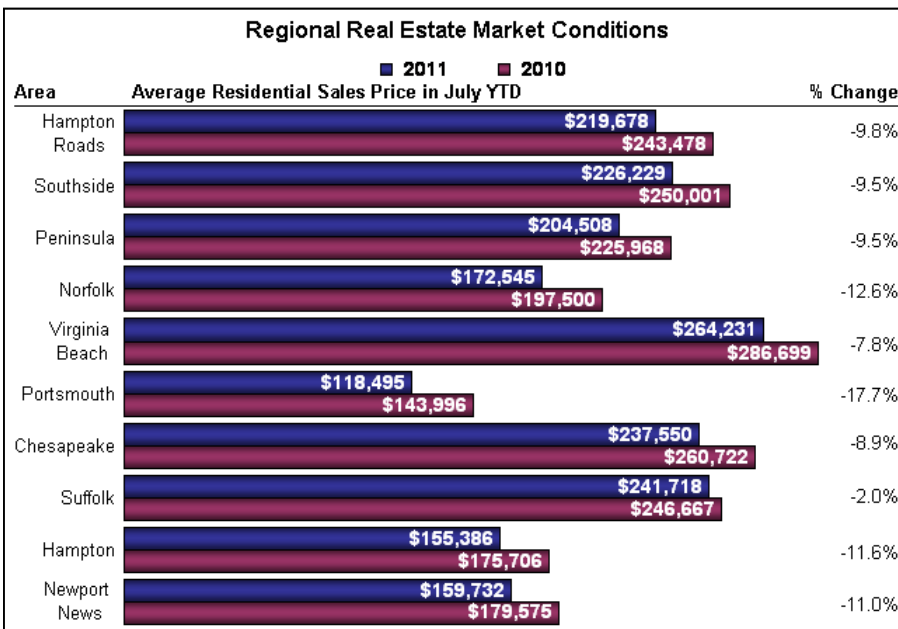
Source: Virginia Department of Taxation, U.S. Census Bureau, and U.S. Department of Energy (Energy Information Administration).  
Compiled by the Office of Budget and Management.

# NORFOLK AND REGIONAL HOUSING MARKET

## Hampton Roads Residential Real Estate Market Conditions

The following pages provide information on the Norfolk, Regional and National housing market, foreclosure filings, and other indicators of market conditions such as, Housing Market Index, Housing Opportunity Index, housing starts and building permits.

Year-to-date (YTD) through July, the average sales price of homes sold in Hampton Roads declined 9.8 percent, according to the Real Estate Information Network (REIN). The decline in the Peninsula and in Southside were about the same (9.5 percent). However, the number of homes sold in the region YTD increased slightly by 1.3 percent, from 10,458 last year to 10,590. Regional home sales also grew for the month of July alone (4.7 percent), the first monthly gain since March 2011. Norfolk home sales, on the other hand, have increased year-over-year in every month since January 2011, except in May 2011. Norfolk's increase in July alone was 23 percent and Norfolk's increase YTD is the largest in the region.



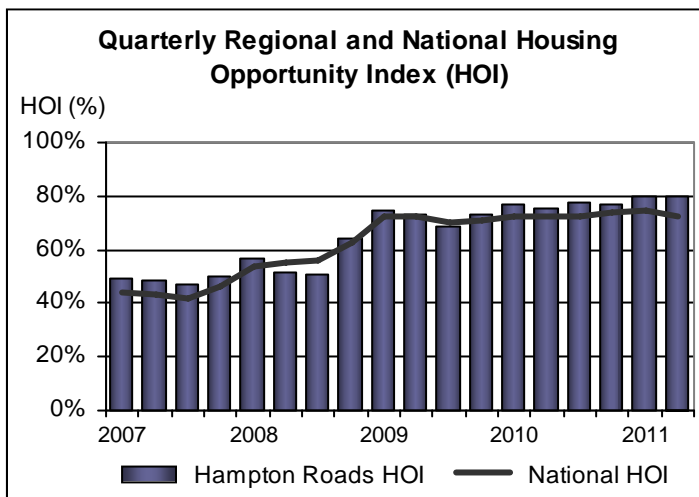
Jan. – July Home Sales	Units Sold		Average Days on Market	
	2010	2011	2010	2011
Hampton Roads	10,458	10,590	89	102
Southside	7,580	7,724	83	98
Peninsula	2,648	2,601	105	114
<b>Norfolk</b>	<b>1,163</b>	<b>1,315</b>	<b>85</b>	<b>97</b>
Virginia Beach	3,184	3,131	77	93
Portsmouth	621	653	91	101
Chesapeake	1,659	1,691	82	91
Suffolk	655	601	91	114
Hampton	753	723	96	104
Newport News	939	934	91	106

REIN reported that sales of distressed homes, which have contributed to the decline in the sales price of homes in the region, made up about 30.3 percent of home sales in July. This is up slightly from June, when sales of distressed homes made up 29.7 percent of homes sold.

REIN also reported a 24.7 percent increase in homes under contract in the region in July from last year (1,927 vs. 1,507), which follows the 28 percent increase in June. REIN noted this is the “first time increases of this magnitude have been seen since the beginning of this year.” The largest gains were in Newport News (43 percent) and Hampton (42 percent), while the smallest gain was in Virginia Beach (13 percent). REIN has indicated that the “increase should bode well for settled home sales in the near future.”

Housing affordability in Hampton Roads, as measured by the regional Housing Opportunity Index (HOI), rose slightly to 80.1 percent in the second quarter of 2011 from 79.8 percent in the first quarter of 2011. Affordability in the region continues to be at its highest level since the first quarter of 1994. The regional HOI shows that 80.1 percent of homes sold in the second quarter of 2011 were affordable to families earning the regional median income of \$69,900.

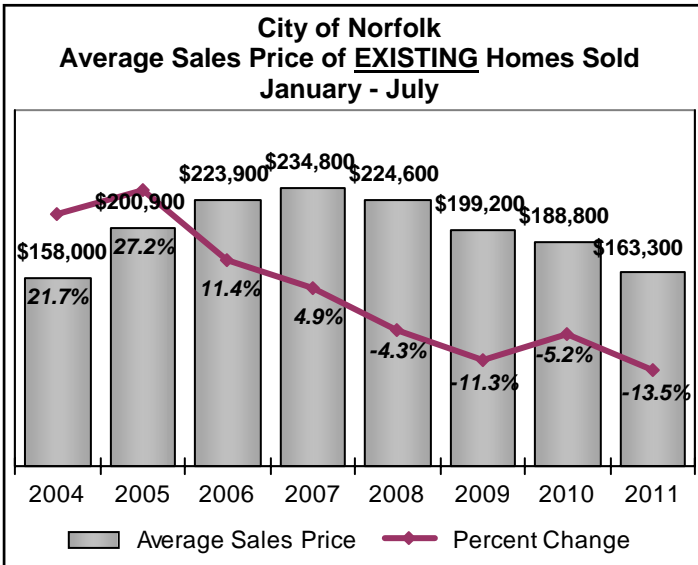
The HOI for an area is defined as the share of homes sold in the area that would have been affordable to a family earning the local median income based on standard mortgage underwriting criteria. The index has two main components: income and housing cost.



# NORFOLK HOUSING MARKET

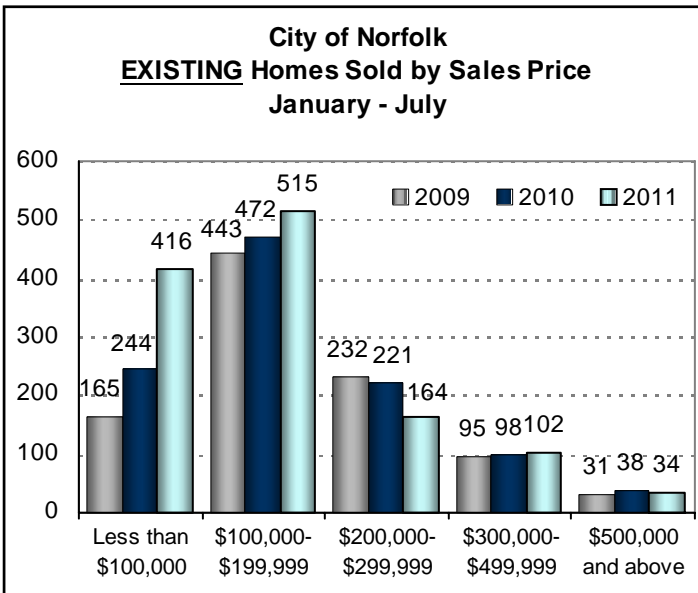
## Existing Home Sales

From January to July, the average sales price of existing homes sold in Norfolk fell 13.5 percent, from \$188,800 to \$163,300. Both existing detached homes and existing attached homes sold saw a decrease in their average sales price. Existing detached homes saw a 12.7 percent decline, while existing attached homes saw a 19.4 percent decline.



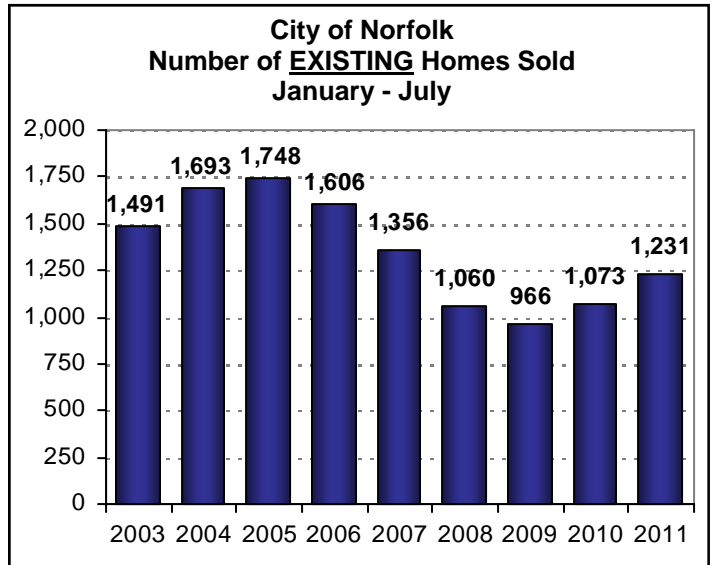
Source: Real Estate Information Network (REIN)

Homes priced under \$200,000 made up 76 percent of existing home sales; in comparison, two years ago, it made up about 67 percent of home sales. Also, existing homes priced under \$100,000 gained a greater share of home sales compared to two years ago, from about 17 percent of sales in 2009 to about 34 percent of sales in 2011. The increase was likely due to distressed home sales.



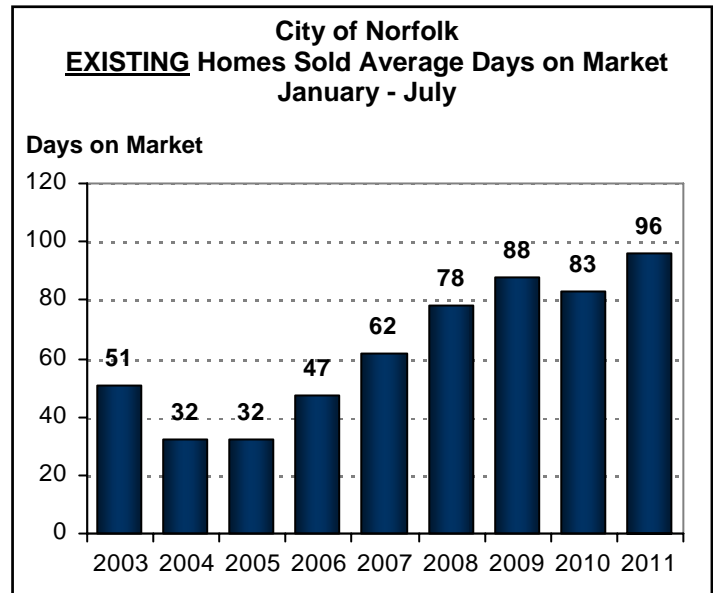
Source: Real Estate Information Network (REIN)

It appears that the decline in home prices has attracted home buyers, and as a result, home sales are at their highest level since 2008. Through July, the number of existing homes sold grew by 14.7 percent (158 homes). Sales of both attached and detached homes are up year-to-date. Nearly all of the increase in home sales this year have been driven by the sale of homes priced under \$200,000.



Source: Real Estate Information Network (REIN)

The average days on market of existing homes sold through July increased to 96 days from 83 days last year. Both detached and attached homes sold year-to-date have seen an increase in their average days on market. However, the closing of home sales last year were likely to have been accelerated by the federal home buyers tax credit.

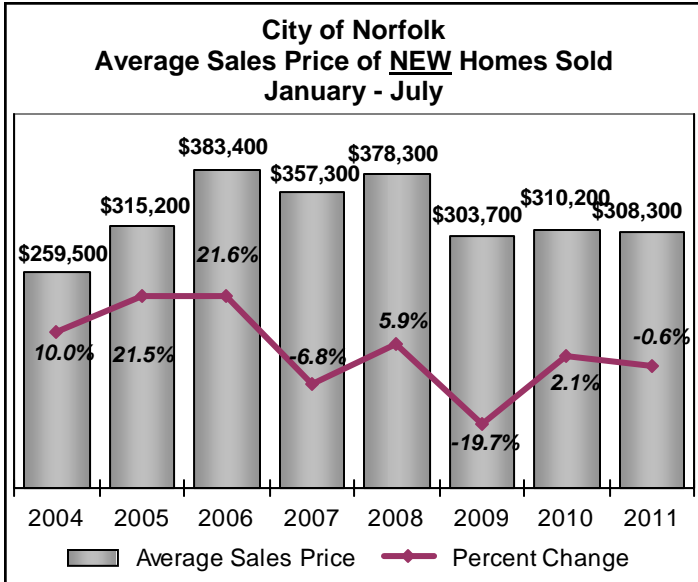


Source: Real Estate Information Network (REIN)

# NORFOLK HOUSING MARKET (CONTINUED)

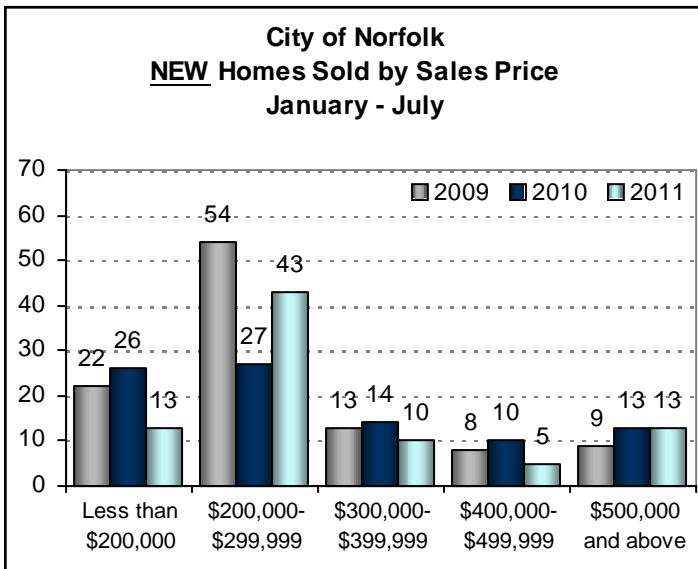
## New Home Sales

Year-to-date through July, the average sales price of new homes sold in Norfolk decreased slightly 0.6 percent, from \$310,200 last year to \$308,300 this year. The decline in sales price was mainly due to sales of new attached homes, which on average saw a 6.8 percent decline. In comparison, the average sales price of new detached homes have seen a slight increase (3 percent) year-to-date.



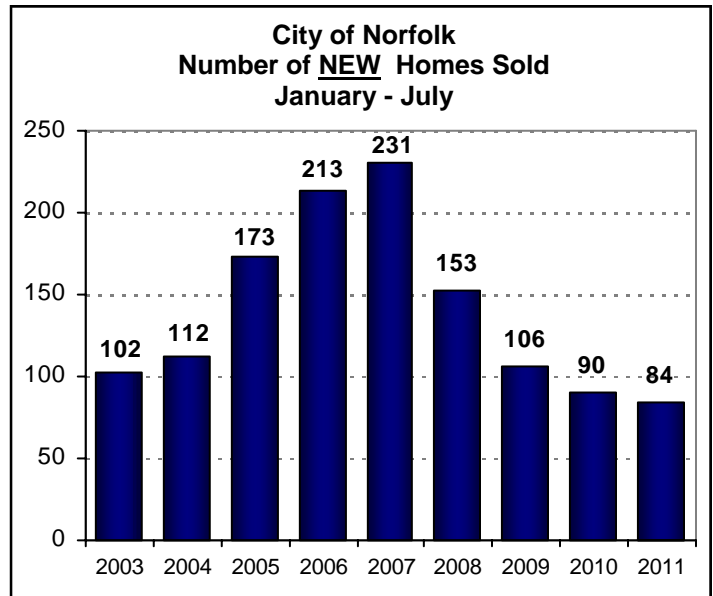
Source: Real Estate Information Network (REIN)

Compared to last year, sales of new homes declined at every price range, except for homes priced between \$200,000—\$299,999, while sales of homes priced \$500,000 and above remained steady. About 67 percent of new homes sold year-to-date were priced under \$300,000.



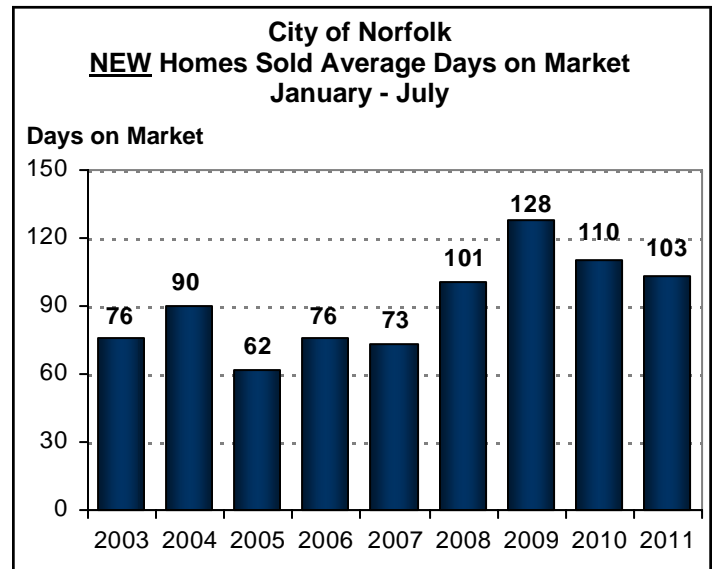
Source: Real Estate Information Network (REIN)

Unlike existing homes, the number of new homes sold in Norfolk declined year-to-date through July. New home sales fell by 6 homes or 6.7 percent from 90 homes last year to 84 homes this year. Sales of attached homes have declined year-to-date, while detached homes have held steady. Sales of new homes in Norfolk continue to be on a downward trend since reaching a peak in 2007.



Source: Real Estate Information Network (REIN)

Unlike existing homes, the average days on market of new homes sold decreased by about 7 days, from 110 days last year to 103 days this year. Both new attached and detached homes sold saw a decrease in their average days on market. The average days on market of new homes sold have been declining since 2009.

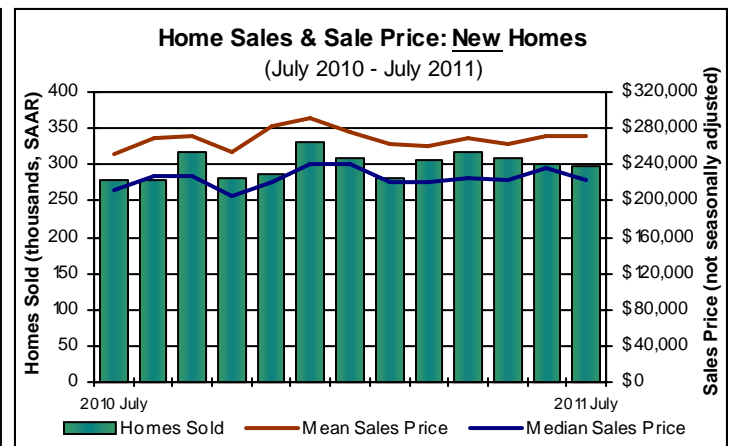
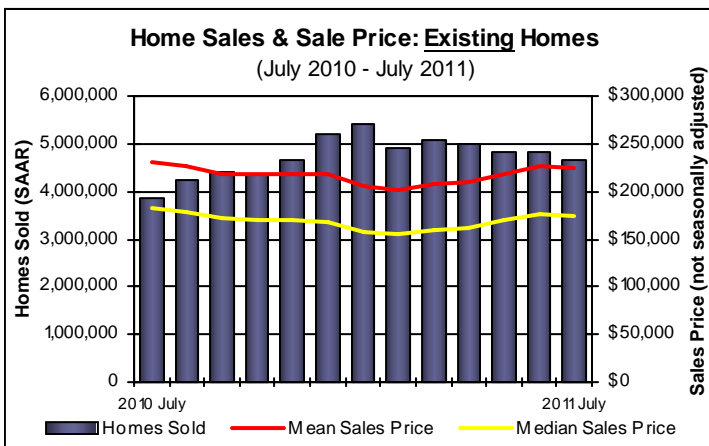


Source: Real Estate Information Network (REIN)

# NATIONAL HOUSING MARKET

## Sale of Existing and New Homes

Existing homes sales nationwide fell in July to a seasonally adjusted annual rate (SAAR) of 4.67 million, a 3.5 percent decline from June 2011. Home sales this year have been on a downward trend since January 2011. The National Association of Realtors (NAR) noted that despite favorable affordability conditions, “many buyers are being held back because banks are offering financing to only the most highly qualified borrowers.” Compared to last year, existing home sales were up 21 percent, although last year’s sales were likely skewed by the end of homebuyer tax credits. New home sales also declined in July for the third straight month by 0.7 percent to 298,000 (SAAR), however, new home sales are 6.8 percent above last year. On a positive note, distressed home sales, which have depressed home prices, made up 29 percent of existing home sales in July, down from 30 percent in June and 32 percent in July 2010. The average price of existing homes sold fell 3.2 percent to \$224,200, while new homes saw an 8 percent increase to \$272,300 from last year.



## Foreclosures

RealtyTrac reported that new foreclosure filings for the nation, which include default notices, scheduled auctions and bank repossessions, decreased in July from the previous month by about 4 percent to 212,764, the lowest level since November 2007. Also, properties with new foreclosure filings were down by nearly 35 percent from the same period last year, the 10th consecutive month of year-over-year decline.

James Saccacio, CEO of RealtyTrac, noted that the declines were “initially triggered by the robo-signing controversy back in October 2010, which forced lenders to substantially slow the pace of foreclosing...it appears that the foreclosure processing delays, combined with...national and state-level foreclosure prevention efforts...may be allowing more distressed homeowners to stave off foreclosure...Unfortunately, the falloff in foreclosures is not based on a robust recovery in the housing market but on short-term interventions and delays that will extend the current housing market woes into 2012.”

## National, State and Local Foreclosure Filings—July 2011

	Rank	Properties with Foreclosure Filings	% Change from Jun. 2011	% Change from Jul. 2010	1 in XX# of Housing Units
Norfolk	5	215	10.3%	-13.7%	448
Chesapeake	6	194	19.0%	2.1%	429
Hampton	13	108	21.3%	-2.7%	558
Newport News	12	118	13.5%	1.7%	683
Portsmouth	11	125	43.7%	6.8%	346
Suffolk	15	83	45.6%	6.4%	399
Virginia Beach	4	256	-21.0%	-13.2%	687
Richmond	9	140	-10.3%	-20.5%	677
Prince William	2	377	0.5%	-20.1%	365
Fairfax County	1	550	8.1%	-19.9%	716
Virginia	11	4,319	15.0%	-14.8%	771
Nation	n/a	212,764	-4.5%	-34.6%	611

Note: Rank is based on the number of properties receiving a foreclosure filing reported for the month. For cities, it is their respective rank within Virginia. For Virginia, it is the rank within the nation as compared to the other states.

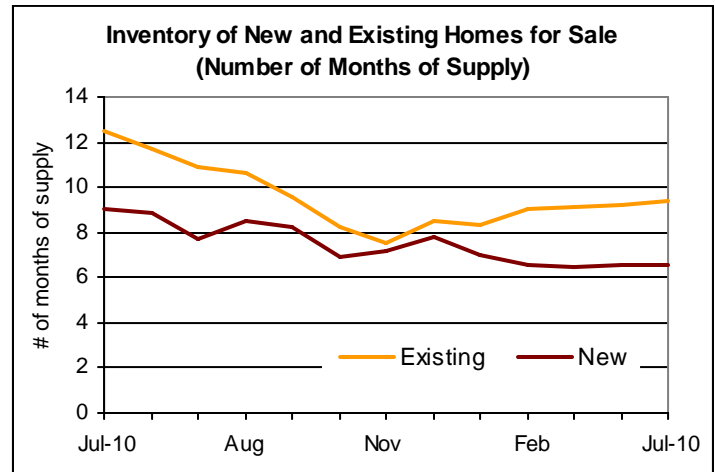
Foreclosure filings increased in most major Hampton Roads cities in July from June, bucking the national trend. The only exception was Virginia Beach, which mirrored the national trend. However, compared to the same month last year, foreclosure filings declined in several major Hampton Roads cities, including Norfolk, Hampton and Virginia Beach. James Koch, an economist at Old Dominion University, indicated in the *Virginian-Pilot* that until the housing market recovers, we will likely see a continuing of foreclosures.

## NATIONAL HOUSING MARKET (CONTINUED)

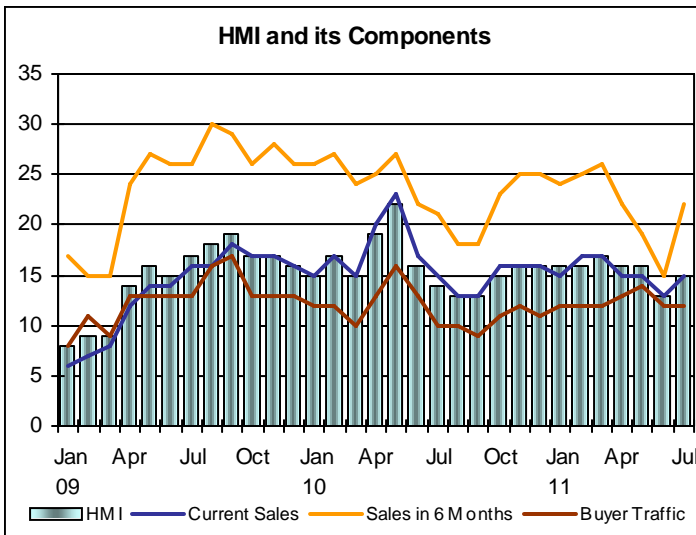
### Inventory of Homes for Sales

The inventory of existing homes for sale in July fell by 1.7 percent to 3.652 million homes, which represents a 9.4 months supply at the current sales pace. The decline in inventory was due to single-family homes, which fell 5.4 percent, while the condominiums and coops saw a 22.3 percent increase in inventory. Overall, the July inventory remains below last year by 8.9 percent.

The inventory of new homes for sale in July continued to decline to another record low by 0.6 percent to 165,000 homes. This is the lowest point since the earliest sales data recorded in January 1963. The inventory now represents a supply of 6.6 months at the current sales rate of new homes.



Sources: US Census Bureau and the National Association of Realtors, compiled by the Office of Budget and Management.



Source: National Association of Home Builders. Compiled by the Office of Budget and Management.

### Housing Market Index (HMI)

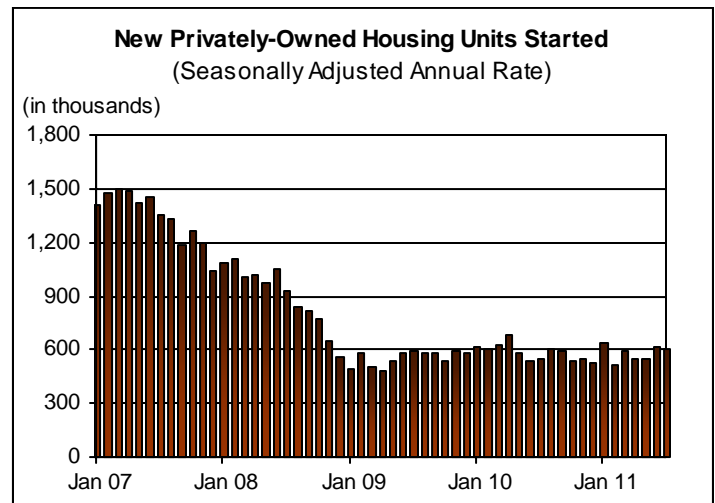
The HMI provides a measure of builders' perceptions of the single-family housing market. The HMI rose two points in July to 15, after declining to its lowest level since September 2010 last month.

Two out of the three components of the HMI (that is, (1) builder perception of current sales and (2) sales in six months) increased in July, while the third component (that is, builder perception of traffic of prospective buyers) remained flat. Builder perception of sales in six months increased by seven points, the highest level since April 2011. National Association of Home Builders' chairman Bob Nielsen commented that "the improvement in builder confidence in July is a positive sign that the outlook perhaps isn't quite as bleak as was feared in June."

### National Housing Starts

The U.S. Census Bureau reported a 1.5 percent decrease in privately-owned housing starts to a seasonally adjusted annual rate (SAAR) of 604,000 housing units in July from a revised SAAR of 613,000 housing units in June. However, housing starts are above the same period last year by 9.8 percent. Housing starts of single-family structures declined in July while multi-family structures with 5 units or more grew. Single-family housing starts fell 4.9 percent to 425,000 units from 447,000 units, while multi-family housing starts rose 6.3 percent to 170,000 units from 160,000 units.

Housing starts, as defined by the U.S. Census Bureau, track the start of construction, considered to be when "excavations begin for the footings or foundations of a building."



Source: US Census Bureau. Compiled by the Office of Budget and Management.

## NORFOLK BUILDING PERMITS

The total number of housing units authorized by building permits in Norfolk from January to July 2011 increased by 179 units to 413 units from 234 units last year. The majority of the increase year-to-date was due to units permitted in new multi-family structures and conversion of a commercial building to apartments (Riverview Lofts) under "Other".

### New Single Family Dwellings Permitted

Permit activity from January through July 2011 for new single family dwellings increased over the previous year by 46 units from 99 units to 145 units. The increase was primarily due to the number of both attached and detached single-family homes permitted. Projects permitted included townhomes on 43rd street and Maplewoods at Olde Huntersville and other new housing units throughout the City.

### New Multi-Family Structures Permitted

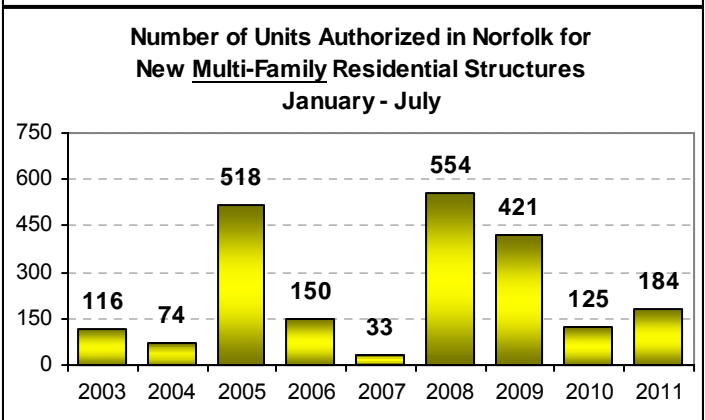
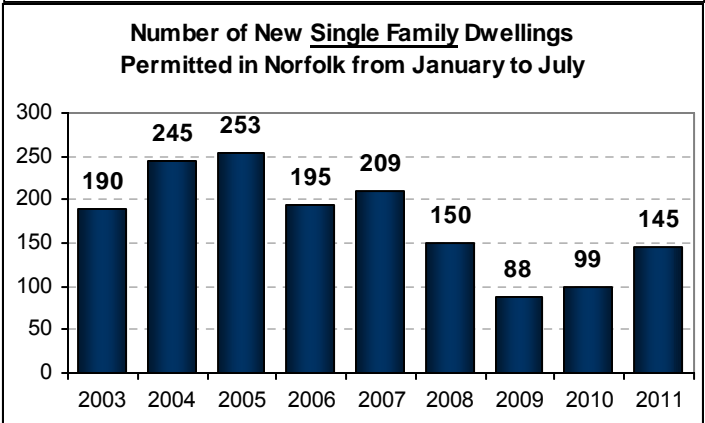
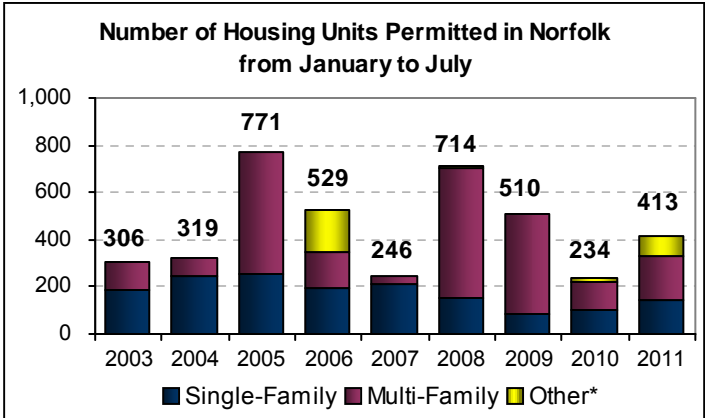
The number of units authorized in new multi-family structures (ie., housing structures for two or more families) increased by 59 units, which reflected mainly the permitting of Meadowood Apartment complex with 184 units. It is important to note that the fluctuations in the number of units in multi-family structures in prior years were driven by key projects such as:

- 2003: ODU University Village housing
- 2004: Harbor's Edge
- 2005: Alexander at Ghent and 388 Boush. Row at Ghent (84 units) will be reflected in August data.
- 2006: Pretty Lake Village, East Ocean View, and McRae Commons (Ghent).
- 2008: Southwind Apartments, Belmont at Freemason, and River House Apartments
- 2009: Bay Village and Village Gardens condominiums. District at ODU
- 2010: Wells Fargo apartments

### New Housing Units Permitted in Single & Multi-Family Structures from January to July Year-to-Date (YTD)

	2010 YTD	2011 YTD	Change	
<b>Norfolk</b>	<b>224</b>	<b>329</b>	<b>105</b>	<b>46.9%</b>
Chesapeake	637	492	-145	-22.8%
Hampton	200	141	-59	-29.5%
Newport News	104	487	383	368.3%
Portsmouth	75	133	58	77.3%
Suffolk	222	152	-70	-31.5%
Virginia Beach	437	617	180	41.2%
Hampton Roads	2,616	2,875	259	9.9%
Virginia	13,073	13,854	781	6.0%

Source: Department of Development (Norfolk data) and U.S. Census Bureau (regional and state data). Compiled by the Office of Budget and Management. \* Other includes accessory dwellings, building conversions to residential, and new units permitted in mixed use structures (such as, Harbor Heights in 2006 and Riverview Lofts in 2011).



### Regional Housing Units Permitted

From January through July 2011, the number of new privately owned housing units authorized by building permits in the region increased by 259 units (or 9.9 percent) from the same period last year, from 2,616 housing units to 2,875 housing units this year.

The increase in housing units permitted year-to-date was mainly due to multi-family structures, particularly housing units in multi-family structures that were permitted in Chesapeake and Virginia Beach in July 2011. However, year-to-date, the number of housing units permitted in Chesapeake remains below last year by 145 units. Among the major cities in the region, Newport News had the largest gain year-to-date with 383 housing units.

## OTHER NATIONAL ECONOMIC INDICATORS

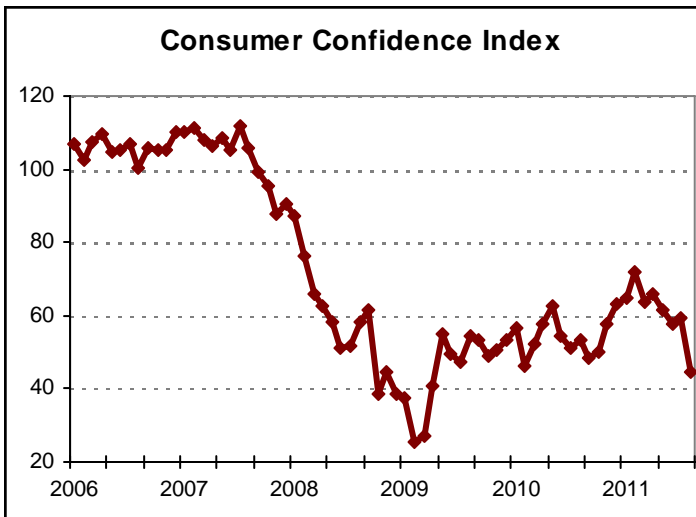
### Consumer Confidence Index

In August, consumer confidence, as measured by the Conference Board's Consumer Confidence Index, fell to 44.5 from 59.2 in July, its lowest level since April 2009 when the index stood at 40.8.

The decline was driven by a deterioration in consumers' short-term outlook. The Expectations Index, which measures consumers' confidence in future business, employment and family income six months from now, fell to 51.9 from 74.9 in July, its lowest level in more than two years (April 2009, 51).

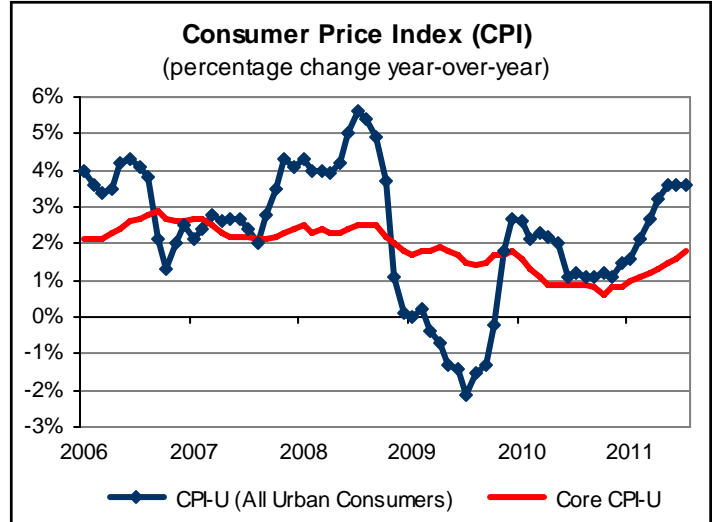
Lynn Franco, Director of The Conference Board Consumer Research Center stated that "consumer confidence deteriorated sharply in August, as consumers grew significantly more pessimistic about the short-term outlook. A contributing factor may have been the debt ceiling discussions since the decline in confidence was well underway before the S&P downgrade."

On the other hand, Franco stated that "consumers' assessment of current conditions posted only a modest decline as employment conditions continue to suppress confidence." The Present Situation Index, which measures consumer confidence in current business and employment conditions, declined to 33.3 from 35.7 in July.



Source: The Conference Board. Compiled by the Office of Budget and Management.

Technical Note: The Conference Board indicated that they have changed their survey provider from TNS to The Nielsen Company beginning with the February release of the Consumer Confidence Index and data since November 2010 have been revised.



Source: Bureau of Labor Statistics. Compiled by the Office of Budget and Management.

### Consumer Price Index

The Consumer Price Index is a measure of the average change in prices over time of goods and services purchased by households. The Bureau of Labor Statistics (BLS) reported that the Consumer Price Index for all urban consumers (CPI-U) rose 0.5 percent in July from the previous month on a seasonally adjusted basis, which follows the 0.2 percent monthly decline in June 2011. This was the largest monthly increase since March 2011. The increase was due to energy prices, which rose 2.8 percent in July after declining for two consecutive months. The increase in energy prices was largely due to the gasoline index, which rose 4.7 percent in July. According to BLS, gas prices accounted for about half of the seasonally adjusted increase in the CPI-U. Food prices continued to rise (0.4 percent) and also contributed to the increase in the CPI-U. Over the previous year, the CPI-U rose 3.6 percent before seasonal adjustment.

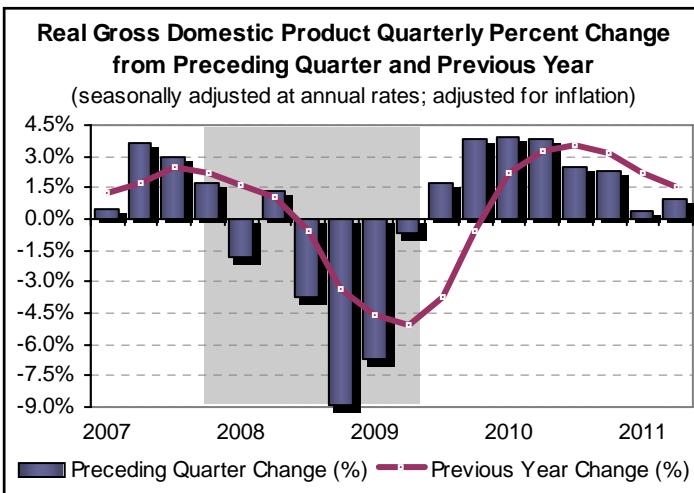
The core CPI-U, which excludes the more volatile prices of food and energy, rose 0.2 percent in July from the previous month on a seasonally adjusted basis. The increase was driven by the price of housing/shelter (0.3 percent), clothing (1.2 percent), used cars and trucks (0.7 percent), and medical services (0.3 percent). Over the previous year, the core CPI-U rose 1.8 percent before seasonal adjustment, the largest year-over-year increase since December 2009.

## OTHER NATIONAL ECONOMIC INDICATORS (CONTINUED)

### Real Gross Domestic Product (GDP)

Real GDP is the value of all goods and services produced within the U.S., adjusted for inflation, and is the broadest measure of economic activity.

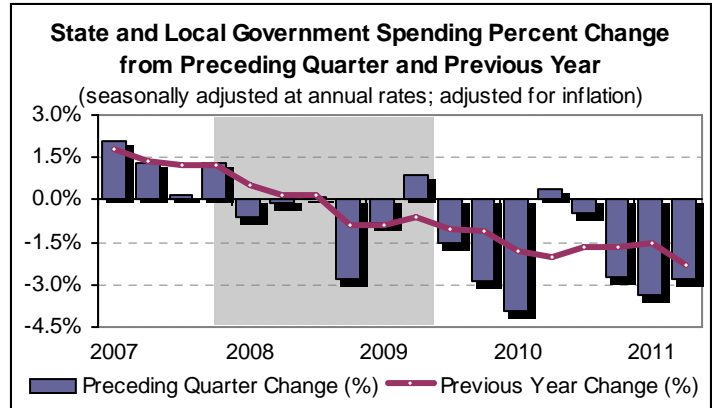
In the second quarter of 2011, the Bureau of Economic Analysis (BEA) reported in August that real GDP increased at an annual rate of 1.0 percent (second estimate), revised down from the first estimate of 1.3 percent growth. This follows a downward revised growth of 0.4 percent in the first quarter of 2011, that had initially been estimated to be 1.9 percent.



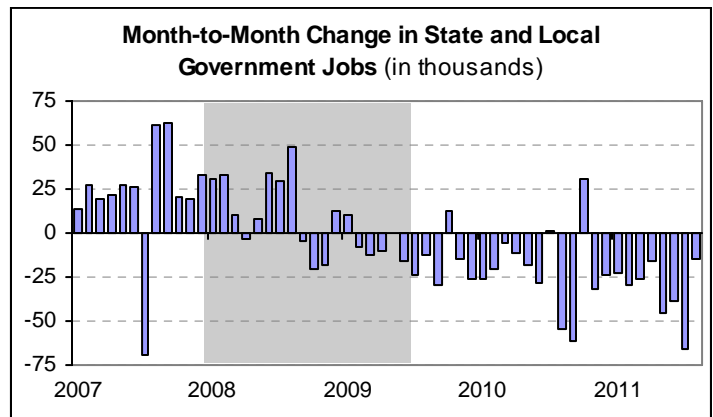
The real GDP growth in the second quarter were driven by the following:

- **Business investment** increased 6.4 percent following a revised 3.8 percent increase in the first quarter, which was driven by investment in commercial structures, equipment and software.
- **Consumer spending** decelerated, growing by only 0.4 percent, following a revised 2.1 percent increase in the first quarter. Spending on services such as, healthcare and financial services and insurance, drove the growth.
- **Imports of goods** which are a subtraction from real GDP, decelerated in the second quarter, growing by only 1.9 percent, compared with a revised 8.3 percent growth in the first quarter.
- **Federal government spending** increased 2 percent, due to defense spending, after declining 9.4 percent in the first quarter. However, government spending overall fell 0.9 percent, due to state and local government and federal non-defense spending. Although the recession technically ended in the second quarter of 2009 and the economy began to grow, state and local

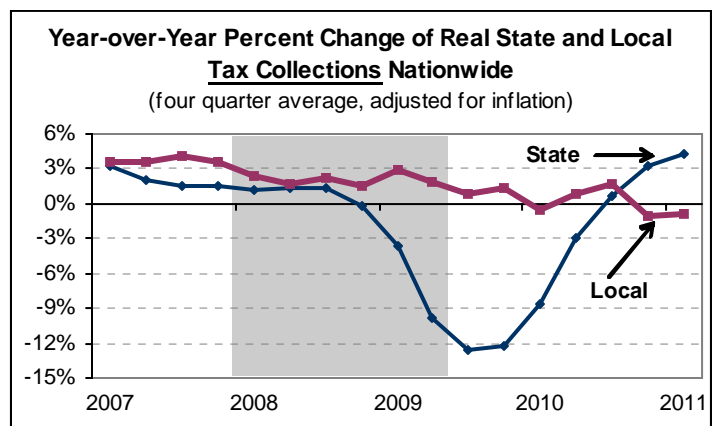
government spending continued to fall.



Job losses in state and local governments reflect that decline in spending. According to the Rockefeller Institute of Government, state and local government employment rarely declined in the past five recessions, the exception was the double-dip recession in the early 1980s. The recent job losses reflect the end of federal aid, which had preserved



hundreds of thousands of state and local government jobs, in addition to the slow recovery of state tax collections, and emerging weakness of local tax collections, due in part to localities' heavy reliance on property taxes and the lagged impact of falling housing prices on property tax collections.



Source: U.S. Bureau of Economic Analysis, U.S. Bureau of Labor Statistics, and Rockefeller Institute of Government. Compiled by the Office of Budget and Management. Note: Shaded areas indicate a recession.