



2006 Spring Conference

“The Economy: What’s Next?”

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**We’re Entering Hurricane Season
So, Never Forget One Thing!**



Conditions Change!

**Household spending
has kept the economy going**



**The business investment party
could start winding down**



**Stronger world growth and a
lower dollar:**



U.S. exports are surging

The deficit was declining, but:



**Pigs are endangered species in
Washington!**

**There Are Some Major Risks
Facing The Economy**

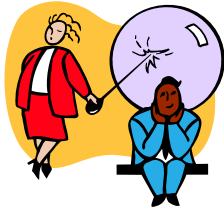


**The First Major Economic Risk:
Energy Costs**



Are consumers tapped out?

**The Second Economic Risk:
Rising Interest Rates and Housing**



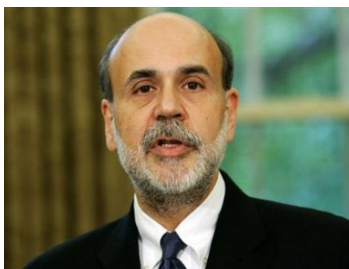
Bubbles burst, really, they do!

**The Third Major Economic Risk:
The dollar is becoming a 96
pound weakling.**



That could affect interest rates

What Is Mr. Bernanke's Chief Concern?



**For The Fed,
It's All About Inflation!**



So, What Does It All Mean?



Will Virginia's Strong Growth Continue?



Strong Job Gains and Low Unemployment Rates Bode Well for Tax Revenues

	Employment Growth 4 '05 - 4 '06	Unemployment Rate 4 '06	Change in Unemployment 4 '05 - 4 '06
Virginia - Statewide (*)	1.9	3.3	-0.2
Northern Virginia	3.3	2.3	-0.2
Charlottesville	3.8	2.5	-0.2
Danville	-4.1	8.4	1.0
Lynchburg	2.0	3.3	-0.3
Norfolk-VA Beach-Newport News	1.6	3.5	-0.4
Richmond	1.4	3.3	-0.2
Roanoke	2.7	3.2	-0.2
Washington DC - City (*)	1.7	5.5	-1.2
Washington DC MSA	2.5	2.9	-0.4
United States (*)	1.5	4.7	-0.4

*Denotes Seasonally Adjusted Unemployment Data
Source: BLS

The Strengths Outweigh the Concerns:

- Housing permits are still up in most areas: They are down nationally.
 - *But, beware of the surge in home prices.*
- Commercial construction has been solid and vacancy rates have been trending down (except in Richmond).
- Tourism may not be greatly affected by high gasoline prices.
- The federal government is not slowing spending.
- The state will have a budget.

Summing It All Up:

- Solid but somewhat slower national growth.
- The Fed may be done, but longer term rates could rise.
- Virginia's economic performance should match last year's but don't think it is immune to the threats that are out there.