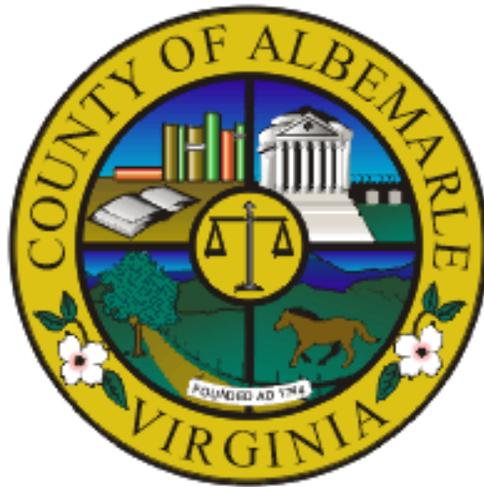


Quarterly Economic Indicators Report



As of the Quarter Ended December 31, 2015

Introduction

The attached Table I provides a general indication of the state of Albemarle County's economy in the quarter for which the most recent data is available. For comparative purposes, each line in Table I reveals data for Q2 FY 16 or Q4 of FY 15, as well as corresponding historical figures from FY 11, FY 12, FY 13, FY 14, and FY 15.

The data in Table I consists of three broad categories. The first category pertains to general economic activity in the County, as revealed by the following local tax revenue streams: Sales Tax, Consumer Utility Tax, Food and Beverage Tax, Transient Occupancy Tax, Inspection Fees, and Other Development Fees. Staff has determined that these revenue streams collectively reflect the overall health of the County's economy since they relate directly to a number of important industries including retail, tourism, and construction; these revenue streams, also, collectively have shadowed movements in the Charlottesville Metropolitan Statistical Area's Gross Domestic Product (GDP) during the course of the past ten years. This set of data pertains to Q2 FY 16 and Q2 of previous fiscal years.

The second group of data reveals the County's unemployment rate. Corresponding information is presented for the state and U.S. unemployment rates. These figures also pertain to Q2 FY 16 and Q2 of the previous fiscal years. The third data group in Table I includes information about the total number of jobs in the County. Note that this data covers *Q4 FY 15*, and *Q4* of each previous fiscal year, due to the Virginia Employment Commission's (VEC's) ongoing two quarter reporting lag. In addition to total jobs data, Table I breaks down the information by private sector vs. public sector jobs; federal government, state government, and local government jobs; and jobs by two digit North American Industry Classification System (NAICS) code. Table I presents the quarterly data in such a way that changes over time in the employment numbers in the various job sectors become readily apparent.

Results

General Economic Activity – One Year

Between Q2 FY 15 and Q2 FY 16, most of the tax revenue streams shown in Table I spiked. Note that the Q2 FY 16 numbers shown on Table I are preliminary, i.e., unaudited, and represent the amounts that were *collected* during the quarter. Unlike annual data, which tends to be relatively smooth, quarterly data from one fiscal year can swing widely from corresponding quarterly figures in other fiscal years. This phenomenon can come about as the result of differences in the timing of the receipt of revenues, as well as unusual differences in economic conditions that might exist between any two particular corresponding quarters. An example of this latter situation would be the impact of harsh weather conditions on, say, sales tax revenue.

With these caveats in mind, a comparison of Q2 FY 15 and Q2 FY 16 Sales Tax revenue reveals relatively flat performance. Food and Beverage tax revenue, in comparison, appears to have grown by 19% during the same period. This unusually strong performance likely is a statistical

illusion and, consequently, staff does not expect the annual performance of this revenue stream to be anything like the Q2 to Q2 comparison shown on the table. Similarly, Table I indicates that Other Development Fees jumped by about 64% between these two points in time. This huge variance resulted from improvements in development activity over Q2 of the previous year but, also, probably reflects new fee levels that came into effect during Q2 FY 16, as well as differences in the timing of when fees were recorded in the County's accounting system. The jump of 43.4% in the County's Inspection Fees, which reflect current development, also likely reflect the new fee levels.

During the Q2 FY 15 to Q2 FY 16 time period, the County's Consumer Utility Tax revenue, a stream that historically has correlated well with general economic activity jumped, surprisingly, by 13.2%. The increase in this particular revenue stream is the most dramatic seen in recent years, but caution should be taken in interpreting this result. Staff thinks that the ongoing shift away from landline telephones to cell phone usage and internet-based communication services such as Skype and FaceTime will tend to dampen growth in this revenue stream. These latter forms of communication are not subject to taxation and, consequently, growth in the use of these alternate methods of communication has potentially negative long-term implications for the County's Telecommunications Tax revenue, which is a substantial portion (roughly 52%) of Albemarle's overall Consumer Utility Tax revenue. The magnitude of the increase shown here, in other words, likely will not continue.

Transient Occupancy Tax (TOT) appears to have increased by about 13.4% between Q2 FY 15 and Q2 FY 16. Note that, in coming quarters, a substantial number of new hotel and motel rooms will open in the City, while none will open in the County. This situation will continue to put downward pressure on the Albemarle's TOT revenue stream in the foreseeable future. Again, the apparent double-digit growth in this revenue stream shown on Table I likely will not continue in the rest of the fiscal year.

General Economic Activity – Multiyear

Between Q2 FY 12 and Q2 FY 16, Sales Tax revenue grew by about 15.2% while TOT revenue increased by 25.7%. These increases came about, at least partially, from the construction and opening of a major shopping center and hotel along the 29 North corridor. Food & Beverage tax revenue also rose by a comparable amount (22%) during this time period. This latter result is consistent with the opening of a number of high volume restaurants in the County in recent years. Inspections Fees, meanwhile, grew by over 64.4%, while Other Development Fees jumped by about 52%. The growth in these two revenue streams reflect the rebound in development activity that has taken place since the end of the "Great Recession" and, as mentioned previously, likely have been skewed upward in the most recent Q2 by a change in fee levels. Consumer Utility Tax revenue, unfortunately, remained flat between Q2 FY 12 and Q2 FY 16. The rise of just under 1% in this multiyear time frame could reflect a consumer transition away from traditional landline phones to other modes of telecommunication, as discussed previously.

Unemployment Rate – One Year

Albemarle's average monthly unemployment rate fell from 3.9% Q2 FY 15 to an estimated 3.4% in Q2 FY 16. This decline of 0.5 percentage points (pp) was similar to the pp declines experienced at the state and national levels. The County's 3.4% unemployment rate in Q2 FY 16 is below what many economists would consider to be the "frictional" or "full employment" rate of unemployment. Staff thinks, however, that based on the past twenty years of unemployment rate data, Albemarle's frictional employment rate likely is in the vicinity of 3%. The County's unemployment rate has diminished slowly in the past several years since the end of the "Great Recession" and appears to be approaching the 3% rate. Note that the unemployment rate applies only to people who are in the labor force; the number does not capture people who might have become discouraged looking for employment and who have dropped out of the labor force.

Unemployment Rate – Multiyear

Between Q2 FY 12 and Q2 FY 16, Albemarle's unemployment rate fell from 5.23% to an estimated 3.4%, or by 1.83 pp. The decline in the County's rate was not quite as large as the corresponding drop in the Virginia unemployment rate (2.24 pp) or the U.S. rate (3.53 pp) but, again, as shown in Table I, the County's rate historically has been well below those of the U.S. and Virginia.

Employment – One Year

Note that the jobs numbers for Albemarle come from the Virginia Employment Commission's Quarterly Census of Employment and Wages (QCEW) report; are given by place of employment; and include both part-time and full-time positions, as well as both temporary and permanent positions. The nature of this data is such that the numbers can swing substantially from quarter to quarter during any particular year and, additionally, can vary widely between the same quarter of different years. Changes in the numbers sometimes can be misleading if, for example, employers in the County replace many part-time jobs with full-time positions. The VEC's jobs numbers, nonetheless, are used as the gauge of the number of positions in the County since no other comprehensive set of jobs data for Albemarle is readily available.

As shown on Table I, the average monthly total number of jobs in the County appears to have increased substantially from 51,846 in Q4 FY 14 to 53,188 in Q4 FY 15, or by 1,342 positions (2.59%). This result is encouraging, especially since it appears to be a continuation of the same trend identified in the Q1 FY 16 Quarterly Economic Indicators Report. Note, however, that the Q4 FY 15 results shown in Table I might change if the VEC publishes any revisions to the data in coming months. The apparent robust growth in jobs, in other words, might turn out to be illusory. The fact that the County's jobs base grew more between Q4 FY 14 and Q4 FY 15 than in any other one year period on Table I, however, is notable. Staff will continue to monitor the jobs base data.

Table I reveals that the private sector gained 1,170 positions between Q4 FY 14 and Q4 FY 15, and that the private sector's share of the total number of jobs in the County grew slightly, to 66.41% of the jobs base in Q4 FY 15, from 65.87% in Q4 FY 14. During this time frame, the public sector experienced a net gain of 171 jobs. It is important to keep in mind that the figures presented in Table I reflect *monthly averages for the three months of the quarter*, and do not necessarily reveal changes in full-time, permanent positions.

Employment sectors that experienced the largest increases in numbers between Q4 FY 14 and Q4 FY 15 include Construction (+452 jobs); Health Care and Social Assistance (+255 jobs); and Other Services, Except Public Administration, (+163). Only three sectors endured losses between the two years; these sectors include Wholesale Trade (-101 jobs); Local Government (-80); and Utilities (-1 job).

Employment – Multiyear

During the course of the Q4 FY 11 to Q4 FY 15 time period, the total number of jobs grew by 2,761 positions, or 5.48%. The private sector accounted for 2,309 of these jobs, or about 84% of the total growth. Note that the private sector's share of the jobs base grew very slightly, by about one pp, increasing from 65.46% in Q4 FY 11 to 66.41% in Q4 FY 15. With regard to the public sector, growth in jobs during this time period was relatively small. The number of public sector positions in Albemarle increased by 452 between these quarters. This growth appears to have resulted from an increase in federal level employment (+17 jobs) and state-level employment (+734 jobs), a situation which counteracted a drop in the number of Local Government positions (-299).

The NAICS sectors that experienced the largest increase in jobs between Q4 FY 11 and Q4 FY 15 included Health Care and Social Assistance (+1,177 positions); Construction (+449 positions); and Professional, Scientific, and Technical Services (+356 jobs). The sectors that experienced the sharpest declines employment numbers included Arts, Entertainment, and Recreation (-305 jobs); Manufacturing (-117 jobs); and Public Administration (-93 positions).

Conclusions

The data presented on Table I indicates that the County's economy, as represented by the *collective* performance of selected revenue streams, grew between Q2 FY 15 and Q2 FY 16, although the data would seem to exaggerate the magnitude of the increase. This growth, nonetheless, represents the continuation of an overall multiyear trend.

The 1.83 pp decline in Albemarle's unemployment rate between Q2 FY 12 and Q2 FY 16 implies that the County's economy has experienced a modest recovery from the "Great Recession" during the course of the past several years and, at least according to some basic measures, essentially has recovered from that downturn. Most notably, Albemarle's Q2 FY 16 average monthly unemployment rate of 3.4% is only slightly above the 3.0% rate that, in staff's professional opinion, would represent "frictional unemployment." The County's Q4 FY 15 jobs

base of 53,188, meanwhile, is at an all-time high. With regard to this last point, however, note that the number of jobs in the County, *relative to the population size of the County*, is still below the pre-“Great Recession” level.¹

With regard to this last point, an apparently substantial increase in Albemarle’s jobs base between Q4 FY 14 and Q4 FY 15 (+1,342 positions, or +2.59%) seems to suggest that economic conditions were more robust in FY 15 than had been the case in previous years. Notably, the growth in the jobs base between these quarters represents the largest increase between any of the consecutive fiscal years listed on Table I. This piece of information, along with the recent decline in the County’s unemployment rate, reinforces the relatively healthy picture of Albemarle’s economy suggested by the revenue stream data in Table I.

Despite this seemingly positive picture, however, there exist a number of macroeconomic challenges on the horizon that potentially could impact the County’s economy in a significant, negative way. The most important challenge involves the ongoing economic slowdown in China and elsewhere, even as the U.S. economy displays a fairly high level of resilience.² Secondly, the recent tumble in commodity prices, particularly oil, has the potential to impact negatively much of the U.S., especially the “oil patch” states. Thirdly, recent volatility in the U.S. equities markets could induce a slowdown or drop in consumption in the near future. Finally, Virginia’s economy in the past few years has not been as robust as that of most other states. As shown in a recent graphic in *The Economist* magazine, between CY 2013 and CY 2014 Virginia’s Gross Domestic Product (GDP) was essentially flat. Only two other states in the entire country, in fact, had either flat or declining state GDP, which measures the value of all goods and services produced in the state.³ This situation, if it continued, would represent an ongoing headwind facing Albemarle’s economy. When considered together, these pieces of information suggest that the County’s economy in the next year or two could face significant setbacks.

1. In Q4 FY 07 the number of jobs in the County stood at 51,768, while the estimated 2007 July 1st estimated population was 94,090. This situation means that the number of jobs, as a percentage of the number of residents, came to about 55%. In Q4 FY 15, by contrast, the number of jobs was 53,188, while the 2014 July 1st estimated population (the most recent estimate available) equaled 103,707. In Q4 of FY 15, in other words, the number of jobs as a percentage of the number of residents was only roughly 51%. By this jobs-to-size-of-community measure, the County still has not recovered from the “Great Recession.” This fact, however, might understate the current health of the economy since the 2007 figure reflects the tail end of the housing-induced boom which, in retrospect, clearly was not sustainable in the long-term.

Sources: Population estimates are taken from the Weldon Cooper Demographics website:

<http://www.coopercenter.org/demographics/virginia-population-estimates>

Jobs totals come from the Virginia Employment Commission’s QCEW website:

<https://data.virginialmi.com/vosnet/Default.aspx>

2. For a recent article in the *Wall Street Journal* that explores the potential impact that a global slowdown could have on the U.S. economy and, by extension, the local economy, please see:

<http://www.wsj.com/articles/economists-see-continued-u-s-expansion-heightened-global-risk-1452783683>

3. For the graphic showing CY 2013 to CY 2014 year-over-year (YOY) changes in state GDP, please click the following link:

<http://www.economist.com/blogs/graphicdetail/2016/01/daily-chart-9>

On the “Economics” tab of the graphic, select GDP in order to see the YOY change. Hovering the cursor over a particular state reveals the exact annual percentage change in GDP for that state.