Albemarle County Economic Outlook

As of September 7, 2021

Overview

The Albemarle County Economic Outlook report presents an examination of the historical state of the County's economy, a snapshot of the County's current conditions, and a forecast for Albemarle's economic performance in the coming year. This information is contained in Table I (Attachment B). Table I includes historical data, by fiscal year, for the time period from FY 17 to FY 20 inclusive, as well as estimated and forecasted figures for FY 21 and FY 22. The table consists of sections covering general economic activity, the County's unemployment rate, and Albemarle's employment base.

General Economic Activity

General economic activity is reflected in the data showing the performance of the Charlottesville Metropolitan Statistical Area's (MSA's) Gross Domestic Product (GDP). GDP measures the total dollar value of the goods and services produced in the region in a given year and represents a measure of the size of the regional economy. Albemarle County is a major component of the region, so changes in regional GDP serve as an important proxy for tracking the size and health of the County's economy.

Staff develops the estimates and forecasts of regional GDP based on an identified historical statistical relationship that exists between changes in U.S. Gross Domestic Product and changes in Charlottesville MSA GDP. In developing the local forecast, staff also takes into account national GDP forecasts. These national forecasts are derived from surveys of economists conducted by the *Wall Street Journal*, the Federal Reserve Bank of Philadelphia, and the National Association for Business Economics (NABE). In constructing the regional GDP forecast, as well as the other estimates and forecasts contained elsewhere in this report, staff also considers additional pieces of macroeconomic information, including the interest rate environment, potential changes in Federal Reserve monetary policy, equity market valuations, consumer confidence, U.S. household savings and net worth, and potential changes in federal and state fiscal policy.

As shown on Table I, regional GDP is estimated to have increased, in nominal terms, by about 4.7% between FY 19 and FY 20. Note that the region's pandemic-induced contraction began in Q4 of FY 20, i.e., during the last quarter of that fiscal year. Staff thinks that, locally, the contraction bottomed out in Q1 of FY 21 and the metro area's GDP began to expand again in subsequent quarters, although this expansion has not benefited all segments of the local economy evenly. For the whole of FY 21, staff estimates growth of roughly 1.1% in regional GDP while, for FY 22, staff thinks the regional GDP will increase nominally by about 6.2%, a rate of growth roughly similar to the rate of increase economists generally expect in the U.S. economy.

Unemployment Rate

As shown in Table I, the County's unemployment rate historically has been lower than the U.S. and Virginia rates. The three rates traditionally have moved in the same *direction*, but not necessarily at the same *pace of change*. (Between FY 19 and FY 20, for example, Albemarle's unemployment rate jumped by 1.26 percentage points (PP); the U.S. and Virginia rates also jumped, but by 2.24 PP and 1.47 PP respectively).

In FY 21, Albemarle's twelve-month average unemployment rate came to 4.75%. Note the growth forecast in the region's economy in the remainder of FY 21 and FY 22, discussed above, should have a favorable impact on Albemarle's labor market, including the County's unemployment rate.

For FY 22, staff projects the twelve-month average unemployment rate will fall to 3%. Based on multiple years of historical unemployment rate data, staff believes the County has reached "full employment" when the rate is at or around 3.5%, so the forecast level of 3% would seem to indicate that, sometime in FY 22, the County's labor market will have healed from the recent pandemic-induced contraction in the economy. Two important caveats exist, however, with regard to this last statement. The first caveat is that the unemployment rate includes only people who remain in the labor market; it does not take into account people who have left the labor market and, consequently, the figure can understate the true level of unemployment. The second caveat is that the unemployment rate reflects the *overall* rate of unemployment. This figure, in other words, typically masks large differentials in the rates that exist among different groups of people.

Employment

Table I reveals the total number of jobs in Albemarle County and breaks down this information by private sector, public sector, and two-digit North American Industry Classification System (NAICS) codes. The jobs data shown in Table I is by place of employment. In this case, place of employment refers to the physical address of the *headquarters* of the organization that pays into the Virginia unemployment system. The figures include full-time, part-time, temporary, and permanent jobs. Note because of the nature of the data, the numbers do not represent full-time equivalents (FTE's) and are not always additive, since the two-digit NAICS categories can include numbers for both public and private jobs. Further complicating the data is the fact that the U.S. Bureau of Labor Statistics (BLS) in recent years has suppressed from publication the number of jobs in state and local government. Despite these limitations, the figures presented on Table I offer a sense of the health of the County's job market and offer insight into the relative performance of the different sectors.

One notable piece of information shown on Table I is that, despite the advent of the coronavirus pandemic at the end of FY 20, the total number of jobs in the County barely changed between FY 19 and FY 20. The jobs base, however, is estimated to have decreased by 2,440 positions (or 4.28%) between FY 20 and FY 21. (In FY 21, the impact of the pandemic on the County's labor market tended to be strongest in Q1 but this impact has diminished in more recent quarters.) For FY 22, staff forecasts the total number of jobs in the County will rise by 1,263 (or just over 2.3%) when compared with FY 21, a result consistent with the growth the local economy is expected to experience in the next several quarters.

Table I reveals the pandemic-induced contraction impacted certain sectors of Albemarle's jobs base more heavily than others. In particular, the Accommodation and Food Services portion of the County's economy lost the highest number of jobs during the course of the past several quarters. The sector declined by 700 positions (or nearly 16%) between FY 19 and FY 20 and is estimated to have shed another 712 jobs (or 19%) between FY 20 and FY 21. Staff expects the sector to grow by 57 jobs (or about 1.9%) between FY 21 and FY 22. Note, however, by FY 22 the expected number of positions in Accommodation and Food Services, 3,043, would still be well below the FY 19 figure of 4,398 jobs. Part of the expected weak jobs performance in this sector for FY 22 involves the hotel industry's potentially making *permanent* the type of staffing cutbacks the industry initiated in response the pandemic.[1] In that vein, it is worth pointing out there can exist a divergence between changes in the number of *jobs* in the hotel industry, and changes in the overall performance of the sector.

The occupancy rate for hotels and motels in Albemarle, for example, has substantially rebounded in recently quarters, as has the County's "RevPar" (revenue per available room) metric, but this performance does not yet appear to have translated into a commensurate increase in the hotel sector's portion of the Accommodation and Food Services jobs numbers.[2] Note however, in FY 22 staff expects the reopening of two hotels in the County; the reopening of these hotels might mean the forecast Accommodation and Food Services employment numbers shown in Table I are on the conservative side.

Arts, Entertainment, and Recreation is another sector that sustained major losses in employment between FY 20 and FY 21 and is expected to recover only a small portion of these losses in FY 22. Between FY 20 and FY 21, staff estimates this portion of the County's economy shed 471 positions, a drop of about 30%. Note this category includes jobs at gyms and sports clubs; the pandemic resulted in substantial cutbacks at these businesses and, recently, the sector has experienced only limited reopening.[3] Staff forecasts that, between FY 21 and FY 22, the Arts Entertainment and Recreation sector in Albemarle will gain only 38 positions, or an increase of about 3.5%.

Paradoxically, in an era in which information technology allowed large numbers of people to work from home, the Information sector of the County's economy apparently shrank by 194 jobs, or 26% between FY 20 and FY 21. An examination of this sector, however, reveals the overwhelming majority of job losses occurred in the publishing (except internet) and picture/ sound recording industries, not in the telecommunications and data processing industries. Staff expects this sector will grow by 55 positions, or roughly 10% between FY 21 and FY 22.

Employment in the Retail sector is estimated to have remained essentially flat between FY 20 and FY 21, losing only 23 positions, or a mild decline of 0.4%. This relatively mild drop, however, masks the sudden, significant change in the number of Retail jobs (-679, or -11%) that took place between Q3 and Q4 of FY 20, i.e., at the beginning of the pandemic, but *within* FY 20. Staff expects this sector will continue to shrink slightly, by 80 positions (about 1.4%), between FY 21 and FY 22. The 5,774 positions forecast in FY 22 would remain well below the 6,175 jobs that existed in FY 19.

Note some portions of the County's jobs base actually grew between FY 20 and FY 21. Employment in the Professional and Technical Services, for example, rose by 101 jobs (or 2.6%), and is expected to increase by 25 positions in FY 22. Staff thinks, however, that between FY 21 and FY 22 the Health Care and Social Assistance sector will experience the largest increase in the number of jobs, rising by 201 positions or nearly 3%.

Conclusions

The County's economy in FY 21 experienced a number of challenges related to the coronavirus pandemic but, in a *general* sense, the impact of the pandemic on Albemarle's economy did not appear to have been as significant as was feared at the beginning of FY 21. Several factors helped contribute to this overall situation, including federal stimulus efforts, the ability of a substantial segment of the population to work from home, and the development and distribution of Covid vaccines.

Looking to the remainder of FY 22, staff expects Albemarle's economy will continue to improve. For FY 22, regional GDP is forecast to increase by around 6.2% in nominal terms; the County's jobs base is expected to grow by about 2.3%; and Albemarle's unemployment rate is forecast to decline to 3%, a figure staff believes represents "full employment." This outlook is based on the best information readily available as of September 7, 2021 and is predicated on several assumptions: (1) local rates of vaccination against the Covid virus will continue to rise; (2) current vaccines, and potential "booster" shots, will prove effective against the Delta variant of the coronavirus; and (3) federal fiscal stimulus expenditures will continue.

Note, however, there currently exist several factors that potentially could serve as headwinds against the forecast presented above. One potential headwind involves problems in global supply chains. As reported in the past several months in the financial media, shortages of items such as computer chips are having an adverse impact on U.S. manufacturing, which might tend to slowdown the progress of the expansion in the U.S. and, by extension, Albemarle County.[4]

A second potential headwind involves a recent drop in consumer sentiment. According to the University of Michigan Surveys of Consumers, the Index of Consumer Sentiment has been falling in FY 22, from 85.5 in June 2021 to 70.3 in August 2021.[5] This nearly 18% decline in the past three months, if sustained, could lead to a drop in consumer spending, which accounts for roughly 70% of U.S. GDP.

A third potential headwind involves a potential jump in inflation and the resulting interest rate response the Federal Reserve System likely would pursue in order to bring inflation under control. According to the Federal Reserve Bank of New York's July 2021 "Survey of Consumer Expectations," the median one-year ahead expected inflation rate is 4.8%, up from 3.4% in the April survey.[6] If inflation began a run-up to an annualized rate of 4.8% by the summer of 2022, the Fed almost certainly would act swiftly to contain inflationary pressures in the economy. An aggressive increase in short-term interest rates would have a negative impact on consumer spending and business investment and would severely slow, halt, or even reverse the economic expansion.

These potential headwinds notwithstanding, staff remains cautiously optimistic about Albemarle County's economy for the remainder of FY 22.

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1. See the June 11, 2021 Washington *Post* article, "Hotel Industry Emerges from Pandemic with New Business Model, Possibly Fewer Workers." (https://www.washingtonpost.com/business/2021/06/11/hotel-workers-reduced-cleaning/)

2. The occupancy and "RevPar" performance alluded to in this section reflect sector-wide changes, not changes pertaining to individual establishments. Note that RevPar, or revenue per available room, is a metric used in the hospitality industry to measure hotel performance. At the micro level, RevPar is calculated by multiplying a hotel's average daily room rate in a given period by its occupancy rate in that period. This metric can be aggregated across establishments to assess the performance of the entire sector.

3. For an idea of the limitations affecting the gyms and sports clubs, see the June 5, 2021 Charlottesville *Daily Progress* article, “Phase Two Locally: Gyms, Restaurants Open Indoors with Limited Capacity.” (https://dailyprogress.com/news/local/phase-two-locally-gyms-restaurants-open-indoors-with-limited-capacity/article_d9dff927-4886-594e-8e25-093d1ab19d40.html).

4. See the February 17, 2021 article on Bloomberg.com: Why the World is Short of Computer Chips, and Why It Matters.” (https://www.bloomberg.com/news/articles/2021-02-17/the-world-is-short-of-computer-chips-here-s-why-quicktake). See, also, the September 3, 2021 New York *Times* article, “G.M. Will Idle More Factories This Month as Chip Shortage Drags On.” https://www.nytimes.com/2021/09/02/business/gm-chip-shortage.html

5. University of Michigan Surveys of Consumers, (http://www.sca.isr.umich.edu/tables.html).

6. The New York Federal Reserve Bank’s latest “Survey of Consumer Expectations” can be accessed at (https://www.newyorkfed.org/microeconomics/sce#/inflexp-1).