Quarterly Economic Indicators Report

As of the Quarter Ended December 31, 2016

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 Q1 FY 17 or Q4 of FY 16, depending on how recently the relevant information was available. Each line in Table I also reveals corresponding historical figures from FY 16, FY 15, FY 14, FY 13, and FY 12.

The data in Table I consists of three broad categories. The first category pertains to general economic activity in the County, as reveled 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 Q1 FY 17 (the most recent quarter for which complete data is available for all of the revenues streams) and Q1 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 pertain to Q1 FY 17 and Q1 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 16, 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 Q1 FY 16 and Q1 FY 17, certain tax revenue streams shown in Table I exhibited moderate-to-strong growth, while other revenue streams seemed to have declined. Note however that, 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 this caveat in mind, a comparison of Q1 FY 16 and Q1 FY 17 Sales Tax revenue reveals growth of about 5%, while the County's Consumer Utility Tax (CUT) revenue, a stream that historically has correlated well with general economic activity, was relatively flat at 0.71%. This slow growth in CUT revenue might not reflect weakness in the local economy but, rather, likely reflects an ongoing shift away from landline telephones to cell phone usage and internet-based communication services such as Skype and FaceTime. 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. For this reason, staff is reassessing the usefulness of Consumer Utility Tax revenue as an indicator of general economic activity.

Food and Beverage tax revenue grew by 7.9% between Q1 FY 16 and Q1 FY 17; this reasonably strong performance is consistent with the growing local economy, and is expected to rise again in coming quarters as the result of the addition of at least two high-volume eating establishments in Albemarle. Transient Occupancy Tax (TOT), meanwhile, appears to have declined by 3.8% between Q1 FY 16 and Q1 FY 17. Staff thinks that this outright decline is something of a statistical illusion. Note, however, 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 likely will put downward pressure on future *growth* in the Albemarle's TOT revenue stream but, overall, staff expects that tourism in the region will remain robust.

Finally, Table I indicates that Inspections Fees dropped by roughly 13.5% between Q1 FY 16 and Q1 FY 17, while Other Development Fees fell precipitously by 33.3% during this same time period. The quarterly volatility of these two revenue streams, however, needs to be put into perspective. Inspections Fees leaped by 57.6% between Q4 FY 15 and Q4 FY 16, while Other Development Fees jumped by about 86% between these two points in time. These huge increases reflected in part a change in the level of fees that the Department of Community Development charges for services but, also, resulted from healthy growth in new development. Year-over-year (YOY) quarterly date can jump around for a number of reasons. The quarterly data presented on Table I, in other words, should not be taken entirely at face value. Economic activity in the County, particularly new development, has been robust in the past year. Note that, according to Table I of the Q3 Calendar Year 2016 Albemarle *Building Activity Report*, the number of new building permits issued Year-to-Date (YTD) in 2016 exceeded the 2015 YTD figure by 192 or 46%. Staff thinks that new development will remain fairly strong in the coming year, largely as a result of the strength of the County's overall labor market, discussed below.

General Economic Activity – Multiyear

Between Q1 FY 13 and Q1 FY 17, Sales Tax revenue grew by about 25%, while TOT revenue rose by just over 8%. 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 rose by about 21% 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, jumped by around 17%, while Other Development Fees apparently dropped by approximately 21%, although this disappointing performance in Other Development Fees likely is a statistical illusion. (Note that between Q4 FY 12 and Q4 FY 16, this revenue stream jumped by nearly 75%; again, YOY quarterly data can exhibit wide swings in performance from one quarter to the next, without necessarily reflecting changes in underlying economic conditions). Consumer Utility Tax revenue, unfortunately, remained flat between Q1 FY 13 and Q1 FY 17. The rise of only about 2% in this multiyear time frame reflects a consumer transition away from traditional landline phones to other modes of telecommunication, as discussed previously. Note also that, as consumers increase their usage of energy efficient appliances, as well as their usage of energy efficient lighting systems such as LED's, growth in the tax revenue associated with electric utilities could be tempered in the future, even as population and business activity increases in the County.

Unemployment Rate – One Year

Albemarle's average monthly unemployment rate fell from 3.80% Q1 FY 16 to 3.57% in Q1 FY 17. This decline of 0.23 percentage points (pp) was similar to the pp declines experienced at the state and national levels. The County's 3.57% unemployment rate 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 3.5%. The County's unemployment rate has diminished slowly in the past several years since the end of the 2007-09 recession. 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 Q1 FY 13 and Q1 FY 17, Albemarle's unemployment rate fell from 5.43% to 3.57%, or by 1.86 pp. The decline in the County's rate was not quite as large as the corresponding drop in the Virginia unemployment rate (2.10 pp) or the U.S. rate (3.20 pp) but, 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 the VEC is a readily available source of information.

As shown on Table I, the average monthly total number of jobs in the County appears to have increased substantially from 53,280 in Q4 FY 15 to 54,793 in Q4 FY 16, or by 1,513 positions (2.84%). This result is encouraging, is consistent with data reported in recent Quarterly Economic Indicator Reports, and speaks to an apparently robust jobs market in Albemarle County. Given the consistency between the data shown in the table and the corresponding data from prior Quarterly Economic Indicator Reports, staff thinks that this strong performance will be repeated in coming quarters, i.e., does *not* reflect a statistical fluke.

Table I reveals that the private sector gained 939 positions between Q4 FY 15 and Q4 FY 16, and that the private sector's share of the total number of jobs in the County was essentially flat during this time period. The public sector, meanwhile, experienced a net gain of 576 jobs. (The sum of these two numbers, 1,515, is different from the 1,513 figure mentioned previously, due to rounding errors). The private sector, in other words, appears to have accounted for about 939/1515 = 62% of the growth in the total number of jobs between Q4 FY 15 and Q4 FY 16. Of the growth in public sector jobs, approximately 463/576 = 80.4% came from an increase in State employment. 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 15 and Q4 FY 16 include Arts, Entertainment, and Recreation (+600 jobs); Health Care and Social Assistance (+573 jobs); and Retail Trade (+344 jobs). Sectors that endured the greatest losses, again in terms of numbers, include Construction (-375 jobs); Administration and Support (-348 jobs); and Management of Companies (-117 jobs).

Note the decline in the number of jobs in the Construction sector. At first glance, this result would seem to be inconsistent with staff's view that new development will remain robust in the coming year. A closer look at how the Virginia Employment Commission (VEC) compiles jobs data, however, reveals that the drop in employment in this sector might not necessarily indicate a slowdown in new development. When the VEC compiles jobs figures by "place of employment" the place of employment *is the jurisdiction in which the employer has its main office, not necessarily where the jobs are physically located*.

In the construction industry, a number of the firms involved in major projects in our region are not headquartered within the Charlottesville metro area. The major expansion ($235 million) currently taking place at the UVA Medical Center, for example, has Skanska USA as its general contractor. This firm's main office is in New York, NY, so the number of construction jobs affiliated with this contractor's involvement in the project should not show up in the jobs data for any of the jurisdictions in our region, even though large numbers of people from our region might be working for this contractor on the project. Likewise, if any of the subcontractors on the UVA Medical Center project are based in our region, but not in Albemarle County, the jobs figures associated with these subcontractors would not show up in the County's totals, even if County residents worked on the project for these non-Albemarle subcontractors.

Critically, individual contractors who might have worked for an Albemarle-based firm in one time period might switch their employment to a firm based outside of the County in another time period. These workers' jobs would "disappear" from the official jobs data but, clearly, the jobs associated with these workers would still exist. Staff thinks that this type of job shifting might account for much, or perhaps all, of the apparent decline in the number of jobs in the County's construction sector, particularly as a number of major projects have commenced recently in the region. This situation points out one important limitation of the VEC jobs numbers. As mentioned previously, however, the VEC is a readily available source of jobs data for Albemarle County, so staff tends to rely on data from the VEC in order to analyze the County's labor market.

Employment – Multiyear

During the course of the Q4 FY 12 to Q4 FY 16 time period, the total number of jobs grew by 4,035 positions, or 7.95%. The private sector accounted for 3,089 of these jobs, or about 77% of the total growth. Note that the private sector's share of the jobs base grew very slightly, from 65.53% in Q4 FY 12 to 66.34% in Q4 FY 16. 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 947 between these quarters. This growth appears to have resulted from an increase in federal level employment (+40 jobs) and state-level employment (+1,087 jobs), a situation which counteracted a drop in Local Government positions (-180 jobs).

The NAICS sectors that experienced the largest increase in jobs between Q4 FY 12 and Q4 FY 16 included Health Care and Social Assistance (+1,654 positions); Retail Trade (+724 jobs); and Educational Services (+564 jobs). The sectors that experienced the sharpest declines employment numbers included Administration and Support (-420 jobs); Public Administration (-134 jobs); and Management of Companies (-132 positions). Interestingly, the number of jobs in Manufacturing, a sector that has attracted quite a bit of interest recently, appears to have been essentially flat in Albemarle between Q4 FY 12 and Q4 FY 16, with a net gain of three jobs over the course of the four year period. This result, unfortunately, is not consistent with declines in the quarterly manufacturing jobs figures reported in previous editions of this report.

Conclusions

The data presented on Table I indicates that the County's economy, as represented by the *collective* performance of selected revenue streams, exhibited mixed performance between Q1 FY 16 and Q1 FY 17, but staff thinks that this mixed performance likely represents a statistical illusion rather than some sort of change in the underlying condition of Albemarle's economy.

The 0.23 pp decline in Albemarle's unemployment rate between Q1 FY 16 and Q1 FY 17 implies that the County's economy continued its recovery from the "Great Recession" this past year. The Q1 FY 17 rate of 3.57% appears to be at least nominally consistent with full employment.

A substantial increase in Albemarle's jobs base between Q4 FY 15 and Q4 FY 16 (+1,513 positions, or +2.84%) seems to suggest that economic conditions were robust during this time period. This piece of information, along with the recent decline in the County's unemployment rate, suggests a relatively healthy Albemarle economy.

Staff remains cautiously optimistic about the County's economic outlook. Many of the County's fundamentals appear to be strong but, as mentioned in prior reports, slow growth in overseas economies could negatively impact the health of the U.S. economy and, by extension, local conditions in Albemarle County. The result of the recent presidential election, additionally, introduces uncertainty into the County's near-term economic forecast.

Two election-related items which could affect Albemarle's economy negatively include a potential repeal of the Affordable Care Act, a situation that might affect the area's two major hospitals, and the potential elimination or restructuring of one or more federal government departments. This latter action could impact Albemarle-based federal employment and, additionally, might result in a Northern Virginia-generated "ripple" effect on the County's economy.

Two other election-related items, however, could have a positive impact on Albemarle. If the U.S. were to engage in massive infrastructure maintenance/enhancement, this program could benefit the local economy. Likewise, if the federal government decided to increase substantially the procurement of goods and services for the Department of Defense, this action might also benefit the local economy, via direct and indirect economic channels. Currently, the next administration's intentions with regard to the items discussed above remain unclear.