

Quarterly Economic Indicators Report



As of the Quarter Ended September 30, 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, Q4 of FY 16, or Q3 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 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 Q4 FY 16 and Q4 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 Q3 FY 16, and Q3 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 Q4 FY 15 and Q4 FY 16, certain tax revenue streams shown in Table I exhibited moderate-to-strong growth, while other revenue streams either *seemed* to have jumped substantially or declined slightly. Note 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 Q4 FY 15 and Q4 FY 16 Sales Tax revenue reveals growth of about 5.2%, while the County's Consumer Utility Tax revenue, a stream that historically has correlated well with general economic activity, fell by 2.56%. This drop might not reflect a

slowdown 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 3.6% between Q4 FY 15 and Q4 FY 16; this reasonably strong performance is consistent with the growing local economy, and should be aided in coming quarters by the addition of at least two high-volume eating establishments in Albemarle. Transient Occupancy Tax (TOT), meanwhile, appears to have grown at a strong rate of about 7.4% between Q4 FY 15 and Q4 FY 16. 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.

Finally, Table I indicates that 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 reflect both a change in the level of fees that the Department of Community Development charges for services, as well as healthy growth in new development. The data presented on Table I, in other words, should not be taken entirely at face value, but activity in the County has been robust in the past year. Note, for example, that in the first two quarters of calendar year 2015 the County gained a total of 235 new residential dwelling units, while, in the first two quarters of calendar year 2016, the figure was 429 (an increase of 194 units, or 82.6%).¹ This pace of development, according to the Director of Community Development, however, likely will taper off in the near future.²

General Economic Activity – Multiyear

Between Q4 FY 12 and Q4 FY 16, Sales Tax revenue grew by about 25% as did TOT revenue. 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 about 25% 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 48%, while Other Development Fees leaped by approximately 75%. The growth in these two revenue streams reflect the rebound in development activity that has taken place since the end of the "Great Recession" but also reflects a recent change in the fees that the Department of Community Development charges for services. Consumer Utility Tax revenue, unfortunately, remained flat between Q4 FY 12 and Q4 FY 16. The rise of less than 1% in this multiyear time frame reflects a consumer transition away from traditional landline phones to other modes of telecommunication, as discussed previously. Note that, with increased usage of energy efficient appliances, as well as 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 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 50,419 in Q3 FY 15 to 51,954 in Q3 FY 16, or by 1,535 positions (3.04%). This result is encouraging and speaks to an apparently robust labor market in Albemarle County. The Q3 FY 16 results shown in Table I might change, however, if the VEC publishes any revisions to the data in coming months. The apparently strong growth in jobs, in other words, might turn out to be illusory. Staff will continue to monitor the jobs base data.

Table I reveals that the private sector gained 1,277 positions between Q3 FY 15 and Q3 FY 16, and that the private sector's share of the total number of jobs in the County grew slightly, to

67.70% of the jobs base in Q3 FY 16, from 67.23% in Q3 FY 15. During this time frame, the public sector experienced a net gain of 258 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 Q3 FY 15 and Q3 FY 16 include Arts, Entertainment, and Recreation (+678 jobs); Health Care and Social Assistance (+542 jobs); and Retail Trade (+338 jobs). Sectors that endured the greatest losses, again in terms of numbers, include Construction (-424 jobs); Administration and Support (-221 jobs); and Management of Companies (-96 jobs).

Employment – Multiyear

During the course of the Q3 FY 12 to Q3 FY 16 time period, the total number of jobs grew by 3,611 positions, or 7.47%. The private sector accounted for 2,889 of these jobs, or about 80% of the total growth. Note that the private sector's share of the jobs base grew very slightly, from 66.78% in Q3 FY 12 to 67.70% in Q3 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 722 between these quarters. This growth appears to have resulted from an increase in federal level employment (+42 jobs) and state-level employment (+892 jobs), a situation which counteracted a drop in Local Government positions (-212).

The NAICS sectors that experienced the largest increase in jobs between Q3 FY 12 and Q3 FY 16 included Health Care and Social Assistance (+1,550 positions); Retail Trade (+597 jobs); and Professional, Scientific, and Technical Services (+519 jobs). The sectors that experienced the sharpest declines employment numbers included Administration and Support (-337 jobs); Manufacturing (-165 jobs); and Wholesale Trade (-87 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 in at a fairly strong pace between Q4 FY 15 and Q4 FY 16. This growth represents the continuation of a multiyear trend, although the one-year change in Consumer Utility Tax was slightly negative during the Q4 FY 15 to Q4 FY 16 time period. (This particular decline likely reflects a technological change rather than a change in actual economic activity).

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 Q3 FY 15 and Q3 FY 16 (+1,535 positions, or +3.04%) seems to suggest that economic conditions were robust during this four quarter period. 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.

Looking forward, however, the County's outlook is somewhat murky. 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 quite a bit of uncertainty into the County's near-term economic forecast. Two election-related items which could impact 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.

1. Source: Albemarle County 2016 2nd Quarter *Building Report*.

2. Per a conversation with Mark Graham at the Revenue Team meeting of August 29, 2016.