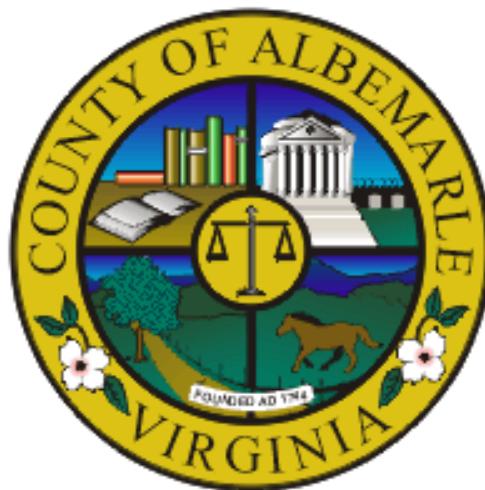


Annual Economic Indicators Report



As of the Year Ended June 30, 2015

Introduction

The attached Table I provides a general indication of the state of Albemarle County's economy in the recent past, and offers an initial look at anticipated economic conditions in the current fiscal year. For comparative purposes, each line in the attached Table I reveals preliminary data for FY 15, as well as corresponding historical figures from FY 11, FY 12, FY 13, and FY 14. The table shows, additionally, projected information for FY 16.

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 several years.

The second group of data reveals the County's unemployment rate. Corresponding information is presented for the state and U.S. unemployment rates. The third data group in Table I includes information about the total number of jobs in the County. The data for FY 15 represents an *estimate* for the 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 data in such a way that annual and multiyear changes in employment numbers in the various sectors are readily apparent.

Results and Projections

General Economic Activity

Between FY 14 and FY 15, most of the preliminary tax revenue data in the streams shown in Table I experienced moderate-to-strong growth. Exceptions included Consumer Utility Tax (0.66%) and Inspection Fees (-3.94%). In the case of Consumer Utility Tax, the modest increase reflects especially weak performance in Telecommunications Tax revenue, a situation that likely reflects an ongoing movement away from landline telephones to mobile phones, and migration toward communication services such as Skype and FaceTime, which are not subject to taxation. Interestingly, the drop in Inspection Fees was more than countered by an increase in Other Development Fees (10.99%). This latter category tends to reflect development that is in the planning phase rather than in the construction phase.

The 24% jump in Transient Occupancy Tax, which in Table I includes the Transfer to Tourism amount, likely reflects both an increase in the number of tourists to the County as well as growth in nightly prices per room among existing lodging establishments. Note that this situation would help explain the jump in planned hotel space, and actual hotel construction,

that the Charlottesville area has experienced in recent years, as chains attempt to capture growth in the market. The robust increase in Sales Tax revenue (6.14%) and Food & Beverage tax revenue (9.26%) reflects the addition of new business establishments along the 29 North corridor in recent years; several of these new establishments had their first full year of operation in FY 15, a situation which likely bumped upward the performance of these two revenue streams.

The data for the FY 11 to FY 15 time frame tells a similar story to the FY 14 to FY 15 period. Most of the revenue streams, except for Consumer Utility Tax, experienced fairly strong rates of growth during this multiyear time period. Looking forward to the rest of the current fiscal year, the majority of the revenue streams shown on Table I are expected to grow in FY 16 although, again, Consumer Utility Tax revenue is expected to rise only modestly (0.13%) while Inspection Fees are expected to dip (-1.33%). The forecasted increase in other tax revenues, although not as strong as in FY 15, is consistent with a modestly growing economy.

Unemployment

According to the most recently available information from the Virginia Employment Commission, Albemarle's average monthly unemployment rate dropped from 4.65% in FY 14 to 4.26% in FY 15. This decline of 0.39 percentage points (pp) somewhat mirrors the 0.51 pp drop at the state level, but was not as impressive at the 1.08 pp decline at the national level. The County's 4.26% 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 somewhere 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" but still has a way to go to achieve this 3% rate.

Looking forward to the current fiscal year, the County's unemployment rate is expected to be essentially flat; the forecasted average monthly rate for FY 16 equals 4.31%. 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. An interesting phenomenon is that, as the economy continues to improve, this situation might induce some people who dropped out of the labor force to re-enter the labor market and look for work. Not everyone who looks for work in a given time frame, of course, actually finds employment. The result is that, even though the economy might be improving, the unemployment rate might be flat or even slightly increasing. The projected 0.05 pp increase in the rate between FY 15 and FY 16, in other words, might not necessarily be indicative of a worsening labor market, especially given the projected increase in the jobs base, discussed in the next section of this report.

Employment

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 year to year. Changes in the numbers sometimes can be misleading if, for example, employers in the County replace many part-time jobs with full-time positions, or vice-versa. 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 increased modestly from 50,246 in FY 14 to an *estimated* 50,790 in FY 15, or by 544 positions (1.08%). The FY 15 results shown in Table I could change, once official numbers for Q3 and Q4 of FY 2015 become available from the VEC in coming months, and might change yet again if the VEC releases any revisions to previously published data. The apparent growth in jobs between the two fiscal years, in other words, should be treated as tentative. Note, however, that if the estimated jobs for FY 15 closely approximates the actual number for the year, the estimated gain of 544 jobs would be the largest increase since FY 12, and would reverse the apparent slight contraction in the County's jobs base that took place in FY 14.

Table I reveals that the private sector generated an estimated 402 positions in FY 15, and that the private sector's share of the total number of jobs in the County came to 67.04% of the jobs base, up slightly from 66.97% in the previous year. In FY 15 the public sector experienced an estimated net increase of 142 in the number of positions. Most of this increase came from growth at the State level (119 or 1%). It is important to keep in mind that the figures presented in Table I reflect the estimated *monthly averages for the twelve months of the fiscal year*, and do *not* necessarily reveal changes in full-time, permanent positions.

Employment sectors that are estimated to have experienced the largest increases in numbers between FY 14 and FY 15 include Educational Services (+180 jobs); Accommodation and Food Services (+136 jobs); and Arts, Entertainment, and Recreation (+101 jobs). Sectors that endured the greatest losses, again in terms of numbers, include Health Care and Social Assistance (-82 jobs); Professional, Scientific and Technical Services (-36 jobs); and Other Services, Except Public Administration (-12 jobs).

During the course of the *FY 11 to FY 15* time period, the total number of jobs is estimated to have grown by 1,962 positions, or 4.02%. The private sector accounted for 1,541 of these jobs, or about 79% of the total growth. With regard to the public sector, growth in jobs during this time period was modest. The number of public sector positions in Albemarle increased by 421, or 2.58%.

The NAICS sectors that experienced the largest increase in jobs between FY 11 and FY 15 included Health Care and Social Assistance (+919 positions); Administrative and Support (+377 jobs); and Professional, Scientific, and Professional Services (+341 jobs). The sectors that experienced the sharpest declines employment numbers included Arts, Entertainment, and Recreation (-257 jobs); Manufacturing (-163 Jobs); and Other Services, Except Public Administration (-106 positions).

For FY 16, staff projects that the County will have a net gain of 1,264 jobs, for an average monthly total number of jobs of 52,054. This result was generated by a set of multivariate regression models that take into account the historical correlations that exist between the number of jobs in the County in one year and the values of certain economic and financial variables in previous years. The projected increase of 1,264 jobs (2.49%) suggests that the County's jobs base will improve the most of any year since FY 12, when the County's jobs base grew by 1,072 positions (2.20%). This FY 16 result would be consistent with a modestly growing U.S. economy; the September 2015 *Wall Street Journal* survey of economists reveals an average expected rate of growth of about 2.6% at the national level in FY 16.¹

The private sector is expected to grow by 1,036 jobs while the public sector is expected to add 228 jobs in FY 16. The NAICS sectors that are projected to gain the largest number of positions include Educational Services (+214 jobs); Arts, Entertainment, and Recreation (+213 positions); and Accommodation and Food Services (+164 jobs). The only sector forecasted to decline in FY 16 is Agriculture, Forestry, Fishing, and Hunting (-25 jobs).

Conclusions

The data presented on Table I reveals that the County's economy, as represented by various revenue streams, continues to grow at a fairly moderate pace. The preliminary FY 14 to FY 15 collective performance of Sales Tax, Consumer Utility Tax, Food & Beverage Tax, TOT, Inspections Fees, and Other Development Fees, suggests that general business conditions were relatively robust last year, a condition that staff expects to continue in FY 16.

The 0.39 pp decline in Albemarle's unemployment rate between FY 14 and FY 15 offers additional evidence that the County's economy is slowly recovering from the aftermath of the "Great Recession" but has not fully recovered, since Albemarle's FY 15 average monthly unemployment rate of 4.26% still hovered above the roughly 3% rate that staff thinks would represent "frictional unemployment." Note that the projected FY 16 average monthly unemployment rate of 4.31%, although technically a slight increase over the FY 15 rate, would not necessarily be indicative of a slowdown in the County's economy. The situation might mean, rather, that certain County residents, who dropped out of the labor market previously, will choose to re-enter the labor market in FY 16 in response to improvements in Albemarle's

economy. This re-entry into the labor market, in other words, could increase the relative number of *officially-counted* unemployed people.

An estimated rise in Albemarle's jobs base between FY 14 and FY 15 (544 positions, or 1.08%) represents the reversal of an apparent contraction that took place in the County's jobs base between FY 13 and FY 14. Note, however, that final FY 15 job numbers from the Virginia Employment Commission do not yet exist, and the data published by the VEC, in any case, does *not* necessarily reflect *full-time, permanent* positions. The projected increase in the number of jobs in FY 16 is relatively robust (1,264 or 2.49%) and would be consistent with expected conditions in the U.S. economy. This projection, however, is based on the performance Albemarle's jobs base in FY 15, and might change as additional information about that year becomes available from the VEC.

There exist at least two economic headwinds, additionally, that might result in lower-than-expected growth in the County's jobs base in FY 16. One obvious headwind involves the apparent slowdown in the global economy, as evidenced by recent news from East Asia, Australia, Canada, and the Euro Zone.² This situation could impact negatively the U.S. economy and, by extension, Albemarle County's economy. The second headwind involves another round of federal sequestration spending cuts which could begin in October.³ Taken together, these two items should temper the County's growth expectations in the current fiscal year.

1. To review the survey, please see <http://projects.wsj.com/econforecast/#ind=gdpa&r=10>.
2. The recent slowdown in China has an impact on businesses in the U.S. For an informative *Wall Street Journal* article on this topic, please see:

<http://www.wsj.com/articles/chinas-woes-echo-in-u-s-earnings-1439752312>

Japan, another major U.S. trading partner, meanwhile, continues to have economic difficulties, and recently suffered an outright contraction in GDP:

<http://www.wsj.com/articles/japans-economy-shrinks-annualized-1-6-in-second-quarter-1439769883>

One article which recently offered a type of "canary in the coal mine" theory about the direction of the global economy, discusses the case of South Korea, another major U.S. trading partner. South Korea's exports have fallen dramatically this year and the theory is that, because South Korea is at the head of the supply chain for much of the manufacturing that takes place around the world, this drop casts an ominous shadow over the global economy:

<http://www.economist.com/news/business-and-finance/21662952-steepest-year-drop-trade-2009-mark-sagging-global-demand-why-big-slump>

Another article which discusses the lukewarm growth that the Eurozone currently is experiencing, appeared recently in the *Economist* magazine:

<http://www.economist.com/blogs/freeexchange/2015/09/economic-growth-europe>

Finally, a recent *Wall Street Journal* article examines the impact of China's slowdown on the economies of Canada, Australia, and other countries that until recently have enjoyed a boom in natural resource exports. One implication of this situation is that a slowdown in Canada, a major trading partner of the United States, would reduce Canadian demand for U.S. goods and services, a situation that would help temper growth in the U.S. Please see:

<http://www.wsj.com/articles/canada-illustrates-plight-of-rich-but-resource-dependent-countries-1441120664>

3. For a *Washington Post* article on the potential impact that another round of sequestration cuts could have on Virginia's economy, including Gov. McAuliffe's remarks on the subject, please see:

<http://www.washingtonpost.com/news/digger/wp/2015/07/08/gov-mcauliffe-warns-of-sequestration-i-have-no-idea-what-this-congress-will-do/>