

# **Albemarle County Economic Outlook**



**As of May 10, 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 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, by about 1.2% 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 the contraction bottomed out in Q1 of FY 21 and that 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 expects growth of roughly 3.5% in real (inflation-adjusted) regional GDP while, for FY 22, staff thinks that real regional GDP will increase by about 4.4%, a rate of growth that is similar to the rate of increase that 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).

For FY 21, staff estimates that Albemarle's twelve-month average unemployment rate will come to 4.84%. It is important to keep in mind that the substantial increase over the corresponding FY 20 number of 3.79% reflects the fact that much of the pandemic-induced stress to the County's economy took place during the early quarters of FY 21. More recently, Albemarle's rate has

dropped below the 4.84% estimate for FY 21. In March 2021, for example, the County's unemployment rate equaled 4.3%. Note that the forecasted growth in the region's economy in the remainder of FY 21 and FY 22, discussed above, should have a favorable impact on Albemarle County's labor market, including the unemployment rate. For FY 22, Staff projects that the twelve-month average unemployment rate will fall to 3.24%. Based on multiple years of historical unemployment rate data, Staff believes that the County has reached "full employment" when the rate is at or around 3.5%, so the forecasted level of 3.24% 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 that 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, furthermore, is projected to increase by 732 positions (or 1.28%) 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 that the total number of jobs in the County will rise by 1,775 (or just over 3%) when compared with FY 21, a result that is consistent with the strong growth that the local economy is expected to experience in the next several quarters.

Table I reveals that the pandemic-induced contraction impacted certain sectors of Albemarle's jobs base more heavily than others. In particular, the Accommodation and Food Services and Retail portions of the County's economy lost the highest number of jobs during the course of the past several quarters. In the case of Accommodation and Food Services, the sector declined by 700 positions (or nearly 16%) between FY 19 and FY 20 and is estimated to have shed another 259 positions (or 7%) between FY 20 and FY 21. Staff expects the sector to grow by 159 jobs (or about 4.6%) between FY 21 and FY 22. Note, however, that by FY 22, the expected number

of positions in Accommodation and Food Services, 3,598, would still be below the FY 19 figure of 4,398 jobs.

Similarly, the Retail sector shrank by 294 positions (or about 5%) between FY 19 and FY 20; is estimated to have lost another 141 jobs (roughly 2.4%) from FY 20 to FY 21; but is expected to grow modestly, by 59 positions (about 1%) between FY 21 and FY 22. The number of Retail positions in FY 22, however, still would be below the FY 19 level of 6,175.

Clearly, the Accommodation and Food Service and Retail sectors will take longer to recover fully from the impact of the pandemic than will other sectors of the County's economy.

Interestingly, some sectors of the County's jobs base actually have grown during the time period encompassing the pandemic, and are expected to continue to expand into FY 22. The Health Care and Social Assistance sector, as an example, and perhaps not surprisingly, gained about 354 positions (or 5.5%) between FY 19 and FY 20; is estimated to have increased by another 226 jobs (or 3.3%) between FY 20 and FY 21; and is forecast to add yet another 152 positions (or 2.2%) by FY 22.

### Conclusions

The County's economy in FY 21 has experienced a number of challenges related to the coronavirus pandemic but, in a *general* sense, the impact of the pandemic on Albemarle's economic environment does not appear to have been as significant as was feared at the beginning of the fiscal year. Several factors have helped contribute to this overall situation, including ongoing federal stimulus efforts, the ability of a substantial segment of the population to work from home, and the development and recent distribution of Covid vaccines. The pandemic-induced contraction that began in Q4 of FY 20, however, has had a differential impact on various sectors of the County's economy; the downturn had a particularly harsh effect on the Accommodation and Food Services sector.

In the remaining months of FY 21, and through FY 22, staff expects that Albemarle's economy will continue to improve. For FY 22, regional real GDP is forecast to increase by around 4.4%; the County's jobs base is expected to grow by about 3%; and Albemarle's unemployment rate is forecast to decline to a level slightly over 3%, a figure that staff believes represents "full employment." This outlook is based on the best information that is readily available as of May 10, 2021 and is predicated on the assumption that several current trends will continue during the course of the next twelve months, including growth in consumer confidence; increasing local rates of vaccination against the Covid virus; and a continuation of federal fiscal stimulus efforts.

Note that there currently exist three factors that might serve as headwinds against the forecast presented above. The first potential headwind involves problems in global supply chains. As reported recently 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 recovery in the U.S. and, by extension, Albemarle County.<sup>1</sup> The second potential headwind involves the difficulty employers in certain industries are having with regard to finding workers to fill positions that recently have opened up in the labor market.<sup>2</sup> This situation might further hinder the pace

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of the recovery. Finally, the rising prices of building-related commodities such as lumber could have a negative impact on the construction sector of the economy in coming quarters.<sup>3</sup> Given the importance of the construction industry in Albemarle this situation represents a potential risk to the County's economic expansion in FY 22. In coming months, staff will continue to monitor these three headwinds.

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1. Please 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>).
  2. Please see the May 6, 2021 article in the *Wall Street Journal*: "Millions are Unemployed. Why Can't Companies Find Workers?" (<https://www.wsj.com/articles/millions-are-unemployed-why-cant-companies-find-workers-11620302440>).
  3. Please see the May 3, 2021 article in the *Wall Street Journal*: "Lumber Prices Break New Records, Adding Heat to Home Prices." (<https://www.wsj.com/articles/record-lumber-prices-lift-sawmills-while-homeowners-do-it-yourselfers-pay-up-11620034201>).