

Annual Economic Indicators Report



As of the Year Ended June 30, 2016

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 16, as well as corresponding historical figures from FY 12, FY 13, FY 14, and FY 15. The table shows, additionally, projected information for FY 17.

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 figures for FY 16 represent *estimates* for the year, due to the Virginia Employment Commission's (VEC's) ongoing one 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 15 and FY 16, most of the preliminary tax revenue data in the streams shown in Table I experienced moderate-to-very strong growth. Exceptions included Consumer Utility Tax (-1.18%) and Food & Beverage Tax (1.93%). In the case of Consumer Utility Tax, the decrease reflects especially weak performance in Telecommunications Tax revenue, a situation that likely represents 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. The relatively flat performance of Food & Beverage Tax revenue likely represents a lull in the growth of this stream, since several some high-volume chain restaurants are expected to open in Albemarle in FY 17.

The solid growth of 8.30% 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 (4.77%) reflects an improvement in the local economy, consistent with solid growth in the jobs base and a drop in the unemployment rate (see further discussion, below). The dramatic jump in Inspections Fees (41.61%) and Other Development Fees (40.32%) reflect both an increase in the rate structure of these fees, as well as very strong growth in commercial and residential new construction.

The data for the FY 12 to FY 16 time frame tells a similar story to the FY 15 to FY 16 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, Sales Tax, Food & Beverage, and TOT are expected to grow in FY 17, whereas Consumer Utility Tax revenue is expected to drop slightly (-0.69%) and development-related fees are expected to fall significantly as the current building boom winds down (-8.20% for Inspections Fees and -12.58% for Other Development Fees). The forecasted change in tax revenues is consistent with a modestly growing economy but reflects an anticipated slowdown in the construction sector of the County's economy.

Unemployment

According to the most recently available information from the Virginia Employment Commission, Albemarle's average monthly unemployment rate dropped from 4.26% in FY 15 to 3.43% in FY 16. This decline of 0.83 percentage points (pp) was the largest drop in any of the years in Table I and is consistent with fall in the State rate (-0.84 pp) and national rate (-0.69 pp). The County's 3.43% unemployment rate is below what many economists would consider to be the "frictional" or "full employment" rate of unemployment. Staff thinks that, based on the past twenty years of unemployment rate data, Albemarle's frictional employment rate likely is somewhere in the vicinity of 3% to 3.5% so, by this traditional measure, the County appears to have reached full employment in FY 16.

Looking at the current fiscal year, the County's unemployment rate is expected to be essentially flat; the forecasted average monthly rate for FY 17 equals 3.41%. 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 flatness in the rate between FY 16 and FY 17, in other words, might not necessarily be indicative of a stagnant 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 from 51,332 in FY 15 to an *estimated* 52,212 in FY 16, or by 880 positions (1.71%). The FY 16 results shown in Table I could change, once official numbers for Q4 of FY 2016 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 number of jobs for FY 16 ends up closely approximating the actual number for that year, the estimated gain of 880 jobs would be slightly lower than the 1,086 increase that took place between FY 14 and FY 15.

Table I reveals that the private sector generated an estimated 539 positions in FY 16, and that the private sector's share of the total number of jobs in the County came to 66.62% of the jobs base, down slightly from 66.71% in the previous year. In FY 16 the public sector experienced an estimated net increase of 341 in the number of positions. Nearly all of this increase came from growth at the State level (314 or 2.59%). 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 15 and FY 16 include Health Care and Social Assistance (412 jobs); Arts, Entertainment, and Recreation (323 jobs); and Professional, Scientific, and Professional Services (222 jobs). Sectors that endured the greatest *losses*, again in terms of numbers, include Admin. and Support (219 jobs); Construction (172 jobs); and Manufacturing (90 jobs).

During the course of the *FY 12 to FY 16* time period, the total number of jobs is estimated to have grown by 2,312 positions, or 4.63%. The private sector accounted for 1,925 of these jobs, or about 83% 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 387, or 2.27%.

The NAICS sectors that experienced the largest *increases* in jobs between FY 12 and FY 16 included Health Care and Social Assistance (1,413 positions); Professional, Scientific, and Professional Services (565 jobs); and Accommodation and Food Services (328 jobs). The sectors that experienced the sharpest *declines* in employment numbers included Educational Services (167 jobs); Manufacturing (158 Jobs); and Public Administration (101 positions).

For FY 17, staff projects that the County will experience a net gain of 1,084 jobs, for an average monthly total number of jobs of 53,296. 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 1,084 jobs (2.08%) suggests that the County's jobs base will continue to grow at a respectable rate. This FY 17 result would be consistent with a modestly growing U.S. economy; the September 2016 *Wall Street Journal* survey of economists reveals an average expected annualized rate of growth in GDP of about 2.5% at the national level for the first three quarters of FY 17.¹

In FY 17 the private sector in Albemarle is expected to grow by 1,371 jobs while the public sector is expected to *decline* by 287 jobs in FY 17. The NAICS sectors that are projected to *gain* the largest number of positions include Health Care and Social Assistance (693 jobs); Retail Trade (233 positions); and Arts, Entertainment, and Recreation (221 jobs). The sectors that are forecasted to *decline* the most in FY 17, in terms of numbers, are manufacturing (155 jobs); educational services (93 positions); and construction (49 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 15 to FY 16 collective performance of Sales Tax, Consumer Utility Tax, Food & Beverage Tax, TOT, Inspections Fees, and Other Development Fees, suggests that general business conditions were reasonably robust last year, a condition that staff expects to continue in FY 17, with the qualifications discussed below.

The 0.83 pp decline in Albemarle's unemployment rate between FY 15 and FY 16 offers some evidence that the County's economy essentially has recovered from the aftermath of the "Great Recession." The 3.43% unemployment rate in FY 16 is consistent with a level that staff thinks represents "frictional unemployment." Note that the projected FY 17 average monthly unemployment rate of 3.41% would be indicative of a continuation of the strength of the County's labor market that existed in FY 16.

An estimated rise in Albemarle's jobs base between FY 15 and FY 16 (880 positions, or 1.71%) represents fairly solid growth. Note, however, that final FY 16 jobs 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 for FY 17 is relatively robust (1,084 or 2.08%) and would be consistent with expected conditions in the U.S. economy. This projection, however, is based on the performance of Albemarle's jobs base in FY 16, and might change as additional information about that year becomes available from the VEC.

The forecasted numbers contained in this report reflects staff's thinking about the near-term condition of Albemarle's economy, based on the best information currently available. The present U.S. economic situation, however, implies an especially challenging local forecasting environment, as indicated by seemingly inconsistent reports about the recent performance of several national business and economic variables. Reports of strength in the U.S. labor market, for example, seem to be negated by news stories about weak increases in U.S. gross domestic product (GDP), and the tepid performance of gauges that measure manufacturing and services demand.² Staff thinks that, for the time being, the County's economy is fairly healthy, but that potential choppiness in the U.S. and global economies warrants a cautious forecast for FY 17. Information generated at the macroeconomic level suggests that either (a) the U.S. is entering a turning point in the business cycle; or (b) the national economy will continue to grow in the near-term, but likely will do so only in fits and starts.

-
1. To review the survey, please see <http://projects.wsj.com/econforecast/#ind=gdp&r=20>
 2. In order to get a sense of the seemingly inconsistent data being generated by the U.S. economy, please see the following recent media articles:

"U.S. Household Income Surged 5.2% in 2015, First Gain Since 2007." *Wall Street Journal*, September 13, 2016: <http://www.wsj.com/articles/u-s-household-incomes-surged-5-2-in-2015-ending-slide-1473776295>

"First Factories, Now Services Signal Cracks in U.S. Economy." Bloomberg website, September 6, 2016: <http://www.bloomberg.com/news/articles/2016-09-06/first-manufacturing-now-services-signal-cracks-in-u-s-economy>

"Robust Jobs Report Eases Worry over Economic Growth." *Wall Street Journal*, August 5, 2016: <http://www.wsj.com/articles/u-s-adds-255-000-jobs-in-july-unemployment-rate-steady-at-4-9-1470400413>

"Economic Gauges Raise Specter of Recession." *Wall Street Journal*, June 19, 2016: <http://www.wsj.com/articles/economic-gauges-raise-specter-of-recession-1466371537>