Quarterly Economic Indicators Report

As of the Quarter Ended September 30, 2015

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 16 or Q3 of FY 15, as well as corresponding historical figures from FY 11, FY 12, FY 13, and FY 14.

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 16 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 also pertain to Q1 FY 16 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 15*, 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 Q1 FY 15 and Q1 FY 16, certain tax revenue streams shown in Table I exhibited moderate-to-strong growth, while other revenue streams seem either to have jumped substantially or to have declined slightly. Note that the Q1 FY 16 numbers shown on Table I are preliminary, i.e., unaudited, and 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 15 and Q1 FY 16 Sales Tax revenue reveals growth of about 2.8%. Food and Beverage tax revenue, in comparison, appears to have grown by 26.5% during the same period. This unusually strong performance likely is a statistical illusion and, consequently, is not expected to continue in in coming quarters. Similarly, Table I indicates that Other Development Fees jumped by about 44% between these two points in time. This huge variance resulted from improvements in development activity over Q1 of the previous year but, also, probably reflects differences in the timing of when fees were recorded in the County's accounting system. In contrast, between Q1 FY 15 and Q1 FY 16 the County's Inspection Fees, which reflect current development, increased more modestly, by roughly 6%.

During the Q1 FY 15 to Q1 FY 16 time period, the County's Consumer Utility Tax revenue, a stream that historically has correlated well with general economic activity, dipped modestly, by 0.75%. This drop might not reflect a slowdown in the local economy but, perhaps, might represent 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 intends to reassess the usefulness of Consumer Utility Tax revenue as an indicator of general economic activity.

Transient Occupancy Tax (TOT) appears to have declined by about 5% between Q1 FY 15 and Q1 FY 16. This drop might have resulted, at least in part, from ongoing competition from hotels and motels located in the City of Charlottesville. Note 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 will continue to put downward pressure on the Albemarle's TOT revenue stream in the foreseeable future.

General Economic Activity – Multiyear

Between Q1 FY 12 and Q1 FY 16, Sales Tax revenue grew by about 22% while TOT revenue increased by just over 24%. 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 a comparable amount (22%) 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, grew by over 36%, while Other Development Fees jumped by about 89%. The growth in these two revenue streams reflect the rebound in development activity that has taken place since the end of the "Great Recession." Consumer Utility Tax revenue, unfortunately, remained flat between Q1 FY 12 and Q1 FY 16. The rise of just over 3% in this multiyear time frame could reflect a consumer transition away from traditional landline phones to other modes of telecommunication, as discussed previously.

Unemployment Rate – One Year

Albemarle's average monthly unemployment rate fell from 4.70% Q1 FY 15 to 3.80% in Q1 FY 16. This decline of 0.90 percentage points (pp) was the biggest inter-year decline on Table I, and was similar to the pp declines experienced at the state and national levels. The County's 3.80% 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%. 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. The drop of nearly a full percentage in the most recent year-over-year period is encouraging. 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 12 and Q1 FY 16, Albemarle's unemployment rate fell from 6.00% to 3.80%, or by 2.20 pp. The decline in the County's rate was not quite as large as the corresponding drop in the Virginia unemployment rate (2.40 pp) or the U.S. rate (3.83 pp) but, again, 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 48,881 in Q3 FY 14 to 50,334 in Q3 FY 15, or by 1,453 positions (2.97%). This result is encouraging, especially coming after the apparent contraction that took place between Q3 FY 13 and Q3 FY 14. The Q3 FY 15 results shown in Table I might change if the VEC publishes any revisions to the data in coming months. The apparent robust growth in jobs, in other words, might turn out to be illusory. The fact that the County's jobs base grew more between Q3 FY 14 and Q3 FY 15 than in any other one year period on Table I, however, is notable. Staff will continue to monitor the jobs base data.

Table I reveals that the private sector gained 1,095 positions between Q3 FY 14 and Q3 FY 15, and that the private sector's share of the total number of jobs in the County grew slightly, to 67.24% of the jobs base in FY 15, from 67.00% in Q3 FY 14. During this time frame, the public sector experienced a net gain of 358 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 14 and Q3 FY 15 include Construction (+546 jobs); Educational Services (+309 jobs); and Health Care and Social Assistance (+301 jobs). Sectors that endured the greatest losses, again in terms of numbers, include Wholesale Trade (-129 jobs); Professional, Scientific, and Technical Services (-107 jobs); and Administration and Support, which tied with Retail Trade (-35 jobs).

Employment – Multiyear

During the course of the Q3 FY 11 to Q3 FY 15 time period, the total number of jobs grew by 2,373 positions, or 4.95%. The private sector accounted for 1,922 of these jobs, or about 81% of the total growth. Note that the private sector's share of the jobs base grew very slightly, from 66.56% in Q3 FY 11 to 67.24% in Q3 FY 15. 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 450 between these quarters. This growth appears to have resulted from an increase in federal level employment (+2 jobs) and state-level employment (+705 jobs), a situation which counteracted a drop in Local Government positions (-257).

The NAICS sectors that experienced the largest increase in jobs between Q3 FY 11 and Q3 FY 15 included Health Care and Social Assistance (+1,077 positions); Construction (+536 positions); and Administration and Support (+368 jobs). The sectors that experienced the sharpest declines employment numbers included Arts, Entertainment, and Recreation (-247 jobs); Manufacturing (-128 jobs); and Public Administration (-122 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 between Q1 FY 15 and Q1 FY 16. This growth represents the continuation of a multiyear trend, although the one-year change in certain individual revenue streams, i.e., Consumer Utility Tax, and TOT, was slightly negative during the Q1 FY 15 to Q1 FY 16 time period. The apparent drop in these revenues does not necessarily mean that the County's economy slowed down in the past year; the positive performance in the other revenue streams shown on Table I seems to indicate that the County's economy did in fact grow during the course of the past year.

The 2.20 pp decline in Albemarle's unemployment rate between Q1 FY 12 and Q1 FY 16 implies that the County's economy has experienced a modest recovery from the "Great Recession" during the course of the past several years but has not fully recovered, since Albemarle's Q1 FY 16 average monthly unemployment rate of 3.80% is still slightly above the 3.0% rate that, in staff's professional opinion, would represent "frictional unemployment."

An apparently substantial increase in Albemarle's jobs base between Q3 FY 14 and Q3 FY 15 (+1,453 positions, or +2.97%) seems to suggest that economic conditions were more robust in FY 15 than had been the case in previous years. Notably, the growth in the jobs base between these quarters represents the largest increase between any of the consecutive fiscal years listed on Table I. 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.