Quarterly Economic Indicators Report

Quarter Ended September 30, 2017

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 18, Q4 of FY 17, or Q3 of FY 17, depending on how recently the relevant information was available. Each line in Table I also reveals corresponding historical figures from FY 17, FY 16, FY 15, FY 14, and FY 13.

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, 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 eleven years. This set of data pertains to Q4 FY 17 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 18 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 17, 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 16 and Q4 FY 17, the tax revenue streams shown in Table I exhibited moderate-to-strong growth. Note however 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 16 and Q4 FY 17 Sales Tax revenue reveals growth of about 8.5%. This performance is due in large part to the opening of a major shopping south of the City in the final quarter of FY 16 and the ongoing expansion of this shopping center during FY 17.

Food and Beverage tax revenue likewise jumped by 11.7% between Q4 FY 16 and Q4 FY 17. This strong performance is consistent with the growing local economy, and resulted, in part, from the addition of at least two high-volume eating establishments in Albemarle.

Table I indicates that Inspections Fees grew modestly by 2.3%% between Q4 FY 16 and Q4 FY 17, while Other Development Fees jumped by about 7.9% during this time. The underlying pace of new development that generated these gains, however, likely will drop substantially in FY 18, according to the Director of Community Development. These two revenue streams are expected to come in below budget in FY 18. They are expected to stabilize and begin increasing again slightly beginning in FY 19 as the development market readjusts.

Transient Occupancy Tax (TOT) appears to have increased by about 5.9% between Q4 FY 16 and Q4 FY 17. A word of caution in interpreting this result, however, is in order. Comparisons between the same quarter of different fiscal years can reveal increases in revenue or, alternately, substantial drops but these changes frequently prove to be fleeting in nature and, oftentimes, can be misleading. In the case of TOT revenue recall that, in the recently-published Annual Economic Indicators Report for FY 17, this revenue stream actually *dropped* slightly (by about 0.35%) from FY 16. Staff thinks that the annual performance of TOT between FY 16 and FY 17 more accurately reflects the state of the hotel/motel industry in the County than does the apparent Q2-to-Q2 gain. Staff thinks, specifically, that the large increase in the supply of hotel/motel rooms in the City, relative to the County, might be rendering a "cannibalization" effect on lodgings in Albemarle. This phenomenon, additionally, might become worse in the next year or two since a substantial number of new hotel/motel rooms will open in the City, while no major increase in hotel/motel space is expected in the County until FY 20.

This situation by itself likely will continue to put downward pressure on future growth in the Albemarle's TOT revenue stream. Note that a second theory about the slight decline in TOT revenue between FY 16 and FY 17 was articulated at the November 1, 2017 BOS meeting. This theory involved the possibility that competition from AirBnB-type lodgings might be a major factor in explaining the drop in TOT revenue between the two fiscal years. The idea was that AirBnB-type lodgings might be drawing a substantial amount of business away from more traditional types of lodging in the region. According to this theory, if an examination of the *City's* TOT revenue revealed a decline between FY 16 and FY 17, then the relative increase in Charlottesville's hotel/motel space might not have been the driving factor behind the fall in the *County's* TOT revenue.

The data provided on Table II, on the next page suggests, however, that the volume of new construction in the City likely represents the primary factor in explaining the dip in County TOT revenues between FY 16 and FY 17. Table II shows the level of TOT revenue in the County and the City for each year from FY 13 through FY 17 inclusive; the annual percentage changes in TOT revenue experienced in the two jurisdictions in each fiscal year; the combined amount of City and County TOT revenue in each fiscal year; and the City's share of the combined TOT revenue in each fiscal year.

Table II

Albemarle County and City of Charlottesville TOT Revenues ($)

(FY 13 to FY 17)

FY	Albemarle	**% Δ from Pr. FY**	Charlottesville	**% Δ from Pr. FY**	Combined Total	**Charlottesville's Share of Combined Total**
17	2,796,685	**-0.35%**	4,846,000	**32.25%**	7,642,685	**63.41%**
16	2,806,486	**8.45%**	3,664,156	**15.72%**	6,470,642	**56.63%**
15	2,587,893	**0.42%**	3,166,309	**7.95%**	5,754,202	**55.03%**
14	2,577,153	**6.63%**	2,933,227	**0.03%**	5,510,380	**53.23%**
13	2,416,993	**N/A**	2,932,367	**N/A**	5,349,360	**54.82%**

Notes:

(1) Albemarle revenue figures include the Transfer to Tourism amount.

(2) FY 17 revenue amounts are unaudited.

Sources:

FY 13 to FY 16 revenue figures are taken from the Virginia Auditor of Public Accounts, *Comparative Report of Local Government Revenues and Expenditures* for each of the relevant fiscal years.

The FY 17 Albemarle revenue figure is taken from the County's AADR website on November 9, 2017; the FY 17 Charlottesville revenue figure was supplied by Ryan Davidson, Senior Budget Analyst, City of Charlottesville, in a telephone conversation on November 9, 2017.

Note that, between FY 13 and FY 16 inclusive, revenue increased in both the City and the County although, in most years, the City's rate of growth was faster than the rate of growth in the County. In one year (FY 14, the year in which a major hotel opened in Albemarle), the County's rate outpaced the City's. Interestingly, however, between FY 16 and FY 17, Charlottesville's growth jumped by about 32% while, as previously mentioned, the County's dropped slightly. The huge increase in the City's TOT revenue, and the concurrent dip in the County's TOT revenue, roughly coincided with the opening of a major hotel along Charlottesville's West Main corridor and the completion of a sizable motel along the City's North Emmet Street corridor. Table II reveals, furthermore, that Charlottesville's share of the combined TOT revenue rose by nearly seven percentage points, increasing from about 57% to roughly 63% in that one year period. The fact that the City's TOT increased substantially between FY 16 and FY 17, in both absolute and relative terms, suggests that the concurrent addition of a substantial amount of new hotel/motel space in Charlottesville was the major factor behind the rise in TOT revenue in the City and the contemporaneous dip in the County.

On a slightly different note, one piece of information about the region's lodging market that would be relevant to understanding the extent to which AirBnB-type rooms might have contributed to the decline in the County's TOT revenue between FY 16 and FY 17 involves the number of AirBnB rooms in Albemarle relative to the number of hotel/motel rooms in the

County. On a recent day in November of 2017, staff found that there were 238 *listings* on AirBnB's website for the Charlottesville/Albemarle *region* but the website did not appear to allow the user to separate listings in the *County* from listings in the rest of the region. The 238 number mentioned above, additionally, included properties that sometimes contained more than just one room for rent. An important question about this 238 figure is how typical the number might be during the course of the year. There might be, for example, a seasonal aspect to the supply of AirBnB-type rooms; some property owners might rent their rooms throughout the year, while other property owners might offer lodgings only sporadically. Note, additionally, that staff did not survey other AirBnB-type websites, such as VRBO, although there might be overlapping listings between these sites and AirBnB. With these caveats in mind, if we assumed that half of the listings were in the County, the resulting 119 listings would seem at first glance to be relatively small, although perhaps not insignificant, when compared to the approximately 1,300 hotel/motel rooms that exist in the County, according to a 2014 estimate form the County's Department of Community Development.

Clearly, a rigorous investigation of the change in the relative supply of AirBnB-style rooms would be necessary in order to determine conclusively the impact that this emerging form of lodging has had on the overall market in recent years. The results shown on Table II and the information from the admittedly limited survey of the AirBnB website discussed above appears to suggest, however, that the relative increase in the supply of hotel/motel rooms in the City in recent years was the primary driver behind the small decline in the County's TOT revenue between FY 16 and FY 17.

General Economic Activity – Multiyear

As shown on the attached Table I, between Q4 FY 13 and Q4 FY 17 quarterly Sales Tax revenue grew by about 22%, while quarterly TOT revenue rose by about 23%. These increases came about, at least partially, from the "filling in" of a major shopping center along the 29 North corridor since FY 13, and the opening of a new hotel near this shopping center in FY 14. Quarterly Food & Beverage tax revenue grew by about 25% during this time. This latter result is consistent with the opening of a number of high volume restaurants in the County in recent years. Quarterly Inspections Fees, meanwhile, jumped by around 62%, while quarterly Other Development Fees leaped by approximately 119%. 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 changes, that began in FY 16, in the fees that the Department of Community Development charges for services.

Unemployment Rate – One Year

Albemarle's average monthly unemployment rate fell from 3.57% Q1 FY 17 to 3.43% in Q1 FY 18. This decline of 0.14 percentage points (pp) was slightly smaller the pp declines experienced at the state and national levels. 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, 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 have dropped out of the labor force.

Unemployment Rate – Multiyear

Between Q1 FY 14 and Q1 FY 18, Albemarle's unemployment rate fell from 5.03% to 3.43%, or by 1.60 pp. The decline in the County's rate was not quite as large as the corresponding drop in the Virginia unemployment rate (2.04 pp) or the U.S. rate (2.93 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 reported 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 jumped substantially from 51,954 in Q3 FY 16 to 54,653 in Q3 FY 17, or by 2,699 positions (5.19%). This result is encouraging and speaks to an apparently robust labor market in Albemarle County. The Q3 FY 17 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 1,980 positions between Q3 FY 16 and Q3 FY 17, and that the private sector's share of the total number of jobs in the County grew slightly, to 67.98% of the jobs base in Q3 FY 17, from 67.70% in Q3 FY 16. During this time, the public sector experienced a net gain of 720 jobs, with the overwhelming majority of the gain (715 positions) coming from the State Government sector. 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 16 and Q3 FY 17 include Accommodation and Food Services (+728 jobs); Retail Trade (+561 jobs); and Educational Services (+529 jobs). Sectors that endured the greatest losses, again in terms of numbers, include Management of Companies (-86 jobs); Arts, Entertainment, and Recreation (-48 jobs); and Agriculture, Forestry, Fishing, and Hunting (-43 jobs).

Employment – Multiyear

During the course of the Q3 FY 13 to Q3 FY 17 time period, the total number of jobs grew by 5,624 positions, or 11.47%. The private sector accounted for 4,298 of these jobs, or about 76% of the total growth. Note that the private sector's share of the jobs base grew slightly, from 67.01% in Q3 FY 13 to 67.98% in Q3 FY 17. 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 1,326 between these years. This growth appears to have resulted primarily from an increase in State-level employment (+1,292 jobs), a situation which was in sharp contrast to the change in Federal Government positions (+21) and Local Government jobs (+13).

The NAICS sectors that experienced the largest increase in jobs between Q3 FY 13 and Q3 FY 17 included Accommodation and Food Services (+1,019 positions); Retail Trade (+968 jobs); and Educational Services (+884 jobs). The sectors that experienced the sharpest declines employment numbers included Management of Companies (-180 jobs); Manufacturing (-78 jobs); and Wholesale Trade (-78 positions).

<u>Conclusions</u>

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 16 and Q4 FY 17. Weakness in Inspection Fees and Other Development Fees is expected in the coming quarters of FY 18, however, due to an anticipated drop in new development during the remainder of this fiscal year.

The 0.14 pp decline in Albemarle's unemployment rate between Q1 FY 17 and Q1 FY 18 implies that the County's economy continued to grow this past year. The Q1 FY 18 rate of 3.43% appears to be at least nominally consistent with full employment. A substantial increase in Albemarle's jobs base between Q3 FY 16 and Q3 FY 17 (+2,699 positions, or +5.19%) implies that economic conditions were robust between these quarters. 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.

Note, however, that the data covered in this report measures neither changes in *income* nor changes in Albemarle County residents' *net worth*. These items deserve attention. Beginning with the Q2 FY 18 Quarterly Economic Indicator report, staff will include data showing the quarterly weighted average weekly wage, as well as the Federal Housing Finance Agency's (FHFA's) quarterly House Price Index (HPI) for the Charlottesville Metropolitan Statistical Area (MSA). The average weekly wage, weighted by the number of jobs in each two-digit NAICS sector, should give an indication of how the "typical" wage is behaving in Albemarle County. The FHFA HPI data, meanwhile, will provide a reliable metric for changes in the value of residential dwelling unit prices in the region. This latter piece of data will serve as a *rough* proxy variable for changes in residents' net worth since, in the United States, primary residences represent most households' single biggest asset by dollar value.[1] This wage and housing price data also will appear each year in the Annual Economic Indicators Report (AEIR).

Looking forward to the rest of FY 18, the County's economic prospects look fairly good. Assuming that, in each of the remaining three quarters of FY 18, U.S. Gross Domestic Product (GDP) grows at the 2.6% average annualized rate forecasted by economists in the November 2017 *Wall Street Journal* survey, staff expects the County's unemployment rate will remain around 3.5%, and that the jobs base will grow by about 2% over the final FY 2017 level.[2] This outlook for the County's economy is tempered, however, by some potential headwinds. Political uncertainty at the federal level, with regard to taxation, as well as the future of the Affordable Care Act (ACA), could present challenges to local growth in coming quarters. Uncertainty about federal tax rates and policies could dampen investment and consumption in the County in the near-term, while any changes to the ACA that might negatively affect the federal subsidization of the UVA Medical Center and Martha Jefferson Hospital could result in diminished growth in the County. Likewise, if the global macroeconomic picture were to take a turn for the worse, this situation obviously could have a negative effect on the U.S. economy and, by extension, the economy of Albemarle County.[3]

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1. See Table 3, p. 18 of the *Federal Reserve Bulletin*, September 2017 (Vol. 103, No. 3). This table, which contains data from the 2016 *Survey of Consumer Finance*, reveals that, at the time of the survey, 63.7% of respondents owned their primary residence and the median value of this owned asset was $185,000. This amount was greater than the conditional median value of any other owned asset class.

2. For details about the survey, see the *Wall Street Journal* website:

http://projects.wsj.com/econforecast/#ind=gdp&r=20

3. For an example of a potential problem in the global macroeconomic picture, see the International Monetary Fund's (IMF's) *Global Financial Stability Report* of October 2017. This report points out that, although the stability of the world's financial system has improved in recent years, the low rates paid on interest-bearing investments in the wake of the financial crisis of 2007-08 has induced investors to seek out higher rates of return in relatively riskier investments. The movement of investment funds into riskier, higher-yielding assets, and the increased use of financial leveraging, has driven the price of these assets to historically high levels. The IMF's concern is that a downward correction in the markets for these assets could occur. This correction would have an adverse impact on the global financial system and, ultimately, would affect the global economy. For a copy of the report, please follow the link on the next page.

International Monetary Fund’s (IMF’s) “Global Financial Stability Report” of October 2017:

http://www.imf.org/en/Publications/GFSR/Issues/2017/09/27/global-financial-stability-report-october-2017