

Below, you'll find the most recent Virginia quarterly economic update, prepared by economist Fletcher Mangum for the Virginia Chamber Foundation. We hope you find this information useful for your business and planning purposes.

Thank you for your continued support of the Virginia Chamber of Commerce and the Virginia Chamber Foundation.

Barry DuVal
President & CEO
Virginia Chamber



October 25, 2019

3rd Quarter Economic Update –Cloudy and Cooler

IN SUM

Virginia's employment growth continued to under-perform the national norm in the 3rd quarter:

- Nationally, year-over-year growth in Total Nonfarm employment began to decelerate in early 2019, slipping from 2.0% in January to 1.4% in September.
- But in Virginia, that trend began even earlier with year-over-year growth in Total Nonfarm employment generally trending downward from 1.3% in July of 2018 to 0.6% in September of 2019.
- Only 4 of Virginia's 14 major industry sectors – Mining and Logging, Manufacturing, Leisure and Hospitality, and Education and Health Services – experienced year-over-year employment growth in September that was at or above the national norm.
- Professional and Business Services – which accounts for almost one out of every five jobs in Virginia – grew by 0.8% year-over-year in September as compared to 2.1% nationally.

Wage growth in Virginia also under-performed the national norm in the 3rd quarter:

- Where year-over-year growth in Private Sector Average Hourly Earnings in Virginia generally outpaced the national average from mid-2018 to mid-2019, in August we began to slip below the national average and year-over-year growth was 1.3% in September, as compared to 2.9% nationally.

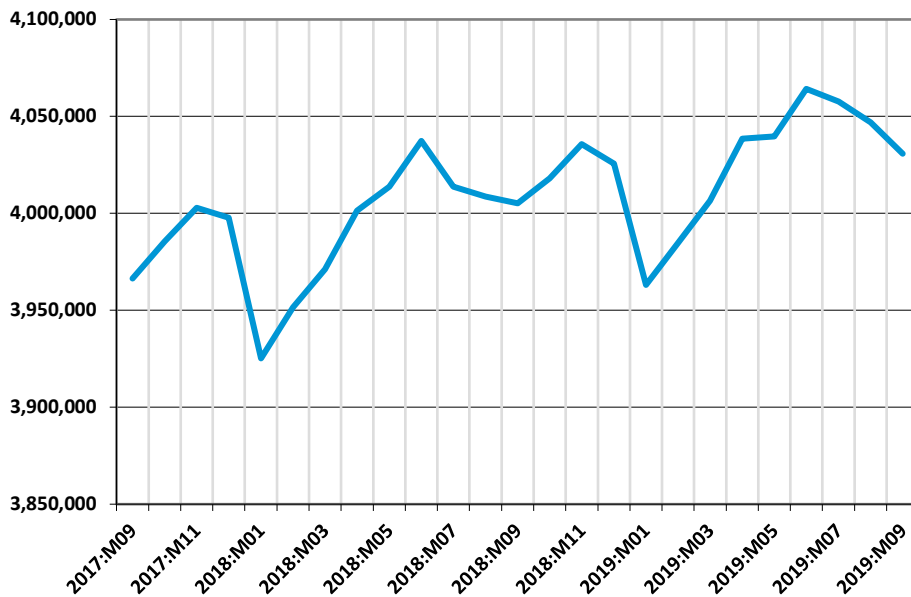
Unemployment rates remain at historic lows, but labor force participation rates are still below pre-recession levels:

- At 2.5% statewide in Virginia, and 3.3% nationally, seasonally unadjusted unemployment rates remain at historic lows.
- Labor force participation, the proportion of the 16 and over population that is either employed or looking for work, increased slightly from September 2018 to September 2019, rising from 64.8% to 65.8% and remains significantly above the national average.
- Because labor force participation rates are still below pre-recession levels, the unemployment rate alone is no longer a reliable indicator of tightness in the labor market. If Virginia’s September 2019 labor force participation rate (65.8%) were the same as it was at its pre-recession peak in July 2008 (70.9%) there would be 339,468 more people in the state’s labor force than there are now. At current levels of employment, that would imply a statewide unemployment rate of 9.4%, not 2.5%. Which means that we are not yet at a point where labor constraints are likely to limit economic growth.

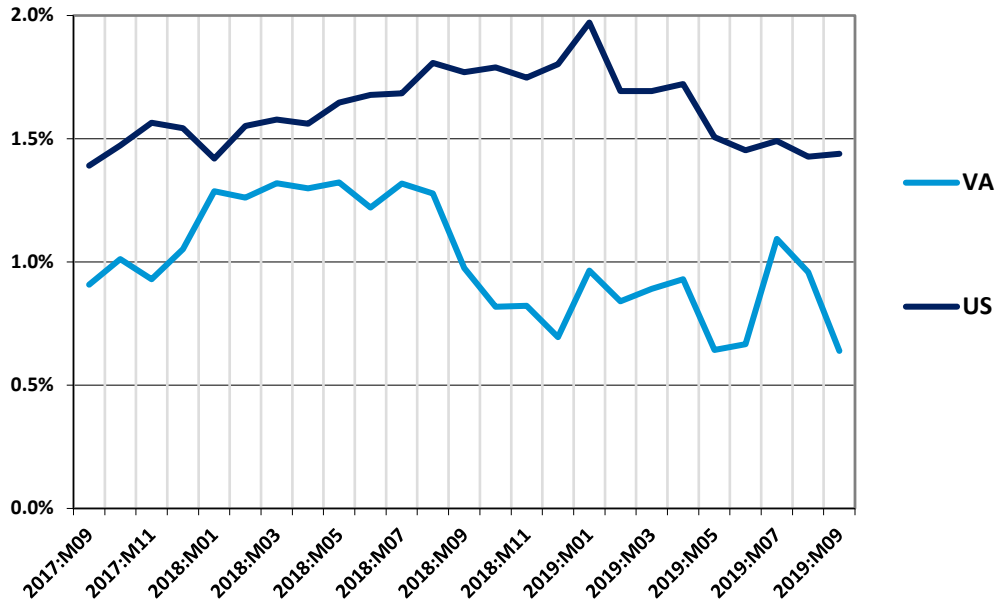
WHERE WE ARE

Total Nonfarm employment in Virginia increased by 64,300 jobs, or 1.6%, between September 2017 and September 2019.

Total Statewide Nonfarm Employment: September 2017 to September 2019

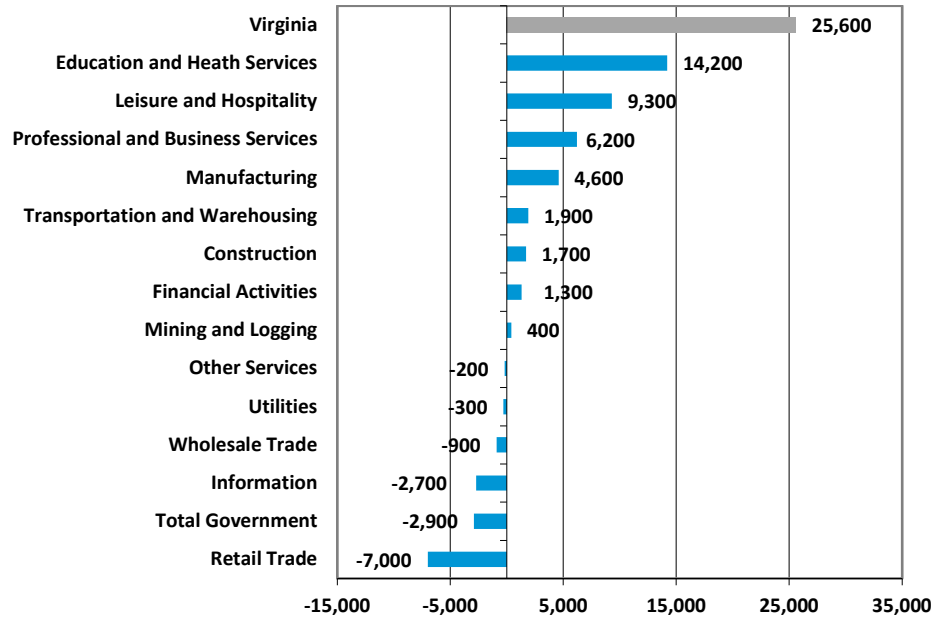


Year-over-Year Percentage Change in Total Nonfarm Employment: September 2017 to September 2019

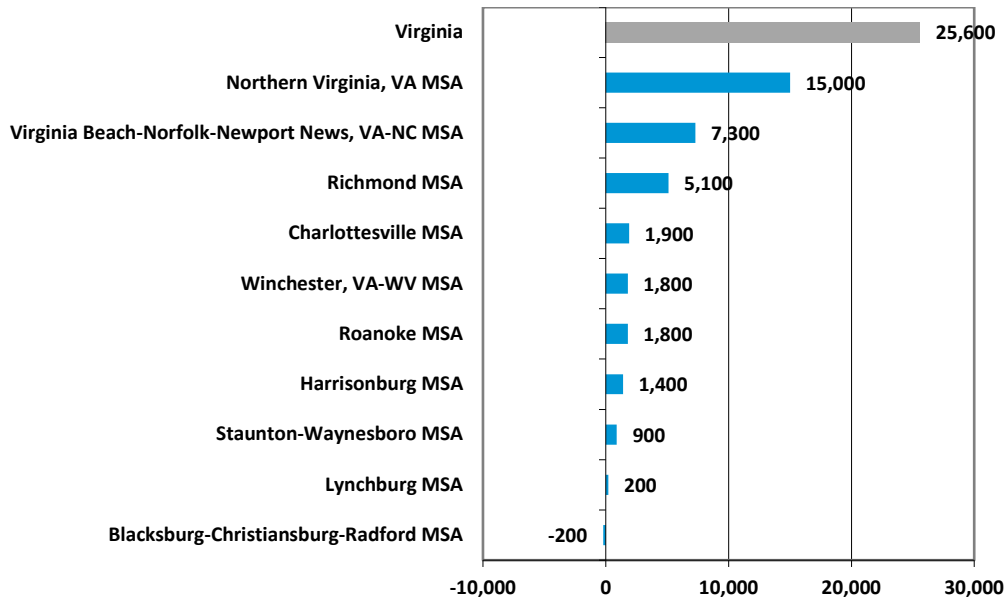


Between September 2018 and September 2019, statewide growth in Total Nonfarm employment was led by increases in the Education and Health Services (up 14,200 jobs), Leisure and Hospitality (up 9,300 jobs), and Professional and Business Services (up 6,200 jobs) sectors. From a regional perspective, the largest job gains occurred in the Northern Virginia (up 15,000 jobs), Virginia Beach-Norfolk-Newport News (up 7,300 jobs), and Richmond (up 5,100 jobs) MSAs.

September 2018 to September 2019 Change in Total Nonfarm Employment by Sector



September 2018 to September 2019 Change in Total Nonfarm Employment by MSA

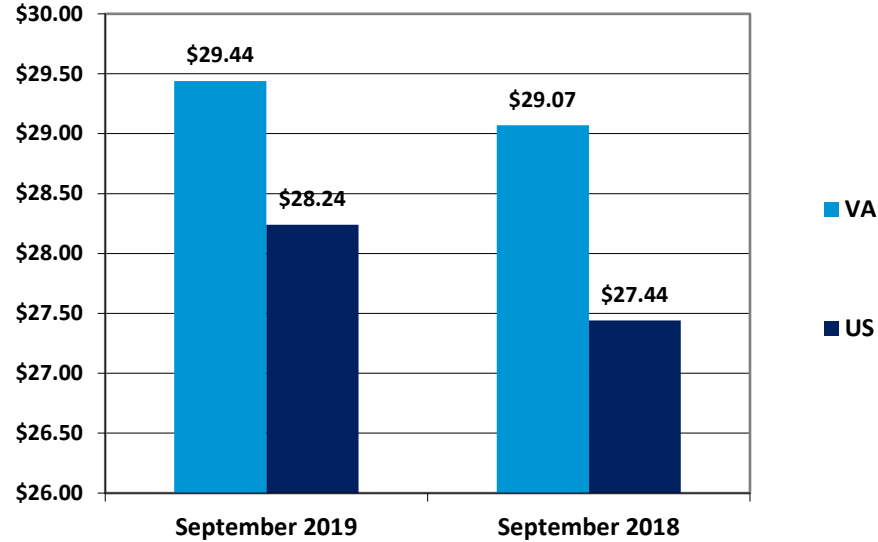


Virginia's 0.6% year-over-year growth in statewide Total Nonfarm employment in June 2019 was below the 1.4% increase posted at the national level. Moreover, only four of Virginia's 14 major industry sectors experienced year-over-year growth that was at or above the national norm. Those were: Mining and Logging (up 5.1% statewide vs. 0.0% nationally); Manufacturing (up 1.9% statewide vs. up 0.9% nationally); Leisure and Hospitality (up 2.3% statewide vs. up 2.0% nationally); and Education and Health Services (up 2.6% statewide vs. up 2.6% nationally).

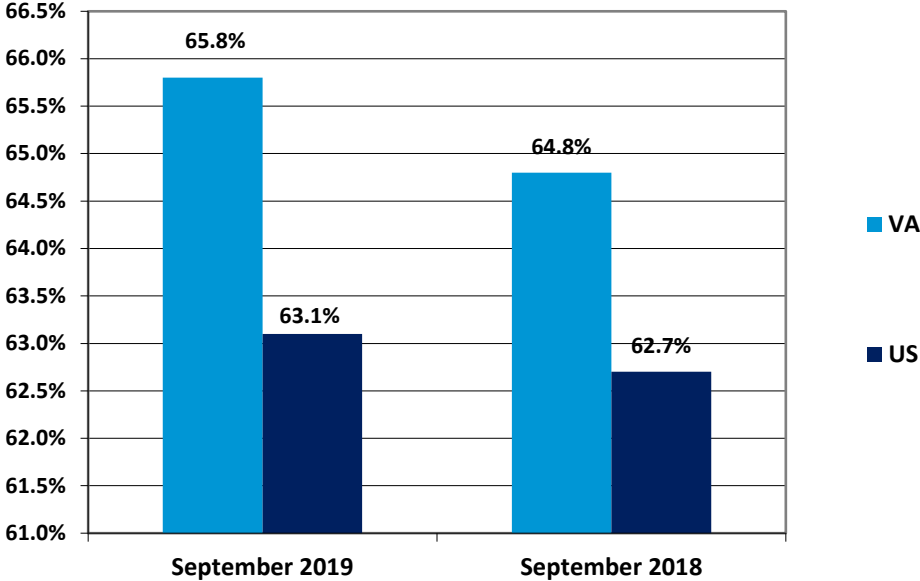
On the other side of the ledger, Virginia's: Information (down 4.1% statewide vs. up 0.8% nationally); Utilities (down 2.8% statewide vs. down 0.4% nationally); Retail Trade (down 1.7% statewide vs. down 0.4% nationally); Wholesale Trade (down 0.8% statewide vs. up 1.2% nationally); Total Government (down 0.4 percent statewide vs. up 0.8 percent nationally); Other Services (down 0.1% statewide vs. up 1.5% nationally); Financial Activities (up 0.6% statewide vs. up 1.2% nationally); Construction (up 0.9% statewide vs. up 2.1% nationally); and Transportation and Warehousing (up 1.5% statewide vs. up 1.9% nationally) sectors all under-performed the national norm. In particular, Virginia's Professional and Business Services sector, which accounts for almost one out of every five jobs in the state only increased by 0.8% statewide as compared to 2.1% nationally.

Private Sector Average Hourly Earnings in Virginia rose from \$29.07 to \$29.44 between September 2018 and September 2019, a nominal year-over-year increase of 1.3%, which was below the 2.9% nominal increase posted at the national level. Virginia's labor force participation rate, the proportion of the civilian population above the age of 16 that is either employed or looking for work, increased from 64.8% in September 2018 to 65.8% in September 2019. While at the national level, the labor force participation rate increased from 62.7% in September 2018 to 63.1% in September 2019.

Private Sector Avg. Hourly Earnings: September 2018 to September 2019

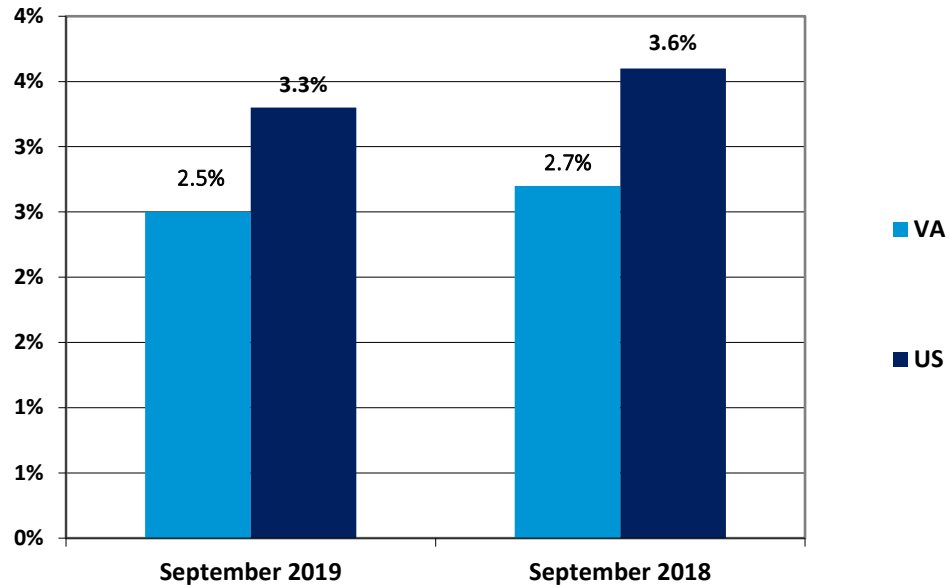


Labor Force Participation Rate: September 2018 to September 2019

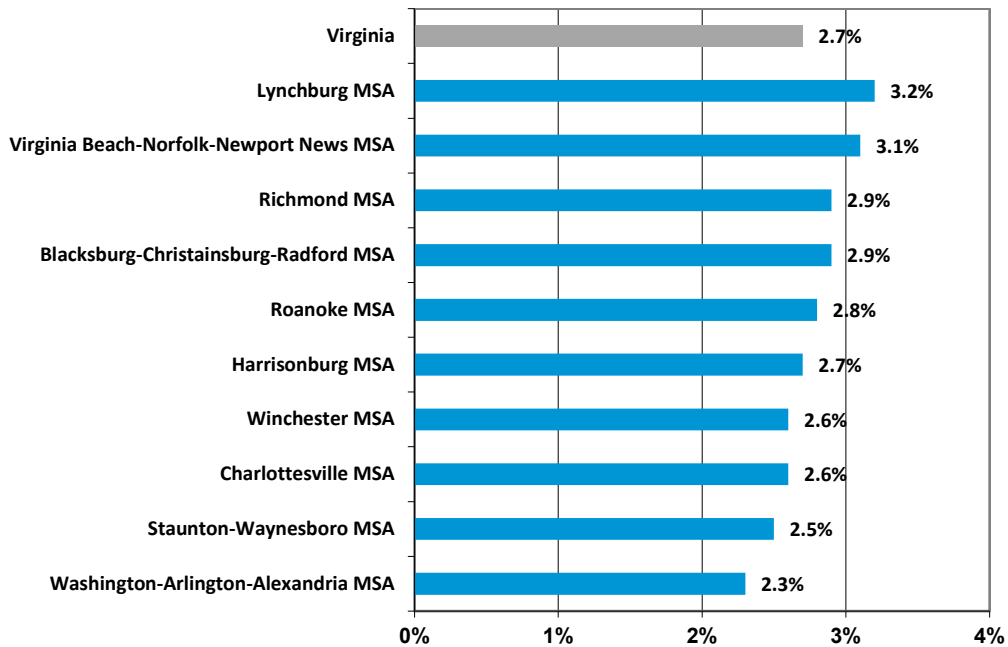


Turning to unemployment, the statewide seasonally unadjusted unemployment rate stood at 2.5% in September 2019, below the national unemployment rate of 3.3% for that month, and an improvement over the state’s 2.7% unemployment rate a year before. From a regional perspective, in August 2019 (sub-state unemployment rates are reported later than the statewide rate) the seasonally unadjusted unemployment rates in Virginia’s major MSAs ranged from a high of 3.2% in Lynchburg to a low of 2.3% in Northern Virginia.

Seasonally Unadjusted Unemployment Rate: September 2018 to September 2019



Seasonally Unadjusted Unemployment Rate: August 2019 by MSA



WHAT TO LOOK FOR

1) Employment

Nationally, year-over-year growth in Total Nonfarm employment began to decelerate in early 2019, slipping from 2.0% in January to 1.4% in September. But in Virginia, that trend began even earlier with year-over-year growth in Total Nonfarm employment generally trending downward from 1.3% in July of 2018 to 0.6% in September of 2019. Moreover, since May of 2016 employment growth in Virginia has continuously under-performed the national economy.

All in all, Virginia's economic performance is starting to more closely resemble that of our neighbors to the north (Maryland experienced 1.1% year-over-year growth in Total Nonfarm employment in September, Pennsylvania 0.5%, New Jersey 0.8%, New York 1.3%, and Connecticut 0.5%) than our neighbors to the south (North Carolina 2.2%, South Carolina 2.0%, Georgia 1.6%, and Florida 2.6%). We seem to be falling in with bad company.

Moreover, only four of Virginia's 14 major industry sectors experienced year-over-year employment growth in September that was at or above the national norm: Mining and Logging, Manufacturing, Leisure and Hospitality, and Education and Health Services. While 10 major industry sectors under-performed the national norm: Information, Utilities, Retail Trade, Wholesale Trade, Total Government, Other Services, Financial Activities, Construction, Transportation and Warehousing, and Professional and Business Services. The latter is of particular importance because Professional and Business Services accounts for almost one out of every five jobs in Virginia.

2) Wages

News on the wage front was also less than good. Where growth in Private Sector Average Hourly Earnings in Virginia generally outpaced the national average from mid-2018 to mid-2019, in August we began to slip below the national average and year-over-year growth in Private Sector Average Hourly Earnings was 1.3% in September, as compared to 2.9% nationally.

3) Unemployment

At 2.5% statewide in Virginia, and 3.3% nationally, seasonally unadjusted unemployment rates remain at historic lows.

4) Labor Force Participation

Labor force participation, the proportion of the 16 and over population that is either employed or looking for work, increased slightly from September 2018 to September 2019, rising from 64.8% to 65.8% and remains significantly above the national average.

Drawing on the secular stagnation theory that was popularized to explain 2.0% GDP growth rates during the Obama administration, concern is sometimes expressed that our current historically low

unemployment rates indicate that labor shortages may soon bring the current expansion to a halt. The flaw in that perspective is that it fails to take into account that labor force participation rates in Virginia and nationally plummeted during the recession and are still not back to pre-recession levels. As a result, the unemployment rate alone is no longer a reliable indicator of tightness in the labor market.

For example, if Virginia's September 2019 labor force participation rate (65.8%) was the same as it was at its pre-recession peak in July 2008 (70.9%) there would be 339,468 more people in the state's labor force than there are now. At current levels of employment, that would imply a statewide unemployment rate of 9.4%, not 2.5%. Even accounting for the fact that some of that difference is an artifact of retiring baby-boomers, this nonetheless demonstrates that we likely still have room to grow before we experience binding labor shortages.

ANNOUNCEMENTS

1) New and Expanding

Virginia Economic Development Partnership announcements of new or expanding businesses in the 3rd quarter 2019:

- [Statewide](#): 3,620 jobs and nearly \$1.6 billion in direct investment.
- [Blacksburg-Christiansburg-Radford MSA](#): 31 jobs and \$5.0 million in direct investment.
- [Charlottesville MSA](#): 80 jobs and \$3.1 million in direct investment.
- [Danville MSA](#): 300 jobs and \$10.9 million in direct investment.
- [Harrisonburg MSA](#): 15 jobs and \$5.0 million in direct investment.
- [Lynchburg MSA](#): 12 jobs and \$1.4 million in direct investment.
- [Martinsville MSA](#): 102 jobs and \$32.2 million in direct investment.
- [Richmond MSA](#): 465 jobs and \$103.7 million in direct investment.
- [Roanoke MSA](#): 25 jobs and \$6.4 million in direct investment.
- [Staunton-Waynesboro MSA](#): \$4.5 million in direct investment.
- [Virginia Beach-Norfolk-Newport News MSA](#): 403 jobs and \$14.4 million in direct investment.
- [Northern Virginia MSA](#): 674 jobs and \$1.3 billion in direct investment.
- [Winchester MSA](#): 13 jobs and \$3.7 million in direct investment.

2) Reductions and Closures:

Virginia Economic Development Partnership announcements of reductions and closures in the 3rd quarter 2019:

- [Statewide](#): 990 jobs.
- [Danville MSA](#): 300 jobs
- [Richmond MSA](#): 589 jobs
- [Virginia Beach-Norfolk-Newport News MSA](#): 101 jobs.

Data sources:

- U.S. Bureau of Economic Analysis
- U.S. Bureau of Labor Statistics
- Virginia Economic Development Partnership

Virginia Employment Commission

About Mangum Economics, LLC

Mangum Economics, LLC is a Richmond, Virginia based firm that specializes in producing objective economic, quantitative, and qualitative analysis in support of strategic decision making. Examples of typical studies include:

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ECONOMIC IMPACT ASSESSMENTS AND RETURN ON INVESTMENT ANALYSES

Measure the economic contribution that business, education, or other enterprises make to their localities.

WORKFORCE INFORMATION

Project the demand for, and supply of, qualified workers.

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Use occupation and industry clusters to illuminate regional workforce and industry strengths and identify connections between the two.

ENVIRONMENTAL SCANNING

Assess the economic, demographic, and other factors likely to affect your enterprise in the future.

The Project Team

A. Fletcher Mangum, Ph.D.
Founder and CEO

David Zorn, Ph.D.
Economist

Martina Arel, M.B.A.
Researcher and Economic Development Specialist