

*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.*

*The Virginia Chamber Foundation has also recently launched the Virginia Economic Dashboard. It's an online tool we use to:*

- *Compare Virginia's performance with our peer states*
- *Drill down to progress at the local level*
- *Track many of these metrics over time*

*You can explore the Virginia Economic Dashboard on our website at [www.vachamber.com](http://www.vachamber.com) by clicking on "Foundation" then "Dashboard."*

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

*Barry DuVal  
President & CEO  
Virginia Chamber*



**October 23, 2018**

## **3<sup>rd</sup> Quarter Economic Update – Warm and Sunny**

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### **IN SUM**

**After slogging through the most anemic recovery since the Great Depression, the 3<sup>rd</sup> quarter added to the string of good news we have experienced throughout 2018:**

- Nationally, year-over-year growth in Total Nonfarm employment continued to accelerate, reversing the deceleration we had been experiencing since 2015.
- Non-Residential Fixed Investment has been trending upward since 2017 and contributed 1.2% to GDP growth in the 2<sup>nd</sup> quarter of 2018, as compared to 0.5% in the 2<sup>nd</sup> quarter of 2016.
- With increased business investment, labor productivity, which had been flat for much of the recovery, began to accelerate this spring.
- Quarterly GDP growth, which had averaged 2.1% between 2010 and 2016, increased to 2.5% in 2017, and 3.2% so far in 2018.

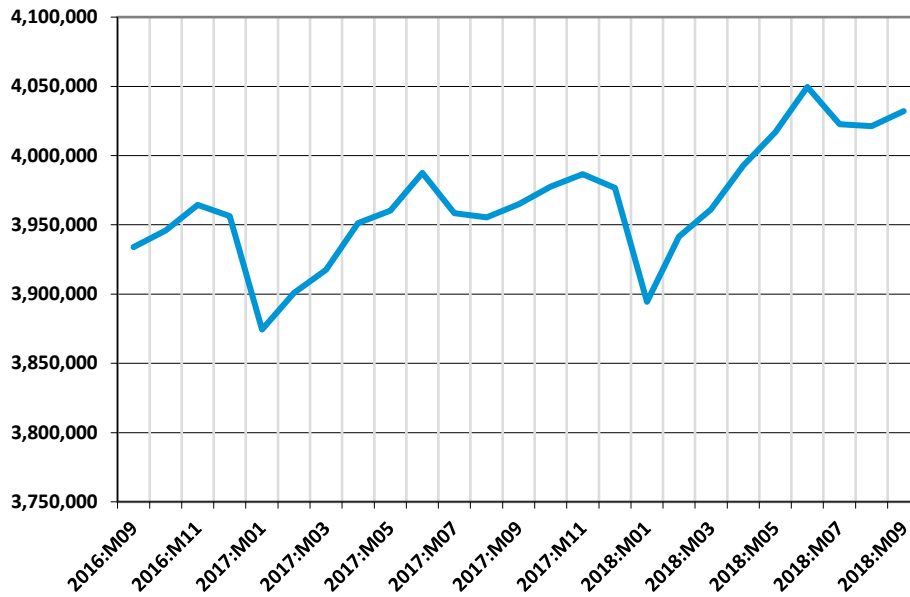
**Virginia has shared in that turnaround:**

- Year-over-year growth in Total Nonfarm employment, which had under-performed the national norm throughout most of the recovery from 2011 through 2017, accelerated to close the gap with the national trend in September.
- Year-over-year growth in Virginia's Construction, Financial Activities, Leisure and Hospitality, Manufacturing, Transportation and Warehousing, and Wholesale Trade sectors all accelerated above the national norm in 2018.
- Virginia's all-important Professional and Business Services has under-performed the national trend in recent years. Much of that under-performance was driven by declines in federal government defense expenditures. But, in the 2<sup>nd</sup> quarter of 2017 year-over-year growth in federal government defense expenditures turned positive and accelerated to 2.2% in the 2<sup>nd</sup> quarter of 2018. And shortly after, growth in Northern Virginia's DOD-dependent Professional and Business Services sector accelerated above the national trend. Which bodes well for short-term growth in this key sector.
- However, with the annual interest payment on our \$21 trillion federal debt projected to account for \$1 out of every \$6 collected in federal taxes in just ten years, Virginia's over-dependence on federal government expenditures remains a long-term liability. Which once again emphasizes the need for the state to focus on encouraging private sector development by maintaining a competitive business climate.
- At 2.8% statewide in Virginia, unemployment rates have fallen to levels not seen since the 1960s.

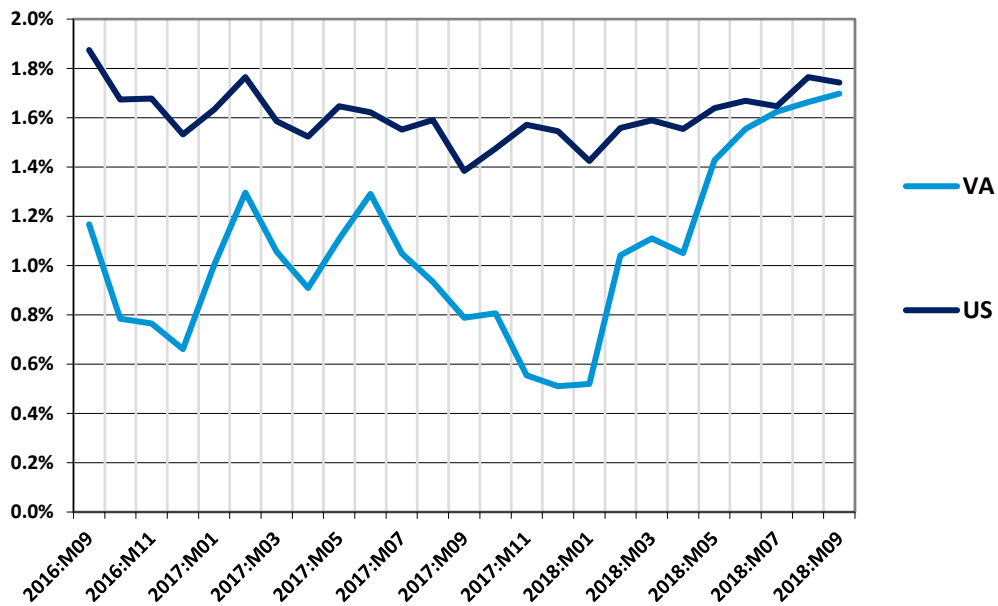
## WHERE WE ARE

Total Nonfarm employment in Virginia increased by 98,300 jobs, or 2.5%, between September 2016 and September 2018.

Total Statewide Nonfarm Employment: September 2016 to September 2018

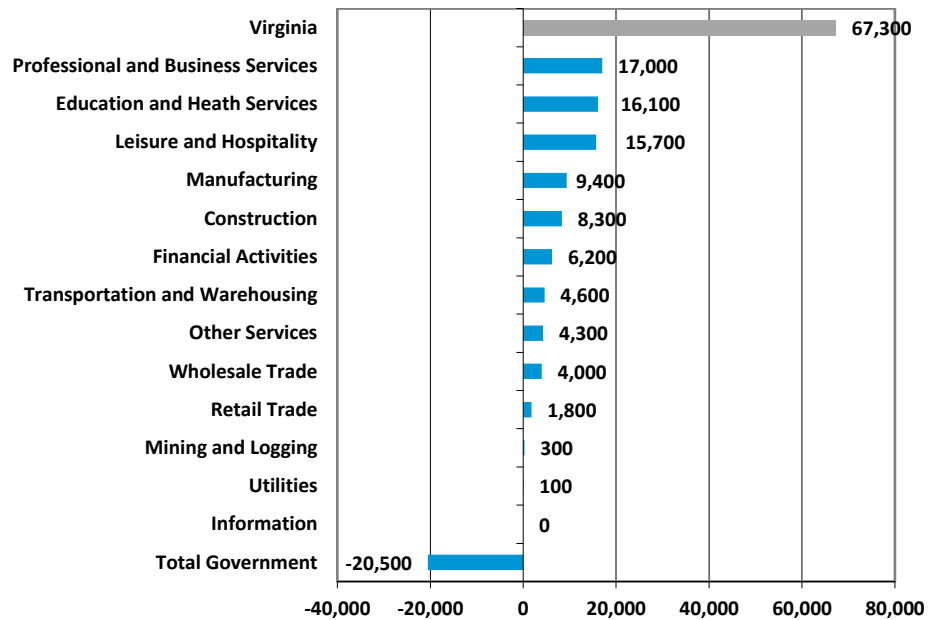


Year-over-Year Percentage Change in Total Nonfarm Employment: September 2016 to September 2018

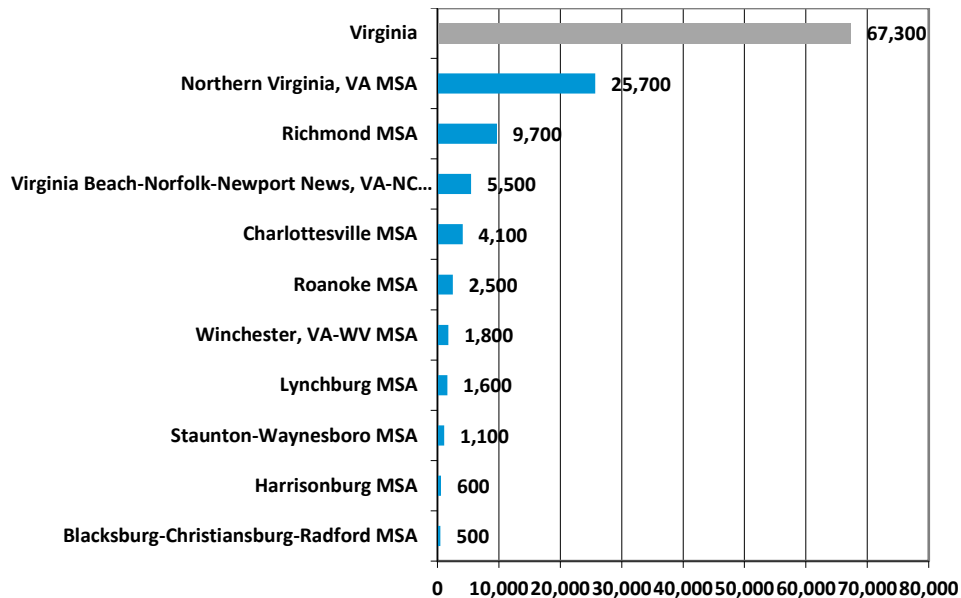


Between September 2017 and September 2018, statewide growth in Total Nonfarm employment was led by increases in the Professional and Business Services (up 17,000 jobs), Education and Health Services (up 16,100 jobs), and Leisure and Hospitality (up 15,700 jobs) sectors. From a regional perspective, the largest job gains occurred in the Northern Virginia (up 25,700 jobs), Richmond (up 9,700 jobs), and Virginia Beach-Norfolk-Newport News (up 5,500 jobs) MSAs.

### September 2017 to September 2018 Increase in Total Nonfarm Employment by Sector



### September 2017 to September 2018 Increase in Total Nonfarm Employment by MSA

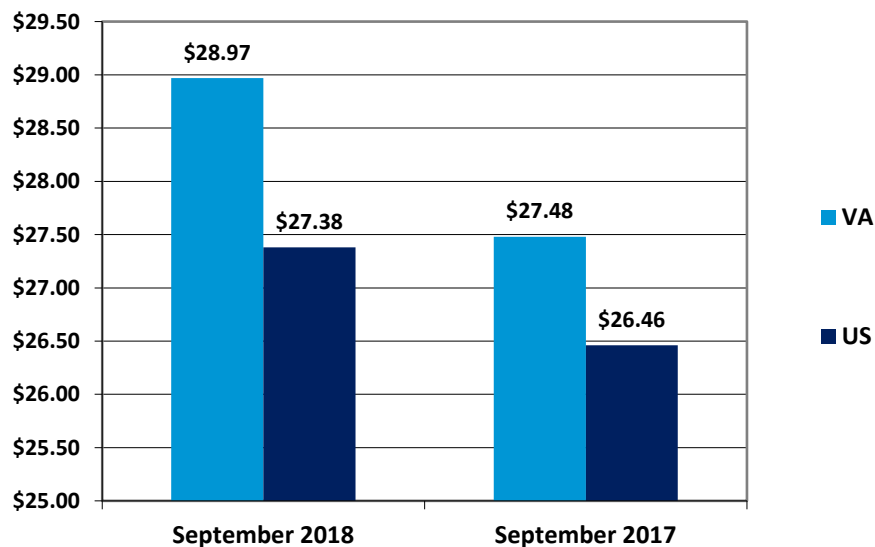


Virginia’s 1.7% year-over-year growth in statewide Total Nonfarm employment in September 2018 was equal to the 1.7% increase posted at the national level. Moreover, 11 of Virginia’s 14 major industry sectors experienced year-over-year growth that was at or above the national norm. Those were: Construction (up 4.2% statewide vs. up 4.2% nationally); Manufacturing (up 4.0% statewide vs. up 2.2% nationally); Leisure and Hospitality (up 3.9% statewide vs. up 1.7% nationally); Transportation and Warehousing (up 3.7% statewide vs. up 3.3% nationally); Wholesale Trade (up 3.6% statewide vs. up 1.6% nationally); Education and Health Services (up 3.0% statewide vs. up 1.9% nationally); Financial Activities (up 3.0% statewide vs. up 1.4% nationally); Other Services (up 2.1% statewide vs. up 1.5% nationally); Utilities (up 0.9% statewide vs. down 0.6% nationally); Retail Trade (up 0.4% statewide vs. up 0.4% nationally), and Information (0.0% statewide vs. down 0.5% nationally).

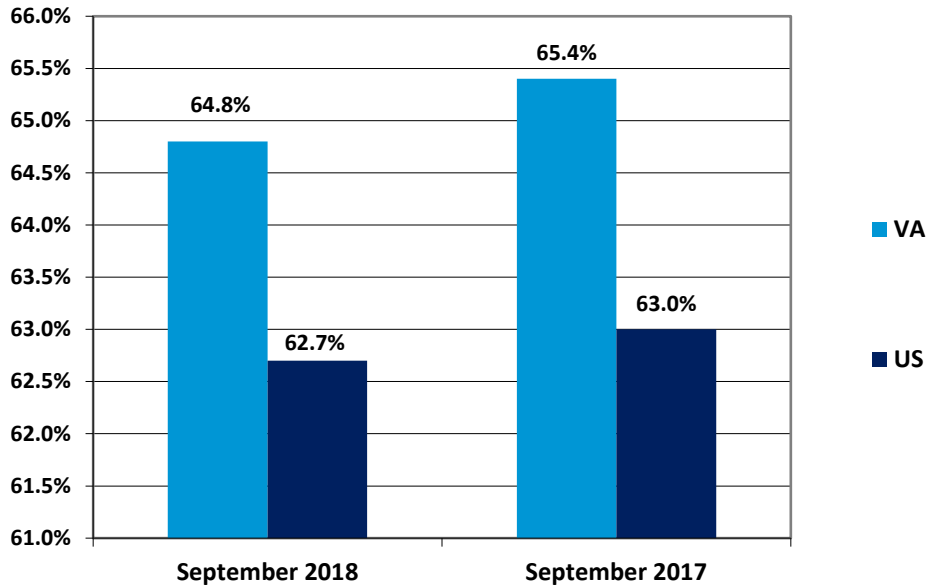
On the other side of the ledger, Virginia’s Total Government (down 2.9% statewide vs. up 0.5% nationally); Professional and Business Services (up 2.3% statewide vs. up 2.8% nationally); and Mining and Logging (up 3.7% statewide vs. up 9.1% nationally) sectors under-performed the national norm.

Private Sector Average Hourly Earnings in Virginia rose from \$27.48 to \$28.97 between September 2017 and September 2018, a nominal year-over-year increase of 5.4%, which was above the 3.5% 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, declined from 65.4% in September 2017 to 64.8% in September 2018. While at the national level, the labor force participation rate declined from 63.0% in September 2017 to 62.7% in September 2018.

Private Sector Avg. Hourly Earnings: September 2017 to September 2018

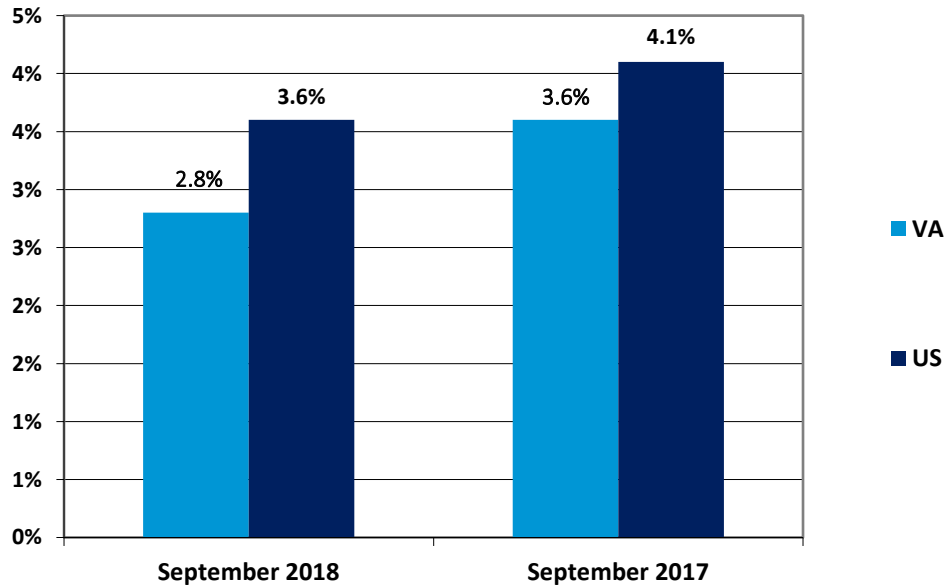


### Labor Force Participation Rate: September 2017 to September 2018

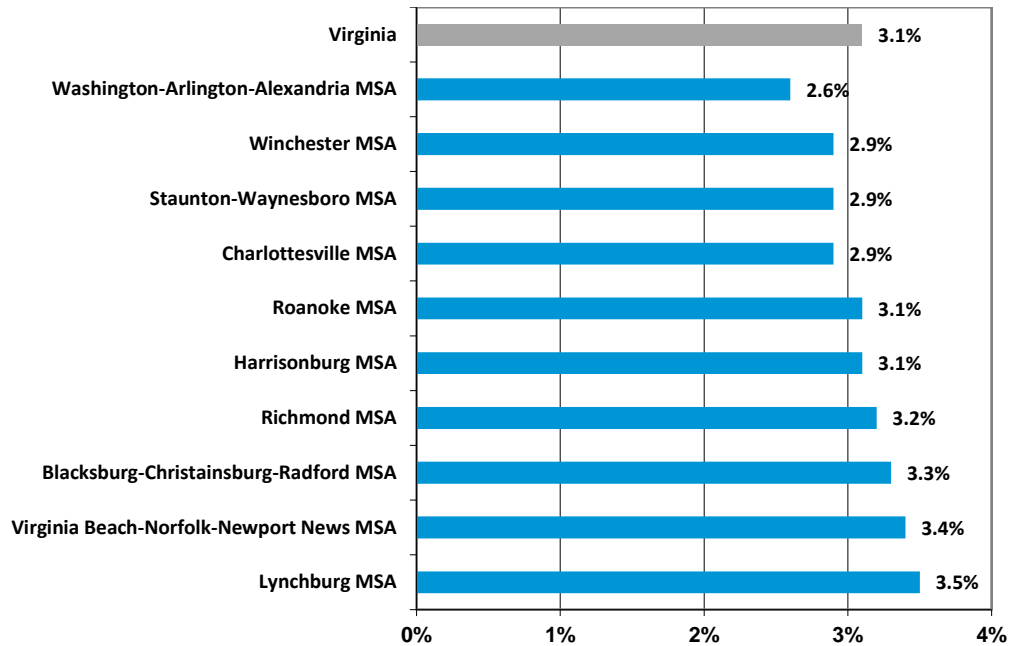


Turning to unemployment, the statewide seasonally unadjusted unemployment rate stood at 2.8% in September 2018, below the national unemployment rate of 3.6% for that month, and an improvement over the state's 3.6% unemployment rate a year before. From a regional perspective, in August 2018 (sub-state unemployment rates are reported later than the statewide rate) the seasonally unadjusted unemployment rates in Virginia's major MSAs ranged from a high of 3.5% in Lynchburg to a low of 2.6% in Northern Virginia.

### Seasonally Unadjusted Unemployment Rate: September 2017 to September 2018



## Seasonally Unadjusted Unemployment Rate: August 2018 by MSA



## WHAT TO LOOK FOR

### 1) Employment

After slogging through the most anemic recovery since the Great Depression, the 3rd quarter added to the string of good news we have experienced throughout 2018. Nationally, year-over-year growth in Total Nonfarm employment continued to accelerate, reversing the decelerating growth trend we had been experiencing since 2015. Non-Residential Fixed Investment has been trending upward since 2017 and contributed 1.2% to GDP growth in the 2nd quarter of 2018, as compared to 0.5% in the 2nd quarter of 2016. And, as economic theory would suggest, that increase in business investment was associated with a notable acceleration in labor productivity over the spring. Quarterly GDP growth, which had averaged 2.1% between 2010 and 2016, increased to 2.5% in 2017, and 3.2% so far in 2018.

Importantly, Virginia is benefiting from that turnaround. In 2018, Virginia's year-over-year growth in Total Nonfarm Employment, which had under-performed the national norm throughout most of the recovery from 2011 through 2017, accelerated to close the gap with the national trend. Moreover, year-over-year employment growth in Virginia's Construction, Financial Activities, Leisure and Hospitality, Manufacturing, Transportation and Warehousing, and Wholesale Trade sectors all accelerated above the national norm in 2018, although in many instances that transition occurred only recently in the beginning months of the 3rd quarter.

In contrast, Virginia's Professional and Business Services and Total Government sectors continue to under-perform the national norm and that is placing a drag on the state's economy. Where most of

the recent change in Total Government employment was driven by education-related seasonal changes in Local Government employment, the impact on Professional and Business Services has largely been driven by year-over-year declines in federal government defense expenditures that began in the 1st quarter of 2011, and the affect that has had on Northern Virginia's very Department of Defense dependent Professional and Business Services sector.

But, that situation recently improved. In the 2nd quarter of 2017, year-over-year changes in federal government defense expenditures turned positive and accelerated to 2.2% as of the 2nd quarter of 2018. And shortly after, in August of 2018 year-over-year growth in Professional and Business Services employment in Northern Virginia accelerated above the national norm. All of which bodes well for short-term growth in Virginia's Professional and Business Services sector – the state's largest employment sector and most important economic driver.

However, with the federal debt now over \$21 trillion and the annual interest payment on that debt projected to account for \$1 out of every \$6 collected in federal taxes in just ten years, Virginia's over-dependence on federal government expenditures remains a long-term liability. Which once again emphasizes the need for the state to focus on encouraging private sector development by maintaining a competitive business climate.

## 2) Wages

News on the wage front was also good. Year-over-year growth in private sector average hourly earnings in Virginia accelerated above the national average in June 2018 and has continued to climb, reaching 5.4% in September as compared to 3.5% at the national level.

## 3) Labor Force Participation

Labor force participation, the proportion of the 16 and over population that is either employed or looking for work, fell slightly in September. However, that change was largely attributable to seasonal factors.

## 4) Unemployment

At 2.8% statewide in Virginia, and 3.6% nationally, seasonally unadjusted unemployment rates have fallen to levels not seen since the 1960s.



## ANNOUNCEMENTS

### 1) New and Expanding

Virginia Economic Development Partnership announcements of new or expanding businesses in the 3<sup>rd</sup> quarter 2018:

- [Statewide](#): 4,125 jobs and nearly \$4.6 billion in direct investment.
- [Big Stone Gap MSA](#): 6 jobs and \$0.5 million in direct investment.
- [Blacksburg-Christiansburg-Radford MSA](#): 55 jobs and \$2.0 million in direct investment.
- [Charlottesville MSA](#): 200 jobs and \$12.3 million in direct investment.
- [Danville MSA](#): 15 jobs and \$3.5 million in direct investment.
- [Harrisonburg MSA](#): 88 jobs and \$76.9 million in direct investment.
- [Kingsport-Bristol-Bristol MSA](#): 105 jobs and \$14.1 million in direct investment.
- [Lynchburg MSA](#): \$7.3 million in direct investment.
- [Martinsville MSA](#): 512 jobs and \$73.6 million in direct investment.
- [Richmond MSA](#): 606 jobs and over \$1.0 billion in direct investment.
- [Roanoke MSA](#): 97 jobs and \$10.0 million in direct investment.
- [Staunton-Waynesboro MSA](#): 37 jobs and \$20.5 million in direct investment.
- [Virginia Beach-Norfolk-Newport News MSA](#): 20 jobs and \$0.2 million in direct investment.
- [Northern Virginia MSA](#): 2,244 jobs and over \$3.0 billion in direct investment.

### 2) Reductions and Closures:

Virginia Economic Development Partnership announcements of reductions and closures in the 3<sup>rd</sup> quarter 2018:

- [Statewide](#): 1,179 jobs.
- [Kingsport-Bristol-Bristol MSA](#): 470 jobs
- [Richmond MSA](#): 412 jobs.
- [Virginia Beach-Norfolk-Newport News MSA](#): 101 jobs.
- [Northern Virginia MSA](#): 144 jobs.

#### Data sources:

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

## About Mangum Economic Consulting, LLC

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Mangum Economic Consulting, 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:

### POLICY ANALYSIS

Identify the intended and, more importantly, unintended consequences of proposed legislation and other policy initiatives.

### 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.

### CLUSTER ANALYSIS

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.

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