Review of FY 2009

The decline in the national economy accelerated dramatically in FY 2009. Compounding the negative economic pressures during this period, major investment banks failed or were taken over and credit markets required the historic intervention of the federal government to provide basic stability and functionality. The U.S. economy lost 5.6 million jobs during FY 2009 and the unemployment rate rose from 5.8 percent at the beginning of the year to 9.5 percent by year’s end. As a result, this economic contraction has been deeper and longer than any slowdown since the Great Depression.

Although faring better than most other states, the Virginia economy was not immune to the economic calamity that gripped the nation. Total non-agricultural employment fell by 1.3 percent, easily exceeding the declines of the last two recessions. Job losses totaled close to 50,000, with eight of the ten major employment sectors losing jobs. The depression in housing continued to affect Virginia’s economic performance. Home sales in Virginia declined 2.3 percent in FY 2009, the fourth consecutive annual decline.

National economy – The Great Recession

The bottom dropped out of the U.S. economy in FY 2009, when both the housing and financial sectors imploded. Job losses reached their highest level since the Great Depression.

Growth in U.S. Gross Domestic Product (GDP) slumped in FY 2009. The value of all goods and services produced within the U.S., adjusted for inflation, declined by 2.2 percent in FY 2009. Total personal income fell by 0.1 percent, while wages and salaries declined by 1.3 percent.

Consumer spending was constrained by the weak labor market, the credit crunch, and lower stock market wealth. Consumer spending fell by 1.4 percent in FY 2009.

5.6 million jobs were lost nationwide in FY 2009. All the major sectors shed jobs with the exception of government employment and education and health services.

The Federal Reserve acted aggressively to soften the economic contraction. The federal funds rate target was reduced to a range of 0.0 to 0.25 percent in December 2008.

For further details on the national economy, see the Federal Reserve and the Bureau of Labor Statistics’ website.

In Virginia, the economy fell into recession

Although modest job losses were expected, payroll employment fell much further than anticipated in FY 2009. Employment fell 1.3 percent from the prior year, 0.7 percent below
the annual forecast of a 0.6 percent decline. Total nonagricultural employment fell by 49,600 jobs – more than twice as many jobs as anticipated in the official forecast. Seven out of ten major employment sectors fell short of forecast.

In terms of the number of jobs, the largest variance was in the government sector, which was expected to lose 11,200 jobs, but instead gained 10,900. Professional and business services, typically the driver of growth, was expected to add 14,700 jobs in FY 2009, but declined by 6,300. The construction sector experienced the largest employment loss, shedding 24,600 jobs, nearly triple the projected loss.

Here is a look at regional employment in Virginia during fiscal year 2009:

**Northern Virginia**

In Northern Virginia, which represents 35 percent of all jobs in the state, total employment fell by 0.5 percent (6,400 jobs) compared with the forecast of a 0.9 percent increase. The housing slowdown hit Northern Virginia hard again in FY 2009, with the construction sector shedding 9,700 jobs for the year, about the same number of jobs lost last year and far ahead of the projected loss of 3,600 jobs. Professional and business services grew much more slowly than anticipated. Government, trade, education and health services, and leisure and hospitality services all posted larger than expected gains. Education and health services, projected to decline modestly, gained 6,000 jobs.

**Norfolk/ Virginia Beach/ Newport News**

The Norfolk-Virginia Beach-Newport News MSA (20 percent of state employment) also experienced a job loss of 2.0 percent, or 15,800 jobs, in FY 2009, compared to the forecast of a 0.1 percent decline. As in the other regions, construction losses were underestimated in the forecast. It was projected that 1,500 construction jobs would be lost, but the actual number was 4,100. Similar to Northern Virginia, professional and business services was expected to grow, but employment in that sector declined. Employment in the tourism industry, long a staple of the area economy, was expected to remain relatively flat, but declined by 2.9 percent.

**Balance of the state**

Outside of the three major metro areas, the remainder of the state (28 percent of state employment) shed 15,000 jobs in FY 2009, less than the forecast of 23,300. Losses in construction and professional business services were larger than anticipated. Government employment, projected to fall by 7,600 jobs actually gained 4,600. Many rural areas of the state, particularly Southside and Southwest Virginia, are still dependent on manufacturing activity and international trade. Weakness in those sectors continues to be a drag on overall growth.
U.S. economic outlook expects a sluggish recovery

The October forecast anticipates that the U.S. economy probably hit bottom in June 2009. The economy is recovering but the recovery is expected to follow a “mild W” pattern rather than the more typical “V-shaped” recovery. At the November meeting of the Governor’s Advisory Council on Revenue Estimates, the consensus economic forecast was for sluggish output growth along with continuing job losses. Highlights of the economic outlook for the next three years include:

- Real Gross Domestic Product is projected to grow by 0.4 percent in FY 2010, 2.3 percent in FY 2011, and 3.5 percent in FY 2012.
- Employment is expected to decline by 2.9 percent in FY 2010.
- Real consumer spending is expected to grow by 0.7 percent in FY 2010, 2.2 percent in FY 2011, and 2.4 percent in FY 2012.
- Inflation is expected to remain contained over the forecast horizon, with growth estimated to reach 2.3 percent by FY 2012.
- The Federal Reserve is expected to keep the current federal funds target rate of 0.0 percent to 0.25 percent through FY 2010 and begin to tighten at the beginning of FY 2011.

Fiscal year 2010 expected to be a year of continued recessionary conditions

The Virginia economy is expected to lose another 85,300 jobs in FY 2010 before stabilizing in FY 2011. Here is a look at what economists are predicting for Virginia:

- Personal income is expected to grow 1.6 percent in FY 2010, 3.0 percent in FY 2011, and 3.7 percent in FY 2012. Wages and salaries are expected to grow 0.4 percent in FY 2010, 3.0 percent in FY 2011, and 3.7 percent in FY 2012.
- Employment is expected to fall 2.3 percent in FY 2010, and modestly increase by 1.1 percent and 2.1 percent in FY 2011 and FY 2012, respectively.
- Employment in the professional and business services sector is forecast to decline by 2.8 percent in FY 2010 and increase by 4.3 percent in FY 2011.
- Construction employment is expected to be mired in recession for an additional two years, falling by 11.9 percent in FY 2010 and 5.1 percent in FY 2011. FY 2012 would mark the first year of growth in this sector since FY 2006.
- Employment in trade, transportation and utilities is expected to decline by 2.5 percent in FY 2010.