

## ECONOMIC FORECAST



### Review of FY 2013

The national economy continued on a path of modest growth in FY 2013. The job market showed better-than-expected improvement, with job growth of 1.6 percent, the same as in the prior year. The services sector drove the job gains while those sectors most closely related to the housing sector (construction and financial activities) started to show some signs of recovery.

The Virginia economy was expected to grow at a pace similar to that of FY 2012, although growth in both employment and income was projected to be modest and below trend through FY 2013. While Virginia's

higher-than-average dependence on federal spending helped Virginia weather the recession, it has more recently been a liability stemming from federal spending reductions in addition to the decisions regarding the debt-ceiling and automatic spending cuts per the sequester. The resulting uncertainty about future cuts has likely already had some effect on hiring in defense-related industries in Virginia, most of which are part of the professional and business services sector.

### National economy - Growth continues at a modest pace

Modest economic growth has persisted despite higher taxes, sequestration, and weak economies overseas. Current national indicators suggest the economy continues to expand at a modest pace. Conditions in the housing sector and job market have improved and should provide some momentum going forward. The Federal Reserve continued its quantitative easing program.

Growth in U.S. Gross Domestic Product (GDP) rose in FY 2013. The value of all goods and services produced within the U.S., adjusted for inflation, increased by 2.0 percent in FY 2013. Total personal income increased by 3.7 percent, while wages and salaries rose by 3.9 percent.

Consumer spending growth remains weak. Consumer spending rose by 2.0 percent in FY 2013.

National employment increased by 1.6 percent in FY 2013. Only the government sector declined in FY 2013, while employment in the all other sectors showed improvement over FY 2012.

### Virginia's economic performance in FY 2013 remains below trend

Total personal income increased 3.0 percent, 0.4 percentage point behind the forecast; net transfer payments, which declined by 2.2 percent, were 6.3 percentage points behind the forecast; and supplements to wages and salaries finished 0.6 percentage points behind the forecast. Wages and salaries, which accounted for 53 percent of total personal income in FY 2013, grew 3.0 percent or 0.7 percentage points below the forecast. These shortfalls were almost made up by the other two components of income, as they performed better than expected. First, proprietor's income rose 6.7 percent instead of the predicted 0.9 percent. Second, dividends, interest, and rental income, which made up 20 percent of total personal income in FY 2013, grew 4.8 percent, 0.3 percentage points ahead of the forecast.

Payroll employment growth slightly exceeded expectations in FY 2013. In the official forecast, total nonagricultural employment was projected to increase 1.2 percent, with the average annual employment level rising by 43,400 jobs. Actual job gains were 46,400, an increase of 1.3 percent. Lower-than-expected gains for the professional and business services sector and trade, transportation, and utilities were offset by higher-than-expected gains in financial activities, education and health services, leisure and hospitality services, and government (state and local). Overall, six out of ten major employment sectors met or exceeded the official forecast in FY 2013.

In terms of the number of jobs, the largest variance was concentrated in the professional and business services sector, which was expected to gain 13,200 jobs, however, only gained 5,700 jobs. Financial activities gained 6,000 jobs; this sector outperformed the forecasted gain of 1,300 jobs. Government added 3,300 jobs (about evenly split from federal, state and local government), instead of losing the predicted 2,300 jobs.

### [HERE IS A LOOK AT REGIONAL EMPLOYMENT IN VIRGINIA DURING FY 2013:](#)

#### [Northern Virginia](#)

In Northern Virginia, which represents 37 percent of all jobs in the state, total employment rose by 28,500 jobs, above the predicted amount of 14,400. The professional and business services sector added 5,600 new jobs in FY 2013, down from 9,900 added in FY 2012. Education and health services added 2,200 jobs, 500 less than predicted. The government sector added 7,700 jobs, instead of 1,000 jobs. Construction added 200 more jobs than expected, while financial activities added 1,900 more than expected.

#### [Richmond/Petersburg](#)

Employment in the Richmond-Petersburg MSA (17 percent of state employment exceeded expectations by growing 2.0 percent (12,300 jobs) in FY 2013, far ahead of the forecast of 0.4 percent. Professional and business services were more than expected, adding 2,100 jobs instead of the predicted 200. Education and health services added 1,900 more jobs than expected, while leisure and hospitality added 2,200 more than expected. Government subtracted 100 jobs in line with the forecast.

#### [Norfolk/ Virginia Beach/ Newport News](#)

Employment in the Norfolk-Virginia Beach-Newport News MSA (20 percent of state employment) was slightly below expectations in FY 2013, rising by 1.3 percent compared with the forecast of 1.9 percent growth. The region gained 9,900 jobs in FY 2013, compared with the forecast of 14,300. The professional and business services sector gained 100 jobs compared to expectations of 4,500 new jobs. Employment in the tourism industry, long a staple of the area economy, grew less than expected, adding 1,500 jobs compared with a forecast of 2,700. Government, which was forecast to lose 1,100 jobs, gained 1,200. Education and health services also outperformed, adding 800 more jobs than expected.

## Balance of the state

Outside of the three major metro areas, the remainder of the state (27 percent of state employment) declined 4,200 jobs in FY 2013, well below the forecasted gain of 12,400. Professional and business services lost 2,100 jobs, instead of the predicted gain of 1,900. Education and health and leisure and hospitality each gained fewer jobs than expected: 600 and 1,000, respectively. Government decreased by 5,600 jobs, instead of the predicted loss of 2,100.

### A Conservative Outlook

	Actual	Forecast		
	FY 2013	FY 2014	FY 2015	FY 2016
<b>Real GDP</b>	2.0%	2.1%	2.8%	3.2%
<b>Employment*</b>	1.6%	1.6%	1.7%	1.8%
<b>Unemployment</b>	7.8%	7.1%	6.6%	6.1%
<b>CPI</b>	1.7%	1.3%	1.6%	1.9%
	% Growth			

\*Total nonagricultural employment. Figures represent percent change over previous year, except the unemployment rate, which is a percentage. Data based on the November 2013 Global Insight standard forecast. Source: Department of Taxation

## U.S Economy expected to continue on a modest growth track

The November forecast anticipates that the U.S. economic recovery is on firmer ground as economic fundamentals show improvement. Rising oil prices, government spending cuts, higher interest rates, and persistently weak job creation are the main threats to growth. At the November meeting of the Governor's Advisory Council on Revenue Estimates, the consensus economic forecast was for output growth slowly returning to a "normal" growth pattern over the next three years. Highlights of the economic outlook for the next two years include:

- Real Gross Domestic Product is projected to grow by 2.1 percent in FY 2014 and 2.8 percent in FY 2015.
- Employment growth is expected to be below two percent over the next three fiscal years.
- Real consumer spending is expected to grow by 2.0 percent in FY 2014 and 2.8 percent in FY 2015.
- Inflation is expected to grow by 1.3 percent in FY 2014 and 1.6 percent in FY 2015
- The Federal Reserve is expected to maintain the federal funds rate at zero through FY 2015.

## Virginia economy is expected to expand at a moderate pace

The November standard forecast assumes that Virginia will grow slower than the nation in terms of employment and personal income. Federal government spending is forecast to decline by 4.7 percent in calendar year 2013 as the impact of sequestration takes hold. Federal government spending is expected to continue to be a drag on the overall economy throughout the forecast horizon. Here is a look at what economists are predicting for Virginia:

o Personal income is expected to grow 2.9 percent in FY 2014 and 4.3 percent in FY 2015. Wages and salaries are expected to grow 2.6 percent in FY2014 and 4.0 percent in FY 2015.

- o Employment is expected to modestly increase by 1.0 percent and 1.5 percent in FY 2014 and FY2015, respectively.
- o Employment in the professional and business services sector is forecast to increase by 1.0 percent in FY 2014.
- o Construction employment is expected to grow by 3.0 percent in FY 2014.
- o Employment in trade, transportation and utilities is expected to increase by 0.9 percent in FY 2014.