

Economic Forecast

Review of FY 2010

The national economy began a sluggish recovery in FY 2010. Job losses continued and credit remained tight, but some indicators were upbeat. The manufacturing sector was expanding, the housing market had improved, and business equipment spending was growing.

Although faring better than most other states, the Virginia economy was expected to register its worst performance in the post-war era in FY 2010. Total non-agricultural employment fell by 2.1 percent. Job losses totaled over 79,000, with eight of the ten major employment sectors losing jobs. The depression in housing continued to affect Virginia's economic performance. Taken together,



construction and financial activities, the two sectors most closely related to the housing market, declined by 31,800 jobs in FY 2010.

National economy — the weak recovery

The National Bureau of Economic Research's Business Cycle Dating Committee has determined that the recession began in December 2007 and ended in June 2009. In a further statement, the Committee added that it "...did not conclude that economic conditions since that month have been favorable or that the economy has returned to operating at normal capacity. Rather, the committee determined only that the recession ended and a recovery began in that month." At 18 months, this was the longest recession since World War II. The next longest post-war slumps were those of the early 1970s and the early 1980s, both of which lasted 16 months.

Growth in U.S. Gross Domestic Product (GDP) rose slightly in FY 2010. The value of all goods and services produced within the U.S., adjusted for inflation, increased by 0.7 percent in FY 2010. Total personal income increased by only 0.3 percent, while wages and salaries declined by 1.7 percent.

Consumer spending growth edged into positive territory. Consumer spending rose by 0.4 percent in FY 2010.

U.S. economy begins a slow climb

	Actual	Forecast	
	2010	2011	2012
Real GDP	0.7%	2.2%	2.7%
Total Employment*	-3.0%	0.5%	1.6%
Unemployment	9.8%	9.7%	9.4%
CPI	1.0%	1.3%	1.8%

* Total nonagricultural employment. Figures represent percent change over previous year, except the unemployment rate, which is a percentage. Data based on the October 2010 Global Insight standard forecast. Source: Department of Taxation.

National employment declined by 3.0 percent in FY 2010. All the major sectors shed jobs with the exception of education and health services.

In Virginia, the economy continued to show weakness in FY 2010

Payroll employment in Virginia did not fall as far as expected in FY 2010. In the official forecast, total nonagricultural employment was projected to decline 2.6 percent, with the average annual employment level falling by 95,600 jobs. Actual employment losses were 79,400, a decline of 2.1 percent. As expected, the decline was led by losses in construction, manufacturing, and trade. Collectively, these sectors shed 63,700 jobs in FY 2010. Only education and health and other services posted annual employment increases. Overall, employment growth in eight out of ten major sectors exceeded the official forecast in FY 2010.

In terms of the number of jobs, the largest positive variance was in the high-paying professional and business services sector. The loss of 9,900 jobs in this sector was far below the 22,000 projected in the forecast. This was followed by manufacturing, which lost 9,000 fewer jobs than anticipated, and education and health services, which added 5,200 more jobs than projected. Employment in leisure and hospitality services and government was below expectations in FY 2010, losing a combined 6,400 jobs compared with the forecast of an 11,100 addition.

Here is a look at regional employment in Virginia during FY 2010:

Northern Virginia

In Northern Virginia, which represents 36 percent of all jobs in the state, total employment fell by 0.8 percent (10,100 jobs) compared with the forecast of a 1.6 percent decline. The housing slowdown hit Northern Virginia hard again in FY 2010, with the construction and financial sectors shedding a combined 9,200 jobs for the year. Professional and business services added 2,700 new jobs in FY 2010.

Richmond/Petersburg

Employment in the Richmond-Petersburg MSA (16 percent of state employment) fell 3.3 percent (20,700 jobs) in FY 2010, below the forecast of a 2.6

percent decline. The largest negative variance was in the government sector. Job losses were broad-based across sectors, with the bulk of the losses in construction (-4,300 jobs), professional and business services (-4,300 jobs), and trade (-3,800 jobs). Education and health services increased 3.7 percent in FY 2010, below expectations.

Norfolk/ Virginia Beach/ Newport News

Employment in the Norfolk-Virginia Beach-Newport News MSA (20 percent of state employment) contracted more than expected in FY 2010, declining 2.5 percent compared with the forecast of a 1.3 percent decline. The region lost 18,800 jobs in FY 2010. As expected, the decline was attributable to losses in housing-related employment and trade, which together shed 12,300 jobs. As with Northern Virginia, professional and business services finished the year ahead of expectations, declining 3.2 percent compared with the forecast of a 3.8 percent decline. Employment in the tourism industry, long a staple of the area economy, declined more than expected, while education and health services added fewer jobs than anticipated. The largest negative variance was in the government sector, which declined by 900 jobs compared to the forecast of a 3,600 gain. The variance was attributable to an unexpected drop in local government employment.

Balance of the state

Outside of the three major metro areas, the remainder of the state (28 percent of state employment) shed 29,800 jobs in FY 2010, less than the forecast of 48,200 jobs. Education/health and professional/business services accounted for most of the positive variance. Losses in trade and leisure and hospitality services were larger than anticipated. Government employment, projected to fall by 4,100 jobs only declined by 2,200 jobs.

U.S. economic outlook is for a weak recovery but no double-dip recession

The October forecast anticipates that the U.S. economy has lost some momentum as the effects of the inventory cycle and fiscal stimulus fades but a “back-to-back” recession is not considered to be likely. At the November meeting of the Governor’s Advisory Council on Revenue Estimates, the consensus economic forecast was for output growth averaging about 2.5 percent for the next two years. Highlights of the economic outlook for the next two years include:

- Real Gross Domestic Product is projected to grow by 2.2 percent in FY 2011 and 2.7 percent in FY 2012.
- Employment is expected to increase by 0.5 percent in FY 2010.
- Real consumer spending is expected to grow by 2.1 percent in FY 2011 and 2.3 percent in FY 2012.
- Inflation is expected to remain contained over the forecast horizon, with growth estimated to reach 1.8 percent by FY 2012.
- The Federal Reserve has implemented more quantitative easing in November, 2010 and is expected to begin to tighten in 2012.

FY 2011 and FY 2012 expected to bring slow, steady growth

The Virginia economy is expected to add 25,400 new jobs in FY 2011. While this total is well below what a typical economic expansion would add to payrolls, it does follow on the heels of an unprecedented two year run of job losses. Here is a look at what economists are predicting for Virginia:

- Personal income is expected to grow 2.8 percent in FY 2011 and 3.6 percent in FY 2012. Wages and salaries are expected to grow 2.6 percent in FY 2011 and 4.7 percent in FY 2012.
- Employment is expected to modestly increase by 0.7 percent and 2.0 percent in FYs 2011 and 2012, respectively.
- Employment in the professional and business services sector is forecast to increase by 1.6 percent in FY 2011.
- Construction employment is expected to fall by 3.0 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 increase by 1.4 percent in FY 2011.