

ECONOMIC FORECAST



Review of FY 2012

The national economy continued on a bumpy course in FY 2012. The job market showed slight improvement, with job growth of 1.4 percent doubling the growth rate of the prior year.

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 2012. While Virginia's higher-than-average dependence on federal spending helped Virginia weather the recession, it proved to be a liability during the debt-ceiling talks. Moody's and

Standard & Poor's placed it on a watch list and were considering downgrading its AAA rating. It could prove to be an even bigger liability if the looming "fiscal cliff" is allowed to occur. 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 to be weak

Early in calendar year 2012, the economic outlook was encouraging. Modest employment growth, an expanding manufacturing sector, and some stabilization in the housing market suggested the recovery might gain momentum. As 2012 progressed, however, growth again slowed. Although the expansion slowly continued, uncertainty about domestic policy decisions, the European debt crisis, geopolitical tensions in the Mideast, rising gas prices and slowing global economies were all drags on growth through the first half of the calendar year.

Growth in U.S. Gross Domestic Product (GDP) rose in FY 2012

Growth in U.S. Gross Domestic Product (GDP) rose in FY 2012. The value of all goods and services produced within the U.S., adjusted for inflation, increased by 2.0 percent in FY 2012. Total personal income increased by 3.7 percent, while wages and salaries rose by 3.4 percent.

Consumer spending growth remains weak. Consumer spending rose by 2.0 percent in FY 2012.

National employment increased by 1.4 percent in FY 2012. Only the government sector declined in FY 2012, while employment in the all other sectors showed solid improvement over FY 2011.

Virginia's economic performance in FY 2012 still sluggish

Virginia's income statistics showed mixed results in FY 2012. Total personal income increased 4.0 percent - slightly ahead of the 3.9 percent forecast. Income from wages and salaries, which accounted for 55 percent of total personal income in fiscal year 2012, grew 2.6 percent, lagging the forecast of 3.3 percent growth. Net transfer payments rose 11.2 percent, far ahead of the forecast of 5.8 percent growth. Proprietor's income, and supplements to wages and salaries were below forecast in FY 2012.

Payroll employment growth was ahead of expectations in FY 2012. In the official forecast, total nonagricultural employment was projected to increase 1.2 percent, with the average annual employment level rising by 43,200 jobs. Actual job gains were 58,500, an increase of 1.6 percent. Lower-than-expected gains for the professional and business services sector and construction were offset by higher-than-expected gains in education and health services, leisure and hospitality services, and government (all local). Overall, six out of 10 major employment sectors met or exceeded the official forecast in FY 2012.

In terms of the number of jobs, the largest variance was in the high-paying professional and business services sector, which was expected to gain 22,000 jobs, but gained only 10,200 jobs. This was followed by construction, which lost 3,400 jobs, instead of gaining the predicted 1,300 jobs. On the other hand, education and health services added 15,700 jobs, 8,100 more than expected; leisure and hospitality added 9,300 jobs, 5,000 more than expected; and government added 5,600 jobs (all from local government), instead of losing the predicted 11,900 jobs.

HERE IS A LOOK AT REGIONAL EMPLOYMENT IN VIRGINIA DURING FY 2012:

Northern Virginia

In Northern Virginia, which represents 36 percent of all jobs in the state, total employment rose by 28,200 jobs, above the predicted amount of 21,900. The professional and business services sector added 7,900 new jobs in FY 2012, down from 11,200 added in FY 2011 and less than the predicted 10,000 jobs. Education added 2,100 jobs, instead of losing a predicted 3,800 jobs. The housing market was a loss overall, as construction added 1,700 less jobs than expected, while financial activities added 1,200 more than expected.

Richmond/Petersburg

Employment in the Richmond-Petersburg MSA (16 percent of state employment) exceeded expectations by growing 1.8 percent (11,000 jobs) in FY 2012, far ahead of the forecast of 0.1 percent. As with the rest of the state, professional and business services were less than expected, adding 1,200 jobs instead of the predicted 2,500. Education and health services added 1,600 more jobs than expected, while leisure and hospitality added 1,800 more than expected. Government added 1,000 jobs (1,200 came from local), ahead of the forecast of a 1,300 loss.

Norfolk/ Virginia Beach/ Newport News

Employment in the Norfolk-Virginia Beach-Newport News MSA (20 percent of state employment) was slightly below expectations in fiscal year 2012, rising by 1.0 percent compared with the forecast of 1.3 percent growth. The region gained only 7,100 jobs in FY 2012, compared with the forecast of 9,300. Hampton Roads was the only metro area where the professional and business services sector lost jobs. Jobs fell by a total of 1,200 compared to expectations of 4,600 new jobs. Employment in the tourism industry, long a staple of the area

economy, grew a bit less than expected, adding 1,400 jobs compared with a forecast of 1,600. Government, which was forecast to lose 3,000 jobs, gained 2,100. Education and health services also outperformed, adding 1,000 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) gained 12,200 jobs in fiscal year 2012, slightly more than the forecast of 11,500. Professional and business services gained 2,300 jobs, instead of the predicted 4,800. Education and health and leisure and hospitality each gained more jobs than expected: 1,000 and 2,100, respectively. Government increased by 300 jobs, instead of losing 3,900.

A Cautious Outlook

	Actual	Forecast	
	FY 2012	FY 2013	FY 2014
Real GDP	2.0%	1.7%	2.3%
Total Employment	1.4%	1.2%	1.6%
Unemployment	8.6%	8.1%	7.9%
CPI	2.9%	1.5%	1.5%

*Total nonagricultural employment. Figures represent percent change over previous year, except the unemployment rate, which is a percentage. Data based on the October 2012 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 but the downside risks, including the domestic "fiscal cliff", a deeper European recession, and a harder landing in China, call for a cautious outlook. At the November meeting of the Governor's Advisory Council on Revenue Estimates, the consensus economic forecast was for output growth averaging two percent over the next two years. Highlights of the economic outlook for the next two years include:

- Real Gross Domestic Product is projected to grow by 1.7 percent in FY 2013 and 2.3 percent in FY2014.
- Employment growth is expected to be below two percent over the next two fiscal years.
- Real consumer spending is expected to grow by 2.0 percent in FY 2013 and 2.5 percent in FY 2014.
- Inflation is expected to be slightly lower in over the next two fiscal years, increasing by 1.5 percent in each year.
- The Federal Reserve is expected to maintain the federal funds rate at zero though FY 2015.

Slower growth expected for Virginia over the next two fiscal years

The November standard forecast assumes that Virginia will grow slower than the nation in terms of employment and personal income. It does not assume that sequestration will occur, but rather that the new Congress and president will produce a deal, which does not include such severe spending cuts, shortly after the beginning of the year. Here is a look at what economists are predicting for Virginia:

- Personal income is expected to grow 3.4 percent in FY 2013 and 4.0 percent in FY 2014. Wages and salaries are expected to grow 3.5 percent in FY 2013 and 3.8 percent in FY 2014.
- Employment is expected to modestly increase by 1.0 percent and 1.3 percent in FY 2013 and FY2014, respectively.
- Employment in the professional and business services sector is forecast to increase by 1.8 percent in FY 2013.
- Construction employment is expected to grow by 0.7 percent in FY 2013. FY 2013 would mark the first year of growth in this sector since fiscal year 2006.
- Employment in trade, transportation and utilities is expected to increase by 0.9 percent in FY 2013.