
2nd Quarter Economic Update - Continued Cloudy with Intermittent Rain

In Sum

Virginia's employment growth continued to under-perform the national norm in the 2nd quarter:

- Consistent with a trend that began in the last half of 2018, year-over-year growth in Total Nonfarm employment in Virginia continued to decelerate in the 2nd quarter, coming in at 0.8% in June as compared to 1.5% at the national level.
- Although employment gains were led by Professional and Business Services, Education and Health Services, and Leisure and Hospitality, in each instance those sectors under-performed their respective national growth rate.
- Only 3 of Virginia's 14 major industry sectors - Transportation and Warehousing, Manufacturing, and Utilities - experienced year-over-year employment growth between June 2018 and June 2019 that was at or above the national norm.

Wage growth in Virginia out-performed the national norm in the 2nd quarter:

- Year-over-year growth in private sector average hourly earnings in Virginia accelerated above the national average in June 2018 and peaked at 6.2% in

December. Those growth rates have since remained strong, coming in at 5.1% in June 2019 as compared to 4.0% at the national level.

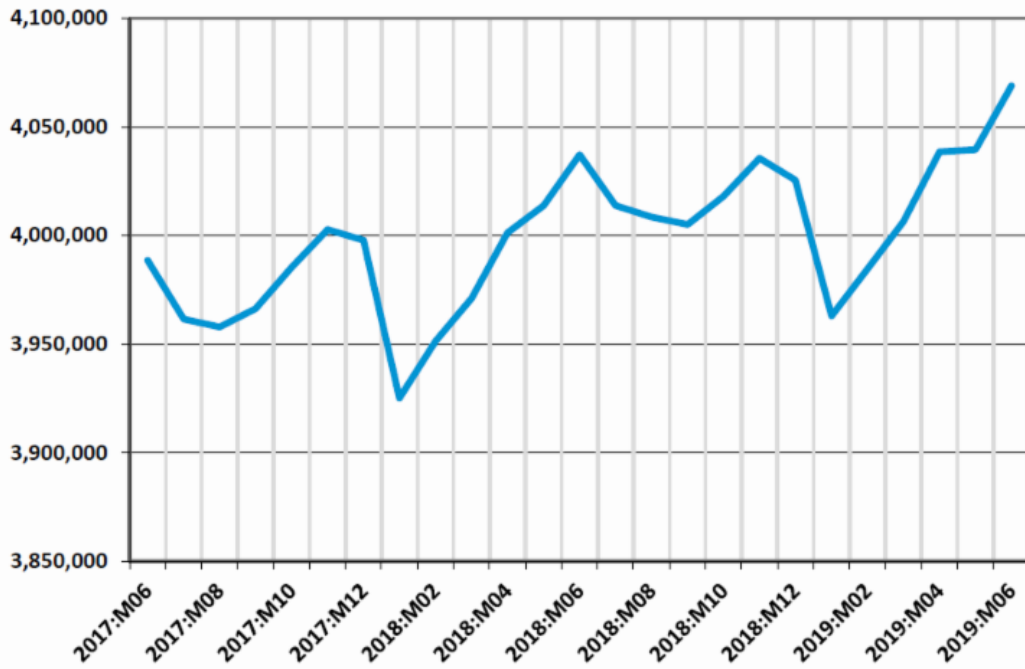
Unemployment rates remain at historic lows, but labor force participation rates are still below pre-recession levels:

- At 2.9% statewide in Virginia, and 3.8% nationally, seasonally unadjusted unemployment rates remain at historic lows.
- Labor force participation, the proportion of the 16 and over population that is either employed or looking for work, increased slightly from June 2018 to June 2019, rising from 65.8% to 66.4% and remains significantly above the national average.
- Because labor force participation rates are still below pre-recession levels, the unemployment rate alone is no longer a reliable indicator of tightness in the labor market. If Virginia's June 2019 labor force participation rate (66.4%) were the same as it was in June 2008 (70.5%) there would be 274,412 more people in the state's labor force than there are now. At current levels of employment, that would imply a statewide unemployment rate of 8.6%, not 2.9%. Which means that we are not yet at a point where labor constraints are likely to limit economic growth.

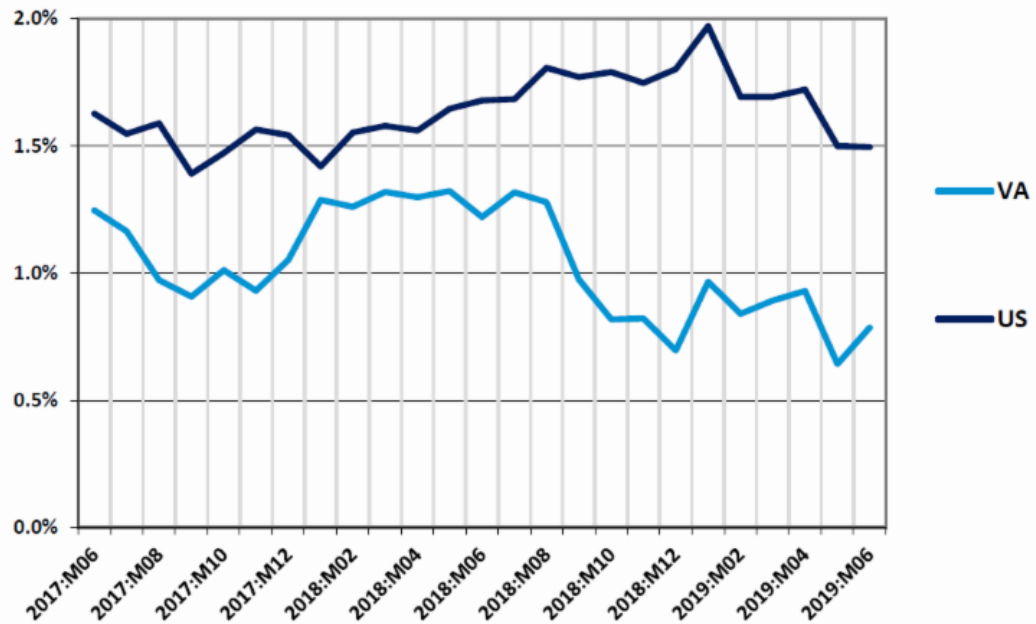
Where We Are

Total Nonfarm employment in Virginia increased by 80,400 jobs, or 2.0%, between June 2017 and June 2019.

Total Statewide Nonfarm Employment: June 2017 to June 2019

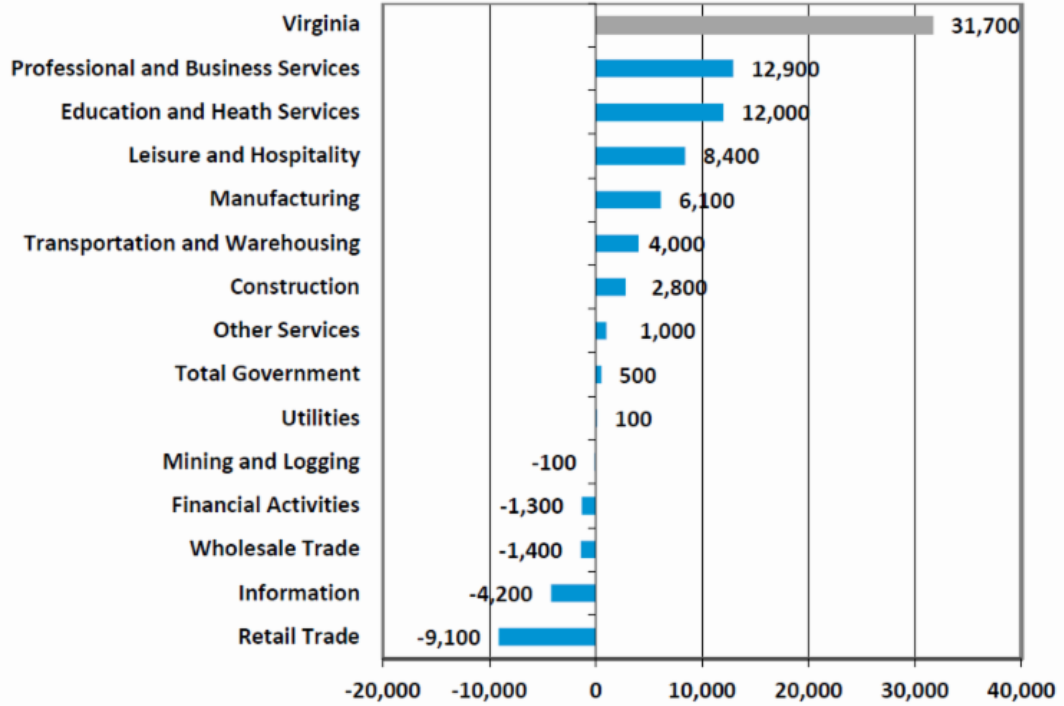


Year-over-Year Percentage Change in Total Nonfarm Employment: June 2017 to June 2019

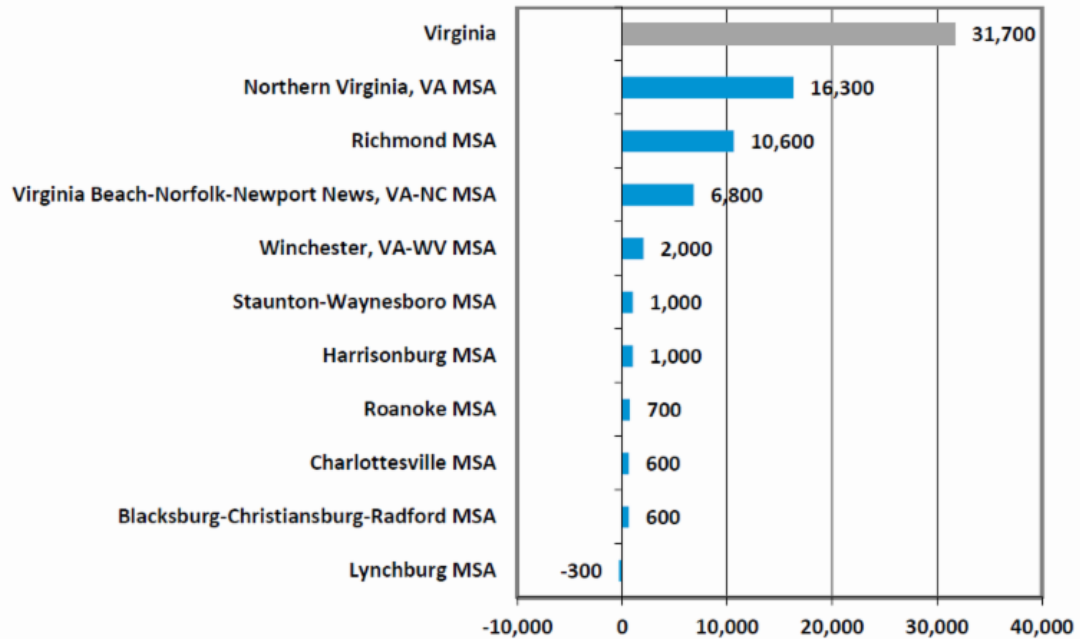


Between June 2018 and June 2019, statewide growth in Total Nonfarm employment was led by increases in the Professional and Business Services (up 12,900 jobs), Education and Health Services (up 12,000 jobs), and Leisure and Hospitality (up 8,400 jobs) sectors. From a regional perspective, the largest job gains occurred in the Northern Virginia (up 16,300 jobs), Richmond (up 10,600 jobs), and Virginia Beach-Norfolk-Newport News (up 6,800 jobs) MSAs.

June 2018 to June 2019 Change in Total Nonfarm Employment by Sector



June 2018 to June 2019 Change in Total Nonfarm Employment by MSA

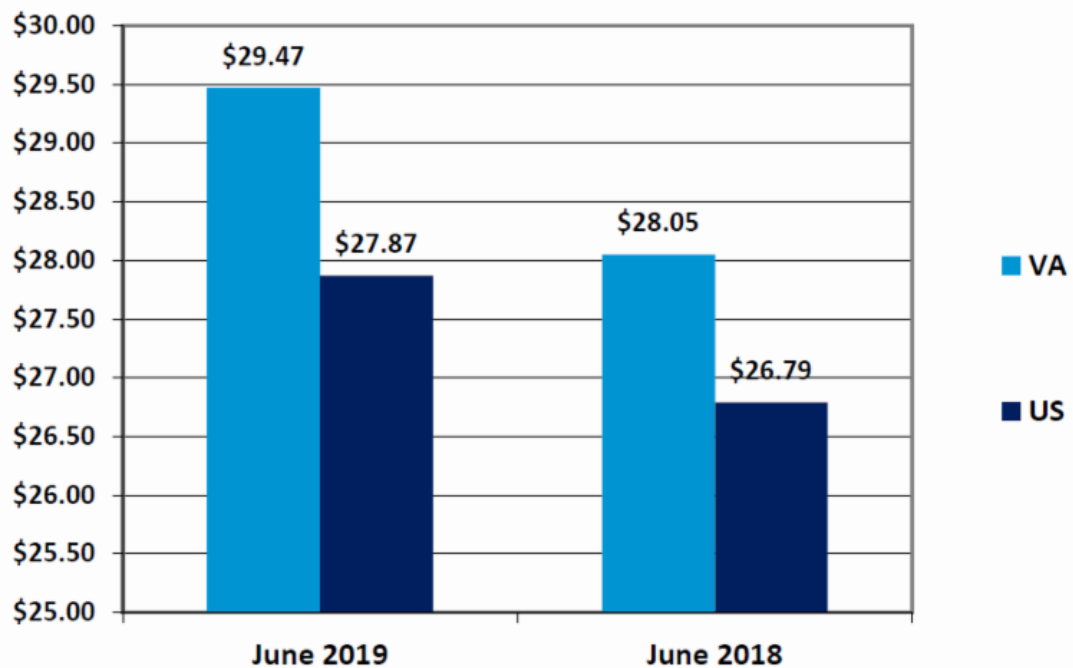


Virginia's 0.8% year-over-year growth in statewide Total Nonfarm employment in June 2019 was below the 1.5% increase posted at the national level. Moreover, only three of Virginia's 14 major industry sectors experienced year-over-year growth that was at or above the national norm. Those were: Transportation and Warehousing (up 3.2% statewide vs. up 2.7% nationally); Manufacturing (up 2.5% statewide vs. up 1.3% nationally); and Utilities (up 0.9% statewide vs. 0.0% nationally).

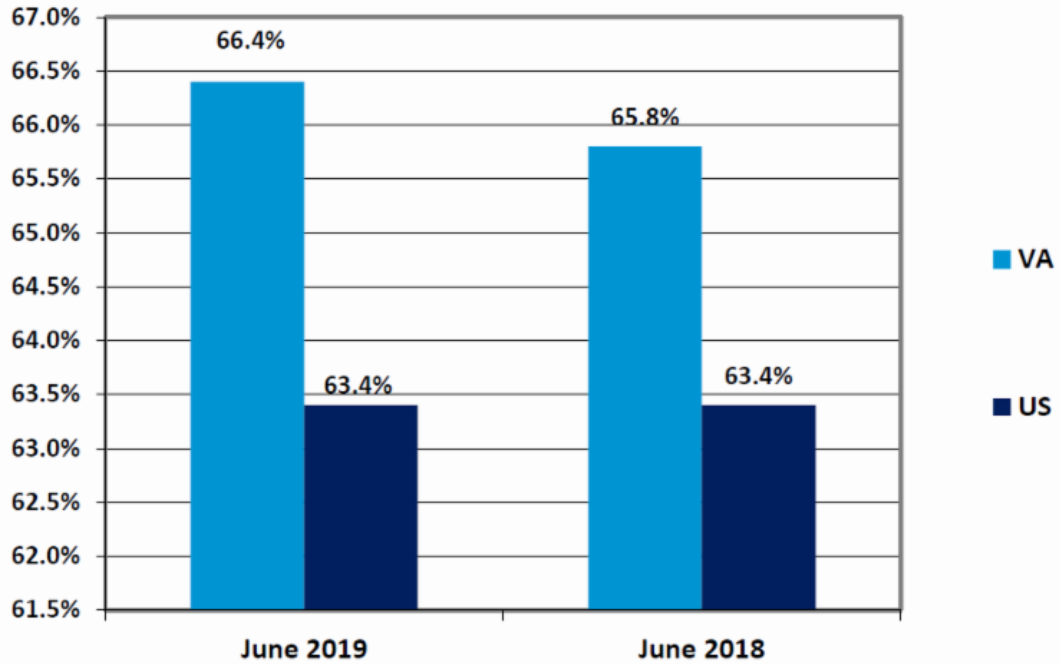
On the other side of the ledger, Virginia's: Information (down 6.1% statewide vs. down 1.2% nationally); Retail Trade (down 2.2% statewide vs. down 0.4% nationally); Wholesale Trade (down 1.3% statewide vs. up 1.7% nationally); Mining and Logging (down 1.3% statewide vs. up 3.1% nationally); Financial Activities (down 0.6% statewide vs. up 1.0% nationally); Total Government (up 0.1 percent statewide vs. up 0.6 percent nationally); Other Services (up 0.5% statewide vs. up 1.2% nationally); Construction (up 1.4% statewide vs. up 2.7% nationally); Professional and Business Services (up 1.7% statewide vs. up 2.2% nationally); Leisure and Hospitality (up 1.9% statewide vs. up 2.0% nationally); and Education and Health Services (up 2.2% statewide vs. up 2.6% nationally) sectors all under-performed the national norm.

Private Sector Average Hourly Earnings in Virginia rose from \$28.05 to \$29.47 between June 2018 and June 2019, a nominal year-over-year increase of 5.1%, which was above the 4.0% 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, increased from 65.8% in June 2018 to 66.4% in June 2019. While at the national level, the labor force participation rate remained flat at 63.4% between from June 2018 to June 2019.

Private Sector Avg. Hourly Earnings: June 2018 to June 2019

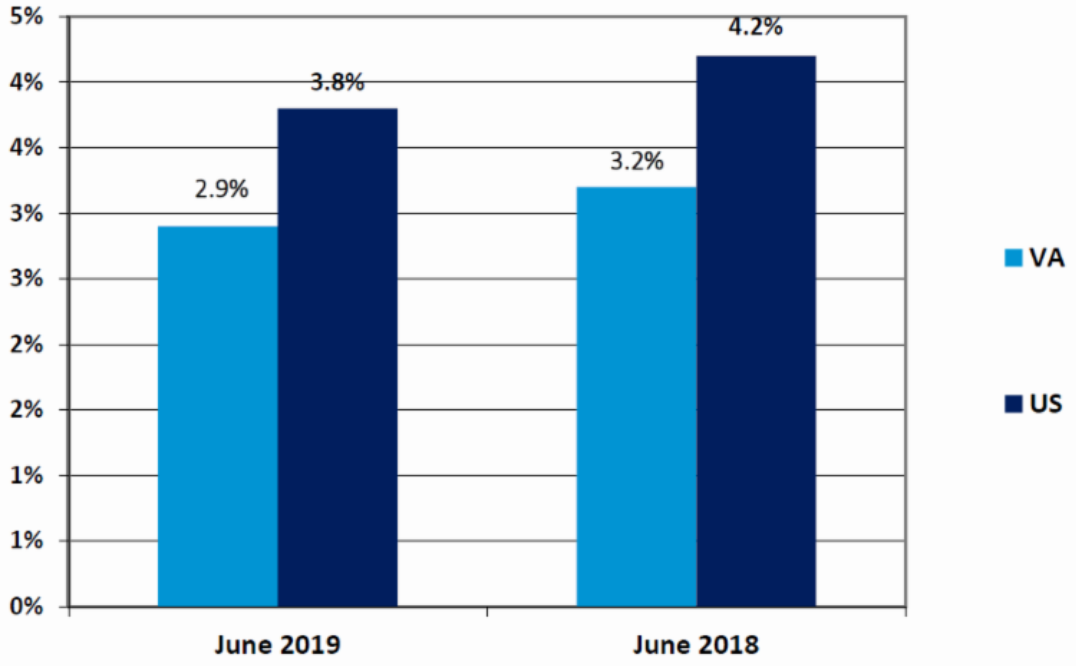


Labor Force Participation Rate: June 2018 to June 2019

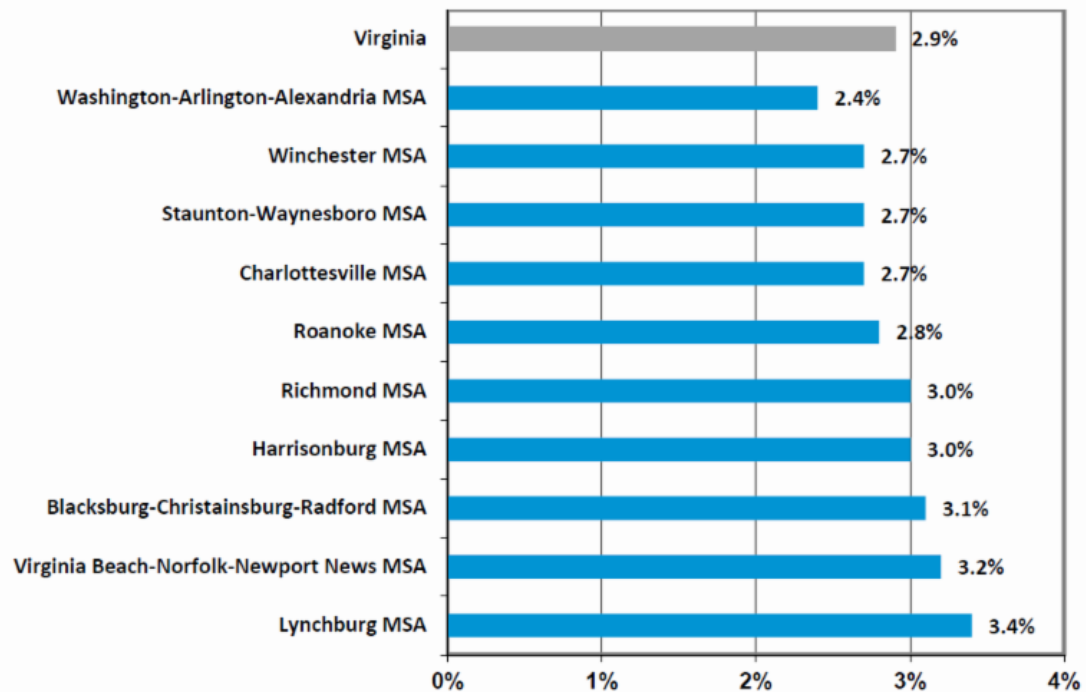


Turning to unemployment, the statewide seasonally unadjusted unemployment rate stood at 2.9% in June 2019, below the national unemployment rate of 3.8% for that month, and an improvement over the state's 3.2% unemployment rate a year before. From a regional perspective, in May 2019 (sub-state unemployment rates are reported later than the statewide rate) the seasonally unadjusted unemployment rates in Virginia's major MSAs ranged from a high of 3.4% in Lynchburg to a low of 2.4% in Northern Virginia.

Seasonally Unadjusted Unemployment Rate: June 2018 to June 2019



Seasonally Unadjusted Unemployment Rate: May 2019 by MSA



What To Look For

1. Employment

Virginia's economy continued to under-perform the national norm in the 2nd quarter. Consistent with a trend that began in the last half of 2018, year-over-year growth in Total Nonfarm employment in Virginia continued to generally decelerate, coming in at 0.8% in June as compared to 1.5% at the national level. Although employment gains were led by Professional and Business Services, Education and Health Services, and Leisure and Hospitality, in each instance those sectors still under-performed their respective national growth rate. Moreover, only three of Virginia's 14 major industry sectors - Transportation and Warehousing, Manufacturing, and Utilities - experienced year-over-year employment growth between June 2018 and June 2019 that was at or above the national norm.

2. Wages

News on the wage front was good. Year-over-year growth in private sector average hourly earnings in Virginia accelerated above the national average in June 2018 and peaked at 6.2% in December. Those growth rates have since remained strong, coming in at 5.1% in June 2019 as compared to 4.0% at the national level.

3. Unemployment

At 2.9% statewide in Virginia, and 3.8% nationally, seasonally unadjusted unemployment rates remain at historic lows.

4. Labor Force Participation

Labor force participation, the proportion of the 16 and over population that is either employed or looking for work, increased slightly from June 2018 to June 2019, rising from 65.8% to 66.4% and remains significantly above the national average.

Drawing on the secular stagnation theory that was popularized to explain 2.0% GDP growth rates during the Obama administration, concern is sometimes expressed that our current historically low unemployment rates indicate that labor shortages may soon bring the current expansion to a halt. The flaw in that perspective is that it fails to take into account that labor force participation rates in Virginia and nationally plummeted during the recession and are still not back to pre-recession levels. As a result, the unemployment rate alone is no longer a reliable indicator of tightness in the labor market.

For example, if Virginia's June 2019 labor force participation rate (66.4%) were the same as it was in June 2008 (70.5%) there would be 274,412 more people in the state's labor force than there are now. At current levels of employment, that would imply a statewide unemployment rate of 8.6%, not 2.9%. Even accounting for the fact that some of that difference is an artifact of retiring baby-boomers, it nonetheless demonstrates that we are not yet at a point where the economy is facing a binding labor shortage.

Announcements

1. New and Expanding

Virginia Economic Development Partnership announcements of new or expanding businesses in the 2nd quarter 2019:

- **Statewide:** 3,735 jobs and nearly \$2.2 billion in direct investment.
- Blacksburg-Christiansburg-Radford MSA: 817 jobs and \$400.2 million in direct investment.
- Charlottesville MSA: 106 jobs and \$1.3 million in direct investment.
- Danville MSA: 160 jobs and \$46.2 million in direct investment.
- Harrisonburg MSA: 152 jobs and \$1.0 billion in direct investment.
- Richmond MSA: 513 jobs and \$244.1 million in direct investment.
- Roanoke MSA: 25 jobs and \$6.4 million in direct investment.
- Staunton-Waynesboro MSA: 116 jobs and \$119.9 million in direct investment.
- Virginia Beach-Norfolk-Newport News MSA: 381 jobs and \$100.2 million in direct investment.
- Northern Virginia MSA: 183 jobs and \$294.2 million in direct investment.

2. Reductions and Closures:

Virginia Economic Development Partnership announcements of reductions and closures in the 1st quarter 2019:

- **Statewide:** 996 jobs.
- Danville MSA: 300 jobs
- Harrisonburg MSA: 115 jobs.
- Richmond MSA: 440 jobs
- Virginia Beach-Norfolk-Newport News MSA: 80 jobs.
- Northern Virginia MSA: 35 jobs.
- Winchester MSA: 49 jobs.

Data sources:

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

