

Virginia Economic Highlights

Introduction

Economists at the Virginia Commonwealth University's Center for Urban Development prepared this economic highlights section. Building upon the growth of fiscal year 2004, fiscal year 2005 has been an excellent year for Virginia's economy. Unemployment continued its downward trend, employment has grown in nearly every industry sector and almost every urban center, real wages and salaries and personal income increased sharply, and the housing and retail markets performed very well.

Unemployment

The unemployment rate in the Commonwealth declined from 3.9 percent in fiscal year 2004 to 3.5 percent in fiscal year 2005, over a 10 percent decrease (**Figure 13**). This marks the lowest unemployment rate for Virginia since fiscal year 2001. Moreover, Virginia had the fourth lowest unemployment rate in the United States in fiscal year 2005, matching last fiscal year's ranking and surpassing the sixth lowest ranking in fiscal year 2003. The nation's unemployment rate was 5.3 percent in fiscal year 2005, 1.8 percentage points higher than the Commonwealth's.

Several Metropolitan Statistical Areas (MSAs)^{1 2} had higher rates of unemployment than Virginia as a whole: the Blacksburg-Christiansburg-Radford MSA (3.8 percent), the Danville MSA (7.5 percent), the Lynchburg MSA (4.0 percent), the Richmond MSA (3.8 percent), the Virginia portion of the Kingsport-Bristol MSA (4.8 percent), and the Virginia portion of the Virginia Beach-Norfolk-Newport News MSA (4.1 percent). Only four MSAs had unemployment rates lower than the Commonwealth's: the Charlottesville MSA (3.0 percent), the Harrisonburg MSA (3.0 percent), the Virginia portion of the Winchester MSA (2.9 percent), and the Virginia portion of the Washington-Arlington-Alexandria MSA (2.6 percent). It is interesting to note that the combined labor forces of these four MSAs comprise approximately 40 percent of the Commonwealth's total labor force. The Virginia portion of the Washington-Arlington-Alexandria MSA, alone, accounted for over one third of the Virginia labor force in fiscal year 2005. The Northern Virginia region, having the combination of the lowest unemployment rate and the largest labor force in Virginia, is the main driving force behind the Commonwealth's low unemployment rate.

Employment

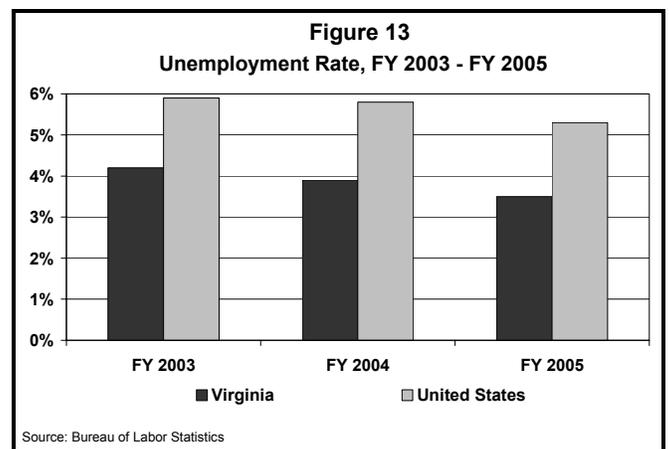
Total non-farm employment grew by 2.4 percent in fiscal year 2005 to reach 3,619,650 workers. The Virginia economy added 84,458 jobs. This marks the second straight fiscal year that employment has grown in the

Commonwealth (1.3 percent growth in fiscal year 2004). Virginia ranked fifth in the nation in the number of total non-farm jobs added in fiscal year 2005 behind Florida, California, Texas and Arizona.

As depicted in **Figure 14**, only two sectors incurred slight declines in employment in fiscal year 2005, manufacturing (-167 jobs or -0.1 percent) and information (-617 jobs or -0.6 percent). Professional and business services posted the largest increase in employment (25,600 or 4.6 percent). The other sectors that experienced significant gains in employment are: construction (11,975 or 5.3 percent), trade, transportation and utilities (11,383 or 1.8 percent) and total government (11,283 or 1.8 percent). The sectors that moderately increased employment are: education and health services (9,817 or 2.6 percent), leisure and hospitality (7,725 or 2.5 percent), other services (4,050 or 2.3 percent) financial activities (3,392 or 1.8 percent) and natural resources and mining (17 or 0.2 percent).

The vast majority of Virginia's 3.6 million non-farm jobs are located in MSAs (88.3 percent). In fiscal year 2005, MSA non-farm employment reached 3,195,575, and non-MSA non-farm employment was 424,075. MSAs added 86,142 jobs (2.8 percent), while non-MSAs lost 1,683 jobs (-0.4 percent) over fiscal year 2004 levels (**Figure 15**).

The Virginia portion of the Washington-Arlington-Alexandria MSA accounted for about 62 percent of the increase in non-farm employment in the State (53,400 or 4.5 percent). The other MSAs posting significant gains were: the Richmond MSA (13,133 or 2.2 percent) and the Virginia Beach-Norfolk-Newport News MSA (11,575 or 1.6 percent). The MSAs posting modest gains were: the Roanoke MSA (2,225 or 1.4 percent), the Charlottesville MSA (2,042 or 2.3 percent), the Harrisonburg MSA (1,450 or 2.4 percent), the Winchester MSA (1,342 or 2.5 percent), the Blacksburg MSA (1,192 or 1.7 percent) and the Lynchburg MSA (633 or 0.6 percent). The Danville MSA was the only MSA in the Commonwealth that did not show positive non-farm employment growth in fiscal year 2005 (-850 or -1.9 percent).



¹ The United States Office of Management and Budget re-defined Virginia's MSAs in June, 2003. Current definitions are not comparable with those used in previous Virginia Economic Highlights.

² Where data are available, only the Virginia portion of interstate MSAs is included in the analysis.

Figure 14
Nonfarm Employment, FY 2003 - FY 2005

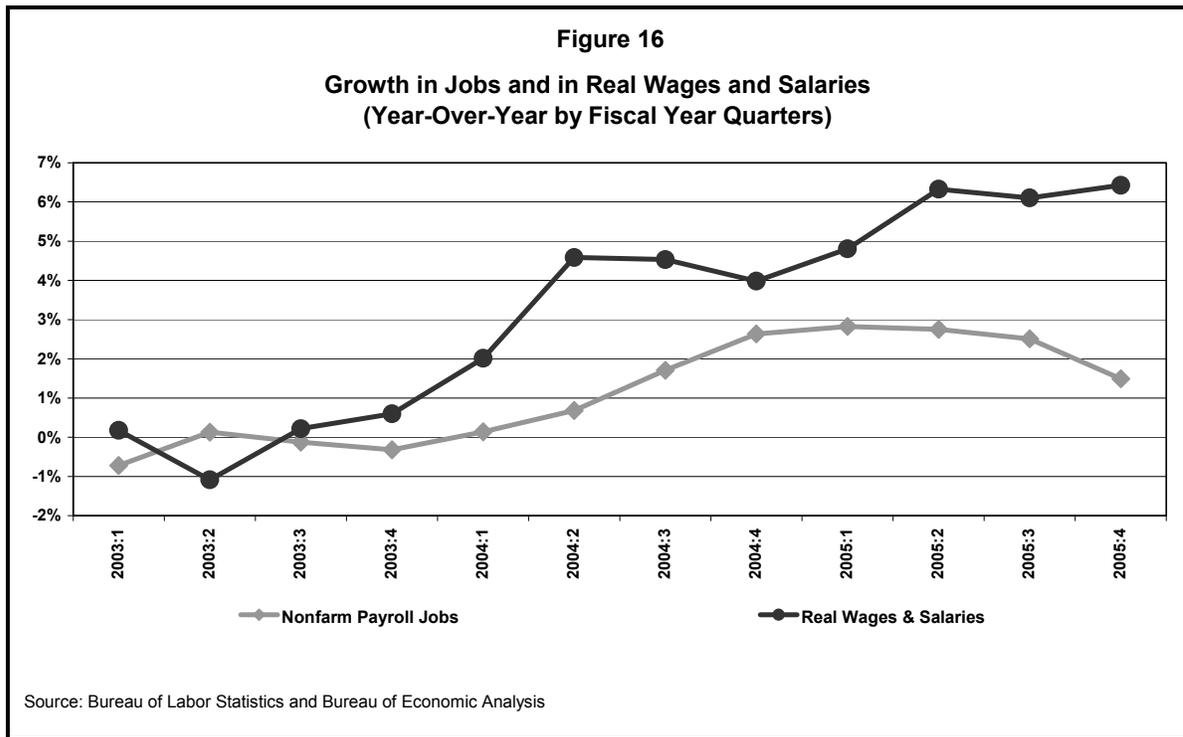
	FY 2005 Level	FY 2004-2005 Unit Change	Virginia Growth Rates			United States Growth Rate
			FY 2002-2003	FY 2003-2004	FY 2004-2005	FY 2004-2005
Natural Resources and Mining	10,217	17	(8.7)%	0.2%	0.2%	5.1%
Construction	236,242	11,975	(0.8)	4.8	5.3	3.8
Manufacturing	299,183	(167)	(4.4)	(4.6)	(0.1)	(0.0)
Trade, Transportation, and Utilities	653,183	11,383	(0.8)	1.2	1.8	1.3
Information	100,400	(617)	(8.7)	(1.3)	(0.6)	(0.5)
Financial Activities	191,042	3,392	2.0	1.8	1.8	1.6
Professional and Business Services	586,667	25,600	(1.2)	2.9	4.6	3.2
Education and Health Services	384,667	9,817	3.6	2.2	2.6	2.3
Leisure and Hospitality	322,058	7,725	1.5	2.7	2.5	2.3
Other Services	181,067	4,050	2.6	(0.4)	2.3	0.7
Government	654,925	11,283	0.7	1.2	1.8	0.6
Federal	153,142	3,367	0.9	1.7	2.2	(0.6)
State	146,167	2,242	(1.7)	0.6	1.6	0.7
Local	355,617	5,675	1.7	1.2	1.6	0.9
Total Nonfarm Employment	3,619,650	84,458	(0.3)	1.3	2.4	1.6

Source: Bureau of Labor Statistics

Figure 15
Nonfarm Employment, Metropolitan and Non-metropolitan Areas

	FY 2005	FY 2004-2005 Unit Change	FY 2004-2005 Growth Rate
Metropolitan Statistical Areas	3,195,575	86,142	2.8%
Blacksburg	71,925	1,192	1.7
Charlottesville	92,475	2,042	2.3
Danville	43,675	(850)	(1.9)
Harrisonburg	61,917	1,450	2.4
Lynchburg	102,592	633	0.6
Washington-Arlington-Alexandria MSA (VA portion)	1,246,392	53,400	4.5
Richmond	608,550	13,133	2.2
Roanoke	158,908	2,225	1.4
Virginia Beach-Norfolk-Newport News	754,292	11,575	1.6
Winchester	54,850	1,342	2.5
Non-Metropolitan Statistical Areas	424,075	(1,683)	(0.4)

Source: Bureau of Labor Statistics



Wages and Salaries

Figure 16 shows the year-over-year quarterly growth rates in both real wages and salaries and non-farm payroll jobs. In eleven of the past twelve quarters, the year-over-year quarterly growth rate in the Commonwealth's real wages and salaries has been positive, and in fiscal year 2005, this growth rate accelerated. The average year-over-year quarterly growth rate in real wages and salaries reached 5.9 percent in fiscal year 2005, compared to 3.8 percent in fiscal year 2004 and 0.0 percent in fiscal year 2003. With Virginia's relatively low unemployment rate, firms have

needed to pay higher salaries in order to attract workers who are in high demand.

The year-over-year quarterly growth rate in non-farm payroll jobs has been positive for nine of the past twelve quarters. The average year-over-year quarterly growth rate in non-farm payroll jobs was 2.4 percent in fiscal year 2005, 1.3 percent in fiscal year 2004 and -0.3 percent in fiscal year 2003. After five consecutive quarters of increasing year-over-year quarterly growth rates beginning in fiscal year 2004, the year-over-year quarterly growth rate in non-farm payroll jobs slowed over the last three quarters of fiscal year 2005.

Figure 17
Wages and Salaries per Job

	Virginia Pay/Job FY 2005	United States Pay/Job FY 2005	Virginia Minus United States	Virginia FY 2004-2005 % Change	United States FY 2004-2005 % Change
Natural Resources and Mining	\$ 58,728	\$ 89,390	\$ (30,662)	9.0%	3.8%
Construction	40,796	42,507	(1,711)	5.2	3.0
Manufacturing	43,340	49,320	(5,980)	5.0	5.2
Trade, Transportation, and Utilities	34,010	36,010	(2,000)	4.4	4.6
Information	72,198	62,113	10,085	2.0	4.4
Financial Activities	60,386	63,711	(3,325)	7.1	5.3
Professional and Business Services	60,316	49,849	10,467	7.3	5.1
Education and Health Services	35,674	37,091	(1,417)	5.4	4.4
Leisure and Hospitality	16,469	18,354	(1,885)	3.6	3.3
Other Services	31,504	31,852	(348)	4.1	4.4
Government	43,854	39,784	4,070	4.4	2.8
Total Non-farm Employment	42,281	41,005	1,276	5.4	4.3

Source: Bureau of Labor Statistics

Figure 18

Personal Income and Wage and Salary Disbursements

	Annual Growth Rates		
	FY 2002-2003	FY 2003-2004	FY 2004-2005
Virginia Personal Income	3.2	6.0	8.3
Virginia Wages and Salaries	2.2	6.1	8.5
United States Personal Income	2.1	4.7	6.5
United States Wages and Salaries	1.4	4.0	6.8
Inflation, PCE Chain-Type Index	1.8	2.1	2.7
Virginia Real Personal Income	1.4	3.8	5.5
Virginia Real Wages and Salaries	0.4	4.0	5.6
United States Real Personal Income	0.3	2.6	3.7
United States Real Wages and Salaries	(0.4)	1.9	3.1

Sources: Bureau of Labor Statistics and Bureau of Economic Analysis

In **Figure 17**, wages and salaries per job have been calculated by major industry division for Virginia and the United States. In fiscal year 2005, the Commonwealth's average pay per job of \$42,281 was \$1,275 more than the nation's average pay per job of \$41,005. Two industries are the main reason that Virginia's workers had a higher pay per job, on average, than the United States as a whole, information (+\$10,085) and professional and business services (+\$10,467). These two highly sought after industries have been a focus of State and Local economic development efforts for a number of years. The only other industry in which Virginia's wages and salaries per job were higher than the United States in fiscal year 2005 was government (+\$4,070). The industries where wages and salaries were lower in the Commonwealth than the nation in fiscal year 2005 were: natural resources and mining (-\$30,662), manufacturing (-\$5,980), financial activities (-\$3,325), trade, transportation and utilities (-\$2,000), leisure and hospitality (-\$1,885), construction (-\$1,711), education and health services (-\$1,417) and other services (-\$348).

In fiscal year 2005, Virginia had a larger percentage increase than the nation in wages and salaries per job in seven of eleven major industry divisions. The industries in which pay per job increased substantially were: natural resources and mining (9.0 percent), professional and business services (7.3 percent), and financial activities (7.1 percent). The industries in which pay per job increased moderately were: education and health services (5.4 percent), construction (5.2 percent), manufacturing (5.0 percent), government (4.4 percent), trade, transportation and utilities (4.4 percent), other services (4.1 percent), leisure and hospitality (3.6 percent) and information (2.0 percent).

Personal Income

As shown in **Figure 18**, Virginia personal income reached approximately \$280 billion in fiscal year 2005, an 8.3 percent increase over fiscal year 2004. The Commonwealth ranked fifth in the nation in personal income growth in fiscal year 2005. Wages and salaries increased by 8.5 percent to over \$162 billion. Virginia ranked sixth in the United States in wages and salaries growth in fiscal year 2005. Wages and salaries accounted for 58.0 percent of personal income in fiscal year 2005, slightly more than 57.9 percent in fiscal year 2004 and 57.8 percent in fiscal year 2003. Virginia has outpaced the United States in personal income growth and wage and salary growth in each of the past three fiscal years. Between fiscal year 2004 and 2005, the Virginia personal income growth rate and the Virginia wages and salaries growth rate exceeded the nation's growth rates by 1.8 percent and 1.7 percent, respectively.

After accounting for inflation, the Virginia real personal income growth rate was higher than that of the United States in each of the last three fiscal years: by 5.5 percent to 3.7 percent in fiscal year 2005; 3.8 percent to 2.6 percent in fiscal year 2004; and 1.4 to 0.3 percent in fiscal year 2003. Virginia real wages and salaries grew by 5.6 percent compared to 3.1 percent for the nation in fiscal year 2005, 4.0 percent to 1.9 percent in fiscal year 2004 and 0.4 percent to -0.4 percent in fiscal year 2003.

New Privately Owned Housing Units Authorized

As depicted in **Figure 19**, in fiscal year 2005, new privately owned housing units authorized in Virginia fell slightly from the fiscal year 2004 level. In fiscal year 2005, 60,163 units were authorized, compared to 60,467 in fiscal year 2004 and 58,379 in fiscal year 2003. The Commonwealth ranked eighth in the nation in new privately owned housing units authorized in fiscal year 2005.

Retail Sales

Virginia retail sales were approximately \$83.4 billion in fiscal year 2005 (**Figure 20**), a \$4.7 billion increase over fiscal year 2004 and \$12.5 billion more than fiscal year 2003. The growth rate in retail sales was 6.0 percent between fiscal year 2004 and fiscal year 2005, down from the historically high growth rate of 11.0 percent between fiscal year 2003 and fiscal year 2004.

Figure 21 shows the growth rate of adjusted retail sales for Virginia and the United States. In order to make the two series comparable, lodging sales were removed from Virginia retail sales and gasoline and automobile sales were removed from the United States retail sales. The Commonwealth's adjusted retail sales growth rate of 6.2 percent between fiscal year 2004 and fiscal year 2005 was slightly less than the nation's growth rate (6.6 percent). However, over the past three fiscal years Virginia's adjusted retail sales increased by a total of 21.9 percent compared to 18.0 percent for the United States.

Forecasts

The Center for Urban Development has prepared forecasts for several Virginia economic indicators included in this outlook. For fiscal year 2006, non-farm employment is expected to grow by 1.8 percent, real personal income by 3.0 percent, real wages and salaries by 4.0 percent and retail sales by 2.2 percent. The unemployment rate is expected to continue to decline and is projected to be about 3.3 percent for fiscal year 2006. While still expanding, the Commonwealth's economy in fiscal year 2006 is likely to grow at a slower pace than it did in fiscal year 2005.

Conclusion

Virginia's economy has continued to expand in most areas in fiscal year 2005. The Commonwealth is ranked among the top states in the nation in a number of categories including the unemployment rate, employment growth, wage and salary growth, personal income growth and new housing units authorized. The outlook for Virginia in the coming fiscal year is very positive.

