



QUARTERLY ECONOMIC INDICATORS

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Special points of interest:

- Unemployment rate jumps; remains below U.S. and Virginia levels.
- Total employment drops; construction and retail sectors hit hardest.
- Prices in Albemarle's housing market remain under downward pressure.
- New residential building permits off significantly; commercial permits spike due to new hospitals.
- Sales, meals tax revenues decline; hotel/motel tax revenue rises slightly.
- U.S. consumer confidence drops sharply and then rebounds; U.S. leading economic indicators dip.

UNEMPLOYMENT RATE INCREASES

Albemarle County's non seasonally-adjusted unemployment rate jumped from 2.7% in FY 2008 Q4 to 5.4% in FY 2009 Q4, the latest complete quarter for which Virginia Employment Commission data exists. This increase was in tandem with the rise in Virginia's rate, which went from 3.8% to 7.0%, and the U.S. rate, which rose from 5.2% to 9.1%, during the same period. Please see the graph below.

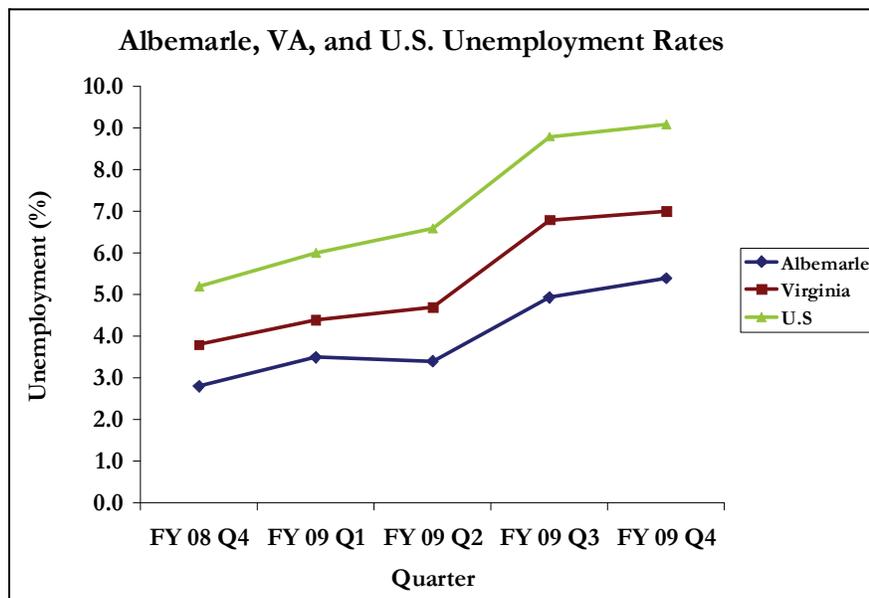
The increase in the County's rate of unemployment, although unfortunate, does contain at least one piece of good news: Albemarle's rate remains lower than the state and U.S. rates, a testament to the resilience of the County's economy. This situation parallels the relative rankings of the local, state, and national unemployment rates during the

1990-91 and 2001 recessions. The 100% increase in the County's unemployment rate, unfortunately, was higher than the 84% rise in the state's rate and the 75% jump in the rate of unemployment in the U.S.

Contrary to a commonly-held belief, the County does not always lag the state and the U.S. going into recession, and does not always lead the state and the U.S. coming out of recession, at least not with regard to changes in the rate of unemployment. In the case of the past several quarters, as shown on the graph below, the change in Albemarle's rate generally has been in the same direction as the change in the state and U.S. rates. The County's quarterly rate, in fact, has moved in the same direction as the state and/or U.S. quarterly rate roughly 75% of the time in every quar-

ter since FY 1990 Q3.

Interestingly, an analysis of the County, state, and U.S. unemployment rate data from January 1990 forward reveals that, although Albemarle historically has had the lowest unemployment rate of the three, the gap between the County's rate and the state's rate has narrowed over time, while the difference between the County's rate and the U.S. rate also has narrowed. The cause of this apparent deterioration in the "insulation" between the local, state, and national unemployment rates is unknown at this time. Some observers have speculated that changes in the share of public sector vs. private sector jobs in the local economy might be a factor, but this theory has not yet been tested rigorously.



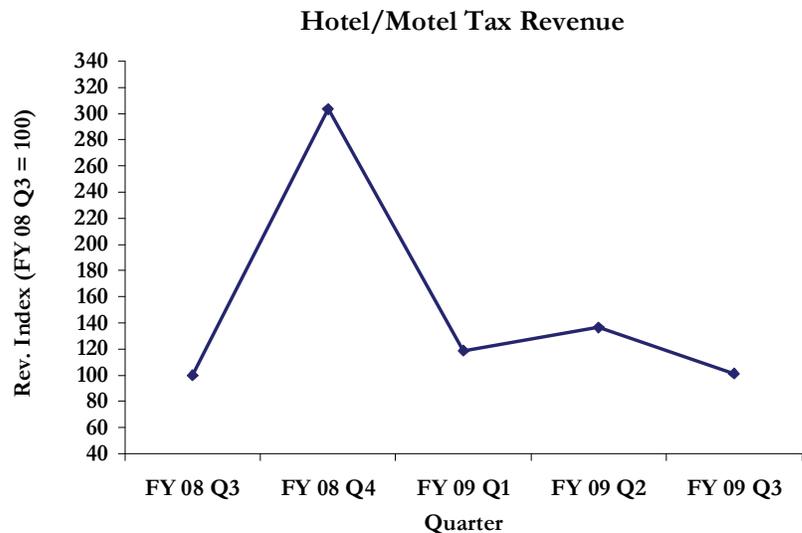
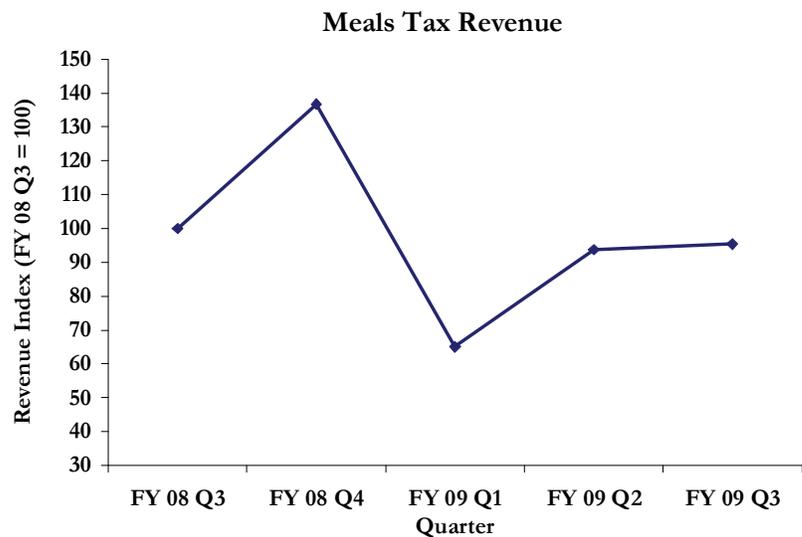
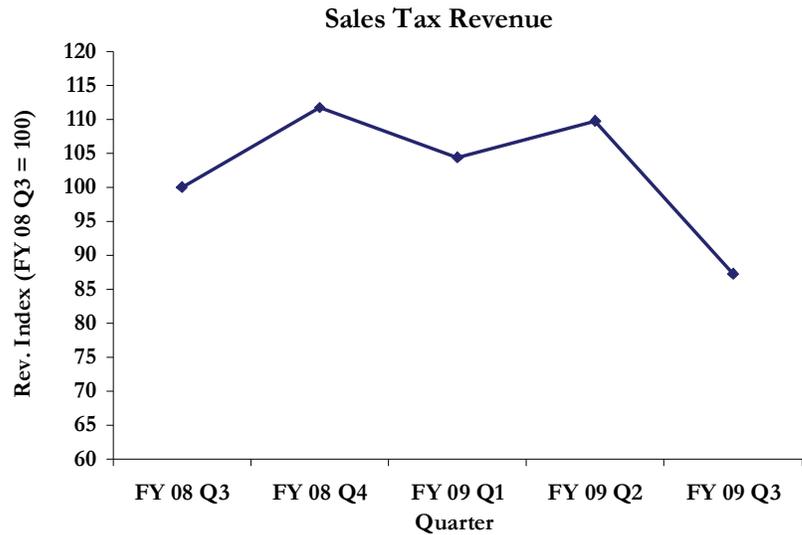
SALES, MEALS, HOTEL/MOTEL TAX REVENUES MIXED

Tax revenues offer a good indication of the state of the County's economy. Changes in sales, meals, and hotel/motel tax revenues in particular offer a reasonable approximation of strength or weakness in local economic conditions, since these revenue streams reflect the underlying consumption of many goods and services. At the national level, private consumption represents roughly 70% of all economic activity; the exact local percentage is not readily available but is thought to be a major component of Albemarle's economy.

There exists both good and bad news with regard to the performance of sales, meals, and hotel/motel tax revenue between FY 08 Q3 and FY 09 Q3, the last quarter for which complete data exists. The worst news involves sales tax revenue, which declined by 12.75% between these quarters. This drop in sales tax revenue likely reflected a consumer response to (a) U.S. macroeconomic phenomena, including a substantial drop in the stock market in FY 09 Q1, which badly eroded household wealth; and (b) localized economic phenomena such as the jump in the County's unemployment rate, which had a negative effect on income, and a decline in local housing values, which lowered household wealth. (See stories, Pages 1 and 3).

Meals tax revenues also fell between FY 08 Q3 and FY 09 Q3 but, at 4.59%, the decline was not nearly as sharp as was the drop in sales tax revenue. The decline in meals tax receipts likely resulted from the same factors that impacted sales tax revenues, but the substantial difference in the rate of decline suggests that other factors helped soften the drop. One such factor might have been an increase in tourism. The theory is that, as the U.S. economy deteriorated during this time period, people in metropolitan areas of Virginia and the northeast corridor might have opted to take shorter, "regional" vacations rather than longer, more geographically dispersed trips. According to this theory, the Charlottesville MSA would have benefited, at the expense of other regions.

The County's hotel/motel tax revenues between FY 08 Q3 and FY 09 Q3 seem to support this theory. This revenue stream rose a modest 1.24% during the time period. The spike in FY 08 Q4 shown on the graph at right reflects the seasonal impact of the University of Virginia graduation ceremonies, which take place in May of each year.



HOUSING PRICES UNDER DOWNWARD PRESSURE

Prices in Albemarle’s housing market continue to face downward pressure as the result of an ongoing glut in the supply of unsold homes. As a general rule of thumb, a residential real estate market is in equilibrium when a five or six month supply of unsold homes exists in that market. The term “equilibrium” means that prices are stable, with no tendency to rise or fall.

Downward pressure on home prices exists in markets which have much more than a five or six month supply of unsold housing inventory, since the supply of homes for sale is greater than the demand for homes. Conversely, upward pressure on home prices exists in markets which have much less than a five or six month supply of unsold housing inventory, since the demand for homes is greater than the supply of homes.

In the case of Albemarle County, as of the end of FY 2009 Q4, there existed

a 12.9 month supply of unsold single family detached dwelling units. This figure indicates downward pressure on prices in this segment of the housing market. Single family detached homes account for roughly two-thirds of the County’s housing stock, so this situation has broad implications for Albemarle.

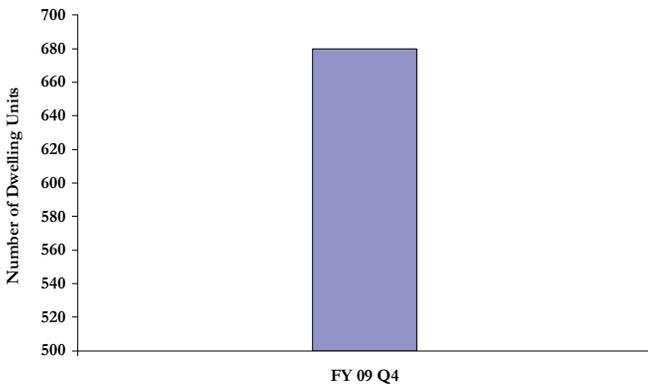
In order to understand how this 12.9 month number is calculated, consider the information contained in Graphs I through III below. As shown on Graph I, in FY 09 Q4, there were 680 single family homes for sale in Albemarle. During this quarter, as shown on Graph II, an average of about 53 homes sold each month. These numbers mean that, at the rate at which homes sold during the quarter, it would have taken 12.9 months to sell all of the homes that were on the market, i.e., there was just under a thirteen month supply of unsold inventory, as shown on Graph III.

A comparison of data from FY 08 Q4

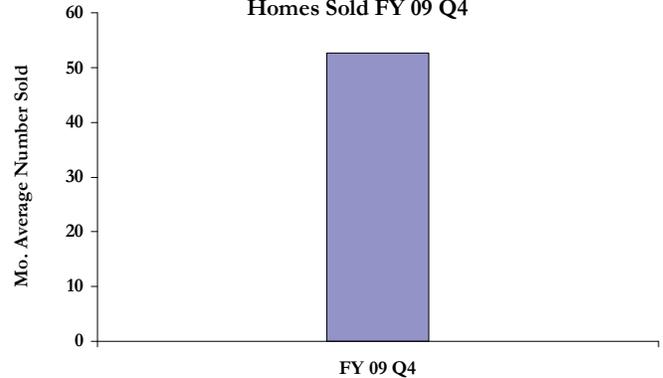
and FY 09 Q4 would reveal whether the oversupply of inventory rose or fell between the same quarter of FY 08 and FY 09, i.e., whether or not the housing market worsened during this period. Data for FY 08 Q4, unfortunately, is not readily available. The number of months’ supply of unsold housing inventory will be tracked in future quarters in order to assess annual changes in the health of the County’s residential real estate market.

Note that downward pressure on home prices during the past year is reflected in the Charlottesville area home price data shown in Graph IV, below. This item reveals that the U.S. Federal Home Finance Administration’s Home Price Index (HPI) for the region declined by roughly 4.2% between FY 08 Q3 and FY 09 Q3, or by roughly the same percentage as the County’s reassessment of single family homes between January 2008 and January 2009.

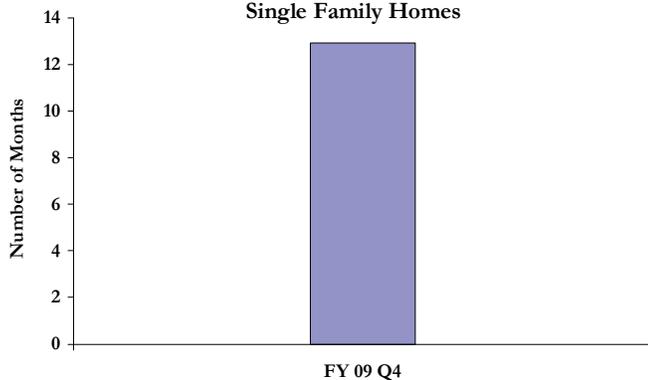
Graph I -- Single Family Homes for Sale FY 09 Q4



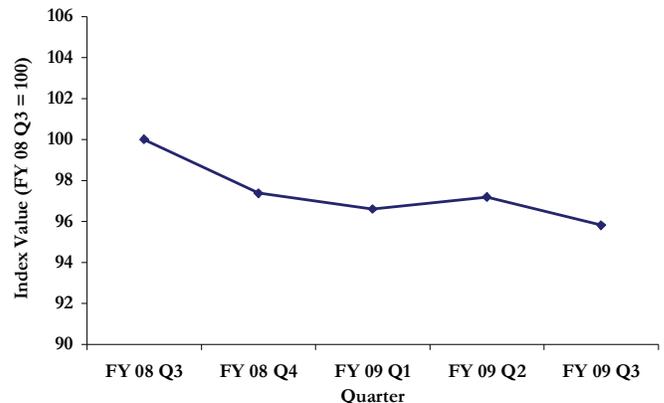
Graph II -- Mo. Avg. Number of Single Family Homes Sold FY 09 Q4



Graph III -- Mos. Supply Unsold Single Family Homes



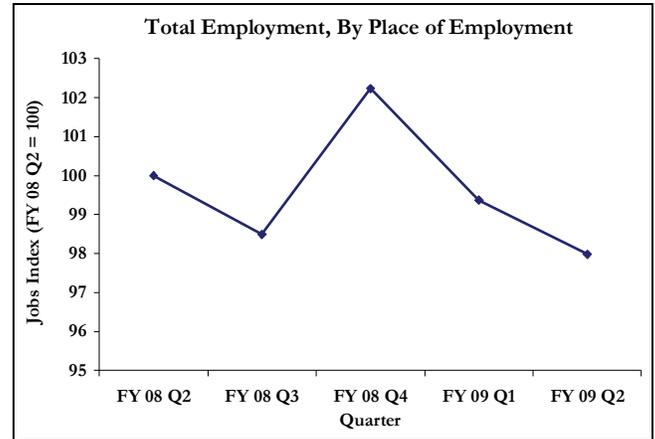
Graph IV -- FHFA Price Index for the C-Ville MSA



TOTAL EMPLOYMENT FALLS

The Virginia Employment Commission produces data showing the total number of full- and part-time jobs in Albemarle County, by place of employment, but this data, unfortunately, is usually several quarters behind the most recent quarter and, consequently, does not provide as much timely information as does the VEC unemployment rate data, which is fairly current. According to the most recently available total employment numbers, between FY 08 Q2 and FY 09 Q2, the total number of jobs in Albemarle fell from 50,166 to 49,154 for a net loss 1,012 jobs, or about 2% of the employment base. An examination of the various employment sectors reveals that the construction and retail categories experienced the largest drops in the absolute number of jobs. The net loss in the construction sector came to 585 jobs (16.7%), while the net loss in the retail sector equaled 431 jobs (7.03%). These declines are not surprising, given the pronounced decline in new construction that the County has endured in the past year, as well as the drop in retail sales tax revenue experienced in the County recently. (See stories below and on Page 2).

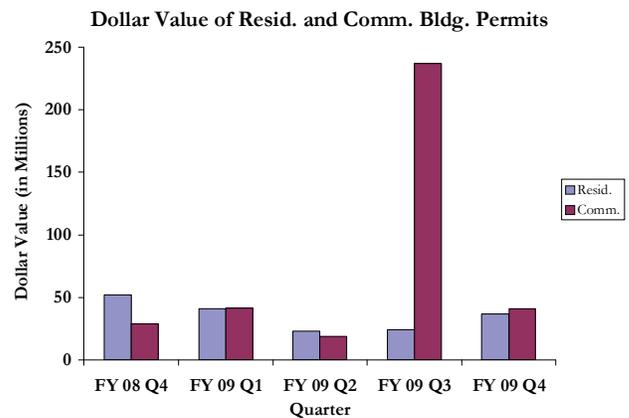
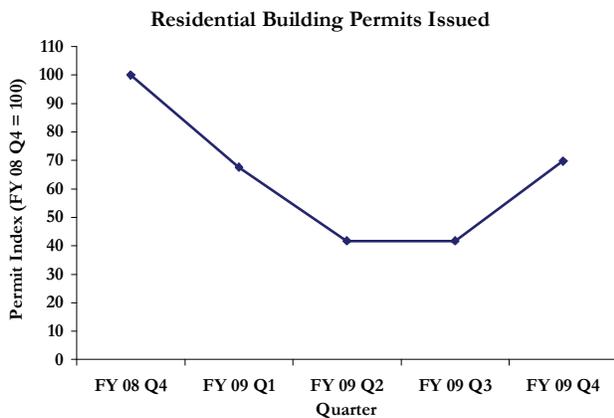
Other sizable employment categories that had large percentage losses included transportation & warehousing (87 jobs, or 10.18%), administrative & waste services (a loss of 146 positions, or 6.95%) and the manufacturing sector (170 jobs, or 5.46%). Interestingly, some employment sectors managed to *grow* during this time period. Educational services, for example, increased by 390 or 2.78%, while the “other services, except public administration” category rose by 124 jobs or 7.39%. Oddly, the agricultural sector, a relatively small employment category, experienced a net increase of 88 jobs during the course of the four quarters, or about a 20% increase. The cause of this 88 job increase is not known at this time.



“Oddly, the agricultural sector, a relatively small employment category, experienced a net increase of 88 jobs during the course of the four quarters, or about a 20% increase.”

NEW CONSTRUCTION MIXED

The number of building permits issued, and the total dollar value of these permits, offers a decent, but not *perfect*, forward indication of the quantity and nature of new construction in the County. On the residential side of the market, the number of building permits issued between FY 08 Q4 and FY 09 Q2 dropped nearly 60%, remained depressed during FY 09 Q3, and then began to recover in FY 09 Q4. As of this last quarter, the number of permits issued fell by about 30% from the number issued in FY 08 Q4. This situation reflects a market response to the glut of unsold housing inventory in the County’s housing market (see story on Page 3). The total dollar value of residential permits issued also dropped by roughly 30% Q4 to Q4. On the non-residential side, the dollar value of permits issued rose by about 41% between FY 08 Q4 and FY 09 Q4. The dramatic spike that took place in FY 09 Q3 reflected activity in hospital construction at UVA and Martha Jefferson. The County’s Department of Community Development estimates that, without this hospital-related activity, the total dollar value of non-residential building permits issued in FY 09 Q3 would have been about \$27 million.

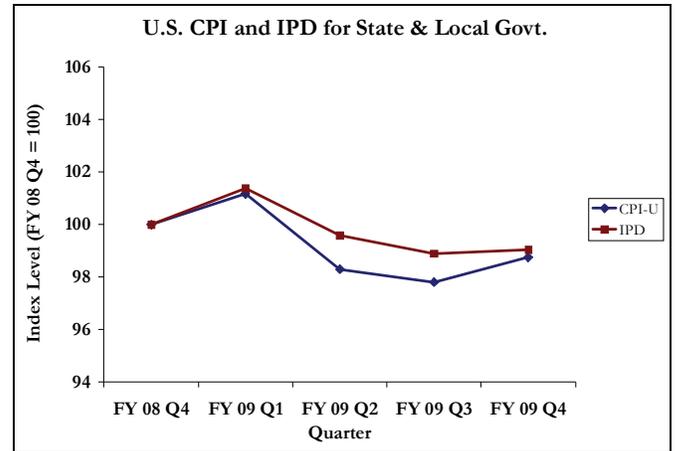


U.S. PRICE INDICES POST ANNUAL DECLINE

The U.S. Consumer Price Index (CPI) and the Implicit Price Deflator (IPD) for state and local governments posted declines between FY 08 Q4 and FY 09 Q4. The drop in CPI came to 1.15%, while the fall in the IPD equaled about 0.96%. Year-over-year declines in these indices are rare, and the prospect of price deflation has motivated the U.S. Federal Reserve System to keep short-term interest rates at historically low levels, in order to stimulate demand for goods and services.

Although CPI and the IPD both measure changes in prices, the two indices track price changes in two different market baskets of goods and services. The Consumer Price Index pertains to goods and services that *households* are likely to purchase, while the Implicit Price Deflator pertains to goods and services that *state and local governments* are likely to purchase. Households, for example, might buy items such as diapers, and barber services, while state and local governments are more likely to buy things such as police radios and traffic lights. Clearly, there exists some overlap between the two market baskets; households, as well as state and local governments, buy products such as personal computers, pens, and motor vehicles.

The differences that exist in the two sets of market baskets, however, typically generate numbers that do not coincide with each other, especially in the long run. As shown on the graph, CPI decreased by slightly more than did the IPD between FY 08 Q4 and FY 09 Q4. At first glance this situation would seem to suggest that the two price indices move pretty much in tandem over time, but the cumulative impact of differences in annual rates of change can render large long-term gaps between CPI and IPD price levels. Between FY 04 Q4 and FY 09 Q4, for example, CPI rose by 13.4% while IPD for state and local government increased by 24.3%, or at a rate that was slightly more than 80% higher than Consumer Price Index's rate of growth.



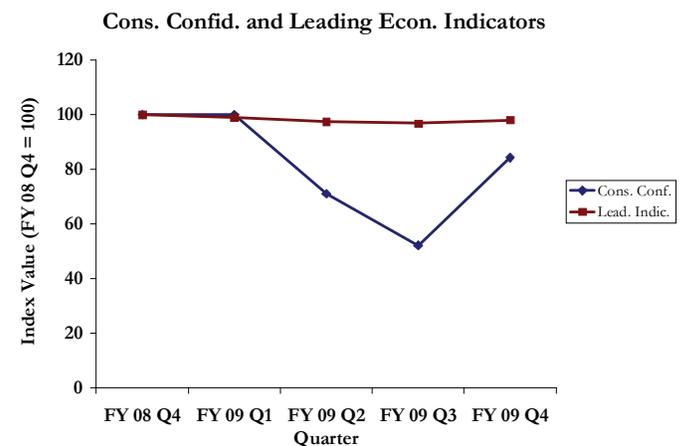
“The Consumer Price Index (CPI) pertains to goods and services that households are likely to purchase, while the Implicit Price Deflator (IPD) pertains to goods and services that state and local governments are likely to purchase.”

U.S. CONSUMER CONFIDENCE REBOUNDS; U.S. LEI'S REMAIN FLAT

The Conference Board, a nonprofit organization that tracks business and economic trends, publishes a U.S. Consumer Confidence Index, as well as a set of U.S. Leading Economics Indicators (LEI's). The numbers in these data sets offer a general idea about the direction of U.S. macroeconomic trends and, by extension, Albemarle County's economic prospects.

Changes in consumer confidence should precede changes in consumption. As shown in the graph, consumer confidence dropped by about 30% between FY 09 Q1 and FY 09 Q2; this decline presaged a roughly 20% drop in Albemarle County's sales tax revenue between FY 09 Q2 and FY 09 Q3. (See chart on Page 2). Another steep decline in U.S. Consumer Confidence between FY 09 Q2 and FY 09 Q3 suggests that final sales tax revenue numbers for FY 09 Q4 will fall substantially from the previous quarter. The rebound in consumer confidence in FY 09 Q4 could herald a quarterly turnaround in consumption.

The U.S. LEIs fell by about 2% between FY 08 Q4 and FY 09 Q4, with a bottom in FY 09 Q3. The LEI's include items such as weekly manufacturing hours, interest rates, and orders for capital goods. The relatively flat LEI data suggests that any economic recovery in the near term could be fairly sluggish.



The sharp drop in the U.S. Consumer Confidence Index preceded a decline in the County's sales tax revenue; the tiny uptick in the LEI's after FY 09 Q3 suggests that an economic recovery in the near term could be weak.

U.S. GDP CONTRACTS 2.4% IN FY 2008-09

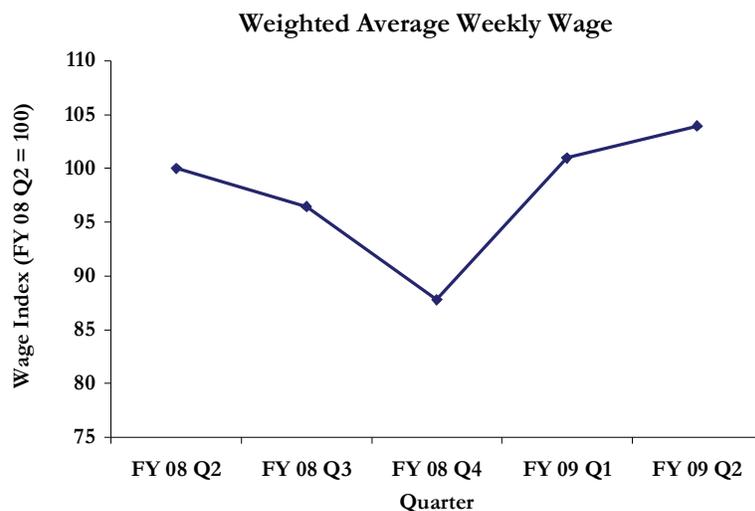
U.S. Gross Domestic Product (GDP) represents the total dollar value of all the goods and services produced within the United States. Between FY 08 Q4 and FY 09 Q4, U.S. GDP fell from \$14.5 trillion to \$14.1 trillion, or by 2.4%, reflecting the severe national recession that began in December of 2007. Many economists think that FY 09 Q4 will represent the low point for GDP during the current business cycle, and that growth in GDP will resume in FY 10 Q1 or possibly in FY 10 Q2.

Given the large amounts of wealth that U.S. consumers have lost in housing and stock market wealth during the recession, few economists expect that the recovery will be a robust, consumer-led phenomenon. A minority school of economic thought, however, contends that “pent-up” demand will help accelerate and amplify the recovery. One major question is whether or not growth in GDP during the recovery will be sufficient to bring down the unemployment rate. Weak GDP growth could render a “jobless” recovery.

Note that the U.S. Bureau of Economic Analysis (BEA), the entity that calculates U.S. GDP, also calculates a GDP figure for Virginia, but this information is done only on an annual basis and is not completed until well after the end of the calendar year. The BEA, unfortunately, does not estimate GDP for the Charlottesville Metropolitan Statistical Area (MSA), although it is assumed that local GDP, as is the case with the unemployment rate, follows state and national trends fairly closely.

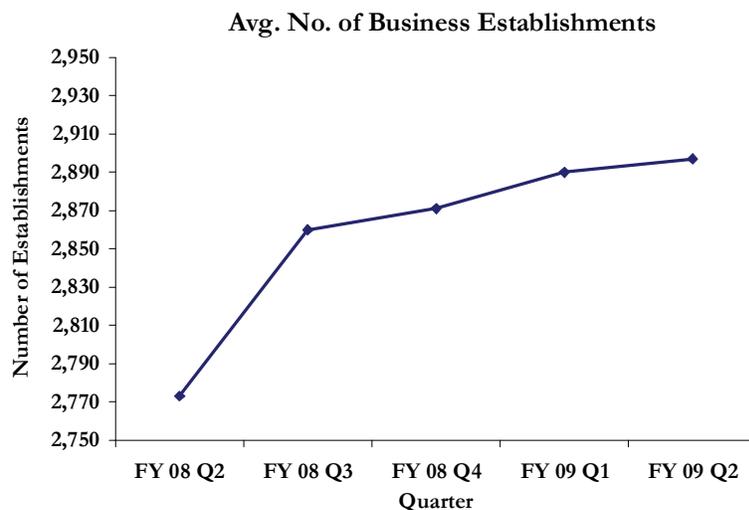
WEIGHTED AVERAGE WEEKLY WAGE RISES

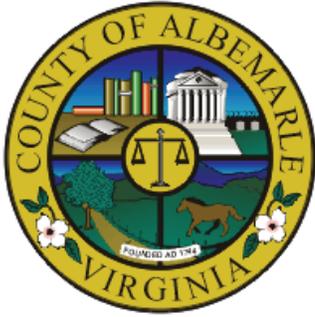
The weighted average weekly wage gives a *rough* idea about changes in the earnings of the “typical” worker in Albemarle. The most relevant comparison involves the same quarter between years, since the weighted average weekly wage can be influenced by changes in seasonal employment. Note the drop in FY 08 Q4; this drop coincides with the entrance of students into the labor force in the summer, which helps lower the weighted average weekly wage. Between FY 08 Q2 and FY 09 Q2, the weighted average weekly wage rose by 3.9%, but this growth could have resulted from job losses in low-paying sectors such as retail and construction.



NUMBER OF BUSINESSES GROWS

Changes in the average number of businesses that exist in Albemarle in each quarter renders an approximate estimate of business formation in the County. The Virginia Employment Commission does not generate this data in a timely manner but, between FY 08 Q2 and FY 09 Q2, the number of businesses in Albemarle rose by 4.5%. Note, however, that after FY 08 Q3 the number of businesses rose only slightly. The severity and length of the current recession, additionally, might have led to a *decline* in the total number of businesses operating in Albemarle in quarters subsequent to FY 09 Q2.





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Albemarle County is a community of 94,000 people, located 116 miles southwest of Washington, DC, and 72 miles northwest of Richmond. Founded in 1744, Albemarle surrounds the City of Charlottesville, and is the home of the University of Virginia, the University of Virginia Medical Center, and Thomas Jefferson's Monticello. The County's resident labor force of 52,000 is well-educated; 53% of the population aged 25 or older has at least a bachelor's degree. Industries that have expanded in Albemarle in recent years include biotechnology and national defense intelligence. The County's location at the intersection of Interstate 64 and U.S. Highway 29, the availability of air service to several major hubs from the Charlottesville/Albemarle Airport, and AMTRAK passenger rail service to the northeast corridor help support Albemarle's role as a transportation hub in Central Virginia. The County's natural beauty and historical importance, additionally, continue to attract visitors from around the world.

SUMMARY & ANALYSIS

U.S. and global macro-economic trends continue to have an adverse impact on the County's economy. The crisis that started in the global financial sector in the summer of 2007 and the resulting recession that began in the U.S. near the end of CY 2007 have had a ripple effect locally. A comparative analysis would reveal that Albemarle has not been as seriously impacted by the recession as have been many other localities around the state and country. The recession, nonetheless, has had a significant impact on the County, and an examination of the Quarterly Economic Indicators outlines the course that the recession has taken locally.

The financial crisis that began in the summer of 2007 led to a large decline in U.S. consumer and business confidence and a subsequent decline in gross domestic product (GDP) between FY 08 Q4 and FY 09 Q4 [stories, Pages 5 and 6]. This situation helped contribute to a drop in local consumption, as evidenced by the decline in the County's sales tax revenue [story, Page 2]. When coupled with increasingly tight credit conditions, the drop in consumer confidence also had a negative impact on the County's housing market, as illustrated by the ongoing glut of unsold inventory on the market and the resulting general decline in

housing values in the County [story, Page 3]. The drop in local consumption and the deterioration in the County's housing market clearly were factors that exacerbated the loss of employment in Albemarle's retail and construction sectors [story, Page 4].

It is worth noting that the impact of the recession has not been felt uniformly. The non-residential side of the construction industry, for example, has been aided somewhat by new hospital projects at the University of Virginia and Martha Jefferson [story, Page 4], but this situation, unfortunately, has not prevented an overall net loss of jobs in the construction sector. On another note, a slight increase in hotel/motel tax revenue [story, Page 2] seems to suggest that the County's tourism industry might have been spared from the worst of the recession in the sense that people residing in the mid-Atlantic region might have opted to take short, regional vacations rather than long trips outside of the area. The fact that meals tax revenue fell only slightly in comparison with sales tax revenue [story, Page 2], also suggests that regional tourism might have blunted the impact of the recession on Albemarle County's tourism sector.

Some of the Quarterly Economic Indicators contain worse news than meets the eye.

The U.S. Consumer Price Index, for all Urban Consumers (CPI-U), for example, actually declined by about 2% between FY 08 Q4 and FY 09 Q4 [story, Page 5]; this situation would seem to be good news at first glance, but persistent annual price deflation could devastate the economy if consumers held off making purchases in anticipation that the prices of goods and services would be lower in the future. The rise in the County's weighted average weekly wage [story, Page 6] likewise reveals potentially bad news; although this item rose between FY 08 Q2 and FY 09 Q2, the rise might be explained by losses in lower-paying retail and construction jobs.

The relatively mild degree to which the recession has impacted the County during the course of the past several quarters most likely is due to the mitigating economic effects of the University of Virginia and the UVA Medical Center. The deterioration in most of the County's Quarterly Economic Indicators, however, reflects the fact that Albemarle's economy remains vulnerable to the same U.S. and global macroeconomic pressures that are faced by all localities. The recovery in Albemarle's economy, consequently, will be driven most significantly by events at the national and global levels.