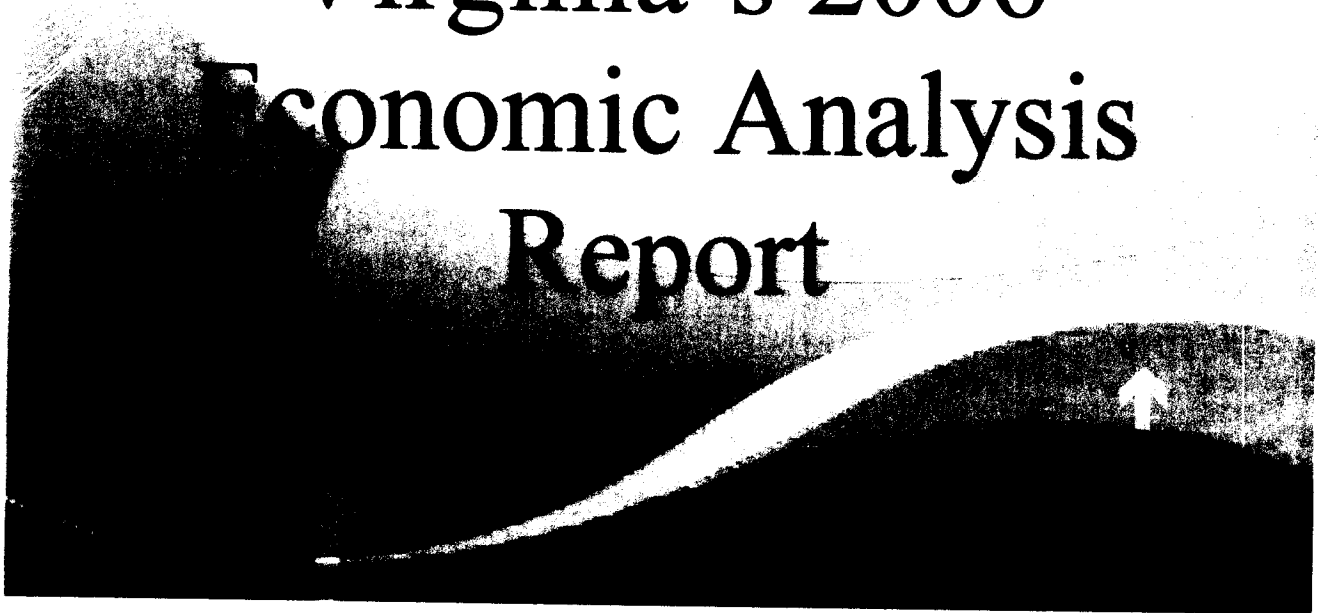


Virginia's 2006 Economic Analysis Report



- The following state economic analysis was developed from an updated adaptation of the VEC's Economic Assumptions.¹ With the uncertainty of near-future Workforce Investment Area (WIA) designations in Virginia, the Metropolitan Statistical Areas (MSA) data were used to provide a local perspective.

Our data show that calendar year (CY) 2006 was another good year for job growth in Virginia. The statewide job gain for CY 2006 was 61,800 for a 1.7 percent rate of gain from the CY 2005 non-farm employment average of 3,664,400 to 3,726,200. While still a good showing, 2006 Virginia job growth was less than the 80,500, or 2.2 percent, job gain recorded in CY 2005 and the 86,500, or 2.5 percent, job gain registered in CY 2004. Like in the nation, the job growth expansion in Virginia after two excellent years has now reached a more mature phase, being gradually slowed by higher interest rates, a slumping housing market, and confusion stemming from sharply fluctuating energy prices. By comparison, U.S. job growth had been 1.1 percent in CY 2004, 1.7 percent in CY 2005, and 1.9 percent in CY 2006. Even with the projected slowing job growth in CY 2006, Virginia continues to significantly out-perform the nation.

For the unemployment side of the labor force equation, Virginia was consistently among the four states with the lowest jobless rates in the country throughout CY 2006. For several months in CY 2006, Virginia had the second-lowest jobless rate in the nation behind only Hawaii. Some will argue that Hawaii is not continental U.S., and its economy is more influenced by economic happenings in Japan and East Asia than by the U.S. economy. Virginia consistently has the lowest unemployment rate of the 12 largest states with non-farm employment bases over 3.5 million jobs. Only Florida, of the largest states, is anywhere close to having as low an unemployment rate as Virginia.

Virginia's CY 2006 job growth continues to be led by the high-tech, high-wage professional and business services sector, booming construction activities, spurred on by preparations for the 2007, 400th anniversary Jamestown celebration, and an expanding private education and health care sector, especially in the regional centers that serve all of Virginia as well as other parts of the upper South. Still adding to Virginia's employment base were the state's many defense and national security contractors, although these activities appear to have reach a plateau in CY 2006. In spite of the fuel

¹ *Economic Assumptions for the United States and Virginia: Calendar Years 2007, 2008 and 2009 – Program Years 2007 and 2008. Virginia Employment Commission, Economic Services Division: January 2007.* This publication utilizes Current Employment Statistics (CES) and Local Area Unemployment Statistics (LAUS) data. Updates were made using 2006 benchmarked employment figures from the CES data series. Long-term forecasts used in the *Assumptions* are produced for the Commonwealth of Virginia by Global Insight, an economic and financial forecasting company.

price situation in CY 2006, the state's many leisure and hospitality employers generally had a booming year.

Virginia's average labor force and total place-of-residence employment also saw growth in CY 2006. The state's labor force expanded by 68,400, or 1.7 percent, to a record 4,002,300 (first time over 4 million) and total employment grew by 78,400, or 2.1 percent, to 3,876,100. The number of unemployed workers decreased by 10,000 to 126,200. The state unemployment rate fell 0.3 percentage points from 3.5 percent in CY 2005 to 3.0 percent for CY 2006. With Virginia having such a low jobless rate compared to other states and all the technology job opportunities in this state, Virginia is attracting job seekers from other places. They quickly find work here, but while they are conducting their job search, they add to Virginia's unemployment numbers. The national unemployment rate is projected to average 4.6 percent in CY 2006, which is still considerably higher than Virginia's low jobless rate.

Nonagricultural employment in Virginia by the NAICS industry sectors in CY 2006

A. Industries with rising employment averages in CY 2006.

The large **professional and business services** sector was again the job growth leader in CY 2006, providing over one quarter (34.5 percent) of the year's job gain, adding 21,300 jobs, or 3.5 percent. The professional and business services growth was concentrated in Northern Virginia, the state's largest metropolitan area, but this industry also saw gains in most of the state's other metro areas. The professional and business services industry was where large numbers of new college graduates found employment in CY 2006. Sub-sectors where much of this growth took place were engineering and architectural services, computer systems software design, scientific and consulting services, management of companies, and professional employment service specialists. A portion of the growth was as a result of these firms contracting with the federal government, especially in Northern Virginia and Hampton Roads, but the bulk of their work is now with the private sector. It was mostly a repeat of the boom times of the 1980s and 1990s for this industry in Virginia in CY 2006.

Construction employment grew by 5,800 jobs, or 2.4 percent, to a level in Virginia of 249,400. The building industry was booming all year in spite of higher financing costs. Actually,

rising financing costs seemed to have pushed a lot of projects into being with developers trying to get ahead of the rising costs. Commercial financing rates are still low by past historic standards. Giving a big boost to construction in Virginia in CY 2006, were the many building projects under way in preparation for the 2007, 400th anniversary Jamestown celebration. While there was some slowing in residential construction by year's end, any employment slack was more than made up by the booming commercial construction sector.

Private education and health services employment advanced by 11,200 jobs, or 2.9 percent, to a total of 404,700 with much of the gain being in the medical, nursing home, and private social services fields. Physicians' and dentists' private practices, up 5,100, or 4.3 percent; private social assistance, up 2,700, or 6.3 percent; and nursing care facilities, up 1,600, or 2.7 percent, registered the best gains. Private schools and colleges also added additional staff in CY 2006. Virginia has a number of centers, including Richmond, Norfolk, Roanoke, Charlottesville, Lynchburg, Harrisonburg, and Blacksburg that provide health and educational services to both statewide and regional clients.

Total government employment added 12,300 workers, or 1.9 percent, to a level of 674,200. Combined state and local government employment grew 10,500, or 2.1 percent, to 520,600. Most of the additions were in local school systems. In many smaller jurisdictions the local school system is the largest single employer. Federal government employment, at an average of 153,600, was 1,800, or 1.2 percent, higher in CY 2006.

The **leisure and hospitality** industry added 8,700, or 2.6 percent, more jobs to a level of 338,100 in CY 2006. Most of this job gain was in the large food service and accommodations portion of this industry. These increases came in spite of widely fluctuating gasoline prices all year that were highest during the May to August peak travel season. Also, some Hampton Roads tourist facilities were out of service much of the year as they were being remodeled and renovated in preparation for the 2007, 400th anniversary Jamestown celebration.

Wholesale and retail trade employment added 7,500 jobs for a 1.4 percent gain to a level of 543,200. High fuel prices hurt motor vehicle sales in 2006 as well as reducing business at discount and bargain merchandise stores. Virginia's first-ever sales tax holiday for back-to-school shopping in August, however, gave a boost to retailers. The slowdown in home sales reduced demand at furniture and appliance stores. Building material dealers benefited from the very strong commercial construction market.

Finance, insurance, and real estate employment grew by 3,200 jobs, or 1.7 percent, to a total of 195,700. Most sectors saw some growth. Banks, brokers, and commercial real estate seemed to have the most expansion. Mortgage refinancing slowed with home sales. Real estate employment averaged 58,600 in 2006, the same as in 2005 with growth in commercial real estate offsetting reductions in the residential side of the industry.

Miscellaneous services employment was up 600 jobs, or 0.3 percent, to a level of 181,600. Just about all of the increase was in the traditional categories of personal and repair services. Employment at Virginia-based charity and grant making organizations was down a little from year-ago levels because the extra workers hired last year to handle relief efforts associated with the unprecedented number of disasters that occurred world-wide in CY 2005 were not needed in CY 2006.

Mine employment in Virginia grew by 600 jobs, or 5.6 percent, to 11,300. The demand for Virginia-mined coal always rises with total energy prices as some utilities switch to the cheapest alternative fuel. Virginia mines are also having to hire new workers to replace retiring miners who first went to work in the 1970's coal boom.

B. Industries with declining employment averages in CY 2006.

Transportation, warehousing, and utilities, down 1,600, or 1.3 percent, to 119,800. Most of the loss stems from Dulles Airport-based Independence Air, a contract air service that operated regional jets for the major air carriers, going out of business in January. Many of the flight crews and other personnel were eventually picked up by other airlines. During CY 2006, the Richmond airport added its second discount air carrier, Jet Blue. The railroads, the ports, and the trucking and shipping lines are moving more cargo with the growing economy.

The information industry saw its employment level, at 92,000, drop 700, or 0.8 percent, as turbulence continues in telecommunications because of intense competition, especially in cell phones. Also, there seems to be some evidence of a trend here that is going on nationally to recode some employers from the information industry to professional and business services. (They are dropping out of information, but reappearing in professional and business services.)

Manufacturing employment at 288,700 was down 7,100 jobs, or 2.4 percent. Durable goods, were up 300, or 0.2 percent, to a level of 170,400. The yearly average is up because of growth

in industrial goods and motor vehicles early in the year. Vehicle-production-related employment fell off with sales in CY 2006's final months. Non-durables continued to lose jobs, being down 7,300, or 5.8 percent, to a level of 118,400. The worst losses were in textile mills with several Southside Virginia plants shutting down in CY 2006, the most notable of these was the closure in March of the historic Dan River Mills plant in Danville. Textile mills employment in Virginia, now at 8,900, is one-fifth the size it was in the early 1970s when textile manufacturing was Virginia's largest factory sector.

Metropolitan and Small Area Employment Changes

Virginia's ten metropolitan areas had a net non-farm job gain of 61,300 for a 1.9 percent CY 2006 average growth rate. The remaining non-metropolitan rural areas added only 500 jobs, or 0.1 percent, bringing employment in the non-metropolitan part of the state to 434,500, up slightly from 434,000 in 2005. Generally, the rural areas in the upper part of the state (the rural areas above Interstate 64) added workers while the rural areas below Interstate 64 generally saw some job loss.

The three largest metropolitan areas—Northern Virginia, Virginia Beach-Norfolk-Newport News, Virginia/North Carolina, and Richmond—saw a combined 47,300 jobs added, or 76.5 percent, of the 2006 statewide job creation. Northern Virginia continued to create the most jobs—30,500—and provided almost half (49.4 percent) of Virginia's 2006 job growth. Three smaller metropolitan areas had very strong job growth rates in 2006. They were: Harrisonburg, up 5.3 percent; Winchester, Virginia/West Virginia, up 5.2 percent; and Charlottesville, up 4.2 percent. In addition to the above three areas, three other metropolitan areas had faster percentage job growth rates than the statewide 1.7 percent rate of gain. They were: Northern Virginia, up 2.4 percent; Lynchburg, up 2.2 percent; and Roanoke, up 2.1 percent. Only the Danville area, which lost a net 2,100 jobs, or 4.8 percent, experienced a reduction.

Harrisonburg—up 5.3 percent, or 3,200, to 64,100. The Harrisonburg area showed up much stronger after benchmark revisions than before. Most of the growth was in the private service-providing industries, up a net 3,300 jobs, or 9.6 percent, publishable of which was a 900, or 7.3 percent, gain in trade/transportation. Much of this private service-related industry employment base

was to provide support for the large James Madison University state government complex. The total government sector also added a net 200 jobs for a 2.0 percent rate of gain. Manufacturing employment remained negative with a 600, or 5.0 percent loss; and this was the reason for the 300, or 1.8 percent, reduction in the goods-producing combination of mining, construction, and manufacturing.

Unemployment remained in the low to mid-2 percent, putting Harrisonburg among the dozen best of the 367 U.S. metropolitan areas.

Winchester, Virginia/West Virginia—up 5.2 percent, or 2,900, to 55,300. The Winchester area also came out stronger after the latest benchmarking with the private service-providing industries, up a net 2,600, or 7.5 percent, accounting for most of the growth. Publishable in the private service-providing industries was a 500, or 4.2 percent, increase in trade/transportation. Total government employment grew 300, or 4.2 percent. The goods-producing combination of mining, construction, and manufacturing was unchanged at 13,700. The slump in vehicle- and construction-related manufacturing the last-half of 2006 proved not quite as severe as had been shown in the original estimates.

Unemployment in the Winchester area was mid-to-upper 2 percent in CY 2006 with vehicle- and housing-related furloughs in Frederick County and in neighboring Shenandoah County and West Virginia, where some Winchester area residents commute, having slight impact late in the year. Winchester ranked in the best-20 of the nation's 367 metropolitan areas in CY 2006 with the vehicle- and housing-related furloughs causing some slippage towards year's end.

Charlottesville—up 4.2 percent, or 4,000, to 98,900. The Charlottesville area was showing strong growth both before and after the benchmarking. Area non-farm employment also topped the 100,000 mark for the first time during the final four months of 2006. The best growth was 2,600 jobs, or 4.7 percent, in the private service-providing industries. Publishable private service industry gains were 900, or 8.7 percent, in professional/business services; 400, or 3.9 percent, in leisure/hospitality; and 300, or 2.2 percent, in trade/transportation. The total government sector, which includes the large University of Virginia and Blue Ridge Hospital state government complex, added 900 jobs for a 3.1 percent gain. Much of the service industry growth in this area is to provide support to the dominant

University/hospital complex. The goods-producing combination of mining, construction, and manufacturing added 500 jobs for a 4.5 percent rate of gain.

Unemployment in the Charlottesville area ranged just above labor shortage in the 2.5 percent range in CY 2006. Charlottesville area unemployment is usually ranked in the best half-dozen of the nation's 367 metropolitan areas and has ranked first or second several times this year. Albemarle and Fluvanna counties sometimes have labor shortage, 2.0 percent or less, unemployment rates.

Northern Virginia—up 2.4 percent, or 30,500, to 1,294,200. Northern Virginia continues to provide the most jobs on a numerical basis and in 2006 accounted for almost half (49.4 percent) of all the jobs created in Virginia. The leader in this job creation is the area's professional/business service sector, up 13,700, or 4.3 percent. Northern Virginia professional/business services alone accounts for 22.2 percent of Virginia's job growth. Total government employment in this region was up 5,100, or 2.5 percent. Other good gains were 4,800, or 7.6 percent, in miscellaneous services; 3,900, or 3.5 percent, in private education/health care; 3,300, or 3.6 percent, in construction (even with the home building slump); 1,400, or 1.3 percent, in leisure/hospitality; and 1,000, or 1.5 percent, in finance. Manufacturing added 400 jobs for a 1.4 percent increase. Trade/transportation was negative by 1,300 jobs, or 0.6 percent, because of airline cuts early in the year; and information was down 1,900 jobs, or 3.5 percent, because of telecommunications losses.

Unemployment in Northern Virginia averaged 2.2 percent in CY 2006 and dropped to the labor shortage level of 2.0 percent, or less, in the fourth quarter. Northern Virginia's combination of good job growth, high-quality, high-pay jobs available, and very low unemployment make it one of the best labor markets in the entire world. Northern Virginia's technology employers say they could hire even more, if there were more people who could meet their high-skill requirements were available. In the national unemployment rankings, Northern Virginia is not treated as a separate area, but as part of the larger Washington-Arlington-Alexandria, D.C./Virginia/Maryland/West Virginia area. If it were treated as a separate area, it would undoubtedly be, by far, the largest area with the lowest unemployment rate in the country.

Lynchburg—up 2.2 percent, or 2,300, to 107,500. All sectors were positive. There was net growth of 1,700 jobs, or 2.2 percent, in the service-providing industries, publishable of which were

200 each in trade/transportation and total government. The goods-producing combination of mining, construction, and manufacturing added 700 jobs for a 2.7 percent net gain. Manufacturing had a publishable 200 increase.

Unemployment in the Lynchburg area was right at the state average of 3.2 percent in CY 2006.

Roanoke—up 2.1 percent, or 3,300, to 162,500. The Roanoke area's best increase was 1,500, or 7.3 percent, in professional/business services. Other gains were 800 in trade/transportation 500 in manufacturing; 400 in private education/health care; and 300 each in leisure/hospitality and total government. There were losses of 400 in miscellaneous services and 200 in finance.

Unemployment in the Roanoke area averaged 3.0 percent, just below the statewide average.

Richmond—up 1.7 percent, or 10,700, to 626,400. The Richmond area job growth rate of 1.7 percent was the same as the statewide rate of job increase. The Richmond area's best job gain was 3,800, or 5.6 percent, in private education/health care as this area more and more becomes an education and health care center for the upper South. Also good were increases of 2,200, or 2.4 percent, in professional/business services; 1,800, or 1.6 percent, in trade/transportation; 1,600, or 3.2 percent, in leisure/hospitality; and 1,200, or 2.7 percent, in construction. There were also additions of 500 in finance, 300 in total government, 200 in information, and 100 in miscellaneous services. There was a reduction of 1,000, or 2.2 percent, in manufacturing.

Unemployment in the Richmond area had declined to the low 3 percentage range, and finished 2006 at 3.2 percent. The Richmond area has consistently ranked among the three- or four-best areas in the country for unemployment among the nation's 50-largest metropolitan areas this year and has ranked first a couple of months.

Virginia Beach-Norfolk-Newport News, Virginia/North Carolina—up 0.8 percent, or 6,100, to 766,900. Virginia's second-largest metropolitan area showed less growth with the benchmarks than the preliminary estimates had indicated because of factory and home building losses late in the year. The leisure/hospitality industry had the best gain, up 2,700 jobs, or 3.3 percent, as it

prepared for Jamestown 2007. Private education/health care was up 2,100 jobs, or 2.5 percent; trade/transportation grew by 1,000 jobs, or 0.7 percent; and total government added 1,000 jobs, or 0.7 percent. Smaller increases were 700 in finance; 400 in professional/business services; 300 in information; and 200 in construction. There were losses of 700 in miscellaneous services and 1,700, or 2.8 percent, in manufacturing because of reduced vehicle production.

Unemployment in Hampton Roads dropped to 3.3 percent in CY 2006, which is very good considering that the normal turnover of military dependents in this area adds at least 1 percentage point to the jobless rate and the recent vehicle-related furloughs. Hampton Roads was usually in the best ten major metropolitan areas with lowest unemployment in CY 2006.

Blacksburg-Christiansburg-Radford—up 0.6 percent, or 400, to 71,700. The increase was a net 700 gain in the service-providing industries, publishable of which was a 400 addition in total government that includes the Virginia Tech/Radford University complex. In the goods-producing combination of mining, construction, and manufacturing, there was a 300 net reduction caused by factory cutbacks late in the year in the vehicle- and housing-related industries.

Unemployment in this area dropped to 3.3 percent in CY 2006 because of fewer factory furloughs.

Danville—down 4.8 percent, or 2,100, to 41,300. Danville had the only reduction in its average non-farm employment base among Virginia's ten metropolitan areas, because of a 2,300, or 19.2 percent, drop in its net goods-producing employment caused by a 2,200, or 22.2 percent, loss in manufacturing, due largely to textile mill closings. There was a slight 200 net gain in the service-providing industries, but there was no change in either of the publishable sectors of trade/transportation and total government.

Unemployment in the Danville area was generally in the 7 to 8 percent range, ending 2006 at 6.6 percent, giving it the highest jobless rate in the state. Unfortunately, Danville now ranks among the 15-worst unemployment areas out of the 367 U.S. metropolitan areas.

Unemployment in Virginia

Unemployment in Virginia after the annual benchmarking averaged 3.0 percent for 2006, even better than the 3.1 percent initially reported in the preliminary estimates in January 2007. The 3.0 percent Virginia average 2006 unemployment rate was 0.5 percentage point below the 3.5 percent average unemployment rate for 2005 and was the lowest average rate in six years, since the 2.3 percent average in 2000. The 2.3 percent Virginia average unemployment rate in 2000 was the best annual average rate ever recorded in Virginia since figures have been kept, starting in 1950. The 2006 Virginia 3.0 percent average unemployment rate has only been bettered nine times in the 57 years since records have been kept. They were: 2.6 percent in 1952; 2.7 percent in 1953; 2.7 percent in 1966; 2.8 percent in 1967; 2.7 percent in 1968; 2.7 percent in 1969; 2.8 percent in 1998; 2.7 percent in 1999; and 2.3 percent in 2000.

Forecast – 2007, 2008 and 2009

The Virginia economy, like the national economy, is expected to see slower growth in CY 2007, but the slowdown should be less pronounced in Virginia than in the nation. Job growth in Virginia is expected to outpace the nation throughout the forecast period. All the 400th anniversary Jamestown celebration activities should bring many additional visitors to the Old Dominion, temporarily boosting employment in the leisure and hospitality and trade and transportation industries. The services sector led by the ever-strong professional and business services will continue to be the real driver of job growth. Defense and homeland security spending should continue to undergird Virginia's business and professional services even if the Iraq war activities should wind down. High-energy prices, expanding debt burdens, and the slowdown in housing represent significant risks to consumer spending, but expectations are that consumer fundamentals will remain healthy. Strong population growth and low business costs should continue to boost Virginia's economic performance. The on-going commercial building activities should almost make up for job losses in the housing-related part of the construction industry. The information industry is expected to again achieve positive employment by CY 2008. Only manufacturing is projected to see a trickle of job loss for the forecast period. Virginia's unemployment rate is expected to hold at the present low-3 percent level, or perhaps rise a tenth of a percentage point, or so, because of all the people attracted to Virginia by the robust, solid employment growth and the very low unemployment rate. Virginia is

expected to continue to be among the very lowest states in unemployment with only Hawaii and a few small population upper Midwest states sometimes being as low, or lower.

Nonagricultural employment* in Virginia is expected to slow slightly from the 61,800, or 1.7 percent CY 2006 rate of gain to grow by 43,300 jobs, or 1.2 percent, to 3,774,200 in CY 2007. After that, the pace will quicken again with non-farm employment up 53,300 jobs, or 1.4 percent, to 3,827,500 in CY 2008 and 64,600 jobs, or 1.7 percent, to 3,892,100 in CY 2009.

***Note:** Detail may not add to totals due to rounding.

Professional and business services continues to be the mainstay of economic growth in Virginia, adding 16,300 jobs, or 2.6 percent, to 640,500 in CY 2007; 22,100 jobs, or 3.4 percent, to 662,600 in CY 2008; and 25,900 jobs, or 3.9 percent, to 688,500 in CY 2009. Virginia established a fundamental base of technological know-how, specialized physical structures, and human skills over the past two decades that should give its professional and business services employers a real jump on the rest of the nation. Architectural and engineering firms are busy on new projects, especially in redeveloped downtown areas, and computer-programming consultants are preparing the next wave of software packages. As always, contracting with the federal government is a significant portion of Virginia consulting firms' work. Temporary employment services will be supplying workers for special and temporary needs. This will be especially true during the Jamestown festivities. Providing highly trained specialty field temporary service professionals to meet many and varying demands is now a big part of this industry. Human resource professionals claim professional and business services in Virginia could expand even faster than it is already doing, if more highly skilled and qualified workers could be found. Virginia should attract in many professionals from other states.

Private education and health care services will add 9,800 jobs, or 2.4 percent, to 415,700 in CY 2007; 7,300 jobs, or 1.8 percent, to 423,000 in CY 2008; and 7,900 jobs, or 1.9 percent, to 430,900 in CY 2009. Health care, social services, and nursing facilities will expand to meet the needs of an affluent, aging population. Advances in technology today cause the public to expect and demand so much more in the way of health services. These demands will expand even more as health insurance coverage grows. Private education will be expanding gradually with the growing population. The major health care and education facilities located in centers throughout the state use

the latest equipment and technologies to serve not only the Old Dominion, but also a big portion of the upper South.

The **leisure and hospitality industry** is expected to grow by 7,500 jobs, or 2.2 percent, to 341,000 in CY 2007 with all the Jamestown-related activities; then add 5,700 jobs, or 1.7 percent, to 346,800 in CY 2008; and 6,000 jobs, or 1.7 percent, to 352,800 in CY 2009. CY 2007 marks the 400th anniversary of the first permanent English settlement in the new world at Jamestown, Virginia, in 1607. Many Virginia attractions have been preparing for a couple of years for the events marking the occasion and the large number of travelers that will be visiting Virginia at this time. High gasoline prices will be a concern, but with the nearby population centers of the Northeast and Midwest, Virginia should receive many visitors. The Virginia travel business is expected to remain good in the years after the Jamestown festivities.

Total government employment should gain 6,300 jobs, or 0.9 percent, to 677,500 in CY 2007; 5,400 jobs, or 0.8 percent, to 682,800 in CY 2008; and 9,400 jobs, or 1.4 percent, to 692,200 in CY 2009. Federal government employment is expected to be off slightly by 300 jobs, or 0.2 percent, because of budget restraints in CY 2007; being unchanged at 151,100 in CY 2008; and then add 300 jobs, or 0.2 percent, in CY 2009. There may be some winding down in Iraq war activities by late in the forecast period. Also, some Base Closure and Realignment Commission (BRAC) recommendations may come into play very late in the forecast period and may cause a reshuffling of some Virginia federal personnel. Generally, the BRAC recommendations cause some federal payroll reductions in Hampton Roads and Northern Virginia (although much of this is a shifting to different facilities), but big gains in the Richmond area. Combined state and local government employment is expected to increase 6,600 jobs, or 1.3 percent, in CY 2007; 5,300 jobs, or 1.0 percent, in CY 2008; and 9,100 jobs, or 1.7 percent, in CY 2009. Most of this increase will be in local public education to meet an expanding school population. Employment is also expected to expand at growing state institutions of higher learning, and some other state government agencies will have to add personnel to serve the needs of a growing population.

Trade employment is expected to expand 4,000 jobs, or 0.7 percent, to 542,900 in CY 2007; 10,700 jobs, or 2.0 percent, to 553,600 in CY 2008; and 5,800 jobs, or 1.0 percent, to 559,400 in CY 2009. Consumer spending will slow with the economy in CY 2007, but Jamestown-related sales will

help in tourist areas. Sales in non-tourist areas should rebound in CY 2008. Merchants will be expanding to serve a growing population, but they will be using all the labor-saving and cost-cutting measures possible in order to stay competitive. Discount and big box retailers will grow, but there will also be the need for specialty and niche marketers.

Finance, insurance, and real estate is projected to add 2,300 jobs, or 1.2 percent, to 197,800 in CY 2007; 2,500 jobs, or 1.3 percent, to 200,400 in CY 2008; and 3,400 jobs, or 1.7 percent, to 203,800 in CY 2009. Banks, insurance companies, and stock brokers will need to expand to meet the demands of a growing market. Mortgage companies are seeing much less refinancing activity now that housing sales have slowed. In Northern Virginia, some recent transfers to the region have had to back out of condominium contracts because they cannot sell their previous housing in other areas. Housing prices in the formerly frothy Northern Virginia market have fallen 5 to 6 percent, and prices in the Richmond and Hampton Roads areas have leveled off. Existing home sales volume is down 24 percent in Virginia as sellers postpone sales until market conditions improve. The residential real estate market will be going through a period of adjustment in the forecast period. The commercial real estate market, however, appears to remain strong.

Other, or miscellaneous, services should grow by 2,900 jobs, or 1.6 percent, to 184,900 in CY 2007; 1,000 jobs, or 0.6 percent, to 186,000 in CY 2008; and be a minimal 100 jobs off at 185,900 in CY 2009. These traditional service providers, like barber shops, beauty parlors, and other personal services, repair shops, and nonprofit and charity organizations (subgroups that originally made up services under the SIC codes) should prosper with an expanding economy. Charities should see slightly better donations with rising incomes.

Natural resources and mining should expand 200 jobs, or 1.4 percent, to 11,200 in CY 2007; remain about the same level in CY 2008; and grow 100 jobs, or 0.6 percent, to 11,300 by CY 2009. This industry is expected to follow energy markets. On the plus side, utilities use more coal when oil prices are high and the mines have to recruit replacements for an aging workforce. On the down side, Virginia coal seams are becoming more difficult to extract economically.

Transportation, warehousing, and utilities is expected to lose 400 jobs, or 0.4 percent, to 120,500 in CY 2007, due to less merchandise being shipped during CY 2007's "soft economic landing"; then add 900 jobs, or 0.8 percent, to 121,400 in CY 2008; and add 1,100 jobs, or 0.9

percent, to 122,500 in CY 2009. Rail, trucking, and shipping lines should expand and contract with the economy. The airlines are still a mixed picture. The cut-rate carriers tend to have growth spurts, while the traditional carriers are still dealing with changing markets, bankruptcies, and mergers. Overall, the airlines seem to be doing a little better now. A U.S. Airways-Delta merger might potentially cost some jobs in Virginia. Fluctuating fuel costs are a concern to all sub-sectors of the transportation and utilities industry.

The **information industry** is expected to lose 900 jobs, or 1.0 percent, to 89,900 in CY 2007; and then add 100 jobs, or 0.1 percent, to 90,000 in CY 2008; and add 1,400 jobs, or 1.6 percent, to 91,400 in CY 2009. Losses result from competition and weeding out in telecommunications, especially cell phones, and code changes with some firms seeming to find their way out of information into professional and business services. Anyway, this sector appears more stable after CY 2007.

Construction employment is expected to be down by a net 4,500 jobs, or 1.7 percent, to 255,400 in CY 2007 because of the slump in residential construction and the completion of all the Jamestown-related building activities. After that, construction employment is expected to resume growth, adding 200 jobs, or 0.1 percent, to 255,600 in CY 2008 and 5,400 jobs, or 2.1 percent, to a new record of 261,000 by CY 2009. Some BRAC-related construction will be starting by CY 2009.

Manufacturing is the only major Virginia industry group that is expected to see slight net employment losses throughout the forecast period, being down 200 jobs, or 0.1 percent, to 297,000 in CY 2007; 2,700 jobs, or 0.9 percent, to 294,200 in CY 2008; and 1,700 jobs, or 0.6 percent, to 292,500 in CY 2009. The loss in durable goods will come from the closing of the Norfolk Ford assembly plant in CY 2007 and the plateau of defense-related shipbuilding. Also, the furniture industry will be going through a period of adjustment. Non-durables will continue to see textile mills and apparel plants close, or move offshore.

Labor force data (Place of residence)

Virginia's **labor force** is expected to expand in the forecast period, both from natural growth within the state and from workers outside of Virginia being attracted here by the good job opportunities and the low jobless rate. The civilian labor force is expected to grow by 56,000, or 1.4

percent, to 4,058,300 in CY 2007; 42,500, or 1.0 percent to 4,100,800, in CY 2008; and 41,400, or 1.0 percent, to 4,142,100 in CY 2009. **Total employment** (which also includes agricultural, self employed, and domestic household workers) is projected to increase 46,600, or 1.2 percent, to 3,922,800 in CY 2007; 41,900, or 1.1 percent, to 3,964,700 in CY 2008; and 47,200, or 1.2 percent, to 4,011,800 in CY 2009. The **unemployment level** will be boosted by new workers attracted to the job opportunities in Virginia, who will slightly swell the ranks of the unemployed while they are conducting their job search even though they should quickly find work. The number of unemployed should rise 7,400 to 135,500 in CY 2007; 600 to 136,100 in CY 2008; but then fall 5,800 to 130,300 in CY 2009. The **unemployment rate** is expected to average 3.3 percent in CY 2007; 3.3 percent in CY 2008; and 3.1 percent in CY 2009. Really not all that much change is expected in joblessness. The Virginia unemployment rate should keep its historic relationship of being only 65 to 75 percent of the national jobless rate. It also should remain well below the 5.0 percent level considered to be "full employment."

Metropolitan and Small Area forecasts

Northern Virginia continues as Virginia's job growth leader as it has been for the past three decades. Gains of about 29,000 jobs, or 2.2 percent, in CY 2007; 35,000 jobs, or 2.5 percent, in CY 2008; and 39,000 jobs, or 2.8 percent, in CY 2009 are expected. Northern Virginia should continue to account for from three-fifths to two-thirds of the job growth in the entire state. Paramount in this growth leadership will be the high-tech, high-wage professional and business services, which in this region should continue to produce 15,000 to 20,000 new jobs per year. Construction employment may see less growth in CY 2007 as the residential market readjusts, but by CY 2009 construction of facilities to move all the defense personnel now housed in rental space onto military bases as required by the BRAC recommendations will be started. Commercial construction is expected to remain strong and take up much of the residential slack. The vacated rental spaces will mean more office space will be available to meet the demands of growing private-sector tenants. The telecoms now appear about to turn the corner and shortly will be expanding, although there will continue to be much competition and reshuffling in this industry. Both the professional and business services and the telecoms still will be doing much contracting with the federal government, which itself will see slight expansion, especially in the homeland security and defense areas. Northern Virginia tourism interests should benefit from travelers to Jamestown passing through the area. Financial services,

health care, and retail trade will be expanding to meet the needs of a growing high-income population. Another significant terrorist attack on the nation's capital would impact this area.

The Northern Virginia **unemployment** rate is expected to be in the low 2 percent range with new people coming to this booming area to seek work, keeping it from dropping even lower. In both quality and quantity of jobs, Northern Virginia should continue to be one of the best job markets in the world. The two concerns in this booming job market are not enough trained workers and traffic gridlock.

The **Virginia Beach-Norfolk-Newport News, Virginia/North Carolina** area should see non-farm employment growth of about 9,000 jobs, or 1.1 percent, in CY 2007; 11,000 jobs, or 1.4 percent, in CY 2008; and 10,000 jobs, or 1.2 percent, in CY 2009. The important local tourism economy should get a temporary big boost from all the Jamestown-related activities in CY 2007, but the Norfolk Ford plant is expected to be completely closed by third quarter, CY 2007. Jobs at some food suppliers will also be lost. The area benefits from supplying the war efforts, but a return of the troops would boost local retail activities. An end to the Iraq war may mean some cuts at defense contractors; and, farther out, if the BRAC recommendations come to pass, both the Peninsula and Southside Hampton Roads could see defense reductions.

Unemployment in the region should remain in the upper 3 percent range even with the Ford closing, "after Jamestown" cutbacks, and perpetual turnover in military dependants. The Ford closing itself should not create much additional unemployment for the area because three-quarters of the Ford plant workers are supposed to be taking the early retirement buyouts offered, and some of the remaining workers are transferring to other Ford plants. Layoffs at Ford suppliers, however, will likely cause some jobless claims in CY 2007. The temporary workers hired to man all the extra Jamestown jobs should be students, or transient workers, who, after temporarily giving a boost to the local economy in CY 2007, will either leave the labor force, or move on elsewhere after the celebration is over. Traffic congestion remains a problem for this area, especially around the tunnels.

The **Richmond** area should see job gains of 10,000, or 1.6 percent, in both CY 2007 and CY 2008, and 11,000, or 1.7 percent, in CY 2009. Private education and health care, professional and business services, and finance should lead employment growth. State and local government should do

limited staffing, especially in public education and transportation. This area should also benefit from Jamestown-related activities in CY 2007. Downtown and riverfront development projects and expansion of the bio-tech park should continue as well as more shopping center development in suburban areas. Recent arrivals to the area from Westvaco and Phillip Morris should add to the employment base. Near the end of the forecast period, the start-up of the BRAC recommendations to more than double the size of Fort Lee will mean much development for the Petersburg portion of the area.

The **unemployment** rate should be in the low 3 percent range.

The **Charlottesville** area should continue to see the best job growth of the state's small- and medium- size areas. Job expansion should be 3 percent annually, or better; and Charlottesville may supplant Lynchburg as Virginia's fifth-largest metropolitan area by the end of the forecast period. This growth will be driven, as usual, by the large University of Virginia and the University's Blue Ridge Hospital and their support industries, but professional and business services, private education and health care, trade and transportation, and leisure and hospitality should all be strong.

The **unemployment** rate should be low-2 percent, keeping Charlottesville one of the very best smaller job markets in the entire nation.

The **Roanoke** area should see slow, but steady, job growth in the 1 to 1.5 percent range with Roanoke's mainstays of trade and transportation, professional and business services, and private education and health care providing the most jobs. Factory employment should hold its own.

The **unemployment** rate should be in the upper 2 percent range.

The **Lynchburg** area should see about 2 percent job growth, led, as usual, by the private colleges and their support industries. Professional and business services should prosper, and manufacturing is expected to remain positive.

The **unemployment** rate should be right around 3 percent.

The **Winchester Virginia/West Virginia** area should see 2-3 percent job growth with continuing influence from its large and prosperous neighbor to the east, Northern Virginia.

The **unemployment** rate should be in the mid-to-upper 2 percent range. Preventing the rate from being even lower are possible jobless claims from the motor vehicle- and housing-related industries, both in the area and in nearby West Virginia where some Winchester residents work.

The **Harrisonburg** area should continue to see job growth led by the large James Madison University complex and the support industries that go along with it. In CY 2006, the area seemed to struggle to overcome earlier factory losses, but these should be less of a problem in the forecast period. There is a slight potential for motor vehicle-related jobless claims activities in this area.

The **unemployment** rate in the Harrisonburg area has been extremely low in CY 2006 and that trend should continue with just over 2 percent unemployment making Harrisonburg one of the best small areas for unemployment in the nation.

The **Blacksburg-Christiansburg-Radford** area should continue to see good job growth in its combination of Virginia Tech, Radford University, and the technology complex in Montgomery County that goes along with the colleges. Pulaski County's motor vehicle-related manufacturers have announced some cutbacks for CY 2007.

The area **unemployment** rate may move back into the 3 percent range because of the above already announced factory furloughs.

The **Danville** area continued to lose old-line textile and apparel employment throughout CY 2006. Hopefully, the worst of these losses are now behind the area, and a pattern similar to the Martinsville area the last two years will emerge with employment turning from negative to positive as the layoffs fade into the past. A few new employers have recently been announced, and non-manufacturing has been showing a slight growth trend all along.

Hopefully, unemployment will gradually recede from the current 7-8 percent range.

The non-metropolitan **Balance of the State** should continue to present a diversified and mixed picture. Generally, the more services-oriented upper half of the state should see more job growth and do better than the lower half factory-oriented part. Job growth trends should improve, however, in the lower half of the **Balance of State** by late in the forecast period. The **Shenandoah Valley, eastern slopes of the Blue Ridge Mountains, Middle Peninsula, Northern Neck, and Eastern Shore** should generally see low unemployment rates aside from historic seasonal patterns in the Northern Neck and Eastern Shore. Even these seasonal patterns are less pronounced now than they used to be as more year-round industries move in. The large and prosperous Northern Virginia metropolitan area now exerts some influence over the entire upper part of Virginia. The **Middle Peninsula and Northern Neck** could see good job growth as their economies become more service-oriented like their urban neighbors. The **Staunton-Waynesboro** and **Culpeper** micropolitan areas should continue to thrive with mid-2 percent unemployment. The **Allegheny-Covington** highlands recently have weathered some vehicle-related factory layoffs. Far **Southwest** Virginia should see unemployment in the 3 to 5 percent range with new industries moving into some coalfield areas and the mines doing some replacement hiring. The **Emporia-Greenville** area is gradually recovering from previous plant closings with state institution employment providing a solid base for the local economy. The **western Southside** and **Piedmont** communities along the North Carolina border that have suffered much from mill and plant closings should see gradual improvement as economic developers valiantly try to bring in new niche employers, but this region likely will have the state's highest unemployment during much of the forecast period. The **Martinsville** micropolitan area and **Patrick County** are already seeing much improvement. The **Galax**, and **South Boston** areas have recently weathered manufacturing layoffs like the Danville metropolitan area; and now, hopefully, all these areas will begin to see improvement with new employers moving in.