



Virginia Economic and Revenue Brief

Office of the Chief Economist

Dear Readers:

This report represents the first in a series of research briefs that Virginia Tax will begin to issue on a regular basis on the Commonwealth of Virginia's economy and the implications for Virginia's Budget.

The responsibilities of the Revenue Forecasting Division at Virginia Tax include understanding the key economic and tax policy drivers that inform the revenue estimates provided in the Commonwealth's budget. Some of these drivers are purely local in nature and specific to Virginia. However, the competitive landscape in which state economies operate to attract talent and businesses requires us to understand and research broader macroeconomic trends and tax policy issues.

To this effort, I bring more than 20 years of experience in areas of budgeting, tax policy, and economic development, primarily working for the City of New York and the District of Columbia in a similar capacity to my role in the Commonwealth as Chief Economist/Director of Revenue Estimation. I joined Virginia Tax only recently, and look forward to the opportunity to begin this deep dive into Virginia's economy and tax structure.

I welcome your feedback and questions regarding this report, as well as any interests or topics that you think we should explore. You can address your comments to the following address: econresearch@tax.virginia.gov

I would also like to acknowledge the support of all my colleagues here at Virginia Tax, particularly the Tax Commissioner, Craig Burns.

Thank you,

Steven Giachetti

Overview

Data released March 13th by the Bureau of Labor Statistics (BLS) and the Virginia Employment Commission (VEC) provide additional insight on Virginia’s economic performance since the outbreak of the pandemic. The data reflect recently revised employment figures for the past two years resulting from the annual re-benchmarking process to the Current Employment Statistics (CES) survey of business establishments located in the Commonwealth.ⁱ The re-benchmarking process, while adding 17,000 jobs to the previously reported numbers over the two year period 2021-2022, did not significantly alter the existing trajectory of Virginia’s post-pandemic employment performance. Of note, Virginia’s recovery of jobs since the pandemic continues to lag the nation as a whole and is significantly lower than the top ten states.

The specific employment sectors that are constraining the Commonwealth’s employment activity reveal some concerning trends, which, if they continue along the current trajectory, could pose challenges to Virginia’s future economic growth.

Benchmark Revisions

Each year the BLS undertakes a benchmarking process that incorporates more comprehensive unemployment insurance records to revise the monthly survey data which is based on roughly 20,000 establishments in Virginia.ⁱⁱ The re-benchmarking of the nation’s data is released in January while data for the States is released in March.

Table 1 shows a comparison of the re-benchmarked data to the previously reported data for the nation and Virginia. For the U.S., total employment in CY 2022 was revised upwards by a monthly average of 586,000 jobs, or 0.4%, while for Virginia the revisions boosted employment in 2022 by about 9,000 jobs on average, or 0.2%.

In addition to the benchmarking revisions, the March data also reflects changes to employment classifications from North American Industrial Classification System (NAICS) 2017 to NAICS 2022ⁱⁱⁱ. Approximately 10% of CES employment was reclassified into different industries as a result of the revision. These reclassifications, while impacting individual sectors, do not impact total employment and/or relative comparisons of performance between the nation and Virginia within the same sectors.

Table 1: 2022 U.S. and Virginia Re-Benchmarked Employment, 000s

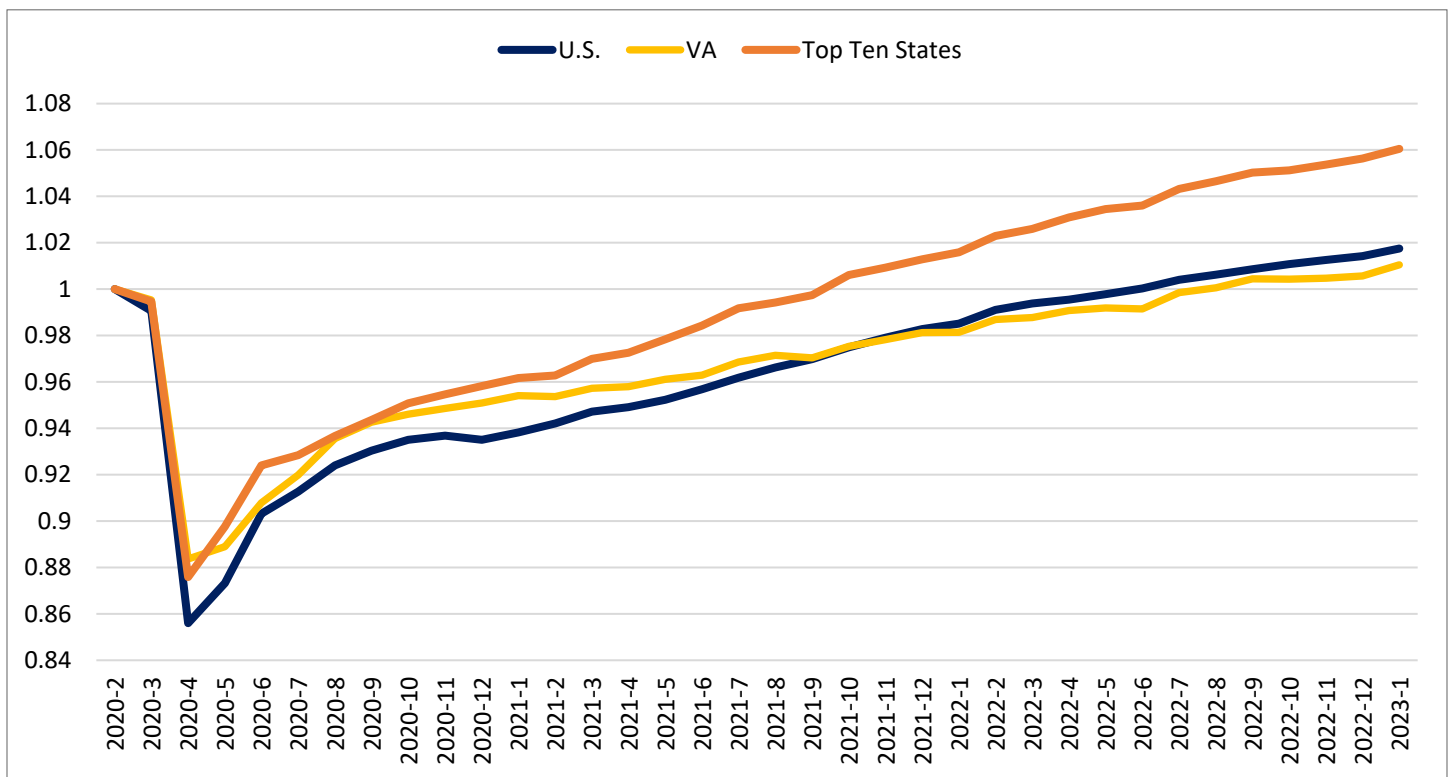
Month	U.S. (revised)	U.S. (previous)	Difference	VA (revised)	VA (previous)	Difference
January	150,106	149,744	362	3,955	3,941	14
February	151,010	150,458	552	4,003	3,988	15
March	151,424	150,856	568	4,015	4,003	11
April	151,678	151,224	454	4,052	4,043	10
May	152,042	151,610	432	4,054	4,052	2
June	152,412	151,903	509	4,068	4,078	-10
July	152,980	152,440	540	4,079	4,070	8
August	153,332	152,732	600	4,095	4,081	14
September	153,682	153,001	681	4,105	4,093	12
October	154,006	153,264	742	4,128	4,121	7
November	154,296	153,520	776	4,146	4,136	10
December	154,556	153,743	813	4,134	4,119	15
2022 Average	152,627	152,041	586	4,069	4,060	9

Source: U.S. Bureau of Labor Statistics, CES Survey

Virginia's performance relative to the U.S. since the pandemic

The re-benchmarked data does not significantly alter the trajectory of Virginia's employment since the onset of the pandemic. As shown in Graph 1, Virginia was relatively less impacted than the U.S. at the start of the pandemic resulting primarily from the stabilizing presence of sectors such as the federal government and government contractors, that were largely unaffected by the pandemic. Virginia's rebound emerging from the pandemic has underperformed compared to the U.S. While overall employment in the nation is almost 2% higher than it was in February 2020, Virginia's employment is 1% higher as of January 2023. The under-performance relative to the fastest-growing states was even more pronounced with the top 10 states^{iv} having recovered to their pre-pandemic peaks by early 2022 and exceeding the pre-pandemic levels by over 6%.

Graph 1: Virginia Employment Performance since the Pandemic Relative to the Nation and Peer States, Index 2020:m2=1



Source: U.S. Bureau of Labor Statistics CES, Seasonally Adjusted

Sectoral Composition of Employment

A sectoral decomposition of employment for the U.S. and Virginia, as shown in Table 2, will allow a more thorough assessment of Virginia's relative underperformance. Virginia's employment growth in 8 of the 11 major sectors lagged the U.S., including the highest paying sectors of the economy -- information, financial activities and professional and technical services -- where the average annual salary exceeds \$100,000.

Table 2: U.S. and Virginia Employment Growth by Major Sector

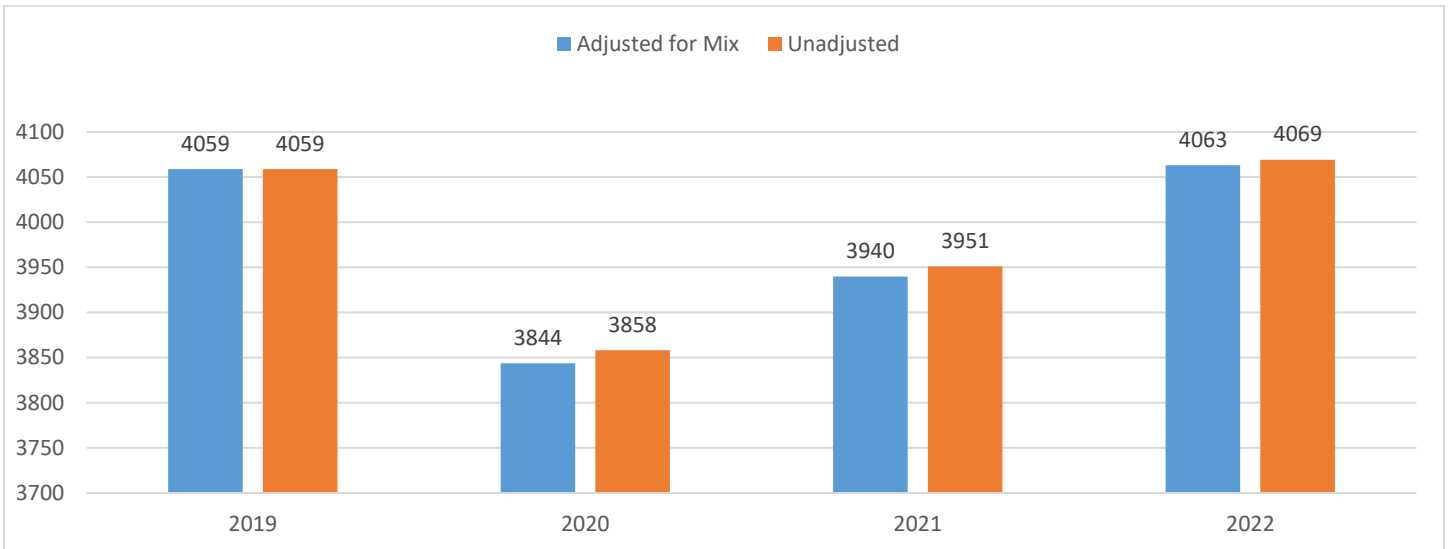
Sector	Avg. Growth 2019-2022 VA	Avg. Growth 2019-2022 U.S.	Difference VA vs U.S.	Sector Share of Overall VA	Sector Share of Overall U.S.	Avg. Salary VA*
Mining and Construction	0.9%	0.5%	0.3%	5%	5%	\$64,844
Manufacturing	0.1%	0.0%	0.1%	6%	8%	65,140
Trade, Transportation and Utilities	0.3%	1.2%	-0.9%	16%	18%	51,166
Information	1.0%	2.4%	-1.4%	2%	2%	129,516
Financial Activities	0.6%	1.1%	-0.5%	5%	6%	102,495
Professional and Technical Services	2.0%	2.7%	-0.7%	13%	8%	122,110
Administrative and Waste Management Services	0.7%	0.9%	-0.2%	6%	6%	53,109
Education and Health	0.1%	0.3%	-0.1%	14%	16%	57,089
Leisure and Hospitality	-2.0%	-1.5%	-0.4%	10%	11%	24,869
Other Services	-1.2%	-1.0%	-0.2%	5%	4%	52,114
Government	-0.7%	-0.7%	0.0%	18%	15%	67,279
Overall	0.1%	0.4%	-0.3%	100%	100%	\$67,990

Source: U.S. Bureau of Labor Statistics, Average Salary data is based on the latest 2021 full year data from the Quarterly Census of Employment and Wages (QCEW)

A factor that could explain Virginia’s lagging the nation is the sectoral share of employment in the Commonwealth, e.g. sectors where Virginia outperformed the U.S. had a relatively lower weight compared to the U.S. (e.g., manufacturing), or conversely, sectors where Virginia underperformed the U.S. had higher weights (e.g., professional and technical services).

To account for industry sector weighting, we simulated how Virginia would have performed if it had the same overall employment mix as the U.S. had in 2019. Adjusting for sectoral mix, Virginia would have fared worse at the onset of the pandemic, with steeper employment losses, and its recovery, though marginally stronger, would still have resulted in essentially the same level of employment by 2022 (Graph 2) and would still trail the nation.

Graph 2: Virginia Employment 2019-2022 Adjusted for Sectoral Mix, 000s

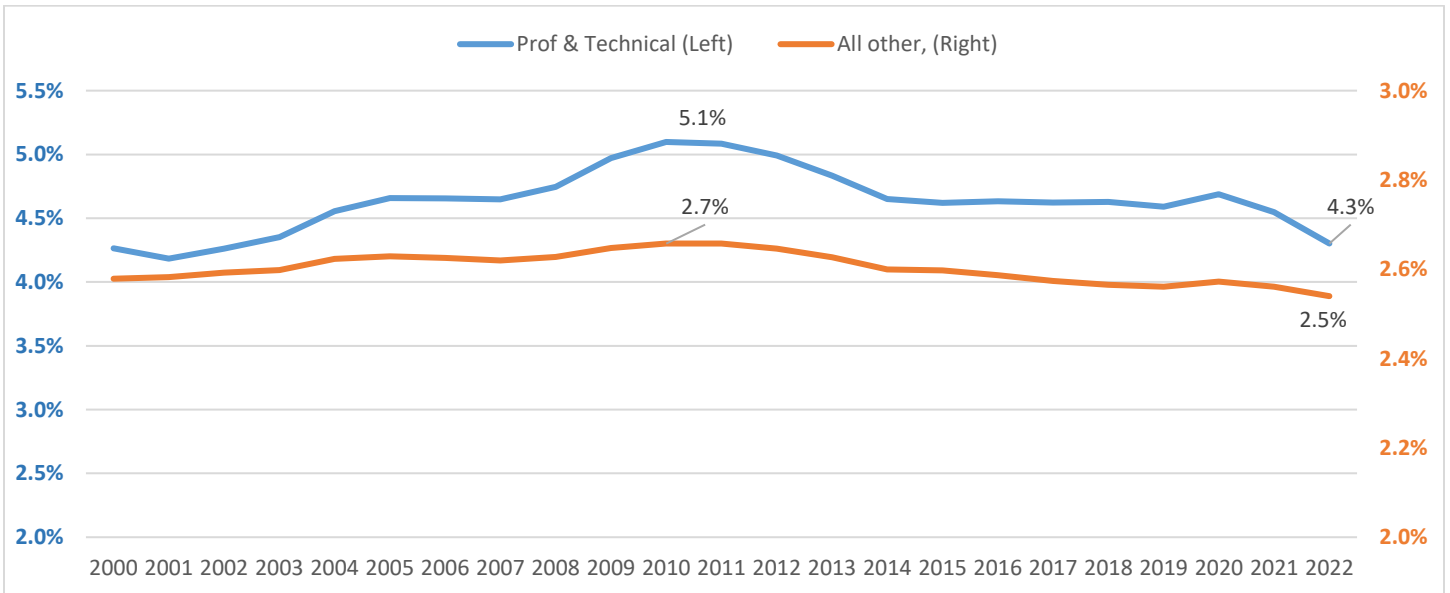


Source: U.S. Bureau of Labor Statistics

Longer-term Employment Trends in Virginia

To put the recent data into further perspective, we compared the most recent data to longer-term trends over the 2000-2022 period as shown in Graph 3.

Graph 3: Virginia’s Employment Share of U.S. Employment



Source: U.S. Bureau of Labor Statistics, CES Survey

As shown in Graph 3, Virginia’s employment growth exceeded the U.S. average from 2000-2011, peaking at 5.1%. The significant underperformance during the pandemic was a continuation of a trend that has seen the share of professional

and technical employment drop to 4.4%, after what seemed to be a period of stabilization following the government shutdown. Excluding this sector, overall employment as a share of the U.S. has declined less rapidly from a peak of 2.7% to 2.5%.

Professional and technical services jobs, in addition to being higher paid jobs, also tend to serve a broader economy than just Virginia. This sector includes consulting, legal, and computer services jobs that serve clients across the nation. This contributes to makes these jobs more mobile, and increasingly so, in light of the accelerating trend in remote work.

The factors that likely contributed to faster growth occurring outside of Virginia include higher housing and business costs, differences in taxes, as well as temporary factors due to the pandemic that may reverse. For instance, recent reports have evidenced particularly high early retirement rates among well-paid professionals that may have caused employment to temporarily decline in these professions as positions remain vacant.^v Recent IRS data has also shown a pattern of net outmigration of Virginia residents earning more than \$100,000 which is consistent with these negative trends in high paying job growth. We will explore this and other factors in greater detail in subsequent research and as the distinction between short-term and long-term impacts of the pandemic becomes more discernible.

ⁱ In addition to the CES survey referenced here, which includes employment of both residents and non-residents, the BLS also revised the Local Area Unemployment Survey (LAUS) data which provides information on Virginia resident employment and unemployment. The focus of this report is on the establishment survey as this data will be used in a subsequent brief to analyze factors impacting where businesses choose to locate.

ⁱⁱ Along with the re-benchmarking to UI data, the BLS also updates its birth-death model to estimate employment changes due to business formation, and updates seasonal factors used for monthly comparisons. More information on the re-benchmarking process can be found at [CES State and Area Benchmark Article : U.S. Bureau of Labor Statistics \(bls.gov\)](https://www.bls.gov/ces/naics/naics-2022.htm#EmpSitDeletes)

ⁱⁱⁱ <https://www.bls.gov/ces/naics/naics-2022.htm#EmpSitDeletes>

^{iv} The top 10 states include Arkansas, Arizona, Florida, Idaho, Montana, Nevada, North Carolina, Tennessee, Texas, and Utah

^v <https://www.governing.com/work/where-are-the-workers-labor-market-millions-short-post-pandemic>