APPENDIX "F"

ECONOMIC OUTLOOK

National Economy

"Economic activity in the United States expanded at a moderate pace, on average, in the second half of 2010 and early 2011. In the spring and early summer, a number of key indicators of economic activity softened relative to the readings posted in late 2009 and the first part of 2010, raising concerns about the durability of the recovery. In light of these developments – and in order to put the economic recovery on a firmer footing – the Federal Open Market Committee (FOMC) provided additional monetary policy stimulus during the second half of 2010 by reinvesting principal repayments from its holdings of agency debt and agency mortgage backed securities in longer-term Treasury securities and by announcing its intention to purchase an additional $600 billion of Treasury securities by the end of the second quarter of 2011." This was the introductory statement made by Ben Bernanke during testimony to Congress on March 1, 2011 as part of the Federal Reserve's Semiannual Monetary Policy Report to Congress. As Mr. Bernanke's statement implies, the U.S. economy did improve modestly in 2010 and through the first quarter of 2011, though the recovery slowed relative to that experienced through 2009, as the initial efforts to counteract recessionary impediments to growth began to wane. Despite this slowdown, on September 20, 2010, the National Bureau of Economic Research (NBER) determined that the "Great Recession" officially ended in June 2009, with an official length of 18 months, roughly the average length of recessions experienced in the United States that have been tracked by the NBER since 1857.

The United States technically entered what came to be known as the "Great Recession" in December 2007. Throughout 2008, 2009 and 2010, a number of efforts were made on the part of both the Federal Reserve and the Treasury Department to correct and/or mitigate any further deterioration in the financial markets and in the economy as a whole. In recognition of the severity of the situation, and in order to facilitate an infusion of liquidity in the market, in December 2008, the Federal Open Market Committee (FOMC) lowered the federal funds rate in the target range of 0.0 to 0.25 percent, and indicated that conditions could potentially warrant exceptionally low rate levels for some time. As of February 2011, the Fed Funds Rate remained at 0.00 – 0.25 percent, a level unchanged for over 25 months. However, despite these efforts, the economy began to deteriorate, and loan losses escalated, lending standards tightened and credit standards became more stringent, and despite the availability of inexpensive money, banks reduced lending. While many of the financially assisted banks recognized dramatic recoveries, smaller companies that relied on large banks to meet their short-term borrowing needs continued to find that their access to credit remained restricted. Similarly, access to credit for households has been constrained, despite lower mortgage rates. These newly established restrictive lending policies, stemming from increased market risk through high unemployment, poor housing statistics and general economic uncertainty, contributed to weakened loan demand. However, in spite of these enormous obstacles, the economy is making a slow, arduous climb toward pre-recessionary stability.

The FOMC has three primary weapons in combating financial crises: 1. Manipulating the Discount and Fed Funds Rates, 2. Physically injecting liquidity and lowering yields through large-scale bond purchase, a practice known as quantitative easing, and 3. Setting bank reserve requirements. Having already exhausted one of its tools through the lowering of the Fed Funds Rate, the Committee employed the use of another recession combating weapon in its arsenal – large-scale bond purchase – initiating the Large-Scale Asset Purchase (LASP) program, which sought to provide liquidity and lower yields to ease market conditions. The support provided by the Fed, which included purchasing Treasury securities en-masse on the open market, successfully catalyzed some growth in economic activity. Businesses began to draw down inventories from increased sales activity, resulting in increased production and sale of durable goods, and a return to profitability for many firms. Though companies began to slowly add to their payrolls, the unemployment rate (seasonally adjusted) grew steadily throughout 2009, averaging 9.3 percent, and maintained these high levels throughout 2010, averaging 9.6 percent. While the recession had been the deepest of its kind on record since the Great Depression of the 1930s, sustained unemployment, while high, fortunately did not achieve levels seen during more recent periods of significant economic hardship, such as those of the 1981 – 1982 recession, which saw unemployment spike at 10.8 percent in

the months of November and December 1982. As of February 2011, the unemployment rate stood at 8.9 percent, an improvement from the 9.7 percent recorded in February 2010.

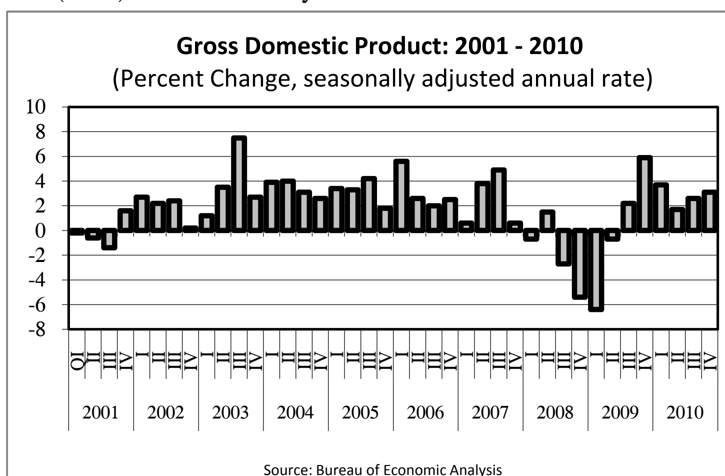
As the growth in Gross Domestic Product (GDP) began to slow through mid 2010, falling from 5.0 percent, to 3.7 percent, to 1.7 percent growth in 4Q 2009, 1Q 2010 and 2Q 2010 respectively, worry of a "double-dip" recession threatened to jeopardize the previous two years of economic recovery. While so-called "soft patches" are not uncommon during post-recessionary recovery periods, these are hard to distinguish from signals of more significant economic trouble, the likes of which might cause the economy to further recede. Given the concern over a double-dip recession provoked by softening economic indicators, and with core consumer price index (CPI) inflation at bay, in November 2010, the FOMC voted to again make large scale asset purchases in the amount of $600 billion in Treasury securities to further stimulate financial and economic growth. Soon after this decision was made, an extension of the Bush Era tax cuts for wealthier Americans, as well as an extension of unemployment benefits and a one year payroll tax holiday was enacted. This was, in effect, a large consumer stimulus package amounting to $858 billion, exceeding the first $787 billion stimulus passed by Congress in February 2009. As positive 2010 year end economic data has been introduced, the economy again appears to be headed toward continued, yet tenuous growth in 2011.

While the consensus outlook is certainly positive, there is continued uncertainty, especially with respect to the housing market. The temporary increases in home prices and sales, spurred in part by the Homebuyer Tax Credit, dropped off considerably in 2010. There not only exists a surplus of housing, which has slowed new home construction, but the number of Americans who owe more on their homes than what they're worth (underwater) continues to grow. In the fourth quarter of 2010, 23.1 percent of all mortgaged homes were underwater. That statistic is up from the third quarter of 2010, where 22.5 percent of homes were underwater. While the number of underwater mortgages had fallen the previous three quarters (1Q 2010 through 3Q 2010) that was primarily due to an increase in the number of foreclosures that removed the homes from the market that otherwise would have been included in the statistic.

Needless to say, these are difficult times, and the modest economic recovery that we've experienced is fragile and there continues to be risks that could cause growth in 2011 to deviate from economists' forecasts. While aggressive government monetary and fiscal intervention was employed to avert even larger scale economic catastrophe, the success that has been experienced thus far must be carefully nurtured to overcome the significant economic obstacles that remain.

Economic Indicators

Most economists consider gross domestic product (GDP) as the best way to view the current condition of the national economy. It is important because GDP is considered as the broadest measure of economic performance as it monitors the final value of all goods and services produced within the United States. As seen in the graph to the right, the economy fell into a period of recession in 2001, as negative GDP growth occurred over the first three quarters of the year. From 3Q 2001 through 4Q 2007 the economy had seen positive growth in every quarter. Beginning in the second quarter of 2006, mostly due to weaknesses in the housing market, the economy began to transition from the rapid expansion experienced in the previous several years. This mediocre growth trend continued into the first quarter of 2008, before posting its first negative showing since 2001, while falling sharply in the third and fourth quarters of 2008, through the first quarter and second quarters of 2009, before rebounding in third and fourth quarters of 2009, with growth of 2.2 percent and 5.9 percent, respectively. GDP increased in each consecutive quarter of 2010, increasing 3.7 percent



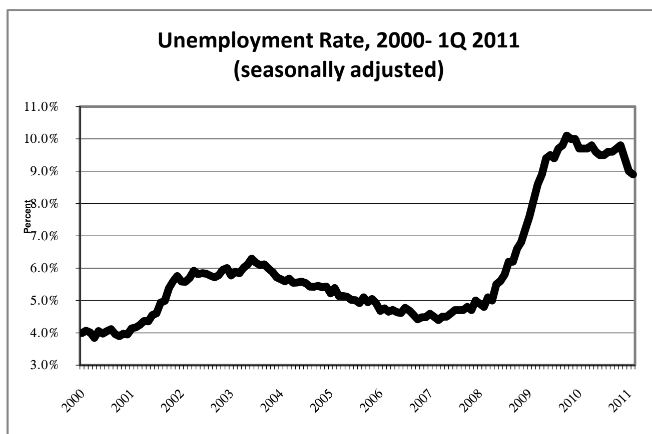
in 1Q, 1.7 percent in 2Q, 2.6 percent in 3Q and 3.1 percent in 4Q. The increases beginning in 4Q 2009 and extending throughout 3Q 2010 are largely attributable to positive contributions from personal consumption expenditures (consumer spending), exports and non-residential fixed investment, however, these increases were partly offset by a decrease in inventory investment and in state and local government spending. The acceleration in GDP in 4Q 2010 was largely due to a significant decrease in imports, which are a subtraction in the calculation for GDP, while exports correspondingly increased, but were offset by decreases in non residential investment and inventories, as well as government spending.

Recent financial market statistics reflect an improving economy, though the indices are still far from levels seen during the peak of 2007. The year saw significant improvements as the Dow, NASDAQ and S&P 500 all registered positive yearly growth in 2010, following a year that saw even more significant gains, as the bull market that reigned during 2009 rebounded from the catastrophic losses of 2008. Uncertainty and volatility defined the market in 2010, though positive gains were achieved in each of the three major U.S. market indices.

Equity Market Growth:	**DJIA**	**NASDAQ**	**S&P 500**
Jan-Dec 2010	10.3%	16.6%	12.3%
Jan 2001 - Dec 2010	9.6%	17.4%	(0.01)%

While stocks began the year strong, a number of factors, including European debt issues, poor labor statistics and underperforming economic indicators resulted in stock values dropping precipitously by mid-year. The primary issues that caused the decline were worsened by other issues such as congressional investigations into subprime mortgages, the BP oil rig disaster, and an automatic trading glitch on Wall Street that triggered a "Flash Crash". The change in the political dynamic of Congress, as well as quantitative easing – a $600 billion bond buying stimulus program – and an $858 billion tax cut initiative, propelled the market to year-end gains of over 10 percent, 16 percent and 12 percent in the Dow, NASDAQ and S&P respectively.

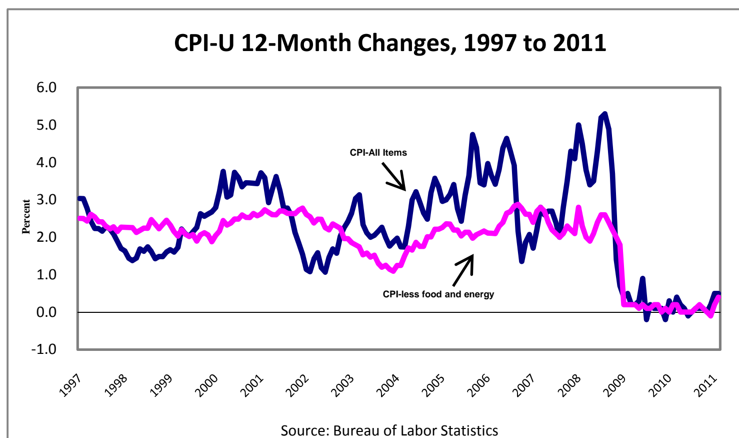
The labor market continues to suffer as a result of the recession. From 2004 through the first quarter of 2007, the national unemployment rate had experienced a steady decline, reaching a low of 4.4 percent during this period. Unemployment rose to 5.0 percent by December 2007, beginning an upward trend as a result of job losses in manufacturing, construction and retail. Significant decreases in employment occurred in those industries most directly related to the mortgage and credit crises, particularly construction, which by February 2011 had decreased by 2.2 million jobs and had an industry specific seasonally unadjusted unemployment rate of 20.0 percent. It is important to note that economists consider the natural unemployment rate, the rate at which the economy functions most efficiently, to be somewhere between 5.0 and 6.0 percent. In situations where the rate is lower, there is considered to be a surplus of jobs, and a shortage when rates are above the 5.0 percent mark. One trend of particular importance concerning the labor market is the number of discouraged workers among the potentially employable labor force. The Bureau of Labor Statistics defines these individuals as those that "have given a job market related reason for not looking currently for a job", and thus are not counted in the unemployment rate.



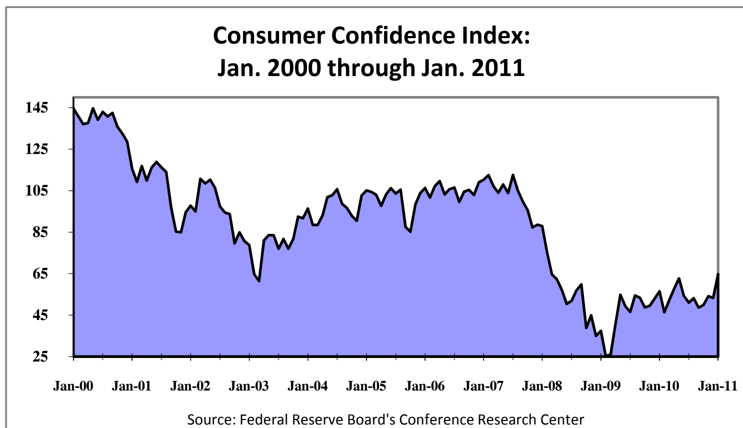
Gradual economic improvement led to marginal increases in employment from 2Q 2010 through 4Q 2010. 1Q 2011 continued this trend, with employers adding over 400,000 jobs to their payrolls through the first quarter of 2011. The seasonally adjusted unemployment rate currently stands at 8.9 percent, falling slightly from 9.0 in January 2011, and down considerably from its high of 10.1 percent in October 2009. However, while unemployment has held (Jan – Feb) at 8.9 percent, this statistic continues to be somewhat understated due to the fact that the market is not only losing jobs, but the labor force is actually shrinking from exiting discouraged workers. Since the recession officially began in December 2007, an estimated 8.3 million jobs have been lost. As of February 2011, the number of unemployed persons was 13.7 million. While this number is shockingly high, the actual impact is further understated when population growth is taken into consideration. Under normal

conditions the labor market would have naturally added some jobs relative to growth from December 2007 to the present, merely to keep up with the natural growth in population. During the recession and subsequent recovery, the defensive posture of preserving job loss, rather than adding jobs as growth necessitates, means that the market would need to add millions more jobs than those lost over the course of the recovery to equal the pre-recession level of employment.

The Consumer Price Index (CPI-U) is an economic indicator most commonly referred to when measuring inflation in the United States. In the twelve months between January 2010 and January 2011, the percentage change in the CPI-U (not seasonally adjusted) rose from 0.3 percent to 0.5 percent, averaging just a 0.1 percent monthly change in 2010. The index increased 1.5 percent for all of 2010, after increasing 2.7 percent the year prior. The energy index rose by 7.7 percent in 2010, after increasing 18.2 percent in 2009. Energy prices trended significantly upward in the second half of 2010, with the index rising 24.5 percent (seasonally adjusted) and 33.9 percent in the third and fourth quarters respectively. Household energy prices rose just 0.8 percent in 2010, after registering a 4.9 percent decline in 2009, while food prices increased at a rate comparable to inflation, at 1.5 percent in 2010. Despite a steady rise in the energy index, including gasoline, fuel oil and natural gas, the overall change in the CPI-U for all items was moderate in 2010.

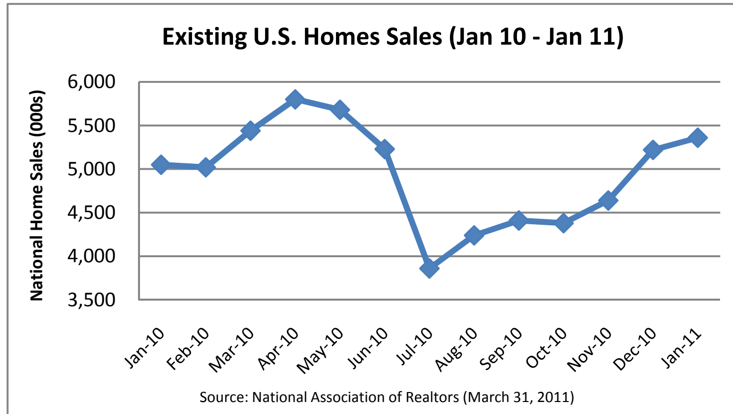


One of the most important economic indicators is the Consumer Confidence Index, as it measures the level of faith that consumers have in the current economy. The consumer market is especially important as it comprises two-thirds of the nation's economy. During economic downturns, Americans typically become less confident in the economy. This was the case for several years following the economic recession of 2001, as can be seen in the graph to the right. As economic downturns become longer and consumers observe continued negative economic reports, the level of consumer confidence tends to decline. Conversely, confidence tends to increase with positive economic and political news, especially increases in employment levels. Beginning in late 2007 and lasting throughout 2010, consumer confidence remained low. Even though the economic environment has improved modestly, individuals have still been less likely to spend, and those who would like to are unable to do so as a result of restricted access to credit. In February 2009, consumer confidence hit a historic low of 25.3, down from 37.4 the month prior, reflecting the pessimistic attitude toward the state of the economy that was widely shared among Americans. The index increased significantly in 2010 from its low of 2009, with February 2010 registering 46.4 – an 83.4 percent, February to February increase. Consumer confidence continued to rise in the first half of 2011, with January 2011 rising 11.5 points to 64.8 from December's figure of 53.3, largely from improving jobs data. The results of individuals surveyed indicated a 2.5 percentage point decline concerning the difficulty in getting a job, the best reading in this statistical category in two years.



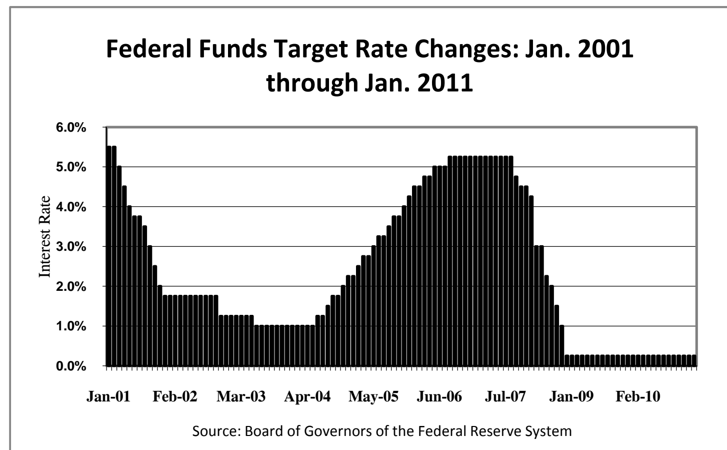
New and existing home sales, one of the principal drivers of consumer spending over the past several years, fell dramatically from 2006 through 2008. Although there was incremental improvement in 2009, in 2010 average sales figures remained relatively flat from the prior year, despite a dramatic dip in July. Home sales activity

increased monthly in 2009 and the first quarter of 2010 as the homebuyer tax credits of $8,000 for new homebuyers, and $6,500 for existing homebuyers incentivized some to buy homes. However, with an April 30, 2010 home purchase deadline for program eligibility, the precipitous drop from May through July 2010 could largely be attributable to the cessation of the program at that time. Home sales have since moderated, as sales prices dropped correspondingly to reduced demand.



From January 2010 to January 2011, home sales increased 5.3 percent, attributable to favorable housing affordability conditions. As of this writing, the inventory of unsold homes on the national market is approximately 3.4 million housing units, or a 7.6 month supply based on the current pace of sales. This is 180,000 units, or a 1.3 percent reduction from the 2010 national average monthly supply. Building permits and new residential construction, while having increased in 2009 from a dramatic drop in 2008, moderated in 2010. Building permits issued in January 2011 totaled 562,000 nationally, down 10.7 percent from the January 2010 rate of 629,000. New residential housing starts numbered 596,000 in January 2011, a 2.6 percent decrease from the January 2010 rate of 612,000.

The national median existing home price in January 2011 was $158,800, representing a 3.7 percent reduction from the national median home price registered in January 2010. This is slightly worse from last year's year over year assessment, which reflected relatively no change from January 2009 to January 2010. In addition to other factors, the downward adjustment in median sales price was partly attributable to the purchasing characteristics of first time homebuyers. Distressed sales, which typically sell for 20 percent below market price, are the kind that have been commonly sought by first time buyers and represented approximately 37 percent of transactions in January 2011. As a note, as home sales volume moderated in mid 2010 following the end the Homebuyer Tax Credit Program eligibility period, prices fell corresponding to the reduction in demand.



Beginning in September 2007, the Fed initiated the first of five rate cuts, when in March 2008 an unexpectedly favorable assessment of the CPI prompted a 75 basis point rate cut, bringing the rate to 2 ¼ percent, the lowest since 2004. While inflation has been an ongoing and key issue monitored by the Fed, it can be inferred through their actions over the past two calendar years that combating the credit crisis and addressing the lack of liquidity in the financial markets has been a more pressing issue. It is, however, important to note that rate cuts typically are necessary to facilitate growth through capital investment, by encouraging financial institutions to lend money, and to increase the value of the equity market. It is the job of the Federal Reserve to find the appropriate rate at which growth is stimulated, while not unreasonably contributing to inflationary pressures.

Despite its efforts to provide a balance between loosening a tight credit market, while also addressing the issue of inflation, the Fed had little choice but to continue to cut the Federal funds rate. By December 2008, the Fed had lowered the rate 8 times, for a total of 325 basis points for the year, ending at a level of 0.00 – 0.25 percent, with the Fed at this time indicating that "economic conditions are likely to warrant exceptionally low levels of the

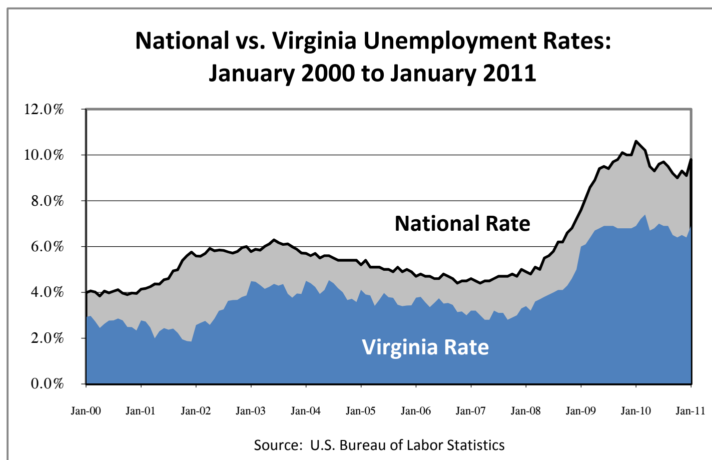
federal funds rate for some time." The Fed funds rate has remained at this level since December 2008, and as of February 2011, represented over 25 months unchanged at effectively a 0.00 percent rate of interest. However, as previously mentioned, the access to credit for both businesses and individuals has remained restricted, despite the continuation of historically low interest rates.

Virginia Economy

As the national economy has experienced booms and contractions over the years, the Virginia economy has largely followed the economic trends experienced by the United States. While the State economy generally follows the lead of the nation, the Commonwealth has outperformed the national economy in several economic indicators. Population growth and per capita income have both outpaced national levels. The Commonwealth of Virginia has experienced a lower unemployment rate than the majority of the country for many years. Other indicators, such as new business incorporations, new vehicle registrations, and manufacturing production employment seem to mimic national trends.

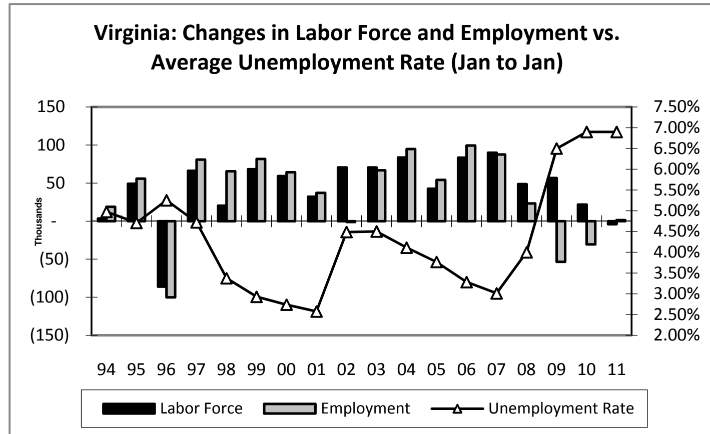
According to the 2010 U.S. Census, the population in the State of Virginia now stands at 8,001,024, an increase of 922,509, or 13.0 percent from 2000 Census figures. Virginia remains the twelfth most populous state in the Country. Over 80.0 percent of the State's growth during this period was concentrated in three major metropolitan statistical areas, with the greatest occurring in Northern Virginia, which accounted for roughly 55.0 percent of growth, followed by metropolitan Richmond at 17.0 percent and Hampton Roads at 10.0 percent. During the same time period the national population increased by 9.7 percent, 3.3 percent less than the growth experienced in Virginia. In addition, Virginia is also one of the most educated states in the U.S., with 33.6 percent of persons 25 years of age or older having a bachelor's degree or higher, ranking sixth among the states. Correspondingly, with a 2009 per capita personal income of $44,129 and an average annual wage and salary disbursement of $49,554, Virginia ranks seventh and eleventh among the states, respectively in these categories. While the average salary in the U.S. fell by 2.6 percent from 2008 to 2009, the Virginia state average declined by only 0.5 percent, a comparison that reinforces Virginia's strong economic position in the U.S. It should be noted that 2009 State per capita personal income data represents the most recent data available.

While the population of the Commonwealth was estimated at over 8 million as of April 1, 2010, the level of growth has recently been slower than that experienced in the first half of the decade. From 2000 through 2006, the average year over year population growth was roughly 1.3 percent, while growth from 2007 through 2010 (As of April 2010) averaged just over 1.0 percent growth. While the growth rate has yet to return to levels observed prior to the recession, higher rates of growth are anticipated. Virginia's population growth equation is comprised of two elements; natural increases, resulting from more births than deaths, and net in-migration, the net difference between individuals moving in and leaving the state. In recent years, these two figures as a percentage of the total population growth statistic have been relatively even. However, in the second half of the decade, the balance between these two contributing factors has grown less even, with natural increases exceeding migration into the state. This phenomenon was likely caused by economic conditions that resulted in a stagnant housing market and limited job prospects, factors that limited mobility. However, from 2009 through 2010, growth in the state was such that the net migration for the eleven year period 2000 – 2010 rose to a level equivalent to natural growth, with each component rising 6.5 percent to comprise the 13.0 percent total population growth statistic. The rise in in-migration, returning to a balance between natural and migration factors, is encouraging, as it is an indication that Virginia's labor market, as well as its numerous amenities are competitive relative to the nation. From 2003 to 2007, national and state unemployment rates steadily decreased. In 2007, when the economy began to crumble, unemployment rates began to rise, with the national rate spiking at

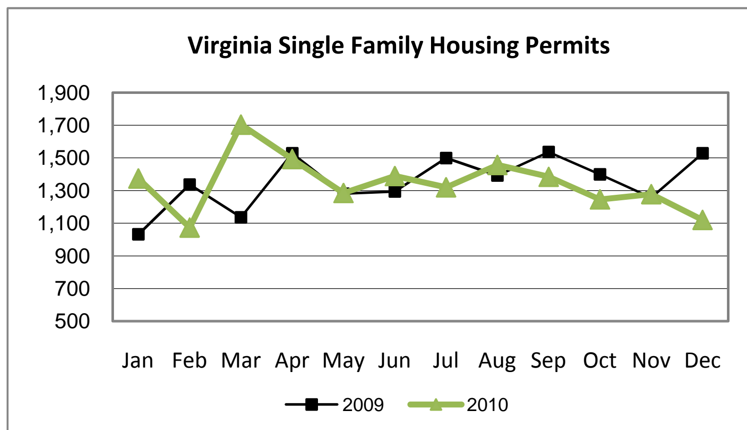


10.1 percent in October 2009, before moderating to 9.7 percent by January 2010. Despite the economic hardships experienced throughout the country, according to the U.S. Bureau of Labor Statistics, Virginia had the 9th lowest seasonally adjusted unemployment rate average in the nation as of February 2011, registering at 6.4 percent. The unemployment rate for the nation during the same time was 8.8 percent, indicating that even during times of economic difficulty Virginia continues to fare better than most states in the U.S.

Typically during periods of normal growth, throughout the state the level of job growth varies significantly by geographic area. The northern portion of the state, which offers the highest concentration of professional and business services, as well as technology and federal contracting jobs, accounts for more than one-half of the state's job growth. Industrial and manufacturing labor, which is concentrated in the southern portion of the state, accounts for the remainder of the state's job growth. In the national unemployment rankings, Northern Virginia is not treated as a separate area, but as part of the Washington, D.C./Virginia/Maryland/West Virginia metropolitan area. Employment in the Richmond Metropolitan Area, one of nine publishable metropolitan statistical areas in Virginia, was 596,354 in January 2011, which is up 1,421 jobs, or 0.20 percent from January 2010. However, looking back over a three year period, regional employment is down 27,320 since January 2008, representing a 4.4 percent decline. Since the recession began, the area has experienced significant job loss due to business closings, particularly in the trade/transportation, manufacturing, and finance industries.



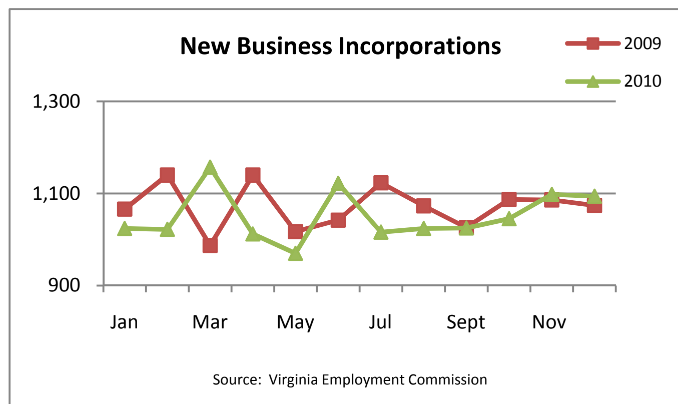
While population and unemployment are important indicators, other business economic indicators are vital in analyzing the performance of the Virginia economy. Since many other sectors of the economy feed off of new home construction, one significant indicator is the number of single family building permits issued. 2010 saw a modest decrease from 2009, with 16,123 permits issued for the year, representing a decrease of 113 permits, or eight-tenths of a percent from the prior year. The lackluster performance in this statistic roughly approximated the national housing trend for 2010. The continuation of low numbers is partly attributable to the surplus of inventory on the market from foreclosures, weakened consumer demand and insufficient access to credit. While the year over year difference in single family housing permits is nominal, it doesn't truly reflect the reduction in permits that has occurred since the recession began. To put in perspective the significant drop in residential building from pre-recession levels, in 2009 and 2010 there were 16,236 and 16,123 building permits issued respectively, which represents decreases of 44.8 and 45.2 percent respectively, from the 29,434 permits issued in 2007.



Despite the modest increase in demand for housing related to the Homebuyer Tax Credit – which in July 2010 extended the closing deadline to September 30, 2010 – it has been the opinion of real estate agents and industry analysts that the credit did little to perpetuate upward sales momentum. Home prices have stabilized, but are still below their 2006 peak, and many existing homeowners currently owe more on their homes than what they're worth. While the efforts to modify loans that were facing foreclosure has been ineffective, there exists the potential for many new homes to continue to be added to the existing over-saturated inventory, which should act

to depress prices, and further dissuade builders from obtaining permits, given the gross supply and demand imbalance that will likely exist.

Virginia is a very attractive location for businesses as it features a low tax burden, business-friendly laws, and an aggressive economic development program. New business incorporations are one way in which the soundness of the State economy is measured. Due to the fact that the incorporation of a new business requires a large investment, this indicator is tied heavily to perceptions of the state of the economy. In 2010, 12,609 new businesses were incorporated, representing a reduction of 250, or 1.9 percent from 2009. However, the 2009/2010, year over year decrease actually represents an improvement from the prior year reduction. In 2009, 12,859 new business incorporations reflected an 18.4 percent decrease from the 15,765 incorporations registered in 2008. The most recent statistics continue a relatively downward trend that began in late 2005 and has accelerated since the recession began in 2007. General economic uncertainty, compounded by historically low consumer confidence has strongly affected business growth, and correspondingly, the number of new business incorporations in the state.



Following three straight years of decreased automobile sales in Virginia, 2010 improved upon the prior year's sales figures. According to the Virginia Employment Commissions' *Virginia Economic Indicators* publication for the fourth quarter of 2010, the newest of such publications, 359,069 vehicles were registered in the state during 2010, compared to 328,328 registered in 2009, an increase of 9.3 percent. However, looking back to 2008, this figure represents a decrease of 77,934, or 19.2 percent, and is a reflection of consumers' continued lack of confidence in the economy. It is important to note that, prior to the recession and the subsequent automotive industry crisis, even during the periods in which auto registrations decreased in Virginia, the market had historically remained one of the strongest pieces of the economy. Low interest rates and other financing incentives supported strong sales in the years leading up to the nation's economic decline. However, the economic climate, fuel price volatility, and drastic changes in consumer behavior contributed to a precipitous decline in automobile sales from 2007 through 2009. Domestic auto manufacturers rebounded in 2010, with sales of approximately 11.5 million new cars and trucks. Chrysler's sales rose 17 percent, Ford Motor Company's sales rose 15 percent, and General Motors Company's sales rose over 6 percent in 2010. However, despite these increases, overall automotive sales in 2010 were still the second worst in nearly three decades, the lowest being 2009.

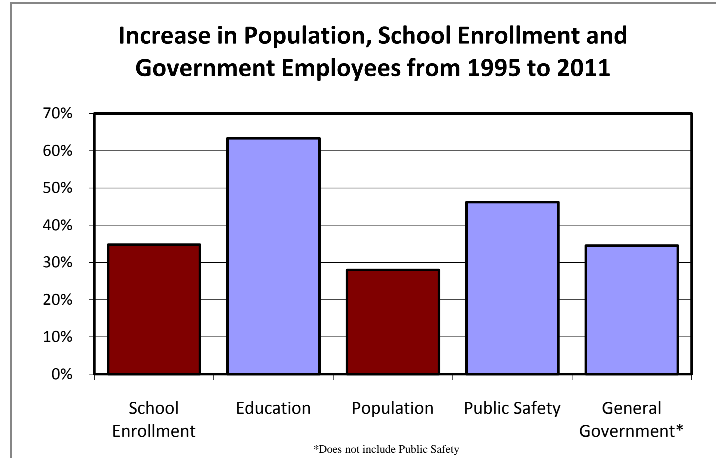
Although some of the previously mentioned statistics show a decline in select areas, it is important to note that over the past several years, Virginia has continually maintained one of the strongest state economies in the country. According to the Bureau of Labor Statistics, as of February 2011, Virginia's seasonally adjusted unemployment rate was 6.4 percent, 2.4 percent lower than the U.S. rate of 8.8 percent, representing the 9th lowest monthly unemployment rate in the U.S. While 2009 saw approximately 126,000 jobs lost statewide, which represented 3.4 percent of non-farm employment, 2010 registered an increase in employment. From January 2010 to January 2011 (seasonally adjusted) Virginia increased its total non-farm employment from 3,613,200 to 3,643,400, an increase of 30,200, or eight tenths of a percent. February 2010 continued the upward trend in employment, with 11,900 jobs added, with increases in State and local government, public and private schools and colleges, leisure and hospitality, finance, manufacturing and professional and business services. These gains were offset by a decline in the construction sector – the hardest hit employment sector during the recession and subsequent recovery – with reductions also occurring in both the information and trade and transportation sectors.

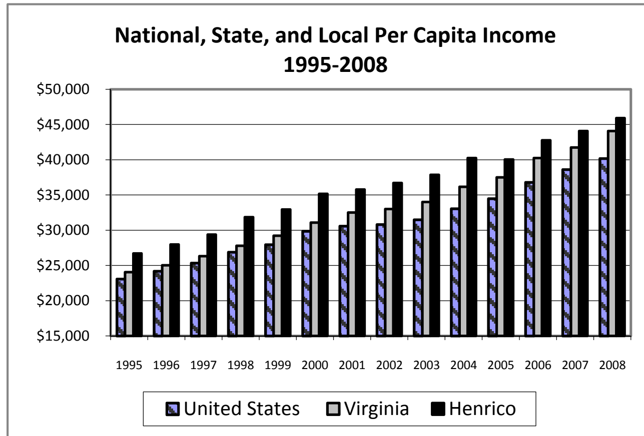
However, despite performing well relative to most of the states, Virginia was by no means immune to the economic difficulties experienced by the rest of the nation. Job losses in 2009 were approximately 50,000, negatively impacting eight of ten employment sectors, while home sales and values continued to decline. 2010 continued these negative trends, with total non-agricultural employment falling by over 2.0 percent, or nearly

80,000 jobs. The construction and financial markets, the two sectors most closely related to housing, were affected disproportionally higher, losing nearly 32,000 jobs combined.

Local Economy

Over the past sixteen years, the Henrico County economy has become more diverse as the County has grown. Since 1995, the County's population has increased 28.0 percent. Increasing from 239,683 to 306,935, Henrico is now the fifth most populous County in the Commonwealth. At the same time, the average daily student population attending Henrico County Public Schools has increased by 34.8 percent. In reaction to such growth trends, the County of Henrico has responded to the needs of the community by offering more services. As education and public safety are both high priorities of the County, these two areas experienced the most employment growth. The education personnel complement increased by 63.3 percent since 1995 as the number of education facilities grew 27 percent over the same time period. This figure does not include additions or renovations to existing structures. Public Safety increased its personnel complement by 45.1 percent over the same period. A large portion of this increase is due to the additional personnel in the Sheriff's Office needed to staff the regional jail, which opened in 1996, as well as additional positions within the Division of Fire, with additions of 155 and 212 to the Divisions respectively. It also should be noted that 176 positions have been added in the Division of Police over the same sixteen years. Since 1995, General Government (excluding Public Safety) experienced an increase in personnel of 23.7 percent. All increases in personnel and service levels were accomplished while real estate tax rates in Henrico decreased from $0.98 per $100 of assessed value to $0.87 per $100 of assessed value during this time period. In addition, Henrico citizens experienced increases in income larger than national and State averages. From 1995 to 2008, per capita income in Henrico has increased by $19,216, or 71.9 percent, to an average of $45,911. It should be noted that as of this writing, the 2008 County data is the most recent information released by the Bureau of Economic Analysis.

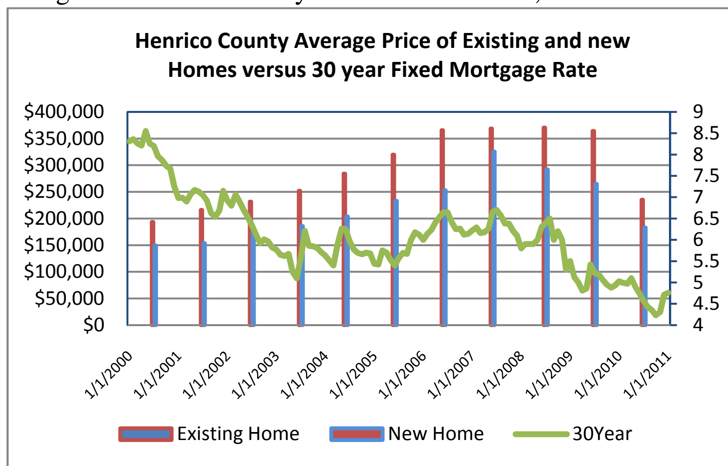




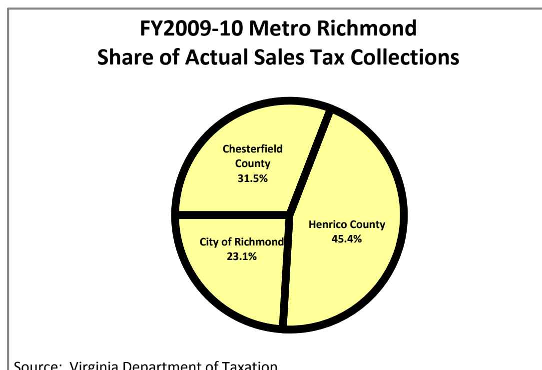
Recent conditions in the national and state economies have severely disrupted the County's economy, particularly with respect to business failures and employment. While historically the county's unemployment had fallen well below that of state and federal figures, in March 2009, Henrico County registered a 7.1 percent unemployment rate, slightly exceeding the state unemployment rate of 7.0 percent, the worst in 17 years. The County's unemployment rate remained higher than that of the state through January 2010, when the unemployment rate of 7.4 percent fell below that of the state's 7.6 percent. As of February 2011, Henrico County's not-seasonally adjusted unemployment rate was 6.6 percent, equal to that of the state. This is a significant improvement over the same time a year prior, when Henrico County's rate was 7.5 percent. Relative to the region, Henrico County continues to outperform its neighbors with respect to employment. The Richmond Metropolitan Area in February 2011 registered an unemployment rate of 7.4 percent.

Despite the severity of the recession's impact on the local economy, there have been signs of improvement that indicate that the recovery is progressing. Henrico's highly skilled workforce, sound infrastructure and business friendly environment have facilitated corporate expansion and economic development activities that should translate into labor growth, as well as have a corresponding impact on local revenues in the future. In addition, consumer confidence is improving, as reflected in increased sales tax revenues. Henrico County continues to lead its regional counterparts in this category.

One of the most important economic indicators the County monitors is general property tax revenue. This revenue includes both current and delinquent real and personal property tax revenue. Property tax generates the largest percentage of revenue for Henrico County, representing 52.2 percent (estimated) of total General Fund operating revenue in FY201-12. A large driver behind the growth in this revenue historically, has been the strength seen in the County's real estate market, relative to the national market. The chart to the left illustrates the overall upward trend in the average sales price of new and existing homes in comparison to the decrease in fixed mortgage rates. However, in 2008, as a result of the housing market crisis experienced nationwide, there was a corresponding drop in demand for housing in Henrico County, resulting in a higher monthly inventory, and stagnation in sales prices. Interest rates on 30 year fixed rate mortgages also fell significantly over this period, which facilitated some home buying and somewhat alleviated downward pressure on sales prices. The average 30 year fixed mortgage rate for 2010 was 4.69 percent, and was 4.76 percent in January 2011. It should be noted that the Board of Supervisors has decreased the Real Property Tax Rate three times since FY2004, from $0.94 per $100 of assessed value in CY2004 to $0.92 per $100 of assessed value in CY2005, then to $0.90 per $100 in CY2006, and was reduced again to $.87 per $100 in CY2007. The rate has remained unchanged through CY2010.

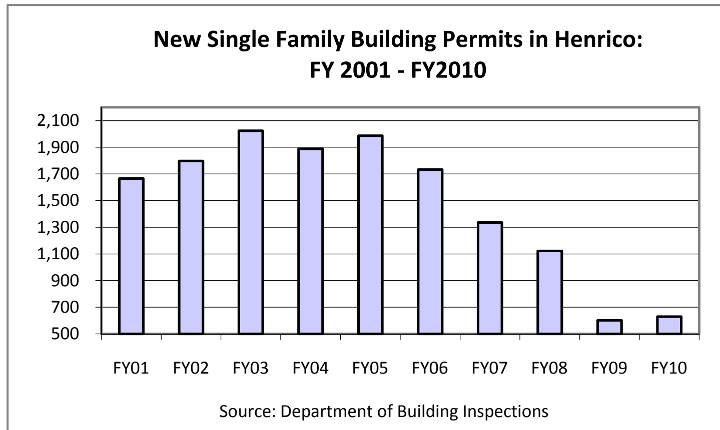


Another indicator the County monitors is local sales tax receipts compared to those collected in the Richmond Metropolitan Area. In actual dollars, Henrico's local sales tax receipts totaled $54.7 million in FY2009-10, representing a 2.5 percent drop from the prior fiscal year. Over the past fiscal year, Henrico County recorded a 45.4 percent share of the total local sales taxes collected in the Richmond area, compared to 31.5 in Chesterfield County, and 23.1 percent in Richmond City. Henrico County's figure is slightly above the five year average of 45.2 percent. While Henrico's sales tax collections decreased by 2.5 percent, its percentage share of regional sales *increased* by 0.4 percent, which is an indication of the strength of Henrico's local retail base. Overall, the Richmond Metropolitan Area experienced a decrease of 3.3 percent, a relative improvement from the previous year over year decrease of approximately 3.8 percent. Based on these statistics, while there was clearly some reduction in consumption correlated to the reduced level of sales revenue generated in the region, Henrico County's sales figures continue to out-perform other localities in the region. These statistics are a reflection of the quality and variety of Henrico County's local retail base, which is an attractive option for local residents, as well as a shopping destination for consumers of neighboring localities and other non-residents.



Building permit fees are also an important economic indicator carefully monitored by the County of Henrico. This revenue is considered to be elastic, meaning it will vary from year to year based on current economic situations. A change in the number of building permits issued can be used to gather information about the shape

the economy will take in the future. In FY2006-07, actual revenues decreased when compared to FY2005-06 as the number of new single-family permits issued decreased 16.0 percent, reflective of the cooling housing market being experienced nationwide. This cooling trend is further reflected upon analysis of the FY2007-08 to FY2008-09 permit data, which reveals that single family permits actually declined by 46.4 percent during this period. Prior to the market cool down, Henrico County experienced a boom in new home construction, as did the rest of the country, primarily due to historically low interest rates and the availability of credit. In fact, in FY2001-02 and FY2002-03, the level of single family permits increased each year, with an overall 21.5 percent increase during this period. However, in FY2003-04, the number of permits dropped by 6.7 percent, while in FY2004-05, the number of permits in Henrico jumped back up by 5.2 percent. While Henrico County experienced significant growth in the number of single-family permits being issued over the five-year boom period between 2001 and 2005, the national growth pace was greater during this time period. Over this period, the national average annual increase for single-family permits issued was 6.9 percent, with an overall 31.7 percent growth comparing 2005 to 2001 levels. Henrico County, on the other hand, averaged an annual 5.2 percent increase for single-family permits issued during this time period, with an overall 19.3 percent increase comparing FY2005 and FY2001 levels. The number of single family building permits fell dramatically in 2007, falling 25.5 percent, and further declining at a rate of 16.0 percent in 2008. FY2009 registered the lowest numbers over the ten year period examined, with 602 permits issued, reflecting a decrease of 46.3 percent from the 1,122 permits issued in FY2008. FY2010 showed a modest improvement in the number of single family permits issued, registering 630 permits, reflecting an increase of 4.6 percent from the prior fiscal year. This figure, however, remains significantly below the peak of FY2003, when 2,024 permits were issued. Comparing FY2010 to FY2003, single family permits issued fell by 1,394, representing a decrease of 68.8 percent.



The County also monitors changes in the number of new and used automobile registrations. These registrations gauge the community's confidence in the local economy and determine the amount of its citizens' disposable income. In 2010, the County of Henrico reported 9,542 new and 43,912 used automobile registrations. These overall numbers represent a 1.4 percent increase from those recorded in the previous year. For 2010, 34.7 percent of all care sales occurring in the Richmond Metropolitan Area occurred in Henrico County.

Conclusion

The downturn in the economy that began in late 2007 was officially declared as having ended June 2009, though its effects on all sectors of the economy are still being felt through the first quarter of 2011. While the recovery has been slow, it is progressing, and the necessary mix of manufacturing and consumer and business spending is occurring. GDP will likely expand at a rate comparable to 2010 and may gain momentum in the third and fourth quarters of 2011 as the economy and consumer sentiment improves, employers add to their payrolls and the housing recovery strengthens. However, high energy costs could very well stymie economic growth, as turmoil in the middle-east and the disaster in Japan are currently contributing to higher per barrel oil prices and correspondingly higher fuel prices. The national average per gallon gasoline price as of this writing is $3.826 (Richmond, VA average is $3.775) and it is expected by most analysts that gasoline will climb in excess of $4.00 per gallon and maintain this level throughout the summer months, regardless of any potential downward adjustment in oil prices as social disruptions in the middle east are resolved. While the increase in the Consumer Price Index (CPI) is driven primarily by energy, the CPI, which grew by roughly 1.5 percent from December 2009 to December 2010, is expected to rise to about 2.5 percent for 2011. Higher costs for energy and other goods has resulted in higher commodity prices for manufacturers, though the lack in consumer wage increases due to high unemployment levels means that businesses aren't able to pass most of these costs on to consumers. This phenomenon somewhat mitigates the impact of inflation for the consumer, but perpetuates low employment and

reduced business investment as businesses are forced to lower their margins on the sale of goods given the increased cost of inputs. While the high cost of fuel also presents some longer term inflationary worries, energy prices, as has historically been the case, are expected to moderate, and the core CPI is expected to grow at a rate roughly comparable to that of 2010, meaning that further economic stimulus by the Federal Open Market Committee may be on the table.

The extension of the Bush Era tax cuts, payroll tax holiday, extension of unemployment benefits, and incentives for businesses to invest and expand, which cumulatively amounted to an $858 billion stimulus, have helped to spur growth. In what is perhaps the most encouraging statistic, consumer spending in the fourth quarter of 2010 followed previous quarters' growth, indicating that the uptick in this category wasn't exclusively driven by inventory restocking, as continued consumption drew down inventories through the end of the year and into the first quarter of 2011. As improving economic data results in greater consumer confidence, consumer spending will grow and stabilize, thus growing GDP, which is largely driven by personal consumption expenditures. While 2009 saw a decline in GDP of 1.2 percent, 2010 GDP increased by 1.8 percent and analysts believe that GDP will likely expand at a rate of 3.0 percent in 2011. Trade will have some impact on GDP, as the recovery will increase consumption of imports domestically, though the growth in imports likely won't match the 17.0 percent gain in 2010, while a slightly weaker dollar could make exports more attractive overseas.

Given the recession's impact on the labor market, the level of current and projected growth is unlikely to have an immediate, strong impact on job creation. Based on economists' assessments, it would take approximately four percent annual growth to lower the unemployment rate by one percentage point annually, and Federal Reserve Chairman Ben Bernanke has been quoted as saying that growth of 3.5 percent per year (an annual growth factor that exceeds current estimates) means it would take five to six years for the labor market to normalize. Jobs, however, are being added, and the seasonally adjusted unemployment rate as of February 2011 of 8.9 percent was the lowest since 8.6 percent in March 2009. Analysts predict job growth in the neighborhood of about 2 million in 2011, which means it will likely take several years to recover the over 8 million jobs that were lost during the recession. Unfortunately, the unemployment rate will likely remain relatively unchanged during this period, as discouraged workers who were previously not included in the unemployment statistic reenter the workforce as the economic recovery progresses.

Like the rest of the nation, the County of Henrico continues to recover from the effects of the most devastating recession in over 80 years. However, the County continues to respond better than national averages. While sales tax collections slowed in FY 2010, registering 2.5 percent lower than the year prior, they grew by over 7.0 percent through the first quarter of FY 2011, and Henrico County's sales remain the strongest in the Metropolitan Richmond area. As the County of Henrico continues to operate within sound and conservative parameters, it is prepared to handle periodic fluctuations and uncertainties in the national, state and local economies, as well as the more severe economic conditions that we are faced with today.

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