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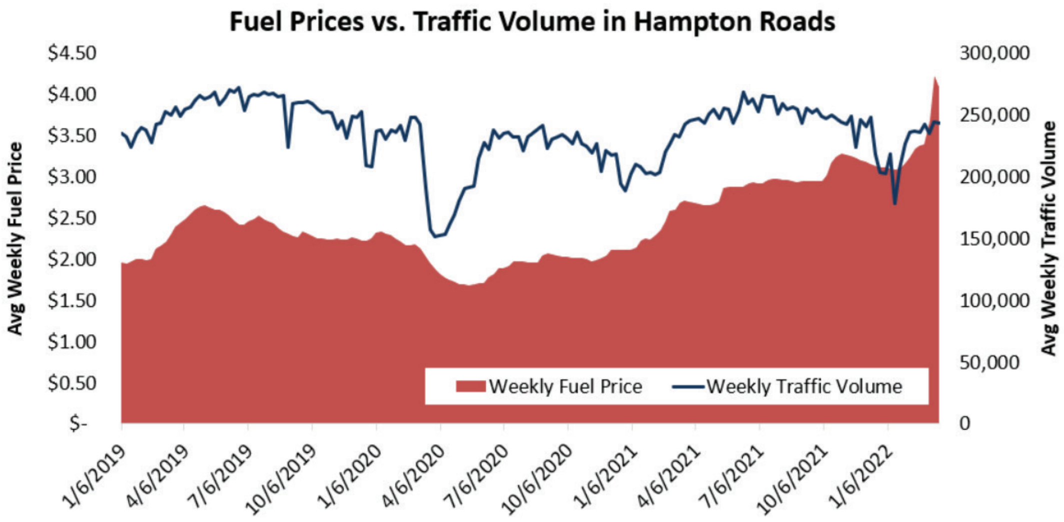
WHAT'S GOING ON WITH GDP AND GAS PRICES?

Since the beginning of 2020, many indicators that economists like to track have been on quite the roller coaster ride. Two indicators in particular have been making headlines recently – one we track in this report regularly: GDP, and one that we don't, but is likely making its presence known in your daily life: gas prices.

National Gross Domestic Product (GDP) numbers are released quarterly, and can be found on the following page of this report. The big news for the first quarter of 2022 was that GDP declined slightly, after five quarters of high growth in the immediate aftermath of the pandemic. Q1 2022's decline in GDP was mainly due to decreased exports and a reduction in government spending that overshadowed a real (inflation-adjusted) increase in consumer spending, which is a sign of a healthy economy. Part of the personal consumption expenditures equation includes spending on gasoline and other energy goods, and in Q1 2022, seasonally adjusted real expenditures in this sector declined both year over year and quarter over quarter, even though fuel prices are significantly higher in 2022 than the previous year.

Any way you slice it in Hampton Roads, average fuel prices are up. In February, gasoline prices increased by 7% from the previous month, followed by an over 20% increase in March. Prices in Q1 2022 were over $1 more per gallon than the same quarter the previous year, but as the war in Ukraine continues and government intervention begins to take effect, prices are starting to stabilize - in April, prices came down slightly by roughly 1% from the previous month. This steep hike in the cost of fuel had us wondering, does the price of gas affect how much people drive in Hampton Roads? While the relationship between gas prices and traffic volume is complex and has many contributing factors, we compared weekly fuel prices and weekly traffic volume over the past three years in Hampton Roads in an attempt to spot some trends.



Traffic volume tends to decrease in winter months as families stay home for the holidays, and increase in the summer months as residents drive more for vacations and trips, which holds true in the dark blue line on the chart above for 2019. Fuel prices (shown in red above) in 2019 tracked, staying between $2.00 and $2.50 per gallon. As people drove less due to lockdowns in early 2020, the reduced demand for fuel resulted in a decline in gas prices - bottoming out in May 2020 at roughly $1.60 per gallon. While traffic took roughly three months to return to somewhat normal levels (summer 2020 levels were still markedly below summer 2019 levels), gas prices in Hampton Roads remained at or under $2.00 per gallon through to the end of 2020. A slow and steady increase in prices began in early 2021, with increases in May due to the Colonial Pipeline outage, and a sharp increase in October, due to impacts from Hurricane Ida shutting down US production of oil in the Gulf of Mexico as well as increased demand after a summer of normalcy where traffic volume was back up to 2019 levels. This brings us to winter 2021-22 and the Omicron surge, where traffic volume was down due to increased spread of COVID as well as usual winter traffic lows, coinciding with a cooling of fuel prices. As we emerged from the quick impacts of Omicron, traffic volume crept upwards, and at the same time Russia invaded Ukraine leading to today's elevated fuel prices. As we enter into the summer months, the question remains: how will traffic volume fare?

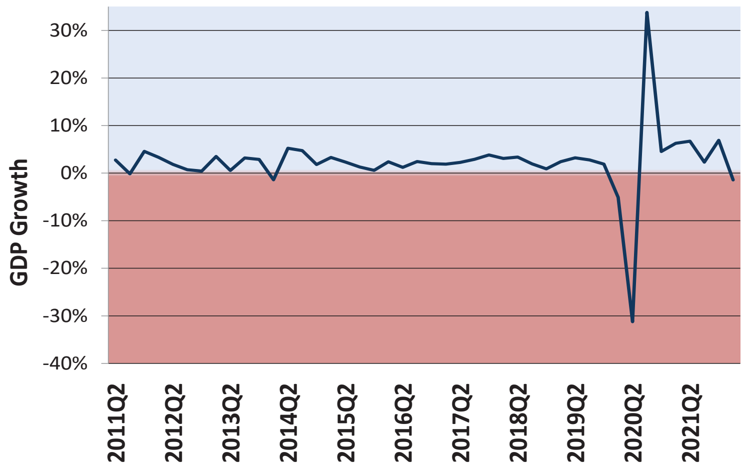
The law of supply and demand states that as prices rise, the quantity of the good consumers demand falls. The reverse also holds true, that as prices fall, consumer demand rises. But consumers may have different sensitivities to price changes depending on the good, and the variation in that sensitivity is called elasticity. If the price of bananas all of the sudden skyrocketed, consumers would substitute their usual banana purchases for a different type of fruit until the price of bananas came back down, an elastic good. Since there is currently not a viable substitution for gasoline, gasoline is known to behave inelastically, where consumption does not immediately increase or decrease drastically based on the price.

Data over the next few months will show if this significant increase in fuel prices will have an impact on traffic volume in the region, and Q2 GDP data will continue to show how much US households are spending on fuel as part of their personal consumption expenditures. One thing that history has shown us is that continuously elevated fuel prices do change long-term behavior that affect consumption patterns. Those currently paying $4.20 a gallon will certainly consider fuel-efficiency when purchasing their next vehicle.

GDP, ANNUALIZED GROWTH RATE (Q) SOURCE: BUREAU OF ECONOMIC ANALYSIS, HRPDC

	Q1 2021	Q1 2022	Trend
United States	6.3%	-1.4%	▼

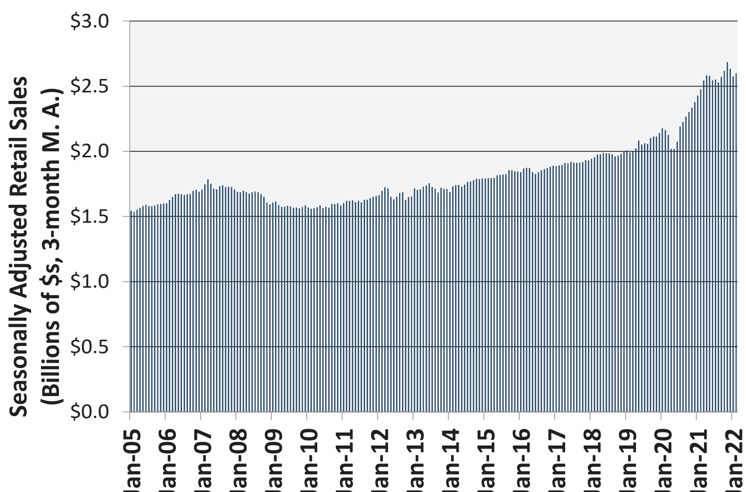
GDP: Gross Domestic Product combines consumption, investment, net exports, and government spending to determine the size and general health of the economy. Real GDP decreased 1.4% in Q1 2022, reflecting continued supply chain issues. Q1 declines were driven strongly by a 3.2% decrease in net exports, the largest quarterly decline since Q3 2020. The largest quarterly decline in government expenditures and investment also contributed, as federal aid post-COVID has dried up. Consumer spending on services however, was strong.



RETAIL SALES, SEASONALLY ADJUSTED (3 MONTH M.A) SOURCE: VIRGINIA DEPARTMENT OF TAXATION, HRPDC

	Jan '22	Feb '22	Trend
Hampton Roads	$2.58B	$2.6B	▲
Virginia	$13.94B	$13.96B	▲

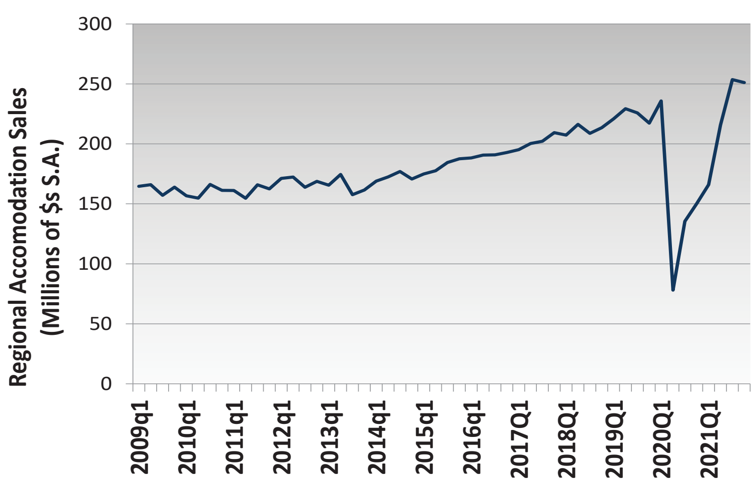
Retail Sales: Retail sales in Hampton Roads, as measured by the 1% local option sales tax, serve as an indicator for consumption in the region. When seasonally adjusted and averaged over 3 months, February shows increased sales after two months of declines. Unadjusted, Feb 2022 shows an 8% increase over Feb 2021, but a 25% increase over Feb 2020. Retail sales are continuing to rise long-term as consumers spend more on goods and inflation drives up prices.



ESTIMATED HOTEL REVENUE, SEASONALLY ADJUSTED (Q) SOURCE: VIRGINIA DEPARTMENT OF TAXATION, HRPDC

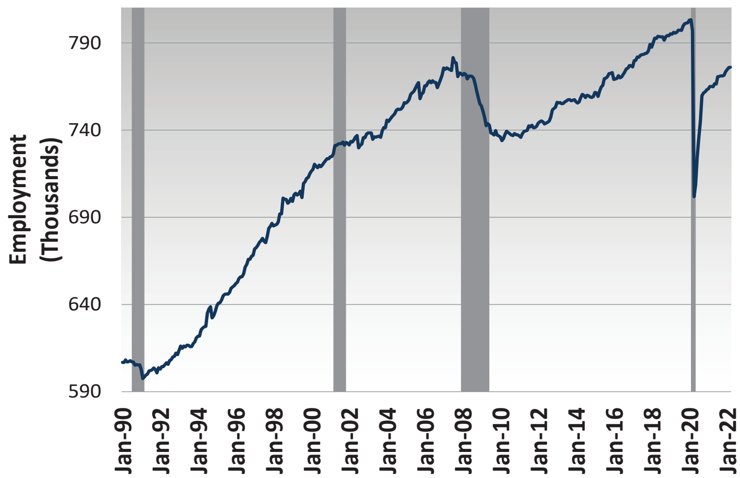
	Q4 2020	Q4 2021	Trend
Hampton Roads	$150M	$251M	▲
Virginia	$490M	$870M	▲

Estimated Hotel Revenue: Hotel sales indicate the performance of the region's tourism sector. When seasonally adjusted, Q4 2021 hotel revenue once again saw improvement from the historic lows realized in Q2 2020 due to pandemic-related closures, however at lower levels than the preceding quarter. Hotel revenue in Q4 2021 represented nearly 70% increase over the previous year, but a roughly 1% decrease from Q3 2021.

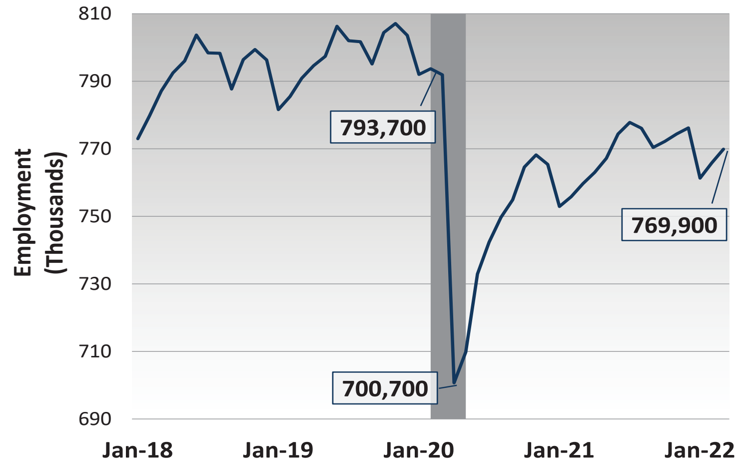


CIVILIAN PAYROLL EMPLOYMENT (M) SOURCE: BUREAU OF LABOR STATISTICS, HRPDC

HISTORICAL TREND, SEASONALLY ADJUSTED



3-YEAR, NOT SEASONALLY ADJUSTED



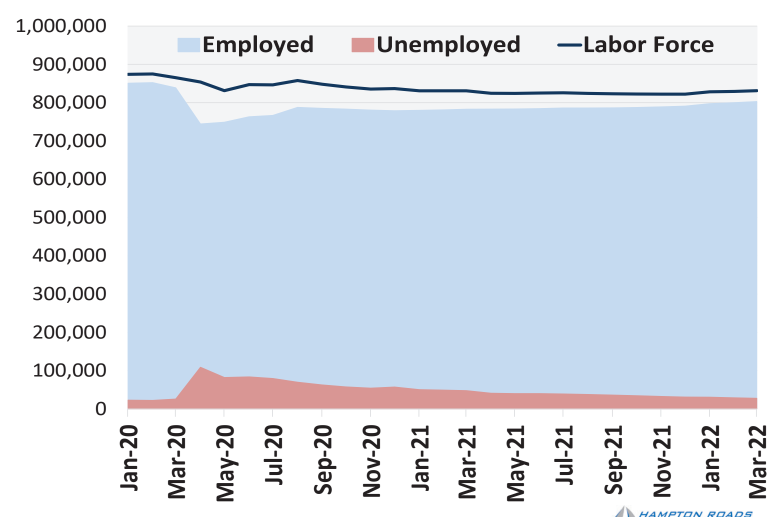
(seasonally adjusted)	Mar 2021	Feb 2022	Mar 2022	YoY % Change	MoM Trend
Hampton Roads	765,000	775,800	776,000	1.44%	▲
Virginia	3,912,000	4,018,000	4,021,000	2.79%	▲
United States	144,431,000	150,494,000	150,925,,000	4.50%	▲

Employment: Non-agricultural civilian employment figures are considered the best estimate of labor market activity by the National Bureau of Economic Research. According to data from the Bureau of Labor Statistics, Hampton Roads employment (seasonally adjusted) increased (very slightly) by 0.03% from February to March 2022, the fifth month in a row of increases. Unadjusted employment levels also increased for the second month in a row after a steep drop in January. In Hampton Roads, year-over-year growth is recorded at 1.44%, continuing to signal that winter of 2021-22 fared much better than 2020-21, despite COVID surges both years. Compared to the rest of Virginia and the US however, Hampton Roads is lagging significantly in annual employment growth. Total payroll employment in the region remains roughly 3.4% below pre-COVID highs, with the gap continuing to shrink, but at a very slow pace.

LABOR FORCE, SEASONALLY ADJUSTED (M) SOURCE: BUREAU OF LABOR STATISTICS, HRPDC

	Labor Force	Emp	Unemp	LF Trend
Feb 2022	826,464	800,184	29,280	▲
Mar 2022	831,149	803,256	27,893	

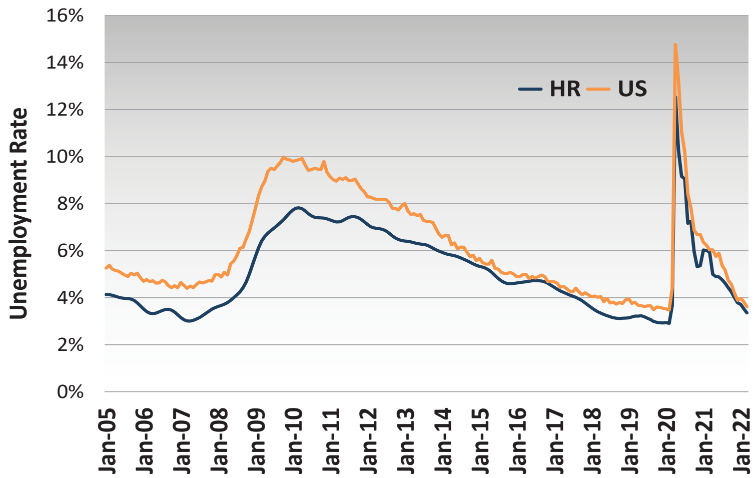
Labor Force: An economy's labor force is defined as those who are either employed or actively seeking work, and the breakdown of the labor force is often used in conjunction with the unemployment rate to offer some perspective into the true state of the economy. The region's labor force was slowly declining since the onset of the pandemic, but has been on the rise - increasing by 1% in the past three months, but still sitting 5% below January 2020 levels.



UNEMPLOYMENT RATE, SEASONALLY ADJUSTED (M) SOURCE: BUREAU OF LABOR STATISTICS, HRPDC

	Mar '21	Feb '22	Mar '22	Trend
Hampton Roads	5.79%	3.53%	3.36%	▼
Virginia	4.48%	3.17%	3.04%	▼
United States	6.03%	3.82%	3.62%	▼

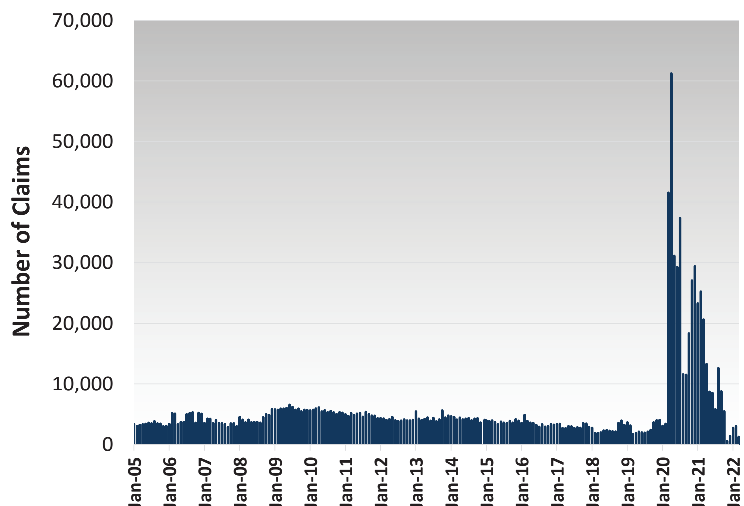
Unemployment Rate: The unemployment rate is the percentage of the population actively seeking work but unable to obtain a position. Hampton Roads' unemployment rate decreased again to 3.36% in March 2022, reflected by an increase in the labor force, increase in employment, and a decrease in the number of unemployed persons (all seasonally adjusted).



INITIAL UNEMPLOYMENT CLAIMS, SEASONALLY ADJUSTED (M) SOURCE: VIRGINIA DEPT OF LABOR, HRPDC

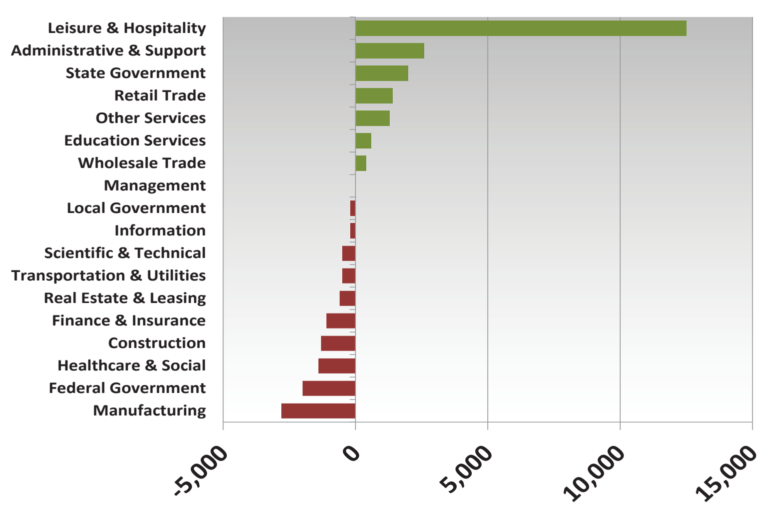
	Feb '22	Mar '22	Trend
Hampton Roads	3,011	1,260	▼
Virginia	7,444	4,602	▼

Initial Unemployment Claims: The number of initial unemployment claims is a leading economic indicator reflecting those who are forced to leave work unexpectedly, thus revealing the strength of the job market with little lag time. In March 2022, initial unemployment claims decreased once again when compared to the previous month, continuing the recent trend of initial claims on par with pre-COVID numbers.



EMPLOYMENT GROWTH BY INDUSTRY (**MAR**, YEAR-OVER-YEAR) SOURCE: BUREAU OF LABOR STATISTICS, HRPDC

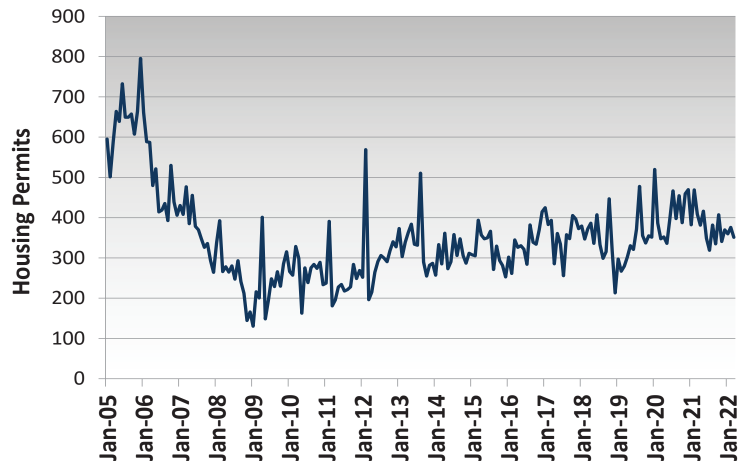
Employment Growth by Industry: As the job market grows or contracts, there will be some industries whose experience does not resemble the regional trend. In March, roughly half of Hampton Roads industries experienced a decrease in year-over-year employment compared to March 2021. Most significant gains were Leisure & Hospitality, which added over 12,000 jobs compared to March 2021, followed by Administrative & Support and State Government. Manufacturing, Federal Government, and Healthcare & Social realized the highest losses compared to 2021.



SINGLE FAMILY HOUSING PERMITS, SEASONALLY ADJUSTED (M) SOURCE: US CENSUS BUREAU, HRPDC

	Mar '21	Feb '22	Mar '22	Trend
Hampton Roads	409	376	351	▼

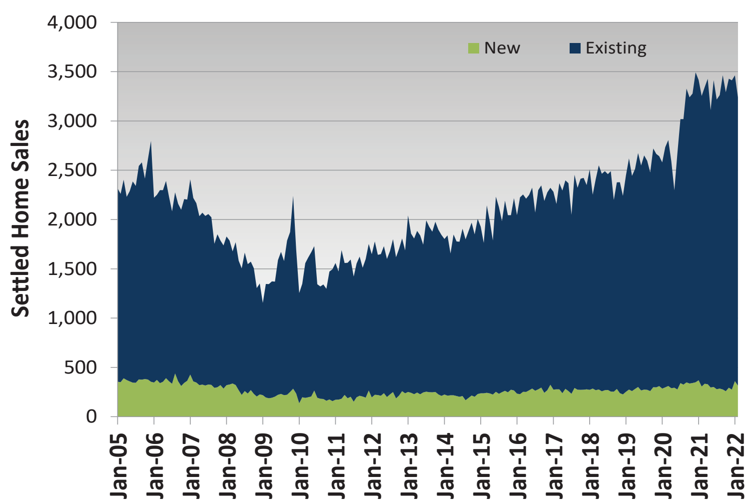
Single Family Housing Permits: Permit data signals the level of construction employment and confidence regarding the future trajectory of the local economy. When seasonally adjusted, there were 351 new construction permits issued for single family homes in March 2022. The data continues to show small variances month to month over the past year, but the trend is continuing to plateau. As mortgage and interest rates continue to rise, construction may decline due to rising costs of borrowing money to build.



NUMBER OF HOMES SOLD, SEASONALLY ADJUSTED (M) SOURCE: REIN, HRPDC

	Feb '21	Jan '22	Feb '22	Trend
Hampton Roads	3,253	3,462	3,240	▼

Home Sales: Settled home sales measure the level of transactions on the real estate market over time, and a healthy real estate market should have a consistent level of activity. Seasonally adjusted, existing home and total settled sales in February decreased from January, remaining elevated with over 3,200 homes sold, but certainly the trend is showing a plateau. Unadjusted, total home sales have been declining for the past five months as the winter season is usually slow for home sales, but as Spring data begins to come in this is likely to change.



30-YEAR MORTGAGE RATES (M) SOURCE: FREDDIE MAC, HRPDC

	Apr '21	Mar '22	Apr '22	MoM-Trend
United States	3.1%	4.2%	5.0%	▲

Mortgage Rates: The 30-year mortgage rate is the rate of interest charged on a mortgage loan, and tend to rise and fall with interest rate cycles, drastically affecting the homebuyer's market. The higher mortgage rates go, the less affordable it becomes to purchase a home with a loan because that loan will become more expensive. After nearly three years with rates below 4%, in just two months the average 30-year mortgage rate has jumped above 5% for the first time since 2011, largely in part due to the Federal Reserve raising interest rates to cool inflation.