HAMPTON ROADS PDC PLANNING DISTRICT COMMISSION

HAMPTON ROADS ECONOMIC MONTHLY

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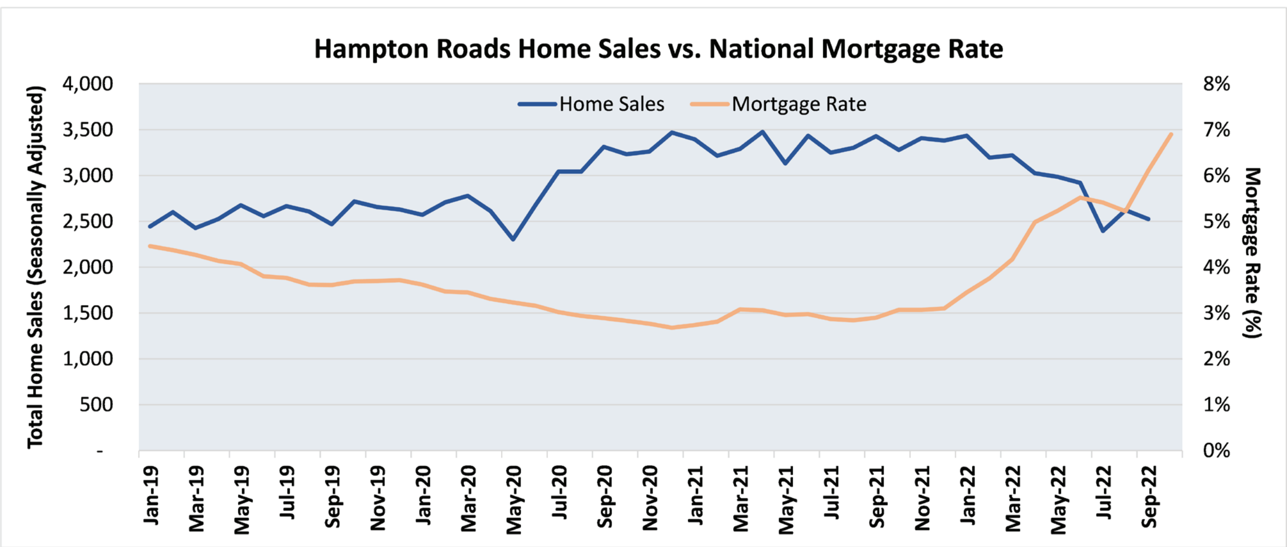
IMPACTS OF RISING INTEREST RATES

One of the few ways to combat inflation in the United States is for the Federal Reserve to raise the federal funds rate – more commonly known simply as interest rates. In the past year, the Fed has increased interest rates six times, the most recent increase being 0.75% just last week. While this type of monetary policy often takes time to filter through the economy and impact prices, it's already begun impacting one area that was significantly affected during the onset of the pandemic – the housing market. But while data has been swift to show movement in housing, where else can we expect rising interest rates to impact the regional economy in the immediate future?

While mortgage rates aren't set by the Fed, they are influenced by many elements, including inflation, the pace of job creation, whether the economy is growing or shrinking, and of course, the Fed's monetary policy. In late October, mortgage rates rose above 7% for the first time since 2002, increasing by over 350 points since the start of 2022. The average rate for an identical loan was 3.14% at this same time in 2021. For the week ending October 28, 2022, mortgage applications declined for the sixth consecutive week, showing that potential home buyers are taking these increases into consideration. These elevated rates continue to put pressure on both purchase and refinance activity and have added to the ongoing affordability challenges impacting the broader housing market, as seen in the deteriorating trends in housing starts and home sales across the country.

And already, buyers are bowing out of the market, and prices are starting to ease. As shown in the chart below, as mortgage rates rise (orange line), total home sales (seasonally adjusted) in Hampton Roads begin to decline (blue line). But the higher loan rates mean many people — especially first-time buyers who don't have equity to tap for purchases — still can't afford to buy homes, further crowding the rental market (it's important to note here that rising rents are a component of inflation). Additionally, with most homeowners locked into significantly lower rates, supply will continue to be an issue for those who do need to buy.



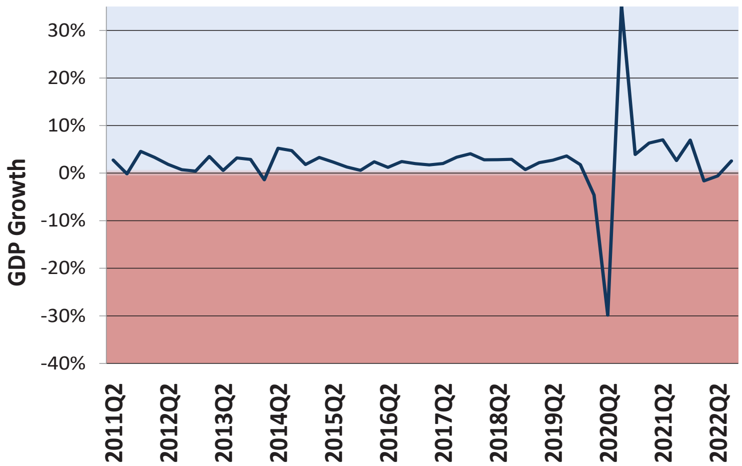
But rising interest rates affect more than just the housing market. Credit card rates are closely tied with federal interest rates, so consumers with credit card debt can expect to pay more on credit card debt – average rates have already increased from about 16% in March to nearly 19% in October. While inflation has been increasing the price of new and used cars as well as gasoline, auto loans will get more expensive as interest rates rise, making the cost of owning a car even higher. Depending on the type of loan, interest rates for student loans may increase – and certainly will for private loans, and for some federal undergraduate loans dispersed after a certain date. One bright spot is that savers now will get a higher rate of return on their savings accounts, as banks will begin to pay more interest on deposits.

As basic expenses like those for transportation and shelter increase due to rising interest rates, consumers might cut spending elsewhere. They might eat out less at their favorite restaurant, put off home renovations or skip a vacation. Those decisions have repercussions for the broader economy – restaurants cutting hours, contractors not expanding their business with new equipment, hotels downsizing staff, etc. For these reasons, and many more, the Federal Reserve increases interest rates somewhat slowly over time, in order to keep an eye on broad impacts so as not to overcorrect. One thing is for certain: the Fed's desire to cool inflation will have a chilling effect on the economy. Stay tuned!

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

	Q3 2021	Q3 2022	Trend
United States	2.7%	2.6%	▲

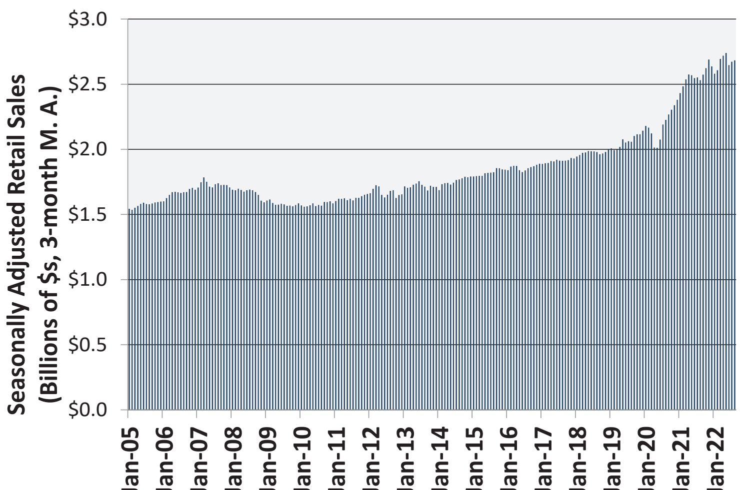
GDP: Gross Domestic Product combines consumption, investment, net exports, and government spending to determine the size and general health of the economy. Real GDP increased by 2.6% in Q3 2022, the first quarter of increases after two quarters in a row of declines. Q3 increases were driven strongly by net exports of goods and services (mostly in the goods category), the second quarter in a row of increases after seven consecutive quarters of declines. Personal consumption expenditures also increased by 1%, driven solely by increases in spending on services.



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

	Jul '22	Aug '22	Trend
Hampton Roads	$2.67B	$2.68B	▲
Virginia	$14.43B	$14.47B	▲

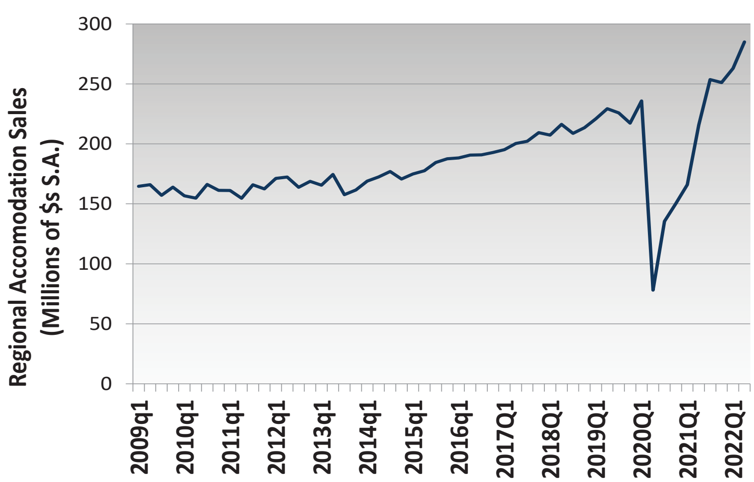
Retail Sales: Retail sales in Hampton Roads, as measured by the 1% local option sales tax, serve as an indicator for consumption in the region. When seasonally adjusted and averaged over 3 months, August shows increased sales for the second month in a row after a slight decline in June. Unadjusted, August 2022 shows a 15% increase over August 2021, and a 24% increase over August 2020. Retail sales are continuing to rise as consumers spend more on goods and prices increase, but the pace is slowing.



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

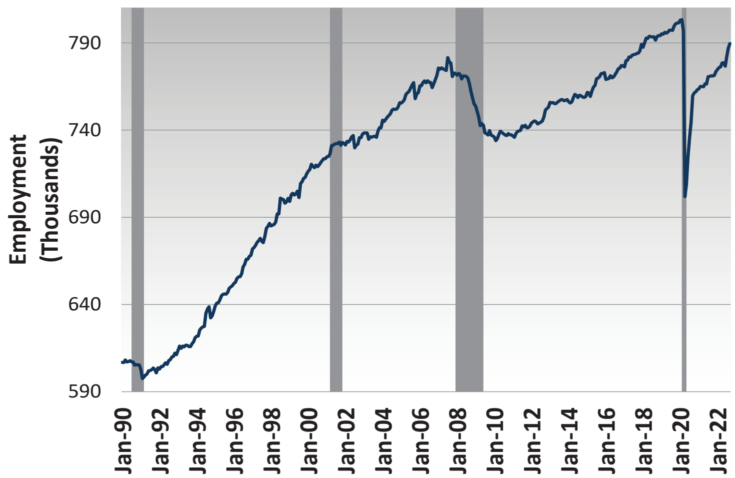
	Q2 2021	Q2 2022	Trend
Hampton Roads	$216M	$285M	▲
Virginia	$689M	$1.09T	▲

Estimated Hotel Revenue: Hotel sales indicate the performance of the region's tourism sector. When seasonally adjusted, Q2 2022 hotel revenue once again saw significant improvement from the historic lows realized in Q2 2020 due to pandemic-related closures, increasing over the preceding quarter by over 8%. Hotel revenue in Q2 2022 represented over 32% increase over the previous year, and roughly 25% increase from Q2 2020.

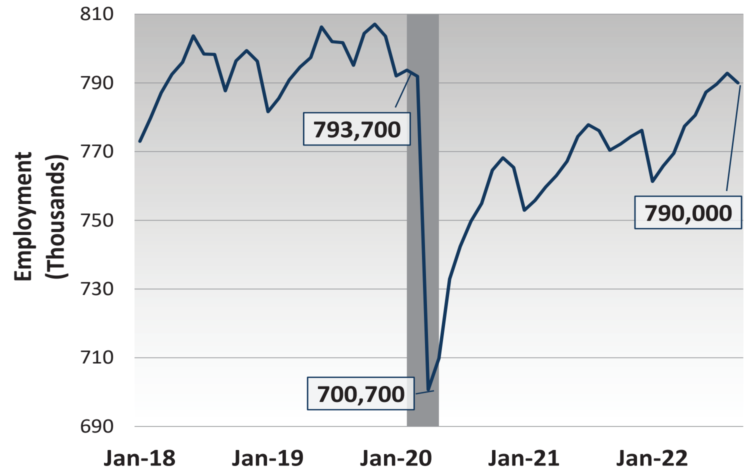


CIVILIAN PAYROLL EMPLOYMENT (M) SOURCE: BUREAU OF LABOR STATISTICS, HRPDC

HISTORICAL TREND, SEASONALLY ADJUSTED



3-YEAR, NOT SEASONALLY ADJUSTED



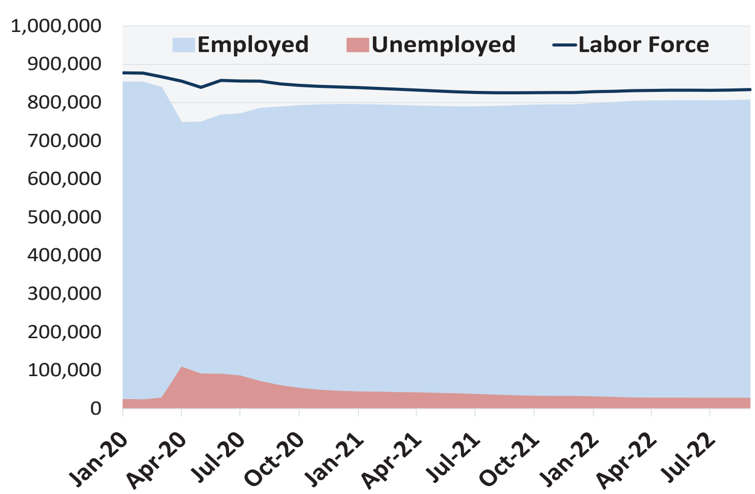
(seasonally adjusted)	Sep 2021	Aug 2022	Sep 2022	YoY % Change	MoM Trend
Hampton Roads	771,100	786,900	789,600	2.40%	▲
Virginia	3,959,000	4,086,000	4,094,000	3.40%	▲
United States	147,328,000	152,755,000	153,018,000	3.86%	▲

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 by 0.34% from August to September 2022, marking three months of increases after a decline in June. Unadjusted employment levels *decreased* for the first time after seven months of increases. In Hampton Roads, year-over-year growth is recorded at 2.4%, continuing to signal that overall the workforce is recovering from COVID losses, but the recent slowdown may be a sign of stagnation. Compared to the rest of Virginia and the US, Hampton Roads is lagging significantly in annual employment growth. Total payroll employment in the region remains roughly 1.67% below pre-COVID highs, with the gap continuing to shrink - picking up pace in the past few months.

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

	Labor Force	Emp	Unemp	LF Trend
Aug 2022	832,449	805,005	27,444	▲
Sep 2022	834,050	806,873	27,177	

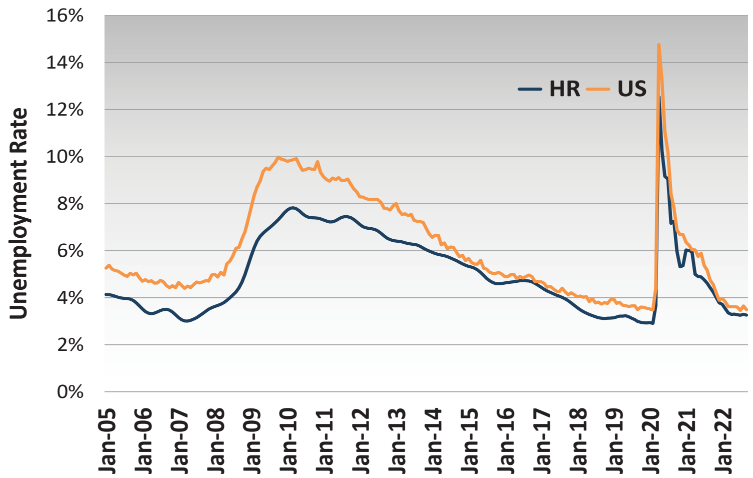
Labor Force: An economy's labor force is defined as those who are either employed or actively seeking work, and the breakdown of the labor force is often used in conjunction with the unemployment rate to offer some perspective into the true state of the economy. The region's labor force was slowly declining since the onset of the pandemic, saw seven months of increases until June and July 2022, which realized slight decreases from previous months. August and September realized increases, but Labor Force levels still sit roughly 5% below January 2020 levels.



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

	Sep '21	Aug '22	Sep '22	Trend
Hampton Roads	4.06%	3.30%	3.26%	▼
Virginia	3.44%	2.63%	2.60%	▼
United States	4.75%	3.65%	3.49%	▼

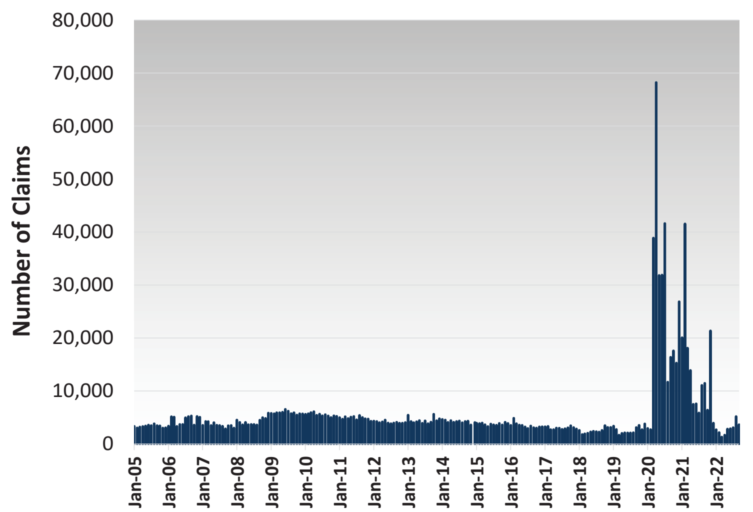
Unemployment Rate: The unemployment rate is the percentage of the population actively seeking work but unable to obtain a position. Hampton Roads' unemployment rate decreased slightly to 3.26% in September 2022, reflected by an increase in the labor force the number of employed persons and small decrease in unemployed persons (all seasonally adjusted).



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

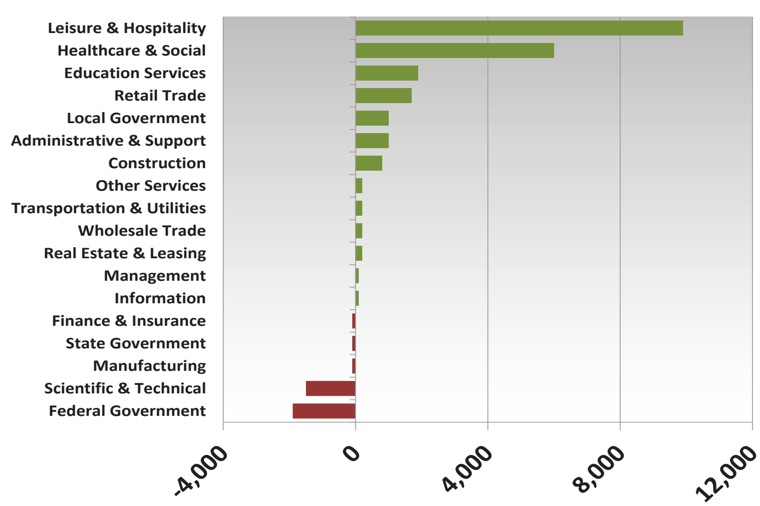
	Aug '22	Sep '22	Trend
Hampton Roads	5,202	3,657	▼
Virginia	26,814	17,197	▼

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 September 2022, initial unemployment claims decreased by a significant 30% after five months in a row of increases. As talk of a possible recession continues, this indicator will be one to watch closely, as it is the first one to show movement in the data.



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

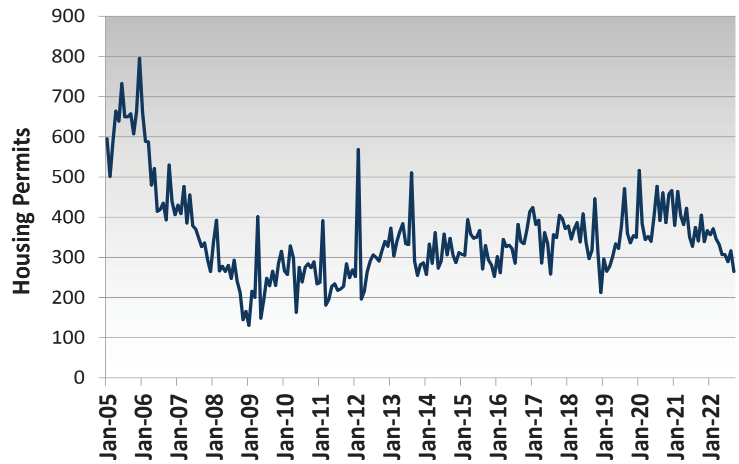
Employment Growth by Industry: As the job market grows or contracts, there will be some industries whose experience does not resemble the regional trend. In September, the majority of Hampton Roads industries experienced a decrease in year-over-year employment compared to September 2021. Most significant gains were Leisure & Hospitality, which added 10,000 jobs compared to September 2021, followed by Healthcare & Social and Education Services. Federal Government and Scientific & Technical realized the highest losses compared to 2021.



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

	Sep '21	Aug '22	Sep '22	Trend
Hampton Roads	340	316	264	▼

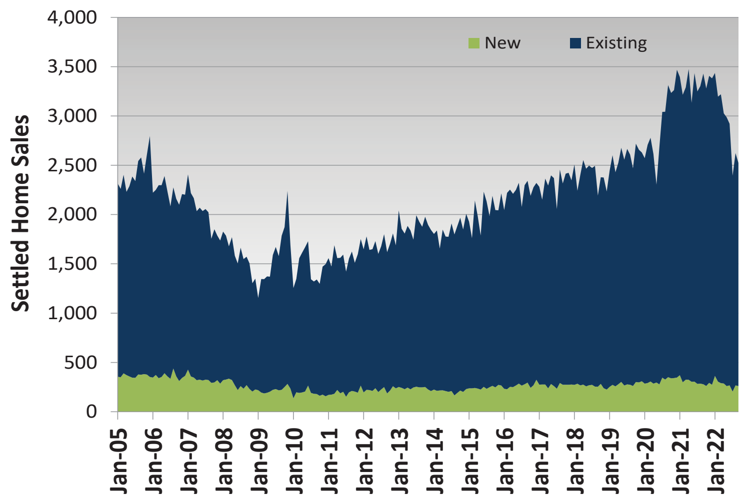
Single Family Housing Permits: Permit data signals the level of construction employment and confidence regarding the future trajectory of the local economy. When seasonally adjusted, there were 264 new construction permits issued for single family homes in September 2022 - another decline after one slight increase the previous month. After about a year of plateauing data, the trend is still pointing towards steady declines. As interest rates and materials prices 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

	Sep '21	Aug '22	Sep '22	Trend
Hampton Roads	3,429	2,623	2,524	▼

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 September decreased from August with 2,524 homes sold, the second-lowest monthly total sales since the onset of the pandemic. The sale of new homes in September represented 10% of total sales, reaching back into the double digits after several months at 9%.



HOME PRICE INDEX, ALL TRANSACTIONS (Q) SOURCE: FEDERAL HOUSING FINANCING AGENCY, HRPDC

	Q2 2021	Q2 2022	Trend
Hampton Roads	139.6	163.6	▲
Virginia	141.5	166.9	▲
United States	153.2	185.1	▲

Home Price Index: The home price index measures the value of homes by evaluating changing price levels through repeated sales of properties. Hampton Roads' home prices increased, yet again, by 17.2% over the previous year in Q2 2022, slightly higher rate than the state and about 4 percentage points lower than the nation—still a record high.