HAMPTON ROADS PDC PLANNING DISTRICT COMMISSION

HAMPTON ROADS ECONOMIC MONTHLY

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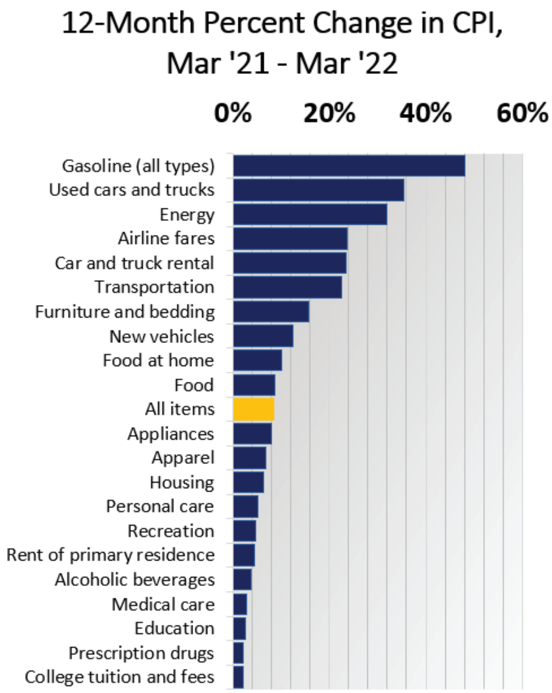
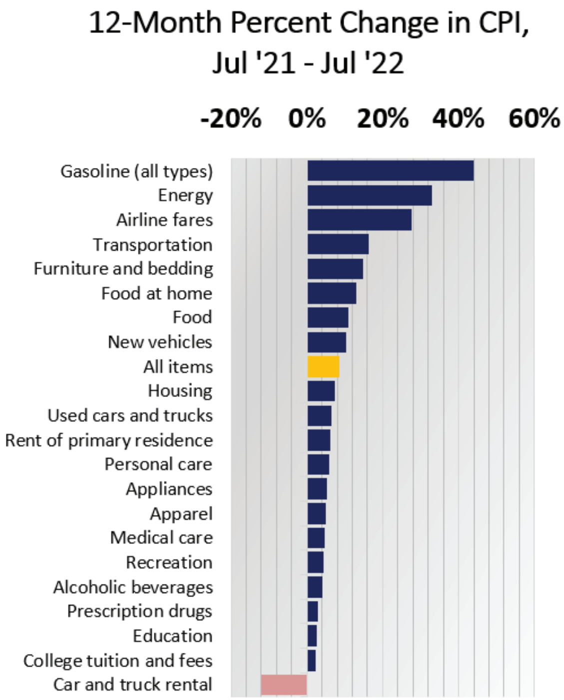
CHECK IN ON INFLATION

In recent months, it's been difficult to evade headlines discussing inflation. A lot has changed since we last checked in on increasing prices in May 2021, so this month's article will focus on overall inflation and some of the select categories that are contributing more (or less) to price hikes since year-over-year change in prices surpassed the coveted 2% target.

Inflation – the rate at which prices for goods and services rise, or the decline of purchasing power of the dollar over time - isn't a regional or local economic indicator, but it certainly affects the pockets and wallets of everyone who calls Hampton Roads home. Since COVID-19 sent shockwaves through the global economy, the U.S. pumped money into the economy through various measures with the intent of keeping the country out of a major recession. In March 2021, the Consumer Price Index (CPI) rose by 2.5% and the Personal Consumption Index (PCE) rose by 2.5% - the first month since 2012 the increase was 2.5% or higher. At that time, economists were speculating as to whether or not these increases would contribute to long-term inflation, or if they would be considered price shocks. Each month since has seen significant increases, coming to what was hopefully the peak in June 2022, with July's report showing a decline of 0.5% from the previous month.

Not all consumer goods are rising in price at the same pace however, and breaking down the CPI into categories can help paint a clearer picture of where we've been, and where we might expect to go in the future. The two charts below show the CPI for select categories from March 2021 – March 2022 and July 2021 – July 2022, as two monthly examples of how quickly various consumer goods are changing and therefore impacting inflationary measures differently over time.





Gasoline – Since the measures of inflation started rising in 2021, gasoline has been the largest contributor by far to the overall increase in prices, quite the opposite from the onset of the pandemic, where gasoline prices plummeted to record lows as Americans stayed home. Increase in demand as well as reduced supply (heavily impacted by the war in Ukraine) has caused gas prices to increase. As gas prices have begun to come back down, it's contribution to the CPI is reflected in a 44% year-over-year rise, compared to 48% in March when the war began.

Used cars and trucks / car and truck rental – In March 2022, one of the biggest contributors to the overall increase in prices was used car and truck sales (35.5%) and car rentals (23.4%). According to July's CPI report, used car prices are only 6.6% higher than last year, although still more than 50% higher than they were in February 2020, before COVID disruptions. Similarly, however much more drastically, rental car prices have actually declined year-over-year by nearly 12%, as airline fares have shot to the top of the chart with nearly a 28% increase in prices as pandemic-related travel restrictions have all but disappeared.

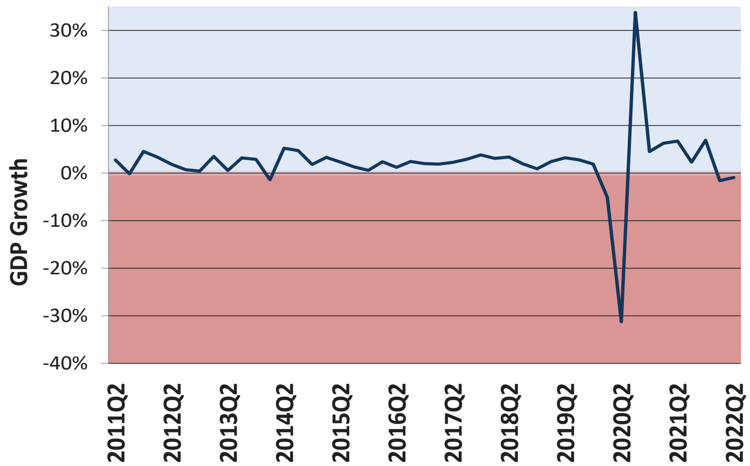
Housing / Rents – Increased demand for housing combined with a housing shortage have been pushing housing prices ever higher since the onset of the pandemic. In July, housing costs had shown an increase of 7.4% nationally, while rentals prices were not far behind with an increase of 6.3%. In the past several months, mortgage rates have increased, leading to some markets (including Hampton Roads) to experience a cool down in home sales. Prices are not likely to come down as quickly, but may plateau.

When we last reported on inflation, the Federal Reserve was keeping interest rates low, likely waiting to see if prices would rise in the long-term. Once it became clear that these were not just short-term price shocks, the Fed raised interest rates several times this summer in an effort to cool down the economy. As money becomes more expensive to borrow, the hope is that inflation will begin to decline. If July's CPI report is any indication of future movement, prices may have reached their peak.

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

	Q2 2021	Q2 2022	Trend
United States	6.7%	-0.9%	▼

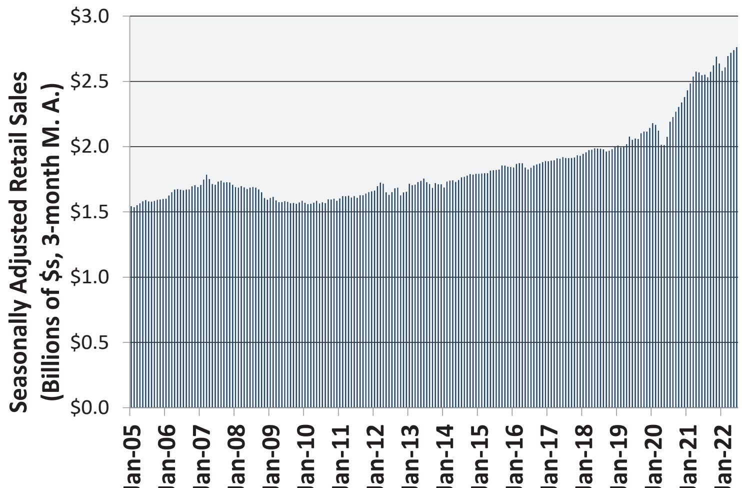
GDP: Gross Domestic Product combines consumption, investment, net exports, and government spending to determine the size and general health of the economy. Real GDP decreased 0.9% in Q2 2022, declining for the second quarter in a row. Q2 declines were driven strongly by a 2.73% decrease in private domestic investment, the largest quarterly decline since Q3 2020. Consumer spending still displayed growth, however at 0.7%, the smallest growth rate since the onset of COVID. Net exports grew for the first quarter since mid-2020, helping keep GDP shrinkage low.



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

	May '22	Jun '22	Trend
Hampton Roads	$2.74B	$2.76B	▲
Virginia	$14.67B	$14.32B	▼

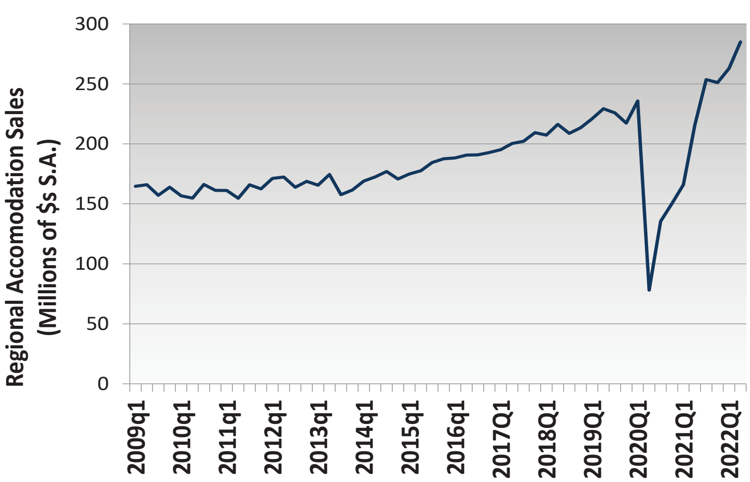
Retail Sales: Retail sales in Hampton Roads, as measured by the 1% local option sales tax, serve as an indicator for consumption in the region. When seasonally adjusted and averaged over 3 months, June shows increased sales for the fifth month in a row. Unadjusted, June 2022 shows a 2.4% decrease over June 2021, but a 13% increase over June 2020. Retail sales are continuing to rise long-term as consumers spend more on goods and inflation drives up prices, but the pace is beginning to slow.



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

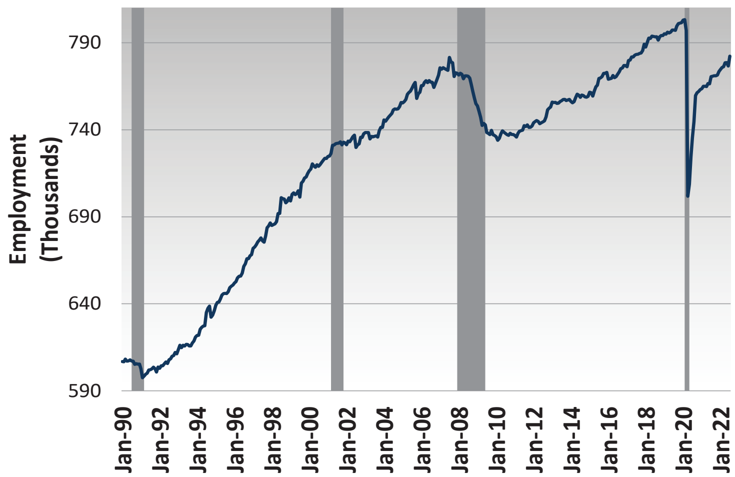
	Q2 2021	Q2 2022	Trend
Hampton Roads	$216M	$285M	▲
Virginia	$689M	$1.09T	▲

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.

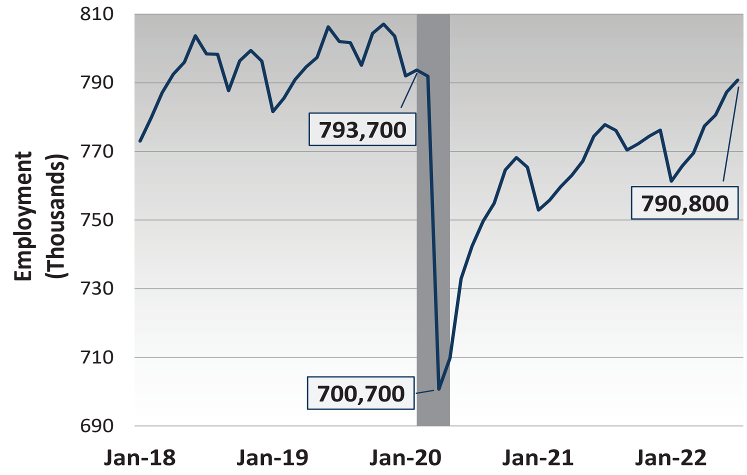


CIVILIAN PAYROLL EMPLOYMENT (M) SOURCE: BUREAU OF LABOR STATISTICS, HRPDC

HISTORICAL TREND, SEASONALLY ADJUSTED



3-YEAR, NOT SEASONALLY ADJUSTED



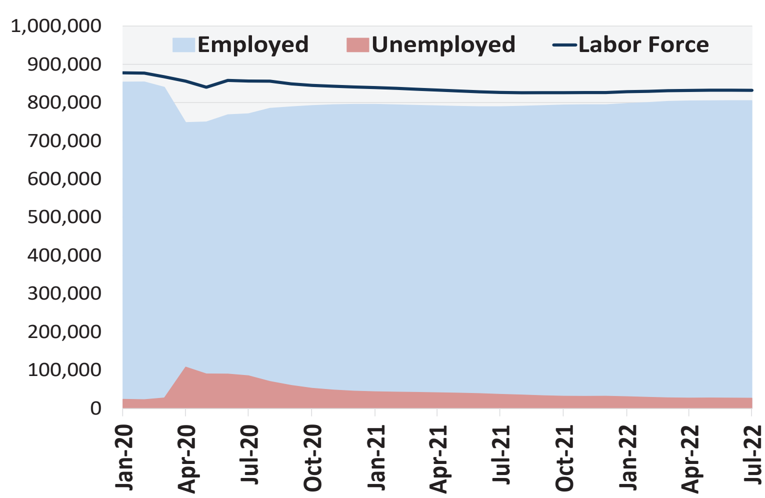
(seasonally adjusted)	Jul 2021	Jun 2022	Jul 2022	YoY % Change	MoM Trend
Hampton Roads	770,600	776,600	782,300	1.52%	▲
Virginia	3,950,000	4,050,000	4,071,000	3.05%	▲
United States	146,387,000	151,903,000	152,429,000	4.13%	▲

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 0.73% from June to July 2022, a significant increase after a month of decline. Unadjusted employment levels increased for the sixth month in a row after a steep drop in January. In Hampton Roads, year-over-year growth is recorded at 1.52%, continuing to signal that overall the workforce is continuing to recover 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 2.6% 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
Jun 2022	832,258	804,993	27,265	▼
Jul 2022	832,059	804,993	27,066	

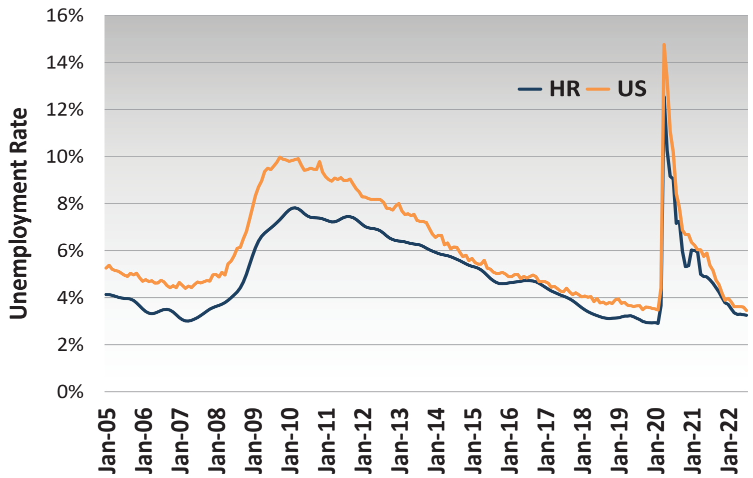
Labor Force: An economy's labor force is defined as those who are either employed or actively seeking work, and the breakdown of the labor force is often used in conjunction with the unemployment rate to offer some perspective into the true state of the economy. The region's labor force was slowly declining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



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

	Jul '21	Jun '22	Jul '22	Trend
Hampton Roads	4.49%	3.28%	3.25%	▼
Virginia	3.76%	2.82%	2.67%	▼
United States	5.37%	3.60%	3.46%	▼

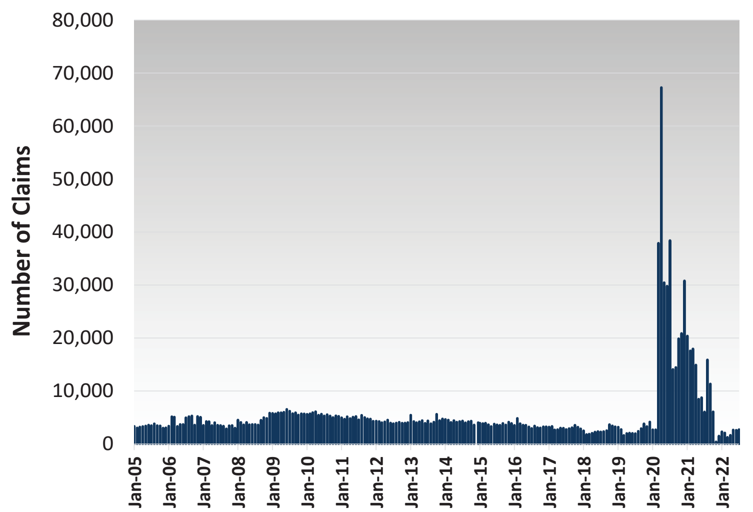
Unemployment Rate: The unemployment rate is the percentage of the population actively seeking work but unable to obtain a position. Hampton Roads' unemployment rate decreased again to 3.25% in July 2022, reflected by another *decrease* in the labor force, coupled with a (slight) decrease in the number of unemployed persons and no change in employed persons (all seasonally adjusted).



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

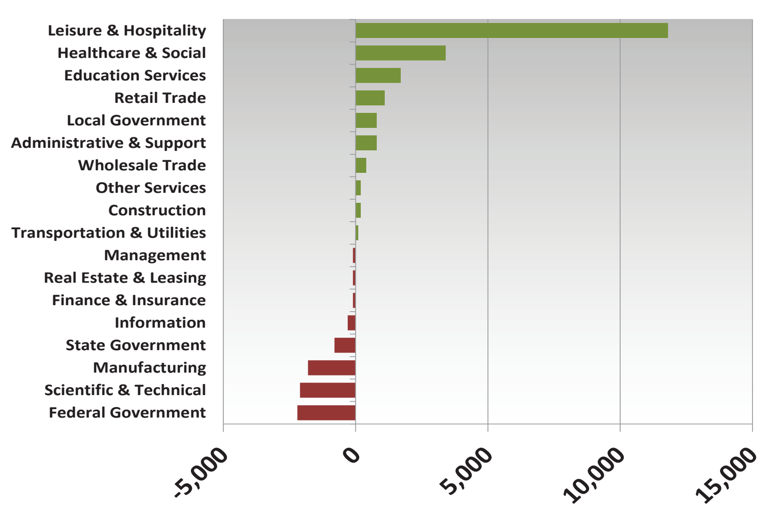
	Jun '22	Jul '22	Trend
Hampton Roads	2,619	2,732	▲
Virginia	11,941	13,333	▲

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 July 2022, initial unemployment claims increased by 4.3% from the previous month, continuing a trend of increases over the past few months. This may reflect a start of labor market tightening.



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

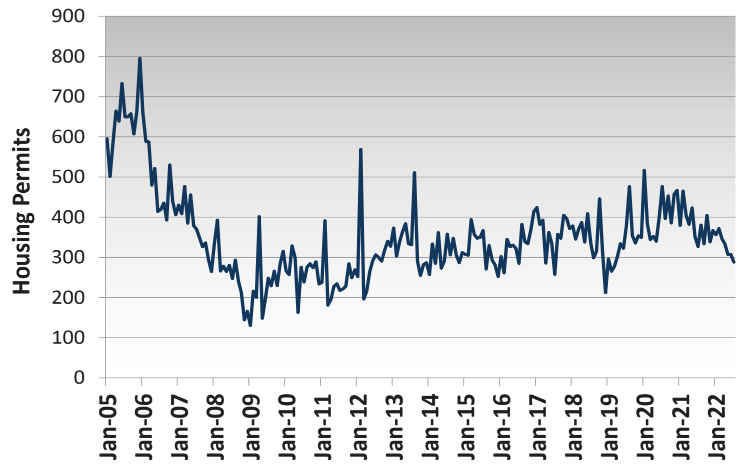
Employment Growth by Industry: As the job market grows or contracts, there will be some industries whose experience does not resemble the regional trend. In July, roughly half of Hampton Roads industries experienced a decrease in year-over-year employment compared to July 2021. Most significant gains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



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

	Jul '21	Jun '22	Jul '22	Trend
Hampton Roads	326	307	288	▼

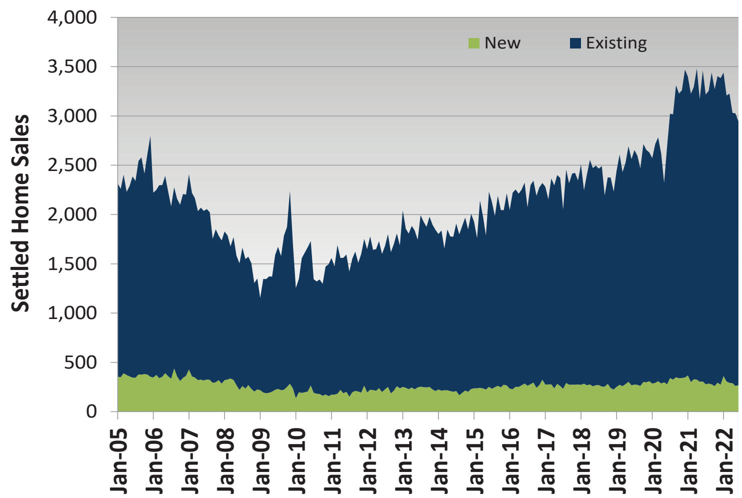
Single Family Housing Permits: Permit data signals the level of construction employment and confidence regarding the future trajectory of the local economy. When seasonally adjusted, there were 288 new construction permits issued for single family homes in July 2022. After roughly a year of plateauing data, the trend is 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

	Jun '21	May '22	Jun '22	Trend
Hampton Roads	3,459	3,026	2,946	▼

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 Jun decreased from April and May with 2,946 homes sold, the first month in two years the adjusted total homes sold has dipped below 3,000 per month. Unadjusted, total home sales rose from May to June due to peak season, but as interest rates rise the time for a seller's market might be coming to a close for now.



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.