

CRISIS TO CASH: RECORD SURPLUSES AMIDST THE STORM

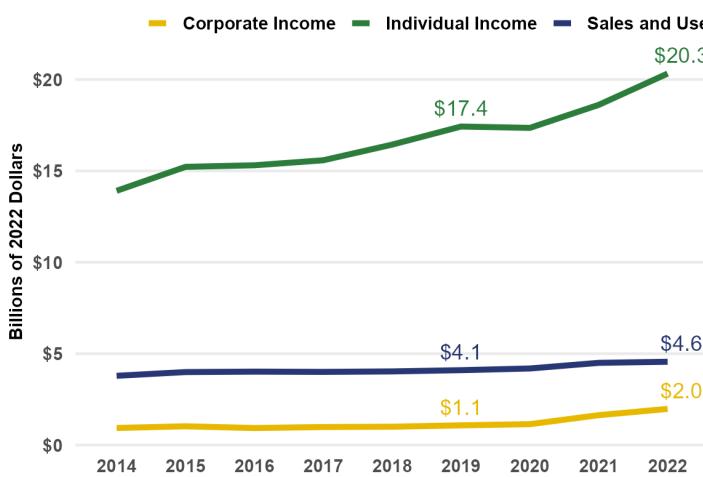
Virginia closed out another fiscal year flush with cash. In FY 2023, ending June 30th, the Commonwealth finished the year with \$5.1 billion more in revenues than originally forecasted in early 2022, marking the third straight fiscal year of record revenue surpluses in excess of \$1 billion. The pandemic-induced recession has not been the fiscal crisis some initially expected. Despite the economic downturn, state and local budgets have remained resilient, with many experiencing a surge in revenue collections.

Inflation adjusted, Virginia's general fund revenues, rose 18.6% from 2019 to 2022, compared to a 18.7% increase from 2009 to 2018. Hampton Roads localities saw total revenue collections grow by 4.7% from 2019 to 2022, while maintenance and operations expenditures increased 0.9% over the same period.

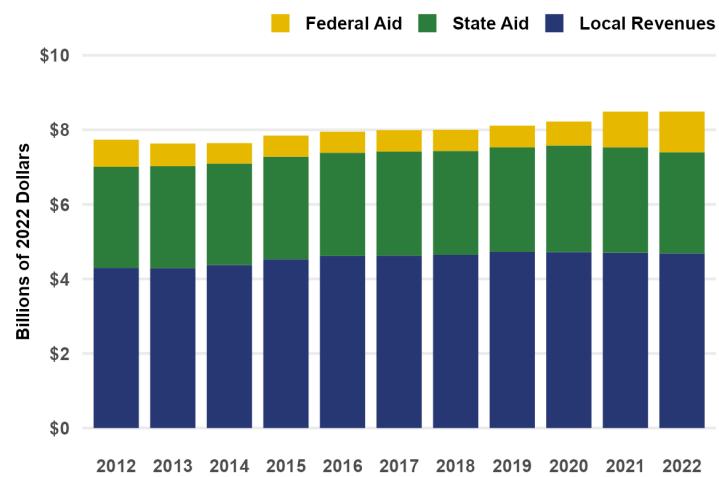
In contrast to previous recessions that tend to be felt across economic sectors, pandemic-induced job losses were more concentrated in the service sector and among lower-wage workers. Higher-wage earners and large employers, a significant portion of the state's income tax base, fared better. Sales taxes on services declined, but some lost spending shifted to durable goods while federal stimulus payments to households and loans to businesses boosted income and sales tax revenues. Graph 1 shows the state's three largest tax revenue sources, comprising 96% of general fund revenues. Adjusted for inflation, income tax revenues in 2020 dipped by 0.4% from the previous year but surged in the following two years, increasing by 7.2% and 9.2%, respectively. Sales and use tax revenues increased 11.2% from 2019 to 2022 while corporate tax revenues nearly doubled from \$1.1 billion to \$2.0 billion.

Virginia local governments are largely reliant on property tax revenues, a more stable source of revenue compared to the state. The federal relief packages also included billions in aid to state and localities, which further boosted revenues. As illustrated in Graph 2, in Hampton Roads real local revenues remained relatively flat, declining 0.9% from 2019 to 2022 while state aid decreased 3.2%. Federal aid, however, rose 88.2%, more than offsetting the loss in state and local revenues.

Graph 1: Real General Fund Tax Revenues by Major Source, Virginia



Graph 2: Real Total Revenues by Major Source, Hampton Roads



Data source: Virginia Tax Annual Report 2022, Virginia APA Local Government Comparative Reports, Bureau of Labor Statistics Consumer Price Index - All Urban Consumers

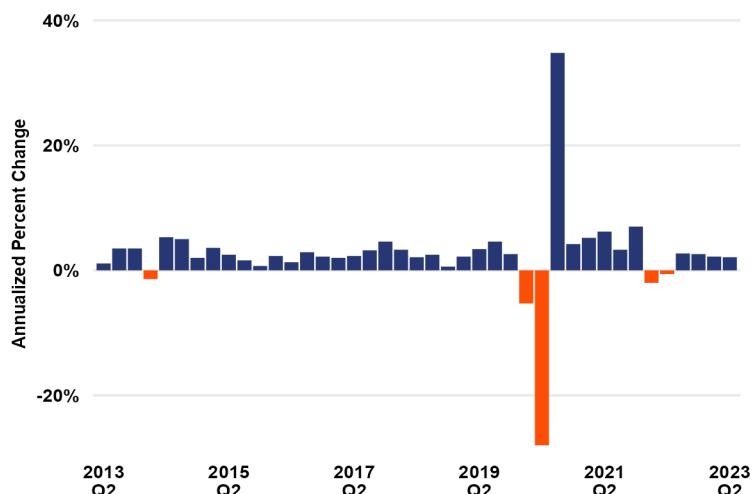
Forecasting revenues over the last few years has been a practice fraught with uncertainty. Instead of revenue shortfalls, the unexpected resilience in tax revenues combined with unprecedented levels of federal aid has left many state and local governments with a surplus of cash.

Many have used the extra cash to issue tax cuts, such as those passed in Virginia's latest budget, and to shore up rainy day funds to protect against the next downturn. In FY 2023, Virginia's reserve balances as a percent of general fund revenues are more than double the previous peak observed during the Great Recession. This is welcome news as the party may soon come to an end. As federal aid wanes and economic uncertainty looms, budgetary pressures may increase in the coming years. For now, though, let's enjoy the positive fiscal conditions while we can.

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

	Q2 2022	Q2 2023	Trend
United States	-0.6%	2.1%	▲

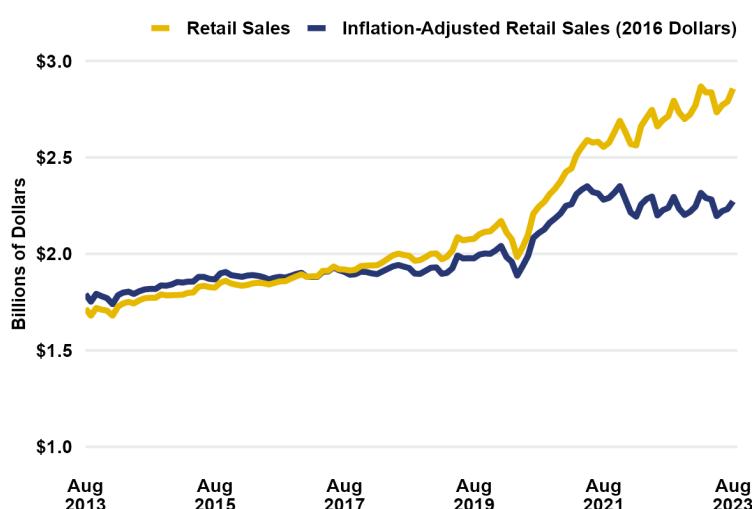
GDP: Gross Domestic Product combines consumption, investment, net exports, and government spending to determine the size and general health of the economy. Adjusted for inflation, GDP increased 2.1% in Q2 2023, the fourth straight quarter of increases after two quarters of declines in early 2022. Personal consumption accounted for 1.4 percentage points of the 2.1% increase in Q2. Investment and Government spending contributed 0.57 and 0.58 percentage points respectively. Net exports accounted for a 0.2 percentage point decline in GDP.



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

	June '23	Jul '23	Trend
Hampton Roads	\$2.77B	\$2.79B	▲
Virginia	\$14.91B	\$15.04B	▲

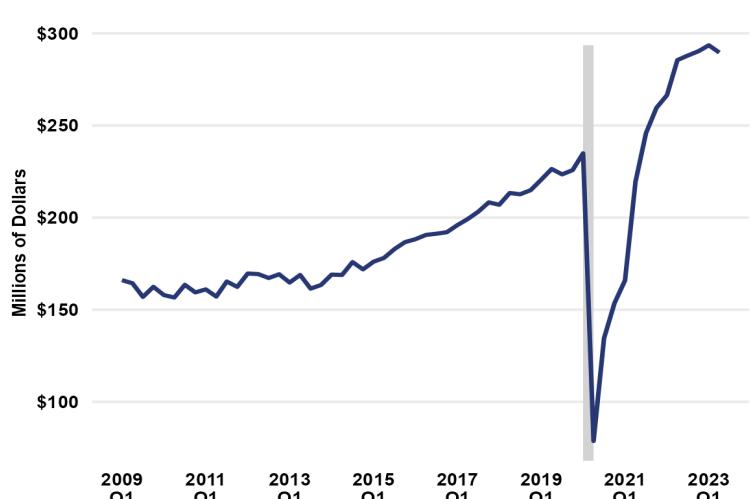
Retail Sales: Retail sales in Hampton Roads, as measured by the 1% local option sales tax, serve as an indicator for consumption in the region. When seasonally adjusted and averaged over three months, July shows increased sales. Unadjusted, July 2023 shows a 1.1% increase from the previous month, and a 0.7% increase from the previous year. The recent surge in inflation has contributed to the nominal growth in retail sales. Adjusted for inflation, the growth in retail sales has slowed since late 2021.



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

	Q2 2022	Q2 2023	Trend
Hampton Roads	\$286M	\$290M	▲
Virginia	\$1.0B	\$1.1B	▲

Estimated Hotel Revenue: Hotel sales indicate the performance of the region's tourism sector. When seasonally adjusted, Q2 2023 hotel revenues increased 1.4% from the previous year. Hotel revenues declined 1.4% from the previous month, the first month-over-month decline in more than a year. Despite early signs of a cooling, hotel revenues remain 27.9% above pre-pandemic levels observed in Q2 2019.



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

HISTORICAL TREND, SEASONALLY ADJUSTED



3-YEAR, NOT SEASONALLY ADJUSTED



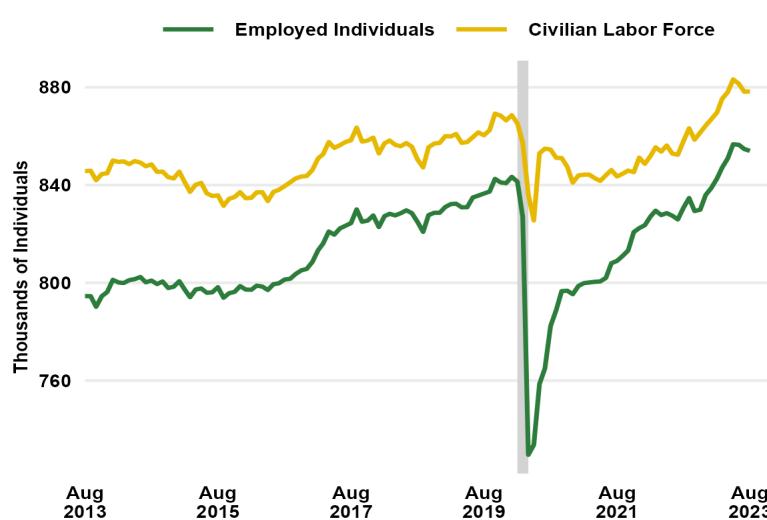
(seasonally adjusted)	Aug 2022	July 2023	Aug 2023	YoY % Change	MoM Trend
Hampton Roads	791,600	794,200	791,300	-0.04%	▼
Virginia	4,091,100	4,150,100	4,156,800	1.61%	▲
United States	153,332,000	156,311,000	156,538,000	2.09%	▲

Employment: A leading indicator of labor market activity, the Bureau of Labor Statistics's payroll survey of businesses and government establishments measures the number of nonfarm civilian jobs. Seasonally adjusted, the number of jobs in August decreased 0.4% from the previous month. July marked the third straight month of negative job growth, and the first year-over-decline in more than a year. Both the nation and the state added jobs in August, but have also experienced a slowdown in growth since May. Both the U.S. and Virginia have recovered all the jobs lost during the pandemic. On a seasonally adjusted basis, jobs in Hampton Roads remained 1.7% below the pre-pandemic peak observed in February 2020. Unadjusted, jobs in August 2023 remained 0.6% below levels observed in August 2019.

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

	Labor Force	Emp	Unemp	LF Trend
July 2023	878,176	854,723	24,119	
Aug 2023	878,284	853,987	27,002	▲

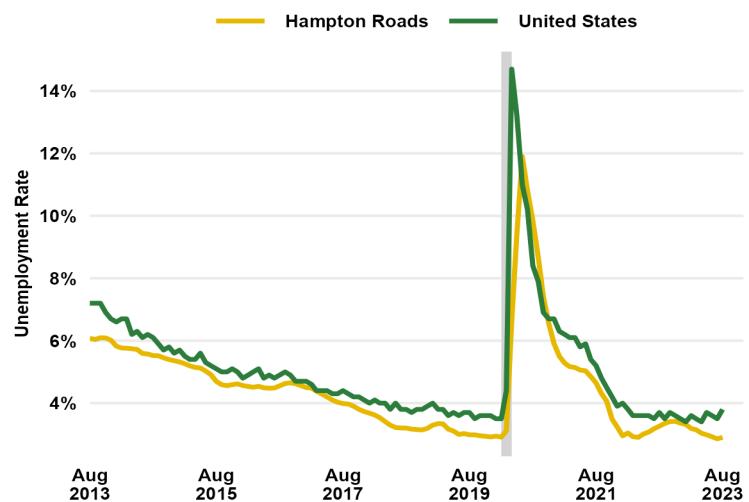
Labor Force: The Bureau of Labor Statistics's household survey measures the employment status of the civilian population 16 years and older. An area's labor force is comprised of the number of people working (employed) and those actively seeking work (unemployed). Seasonally adjusted, the Hampton Roads labor force increased 0.01% in August from the previous month, a reversal from the previous two months of negative labor force growth. As of August 2023, the region's labor force is 1.2% above its' pre-pandemic peak observed in February 2020.



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

	Aug '22	Jul '23	Aug '23	Trend
Hampton Roads	3.3%	2.9%	2.9%	▼
Virginia	2.8%	2.5%	2.5%	▼
United States	3.7%	3.5%	3.8%	▲

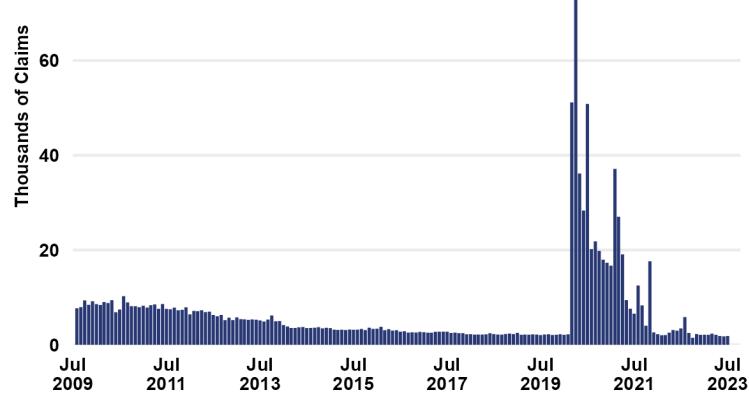
Unemployment Rate: The unemployment rate reflects the percentage of the labor force actively seeking work but unable to obtain a position. In August 2023, the Hampton Roads unemployment rate was unchanged from the previous month at 2.9%. The unemployment rate continues to fall to historically low rates not seen since 2000, showing continued signs of a tight labor market.



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

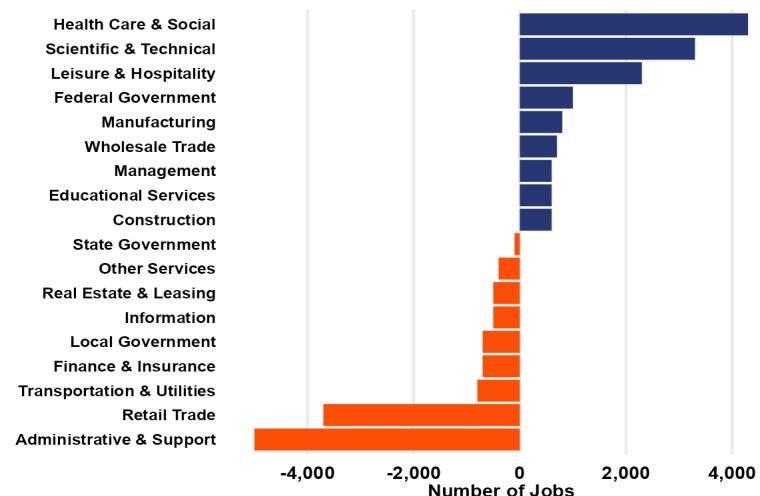
	Jun '23	Jul '23	Trend
Hampton Roads	1,782	1,860	▲
Virginia	8,676	9,027	▲

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 2023, the number of initial claims filed for unemployment increased from the previous month. While these estimates could indicate a possible rise in unemployment, another month of data will provide a clearer picture.



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

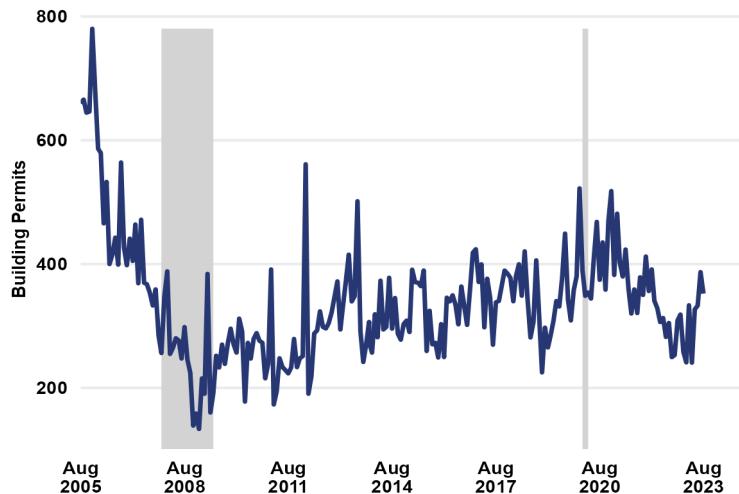
Employment Growth by Industry: As the job market grows or contracts, there will be some industries whose experience does not resemble the regional trend. In August, approximately half of industries experienced an increase in payroll employment compared to August 2022. The largest gains were in Healthcare and Social Assistance, which added 4,300 jobs when compared to August 2022. Scientific & Technical (+3,330) and Leisure and Hospitality (+2,300) recorded the second and third largest gains. The Administrative & Support industry is down 5,000 jobs year over year, followed by Retail Trade (-3,700) and Transportation and Utilities (-800).



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

	Aug '22	Jul '23	Aug '23	Trend
Hampton Roads	305	387	352	▲

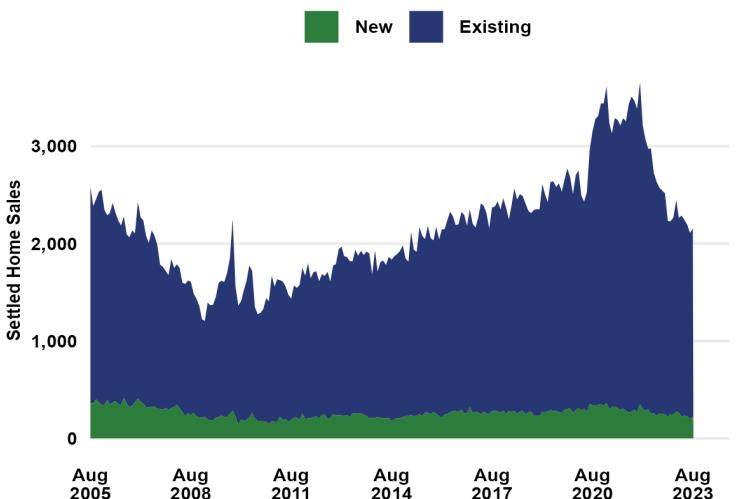
Single Family Housing Permits: Permit data signals the level of construction employment and confidence regarding the future trajectory of the local economy. When seasonally adjusted, there were 352 new construction permits issued for single family homes in August 2023, a 9.0% decrease from the previous month. In the first half of 2023, permits steadily increased, but remain below the pre-pandemic levels. However, persistently high mortgage rates could pose ongoing challenges to this indicator in the future.



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

	Aug '22	Jul '23	Aug '23	Trend
Hampton Roads	2,575	2,110	2,154	▲

Home Sales: Settled home sales measure the level of transactions in the real estate market over time, and a healthy real estate market should have a consistent level of activity. Seasonally adjusted, total settled home sales totaled 2,154 in August, an increase of 2.1% from the previous month. New home sales, representing 10.3% of total sales, rose 11.1% from July. The sale of existing homes, the remaining 89.7% of total home sales, rose 1.9% month-over-month. Compared to the same month last year, total sales in August had decreased 16.3%.



30-YEAR FIXED RATE MORTGAGE AVERAGE (M) SOURCE: FREDDIE MAC, HRPDC

	Sep '22	Aug '23	Sep '23	Trend
United States	6.1%	7.1%	7.2%	▲

30-Year Mortgage Rate: The 30-year fixed-rate mortgage represents the average interest rate paid by borrowers on newly issued mortgage loans, and these rates typically fluctuate in tandem with interest rate cycles. Shifts in the cost of borrowing for housing have a substantial influence on housing market trends. After hitting a record low of 2.9% in August 2021, the average mortgage rate has surged by over 4 percentage points since then. These historically high rates are largely attributed to the Federal Reserve's efforts to combat inflation by raising interest rates.

