

2024 ECONOMIC OUTLOOK

2023 defied the gloomy economic forecasts, showcasing the US economy's resilience by not just avoiding a recession but surpassing the prior year's rate of growth. Despite ongoing inflation and higher interest rates, inflation-adjusted GDP rose 2.5% in 2023 compared to 1.9% the prior year, largely fueled by robust consumer spending. Consumer prices cooled dramatically in 2023. Inflation fell from a high of 9% in June 2022 to 3.3% by December 2023. Accounting for more than 30% of the goods and services used to measure inflation, elevated housing prices continue to drive inflation. Figure 1 presents the year-over-year change in inflation for all items and core inflation, excluding food and energy. While headline inflation has fallen near 3%, core inflation remains near 4%. The Fed's efforts to curb inflation by raising interest rates have yet to result in higher unemployment as most economists expected. The U.S. added 3.5 million jobs in 2023; a level of growth not seen in the two decades prior to the pandemic. There are, however, signs this historically tight labor market has begun to loosen. Job openings have come down considerably from their peak and the unemployment rate ticked up slightly in the latter half of 2023 to 3.7% as of January 2024.

In Hampton Roads, 2023 marked a full recovery of the civilian labor force and individual employment while the unemployment rate remained near historical lows at 3.3% as of November 2023, unchanged from the same month in 2022. Hampton Roads added 8,100 civilian jobs in 2023, above the 5,100 jobs added in 2019. However, the region has yet to recover all the jobs lost during the pandemic. As illustrated in Figure 2, from February 2020 to December 2023, jobs in Virginia and the nation increased 1.7% and 3.3% respectively while jobs in the region remain 0.5% below pre-pandemic levels observed in February 2020.

The leisure and hospitality sector outperformed both the state and the nation as the region's reliance on drive-in leisure travelers has helped to boost hotel revenues while some markets more reliant on business travelers have yet to see a full recovery. Total TEUs through the port dipped slightly from the previous year but remain well above pre-pandemic levels. The upcoming completion of the channel dredging and widening project is poised to strengthen the port's position amidst any potential slowdown or shocks to trade volumes in 2024.

Figure 1: U.S. Monthly Inflation
Jan 2011 - Dec 2023

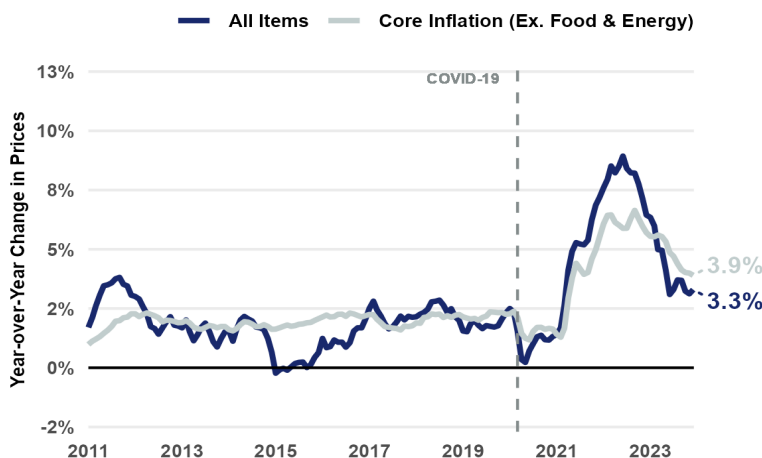
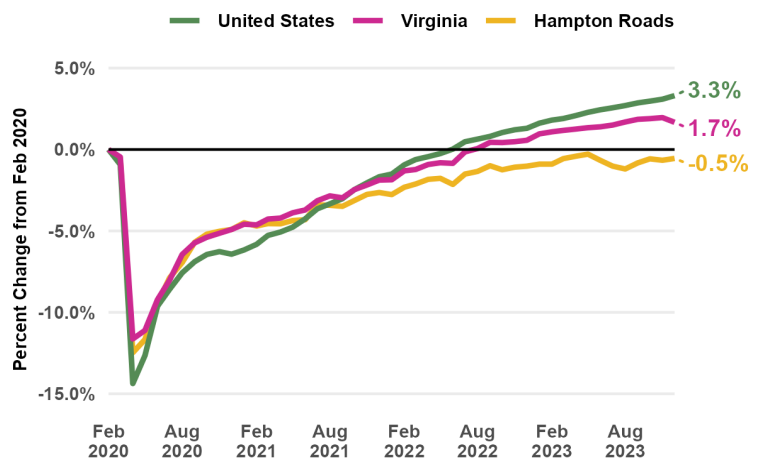


Figure 2: Civilian Job Growth
Percent Change from Feb 2020



Data source: Bureau of Labor Statistics Consumer Price Index for All Urban Consumers (CPI) and Non-farm payroll employment. Both figures reflect seasonally adjusted.

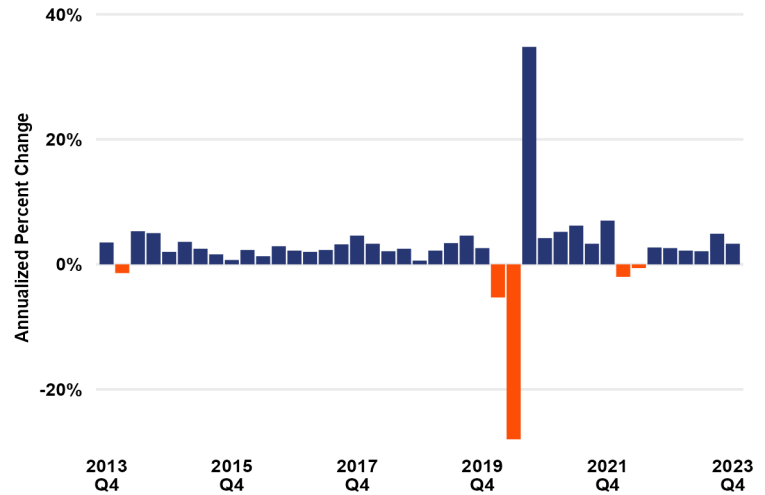
Defense spending in Hampton Roads increased in 2023. While defense spending authorized for 2024 indicates an increase from the previous year, a timeline for appropriations remains in question. Delays in the federal budget process and the persistent threats of a government shutdown will continue to create uncertainty in the economic outlook for Hampton Roads.

The outlook for 2024 points to slower economic growth for both the U.S. and Hampton Roads as consumers draw down excess savings, pandemic-era support comes to an end, and rate hikes come into full force. A slowdown from the prior year, however, does not mean a recession. Nevertheless, the outlook is fraught with uncertainties, such as how quickly inflation will align with the Federal Reserve's 2% target, uncertainty in Washington, and the impact of ongoing geopolitical conflicts. The potential for the economy to remain resilient in 2024, however, remains strong.

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

	Q4 2022	Q4 2023	Trend
United States	2.6%	3.3%	▲

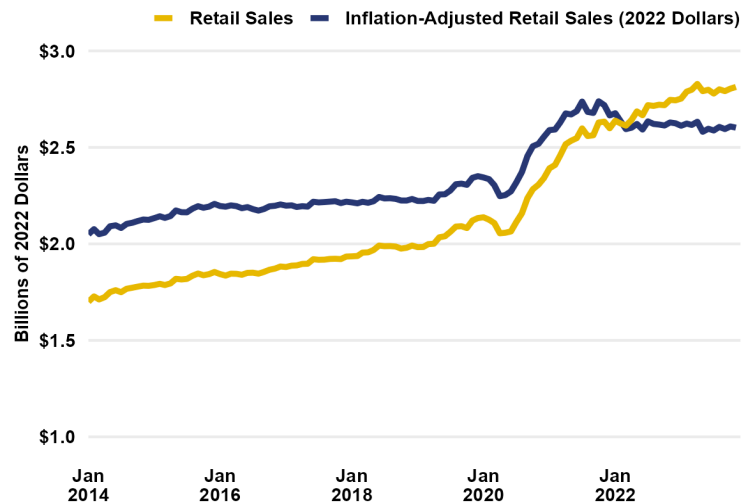
GDP: Gross Domestic Product combines consumption, investment, net exports, and government spending to determine the size and general health of the economy. Adjusted for inflation, GDP rose 3.3% in Q4 2023, a decline from the previous quarter and the second highest rate of growth since 2021. Personal consumption accounted for 1.9 percentage points of the 3.3% increase in Q3, followed by Government spending (0.56), Net Exports (0.43) and Gross Private Domestic Investment (0.38). Inflation adjusted GDP rose 2.5% in 2023, exceeding the previous year's rate of growth of 1.9%.



RETAIL SALES, SEASONALLY ADJUSTED (5 MONTH M.A) SOURCE: VIRGINIA DEPARTMENT OF TAXATION, HRPDC

	Oct '23	Nov '23	Trend
Hampton Roads	\$2.71B	\$2.89B	▲
Virginia	\$14.83B	\$15.38B	▲

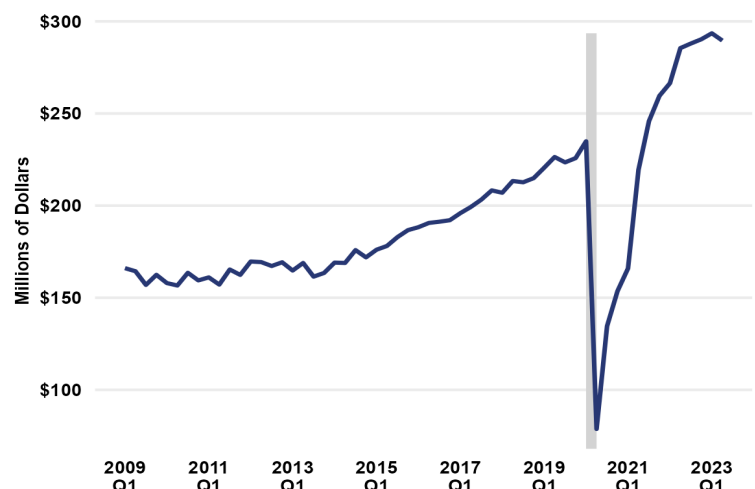
Retail Sales: Retail sales in Hampton Roads, as measured by the 1% local option sales tax, serve as an indicator for consumption in the region. When seasonally adjusted, November retail sales rose 6.7% from the previous month. Unadjusted, sales in November 2023 were up 8.8% year over year. While inflation has contributed to surge in nominal retail sales over the last two years, inflation-adjusted retail sales in November were 18.9% higher than levels observed in February 2020.



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

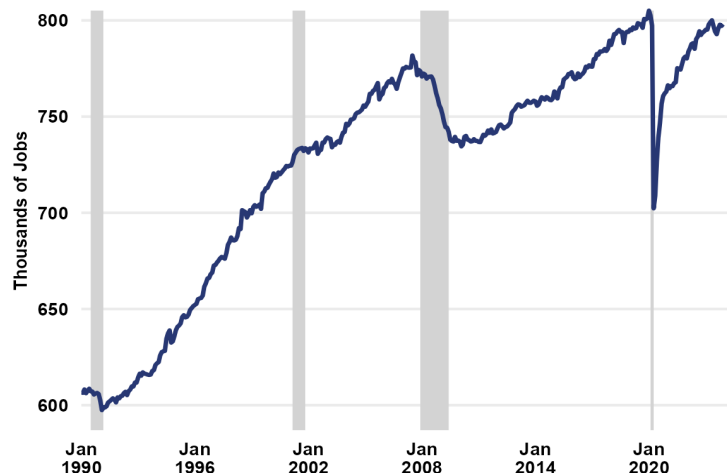
	Q2 2022	Q2 2023	Trend
Hampton Roads	\$286M	\$290M	▲
Virginia	\$1.0B	\$1.1B	▲

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, hotels revenues remain 27.9% above pre-pandemic levels observed in Q2 2019.

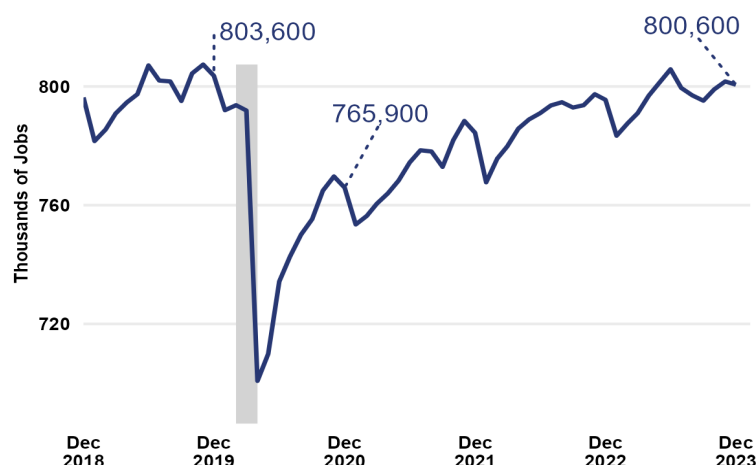


CIVILIAN PAYROLL EMPLOYMENT (M) SOURCE: BUREAU OF LABOR STATISTICS, HRPDC

HISTORICAL TREND, SEASONALLY ADJUSTED



3-YEAR, NOT SEASONALLY ADJUSTED



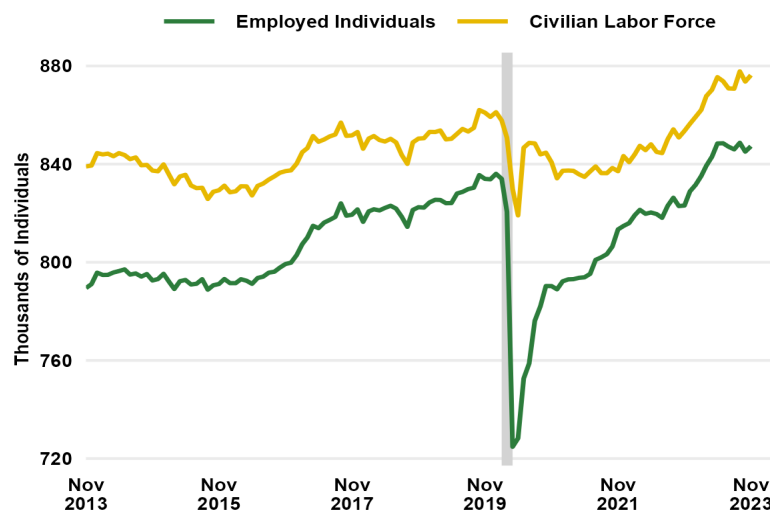
(seasonally adjusted)	Dec 2022	Nov 2023	Dec 2023	YoY % Change	MoM Trend
Hampton Roads	794,200	797,100	798,000	0.5%	▲
Virginia	4,111,900	4,168,800	4,157,000	1.1%	▼
United States	154,291,000	157,014,000	157,347,000	1.9%	▲

Employment: A leading indicator of labor market activity, the Bureau of Labor Statistics' payroll survey of businesses and government establishments measures the number of nonfarm civilian jobs. Seasonally adjusted, the number of jobs in December rose 0.1% from the previous month. Unadjusted, civilian jobs in December 2023 were up 0.6% year over year. In December both the Hampton Roads region and the nation added jobs month over month. In the Commonwealth, civilian jobs declined 0.3% from the previous month. Despite these fluctuations, on a seasonally adjusted basis, both the nation and the Commonwealth have recovered all the jobs lost during the pandemic. Civilian jobs in Hampton Roads, however, remain 0.5% below the pre-pandemic peak observed in February 2020.

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

	Labor Force	Emp	Unemp	LF Trend
Oct 2023	873,639	845,085	29,692	
Nov 2023	876,256	847,281	28,859	▲

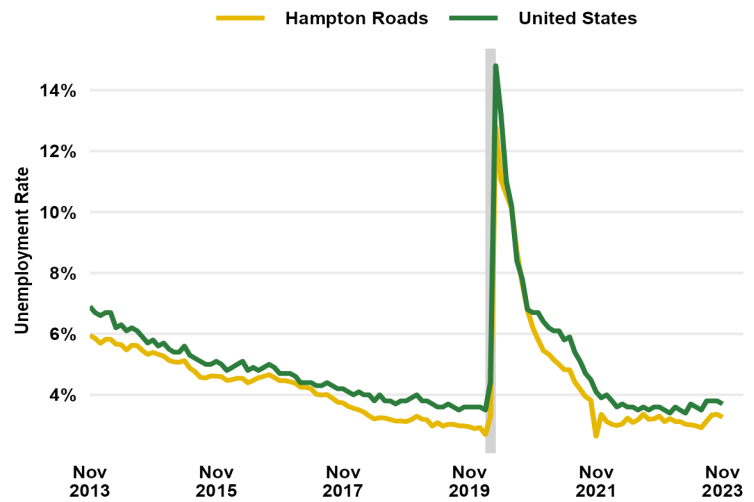
Labor Force: The Bureau of Labor Statistic's household survey measures the employment status of the civilian population 16 years and older. An area's labor force is comprised of the number of people working (employed) and those actively seeking work (unemployed). Seasonally adjusted, the Hampton Roads labor force in November 2023 increased 0.3% from the previous month. Monthly labor force growth has slowed in the second half of 2023, an early sign labor market activity may be beginning to cool.



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

	Nov '22	Oct '23	Nov '23	Trend
Hampton Roads	3.3%	3.4%	3.3%	▼
Virginia	3.2%	2.7%	2.9%	▲
United States	3.6%	3.8%	3.7%	▲

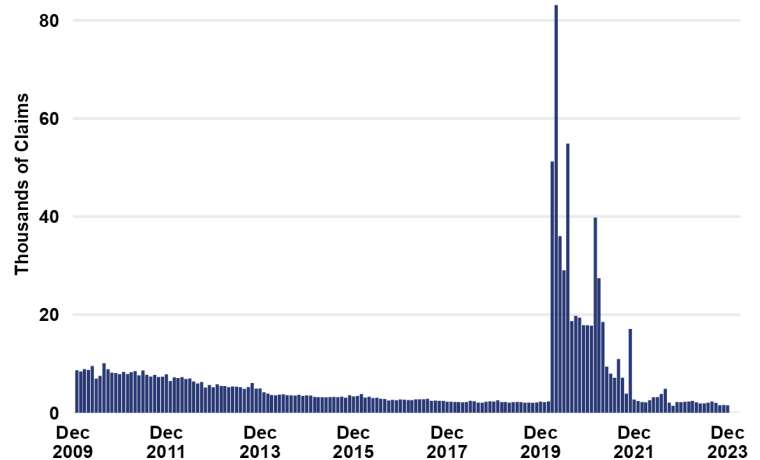
Unemployment Rate: The unemployment rate reflects the percentage of the labor force actively seeking work but unable to obtain a position. In November 2023, the Hampton Roads unemployment rate fell to 3.3%, a 0.1 percentage point decline from the previous month. The region's unemployment rate remains at historical lows, and only slightly above the 2.9% observed in February 2020.



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

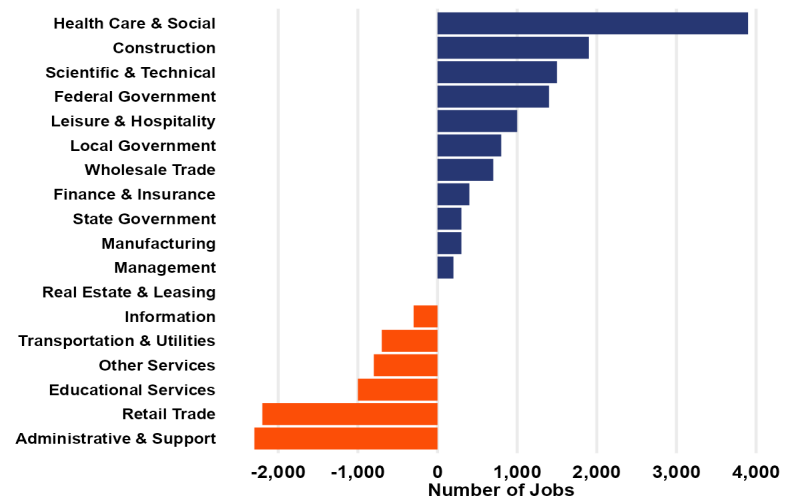
	Nov '23	Dec '23	Trend
Hampton Roads	1,590	1,536	▼
Virginia	7,769	7,774	▲

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 December 2023, the number of initial claims filed for unemployment decreased from the previous month. Claims filed in December were 33.7% below the level of claims filed in February 2020, a signal the region's labor market remains tight.



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

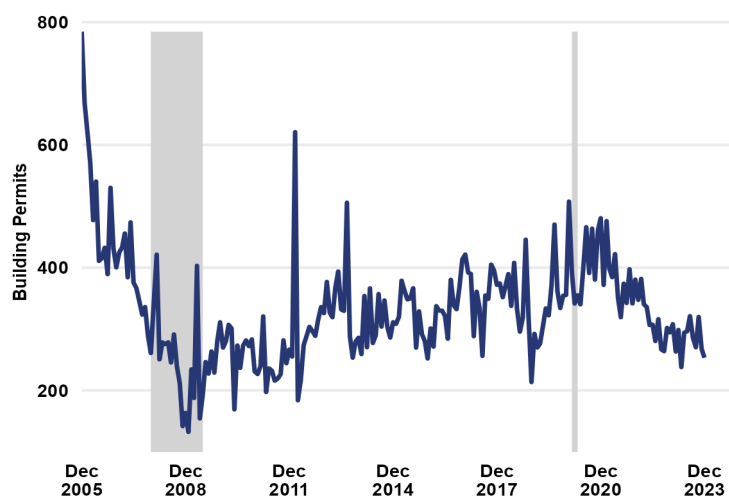
Civilian Job Growth by Industry: As the job market grows or contracts, there will be some industries whose experience does not resemble the regional trend. In December, more than half of the major industries experienced an increase in payroll employment (jobs) compared to December 2022. The largest gains were in Healthcare and Social Assistance, which added 3,900 jobs when compared to December 2022. Construction (+1,900) and Scientific & Technical (+1,500) recorded the second and third largest gains. The Administrative & Support industry was down 2,300 jobs year over year, followed by Retail Trade (-2,200) and the Education Services (-1,000) sectors.



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

	Dec '22	Nov '23	Dec '23	Trend
Hampton Roads	294	268	253	▲

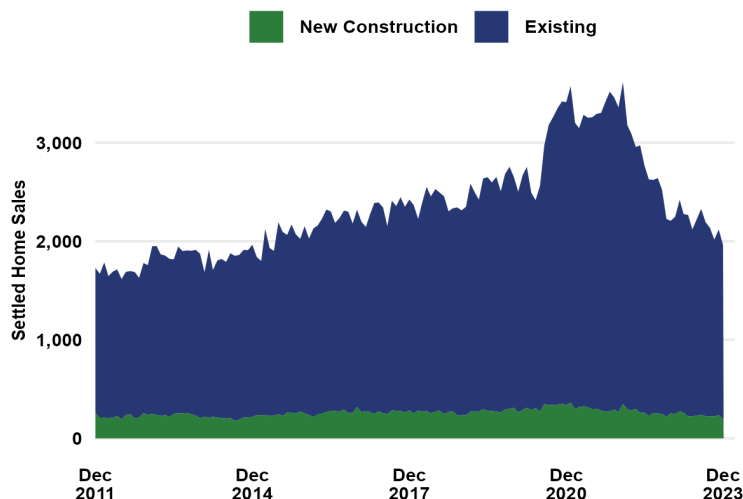
Single Family Housing Permits: Permit data signals the level of construction employment and confidence regarding the future trajectory of the local economy. When seasonally adjusted, there were 253 new construction permits issued for single family homes in December 2023, a 5.4% decrease from the previous month. The number of permits issued in 2023 were down 8.7% year over year and remain 15.6% below the number of permits issued in 2019. A higher interest rate environment will continue to pose challenges to this indicator in the short term.



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

	Dec '22	Nov '23	Dec '23	Trend
Hampton Roads	2,203	2,113	1,950	▼

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 fell to 1,950 in December, a decrease of 7.7% from the previous month. New home sales, representing 10.2% of total sales, fell 15.4% from November. The sale of existing homes, the remaining 89.8% of total home sales, fell 6.4% month-over-month. Compared to the same month last year, total sales in December had decreased 14.6%.



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

	Jan '23	Dec '23	Jan '24	Trend
United States	6.3%	6.8%	6.6%	▲

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. The mortgage rate has declined from the peak in the Summer of 2023 as December marks the third straight month of declines in the mortgage rate. Until the Fed institutes rate cuts, we should expect the mortgage rate to remain at historical highs.

