

CHECKING IN ON INFLATION

The final stretch in the fight against inflation is proving unexpectedly tough. Consumer prices rose again in March, raising concerns that the Federal Reserve may revise its plans for cutting interest rates this year. The Bureau of Labor Statistics' Consumer Price Index (CPI) measures changes in prices paid by consumers for a variety of goods and services. In March, the CPI increased by 3.5% from the previous year and by 0.4% from the prior month on a seasonally adjusted basis. Core Inflation, which excludes the more volatile food and energy prices, rose by 0.4% from February and 3.8% from March 2022.

As illustrated in Figure 1, inflation has declined significantly from a high of nearly 9% in the summer of 2022, but progress towards the Federal Reserve's long-term target of 2% appears to have stalled in recent months. In March, over half of the increase in inflation was due to rising costs in energy and housing. Energy prices rose 1.1% from the previous month and were up 2.1% from a year earlier. Housing costs increased by 0.4% from February and 5.7% from the previous year. Prior to the pandemic, housing costs increased by about 3.2% year over year. As the largest monthly expense for most households, shelter accounts for more than a third of the CPI measure. The final mile in curbing inflation will require greater disinflation in housing costs.

While we are unable to obtain inflation data for the Hampton Roads region, we can examine the relative price level in the region compared to other areas. The Cost of Living Index from the Council for Community and Economic Research (C2ER) measures the relative price level of consumer goods and services across more than 270 metro areas and divisions. Prices for a variety of goods and services are weighted and aggregated into six major spending categories, which are then combined to provide an overall cost of living index for each area. According to C2ER's 2023 estimates, the cost of living in Hampton Roads was just 0.2% above the national average.

Figure 1: U.S. Consumer Price Index, Year Over Year Change

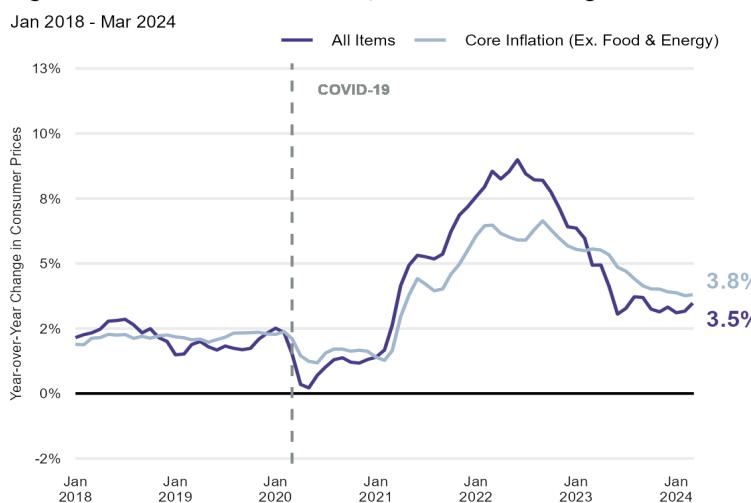


Figure 2: Cost of Living Index



Data source: Bureau of Labor Statistics and C2ER Cost of Living Index (COLI). Metro areas with a population between 1.5 and 2.5 million

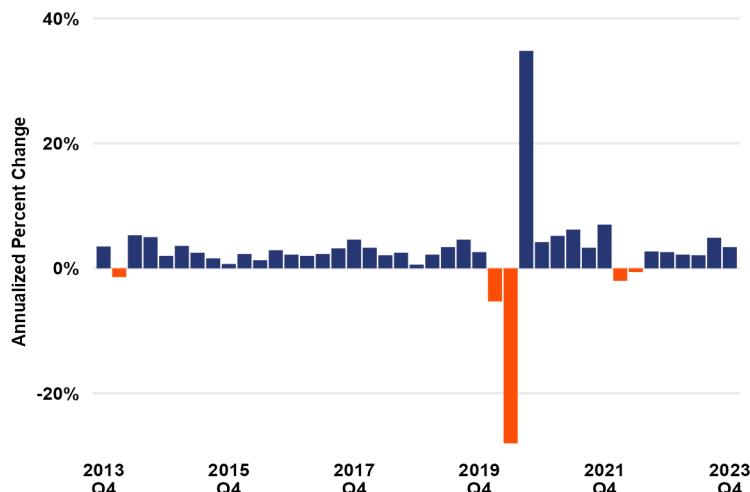
Within the major spending categories, housing costs in the region were 6.9% less expensive than the national average. Healthcare costs were 5.1% lower, and transportation costs were 3.8% lower. The overall index slightly exceeded the national average due to more expensive utility costs (+9.3%), groceries (+0.3%), and miscellaneous goods and services (+5.9%).

Figure 2 compares the cost of living for similar-sized metro areas with 1.5 to 2.5 million residents. The significant impact of housing prices on an area's overall index score is immediately apparent. In San Jose, for example, the overall cost of living was 74.4% more expensive than the average metro area, primarily driven by housing costs that were 223.3% higher than the national average.

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

	Q4 2022	Q4 2023	Trend
United States	2.6%	3.4%	▲

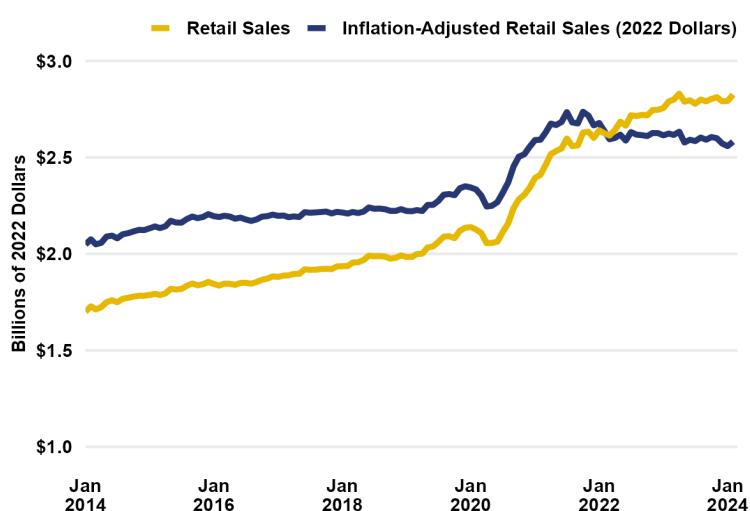
GDP: Gross Domestic Product combines consumption, investment, net exports, and government spending to determine the size and general health of the economy. Adjusted for inflation, GDP rose 3.2% in Q4 2023, a decline from the previous quarter and the second highest rate of growth since 2021. Personal consumption accounted for 2.0 percentage points of the 3.2% increase in Q4, followed by Government spending (0.73), Net Exports (0.32) and Gross Private Domestic Investment (0.17). 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

	Jan '24	Feb '24	Trend
Hampton Roads	\$2.86B	\$2.92B	▲
Virginia	\$14.95B	\$15.88B	▲

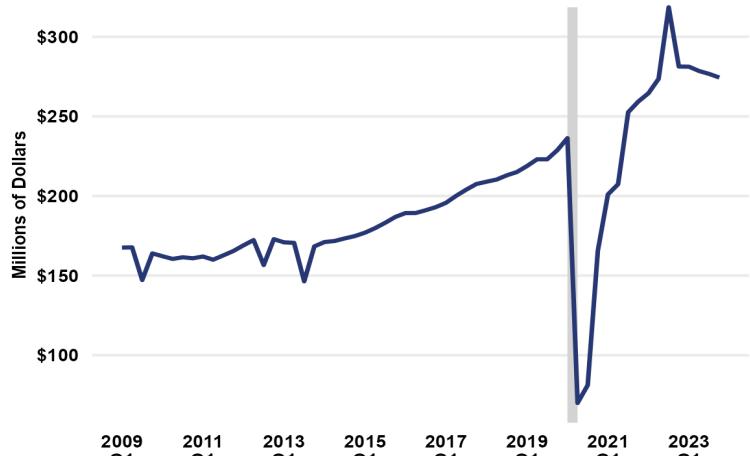
Retail Sales: Retail sales in Hampton Roads, as measured by the 1% local option sales tax, serve as an indicator for consumption in the region. When seasonally adjusted, retail sales in February rose 2.4% from the previous month. Unadjusted, sales in February 2024 were up 3.1% year over year. Inflation has contributed to surge in nominal retail sales over the last two years, inflation-adjusted retail sales in February were down 0.1% year over year.



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

	Q4 2022	Q4 2023	Trend
Hampton Roads	\$281M	\$274M	▼
Virginia	\$1.1B	\$1.1B	▲

Estimated Hotel Revenue: Hotel sales indicate the performance of the region's tourism sector. When seasonally adjusted, hotel revenues in Q4 2023 decreased 2.4% from the previous year. Hotel revenues declined 0.8% from the previous month, the a year of steady month-over-month declines. Hotel revenues have steadily declined over the last year, but remain highly elevated from pre-pandemic levels.



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

HISTORICAL TREND, SEASONALLY ADJUSTED

3-YEAR, NOT SEASONALLY ADJUSTED



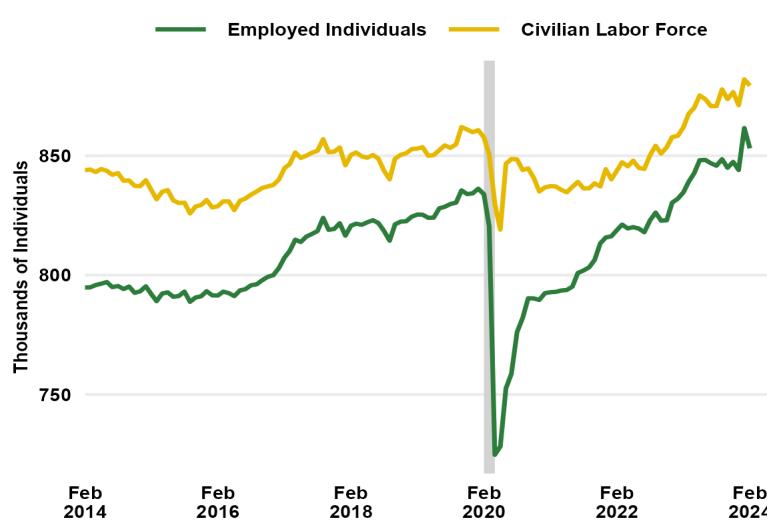
(seasonally adjusted)	Feb 2023	Jan 2024	Feb 2024	YoY % Change	MoM Trend
Hampton Roads	803,200	816,100	818,200	1.9%	▲
Virginia	4,151,600	4,191,300	4,209,900	1.3%	▲
United States	155,060,000	157,560,000	157,830,000	1.7%	▲

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 civilian jobs in February rose 0.2% from the previous month in the region. Unadjusted, civilian jobs were up 1.9% year over year. Jobs growth for the nation, Virginia, and Hampton Roads remains strong, accelerating in February from the prior month. With the release of February's jobs report, the BLS also made significant revisions to previous estimates. In the prior data, the US and Virginia recovered all the jobs lost from the pandemic by the middle of 2022 while Hampton Roads didn't reach a full recovery until January 2024. The new estimates indicate a full recovery in the region by January 2023.

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

	Labor Force	Emp	Unemp	LF Trend
Jan 2024	882,003	861,610	23,894	▼
Feb 2024	879,373	853,117	25,780	

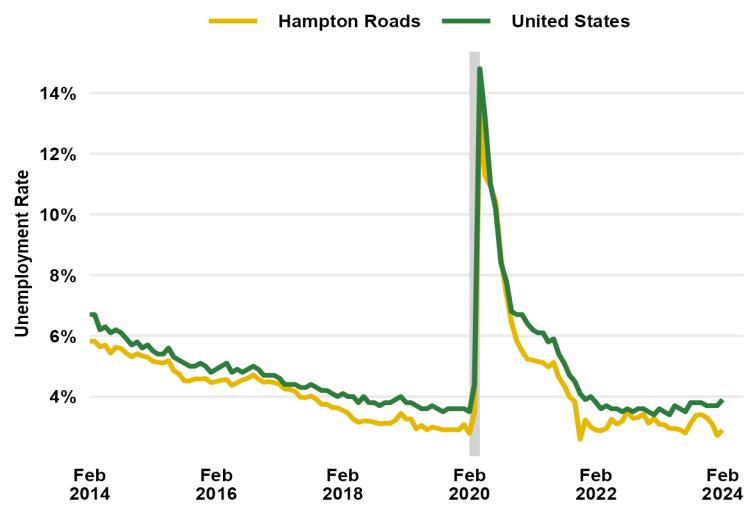
Labor Force: The Bureau of Labor Statistics' household survey measures the employment status of the civilian population 16 years and older. An area's labor force is comprised of the number of people working (employed) and those actively seeking work (unemployed). Labor market activity has slightly cooled since the second half of 2023. The HRPDC's civilian labor force in February fell 0.3% from the prior month. Year over year, the region's labor force increased 2.0%.



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

	Feb '23	Jan '24	Feb '24	Trend
Hampton Roads	3.1%	2.7%	2.9%	▲
Virginia	3.0%	3.0%	3.0%	-
United States	3.6%	3.7%	3.9%	▲

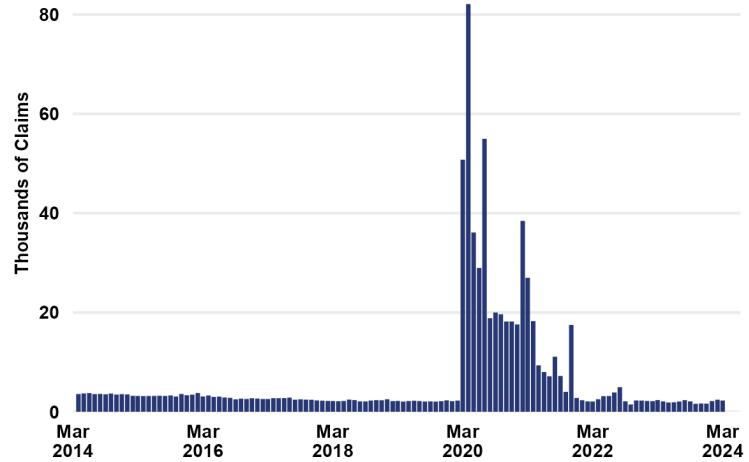
Unemployment Rate: The unemployment rate reflects the percentage of the labor force unemployed and actively seeking work. Hampton Roads' unemployment rate in February rose 0.2 percentage points from the prior month. Despite the recent increase, February's unemployment rate is equal the rate observed prior to the pandemic in February 2020.



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

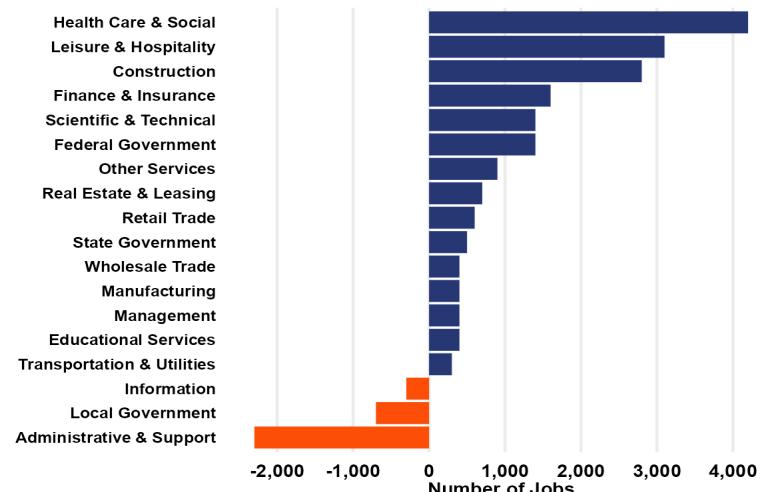
	Feb '24	Mar '24	Trend
Hampton Roads	2,443	2,272	▼
Virginia	10,068	9,954	▼

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. The number of initial claims for unemployment benefits filed in March in the region declined 7.0% from the previous month. After two straight months of rising claims, the latest decline in March is a positive turn around.



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

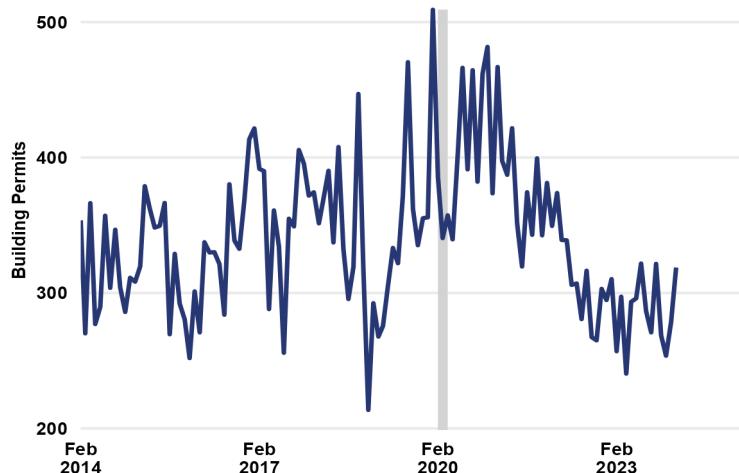
Civilian Job Growth by Industry: As the job market grows or contracts, there will be some industries whose experience does not resemble the regional trend. Most of the region's industry sectors added jobs in February when compared to the prior year. The largest gains were in Healthcare and Social Assistance, which added 4,200 jobs year over year. Leisure and Hospitality (+3,100) and Construction (+2,800) recorded the second and third largest gains. The Administrative & Support industry was down 2,300 jobs year over year, followed by Local Government (-700) and the Information Services (-300) sectors.



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

	Feb '23	Jan '24	Feb '24	Trend
Hampton Roads	257	278	319	▲

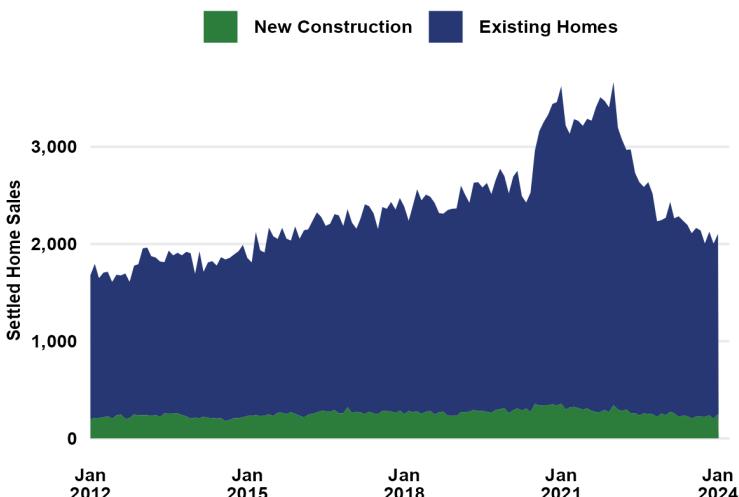
Single Family Housing Permits: Permit data signals the level of construction employment and confidence regarding the future trajectory of the local economy. When seasonally adjusted, there were 257 new construction permits issued for single family homes in February 2024, a 14.5% increase from the previous 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 in the short term.



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

	Jan '23	Dec '23	Jan '24	Trend
Hampton Roads	2,292	1,986	2,133	▲

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 rose to 2,133 in January, an increase of 7.4% from the previous month. New home sales, representing 10.2% of total sales, rose 23.9% from December. The sale of existing homes, the remaining 89.8% of total home sales, rose 2.9% month-over-month. Compared to the same month last year, total sales in January were down 3.1%.



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

	Mar '23	Feb '24	Mar '24	Trend
United States	6.5%	6.7%	6.8%	▲

30-Year Mortgage Rate: Shifts in the cost of borrowing for housing have a substantial impact on housing market trends. 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. The mortgage rate has declined from the peak in the Summer of 2023, but the downward trend has not been consistent as rising inflation continues to threaten the Federal Reserve's plans for cutting interest rates this year.

