

2025 ECONOMIC OUTLOOK

The U.S. economy has shown remarkable resilience over the past few years, and 2024 was no exception. Despite stubborn inflation and elevated interest rates, inflation-adjusted GDP rose 2.8% in 2024, slightly below the prior year (2.9%) but above the 2.4% average growth rate seen in the decade before the pandemic.

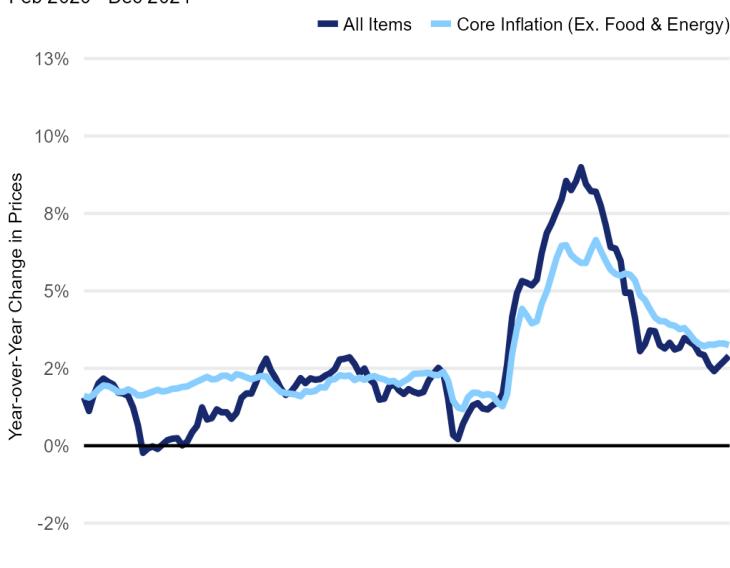
While the broader economy might look good on paper, Americans continue to reel from years of high inflation. As illustrated in Figure 1, inflation moderated significantly in 2023, declining from a high of 9% in June 2022 to 3.3% by December 2023. Progress towards the Federal Reserve's 2% target, however, stalled in 2024. By December 2024, consumer prices were up 2.9% year-over-year. With inflation stalled above the 2% target, the Fed's latest pause in rate cuts signal a higher for longer interest rate environment.

The labor market, while still historically strong, showed signs of cooling from the accelerated pace of the prior few years. While the U.S. added fewer jobs than in the previous two years, job gains remained above the average annual pace recorded in the decade before the pandemic. Amid high interest rates, firms have shown more caution in expansion and hiring but have been more hesitant to fire. In 2024, total U.S. hires fell to levels last seen in 2013, while layoffs remained relatively stable.

In Hampton Roads, labor market trends have mirrored the nation. The region recovered all jobs lost during the pandemic in 2023. While job growth is gradually slowing to a more sustainable rate, the region has not experienced the same degree of deceleration as the state and nation. Consequently, job growth over the past year in Hampton Roads has outpaced the nation. As illustrated in Figure 2, jobs in December 2024 were up 1.7% from the previous year, compared to a 1.4% increase nationwide. Hotel revenues in Hampton Roads slowed from the accelerated pace of the prior few years. While upscale and luxury hotel markets have continued to see healthy demand, persistent inflation has begun to impact the demand for hotels among lower and middle income households.

Figure 1: U.S. Monthly Inflation

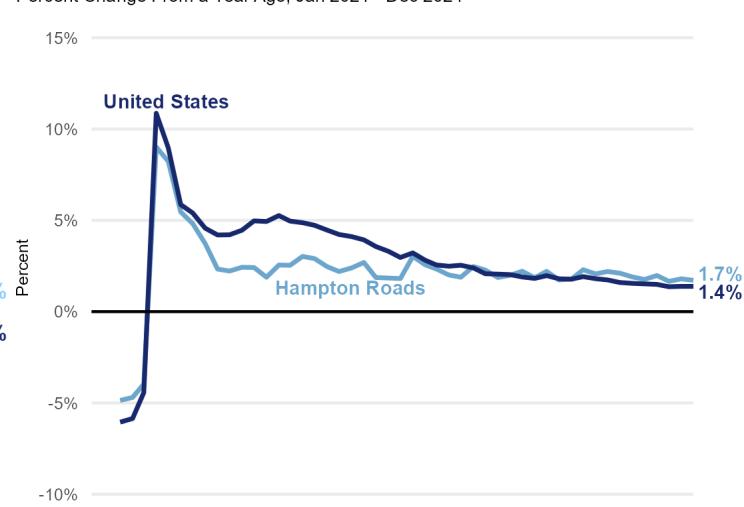
Feb 2020 - Dec 2024



Data sources: Bureau of Labor Statistics, HRPDC.

Figure 2: Civilian Jobs

Percent Change From a Year Ago, Jan 2021 - Dec 2024



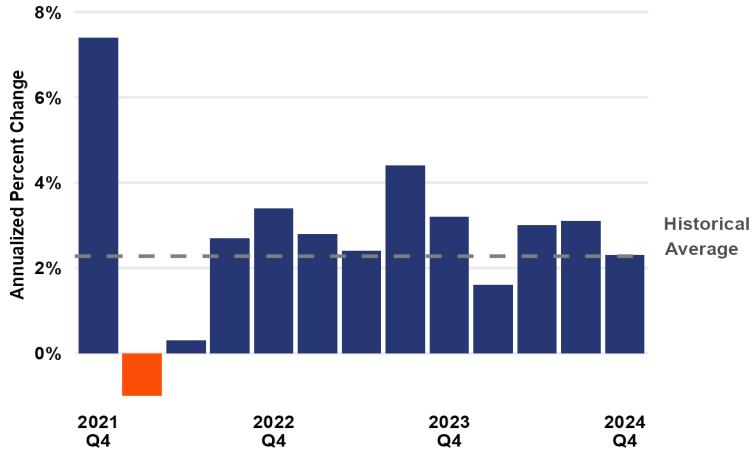
Defense spending in Hampton Roads increased in 2023. While defense spending authorized for 2024 indicates an increase from the previous year, a timeline for appropriations remains in question. Total TEUs through the Port of Virginia remained strong in 2024. Further hikes in tariffs, however, are likely to slow future growth.

Uncertainty clouds economic forecasts. While the fundamentals of both the national and Hampton Roads economies remain strong, significant policy changes at the federal level are creating an unpredictable environment. Ongoing efforts to reduce the federal workforce could weigh heavily on both the region & the Commonwealth, amplifying economic challenges to our region.

GDP, ANNUALIZED GROWTH RATE (Q)

	Q4 2023	Q4 2024	Trend
United States	3.2%	2.3%	▼

GDP: Gross Domestic Product combines consumption, investment, net exports, and government spending to determine the size and general health of the economy. Inflation-adjusted GDP rose 2.3% in Q4 2024, a slight decrease from the previous quarter. Personal consumption accounted for 2.82 percentage points of the 2.3% increase in Q3, followed by government spending (0.42) and net exports (0.04). Gross private domestic investment accounted for a 1.03 percentage point decline in GDP growth.

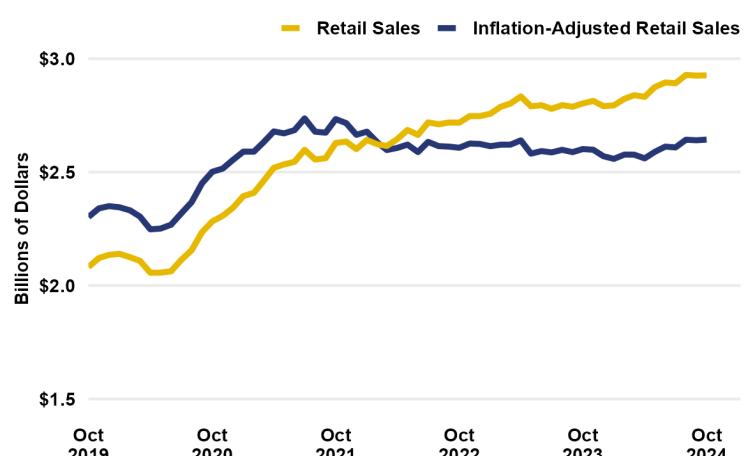


Source: Bureau of Economic Analysis, HRPDC

RETAIL SALES (M)

(not seasonally adjusted)	Oct '23	Oct '24	Trend
Hampton Roads	\$2.63B	\$2.92B	▲
Virginia	\$14.55B	\$15.83B	▲

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. Retail sales in October 2024 were up 10.8% year over year. When seasonally adjusted, retail sales in October increased 4.7% from the previous month. Inflation-adjusted retail sales have slowed from the post-pandemic surge in spending seen in the summer of 2021, but remain 21.0% above pre-pandemic levels observed in February 2020.

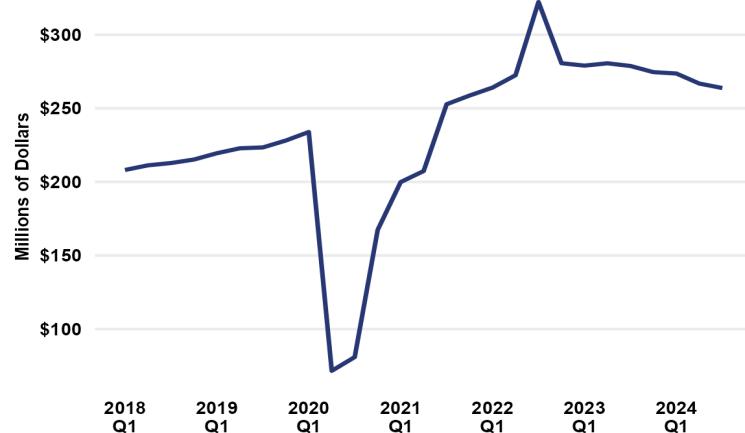


Source: Virginia Department of Taxation, HRPDC. Seasonally adjusted 5-month moving-average. Inflation-adjusted sales in 2022 dollars

ESTIMATED HOTEL REVENUE (Q)

	2023 Q3	2024 Q3	Trend
Hampton Roads	\$279M	\$264M	▼
Virginia	\$1.1B	\$1.1B	▲

Estimated Hotel Revenue: Hotel revenues indicate the performance of the region's tourism sector. Hotel revenues in Q3 2024 were down 3.9% year over year. Seasonally adjusted hotel revenues in 2024 Q3 decreased 1.1% from the previous quarter. Hotel revenues have declined for the fifth consecutive quarter, signaling a slowdown from the post-pandemic boom observed over the prior two years.



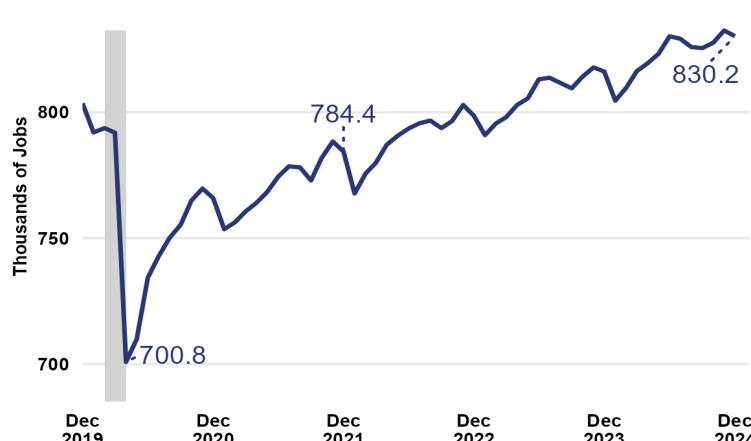
Source: Virginia Department of Taxation, HRPDC. Seasonally adjusted data

CIVILIAN PAYROLL EMPLOYMENT (M)

HISTORICAL TREND, SEASONALLY ADJUSTED



5-YEAR, NOT SEASONALLY ADJUSTED



Source: Bureau of Labor Statistics, HRPDC

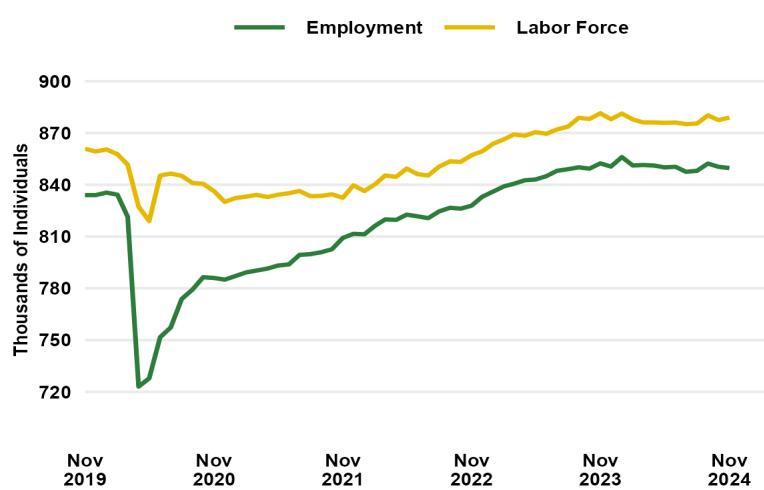
(seasonally adjusted)	Dec 2023	Nov 2024	Dec 2024	YoY % Change	MoM Trend
Hampton Roads	814,400	827,600	828,200	1.7%	▲
Virginia	4,191,300	4,263,300	4,268,200	1.7%	▲
United States	157,304,000	159,280,000	159,536,000	1.4%	▲

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. In Hampton Roads, non-seasonally adjusted civilian jobs in December were up 1.7% year over year. Seasonally adjusted civilian jobs in December increased by 0.07% from the previous month. Jobs in the United States, Virginia, and Hampton Roads each experienced job growth from the previous month, though all three regions are showing signs of a gradual slowdown compared to the accelerated gains of recent years. This trend aligns with an overall cooling in labor market conditions, suggesting that the rapid expansion seen over the last two years may be leveling off.

CIVILIAN LABOR FORCE (M)

	Labor Force	Emp	Unemp	LF Trend
Oct 2024	877,462	850,390	27,579	
Nov 2024	878,859	849,681	28,579	▲

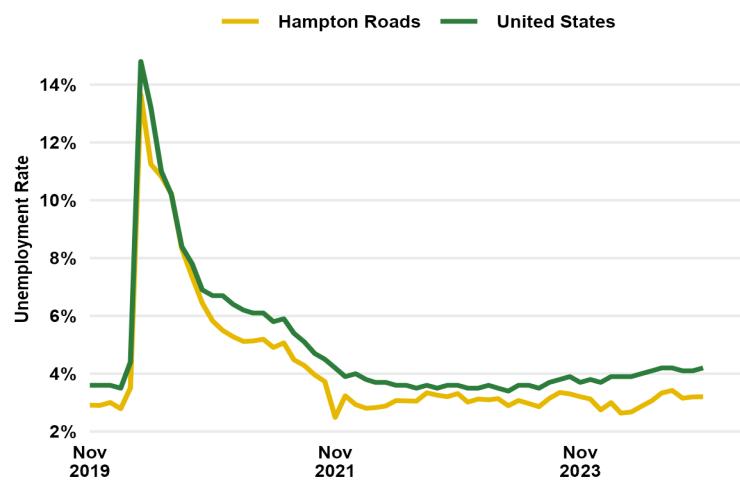
Labor Force: The Bureau of Labor Statistic's household survey measures the employment status of the civilian population 16 years and older. An area's labor force is comprised of the number of people working (employed) and those actively seeking work (unemployed). The HRPDC's civilian labor force in November rose by 0.2% from the previous month. Year over year, the region's labor force was down 0.3%. The overall trend continues to signal a cooling of labor market activity since the second half of 2023.



UNEMPLOYMENT RATE (M)

	Nov '23	Oct '24	Nov '24	Trend
Hampton Roads	3.2%	3.2%	3.2%	▼
Virginia	3.1%	2.9%	3.0%	▲
United States	3.7%	4.1%	4.2%	▲

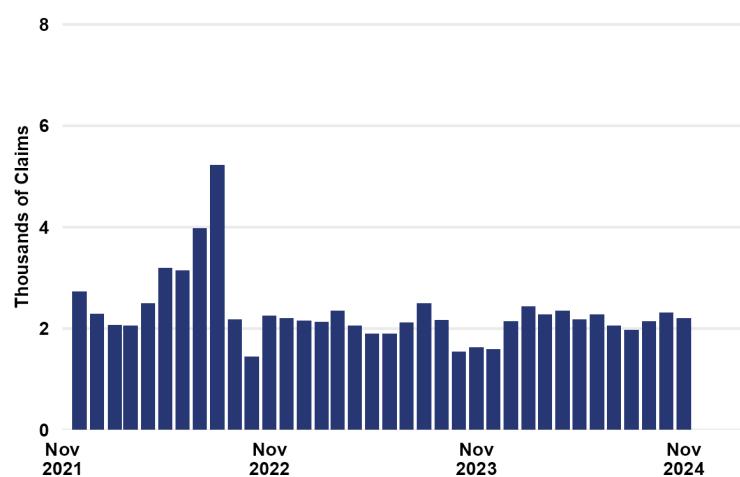
Unemployment Rate: The unemployment rate reflects the percentage of the labor force unemployed and actively seeking work. Hampton Roads' unemployment rate in November 2024 remained unchanged from the prior month. Despite the latest estimates, unemployment rates are gradually rising as labor market activity continues to slow down.



INITIAL UNEMPLOYMENT CLAIMS (M)

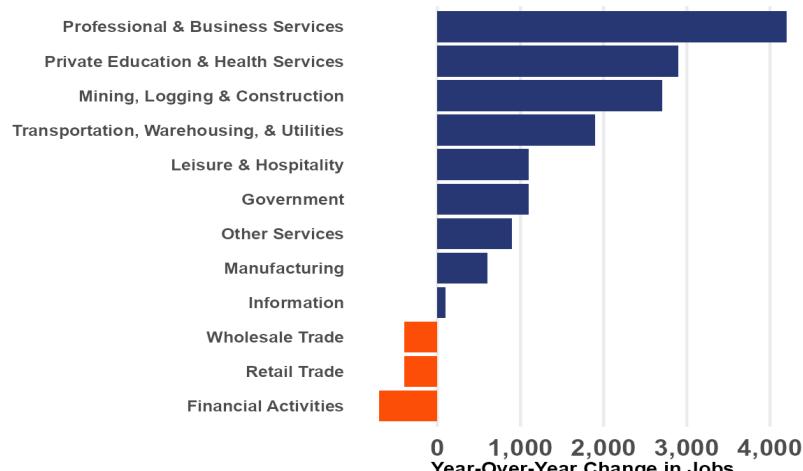
(seasonally adjusted)	Oct '24	Nov '24	Trend
Hampton Roads	2,313	2,202	▼
Virginia	10,568	10,057	▼

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 November in the region decreased 4.8% from the previous month and are up 26.7% year over year. Claims continue to hover around below pre-pandemic levels.



JOB GROWTH BY INDUSTRY (DEC, YEAR-OVER-YEAR CHANGE)

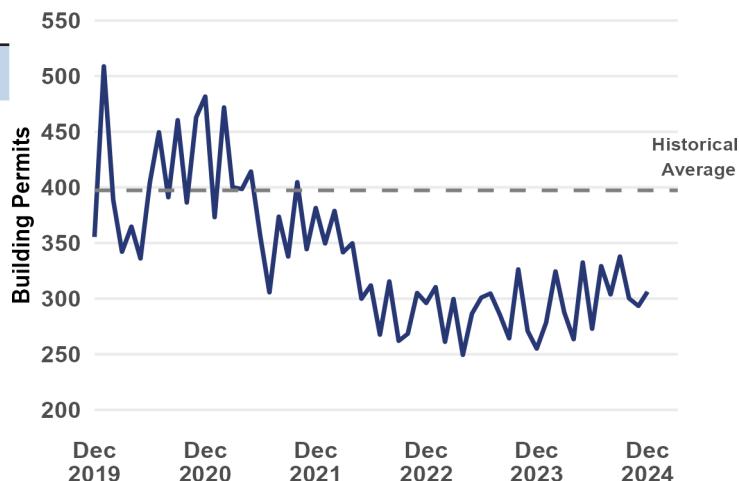
Civilian Job Growth by Industry: As the job market grows or contracts, there will be some industries whose experience does not resemble the regional trend. A majority of the region's industry sectors added jobs in December when compared to the prior year. The largest gains were in Professional & Business Services, which added 4,200 jobs year over year. Education, Healthcare, & Social Assistance (+2,900) and Construction (+2,700) recorded the second and third largest gains. The largest year-over-year declines were in Financial Activities (-700), Wholesale Trade (-400) and the Retail Trade (-400) industry sectors.



SINGLE FAMILY HOUSING PERMITS (M)

	Dec '23	Nov '24	Dec '24	Trend
Hampton Roads	255	293	306	▲

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 306 new construction permits issued for single-family homes in December 2024, a 4.3% increase from the previous month. In 2024, building permits issued in Hampton Roads increased by 6.3% from the previous year, marking a positive turnaround from the slowdown experienced in the prior three years.

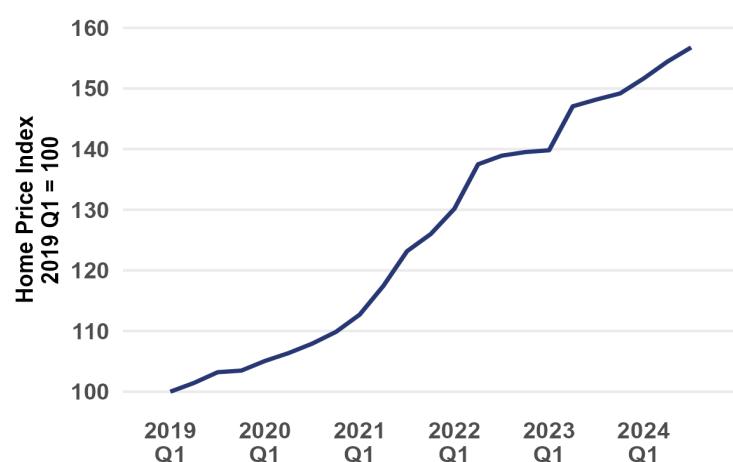


Source: US Census Bureau, HRPDC. Seasonally adjusted data

HOME PRICE INDEX, ALL TRANSACTIONS (M)

	Q1 24'	Q2 24'	Q3 24'	Trend
Hampton Roads	151.6	154.4	156.8	▲

Home Price Index: The Home Price Index tracks changes in home values by measuring price shifts through repeated sales of properties. In Hampton Roads, home prices increased by 5.8% year-over-year in Q4 2024, a slower pace than the state's 6.3% and slightly above the national rate of 5.1%. Home price growth accelerated in Q3 2024 when compared to previous quarter, but remains below the accelerated pace of the prior few years.

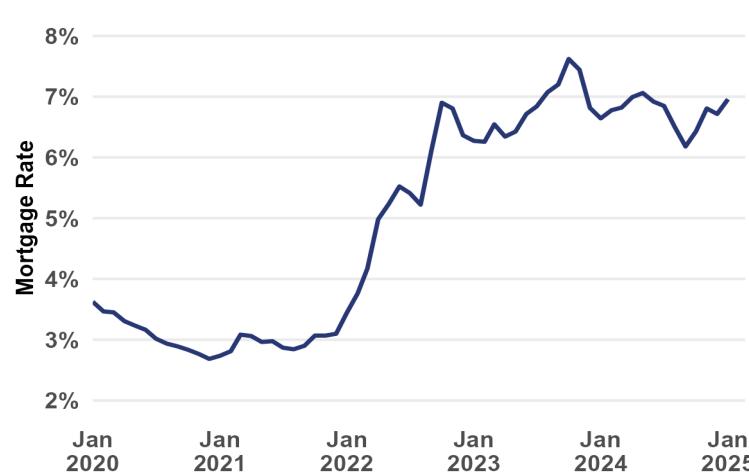


Source: U.S. Federal Housing Finance Agency, All-Transactions House Price Index

30-YEAR FIXED RATE MORTGAGE AVERAGE (M)

	Jan '24	Dec '24	Jan '25	Trend
United States	6.6%	6.7%	7.0%	▲

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. In January 2025, mortgage rates increased from the prior month. Year-over-year, the mortgage rate in January was up 0.3 percentage points. The latest pause in Fed rate cuts signals a higher for longer interest rate environment.



Source: Freddie Mac, HRPDC. Seasonally adjusted data