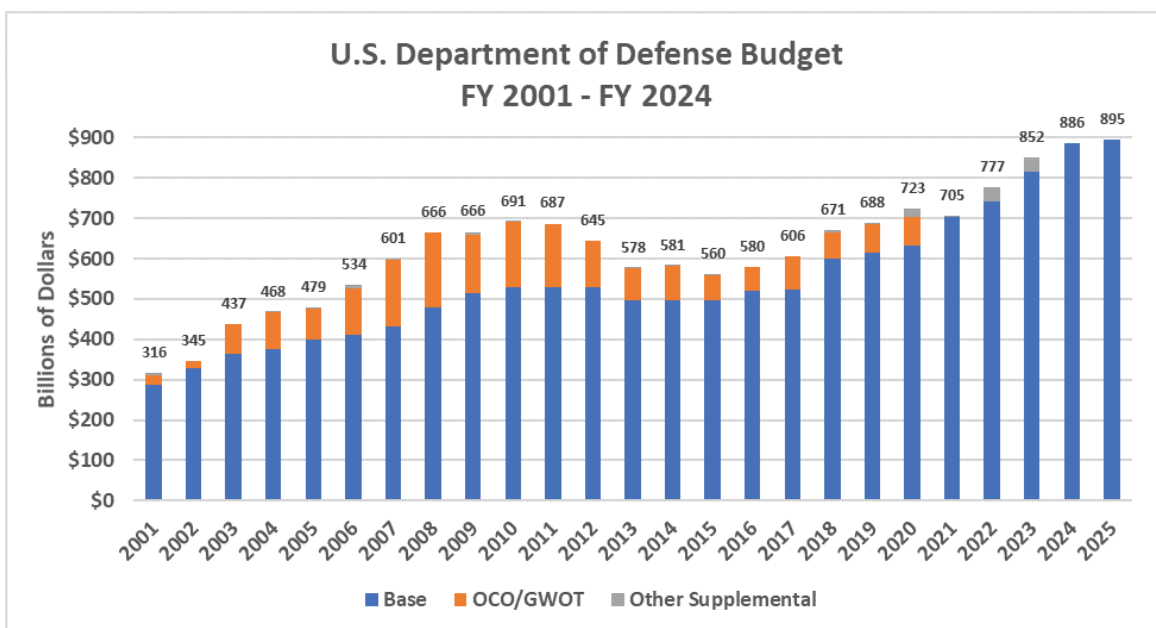


## SEQUESTRATION? NOT AGAIN!

The debt ceiling refers to the legislative limit on the nation's accumulated debt. When the U.S. Treasury, who manages most of the nation's debt, exceeds the debt ceiling, Congress must take action to raise or suspend the debt limit to avoid a potential default on the debt. Earlier this month, just days before the default deadline, Congress passed the Fiscal Responsibility Act of 2023. Signed into law on June 3rd, the legislation suspends the nation's debt ceiling until January 1, 2025, and institutes budget caps on discretionary spending for 2024 and 2025.

Congressional action regarding the debt ceiling may seem all too familiar and somewhat frightening. Hampton Roads residents will recall that the Budget Control Act of 2011 raised the debt ceiling by \$1.2 trillion in exchange for an equal amount of spending cuts over ten years. When Congress was unable to agree on legislation to reduce spending, automatic across the board spending cuts, a process known as sequestration, was implemented in 2013. While several amendments were implemented over the years to increase the spending caps under the BCA, sequestration resulted in significant cuts to discretionary defense spending. From 2012 to 2015, discretionary defense spending fell by more than \$85 billion. Sequestration was damaging to the national economy, weakening economic growth in the aftermath of a large recession, but it was devastating to Hampton Roads' economy. Approximately 40% of economic activity in the region is either directly or indirectly tied to Department of Defense (DoD) spending. It took more than a decade for the region's inflation-adjusted GDP to exceed levels observed before the Great Recession.



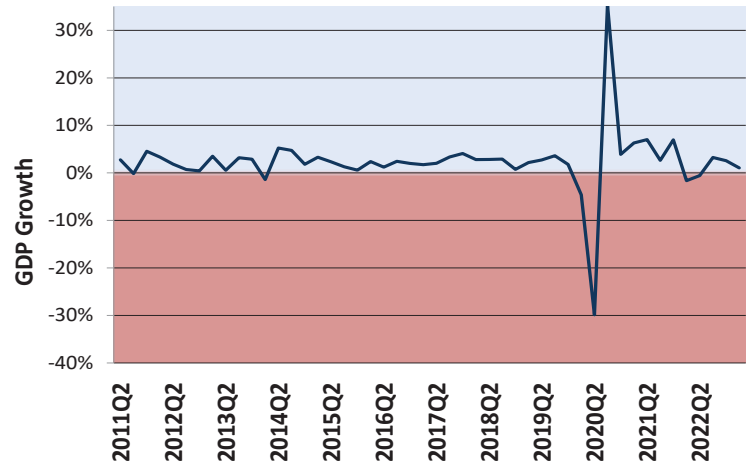
Data source: United States Department of Defense Fiscal Year 2024 Budget Request, Congressional Budget Office, and the HRPDC. OCO/GWOT reflect supplement spending on Overseas Contingency Operations and the global war on terror.

Like the Budget Control Act of 2011, the Fiscal Responsibility Act includes spending caps on defense and non-defense discretionary spending, enforced through sequestration. The legislation limits total discretionary spending to \$1.59 trillion in 2024, a 6.7% decrease from the previous fiscal year. For 2025, topline spending is capped at \$1.61 trillion, a 1% increase from 2024. As a result of the spending caps, non-defense discretionary spending will remain flat in 2024 and increase 1% in 2025. On the other hand, the limits on defense spending are at the same level proposed in the President's 2024 budget. Discretionary defense spending is expected to increase 3.3% in 2024 and 1% in 2025. While the latest debt ceiling showdown and resulting budget legislation reduces total discretionary spending, in what is good news for the region, **this is not a repeat of 2011**. The increase in defense spending will help to strengthen economic activity in the region as the economic recovery from the COVID-19 pandemic continues.

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

	Q1 2022	Q1 2023	Trend
United States	-1.6%	1.1%	▲

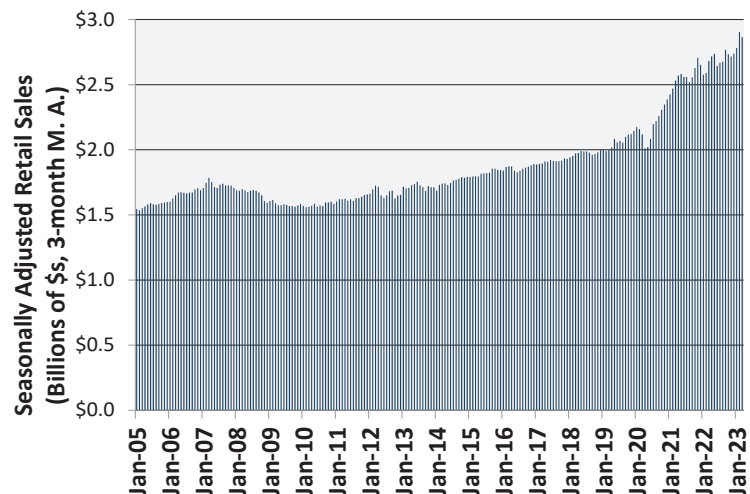
**GDP:** Gross Domestic Product combines consumption, investment, net exports, and government spending to determine the size and general health of the economy. Real GDP increased by 1.1% in Q1 2023, the third quarter of increases after two quarters of declines in early 2022. Q1 2023 increases were driven by a significant increase in personal consumption expenditures in both goods and services, and government consumption expenditures. Alternatively, Q1 also saw a large decline in private domestic investment, outweighed by the increases in personal spending.



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

	Feb '23	Mar '23	Trend
Hampton Roads	\$2.90B	\$2.86B	▼
Virginia	\$15.36B	\$15.23B	▼

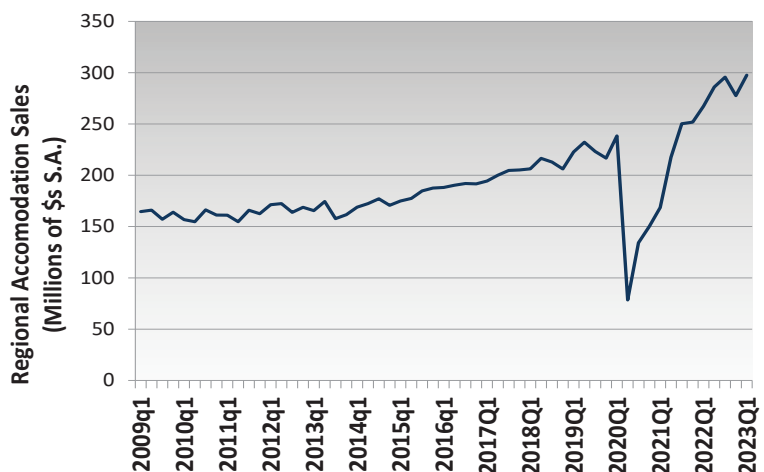
**Retail Sales:** Retail sales in Hampton Roads, as measured by the 1% local option sales tax, serve as an indicator for consumption in the region. When seasonally adjusted and averaged over 3 months, March shows decreased sales. After two months of increased retail sales, the data seems to be continuing its plateau of earlier in the year. Unadjusted, March 2023 shows an increase from the previous month, but a 1.6% decrease from the previous year.



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

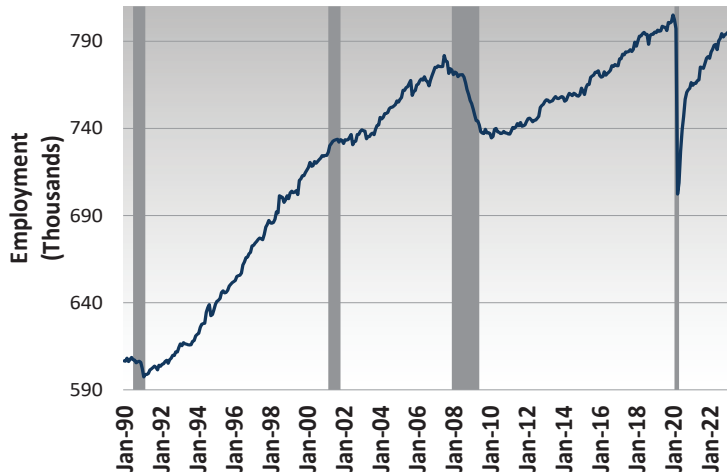
	Q1 2022	Q1 2023	Trend
Hampton Roads	\$267M	\$298M	▲
Virginia	\$932M	\$1.08T	▲

**Estimated Hotel Revenue:** Hotel sales indicate the performance of the region's tourism sector. When seasonally adjusted, Q1 2023 hotel revenue once again saw significant improvement from COVID-related closures, and a quarter-over-quarter increase after the first quarterly decline since the pandemic in Q4 2022. Hotel revenue in Q1 2023 represented an 11% increase over the previous year.

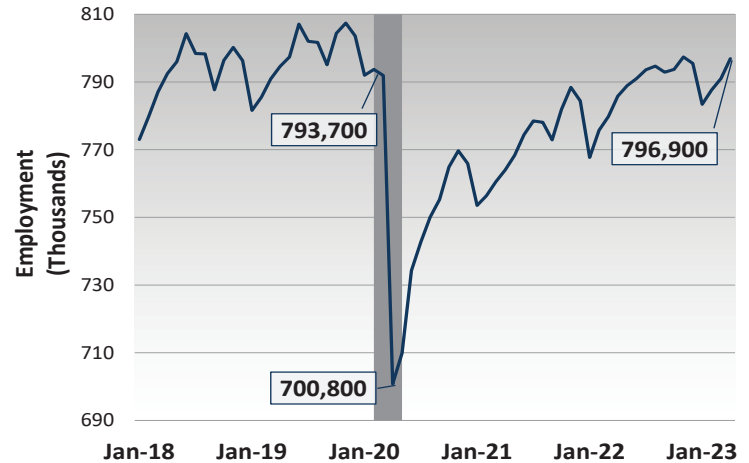


## CIVILIAN PAYROLL EMPLOYMENT (M) SOURCE: BUREAU OF LABOR STATISTICS, HRPDC

## HISTORICAL TREND, SEASONALLY ADJUSTED



## 3-YEAR, NOT SEASONALLY ADJUSTED



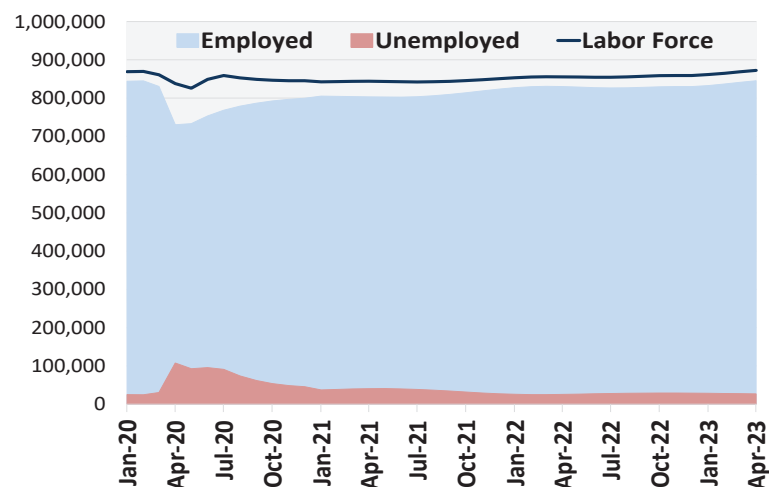
(seasonally adjusted)	Apr 2022	Mar 2023	Apr 2023	YoY % Change	MoM Trend
Hampton Roads	787,700	797,900	798,700	1.40%	▲
Virginia	4,051,100	4,136,700	4,138,100	2.47%	▲
United States	151,678,000	155,420,000	155,673,000	2.64%	▲

**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 0.10% from March to April 2023, continuing slow increases. Unadjusted employment levels also increased from the prior month. In Hampton Roads, year-over-year growth is recorded at 1.40%, continuing to signal that overall the workforce is recovering from COVID losses, but the recent slowdown in growth may be a sign of stagnation. The Commonwealth of Virginia and the U.S. are both experiencing YoY growth at a full percentage point over Hampton Roads, further data showing that Hampton Roads is not recovering as quickly at the rest of the country, still 0.8% below pre-COVID highs.

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

	Labor Force	Emp	Unemp	LF Trend
Mar 2023	868,749	841,298	27,451	
Apr 2023	872,378	845,349	27,029	▲

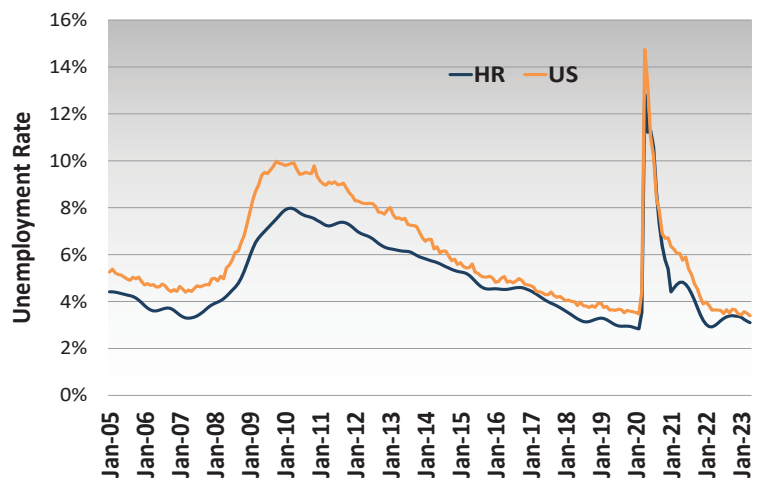
**Labor Force:** An economy's labor force is defined as those who are either employed or actively seeking work, and the breakdown of the labor force is often used in conjunction with the unemployment rate to offer some perspective into the true state of the economy. The region's labor force was slowly declining since the onset of the pandemic, but began increasing roughly one year ago. Since the low in the summer of 2021, the Labor Force has grown and is sitting 0.4% above pre-pandemic levels.



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

	Apr '22	Mar '23	Apr '23	Trend
Hampton Roads	2.98%	3.16%	3.10%	▼
Virginia	2.64%	3.17%	3.17%	—
United States	3.64%	3.50%	3.39%	▼

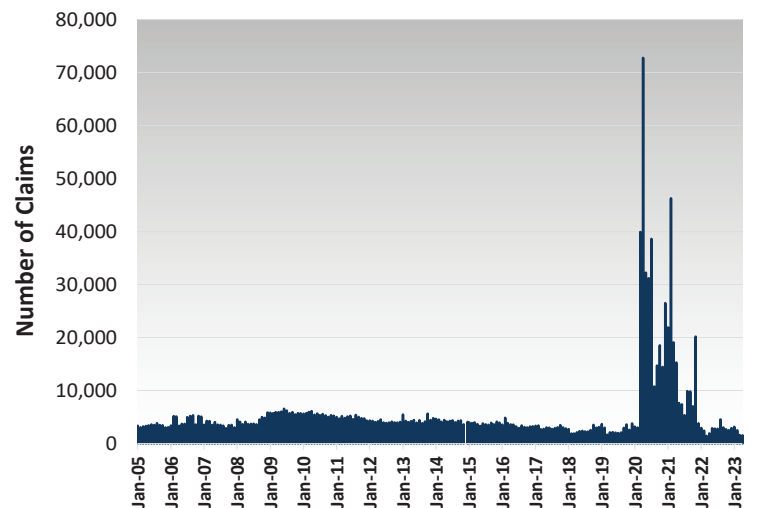
**Unemployment Rate:** The unemployment rate is the percentage of the population actively seeking work but unable to obtain a position. Hampton Roads' unemployment rate decreased again to 3.10% in April 2023, reflected by an increase in the labor force and the number of employed persons and a decrease in total unemployed persons (all seasonally adjusted).



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

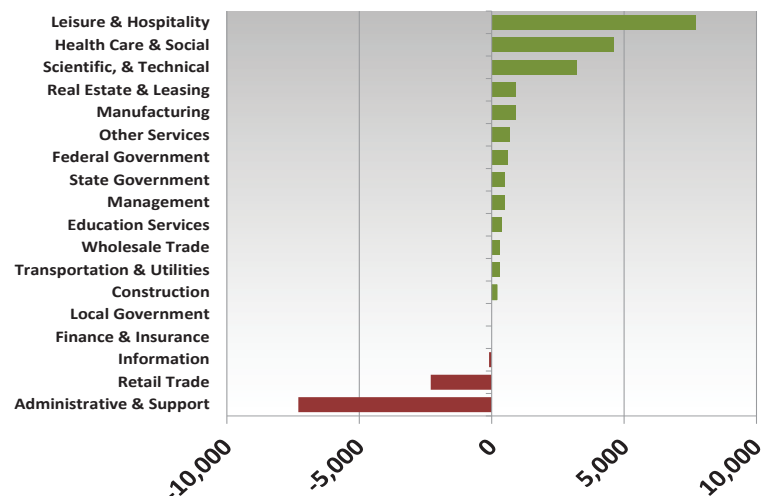
	Mar '23	Apr '23	Trend
Hampton Roads	1,602	1,544	▼
Virginia	6,882	6,975	▲

**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 April 2023, initial unemployment claims decreased slightly for the second month in a row. As talk of a possible recession continues, this indicator will be one to watch closely, as it is the first one to show movement in the data.



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

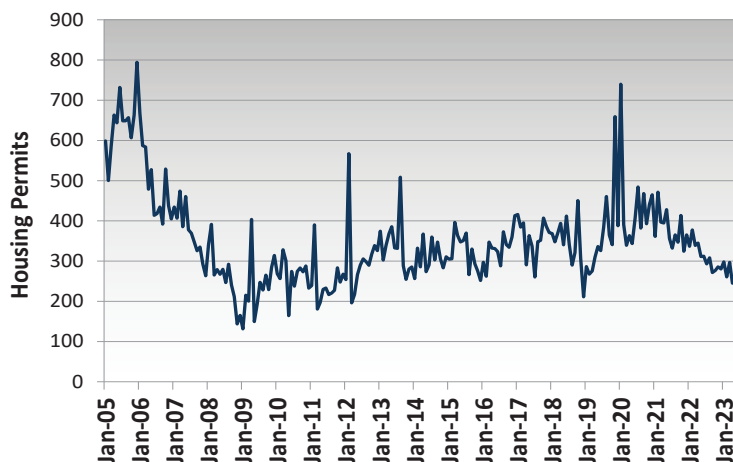
**Employment Growth by Industry:** As the job market grows or contracts, there will be some industries whose experience does not resemble the regional trend. In April, the majority of Hampton Roads industries experienced a decrease in year-over-year employment compared to April 2022. Most significant gains were Leisure & Hospitality, which added nearly 8,000 jobs compared to April 2022, followed by Healthcare & Social and Scientific & Technical. Administrative & Support realized by far the highest losses compared to 2022, followed by Retail Trade and Information.



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

	Apr '22	Mar '23	Apr '23	Trend
Hampton Roads	345	297	245	▼

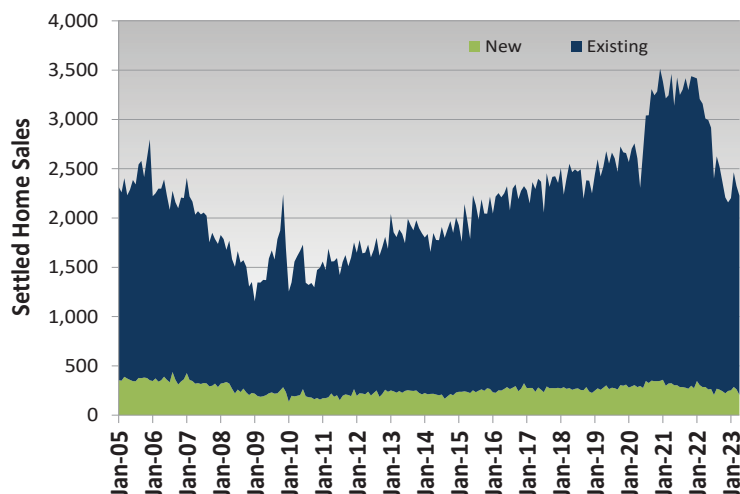
**Single Family Housing Permits:** Permit data signals the level of construction employment and confidence regarding the future trajectory of the local economy. When seasonally adjusted, there were 245 new construction permits issued for single family homes in April 2023. After over a year of plateauing data in 2020/2021, the trend steadily declined for the entirety of 2022. So far in 2023, the data is pointing towards plateauing again. As interest rates and materials prices settle, this indicator will be one to watch for potential upward movement.



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

	Apr '22	Mar '23	Apr '23	Trend
Hampton Roads	3,009	2,324	2,226	▼

**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, total settled home sales in April decreased again from March with 2,226 homes sold, after a few months of increasing sales during the winter months as mortgage rates stabilized. The sale of new homes in April represented 9% of total sales, dipping back down to single digits after averaging 11% for the latter half of 2022 and early 2023.



## HOME PRICE INDEX, ALL TRANSACTIONS (Q) SOURCE: FEDERAL HOUSING FINANCING AGENCY, HRPDC

	Q1 2022	Q1 2023	Trend
Hampton Roads	154.9	166.9	▲
Virginia	156.4	170.9	▲
United States	173.4	187.4	▲

**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 by 7.7% over the previous year in Q1 2023, a lower rate than both the state and the nation and the third quarter in a row the year-over-year rate of increase has declined, continuing to reflect a slowdown in the real estate market.

