Prices, They Are A Changing

Over the past year, the COVID-19 pandemic has sent shockwaves through the global economy, and governments around the world responded with economic policies that varied widely. In the U.S., money was pumped into the economy through expanded unemployment benefits, stimulus checks to eligible Americans, PPP loans, and a slew of other measures. These policies have led to discussion of inflation – but are we seeing inflation, temporary price shocks in response to supply chain disruptions, or a little bit of both?

The Consumer Price Index, or CPI, is one index commonly used to measure inflation levels. Usually, this index rises by roughly 2% per year, a pace that is in-line with the Federal Reserve’s target rate for inflation. From January 2020 to January 2021, the CPI rose by a healthy 1.3%, but in just the four months from January 2021 to April 2021, the increase was 1.7%, which annualized would be over 5% for the year. While it is too early to tell if these recent increases in the CPI will lead to long-term inflation, we can investigate some of the specific industries and materials that are experiencing price shocks that may (or may not be) short term. The shorter term the price shock, the less likely it will contribute to long-term inflation.

**Used cars** – The price of used cars and trucks has increased significantly in the past year, over 20% from April 2020 to 2021. This is partially due to rental car companies reducing their fleets during the pandemic-induced collapse in travel, and therefore not selling the significant number of used cars that, in a normal market, they would be continually unloading. Additionally, new car sales fell last year during the pandemic, resulting in fewer trade-ins finding their way into the used car market. With the current shortage in microchips, new car sales are also slowing due to reduced supply, which could lead to a price shock on new vehicles and continue the hot market for used vehicles. Currently, the year-over-year price increase for new cars is roughly 2%.

**Airfares** – As vaccination rates climb and COVID restrictions begin to relax, prices for airline tickets are expected to return to (or surpass) pre-pandemic levels, which will contribute to CPI increases. However, some airlines are already reporting average fares for peak summer flights are higher than 2019, as people (many with more spending money) book trips that have been put off for over a year. No one is certain what will happen with air travel in the coming years, as COVID will likely have restructured the demand curve.

**Gasoline** – The U.S. saw gasoline prices plummet as COVID affected how Americans traveled – or rather, did not travel. As “normal” activity began resuming across the globe, petroleum demand began to rise and gasoline prices followed, coming back to pre-pandemic levels over the course of 2020. Just a few weeks ago, Southeastern states saw a gasoline supply threat, followed by a spike in demand, followed by price shock completely unrelated to the pandemic when a pipeline was partially shut down due to a cyberattack. Over the course of one week, the average price of gasoline in Hampton Roads increased by about 20 cents.

**Food away from home** – Severe shortages of labor in the food services industry are leading restaurants to either reduce service options or sharply raise pay for line cooks, dishwashers, and servers. Prices in the food away from home category have risen 3.8% in the past year, and if restaurants begin to pass along the increase in labor costs to customers, this could be more than a short-term increase.

**Housing & Lumber** – Increased demand for housing combined with a housing shortage are pushing housing prices through the roof. Wildfires in 2020, coupled with a spike in tariffs on imported lumber in 2017, have disrupted the supply chain sending lumber prices soaring by more than 170%. As Americans completed more and larger scale DIY projects over 2020, the construction industry has been facing shortages of materials like lumber, further contributing to rising costs and longer schedules for new construction projects.

The Federal Reserve is keeping interest rates low for the time being, betting that all prices will not rise in the long term even if there are several months of surging prices in some industries. What happens at a national level with regards to long-term inflation will affect Hampton Roads, but as we have seen from recent price shocks in gasoline, some impacts can be purely regional. According to data from C2ER, the composite cost of living index in Hampton Roads was slightly below that of other metro areas at the end of 2020. As production rises once again to meet demand levels, some of these price shocks should dissipate. If you have experienced any recent price shocks in Hampton Roads, we want to know about them – send an email to krainone@hrpdcva.gov.
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 averaged over 3 months, March once again represents the largest total retail sales recorded, continued confirmation of structural changes to expenditure patterns. Unadjusted, March 2021 posted a 30% increase from March 2020 (the first month showing pandemic impacts), but also a 31% increase from March 2019. This short-term growth can likely be attributed to distribution of stimulus checks and renewed momentum of the services sector.

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 nearly 6.5% in Q1 2021, reflecting the continued economic recovery from early 2020 losses as well as the ongoing impact of COVID-19. While Q1 growth quarter was largely driven by increases in PCE (5% increase in durable goods, over 2% increase in services), real GDP levels are still roughly 0.85% lower than at the end of 2019.

New Car Sales: Car sales, as a durable good, may be put off until an individual’s economic prospects improve; thus, the number of new car sales indicates the level of confidence that households in Hampton Roads have in their financial future. Car sales this March were down slightly compared to the previous month, and represents significant YoY growth—March 2021 showed a 24% increase from March 2020, the first month impacts of COVID-19 began showing up in sales numbers. For pre-pandemic comparison, March 2021 represents only a 1% increase from March 2019.

Estimated Hotel Revenue: Hotel sales indicate the performance of the region’s tourism sector. When seasonally adjusted, Q4 2020 hotel revenue ones again saw improvement from the historic lows realized in Q2 due to pandemic-related closures, albeit at a lower rate of recovery. While there was a roughly 13% increase in revenue from Q3 to Q4, this still represents a 33% decline in year-over-year revenue.
**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) decreased for the second month in a row—by 0.25% from February to March 2021. Total employment levels in Hampton Roads still sit roughly 5% below pre-COVID highs of January 2020, but as vaccination rates continue to increase, businesses may begin hiring again in earnest.

**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 slightly from 6.01% in February 2021 to 5.95% in March 2021, reflecting very small increases in both the labor force and number of unemployed residents coupled with a slightly larger decrease in the region’s unemployed persons. The unemployment rate in Hampton Roads continues to sit below the US rate, but only 0.1% below, the first time the variance has been this small since 2016.

**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 March 2021, initial unemployment claims significantly increased from the previous month, but came down again in April 2021. Seasonally adjusted unemployment claims in April were roughly 15,500—a 23% decrease from the previous month, representing the lowest since October 2020 (still nearly 500% greater than pre-pandemic levels).
Home Price Index measures the value of homes by evaluating changing price levels through repeated sales of properties. The index provides the highest quality data available on the trends in the real estate market. Hampton Roads’ home prices increased, yet again, by 5.9% over the previous year in Q4 2020, on par with both the state and the nation. Regional housing values remain less than 0.5% below the peak of the housing boom—the gap continues to shrink rapidly as home prices have been rapidly increasing.

Single Family Housing Permits: Permit data signals the level of construction employment and confidence regarding the future trajectory of the local economy. The level of new construction permitting for single family homes in March 2021 increased to 477. When seasonally adjusted, the data shows an increase of 18% from March 2020, and over 45% increase from March 2019. As the market continues to respond to labor and materials shortages and interest rates remain at near-zero levels, this indicator will be watched closely.

Number of Homes Sold, Seasonally Adjusted
Hampton Roads, Jan 2005 – April 2021, Monthly

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Foreclosure Filings: Foreclosures have a significant impact on the real estate market and community, depressing home values on a neighborhood and regional level. In the past year, Zillow stopped providing data on distressed sales as a percentage of total sales in the region, and there are no publicly available datasets reporting on total monthly foreclosure filings in Hampton Roads.

Home Sales: Settled home sales measure the level of transactions on the real estate market and a healthy real estate market should have a consistent level of activity. Seasonally adjusted, existing home and total settled sales in March and April increased, remaining at record highs with over 3,000 homes sold in April. The impacts of COVID were first felt in April/May of 2020 with declining sales, so while April posted a 32% YoY increase, it’s useful to note a 37% increase from 2019 to 2021.