



U.S. and VA Economic Outlook

Virginia House Appropriations Committee

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Sonya Ravindranath Waddell
Vice President and Economist, Regional and Community Analysis



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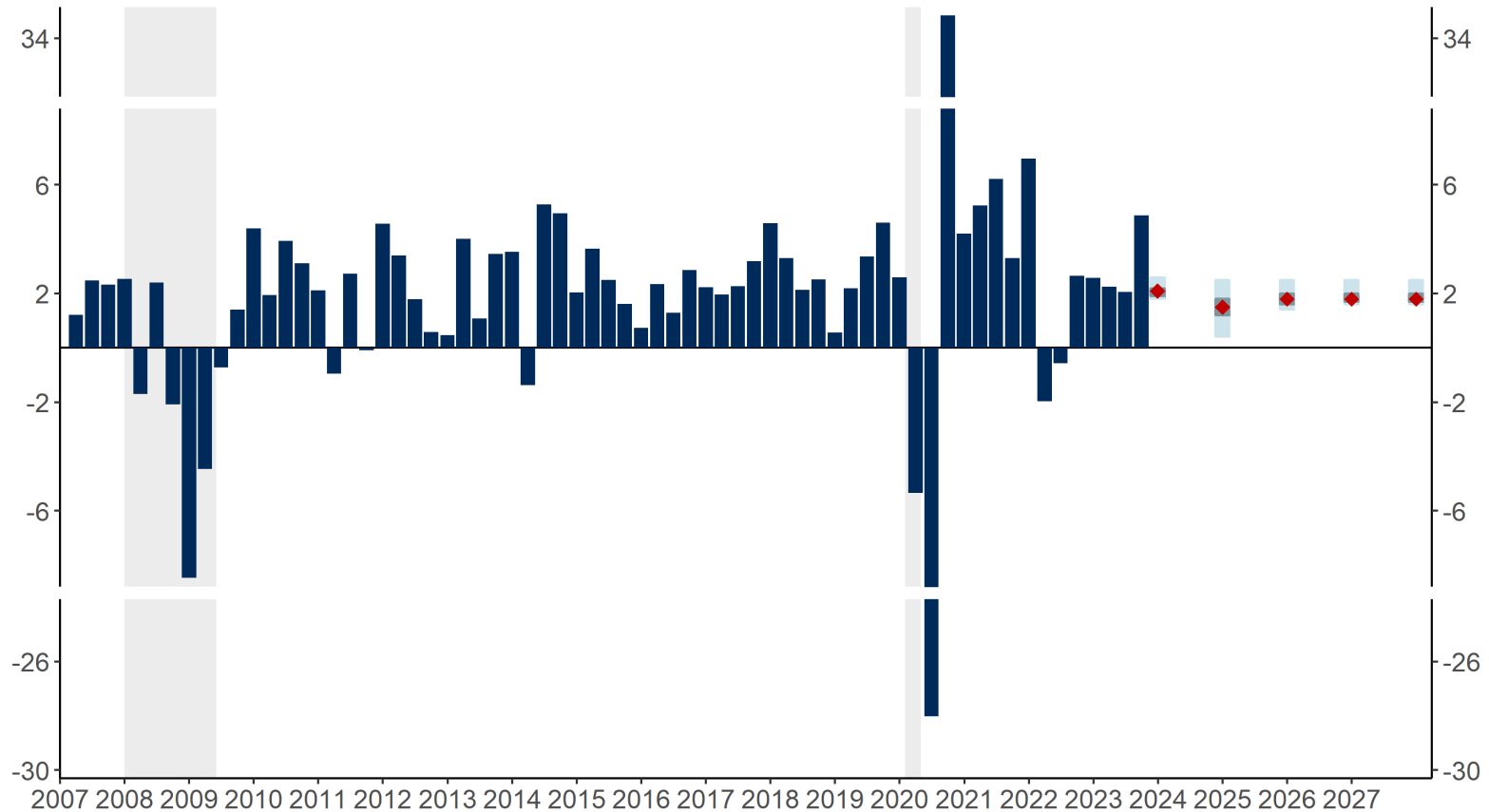
State of the national and regional economy

- The national economy has been remarkably resilient in the last year, as has most of our region. The expectation is for a slower economy in 2024, although not necessarily contraction.
- Inflation is coming down—but it is still above the FOMC’s 2% target. Getting the rest of the way might still take some time.
- Although at the margin, it is getting easier to find workers in many markets/industries, the demand for workers is still outstripping supply of workers—that is not likely to improve soon.
- The Virginia economy faces many of the same headwinds (and tailwinds) as the U.S. economy. In the Fifth District, North Carolina and South Carolina continue to outpace Virginia and Maryland with respect to growth.

GDP growth has been stronger than anticipated in 2023—likely, it will slow in 2024

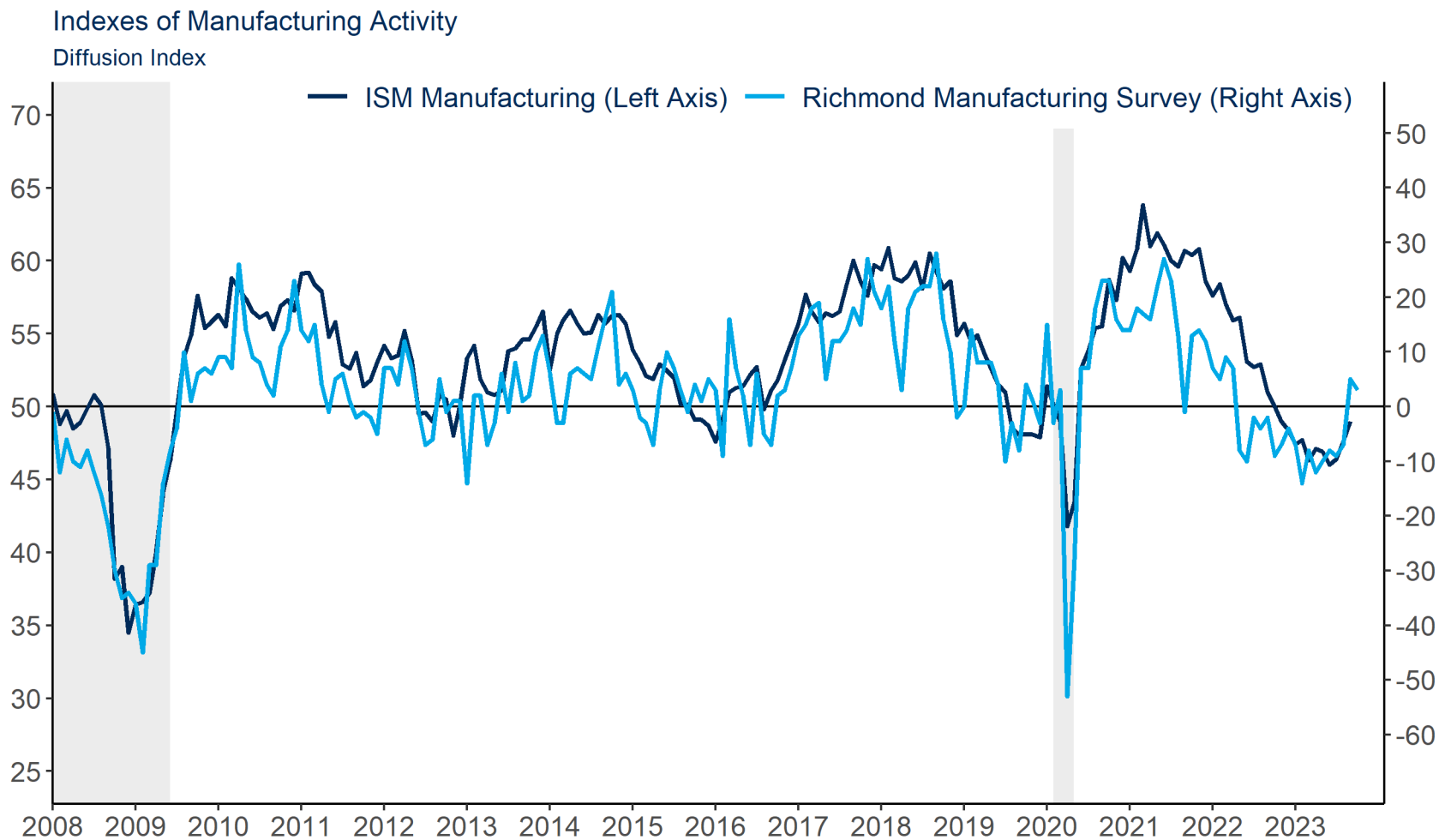
Real Gross Domestic Product

Percent change from previous quarter at annual rate



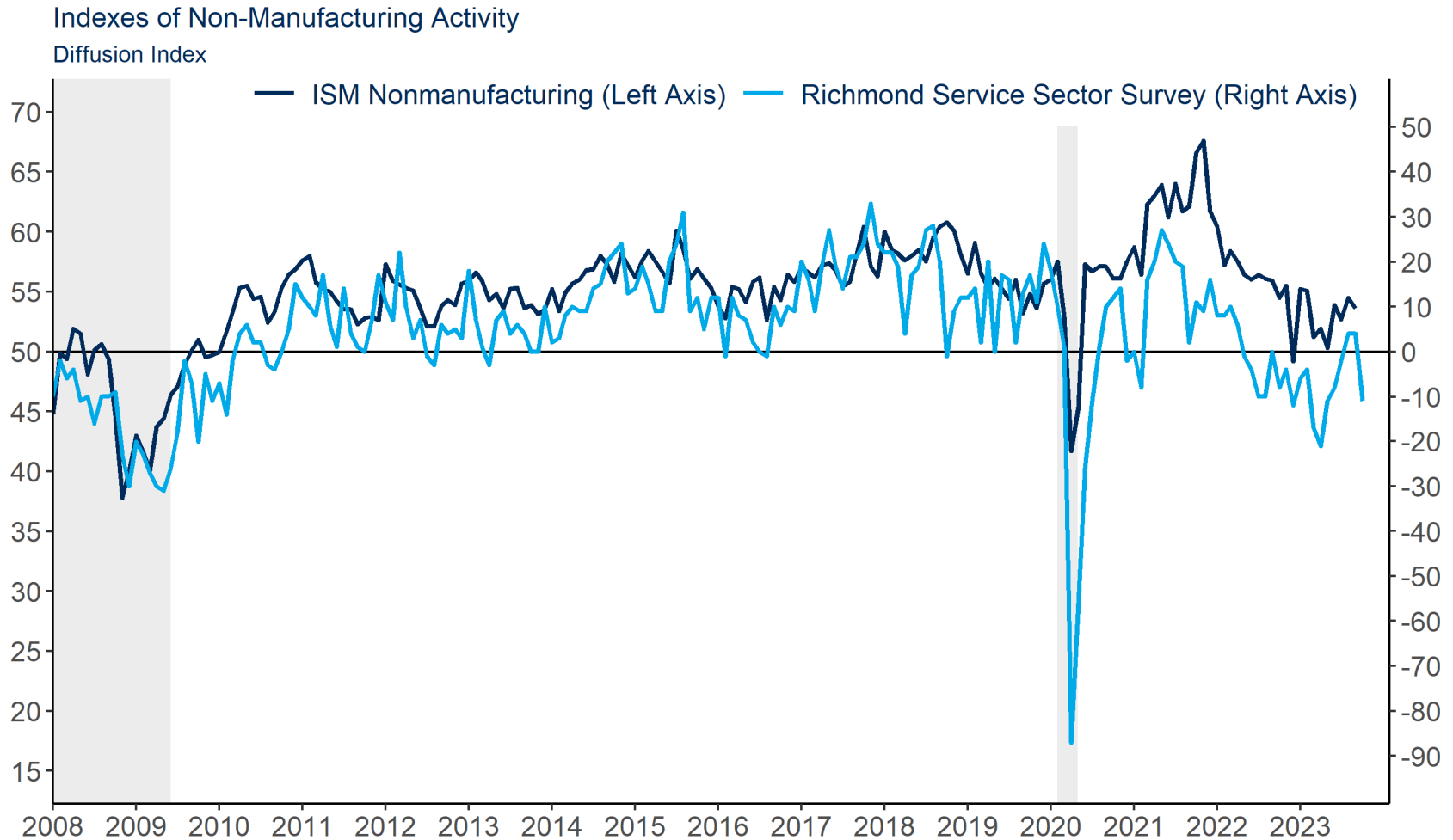
Source: Bureau of Economic Analysis Federal Reserve Board/Haver Analytics

Fifth District manufacturing activity slowed in the last year



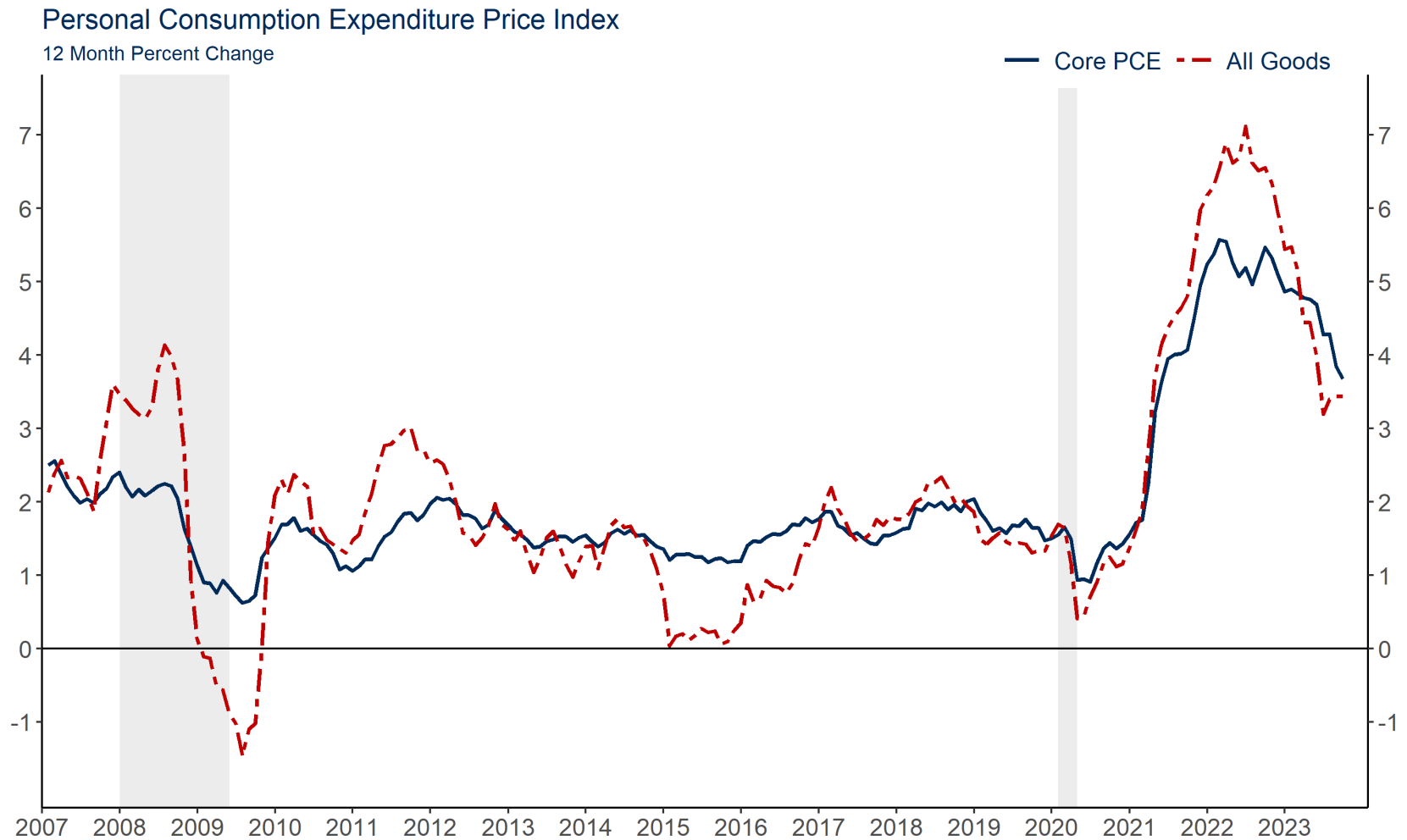
Source: Federal Reserve Bank of Richmond

Fifth District service sector activity also slowed



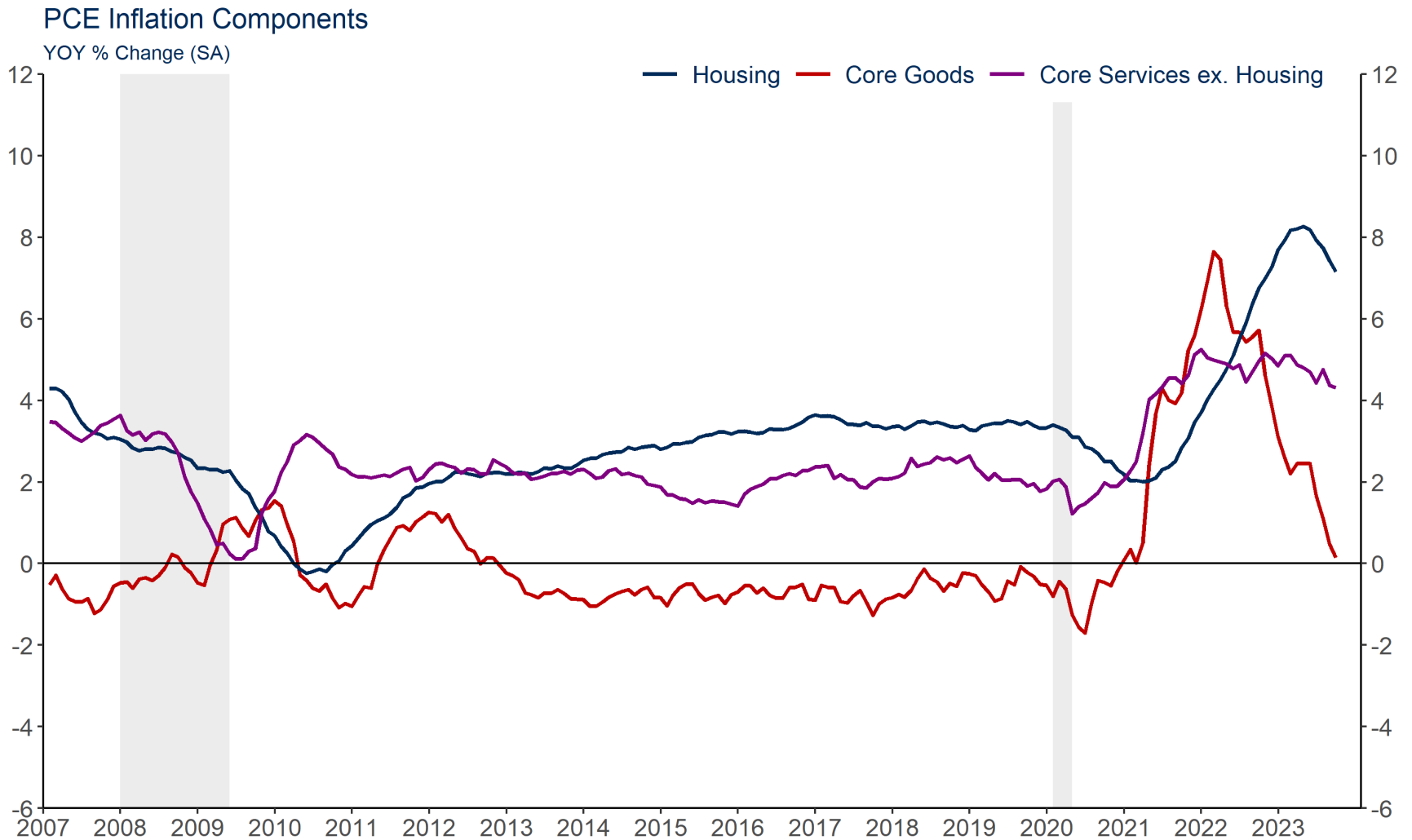
Source: Federal Reserve Bank of Richmond

Inflation is (slowly) coming back to target



Source: Bureau of Economic Analysis/ Haver Analytics

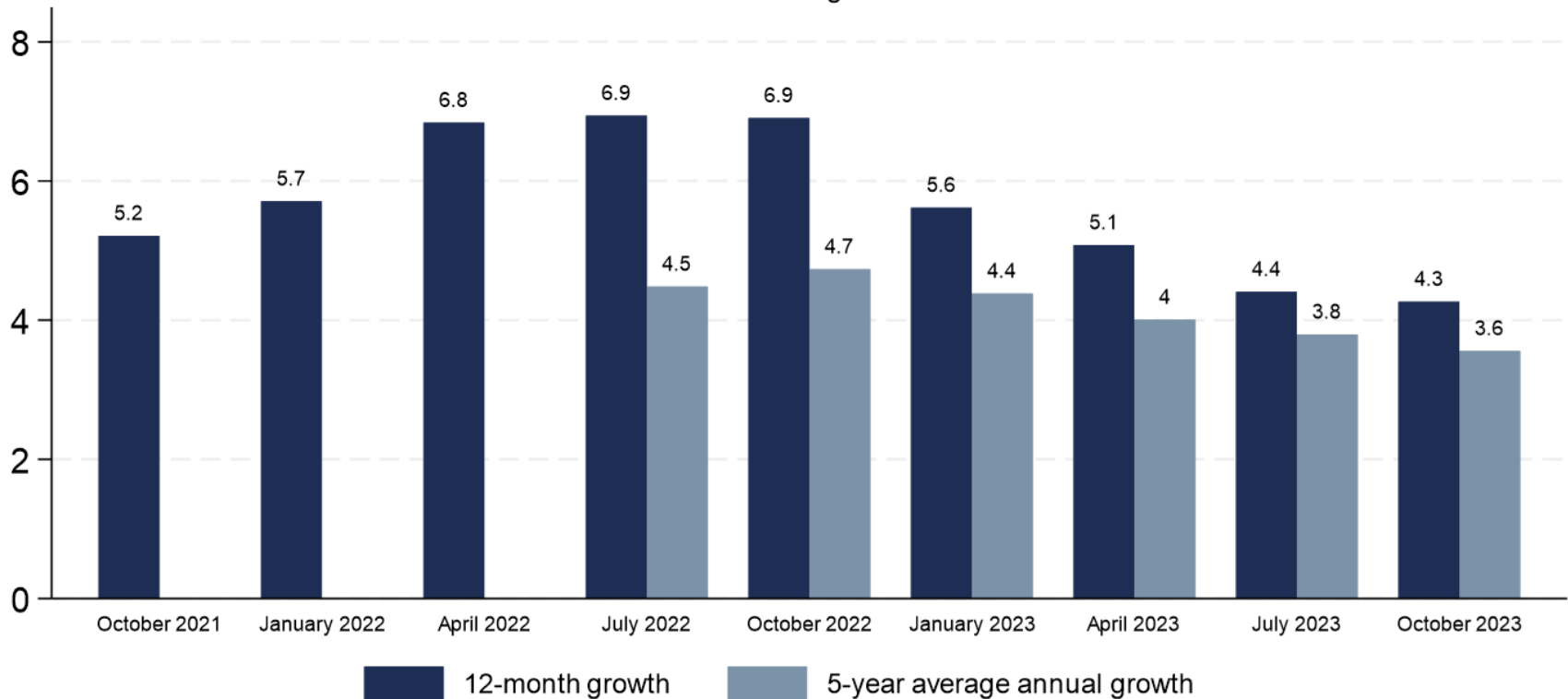
The devil is in the details



Source: Bureau of Economic Analysis/Haver Analytics

Fifth District firms' expectations for inflation have come down

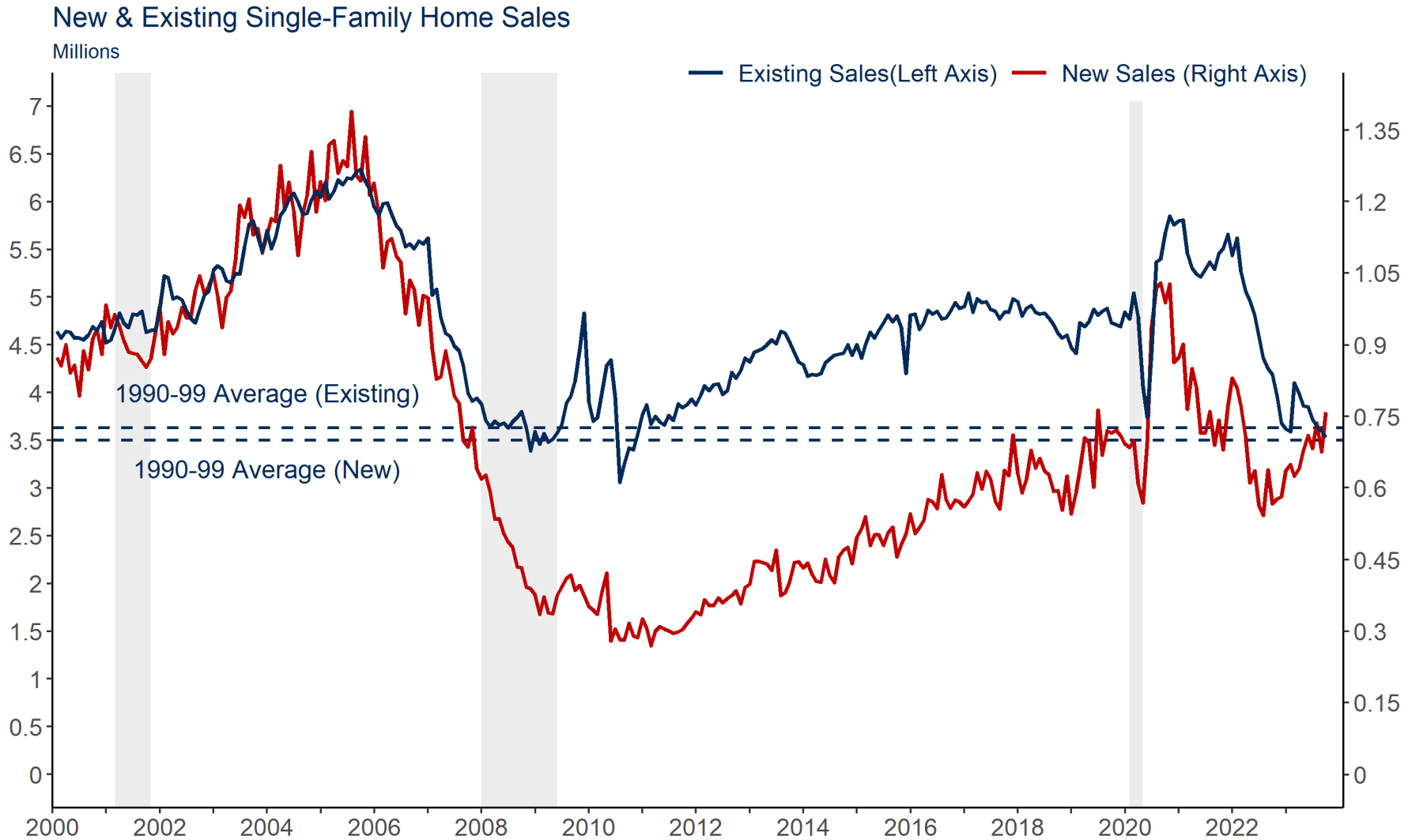
Expected CPI growth in the next 12 months/5 years
Average



Notes: Respondents were asked starting in October 2021, 'What do you think will be the inflation rate (for the Consumer Price Index) over the next 12 months?' and starting in July 2022 'What do you think will be the inflation rate (for the Consumer Price Index) over the next 5 years? Please provide an answer in an annual percentage rate.' Monthly respondent numbers vary from 179 to 240 firms per response month. There is no significant difference between expectation so manufacturing and non-manufacturing firms
Source: Federal Reserve Bank of Richmond business surveys

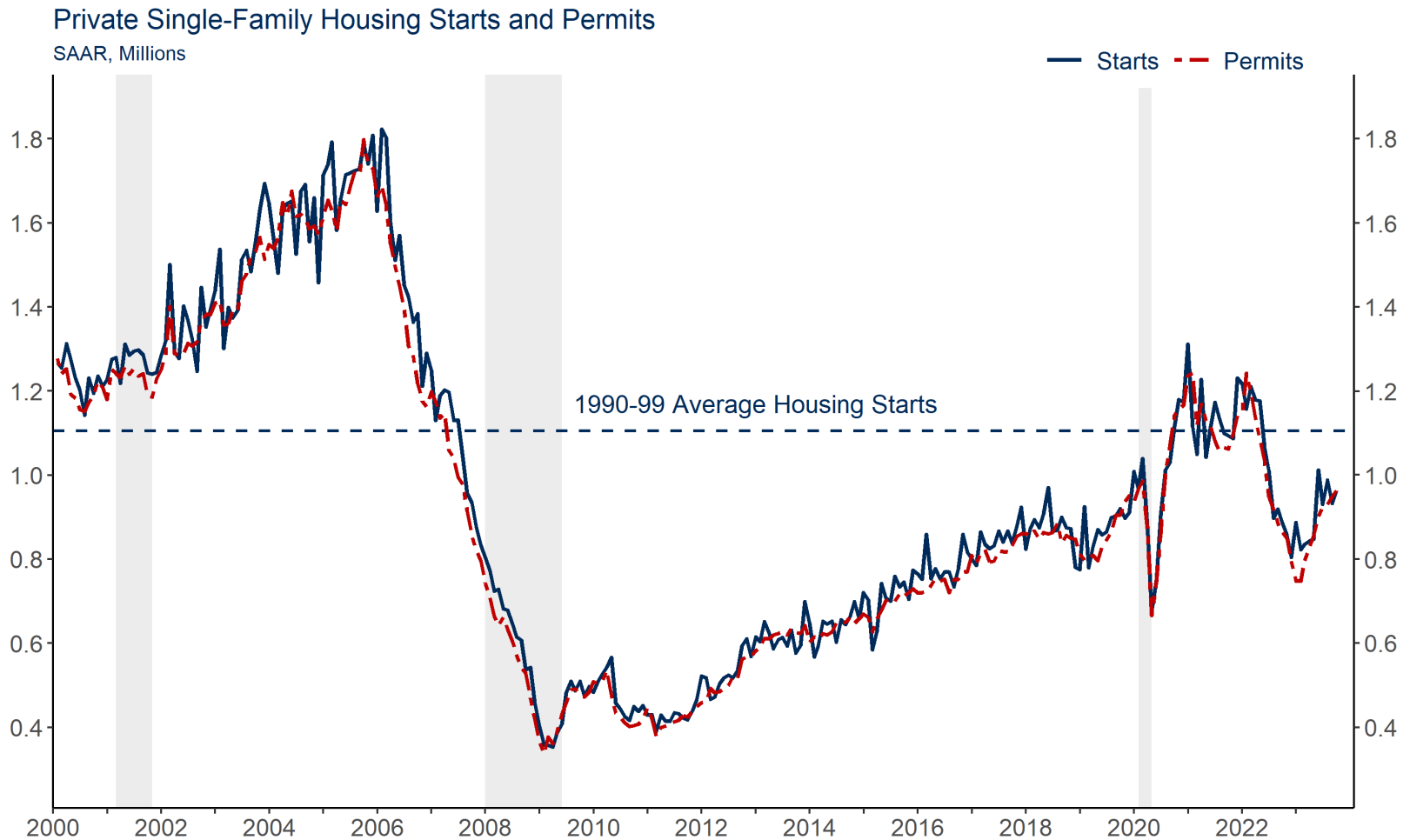
Source: Federal Reserve Bank of Richmond

The housing market remains tight; new home sales have picked up



Source: Census Bureau via Haver Analytics

Residential construction activity has picked up

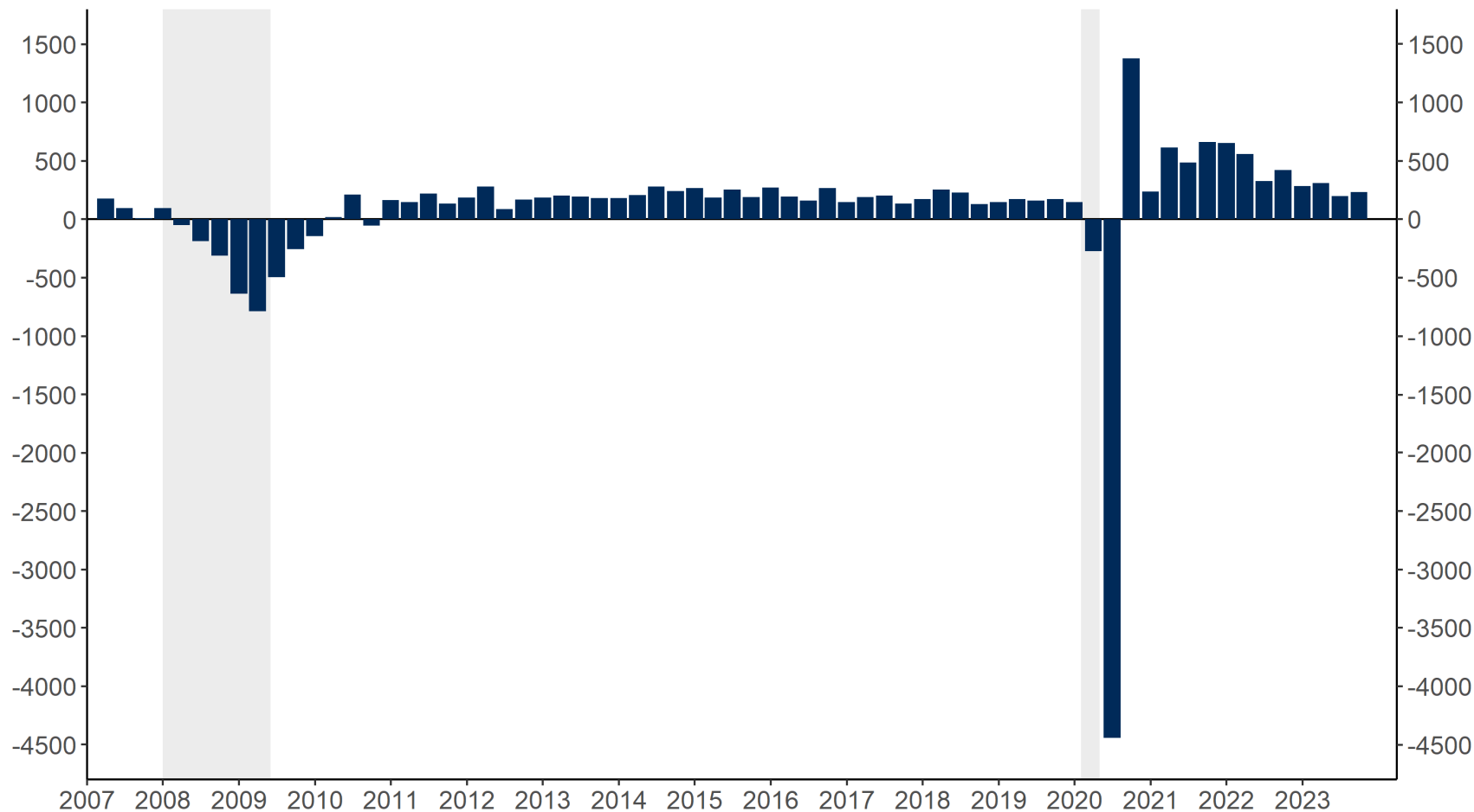


Source: Census Bureau via Haver Analytics

The pace of employment growth is slowing (it seems)

Nonfarm payroll employment

Quarterly average of monthly changes, thousands of persons

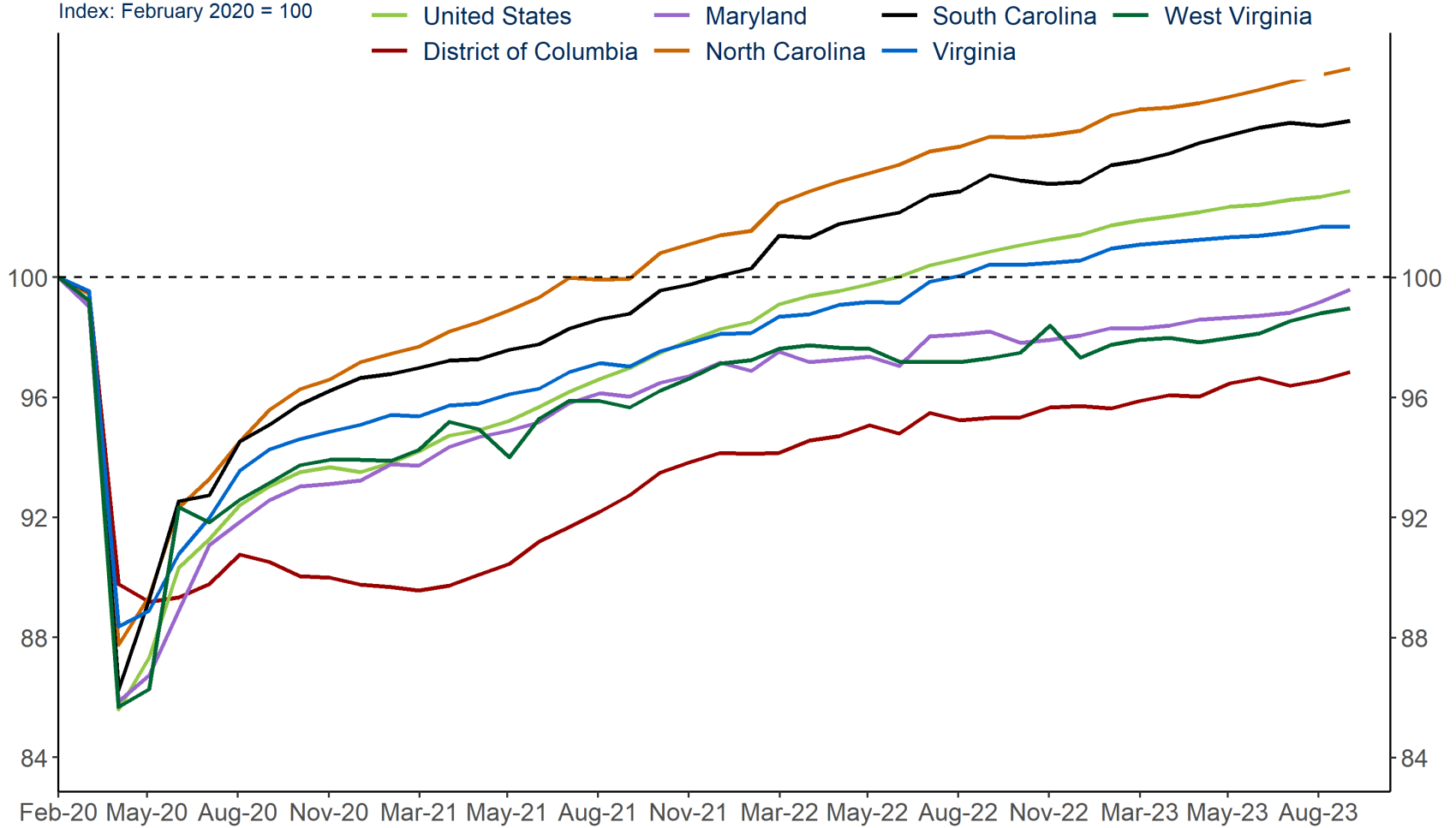


Source: Bureau of Labor Statistics/Haver Analytics

North and South Carolina continue to outpace the northern parts of the Fifth District

Total Payroll Employment Index

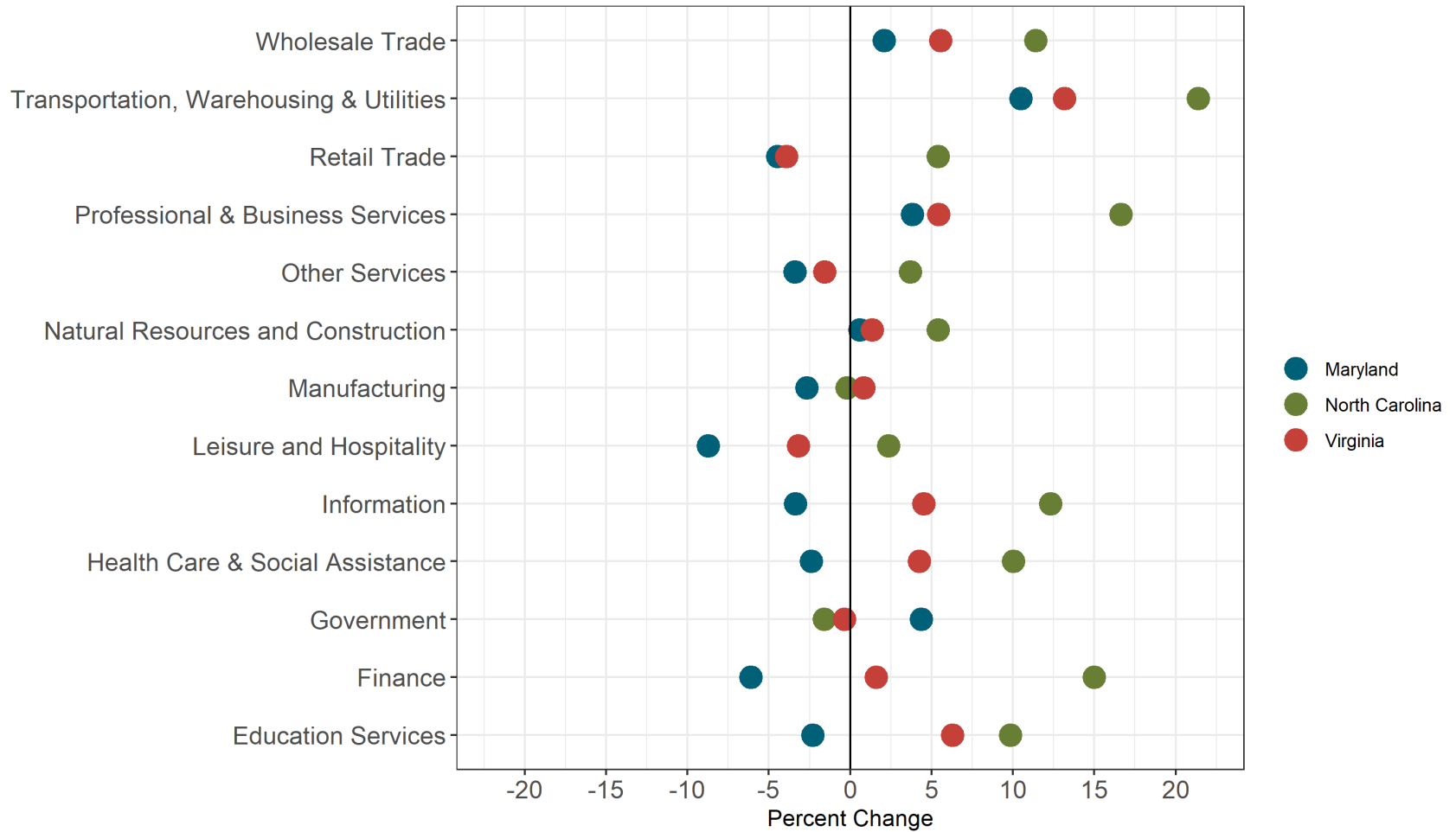
Index: February 2020 = 100



Source: Bureau of Labor Statistics/Haver Analytics

Growth has not been uniform by industry...

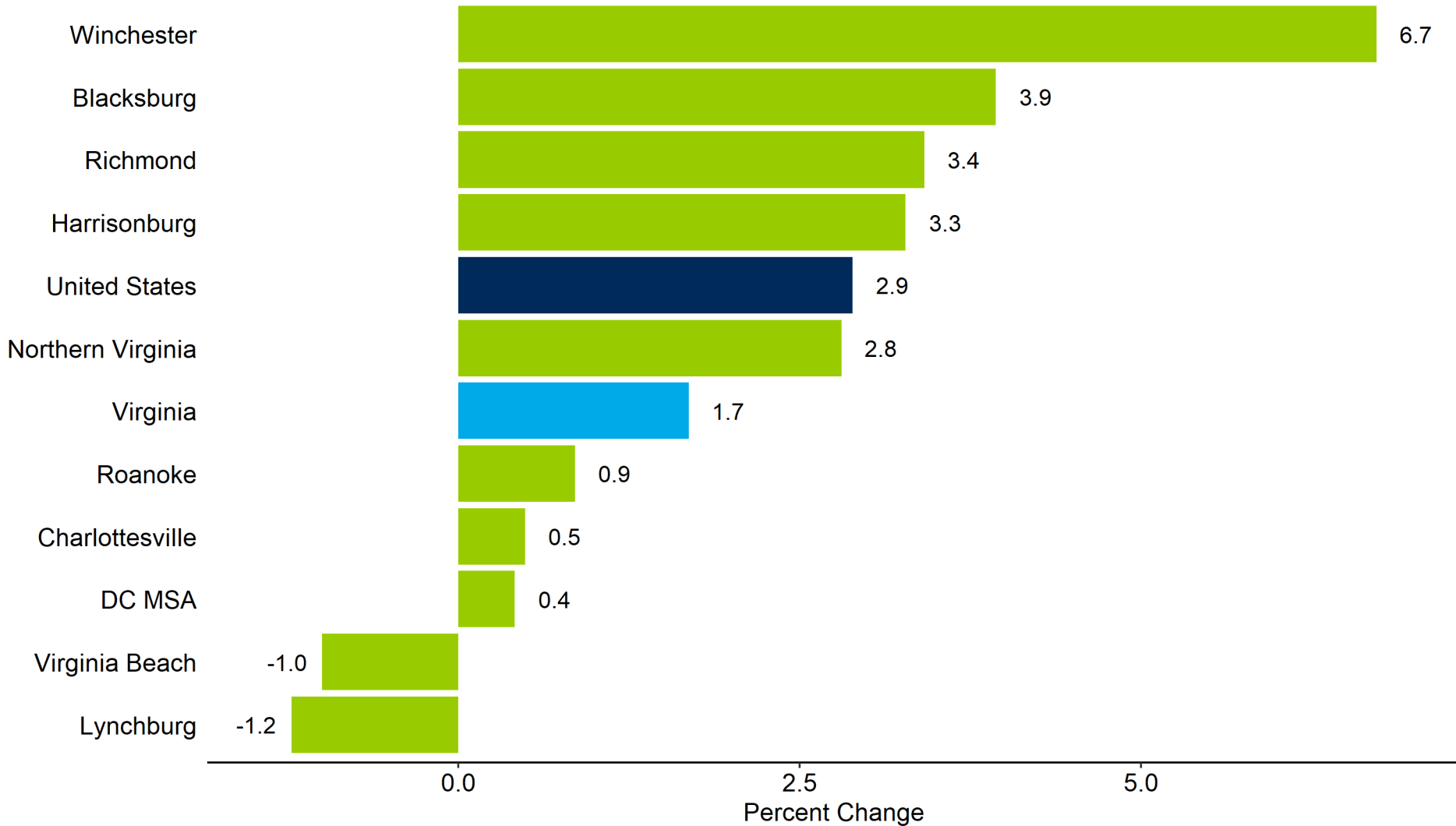
Employment Change from February 2020 to September 2023



Source: Bureau of Labor Statistics/Haver Analytics

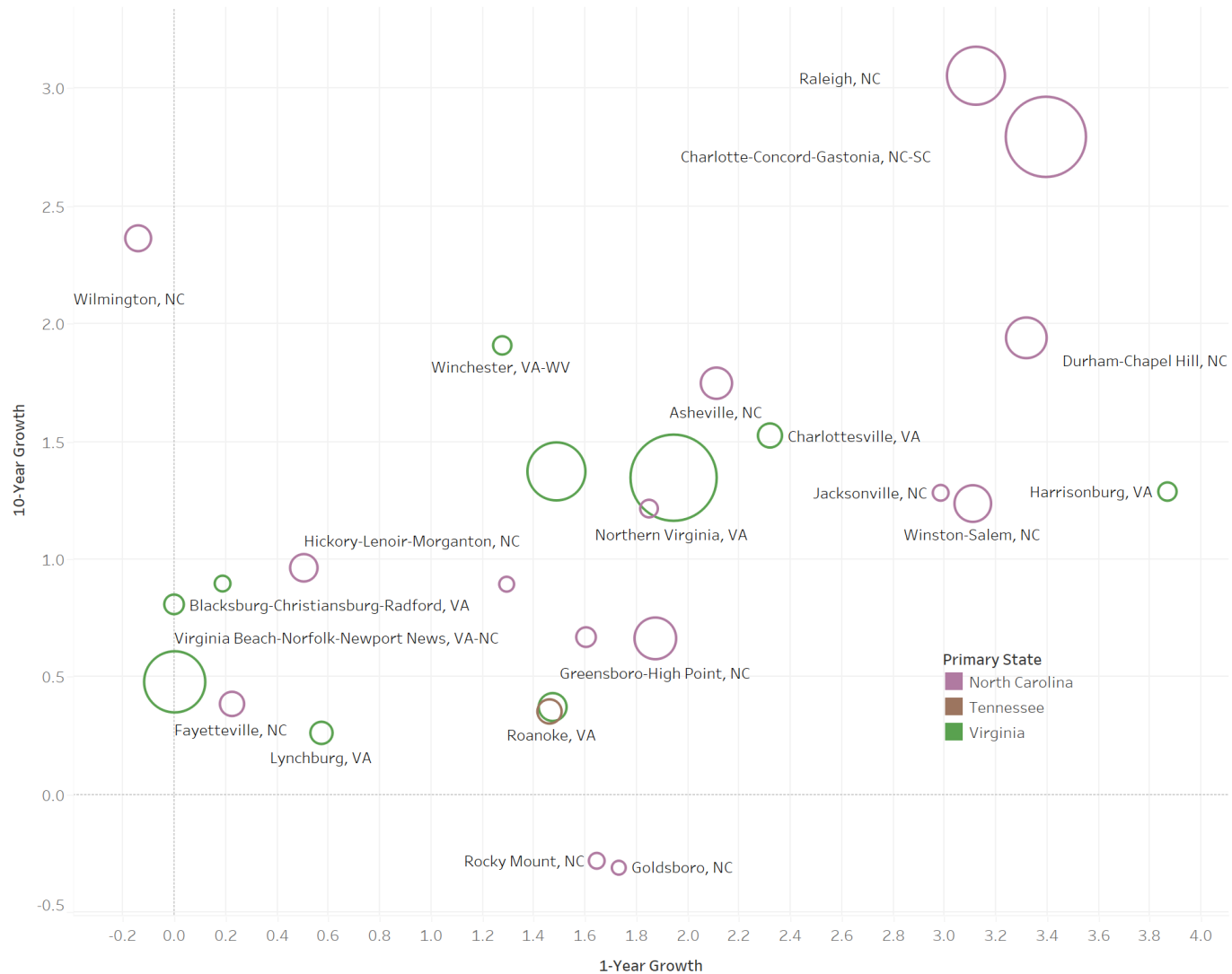
...or by region

Employment Change from February 2020 to September 2023



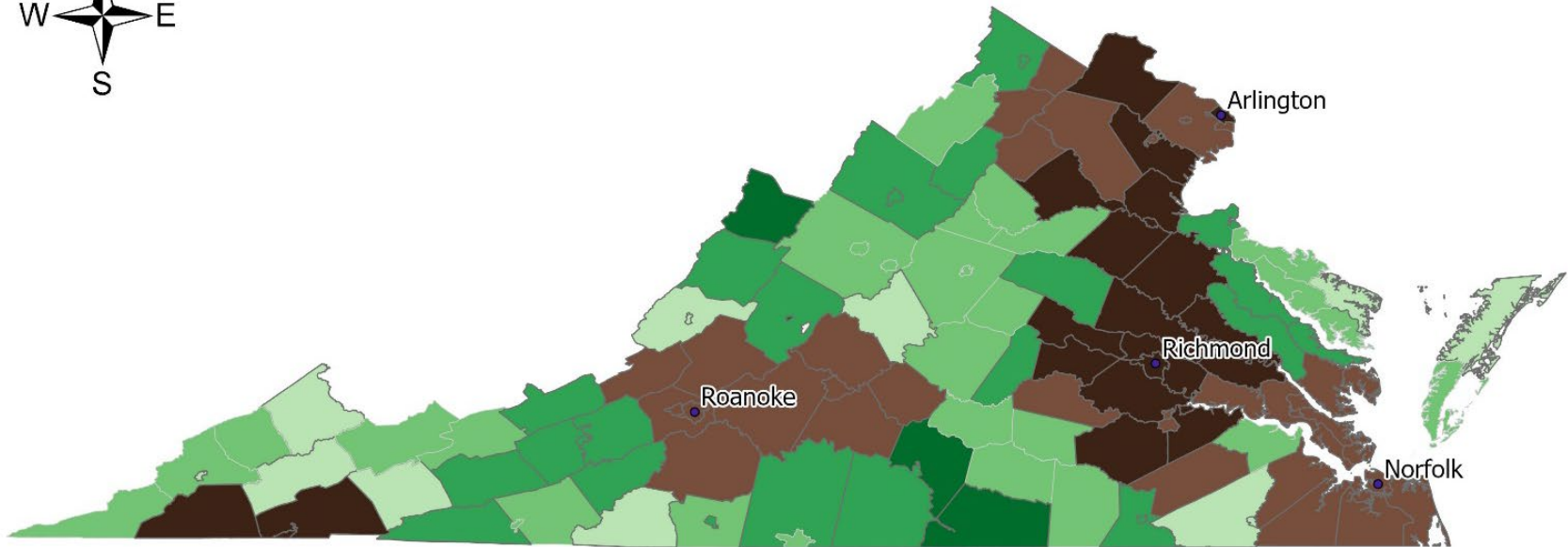
Source: Bureau of Labor Statistics/Haver Analytics

North Carolina metro areas are driving growth in that state

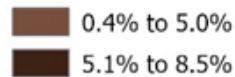


Source: Bureau of Labor Statistics/Haver Analytics

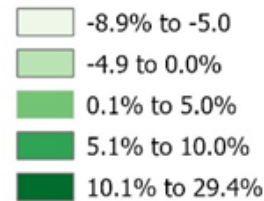
In general, more urban areas continue to grow faster



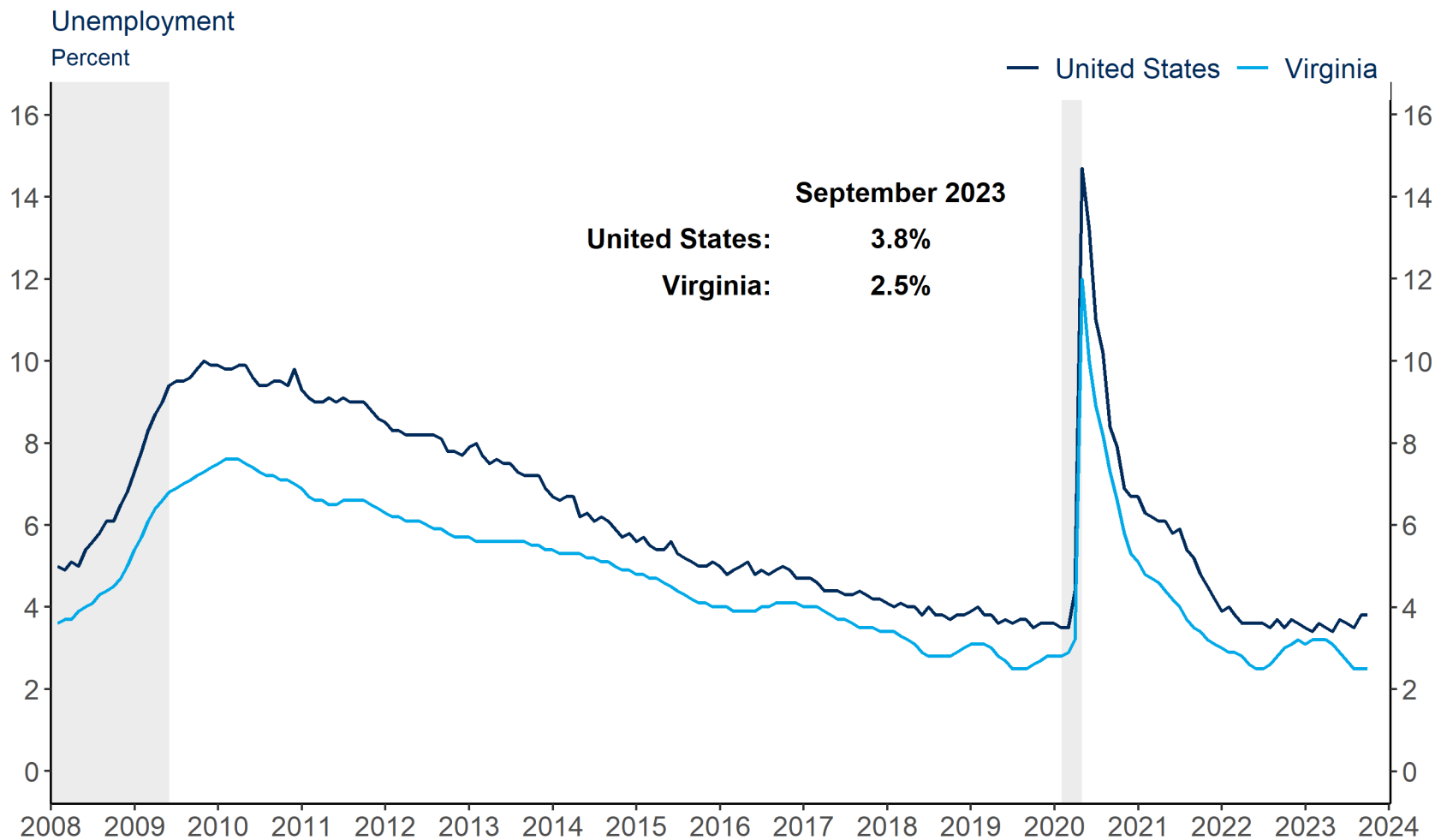
Employment Growth - Urban
September 2019 - September 2023



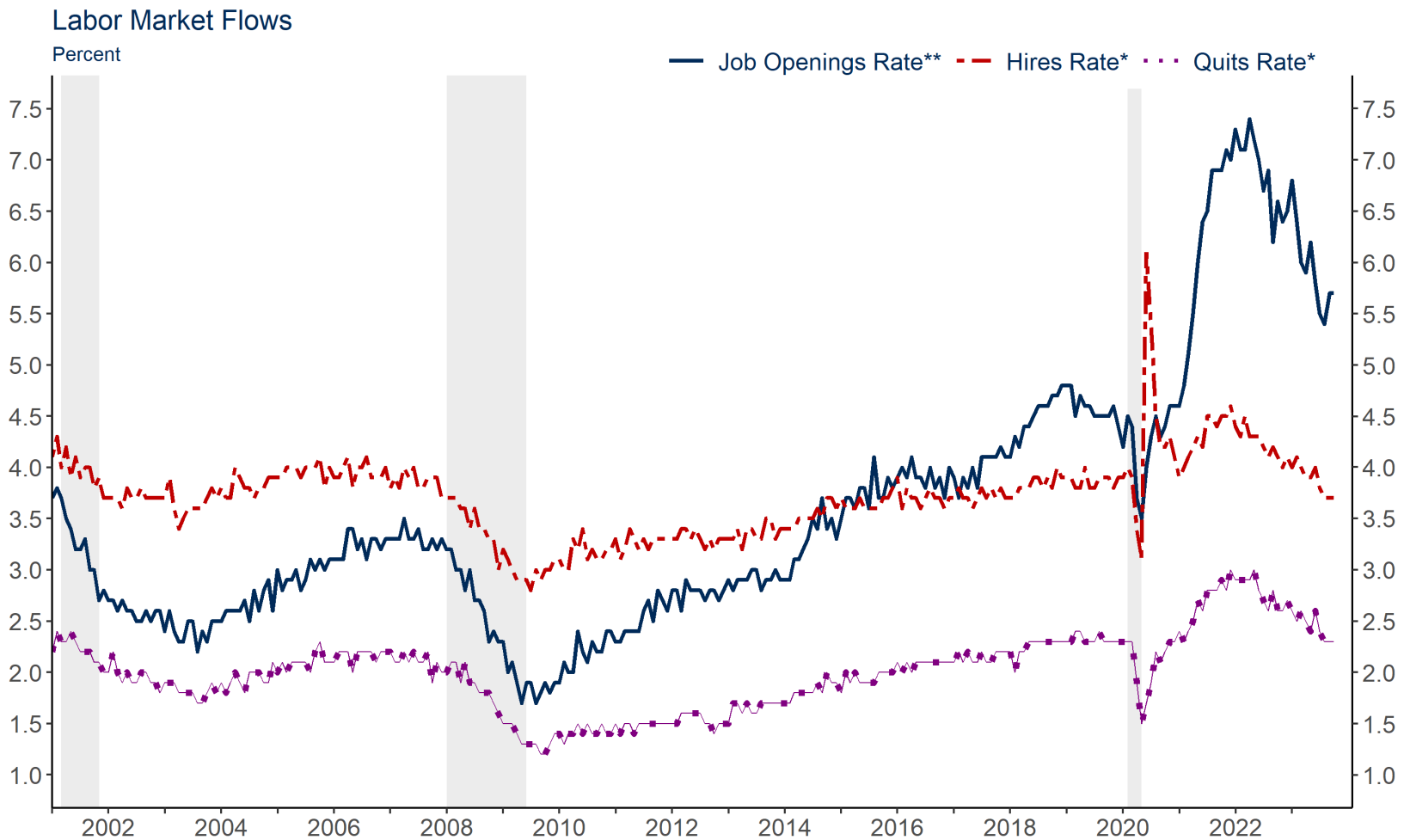
Employment Growth - Rural
September 2019 - September 2023



Unemployment remains at record lows

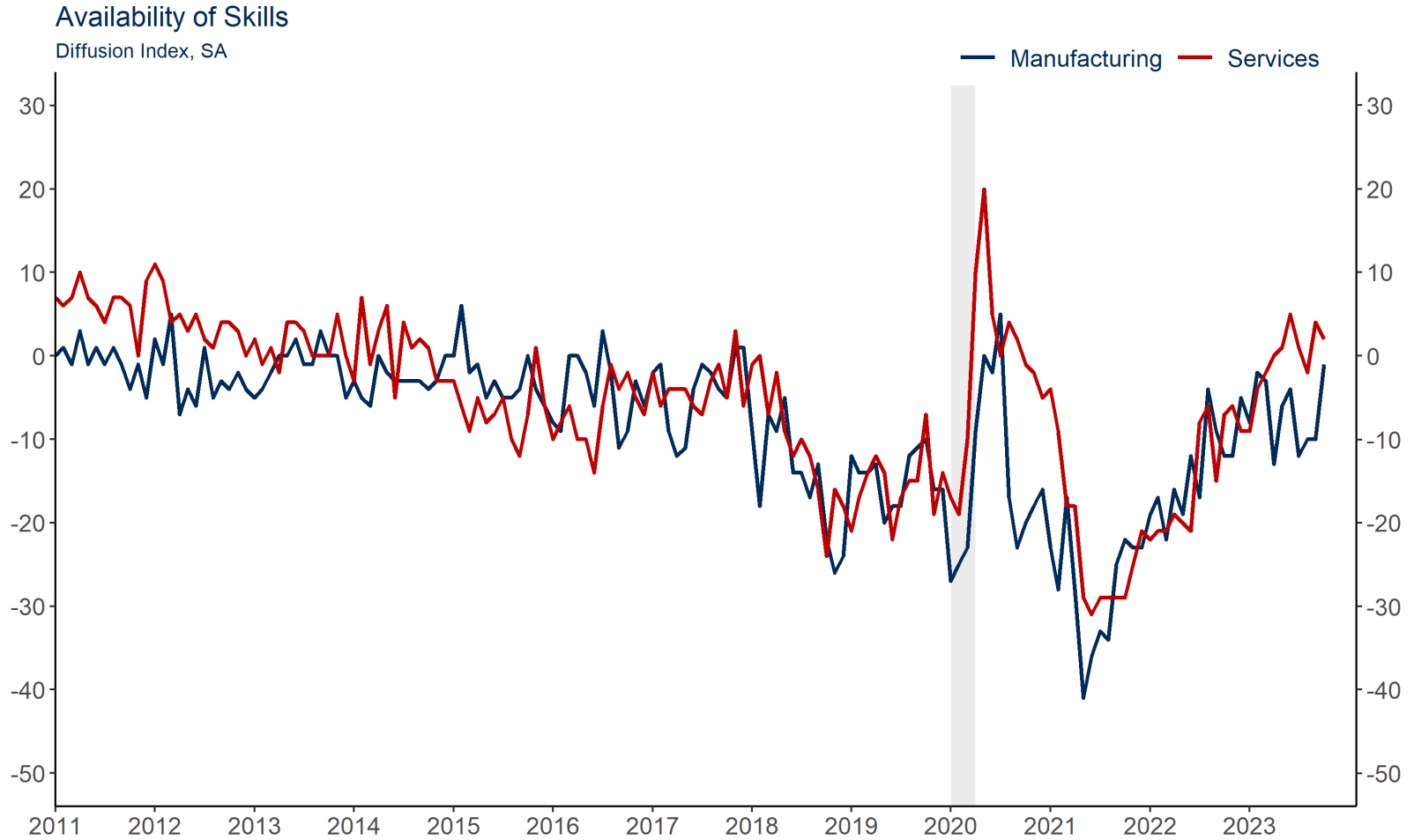


Labor demand has been at an all-time high. It is coming down

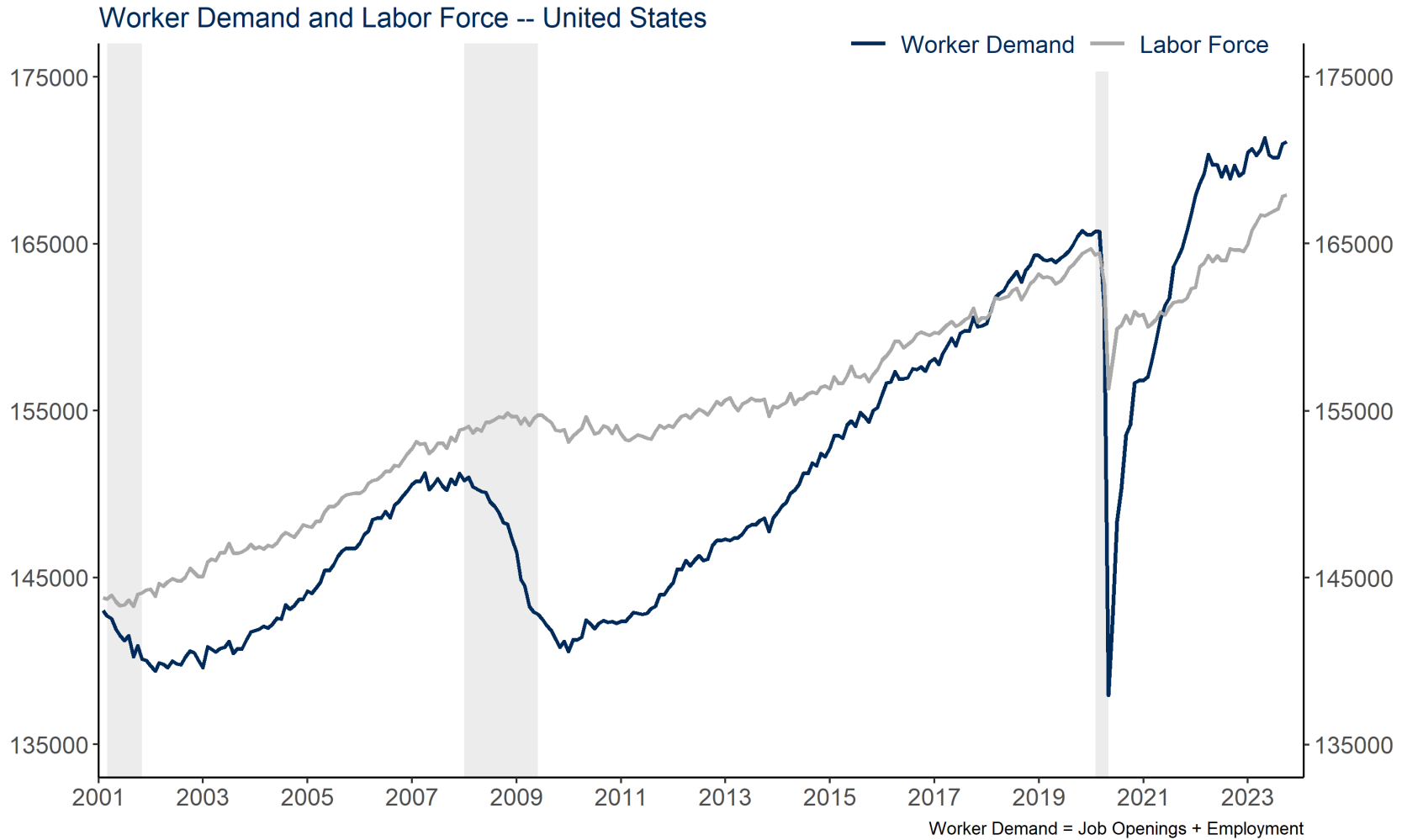


Source: Bureau of Labor Statistics/Haver Analytics

Firms still report needing workers with the necessary skills— although it is not getting worse



There is a large gap between demand for and supply of workers

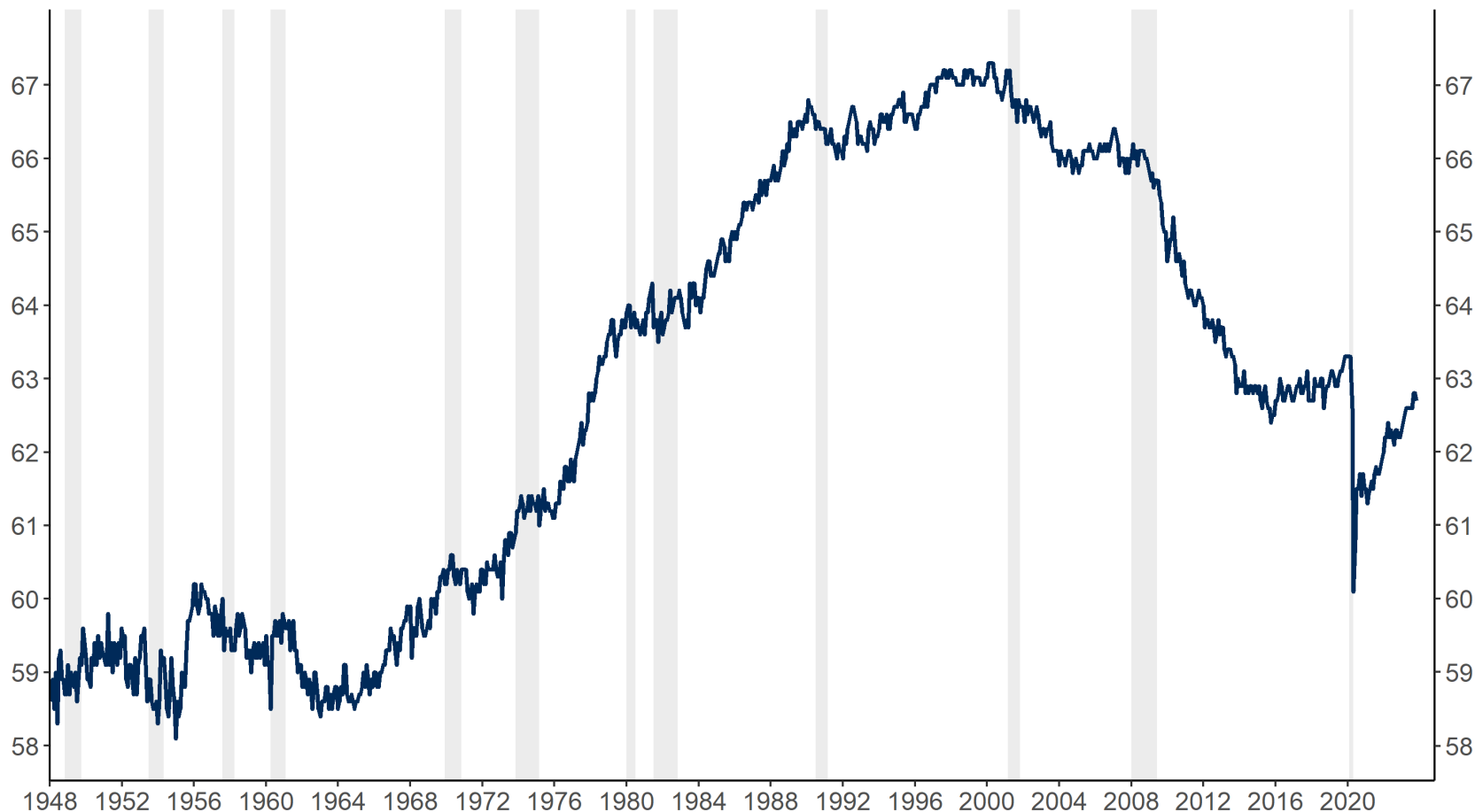


Source: Bureau of Labor Statistics, JOLTS, CES, LAUS / Haver Analytics

Part of the gap is the lower labor force participation rate

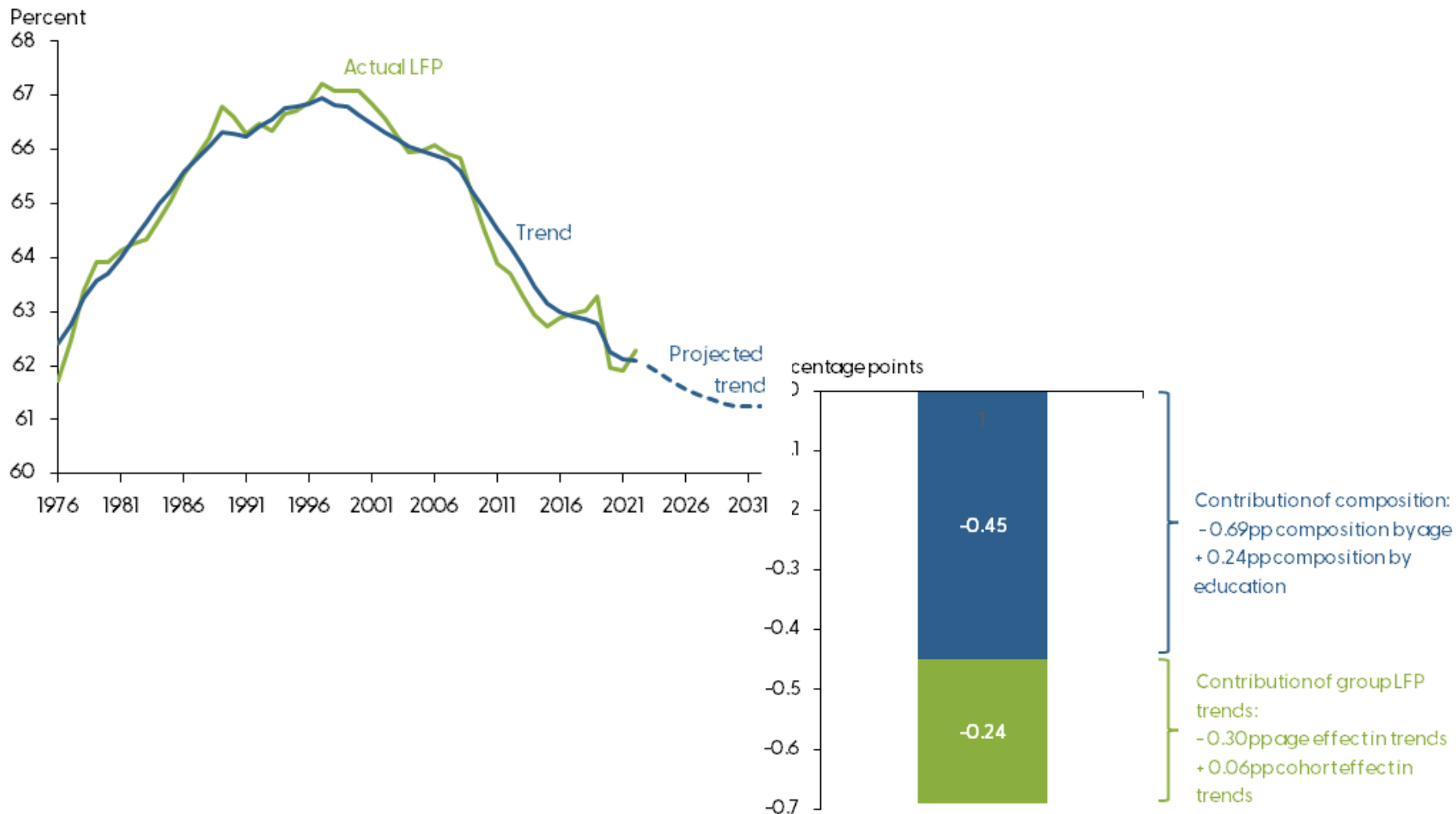
Labor Force Participation (16 years old +)

Percent



Source: Bureau of Labor Statistics/Haver Analytics

Demographics drive much of the decline in LFP



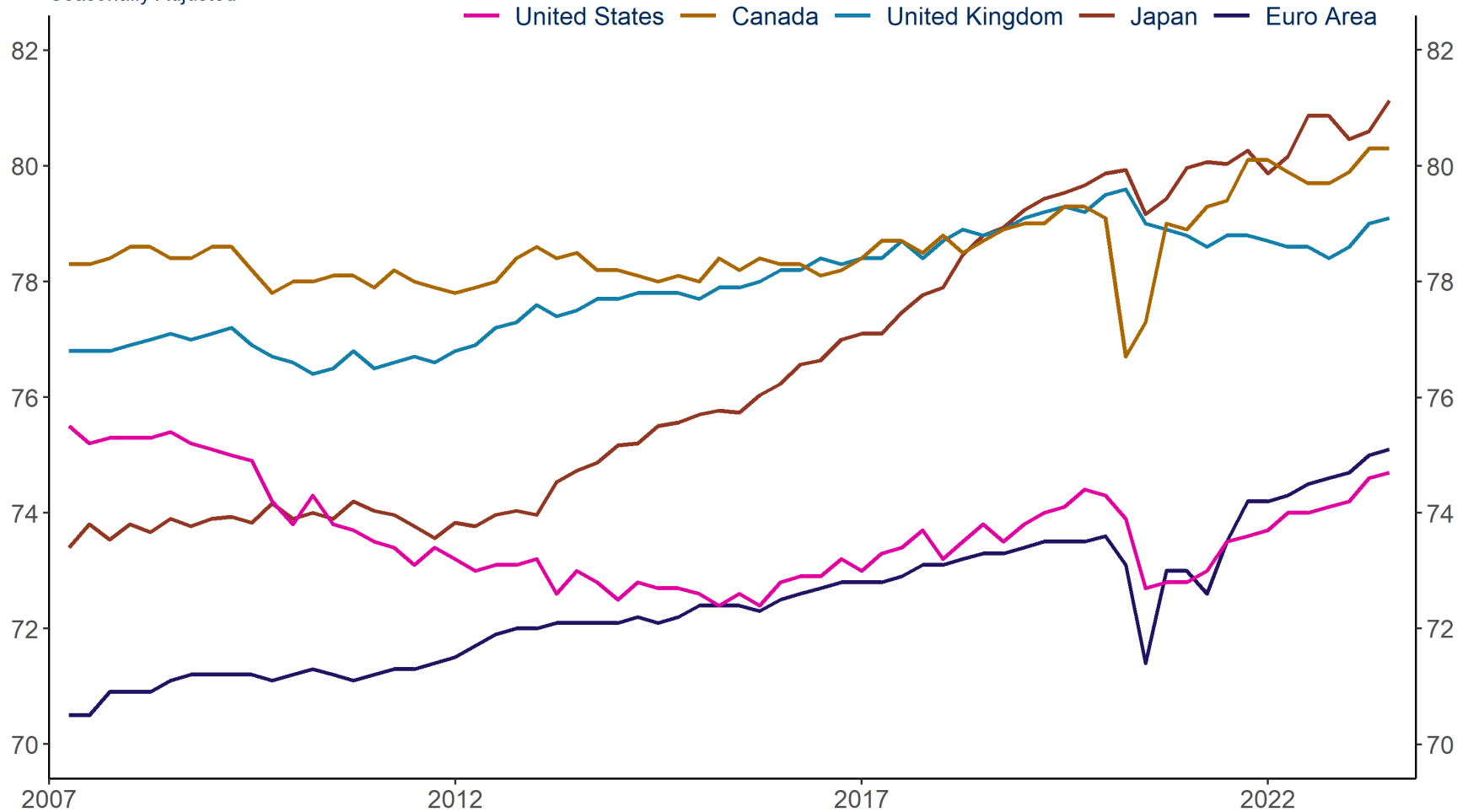
Source: Current Population Survey (1976-2022 microdata) and author's calculations. Hornstein, Kudlyak, Meisenbacher, and Ramachandran, "How Far is Labor Force Participation from its Trend?" FRBSF Economic Letter <https://www.frbsf.org/economic-research/publications/economic-letter/2023/august/how-far-is-labor-force-participation-from-its-trend/>

The U.S. is lower than other countries and as we saw, not on a rising trend



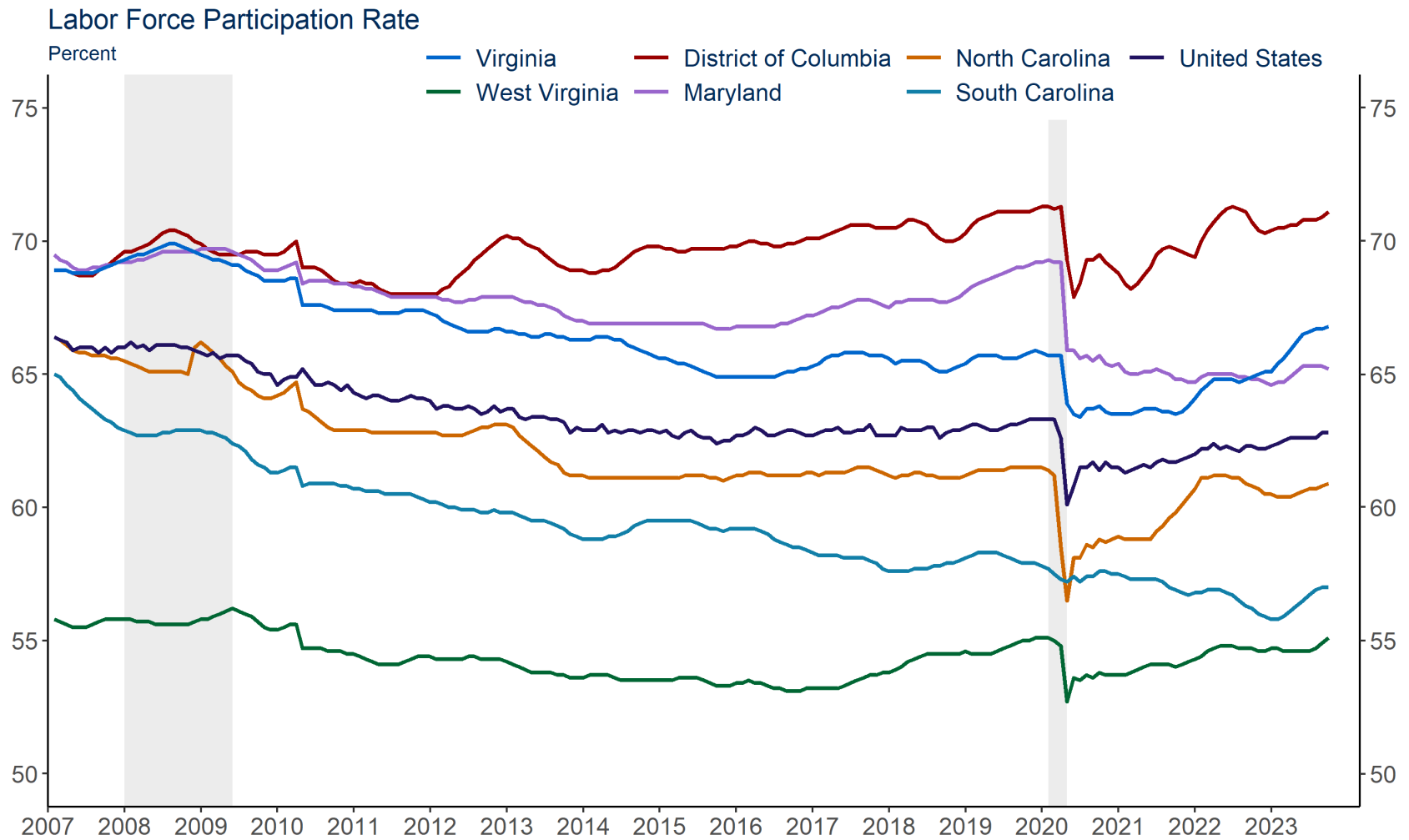
Labor Force Participation Rate

Seasonally Adjusted



Source: Bureau of Labor Statistics, Statistical Office of the European Communities, Statistics Canada, Ministry of Internal Affairs and Communications

Is there room to grow the participation rate in our states?



Source: Bureau of Labor Statistics/Haver Analytics

So where does this leave us in 2024 and beyond?

- The economy will likely slow in 2024, although this does not necessarily mean recession. In addition, our surveys indicate that businesses continue to prepare for a downturn in demand.
- The labor market has been incredibly resilient. In the short-term, there are signs of slowing demand (e.g., postings), but we are facing a long-term labor shortage, especially in certain industries/professions.
- Some industries and states have farther to go to come back from COVID. Virginia trails our southern neighbor in employment growth, but continues to outperform our northern neighbor.
- The FOMC will continue to work to bring inflation down.
- The housing shortage and house price growth might make it harder to bring inflation back to target *and* more challenging for regional economic and community development.



Questions?
sonya.waddell@rich.frb.org

