Five Economic Trends Facing RVA-757 in 2024

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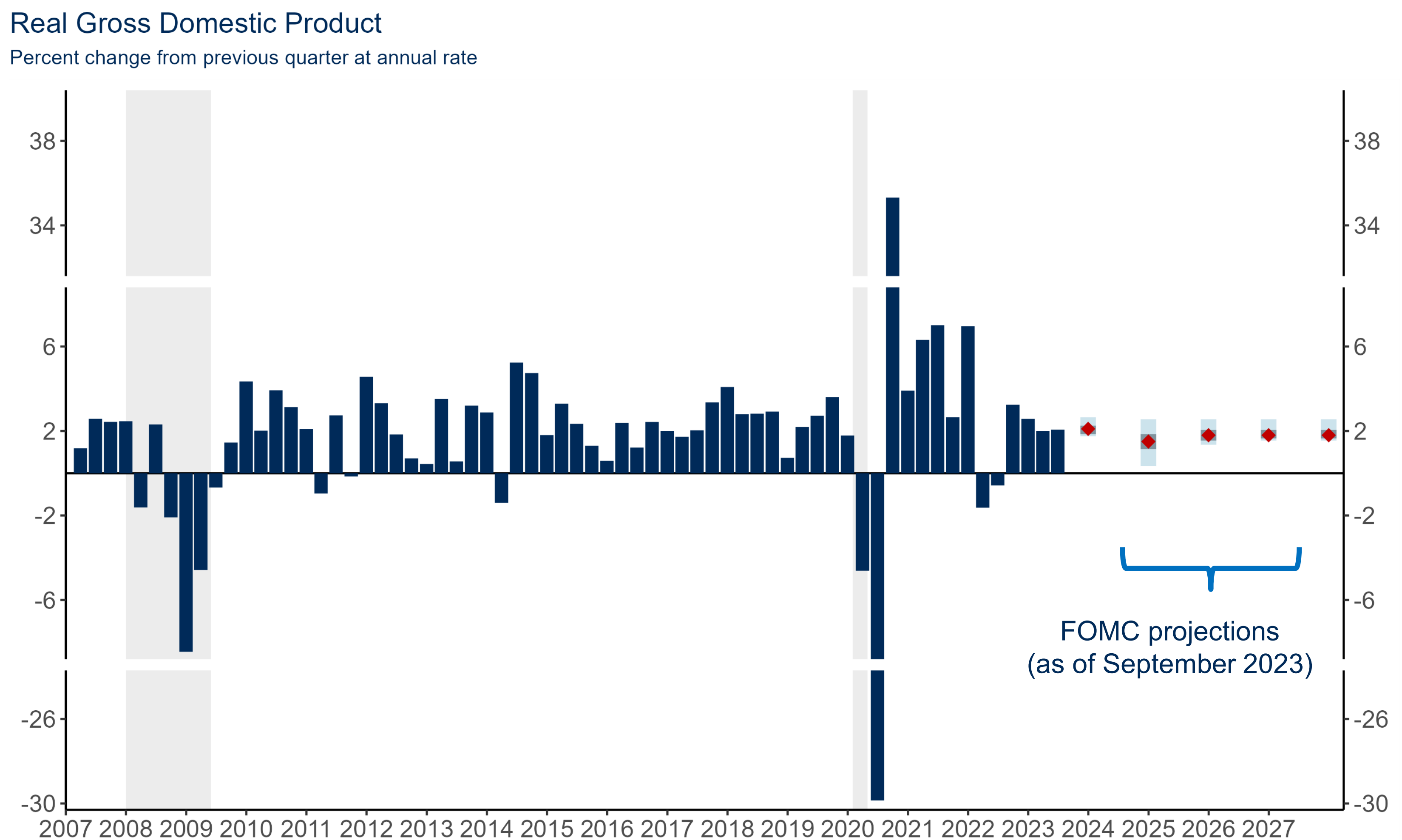
Before we talk about 2024: Where are we today?

- **A recession has been forecasted for a year… Yet it's still not here. The economy has proven very resilient.**

- **Why?**
  - **Demand surged in Covid, but supply couldn't meet it**
  - **So we got inflation and Fed raised interest rates**
  - **Economy has slowed from pandemic highs, but lots of artificial "stuff" still propping up the system**
    - fiscal policy, extra household savings, supply chain disruptions, etc.

1. Expect a slower economy in 2024 (but soft landing is possible)



Source: Bureau of Economic Analysis via Haver Analytics

Notes: FOMC projection is the median, range, and central tendency for Y/Y percent changes, from the September 2023 meeting. Red dots indicate median projections.

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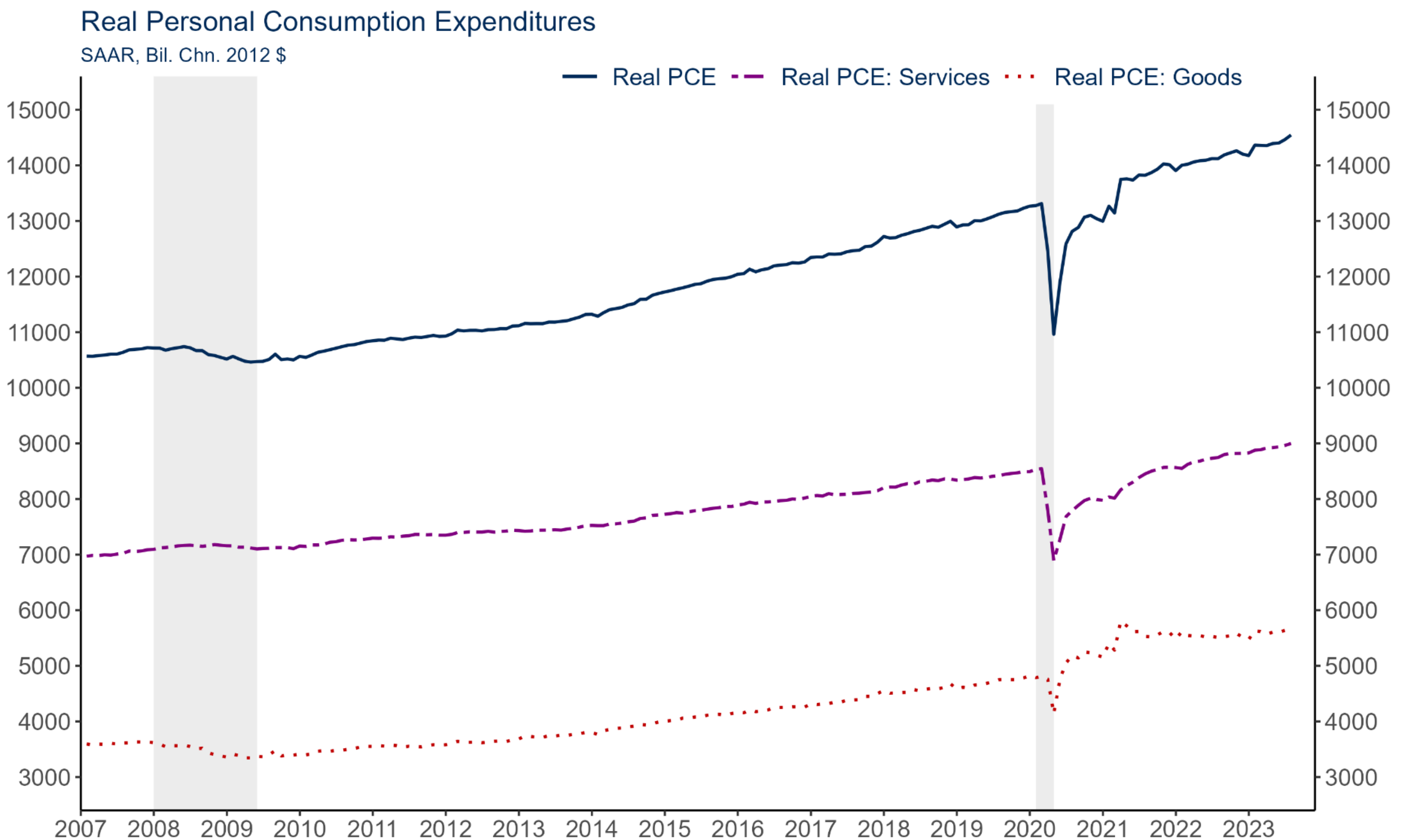
The consumer has driven things



Source: Bureau of Economic Analysis

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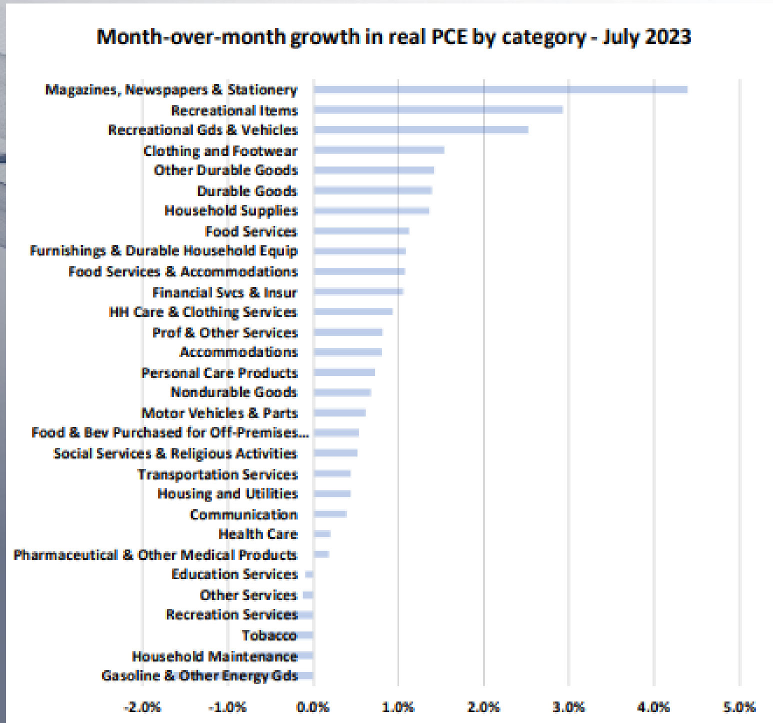
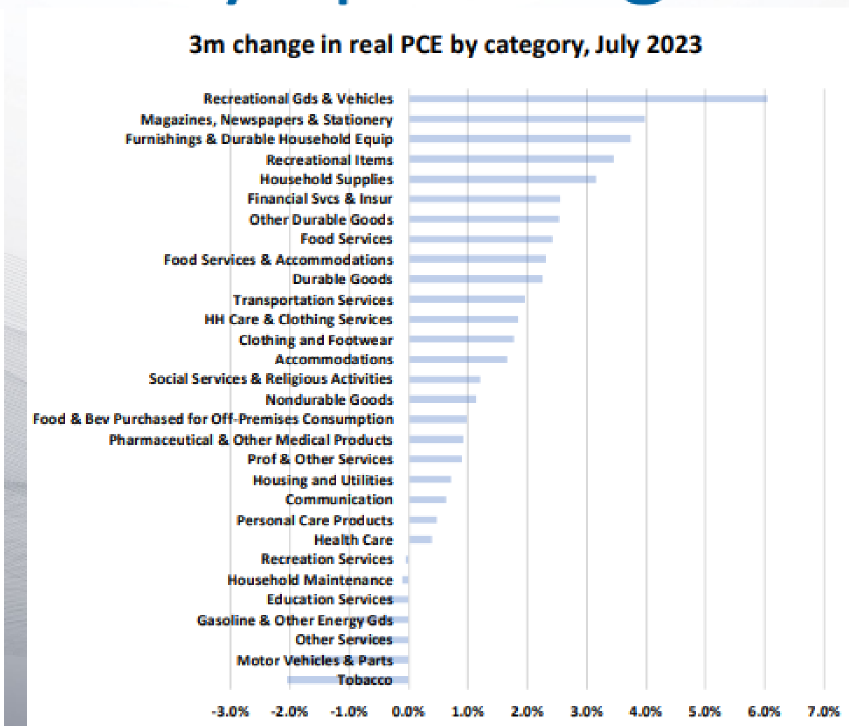
What are people spending on? Experiences and living well

Strong Discretionary Spending





Source: BEA via Haver Analytics

Source: Bureau of Economic Analysis

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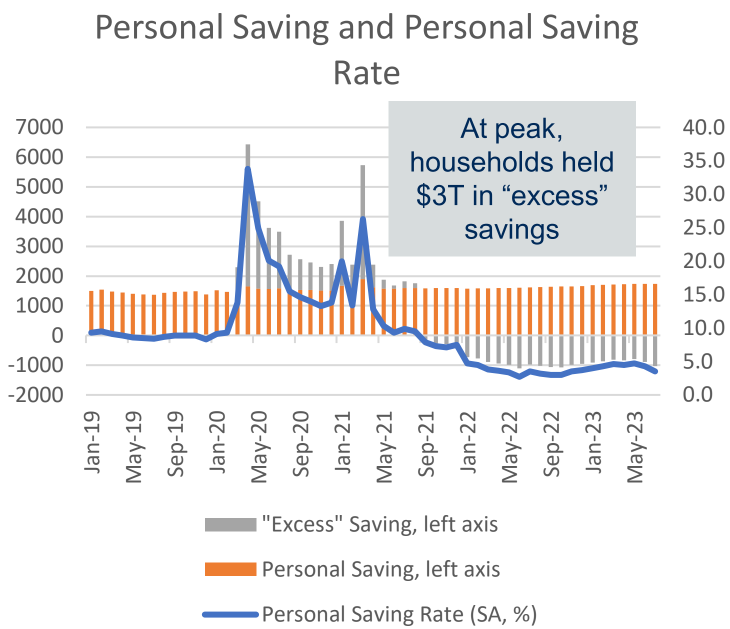
That said, households are drawing down excess savings, and even wealthy people are getting tired of inflation

Personal Saving *($billions)* Personal Saving Rate *(as % of disposable income)*



Source: Bureau of Economic Analysis via Haver Analytics

Household Net Worth
% of disposable income

Source: Financial Accounts of the U.S. via Haver Analytics

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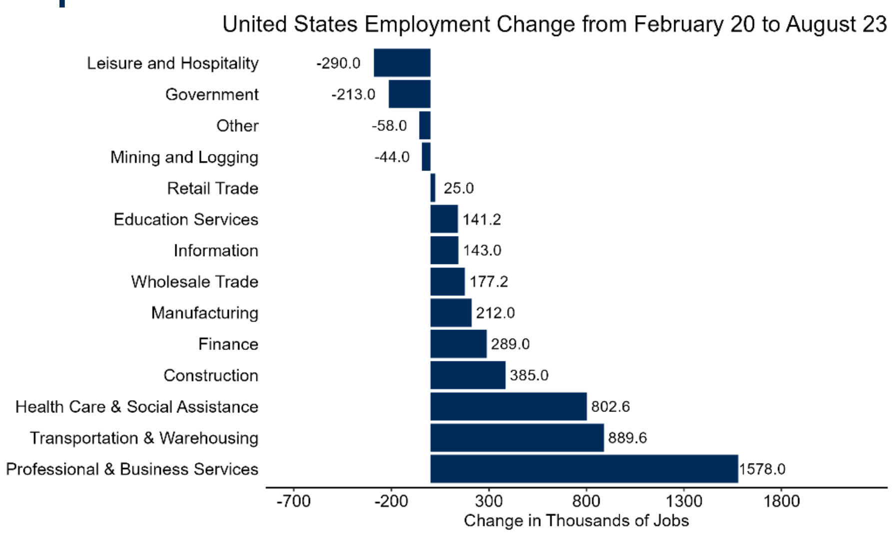
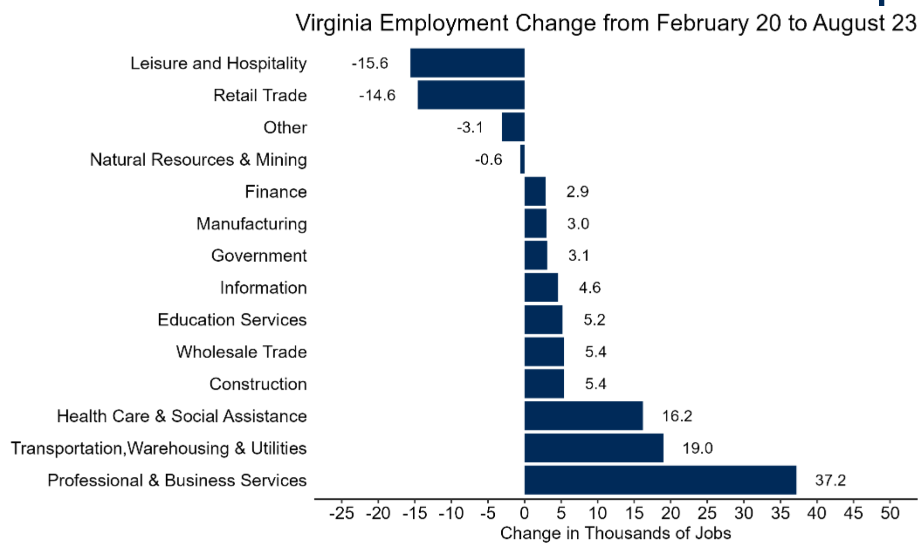
From Starbucks to warehouses: Covid changed the jobs we need

U.S. job change

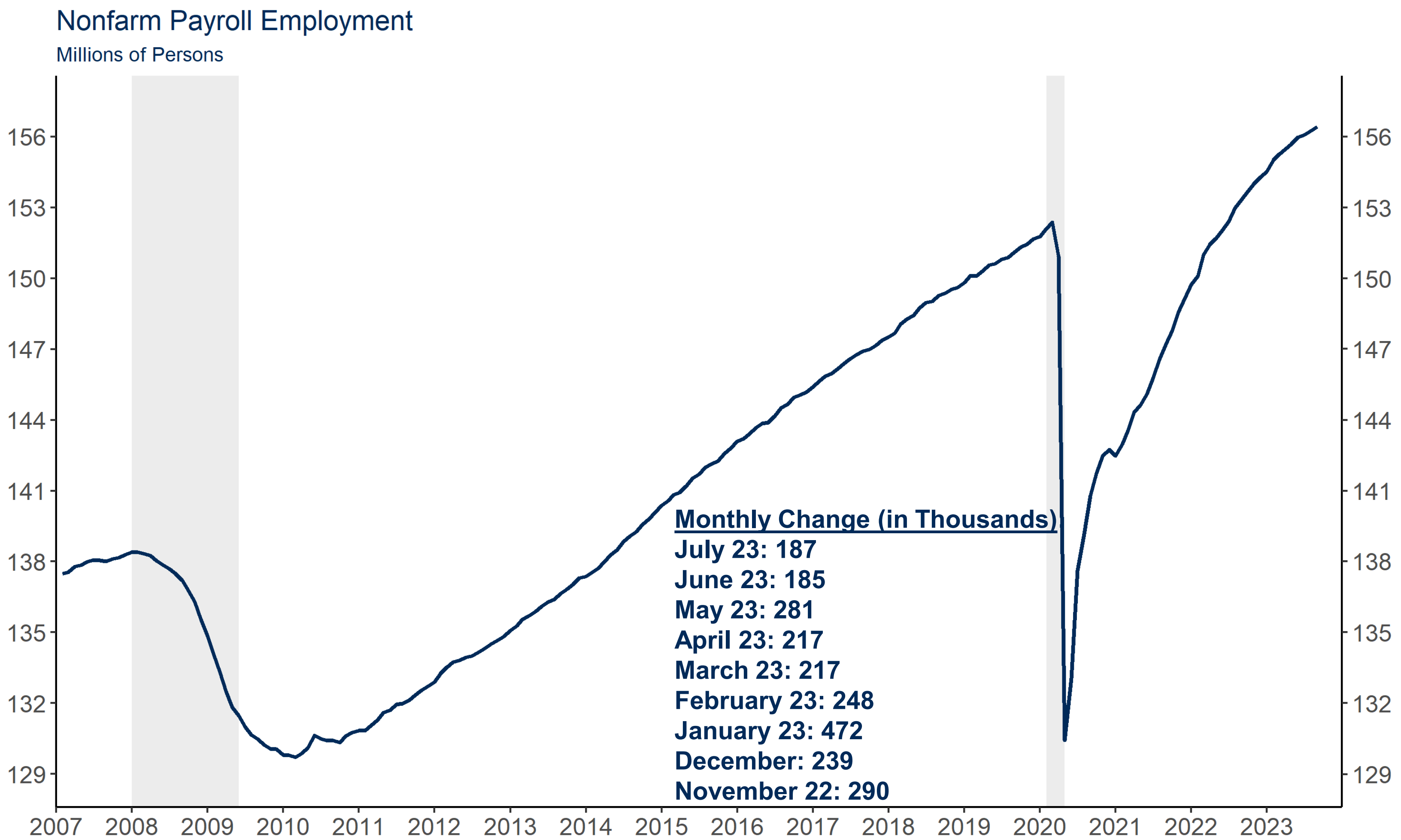


Virginia job change



Source: Bureau of Labor Statistics/Haver Analytics

2. The labor market is cooling near term, but labor may be tight long-term. First, near term:



Source: Bureau of Labor Statistics/Haver Analytics

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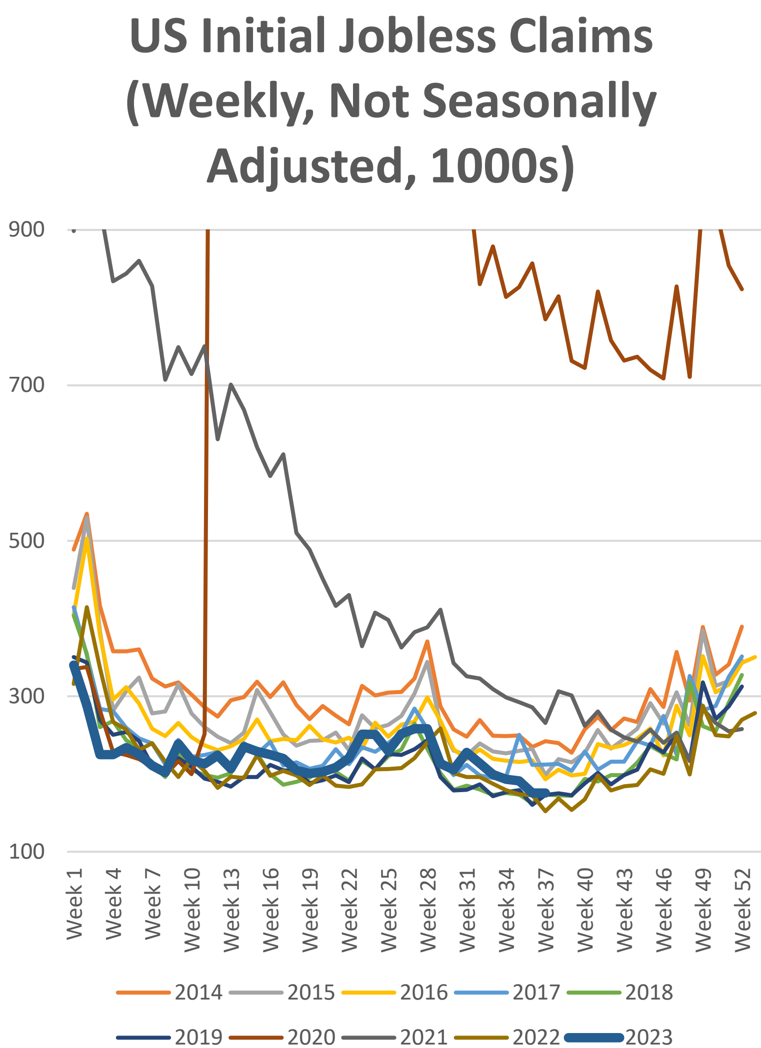
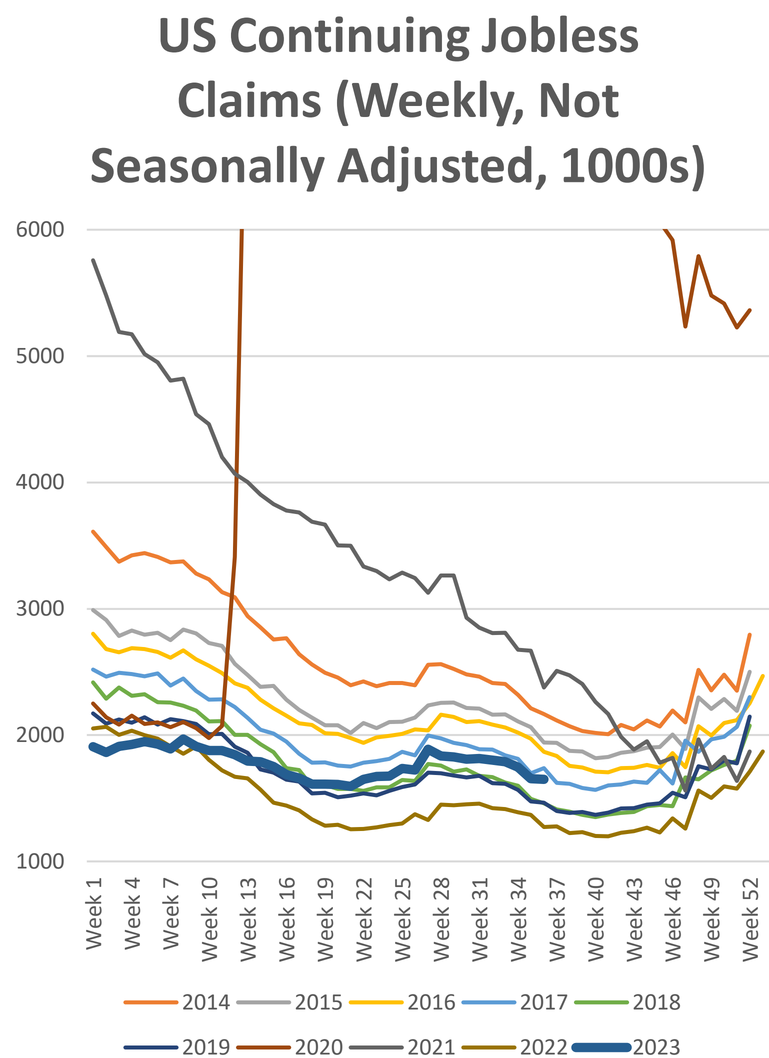
Little sign of mass layoffs, either





Source: FRED

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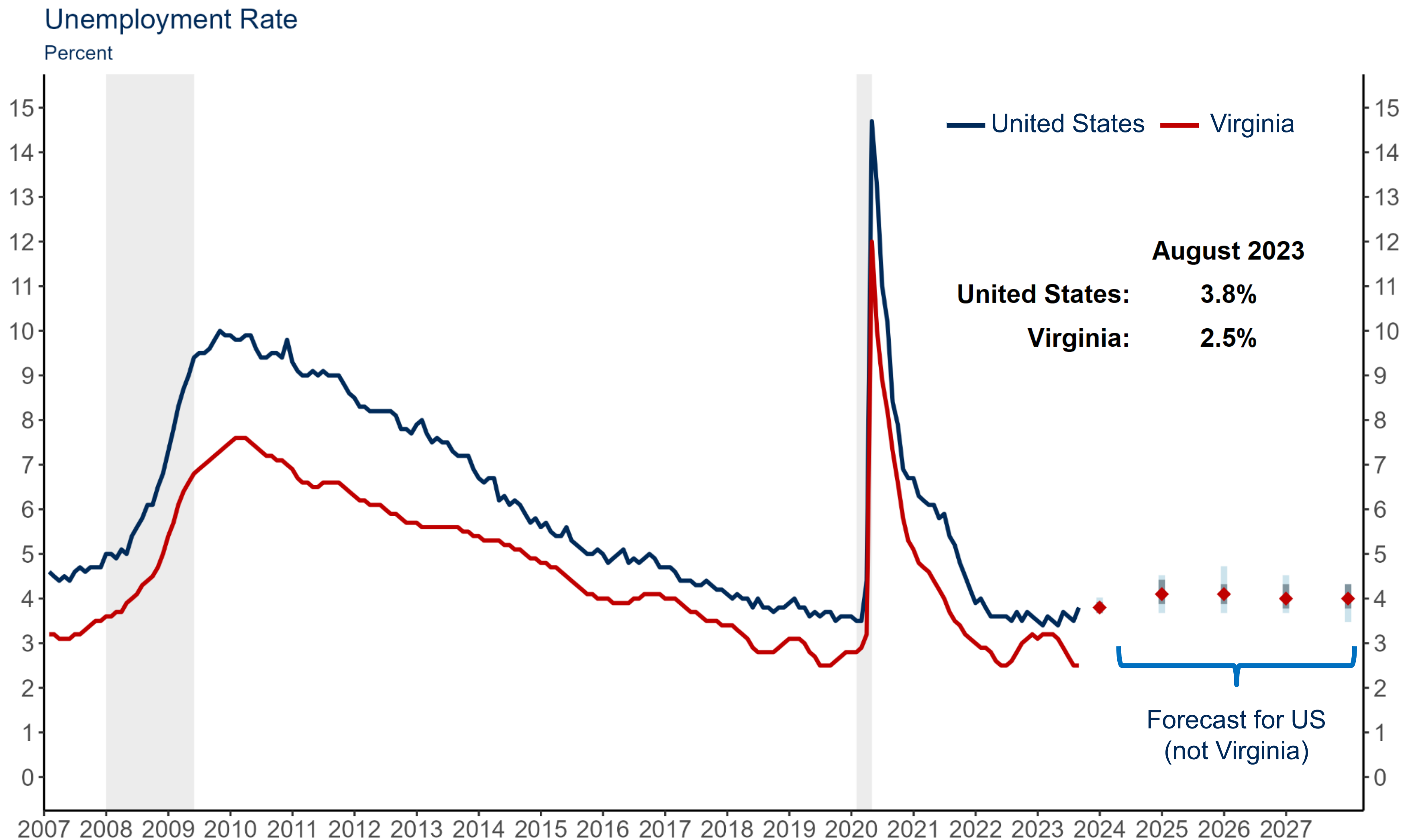
But the labor market is still very tight



Source: Bureau of Labor Statistics/Haver Analytics

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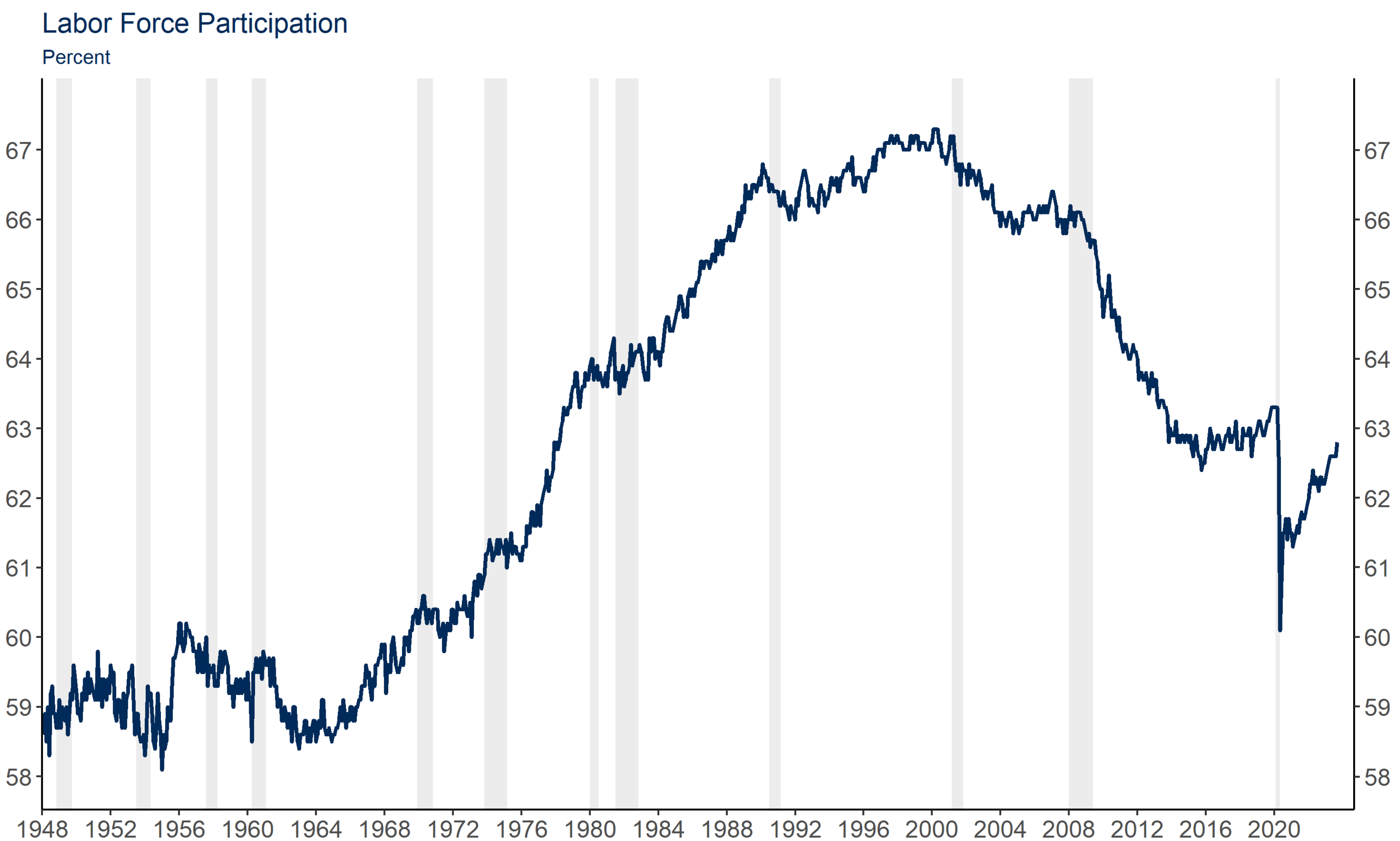
And even longer term, workers may be in short supply – especially for niche skills



Source: Bureau of Labor Statistics/Haver Analytics

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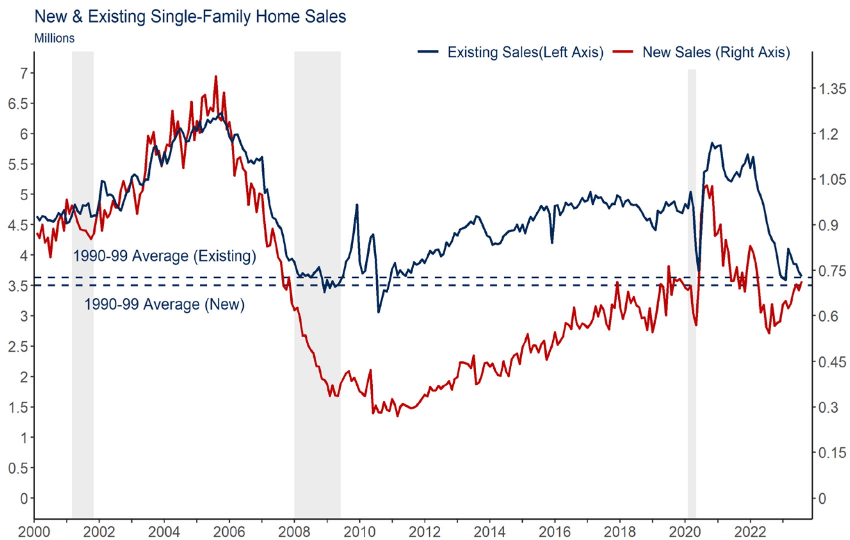
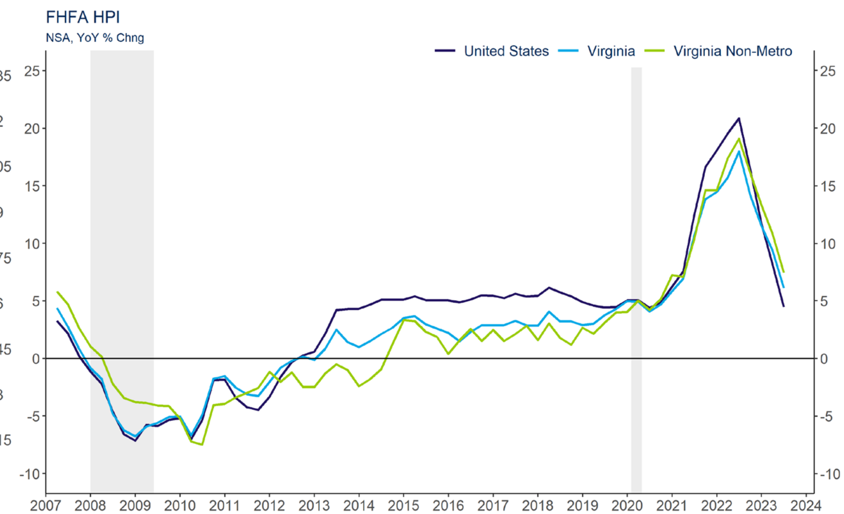
3. I don't see an obvious end to the housing shortage

New and existing single-family home sales



House prices (US and VA)



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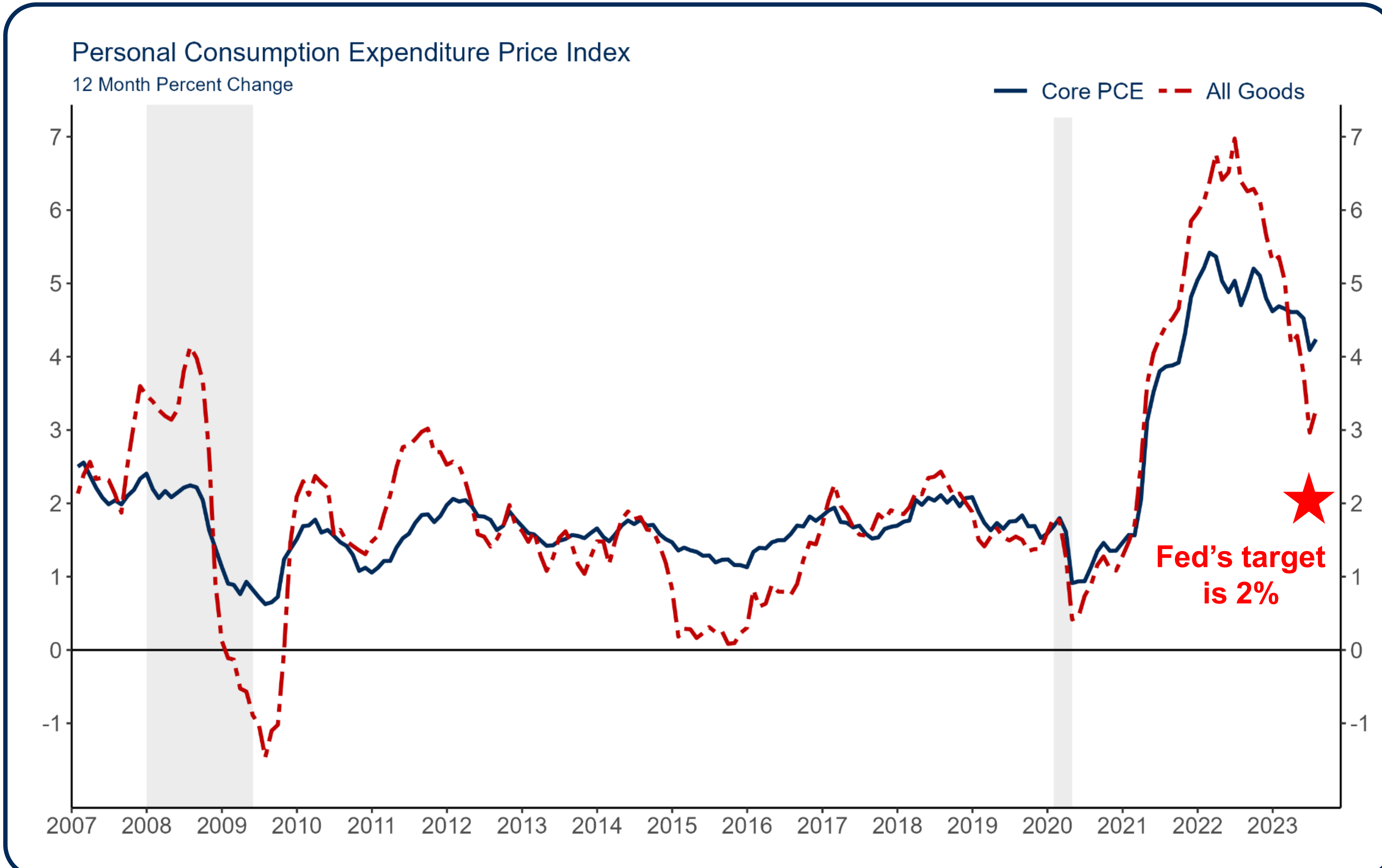
Source: Census Bureau via Haver Analytics / Federal Housing Finance Agency/Haver Analytics

4. Inflation is still elevated, so expect rates to stay high



Source: Bureau of Economic Analysis/ Haver Analytics

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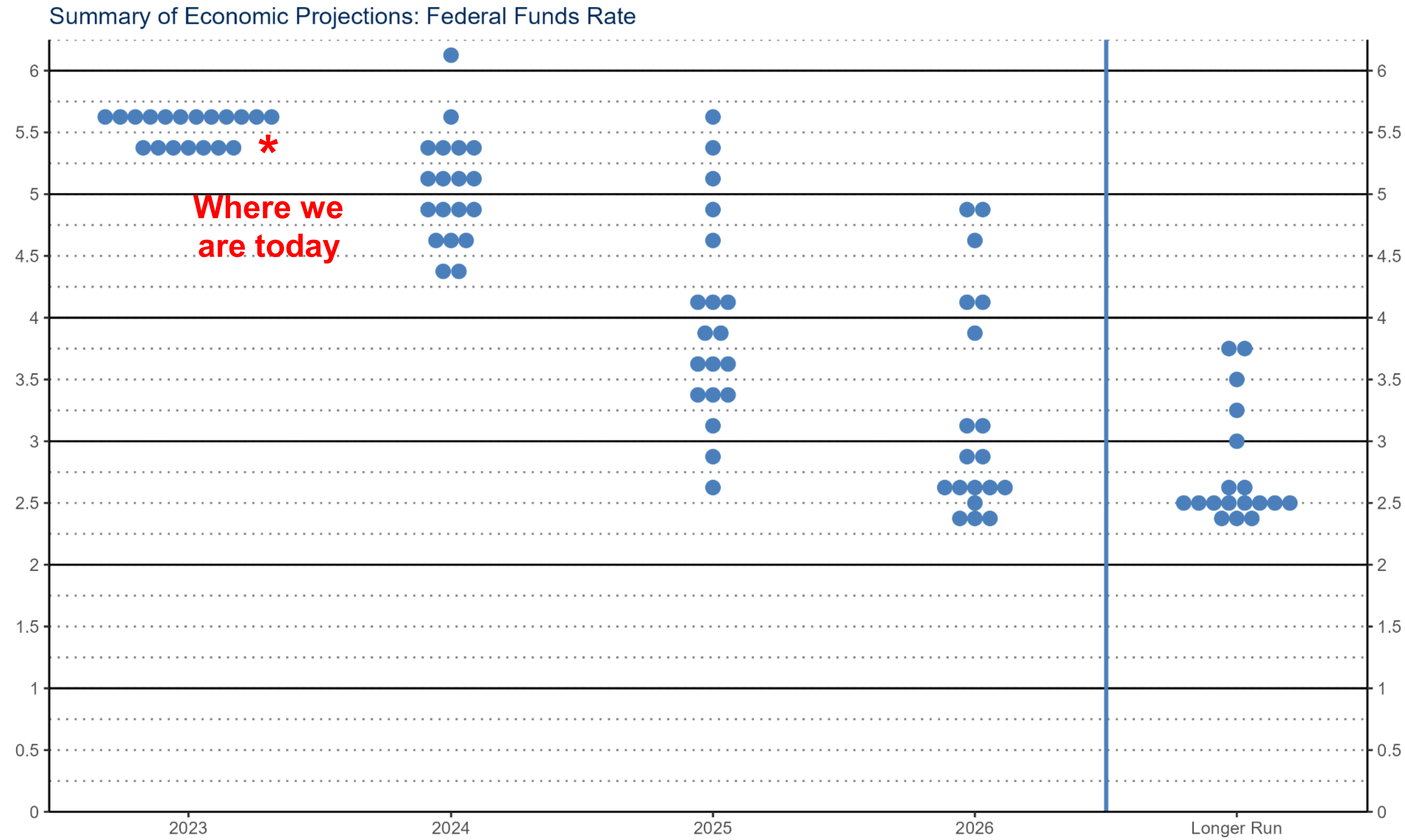
Fed policymakers expect rates to stay up for a while

FOMC members' forecast as of September 2023



Note: Each dot in the chart represents the value of an FOMC participant's judgment of the midpoint of the appropriate target range (or the appropriate target level) for the federal funds rate at the end of the calendar year.

Source: Federal Reserve Board of Governors Forecast

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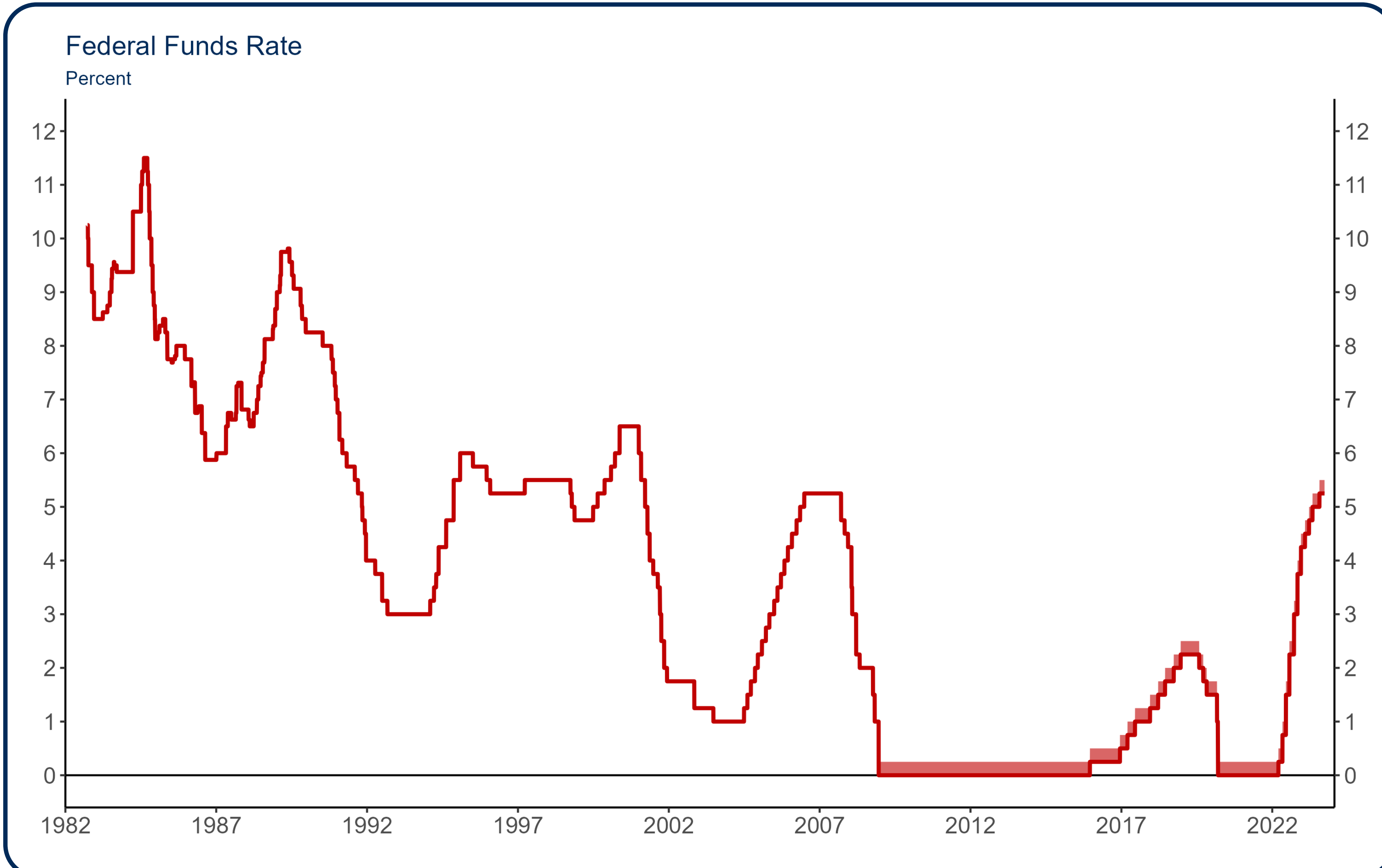
Rate hikes take 6-24 months to fully hit the economy… that's now



Source: Federal Reserve Board of Governors / Haver Analytics

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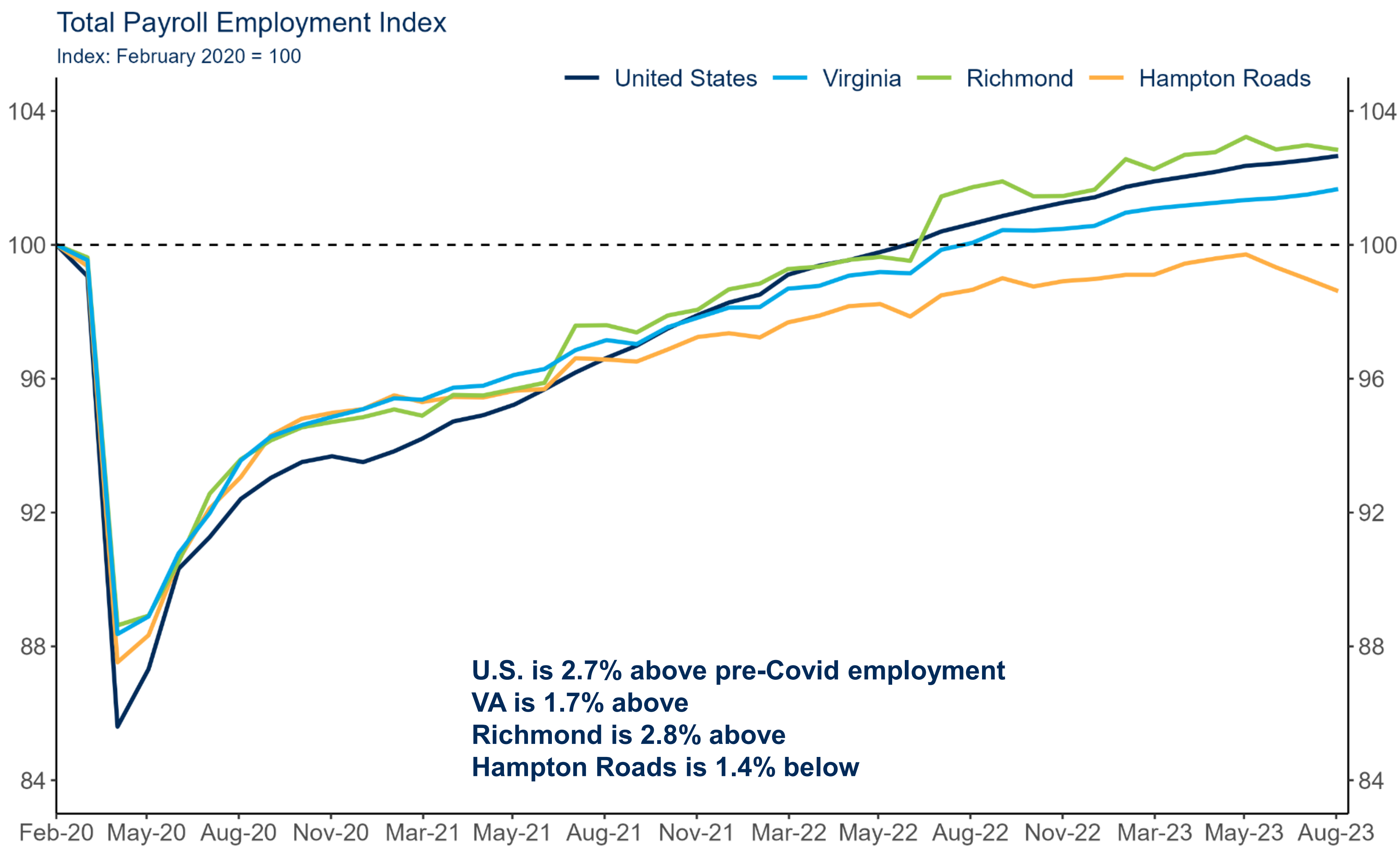
5. It’s a key moment for VA to compete



Source: Bureau of Labor Statistics/Haver Analytics

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What do regions need to do to compete?

It's about attracting workers as much as it's about jobs.

Lots of things keep workers away:

- Skill barriers (education, training)
- Non-skill barriers
  - Personal: childcare, health, amenities
  - Infrastructure: housing, transportation, broadband
  - Incentives: benefits cliffs, aspiration

Workers will go to where these problems feel easier!

And increasingly, business will go where workers are.

This is where economic development requires holistic strategy and regional cooperation.

Summary: What I see for the economy in 2024

1. **Expect a slower economy**
   - **Slow doesn't necessarily mean recession**
   - **Even if recession, people have had a long time to make themselves resilient**
2. **Longer-term worker shortage – especially for niche skills**
   - **Labor market has been incredibly resilient. We've brought inflation down without raising unemployment – virtually unheard of**
   - **The worker shortage is likely long-term due to demographics**
   - **So regions likely will have to compete harder for workers (housing, amenities, etc.)**
   - **Covid changed the nature of jobs: more focus on consumer experiences, logistics, and things you can't automate**
3. **Housing shortage likely to continue**
   - **Affects issues like attracting workers, transportation… everything**
4. **Interest rates likely to stay elevated to bring inflation down**
   - **Affects deals, development temporarily (but trust me, inflation is worse)**
5. **It's a key moment for regions to compete harder**

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