



The U.S. and Virginia Economic Outlook

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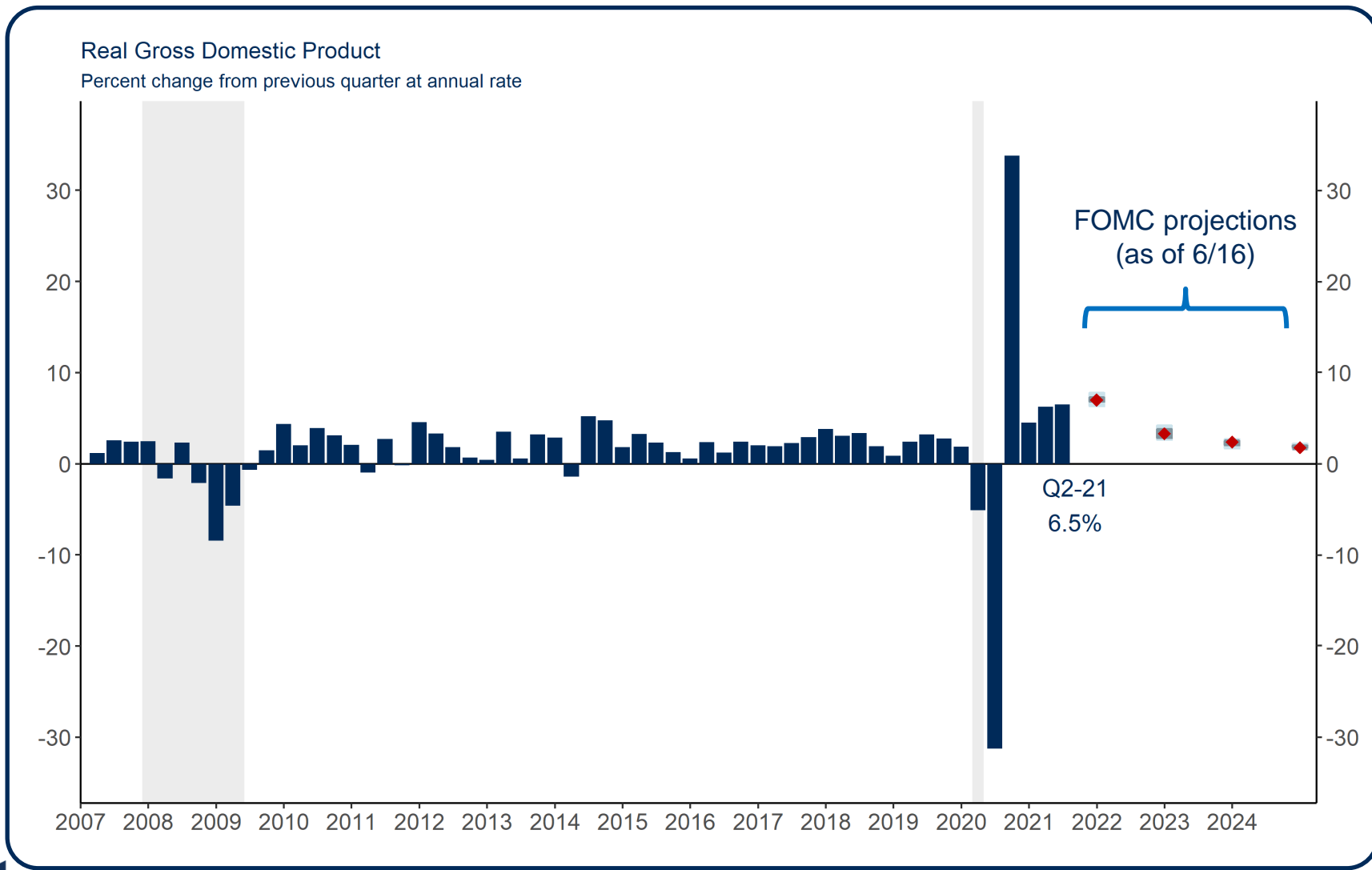


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The Upshot: Recovery is well under way

- **Strong growth on the horizon in 2021** (barring unforeseen virus developments)
 - Demand is back, with particular strength in housing and manufacturing
 - Headwinds with respect to inputs (and labor shortages) as supply chains (and labor availability) catch up.
- **The labor market is recovering robustly, but we're still down 5.7m jobs relative to pre-Covid**
 - And lots of disparity (by sector, race, gender, income)
 - Labor force participation is still very low
- **Firms' costs have been increasing, and so have prices. Inflation is the thing to watch**
- **The Virginia recovery tracks the nation—but at a slower pace**

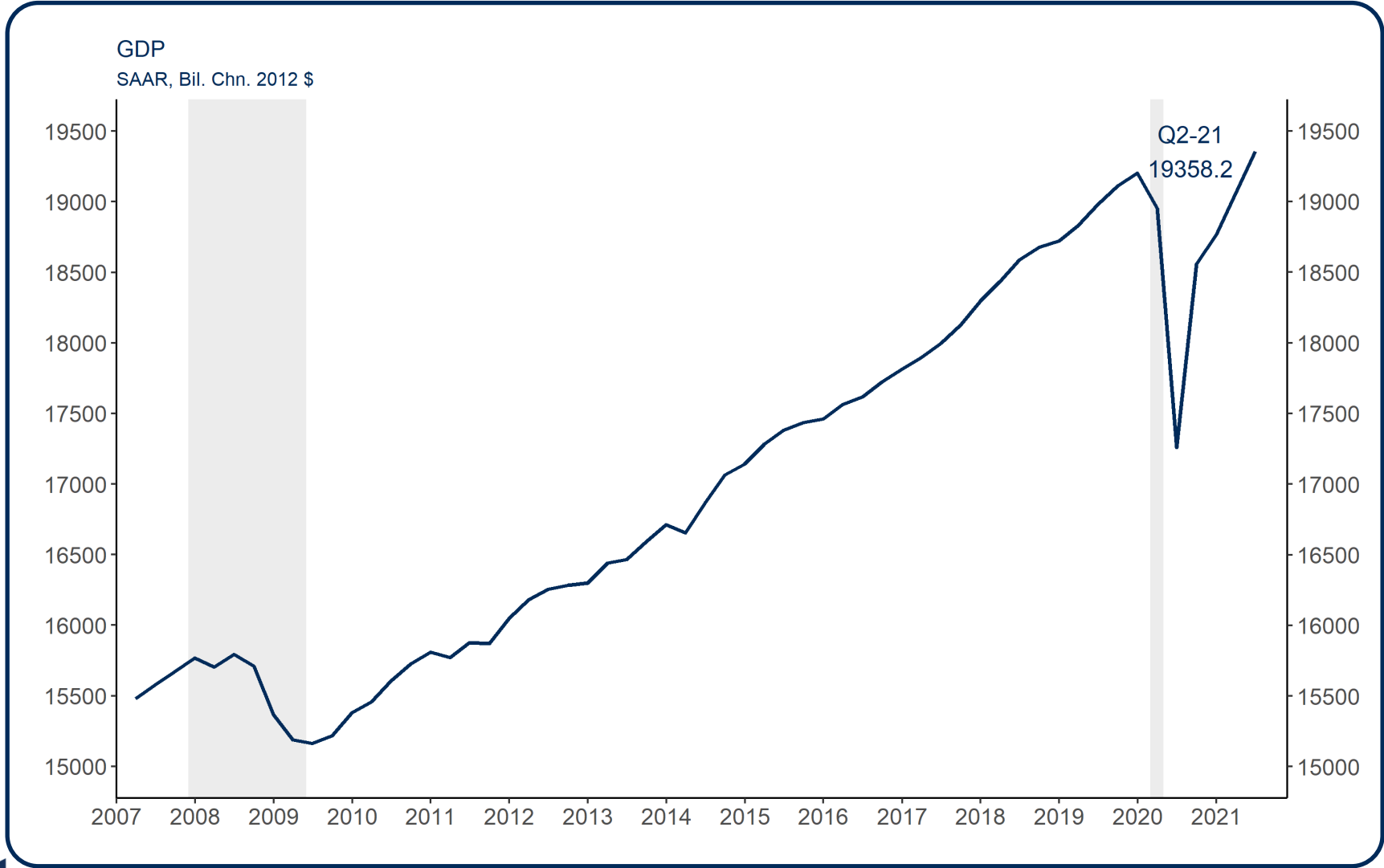
GDP recovery has been stronger than expected



Source: Bureau of Economic Analysis via Haver Analytics

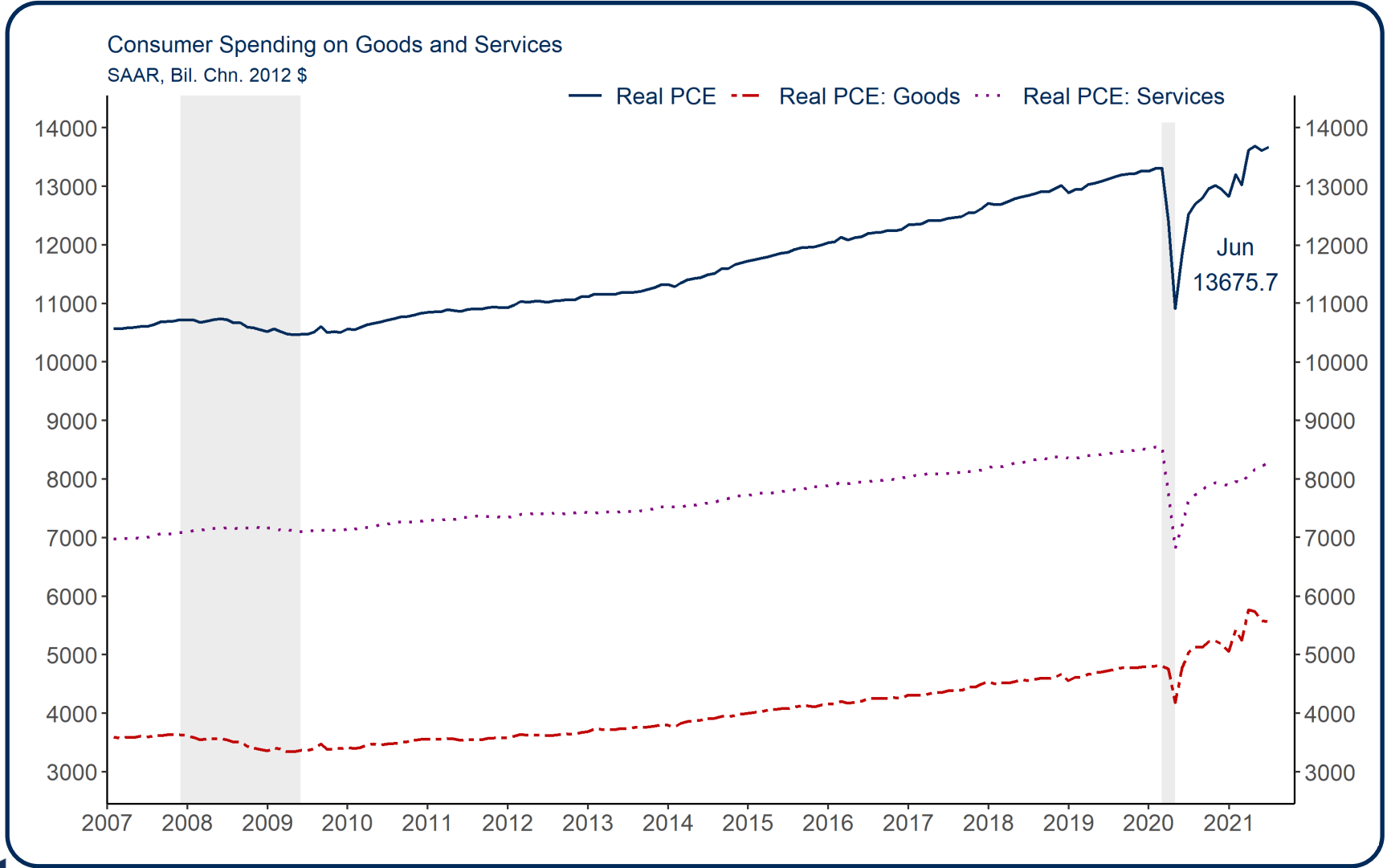
Notes: FOMC projection is the median, range, and central tendency for Q4/Q4 percent changes, from the June 2021 meeting. Red dots indicate median projections.

When swings are big, the level tells you more



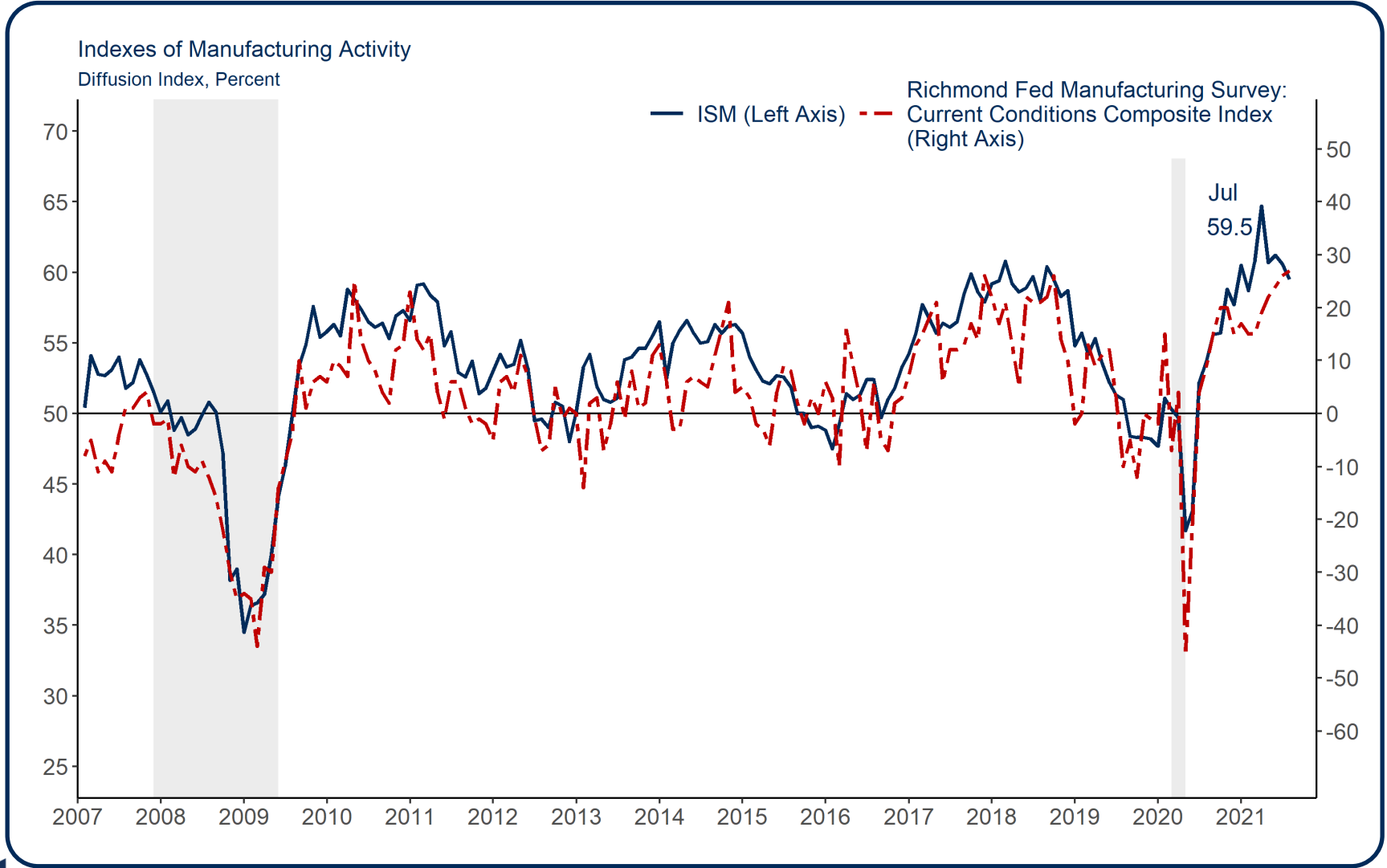
Source: Bureau of Economic Analysis

Spending on services hit hard, and still below pre-COVID



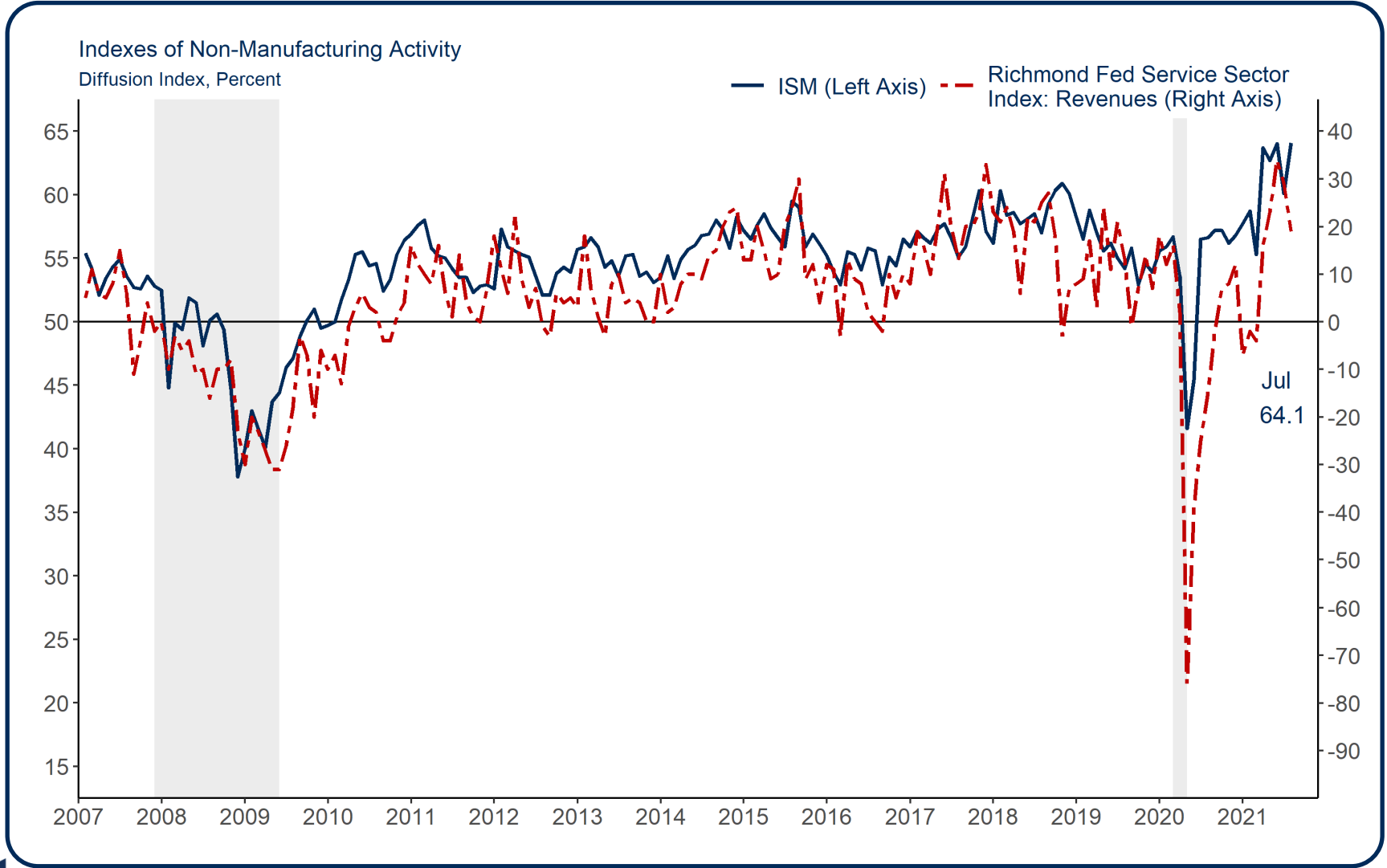
Source: Bureau of Economic Analysis via Haver Analytics

The strong goods consumption is reflected in manufacturing



Source: Federal Reserve Bank of Richmond/Institute of Supply Management/Haver Analytics

The service sector is picking up, but reports are more varied than in manufacturing

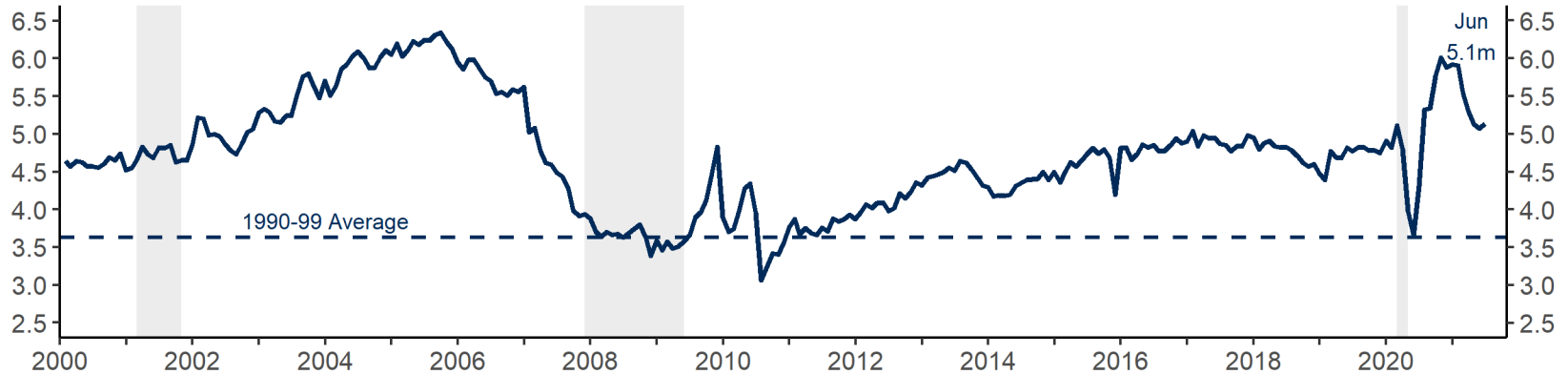


Source: Bureau of Labor Statistics/Haver Analytics

Housing market has been hot too

Existing Single-Family Home Sales

Millions



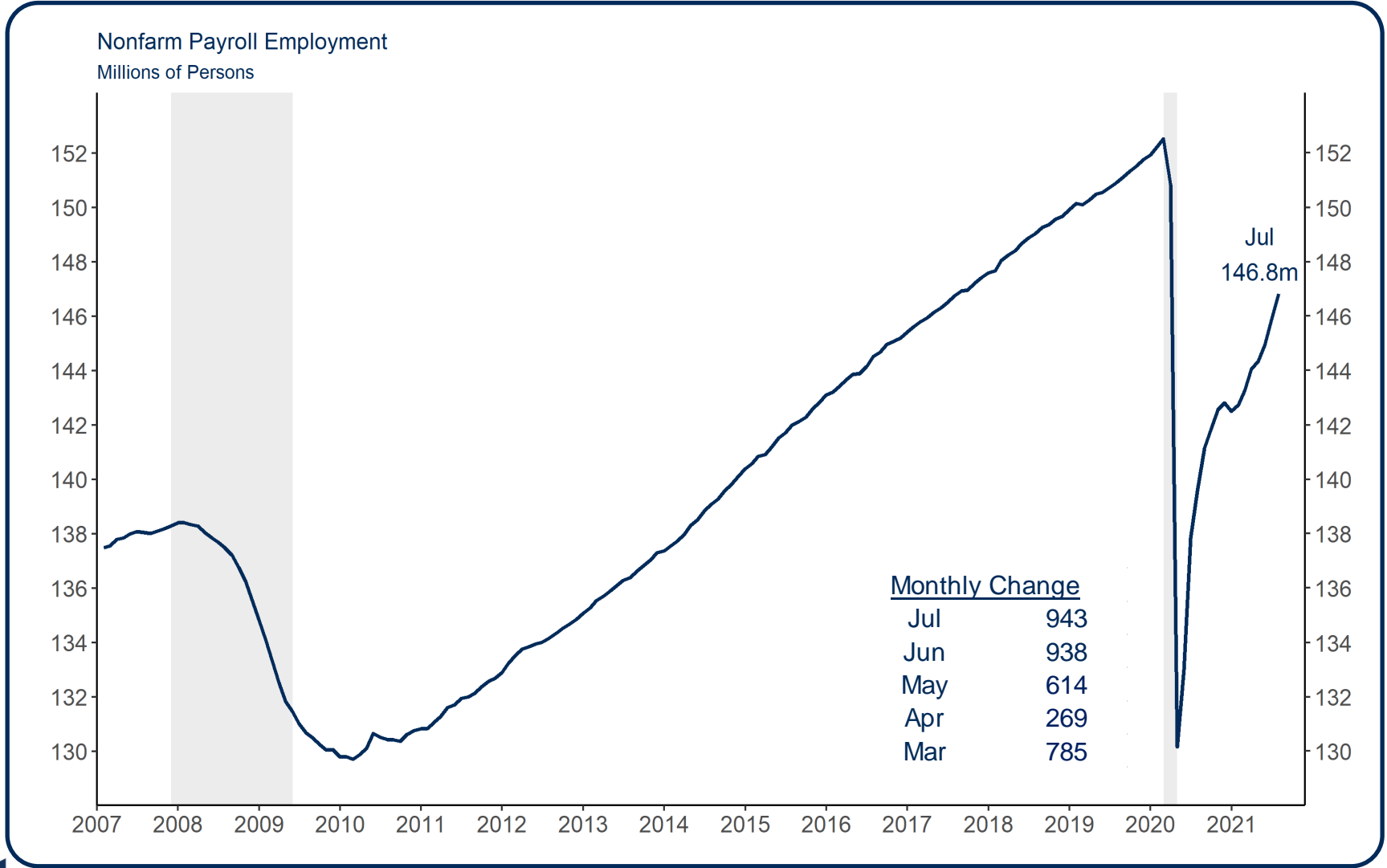
New Single-Family Home Sales

Millions



Source: Census Bureau / Haver Analytics

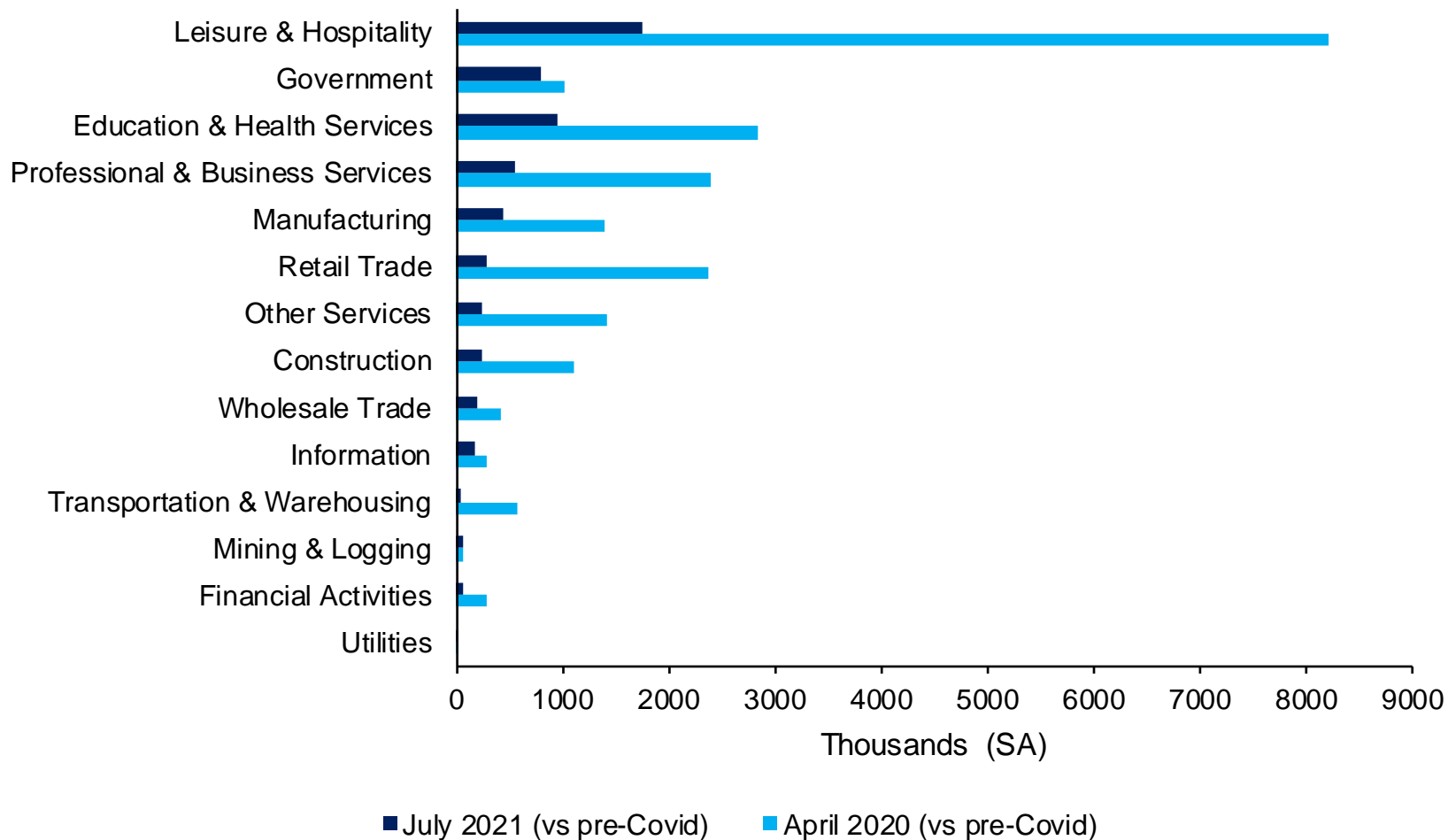
We're producing at pre-Covid levels... but with 5.7m fewer workers



Source: Bureau of Labor Statistics/Haver Analytics

The pandemic continues to hit sectors very unevenly

Jobs Lost Versus February 2020 (Pre-Pandemic) Level



Source: Bureau of Labor Statistics/Haver Analytics

Job gains are still dominated by leisure and hospitality

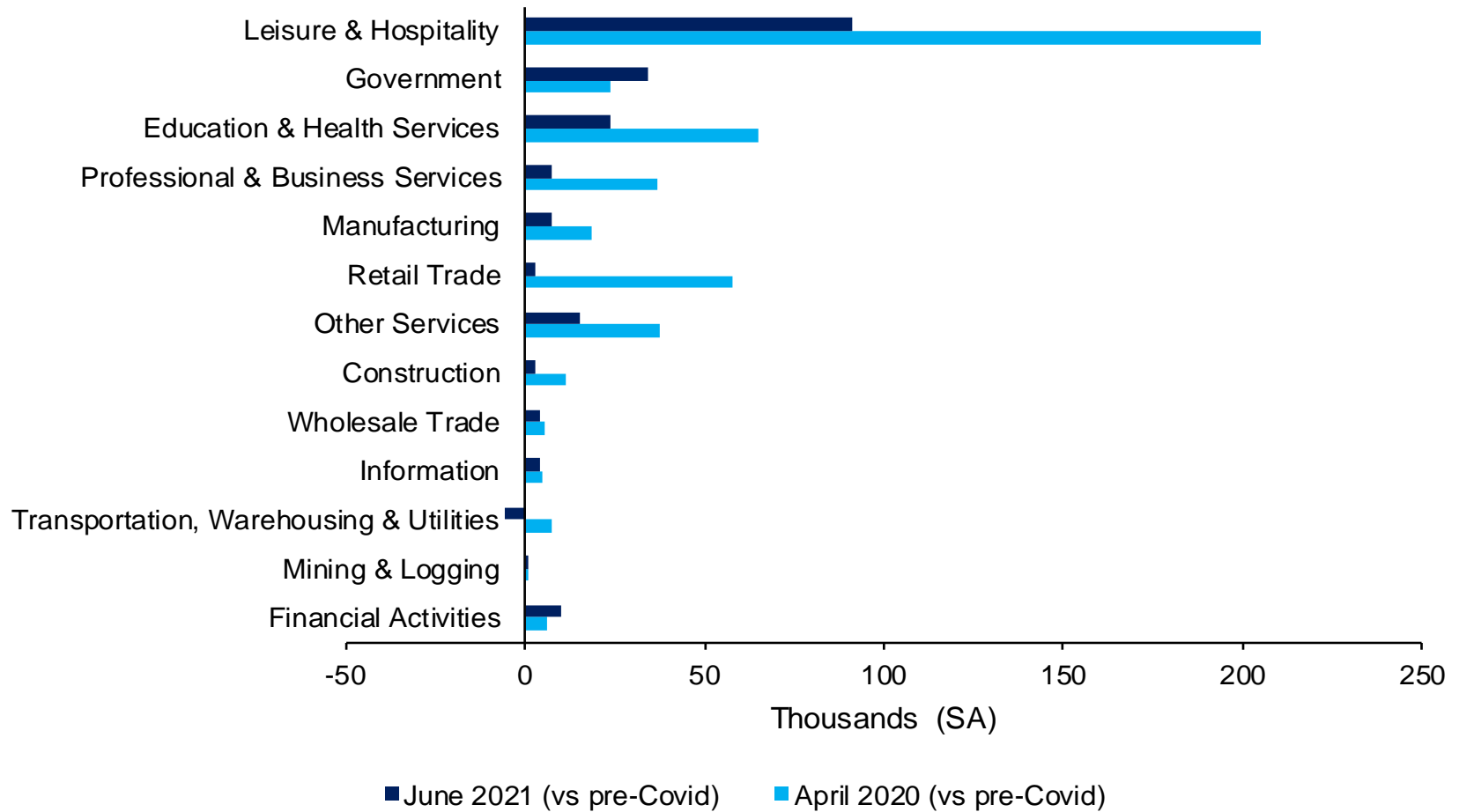
Job Gains in Latest Employment Report (July 2021)



Source: Bureau of Labor Statistics/Haver Analytics

In Virginia, too, COVID hit unevenly

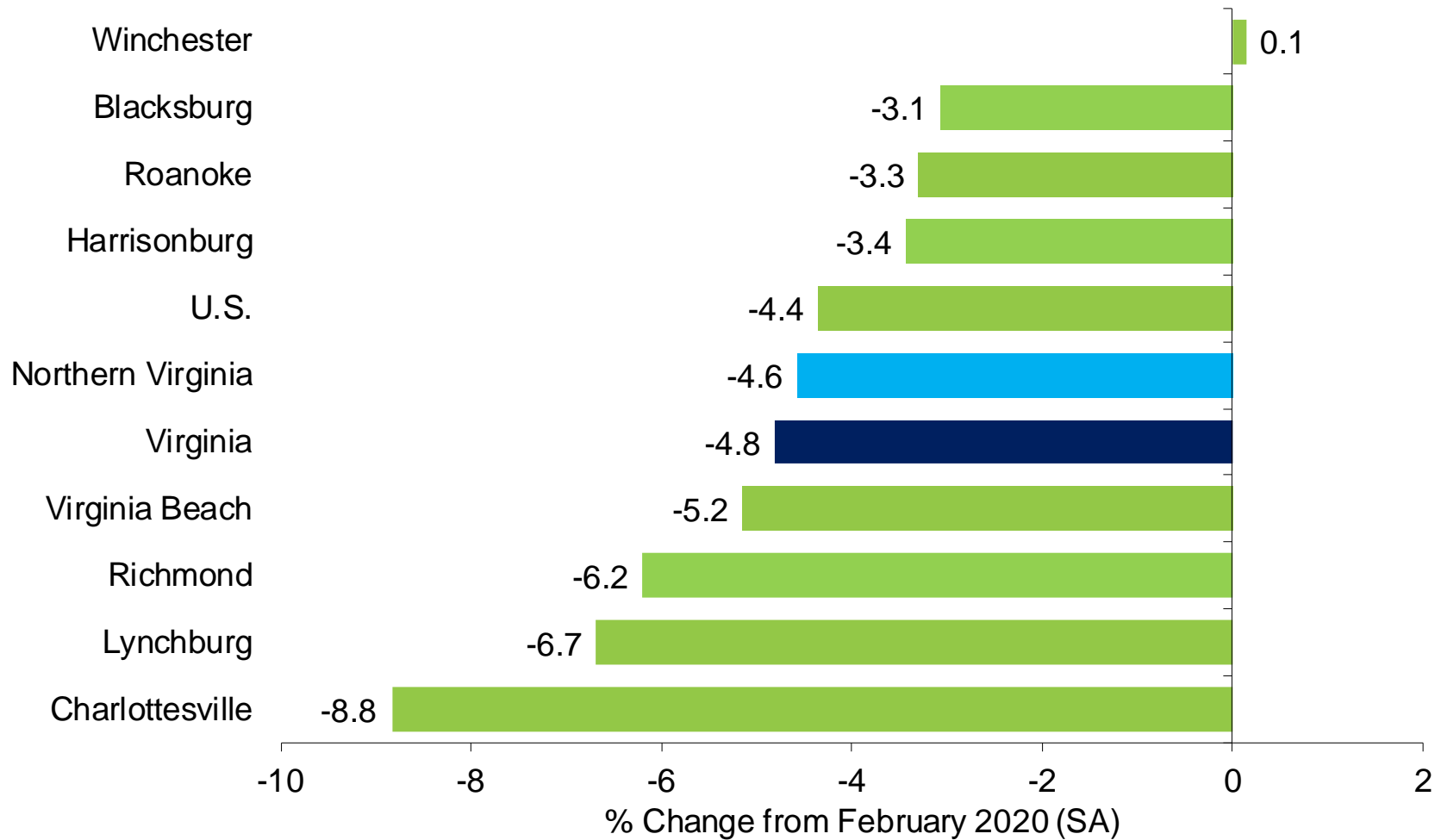
Virginia Jobs Lost Versus February 2020 (Pre-Pandemic) Level



Source: Bureau of Labor Statistics/Haver Analytics

Employment remains below pre-COVID levels in most Virginia metro areas

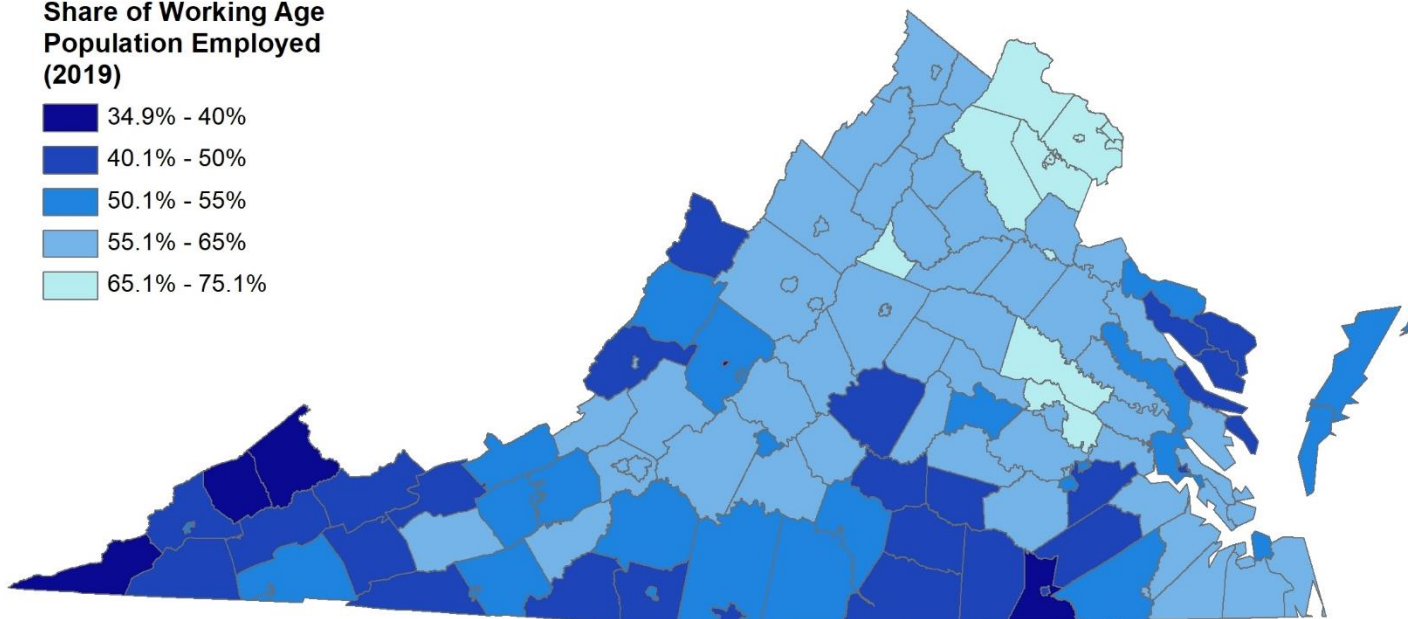
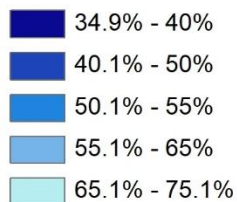
Payroll Employment



Source: Bureau of Labor Statistics/Haver Analytics

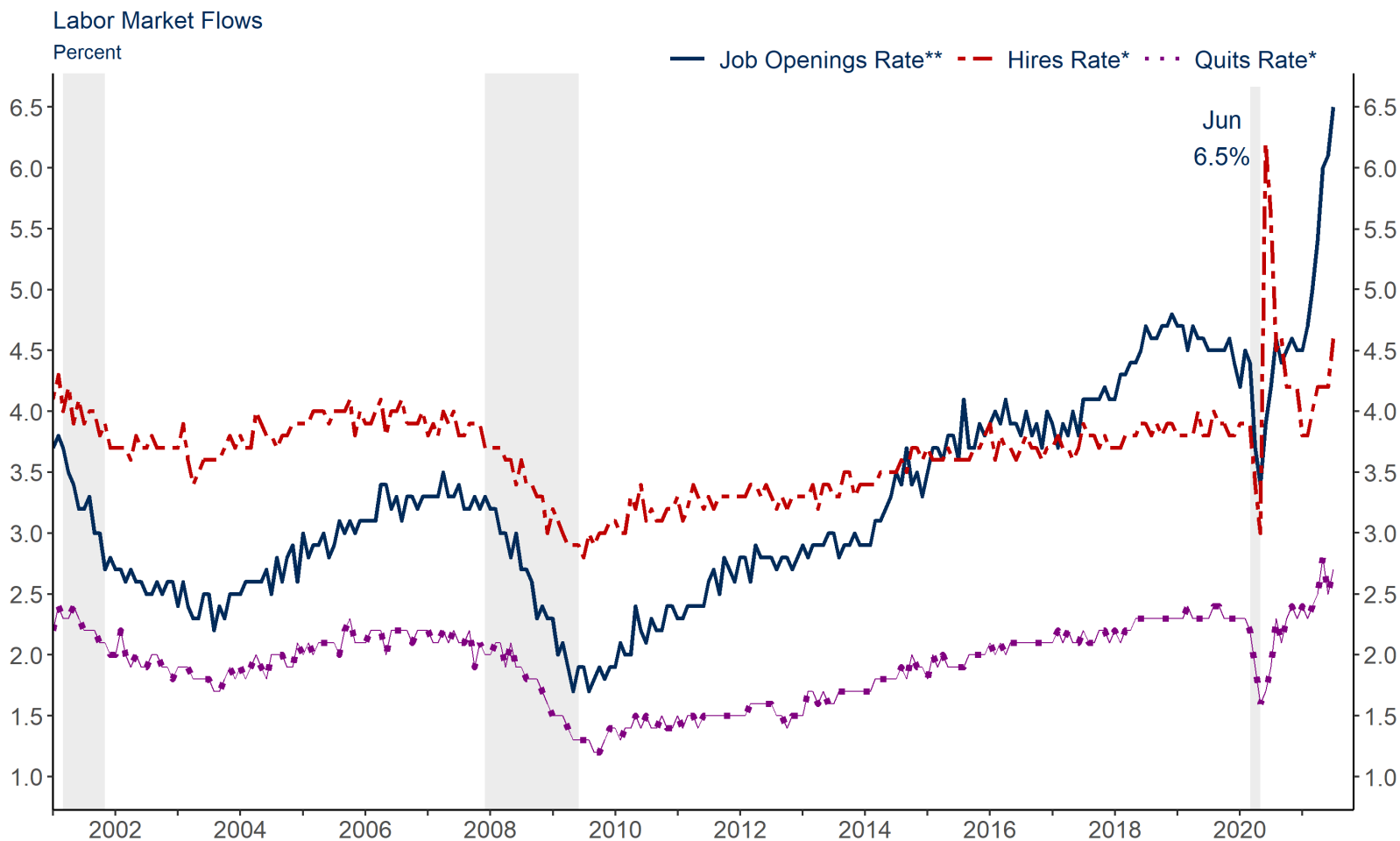
Relative employment-population ratios have changed little in the state, even if levels have shifted down

Share of Working Age Population Employed (2019)



Source: Bureau of Labor Statistics/Haver Analytics

Jobs are available, but it's hard to find workers...



Source: Bureau of Labor Statistics/Haver Analytics

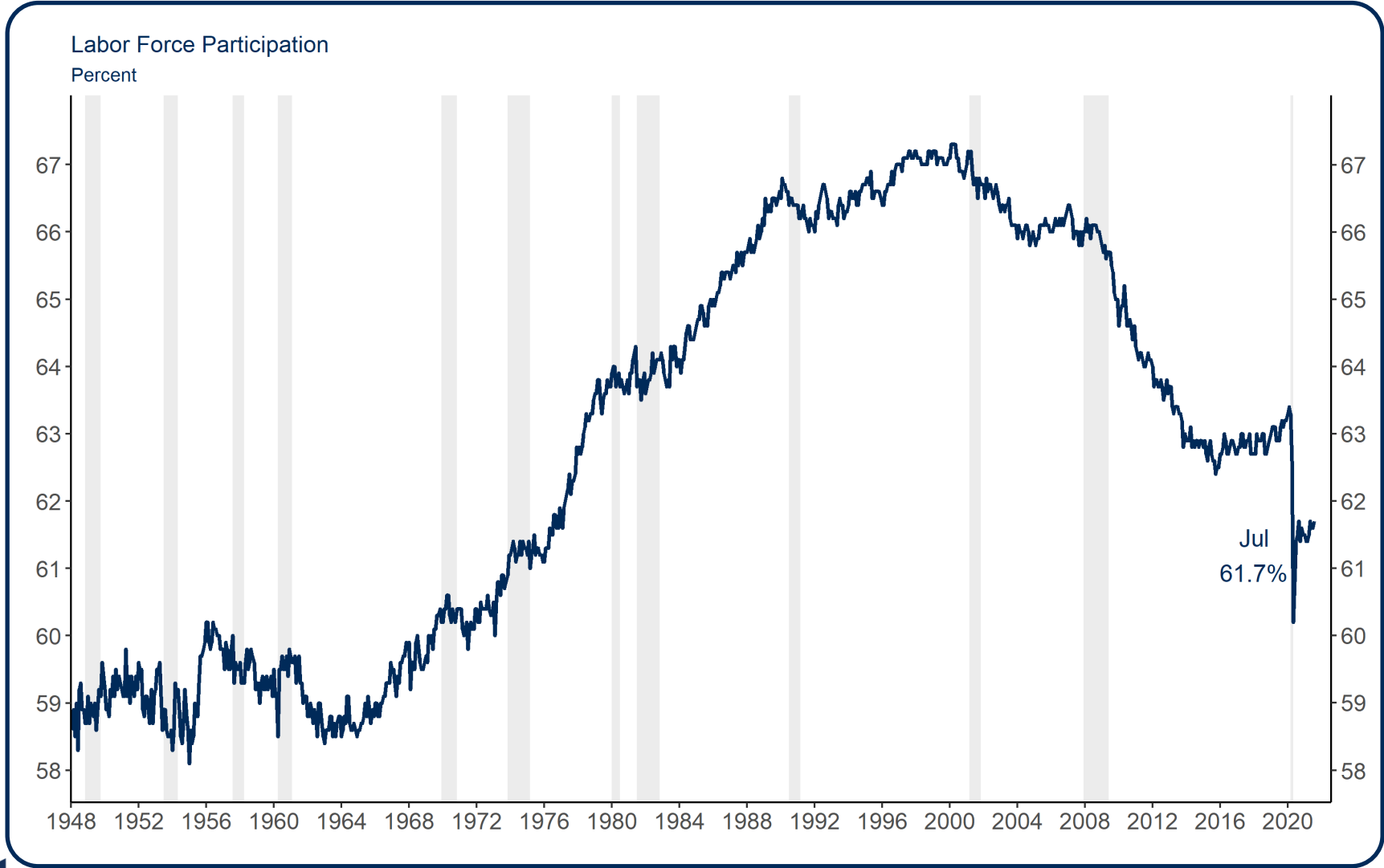
...yet unemployment is still elevated...



Source: Bureau of Labor Statistics/Haver Analytics

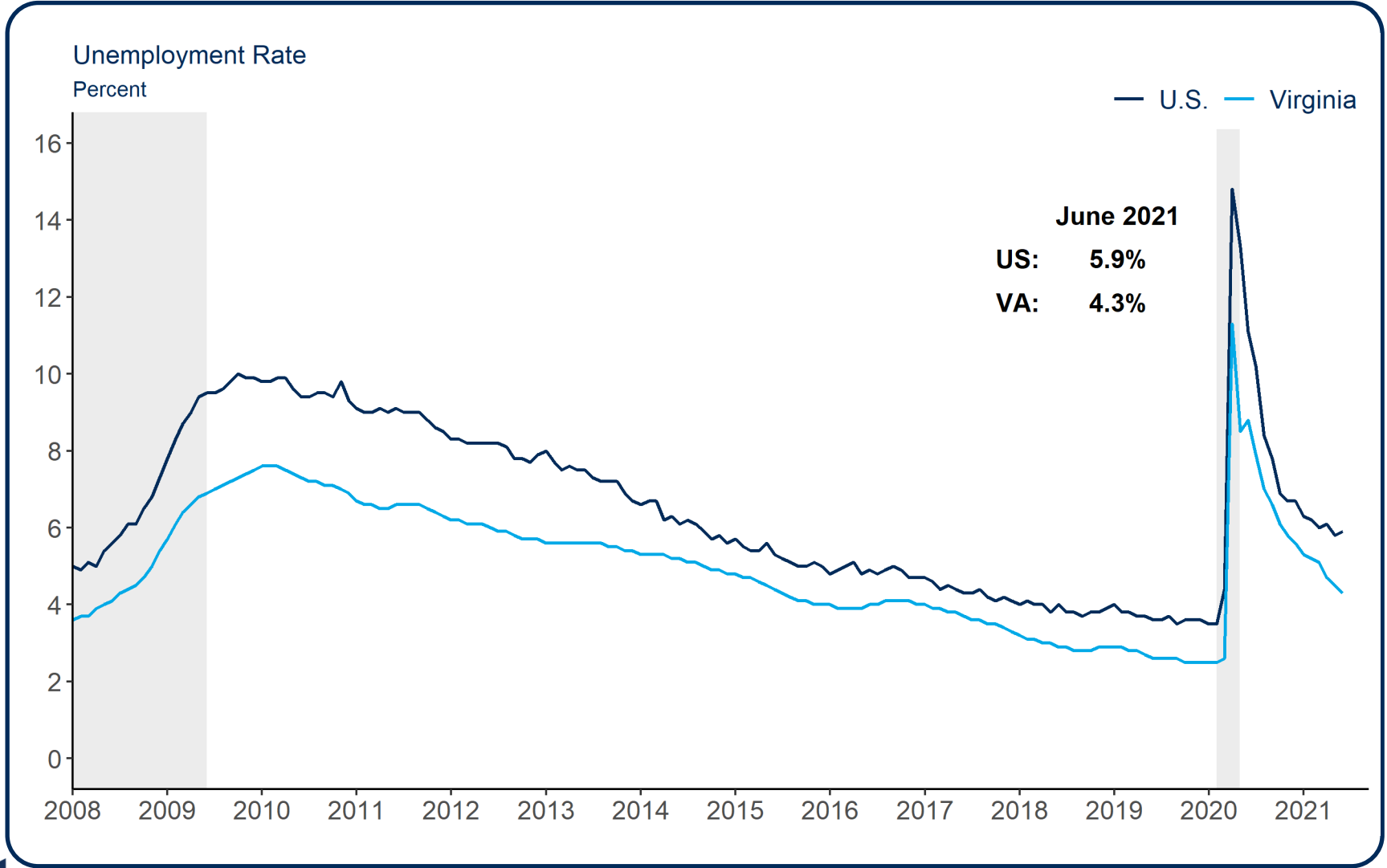
Notes: FOMC projection is the median, range, and central tendency for the Q4 levels, from the June 2021 meeting. Red dots indicate median projections.

... and workforce participation remains low

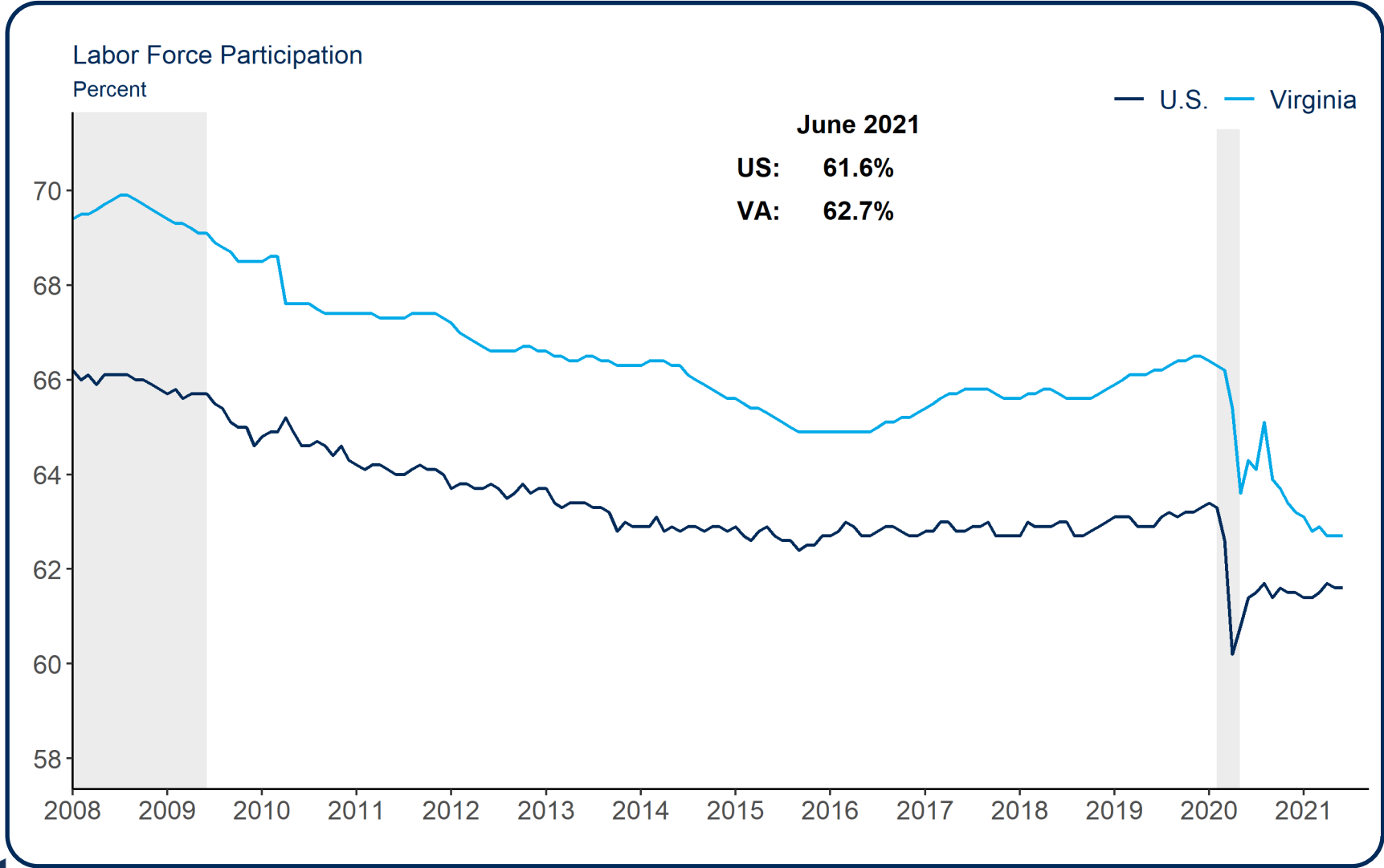


Source: Bureau of Labor Statistics/Haver Analytics

Virginia trends mirror the nation....



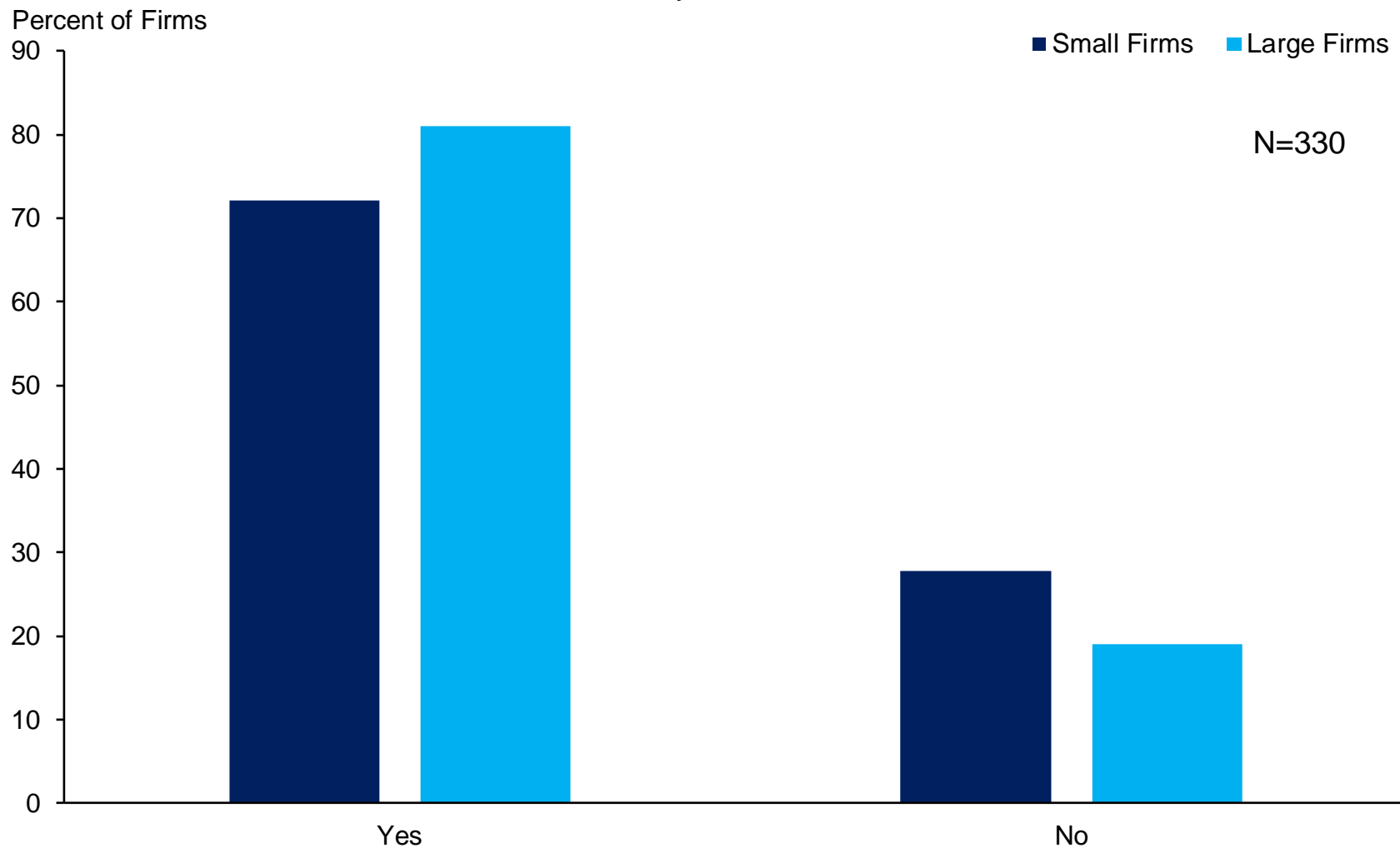
...except that labor force participation continues to fall



Source: Bureau of Labor Statistics/Haver Analytics

Firms are struggling to find the workers that they need...

Are you experiencing difficulty finding new employees for open positions within your firm?

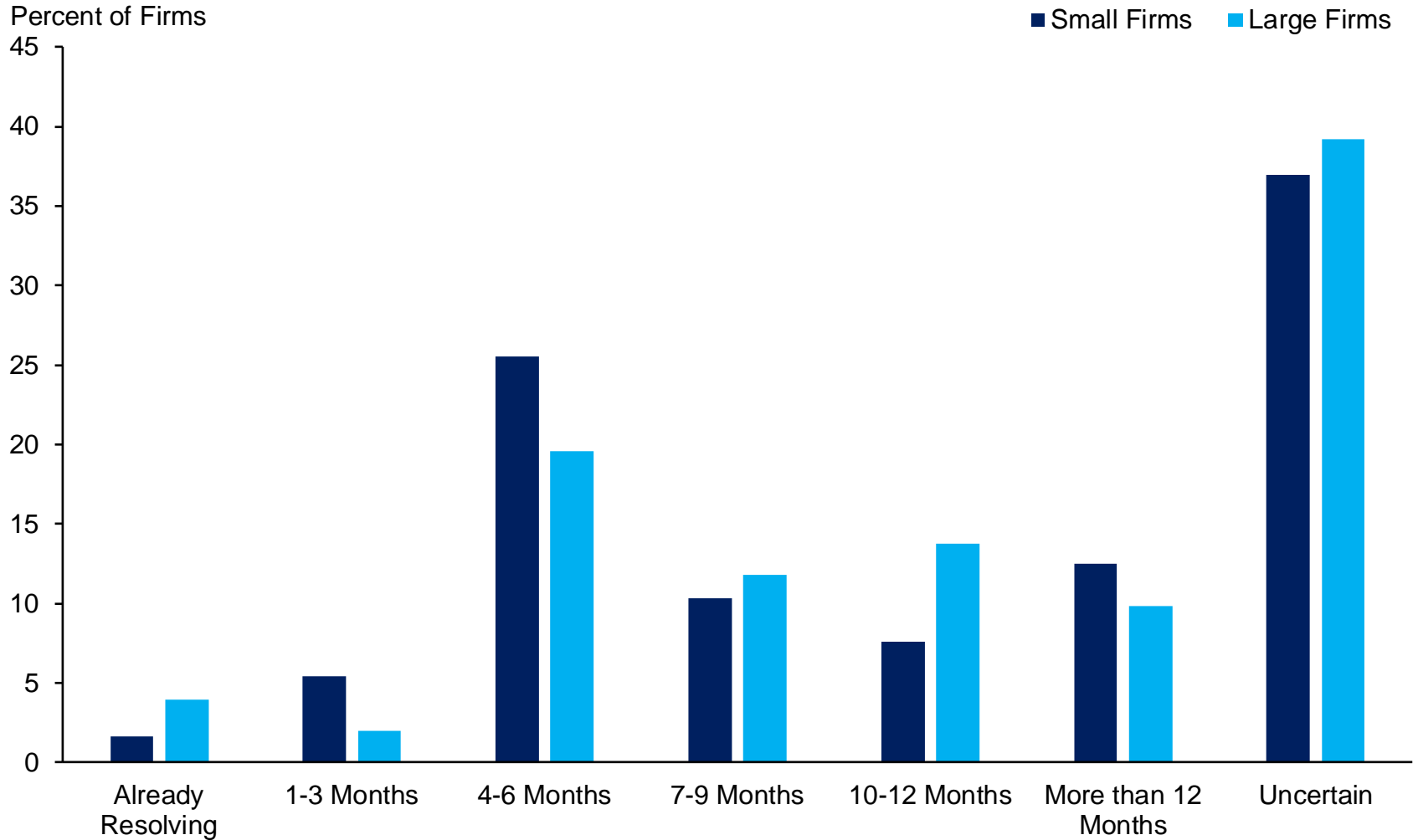


Source: The CFO Survey, Duke University and the Federal Reserve Banks of Richmond and Atlanta

Note: Data reflect results from the Q2 2021 survey (June 21-July 2, 2021).

...and don't know when the challenges will be resolved

When do you anticipate your hiring difficulties will be resolved?

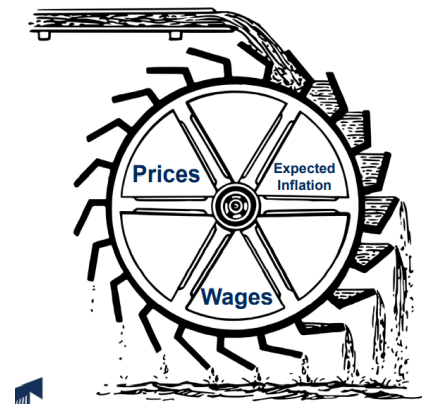


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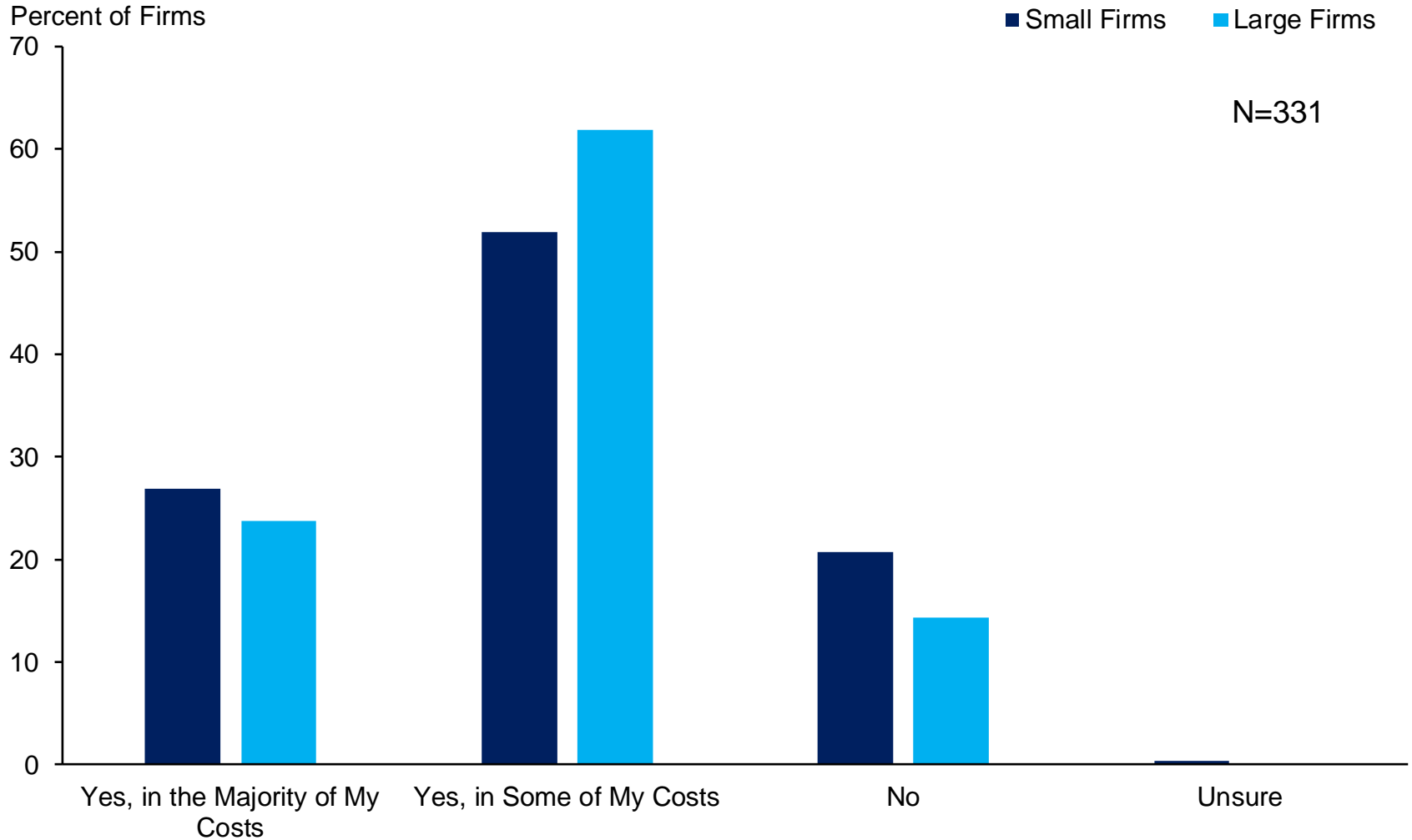
The outlook for inflation

- So we have surging demand and limited supply – a textbook recipe for higher prices
 - To be sure, we are seeing this in now
 - We think this is temporary, but what should we be watching for?
- Inflation is a sustained increase in overall prices
- Haven't seen this in many years, but we know how it happens – some reinforcing combo of:
 - Prices
 - Inflation expectations
 - Wages



According to firms, costs are going up

Have you been experiencing larger than normal increases in your costs?

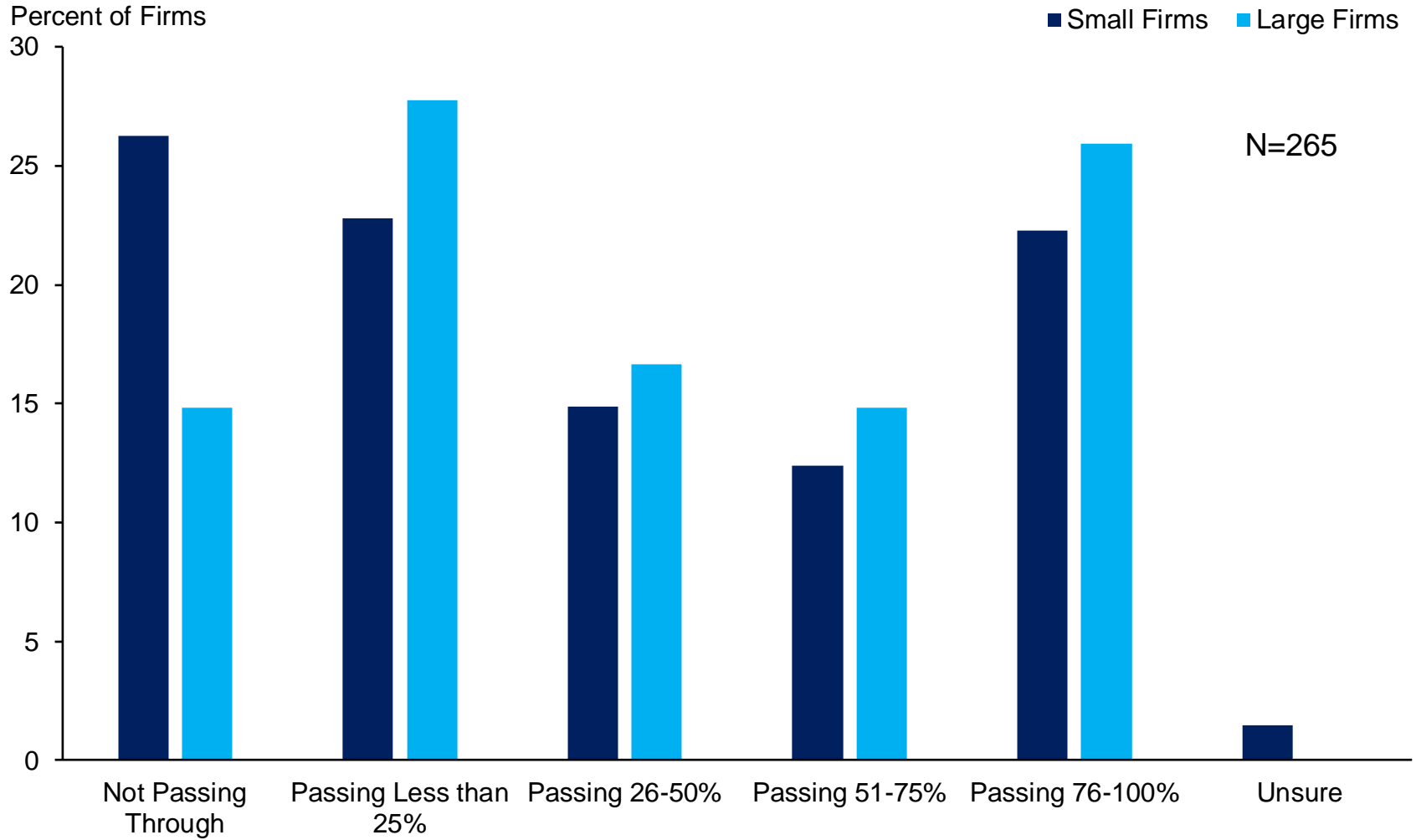


Source: The CFO Survey, Duke University and the Federal Reserve Banks of Richmond and Atlanta

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At least some of the input cost increases are being pass along to customers

How are these larger than normal increases being passed through to customers in the prices you charge?



Source: The CFO Survey, Duke University and the Federal Reserve Banks of Richmond and Atlanta

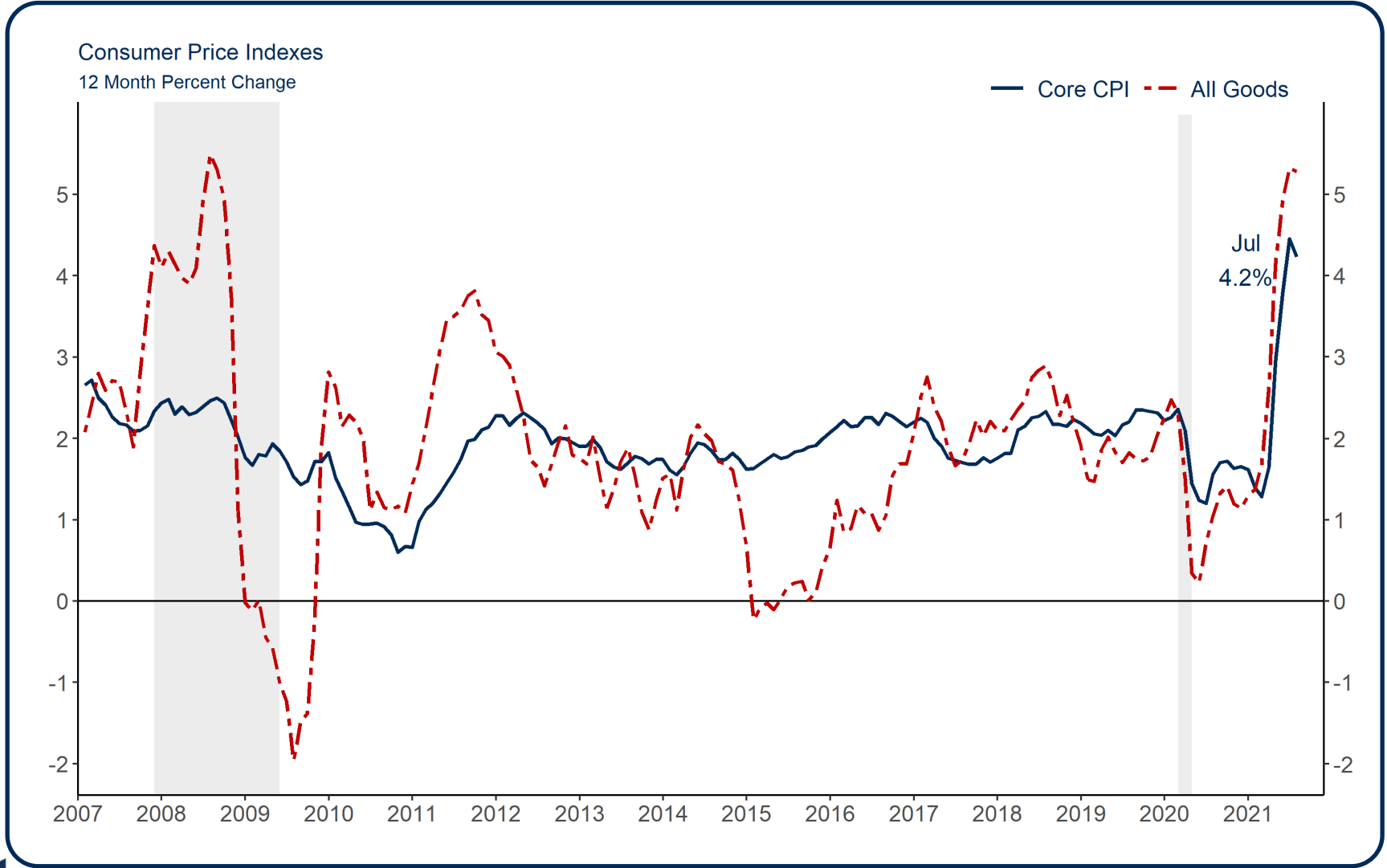
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Producer prices are way up



Source: Bureau of Labor Statistics via Haver Analytics

Consumer prices not up as much as producer prices



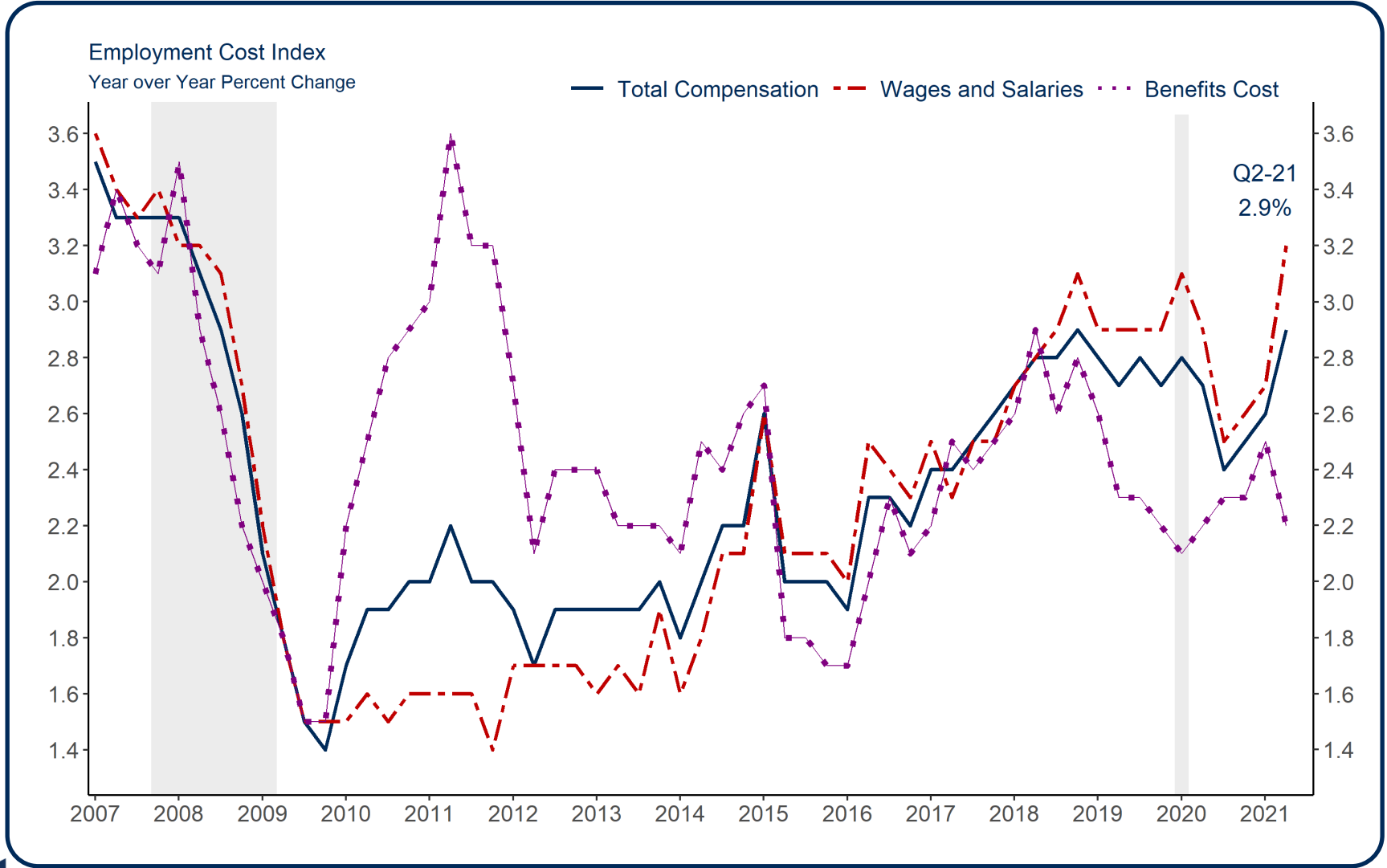
Source: Bureau of Labor Statistics via Haver Analytics

Fed's preferred inflation measure has shot up



Source: Bureau of Economic Analysis via Haver Analytics and Federal Reserve Board of Governors

Wage growth picked up in Q1



Source: Bureau of Labor Statistics via Haver Analytics

Looking to the rest of 2021

- Expect a blowout year
 - Demand is back
 - The lead story will be supply/demand mismatches, and inflation (we hope!)
- Recovery not evenly felt
 - Sectors related to business traveling/gathering are still lagging. Goods consumption is well above pre-COVID while service provision lags behind.
 - Inequality was growing and economic mobility was declining even before COVID. Covid exacerbated the inequalities. On the positive side, we seem to be seeing wage growth at the lower wage levels that surpasses the high price growth.
 - Re-engaging people in the workforce will be critical to minimize scarring
- Business surveys indicate that input cost and output price increases will last more than weeks, but not forever. We are vigilant about signs of persistence.

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