Outlook Outline

- National Economic Trends
- National Housing Trends
- State and Region Economic Trends
- State and Region Housing Trends
- State and Region Local Government Revenue Trends
- Conclusions
National Economic Trends
What do You call an economist with a forecast?
Wrong.
It’s tough to make predictions, especially about the future.
Economist Forecasts

The future ain’t what it used to be.

% GDP Change

Source: Bureau of Economic Analysis and Wall Street Journal Survey of Economists
Economist Forecasts and Reality

Source: Bureau of Economic Analysis
Economist Forecasts and Reality

Source: Bureau of Economic Analysis and Wall Street Journal Survey of Economists
Economist Forecasts and Reality: Take 2

Source: Bureau of Economic Analysis and Wall Street Journal Survey of Economists
Economist Forecasts and Reality: Take 3

Source: Bureau of Economic Analysis and Wall Street Journal Survey of Economists
Economist Forecasts and Reality: Take 4

Source: Bureau of Economic Analysis and *Wall Street Journal Survey* of Economists
Economist Forecasts and Reality: Take 5

Source: Bureau of Economic Analysis and *Wall Street Journal Survey* of Economists
Gross Domestic Product Components

- **Gross Domestic Product (GDP)**. Total Value of Goods and Services Produced in the United States
- **GDP** = **C** + **I** + **G** + (**X** - **M**)
  - **C** = Personal Consumption
  - **I** = Investment
  - **G** = Government Expenditures
  - **X** - **M** = Net Exports

Diagram:
- Imports
- Exports
- Government
- Investment
- Personal Consumption

Little things are big.
Government (That's You)

Government GDP Components

- Local Government 50%
- Federal Civilian 20%
- Federal Military 11%
- State Government 19%

The virtuous circle
Components of GDP Growth

Source: Bureau of Economic Analysis
## Contribution to Recession and Recovery

### Recession
- **Negative**
  - Residential investment
  - Business investment
  - Personal consumption
- **Positive Factors**
  - Federal government spending
  - Net exports

### Recovery
- **Negative**
  - State and local government spending
  - Federal government spending
- **Positive Factor**
  - Personal consumption
  - Business investment
The Near Future Contributors

- **Negative**
  - Net exports
  - Federal government spending
- **Positive Factor**
  - Personal consumption
  - Residential investment
  - State and local government spending
Contribution of Residential Investment to GDP Growth

Source: Bureau of Economic Analysis

We made too many wrong mistakes.
Contribution of State and Local Government Expenditures to GDP Growth

Source: Bureau of Economic Analysis
Contribution of Federal Government Expenditures to GDP Growth

Source: Bureau of Economic Analysis
Contribution of Personal Consumption Expenditures to GDP Growth

Consumer resiliency has supported recovery

But not to same degree as previous recoveries

Source: Bureau of Economic Analysis
Why are people still spending?

- Job market is slowly improving
- Consumers need to replace depreciated housing and consumer durables and population is growing
  - Cars
  - Homes
- Consumers are wealthier
  - More equity in homes
  - Stock and bond appreciation
- Consumer have lower debt payments
  - Refinancing, pay downs, and defaults
- They are saving less (or dipping into savings) and borrowing more to support spending
  - Historically low interest rates
  - Lending stringency has eased
Federal Reserve Assets

Source: Federal Reserve Board of Governors
Treasury Yields and Consumer Interest Rates

Source: St. Louis Federal Reserve, FRED Economic Data
NATIONAL HOUSING TRENDS
Housing Starts and Forecasts

Source: U.S. Census Bureau
Leading Indicator of Remodeling Activity (LIRA)

Source: Harvard University, Joint Center for Housing Studies
House Amenities

- 4 Bedrooms or More
- 3 Bedrooms
- 2 Bedrooms or Less

Source: U.S. Census Bureau
Household Net Worth to Disposable Personal Income Ratio

It's like deja-vu all over again.

Source: Federal Reserve and Bureau of Economic Analysis
Mortgage Rates and Applications

Source: Zero Hedge (based on Mortgage Bankers Association)
State and Region Economic Trends
Virginia is More Vulnerable to Federal Cuts than Other States

Federal Nondefense Workforce as % of Total

Nondefense Spending as % of GDP

Defense Spending as % of GDP

Federal Spending as % of GDP

Federal Grants Subject to Sequester as % of State Revenue

Source: Pew Center on the States

Note: DC, MD, and VA combined because of common commuting area
Some Virginia Sequestration Results

- Center for Regional Analysis (George Mason University).
  - *The Economic Impact of the Budget Control Act of 2011 on DOD and non-DOD Agencies* (for the Aerospace Industries Association)
    - 207,571 job losses in FY 2013
    - 164,225 cumulative job year losses FY 2012-2013
  - *The Economic Impact of Sequestration Budget Cuts to DOD and Non-DOD Agencies as Modified by the American Taxpayer Relief Act of 2012*
    - 154,118 in FY 2013
- Weldon Cooper Center for Public Service REMI Model
  - 44,249 FY 2013; 59,685 FY 2014; 64,162 FY 2015
- REMI and Third Way Organization.
  - 85,776 in 2014
Employment Growth

Virginia employment growth now lower than nation

Source: Bureau of Labor Statistics, CES
Federal Government Employment Growth

Federal govt. employment slows but not as much as nation

Source: Bureau of Labor Statistics, CES
Unemployment Rate

Virginia unemployment remains consistently below national average

Source: Bureau of Labor Statistics (last point in June 2013)
Virginia Retail Sales: Local Option Sales Tax

Sales are slowing a bit

Source: Virginia Department of Taxation, 12 month moving average
Virginia’s Regions

- Northern Region
- Eastern Region
- Central Region
- Valley Region
- West Central Region
- Southwest Region
- Southside Region
- Hampton Roads Region
Employment Growth--Regions

Southside, Southwest, and Eastern regions lag

Source: Bureau of Labor Statistics, QCEW
Unemployment Rate--Regions

% Southside and Southwest unemployment above national average

Source: Bureau of Labor Statistics, LAUS (last point in May 2013)
STATE AND REGIONAL HOUSING TRENDS
Single Family Home Building Permits

Building activity began to show a pulse again in 2012

Source: U.S. Census Bureau
Building Permits per 1,000 Residents

Source: U.S. Census Bureau

Relative activity highest in exurbs

Source: U.S. Census Bureau
Housing Price Changes

Source: Federal Housing Finance Agency
Market Conditions

Virginia Realtors Reporting that Market Conditions are Better (Slightly or Significantly)

Percent of Respondents

- 53.7% to 69.6%
- 66.7% to 70.6%
- 66.9% to 71.9%
- 69.1% to 72.3%

Federal Reserve Bank of Richmond Virginia Realtor Survey (2013)
Median Sales Prices

Virginia Realtors Reporting that the Median Sales Price is Higher (Slightly or Significantly)

Percent of Respondents

Federal Reserve Bank of Richmond Virginia Realtor Survey (2013)
State and Regional Local Government Revenue Trends
Sources of Local Revenue, FY 2012

Sources of Local Government Revenue

- Local: 61%
- State aid: 31%
- Federal aid: 8%

Source: Virginia Auditor of Public Accounts

Sources of Local Tax Revenue

- Real property: 62%
- Personal property: 11%
- Local sales and use: 7%
- Business license: 5%
- Public service corporation: 2%
- Restaurant meals: 3%
- All other: 10%

Source: Virginia Auditor of Public Accounts
Change in Sources of Local Government Revenue

Fiscal stimulus here and gone

Source: Virginia Auditor of Public Accounts
Local Government Revenue from Taxes and Nontax Sources (2012 Dollars)

Real property revenues decrease after a run up

Source: Virginia Auditor of Public Accounts
Local Government Real Estate Revenue Per Capita (2012 Dollars), 2000-2012

Source: Virginia Auditor of Public Accounts
Change in Local Government Real Estate Revenue Per Capita (2012 Dollars), 2000-2012

Northern, Hampton Roads, and Central regions hit hardest

Source: Virginia Auditor of Public Accounts
Change in Real Estate Revenue Per Capita (2012 Dollars) by Assessment Cycle, 2000-2012

Property assessment cycle may be a factor

Source: Virginia Auditor of Public Accounts
Local Government Employment

Virginia affected less than nation

Source: Bureau of Labor Statistics, CES
Conclusions
What does it all mean?

• The recovery has largely been carried by the consumer with other demand categories contributing intermittently.
• The economy is in unchartered territory with QE 1-2-3.
  • Effect of tapering and exit is not at all clear.
  • Announcement brought higher rates/volatility.
  • New asset bubbles could be forming.
• The Virginia economy held up relatively well during the recession.
  • Not so Southside and Southwest regions.
• With federal austerity, Virginia is performing below trend and below U.S. growth.
  • Sequester is not living up to worst expectations.
• Housing markets have been affected differently across Virginia
  • Many rural localities little affected by property bubble
  • Market conditions have improved everywhere
• Local government spending is no longer a drain on national and state economies
  • Virginia local governments not affected as severely as rest of nation
  • Increased property valuations will support catch-up spending
  • But, the sequester cuts may negate growth this year

Will the virtuous circle be unbroken?
It ain’t over till it’s over.
In theory, there is no difference between theory and practice. But, in practice, there is.
You can observe a lot just by watching.
If you don't know where you are going, you might wind up somewhere else.