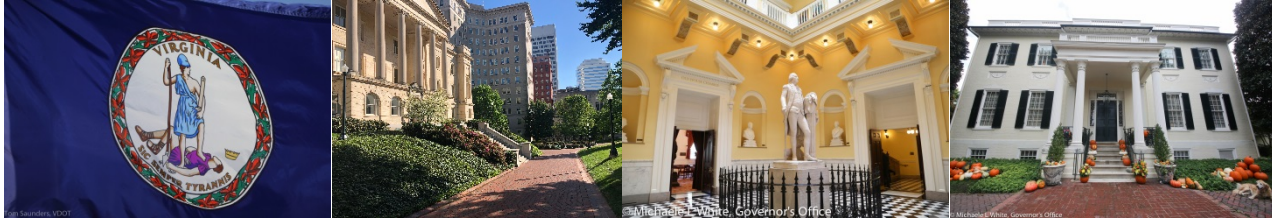


ECONOMIC FORECAST



Review of FY 2020

According to the Virginia Employment Commission, the seasonally adjusted total nonfarm employment reached a trough in April 2020 – falling by 458.1 thousand or 10.7 percent from the previous peak level of 4,099.9 thousand in February 2020. After the large drop in employment in April, May also fell but by a slightly smaller amount as restrictions related to COVID-19 started to ease at the end of the month. The sectors that experienced the most significant declines were trade, transportation, and utilities; education and health services; leisure and hospitality; other business services; and state and local government.

U.S. economy expected to experience sluggish growth

As IHS Markit prepared the October forecast, real GDP had fallen at an annualized rate of 31.4 percent in the second quarter of 2020. The standard forecast expects the COVID-19 infection rate will likely increase this fall, causing consumers and businesses to remain cautious. It is expected that the second round of stimulus checks and emergency unemployment benefits will be disbursed in the fourth quarter. In the October standard forecast, IHS expects real GDP to decline by 1.1 percent in FY 2020, compared with a 2.1 percent decline in the interim forecast. IHS assigns a probability of 50 percent to the standard scenario.

On a fiscal year basis, the October standard forecast predicts real GDP will grow 0.8 percent in FY 2021, then 2.9 percent in FY 2022. Following a 1.9 percent decline in employment in FY 2020, payroll employment is expected to fall by 1.8 percent in FY 2021, then increase 3.3 percent in FY 2022. The October standard forecast expects the unemployment rate to rise to 7.3 percent in FY 2021, then fall to 5.7 percent in FY 2022.

Total personal income is expected to rise by 2.8 percent in FY 2021, faster than the interim forecast of 0.3 percent. Income growth then slows to 0.6 percent in FY 2022, well below the interim forecast of 3.8 percent. The October forecast for the largest component of personal income, wages and salaries, is also higher than the interim estimate in FY 2021. IHS Markit expects wages and salaries to rise 3.0 percent in FY 2021 and 5.8 percent in FY 2022.

Expectations for consumer spending in the October standard forecast are more optimistic than the interim forecast for FY 2021. Real consumer spending is expected to rise 0.8 percent in FY 2021, compared with a 3.7 percent decline in the interim forecast. Spending is then expected to grow 3.1 percent in FY 2022.

At its September meeting, the Federal Reserve left the federal funds target rate unchanged at 0.0 to 0.25 percent and signaled it will keep rates low through 2023. In the October standard forecast, IHS assumes the Fed will keep the federal funds rate at this range through late 2026.

Virginia economy is expected to outperform the nation

In the interim forecast, employment in the Commonwealth was projected to fall 2.0 percent in FY 2021, then rebound at a 1.2 percent rate in FY 2022. Under the standard forecast, employment is expected to fall 0.3 percent in FY 2021, then expand 1.0 percent in FY 2022.

According to the October standard forecast, total nonagricultural employment is expected to increase 1.0 percent (38,500 jobs) in FY 2022, below the interim forecast of 1.2 percent growth. The professional and business services sector and the education and health services sector are expected to be the main drivers over the forecast horizon. Overall, employment is expected to increase 1.4 percent in FY 2023 and 0.9 percent in FY 2024 as the national economy continues to grow.

The October standard forecast has personal income and wage and salary income growing at about a 3.3 to 3.9 percent pace over the FY 2021-22 period.

In the October standard forecast, total personal income is expected to grow close to a percentage point below the interim forecast over the forecast horizon. Growth of 3.7 percent is expected in FY 2021, then growth of 3.4 in FY 2022. Income from wages and salaries is expected to grow 3.3 percent in FY 2021 and 3.9 percent in FY 2022. Growth of dividends, interest, and rental income is expected to increase 3.1 percent in both FY 2021 and FY 2022.