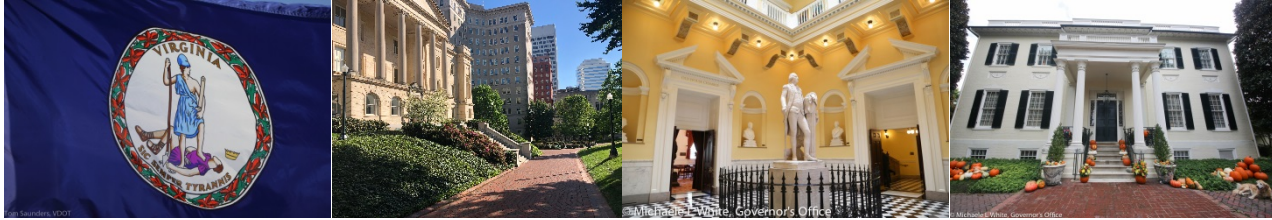


ECONOMIC FORECAST



Review of FY 2021

Payroll employment growth was below expectations in FY 2021. In the official forecast, total nonagricultural employment was projected to fall 0.3 percent. Actual job losses were 100,500, a decrease of 2.5 percent. Higher-than-expected losses occurred in construction, information, financial activities, professional and business services, other services, and government. The official forecast for Virginia's FY 2021 personal income was to advance at a 3.7 percent rate. However due to strong wages and salaries (49 percent of total personal income) and net transfer payments (12 percent of total personal income), personal income grew at a strong 6.2 percent rate. Outlays from both the federal and state government to households resulted in large net transfer payments, which grew 35.4 percent.

U.S. economy expected to experience solid growth

The IHS October forecast reflects all pandemic relief measures of 2020 including the \$1.9 trillion American Recovery Plan enacted in March and the Infrastructure Investment and Jobs Act passing, resulting in about \$300 billion of additional spending over the next five fiscal years. However, continuing supply restraints and COVID-19 effects are expected to dampen the expansion in the second half of this year. 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 4.5 percent in FY 2022, then 3.7 percent in FY 2023. Following a 2.8 percent decline in employment in FY 2021, payroll employment is expected to grow 4.2 percent in FY 2022 and 2.7 percent in FY 2023. The October standard forecast expects the unemployment rate to fall to 4.6 percent in FY 2022, and 3.7 percent in FY 2023.

Total personal income is expected to rise by 1.0 percent in FY 2022, faster than the official forecast of 0.6 percent. Income growth then increases to 4.4 percent in FY 2023, just below the official forecast of 4.6 percent. The October forecast for the largest component of personal income, wages and salaries, is also higher than the official estimate in FY 2022. IHS Markit expects wages and salaries to rise 8.3 percent in FY 2022 and 6.3 percent in FY 2023.

Expectations for consumer spending in the October standard forecast are more optimistic than the official forecast for FY 2022. Real consumer spending is expected to rise 5.3 percent in FY 2022, compared with 3.1 percent in the official forecast. Spending is then expected to slow to 2.7 percent in FY 2023.

At its September meeting, the Federal Reserve (the Fed) left the federal funds target rate unchanged at 0.0 to 0.25 percent. In the October standard forecast, IHS assumed the Fed will begin raising its policy rate in March of 2023.

Virginia economy is expected to underperform the nation

In the official forecast, employment in the Commonwealth was projected to grow 1.0 percent in FY 2022, then grow at a 1.4 percent rate in FY 2023.

According to the October standard forecast, total nonagricultural employment is expected to increase 2.8 percent (107,900 jobs) in FY 2022 and 1.1 percent (43,600 jobs) in FY 2023. The financial, professional and business services and the leisure and hospitality sectors are expected to be the main drivers over the forecast horizon.

The October standard forecast has personal income growing 4.6 percent in FY 2022, followed by a 3.9 percent pace in FY 2023.

Income from wages and salaries is expected to grow 6.4 percent in FY 2022 and 5.3 percent in FY 2023. Growth of dividends, interest, and rental income is expected to increase 10.5 percent in FY 2022 and 4.5 percent in FY 2023.

In Northern Virginia, which represents 38 percent of all jobs in the state, total employment is expected to increase by 46,300 jobs or 3.2 percent in FY 2022. On a percentage basis, education and health services, leisure and hospitality, and government are forecasted to post the strongest gains.

Employment in the Norfolk-Virginia Beach-Newport News MSA (20 percent of state employment) is expected to increase by 23,500 jobs or 3.1 percent in FY 2022. The trade, financial activities, professional and business services, and leisure and hospitality sectors are forecasted to drive the gains.

Employment in the Richmond-Petersburg MSA (17 percent of state employment) is expected to increase by 12,200 jobs or 1.9 percent in FY 2022. On a percentage basis, education and health services, leisure and hospitality, and government are forecasted to post the strongest gains.