



Economic Update

Virginia CPA Society Conference
May 22, 2025

Joseph Mengedoth, CBE
Regional Economist
Research Department



**FEDERAL RESERVE BANK
OF RICHMOND**
Richmond • Baltimore • Charlotte

The views and opinions expressed herein are those of the author. They do not represent an official position of the Federal Reserve Bank of Richmond or the Federal Reserve System.



1

Uncertainty and trade impacts starting to show up

Growth has slowed, inflation little changed, labor markets remain strong

- GDP was negative in Q1, largely due to trade imbalance, frontloading of imports
- Inflation continues to head in the right direction
- By most measures, the labor market has normalized from an incredibly tight market
- Consumers continue to spend, albeit at a slower pace and with changes to what they buy
- Virginia continues to perform about on par with the U.S., the Carolina's are exceeding, and Maryland and West Virginia lag

Risks to the economy:

- Tariffs and federal government cuts to employment and spending add to uncertainties and disproportionately impact our District
- Sentiment indexes for consumers and businesses have declined in the last few months amidst heightened uncertainties



**FEDERAL RESERVE BANK
OF RICHMOND**
Richmond • Baltimore • Charlotte

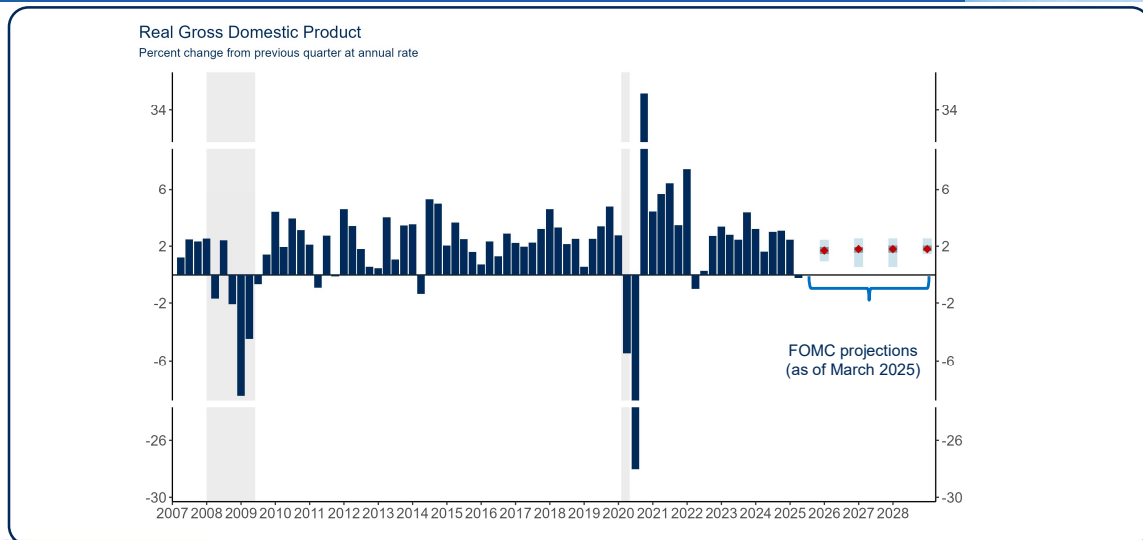
2

2

The current picture of the U.S. and Regional economy

3

Economic growth had been resilient, first negative quarter in years



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 2024 meeting. Red dots indicate median projections.

4

Surge in imports negatively contributes to domestic growth

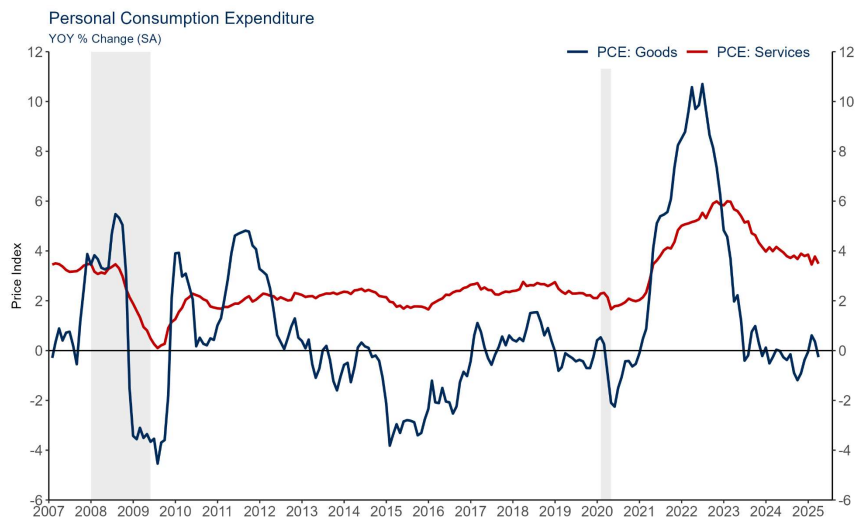
	2024				2025
	Q1	Q2	Q3	Q4	Q1
CHANGE FROM PREVIOUS QUARTER AT COMPOUND ANNUAL RATE [Percent]:					
Gross Domestic Product	1.6	3.0	3.1	2.4	-0.3
Personal Consumption Expenditures	1.9	2.8	3.7	4.0	1.8
Nonresidential Fixed Investment	4.5	3.9	4.0	-3.0	9.8
Structures	6.3	0.2	-5.0	2.9	0.4
Equipment	0.3	9.8	10.8	-8.7	22.5
Intellectual Property	7.5	0.7	3.1	-0.5	4.1
Residential Fixed Investment	13.7	-2.8	-4.3	5.5	1.3
Exports of Goods & Services	1.9	1.0	9.6	-0.2	1.8
Imports of Goods & Services	6.1	7.6	10.7	-1.9	41.3
Government Consumption Expenditures & Gross Investment	1.8	3.1	5.1	3.1	-1.4
Final Sales to Domestic Purchasers	2.7	2.8	3.7	3.0	2.3
LEVEL IN QUARTER AT SEASONALLY ADJUSTED ANNUAL RATE [Billions of Chained (2012) Dollars]:					
Change in Private Inventories	17.7	71.7	57.9	8.9	140.1
Net Exports of Goods & Services	-977.0	-1035.7	-1069.2	-1052.7	-1374.3

Source: Bureau of Economic Analysis via Haver Analytics



5

Consumer spending on services slowing; goods are down (esp. autos)

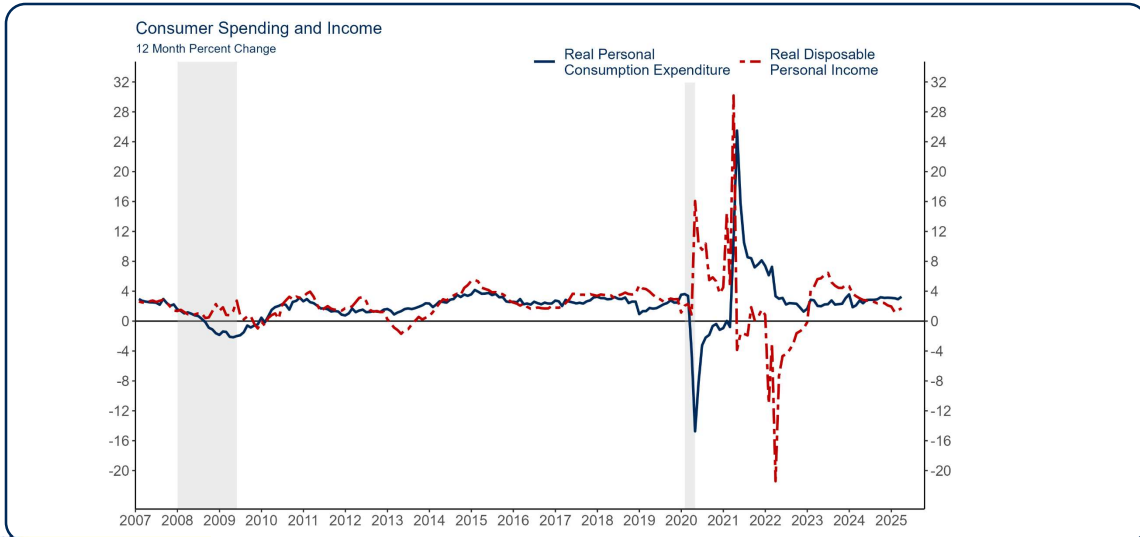


Source: Bureau of Economic Analysis via Haver Analytics



6

Inflation adjusted consumer spending growing faster than income

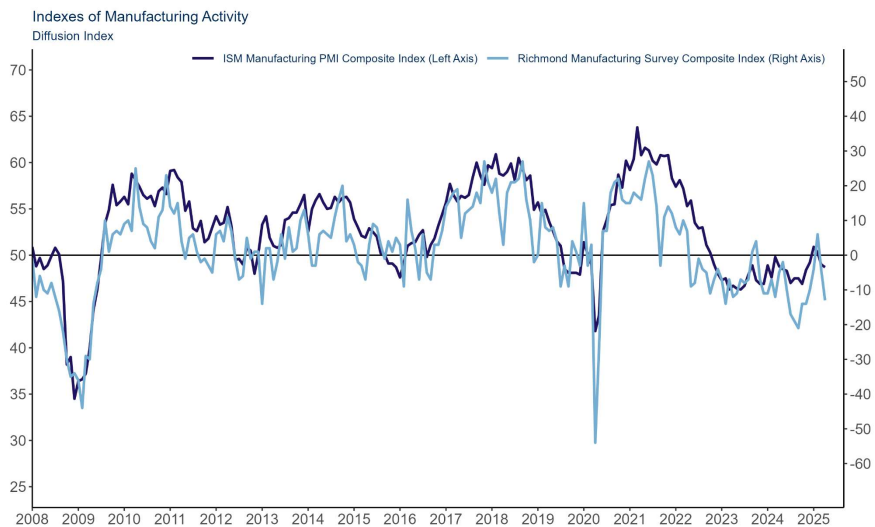


7

Manufacturing activity has been, and remains, sluggish

A lot of comments about: **Tariffs and uncertainty**

*"The biggest thing affecting our business right now are the **tariffs**. We are having to spend time developing processes and procedures to rapidly analyze the possible impacts of sudden **cost increases**. If not for these potential threats, we would be spending our time trying to improve our designs and processes to become more competitive on the world stage."*
--NC electronics manufacturer



8

8

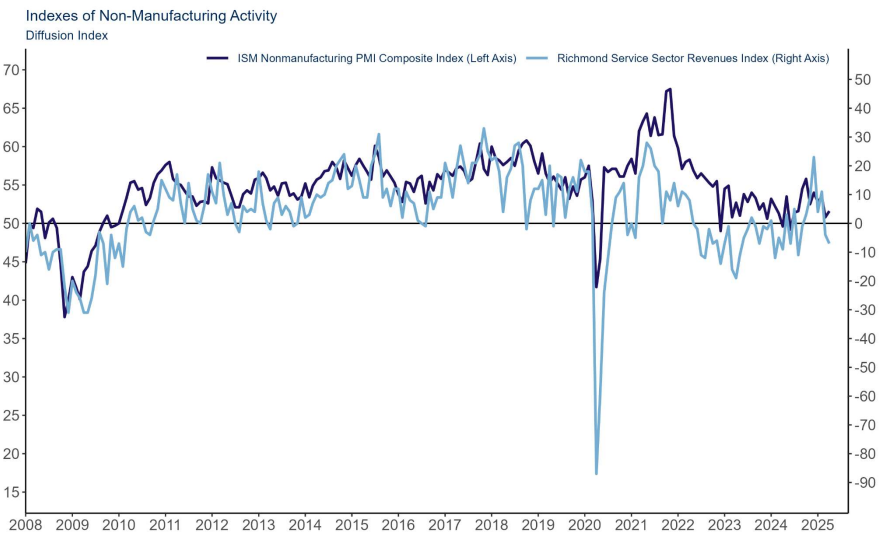
Fifth District service sector activity has also been relatively soft

A lot of comments about:

Uncertainty, tariffs, and federal government reductions

"A lot of these questions cannot be answered correctly. With...current tariff chaos, who knows what...cost of products will even be in one month from now. However, in anticipation of tough times, we have cut back on our expenses to only essential purchases." --SC hotel

"We are concerned about turmoil for federal workers in NOVA. We have had 4 Purchase Agreements "kick out" with customers who wrote contracts for to be built homes prior to Jan 20, 2025. We are monitoring whether we will initiate site work for new homesites in Stafford County." --VA builder

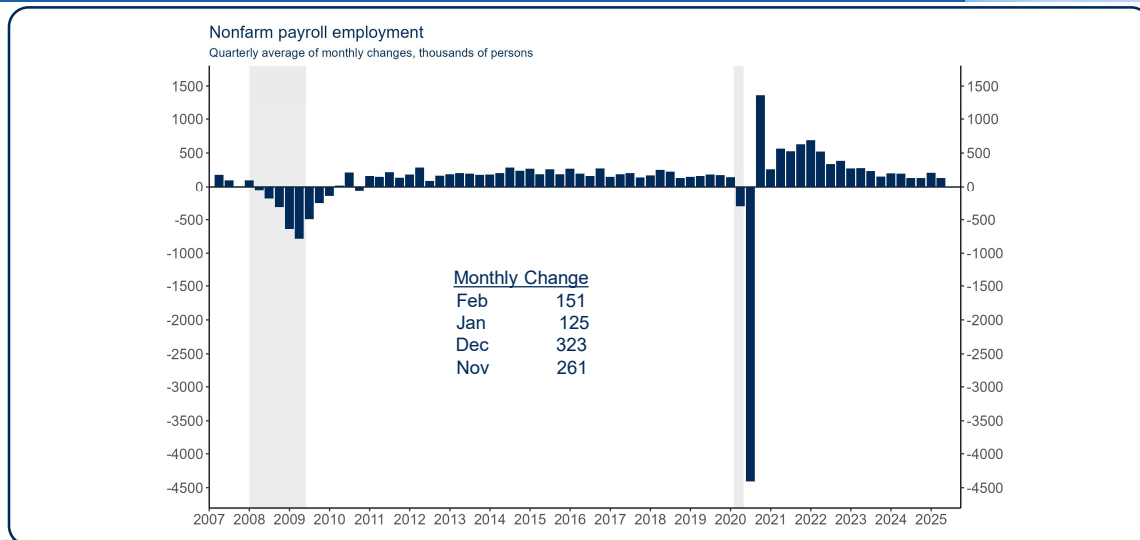


Source: Federal Reserve Bank of Richmond most recent data March 2025 last updated April 1st, 2025

9

9

Despite some slowdowns in activity, employment growth continues

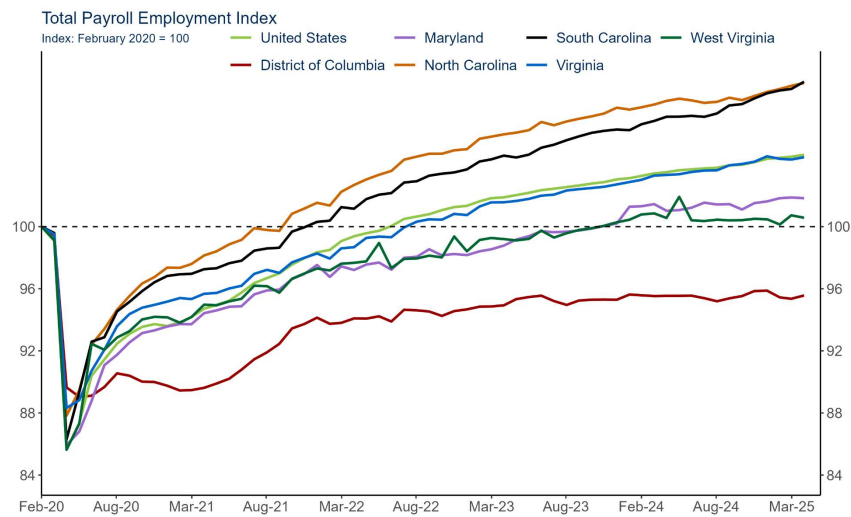


Source: Bureau of Labor Statistics/Haver Analytics, most recent data from February released March 7th, 2025

10

10

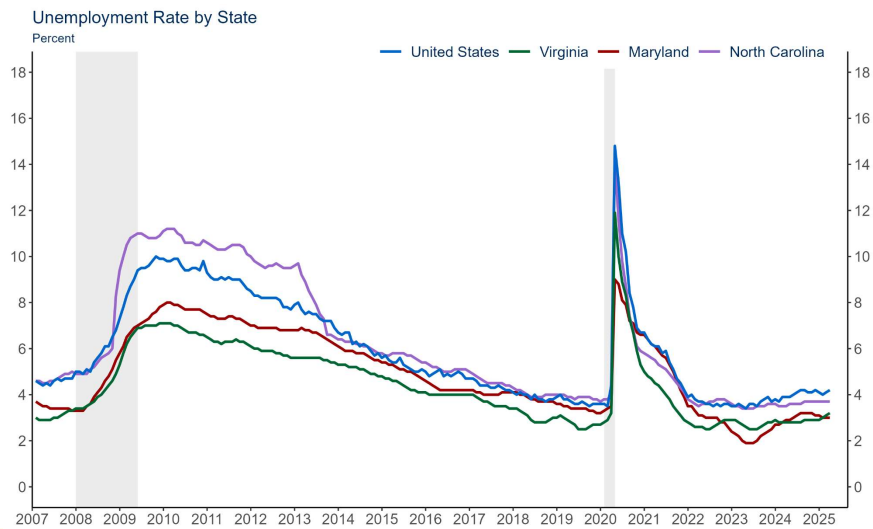
The trajectory has differed across states in the Fifth District



Source: Bureau of Labor Statistics/ Haver Analytics from January 2025 released March 17th, 2025

11

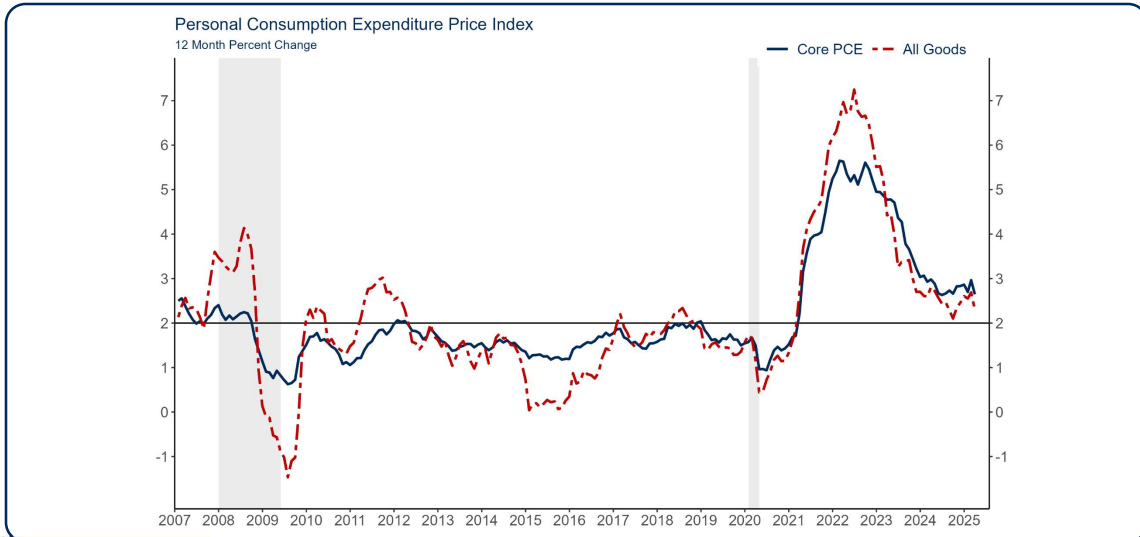
Unemployment rates remain low



Source: Bureau of Labor Statistics/Haver Analytics, most recent from January 2025 released March 17th, 2025

12

Inflation is slowly moving to target; tariffs pose risks but not showing up

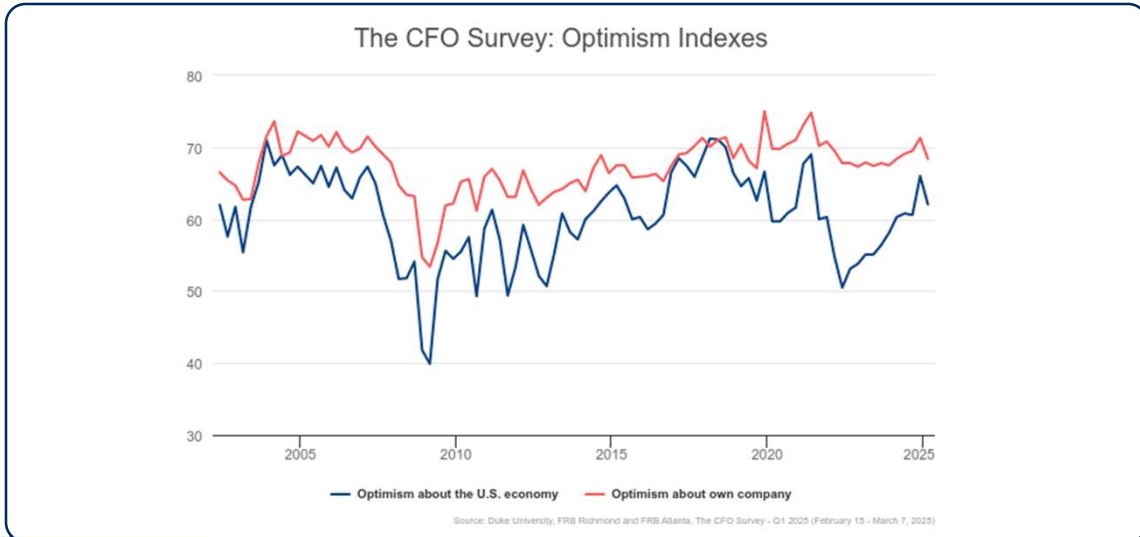


13

Sentiment and Risks to the Outlook

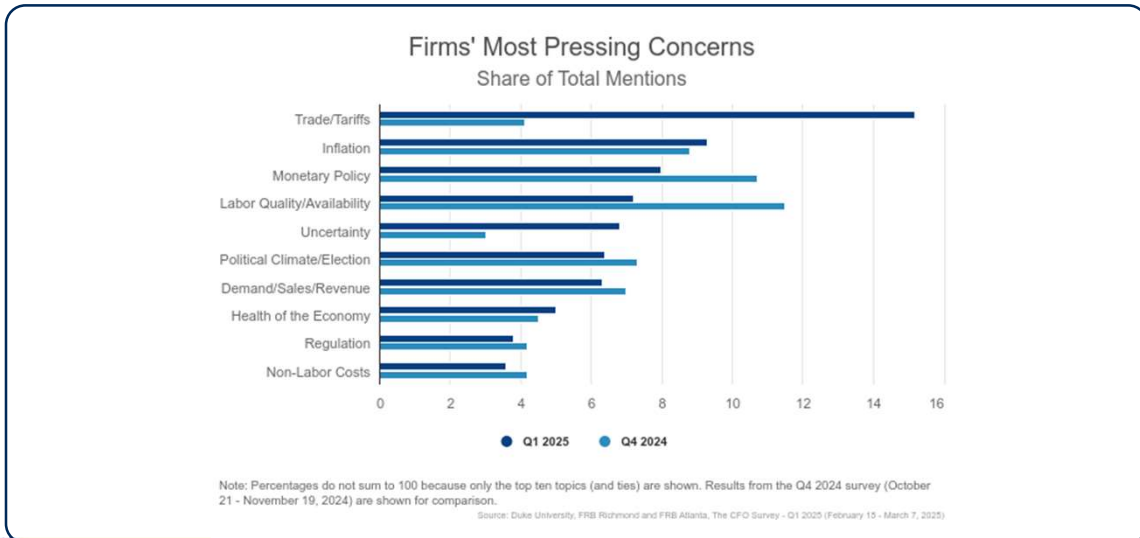
14

Optimism among CFOs fell notably in the first quarter



15

Trade/tariffs rose high on the list of concerns...as did uncertainty

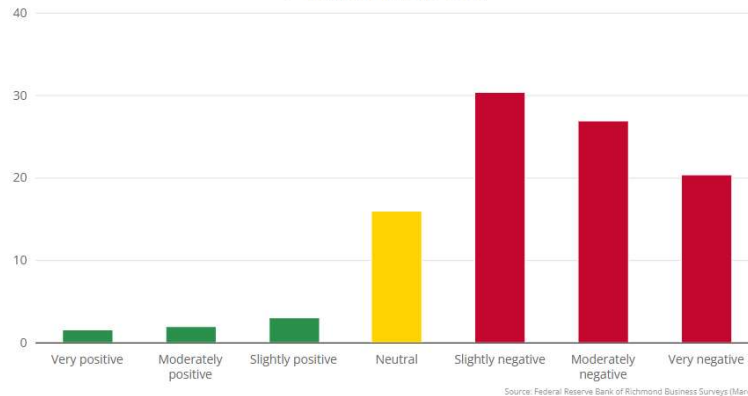


16

5E Businesses expect to be negatively impacted by tariffs

Overall, what do you think will be the immediate impact to your firm from recently proposed, planned, or implemented tariffs on imports?

Percent of Firms (N=201)

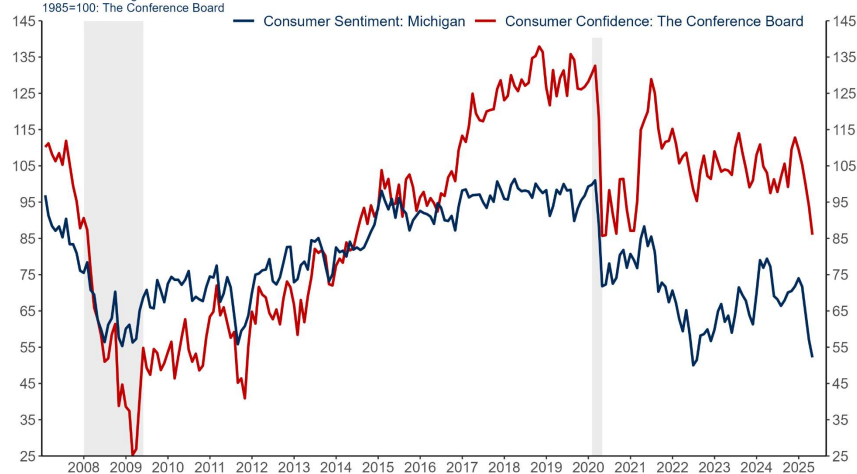


17

Household sentiment declines might also be connected to the uncertainty

Consumer Sentiment

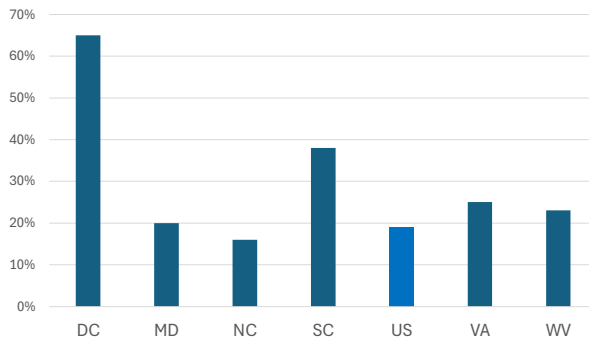
1966=100: Michigan
1985=100: The Conference Board



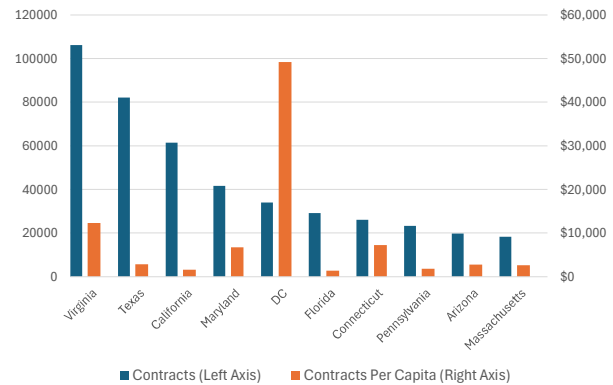
18

Virginia could be hit hard by cuts in spending

Federal Grants as Share of State Personal Income
Average 2008-2023



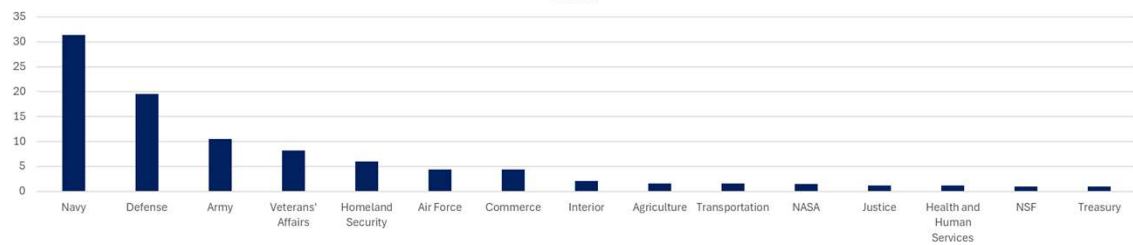
Top recipients of federal contracts FY 2023
Total (millions of \$), per capita



19

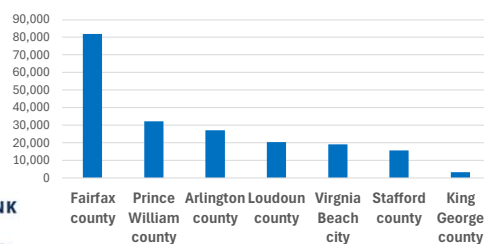
Employment shares by department vary somewhat among states in the DMV

Share of employment in top 15 federal government agencies in Virginia
Percent

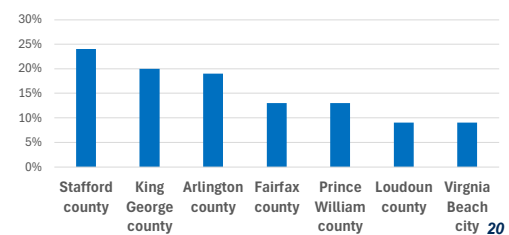


Source: Office of
Personnel
Management,
Authors'
calculations

**Number of Civilian Workers Age 16+ Employed by
the Federal Government**



**Share of Civilian Workers Age 16+ Employed by the
Federal Government**

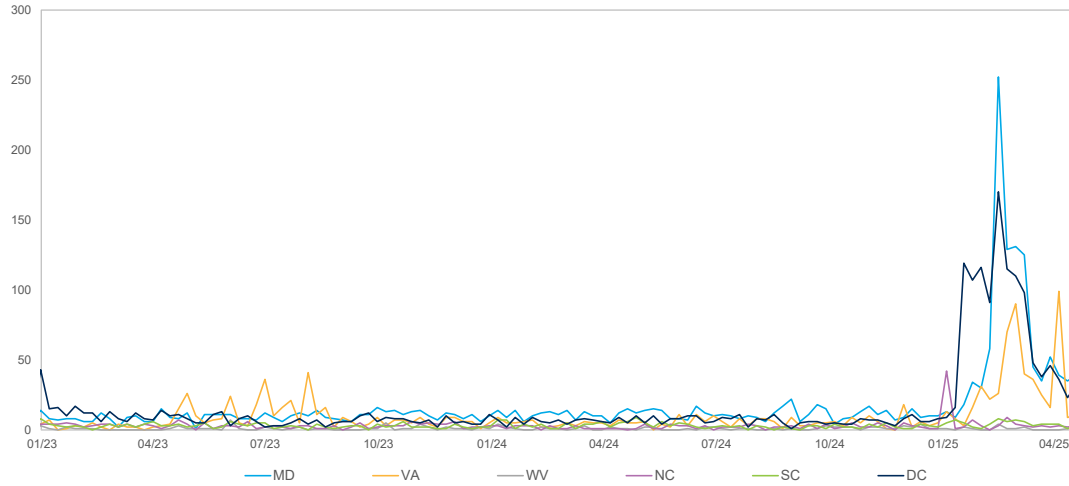


Source: ACE 5-year
estimates/authors
calculations

20

Claims for federal unemployment compensation moved up notably in MD and DC before coming back down. VA moved up notably in the last week available.

Unemployment Compensation for Federal Employees (UCFE)
Initial Claims, 2023-2025



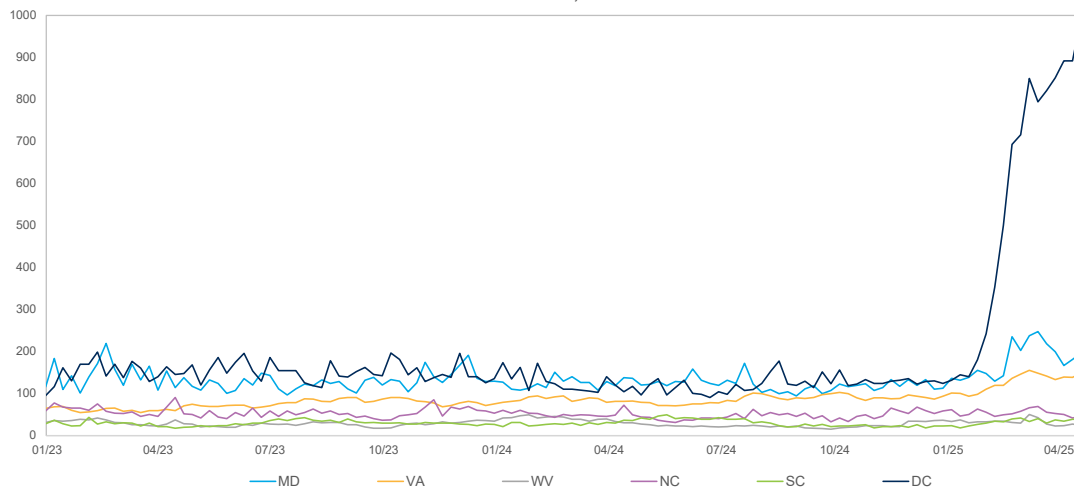
Source: US Department of Labor, Employment and Training Administration (4/19/25)

21

21

Continued claims in DC remain notably elevated

Unemployment Compensation for Federal Employees (UCFE)
Continued Claims, 2023-2025



Source: US Department of Labor, Employment and Training Administration (4/19/25)

22

22

The U.S. economy and the District: What is in store?

The big picture

- Slowing growth, but the economy remains resilient
- Inflation is still moving towards target, although progress has flattened
- Labor markets in the nation and in the District continue to normalize, with only intermittent signs of potential slowing

Risks to any outlook

- Sentiment has fallen among firms and households in recent months
- Continuing geopolitical tension and other uncertainty
- Tariffs are weighing on the minds of many firms in the District and the U.S., as is a broad sense of uncertainty
- The federal workforce and spending reductions will have a disproportionate impact on Virginia, although the impact would be felt in other parts of the country, too.



23

23

We Want To Hear From You! Sign Up to be a Survey Panelist

- Directly inform monetary policy makers on business conditions
- Receive access to survey results every month
- Join conversations on the economy with Richmond Fed leadership

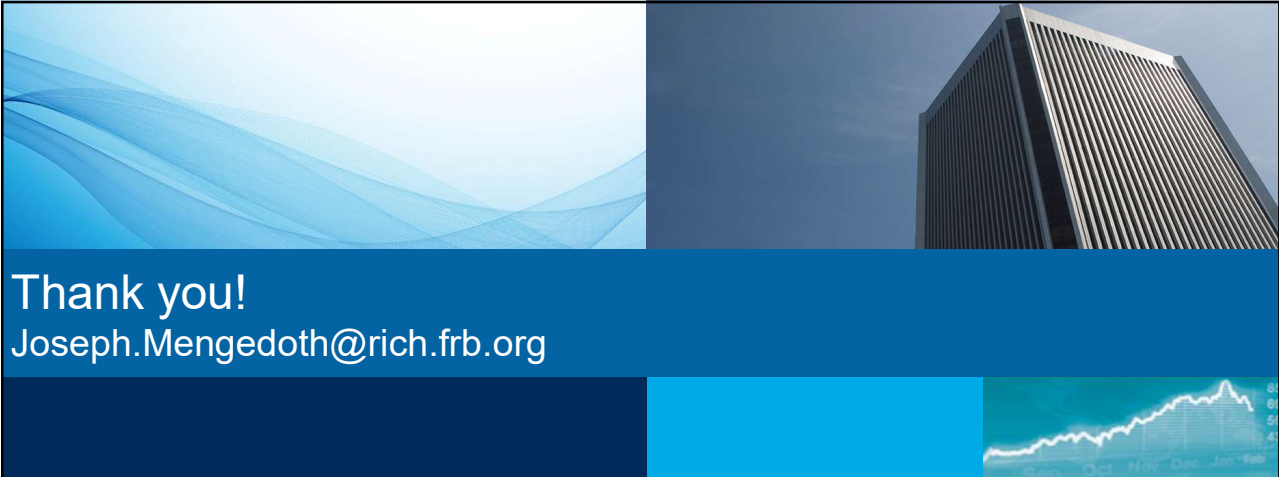


Signing-Up is Easy! Use Any of the Following


- Text "Survey" to 55444
- Visit: bit.ly/SurvBizForm
- Scan the QR Code with your phone's camera



24



Thank you!
Joseph.Mengedoth@rich.frb.org



**FEDERAL RESERVE BANK
OF RICHMOND**
Richmond • Baltimore • Charlotte