

# Economics Group

## Special Commentary

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# Virginia Cautiously Re-opens its Economy

*Virginia's economy is on the road to recovery*

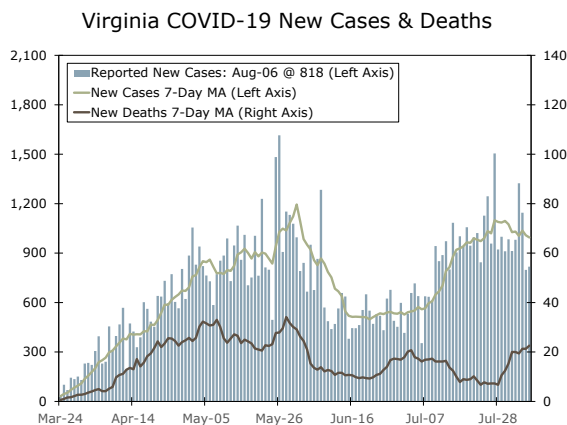
Virginia has been more cautious about re-opening its economy than most other southern states. The Commonwealth has followed a phased approach. The first phase began in mid-May, allowing barbershops, beauty salons, and nonessential retail shops to re-open with social distancing guidelines. Restaurants could also re-open, with outdoor seating only. Gatherings were restricted to no more than 10 persons. Phase two took effect in early June and allowed indoor dining, with social distancing restrictions, opened some indoor areas of fitness centers and pools, as well as in-person church services. Social gatherings were limited to 50 people. Phase three took effect July 1 and removed capacity limits on restaurants, bars and retail stores but maintained social distancing requirements. Movie theatres, bowling alleys and many other forms of indoor entertainment were permitted to open but limited to 50 percent of capacity. The limit on public gatherings increased to 250 persons.

Re-opening Virginia's economy has been challenging because of the stark differences between various regions of the state. Northern Virginia's dense economy had more difficulty containing the virus early on and the District of Columbia was a notable hot spot. While many of Virginia's smaller metro and rural areas were less impacted by the virus initially, re-opening their economies ahead of other areas might inundate them with visitors from other parts of the state.

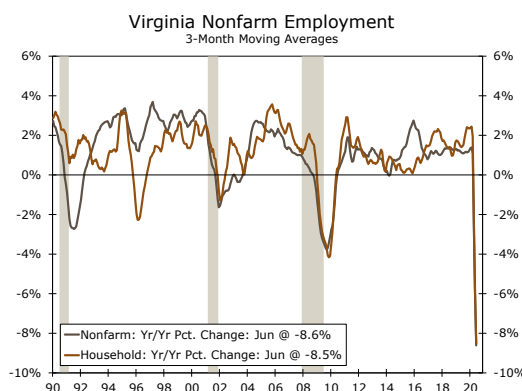
Virginia's cautious approach to re-opening the economy has likely helped hold down the number of COVID-19 cases in the state. The slower re-opening has also meant that Virginia's economy has also been slower to recover. After losing 438,100 jobs in March and April, employers added back just 88,700 jobs in May and June. The bulk of job losses and job gains have been in the hospitality industry. Virginia's hospitality sector lost 185,000 jobs March and April and regained 53,500 in May and June. Employment has also begun to turning around at medical and dental practices, retailers and at providers of many household and personal services. Virginia saw a large swing in household employment, which fell 513,400 in March and April and rose 126,000 in May and June, reflecting the job losses from Virginia residents commuting into the District of Columbia and among Virginia's large base of independent contractors and gig workers.

**Virginia saw a large swing in household employment.**

**Figure 1**



**Figure 2**



Source: Virginia Department of Health, U.S. Department of Labor and Wells Fargo Securities

Together we'll go far



Even though it followed a more cautious path to re-opening its economy, Virginia still saw a resurgence of COVID-19 cases this summer. The absolute level of cases remains fairly low, however, both relative to its population and compared to neighboring states. The resurgence in COVID cases this summer was primarily concentrated in the Eastern part of the state, in a crescent spreading down from Washington D.C., around Richmond and down to Norfolk and Virginia Beach. The rise in COVID-19 cases is closely correlated with increased travel to and within the Hampton Roads area. Mobility data from Apple show a sharp rise in requests for directions in Virginia Beach and Norfolk from late May through June. Requests for direction in Hampton Road rose well ahead of all other metro areas and the state as whole. All areas have seen direction requests level off more recently, likely reflecting growing concern about the resurgence in COVID-19 cases. The rise in cases has prompted a tightening of operating restrictions on bars and restaurant in the Hampton Roads area. Beginning August 1, bars and restaurants had to stop serving alcohol at 10pm and restaurants had to close by midnight. Indoor dining was also limited to 50% of capacity and gatherings were limited to 50 people or less. It is too soon to see the impact of these restrictions in the economic data or high-frequency series we follow, but we expect both to pull back.

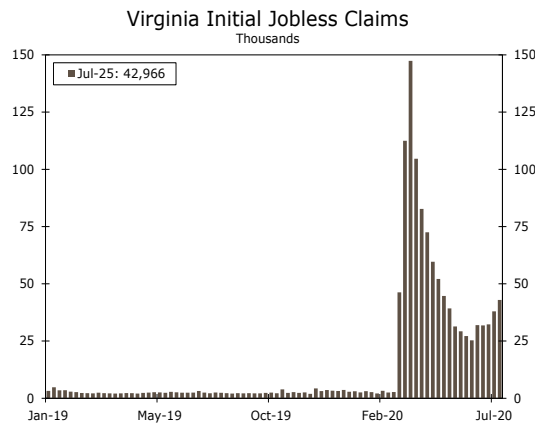
***This summer's resurgence in COVID-19 cases has triggered a pullback in economic engagement.***

This summer's resurgence in COVID-19 cases has also triggered a pullback in economic engagement by consumers and businesses. After recovering in May and the first half of June, consumer sentiment has leveled off more recently. While Virginians are basically as optimistic as consumers in North Carolina and the nation as whole, the relative drop in Virginia was greater than what was seen nationally, based on daily consumer sentiment data from Morning Consult. The leveling off in consumer sentiment is also evident in other high-frequency measures of Virginia's economy, including hours worked, visits to retail and entertainment venues and restaurant dining.

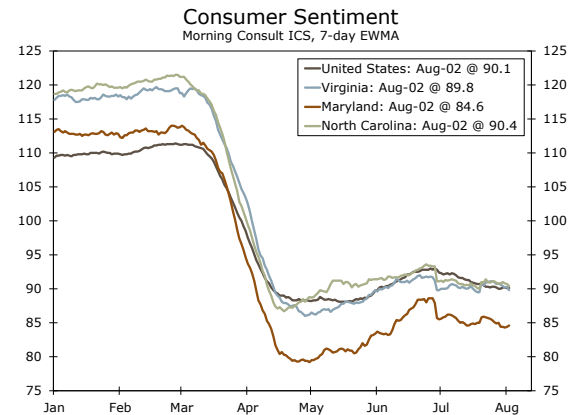
Data for Washington D.C. and Northern Virginia are noticeably weaker than data for other regions of the state. The relatively weaker showing for visits to work places, restaurants and retailers likely reflects the shift to remote work by many government workers and contractors. A large proportion of tech workers are also able to work remotely. The lack of office workers and decline in tourists visiting the D.C. area has taken a heavy toll on restaurants and hotels. OpenTable reports that reservations for seated diners in the Washington D.C. metropolitan area are down 80% year-to-year, compared to declines of 58% nationwide and 57% in Virginia.

While economic activity has pulled back as concern about COVID-19 has increased, we believe this will turn out to be more of a pause in Virginia's recovery process than a reversal. Some hard data has reversed, however. After falling for 11 weeks, first-time claims for unemployment insurance have trended higher over the past five weeks. Data show that Virginia posted the largest increase in jobless claims for the week ending July 25, with an increase of 5,020 claims. Employment officials noted that increases in professional, scientific and technical services layoffs were behind the increase. We doubt this marks the start of a sustained slowing in Virginia's tech sector. Northern Virginia, Richmond and other parts of the state continue to enjoy a strong run of new capital projects, including facilities for Amazon, Microsoft, SimpliSafe and Navien.

**Figure 3**



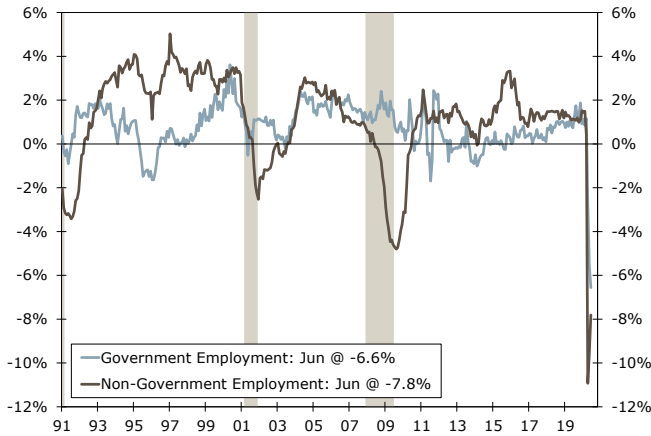
**Figure 4**



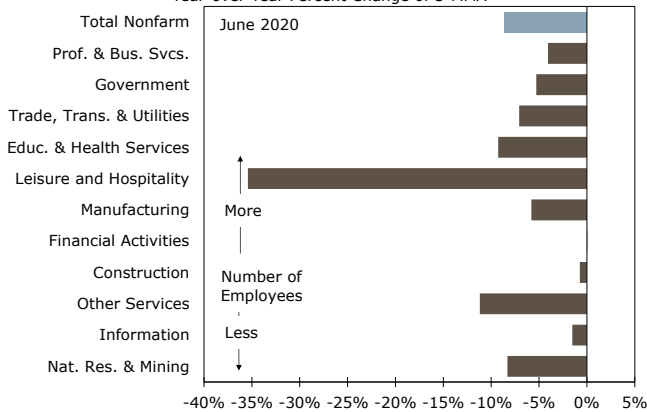
Source: Morning Consult, U.S. Department of Labor and Wells Fargo Securities

**Virginia Labor Market Conditions**

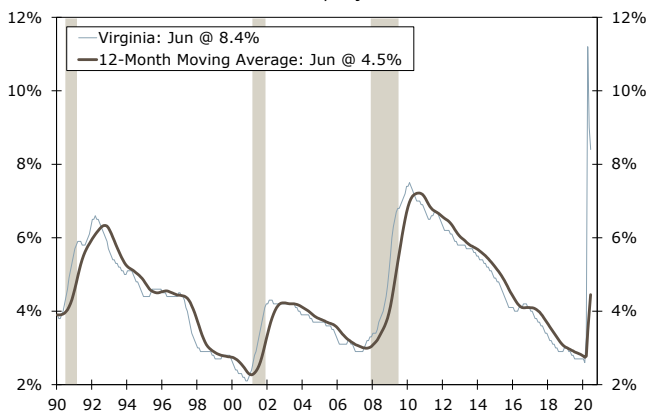
**Virginia Government Employment**  
 Year-over-Year Percent Change



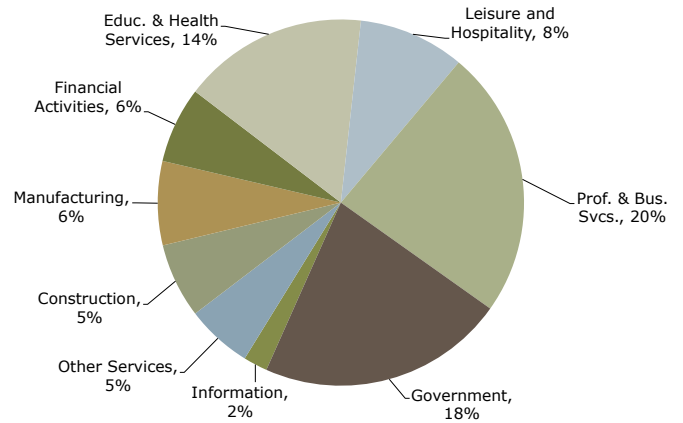
**Virginia Employment Growth By Industry**  
 Year-over-Year Percent Change of 3-MMA



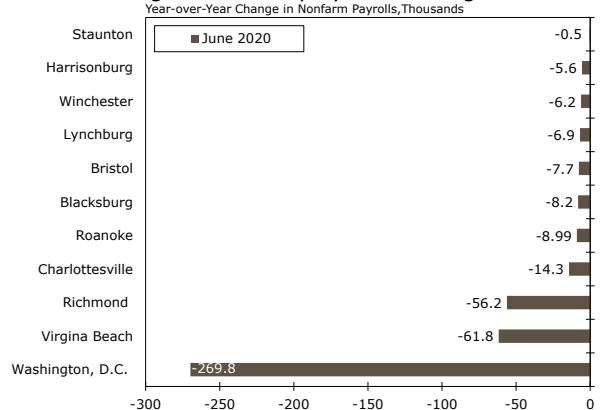
**Virginia Unemployment Rate**  
 Seasonally Adjusted



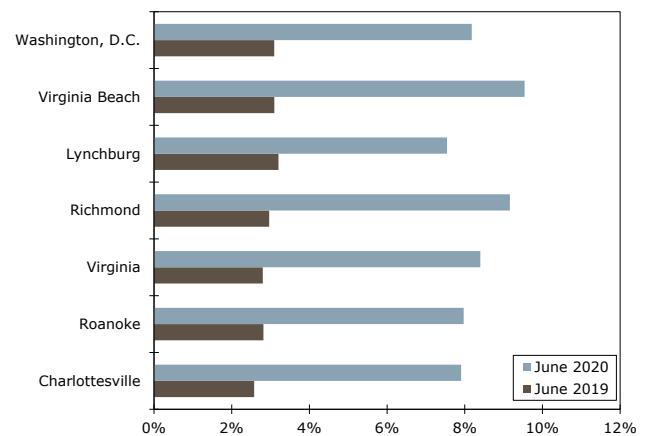
**Virginia Employment Composition**  
 June 2020



**Virginia MSA Employment Change**  
 Year-over-Year Change in Nonfarm Payrolls, Thousands

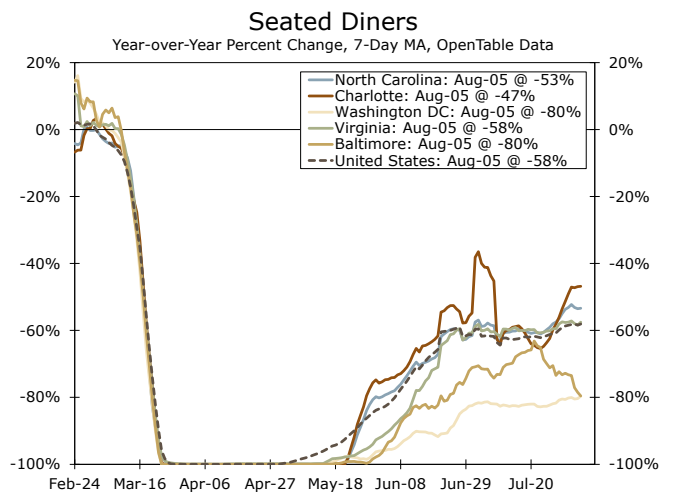
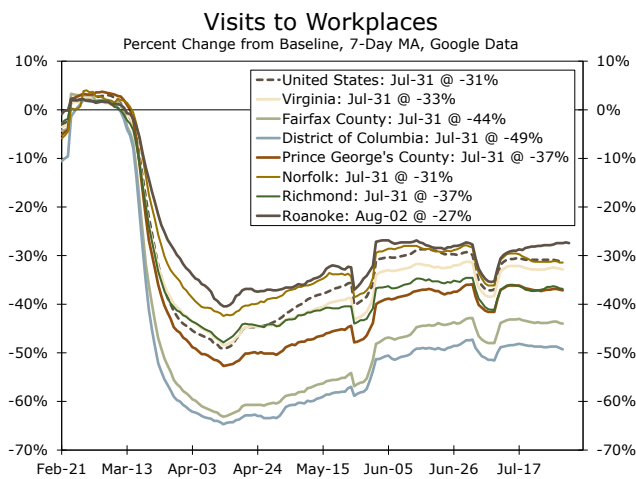
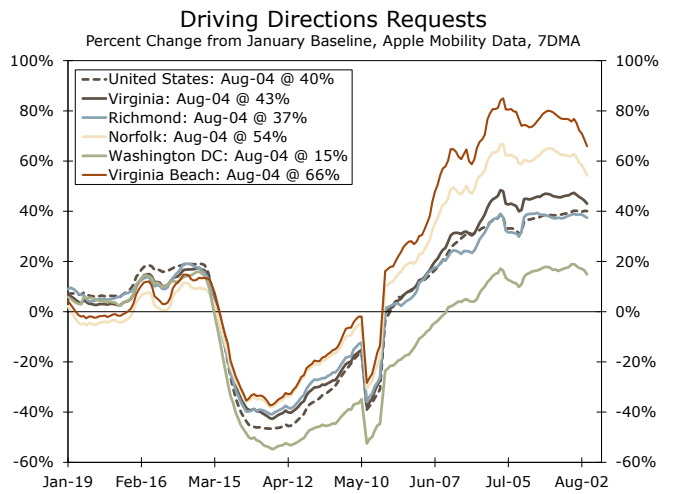
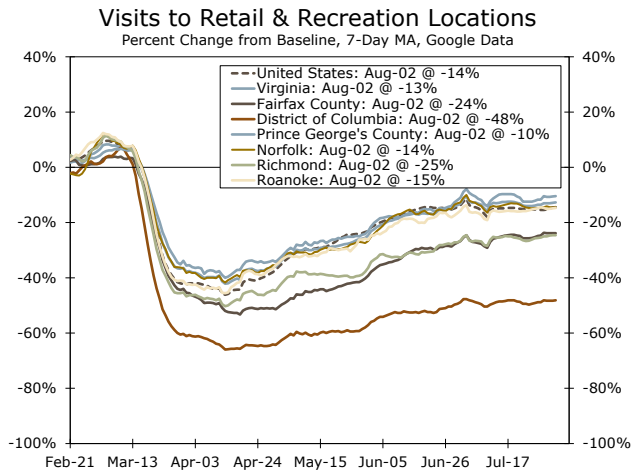
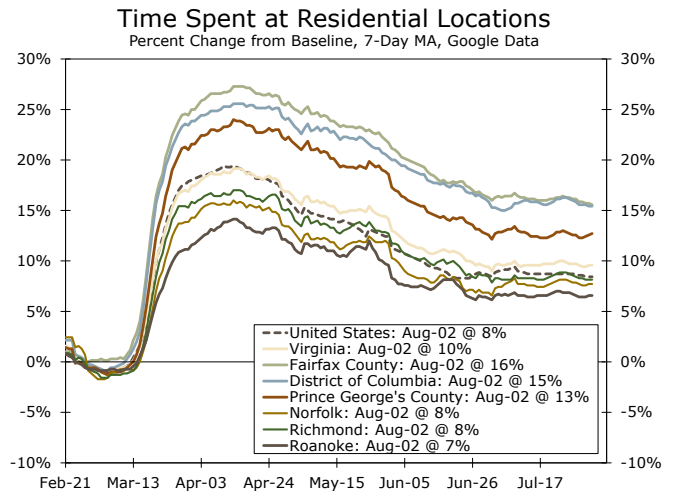
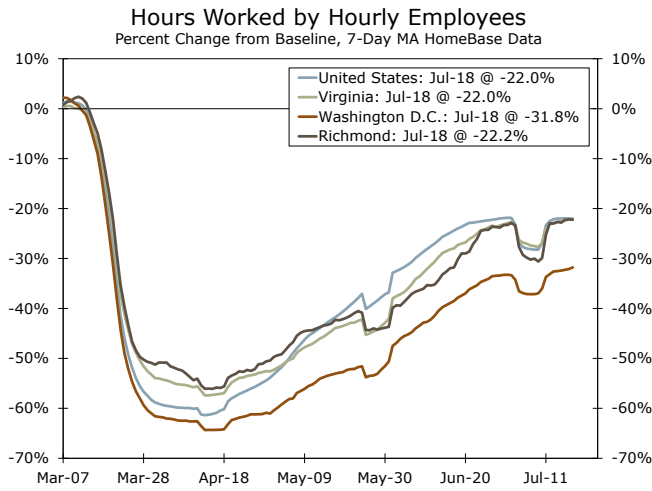


**Virginia MSA Unemployment Rates**



**Source: U.S. Department of Labor and Wells Fargo Securities**

Virginia High-Frequency Data



Source: Apple, Google, Homebase, OpenTable and Wells Fargo Securities

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