

Mixed Signals in the Regional Economy

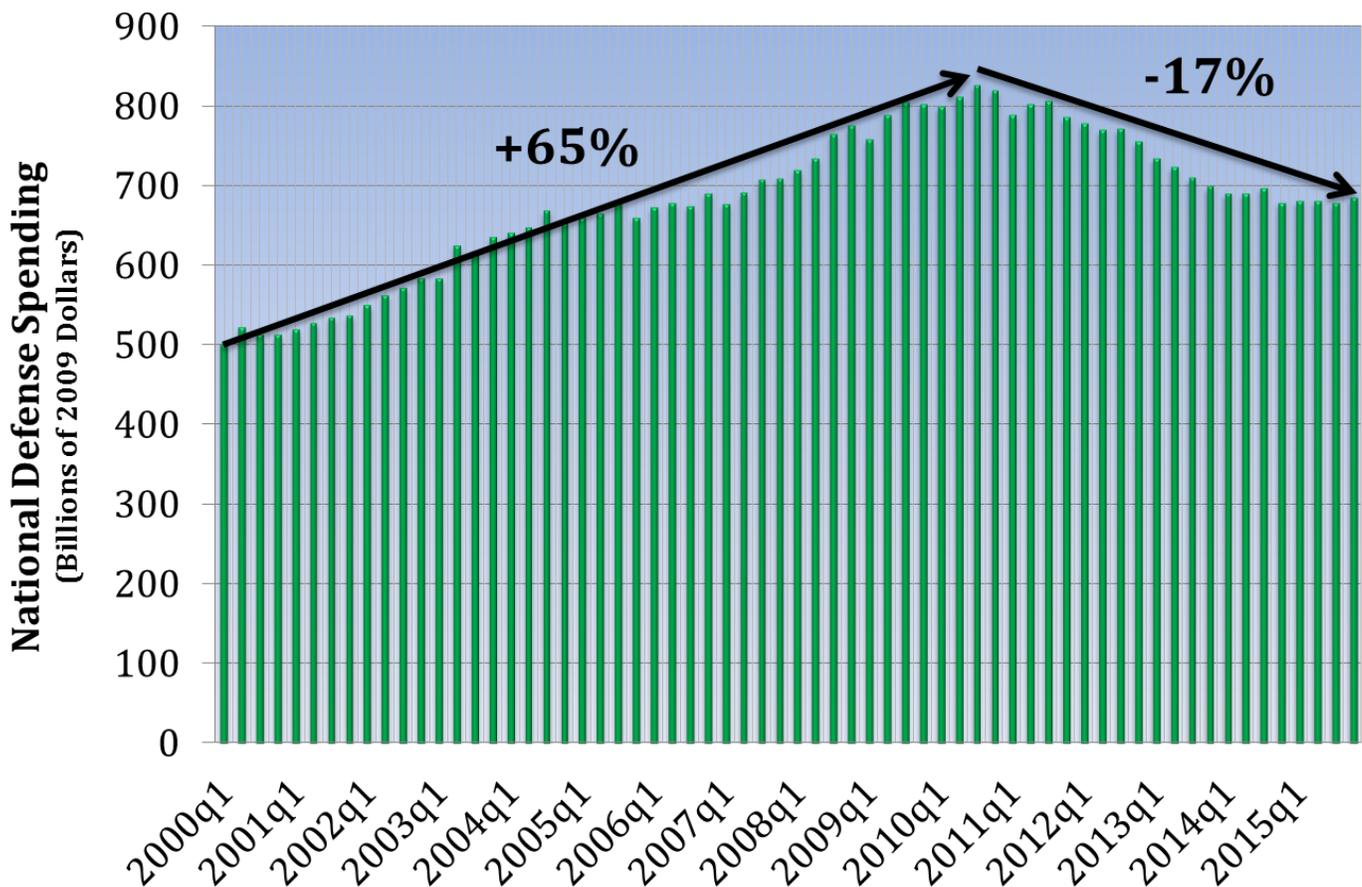
by James Clary

Generally, a majority of economic indicators will move in concert as the economy either expands or contracts; however, this region's indicators have continued to deliver mixed messages throughout the recovery. While employment and retail sales grew throughout the summer, unemployment languished. Through the fall, employment and retail sales have moved sideways, while the unemployment data shows an expanding labor force, and initial unemployment claims in the region continue to fall despite layoffs at several major shipyards.

These mixed messages presented by the region's indicators suggest that the Hampton Roads economy will continue to slowly recover through the first six months of 2016. Additionally, while national employment growth remains strong, GDP growth has slowed down, which may impede future spending on tourism and, more importantly, defense.

The regional economy outperforms that of the nation when defense spending expands relative to the size of the national economy. In the second quarter of 2010, defense spending had grown to 5.6% of the national economy, but since then has shrunk to 4.2%. Real defense spending has declined by 17% during that time, or \$141.5B per year (2009 dollars). Over the past decade, military employment in Hampton Roads has fallen by 25,000 personnel, and in 2014, uniformed personnel earned \$1.16B less in Hampton Roads than they did in 2010.

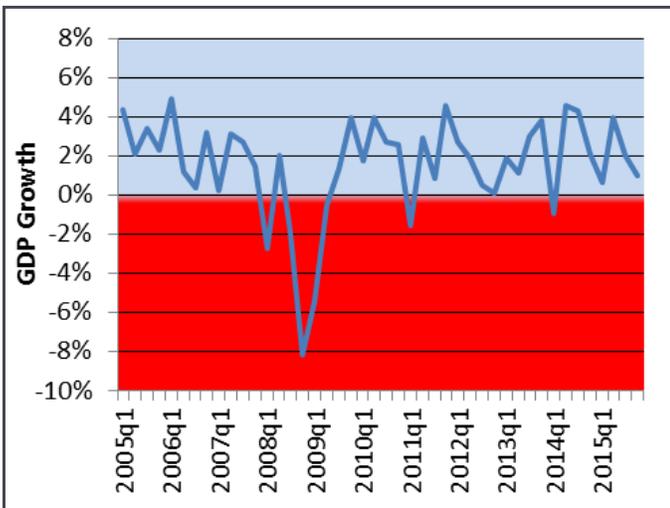
National Department of Defense Spending



Source: Bureau of Economic Analysis, HRPDC

GDP, Annualized Growth Rate

United States, 2005Q1 – 2015Q4, Quarterly



Source: Bureau of Economic Analysis, HRPDC

GDP: Gross Domestic Product combines consumption, investment, net exports, and government spending to determine the size and general health of the economy. GDP growth slowed again to a 1.0% annualized rate. Personal consumption growth slowed, and a decrease in exports helped to pull down GDP even further. Investment and government expenditures did not experience significant change between the third and fourth quarters.

New Car Sales, Seasonally Adjusted

Hampton Roads, Jan 2006 – Jan 2016, Monthly

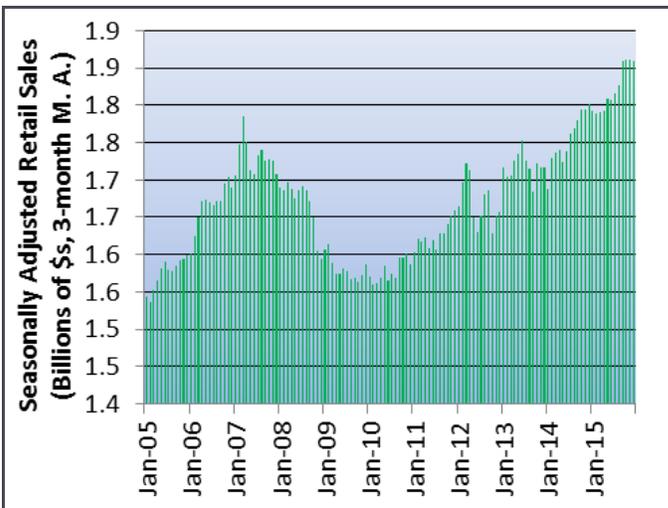


Source: Virginia Automobile Dealers Association, HRPDC

New Car Sales: Car sales, as a durable good, may be put off until such time as an individual's economic prospects improve; thus, the number of new car sales indicate the level of confidence that households in Hampton Roads have in their financial future. After a brief surge in car sales this fall, automobile sales have returned to the previous trend in Hampton Roads. It is unclear what caused the surge this past fall, but higher sales had previously been a sign of optimism about the economy.

Hampton Roads Retail Sales, Seasonally Adjusted

Hampton Roads, Jan 2005– Dec 2015, Monthly



Source: Virginia Department of Taxation, HRPDC

Retail Sales: Retail Sales in Hampton Roads, as measured by the 1% local option sales tax, serve as an indicator for consumption in the region. Since consumption composes 68% of economic activity in the U.S., the growth or decline of retail sales gives a strong indication of the direction of the local economy. Seasonally adjusted retail sales totaled \$1.86B for the fourth month in a row, indicating that income growth has likely stalled in the region.

Estimated Hotel Revenue, Seasonally Adjusted

Hampton Roads, Jan 2005 – Aug 2015, Monthly



Source: HRPDC

Estimated Hotel Revenue: Hotel sales indicate the performance of the region's tourism sector. Tourism significantly contracted during the great recession and had followed a slow steady growth trend. This was interrupted again in 2012 as budget issues resulted in a decline in federal government travel. It is notable that while taxable hotel receipts are 15.2% above their prerecession level, tourism employment is only 3.5% above its level in 2007.

Civilian Employment, Seasonally Adjusted

Hampton Roads, Jan 2005 – Dec 2015, Monthly

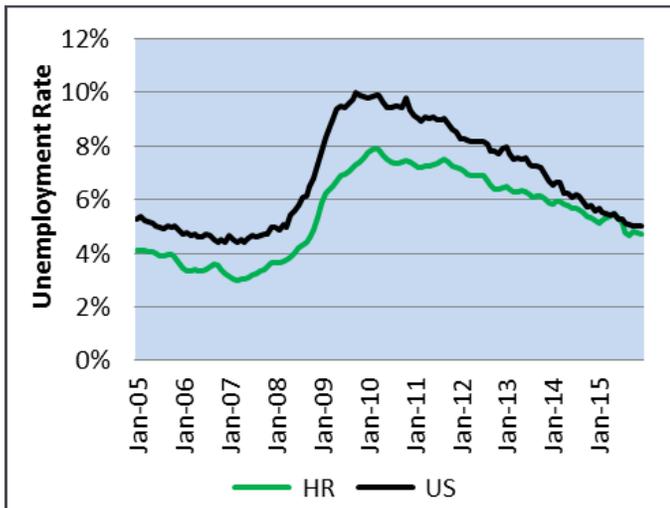


Source: Bureau of Labor Statistics, HRPDC

Employment: Non-agricultural civilian employment figures are considered the best estimate of labor market activity by the National Bureau of Economic Research. One of the difficulties in analyzing trends results from selecting the correct endpoints. Hampton Roads gained 7,100 jobs between Dec 2014 and Dec 2015, but over the past two months Hampton Roads lost 1,100 jobs. The reality is in between, where a strong year of growth slowed down with the onset of fall and winter.

Unemployment Rate, Seasonally Adjusted

Hampton Roads, Jan 2005 – Dec 2015, Monthly

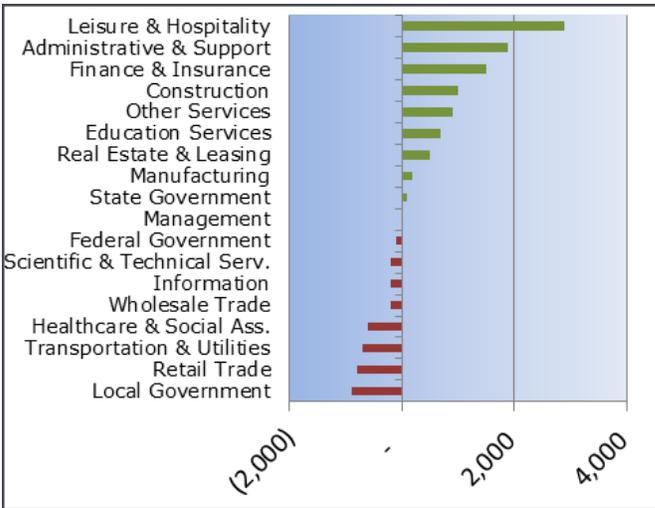


Source: Bureau of Labor Statistics, HRPDC

Unemployment Rate: The unemployment rate is the percentage of the population actively seeking work, but unable to obtain a position. The Hampton Roads unemployment rate fell back to 4.7% in Dec 2015, from 7.8% in Nov. Paradoxically, while other indicators have stagnated, the unemployment report indicates both a growing labor force, and a decrease in the number of unemployed in the region.

Employment Growth by Industry

Hampton Roads, Dec 2014 – Dec 2015, Year-over-Year

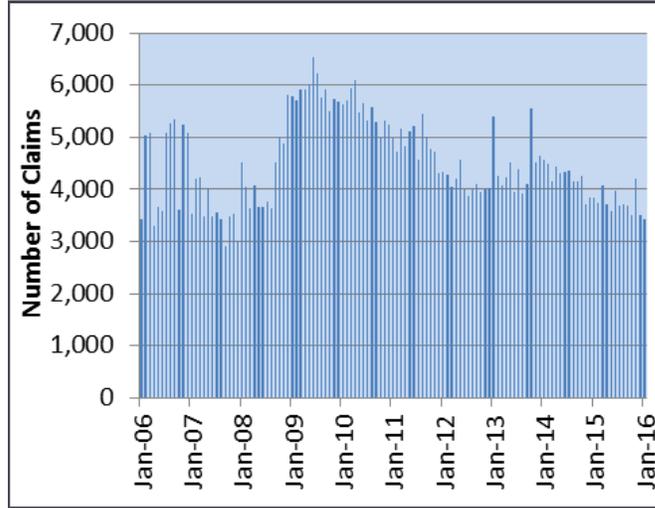


Source: Bureau of Labor Statistics, HRPDC

Employment Growth by Industry: Even as the job market grows or declines, there will be some industries whose experience does not resemble the regional trend. Local government employment continues to decline year-over-year, as the housing price correction continues to decrease local government revenue, increasing budget pressures. The decline in retail employment is surprising, as the region's taxable sales have increased significantly over the past year.

Initial Unemployment Claims, Seasonally Adjusted

Hampton Roads, Jan 2006 – Jan 2016, Monthly

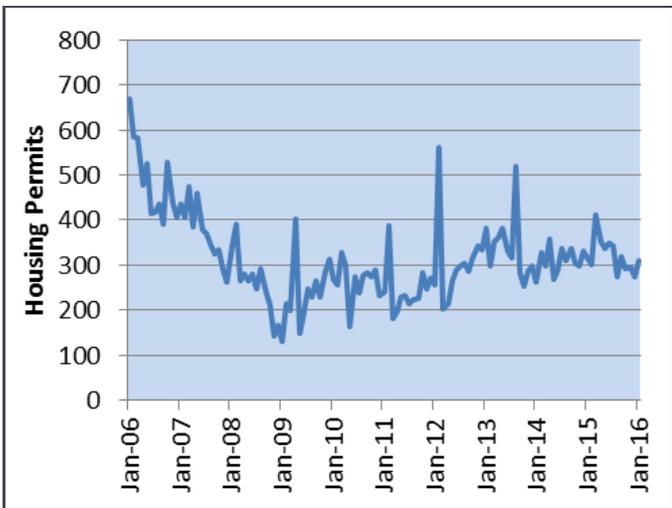


Source: Virginia Department of Labor, HRPDC

Initial Unemployment Claims: The number of Initial Unemployment Claims is a leading economic indicator, reflecting those who are forced to leave work unexpectedly, and thus revealing the strength of the job market with little lag time. Regional unemployment claims have been highly variable recently, with unemployment due to layoffs, but fell to 3,434 in Jan 2016, well below their long-term average of 4,499.

Single Family Housing Permits, Seasonally Adjusted

Hampton Roads, Jan 2006 – Jan 2016, Monthly

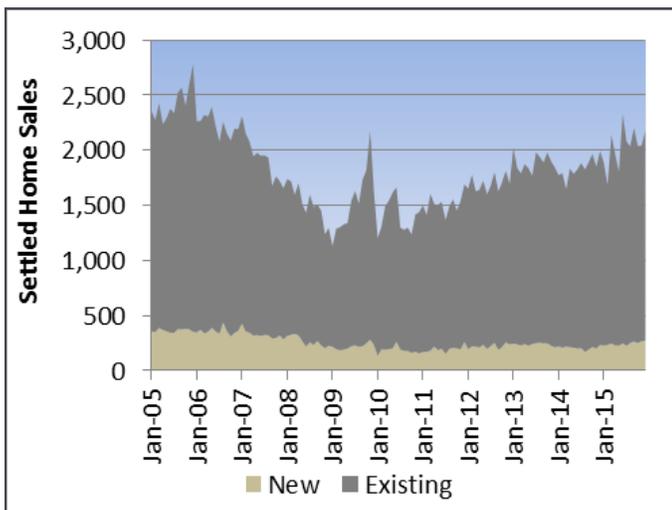


Source: U.S. Census Bureau, HRPDC

Single Family Housing Permits: Permit data signals the level of construction employment and confidence regarding the future trajectory of the local economy. Hampton Roads localities issued 309 building permits in Jan 2016, and has averaged 300 single family permits over the past six months (seasonally adjusted). This is two-thirds the level of permitting historically seen in Hampton Roads, and the low level of permitting will continue until the region generates a period of strong/stable employment growth.

Number of Homes Sold, Seasonally Adjusted

Hampton Roads, Jan 2005 – Dec 2015, Monthly

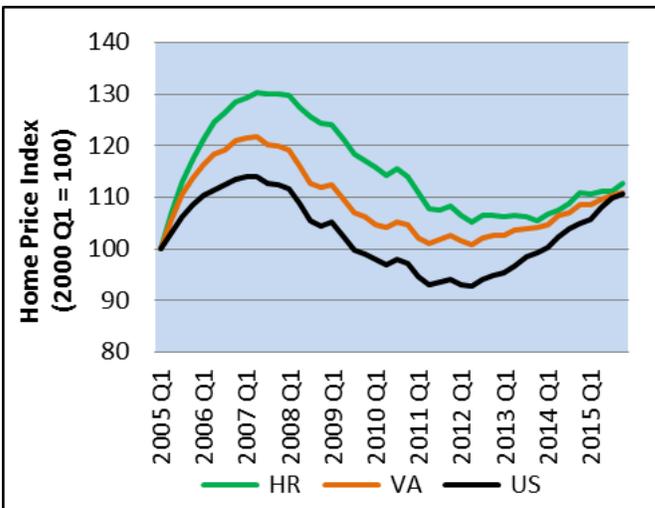


Source: REIN, HRPDC

Home Sales: Settled home sales measure the level of transactions on the real estate market over time, and a healthy real estate market should have a consistent level of activity. Hampton Roads' real estate transactions were unnaturally elevated during the boom and dropped substantially during the housing correction. Recently, existing home sales have increased significantly, achieving levels not experienced since 2005. If homes sales continue at this level, increased liquidity in the residential real estate market will encourage further development.

Home Price Index, All Transactions

U.S., VA., & Hampton Roads, 2005Q1 – 2015Q4, Quarterly

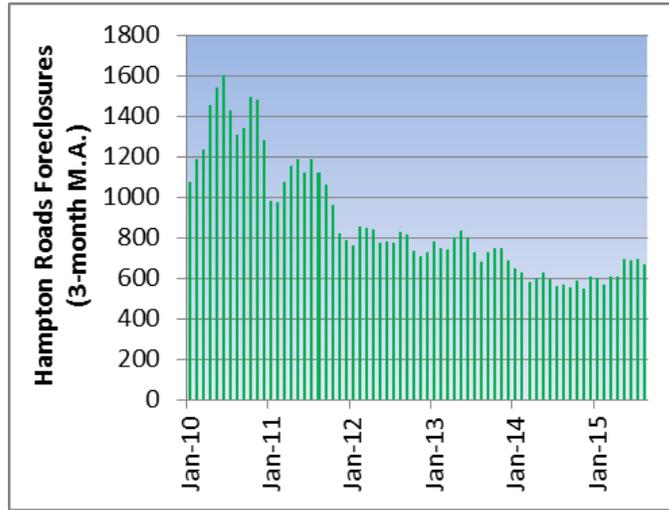


Source: Federal Housing Finance Agency, HRPDC

Home Price Index: The home price index measures the value of homes by seeing how the price has changed through different sales of the same property. The index provides the highest quality data available on the trends in the real estate market. Hampton Roads' real estate values began to increase rapidly in 2003, and continued through 2007. While the region experienced the same level of decline in housing prices as the nation and the Commonwealth, it has yet to experience a similar recovery in home prices.

Foreclosures

Hampton Roads, Jan 2010 – Sep 2015, Monthly



Source: RealtyTrac, HRPDC

Foreclosures: Foreclosures have a significant impact on the real estate market and the community, and depress home values on both a neighborhood and regional level. Hampton Roads' foreclosure filings have fallen steadily throughout the recovery, but have increased recently, growing to 790 in September. Federal reserve data indicates as of September 2015, 2.16% of owner-occupied homes were 90+ days past due in Hampton Roads, the second highest level in the state. Additionally, another 0.83% of homes regionally were in foreclosure.