



Hampton Roads Economic Quarterly

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Hampton Roads Economy Grows for the Third Year

By James Clary, Senior Economist

The Bureau of Economic Analysis estimates for the Gross Metropolitan Area Product (GMP) indicate that Hampton Roads experienced its third consecutive year of real growth in 2012. GMP rose to a nominal \$84.8 billion, an inflation adjusted increase of two percent. The Hampton Roads economy grew by 0.5% in 2011 and 1.2% in 2010.

The GMP, also called gross regional product, describes the size of a regional economy by calculating the market value of all goods and services that are produced within a region in a given year. It is comparable to the Gross Domestic Product (GDP) on the national level. Using the GMP allows for comparing the size of competing metropolitan areas' economies, the relative growth rates, and underlying productivity of the region's economy.

Hampton Roads Nominal GMP Ranking

Year	Gross Product	Rank out of 281 MSAs
2001	\$52,342	39
2002	\$55,721	38
2003	\$59,577	37
2004	\$63,305	39
2005	\$67,927	38
2006	\$72,294	39
2007	\$75,994	39
2008	\$77,503	40
2009	\$78,464	38
2010	\$80,031	39
2011	\$81,642	39
2012	\$84,836	39

Source: Bureau of Economic Analysis

About this Document

Preparation of this document was included in the HRPDC Unified Planning Work Program for Fiscal Year 2014 that was approved by the Commission at its Quarterly Meeting on April 19, 2013.

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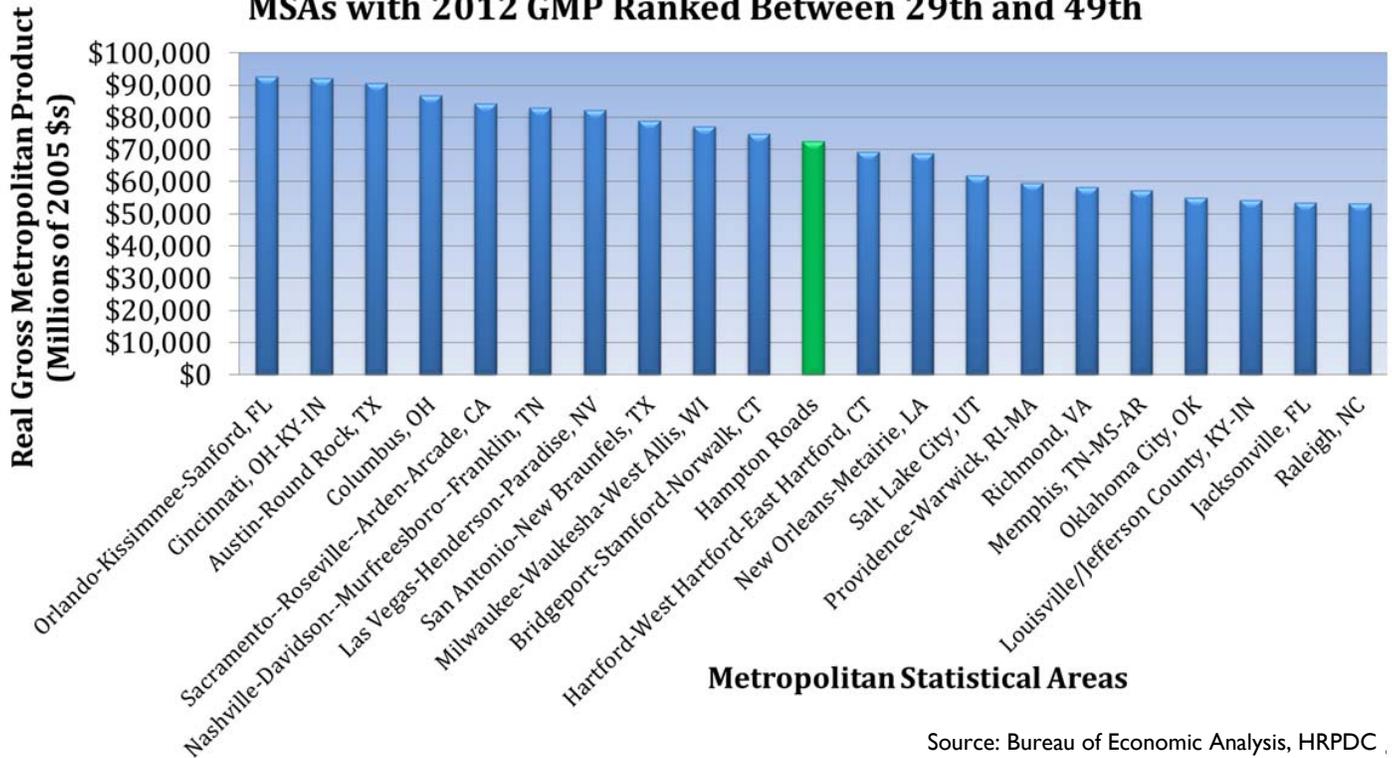
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Real and Nominal Hampton Roads Gross Metro Product



Source: Bureau of Economic Analysis, HRPDC

MSAs with 2012 GMP Ranked Between 29th and 49th



Metropolitan Statistical Areas

Source: Bureau of Economic Analysis, HRPDC

Hampton Roads had the 39th largest economy in the U.S. in 2012, behind Milwaukee and Bridgeport, CT, and ahead of Hartford and New Orleans. This region has moved between being the 37th and the 40th largest region economically since the BEA began to estimate GMP in 2001.

Unfortunately, when ranked by Per Capita Real GMP, Hampton Roads has a markedly lower rank of 83rd largest per capita gross product. This reflects a lower per capita level of productivity in this region, and a lower overall level of income. This is partly a result of this region's industry mix, as many of the regions with high per capita GMP feature either energy extraction, finance, center of governance, or high tech startups as some of their major industries. Additionally, several regions that have large tourism industries are lower in the ranking of per capita GMP, including Orlando(92nd) and Las Vegas(101st).

While individuals often fall in to the trap of focusing on the ranking of GMP, the most important data revolves around the growth in GMP, both for the overall economy, and particularly in terms of per capita GMP. It is the growth in output which indicates how the economic situation in the region is changing for its residents.

Hampton Roads Per Capita Real GMP

Year	Per Capita GMP (2005 \$s)	Rank out of 381 MSAs
2001	\$37,688	112
2002	\$38,430	112
2003	\$39,609	106
2004	\$39,997	113
2005	\$41,193	105
2006	\$41,960	100
2007	\$42,776	96
2008	\$42,610	85
2009	\$42,028	71
2010	\$42,243	74
2011	\$42,285	84
2012	\$42,799	83

Source: Bureau of Economic Analysis

Hampton Roads' GMP grew by 21.1% over the period from 2001 to 2012, versus the 22.0% growth experienced by the nation overall. As can be seen in the graphic below, while the region outperformed the nation during the depths of the recession in 2009, Hampton Roads' recovery proved to be slower than that of the nation.

The story of Hampton Roads GMP growth remains tightly correlated with national levels of defense spending. The region outperformed the nation during the weak economies of 2002 and 2003 as defense spending increased. Defense spending, which tends to be independent of economic cycles, also prevented the region from experiencing the recession as deeply as the nation. However, as the U.S. economy engages on its slow recovery, the decline in military spending has caused the regional economy to underperform.

Per capita incomes in the region have been closely tied to national defense expenditures as well, going back to 1970 (the data for regional incomes begins in 1969, so there is only limited regional data prior to 1969). The region typically experiences very stable population growth, and so the per capita GMP follows a similar growth pattern to total GMP. These growth rates only diverge where you see rapid shifts in the population (an influx of new workers would cause the gross metro product to expand rapidly, while the per capita gross metro product might fall if the workers were less skilled than those already in the region).

Long-term growth in GMP will be driven significantly by how defense spending changes both nationally and within the region, as well as this region's ability to transition its economy to other economic drivers. While Hampton Roads possesses two other major basic sector industries in tourism and port-related industries, both are mature and do not present the opportunity for rapid growth in the economy. The Hampton Roads tourism industry has engaged on a steady project to move upmarket (attracting a higher spending level of tourist), but this is a gradual process. Individuals in port-related industries have expressed optimism of increased traffic with the Panama Canal widening, but increased efficiency would prevent rapid cargo growth from having a large direct local impact.

Hampton Roads Vs. U.S. Growth in Gross Product



Source: Bureau of Economic Analysis, HRPDC

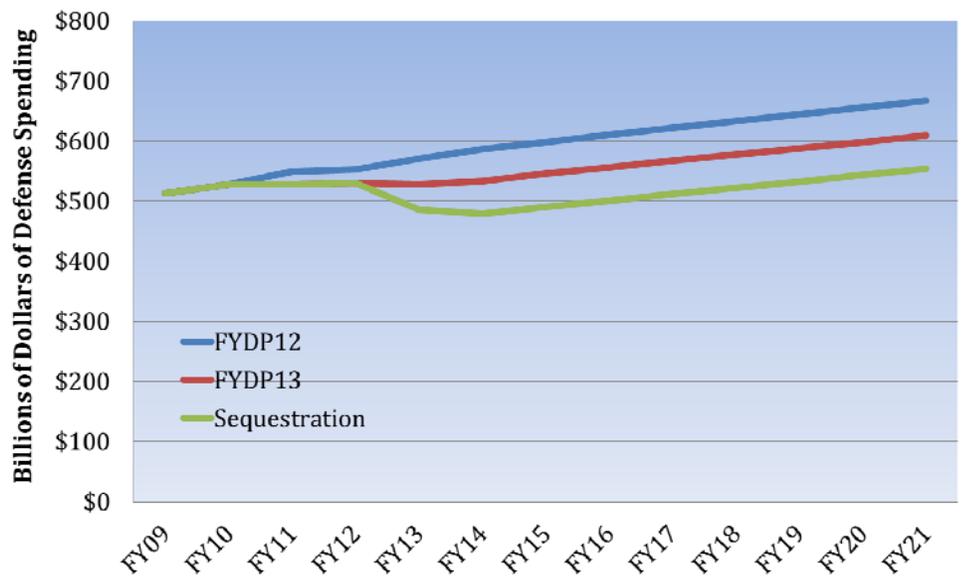
Sequestration Continues to Impact the Region

The Budget Control Act of 2011 lowered the budget caps for FY2012, and then further lowered the overall level of spending through sequestration, a process of automatic budget cuts. The combined effect of these cuts lowered the base defense budget by between 15% and 18% of what the Department of Defense had initially requested between 2013 and 2021.

While the Fiscal Year 2013 impact proved to be far less than initially feared both nationally and regionally, several measures that restricted the full impact of sequestration in FY2013

will not be available to Defense Department officials. The HRPDC staff estimated that the economic impact of the Department of Defense in Hampton Roads supports 187,552 direct jobs, and a further 205,600 jobs through indirect and induced impacts. This represents 39.6% of all jobs within the region. The Sequester lowers base defense spending in FY2014 by 10.3%, which if it impacted the region proportionally, would cost approximately 40,000 jobs. Fortunately, shipbuilding and the Navy have realized a limited impact thus far. Significant concern arises from Secretary of Defense Hagel’s statement that if the Sequester continues, then the carrier fleet will have to be reduced from its current size of eleven carriers.

The Impact of Budget Control Act and Sequestration on the Defense Budget



Source: Department of Defense Budget Requests in FY2011, FY2012, and FY2013, Congressional Budget Office

Source	Direct Employment	Indirect/Induced Employment	Total Employment	Share of Hampton Roads
Personnel	92,962	81,200	174,162	17.5%
Dependents	--	4,400	4,400	0.4%
Federal Civilians	44,590	44,400	89,000	8.9%
Contractors	50,000	45,000	95,000	9.6%
Veteran Labor Supply Impact	--	20,300	20,300	2.0%
Veteran Pension Impact	--	10,300	10,300	1.0%
Total Impact	187,552	205,600	393,152	39.6%

Hampton Roads Economic Outlook:

Signs of a Durable Recovery, with Caveats

By James Clary, Senior Economist

The economic indicators for Hampton Roads continue to show improvement. The unemployment rate has declined slowly, with the underlying indicators showing that decline is sustainable. Employment, as measured by non-farm civilian payrolls, has realized significant increases over the summer, and on a seasonally adjusted basis, the region added 15,700 jobs between Jun-13 and Aug-13. Initial unemployment claims have decreased below the long term average, albeit not as low as would be expected during a period with accelerated job growth.

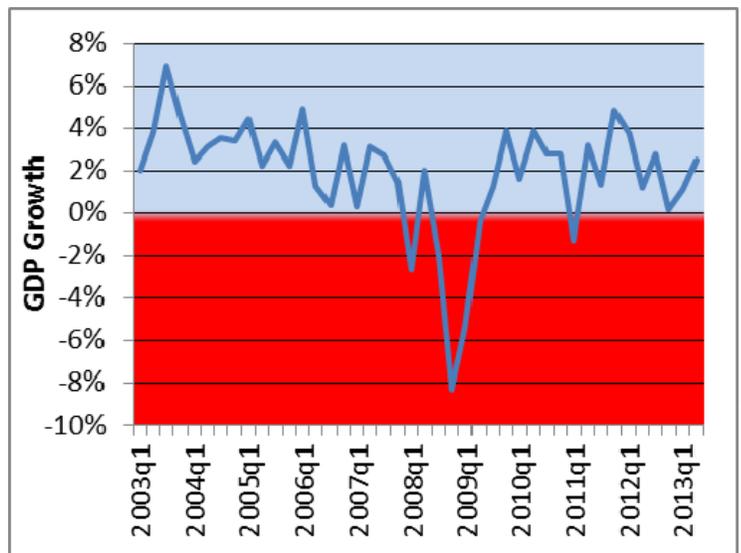
Typically, a combination of residential construction and retail sales brings a region out of a recession. Single family permits have recovered from their recession lows, and construction employment has recovered about a third of the positions that had been lost. It is difficult to see a boom in construction occurring in the short term however. Unfortunately, retail sales have not recovered to their prerecession levels, and there has been continued weakness, some of which has been related to decreased military travel. Indeed, despite an improving employment situation, the uncertainty resulting from cuts to the Department of Defense will continue to prevent a strong recovery.

Hampton Roads Economic Indicators

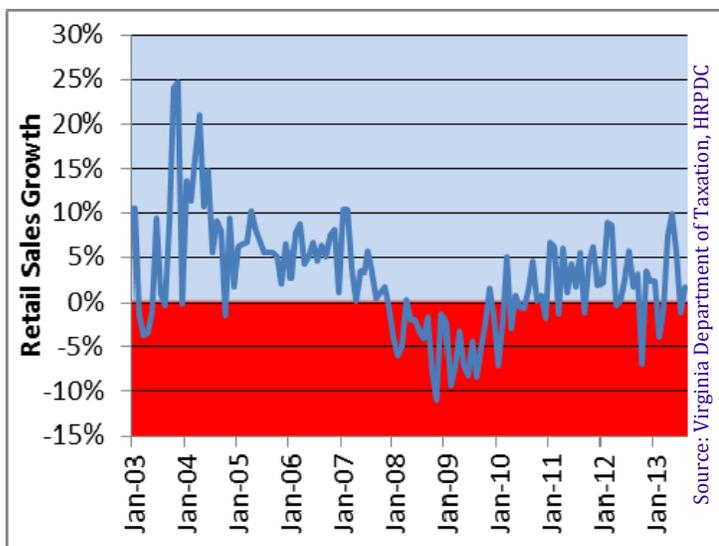
GDP, Annualized Growth Rate

United States, 2003Q1 – 2013Q2, Quarterly

GDP: Gross Domestic Product combines consumption, investment, net exports, and government spending to determine the size and general health of the economy. U.S. gross product grew at 2.5% in the second quarter of 2013, following uninspiring growth of 1.1% in the first quarter of this year and 0.1% in the fourth quarter of 2012. Current forecasts call on continued moderate expansions of the national economy, resting between 2.0% and 2.3% for 2013, with growth to increase to 2.9% to 3.1% in 2014.



Source: Bureau of Economic Analysis, HRPDC

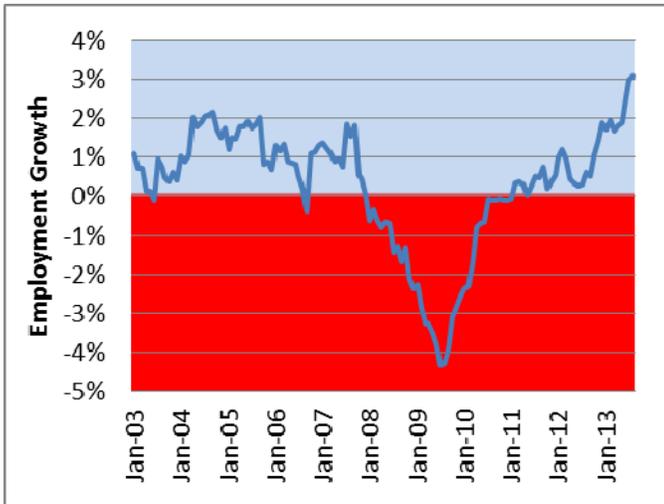


Source: Virginia Department of Taxation, HRPDC

Retail Sales, Year over Year Growth Hampton Roads, Jan 2003 – Aug 2013, Monthly

Retail Sales: Hampton Roads' retail sales, as measured by the 1% local option sales tax, serve as an indicator for consumption in the region. Since consumption composes 70% 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. Retail sales increased 1.8% between Aug-12 and Aug-13, and are 10.9% up from the recession lows of Aug-09. Still, the retail sales in August were \$43M below the Aug-07 sales. Also notable during this time is that national retail sales have recovered to a greater extent than regional retail sales.

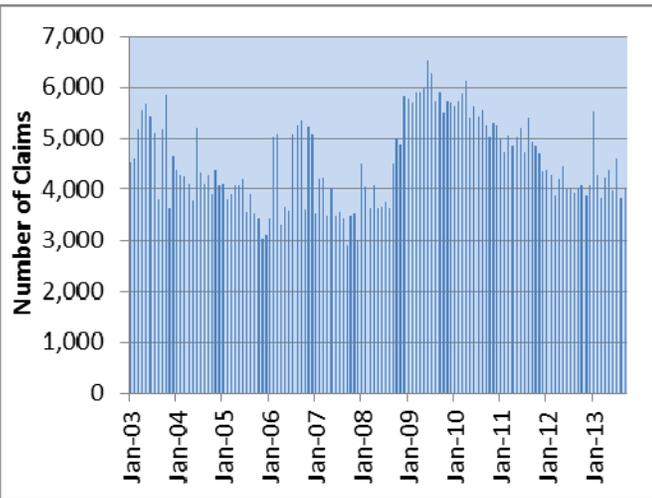
Employment, Year over Year Growth
Hampton Roads, Jan 2003 – Aug 2013, Monthly



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. Year over year employment growth has been positive since Feb-11, a period of 31 months, indicating a general trend towards recovery. While employment is still 13,000 below the Aug-07 levels, the region grew rapidly over the past year, with employment increasing by 23,000 since Aug-12, an increase of 3.1%.

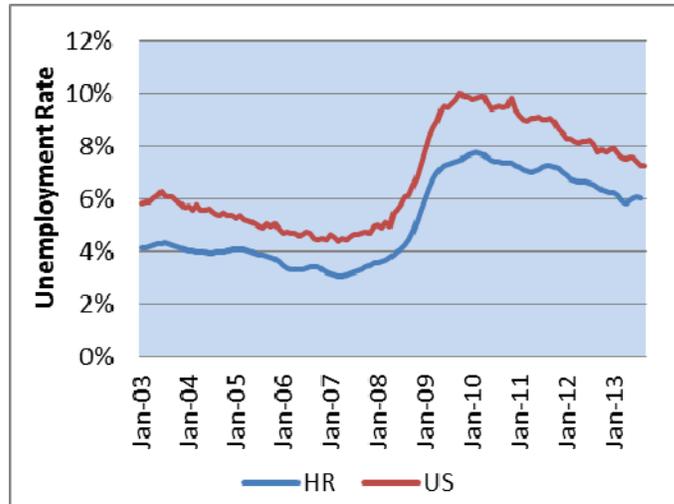
Initial Unemployment Claims, Seasonally Adjusted
Hampton Roads, Jan 2003 – Sep 2013, Monthly



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. The long term average for initial unemployment claims in Hampton Roads is 4,374, with the Sep-13 figure of 4,011 claims indicating that the economy continues to slowly improve. This has been the ninth month that the region's unemployment claims fell below the long-term average.

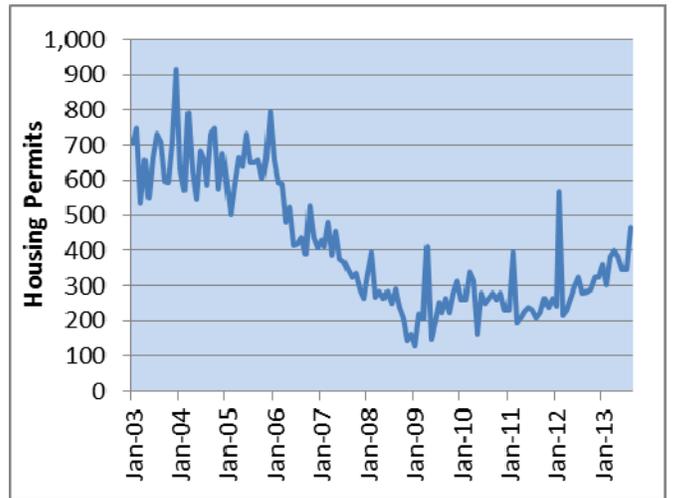
Unemployment Rate, Seasonally Adjusted
U.S. & Hampton Roads, Jan 2003– Aug 2013, Monthly



Source: Bureau of Labor Statistics, HRPDC

Unemployment Rate: The unemployment rate is the percentage of the population which is actively seeking work, but is unable to obtain a position. Hampton Road's unemployment rate fell to 6.0% in Aug-12, its lowest level since Jan-09. The regional unemployment rate remains 1.3% below that of the nation's, and the regional labor force has increased more quickly than the national labor force over the recovery. All of the indicators related to unemployment indicate an improving economy in Hampton Roads.

Single Family Housing Permits, Seasonally Adjusted
Hampton Roads, Jan 2003 – Aug 2013, Monthly



Source: U.S. Census Bureau, HRPDC

Single Family Housing Permits: Permit data indicates the level of construction employment and confidence regarding the future trajectory of the local economy. The number of seasonally adjusted permits continues to rise, but still remain below the long-term average of 481 single family homes permitted per month. This is also reflected in construction employment, which has increased by 5,000 jobs over the past 12 months, but is still more than 9,000 positions below its pre-recession high.