

Section II

The Economy

Figure 2.1 Hampton Roads Historic Gross Product	23
Figure 2.2 Gross Product in Hampton Roads and Reference MSAs	23
Figure 2.3 Hampton Roads Gross Product Compared to Foreign Economies.....	24
Figure 2.4 National and Regional Gross Product Growth.....	24
Figure 2.5 Three Year Growth in Gross Regional Product and Reference MSAs.....	25
Figure 2.6 Employment and Gross Product in Hampton Roads.....	25
Figure 2.7 Seasonally Adjusted Hampton Roads Employment.....	26
Figure 2.8 Hampton Roads Employment Share of U.S. Employment.....	26
Figure 2.9 Three Year Employment Growth in Hampton Roads and Reference MSAs	27
Figure 2.10 Public and Private Sector Employment in Hampton Roads	27
Figure 2.11 Distribution of Hampton Roads Employment by Industry Sector	28
Figure 2.12 Three Year Change in Hampton Roads Employment by Industrial Sector	28
Figure 2.13 Hampton Roads Industrial Location Quotients	29
Figure 2.14 Hampton Roads Sub-Sector Location Quotients.....	29
Figure 2.15 Unemployment Rates in Hampton Roads, Virginia, and the U.S.	30
Figure 2.16 Employment to Population Ratio in Hampton Roads and Reference MSAs....	30
Figure 2.17 Indexed Employment to Population Ratios in Hampton Roads and the U.S. ...	31
Figure 2.18 Per Capita Income in Hampton Roads, Virginia, and the U.S.	31
Figure 2.19 Per Capita Income in Hampton Roads and Reference MSAs	32
Figure 2.20 Purchasing Power of Income in Hampton Roads and Reference MSAs	32
Figure 2.21 Relative Per Capita Income of Hampton Roads to Virginia and U.S.	33
Figure 2.22 U.S. and Hampton Roads Real Median Family Incomes.....	33
Figure 2.23 Inflation Adjusted Earning Per Worker in Hampton Roads and U.S.....	34
Figure 2.24 Hampton Roads Incomes by Source	34

The Hampton Roads Economy

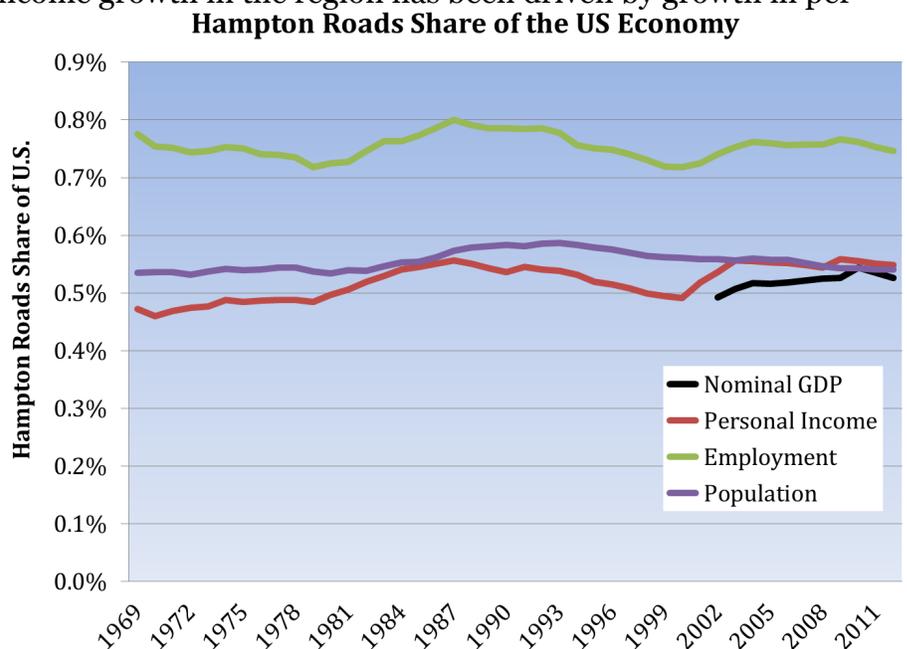
The Hampton Roads economy continues to struggle with the after effects of the great recession. The regional gross product has grown over the past three years and while it has surpassed 2007 levels, there is a significant output gap at both the national and regional levels when compared to the prerecession trend. Additionally, the local growth in gross product and employment has trailed the performance of other metropolitan areas with populations between one and three million. Regional employment still lags its prerecession peak by almost 30,000 jobs.

Employment in Hampton Roads still derives mainly from military personnel and federal civilians, as well as industries that are related to the Department of Defense. Healthcare employment has experienced significant growth both regionally and nationally, and it is the only industry that added employment continuously throughout the entire recession.

While the overall employment has declined in Hampton Roads, the regional unemployment rate is still low compared to the nation. There are relatively few individuals in the region who want to be employed but are unable to find a job. Additionally, the unemployment measure undercounts the strength of the region's labor market because military personnel are not included in the labor force.

Regional incomes are strong in Hampton Roads, as both per capita incomes and median family incomes in the region are above the national level. The strong per capita income does not perform as well when adjusted for the region's higher cost of living relative to its reference metro areas. Most of the income growth in the region has been driven by growth in personal transfers (government benefits), as wage and salary income has declined slightly since 2007.

Overall, the Hampton Roads economy is significant on both the national and world stage, with a gross product similar to some large countries. Additionally, the Hampton Roads economy constitutes about 0.5% of the national economy, income, and population.



Source: Bureau of Economic Analysis, HRPDC

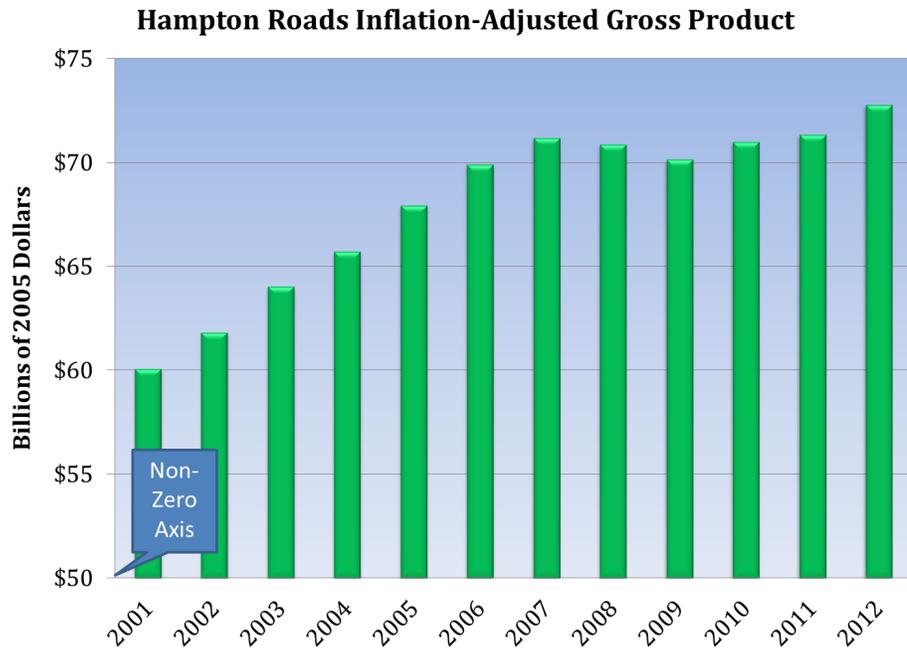
Figure 2.1 Hampton Roads Historic Gross Product

Why is it important?

Gross product measures the dollar value of all the goods and services that are produced within a geographic area during a year. Tracking the regional gross product over time is a measure of the performance of this region.

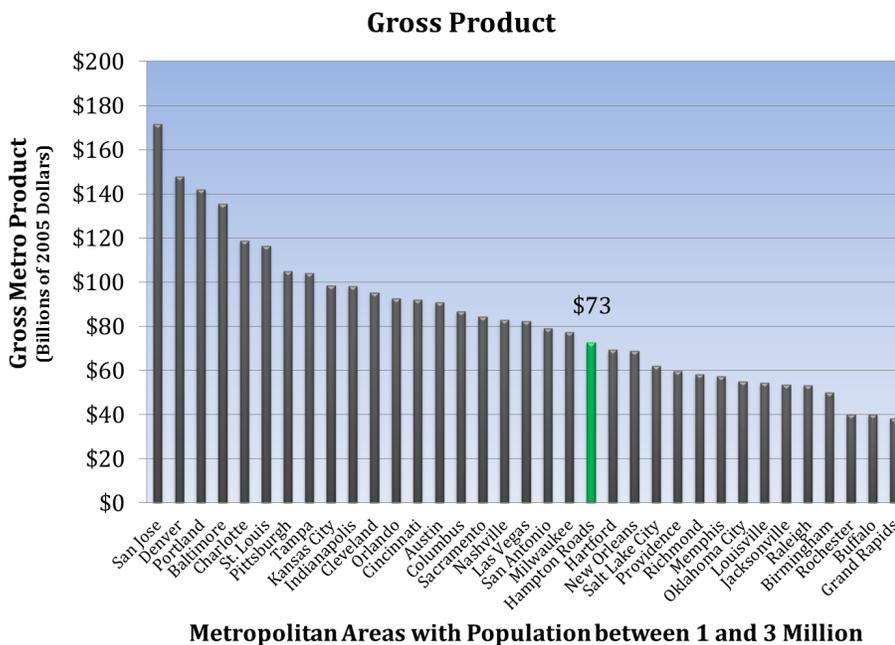
How are we doing?

While gross product had been growing strongly, the great recession decreased the economic activity in Hampton Roads. While Hampton Roads has returned to growth since 2009, it has not returned to its previous trend of economic expansion.



Source: Bureau of Economic Analysis, HRPDC

Figure 2.2 Gross Product in Hampton Roads and Reference MSAs



Metropolitan Areas with Population between 1 and 3 Million

Source: Bureau of Economic Analysis, HRPDC

Why is it important?

It is important to understand the relative size of metro economies when making direct comparisons. This graph illustrates the broad range in the size of Hampton Roads' competing metropolitan areas.

How are we doing?

Hampton Roads' gross product reflects both the size of the population and the productivity/value added by its industries. The region's gross product reflects the size of the economy, indicating that the region's industries are neither highly productive nor unproductive.

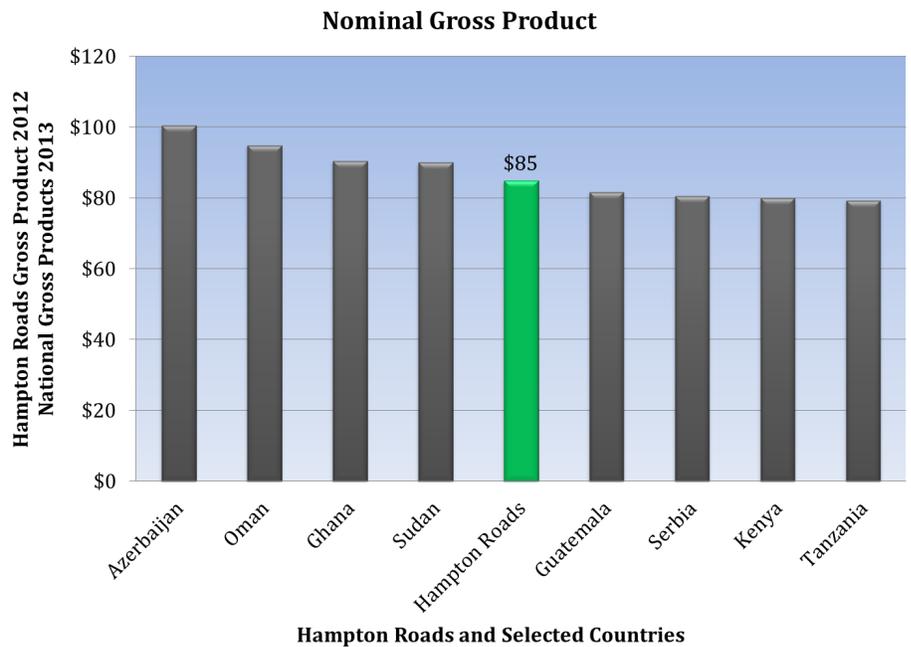
Figure 2.3 Hampton Roads Gross Product Compared to Foreign Economies

Why is it important?

A comparison of the Hampton Roads economy relative to foreign economies of a similar size provides perspective as to the magnitude and potential influence of the regional market.

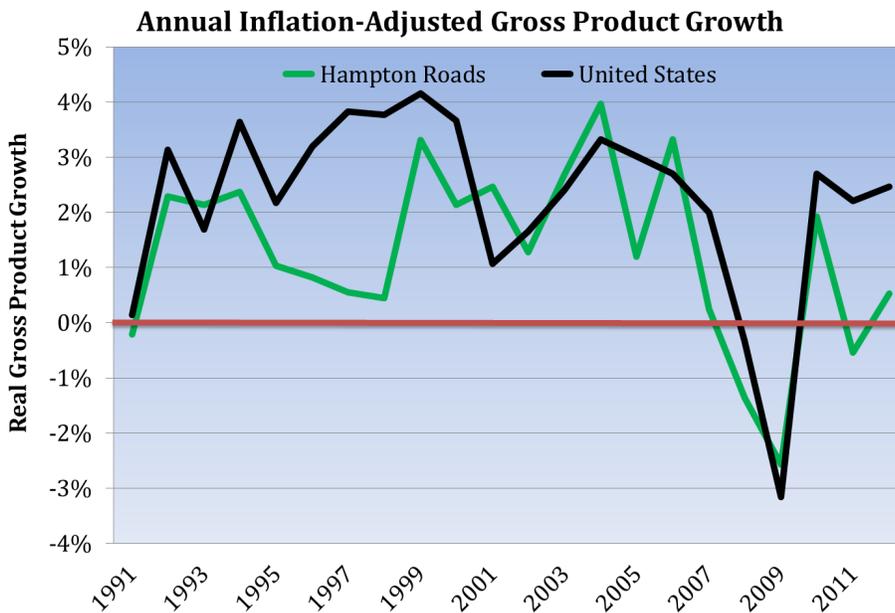
How are we doing?

Hampton Roads has a world scale economy, comparable to countries such as Ghana, Guatemala, and Serbia. The high level of both productivity and productivity growth in both the U.S. and Hampton Roads allows this region's economy to rival those of nations which have significantly larger populations.



Source: Bureau of Economic Analysis, CIA Worldbook, HRPDC

Figure 2.4 National and Regional Gross Product Growth



Source: Regional Economic Modeling, Inc., HRPDC

Why is it important?

There are a multitude of variables that influence the direction of an economy. Comparing the gross regional product to the U.S. Gross Domestic Product provides perspective from which to view the local economy.

How are we doing?

The Hampton Roads economy typically grows in tandem with the national economy. The two deviations from this trend were during the combined internet boom and defense cuts of the mid 1990's and during the most recent economic recovery.

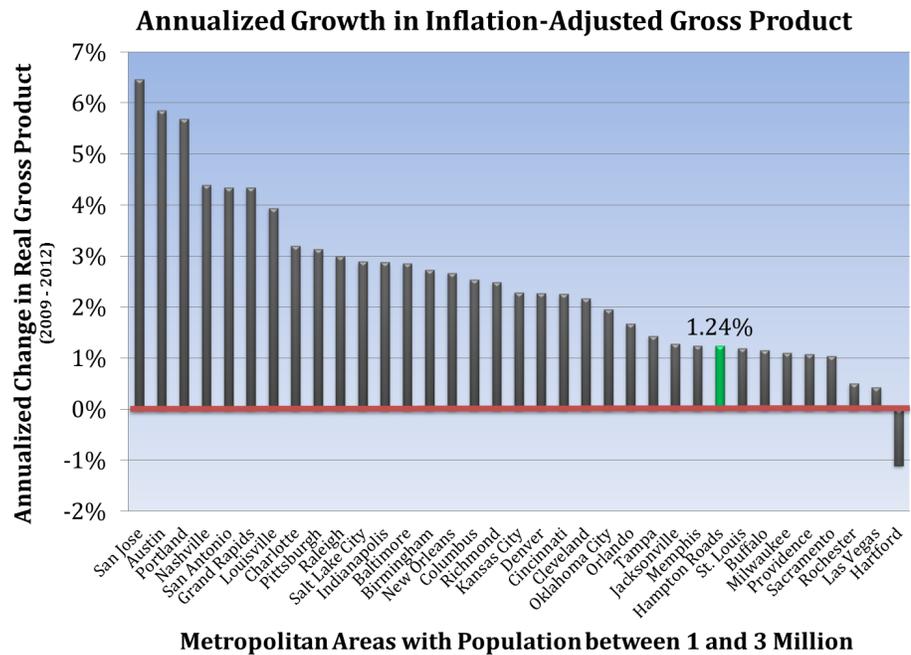
Figure 2.5 Three Year Growth in Gross Regional Product and Reference MSAs

Why is it important?

The reference metropolitan areas are subject to many of the same pressures that influence economic conditions in Hampton Roads. Benchmarking local economic growth against growth in competing metros allows one to assess a region's performance irrespective of market conditions.

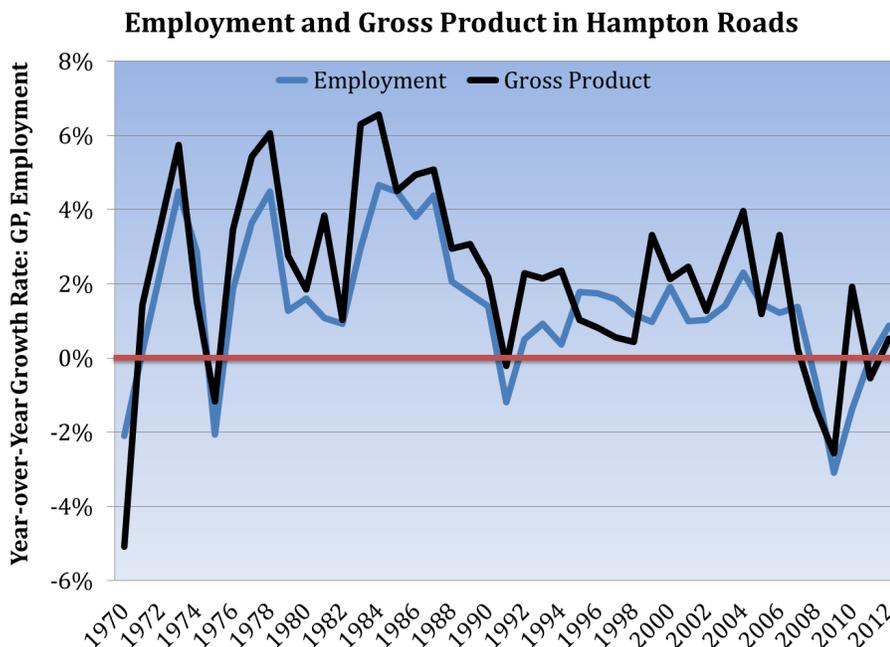
How are we doing?

While this region has grown since the advent of the recovery in 2010, that growth has been anemic compared to many similar sized metropolitan areas.



Source: Bureau of Economic Analysis, HRPDC

Figure 2.6 Employment and Gross Product in Hampton Roads



Source: Regional Economic Modeling, Inc., HRPDC

Why is it important?

Employment figures typically track gross product statistics; however, employment statistics are more readily available from a host of reliable sources. It is common practice to use employment information as a general indicator of economic well-being.

How are we doing?

Regional economic growth and employment growth are tightly related, but employment did not experience the growth that gross product did in 2010, perhaps because of the looming issues with the defense budget dampening regional investment.

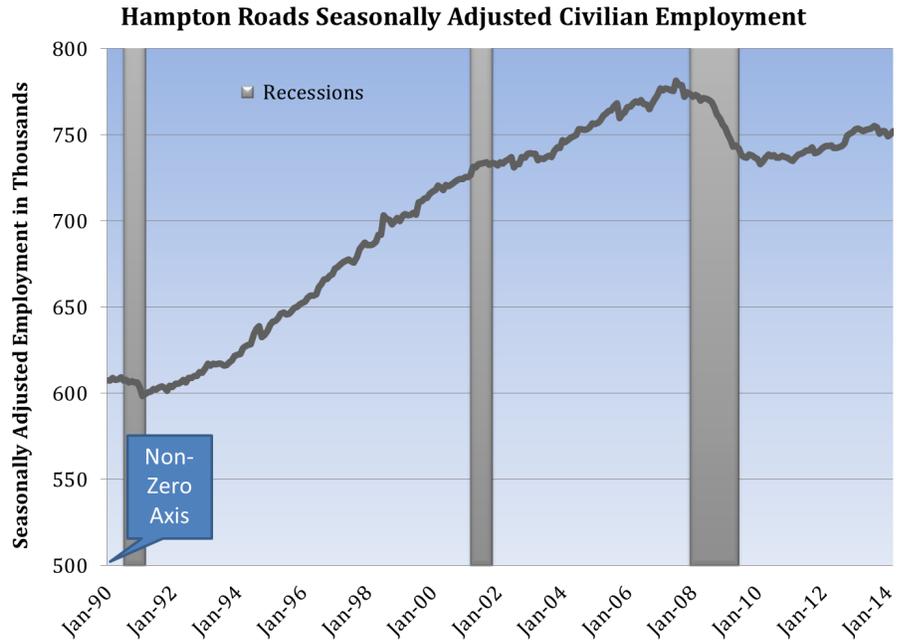
Figure 2.7 Seasonally Adjusted Hampton Roads Employment

Why is it important?

When adjusted for seasonal factors, monthly employment data provide a real time indicator of regional economic activity.

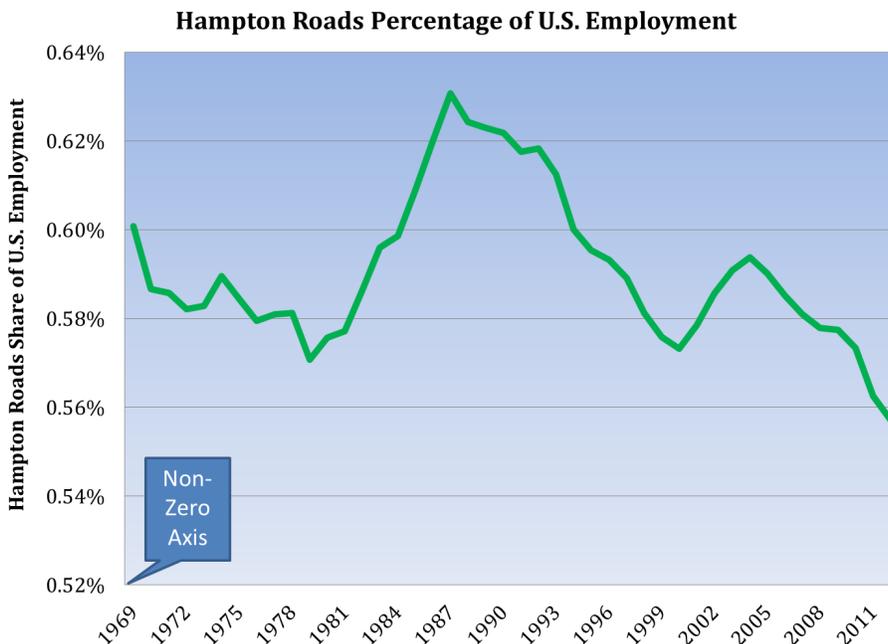
How are we doing?

The Hampton Roads economy is struggling to return to the pre-recession employment peak of July 2007. Seasonally adjusted employment has gradually increased since February 2010, but still remains almost 30,000 jobs below the 2007 levels.



Source: Bureau of Labor Statistics, HRPDC

Figure 2.8 Hampton Roads Employment Share of U.S. Employment



Source: Bureau of Economic Analysis, HRPDC

Why is it important?

The local business cycle influences relative growth rates. Comparing local employment figures to national employment figures reveals how the local business cycle deviates from the national business cycle.

How are we doing?

The regional employment constitutes a larger share of national employment during periods of elevated military spending, including the 1980's and shortly after 9/11. As military spending has declined relative to economic growth, the region's share of U.S. employment has fallen.

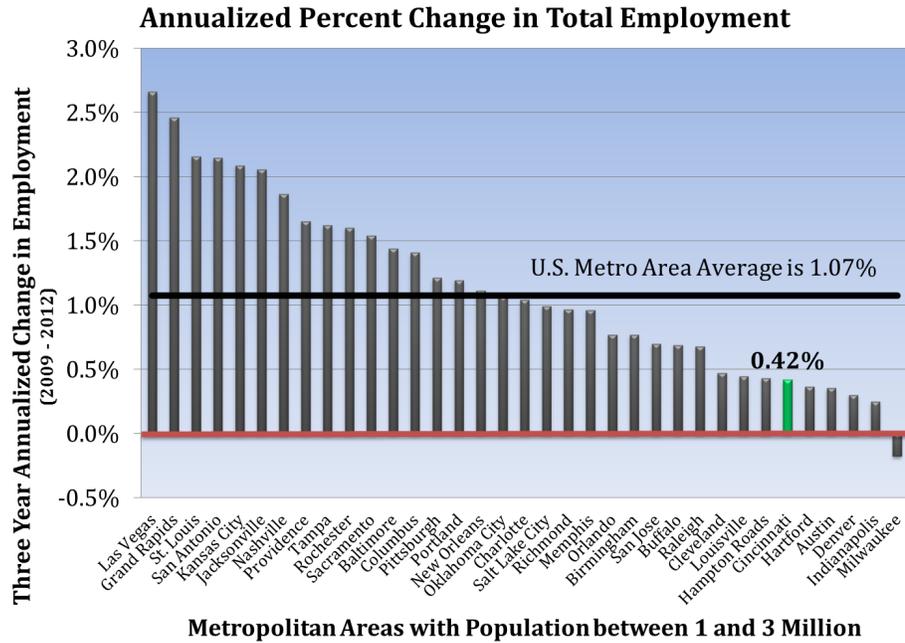
Figure 2.9 Three Year Employment Growth in Hampton Roads and Reference MSAs

Why is it important?

A change in the level of regional employment often coincides with growth or declines in regional output. Comparing Hampton Roads to metropolitan areas of a similar size creates an opportunity to assess the competitive strength and growth prospects for the regional economy.

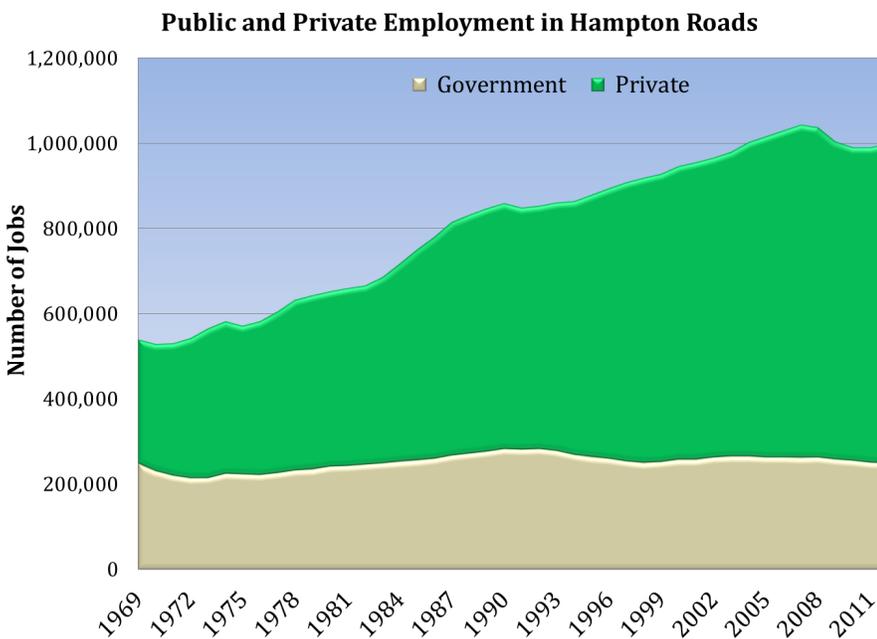
How are we doing?

Regional employment growth has lagged that of its reference MSAs, as well as the average growth for U.S. metropolitan areas. While year-to-year performance will vary, a sustained period of weak employment growth signals underlying economic issues.



Source: Bureau of Economic Analysis, HRPDC

Figure 2.10 Public and Private Sector Employment in Hampton Roads



Source: Bureau of Economic Analysis, HRPDC

Why is it important?

Stable government employment can insulate an economy from volatile markets. Conversely, changes in government can exacerbate or counter market forces.

How are we doing?

While private employment fell sharply during the recession, regional government employment has experienced a gradual slow decline. Separating regional employment into these categories does not fully capture the influence of the federal government, as civilian contractors perform much of the work, and they are not government employees.

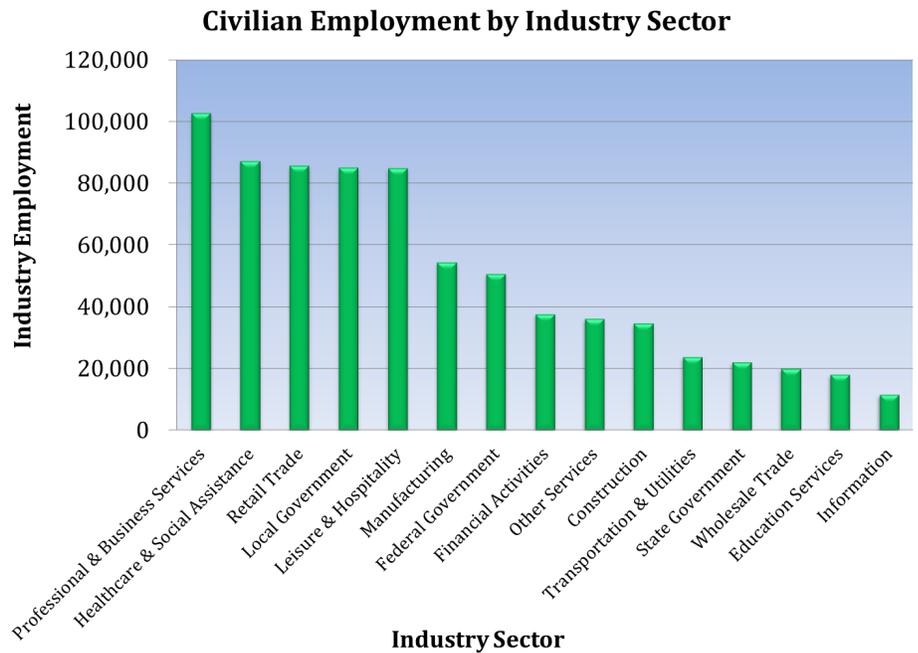
Figure 2.11 Distribution of Hampton Roads Employment by Industry Sector

Why is it important?

Regional economic behavior is heavily influenced by its sector composition. The current industrial make-up of a region will influence future economic growth.

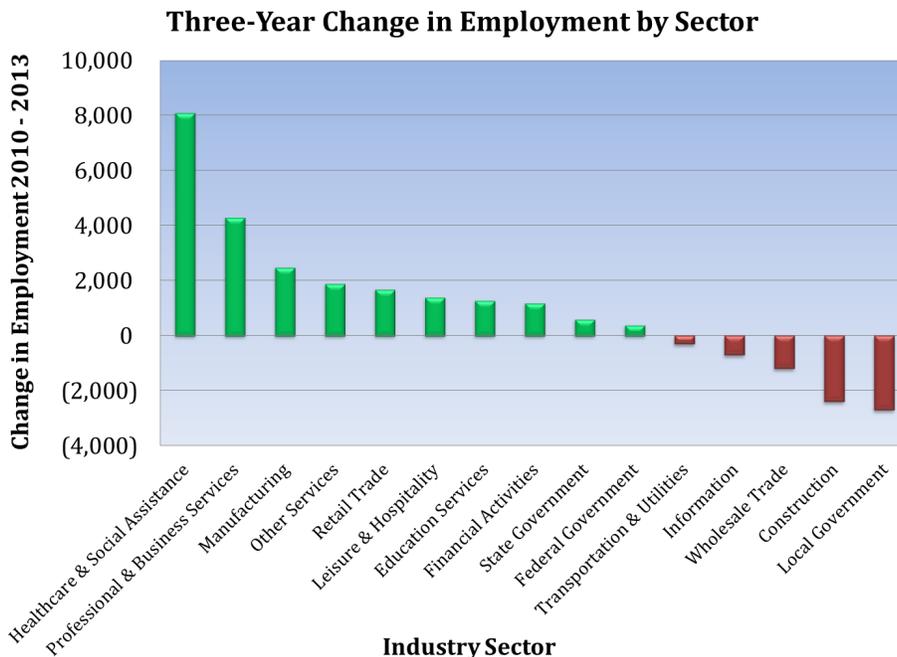
How are we doing?

Professional and business services, an industry often influenced by government contracting, is the largest regional employment sector. There is also significant employment in healthcare and retail trade.



Source: Bureau of Labor Statistics, HRPDC

Figure 2.12 Three Year Change in Hampton Roads Employment by Industrial Sector



Source: Bureau of Labor Statistics, HRPDC

Why is it important?

Industrial employment is influenced by the business cycle. One can observe local trends by tracking changes in regional industrial employment.

How are we doing?

Hampton Roads employment has started to recover since 2010, but that recovery has not been experienced equally across all industries. Healthcare employment has continued to grow through both recession and the recovery. Conversely, local government employment and construction employment continue to be impacted by the weakness in real estate.

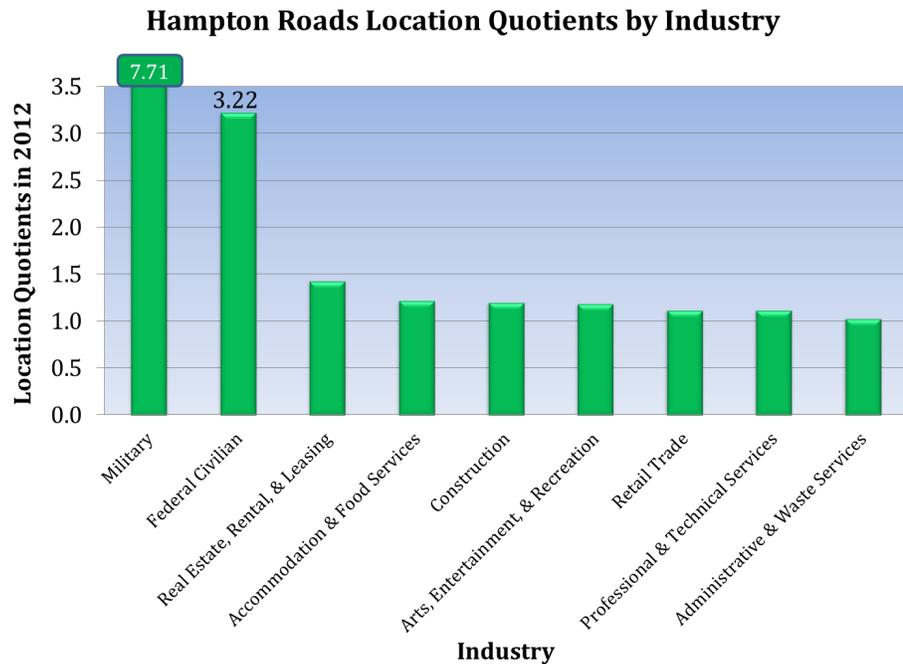
Figure 2.13 Hampton Roads Industrial Location Quotients

Why is it important?

Location Quotients (LQ) identify competitive advantages by comparing regional employment distributions to national employment distributions. LQs greater than one suggest a comparative advantage.

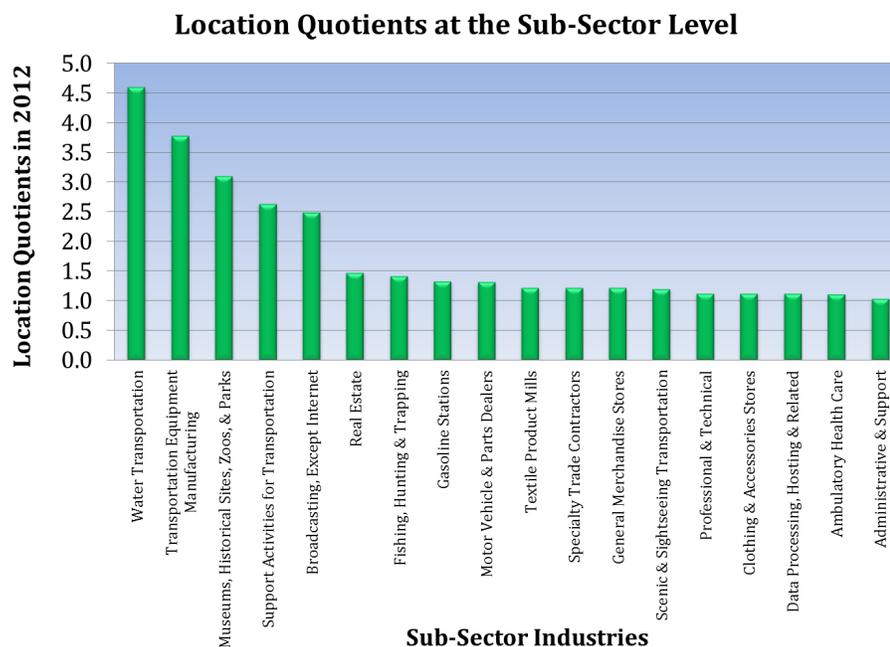
How are we doing?

The regional concentration of military employment continues to be striking, even as the overall number of military personnel in the region continues to fall. It is also notable that Hampton Roads construction employment has a higher concentration than the construction industry nationwide.



Source: Bureau of Labor Statistics, HRPDC

Figure 2.14 Hampton Roads Sub-Sector Location Quotients



Source: Bureau of Labor Statistics, HRPDC

Why is it important?

Sub-sector location quotients reveal specific industries that have a high regional concentration. The industries listed all have a location quotient above 1. These sub-sector industries represent the backbone of the private sector economy in Hampton Roads.

How are we doing?

Water transportation, transportation equipment manufacturing, and national security contractors have the three highest private sector industrial location quotients in Hampton Roads pointing to the economy clusters associated with the ports and the defense industry.

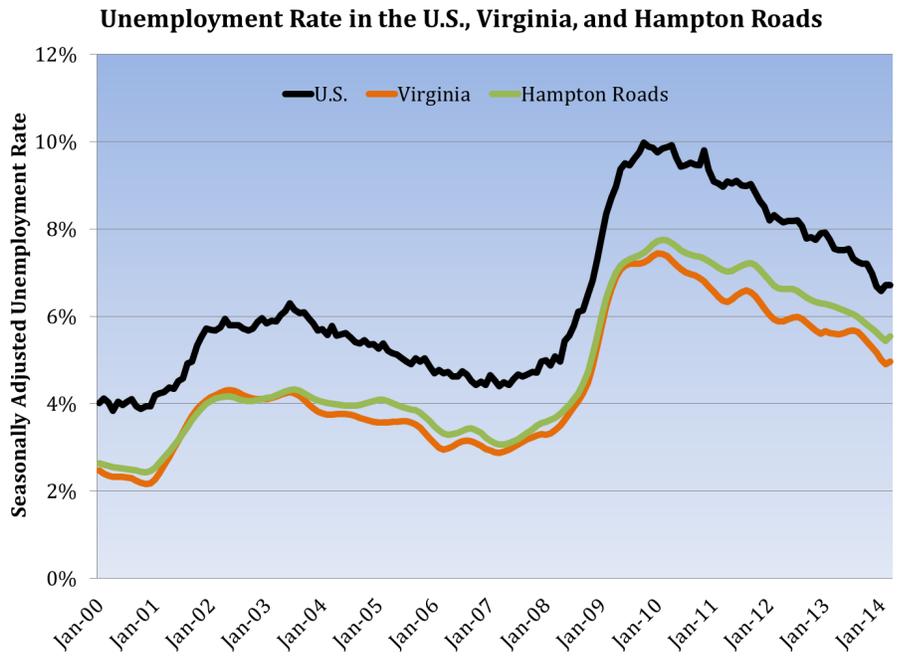
Figure 2.15 Unemployment Rates in Hampton Roads, Virginia, and the U.S.

Why is it important?

Unemployment rates reflect both the general well-being of the labor force and the ability of the labor force to meet the needs of employers. Comparing the regional unemployment rate to the national rate enables one to assess the condition of the regional labor market over time.

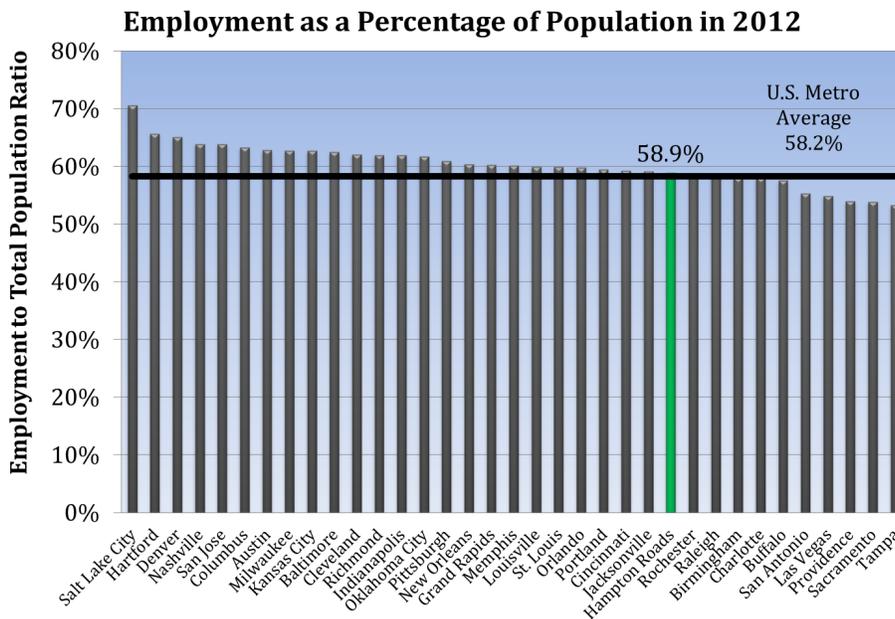
How are we doing?

Hampton Roads historically has had a low unemployment rate compared to the nation, and that has remained true throughout the recession. The unemployment rate was 1.2% below the national rate in the beginning of 2014.



Source: Bureau of Labor Statistics, HRPDC

Figure 2.16 Employment to Population Ratio in Hampton Roads and Reference MSAs



Metropolitan Areas with Population between 1 and 3 Million

Source: Bureau of Economic Analysis, HRPDC

Why is it important?

Comparing the number of jobs in the economy to the total population indicates how many jobs are supporting the regional economy relative to those not working, which includes children, the retired, and those who are unemployed/out of the labor force for other reasons.

How are we doing?

The employment to population ratio in Hampton Roads is just above the national average for metropolitan areas, and within the normal levels for this region's reference metropolitan areas.

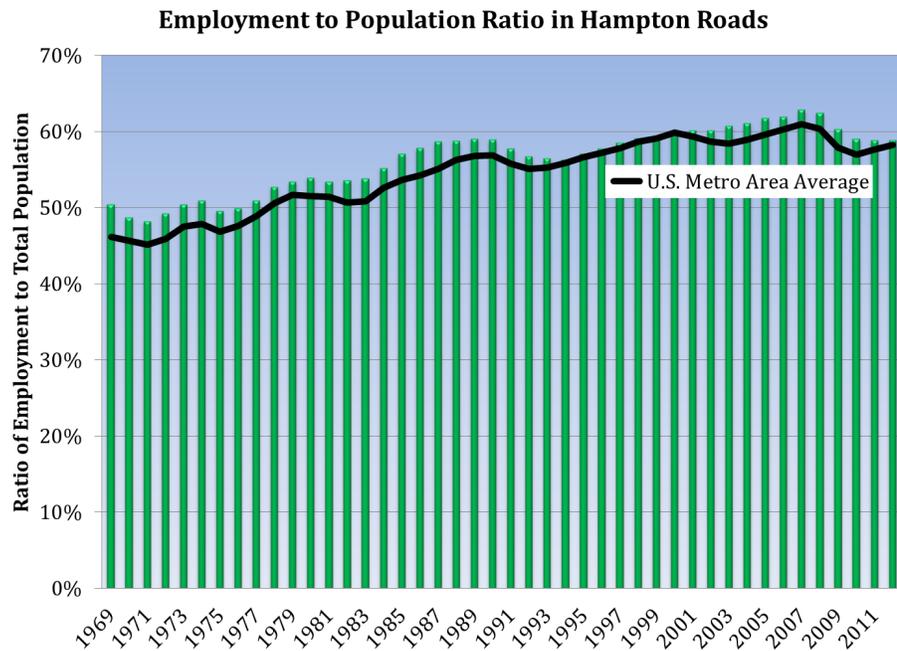
Figure 2.17 Indexed Employment to Population Ratios in Hampton Roads and the U.S.

Why is it important?

Changing employment to population ratios can be the result of either economic or demographic changes. Considering changes in the employment to population ratio will result in a better understanding of the market.

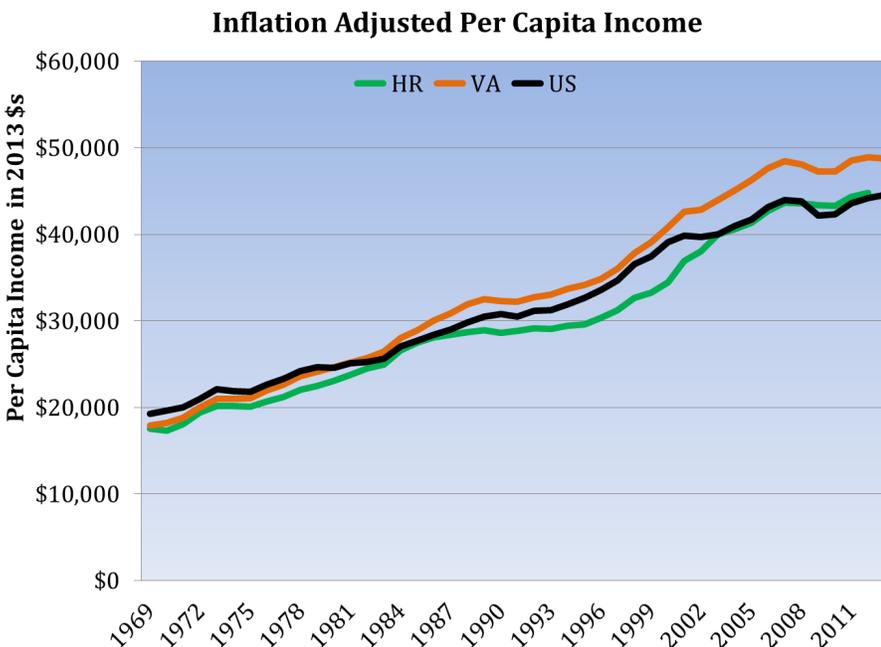
How are we doing?

The employment to population ratio has increased since 1971 at both the national and regional level due to women increasingly entering the labor force. It has fallen off its recent peak of 62.5% in 2007 due to both a growing population and weak regional employment growth.



Source: Bureau of Economic Analysis, HRPDC

Figure 2.18 Per Capita Income in Hampton Roads, Virginia, and the U.S.



Source: Bureau of Economic Analysis, HRPDC

Why is it important?

One of the best ways of measuring the well-being of an economy results from examining the growth in regional income per person, thus controlling economic performance for population growth. This is one indicator of how the average citizens' incomes have performed over a period of time.

How are we doing?

Inflation adjusted per capita incomes have benefited from a remarkable period of income growth. The recent recession resulted in incomes declining and regional per capita income took another four years to surpass 2007 levels.

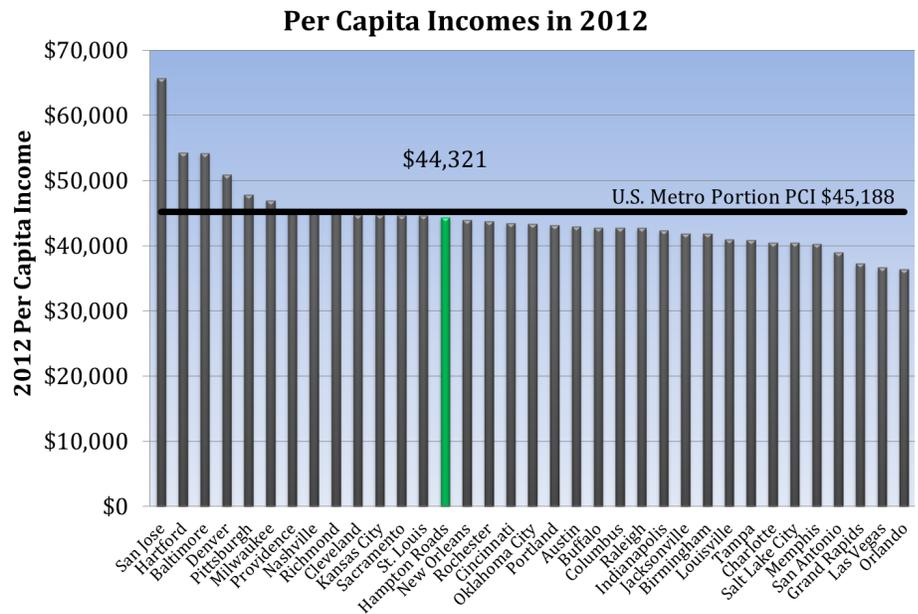
Figure 2.19 Per Capita Income in Hampton Roads and Reference MSAs

Why is it important?

Per capita income is the most widely available statistic on economic well-being. Per capita income is estimated by dividing total personal income by the population of the region.

How are we doing?

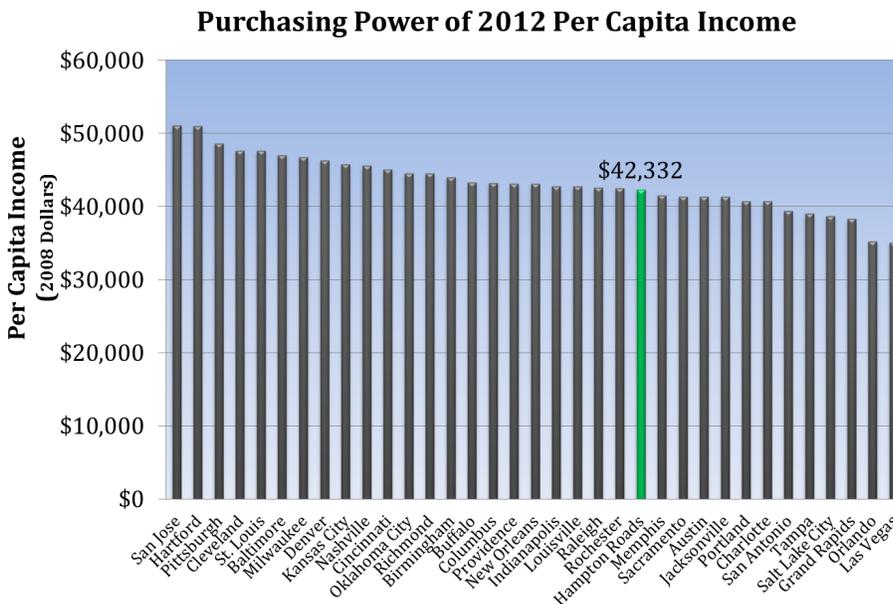
Hampton Roads per capita income is slightly below the U.S. metro portion average, but the region compares favorably to its reference MSAs.



Metropolitan Areas with Population between 1 and 3 Million

Source: Bureau of Economic Analysis, HRPDC

Figure 2.20 Purchasing Power of Income in Hampton Roads and Reference MSAs



Metropolitan Areas with Population between 1 and 3 Million

Source: Bureau of Economic Analysis, C2ER, HRPDC

Why is it important?

The cost of living can vary substantially between metropolitan areas. Understanding incomes within the context of the cost of living provides a clearer picture as to real purchasing power parity.

How are we doing?

While Hampton Roads does not have an extreme cost of living, it is slightly more expensive than many of its reference metro areas, thus the per capita income adjusted for purchasing power performs slightly worse than its unadjusted per capita income.

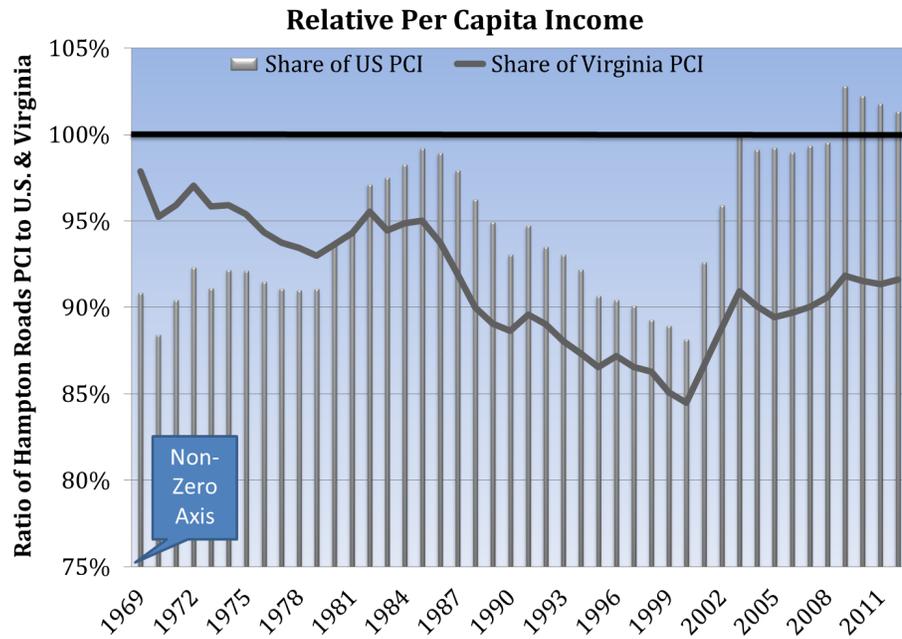
Figure 2.21 Relative Per Capita Income of Hampton Roads to Virginia and U.S.

Why is it important?

Fluctuations in relative incomes reflect fluctuations in standards of living. It is useful to track how well Hampton Roads performs in relation to the state and the nation.

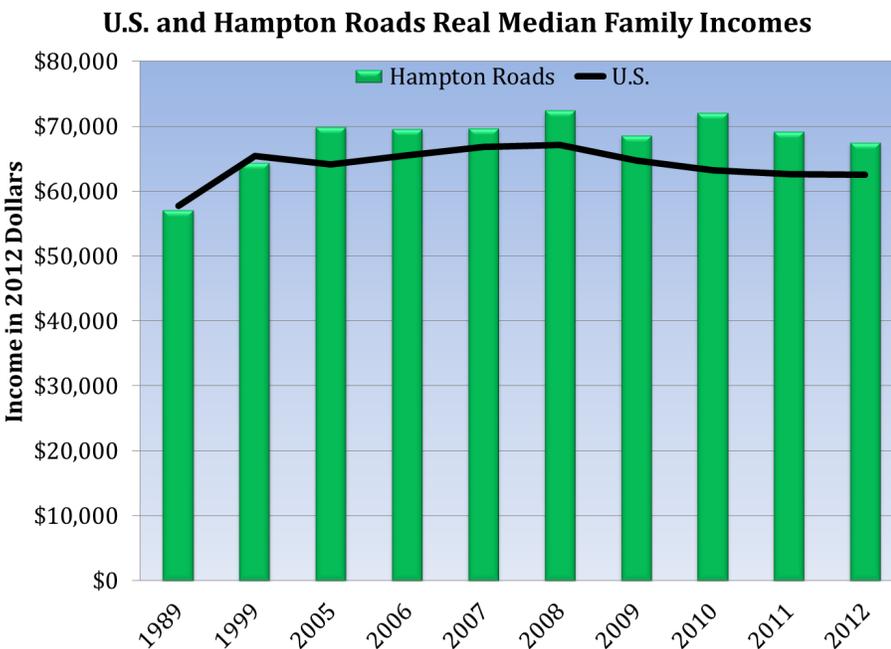
How are we doing?

Hampton Roads per capita incomes have been greater than that of the nation for the past four years, but its performance compared to the Commonwealth's per capita incomes have lagged due to the strong growth of the D.C. metro area.



Source: Bureau of Economic Analysis, HRPDC

Figure 2.22 U.S. and Hampton Roads Real Median Family Incomes



Source: U.S. Census, American Community Survey, HRPDC

Why is it important?

The median family income represents the general well-being of regional households. Families are the fundamental purchasing unit for many products and services.

How are we doing?

Real median family incomes have remained fairly constant over the last two decades. Regionally, families have maintained their income levels better than median family income on the national level.

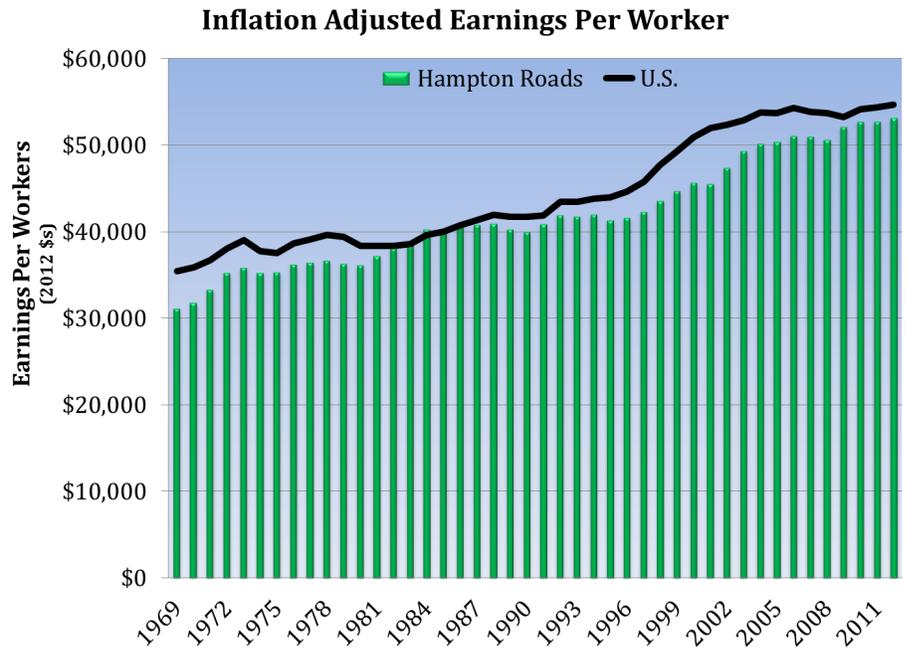
Figure 2.23 Inflation Adjusted Earnings Per Worker in Hampton Roads and the U.S.

Why is it important?

One indicator of productivity is earnings-per-worker. Employment shifts from low to high paying jobs, along with increased salaries, both suggest increased productivity. Stable employment and slow growth in earnings are both signs of limited productivity.

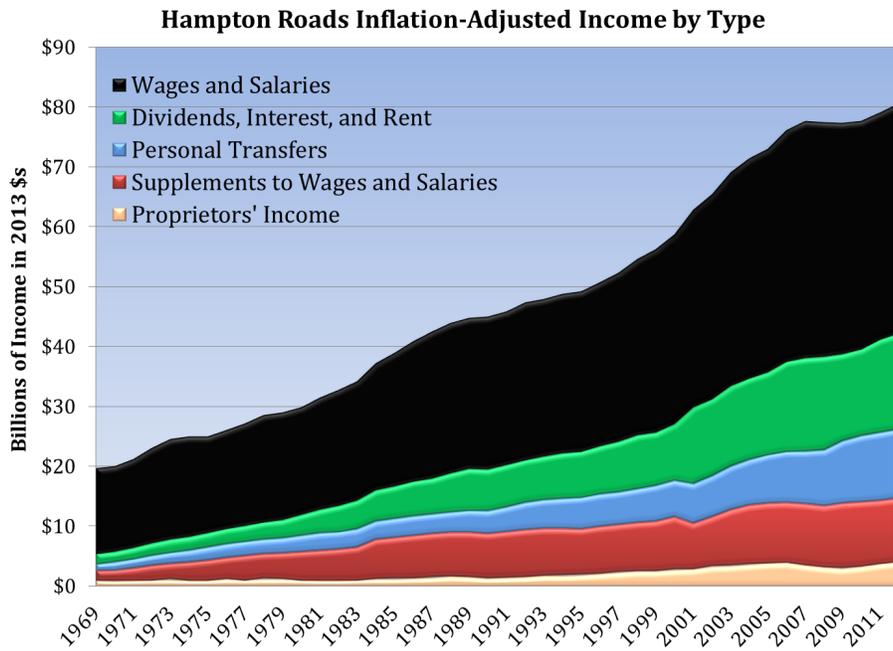
How are we doing?

Real earnings per worker have grown since 1970 fairly consistently. Hampton Roads growth in this metric has paralleled that of the nation, catching up to national levels during periods of higher defense spending, including the 1980's and after 9/11.



Source: Bureau of Economic Analysis, HRPDC

Figure 2.24 Hampton Roads Incomes by Source



Source: Bureau of Economic Analysis, HRPDC

Why is it important?

It is important to note that there are numerous sources of income for individuals, and while those sources may under/over perform, it is the overall trend in incomes that are important.

How are we doing?

Since the onset of the great recession, only Wage and Salary incomes have declined, and while that is the largest income category, strong growth in several other categories, particularly personal transfers, have allowed total incomes in the region to continue to grow.