

## Section II

## The Economy

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## The Hampton Roads Economy

The Hampton Roads economy continues to struggle with the aftereffects of the great recession. The region's 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, local growth in gross product and employment has trailed the performance of other metropolitan areas with populations between one and three million. Hampton Roads' employment currently lags its prerecession peak by just over 23,000 jobs.

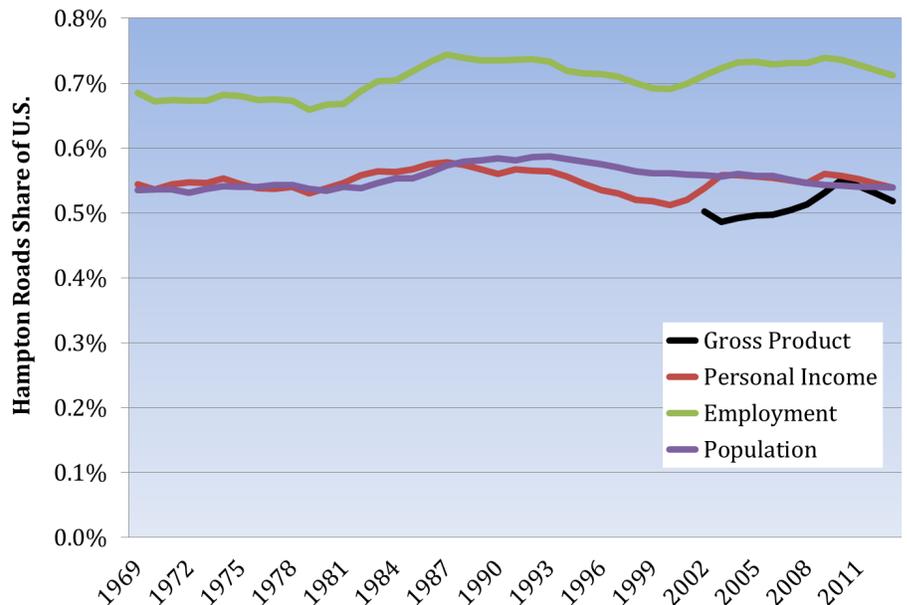
Employment in Hampton Roads still derives mainly from military personnel and federal civilians, as well as industries that are related to the Department of Defense. Healthcare employment has experienced significant growth both regionally and nationally, and it is the only industry that added employment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

The gap between the national and regional unemployment rate has declined significantly, reflecting the stronger recovery experienced by the country overall. Despite the lack of improvement in the regional unemployment rate, Hampton Roads' labor market remains relatively tight, and few who want to be employed are unable to find a job. Additionally, the unemployment measure undercounts the strength of the region's labor market because employed military personnel are not included in the calculation of the unemployment rate.

Regional per capita incomes have returned to the U.S. level after outperforming the country during the initial years of the recession. 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 international stage, with a gross product similar to some large countries. Additionally, the Hampton Roads economy constitutes about 0.5% of the nation's economy, income, and population.

**Hampton Roads Share of the US Economy**



Source: Bureau of Economic Analysis, HRPDC

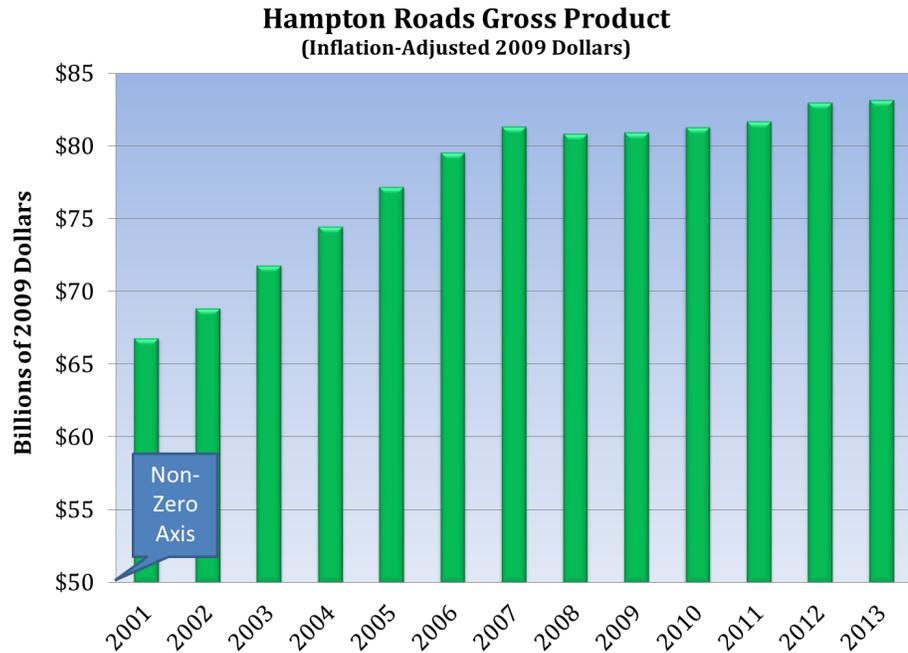
**Figure 2.1 Hampton Roads Historic Gross Product**

**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 gross product over time illustrates the region's relative economic performance.

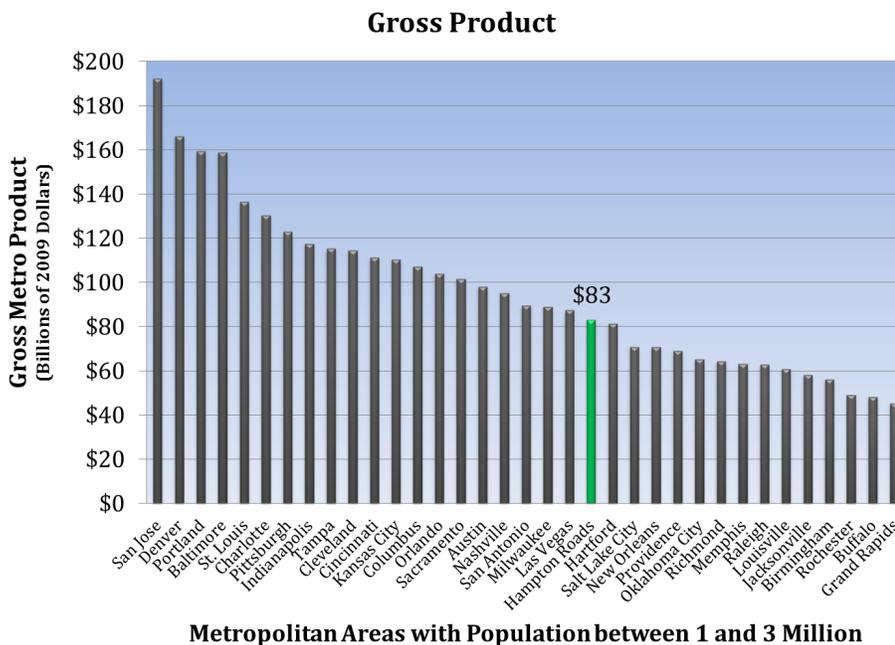
**How are we doing?**

Between 2001 and 2007, real Gross Product grew at annualized rate of 3.3%; however, since the recession, the regional economy has growth at a 0.4% annualized rate. This is almost 1/10th the pre-recession level.



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' reference 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. As with most metros, the size of the region's economy is tightly correlated with the size of its population.

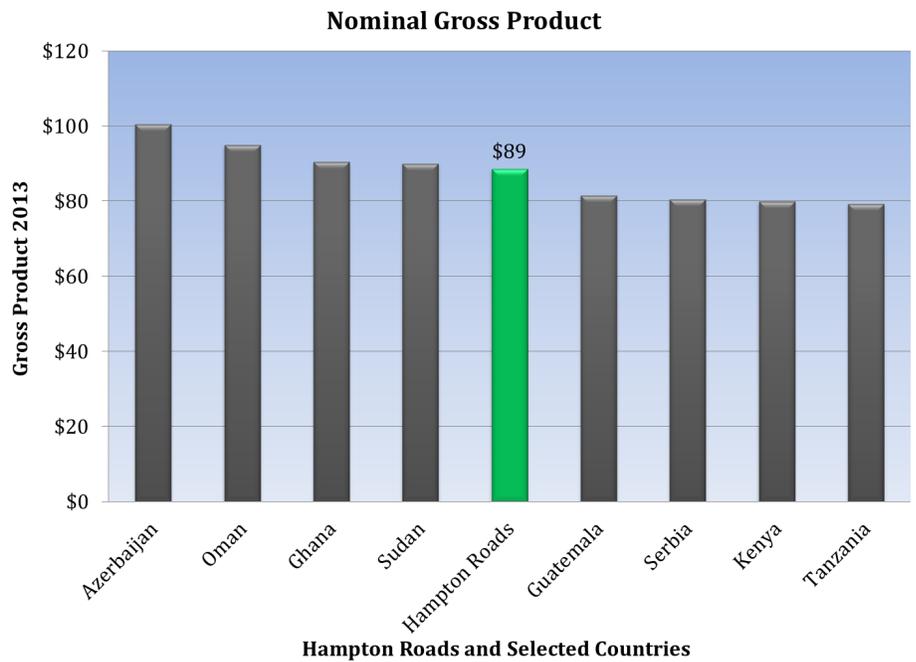
**Figure 2.3 Hampton Roads Gross Product Compared to Foreign Economies**

**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.

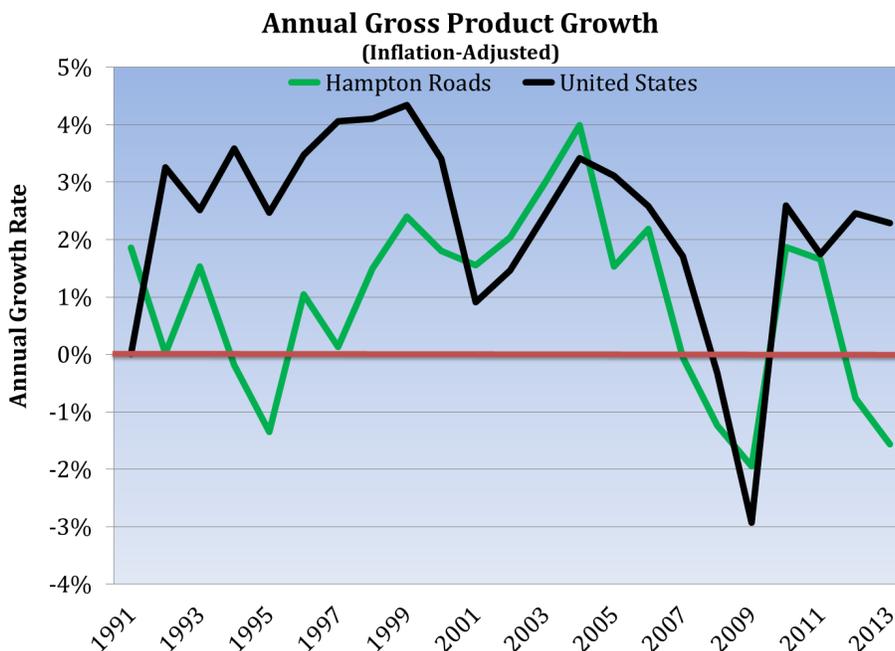
**How are we doing?**

Hampton Roads has a world scale economy, comparable to countries such as Ghana, Guatemala, and Serbia. The high level of both output 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?**

Comparing the gross regional product to the U.S. Gross Domestic Product provides a benchmark against which one can measure the region's performance.

**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.

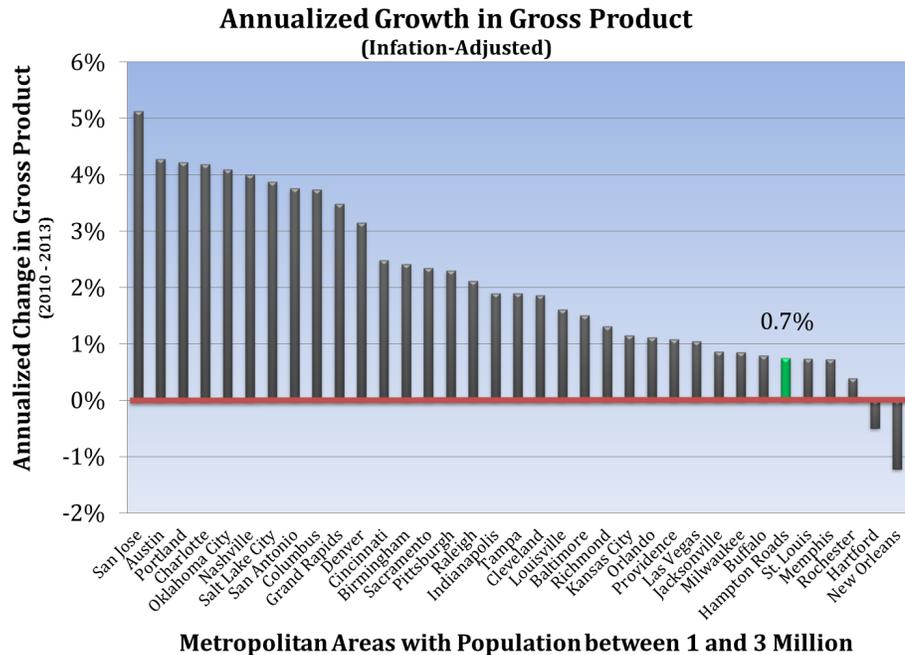
**Figure 2.5 Three-Year Gross Product Growth in Hampton Roads and Reference MSAs**

**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.

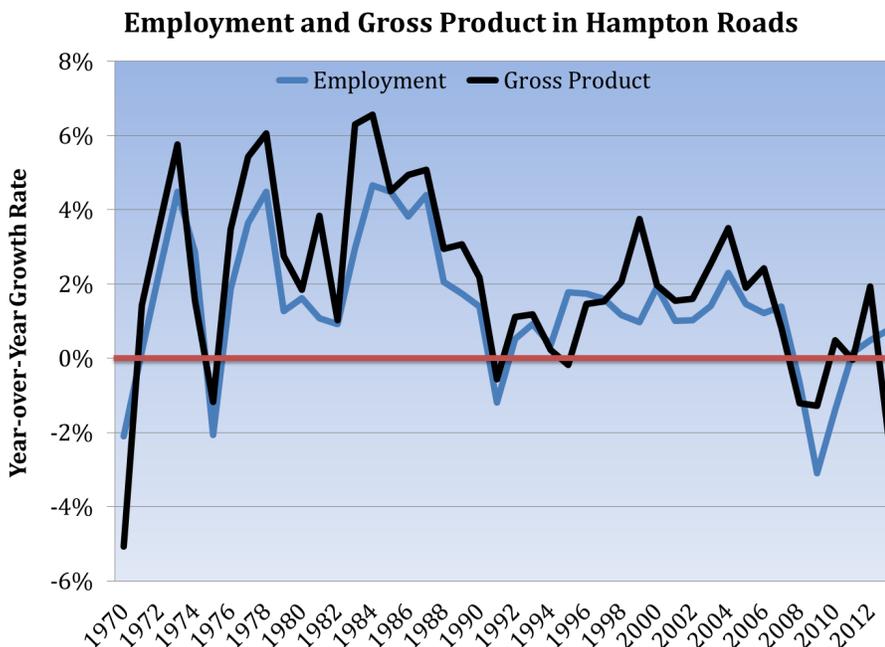
**How are we doing?**

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 the defense budget reduced regional investment.

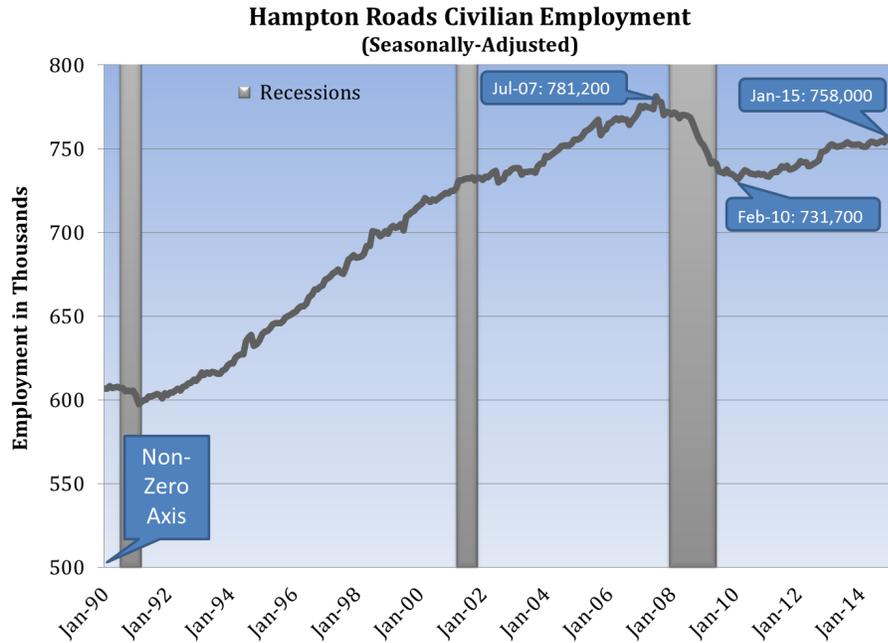
**Figure 2.7 Seasonally Adjusted Hampton Roads Employment**

**Why is it important?**

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

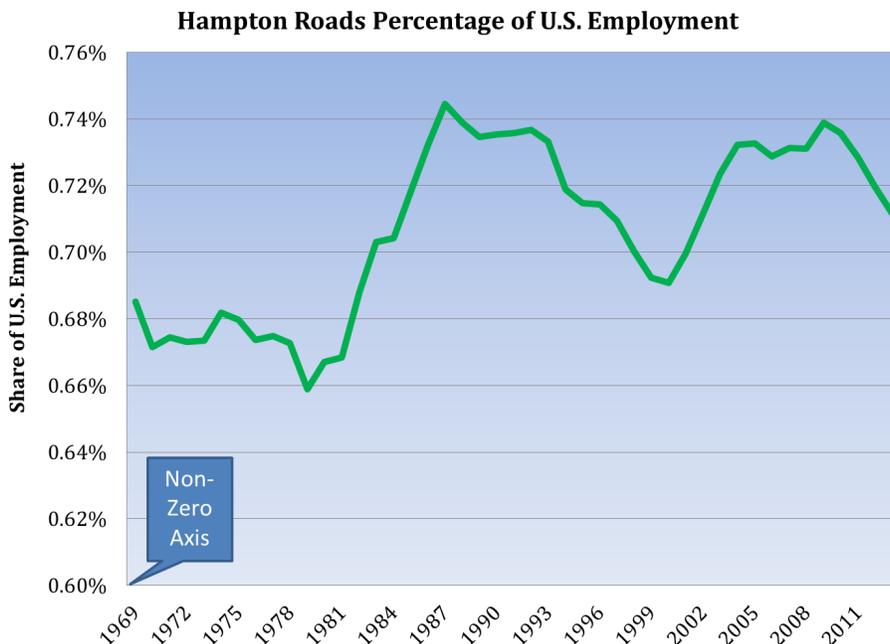
**How are we doing?**

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 remains almost 23,000 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?**

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.

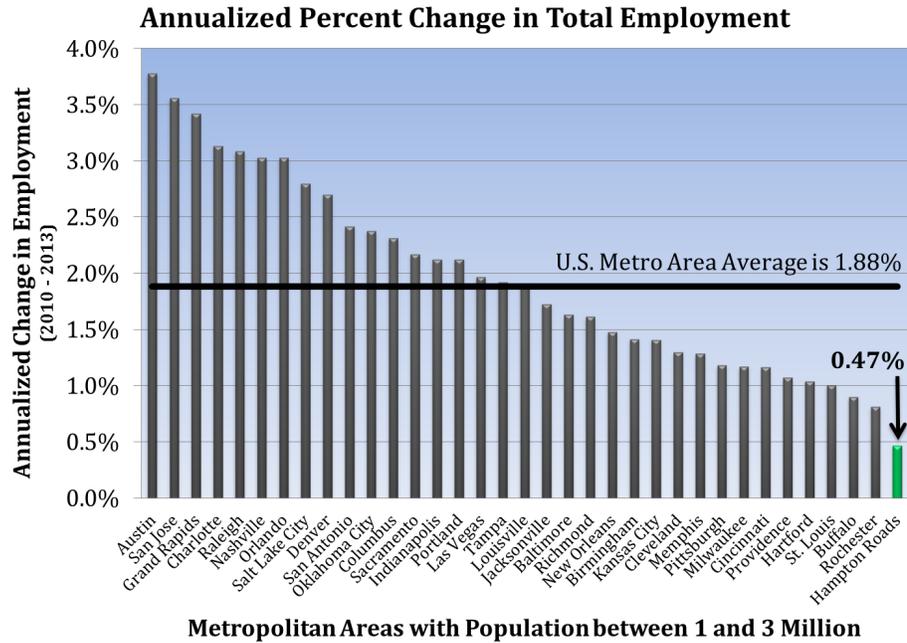
**Figure 2.9 Three-Year Employment Growth in Hampton Roads and Reference MSAs**

**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.

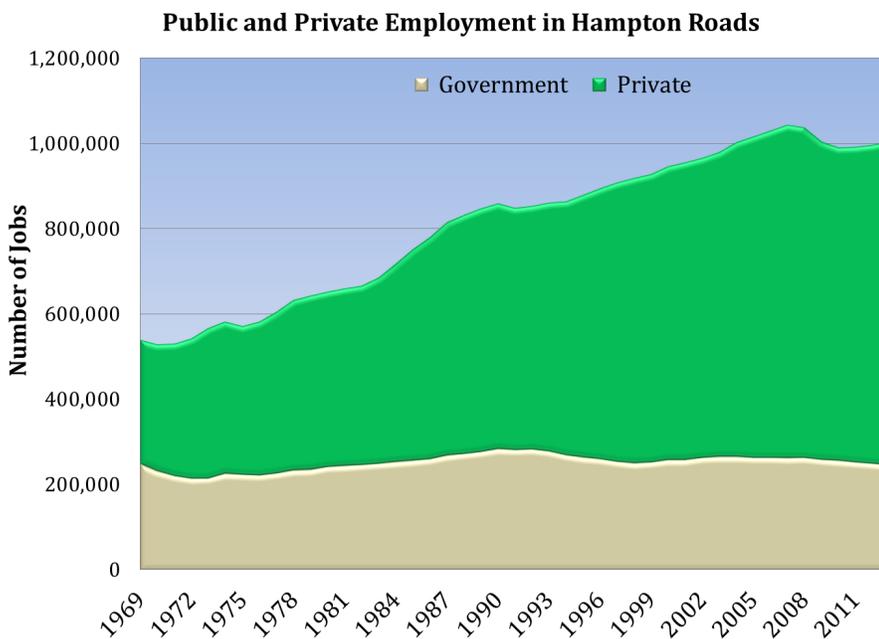
**How are we doing?**

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 employment 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 supported by the DoD are considered privately employed.

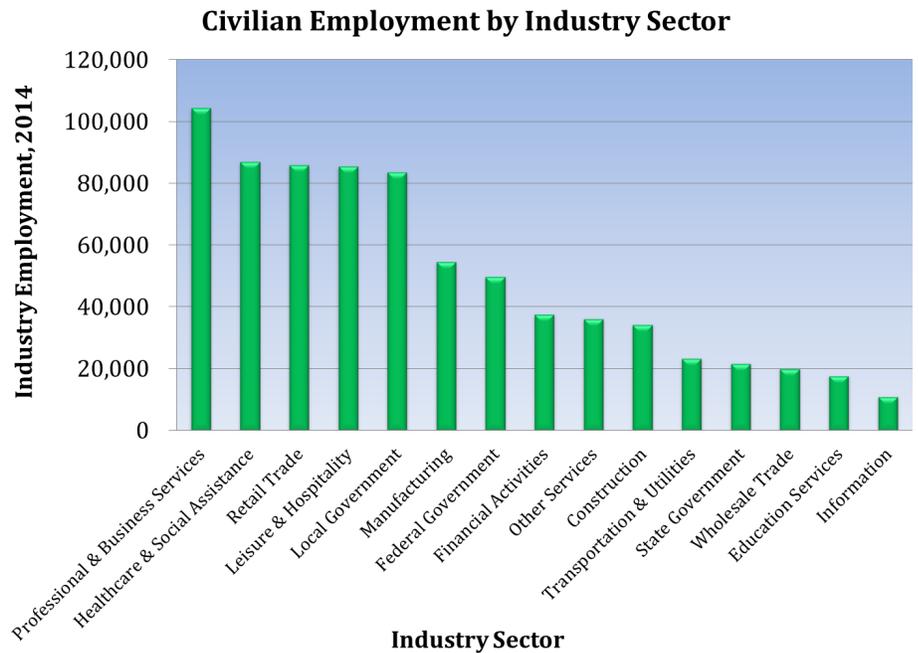
**Figure 2.11 Distribution of Hampton Roads Employment by Industry Sector**

**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.

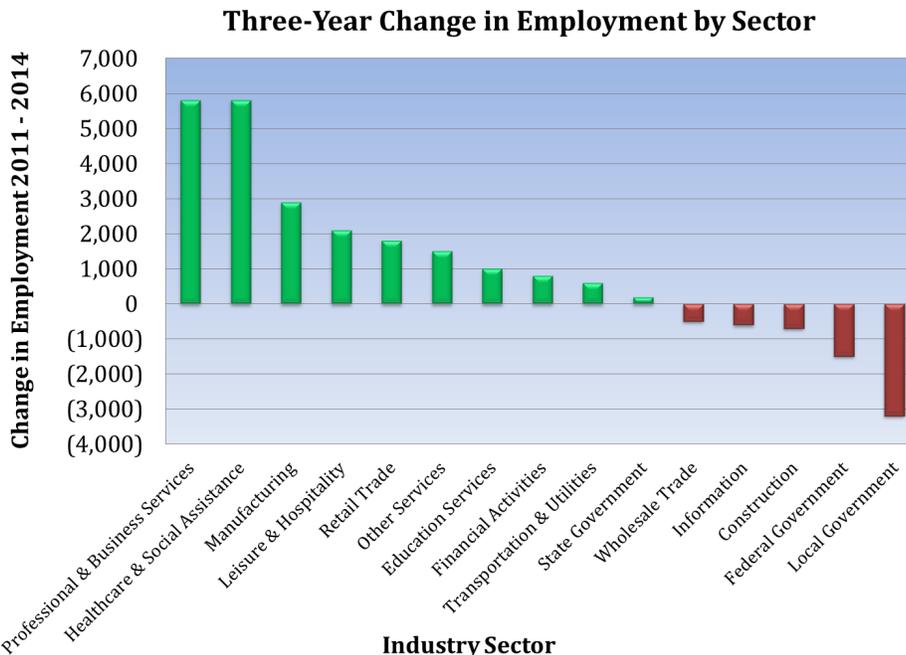
**How are we doing?**

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 grown by 16,100 since 2011, 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 weak real estate market.

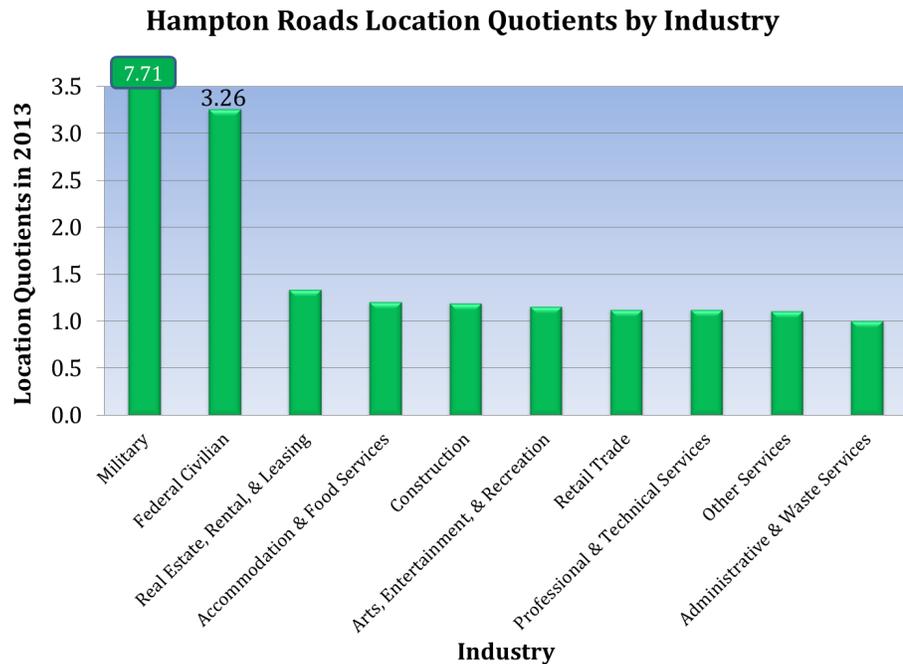
**Figure 2.13 Hampton Roads Industrial Location Quotients**

**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.

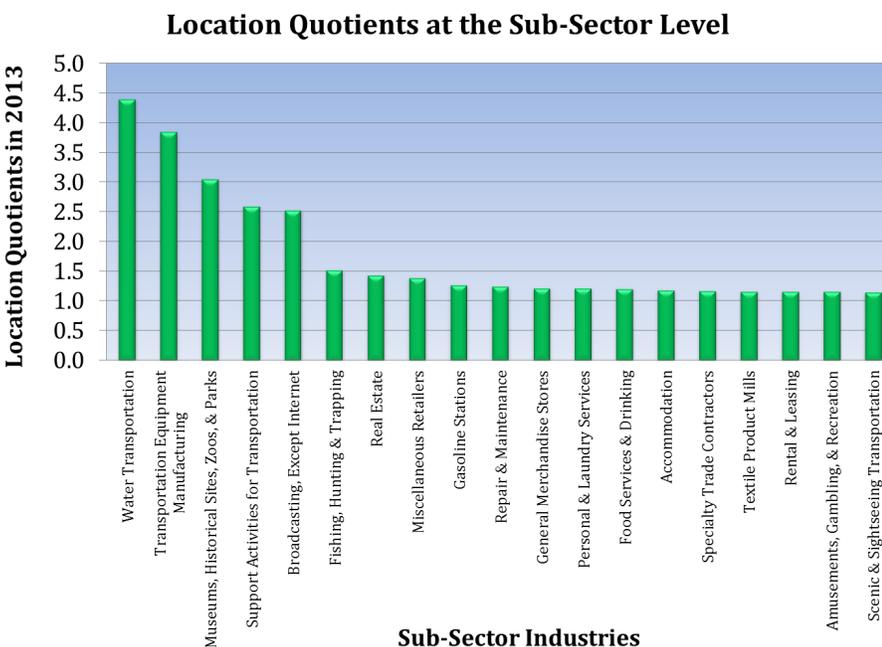
**How are we doing?**

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 Industrial 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 indicative of the industry clusters associated with the ports and the defense industry.

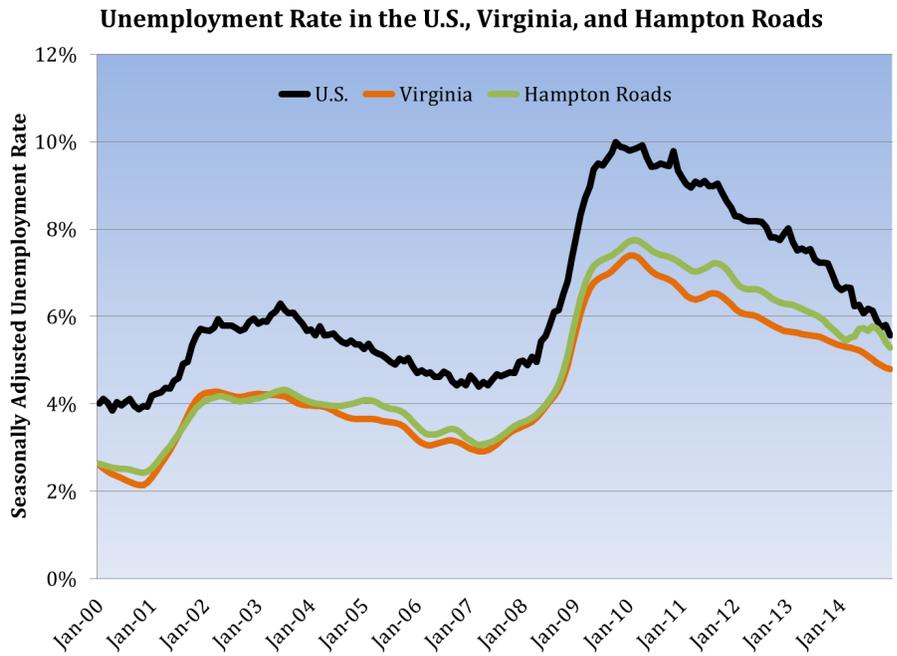
**Figure 2.15 Unemployment Rates in Hampton Roads, Virginia, and the U.S.**

**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.

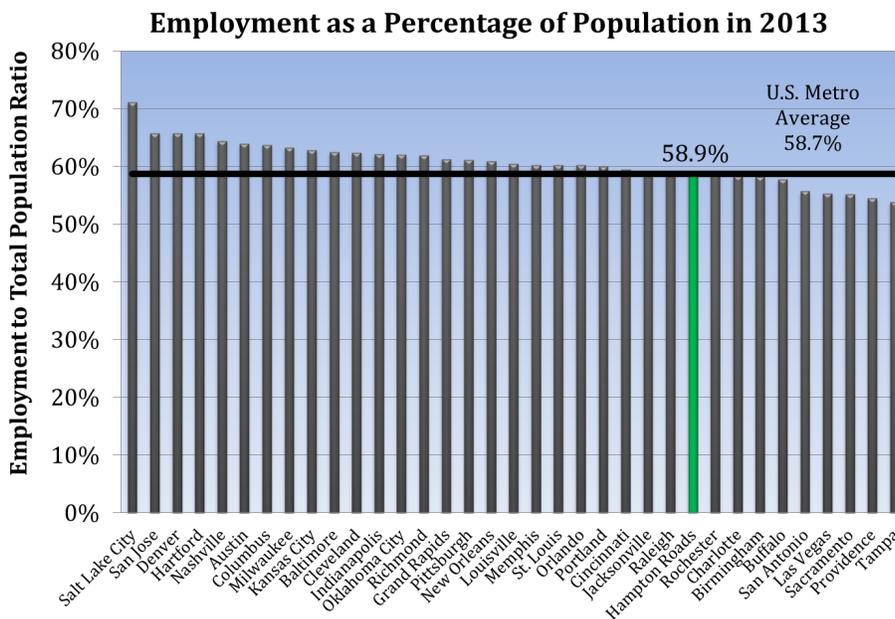
**How are we doing?**

Hampton Roads historically has had a low unemployment rate compared to the nation, a trend that has continued throughout the recession; however, the gap fell to the second lowest level on record at the end of 2014.



Source: Bureau of Labor Statistics, HRPDC

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



Metropolitan Areas with a 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.

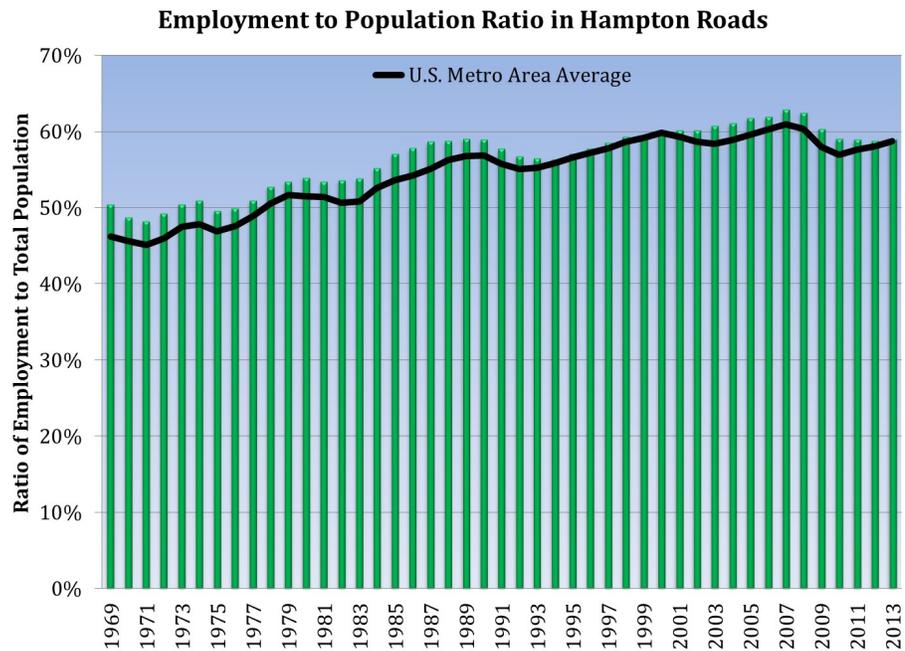
**Figure 2.17 Employment to Population Ratios in Hampton Roads and the U.S.**

**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.

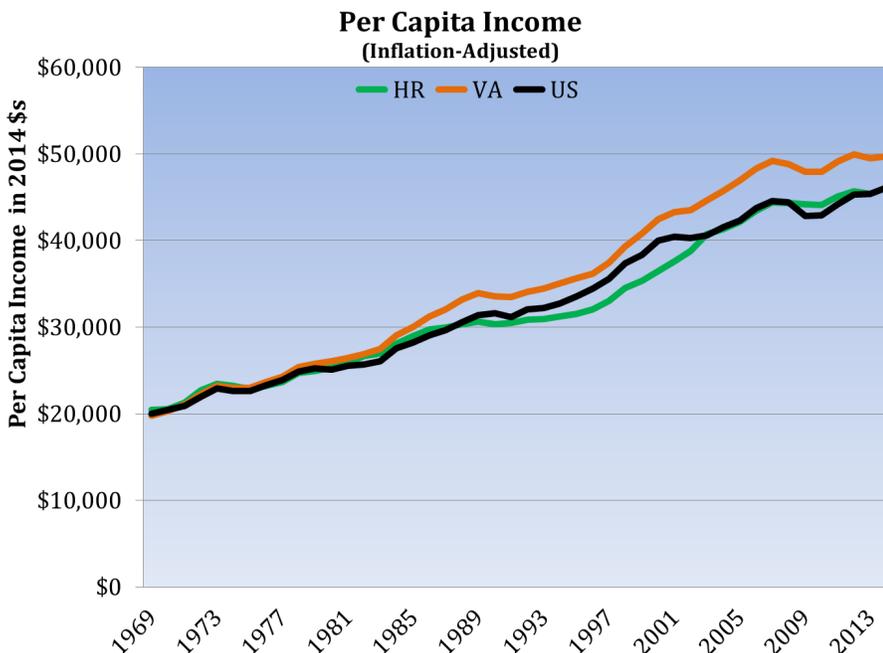
**How are we doing?**

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?**

Measuring the growth in regional income per person provides insight as to the relative regional economic well-being. 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 through 2008. The recent recession resulted in incomes declining and regional per capita income took another four years to surpass 2007 levels.

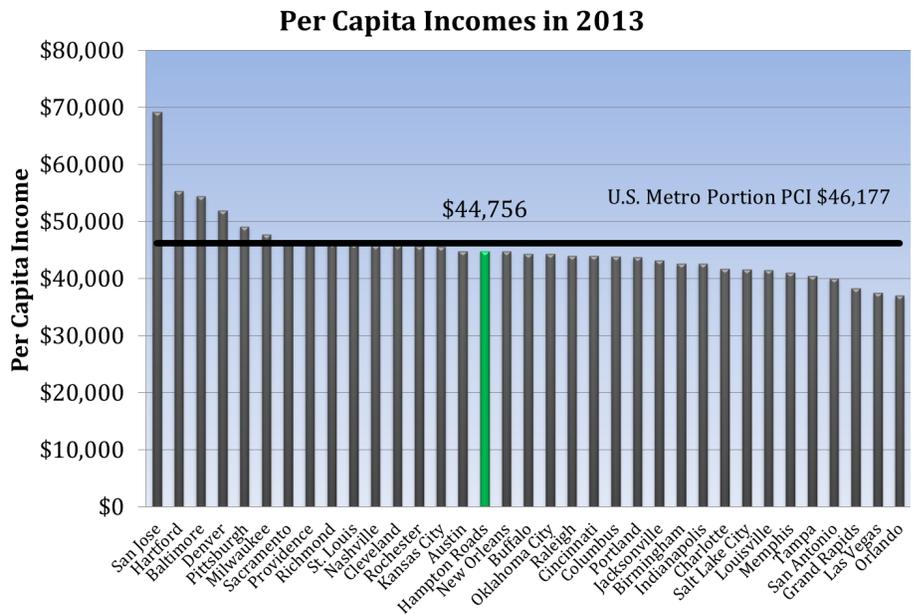
**Figure 2.19 Per Capita Income in Hampton Roads and Reference MSAs**

**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?**

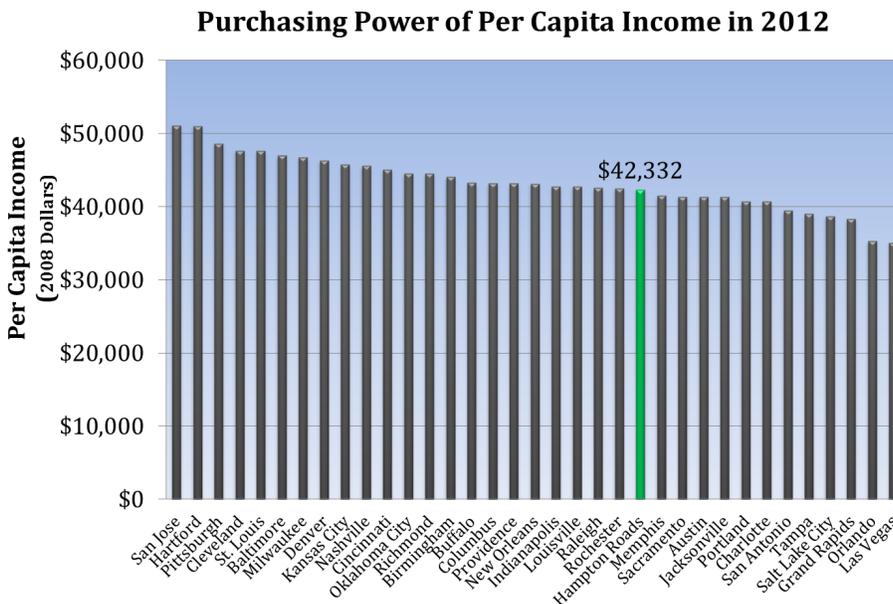
Hampton Roads per capita income is slightly below the U.S. metro portion average, but the region compares favorably to its reference MSAs.



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, 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?**

The cost of living in Hampton Roads 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.

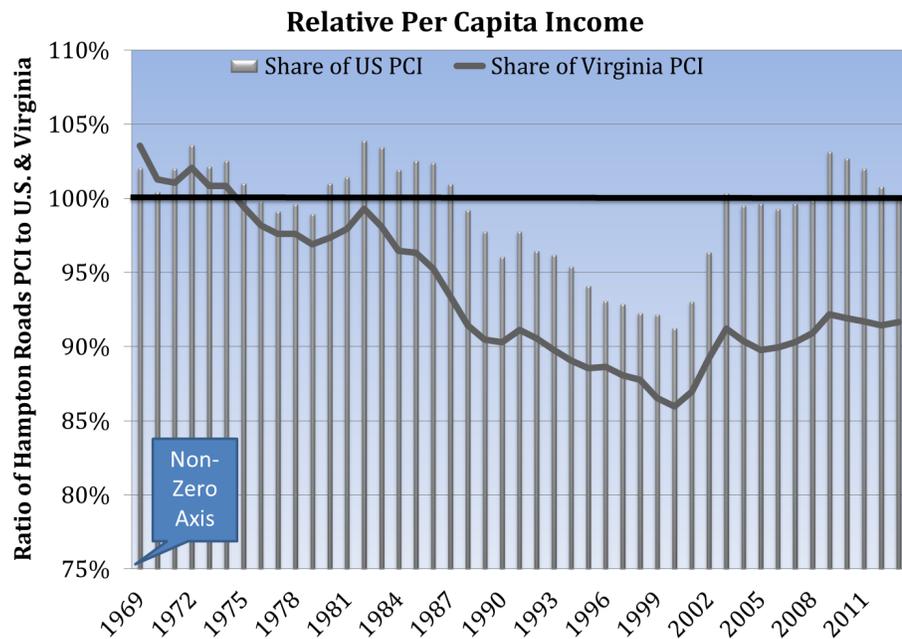
**Figure 2.21 Relative Per Capita Income of Hampton Roads to Virginia and U.S.**

**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.

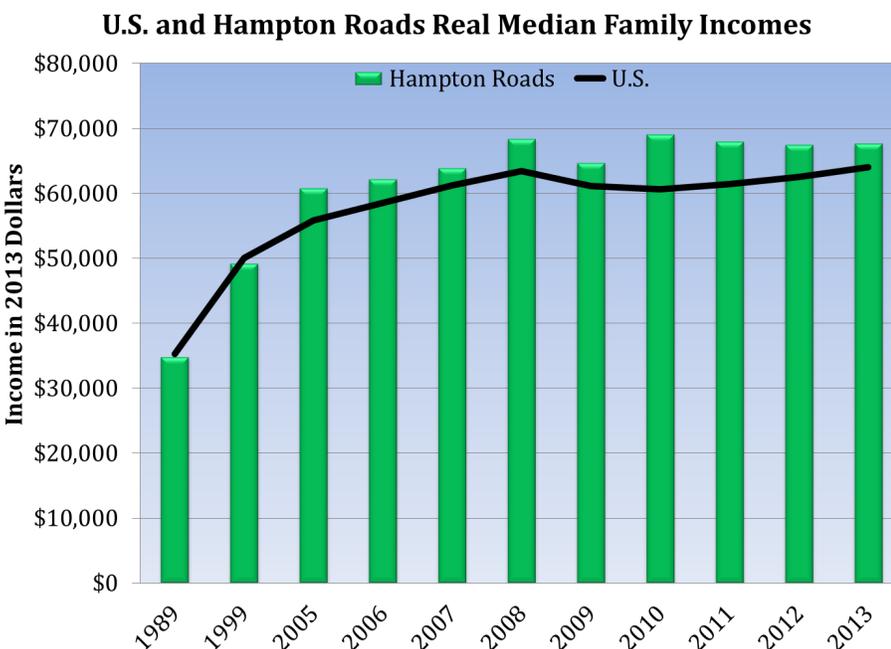
**How are we doing?**

Hampton Roads per capita incomes levels returned to those of the nation over the past four years, but its performance compared to the Commonwealth's has held steady over the same period, suggesting the same forces propel growth in incomes for both Virginia and Hampton Roads.



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 eight years. Regionally, families have maintained their income levels better than median family income at the national level.

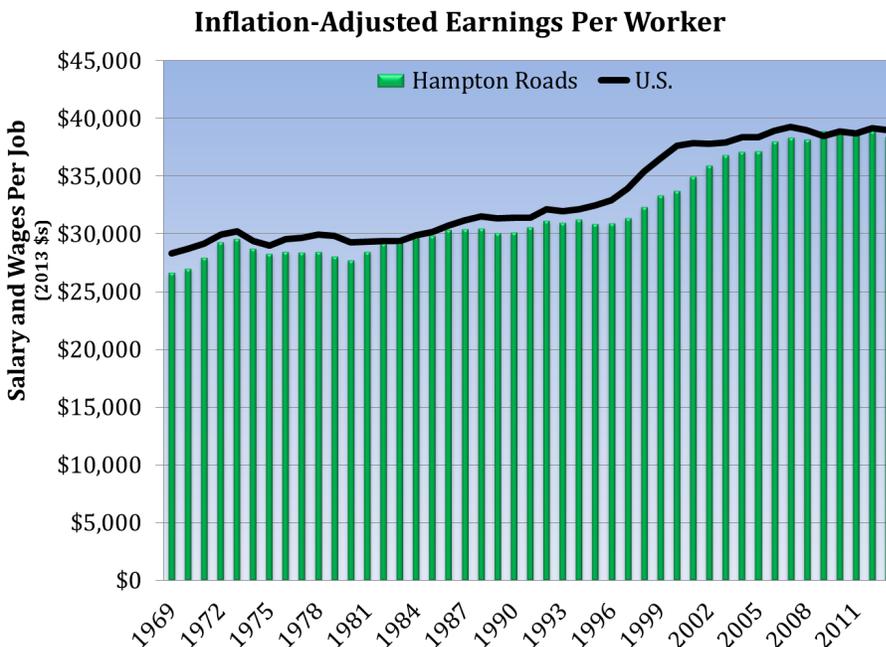
**Figure 2.23 Inflation Adjusted Earnings Per Worker in Hampton Roads and the U.S.**

**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.

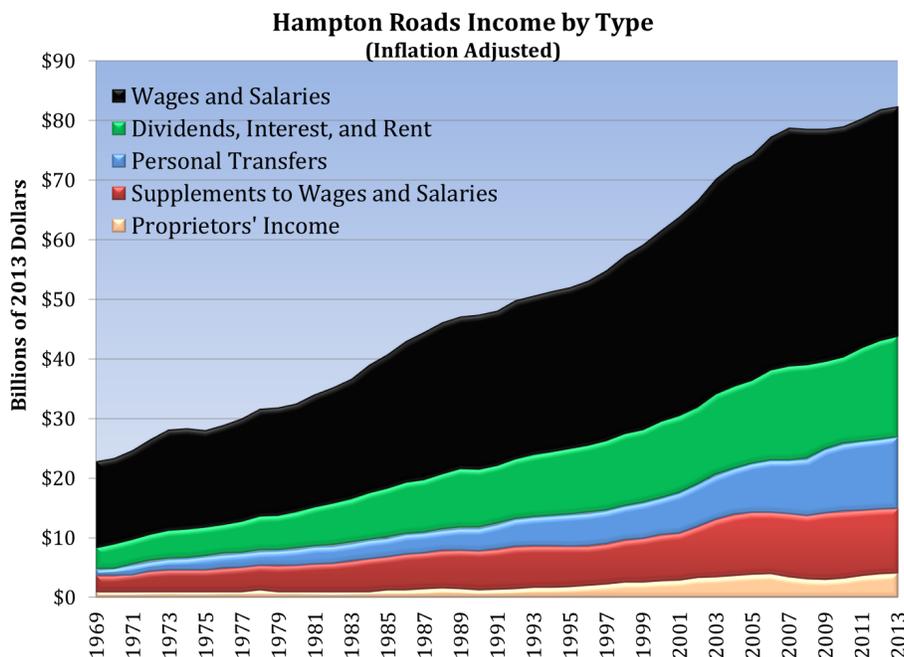
**How are we doing?**

Real earnings per worker have grown fairly consistently since 1970. 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 Income 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 & 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.