



# Hampton Roads Economic Quarterly

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James Clary  
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Joe Turner  
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## About this Document

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If you would like to be included on the electronic distribution list, please contact James Clary.  
Email: [jclary@hrpdcva.gov](mailto:jclary@hrpdcva.gov)  
Phone: (757) 420-8300.

HRPDC  
723 Woodlake Drive  
Chesapeake, VA 23320

Available for download,  
visit [www.hrpdcva.gov](http://www.hrpdcva.gov)

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## Tourism and the Economy

by James Clary, HRPDC Economist

Tourism continues to be one of Hampton Roads' most important industries, bringing significant outside dollars into the economy, which enables broad based regional economic growth. The tourism industry allows the region to 'export' its climate, beaches, and history to the rest of the nation. As with the port and defense industries in the region, the tourism industry developed in Hampton Roads because of its unique competitive advantages, particularly its water and historical resources. The tourism industry is well developed within the region, having achieved a high level of maturity indicating that the opportunity for extensive employment growth is unlikely. The tourism industry remains below its 2008 peak in the region. Further recovery in the industry will help the region move toward a period of sustained growth.

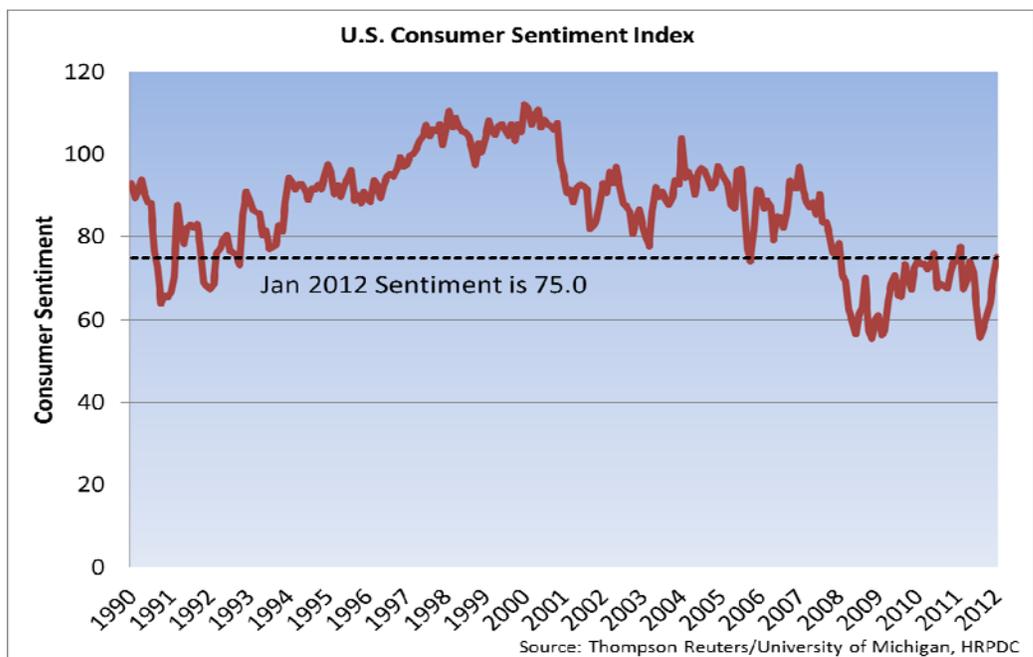
### National Tourism Industry

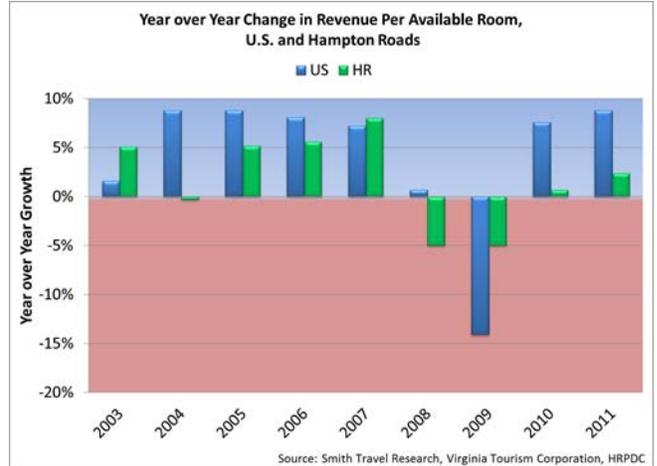
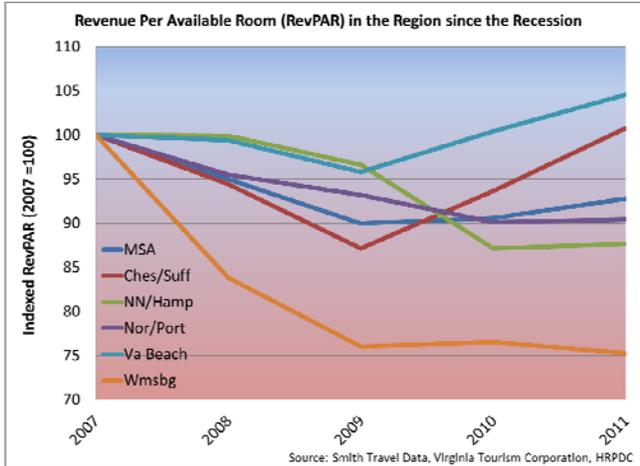
Many factors impact the national tourism industry, including the price of gasoline, wealth ef-

fects, income effects, and overall consumer confidence. The last *Economics Quarterly* noted how discretionary services are often the first cut during economic downturns, as is evident in the national tourism data (a major discretionary section). Smith Travel Research, which measures a variety of metrics for the hotel industry, showed that hotel occupancy increased by 8.1% year over year for the week of December 18-24, 2011, and has finally reached pre-recession levels. While 2009 was the weakest year, neither 2010 nor 2011 until December had broken through the previous median occupancy rate (2000 to 2007). The national average daily room rate and revenue per room still remain below 2008 levels, indicating that the tourism industry has yet to experience a full economic recovery; however, tourism typically lags the economy wide recovery.

### Local Tourism Industry

The local tourism industry follows the national and regional economy and thus national consumer confidence is closely followed by tourism professionals on both the Peninsula and South Hampton Roads as a strong predictor of regional





tourism activity. Consumer confidence has improved significantly over the past three months, but is still at an extremely low level historically (even below the 2010 levels).

Fortunately, the overall tourism market exhibits a cycle atypical of the nation, neither growing as quickly during boom markets, nor declining as quickly during poor markets. While 2008 Revenue Per Available Room (RevPAR) in Hampton Roads declined more quickly than the nation, this reflects a decline from a strong 2007 related to the 400th anniversary of the founding of Jamestown. Overall, the regional RevPAR has not grown as quickly as that of the nation, only growing 16.5% since 2002 while the nation grew 41.5% (Virginia's RevPAR grew 37.2%). Room supply grew more quickly in Hampton Roads, growing by 18.4% since 2002, versus only 13.8% growth in the nation.

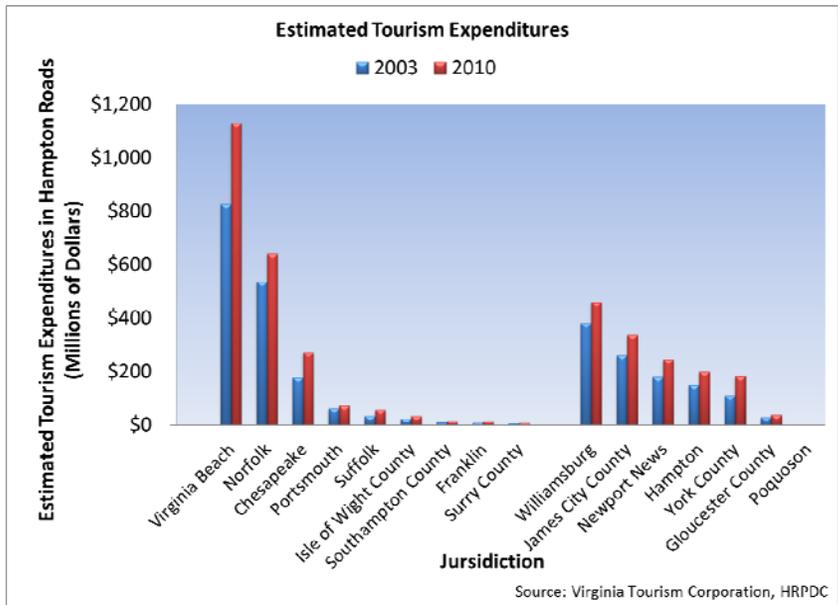
Five different Markets

Smith Travel Research, a major source of tourism data, has divided the Hampton Roads' region into five distinct lodging markets: Williamsburg and Newport News/Hampton on the Peninsula, and Norfolk/Portsmouth, Virginia Beach, & Chesapeake/Suffolk in South Hampton Roads. Williamsburg, Newport News & Hampton, and Norfolk have all seen RevPAR decline since the onset of the recession, though 2007 was a banner year for Williamsburg tourism which contributes to their steep decline in RevPAR. Both Chesapeake/Suffolk and Virginia Beach have increased RevPAR since 2007, and Chesapeake/Suffolk accomplished this slight increase in revenues while adding significantly to its room supply (room supply increased by 41% since 2007).

The hotel data (which does not include timeshares) and the tourism employment data fail to capture the full impact on tourism. This data proves extremely difficult to access, and often estimates are made with surveys or other imprecise tools. While the previous paragraph noted the decline in hotel activity in Williamsburg, it is difficult to estimate how many former Williamsburg visitors now stay in Chesapeake or Virginia Beach and drive into Williamsburg for day trips, or how many of the Williamsburg visitors stay in the area's 6,000 (approximate) time share rooms. The state has made estimates for expenditures by locality which have some value, but they are based off various tax receipts and thus are necessarily at least a year out of date.

Tourism employment in the region has increased from 9.8% of the workforce in 2007, to 11.7% of the workforce in 2011. The total expenditures estimated by the Virginia Tourism Corporation account for 4.6% of the gross regional product in 2010, or \$3.7 Billion.

Regional efforts to market Hampton Roads as a destination are coordinated through the Coastal Virginia Tourism Alliance.



Hampton Roads Economic Outlook: by James Clary

# The Regional Forecast

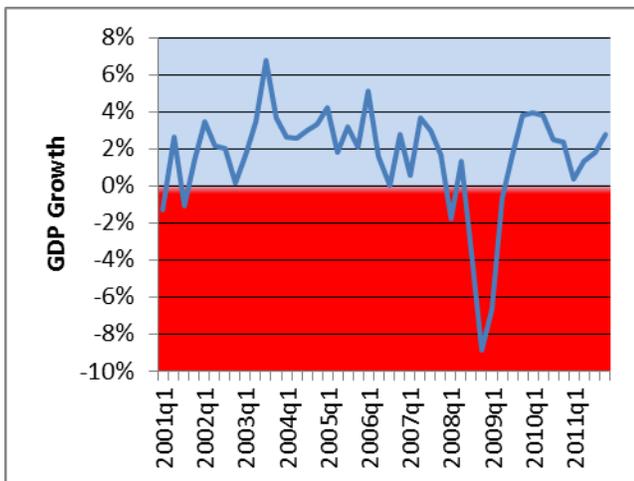
The year ahead is likely to be one characterized by very modest growth. Gross Regional Product will lag national GDP growth, as this region's important defense industry will remain stable in 2012 (though a decline in defense expenditures remains likely in 2013). Due to continued weakness in the real estate market, the region will be forced to slowly repair employment through other private industry growth.

Employment growth will not bring down unemployment in the region, as an improving economy will cause the labor force to expand at a rate equal to the decline in the number of unemployed. Retail sales should continue to grow during the next year, but are still not at the levels of 2007, and a return to prerecession levels does not appear imminent. As is typical for the national experience after financial recessions, the recovery will continue at a slow pace until both the housing market clears and the economy has sufficiently deleveraged itself.

	2011 Year to Date	2012 Forecast
<b>U.S.</b>		
<b>Real GDP</b>	1.7%	2.3%
<b>Interest Rates</b>		
<b>Short Term Govt Rates</b>	0.05%	0.01%
<b>Long Term Govt Rates</b>	2.8%	2.3%
<b>Hampton Roads</b>		
<b>Gross Region Product</b>	NA	1.8%
<b>Civilian Employment</b>	-0.3%	0.8%
<b>Unemployment Rate</b>	7.0%	7.1%
<b>Retail Sales</b>	3.5%	2.8%
<b>Auto and Truck Sales</b>	2.7%	3.0%

## Hampton Roads Economic Indicators

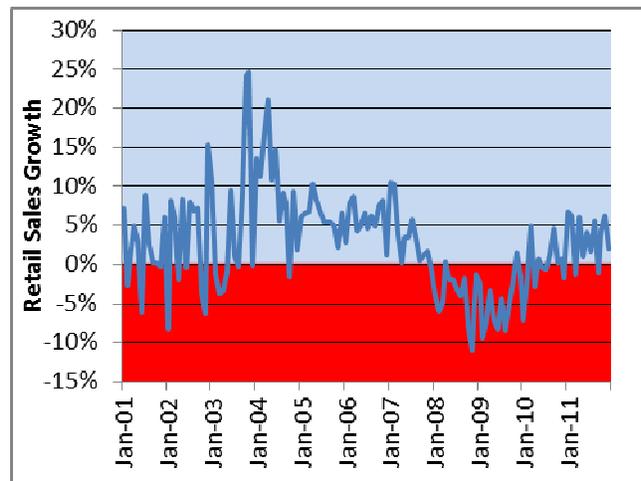
**GDP, Annualized Growth Rate**  
United States, 2001Q1 - 2011Q4, Quarterly



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. The nation experienced stronger GDP growth in the 4th quarter of 2011 (+2.8%) but the annual growth rate of 1.7% was the lowest non-recession year since 1947. Also obscured by the overall numbers is that 1.94% of 4th quarter GDP was due to increase in inventories and a further 0.3% derived directly from auto sales, which experienced a quarter of catch-up growth largely related to the tsunami's impact on supply chains earlier in the year.

**Retail Sales, Year over Year Growth**  
Hampton Roads, Jan 2001 - Dec 2011, Monthly



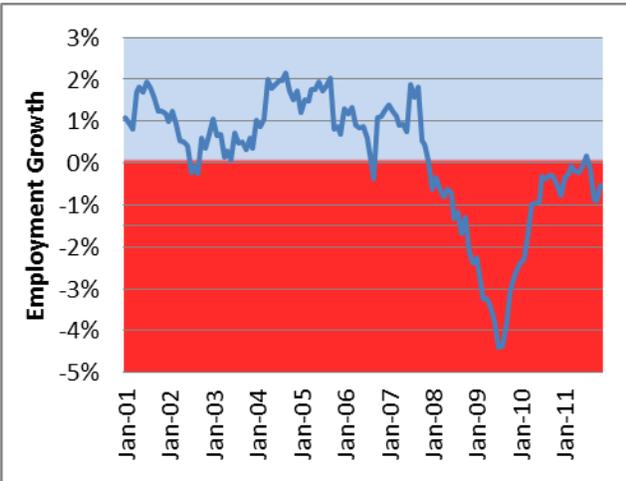
Source: Virginia Department of Taxation, HRPDC

Retail Sales: 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 US, the growth or decline of retail sales gives a strong indication of the direction of the local economy. Retail sales are up modestly over last year (+1.9% growth between Dec-10 and Dec-11), but are still 2.7% below the December 2007 levels. Retail sales will be the major driver of economic recovery in the region, and appear to finally be growing significantly after languishing from 2008 through 2010.

## Hampton Roads Economic Indicators

### Employment, Year over Year Growth

Hampton Roads, Jan 2001 – Nov 2011, Monthly

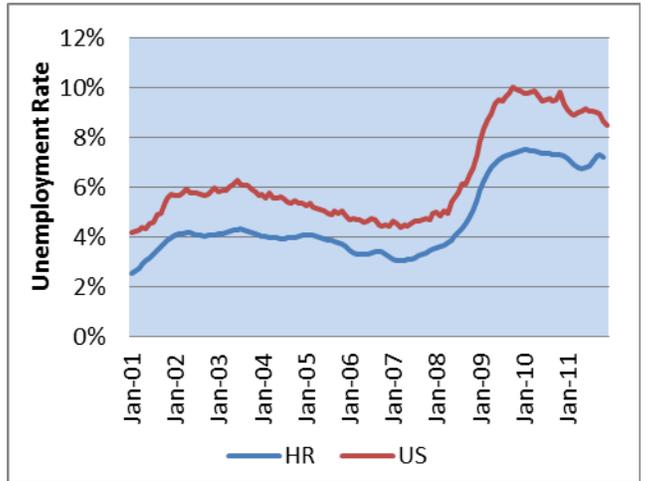


Source: Bureau of Labor Statistics, HRPDC

**Employment:** Non-agricultural employment is considered the best estimate of labor market activity by the National Bureau of Economic Research. Payrolls have not begun a sustained period of employment growth in the region. Year over year growth was only positive in one month since Jan-2008, and payrolls languish at 52,800 fewer jobs than existed in Jul-2007.

### Unemployment Rate, Seasonally Adj.

U.S. & Hampton Roads, Jan 2001 – Nov 2011, Monthly

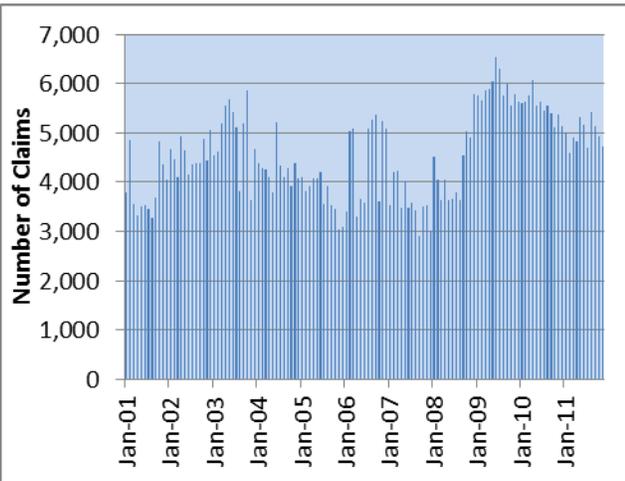


Source: Bureau of Labor Statistics, HRPDC

**Unemployment Rate:** This is the percentage of the population which is actively seeking work, but is unable to obtain a position. The Hampton Roads' unemployment rate returned to 2010 levels over the past few months (7.21% in Nov 2011 versus 7.30% in Nov 2010 seasonally adjusted). This trend has resulted in worse performance relative to the nation, and the regional rate is only 1.3% below the nation's, in contrast to the 2% gap that existed for most of the recession.

### Initial Unemployment Claims, Seasonally Adj.

Hampton Roads, Jan 2001 – Dec 2011, Monthly

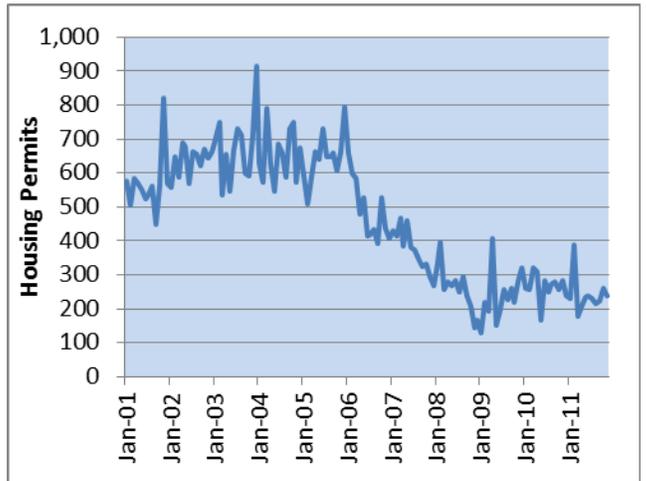


Source: Virginia Department of Labor, HRPDC

**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. Initial unemployment claims continue to decline from their 2009 peak, but remain elevated over the long term regional average of 4,382 by 320 claims per month.

### Single Family Housing Permits, Seasonally Adj.

Hampton Roads, Jan 2001 – Dec 2011, 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 level of single family permitting languishes at less than half of its long term average. This reflects both the weakness in the housing market, as well as some of the shift toward multifamily housing in the credit tightened environment created by the most recent recession.