Hampton Roads PDC Planning District Commission

Hampton Roads Economic Monthly

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GDP Breaks Through: A Breakdown

Gross Domestic Product, or GDP, is a representation of the total dollar value of all finished goods and services produced by an economy over a specific time period. Economists watch GDP closely, as it is a relatively straightforward way of measuring economic growth. But it doesn't tell the entire story of how an economy is performing, which is why we also look at other indicators like employment, housing prices, tourism activity, retail sales, and more.

GDP recently made headlines when in the second quarter of 2021, national GDP levels finally rose above pre-pandemic levels measured at the end of 2019. This achievement was particularly notable given the rebound took approximately one year after the economy's worst quarterly contraction on record. After the Great Recession officially ended in 2009, GDP took two years to fully rebound.

Gross Regional Product (GDP for regions) is only reported on an annual basis, so 2020 data for Hampton Roads won't be available until the end of this year, but regional trends tend to closely follow national trends. As vaccinations and federal aid ramped up in Spring of 2021, how did growth breakdown across the economy?

From Q4 2019 to Q2 2021, GDP (inflation-adjusted) grew by 0.8%, after shrinking for two quarters and then growing four quarters in a row. Growth in 2021 (much like the growth towards the end of 2020) was fueled by personal consumption expenditures – with a pivot to spending in the services industry as Americans returned to restaurants, nail salons, and other in-person activities. As shown in Figure 1, money spent on services still sits 3.3% below pre-pandemic levels, while money spent on goods sits 17.6% above Q4 2019.

Gross private domestic investment is up roughly 0.8% from the end of 2019 through Q2 2021, driven heavily by the housing sector – spending on residential housing was up by over 16% when compared to pre-pandemic levels. However, the housing sector was a bit of a drag on growth in recent months, shrinking slightly after three straight quarters of gains. Residential spending shrank by about 2.5% from 2021 Q1 to Q2, and spending on non-residential structures also declined by 1.7%. This may come as a surprise due to a very hot housing market, it's important to note that what matters to GDP is construction, and new home building has been hindered by shortages of labor and supplies.

The US has imported more than it exported in recent years, but the nation's net exports has declined heavily, still sitting over 10% below pre-pandemic levels, while imports posted a 4.5% increase. State and local government spending remains virtually unchanged from the end of 2019, with a 0.2% increase, while federal spending increased by over 4.5%, the majority of that in nondefense spending.

Some economists have speculated that Q2 2021 growth might have been stronger had it not been for supply-chain disruptions and labor challenges that had many restaurants and stores reduce service offerings. As the Delta variant takes hold and a vaccination stall contribute to increased cases of COVID and hospitalizations, recent gains may be threatened when coupled with the end of some federal aid programs that helped bolster the economy.

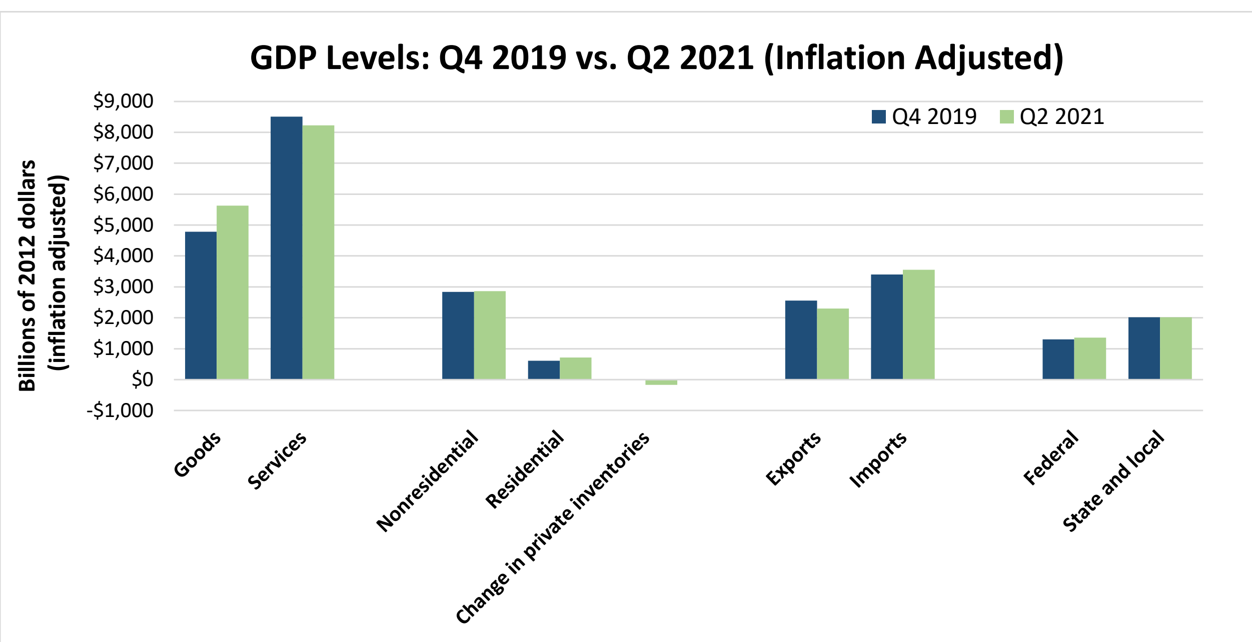
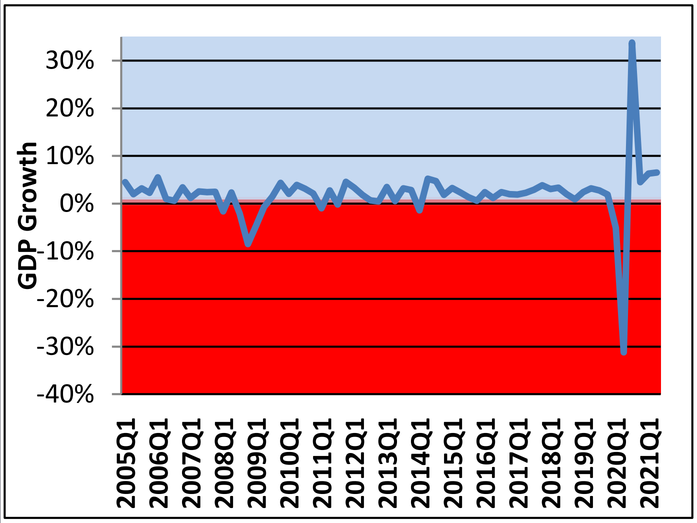


Figure 1: GDP levels in billions of 2012 dollars, Q4 2019 vs. Q2 2021, sector breakdown (not all sectors shown). Source: Bureau of Economic Analysis, HRPDC

GDP, Annualized Growth Rate

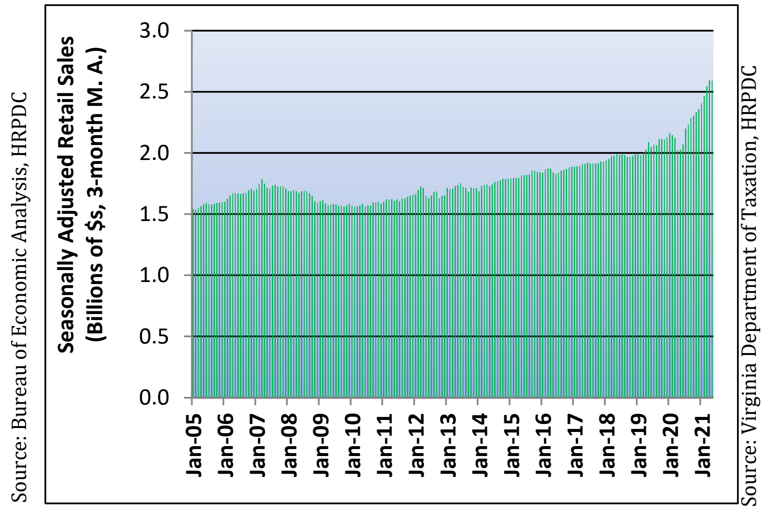
United States, 2005Q1 – 2021Q2 Quarterly



GDP: Gross Domestic Product combines consumption, investment, net exports, and government spending to determine the size and general health of the economy. Real GDP increased 6.5% in Q2 2021, reflecting the continued economic recovery from early 2020 losses as well as the ongoing impact of COVID-19. Once again, Q2 growth was largely driven by increases in PCE (2.7% increase in goods, over 5% increase in services), causing real GDP levels to finally surpass pre-pandemic levels of Q4 2019.

Hampton Roads Retail Sales, Seasonally Adjusted

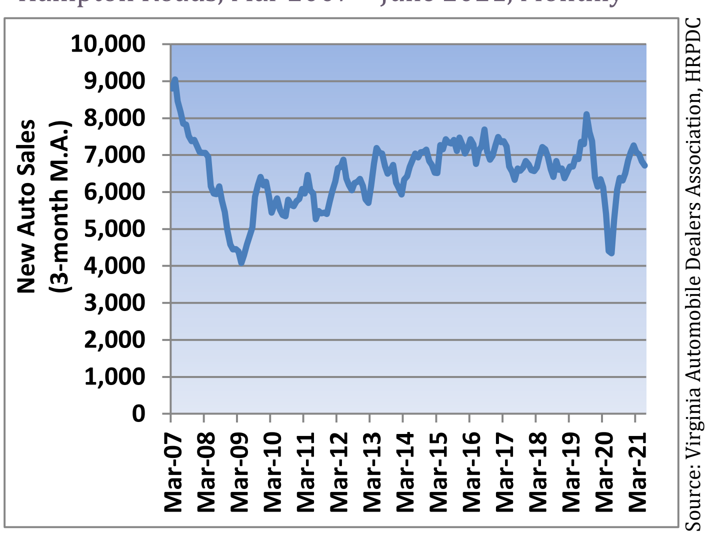
Hampton Roads, Jan 2005 – May 2021, Monthly



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. When averaged over 3 months, May represented the first signs of retails sales cooling down, with slightly lower numbers from the previous month. Unadjusted, May 2021 posted a 16% increase from May 2020 (when early pandemic impacts were still being seen), but also a 13% increase from April 2019.

New Car Sales, Seasonally Adjusted

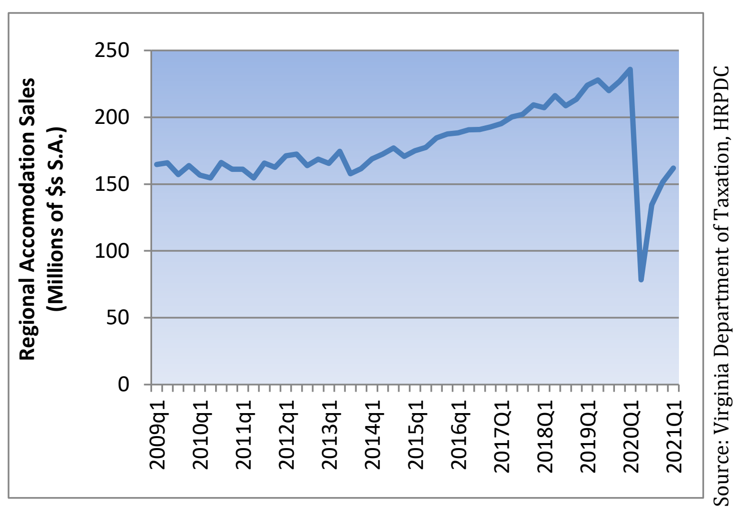
Hampton Roads, Mar 2007 – June 2021, Monthly



New Car Sales: Car sales, as a durable good, may be put off until an individual's economic prospects improve; thus, the number of new car sales indicates the level of confidence that households in Hampton Roads have in their financial future. Car sales this June were down slightly compared to Winter highs, and represents significant YoY growth—June 2021 showed a 21% increase from June 2020, when COVID-19 impacts were still being felt. For pre-pandemic comparison, June 2021 actually represents a 5% *decrease* from June 2019 car sales, the second month in a row for declines from 2019.

Estimated Hotel Revenue, Seasonally Adjusted

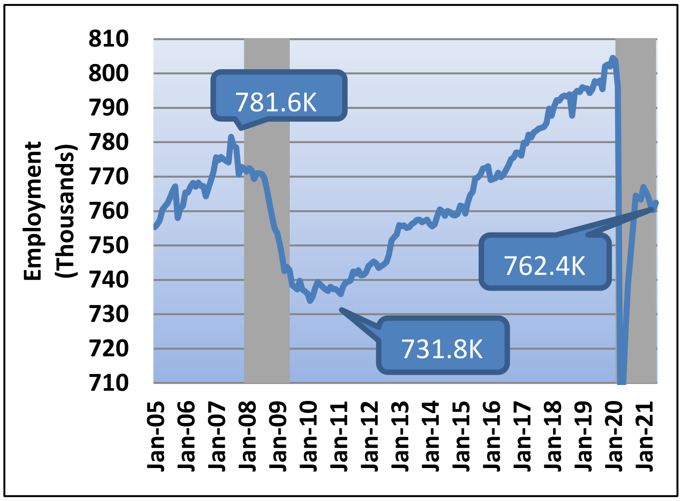
Hampton Roads, 2009Q1 – 2021Q1, Quarterly



Estimated Hotel Revenue: Hotel sales indicate the performance of the region's tourism sector. When seasonally adjusted, Q1 2021 hotel revenue once again saw improvement from the historic lows realized in Q2 due to pandemic-related closures, albeit at a lower rate of recovery. While there was a roughly 7% increase in revenue from Q4 2020 to Q1 2021, this still represents a 31% decline in year-over-year revenue.

Civilian Employment, Seasonally Adjusted

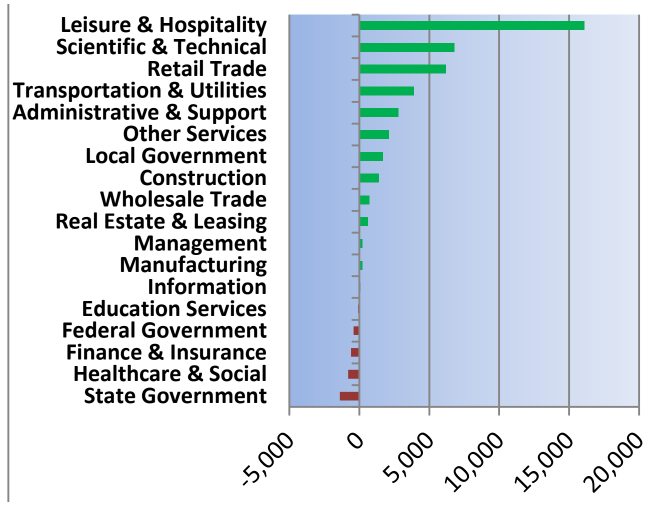
Hampton Roads, Jan 2005 – June 2021, Monthly



Source: Bureau of Labor Statistics, HRPDC

Employment Growth by Industry

Hampton Roads, June-20 to June-21, Year-over-Year



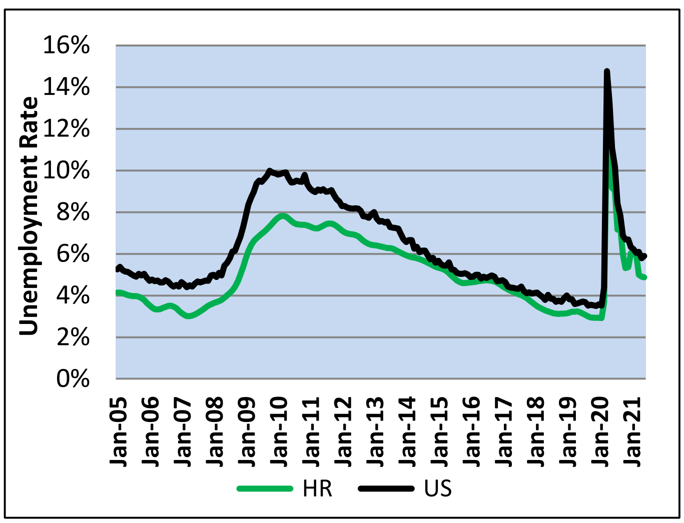
Source: Bureau of Labor Statistics, HRPDC

Employment: Non-agricultural civilian employment figures are considered the best estimate of labor market activity by the National Bureau of Economic Research. According to data from the Bureau of Labor Statistics, Hampton Roads employment (seasonally adjusted) increased (after four straight months of decreases)—by 0.28% from May to June 2021. Unadjusted employment levels saw its largest increase in a year, likely due to the increases in leisure and hospitality jobs to support the summer tourism industry.

Employment Growth by Industry: As the job market grows or declines, there will be some industries whose experience does not resemble the regional trend. In June, almost every Hampton Roads industry experienced an increase in year-over-year employment when compared to June 2020—when impacts of COVID-19 were felt strongly. Most significant was Leisure & Hospitality, which added over 15,000 jobs since the initial pandemic shock, followed by Scientific & Technical and Retail, other heavily impacted industries. Healthcare and State Government both realized losses when compared to 2020.

Unemployment Rate, Seasonally Adjusted

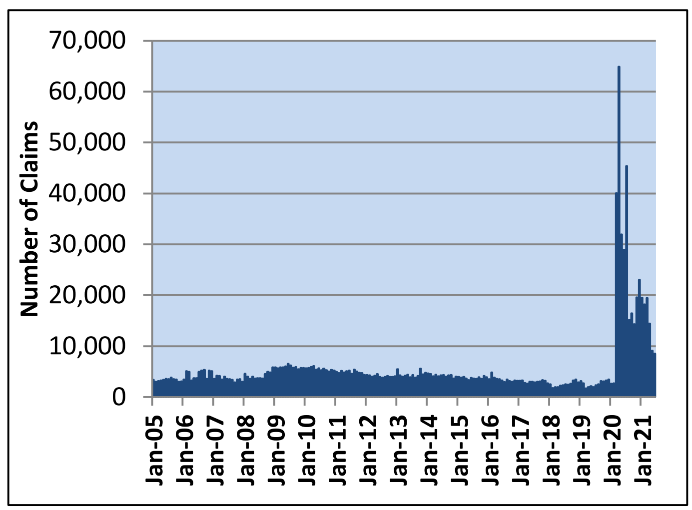
U.S. & Hampton Roads, Jan 2005 – June 2021, Monthly



Source: Bureau of Labor Statistics, HRPDC

Initial Unemployment Claims, Seasonally Adjusted

Hampton Roads, Jan 2005 – June 2021, Monthly



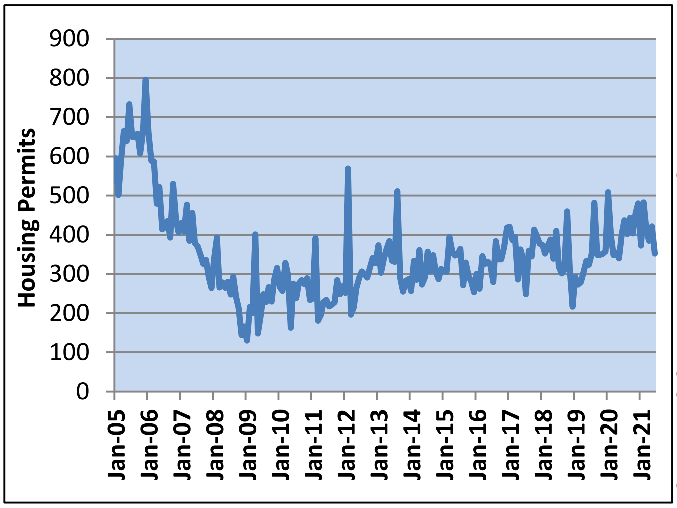
Source: Virginia Department of Labor, HRPDC

Unemployment Rate: The unemployment rate is the percentage of the population actively seeking work but unable to obtain a position. Hampton Roads' unemployment rate decreased again, very slightly, to 4.87% in June 2021, reflecting small increases in both the labor force and employment, coupled with a slight decrease in the number of unemployed persons. The unemployment rate in Hampton Roads continues to sit below the US rate, roughly 1% lower.

Initial Unemployment Claims: The number of initial unemployment claims is a leading economic indicator reflecting those who are forced to leave work unexpectedly, thus revealing the strength of the job market with little lag time. In June 2021, initial unemployment claims decreased slightly from the previous months, to levels comparable to the pre-winter surge in COVID cases and unemployment claims. Seasonally adjusted unemployment claims in June were below 9,000, but only a 6% decrease from the previous month, still the lowest since the onset of the pandemic.

Single Family Housing Permits, Seasonally Adjusted

Hampton Roads, Jan 2005 – June 2021, Monthly

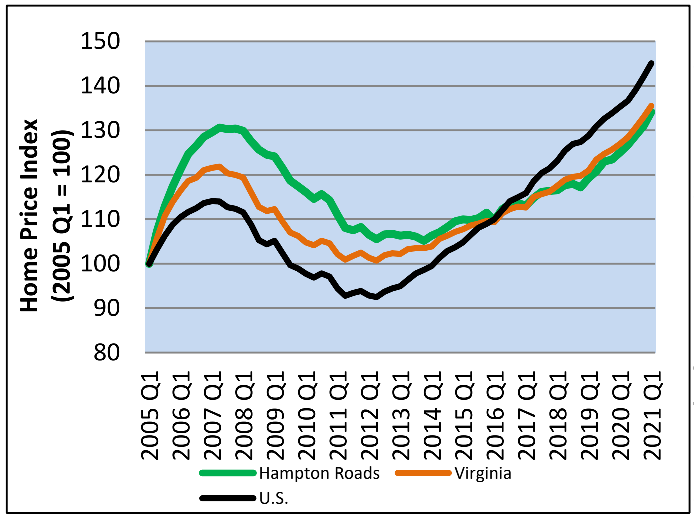


Source: U.S. Census Bureau, HRPDC

Single Family Housing Permits: Permit data signals the level of construction employment and confidence regarding the future trajectory of the local economy. There were 394 new construction permits issued for single family homes in June 2021. When seasonally adjusted, the data shows small variances month to month over the past year, but as the market continues to respond to labor and materials shortages, the trend is likely to stay constant until the industry can increase capacity in response to increased demand.

Home Price Index, All Transactions

Hampton Roads, 2005Q1 – 2021Q1 Quarterly

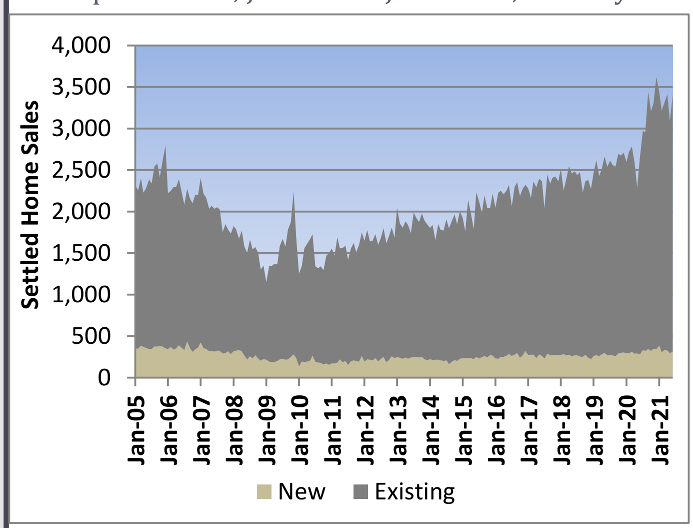


Source: Federal Housing Finance Agency, HRPDC

Home Price Index: The home price index measures the value of homes by evaluating changing price levels through repeated sales of properties. The index provides the highest quality data available on the trends in the real estate market. Hampton Roads' home prices increased, yet again, by 7.4% over the previous year in Q1 2021, higher rates than both the state and the nation. Regional housing values are now 2.8% higher than the peak of the housing boom—the first time the gap has closed as home prices have been rapidly increasing.

Number of Homes Sold, Seasonally Adjusted

Hampton Roads, Jan 2005 – June 2021, 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. Seasonally adjusted, existing home and total settled sales in June increased, remaining at record highs with over 3,000 homes sold in June. Unadjusted, total home sales in June were the highest on record. The impacts of COVID were first felt in Spring 2020 with declining sales, so while June posted a 28% YoY increase, it's important to note that June sales realized a 34% increase from 2019 to 2021.

Note: The format of this monthly economic report will be getting an update in the coming months. We welcome any input about what you find useful in this report. Please email Katherine Rainone at krainone@hrpdcva.gov with any suggested changes or improvements for future economic monthly updates.