

The Bipartisan Budget Act of 2018 and Hampton Roads

A sign of increased defense activity is coming at an opportune time, as Hampton Roads employment and unemployment data have been painting a gloomy picture of the regional economy over the past few months.

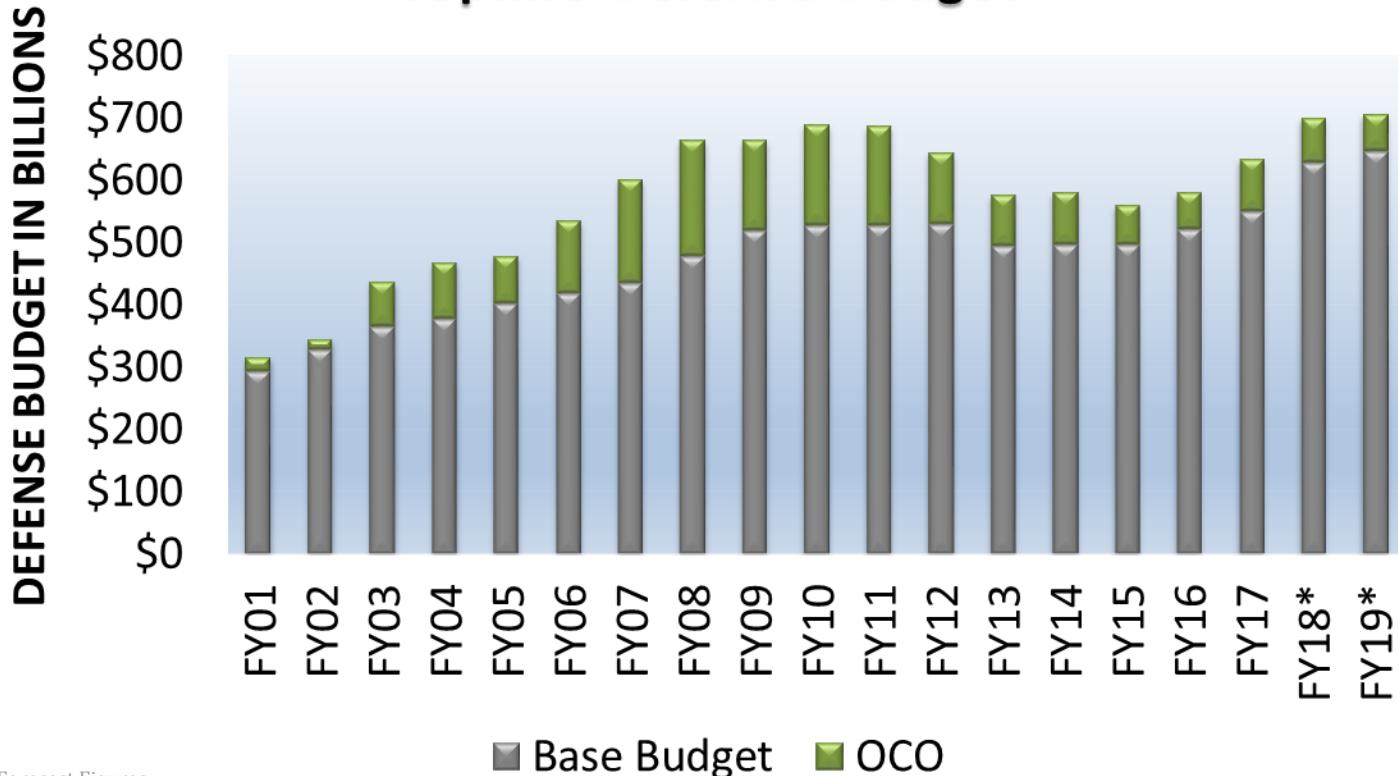
The Bipartisan Budget Act of 2018 (P.L. 115-123) increases the budget caps for national base defense spending by \$80 billion in Fiscal Year (FY) 2018, and a further \$85 billion in 2019. This is a 14.2% increase in defense spending in FY2018, and an additional 2.9% increase in FY2019.

One area of concern is the lack of clarity about the rate of Overseas Contingency Operations (OCO) spending, or 'emergency' money used to boost defense spending since 9/11. Hypothetically, if OCO funding was lined out in the current budget deal, actual defense spending would decline between FY2017 and FY2018. Fortunately, the Center for Strategic & International Studies projects significant OCO funding in FY2017 and FY2018 both from the analysis of the President's Budget as well as through the Continuing Resolution passed in late December 2017.

Although a great deal of uncertainty remains during the appropriations process, the FY2018 level of defense spending based on the Bipartisan Budget Act could significantly increase regional gross product and bring much needed additional jobs to Hampton Roads. Federal austerity measures are likely to return in 2020 as a substantial increase in short-term federal expenditures, coupled with the recent tax cuts that were passed by Congress will once again result in large federal deficits.

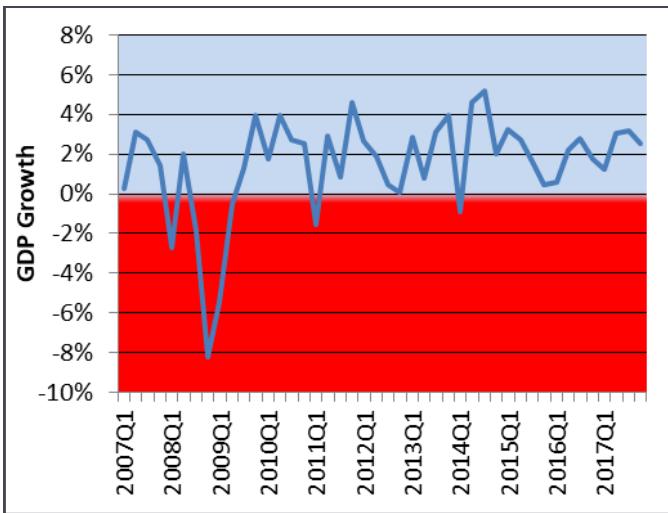
U.S. Topline Defense Budget, and Projections

Topline Defense Budget



GDP, Annualized Growth Rate

United States, 2007Q1 – 2017Q4, 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. Real GDP growth slowed to 2.6% in the third quarter of 2017, though the growth would have been significantly more robust with a decline in inventories that decreased GDP growth by 0.67%. Importantly for Hampton Roads, national defense spending increased by 6.0%, the third quarter in a row of growth.

New Car Sales, Seasonally Adjusted

Hampton Roads, Jan 2007 – Dec 2017, Monthly

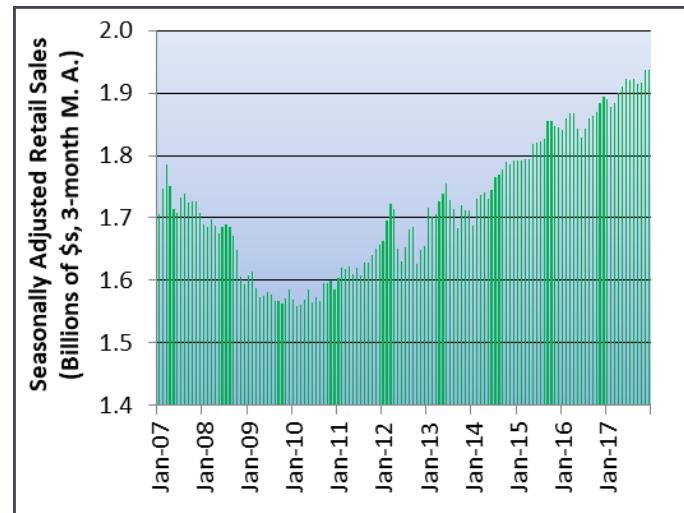


Source: Virginia Automobile Dealers Association, HRPDC

New Car Sales: Car sales, as a durable good, may be put off until such time as an individual's economic prospects improve; thus, the number of new car sales indicate the level of confidence that households in Hampton Roads have in their financial future. Sales seem to be at or just above the region's long term average of 5,976, with the 6-month average hovering around 6,009 in December 2018, although month-to-month volatility remains high. However, car sales have settled lower than they were from January 2016 through June 2017.

Hampton Roads Retail Sales, Seasonally Adjusted

Hampton Roads, Jan 2007– Dec 2017, Monthly

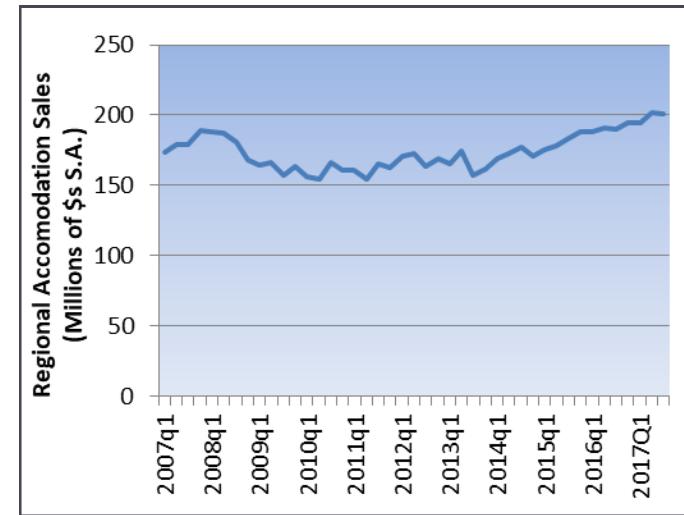


Source: Virginia Department of Taxation, HRPDC

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. Hampton Roads' taxable monthly sales increased to \$1.94B in December 2017 (seasonally adjusted 3-month average), though this represents an unsurprising loss of momentum. Retail sales increased by 2.1% year-over-year which was less than in November, but at the national, state, and regional levels, the data suggests that the holiday shopping season started earlier this year. This was a strong report.

Estimated Hotel Revenue, Seasonally Adjusted

Hampton Roads, 2007Q1 – 2017Q3, Quarterly



Source: HRPDC

Estimated Hotel Revenue: Hotel sales indicate the performance of the region's tourism sector. Tourism significantly contracted during the Great Recession and has been following a slow steady growth trend ever until weakness in the third quarter fell to \$201 million, from \$202 million in the second quarter (seasonally adjusted). Rather than reflecting weakness in the third quarter, this likely illustrates the strength of the second quarter (particularly June).

Civilian Employment, Seasonally Adjusted

Hampton Roads, Jan 2007 – Dec 2017, Monthly

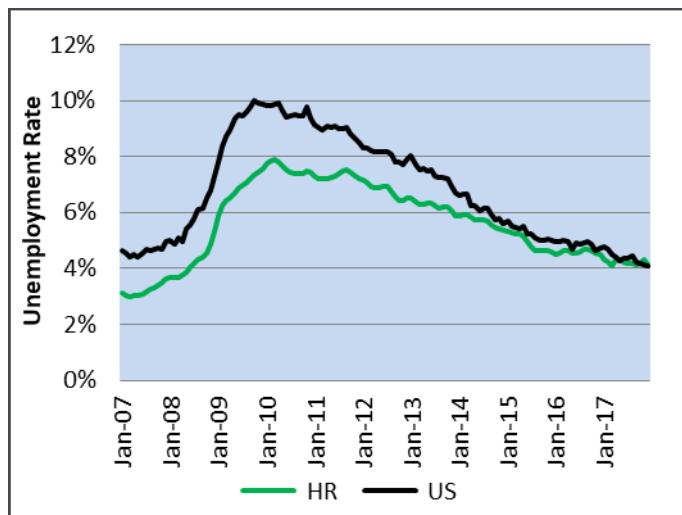


Source: Bureau of Labor Statistics, HRPDC

Employment: Non-agricultural civilian employment figures are considered the best estimate of labor market activity by the National Bureau of Economic Research. Regional civilian employment fell to 762,500 in December 2017 from 764,000 in November 2017. Regionally, employers have shed 7,100 positions over the past year (a 0.9% decline in jobs), and regional employment remains 19,100 jobs below the levels in summer 2007.

Unemployment Rate, Seasonally Adjusted

Hampton Roads and U.S, Jan 2007 – Dec 2017, Monthly

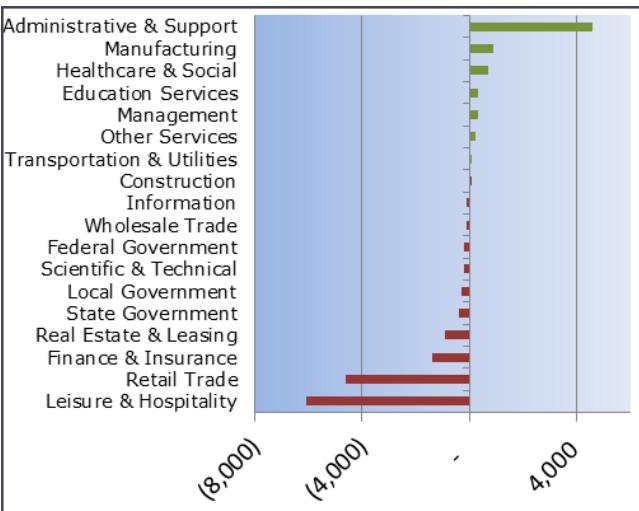


Source: Bureau of Labor Statistics, HRPDC

Unemployment Rate: The unemployment rate is the percentage of the population actively seeking work, but unable to obtain a position. Hampton Roads' unemployment rate fell to 4.1% December of 2017; however, declining labor force participation drove the improvement in the unemployment rate, as the number of persons reporting they were employed also fell by 2,300.

Employment Growth by Industry

Hampton Roads, Nov 2016 – Nov 2017, Year-over-Year

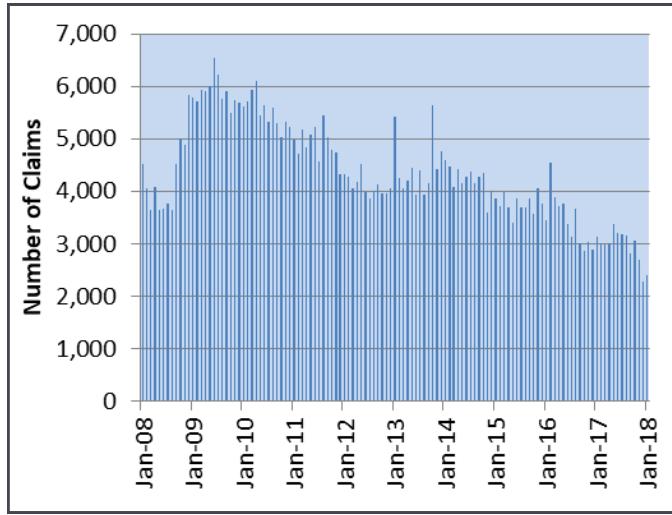


Source: Bureau of Labor Statistics, HRPDC

Employment Growth by Industry: As the job market grows or declines, there will be some industries whose experience does not resemble the regional trend. Regional employment in retail trade (-4,600) and leisure & hospitality (-6,100) have declined precipitously year-over-year according to the employment data released by the Bureau of Labor Statistics; however, these lower levels of employment do not align with strong retail sales seen over the summer and more recently in November & December.

Initial Unemployment Claims, Seasonally Adjusted

Hampton Roads, Jan 2008 – Jan 2018, Monthly

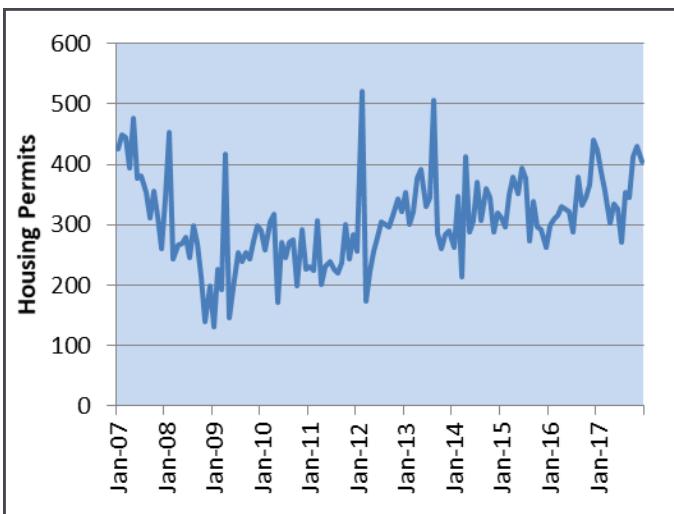


Source: Virginia Department of Labor, HRPDC

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 region's initial unemployment claims increased in January 2017 to 2,400 from 2,271 in December 2017. This was the second lowest level of claims experienced by the region since the data series began in 1984.

Single Family Housing Permits, Seasonally Adjusted

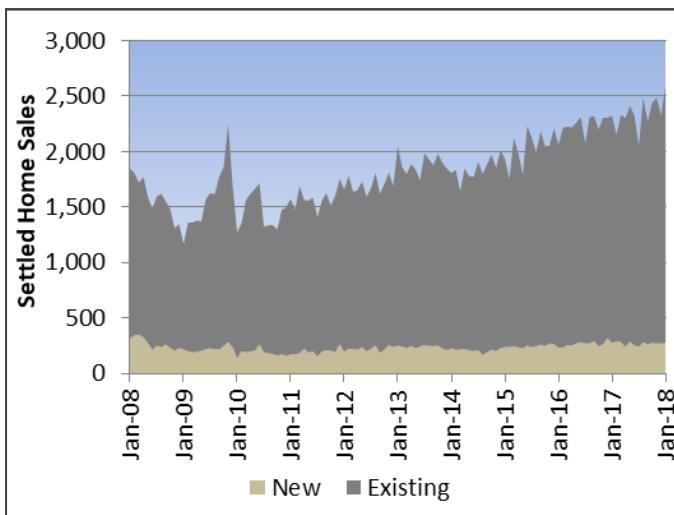
Hampton Roads, Jan 2007 – Dec 2017, Monthly



Single Family Housing Permits: Permit data signals the level of construction employment and confidence regarding the future trajectory of the local economy. Single family permits inched up to 405 units in December 2017 (seasonally adjusted). The region continues to lag below the long-term average of 450 single family permits per month, but the past three months represent only the third time the region has had a series of months at a 400+ permit-a-month level since the housing crisis.

Number of Homes Sold, Seasonally Adjusted

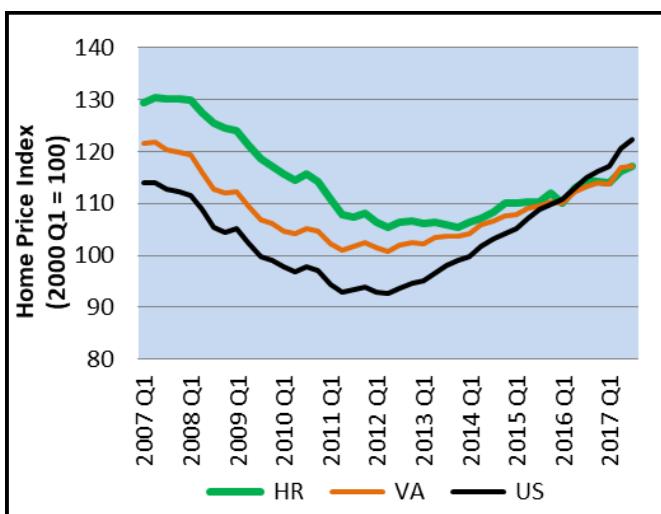
Hampton Roads, Jan 2008 – Jan 2018, Monthly



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. Existing home sales increased to 2,319 in January 2018, the highest level since the recession, and ending the year on a high note. Despite dips in December 2017 and August 2017, this indicates a healthy real estate market even though new construction sales have not increased at a similar rate.

Home Price Index, All Transactions

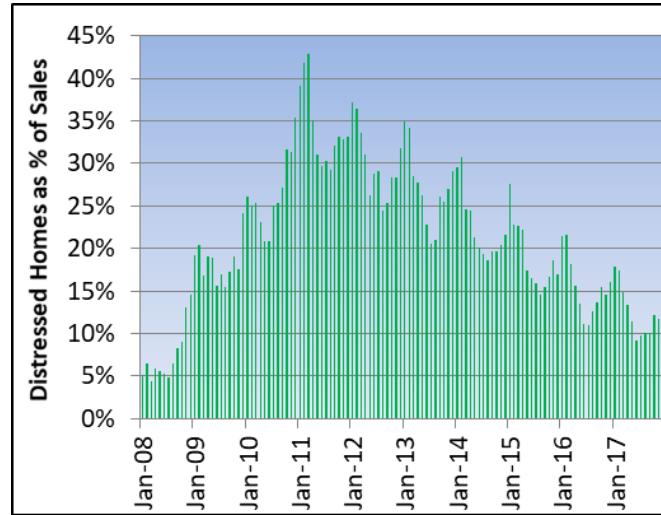
Hampton Roads, 2007Q1 – 2017Q23 Quarterly



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 in the third quarter of 2017, and are 2.26% above the price levels last year, though this growth rate was below that of the nation (6.3%) and the state (3.5%). Regional home values remain 10.2% below 2007 levels.

Foreclosures and Distressed Sales

Hampton Roads, Jan 2008 – Dec 2017, Monthly



Foreclosures: Foreclosures have a significant impact on the real estate market and the community, and depress home values on neighborhood and regional levels. Distressed homes' share of total sales has been shown to have an impact on the sale price of existing homes. The dataset provided by REIN and analyzed by ODU indicates a sharp rise in distressed properties (REO and short sales), which comprised almost 45 percent of closings. Distressed sales have declined since the recession, but still represented 12.8% of sales in December.