HAMPTON ROADS PDC PLANNING DISTRICT COMMISSION
Hampton Roads Economic Monthly
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Getting Personal with Consumption Expenditures

The U.S. economy is continuing its recovery from the shock of the COVID-19 pandemic, notching 4% growth in GDP for the 4th quarter of 2020 (seasonally adjusted annualized rate). Consumer spending accounts for the lion's share of gross product; at the close of 2020 over two-thirds of GDP was derived from consumer spending. Since consumption is a human behavior, what are consumers spending their money on during this recession, and do their emotions have any effect on the continued economic recovery?

Personal Consumption Expenditures (PCE) are split between goods and services. Goods consist of both *durable* goods, such as cars, furniture, electronics, or jewelry, and *non-durable* goods, such as food and alcohol (for off-premises consumption), gasoline, clothing and footwear, or household supplies. Alternatively, the services sector consists of intangible goods, such as restaurants, health care, airline travel, hotels, hair salons, childcare, and more.

Within expenditures on personal consumption, roughly 70% of expenses are typically spent on services, while the other 30% are spent on goods. Over the past year however, that ratio has changed as the pandemic has changed daily life for so many Americans. Initially, spending on both goods and services rapidly declined as the impact of the pandemic swept across the country, and the economy. As the world adapted to life during a pandemic, and as the economy began its recovery, the virus still maintained a level of control over the services sector. In today's recession, affluent consumers have done relatively well economically – most have remained employed at pre-pandemic salaries and are no longer able to spend discretionary income on things like travel and eating out due to restrictions, so may instead be spending more on goods (electronics, pools, at-home exercise equipment, etc.). Those affected financially by the pandemic still are purchasing essential goods like food, gasoline, clothing. This national shift in consumption is depicted in the chart below, showing the share of expenditures on goods and services splitting after the initial dip in total consumption in April 2020.

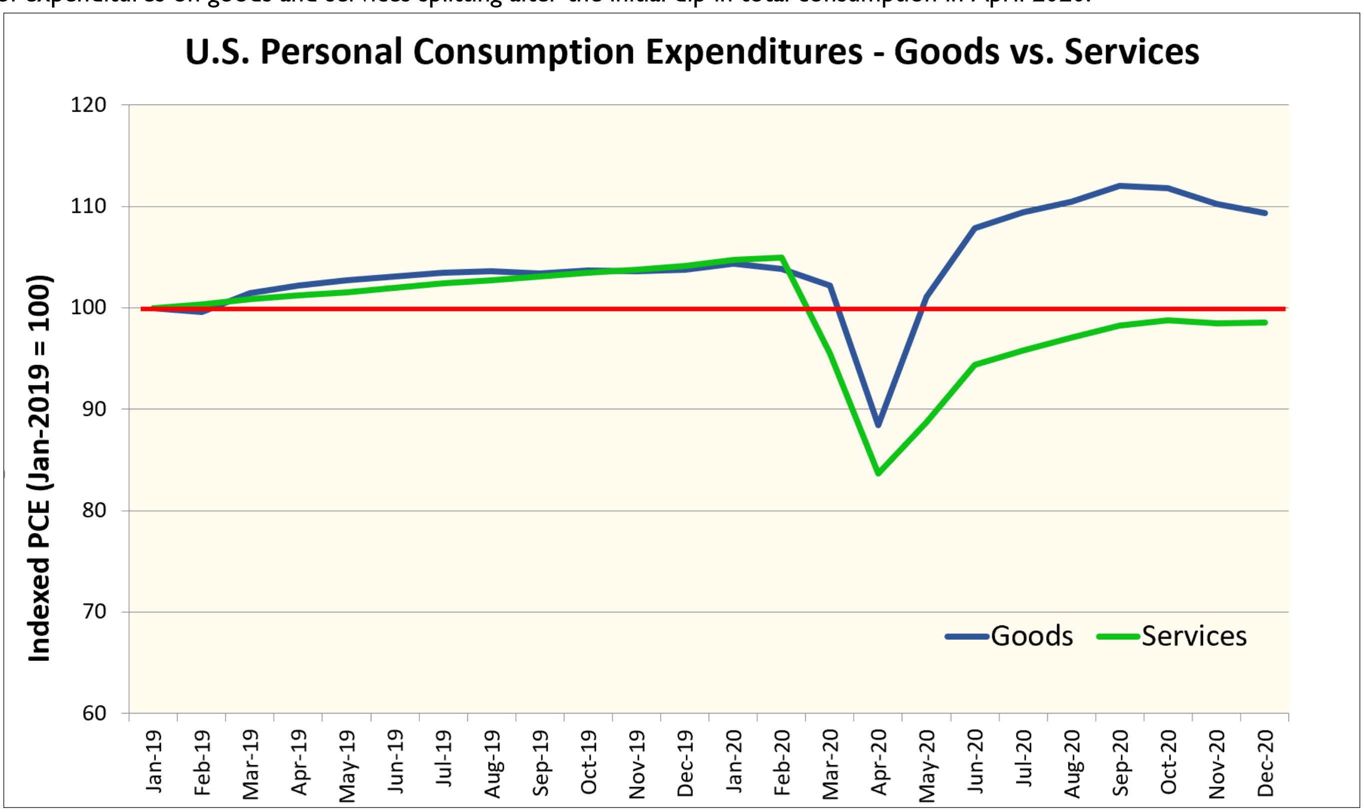
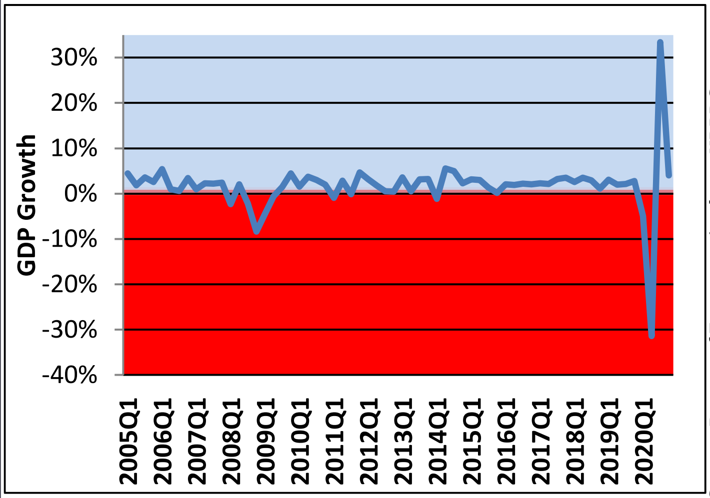


Figure 1: United States Personal Consumption Expenditures, breakdown between expenditures on goods versus services. Source: BEA, HRPDC.

While national expenditures on goods are at record highs, so to are retail sales in Hampton Roads. The region has experienced record-breaking retail expenditures towards the latter end of 2020, despite record levels of unemployment claims, a looming evictions crisis, and lower (but trending upward) consumer confidence indexes. Typically, when consumers are confident, they tend to spend more, and when they are less confident, they tend to spend less. However, these indexes often do not tell the whole story because the "average consumer" does not exist. These trends of increasing retails sales and increasing but diverging personal consumption expenditures between goods and services reveal that this economic shock is different than any that we have experienced in the past. As the recovery continues, signs are pointing towards a slowdown in regional retail spending. If the virus slows enough to allow some expansion in the services sector, Americans may move their discretionary income back to things like air travel, spas, club memberships, and events. If unemployment remains elevated, thus decreasing discretionary expenditures, retail sales could continue to slow down, and further stall the economic recovery.

GDP, Annualized Growth Rate

United States, 2005Q1 – 2020Q4, Quarterly

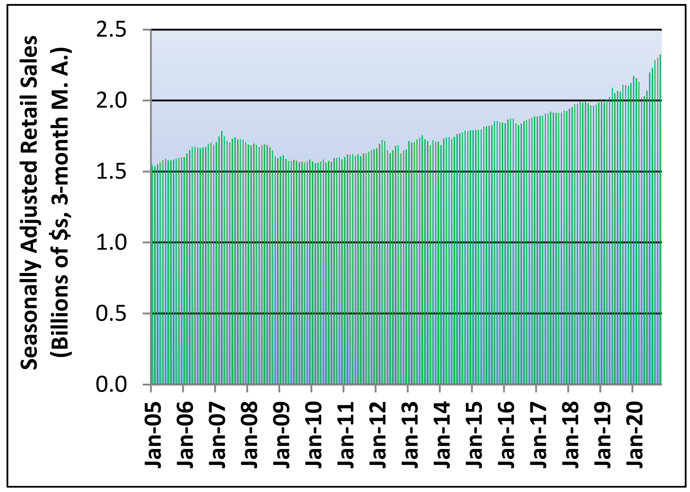


Source: Bureau of Economic Analysis, HRPDC

GDP: Gross Domestic Product combines consumption, investment, net exports, and government spending to determine the size and general health of the economy. Real GDP increased 4% in Q4 2020, reflecting the continued economic recovery from Q1 and Q2 losses as well as the ongoing impact of COVID-19 as new restrictions and closures took effect in some areas of the country. While growth this quarter came from increases in exports, private domestic investments, and PCE, real GDP levels are still roughly 2.5% lower than at the end of 2019.

Hampton Roads Retail Sales, Seasonally Adjusted

Hampton Roads, Jan 2005– Nov 2020, Monthly

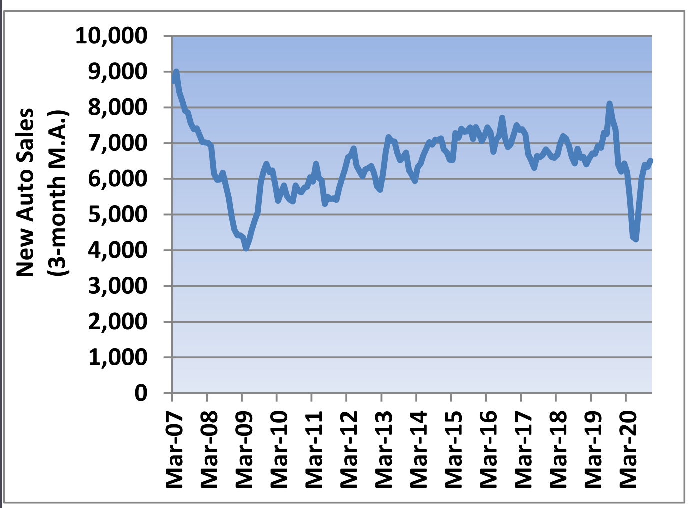


Source: Virginia Department of Taxation, HRPDC

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. When smoothed and averaged over 3 months, November represents the largest total retail sales recorded, continued confirmation of pent-up demand after re-opening much of the Hampton Roads retail economy and pre-holiday spending. It does seem that retails sales are starting to slow, as November's retail sales represented the lowest total since June. However, November 2020 posted a 7.3% increase over November 2019, healthy YOY growth.

New Car Sales, Seasonally Adjusted

Hampton Roads, Mar 2007 – Dec 2020, Monthly

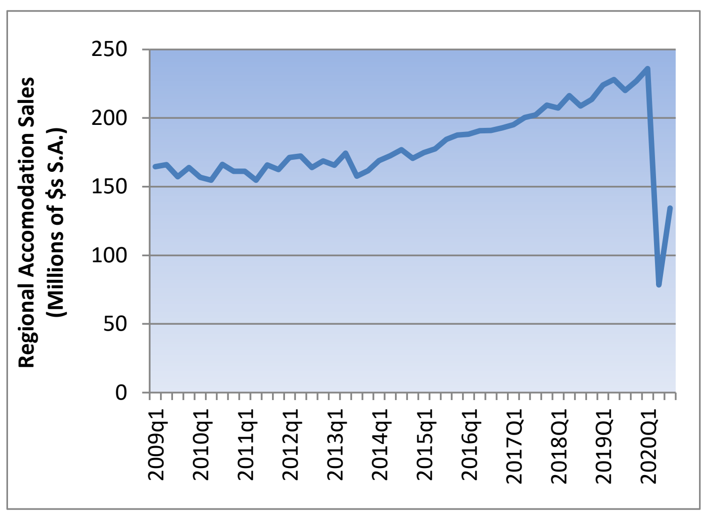


Source: Virginia Automobile Dealers Association, HRPDC

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 December were up compared to the previous month, representing significant YOY growth—December 2020 showed a 20% increase from December 2019.

Estimated Hotel Revenue, Seasonally Adjusted

Hampton Roads, 2009Q1 – 2020Q3, Quarterly

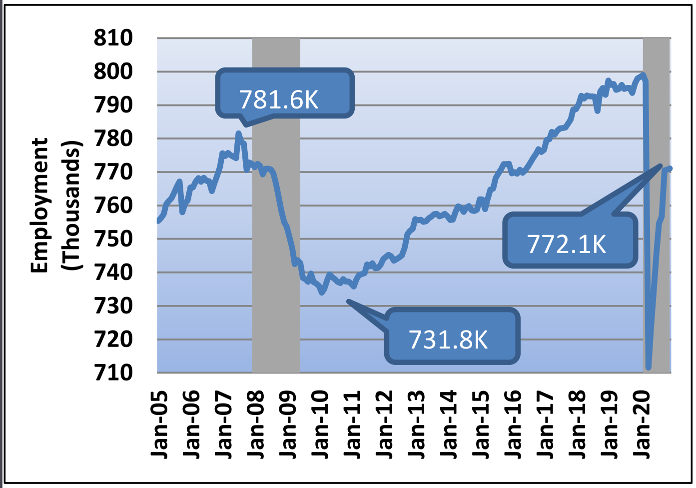


Source: Virginia Department of Taxation, HRPDC

Estimated Hotel Revenue: Hotel sales indicate the performance of the region's tourism sector. When seasonally adjusted, Q3 2020 hotel revenue saw improvement from the historic lows realized in Q2 due to pandemic-related closures. While there was a 71% increase in revenue from Q2 to Q3, this still represents a nearly 40% decline in year-over-year revenue.

Civilian Employment, Seasonally Adjusted

Hampton Roads, Jan 2005 – Dec 2020, Monthly

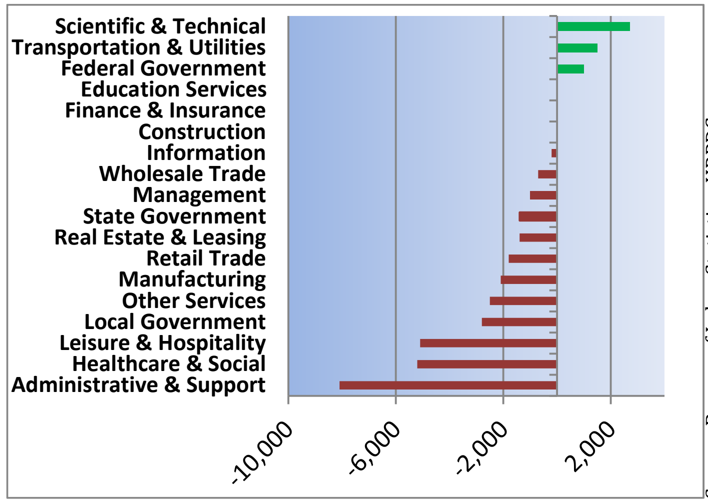


Source: Bureau of Labor Statistics, HRPDC

Employment: Non-agricultural civilian employment figures are considered the best estimate of labor market activity by the National Bureau of Economic Research. According to data from the Bureau of Labor Statistics, Hampton Roads employment increased by just .05% from November to December 2020, suggesting the economic recovery is continuing to stall during the winter months while COVID cases rose sharply. Virginia also saw minimal month-over-month job growth at .02% while the U.S. had 0.1% fewer jobs in December 2020 than November.

Employment Growth by Industry

Hampton Roads, Dec-19 to Dec-20, Year-over-Year

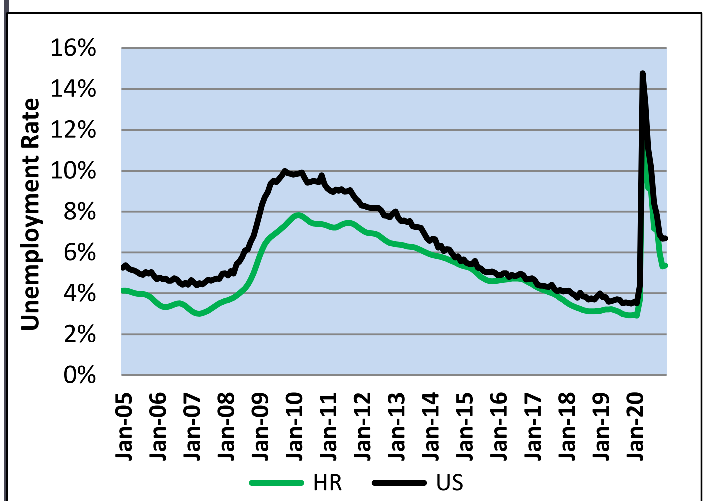


Source: Bureau of Labor Statistics, HRPDC

Employment Growth by Industry: As the job market grows or declines, there will be some industries whose experience does not resemble the regional trend. In December, almost every Hampton Roads industry experienced a decrease in year-over-year employment. Most significant was Administrative & Support, which continued to show an especially large decrease of 8,000 employees. The Healthcare industry lost 5,200 jobs compared to last year, while Leisure and Hospitality and Local Government lost 5,100 and 2,800 respectively.

Unemployment Rate, Seasonally Adjusted

U.S. & Hampton Roads, Jan 2005 – Dec 2020, Monthly

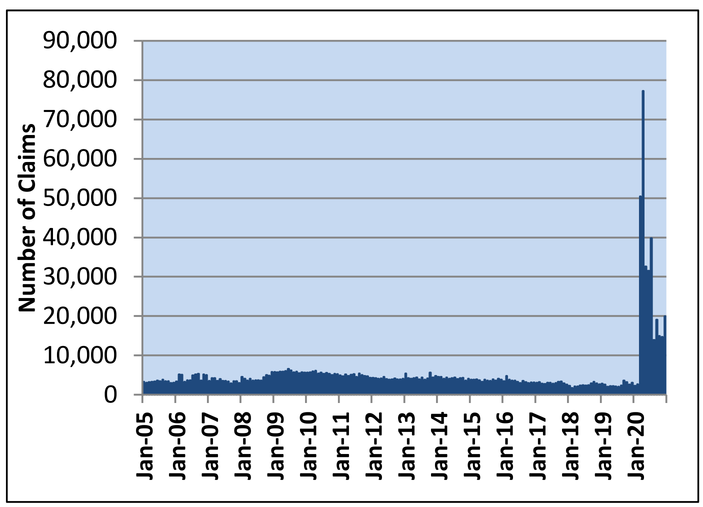


Source: Bureau of Labor Statistics, HRPDC

Unemployment Rate: The unemployment rate is the percentage of the population actively seeking work but unable to obtain a position. Hampton Roads' unemployment rate increased slightly from 5.32% in November to 5.36% in December, reflecting an increase in the number of unemployed residents coupled with an increase in the region's labor force. The unemployment rate in Hampton Roads continues to sit below the US rate, but above that of the Commonwealth.

Initial Unemployment Claims, Seasonally Adjusted

Hampton Roads, Jan 2005 – Dec 2020, Monthly

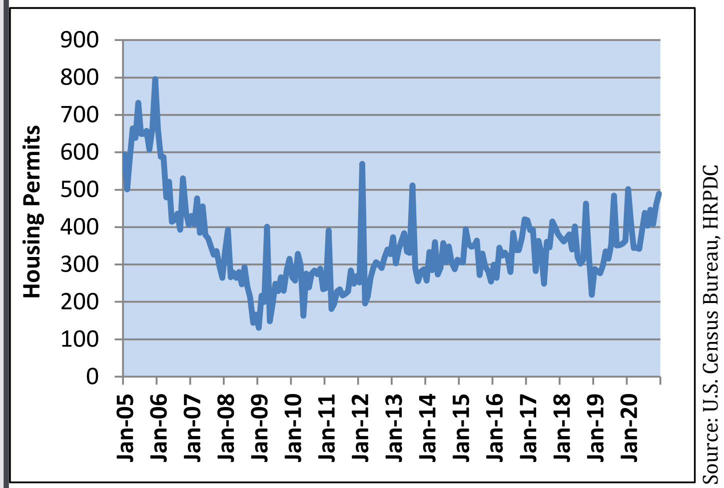


Source: Virginia Department of Labor, HRPDC

Initial Unemployment Claims: The number of initial unemployment claims is a leading economic indicator reflecting those who are forced to leave work unexpectedly, thus revealing the strength of the job market with little lag time. Seasonally adjusted unemployment claims in December of 2020 were nearly 20,000—a 36% increase from the previous month—unadjusted claims represented over 6,000 new claims from November to December.

Single Family Housing Permits, Seasonally Adjusted

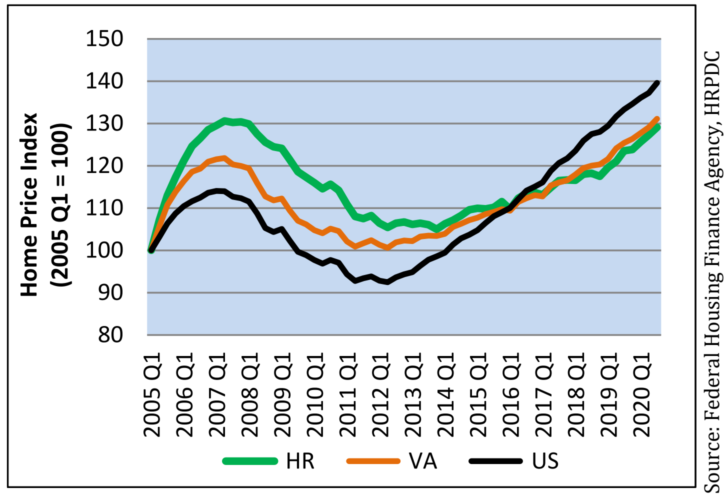
Hampton Roads, Jan 2005 – Dec 2020, Monthly



Single Family Housing Permits: Permit data signals the level of construction employment and confidence regarding the future trajectory of the local economy. The level of new construction permitting for single family homes in December 2020 increased to 431. When seasonally adjusted, the data shows a significant increase of 35% from December 2019. As the market continues to respond to COVID-19, this indicator will be watched closely.

Home Price Index, All Transactions

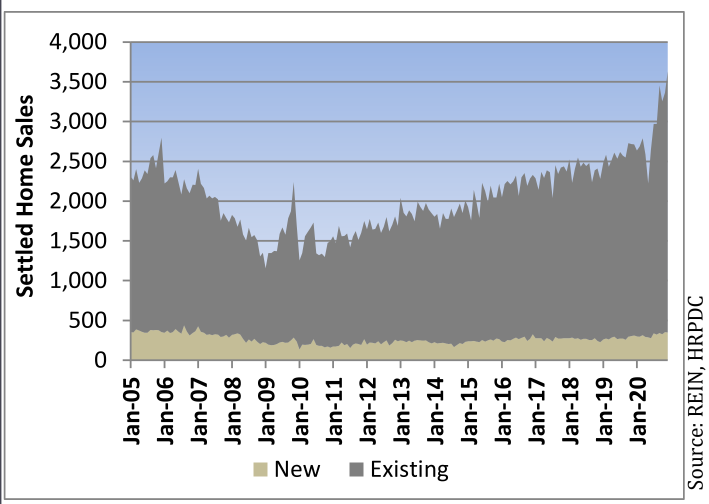
Hampton Roads, 2005Q1 – 2020Q3 Quarterly



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, yet again, by 4.5% over the previous year in Q3 2020, on par with both the state and the nation. Regional housing values remain slightly more than 1% below those experienced during the peak of the housing boom, but that gap continues to shrink rapidly.

Number of Homes Sold, Seasonally Adjusted

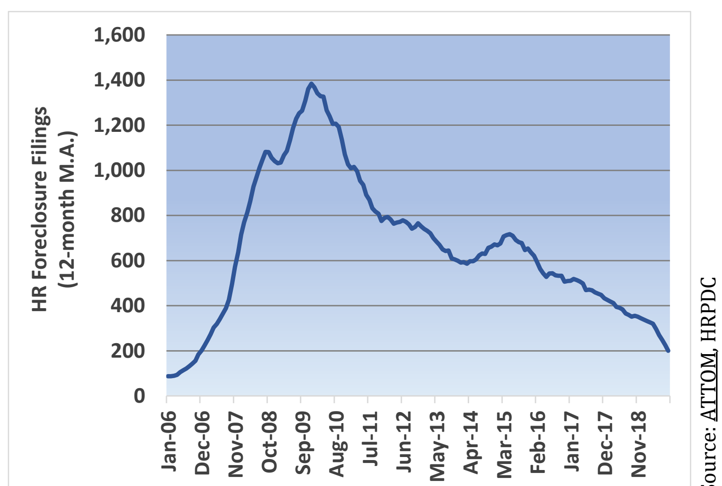
Hampton Roads, Jan 2005 – Dec 2020, Monthly



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. Seasonally adjusted, the levels of existing home and total settled sales in December were the highest on record, 33% greater than the same month in 2019. New construction sales for December represented roughly 10% of all sales.

Foreclosure Filings

Hampton Roads, Jan 2005 – Sep 2020 Monthly



Foreclosures: Foreclosures have a significant impact on the real estate market and community, depressing home values on a neighborhood and regional level. Zillow recently stopped providing data on distressed sales as a percentage of total sales in the region, so HRPDC has shifted to reporting on total monthly foreclosure filings in Hampton Roads. Total foreclosures in recent months have experienced a steep decline, likely due to the moratorium in Virginia.