HAMPTON ROADS PDC PLANNING DISTRICT COMMISSION

Hampton Roads Economic Monthly

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Hampton Roads 2016 Economic Forecast:

by Greg Grootendorst

The region's economy has languished over the past couple of years, struggling with uncertain prospects for the future and fighting against an outflow of federal spending. We are expecting more of the same for 2016.

Following the recession way back in 2001, the Hampton Roads economy was very strong. At that time, the region's incomes were rising, employment was up, and real estate was soaring. Then the Great Recession hit, and the region shed over 55,000 jobs. Two years after the start of the recession, the national economy began to rebound, and by April of 2014, the nation had recovered the number of jobs it lost during the recession. The story for Hampton Roads has been much different. At present, the region is down approximately 20,000 civilian jobs, and down another 20,000 military personnel from where we stood in 2007.

While the nation was able to work towards a sustained recovery following the recession, the Hampton Roads economy suffered numerous blows. We experienced repeated cuts in federal expenditures, cuts to military personnel, and a significant housing market correction all while under a shroud of budget uncertainty.

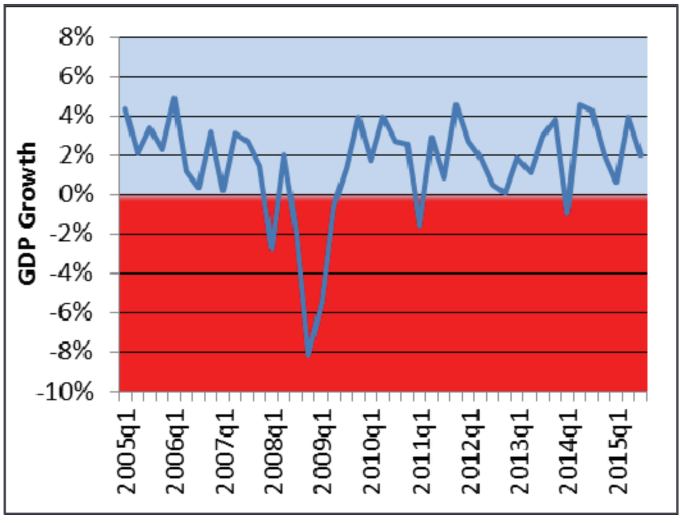
Over the past two years, however, the region has managed to fight against the outflow of federal dollars and work towards recovery. Growth in the region's tourism sector, as well as the construction, finance, and insurance industries, has resulted in positive gains in regional employment. While we expect some continued cuts to military personnel and contracting in the coming months, increased certainty with respect to federal expenditures, coupled with employment gains in non-defense sectors, will likely result in another year of hard fought growth in Hampton Roads.

Hampton Roads 2016 Economic Forecast

	2015 (Year to Date)	2016 Forecast
U.S.		
Real GDP	2.6%	2.5%
Interest Rates		
Short Government Rates	0.0%	0.7%
Long Government Rates	2.1%	2.7%
Hampton Roads		
Gross Product	NA	1.3%
Civilian Employment	0.8%	0.8%
Unemployment Rate	4.8%	4.7%
Retail Sales	3.6%	4.1%
Auto and Truck Sales	5.2%	4.5%
Value of Single-Family Residential Building Permits	7.6%	2.3%

GDP, Annualized Growth Rate

United States, 2005Q1 – 2015Q3, Quarterly

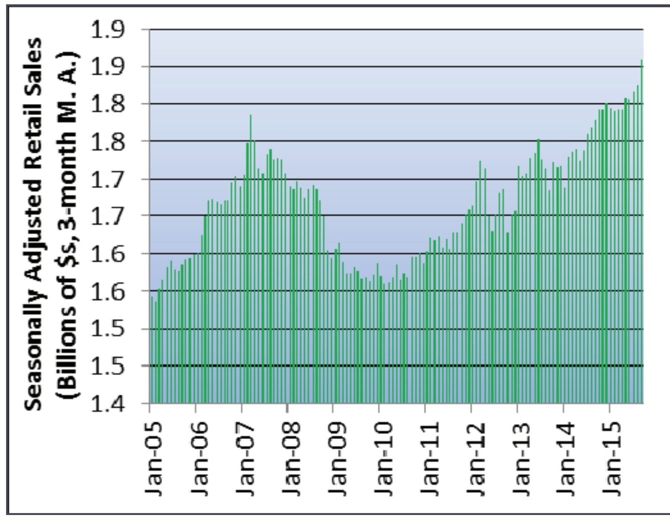


Source: Bureau of Economic Analysis, HRPDC

GDP: Gross Domestic Product combines consumption, investment, net exports, and government spending to determine the size and general health of the economy. GDP growth slowed significantly in the third quarter, falling to an annualized rate of 2.0% from the extremely high 3.9% pace of the second quarter. Fortunately, most of the decline was driven by shrinking inventories, and absent that impact, GDP would have proceeded at a 2.71% pace.

Hampton Roads Retail Sales, Seasonally Adjusted

Hampton Roads, Jan 2005– Nov 2015, 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. Since consumption composes 68% of economic activity in the U.S., the growth or decline of retail sales gives a strong indication of the direction of the local economy. Regional retail sales continued to move sideways in November, averaging $1.86B per month for the third month in a row. While this is 19.2% above the lows of the recession, this only represents 4.1% growth from the 2007 level of sales.

New Car Sales, Seasonally Adjusted

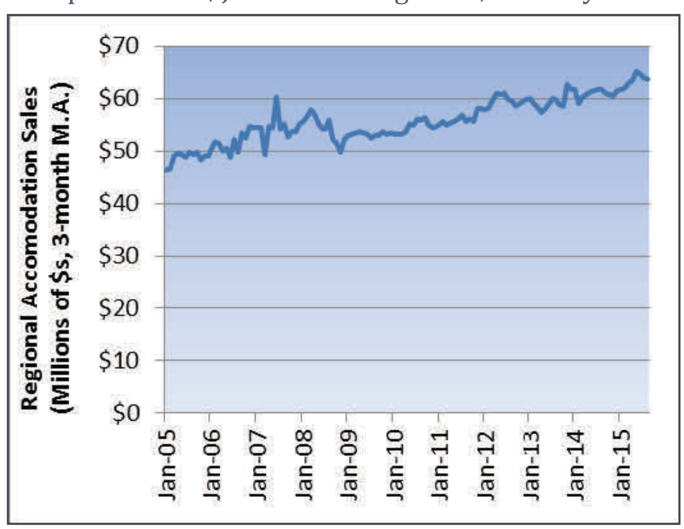
Hampton Roads, Jan 2005 – Nov 2015, Monthly

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. Hampton Roads' car sales have increased significantly in the past few months, and just above the region's long-term average. Lower gas prices have often been associated with higher levels of car sales, and may be playing a role in the current increase.

Estimated Hotel Revenue, Seasonally Adjusted

Hampton Roads, Jan 2005 – Aug 2015, Monthly

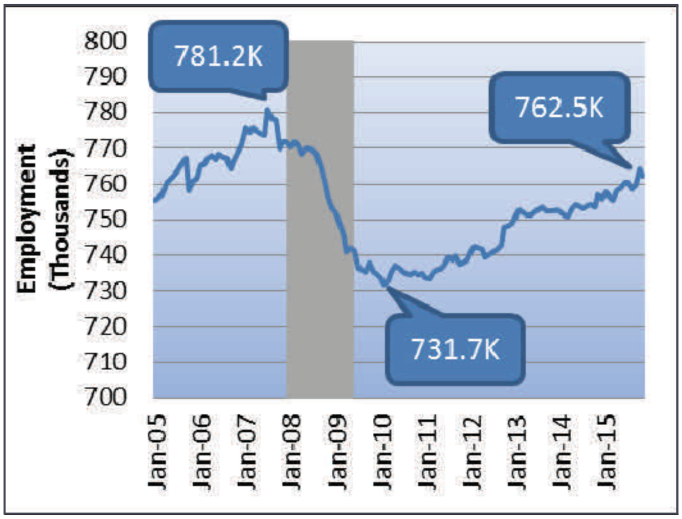


Source: HRPDC

Estimated Hotel Revenue: Hotel sales indicate the performance of the region's tourism sector. Tourism significantly contracted during the great recession and had followed a slow steady growth trend. This was interrupted again in 2012 as budget issues resulted in a decline in federal government travel. It is notable that while taxable hotel receipts are 15.2% above their prerecession level, tourism employment is only 3.5% above its level in 2007.

Civilian Employment, Seasonally Adjusted

Hampton Roads, Jan 2005 – Nov 2015, Monthly

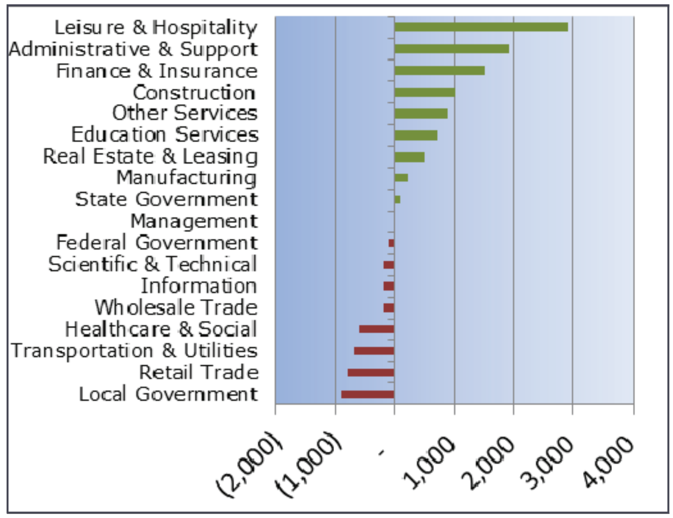


Source: Bureau of Labor Statistics, HRPDC

Employment: Non-agricultural civilian employment figures are considered the best estimate of labor market activity by the National Bureau of Economic Research. Overall, Hampton Roads has gained 1,900 jobs over the past four months, but this has included two months where employment contracted and two months where it expanded. The region continues to make fitful progress, but has yet to embark on a sustained recovery.

Employment Growth by Industry

Hampton Roads, Nov 2014 – Nov 2015, Year-over-Year

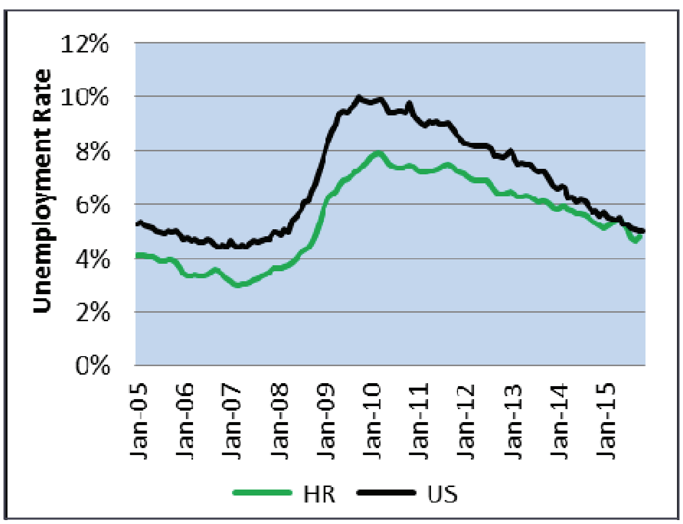


Source: Bureau of Labor Statistics, HRPDC

Employment Growth by Industry: Even as the job market grows or declines, there will be some industries whose experience does not resemble the regional trend. Local government employment continues to decline year-over-year, as the housing price correction continues to decrease local government revenue, increasing budget pressures. The decline in retail employment is surprising, as the region's taxable sales have increased significantly over the past year.

Unemployment Rate, Seasonally Adjusted

Hampton Roads, Jan 2005 – Nov 2015, Monthly

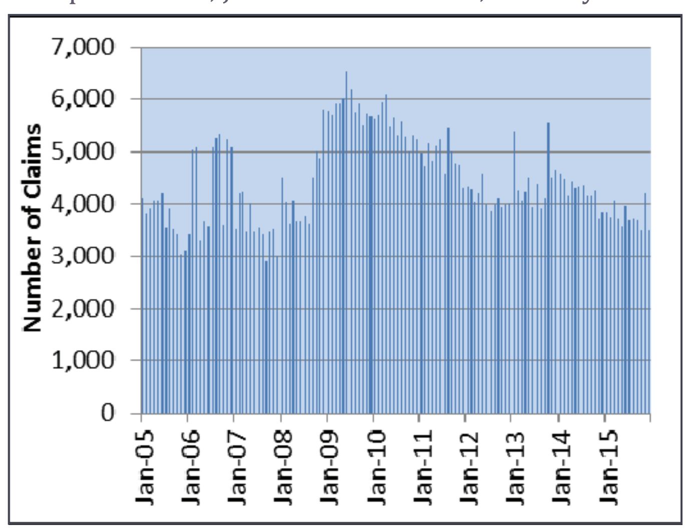


Source: Bureau of Labor Statistics, HRPDC

Unemployment Rate: The unemployment rate is the percentage of the population actively seeking work, but unable to obtain a position. The Hampton Roads unemployment rate declined significantly over the summer, but rose slightly to 4.8% in October, driven by a decline in employment and stable labor force participation. Virginia's labor force participation and employment grew in November, and hopefully that trend carries over to the Hampton Roads region.

Initial Unemployment Claims, Seasonally Adjusted

Hampton Roads, Jan 2005 – Dec 2015, Monthly

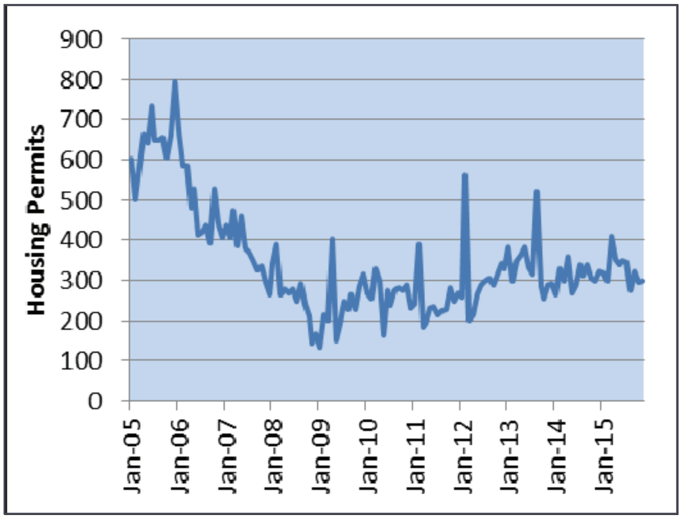


Source: Virginia Department of Labor, HRPDC

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. Regional unemployment claims have been highly variable recently, with unemployment due to layoffs, but are averaging 3,700 claims per month, 700 claims below their longterm average.

Single Family Housing Permits, Seasonally Adjusted

Hampton Roads, Jan 2005 – Nov 2015, Monthly

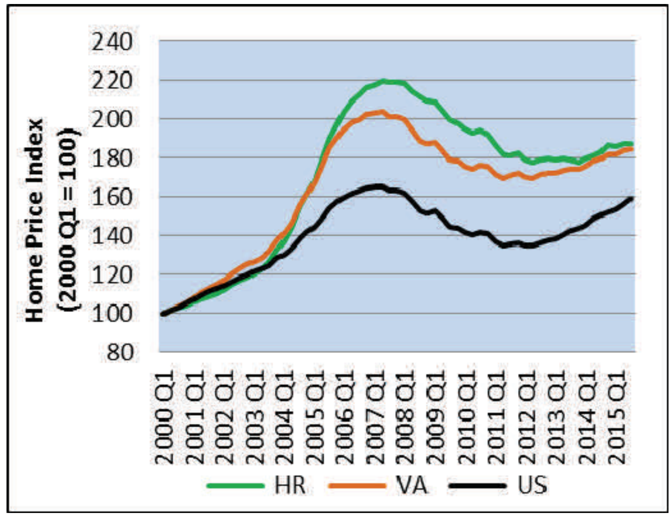


Source: U.S. Census Bureau, HRPDC

Single Family Housing Permits: Permit data signals the level of construction employment and confidence regarding the future trajectory of the local economy. Regionally, 297 single family housing permits were issued in November 2015, indicating that new residential construction continues to be extremely weak in the region. Until employment begins to expand strongly, construction will continue to lag in the region.

Home Price Index, All Transactions

U.S., VA., & Hampton Roads, 2000Q1 – 2015Q3, Quarterly

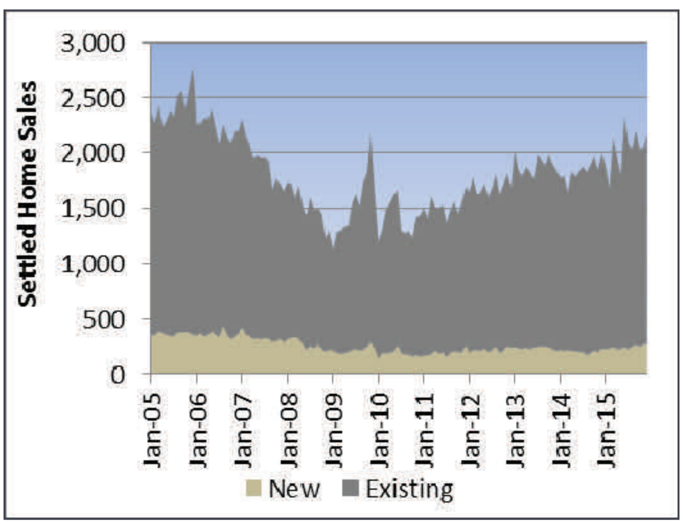


Source: Federal Housing Finance Agency, HRPDC

Home Price Index: The home price index measures the value of homes by seeing how the price has changed through different sales of the same property. The index provides the highest quality data available on the trends in the real estate market. Hampton Roads' real estate values began to increase rapidly in 2003, and continued through 2007. While the region experienced the same level of decline in housing prices as the Nation and the Commonwealth, it has yet to experience a similar recovery in home prices.

Number of Homes Sold, Seasonally Adjusted

Hampton Roads, Jan 2005 – Dec 2015, Monthly

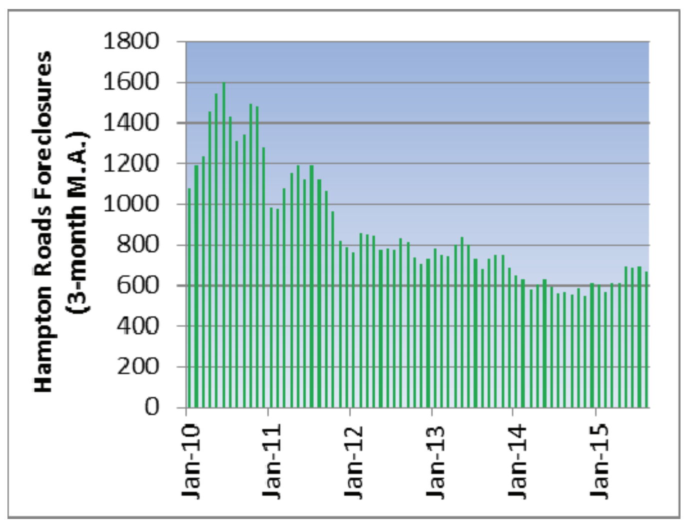


Source: REIN, HRPDC

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. Hampton Roads' real estate transactions were unnaturally elevated during the boom and dropped substantially during the housing correction. Recently, existing home sales have increased significantly, achieving levels not experienced since 2005. If home sales continue at these levels, it would allow for a higher level of construction regionally.

Foreclosures

Hampton Roads, Jan 2010 – Sep 2015, Monthly



Source: RealtyTrac, HRPDC

Foreclosures: Foreclosures have a significant impact on the real estate market and the community, and depress home values on both a neighborhood and regional level. Hampton Roads' foreclosure filings have fallen steadily throughout the recovery, but have increased recently, growing to 790 in September. Federal reserve data indicates as of September 2015 that 2.16% of owner-occupied homes were 90+ days past due in Hampton Roads, the second highest level in the state. Additionally, another 0.83% of homes regionally were in foreclosure.