

## Hampton Roads 2017 Economic Forecast:

It has been 9 years and 5 months since the Hampton Roads region first began to feel the effect of the Great Recession. In the first 3 years following the onset of the recession, the region lost 48,000 civilian jobs and 11,000 military personnel. While 33,500 civilian jobs have returned to the Hampton Roads economy, the military has shed an additional 9,500 personnel.

In recent years, the Hampton Roads economy has struggled with the housing market correction, budget uncertainty in Washington, and a significant contraction in federal investment. As a result, private-sector civilian job growth has experienced a very slow recovery and remains 1.8% below pre-recession peak employment.

While regional economic headwinds will persist into 2017, we expect the Hampton Roads economy to continue to expand at a moderate pace. A 2.1% pay increase for military personnel (the largest in 7 years), coupled with continued growth in the national economy, low energy prices, and strong consumer spending will help fuel tempered growth in the regional economy.

Increasing mortgage rates will suppress already tepid growth in home prices across the region, while slow increases in employment will continue to limit the value and number of building permits. The unemployment rate is likely to experience little change, as employment growth will be offset by growth in the region's labor force.

Changing priorities in Washington could have a significant impact on the region in the coming years, especially if Congress acts on the Pentagon's request to grow the U.S. naval fleet from 273 to 355 ships.

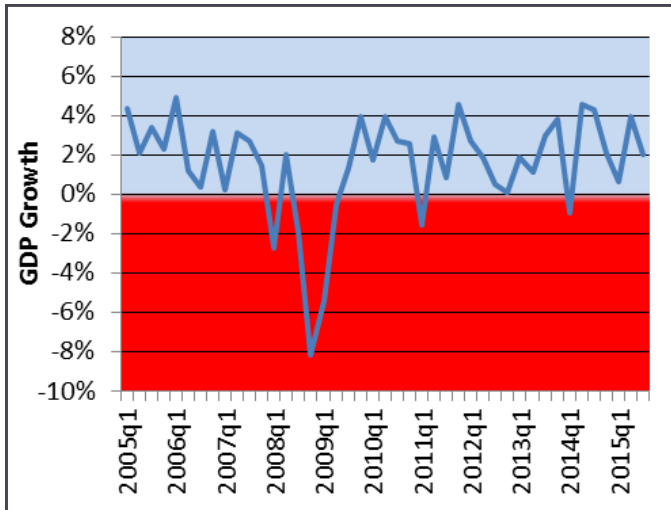
The Hampton Roads economy has languished since the onset of the Great Recession, however, the region continues to measure favorably when compared to similar-sized metropolitan areas across a host of socioeconomic indicators. Continued growth in the face of adversity will help build a more resilient economy for the region's future.

## Hampton Roads 2017 Economic Forecast

	2016 (Year to Date)	2017 Forecast
<b>U.S.</b>		
Real GDP	1.6%	2.4%
Interest Rates		
Short Government Rates	0.3%	0.8%
Long Government Rates	1.9%	2.7%
<b>Hampton Roads</b>		
Gross Product	NA	1.3%
Civilian Employment	0.5%	1.0%
Unemployment Rate	4.6%	4.7%
Retail Sales	1.6%	2.8%
Auto and Truck Sales	0.9%	-1.0%
Value of Single-Family Residential Building Permits	-2.4%	0.5%

## GDP, Annualized Growth Rate

United States, 2005Q1 – 2016Q3, Quarterly

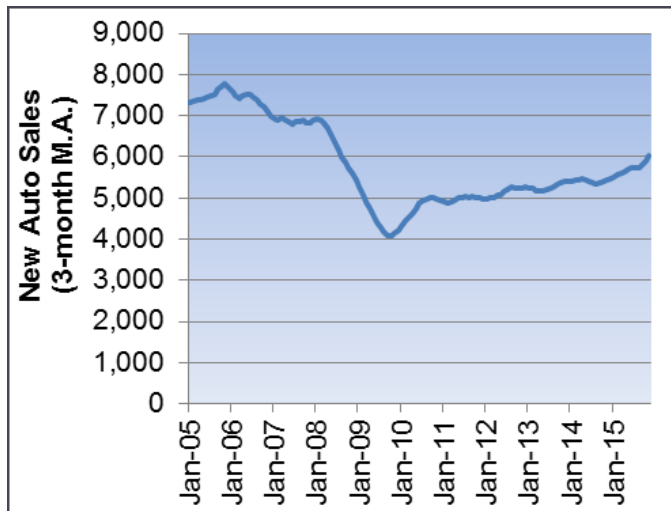


Source: Bureau of Economic Analysis, HRPDC

**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 an extremely high 3.9% pace in the second quarter. Fortunately, most of the decline was driven by shrinking inventories. Absent that impact, GDP would have proceeded at a 2.71% pace.

## New Car Sales, Seasonally Adjusted

Hampton Roads, Jan 2005 – Nov 2016, Monthly

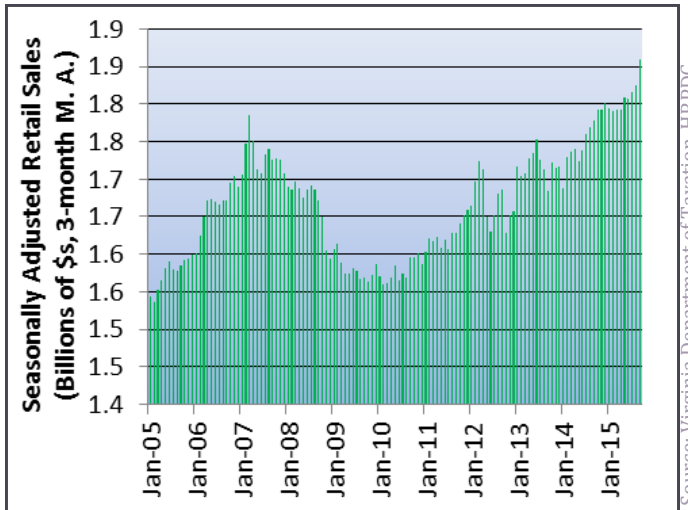


Source: Virginia Automobile Dealers Association, HRPDC

**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, increasing to 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.

## Hampton Roads Retail Sales, Seasonally Adjusted

Hampton Roads, Jan 2005– Nov 2016, Monthly

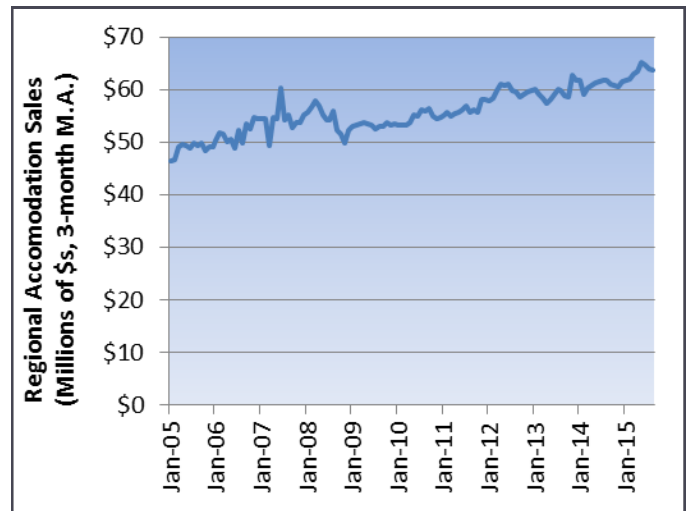


Source: Virginia Department of Taxation, HRPDC

**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 remained unchanged 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.

## Estimated Hotel Revenue, Seasonally Adjusted

Hampton Roads, Jan 2005 – Aug 2016, Monthly

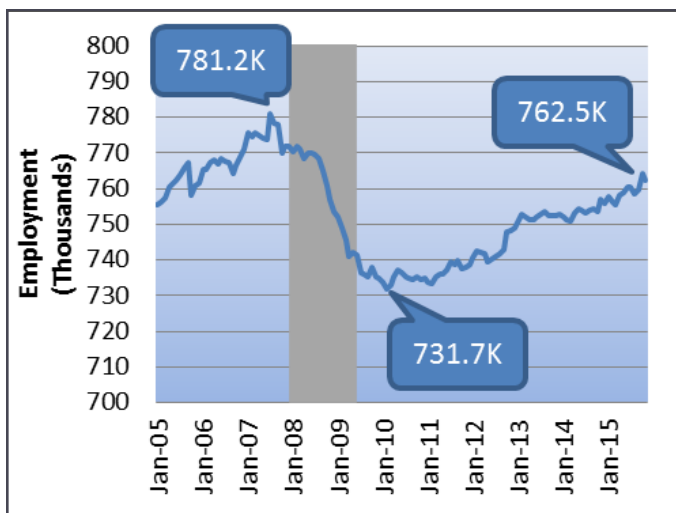


Source: HRPDC

**Estimated Hotel Revenue:** Hotel sales indicate the performance of the region's tourism sector. Tourism significantly contracted during the Great Recession and followed a slow but 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

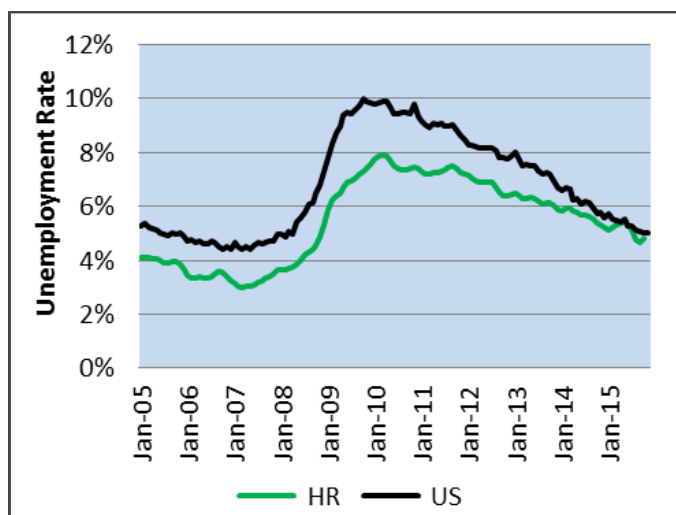
Hampton Roads, Jan 2005 – Nov 2016, Monthly



**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 includes 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.

## Unemployment Rate, Seasonally Adjusted

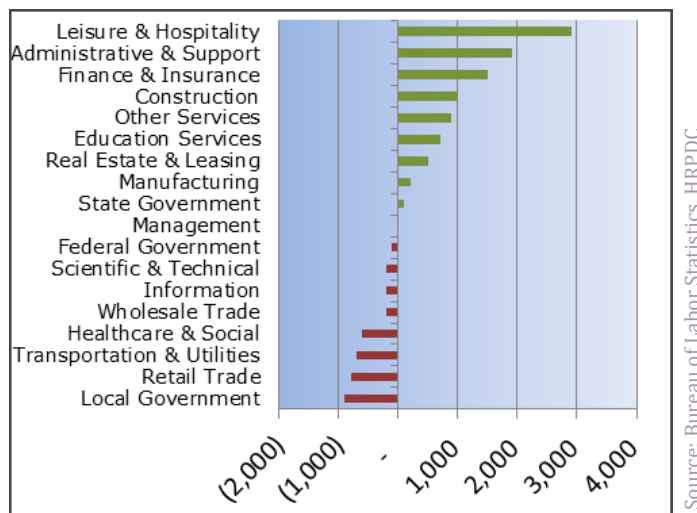
Hampton Roads, Jan 2005 – Nov 2016, Monthly



**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.

## Employment Growth by Industry

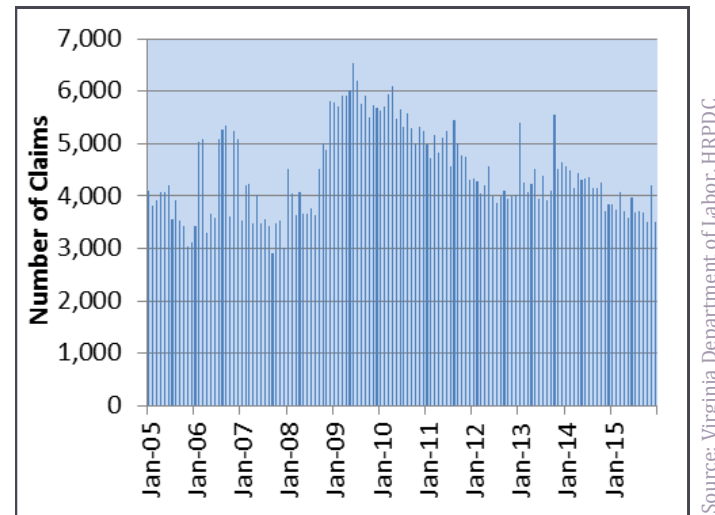
Hampton Roads, Nov 2015 – Nov 2016, Year-over-Year



**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.

## Initial Unemployment Claims, Seasonally Adjusted

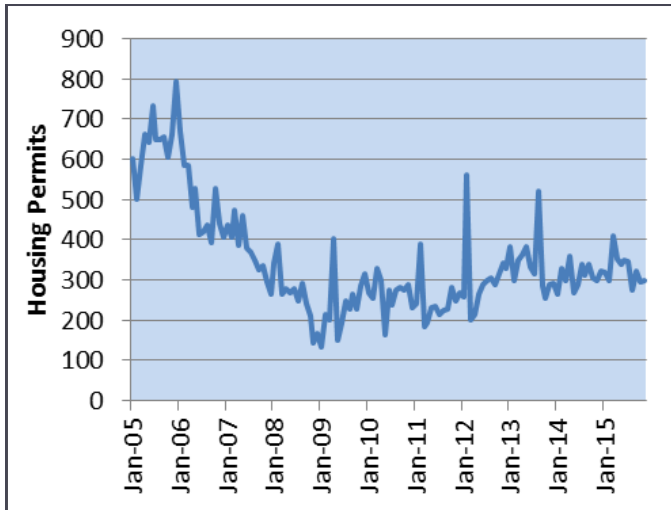
Hampton Roads, Jan 2005 – Dec 2016, Monthly



**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 long-term average.

### Single Family Housing Permits, Seasonally Adjusted

Hampton Roads, Jan 2005 – Nov 2016, Monthly

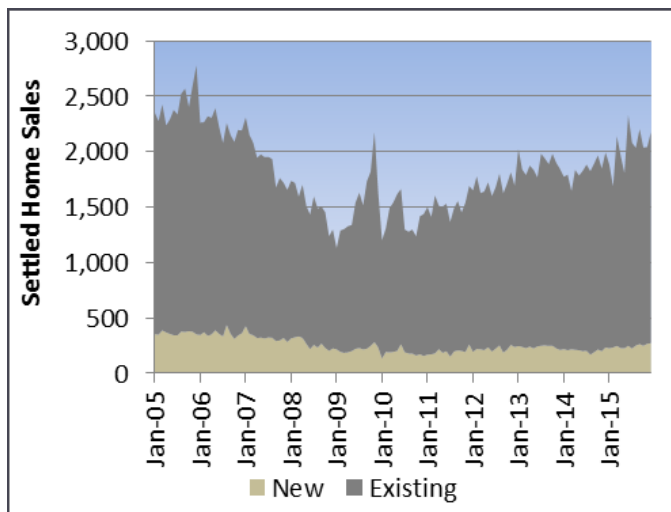


Source: U.S. Census Bureau, HRPDC

**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 rise, construction will continue to lag in the region.

### Number of Homes Sold, Seasonally Adjusted

Hampton Roads, Jan 2005 – Dec 2016, Monthly

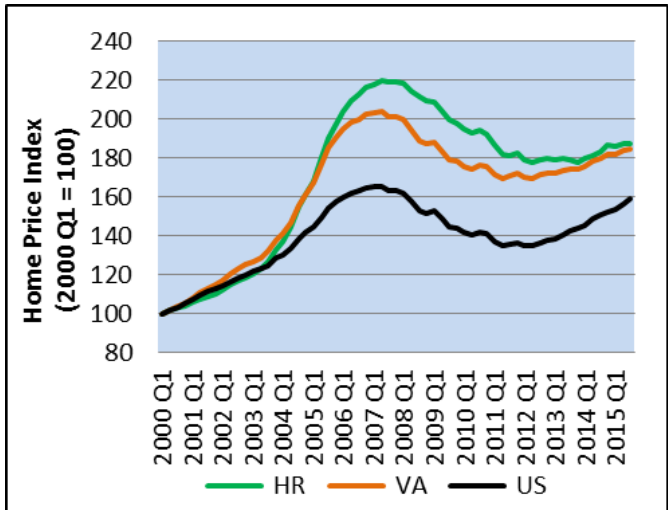


Source: REIN, HRPDC

**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.

### Home Price Index, All Transactions

U.S., VA., & Hampton Roads, 2000Q1 – 2016Q3, Quarterly

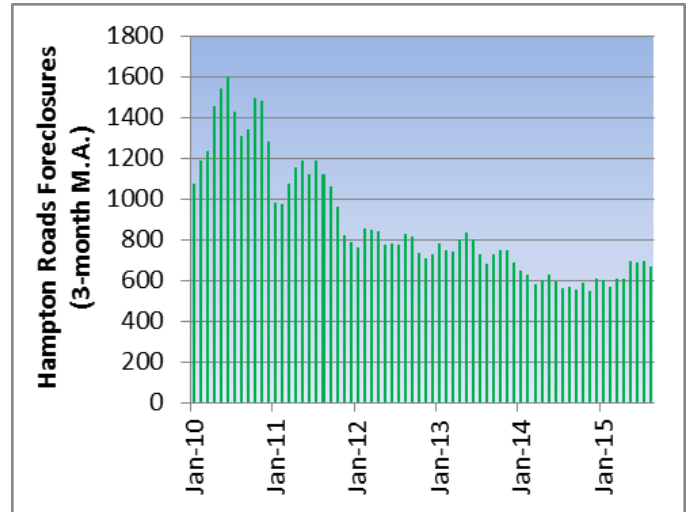


Source: Federal Housing Finance Agency, HRPDC

**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.

### Foreclosures

Hampton Roads, Jan 2010 – Sep 2016, 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.