

Hampton Roads 2018 Economic Forecast

It has now been over a decade since Hampton Roads first began to feel the effects of the Great Recession. In the first three years following the recession, the region lost 48,000 civilian jobs and 11,000 military personnel. The region remains well below pre-recession employment levels, down 17,600 civilian employees and 24,400 military personnel.

The Hampton Roads economy has struggled to gain footing in recent years as ongoing uncertainty in Washington, D.C. has exacerbated the impact of reduced federal expenditures and cuts to the region's military personnel. As a result, private sector civilian job growth has experienced a slow recovery and remains 1.9 percent below its pre-recession peak.

While regional economic headwinds will persist into 2018, we expect the Hampton Roads economy to continue to expand at a moderate pace of 1.3 percent. Continued growth in the national economy, stronger consumer expenditures, and low energy prices will yield growth for the region's economy, albeit at a tepid pace.

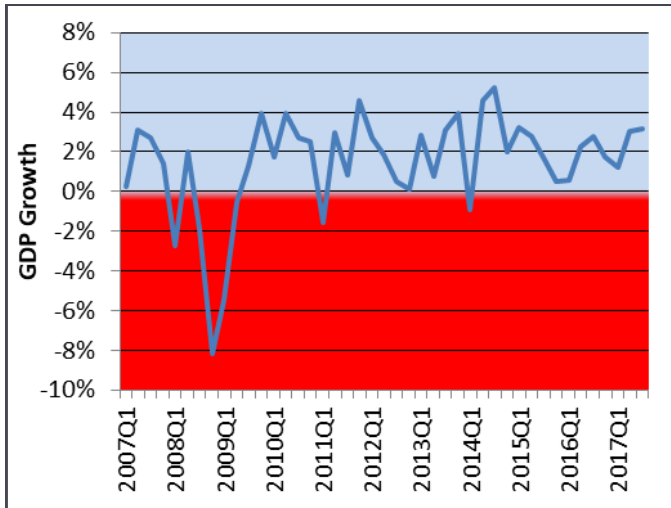
Changing priorities in Washington could have a significant impact on the region in coming years, especially in 2019 and beyond. Commitments to the Norfolk Naval Shipyard and to Newport News Shipbuilding bode well for longer-term employment growth in Hampton Roads. In the meantime, labor force expectations remain conservative, with expected civilian employment growth at 1 percent.

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	2017 (Year to Date)	2018 Forecast
U.S.		
Real GDP	2.3%	2.8%
Interest Rates		
Short Government Rates	1.0%	1.8%
Long Government Rates	2.3%	2.8%
Hampton Roads		
Gross Product	NA	1.3%
Civilian Employment	-0.3%	1.0%
Unemployment Rate	4.3%	4.2%
Retail Sales	2.8%	2.7%
Auto and Truck Sales	-5.1%	-1.8%
Value of Single-Family Residential Building Permits	16.2%	2.0%

GDP, Annualized Growth Rate

United States, 2007Q1 – 2017Q3, 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 grew at a 3.2% annualized rate in the third quarter, continuing from strong growth of 3.1% in the second quarter. The most important news for Hampton Roads results from a 2.4% expansion in national defense expenditures between the second and third quarter. National defense spending increased over two consecutive quarters for the first time since 2011.

New Car Sales, Seasonally Adjusted

Hampton Roads, Jan 2007 – Nov2017, Monthly

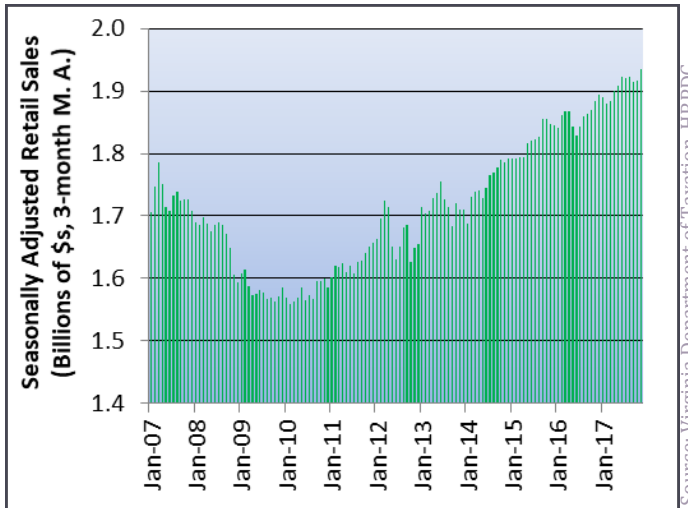


Source: Virginia Automobile Dealers Association, HRPDC

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 remain at or below the region's long-term average of 5,994, with the 6-month average hovering around 5,820 in November 2017. However, month-to-month volatility remains high.

Hampton Roads Retail Sales, Seasonally Adjusted

Hampton Roads, Jan 2007– Nov2017, Monthly

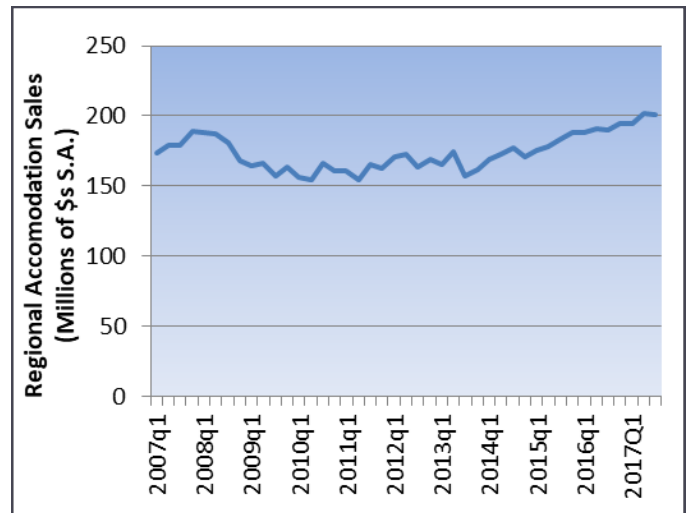


Source: Virginia Department of Taxation, HRPDC

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 significantly to \$1.94B in November 2017 (seasonally adjusted 3-month average). Retail sales have increased by 2.8% year-over-year and increased significantly over the previous month, indicating either holiday shopping occurred early this year or strong retail growth in the regional economy.

Estimated Hotel Revenue, Seasonally Adjusted

Hampton Roads, 2007Q1 – 2017Q3, Quarterly

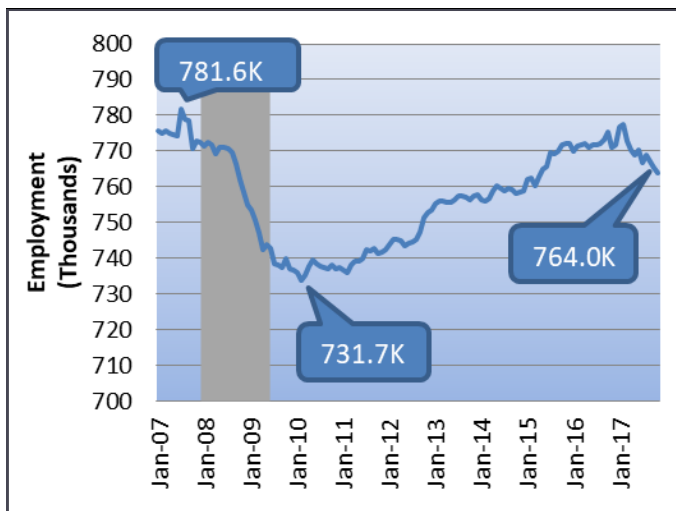


Source: HRPDC

Estimated Hotel Revenue: Hotel sales indicate the performance of the region's tourism sector. Tourism significantly contracted during the Great Recession, but had followed a slow and steady growth trend since 2014. Revenues in the third quarter of 2017 did fall to \$201 million, from \$202 million in the second quarter (seasonally adjusted), however this drop is likely just indicative of the strength of the second quarter (particularly June) rather than weakness in the third quarter.

Civilian Employment, Seasonally Adjusted

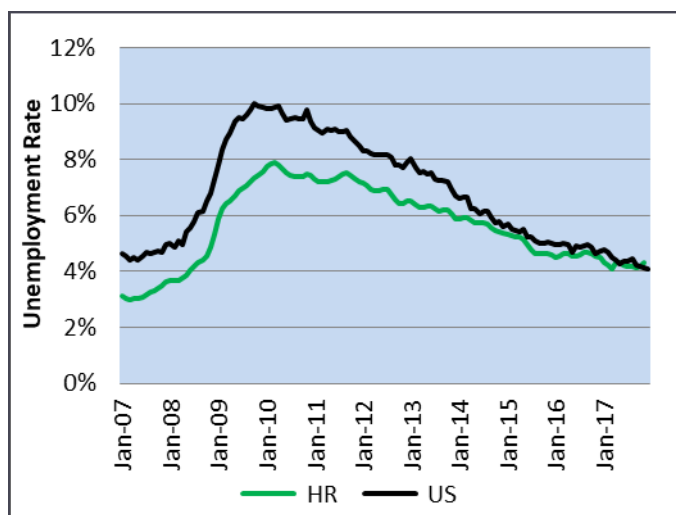
Hampton Roads, Jan 2007 – Nov 2017, Monthly



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 764,000 in November 2017 from 765,300 in October 2017. Regionally, employers have shed 6,900 position over the past year, and regional employment remains 17,600 jobs below the levels in the summer 2007.

Unemployment Rate, Seasonally Adjusted

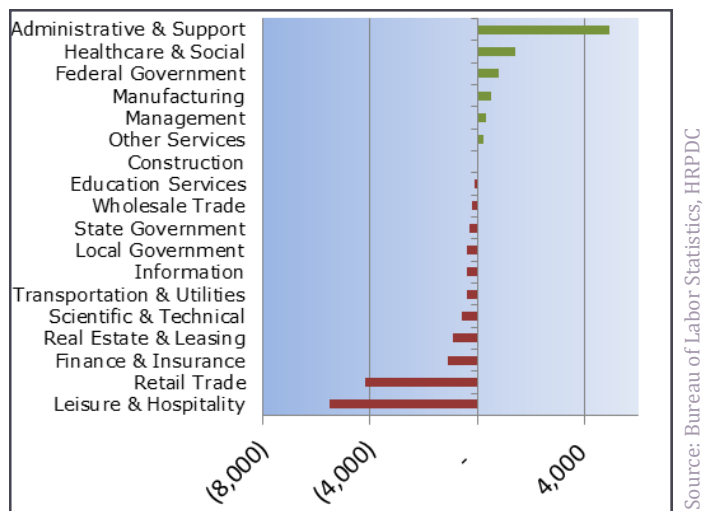
Hampton Roads and U.S, Jan 2007 – Nov 2017, Monthly



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 to 4.32% in November 2017, likely the result of declining employment as the regional labor force also declined throughout this period. Taken with the employment data, this indicates extreme weakness in the regional labor market, but is inconsistent with other indicators.

Employment Growth by Industry

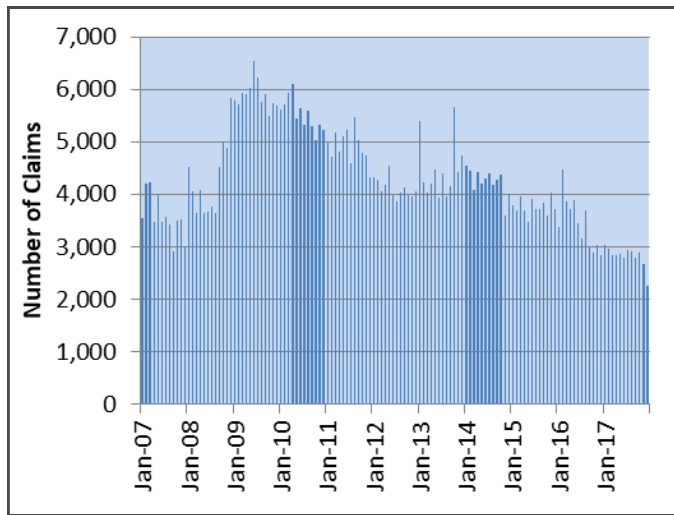
Hampton Roads, Nov 2016 – Nov 2017, Year-over-Year



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 and leisure & hospitality 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.

Initial Unemployment Claims, Seasonally Adjusted

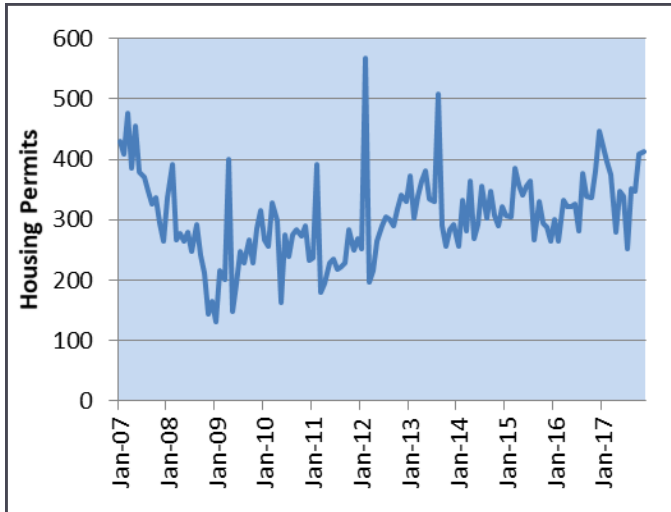
Hampton Roads, Jan 2007 – Dec 2017, Monthly



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. The region's initial unemployment claims dropped down to 2,243 in December 2017. This was the 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 – Nov 2017, Monthly

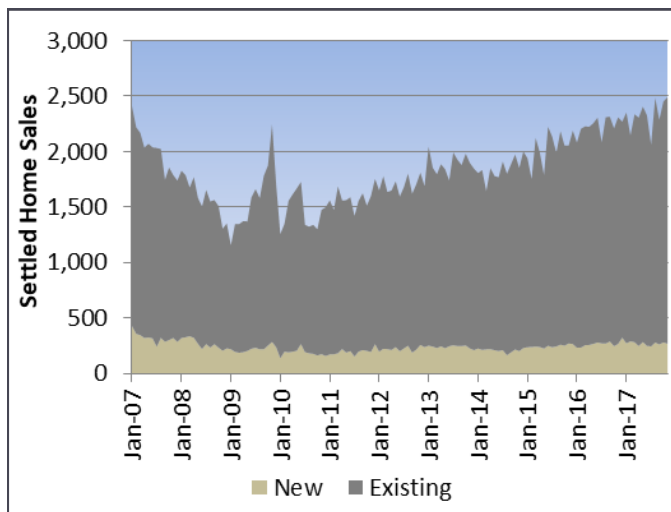


Source: U.S. Census Bureau, HRPDC

Single Family Housing Permits: Permit data signals the level of construction employment and confidence regarding the future trajectory of the local economy. Single family permits inched up to 413 units in November 2017 (seasonally adjusted). The region continues to lag below the long-term average of 453 single family permits per month, but this is the strongest month for single family permitting since last January.

Number of Homes Sold, Seasonally Adjusted

Hampton Roads, Jan 2007 – Nov 2017, Monthly

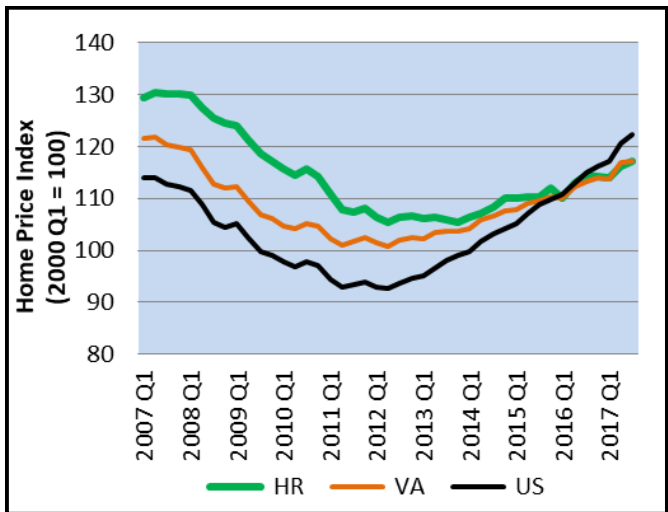


Source: REIN, HRPDC

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. Existing home sales increased to 2,223 in November 2017, the highest level since the recession, and continuing a four-month period of higher closings. This indicates a healthy real estate market, though new construction sales have not increased at a similar rate.

Home Price Index, All Transactions

Hampton Roads, 2007Q1 – 2017Q23 Quarterly

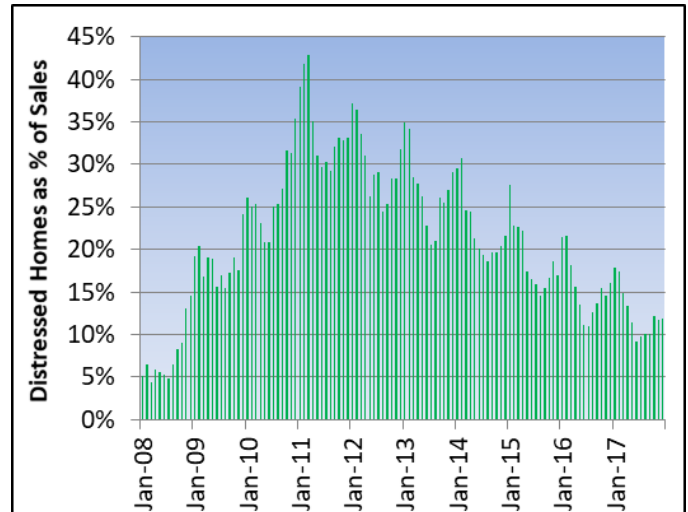


Source: Federal Housing Finance Agency, HRPDC

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 in the third quarter of 2017, and are 2.26% above the price levels last year. This growth rate is 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



Source: REIN, Old Dominion Forecasting Project, 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. Distressed homes' share of total sales has particularly been shown to have an impact on the sale price of existing homes. The dataset provided by REIN and analyzed by Old Dominion indicates a sharp rise in distressed properties (REO and Short Sales) were almost 45 percent of closings. Distressed sales have declined since the recession, but still represented 12.8% of Sales in December.