

The Outlook is Warm, but Clouds are on the Horizon

2018 was a good year for the Hampton Roads economy. This past April, the region finally returned to its pre-recession level of civilian employment, ten years and ten months after the Great Recession first hit the region in August 2007. By comparison, both the nation and the state returned to pre-recession levels of employment in 2014, four years before Hampton Roads' recovery. Over the past year, Hampton Roads' employment has realized an increase of 13,000 jobs, the region's labor force has expanded by 16,000 people, and the unemployment rate has dipped down to 3.0%. Hampton Roads' retail sales are up 3.3%, and the region's housing market continues to improve with growth in residential construction accompanied by increasing home prices.

The good news is that 2019 is shaping up to be an even better year. The departments of Defense, Labor, Education, Energy, Veterans Affairs, and Health and Human Services are fully funded through September 2019. DoD funding has provided a degree of certainty for the region's significant defense presence, including a 2.6% increase in military pay (the largest increase in nine years). Employment growth in the Scientific & Technical, Leisure & Hospitality, and Manufacturing, and Real Estate industries are expected to continue. Continued low energy prices coupled with higher wages (fueled by low unemployment and strong corporate profits) should result in increased consumer spending.

Unfortunately there are clouds on the horizon. A divided government has resulted in the longest partial government shutdown in U.S. history. Federal departments including Homeland Security (which includes the Coast Guard, FEMA, TSA, and ICE), Justice, State, and Treasury, and agencies including NASA and the EPA were shutdown on December 22nd, and remain closed as of publication. The debt ceiling expires March 1, 2019, and currently funded appropriation bills expire in September 2019, both of which could pose further spending challenges for Congress. Global trade tensions, economic cooling in the EU and China, rising interest rates, large government deficits, and a growing risk of a national recession reveal significant concerns that will become more pressing this year.

Assuming that the partial government shutdown ends soon, our forecast for the Hampton Roads economy in 2019 is relatively bright. With so much looming on the horizon, the extended forecast for 2020 and beyond is less optimistic.

2019 HRPDC Regional Economic Forecast

	2018	2019
(Year to Date)		Forecast

U.S.

Interest Rates

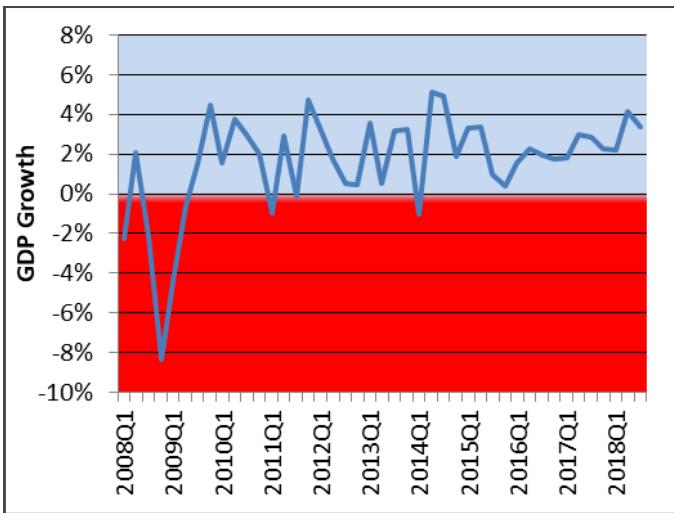
Short Government Rates	2.0%	2.8%
Long Government Rates	2.9%	3.3%

Hampton Roads

Gross Product	NA	2.2%
Civilian Employment	0.6%	1.2%
Unemployment Rate	3.3%	3.2%
Retail Sales	3.3%	3.4%
Auto and Truck Sales	-1.3%	-0.9%
Value of Single-Family Residential Building Permits	2.6%	3.0%

GDP, Annualized Growth Rate

United States, 2008Q1 – 2018Q3, Quarterly

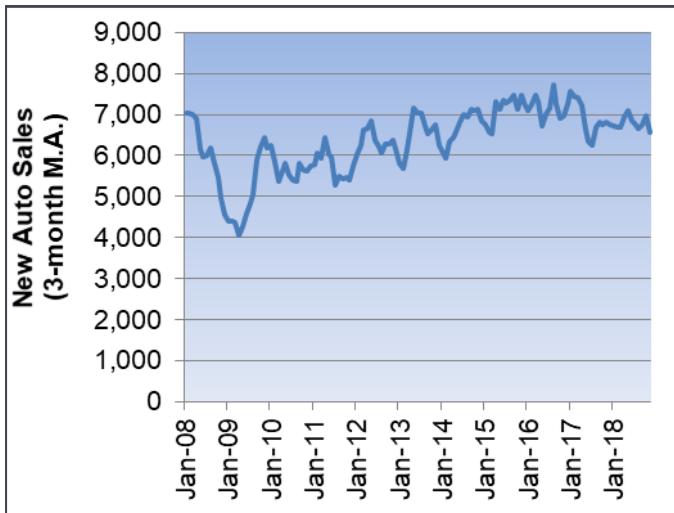


Source: Bureau of Economic Analysis, HRPDC

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 by 3.4% in Q3 2018, and though this was a slight decline from the growth in the Q2 (4.1%), this remains very strong growth. Consumer spending grew 3.5% in the 3rd quarter, and contributed significantly to the expanding economy. Additionally, national defense spending increased for the fourth consecutive quarter.

New Car Sales, Seasonally Adjusted

Hampton Roads, Jan 2007 – Nov 2018, Monthly

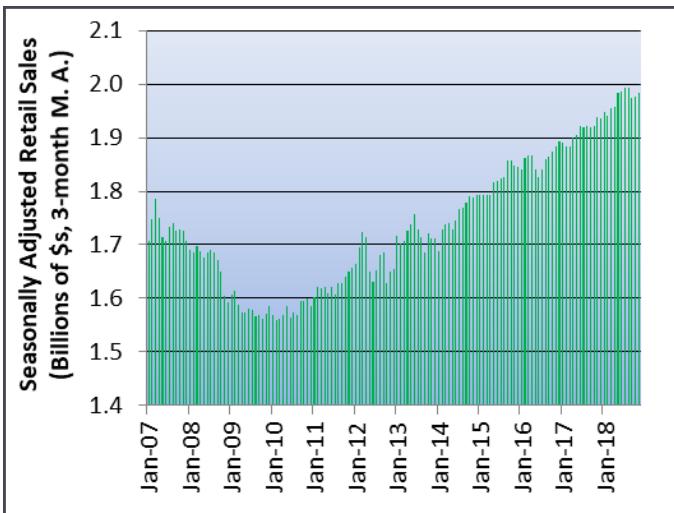


Source: Virginia Automobile Dealers Association, HRPDC

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. Car sales decreased to 5,722 on a seasonally adjusted basis in November 2018, and the decrease in the level of car sales has been a significantly negative indicator this month.

Hampton Roads Retail Sales, Seasonally Adjusted

Hampton Roads, Jan 2007– Nov 2018, Monthly

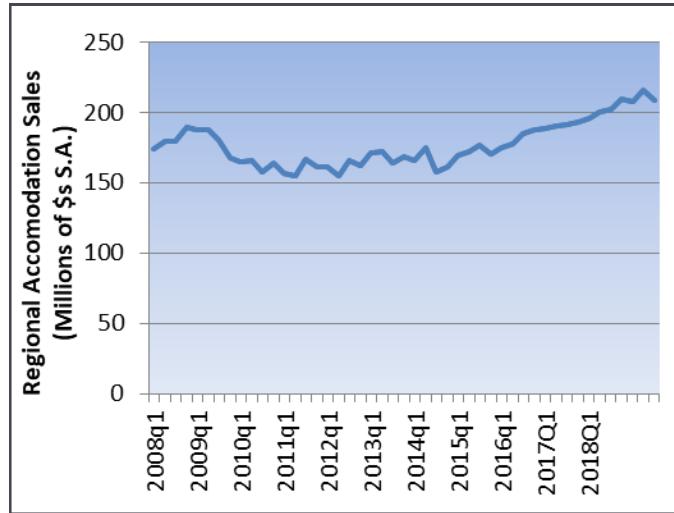


Source: Virginia Department of Taxation, HRPDC

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 grew slightly to \$1.9 Billion in November 2019 (seasonally adjusted 3-month average), and regional sales have grown 11.2% above pre-recession highs and 27.3% higher than the recession lows. In 2018, August sales grew 4.6% higher than they were in 2017, proving to be a strong month for the start of holiday sales.

Estimated Hotel Revenue, Seasonally Adjusted

Hampton Roads, 2007Q1 – 2018Q3, Quarterly

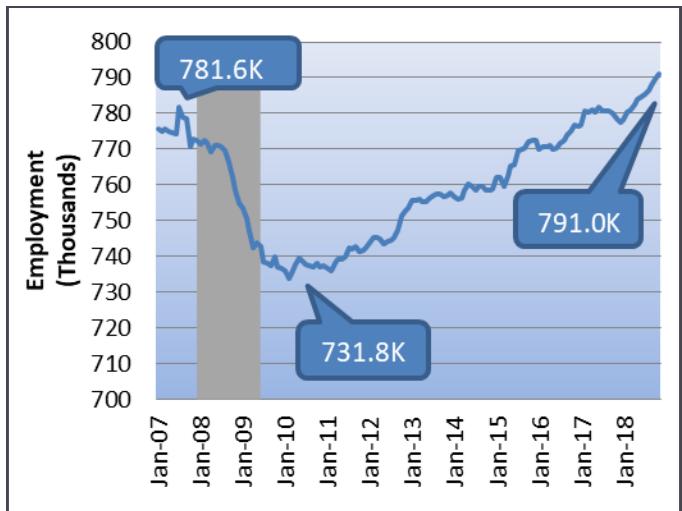


Source: Virginia Department of Taxation, HRPDC

Estimated Hotel Revenue: Hotel sales indicate the performance of the region's tourism sector. In Q3 2018, accommodation sales decreased by 3.32% on a seasonally adjusted basis, declining to \$209B. This decline needs some context, after following an extremely strong Q2 when sales increased by 3.88% quarter-over-quarter. Sales were an impressive 8.2% increase year-over-year. There seems to be improvement in accommodation sales regionally outside of tourism season.

Civilian Employment, Seasonally Adjusted

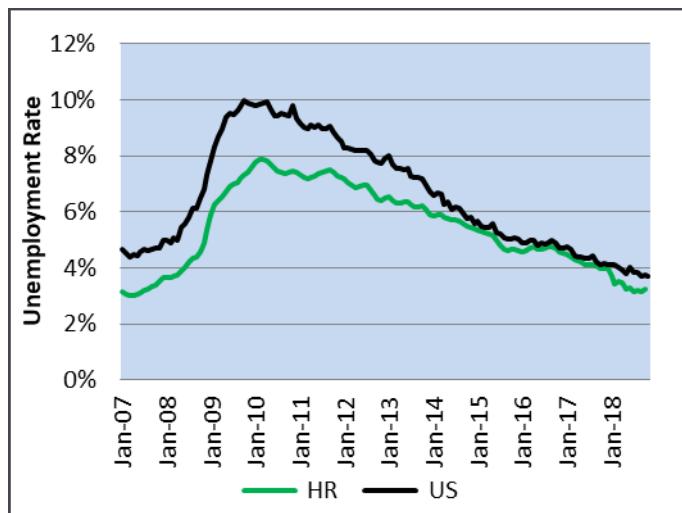
Hampton Roads, Jan 2007 – Nov 2018, Monthly



Employment: Non-agricultural civilian employment figures are considered the best estimate of labor market activity by the National Bureau of Economic Research. Hampton Roads' employment continued to grow in November 2018, increasing to 791,000 jobs, an increase of 1,300. November marked the eleventh consecutive month of growth, and the region has added 13,700 jobs since the end of 2017 (+1.76%). Over those eleven months, the region outpaced the national growth rate (+1.54%), but lagged behind Virginia's (+1.90%).

Unemployment Rate, Seasonally Adjusted

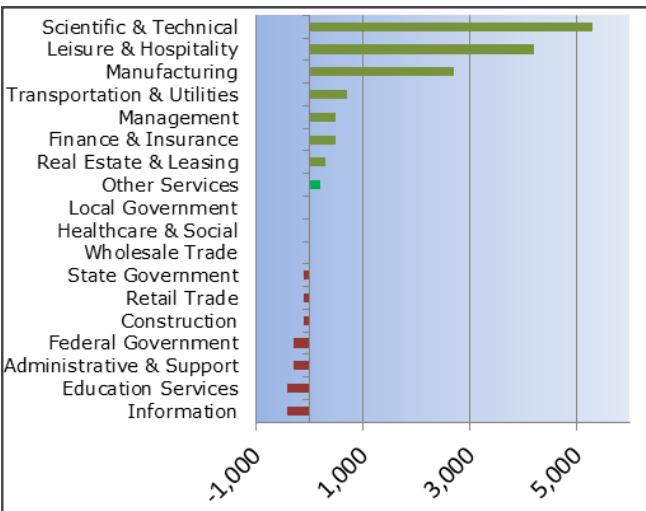
Hampton Roads and U.S., Jan 2007 – Nov 2018, Monthly



Unemployment Rate: The unemployment rate is the percentage of the population actively seeking work, but unable to obtain a position. Hampton Roads' unemployment rate remained essentially flat in November 2019, at 3.24%. Additionally, the labor force as well as the number of those employed and unemployed remained unchanged in November (seasonally adjusted). On the other hand, year-over-year, labor force increased by 26,000 and employment by 34,200, which led to the significant decline in unemployment rate.

Employment Growth by Industry

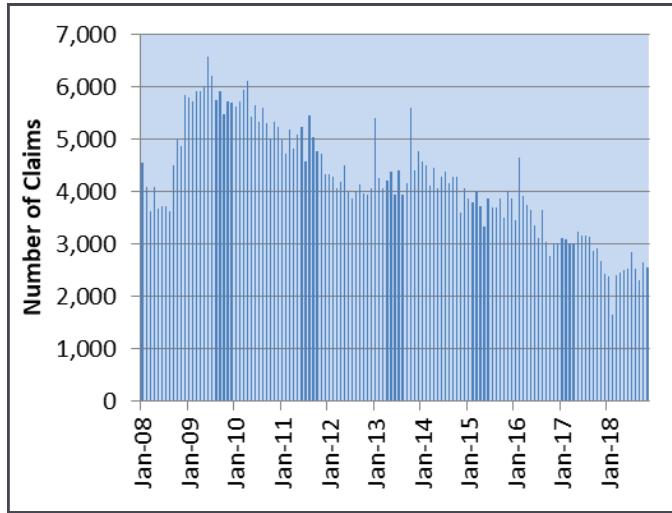
Hampton Roads, Nov 2017 – Nov 2018, Year-over-Year



Employment Growth by Industry: As the job market grows or declines, there will be some industries whose experience does not resemble the regional trend. Regionally, scientific & technical employment (+5,300), leisure & hospitality (+4,200) and manufacturing employment (+2,700) have grown strongly over the past year. Scientific & technical and manufacturing employment have been tightly correlated with defense spending regionally, and are related to the growth in national defense spending over the past four quarters.

Initial Unemployment Claims, Seasonally Adjusted

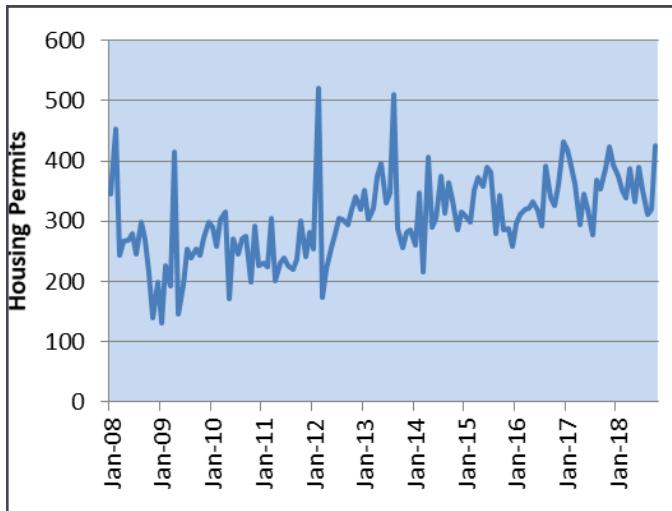
Hampton Roads, Jan 2008 – Dec 2018, Monthly



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 decreased significantly to 2,388 in December 2018, returning to the low levels at the start of the year. Even the slightly elevated levels of October and November were low by the region's historical standards.

Single Family Housing Permits, Seasonally Adjusted

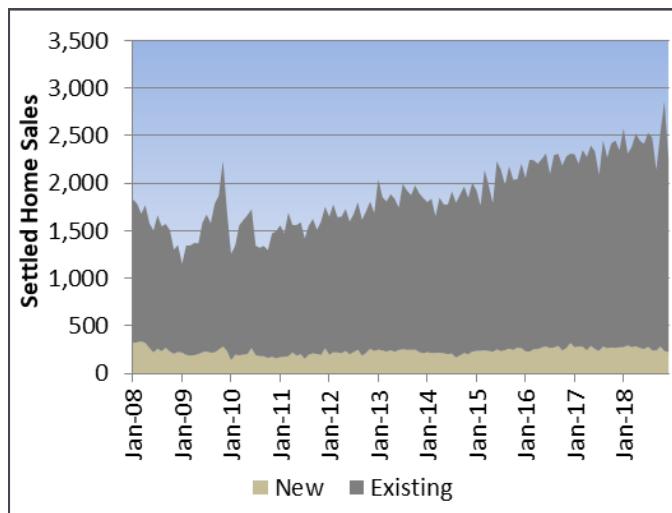
Hampton Roads, Jan 2007 – Oct 2018, Monthly



Single Family Housing Permits: Permit data signals the level of construction employment and confidence regarding the future trajectory of the local economy. Seasonally adjusted single family permits recovered from the lower levels of August and September, increasing to 426 permits in October 2018. The data continues to vary from month to month, in stark contrast to the consistent levels of sales of new construction housing.

Number of Homes Sold, Seasonally Adjusted

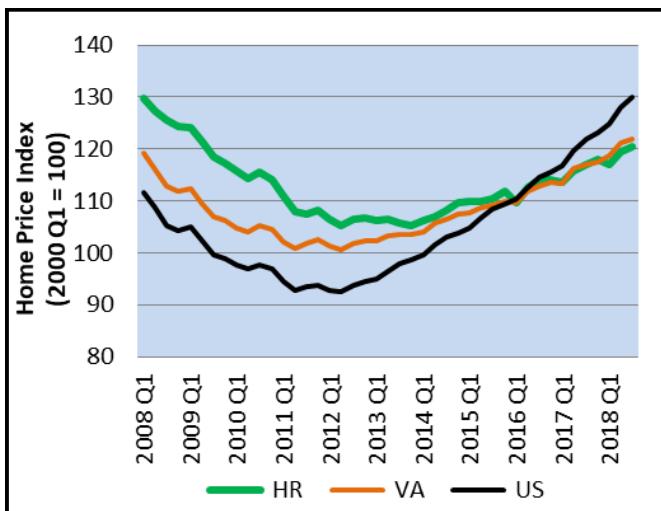
Hampton Roads, Jan 2007 – Dec 2018, Monthly



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. The levels of existing home sales declined significantly in December 2018, falling by almost 600 sales to 2,030 for the month, albeit from an extremely high 2,626 in November (seasonally adjusted). These large swings in closings make it difficult to draw conclusions about any individual month's change.

Home Price Index, All Transactions

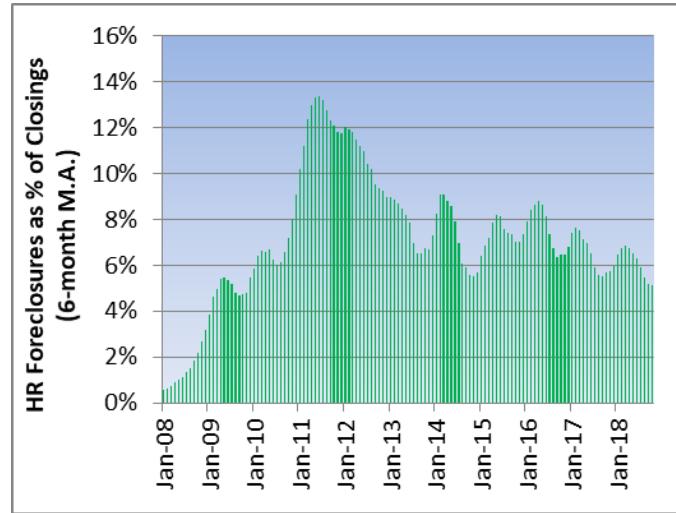
Hampton Roads, 2008Q1 – 2018Q3 Quarterly



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 Q3 2018, and are 2.9% above the price levels during the same time last year, though lagging behind the growth rate of home prices statewide (4.3%), and nationwide (6.6%). Regional home values remain 7.7% below 2007 levels.

Foreclosures and Distressed Sales

Hampton Roads, Jan 2008 – Oct 2018, Monthly



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. While there continue to be fluctuations in foreclosures' percentage of the home market, the level is still elevated from the housing boom. Foreclosures constituted 5.2% of all home resales in October 2018, from 7.6% in February 2017 (6-month average).