

## Q3 2020 Sees Record GDP Growth — What Does it Really Mean?

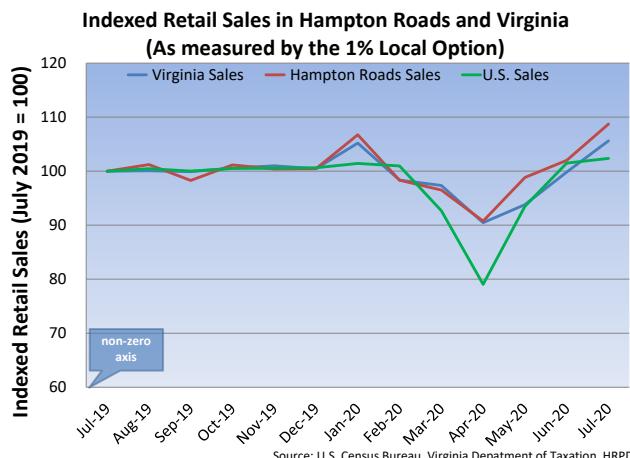
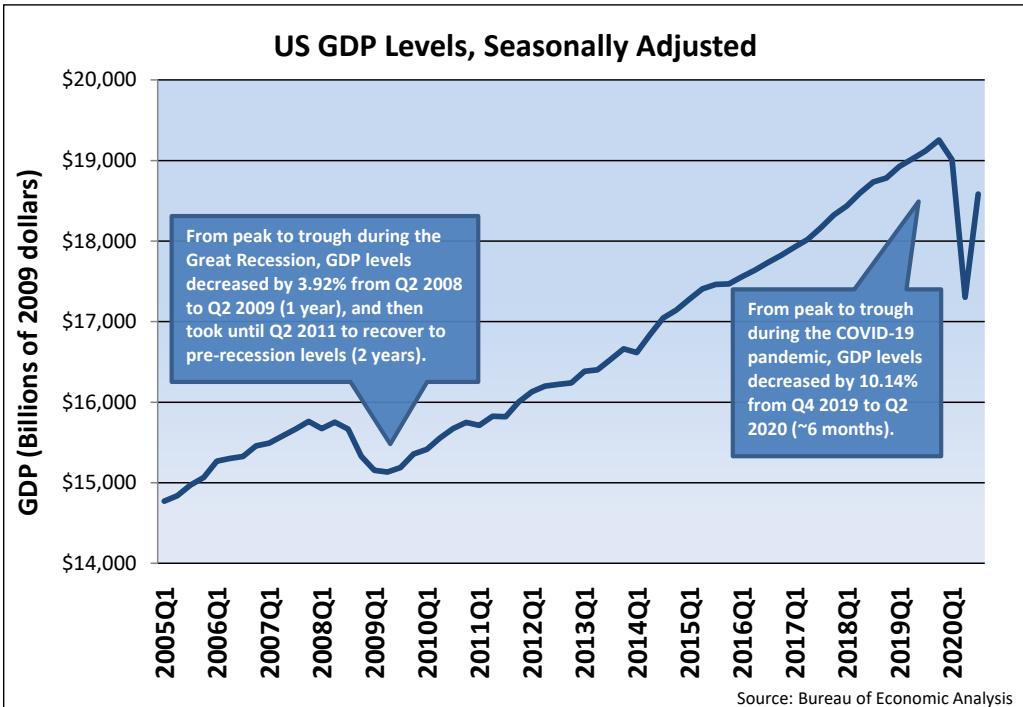
Gross Domestic Product (GDP) is the total monetary or market value of all the finished goods and services produced in a region over a specific period, a broad measure of overall domestic production. GDP functions as a comprehensive scorecard of the economic health of the nation, with national growth reported on an annualized quarterly basis. Gross Domestic Product is typically calculated by using the following formula:  $GDP = C + G + I + NX$  (where C=consumption; G=government spending; I=Investment; and NX=net exports).

Over the past decade, GDP in the US has been growing by an annualized rate of around 1-3% each quarter, steadily recovering after the Great Recession of 2008-09. This past year has been far from the norm. As the coronavirus pandemic began to take hold globally, GDP domestically shrunk by 5% in Q1 and an unprecedented 31% in Q2. Over the summer, as the pandemic seemed to loosen its grip in Asia, Europe, and the US, the economy began to recover as lockdowns were eased, allowing GDP in Q3 to grow by an equally unprecedented rate of over 33%. Annualized quarterly growth in GDP can be seen on the first chart in the second page of this report, but it is important to note that while Q3 posted record growth in GDP across the country, the context of that growth is important. Because the data is reported on an annualized quarterly basis, it compares GDP levels from quarter to quarter, and since there was record loss in Q2 and record gains in Q3, the growth looks off the charts. However, as seen in the above chart, **GDP levels are 3.5% below where they were at the end of 2019** before the pandemic disrupted the global economy.

The biggest gains in Q3 were realized in personal consumption expenditures, an increase of over 40% from the previous quarter driven by increases in spending on both goods and services across the economy. Increases in private domestic investments also contributed to the sharp incline, growing at an annualized quarterly rate of 11.6% in Q3 after experiencing a decline of nearly 9% in Q2. Net exports of goods and services experienced a 3% decline in Q3 caused by an 8% decline in imports and nearly 5% increase in exports (led by motor vehicles, engines, and parts).

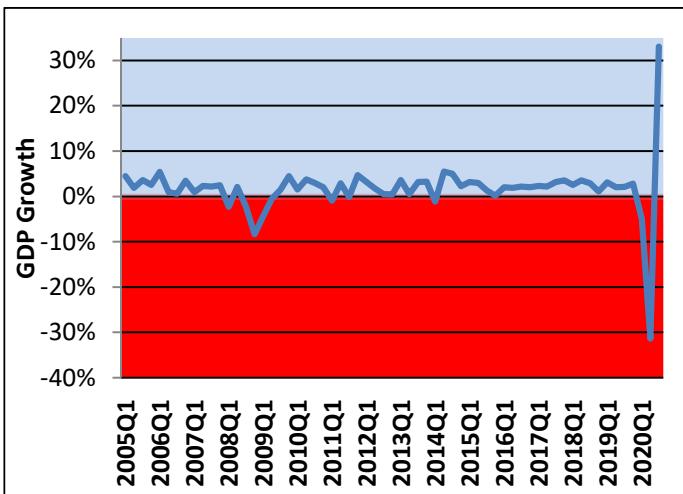
### A discussion on the Consumption portion of the GDP equation for Hampton Roads

While GDP data is not reported on a quarterly basis across the region and annual data won't be available for some time, retail sales in Hampton Roads are a good proxy indicator. Consumption (C in the GDP equation above) represents approximately 70% of calculated GDP. The Consumption category represented the largest share of the Q3 gains in GDP growth across the country, and retail sales make up roughly half of personal consumption expenditures. Retail sales in Hampton Roads through July have recovered quickly, surpassing pre-COVID levels of January 2020 by a higher spread than Virginia and the US overall, mainly due to the fact that Virginia did not experience the same drop in retail sales that occurred nationwide. The chart to the right compares retail sales through July in Hampton Roads, Virginia, and across the US for reference.



## GDP, Annualized Growth Rate

United States, 2005Q1 – 2020Q3, Quarterly

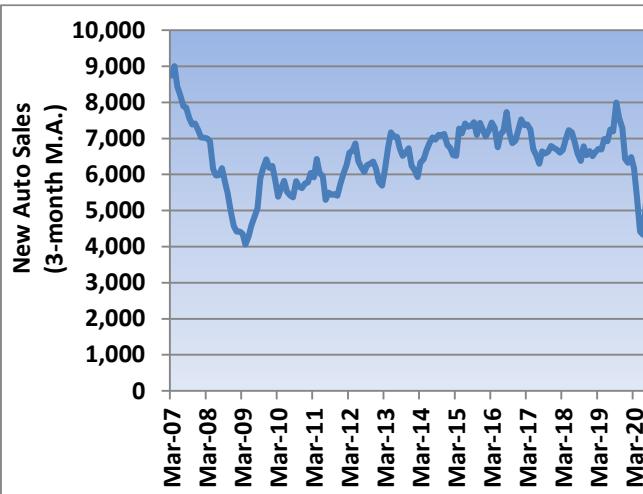


Source: Bureau of Economic Analysis, HRPDC

**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 33.1% in Q3 2020, reflecting the impact of widespread re-openings of businesses closed down due to COVID-19 in the summer months. As depicted above, this unprecedented increase is the largest on record, directly following the largest contraction on record. As the virus continues to spread yet again, the potential for a quick, V-shaped economic recovery hangs in the balance.

## New Car Sales, Seasonally Adjusted

Hampton Roads, Mar 2007 – Sep 2020, Monthly

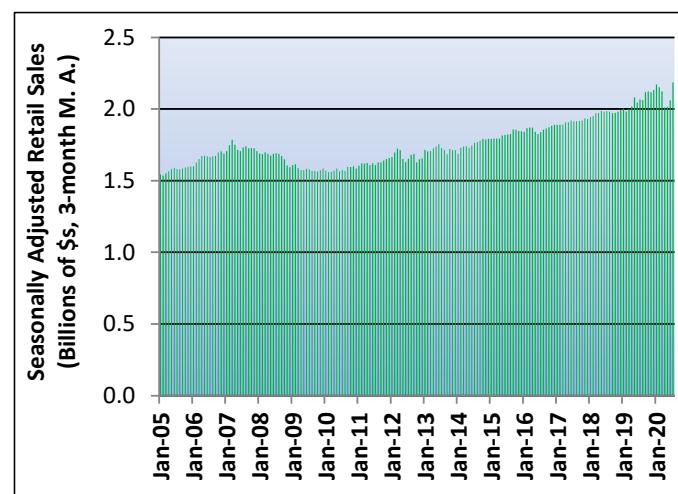


Source: Virginia Automobile Dealers Association, HRPDC

**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 September were up slightly compared to the previous month, with year-over-year growth remaining negative, 31% lower than September 2019. The steady month-over-month improvement is continuing to increase the 3-month average out of record lows.

## Hampton Roads Retail Sales, Seasonally Adjusted

Hampton Roads, Jan 2005– July 2020, Monthly

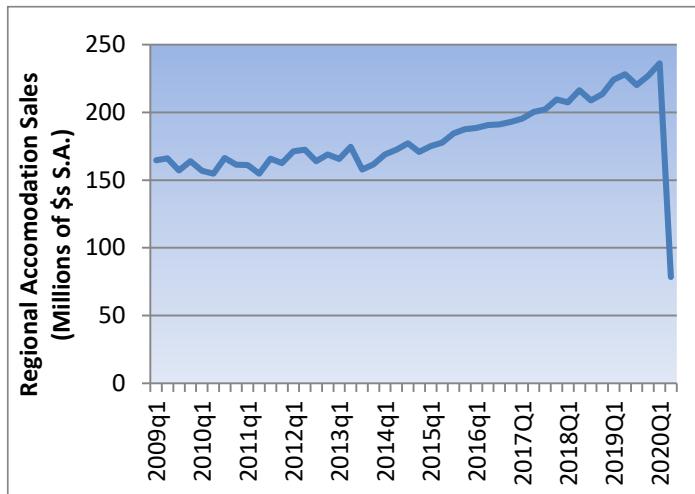


Source: Virginia Department of Taxation, HRPDC

**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. Retail sales for July increased 1.7% from the previous month, representing an increase of 8.9% from June 2019 and the second-highest month on record, behind only December 2019. When smoothed and averaged over 3 months, July represents the largest total retail sales recorded, early indication of pent-up demand after re-opening much of the Hampton Roads retail economy.

## Estimated Hotel Revenue, Seasonally Adjusted

Hampton Roads, 2009Q1 – 2020Q2, Quarterly

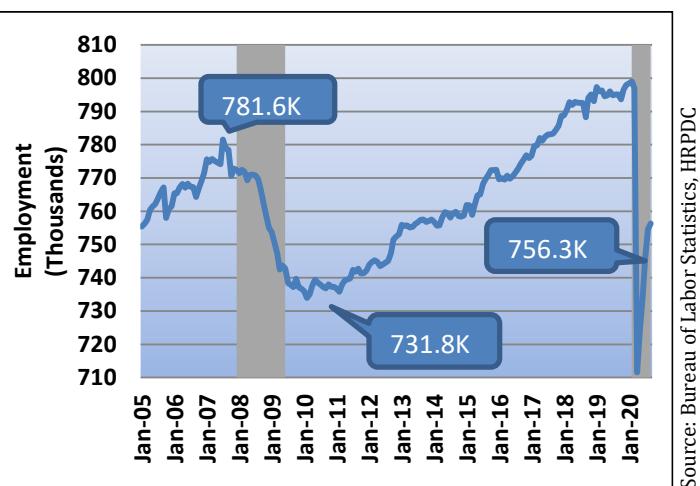


Source: Virginia Department of Taxation, HRPDC

**Estimated Hotel Revenue:** Hotel sales indicate the performance of the region's tourism sector. When seasonally adjusted, Q2 2020 hotel revenue saw historic lows in response to closures, event and conference cancellations, and travel restrictions at the start of the COVID-19 at the beginning of Q2. This 66% decline in year-over-year revenue was to be expected, as hotel occupancy data had been available in real-time throughout the pandemic. Tourism has realized an up-tick over the summer, which will make for an interesting Q3.

## Civilian Employment, Seasonally Adjusted

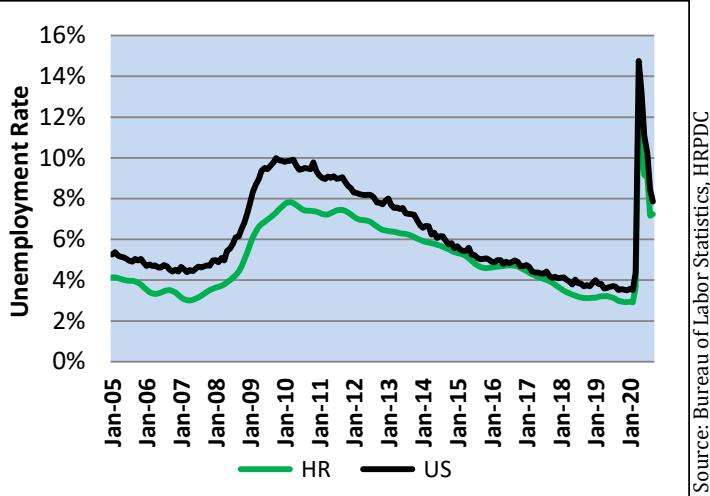
Hampton Roads, Jan 2005 – Sep 2020, Monthly



**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 once again increased from August to Sept 2020. This data represents just a 0.23% increase from the previous month, further pointing to a potential stall in employment recovery after August's numbers. Unadjusted numbers actually saw a decrease of over 3,000 payroll jobs from August to September, possibly due to people leaving the workforce.

## Unemployment Rate, Seasonally Adjusted

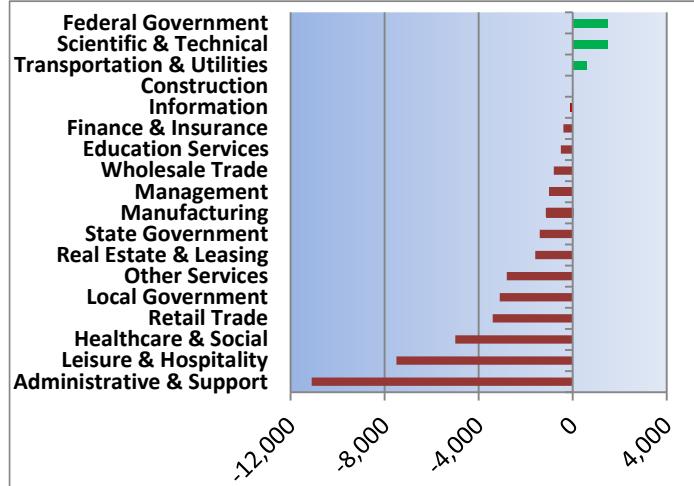
U.S. & Hampton Roads, Jan 2005 – Sep 2020, Monthly



**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 slightly from 7.17% in August to 7.23% in September as coronavirus cases in the region plateaued, while the national unemployment rate dropped from 8.42% in August to 7.86% in September as the country continued to reopen. Hampton Roads' unemployment rate continues to remain below that of the national average, signaling that our region may have been less impacted than others.

## Employment Growth by Industry

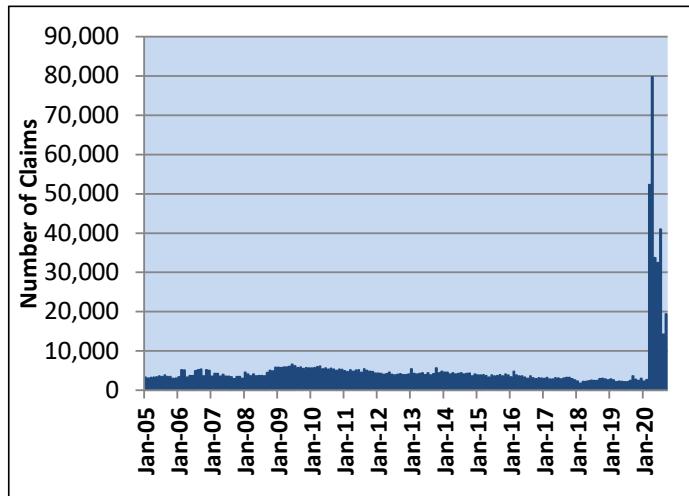
Hampton Roads, Sep-19 to Sep-20, Year-over-Year



**Employment Growth by Industry:** As the job market grows or declines, there will be some industries whose experience does not resemble the regional trend. In September, 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 over 11,000 employees. Leisure & Hospitality industry lost nearly 8,000 jobs compared to last year, while Healthcare and Retail Trade lost 5,000 and 3,400 jobs each in September.

## Initial Unemployment Claims, Seasonally Adjusted

Hampton Roads, Jan 2005 – Sep 2020, Monthly

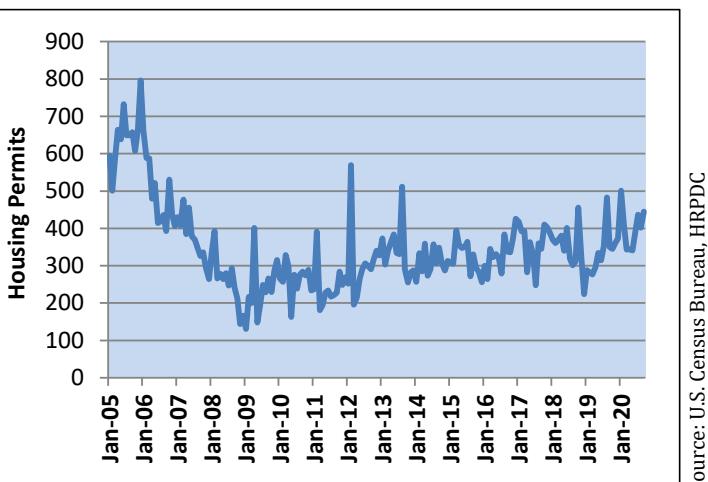


**Initial Unemployment Claims:** The number of initial unemployment claims is a leading economic indicator reflecting those who are forced to leave work unexpectedly, thus revealing the strength of the job market with little lag time. Seasonal adjusted unemployment claims in September 2020 were over 19,000, a 37% increase from the previous month—however unadjusted claims represented a slight decrease (1,735 fewer) in claims from August to September. Continued unemployment claims are continuing to come down as well, hovering near 22,000 at the end of October.

Source: Virginia Department of Labor, HRPDC

## Single Family Housing Permits, Seasonally Adjusted

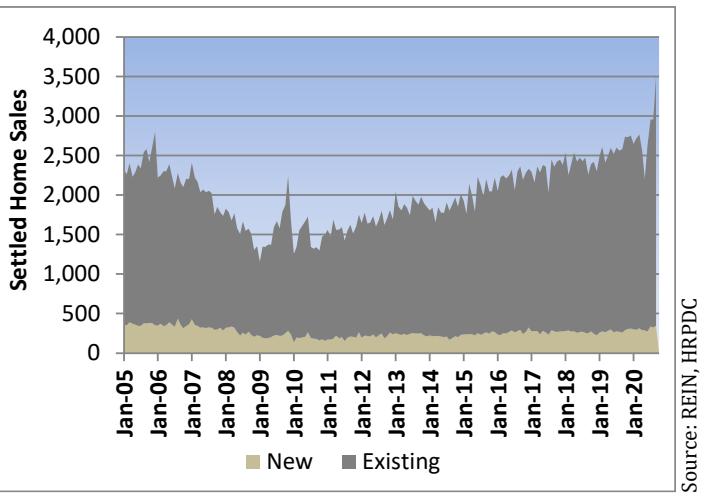
Hampton Roads, Jan 2005 – Sep 2020, Monthly



**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 September 2020 increased to 422. When seasonally adjusted, the data shows a significant increase from September 2019. As the market continues to respond to COVID-19, this indicator will be watched closely.

## Number of Homes Sold, Seasonally Adjusted

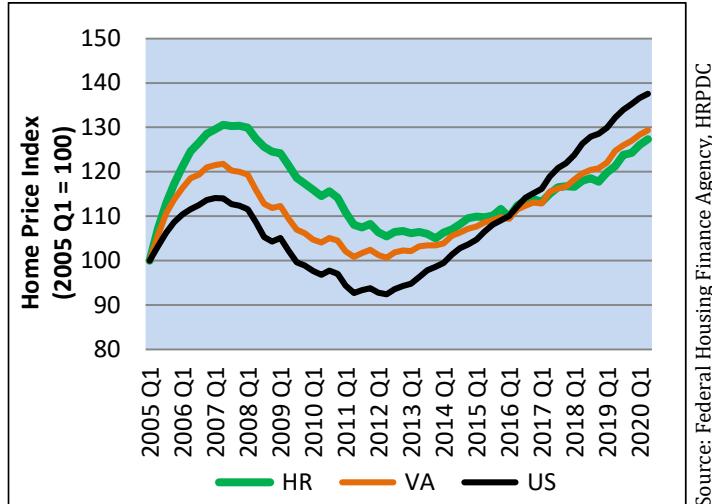
Hampton Roads, Jan 2005 – Sep 2020, Monthly



**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 September were very strong, the highest recorded since 2005. New construction sales in September were also up from recent months, albeit lower than the record high of July. New construction sales for September represented roughly 10% of all sales.

## Home Price Index, All Transactions

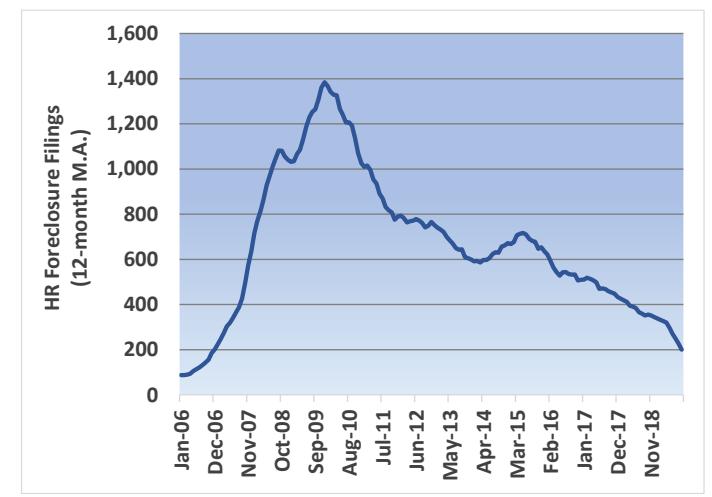
Hampton Roads, 2005Q1 – 2020Q2 Quarterly



**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 5% over the previous year in Q2 2020, at a quicker pace than both the state and the nation. Regional housing values remain 2.4% below those seen during the peak of the housing boom, but that gap is rapidly shrinking.

## 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.