

Do Oil and Gas Prices Matter to the Economy?

When Saudi Arabia oil facilities were attacked on September 14th, 2019, there were numerous questions about what it would do to oil production, as well as prices. While as of today, the national oil company of Saudi Arabia has returned to full pre-attack production levels, the initial threat to both oil production and Middle East peace sent oil prices soaring by 20% before Saudi officials calmed the markets by pledging to restore production.

Even as production recovers (though some of the current 'recovery' is through additional production at other facilities), the reality that additional attacks could be perpetrated against Middle East oil production, as well as increased specter of a potential conflict in that region, raises the question of how a run-up in oil prices would impact both the national and the regional economy.

For the national economy, it would have a distributional impact, but not an overall impact. Currently, the nation produces oil equal to the amount it consumes, and the major impact would be a shifting of incomes between regions within the national economy; however, as many of the nation's trading partners are oil importers, it could cause a slowdown with strong impacts on the U.S. economy.

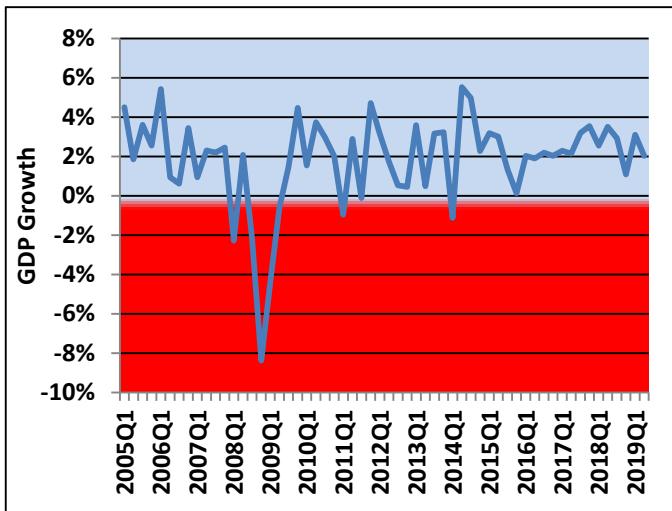
Regionally, an increase in oil prices would cause an economic drain in Hampton Roads, primarily through the impacts to gasoline and diesel prices. The U.S. Energy Information Administration estimates that 53% of the price of gasoline at the pump is directly related to the price of oil. Thus, a 20% increase in the price of oil would result in an almost 10.6% increase in the price of gasoline regionally. In the short term, this would result in an estimated \$0.233 increase in the cost of gasoline per gallon, causing an annual leakage of \$217 million from the regional economy. While this may only be 0.23% of the region's economy, this impact would be significant for numerous businesses throughout the region.

Unleaded Fuel Prices in Hampton Roads



GDP, Annualized Growth Rate

United States, 2005Q1 – 2019Q2, Quarterly



GDP: Gross Domestic Product combines consumption, investment, net exports, and government spending to determine the size and general health of the economy. Real GDP slowed to 2.0% in Q2 2019, with that growth driven by a strong rebound in consumer spending (+4.7% over the previous quarter). Investment decreased by 6.1%, though this was largely driven by changes to inventories. Significant regionally, national defense spending grew for the 7th consecutive quarter (+3.1%).

New Car Sales, Seasonally Adjusted

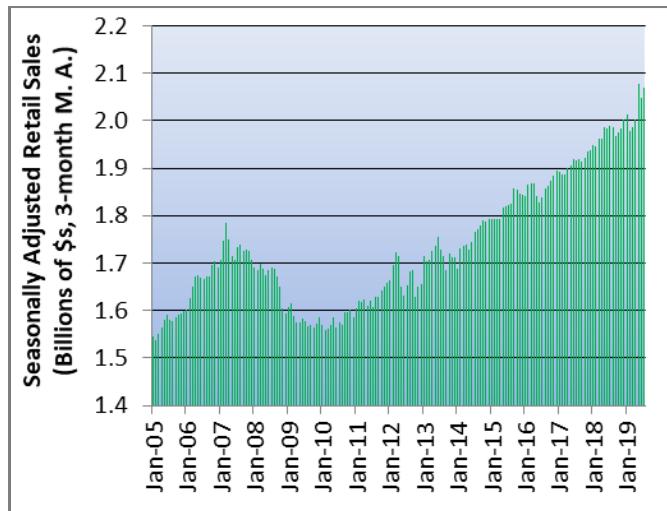
Hampton Roads, Jan 2005 – Aug 2019, Monthly



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 vary significantly from month-to-month, but looking at the overall trend typically provides a better signal. While sales dipped significantly during the first half of 2019, sales seem to have recovered in the summer months, increasing to 6,117 in August of 2019, and are once again above the region's long-term average of 5,980.

Hampton Roads Retail Sales, Seasonally Adjusted

Hampton Roads, Jan 2005– Jul 2019, Monthly



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 have bounced around, but after a surprisingly weak June, they have recovered again in July, increasing to \$2.07B (seasonally adjusted 3 month M.A.). Sales increased by 7.9% year-over-year in July, which was even higher growth than seen in May (7.3%); May in particular has seen strong growth over the past several years.

Estimated Hotel Revenue, Seasonally Adjusted

Hampton Roads, 2009Q1 – 2019Q2, Quarterly



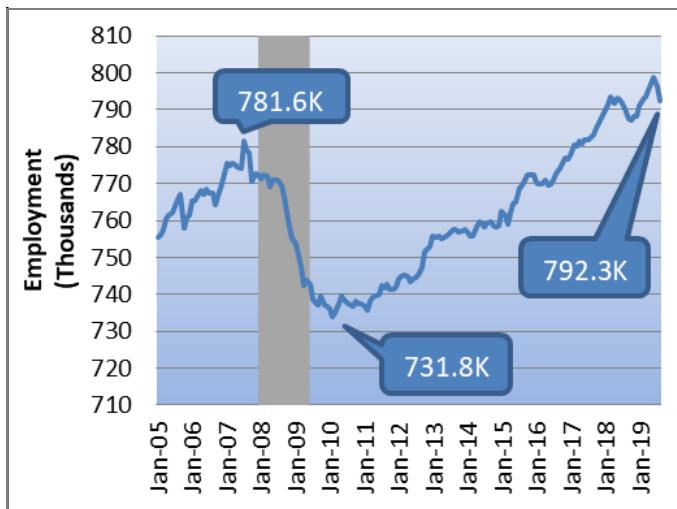
Estimated Hotel Revenue: Hotel sales indicate the performance of the region's tourism sector. In Q2 2019, accommodation sales increased by 6.8%, growing to \$231.7 million. This continues a pattern of strong growth stretching back to the third quarter of 2014. The tourism industry continues to play a significant role in the regional economy as one of Hampton Roads' basic sector industries.

Source: Bureau of Economic Analysis, HRPDC

Source: Virginia Department of Taxation, HRPDC

Civilian Employment, Seasonally Adjusted

Hampton Roads, Jan 2005 – Aug 2019, Monthly

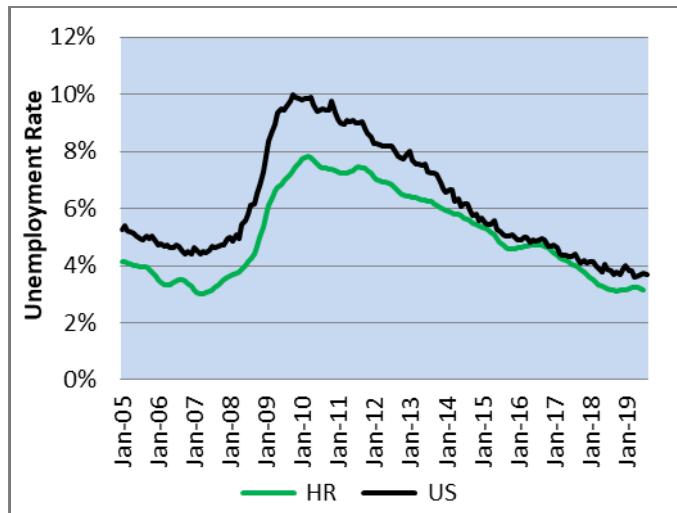


Source: Bureau of Labor Statistics, HRPDC

Employment: Non-agricultural civilian employment figures are considered the best estimate of labor market activity by the National Bureau of Economic Research. According to the BLS estimates, Hampton Roads employment has been in free-fall the past two months, with employment decreasing by 6,600 positions to 792,300 in August of 2019. While this would normally be cause for concern, strong retail sales numbers, accommodation sales, and car sales suggest this is likely a measurement issue, which will hopefully correct in the next month.

Unemployment Rate, Seasonally Adjusted

U.S. & Hampton Roads, Jan 2005 – Jul 2019, Monthly

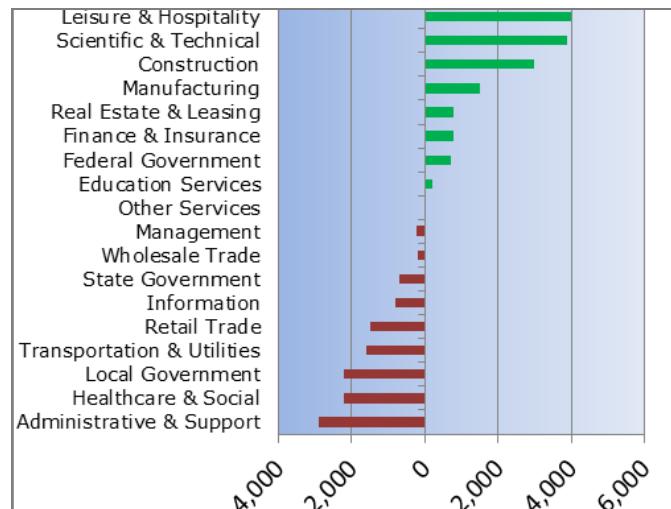


Source: Bureau of Labor Statistics, HRPDC

Unemployment Rate: The unemployment rate is the percentage of the population actively seeking work but unable to obtain a position. Hampton Roads' unemployment rate dipped slightly to 3.14% in July 2019; furthermore, strong fundamentals as the falling unemployment rate has been paired with a growing labor force over the past seven months. While the August unemployment numbers have not yet been released, the July numbers indicate that employment grew by almost 3,400 positions even as payroll data suggested employment declined by 3,700 jobs.

Employment Growth by Industry

Hampton Roads, Aug 2018 – Aug 2019, Year-over-Year

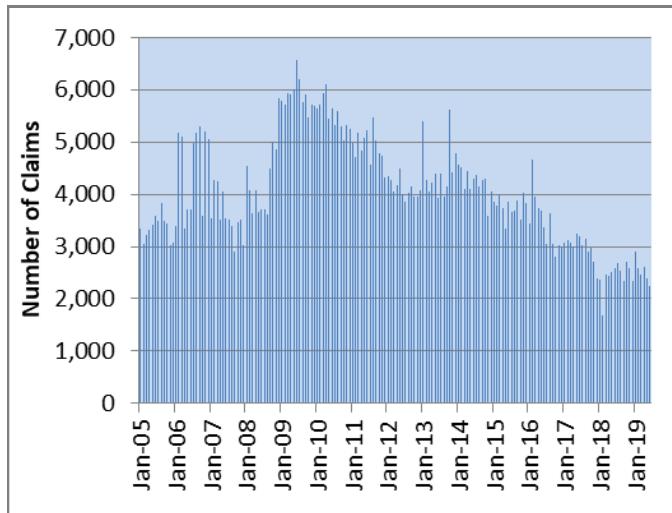


Source: Bureau of Labor Statistics, HRPDC

Employment Growth by Industry: As the job market grows or declines, there will be some industries whose experience does not resemble the regional trend. Several industries have seen significant decline year-over-year using the BLS data, including Administrative industries, healthcare, local government, as well as transportation and retail. Oddly, retail lost 1,500 positions in the same 12 months as leisure & hospitality gained 4,000. This incongruous data requires further/continued scrutiny.

Initial Unemployment Claims, Seasonally Adjusted

Hampton Roads, Jan 2005 – Aug 2019, Monthly

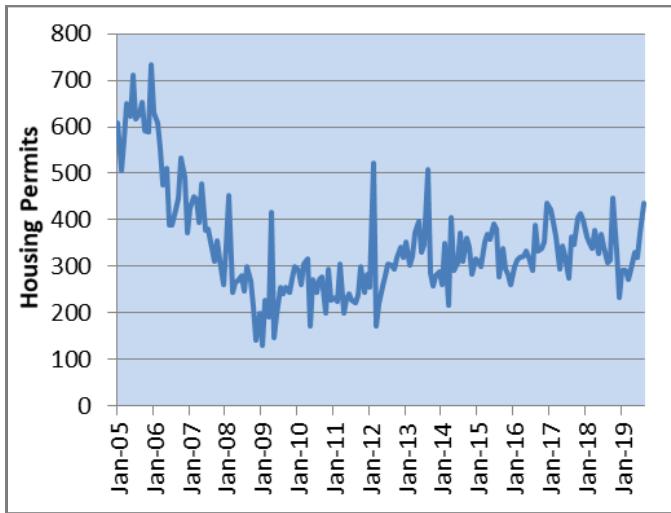


Source: Virginia Department of Labor, HRPDC

Initial Unemployment Claims: The number of initial unemployment claims is a leading economic indicator reflecting those who are forced to leave work unexpectedly, thus revealing the strength of the job market with little lag time. Seasonal adjusted unemployment claims increased in July of 2019 to 2,422 claims, but this is still significantly below the long term average, as well as being below the levels of the past six months. This is a strong indicator that the regional labor market continues to have strength.

Single Family Housing Permits, Seasonally Adjusted

Hampton Roads, Jan 2005 – Aug 2019, Monthly

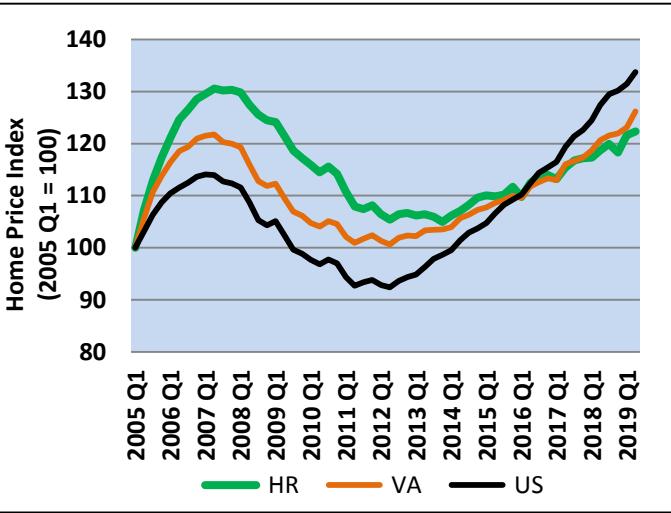


Source: U.S. Census Bureau, HRPDC

Single Family Housing Permits: Permit data signals the level of construction employment and confidence regarding the future trajectory of the local economy. The level of new construction permitting for single family homes increased strongly in July (371 permits, seasonally adjusted) and August (435 permits), and if this level holds, it would signal a return to the historical level of new home construction in the region.

Home Price Index, All Transactions

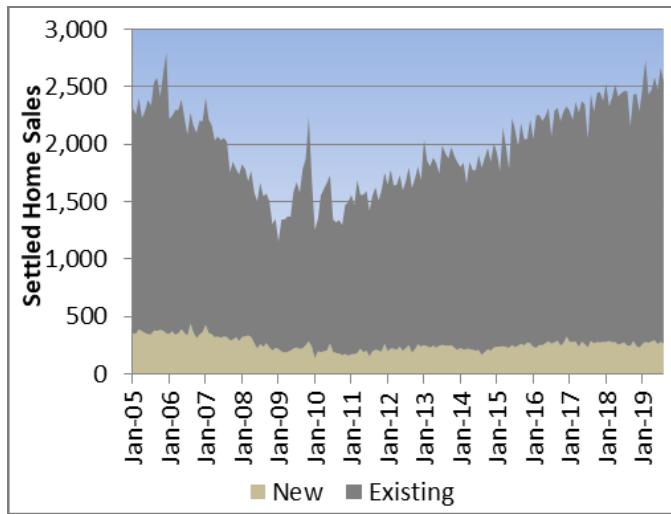
Hampton Roads, 2005Q1 – 2019Q2 Quarterly



Source: Federal Housing Finance Agency, HRPDC

Number of Homes Sold, Seasonally Adjusted

Hampton Roads, Jan 2005 – Aug 2019, Monthly

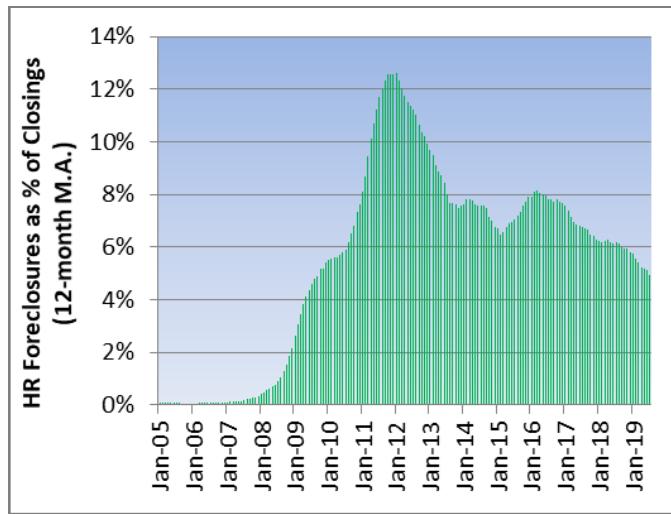


Source: REIN, HRPDC

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. The levels of existing home sales have been strong recently, with sales maintaining the same average level as during the housing boom in 2005. Interestingly, new construction sales are only 10% of total sales, versus 15% in 2005, showing the lack of recovery in the new construction segment of the market.

Foreclosures and Distressed Sales

Hampton Roads, Jan 2005 – Jul 2019, Monthly



Source: Zillow, HRPDC

Foreclosures: Foreclosures have a significant impact on the real estate market and community, depressing home values on a neighborhood and regional level. Distressed homes' share of total sales has particularly been shown to impact the sale price of existing homes. The foreclosure level is still elevated from the housing boom. Foreclosures constituted 4.9% of all home resales in July of 2019, down from a recent high of 8.1% in April of 2016 (12-month average).