

Some Ugly Data, But Not a Problem (Yet)

This monthly features several data points that appear strong at first, but prove less impressive with closer examination. Other data is more weak, although may be more transitory in nature.

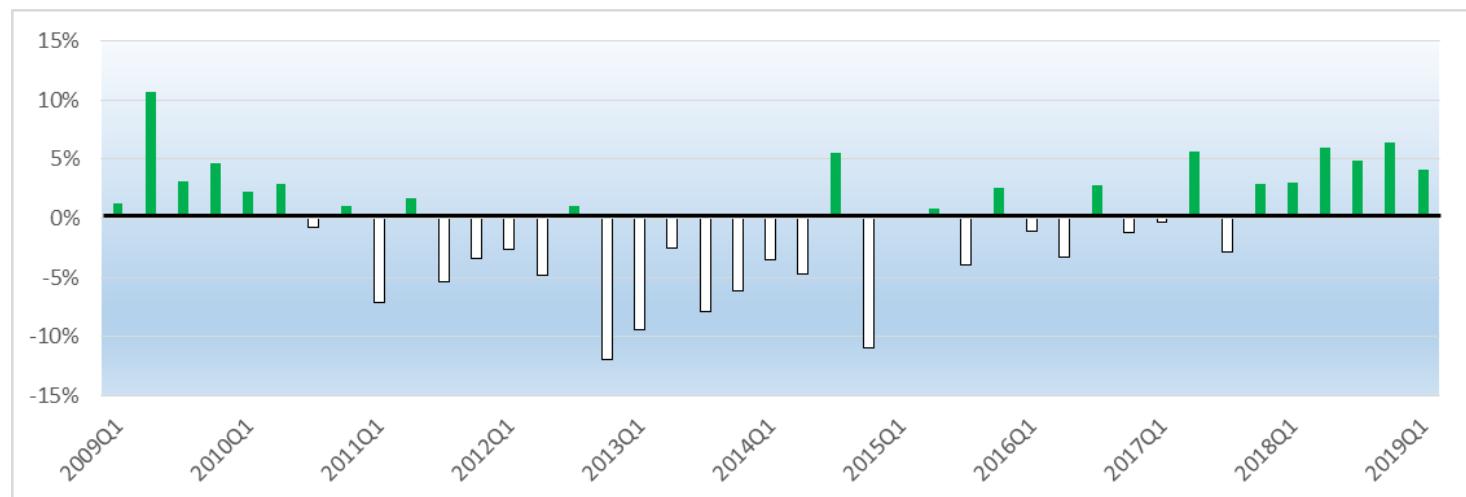
Let's start with the good. Gross Domestic Product grew at 3.2%, which is impressive and surprising, given fears that the nation might be edging closer to the recession. A closer look reveals that two percentage points of that growth can be tied to inventories, changes in net exports, and a short-term boost to local and state government spending. It is important to note that any single quarter's growth in these three categories typically has balancing decline within one to two quarters. Consumer spending should rebound in the second quarter, but anemic business investment could slow growth moving forward.

Another strong indicator were employment releases by the Bureau of Labor and Statistics, which saw regional jobs reach their highest level ever in March 2019. However, a closer look reveals that employment is only 600 positions higher than in March 2018. Additionally, employment growth has been disappointing over the past 12 months.

Unfortunately, retail sales in the region plummeted in February 2019, falling from \$2.1B in January to \$1.8B. This decrease would be a significant concern, but national retail sales experienced a similar decline in February and recovered in March. This likely has had a dampening effect on regional car sales as well. We believe there is a good chance that April could provide a welcome rebound.

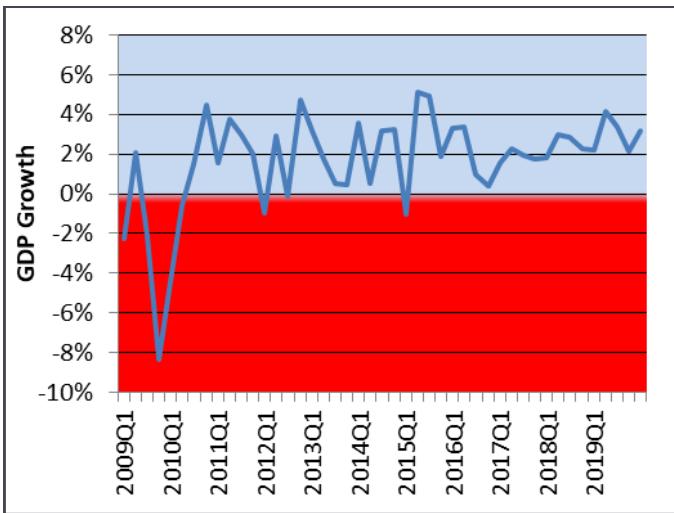
It is hard to know what to make of the housing market right now. Sales have declined slightly from recent highs, and permitting has experienced a significant fall. This should indicate a major decline in the housing market and regional economic activity. On the other hand, construction employment has not fallen, and supply in the housing market remains exceptionally tight, with less than four months of supply in most submarkets. With such tight supply, there should either be high levels of permitting or a strong appreciation in home prices, neither of which has manifested. There are several different theories as to what has caused this odd real estate landscape, but unfortunately, a clear explanation does not yet exist.

Quarter-Over-Quarter Growth in Defense Spending



GDP, Annualized Growth Rate

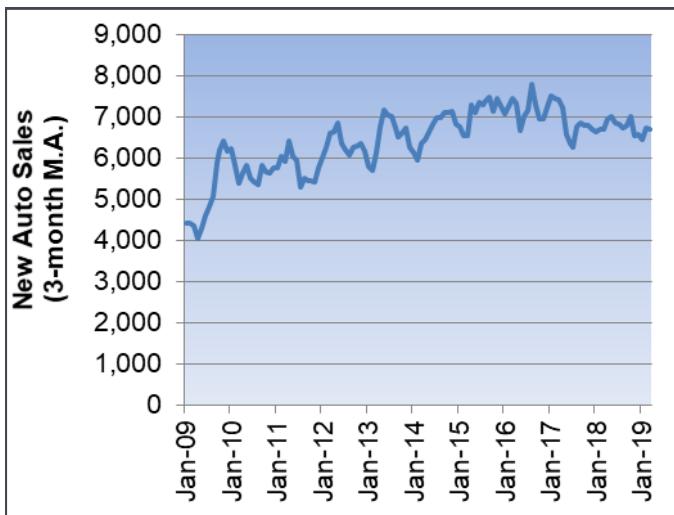
United States, 2009Q1 – 2019Q1, Quarterly



GDP: Gross Domestic Product combines consumption, investment, net exports, and government spending to determine the size and general health of the economy. Real GDP increased by 3.2% in the first quarter of 2019, but it would be wise to not put too much weight into the headline number. Consumer spending grew an anemic 1.2%, and while fixed investment grew by 5.1% from the end of 2018, two-thirds of that growth were driven by inventory growth, which is highly transitory.

New Car Sales, Seasonally Adjusted

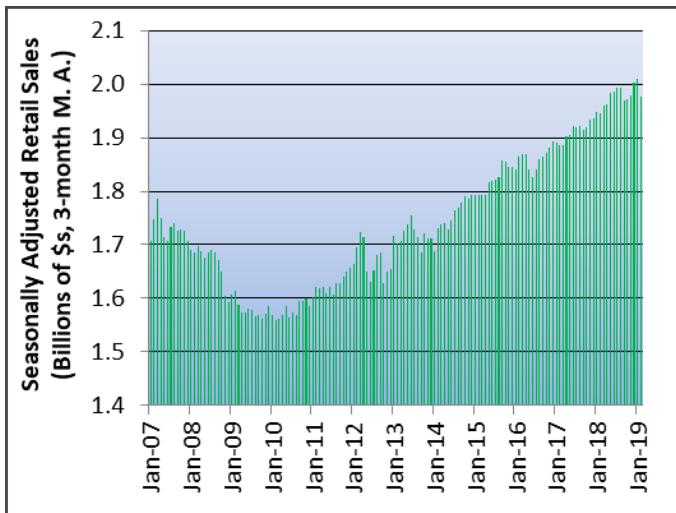
Hampton Roads, Jan 2009 – Mar 2019, Monthly



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 move significantly from month-to-month, but looking at the overall trend typically provides a better signal. Car sales have remained essentially flat over the past 2.5 years, hovering around 6,700 per month.

Hampton Roads Retail Sales, Seasonally Adjusted

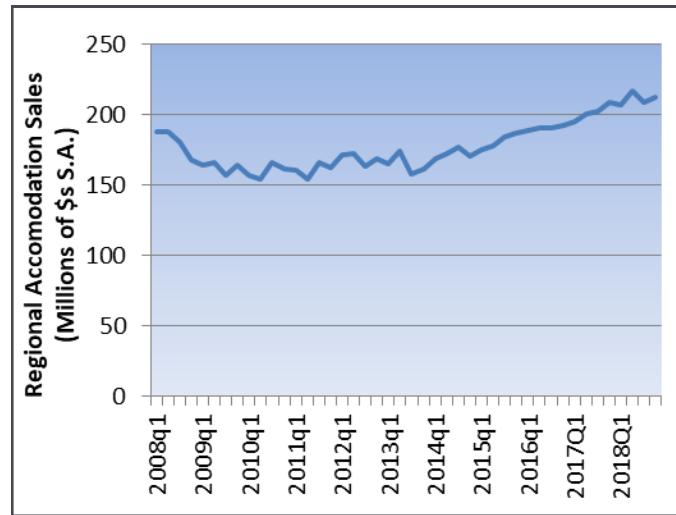
Hampton Roads, Jan 2007– Feb 2019, Monthly



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. Following the national and state trend, Hampton Roads' taxable monthly sales fell sharply in February 2019 to \$19.8 Billion (seasonally adjusted 3-month average). Fortunately, after that dip in February, the nation saw retail sales accelerate in March. Hopefully, regional sales follow that pattern.

Estimated Hotel Revenue, Seasonally Adjusted

Hampton Roads, 2007Q1 – 2018Q4, Quarterly



Estimated Hotel Revenue: Hotel sales indicate the performance of the region's tourism sector. In Q4 2018, accommodation sales increased by 1.95% on a seasonally adjusted basis, growing to \$213 billion. This matches growth year-over-year of 2.0%. Overall, regional accommodation sales and the tourism industry continue to see steady growth.

Civilian Employment, Seasonally Adjusted

Hampton Roads, Jan 2007 – Mar 2019, Monthly

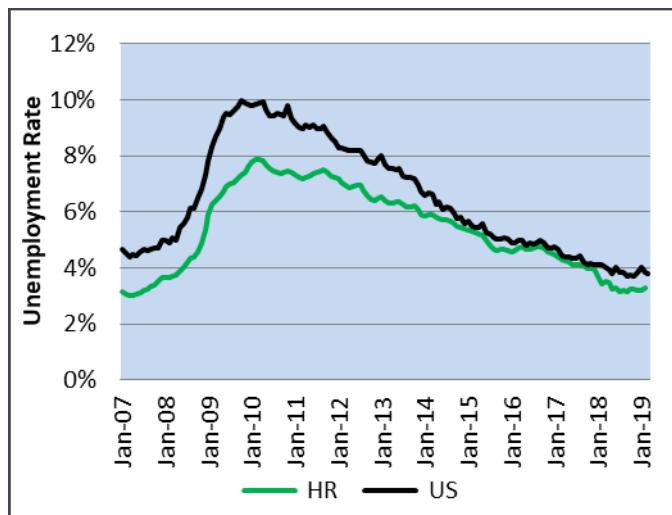


Source: Bureau of Labor Statistics, HRPDC

Employment: Non-agricultural civilian employment figures are considered the best estimate of labor market activity by the National Bureau of Economic Research. Hampton Roads' employment grew in March 2019 to 794,000, topping the previous peak in March 2018 of 793,400 (seasonally adjusted). Employment in the region has grown 1.6% above the prerecession high (781,600, July-19), adding a total of 12,400 jobs.

Unemployment Rate, Seasonally Adjusted

Hampton Roads and U.S., Jan 2007 – Feb 2019, Monthly

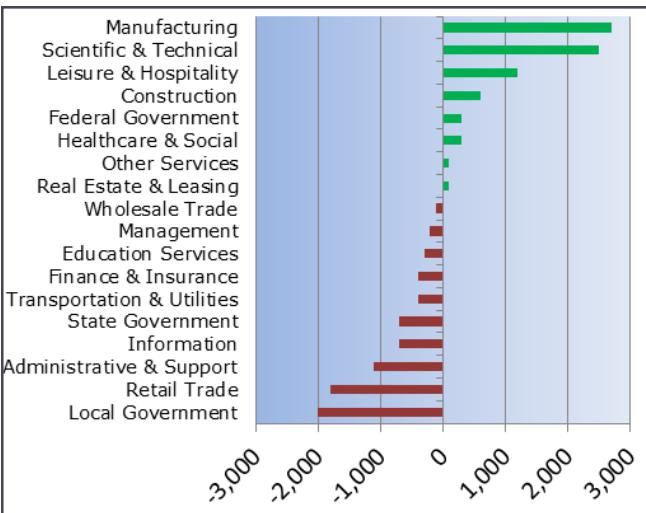


Source: Bureau of Labor Statistics, HRPDC

Unemployment Rate: The unemployment rate is the percentage of the population actively seeking work but unable to obtain a position. Hampton Roads' unemployment rate increased slightly to 3.28% in February 2019, but this is derived from an increase in the labor force, typically a very positive sign for the regional economy. The number of persons indicating they were employed increased by almost 4,000, to 829,232 (seasonally adjusted).

Employment Growth by Industry

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

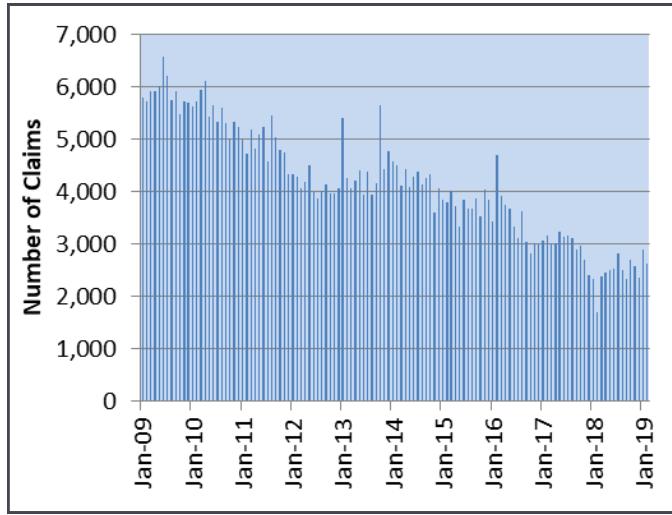


Source: Bureau of Labor Statistics, HRPDC

Employment Growth by Industry: As the job market grows or declines, there will be some industries whose experience does not resemble the regional trend. Regionally, manufacturing (+2,700), scientific & technical (+2,500) and leisure & hospitality employment (+1,200) have strongly grown over the past year. Local government employment (-2,000) and retail employment (-1,800) continue to fall. Additionally, there is a relatively new decline in administrative employment (-1,100) regionally.

Initial Unemployment Claims, Seasonally Adjusted

Hampton Roads, Jan 2009 – Feb 2019, Monthly

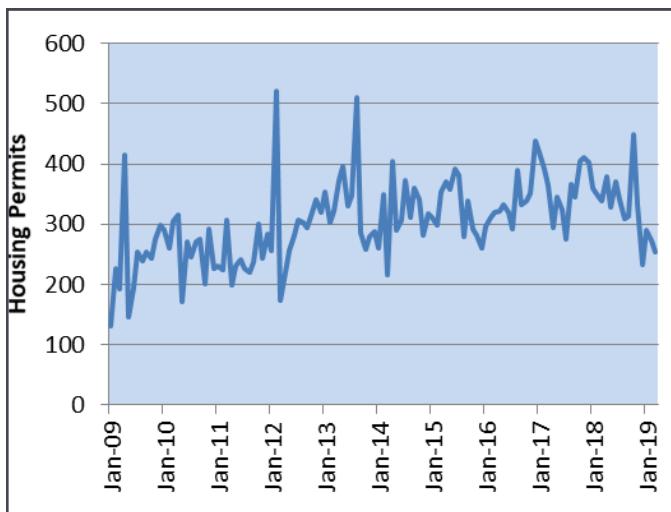


Source: Virginia Department of Labor, HRPDC

Initial Unemployment Claims: The number of initial unemployment claims is a leading economic indicator reflecting those who are forced to leave work unexpectedly, and thus revealing the strength of the job market with little lag time. In February, the region's initial unemployment claims rose to 2,615 from 2,360 in December 2018 (seasonally adjusted), but this is consistent with the levels of the past six months. The level of individuals applying for initial unemployment is significantly below the region's long-term average (3,776).

Single Family Housing Permits, Seasonally Adjusted

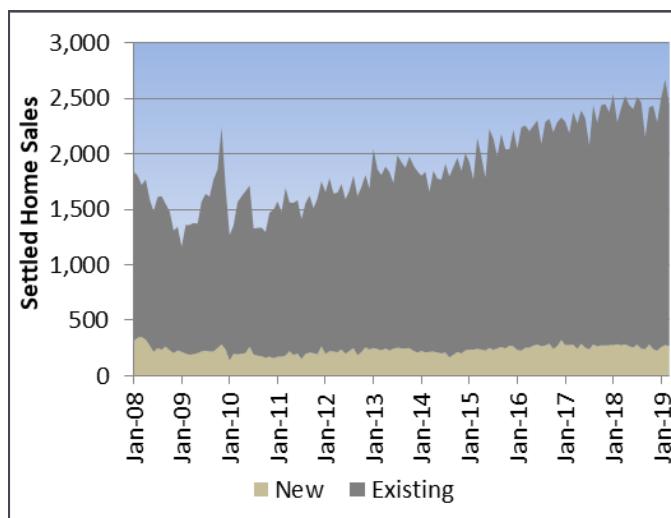
Hampton Roads, Jan 2009 – Mar 2019, Monthly



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 has been low for four consecutive months, and was only at 254 permits in March 2019 (seasonally adjusted). This is significantly below the 25-year average of 444 permits per month. New construction activity has not been this low since 2011.

Number of Homes Sold, Seasonally Adjusted

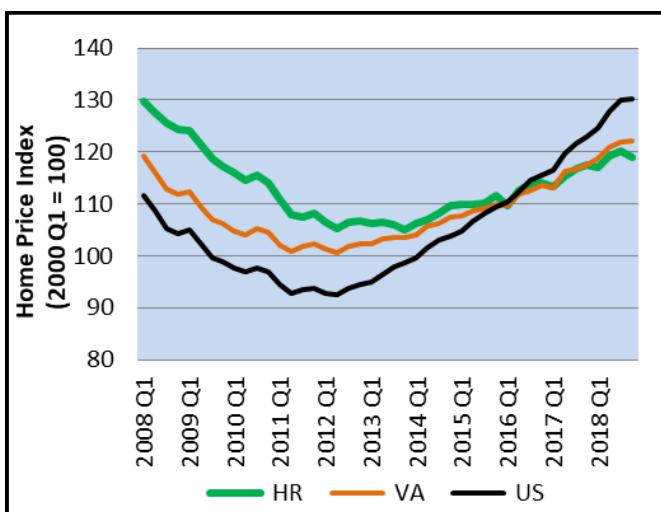
Hampton Roads, Jan 2008 – Mar 2019, Monthly



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 continues to fluctuate, falling to 2,177 in March 2019, but new home sales continued to stay on the upper end of the post-recession range (269 settled sales in March, seasonally adjusted).

Home Price Index, All Transactions

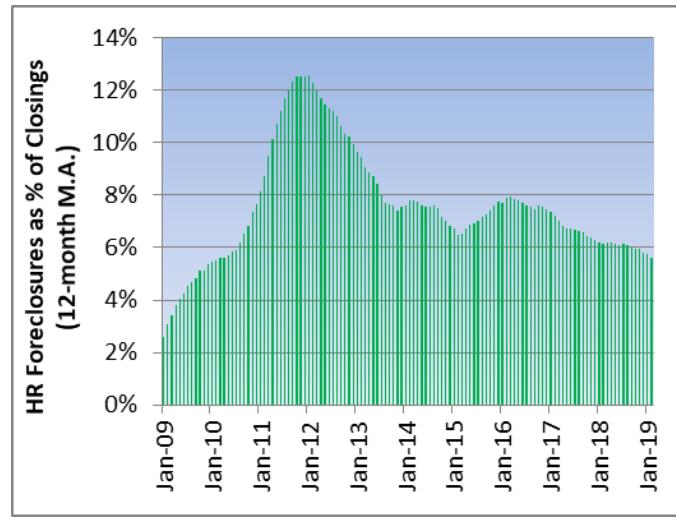
Hampton Roads, 2008Q1 – 2018Q4 Quarterly



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 decreased by 1.1% in Q4 2018, but this contrasted with the purchase only index that increased by 1.25%. There are several explanations for why these two indices could head in different directions, but without more data the reasons are unclear.

Foreclosures and Distressed Sales

Hampton Roads, Jan 2009 – Feb 2019, 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 the foreclosures percentage of the home market, the level is still elevated from the housing boom. Foreclosures constituted 5.6% of all home resales in February 2019, down from a recent high of 8.0% in March 2016 (12-month average).