HAMPTON ROADS PLANNING DISTRICT COMMISSION

THE HAMPTON ROADS ECONOMIC QUARTERLY

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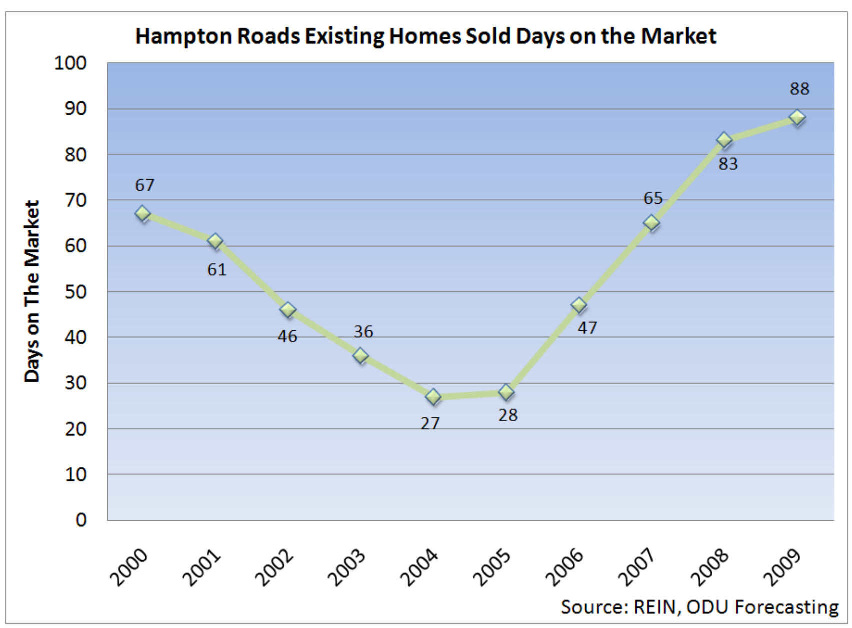
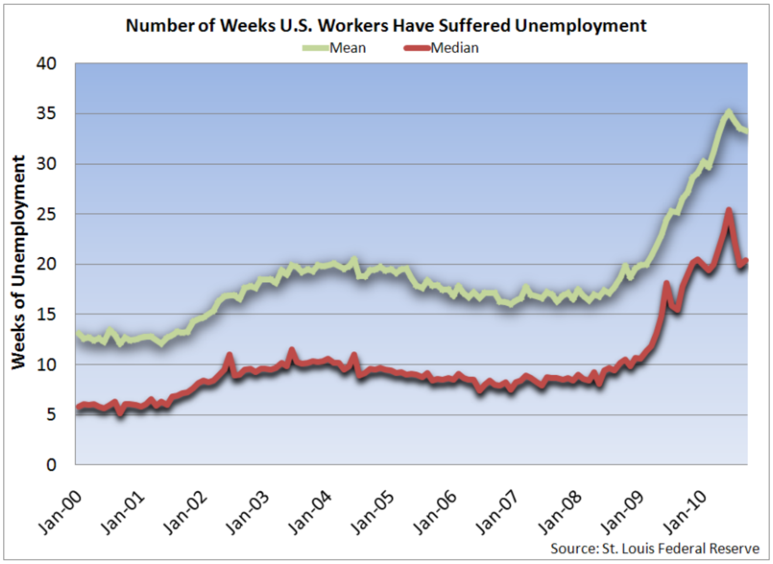
The Stay Put Economy

A vein of regional economic literature deals with resilient regions that are able to grow through expansions and recessions while dealing with the variety of shocks that any metropolitan area might confront during the course of time. For a region to be able to absorb economic disturbances and stressors, it is essential that the region be able to rapidly reorganize and reallocate labor, capital, and population to where economic opportunity exists. Unfortunately, the current recession has significantly impaired economic resiliency at the regional and national level, limiting mobility in several key areas.

The dislocation in the housing market presents serious issues to mobility both interregional and intraregional. The stay put economy manifests itself in housing through a failure of housing to clear at normal levels, and the issues with the housing market are exacerbated by changes in government homebuyer programs, underwater mortgages that require short sales, and issues with the foreclosure process. The homes for sale could fill market demand for a year at the current rate of sales, which indicates that the current rate of absorption cannot deal with the number of homes for sale (usually there are 5 to 6 months of supply on the real estate market). The average days on the market in Hampton Roads declined to 94 days this past May, but have begun to increase with the expiration of the home buyer's credit. As a measure of comparison, the average days on the market was 27-30 during the peak of the housing boom, and averaged 67 days on the market for Hampton Roads in 2000. The inability to sell houses prevents workers from moving closer to their available jobs, as well as preventing labor from moving to new markets that have better opportunities for their skill sets.



Days on market is calculated from the date listed to the date under contract for existing homes sold.

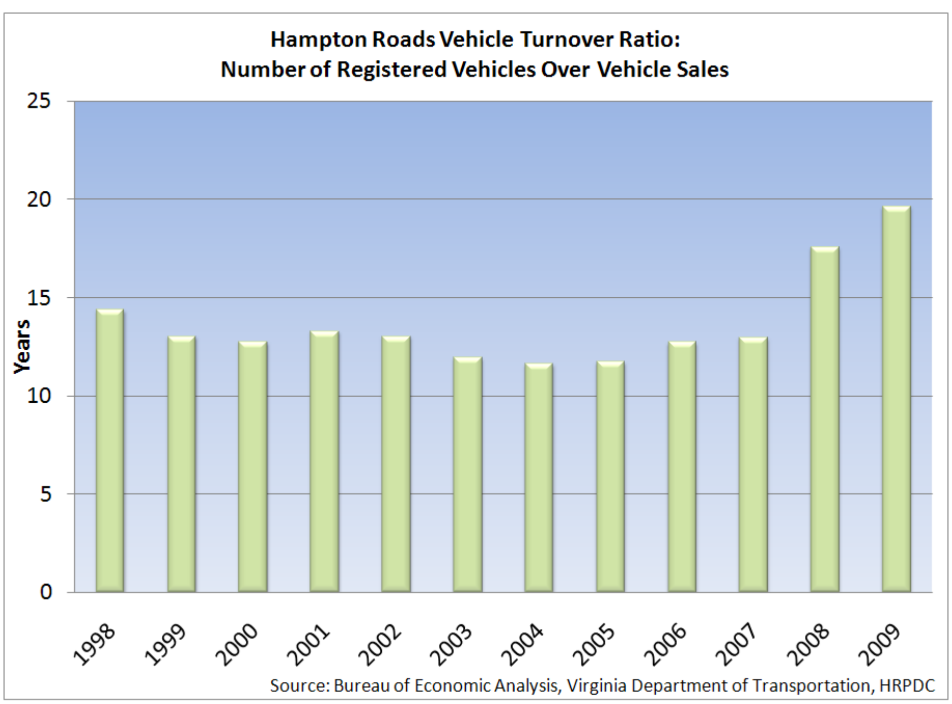


In addition to causing turmoil in the housing market, the economic downturn has effectively disrupted natural growth in the labor pool. Many of the country's youngest workers have put off getting married, or have even moved back in with their parents due to uncertainty and difficulties in finding a job. New workers are not developing the experience they need to be productive workers in the economy, as the unemployment rate for 20 to 24 year olds is 6.5% higher than for older workers, with the unemployment rate for teenagers reaching 26% in September.

Older workers have also experienced change to their labor market prospects. The obvious change is the increase in the unemployment rate both regionally and nationally, but more worrisome is the length of unemployment. The median length of unemployment is currently around 20 weeks. No other recession appears comparable when evaluating length of unemployment, as the next highest data point was 12.3 weeks in May of 1993. This presents serious issues as unemployment that may be cyclical in nature can take on permanent characteristics where job skills atrophy during this time away from work.

Further, this economy has encouraged workers to stay in their jobs for longer periods than is typical, as the workplace tenure has increased to 4.4 years, the highest since 1996. Further, the number of people who have willingly left their jobs is down by over a third according to the Bureau of Labor Statistics, as workers seeing fewer openings and feeling uncertain about the economy are less willing to leave stable situations. This leads to workers not moving to positions where they could be the most productive, as well as wage stagnation.

Lastly, the stay put economy has caused workers to consume less, save more, and to put off larger purchases. This can be seen in retail sales that have yet to return to preressions levels. Additionally, major durable goods have a much lower turnover ratio, indicating that cars would only be replaced once every 20 years at the current rate of sales. While sales at this level are not sustainable, and soon purchases of durable goods will have to begin to increase. The nature of goods such as cars and washing machines means that people have a large amount of discretion in the timing of replacement/upgrade of these items.



Hampton Roads Economic Outlook

The "Stay Put" Economy has Impacted the Region's Outlook

The "stay put" economy has been affecting Hampton Roads for a significant period of time and it is difficult to see what will be the engine that gets the region moving again. Currently, regional payrolls have grown for the second consecutive month, and this could erase the 30,000 jobs Hampton Roads lost by the middle of next year at that pace; however, the region will have then taken over 3 ½ years to return to the employment of December 2007. Additionally, if job growth is measured on a year-over-year basis, it would be closer to 2013 until the labor market reaches its previous levels.

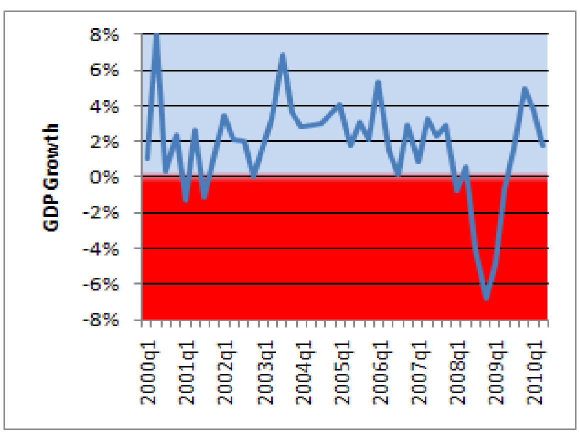
There are significant issues in the other labor market indicators, as initial unemployment claims move sideways with an extremely elevated level of 6,000 claims a month. Couple this with a labor force and an unemployed population that have changed outside the level of random error, and there is a strong indication that the employment report three months from now will look very similar to this one.

Housing permits in the region seem to have found a floor of 250 a month, and while a stabilization of the construction market will help prevent additional unemployment, the extremely high supply of existing homes precludes any construction boom in the region. Additionally, retail sales have been slightly down since February of this year, and while there have been months that have seen significant growth or decline on a year over year basis, the next month has produced an equally significant movement in the opposite direction.

The "stay put" economy is a national experience, making it difficult to see where the shock will come to drive regional growth in either a positive or negative way. Economists are describing this period as one of secular change where consumers and businesses make a permanent change in how they interact with the economy and these adjustments take longer than slowdowns associated solely with the business cycle.

Hampton Roads Economic Indicators

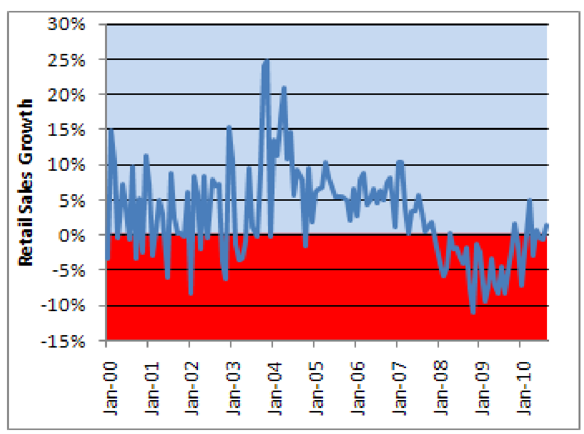
GDP, Annualized Growth Rate
United States, 2000Q1 – 2010Q2, Quarterly



Source: Bureau of Labor Statistics

GDP: Gross Domestic Product combines consumption, investment, net exports, and government spending to determine the size and general health of the economy. Changes in the nation's GDP tend to be reflected in Hampton Roads' gross regional product. U.S. GDP first quarter growth was revised up to 3.7% growth, which is an expansion typical of a post recession period, but the most recent estimates for the second quarter were 1.7%, below most forecasts, and the third quarter of this year is facing additional pressure due to a widening trade gap and a winding down of stimulus dollars.

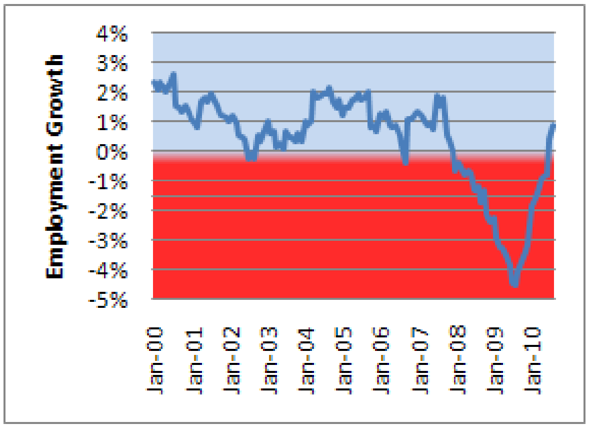
Retail Sales, Year over Year Growth
Hampton Roads, Jan 2000 – Aug 2010, Monthly



Source: Virginia Department of Taxation

Retail Sales: Retail sales, as measured by the 1% local option sales tax, serve as an indicator for consumption in the region. Since consumption composes 70% of economic activity in the US, the growth or decline of retail sales gives a strong indication of the direction of the local economy. Year to date sales are down slightly year over year, but this continues to compare the region to very weak 2009 numbers, and this is the third consecutive decline in retail sales, with sales down 10.8% compared to August 2007, and down 9.9% on a year-to-date basis.

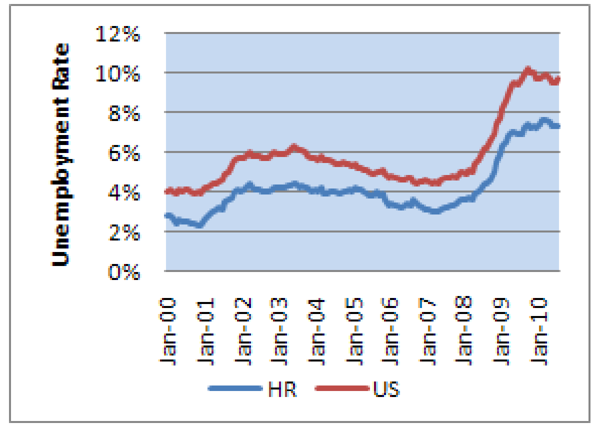
Employment, Year over Year Growth
Hampton Roads, Jan 2000 – Aug 2010, Monthly



Source: Bureau of Labor Statistics

Employment: Non-agricultural employment is considered the best estimator for labor market activity by the National Bureau of Economic Research. Hampton Roads experienced the first year over year growth in employment since the beginning of the recession in July of this year, and that was sustained into August. This is partly a result of very weak employment numbers in 2009, but the current trend is encouraging and the region has gained 10,000 jobs since employment bottomed out in December 2009 (on a seasonally adjusted basis).

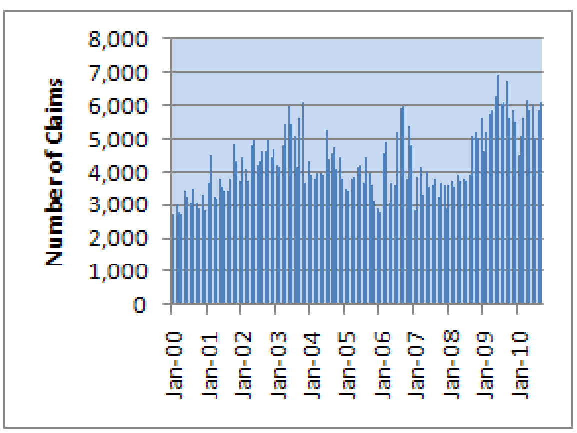
Unemployment Rate, Seasonally Adjusted
U.S. & Hampton Roads, Jan 2000 – Aug 2010, Monthly



Source: Bureau of Labor Statistics

Unemployment Rate: This is the percentage of the population which is actively seeking work, but is unable to obtain a position. The unemployment rate has been rising in both the nation and Hampton Roads since April 2007. The seasonally adjusted unemployment rate has been resting between 7.3% and 7.6% since February, and no trends have developed in the household survey to indicate a meaningful change in the unemployment situation or in labor force participation.

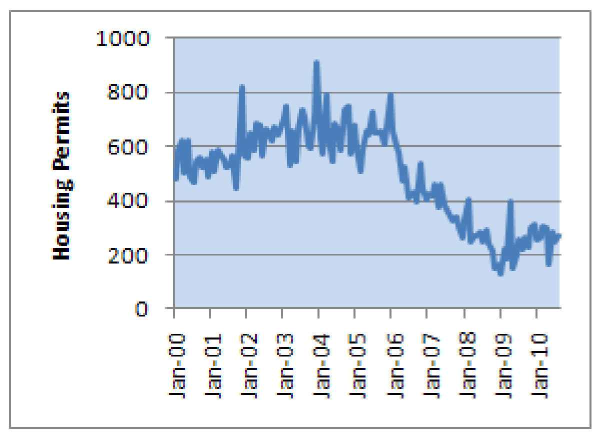
Initial Unemployment Claims, Seasonally Adj.
Hampton Roads, Jan 2000 – Sep 2010, Monthly



Source: Virginia Department of Labor

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. Initial unemployment claims have increased regionally since the winter, and it is difficult to anticipate a meaningful recovery in the region until the level of claims lowers to long term averages. New claims are 50% higher than the 25 year average.

Single Family Housing Permits, Seasonally Adj.
Hampton Roads, Jan 2000 – Aug 2010, Monthly



Source: U.S. Census Bureau

Single Family Housing Permits: Permit data indicates the level of construction employment and confidence regarding the future trajectory of the local economy. Hampton Roads permits bounced off the low of 167 permits in May to stay in the range of 250-300 units per month which is the range it first established in July 2009. This is half the number of permits as the long term average, but indicates that construction should not fall much further unless there is significant deterioration in the housing market.