THE HAMPTON ROADS ECONOMIC QUARTERLY

HAMPTON ROADS PLANNING DISTRICT COMMISSION

Bruce C. Goodson, *Chair* • Dwight L. Farmer, *Executive Director/Secretary* • John M. Carlock, *Deputy Executive Director*

Vol. 2, No. 3 • Spring 2010

HRPDC Economics Staff

Greg C. Grootendorst
Chief Economist
ggrootendorst@hrpdcva.gov

James A. Clary
Economist
jclary@hrpdcva.gov

Preparation of this document was included in the HRPDC Unified Planning Work Program for Fiscal Year 2010 that was approved by the Commission at its Executive Committee Meeting on June 17, 2009. If you would like to be included on the electronic distribution list, please contact James Clary at jclary@hrpdcva.gov or by calling (757) 420-8300. This document is available for download from the Commission's website, visit www.hrpdcva.gov

Wages Increase in Hampton Roads

The Bureau of Labor Statistics (BLS) conducts the National Compensation Survey to provide estimates of both wages by occupation and total costs of employment to aid businesses and planners in making informed decisions. As part of this program, the BLS releases detailed wage data for major metropolitan areas on an annual basis. While each annual report contains useful wage data for the region, comparing the 2008 and 2009 reports yields an interesting result, the mean wage increased in Hampton Roads by 6.0%.

Two elements typically produce wage growth in a region, a tight labor market and prolonged inflation. One of the worst downturns since World War II as measured by declining employment and the output gap, the current recession has created the weakest labor market since 1982. Hampton Roads unemployment rate was 6.81% (seasonally adjusted) in July 2009, and regional payrolls had declined by 34,700 jobs since the previous July. These numbers indicate an extremely slack labor market, one that has an oversupply of labor. Since there is little upward pressure on wages, the market mechanism by itself does not explain the increase in wages. Inflation is the other driver of wage growth, and it can cause wages to rise even in a weak labor market, but since the U.S. urban areas experienced deflation between 2008 and 2009, this element also fails to explain wage growth.

Another possible driver of hourly wages comes from changes in worker productivity, and in a properly functioning labor market, wages are a function of the marginal product of labor. When productivity increases, wages will increase shortly afterwards, and the U.S. has been experiencing productivity growth since 2007. Two facts hinder productivity from being a compelling explanation of wage growth. One, the weakness in the Hampton Roads labor market would prevent workers from capturing the value of their increased output, i.e. the labor market is not functioning correctly. Two, businesses utilized only 70% of capacity in 2009, taking the least productive capital out of service, and thereby increasing the average quality of the capital stock. As a result, changes in the capital stock drove much of the productivity change, and thus a large portion of the benefit from increased productivity accrued to businesses (keep in mind that business owners still bear the cost of the capital that is not producing anything).

Hampton Roads Mean Hourly Earnings 2008, 2009

Category	2008	2009	Growth
All workers	$16.94	$17.96	6.0%
By Occupation Type			
Management, professional, and related	$27.19	$28.30	4.1%
Professional and related	$24.28	$24.90	2.6%
Service	$10.57	$10.62	0.5%
Sales and office	$13.93	$14.76	6.0%
Natural resources, construction, and maintenance	$16.11	$17.12	6.3%
Production, transportation, and material moving	$14.29	$14.97	4.8%
By Worker Type			
Full time	$18.69	$19.69	5.4%
Part time	$10.17	$10.00	-1.7%

Source: National Compensation Survey

Understanding the true reason for wage growth in Hampton Roads requires clarity about the wage measure and what it indicates. The National Compensation Survey collects and averages the wages of all active jobs during the period of interest (July 2009), but the number of jobs on Hampton Roads payrolls has fallen by 34,700 since the 2008 survey (seasonally adjusted), most of those who lost their jobs were those who were most recently hired and are typically at the lower end of the salary spectrum. Also, while not explicitly dealt with in the payroll figures, the decreasing payroll employment indicate hirings are at a significantly lower level, and this removes many entry level positions from the mean wage equation as well. Lastly, companies have used the recession to cull their least productive workers from their staffs, and these unproductive workers will typically not experience raises or promotions. Unfortunately, rising wages are an additional signal of weakness in the economy rather than an indicator of imminent recovery.

It is important to note that wages only account for 70% of all civilian compensation nationally (that percentage is not available regionally). The benefit's component covers 30% of all compensation and these items include: health & other types of insurance (8.6%), mandated programs such as social security & unemployment insurance (7.7%), paid leave (6.9%), retirement benefits and supplemental pay compose the last 6.9%. All of these costs would be considered by a company when making location decisions and when economists analyze employment changes.

Analysis of the report also revealed that different occupations have experienced different growth in median wages between 2008 and 2009, and this report offers high quality data about the returns from a variety of occupations, as well as which occupations are experiencing a high level of wage growth. Several occupations which have high wage levels experienced wage growth in their median hourly wages, including management occupations, engineering occupations, and healthcare practitioners. Among high wage Hampton Roads occupations that have seen their median wages decline during the recession are computer occupations, industrial machinery and maintenance workers, as well as education and training occupations. Note that median wages are used for the occupations to remove bias from the top and bottom ends of the pay spectrum, as elements such as increases in minimum wage could have a big effect on mean wage, without changing the experience of the average person in an occupation.

Growth in Median Wages, Selected Occupations

Occupations	Growth 08-09	Median Hourly Wage
Management	21%	$35.55
Architecture and engineering	18%	$26.44
Healthcare practitioner and technical	12%	$19.60
Education, training, and library	-3%	$28.70
Industrial machinery installation, repair, and maintenance workers	-3%	$18.00
Computer and mathematical science	-16%	$22.37

Source: National Compensation Survey

Several items of note are revealed as other publications from the BLS relating to the National Compensation Survey are reviewed. First, Hampton Roads mean average wage growth outpaced the nation's average wage growth (6.0% vs. 1.8%). Second, wages in Hampton Roads were significantly below the national average in 2008 and again in 2009. In 2008, the regional wages were only 91% of the national wages for all occupations, and regional wages did not achieve national averages for any major occupation category. It is true that this is not uncommon in southeastern cities, and all of the comparable metro areas for Hampton Roads have wage levels at or below the national average except Washington DC. The exclusion of military employment from the survey probably contributes to the region's lag behind other southeastern cities.

OCCUPATIONAL PAY COMPARISONS, 2008

Metropolitan Area	Pay Relative: (Average pay nationally = 100)
Atlanta MSA	100
Charleston MSA	92
Charlotte MSA	99
Greensboro MSA	95
Richmond MSA	97
Tampa MSA	90
Hampton Roads MSA	**91**
Washington DC MSA	110

Source: National Compensation Survey

Hampton Roads Economic Outlook

A Painful Revision

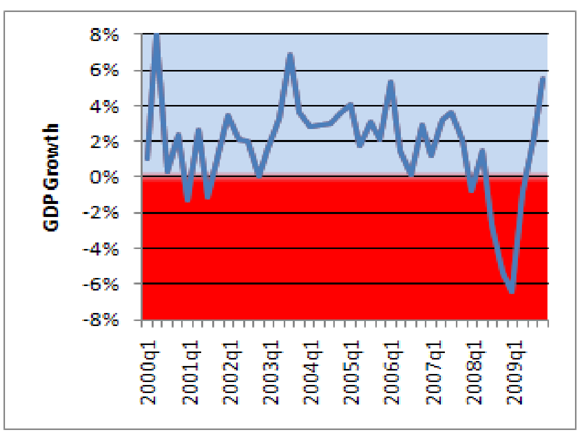
For the second spring in a row, the Bureau of Labor Statistics and the Virginia Employment Commission have made significant revisions to the payroll employment data, and it again signals a weaker economy for Hampton Roads. Payroll employment was revised down an additional 29,700 jobs in the March data release, a decline of 3.89% in payroll employment. On a seasonally adjusted basis, employment grew in January and February, but between the revision of the payroll numbers and the effect that the prolonged recession has had on the seasonal adjustment factors, it is difficult to give much credence to the Current Employment Survey statistics at this time.

Interestingly, employment as measured by the Current Population Survey has not declined to the same extent as the payroll data, suggesting that many of the jobs lost were part time or second jobs for workers. Initial unemployment claims remain extremely high, and it would be a stretch to forecast the region's employment situation improving until job turnover declines.

The Hampton Roads Economic Outlook continues to look for recovery from retail sales and home building, the traditional engines of growth after recessions, but there is little good news there. Retail Sales are significantly down from the start of the recession, and are down year over year despite an easy comparison with last year's weak sales numbers. Some of this is certainly due to increases in internet sales which require self reporting for taxes, but the effect for local retailers is similar in either instance, less sales. Single family permitting remains extremely weak, and will not recover until the housing market soaks up all excess inventory, but with changes to housing incentives (increasing mortgages rates and an expiring tax break) along with foreclosures continuing to enter the market, it is very clear that the housing market will not lead the region out of this recession.

Hampton Roads Economic Indicators

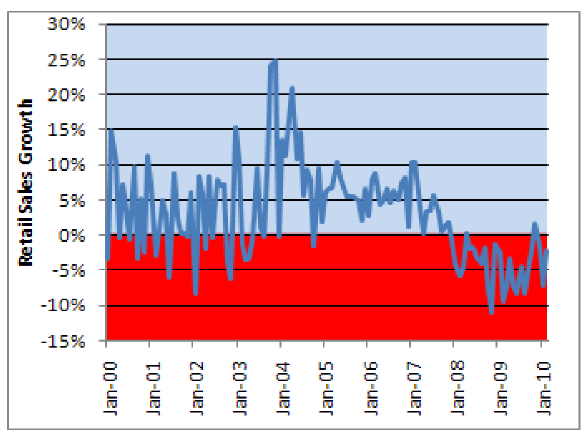
GDP, Annualized Growth Rate
United States, 2000Q1 – 2009Q4, Quarterly



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 increased significantly in the fourth quarter of 2009, but that was driven by investment in equipment and software. Economists expect a return to trend growth (3%) for the rest of the year.

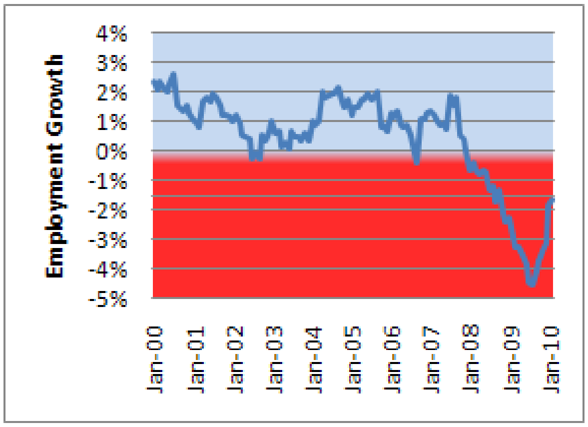
Retail Sales, Year over Year Growth
Hampton Roads, Jan 2000 – Feb 2010, Monthly



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 over year growth has again gone negative for the region, and that is against a weak February where retail sales were already down 9.4%. Since February 2007, taxable sales have fallen 16.7%, but a portion of that is certainly due to increasing internet sales as consumers look to stretch their spending.

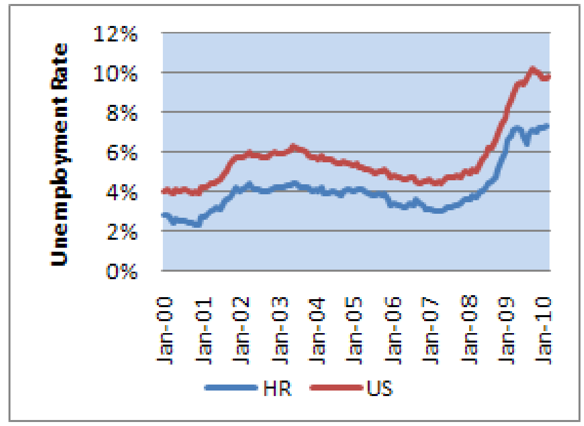
Employment, Year over Year Growth
Hampton Roads, Jan 2000 – Feb 2010, Monthly



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. Employment has been down year over year since the beginning of the recession, and the revision since the last quarterly newsletter erased the gains in employment in the second half of last year. The short term trend seems to be improving, but it will take Hampton Roads a long time to recover from the 36,500 jobs lost since the beginning of the recession (seasonally adjusted).

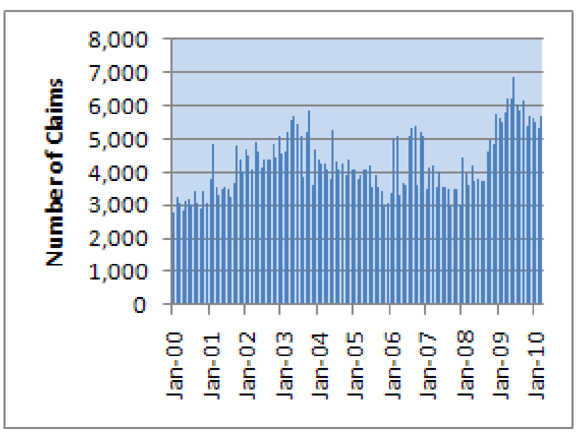
Unemployment Rate, Seasonally Adjusted
U.S. & Hampton Roads, Jan 2000 – Feb 2010, Monthly



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 on an increasing trend since August of 2009, but at 7.31%, is significantly better than the national unemployment rate (9.69%).

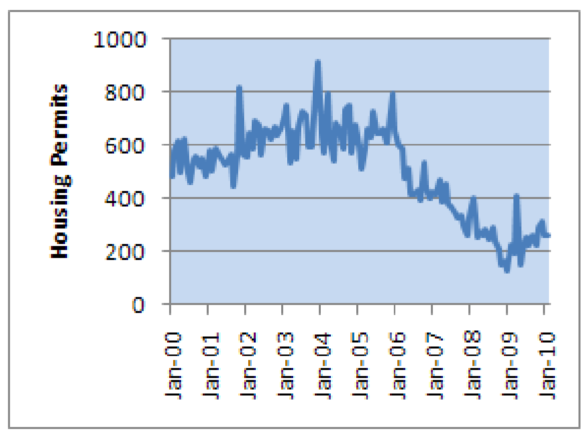
Initial Unemployment Claims, Seasonally Adj.
Hampton Roads, Jan 2000 – Feb 2010, Monthly



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 averaged 5,479 over the past three months, and this is significantly above the 20-year average of 4,545. It will be difficult to see the unemployment rate or payroll employment improving until job turnover declines significantly.

Single Family Housing Permits, Seasonally Adj.
Hampton Roads, Jan 2000 – Feb 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. However, there is currently such a large inventory of unsold homes that it precludes its usefulness as a measure of economic sentiment. Recently, permitting activity has averaged 260 units per month, remaining at half the long term average. With the home buyer tax credit expiring and the end of the Fed's mortgage support plan, it is unlikely to see permitting recover in the short term.