THE HAMPTON ROADS ECONOMIC QUARTERLY

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Looking at Hampton Roads through the eyes of the Brookings Institution

The Brookings Institution is a non-profit public policy organization based in Washington D.C. that produces a vast quantity of highly publicized independent research. The Institution's Metropolitan Policy Program focuses specifically on metropolitan areas and is one of five areas in which the Brookings Institution conducts specialized research. Recently, the Brookings Institution has engaged in efforts to rate, rank, and sort various aspects of metropolitan economies, efforts that have resulted in local headlines such as the one that appeared in *The Virginian-Pilot* on May 9th that read "Old, slow and not too bright. Welcome to Hampton Roads?" While comparative rankings can be of widespread interest in that they provide points of comparison, they often rely on simplified analysis that lacks the depth to truly understand an economy. This edition of the Hampton Roads Economic Quarterly evaluates two reports produced by the Brookings Institution; the State of Metropolitan America (released in May of this year), and the *MetroMonitor* (released on a quarterly basis).

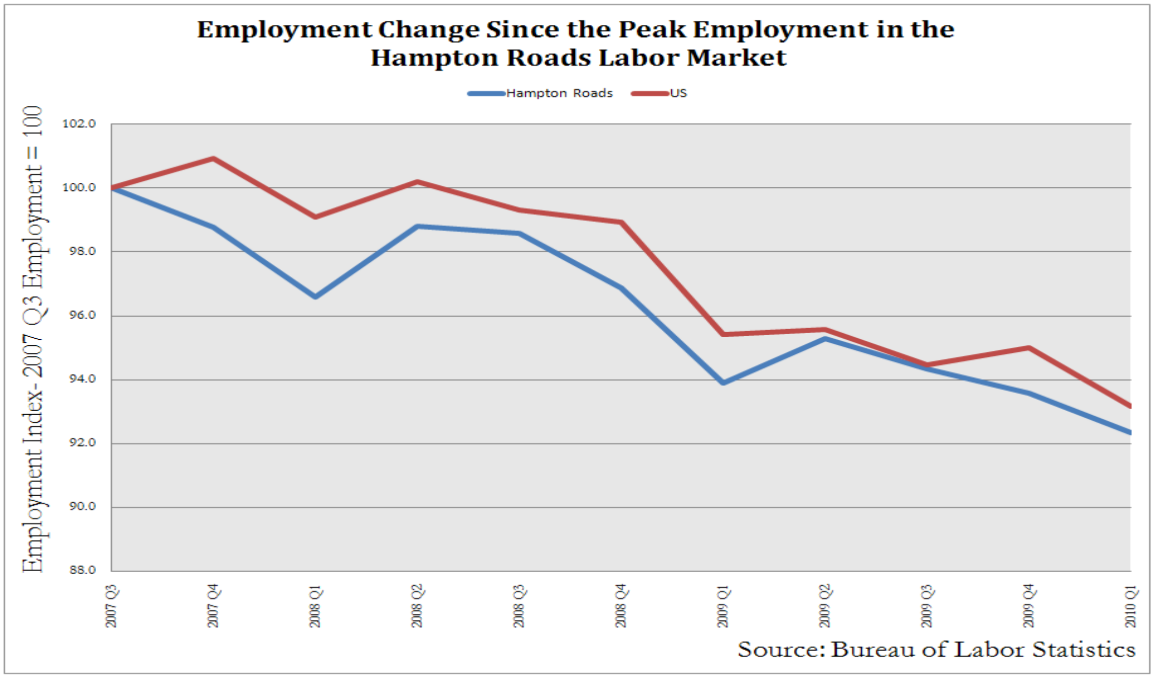
The Metropolitan Policy Program at Brookings

The Brookings Institution places its focus on metropolitan regions for a variety of reasons. One reason is that metropolitan areas include an increasing share of the national population, now approximately two-thirds of the population. Thus that which affects these regions will have the largest impact on the nation as a whole. Second, as the world increasingly moves towards global markets, the level of competition will increasingly be focused at a regional level. Regional competition for trade, business, and investments transcends state and national border.

The *MetroMonitor*

Born out of the Great Recession, the *MetroMonitor* attempts to track how individual cities have experienced the recession and recovery in an attempt to better analyze the building blocks of the national economy. The *MetroMonitor* is released with a summary document for the metropolitan areas in general, as well as individually focused document for each of the 100 largest metropolitan areas in the country.

The Quarterly *MetroMonitor* mainly serves to report the percentage change in five key economic statistics to measure the recovery of a metropolitan region, and then uses that percentage to rank that region's performance among the top 100 cities. The first two indicators focus on the region's labor market, in employment and unemployment. The Brookings Institution measures the change in employment for that region's particular peak (recognizing that different regions started contracting at different points of time), and the one quarter change in employment. The *MetroMonitor* reports both the rate of change in the unemployment rate at both a one and three year interval, as well as the actual unemployment rate. It is notable that both of these are backward looking measures, as they are reported on a significant lag from the Bureau of Labor Statistic data releases from which they are derived. Also, the *MetroMonitor* corrects for seasonality in unemployment by comparing year over year changes, but does not mention any adjustments for the seasonality in employment.



The *MetroMonitor* also reports the change in Gross Metropolitan Product (GMP), which attempts to measure the total output of goods and services in the region. Moody's Economy.com provides an estimate of this data to the Brookings Institution, and while the performance for Hampton Roads is quite high (ranked #2 in the country in growth since the beginning of the recession), there are difficulties in accurately measuring this data in a timely manner (the Bureau of Economic Analysis has a two-year lag for metropolitan GMP) which raises some question as to the value of the information.

The last two data points reported deal with the housing market, with the change in housing prices as well as the number of real estate owned properties (REOs). Percentage change in housing prices is calculated using the Office of Federal Housing Enterprise Oversight (OFHEO) Home Price Index, which measures the change in resale values of existing homes to measure real price appreciation. It is considered one of the most accurate measures of home prices along with the Case-Shiller Index. REOs are useful for measuring an individual area's performance in terms of loans; however, the *MetroMonitor* puts it in ratio terms to allow comparisons to be made between areas with vastly different numbers of homes without equalizing for foreclosure laws between states. This means that comparisons between metropolitan areas in different states might not provide the information that is assumed by the reader, and thus it would be better if Brookings did not report the rankings between the cities.

The focus of the *MetroMonitor* is reporting what has happened, and the data it provides does not give an accurate snapshot of current economic conditions, or those in the near future. This is a result of the lag with which the data is released and reporting the data as quarterly numbers. It would be a different document if it reported data that held more predictive power, including initial unemployment claims and home permits issued, though this would make the data collection process for this document much more difficult. Also, some of the numbers could be placed in better context, including items such as employment to population ratio and GMP per capita, which would do a better job capturing the current state of the region, rather than merely measuring change.

Lastly, the reported ranking of metropolitan regions based on performance tier tends to be over reported compared to its actual value. The measure is based on a region's quintile rank on the following performance measures: percent change in employment (peak to report quarter), one-year change in unemployment rate, percent change in real GMP (peak to report quarter), and the three-year change in home prices. As previously noted, the change in GMP is a very complicated calculation that is ripe for later revision, and thus would not be a statistic to include in a ranking system. Also, this ranking system only looks at the change since the start of the recession, and does not examine the actual number; this could (and does) result in cities having a higher ranking for categories including employment change and unemployment rate change, despite having demonstrably weaker labor markets (higher unemployment rates, lower employment to population ratios).

The State of Metropolitan America

This report attempts to use the American Community Survey data and the 2000 decennial census to track the performance of the 100 largest metropolitan areas over the previous decade (often described as "the lost decade"). The State of Metropolitan America report used a seven-category typology to group the metropolitan areas, namely; Next Frontier, New Heartland, Diverse Giant, Border Growth, Mid-Sized Magnet, Skilled Anchors, and Industrial Cores. Hampton Roads was grouped into the category of industrial core cities joined by several of the rustbelt mainstays such as Buffalo, Detroit, Cleveland, and Toledo (there were 18 cities total in this group). The State of Metropolitan America report used a series of three filters to determine the grouping for each of the largest cities. First, it examined population growth, and split cities between those that had grown by at least 8% between 2000 and 2008 from those which had not. Second, it looked at education levels of the population at least 25 years in age, and split regions based on whether 28% of the population had attained at least a bachelor's degree. Lastly, they investigated the level of diversity in the population, and areas were separated based on attaining at least 22.5% diversity (where diverse is neither African American nor non-Hispanic white). Hampton Roads' population only grew 5.1% between 2000 and 2008, had 27.4 % of the population with at least a bachelor's degree, and diverse persons, as defined by Brookings, only comprised 10.1% of the population. Because Hampton Roads fell below the mark in all three categories, and Brookings categorized it as an industrial core city.

Industrial Cores are described by Brookings as older industrial centers that are, slow growing, less diverse, less educated, and significantly older than the population overall. The American Community Survey contains a wealth of data, and as the details are examined, much of that description does not fit the reality of Hampton Roads. First, while with only 27.4% of the 25+population having a bachelor's degree, Hampton Roads fells just shy of the 28% standard set by Brookings. It is also important to note that only 11% of the 25 years and older population have less than high school equivalency in this region, which ties for the 21st lowest rate out of the top 100 MSAs. Also, 72.1% of those with a high school diploma in Hampton Roads were employed, which is the 10th highest rate in the nation. This indicates that there are significant job opportunities in the region that cross the education spectrum. This region also fails to meet the criteria from the perspective of aging; the median age of the population is currently 35.5, which is the 32nd youngest metropolitan area in the country.

Unfortunately, the State of Metropolitan America report does not look closer at Hampton Roads. It does not go into detail about how this region experienced a 3.9% growth in median household income between 2000 and 2008, nor how this region was one of five which experienced real wage growth for all three wage groups: low (10th percentile), medium (50th percentile), and high wage groups (90th percentile). While there is value to be gained from a detailed comparison of this region to other similar regions, it is imperative that one be cognizant of a region's unique attributes. Hampton Roads' competitive advantages such as deep water access, significant Department of Defense holdings, and numerous tourist destinations have enabled this region to maintain an exceptional quality of life. The Brookings Institution does highlight some of the demographic risks facing the region, and it is clear that Hampton Roads must make strategic investments in our region's future and be constantly vigilant in seeking new opportunities for growth – lest we become deserving of the industrial core moniker.

The Seven Types of Large Metropolitan Areas

MSA Typology/ Category	Number of Areas	Example MSA	Growth	Diversity	Educational Attainment
New Frontier	9	Washington DC	High	High	High
Diverse Giant	9	New York, NY	Low	High	High
New Heartland	19	Richmond, Va	High	Low	High
Border Growth	11	Orlando, FL	High	High	Low
Skilled Anchor	19	Baltimore, MD	Low	Low	High
Mid-Sized Magnet	15	Jacksonville, FL	High	Low	Low
Industrial Core	18	**Hampton Roads**	Low	Low	Low

Source: The State of Metropolitan American, The Brookings Institution

Industrial Core Cities						
MSAs (Listed by Reverse Sum of Ranks)	Diversity		Over 25 with Bachelors		Population Growth	
	%	Top 100 Rank	%	Top 100 Rank	%	Top 100 Rank
Brookings Cutoffs	*22.5%*	-	*28.0%*	-	*8.0%*	-
Wichita, KS Metro Area	16.5%	43	27.8%	59	5.6%	66
Tulsa, OK Metro Area	21.0%	31	25.1%	79	6.8%	62
Providence-New Bedford-Fall River, RI-MA Metro Area	14.6%	50	28.0%	57	0.9%	88
Virginia Beach-Norfolk-Newport News, VA-NC Metro Area	**10.1%**	**66**	**27.4%**	**61**	**5.1%**	**69**
Grand Rapids-Wyoming, MI Metro Area	12.5%	57	26.3%	70	4.9%	70
Harrisburg-Carlisle, PA Metro Area	8.0%	78	27.0%	63	4.3%	74
Memphis, TN-MS-AR Metro Area	7.3%	81	24.7%	82	6.9%	61
Birmingham-Hoover, AL Metro Area	5.8%	89	26.2%	72	6.2%	64
Detroit-Warren-Livonia, MI Metro Area	8.9%	72	26.5%	67	-0.6%	91
Augusta-Richmond County, GA-SC Metro Area	6.4%	86	22.1%	89	7.5%	58
Louisville-Jefferson County, KY-IN Metro Area	5.8%	90	24.0%	85	7.1%	60
Cleveland-Elyria-Mentor, OH Metro Area	7.7%	79	27.0%	62	-2.8%	96
Buffalo-Niagara Falls, NY Metro Area	7.2%	84	26.9%	64	-3.9%	98
New Orleans-Metairie-Kenner, LA Metro Area	10.6%	64	23.5%	86	-13.9%	100
Toledo, OH Metro Area	8.1%	77	22.9%	88	-1.5%	94
Dayton, OH Metro Area	5.1%	95	24.9%	81	-1.4%	93
Scranton--Wilkes-Barre, PA Metro Area	5.6%	91	21.0%	91	-2.0%	95
Youngstown-Warren-Boardman, OH-PA Metro Area	4.5%	98	19.1%	93	-6.1%	99
	Source: HRPDC, 2000 U.S. Census, American Community Survey 2008					

This chart has a listing of industrial core cities as determined by The State of Metropolitan America report, along with the demographic data which the Brookings Institution used to group cities into the various categories. All of the industrial core cities fell below the threshold established by Brookings for Diversity, rate of Bachelor's attainment, and eight-year population growth.

Hampton Roads Economic Outlook

Moving Sideways

The economic outlook for Hampton Roads has been moving sideways for the last two quarters. This is evidenced by all of the regional labor market indicators neither increasing nor declining significantly, as well as stagnation in single family home permitting (until the effects of expiring home buyer tax credit manifested themselves in three months of volatility).

National GDP growth continues to be positive, but the Bureau of Economic Analysis downgraded the estimate for 2010 1st Quarter GDP growth twice, from 3.2% annual growth in the advanced estimate, to 2.7% annual growth in the most recent release. This was a result of both stronger imports than originally estimated and weaker personal consumption expenditures (PCE). It is notable that while the GDP continues to grow, it has not been accompanied by the employment growth expected to accompany the national recovery. Forecasters continue to revise previous growth forecasts lower, and the Federal Reserve downgraded the expected range of GDP growth for 2010 to 3.0%-3.5% from 3.2% to 3.7% in the Federal Open Market Committee this past April. Although the role of the stimulus is already accounted for in the GDP forecasts, it is worth noting that the stimulus will begin draining GDP growth in the fourth quarter of 2010 as spending runs out. If private sector recovery has not taken hold by that time, the economy could return to recession.

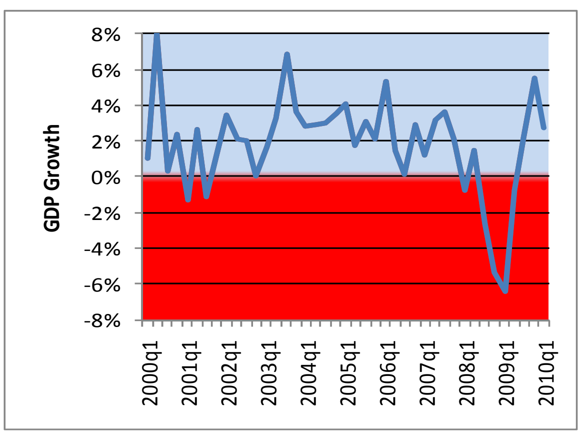
Regionally, the employment indicators continue to move sideways. We have begun to see employment stop declining year over year, and because of the relatively shallow nature of the employment gap in the region, maintaining the past month's (May's) job growth could return Hampton Roads to previous levels of employment by September 2011, significantly ahead of the nation's projected recovery. The unemployment rate continues to remain in the mid 7% range, and the region has not seen the employment increase in the current population survey as would be expected at a turning point. Additionally, Hampton Roads' labor force continues to contract, which means that the unemployment rate will remain elevated even as the economy starts to recover as previously discouraged workers return to the labor force. Furthermore, initial unemployment claims for the region remain elevated, indicating a high degree of turnover.

Retail Sales in the region are also moving sideways. As noted in previous reports, the HRPDC uses the 1% local option sales tax to measure retail sales in the jurisdiction, so there are significant holes including gas, auto sales, and online purchases that are not covered by this indicator. That said, arresting the decline in retail sales will give local businesses much needed breathing room, and present a much stronger picture than the US which experienced a 1.1% decline in May retail sales.

Housing Permits are one indicator that is not moving sideways. Permitting appears to have bottomed out at 170 single family units in May, as several factors continue to put pressure on the housing market despite record low mortgage rates. The labor market difficulties at both the regional and national level create unemployment for those without jobs and uncertainty for those with jobs, affecting consumer confidence and decreasing demand. Also, with a slow pace of sales and a significant number of homes in various stages of foreclosure, the supply of existing homes has depressed home values, reducing the incentive to develop property. Lastly, the expiration of the home buyer tax credit in April meant that many of those interested in purchasing a home are likely to have already done so. This short-term surge in home purchases, coupled with an extensive shadow inventory, will contribute to a weak housing market in Hampton Roads for the foreseeable future.

Hampton Roads Economic Indicators

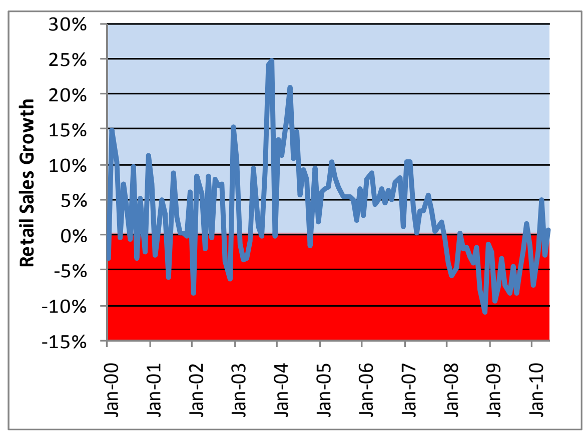
GDP, Annualized Growth Rate
United States, 2000Q1 – 20010Q1, Quarterly



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. GDP only grew 2.7% in the first quarter of 2010, below trend growth; further, GDP forecasts for the second quarter have been downgraded on the weakness of net exports and lower retail sales.

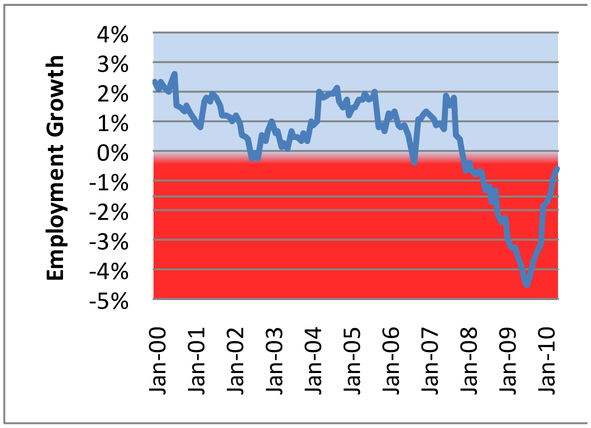
Retail Sales, Year over Year Growth
Hampton Roads, Jan 2000 – May 2010, Monthly



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. Sales have grown since May 2007 by 0.8% but this continues a comparison to the significantly weaker sales of 2009, and retail sales are 8.15% below regional sales in May 2007.

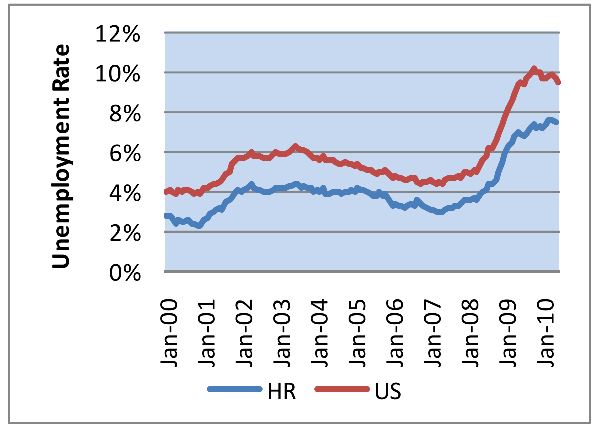
Employment, Year over Year Growth
Hampton Roads, Jan 2000 – May 2010, Monthly



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' employment has not grown year over year since the start of the recession; however, the rate of decline has shrunk considerably over the last 9 months. Still, the region has lost 33,600 jobs since the start of the recession (Dec 2007), and if the current pace of employment change persists, it will be another 16 months before the region returns to the previous employment highs.

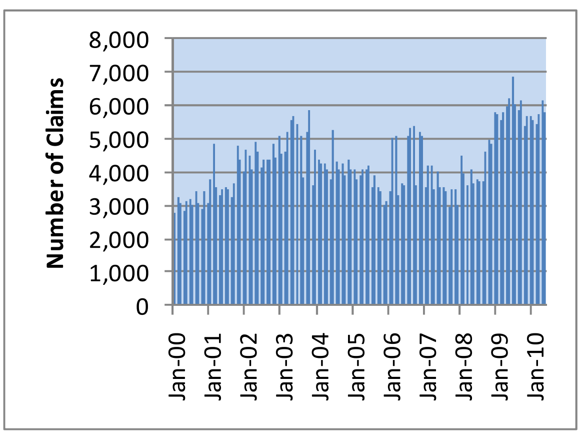
Unemployment Rate, Seasonally Adjusted
U.S. & Hampton Roads, Jan 2000 – May 2010, Monthly



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 7.4% and 7.6% since February. This misses the fact that the regional labor force has shrunk by 5,000 workers over that period as Hampton Roads workers have become discouraged.

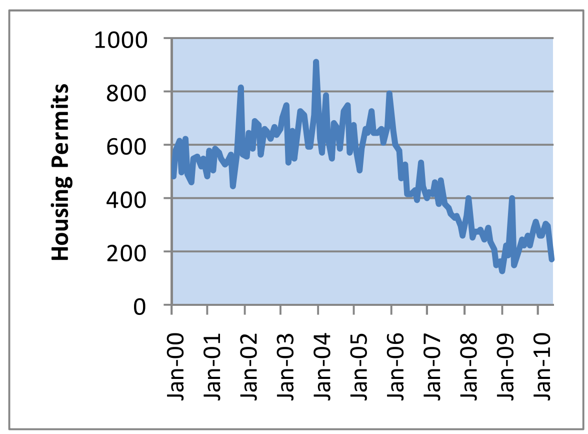
Initial Unemployment Claims, Seasonally Adj.
Hampton Roads, Jan 2000 – May 2010, Monthly



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. One explanation for the persistently high initial claims might be the series of closings where multiple people lose their job together, and thus there are better information networks about the benefits, leading to a high utilization rate.

Single Family Housing Permits, Seasonally Adj.
Hampton Roads, Jan 2000 – May 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 single family permitting fell to 170 units in May (on a seasonally adjusted basis), and this reflects both the expiration of the home buyer tax credit and the general weakness in the real estate market. Given this weakness persists in the home market despite historically low mortgage rates, it is likely that both improvement in the labor market as well as clearing of excess housing inventory are needed for a housing recovery.