Section II

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The Hampton Roads Economy

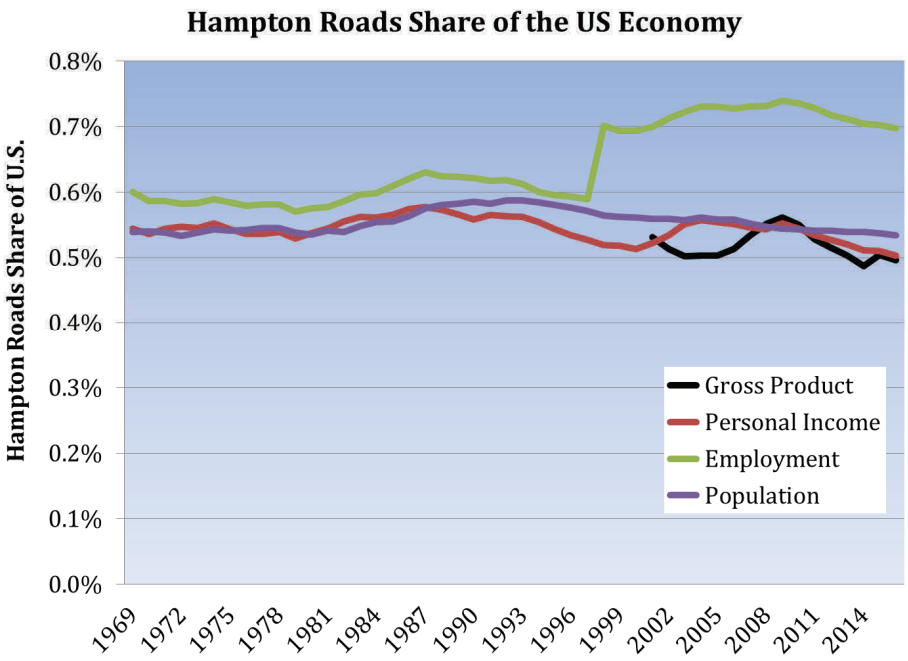
Regional employment surpassed pre-recession levels in April 2018 and has now grown to 785,200 as of July 2018. While this is an important milestone in the region's recovery, it took more than 10 years for employment to recover. Employment has only grown by 3,600 since July 2007, while the region's population increased by 82,000 in the same period.

Employment in Hampton Roads still derives mainly from military personnel and federal civilians, as well as industries related to the Department of Defense. Healthcare employment has experienced significant growth and is the only industry that added employment continuously throughout the entire recession, though that growth declined both regionally and nationally so far in 2018.

Recently, the gap between the national and regional unemployment rate grew, signaling a strengthening of the local economy relative to that of the nation. The regional unemployment rate has declined and Hampton Roads' labor market continues to be very tight. Additionally, the unemployment measure undercounts the strength of the region's labor market because employed military personnel are not included in the calculation of the unemployment rate; including military personnel, the June 2017 rate would have been 3.0%.

Regional per capita incomes now lag U.S. levels after outperforming the country during the initial years of the recession. Income growth in the region has mostly been driven by growth in personal transfers (government benefits), as wage and salary income has only increased slightly since 2007 (1.5%).

Overall, the Hampton Roads economy is significant on both the national and international stage, with a gross product similar to some large countries. Additionally, the economy constitutes about 0.5% of the nation's economy, income, and population. Gross product growth has lagged behind recent employment gains, but either strong growth or a strong revision should be coming for the region.



Source: Bureau of Economic Analysis, HRPDC

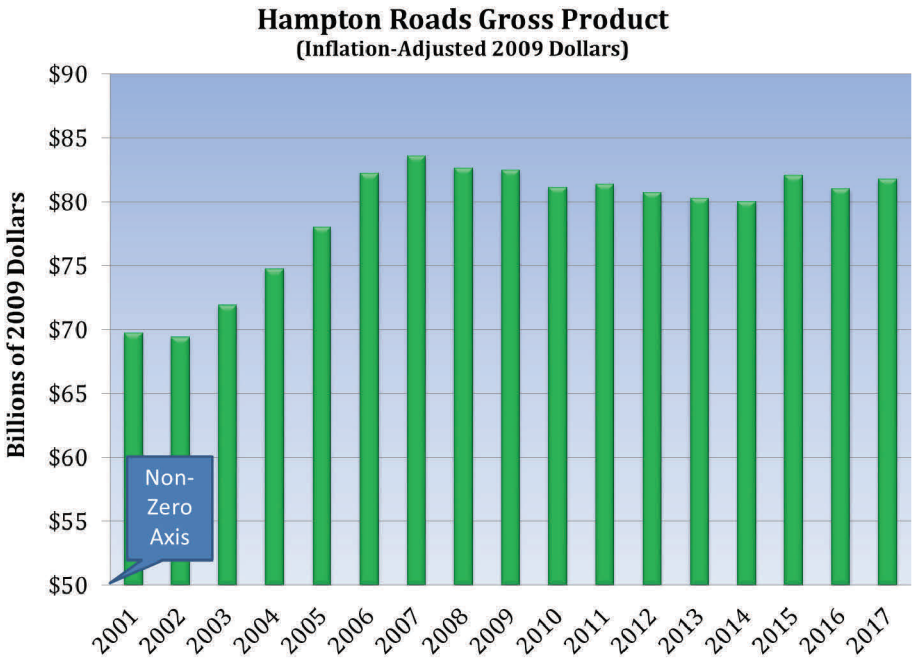
Figure 2.1 Hampton Roads Historic Gross Product

Why is it important?

Gross product measures the dollar value of all the goods and services that are produced within a geographic area during a year. Tracking gross product over time illustrates the region's relative economic performance.

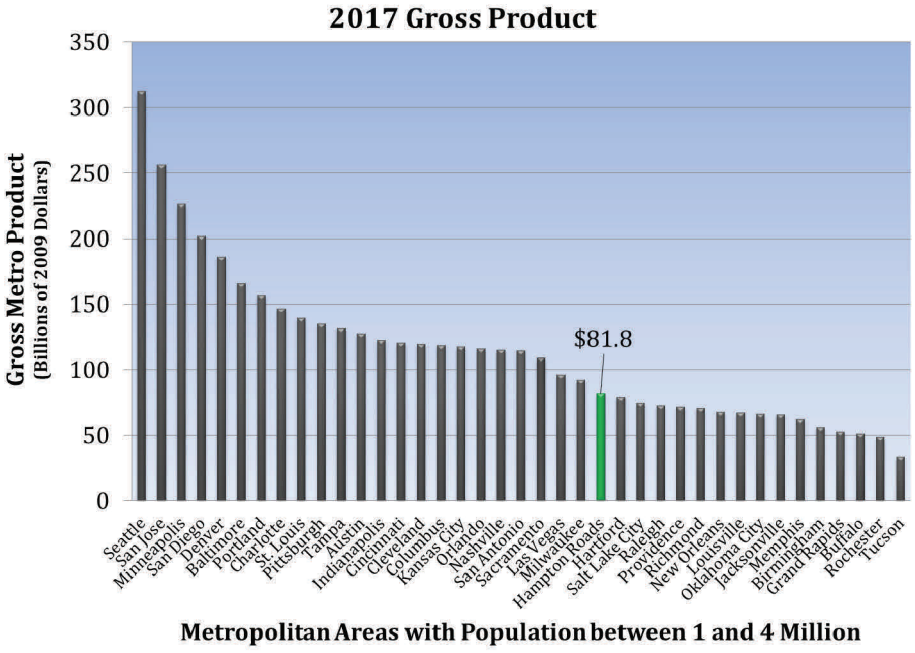
How are we doing?

Between 2001 and 2007, real Gross Product grew at annualized rate of 3.3%; however, since the recession, the regional economy has actually declined by an annualized rate of 0.24% when controlling for inflation. Indicators pointed to stronger growth in 2017 regional gross product than shown in BEA estimates.



Source: Bureau of Economic Analysis, HRPDC

Figure 2.2 Gross Product in Hampton Roads and Reference MSAs



Source: Bureau of Economic Analysis, HRPDC

Why is it important?

It is important to understand the relative size of metro economies when making direct comparisons. This graph illustrates the broad range in the size of Hampton Roads' reference metropolitan areas.

How are we doing?

Hampton Roads' gross product reflects both the size of the population and the productivity/value added by its industries. As with most metros, the size of the region's economy is tightly correlated with the size of its population.

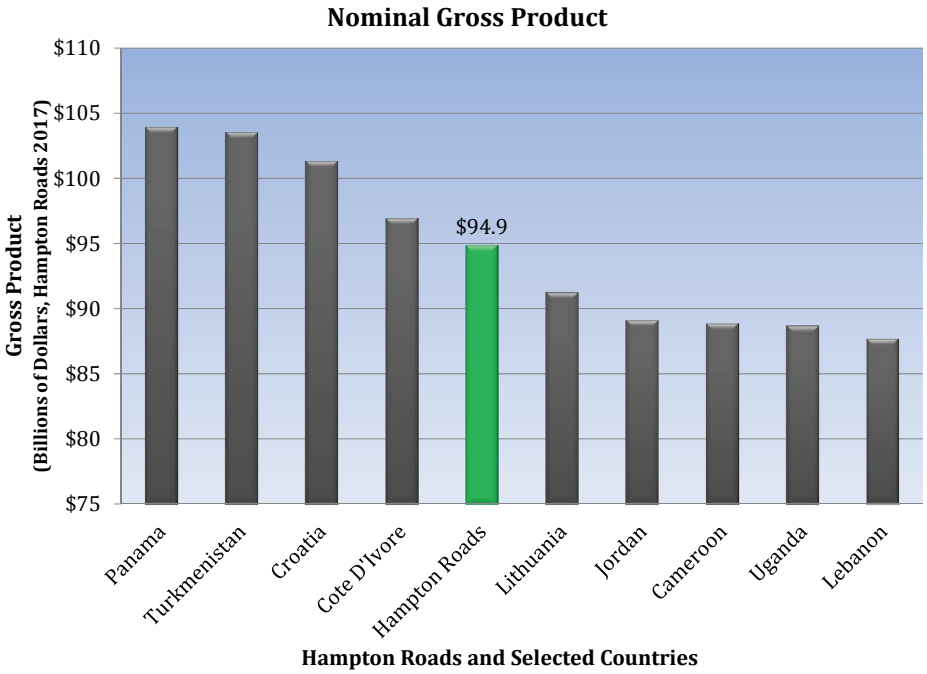
Figure 2.3 Hampton Roads Gross Product Compared to Foreign Economies

Why is it important?

A comparison of the Hampton Roads economy relative to foreign economies of a similar size provides perspective as to the magnitude and potential influence of the regional market.

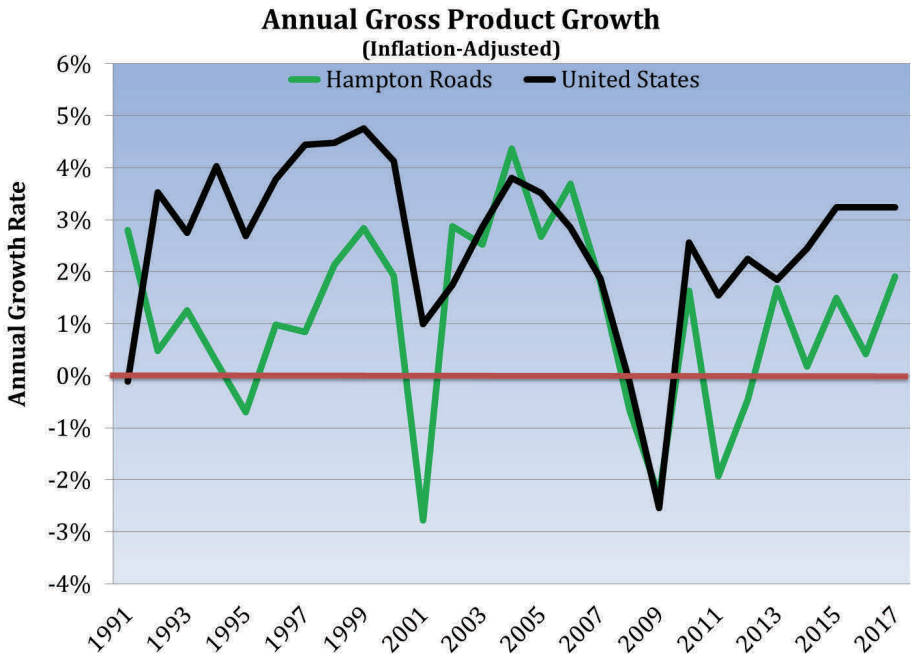
How are we doing?

Hampton Roads has a world scale economy, comparable to countries such as Panama, Croatia, and Lithuania. The high level of both output and productivity growth in both the U.S. and Hampton Roads allows this region's economy to rival those of nations which have significantly larger populations.



Source: Bureau of Economic Analysis, CIA Worldbook, HRPDC

Figure 2.4 National and Regional Gross Product Growth



Source: Regional Economic Modeling, Inc., HRPDC

Why is it important?

Comparing the gross regional product to the U.S. Gross Domestic Product provides a benchmark against which one can measure the region's performance.

How are we doing?

The Hampton Roads economy typically grows in tandem with the national economy. The two deviations from this trend were during the combined internet boom and defense cuts of the mid 1990's, as well as during the most recent economic recovery.

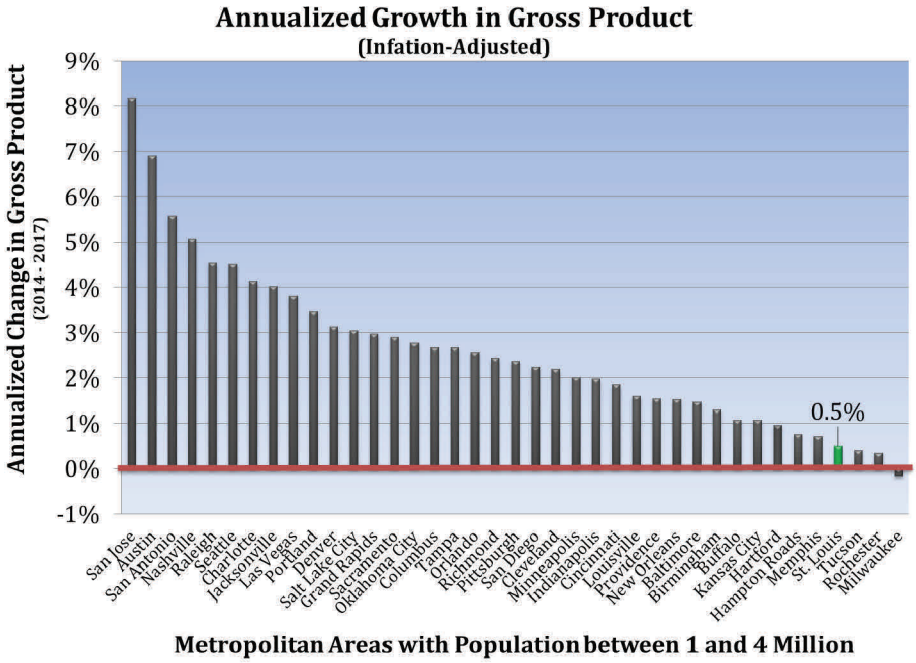
Figure 2.5 Three-Year Gross Product Growth in Hampton Roads and Reference MSAs

Why is it important?

The reference metropolitan areas are subject to many of the same pressures that influence economic conditions in Hampton Roads. Benchmarking local economic growth against growth in competing metros allows one to assess a region's performance irrespective of market conditions.

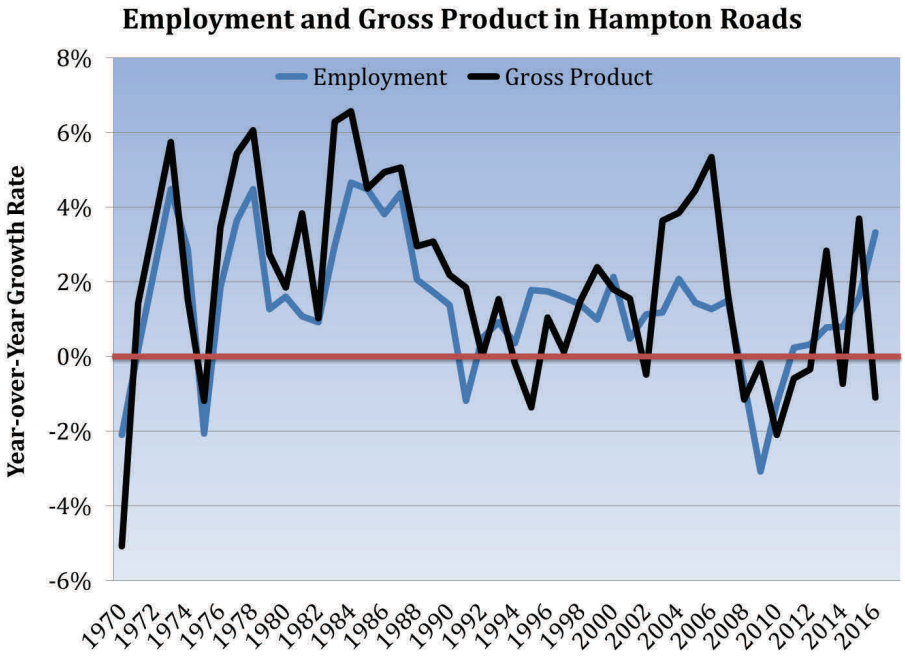
How are we doing?

While this region has experienced growth since 2010, that growth has been slight compared to many similar sized metropolitan areas.



Source: Bureau of Economic Analysis, HRPDC

Figure 2.6 Employment and Gross Product in Hampton Roads



Source: Regional Economic Modeling, Inc., HRPDC

Why is it important?

Employment figures typically track gross product statistics; however, employment statistics are more readily available from a host of reliable sources. It is common practice to use employment information as a general indicator of economic well-being.

How are we doing?

Regional economic growth and employment growth are tightly related historically, but that relationship has weakened more recently, as there have been periods of sharp employment declines without commiserate declines in gross product, and vice versa.

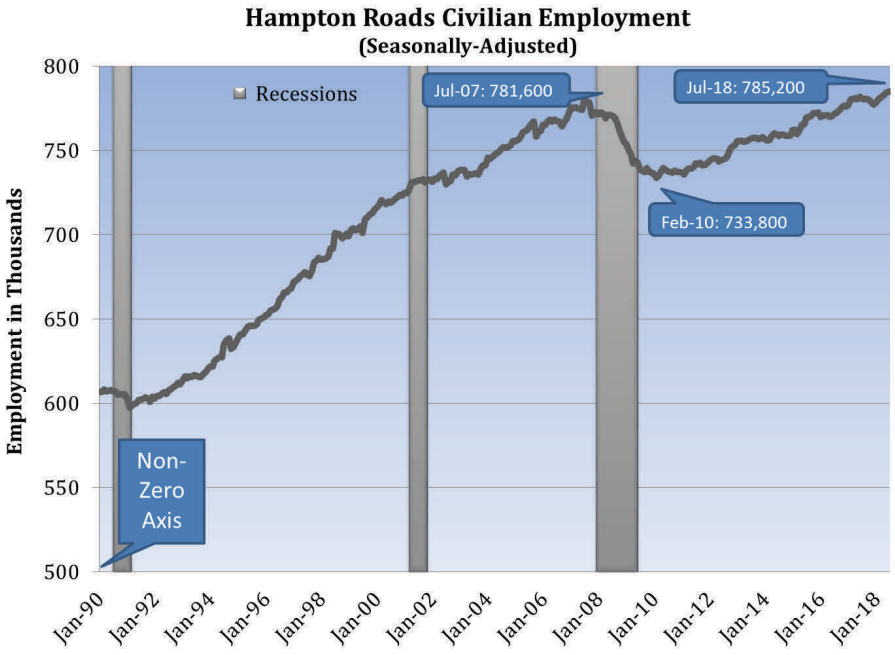
Figure 2.7 Seasonally Adjusted Hampton Roads Employment

Why is it important?

When adjusted for seasonal factors, monthly employment data provide a real time indicator of regional economic activity.

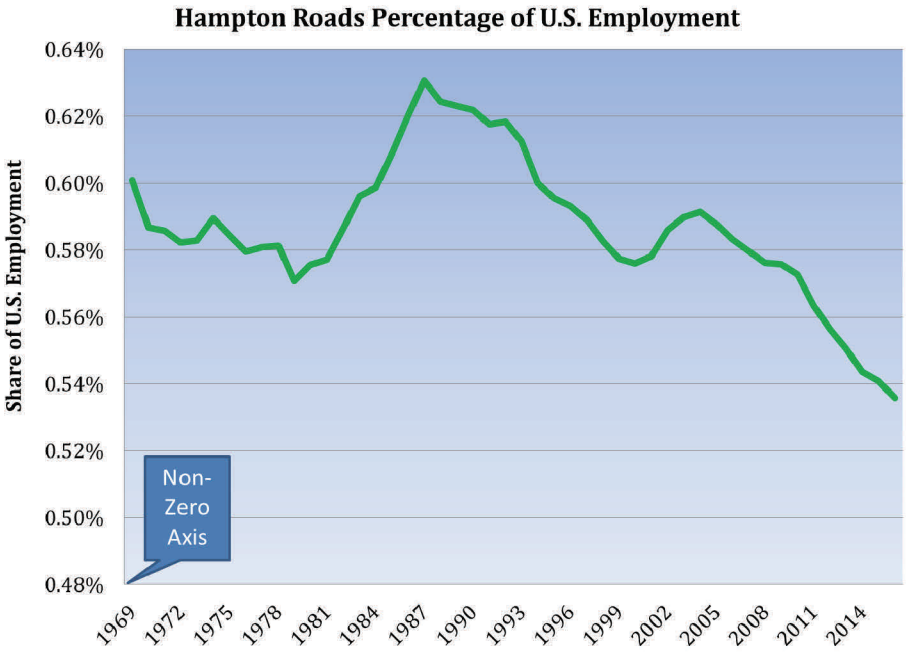
How are we doing?

The Hampton Roads economy has struggled to surpass the prerecession employment peak of July 2007. Seasonally adjusted employment has gradually increased since February 2010 with minor periods of variations, but regional employment surpassed the pre-recession level in April 2018. Employment has increased by 0.5% since July 2007, but has grown 0.6% in the past year alone.



Source: Bureau of Labor Statistics, HRPDC

Figure 2.8 Hampton Roads Employment Share of U.S. Employment



Source: Bureau of Economic Analysis, HRPDC

Why is it important?

The local business cycle influences relative growth rates. Comparing local employment figures to national employment figures reveals how the local business cycle deviates from the national business cycle.

How are we doing?

Regional employment constitutes a larger share of national employment during periods of elevated military spending, including the 1980's and shortly after 9/11. As military spending has declined relative to economic growth, the region's share of U.S. employment has fallen.

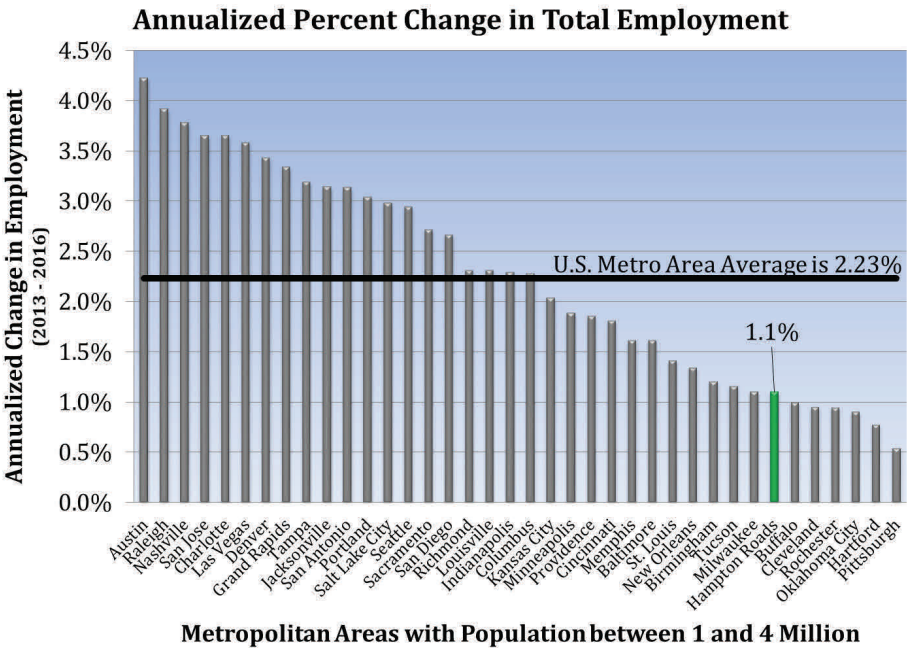
Figure 2.9 Three-Year Employment Growth in Hampton Roads and Reference MSAs

Why is it important?

A change in the level of regional employment often coincides with growth or declines in regional output. Comparing Hampton Roads to metropolitan areas of a similar size creates an opportunity to assess the competitive strength and growth prospects for the regional economy.

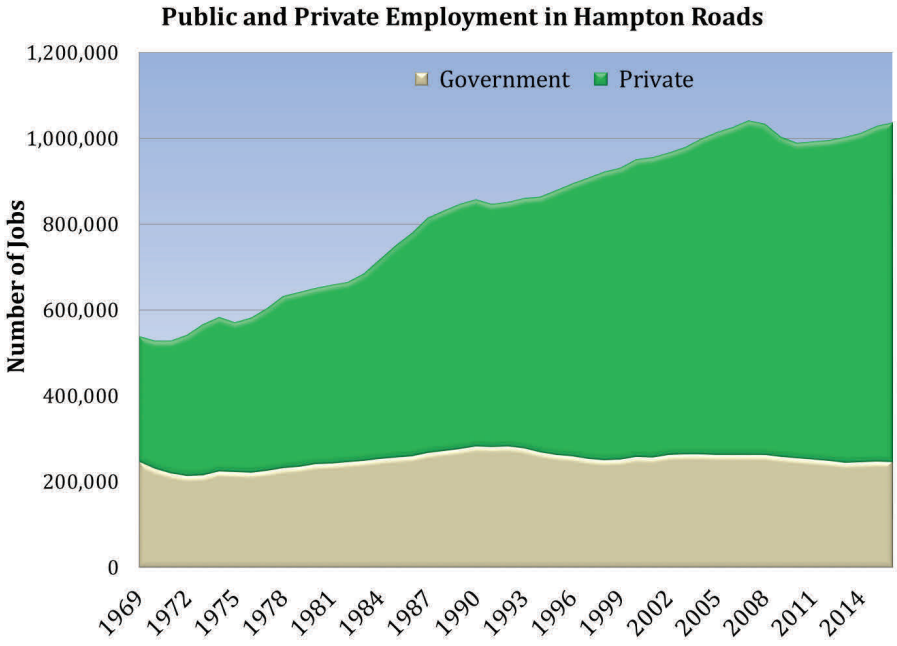
How are we doing?

Regional employment growth has lagged that of its reference MSAs, as well as the average growth for U.S. metropolitan areas. While year-to-year performance will vary, a sustained period of weak employment growth signals underlying economic issues.



Source: Bureau of Economic Analysis, HRPDC

Figure 2.10 Public and Private Sector Employment in Hampton Roads



Source: Bureau of Economic Analysis, HRPDC

Why is it important?

Stable government employment can insulate an economy from volatile markets. Conversely, changes in government employment can exacerbate or counter market forces.

How are we doing?

While private employment fell sharply during the recession, regional government employment has experienced a gradual slow decline. Separating regional employment into these categories does not fully capture the influence of the federal government because civilian contractors supported by the DoD are considered privately employed.

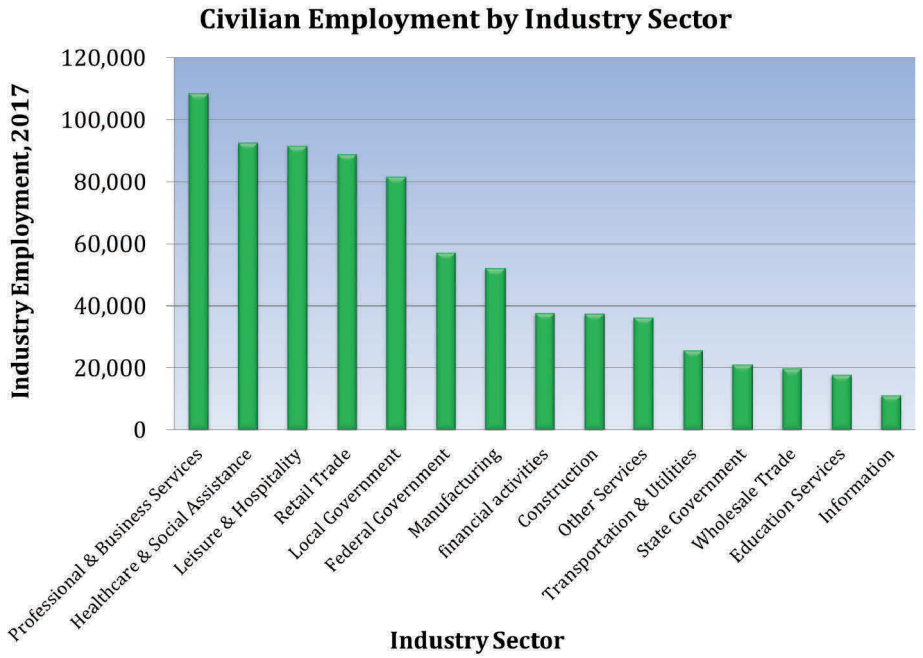
Figure 2.11 Distribution of Hampton Roads Employment by Industry Sector

Why is it important?

Regional economic behavior is heavily influenced by its sector composition. The current industrial make-up of a region will influence future economic growth.

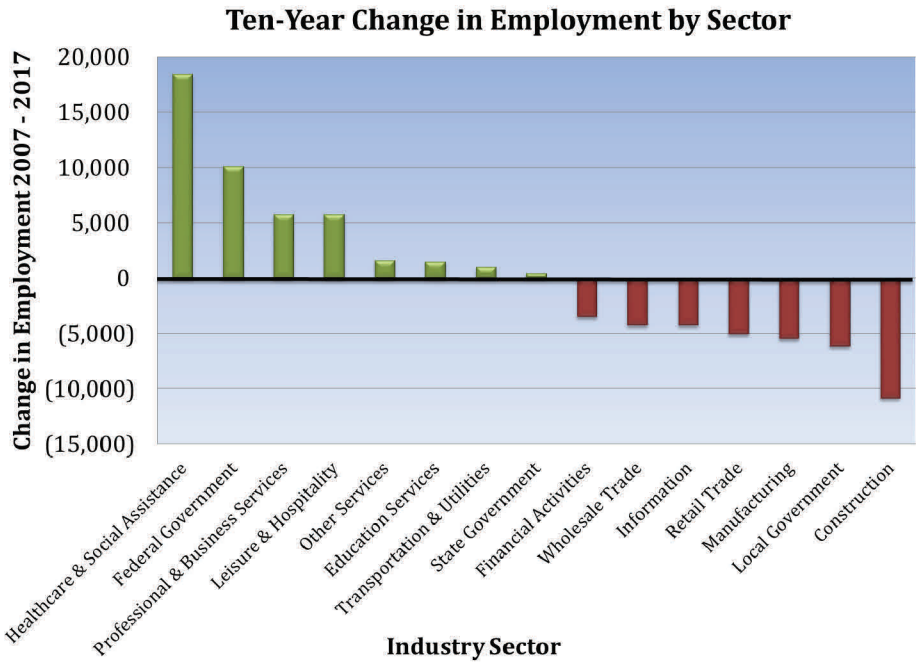
How are we doing?

Professional and business services, an industry often influenced by government contracting, is the largest regional employment sector. There is also significant employment in healthcare as well as leisure and hospitality.



Source: Bureau of Labor Statistics, HRPDC

Figure 2.12 Ten-Year Change in Hampton Roads Employment by Industry Sector



Source: Bureau of Labor Statistics, HRPDC

Why is it important?

Industrial employment is influenced by the business cycle. One can observe local trends by tracking changes in regional industrial employment.

How are we doing?

Hampton Roads employment has grown by only 4,400 since 2006, but job growth or decline varies considerably by industry. Healthcare employment has continued to grow through both recession and the recovery. Conversely, local government employment, manufacturing, and construction employment continue to be impacted by the weak real estate market.

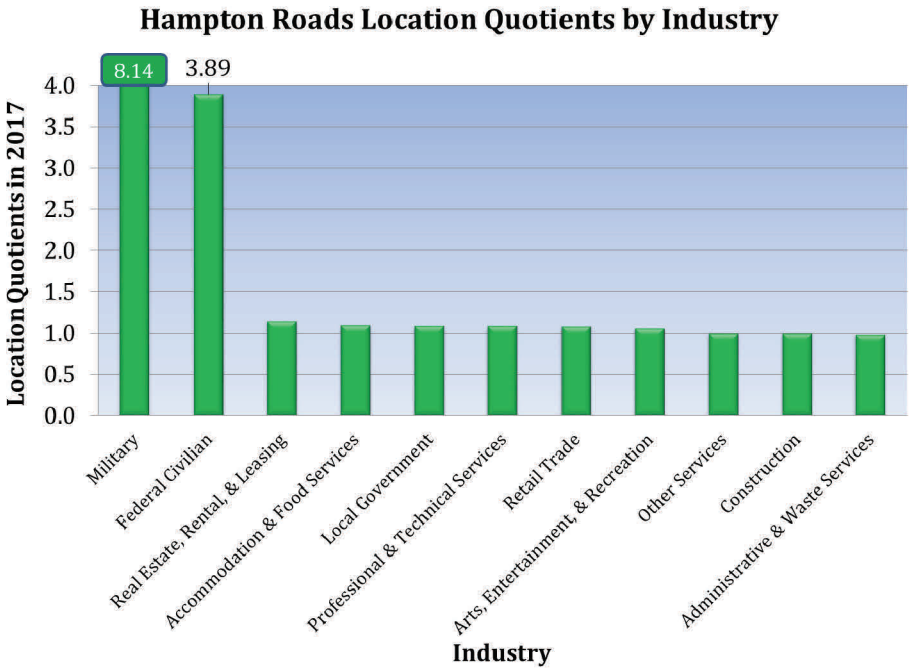
Figure 2.13 Hampton Roads Industry Location Quotients

Why is it important?

Location Quotients (LQ) identify competitive advantages by comparing regional employment distributions to national employment distributions. LQs greater than one suggest a comparative advantage.

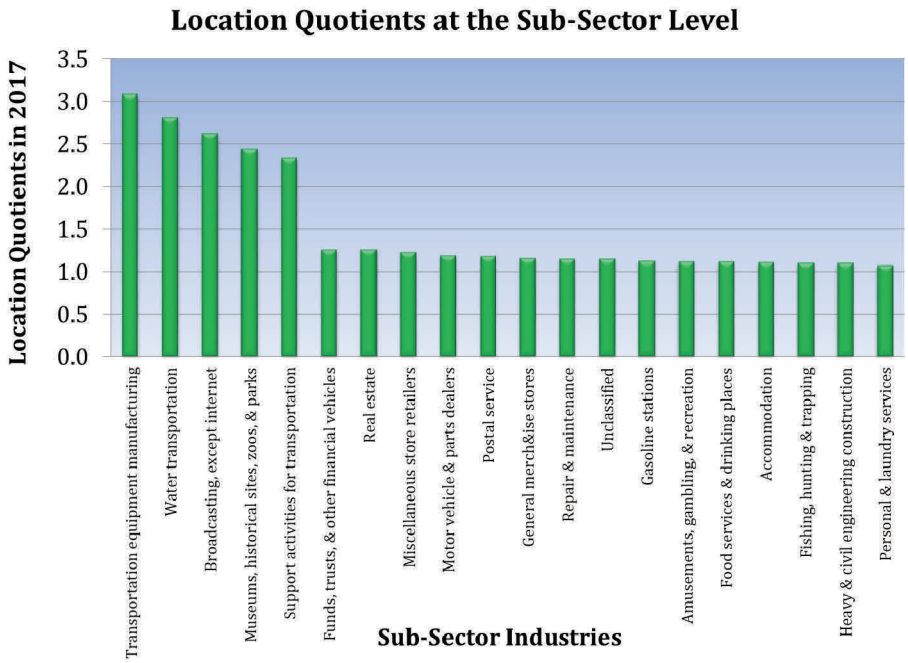
How are we doing?

The regional concentration of military employment continues to be striking, even as the overall number of military personnel in the region continues to fall. It is also notable that Hampton Roads construction employment has a higher concentration than the construction industry nationwide.



Source: Bureau of Labor Statistics, HRPDC

Figure 2.14 Hampton Roads Sub-Sector Industry Location Quotients



Source: Bureau of Labor Statistics, HRPDC

Why is it important?

Sub-sector location quotients reveal specific industries that have a high regional concentration. The industries listed all have a location quotient above 1. These sub-sector industries represent the backbone of the private sector economy in Hampton Roads.

How are we doing?

Transportation equipment manufacturing, water transportation, and attraction employment (museums, historical sites, etc.) reflect the three basic sector industries of the regional economy: the port, the DoD (shipbuilding), and tourism.

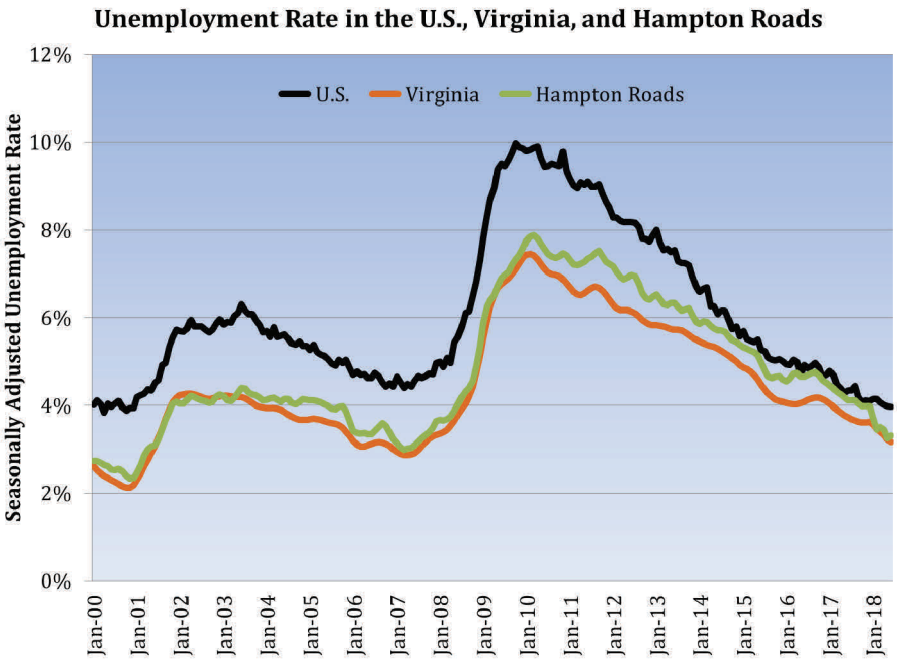
Figure 2.15 Unemployment Rates in Hampton Roads, Virginia, and the U.S.

Why is it important?

Unemployment rates reflect both the general well-being of the labor force and the ability of the labor force to meet the needs of employers. Comparing the regional unemployment rate to the national rate enables one to assess the condition of the regional labor market over time.

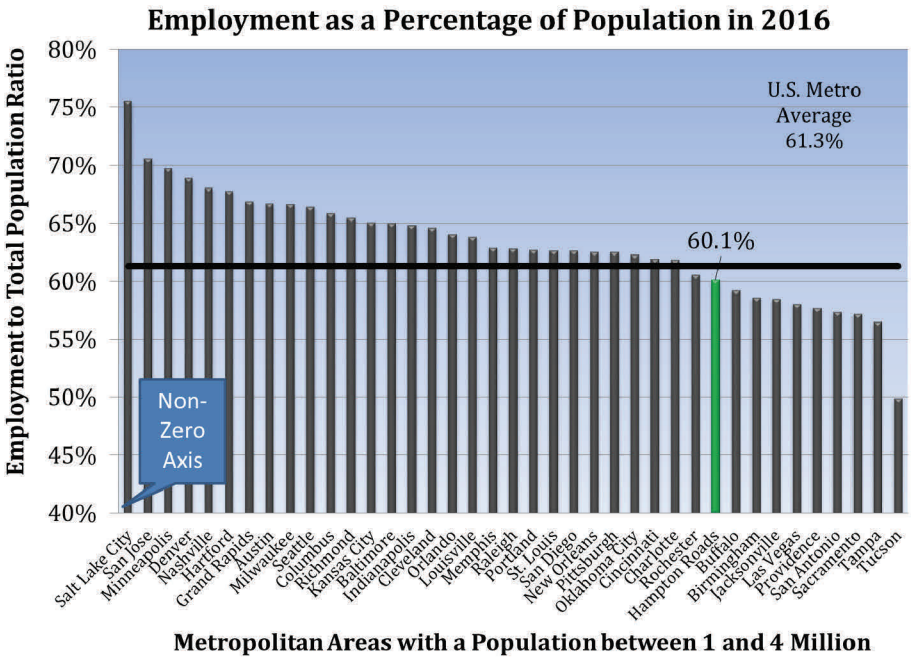
How are we doing?

Historically, Hampton Roads has had a low unemployment rate compared to the nation, a trend that has continued throughout the recession; recently, the Hampton Roads rate has returned to the low level of Virginia (prerecession levels).



Source: Bureau of Labor Statistics, HRPDC

Figure 2.16 Employment to Population Ratio in Hampton Roads and Reference MSAs



Source: Bureau of Economic Analysis, HRPDC

Why is it important?

Comparing the number of jobs in the economy to the total population indicates how many jobs are supporting the regional economy relative to those not working, which includes children, the retired, and those who are unemployed/out of the labor force for other reasons.

How are we doing?

The employment to population ratio in Hampton Roads is just below the national average for metropolitan areas, and falls at the lower end of the range for this region's reference metropolitan areas.

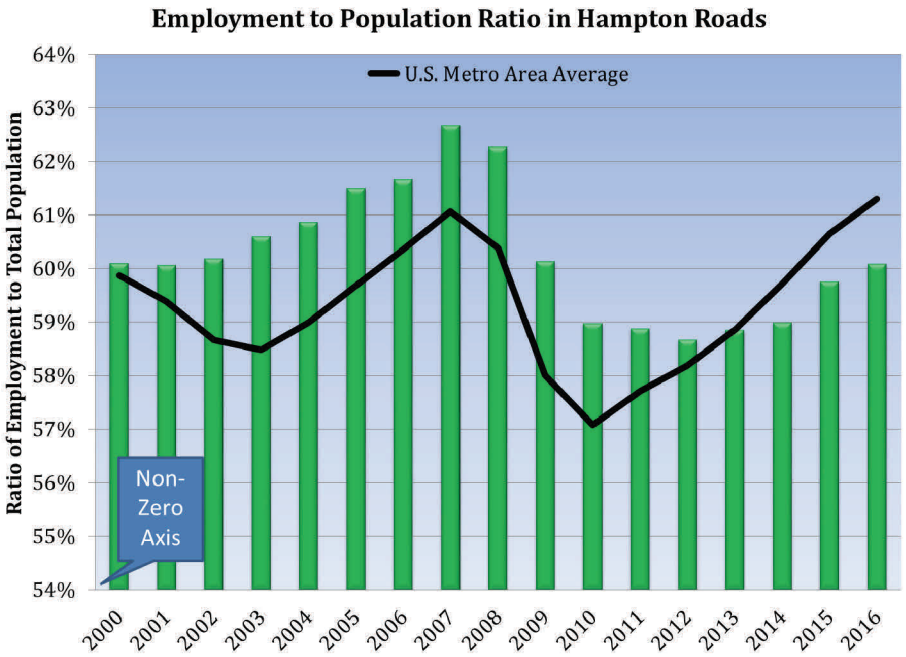
Figure 2.17 Employment to Population Ratios in Hampton Roads and the U.S.

Why is it important?

Changing employment to population ratios can be the result of either economic or demographic changes. Considering changes in the employment to population ratio will result in a better understanding of the market.

How are we doing?

Hampton Roads' employment to population ratio fell from its recent peak of 62.5% in 2007 due to population growth and weak regional employment growth. While most MSAs saw a similar decline from 2007, they have had growing participation since 2010. This region has not experienced similar growth.



Source: Bureau of Economic Analysis, HRPDC

Figure 2.18 Ratio of Average Weekly Wages

Source: Bureau of Labor Statistics, HRPDC

Why is it important?

Average weekly wages combines a variety of information, including the tightness of the regional labor market, the cost of living, and the productivity of labor within the region.

How are we doing?

Hampton Roads' weekly wage increased relative to that of the nation in 2008 and 2009, reflecting the impact of the recession on the rest of the country, and relative stability of this region's economy. As the rest of the country has experienced a robust recovery and DoD cuts took hold in 2012, this region's relative wage has declined.

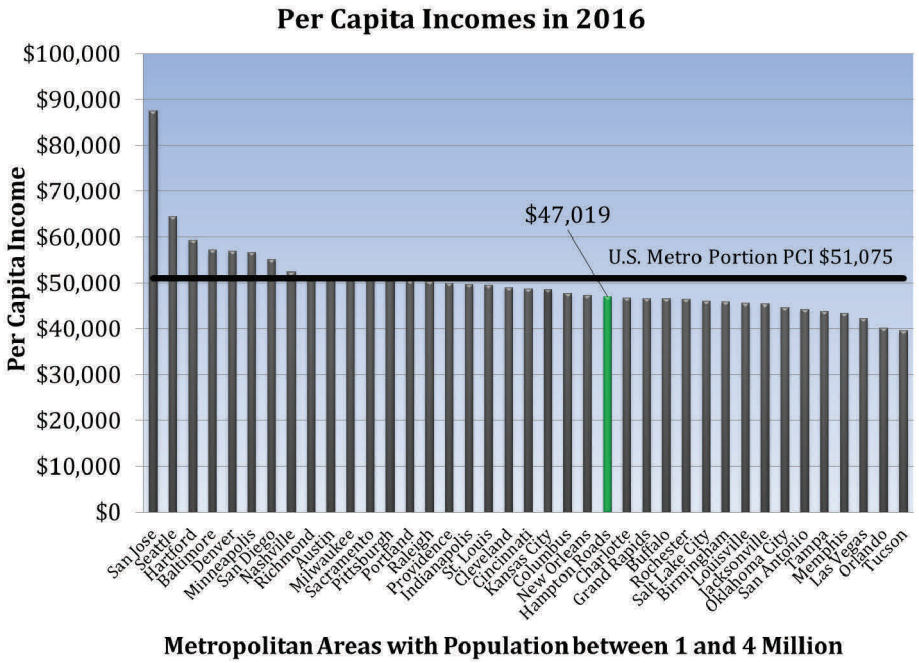
Figure 2.19 Per Capita Income in Hampton Roads and Reference MSAs

Why is it important?

Per capita income is the most widely available statistic on economic well-being. It is estimated by dividing total personal income by the population of the region.

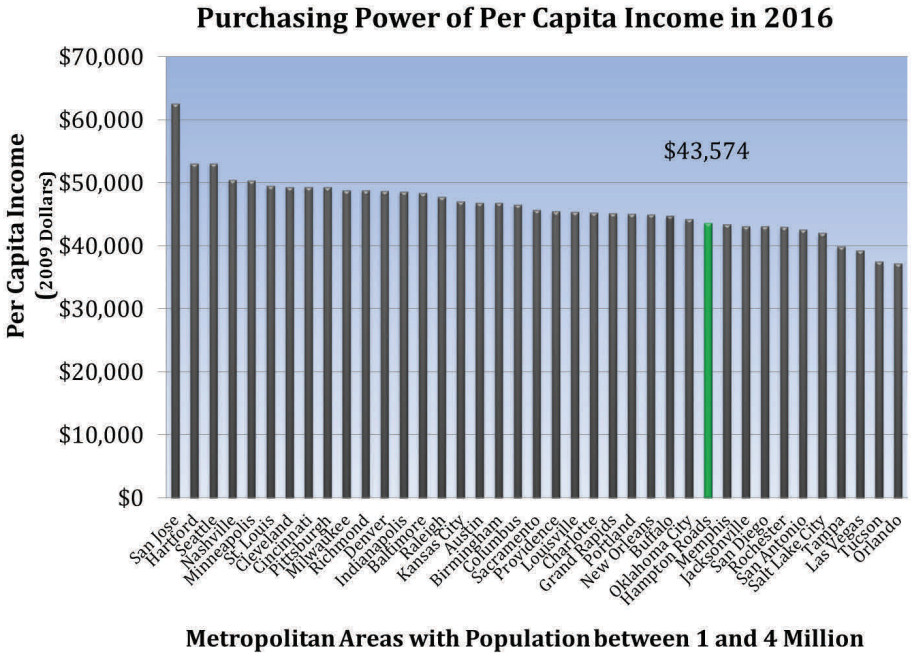
How are we doing?

Hampton Roads per capita income has fallen to $3,000 below the U.S. metro area average, but remains in line with the incomes of its reference MSAs.



Source: Bureau of Economic Analysis, HRPDC

Figure 2.20 Purchasing Power of Income in Hampton Roads and Reference MSAs



Source: Bureau of Economic Analysis, HRPDC

Why is it important?

The cost of living can vary substantially between metropolitan areas. Understanding incomes within the context of the cost of living provides a clearer picture as to real purchasing power parity.

How are we doing?

The cost of living in Hampton Roads is slightly more expensive than many of its reference metro areas, thus the per capita income adjusted for purchasing power performs slightly worse than its unadjusted per capita income. Rents, in particular, are 4.9% higher in Hampton Roads than in the average MSA.

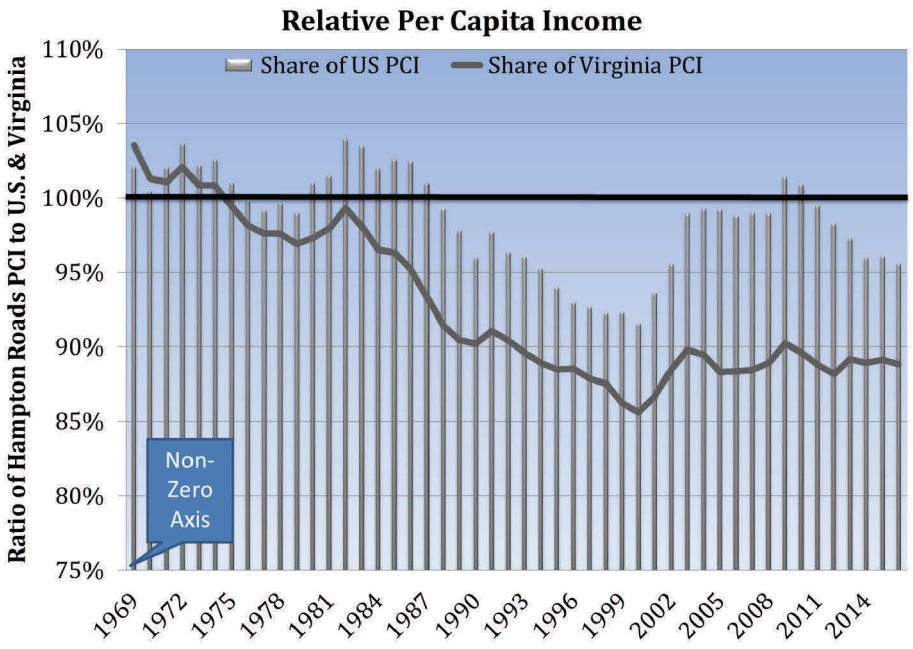
Figure 2.21 Relative Per Capita Income of Hampton Roads to Virginia and U.S.

Why is it important?

Fluctuations in relative incomes reflect fluctuations in standards of living. It is useful to track how well Hampton Roads performs in relation to the state and the nation.

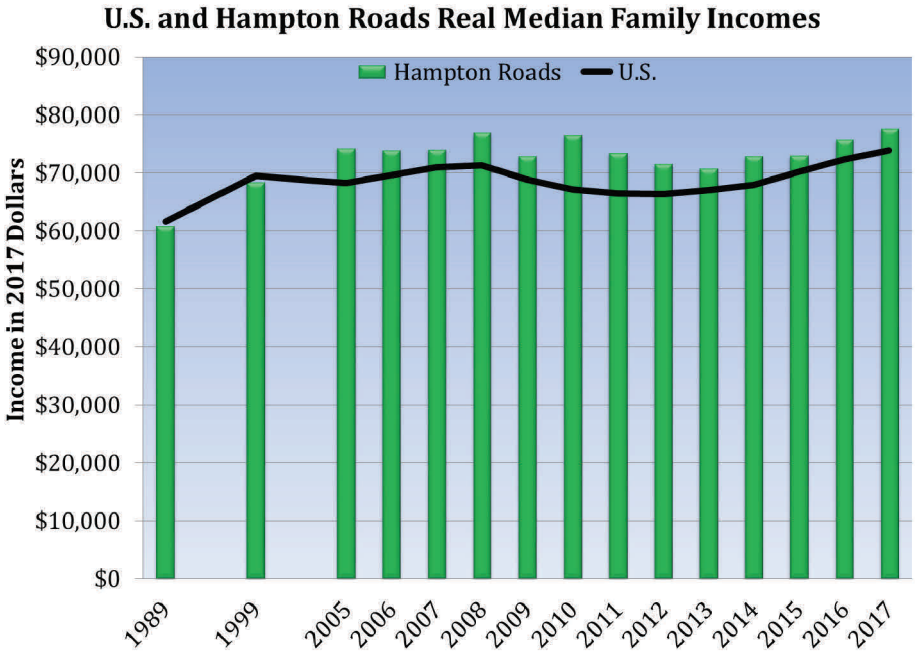
How are we doing?

Hampton Roads per capita incomes levels returned to those of the nation over the past four years, but its performance compared to the Commonwealth's has held steady over the same period, suggesting the same forces propel growth in incomes for both Virginia and Hampton Roads.



Source: Bureau of Economic Analysis, HRPDC

Figure 2.22 U.S. and Hampton Roads Real Median Family Incomes



Source: U.S. Census, American Community Survey, HRPDC

Why is it important?

The median family income represents the general well-being of regional households. Families are the fundamental purchasing unit for many products and services.

How are we doing?

Real median family incomes have remained fairly constant over the last eight years. Regionally, families have maintained their income levels better than median family income at the national level, though the nation has caught up to the region. In inflation-adjusted terms, 2017 family income was the highest in Hampton Roads history, through household income (not shown) still lags the 2007 estimate.

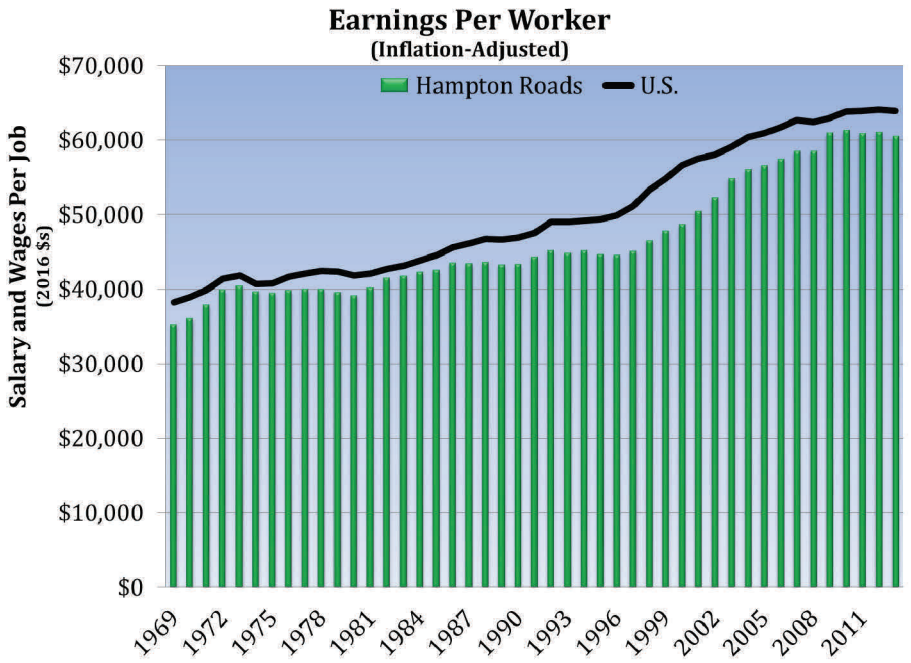
Figure 2.23 Inflation Adjusted Earnings Per Worker in Hampton Roads and the U.S.

Why is it important?

One indicator of productivity is earnings-per-worker. Employment shifts from low to high paying jobs, along with increased salaries, suggest increased productivity. Stable employment and slow growth in earnings are signs of limited productivity.

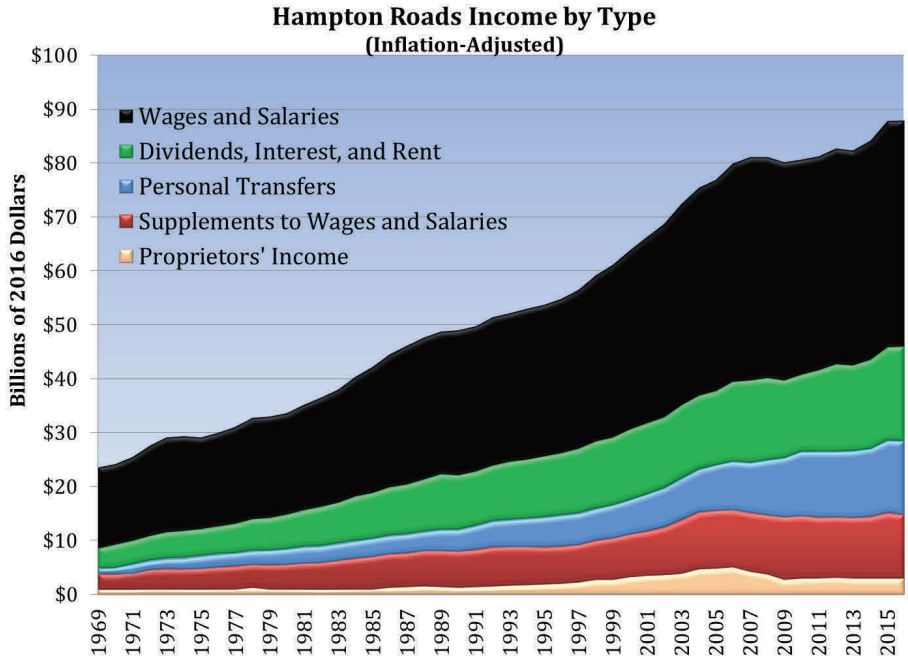
How are we doing?

Real earnings per worker have grown fairly consistently since 1970. Hampton Roads growth in this metric has paralleled that of the nation, catching up to national levels during periods of higher defense spending, including the 1980's and after 9/11.



Source: Bureau of Economic Analysis, HRPDC

Figure 2.24 Hampton Roads Income by Source



Source: Bureau of Economic Analysis, HRPDC

Why is it important?

It is important to note that there are numerous sources of income for individuals, and while those sources may under/over perform, it is the overall trend in incomes that are important.

How are we doing?

Since the onset of the Great Recession, only wage & salary incomes have declined, and while that is the largest income category, strong growth in several other categories, particularly personal transfers, have allowed total incomes in the region to continue to grow.