HRPDC Benchmarking 2021

Defense Industry

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The Defense Industry in Hampton Roads

The Department of Defense (DoD) serves as the primary driver of the Hampton Roads economy. It is influenced by military personnel, military families, federal civilian employees, military contracts, and the numerous veterans who call this region home. The HRPDC’s Economic Impact of the Department of Defense in Hampton Roads report estimated that through direct, indirect, and induced impacts, the DoD is responsible for approximately 35-40% of gross regional product.

DoD spending sustained high levels of spending through the second half of the past decade, but the combination of winding down the wars in Iraq and Afghanistan, budget pressures, and changing spending priorities will likely cause defense spending to relegate, both in absolute terms and as a share of GDP. DoD contracting dollars in Hampton Roads have increased towards the end of the 2010’s as concerns over debt and deficits subsided slightly along with a change in administration. As the world recovers from the COVID-19 pandemic and experiences another change in administration, concerns about debt and deficit are sure to resurface, as well as potential changes in spending priorities.

The number of military personnel in Hampton Roads varies based on strategic needs, but has generally declined since the end of the Vietnam War, with exceptions for the 1980’s and the beginning of the War on Terror. As military employment has risen slightly over the past few years, its share in total regional employment and regional incomes has also done so. At the same time, some of the general decline in military personnel over the past decade has been replaced by contracting dollars as the military began to employ contractors and local businesses to complete tasks formerly performed by uniformed personnel.

The Ship and Boat Building & Repair Industry in Hampton Roads serves as its own sub-cluster within the larger defense-related industries in the region. Newport News Shipbuilding remains one of two U.S. shipbuilders capable of building nuclear submarines and the only shipyard in the country capable of building nuclear aircraft carriers. Additionally, numerous other shipyards in the region maintain the U.S. fleet, providing Hampton Roads with an unparalleled maritime workforce.

This section contains 1 map and 13 graphics illustrating the state of the DoD and its impact on this region.
Map 3.1 Military Installations in Hampton Roads
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**Figure 3.1 Cycle of National Defense Spending**

**Why is it important?**
Defense expenditures in Hampton Roads are closely tied to federal defense outlays. National defense spending has a direct impact on the regional economy.

**How are we doing?**
National defense spending increased during the Reagan Administration and fell following the collapse of the USSR. Defense spending began increasing again around the turn of the century, but then contracted during sequestration in response to austerity measures. Recently, inflation-adjusted defense spending has been rising due to changes in policy and priorities.

Source: Bureau of Economic Analysis, HRPDC

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**Figure 3.2 Cycle of National Defense Spending as Share of Gross Domestic Product**

**Why is it important?**
Overall levels of defense spending, both in the U.S. and other countries, are often tied to growth in gross product.

**How are we doing?**
Defense spending in terms of gross product has declined significantly since the beginning of the Cold War. This results from a larger U.S. economy and changing government spending priorities. After seven consecutive years of decline, U.S. military spending began to grow in 2018.

Source: Bureau of Economic Analysis, HRPDC
**Figure 3.3 Projected Defense Budget**

**Why is it important?**
Defense expenditures are important to the local economy. The two factors that determine defense spending in the region are the share of U.S. defense spending which comes to Hampton Roads, as well as the overall level of spending.

**How are we doing?**
The Budget Control Act had significantly reduced the amount that could be authorized for defense expenditures. Several subsequent bills had increased the caps at various points, but through the use of overseas contingency funds (OCO), actual defense expenditures have never conformed to the expanded caps.

Source: U.S. Department of Defense, HRPDC

**Figure 3.4 Inflation Adjusted Department of Defense Spending in Hampton Roads**

**Why is it important?**
Spending on defense contracts in this region supports a significant portion of regional economic activity. This figure shows the dollars obligated for Department of Defense contracts that were performed in this region.

**How are we doing?**
After a long period of growth in defense contracts performed in Hampton Roads, contracting dollars began to decline in 2011, contributing to the region’s tepid recovery from the Great Recession. Fortunately, this trend reversed in 2016 with increased defense contracts in the region.

Source: USAspending.gov, Consolidated Federal Funds Report, HRPDC
**Defense Industry**

**Hampton Roads Benchmarking Study**

**Figure 3.5 Total Military Personnel in Hampton Roads & the U.S.**

**Why is it important?**
Due to an oversized DoD presence, military personnel have a profound impact on Hampton Roads. The change in the number of military personnel adjusts the region’s requirements for schools, housing, and support services.

**How are we doing?**
The number of military personnel in Hampton Roads fluctuates with the strategic defense requirements of the nation. After rising briefly at the onset of the War on Terror, the number of military personnel in Hampton Roads has declined steadily since 2003, with slight increases in the past two years.

**Source:** Bureau of Economic Analysis, HRPDC

**Figure 3.6 Military Personnel as a Share of Hampton Roads Total Employment**

**Why is it important?**
One way of measuring the impact of military personnel on the Hampton Roads economy is to compare the relative size of military personnel to regional employment.

**How are we doing?**
Military personnel’s share of regional employment has been on a fairly steady decline since the end of the Vietnam War. This reflects both the overall declining level of military personnel, as well as growth in other types of employment. The region has seen a slight increase in the number of military personnel in the past two years.

**Source:** Bureau of Economic Analysis, HRPDC
**Figure 3.7 Hampton Roads Military Employment Share by Branch**

**Why is it important?**
As the overall DoD budget changes, it affects each of the military branches in their own unique ways.

**How are we doing?**
Military personnel in this region are heavily tied to the Navy, with 76% of all personnel serving in that branch. This has served the region well recently, as cuts to Army and Marines personnel have been greater than those sustained by the Navy (FY2017 data).

![Hampton Roads Military Share by Branch*](chart)

This data comes from the Department of Defense and does not include Coast Guard personnel.

**Figure 3.8 Inflation-Adjusted Military Incomes**

**Why is it important?**
How well-compensated military personnel are in this region has important impacts on military families’ well-being, their ability to participate in the labor market, and their economic impact on the region.

**How are we doing?**
Total military income in the region remained at a high level during the previous decade despite cuts to the number of personnel in the region. As personnel has increased over the past two years, military incomes in the region have increased as well.

![Hampton Roads Military Incomes (Inflation-Adjusted)](chart)

Source: Bureau of Economic Analysis, HRPDC
**Defense Industry**

**Figure 3.9 Military Incomes as a Share of Hampton Roads Incomes**

**Why is it important?**
Measuring military incomes as a share of the region’s total personnel income quickly shows their ability to support regional business.

**How are we doing?**
Since the 1970’s, military incomes have comprised a declining portion of regional incomes as cuts to military personnel have shrunk regional military incomes relative to regional civilian incomes. The past two years have seen military incomes increase slightly.

**Source:** Bureau of Economic Analysis, HRPDC

**Figure 3.10 Total Ship Building and Repair Employment in Hampton Roads**

**Why is it important?**
The shipbuilding and repair industry serves as a sub-cluster within the region’s defense industry. This industry provides well-compensated jobs for individuals across the education spectrum.

**How are we doing?**
Regional employment in this industry declined during the 1990’s, but recovered during the 2000’s and 2010’s, reaching a high in 2014. Those employed privately in ship building and repair increased steeply in 2018 and again in 2019 and 2020, surpassing the previous highs. The level of employment correlates with the level of Navy contracting.

**Source:** Bureau of Labor Statistics, HRPDC
Figure 3.11 Concentration of Ship Building and Repair Employment in Hampton Roads

**Why is it important?**
The region’s share of national ship building and repair employment indicates the strength of this regional cluster.

**How are we doing?**
In 2019 and 2020, more than 20% of the U.S. shipbuilding and repair industry was employed in Hampton Roads, surpassing recent highs of 2013. Newport News Shipbuilding is one of two U.S. shipyards that construct nuclear submarines, and the only one that constructs nuclear aircraft carriers.

![Hampton Roads Share of U.S. Ship and Boat Building Employment](chart)

Source: Bureau of Labor Statistics, HRPDC

Figure 3.12 Department of Defense Incomes and Spending as a Share of the Regional Economy

**Why is it important?**
The role of the DoD in the regional economy has changed over time, and understanding its contribution is important for assessing impacts of changes to the DoD budget. This chart only takes into account direct contracts and incomes, and does not include the indirect and induced impacts.

**How are we doing?**
Peak DoD spending in Hampton Roads occurred in 2011. Since that time, defense contracts and the number of personnel declined and subsequently began rising in 2016 for the past few years. In 2020, direct defense incomes and contracting constituted over 25% of the regional economy.

![DoD's Role in the Hampton Roads Economy](chart)

Source: Bureau of Economic Analysis, USASpending.gov, Consolidated Federal Funds Report, HRPDC
**Why is it important?**
These are dollars obligated by the federal government to companies with ship and boat building NAICS codes.

**How are we doing?**
The region has seen fairly consistent levels of contracting dollars in this industry. It is difficult to use one-year data for ship and boatbuilding because shipbuilding dollars allocated in one year can be spent over as many as five years.

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**Figure 3.13 Total Contracting for Ship Building and Repair Performed in Hampton Roads**

**Dollars Obligated for Ship Building and Repair Companies**

![Bar chart showing dollars obligated for ship building and repair companies from 2008 to 2020.](chart_image)

Source: USAspending.gov, HRPDC