Section III

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 supports approximately 40% of all regional employment.

DoD spending sustained high real 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 decline both in absolute terms and as a share of GDP. Reflecting the change in national spending, DoD contracting dollars in Hampton Roads have declined in recent years after a period of strong growth between 2001 and 2011.

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 fallen, its share in total regional employment and regional incomes has also dropped. At the same time, some of the decline in military personnel has been replaced by contracting dollars as the military began to employ contractors and local businesses to complete tasks formerly performed by uniformed personnel.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 subcluster 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 and employ many.

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

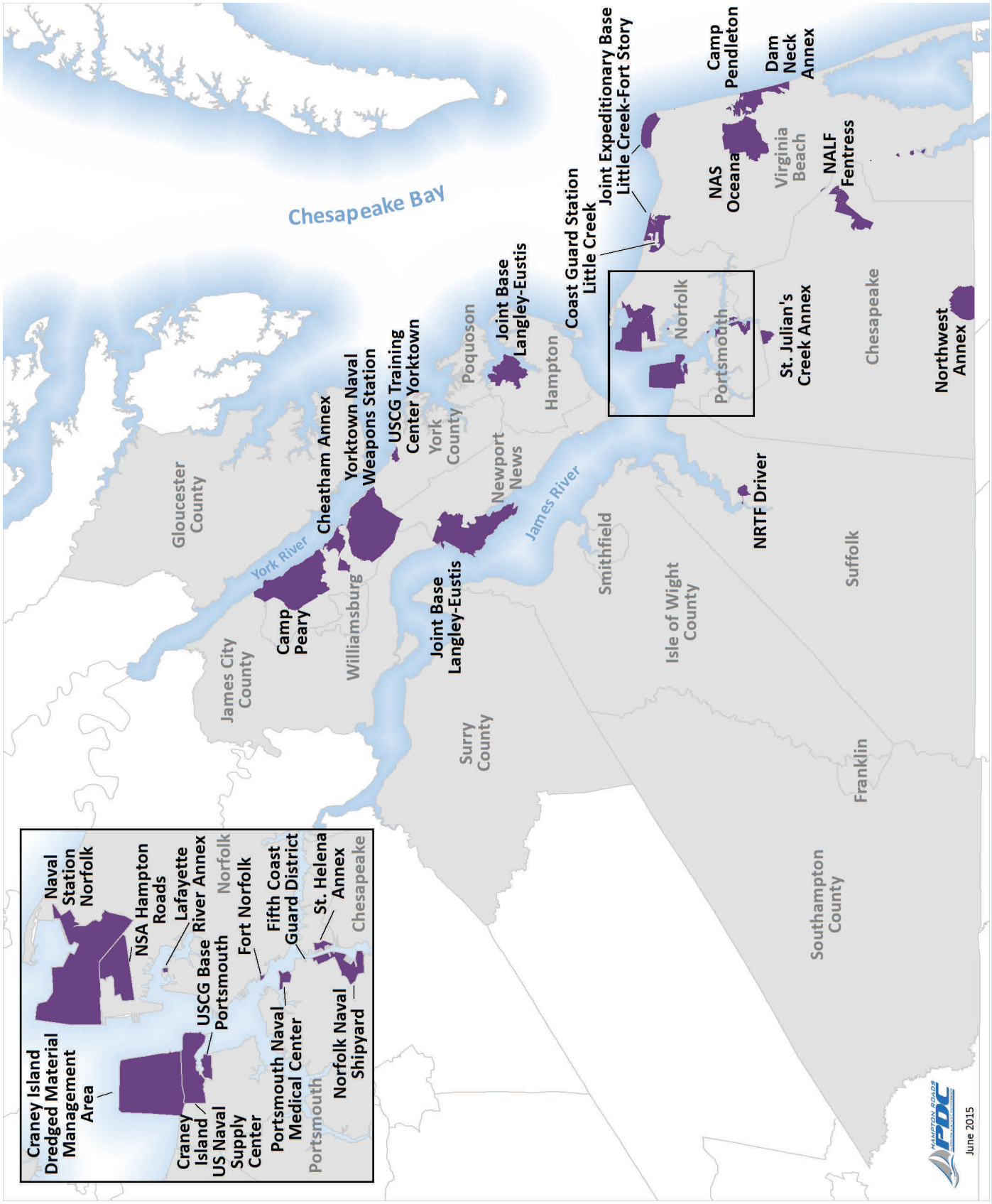


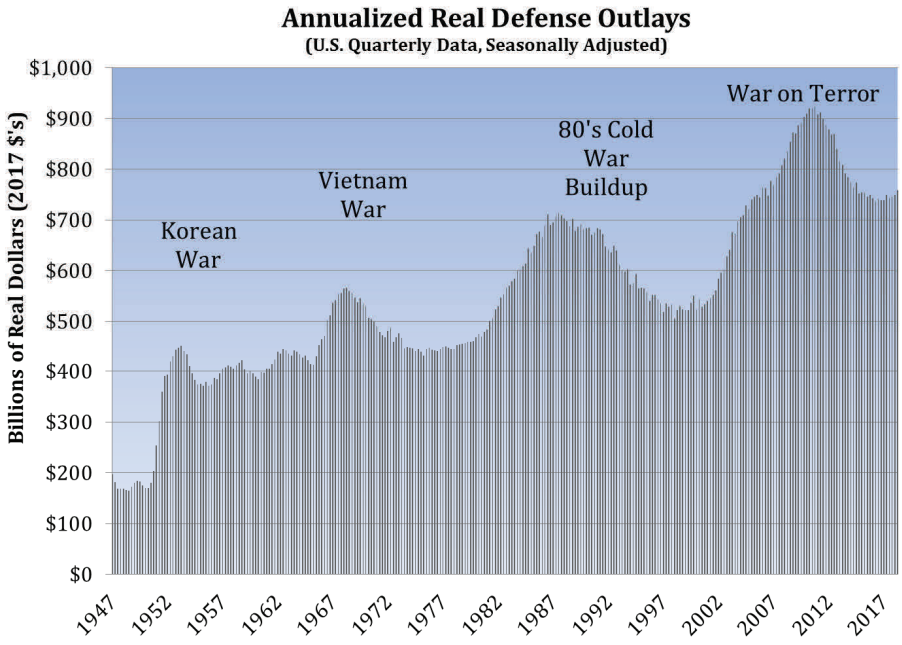
Figure 3.1 Cycle of National Defense Spending

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.

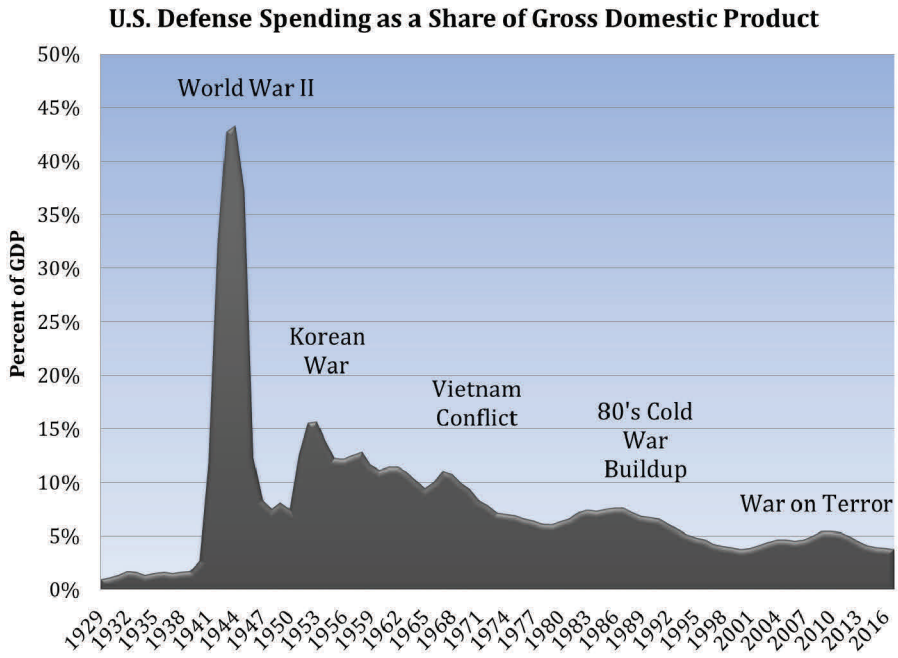
How are we doing?

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 has contracted recently as a result of the fiscal challenges. Recently, inflation-adjusted defense spending rose as a result of an improving economy and policy changes.



Source: Bureau of Economic Analysis, HRPDC

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



Source: Bureau of Economic Analysis, HRPDC

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. As government healthcare expenses continue to grow, defense spending, as a share of gross domestic product, will likely continue to decline unless the government begins to raise new revenue.

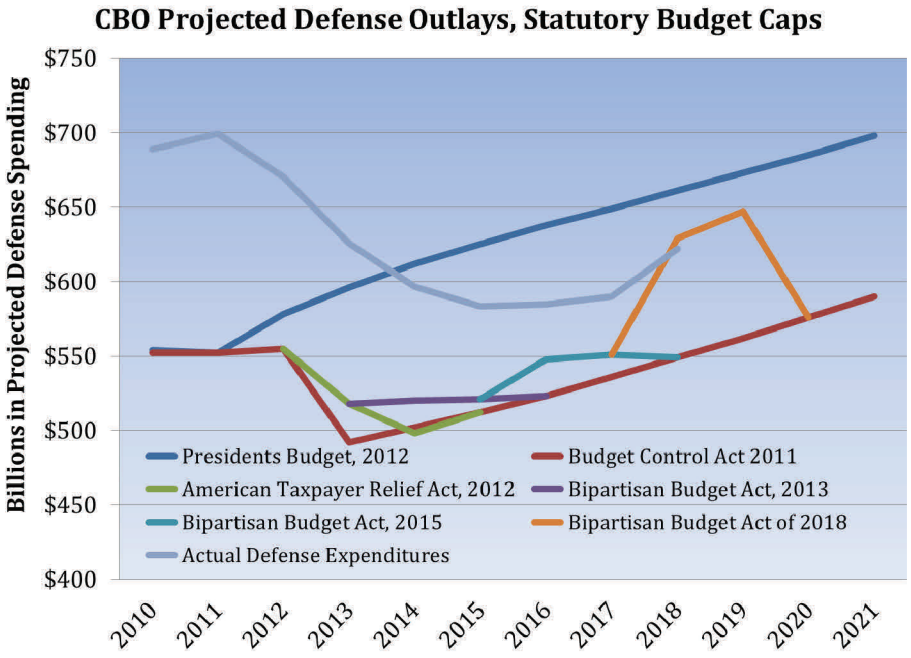
Figure 3.3 Projected Defense Budget

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.

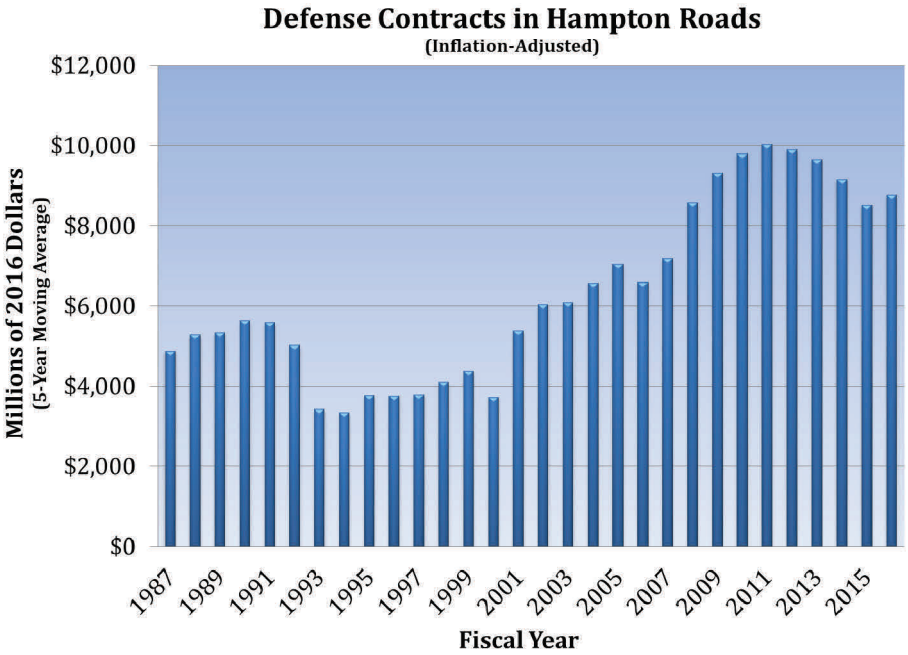
How are we doing?

The Budget Control Act significantly reduced the amount that could be authorized for defense expenditures. Several subsequent bills have increased the caps at various points, but through the use of overseas contingency funds, actual defense expenditures have never conformed to the expanded caps.



Source: Congressional Research Service, Congressional Budget Office, HRPDC

Figure 3.4 Inflation Adjusted Department of Defense Spending in Hampton Roads



Source: USAspending.gov, Consolidated Federal Funds Report, HRPDC

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 have declined since 2011, contributing to the region's tepid recovery from the Great Recession; fortunately, this trend reversed itself in 2016.

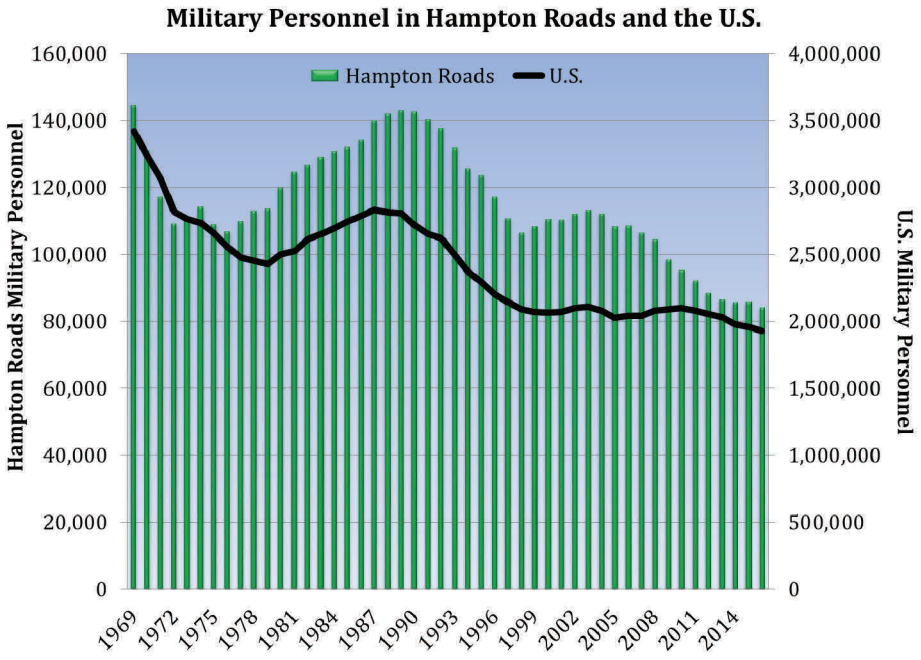
Figure 3.5 Total Military Personnel in Hampton Roads & the U.S.

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.

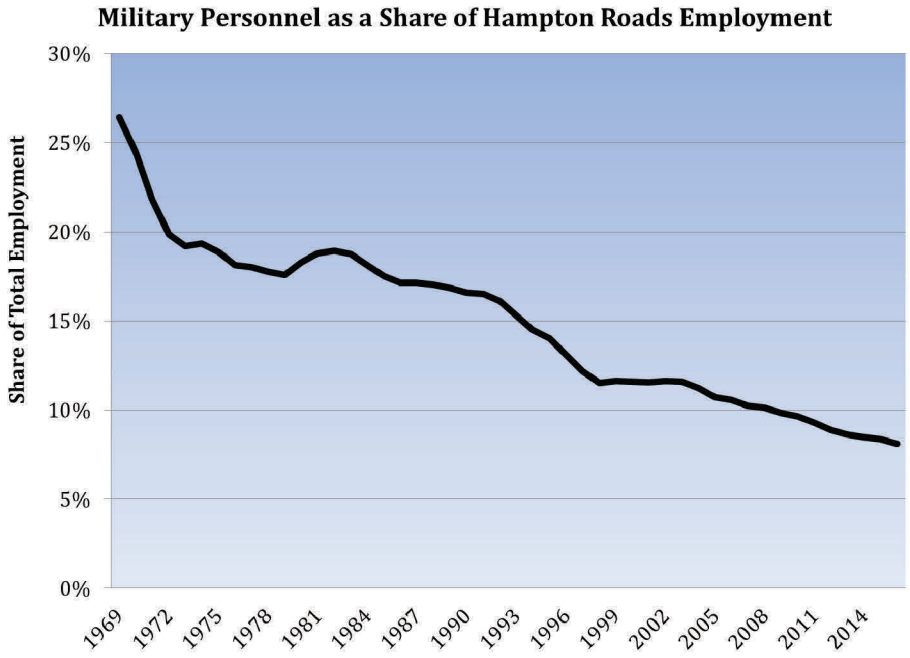
How are we doing?

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 at a steady pace since 2003.



Source: Bureau of Economic Analysis, HRPDC

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



Source: Bureau of Economic Analysis, HRPDC

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 declining level of military personnel, as well as growth in other types of employment.

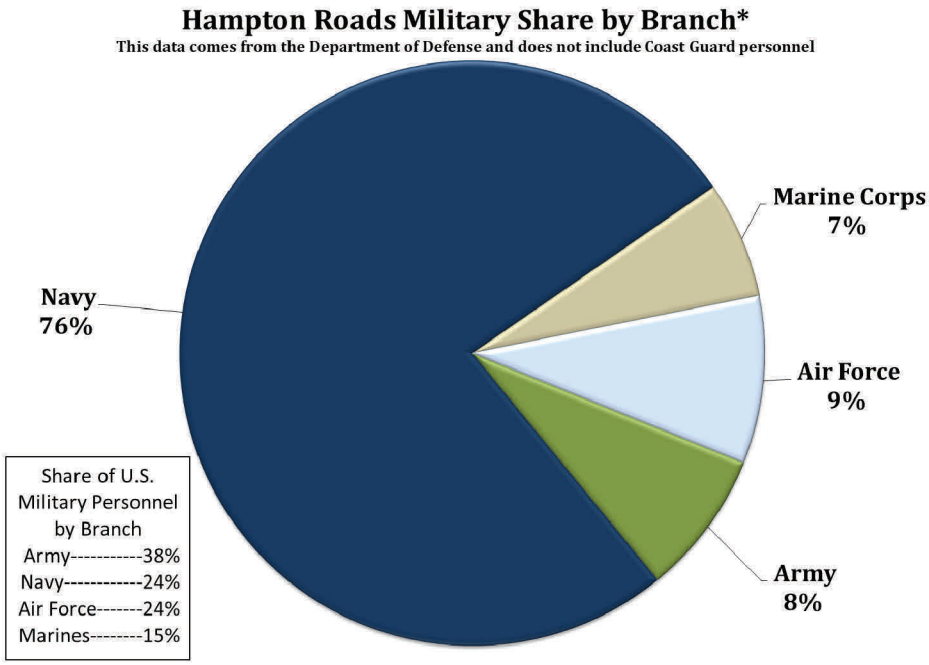
Figure 3.7 Hampton Roads Military Employment Share by Branch

Why is it important?

As the overall DoD budget changes, it affects each of the military branches in their own unique ways.

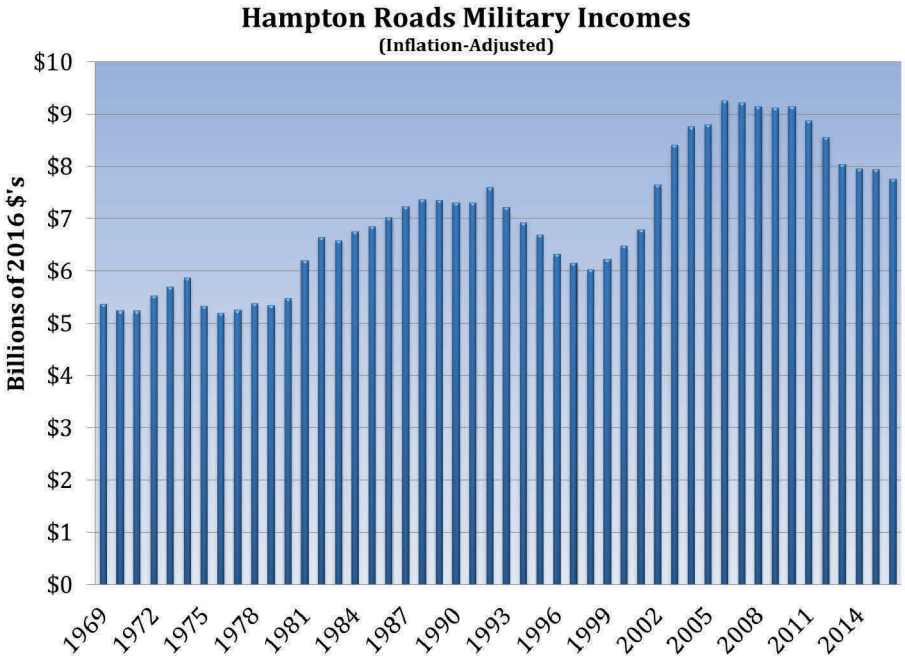
How are we doing?

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).



Source: Department of Defense Base Structure Report FY2015, HRPDC

Figure 3.8 Inflation-Adjusted Military Incomes



Source: Bureau of Economic Analysis, HRPDC

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. This was a result of increasing salaries and benefits to help retain personnel during the wars in Afghanistan and Iraq.

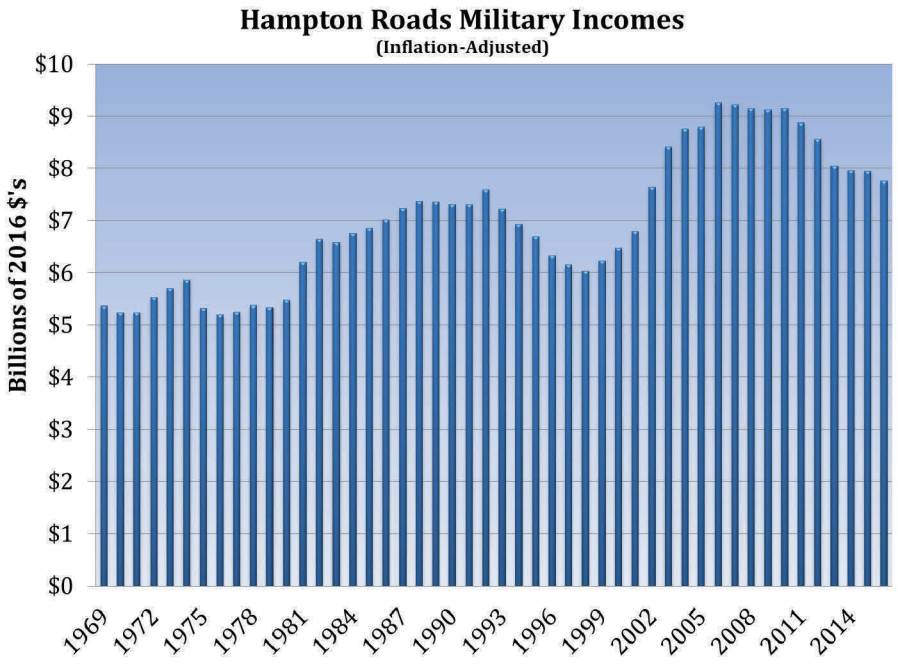
Figure 3.9 Military Incomes as a Share of Hampton Roads Incomes

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.

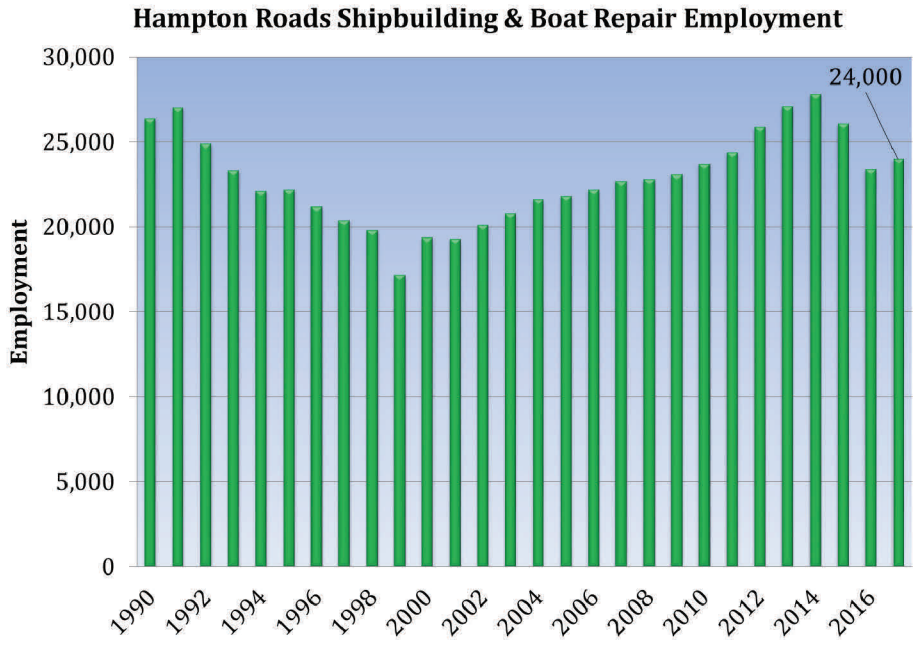
How are we doing?

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.



Source: Bureau of Economic Analysis, HRPDC

Figure 3.10 Total Ship Building and Repair Employment in Hampton Roads



Source: Bureau of Labor Statistics, HRPDC

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 past decade, reaching 27,800 employed in the ship repair & boat building industry in 2014. Those employed privately in ship building and repair increased in 2017, after falling the previous two years. The level of employment correlates with the level of Navy contracting.

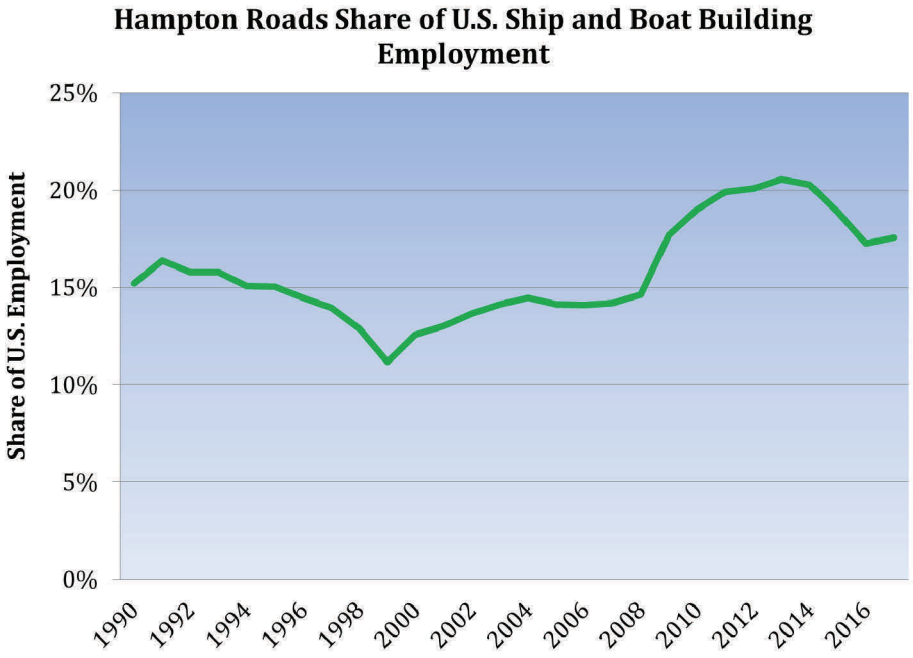
Figure 3.11 Concentration of Ship Building and Repair Employment in Hampton Roads

Why is it important?

The region's share of national ship building and repair employment indicates the strength of this regional cluster.

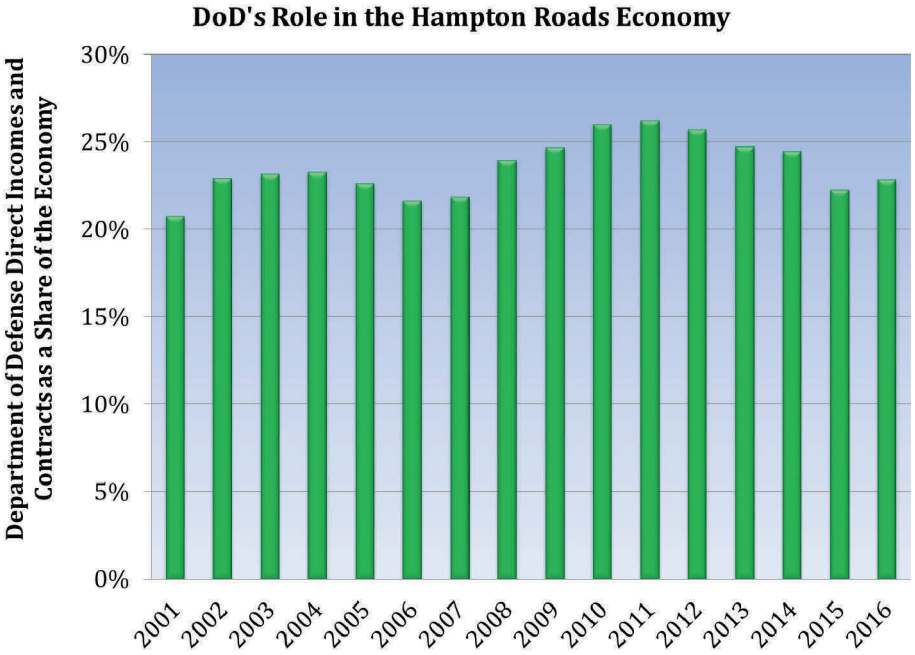
How are we doing?

While as recently as 2014, more than 20% of the U.S. shipbuilding and repair industry was employed in Hampton Roads, the region's share has declined. Newport News Shipbuilding is one of two U.S. shipyards that construct nuclear submarines, and the only one that constructs nuclear aircraft carriers.



Source: Bureau of Labor Statistics, HRPDC

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



Source: Bureau of Economic Analysis, USASpending.gov
Consolidated Federal Funds Report, HRPDC

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 have declined in the region. In 2016, direct defense incomes and contracting constituted 22.8% of the regional economy.

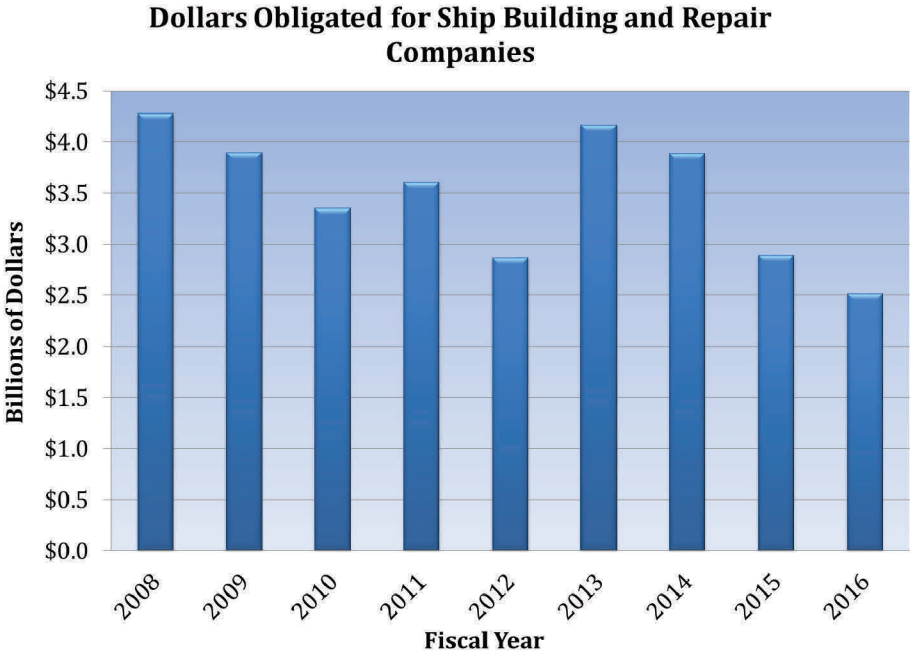
Figure 3.13 Total Contracting for Ship Building and Repair Performed in Hampton Roads

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.



Source: USAspending.gov, HRPDC