HRPDC Benchmarking 2021

Retail Industry

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The Retail Industry in Hampton Roads

Trade is the backbone of a regional economy because the exchange of goods and services is a primary driver in creating value and providing benefit to market participants. One of the best ways to measure trade is through retail sales. When Hampton Roads’ economy expands, retail sales grow as increased income quickly passes through to consumption of goods and services. During the Great Recession, retail sales shrank considerably as individuals cut back on purchases. The recession brought on by the COVID-19 pandemic had a much different impact. Quick and frequent actions to disperse additional unemployment funds and stimulus checks to most Americans, coupled with the closure of much of the service sector, helped to propel retail sales in Hampton Roads.

Hampton Roads’ retail employment declined from a pre-Great Recession high of 93,800 jobs in 2007 to 84,000 in 2010, and grew slowly but steadily as the economy recovered through 2017, remaining 5.5% below 2007 levels. The pandemic exacerbated the decline of recent years, with a 9% decline in retail employment since 2017 levels, with a significant portion of that decline occurring between 2019 and 2020—over 5%. As the economy bounces back from the pandemic, retail employment levels may increase for 2021. As has been the case for the past several years, retail employment fell despite an increase in retail sales, which grew by 11.4% between 2007 and 2020, but once adjustments for inflation are made, retail sales are 8.3% below 2007 levels.

The regional and national retail experience have diverged considerably, and while both Hampton Roads and the country saw a proportional decline in retail sales during the Great Recession, the U.S. retail recovery has been more robust than that of the region. Comparatively, U.S. retail sales dropped dramatically in initial response to COVID-19, nearly 22% in two months, regional retail sales during the same time period dropped only 7.7%, and are showing a much quicker recovery.

In June of 2018, the Supreme Court of the United States ruled on South Dakota v. Wayfair, Inc., changing the way sales tax is collected in the country. Under the old rule, if an out-of-state seller lacked a physical presence in a state, that state could not require it to collect sales tax from the buyer. After the Wayfair decision, a state may require an out-of-state seller—even one with no physical presence in that state—to collect sales tax, as long as the state can demonstrate a connection (like volume of in-state sales). This ruling made it easier for states to collect sales tax from out-of-state sellers, partially explaining an increase in sales tax collections alongside declining retail employment in Hampton Roads in the past few years.
Figure 6.1 Employment in the Hampton Roads Retail Industry

Why is it important?
One measure of the economic impact of the retail trade industry comes from counting the number of employees the industry supports in the region.

How are we doing?
Regional retail employment fell from its 2007 peak of 93,800 jobs and has yet to replace those positions. Retail employment in 2020 is roughly equal to the levels in 1990, down significantly due to the COVID-19 pandemic that left many retail businesses closed. Retail employment from 2019 to 2020 was down 5.2%, the third year in a row the industry saw employment declines.

Hampton Roads Retail Employment

Source: Bureau of Labor Statistics, HRPDC

Figure 6.2 Retail Employment as a Share of Total Employment in Hampton Roads and the U.S.

Why is it important?
A measure of the importance of retail trade to the regional economy is the share of employment that has been derived from retail sales.

How are we doing?
Retail employment as a share of total employment has declined steadily since 1990, plateauing at 10.7% in 2020. After several years of declines, 2020 retail employment as a share of total employment in Hampton Roads stayed steady with the previous year. As the economy recovers and total employment begins to rise again, this metric will be interesting to watch as different industries recover differently.
Figure 6.3 Change in Retail Employment in Hampton Roads and Reference Metro Areas

Why is it important?
It is difficult to measure retail sales of a variety of metropolitan areas using government statistics, thus comparing retail employment enables perspective on how different metropolitan areas have performed over time.

How are we doing?
The change in retail employment from 2019 to 2020 in Hampton Roads falls in the middle of similar sized metro areas, with only one MSA posting growth (Seattle), and one showing double digit declines (San Jose). Mainly due to the pandemic, Hampton Roads saw 5.2% decline in retail employment.

Source: Bureau of Labor Statistics, HRPDC

Figure 6.4 Distribution of Retail Employment

2019 Hampton Roads Retail Employment by Category

Why is it important?
The retail sector consists of a variety of sub-sectors, each of which are subject to unique market forces. In order to appreciate how market changes affect the retail industry, it is important to observe the composition of retail employment.

How are we doing?
General merchandise, food & beverage stores, and motor vehicles & parts account for the majority of retail employment in Hampton Roads. A myriad of other business categories constitute the other 46% of retail employment.

Source: Bureau of Labor Statistics, HRPDC
Figure 6.5 Inflation-Adjusted Taxable Retail Sales and Income

Why is it important?
Retail sales and incomes should be closely linked, and generally increase at the same rate, but will diverge significantly over short periods of time.

How are we doing?
While Hampton Roads’ incomes held relatively constant through the Great Recession, inflation-adjusted retail sales significantly declined and have yet to fully recover. While it is unclear what has driven this deviation, it probably has its roots in the local decline in household wealth from the housing correction and general weakness in tourism since the start of the recession.

Source: Virginia Department of Taxation, Bureau of Economic Analysis, HRPDC

Figure 6.6 Monthly Hampton Roads Taxable Sales and U.S. Retail Sales

Why is it important?
Indexed sales at the regional and national level should change at the same rate assuming equal economic performance. Divergence between retail sales indicates the relative health of retail and the economy in general.

How are we doing?
Hampton Roads’ retail sales have not recovered from the Great Recession at the same pace as they have nationally. Retail sales in Hampton Roads saw a much smaller decline in response to COVID, and enjoyed a quicker recovery to new highs, as measured by the 1% local option tax.

Source: Virginia Department of Taxation, U.S. Census Bureau, Bureau of Economic Analysis, HRPDC
Hampton Roads Benchmarking Study

Figure 6.7 Retail Sales by Business Category

Why is it important?
Hampton Roads had 71 different business categories with retail sales in 2020. Measuring the retail sales by type of business offers an alternative understanding of different business category impacts on the regional economy.

How are we doing?
Food and Beverage stores saw the largest amount of sales in 2020, a change from recent years which put General Merchandise stores at the top. With many non-essential retail stores and restaurants closed or reduced due to the pandemic, grocery and alcohol stores saw increased shares of retail sales.

Figure 6.8 Change in Retail Sales by Business Category

Why is it important?
Growth or decline in retail sales by business category indicates how the regional economy is changing and how various business categories have responded to recent economic conditions.

How are we doing?
Building Materials and Garden Equipment purchases have grown the most between 2010 and 2020, likely partially due to the improvement in the construction industry in Hampton Roads since the recovery from the Great Recession. Even taking COVID into consideration, accommodation sales still saw increases in the past decade.

Source: Virginia Department of Taxation, HRPDC
Figure 6.9 Retail Establishments in Hampton Roads

Why is it important?
The number of establishments that have taxable sales serve as another indicator of the health of the retail sector. As the economy improves, the number of retail locations should expand.

How are we doing?
The number of retail locations declined throughout the Great Recession as businesses closed and new business formation slowed down in Hampton Roads. The number of retail locations has increased in recent years, but 2020 saw many businesses close as a result of the pandemic, contributing further to the recent stall of growth in retail establishments.

Source: Virginia Department of Taxation, HRPDC

Figure 6.10 Retail Sales per Establishment in Hampton Roads

Why is it important?
Retail sales per establishment measures the health of individual retail outlets, although these numbers need to be analyzed carefully, as the prevalence of big box stores versus smaller boutiques can affect this number.

How are we doing?
Due to the pandemic, personal consumption expenditures shifted slightly more towards goods rather than services, while total retail establishments declined. These two factors combined to a significant jump in taxable sales per retail establishment in 2020.

Source: Virginia Department of Taxation, HRPDC
Why is it important?
Internet sales are an important part of modern commerce and offer affordable options for many consumers without adequate local retailers. Unfortunately, few internet retailers directly pay taxes, nor do they hire local workers or pay property taxes to localities.

How are we doing?
Internet sales have grown strongly as a share of all U.S. sales since 2000, and now represent nearly 14% of all retail sales nationally. At the onset of the COVID-19 pandemic, internet sales increased drastically to over 16% of total sales as people were isolated to their homes.

Source: U.S. Census Bureau, HRPDC