



# Hampton Roads Economic Quarterly

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## **About this Document**

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## **Manufacturing in Hampton Roads**

By James Clary and Greg Grootendorst

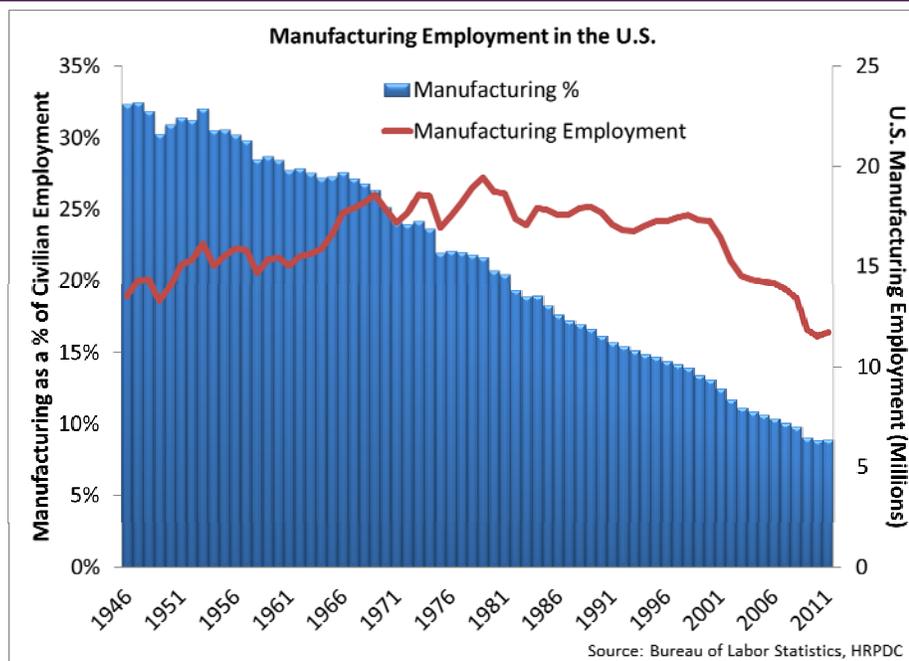
Many commentators discuss the decline of manufacturing employment and production in the U.S. as if it is a recent phenomenon, occurring only in the past generation. The reality of a decline in manufacturing employment has been a long term trend. Politicians are often heard extolling the need to bring manufacturing to America; highlighting the role of the government in the process and touting the 500,000 manufacturing jobs created since the end of the recession. A Brookings report in May discussed how metropolitan areas can unleash manufacturing, thereby increasing their own growth as well as the nation's. This focus on manufacturing is understandable; exporting goods to other localities brings in outside dollars and allows for greater economic growth.

To understand what has happened to American manufacturing, it is important to

understand the depth and length of this trend. Manufacturing employment peaked as a percentage of total employment in 1947 at 32.5%. By 2011, only 8.9% of workers were employed in manufacturing. Likewise, total manufacturing employment peaked in 1979 at 19.4 million workers, but now only numbers 11.7 million.

Two trends are predominantly responsible for the decline in manufacturing employment:

1) Offshoring has been a source of some of the decline in manufacturing, and while the idea of globalization has been a recent phenomenon, the nation has been grappling with offshoring for a number of years. This has proved particularly true of low-skilled labor-intensive goods which are now mainly made in other countries (items including textiles, apparel, and furniture). A recent article by the Federal Reserve Bank of Richmond highlighted the work of economist Lori Kletezer, who noted that almost

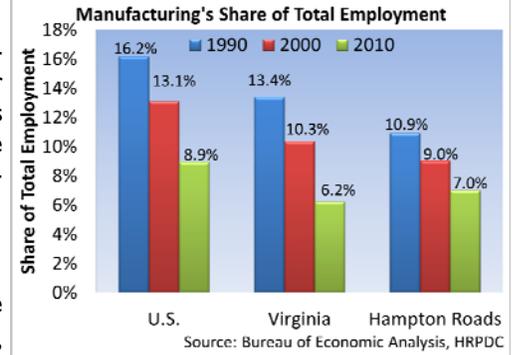


300,000 jobs per year were lost due to import competition. This number, however, represents only 2% of the total job losses each year due to general economic dynamics.

2) Growing U.S. productivity - manufacturing productivity has increased rapidly; more rapidly than the productivity growth in the nonfarm business sector as a whole (there is significant debate over the source of this growth). Even as manufacturing employment has declined, this allowed the U.S. to remain the world's largest producer of manufactured goods, and the increases in productivity have led to a higher standard of living for all.

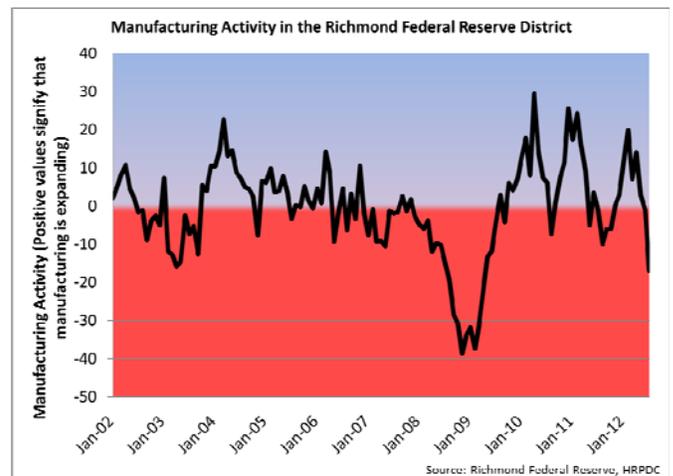
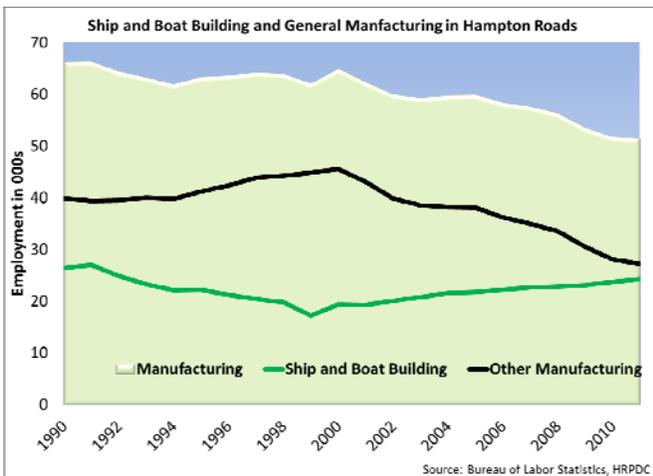
**Manufacturing in Hampton Roads**

Manufacturing pay represented 6.6% of Hampton Roads' earnings in 2009 (the 2010 Bureau of Economic Analysis data for manufacturing has been redacted), and the average manufacturing employee earned 41% more than the average worker in the region. Manufacturing employment was 5% of total employment in Hampton Roads.



Since 1990, regional manufacturing employment has declined by 22.3% (14,800 jobs), compared to a decline of 40.9% at the state level and 43.7% at the national level. Relatively lower rates of regional decline are the result of several features that are particular to Hampton Roads. One such feature is that Hampton Roads employment has a smaller percentage devoted to manufacturing than the state or the nation, leaving less industry to be cut. This highlights the importance of non-manufacturing industries in the regions' economy with defense, the port, and tourism all bringing in the outside dollars that the economy requires to grow. Another important reason why regional manufacturing has not shrunk to the same extent derives from the large share of ship and boat building in the manufacturing mix. Ship building and repair employment has only declined by 2,100 (8.0%) since 1990 due to the stability in the federal budget, particularly during the last decade. During the same time period, all other manufacturing in the region declined by 12,700 jobs, or 31.2%. While Hampton Roads is home to several other manufacturing industries, the ship building and repair sector continues to be the most significant employer, accounting for almost half of the region's manufacturing base.

The outlook for manufacturing in the region continues to be mixed, as there has been weakness in the level of manufacturing in the Richmond Federal Reserve Region (the region's composite manufacturing index declined from +20 in Feb-2012 to -17 in July-2012), indicating that the southern mid-Atlantic has gone from a moderate expansion to a moderate contraction. Particularly worrying is the decline in new orders that manufactures have experienced. Another concern comes from the defense budget and the reallocation of ships by the Navy, which threatens the ship repair component of the ship building industry. Fortunately, the cloud on manufacturing does have a silver lining. Virginia experienced an uptick in exports in 2011, primarily due to manufacturing. Trends in nearshoring (locating manufactures in close proximity to customers and/or transport routes), a strong labor pool, and the availability of large tracts of land are also a regional advantage, with advanced manufacturing now registering the greatest number of new inquiries at the Hampton Roads Economic Development Alliance.



Hampton Roads Economic Outlook: by James Clary

# A Stalled Economy

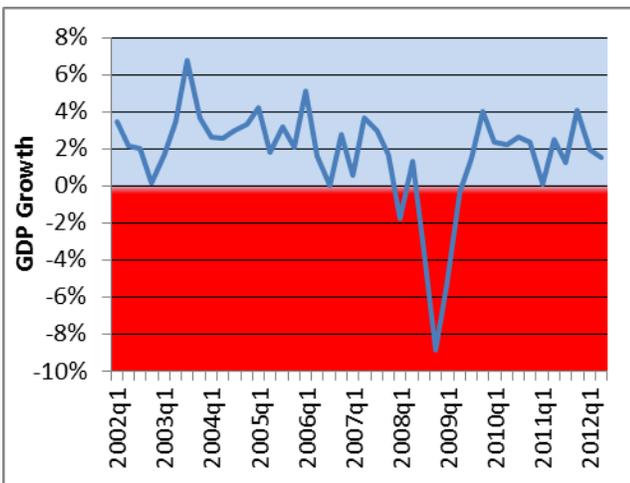
There are signs that national economic growth is stalling, which indicates national economic conditions will buoy the regional economy in the near future. The continued political confrontation between the parties regarding taxation and spending decisions has generated a great deal of uncertainty, and with the threat that sequestration will remain law (an outcome neither party nor the Pentagon prefers), there is little incentive for the local defense industry to invest and hire.

National payroll growth has averaged 75,000 during the second quarter of 2012, below the level needed to keep up with population growth, though July saw payrolls increase by 150,000 Hampton Roads also has experienced weak employment growth, and the regional labor force has contracted over the past six months indicating a lack of optimism about the regional economy. While initial unemployment claims have declined, this might be a result of fewer businesses having the opportunity to cut back rather than increasing employment opportunities for those who experience job separations.

Typically, an economic recovery is driven by fixed residential spending and retail sales; both indicators have seen renewed weakness in Hampton Roads since February. The national consumer confidence has been declining for the last few months, which likely indicates that tourism will be weaker than was hoped for during December when consumers had a brighter outlook about the national economy.

## Hampton Roads Economic Indicators

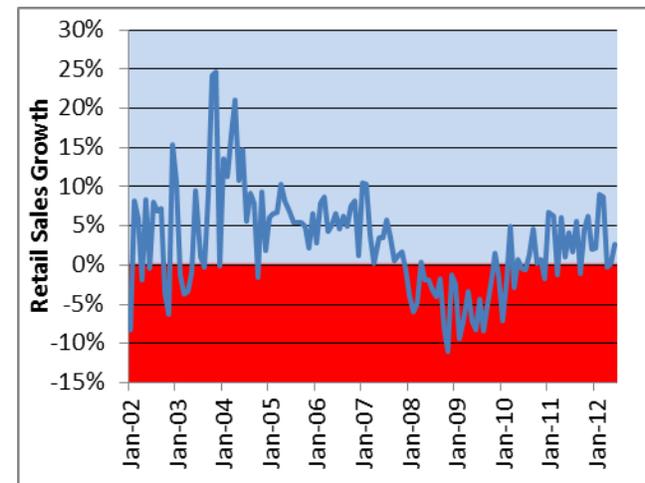
**GDP, Annualized Growth Rate**  
United States, 2002Q1 – 2012Q2, Quarterly



Source: Bureau of Economic Analysis, HRPDC

GDP: Gross Domestic Product combines consumption, investment, net exports, and government spending to determine the size and general health of the economy. GDP growth slowed from 4.1% in the last quarter of 2011 to 2.0% in the 1st quarter of this year and 1.5% in the 2nd quarter. This continues last year's trend of slowing growth heading into the summer season, and coupled with weak job growth at the national level and an economic slowdown in Europe, indicates that national growth will contribute little to the regional economy.

**Retail Sales, Year over Year Growth**  
Hampton Roads, Jan 2002 – Jun 2012, Monthly



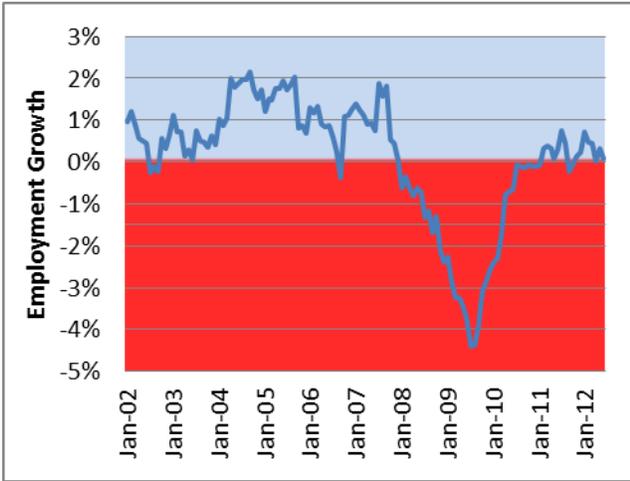
Source: Virginia Department of Taxation, HRPDC

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. Retail sales growth has slowed sharply in the past few months, from \$1.78B in February-2012 to \$1.67B in June-2012 on a seasonally adjusted basis. While retail sales are significantly above the levels during the recession in 2009 and 2010, they are still below the 2007 pre-recession levels (June-2012 retail sales were 4.3% lower than June -2007).

## Hampton Roads Economic Indicators

### Employment, Year over Year Growth

Hampton Roads, Jan 2002 – Jun 2012, Monthly

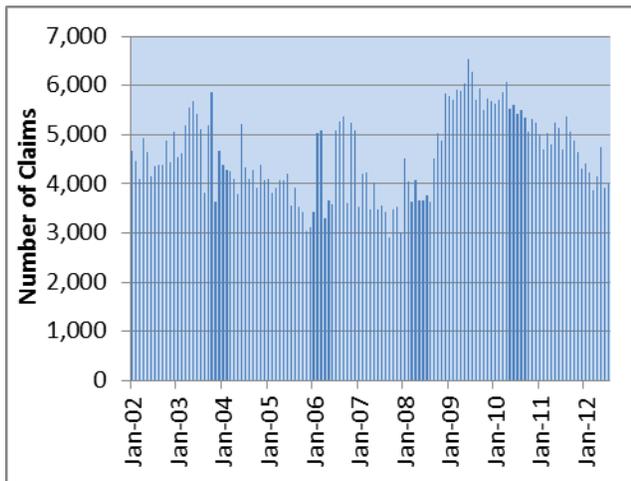


Source: Bureau of Labor Statistics, HRPDC

**Employment:** Non-agricultural employment is considered the best estimate of labor market activity by the National Bureau of Economic Research. Payroll employment continues to improve slowly, from the low of 733,100 in February-2010, and more than 10,000 positions were added as of June-2012, with regional civilian payrolls reaching 743,800 (both numbers seasonally adjusted). Regional employment still has another 37,900 jobs to recover to get back to the pre-recession level of 781,700 of July-2007.

### Initial Unemployment Claims, Seasonally Adj.

Hampton Roads, Jan 2002 – Jul 2012, Monthly

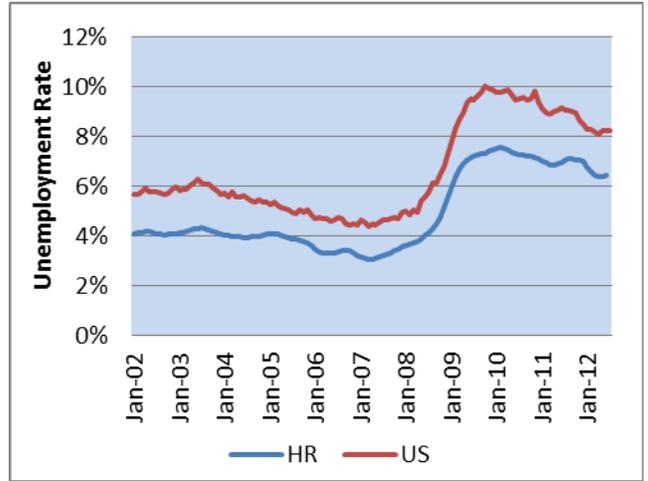


Source: Virginia Department of Labor, HRPDC

**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 been declining since the end of the recession, though the past 10 months showed dramatic improvement as claims declined below 5,000 per month and maintained that level. 2012 claims had been just below the long term average, averaging 4,183 new claims.

### Unemployment Rate, Seasonally Adj.

U.S. & Hampton Roads, Jan 2002 – Jun 2012, Monthly

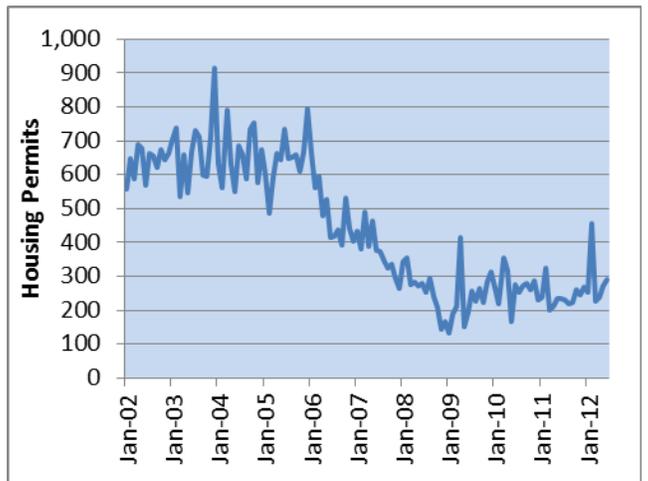


Source: Bureau of Labor Statistics, HRPDC

**Unemployment Rate:** The unemployment rate is the percentage of the population which is actively seeking work, but is unable to obtain a position. The regional unemployment rate has leveled off since March-2012, wandering between March and June of this year, but this is a lower level than the 7.10% unemployment rate of last summer. The region continues to out perform the nation, however the unemployment rate both for the U.S. and the region are above the 20-year average (4.69% regionally, 6.04% nationally).

### Single Family Housing Permits, Seasonally Adj.

Hampton Roads, Jan 2002 – Jun 2012, Monthly



Source: U.S. Census Bureau, HRPDC

**Single Family Housing Permits:** Permit data indicates the level of construction employment and confidence regarding the future trajectory of the local economy. Single family permits increased significantly in February, and this seemed to be a possible turning point, but have settled back into the range between 200 and 300 permits a month. Mortgage rates continue at record lows, and are unlikely to rise soon, but a relatively weak labor market has served to constrain household formation in the region.