

## Hampton Roads Economic Outlook: Two Steps Forward, One Step Back by James Clary

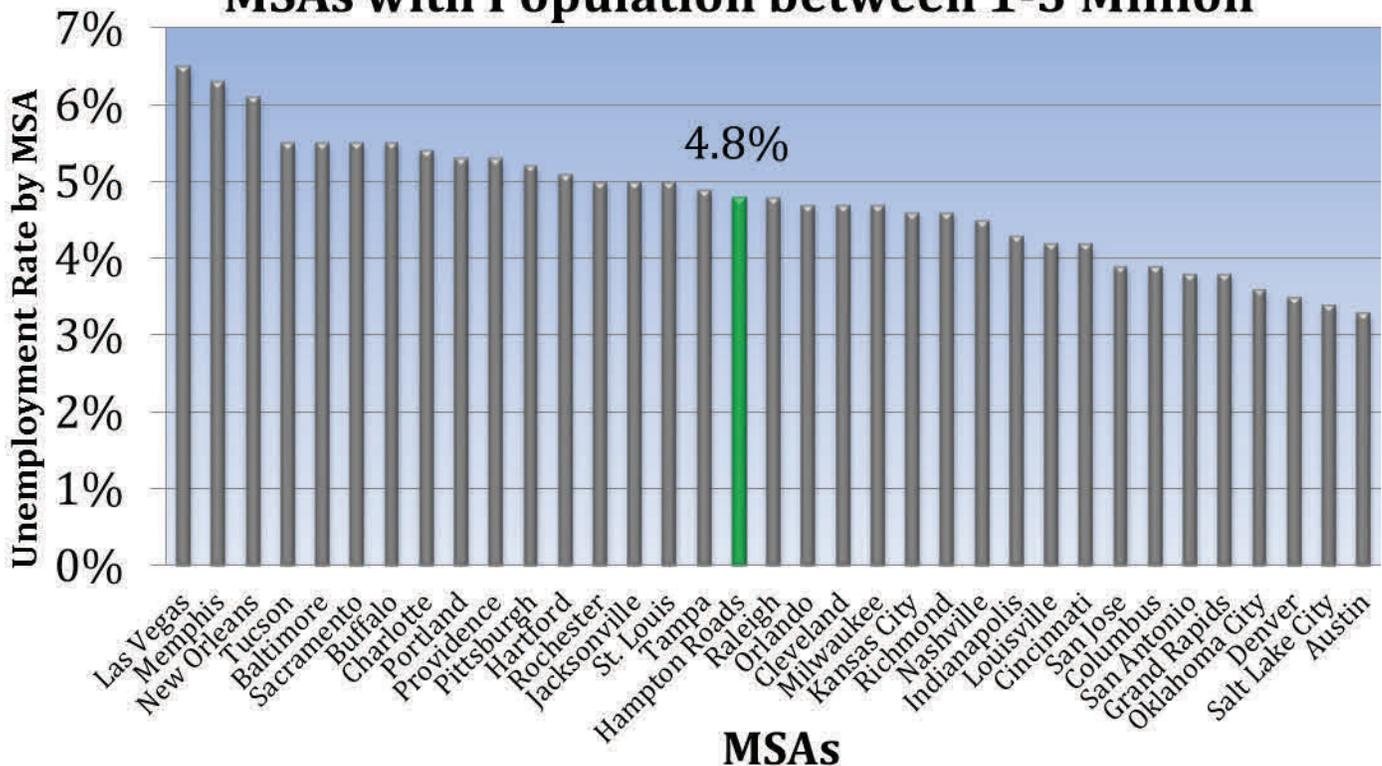
The regional economy continues to move sideways, and indications that Hampton Roads will embark on a sustained expansion are few. Regional employment swings from declines to growth and back again; while the long-term trend has been positive (the region has 5,500 more jobs than November 2014), this masks a high degree of variance from month-to-month. While some of this variance is typical of a regional economy, it also indicates the great extent to which the regional economy (and its recovery) relies on external forces to produce momentum, including the Department of Defense, Tourism, and Trade.

The regional unemployment rate increased as a result of fewer individuals indicating that they were employed, and while Hampton Roads' unemployment rate remains below that of the country, this region has not experienced the improvement in the underlying fundamentals that drive the improvement in the U.S. unemployment rate.

Two indicators that show signs of health in the regional economy, taxable retail sales and automobile sales in Hampton Roads have experienced steady growth, indicating growing incomes and increasing confidence about the future in this region. Unfortunately, the weakness in both employment (18,700 fewer regional jobs than in Jul-07) and in the housing market, will prevent retail sales alone from driving the regional recovery.

### Unemployment Rate in Hampton Roads and Reference MSAs

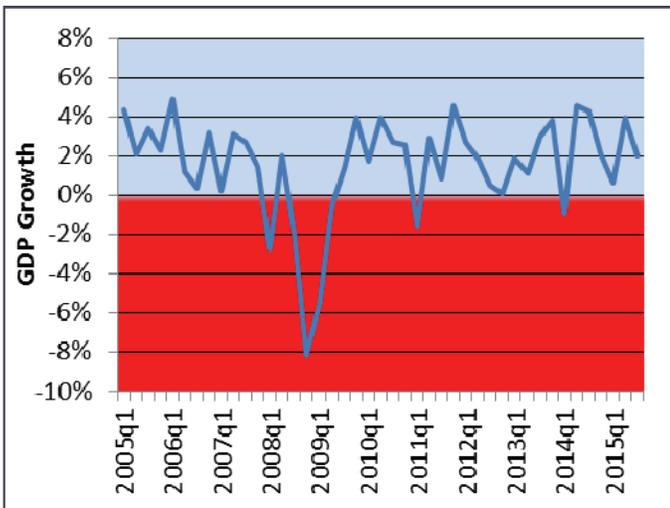
#### Unemployment Rate in Oct 2015 MSAs with Population between 1-3 Million



Source: Bureau of Labor Statistics

### GDP, Annualized Growth Rate

United States, 2005Q1 – 2015Q3, Quarterly

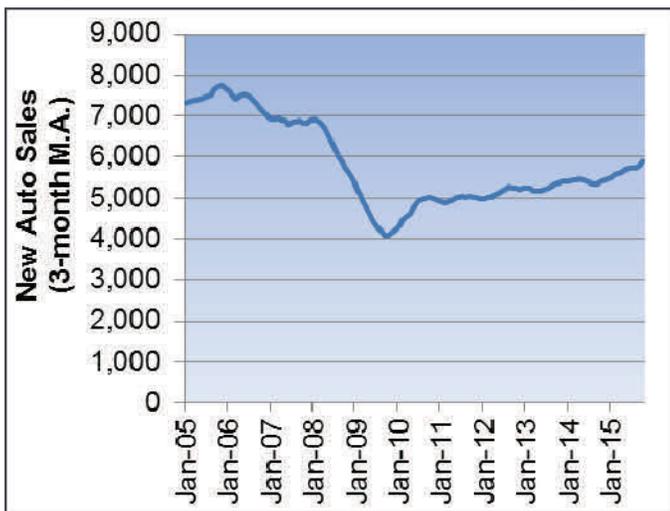


Source: Bureau of Economic Analysis, HRPDC

**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 significantly in the third quarter, falling to an annualized rate of 2.0% from the extremely high 3.9% pace of the second quarter. Fortunately, most of the decline was driven by shrinking inventories, and absent that impact, GDP would have proceeded at a 2.71% pace.

### New Car Sales, Seasonally Adjusted

Hampton Roads, Jan 2005 – Oct 2015, Monthly

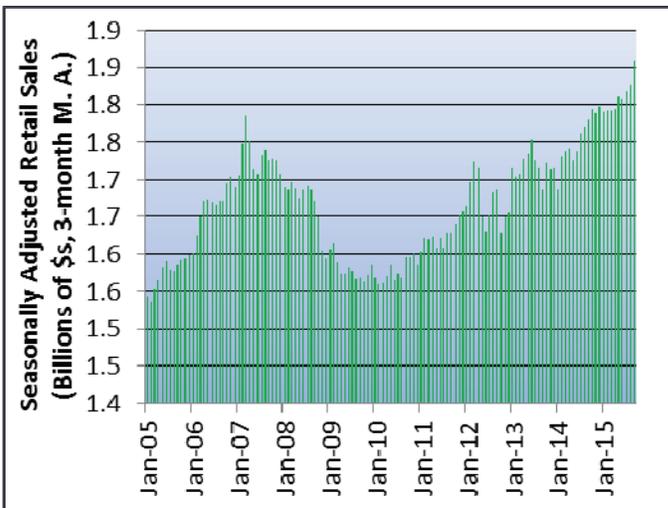


Source: Virginia Automobile Dealers Association, HRPDC

**New Car Sales:** Car sales, as a durable good, may be put off until such time as an individual’s economic prospects improve; thus, the number of new car sales indicate the level of confidence that households in Hampton Roads have in their financial future. Hampton Roads’ car sales have increased significantly in the past few months, and just above the region’s long-term average. This steady progress indicates that the recovery in car sales will be sustainable, though several factors will likely prevent car sales from reaching their 2005

### Hampton Roads Retail Sales, Seasonally Adjusted

Hampton Roads, Jan 2005– Oct 2015, Monthly



Source: Virginia Department of Taxation, HRPDC

**Retail Sales:** Retail Sales in Hampton Roads, as measured by the 1% local option sales tax, serve as an indicator for consumption in the region. Since consumption composes 68% of economic activity in the U.S., the growth or decline of retail sales gives a strong indication of the direction of the local economy. While retail sales growth slowed in October, retail sales remain 4.2% above their prerecession peak, and it is impressive that there was no decline after the rapid growth the region experienced this summer.

### Estimated Hotel Revenue, Seasonally Adjusted

Hampton Roads, Jan 2005 – Aug 2015, Monthly



Source: HRPDC

**Estimated Hotel Revenue:** Hotel sales indicate the performance of the region’s tourism sector. Tourism significantly contracted during the great recession and had followed a slow steady growth trend. This was interrupted again in 2012 as budget issues resulted in a decline in federal government travel. It is notable that while taxable hotel receipts are 15.2% above their prerecession level, tourism employment is only 3.5% above its level in 2007.

### Civilian Employment, Seasonally Adjusted

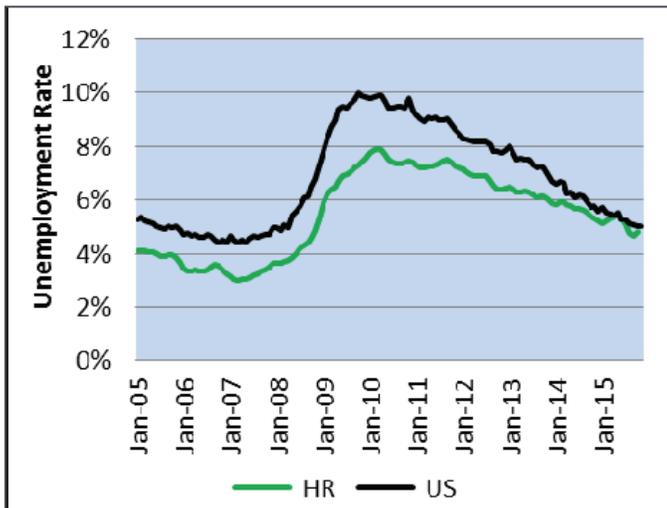
Hampton Roads, Jan 2005 – Nov 2015, Monthly



**Employment:** Non-agricultural civilian employment figures are considered the best estimate of labor market activity by the National Bureau of Economic Research. Overall, Hampton Roads has gained 1,900 jobs over the past four months, but this has included two months where employment contracted and two months where it expanded. The region continues to make fitful progress, but has yet to embark on a sustained recovery.

### Unemployment Rate, Seasonally Adjusted

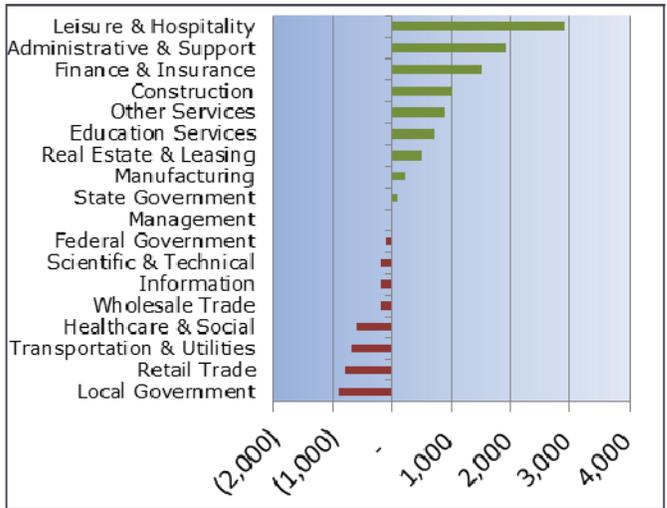
Hampton Roads, Jan 2005 – Nov 2015, Monthly



**Unemployment Rate:** The unemployment rate is the percentage of the population actively seeking work, but unable to obtain a position. The Hampton Roads unemployment rate has declined significantly over the summer, but rose slightly to 4.8% in October, driven by a decline in employment and stable labor force participation. Virginia's labor force participation and employment grew in November, and hopefully that trend carries over to the Hampton Roads region.

### Employment Growth by Industry

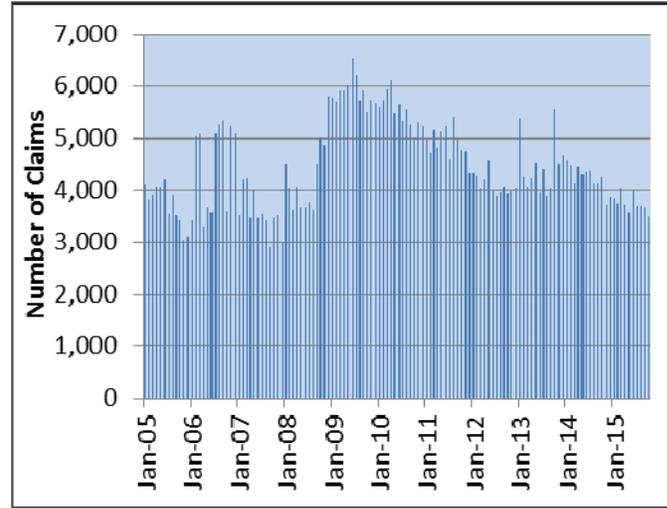
Hampton Roads, Nov 2014 – Nov 2015, Year-over-Year



**Employment Growth by Industry:** Even as the job market grows or declines, there will be some industries whose experience does not resemble the regional trend. Local government employment continues to decline year-over-year, as the housing price correction continues to decrease local government revenue, increasing budget pressures. The decline in retail employment is surprising, as the region's taxable sales have increased significantly over the past year.

### Initial Unemployment Claims, Seasonally Adjusted

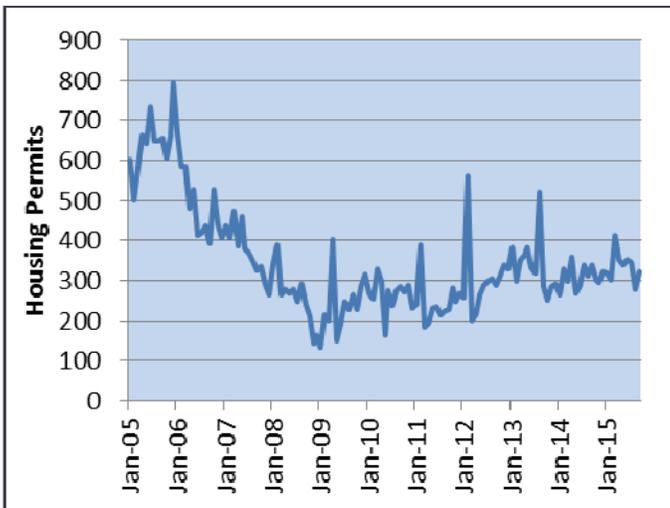
Hampton Roads, Jan 2005 – Oct 2015, Monthly



**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. Regional unemployment claims declined in October 2015, almost 900 claims below the long-term average of 4,400. The performance of initial unemployment claims reflects a national trend away from shedding staff, but also provides the most optimism about future improvements in the regional labor

### Single Family Housing Permits, Seasonally Adjusted

Hampton Roads, Jan 2005 – Sep 2015, Monthly

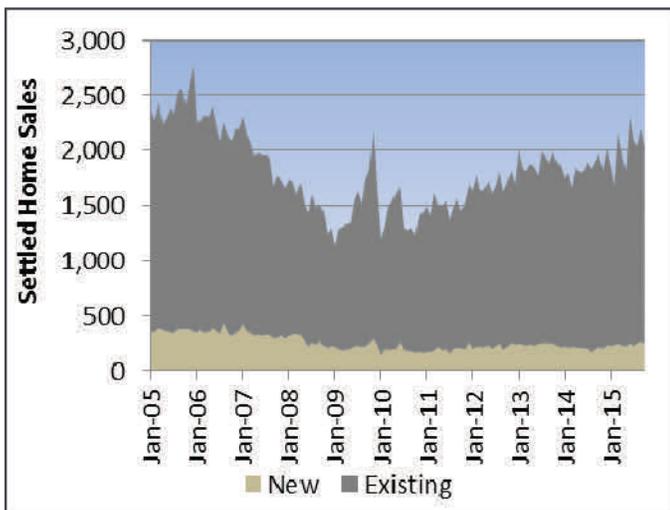


Source: U.S. Census Bureau, HRPDC

**Single Family Housing Permits:** Permit data signals the level of construction employment and confidence regarding the future trajectory of the local economy. Single family permitting has declined to approximately 320 units a month, after a brief increase in March and April of 2015. It is unlikely that construction activity will significantly increase until employment begins to experience a rapid and consistent expansion.

### Number of Homes Sold, Seasonally Adjusted

Hampton Roads, Jan 2005 – Oct 2015, Monthly

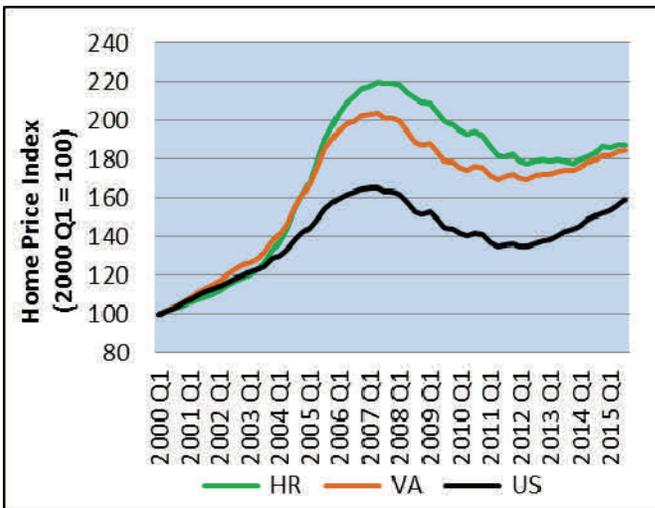


Source: REIN, HRPDC

**Home Sales:** Settled home sales measure the level of transactions on the real estate market over time, and a healthy real estate market should have a consistent level of activity. Hampton Roads' real estate transactions were unnaturally elevated during the boom and dropped substantially during the housing correction. Recently, existing home sales have increased significantly, achieving levels not experienced since 2005. If the levels of home sales continue at these levels, it would allow for a higher level of construction

### Home Price Index, All Transactions

U.S., VA., & Hampton Roads, 2000Q1 – 2015Q3, Quarterly

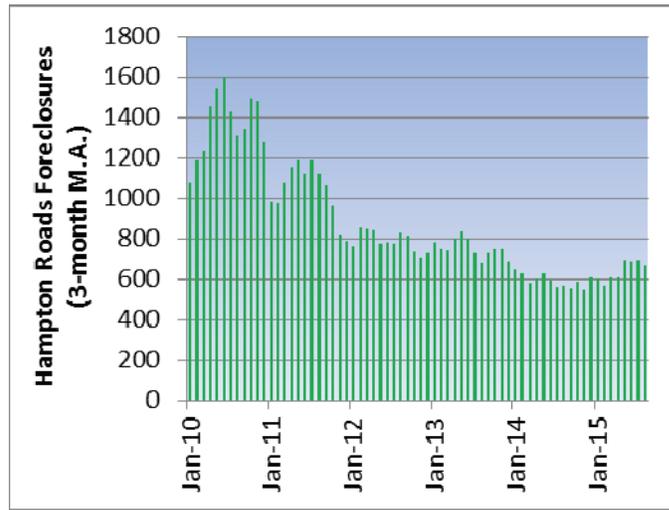


Source: Federal Housing Finance Agency, HRPDC

**Home Price Index:** The home price index measures the value of homes by seeing how the price has changed through different sales of the same property. The index provides the highest quality data available on the trends in the real estate market. Hampton Roads' real estate values began to increase rapidly in 2003, and continued through 2007. While the region experienced the same level of decline in housing prices as the Nation and the Commonwealth, it has yet to experience a similar recovery in home prices.

### Foreclosures

Hampton Roads, Jan 2010 – Sep 2015, Monthly



Source: RealtyTrac, HRPDC

**Foreclosures:** Foreclosures have a significant impact on the real estate market and the community, and depress home values on both a neighborhood and regional level. Hampton Roads' foreclosure filings have fallen steadily throughout the recovery, but have increased recently, and grew to 790 in September. It is important to recognize that foreclosure data is extremely variable, but it does seem that the region has experienced a significant increase in foreclosure activity over the past five months.