

## Happy Days are Here Again

Hampton Roads' economy has performed remarkably well recently, despite concerns such as slowdowns in business investment and manufacturing at the national and international levels. Stronger tourism seasons and increased defense spending have contributed to the positive economic growth seen in the region.

The chart below tracks the baseline budget of the Department of Defense since sequestration was enacted through the Budget Control Act (BCA). However, the baseline budgets more closely resemble President Obama's Budget Request for FY2012 than they do the lower levels of spending required by the BCA. This understates spending, as the chart does not include the Overseas Contingency Operations (OCO) funding, which falls outside of the BCA framework.

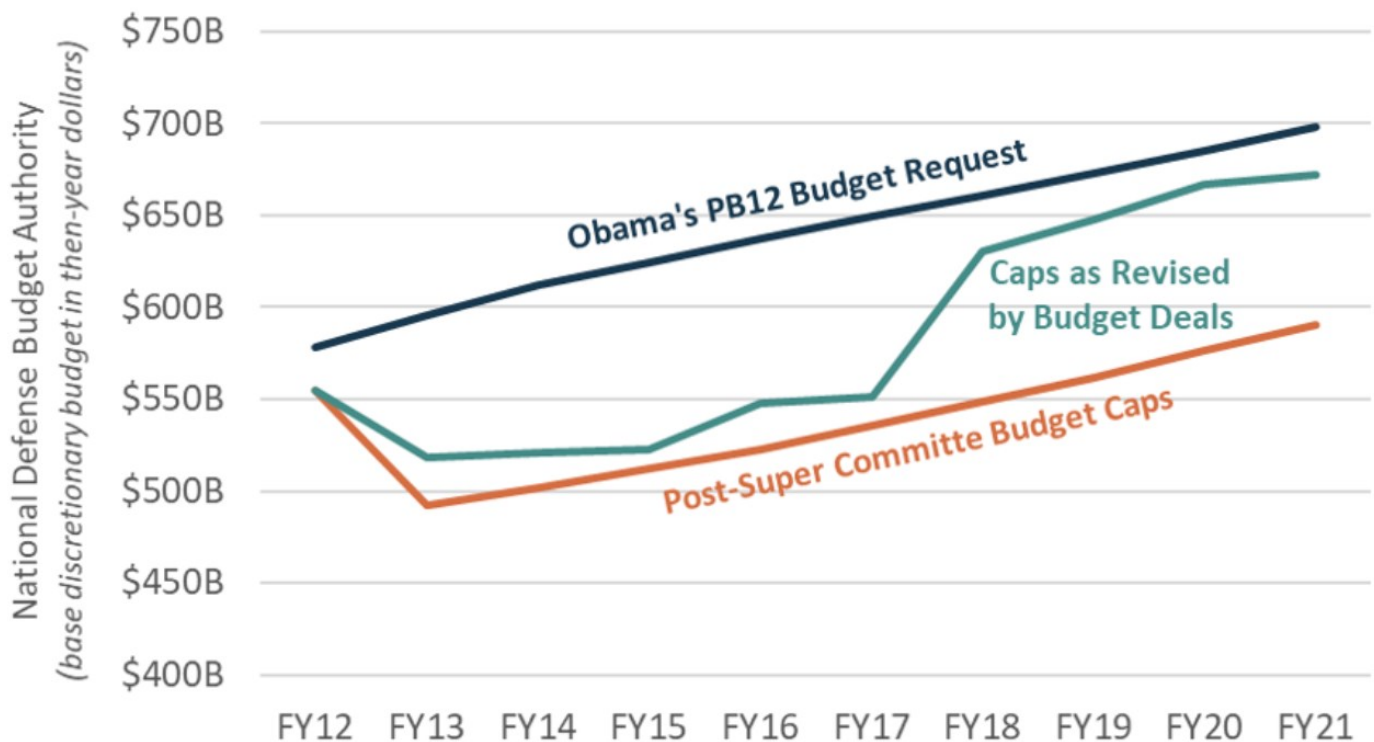
The most recent budget agreement will increase defense spending from \$716B to \$738.0B in FY2020 and \$740.5 in FY2021 (including Base and OCO funding). National defense spending has increased for the past seven consecutive quarters, a trend which will likely continue for the next two years, assuming that Congress approves an appropriations bill this September.

At present, the regional employment sits at 799,500, having grown by 5,900 positions over the past three months. The regional unemployment rate has fallen to 3.1%, almost half a percentage point below the national level, doing so as the Hampton Roads labor force strongly expanded. Initial unemployment claims remain very low, and while construction hasn't picked up as much as one might expect given the economy, home sales in the region continue at a strong clip. In addition, retail sales, impacted by e-commerce, hit a new regional high in the past month.

Looming out on the 2-year horizon are increasing federal deficits and a growing national debt that are sure to impact defense expenditures in years to come. But for today, Hampton Roads' is looking good!

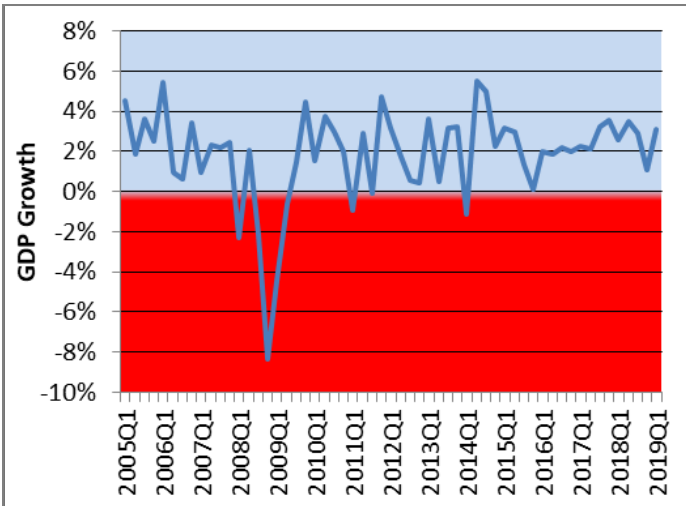
## The Sequestration Budget Caps vs Enacted Budgets

Evolution of the BCA Budget Caps for Defense



### GDP, Annualized Growth Rate

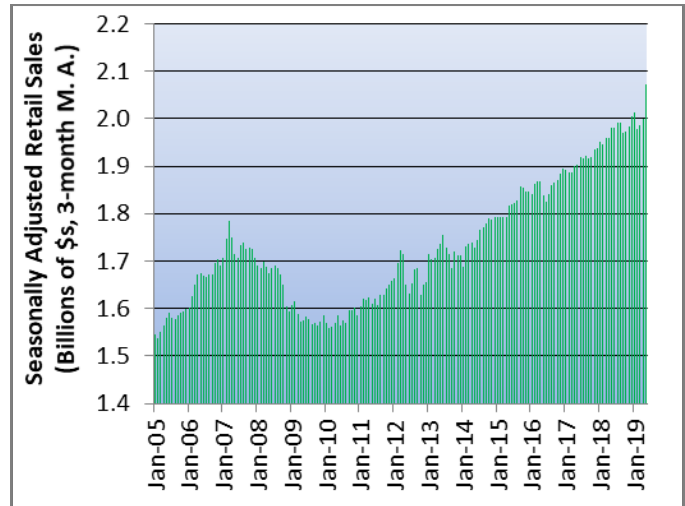
United States, 2005Q1 – 2019Q2, Quarterly



**GDP:** Gross Domestic Product combines consumption, investment, net exports, and government spending to determine the size and general health of the economy. Real GDP slowed to 2.1% in Q2 2019, with that growth driven by a strong rebound in consumer and spending (+4.3% over the previous quarter). Investment decreased by 5.5%, though this was largely driven by changes to inventories. Of special import to the region, national defense spending grew for the 7th consecutive quarter (+2.8%).

### Hampton Roads Retail Sales, Seasonally Adjusted

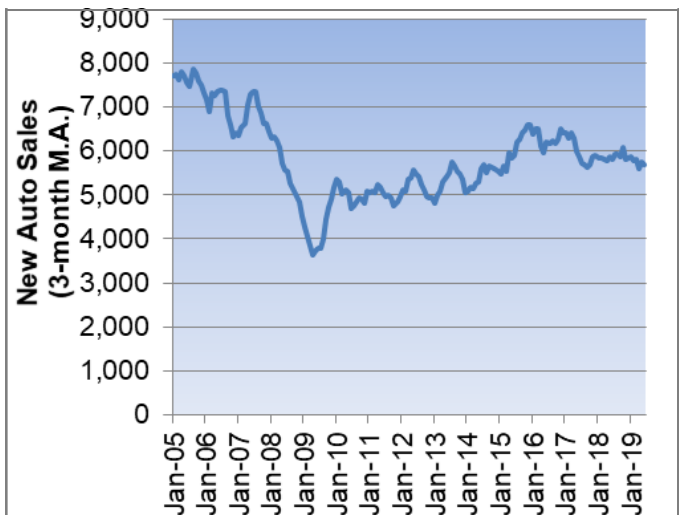
Hampton Roads, Jan 2005– May 2019, Monthly



**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. Retail sales grew significantly in May 2019, increasing by 7.3% year-over-year, increasing the three month average of sales to \$2.07 billion. This was driven by above average strength in May, as well as extremely weak February dropping out. It is notable that May was the strongest month for year-over-year growth in retail sales in 2018 as well.

### New Car Sales, Seasonally Adjusted

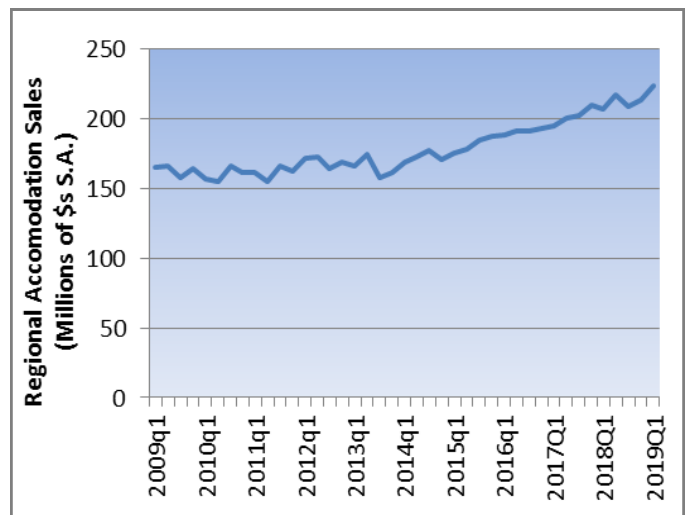
Hampton Roads, Jan 2005 – Jun 2019, Monthly



**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. Car sales move significantly from month-to-month but looking at the overall trend typically provides a better signal. Car sales have declined significantly over the past two months. In June, regional car sales fell by twice as much as national sales (1.2% vs 0.6%).

### Estimated Hotel Revenue, Seasonally Adjusted

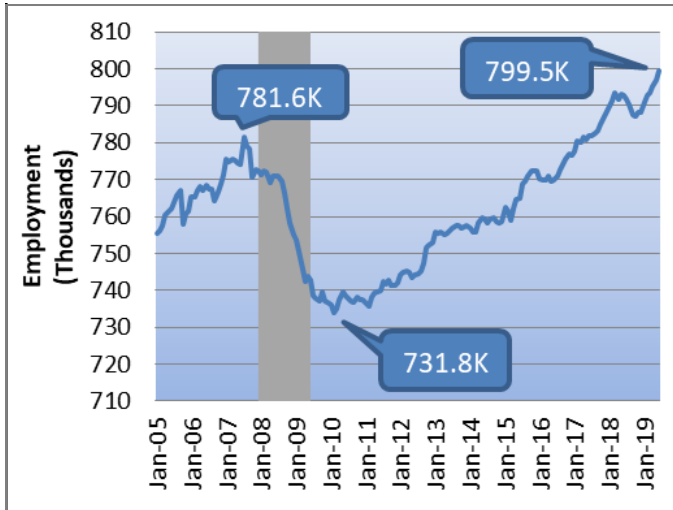
Hampton Roads, 2009Q1 – 2019Q1, Quarterly



**Estimated Hotel Revenue:** Hotel sales indicate the performance of the region's tourism sector. In Q1 2019, accommodation sales increased by 4.54% on a seasonally adjusted basis, growing to \$223 million, and this is an exceptionally strong reading. Caution should be applied, as the first quarter of the year has the lowest volume of accommodation sales, and thus may not be significant compared to summer months.

### Civilian Employment, Seasonally Adjusted

Hampton Roads, Jan 2005 – Jun 2019, Monthly

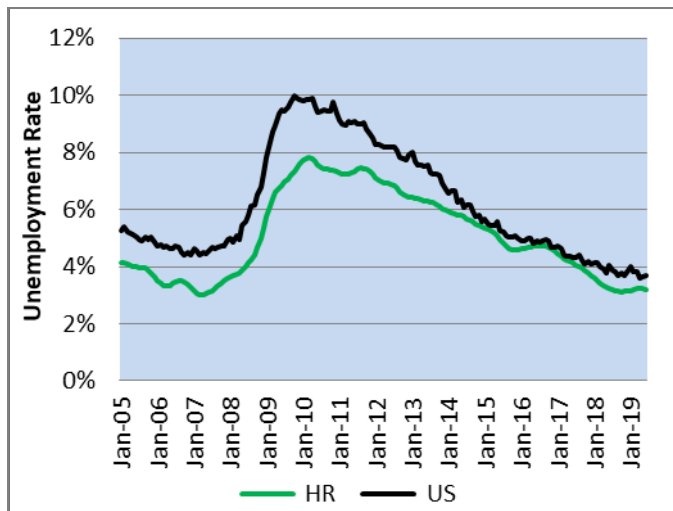


Source: Bureau of Labor Statistics, HRPDC

**Employment:** Non-agricultural civilian employment figures are considered the best estimate of labor market activity by the National Bureau of Economic Research. Hampton Roads' employment grew in July 2019 to 799,500, a growth of 2,300 jobs over the previous month (seasonally adjusted; furthermore, this increase came as the estimate for May was revised up by 2,100 jobs, making this an extremely strong jobs report. Hampton Roads' employment has surpassed its prerecession high by 17,900 jobs (2.29%).

### Unemployment Rate, Seasonally Adjusted

U.S. & Hampton Roads, Jan 2005 – Jul 2019, Monthly



Source: Bureau of Labor Statistics, HRPDC

**Unemployment Rate:** The unemployment rate is the percentage of the population actively seeking work but unable to obtain a position. Hampton Roads' unemployment rate dipped slightly to 3.19% in July 2019, but this reading, which is already quite low, continues to show strong fundamentals as the falling unemployment rate has been paired with a growing labor force over the past six months.

### Employment Growth by Industry

Hampton Roads, Jun 2018 – Jun 2019, Year-over-Year

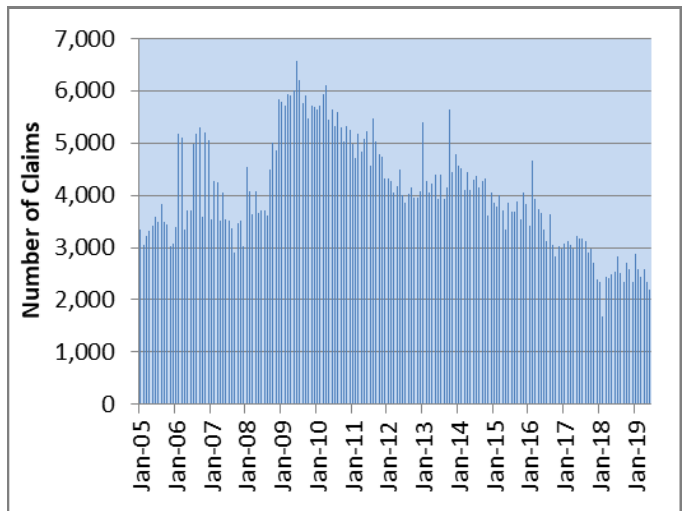


Source: Bureau of Labor Statistics, HRPDC

**Employment Growth by Industry:** As the job market grows or declines, there will be some industries whose experience does not resemble the regional trend. Regionally, over the past year, Leisure & Hospitality employment increased by 5,900, a significant increase from last month, as the tourism season employment surge has appeared to intensify. On the other side, Local Government employment continues to slide, declining by 9,800 jobs over the past decade.

### Initial Unemployment Claims, Seasonally Adjusted

Hampton Roads, Jan 2005 – Jun 2019, Monthly

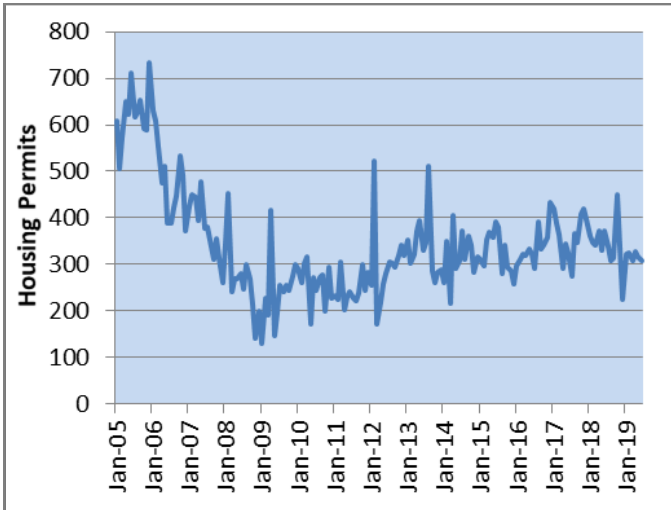


Source: Virginia Department of Labor, HRPDC

**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. Seasonal adjusted unemployment claims fell to the 4th lowest monthly total in the past 35 years (2,196). This trend over the past 1.5 years has been quite remarkable.

### Single Family Housing Permits, Seasonally Adjusted

Hampton Roads, Jan 2005 – Jun 2019, Monthly

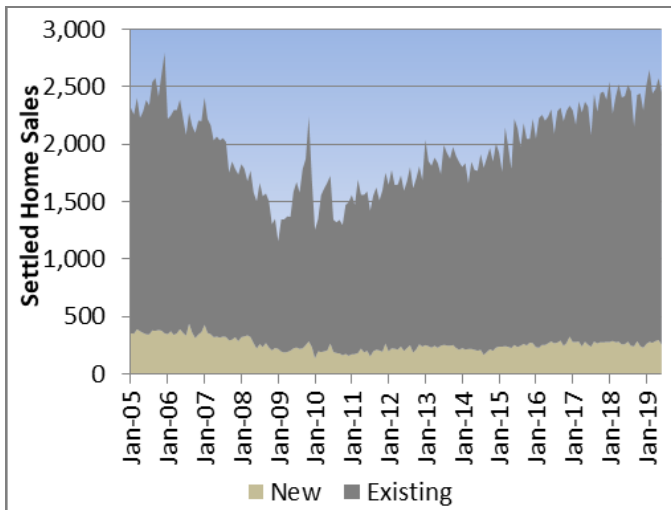


Source: U.S. Census Bureau, HRPDC

**Single Family Housing Permits:** Permit data signals the level of construction employment and confidence regarding the future trajectory of the local economy. The level of new construction permitting for single family homes has stayed at just over 300 per month since the start of 2019, coming in at just 315 in May 2019 (seasonally adjusted). The long-term average for single family permitting has been 444 units per month, and given the strength in other areas of the regional economy, it remains surprising that single family permitting has failed to accelerate.

### Number of Homes Sold, Seasonally Adjusted

Hampton Roads, Jan 2005 – Jun 2019, Monthly

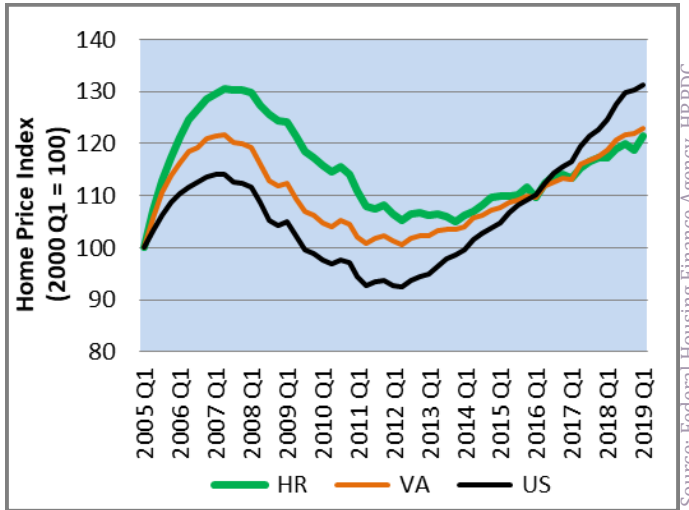


Source: REIN, HRPDC

**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. The levels of existing home sales have been strong recently, and sales have been at the same average level as during 2005 during the housing boom. Interestingly, new construction sales are only 10% of total sales, versus 15% in 2005.

### Home Price Index, All Transactions

Hampton Roads, 2005Q1 – 2019Q1 Quarterly

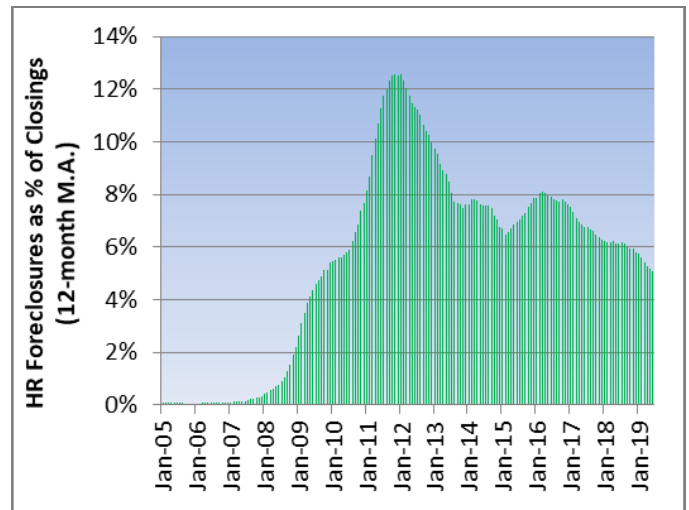


Source: Federal Housing Finance Agency, HRPDC

**Home Price Index:** The home price index measures the value of homes by evaluating changing price levels through repeated sales of properties. The index provides the highest quality data available on the trends in the real estate market. Hampton Roads' home prices increased by 2.5% in Q1 2019, and this matches Virginia's appreciation year-over-year (though still lags the nation). Regional housing values have surpassed those of Q2 2009.

### Foreclosures and Distressed Sales

Hampton Roads, Jan 2005 – Jun 2019, Monthly



Source: Zillow, HRPDC

**Foreclosures:** Foreclosures have a significant impact on the real estate market and community, depressing home values on a neighborhood and regional level. Distressed homes' share of total sales has particularly been shown to impact on the sale price of existing homes. Foreclosures are still elevated following the housing boom. They constituted 5.1% of all home resales in June 2019, down from a high of 8.0% in March 2016 (12-month average).