

Hampton Roads' Economy Continues to Move Sideways

by James Clary, Senior Economist

Hampton Roads retail sales weakened heading into the summer, declining by more than \$40 million a month between April and June 2016 on a seasonally adjusted basis. Regional retail sales are only 2.1% above their prerecession peak; this contrasts to U.S. retail sales, that despite declining by a similar magnitude during the recession, are now 21% above their prerecession peak.

The regional indicators suggest this might have been a transitory issue, as several metrics dipped at either the beginning of the year (initial unemployment claims) or during that time period (new car sales), but have recovered through the summer. A far more concerning issue is that the region seems to be moving sideways in terms of employment once again. Employment grew more slowly than during an average year, and the region still has not recovered its full prerecession civilian employment (-1.7%).

Home sales continue to grow in the region, but foreclosures continue to impact prices, and the Home Price Index for the region actually showed home prices declining at the beginning of the year. As more foreclosures progress out of the market and employment recovers, new home construction should return regionally.

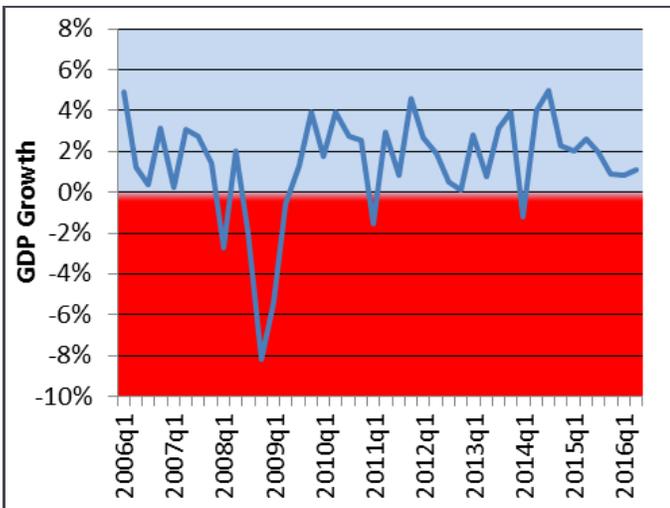
Indexed Retail Sales Comparison, HR vs U.S.



Source: Virginia Department of Taxation, U.S. Census Bureau, HRPDC

GDP, Annualized Growth Rate

United States, 2006Q1 – 2016Q2, 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 grew at a disappointing 1.1% in the second quarter; this followed weak growth at both the end of 2015 (0.9%) and the beginning of 2016 (0.8%). These declines are driven by weakness in investment, primarily associated with declines in inventories, which typically reverses course every few quarters.

New Car Sales, Seasonally Adjusted

Hampton Roads, Jan 2006 – Aug 2016, Monthly

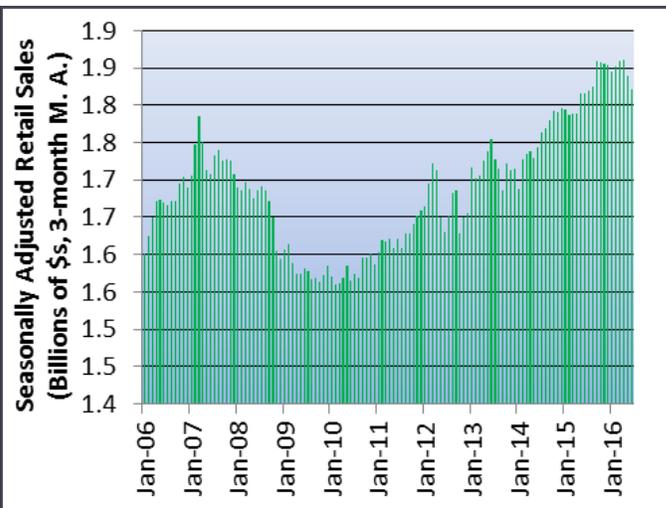


Source: Virginia Automobile Dealers Association, HRPDC

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. After a weak April and May, regional car sales recovered during the summer, with a August 2016 being an exceptionally strong month (seasonally adjusted).

Hampton Roads Retail Sales, Seasonally Adjusted

Hampton Roads, Jan 2006– Jun 2016, 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. Hampton Roads monthly sales have declined to \$1.82B in June 2016, from a peak of \$1.86B in April 2016 (seasonally adjusted). While this represents significant growth from the trough of the recession (16.9%), it represents only a modest amount of growth over February 2007, growth that disappears when one accounts for the impact of inflation.

Taxable Accommodation Sales, Seasonally Adjusted

Hampton Roads, 2006Q1 – 2016Q2, Quarterly

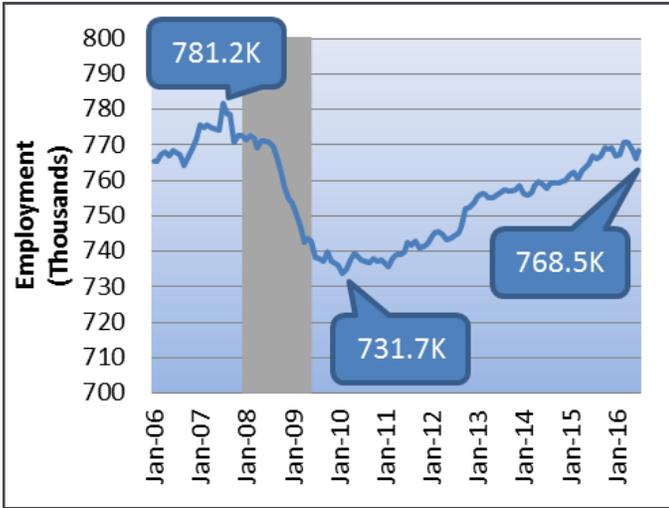


Source: Virginia Department of Taxation, HRPDC

Taxable Accommodation Sales: Hotel sales indicate the performance of the region’s tourism sector. Tourism significantly contracted during the great recession and has been following a slow steady growth trend ever since. While seasonally adjusted sales have now passed their prerecession peak, the region’s tourism industry still has room for growth, and the third quarter continues to be the most important for the region’s tourism industry.

Civilian Employment, Seasonally Adjusted

Hampton Roads, Jan 2006 – Jul 2016, Monthly

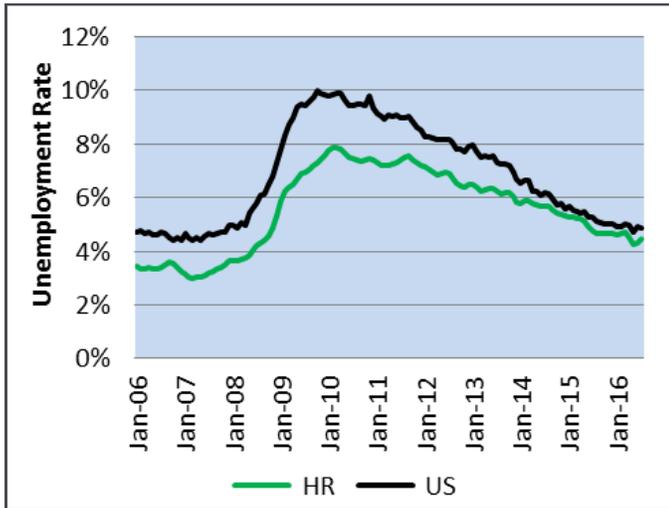


Source: Bureau of Labor Statistics, HRPDC

Employment: Non-agricultural civilian employment figures are considered the best estimate of labor market activity by the National Bureau of Economic Research. Hampton Roads lost almost 50,000 civilian jobs following the onset of the recession. Since then the region has struggled to consistently add new jobs, moving sideways over the past year, as neither expansion nor contraction has managed to take hold in employment. Regional civilian employment remains 13,100 jobs below the prerecession peak (-1.7%).

Unemployment Rate, Seasonally Adjusted

Hampton Roads, Jan 2006 – Jul 2016, Monthly

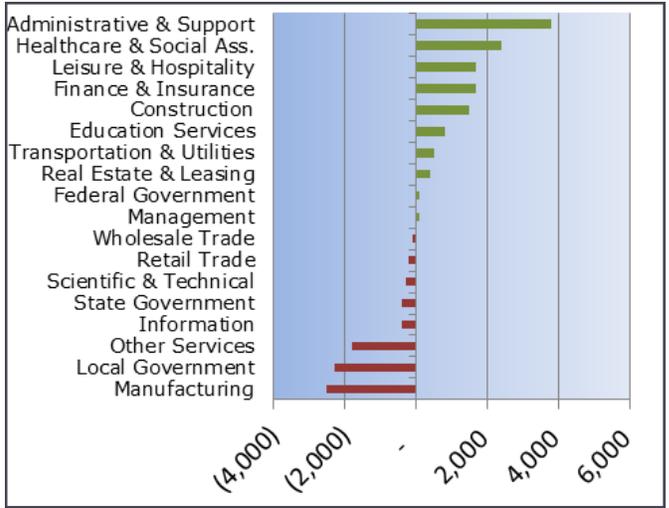


Source: Bureau of Labor Statistics, HRPDC

Unemployment Rate: The unemployment rate is the percentage of the population actively seeking work, but unable to obtain a position. The Hampton Roads unemployment rate popped up slightly in July 2016 to 4.4%, but remains almost half a percentage point below the national rate. The region's unemployment rate does not account for the uniformed military personnel, which if they were included, would further drive down the region's unemployment rate.

Employment Growth by Industry

Hampton Roads, Jul 2015 – Jul 2016, Year-over-Year

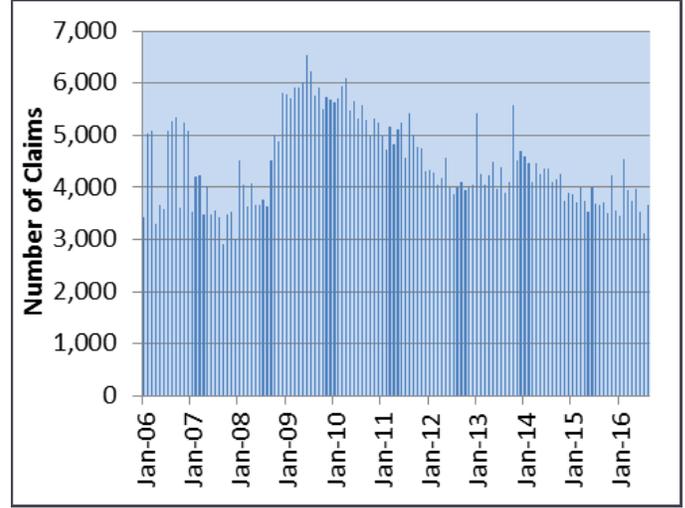


Source: Bureau of Labor Statistics, HRPDC

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. Pressure on Manufacturing employment nationwide, and Ship and Boat Building & Repair regionally has resulted in fewer jobs in this industry. Local Government employment continues to decline year-over-year, as the housing price correction continues to impact local government revenue, increasing budget pressures. The strong expansion of Administrative and Support is a new trend.

Initial Unemployment Claims, Seasonally Adjusted

Hampton Roads, Jan 2006 – Aug 2016, Monthly

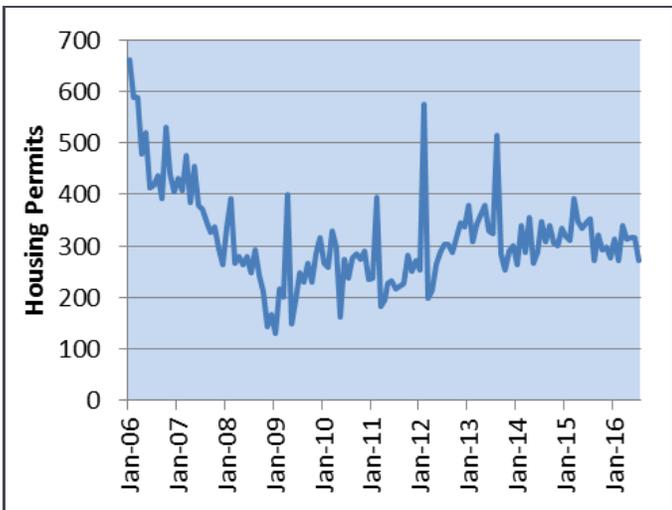


Source: Virginia Department of Labor, HRPDC

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. The region's new unemployment claims averaged 3,656 in August 2016, significantly below both the levels at the beginning of the year, and Hampton Roads long-term average.

Single Family Housing Permits, Seasonally Adjusted

Hampton Roads, Jan 2006 – Jul 2016, Monthly

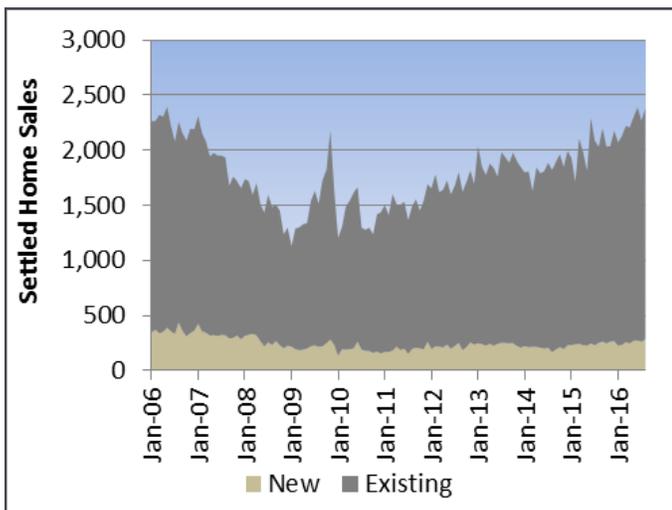


Source: U.S. Census Bureau, HRPDC

Single Family Housing Permits: Permit data signals the level of construction employment and confidence regarding the future trajectory of the local economy. Hampton Roads' localities issued 312 building permits in July 2016, and have averaged 345 single family permits over the past six months (seasonally adjusted). This is two-thirds the level of permitting historically seen in Hampton Roads. Low levels of permitting are expected to continue until the region generates a period of strong/stable employment growth.

Number of Homes Sold, Seasonally Adjusted

Hampton Roads, Jan 2006 – Aug 2016, Monthly

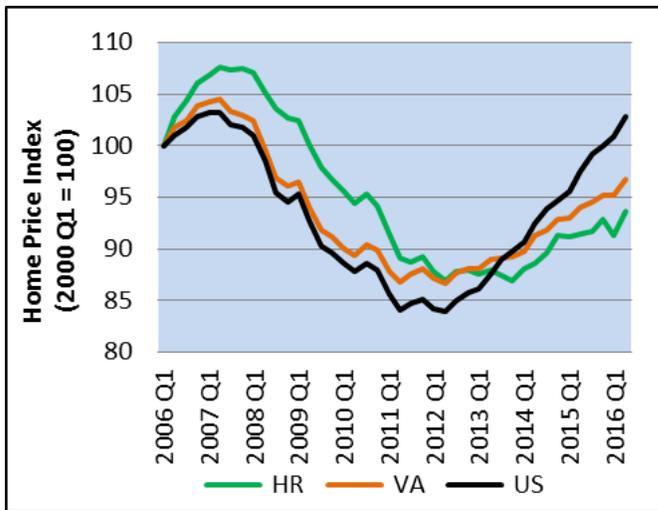


Source: REIN, HRPDC

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 home sales continue at this level, increased liquidity in the residential real estate market will encourage further development.

Home Price Index, All Transactions

U.S., VA., & Hampton Roads, 2006Q1 – 2016Q2, Quarterly

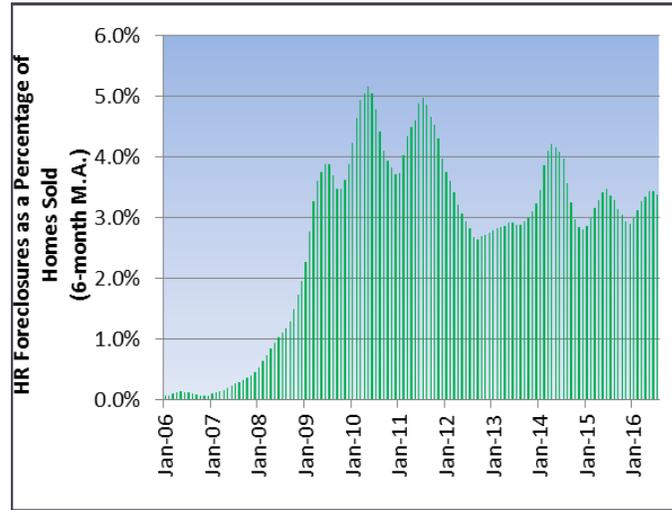


Source: Federal Housing Finance Agency, HRPDC

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' real estate values began to increase rapidly in 2003 and grew more rapidly than the nation and the state 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 as a Share of Homes Sold

Hampton Roads, Jan 2006 – July 2016, Monthly



Source: Zillow, 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. Distressed homes share of total sales has particularly been shown to have an impact on the sale price of existing homes. During the housing boom, foreclosures were a negligible part of the local real estate market, but rose to 5.0% of all sales in July 2011. Distressed sales constituted 3.4% of all Hampton Roads existing home sales in July 2016.