



THE HAMPTON ROADS ECONOMIC QUARTERLY

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Vol. 1, No. 3 • Spring 2009

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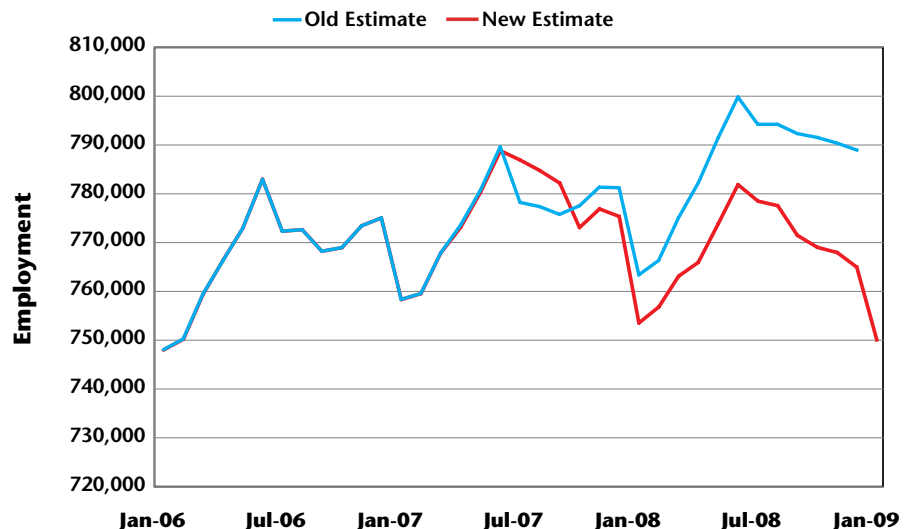
Employment Figures Revised

Economists recognize that the monthly data produced through the Current Employment Survey (CES) serves as a sensitive gauge to the relative health of the economy. The CES, commonly referred to as payroll data, faces the tradeoff between timeliness of reporting data, expenses collecting responses, and the potential errors inherent to all surveys. This year errors in the payroll estimates led to significant revisions of the payroll series for both the State of Virginia and for the Hampton Roads metropolitan area.

The Federal and State Governments collaborate on the CES program. The State collects information from employers, estimates employment on the State and metropolitan level, and reports both the data and its estimates to the Bureau of Labor Statistics (BLS). The Virginia Employment Commission (VEC), which estimates the non-farm employment for Virginia and its constituent regions, is able to produce data on a timely basis using surveys of state businesses (the BLS determines the businesses to be surveyed). The responsible agency estimates the employment in the nation/state/region by surveying a significant sample of the businesses contained in the geographic area of interest (in Virginia the VEC surveys 13,000-14,000 businesses). Theory indicates that any estimate derived from a sample is subject to both sampling error and non-sampling error. Poor sample selection, which results in a sample that poorly represents the population of interest, is the primary source of sampling error, while non-sampling errors stem from issues both in the recording of the survey and in the processing/calculating of the statistics.

The VEC annually benchmarks the employment figures, primarily using the state unemployment insurance tax records, which are the most accurate total employment counts currently available. The payroll estimates were replaced by actual employment numbers from April 2007 to March 2008, and using models updated with the most recent data, new payroll estimates were made for the months from April 2008 to the present. In addition to

Comparison of Estimates for Hampton Roads Non-Farm Payrolls



Source: Bureau of Labor Statistics, Virginia Employment Commission

Preparation of this document was included in the HRPDC Unified Planning Work Program for Fiscal Year 2009 that was approved by the Commission at its Executive Committee Meeting on March 19, 2008. If you would like to be included on the electronic distribution list, please contact James Clary at jclary@hrpdcva.gov or by calling (757) 420-8300. This document is available for download from the Commission's website, visit www.hrpdcva.gov.

the VEC's 2008 benchmarking, the BLS regularly reviews the statistical methodology of all state agencies to bring them in line with Federal Standards. Economic turning points tend to create large discrepancies between state and national estimates, and because of the greater sample size on the national level, which allows for a higher degree of modeling, the national estimates have a greater degree of accuracy. The large discrepancy that developed between state and national forecasts in 2008 and the importance of understanding labor markets during these troubled economic times led the BLS to review and update the methodologies of all the states before the release of January 2009 data.

As a result of both the VEC's benchmarking and the BLS's adjustments, Virginia's employment for March 2008 was shown to be 0.1% smaller than the VEC's earlier estimate, and the newly generated estimate for December 2008 employment is 0.9% smaller. In Hampton Roads, the actual employment for March 2008 was 1.5% lower than the VEC estimate, and the new December 2008 estimate is 3% lower than the previous estimate.

The biggest question confronting analysts is why the revision was so much greater for Hampton Roads than for Virginia as a whole? Several different factors are believed to contribute to the answer. First, the survey, while attempting to encompass all firms, covers the largest firms to a greater extent. This is a rational decision as larger firms form a greater percentage of the employment base and have a higher degree of stability than smaller firms. This approach aids in the collection of data. The greater representation of large firms does create a degree of sample error (but is more accurate than other alternatives), and because of the high level of turnover in small firms, it is difficult to model this on a regional, or even a state level. Thus, where economic conditions have led to high levels of either firm births or deaths, the metropolitan area estimates will deviate from actual employment to a larger extent. Second, the industries which saw the greatest (downward) revision in Hampton Roads are those that tend to be dominated by small businesses/contractors. They include trade & transportation, construction, and other services (laundry, pet services, grooming services, etc.). Thus the Current Employment Survey has the least ability to measure the areas where Hampton Roads experienced the greatest job loss.

Where does Hampton Roads Stand after the Revision

Clearly, the employment situation is significantly worse than had previously been reported. There was a 24,000 employee swing in payrolls from the old estimates to the new estimates for Hampton Roads. This moves Hampton Roads from a region that was experiencing strong employment growth, to one that lost 10,400 jobs between December 2007 and December 2008. Several industries experienced exceptionally high levels of job loss over the past two years, including transportation, construction, and retail trade.

Two Year Change in Employment By Hampton Roads Industry (Feb 07-Feb 09)	
Trade, Transportation & Utilities	-6,700
Construction & Nat'l Resources	-5,800
Retail Trade	-4,500
Durable Goods	-2,600
Other Services	-2,400
Financial Activities	-1,800
Information	-1,700
Wholesale Trade	-1,400
Leisure and Hospitality	1,900
Government	2,100
Education and Health Services	2,400
Professional and Business Services	3,900

Source: Bureau of Labor Statistics, Virginia Employment Commission

Major Revisions in Employment By Hampton Roads Industry	
Difference in Old and New CES Estimates for the Month of October 08	
Other Services	-7,500
Construction & Nat'l Resources	-6,200
Trade Transportation & Utilities	-6,100
Retail Trade	-3,500
Financial Activities	-2,200
Professional and Business Services	2,300

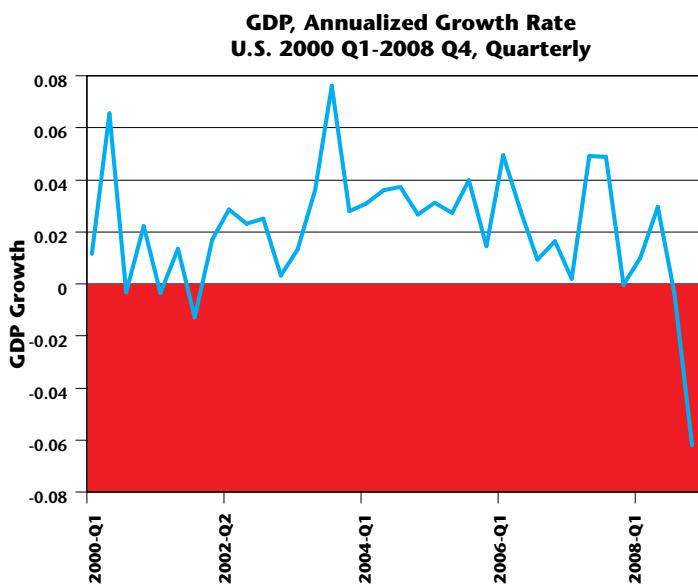
Source: Bureau of Labor Statistics, Virginia Employment Commission

Economic Outlook in Hampton Roads

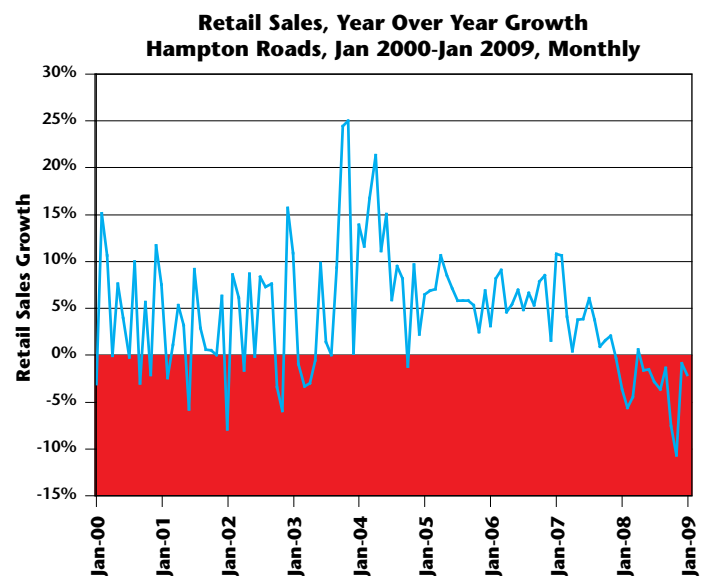
The Hampton Roads economy has suffered from this downturn to a greater extent than was previously perceived. The revised employment numbers revealed that the region has been losing jobs since the nation entered recession in December of 2007. On a positive note, Hampton Roads' job loss has slowed recently, and its labor market has not experienced the accelerating deterioration which occurred nationally over the past four months. The unemployment rate spiked in January 2009, and while the region still maintains a much lower level of unemployment than the nation as a whole, the gap between Hampton Roads and the U.S. unemployment narrowed significantly in January 2009. Initial unemployment claims spiked over the past six months, reaching an average of 4,715 per month between September and November, and reaching an even higher level from December through February (5,723), indicating continued weakness for the regional economy.

The two leading indicators for economic recovery are increased personal consumption expenditures and increased fixed residential investment; unfortunately, neither category provides a positive outlook for economic recovery in Hampton Roads. Retail sales continue to be lower than last year's measurements, and while they are not at the double digit declines experienced in November, retail sales must increase for the region to experience economic growth. Housing permits continue to remain at extremely low levels, and with the current inventory overhang, historical economic patterns indicate that an increase in consumer expenditures is necessary to produce the first steps of economic recovery. The Bureau of Economic Analysis continues its negative revisions of 4th quarter U.S. Gross Domestic Product (currently they estimate the U.S. contracted at a 6.3% annual rate), and the 1st quarter of 2009 is also expected to show a large contraction, driven primarily by declining business investment.

Hampton Roads Economic Indicators



Source: Bureau of Labor Statistics

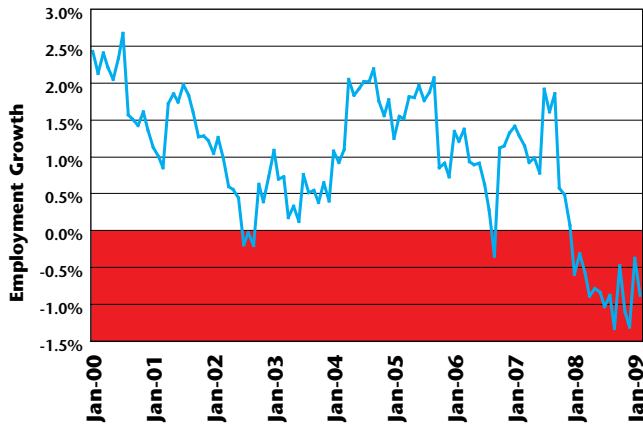


Source: Virginia Department of Taxation

GDP: Gross Domestic Product combines consumption, investment, net exports and government spending to determine the size and general health of the economy. Changes in the nation's GDP tend to be reflected in Hampton Roads' gross regional product. Strong exports and stimulus payments created growth in the second quarter of 2008, but that has quickly evaporated and the GDP has shrunk the past two quarters.

Retail Sales: Retail sales, as measured by the 1% local option sales tax, serves 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 have been lower this year than last, and this is a function of lower consumer confidence, as well as lower personal wealth (as a result of decline in real estate and the stock market). While retail sales fell precipitously at the end of 2008 (down 11% in November), they were only down 2.4% year over year in January 2009.

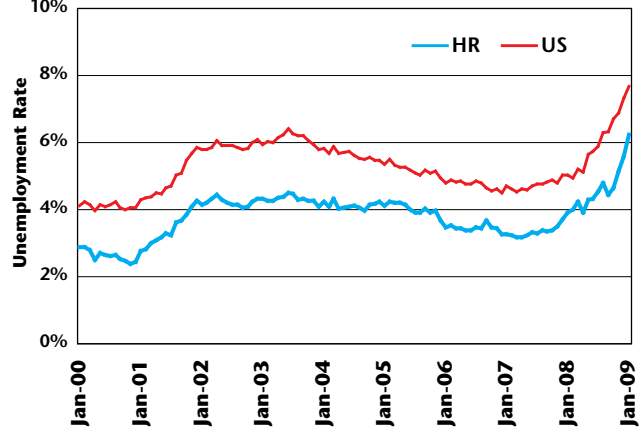
**Employment, Year Over Year Growth
Hampton Roads, Jan 2000-Feb 2009, Monthly**



Source: Bureau of Labor Statistics

Employment: Non-agricultural employment is considered the best estimator for labor market activity by the National Bureau of Economic Research. Employment numbers have been revised downward for the past year, and rather than strong employment growth previously indicated, the region has seen contracting payrolls since the start of this recession.

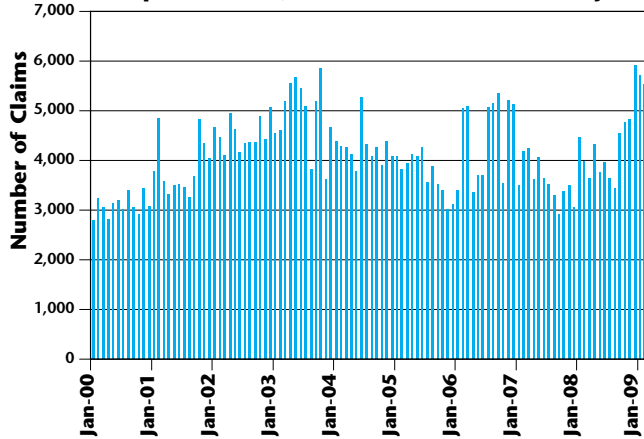
**Unemployment Rate, Seasonally Adjusted
U.S. & Hampton Roads, Jan 2000-Jan 2009, Monthly**



Source: Bureau of Labor Statistics

Unemployment Rate: This is the percentage of the population who are actively seeking work, but are unable to obtain a position. The unemployment rate has been rising in both the nation and Hampton Roads since April 2007. Hampton Roads' unemployment level remains below the nation's, but the gap has narrowed from 2.08% in October to 1.45% in January.

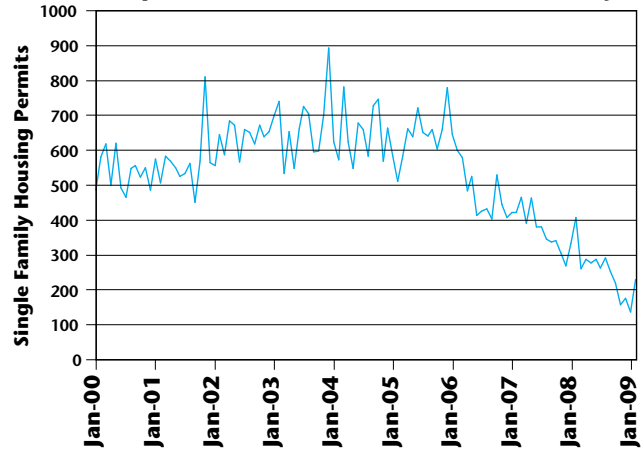
**Initial Unemployment Claims, Seasonally Adjusted
Hampton Roads, Jan 2000 - Feb 2009, Monthly**



Source: Virginia Department of Labor

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 continued to increase over the past six months, which correlates with an increasingly weak employment outlook for the short term in Hampton Roads.

**Single Family Housing Permits, Seasonally Adjusted
Hampton Roads, Jan 2000 - Feb 2009, Monthly**



Source: U.S. Census Bureau

Single Family Housing Permits: Permit data indicates the level of construction employment and confidence regarding the future trajectory of the local economy. However, there is currently such a large inventory of unsold homes that it precludes its usefulness as a measure of economic sentiment. Its rapid downward trajectory does signal that the construction and supporting industries will continue to be weak for a considerable period.