



THE HAMPTON ROADS ECONOMIC QUARTERLY

Bruce C. Goodson, Chair • Dwight L. Farmer, Executive Director/Secretary • John M. Carlock, Deputy Executive Director

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HRPDC Economics Staff

Greg G. Grootendorst
Chief Economist
ggrootendorst@hrpdcva.gov

James A. Clary
Economist
jclary@hrpdcva.gov

www.hrpdcva.gov

The Hampton Roads Labor Market

While asset prices receive a tremendous amount of attention, whether that asset is real estate, bonds, or equities, it is cash flow resulting from employment that has the largest impact on consumer confidence and economic stability. Having a job affects an individual's ability to buy goods and services and, as unemployment grows, the demand for goods and services falls, thus lowering the profits of businesses, which encourages cutbacks in production and employment. As the labor markets weaken, a cycle can develop leading to wage freezes and job cuts, pushing spending and prices lower resulting in the same type of deflationary spiral that ushered in the Great Depression. Even as shrinking employment weakens the economy in the short term, it also has long term consequences as idle individual's job skills deteriorate and they exit the labor force, lowering the potential growth of the economy.

State of the National Labor Market

U.S. non-farm payrolls continue to deteriorate at a rapid pace. The National Bureau of Economic Research (NBER) considers payrolls to be the best measure of the labor market, and the U.S. has had declining payrolls since December 2007, with the national economy shedding 2.6 million jobs in 2008. Unfortunately the pace accelerated through the end of the year, as 2 million jobs were lost in the last four months alone. Employment continues to fall in a variety of industries including manufacturing, construction, and business and professional services. The only sectors where employment increased significantly were health care and education.

The Bureau of Labor Statistics (BLS) measures national unemployment through a survey of individuals that gives an estimate of both the labor force and unemployment. While a tremendous amount of attention is given to unemployment statistics, the measure is subject to greater fluctuations than payrolls as the size of the labor force can be prone to variance. The national unemployment rate jumped to 7.2% in December 2008. As recently as April 2008, the unemployment rate was only 5%, and the last time it reached 7% was 1993. The BLS estimates that 3.5 million persons were unemployed at the end of last year, and 83% of this increase was a result of job losses. Additionally, if you include the un-

Change in U.S. Employment by Sector

Sector	Nov '08 to Dec '08	Dec '07 to Dec '08
Construction	-101,000	-632,000
Manufacturing	-149,000	-791,000
Retail Trade	-66,600	-522,300
Transport/ Warehousing	-23,900	-146,100
Professional/ Business	-113,000	-681,000
Education/Health	45,000	536,000
Government	7,000	181,000

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U.S. Involuntary Part-Time Workers



deremployed (those who want to work full-time but the job market prevents it), the rate of unemployed/underemployed reaches 13.5%, a 6% jump over last December. President-Elect Barack Obama in recent speeches stated, “we could see a much deeper downturn that could lead to double digit unemployment and the American Dream slipping further out of reach.”

State of the Hampton Roads Labor Market

Hampton Roads currently enjoys stronger employment conditions than the nation. While U.S. payrolls contracted 1.47% between November '07 and November '08, Hampton Roads experienced a 1.46% *growth*. This is on top of 7 years of strong employment growth where Hampton Roads' payrolls grew at a faster annual rate than its population (1.06% vs. 0.65%). Hampton Roads has experienced a growth in unemployment, but this is the result of growth in the Labor Force (those who are searching but unable to find jobs) rather than the result of pure job loss. The unemployment rate in November was 4.82%, almost 2% below the national unemployment rate.

Hampton Roads' unemployment rate has been below the national level for the past decade with a spread of between 1 and 2 percentage points. The size of the spread tends to decrease during economic expansions and increase during periods of high unemployment. The consistent level of federal defense expenditures despite swings in the national business cycle lends stability to the regional economy, preventing the region from feeling the full effect of booms and busts.

Outlook

Even optimistic economists are forecasting the recession to continue for the next two quarters, and are

expecting the nation to continue hemorrhaging jobs at a rate consistent with November and December. A Wall Street Journal survey of economists recently predicted unemployment to peak at 8.4% before employment starts to slowly recover; this aligns with Robert Reich's (former Secretary of Labor for President Clinton) statement that another 2 million jobs will be lost in 2009. Even if the region continues to maintain its 2% spread with the national unemployment rate, that would result in an additional 17,000 unemployed in the region and the highest unemployment rate since 1992. Such regional unemployment would be highly unlikely as a current Manpower Employment Survey for Hampton Roads forecasts that employment should stay flat without any major negative shocks to business. Retail sales continue to deteriorate however, leading to concerns about the region's retail sector.

Effects of Unemployment

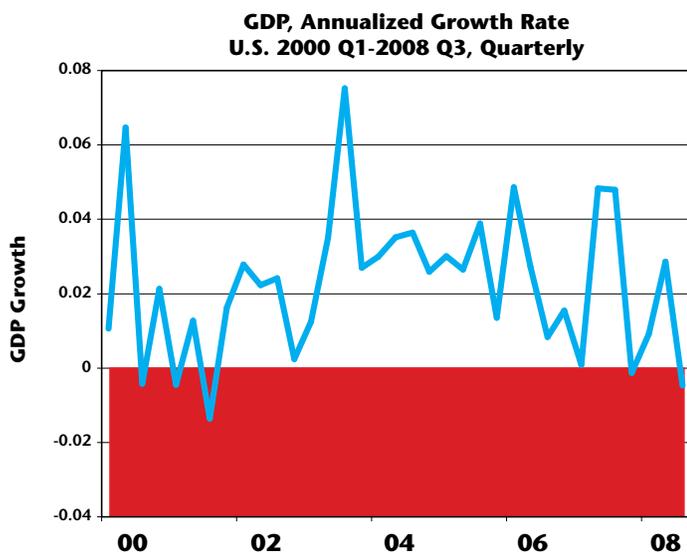
Rising regional unemployment will place additional pressure on regional social services, increasing expenses for charities and localities at the same time as the state is cutting back on the funding it provides. Higher levels of unemployment and the uncertainty that it causes will prevent the recovery of the region's housing market, resulting in both fewer purchases as well as additional delinquencies/foreclosures as individuals lose their jobs. Additionally, while the strength of the local labor market will help the region weather this recession, falling employment in other parts of the country will result in lower levels of discretionary spending which will negatively impact the tourism industry this summer.

Economic Outlook in Hampton Roads

The U.S. has been in a recession since December 2007, and national weakness has started to exert itself on the local economy. Retail sales, which had been modestly lower year over year, have now reached double digit declines. Lower sales, along with a tight credit market, will force many stores in Hampton Roads to cut costs through layoffs and hiring freezes, and if retail sales continue to track at this rate, there will be a significant contraction in the sector. Another measure of consumption in the region is the purchase of automobiles, which is down 36% from November of 2007. It is also notable that this spending contraction occurred during a period of stability in the local labor market. Employment has continued to rise throughout the region despite the national weakness. Initial unemployment has only recently exceeded long run averages, and the increase in the unemployment rate was driven by new workers entering the workforce rather than as a result of job loss. As the regional labor market finally appears to begin showing symptoms of weakness, the region could face further declines in retail sales.

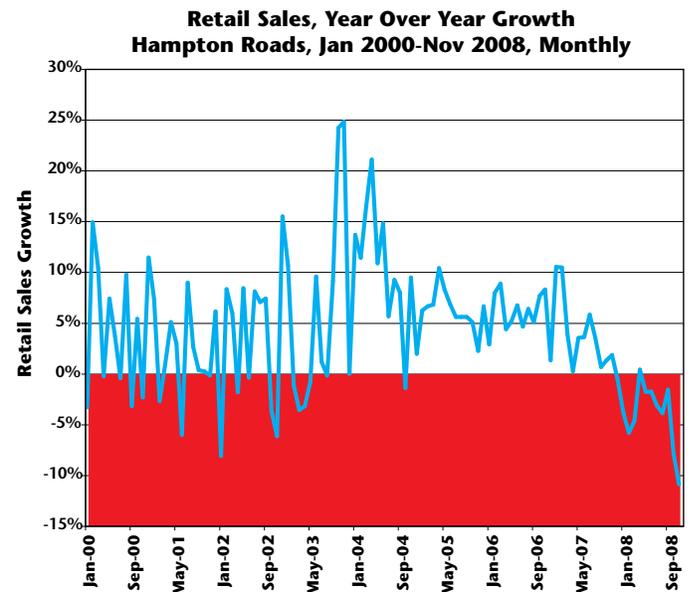
Single family housing permits continue to fall as the construction industry reacts to the marketplace, but even as the rate of home sales continues to slow, there has been almost no contraction in inventory. While recovery demands that the pace of new home construction slows, it also means that residential investment and construction employment will not help the region (or the nation) out of this current period of economic weakness. The global nature of this recession also prevents growth in exports, which removes yet another avenue of recovery. Fortunately, military spending continues to support the region's economy and will limit the downside impacts of the recession.

Hampton Roads Economic Indicators



Source: Bureau of Labor Statistics

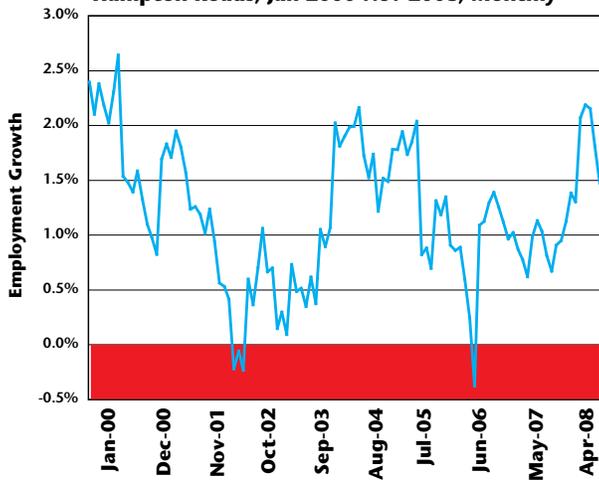
GDP: Gross Domestic Product combines consumption, investment, net exports and government spending to determine the size and general health of the economy. Changes in the nation's GDP tend to be reflected in Hampton Roads' gross regional product. Strong exports and stimulus payments created growth in the second quarter of 2008, but as exports wane and there are no more stimulus payments for at least the next two quarters, economists expect the U.S. GDP to contract.



Source: Virginia Department of Taxation

Retail Sales: Retail sales, as measured by the 1% local option, serve as an indicator for consumption in the region. Since consumption composes approximately 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). November was the first month where retail sales hit double digit declines (down 11%) since September 1993.

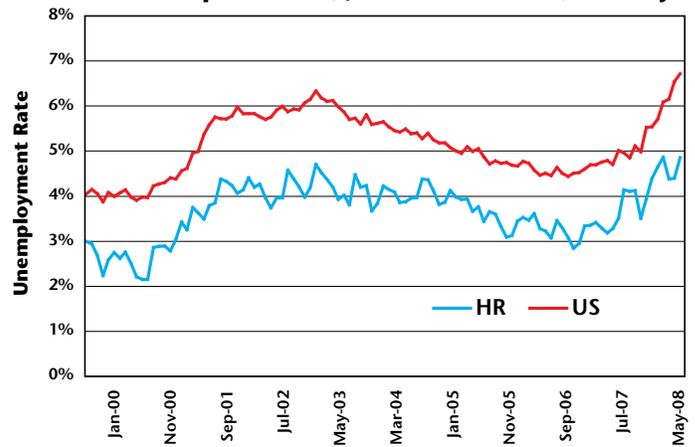
**Employment, Year Over Year Growth
Hampton Roads, Jan 2000-Nov 2008, Monthly**



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. Hampton Roads continues to see strong employment growth despite the national recession. It is important to note that employment growth does not include changes in military personnel assigned to Hampton Roads.

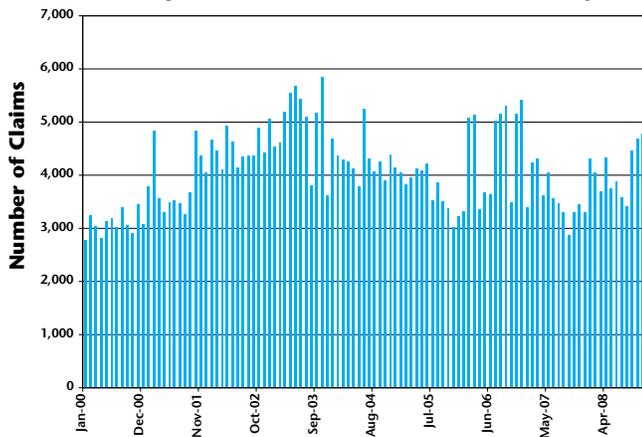
**Unemployment Rate, Seasonally Adjusted
U.S. & Hampton Roads, Jan 2000-Nov 2008, Monthly**



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; however, Hampton Roads' unemployment has not grown as quickly as the nation's and remains below the national rate.

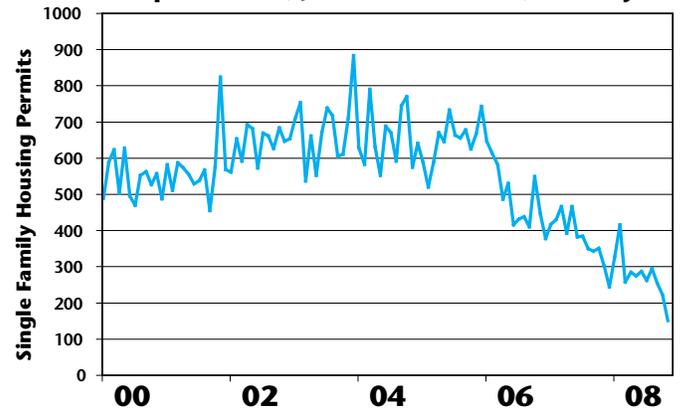
**Initial Unemployment Claims, Seasonally Adjusted
Hampton Roads, Jan 2000-Nov 2008, Monthly**



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. Claims stayed below average until the last three months, when they have jumped. While this data moves somewhat erratically, if claims continue at these levels it could signal a deterioration of the labor market parallel to the national situation.

**Single Family Housing Permits, Seasonally Adjusted
Hampton Roads, Jan 2000-Nov 2008, Monthly**



Source: U.S. Census Bureau

Single Family Housing Permits: Single Family Housing Permits indicate 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, 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.