

## Hampton Roads' Rising Cost of Living

### HRPDC Economics Staff

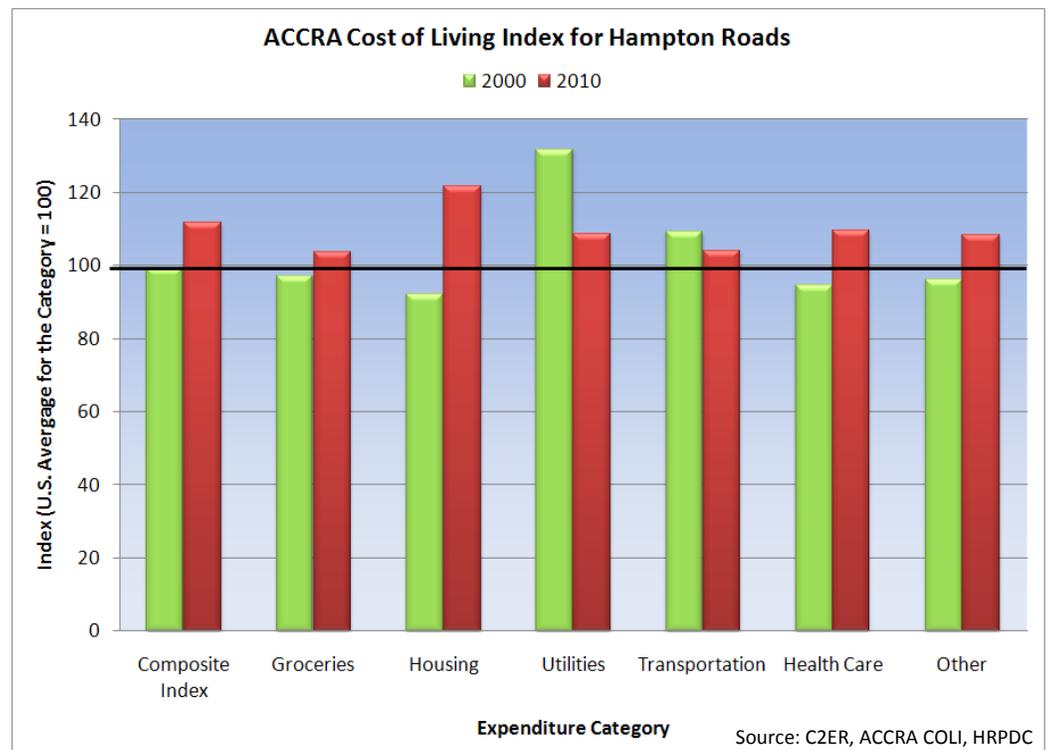
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When measuring the economic health of a region, economists often point to the changes in personal income and the growth of gross regional product; however, a very important component of these measures is cost of living. Anyone who has traveled to New York or Washington D.C. knows that these areas are more expensive than Hampton Roads. While various organizations that have developed Cost of Living Indexes to precisely measure different price levels between regions, The Council for Community and Economic Research's ACCRA Cost of Living Index (COLI) is generally accepted as the best measure of relative price levels. It is intended as a static measure of price levels. Examining changes in Hampton Roads' relative position over time reveals that Hampton Roads has become relatively more expensive over the past decade compared to the average Metropolitan Statistical Area.

The index resets for every data release so that 100 is the urban area average cost of living for all MSAs and nonmetropolitan areas that contribute data to the survey (over 300). As the graph below indicates, Hampton Roads had below average price levels in most expenditures areas for 2000, with only the utilities and transportation categories above the U.S. average. In 2010, every category was above the U.S. average with Housing costs (including rent and mortgage payments on the average home) that were significantly above the rest of the country. Though general price levels were now 11.7% higher than the nation, 54% of the increase was derived from the region's high home prices.

Preparation of this document was included in the HRPDC Unified Planning Work Program for Fiscal Year 2011 that was approved by the Commission at its Executive Committee Meeting on June 16, 2010. If you would like to be included on the electronic distribution list, please contact James Clary at [jclary@hrpdcva.gov](mailto:jclary@hrpdcva.gov) or by calling (757) 420-8300. This document is available for download from the Commission's website, visit [www.hrpdcva.gov](http://www.hrpdcva.gov)

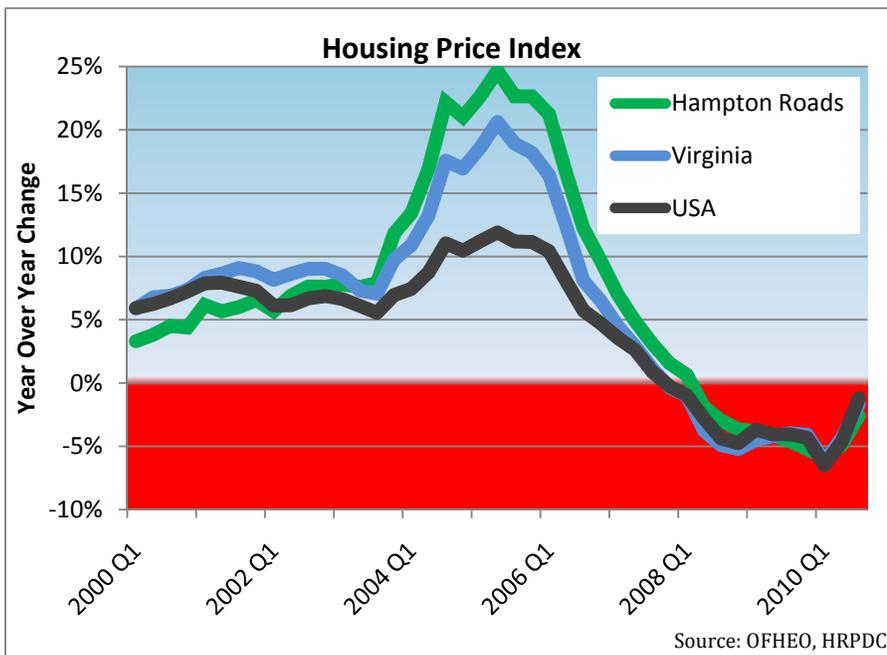


When comparing Hampton Roads to similar metropolitan statistical areas, Hampton Roads again seems to have experienced a large increase in relative price levels. Out of the 36 MSAs that are in the population range of 1 to 3 million, Hampton Roads was the 20<sup>th</sup> most expensive in 2000<sup>1</sup>, but rose to the 6<sup>th</sup> most expensive region among that group in 2010. The ACCRA COLI discourages using its data for analysis across multiple time periods, but assuming the data is accurate for each time period, comparing relative cost of living across time periods should be valid. Using this cross temporal analysis, Hampton Roads experienced an increase of 12.6% in its cost of living over the decade, which is second only to Baltimore among similar sized metropolitan areas.

Hampton Roads' COLI Rank Among MSAs with Populations of 1-3M	
Year	Rank
2000	20th
2001	17th
2002	24th
2003	20th
2004	11th
2005	13th
2006	9th
2007	8th
2008	7th
2009	7th
2010	6th

The ACCRA report includes prices for each of the individual items the Council for Community and Economic Research uses to develop the COLI. While individual price comparisons are complicated because of inflation, it is instructive to compare relative prices to determine what categories drove the increase in cost of living. While there were increases in a broad range of groceries, the other major categories that saw increases were dentist visits, mortgage payments for the average home, apartment rents, and general entertainment costs. Areas that the region saw a decline in relative cost were gasoline and energy costs.

### Why did the cost of living increase in Hampton Roads?



The large increase in home prices drove rents and mortgage payments higher, and thus raised the general price level; however, this leaves untouched the broad nature of the increase in prices, and does not explain why the home values increased dramatically.

The answer partly derives from the increase in regional incomes over the past decade. Regional incomes increased by 57% over the decade (2000-2009) in nominal terms, compared to a 40% increase in all U.S. metropolitan

areas. Further, the personal incomes for military personnel in the region increased 77% over that time horizon, as the military basic allowance for housing increased significantly between 2000 and 2011 (the allowance increased by 91% to 148% varying on rank and whether the individual has dependents).

The relative growth in the region's personal incomes outpaced the increase in the cost of living indicating that despite the pain of higher prices, the region has performed strongly over the past decade.

<sup>1</sup> Not every MSA turned price levels every year, thus the index values were projected over time, to develop these rankings.

# Hampton Roads Forecast Indicates Slow Growth

The Hampton Roads economy tends to follow a more moderate path than the national economy, so as the area's gross regional product and employment did not decline to the extent that the nation declined, the region also will not recover as quickly as the nation. Combined with the naturally stable nature of the regional economy, several headwinds will keep Hampton Roads from growing at national rates, including the closing of the Joint Forces Command in the second half of this year.

Civilian employment is forecasted to increase by 1.1% next year, equivalent to 7,380 jobs, but this will have a minimal impact on the unemployment rate as discouraged workers begin to reenter the job market as the recovery continues. Retail sales should begin to grow at 3.0% next year, following national trends.

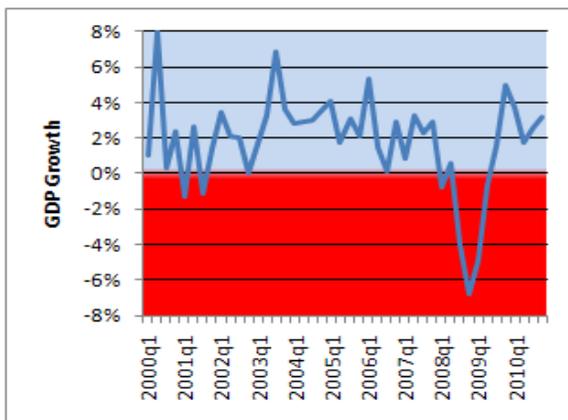
While there are many indicators pointing to continued growth both nationally and regionally, downside risks continue to threaten the recovery. Particularly concerning are further declines in the housing market and the impacts this will have on both bank balance sheets and local government finances.

Hampton Roads Regional Economic Forecast for 2011						
	2006	2007	2008	2009	2010 (Year to Date) <sup>1</sup>	2011 Forecast
<b>U.S.</b>						
Real GDP*	2.7%	1.9%	0.0%	-2.6%	2.9%	3.1%
<b>Hampton Roads</b>						
Gross Product*	2.6%	2.1%	-0.8%	NA	NA	2.2%
Civilian Employment*	0.9%	1.0%	-1.1%	-3.5%	0.0%	1.1%
Unemployment Rate	3.3%	3.2%	4.2%	6.8%	7.4%	7.4%
Retail Sales*	5.6%	3.4%	-3.9%	-4.9%	0.0%	3.0%
Auto and Truck Sales*	-4.7%	-3.5%	-23.7%	-13.1%	8.6%	7.0%
Value of Single-Family Building Permits*	-20.3%	-15.3%	-29.2%	-13.9%	17.8%	4.7%

<sup>1</sup> Comparison of like months from previous year using the most recent information available as of 1/26/2011  
\* Denotes percent change from prior year

## Hampton Roads Economic Indicators

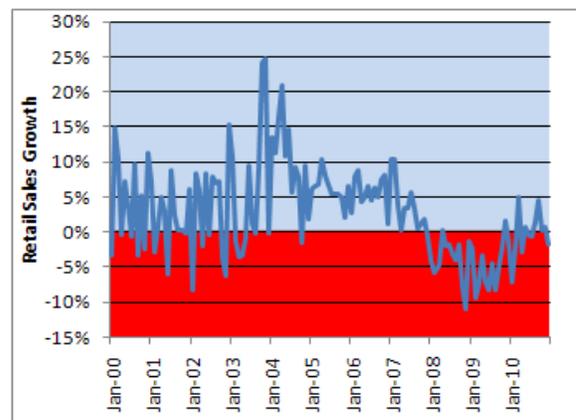
**GDP, Annualized Growth Rate**  
United States, 2000Q1 - 2010Q4, Quarterly



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. The U.S. economy has continued to grow over the past year and a half, and the economy is expected to continue at 3.1% growth for 2011, though downside risks remain. While this should support the regional economy, there are significant local issues that will cause the region to deviate from the national growth rate.

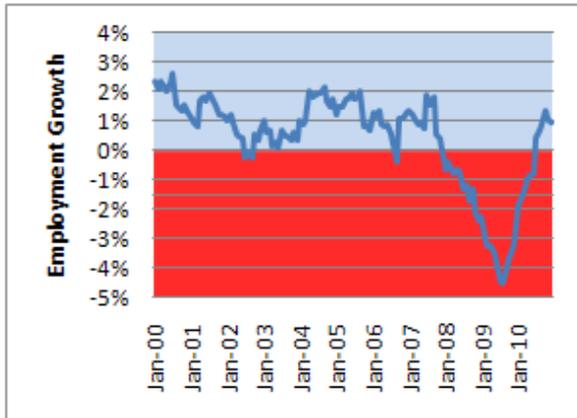
**Retail Sales, Year over Year Growth**  
Hampton Roads, Jan 2000 - Dec 2010, Monthly



Source: Virginia Department of Taxation

Retail Sales: Retail sales, as measured by the 1% local option sales tax, serve as an indicator for consumption in the region. Since consumption composes 70% 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. Year over year sales growth was negative in December, which deviates from the strong December that the state and the nation experienced. Certainly a part of that decline was the continued growth of online Christmas shopping, but this also creates concerns for local retail business moving into 2011.

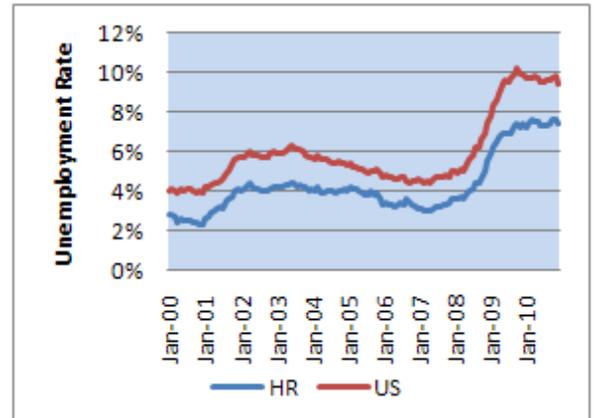
**Employment, Year over Year Growth  
Hampton Roads, Jan 2000 – Dec 2010, Monthly**



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. In July of 2010, Hampton Roads experienced the first year over year growth in employment since the onset of the recession, and that growth was sustained through December, but the employment level has started to show signs of weakness. Seasonally adjusted employment declined the past two months, and a full labor market recovery has yet to take hold in the region.

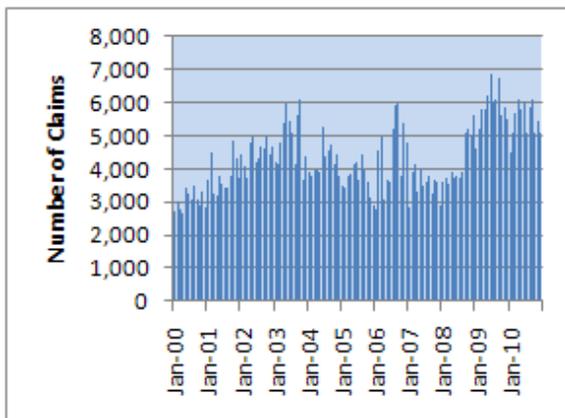
**Unemployment Rate, Seasonally Adjusted  
U.S. & Hampton Roads, Jan 2000 – Dec 2010, Monthly**



Source: Bureau of Labor Statistics

Unemployment Rate: This is the percentage of the population which is actively seeking work, but is unable to obtain a position. The unemployment rate has been rising in both the nation and Hampton Roads since April 2007. The seasonally adjusted unemployment rate has bounced between 7.3% and 7.6% since February, and no trends have developed in the household survey to indicate a meaningful change in the unemployment situation or in labor force participation. The U.S. unemployment rate decreased by 0.4% in December and January, but labor force participation has driven these changes.

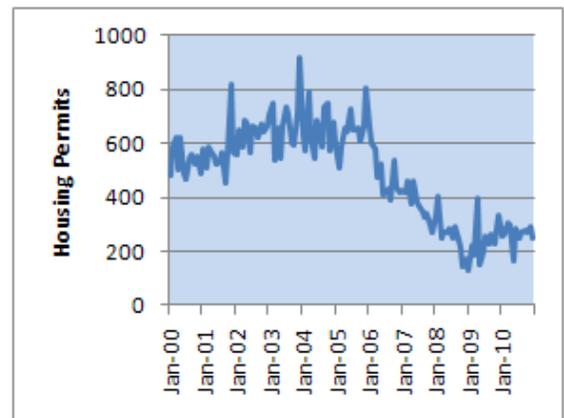
**Initial Unemployment Claims, Seasonally Adj.  
Hampton Roads, Jan 2000 – Dec 2010, Monthly**



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 reveals the strength of the job market with little lag time. The past three months have seen initial unemployment claims decline off the peak of this past year. While they remain elevated, continued declines through the next quarter will indicate a stronger labor market for 2011.

**Single Family Housing Permits, Seasonally Adj.  
Hampton Roads, Jan 2000 – Dec 2010, 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. Hampton Roads' permits bounced off the low of 167 permits in May to stay in the range of 250-300 units per month which is the range it first established in July 2009. This is half the number of permits as the long term average, but indicates that construction should not fall much further unless there is significant deterioration in the housing market. Construction will not contribute to any significant growth until the region absorbs excess inventory in the existing home market.