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**THIRD QUARTER 2017 ECONOMIC FORECAST AND ANALYSIS FOR  
THE HAMPTON ROADS MSA**

*Hampton Roads economic growth poised to accelerate*

Norfolk, VA, August 16, 2017 -- Economic conditions at the national level continued to improve in the 2<sup>nd</sup> Quarter of 2017. Real Gross Domestic Product (GDP) grew in the second quarter at an annual rate of 2.6 percent after growing by only 1.2 percent during the first quarter of 2017. Personal consumption expenditures, which account for more than two-thirds of economic activity, increased at an annual rate of 2.8 percent in the 2<sup>nd</sup> quarter compared to an increase of 1.9 percent in the previous quarter. The national economy also added 583,000 jobs during the second quarter of 2017, or an average of 194,300 per month. The national unemployment rate decreased from 4.9 percent in July 2016 to 4.3 percent in July 2017.

However, we remain cautious about the prospects for robust economic growth in Hampton Roads in 2017. While consumer and business confidence continues to increase at the national level, significant uncertainty remains with regards to policymaking at the federal level of government. We are encouraged by efforts by the tentative efforts to move towards a bipartisan compromise on health insurance reform and eagerly await the specifics of corporate and income tax reform. While no significant progress has been made with respect to infrastructure investment, the recently passed national defense authorization and appropriations bills by the House of Representatives are a positive development. These bills, if passed by the Senate in their current form, would result in a significant increase in defense expenditures that would undoubtedly have a positive impact on the Hampton Roads economy.

We caution, however, that the federal government is likely to enter the new fiscal year under a continuing resolution. As such, increases in defense spending may not materialize until the 2<sup>nd</sup> or 3<sup>rd</sup> quarter of 2018. Congress must also act in a bipartisan manner to pass revisions of the Budget Control Act of 2011 or the federal government will face another round of sequestration. Of increasing concern is the lack of progress by Congress in raising the federal debt ceiling. While political uncertainty has yet to affect equity markets, Congress and the Administration must act on these important legislative items or else increase the prospects for a market correction.

Recently released non-seasonally adjusted data from the Bureau of Labor Statistics show that the overall size of the civilian labor force in the Hampton Roads region increased by 10,218 workers, or 1.21%, in June 2017 when compared to June 2016. This represents the twelfth month of year over year labor force expansion in Hampton Roads and is a signal of improving economic growth in Hampton Roads. Data also show that the number of people employed in June 2017 increased by 12,904 when compared to June 2016, representing the 13<sup>th</sup> month of expansion in number of people employed in Hampton Roads. Even though unemployment rate rose from 4.2 percent in May 2017 to 4.4 percent in June 2017, this actually represents an improving labor market. Individuals who had previously exited the labor force now appear to be returning in search of employment.

Data on the number of jobs also released by the Bureau of Labor Statistics, however, highlight a continued struggle to recover jobs in Hampton Roads. Total nonfarm employee payrolls, or the number of jobs, in Hampton Roads in June 2017 were estimated to be 780,400 compared to 781,300 in June 2016. This represents a decrease of 900 jobs or a decline of 0.1% in total nonfarm payrolls from June 2016 to June 2017. While total nonfarm employee payrolls increased in January, February, and March 2017, the decline in jobs in April, May, and June 2017 suggest that the region continues to struggle to generate sustained job growth.

A potential explanation for the relatively lackluster job creation data is that part-time jobs are being eliminated in favor of full-time jobs. While local data on the mixture of part-time and full-time jobs are not available, national data suggest that the number of part-time jobs has fallen significantly relative to the number of full-time jobs since 2010. If this trend is applicable to Hampton Roads, it would help explain why the labor force is increasing, unemployment is falling, and job creation remains relatively slow in 2017.

The hotel industry in Hampton Roads provides another strong signal of economic growth. Hotel revenues increased by 7.8 percent during the first six months of 2017 when compared to the same period in 2016. Taxable sales also increased in the first five months of 2017 by 2.4 percent. The Port of Virginia continues to contribute to the improving health of the regional economy with a 7.8 percent increase in cargo tonnage in the first seven months of 2017 when compared to the same period in 2016. Twenty-foot equivalent units also increased by 8.2 percent during the same period.

The number of housing permits issued for 1-unit residential homes as well as the value of these permits during the first six months of 2017 increased by 10.5 percent compared to same time period in 2016. The Hampton Roads' existing residential housing market through July 2017 shows continuing improvements in the housing market. The median price of existing homes through July 2017 increased by 3.4 percent and number of existing homes sold increased by 3.5 percent compared to the same time period in 2016. Year to date data through July also show that distressed sales declined from 1,962 homes in 2016 to 1,702 in 2017 or by 13.3 percent.

**Employment (Non-Agricultural Civilian Employment +0.4%)**  
**Unemployment Rate (Civilian Labor Force 4.3%)**

We forecast that employment in Hampton Roads will increase by 0.4% in the 3<sup>rd</sup> quarter and that the regional unemployment rate will decline to 4.3 percent. Employment growth is likely to be concentrated in construction, professional and business services, and health care services.

**Retail Sales (Taxable Sales +2.7%)**

As the regional and the national economies continue to recover, and gasoline prices continue to stay low, we believe that taxable sales will increase at a modest pace.

**Tourism (Hotel Room Revenue +3.4%)**

An anticipated recovery in the national and tourist market areas' economy should lead to an increase in hotel revenue for the third quarter.

**Port (General Cargo Tonnage +3.6%)**

We expect tonnage to increase slightly during the third quarter.

**Housing (Value of 1-Unit Family Housing Permits +7.5%)**

With a relatively small inventory of existing homes in the market, we expect that value of these permits will continue to increase in the third quarter as builders adjust to local residential housing market conditions.

Other indicators point to a continued improvement in this market for the third quarter of 2017. These include: a steady decline in active listings of distressed homes, a relatively small inventory of homes in the market, a decrease in number of days on the market, and historically low mortgage rates. Measures of supply and demand indicate that it will take approximately 5 months to clear the existing inventory based on the current absorption rate, which is slightly lower than the historical average time period for the local residential market.

However, we continue to be concerned with the volume of distressed homes in the local residential market. Distressed homes, whether measured in sales as a proportion of all existing homes sold or measured in listings as a proportion as listing of existing homes currently on the market, continue to represent approximately 10 percent of the residential market activity.

Mortgage interest rates continue to be at historically low levels in 50 years. Rising household income in the region, moderate growth in jobs, and the presence of a large proportion of distressed market activity are likely to lead to a modest recovery in the Hampton Roads home prices during the third quarter.

*The Hampton Roads MSA (formally the Virginia Beach-Norfolk-Newport News MSA) includes Currituck County NC, Gates County NC, Gloucester County, Isle of Wight County, James City County, Mathews County, York County, Chesapeake, Hampton, Newport News, Norfolk, Poquoson, Portsmouth, Suffolk, Virginia Beach and Williamsburg.*

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The Center for Economic Analysis and Policy in the Strome College of Business at Old Dominion University undertakes a wide range of economic, demographic, transportation and defense-oriented studies. For eighteen years, the Center and its predecessors have produced the highly regarded State of the Region Report for Hampton Roads and economic forecasts for the region. If you would like more information about this topic, please contact Dr. Vinod Agarwal at 757-683-3526 or email at [vagarwal@odu.edu](mailto:vagarwal@odu.edu). You may also contact Dr. Robert McNab at 757 683 3153 or email at [rmcnab@odu.edu](mailto:rmcnab@odu.edu).