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BUDGET AGREEMENT IS GOOD NEWS FOR HAMPTON ROADS

DoD spending in Hampton Roads projected to increase in 2018 and 2019

Norfolk, VA, 1BFebruary 7, 2018 – The recent announcement by Senate leaders of an increase to the discretionary spending caps is welcome news for Hampton Roads. Not only is the agreement of a sign of bipartisanship in the Senate, which is much needed in Washington, D.C., the agreement would result in a **significant** rise in federal spending in Hampton Roads. With a large military and federal presence, the rise in spending will lift economic growth in the second half of 2018 and into 2019.

The agreement, which has been announced on the floor of the Senate, would lift spending by about $300 billion through Fiscal Year 2019 (FY 2019). Of the $315 billion dollars in proposed additional spending, the agreement would raise Department of Defense (DoD) spending by $80 billion in FY 2018 and $85 billion in FY 2019 relative to the caps established by the Budget Control Act of 2011. The remaining amount will lift the non-defense discretionary spending caps by $63 billion in FY 2018 and $68 billion in FY 2019. An additional $90 billion in spending was also announced for disaster relief.

Given the backlog of maintenance for the United States Navy and the need to improve readiness across the armed forces, a portion of this additional spending will undoubtedly occur in Hampton Roads.

While the agreement must be ratified by both chambers and signed by the President, it is welcome news. The agreement establishes a new funding topline that appropriators can use for the next two fiscal years to craft appropriations bills. We expect, once the agreement is in force, that appropriations bills will follow rapidly, perhaps by the end of March. Spending in Hampton Roads will rise soon thereafter.

While much remains to be done, we project that this agreement and forward movement on other pieces of legislation will lift real Gross Domestic Product (GDP) growth in Hampton Roads in 2018. Depending on the final composition of the defense appropriations bill, we could see at least a one percent increase in real GDP growth in 2018 and even more in 2019.

While the rising deficit and debt at the federal level of government are of concern, especially given our projections of a near trillion dollar deficit in 2018 and a trillion dollar deficit in 2019, in the short-run, this agreement is good news for Hampton Roads.

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The Dragas 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. Robert M. McNab at 757 683 3153 or email at rmcnab@odu.edu or Dr. Vinod Agarwal at 757 683 3526 or email at vagarwal@odu.edu.