



**DRAGAS CENTER FOR
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VIRGINIA GDP GROWS AT 2.5% ANNUALIZED RATE IN Q4 2017

3rd Quarter Real GDP Growth Revised Upward to 3.7%

Norfolk, VA, May 4, 2018 – The performance of the Virginia economy improved in the second half of 2017. Recently released data from the Bureau of Economic Analysis show that the growth in real Gross Domestic Product (GDP), an inflation adjusted measure of economic activity, improved substantially in the 2nd, 3rd, and 4th quarters of 2017.

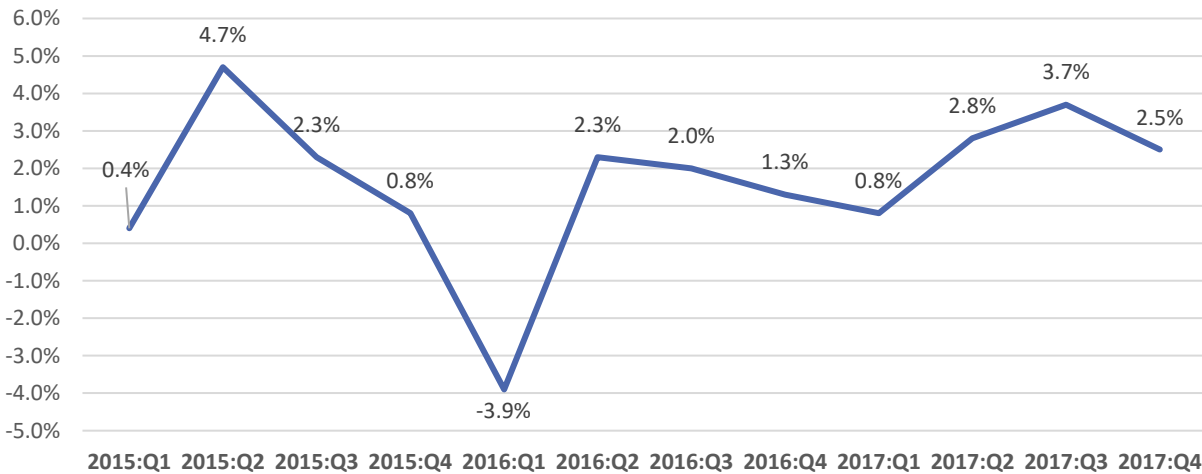
The revisions in the recent release are significant and point to an improvement in the Virginia economy. Second-quarter real GDP growth was revised upward from an annualized rate of 1.7% to 2.8%. Third-quarter real GDP growth was also revised upward from an annualized rate of 2.3% to 3.7%. Lastly, the preliminary estimate for real GDP growth in the fourth-quarter came in at an annualized rate of 2.5%.

For 2017, real GDP growth in Virginia is estimated to be 2.0%, an estimate that understates the overall performance of the Virginia economy in the 2nd half of 2017.

The robust growth of the Virginia economy in the 2nd through 4th quarters of 2017 provide further evidence of a growing Virginia. We will release our revised 2018 forecast of Virginia Real GDP on May 15th, 2018 at the 2018 Economic Forecast Breakfast presented by Chartway Federal Credit Union and hosted by the Virginia Peninsula Chamber of Commerce.

The private sector was responsible for the majority of real GDP growth in 2017. Private industries contributed 3.4 and 2.6 percentage points to the overall growth rate of the Commonwealth in the 3rd and 4th quarters of 2017, respectively. Finance and insurance contributed 1.59 percentage points to economic growth in the 3rd quarter while Real Estate, Rental, and Leasing contributed 0.69 percentage points in the 4th quarter. Mining, quarrying, and extraction also contributed positively to economic growth throughout 2017. The government sector contributed a modest 0.22 percentage points in the 3rd quarter of 2017 and slowed economic growth by 0.08 percentage points in the 4th quarter of 2017.

Quarterly Annualized Real GDP Growth Rate in Virginia



Source: Bureau of Labor Statistics, 2018 and Dragas Center for Economic Analysis and Policy

With the passage of the Bipartisan Budget Act of 2017 and the Tax Cuts and Jobs Act of 2017, we expect that the Virginia economy will continue to improve throughout 2018. Increases in federal discretionary spending, especially with respect to the Department of Defense, will undoubtedly spur economic growth in Northern Virginia and Hampton Roads. We also expect that the Richmond metropolitan area will continue to grow in 2018. Given that these three metropolitan areas comprise more than one-half of Virginia's GDP, the growth prospects for Virginia are promising. We eagerly await the passage of a final budget in Richmond and do not currently expect a government shutdown over the question of Medicaid expansion.

As the prospects for Virginia improve in 2018, we note that Virginia continues to underperform relative to many other states. Virginia's economic growth in the 4th quarter ranked 23rd, behind that of Florida (4th), North Carolina (15th), South Carolina (12th), and Tennessee (14th). This current period of economic expansion provides an opportunity for Virginia to engage in systemic reform to improve its business climate and infrastructure. With interstate competition only increasing for business investment and the importance of the private sector to economic growth in Virginia, wise investments made now to rationalize the tax system will certainly pay dividends well into the future.

We continue to monitor the operations of the federal government. Given that approximately thirty percent of Virginia's GDP is tied to the federal government, uncertainty with regards to policy or appropriations can have a chilling influence on Virginia's economic prospects. Through the end of the 2019 fiscal year, we expect Virginia's economy to continue to improve, however, we are also increasingly concerned about the rapid rise in the federal government's operating deficit and the accumulation of public debt. While there is substantial disagreement when such a downturn might occur, there is an emerging consensus that the federal government's fiscal position is dramatically worse than prior to the Great Recession. A downturn in federal revenues and increase in expenditure demands

due to an economic downturn may inhibit the ability of the federal government to respond in the future. We believe that now is the appropriate time to increase Virginia's revenue stabilization fund in anticipation of the next economic downturn.

Virginia Annualized Real GDP Growth Rate Contributions by Industry Sector by Quarter

Industry	2017: Q1	2017: Q2	2017: Q3	2017: Q4
All industry total (percent change)	0.8	2.8	3.7	2.5
Private industries	0.90	2.90	3.47	2.60
Agriculture, forestry, fishing, and hunting	0.15	-0.09	-0.08	-0.05
Mining	0.19	0.23	0.25	0.10
Utilities	-0.12	-0.12	0.25	0.14
Construction	0.06	-0.30	0.07	0.28
Manufacturing	0.46	0.60	-0.02	0.45
Durable goods manufacturing	-0.16	0.50	-0.10	0.22
Nondurable goods manufacturing	0.62	0.09	0.07	0.24
Wholesale trade	-0.12	0.18	0.22	0.13
Retail trade	-0.14	0.04	0.41	0.12
Transportation and warehousing	0.20	-0.11	0.05	0.11
Information	-0.86	0.73	-0.17	0.06
Finance and insurance	0.46	-0.96	1.59	-0.36
Real estate and rental and leasing	0.77	1.31	0.88	0.69
Professional, scientific, and technical services	-0.34	0.51	0.31	0.34
Management of companies and enterprises	0.20	-0.38	0.20	0.31
Administrative and waste management services	-0.09	0.62	-0.04	0.02
Educational services	0.05	-0.05	-0.02	0.00
Health care and social assistance	0.21	0.52	-0.28	0.22
Arts, entertainment, and recreation	-0.12	0.12	-0.14	-0.03
Accommodation and food services	0.01	-0.02	-0.07	-0.01
Other services, except government	-0.07	0.09	0.08	0.09
Government	-0.12	-0.07	0.22	-0.08

Source: Bureau of Labor Statistics, 2018 and Dragas Center for Economic Analysis and Policy

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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.