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2020 HAMPTON ROADS FORECAST

Hampton Roads economy will grow faster in 2020

Economic Growth Continues to Improve

Real (inflation-adjusted) Gross Domestic Product (GDP) for the Virginia Beach – Norfolk – Newport News Metropolitan Statistical Area (Hampton Roads) is projected to grow by 2.4 percent rate of growth for 2019. With this projection 2019 will be the third consecutive year of economic growth in Hampton Roads, and the first year in over a decade that growth in the region approaches, if not eclipses, that of the United States.

Economic growth increased in 2019 and is forecasted to increase further in 2020 due to a surge in Department of Defense (DoD) spending in the region, continued increases in the hospitality and tourism industry, as well as sustained traffic through the Port of Virginia. While the regional economy rests on these three pillars, the DoD remains the primary engine of economic growth in Hampton Roads. We estimate that direct DoD spending contributed over $21 billion to the regional economy in 2019 and forecast that direct DoD spending will rise to about $23 billion in 2020. About 40 percent of economic activity in Hampton Roads is tied directly or indirectly to the DoD through its ripple effects throughout the region.

Undoubtedly, the economy of Hampton Roads rises and falls on the fortunes of the defense budget. If there is a pivot in national security strategy towards a 'Great Power' competition, Hampton Roads is well positioned given its role in building and maintaining ships, training personnel, and providing services to each of the military services. A move away from carriers, aircraft, and other systems stationed in the region is unlikely in the short-term.

We forecast that real GDP in Hampton Roads will rise by 2.6 percent in 2020. Not only will 2020 be the fourth consecutive year of economic growth in the region, growth locally will surpass that of Virginia and the United States.

Labor Markets Grow, But Workers Are Scarce

As with the rest of the Commonwealth, labor market conditions continued to improve in Hampton Roads in 2019. From the low of the Great Recession, the civilian labor force had grown by approximately 50,000 people by November 2019. During the same period, the number of people employed increased by more than 84,000, driving the seasonally adjusted headline unemployment rate down to 2.9 percent in November 2019.

Of particular note is the recovery in manufacturing. During the Great Recession and its aftermath, the manufacturing sector shed thousands of jobs. After a slow recovery in the latter half of the decade, there were more manufacturing jobs in Hampton Roads in 2019 than prior to the Great Recession. Anecdotal reports indicate significant demand for skilled workers in the trades, especially for those employers tied supporting the DoD.

While unemployment declined in 2019, real wages have not appreciably increased in Hampton Roads. This phenomenon is not limited to the region, as wage growth has been relatively slow for the current economic expansion in Virginia and the nation. The rising cost of benefits, automation, and the slow recovery of labor force participation rates are all possible contributing factors to the reluctance of employers to raise wages. As labor markets continue to tighten, however, we expect wages to grow more significantly in the near-term.

We forecast civilian nonfarm payrolls (jobs) will grow by 0.70 percent in 2020 and the annual average unemployment rate will be 3 percent in 2020.

Tourism and Hospitality Continues to Shine

We estimate that the revenue for the region's hotel industry increased by 2.4 percent in nominal terms in 2019 as a result of higher government per diem rates, low gasoline prices, continued growth in the national economy, and relatively slow growth in the supply of hotel rooms. After controlling for inflation, however, real hotel revenue at the end of 2019 was only 2.8 percent above the previously observed historical peak in 2007.

Within Hampton Roads, Virginia Beach enjoyed a 4.5 percent increase in Revenue per Available Room (RevPAR) in 2019, followed by the Norfolk at 3.6 percent. However, there are subtle differences to consider. In Virginia Beach, the supply of rooms decreased by 2.3 percent, while the supply of rooms remained relatively constant in Norfolk. Both markets saw improvements in the quality of hotels, including the introduction of the Cavalier in Virginia Beach.

In 2020, we forecast that nominal hotel revenue in Hampton Roads will grow by 2.7 percent. Federal travel should continue to provide a source of hotel revenue growth. There is downside risk, however, given the slowing national and Virginia economy and increased competition from short term online rental companies like Airbnb, Flipkey, VRBO, and others.

The Port of Virginia: A Decade to Remember but Challenges Arise

We must remember that the Port of Virginia faced significant financial difficulties a decade ago and that its turnaround has provided fuel to the regional economy. Gross revenues have more than doubled over the past decade and the Port continues to expand operations in the face of increased competition. Total Twenty-Foot Equivalent Units (TEUs) and loaded TEUs grew in 2019 by 2.9 and 1.2 percent, respectively. General cargo tonnage, however, has been flat for the last three years.

Two possible reasons emerge for the slow growth in traffic: construction and the trade conflict with international trading partners. Slower growth because of construction is a necessary evil. By 2020, the Port will have the capacity to process 1 million additional container units, a 40% increase overall. The dredging of the Norfolk harbor will also increase the capacity of the Port of Virginia to process cargo traffic.

Slower growth because of a trade conflict is the epitome of a harm inflicted by the poor policy choices of the federal government. According to Journal of Commerce, loaded container cargo during first eleven months of 2019 for the 10 busiest ports on the east coast grew by only 2.5%; slowest rate in the last three years. The recent signing of a Phase I deal with China is perhaps a positive sign that international trade is set to increase in 2020.

Even though the port's throughput as measured by tonnage or TEUs has been growing since 2013, the ports of Charleston and Savannah have been growing faster. Coupled with slow and sluggish growth observed in 2018 and 2019, again with a relatively higher growth observed at these southern ports, the Port of Virginia has lost market shares. The Port's market share among the East Coast ports declined from 18.3 % in 2013 to 16.5% in 2019. This decline is mostly due to a its share of exports. The Port's share of exports among the major East Coast ports declined from 21.5% in 2013 to 19.1% in 2019.

We project a 1 percent increase in total cargo tonnage and a 3.9 percent increase in TEUs in 2020. These projections involve significant uncertainty surrounding the implementation of the Phase 1 trade deal with China and other bilateral trade agreements.

Housing: Median Prices Rise in 2020

The residential construction industry in Hampton Roads is expected to grow moderately in 2020. The sales volume of newly constructed homes has increased since 2010. The relatively small inventory of existing homes in the market, low mortgage rates relative to historical levels, and continued moderate price increases for existing homes should help stimulate the growth in new construction homes.

Measures of supply and demand indicate that it would take approximately 2.5 months to clear the existing inventory of homes based on the current absorption rate.

Distressed homes, whether measured in distressed sales as a proportion of all existing homes sold, or in listings as a proportion of existing homes currently on the market, continue to decline. These homes now represent less than one eighth of residential market activity.

We forecast that the value of single-family housing permits in Hampton Roads will increase by 2 percent in 2020.

Retail Sales (Taxable Sales): Continue its momentum

Taxable sales include all retail sales except new automobile and gasoline sales. Compared to their pre-recession peak in 2007, retail sales in Hampton Roads were 8.6% lower in 2009 and continued to decline slightly, -0.2 percent, during 2010.

However, retail sales began to recover slowly in 2011 and in 2014, retail sales were 2.0% higher than the 2007 peak level. It took seven years to recover the losses in retail sales from the trough of the Great Recession. Retail sales since 2014 have been steadily increasing. Sales increased by 3.4 percent in 2018 and by 4.8 percent in 2019.

We expect retail sales in the region to grow by another 4.2 percent in 2020. Growth in regional economic activity, increased defense spending, rising incomes, consumer confidence, and the increase in wealth of households are all expected to result in a substantial growth in taxable sales.

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The Hampton Roads region (formally the Virginia Beach-Norfolk-Newport News Metropolitan Statistical Area) includes Camden County NC, Currituck County NC, Gates County NC, Gloucester County, Isle of Wight County, James City County, Mathews County, Southampton County, York County, Chesapeake, Franklin, Hampton, Newport News, Norfolk, Poquoson, Portsmouth, Suffolk, Virginia Beach and Williamsburg.

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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. Vinod Agarwal at 757 683 3526 or email at vagarwal@odu.edu.