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2021 HAMPTON ROADS FORECAST

Hampton Roads economy will fully recover in 2021

Economic Growth Improves

Norfolk, VA, June 17, 2021 – Real (inflation-adjusted) Gross Domestic Product (GDP) for the Virginia Beach – Norfolk – Newport News Metropolitan Statistical Area (Hampton Roads) is projected to grow at its fastest pace since 2004. COVID-19 and the resulting impacts led to a 2.5% reduction in the regional GDP in 2020. However, the projected growth in 2021 would result in regional GDP to be 2.2% greater than its 2019 level.

A slower decline in regional GDP compared to the performance of the national economy in 2020 and the forecasted increase in 2021 are due to sustained Department of Defense (DoD) spending in the region. While the regional economy rests on three pillars, the DoD remains the primary engine of economic growth in Hampton Roads. We estimate that direct DoD spending contributed nearly $23.5 billion to the regional economy in 2020 and forecast that direct DoD spending will rise to about $24.8 billion in 2021. 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.

We forecast that real GDP in Hampton Roads will rise by 4.8% in 2021.

Labor Markets Struggle and Workers Are Scarce

Since the trough of jobs observed in February 2010, Hampton Roads had slowly gained 70,000 jobs over 10 years ending in February 2020. However, in the span of two months as COVID-19 began to spread, not only were all the gains wiped out, but the region had also lost an additional 34,000 jobs. The economy has since regained about 62,000 jobs primarily due to the $5 trillion fiscal stimulus provided since March 2020. However, we still observe a net loss of 42,000 jobs or 5.3% fewer jobs compared to February 2020**.**

Comparison of annual jobs in 2019 and 2020 shows that the pandemic had caused significant job losses in Leisure & Hospitality, Information, Retail Trade, and Local and State Governments. Local and state governments shredded jobs as these entities feared significant losses in their revenues.

Evidence on civilian labor force and employment of individuals reveals that, from February 2020 to April 2021, the labor force decreased by about 50,000, and employment of individuals had declined by nearly 70,000. A steeper decline in employment of individuals compared to the decline in labor force has resulted in a larger pool of unemployed workers. However, had individuals not withdrawn from the labor force, the number of unemployed workers would be even greater.

We forecast civilian nonfarm payrolls (jobs) will grow by 2.3% in 2021, and the annual average unemployment rate will be 4.6% in 2021.

Tourism and Hospitality Continue to Recover Nicely

It should not surprise anyone that the Hospitality industry was severely impacted by COVID-19 as were the brick-and-mortar retail stores. COVID-19 started to adversely affect hotel industry performance soon after the first week of March 2020.

By April 2020, hotel revenue in Hampton Roads had fallen by 77%. As the national and Virginia economies reopened through phases, we saw an improvement primarily due to leisure travelers from drive-in markets. The industry in the Williamsburg market was devastated by the pandemic; its revenue had fallen by 95% in April 2020. Hotel revenue declined in Hampton Roads by about 35% and by 64% in Williamsburg during 2020.

Lack of significant dependence on Corporate Travel, Government Travel, Conventions, Group meetings, Sporting, and other cultural events led to Hampton Roads performing relatively better compared to any of the top 25 markets in the nation.

Hampton Roads' hotel industry continues to perform better than both the nation and Virginia in terms of Revenue and Revenue Per Available Room (RevPAR) due to our significant dependence on leisure travelers. Data through April 2021 indicated that Chesapeake/Suffolk and Virginia Beach submarkets seem to have fully recovered from COVID-19.

In 2021, we forecast that nominal hotel revenue in Hampton Roads will grow by 43.6 percent. However, its revenue will be about 7% lower than in 2019.

The Port of Virginia: Investments have begun to pay off

COVID-19 led to a disruption in global supply chains and consequently led to a decline in trade volume for almost all major East Coast ports from March through July 2020, and recovery began soon thereafter. Data from 2010 through April 2021 reveal that the Port of New York/New Jersey continues to lose its market share; Charleston and Savannah have gained significant market shares over this time, and the Port of Virginia has begun to see an increase in its market share in 2021.

COVID-19 has had significant adverse effects on cargo handled at the Port of Virginia beginning in April 2020, regardless of the metrics we use: Total TEUs, total loaded TEUs or total container cargo tonnage. Even though total loaded TEUs, a measure of the volume of trade, declined by more than 10% each month from April to July 2020, TEUs began to increase since September 2020 and total TEUs handled at the Port declined by only 3.2% in 2020.

This rising trend in total loaded TEUs has continued in 2021. Through May 2021, TEUs have increased by 14.1% compared to the same time in 2019. It appears that investments in the Port have finally begun to pay off.

We project a 12.9% increase in total cargo tonnage and a 16.8% increase in TEUs in 2021.

Housing: Median Prices Rise in 2021

Residential housing in Hampton Roads appears to have escaped the brutal economic effects of COVID-19. The Hampton Roads housing market saw a banner year in 2020, both in terms of the rising volume of homes sold and increases in the median price of existing homes. Home buyers, sellers, and real estate professionals quickly adjusted to the new COVID-19 environment.

Measures of supply and demand indicate that it would take approximately 1.2 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 2% of residential sales market activity.

The residential construction industry in Hampton Roads is expected to grow moderately in 2021. The sales volume of newly constructed homes has increased since 2011. The relatively small inventory of existing homes in the market, low mortgage rates, and continued price increases for existing homes should help stimulate growth in new home construction.

We forecast that the value of single-family housing permits in Hampton Roads will increase by 7.4% in 2021.

Retail Sales (Taxable Sales): Momentum Continues

Taxable sales include all retail sales except new automobile and gasoline sales. Retail sales since 2014 have been steadily increasing. Sales increased by 4.9% in 2019 and by another 6.7% in 2020. Sales increased every month except for declines in April and May, primarily due to stay-at-home orders.

During 2020, GDP, as well as the number of jobs and individuals employed, declined nationally and regionally. These factors alone should have resulted in a decline in retail sales; instead we observed just the opposite. This phenomenon can easily be traced to the significant fiscal stimulus ($2.2 trillion) provided by the Cares Act in March 2020.

For the first four months of 2021, sales in Hampton Roads have increased by nearly 25% compared to 2020 and over 27% compared to 2019. Once again, these increases can be attributed primarily to the $900 billion stimulus provided in December 2020 and an additional stimulus of $1.9 trillion passed under the American Rescue Plan Act in March 2021.

We expect retail sales in the region to grow by another 6.6 percent in 2021. Growth in regional economic activity, increased defense spending, rising incomes, consumer confidence, and pent-up demand 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 21 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.