the impact of sept. 11

Regional Economic Growth: The Impact Of Sept. 11 And The War On Terror

The entire nation was staggered by the events of Sept. 11, 2001. We in Hampton Roads were especially sensitive to these events because of the large Department of Defense presence in the region. We host the largest navy base in the world, and the region is home to many different facilities, including the Port of Hampton Roads, which some might view as targets for terrorist attacks. This perceived vulnerability (which may or may not be real) has led some to overemphasize the economic impact of Sept. 11 on the region. In this chapter, we calculate the short-run economic impact on the region of those tragic events and give thought to the possible long-term economic consequences of the "War on Terror."

The Economic Growth Of The Region Has Lagged, But …

In 2001, for the first time in 10 years, the Hampton Roads economy grew faster than that of the nation (Graph 1). Although the nation experienced a recession in the last two quarters of 2001, the Hampton Roads economy was able to avoid recession in 2001. There are two reasons for this strength. First, and most important, is the high level of defense spending within the region. Roughly 29 percent of Hampton Roads' gross product is dependent on defense spending. After eliminating price inflation, defense spending within the region rose by an estimated 1.8 percent in 2001 and was a major factor in keeping the economy from falling into recession.

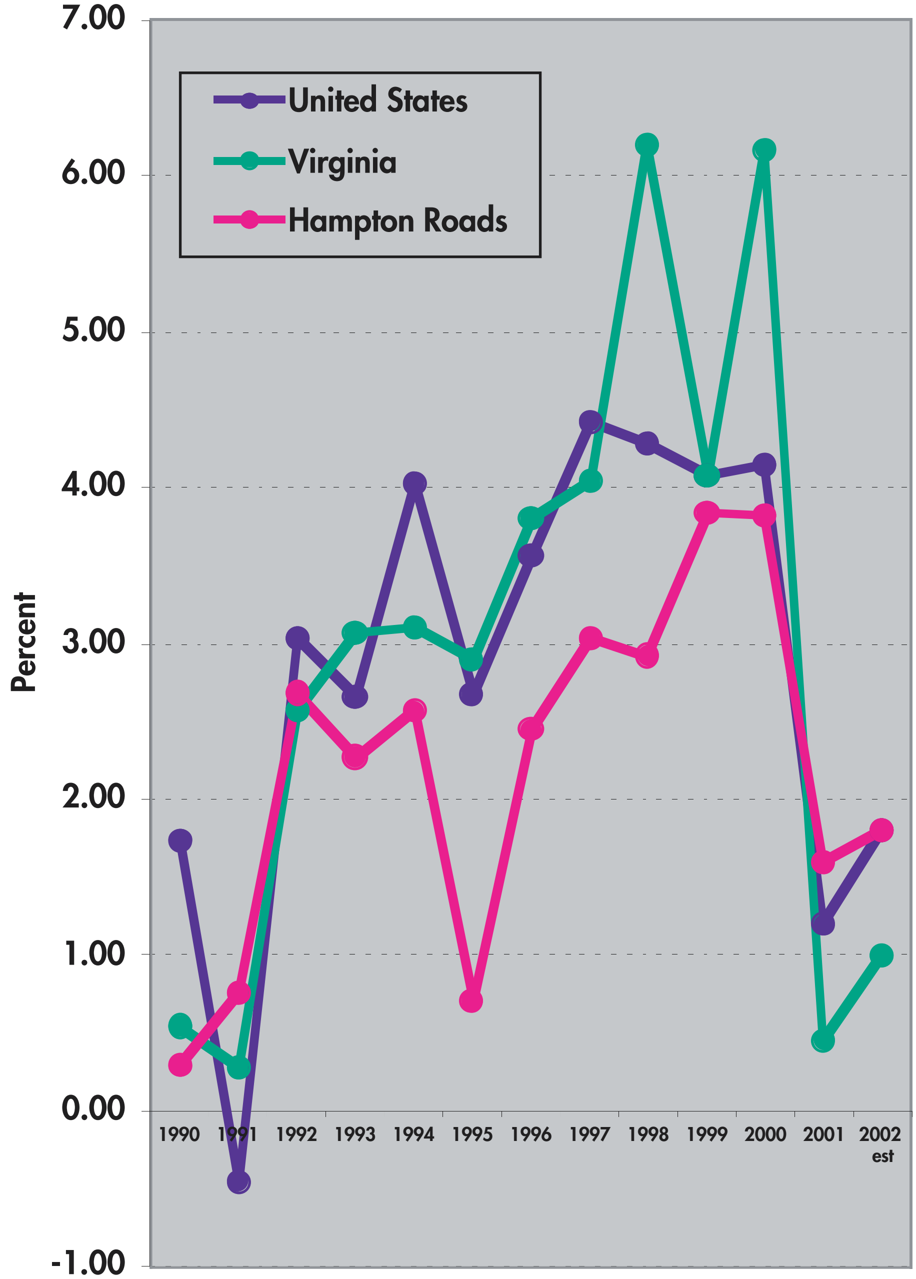
The second reason why Hampton Roads avoided recession was the strength of its housing sector. The region's housing sector has benefited from an increased demand for higher quality housing, low national interest rates, an increased proportion of homeownership among area residents, and a concerted effort by the Department of Defense to raise active-duty military personnel housing allowances.

Table1
THE VALUE OF HOUSING PERMITS IN HAMPTON ROADS
(Millions of Dollars)

Year	Number of Permits	Value of Housing Permits
1993	8,105	86,141
1994	7,057	89,350
1995	6,331	97,176
1996	6,681	101,391
1997	6,528	104,903
1998	7,150	105,979
1999	7,498	106,507
2000	6,549	117,916
2001	6,710	124,811

Table 1 illustrates the influence of high-quality housing. One can see that the number of building permits granted in the region has declined by almost 20 percent since 1993; however, the value of those building permits skyrocketed by 45 percent since 1993. Increasingly, area buyers are demanding larger homes with more amenities. **Given the regional demand for higher quality housing, the average price of a new house in Hampton Roads has risen by almost 25 percent in the past two years.** Homes are bigger and presumably better.

Graph 1
YEAR-TO-YEAR ECONOMIC GROWTH RATES
HAMPTON ROADS, VIRGINIA AND THE UNITED STATES
1990-2002



Source: Old Dominion University Economic Forecasting Project

Hampton Roads And Its Relative Position In The Virginia Economy

Referring again to Graph 1, we can see that the growth of the Hampton Roads economy trailed that of Virginia and the United States for most of the 1990s. Nonetheless, **in 2001, the growth of Virginia's gross product was below that of Hampton Roads, and it is expected that this performance will be repeated in 2002.** Virginia's gross product rose by more than 6 percent in 2000 and by more than 25 percent between 1995 and 2000. This extremely strong state growth rate, and the fiscal inertia that accompanied it, was rudely interrupted in 2001, and that slowdown has continued in 2002. The rapid fall of the state's economic growth rate to less than half of a percent has been the source of a number of fiscal problems for the Commonwealth.

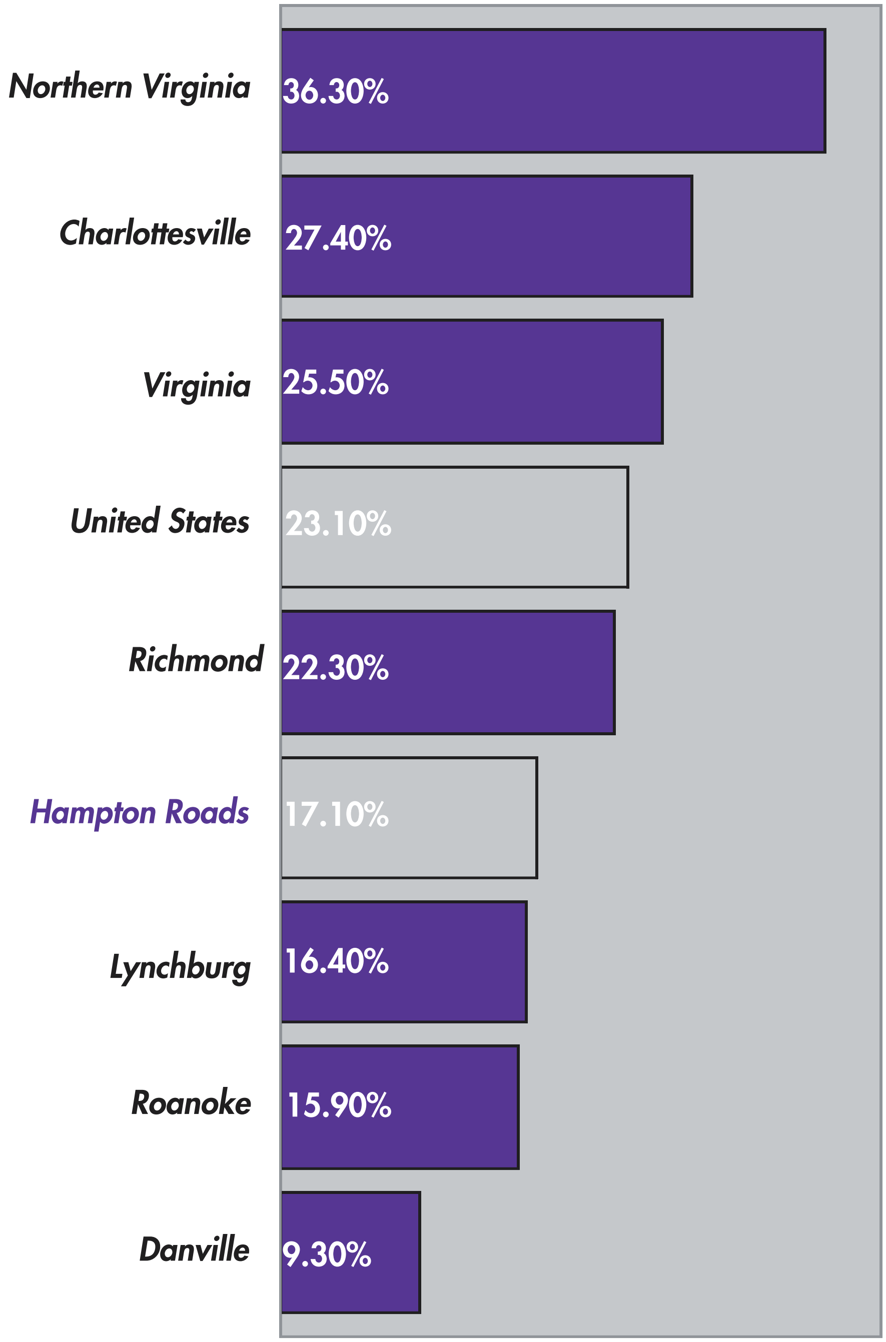
Why did Virginia's economy grow so rapidly in the latter half of the 1990s? This growth spurt was largely a function of the dynamic Northern Virginia economy (see Graph 2). Most of the Commonwealth's metropolitan areas, including Hampton Roads, grew at rates significantly below that of Northern Virginia and the entire United States during this time period. **Northern Virginia is such a dominant part of the state's economy that by itself, it raised Virginia's average economic growth rate to a level significantly above that of most of the state's other metropolitan areas. It is interesting to note that Hampton Roads and Northern Virginia together constitute almost 61.5 percent of the Virginia economy, as measured by 2000 incomes.**

Hampton Roads' below-average economic growth in the 1990s, when compared to that of the Commonwealth as a whole, led to further decline in the region's relative share of economic output within the state. Graphs 3 and 4 illustrate this. While Hampton Roads' relative share of state income has declined, that of Northern Virginia has increased continuously since 1975. However, the region's strong economic performance in 2001 will bring a halt to that streak. It is projected that Hampton Roads' share of Virginia's income will rise by six-tenths of a percent from 2000 to 2002.

Graph 2

REAL GROWTH RATE IN VIRGINIA, VIRGINIA'S METROPOLITAN AREAS AND THE UNITED STATES

(Personal Income 1995-2000)

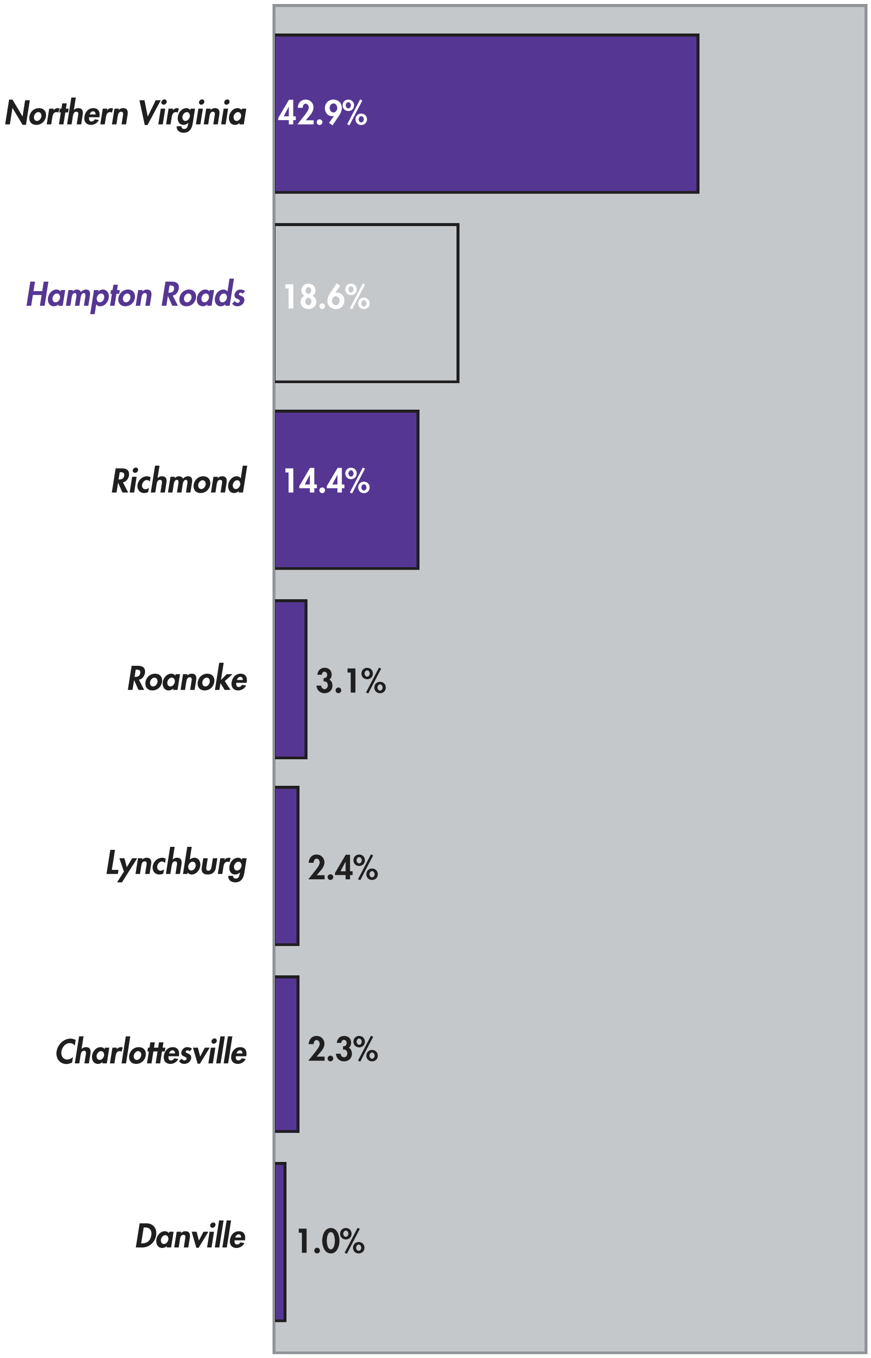


Sources: U.S. Department of Commerce, Federal Reserve Bank of St. Louis and Old Dominion University Economic Forecasting Project

Graph 3

RELATIVE METROPOLITAN CONTRIBUTION TO VIRGINIA'S INCOME

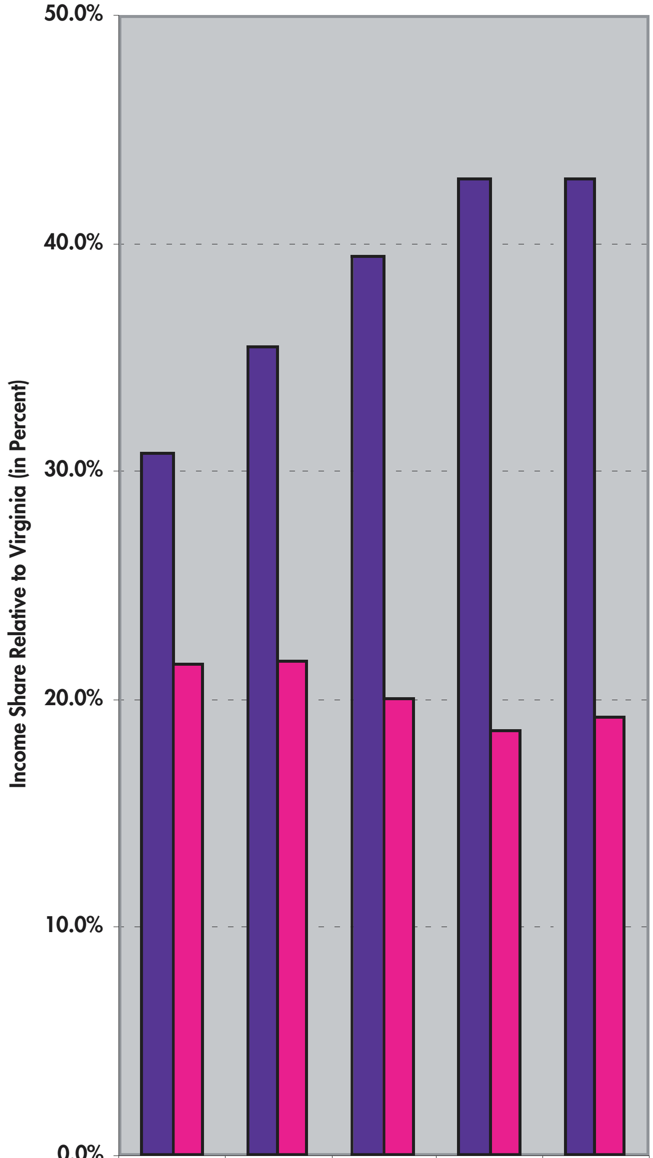
(Personal Income 2000)



Sources: U.S. Department of Commerce and Old Dominion University Economic Forecasting Project

Graph 4

HAMPTON ROADS AND NORTHERN VIRGINIA SHARES OF VIRGINIA INCOME



	1975	1985	1995	2000	2002 (est)
Northern Virginia	30.8%	35.5%	39.5%	42.9%	42.8%
Hampton Roads	21.6%	21.7%	20.0%	18.6%	19.2%

Source: Old Dominion University Economic Forecasting Project

The Short-Term Economic Impact Of Sept. 11

Following the Sept. 11 terrorist attacks, many experts provided quick, seat-of-the-pants estimates of the probable economic impact of the attacks. There was little prior historical experience to guide projections, either in the near term or over longer periods. Would the effects of the attacks be short-lived, much like those of a hurricane, or longer lasting?

In the fourth quarter of 2001, the Milken Institute released a report on anticipated job loss resulting from the attacks across the United States and within its metropolitan areas. The areas predicted to be most impacted by the attacks were those most dependent on the travel industry. For example, the top five U.S. metropolitan areas with respect to anticipated proportional job loss were: Las Vegas, New York, Myrtle Beach, Reno and Atlantic City. Two of these regions, Myrtle Beach and Atlantic City, are major competitors of the Hampton Roads tourist industry. Further, the institute forecast the loss of 1,420 jobs in Hampton Roads over the remainder of 2001, plus an additional loss of 9,300 jobs in 2002 within the region.

In short, this did not happen. **To date, the effect of the attacks on Hampton Roads appears to be surprisingly minor.** Over the longer term, potential military deployments would have a much larger impact on economic activity within Hampton Roads than what was experienced as a result of the Sept. 11 terrorist attacks.

Unlike other major tourism destinations, then, the economic impact of Sept. 11 on the Hampton Roads travel industry was relatively small. As seen in Graph 5, from January to August 2001, Hampton Roads hotel revenue rose by 1.8 percent over the same period in 2000. This was sluggish, reflecting national economic recession, and was virtually nil after adjusting for price inflation. However, the region's performance was much better than that by the remainder of Virginia and fully 20 percent better than Richmond-Petersburg.

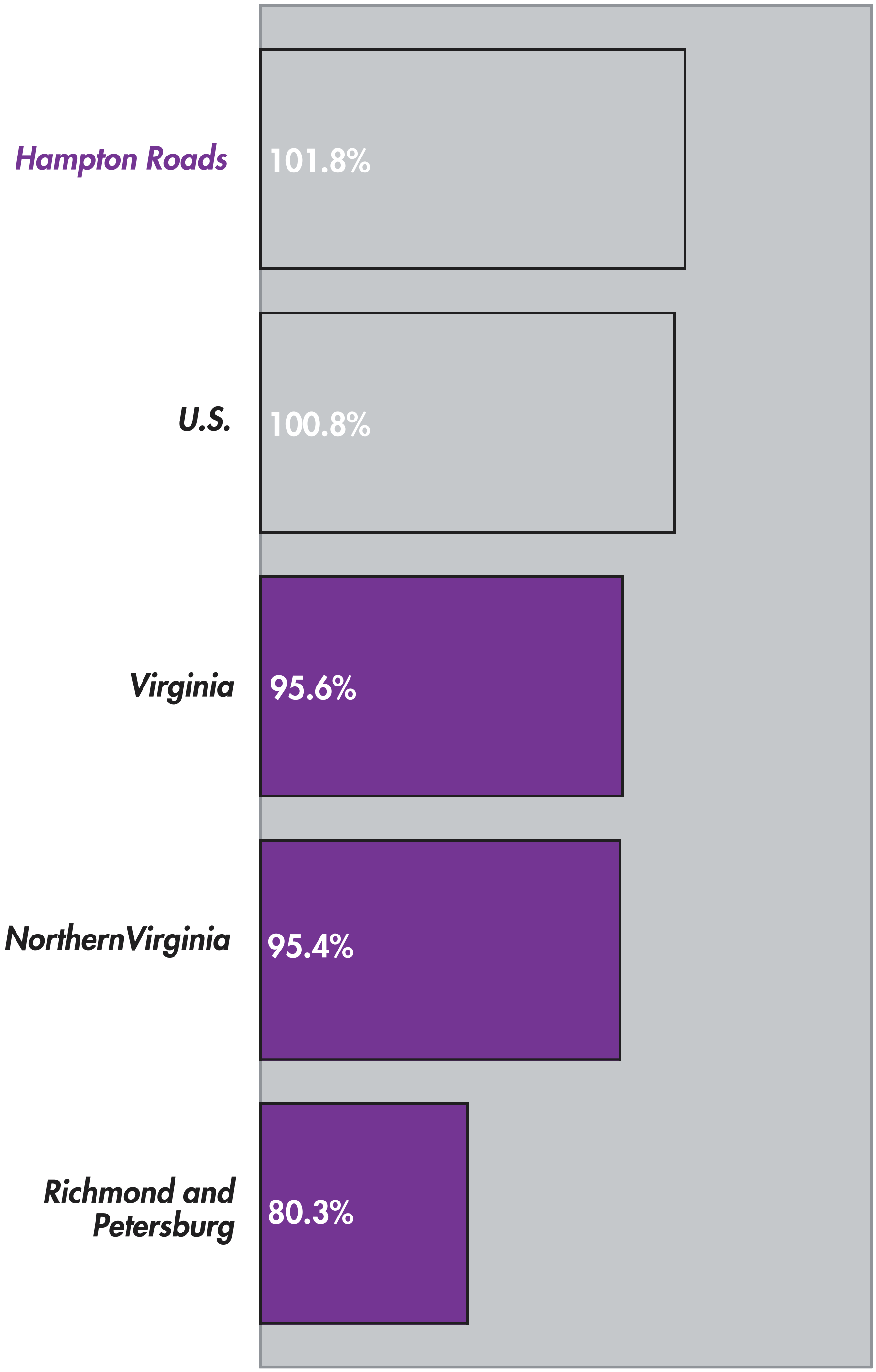
Further, even after Sept. 11, Hampton Roads' travel industry continued to outperform the remainder of Virginia. Hampton Roads' hotel revenue for all of 2001 was roughly the same as the year before. The region outperformed the country in this regard by 4.2 percent and the remainder of Virginia by 9.4 percent.

What did this mean in terms of dollars? The Old Dominion University Economic Forecasting Project, the source of all the following estimates of the economic effects of Sept. 11, has determined that about $50 million in total travel spending (hotels, restaurants and retail establishments) was lost to the region because of the attacks. In addition, Sept. 11 elicited a short-term American military response in the form of operation Enduring Freedom. This involved a 45-day extension in the deployment of the USS Enterprise battle group. This extension, plus the deployment of additional SEAL, Air Force, and Army personnel, resulted in a loss to the region's gross product estimated at $20 million.

Thus, the total economic loss suffered by the region due to the Sept. 11 attacks approximated $70 million. This is not chicken feed. However, this loss reduced the 2001 economic growth rate of the entire Hampton Roads economy by considerably less than two-tenths of 1 percent. In Virginia Beach, this was roughly equivalent to the economic impact on its travel industry of past near-miss hurricanes. Bad news? Yes. A disaster? No.

The region has recovered from these negative short-term economic effects rather nicely. Hotel revenue between January and April 2002 actually was 5.8 percent higher than that for the same period in 2001. This provokes an obvious question. Why was the economic impact of Sept. 11 on Hampton Roads so small when compared to other travel destinations? The most important reason is that more than 90 percent of tourists who visit Hampton Roads arrive by automobile. **This region was, and continues to be, a "safe" destination in the eyes of many tourists.**

Graph 5
HOTEL REVENUE 2001 RELATIVE TO 2000
(January - August)



Sources: Virginia Department of Taxation, Smith Travel Research and Old Dominion University Economic Forecasting Project

Possible Long-Term Effects Of Sept. 11, The "War on Terror" And Deployments

This somewhat sanguine, short-term economic picture could change quickly. The big "if" here is the "War on Terror." **If the Department of Defense takes on any significant additional initiatives, for example, an invasion of Iraq, then the economic picture in Hampton Roads will change substantially.** In particular, as seen in Table 2, a Gulf War-type deployment of military personnel from Hampton Roads could easily result in the departure of roughly 27,000 active-duty service personnel. Under this scenario, about three-quarters of the departing servicemen and women would likely be deployed in two naval task forces with a carrier battle group in each task force.

Table 2

ESTIMATED DEPLOYMENT OF SERVICE PERSONNEL FROM HAMPTON ROADS IN A 2002-03 GULF WAR-STYLE SCENARIO

A Single Naval Task Force	**Hampton Roads-based Personnel**
Carrier/Amphibious Group	9,414
Carrier Group	7,047
Amphibious Group	2,367
Food/Ammunition Ship	500
Total Task Force	9,914
Total for Two Naval Task Forces	**19,828**
Other Units and Service Branches	
Langley Personnel (four squadrons plus support personnel)	2,000
Special Forces (SEALs)	500
Reserve Units	2,000
Army Transport Units (Forts Eustis and Story)	2,500
Total Other Units and Branches	**7,000**
Grand Total Gulf War-Type Deployment	**26,828**

Sources: U.S. Department of Defense and the Old Dominion University Economic Forecasting Project

The estimated negative effect of such a deployment on the economy of Hampton Roads is displayed in Table 3. In contrast to Sept. 11, this impact would not be small. **Total spending in the region would fall by about $500 million on an annual basis. This would reduce the growth rate of regional product by one full percentage point.** Without question, this is an event that nearly all sectors of Hampton Roads would feel, directly or indirectly. For example, many businesses would experience immediate declines in sales and a variety of governmental units would find their sales tax revenues diminishing.

Table 3

ESTIMATED ECONOMIC EFFECT ON HAMPTON ROADS OF A GULF WAR-TYPE MILITARY RESPONSE

Total Spending Loss Per Year (including regional multipliers)	$500 million
Retail Sales Loss Per Year	$175 million
Percentage Decrease in Regional Gross Product	1 percentage point

Source: Old Dominion University Economic Forecasting Project

Hence, the region has a great deal at stake in any significant deployment of U.S. military forces to the Gulf area. The annual negative impact of such a deployment on the regional economy likely would be five to 10 times as great as the aftermath of Sept. 11. Further, such a deployment could persist for more than a year if U.S. forces were assigned to occupy or patrol disputed or conquered territory. This provides an important reminder how the economic fate of Hampton Roads often is tied to external events or dependent upon the decisions of individuals who do not reside here.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