THE STATE OF THE HAMPTON ROADS ECONOMY

MIDWAY THROUGH THE DECADE

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The total dollar value of output in Hampton Roads should exceed $65 billion in 2005. With a projected growth rate of 3.9 percent in 2005, the region's economy will extend the pattern of faster-than-national-average growth it has experienced the past five years. The region's "real" (inflation-adjusted) average annual economic growth rate was a robust 4.1 percent per year between 2001 and 2005. This was well above the 3.2 percent average we have experienced since 1970.

In this chapter, we'll examine our regional economy in greater detail and compare it to other metropolitan areas. We'll also examine some of the probable consequences of the Defense Base Realignment and Closure (BRAC) Commission decisions on Hampton Roads.

Placing Our Growth In Context

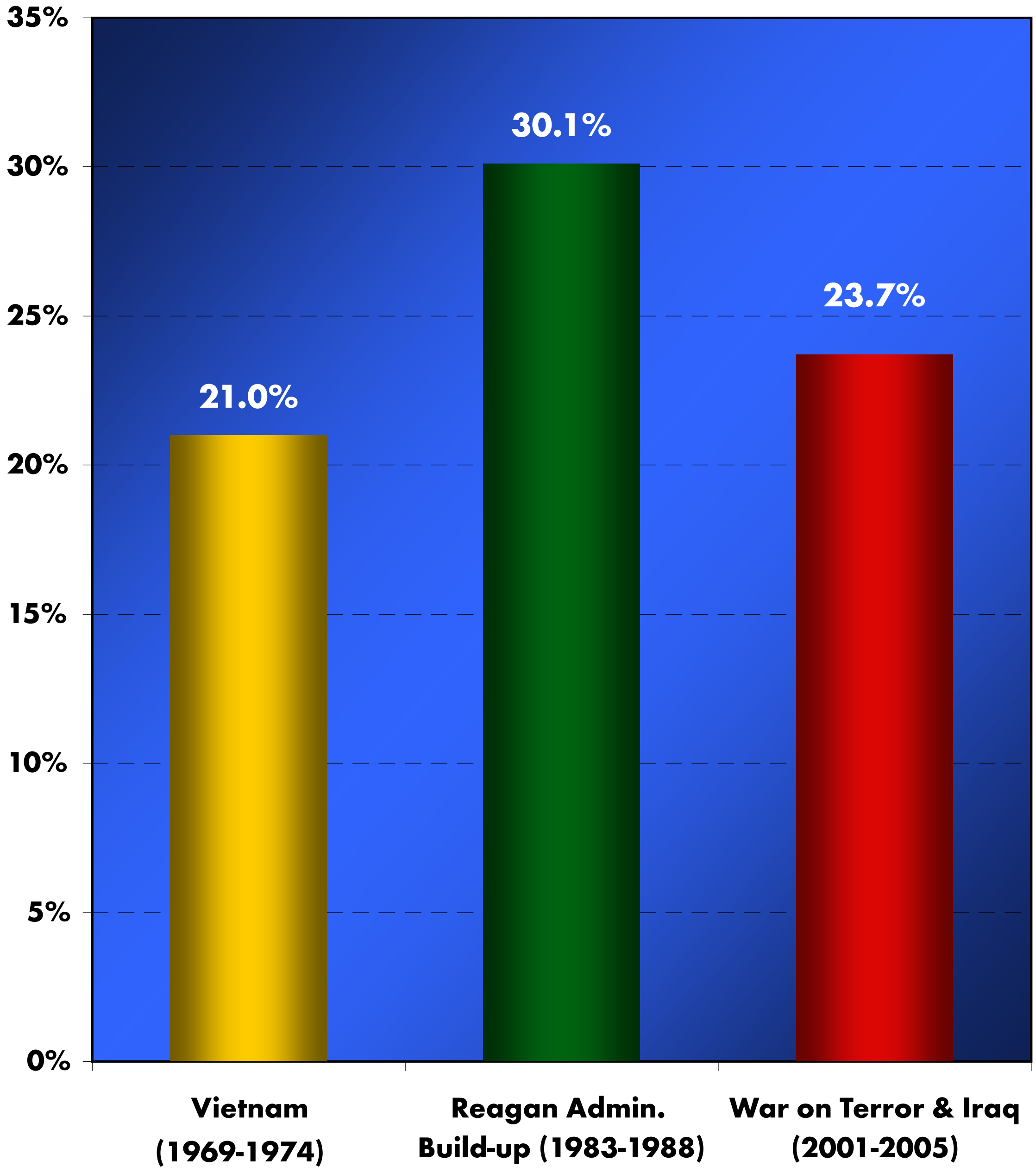
Hampton Roads has not experienced a year of actual negative economic growth, or recession, since 1975. In 2005, we expect the value of the region's gross regional product (GRP) to increase to $65.2 billion (see Table 1). During 2005, our economy will grow at a 3.9 percent rate, after taking inflation into account.

TABLE 1
HAMPTON ROADS GROSS REGIONAL PRODUCT (GRP) NOMINAL AND REAL (PRICE-ADJUSTED) 1990 TO 2005

Year	GRP Billions$	(2000=100) Billions$	Growth Rate Percent
1990	31.6	38.7	0.4
1991	33.02	39.10	1
1992	34.78	40.26	3.0
1993	36.40	41.18	2.3
1994	37.96	42.06	2.1
1995	38.90	42.23	0.4
1996	40.74	43.41	2.8
1997	42.72	44.78	3.1
1998	44.04	45.65	1.9
1999	46.22	47.22	3.5
2000	48.36	48.36	2.4
2001	51.00	49.80	3.0
2002	54.19	52.06	4.5
2003	57.50	54.43	4.5
2004	61.70	57.10	5.2
2005	65.20	59.30	3.9

Source: Old Dominion University Economic Forecasting Project

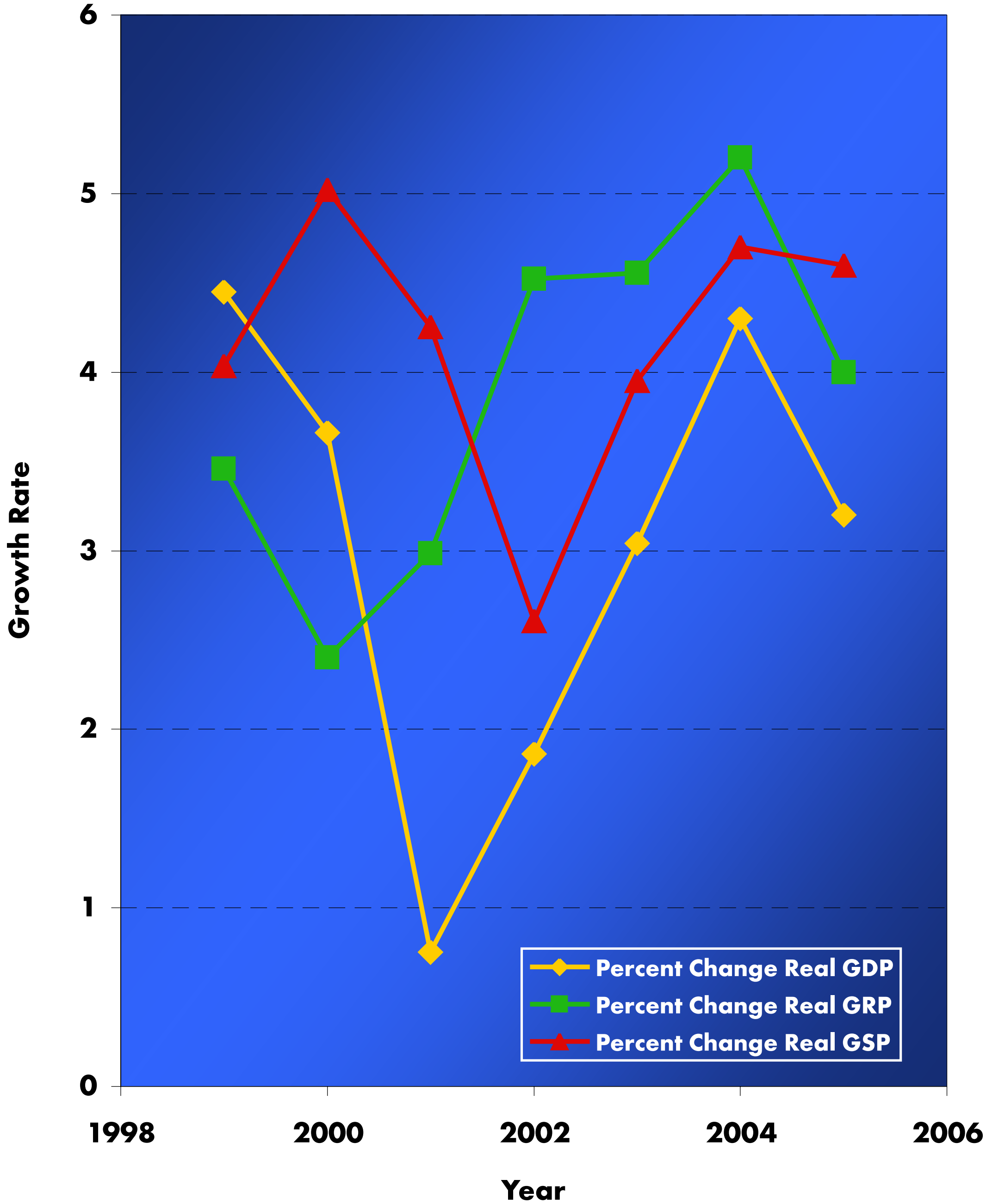
GRAPH 1
GROWTH SPURTS IN HAMPTON ROADS GROSS PRODUCT



Source: Old Dominion University Economic Forecasting Project

Graph 1 illustrates that cumulative growth in Hampton Roads' GRP since 2000 has been matched in only one other five-year period since 1969. The past five years have been very good ones, economically speaking. It is worth noting that each of the highest three five-year growth periods in the region's economy over the past 35 years has been associated with rising defense expenditures in Hampton Roads.

GRAPH 2
RATE OF GROWTH OF GDP (U.S.), GSP (VA.) AND GRP (HAMPTON ROADS)



In each of the past five years, the Hampton Roads economy has outperformed that of the nation (see Graph 2). National growth will average about 2.7 percent annually from 2001 to 2005, 1.4 percent per year below our 4.1 percent annual rate of growth. However, the margin between these two growth rates has narrowed over the past two years as the national economy has recovered and likely will shrink to zero in 2005.

Graph 2 also shows that in three of the past five years economic growth in Hampton Roads exceeded that of the Commonwealth, which grew much more rapidly than the nation. Hampton Roads will not grow as rapidly as Virginia in 2005, but the region's average growth rate between 2001 and 2005 will still be slightly larger than that of the Commonwealth.

It is impressive that the value of our GRP now is larger than two-thirds of all the world's economies, including those of several European Union countries. Table 2 adjusts the value of the production of various countries and Hampton Roads for purchasing-power parity – which essentially measures what one actually can buy with a particular sum of money. As seen in Table 2, Hampton Roads' 2003 GRP was approximately the same as the gross domestic products (GDP) of national economies such as Syria, the Dominican Republic and Croatia. Hampton Roads' GRP is about two-thirds that of New Zealand, more than double that of Lebanon and five times that of Jamaica.

The latest U.S. Department of Commerce personal income data enable us to compare Hampton Roads to other metropolitan statistical areas (MSAs) in the United States. The metropolitan areas most comparable to Hampton Roads in terms of personal income are Las Vegas, Orlando, San Antonio, Charlotte and Nashville.

For those who are professional sports aficionados, Table 3 also provides some encouragement. Note that total personal income in Hampton Roads is substantially larger than personal incomes in New Orleans, Jacksonville, Buffalo and Salt Lake City, all of which host professional sports franchises.

TABLE 2

2003 GROSS PRODUCT OF HAMPTON ROADS AND SELECTED NATIONS (PURCHASING-POWER PARITY VALUES)

	Billions of Dollars
New Zealand	90.5
Syria	62.2
Dominican Republic	59.6
Hampton Roads	57.5
Croatia	49.2
Lithuania	40.4
Lebanon	22.8
Jamaica	10.8

Sources: World Bank and the Old Dominion University Economic Forecasting Project

TABLE 3

HAMPTON ROADS AND COMPARABLE METROPOLITAN AREAS TOTAL PERSONAL INCOME (2003)

MSA	Personal Income (Billions $)
Orlando	50.7
Las Vegas	48.8
San Antonio	48.7
Charlotte	47.8
Hampton Roads	47.7
Nashville	45.8
New Orleans	39.6
Jacksonville	36.5
Buffalo	33.8
Salt Lake City	29.9

Source: U.S. Department of Commence

Employment and Wages

With the onset of the national economic recession in 2001, many analysts and pundits expressed much concern about the decline in high-paying manufacturing jobs in the United States. The new jobs that replaced the lost jobs, they lamented, paid lower wages and did not carry significant fringe benefits. The quintessence of this development was said to be a stereotypical job at a Wal-Mart.

Whatever the accuracy of this story for the United States, it does not appear to be a fair representation of job market developments within Hampton Roads over the past few years. **The growth in employment within our region in recent years has been excellent. As Table 4 reveals, Hampton Roads enjoyed a 6 percent increase in employment between 1999 and 2004, four times the national average, and a 22.7 percent increase in average hourly wages overall (Table 5). But certain industries accounted for most of this increase.** Data presented in Graph 3 show that information industries experienced a 24.7 percent increase in employment, followed by education and health services with 14.9 percent. These industries tend to employ people with relatively high levels of education. By contrast, jobs in retail trade, which typically require less education, expanded by only 3.8 percent.

Graph 4 demonstrates that most of the jobs that were lost in recent years in Hampton Roads were in telecommunications and manufacturing. These job losses reflect national trends and largely reflect either rapidly rising productivity within these industries that has reduced the demand for labor, or international competition from countries such as China and India. Nevertheless, during this time period, jobs in manufacturing declined by 16.7 percent nationally, but only 6.8 percent, or 4,400 jobs, in Hampton Roads.

TABLE 4
PERCENT CHANGE IN PAYROLL EMPLOYMENT, 1999 TO 2004

	Percent Change
Las Vegas	22.7
Reno	11.1
Tampa	10.6
Hampton Roads	6.0
Richmond	5.0
Raleigh-Durham	4.9
Charlotte	4.6
U.S.	1.5

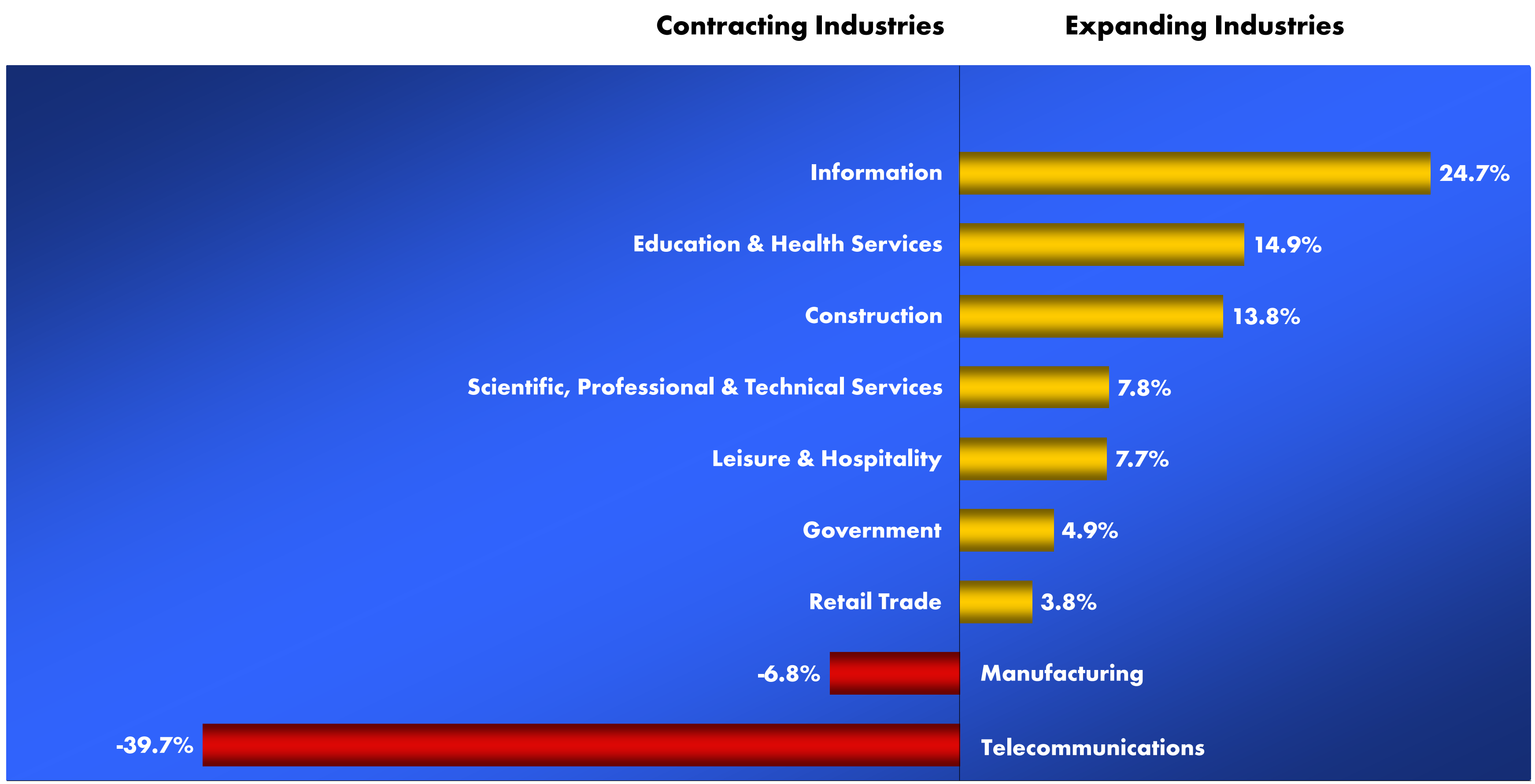
Sources: U.S. Department of Labor and the Old Dominion University Economic Forecasting Project

TABLE 5
PERCENT CHANGE IN AVERAGE HOURLY WAGE FOR ALL OCCUPATIONS, 1999 TO 2004

	Percent Change
Las Vegas	N / A
Reno	23.8
Tampa	11.9
Hampton Roads	22.7
Richmond	19.2
Raleigh-Durham	20.9
Charlotte	23.1
U.S.	20.7

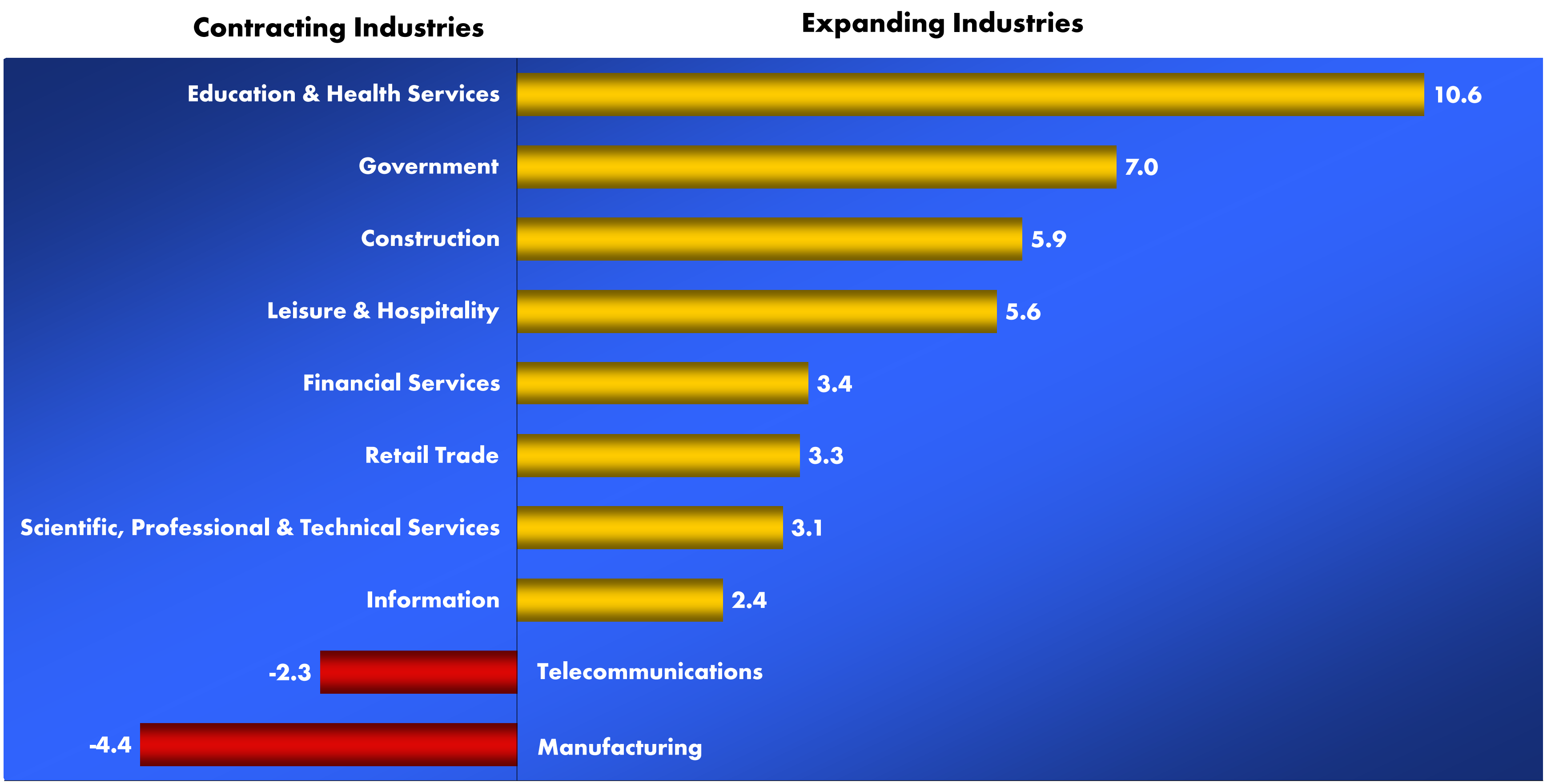
Sources: U.S. Department of Labor and the Old Dominion University Economic Forecasting Project

GRAPH 3
PERCENT EMPLOYMENT CHANGE IN SELECTED INDUSTRIES IN HAMPTON ROADS, 1999 TO 2004



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

GRAPH 4
EMPLOYMENT CHANGES IN SELECTED INDUSTRIES IN HAMPTON ROADS
1999 TO 2004
(THOUSANDS OF JOBS)

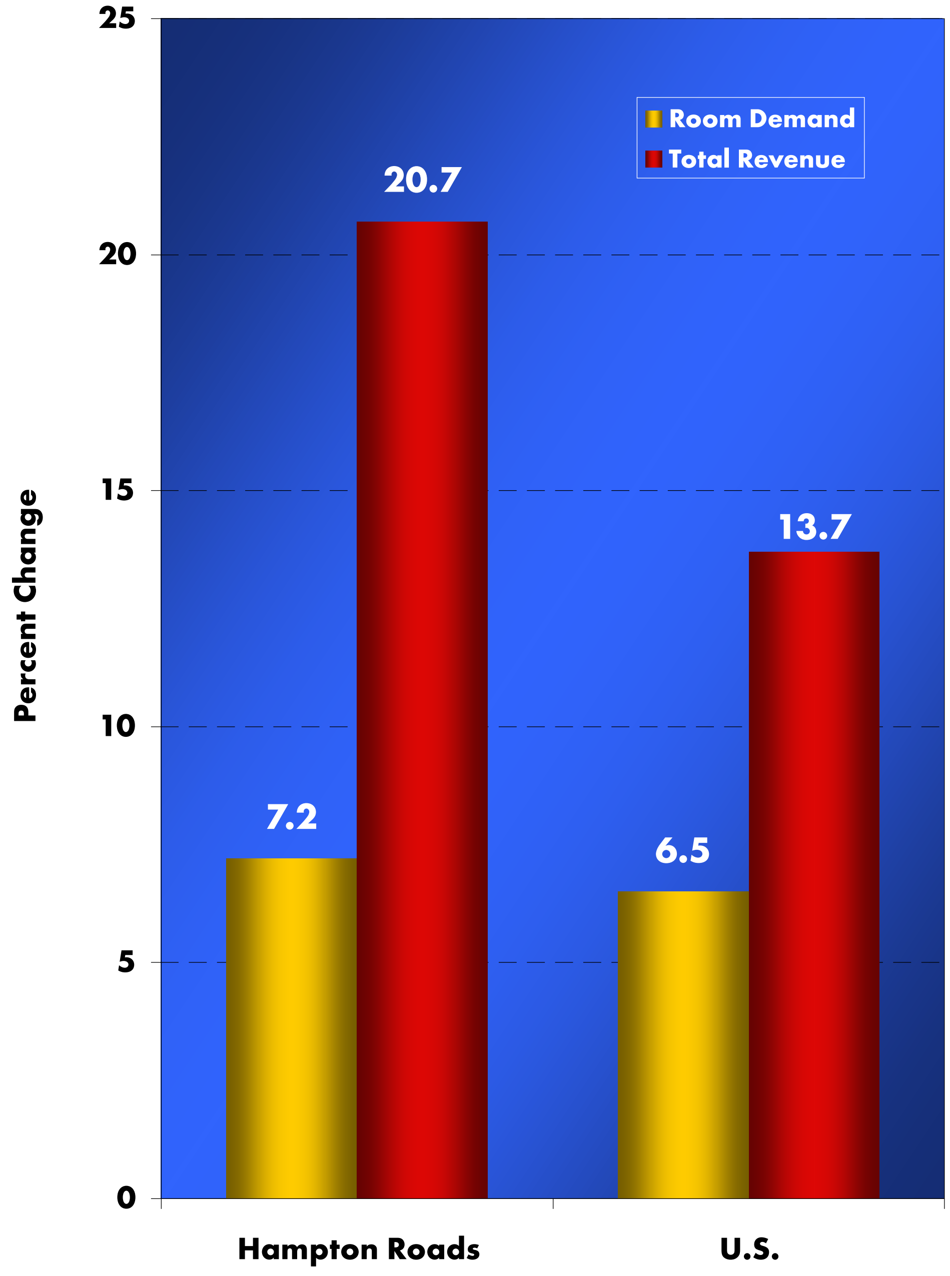


Sources: U.S. Department of Labor and the Old Dominion University Economic Forecasting Project

Regional Tourism

Whether measured by either the demand for hotel rooms or by total hotel revenue, growth in the Hampton Roads tourist industry exceeded that of the nation between 1999 and 2004. Graph 5 shows that tourist revenue grew much faster than room occupancy within the region, meaning that the typical tourist is spending more money. This reflects a gradual, but continuing trend

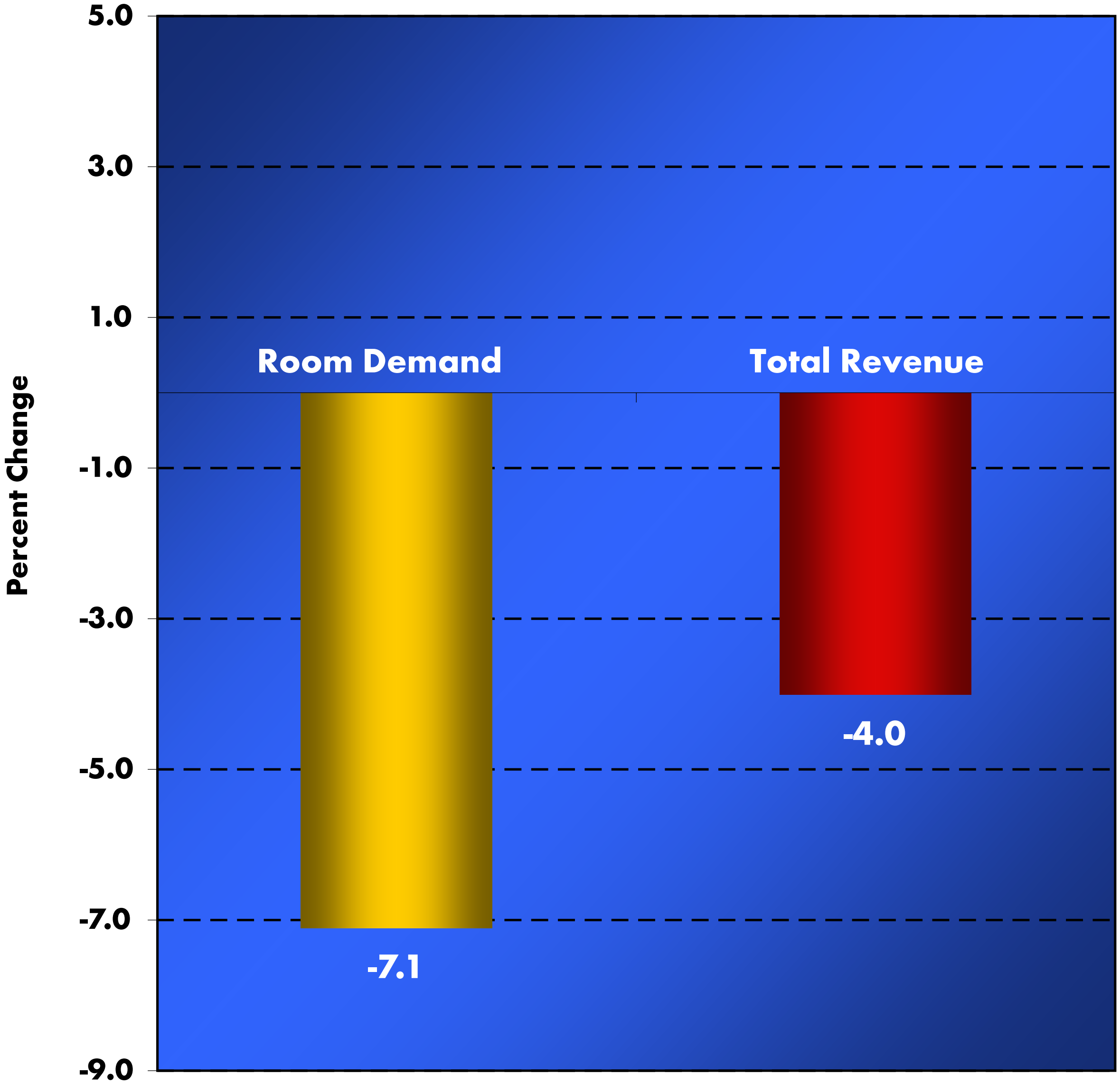
GRAPH 5
COMPARATIVE GROWTH OF HOTEL ROOM DEMAND AND TOTAL REVENUE FOR HAMPTON ROADS AND THE U.S., 1999 TO 2004



Sources: Smith Travel Research and the Old Dominion University Economic Forecasting Project toward upscale tourism within the region. By no means has Hampton Roads become an über destination such as Palm Beach; however, over the past decade, it has tended to attract a greater proportion of higher-income tourists than previously.

The significant increase in Hampton Roads tourism notwithstanding, Williamsburg has not benefited accordingly and actually has been a drag on tourism growth in the region. Graph 6 illustrates the extent of the contraction in both room demand and revenue experienced in the Williamsburg portion of the Hampton Roads tourist industry over the past five years. According to data from Smith Travel Research and the Commonwealth of Virginia, total hotel revenue in the Williamsburg market declined from $152 million in 1999 to $144 million in 2004. These data implicitly also underline the considerable prosperity that Virginia Beach has experienced.

GRAPH 6
GROWTH OF HOTEL ROOM DEMAND AND TOTAL REVENUE FOR THE WILLIAMSBURG PORTION OF THE HAMPTON ROADS TOURIST MARKET, 1999 TO 2004



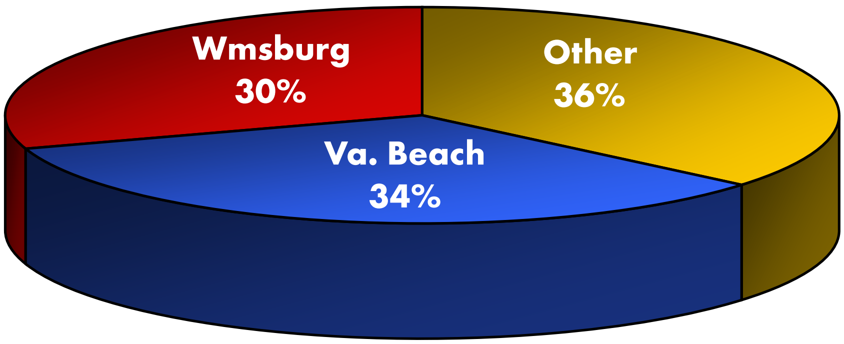
Sources: Smith Travel Research and the Old Dominion University Economic Forecasting Project

The decline of tourism in Williamsburg has led to a significant rearrangement of market shares within the Hampton Roads tourism market. As Graph 7 illustrates, **Williamsburg's share of regional tourism dropped from 30 percent to 23 percent between 1999 and 2004.**

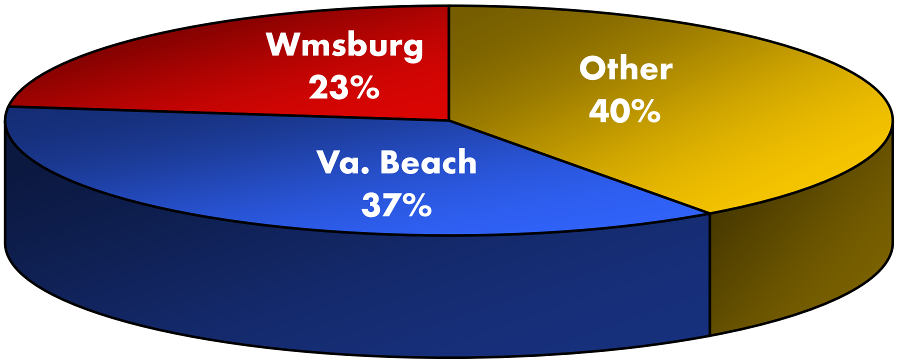
Poor weather during the summers of both 2003 and 2004 only accentuated Williamsburg's existing marketing problems. These problems include: (1) the diminishing ability of younger, non-historically oriented people to identify with Williamsburg's attractions; (2) a lack of funding for a concerted marketing program, which in any case would be hobbled by an absence of consistent data; and (3) less-than-optimal relations between the Colonial Williamsburg Foundation and Busch Gardens. All of these concerns are being addressed to some extent. For example, Williamsburg did begin to levy a $2 per night hotel room tax in the summer of 2004 in order to fund an expanded marketing and research program.

GRAPH 7
ESTIMATED MARKET SHARES OF
HAMPTON ROADS TOURIST INDUSTRY

1999



2004



Source: Old Dominion University Economic Forecasting Project

2005 Base Realignment and Closure (BRAC)

Given the relative degree of reliance of our regional economy on defense spending (see Graph 8), few acronyms evoke more angst in Hampton Roads than BRAC. Some of this worry is quite justifiable and is the result of past episodes of military downsizing. Table 6 discloses the economic impact of the two major downsizing episodes Hampton Roads has encountered since Vietnam. The post-Cold War downsizing was particularly difficult; Hampton Roads lost more than 24 percent of its full-time military personnel and 21 percent of its civilian labor force working for the Department of Defense. The Naval Air Rework Facility on the Norfolk Naval Base and several functions within the Norfolk Naval Shipyard were lost.

THE ECONOMIC IMPACT OF THE 2005 BRAC RECOMMENDATIONS

As this is written, we do not yet know what military facilities will be closed as a result of the 2005 Base Realignment and Closure process. We can compute, however, the economic impact of the BRAC Commission recommendations that have been made. Unlike the two previous downsizing periods described in Table 6, the 2005 round of base closures is not likely to be accompanied by national-level force reductions in the services. Of course, developments in Iraq and elsewhere could change this. But, in the absence of major changes in overall military expenditures, total military and civilian personnel levels are projected to be fairly stable over the next five years. This implies that military or civilian personnel increases or decreases will result only from base consolidations or closures, respectively.

TABLE 6

PERCENT REDUCTION IN MILITARY AND CIVILIAN WORK FORCE IN HAMPTON ROADS (SELECTED YEARS)

	Military	Federal Civilian
1969-1976 (Post-Vietnamization)	-26.30%	-10.30%
1989-1998 (Post-Cold War)	-24.50%	-21.10%

Source: Old Dominion University Economic Forecasting Project

The recommended Department of Defense 2005 list of base closures and consolidations would reduce employment in Hampton Roads by 19,228 jobs. After accounting for both the direct and indirect effects of the base closures and consolidations, the total job loss would reduce employment in Hampton Roads by about 1.9 percent, if nothing takes the place of these activities.

The financial impact of the 2005 BRAC Commission recommendations is presented in Table 7. **The closure of Oceana Naval Air Station clearly represents the largest negative impact, followed by Fort Monroe. The addition of jobs to the Norfolk Naval Shipyard yields the greatest positive effect on the region's economy.**

In terms of gross regional product, the net financial effect of the base realignment will be significant than the employment effect because many of the jobs lost are relatively high-paying. **We anticipate that two years after the jobs are actually eliminated the total impact of the BRAC recommendations will be a GRP reduction of approximately $1.61 billion per year. This would amount to approximately 2.5 percent of the value of the region's annual gross output, if nothing were to take the place of the terminated activities.**

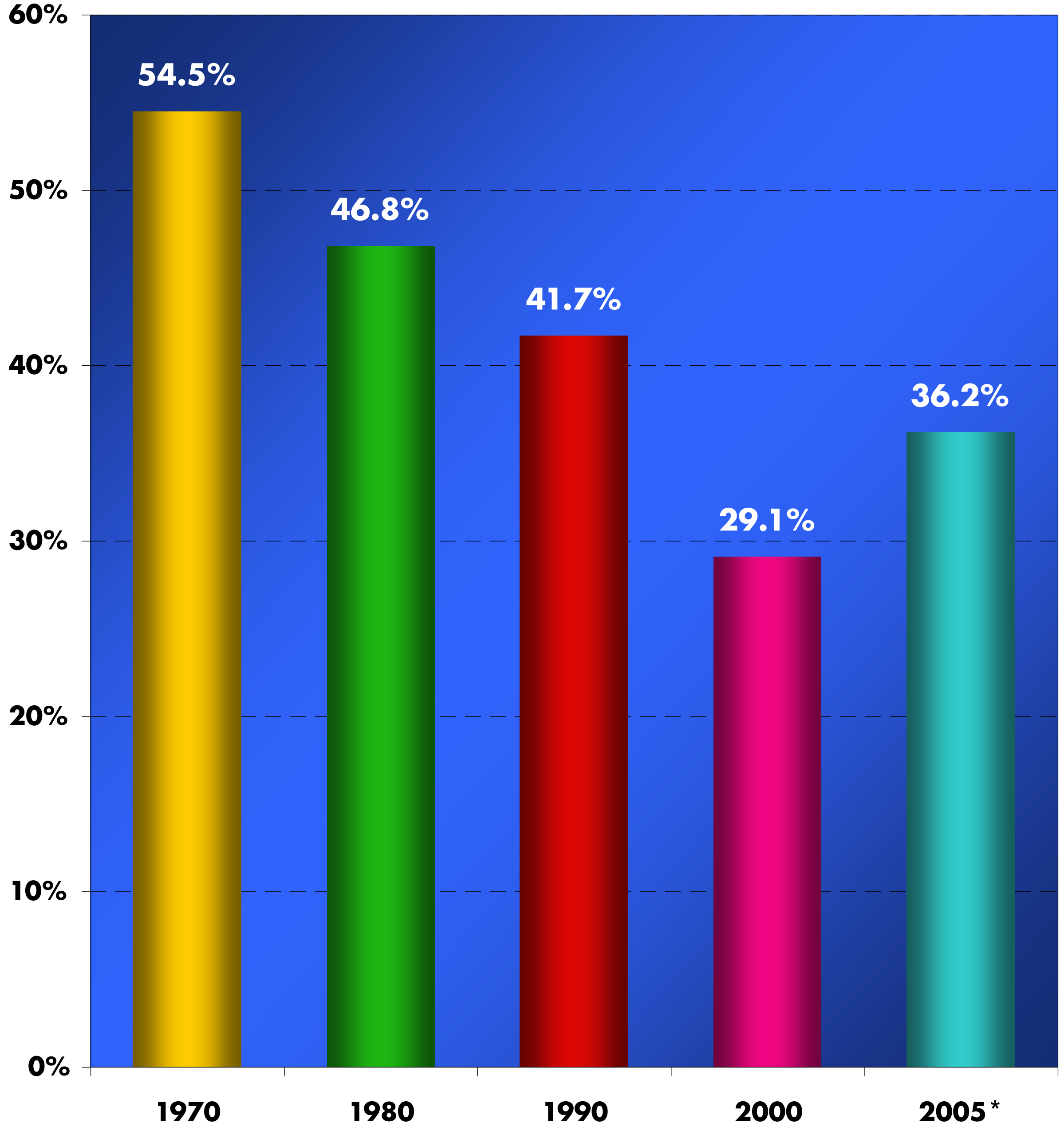
TABLE 7

BRAC CUMULATIVE EFFECT ON HAMPTON ROADS GRP BY BASE LOCATION

Place	Millions of Dollars
Fort Monroe	-$575.7 M
Fort Eustis	-295.8
Langley Air Force Base	114.9
Yorktown Naval Weapons Station	-31.7
Oceana	-1573.5
NOB	344.5
Naval Support Facility (Chesapeake)	114.2
Portsmouth Naval Hospital	-64.2
Little Creek	6.5
Norfolk Naval Shipyard	350.0
(Loss)Total	- 1610.8 M

Source: Old Dominion University Economic Forecasting Project

GRAPH 8
THE PROPORTION OF HAMPTON ROADS' GROSS REGIONAL PRODUCT ATTRIBUTABLE TO DEPARTMENT OF DEFENSE SPENDING (PERCENT) 1970 TO 2005



*Forecasted
Sources: Department of Defense and the Old Dominion University Economic Forecasting Project

Graph 9 displays estimates of the total economic effects, both direct and indirect, of BRAC on the Peninsula and Southside. These estimates employ a statistical model that takes into account commuting between the two sub-regions of Hampton Roads. The Southside is the bigger loser in absolute terms, though relatively speaking the adverse effect on the Peninsula is much greater because its economic base is only about one-half of that of the Southside. There is relatively little intraregional transfer of military activity contained in the BRAC recommendations.

OCEANA NAVAL AIR STATION

Oceana Naval Air Station was not on the original BRAC list, but was added by the commission during its July 2005 deliberations. Without doubt, it is the centerpiece of the 2005 BRAC process in Hampton Roads because its economic impact is so substantial. The interaction of Oceana with the Virginia Beach community long has been an issue of substance and this was once again brought to the fore during this year's BRAC proceedings. Residential and commercial development around the base plus community concerns about jet noise have combined to limit the Navy's ability to operate or expand the facility. Even if this BRAC process ultimately does not target Oceana for closing, then when the Navy adopts its next generation of fighter aircraft, it probably will decide to locate some or all of the new wings elsewhere. Hence, whatever the BRAC outcome this time around, Oceana's future in Hampton Roads is in jeopardy.

In terms of total jobs lost and GRP forgone, what would the economic impact be if Oceana were closed and all of its operations moved to another state? Table 8 projects this possibility, and finds the impact quite large. **An estimated $1.6 billion in GRP (about 2.5 percent of the region's GRP) would be lost to Hampton Roads, as well as more than 19,000 jobs (about 1.9 percent), if Oceana were to close. This is very close to our estimate of the overall impact of this BRAC process on the region. In other words, if all of the other BRAC recommendations were implemented, they would almost cancel each other in terms of their economic impact.**

TABLE 8

THE CUMULATIVE EFFECT ON GRP AND EMPLOYMENT IN HAMPTON ROADS FROM CLOSING THE OCEANA NAVAL AIR STATION

Total (Direct and Indirect) Loss in GRP	$1,573,480,000
Total (Direct and Indirect) Loss in Employment	19,024

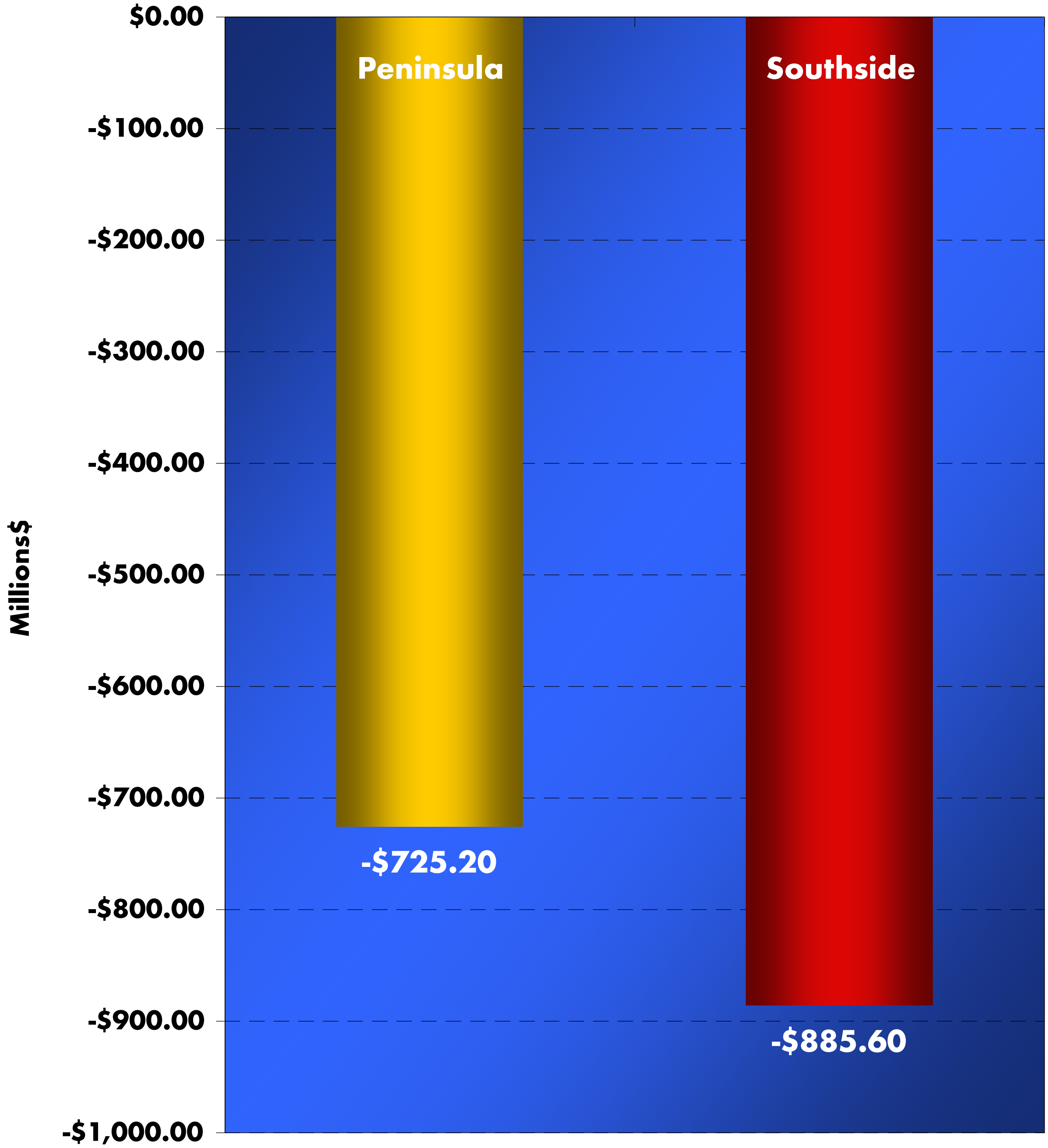
Source: Old Dominion University Economic Forecasting Project

A WORD OF CAUTION ABOUT INTERPRETING BASE CLOSURE ECONOMIC IMPACTS

The above data on base closures are best interpreted as an answer to the question, "What would happen to the regional economy if a base such as Fort Monroe or Oceana Naval Air Station were shut down completely and *no* substitute economic activity utilized the empty facilities?" Whether a closed base can be used for other purposes is not part of the analysis, but realistically should be.

State and federal governments nearly always make development and economic adjustment commitments to cushion the economic impact of base closures. Private entrepreneurs nearly always come forward with creative ideas about how to utilize the facilities and land inside closed bases. If nothing else, for example, Oceana would constitute a prime location for residential housing. Fort Monroe similarly has potentially productive civilian uses. A May 2005 General Accounting Office study, "Military Base Closures: Observations on Prior and Current BRAC Rounds," found that after a period of 10 years almost 85 percent of the *civilian* jobs lost to previous BRAC-mandated base closures had been replaced by developments on the closed bases. However, the report advised, "The recovery process has not necessarily been easy." **Thus, base closures need not be disastrous if localities, regions and states are innovative and entrepreneurial with respect to their post-closure plans.** Needless to say, the quality and energy of our regional leadership will be absolutely critical. This will be the equivalent of a leadership Super Bowl — one that will test the courage and ingenuity of all of those who guide our regional institutions.

GRAPH 9
2005 BRAC ESTIMATED AGGREGATE ECONOMIC IMPACT ON SUB-SECTORS OF THE HAMPTON ROADS ECONOMY



Source: Old Dominion University Economic Forecasting Project