

## Defense Spending in Hampton Roads, Virginia, and the U.S.

The U.S. Department of Defense’s Office of Local Defense Community Cooperation (OLDCC) partnered with the Library of Congress’s Federal Research Division to produce a report summarizing defense spending (contract and personnel) in the U.S. by state for fiscal year 2020. While it is well known how important defense spending is to the Hampton Roads economy, we took this opportunity to dig a little deeper into Department of Defense (DoD) expenditures in the region and how it compares to the rest of the Commonwealth and the nation.

Nationally, DoD budget authority rose from \$712.5 billion in FY 2019 to \$721.5 billion in FY20 (roughly 44% of federal discretionary spending). DoD contract obligations and payroll totaled \$593.9B, with \$439.4B (74%) spent on military contracts and \$154.6B (26%) spent on personnel payroll. Contract funds mostly go towards supplies and equipment (54%), such as aircraft, ships, weapons, and parts & services (34%), with the rest spent on Research & Development (7%) and construction (5%). Expenditures on the roughly 2.7 million defense personnel are split between active duty (43%), civilians (28%), National Guard (16%) and Reserves (13%).

The amount spent by the DoD at the national level works out to 2.8% of GDP, approximately \$1,803 per resident, with 61% of the \$539 billion concentrated in just 10 states.

Across the Commonwealth, these ratios look slightly different. Roughly \$64.3 billion was spent by the DoD in Virginia, second only to Texas, with \$44.8 billion in contract spending (VA is #2 in the country also behind Texas) and \$19.4 billion in personnel spending (VA is #1 in the country). In Virginia, contract funds primarily go towards services, then supplies, followed by R&D and construction. The largest portion of personnel pay (over 250,000 people) in Virginia was for active duty military at 50%, followed by civilians at 40%, Reserves at 7%, and National Guard at 3%. The amount spent by the DoD in Virginia works out to 11.3% of state GDP (the highest percentage rate in the country), approximately \$7,481 per resident, representing 10.8% of total U.S. defense spending.

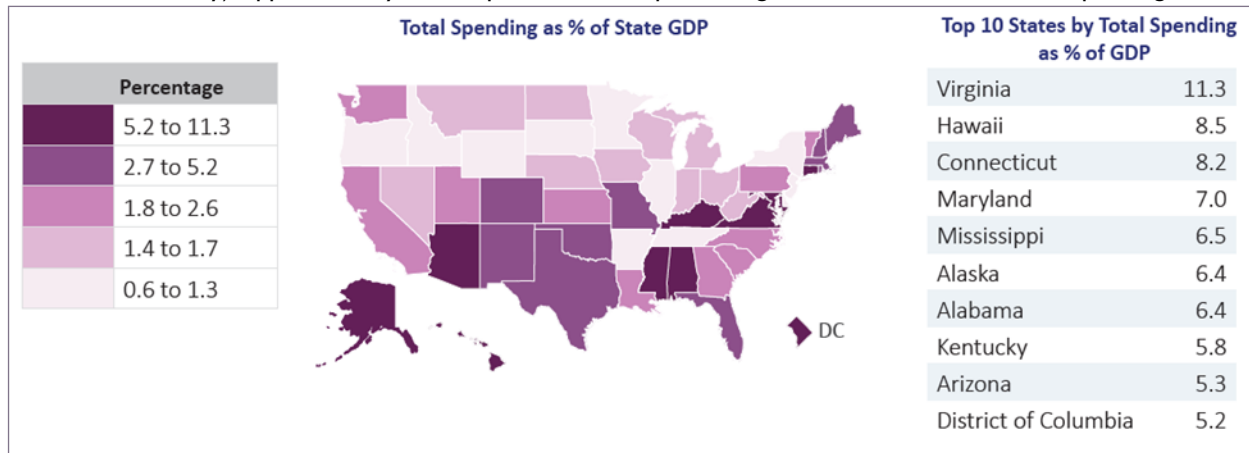


Figure 1: Total spending as a percentage of state GDP with top 10 states. Source: OLDCC

When drilled down into Hampton Roads, it becomes clear how much of an economic driver the DoD is for not only the region, but for the Commonwealth as a whole. In fiscal year 2020, 44% of military personnel in Virginia were located in Hampton Roads (109,625), along with 41% of total personnel spending. A smaller percentage of contract spending is done in the region, with 29% of Virginia’s DoD contract money coming to Hampton Roads. In total, 32% of total DoD spending in Virginia comes to our region. Due to the large defense contract industry in Northern Virginia, the majority of Virginia’s contract expenditures occur in Fairfax County and Arlington. It should come as no surprise that defense spending in Hampton Roads also represents a significant portion of defense spending nationally – total spending in Hampton Roads represents 3.5% of total defense spending across the country, split between 5.1% of total personnel spending versus 2.9% of total contract spending.

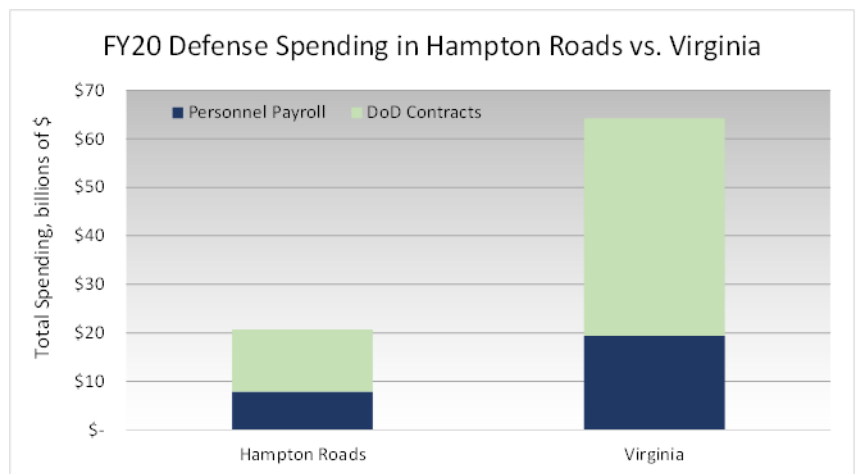
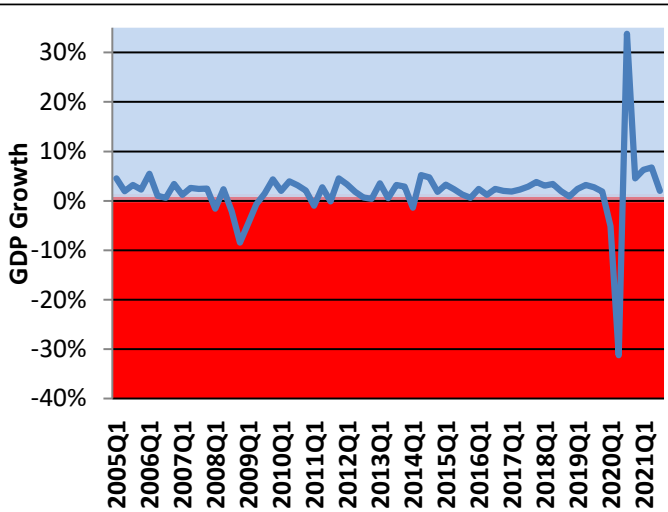


Figure 2: FY20 Defense spending, HR vs. VA. Source: DoD Defense Manpower Data Center, HRPDC

[Click here to explore a geographical representation of defense personnel counts and payroll in Hampton Roads.](#)

### GDP, Annualized Growth Rate

United States, 2005Q1 – 2021Q3 Quarterly

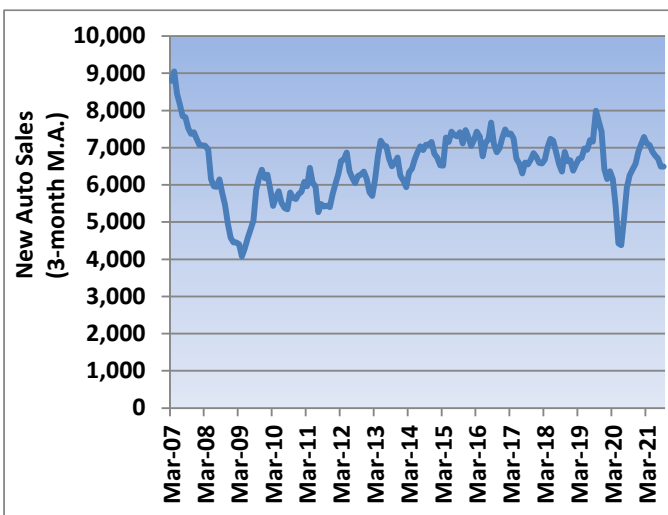


Source: Bureau of Economic Analysis, HRPDC

**GDP:** Gross Domestic Product combines consumption, investment, net exports, and government spending to determine the size and general health of the economy. Real GDP increased 2% in Q3 2021 (annualized), reflecting a stalling economic recovery after two quarters in a row of over 6% annualized growth. Unlike previous quarters in which growth was mainly driven by increases in PCE (only 1.6% increase in Q3), growth was driven by gross private domestic investment and an increase in spending on services, further proof that the pandemic’s grip is easing while supply-chain issues aren’t.

### New Car Sales, Seasonally Adjusted

Hampton Roads, Mar 2007 – Sep 2021, Monthly

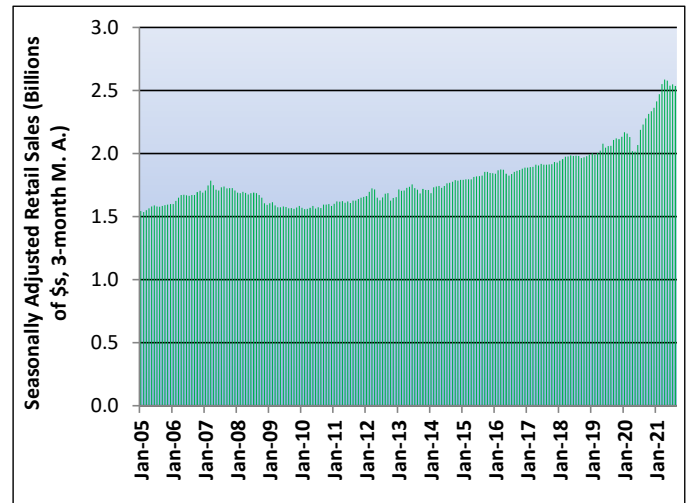


Source: Virginia Automobile Dealers Association, HRPDC

**New Car Sales:** Car sales, as a durable good, may be put off until an individual’s economic prospects improve; thus, the number of new car sales indicates the level of confidence that households in Hampton Roads have in their financial future. Car sales this September continued a downward trend, representing negative YoY growth—Sept 2021 showed a 23% decrease from Sept 2020, when spending was on the rise after the initial pandemic shock. For pre-pandemic comparison, Sept 2021 shows a 46% decrease from Sept 2019, the fifth month in a row for declines over 2019.

### Hampton Roads Retail Sales, Seasonally Adjusted

Hampton Roads, Jan 2005 – Aug 2021, Monthly

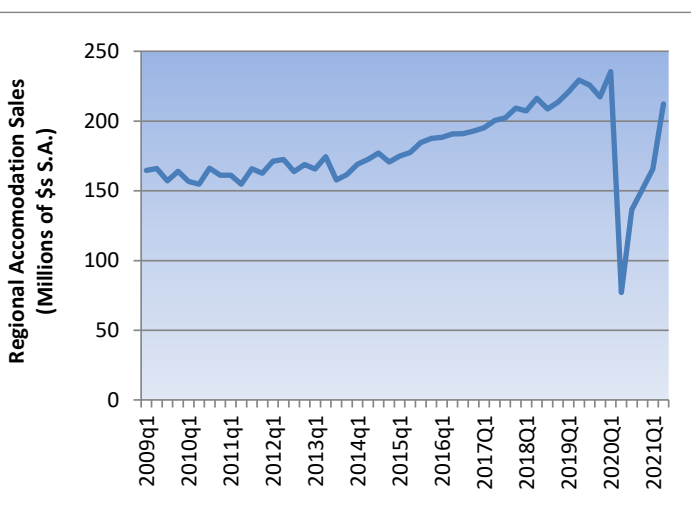


Source: Virginia Department of Taxation, HRPDC

**Retail Sales:** Retail sales in Hampton Roads, as measured by the 1% local option sales tax, serve as an indicator for consumption in the region. When seasonally adjusted and averaged over 3 months, August numbers continue the previous month’s signal that retail sales are continuing to cool down. Unadjusted, August 2021 posted a 17% increase from August 2020 (when the rise in retail sales was in full swing after the initial shock of the pandemic wore off), and an 11% increase from August 2019. In other words, retail sales are continuing to rise long-term, just not at such a steep rate.

### Estimated Hotel Revenue, Seasonally Adjusted

Hampton Roads, 2009Q1 – 2021Q2, Quarterly

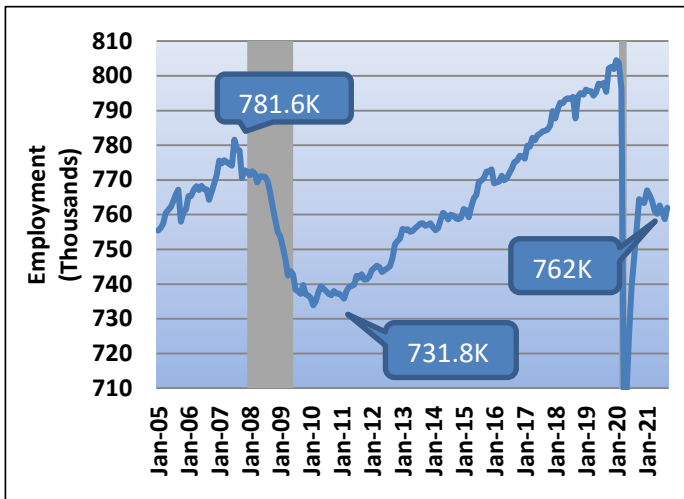


Source: Virginia Department of Taxation, HRPDC

**Estimated Hotel Revenue:** Hotel sales indicate the performance of the region’s tourism sector. When seasonally adjusted, Q2 2021 hotel revenue once again saw improvement from the historic lows realized in Q2 2020 due to pandemic-related closures. With one full year of data available, the recovery led to a 175% increase in year-over-year revenue from Q2 2020 to 2021. As of Q2 2021, hotel revenues in the region are roughly 10% below pre-pandemic levels.

### Civilian Employment, Seasonally Adjusted

Hampton Roads, Jan 2005 – Sep 2021, Monthly

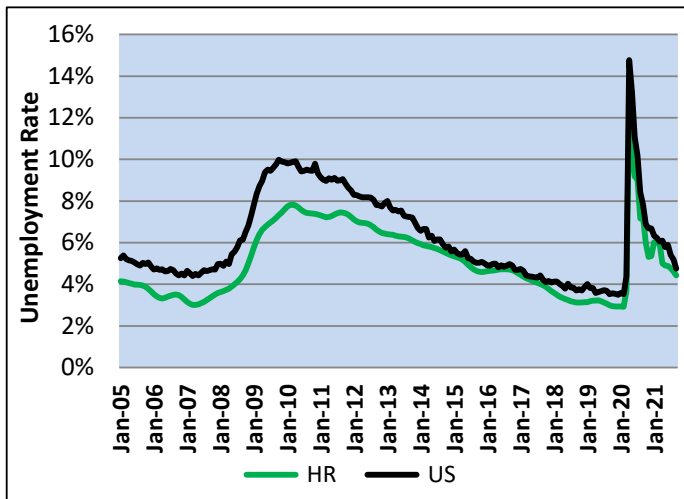


Source: Bureau of Labor Statistics, HRPDC

**Employment:** Non-agricultural civilian employment figures are considered the best estimate of labor market activity by the National Bureau of Economic Research. According to data from the Bureau of Labor Statistics, Hampton Roads employment (seasonally adjusted) increased by 0.43% from August to Sept 2021. Unadjusted employment levels decreased once again from the previous month for the third month in a row, likely due to the adjustments in leisure and hospitality jobs supporting the summer tourism industry. Total payroll employment remains 5.3% below pre-COVID highs.

### Unemployment Rate, Seasonally Adjusted

U.S. & Hampton Roads, Jan 2005 – Sep 2021, Monthly

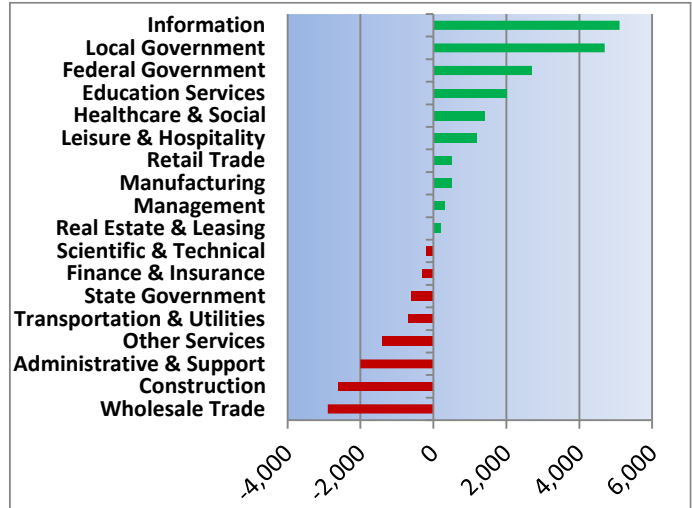


Source: Bureau of Labor Statistics, HRPDC

**Unemployment Rate:** The unemployment rate is the percentage of the population actively seeking work but unable to obtain a position. Hampton Roads' unemployment rate decreased again to 4.64% in September 2021, reflected by a decrease in the labor force, slight increase in employment, and a decrease in the number of unemployed persons (all seasonally adjusted). The unemployment rate in Hampton Roads continues to sit below the US rate, roughly 0.34 points lower.

### Employment Growth by Industry

Hampton Roads, Sep-20 to Sep-21, Year-over-Year

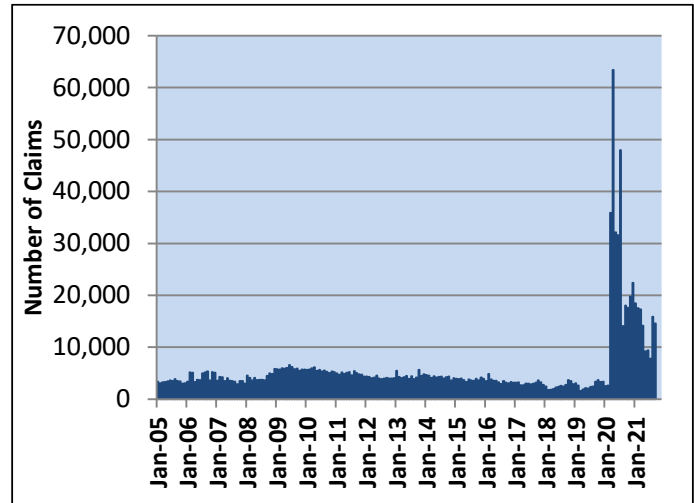


Source: Bureau of Labor Statistics, HRPDC

**Employment Growth by Industry:** As the job market grows or declines, there will be some industries whose experience does not resemble the regional trend. In Sept, roughly half of Hampton Roads industries experienced an increase in year-over-year employment compared to Sept 2020, when the economy was beginning to rebound. Most significant was Information, which added over 5,000 jobs compared to Sept 2020, followed by Local Government, Federal Government, and Education. Wholesale trade and Construction realized the highest losses compared to 2020, possibly due to supply chain issues.

### Initial Unemployment Claims, Seasonally Adjusted

Hampton Roads, Jan 2005 – Sep 2021, Monthly

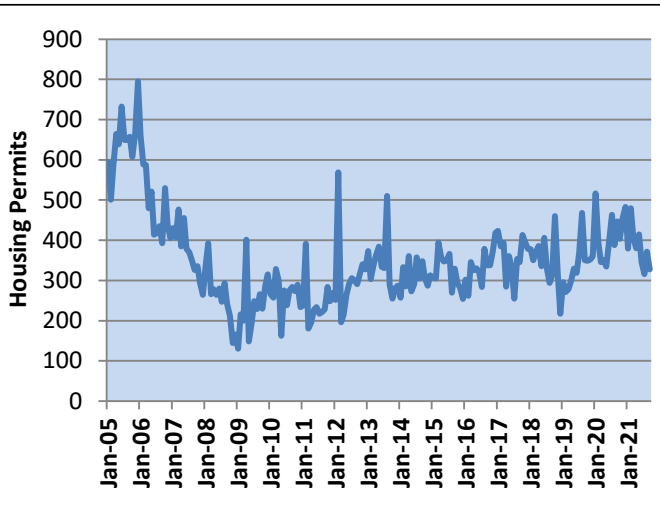


Source: Virginia Department of Labor, HRPDC

**Initial Unemployment Claims:** The number of initial unemployment claims is a leading economic indicator reflecting those who are forced to leave work unexpectedly, thus revealing the strength of the job market with little lag time. In September 2021, initial unemployment claims decreased significantly from the previous month, but when seasonally adjusted, claims in Sept were over 14,000. This represents just an 8% decline from the previous month.

### Single Family Housing Permits, Seasonally Adjusted

Hampton Roads, Jan 2005 – Sep 2021, Monthly

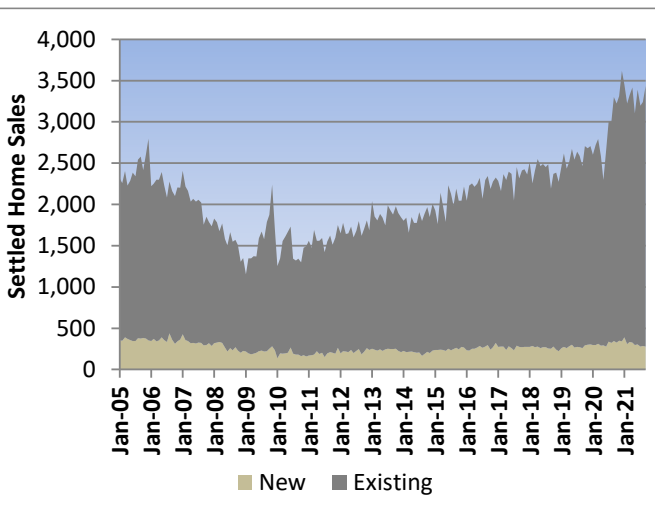


Source: U.S. Census Bureau, HRPDC

**Single Family Housing Permits:** Permit data signals the level of construction employment and confidence regarding the future trajectory of the local economy. There were 311 new construction permits issued for single family homes in September 2021. When seasonally adjusted, the data shows small variances month to month over the past year, but a clear downward trend is beginning to appear. As the market continues to respond to labor and materials shortages, the slow downward trend may continue until the industry can increase capacity in response to increased demand.

### Number of Homes Sold, Seasonally Adjusted

Hampton Roads, Jan 2005 – Sep 2021, Monthly

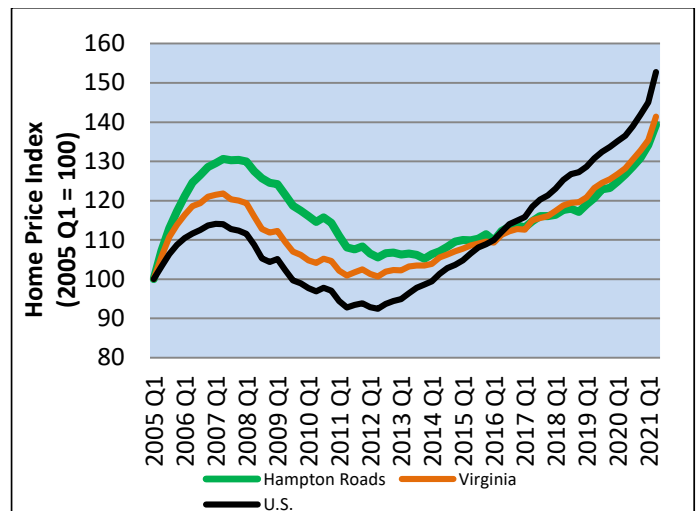


Source: REIN, HRPDC

**Home Sales:** Settled home sales measure the level of transactions on the real estate market over time, and a healthy real estate market should have a consistent level of activity. Seasonally adjusted, existing home and total settled sales in September increased slightly, remaining elevated with just over 3,400 homes sold in September. Unadjusted, total home sales have been declining for a few months in a row, but are still elevated compared to 2019. The sales market appears to be reaching a plateau.

### Home Price Index, All Transactions

Hampton Roads, 2005Q1 – 2021Q2 Quarterly



Source: Federal Housing Finance Agency, HRPDC

**Home Price Index:** The home price index measures the value of homes by evaluating changing price levels through repeated sales of properties. The index provides the highest quality data available on the trends in the real estate market. Hampton Roads' home prices increased, yet again, by 10% over the previous year in Q2 2021, slightly lower rates than both the state and the nation, but still a record high. Regional housing values are now 6.8% higher than the peak of the housing boom—four points higher than the previous quarter when the gap closed for the first time as home prices have been rapidly increasing.

**Note:** The format of this monthly economic report will be getting an update in the coming months. We welcome any input about what you find useful in this report. Please email Katherine Rainone at [krainone@hrpdca.gov](mailto:krainone@hrpdca.gov) with any suggested changes or improvements for future economic monthly updates.