



ECONOMIC INDICATORS

CITY OF NORFOLK
OFFICE OF BUDGET AND MANAGEMENT

Last Update: August 23, 2011

The Office of Budget and Management has compiled *Economic Indicators*, a report highlighting indicators of economic activity in the city as well as selected indicators for the region, state and nation. This document is designed to provide the reader with information regarding the local employment situation, retail sales, building permit activity and the housing market. Comparable indicators at the regional, state and national level that may impact the local economy are also included in the report. The report is updated as current data become available.

IN THIS ISSUE.....

EMPLOYMENT

- Norfolk's unemployment rate (not seasonally adjusted) stood at 8.9 percent, which is 0.8 percentage point lower than the previous year's (June 2010) rate of 9.7 percent.
- Employment in Hampton Roads currently stands at 746,100, which is 0.01 percent (or 100 jobs) below last year. Although this marks the 42nd consecutive month of year-over-year decline, it is the smallest decline.
- Nationally, non-farm payroll employment increased by 117,000 in July from the previous month, which follows an upwardly revised growth of 46,000 in June and 53,000 in May. Job growth year-to-date of 930,000 jobs is almost as much as the 940,000 jobs added in all of 2010.

SALES TAX REVENUE

- In FY 2011, Norfolk's sales tax revenues increased by approximately 0.6 percent or \$161,900. This was the first annual growth in sales tax revenue since FY 2007. The FY 2011 growth follows three consecutive years of decline.
- Norfolk sales taxes increased 1.1 percent in FY 2011 after adjusting for the one-time impact of the state's tax amnesty program last year.

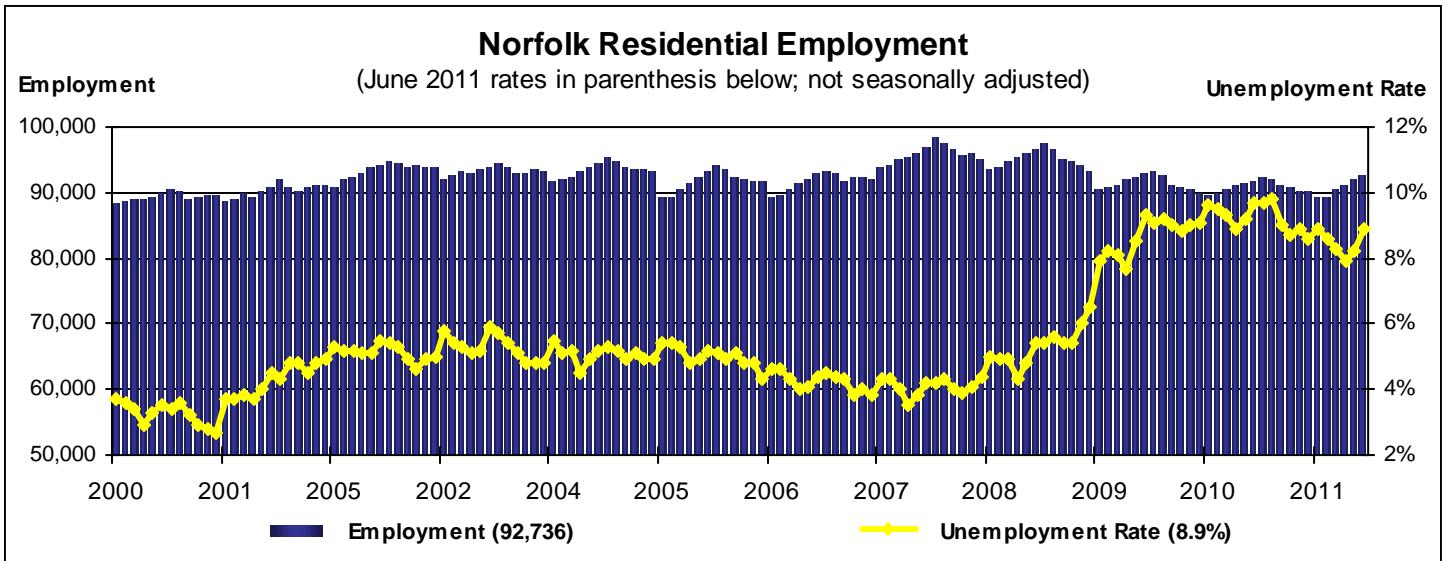
REGIONAL AND NATIONAL HOUSING MARKET & BUILDING PERMITS

- From January to July 2011, the average sales price of homes sold in Norfolk and in Hampton Roads declined by 12.6 percent and 9.8 percent, respectively, from the same period last year.
- In Norfolk, the number of homes sold increased 13.1 percent from January to July over the same period last year. Homes sold in Hampton Roads increased 1.3 percent.
- The total number of housing units authorized by building permits in Norfolk from January to June 2011 increased to 388 units from the 216 units permitted during the same period last year. The majority of the increase was due to units permitted in new multi-family structures.

OTHER ECONOMIC INDICATORS

- Growth decelerated in the first half of 2011. The economy grew 1.3 percent in the second quarter of 2011, which follows a 0.4 percent growth in the first quarter of 2011 (revised). In comparison, real GDP grew 3 percent in 2010 (revised).
- The annual revision of the real gross domestic product indicates that the recession was deeper than previously estimated and the economic recovery following the recession was weaker than previously estimated.

RESIDENTIAL EMPLOYMENT AND UNEMPLOYMENT—NORFOLK, REGIONAL, AND STATE



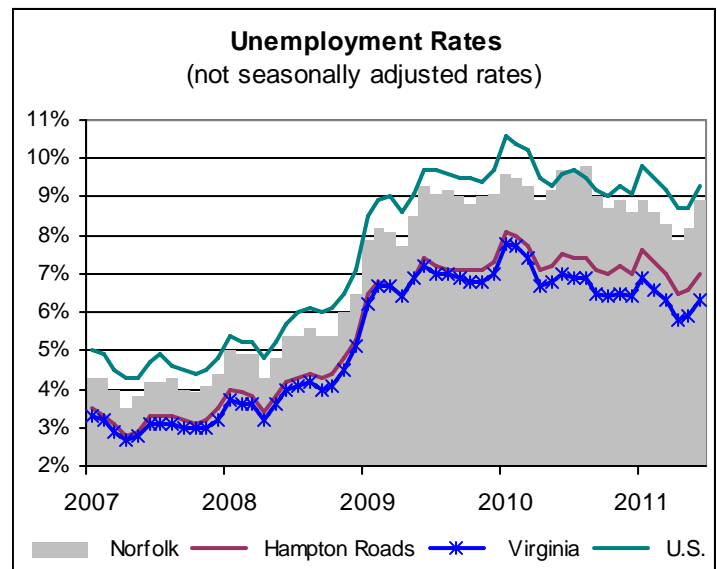
June 2011 Residential Employment

- According to the Virginia Employment Commission (VEC), the number of employed Norfolk residents in June stood at 92,736 (not seasonally adjusted), which is an increase of 1,055 employed residents or 1.2 percent from the previous year and 625 employed residents or 0.7 percent from the previous month.
- However, Norfolk's unemployment rate (not seasonally adjusted) stood at 8.9 percent, which is 0.8 percentage point lower than the previous year's (June 2010) rate of 9.7 percent, but is 0.7 percentage point higher than the previous month's (May 2011) rate of 8.2 percent. Norfolk's unemployment rate continues to remain below the national unemployment rate of 9.3 percent (not seasonally adjusted).
- Likewise, Hampton Roads' unemployment rate (not seasonally adjusted) of 7 percent in June was 0.5 percentage point lower than the previous year's rate but is 0.4 percentage point higher than the previous month's unemployment rate. Virginia's unemployment rate (not seasonally adjusted) also improved in June from the previous year, decreasing by 0.7 percentage point from 7 percent last year to 6.3 percent this year, but is 0.4 percent above the previous month's rate. The VEC attributed the increase in unemployment from the previous month to the impact of students and new graduates entering the labor force. Virginia had the ninth lowest unemployment rate among the 50 states and the District of Columbia.

Hampton Roads Unemployment Rate

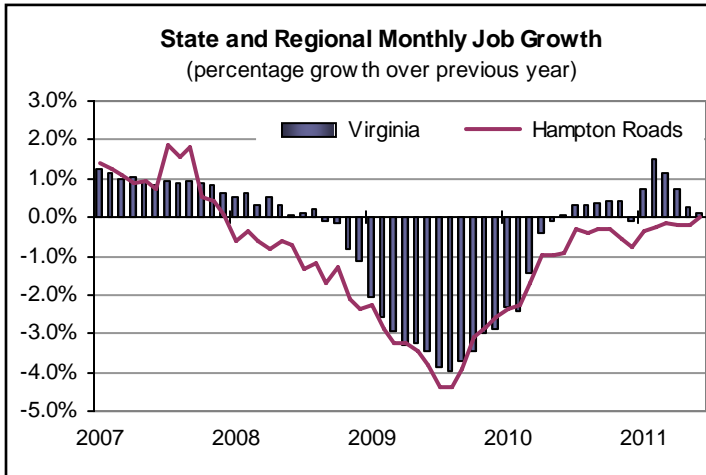
(not seasonally adjusted)

	June 2011	May 2011	June 2010	5-Year Average
Norfolk	8.9%	8.2%	9.7%	6.3%
Chesapeake	6.6%	6.2%	7.1%	4.7%
Hampton	8.1%	7.8%	8.4%	5.7%
Newport News	7.3%	7.2%	7.7%	5.5%
Portsmouth	8.7%	8.1%	9.3%	6.3%
Suffolk	7.4%	7.1%	8.3%	5.1%
Virginia Beach	6.0%	5.7%	6.4%	4.3%
Hampton Roads	7.0%	6.6%	7.5%	5.0%
Virginia	6.3%	5.9%	7.0%	4.8%



Source: Virginia Employment Commission and U.S Bureau of Labor Statistics. Compiled by the Office of Budget and Management.

REGIONAL, STATE, AND NATIONAL JOB GROWTH



State and Hampton Roads Job Growth

The Virginia Employment Commission reported that the statewide non-seasonally adjusted nonfarm employment in June totaled 3,684,100, which is an increase of approximately 0.1 percent (or 3,500 jobs) from June 2010. This was the smallest year-over-year increase since December 2010. Since June 2010, jobs in Virginia have been growing year-over-year every month except in December 2010.

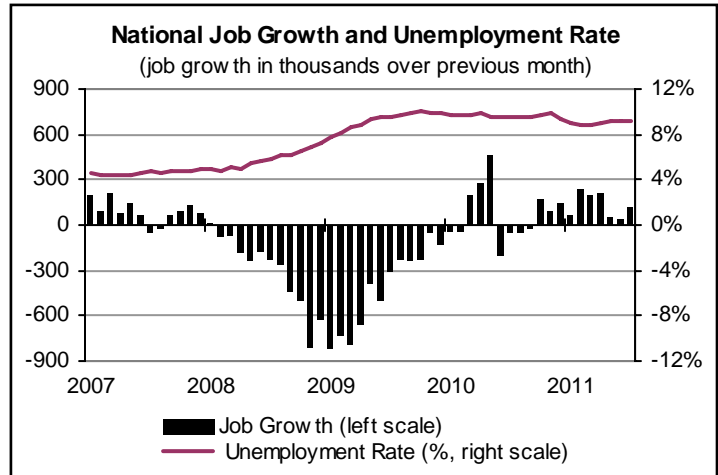
In Hampton Roads, the number of jobs currently stands at 746,100 in June, which is 0.01 percent (or 100 jobs) below last year. Although this marks the 42nd consecutive month of year-over-year decline, it is the smallest decline. On a month-to-month basis, the number of jobs in Hampton Roads grew 0.87 percent (or 6,400 jobs) in June 2011 from May 2011.

The table below shows job growth by industry in Virginia and Hampton Roads.

June Job Growth in Major Sectors

(not seasonally adjusted; June growth is from previous year)

	Hampton Roads	Virginia
Construction	-1,300	-2,800
Manufacturing	200	2,900
Trade (Retail & Wholesale)	-4,900	3,800
Transportation & Utilities	400	-1,100
Information	-900	-3,600
Financial Activities	-1,700	-1,700
Professional & Business Services	4,200	20,400
Educational & Health Services	700	-1,900
Leisure & Hospitality	5,300	-3,400
Government	-3,100	-9,300
<i>Federal Government</i>	-400	-8,000
<i>State Government</i>	500	4,100
<i>Local Government</i>	-3,200	-5,400



National Job Growth

The Bureau of Labor Statistics (BLS) reported that nonfarm payroll employment (seasonally adjusted) picked up in July, increasing by 117,000 from the previous month and following an upwardly revised growth of 46,000 in June and 53,000 in May. Year-to-date, the economy has added almost as much as the 940,000 jobs added in 2010. Total employment now stands at 131.19 million; however, employment stood at 137.98 million (revised) at the start of the recession in December 2007. The private sector continued to add jobs (154,000), while the public sector lost 37,000 jobs and continued to be a drag on overall job growth nationwide, like in Virginia and the region. Public sector job losses year-to-date is nearly as much as the 233,000 jobs lost in 2010. In July, the seasonally adjusted unemployment rate fell to 9.1 percent from 9.2 percent in June.

National Job Growth

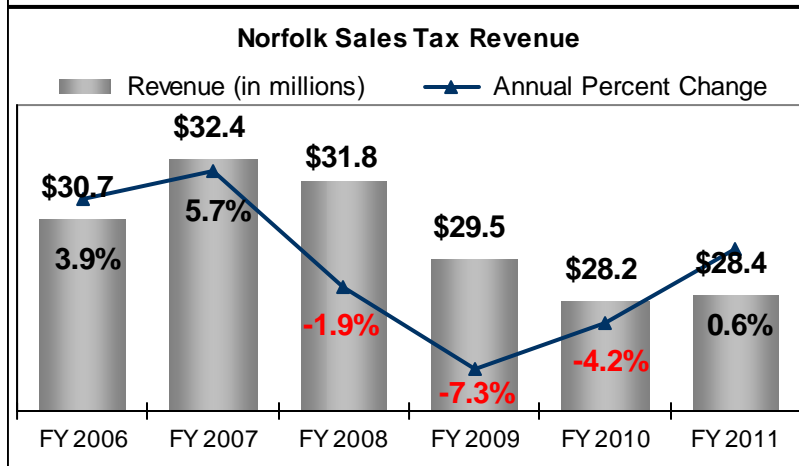
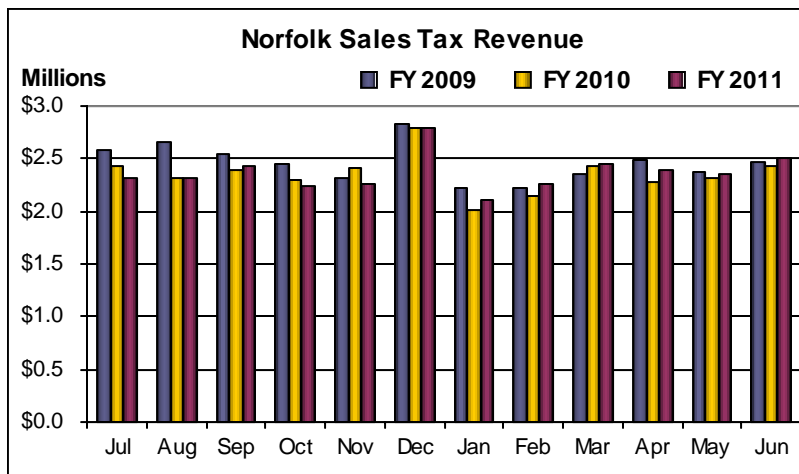
(seasonally adjusted; June/July growth is from previous month)

	June 2011*	July 2011**	July YTD**
Mining & Logging	10,000	10,000	66,000
Construction	-5,000	8,000	34,000
Manufacturing	11,000	24,000	180,000
Trade, Transportation & Utilities	30,000	28,000	205,000
Information	0	-1,000	-11,000
Finance	-18,000	-4,000	-14,000
Professional & Business Svcs.	4,000	34,000	291,000
Educational & Health Services	12,000	38,000	216,000
Leisure & Hospitality	33,000	17,000	151,000
Other Services	3,000	0	30,000
Government	-34,000	-37,000	-218,000
<i>Federal Government</i>	-13,000	2,000	-19,000
<i>State Government</i>	-6,000	-23,000	-76,000
<i>Local Government</i>	-15,000	-16,000	-123,000
Total Job Growth	46,000	117,000	930,000

Source: Virginia Employment Commission and U.S Bureau of Labor Statistics. Compiled by the Office of Budget and Management.

* Revised. ** Preliminary.

SALES TAX—NORFOLK AND REGION



Norfolk Sales Tax Revenue

In FY 2011, sales tax revenue in Norfolk grew by approximately 0.6 percent or \$161,900. This was the first annual growth in sales tax revenue since FY 2007. The FY 2011 growth follows three consecutive years of decline. Sales tax receipts in Norfolk have been increasing year-over-year in every month since December 2010.

However, during FY 2010, Norfolk received a one-time payment of delinquent sales taxes in November 2009 which was collected during the state's tax amnesty program. Adjusting for the one-time impact of the tax amnesty program, sales taxes increased 1.1 percent (or approximately \$321,000) in FY 2011 compared to the unadjusted increase of 0.6 percent reported above.

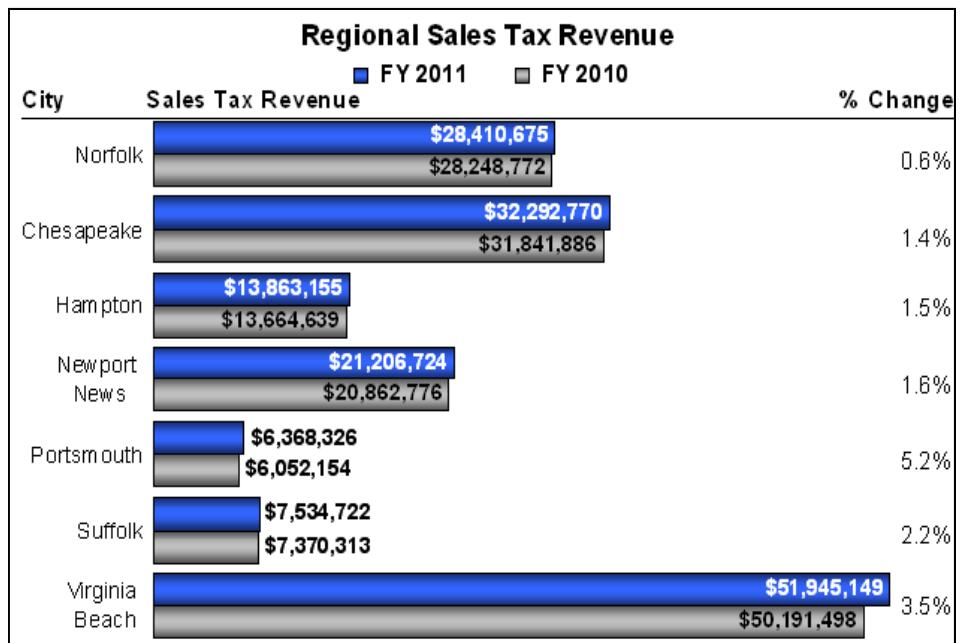
Although sales tax receipts increased 0.6 percent, it is important to note that the \$28.4 million received in FY 2011 is approximately 12.3 percent or \$4 million below the peak revenue of \$32.4 million that was received in FY 2007 prior to the 2007-2009 recession.

Neighboring Localities

Sales tax collections in Norfolk's neighboring cities also increased in FY 2011. Portsmouth had the highest percentage growth (5.2 percent), while Virginia Beach had the highest dollar growth (\$1.75 million). For Chesapeake, Newport News, Norfolk, and Virginia Beach, this was the first annual growth since FY 2007. For Hampton and Suffolk, sales tax revenues increased for the second consecutive year. In Portsmouth, sales tax revenues grew for the first time since FY 2009.

Nationally, the U.S. Census Bureau reported that national retail and food services sales increased from the previous month, 0.5 percent in July (preliminary) and 0.3 percent in June (revised).

May retail sales were revised upwards to 0.0 percent change versus the previous estimate of a 0.1 percent decline. The June growth was driven by sales of motor vehicles, building materials and garden supplies, grocery, and clothing and general merchandise, while sales fell in stores selling furniture, electronics and appliances, and gas stations (due to lower prices at the pump). In comparison, the July growth was driven by sales at gas stations (due to higher prices at the pump), motor vehicles dealers, grocery stores, and miscellaneous and nonstore retailers. Excluding sales at gas stations, July sales rose 0.3 percent.



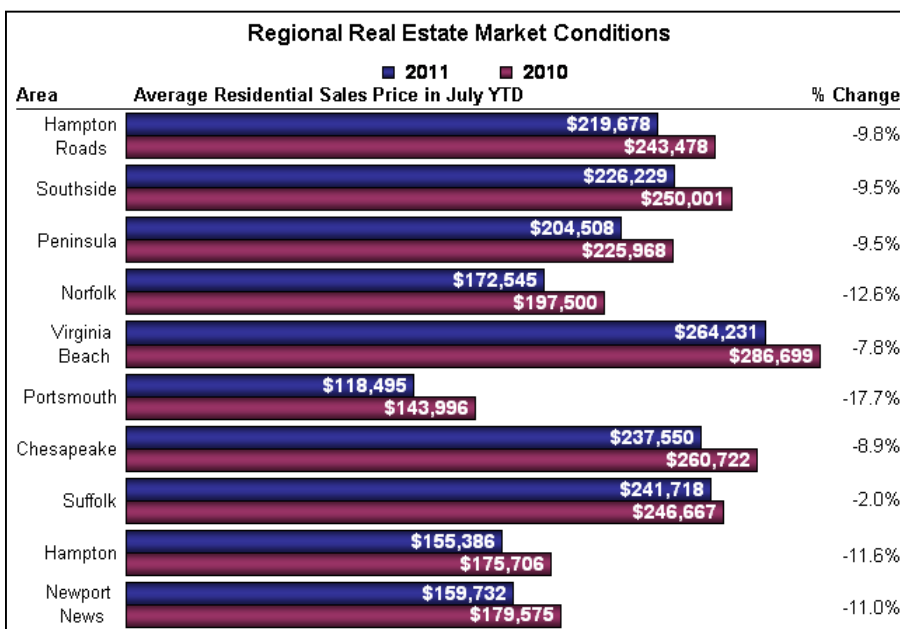
Source: Virginia Department of Taxation and U.S. Census Bureau. Compiled by the Office of Budget and Management.

NORFOLK AND REGIONAL HOUSING MARKET

Hampton Roads Residential Real Estate Market Conditions

The following pages provide information on the Norfolk, Regional and National housing market, foreclosure filings, and other indicators of market conditions such as, Housing Market Index, Housing Opportunity Index, housing starts and building permits.

Year-to-date (YTD) through July, the average sales price of homes sold in Hampton Roads have declined 9.8 percent, according to the Real Estate Information Network (REIN). The decline in the Peninsula and in the Southside were about the same (9.5 percent). However, the number of homes sold in the region YTD increased slightly by 1.3 percent, from 10,458 last year to 10,590. Regional home sales also grew for the month of July alone (4.7 percent), the first monthly gain since March 2011. Norfolk home sales, on the other hand, have increased year-over-year in every month since January 2011, except in May 2011.



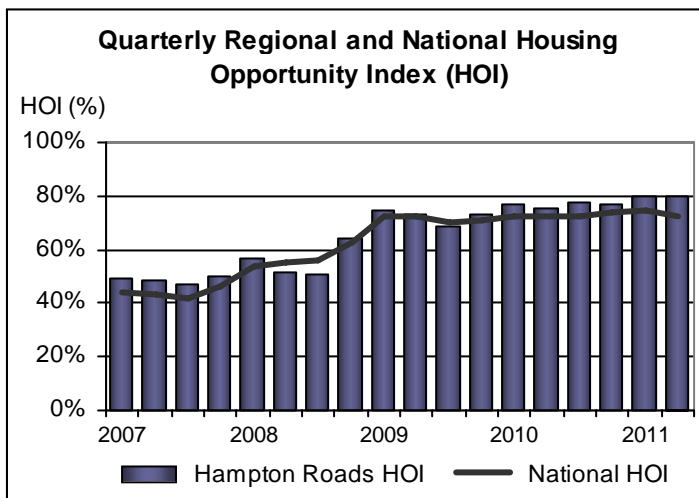
Jan. – July Home Sales	Units Sold		Average Days on Market	
	2010	2011	2010	2011
Hampton Roads	10,458	10,590	89	102
Southside	7,580	7,724	83	98
Peninsula	2,648	2,601	105	114
Norfolk	1,163	1,315	85	97
Virginia Beach	3,184	3,131	77	93
Portsmouth	621	653	91	101
Chesapeake	1,659	1,691	82	91
Suffolk	655	601	91	114
Hampton	753	723	96	104
Newport News	939	934	91	106

REIN reported that sales of distressed homes, which have contributed to the decline in the sales price of homes in the region, made up about 30.3 percent of home sales in July. This is up slightly from June, when sales of distressed homes made up 29.7 percent of homes sold.

REIN also reported a 24.7 percent increase in homes under contract in the region in July from last year, which follows the 28 percent increase in June. According to REIN, this is the “first time increases of this magnitude have been seen in the region since the beginning of this year.” The largest gains were in Newport News (43 percent) and Hampton (42 percent), while the smallest gain was in Virginia Beach (13 percent). REIN has indicated that the “increase should bode well for settled home sales in the near future.”

Housing affordability in Hampton Roads, as measured by the regional Housing Opportunity Index (HOI), rose slightly to 80.1 percent in the second quarter of 2011 from 79.8 percent in the first quarter of 2011. Affordability in the region continues to be at its highest level since the first quarter of 1994. The regional HOI shows that 80.1 percent of homes sold in the second quarter of 2011 were affordable to families earning the regional median income of \$69,900.

The HOI for a given area is defined as the share of homes sold in the area that would have been affordable to a family earning the local median income based on standard mortgage underwriting criteria. The index has two major components: income and housing cost.

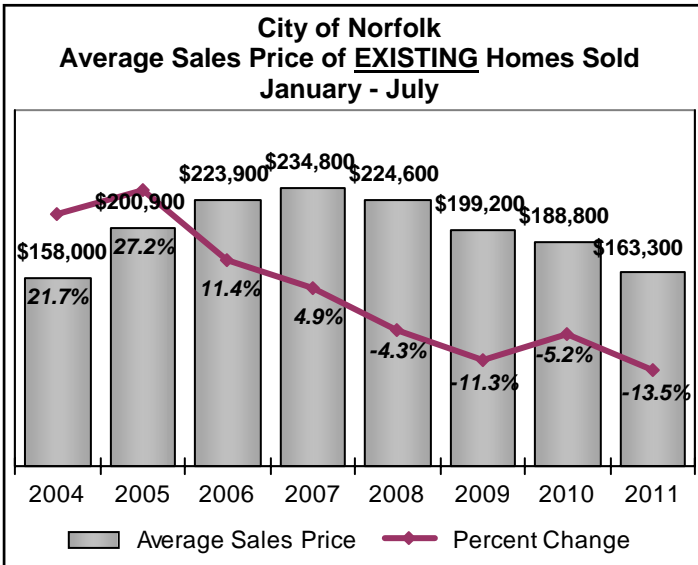


Source: Real Estate Information Network (REIN) and National Association of Home Builders. Compiled by the Office of Budget and Management.

NORFOLK HOUSING MARKET

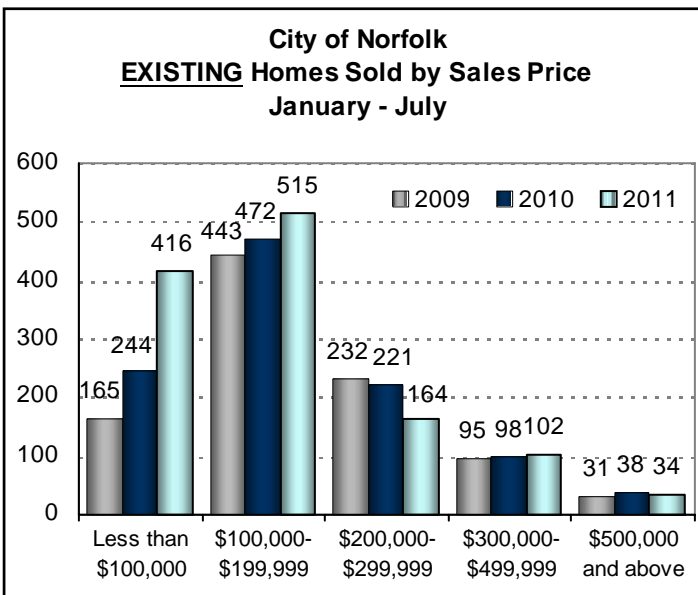
Existing Home Sales

From January to July, the average sales price of existing homes sold in Norfolk fell 13.5 percent, from \$188,800 to \$163,300. Both existing detached homes and existing attached homes sold saw a decrease in their average sales price. Existing detached homes saw a 12.7 percent decline, while existing attached homes saw a 19.4 percent decline.



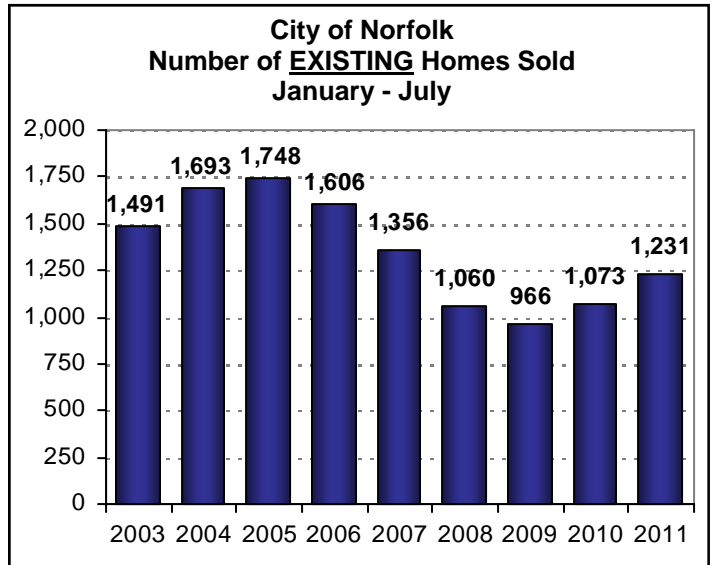
Source: Real Estate Information Network (REIN)

Homes priced under \$200,000 made up 76 percent of existing home sales; in comparison, two years ago, it made up about 67 percent of home sales. Also, existing homes priced under \$100,000 gained a greater share of home sales compared to two years ago, from about 17 percent of sales in 2009 to about 34 percent of sales in 2011. The increase was likely due to distressed home sales.



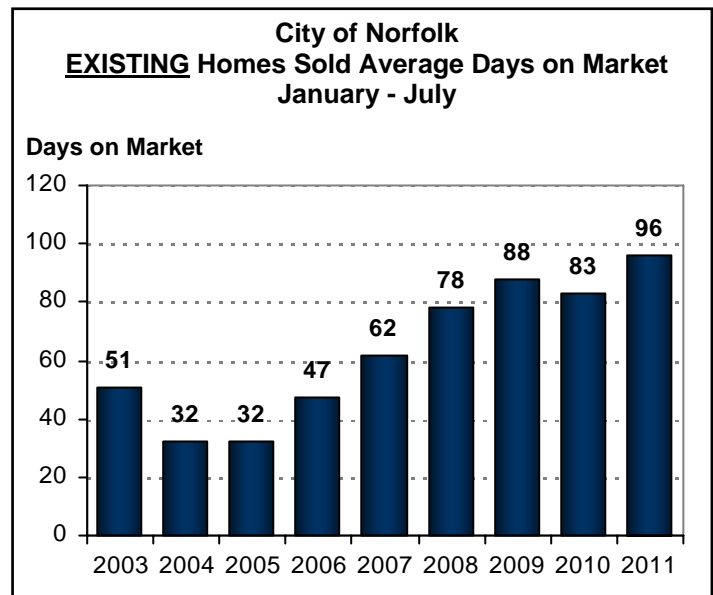
Source: Real Estate Information Network (REIN)

It appears that the decline in home prices has attracted home buyers, and as a result, home sales are at their highest level since 2008. Through July, the number of existing homes sold grew by 14.7 percent (158 homes). Sales of both attached and detached homes are up year-to-date. Nearly all of the increase in home sales this year have been driven by the sale of homes priced under \$200,000.



Source: Real Estate Information Network (REIN)

The average days on market of existing homes sold through July increased to 96 days from 83 days last year. Both detached and attached homes sold year-to-date have seen an increase in their average days on market. However, the closing of home sales last year were likely to be accelerated by the federal home buyers tax credit.

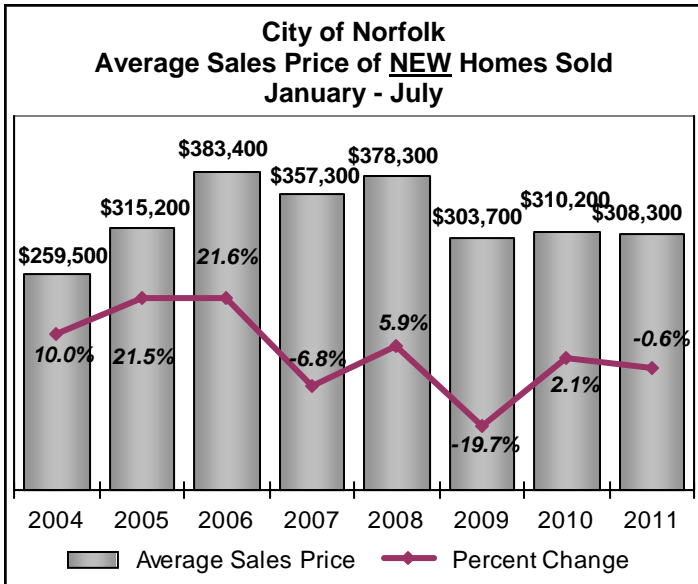


Source: Real Estate Information Network (REIN)

NORFOLK HOUSING MARKET (CONTINUED)

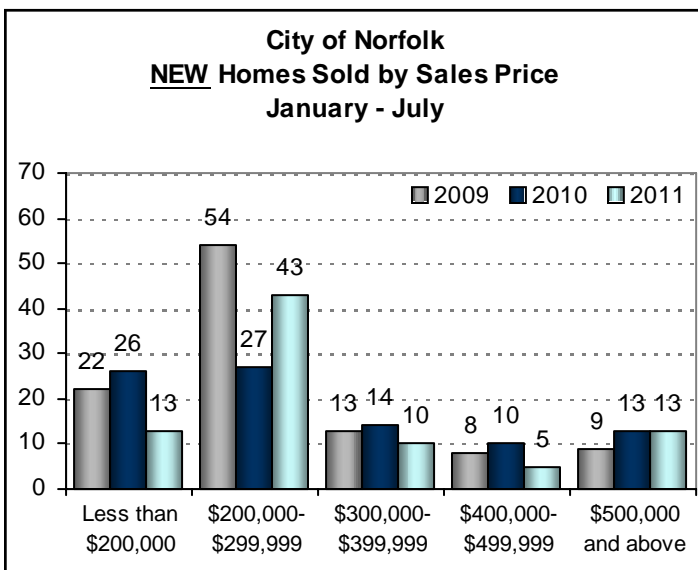
New Home Sales

Year-to-date through July, the average sales price of new homes sold in Norfolk decreased slightly 0.6 percent, from \$310,200 last year to \$308,300 this year. The decline in sales price was mainly due to sales of new attached homes, which on average saw a 66.8 percent decline. In comparison, the average sales price of new detached homes have seen a slight increase (3 percent) year-to-date.



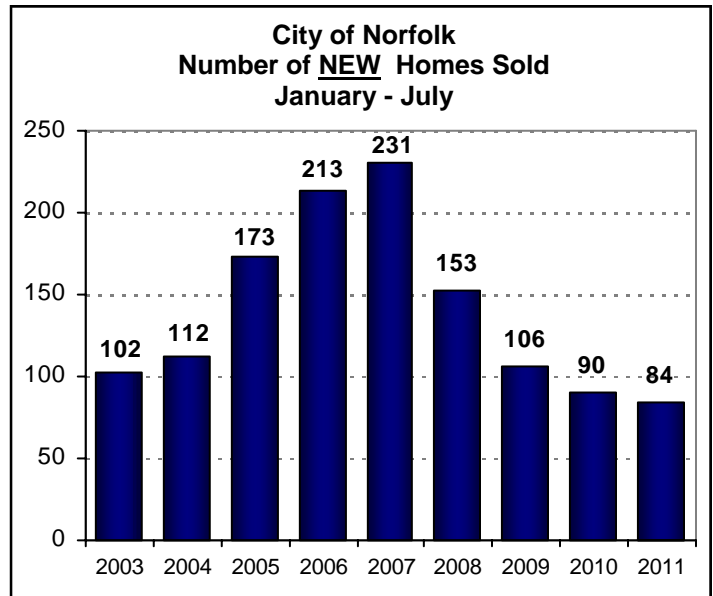
Source: Real Estate Information Network (REIN)

Compared to last year, sales of new homes declined at every price range, except for homes priced between \$200,000—\$299,999, while sales of homes priced \$500,000 and above remained steady. About 67 percent of new homes sold year-to-date were priced under \$300,000.



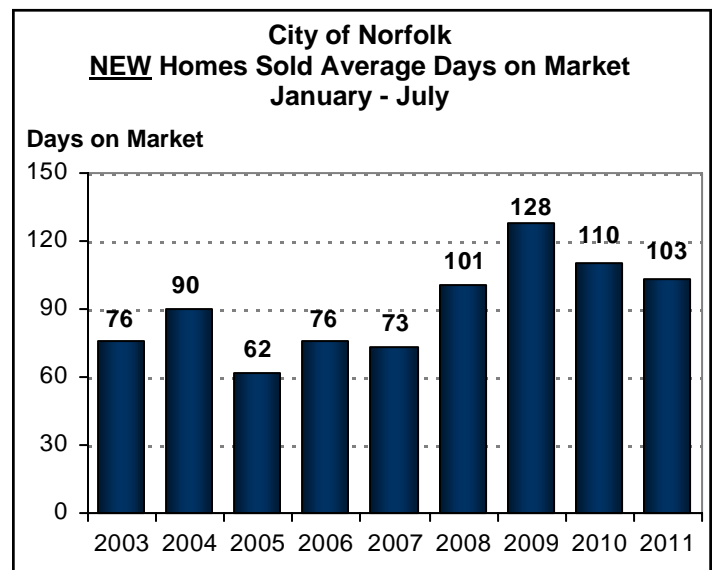
Source: Real Estate Information Network (REIN)

Unlike existing homes, the number of new homes sold in Norfolk declined year-to-date through July. New home sales fell by 6 homes or 6.7 percent from 90 homes last year to 84 homes this year. Sales of attached homes have declined year-to-date, while detached homes have held steady. Sales of new homes in Norfolk continue to be on a downward trend since reaching a peak in 2007.



Source: Real Estate Information Network (REIN)

Unlike existing homes, the average days on market of new homes sold decreased by about 7 days, from 110 days last year to 103 days this year. Both new attached and detached homes sold saw a decrease in their average days on market. The average days on market of new homes sold have been declining since 2009.

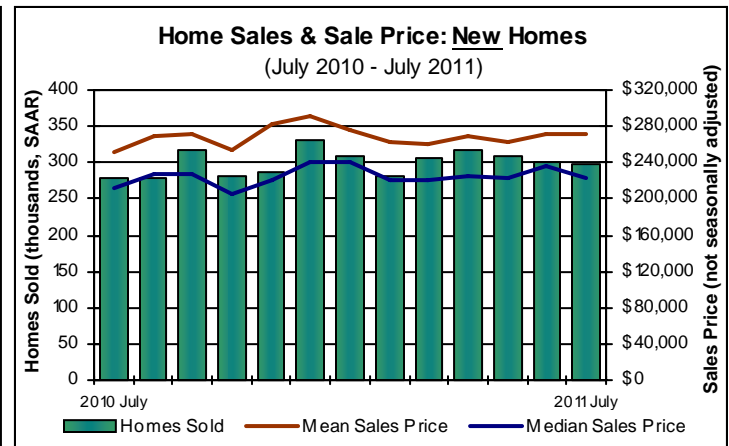
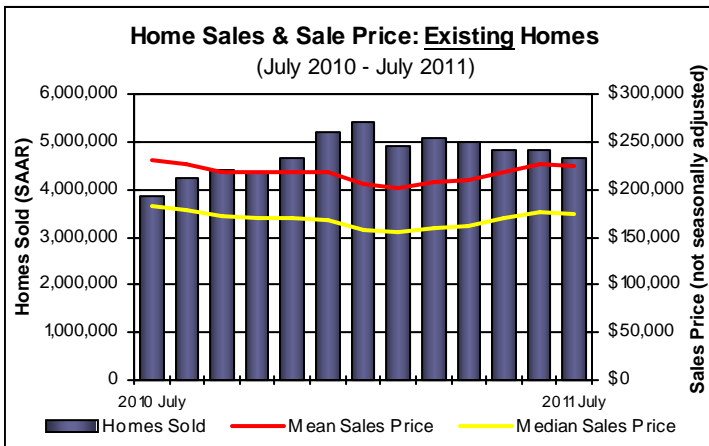


Source: Real Estate Information Network (REIN)

NATIONAL HOUSING MARKET

Sale of Existing and New Homes

Existing homes sales nationwide fell in July to a seasonally adjusted annual rate (SAAR) of 4.67 million, a 3.5 percent decline from June 2011. Home sales this year have been on a downward trend since December 2010. The National Association of Realtors (NAR) noted that despite favorable affordability conditions, “many buyers are being held back because banks are offering financing to only the most highly qualified borrowers.” Compared to last year, existing home sales were up 21 percent, although last year’s sales were skewed by the end of homebuyer tax credits. New home sales also declined in July for the third straight month by 0.7 percent to 298,000 (SAAR), however, new home sales are 6.8 percent above last year. On a positive note, distressed home sales, which have depressed home prices, made up 29 percent of existing home sales in July, down from 30 percent in June and 32 percent in July 2010. The average price of existing homes sold fell 3.2 percent to \$224,200, while new homes saw an 8 percent increase to \$272,300 from last year.



Foreclosures

RealtyTrac reported that new foreclosure filings for the nation, which include default notices, scheduled auctions and bank repossessions, decreased in July from the previous month by about 4 percent to 212,764, the lowest level since November 2007. Also, properties with new foreclosure filings were down by nearly 35 percent from the same period last year, the 10th consecutive month of decline.

James Saccacio, CEO of RealtyTrac, noted that the declines were “initially triggered by the robo-signing controversy back in October 2010, which forced lenders to substantially slow the pace of foreclosing...it appears that the foreclosure processing delays, combined with...national and state-level foreclosure prevention efforts...may be allowing more distressed homeowners to stave off foreclosure...Unfortunately, the falloff in foreclosures is not based on a robust recovery in the housing market but on short-term interventions and delays that will extend the current housing market woes into 2012.”

National, State and Local Foreclosure Filings—July 2011

	Rank	Properties with Foreclosure Filings	% Change from Jun. 2011	% Change from Jul. 2010	1 in XX# of Housing Units
Norfolk	5	215	10.3%	-13.7%	448
Chesapeake	6	194	19.0%	2.1%	429
Hampton	13	108	21.3%	-2.7%	558
Newport News	12	118	13.5%	1.7%	683
Portsmouth	11	125	43.7%	6.8%	346
Suffolk	15	83	45.6%	6.4%	399
Virginia Beach	4	256	-21.0%	-13.2%	687
Richmond	9	140	-10.3%	-20.5%	677
Prince William	2	377	0.5%	-20.1%	365
Fairfax County	1	550	8.1%	-19.9%	716
Virginia	11	4,319	15.0%	-14.8%	771
Nation	n/a	212,764	-4.5%	-34.6%	611

Note: Rank is based on the number of properties receiving a foreclosure filing reported for the month. For cities, it is their respective rank within Virginia. For Virginia, it is the rank within the nation as compared to the other states.

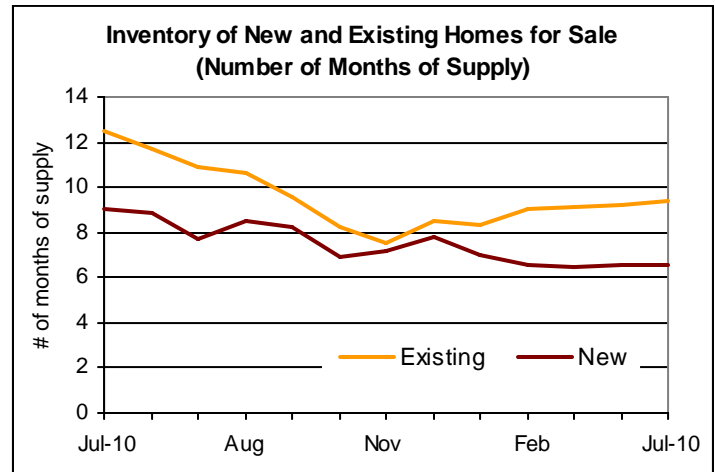
Foreclosure filings increased in most major Hampton Roads cities in July from June, bucking the national trend. The only exception was Virginia Beach, which mirrored the national trend. However, compared to the same month last year, foreclosure filings declined in several major Hampton Roads cities, including Norfolk, Hampton and Virginia Beach. James Koch, an economist at Old Dominion University, indicated in the *Virginian-Pilot* that until the housing market recovers, we will likely see a continuing of foreclosures.

NATIONAL HOUSING MARKET (CONTINUED)

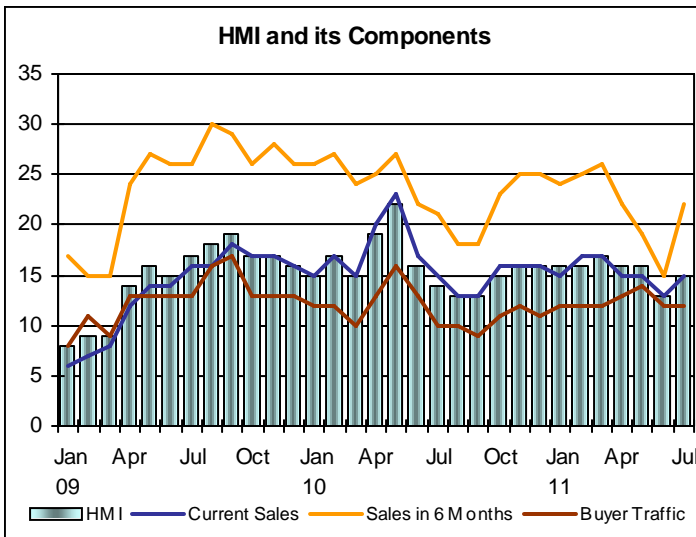
Inventory of Homes for Sales

The inventory of existing homes for sale in July fell by 1.7 percent to 3.652 million homes, which represents a 9.4 months supply at the current sales pace. The decline in inventory was due to single-family homes, which fell 5.4 percent, while the condominiums and coops saw a 22.3 percent increase in inventory. Overall, the July inventory remains below last year by 8.9 percent.

The inventory of new homes for sale in July continued to decline to another record low by 0.6 percent to 165,000 homes. This is the lowest point since the earliest sales data recorded in January 1963. The inventory now represents a supply of 6.6 months at the current sales rate of new homes.



Sources: US Census Bureau and the National Association of Realtors, compiled by the Office of Budget and Management.



Source: National Association of Home Builders. Compiled by the Office of Budget and Management.

Housing Market Index (HMI)

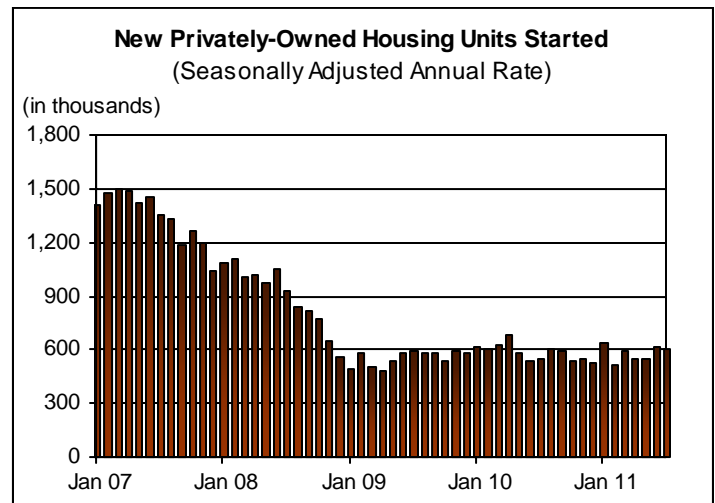
The HMI provides a measure of builders' perceptions of the single-family housing market. The HMI rose two points in July to 15, after declining to its lowest level since September 2010 last month.

Two out of the three components of the HMI (that is, (1) builder perception of current sales and (2) sales in six months) increased in July, while the third component (that is, builder perception of traffic of prospective buyers) remained flat. Builder perception of sales in six months increased by seven points, the highest level since April 2011. National Association of Home Builders' chairman Bob Nielsen commented that "the improvement in builder confidence in July is a positive sign that the outlook perhaps isn't quite as bleak as was feared in June."

National Housing Starts

The U.S. Census Bureau reported a 1.5 percent decrease in privately-owned housing starts to a seasonally adjusted annual rate (SAAR) of 604,000 housing units in July from a revised SAAR of 613,000 housing units in June. However, housing starts are above the same period last year by 9.8 percent. Housing starts of single-family structures declined in July while multi-family structures with 5 units or more grew. Single-family housing starts fell 4.9 percent to 425,000 units from 447,000 units, while multi-family housing starts rose 6.3 percent to 170,000 units from 160,000 units.

Housing starts, as defined by the U.S. Census Bureau, track the start of construction, considered to be when "excavations begin for the footings or foundations of a building."



Source: US Census Bureau. Compiled by the Office of Budget and Management.

NORFOLK BUILDING PERMITS

The total number of housing units authorized by building permits in Norfolk from January to June 2011 increased by 172 units to 388 units from 216 units last year. The majority of the increase year-to-date was due to units permitted in new multi-family structures and conversion of a commercial building to apartments (Riverview Lofts) under "Other".

New Single Family Dwellings Permitted

Permit activity from January through June 2011 for new single family dwellings increased over the previous year by 39 units from 83 units to 122 units. The increase was primarily due to the number of both attached and detached single-family homes permitted. Projects permitted included townhomes on 43rd street and Maplewoods at Olde Huntersville and other new housing units throughout the City.

New Multi-Family Structures Permitted

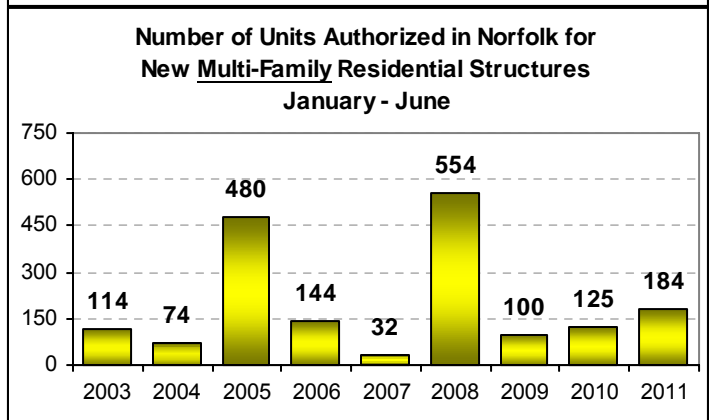
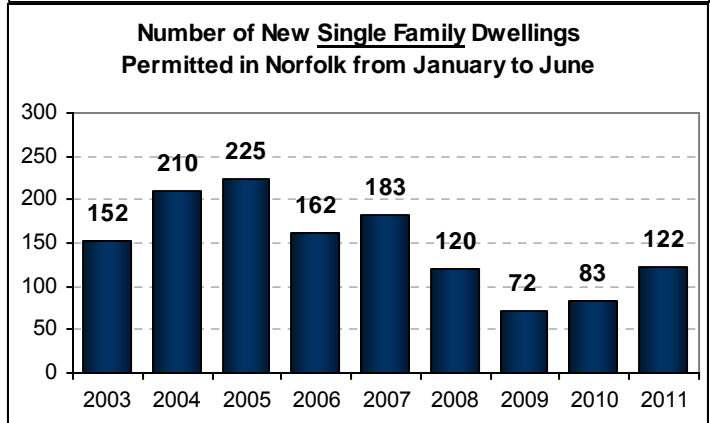
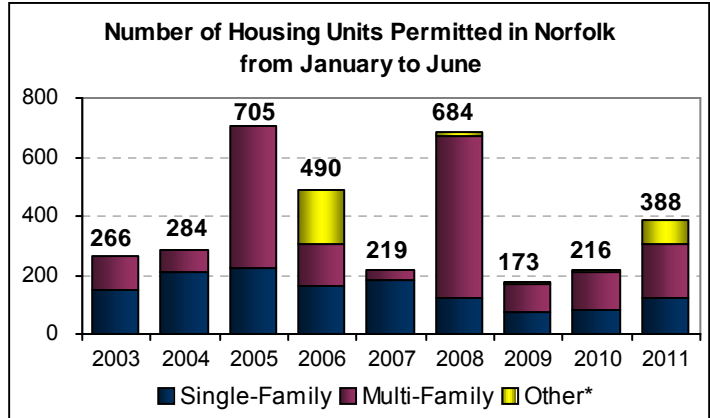
The number of units authorized in new multi-family structures (ie., housing structures for two or more families) increased by 59 units, which reflected mainly the permitting of Meadowood Apartment complex with 180 units. It is important to note that the fluctuations in the number of units in multi-family structures in prior years were driven by key projects such as:

- 2003: ODU University Village housing
- 2004: Harbor's Edge
- 2005: Alexander at Ghent and 388 Boush. Row at Ghent (84 units) will be reflected in August data.
- 2006: Pretty Lake Village, East Ocean View, and McRae Commons (Ghent).
- 2008: Southwind Apartments, Belmont at Freemason, and River House Apartments
- 2009: Bay Village and Village Gardens condominiums. District at ODU (will be reflected in July data)
- 2010: Wells Fargo apartments

New Housing Units Permitted in Single & Multi-Family Structures from January to June Year-to-Date (YTD)

	2010 YTD	2011 YTD	Change	
Norfolk	208	306	98	47.1%
Chesapeake	582	318	-264	-45.4%
Hampton	135	131	-4	-3.0%
Newport News	97	470	373	384.5%
Portsmouth	30	128	98	326.7%
Suffolk	201	121	-80	-39.8%
Virginia Beach	366	294	-72	-19.7%
Hampton Roads	2,243	2,218	-25	-1.1%
Virginia	10,867	11,226	359	3.3%

Source: Department of Development (Norfolk data) and U.S. Census Bureau (regional and state data). Compiled by the Office of Budget and Management. * Other includes accessory dwellings, building conversions to residential, and new units permitted in mixed use structures (such as, Harbor Heights in 2006 and Riverview Lofts in 2011).



Regional Housing Units Permitted

From January through June, the number of new privately owned housing units authorized by building permits in the region fell slightly by 25 units (or 1.1 percent) from the same period last year, from 2,243 housing units to 2,218 housing units this year.

Among the major cities in the region, Chesapeake had the largest decline (264 housing units), while Newport News had the largest gain (373 housing units) among Norfolk's neighboring cities. Much of the change seen in Chesapeake and Newport News were driven by housing units permitted in new multi-family structures. The decline in the region was largely due to housing units permitted in single-family structure.

OTHER NATIONAL ECONOMIC INDICATORS

Consumer Confidence Index

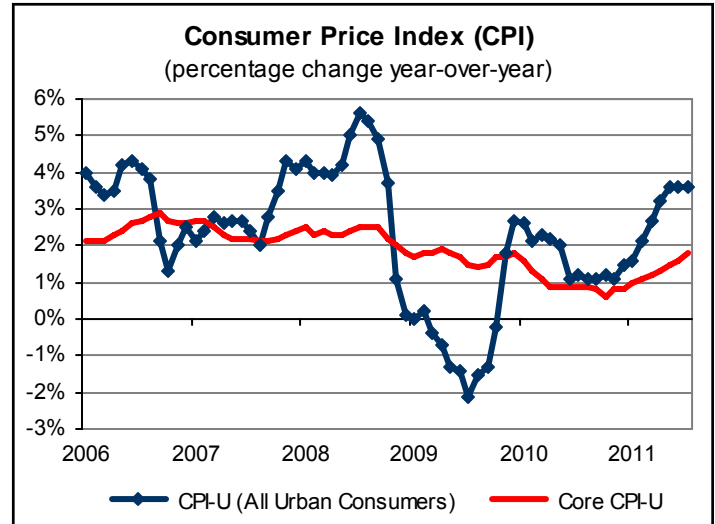
Consumer confidence, as measured by the Conference Board's Consumer Confidence Index, rose slightly in July to 59.5 from 57.6 in June. The July increase follows two consecutive months of decline.

Lynn Franco, Director of The Conference Board Consumer Research Center stated that "consumer confidence posted a modest gain in July, the result of an improvement in consumers' short-term outlook. Consumers' appraisal of current business and employment conditions, however, was less favorable as concerns about the labor market continue to weigh on consumers' attitudes."

The Expectations Index, which measures consumers' confidence in future business, employment and family income six months from now, improved in July, rising to 75.4 from 71.6 in June.

On the other hand, the Present Situation Index, which measures consumer confidence in current business and employment conditions, declined for the third consecutive month to 35.7 from 36.6 in June.

Franco noted that "overall, consumers remain apprehensive about the future, but some of the concern expressed last month has abated."



Source: Bureau of Labor Statistics. Compiled by the Office of Budget and Management.

Consumer Price Index

The Consumer Price Index is a measure of the average change in prices over time of goods and services purchased by households. The Bureau of Labor Statistics (BLS) reported that the Consumer Price Index for all urban consumers (CPI-U) rose 0.5 percent in July from the previous month on a seasonally adjusted basis, which follows the 0.2 percent monthly decline in June 2011. This was the largest monthly increase since March 2011. The increase was due to energy prices, which rose 2.8 percent in July after declining for two consecutive months. The increase in energy prices was largely due to the gasoline index, which rose 4.7 percent in July. According to BLS, gas prices accounted for about half of the seasonally adjusted increase in the CPI-U. Food prices continued to rise (0.4 percent) and also contributed to the increase in the CPI-U. Over the previous year, the CPI-U rose 3.6 percent before seasonal adjustment.

The core CPI-U, which excludes the more volatile prices of food and energy, rose 0.2 percent in July from the previous month on a seasonally adjusted basis. The increase was driven by the price of housing/shelter (0.3 percent), clothing (1.2 percent), used cars and trucks (0.7 percent), and medical services (0.3 percent). Over the previous year, the core CPI-U rose 1.8 percent before seasonal adjustment, the largest year-over-year increase since December 2009.



Source: The Conference Board. Compiled by the Office of Budget and Management.

Technical Note: The Conference Board indicated that they have changed their survey provider from TNS to The Nielsen Company beginning with the February release of the Consumer Confidence Index and data since November 2010 have been revised.

OTHER NATIONAL ECONOMIC INDICATORS (CONTINUED)

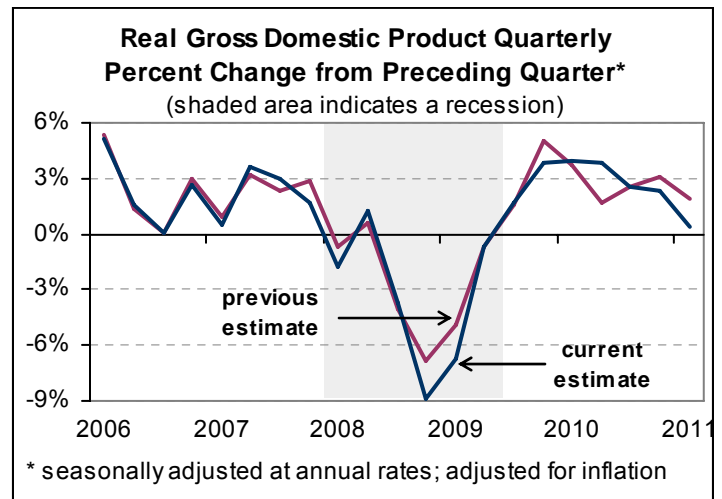
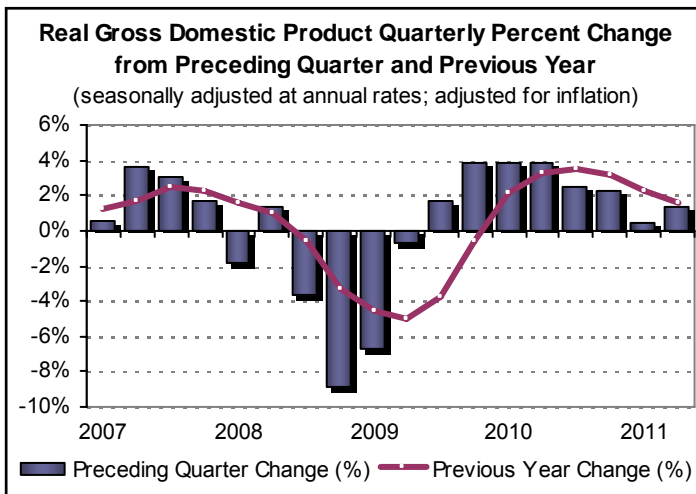
Real Gross Domestic Product (GDP)

Real GDP is the value of all goods and services produced within the U.S., adjusted for inflation, and is the broadest measure of economic activity.

The Bureau of Economic Analysis (BEA) reported in July that real GDP increased at an annual rate of 1.3 percent (first estimate) in the second quarter of 2011. This growth follows a downward revised growth of 0.4 percent in the first quarter of 2011, which had initially been estimated to be 1.9 percent. In comparison, real GDP grew 3 percent in 2010 (revised).

The BEA report in July also provided the annual revision of real GDP from 2003 through the first quarter of 2011.

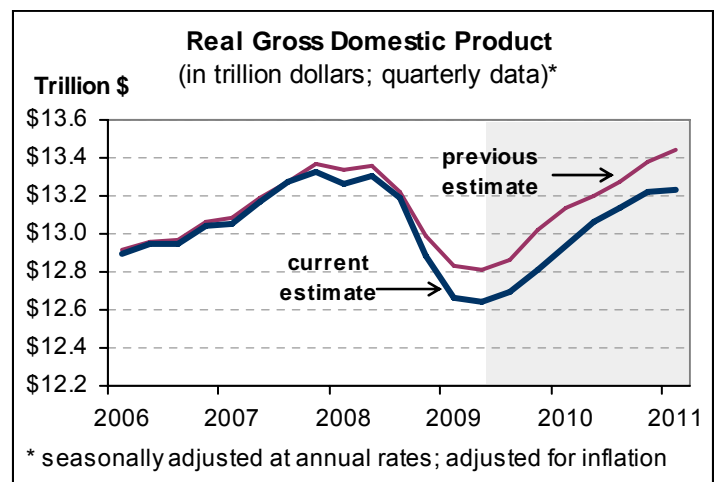
The chart below compares the current estimate of the annualized quarterly percent change in real GDP with the previous estimate. The chart shows the decline in real GDP during the recession (shaded area) was steeper than previously estimated.



The major drivers to the growth in real GDP in the second quarter include the following:

- **Consumer spending** stalled growing by only 0.1 percent following a revised 2.1 percent increase in the first quarter.
- **Business investment** increased 7.1 percent following a revised 3.8 percent increase in the first quarter. The increase in the second quarter was driven by investment in commercial structures and equipment and software.
- **Imports of goods** which are a subtraction from real GDP, decelerated in the second quarter, growing by only 1.3 percent, compared with a revised 8.3 percent growth in the first quarter.
- **Federal government spending** increased 2.2 percent. However, government spending overall declined 1.1 percent due to state and local government spending.

The chart below compares the current estimate of the level of real GDP with the previous estimate. The large downward revision during 2009 - 2011 indicates the economic recovery following the end of the recession in June 2009 (shaded area) was not as strong as previously estimated.



BRIEF OVERVIEW OF THE BUDGET CONTROL ACT OF 2011 AND ITS IMPACTS

On August 2, 2011, President Obama signed into law the Budget Control Act of 2011, which provides the authority to raise the federal debt limit, averting a potential default, and reduce federal spending.

The main provisions of the legislation include:

- Authorization to increase the debt limit between \$2.1 trillion and \$2.4 trillion.
- Reduction of federal spending by at least \$2.1 trillion over 10 years through:
 - Discretionary spending caps that would reduce spending by \$917 billion over 10 years
 - Defense budget would be reduced \$350 billion over 10 years – the first cut since the 1990s
 - A congressional bipartisan committee to propose further reduction of at least \$1.5 trillion over 10 years or automatic reduction by \$1.2 trillion if the bipartisan committee fails to reach an agreement
 - Automatic reduction would add nearly \$500 billion in defense cuts
- Require Congress vote on a joint resolution proposing a balanced budget amendment to the Constitution

Defense Spending Cuts and the Regional Economy

The Budget Control Act of 2011 could end up reducing defense spending by nearly \$1 trillion. Defense spending was broadly defined and includes not only the budget of the Department of Defense, but also the budgets of the Department of Homeland Security, Department of Veterans' Affairs, National Nuclear Security Administration, intelligence community management account and the State Department.

The Hampton Roads region is highly reliant on defense spending, which accounts for about 45 percent of the regional economy. Increases in defense spending since 2000 accounted for more than 75% of the region's growth. Periods of slowdown in defense spending were strongly related to slower rates of regional growth. The changes occurring in defense and federal spending in general underscores the importance of diversifying our regional economy.

Downgrade of U.S. Credit Rating by Standard & Poor's (S&P)

Despite passage of the debt limit deal, on August 5th, S&P downgraded the U.S. credit rating one notch from 'AAA' to 'AA+'. The downgrade reflects S&P's view that the fiscal consolidation plan passed by the federal government falls short of what is needed to stabilize the government's debt over time. Moody's also assigned a negative rating outlook to the credit rating of five 'Aaa' rated states (Virginia, Maryland, New Mexico, South Carolina and Tennessee) and 162 local governments (including the City of Virginia Beach). Moody's identified these five states in particular as being the most vulnerable to changes in the U.S. government rating. These five states have above average exposure to several sovereign risk factors that Moody's had outlined on July 13.

The downgrade to the U.S. credit rating could negatively impact the city's bond rating, but the impact on the city's future borrowing costs is difficult to predict at this time. However, the National League of Cities recently stated that *"the overwhelming majority of municipal debt issued by general-purpose local and state governments remains highly rated and secure....Concern about the municipal market is now being driven by lack of confidence in the economy and the rating agencies' assessments that federal policy responses have been inadequate - not local leaders failing to pay their debts or balance their budgets....the overwhelming majority of local and state governments are continuing to balance their budgets and meet their debt obligations."* Based on the historical impact of rating changes, Public Financial Management (PFM) estimated that interest expense may increase by approximately \$160,000 per \$10 million of bonds issued if the city received a one notch downgrade on its general obligation (GO) rating. However, it is not certain that the U.S. credit rating change will result in a similar impact.

Norfolk Bond Rating

Bond Rating Category	Fitch	S&P	Moody's
General Obligation	AA+/stable	AA/stable	Aa2/stable
Water Revenue	AA+/stable	AA+/stable	Aa2/stable
Parking & Wastewater Revenue		Not Rated	

Sources: Congressional Budget Office, White House press statements and releases, City of Norfolk Finance Department briefing (draft version), National League of Cities, Global Insight, Commonwealth of Virginia Secretary of Finance presentation to the Joint Money Committees (August 2011), and State of the Region 2010 report.

2011 Timeline of Rating Agency Actions

July		August				
<p>July 13 Moody's places U.S. on review for possible Aaa downgrade</p>	<p>July 19 Moody's places five Aaa states (including VA) on review for downgrade</p>	<p>August 2</p> <ul style="list-style-type: none"> ▪ Congress raises U.S. statutory debt limit ▪ Moody's confirms U.S. Aaa rating, but changes U.S. outlook to negative ▪ Fitch takes no action, but announces review of U.S. to conclude by end of August 	<p>August 4 Moody's confirms Aaa rating of Virginia but changes Virginia's outlook to negative</p>	<p>August 5 Standard & Poor's lowers sovereign rating of the U.S from AAA to AA+ and changes outlook to negative</p>	<p>August 8 Standard & Poor's places VHDA's Commonwealth Mortgage Bonds AAA rating on Negative Credit Watch because of their direct link as being insured by the FHA, an agency of the Federal government, which was downgraded to AA+</p>	<p>August 16 Fitch confirms U.S. AAA rating with a stable outlook</p>

Note: Within 90 days, Moody's will conclude its review of Virginia and determine whether our outlook remains negative or returns to stable.