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Coastal Empire Economic Monitor, 1st Quarter, 2013

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Coastal Empire ECONOMIC MONITOR

ECONOMY STEADY. FORECASTING INDEX RISES AGAIN

The Savannah area economy basically held steady in the first quarter of 2013. Growth in employment, electricity sales and port activity supported the economy, while flagging consumer confidence restrained economic growth.

The Coastal Empire leading economic index extended its string of improvement through five quarters. Noticeable gains in the housing market and continued healing in the labor market boosted the forecasting index. The long period of growth in the forecasting index suggests a return to growth in the immediate future.

Forward, But Barely

The Coastal Empire coincident economic index did increase, but ever so slightly, effectively holding steady at 158.0. The slowing pace of growth that emerged in the fourth quarter of 2012 held over into the opening quarter of 2013. Solid growth in port activity, along with modest employment and electricity sales growth, supported the index. Retail sales showed some improvement, while the tourism industry “caught its breath” during the quarter.

Each year in the first quarter, the Georgia Department of Labor conducts a “benchmarking” process by which survey-based employment data is “benchmarked” against actual headcount data. This year, the employment data for the Savannah area was adjusted upward by approximately 4,000 workers. A significant component of the underestimate of employment is attributable to an undercounting of jobs (about 1,000 workers) in the key sector of manufacturing.

Based on the revised data,

a modest growth rate of only 2 percent is required for employment to surpass the pre-recession peak of 2007 (see chart). This is expected to occur by early 2014, perhaps sooner, if construction employment picks up with the growing strength of the housing market.

Turning now to quarterly growth, 800 workers were added to payrolls during the first quarter. The 158,700 jobs (seasonally adjusted) constitute the highest level of employment in nearly five years. The service sector of the economy added 500 jobs, while the goods-producing sectors added 300 jobs. Tourism-related employment gained 500 workers and retail trade added 300 jobs. Business and professional services shed 300 workers, while government employment held steady.

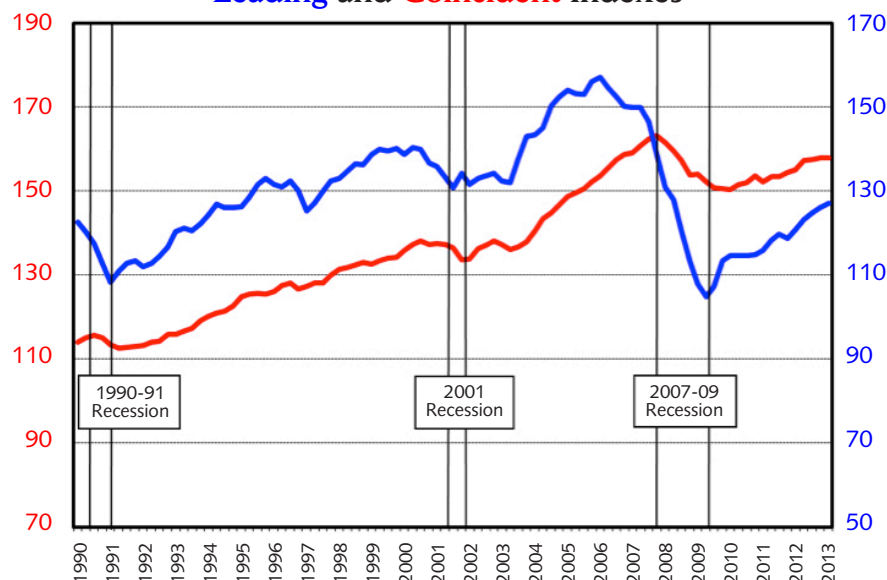
In goods-producing sectors, manufacturing added 300 workers, rising to 15,700. Construction held steady at 5,700 workers, but is

positioned to add workers as the residential housing market improves in 2013.

Tourism activity was exceptionally strong during the fourth quarter, and achieved some of the highest ever levels of activity as the year closed. Visitation spurred by the Rock & Roll Marathon and several large convention groups led to a nearly 20 percent jump compared to previous year data. First quarter tourism growth paled in comparison, rising by about 2 percent compared to year-ago data. However, March hotel sales tax receipts were \$1.7 million, tying the single month record set in March 2012. Also setting a new high, employment in the hospitality sector increased to 22,400 workers. Other tourism indicators were mixed: auto rental sales taxes increased modestly by 1 percent, while boardings at the airport slipped 0.6 percent from the previous quarter.

(continued)

Coastal Empire Economic Indicators
Leading and Coincident Indexes



U.S. Economy Improves

U.S. economic activity grew at an annualized rate of 2.4 percent during the first quarter, an increase from the upwardly revised rate of 0.4 percent in the previous quarter. The increase is due primarily to a pick-up in consumer spending, exports and residential construction. Personal consumption expenditures grew at an annual rate of 3.4 percent, accelerating from 1.8 percent in the fourth quarter. Residential investment increased at a rate of 12.1 percent. Business spending on equipment and software increased 4.6 percent. *The Wall Street Journal* consensus forecast for GDP growth through 2013 is 2.4 percent, rising to 2.8 percent in 2014.

The Federal Reserve's Chairman Bernanke recently provided mixed signals about the Fed's intentions to continue its \$85 billion per month purchases of mortgage and treasury securities. He signaled the Fed may start winding down the program, but only if economic data warranted the action. Since the start of the financial crisis, the Fed has acquired about \$3 trillion worth of the securities. The Fed is maintaining the position that monetary policy will be accommodative until the U.S. unemployment rate falls to 6.5 percent, something that is not expected until late 2014 or 2015. Even with easy monetary policy in place, the annual rate of inflation remains in check, falling from 2.3 percent one year ago to 1.7 percent in the most recent report.

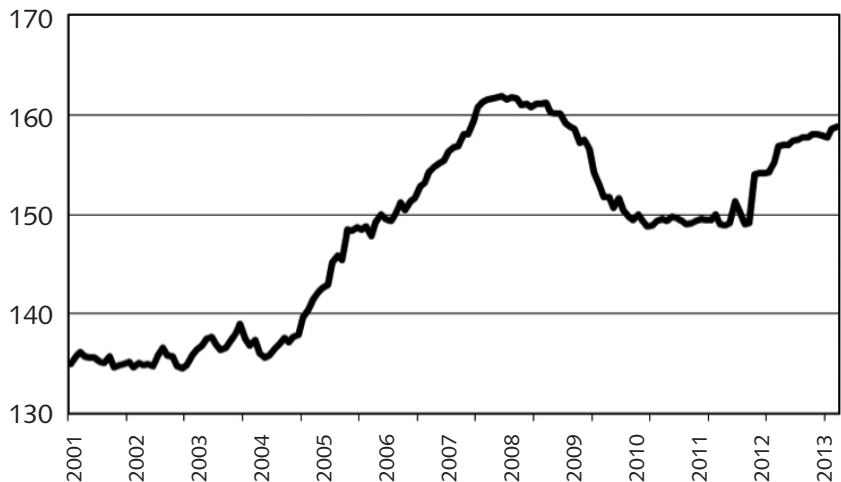
Forecasting Index Rises

The Coastal Empire leading economic index increased at an annualized rate of 3 percent, rising

A Note From the Director

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Savannah MSA Employment (000)



to 127.0 from 126.1 (revised) in the previous quarter. The forecasting index has now increased for five consecutive quarters. The index was supported by improvement in the regional housing and labor markets.

The seasonally adjusted number of new residential homes permitted for construction was 330, rising 23 percent from the previous quarter, and was nearly 30 percent ahead of year-ago data. The housing market is poised for its best year since 2008. However, the average value of a residential building permit issued during the quarter decreased 9 percent, falling from \$167,000 to \$154,000.

In the labor market, initial claims for unemployment insurance decreased 4 percent, falling from 1,087 to 1,045 per month. Through the first quarter, the number of initial claims is 11 percent below previous year data. Decreased initial claims, coupled with increased employment, will continue to put downward pressure on the regional

unemployment rate, which stood at a seasonally adjusted rate of 7.8 percent in the opening quarter of the year. This is nearly one percentage point below year-ago data and is the lowest quarterly unemployment rate in four years.

Wrapping up, the coincident index held steady, while the forecasting index maintained a healthy pace of growth. Expect the regional economy to build forward momentum through the remainder of 2013.

Research assistance provided by Rebekah Sapp.

About the Indicators

The Coastal Empire Economic Indicators are designed to provide continuously updated quarterly snapshots of the Savannah Metropolitan Statistical Area economy. The coincident index measures the current economic heartbeat of the region. The leading index is designed to provide a short-term forecast of the region's economic activity in the upcoming six to nine months.

Financial support provided by the Armstrong Foundation.