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Coastal Empire Economic Monitor, 3rd Quarter, 2013

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Coastal Empire ECONOMIC MONITOR

CONTINUED ECONOMIC IMPROVEMENT. FORECASTING INDEX GAINS.

Economic growth in the Savannah area continued its modest economic growth during the third quarter of 2013. A significant uptick in consumer confidence, along with gains in tourism and electricity sales—a broader indicator of residential, commercial and manufacturing activity—powered the acceleration in regional economic activity.

The Coastal Empire leading economic index surged forward, registering the seventh consecutive quarterly improvement. The regional housing and labor markets experienced considerable improvement. The acceleration of growth in the leading index sends an optimistic signal for economic expansion through mid-2014.

Accelerating Growth

The Coastal Empire coincident economic index increased by five-tenths of a percent to 158.9. This represents an annual pace of 2 percent growth, well above the 1.6 percent average recorded since mid-2010 when consistent growth returned to the region. The only indicator (of eight total) that did not increase from quarter to quarter was payroll employment.

Payroll employment in the three-county regional economy decreased 1,100 workers during the third quarter to 158,800 (seasonally adjusted). However, note that toward year-end, employment data gathered via survey tends to wander from the benchmark headcount-based data, and thus is subject to revision in the following January. Further, the reported aggregate employment data are inconsistent with the summation of employment data from major

sub-sectors. The sub-sector based employment data indicate a loss of only 300 jobs, concentrated in construction (loss of 200) and manufacturing (loss of 300). The service sector gained 200 jobs, so overall the loss was 300 workers.

So what is the short of it? Discount the negative signal sent by recent employment data. It is likely to be revised upward in January, as was the case last year. This assertion is further supported by other coincident data for the local economy that paints a broad picture of growing strength, not a second half swan-song. Electricity sales, boardings at the airport, retail sales, and port activity increased modestly from the previous quarter.

Seasonally adjusted indicators reflecting regional tourism continue to barrel along through the third quarter. Hotel room sales increased

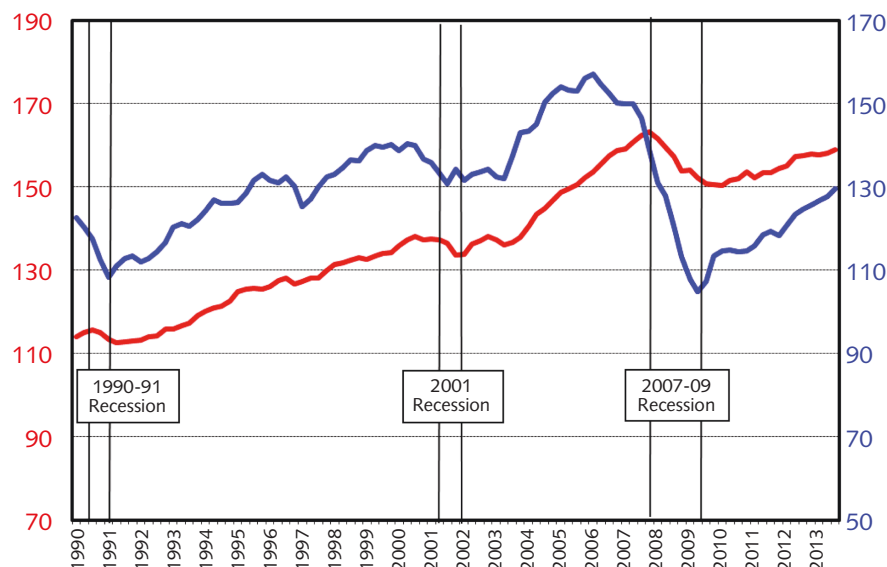
7.4 percent from the previous quarter, and are 11 percent higher than year-ago data. Activity surged in Chatham County along I-95, while Savannah hoteliers experienced similar growth in occupancy rates and sales. Supplemental tourism indicators such as automobile rental tax revenue and riders on trolleys and tours also increased. Employment in the leisure and hospitality sector was stable at 22,300.

U.S. Economy Improves

U.S. Real GDP expanded at an annual rate of 3.6 percent (revised) in the third quarter of 2013, as compared to second quarter growth of 2.5 percent. Components that factored into the acceleration include inventory investment, personal consumption, and construction.

(continued)

Coastal Empire Economic Indicators
Leading and Coincident Indexes



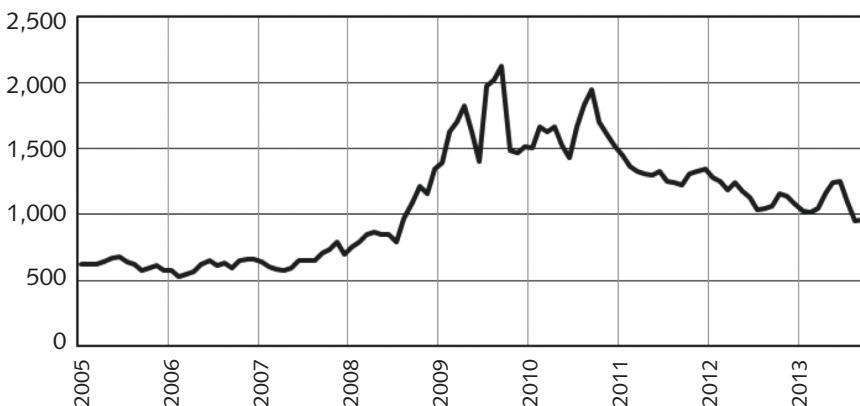
Construction activity continued to power along, increasing at a rate of 13.8 percent for non-residential structures and 13 percent for residential structures. Personal consumption expenditures increased by 1.4 percent, slowing from the 1.8 percent increase in the previous quarter. The Wall Street Journal consensus forecast for GDP growth through 2013 is 2.1 percent, and GDP growth is projected to rise to 2.7 percent in 2014.

The Fed will begin tapering its \$85 billion a month bond-buying program, cutting purchases by \$10 billion per month starting in January. At the national level, employment growth is improving, while the unemployment rate has declined to 7 percent. Economic growth is improving as well, with GDP growth up and industrial production recovering to its pre-recession peak. Inflation of less than 1 percent, however, remains well below the Fed target of 2 percent. Given Bernanke's handing of the Fed's reins to likely successor, Janet Yellen, at the end of January, anticipate additional movement on tapering in during the first quarter of 2014.

Forecasting Index Surges

The Coastal Empire leading economic index surged 1.5 percent (6.2 percent, annualized), rising to 129.5 from 127.6 (revised) in the previous quarter. There was across-the-board improvement in the underlying indicators of the leading index. Late-arriving data erased the index's near-stall reported last

**Savannah MSA Employment
Initial Claims for Unemployment Insurance**



quarter and subsequently resulted in an upward revision to a respectable annualized growth rate of 2.8 percent.

The seasonally adjusted number of new residential homes permitted for construction was 334, a 22 percent increase from the second quarter of the year. On a year-to-date basis, the number of permits issued is 20 percent ahead of the pace set in 2012. The average value of a building permit issued for a single-family home shed 2.8 percent, falling slightly to \$173,500 from about \$178,500.

In the labor market, seasonally adjusted initial claims for unemployment insurance plummeted 23 percent to 964 claims per month. The last time the quarterly average was below 1,000 claims per month was early 2008, over five years ago. This put downward pressure on the unemployment rate, pushing it down

one-half percentage point to 7.5 percent (seasonally adjusted) for the third quarter.

Wrapping up, the coincident index reflected an increase in the tempo of the economy that was broadly based in nature. The forecasting index substantially increased in the third quarter. The tentative warning flag raised in last quarter's Economic Monitor has been lowered and replaced with the all-clear signal. Expect continued respectable economic growth through the first half of 2014.

Maria Isabella Olmos provided research assistance.

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.

A Note From the Director

The partial government shutdown delayed several key data streams from federal government agencies for this quarter's report. We apologize for the delayed release of the *Economic Monitor*.

The *Economic Monitor* is available by email and at the center's website (www.armstrong.edu/Liberal_Arts/economics). If you would like to receive the *Monitor* by email, please send a "subscribe" message to CRA@armstrong.edu.