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Coastal Empire Economic Monitor, 1st Quarter, 2014

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Coastal Empire ECONOMIC MONITOR

ECONOMIC SURGE CONTINUES. FORECASTING INDEX RISES SHARPLY.

Savannah's economy continued to expand at a rapid rate in early 2014. Growth was particularly strong in electricity sales (a broad indicator of residential, commercial, and manufacturing activity), consumer confidence, and tourism indicators. Increases in employment, port activity, and retail sales played a meaningful secondary role in the regional economy's acceleration.

The Coastal Empire leading economic index continued its surge through the first quarter, extending its winning period of rapid growth to three consecutive quarters. Once again, significant improvement in the housing market occurred, and was supported by notable improvement in the labor market. The economic forecast through the remainder of 2014 is for strong growth.

Accelerating Growth: Again

The Coastal Empire coincident economic index surged 1.4 percent to 164.0. This is an annualized pace of 5.7 percent and comes on the heels of the rapid 4.4 percent growth at the end of 2013. In fact, the pace of expansion during the three most recent quarters is the fastest nine-month pace of growth recorded since 2006 before the recession. The improvement was broadly based, with across-the-board growth occurring in all eight indicators tracked to assess the current state of the economy.

Seasonally adjusted employment in the three-county metro area averaged 163,700 during the quarter, surging past the pre-recession high by 1,000 jobs. Large quarterly gains (+800 jobs in each) were registered in professional/business services, leisure/

hospitality, and transportation/utilities. Construction and manufacturing each added 100 jobs.

Private sector employment continued to surge (+2,500) during the quarter, even as government employment stagnated (-300 jobs). Since 2010, the number of private sector jobs increased by 13 percent (+14,100 jobs), while the number of government jobs fell by about 4 percent (-800 jobs). The loss in public sector jobs was shared evenly between local and federal government jobs. The rapidly growing private sector in Savannah's economy continues to reduce the relative importance of public sector employment in terms of supporting overall employment growth in Savannah.

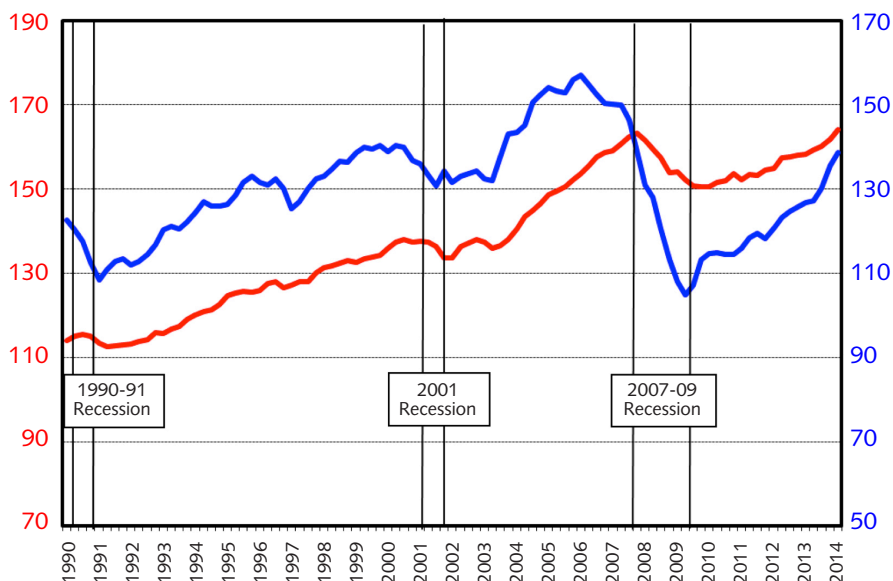
The regional tourism industry continues to fare well in the new year. Hotel and motel room receipts are 7.4 percent ahead of previous year data through the first quarter.

Employment in the leisure/hospitality sector increased by 800 to an all-time high of 24,100 jobs. Employment in tourism-related sectors surpassed that of both education/health and total government to become the single largest major employment sector in the Savannah metro economy.

Severe Winter Freezes U.S. Economy

The U.S. economy declined at an annualized pace of one percentage point during the winter quarter. While consumer spending maintained a reasonably strong pace, business spending on capital goods and equipment declined. Exports also fell nearly 6 percent during the quarter. Further, residential and non-residential construction spending fell in the first quarter, likely due to unusually severe winter weather for which the usual seasonal adjustment process incompletely

Coastal Empire Economic Indicators
Leading and Coincident Indexes



accounted. Others are citing the severe winter weather as an important, but temporary, factor in the weak GDP report, rather than structural weakness in the underlying economy. The *Wall Street Journal* consensus forecast for GDP growth through the remainder of 2014 is 3.1 percent, moderating to 2.9 percent in 2015.

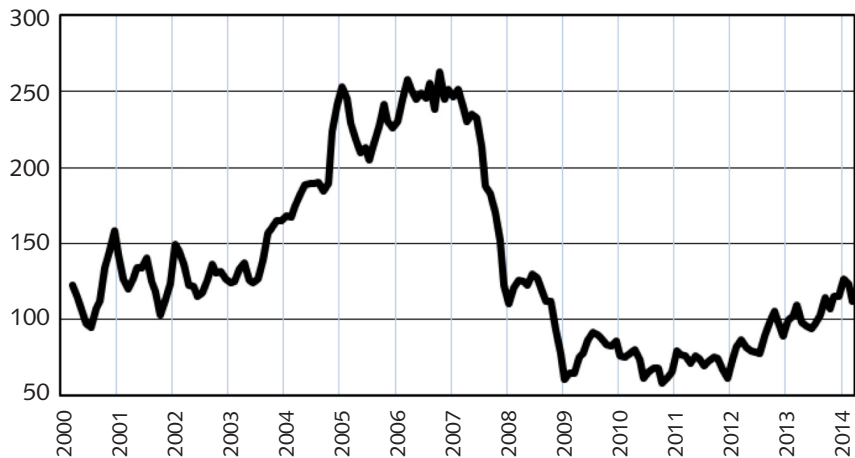
The Fed continues to reduce its bond buying program by \$10 billion per month following each of the Board of Governors' recent meetings. The pace is expected to slow to \$45 billion in May, down from \$85 billion per month at the end of 2013. The tap is expected to be completely shut off during the closing quarter of this year. While Fed officials publicly remain very confident about the U.S. economic recovery, Fed Chair Janet Yellen continues to reiterate that interest rates will remain very low until the recovery gains further strength.

Rampaging Gains in Forecasting Index

The Coastal Empire leading economic index increased 2.2 percent (9.1 percent, annualized), rising to 138.6 from 135.6 (revised) in the previous quarter. Through the previous three quarters, the leading index has increased at an average annualized pace of 12 percent, the fastest, consistent 9-month period of gains since late 2009 when the economy was coming off the bottom of a painful recession. With the exception of consumer expectations, hard-hit by nasty winter weather, the leading indicators all increased during the quarter.

The seasonally adjusted number of new residential homes permitted for construction dipped to 324

Savannah MSA Single-Family Home Building Permits Issued



Source: U.S. Census Bureau & Armstrong CRA
3 month moving average.

from 337, a 3.4 percent decline. One explanation for the decline is a regulatory change that took effect in January, thus inducing some builders to "stock up" on permits and thereby pulling some of 2014's activity into 2013. Even so, compared to year-ago data, the number of permits issued is about 2 percent higher and is the highest first quarter number since early 2008. The upward trend emerging since early 2012 is unmistakable (see chart above). The average value of a building permit issued for a single-family home increased 2 percent, rising to \$210,300 from \$206,500. As compared to year-ago data, the average value of a building permit issued is up 37 percent.

In the labor market, seasonally adjusted initial claims for unemployment insurance (UI) fell about 10 percent to 888 claims per month during the quarter. This is the slowest pace of new claims in nearly six years. Given the decline in new UI claims and rapid employment growth, the seasonally adjusted

unemployment rate fell to 6.7 percent, a drop of four-tenths of a percentage point from the previous quarter. The rate is 1.1 percentage points lower than year-ago data.

In summary, the coincident index surged for the second consecutive quarter, reflecting growing strength in the Savannah metro economy. The index pushed securely above the pre-recession peak of 2007. The forecasting index increased sharply in the first quarter. The combined message from both indices is that Savannah's economy is growing healthily and is expected to do so through the remainder 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

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