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Coastal Empire Economic Monitor, 2nd Quarter, 2014

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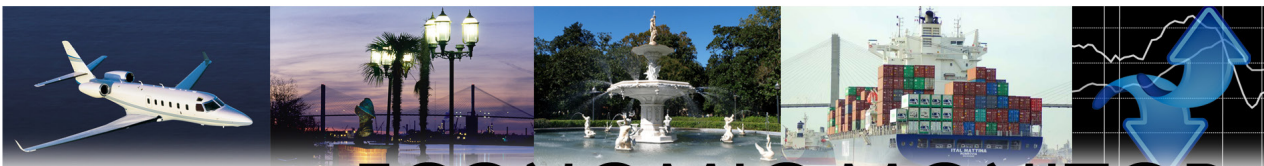
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Coastal Empire ECONOMIC MONITOR

SURGING GROWTH. FORECASTING INDEX UP AGAIN.

The Savannah metro area economy expanded at a surging rate through the first half of 2014. The economy was lifted by strength in consumer confidence, tourism indicators, and overall employment. Additional support was provided by general port activity and retail sales.

The Coastal Empire leading economic index continued to rise, but at a slowing pace from the red-hot growth of the previous three quarters. Continued improvement in labor market conditions along with increasing consumer expectations supported the index. The forecast for the regional economy is for sustained growth into early 2015.

Continued Strong Growth

The Coastal Empire coincident economic index surged 1.9 percent to 167.2. This is an annualized pace of 7.7 percent and extends the current winning streak of strong growth to three consecutive quarters. A highly favorable aspect of current economic growth is that it remained broadly supported by improving conditions across wide swaths of the economy tracked by the individual underlying indicators comprising the index.

Seasonally adjusted employment in the three-county metro area increased to 164,400 during the quarter, now outpacing the past pre-recession high by 1,800 jobs (see chart on page 2). Professional and business services added 700 workers, has been expanding rapidly for 18 months, and has experienced over-the-year growth of 12 percent. This includes workers in professional and technical services, management of companies, personnel agencies,

services to buildings, and waste services. In other words, these sectors are those normally expected to increase in response to general and broadly based economic growth.

Growth in private sector employment continues to outpace growth in government employment. On an over-the-year basis, the private sector expanded 3.7 percent, while the public sector shed 3 percent of its workforce. Employment in leisure/hospitality and trade lost a few hundred workers after recent rapid expansion in those sectors, while manufacturing employment increased 100 jobs.

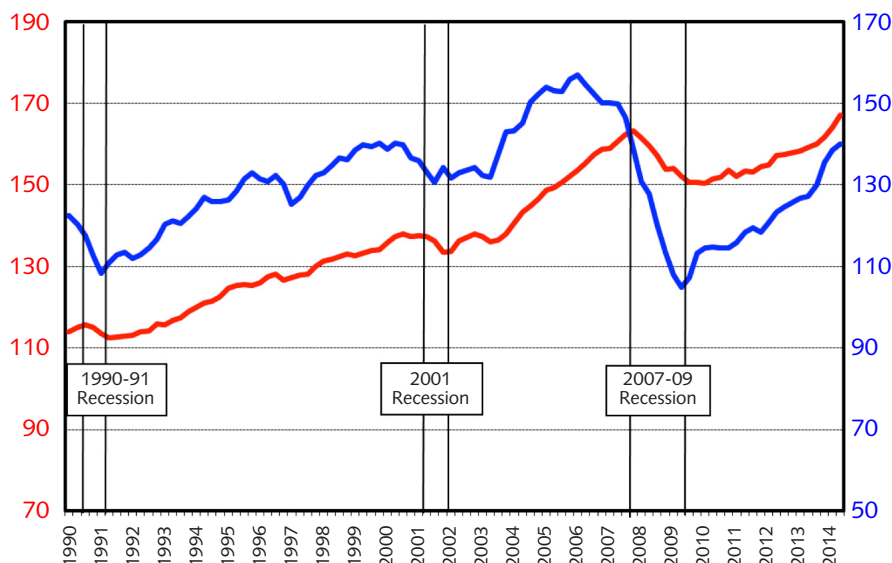
Numerous indicators of the regional tourism industry demonstrate continued exceptional strength. Seasonally adjusted hotel and motel room receipts increased 6 percent during the quarter and are up 16 percent as compared to year-ago data. Boardings at the

airport increased 6 percent and are 19 percent ahead of last year's pace. Quarterly auto rental sales taxes increased 6.6 percent, up 23 percent from year-ago data. Alcoholic beverage sales taxes increased 4 percent during the quarter and are up nearly 9 percent from the previous year. The leisure and hospitality sector, which includes accommodations, food services, arts, entertainment, and recreation, is one of the largest components of the regional employment base, providing work for nearly 24,000 people.

U.S. Economy Rebounds Strongly

The U.S. economy rebounded strongly in the second quarter of 2014, growing at an annualized pace of 4 percent, after shrinking at a pace of 2.1 percent in the first quarter. The second quarter GDP report was generally strong across the board. Consumer spending

Coastal Empire Economic Indicators
Leading and Coincident Indexes



increased (+2.5 percent), along with residential (+7.5 percent) and nonresidential (+5.3 percent) construction spending. Business investment in capital goods increased 7 percent, while exports were up 9.5 percent. Further, an increase in state and local government expenditures offset stagnant federal government spending. Consensus forecasts of U.S. economic growth call for growth of approximately 3 percent for the remainder of the year.

Improving economic conditions are likely to trigger adjustments in Fed policy sooner than expected. The Fed bond-buying program, currently at \$25 billion per month, is expected to be terminated in October. Recent optimistic comments from both Fed Chair Janet Yellen and the Fed's Board of Governors, suggest that interest rate policy is likely to become less accommodative (meaning increased interest rates) in 2015, perhaps sooner than the expected timeframe of the latter half of the year. Naturally, these comments are tempered by the reasonable statement that any change in Fed policy must be influenced by the overall health of the national economy. Nonetheless, that the Fed is signaling that it might move in the direction of rising interest rates is, in itself, a sign of improved economic conditions.

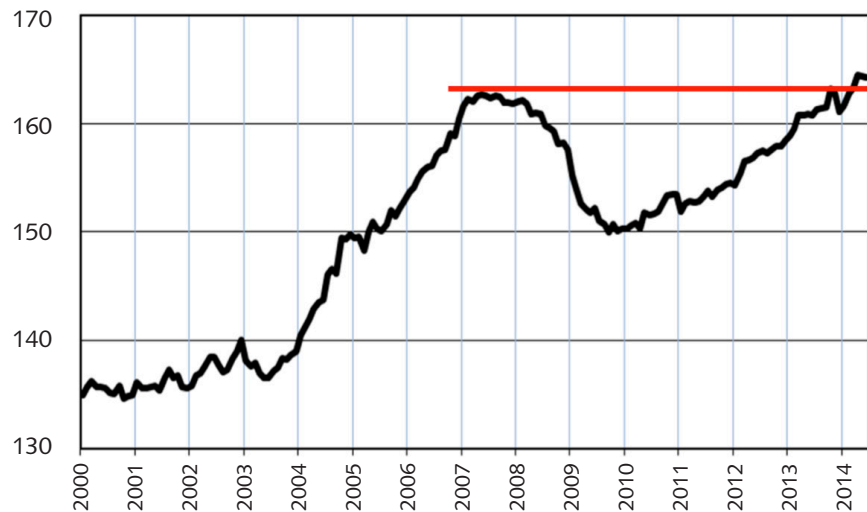
Forecasting Index Rises

The Coastal Empire leading economic index increased 1.1 percent (4.4 percent, annualized), rising to 140.1 from 138.6 in the previous quarter. The rate of acceleration moderated to a more sustainable level in the quarter, as compared to the blistering pace of growth in the most recent quarters. There was some moderation in indicators characterizing the regional housing market, but labor market

A Note From the Director

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Savannah MSA Employment (000)



activity and general consumer expectations increased substantially during the quarter.

The seasonally adjusted number of new residential homes permitted for construction increased to 356 from 335, a 6 percent rise. This represents a reasonable rebound from the first quarter dip that was likely induced by a regulatory change. The number of permits issued is up 26 percent, as compared to year-ago data. The average value of a building permit issued for a single-family home dipped 2.2 percent, falling to \$205,600 from \$210,300. As compared to year-ago data, the average value of a building permit issued is up 15 percent.

In the labor market, seasonally adjusted initial claims for unemployment insurance (UI) fell about two percent to 874 claims per month during the quarter. This extends the trend of declining new claims toward levels last experienced in early 2008 before the effects of the recession began to weigh heavily on job losses. The continuing trend of declining new UI claims

and employment growth further reduced the seasonally adjusted unemployment rate to about 6.5 percent.

In summary, the coincident index accelerated and surged for the third consecutive quarter, solidifying a trend of significant growth in the Savannah metro economy. Further, the forecasting index increased again in the second quarter, albeit at a more sustainable, moderate pace. Both indices signal that the Savannah metro economy is growing healthily and is expected to do so through early 2015.

Katherine Sikorsky 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.