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Coastal Empire Economic Monitor, 3rd Quarter, 2014

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Coastal Empire ECONOMIC MONITOR

GROWTH MODERATES. CONTINUED EXPANSION EXPECTED.

Growth in the Savannah area economy extended its gains, but did ease to a more moderate pace during the third quarter. The economy was lifted by strength in employment growth, port activity, and tourism. Retail sales also ticked up modestly from the previous quarter.

The Coastal Empire leading economic index continued to rise at the more moderate and sustainable pace set at mid-year. Improved consumer expectations, along with continued healing in the labor and housing market, supported the index. Sustained growth, at a more moderate pace, is expected through mid-2015.

Sustainable Growth

The Coastal Empire coincident economic index increased 0.6 percent to 168.3. This is an annualized pace of 2.6 percent, extending the period of quality growth in Savannah's economy to 15 months. Although economic expansion continued, further gains were limited by the slightest of dips in seasonally adjusted electricity sales and consumer confidence. The more moderate gain in the coincident index was expected, given the signal sent by the slowing pace of acceleration in the forecasting index from two quarters ago (see chart).

Seasonally adjusted employment in the three-county metro area increased 100 jobs to 164,500 during the quarter. Most notably, construction (!!) appears finally to have turned the corner, adding 200 jobs to climb to 5,500 workers. Manufacturers shed several hundred positions. However, the service sector

gained about 400 workers. Local government added 500 workers, while transportation and utilities (+300) and health and education (+200) also increased. After adding about 600 jobs per month for six months, professional and business services dipped 400 during the third quarter, but remained up 7 percent on an over-the-year basis.

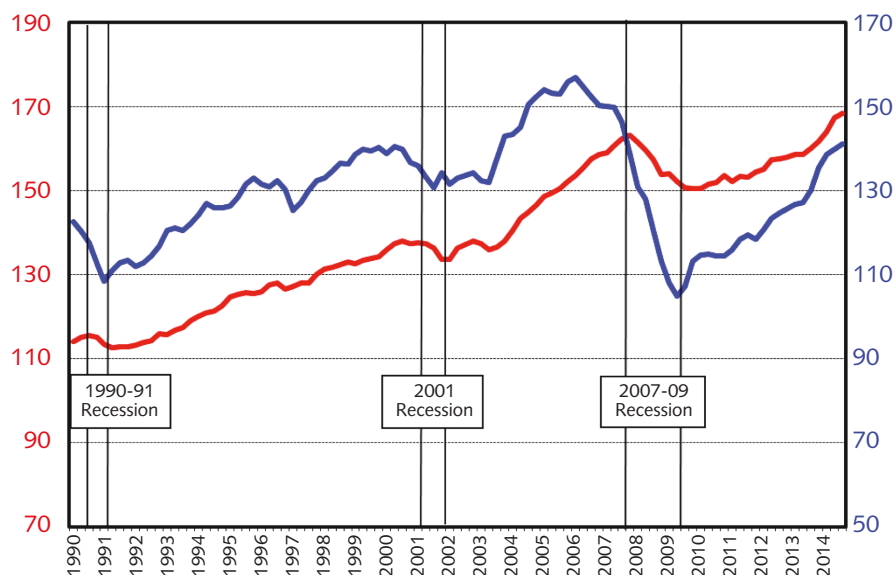
The regional tourism industry continues to contribute to regional economic strength. Inflation and seasonally adjusted hotel and motel room receipts increased about 1 percent during the quarter and are up 12 percent, as compared to year-ago data. Boardings at the airport are 18 percent ahead of last year's pace. Although auto rental sales taxes and alcoholic beverage sales taxes declined modestly during the third quarter, they remain up 6 and 16 percent, respectively, compared to

previous year data. 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 Extends Gains

The U.S. economy continued to grow in the third quarter of 2014 at an annualized pace of 3.5 percent, following a strong 4.6 percent rate in the second quarter. Economic growth was supported primarily by consumer expenditures, exports, and non-residential construction. Moderate slowdowns in these categories were partially offset by faster growth in federal government expenditures, especially defense spending. With the exception of the slip during a rough winter quarter this year, the national economy's growth has exceeded 3.4

Coastal Empire Economic Indicators
Leading and Coincident Indexes



percent for four of the previous five quarters, a steady and improving pace, as compared to 2012 and the first half of 2013. The consensus forecast for GDP growth in the final six months of 2014 is 3 percent.

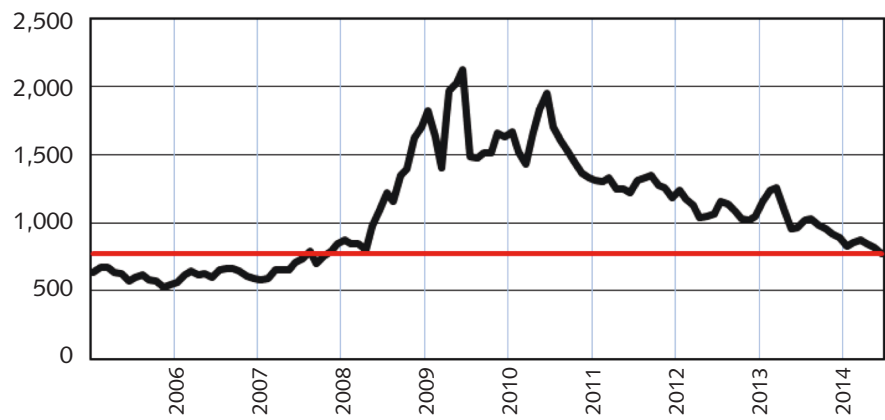
After six years of stimulative bond-buying on the order of three trillion dollars, the Federal Reserve concluded this program in October, asserting the economy no longer requires it. The end of the program signals a highly visible and important step in the recovery from the Great Recession. The “normalization” of economic activity, employment, and inflation, according to Fed Chair Janet Yellen, also requires a “normalization” of interest rates. Expect rates to start rising within six months. The Fed-watching economists surveyed by the *Wall Street Journal* believe short-term rates will rise to approximately 0.4 percent by mid-2015 and to 1 percent by December 2015.

Forecasting Index Rises Again

The Coastal Empire leading economic index increased 0.8 percent (3.4 percent, annualized), rising to 141.0 from 139.9 (revised) in the previous quarter. The pace of increase roughly matched the more sustainable level set in the previous quarter. The underlying strength was consistent across noticeable improvement in consumer expectations, the regional labor market, and the area’s housing market.

In the housing market, building permit issuance for single-family homes rapidly increased, after adjusting for the usual seasonal swings. The number of new residential homes permitted for construction increased to 442 from

Savannah MSA Employment Initial Claims for Unemployment Insurance



Source: Georgia Department of Labor. 3 month moving average.

356, a 24 percent quarterly increase. This figure is remarkable in that it represents the strongest signal of activity in the residential housing market since the fall of 2007, just before the nationwide housing market slumped. The average value of a building permit issued for a single-family home decreased, however, falling 6.3 percent to \$192,800 from \$205,600. As compared to year-ago data, however, the average value of a building permit issued remains up 11 percent.

In very good news, seasonally adjusted initial claims for unemployment insurance (UI) fell 11 percent to 774 claims per month during the quarter. In fact, the number of new filings dropped below 700 claims for the first time since late 2007 before the Great Recession took hold. Further, the number of new claims reached a remarkable milestone this quarter. After adjusting for the 14,000 new workers hired since 2007, the number of new claims for unemployment insurance is roughly equal to what we would expect to

see given the ratio of new claims to total employment during the 2000 to 2007 period (see the red line in the UI chart).

In summary, the growth in the coincident index moderated toward a more sustainable rate during the quarter, extending the trend of significant growth in the Savannah metro economy. The forecasting index extended its likely sustainable pace for a second consecutive quarter. Both indices continue to signal healthy and continued economic growth in the Savannah area through the second quarter of 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.

A Note From the Director

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