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Coastal Empire Economic Monitor, 4th Quarter, 2014

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Coastal Empire ECONOMIC MONITOR

CURRENT STRENGTH EXPECTED TO CONTINUE.

The Savannah metro economy continued on its current path of strength through the end of 2014. Nearly all coincident economic indicators advanced, led in particular by electricity sales, tourism, port activity, and overall employment growth. These indicators reflect broadly based measures of economic strength, further supported by key fundamental components of the regional economy.

The Coastal Empire leading economic index accelerated for the second consecutive quarter to close out the second half of the year strongly. The housing market continued to improve along with the labor market, while gains in consumer expectations continued. Sustained growth at a healthy pace is expected through late 2015.

Manufacturing Soars, along with—Surprise!—Construction

The Coastal Empire coincident economic index increased 1.1% to 167.2 from 165.2 (revised) in the previous quarter (see chart). This is an annualized pace of 4.9%, extending the period of very strong growth in Savannah's economy. During the most recent twelve-month period, the economy has expanded at its fastest pace since late 2004. Total employment growth and electricity sales reflect growth across the industrial, commercial, and residential components of the economy.

Seasonally adjusted employment in the three-county metro area increased 1,100 jobs to 168,300 during the quarter. Over-the-year growth surged to 4.5% in the second half of 2014 (more than twice the 2.1% registered during the first six months of the year). Employment now stands 4.6% above year-ago

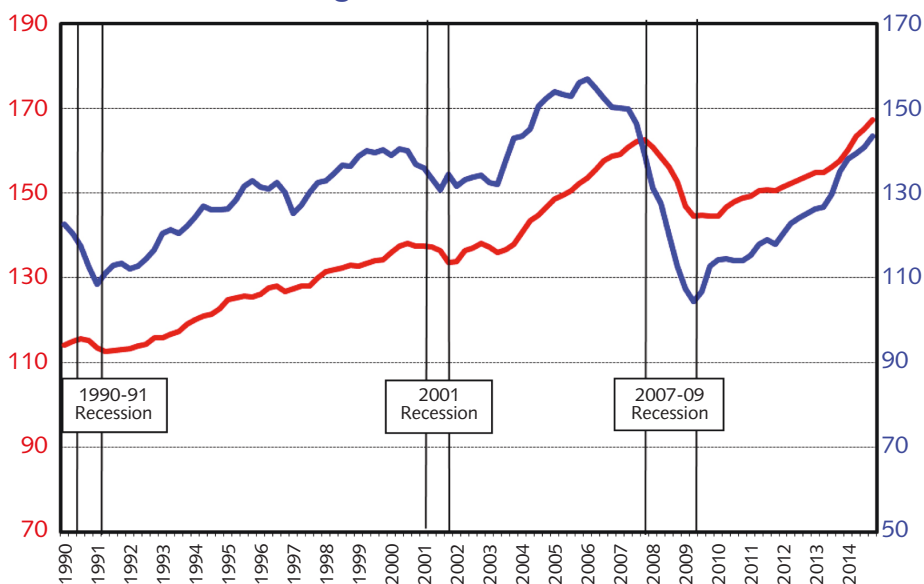
levels. In the service sector of the economy, tourism employment increased by 800 workers, with professional/business services adding 300 jobs and transportation/utilities adding 200. Retail trade shed 500 workers during the quarter, but this retrenchment follows gains of 1,700 workers during the previous six months.

On the goods-producing side of the economy, strength hidden through most of 2014 was revealed in the annual benchmarking process performed by the Georgia Department of Labor, in which previous survey-based employment estimates are revised to conform with headcount-based employment data gathered through the state's unemployment insurance program. Indeed, manufacturing data was revised upward by 1,300 jobs to 16,500 workers, and closed the year with an annual gain of 6.5%. Similarly, construction employment

was revised upward by about 9%, and was just over 6,000 workers by year's end, a gain of 500 jobs during the year.

Federal, state, and local government lost 400 workers, with most of the loss in local government. This continues a trend since 2010 in which all employment growth in the region has been attributed to private sector employers adding workers. The payrolls of private sector establishments have swelled 14% from 126,300 in early 2010 to 144,400 at the end of 2015 (see chart next page). During this time, employment at all levels of government fell by 300 jobs to 23,500. Further, during this time, government sector employment was surpassed by both education/health and leisure/hospitality employment, with business/professional services steadily gaining ground. Overall, the private sector of the economy is growing healthily.

Coastal Empire Economic Indicators
Leading and Coincident Indexes



The tourism industry contributed significantly to the strength in the regional economy throughout 2014. Seasonally and inflation adjusted hotel and motel room receipts increased 8.2% during the quarter and were up about 17% for the year. Boardings at the airport were 18% ahead of last year's pace. Alcoholic beverage sales taxes, auto rental sales taxes, and visitors taking tours increased between 3 and 5.5% during the quarter, and registered about the same gain as compared to year-ago data, except for auto rentals that were up by 13%.

Turning to another bedrock component of the regional economy, port activity increased nearly 4% during the quarter, in terms of TEUs (20-foot equivalent containers) handled at port facilities in Savannah. The record number of containers processed during 2014 was 3.3 million units, a 10.3% gain over 2013. As a result, employment in the transportation/utilities sector gained 800 workers (+8.3%) during the year, rising to 10,400 workers—the highest ever recorded level of employment in the sector going back to 2000 when the data series starts.

U.S. Economic Growth Eases

Economic growth in the U.S. cooled to an annualized pace of 2.2% in the fourth quarter of 2014, following the 5% pace set in the previous quarter. GDP growth in the fourth quarter reflected an increase in consumer spending (+4.2%), non-residential construction (+4.8%), and exports (+3.2%). Business investment also increased, mainly in intellectual property products. In contrast, federal government spending declined at a pace of 7.5%. For the full year, real GDP increased 2.4% in 2014, after rising 2.2% in 2013. The *Wall Street Journal* consensus forecast for GDP growth in 2015 is 2.9%.

Only a few months after the Fed ended the six-year bond-buying

program, the Fed is now suggesting the possibility of an increase in interest rates in the second half of 2015. However, forecasts of the Fed's interest rate target have fallen to 0.625% by year-end, on moderating economic growth and predictions of slight inflation. Some of the headwinds are from slack growth overseas, along with a strengthening dollar, both cutting into U.S. exports. Federal Reserve Chair Janet Yellen indicated the Fed would be generally unwilling to raise interest rates until core inflation reached 2% (currently around 1.3%) and the job market saw gains that reduced unemployment to 5% or less. Short-term interest rates have been close to zero since December 2008.

Forecasting Index Rises

The Coastal Empire leading economic index increased 1.8% (7.4%, annualized), rising to 143.4 from 140.9 (revised) in the previous quarter. This is an accelerating pace, but not yet quite approaching the blistering growth registered in late 2013 that foreshadowed significant economic growth for 2014. All leading indicators increased during the quarter, with gains in the regional housing market and U.S. leading index leading the way. A fall in the number of new unemployment

insurance claims and improving consumer expectations also contributed in supporting roles.

In the housing market, building permit issuance for single-family homes closed out 2014 with over-the-year gains of 17.8%. The number of new residential homes permitted for construction was 409, the second highest quarterly gain in seven years. The average value of a building permit issued for a single-family home bounced back, rising 8.2% to \$208,700 from \$192,800.

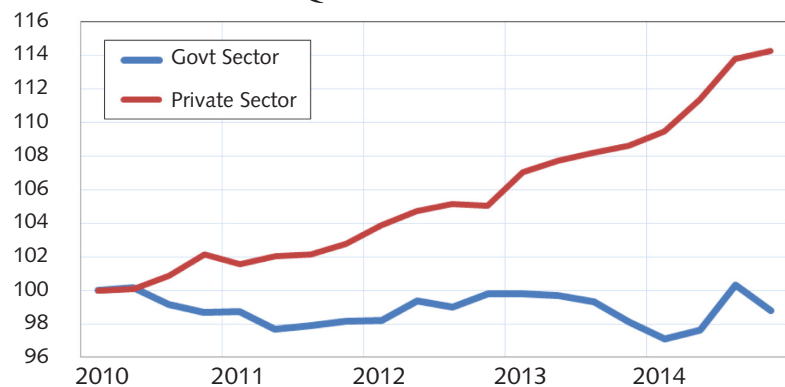
In the labor market, seasonally adjusted initial claims for unemployment insurance (UI) drifted up modestly, rising to 806 from 774 per month during the quarter. The number of new UI claims was 17.8% below previous-year data. Given diminishing UI claims and steady job growth, the unemployment rate fell to 6.2% (seasonally adjusted) in December 2014, a half percentage point lower than in December 2013. For the year, the unemployment rate fell to 6.8% from 7.5% in 2013.

In summary, the growth in the coincident index accelerated somewhat, further lengthening the period of significant growth in the Savannah metro economy. The forecasting index also accelerated during the quarter. Both indices continue to signal healthy and continued economic growth in the Savannah area through the third quarter of 2015.

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Savannah MSA Employment Growth Index
First Quarter 2010 = 100



A Note From the Director

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