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Coastal Empire Economic Monitor, 2nd Quarter, 2015

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Coastal Empire ECONOMIC MONITOR

MOSTLY GOOD NEWS

The Savannah metro economy continued its winning ways through the first half of 2015. The gains were strongly supported by expansion port activity, retail sales, regional employment, and the US coincident index of economic activity. However, seasonally adjusted electricity sales in the area and consumer confidence in the South Atlantic states dipped during the quarter.

Further, the Coastal Empire leading economic index increased, but at a slowing pace of growth for the second consecutive quarter. Favorable trends continued in the housing and labor markets, but consumer expectations in the South Atlantic states declined during the second quarter. The economy is expected to continue in a growth trend through 2015, but the pace of expansion is likely to moderate somewhat toward the end of the year and into early 2016.

Continued Growth

The Coastal Empire coincident economic index increased 1.4% to 171.8 from 169.3 (revised) in the previous quarter (see chart). This is an annualized pace of 5.9%, up slightly from the quick pace of growth in the opening quarter of the year. Very strong growth in port activity accounted for nearly 30% of the lift in the index, while retail sales contributed 25% of the gain, and airport activity chipped in 20% of the lift. Employment surged to a record level of 171,000 in April, but gave back some of the gain by June. Hotel room sales activity modestly increased from the previous quarter.

Seasonally adjusted employment in the three-county metro area increased 1,200 jobs to stand at 169,800 during the quarter. Over-the-year employment growth was 3.4%, modestly lower than the 4% figures of the past several quarters.

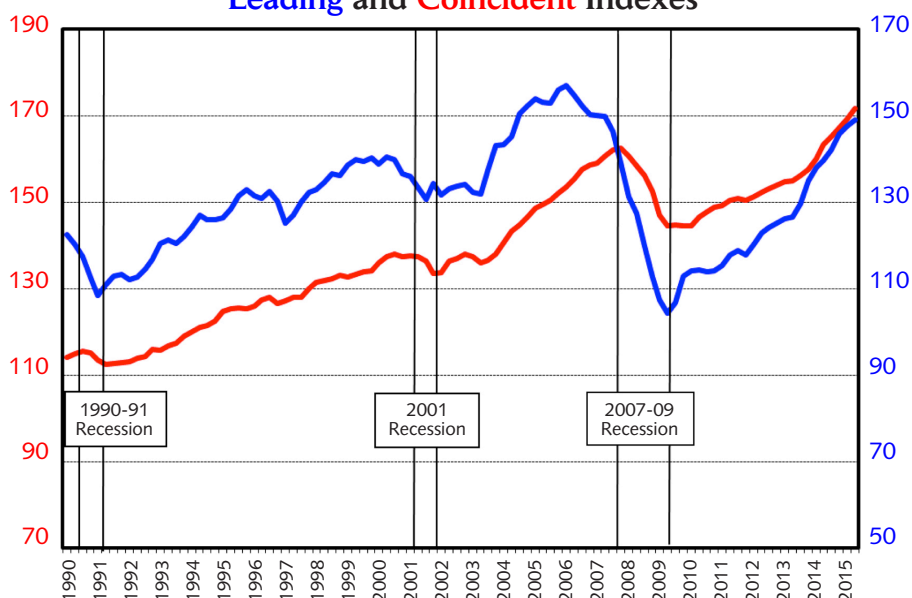
At the sector level, the business and professional services sector is booming, having added 3,100 jobs during the past year and 1,200 workers in the second quarter alone. Momentum is building in this bell-whether sector. These are the businesses primarily responding to the demand for business-related services from other employers. In general, other service sectors were roughly even during the quarter, except for employment in the leisure and hospitality sector. The tourism sector shed about 800 jobs in the second quarter. This may be a retrenchment of sorts, especially considering the tourism hiring binge

of 450 new jobs per quarter for the previous two years.

The government sector dropped another position in terms of ranking the largest sectors of the regional economy. It gave up its crown to education/health in 2011, was passed by tourism in 2014, and has now seen business/professional services pull even with it in 2015 (see chart). These four sectors account for 55% (95,000 jobs) of total employment in the Savannah metro area.

As the lead economic horse this quarter, port activity merits a spotlight. Container handling hit an all-time high of nearly 340,000 units in May, growing 4.2% during the quarter and up a remarkable 23%, as compared to year-ago data. This supported 400 new jobs (+3.8%) in the transportation sector in the last year.

Coastal Empire Economic Indicators
Leading and Coincident Indexes



In the goods-producing sector, manufacturing stayed roughly even, while construction firms shed about 200 workers during the quarter. Manufacturing jobs number about 16,500, while a little over 6,000 workers have jobs in the construction sector.

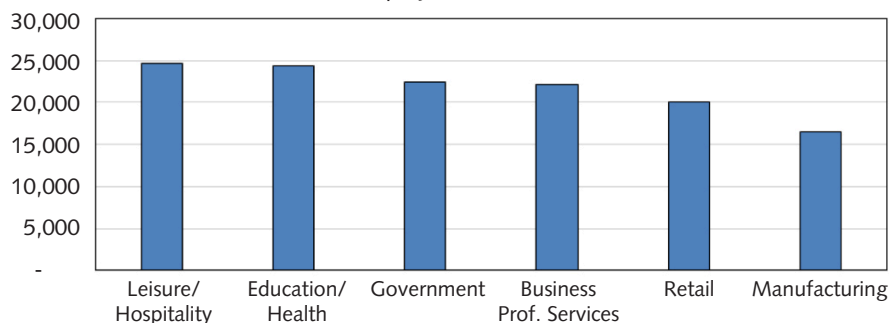
U.S. Economy Gains

The U.S. economy expanded at an annual pace of 3.7% during the second quarter of 2015. The previously reported advanced estimates showing a first quarter decline were erased in subsequent revisions that had the economy barely growing at a rate of 0.6%. The acceleration was supported by growth in exports, consumer spending, and increases in state and local government expenditures. Growth in exports was 5.2%, reversing the loss of the first quarter, and consumer spending growth quickened in pace from 1.8% to 3.1%. Residential construction grew at a pace of 7.8%, while commercial construction grew by 3.1%. However, business investment in capital goods fell modestly during the quarter, declining by 0.4%. The *Wall Street Journal* consensus forecast for GDP growth in 2015 is 2.2%, rising to 2.7% in 2016.

A large majority of analysts following Federal Reserve monetary policy are expecting the Fed to begin engineering an increase in interest rates starting in September. Indeed, two-thirds of the 60 or so economists polled by the *Wall Street Journal* believe the rate increases should have commenced earlier, and is consistent with their assessment that the risk of recession is roughly 10% at the current time. However, inflation remained below the Fed's target rate of 2% for the 37th consecutive month, running at an annual pace of about 0.2% through

Employment in Savannah's Major Sectors

(Total Employment is 169,800)



mid-year. Low inflation numbers, in part, are thought to reflect weak demand but are more likely being driven by low oil prices recently. Employment growth averaging just over 200,000 jobs per month and the unemployment rate dipping to 5.1% may provide the Fed with sufficient motivation to begin raising rates. While some slack remains in the labor market, the Fed appears to believe inflation is moving toward the target; recent evidence suggests the Fed will start raising interest rates at its next meeting in September.

Forecasting Index Rises Again

The Coastal Empire leading economic index increased 0.9% (3.8%, annualized), rising to 149.0 from 147.6 (revised) in the previous quarter. This further extends the slowing pace of growth in the index. The gains were the smallest in two years, but still reflect a healthy pace of expected future growth. The index was lifted by housing and labor market activity, but consumer expectations declined during the quarter, inducing some drag on the index.

In the housing market, building permit issuance for single-family homes stabilized in the second quarter after rocketing forward in the early months of the year. The number of

new residential homes permitted for construction was 491, off by 2 units from the first quarter. Building permit issuance remains up roughly 40% from year-ago levels. The average value of a building permit issued for a single-family home rebounded strongly from the first quarter drop, rising 23% to \$219,400 from \$178,000 in the first quarter.

In the labor market, seasonally adjusted initial claims for unemployment insurance (UI) fell 4.7% to 732 per month from 768 claims. The number of new UI claims was 16% below previous year data. With falling UI claims and steady job growth, the unemployment rate averaged 5.8% (seasonally adjusted), falling from 6.1% in the previous quarter and standing 1.2 percentage points below the year-ago rate.

In summary, Savannah's economy maintained a healthy pace of growth in the second quarter. The forecasting index continued to ease toward a sustainable rate of increase. However, the recent declines in consumer confidence and consumer expectations in the South Atlantic states—the point of origin for many of Savannah's tourists—merits careful watch in the coming months. As it stands, expect continued expansion in the Savannah metro economy through 2015, with some moderation in growth in early 2016.

Tori Dixon provided research assistance.

A Note From the Director

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.

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