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Coastal Empire Economic Monitor, 4th Quarter, 2015

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Coastal Empire ECONOMIC MONITOR

FUNDAMENTALS REMAIN STRONG

The Savannah metro economy continued in pause mode through the fourth quarter of the year. Impressive gains in total employment were offset by another decline in port activity and a very modest dip in electricity sales. Tourism employment, plane boardings at the airport and consumer confidence registered gains, as did the coincident index of economic activity for the nation. In general, the underlying fundamentals of the regional economy remain strong.

The Coastal Empire leading economic index increased, but at a slower pace than through the first three quarters of the year. The regional housing market improved during the quarter, but labor market conditions modestly weakened. Unemployment insurance claims increased during the fourth quarter, while consumer expectations in the South Atlantic states declined. Expectations for growth in 2016 are modestly reduced from earlier projections, but the momentum in overall employment growth is expected to continue into the second half of 2016.

Region: Fundamentals Remain Strong

The Coastal Empire coincident economic index effectively held steady at 171.6 (see chart) for the second consecutive quarter. The continued momentum in employment growth supported the index, while gains in airplane boardings and consumer confidence in the South Atlantic states also contributed.

The upside growth was limited by declines in electricity sales and port activity. The blip in electricity sales appears transitory and is attributed to weakness in October, as November and December sales rebounded healthily. Further, continued normalization of port activity, following the restoration of west coast shipping patterns after labor strife there eased, returned cargo handling in Savannah to a more sustainable level. Although TEU throughput is off 8% during the past six months, it remains 12% ahead of 2014 on a year-to-date basis.

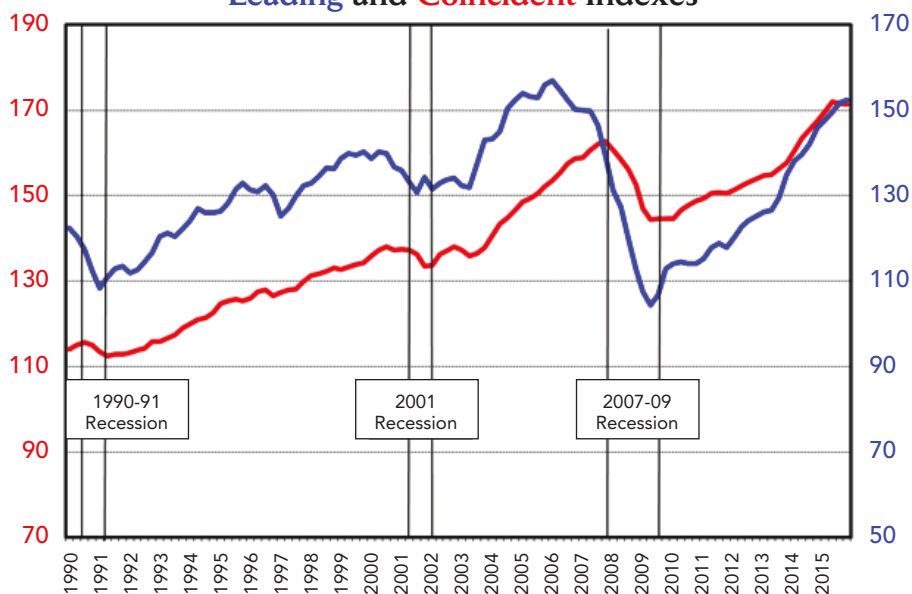
Turning to the labor market, seasonally adjusted employment in the three-county metro area increased 1,700 jobs to average 173,300 for the quarter. Over-the-year employment growth held steady at 3% and signaled the

sixth consecutive quarter during which regional employment growth exceeded the 3% mark.

At the sector level, employment in the tourism industry surged by 900 workers, while state government added about the same amount. Business and professional services eased, shedding 200 workers during the quarter, but remains 11% higher than year-ago data. Overall, service sector employment increased 1,400 jobs.

In the goods-producing sector, manufacturing added 300 workers, while construction firms added 100 workers, reversing a two-quarter string of losses in construction. Construction employment climbed to 6,000. Total seasonally adjusted employment in manufacturing increased to 17,500 in December, hitting a 25-year high.

Coastal Empire Economic Indicators
Leading and Coincident Indexes



U.S. Economy Slows Further

In the fourth quarter of 2015, U.S. economic growth slowed to 1% (annualized), down from the 2% pace recorded during the third quarter of 2015. Underlying growth was supported by consumer spending, residential construction, and federal government purchases. Nonetheless, consumers slowed their spending somewhat, dropping annualized consumption growth to 2% from 3%. Non-residential construction fell at a 6.6% pace, while residential construction grew at 8%. Government spending slipped to 0.1% from 1.8%. The *Wall Street Journal* consensus forecast for GDP growth in 2016 is 2.3%, a slight decline from the 2.4% growth experienced in 2015.

The Fed finally moved on interest rates as 2015 drew to a close. A rate increase had been expected in September, but volatility in financial markets and economic uncertainty overseas, particularly in China, put a damper on that plan. In December, the Fed pushed the short term interest rate to 0.24%, the first increase since the Great Recession. Fed officials have noted the moderate pace of economic growth, diminished slack in the labor market, and generally healthy gains in household spending and business investment as the setting stage for additional increases. While the recent slowdown in U.S. economy may have put those plans on hold for further evaluation, expect another rate hike before the end of 2016.

Forecasting Index Points to Continued Growth

The Coastal Empire leading economic index increased four-tenths of one percent (1.7%, annualized), rising to 152.5 from

Savannah MSA Single-Family Home Building Permits Issued (per month)



Source: US Census Bureau & Armstrong CRA
Monthly data, 3 month moving average.

151.8 in the previous quarter. The pace of increase declined during the fourth quarter, falling below 2% for the first time since mid-2013. Gains in the housing market were offset by falling consumer expectations and an increase in the number of new claims for unemployment insurance.

In the housing market, building permit issuance for single-family homes moved above 500 (to 509 units) homes per quarter; a level not seen since mid-2007 before the housing market bubble burst. Building permit issuance was 25% higher than year-ago data (see the chart). The average value of a single-family home building permit rebounded somewhat, rising 3.7% to \$206,000, slightly above the two-year average value of \$202,500.

In the labor market, seasonally adjusted initial claims for unemployment insurance (UI) increased 7.1% to 758 per month from 707 claims. While UI claims ticked up, this followed a particularly strong third quarter figure. By comparison, UI

claims remained 6% below the figure recorded for the fourth quarter of 2014. Combining the usual number of UI claims with steady job growth led to the unemployment rate ticking down to 5.25% from 5.4% in the third quarter (seasonally adjusted). The unemployment rate was 6.5% one year ago.

In summary, the coincident index of economic activity indicates Savannah's economy generally held steady during the closing quarter of 2015. The forecasting index is suggesting continued moderation in regional economic activity through the first half of 2016. The declining growth rate of the leading index, while meriting continued monitoring in early 2016, is not a particularly troubling read this quarter, especially given the strong momentum of underlying economic fundamentals for the region (employment growth, tourism, port activity). Expect continued employment gains and economic expansion in the Savannah metro economy through mid-2016, at the pace of about 2.5%, rather than the 3% or higher rates of growth experienced through 2015.

Jesse Reisman provided research assistance.

A Note From the Director

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