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Coastal Empire Economic Monitor, 3rd Quarter, 2016

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Coastal Empire ECONOMIC MONITOR

ECONOMY MAINTAINS PACE, BUT EXPECTED TO SLOW

The Savannah metro economy maintained its course of healthy growth through the third quarter of the year. All current indicators of the economy increased from the second to third quarter, with the exception of retail trade. Among these, employment growth and port activity provided the most lift to the index of current economic activity.

On the other hand, the forecasting index for the region declined during the quarter. The emerging weakness in the housing market, noted in the previous quarter, continued into the second half of the year. Consumer expectations in the South Atlantic states declined for the second consecutive quarter. However, labor market activity improved as new claims for unemployment insurance fell and compensation notably increased.

Economic growth in the Savannah metro area is expected to slow through the end of the year and into mid-2017. The effects of Hurricane Matthew will cause some drag on the economy, slowing its momentum as the year ends. An abridged Hurricane Matthew special edition of the Economic Monitor will be released in January 2017.

Region: Clearer Signals of Growth

The Coastal Empire coincident economic index increased to 176.5 from 174.8 (revised) in the previous quarter. The index increased at an annualized pace of 3.9% during the third quarter, slipping modestly from the 4.4% growth of the second quarter. The average growth rate through the first three quarters of 2016 is 3.7%.

The second quarter Economic Monitor reported a potentially troubling issue with the reported employment data in that the aggregate total figure reported exceeded the summation of sector level employment. However, both measures increased by approximately 2,100 jobs from the second to third quarter, after adjusting for typical seasonal fluctuations. Total employment reported by both series are converging, but no new additional data is available regarding inconsistencies in reported manufacturing employment. The current expectation remains that manufacturing reported employment will be revised downward by approximately 5% from the currently reported figure of 18,400 workers.

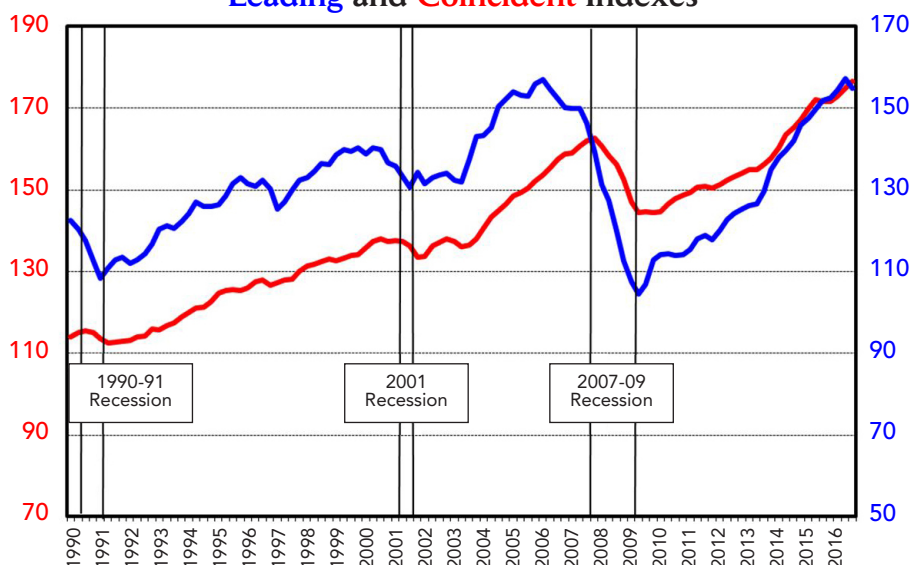
Overall, employment averaged 179,600 during the quarter, while the figure topped 180,000 for the first time ever in August. The largest quarterly gains were reported in retail

trade (+700 jobs), education/health (+400 jobs), local government (+400 jobs), and manufacturing (+200 jobs). Further, tightness in the labor market caused average hourly pay in the private sector to jump to \$23.02 per hour, an increase of 1.6% from the previous quarter and 5.5% since the first quarter.

As anticipated, port activity has returned to its usual growth pattern, with the number of shipping containers handled rising 5% from the previous quarter and now approximately even with year-ago data.

Tourism activity grew healthily during the quarter. Hotel room sales increased by 3.3% (adjusted for inflation and seasonality), boardings at the airport increased 3%, alcohol sales taxes were up 5%, and automobile rentals increased by 4%. The tourism sector employs 26,900 workers, the single largest employment sector of the regional economy.

Coastal Empire Economic Indicators
Leading and Coincident Indexes



U.S. Growth Improves

The U.S. economy grew at an annualized rate of 3.2% during the third quarter, an increase over the 1.4% pace reported for the second quarter. GDP growth was supported by consumer spending (+2.8%), exports (+10.1%), nonresidential construction (+10.1%), and federal government spending (+2.5%). This is the best showing in two years. Unfortunately, many economists surveyed by the *Wall Street Journal* believe the economy's growth will slow to 1.8% in 2017 and bump up over 2% in 2018.

The Federal Reserve increased interest rates at its December meeting, moving them into a range from 0.5% to 0.75%. The Fed cited improving labor market conditions and a modest uptick in core inflation to 1.7%, closer to the target rate for core inflation of about 2%. The rate hike was widely expected, but somewhat more aggressive language about additional rate hikes in 2017 took the steam out of the Dow that had been approaching the 20,000 mark. The Dow shed 120 points after the 2 p.m. announcement. Additional rate hikes are expected in 2017 that could result in a year-end rate of up to 1.5%.

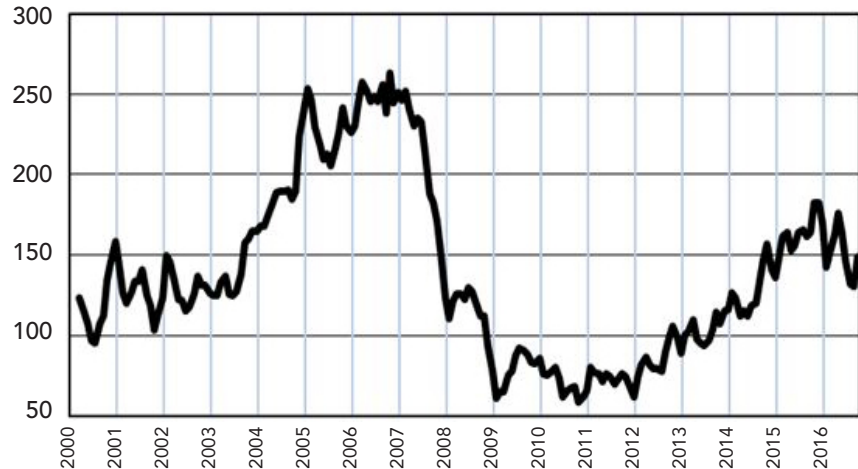
Forecasting Index Falls

Underlying weakness in the forecasting index, noted in the previous quarter's *Economic Monitor*, bubbled up the surface in the third quarter. The Coastal Empire leading economic index fell 1.5% percent (-5.7%, annualized), declining to 154.9 from 157.2 (revised). Continuing weakness in leading indicators of construction in the housing market (third consecutive quarter of mixed results) cumulatively pulled the index down.

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.

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



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

More specifically, a sharp decline in residential home building permit valuation and slowing momentum in residential building permit issuance dragged the index down. Further, consumer expectations in the South Atlantic states fell for the second consecutive quarter.

In the housing market, building permit issuance for single-family homes nudged up slightly, but remains off by 9% from year-ago levels. The seasonally adjusted number of new residential homes permitted for construction was 447, compared to 439 in the second quarter (see chart). The average valuation of building permits for single-family homes dropped sharply as expected, falling from \$250,000 to \$205,000. This returns the figure to its longer-term trend and is 3.2% above last year's data.

In the labor market, seasonally adjusted initial claims for unemployment insurance (UI) fell

16% to 583 per month from 694 (corrected) claims. The number of new UI claims is 5% lower than year-ago levels. The regional unemployment rate held steady at 4.8% (seasonally adjusted), as compared to 5.6% one year ago.

In summary, while the coincident economic index demonstrates the regional economy continued to expand healthily, the forecasting index is suggesting slowing growth in late 2016 and into 2017. Recall that manufacturing employment is likely to be revised downward, while residential building permit issuance is losing momentum. Further, the number of new claims for unemployment insurance is likely to experience a hurricane-induced jump in the fourth quarter.

Reiterating, the inconsistent signals offered by the coincident and forecasting indexes suggest that expectations about the regional economy's growth should be adjusted downward through mid-2017.

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