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Coastal Empire Economic Monitor, 4th Quarter, 2016

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Coastal Empire ECONOMIC MONITOR

HURRICANE MATTHEW DENTS ECONOMY

The Savannah metro economy slowed to a crawl in the closing quarter of 2016, in part due to the ill effects of Hurricane Matthew in early October. Electricity sales, boardings at the airport, and retail sales slipped during the quarter, but were offset by gains in employment, port activity, and hotel room rentals. However, the more rapid pace of growth in the previous two quarters dissipated, while growth slowed considerably.

The forecasting Coastal Empire leading economic index fell for the second consecutive quarter, but the undertow in the regional housing and labor market is weakening and those markets appear poised to return to growth trends. In particular, the decline in the average value of single-family home permits has stabilized on long-run trend after unexpectedly strong mid-year activity. Further, Hurricane Matthew's impact nearly doubled initial filings for unemployment insurance claims in October and November, but December claims returned to the favorable downward long-term trend.

Although the economy lost quite a bit of momentum in the fourth quarter, the pace of growth will increase through the fall of 2017. First quarter growth is likely to improve noticeably, and then return to above-average trend by summer.

Hurricane Slows Current Pace

The Coastal Empire coincident economic index increased slightly to 177.2 from 176.7 (revised) in the previous quarter. After two mid-year quarters of nearly 5% annualized

growth, the pace of expansion slipped to 1.2% in the last quarter of the year. The effects of Hurricane Matthew are apparent in economic indicators where one would expect to see them. In particular, electricity sales declined, along with airport boardings, while preliminary numbers on retail trade indicate a slide there as well.

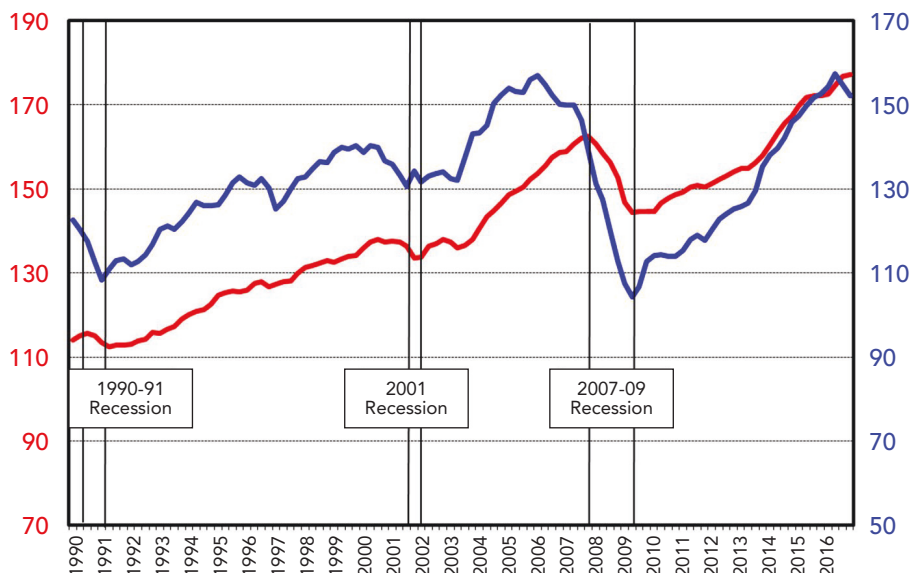
Overall, employment was 180,700 during the quarter, an increase of 1,100 jobs (+3.7%) from the previous quarter. The leisure/hospitality workforce surged by 800, while business/professional services added 700 jobs. Other sectors were stable, but retail trade shed 300 workers. The United States Bureau of Labor Statistics has removed Savannah-area hourly compensation data from its website, suggesting that the series is under review after erratic

behavior in the fourth quarter, again another potential side effect of the hurricane.

Activity at Savannah's port facilities surged and closed out the year in record-setting fashion. In terms of containers handled, records were set for October and December, as well as for all of 2016. While the hurricane closed port facilities from Friday through Tuesday around the hurricane weekend, the cargo from backed-up vessels was swiftly cleared by the following weekend. Overall, seasonally adjusted container handling increased 4.1% from the previous quarter and was 5% higher than year-ago data.

Although Hurricane Matthew put a dent in the tourism industry on what is usually a very busy Columbus Day weekend, hoteliers recorded a 3%

Coastal Empire Economic Indicators
Leading and Coincident Indexes



gain in seasonally adjusted room rental revenue during the quarter. Room rental revenue was 7% ahead of previous-year levels. The number of visitors on tours in the city experienced a substantial slowdown, falling to 3% growth, as compared to 12% in the previous quarter. Further, seasonally adjusted boarding at the airport was down 7% from the previous quarter, but still managed a 3% gain from year-ago data. Despite the downside from the hurricane that displaced some tourism activity, no significant major events or convention-type business was entirely lost. The tourism industry in Savannah continues to grow healthily and added 800 jobs during the quarter, bringing total employment in the sector to a record-high 27,700.

U.S. Economy Slows

U.S. economic growth slowed substantially in the fourth quarter, falling to 1.9% annualized growth from 3.5% in the third quarter. The slowdown is attributed to a decline in exports (-4.3%), slowing personal consumption expenditures (+2.5%, down from +4.3%), and falling federal government expenditures (-1.2%). On the other hand, the economy was supported by surging residential construction (+10.2%), business investment in capital goods (+3.1%), and state/local government spending (+2.6%). A widely respected consensus forecast for GDP growth in 2017 bumped up to 2.4% from 2.2%.

Recent testimony in Congress by Federal Reserve chair Janet Yellen reinforces the notion the Fed will continue raising interest rates in 2017. Current expectations are the

Fed will make three such moves before year-end to raise short-term rates into the 1.25% to 1.5% range. The national economy continues to create jobs at an even pace, and the unemployment rate has declined to 4.8%, while inflation remains a minimal threat. If the Fed does not make a move in March, expect a rate hike in June, barring an economic shock.

Forecasting Index Falls, But Keep Calm

The Coastal Empire leading economic index decreased 1.8% percent (-6.9%, annualized), falling to 152.1 from 154.8 (revised) in the previous quarter. The index was weighed down by lagged changes in residential home building permit valuation and initial claims for unemployment insurance. An increase in consumer expectations, and the number of residential building permits issued, partially offset the declines previously noted.

In the housing market, building permit issuance for single-family homes bounced back, rising 5.1% from the third quarter, but remains 16% below year-ago levels. The seasonally adjusted number of new residential homes permitted for construction was 444, compared to 423 in the third quarter. The average valuation of building permits for single-family homes bounced up as well, rising to \$233,100 from \$215,000, a one-quarter gain of 8.4%.

In what is clearly a Hurricane Matthew effect on the labor market, seasonally adjusted initial claims for unemployment insurance surged

48% to 898 per month from 609 claims. The number doubled moving from September to October, drifted down but remained high in November, and then fell back into the long-term trend of about 570 in December. The regional unemployment rate marginally increased to 5.1% in the last quarter of 2016, rising from 4.7% in the previous quarter. The unemployment rate was 5.1% in the fourth quarter of 2015.

In summary, Hurricane Matthew substantially slowed the growth of the Savannah metro economy in the fourth quarter. The forecasting index is projecting economic weakness, but this signal should be discounted because it reflects a transitory hurricane-related effect in the data. The two data series contributing to the fourth quarter decline in the forecasting index appear poised to return their favorable longer-term trends in the first quarter, as evidenced by their behavior in December. Thus, while Hurricane Matthew dented the economy, it did not push the economy off its forecasted growth in 2017, which should come in slightly under the robust results of 2016.

Lainey Sapp 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.

Support provided by the Office of Academic Affairs.

A Note From the Director

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