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Coastal Empire Economic Monitor, 1st Quarter, 2017

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Coastal Empire ECONOMIC MONITOR

BACK ON TRACK!

The Savannah metro economy returned to healthy growth in the opening quarter of 2017, as the effects of Hurricane Matthew quickly dissipated. Gains in total employment, boardings at the airport, retail sales, port activity, and consumer confidence were particularly strong, while above-average temperatures in the winter cut into electricity sales.

The forecasting Coastal Empire leading economic index jumped sharply, as underlying indicators shook off the effect of Hurricane Matthew, which dented the economy in the previous quarter. The regional labor market and housing market returned to their several-year favorable trends. In particular, building permit issuance returned to healthy growth after a "meh" 2016, while new claims for unemployment insurance fell to a 17-year low.

The regional economy quickly escaped the grasp of Hurricane Matthew and is expected to continue healthy growth for the remainder of 2017. Expect an increase in growth during the summer quarter, which is sustainable through the end of 2017.

Economy Quickly Rebounds from Hurricane

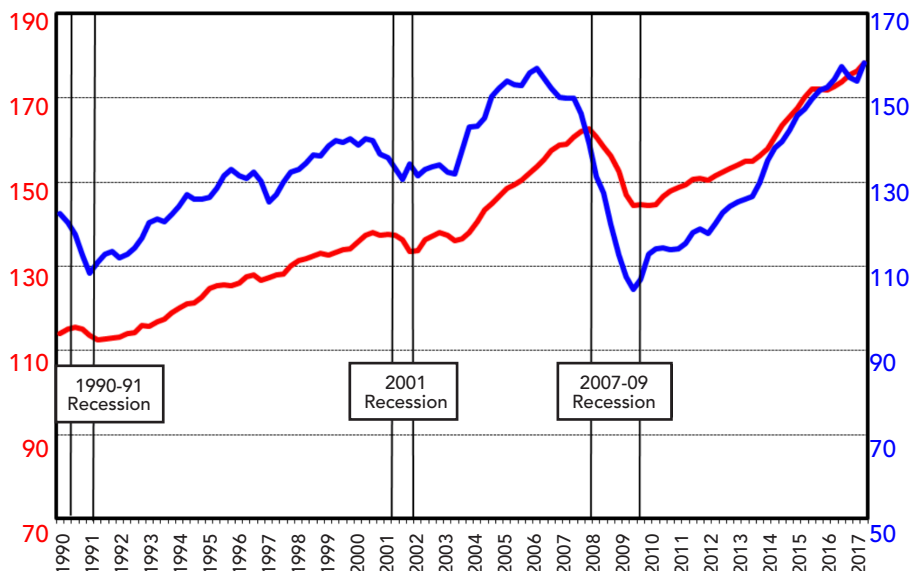
The Coastal Empire coincident economic index increased 1.2% (4.8% annualized) to 178.4 from 176.3 (revised) in the previous quarter. The pace of expansion quickened to more than double that of the previous quarter and returned growth to a level exceeding that experienced during spring and summer 2016. Hurricane Matthew's effects are no longer present in coincident indicators of Savannah's economy.

The Georgia Department of Labor performed its annual benchmarking analysis of employment during the first quarter. As a result, payroll employment data was adjusted downward by about 3,000 jobs for the Savannah MSA, so that total employment during the first quarter averaged 178,500, an increase of 1,900 jobs (+2%) from the previous quarter. Business/professional services, leisure and hospitality, and retail trade all added over 500 workers each. Manufacturing declined by 100 jobs to stand at 16,500, about 1,000 jobs below the peak in late 2015.

Activity at Savannah's port facilities has been on a record-setting tear for six consecutive months (through April) with each month setting records for most-ever volume handled during the month. Overall, seasonally adjusted container handling increased 4.6% from the previous quarter and was 10% higher than year-ago data from the first quarter.

In the tourism industry, seasonally adjusted hotel room rental revenue dipped slightly in the first quarter. This is likely due to above-average hotel sales along I-95 during the fourth quarter as a result of Hurricane Matthew. The first quarter result is a data anomaly and activity will return to trend growth during the second quarter. Indeed, first quarter hotel revenue is 7.7% ahead of year-ago data. The number of persons on tours in the city rebounded smartly from the fourth quarter let-down, rising 5%, and is also above year-ago data by the same amount. Boarding at the airport surged 15% for the quarter and on an over-the-year basis. The tourism industry has rebounded from Hurricane Matthew and continues to grow. Employment in the leisure and hospitality sector of the economy reached 27,900, an all-time high.

Coastal Empire Economic Indicators
Leading and Coincident Indexes

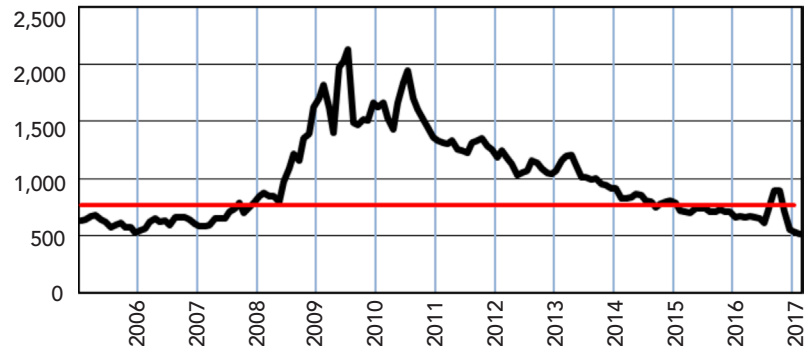


U.S. Economy Slows Further

Rather modest national economic growth at the end of 2016 slowed further during the opening quarter of 2017. Growth declined to 1.2% (annualized) in early 2017, dropping below 2.1% at the end of the previous year. The slowdown is attributed to paltry growth in consumer spending (+0.6) and decreased inventory investment. Further, federal government spending declined (-2%), along with state and local government spending (-0.6%). On the plus side, export growth (+5.8%) and surging construction (non-residential, +28%; residential, +13.8%) combined to support the economy. The consensus forecast for GDP growth during the balance on 2017 is approximately 2.7%.

The Federal Reserve raised the benchmark short-term interest rate, the federal funds rate, to the 1% to 1.25% range, and is expected to raise again to the 1.25% to 1.5% range by year-end. Economic conditions are currently favorable for rate increases, but there is a possibility of a pause if Congressional discussion about raising the federal government debt ceiling becomes particularly contentious. Another consideration for interest rate strategy is the planned reduction in the Fed's \$4.5 billion portfolio of treasury securities, mortgage-backed securities, and other assets accumulated during and after the Great Recession, in efforts to stabilize financial markets and enhance economic growth. The path moving forward has the Fed slowly increasing the amount of proceeds from maturing assets that are not reinvested, which would cause longer term interest rates to rise.

Savannah MSA Initial Claims for Unemployment Insurance



Source: Ga. Dept of Labor. 3 month moving average.

Forecasting Index Rises Sharply

The Coastal Empire leading economic index skyrocketed 2.8% percent (+11.8%, annualized), rising to 158.3 from 154.0 (revised) in the previous quarter. The index was buoyed by lagged changes in residential home building permit issuance, consumer expectations in the South Atlantic states and the US leading economic index. Further, initial claims for unemployment insurance dropped sharply following the temporary uptick caused by Hurricane Matthew in the last quarter of 2017.

In the housing market, seasonally adjusted building permit issuance for single-family homes jumped again for the second consecutive quarter, rising 12% from the fourth quarter, and now stands 6% above year-ago data. The seasonally adjusted number of new residential homes permitted for construction was 496, compared to 444 in the fourth quarter. The average valuation of building permits for single-family homes gave up some ground, falling to \$226,000 from \$233,000, a one-quarter decline of 3%.

While Hurricane Matthew gave the regional labor market a pretty good whack last quarter, the effect dissipated quickly. Seasonally adjusted initial claims for unemployment insurance (UI) plummeted 40% to 535 per month from 898 claims (see chart). After a sharp uptick from the hurricane, the number of claims returned to its long-term downward trend. In fact, UI claims fell to the lowest level seen since the spring of 2000. The regional unemployment rate fell to 4.8% in the first quarter of 2017, from 5.1% in the previous quarter. The unemployment rate was 5.2% in the first quarter of 2016.

In summary, indicators of the Savannah metro economy demonstrated substantial strength in the first quarter of 2017, quickly shaking off the effects of Hurricane Matthew. The forecasting index is signaling continued economic growth, roughly on par with that of 2016, through the remainder of 2017.

Lainey Sapp provided research assistance.

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A Note From the Director

The *Economic Monitor* is available by email and at the center's website (armstrong.edu/liberal-arts/center-for-regional-analysis). If you would like to receive the *Monitor* by email, please send a "subscribe" message to CRA@armstrong.edu.

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.