

Economic Monitor

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Armstrong State University

Center for Regional Analysis

Michael Toma

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Coastal Empire ECONOMIC MONITOR

CONTINUED GROWTH, SOME SOFTNESS FOR SECOND QUARTER 2017

The Savannah metro economy continued its healthy growth through the midpoint of 2017, but some underlying softness is noted in several key economic indicators. Electricity sales to residential, commercial, and industrial users (a very broad indicator of economic activity) were strong, but other indicators such as total employment, port activity, hotel room revenue, and consumer confidence were soft as compared to first quarter data. However, these underlying indicators of Savannah's economic health remain on a strong multi-quarter growth trend.

The forecasting economic index continues to signal strong upcoming economic growth, but cannot factor in the effects of Hurricane Irma on the economy's performance in the third quarter. The regional labor market and housing markets remain strong, however. In particular, building permit issuance for single family homes increased substantially, while new claims for unemployment insurance remained at 17-year lows.

While growth in the regional economy continued during the second quarter, some underlying softness in key variables and the effects of Hurricane Irma point toward a weaker-than-expected third quarter. The regional economy was quick to shake off the effects of Hurricane Mathew in 2016 and a similar response is expected to Irma, thus sustained economic growth is projected through early 2018 after a bump or two in the third quarter.

Strong Trends

The Coastal Empire coincident economic index increased 0.7% (2.7% annualized) to 179.6 from

178.4 in the previous quarter. The pace of economic expansion slowed to its average rate of growth during the past 18 months. What raises a mild note of concern is the multi-variable index was primarily supported by one underlying indicator - electricity sales. Other indicators of economic activity gave up ground as compared to the first quarter, but all remain on-trend for significant and healthy over-the-year growth.

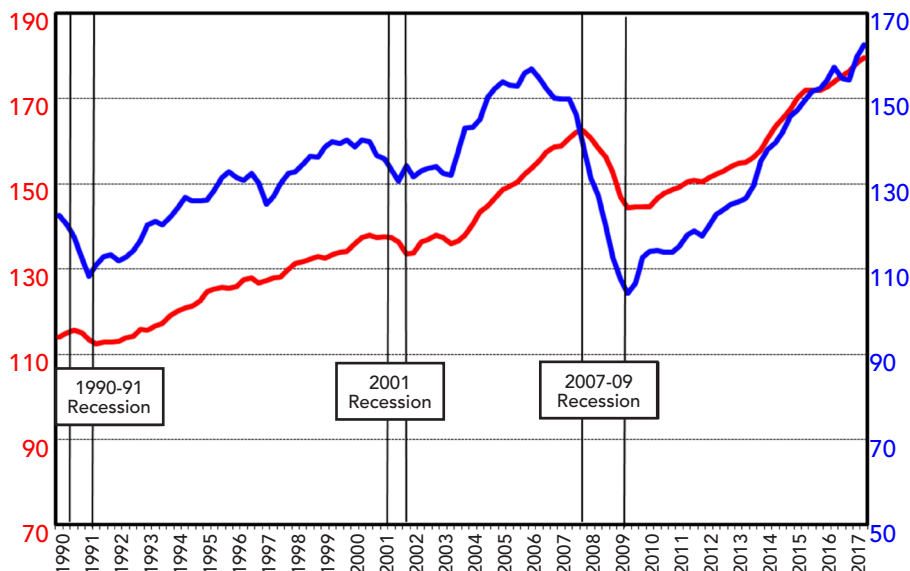
Total employment in the three-county metro area slid 0.5%, a decline of 800 jobs to 179,000. Nonetheless, regional employment remained 2.5% ahead of year-ago levels. In what largely appears to be a correction of over-reporting in the first quarter, business/professional services and the hospitality recorded a decline in employment, but remain on-trend in terms of growth performance (both about +5%) during the previous twelve months.

Notably, manufacturing employment increased 400 jobs to 16,800 workers, ending a five-quarter decline. Service sector employment was 154,500, 2.4% ahead of the prior year.

Activity at Savannah's port facilities remains on a record-setting tear, now for nine consecutive months (through July) with each month setting a new mark for most-ever volume handled during the month. Although there was a slight dip in volume in the second quarter as compared to the first quarter, container handling remains 13.4% higher than one year ago.

Similarly in the tourism industry, seasonally adjusted hotel room rental revenue dipped (-3.5%) in the second quarter as compared to the first quarter, but remains 10% above year-ago level. The number of persons on tours in the city declined 10% from very robust first quarter numbers, but like other regional economic data,

Coastal Empire Economic Indicators
Leading and Coincident Indexes



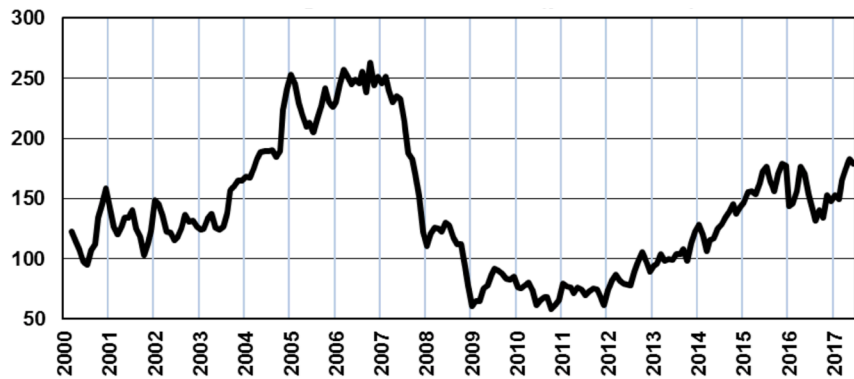
remains strongly ahead of (+9%) of results from the second quarter of 2016. Boarding at the airport increased 2% during the quarter and was up 12% on an over-the-year basis. Employment in the leisure and hospitality sector of the economy is approximately 27,000, about 4% higher than year-ago data.

U.S. Economy Picks Up Pace

National GDP growth increased at a rate of 2.9% in the second quarter of 2017, up from 1.2% (annualized) in the first. Growth in household spending (+3.3%) fostered the acceleration in economic activity. Further, investment in business equipment (+8%) and non-residential construction (+7%), along with export growth (+3.7%) buoyed the economy. Federal government spending increased (+2.3%), offsetting a decline in state and local government spending (-0.2%). Some softness is noted in residential construction which declined at a rate of 6.5%. The consensus forecast for GDP growth during the balance of 2017 is approximately 2.6%, while 2018 is likely to see 2.4% growth.

In September, the Federal Reserve announced it would begin a multi-year process to unwind its \$4.5 trillion holdings of mortgaged-backed and treasury securities. The process involves capping the amount of funds reinvested as the assets mature. Initially, roughly \$10 billion per quarter would not be reinvested, then slowly rising to as much as \$50 billion per quarter. Sustained growth in the U.S. economy and increasingly stronger growth overseas creates conditions under which Fed policymakers believe the timing is correct to allow market forces to

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



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

more directly set the path of longer term interest rates in the U.S. At the short end of the market, the current federal funds rate remains stable and focused at 1.25%. Expect the Fed to push this rate up by a quarter point in December.

Forecasting Index Rises

The Coastal Empire leading economic index jumped 1.8% percent (+7%, annualized), rising to 162.6 from 159.8 (revised) in the previous quarter. Very similar to the first quarter, the forecasting index was supported by lagged changes in residential home building permit issuance and the US leading economic index. Further, initial claims for unemployment insurance remained low.

In the housing market, seasonally adjusted building permit issuance for single family homes registered its third consecutive quarter of growth, in contrast to weakness in national residential construction. Building permit issuance in the Savannah metro area for single family homes increased 8.5% to 538 units compared to 496 (seasonally adjusted) in the first quarter. This is 17% above year-ago data (see chart). The average valuation of building permits for single family

homes fell by about 3% for the second consecutive quarter, dropping to \$218,000 from \$226,000.

The regional labor market continues to tighten in response to sustained increases in the demand for labor. Seasonally adjusted initial claims for unemployment insurance (UI) fell modestly (-2.4%) to 522 per month from 535 claims. UI claims are down 22% from one year ago and remain at their lowest levels since early 2000. The regional unemployment rate fell to 4.6% in the second quarter, dropping from 4.8% in the previous quarter. The unemployment rate was 5.1% in the second quarter of 2016.

In summary, most indicators of the Savannah metro economy softened modestly during the second quarter, but remain on-trend in sustained growth. While Hurricane Irma will clip the economy somewhat in the third quarter, sustained economic expansion is expected through early 2018 in the Savannah metro area.

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A Note From the Director

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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.