WEAKENING BUT CONTINUED GROWTH, FURTHER SLUGGISHNESS EXPECTED

Third quarter growth in the Savannah metro economy remained positive, but signs of weakness are emerging more clearly. Forward momentum in electricity sales and boardings at the airport buoyed the index, even as within-quarter data for both these variables moderated toward the end of the quarter. Port activity remained strong throughout the quarter. However, employment faded, while hotel room rentals gave back some ground after an exceptionally strong second quarter.

The business forecasting index fell for the first time since Hurricane Matthew hit in fall 2016. Housing market weakness dominated movement in the index even as marginally fewer layoffs and improved consumer expectations provided lift. Overall, the regional economy's growth phase is expected to further weaken in early 2019.

Economy Up, But Underlying Weakness is Spreading

The Savannah metro economy expanded at a rate of 0.6% (2.5% annualized) as reflected in the increase of the coincident index of economic activity to 185.4 from 184.2 (no revision). Third-quarter growth in the Savannah Metro Business Index was below the four-quarter average of 2.7%.

As mentioned above, much of the upward movement in the index of current activity is attributed to electricity sales (a broad indicator of residential, commercial, and industrial activity) and boardings at the airport. However, late quarter weakness in both series is expected to carry forward into the closing quarter of the year. Employment and retail sales both fell by one-half of one percent. Consumer confidence in the south Atlantic states has been volatile for about two years but generally rising while oscillating between ups and downs. Port activity increased about 2% during the quarter and is up 11% as compared to year-ago data.

Total employment in Savannah’s three-county metro area was 178,800, a decrease of 1,000 jobs from the previous quarter. The employment loss reduces the 12-month growth rate to the just-barely-above-water rate of 0.3%. This is a far cry from the 12-month growth rates of 4% and 5% during the economic gangbuster years of 2014 and 2015.

The regional service sector was hit fairly hard during the quarter, losing 1,200 jobs. The bellwether sector of business and professional services lost 1,100 jobs. Two hundred jobs each were lost in leisure and hospitality, retail trade, and state and local government. The bright spots in the service economy were in the information sector (+300 jobs) and education and health (+200 jobs).

The goods-producing side of the economy added about 300 jobs. Manufacturing employment increased 100 workers, extending its streak of growth to seven consecutive quarters during which employment increased to 17,700. Construction gained 200 workers, rising to a post-recession high of 7,600 workers.

However, hourly wages in the metro area fell for the fourth consecutive quarter, dropping to $21.95/hour from $22.43/hour in the previous quarter. The length of the workweek contracted modestly to 33.2 hours from 33.4 hours. This points toward future downward pressure on retail trade activity.

U.S. Economy Up, But Recessionary Fears Increasing

U.S. GDP increased at a rate of 3.5% in the third quarter of 2018, down from 4.2% in the second quarter. Household consumption spending (+4%, annualized), inventory investment, and government spending (+2.6%) contributed to GDP growth. Exports fell (-4.4%) along with residential construction (-2.6%) and non-residential construction (-1.7%).

Recessionary fears are being stoked by inversion of the yield curve at the 2- and 3-year rate compared to the 5-year rate on government debt issues. Inversion of the yield curve at the 2- and 10-year rate is typically considered a forecasting signal for recessions, but inversion tends to
to 513 units in the second quarter. In contrast, the average valuation of the building permits issued increased 4.2%, rising to $228,000 from $219,000.

For the second consecutive quarter, lower wages and a shorter workweek (noted above) did not translate into increased layoffs in the region. The number of initial claims for unemployment insurance (UI) dipped 1.5% to 508 from 516 in the previous quarter. New UI claims remain 10% below normal, suggesting firms currently remain very reluctant to lay off workers. The preferred path appears to be managing payroll more efficiently and letting attrition reduce the workforce. The seasonally adjusted unemployment rate fell to 3.3% from 3.6% in the previous quarter.

In summary, the Savannah metro economy grew during the third quarter, but at a slower rate. Further, evidence is mounting that points toward a sluggish near-term future. Declines in total employment, utilization of the workforce, new home construction, and business/professional services employment suggest a near-term slowdown is increasing in likelihood. This, in combination with the fall in the forecasting index, suggests the regional economy may be approaching a stall. It is recommended to closely monitor economic conditions in early 2019.

Morgan Rushing provided research assistance.

### A Note From the Director

The *Economic Monitor* is available by email and at the Center’s website (georgiasouthern.edu/parker/big/big-programs/cbaer/). If you would like to receive the *Monitor* by email, please send a ‘subscribe’ message to CBAER@georgiasouthern.edu.

### About the Indicators

The *Economic Monitor* provides a continuously updating quarterly snapshot of the Savannah Metropolitan Statistical Area economy, including Bryan, Chatham and Effingham counties in Georgia. 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.