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Coastal Empire Economic Monitor, 4th Quarter, 2019

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ECONOMY ENDS STRONG, SUBSTANTIAL DECLINE EXPECTED

Growth in the Savannah metro economy accelerated in fourth quarter of 2019, extending the gains of the previous quarter. All eight coincident economic indicators in the index increased, but growth was stronger in port activity, electricity sales and tourism.

The business forecasting index fell slightly during the fourth quarter but does not include any data reflecting regional impacts of the COVID-19 pandemic. In 2020, economic dislocation caused by virus containment and mitigation efforts will be substantial and will be layered on top of (and dominate) the already cautionary signal sent by the forecasting index.

The regional economy will likely be, at best, flat in the first quarter of 2020, followed by a sharp contraction in the second quarter. Expectations for third quarter are currently hazy but expected to improve as the quarter progresses with a more substantial release of pent-up consumer demand and economic growth in the fourth quarter.

Regional Economy Expands in Late 2019

The Savannah metro economy expanded 0.7% (3% annualized) during the quarter. The coincident index of economic activity increased to 192.7 from 191.1. With the exception of the second quarter, annualized growth in the metro area economy was a healthy 2.8% in 2019.

The index of current economic activity was supported primarily by port activity and sales of electricity to regional commercial, industrial and residential users. Port activity closed out the year with 6% annual growth while electricity sales increased during the year. Modest growth in regional employment (+0.3%) contributed to the gain, while quarterly gains in hotel room rentals (+6%), retail sales (+2.8%) and plane boardings at the airport (+1%) boosted the economy.

The Georgia Department of Labor completed its annual “tune-up” and

revision of monthly employment data available through the Current Employment Statistics program. Each year, the payroll employment data gathered through a survey of businesses is benchmarked against headcount employment available from the state’s unemployment insurance program. The 2020 adjustments resulted in an upward revision of 2,600 jobs for the first quarter of 2019 but a downward revision of 500 jobs toward the end of the year.

Employment in Savannah’s three-county metro area was 186,300, a gain of 600 jobs from the previous quarter and 0.5% higher than year-ago data. Jobs in business and professional services continued to erode, shedding another 500 jobs and contributing to the loss of 2,200 jobs in the sector since the first-quarter peak of 22,600 workers. Business and professional services are proxy indicators of business-to-business demand for services. Manufacturing employment gained 300 workers to stand at 19,200, a record-setting high. In addition, construction added another 300 jobs, rising to 8,300 workers. Employment in the leisure and hospitality sector was 27,700 at the close of the year.

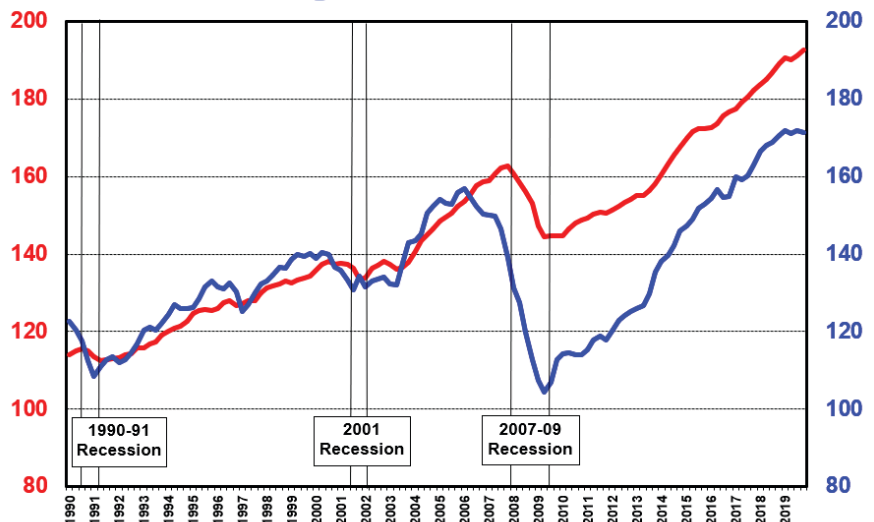
Hourly wages in the private sector bumped up to \$22.90, a gain of 1% during the year. The length of the workweek increased to 33.4 hours, a 2.5% increase as compared to year-ago data. Both of these labor market indicators will be under substantial pressure in 2020.

U.S. Economy

U.S. gross domestic product (GDP) growth increased modestly in the fourth quarter, rising at a rate of 2.1% (annualized), matching third-quarter growth. Modest consumer spending growth (+1.7%) and nonresidential construction (-8.1%) held GDP growth down, but residential construction (+6.2%), government expenditures (+2.6%) and exports (+2%) contributed to economic growth.

Expectations for nationwide economic contraction resulting from the coronavirus generally call for a GDP loss of 4% to 10% in the second quarter and about half this amount for the third quarter. Outlier forecasts are as high as declines of 15% to 25%, similar to the contraction in Chinese manufacturing output through early March 2020. Note that two-thirds of all U.S.

Savannah Metro Business Index Leading and Coincident Series



economic output is consumed by households. As household spending activity is increasingly limited by temporary suspension of business operations, avoidance of crowds, shelter-in-place orders and loss of household income, total economic activity will decrease sharply.

Fiscal and monetary policy tools are being deployed against the economic fallout associated with the pandemic. Collectively, the policy tools are meant to create a bridge from the current situation back to the baseline economy. The goals are to provide credit to businesses experiencing a short-run loss of revenue and support the income of workers most affected by constrained business activity.

Congress passed an initial \$8.3 billion bill and a subsequent \$100 billion bill, both of which collectively funded vaccine development, increased testing for the virus, two weeks of paid sick leave for workers at businesses with less than 500 workers, and additional funds for Medicaid, unemployment insurance and food stamp programs.

Further, the federal government is currently crafting legislation that could yield an economic stimulus package of about \$2 trillion, including direct payments to households (\$500 billion) and lending programs for small business (\$350 billion), severely stressed industries (\$425 billion) and airline companies (\$75 billion). Also included is a substantial increase in eligibility for and duration of unemployment insurance benefits (\$200+ billion), and about \$240 billion in healthcare expenditures and hospitals (\$100 billion).

In two emergency moves in March, the Federal Reserve cut interest rates down to the .0% to 0.25% range from 1.5% to 1.75%. Further, the Fed is standing ready to

inject as much liquidity as needed into the financial system by purchasing government bonds, municipal debt, corporate bonds, mortgage-backed securities and direct loans to main street business (\$300 billion). The Fed is encouraging banks to borrow directly from it through its discount window lending program and is establishing lending facilities to channel short-term credit to businesses and households. These are similar to the actions conducted by the Fed to maintain continued operation of severely stressed financial markets during the recession of 2007-09.

Expectations for Savannah Metro Area

The Savannah area business forecasting decreased during the quarter. The index fell 0.4% (-1.5%, annualized), a similar decline as registered in the second quarter of the year. These two declines sandwiched a 2% (annualized) gain in the third quarter.

In the labor market, the number of initial claims for unemployment insurance (UI) dropped 15% to 580 from 625 in the third quarter, but remained 8% higher as compared to previous-year data. The seasonally adjusted unemployment rate fell four-tenths of one percentage point to 2.8% in the fourth quarter, seven-tenths of one percent less than one year ago. Both of these labor market indicators are expected to deteriorate rapidly in the first and second quarter of 2020.

In the regional housing market, seasonally adjusted building permit issuance for single-family homes (a proxy for new residential construction) increased for the third consecutive quarter. Building permits issued increased 7.9% to 625 units from 580 units. Average valuation per single family unit increased 1.1% to \$226,200

from \$223,600. Building permit valuation per unit is 2.6% above comparable data from late 2018. Residential construction is expected to wane, but refinancing activity is likely to be strong as borrowers seek to lock in historically low mortgage rates.

In summary, while the Savannah metro economy ended 2019 strongly, the prospects for the next six to nine months are not good. As global and nationwide economic recession sets in, activity in port operations, logistics and distribution will contract in the region. Regional manufacturing is more likely to be affected by social distancing in the workplace or self-imposed suspension of activity to protect worker health that will either slow or halt production.

People-intensive service sector businesses, especially those in the leisure and hospitality industry, will experience substantial decline in short-run demand as a result of virus containment efforts. Reported closures and curtailment of activity at regional retail, restaurant and tourism-related businesses are accumulating. As shelter-in-place orders become necessary in the region, business activity will be severely limited except for firms in sectors deemed essential. Firms with a robust online ordering system and access to a distribution network will suffer less than traditional bricks-and-mortar establishments. The length of stay-at-home restrictions will be directly correlated with the severity of short-run economic dislocation.

Wide swaths of the regional economy will be affected by the pandemic in the near term. On the other side, pent-up consumer demand is expected to fuel a fairly rapid national and regional recovery that is expected to take root in the third quarter and blossom during the final quarter of 2020.

A Note From the Analyst

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.

Hyeun Shin provided research assistance.

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About the Indicators

The *Economic Monitor* provides a continuously updated 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.