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Coastal Empire Economic Monitor, 1st Quarter, 2020

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Coastal Empire ECONOMIC MONITOR

PANDEMIC SLAMS REGIONAL ECONOMY, OUTLOOK REMAINS MURKY

Governmental response to the pandemic shuttered much of the regional economy toward the end of the first quarter of 2020. Economic growth ground to a halt as seven of the eight indicators of current economic activity in the region fell. Significant declines were recorded in airplane boardings, hotel sales and port activity.

The business forecasting index fell sharply in the first quarter, as initial claims for unemployment insurance skyrocketed during the last week of March. All six leading indicators declined and further signs of economic damage will be forthcoming in second-quarter data.

The regional economy will experience sharp contraction in the second quarter, likely extending into the third quarter of 2020. The speed of rebound and recovery will be influenced primarily by how people react to governmental easing of restrictions on business activity. More substantial economic recovery will be delayed until such time that business owners, employees and consumers develop a greater level of comfort interacting with each other in the public domain.

Regional Expansion Ends

The Savannah metro economy contracted modestly by 0.1% (0.4% annualized) during the quarter. The coincident index of economic activity decreased to 192.5 from 192.7. However, this overstates the level of economic strength, given that economic conditions did not deteriorate more substantially until March, so that overall quarterly data was buoyed by monthly data from January and February.

The index of current economic activity was weighed down primarily by declines in tourism indicators and port activity, but also less so by electricity sales and retail sales. Preliminary reports indicate hotel occupancy rates plummeted into the single digits by the end of the quarter and hotel tax revenue data reeled accordingly. Electricity sales to residential, commercial and industrial users were down in the

quarter but remain about 9% above year-ago levels.

Reported employment in Savannah's three-county metro area was 186,300, unchanged from the previous quarter. However, this is likely to be revised downward in the coming months. The payroll employment data is based on a sample of businesses, and the methodology used to extrapolate to all businesses incompletely captures turning points in the data. In other words, the payroll employment data is currently overstating current employment. Jobs in service sectors, particularly leisure and hospitality, retail trade and health care are likely to be revised downward by the largest amount, as these sectors were hit hardest by shutdown orders.

The tourism economy is battered. Employment in the leisure and hospitality sector declined by 400 workers, falling to 27,300 and is assured to further decline. Roughly 65% of total regional claims for unemployment insurance in March were filed by workers in the tourism sector. Airplane boardings fell 17%, while rental car tax receipts fell 13%. The number of visitors on guided tours in Savannah fell 35%. Because the initial economic effects of the pandemic appeared in March, not throughout the quarter, tourism sector data

will continue to deteriorate significantly in the second quarter.

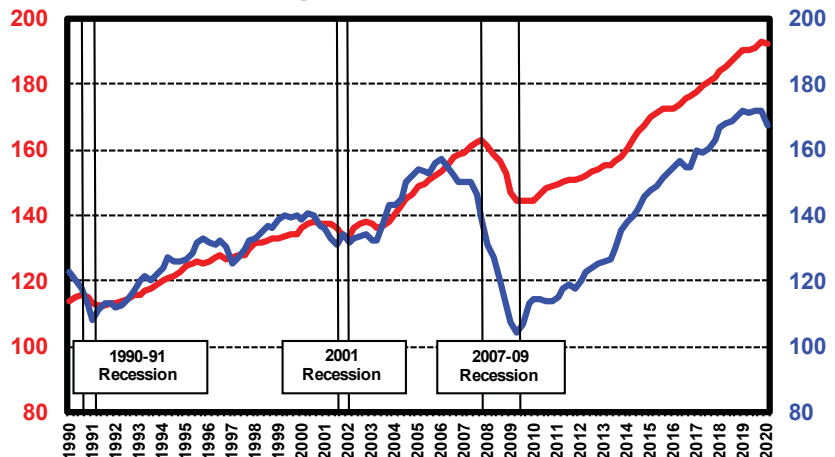
In the goods-producing sectors, manufacturing and construction gained 200 workers each. Manufacturing employed 19,500 workers while construction sector employment increased to 8,500.

Hourly wages in the private sector declined to \$22.47 (-1.5%). The length of the workweek shortened modestly to 32.9 hours, a 1% decline. The length of the workweek is expected to contract sharply in the second quarter, but oddly, average hourly wages are likely to artificially increase as substantial numbers of lower-wage workers lose their jobs.

U.S. Economy Enters Recession

U.S. economic output (gross domestic product, GDP) fell 4.8% in the opening quarter of 2020. Consumer spending on services plunged 10.2% and by 7.6% overall, while business spending on capital equipment fell 8.6%. Nonresidential construction fell 10% and exports were down 9%. Overall, it was a miserable GDP report, with significantly worse data expected for the second quarter.

Savannah Metro Business Index Leading and Coincident Series



The federal government continues to take action to blunt the pandemic's economic effects. A second round of funding for the Paycheck Protection Program increased federal government commitment to the program to \$670 billion. Overall, approximately \$2.5 trillion in federal government spending has been deployed to mitigate the economic damage from the pandemic.

The Federal Reserve also continues to expand its role in the effort support the economy. The Fed has committed to "open-ended" quantitative easing in which it will purchase various assets including government bonds, municipal debt, corporate bonds and mortgage-backed securities. The nation's central bank also committed up to \$2.6 trillion in direct lending to support households, businesses, financial markets, and state and local governments.

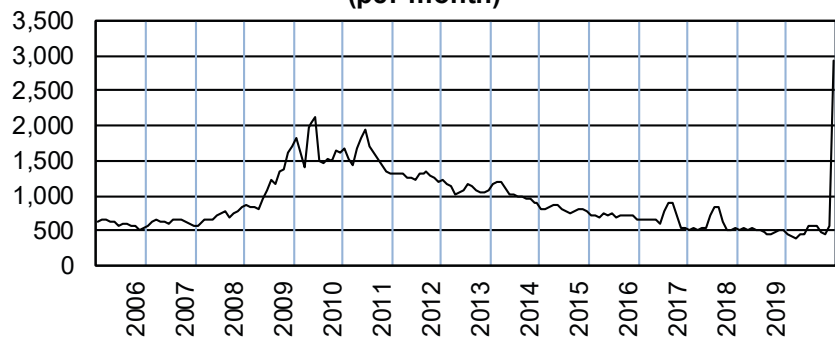
The Fed has issued forward guidance that the Federal Funds Rate will be held close to 0% "until it is confident that the economy has weathered recent events." The Fed's actions are similar to its responses during the Great Recession but are significantly greater in scope and magnitude, and much more rapidly deployed than during the 2007 to 2009 period.

Deterioration Expected in Savannah Region

The Savannah area business forecasting index plunged 2.8% (11% annualized) during the first quarter of 2020. All six leading indicators declined, but particular weakness in the labor market weighed most heavily on the index.

Starting first with the regional housing market, the seasonally adjusted number of single family homes permitted for construction decreased 12%, falling to 549 units from 625 in the previous quarter. Average valuation per single family unit decreased 3% to \$219,700 from \$226,200. This is roughly 3% less than the average during the previous four quarters.

Savannah MSA Initial Claims for Unemployment Insurance (per month)



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

In the labor market, the average number of monthly initial claims for unemployment insurance (UI) skyrocketed six-fold to 2,942 from 490 in the fourth quarter. In March alone, 7,608 claims were filed. UI claims are running at roughly twice that amount through April. The seasonally adjusted unemployment rate increased eight-tenths of one percentage point to 3.6% for the first quarter. The rate is trending up significantly, as the March unemployment rate was 4.3%. Given the number of UI claims recently filed, expect the regional unemployment rate to increase into the 15% to 20% range during the second quarter.

The initial UI claims data shed light on which sectors are likely to experience the largest declines in reported employment in the second quarter. Among the largest seven sectors (with more than 14,000 workers), Accommodations and Food Services has the largest number and share of workers filing for UI benefits, roughly 90% of total workers. Retail Trade, Health Care and Administrative Support each had about 33% of their workforce filing UI claims. For the region as a whole, roughly 35% of the workforce filed for UI benefits through April. Larger sectors with lower than average UI filings include Manufacturing (13%), Logistics (12%) and Education (6%).

In summary, the pandemic's effects on the Savannah metro economy began to emerge in first quarter data. Wide swaths of the regional economy have been affected by the pandemic, but the distribution of economic pain is not uniform across sectors of the economy. Manufacturing and Logistics have been spared the worst and are likely to recover more quickly than most service sectors. The prospects for the second quarter are very weak, with modest recovery beginning in the third quarter.

While pent-up consumer demand will fuel the beginning of recovery, household saving has increased significantly amid increased economic uncertainty. People-intensive service sector businesses with higher than average UI filings, especially those in the leisure and hospitality industry, are expected to recover more slowly as employers, employees and consumers begin to navigate the uncertainty associated with the new normal of the pandemic economy. Consumer spending will drive the rate of recovery that is now more likely to resemble a swoosh than a V-shaped or U-shaped recovery. Economic conditions will begin to improve during the third and fourth quarters, but more robust recovery in consumer-driven sectors will be delayed well into 2021.

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.



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.