2020

Coastal Empire Economic Monitor, 2nd Quarter, 2020

Georgia Southern University Center for Business Analytics and Economic Research

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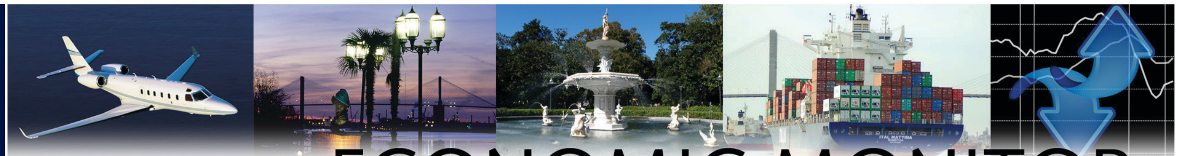


Coastal Empire ECONOMIC MONITOR

ECONOMY SLAMMED BY PANDEMIC, SLOW RECOVERY EXPECTED

Economic activity in the Savannah metro area plunged during the second quarter. Unprecedented declines were recorded in data characterizing the tourism and hospitality industry, and more broadly, in the service sectors of the economy. The goods-producing sectors (construction and manufacturing), along with the logistics sector, experienced more modest declines by comparison.

The business forecasting index plummeted in the second quarter as initial claims for unemployment insurance skyrocketed. While all six leading indicators declined in the second quarter, the worst appears to have passed.

The regional economy will begin to expand in the third quarter, and, while the percentage growth rates will seem exceptionally large, expansion to pre-pandemic economic activity will require quite some time. Substantial economic recovery, particularly in the service sectors with intensive levels of person-to-person interaction, will be delayed until an effective COVID-19 vaccine that increases the confidence of consumers is widely deployed.

Regional Economy Suffers

The Savannah metro economy severely contracted by 11.2% (38% annualized) during the first full pandemic quarter. The coincident index of economic activity decreased to 170.2 (revised) from 191.8 (revised). As the effects of the pandemic reverberated through the regional economy, all coincident indicators of economic activity declined significantly during the quarter.

The sharpest declines, unsurprisingly, were in the regional service sector wherein tourism indicators and retail trade plummeted in unprecedented magnitudes. Total employment fell 10% while port activity declined 8%. Electricity sales to residential, commercial and industrial users were down modestly, falling 2% below year-ago levels.

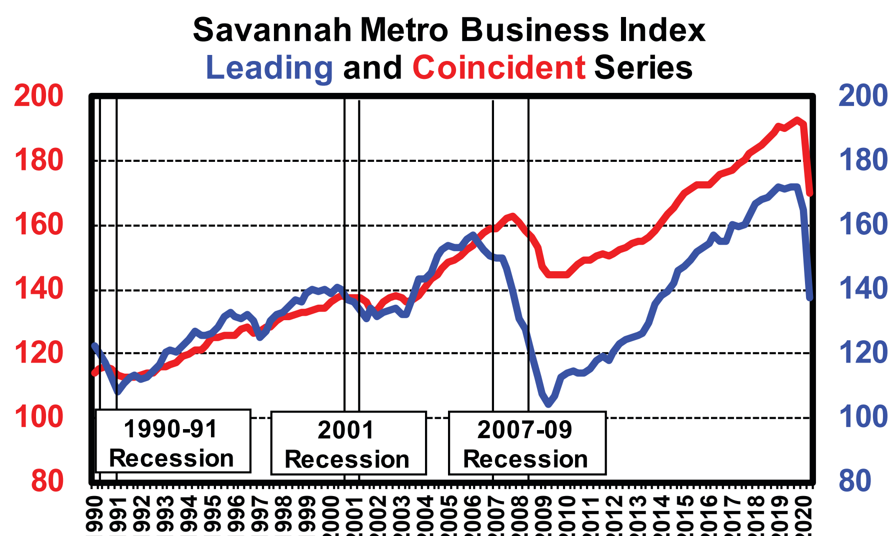
Employment in Savannah's three-county metro area was 167,100 for the quarter, a decline of 19,000 workers. At the low point in April, employment stood at 159,600 and recovered to 174,300 by June. In the service sector, which was hit the hardest by Covid-19 operating restrictions, leisure and hospitality recorded the largest decline of 10,300 jobs while retail trade lost 1,800 workers. Professional and business services sustained another blow, losing 1,100 workers, bringing the twelve-month loss to 2,500 jobs.

The tourism economy suffered heavily in the second quarter. The 10,300 jobs lost represent a 38% decline in employment. In one quarter, the sector fell from its ranking as the number one largest sector to the fifth largest sector. Continued operating restrictions will constrain recovery even as business strategies evolve to confront the current reality of a severely hamstrung tourism economy.

Of total new claims for unemployment insurance since March, 35% were filed by workers in the tourism sector, nearly three times the rate of the next two hardest hit sectors, health care and social service (11.9% of total claims) and retail trade (11.7% of total claims). Airplane boardings fell 86% from a monthly average of 104,000 boarding in the first quarter to about 15,000 boardings in the second quarter. Rental car tax receipts fell 65% while the fees collected from visitors on tours in Savannah plummeted 96% to less than $5,000 for the entire quarter. These are stunning and unprecedented declines.

In the goods-producing sectors, manufacturing lost 1,500 workers (-5%) and construction lost 400 workers (-4%). On a relative basis, goods-producing sectors fared far better than service sectors. New claims for unemployment insurance in manufacturing were 4.2% of total claims filed since March, while construction's share was 1.5% of total claims. The regional logistics industry shed only 200 jobs in the quarter, and the sector's share of total new unemployment insurance claims was 3.5%. Manufacturing employed 17,900 workers, construction had 8,100 jobs, and logistics had about 14,500 workers.

Hourly wages in the private sector increased 2.7% to $23.03 as the regional economy shed a disproportionately higher number of lower wage service sector jobs. The length of the private sector workweek shortened 1.3 hours to 31.9 hours, a 4% decline.



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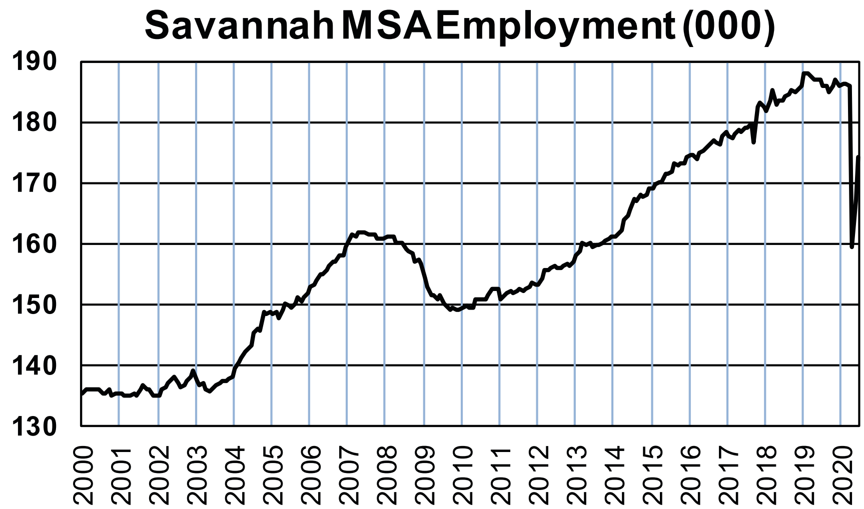

U.S. Economy Plunges Deep into Recession

U.S. economic output (gross domestic product, GDP) plunged 31.4% in the second quarter of 2020. A 33% decline in consumer spending drove the adverse outcome along with a 46% fall in business spending on capital goods. Nonresidential construction fell 34% and residential construction fell 36%. The country's international trade was hammered as well. Exports declined 64% and imports fell 54%.

The federal government's $2.5 trillion fiscal stimulus spending helped blunt the economic effect of the pandemic, but was relatively smaller as a percentage of GDP (13% of GDP) as compared to fiscal responses by the governments of Japan (42% of GDP), Germany (33% of GDP) and France (21% of GDP).

The Federal Reserve expanded its balance sheet by $7 trillion (+70%) in its various efforts to inject liquidity into the economy. This includes an "open-ended" commitment to purchase various assets including federal and municipal government bonds, corporate debt, and mortgage-backed securities. The Fed's direct lending program makes up to $2.6 trillion available to support small and medium sized businesses, financial markets, and state and local governments.

The Fed's monetary stimulus far outpaces the effort of the Bank of Japan and the European Central Bank, which saw their balance sheets increase by 18% and 39%, respectively. This injection of liquidity, along with the fiscal stimulus, generated stronger equity market responses in the U.S. (+40% from March to June) as compared to 30% recovery in European and Japanese stock markets.

Economists surveyed by The Wall Street Journal expect a 30% recovery in GDP in the third quarter. Further, about 60% of the economists expect GDP to recover to pre-pandemic levels by the end of 2021 with another 20% expecting recovery by the end of the first quarter of 2022. Regardless, it will be a long and slow road to full recovery.

Modest Recovery Expected

The Savannah area business forecasting index plunged 17% (53% annualized) during the second quarter of 2020. All leading indicators declined, primarily due to exceptional weakness in the labor market and continued weakness in the housing market.

In the regional housing market, the seasonally adjusted number of single-family homes permitted for construction fell 18% to 448 from 549 in the previous quarter. Average valuation per single family unit increased 2% to $224,300 from $219,700. This is approximately $1,000 less than the average during the previous four quarters.

In the labor market, the average number of monthly initial claims for unemployment insurance (UI) increased to 24,917 from 2,942 in the first quarter. The seasonally adjusted unemployment rate jumped to 11.9% from 3.7% in the first quarter. The comparable unemployment rate from the previous year was 3.2%.

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. The pullback in consumer spending and travel severely slammed the regional tourism and hospitality sector along with retail trade and services. Manufacturing and logistics have been spared the worst and are likely to recover more quickly than service sectors.

As to the future, tentative signs of economic recovery should begin to emerge in 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 and how employees and consumers navigate the uncertainty of the pandemic economy.

Anticipate seeing the beginnings of a modest economic recovery in the third quarter, but a more robust recovery will be delayed into 2021, more likely toward the end of the year for the consumer-based service sectors.

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.

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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.