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Coastal Empire Economic Monitor, 3rd Quarter, 2020

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Coastal Empire ECONOMIC MONITOR

SAVANNAH SEEING SIGNS OF RECOVERY

Economic activity in the Savannah metro area began to stabilize and rebound during the third quarter. Total regional employment increased notably along with port activity, but continued weakness in the tourism industry and retail trade undermined recovery. The service sector remains hobbled by the pandemic and manufacturing unexpectedly tailed off during the quarter after standing up quite well initially in the recession. Growth continued robustly in the logistics sector.

The business forecasting index declined for the third consecutive quarter. While the labor market appears to be rebounding, initial claims for unemployment insurance remained highly elevated. Notable strength in the housing market prevented the forecasting index from falling more severely.

Employment growth will slow in the fourth quarter as compared to the gains reported for the third quarter below. More substantial recovery will be delayed until the regional hospitality industry, and the service sector in general, return to early 2020 levels. There is little change in the forecast for those sectors: continued recovery will be slow until an effective COVID-19 vaccine is widely deployed.

Regional Economy Still Struggling

The business index for the Savannah metro economy declined 1.7% (6.8% annualized) during the third quarter. The coincident index of economic activity decreased to 167.0 from 170.0 (revised). The more general indicators of economic activity such as total employment, port activity, and electricity sales improved, but the index was weighed down by continuing weakness in the tourism economy.

Employment in Savannah's three-county metro area averaged 177,100 for the quarter, a gain of 10,000 workers. At the low point in April, employment was 159,600, but recovered to 179,800 by September. The September job figure is

97% of its pre-pandemic level. Leisure and hospitality recorded the largest increase of 4,200 jobs while professional and business services recovered 2,100 workers.

Job growth was limited to the service sector as the goods-producing sector shed 300 workers. Manufacturing fell to 17,500 (-2.2%) jobs while construction gained 100 workers. The regional logistics sector added 800 jobs (+5.3%) and employs 15,300 workers.

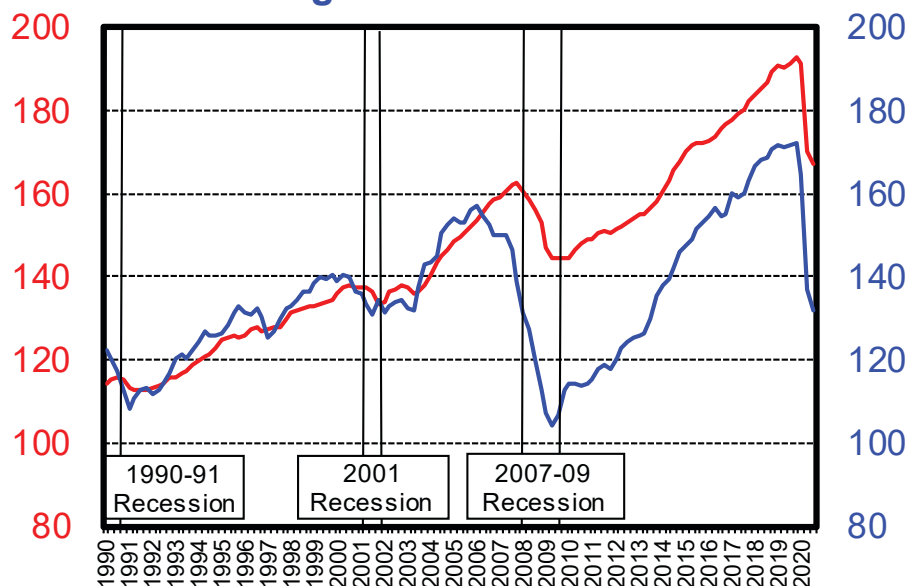
The tourism economy continues to struggle. After falling to 13,600 workers in April, employment in the leisure and hospitality sector jumped to about 21,000 by July and inched up to 21,400 by the end of the third quarter. Even with this 25% one-quarter recovery, sector employment remains 23% below the pre-pandemic level. Airplane boardings increased over 200% from the second quarter, but any rebound from a very low bottom will yield an exceptionally large percentage gain. Boardings remain 63% lower than year-ago levels. Hotel room rentals remain down by roughly the same amount (-58%),

and rental car tax receipts remain down by 39%.

The rebound in the regional economy varies by sector. The chart on the next page compares monthly employment to its level in February 2020 with the index of employment for the given sector set equal to 100. By September, employment in the Savannah metro area (MSA) was at 97% of its February level. Tourism was hardest hit, dropping to 50% of its pre-pandemic level and subsequently recovering to 78%. Manufacturing was initially relatively protected from the slump, but extended the downward trend into the third quarter, falling to 91%. Logistics employment is fully recovered, and, in fact, is at 104% of the pre-pandemic level. Retail trade largely mirrored total MSA employment, but recovered to 99% by September.

Hourly wages in the private sector increased to \$23.18 from \$23.03 in the previous quarter. The length of the private sector workweek shortened one-tenth of an hour to 31.8 hours.

Savannah Metro Business Index Leading and Coincident Series



U.S. Economy has Record-Breaking Rebound

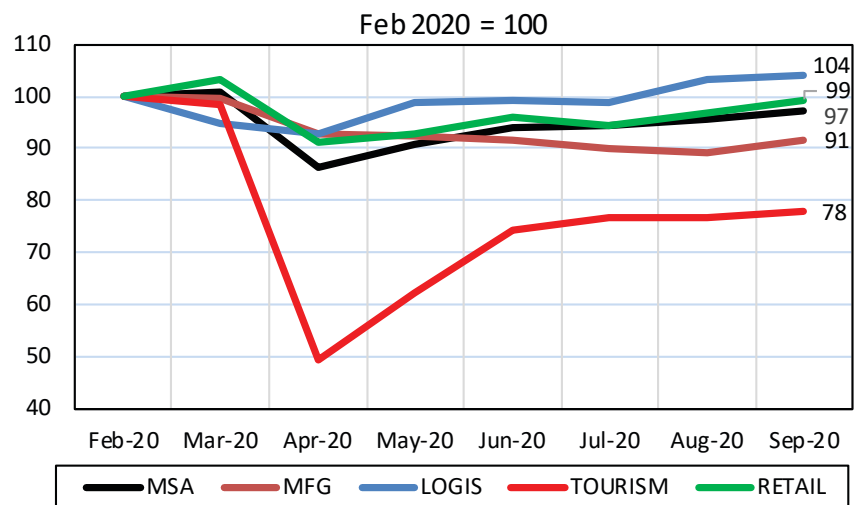
U.S. economic output (gross domestic product, GDP) surged at a record-breaking pace of 33.1% in the pandemic-rebound third quarter of 2020. A stunning 41% increase in consumer spending spurred the economy along with a 70% surge in nonresidential construction and 59% upswing in residential construction. Business spending on capital goods increased at a pace of 83% growth. Consumer spending (two-thirds of economic activity) increased substantially on services and durable goods. The country's international trade rebounded sharply as well with imports gaining at 91% and exports surging at an annual pace of 60%. Government spending declined at a rate of 4.5%, a result of decreased federal government nondefense expenditures (-18%), particularly in stimulus spending.

Note that despite the rebound, national economic output in the third quarter remained 2.9% below third quarter output from a year ago. International trade did not recover as quickly, as exports and imports remain 14.6% and 9% below year-ago levels, respectively.

The Federal Reserve continues to take steps to stimulate the economy. The Fed's \$600 billion Main Street Lending Program for small and medium size businesses reduced the minimum loan amount from \$250,000 to \$100,000, further reflecting easing lending minimums initially set at \$1,000,000 per loan. Changes in the Fed's fee structure for the program were also revised to create a stronger incentive for banks to extend the small loans to businesses.

The Federal Reserve continues to warn that without additional fiscal stimulus, the third quarter rebound may lose momentum. This prospect is more likely if the number of permanent job losses continues to mount after federal stimulus checks are

Savannah MSA Index of Sector Growth



long-since spent and as enhanced federal unemployment insurance benefits are set to expire at the end of the year. With interest rates effectively at zero percent and holding, the Fed's traditional tools of monetary policy used to counter economic weakness are limited in strength.

Regional Recovery Will Continue

The Savannah area business forecasting index fell 3.7% (14% annualized) during the third quarter of 2020. Part of the decline, however, is an artifact of the index methodology. Several of the underlying leading series rebounded from the previous quarter plunge, but the lag structure built into the index will delay the effects of the reversal from fully appearing in the trajectory of the forecasting index until the fourth quarter.

The good news is exceptional strength in the regional home construction sector and improving conditions in the labor market appeared in the third quarter.

In the regional housing market, the seasonally adjusted number of single family homes permitted for construction

surged 54%, rising to 743 units from 549 in the previous quarter. Average valuation per single family unit jumped 16% to \$260,900 from \$224,300.

In the labor market, the average number of monthly initial claims for unemployment insurance (UI) decreased 72% to 11,218 from 24,917 in the second quarter. The seasonally adjusted unemployment rate fell to 6.9% from 11.9% in the previous quarter. The comparable unemployment rate from the previous year was 3.1%.

Near-term (six to nine months ahead) prospects for the Savannah metro economy are muted. The labor market recovery of the third quarter is unlikely to be repeated with the same magnitude in the fourth quarter. The easiest gains have already been recovered. Strong conditions in the housing market and logistics industry will support the regional economy, but constrained tourism and service sector growth along with emerging weakness in the manufacturing sector will limit upside potential. As before, more robust recovery will be delayed into 2021, more likely toward the end of the year, especially for 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.



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.