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Coastal Empire Economic Monitor, 3rd Quarter, 2017

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Coastal Empire ECONOMIC MONITOR

CONTINUED GROWTH, SOME HURRICANE SOFTNESS

The Savannah metro economy weathered the effects of Hurricane Irma and maintained strong economic growth through the third quarter of 2017. However, September data for several underlying indicators of current economic activity were weak. In particular, employment and electricity sales suffered somewhat during September, but early quarter strength kept the economy on the growth track, despite the weakness in September. Consumer confidence in the South Atlantic states and plane boardings at the airport also supported the index of current economic activity.

The forecasting Coastal Empire economic index decreased modestly during the third quarter, also reflecting passage of Hurricane Irma. The regional labor market, in particular, was hit by the hurricane. Further, housing market indicators remained sluggish for the second consecutive quarter.

While growth in the regional economy continued during the third quarter, there is some evidence of the economic damage caused by Hurricane Irma. The weakness in the forecasting index is likely to be temporary. The regional economy quickly shook off the effects of Hurricane Matthew in 2016 and a similar longer term response is expected for Irma.

Bumpy Growth

The Coastal Empire coincident economic index increased 1.1% (4.4% annualized) to 181.6 from 178.7 (revised) in the previous quarter. The pace of economic expansion increased on the shoulders of strong July and August data, even as Hurricane Irma affected several key indicators in September.

On Thursday, September 7, 2017, a mandatory evacuation order for all Chatham County and Georgia coastal areas east of I-95 was issued to take effect at 8 a.m. on Saturday, September 9. As Irma tracked further west than expected, the evacuation order was adjusted at 1 p.m. on September 9 and

limited to low-lying coastal and island areas of eastern Chatham County. By then, however, a significant number of residents had already evacuated and, along with the curfew in effect until Tuesday the 12th, disruption of business activity in the county was certain.

Electricity sales (a broad indicator of residential, commercial, and industrial activity) and retail sales both declined by about 6% from the previous quarter. The length of the workweek (number of hours worked) was 7% shorter in September, as compared to August and October. Further, consumer confidence in the South Atlantic states was shaken in September, but began to recover in October.

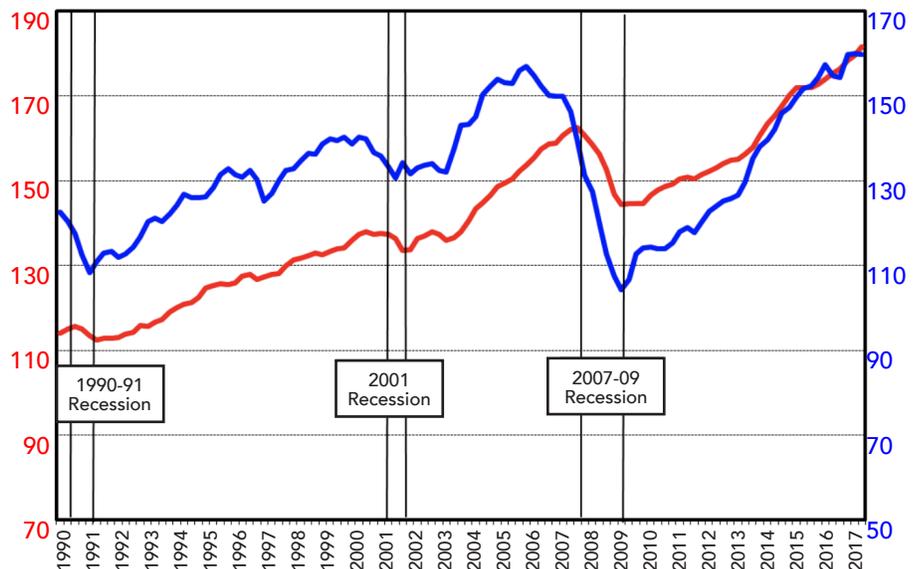
Total employment for the quarter increased 1.2%, but because Irma was centered on the Georgia-Alabama border on September 12, when firms report their monthly employment totals, September employment was 1,200 jobs fewer than reported in August. From August to September, the combined losses in leisure/hospitality, retail trade, and business/professional services

were 1,800 jobs. Modest scattered growth in other sectors accounts for the change in the overall total for September data.

By contrast, in the quarterly data, Savannah metro employment increased 1,700 jobs (+1.2%) to 180,900 from the second quarter to the third quarter. Regional employment is a very healthy 2.7% ahead of year-ago levels (see graph on back page). Employment growth was led by local government (+800), leisure/hospitality (+700), and education/health (+500). Business/professional services dropped 300 workers during the quarter.

On the goods-producing side of the economy, manufacturing employment held steady at 16,800 workers. Construction employment notably increased by 300 jobs to stand at an eight-year high of 7,400 workers. While regional employment hit its post-recession low toward the end of 2009, construction continued to shed workers for another three years (see graph below). Construction then bumped along the bottom through 2012 and 2013 before beginning to

Coastal Empire Economic Indicators
Leading and Coincident Indexes



grow again in 2014. As of the third quarter of 2017, construction employment remains only 79% of its 2008 level, while total employment grew 12% since 2008.

Activity at Savannah's port facilities dipped by 1%, as compared to the second quarter, but remains 10% ahead of 2017 on a year-to-date basis. In addition, the number of containers handled went over three million units in September, the earliest that benchmark was surpassed.

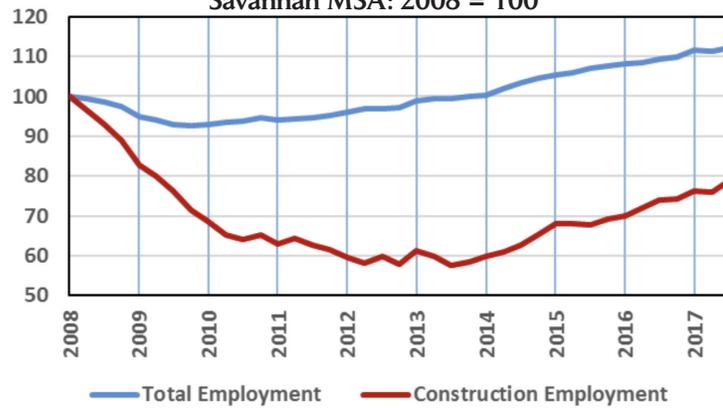
The tourism industry also was affected by Hurricane Irma. Although hotel room sales inched up 1.1% (and 6.4% ahead of comparable data from last year), several other tourism indicators were down during the quarter. Alcohol sales declined 9%, while the number of visitors on tours in the city declined 8%. Automobile rentals increased by 9%, perhaps as a result of increased demand induced by the evacuation orders. Boarding at the airport increased 10% during the quarter, and is now running 20% ahead of last year. Employment in the leisure and hospitality sector of the economy increased by 700 workers, rising to a work force of 27,500, up 5.5% from year-ago figures.

U.S. Economy Advances

U.S. GDP expanded at an annual rate of 3.3% in the third quarter of 2017, up from 3.1% in the second. Growth in business investment in equipment (+10.4%), household spending (+2.3%), and exports (+2.2%) supported economic expansion. However, construction of commercial (-6.8%) and residential (-5.1%) structures declined. Federal government spending increased modestly (+1.3%), offsetting a small decline in state and local government spending (-0.1%). Residential construction declined for the second consecutive quarter. The consensus forecast for GDP growth in 2018 is approximately 2.5%.

Jerome Powell is on tap to replace Janet Yellen as Fed chair in February 2018. The move is generally viewed as essentially a continuation of the policies pursued by the Yellen Fed. Powell's appointment should not be considered a

Index of **Total** and **Construction** Employment
Savannah MSA: 2008 = 100



harbinger of broad deregulation of the banking industry. However, there is potential for modest loosening of post-financial crisis regulation, what Powell refers to as a move toward more efficient banking regulation.

The current federal funds rate was pushed up a quarter point by the Fed in December to set the target rate at 1.25% to 1.5%. Additional increases are expected in 2018, further advancing toward a projected 2.1% by December 2018 and 2.6% by year-end in 2019.

Forecasting Index Falls

The Coastal Empire leading economic index fell 0.1% percent (-0.5%, annualized), declining to 159.8 from 160.0 (revised) in the previous quarter. The forecasting index was weighed down by decreased building permit issuance and increased initial claims for unemployment insurance.

In the housing market, seasonally adjusted building permit issuance for single-family homes plummeted 23% during the quarter, likely a joint effect of flagging nationwide activity and the effect of Hurricane Irma's passage and related evacuations. Building permits issued in the Savannah metro area for single family homes fell to 413 during the quarter, as compared to 538 units (seasonally adjusted) in the second quarter. The average valuation of building permits for single-family homes increased 2.7%, rising to \$223,500 from \$226,000.

Hurricane Irma clearly affected the regional labor market. On a seasonally adjusted basis, the number of initial unemployment insurance (UI) claims doubled from August to September and remained elevated into October. For the quarter, UI claims soared 38% to 722 per month from 522 claims. This is expected to be a temporary effect lasting into October before the number of claims returns to trend as the year closes. The regional unemployment rate fell to 4.1% in the third quarter, dropping from 4.6% in the previous quarter. The unemployment rate was 5.2% in the third quarter of 2016.

In summary, although several key indicators of the current health of the Savannah economy were adversely affected in September by the passage of Hurricane Irma, strength in July and August kept the economy on its growth track during the third quarter. While the forecasting index was pulled down by the effects of Hurricane Irma, the longer term fundamentals supporting sustained growth in the Savannah metro economy remain in place. Thus, the regional economy is expected to remain on track for sustained growth through mid-2018.

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A Note From the Director

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About the Indicators

The Coastal Empire Economic Indicators are designed to provide continuously updated quarterly snapshots of the Savannah Metropolitan Statistical Area economy. 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.