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Coastal Empire Economic Monitor

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## Coastal Empire Economic Monitor, 4th Quarter, 2017

Armstrong State University Center for Regional Analysis

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# Coastal Empire ECONOMIC MONITOR

## CONTINUED GROWTH DESPITE HURRICANE

The Savannah metro economy closed out 2017 with moderate growth. While the overall index of economic activity increased, growth was not consistent across major sectors of the economy. Some of the hurricane-related weakness of September lingered into October data, particularly in employment and energy use (electricity sales). Exceptionally strong port activity buoyed the economy along with increased retail sales activity. On balance, tourism was strong, but boardings at the airport were flat.

The forecasting Coastal Empire economic index increased slightly during the fourth quarter, also reflecting passage of Hurricane Irma. Most leading indicators moved favorably during the quarter, but the dip in residential construction induced by Hurricane Irma weighed on the index during the fourth quarter.

The regional economy continued to power along, but at a slightly slower pace than during the previous quarter. The lingering effects of Hurricane Irma on the forecasting index are dissipating and signs are pointing to continued economic vitality in the second half of 2018.

### Continued Growth

The Coastal Empire coincident economic index increased 0.61% (2.5% annualized) to 182.6 from 181.3 (revised) in the previous quarter. The pace of economic expansion slowed from the previous quarter, but remains remarkably consistent in over-the-year expansion of roughly 3.4%, as it has for the previous four quarters.

Total employment for the quarter was nearly flat with an increase of 100 workers to 181,000, slowing over-the-year growth from +2.7% to +2.3%. October employment bounced back to offset the September decline of 1,200 jobs caused by Hurricane Irma. November and December job counts were down, primarily attributed

to a puzzling decrease of 1,300 jobs reported for local governments.

On an annual basis, metro area employers added 4,600 jobs, an increase of 2.7%. (See chart below.) This equaled the average pace of expansion since 2010, but an improvement from 2016 (+2.4%). In 2017, the fastest growing sector was construction (+7.3%) followed by leisure and hospitality (+5.2%), wholesale trade (+5%), and business and professional services (+4.7%).

On the goods-producing side of the economy, manufacturing added 200 jobs, rising to 17,000 workers. Construction employment increased by 200 jobs to 7,600 workers. The construction sector has added 2,200 jobs since the post-recession low set in mid-2013.

Activity at Savannah's port facilities soared 13% as compared to the previous quarter and is 15% higher than year-ago levels. The total number of containers handled exceeded four million in 2017, a record-setting high and a gain of 10.6% over 2016.

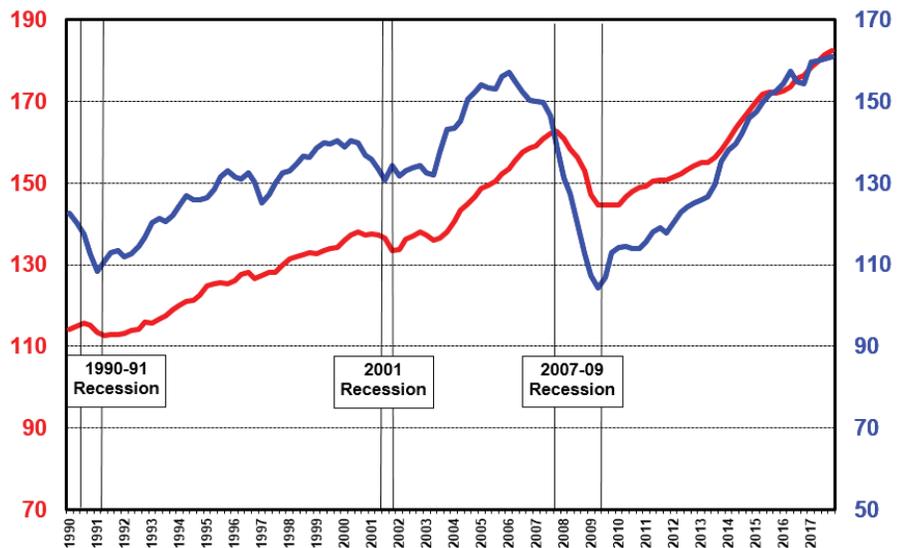
Regional tourism rebounded strongly after the passage of the September hurricane. Hotel room sales notably increased 10% from the third quarter and closed out the year 4.6% above 2016. Other tourism indicators rebounded similarly. Auto rentals increased 8%, while double-digit quarterly gains were posted in alcohol sales (+11%) and in the number of visitors on guided tours in the city (+18%). Boardings at the airport were stable during the quarter but ended the year up 16% from 2016. Employment in the leisure and hospitality sector increased by 400 workers, rising to 27,900.

### U.S. Economy Advances

U.S. GDP expanded at an annual rate of 2.9% in the closing quarter of 2017, down from 3.2% in the third. Strength in household spending (+4%) contributed heavily to GDP growth.

Further, after two consecutive quarters of decline, residential construction soared (+12.7%) along with solid increases in non-residential construction (+6.3%) and

## Coastal Empire Economic Indicators Leading and Coincident Indices



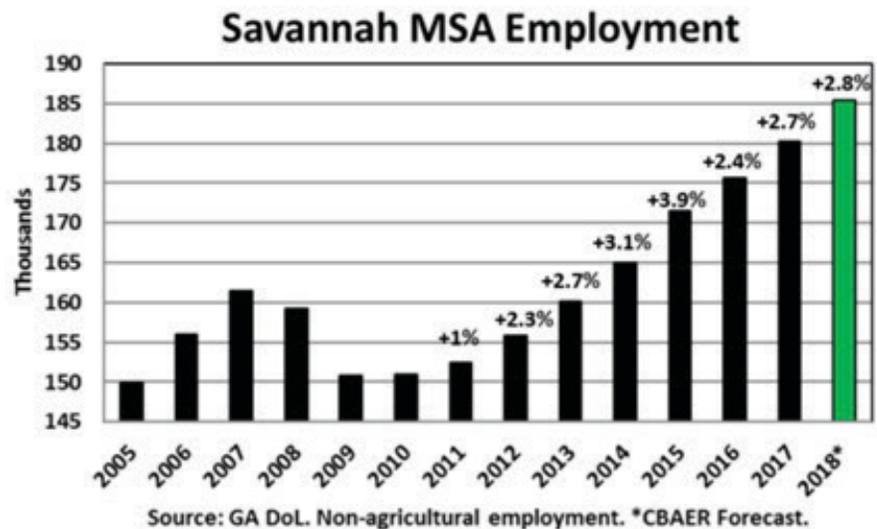
business spending on capital equipment (+11.6%). Exports also increased at a pace of 7%. Federal government spending increased (+3%) with defense spending growing at a pace of 5.5%. The consensus perspective on national economic growth for 2018 is approximately 2.4%.

In December, Federal Reserve policy makers increased the federal funds rate to a range of between 1.25% and 1.5%. In early 2018, the Fed moved up again by another one-quarter percentage point. Fed-watchers are expecting three to four additional increases in 2018. Expectations about end-of-year rates are currently pegged at 2.25% with two more increases expected in 2019. Continued strength in U.S. economic growth combined with low inflation is the scenario yielding the expected action by the Fed over the next two years.

The Fed began shrinking its \$4.5 trillion balance sheet in late 2017, unwinding about \$100 billion by the end of the year. The reduction is expected to increase to a rate of about \$50 billion per month by late 2018. Fed chair Jerome Powell hinted at the end-point of the process by referencing research papers suggesting the balance sheet could fall to about \$2.4 trillion during the next three to five years.

### Forecasting Index Rises

The Coastal Empire leading economic index increased slightly (+0.5%, 1.1% annualized), moving from 160.8 from 160.3 (revised) in the previous quarter. The forecasting index effectively has been moving sideways for three consecutive quarters, averaging less than one percent growth during that time. However, both labor market and housing market indicators are now moving in a favorable



direction and the index is expected to climb again starting in 2018.

In the housing market, seasonally adjusted building permit issuance for single family homes rebounded 7.4% after plummeting 23% during the second quarter. Building permits issued in the Savannah metro area for single family homes increased to 443 during the quarter as compared to 413 units (seasonally adjusted) in the previous quarter. The average valuation of building permits for single family homes increased 6.6%, rising to \$238,400 from \$223,500.

In the labor market, the number of initial unemployment insurance (UI) claims fell 13% from 772 to 631 per month in the quarter after the passage of Hurricane Irma. The number of new UI claims is 30% below year-ago levels. The regional unemployment rate ticked up slightly by one-tenth of a percent to 4.2%, but remains one full percentage point below the 5.2% recorded in the final quarter of 2016.

In summary, the Savannah metro economy remains on the path of healthy sustainable growth. Although the passage of Hurricane Irma in September adversely effected some economic indicators, sufficient forward momentum propelled the economy through the blip and kept the economy on its 12-month trend of 3.5% annual growth in regional output.

The forecasting index moved sideways for three quarters, pointing to a moderation of growth through mid-2018. However, early indications for 2018 are pointing to a return of upward movement in the forecasting index for the opening quarter of 2018. Overall, expect mid-year growth to moderate somewhat, perhaps drifting down one-half percentage point to 2% annualized growth in employment, but returning to trend of about 2.8% by the close of 2018.

*Nikki Herbert provided research assistance.*

### A Note From the Director

Armstrong State University's Center for Regional Analysis is now consolidated with Georgia Southern University's Bureau of Business Research and Economic Development to form the Center for Business Analytics and Economic Research (CBAER) under the direction of Dr. Michael Toma. CBAER's web presence will be housed at Georgia Southern's Business Innovation Group. Please pardon our progress while the new website takes form. If you would like to receive the Monitor by email, please send a 'subscribe' message to [mtoma@georgiasouthern.edu](mailto:mtoma@georgiasouthern.edu).

### About the Indicators

The Coastal Empire Economic Indicators are designed to provide continuously updating 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.