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Georgia Southern's Q4 2019 Economic Monitor reports economy ends strong, substantial decline expected

March 30, 2020



The Economic Monitor provides a continuously updated quarterly snapshot of the Savannah Metropolitan Statistical Area economy, including Bryan, Chatham and Effingham counties in Georgia.

Georgia Southern University's latest Economic Monitor, which analyzes Q4 2019 data and identifies trends affecting the regional economy, reports that the Savannah metro economy ended strong in 2019, however substantial decline is expected in the coming months.

"The regional economy will likely be, at best, flat in the first quarter of 2020, followed by a sharp contraction in the second quarter," stated Michael Toma, Ph.D., Fuller E. Callaway professor of economics. "On the other side, pent-up consumer demand is expected to fuel a fairly rapid national and regional recovery that is expected to take root in the third quarter and blossom during the final quarter of 2020."

Growth in the Savannah metro economy accelerated in the fourth quarter of 2019, extending the gains of the previous quarter. All eight coincident economic indicators in the index increased, but growth was stronger in port activity, electricity sales and tourism.

The business forecasting index fell slightly during the fourth quarter, but does not include any data reflecting regional impacts of the COVID-19 pandemic. In 2020, economic dislocation caused by virus containment and mitigation efforts will be substantial and layered on top of (and dominate) the already cautionary signal sent by the forecasting index.

Regional Economy Expands in Late 2019

The Savannah metro economy expanded 0.7% during the quarter. The coincident index of economic activity increased from 191.1 to 192.7. With the exception of the second quarter, annualized growth in the metro area economy was a healthy 2.8% in 2019.

The index of current economic activity was supported primarily by port activity and sales of electricity to regional commercial, industrial and residential users. Port activity closed out the year with 6% annual growth while electricity sales increased during the year. Modest growth in regional employment contributed to the gain, while quarterly gains in hotel room rentals, retail sales and plane boardings at the airport boosted the economy.

Employment Trends

The Georgia Department of Labor completed its annual tune-up and revision of monthly employment data available through the Current Employment Statistics program. Each year, the payroll employment data gathered through a survey of businesses is benchmarked against headcount employment available from the state's unemployment insurance program. The 2020 adjustments resulted in an upward revision of 2,600 jobs for the first quarter of 2019 but a downward revision of 500 jobs toward the end of the year.

Employment in Savannah's three-county metro area was 186,300, reflecting a gain of 600 jobs from the previous quarter and 0.5% higher than year-ago data. Jobs in business and professional services continued to erode, shedding another 500 jobs and contributing to the loss of 2,200 jobs in the sector since the first-quarter peak of 22,600 workers. The business and professional services sector is a proxy indicator of business-to-business demand for services. Manufacturing employment gained 300 workers to stand at 19,200, a record-setting high. In addition, construction added another 300 jobs, rising to 8,300 workers. Employment in the leisure and hospitality sector was 27,700 at the close of the year.

Hourly wages in the private sector bumped up to \$22.90, a gain of 1% during the year. The length of the workweek increased to 33.4 hours, a 2.5% increase as compared to year-ago data. Both of these labor market indicators will be under substantial pressure in 2020.

Expectations for Savannah Metro Area

The Savannah area business forecasting decreased during the quarter. The index fell 0.4%, a similar decline as registered in the second quarter of the year. These two declines sandwiched a 2% gain in the third quarter.

In the labor market, the number of initial claims for unemployment insurance dropped 15% to 580 from 625 in the third quarter but remained 8% higher as compared to previous-year data. The seasonally adjusted unemployment rate fell four-tenths of one percentage point to 2.8% in the fourth quarter, seven-tenths of one percent less than one year ago. Both of these labor market indicators are expected to deteriorate rapidly in the first and second quarter of 2020.

Housing

In the regional housing market, seasonally adjusted building permit issuance for single-family homes increased for the third consecutive quarter. Building permits issued increased 7.9% to 625 units from 580 units. Average valuation per single-family unit increased 1.1% to \$226,200 from \$223,600. Building permit valuation per unit is 2.6% above comparable data from late 2018. Residential construction is expected to wane, but refinancing activity is likely to be strong as borrowers seek to lock in historically low mortgage rates.

In summary, while the Savannah metro economy ended 2019 strongly, the prospects for the next six to nine months are not good. As global and nationwide economic recessions set in, activity in port operations, logistics and distribution will contract in the region. Regional manufacturing is more likely to be affected by social distancing in the workplace or self-imposed suspension of activity to protect worker health that will either slow or halt production.

People-intensive service sector businesses, especially those in the leisure and hospitality industry, will experience substantial decline in short-run demand as a result of virus containment efforts. Reported closures and curtailment of activity at regional retail, restaurant and tourism-related businesses are accumulating. As shelter-in-place orders become necessary in the region, business activity will be severely limited except for firms in sectors deemed essential. Firms with a robust online ordering system and access to a distribution network will suffer less than traditional bricks-and-mortar establishments. The length of stay-at-home restrictions will be directly correlated with the severity of short-run economic dislocation.

Hyeeun Shin provided research assistance.

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.