EASING GROWTH

The Savannah metro economy opened 2019 with notably slower growth as compared to the previous several quarters. Tourism activity bolstered the index while slowing electricity sales and port activity during the quarter provided a slowed pace of economic expansion in the region.

The business forecasting index continued its upward climb during the quarter but at slower pace as well. The housing market gave up some gains achieved in the previous quarter. The labor market appears to be moving sideways. Despite mixed signals among leading economic indicators, the overall direction of the economy is favorable, albeit at a moderately slower pace through the remainder of 2019.

Regional Growth Moderates, Tourism Leads

The Savannah metro economy expanded at a rate of 0.4% (1.8% annualized), about half the pace of expansion in the previous quarter. The coincident index of economic activity increased to 189.7 from 188.9 (revised). Tourism indicators were key in lifting the index and offset a modest decline in electricity sales to residential, commercial and industrial users. Among other indicators, the gains of the previous quarter slackened, but the indicators moved up during the quarter. Beyond tourism indicators, consumer spending and overall employment growth buoyed the index, while port activity held fairly stable, even amid growing tension over trade policy with several major U.S. trade partners.

As indicated above, tourism, retail sales and general employment growth contributed to overall regional economic growth. Turning first to tourism, seasonally and inflation-adjusted hotel/motel tax receipts increased 8% during the quarter while boardings at the airport increased 3.3%. Hotel room rentals were 7.8% ahead of previous year levels, and airport boardings have grown 14% as compared to the first quarter of 2018.

The number of visitors on tours in the city also increased 3% during the quarter. Beer, liquor and wine sales were roughly even with the previous quarter and were comparable to year-ago levels. Total employment in the leisure and hospitality sector stands at 26,900—up 600 jobs from last year. Employment in the hospitality industry is the largest among the region’s major economic sectors.

Seasonally and inflation-adjusted retail sales jumped 8% for the second consecutive quarter and are up 7.8% compared to year-ago levels. Although month-to-month retail sales tax receipt data is volatile, the smoothed (three-month moving average) data display an unmistakable consistent upward trend beginning in 2018 and continuing into 2019 (see chart on next page). Employment in retail trade increased about 400 jobs during this time, rising to 22,500 workers.

The Georgia Department of Labor’s annual “benchmarking” exercise generally results in a mild revision of employment data each year during the first quarter. This year’s benchmarking (in which monthly survey data are benchmarked against total employment headcount) yielded a surprisingly large upward revision of 2018 employment data—an increase of 5,000 jobs as compared to previously reported data. Nearly all of the underestimated growth is associated with four sectors in the Savannah metro area that serve as bedrock foundations for the economy: transportation (port, warehousing, distribution), manufacturing, tourism and construction.

Total employment in Savannah’s three-county metro area was 185,300, a gain of 900 jobs from the previous quarter. This is the third consecutive quarter in which total quarterly employment growth was about 800 jobs. This pace of job creation is approximately one-third the pace recorded the first nine months of 2018. The decline in job creation corresponds with a loss of about 1,800 jobs in business and professional services—a concerning trend that warrants continued scrutiny. Nonetheless, total employment in the region is 0.8% higher than year-ago levels.

The goods-producing side of the Savannah metro economy has steadily churned out 200 to 300 new jobs per quarter since
Projected growth for 2020 and 2021 currently stands just below 2%.

Hourly wages and length of the workweek continued their favorable momentum in the first quarter. Average hourly wages increased to $22.59 from $22.39 (revised) in the previous quarter. The length of the workweek increased, rising to 33.2 hours from 32.6 hours.

### U.S. Economy Picks Up Speed

U.S. GDP increased at a rate of 3.1% in the opening quarter of the year, ticking up from 2.2% in the preceding quarter. Consumer spending, business investment and government spending contributed equally to economic growth during the quarter, while exports played a lesser, but positive role. Household consumption spending growth, while positive, slowed to 1.3% (annualized). Non-residential construction boosted investment spending to 4.3% growth, while government spending increased at a rate of 2.5%. Residential construction fell for the fifth consecutive quarter (-3.5%). Imports declined during the quarter (-2.5%).

The Federal Reserve has backed off its plans of continued monetary policy tightening as job creation slowed and the threat of constrained U.S. and global trade generated potential cause for concern regarding economic growth. Indeed, markets are anticipating a rate reduction in 2019 as Fed Chair Jerome Powell indicated the Fed would act, if necessary, to sustain the U.S. economic expansion. Amid increasing trade tensions, the Fed has further reduced its forecast for GDP growth in 2019 down to 2.1%.

Projected growth for 2020 and 2021 currently stands just below 2%.

### Forecasting Index Slows

The Savannah area business forecasting increased but at a slower pace in the opening quarter of 2019. The index increased 0.7% (2.6%, annualized) after strong growth in the previous quarter. Leading indicators from both the housing market and labor market were mixed.

In the regional housing market, seasonally adjusted building permit issuance for single family homes (a proxy for new residential construction) fell substantially in the quarter after soaring at the end of 2018. Building permits issued fell 15% to 481 from 570 units in the fourth quarter. Although permit issuance declined, the number issued is on a sustainable trend of about 5% annual growth dating back to mid-2016. Average valuation per single family unit increased 25% to $270,300, but this is associated with permit issuance for high-end developments and is expected to drop back to roughly $225,000 next quarter.

In the labor market, the number of initial claims for unemployment insurance (UI) increased 11% to 504 from 454 in the closing quarter of the year. Despite the uptick, UI claims remain below the expected level for the regional economy and remain on par with numbers recorded during the past twelve months. The seasonally adjusted unemployment rate ticked up to a modest 3.8% from 3.5% in the previous quarter.

In summary, economic growth in the Savannah metro area has moderated somewhat during the opening quarter of 2019. While most of the eight key indicators of economic activity in the Savannah metro region improved, the gains were modest this quarter. Lessening employment growth, particularly in business and professional services employment, along with the second consecutive uptick in the unemployment rate, warrant continued close monitoring of the regional economy in the near-term. Although continued economic expansion is expected, a modest reduction in the growth rate is likely on tap for the remainder of 2019.

### 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.