



Coastal Empire ECONOMIC MONITOR

MODEST UPTICK NOW, EXPECTED UPSWING LATER

The fading short-run effects of Hurricane Irma and early January’s “snowpocalypse” limited upside potential in the first quarter of 2018, but, nonetheless, economic growth ticked up modestly in the Savannah area. Retail sales, hotel room sales and port activity returned some of their recent gains, but growth in electricity sales and boardings at the airport lifted the index of current economic activity.

The economic forecasting index surged during the first quarter. Significant improvement in the housing market and continued favorable momentum in the labor market pushed the forecasting index up. Improved consumer confidence in the south Atlantic states also supported the index.

Overall, expansion in the regional economy remained modest but marginally improved from the closing quarter of 2017. Expect increasing economic strength in Savannah-area business conditions during the remainder of 2018.

Mixed Data, But Up Overall

The Savannah metro economy expanded at a rate of 0.5 percent (2% annualized) as reflected in the increase of the coincident index of economic activity to 182.2 from 181.3 (revised) in the previous quarter. The annualized rate of economic growth outpaced the 1.7 percent rate recorded in the fourth quarter of 2017.

Electricity sales (a broad indicator of residential, commercial and industrial activity) and boardings at the airport combined to lift the coincident economic index even as other indicators were mixed. Retail sales, tourism accommodations rentals and port activity dipped by three to four percentage points from the previous quarter.

Total employment was flat at 179,000 persons, up only one-half of one percent over previous year data. Employment

growth has been slowing, losing roughly a one-half percentage point of growth during each of the previous four quarters. Early data from the second quarter, however, suggest improved conditions pushing over-the-year gains to about 1 percent.

Although overall employment growth was flat in the first quarter, some sector-level changes are notable. Construction added 300 workers while manufacturing added 200. Retail and state government each shed 200 workers. On an over-the-year basis, the healthiest growth was in manufacturing (+4.2%), wholesale trade (+3.8%), business and professional services (+3.4%) and leisure and hospitality (+2%).

On the service side of the economy, the leisure and hospitality industry (tourism) is the region’s largest economic sector with 27,000 workers, followed by education and health (26,500), government (24,100), retail (21,700) and business and professional services (20,900).

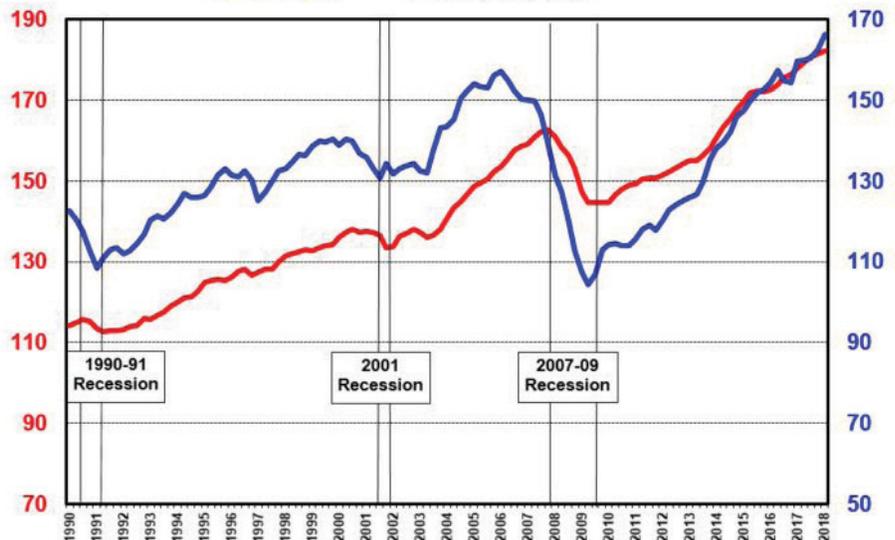
On the goods-producing side of the economy, manufacturing employs 17,500

workers, while construction provides jobs for 7,500 workers. Construction employment has increased 2,000 workers since the post-recession low of 5,500 recorded in late 2013.

On January 3, winter storm Grayson dropped between two and six inches of snow on the region (see page 2) and effectively shut down business and travel for up to five days. Accordingly, tourism activity in the first quarter was soft. Hotel room sales (and vacation rentals) dipped four percent (4%) on a seasonally-adjusted basis as compared to the fourth quarter 2017. Alcohol sales declined two percent (2%) while retail sales fell four percent (4%). The number of visitors on tours in Savannah declined 10 percent.

Activity at Savannah’s port facilities dipped by three percent (3%) as compared to the closing quarter of 2017 but remain up by six percent (6%) as compared to previous year data. Preliminary data for the second quarter point toward similar over-the-year gains.

Savannah Metro Business Index Leading and Coincident Series



U.S. Economic Growth Slows

U.S. GDP expanded at an annual rate of 2 percent in the first quarter of 2018, down from 2.9 percent at the close of 2017. The deceleration is largely attributable to slumping growth in personal consumption expenditures (+0.9%, annualized), the decline in residential construction (-1%), slowing exports (+3.6%) and slowing government expenditures (+1.3%). GDP growth was supported by non-residential construction (+10.4%) and intellectual property expenditures (software and R&D, +13.2%).

Jerome Powell took the reins as Fed chair in February 2018 amid conditions of continued improvement in the labor market and inflation at or near the Fed-preferred rate of two percent (2%). Accordingly, the Federal Reserve has increased short-term interest rates into the 1.75 percent to 2 percent range in two moves since January 2018. After three rate hikes in 2017, Fed-watchers are expecting another two hikes in the second half of 2018, bringing the total to four increases for the current year.

Forecasting Index Soars

The leading (forecasting) economic index surged 2.4 percent (9.7%, annualized), sharply increasing to 166.3 from 162.5 (revised) in the previous quarter. Gains in residential construction and falling unemployment insurance claims primarily pushed up the forecasting index.

In the housing market, seasonally adjusted building permit issuance for single-family homes soared 18 percent from the previous quarter, in contrast to weak nationwide residential construction. Building permits

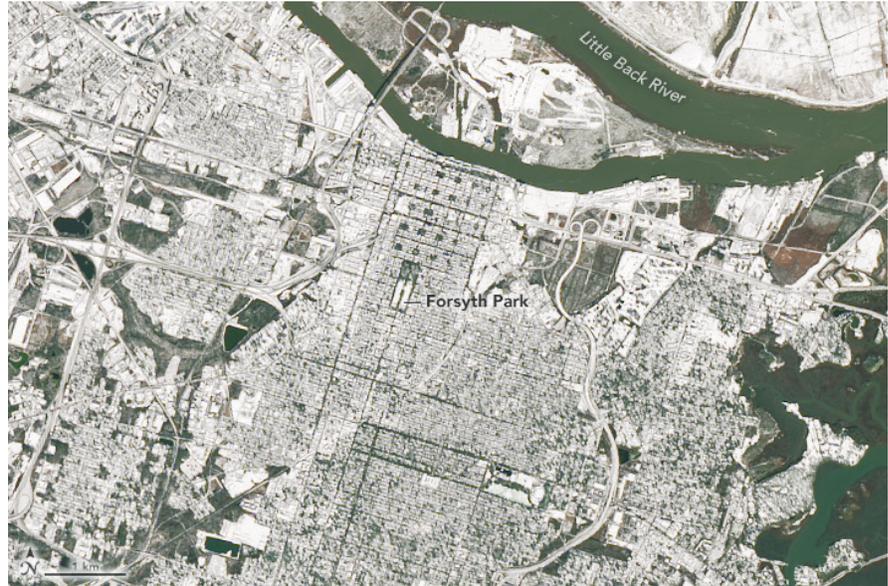


Photo from NASA, January 3, 2018

issued in the Savannah metro area for single-family homes increased to 522 during the quarter as compared to 443 units (seasonally adjusted) in the fourth quarter. The average valuation of building permits for single-family homes fell seven percent (7%), dropping to \$221,000 from \$238,000. Average valuation (excluding land cost) is now two percent (2%) lower on an over-the-year basis.

The labor market has now shaken off the effects of Hurricane Irma. The Irma-induced number of initial claims for unemployment insurance (UI) peaked in the third quarter of 2017 at 722 and remained elevated into the fourth quarter (631 claims). In the opening quarter of 2018, UI claims dropped to 541, representing a 14 percent quarterly decline. The regional unemployment rate fell to 4.0 percent in the first quarter, dropping from

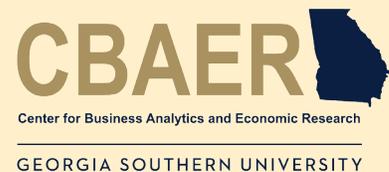
4.1 percent in the previous quarter. The unemployment rate was 4.8 percent in the first quarter of 2017.

In summary, economic growth in the Savannah area increased modestly in the first quarter, but current indicators of economic conditions were mixed primarily because of weather-related incidents; however, the surging forecasting index, based on renewed strength in the housing and labor markets, points toward increased growth in the remainder of 2018.

Morgan Rushing provided research assistance.

A Note From the Director

The *Economic Monitor* is available by email and at the Center's website (georgiasouthern.edu/business/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 updating quarterly snapshot of the Savannah Metropolitan Statistical Area economy and includes 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.