



# Coastal Empire ECONOMIC MONITOR

## LOOKS GOOD

The Savannah metro economy accelerated during the first quarter of 2016. Solid gains in total employment, along with nearly all other economic indicators, supported the strength in the coincident index of regional economic activity.

Growth in the Coastal Empire leading economic index also accelerated. Favorable trends continued in the labor market and housing market. Consumer expectations in the South Atlantic states held steady during the second quarter. Economic growth is expected to continue through the second half of 2016 at a pace comparable to first quarter growth.

### Economic Acceleration

The Coastal Empire coincident economic index increased to 172.5 from 171.8 (revised) in the previous quarter. After giving up a little ground during the second half of 2015, the index increased at an annualized pace of 3.3% during the opening quarter of 2016.

With roughly an equal contribution for each, growth in total employment, electricity sales, and port activity provided most of the lift to the index, while seasonally adjusted retail sales also contributed. However, consumer confidence wavered during the first quarter, but appears to be setting up to be back on track during the spring quarter.

Turning to the labor market, seasonally adjusted employment in the three-county metro area increased 1,300 jobs to average 175,600 for the quarter. Over-the-

year employment growth was 3.6%, the seventh consecutive quarter during which employment growth exceeded 3% (roughly twice the long-term growth rate since 1990). In fact, after emerging from the post-recession doldrums, employment growth has averaged 3%, the fastest multi-year pace since 2005 to 2007 (see chart on page 2). However, growth in the current period is much more diverse across many sectors of Savannah's economy, as compared to the immediate pre-recession period that relied mostly on surging construction sector activity.

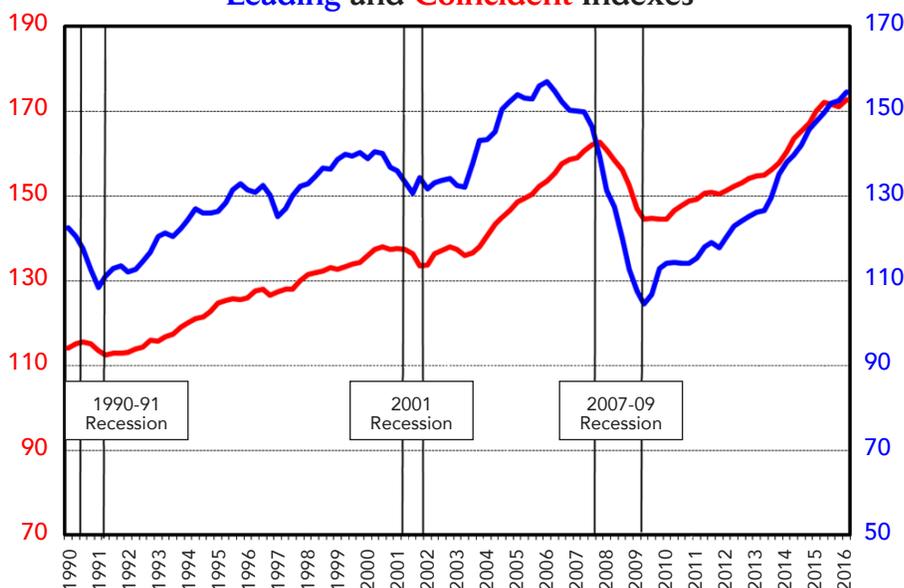
At the sector level, business and professional services employment continues to boom, adding another 700 jobs during the quarter and remaining up about 10%, as compared to year-ago levels. The tourism industry and retail trade each

added about 300 workers. In general, service sector employment increased 1,200 jobs.

In the goods-producing sector, manufacturing added 200 workers, while construction firms shed 100 workers. After steadily adding workers through 2014, construction sector employment has been nearly stable at 6,400 persons for five consecutive quarters. Total seasonally adjusted employment in manufacturing increased to 18,100 during the opening quarter of the year.

As mentioned, the tourism industry added more workers during the quarter. This was in response to increased visitation and the demand for additional workers. Secondary indicators of tourism reflect this as well: ridership on tour buses and trolleys was 6% higher than last year

Coastal Empire Economic Indicators  
Leading and Coincident Indexes



at this time. Further, auto rental sales (+3%) and beer/wine/alcohol sales are 4% higher, as compared to year-ago levels.

### U.S. Economy Slows

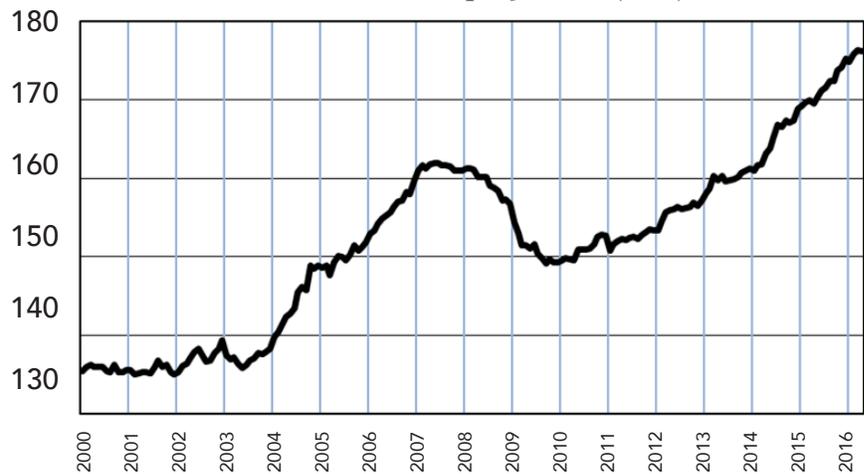
The U.S. economic growth continued to slow during the first quarter of 2016, falling to an annualized rate of 0.8% (revised upward from earlier reports of 0.5%) from 1.4% in late 2015. The slowdown is due to decreases in business investment in plant and equipment (-9%), and deceleration in consumer spending (1.9%) and federal government purchases (-1.6%). Residential construction continued to surge, hitting 17% growth during the quarter. For the previous six quarters, residential construction growth has averaged about 10%. State and local spending bounced back from a 1.2% decline in late 2015 to record 2.9% annualized growth. The *Wall Street Journal* consensus forecast for GDP growth in 2016 continues to drift down, now at 2.0%, but rising to 2.3% in 2017.

The Fed continues to hint at raising the short-term interest rate this summer, possibly in July. Previously, many economists expected this to happen in June, but expectations now focus on a rate increase before the end of 2016. The Fed projects that the short-term rate will be moved to 0.875% in perhaps two moves during 2016. Modest growth in U.S. GDP and employment, accompanied by financial market volatility have countered earlier Fed plans to raise rates sooner. The U. K. vote on leaving the European Union is contributing to further uncertainty in the global economy and financial markets, and is likely to delay rate increases until at least late 2016.

### A Note From the Director

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Savannah MSA Employment (000)



### Forecasting Index Sends Optimistic Signal

The Coastal Empire leading economic index increased 1.4% (5.5%, annualized), rising to 154.5 from 152.4 (revised) in the previous quarter. This represents an uptick in the pace of growth in the index. The index was primarily lifted by a significant jump in the average value of building permits issued for single-family homes, and by diminished new filings for unemployment insurance. A modest drop in the number of permits issued for new homes and a dip in the U.S. leading economic index combined to partially offset index gains.

In the housing market, building permit issuance for single-family homes has hovered around 500 new homes per quarter since early 2015. The seasonally adjusted number of new residential homes permitted for construction declined 4.4%, falling to 487 from 509. Building permit issuance remains off 1% (6 units) from year-ago levels. The average value of a building permit issued for single family homes jumped 23%

to \$251,800 from \$205,600. The first-quarter bounce is not likely sustainable because the figure has been about \$205,000 for a year. Expect the figure to decline in second-quarter data.

In the labor market, seasonally adjusted initial claims for unemployment insurance (UI) fell 14% to 651 per month from 758 claims. The number of new UI claims is now 15% below previous year data and is about 100 claims less than expected, given the size of the workforce. With falling UI claims and steady job growth, the unemployment rate fell to 5.2% (seasonally adjusted). The unemployment rate was about 6.5% one year ago during the first quarter.

In summary, the coincident index of economic activity suggests that Savannah's economy picked up during the opening quarter of 2016. Further, the forecasting index is sending the signal that Savannah's regional economic growth is sustainable through the end of 2016.

*Lainey Sapp provided research assistance.*

Financial support provided by the Armstrong Foundation.