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Economic Monitor

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Armstrong State University

Center for Regional Analysis

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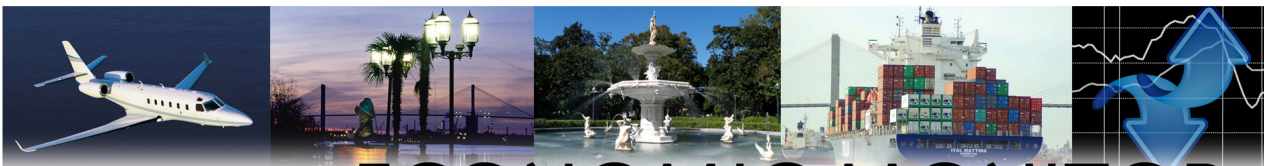


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Coastal Empire ECONOMIC MONITOR

LOOKING GOOD

The Savannah metro economy extended its current winning streak of impressive growth into the first quarter of 2015, even as the national economy struggled. The gains were broad-based, as all coincident economic indicators advanced, led by strong growth in port activity, electricity sales, tourism, retail sales, and overall employment growth.

The Coastal Empire leading economic index increased, but at a more moderate pace during the first quarter. Improvement continued in the housing market and labor market, while gains in consumer expectations continued. The current pace of impressive growth in the regional economy is expected to continue well into 2015.

General Economic Expansion

The Coastal Empire coincident economic index increased 1.3 percent to 169.4 from 167.2 in the previous quarter (see chart). This is an annualized pace of 5.3 percent, extending the period of general economic expansion in the regional economy. The trend rate of growth during the past seven quarters is on par with the rapid pace of growth experienced during the housing boom in the mid-2000s. A notable difference from the earlier period, however, is this expansion is not driven primarily by the housing market. There is very broad support for economic growth arising from the port, manufacturing, tourism, housing, and consumer spending. This time is different.

Seasonally adjusted employment in the three-county metro area increased 300 jobs to 168,800

during the quarter. Over-the-year employment growth remained over 4% for the third consecutive quarter. Further, the sector level data hints toward an upward revision of the overall employment number. At the sector level, goods-producing industries added 400 jobs, while the service sector added roughly one thousand jobs during the quarter. Such divergences between sector level and overall numbers are usually squeezed out in subsequent months' employment data releases.

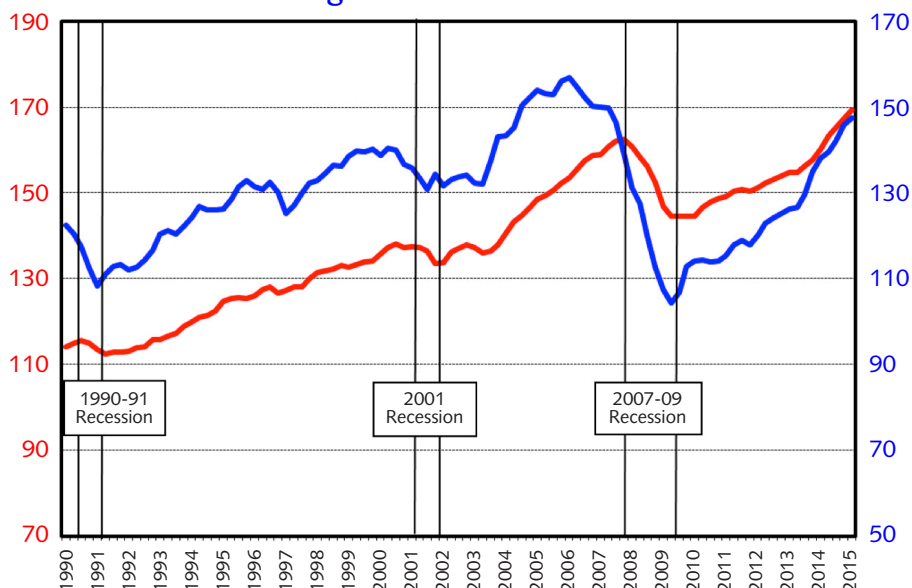
In services, hospitality/leisure added 500 workers, rising to 25,500 jobs, while business/professional services increased by 800 jobs to 20,900 workers. Education and health services increased 100 workers to 24,500 and remains the second largest employment sector in the region behind the tourism industry. Port activity remains

strong (+5% in quarter, +18% over-the-year) and continues to spur employment growth in the transportation sector (+100 jobs).

Returning to the goods-producing sector, manufacturing added 300 jobs to stand at 16,600 workers. Construction employment increased to 6,200 workers (+100), and now is up 15% from its post-recession low.

Tourism continues to power along into 2015. While the last quarter of 2014 was exceptionally strong, the pace was maintained into the first quarter, as hotel room sales were up about 15% from year-ago data. Employment in the tourism industry is up 6,000 jobs from its post-recession low and continues to extend its gains. Boardings at the airport increased 2% during the quarter and were 7% ahead of last year's pace.

Coastal Empire Economic Indicators
Leading and Coincident Indexes



U.S. Economic Growth Dips

The U.S. economy contracted during the first quarter of 2015 at an annual pace of -0.7%. Poor winter weather cut into consumer spending and undercut nonresidential construction. Further, a strong dollar created headwinds for exports. Business spending, fell 3.4% in the first quarter of 2015 and nonresidential construction fell 23.1%. In part, the decline in business spending reflects a decline in spending by energy companies, which cut their costs as oil prices declined. *The Wall Street Journal* consensus forecast for GDP growth in 2015 was adjusted downward to 2.1%.

The Federal Reserve modestly reduced its forecast of US economic growth for 2015 and 2016, but it still calls for above-trend expansion. Further, the Fed appears to be waffling on the timing of increased short term interest rates. While many Fed-watchers are anticipating rate increases starting in September and rising to roughly 0.6% by year-end, with inflation likely to remain less than 1% for 2015, the Fed is less likely to make a move on interest rates. It is more likely that the Fed will wait until either labor markets consistently add more than 250,000 jobs per month or inflation rises to 2%. Neither of these cases appear to be highly probable before September.

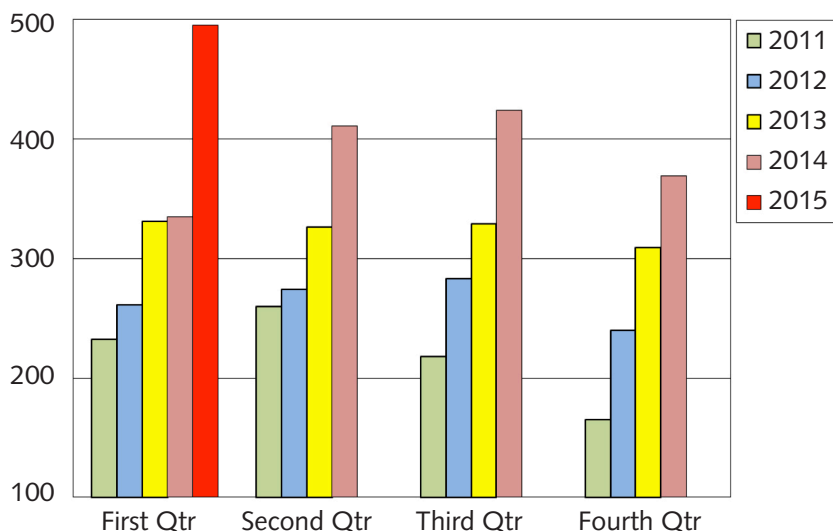
Forecasting Index Rises

The Coastal Empire leading economic index increased 1.1 percent (4.4 percent, annualized), rising to 147.4 from 145.8 (revised) in the previous quarter. This represents a moderating pace of growth, and backs off the blistering rate of acceleration in the index as 2014 closed. The index was lifted by

A Note From the Director

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Single-Family Home Building Permits Issued Per Quarter in Savannah MSA



Source: U.S. Census Bureau. Not seasonally adjusted.

consumer expectations, the housing market, and labor market activity.

In the housing market, building permit issuance for single-family homes surged in the first quarter. The number of new residential homes permitted for construction was 493, the highest quarterly gain since late 2007 (see chart). Building permit issuance is up nearly 50% from year-ago levels. However, the average value of a building permit issued for a single-family home dropped 15%, falling to \$178,000 from \$208,700 at the end of 2014.

In the labor market, seasonally adjusted initial claims for unemployment insurance (UI) fell 5% to 768 per month from 806 claims. The number of new UI claims was 14% below previous year data. Given diminishing UI claims and steady job growth, the unemployment rate averaged 6.1 percent (seasonally adjusted) during the quarter and closed out the quarter strongly, falling to 5.5% in

March. One year ago in March, the unemployment rate was 7.4%.

In summary, the growth in the coincident index maintained a rapid pace of growth, and further extended Savannah's economic winning streak to 7 consecutive quarters. The forecasting index eased back off its very rapid pace to a more sustainable rate of increase. The indices send the signal of a healthy economy expected to stay on track for solid growth in the Savannah area through the remainder of 2015.

Katherine Sikorsky provided research assistance.

About the Indicators

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

Financial support provided by the Armstrong Foundation.