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Coastal Empire ECONOMIC MONITOR

MOSTLY GOOD NEWS

The Savannah metro economy hit the pause button during the third quarter of 2015. Solid gains in total employment and consumer confidence were offset by dips in port activity, retail sales, and plane boardings. Electricity sales and hotel sales effectively were flat, along with the coincident index of economic activity for the region.

The Coastal Empire leading economic index increased, but at a slightly slower pace than the second quarter. Favorable trends continued in the labor market, while housing generally held steady. Consumer expectations in the south Atlantic states declined substantially during the second quarter. Expectations for the fourth quarter are somewhat reduced from earlier projections, but the regional economy is expected to close out the year on an upbeat note. Economic growth is expected to continue through the first half of 2016, but at a more modest pace.

Region: Hitting the Pause Key

The Coastal Empire coincident economic index was level, holding steady at 171.8 (see chart). After averaging a 1.3% annual pace for the previous three quarters, growth slowed to zero in the third quarter. Growth in total employment provided most of the lift to the index, while increases in consumer confidence in the south Atlantic states also played a supporting role. However, seasonally adjusted retail sales did not rise with consumer confidence, and in fact, fell about 10% from the previous quarter and remain 4.7% below year-ago sales, after adjusting for inflation.

Port activity merits attention because of recently changing dynamics regarding east versus west coast trade. Labor

strife in the west resulted in a diversion of cargo to the east coast. The norm of four-to-three market share in cargo trade for west versus east had fallen to be nearly even. However, a new labor pact was ratified by west coast labor unions in May and cargo trade is now beginning to return to previous patterns. This, coupled with slack demand brought on by economic weakness in Europe and Asia, resulted in a quarterly decline of 5.5% (seasonally adjusted) in cargo traffic through the port of Savannah. On a year-to-date basis, trade remains up 7.4%, after being up by as much as 26% in April. Nonetheless, the current cargo figure places port growth on a longer term sustainable trajectory.

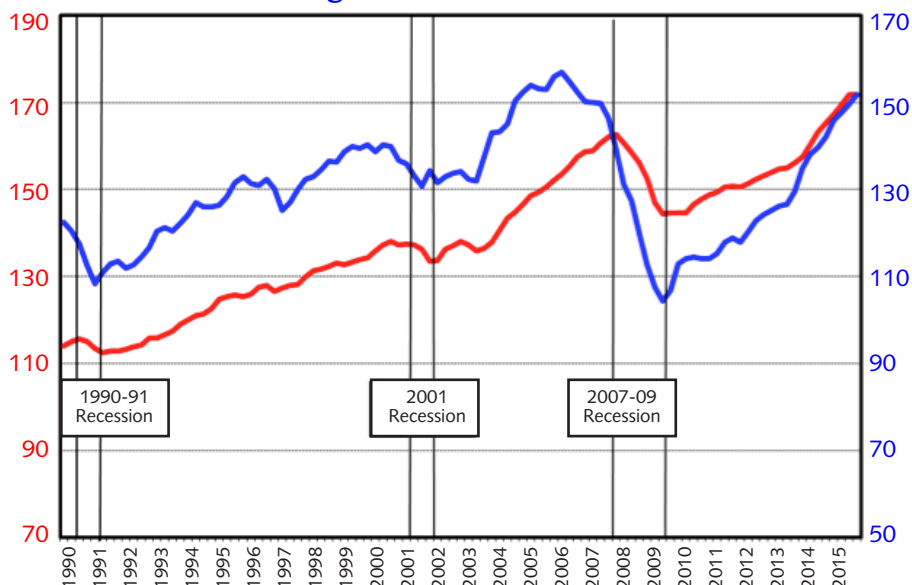
Turning to the labor market, seasonally adjusted employment in the three-county metro area increased 1,500 jobs to average 171,500 for the quarter. Over-the-year employment growth was 3%, trending down from greater than

4% since the end of 2014. For the Savannah area, employment growth remains well above the long-term average of 1.6% growth since 1990.

At the sector level, jobs in the business and professional services sector continue to boom, adding another 500 jobs during the quarter and standing 15% above year-ago levels. The continued momentum in this sector has vaulted it over total government employment into third place behind leisure/hospitality and education/health in terms of sector size. Retail employment increased by 400 workers and local government added 300 workers. In general, service sector employment increased 1,600 jobs. Tourism employment was steady during the quarter.

In the goods-producing sector, manufacturing added 300 workers, while construction firms shed another 100 workers, bringing the six-month

Coastal Empire Economic Indicators
Leading and Coincident Indexes



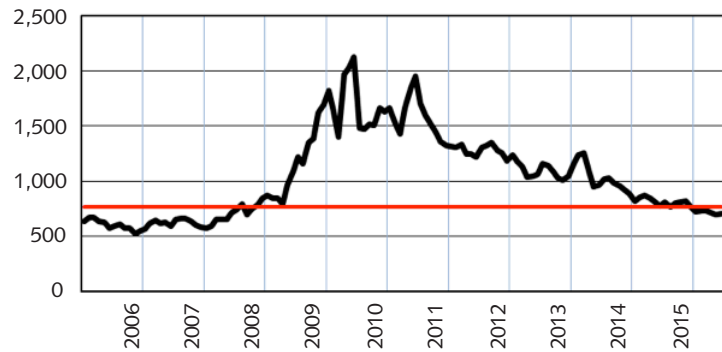
losses in construction employment to 300. Total seasonally adjusted employment in manufacturing increased to 17,000 in September, and hit a 15 year high. Construction employment dropped to 5,900.

U.S. Economy Slows

In the third quarter of 2015, U.S. economic growth slowed to 1.5% (annualized) from the 3.6% pace recorded during the second quarter of 2015. Albeit slow, the nationwide growth was supported by consumer spending, exports, and homebuilding. Consumer spending slowed to 3.2% from 3.6%, while export growth slowed to 1.9% from 5.1%. Residential construction growth eased to 6.1% from 9.3%, but business investment in equipment rebounded to 5.1% growth from 0.3%. The *Wall Street Journal* consensus forecast for GDP growth in 2015 is 2.3%, rising to 2.6% in 2016.

Testifying before Congress two days before the release of the October jobs report, Fed Chairwoman Janet Yellen indicated that interest rate increases could be expected if the economy continued to demonstrate solid growth. The October gain in nationwide employment surged to 271,000 persons, pushing the number of full-time jobs above the peak level prior to the 2007-09 recession. Further, hourly wage gains were 2.5%, as compared to year-ago data, the strongest performance since mid-2009. Indeed, now nearly two-thirds of the 60 economists polled by the *Wall Street Journal* believe rate increases will start in December, and nearly half of the economists believe a second rate increase will happen in March. A rate increase had been expected in September, but volatility in financial markets and economic ambiguity overseas, particularly in China, put a damper on that plan. Given recent economic strength and

Savannah MSA Initial Claims for Unemployment Insurance



Source: Ga. Dept of Labor. 3 month moving average.

the Fed's need to have wiggle room for monetary policy, expect a rate increase in December.

Forecasting Index Points to Continued Growth

The Coastal Empire leading economic index increased 1.4% percent (5.5%, annualized), rising to 151.8 from 149.7 (revised) in the previous quarter. This represents an uptick in the pace of growth in the index. The index was primarily lifted by trends in housing market activity, but the gain was partially offset by declines in consumer expectations and the US leading economic index.

In the housing market, building permit issuance for single-family homes has consistently remained just below a very healthy 500 permits per quarter for three consecutive quarters. The seasonally adjusted number of new residential homes permitted for construction was 491, same as in the second quarter, and as compared to 493 in the first quarter. Building permit issuance remains up 11% from year-ago levels, and has experienced the healthiest nine month run since the first three quarters of 2007 before the recession. During the previous two years, building permits for single-family homes have been issued with an average value of \$202,500. The

average permit value in the third quarter of 2015 was \$198,300, a 9.6% decline from the previous quarter of \$219,400.

In the labor market, seasonally adjusted initial claims for unemployment insurance (UI) fell 3.5% to 707 per month from 732 claims. The number of new UI claims was 8.6% below previous year data and is below the usual expected given the size of the workforce (see red reference line on UI chart). With falling UI claims and steady job growth, the unemployment rate fell four-tenths of a percentage point to 5.4% (seasonally adjusted). The third quarter unemployment rate was 7.2% one year ago.

In summary, the coincident index of economic activity suggests that Savannah's economy leveled off during the third quarter. In some ways, this is an artifact of the data in which it was difficult to sustain the exceptionally high previous growth rates in port activity and tourism. In that sense, it is less troubling, especially given the positive momentum in total employment growth and the continued increase in the forecasting index that maintained its signal of continued economic growth for the region. As it stands, expect continued expansion in the Savannah metro economy through mid-2016, perhaps with some moderation in growth as compared to the previous year.

Jesse Reisman provided research assistance.

A Note From the Director

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