



Coastal Empire ECONOMIC MONITOR

ECONOMY IS ROARING BACK

The Savannah metro area economy continued to roar back for the fourth consecutive quarter. Nearly all major indicators of regional economic activity increased during the third quarter. Tourism indicators led metro growth and skyrocketed for the second consecutive quarter. Employment growth increased while port activity and electricity sales contributed more modestly to regional growth. Retail trade eased somewhat during the quarter.

The business forecasting index resumed an upward trend after a one-quarter pause. Labor market indicators improved while housing market indicators were mixed. The forecasting index is expected to converge more narrowly with the coincident economic index in the next several quarters as initial claims for unemployment plummet toward near-normal (pre-pandemic) levels toward the end of the year and into 2022.

Despite tightness in the regional labor market, metro area employment is expected to increase at a sustainable level at least through the middle of 2022. Regional employment surpassed its pre-pandemic level somewhat earlier than expected. Some near-term uncertainty results from the emergence of the omicron variant of Covid-19, but this is more likely to marginally reduce the rate of economic growth rather than reverse it.

Region is Recovered, but Restructured

As of the third quarter, the business index for the Savannah metro economy is fully recovered from the pandemic-induced plunge. The quarterly increase was 4.3% (20.5% annualized), up from 16% annualized growth in the previous quarter. The index of current activity increased to 199.2 from 190.9 (revised). For the second consecutive quarter, tourism lifted the index as hotel room sales (+24%) and airplane boardings (+19%) registered massive one-quarter growth.

Employment in Savannah's three-county metro area gained 2.3% (+4,300 jobs) rising to 193,000 as compared to the pre-pandemic peak of 192,100 in the fourth quarter of 2019. The regional economy has added a breath-taking 32,000 jobs since the pandemic low of 161,000 in April 2020. Employment growth will slow into the first quarter of 2022, settling down toward a typical pre-pandemic pace averaging about 0.6% per quarter (roughly 2.5% per year).

The pandemic-induced restructuring of the regional economy is clearly present in the service sector. Business and professional services continue to soar, adding another 1,000 workers during the third quarter. In the past four quarters, the sector added 6,500 jobs, rising to a total of 29,300 workers and settling comfortably in as the largest component of the regional economy. Logistics added 500 jobs (+3%) and is 114% of its pre-pandemic level.

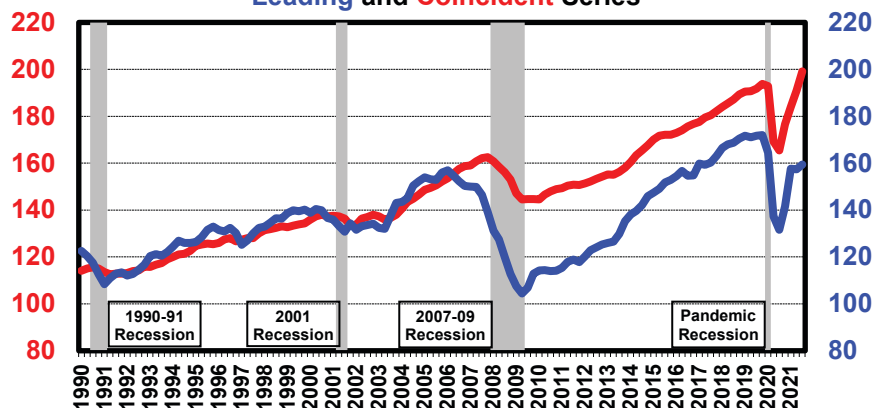
The tourism and hospitality sector added 1,400 workers and stands at 96% (with 25,800 workers and third largest sector) of its pre-pandemic level. Additionally, automobile rentals increased 6% and alcohol sales increased 6.5%. During the third quarter, occupancy rates in the historic district in Savannah remain about 6% to 10% below pre-pandemic levels but room rates increased to more than offset the decline in total hotel rooms sold. The recovery in hotel sales activity (see chart on

next page) is important in its own right to the hospitality industry, but the increasing number of visitors is also an important source of customers, revenue, and jobs in regional retailers, restaurants, specialty gift shops, tourism-related manufacturers, and other service providers.

On the goods-producing side of the economy, manufacturing added 400 jobs rising to 18,100 workers. This remains about 700 jobs below the peak recorded in the Fall of 2019 and 96% of its pre-pandemic level in February 2020. Note that some components of the manufacturing sector such as bakeries and beer breweries are linked to the tourism industry and will continue to recover along with leisure and business visitation to the region. Construction employment increased by 200 workers to 8,500 workers (revised).

As compared to Georgia and U.S. wage growth (+5%, annual), wages in the Savannah metro area are about 5% lower than one year ago. In the region, inflation-adjusted hourly wages declined (0.6%) to \$21.62 from \$21.75 in the second quarter. Partial data from the fourth quarter are hinting toward recovery to second quarter levels by the end of the year, however. Tightness in the labor market has not manifested in wage gains in the Savannah metro area in 2021. The private sector workweek declined 1.1% to 33.3 hours from 33.7 hours.

Savannah Metro Business Index
Leading and Coincident Series



U.S. Growth Shows

U.S. economic output (gross domestic product, GDP) slowed to 2% in the third quarter, cooling considerably from 6.3% in the first half of the year. Consumer spending declined sharply to 1.6% growth from the supercharged rate of 12% in the second quarter. The slowdown in consumer spending can be nearly entirely attributed to reduced spending on motor vehicles along with declines in restaurant sales and accommodations. Residential and non-residential construction expenditures fell roughly 7%, and exports declined modestly (-2.5%). Further, federal government spending fell 4.7%.

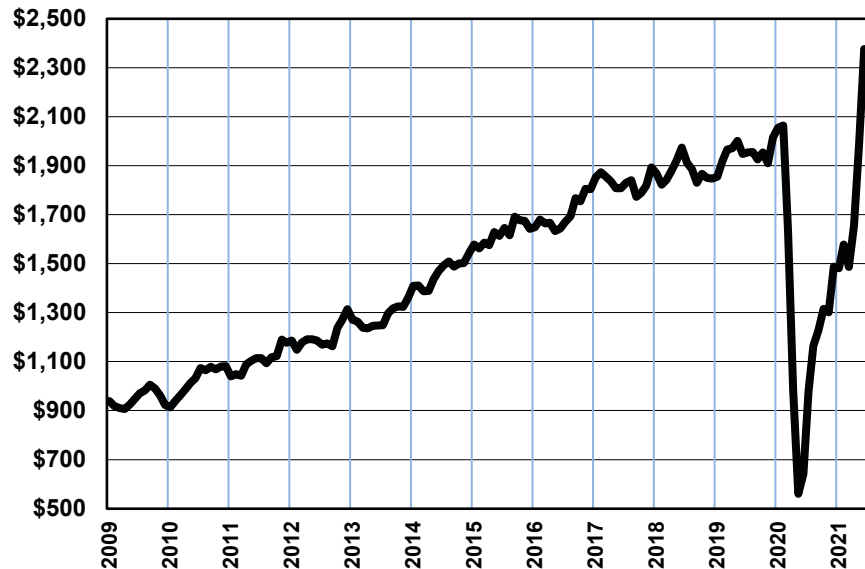
GDP growth through the first half of 2022 is expected to be 4%, slowing to roughly 3% in the second half of the year. The rapid spread of the omicron variant of Covid-19 may reduce these forecasts by about one-half of a percentage point.

The Federal Reserve plans to begin reining in accommodative monetary policy in response to elevated inflation that was higher than expected and less transitory than expected. The likelihood of inflation becoming entrenched is increasing and will be more difficult to wring from the economy the longer the Fed waits to act.

The producer price index increased at an annual pace of 9.6% recently, a reflection of the cost of inputs and snarls in the supply chain. The consumer price index recently registered inflation of 6.8%. Both gauges of inflation are expected to remain elevated until easing concurrently with supply chain bottlenecks and labor market shortages toward the second half of 2022.

The Fed recently announced plans to taper purchases of U.S. treasury paper and mortgage-backed securities more quickly than previously planned with an end to purchases now expected in March of 2022. This opens the door to three interest rate increases in the remainder of the year.

Monthly Hotel Tax Receipts (\$000) Savannah and Chatham County



Source: City of Savannah, Chatham County & VisitSavannah.
Adjusted for inflation and seasonal variation. Three month moving average.

Region Poised for Normalized Growth

The Savannah area business forecasting index increased 1.3% (5.2% annualized) during the third quarter. The leading index jumped to 159.3 from 157.3 (revised) in the previous quarter. The gain primarily reflects an improving labor market and increasing consumer confidence.

In the labor market, the number of initial claims for unemployment insurance (UI) plummeted nearly 70% from the second to third quarter. New claims for UI fell to 1,500 in the quarter from 4,740. In fact, the number of claims declined throughout the quarter, dropping to 911 in September. Accordingly, the seasonally adjusted unemployment rate rapidly fell to 2.8% from 4.2% in the previous quarter. The unemployment rate was 7.2% in the third quarter of 2020.

In the housing market, the seasonally adjusted number of single-family homes permitted for construction surged 20%, rising to 698 units from 579 in the previous quarter. The third quarter number is 1% higher than its year-ago level. The average valuation per single-family unit, however, decreased for the second consecutive quarter, falling 4.2% to \$239,000 from \$249,300.

The forecasting index is expected to surge in the fourth quarter as labor market and housing market gains become more firmly entrenched in the calculation of the index. Thus, near-term (six months) prospects for growth in the Savannah metro economy are favorable. Continued strength in tourism and the logistics industry, along with land development and construction, will support the regional economy.

A Note From the Analyst

The *Economic Monitor* is available by email and at the Center's website (GeorgiaSouthern.edu/parker/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 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.