



REGIONAL ECONOMY SLOWS

Growth in the Savannah metro economy moderated during the opening quarter of the year. The broadest indicators of economic activity—overall regional employment and electricity sales to residential, industrial, and commercial users—continue to signal strength. After good performance in the fourth quarter, there was a mild pull-back during the first quarter in tourism and port activity. In general, the regional economy maintained its forward momentum but slowed its rate of acceleration.

The business forecasting index recorded artificially high strength because of a data anomaly. Leading indicators from the labor market have normalized, and housing indicators were generally favorable. Interpretation of the signal should be tempered given reversion toward the long term trend expected in the second quarter of 2022.

The Savannah metro economy will grow at approximately 2% through the remainder of 2022, noticeably slower as compared to the rebound year of 2021. The economic future is somewhat murkier now as inflation surges, the Fed tightens, and global energy and commodities markets remain rocked by Russian's invasion of Ukraine.

Overall Strength but Some Sectoral Weakness

The business index for the Savannah metro economy increased 1.3% (5.2% annualized) in the opening quarter of 2022, roughly half the pace of the previous quarter. The index of current economic activity increased to 207.3 from 204.7 (revised). The index was buoyed by solid employment growth of 1.6% during the quarter and electricity sales growth of 2.1%. Indicators of port activity, tourism, and retail sales slowed during the quarter. Metro Savannah employers added 3,100 jobs pushing total regional employment to 197,500, more than 5,000 jobs and 3%

higher than the pre-pandemic peak of 192,100 in the fourth quarter of 2019.

The Georgia Department of Labor recently completed its annual benchmarking process for employment in which the monthly payroll survey data are “trued up” against headcount data. Total employment data did not change significantly, but Business and Professional Services was revised downward while Information (including the film and entertainment industry) was revised upward substantially.

Service sector employment added 2,800 jobs. Business and professional services surged again, adding 1,700 workers, bringing the two-quarter gain to 3,100 jobs. Logistics added 300 jobs (+1.9%) rising to 17,800, even though container throughput fell 8% from its fourth quarter level. Container throughput, however, remains up about 3% from the previous year.

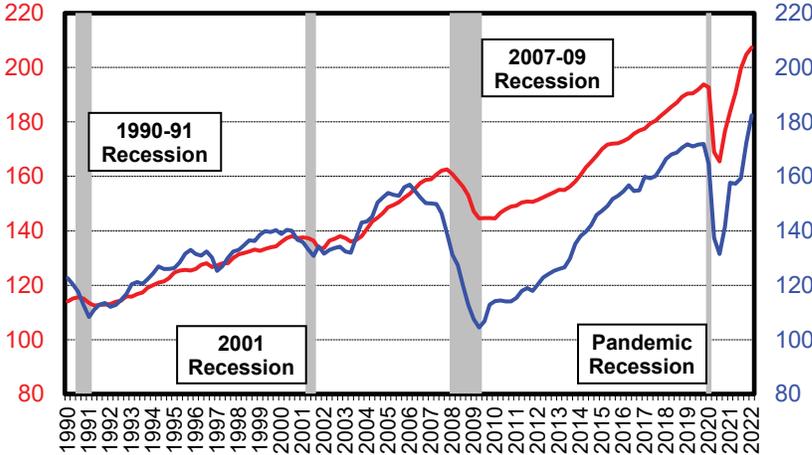
Indicators of the regional tourism industry were mixed in the first quarter. Inflation adjusted hotel/motel sales tax receipts were down 3% while boardings at the airport declined 5% compared to the previous quarter. Auto rental sales tax

collections were down about 10%. Nonetheless, the tourism and hospitality sector added 800 workers and reached 27,200 in total. The two-quarter gain is 1,800 jobs and only a hundred workers below its pre-pandemic peak. The sector moved ahead of Education/Health to reclaim the Number 2 spot on the list of the region's largest sectors.

On the goods-producing side of the economy, manufacturing added 300 jobs rising to 18,400 workers. Manufacturing has added 1,400 workers since the pandemic low in 2020. Construction employment increased 100 workers, rising to 8,300 jobs.

Tightness in the regional labor market continues to spur substantial increases in private sector wages. After adjusting for inflation, hourly wages were 5.6% higher than one year ago. The gains in nominal terms (+14%) are remarkable but also follow a period of stubbornly stagnant wage growth through the first half of 2021. The seasonal and inflation adjusted hourly wage increased 1.9% to \$25.48 from \$25.01 in the previous quarter. (See chart on the next page.) The length of the private sector workweek declined 2.5% to 32.2 hours from 33 hours.

**Savannah Metro Business Index
Leading and Coincident Series**

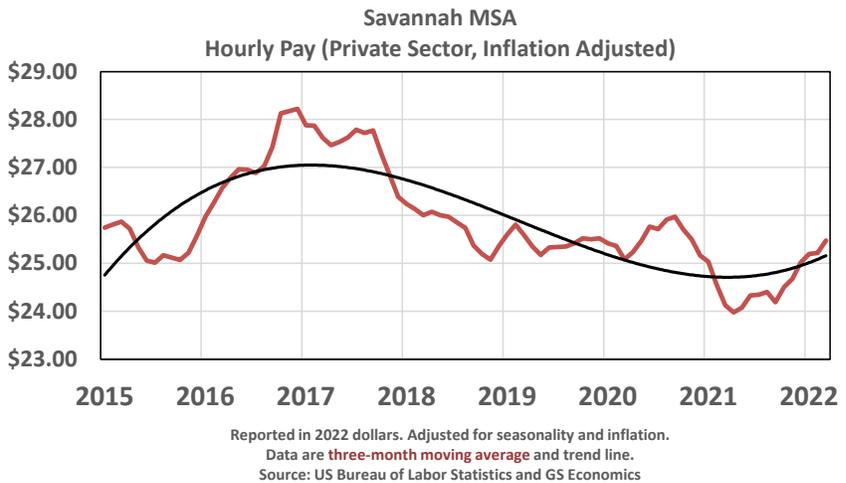


U.S. Economy Softens; Inflation Worsens

The U.S. economy (gross domestic product, GDP) shrank at a pace of 1.5% in the opening quarter of 2022, following strong growth of 6.9% in the fourth quarter of 2021. The decline is mostly attributed to a sell-off of inventory and is a re-balancing of sorts after strong inventory accumulation of the previous quarter. Consumer spending (+3.1%) held pace and remains above trend as compared to the pre-Covid economy. Residential construction was flat again for the second quarter while non-residential construction declined for the fourth consecutive quarter. Exports fell (-5.4%) and imports (+18%) surged while federal, state, and local government spending fell at a pace of 2.7%.

With inflation at a 40-year high, supply chain disruptions, and the onset of war in Ukraine with its resultant commodity market price spikes, U.S. economic growth is expected to slow to 1.7% in 2023. Indeed, a non-trivial number of economic analysts, brokerage houses, and banks are anticipating a recession in 2023.

The Federal Reserve has begun to take stronger steps to combat inflation than were considered a few months ago. With consumer inflation (8.6%) and producer inflation (10.8%) running at 40-year highs, expect the Fed to aggressively hike short-term interest rates through the remainder of the year. Further, the Federal Reserve has ended purchases of Treasury securities and mortgage-backed securities (the so-called “taper”) to begin undoing the quantitative easing and easy monetary policy that defined Fed policy in the Covid era. Inflationary expectations are beginning to become entrenched, thus, requiring more forceful anti-inflation policy. Market participants are expecting the short-term interest rate set by the Fed to approach 4% by mid-2023.



Slowing Regional Growth Expected

The Savannah area business forecasting index surged 5.9% (26% annualized) during the first quarter. The leading index increased to 182.5 from 172.3. The gain primarily reflects momentum from improvement in the labor market, even though first-time claims for unemployment insurance did increase at the end of the quarter. Housing market indicators were generally favorable.

With respect to the labor market, the number of initial claims for unemployment insurance (UI) increased 24% from 630 to 784 during the previous quarter. Accordingly, the seasonally adjusted unemployment rate recorded a one quarter increase to 3.3% from 3.2%. The unemployment rate was 4.8% in the first quarter of 2021.

In the housing market, the seasonally adjusted number of single family homes permitted for construction increased 10%, reversing the 16% decline in the fourth quarter. The number of permits issued increased to 651 from 590 units in the previous quarter. The average valuation per single family unit decreased 1.7% to \$259,000 from \$263,000.

The surging forecasting index is reading artificially high primarily because of favorable momentum in the movement of UI claims; however, given normalization of the labor market and increasing UI claims and the unemployment rate at the end of the quarter, the forecasting index will revert more closely to its longer term trend in the second quarter and, therefore, should not be interpreted this quarter as signaling surging growth in the regional economy in 2022.

Near-term (six months) prospects for growth in the Savannah metro economy are reasonably good. Overall, indicators of the health of the regional economy suggest it remains fundamentally sound, but several important sectors (logistics and tourism) wavered during the first quarter. Wage growth was exceptionally good but was tempered by a modest shortening of the workweek. Lastly, Federal Reserve tightening of monetary policy to fight inflation and continued supply chain and commodity price spikes threaten to stall the U.S. economy. Continue monitoring economic conditions closely through the remainder of 2022.

A Note From the Analyst

The *Economic Monitor* is available by email and at the Center’s website (research.georgiasouthern.edu/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.