Coastal Empire ECONOMIC MONITOR

TRAJECTORY OF SLOWING REGIONAL GROWTH CONTINUES

The Savannah metro economy's path of slowing growth continued for the fifth consecutive quarter. At the close of 2022, total employment growth slowed and port activity was off modestly from the previous quarter. Electricity sales—a broad indicator of industrial, commercial, and residential activity—reversed direction from the previous quarter, growing at a healthy rate. Tourism activity and retail sales mostly treaded water in the final quarter of the year.

The business forecasting index fell for the third consecutive quarter sending a stronger signal about potential weakness in the Savannah metro economy in 2023. The leading indicators from the regional housing and labor markets have exhibited more volatility and have generally been weaker in recent quarters. In general, the labor market remains tight, but somewhat softer, as the year ended as compared to early 2022.

Prospects for 2023, however, remain relatively healthy because of continued growth in the regional logistics industry and its associated real estate development. Further, ramping up for the Hyundai Metaplant opening in 2025 will become more apparent in 2023. These factors are expected to insulate the Savannah metro area from the widely forecasted nationwide recession in 2023.

Modest Growth in Region

The business index for the Savannah metro economy increased 0.6% (2.3% annualized) in the closing quarter of 2022. The growth trajectory continues to slow following the frenetic period as the Georgia and Savannah economies surged in 2021. The index of current economic activity increased to 213.6 from 212.4 (revised). The increase was supported roughly equally by growth in employment, electricity sales, retail sales, and boardings at the airport. Trends in hotel room and short-term vacation rentals, along with port activity, played lesser roles as 2022 ended.

Metro Savannah employers added 1,200 workers during the quarter to reach 201,800. This is 3.8% higher than year-ago employment and 5.6% higher than the pre-pandemic peak in early 2020.

Employment growth was concentrated in the service sector. Leading sub-sectors included leisure/hospitality (+900 jobs) and education/health (+700 jobs). Business and professional services shed 100 workers and is now only slightly above year-ago levels. Logistics employment increased another thousand jobs to reach 19,100 workers in support of port and distribution activity. Business and professional services, education and health, and tourism remain the top three sectors in terms of employment. These are remarkably balanced with all three sectors within 400 workers of each other at roughly 27,600 employees in each sector.

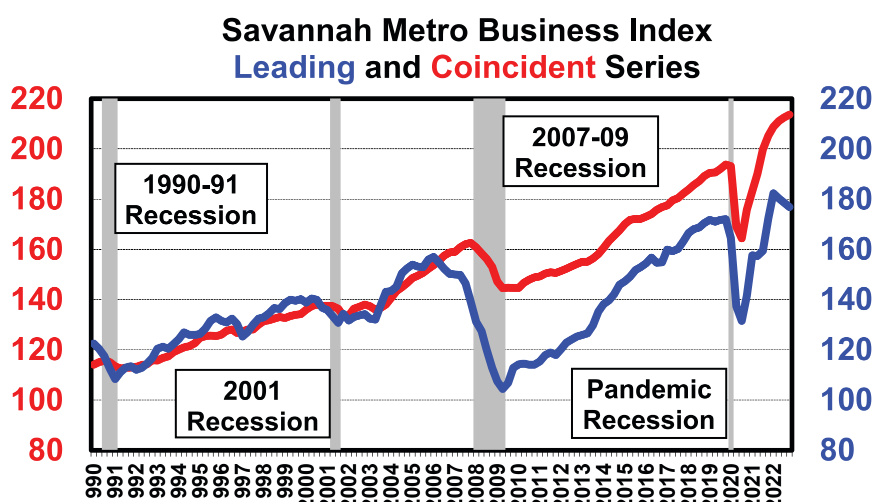
Indicators of the regional tourism industry modestly improved in the fourth quarter. Seasonally adjusted hotel/motel sales tax receipts increased 10%, while boardings at the airport remained flat as compared to the third quarter. Car rental taxes fell 1.1%, but the holiday season was apparently very festive as alcohol sales (wine in particular) increased 8% even after adjusting for the usual seasonal pattern. Employment in tourism/hospitality increased to 27,800 and is now in full post-pandemic mode as it stands 2% higher than its pre-pandemic peak.

The goods-producing side of the economy was flat during the quarter. Construction employment increased 100 workers to reach 9,000, which is only 1,000 workers below the amount needed to support the frenzied pace of home construction in the build up to the Great Recession. Manufacturing employment was unchanged at 18,800 workers and is up about 4% for the year.

Private sector wages remain under upward but easing pressure as a result of the continued but moderating tightness in the labor market. The inflation adjusted average hourly wage rate in the metro area private sector was $26.56, a 1% gain in the quarter. On an over-the-year basis, wage pressure has eased from 15% growth to 10% growth before adjusting for inflation. The length of the private sector workweek shortened modestly to 32.3 hours, a decline of 0.5% from the previous quarter.

U.S. Economy Slows, Residential Construction Struggles

The U.S. economy (gross domestic product, GDP) expanded at a pace of 2.6% in the fourth quarter, down somewhat from 3.2% growth in the third quarter. The slowdown is attributed to falling exports and consumer spending on goods. Further contributing was slowing growth in consumer spending on services,



Fourth Quarter 2022

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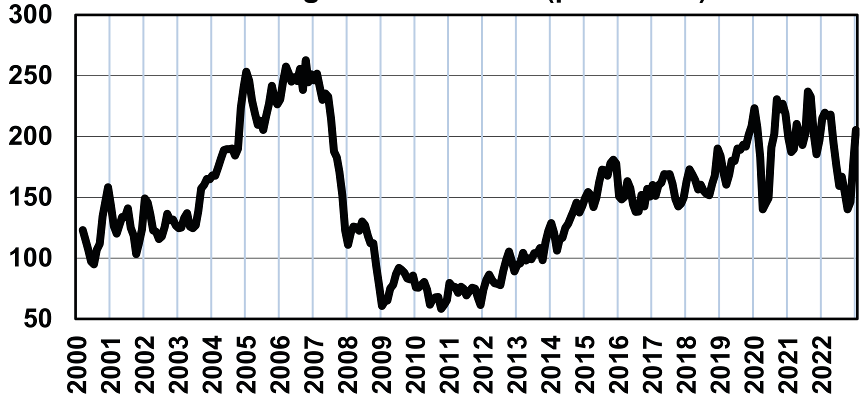
Single Family Home Building Permits Issued (per month)



Source: US Census Bureau & Georgia Southern University Dept of Economics
Three-month moving average.

non-residential construction, and state and local government expenditures. Exports fell 3.7%, while imports fell 5.5%. Overall, consumer spending increased 1%. This is the fourth consecutive quarter in which growth in consumer spending on services offset reduced spending on consumer goods. Residential construction plummeted again, falling at a pace of -25% following a pace of -27% in the previous quarter. Nonresidential construction rebounded (+15.8% annualized pace) following six consecutive quarters of shrinkage.

Expectations for the national economy in 2023 continue to weaken as announcements of job losses mount in the tech sector (300,000+ cuts) and begin spreading to companies in discretionary consumer goods. Persistent, but falling inflation, and continued Federal Reserve interest rate tightening are now reflected in falling residential construction and rising fears of financial market instability associated with interest rate risk contribute to increased expectations of a nationwide recession in 2023. A review of the forward expectations of the members of the Federal Reserve's policy-setting Federal Open Market Committee points toward an additional increase of 0.5% to 5.25% in the remainder of 2023 before falling one percent each in 2024 and 2025.

Regional Forecasting Index Drops Further

The Savannah area business forecasting index declined 1% (-4.1% annualized) during the fourth quarter. The leading index decreased to 176.8 from 178.8 (revised). This index has been falling at an annualized pace averaging 4% for nine months. Forecasting indicators from both the housing and labor markets combined to push the leading index down.

In the housing market, volatility remains the watchword for residential construction of single-family homes. The seasonally adjusted number of homes permitted for construction rebounded 16% continuing a trend of significant increases and decreases anchored around 575 permits issued per quarter since early 2019. (Approximately 190 permits per month. See the chart above). The number of permits issued in the fourth quarter increased to 537 from 463 in the previous quarter. The average valuation for each single-family unit decreased 10% to $262,400 from $291,600 and is expected to continue falling into the first quarter of 2023, however.

With respect to forecasting indicators from the labor market, the monthly number of initial claims for unemployment insurance (UI) fell 22% to 590 from 755 in the previous quarter. Although this is good news, the number of new UI claims has averaged about 670 during the past six months, well above the pre-pandemic lows of about 500 per month. The regional unemployment rate held steady at 2.7% and is down from 3% at the end of the previous year.

Even as the prospects for the national economy weaken in 2023 and the regional forecasting index trends downward, expectations for the Savannah metro economy remain favorable. In the Savannah area, a U.S. recession in the middle to latter portion of 2023 is likely to cause a slowing of regional economic activity rather than a significant decline.

This insulation from a nationwide recession is afforded from continued investment by the Georgia Ports Authority, growth in the logistics industry, and its accompanying non-residential and residential development. As additional announcements of Hyundai suppliers accumulate (now at six firms with 4,500 employees and $2 billion in investment) and join the 8,100 jobs and $7 to $8 billion in investment at the metaplant itself, residential and non-residential investment will continue.

The Hyundai metaplant and supplier firms will open in 2025, spurring increased manufacturing and logistics employment through the pre-opening period and well after opening as operations ramp up for several years thereafter. While prospects for the regional economy are very good in the upcoming five years, the impending U.S. recession will likely result in a period of modest growth in 2023.

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.

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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.