



## REGIONAL ECONOMY SLOWS

Slower growth of the Savannah metro economy is the continuing story for the sixth consecutive quarter. During the opening quarter of 2023, total employment pulled back slightly while port activity notably slowed. Moderate growth in the regional tourism sector offset these losses and provided the support to maintain the forward momentum of the regional economy. Electricity sales—a broad indicator of industrial, commercial and residential activity—held steady through the quarter.

The business forecasting index fell for the fourth consecutive quarter, suggesting continued moderation in the Savannah metro economy well into the second half of 2023. The leading indicators from the regional labor market weakened while housing market indicators remained mixed. In general, considerably more persons filed new claims for unemployment insurance and the housing market continues to remain under pressure from increased mortgage rates translating into lower average values for single family homes permitted for construction.

The prospects for healthy regional economic growth through 2023 are becoming more dependent on hiring plans for the Hyundai Metaplant and its associated supplier manufacturers. The U.S. economy remains likely to experience a recession in the second half of 2023, and import/export traffic through major ports, including Savannah, has slowed considerably. Nonetheless, continued investment in port infrastructure to expand capacity is spurring additional supporting real estate development and job creation in the logistics ecosystem this year. Combined, these factors are likely to allow the Savannah metro economy to sidestep a downturn from the U.S. recession but are creating some uncertainty about upside potential for growth in 2023.

## Tourism Leads Modest Growth in Region

The business index for the Savannah metro economy increased 0.2% (0.8% annualized) in the opening quarter of 2023. This is the slowest pace of quarterly growth recorded since exiting the pandemic recession in 2020. The index of current economic activity increased to 214.1 from 213.7 (revised). The increase was supported primarily by moderate growth in the tourism economy, offsetting declines in port activity and a modest loss of jobs. Electricity sales in the region were flat as compared to the previous quarter.

Metro Savannah employers collectively released about 600 workers during the quarter, dropping back to 200,500 total employees from 201,100 in the previous quarter. Despite this loss, total employment remains 1.5% higher on an over-the-year basis.

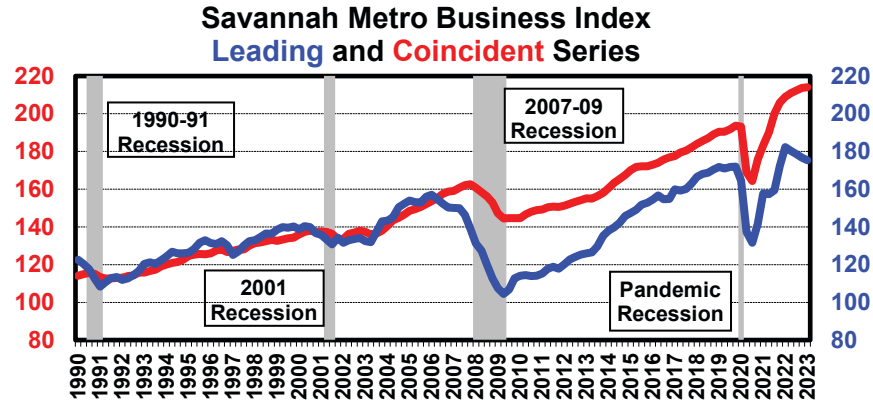
Employment in the service economy was mixed during the quarter. Education and health added 400 jobs as did state and local government. Overall, however, the service sector shed about 600 workers. Business and professional services declined 400 jobs falling 3,000 jobs below its peak employment level one year ago. Retail trade employed 300 fewer workers as well. Other leading service sub-sectors were generally flat. Logistics employment dipped 100 jobs as port activity notably declined. Combined, education and

health remain the region's top job-providing sector with 28,800 workers followed closely by tourism with 28,600 workers.

The regional tourism industry carried the economy in the opening quarter of the year. Hotel room and short-term vacation rental tax receipts increased 5.2% (seasonally adjusted) while boardings at the airport surged 13%. Alcohol sales increased 1.1%. Car rental taxes dipped during the quarter but are up about 5% over the year. The tourism sector added 100 jobs during the quarter and is 5% higher than its pre-pandemic peak.

The goods-producing side of the economy grew modestly during the quarter. Manufacturing employment increased 300 workers to 19,800 and remained barreling along at its 50-year peak in the region. Construction employment declined 200 workers to stand at 9,200 jobs.

Private sector wages unexpectedly dropped during the quarter and returned to roughly the same level 18 months ago. The inflation adjusted average hourly wage rate in the metro area private sector was \$25.01, a sharp drop of \$1.50 per hour. Prior to this quarter, annual wage gains were 10% or more, so the sharp drop of this quarter is anomalously large and merits close monitoring in upcoming months for revision or rebound. The length of the private sector workweek was roughly 10 minutes longer at 32.3 hours.



## U.S. Economy Slows Further

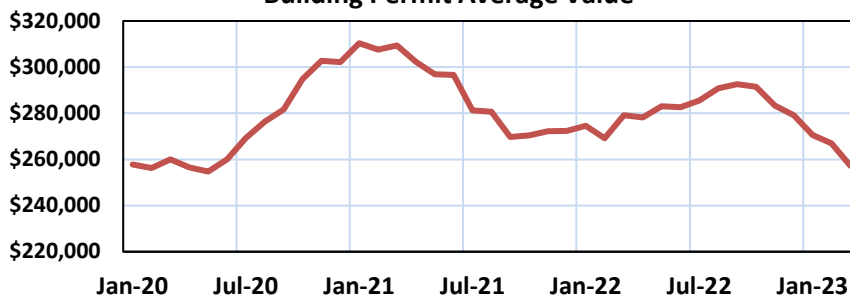
The U.S. economy (gross domestic product, GDP) expanded at a pace of just 1.1% in the first quarter, down notably from 2.6% growth in the closing quarter of 2022. The slowdown is attributed to declining investment in capital goods, residential construction, and inventory. Healthy consumer spending primarily supported economic growth, increasing at an annualized pace of 3.7%. Consumer purchases on goods grew faster than spending on services for the first time since early 2021. Exports increased at a rate of 4.8% while imports grew at a 2.9% rate. Residential construction declined for the eighth consecutive quarter, but the pace of erosion declined from the double-digit levels of the previous three quarters to -4.2% in the opening quarter of the year.

Federal Reserve expectations for national economic growth in 2023 weakened modestly again toward the end of quarter as instability emerged in regional banks with the failure of Silicon Valley Bank and Signature Bank in March. Increasing interest rates engineered by the Federal Reserve and the failure to properly manage predictable interest rate risk caused the balance sheets of the financials to deteriorate beyond repair. The Federal Reserve is now likely poised to pause interest rate tightening until later in 2023 and continues to maintain expectations of short-term interest rates of approximately 5% through 2023 with declines of one percent each in 2024 and 2025. Expectations of a nationwide recession in the second half of 2023 remain elevated.

## Regional Forecasting Index Drops Again

The Savannah area business forecasting index declined 0.8% (-3.3% annualized) during the first quarter. The leading index decreased to 175.3 from 176.8 (revised). The index has been falling at an annualized pace averaging 3.8% during the past 12 months. Volatility in the leading indicators from the regional

## Savannah MSA Single Family Home Building Permit Average Value



6 Month Moving Average, adjusted for Inflation, in 2022 \$

housing and labor markets remained in place and combined to keep the forecasting index on its four-quarter downward trend.

In the housing market, issuance of construction permits for single-family homes rebounded 12.5% from the previous quarter but remained 7% below year-ago levels. The upside swing to 603 permits is modestly above a seeming anchor around 575 permits issued per quarter since early 2019. The average value for each single-family unit decreased for the second consecutive quarter, falling 5% to \$249,400 from \$262,400 in the previous quarter, however. The six-month moving average of building permit value fell just below \$260,000 in inflation adjusted terms and is down from \$310,000 in early 2021 (See chart above).

In the labor market, the monthly number of initial claims for unemployment insurance (UI) jumped 27.3% to 751 from 590 in the previous quarter. This is 12% higher than the average of 670 per month in the second half of 2022. The regional unemployment rate ticked up to 3.1% from 2.7% at the end of 2022.

The regional forecasting index continues to send a signal about upcoming weakening in the Savannah metro economy. Although prospects remain favorable, upside potential for 2023 will largely depend on bullish development activity in the logistics industry and the

pace of hiring for the Hyundai Metaplant and its suppliers toward the end of the year.

Weakening national economic conditions are beginning to spill over into the regional economy. Slowing U.S. growth is reducing import and export traffic through the nation's ports, including Savannah where seasonally adjusted container volume declined about 15% from the previous quarter. In addition, the regional housing market remains under pressure from higher mortgage rates and limited supply. The regional bell-weather business and professional services sector—largely representing business to business activity—has downsized considerably in the past six months.

Currently, the strength of consumer spending and the regional tourism economy are supporting the Savannah metro economy. All-told, regional insulation from a nationwide recession remains in place but is beginning to thin.

While the Savannah area is likely to avoid recession in 2023, regional economic activity is increasingly likely to continue to slow in the second half of 2023.

The intermediate and long-term prospects for the regional economy remain excellent as the manufacturing and logistics industries expand. In the short run through 2023, upside potential for the Savannah metro economy is being limited by weakening U.S. economic conditions and the prospect of a nationwide recession.

### 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/](https://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](mailto: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.