August 12, 2016

Economics Group

Special Commentary

Georgia Economic Outlook: August 2016

Executive Summary

Georgia’s economy has managed to dodge the fallout from the global economic slowdown, which has held U.S. real GDP growth at just a 1 percent pace for the past three quarters. As shown in Figure 1, real GDP growth in Georgia has outpaced the nation for the past three years, and employment growth through the first half of this year has been running about one-and-a-half times stronger than the nation as a whole. Georgia’s unemployment rate has fallen back in line with the national rate, which is a considerable achievement given how high the jobless rate rose during the Great Recession and how much more rapidly Georgia’s population has been growing. Economic growth is also more diverse than it has been in recent decades, with technology, entertainment, healthcare and education making larger contributions to the state’s growth, which has helped offset recent sluggishness in Georgia’s sizable manufacturing and distribution sectors.

The evolution of Georgia’s economy has positioned the state well from a competitive standpoint. Georgia now boasts a vibrant technology sector that plays a leading role in payments processing, cyber security and healthcare informatics. The state’s rapidly growing motion picture business has risen to become the second-largest in the nation, and the music industry continues to expand in size and stature. Healthcare and higher education are also growth industries, reflecting the state’s favorable demographics and key investments made in recent years. Economic development efforts also continue to bear fruit. Recent years have brought numerous automotive suppliers, aerospace firms, life sciences companies and movie studios to the state. The growth complements an extraordinarily diverse existing industrial base that has regained traction. Site Selection magazine has consistently ranked Georgia as the most competitive state for attracting new and expanding businesses. Corporate relocations have picked up in recent years, bolstering population growth and providing a meaningful boost to residential and commercial development.

Figure 1

Georgia Gross State Product & U.S. GDP
Year-over-Year Percent Change

Figure 2

Georgia Nonfarm Employment
3-Month Moving Averages

Source: U.S. Department of Commerce, U.S. Department of Labor and Wells Fargo Securities

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The evolution of Georgia’s economy has positioned the state well from a competitive standpoint.
Georgia’s Labor Market Continues to Build Momentum

Georgia employers have consistently added jobs at a pace well ahead of the nation for the past three years, and that strength has carried over into 2016. Nonfarm employment through the first six months of this year has risen 3.1 percent from the same period last year, compared to 1.8 percent growth nationwide. Stronger job growth has helped close the gap between Georgia’s persistently higher unemployment rate and the national rate (Figure 3). Hiring increased solidly across most broad industry categories during the past year but has really taken off in construction, which has seen a bevy of mega projects around the state (Figure 4).

The construction industry added 12,300 jobs over the year, with Atlanta accounting for about 60 percent of that increase. There’s been a substantial pickup in hiring at heavy and civil engineering construction firms in 2016 as work ramps up on large infrastructure projects, including Plant Vogtle near Augusta and the harbor deepening at the Port of Savannah. Construction employment in Atlanta is up 6.7 percent year to year and has risen 16.6 percent since April 2014, which is when work began on the Mercedes-Benz Stadium. The state-of-the-art stadium is scheduled for completion next summer and is slated to host the 2019 Super Bowl. Construction is also underway on the new $672 million Atlanta Brave’s stadium, which began construction near the intersection of I-75 and I-285 in September 2014 and is nearing completion ahead of Opening Day in April 2017. The development will also include a mixed-use center, dubbed The Battery Atlanta, which will include a 16-story Omni hotel, regional headquarters for 1,000 Comcast employees and several restaurants and entertainment spots.

Hiring is rising the fastest in industries driven by Georgia’s growing population, business community and tourism. One in six jobs added over the past year was in the administrative & waste services industry, which includes staffing agencies and call centers. Through June, this sector has added more than twice as many jobs as it did in the preceding year. Retail trade, construction and accommodations & food services all added significantly more jobs through the first half of this year relative to the same period in 2015. Combined, the three sectors have added 47,900 positions over the past year, accounting for over one-third of Georgia’s year-to-year job creation. Construction is clearly the standout performer, bolstered by continued work on large-scale projects and strengthening single-family home building. Finance & insurance, information and wholesale trade have also gained momentum, which should bolster income growth as these jobs tend to pay higher wages. Health care & social assistance hiring lost steam over the past year but should end 2016 comfortably in positive territory.

Source: U.S. Department of Labor and Wells Fargo Securities

Georgia’s manufacturing sector has weathered the global economic slowdown comparatively well. Manufacturing employment through the first half of this year is running 2.6 percent ahead of the same period last year, and the state posted the largest June 2015 to June 2016 manufacturing job gain in the country. As positive as the data are, hiring has moderated somewhat in recent months.
Moreover, as seen in Figure 5, manufactured exports have clearly slowed, and efforts by businesses to reduce inventories have weighed on production and the state’s large distribution sector. Container throughput at the Port of Savannah has weakened amid a global slowdown in exports (Figure 6). The trucking sector is also having a tough year as excess capacity weighs on freight rates and squeezes operating margins.

We expect hiring in both manufacturing and transportation & warehousing to pick up by the end of this year, albeit modestly. Georgia remains a top destination for new and expanding manufacturers. Recent developments include expansions by Kubota Tractor in Gainesville, Textron Specialized Vehicles in Augusta and Mohawk Industries in Dalton. In addition, Kumho Tire recently opened its massive new tire manufacturing factory in Macon. In addition, the Port of Savannah continues to upgrade its capacity to accommodate the larger ships now passing through the Panama Canal. The harbor deepening project is 15 percent complete, and the port was recently awarded a $44 million federal grant to expand rail access and intermodal capacity.

![Figure 5](image1.png)  ![Figure 6](image2.png)

Source: U.S. Department of Commerce, Georgia Port Authority and Wells Fargo Securities

**More Jobs Available in Lower-Middle Paying Industries**

Georgia’s economic gains are reaching more of the state’s residents, as employment conditions have improved across most industries and in most areas of the state. The improvement has pulled more residents back into the job market, with the employment-population ratio rising 1.1 percentage points over the past year to 58.6 percent. Measures of underemployment have also improved. The broader U-6 unemployment measure, which includes a portion of part-time workers that want to work full time and discouraged job seekers that have given up looking for work, has fallen 1.3 percentage points over the past year to 11.2 percent (Figure 7).

Total personal income grew 5.3 percent in 2015 but moderated to a 4.9 percent annual rate in the first quarter of this year. The moderation in personal income reflects slower growth in transfer payments. Wage and salary growth did not decelerate, however, climbing at a 6.4 percent annual rate in the first quarter, slightly higher than the pace registered in 2015 as a whole.

Wage and salary growth was driven by the larger absolute number of jobs added in the state, a shift from earlier years when wages and salaries grew principally due to stronger job growth in higher-paying industries. We examined the composition of job gains according to average weekly wages from the Quarterly Census of Employment and Wages and grouped 21 private industries into wage quartiles. As illustrated in Figure 8, the lowest two wage quartiles accounted for 70 percent of the state’s private jobs added over the past year, despite accounting for only 50 percent of the private sector workforce. Job growth in the lowest-paying quartile, which includes arts & entertainment, retail, nursing care facilities, social assistance and hotels & restaurants, is driven by Georgia’s rapidly growing population and gains in the travel and leisure sector.

**Georgia’s economic gains are reaching more of the state’s residents.**

**Source:** U.S. Department of Commerce, Georgia Port Authority and Wells Fargo Securities

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Job growth in lower-middle paying industries has also picked up, driven largely by gains in construction, where pay is at the high end of this range, and administrative & waste services, where pay is near the lower end. The split in job growth between lower- and higher-paying industries is not unique to Georgia. Many higher-paying jobs have been going unfilled around the country, particularly in the higher-skilled occupations. Georgia’s widely lauded worker training programs and highly regarded university and community college systems are valuable assets in this environment and have helped the state’s economic development efforts.

**Figure 7**

*Georgia U-6 Unemployment Rate Unemployed & Part Time for Economic Reasons, Percent, 4-Qtr MA*

**Figure 8**

*Jobs Added by Wage Quartile in Georgia Number Added Over the Year, Thousands 3-MMA*

Source: U.S. Department of Labor and Wells Fargo Securities

**Tech Takes Hold**

Georgia’s tech sector, much of which is centered in the Atlanta area, has gained considerable momentum in recent years. Employment in professional & technical services rose 3.6 percent over the past year, producing a net gain of 9,300 jobs (Figure 9). Roughly 27 percent of this growth has taken place in the Atlanta metropolitan area. CBRE’s recent Tech Talent report ranked Atlanta ninth among the top 50 metros and shows the region adding nearly 40,000 tech jobs between 2011 and 2015, the seventh-largest gain in the country.

The CBRE study also noted that Atlanta was adding tech workers faster than local universities were conferring new tech degrees, even though the number of tech degrees awarded at Atlanta-area universities increased 74.1 percent from 2010 to 2014. The imbalance has been met by an influx of tech workers from other parts of the country, yielding a 46.7 percent increase in Atlanta tech labor pool. The influx of young, college-educated workers has also helped boost the share of metropolitan Atlanta’s population with a college degree to 49 percent, which is third largest in the nation behind Seattle and Washington, D.C.

Atlanta benefits from a large number of universities, including Georgia Tech, Emory, Georgia State and the Atlanta University Center Consortium. The steady stream of graduates from these schools, combined with leading-edge research, has helped develop a technology cluster in Atlanta’s Midtown, which has gained considerable traction in recent years. Technology Square, developed in 2003 by Georgia Tech and adjacent to its campus across the downtown connector expressway, has attracted several research and innovation centers, including early adopters like ThyssenKrupp Elevator, Panasonic Automotive, AT&T Mobility and Southern Company.

Growth around Technology Square continues to gain momentum. NCR Corporation announced it would relocate its global headquarters from suburban Atlanta to a site just north of Technology Square’s eight-acre campus, constructing a 20-story tower to house its operations. World Pay and Equifax are also moving operations back in from the suburbs. Georgia Tech also announced a major expansion of the complex, partnering with Portman & Associates on a 750,000-square-foot mixed-use center, dubbed Coda, which will house Georgia Tech’s high-performance computing...
center. The expansion is also helping to attract new businesses to the surrounding area. Earlier this summer, GE Digital announced it would move its headquarters to Midtown, pulling in at least 250 jobs. That announcement came shortly after news that Keysight Technologies would open a software development center at Technology Square.

The other big news in Georgia’s technology space is the continued development of the Cyber Warfare Training facility at Fort Gordon in Augusta. Construction of the NSA Cryptologic Center and the ongoing relocation of the U.S. Army Cyber Command from Maryland, which is expected to bring 2,600 military personal, 900 civilian and 200 contractor jobs to Fort Gordon by 2019, is making Augusta a key destination for government contractors on the front lines of the U.S. cyber warfare. Recent developments include a new office for MacAulay-Brown and an expansion by Raytheon. Other contractors are expected to follow, as spending on cyber warfare remains one of the fastest-growing areas of the defense budget.

**Figure 9**  
Professional & Technical Services Employment  
In Thousands

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<thead>
<tr>
<th>Year</th>
<th>Georgia: Jun @ 270K</th>
<th>Atlanta: Jun @ 211K</th>
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**Figure 10**  
Georgia Housing Permits  
Thousands of Permits, Annual Rate

- Single-Family: Jun @ 39,372
- Single-Family, 12-MMA: Jun @ 34,184
- Multifamily, 12-MMA: Jun @ 13,718

Source: U.S. Department of Labor, U.S. Department of Commerce and Wells Fargo Securities

**Summary & Outlook**

Georgia’s economy continued to grow solidly through the first half of 2016, despite U.S. economic growth slowing to a paltry 1 percent annual rate. We estimate that real GDP grew at a 2.0 percent pace in Georgia during the first half of the year, as the state’s diverse economy added jobs at a 3.1 percent pace. One reason Georgia’s economy held up so well is that much of the slowdown in the national economy was due to cutbacks in mining and energy extraction, which play a relatively small role in the Peach State. Because Georgians drive quite a bit—with commutes in the Atlanta area and rural parts of the state longer than they are on average nationwide—Georgia residents have benefited from lower gasoline prices, which have bolstered spending power.

The engines of economic growth have also ramped up. Economic development efforts continue to pay off, complemented by forward-thinking investments in higher education and key infrastructure. Georgia has led the nation in manufacturing job growth over the past year, albeit at a time when the nation’s factory sector has struggled. Hiring at corporate headquarters and supporting services has taken off, stimulating a building boom. Traditional growth drivers are also kicking into gear. Population growth has ramped up, fueling homebuilding. Single-family permits are up 15.2 percent for the first six months of 2016 relative to the same period last year, while multifamily permits rose 45 percent. Single-family sales are up 6.5 percent year to date.

We expect growth to strengthen during the second half of this year, as hiring continues to pick up, homebuilding gains additional strength and the drag from inventory drawdowns diminish. Georgia’s tech sector will also continue to grow in size and stature. Technology Square has gained the critical mass necessary to attract leading companies in Big Data, cyber security and healthcare IT. All of this growth enhances Georgia’s established and emerging tech clusters in Midtown, Buckhead and Augusta.
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<td>414,023</td>
<td>420,595</td>
<td>431,094</td>
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<td>Nominal Personal Income, Millions</td>
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<td>359,047</td>
<td>369,520</td>
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<td>393,594</td>
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<td>Population, Thousands</td>
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<td>9,713</td>
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<td>9,918</td>
<td>9,992</td>
<td>10,097</td>
<td>10,215</td>
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<td>93</td>
<td>99</td>
<td>105</td>
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<td>118</td>
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<td>Households, Thousands</td>
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<td>Change, Thousands</td>
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<td>14</td>
<td>41</td>
<td>87</td>
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<td>Nonfarm Employment, Thousands</td>
<td>3,900.2</td>
<td>3,860.8</td>
<td>3,901.7</td>
<td>3,952.2</td>
<td>4,030.6</td>
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<td>Change, Thousands</td>
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<td>(39)</td>
<td>41</td>
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<td>Unemployment Rate, Annual Average</td>
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<td>10.2</td>
<td>9.2</td>
<td>8.0</td>
<td>7.0</td>
<td>5.8</td>
<td>5.2</td>
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<td>Total Housing Permits</td>
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<td>34,741</td>
<td>36,459</td>
<td>43,144</td>
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<td>Single-Family Permits</td>
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<td>Multifamily Permits</td>
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<td>11,684</td>
<td>17,500</td>
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<td>CoreLogic Existing Single-Family Home Sales, Thousands</td>
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<td>108</td>
<td>106</td>
<td>126</td>
<td>152</td>
<td>157</td>
<td>171</td>
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<tr>
<td>CoreLogic Home Price Index, Percent Change</td>
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<td>(6.3)</td>
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<td>6.6</td>
<td>6.4</td>
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Sources: CoreLogic, U.S. Department of Commerce, U.S. Department of Labor and Wells Fargo Securities
Forecast as of: August 12, 2016
Atlanta MSA

- Atlanta continues to add jobs at a rapid pace. Nonfarm employment has increased 3 percent over the past year, as employers added 76,600 jobs. Strong job growth has helped pull Atlanta’s jobless rate down to 4.9 percent, even with the labor force growing by 82,000 workers over the past year. Nearly all major industries in the region are hiring, led by the construction and leisure & hospitality sectors.

- Atlanta’s distribution sector is currently experiencing a bit of a dry spell as global economic conditions have weighed on freight demand. Trucking employment has been flat over the year. Fulfillment centers and warehousing are driven primarily by domestic demand and have been thriving with the resurgence in the South’s economy and accelerating population growth. Atlanta’s position as the primary logistics center of the Southeast continues to attract investment. Recent additions include plans for new distribution centers for ThredUp, Dollar General and Amazon.

- Technology has emerged as a significant growth driver, with Atlanta’s large and rapidly growing college-educated workforce attracting firms like GE digital’s headquarters, supporting several large expansions at existing firms and sparking numerous startups. Technology Square is a key area of activity in this space, benefiting from its ties to Georgia Tech and close proximity to Atlanta’s business community. The finance sector also remains a key player in Atlanta’s technology scene, and established companies such as Equifax are moving back toward the center city to tap into the talent pool and innovative culture of the burgeoning Midtown tech cluster.

- Atlanta should continue to outpace the nation in coming years. Private sector payrolls will likely continue to outpace the nation, as new businesses relocating to the Atlanta area staff up and existing businesses move forward with expansion plans. Strong job growth will continue to draw in new residents, fueling residential and commercial construction. The growth of the technology sector in Midtown is a game-changing dynamic that will support growth for some time to come.
Augusta MSA

- Nonfarm employment in Augusta has been on a bit of a rollercoaster in recent years. Professional & business services and health care drove hiring solidly in 2015 but growth has since decelerated to a more modest 1.1 percent pace. Manufacturing and information services are soft spots and the hiring in tourism has also pulled back significantly over the past year. The region’s unemployment rate has held stubbornly near 6 percent for the past year while the national rate fell to 4.9 percent.

- The game changing relocation of the U.S. Army Cyber Command to Fort Gordon continues to ripple across Augusta’s economy. The U.S. Army projects an additional 2,600 military personnel and 900 civilian jobs at the base over the next three years. The area is now a key location for government contractors on the front lines of the U.S. cyber warfare. Raytheon recently moved to a larger office and other contractors, including MacAulay-Brown, Booz Allen Hamilton and SAIC, are growing in the area as cyber security contract work remains a top federal priority relatively insulated from sequestration.

- Manufacturing employment is set to increase. EdenCrete, a carbon nanotube enriched concrete producer, recently announced plans to establish its global manufacturing headquarters in Augusta and expects to add 250 jobs. Textron Specialized Vehicles is also expanding its operations, adding 400 jobs in Augusta.

- Construction also continues to gain steam at the expanding Plant Vogtle nuclear power facility, which recently surpassed 6,000 workers on site.

- Home building has gained momentum. Single-family permits are now at their highest level since before the recession. Multifamily building has also picked up in recent months. Homes remain affordable relative to other similarly sized areas in the South and prices have risen a modest 3.5 percent over the past year.

- After decades of mediocre gains, Augusta appears primed for stronger economic growth. While the region’s reliance on the public sector is a concern, cyber security is likely to remain a priority for some time. The spinoff potential to the private sector also opens a new avenue for the economy that has large upside potential.
Columbus MSA

- The Columbus area has been challenged to produce even modest jobs gains over the past few years. Sequestration and defense cutbacks have reverberated through the local economy. Nonfarm employment rose just 0.7 percent over the year in June, a welcomed shift from the outright decline seen in much of 2015. The jobless rate also fell but remains high relative to the nation. While government payrolls are no longer declining, the large public sector remains a drag on overall growth. Job gains in leisure & hospitality, professional & business services and education & health care has offset modest losses in manufacturing over the past year.

- Troop reductions at Fort Benning remain the top economic concern in Columbus. The post will lose at least 2,200 soldiers, their dependents and associated civilian workers. A recent study estimated the reduction will remove $700 million from the Columbus economy. Reductions have already begun but the knock-on effects are hard to identify given the modest improvement we have seen in other parts of the economy. We expect these losses to mount as more troops leave the area.

- On the plus side, Anthem BlueCross BlueShield will hire another 450 employees over the next two years, adding to its 1,285-person workforce at its Customer Care Center. Customer management service provider, Convergys will open a facility in the area, bringing 450 new jobs in customer service, talent management and operations management to Columbus. In addition, Pratt & Whitney recently announced a $65 million investment at its Columbus jet engine plant, which should help secure the 1,100 jobs at that facility.

- Housing demand remains subdued largely due to cutbacks at Fort Benning. Single-family building remains near recent lows with little indication of a pickup. Multifamily permits have bounced off their recent lows, reflecting some apartment development.

- While job growth has been positive in recent months, the outlook for Columbus remains challenging. Growth will likely be weighed down by losses at Fort Benning. The region is sorely in need of a new growth catalyst.
Northwest Georgia

- Northwest Georgia has pulled off a substantial economic turnaround since the start of the decade. The region’s carpet industry was crushed by the recession and housing collapse. The recovery started slowly but has gained traction in recent years as the housing market has come back and new technologies were put to work in the carpet making process. Overall job growth decelerated toward the latter half of 2015 but remains roughly in line with the nation, according to the monthly employment numbers. The hard count of jobs from the QCEW shows a weaker end to 2015, indicating the job growth may be revised lower.

- Investment in carpet plants and flooring factories has increased in recent years, although all of those announcements have not necessarily come to fruition. Recently, Mohawk Industries announced that it would invest $100 million to expand production of vinyl flooring at a factory it picked up in its acquisition of IVC Group. The investment is expected to create 200 jobs. In addition, adhesives and coatings maker W.F. Taylor recently relocated its headquarters from California to Dalton.

- Construction is underway on the Appalachian Regional Port in Chatsworth. The facility, which is expected to handle 50,000 containers a year when it opens in 2018, will primarily serve area manufacturers importing and exporting through the Port of Savannah. The automotive industry just over the border in Tennessee and Northwest Georgia’s carpet industry will be two prime beneficiaries of the new port.

- Rome continues to add jobs at a moderate pace, and its unemployment rate has fallen steadily. Closer to Atlanta, Surya opened a 900,000-square-foot warehouse and new corporate headquarters in Cartersville. Bartow County is also seeing steady population gains, bolstering residential and commercial development.

- Stronger job growth and improving demographics are contributing to modest gains in home building. While the unemployment rate remains high relative to Atlanta and Northeast Georgia, the greater availability of labor is also helping attract new industry. We look for continued modest gains in Northwest Georgia.
Savannah MSA

- Savannah continues to see strong economic gains. Employers added 6,700 jobs over the past year, marking a 3.9 percent increase. Population growth also remains robust, rising 1.8 percent in 2015, or more than twice as fast as the nation. Professional & business services had a breakout year, adding 2,000 jobs. Tourism also remains a key growth engine and still has plenty of room to expand further, as airline links improve further and new hotels and attractions open.

- Port activity has slowed along with global trade, giving the Port of Savannah time to work on multiple improvements to facilitate future growth. The deepening of the harbor, needed to continue to attract the large container ships transiting the expanded Panama Canal, is currently underway and 15 percent complete.

- Major highway and rail improvements are also expanding the port’s capacity and reach. The Jimmy DeLoach Connector opened this spring, providing a direct link to trucks from the Port of Savannah to I-95. The Port also won a $44 million federal transportation grant to improve rail access.

- Industrial development continues to be driven by warehouse and distribution projects. The Ports Authority identified projects totaling nearly 2 million square feet of construction underway this summer.

- Tourism remains a potent growth driver, with new hotels under construction in downtown Savannah and restaurant openings along the riverfront. Tourists spent $2.67 billion dollars in the Savannah and Tybee Island area in 2015, an increase of 7 percent over the year, according to Visit Savannah.

- Savannah's housing market continues to build momentum, reflecting robust population and employment growth. Home prices have risen just 3.8 percent over the past year, which is well short of the pace seen nationwide. Moreover, home prices remain more than 5 percent below their prerecession peak.

- Savannah’s economy should continue to post solid gains in 2016. Rebounding port activity, industrial warehouse construction, tourism and population growth all place Savannah in a favorable position for medium-term growth.
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<th>Title</th>
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<td>Diane Schumaker-Krieg</td>
<td>Global Head of Research,</td>
<td>(704) 410-1801</td>
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