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ECONOMY IMPROVES SLIGHTLY, FORECASTING INDEX RISES

The regional economy registered modest growth during the opening quarter of 2010. While the economy appears to be coming off the bottom of the business cycle, some underlying softness remains in the coincident indicators. When we look back in three to six months, it is quite possible that the annualized growth rate of 1.5 percent experienced in first quarter of the year will mark the end of the recession in the Savannah metro area.

The Coastal Empire leading economic index extended its upward movement for the third consecutive quarter. The rate of gain as compared to recent quarters was reduced, however, given some mixed signals emanating from the regional housing and labor markets. The forecasting index continues to signal that the regional economy will experience growth during the second half of 2010. At this time, the probability of a “double-dip” recession in the Savannah area remains low.

Modest Improvement

The Coastal Empire coincident economic index increased by four-tenths of one percent to 146.2 from 145.8 (revised) during the first three months of the year. Seasonally-adjusted employment, electricity sales and port activity combined provided the most lift to the index, but consumer confidence and expenditures weighed on the index. Consumer confidence and spending remain tentative and inhibited additional upward movement. Also,

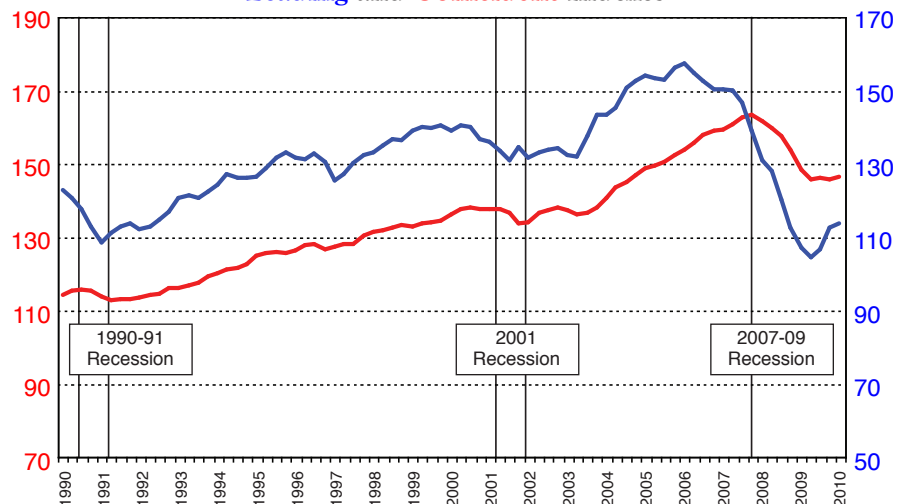
first quarter data yielded mixed signals from the tourism sector. Of the eight underlying indicators that combine to form the coincident index, three were up, two were down and three effectively moved sideways.

Seasonally-adjusted employment in the Savannah region increased by approximately 450 to stand at 150,600 workers. The gains were concentrated in the service sector, which added about 800 jobs. Manufacturing held steady at 13,300 workers, but construction shed another 300 jobs to fall to 7,100 workers. The construction sector has now lost about 3,000 workers since peaking in late 2006 and the most recent decline pushes the employment base down to levels last experienced in 1996.

The regional tourism industry appears to be re-establishing a solid base from which to expand. Inflation-adjusted hotel sales increased during the quarter to stand about seven percent higher than year-ago data. However, other indicators from the tourism sector displayed weakness during the first quarter of 2010. For example, the number of riders on tour buses and trolleys and the per-head tax collected from these riders fell by about nine percent from the previous quarter and remain about three percent below year-ago data. In addition, auto rental sales tax receipts slipped about 2 percent from the last quarter of 2010. One interpretation of the data is that hoteliers are sensing sufficient demand to raise room rates, but face the potential risk of choking that growth if rates are pushed too hard.

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Coastal Empire Economic Indicators
Leading and Coincident Indexes



(continued from front)

Although there is still some mud in the economic water, there is emerging clarity in the data from several key sectors of the regional economy. The strength in seasonally- and inflation-adjusted electricity sales is an important signal of generally improving economic conditions in the region. The data reflect increased electricity sales to residential, commercial, and industrial users. Further, the number of residential and commercial hook-ups increased during the quarter. This combined with employment growth and solid growth in containerized cargo through the port tells a story that the economic fundamentals in the region are firming up. Yet, tentative consumer spending by local residents and tourists appears to be holding back potential growth in the economy.

U.S. Economic Expansion Continues

The national economy expanded at a rate of 3.2 percent, down from the sizzling 5.6 percent increase in the previous quarter. Personal consumption expenditures increased at over twice the pace of the first quarter and accounted for nearly 80 percent of the first quarter GDP gain. In anticipation of additional growth in consumer spending, businesses ramped up inventory during the first quarter. Exports increased by 5.8 percent, but its upward effect on GDP was more than offset by the 9 percent increase in imports. The drag on national economic growth from reduced state and local government continued

to mount for the third consecutive quarter and reduced GDP growth by one-half of one percent. The consensus estimate for GDP growth remains 3 percent for 2010.

The Federal Reserve maintained the federal funds interest rate in the range between zero and 0.25 percent. Although the Fed is recognizing improvement in the national labor market, it continues to signal that it will maintain the rate “for an extended period of time.” All but one of the special liquidity facilities the Fed established to sustain credit markets have been closed. The remaining program will be terminated by the end of the second quarter. Inflationary pressure is weak, with expectations that inflation will be approximately 2 percent in 2010.

Forecasting Index Continues Winning Streak

The Coastal Empire leading economic index increased by one percent during the quarter, rising from 112.4 (revised) to 113.4. It has been five years since the forecasting index increased for three consecutive quarters. The quarterly gain, however, was less robust than the increases registered during the previous two quarters. The regional housing and labor markets remain a mixed bag and weighed the index down.

In the residential housing market, the number of permits issued for single family homes declined, but their average value increased modestly. On a seasonally-adjusted basis, the

number of building permits issued fell by 12 percent during the quarter to 233 from 265. The average value of a permit issued increased by 1.6 percent to \$155,700. The transitory support fostered by the federal tax credit clearly dissipated during the quarter.

The leading indicators from the regional labor market lost some ground after a solid performance at the end of 2009. The number of initial claims for unemployment insurance increased by 4.4 percent to 1,671 during the first three months of the year, but remains about five percent less than year-ago data. Help wanted advertising was off slightly, but stands almost six percent higher as compared to last year’s opening quarter.

Based on the continued upward movement in the forecasting index, it is expected that the modest growth registered in the current quarter will strengthen during the second quarter, and additional growth will continue in the latter half of 2010. The modest upswing could mark the end of the recession in the Savannah area, but it is too early, and the growth is too tentative, to clearly denote the beginning of a meaningful expansion in the regional economy.

Kathryn Smith provided research assistance.

A Note From the Director

The *Economic Monitor* is now available electronically by email and on-line at the Center for Regional Analysis website (www.armstrong.edu/Liberal_Arts/economics). If you would like to receive the *Monitor* by email, please send a “subscribe” message to CRA@armstrong.edu.

ABOUT THE INDICATORS

The Coastal Empire Economic Indicators are designed to provide continuously updating quarterly snapshots of the Savannah Metropolitan Statistical Area economy. 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.

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