



Coastal Empire ECONOMIC MONITOR

RECOVERY CONTINUES, FORECASTING INDEX RISES AGAIN

The Coastal Empire coincident economic index indicates the Savannah metro economy entered a period of recovery in early 2010 that continued through the close of the second quarter. Note well that this does not mean the economy has returned to pre-recession levels, but that the period of economic decay (recession) has ended. Nearly every current indicator of regional economic activity in the coincident index increased during the second quarter.

Observers of recent local business news may consider this finding to be quite contradictory given the City of Savannah's budgetary shortfall, shrinking government workforces, and the elevated unemployment rate. While all true, these data are economic indicators that consistently lag behind current economic conditions. As the general economy continues to improve, the pressure on municipal finances and workforce along with unemployment will slowly dissipate.

The Coastal Empire leading economic index increased for the fourth consecutive quarter. The forecasting index's upward trajectory moderated slightly during the quarter, weighed down by subdued activity in the housing market. The forecasting index continues to send a signal suggesting further economic growth, albeit at a slow pace. While the emerging regional economic recovery faces some threats, the period of severe and sustained economic decay is concluded.

Continued Regional Growth

The Coastal Empire coincident economic index increased 1.7 percent to 148.9 from 146.3 (revised) during the second quarter. Port activity, tourism, and employment growth combined provided the most lift to the index, while consumer confidence and electricity sales helped to a lesser extent. Consumer expenditures, as measured by retail sales tax receipts, showed little gain.

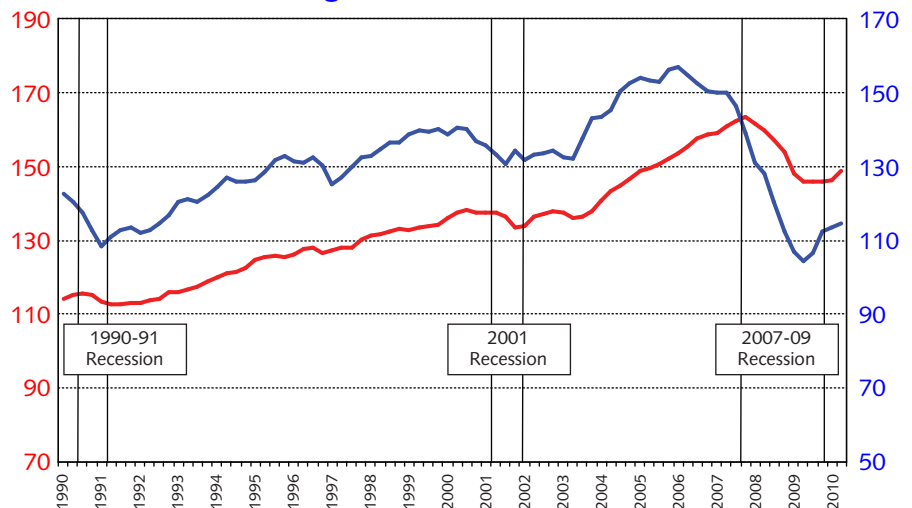
Seasonally adjusted employment in the Savannah metro area increased by 800, rising to 151,400 workers. The gains were concentrated in retail trade (+200), business and professional services (+200), and federal government (+400). The

federal government growth is likely attributable to the hiring of temporary workers to conduct the Census. Manufacturing held steady at 13,300 workers, while leisure and hospitality added 100, rising to 20,000. Employment increased 1,300 jobs (+1.2%) from the low point of the business cycle in late 2009, but remains approximately 10,000 jobs (off 6.1%) below its peak in early 2008. It is likely to require three years of moderate growth to return to that level.

The regional tourism industry experienced very strong growth during the second quarter. Seasonally and inflation-adjusted hotel sales increased 6.5 percent during the quarter and are up by 13 percent as compared to data from a year ago.

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Coastal Empire Economic Indicators Leading and Coincident Indexes



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This is consistent with a nearly 20 percent quarterly increase in the number of riders on tour buses and trolleys. Through June, the hotel occupancy rate was 61.3 percent, an increase of 2.4 percent as compared to data from a year ago. In addition, business travel to Savannah appears to be improving, as marked by increases of 7 percent in airplane boardings and 2 percent in auto rental sales tax receipts—both of which have been weak since 2008.

U.S. Economic Growth Slows

The U.S. economy grew at an annualized rate of 2.3 percent, down from the downwardly revised rate of 3.7 percent in the first quarter. Businesses may not be spending on additional labor, but they are spending like crazy on software and capital equipment for current and future workers. For the second consecutive quarter, business expenditure on software and equipment increased at the annualized rate of about 21 percent. This, combined with growth in personal consumption expenditures of 1.9 percent, accounted for nearly all the growth in U.S. GDP. However, a sharp increase in imports—which represent a drain of income out of the country—shaved GDP growth by four percentage points, and was only partly offset by rising exports.

Although largely unrecognized, during the four quarters of economic growth following the 2007-2009 recession, the U.S. economy

expanded at an average rate of 3.2 percent. This exceeds the growth rate in the four quarters following the 1990-91 recession (+2.6%) and the 2001 recession (+1.6%). The consensus estimate for GDP growth fell slightly to 2.9 percent for 2010, and is 3.0 percent for 2011.

The Federal Reserve maintained the federal funds interest rate in the range between zero and 0.25 percent and reiterated the message that it will continue to do so “for an extended period of time”—which is generally interpreted as meaning well into 2011. With inflationary pressure nearly nonexistent and economic growth remaining tepid, the Fed has little maneuvering room to raise rates, which further constrains its ability to act aggressively if economic conditions deteriorate.

Forecasting Index Up Again

The Coastal Empire leading economic index increased by nearly one percent during the quarter, rising from 113.6 (revised) to 114.6. The index increased 9.8 percent during its string of four consecutive quarters of gains. While conditions in the labor market improved, weakness in the regional housing market continued to inhibit additional upward movement.

Residential construction in the region remains moribund. The number of permits issued for single family homes plummeted 23 percent from

233 units in the first quarter to 180 units in the second quarter. Given the expiration of the federal housing tax credit at the end of April, the decline is not particularly surprising. The legislation altered the time flow of purchases and new construction, but did little to fundamentally change aggregate activity in the housing market. The average value of a permit issued increased 2.3 percent to \$159,400 from \$155,700.

The leading indicators from the regional labor market improved significantly from the first quarter. The number of initial claims for unemployment insurance plunged 18 percent, falling to a monthly average of 1,367 from 1,671. This means the flow of the newly unemployed diminished, while at the same time the posting of help wanted advertising increased 11 percent.

With each quarterly extension of the leading index's winning streak, the forecast for near-term economic activity in Savannah improves. Modest growth will continue through 2010 and is likely to extend into early 2011. The area's year-to-date economic growth has been moderate (+2.1%), and is seemingly overwhelmed by the negative business news cycle, but it is nonetheless true the regional economy bottomed out in late 2009 and is currently in recovery mode. In other words, the recession is over.

Financial support provided by the AASU Foundation.

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.

A Note From the Director

As the fall term starts at Armstrong, the Center for Regional Analysis welcomes Jennifer Slate as its research assistant. Slate is an exceptional senior majoring in economics and has considerable co-op experience with the Army Corps of Engineers. As the term unfolds, please look forward to an expansion of the *Economic Monitor* and the center's website to include more data and charts.

The *Economic Monitor* is available by email and at the center's 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.