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Coastal Empire Economic Monitor, 2nd Quarter, 2004

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A STRONG QUARTER, SUSTAINABLE GROWTH EXPECTED

The regional economy continued its surging growth through the second quarter of the year. The Coastal Empire's economy extended its winning streak to register the fastest three-quarter period of growth in over six years. The index of coincident economic activity was driven by favorable activity in most indicators measuring the current economic heartbeat of the region.

The Coastal Empire leading economic index remained stable for the second consecutive quarter. This suggests that Savannah's economy may be settling back toward more sustainable levels of growth following the faster-than-normal pace during the year's first half. Growth is expected to return to the more typical rate of approximately 2% during the second half of the year and into early 2005.

Regional Growth Continues, Despite Employment Blip

The Coastal Empire coincident economic index increased 1.5% from 123.6 (revised) to 125.3 in the current quarter. The index was buoyed by surging consumer confidence, a positive transitory G8 effect most readily apparent in hotel sales and boardings at the airport, and growth in retail sales. However it should be noted that June data (G8) on retail sales is not yet available and may, in fact, subdue the effects of consumer expenditures

on the index. The soft areas among the coincident indicators were seasonally-adjusted employment and electricity sales that dipped slightly during the quarter.

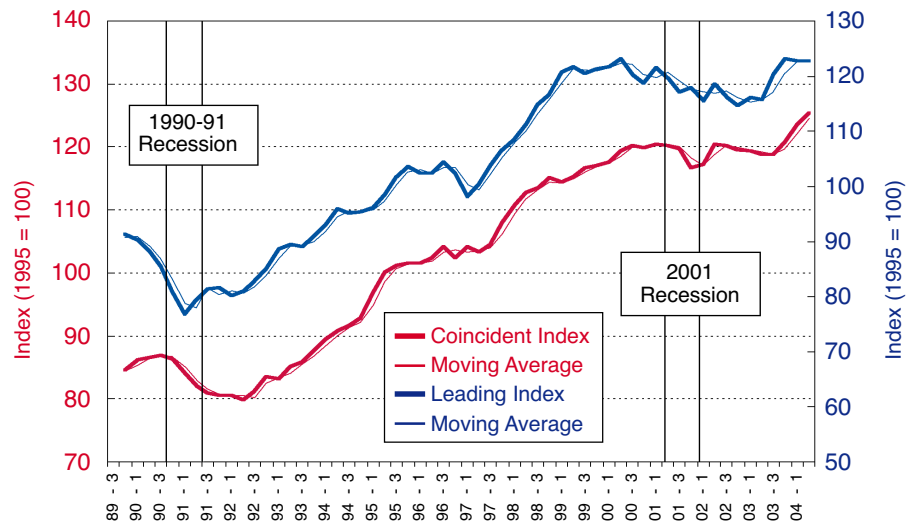
Employment fell by 600 to 141,100 workers during the second quarter. The losses were primarily concentrated in the health and education sector. However, the Spring quarter's payroll employment figure remains 2.2% higher than year-ago levels. This represents faster than normal expansion, since regional employment has grown at an average annual rate of 1.9% since 1991. On an over-the-year basis, the fastest growing sectors are business and professional services, financial activities, and leisure and hospitality services.

Sea Island Summit

Indicators from the region's tourism industry provide some insight into the economic effects of the G8 Sea Island Summit. As one might expect, boardings at the airport spiked in May to a record high level and remained strong into June. Boardings were nearly 17% higher throughout the quarter as compared to year ago levels. While members of G8 delegations and other government employees were exempted from paying some tourist related taxes, that did not stand in the way of a 15% increase in hotel sales tax receipts when compared to last year's spring quarter data.

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Coastal Empire Economic Indicators
Leading and Coincident Indexes



(continued from front)

On the downside, one perspective on the adverse short-run consequences of the summit on non-G8 tourism are noted in June data for several tourism indicators. On an over-the-year basis, inflation-adjusted auto rental sales taxes and preservation fee revenue declined along with a 6% fall in ridership on tour buses and trolleys in town. This, along with reports from business owners in downtown areas citing a lack of patrons during the summit is suggestive that some non-G8 tourism activity was squeezed out by the summit.

However, it should be noted that the long-run effects of the Sea Island Summit on regional tourism will be highly favorable. The international public relations bonanza and media coverage (featuring the view of the city's waterfront from the Westin Resort) are worth millions of dollars in national and global advertising expenditures. Finally, the goodwill and favorable impression resulting from a several day or week-long stay in the city is an intangible asset that advertising dollars simply cannot buy, and it bodes well for future regional tourism activity.

A Note From the Director

It is with sadness that we note the passing of former AASU President Dr. Robert Burnett. The *Economic Monitor* was launched as an initiative under his leadership. His charm and keen insight both supported and guided this project from conception to implementation. He will be greatly missed.

The *Economic Monitor* is now available electronically by e-mail and online at the Center for Regional Analysis website (www.econ.armstrong.edu/cra). If you would like to receive the *Monitor* by e-mail, please send a 'subscribe' message to Emonitor@mail.armstrong.edu.

U.S Growth Slows to More Sustainable Rate

The U.S. economy expanded at a somewhat less rapid rate (3%) during the second quarter as compared to the relatively quick pace of 4.5% during the year's opening quarter. While business investment in capital goods remained healthy, the slowdown is attributed to weak growth in consumer spending. However, consumer confidence and retail spending improved notably in the last month of the quarter.

Fed Chairman Greenspan described the quarter's economic 'soft patch' as temporary and unlikely to deteriorate to the point of recession. The Federal Reserve's recent hikes in the federal funds rate by one-half of a point in two separate moves to 1.5% bears this out since the Fed acts on the basis of expected future economic conditions rather than today's data. Fed analysts expect sustained economic growth and improved labor market conditions through the end of the year.

Normal Growth Expected in Region

The Coastal Empire leading economic index has remained level through the first six months of the year. The index increased by less than one-tenth of one percent from 122.6 (revised) in the previous quarter to 122.8. As has been the case for several quarters, strong activity in the housing market supported the index. Both the number of building permits issued and their value for single family homes increased by over 11% from the previous quarter. The number of permits issued is 36% higher through the first half of the year as compared to 2003 data.

Most of the remaining leading indicators remained mixed during the quarter. Help wanted advertising declined by 5%, but initial claims for unemployment insurance decreased. Consumer expectations in the South Atlantic states also declined. Together these factors foreshadow limited retail sales and employment growth during the remainder of the year.

The flatness in the leading index does not point to declining economic activity in the region, but rather, a moderation in the faster-than-normal growth rate achieved to date. As the end of the year approaches, economic growth in the Savannah area is expected to continue, but will be closer to the historical rate of annual growth—approximately 2%.

Tatyana V. Zelenskaya provided research assistance.

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 provides a short term forecast of the region's economic activity in six to nine months.

Financial support provided by the AASU Foundation.