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Coastal Empire Economic Monitor, 3rd Quarter, 2004

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FLAGGING RECENT GROWTH, IMPROVEMENT EXPECTED

Economic growth in the region slowed during the third quarter of the year. This “breather” followed the fastest nine-month period of growth in the Coastal Empire’s economy in over six years. While employment increased slightly, the remaining elements of the index of coincident economic activity were flat or gave up ground.

The Coastal Empire leading economic index jumped substantially during the third quarter, after two consecutive quarters during which it provided cautionary signals. This suggests that Savannah’s economy may need to work through another three to four months of limited growth, but that strong forward momentum will develop by spring of 2005.

Regional Economic Activity Unchanged

The Coastal Empire coincident economic index was unchanged at 125.3 in the current quarter. While employment increased modestly during the quarter, growth in electricity sales, consumer confidence, and retail sales was soft. Broad indicators of tourism (hotel sales and boardings at the airport) were generally flat even after accounting for the normal seasonal decline during the hot, humid weather of July and August.

Employment in the three-county metropolitan area increased by 800 (all in services) to 141,900 workers during the third quarter. Payroll

employment remains 1.1% higher than year-ago levels. This suggests that job creation in the region weakened somewhat as compared to last year, since employment is now on track to finish the year up by approximately 1.5% rather than the 2.3% pace established through the first half of the year.

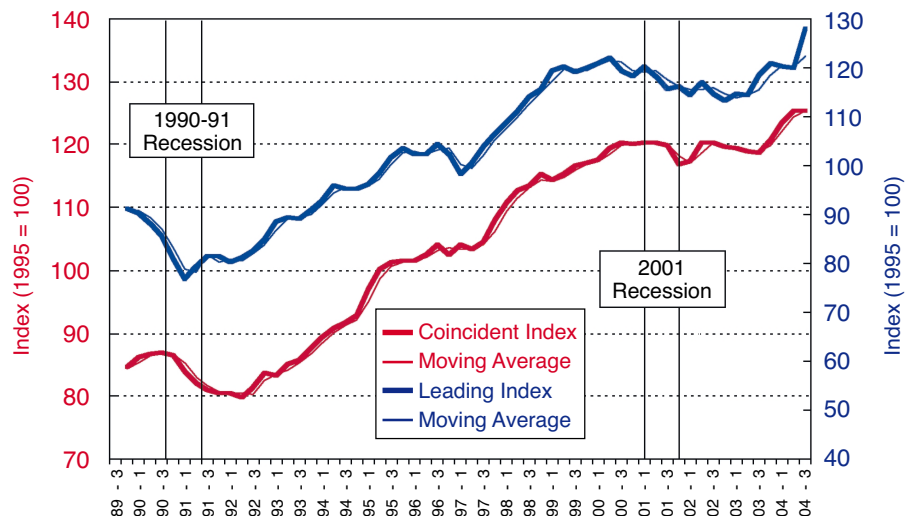
On an over-the-year basis, transportation/utilities has been a top performer, fueled by record level activity at the port. During the last four years, including 2004 to date, business and professional service sector employment has also been a growth leader, but this, in combination with the deteriorating condition of the regional manufacturing sector, suggests the region faces some longer term challenges as discussed briefly below.

Manufacturing and Knowledge-Based Businesses

The so-called process of “creative destruction,” or economic evolution, reshapes all economies through time. Evidence of this long-term process in the Savannah metro economy is noted in the declining presence of the manufacturing industry over the last 30 years. During this time, the sector’s share of regional employment has declined from 22% to 9% today. Indeed, since manufacturing’s recent cyclical high in 1998, the sector has shed 5,000 jobs.

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Coastal Empire Economic Indicators
Leading and Coincident Indexes



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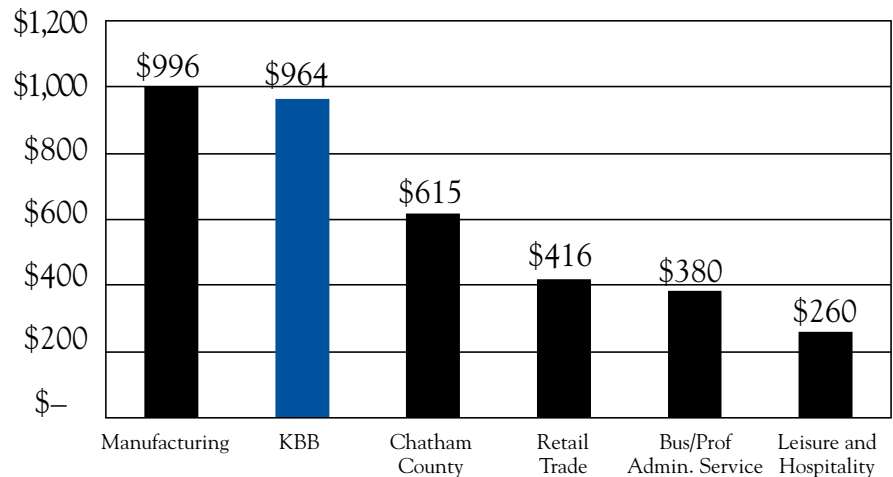
Manufacturing jobs have long paid above-average wages and have traditionally served as the backbone of regional and national economies. In Chatham County during 2003, manufacturing jobs paid nearly \$1,000 per week. By contrast, over 2,000 of the recently created jobs in the region's fast-growing business and professional services sector paid less than \$400 per week. (See the chart.)

Thus, The Creative Coast initiative, which emphasizes the development and recruitment of knowledge-based businesses (KBB) is well-timed to provide a bulwark against the process by which manufacturing's relative decline is inhibiting the growth potential of the regional economy. So-called KBB are based on the one truly inexhaustible resource – our ability to reason, think, and be creative. Jobs at Chatham County's KBB paid an average weekly wage of \$964 in 2003, and successful efforts in nurturing their growth would go a long way in shoring up household income levels. For more info, visit www.TheCreativeCoast.org.

A Note From the Director

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Average Weekly Wage: Chatham County 2003



U.S Growth Picks Up a Bit

The U.S. economy expanded at a somewhat increased pace (3.9%) during the third quarter as compared to the rate during the spring quarter. Although consumer confidence weakened, consumer spending rebounded sharply. GDP was also boosted by substantial growth in durable goods production and business investment in capital equipment and software. Inflation remained in check while imports grew faster than exports, widening the trade gap.

The Federal Reserve pushed interest rates up by one-half of one percentage point in two separate moves during the quarter. Overall, the Fed noted that the economy "regained traction" during the quarter and that it is expecting improving economic conditions. The rate increases are designed as preventative measures against future inflation and also to provide flexibility against unfavorable economic conditions. The Fed is expected to continue raising interest rates through the end of the year and well into 2005.

Growth Expected in Re-emerge in Region

After remaining flat through the first six months of the year and foreshadowing current sluggishness, the Coastal Empire leading economic index substantially increased. The forecasting index increased by over 6% from the previous quarter to stand at 127.9. Particularly strong activity in the regional labor market, along with more moderate support from the housing market supported the index.

In the labor market, initial claims for unemployment insurance plummeted by over 20% during the quarter. Help wanted advertising dipped slightly, however. Overall, the unemployment rate fell to 3.5% by quarter's end, one-half of one percentage point lower than the previous September. The issuance of building permits for single family homes moderated somewhat during the quarter, but remain approximately 27% ahead of last year's level.

The upward swing in the leading index foreshadows renewed growth ahead, but not until the early part of next year. In the short term, growth will remain relatively modest.

Tatyana V. Zelenskaya provided research assistance.