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Coastal Empire Economic Monitor, 4th Quarter, 2004

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ECONOMY STRENGTHENS, FASTER GROWTH EXPECTED

Growth in the regional economy accelerated modestly during the closing quarter of the year. The economy continues to consolidate gains achieved during the early quarters of 2004. Employment and electricity sales growth were the key factors supporting the index during the fourth quarter.

The Coastal Empire leading economic index continued its upward trend, albeit at a more sustainable pace. This suggests strengthening economic activity in the Savannah area during the spring and into the summer of 2005.

Regional Activity Picks Up

The Coastal Empire coincident economic index increased by 0.4 percent to rise to 125.7 from 125.2 (revised) in the previous quarter. While employment and electricity sales contributed heavily to the increase, consumer confidence and hotel sales also were key factors in lifting the index. As compared to the previous quarter, seasonally-adjusted retail sales and boardings at the airport were off slightly. However, as compared to year-ago data, both of these sectors demonstrated the strongest growth among the index's components with boardings up by nearly 20 percent and retail sales up by 9 percent.

For the year, the coincident index increased by 3.3 percent, the fastest rate of growth since 1999.

The annual increase was supported by favorable developments in all components of the index. The graph (on back) decomposes the growth in the coincident index into the growth contributed by each component. Adding the figures for each bar yields the total growth achieved of 3.3 percent.

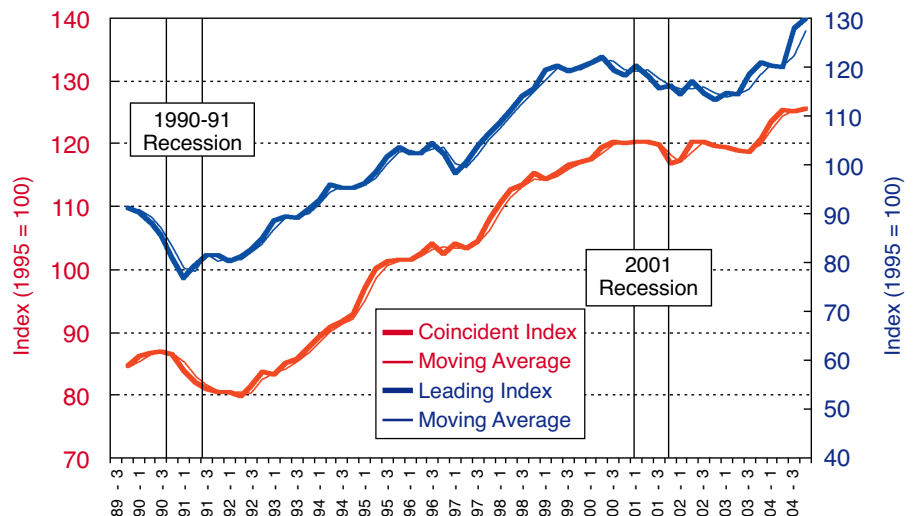
The picture that emerges from the data is that increasingly confident local consumers and an increasing number of tourists went on a spending binge that pushed inflation-adjusted retail sales up by over nine percent for the year. While tourism indicators posted substantial gains for the year, employment and electricity sales growth were primarily a function of the fundamental economic strength in the region's business enterprises.

On an annual basis, employment increased by 1.6 percent during 2004, just beating the average growth rate of 1.5 percent per year since 1990. The top-performing sector in 2004 was professional/business services that added 1,300 jobs, achieving a nine percent gain. Approximately 300 to 400 jobs each were added in the following sectors: financial activities, leisure/hospitality, and transportation/public utilities. Employment growth in these sectors reflects the underlying strength in the area's real estate market, tourism, and port activity, respectively.

The regional manufacturing sector registered its sixth consecutive year with a net loss of jobs. From an overall perspective, 2004 was a

(continued on back)

Coastal Empire Economic Indicators
Leading and Coincident Indexes



(continued from front)

relatively better year for the sector, with a loss of only 500 jobs as compared to the annual average loss of 1,100 jobs since 2000. The sector closed the last quarter of the year at just below 13,000 jobs, the lowest level in data available back to the early 1970s.

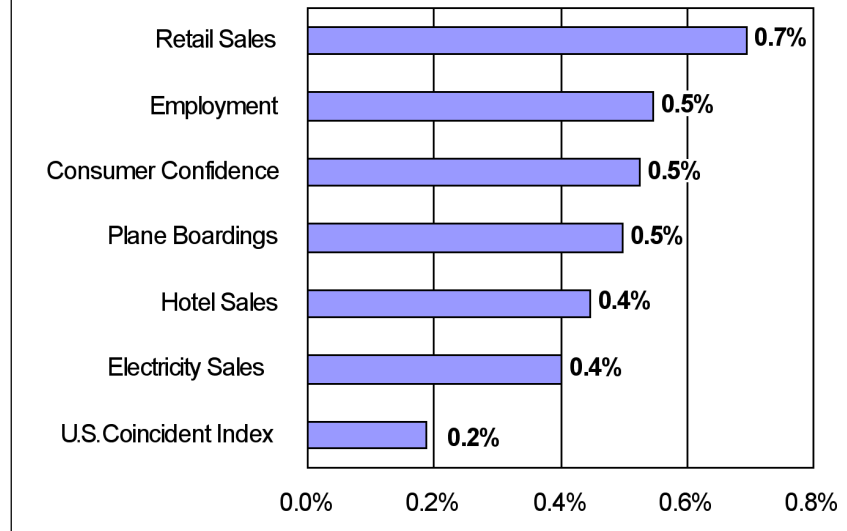
U.S. Growth Slows Slightly

The U.S. economy expanded at a more modest pace during the fourth quarter as compared to earlier in 2004. Fourth quarter growth registered 3.8 percent. Consumer expenditures and business investment in capital goods were the primary underlying sources of growth. Record trade deficits have created a drag on economic growth as U.S. income is siphoned off to pay overseas exporters for the goods. In the absence of the trade deficit, U.S. economic growth would have been closer to 5 percent in the fourth quarter.

The Federal Reserve pushed interest rates up by an additional one-half of one percentage point in two separate moves during the quarter. Since May 2004, the Fed has pushed short-term interest rates from 1 percent to 2.5 percent. Continued upward adjustments at a measured pace to 3.5 to 4 percent are expected provided that inflation remains well-behaved. The consumer price index increased by 3.3 percent since December 2003, but inflationary pressure appears to be building at the wholesale level at 4 percent. If wholesale price increases are fully passed along to consumers, it is expected that the Fed will become more aggressive in its efforts to control inflation.

Financial support provided by the AASU Foundation.

Growth in CEEI Coincident Index from each of its Components in 2004



Faster Growth Expected by Summer 2005

The Coastal Empire leading economic index increased at a moderate pace of 1.7 percent during the quarter to stand at 130. Favorable activity in the regional housing market along with improved consumer expectations supported the index. The number of single-family building permits issues remains 21 percent ahead of last year's pace, while consumer expectations improved substantially.

The labor market sent luke-warm signals as help wanted advertising increased along with a slight increase in new claims for unemployment insurance. Overall, the unemployment rate fell to 3.4% by quarter's end, approximately the same level as during the last quarter of 2003.

The deployment of the Third Infantry Division from Fort Stewart is likely to inhibit growth initially in 2005, but the deployment's overall effect will be muted since a large majority of military families are remaining in the area and training for National Guard units continues at the base.

The leading index has increased for two consecutive quarters and thus is pointing to increased growth ahead. The regional economy is expected to develop additional forward momentum during the spring and into the summer of 2005 after a tepid pace of growth during the opening quarter of 2005.

Tatyana V. Zelenskaya provided research assistance.

A Note From the Director

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