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Coastal Empire Economic Monitor, 2nd Quarter, 2005

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A SHORT LULL BUT NORMAL GROWTH PROJECTED

Economic growth in the Coastal Empire slowed during the Spring quarter as compared to the rapid pace of the first quarter. After maintaining an annualized rate of growth of nearly 3 percent during the past 9 months, the regional economy “took a breather” as annualized growth dropped to 0.1% for the current quarter.

The Coastal Empire leading economic index also flattened somewhat during the quarter. This continues a moderating signal from the forecasting index that started at the beginning of the year. Nonetheless, the leading index points toward sustained growth of approximately 2 percent through 2005. This would be on par with the normal growth rates registered by the regional economy since the 1991 recession.

indicators did little to lift the index. However, all indicators remain well above their levels recorded during the same period of last year and the economy as a whole has expanded at an annualized rate of 1.8% through the first six months of the year.

The current lull may be partially explained as a lingering effect of the deployment of the Third Infantry Division from Fort Stewart to Iraq. Early indications regarding retail sales activity are consistent with this notion. Inflation- and seasonally-adjusted retail sales appear to have slipped by four-tenths of one percent from the first quarter, and are about 1.4% below the level recorded in the G8-influenced second quarter of 2004. Recall that many

downtown businesses reported weak sales during the summer, a fact that further substantiates the current lull in retail sales activity. Employment in the retail trade sector dropped by 300 jobs during the quarter.

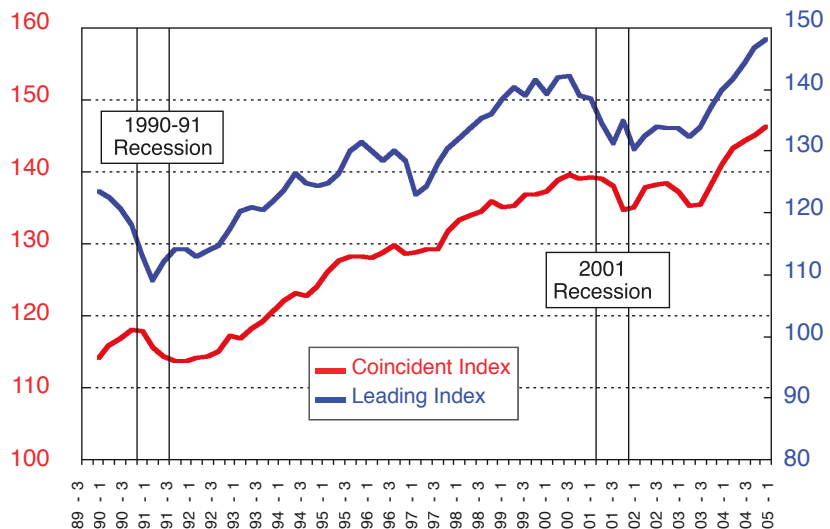
Total employment in the Savannah MSA increased by approximately 400 jobs during the quarter to stand at 145,300. Annualized employment growth was 1.2% for the quarter, somewhat below typical gains. Much of the growth occurred in the service sector, but the goods-producing industries also registered job gains for the first time in a year. On the service side of the economy, growth was concentrated in finance sector

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THE LULL

The Coastal Empire coincident economic index increased by 0.02 percent to 146.4 from 146.3 (revised) in the previous quarter. Seasonally-adjusted employment and electricity sales supported the index, while moderation in consumer confidence, hotel sales, retail sales, and plane boardings contributed to the lull in current economic activity. While the raw data regarding hotel and retail sales, along with boardings did demonstrate upward movement as compared to the previous quarter, after adjusting for the normal surge in spring-time tourist activity, these

Coastal Empire Economic Indicators
Leading and Coincident Indexes



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and professional/business services while the retail trade and education/health sectors shed several hundred workers each. Tourism was a non-factor for employment growth during the quarter, as employment in the hospitality/leisure sector remained flat at approximately 17,700 jobs.

U.S GROWTH MAINTAINS SOLID PACE

The U.S. economy expanded at an annualized rate of 3.3 percent during the second quarter. Sustained momentum in consumer expenditures and business investment in capital goods was the primary underlying source of growth. The trade deficit also improved slightly during the quarter.

The Federal Reserve continued to push interest rates up from the 1 percent rate of last year to currently stand at 3.5 percent. The Fed has signaled its intention to continue to increase rates as its overall stance toward economic activity shifts from pro-growth to a more neutral

stance. Inflationary pressure—a key metric for the Fed—remained in check, despite the pressure building from increased energy prices. Overall, inflation is running at a 3.3 percent pace as compared to year-ago levels.

FORECASTING INDEX LEVELS OFF

The Coastal Empire leading economic index continued to level off from substantial increases achieved during 2004 to settle down to a much more modest growth rate of 0.4% for the quarter. The index now stands at 148.7, up from 148.1 during the opening quarter of 2005. The story remains very much as it has been before—generally favorable activity in the regional housing and labor markets supported the index.

Conflicting signals continue to emerge from the underlying indicators in the construction sector and in the labor market. While the number of single-family home (SFH) building permits issued is up nearly 36 percent as compared to year ago figures, the average value

for a SFH permitted dropped by \$16,000 to \$144,000. The average permit value has been somewhat volatile in recent quarters, but generally has been trending down since mid-2004, and is off by 13% since then.

Labor markets also yielded conflicting, but on balance, favorable data. Gains in help wanted advertising outpaced an increase in the number of initial claims for unemployment insurance (UI). This pattern has been in place for 9 months and suggests that the regional labor market maintains its ability to absorb dislocated workers.

Overall, the forecasting index is yielding modest signals about growth through the year-end. Through the first half of 2005, the forecasting index is up by 2.2 percent on an annualized basis. This is less than one-half of the rate at which the index increased through the early 2004. The projection is for continued modest growth through the second half of 2005.

Jeri Bice provided research assistance.

A Note From the Director: Revision of Economic Indexes

The quarterly indexes of regional economic activity have been retooled in a process that allows for easier comparison to regional employment data. This comprehensive revision places the indexes on the same scale as employment, and with the same long-term trend. Since long-term movements in measures of gross domestic product (GDP) tend to track with long-term employment trends, the indexes now more closely reflect regional GDP.

In addition, short-term changes in the revised series are now more easily interpreted as reflecting short-term fluctuations in regional output. Recall that the Coastal Empire Coincident Economic Index is designed to be a more comprehensive economic indicator than regional employment. As such, it is meant to serve as a proxy for regional GDP since regional GDP data is simply not available on a quarterly basis, nor is published by any government agency.

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.

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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.