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Coastal Empire Economic Monitor, 1st Quarter, 2006

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MODERATE GROWTH CONTINUES, LEADING INDEX TURNS UP

The Coastal Empire's economic growth slowed somewhat during the first quarter of 2006, but nonetheless maintained a solid pace of expansion. The annualized quarterly growth rate dropped from 4.5 percent during the last two quarters of 2005 to 1.7 percent in the opening quarter of 2006.

The Coastal Empire leading economic index moved upward at a respectable annualized pace of 1.6 percent during the quarter. The behavior of the index during the preceding several quarters suggests upcoming softness in the regional economy during the second half of the year.

GROWTH MODERATES

The Coastal Empire coincident economic index increased by 0.4 percent to 149.7 from 149.1 (revised) in the previous quarter. The index was carried upward by solid activity in the regional tourism sector along with employment growth. Strong supporting roles were played by retail sales growth and improvements in consumer confidence. However, seasonally-adjusted electricity sales and boardings at the airport were down during the quarter.

Total employment in the Savannah MSA increased by approximately 1,600 jobs during the quarter to stand at 154,800. The annualized quarterly growth rate was 4.0 percent. Service producing industries and construction added 1,900 jobs, while manufacturing slipped by 300

workers. Retail trade and finance were among the strongest service sectors, growing by 600 jobs and 400 jobs, respectively.

The tourism sector of the economy also displayed substantial growth during the first quarter. Hotel and motel sales receipts surged by 15 percent as compared to the first quarter of last year. By the end of March, sales receipts in the city of Savannah alone were running nearly 20 percent ahead of last year's level. The torrid pace of growth in the tourism sector reaches back 18 months during which time hotel receipts have consistently increased at an annual rate of just over 10 percent. Also during the last 18 months, the leisure and hospitality sector has added 1,500 workers to accommodate growing demand. Secondary tourism indicators such

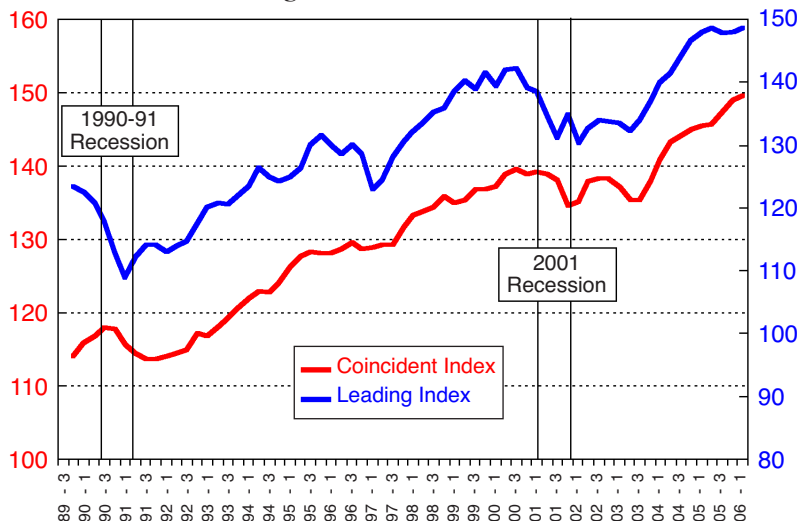
as auto rental tax receipts and riders on downtown tour busses are also up by approximately 8 percent.

REVISION OF EMPLOYMENT DATA

The Georgia Department of Labor revises employment data in the spring of each year in a process known as benchmarking. The initial employment estimates are derived from a sample of establishments while the "benchmarked" data are based on a census of employment at all establishments. The sample-based estimates are available on a very timely basis but are subject to revision. The census-based employment data are comprehensive and accurate, but usually is not available until much later than the sample

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Coastal Empire Economic Indicators
Leading and Coincident Indexes



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data. The trade-off is one of timeliness for accuracy.

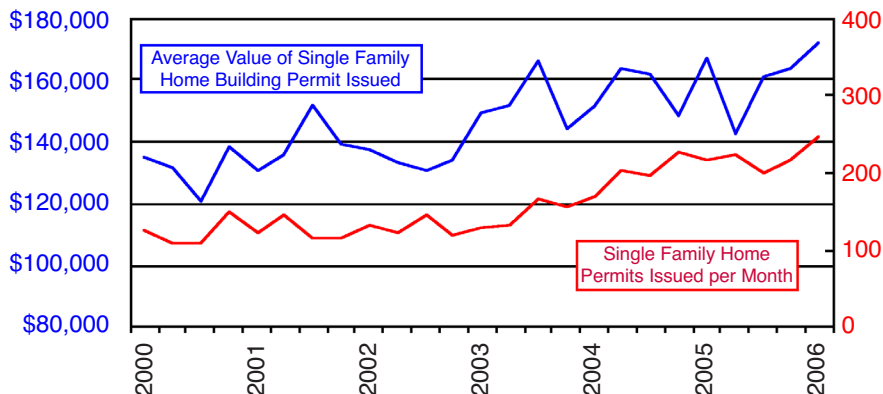
This year, the benchmarking process resulted in a moderate upward adjustment of 2004 data and a substantial upward adjustment of 2005 data. Thus, 2004 was an even stronger year than previously thought. The revised figure for employment yields an annual growth rate of 5.4 percent as compared to the previously reported figure of 3.9 percent. The gain during 2005 was revised upward to 3.9 percent from 2.0 percent.

Approximately 5,700 jobs were created during 2005. The sectors for which the employment data were initially under-reported the most include trade and transportation (1,600 jobs), professional/business services (900 jobs), and leisure and hospitality (800 jobs). The services sector employment figure was revised upward by 5,000 jobs, while manufacturing employment was revised upward by 300 jobs.

U.S. GROWTH SIZZLES, BUT INFLATIONARY PRESSURE BUILDS

U.S. economic growth surged ahead during the first quarter of 2006. Annualized GDP growth was 5.3 percent, the fastest rate of growth in over two and one-half years. Business and consumer spending were particularly strong during the quarter while exports and government spending also provided momentum to GDP growth. However, given high energy prices and growing inflationary pressure, consensus estimates for GDP growth have been revised downward to 2.9 percent for the second half of the year.

Regional Housing Market: New Strength



A recent “unwelcome development,” according to Fed chairman Ben Bernanke, was a surge in the core inflation rate. Market watchers now expect the Fed to move against inflation by raising interest rates at its next meeting in late June. Initial expectations of neutral monetary policy have been pushed aside as the core inflation rate, at 2.4 percent on an annual basis, moved above rates considered to be at the top end of the Fed’s comfort zone for inflation. The overall inflation rate is running at approximately 4.2 percent but is expected to remain below 5 percent in 2006. Thus, there are expectations that the Fed will push the federal funds rate up from its current level of 5.0 percent.

FORECASTING INDEX STABILIZES

The Coastal Empire leading economic index increased by 0.4 percent during the quarter, rising to 148.7 from 148.0 (revised) in the previous quarter. A substantial drop in new claims for unemployment insurance as well as increasing consumer expectations pushed the index up. Strengthening conditions

in the regional housing market also contributed to the increase.

The regional housing market solidified its gains from the previous quarter and demonstrated substantial growth in the first quarter. The number of single-family home building permits issued increased 14 percent from the last quarter of 2005. In addition, the average value of a permit issued increased by 5 percent to \$172,000. Both of these factors point to a resurgence in the regional housing market after a volatile period with ups and downs through most of 2005. See the chart above.

Overall, the signal from the leading index is one of moderating growth in the second half of the year. The forecasting index has shown little growth over the previous three quarters, thus suggesting that regional economic growth may flatten later in 2006.

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A NOTE FROM THE DIRECTOR

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