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Coastal Empire Economic Monitor, 1st Quarter, 2007

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ECONOMY SLIPS, LEADING INDEX DROPS AGAIN

The slowdown in regional economic growth experienced during the last quarter of 2006 carried into the first quarter of 2007. The Coastal Empire coincident economic index, a multi-faceted measure of regional economic activity, fell by one percent on a seasonally-adjusted basis.

The Coastal Empire leading economic index also fell by 1.1 percent during the first quarter. This is the third consecutive decline in the leading index and points toward a bumpy economic road in the near term for the Coastal Empire. As data become available during the second quarter, they should be monitored very closely for signs of continued instability.

Cyclical Peak?

The Coastal Empire coincident economic index decreased by 1.0 percent to 158.1 from 159.7 in the previous quarter. In the opening quarter of 2007, the index was pulled down by a combination of declines in seasonally-adjusted retail sales activity and electricity sales. The 3.5 percent decline in retail sales activity may be attributed to a combination of increased energy costs, turbulent consumer confidence readings, and the completed deployment of the Third Infantry Division. Retail sales and electricity sales constitute two important economic indicators reflecting regional consumer

spending and the regional economy's demand for electrical energy in the residential, commercial, and industrial sectors of the economy.

Other coincident indicators such as seasonally-adjusted employment, consumer confidence, and boarding at the airport also nearly lost their forward momentum during the quarter, registering minimal growth. The tourism sector remained a bright spot, however, as hotel and motel rooms sales continued grow substantially.

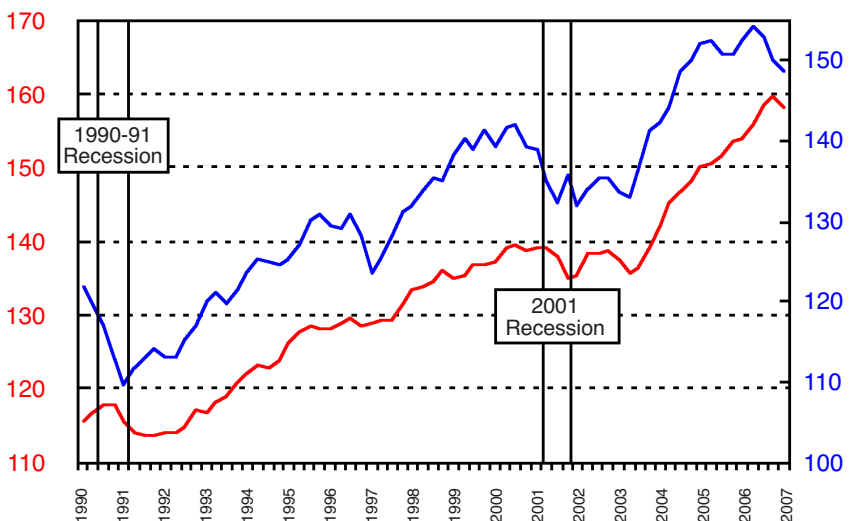
Employment growth in the Savannah MSA nearly halted during the first quarter, increasing by only one-tenth of one percent, or 200 jobs. Total employment in the three-county MSA stands at

158,500. The 200 new jobs were all in the service sector, with gains in the leisure/hospitality and financial services sectors mostly offset by losses in business and professional services. On the goods-producing side of the economy, manufacturing held steady at 14,400 workers and maintained a six percent growth rate as compared to year-ago levels.

As indicated above, the regional tourism industry continues to enjoy strong growth. The hospitality sector added 400 jobs for the second consecutive quarter, increasing employment to 20,300 workers. As compared to year-ago data, employment in this sector increased by 4.8 percent which is double the overall regional employment growth

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Coastal Empire Economic Indicators
Leading and Coincident Indexes



(continued from front)

rate. Room sales increased by over three percent during the quarter and stand ten percent higher than year-ago levels. In addition, while the seasonally-adjusted number of riders on tour buses and trolleys in downtown Savannah pulled back somewhat during the first quarter, overall ridership has increased by about five percent as compared to year-ago levels.

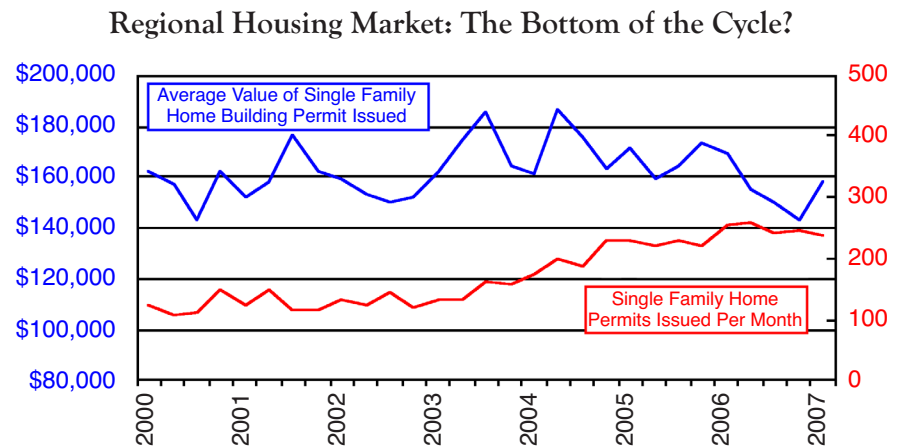
U.S. Economy Grinds to a Near-Halt

U.S. economic growth fell to a barely perceptible annualized rate of 0.6 percent during the opening quarter of 2007. This is the slowest rate of growth in over four and one-half years. However, growth is expected to rebound to approximately three percent during the spring quarter.

Continued strength in consumer spending and a modest recovery in business spending on capital goods prevented the economy from backsliding during the quarter. Inventory depletion and increased imports combined to reduce GDP growth by two percentage points. If the nation's housing market troubles persist longer than expected, there is a possibility that growth in consumer spending may be inhibited and adversely affect an already weak economy.

Forecasting Index Drops Again

The Coastal Empire leading economic index fell one percent during the quarter, declining from 150.2 in the previous quarter to 148.6. The rate of decline slowed, however, and early indications are that the index may be stabilizing for the second quarter. Nearly all components of the forecasting index declined except for consumer expectations in the South Atlantic



states that increased for the third consecutive quarter. Lingering weakness in housing and labor markets combined to keep the index moving in a downward direction.

On the positive side, the seasonally-adjusted number of new claims for unemployment insurance (UI) plunged by 17 percent from the previous quarter. While this is a welcome improvement in labor market conditions, the number of new UI claims remains approximately eight percent above year-ago levels. The number of unemployed workers in the MSA was 6,350 during the first quarter, virtually unchanged from year-ago levels.

The most recent data from the housing market are mixed, with an improvement in the average value of single family home building permit issued, but lingering weakness in the overall number of permits issued. (See the chart above.) The average value of a permit issued increased by ten percent from the previous quarter to \$158,000. This is a reversal in a downward trend that stretches back to the start of 2006. However, the number of new home building permits issued fell by 3.5 percent from the previous quarter, and now stands approximately eight percent below year-ago levels. Construction

sector employment reflects this diminished activity, having drifted down by approximately 200 workers during the past six months.

Overall, the decline in the leading index continues to send a warning signal about economic activity in the Coastal Empire for the summer and fall months. Expect unsteady economic activity, with the potential for further declines in over-all activity during the next two quarters.

Holly Meads provided research assistance.

A Note From the Director

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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