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Coastal Empire Economic Monitor, 2nd Quarter, 2007

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ECONOMY RECOVERS, LEADING INDEX TURNS UP

Economic activity in the Coastal Empire recovered during the second quarter of 2007, reversing the decline experienced in the previous quarter. The Coastal Empire coincident economic index, a measure of the regional economic “heartbeat,” increased at an annualized rate of 2.9 percent.

The Coastal Empire leading economic index also reversed a downward trend by increasing substantially during the second quarter. After having declined for three consecutive quarters, the forecasting index increased at an annualized rate of 5.8 percent. This points toward improving economic activity by year-end following what is likely to be choppy economic growth during the upcoming six months.

Upward Bound Again

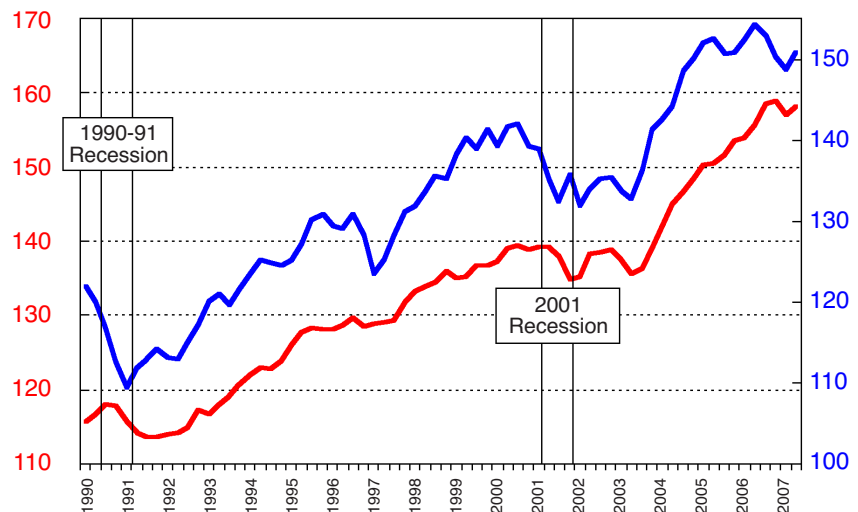
The Coastal Empire coincident economic index increased by 0.7 percent to 158.2 from 157.0 (revised) in the previous quarter. During the second quarter of 2007, the index was supported primarily by growth in seasonally-adjusted employment and electricity sales. Modest growth in hotel sales activity, boardings at the airport, and the U.S. coincident index also contributed to the increase. A mild decline in consumer confidence in the south Atlantic states held regional consumer spending in check during the quarter.

After adjusting for the normal seasonal cycle, employment growth in the Savannah metro area picked up again after fizzling out during the first quarter. Regional employers added nearly 1,200 workers, an increase of seven-tenths of one percent. If this pace of hiring continues throughout the year, it would yield a rate of employment growth equal to 3.0 percent. Total employment in the three-county MSA is 159,700. Most of the new jobs were in the service sector, with 900 new workers in business/professional services and government combined. Manufacturers added 300 jobs and total employment in that sector reached 14,700.

In general, regional tourism activity remains strong, but the pace of growth slowed during the second quarter. Inflation and seasonally-adjusted hotel room sales increased by two percent during the quarter and stand 6.3 percent higher than year-ago levels. The annual rate of growth in room sales has declined by more than one-half during the past nine months. The seasonally-adjusted number of riders on tour buses and trolleys in downtown Savannah declined for the second consecutive quarter, yet it remains 3.5 percent higher than year-ago levels.

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Coastal Empire Economic Indicators
Leading and Coincident Indexes



(continued from front)

In the midst of this moderation in growth, the hospitality sector shed 200 workers as overall employment slipped to 20,100 on a seasonally-adjusted basis. However, as compared to year-ago data, employment is up by 2.1 percent. The second quarter employment reduction may simply reflect a decision among hoteliers to adjust staffing to reflect the actual, rather than anticipated growth in the sector. Note that the tourism sector continues to grow, but at a slower pace than recently experienced. This is likely the delayed result of relatively weak economic activity in Georgia and the U.S. in the first quarter of the year.

U.S Economy Rebounds

U.S. economic activity rebounded in the second quarter to grow at an annualized rate of 3.4 percent. A substantial increase in business spending on capital goods and inventory accumulation, along with increased government expenditures and favorable trade activity propelled U.S. GDP higher. With the value of the dollar falling, exports surged and imports declined. A troubling spot was weakness in consumer spending, which has mostly held up so far during the housing market correction. In the second quarter, however, growth in consumer spending was less than half the pace recorded in the first quarter.

Core inflation (excluding food and energy) backed off during the quarter, increasing at the low annualized rate of 1.4 percent. Although this is within the Federal Reserve's "comfort zone," the Fed is unconvinced that a downward trend is emerging. Thus, despite housing and credit market problems, the Fed is likely to maintain the federal funds rate at 5.25 percent for the foreseeable future.

Forecasting Index Rises

The Coastal Empire leading economic index increased by 1.4 percent during the quarter, rising from 148.6 to 150.7. A substantial improvement in labor market conditions and an increase in the U.S. leading economic index accounts for most of the rise in the index. The continuing decline in the number of initial unemployment insurance claims in the Savannah MSA places this leading indicator back on par with year-ago levels, as compared to being elevated by eight percent as reported in the first quarter. However, flatness in regional housing market activity along with an erosion in consumer confidence prevented the index from rising further.

The most recent data from the housing market remains mixed. The number of new home building permits issued increased by 1.8

percent from the previous quarter, but remains approximately six percent below year-ago levels. The average value of single family home building permit issued gave back some ground, falling by 5.8 percent during the quarter to \$149,000. Both of these housing market indicators have been trending relatively flat for several quarters, thus suggesting that the sector continues to muddle along in what appears to be the cyclical low point in the housing market. Construction sector employment recovered the 200 jobs lost earlier in the year and is approximately 2.3 percent above year-ago levels.

Overall, the increase in the leading index sends an encouraging signal about economic activity in the Coastal Empire toward the end of the year. However, given the recent declines in the immediate past quarters, expect mixed economic activity into the fall, with the potential for more substantial improvement in late 2007 and early 2008.

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.

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 is designed to provide a short term forecast of the region's economic activity in the upcoming six to nine months.

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