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Coastal Empire Economic Monitor, 1st Quarter, 2008

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ECONOMY STUMBLES, LEADING INDEX CONTINUES DOWNWARD

The economy of the Coastal Empire slipped back slightly during the first quarter of the year. The weakness that emerged in the closing months of 2007 carried forward into the first months of 2008. The Coastal Empire coincident economic index, a measure of the regional economic “heartbeat,” declined 1.4 percent in the opening quarter of 2008.

The Coastal Empire leading economic index continued its dive from the previous quarter, extending a downward trend dating from mid-2007. While weakness among the components of the index was widespread, it is possible that some of the leading indicators may have “found a bottom.” However, given the continued and substantial recent decline in the forecasting index, it is highly likely that a challenging economic environment will continue through 2008.

First Quarter Decline

The Coastal Empire coincident economic index decreased to 159.3 from 161.7 (revised) in the previous quarter. The index was pulled down by widespread weakness in its underlying indicators. In particular, seasonally-adjusted electricity sales, consumer confidence, and retail sales all declined during the quarter. Tourism indicators also displayed some weakness during the quarter. Among the seven indicators on which the coincident index is based, only seasonally-adjusted employment increased, albeit by the very modest amount of 0.3 percent during the quarter.

The slowdown in the rate of growth in regional employment is clearly visible in over-the-year data going back to early 2006 (see chart on back). At its most recent peak in the first quarter

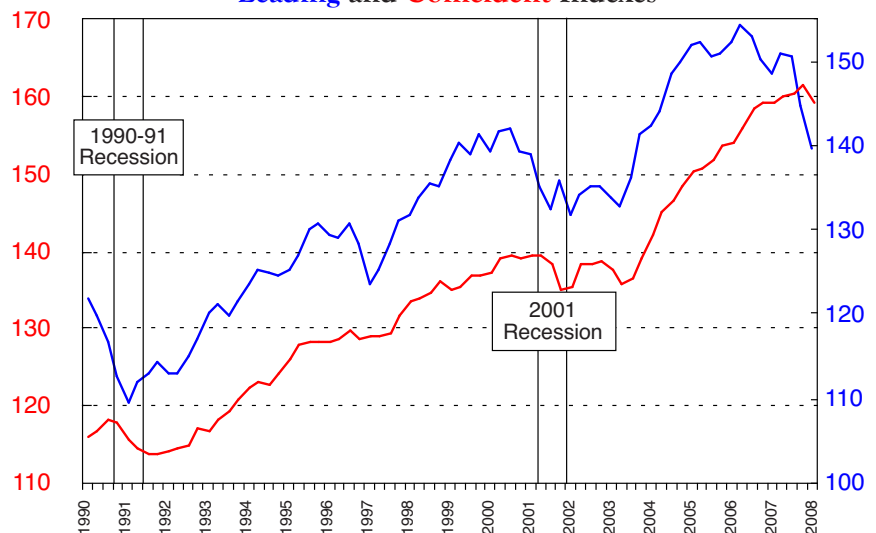
of 2007, employment growth was barreling along at a pace of 5.1 percent (adding 7,733 jobs) as compared to previous year data. The rate of acceleration in job creation has slowed in the most recent quarter to 0.6 percent (adding only 1,000 jobs) as compared to the year-ago data. This marginal rate of job creation simply was not strong enough to counter the effects of weakening expenditure activity as measured by electricity sales, retail sales, and tourism related sales.

Total employment in the three-county Savannah MSA was 162,400 during the opening quarter of the year. In total, the service sector added 1,000 jobs, primarily in retail trade and financial services. Other service sectors were generally flat during the quarter, drifting up or down by 100 or 200 jobs. Manufacturing suffered a loss of 300 jobs during the quarter, its first quarterly decline in a year. The construction sector shed 100 workers.

On a nationwide basis, concerns about the strength of the economy, increasing gasoline prices, and reduced consumer confidence has generated a six-month downward trend in the number of consumers planning vacations. On a regional basis, this is evident in several key indicators for the tourism industry. Inflation- and seasonally-adjusted hotel room sales increased a scant 0.6 percent from the previous quarter, but fell one percent below year-ago levels. While activity remains somewhat stronger in the city of Savannah, activity along Interstate 95 continues to exhibit weakness. Other tourism indicators such as the seasonally-adjusted number of riders on tour buses and trolleys in downtown Savannah, auto rental sales tax receipts, and alcohol sales taxes declined by four to seven percent from the previous quarter, and fell eight to twelve percent below year-ago levels.

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Coastal Empire Economic Indicators
Leading and Coincident Indexes



(continued from front)

U.S. Economic Growth is Tepid

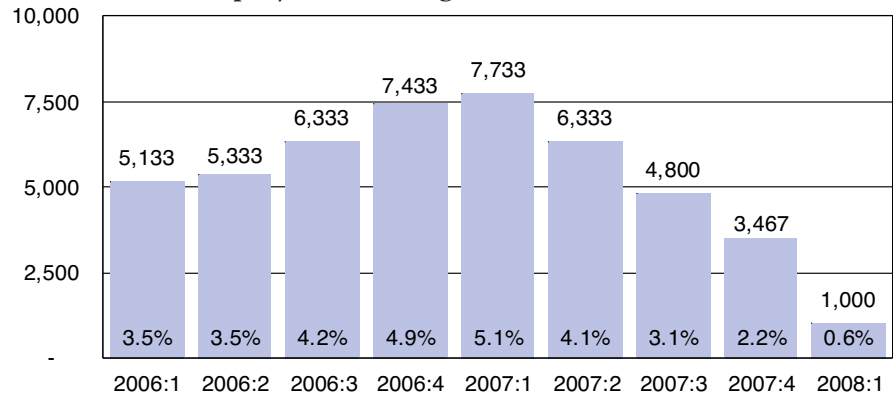
The U.S. economy grew at the slow pace of 0.9 percent from January through March. Continued weakness in the housing and credit sectors, along with restrained consumer and business spending resulted in tepid economic growth. Even though residential construction declined 26 percent, consumer and business sector spending remained positive through the quarter shrugging off repeated warnings about recessionary conditions. Exports, spurred along by the falling value of the dollar, increased by 2.8 percent and provided a small boost to GDP growth.

The Federal Reserve, in a trend dating to September 2007, continued reducing short term interest rates, forcing the federal funds rate down to its lowest level since late 2004. However, the Fed's ability to engage in further aggressive behavior is becoming limited by inflation (3.9 percent) and the soft dollar and its perspective on threats to the economy is changing. Indeed, the weakening dollar and its potential inflationary effects recently are grabbing a greater share of Fed officials' attention and this suggests the rate-cutting cycle is at its end.

Forecasting Index Falls

The Coastal Empire leading economic index decreased by 3.5 percent during the quarter, falling from 144.6 (revised) to 139.6. The two-quarter decline represents the largest back to back fall in the index dating from 1990. All five components of the index declined, but the downward movement in the index was largely the result of accumulated weakness in

Over-the-Year Savannah MSA Employment Change and Percent Growth



regional residential construction activity and battered consumer expectations in the south Atlantic states.

An up-tick in the number of new claims for unemployment insurance in the region also weighed heavily on the index, contributing to its decline. In a delayed response to the increase in the number of new unemployment insurance claims since early 2007, the unemployment rate began trending upward in early 2008. The current unemployment rate in the Savannah metro economy is 4.4 percent, a full percentage point above year-ago levels.

Although residential construction in the Savannah metro area has suffered through a three-quarter recession, the sector may be at the bottom of the cycle. During the first quarter, the number of building permits issued for single family homes increased 3.2 percent from the previous quarter, after the usual seasonal adjustment to the data. On an over-the-year basis, permit issuance appears to have bottomed out in the last quarter of 2007. Other evidence suggests that the inventory of new unsold homes

is beginning to back down from cyclical highs. The average value of a new home building permit issued decreased modestly to \$157,500, but has been moving within a relatively narrow range for several quarters.

In conclusion, the two-quarter decline in the leading index continues to send a clear signal that the economic environment in the Coastal Empire will remain challenging through 2008. While some promising (perhaps fledging?) signs of stabilization are emerging from the regional housing market, the area's labor market will be hard-pressed to absorb surplus labor in the short run.

Alexis Brewer 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@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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