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Coastal Empire Economic Monitor, 2nd Quarter, 2008

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ECONOMY SLIPS AGAIN, LEADING INDEX CONTINUES DOWNWARD

The economy of the Coastal Empire lost additional ground during the second quarter of the year. The Coastal Empire coincident economic index, a measure of the regional economic “heartbeat,” declined 1.2 percent, continuing a downward trend that emerged during the first quarter of the year. Through the first half of the year, the index fell at an annualized rate of 4.5 percent

The rate of decline in the Coastal Empire leading economic index slowed, but nonetheless the downward trajectory was sustained for another quarter. On the bright side, the deterioration in the underlying components of the index is beginning to dissipate, and several indicators have shown distinct signs of improvement. Thus, while the index may be poised for an uptick during the third quarter, the forecasting index’s signal is that the region is likely to face continuing strong economic headwinds through the remainder of the year.

Cyclical Downturn Emerges

The Coastal Empire coincident economic index decreased to 159.6 from 161.5 (revised) in the previous quarter. With the exception of employment, all components of the coincident index declined. Half of the drop is attributed to continued weakness in consumer confidence while the remaining six components jointly accounted for the remaining

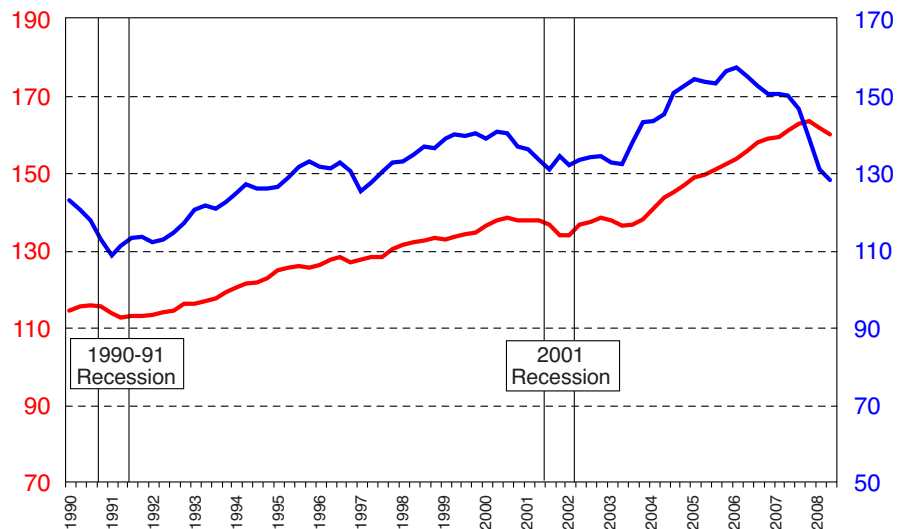
downward trend. Tourism indicators continued to display weakness that now dates back one full year.

Seasonally-adjusted employment, although it did not fall, experienced no growth and now stands at 162,400 workers. While the bottom line numbers in goods-producing and service-producing industries were unchanged, there are interesting dynamics taking place at the sector level. For example, the combined sectors of construction, financial activities, and leisure/hospitality shed 700 workers, reflecting the underlying weakness in the region’s housing market and tourism sector. On the other hand, the public sector added 400 workers while manufacturing added 100 workers as compared to the first quarter.

The regional tourism sector continues to display some weakness resulting from a general economic deterioration, diminished consumer confidence, and elevated fuel prices. Inflation- and seasonally-adjusted hotel room sales declined by approximately 5 percent from the previous quarter, and are now 7 percent below year-ago levels. While weakness in hotel sales activity is more pronounced along I-95, inflation-adjusted sales activity in the city of Savannah declined for the first time since the immediate aftermath of 9/11. Seasonally-adjusted airplane boardings and riders on tour buses and trolleys in downtown Savannah declined by approximately five percent as compared to the previous quarter.

(continued on next page)

Coastal Empire Economic Indicators
Leading and Coincident Indexes



(continued from front)

However, on a comparative basis, regional and national tourism data indicates that Savannah's tourism industry is faring somewhat better than many of its competitive destinations.

U.S. Economy Improved in Second Quarter

The U.S. economy grew at a pace of 2.8 percent during the second quarter, primarily supported by substantial growth in exports. Continued weakness in the housing and credit sectors, along with restrained consumer and business spending, however, resulted in modest growth. Weakened consumer confidence led to consumer expenditures rising at a scant annualized rate of 1.2 percent. Residential construction declined 16 percent, cutting overall GDP growth by slightly more than one-half of one percentage point. Business spending on capital goods fell by 5 percent in the second quarter.

Even though the economy's second quarter performance was reasonably good, an on-going survey of forecasters conducted by the *Wall Street Journal* places the odds of a U.S. recession in the next twelve months at nearly 90 percent. Since

January 2008, the U.S. economy has lost over 600,000 jobs and the trend continues into the third quarter.

Forecasting Index Falls

The Coastal Empire leading economic index decreased by 2.2 percent during the quarter, falling from 130.8 (revised) to 127.2. While this extends the downward trend another quarter, the good news is that the rate of decline has slowed. In fact, the underlying momentum in the index appears to be shifting in a more favorable direction. Whereas in the first quarter, all components of the forecasting index declined substantially, most components stabilized and moved upward in the second quarter. The overall downward movement was caused by a substantial erosion of consumer expectations in the south Atlantic states.

In terms of better news, the regional housing market appears to be stabilizing, although the gains made in the second quarter may be fleeting given worsening conditions in the credit market. The seasonally-adjusted number of building permits issued for single family homes increased (yes, increased) two percent from

the previous quarter. In addition, the average value of a building permit issued increased by 2.5 percent to \$160,000. Additional information from the Office of Federal Housing Enterprise Oversight indicates that the annual rate of appreciation on single-family homes financed through conforming Freddie and Fannie loans (approximately \$420,000 and below) in the Savannah MSA increased to 1.7 percent. This increase reverses a downward slide that dates back to early 2006. While these signs are encouraging, the recent upheaval in global financial markets is likely to create more difficulties for the residential construction sector as would-be homeowners are required to comply with much tighter lending standards.

In conclusion, the substantial decline in the leading index continues to send a strong signal that challenging economic conditions will continue in the Coastal Empire through the end of the year and into early 2009.

Karin Edenfield provided research assistance.

A Note From the Director

Both indicators received their annual tune-up that allows for recalibration of the indexes, re-adjustment of seasonal factors, and the introduction of new elements in the methodology. The coincident index now directly includes a measure of Georgia Ports Authority activity, the number of containers (TEUs) moved through the port. In addition, the leading index now includes a measure of job openings listed with the *Savannah Morning News* at Savannahnow.com. We thank both organizations for their cooperation in providing data.

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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