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Coastal Empire Economic Monitor, 3rd Quarter, 2008

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CONDITIONS DETERIORATE, LEADING INDEX FALLS AGAIN

The Savannah metro economy continued to lose ground during the third quarter. The Coastal Empire coincident economic index, a measure of the regional economic “heartbeat,” declined 1.1 percent. This represents the third consecutive quarter during which the index fell. The rate of decline has been sharp and consistent. Beginning in the first quarter of the year and continuing through the third quarter, the index fell at an annualized rate of approximately 4.4 percent

The rate of decline in the Coastal Empire leading economic index accelerated from the second to the third quarter. Although the underlying components of the forecasting index appeared poised for an upswing in the third quarter, economic fall-out from capital market instability resulted in worsening conditions in the regional housing and labor markets. The leading index continues to signal strong economic headwinds at least through mid-2009.

Seasonally-adjusted regional employment contracted sharply during the quarter, falling at an annualized rate of five percent. After experiencing a loss of 2,100 workers, employment in the three-county region now stands at 160,200. The service sector, usually the bulwark of any regional economy, suffered a loss of nearly 1,700 workers, with the losses equally shared by transportation, professional services, and the leisure and hospitality sector.

On the goods-producing side of the economy, construction shed 300 workers while manufacturing lost 100. Employment in the construction sector now stands at 9,600 workers, its lowest level in three years. Manufacturers employ 14,500 workers. This figure, however, may be expected to decline in upcoming quarters given the recent announcements of employment reductions at Great Dane and JCB.

Retailing activity, facing the double-whammy of weakened tourism and increasingly pessimistic and financially strapped consumers, has been under pressure since early 2007. In the chart on the next page, the percentage change in retail sales tax receipts as compared to year-ago data has displayed general weakness, except for a spending splurge in late 2007.

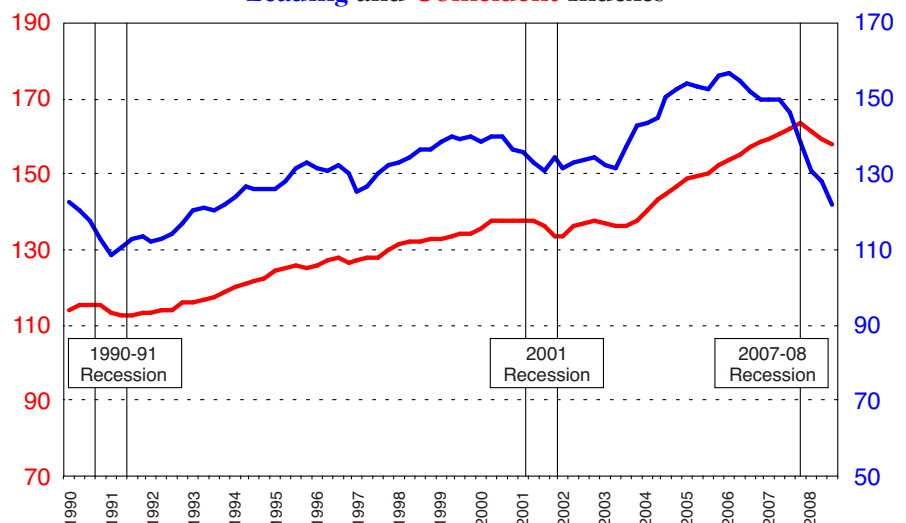
As indicated in the chart, hotel sales activity has deteriorated throughout the period as well. Inflation- and seasonally-adjusted hotel room sales declined 1.3 percent from the previous quarter, and now stand 9.3 percent below year-ago levels. In addition, the seasonally-adjusted number of riders on tour buses and trolleys in downtown Savannah and rental car sales fell during the quarter to stand at 15 percent and nine percent below year-ago levels, respectively.

(continued on next page)

Regional Economy in Recession

The Coastal Empire coincident economic index decreased to 157.8 from 159.6 in the previous quarter. With the exception of a slight quarterly increase in electricity sales and port activity, the components of the coincident index declined moderately. As compared to the previous quarter when the fall was primarily attributed to a sharp drop in consumer confidence, the weakness in the third quarter was broadly based. Declines in regional employment, consumer confidence, tourism, and retail sales contributed to the drop in the coincident index.

Coastal Empire Economic Indicators
Leading and Coincident Indexes



(continued from front)

This substantial body of evidence regarding the continued decline in economic activity clearly suggests that the Savannah metro economy is currently in a recessionary phase of the business cycle. Telltale signs of recession emerged in the first quarter of 2008 and the evidence has continued to mount through the third quarter. A turnaround is not expected during the closing quarter of the year.

U.S. Economy Tanks in Third Quarter

U.S. economic output (GDP) shrank at an annualized pace of 0.5 percent in the third quarter. Consumers have been under severe stress as job losses mounted along with tumbling real estate and equity values. As a result, consumer confidence declined and consumer expenditures fell at a 3.7 percent rate. Overall, business spending on capital goods declined at a rate of 5.7 percent while investment in residential housing plummeted at a rate of 17.6 percent. Weakening economic activity overseas combined with a modest appreciation of the dollar to cut into export growth.

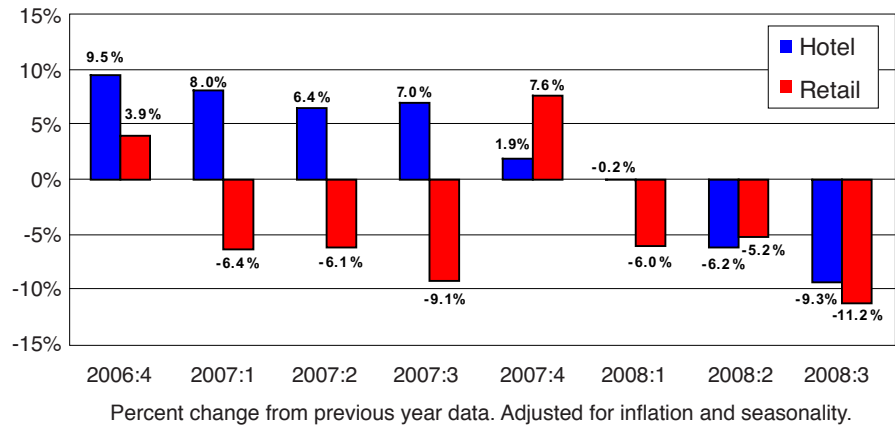
Economists expect the economy to contract at an annual rate of 3 percent in the final three months of this year and at a 1.5 percent pace during the first three months of 2009. Through October 2008, 760,000 jobs have been lost nationwide and the trend is expected to continue. Consequently, the nation's unemployment rate is expected to rise to approximately 8 percent in 2009.

The Federal Reserve held steady during the third quarter, but pushed its benchmark federal-funds rate down one-half of one percentage point to one percent in the opening weeks of the fourth quarter. The fed funds rate

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.

Over-the-Year Change in Retail and Hotel Sales Tax Receipts



is now at its lowest level since 2003 and 2004, the period of the so-called jobless recovery following the 2001 recession.

Forecasting Index Falls Again

The Coastal Empire leading economic index decreased by 4.7 percent during the quarter, falling from 127.9 (revised) to 121.9. The downward trend accelerated as weakness in the underlying indicators was widespread. Indeed, all components declined, some very substantially. In particular, the number of initial claims for unemployment insurance surged during the quarter, help wanted advertising declined, and issuance of building permits for new single family homes trailed off again from the previous quarter.

The very modest second quarter gains registered by the regional housing market were fleeting, as the severity of the train wreck in U. S. financial markets and the effects of its shock waves on the economy became more apparent as the dust settled. As compared to the previous quarter, the seasonally-adjusted number of building permits issued for single family homes fell by approximately seven

percent along with the average value of a permit issued (to \$151,000 from \$161,000).

The regional labor market fared no better, as the number of seasonally-adjusted initial claims for unemployment insurance surged by 36 percent to 1,111. Given this new inflow of unemployed workers into the labor market and the 18 percent reduction in help wanted advertising, the regional unemployment rate climbed to 5.7 percent, an increase of 1.7 percentage points from September 2007.

In conclusion, the continued substantial decline in the leading index sends a strong signal that the economic headwinds faced by the economy will not dissipate in the immediate future. The regional economy will continue to face challenging conditions through at least mid 2009 while it works its way through the current recessionary business climate.

Karin Edenfield 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.

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