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Coastal Empire Economic Monitor

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2008

### Coastal Empire Economic Monitor, 4th Quarter, 2008

Armstrong Atlantic State University Center for Regional Analysis

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## REGIONAL ECONOMY SLIDES AGAIN, LEADING INDEX FALLS

The Savannah metro economy extended its slide through the closing quarter of 2008. The Coastal Empire coincident economic index, a measure of the regional economic “heartbeat,” fell by 1.8 percent to end the year on a four quarter losing streak. The rate of decline was sharp and accelerated toward the end of the year. Overall, the coincident index fell by 5.5 percent during the year.

The rate of decline in the Coastal Empire leading economic index slowed somewhat at the end of the year. Although this might be considered a small victory for the fourth quarter, the year-long trajectory was sharply down by 16.3% during the year. The forecasting index continues to send a strong signal that the economy will continue to face difficult challenges through the latter part of 2009.

### Regional Recession Continues

The Coastal Empire coincident economic index decreased to 154.4 from 157.6 (revised) in the previous quarter. With the exception of a slight quarterly increase in electricity sales, all components of the coincident index declined at an increasing pace during the fourth quarter. Falling consumer confidence continued to hammer at the local economy, while slackness in tourism, port activity and employment also combined to pull the coincident index down.

Seasonally-adjusted regional employment continued its slide, falling to a quarterly level of 159,300 workers. The regional economy has shed 3,100 workers since peaking in the first

quarter of 2008. The service sector suffered the bulk of the job losses, falling by 800 workers. Five hundred workers in retail trade lost jobs, while 300 jobs in the transportation/warehousing sector were lost. Business and professional services declined by 400 workers, reflecting a general weakening in business activity.

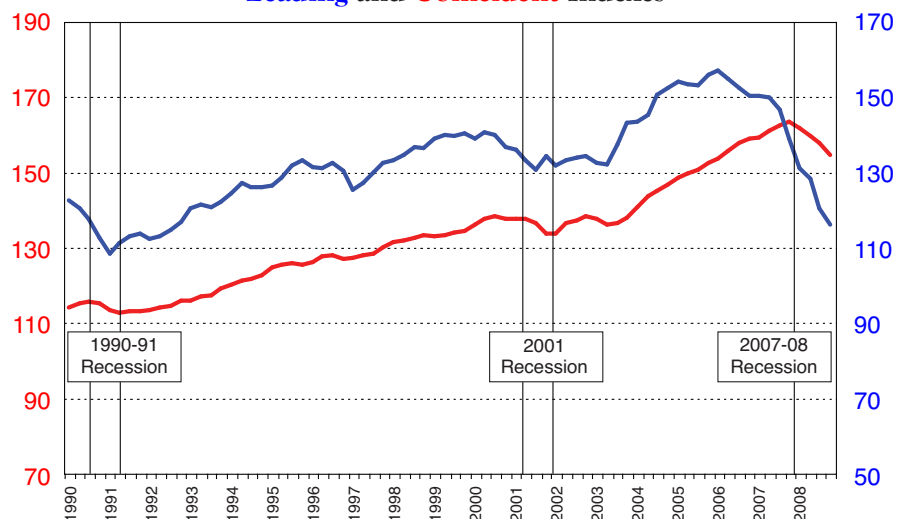
The goods-producing side of the Savannah metro area economy held fairly stable during the quarter. Combined, construction and manufacturing lost only 150 jobs, with the bulk of these in the construction industry. The regional manufacturing sector has been more resistant to the recession than its counterparts across the state and nation. As indicated in the chart (next page), Savannah area manufacturing declined by only 2.6 percent during 2008 while the state lost 4.5 percent of its manufacturing base. Between 2003 and 2008, the

manufacturing sector in Savannah expanded by 7.5 percent, standing in sharp contrast to losses of nearly 9 percent at the state level and 7.5 percent at the national level.

Tourism and retailing continue to face slack demand. Both sectors are subject to heavy influence by consumer confidence which has been seriously eroded by falling housing and equity prices in combination with job losses and rising unemployment. With respect to tourism, inflation- and seasonally-adjusted hotel room sales declined 4.5 percent during the fourth quarter and were 7.8 percent below year-ago levels. The seasonally-adjusted number of riders on tour buses and trolleys in Savannah and automobile rentals continued their slowing trajectory. Tour bus ridership is down by 15 percent, while auto rentals have declined by 7 percent as compared to year ago data.

*(continued on next page)*

Coastal Empire Economic Indicators  
Leading and Coincident Indexes



(continued from front)

The recession that began in the January 2008 tightened its grip on the regional economy as the rate of decay increased throughout the year. A relatively bright spot, however, is the relative strength of the regional manufacturing sector. Jobs in this sector pay high wages, near \$60,000 per year, and the relative strength of regional manufacturers tends to better preserve consumer income in the region as compared to elsewhere in the state and nation where the manufacturing sector has been heavily hit by the economic slowdown.

## U.S. Economy Sharply Contracts In Fourth Quarter

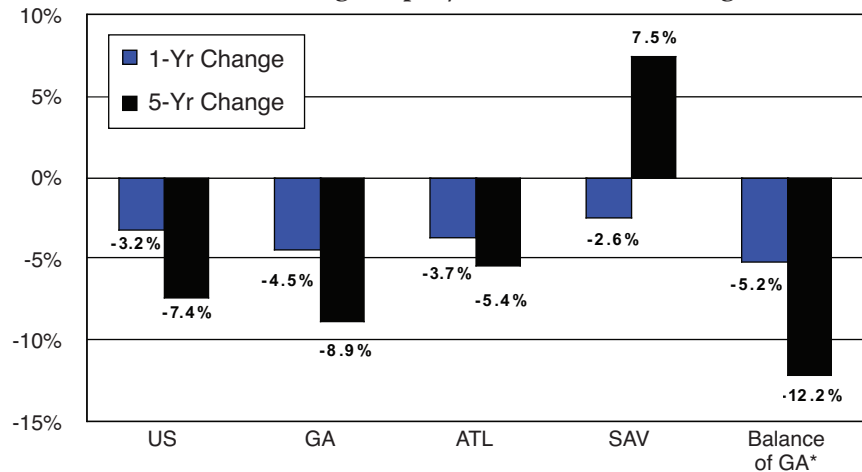
U.S. economic output (GDP) contracted at an annualized pace of 6.2 percent in the fourth quarter. The economic winds of falling housing prices, declining equity values, and tight access to credit buffeted consumer confidence, resulting in a reduction of consumer expenditures at a 4.3 percent annualized rate. In addition, business spending on capital goods declined by 21 percent. Weakening economic activity overseas along with continued appreciation of the dollar contributed to the decline in exports by 24 percent. By year-end, the total number of jobs lost increased to approximately 2.5 million as the unemployment rate climbed to 7.2 percent.

The Federal Reserve pushed its benchmark federal-funds rate down to one percent in the opening weeks of the fourth quarter and cut rates further during the last weeks of the quarter to between zero and one-quarter percentage point. However, the Fed is now effectively out of conventional monetary policy “bullets” to shoot at the recession.

## 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.

## Manufacturing Employment Percent Change



\*Data for Georgia excluding Atlanta MSA and Savannah MSA

Additional Fed intervention will more likely be along the lines of direct lending to corporate entities, the purchase of toxic mortgage-backed securities and the implementation of a new consumer credit lending facility, as announced in late November in a joint statement with the U.S. Treasury department.

## Forecasting Index Declines

The Coastal Empire leading economic index decreased by 3.4 percent during the quarter, falling from 120.2 (revised) to 116.1. The downward trend slowed modestly, but this partly reflects incomplete data about the regional labor market that weakened during the quarter. Weakness in the underlying indicators continues to be widespread.

The regional home construction industry logged its worst-ever quarter since 1995. The number of building permits issued for single family homes in the three-county Savannah metro area fell to 211, with only 52 permits issued during the month of November. These are all-time lows in a monthly dataset dating back to 1995.

The regional labor market fared little better, as the number of seasonally-adjusted initial claims for unemployment insurance surged another 20 percent to 1,351 claims. This occurred simultaneously with a 17 percent reduction in the volume of help-wanted advertising, thus leading to an increase in the regional unemployment rate to 6.6 percent, an increase of 2.6 percentage points from December 2007.

Wrapping up, the slide in the leading index continues to send the signal that the regional economy will face challenging conditions extending through late 2009. Until the leading index stabilizes or reverses its trend, the economic road will be somewhat rocky. At this time, there is little indication that the trend will reverse in the short run.

*Karin Edenfeld 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](http://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](mailto:emonitor@armstrong.edu).

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