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Coastal Empire Economic Monitor, 3rd Quarter, 2009

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ECONOMY STABILIZING, FORECASTING INDEX TURNS UP

After a long slide through the recession, the regional economy stabilized during the third quarter. Although the recession has apparently ended, the underlying fundamentals in the regional economy remain mixed. Most of the coincident economic variables are showing improvement, with the key exception of employment in the metro area. However, strength in other foundation areas including tourism, consumer expenditures and electricity sales combined to reverse the downward slide in the Coastal Empire coincident economic index, a measure of the regional economic "heartbeat."

The Coastal Empire leading economic index also reversed its trajectory by turning up during the third quarter. This is an encouraging development for the regional economy, although one quarter of favorable movement does not establish a trend. Many of the underlying leading indicators were moving in a favorable direction, yet there remains residual weakness in the labor and housing markets. At this time, the forecasting index is suggesting that the long-standing economic headwinds are finally beginning to dissipate. If the leading index rises again during the fourth quarter, it foreshadows economic growth in the latter half of 2010.

Regional Economy Ends the Slide

The Coastal Empire coincident economic index increased to 147.0 from 146.9 (revised) during the third quarter of the year. Downward revision in previously reported second quarter data resulted in the erasure of initial signs of stabilization in the second quarter. Nonetheless, third

quarter data showed improvement across a widespread swath of the regional economy. Quarterly gains were recorded in tourism, retail sales, port activity and consumer confidence in the South Atlantic states. However, the regional economy continued to shed jobs during the quarter, thus weighing down the coincident index.

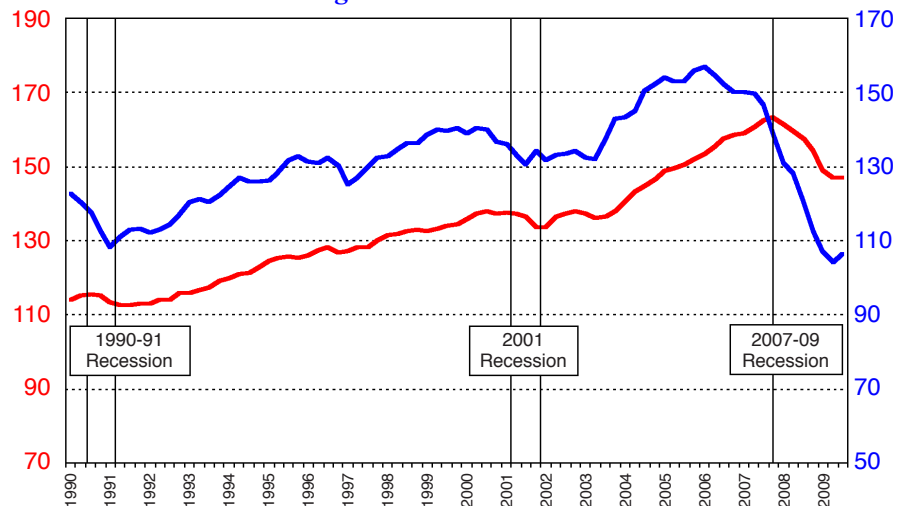
Losses in seasonally-adjusted regional employment continued to mount. Total employment in the region slipped to 153,200 as 2,800 jobs were eliminated during the quarter. While employment now stands 3.2 percent below year-ago levels, the data for the third month of the quarter suggested that the job losses are slowing. Of the 2,800 jobs lost during the quarter, 2,100 were lost in service-producing industries. Five hundred jobs were lost in retail trade, while 300 jobs were lost in both of financial activity and transportation/utilities. On the goods-producing side of the economy, 200

jobs each were lost in manufacturing and construction.

With green chutes appearing in tourism and at the port, job losses should slow during the upcoming months. These two areas of the regional economy are driven by broad factors such as overall U.S. and Georgia economic activity, consumer confidence, and consumer expenditure, all of which are beginning to firm up. The increase in containerized traffic through the port is being driven by depreciation of the dollar and strengthening economic activity overseas that contributes to increased international trade. While the news about employment data still appears grim, bear in mind that factors contributing to the reversal of the downward trend are beginning to coalesce and a critical mass for the economic foundation required for regional job growth is expected to emerge during 2010.

(continued on next page)

Coastal Empire Economic Indicators
Leading and Coincident Indexes



(continued from front)

The regional tourism industry is where the most obvious green chutes of the economy are appearing. After a fairly dismal second quarter, tourism picked up substantially during the third quarter, erasing nearly half of the year-to-date losses recorded during the second quarter. In fact, inflation- and seasonally-adjusted hotel sales increased by 7.4 percent from the second quarter and actually stand slightly above year-ago data. In addition, the seasonally-adjusted number of riders on tour buses and trolleys in Savannah increased by nearly 20 percent from the previous quarter and stands ten percent above year-ago levels. Furthermore, boardings at the airport increased by one-half of one percent, extending a trend that began to emerge earlier in the year.

The economic pieces of the puzzle required for job growth are beginning to fall into place. Consumer spending is increasing as confidence in the economy improves. Tourism is showing signs of emerging strength, and port activity is steadily improving. In addition, another coincident indicator of broadly based economic activity, seasonally-adjusted electricity sales, also registered a modest improvement during the quarter while previous softness in commercial electricity sales mostly abated during the quarter. Nonetheless, job gains tend to lag behind general economic activity, thus the employment gains will not happen immediately as the economy returns to a growth phase. At this time, the economy remains fragile and future growth will depend on whether the third quarter results were fleetingly based on government stimulus policy.

U.S. Economy Grows

The news that U.S. GDP grew at a pace of 2.8 percent in the third quarter likely heralds the end of the recession. A bump up in consumer expenditures to a 2.9 percent growth rate is the primary reason the economy turned around. Underlying that was the “Cash for Clunkers” automobile program that boosted consumer spending substantially during the quarter. Thus, the sustainability of the recovery in consumer expenditures

into the fourth quarter is questionable. Investment in residential structures jumped 19.5 percent during the quarter, also likely due to the tax credits associated with federal stimulus policy. Finally, exports increased nearly 17 percent during the quarter.

Federal Reserve chairman Bernanke issued statements that the Fed plans to maintain low interest rates for the foreseeable future because of continuing economic headwinds. In particular, constrained lending in credit markets and a sluggish labor market present continuing problems for the expected recovery. The federal funds interest rate is expected to remain at 0.25 percent through mid-2010, possibly later. In a somewhat unusual statement, the Fed indicated that a weak dollar may pose an inflationary risk in the future. Given that the Fed has driven U.S. interest rates down, foreign investors may be looking to other credit markets for higher relative returns. The statement was unusual because the U.S. Treasury is the agency that manages currency policy.

Forecasting Index Increases

The Coastal Empire leading economic index increased by 1.9 percent during the quarter, rising from 104.3 (revised) to 106.2. This is the first significant upward movement since 2006. Most of the underlying leading indicators improved during the quarter. Overall, the mixed signals from the labor market were offset by (perhaps transitory) gains in housing, and improvement in broad indicators of consumer confidence and expected economic conditions.

The housing tax credit clearly provided a spark in residential home construction during the quarter. The number of building permits issued for single family homes in the three-county Savannah metro was 253, which is nearly a 10 percent gain from the previous quarter on a seasonally-adjusted basis. The average value of a single family home building permit issued during the quarter inched up slightly to \$156,000 (1.6 percent gain) and continues to reflect activity in the first-time buyer market

prompted by the federal tax credit. The challenge will be to sustain the growth and broaden the base beyond starter homes. Recent passage of federal legislation to expand the scope of the housing tax credit is welcome news for this industry.

The regional labor market continues to bear most of the remaining economic pressure in the system. The Gulfstream furlough in July caused a huge spike in the number of initial claims for unemployment insurance (to 4,122 claims) and caused a temporary 1.3 percentage point jump in the July unemployment rate to 9.9 percent. The rate declined to 8.3 percent by the end of the quarter. The volume of help-wanted advertising decreased 14 percent during the quarter. This further demonstrates the difficulty the regional economy is having absorbing its surplus labor.

Wrapping up, it is safe to say the regional recession is drawing to a close. The coincident indicators suggest the economy is beginning to head in the right direction and the forecasting index is sending the message that a favorable trend may emerge in the new year. While the labor market remained under pressure during the quarter, the increasing strength in tourism, port activity, and consumer expenditures should relieve that pressure in upcoming quarters.

Kathryn Smith provided research assistance.

A Note From the Director

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