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Coastal Empire Economic Monitor, 4th Quarter, 2009

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ECONOMY TREADING WATER, FORECASTING INDEX RISES AGAIN

The Savannah area economy moved sideways during the final three months of 2009. The economy is currently muddling along at the bottom of the business cycle and the fundamentals have yet to solidify. The lack of clarity in the data is characteristic of economic indicators at turning points in the business cycle. Strength in port activity was not sufficiently strong to offset wavering activity in employment, tourism, and consumer confidence.

The Coastal Empire leading economic index extended its upward trajectory through a second consecutive quarter as the year ended. Nearly all of the underlying leading indicators continued moving in a favorable direction, although new residential construction activity remained weak. The forecasting index signals that the regional economy is likely to re-enter a growth phase during the second half of 2010.

Muddling Along

The Coastal Empire coincident economic index insignificantly decreased to 145.8 from 145.9 (revised) during the final quarter of the year. Year-end weakness in tourism activity and a modest dip in consumer confidence offset gains recorded in port activity and a modest pickup in consumer spending. Of the eight underlying indicators that combine to form the coincident index, three were up, three were down, and two moved sideways. These mixed signals are characteristic of economic data at the low end of the business cycle, and although less preferred to upward movement, they are clearly much more preferred to earlier recorded free-falls.

The Georgia Department of Labor revises employment data annually in a process known as benchmarking. This year's benchmarking process resulted in a substantial downward revision of 3,600 jobs in the Savannah MSA. The downward revision most heavily affected data for transportation, professional business services, construction, and wholesaling. These are areas that were severely hit during the recession, and indicate that initially released employment data under-estimated the severity of the recession.

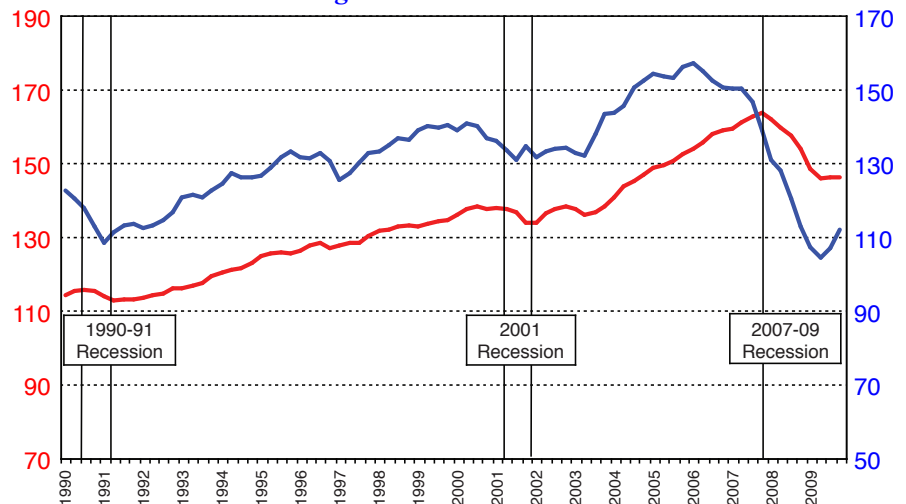
Seasonally-adjusted employment in the Savannah metro area is beginning to stabilize. Total employment in the region slipped by 400 jobs to 150,100. Service-producing industries held steady during the quarter, but 400 workers in the manufacturing sector lost jobs. The decline in manufacturing pushed its employment base down to 13,300, a low not seen since mid-2003.

However, the rate of decay in the regional employment base continues to slow. More recently, losses of 1,600 jobs and 1,100 jobs in the previous two quarters followed a huge loss of 4,000 jobs at the end of 2008. Employment stands 4.6 percent below the level recorded at the end of 2009, which is an improvement from a depth of 5.2 percent below the year-ago level registered during the second quarter of 2009.

The regional tourism industry recorded mixed activity during the last quarter of the year. Inflation- and seasonally-adjusted hotel sales pulled slightly ahead of year-ago data during the fourth quarter but fell seven percent below third quarter data. The number of riders on tour buses and trolleys and the per-head tax collected from these riders fell by six percent from the previous quarter.

(continued on next page)

Coastal Empire Economic Indicators
Leading and Coincident Indexes



(continued from front)

However, as compared to year-ago data the number of riders and tax collected is up five percent, suggesting that more tourists are present in town but that hotel room rates have been driven down by the economic climate in the points of origin for Savannah's tourists.

The coincident economic data remains mixed. Port activity is steadily improving, yet tourism stumbled a bit. Consumer spending in the region appears to be picking up, yet consumer confidence in the South Atlantic states fell back. Electricity sales held steady, but employment shed another 400 jobs. Note that job gains tend to lag behind general economic activity because firms prefer to see solid performance in revenue data before hiring new workers, so employment growth will be weak in the upcoming quarters. At this time, the regional economy continues to muddle along.

U.S. Economic Recovery Continues

During the closing quarter of the year, the national economy expanded at a rate of 5.9 percent, up from a 2.2 percent increase in the previous quarter. Business investment in inventory was the largest contributor to GDP growth, while a modest increase in consumer spending (+1.7 percent) also played a role. Export growth zoomed by 22 percent, but was partially offset by a 15.3 percent increase in imports. The "Cash for Clunkers" program caused vehicle production to contribute 1.4 percentage points to GDP growth in the third quarter, and its deleterious effects on subsequent automobile sales activity is reflected in the 0.4 percentage point contribution to GDP growth in the fourth quarter. Consensus estimates peg GDP growth at 3 percent for 2010.

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.

The Federal Reserve continued to maintain the federal funds interest rate in the range between zero and 0.25 percent, and reiterated its message that it will do so "for an extended period of time." However, in light of improving economic conditions, the Fed maintained plans to unwind several of its substantial credit market intervention actions in upcoming months. These include terminating the program to purchase \$1.25 trillion in mortgage-backed securities, the direct extension of commercial credit, and several Fed discount policies aimed at artificially reducing the cost of Fed credit. Inflationary pressure remains muted given slackness in the demand side of the economy.

Forecasting Index Continues Winning Streak

The Coastal Empire leading economic index increased by five percent during the quarter, rising from 106.6 (revised) to 112.0. This is the second consecutive quarterly gain, building on the 2.2 percent gain in the previous quarter. With the exception of the housing market indicators, all other underlying leading indicators increased. The labor market appears to be improving slightly. The gains in the labor market and consumer expectations about future economic conditions offset the softness in the housing market, thus resulting in a solid posting for the forecasting index.

In the residential housing market, both the number of permits issued and their average value fell modestly. The seasonally-adjusted number of building permits issued for single family homes in the three-county Savannah metro was 265, a decline of four percent. The average value of a permit issued fell by 1.3 percent to \$153,200. The drift down from the

previous quarter suggests that the stimulation provided by the housing tax credit is beginning to wane, although the rapidly approaching deadline could cause a last minute rush to place homes under contract during the first quarter.

The leading indicators from the regional labor market appear to be establishing a favorable trend. The number of initial claims for unemployment insurance dramatically dropped, primarily because the Gulfstream-caused spike in the data is now past. Nonetheless, number of new claims filed per month was 1,600, and was 3.5 percent less than year-ago data. Help wanted advertising increased somewhat, but the unemployment rate inched up by two-tenths of a point to 8.5 percent by year end.

Based on the significant upward movement in the forecasting index, it is expected that the Savannah metro area economy will enter a growth phase in the latter half of 2010. Near term economy activity will remain unsteady, but the lack of clarity from coincident indicators and the increase in the leading indicators suggest that the economy is currently muddling along the bottom of the business cycle. While the labor market is beginning to send encouraging signals, employment growth is not expected to emerge until the second or third quarter of the year.

Kathryn Smith provided research assistance.

A Note From the Director

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