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Coastal Empire Economic Monitor, 4th Quarter, 2010

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Coastal Empire ECONOMIC MONITOR

GROWTH SLOWS, FORECASTING INDEX REMAINS FLAT

The growth rate of Savannah's economy continued to slow as 2010 drew to a close. The economy has been losing its forward momentum for several quarters, yet continues to expand, albeit at a modest rate. An encouraging sign is that consumer expenditure and employment growth firmed up as compared to the previous quarter. The region's tourism industry also played an important supporting role in maintaining the economic recovery.

The Coastal Empire leading economic index flat-lined for the third consecutive quarter. Continued weakness in residential construction and mixed signals from the labor market have stymied upward movement in the forecasting index. The signal being sent is that, in the absence of other factors, the regional economy's growth trajectory will continue to flatten well into 2011. However, there are several mitigating factors discussed below that suggest stronger growth is on the horizon than currently implied by the leading index.

Continued, but Moderating Economic Growth

The Coastal Empire coincident economic index increased three-tenths of one percent to 150.3 from 149.9 during the fourth quarter. Consumer spending, as measured by retail sales tax receipts and general employment growth, provided substantial lift to the coincident index. Improvement in these two bedrock foundations of the economy is welcome news. The emerging strength in consumer spending was

supported by continued growth in the tourism industry. However, consumer confidence and port activity declined slightly from the third quarter, while electricity sales were flat.

Seasonally adjusted employment in the Savannah metro area increased by 400 workers, rising to 151,500. The service sector of the economy added about 600 jobs, primarily in retail trade, business/professional services, and education/health services. This is a favorable mix of employment growth in sectors of the economy serving as bellwethers of underlying consumer and business activity. Further, the drag on employment growth previously induced by shrinking government payrolls has mostly abated. However, the goods-producing side of the economy shed nearly 200 workers,

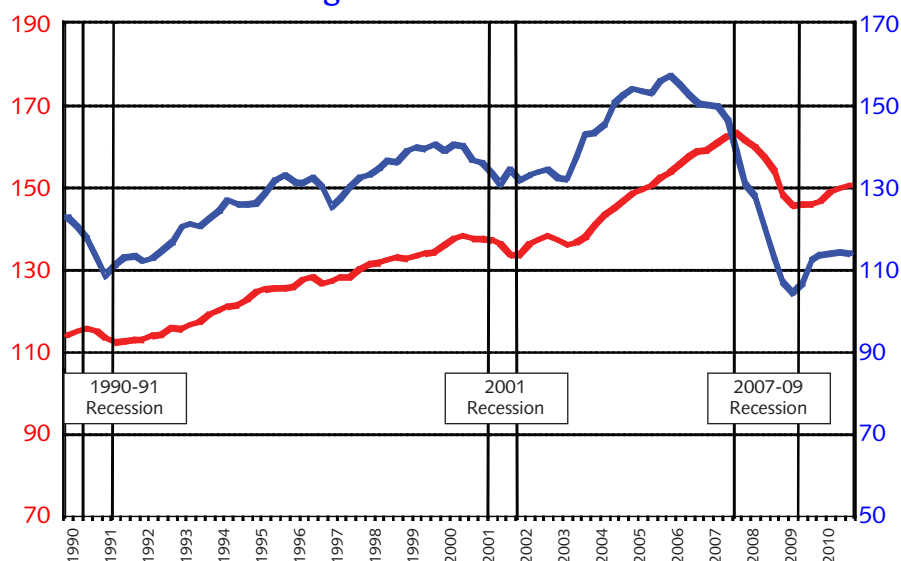
100 each in construction and manufacturing. Manufacturing employment was 13,200.

Overall, employment during the closing quarter of 2010 was higher by approximately 1,570 workers, as compared to the fourth quarter of 2009. This represents a one percent growth rate in regional employment and places the Savannah MSA among the top two performing regions in the state.

The regional tourism industry continued its very solid recovery through the close of the year. Revenue from hotel room rentals during the fourth quarter was 17 percent higher than previous year data and contributed to year-to-date revenue growth of approximately 10 percent. Supplemental tourism

(continued)

Coastal Empire Economic Indicators
Leading and Coincident Indexes



indicators such as auto rental sales tax receipts and the number of riders on trolleys, buses, and other tours are up by about 11 percent and 6 percent, respectively, as compared to year-ago data.

Improving U.S. Economic Growth

The U.S. economy grew at an annualized rate of 2.8 percent during the fourth quarter. This compares to an increase of 2.6 percent in the third quarter. For the second consecutive quarter, consumer spending growth of 4.1 percent was a primary factor contributing to the acceleration in national output. Consumer spending accounts for about 70 percent of all economic activity. Non-residential construction increased at a rate of 5.3 percent as well. Business spending on capital goods increased by 5.5 percent, and residential home construction increased by 2.8 percent, reversing a substantial fall from the previous quarter. Growing optimism among economists now places the consensus estimate for GDP growth at 3.5 percent in 2011, up from 2.8 percent forecasted in late summer.

The Federal Reserve continues to maintain the federal funds interest rate in the range between zero and 0.25 percent. This target range is anticipated to hold for “an extended period” according the Fed statement from its most recent policy meeting. The Fed reiterated its commitment to a second round of quantitative easing in which \$600 billion in purchases of longer-term U.S. government debt will take place by mid-2011. Inflationary pressure remains low and unemployment remains unacceptably high, according to the Fed.

A Note From the Director

The *Economic Monitor* is available by email and at the center’s website (www.armstrong.edu/Liberal_Arts/economics). If you would like to receive the *Monitor* by email, please send a “subscribe” message to CRA@armstrong.edu.

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Forecasting Index Remains Flat

The Coastal Empire leading economic index dipped by a non-meaningful one-tenth of one percent during the quarter to stand at 114.1. This is effectively unchanged since the second quarter of the year, albeit with minor fluctuations along the way. Labor market conditions were mixed again, and extended weakness in the regional housing market continues to weigh heavily on the forecasting index.

The gain in new residential homes permitted for construction recorded in the past quarter evaporated into additional losses for the closing quarter of the year. The number of permits issued for single-family homes fell 4.8 percent to 204 units during the quarter, and remains 23 percent below year-ago levels. However, the average value of a residential building permit issued increased 3.6 percent to \$148,500 from \$143,300.

Once again, the leading indicators from the regional labor market were mixed. A summer surge in the posting of help wanted advertising waned during the fall, as seasonally adjusted advertising fell 3.8 percent from the third quarter. Initial claims for unemployment insurance (UI) decreased by 22 percent, falling to 1,591 claims, primarily because the usual temporary third quarter furlough at Gulfstream had passed. As compared to year-ago data, UI claims were down about 1 percent in the fourth quarter.

The forecasting index is sending the signal that regional economic growth will level off by mid-2011. However, two idiosyncratic factors suggest a more favorable economic

outlook than suggested currently by the leading index. The first has to do with a technical measurement issue resulting in a negative bias in the index. Persons filing for unemployment insurance after the initial period of eligibility had expired, but who are now eligible for up to 99 weeks of coverage, are counted as filing another “initial” claim for the benefit rather than a “continuing” claim. This treatment causes the initial UI claims component of the forecasting index to be biased upward by an unknown (according to the Georgia Department of Labor) amount, thus creating a negative bias in the signal sent by the index.

Second, a conservative review of the series of announcements by major manufacturers regarding hiring plans for 2011 suggest regional manufacturing employment will increase by approximately 500 workers. Further, applying a conservative economic multiplier of approximately 2.0 to these jobs implies an exogenously driven increase in the regional employment base of approximately 1,000 persons. This is in addition to the emerging endogenous strength of the services sector documented above. As a result, the current estimated growth rate in regional employment for 2011 is approximately 1.5 percent to 2.0 percent. The economy remains on track for continued expansion, but the strength of it will depend in no small measure on the hiring activity of the region’s headlining manufacturers.

About the Indicators

The Coastal Empire Economic Indicators are designed to provide continuously updated 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.