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Coastal Empire Economic Monitor, 1st Quarter, 2011

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Recommended Citation

Armstrong Atlantic State University Center for Regional Analysis, "Coastal Empire Economic Monitor, 1st Quarter, 2011" (2011). *Coastal Empire Economic Monitor*. 29.

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Coastal Empire ECONOMIC MONITOR

SLOW & STEADY GROWTH, FORECASTING INDEX UP SLIGHTLY

The modest rate of economic expansion in the region continued for the fifth consecutive quarter. A slight uptick in the pace of expansion is noted in the first quarter, reversing a six-month decline in the growth momentum of the economy. The recovery continues, albeit at a very modest rate.

The Coastal Empire leading economic index moved up slightly during the first quarter of 2011. Modest improvements in the labor market, along with improving consumer expectations, put the index on track for improvement. The forecasting index is now pointing to very modest growth through 2011.

Current Growth Up Somewhat

The Coastal Empire coincident economic index increased nine-tenths of one percent to 150.3 from 149.0 (revised) during the last quarter of 2011. Electricity sales, a broad proxy for residential, commercial and industrial activity, along with port activity, combined to provide some lift to the index. A modest increase in employment also contributed to the improvement.

Each year in March, in accordance with U.S. Department of Labor guidelines, non-agricultural employment data for regions, states and the nation is revised through a benchmarking process. The downward adjustment of 2010 data for the Savannah MSA resulted in the erasure of 1,800 jobs. These are not job losses, but a correction

of previously released survey-based data. The largest downward revisions were to construction (-900 jobs), education/health services (-800 jobs), and state and local government (-700 jobs), while the largest upward revisions were to professional/business services (+700 jobs) and manufacturing (+340 jobs).

Overall, 2010 employment was adjusted downward to 149,400 from 151,200. The low point of the employment cycle was December 2009 and January 2010 at approximately 148,600 jobs. This implies a very modest growth rate of one-half percent since the cyclical low.

In the first quarter of 2011, seasonally adjusted employment in the Savannah metro area increased by 300 workers, rising to 149,800.

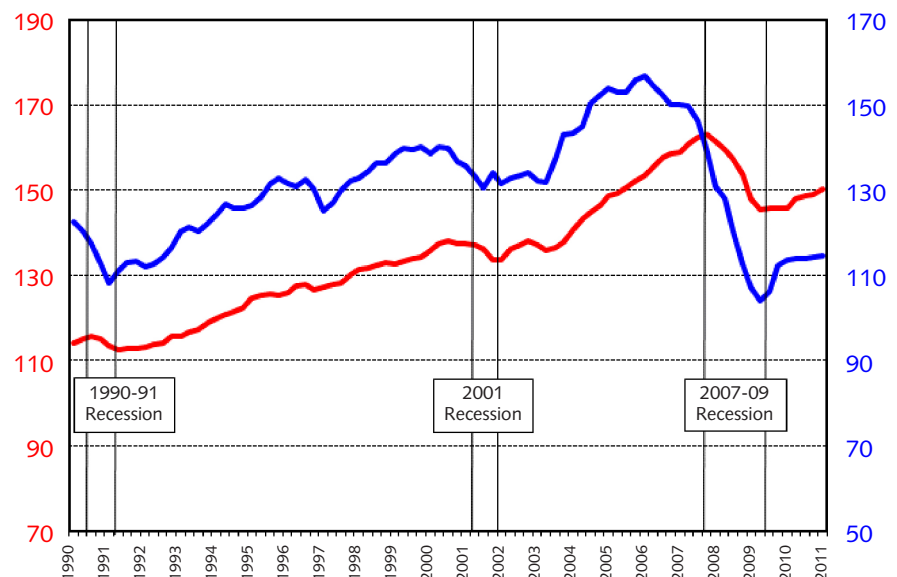
The service sector of the economy accounted for all 300 jobs with growth scattered across various sectors. The goods-producing side of the economy held steady with 100 new manufacturing jobs, offset by an equal loss of construction jobs. Manufacturing employment was 13,700, while construction employment fell to 5,800 jobs. At the peak of the building boom, the number of construction jobs was 10,200.

U.S. Economic Growth Slows

U.S. economic activity grew at an annualized rate of 1.8 percent during the first quarter, down from a 3.1 percent pace at the end of 2010. A slowdown in consumer spending accounts for most of the decline.

(continued)

Coastal Empire Economic Indicators
Leading and Coincident Indexes



Rising gasoline and food prices put a crimp in consumer confidence and spending. Consumer spending accounts for about 70 percent of all economic activity. On the other hand, businesses continued to spend on equipment and software, sales of which expanded at a rate of 11.6 percent. Residential home construction decreased at a rate of 4.1 percent. Rising energy prices are adversely affecting consumer spending, thereby prompting economists to downgrade growth estimates for the country's economy to just over 3.2 percent for the year.

Federal Reserve Chairman Ben S. Bernanke recently declared that federal policy will continue to hold the federal funds interest rate in the range between zero and 0.25 percent. While there is some inflationary pressure building in the economy, federal policy will hold steady until the second round of quantitative easing ends in June. After that, expect the Fed to slowly unwind loose monetary policy and shrink its balance sheet by not re-investing the proceeds from maturing bonds it owns. The weakening dollar is not currently viewed as a threat, but is supporting U.S. exports.

Slow & Steady Growth Expected

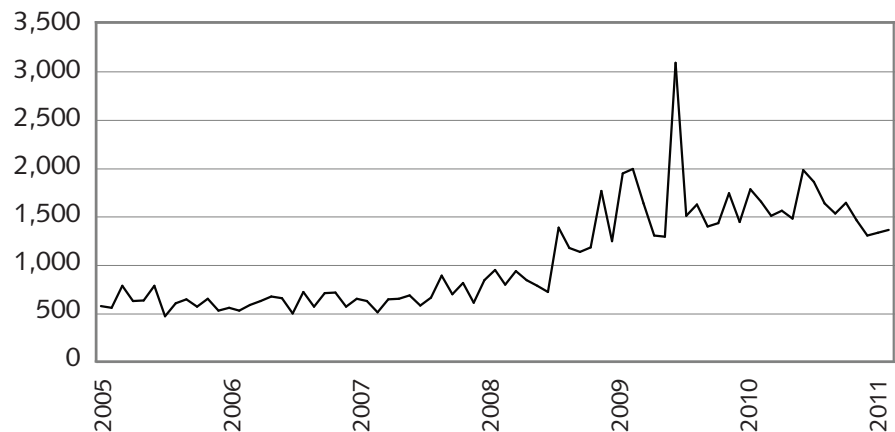
The Coastal Empire leading economic index increased three-tenths of one percent during the opening quarter of 2011 to stand at 114.5. While the index held steady for most of 2010, the previous two quarters have shown some upward movement. Housing market

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.

Financial support provided by the Armstrong Foundation.

Savannah MSA Initial Claims for Unemployment Insurance - Monthly



conditions remain mixed, but improved consumer expectations and a modest improvement in labor market conditions led to the rise.

The seasonally adjusted number of new residential homes permitted for construction increased 12 percent from the previous quarter. The number of permits issued increased to 227 and nearly closed the gap between year-ago data (233 homes). However, the average value of a residential building permit issued substantially declined by 16 percent to \$126,800 from \$151,000. After falling to \$114,000 in January, the average value recovered to nearly \$145,000 by March.

The leading indicators from the regional labor market were mixed again this quarter. Help wanted advertising slowed by 2.4 percent from the previous quarter, but remains 15 percent above its recessionary low. On the bright side, monthly initial claims for

unemployment insurance (UI) decreased by 14 percent, falling to 1,364 claims. This is the lowest level in two years.

The forecasting index continues to send the signal that regional economic growth will be slow and steady through 2011. As indicated in the previous quarter's *Economic Monitor*, the realization of employment growth in 2011 from previous year announcements of expansion and hiring issued by area manufacturers is very important for the health of the regional economy. Manufacturing activity, along with continued vitality at the port and in the tourism sector, are expected to be the primary economic drivers in 2011.

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.