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2011

Coastal Empire Economic Monitor, 4th Quarter, 2011

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Recommended Citation

Armstrong Atlantic State University Center for Regional Analysis, "Coastal Empire Economic Monitor, 4th Quarter, 2011" (2011). *Coastal Empire Economic Monitor*. 32.

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Coastal Empire ECONOMIC MONITOR

MIXED SIGNALS ON CURRENT GROWTH. Forecasting Index Rises Slightly

The coincident index of economic activity in the Savannah metro area declined during the closing quarter of 2011. While several of the underlying indicators of current economic activity fell, a substantial portion of the decline is likely attributable to anomalies in the data. In other words, the index is likely overstating the extent to which the regional economy weakened in the fourth quarter because of several idiosyncratic problems in the data.

The Coastal Empire leading economic index increased slightly during the quarter. The forecasting index suggests tepid economic growth is likely to occur through much of 2012.

Mixed and Minced Signals Currently

The Coastal Empire coincident economic index fell nine-tenths of one percent to 150.3 from 151.6 (revised). Two data anomalies, however, diminish the informational quality of the signal sent by the index in the fourth quarter. First, two sources of data from the Georgia Department of Labor yield conflicting evidence about manufacturing employment. The data obtained from the survey of regional firms (Current Employment Statistics, CES) has been unchanged for two years. However, headcount data (Quarterly Census of Employment and Wages, QCEW) collected in compliance with the unemployment insurance program, displays a notable increase starting in early 2010 (see chart on next page).

The headcount data is more accurate and, further, the survey data is said to be “benchmarked,” or revised, annually to minimize its

drift away from the headcount data. Newly revised or benchmarked data for 2011 is due for release shortly. Manufacturing employment data is likely to be revised upward by 500 to 1,000 jobs. This is consistent with reports from major manufacturers in the region that have been reporting increased employment levels through the year.

A second data problem is weather-related. The relatively mild fall quarter reduced electricity use by residences and businesses below its typical level and the seasonal adjustment process subsequently amplified this effect. Combined, these factors mean that electricity sales weighed heavily on the coincident index.

Along with the decline in CES employment and electricity sales, port activity dipped slightly from the third to fourth quarter. Retail sales and

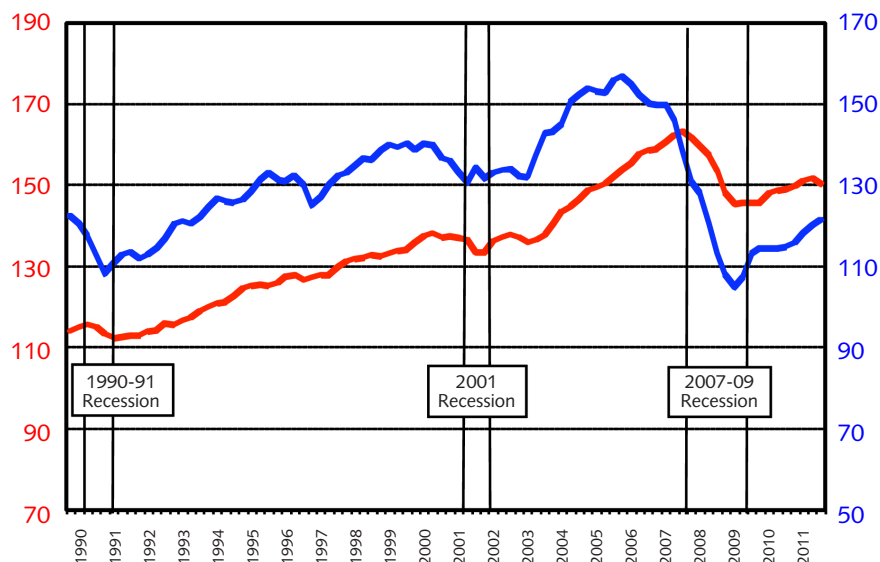
boardings at the airport were relatively flat. Lift was provided to the index by rising hotel room rentals, consumer confidence in the South Atlantic states and the U.S. coincident economic index.

Reported seasonally adjusted employment in the Savannah metro area fell 1,800 workers to 148,000. The service sector lost about 1,400 jobs, with retail trade especially hard hit with a loss of 500 jobs. Health/education and transportation/utilities lost 200 jobs each. State and local governments shed another 200 jobs, following a loss of 400 jobs in the previous quarter.

The goods-producing side of the economy lost 400 jobs, falling to 19,100. The loss was split evenly across construction and manufacturing. However, as

(continued)

Coastal Empire Economic Indicators
Leading and Coincident Indexes



noted above, manufacturing sector employment is likely underreported in the CES data by approximately 500 to 1,000 jobs. Because data for 2011 is currently being rebenchmarked, a comparison of annual data to 2010 is not warranted until the revised data is released in the near future.

Although the coincident index fell during the quarter, there are two data anomalies which combined accounted for most of the decline. However, some other indicators flattened or dipped slightly during the quarter. Overall, the decline in the index is overstating any weakness in the regional economy. The situation, however, merits close monitoring in the coming months.

U.S. Economic Growth Increases

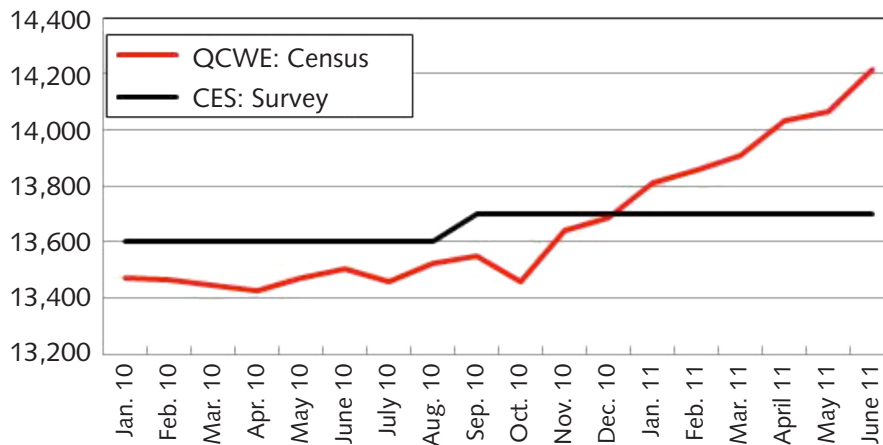
U.S. economic activity grew at an annualized rate of 2.8 percent during the fourth quarter, accelerating from 1.8 percent growth in the third quarter. Household expenditures accelerated, particularly those on durable goods that jumped 15 percent. Nonresidential construction slowed considerably, as did business spending on equipment and software. Residential construction and exports increased, but declines in government spending slowed GDP growth.

The Federal Reserve is maintaining its low interest rate policy through 2013. The low interest rate environment is expected to prevail into 2014 because the recovery remains “frustratingly slow,” according to Fed Chairman Ben Bernanke. The federal funds rate continues in the range from zero to 0.25 percent. Core inflation was 2.4% toward the end of the quarter, above the 2.0 percent preferred by the

A Note From the Director

The *Economic Monitor* is available by email and at the center’s website (www.armstrong.edu/economic_monitor). Additional Chatham County data about education and youth development, health and wellness, economic independence and regionalism are compiled and reported through the Savannah-Chatham Community Indicators report. See Savannah-Chatham-Indicators.org.

How Many Manufacturing Jobs?



Source: Georgia Dept. of Labor, Retrieved 1/10/12

Fed. Nonetheless, inflationary concerns remain muted in the face of modest GDP growth of 2.4% expected in 2012.

Forecasting Index Increases Again

The Coastal Empire leading economic index increased nine-tenths of one percent during the closing quarter of the year, rising to 121.3 from 120.2 (revised) in the previous quarter. The rate of increase in the forecasting index diminished again for the second consecutive quarter. Housing market indicators slipped and labor market indicators were mixed, contributing to the slowing growth rate in the forecasting index.

The seasonally adjusted number of new residential homes permitted for construction moderated, and stood at 5 percent below previous year data. The average value of a residential building permit issued declined 5 percent to \$140,000, and stands about 7 percent lower than year-ago data.

In the labor market, help wanted advertising jumped nearly

60 percent, even after seasonally adjusting for typically increased job advertising leading into the holiday season. However, initial claims for unemployment insurance increased to over 1,400 per month, compared to about 1,250 per month in the previous quarter. Nonetheless, initial claims remain 11 percent below comparable data from the previous year.

The coincident index decreased, but much of the decline is attributed to idiosyncratic data factors, suggesting the economy weakened somewhat, but not as much as indicated by a casual read of the index level for the quarter. The forecasting index increased, but at a decreasing rate, suggesting economic growth in the region may moderate during the second half of 2012. Overall, the indicators are sending mixed and minced signals about the economy.

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.

Financial support provided by the Armstrong Foundation.