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Coastal Empire Economic Monitor, 2nd Quarter, 2012

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Coastal Empire ECONOMIC MONITOR

ECONOMY IS IMPROVING. FORECASTING INDEX POWERS UPWARD

The coincident index of economic activity in the Savannah metro area increased healthily during the second quarter of 2012. Most of the indicators extended the gains recorded in the first quarter, signaling the continuation of economic recovery. However, employment dipped slightly from the first quarter, tending to follow behind emerging strength elsewhere in the economy.

The Coastal Empire leading economic index increased substantially, also extending a very good pace of improvement from the first quarter. All leading indicators were up, except for help wanted advertising, including those describing the regional residential housing market. During the first half of the year, the leading index increased at an annualized rate of approximately 8 percent. This is the healthiest two-quarter pace of growth since late 2009.

in seasonally adjusted employment across the various sectors during the quarter. Services were off by 200 jobs in education and health services. Business and professional services employment increased by 200 workers, but losses in financial services and miscellaneous services offset this. Government employment held steady during the quarter.

The goods-producing side of the economy added 100 jobs, rising to 20,200. Manufacturing accounted for the gain and extended a once-interrupted streak of employment gains dating back to mid-2010. Construction held steady at 5,700 workers.

Tourism activity extended its solid growth through the first half of the year. Hotel/motel tax receipts were up 4 percent from the first quarter and are ahead of previous year data

by approximately 7 percent, with Savannah hotel/motel data outpacing that of the hotels along I-95 in Chatham County. Employment in the hospitality sector held steady at 20,100 workers.

Overall, the increase in the coincident economic index was healthy, although held back somewhat by minor loss in some employment in several sectors.

U.S. Economy Slows

U.S. economic activity grew at an annualized rate of 1.5 percent during the second quarter, slowing from 2.0 percent growth in the previous quarter. Mixed economic news characterized the quarterly GDP report. Consumer spending increased, but at a slower pace of 1.7 percent. Acceleration in investment

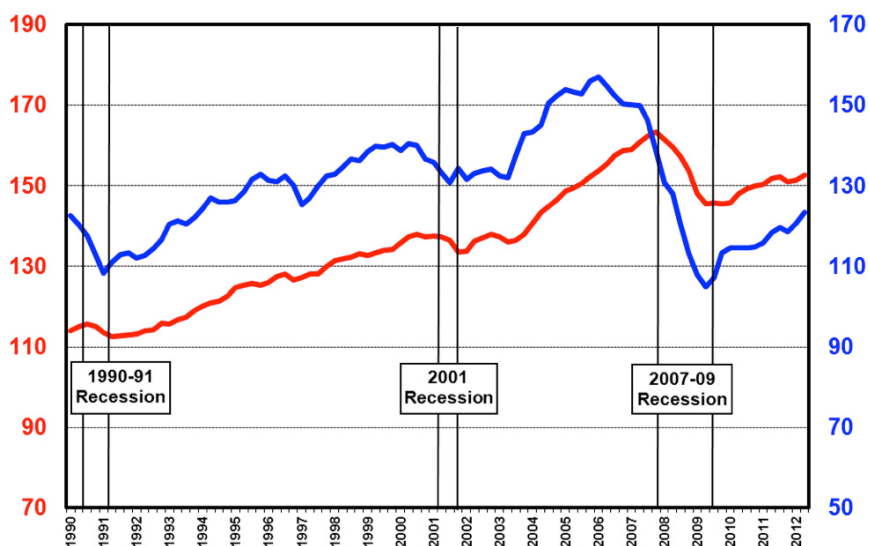
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Increasing Regional Strength

The Coastal Empire coincident economic index increased eight-tenths of 1 percent to 152.6 from 151.4 (revised). This represents an annualized growth rate of 3.1 percent. Improved consumer confidence and electricity sales provided the most lift to the index. Tourism and port activity also contributed significantly to the uptick. Retail sales activity held fairly steady during the quarter. A very modest decline in employment created some drag on the index.

While there was an overall loss of 200 jobs to 150,700 workers, realistically there was little action

Coastal Empire Economic Indicators
Leading and Coincident Indexes



and exports boosted economic activity. Residential construction increased at a pace of 9.7 percent, but state and local government spending fell during the quarter. While commercial and industrial construction growth decelerated, growth in business spending on equipment and software held fairly steady. Uncertainty about economic conditions has reduced the WSJ consensus forecast for 2012 GDP growth to 1.9 percent from 2.5 percent earlier in the year.

The Federal Reserve is expected to maintain a low interest rate environment well into 2014. The Fed's perspective on the economy is less favorable than last quarter, and it has reduced its expectations for growth in 2012. Recent signals from the Fed suggest it is considering additional stimulative policy, but with interest rates across the board at very low levels, it is not particularly clear what the Fed can achieve with another round of economic stimulation. Inflationary pressure remains subdued, with the CPI rising by only 0.7 percent, compared to 2.5 percent in the first quarter. The Fed's expectations for annual inflation have fallen from 2 percent to between 1.2 and 1.7 percent.

Forecasting Index Rises Sharply Again

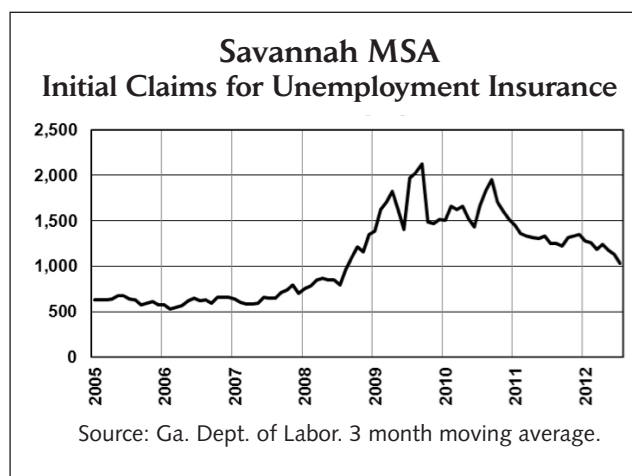
The Coastal Empire leading economic index increased 2.2 percent during the opening quarter of the year, rising to 123.4 from 120.7 (revised) in the previous quarter. This is the fastest two-quarter pace of improvement in two years. The index was propelled upward by more buoyant consumer

expectations, improved housing market indicators, and reductions in new filings for unemployment insurance claims.

In the labor market, initial claims for unemployment insurance fell 8.8 percent to 1,077 per month. In fact, the June figure dropped to 968 new initial claims, falling below 1,000 for the first time in nearly four years (see chart). Help wanted advertising fell 6 percent during the quarter. Despite limited job growth, as reflected in weak help wanted advertising, the flow of newly unemployed workers is diminishing. This will create downward pressure on unemployment rates in the latter half of 2012.

The seasonally adjusted number of new residential homes permitted for construction drifted down somewhat during the second quarter, following a substantial gain in the first quarter. Two hundred and thirty permits were issued, off from 256 in the previous quarter, but still 5 percent above data from one year ago. The average value of a residential building permit issued increased 6.9 percent to \$164,800 from \$154,200 in the opening quarter of the year.

Wrapping up, the coincident index and forecasting indexes increased healthily during the quarter. Importantly, increase in both indexes was supported by a fairly wide base of support among the underlying indicators characterizing



important sectors of the regional economy. Overall, expect continuing improvement in the economy, with additional strength presenting at the end of the year and into 2013.

However, this forecast must be considered in the broader context of the action or inaction of the federal government and the outcome of the presidential election. The looming "fiscal cliff," the result of years of inaction on the part of the nation's Capitol Hill legislators, is likely to induce a recession in 2013 if no corrective action is taken. The combination of across-the-board budget cuts and increased tax rates in 2013 could substantially undermine the economic background within which the Savannah economy operates.

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.

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.