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Coastal Empire Economic Monitor, 2nd Quarter, 2013

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Coastal Empire ECONOMIC MONITOR

ECONOMY IMPROVES. FORECASTING INDEX LOSING MOMENTUM

The Savannah area economy expanded modestly during the second quarter of 2013. A rebound in consumer confidence, along with gains in tourism and port activity, supported the regional economy.

The Coastal Empire leading economic index increased for the sixth consecutive quarter, but forward momentum slowed considerably during the spring quarter. Conflicting signals emerged from the regional labor market and housing market. The continued loss of momentum from the leading index sends a cautionary signal for potentially waning economic growth beginning in early 2014.

Modest Growth

The Coastal Empire coincident economic index increased by three-tenths of a percent (1.1 percent, annualized), rising to 158.1. Revised data from the first quarter indicated slippage of two-tenths of a percent, although volatility in retail sales taxes stems from a change in automobile sales tax law and revision in the sharing formula for local option sales tax revenue. The return of humdrum growth in the second quarter is welcome, but not inspiring.

Employment in the three-county regional economy increased 400 workers to 158,800 (seasonally adjusted). The service sector of the economy added roughly 300 jobs, while the goods-producing sectors added 100 jobs. Education and healthcare gained 200 workers, while retail trade added 100 jobs. Gains in local government employment were mostly offset by losses in federal government jobs.

In goods-producing sectors, manufacturing added about 100

workers, standing at 15,700 after a modest downward revision to 17,600 in the previous quarter. Once again, construction held steady at 5,700 workers.

Hotel room sales increased by 3.5 percent, as compared to the first quarter. Year-to-date sales are running about 4 percent of previous year data, with sales growth in Savannah outpacing that of the unincorporated areas of Chatham County (mostly I-95). Other tourism indicators were mixed: airport boardings and auto rental sales taxes fell modestly, ridership on tourist buses and trolleys was off somewhat more, alcoholic drink taxes were stable, and employment in the sector was stable at 22,300.

U.S. Economy Improves

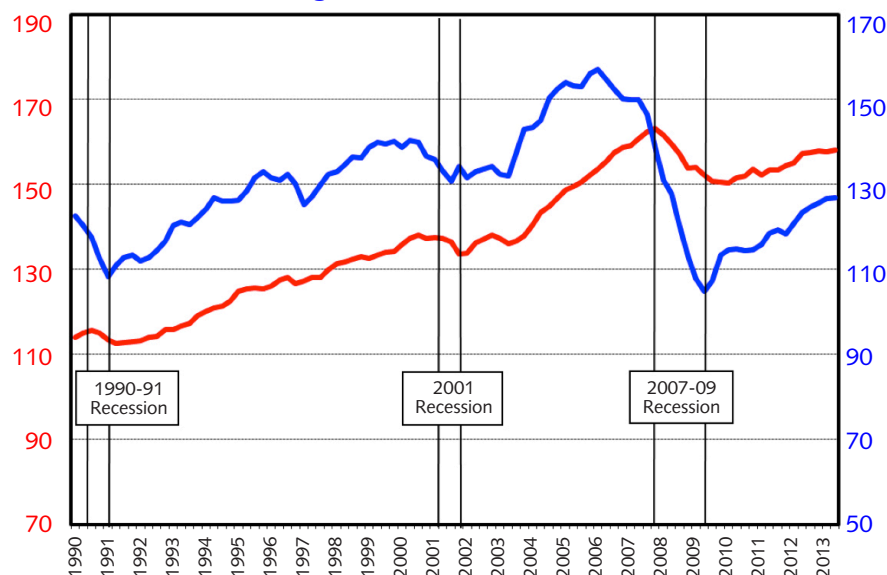
U.S. economic activity grew at an annualized rate of 2.5 percent (revised) in the second quarter of

2013, as compared to first quarter growth of 1.1 percent. Underlying components of the economy that contributed to the expansion include consumer spending, exports, and construction activity. Personal consumption expenditures increased at a rate of 1.8 percent in the second quarter, slowing from 2.3 percent in the first quarter. However, nationwide construction activity improved. Residential (housing) investment increased at a rate of 12.9 percent, following the 12.5 percent increase in the first quarter. Non-residential construction growth jumped to a pace of 16.1 percent, following a decline in the first quarter. The *Wall Street Journal* consensus forecast for 2013 GDP growth was revised downward to 2.0 percent, but is expected to accelerate to 2.8 percent in 2014.

Recent economic activity is creating some difficulty for Federal

(continued)

Coastal Empire Economic Indicators
Leading and Coincident Indexes



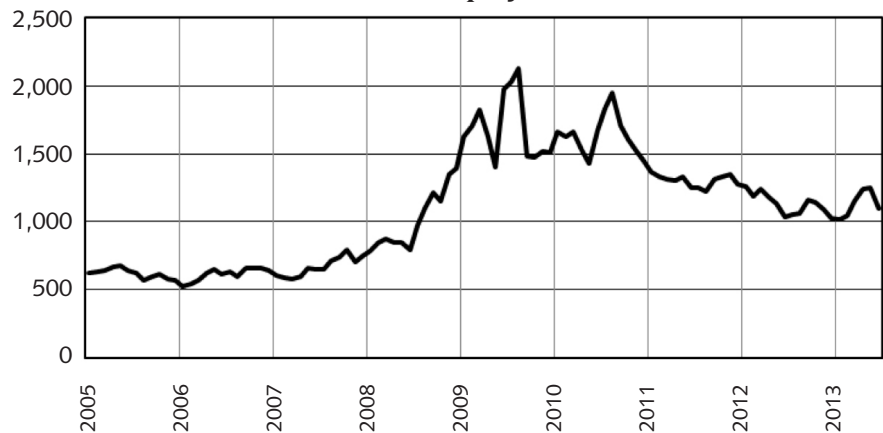
Reserve monetary policy. Ongoing discussion of scaling back the \$85 billion-a-month bond-buying program focuses on a reduction in the unemployment rate, increased economic growth, and modestly higher inflation. On this front, the Fed is 0-for-3. Modest improvement in GDP growth (as noted above) and unemployment rates, combined with very low inflation, leave the Fed without a strong rationale for tightening monetary policy by ending the bond-buying program. The U.S. unemployment rate has slowly drifted down from 10 percent in 2009 to 7.4 percent, but remains above the Fed's "trigger" rate of 6.5 percent. Further, current inflation stands at 1.4 percent, below the Fed-desired rate of 2 percent, thus indicating weak demand-side growth in the economy. Nonetheless, Fed Chairman Bernanke stated that "later this year," if the economy continues to improve, it will start reducing bond purchases and end them by mid-2014.

Forecasting Index at Near-Stall

The Coastal Empire leading economic index increased one-tenth of one percent (less than one-half percent, annualized), rising to 126.9 from 126.7 (revised) in the previous quarter. Mixed signals in the housing and labor market accounted for the lack of significant improvement in the index.

The seasonally adjusted number of new residential homes permitted for construction was 282, a sharp

**Savannah MSA Employment
Initial Claims for Unemployment Insurance**



decline of 15 percent from the opening quarter of the year. First quarter activity, however, was unusually strong and year-to-date permits issued remains 23 percent ahead of the pace set in 2012. The strength in the housing market this quarter is reflected in a substantial increase in the average value of the building permit issued. The value of a typical building permit issued for a single family home jumped 16 percent to \$178,500 from about \$154,000. Note this does not include the cost of land.

In the labor market, initial claims for unemployment insurance surged nearly 20 percent to 1,253 claims per month. This put the brakes on the falling unemployment rate, and forced it up nearly one-half percentage point to 8.1 percent (seasonally adjusted) by the end of the second quarter. Early reports for the third quarter suggest a return to the downward trend in claims, likely

indicating the second quarter data was atypical.

Wrapping up, the coincident index experienced modest growth, while the forecasting index lost most of its momentum in the second quarter. Based on previous data, the regional economy should continue to experience modest growth through the end of 2013, but early 2014 is more questionable. Readers are cautioned to closely monitor the leading indicators in the third quarter for a clearer perspective on growth in 2014.

Research assistance provided by Maria Isabella Olmos.

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

It is with sadness we note the passing of Ray Wood, former economist with Savannah Electric. Ray's valuable insight helped shape the *Economic Monitor* project from its conception in 1999 to more recent times.

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.