In this inaugural issue of the Coastal Empire Economic Monitor, AASU’s Center for Regional Analysis introduces two indexes of economic activity for the Savannah metropolitan area (Bryan, Chatham, and Effingham counties). The coincident index provides information about the current state of the economy and can be thought of as measuring the pulse or economic heartbeat of the region.

The leading index is designed to provide a short term forecast of economic activity. It is intended to provide users with a ‘look around the corner’ at the regional economy’s position in nine months. Combined, these indexes offer an informational tool that can be used in planning for and adjusting to changes in regional demand conditions.

Individuals armed with this economic knowledge can make adjustments for the future in order to improve the likelihood of their own economic success. In particular, the informational advantage provided by the indexes may be used to control inventory, optimize staffing, or otherwise capitalize on opportunities as they present themselves in the ever-changing regional economic environment.

Current Activity
Economic growth in the regional economy leveled off during the third quarter of this year. The Coastal Empire Economic Indicators Coincident Index decreased by approximately one-tenth of one percent from its level in the second quarter of 2000. The index registered a nearly imperceptible decline to 121.8 from 121.9. While growth in employment, electricity sales, and airplane boardings buoyed the index, the lift was offset by declines in inflation-adjusted retail sales and hotel and motel sales activity.

In the Savannah area, the current balance of soft consumer and tourist spending with positive labor market activity may foreshadow near term conditions in which slower but sustainable growth is the norm.

Regional retail sales activity is consistent with nationwide moderation in consumer expenditures associated with weakening consumer confidence brought on by volatility in stock markets and rising oil prices. Although consumers are pulling back somewhat, U.S. and Savannah labor markets remain tight with historically low unemployment rates and moderately increasing workforces. Softness in regional hotel and motel sales is also consistent with current tourism outlooks provided by the Federal Reserve’s Atlanta and Richmond district banks.

In the longer run, the opening of the Westin Resort and the Savannah International Trade and Convention Center on Hutchinson Island should strengthen the local tourist sector. The momentum is expected to build in the upcoming years as conventioneers experience a brief taste of Savannah’s hospitality and develop an interest in returning with their families, friends, and checkbooks to explore the local area in greater detail.
On a broader level, the Federal Reserve appears to have engineered a soft landing for the U.S. economy following a year's worth of sizzling growth averaging about six percent annually. Beginning in June 1999, the Fed increased interest rates six times, and U.S. economic growth responded by slowing to a 2.7% annual rate during the third quarter of this year. The Fed’s actions led to rising mortgage rates that reverberated throughout residential construction markets in both the nation and in the Savannah metro area.

Into 2001
The weakness in local construction markets is the primary reason the Coastal Empire Economic Indicators Leading Index recorded a moderate increase of 1.2% during the third quarter of 2000. Both the number and average value of single family building permits issued declined as rising mortgage rates not only discouraged some buyers but also pushed other buyers into smaller houses. Factors propelling the leading index upward despite the construction market drag include declines in initial unemployment insurance claims, increased help-wanted advertising, and rising consumer expectations.

While the leading index most recently increased from 120.6 to 122.1, it should be noted that the third quarter level is approximately the same as it was at this time last year. This leveling of the leading index over the last year points toward slowing yet sustained growth through mid-2001. The drag in residential construction has limited gains during the last twelve months, but that influence should begin to weaken since 30-year mortgage rates backed off their highs of 8.6% last May to approximately 7.7% currently.

To conclude, the Coastal Empire Economic Indicators Coincident and Leading Indexes suggest moderating but continuing growth in the regional economy through the middle of next year. This would place economic growth in the Savannah MSA on par with that of the United States in the near term. Unless the Leading Index begins to decline during upcoming quarters, it is reasonable to expect continued economic expansion in the region.

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