The regional economy modestly expanded during the last quarter of the previous millennium. Some weakness, however, is noted in retail sales, consumer confidence, and total employment. Although it is too early to sound the alarm, there is a growing likelihood that the regional economy will not maintain its growth momentum beyond the middle of the year.

Current Activity
Growth in the region’s economy was modest during the last quarter of 2000. The Coastal Empire Economic Indicators Coincident Index increased by seven-tenths of one percent to 122.7 from 121.8 in the third quarter. The increase resulted from growth in seasonally-adjusted electricity sales, hotel activity, and airport boardings. However, declines in consumer confidence and inflation-adjusted retail sales, as well as a slight fall in employment (100 jobs), prevented the index from rising further.

During the fourth quarter, the tourism industry served as the economic engine of growth that offset weakness in other sectors of the Savannah area economy. The strength of the regional tourism industry can be attributed to increased attendance at convention center events on Hutchinson Island and the continued construction of hotel rooms. In addition, there is surprising strength in early winter travel to Florida that benefits the Savannah area as passers-by stop to visit regional tourist attractions. The level of tourist activity is somewhat surprising given stock market volatility and higher energy costs.

In the Southeast as a whole, that combination eroded consumer confidence and reduced consumer expenditures during the holiday season.

At the national level, the prospect of continued deterioration in economic conditions prompted the Federal Reserve in two separate moves to reduce short-term interest rates by a total of 1%. Despite these actions, many economists have reduced their forecasts for U.S. growth to 2% for the first half of this year. Indeed, U.S. economic growth during the fourth quarter was 1.4%, and Fed chairman Alan Greenspan recently commented that current growth may have slowed to 0%. This abrupt slowdown may be a bit bumpier than the soft landing desired by the Fed, but nonetheless better than a recession.

And Those Clouds?
The Coastal Empire Economic Indicators Leading Index recorded a significant decline from a revised level of 121.3 in the third quarter to 113.4 during the fourth quarter of 2000. This represents a decline of 6.5% that was widespread among the components of the index. Consumer expectations regarding the future diminished as well as the U.S. index of leading economic indicators. In the Savannah MSA, initial claims for

(continued on back)
unemployment insurance increased while help-wanted advertising declined. This suggests that pressure on the tight regional labor market will be relieved and that an increase in future unemployment rates may be expected. An additional indicator of weakness in the regional economy is that of a reduction in hours worked per week in manufacturing industries. In the graph at right, note that the number of hours worked per week declined by approximately 12% toward the end of the year as compared to its historical average from 1995 to 1999.

The regional housing market continues to remain weak. The issuance of single family building permits peaked in the first quarter of 2000 and continued to remain flat through the fourth quarter. The average value of a single family building permit edged upward during the fourth quarter in response to falling mortgage rates. Since October, the thirty-year rate dropped by approximately three-quarters of a percentage point from 7.78 to 7.07 by the end of December.

As mentioned above, the U.S. index of leading indicators has declined for three consecutive months. This is the conventionally accepted signal of a future recession from that national forecasting gauge. However, a more conservative approach is suggested with the Coastal Empire Economic Indicator Leading Index because smaller economies tend to generate much more volatile data, and thus any single change should be interpreted with caution. A decline in the regional leading index for two or three quarters may be interpreted as a sign of an approaching recession.

In conclusion, note that with the exception of the hurricane-related dip in 1999, the leading index has been relatively flat since late 1999 while the coincident index has been relatively flat since the spring of this year. (See graph on front.) This leveling during the last year and the most recent decline in the leading index suggest that storm clouds are gathering on the horizon and that growth may diminish as the middle of 2001 draws near. Although the regional economy continues to modestly expand as evidenced by the coincident index, future declines in the leading index may serve as strong indications of potential retrenchment in the regional economy.

Matthew Maxey provided research assistance.

ABOUT THE INDICATORS

The Coastal Empire Economic Indicators are designed to provide continuously updating quarterly snapshots of the Savannah MSA economy. The coincident index measures the current economic heartbeat of the region. The leading index is designed to provide a forecast of the region’s economic activity in six to nine months.

Together, these economic indicators offer readers an informational tool that can be used to adjust to changes in regional demand conditions. The informational signals provided by the indicators may be used to control inventory, optimize staffing, adjust marketing or pricing strategies, forecast revenue, or capitalize on other opportunities in the regional economy.

A NOTE FROM THE DIRECTOR

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Matthew Maxey provided research assistance.