REGIONAL GROWTH SLOWS

Regional economic growth slowed during the first quarter of 2001. Weakness was spread among a majority of the coincident indicators. The tourism industry, which previously sustained regional growth, appears to have softened during the first quarter. Additional coincident data suggests that the regional economy has leveled off, while the leading indicators imply that the economy may have difficulty maintaining forward momentum during the second quarter.

Current Activity
The Coastal Empire Economic Indicators Coincident Index increased by four-tenths of one percent to 123.1 from 122.6 (revised) in the third quarter. The modest increase resulted primarily from strength in consumer spending. Four of the six other indicators that comprise the index fell during the recent quarter, including seasonally-adjusted electricity consumption, employment, inflation-adjusted hotel sales, and consumer confidence.

One factor creating a drag on regional economic activity was an erosion in the employment base of approximately 600 jobs. Service-producing sectors shed about 200 workers even after adjusting for the normal reduction following the holiday season. Employment in goods-producing industries declined by approximately 400 jobs. On the bright side, the length of the average workweek in manufacturing industries reversed its downward trend toward the end of the quarter reflecting increased production (see graph on back).

Usually a cornerstone of the regional economy, the tourism sector by itself was unable to fully offset manufacturing-induced weakness in economic activity. The Atlanta Federal Reserve Bank reported that although winter and spring break travel to Florida was fairly strong, business related travel diminished. This broader trend was reflected in flatness in tourism indicators in Savannah. In a pattern matching the national economy, however, Savannah-area consumer spending provided buoyancy and allowed the economy to maintain its growth.

The near term prospects for the U.S. economy remain uncertain as no clear pattern of consistent strength or weakness is apparent in economic reports. Consumer spending powered the U.S. economy to a 2% annual rate of growth during the first quarter. The manufacturing sector, however, remained mired in recession. In addition, businesses reduced their purchases of capital equipment at the same time they pared down inventory levels.

Earlier economic weakness prompted the Federal Reserve, in four separate actions since January, to reduce short-term interest rates by two percentage points. The prospect of continued economic uncertainty raises the probability that the Fed will act again to stimulate growth.
Softness Expected in Region

The Coastal Empire Economic Indicators Leading Index posted an increase from 110.0 (revised) in the fourth quarter of last year to 115.1 during the first quarter of 2001. This represents a 4.6% increase that resulted from stabilizing conditions in new home construction and in help wanted advertising. An upward drift in Savannah area unemployment insurance claims, along with weakness in consumer confidence in the South Atlantic states and the U.S. leading indicators prevented the index from rising further.

As displayed in the graph at right, the length of the workweek in Savannah area manufacturing industries has declined during the past six months. These companies will more likely increase hours for current employees before bringing on new workers. The softness in regional goods-producing industries, and its spillover effects on services, is expected to continue into the second quarter as local manufacturers await increases in new orders.

The regional economy appears to have transitioned to a period of minimal growth and may possibly experience a decline during the second quarter of the year. While the leading index did stage a recovery during the first quarter, it remains below trend levels of the previous year (see graph on front). This suggests additional weakening in the regional economy may be expected in the upcoming months and is consistent with expectations for economic activity in the state as a whole.

The leading indicators provide some evidence that, in the near term, regional economic activity will remain flat or possibly decline before developing upward momentum again later in the year. It remains to be seen whether Savannah has dodged the recession bullet.

Matthew Maxey provided research assistance.


ABOUT THE INDICATORS

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

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