REGIONAL ECONOMY STALLS

The Savannah area economy lost its forward momentum during the second quarter. The weakness was widespread among the indicators, with the exception of tourism that showed signs of strengthening. While tourism provided a strong boost to the regional economy, it was unable to offset softness in other sectors. The leading index points toward continued weakness in the near term, but it is likely that it will reverse course and begin moving upward during the third quarter of the year.

Current Activity
The Coastal Empire coincident economic index decreased by 1.1 percent to 123.5 from 124.9 (revised) in the first quarter. Factors that weighed down the index included seasonally-adjusted electricity consumption and consumer confidence. Early indications are that retail sales began to soften during the quarter as well. Seasonally-adjusted plane boardings and the U.S. coincident index were generally flat, but Savannah metro area employment increased modestly. Tourism, while relatively strong, could not overcome these combined effects pulling the coincident index down.

Data from the tourism sector suggest that Savannah remains popular among travelers despite the slowdown in state and national economic growth. Passenger flow through the airport and auto rentals leveled off during the recent quarter, yet hotel sales remained strong. The strength of Savannah's tourism sector resulted from vacationers opting to drive rather than fly and from Savannah's proximity to Atlanta's population base. This is consistent with the notion that while vacation travel declines during times of economic uncertainty, tourism may strengthen in locations that are within easy driving distances of large population centers.

Over the last three quarters unemployment has increased by 1.1 percentage points while the index of help-wanted advertising in the Savannah Morning News fell by 13 percent (see the graph on back). Despite this previous weakness in the labor market, some improvement occurred in the most recent quarter. Total employment increased by approximately 500 jobs, most of which were created in services. Although paper and transportation equipment manufacturers shed several hundred positions, there was a net gain in goods-producing industries of about fifty jobs.

The U.S. economy's annualized growth rate slipped to 0.7 percent during the second quarter, thus skirting a recession — for now. Continued weakness in manufacturing activity, capital spending, and overseas economic activity reigned in U.S. economic growth. However, consumer confidence and spending have improved. If consumers are prompted into additional spending by the federal tax rebate, this may further deplete inventories to the point that manufacturing and capital spending recover.

(continued on back)
More important than the tax rebate, greater momentum for economic acceleration will be provided by the Federal Reserve’s cut in the federal funds rate from 6.5 percent to 3.75 percent since January. Given that monetary policy affects the economy with a two to three quarter lag, the effects of earlier easing will be felt in the near future.

WEAKNESS EXPECTED THROUGH YEAR’S END — NOT A RECESSION

The Coastal Empire leading economic index posted a decrease from 124.9 (revised) in the previous quarter to 120.4 during the second quarter of 2001. This represents a 3.6 percent decrease that was widespread among the indicators. Notable weakness was apparent in help wanted advertising and consumer expectations, while some softness appeared in single family building permits, building permit value, and unemployment insurance claim data.

Recent behavior of the leading index suggests continued economic weakness through the end of the year. While the data revision (see the technical note at right) reduced the recent volatility of the leading index, it retains a slight downward trend since late 1999. The dip in early 2000 is an anomaly associated with the lagged effect of hurricane Floyd on the index.

A continued downward trend in the index during the fall quarter would reinforce projections of economic weakness. However, there is some evidence that the leading index will regain upward momentum next quarter. First, the underlying data strengthened as the quarter wore on. Second, the effect of interest rate cuts on local residential construction will become more apparent during the third quarter. Third, the regional manufacturing sector is strengthening as indicated by an increase in the average workweek from 40.7 hours in February to 43.7 in June.

Overall, the leading index points toward continued softness, although not necessarily a second consecutive quarterly decline in regional economic activity. Savannah’s economy is expected to regain forward momentum near the end of the fourth quarter and into early 2002. Leading economic indicators for the state suggest a similar forecast of limited growth.

Technical Note

During the summer, both indicator series underwent an annual maintenance review and tune-up. The leading and coincident indices have been re-calibrated to account for minor revisions, volatility, and seasonal adjustments in the underlying data. The resulting indicator series are less volatile and more likely to capture the underlying economic activity around business cycle turning points. Future revisions are likely to be minor, but are possible if other data series that improve the performance of the indices are identified.


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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.