REGIONAL ECONOMY SLIPS INTO DECLINE

Although the quarter began promisingly with tax rebate checks in the mail, falling interest rates, and diminishing oil prices, the world changed in an unimaginable way on September 11. Prior to the attacks, both the national and regional economies had been teetering on the brink of recession. It is clear now that both economies slipped during the third quarter and most likely will officially drop into recession during the fourth quarter.

In the Savannah metropolitan area, the economic weakness was widespread among nearly all coincident indicators, including tourism. The leading index predicts continued weakness during the next six to nine months.

Current Regional Activity

The Coastal Empire coincident economic index fell by 0.4 percent to 123.4 from 123.9 (revised) in the second quarter. Factors that had the largest negative influence on the index were declines in seasonally-adjusted electricity consumption and employment along with slumping consumer confidence. Early indications regarding retail sales and hotel sales activity suggest that they were generally flat during the quarter. However, seasonally-adjusted plane boardings plunged 35 percent during September and pulled the third quarter figure down by 10 percent.

Reports from across the country indicate that tourist activity plunged in the period immediately following September 11. The losses were especially severe in destinations to which vacationers fly, but were less severe in driving destinations such as Savannah. All else equal, this implies that local tourism should not deteriorate significantly and perhaps could even gain ground as visitors substitute Savannah for more distant tourist destinations. However, with the Georgia and Atlanta area economies expected to be in recession well into 2002, it is expected that the regional tourism industry will face significant challenges in the near term.

Turning to the regional labor market, seasonally-adjusted employment declined by approximately 1,800 jobs during the third quarter. Losses were concentrated in goods-producing industries where they outweighed the losses in services by a two-to-one margin. The transportation equipment and paper industries shed 500 and 170 workers, respectively. During the past year, employment in the transportation equipment industry declined by 15 percent while paper industry employment contracted by 10 percent.

The length of the workweek in the manufacturing sector appears to be stabilizing at between forty-two and forty-three hours per week after falling below forty-one hours early in 2001. However, the workweek still remains about 10 percent shorter than the recent cyclical peak of forty-seven hours per week in late 1999. Accordingly, average weekly (continued on back)
earnings in manufacturing remain well below their levels of the last two years. This translates into reduced personal income in the region and less spending in local restaurants, retail establishments, and other service sector businesses. Continued weakness in manufacturing combined with softness in near term tourist activity suggests that service sector employment will decline again before growth is re-established.

**Current National Activity**

The U.S. economy contracted at a 0.4 percent annualized rate during the third quarter, signaling the end of the longest economic expansion in the country's history. Economic output is expected to fall through the remainder of the year, thus meeting the conventionally accepted definition of a recession (two consecutive quarters of economic decline).

Consumer spending and real estate markets had sustained weak economic growth during the second quarter, but the sudden loss of consumer confidence kicked these last legs of support out from under the U.S. economy. Consumer confidence plunged during September and was subsequently reflected in weak retail sales, tourist activity, home sales, and new home construction at the end of the quarter.

Subdued consumer activity combined with continuing weakness in manufacturing, capital spending, and overseas economic activity is expected to delay the nation's economic recovery until mid-2002. While the $100 billion economic stimulus package currently under consideration in Washington, D.C. and the additional easing of monetary policy may contribute to conditions necessary for economic growth, the key to sustaining forward momentum will be consumer confidence. Ultimately, that will depend on how secure Americans feel as they go about the business of living their lives.

**Continued Weakness Expected into the New Year**

The Coastal Empire leading economic index posted a 0.5 percent increase from 120.7 (revised) in the previous quarter to 121.3 during the third quarter of 2001. Early strength in the region's residential construction market buoyed the index, but deteriorating conditions both in this market and the labor market will weigh heavily on the index during the fourth quarter. As the quarter closed, consumer expectations in the South Atlantic states and help wanted advertising in the Savannah Morning News declined along with an increase in the number of initial claims for unemployment insurance in the region.

The severity of the decline in help wanted advertising and consumer confidence is especially notable. In the Savannah area, help wanted advertising fell by 24 percent during the last year. (See the graph above.) This is consistent with an 18 percent decline in the South Atlantic states, but well below the 63 percent decline in Atlanta area help wanted advertising. Consumer expectations, heavily dependent on labor market activity, declined by 41 percent at the same time. In the South Atlantic states, consumer optimism about the future state of the economy now stands at its lowest level since 1993 when the economy was struggling along during the 'jobless recovery' following the 1990-91 recession.

Although the leading index increased during the third quarter, continued economic weakness is expected in the region during the next six to nine months. A turnaround in the region's economic fortune is not expected until well into 2002.

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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 short term forecast of the region's economic activity in six to nine months.