There is no doubt that the national and regional economies were adversely affected by the attacks of September 11. Although the outlook for the U.S. economy appears to be improving, Savannah's near-term economic future remains somewhat cloudy.

The regional economy has yet to fully shake off the momentum of several consecutive quarters of economic retrenchment. The leading index predicts continued weakness during the next six to nine months, but there are some early indications that conditions will improve in the latter part of the year.

Current Regional Activity
The Coastal Empire coincident economic index fell by 1.8 percent to 120.2 from 122.4 (revised) in the previous quarter. The index was weighed down by declines in regional employment and consumer confidence. In addition, lingering weakness in tourist activity contributed to the downward movement. Seasonally-adjusted electricity sales were generally flat during the quarter and preliminary data on retail sales tax receipts suggests the same.

Seasonally-adjusted employment in the region fell by 700 jobs during the quarter. The cumulative job losses are becoming significant and preliminary December figures indicate that 4,100 jobs have been lost since December 2000. Of these, 1,800 have been in the high-wage manufacturing sector. This, in combination with weakness in the tourism industry, resulted in a loss of 2,300 service sector jobs that relied on manufacturing payroll and the flow of tourist dollars. Overall, employment in the region declined by 2.9 percent since December 2000.

While the regional tourism industry suffered heavily during the quarter, there were indications that Savannah remained a popular driving destination. Hotel sales tax receipts rebounded sharply in October and lodging establishments along the interstates reported above average sales activity for this time of the year. In addition, alcohol sales taxes (a proxy for restaurant activity) largely paralleled the pattern in hotel sales. The segment of the market that remained weak was the component tied to air travel. Although boardings at the airport began recovering, they remained 20 percent below their normal level for this time of the year. In addition, sales taxes collected on vehicle rentals were down by 7 percent during the same period. Overall, this suggests that while air-related travel has yet to recover, ground-based travel to Savannah appears to be rebounding.

Amid the general weakness, however, several bright spots in the regional economy are clearly apparent. First, the length of the

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workweek in the manufacturing sector established an upward trend during the fourth quarter, reaching forty-five hours per week in December. (See graph at right.) This represents a 10 percent increase from the low in February 2001. Another bright spot is the transportation industry, where employment was supported by record levels of cargo volume through the port.

Current National Activity
The U.S. economy expanded modestly at an annualized rate of 0.2 percent during the last quarter of 2001. This fledgling sign of growth may indicate that the national economy is emerging from the recession that began last March.

A combination of improving consumer confidence, liquidation of business inventories, and rising orders for manufactured goods has potentially set the stage for national economic recovery. In recognition of this, the Federal Reserve held interest rates steady at its most recent meeting. Although the Fed’s position was optimistic, it cautioned that fragility in business investment and consumer spending could threaten sustained economic growth.

The Coast is Not Clear Yet
The Coastal Empire leading economic index posted a sharp 7 percent decline from 121.2 (revised) in the previous quarter to 112.7 during the fourth quarter of 2001. Weakness in the regional labor market and consumer expectations weighed heavily on the index. Although expectations began to recover late in the quarter, they remained well below the average level of the third quarter. Activity in the residential construction market was mixed but improved as the quarter progressed.

Leading indicators about the local labor market suggest that conditions in the near-term future will deteriorate somewhat before improving. Initial claims for unemployment insurance increased 30 percent from the previous quarter while help wanted advertising declined by 14 percent. This indicates the flow of workers into the ranks of the unemployed has picked up while the economy’s ability to re-absorb the unemployed has weakened.

Consequently, the region’s unemployment rate is expected to rise. This increase will be muted if laid-off workers leave the labor force, but that would imply the reported rate understates effective unemployment in the region. The December data provide some evidence that this has happened in the region, state, and nation.

The leading index points to continued economic weakness for the next six to nine months. However, conditions are becoming more favorable for a turn-around in the leading index. These developments occurred as the fourth quarter was ending but their effects were offset by softness earlier in the quarter. Thus, sustained growth in the regional economy is not expected until later in the second half of 2002. This is consistent with forecasts for the state economy, but is less optimistic than expectations for the U.S. economy.

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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.