REGIONAL ECONOMIC GROWTH FADES

In a reversal from the previous quarter, economic growth in the Coastal Empire slowed considerably while the nation’s economy expanded at a moderate pace. At the national level, growth was supported by consumer spending and business investment in capital goods. In Savannah, the index of current economic activity was flat. The forward momentum established during the second quarter faded among nearly all components of the index as the quarter progressed.

The Coastal Empire leading economic index increased during the third quarter. While volatility remains a characteristic of the forecasting index, the modest rise is the first back-to-back increase since early 2001. This suggests that future economic conditions in the region will improve during the spring and summer of 2003. However, near-term conditions are expected to remain unsettled.

Current Regional Activity

The Coastal Empire coincident economic index was nearly flat, increasing by only 0.2 percent from 122.0 to 122.2 in the current quarter. Relative stability in employment, seasonally-adjusted electricity sales, and retail sales activity offset weakness in tourist activity. The lagged effect of earlier economic softness in Georgia and the U.S. carried forward to influence local tourist activity. Hotel room rentals and boardings at the airport declined during the quarter, but remain above their previous year levels.

On a seasonally-adjusted basis, employment in the Savannah area dipped below the all-time high recorded in the previous quarter by several hundred jobs. However, total employment remains approximately two percent higher than last year at this time.

Encouraging signs for the regional economy are beginning to originate from the area’s manufacturing sector. As compared to the third quarter of 2001, employment is up by 3.7 percent. In addition, average weekly hours worked and earnings are up by over ten percent. In fact, in the transportation equipment sector, the length of the workweek jumped to fifty-five hours in September while average weekly earnings exceeded $1,000 for the first time since record-keeping began thirty years ago.

These recent developments may signal the end of a difficult period for manufacturing that began in late 1999. If the upward trend is maintained, the ripple effect of renewed strength in manufacturing will spread to other sectors of the economy and may offset the softness that currently characterizes the regional economy.

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U.S Economic Growth Accelerates During Third Quarter

On continued strength in consumer spending and renewed signs of life in business spending on capital goods, the national economy expanded at an annualized rate of 3.1 percent during the third quarter. The re-emergence of growth in business spending, largely absent since the recession began in March 2001, was fortuitous given the recent sharp decline in consumer confidence that otherwise might restrain consumer spending during the holiday season.

While increases in government spending on homeland security and national defense will provide some support for the nation’s economy, the key to developing a sustained economic recovery is the re-establishment of optimism among consumers. However, the lack of notable job growth (another jobless recovery?), volatility in equity markets, and talk of war give consumers precious little to be confident about. In addition, a drop in the U.S. leading economic index, a second monthly decline in manufacturing activity, and a mild rise in the unemployment rate paint a somewhat unsettled picture of the national economy at present.

A Few Bumps, Then a Return to Growth Expected Locally

The Coastal Empire leading economic index increased by 2.1 percent from 116.0 (revised) in the previous quarter to 118.5 during the third quarter of 2002. Upward movement in the forecasting index was supported by favorable conditions in the homebuilding sector and in the labor market. With respect to the labor market, initial claims for unemployment insurance dropped while help wanted advertising in the Savannah Morning News increased (See the chart above). This activity foreshadows improving employment conditions within approximately six to nine months.

While the leading index suggests that improving conditions may be expected to develop by the summer months of 2003, a third consecutive increase in the index would increase the likelihood of the region developing sustained economic growth by mid 2003. However, volatility in the leading index in the quarters leading up to the present, together with recent weakness in the coincident index, suggest that regional economic growth may pause briefly before continuing next year.

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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.