A RECENT ECONOMIC SLIP, FUTURE CLOUDED BY POSSIBILITY OF WAR

Economic activity in the Coastal Empire slipped somewhat during the fourth quarter, but remains in better condition than a year ago. U.S. economic growth was similarly weak during the fourth quarter, registering less than one percent growth.

In Savannah, the index of current economic activity dipped slightly. A sharp decline in consumer confidence and lesser declines in regional employment and plane boardings at the airport contributed to the fall in the coincident index.

The Coastal Empire leading economic index increased for the third consecutive quarter. In the absence of other significant factors, this would normally be interpreted as a very positive signal for future economic growth. However, recent geopolitical instability and the deployment of local military personnel are likely to restrain near-term economic growth in the region.

Current Regional Activity
The Coastal Empire coincident economic index declined by 1.1 percent from 122.0 to 120.7 in the current quarter. A steep decline in consumer confidence, accompanied by much smaller slips in employment and boardings at the airport caused the index to fall. Seasonally-adjusted electricity sales and hotel room rentals demonstrated growth, but that was not enough to offset declines in other components of the index. The most recently available retail sales data display relative stability early in the quarter, but do not include activity from the holiday season.

Employers in the Savannah area trimmed about 900 workers from payroll during the last quarter of 2002. Overall, employment declined by 0.8 percent during the quarter (seasonally-adjusted), but remains 1.3 percent higher than during the last quarter of the previous year. Relatively strong employment growth during the first two quarters of 2002 contrasts with weakness in the second half of the year.

Especially hard hit at the end of 2002 was the construction industry. Employment in this sector plummeted by nearly 2,400 jobs during the quarter. Although the closing months of the year usually are a slow period for construction, this year’s decline was substantially larger than normal and is related to the ten percent decline in the number of building permits issued for single-family homes. This is consistent with the weakness noted in single-family home construction in the multi-state region monitored by the Atlanta Federal Reserve Bank.

On the bright side, the region’s manufacturing and service sectors continued to expand during the fourth quarter. Especially encouraging is the continued lengthening of the workweek in manufacturing to nearly forty-nine hours. As overtime mounts, this is good news for

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workers who have seen their average weekly wage rise by 17 percent from this time last year. Since these workers earn approximately $47,000 annually, the increased payroll has a significant economic ripple effect on other sectors of the economy.

The U.S Economy Slows to a Crawl
Uncertainty over war, weak labor markets, and volatile equity markets combined to slow consumer spending and resulted in paltry U.S. economic growth of 0.7 percent during the fourth quarter. As consumer confidence dropped to levels last experienced in 1993, consumer spending slowed and resulted in a lackluster holiday season for retailers.

The nation's economy grew by 2.4 percent for all of 2002. While this is much better than 0.3 percent growth registered in 2001, it remains below what is normally expected. This translates into idle resources, excess inventory, and slack demand for capital goods in today's economy. Until consumers regain confidence and war related uncertainties are resolved, the U.S. economy is not likely to experience substantial growth.

Positive Signals, But War Concerns Will Influence Regional Activity
The Coastal Empire leading economic index increased modestly by 0.9 percent from 118.9 (revised) in the previous quarter to 119.9 during the fourth quarter of 2002. This maintains the upward momentum in the index that has resulted in the longest string of consecutive gains in nearly two years. However, recent weakness in consumer expectations and slackening demand for new housing may undermine continued upward movement in the forecasting index.

In addition, faltering consumer expectations and geopolitical instability directly affecting the region suggest that positive movement in the leading index should be interpreted cautiously. While war-related concerns are partially reflected in diminished consumer expectations, the impact on the Savannah area economy is amplified by a significant military presence. The deployment of local troops is likely to inhibit regional economic growth. Thus, forecasts of near-term economic activity remain clouded by the possibility of war.

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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.

A NOTE FROM THE DIRECTOR
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