A SLIGHT DIP, BUT GENERALLY STEADY

Savannah’s economy dipped slightly during the second quarter, but within a larger frame of reference, remains in a slow-growth mode. Overall, the regional economy has expanded at a rate of approximately 1.5 percent per year since the recession ended in late 2001. The index of current economic activity faded a bit, primarily as a result of weakness in seasonally-adjusted employment and electricity sales.

The Coastal Empire leading economic index modestly increased during the quarter, its second consecutive gain. While the forecasting index moved above its cyclical low, it has been relatively flat for several quarters. This suggests that relatively modest growth may be expected in the regional economy during the upcoming six to nine months.

Current Regional Activity

The Coastal Empire coincident economic index dipped slightly by 0.4 percent from 120.0 (revised) to 119.5 in the current quarter. The coincident index has shown little growth during the last four quarters, but is up by 2.2 percent since the recession ended late in 2001. Modest gains in hotel sales and consumer confidence were offset by declines in seasonally-adjusted employment and electricity sales.

Meanwhile, retail sales activity and boardings at the airport were flat during the second quarter. Total employment backed off from the record high set during the previous quarter by approximately 1,000 jobs. Continuing weakness plagues the region’s manufacturing sector, with employment in the transportation equipment and paper-making sectors drifting downward during the quarter. Service sector employment growth stalled during the second quarter. While professional and business services expanded substantially along with miscellaneous services, the service sector’s overall performance was held back by weakness in leisure and hospitality industry employment.

In recent quarters, upward movement in the coincident index has been restrained by weakness in consumer confidence, retail sales, and hotel sales. Weak consumer confidence is reflected in stagnant activity in regional retail sales and hotel sales as local residents and tourists have curtailed spending. While tourist visitation to the city has recently improved, subdued

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Coastal Empire Economic Indicators
Leading and Coincident Indexes

1990-91 Recession

2001 Recession

Index (1995 = 100)
spending by tourists has adversely affected employment in the hospitality industry as noted above. The end result is that the Savannah area economy has grown relatively slowly in recent quarters.

Savannah’s recent economic performance differs in one very significant manner from that of the state and nation. While the region, state, and nation have all experienced economic growth since the end of the 2001 recession, Savannah’s economy has added jobs while the state and nation have experienced ‘jobless’ recoveries. The regional economy has added approximately 3,000 workers. In contrast, Georgia remains 40,000 jobs below its pre-recession peak, while U.S. employment is off by 2.7 million jobs. State and national economic output have increased despite layoffs because of substantial productivity gains that have allowed employers to expand production with smaller workforces.

### U.S. Economy Picking Up

Economic growth in the nation accelerated at an annual rate of 3.1 percent during the second quarter. General sluggishness in manufacturing and consumer spending continued while labor markets remained slack and factory utilization remained well below average. The unemployment rate inched back down toward six percent from the eight-year high of the previous quarter.

Optimism about the nation’s economy is growing among analysts; some are expecting growth of six or seven percent during the third quarter. While the economy appears to be gathering strength, second quarter growth was spurred by government defense spending that accelerated at its fastest rate in 50 years. Absent a sudden surge in consumer confidence, U.S. economic growth is more likely to be closer to four percent during the third quarter.

### Modest Growth Expected

The revised Coastal Empire leading economic index increased for the second consecutive quarter. The index increased by 0.4 percent from 116.1 in the previous quarter to 116.6 during the second quarter of 2003. The index was broadly supported by improvements in nearly all of its underlying components. Substantial strength in the housing market and in help-wanted advertising provided the strongest upward lift to the index. The only component of the index that dropped was consumer expectations in the South Atlantic states. Expectations fell in April but slowly recovered as the quarter drew to a close.

The leading index peaked three quarters before the 2001 recession started and has been hovering near its cyclical low for several quarters. Underlying weakness in the regional labor market has prevented a strong rebound in the leading index, despite solid gains in the region’s construction industry. In closing, regional economic conditions are expected to modestly improve during the second half of the year. Savannah’s economy has been one of the strongest in the state since the recession ended, a trend that will continue for the foreseeable future.

Jennifer Hoag provided research assistance.

### 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.

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