ANOTHER DIP, BUT PROSPECTS FOR FUTURE IMPROVING

Third quarter economic activity in the Savannah area declined slightly. This second consecutive quarterly decline follows a post-recession period of economic growth that has been relatively strong as compared to the state and national economies. However, the recent decline represents a temporary back-sliding that pulled the index down below year-ago levels. The index was weighed down primarily by declines in seasonally-adjusted electricity sales, consumer confidence, and employment.

The Coastal Empire leading economic index increased substantially during the quarter, displaying its first sign of significant growth during the current business cycle. After several quarters of volatility, the index experienced its most substantial quarterly rise in over three years, thus hinting that economic growth may be expected as the warmer weather of spring approaches.

Current Regional Activity

The Coastal Empire coincident economic index dipped slightly by 1.1 percent from 119.7 (revised) to 118.3 in the current quarter. This is the second consecutive quarterly decline in the index, but this quarter’s decline is likely to be a temporary phenomenon. Declines in seasonally-adjusted electricity sales, consumer confidence and employment caused the index to fall. Hotel sales showed some strength, but retail sales activity and boardings at the airport were flat during the quarter.

Indicators about the region’s tourism sector remained mixed. While hotel sales have rebounded smartly during the quarter along with the number of riders on area tour busses and trolleys, airplane boardings and auto rentals have declined, suggesting that fewer business and long-distance traveling tourists are visiting the area. As a result, employment in the leisure and hospitality sector remains six percent below last year’s level.

Seasonally-adjusted employment declined by approximately 800 workers during the quarter to stand at 138,600. Three-fourths of the losses occurred in the services sector where education and health services along with government employment accounted for most of the losses. In the goods-producing sector, manufacturing employment appears to have stabilized at 13,600 workers after three years of contraction.

The month-long furlough of workers at Gulfstream in July caused an economic ripple to spread through the economy during the quarter. As compared to data from July 2002,
the furlough contributed to a spike of 1,500 in new unemployment insurance claims, a one percentage point jump in the monthly unemployment rate to 5.7 percent, and a seven percent decline in electricity consumption by industrial users (see graph). The temporary reduction in worker income was also reflected in flat retail sales activity during the quarter. These effects are transitory in nature and are unlikely to persist as production returns to normal levels during the fourth quarter.

U.S Economy Steamrolling Along
The U.S. economy experienced its most rapid rate of growth in over twenty years during the third quarter. Economic output expanded at an annual rate of 8.2 percent. Significant growth in business investment and consumer spending spurred the nation’s economy along. On the supply side, exceptional growth in productivity (8.1 percent gain) pushed unit labor costs down by nearly five percent during the quarter and also helped fuel the surge in economic output.

National labor market conditions are beginning to improve after several years of weakness. Employers added 103,000 jobs for the first quarterly gain since early 2001. As a result, the unemployment rate declined to 6.1 percent. Additional economic growth and job creation expected during the fourth quarter will maintain downward pressure on the unemployment rate. Sustained GDP growth of approximately four percent is expected through 2004.

Modest Growth Expected
The revised Coastal Empire leading economic index increased sharply, with its best showing in over three years. The index increased by nearly 4 percent from 115.7 (revised) in the previous quarter to 120.3 during the third quarter of 2003. The index was supported primarily by strength in the housing sector. Double-digit growth both in the number and value of single family homes permitted continued for the second consecutive quarter. While the regional labor market did experience some weakness, its drag on the leading index was completely offset by the strength of the residential construction market.

In the previous Economic Monitor, it was noted that the leading index had been hovering near its cyclical low for several quarters. Although the sharp upswing in the leading index may represent a ‘break-out’ of sorts, a clear trend has not yet emerged. In the short run, economic conditions are expected to rebound and lead to very modest employment gains. More substantial growth in the regional economy is expected as the winter draws to a close.

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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