



Coastal Empire ECONOMIC MONITOR

ECONOMY UP AGAIN. FORECASTING INDEX CONTINUES UPWARD TREND

For the second consecutive quarter there was a healthy increase in the coincident index of economic activity for the Savannah metro area. Nearly across-the-board employment gains, tourism growth, and port activity propelled the economy during the third quarter of 2012.

The Coastal Empire leading economic index increased, also extending a very good pace of improvement since the beginning of the year. Improvement in the residential housing market and labor market pushed the index up.

Extending Recent Gains

The Coastal Empire coincident economic index increased 1.25 percent to 154.5 from 152.6. The index is up 2.3 percent since the start of the year, and the growth rate has been accelerating. Substantial growth in employment provided most of the lift, and increased activity in the tourism economy and at the ports contributed as well. Retail sales activity held fairly steady again during the quarter. Very modest declines in consumer confidence and electricity sales limited the upside growth.

Employers in the region went on a hiring binge during the third quarter, adding 3,100 jobs and raising total employment in the metro area to 153,800 (seasonally adjusted). The gains were entirely in the private sector and service side of the economy, with growth in education/health (+1,000), leisure/hospitality (+800), business/professional services (+500), and retail sales (+500) leading the hiring

surge. Government employment held steady again during the quarter.

The goods-producing side of the economy treaded water, holding steady at 20,200 workers. Manufacturing added another 100 workers (to 14,600 jobs), while construction lost another 100 workers, falling to 5,600 jobs.

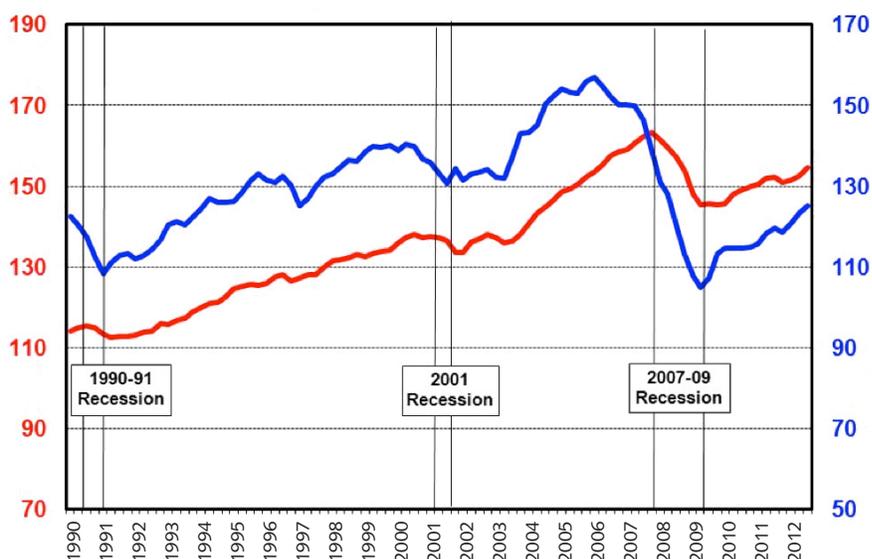
Tourism activity continued its solid run through the year so far. Hotel/motel tax receipts were up from the second quarter and remain about four percent higher than year-ago data. On a year-to-date basis, hotel room rental activity is ahead of last year's pace by seven percent. Employment in the hospitality sector increased to 20,800 workers. Ridership on the trolleys and tour buses is up about six percent from last year at this time.

U.S. Economy Modestly Increases

U.S. economic activity grew at an annualized rate of 2.0 percent during the third quarter, increasing from 1.3 percent growth in the previous quarter. Mixed economic news characterized the quarterly GDP report. Consumer spending increased at a faster pace, up to 2.0 percent from 1.5 percent. Exports growth decreased from 5.3 percent in the second quarter to 1.6 in this past quarter. Acceleration in government expenditures and investment boosted economic activity, but was partially offset by a 1.0 percent reduction in state and local government spending. Growth in business fixed investment (office/industrial space) slowed, while business spending on equipment and software increased slightly.

(continued)

Coastal Empire Economic Indicators
Leading and Coincident Indexes



The Federal Reserve is expected to maintain a low interest rate environment well into 2014. The Fed's perspective on the economy is less favorable than last quarter, and it has reduced its expectations for growth in 2012. Recent signals from the Fed suggest it is considering additional stimulative policy to bolster the economic recovery and sustain improving labor market conditions. Inflation rose slightly due to an increase in energy prices. The Fed's expectations for annual inflation are at or below 2 percent.

Forecasting Index Rises Sharply Again

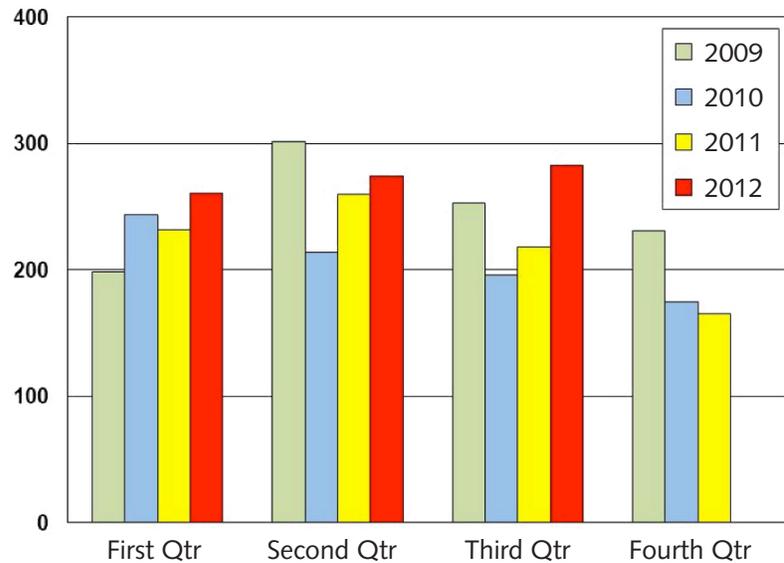
The Coastal Empire leading economic index increased 1.4 percent during the third quarter, rising to 125.1 from 123.3 (revised) in the previous quarter. This is the fastest three-quarter pace of improvement in three years. Lift was provided by substantial growth in residential home building permit issuance and modestly improving labor market conditions.

The seasonally adjusted number of new residential homes permitted for construction increased sharply, rising 34 percent above the previous quarter. Two hundred ninety-five permits were issued, the highest quarterly total in four years. Quarterly permit issuance in 2012 has surpassed that of every comparable quarter for 2010 and 2011, and in the aggregate, outpaced 2009. Overall, permit issuance is 15 percent over last year's pace and is on track to be the best year since 2008. However, the average value of a residential building permit issued decreased 7.6 percent to \$152,200 from \$164,800 in the second quarter.

A Note From the Director

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Single Family Home Building Permits Issued Per Quarter in Savannah MSA



Source: U.S. Census Bureau. Not seasonally adjusted.

In the labor market, initial claims for unemployment fell a modest one percent to 1,067 per month. After falling to 968 in June, the number of new claims fell even further to 908 in July, before rising to close out the quarter. Partial-quarter data for help wanted advertising increased somewhat.

Wrapping up, there was a healthy increase in the coincident and forecasting indexes for the second consecutive quarter. The pace of growth in the coincident index accelerated somewhat during the quarter, while the growth rate moderated somewhat. Overall, expect continuing improvement in the economy into the second quarter of 2013.

The role of the consumer confidence and expectations was highlighted during the quarter, with both data down in the South Atlantic states and subsequently impeding economic progress.

While it is possible the Presidential election removed some uncertainty for consumers, current "inside the beltway" chatter focuses on whether the President and Congress will join hands and engage in a little "Thelma and Louise" economics by driving off the fiscal cliff together. A recession is likely in the absence of a resolution that avoids the impending tax increase and expenditure reduction.

Research assistance provided by Rebekah Sapp.

About the Indicators

The Coastal Empire Economic Indicators are designed to provide continuously updated quarterly snapshots of the Savannah Metropolitan Statistical Area economy. The coincident index measures the current economic heartbeat of the region. The leading index is designed to provide a short-term forecast of the region's economic activity in the upcoming six to nine months.

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