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Coastal Empire Economic Monitor, 3rd Quarter, 2005

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ECONOMY SURGES BUT LEADING INDEX DECLINES

Economic growth in the Coastal Empire surged during the third quarter, easily outpacing tepid growth recorded during the second quarter. The annualized quarterly growth rate topped 4 percent, re-establishing the solid pattern of gains posted through much of the preceding two years.

The Coastal Empire leading economic index dropped moderately during the quarter and extended a two-quarter period of weakening signals from the forecasting index. However, the third quarter decline is not yet a decisive signal of declining economic activity in 2006. At this point, the drop in the leading index “puts it on the radar screen” and warrants close scrutiny in upcoming quarters for further signs of weakness.

4.4 percent the quarter, more than double the typical rate of growth.

Service sector employers added 1,100 jobs during the quarter while the goods-producing sector added 500 jobs. On the service side of the economy, job growth was concentrated in professional/business services and government, with gains of 500 and 300 jobs, respectively. Employment in the leisure and hospitality sector remained flat during the quarter, and has shown no growth during the previous twelve months. However, hotel room sales revenue is up approximately 9 percent as compared to year-ago data, suggesting that worker productivity has ratcheted up in order to support the growth in tourism activity. In retail trade, sales surged while employers released an additional 300 workers

during the quarter, doubling the six-month loss to 600 jobs. Worker productivity in retail trade is also up, as evidenced by a 3 percentage point increase in year-to-date sales combined with a 1.5 percent decline in employment.

Employment in the regional goods-producing sector increased by 500 jobs, with the gains split nearly evenly between construction and manufacturing. Manufacturing employment has recovered to 13,700 workers, and is up approximately 500 workers from the low point reached in late 2003. This developing trend, along with recent favorable news releases concerning business growth at Gulfstream, Georgia-Pacific, and JCB point to continued strength in the sector.

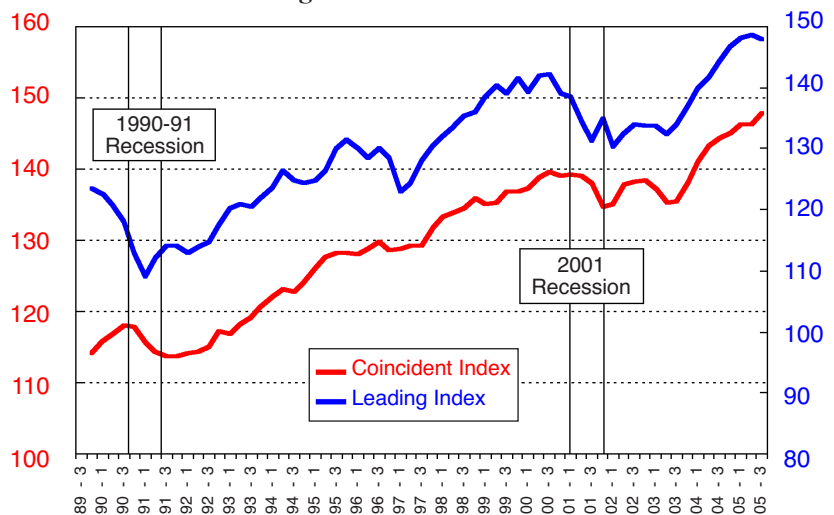
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THE SURGE

The Coastal Empire coincident economic index increased by 1 percent to 147.8 from 146.4 (revised) in the previous quarter. Underlying fundamental indicators of the region’s economy increased with particularly strong growth in seasonally-adjusted employment and electricity sales. Lesser, but additional economic growth was spurred by tourism and retail sales activity.

Total employment in the Savannah MSA increased by approximately 1,600 jobs during the quarter to stand at 146,900. Annualized employment growth surged to

Coastal Empire Economic Indicators
Leading and Coincident Indexes



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U.S. GROWTH MAINTAINS SOLID PACE

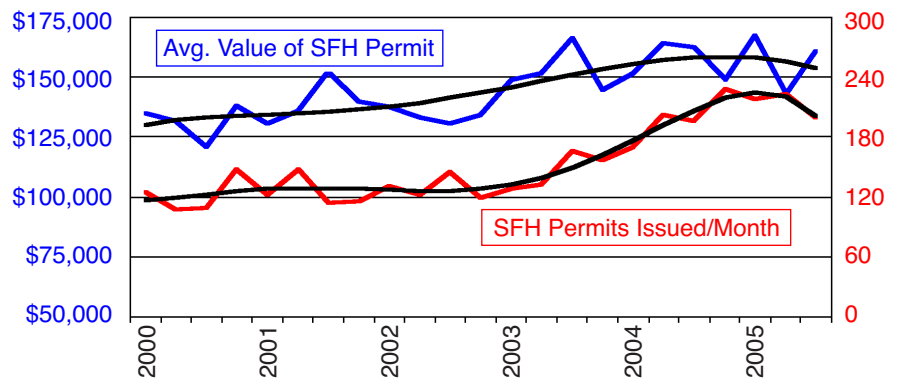
The U.S. economy continued its solid rate of growth despite headwinds imposed by the effects of Hurricane Katrina and a temporary burst of inflation. Annualized GDP growth was 3.8 percent during the third quarter. Although Katrina is estimated to have shaved one-half of one percentage point from GDP growth, the U.S. economy extended its winning streak of growth between 3 percent and 4.5 percent to the longest sustained period of expansion at that level since WWII. Consumer expenditures, along with federal government defense spending drove the economy along during the quarter.

The Federal Reserve continued its efforts to push interest rates toward a level consistent with a neutral position for monetary policy with respect to economic activity. The federal funds rate is expected to rise toward the 4.5 percent to 4.75 percent level by mid 2006. Ben Bernanke's appointment as chair of the Board of Governors is not expected to create any disruptive monetary actions during or after the transition to new leadership at the Fed. The most significant change is likely to be clearer proclamations of Fed policy actions and goals than were forthcoming from Alan Greenspan.

FORECASTING INDEX FALLS

The Coastal Empire leading economic index declined at a moderate rate during the third quarter. The index now stands at 147.9, down from 148.7 (revised) during the previous quarter. Adverse developments in nearly all underlying leading indicators pulled the index down at an annualized rate of 2.2 percent. Consumer expectations cooled while the labor market weakened somewhat. In addition, the regional housing market is displaying some signs that it may have reached a short-term cyclical peak.

Regional Housing Market Peaks?



In the labor market, initial claims for unemployment insurance increased by approximately 9 percent from the previous quarter. The run-up in claims does not appear to be related directly to Hurricane Katrina's evacuees seeking claims in Georgia's system in the Savannah area. In addition, help wanted advertising leveled off during the quarter. As a result, the regional unemployment rate increased to 4.7 percent, up from 4.2 percent during the same period last year.

Much like the national housing market, the regional housing is showing some signs of cooling. As the quarter closed, the interest rate on 30-year conventional mortgages increased to 5.91 percent, the highest level in six months (More recently, the rate reached 6.31 percent.) A curve fitted to the monthly number of single family home (SFH) building permits and the average value of those building permits suggests that the market may have peaked during the first

half of 2005 (see chart above). This development should be viewed in its appropriate short-term context. In the short-run, the market may have peaked, but the long term prospect for the regional housing market is strong, given the economic and population growth that is expected.

The overall signal from the forecasting index is yielding modest signals about upcoming growth. The current quarter's decline is not a sufficiently strong signal to warrant a warning about next year's economic activity, although it is enough to warrant close monitoring for any additional weakness. On a year-to-date basis, the index has increased by 1 percent, pointing to similar growth in the next six to nine months.

Jeri Bice provided research assistance.

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A Note From the Director: Happy Birthday to the Indicators!

This quarter's release marks the fifth year of existence for the Coastal Empire Economic Indicators. The center would like to acknowledge the cooperation of the business community and local government in providing insight and access to data that drive the indexes. Thank you very, very much.

The *Economic Monitor* is now available electronically by e-mail and online at the Center for Regional Analysis web-site (www.econ.armstrong.edu/cra). If you would like to receive the Monitor by e-mail, please send a 'subscribe' message to Emonitor@mail.armstrong.edu.