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Coastal Empire Economic Monitor, 4th Quarter, 2005

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SURGE CONTINUES, LEADING INDEX STABILIZES

The Coastal Empire's economy continued to surge during the final quarter of 2005. Growth has been substantial throughout the second half of 2005 after mixed performance during the first six months of the year. The annualized quarterly growth rate topped four and one-half percent during the last two quarters of the year. Overall, the economy grew by 2.8 percent during 2005.

The Coastal Empire leading economic index stabilized during the fourth quarter of 2005 after a moderate drop during the previous quarter. While the index avoided a significant two-quarter decline, its recent activity merits continued close scrutiny for any further signs of weakness.

THE SURGE

The Coastal Empire coincident economic index increased by 1.2 percent to 147.8 from 146.4 (revised) in the previous quarter. The index was powered along by exceptional quarterly growth in seasonally-adjusted employment with tourism activity playing a strong supporting role. Retail sales and consumer confidence had little overall effect on the index. Although seasonally-adjusted electricity sales were down during the quarter, the milder-than-normal weather in the year's closing months biased the adjustment process down more than usual, resulting in a statistical anomaly for this economic indicator.

Total employment in the Savannah MSA increased by approximately 2,500 jobs during the quarter to stand at 149,600. The quarterly growth rate was 1.8 percent, matching in only one quarter what usually requires an entire year to achieve. After a very minor dip of 100 jobs in the first quarter, the employment base expanded throughout the remaining nine months of the year, strengthening in growth as the year ended.

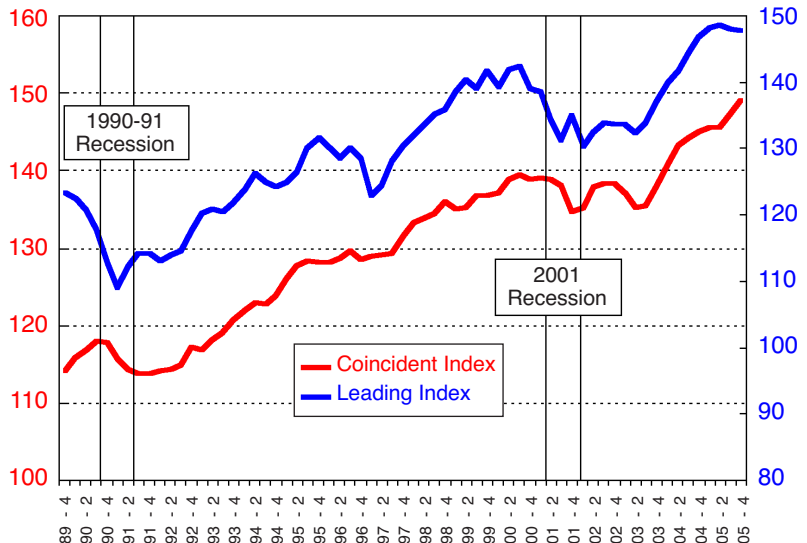
Nearly all of the region's employment growth was concentrated in the services sector that added 2,400 jobs during the quarter. Hospital-ity industry employment expanded by 500 jobs during the quarter, breaking a disappointing string of minimal job growth recorded earlier in the year. Given the substantial

growth in tourism during the year, the increased demand for labor in this sector could no longer be accommodated by productivity gains among its current base of workers. Professional/business services, retail trade, and transportation and utilities accounted for 400 additional jobs each. Expansion in these sectors reflects general economic growth in the region, the initial return of members of the Third Infantry Division and tourist spending, and booming activity at the Georgia ports and in the port-related distribution industry, respectively.

It is noted in passing that, on an annual basis, employment in the region grew by approximately 3,000 jobs or roughly 2.0 percent, somewhat above the typical rate

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Coastal Empire Economic Indicators
Leading and Coincident Indexes



(continued from front)

of growth achieved in the Savannah metro area since 1990. Given the Georgia Department of Labor's annual benchmarking and data revision process under way as of this writing, additional discussion of annual changes in employment is deferred until the revised data is released.

U.S. GROWTH MODERATES

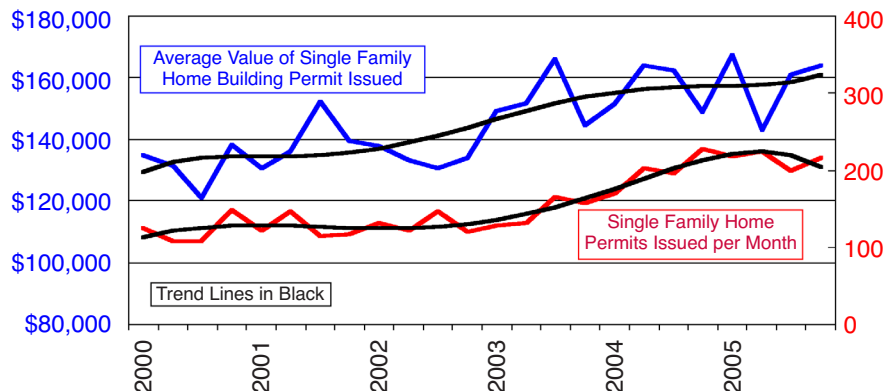
U.S. economic growth cooled to a tepid pace during the last quarter of 2005. Annualized GDP growth was only 1.6 percent. Unexpected weakness in business investment in capital goods and government expenditures restrained growth, while consumer spending contributed modestly to GDP growth. A rebound is expected in 2006 as consumer spending improves and government expenditures bump upward. Fiscal policy (primarily through spending on defense goods and homeland security) is expected to provide an economic stimulus, while monetary policy is expected to shift to a more neutral stance in 2006.

One or perhaps two more upticks in the federal funds rate, depending on how well-behaved inflation is, are anticipated from the Federal Reserve in 2006. The current rate stands at 4.5 percent, and few analysts expect the Fed to move above 4.75 percent in 2006.

FORECASTING INDEX STABILIZES

The Coastal Empire leading economic index stabilized during the quarter, dipping insignificantly by 0.1 points to 147.8 from 147.9 (revised) from the previous quarter. Weakening consumer expectations and some softness in the regional labor market restrained the forecasting index while more favorable activity in the residential real estate market supported the index.

Regional Housing Market: Re-Emerging Upswing?



In the labor market, initial claims for unemployment insurance increased by approximately 3 percent from the previous quarter, while help wanted advertising declined by 2.5 percent. However, the recent substantial run-up in employment may have simply reduced the immediate need for additional workers as businesses assess their current staffing needs before considering additional expansion.

The regional housing market appears to be strengthening after a short lull. After peaking in the first half of 2005, construction activity (single-family homes) is showing signs of gathering momentum for an upswing in 2006. Although the short run trend appears negative, the most recent quarter's data suggest that the trend is about to be reversed. This already appears to be the case with the average value per single-family building permit issued. Although rather volatile through most of 2005, an upward trend appears to be re-emerging. After

bottoming-out in the second quarter of 2005 at \$143,000 per unit, the average has increased to \$163,000 in the fourth quarter (see chart above). The long-term prospect for the regional housing market remains strong, given the economic and population growth expected in the upcoming years.

The signal from the forecasting index is really closer to an absence of a signal. Stabilization of the index, in and of itself, is a favorable sign given the previous quarter's decline. Yet, a flat forecasting index does not point to substantial growth in the second half of 2006. At this point, the index is portending a typical year for the Savannah economy, with overall growth expected on the order of approximately 2.0 percent or just above for the year.

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A NOTE FROM THE DIRECTOR

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