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Coastal Empire Economic Monitor, 2nd Quarter, 2006

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STRONG GROWTH, MORE EXPECTED

After a sluggish first quarter, the Coastal Empire's economy surged during the spring quarter of 2006. The annualized growth rate of 4.8 percent returns the economy's hot pace of expansion to that experienced during the second half of 2005.

The Coastal Empire leading economic index also surged ahead, recording an annualized 5 percent rate of increase during the quarter. Following several quarters of weakness in mid-2005, the forecasting index has increased substantially for two consecutive quarters, thus pointing toward sustained growth in the regional economy through the remainder of the year.

Surging Growth

The Coastal Empire coincident economic index increased by 1.2 percent to 155.7 from 153.9 (revised) in the previous quarter. Strength in the second quarter offset first quarter sluggishness and has thus resulted in a 3 percent annualized rate of growth through the first half of the year. During the second quarter, the coincident index was carried upward by increases in seasonally-adjusted electricity sales, employment, tourism activity and retail sales. Consumer confidence and boardings at the airport, however, were somewhat weak during the quarter with both drifting down modestly.

Total employment in the Savannah MSA increased by approximately 2,800 jobs during the quarter to

stand at 156,200. The annualized quarterly growth rate was over 7 percent. Service producing industries added 2,400 jobs while manufacturing and construction added 400 jobs. Among service industries, the leisure and hospitality sector added 1,000 jobs and went over 20,000 workers for the first time ever during the quarter. Job growth in retail trade and business/professional services was also strong, with each sector adding 400 jobs.

The regional tourism industry had an outstanding quarter. In addition to the substantial job growth noted above, hotel and motel sales receipts maintained the torrid pace of growth that extends back to late 2004. As compared to year ago levels, hotel sales have increased by 16 percent. This complements the

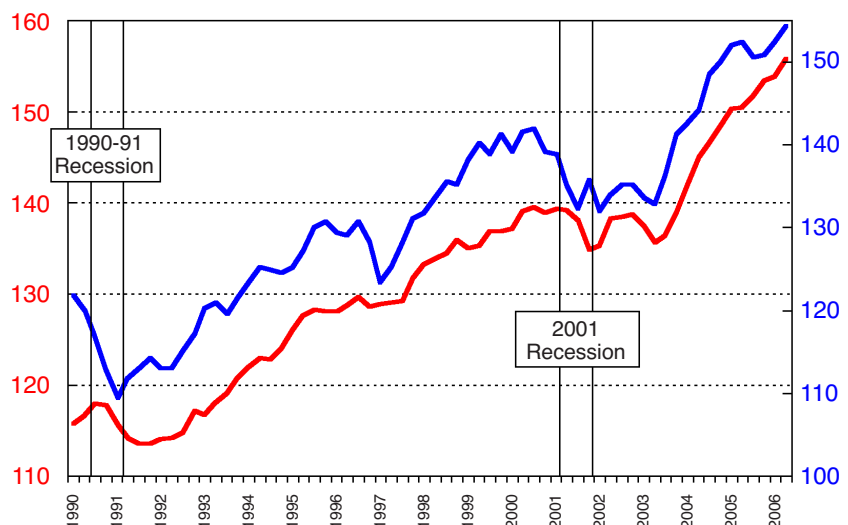
11 percent increase in the number of riders on tour buses and trolleys in downtown Savannah. Slower growth in automobile rental sales of 4 percent as compared to year ago levels is consistent with a modest reduction in passenger volume through the airport. Airport administrators attribute the reduced passenger volume to industry-wide route reductions rather than reduced flow on existing flights.

U.S. Growth Moderates, Inflation Risk Remains

U.S. economic growth moderated during the second quarter of 2006 declining to an annualized rate of 2.9 percent. This is well below the 5.6 percent rate recorded in the

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Coastal Empire Economic Indicators
Leading and Coincident Indexes



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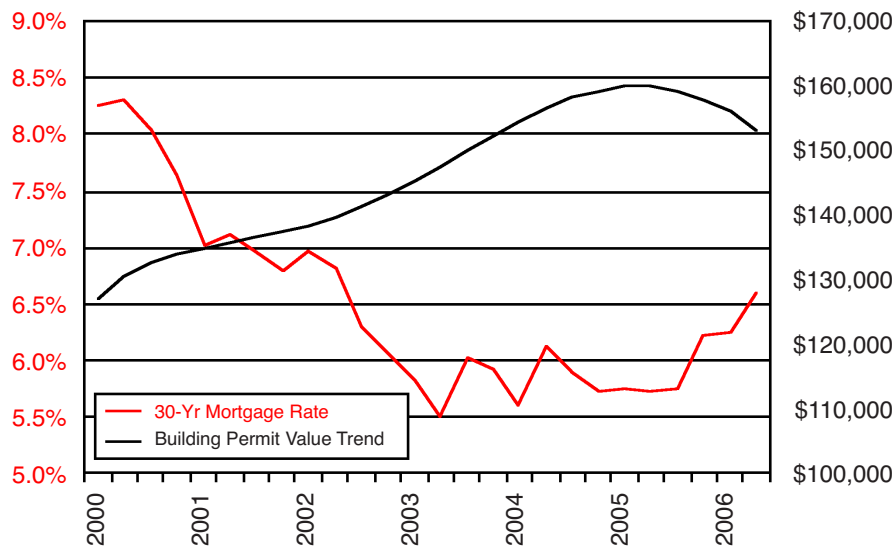
previous quarter and is attributed primarily to a 10 percent drop in home construction and modest spending by businesses on capital goods. Consumers reined in their spending while government expenditures were down. Exports, however, provided some support for GDP growth.

Inflationary pressure continued to mount during the quarter, as the core inflation rate (excluding food and energy) jumped to a 2.9 percent annualized rate—the highest rate recorded since 1994. This is considered to be well above the rate the Federal Reserve is willing to tolerate. However, in a good news-bad news scenario, the Fed is unlikely to move against inflation by hiking short-term interest rates (the good news). The bad news, however, is that the expected lack of action results from weakening economic conditions that should dampen inflationary pressure in the short term.

Forecasting Index Up Sharply

The Coastal Empire leading economic index increased by 1.2 percent during the quarter, rising to 154.2 from 152.4 (revised) in the previous quarter. On an annualized basis, the forecasting index increased at a rate of 5 percent. A decline in new claims for unemployment insurance along with an increase in the seasonally-adjusted number of single family building

Trend in Building Permit Value in Savannah MSA and 30-Year Mortgage Rate



permits issued pushed the index up. Further upward movement was limited by a drop in the average value of a building permit issued and by weakness in consumer expectations.

While the nationwide housing market continues to weaken somewhat more than expected, the regional home construction sector is more stable. The number of single-family home building permits issued during the spring quarter increased by 1 percent from the first quarter. On an over-the-year basis, new home construction is up by 6 percent, but has fallen substantially from the 20-plus percentage point increases recorded late into 2005. Moreover, the average value of a permit issued decreased by 8 percent from the first

quarter, falling to \$147,000 from \$160,000. While the average value of a building permit issued has been rather volatile during the past 18 months, the trend in permit value tracks inversely with 30-year mortgage rates (see chart above).

Yet despite mixed signals from the local housing market, other elements of the forecasting index combined to pull it up substantially during the second quarter. The leading index is pointing toward sustained growth through the remainder of the year of approximately 3 to 3.5 percent.

Jeri Bice provided research assistance

A Note From the Director

The *Economic Monitor* is now available electronically by e-mail and online at the Center for Regional Analysis website (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.

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 the upcoming six to nine months.

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