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Coastal Empire Economic Monitor, 3rd Quarter, 2006

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STRONG GROWTH CONTINUES, BUT LEADING INDEX DROPS

The Coastal Empire's economy continued to expand at a brisk pace during the third quarter of the year. The economy grew at an annualized rate of 4.4 percent, after expanding at a rate of 4.8 percent in the previous quarter.

In contrast, the Coastal Empire leading economic index declined moderately during the quarter, falling at an annualized pace of 3.3 percent. However, it should be noted that this follows three consecutive quarters of growth and does not, at this time, suggest that the regional economy is entering a down-turn. A stronger warning signal would be forthcoming if the forecasting index continues the downward trend for an additional two quarters.

Total employment in the Savannah MSA increased by approximately 700 jobs during the quarter to stand at 156,500. On an over-the-year basis, the employment growth rate was 3.4 percent. Somewhat surprisingly, growth in the goods-producing industries outpaced service sector growth. In fact, manufacturing added 400 jobs to reach 14,200 workers, its highest level in four years. Construction also added 300 workers during the quarter. Service sector employment showed no growth during the quarter as losses in trade and financial activities were offset by gains in information, health and education, and other services.

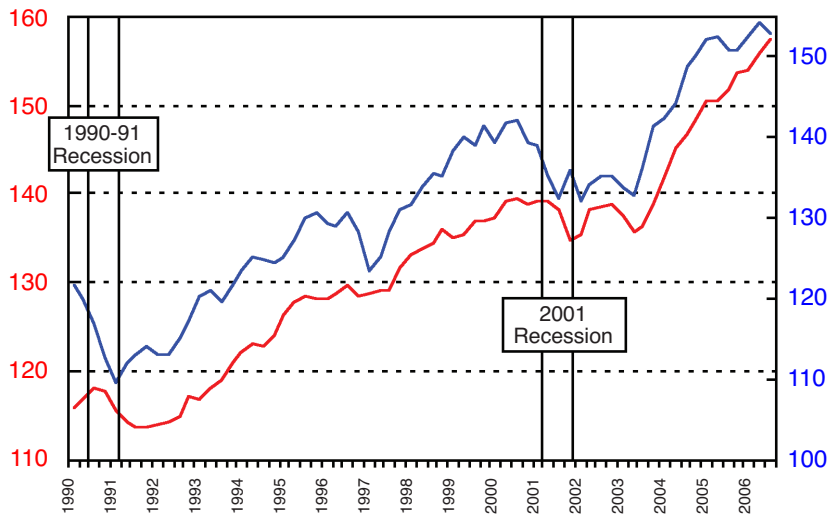
The regional tourism industry also had a strong quarter. Worker productivity increased during the quarter as evidenced by the combination of substantially higher tourist activity and modestly increasing employment in the sector. As employment drifted upward by several hundred jobs in August and September, hotel sales barreled along. As compared to year-ago levels, hotel sales receipts are up by 18 percent while leisure and hospitality services employment is up by 5.5 percent. Similarly, the number of riders on tour buses and trolleys in downtown Savannah has increased by 22 percent as compared to year ago levels.

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Sustained Strength

The Coastal Empire coincident economic index increased by 1.1 percent to 157.4 from 155.7 in the previous quarter. Through the first nine months of the year, the regional economy has expanded at a pace of 3.4 percent. Strength was widespread, as all indicators comprising the index moved upward during the quarter. Growth was especially pronounced in seasonally-adjusted electricity sales and employment. Tourism also played a supporting role as both hotel sales activity and plane boardings at the airport increased during the quarter. Consumer confidence in the South Atlantic states also edged up slightly during the summer months.

Coastal Empire Economic Indicators
Leading and Coincident Indexes



(continued from front)

U.S. GDP Grows Moderately, Inflation Risk Diminishes

U.S. economic growth maintained a steady, if modest, pace of 2.2 percent on an annual basis during the third quarter of 2006. The initial estimate of 1.6 percent was revised upward based on business spending that was stronger than first reported. On an annual basis, business expenditures on equipment and software increased at a rate of ten percent. This helped offset a very sharp decline of 18 percent in housing investment. Consumers also provided little economic support as their spending increased at a rate of just under three percent.

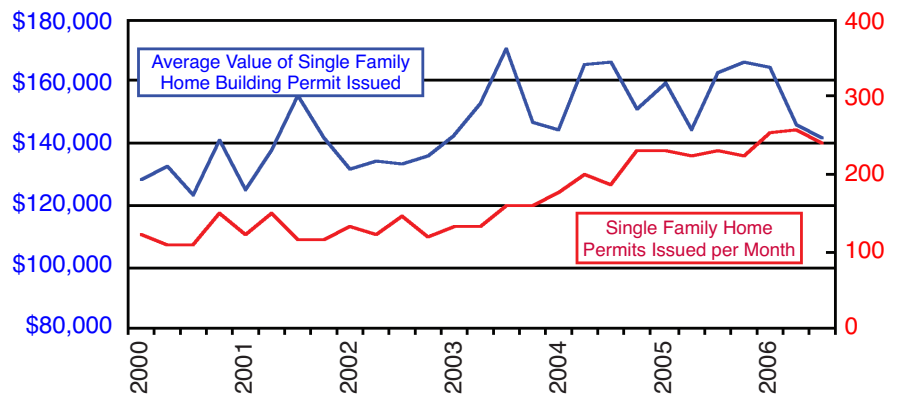
The U.S. housing market remained mired in a slump, as the nationwide inventory of unsold homes reached a high point in the quarter. New home sales plunged by 25 percent even as new home median prices declined by nearly 10 percent. Rising mortgage rates squeezed out speculative investment and restrained new home sales.

Inflationary pressure diminished during the quarter, as the core inflation rate (excluding food and energy) fell to a 2.2 percent annualized rate. This is generally thought to be within the range of inflation that the Federal Reserve finds tolerable. Modest GDP growth and dissipating inflationary pressure point to steady interest policy during the closing quarter of the year.

A Note From the Director

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Regional Housing Market: Slowing Growth



Forecasting Index Declines

The Coastal Empire leading economic index fell by 0.8 percent during the quarter, falling from 154.2 in the previous quarter to 153.0. On an annualized basis, the forecasting index decreased moderately at a rate of 3.3 percent. Weakness in labor and housing markets along with an erosion of consumer expectations contributed to the decline.

The number of new claims for unemployment insurance (UI) increased by 10 percent from the previous quarter to average 640 new claims per month. The quarterly unemployment rate in the Savannah metro area inched upward to 4.1 percent from four percent during the spring months. A modest increase in the unemployment rate is expected in the coming months if the region's economy can only partially re-absorb the new UI claimants.

The cumulative effect of national housing market weakness is becoming discernible in the Savannah area. Both the number of new single family home building permits issued and the average value of a permit declined during the quarter as indicated in the chart above. The number of single-family home building permits issued during the third quarter declined by 6.6 percent from the previous quarter. On an over-the-year basis, however, new home construction is up by 3.2 percent, but has fallen substantially from the 30-plus percentage point annual

increases recorded in 2004. In addition, the average value of a permit issued decreased by three percent during the quarter, falling to \$142,000. One year ago, the average value of a building permit issued was \$162,000.

It is notable to observe that the current state of affairs in the regional housing market does not constitute a slump or bursting bubble. It is more accurate to describe the current situation as a reduced rate of acceleration. When your foot comes off the gas pedal, you slow down, but do not begin moving backwards. The local economy is sound, population continues to grow, and income continues to rise. These underpin a healthy local housing market. The current deceleration of housing market growth has more to do with rising mortgage rates and those would-be migrants in troubled northern markets who are holding off on the sale of their own homes before resettling and purchasing in the Savannah area.

Overall, the decline in the leading index does not yet send a clear warning signal about economic activity in the Coastal Empire in the next six to nine months. Looking ahead, the regional economy is expected to continue expanding at a pace of approximately 3.5 percent through the winter months and into spring.

Holly Meads provided research assistance.