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Coastal Empire Economic Monitor, 4th Quarter, 2006

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GROWTH MODERATES, LEADING INDEX DROPS FURTHER

The Savannah area economy continued to expand during the closing quarter of the year, albeit at a slower pace than during the middle portion of 2006. The economy grew at an annualized rate of 3.4 percent, approximately two percentage points below the six percent rate achieved through the spring and summer quarters of 2006.

The Coastal Empire leading economic index dropped sharply during the fall quarter, falling at an annualized pace of seven percent. This is second consecutive decline in the leading index and the most substantial decline recorded since the 2001 recession. The behavior of the index suggests that incoming data for the winter quarter should be watched very closely for signs of a reversal or continuation in the trend. While the economic prospects for the early quarters of 2007 look solid, a third consecutive substantive decline in the leading index may foreshadow moderating economic activity in the second half of the year.

Sustained Strength

The Coastal Empire coincident economic index increased by 0.84 percent, an annualized pace of 3.4 percent, to 159.7 from 158.4 in the previous quarter. During 2006, the regional economy grew by 4.1 percent. Strength was concentrated in seasonally-adjusted employment, hotel room sales, boardings at the

Savannah International Airport, and improving consumer confidence in the South Atlantic states. An increase in the coincident index for the U.S. economy also played a small supporting role for the index.

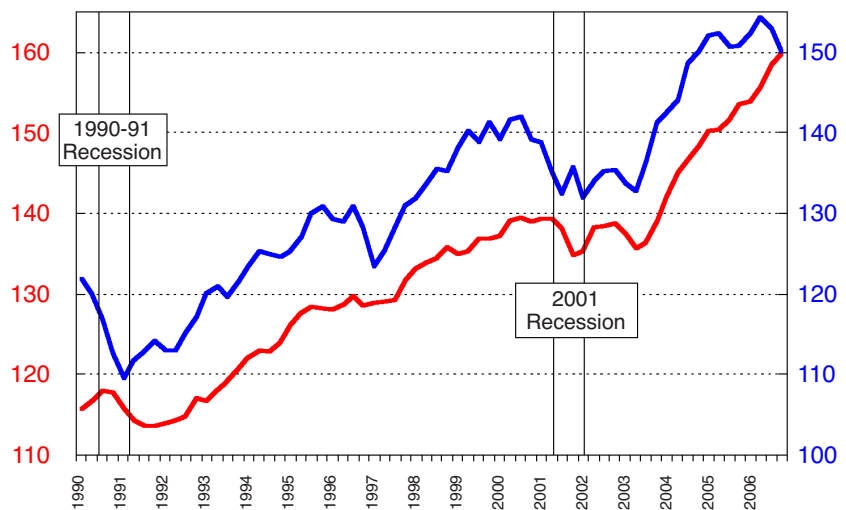
Total employment in the Savannah MSA increased by approximately 2,000 jobs during the quarter to stand at 158,300. Through 2006, the employment growth rate was 3.3 percent. The service sector of the economy added 1,400 workers during the quarter, even after adjusting for the usual run-up in seasonal employment during the holiday season. On the goods-producing side of the economy, the construction sector added 400 jobs while manufacturing added 200 workers. The manufacturing sector

has expanded for three consecutive quarters and total manufacturing employment reached 14,400 workers, its highest level since 2002.

The regional tourism industry continues to enjoy strong growth. The hospitality sector added 400 jobs during the quarter, rising to 19,900 workers. For the year, employment in this sector increased by 4.6 percent which exceeds general employment growth by a full percentage point. In addition, hotel sales receipts are up by 12 percent while the number of riders on tour buses and trolleys in downtown Savannah has increased by 16 percent as compared to year-ago levels.

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Coastal Empire Economic Indicators
Leading and Coincident Indexes



(continued from front)

U.S. GDP Growth Accelerates

U.S. economic growth increased marginally to an annualized rate of 2.2 percent during the final quarter of 2006. This is slightly above the two percent increase recorded during the third quarter. For the full year, the economy expanded by 3.3 percent as compared to 3.2 percent in 2005.

The nation's economic growth was supported primarily by consumer spending, exports, and government expenditures. On the downside, business investment in capital goods declined by 3.2 percent from the previous quarter. Also, the nation's housing market continues to suffer through a sharp correction which saw spending on residential construction plunge by nearly 20 percent from the previous quarter. For the year, housing investment fell by 4.2 percent, the largest decline in 15 years.

Inflationary pressure continued to ease during the quarter as energy prices dropped substantially. This, combined with generally favorable economic data offsetting the housing market slump, has left most Fed-watchers believing that it will hold interest rates steady through most of 2007. The last rate increase occurred over six months ago when the Fed moved the federal funds rate up to its current level of 5.25 percent.

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 is designed to provide a short term forecast of the region's economic activity in the upcoming six to nine months.

Forecasting Index Declines Sharply

The Coastal Empire leading economic index plunged by 1.8 percent during the quarter, falling from 153.0 in the previous quarter to 150.2. On an annualized basis, the forecasting index declined sharply at a rate of seven percent. Although consumer expectations improved, continued deterioration in the labor and housing markets combined to pull the index down.

The number of new claims for unemployment insurance (UI) increased by 11 percent from the previous quarter to average 715 new claims per month in Savannah metro area. This is the second consecutive quarterly double-digit percentage increase in UI claims, and as compared to year-ago levels, UI claims are up by 15 percent. This represents an increasing inflow of individuals into the ranks of the unemployed, and this likely points toward rising unemployment rates in the future as the economy's ability to absorb the surplus labor is strained.

While the regional housing market has experienced some weakness, the most current data hints at improvement. The number of new home building permits issued increased, even though the average

value of a single family home building permit declined by five percent during the quarter. The average value of a permit issued was \$135,000, as compared to \$164,000 one year ago. However, the number of new single family home building permits issued during the quarter increased by 2.2 percent, and now stands 11 percent higher than year-ago levels. The third quarter of 2006 may have been the low point of the cycle in new home construction, as the most recent construction data is beginning to look more favorable.

Overall, the decline in the leading index is sending a stronger warning signal about moderating economic activity in the Coastal Empire for the summer and fall months of 2007. The short-term prospects remain strong, with growth expected to be about 3.5 percent, but begin planning for a moderation in growth during the second half of the year.

Holly Meads provided research assistance.

A Note From the Director

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