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Coastal Empire Economic Monitor, 3rd Quarter, 2007

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MODEST GROWTH, BUT LEADING INDEX TURNS DOWN

The economy of the Coastal Empire expanded at a relatively modest pace during the third quarter of 2007, continuing an upward trend re-established during the previous quarter. The Coastal Empire coincident economic index, a measure of the regional economic “heartbeat,” increased at an annualized rate of 2.8 percent.

The Coastal Empire leading economic index reverted to choppy activity, losing a modest amount of ground during the quarter. After a sharp upward movement during the second quarter, the forecasting index declined at an annualized rate of 1.9 percent. This suggests that the local economy is likely to experience some unevenness in growth during the next six to nine months.

Sub-Par Growth, But Better Than Most

The Coastal Empire coincident economic index increased by 0.7 percent to 159.4 from 158.3 (revised) in the previous quarter. During the third quarter of 2007, the index was supported primarily by growth in seasonally-adjusted employment. Modest growth in hotel sales activity, boardings at the airport, and the U.S. coincident index also contributed to the increase. A mild decline in seasonally-adjusted electricity sales to residential, consumer, and industrial purchasers inhibited further upward movement in the index.

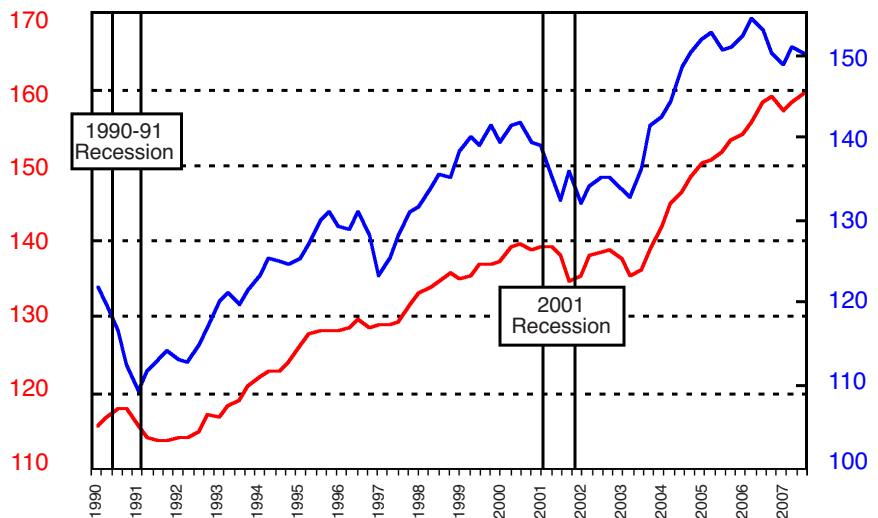
Employment in the Savannah metro area continued to grow at the sub-par pace for the second consecutive quarter. Regional employers added 1,000 workers, an increase of six-tenths of one percent. Based on third quarter data, the annual pace of regional

employment growth is two percent. This is well below the three percent rate of growth recorded since the 2001 recession ended. On the positive side, however, Savannah’s employment growth exceeded the state’s growth of 1.8 percent, and was second only to Atlanta’s 2.3 percent pace among larger metro areas across Georgia.

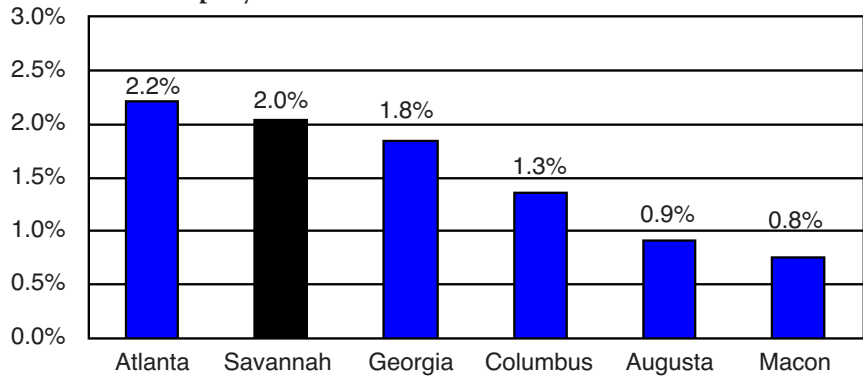
Total employment in the three-county Savannah MSA is 160,700. The service sector added 1,200 jobs, three-fourths of which were in business/professional services, with another 400 in education and health services.

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Coastal Empire Economic Indicators
Leading and Coincident Indexes



Employment Growth Rates for Past 12 Months



Based on Third Quarter Data.

(continued from front)

Retail trade and financial services shed two to three hundred workers each. Manufacturers lost 100 workers. Total employment in that sector was 14,600.

In general, regional tourism activity remains solid, but the pace of growth continues to show some signs of stress. Inflation- and seasonally-adjusted hotel room sales declined by 0.6 percent from the previous quarter, but remain 6.4 percent higher than year-ago levels. This is less than half the pace of room sales growth as compared to one year ago. The seasonally-adjusted number of riders on tour buses and trolleys in downtown Savannah declined by seven percent during the quarter, and fell below year-ago levels. Employment in the hospitality sector, however, held steady at 20,100 workers.

The tourism sector is clearly displaying the effects of a relatively weak Georgia economy and elevated gasoline prices. Tourism is likely to remain under pressure in the upcoming months given developing weakness in the U.S. economy that will only be partially offset by slightly lower gasoline prices and modest growth in Georgia's economy.

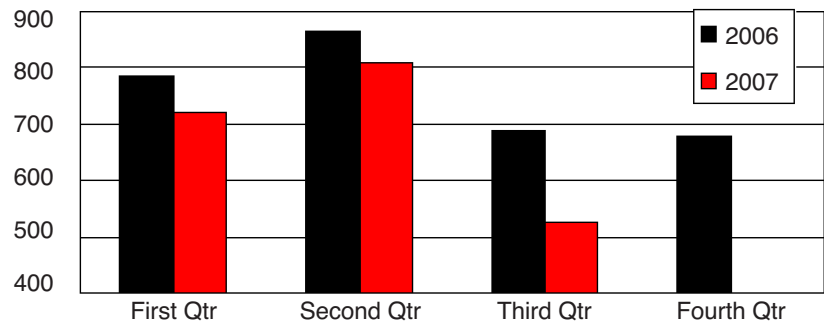
Strong U.S. Growth in 3rd Quarter Not Sustainable

U.S. economic activity powered along in the third quarter at an annualized growth rate of 4.9 percent even as the housing and credit markets experienced continued difficulties. Rebounding consumer expenditures, strong business spending on capital goods, and a weak dollar spurring strong export growth propelled U.S. GDP higher.

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.

Single Family Home Building Permits Issued Per Quarter in Savannah MSA



Concerns about the U.S. economy are emerging for the fourth quarter. A consensus forecast of 52 economists polled by the *Wall Street Journal* pegs GDP growth at 0.9 percent. Continued tightening in the credit market and continued weakness in the housing market are putting pressure on consumer and business spending. The WSJ forecasters have raised their estimates of the probability of recession in the U.S. economy to nearly 40 percent for the fourth quarter. Federal Reserve policy is expected to combat the emerging weakness with reduced interest rates, although Fed-watchers are not in general agreement about the magnitude of the potential rate cuts.

Forecasting Index Falls

The Coastal Empire leading economic index decreased by 0.5 percent during the quarter, falling from 150.7 to 150. Weakness in the regional housing and labor markets along with deteriorating consumer expectations account for most of the decline in the index.

The number of building permits issued for single family homes dropped 23 percent from the previous quarter and are below year-ago levels by the same amount. Through the first half of 2007, regional construction activity had held up fairly well as compared

to 2006, but the situation changed substantially in the third quarter (See chart above.) The average value of a permit issued increased modestly to \$157,000 and is approximately 3.0 percent higher than its year-ago level. Weakness in the housing market is also reflected in construction sector and financial sector employment losses of 100 and 200 workers, respectively. The homebuilding sector is likely to remain under pressure during the upcoming quarter.

Overall, recent instability in the leading index is sending mixed signals about economic activity in the Coastal Empire into 2008. Below-normal growth rates (2.0 to 2.5 percent) are expected to last through the spring quarter of 2008, but the risk of recession in the regional economy remains extremely low.

Alexis Brewer provided research assistance.

A Note From the Director

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