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Coastal Empire Economic Monitor, 4th Quarter, 2007

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GROWTH CONTINUES, BUT LEADING INDEX PLUMMETS

The economy of the Coastal Empire expanded at a solid pace during the closing quarter of 2007. Much of the growth was concentrated in October, however, with the latter two months characterizing a cumulatively weakening regional economy. Nonetheless, the Coastal Empire coincident economic index, a measure of the regional economic heartbeat, increased at an annualized rate of 3.9 percent in the last quarter of 2007.

The Coastal Empire leading economic index plummeted during the fourth quarter, continuing an emerging downward trend. In fact, the underlying data in the leading index have deteriorated for nine consecutive months, with declines for each month of the second half of 2007. This further reinforces the forecasting index's signal that the regional economy is likely to experience a further slowdown during the next six to nine months.

index's month to month activity can be volatile, a consistent deterioration through each month of the quarter warrants close monitoring in the near future.

Employment in the Savannah metro area continued to grow at a sub-par pace for the third consecutive quarter. Regional employers added 1,300 workers, an increase of 2.1 percent as compared to year ago data. This continues a trend of below-average growth experienced through 2007.

Total employment in the three-county Savannah MSA was 162,000 during the last quarter of the year. In total, the service sector added 1,000 jobs as compared to the third quarter. Gains of 1,000 workers in the tourism industry, 500 workers in the government sector, and 300 in business/professional services were partially offset by the loss of 200 jobs in education and health care and

600 jobs in retailing. Retail sales activity has generally been weak through most of 2007, not quite able to maintain pace with year-ago data. Manufacturing held steady at 14,600 workers.

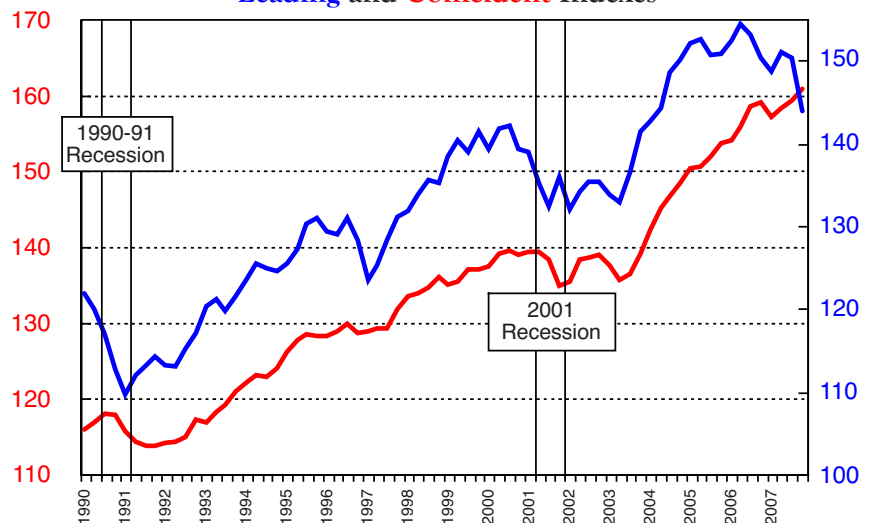
The regional tourism sector remains solid as compared to year-ago levels, but continues to display some stress arising from recently weakening state and national economic conditions as well as elevated gasoline prices. Inflation- and seasonally-adjusted hotel room sales declined by 3.9 percent from the previous quarter, but remain approximately seven percent higher than year-ago levels. Hotel sales activity remains strong in the city of Savannah, while the weakness is more pronounced in the hotels along Interstate 95. Seasonally-adjusted auto rentals, airplane boardings, and riders on tour buses

(continued on next page)

Growth Deteriorated at Year-End

The Coastal Empire coincident economic index increased by 0.9 percent to 160.8 from 159.3 (revised) in the previous quarter. The index was supported primarily by growth in seasonally-adjusted electricity sales and employment. A substantial decline in consumer confidence and a modest retrenchment in hotel sales activity and boardings at the airport undercut the upward momentum in the index. As noted above, however, nearly all the upward movement in the index was supported by a very strong month of October, while November activity flattened and December activity actually declined somewhat. Note that while the

Coastal Empire Economic Indicators
Leading and Coincident Indexes



(continued from front)

and trolleys in downtown Savannah declined by approximately four percent as compared to the previous quarter.

U.S. Economy Nearly Stalls

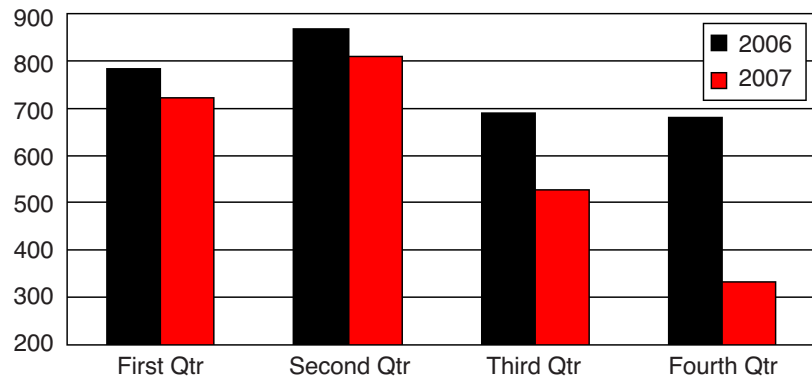
U.S. economic growth slipped to an anemic annualized growth rate of 0.6 percent during the fourth quarter. Accumulating weakness in the national housing and credit markets, along with initial weakness in the labor market pulled the growth rate down. The 24 percent quarterly decline in residential construction shaved one full percentage point off GDP growth. Consumer spending, hampered by falling home prices and deteriorating consumer confidence, slowed as well. Business spending on capital goods increased at a seven percent pace, but is expected to slow in the opening quarter of 2008. Export growth also slowed despite the weak dollar, reflecting subdued economic growth abroad. For the year, the national economy grew by 2.2 percent.

While the Federal Reserve has acted aggressively to stimulate the economy with reduced interest rates – the Fed recently cut rates by 2.25 percentage points to 3.0 percent – its ability to engage in further aggressive behavior is becoming limited. Rising inflation, now at 4.1 percent, a weak dollar, and already much-reduced interest rates are narrowing the scope of further expansionary Fed policy actions. Nonetheless, the Fed is signaling that it may again reduce rates at its next meeting and financial markets are expecting another one percentage point reduction during 2008.

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



Forecasting Index Falls

The Coastal Empire leading economic index decreased by 4.2 percent during the quarter, falling from 150.2 (revised) to 143.9. This is the single largest quarterly decline in the index dating back to 1990. Weakness was widespread in the underlying components of the index, with deteriorating conditions in the regional housing market, labor market, and consumer expectations creating the largest downdrafts for the index.

The number of building permits issued for single family homes dropped 35 percent from the previous quarter and now stand at one-half of year-ago levels. The rate of new home construction was at its lowest quarterly level since late 2002. While regional home construction held up through the first half of 2007, homebuilders adjusted to the growing inventory of homes for sale in the market by cutting back substantially on new home starts in the last half of the year. (See chart above.)

The average value of a home building permit issued decreased modestly to \$152,000, but remains 3.9 percent higher than its year-ago level.

In conclusion, the substantial decline in the leading index is sending a much stronger signal about a more challenging economic environment in the Coastal Empire well into 2008. Expectations for growth in the regional economy have been adjusted downward to a range of 1.25 to 1.75 percent on an annual basis for much of 2008.

Alexis Brewer provided research assistance.

A Note From the Director

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