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Coastal Empire Economic Monitor, 1st Quarter, 2009

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REGIONAL ECONOMY CONTRACTS SHARPLY, LEADING INDEX FALLS

The Savannah metro economy contracted for the fifth consecutive quarter for the period ended March 31, 2009. The Coastal Empire coincident economic index, a measure of the regional economic “heartbeat,” fell sharply from the previous quarter by 3.3 percent. The rate of decline in the regional economy continued the acceleration experienced during the latter half of 2008.

Slightly better news was in store for the Coastal Empire leading economic index. The rate of decay in the forecasting index continued to slow during the first quarter. This is the second consecutive quarter that the rate of decline in the index has slowed. Based on the most rapid rate of decay experienced in the leading index during the third quarter of 2008 and its recent trajectory, it is reasonable to conclude that the first quarter of 2009 will mark the worst of the recession in the Coastal Empire. Although it is likely that further losses will be experienced, the worst of the recession is likely over. The rate of economic decay is expected to slow in the upcoming quarters.

Regional Recession Deepens

The Coastal Empire coincident economic index decreased to 149.1 from 154.1 (revised) in the previous quarter. Among the underlying coincident economic indicators, only inflation- and seasonally adjusted electricity sales increased. The quarterly rate of decline was largest for port activity and consumer confidence in the South Atlantic states. The index

was also pulled down by contraction in employment, tourism activity and retail sales.

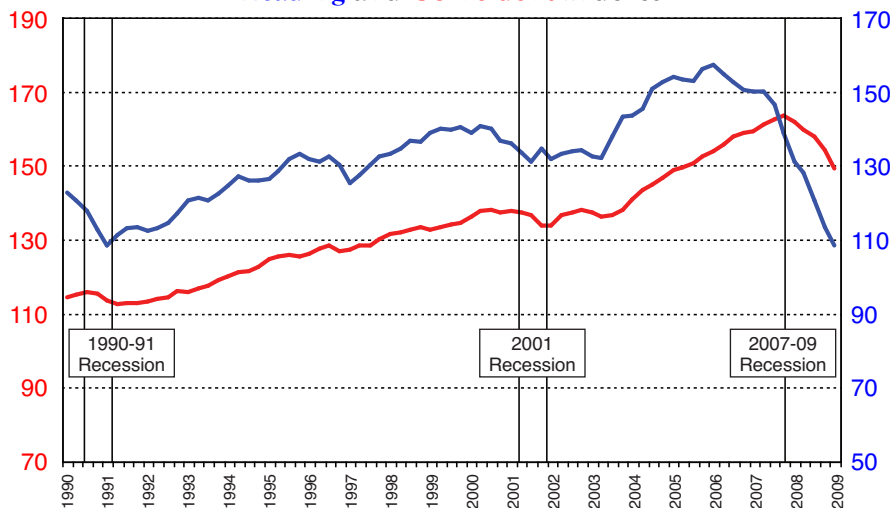
Losses in seasonally-adjusted regional employment deepened during the first quarter, falling to a quarterly level of 155,800 workers. This is a decline of nearly 3,000 workers from the previous quarter, and represents a 2.6 percent loss in jobs as compared to year-ago data. Of the 3,000 jobs lost during the quarter, two-thirds were in the service sector. Combined, retail and wholesale trade lost 900 workers, while professional services and the hospitality sectors lost about 400 jobs each. On the goods-producing side of the economy, manufacturers shed 600 jobs while the construction sector lost 400 workers. The regional construction industry, now entering year three of its recession, has lost 20 percent of its work force since peaking in late 2006.

Weakness in the U.S. and Georgia economies continues to pressure the regional tourism industry. As compared to year-ago first quarter data, seasonally- and inflation-adjusted hotel room sales have declined by 17 percent, extending and deepening the losses experienced in the latter half of 2008. The level of room sales has fallen back roughly to the pace recorded in 2006, after experiencing record-setting growth in 2007. The seasonally-adjusted number of riders on tour buses and trolleys in Savannah is on a similar trajectory, with ridership down by approximately 15 percent from year-ago levels.

The recession that began in January 2008 securely gripped the regional economy during the first quarter of the year. The rate of decline and the

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Coastal Empire Economic Indicators
Leading and Coincident Indexes



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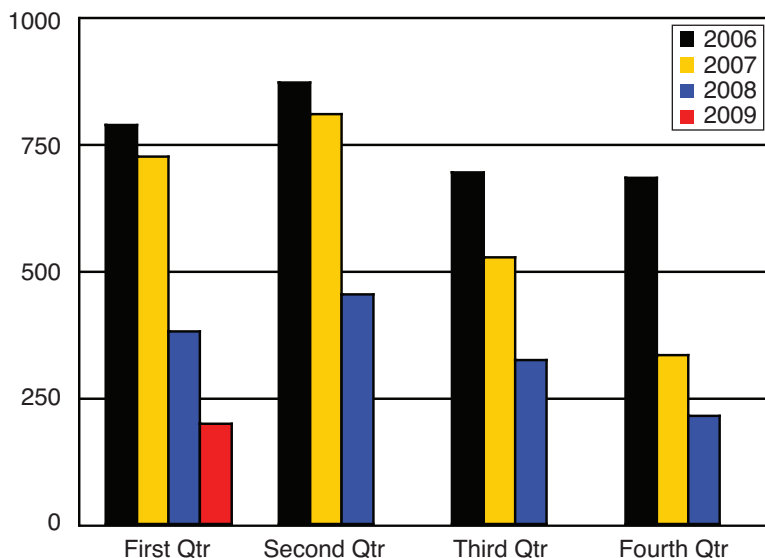
depth of the recession worsened considerably during the quarter. However, as discussed in greater detail below, there is reason to believe that the first quarter will mark the period in which the recession was at its worst in the Savannah metro area.

U.S. Economy Sharply Contracts In First Quarter

U.S. economic output (GDP) contracted at an annualized pace of 5.7 percent in the first quarter. While this beats the loss of 6.3 percent experienced in the last quarter of 2008, that is of little consequence in national economy struggling to reverse course. First quarter softness was attributed to struggling exports, inventory reduction, declines in business investment in equipment and structures, and continued weakness in residential construction. In somewhat of a surprise, however, personal consumption expenditures increased by 1.5 percent during the quarter, reversing a 4 percent fall during the previous quarter. Given that two-thirds of the economy rides the back of consumer expenditures, this is good news.

The Federal Reserve held the benchmark federal funds rate steady at a target rate of between zero and one-quarter percentage point during the first quarter. In an effort to further support credit markets, the Fed Board of Governors announced, at its March meeting, a one trillion dollar increase in the size of the Fed balance sheet. Specifically, the Fed plans to purchase up to \$750 billion in mortgage-backed securities and an additional \$300 billion in long-term U.S. Treasury issues. In an unprecedented move, the Fed also announced that it will support the extension of credit to households and small businesses. The Federal Reserve is moving forcefully and in unconventional ways to shore up credit markets and preserve the flow of credit through financial markets. Without an adequate flow of credit, businesses large and small suffer because market opportunities to satisfy consumer and business demand are lost.

Single Family Home Building Permits Issued Per Quarter in Savannah MSA



Forecasting Index Declines

The Coastal Empire leading economic index decreased by 4.2 percent during the quarter, falling from 113.4 (revised) to 108.5. The rate of decay slowed during the quarter. During the previous two quarters, the loss was 6.1 percent and 5.7 percent. While this represents a modest improvement, weakness in the underlying indicators continued to be widespread.

For the second consecutive quarter, the regional home construction industry logged its “worst-ever” quarter in monthly data going back to 1995. The number of building permits issued for single family homes in the three-county Savannah metro area fell to 199. This figure is just over half of the number of permits issued during the first quarter of last year and is only 25 percent of the number issued in the peak year of 2006. See the chart above.

The regional labor market continues to face adverse pressure as well. The number of seasonally-adjusted initial claims for unemployment insurance increased by 32 percent to 2,200 claims, while the volume of help-wanted advertising fell by 23 percent. Accordingly, the regional unemployment rate increased to 7.5 percent in March, an increase of nearly a full percentage point from December 2008.

In conclusion, the decline in the leading index continues to signal that the regional economy will struggle in the upcoming quarters. However, the slowing rate of decline in the forecasting index suggests that the worst of the recession occurred during the first quarter of 2009. Although the leading index suggests that the economy will continue to deteriorate during the next several quarters, the rate of decay will slow. This is the first step on the road to economic recovery that must happen before the outlook improves.

Karin Edenfield provided research assistance.

A Note From the Director

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