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Coastal Empire Economic Monitor, 2nd Quarter, 2009

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REGIONAL ECONOMY STABILIZES, FORECASTING INDEX DIPS SLIGHTLY

The region's economy appeared to begin stabilizing during the second quarter. Although the underlying indicators of current economic activity in the Savannah metro area are sending mixed signals, their combined effects caused the Coastal Empire coincident economic index, a measure of the regional economic "heartbeat," to level off rather than continue its downward trajectory. In general, while the health of the regional economy is beginning to improve, the basis for a recovery has not been established yet.

The Coastal Empire leading economic index continued to fall, but at a much reduced pace. This is the second consecutive quarter during which the rate of decline in the forecasting index slowed. At this time, the forecasting index suggests economic conditions in the region will continue to face headwinds, but these winds will weaken during the remainder of 2009.

Regional Economy May be Stabilizing

The Coastal Empire coincident economic index remained unchanged at 150.3 during the spring quarter of the year, thus showing no change from the first quarter. The U.S. index of economic activity and consumer confidence in the South Atlantic states were the two components that supported the regional index. Port activity increased modestly, while the data for boardings at the airport stabilized during the quarter. However, seasonally-adjusted employment and electricity sales experienced a modest decline. Also, increased consumer confidence is not yet reflected in retail sales activity in the region; consumers remain guarded in their expenditure behavior.

The combination of mixed activity in the eight underlying indicators could be interpreted as a possible turning point in the direction of the region's economy. It is typically the case that "murkiness in the water" of economic data means the trajectory of the economy is changing, in this case, potentially for the better. This possibility would be stated with more confidence if three key indicators had performed more strongly. However, regional employment, electricity sales and consumer expenditure have not staged a recovery. The weakness in electricity sales was by business and commercial users, which is consistent with weak consumer spending.

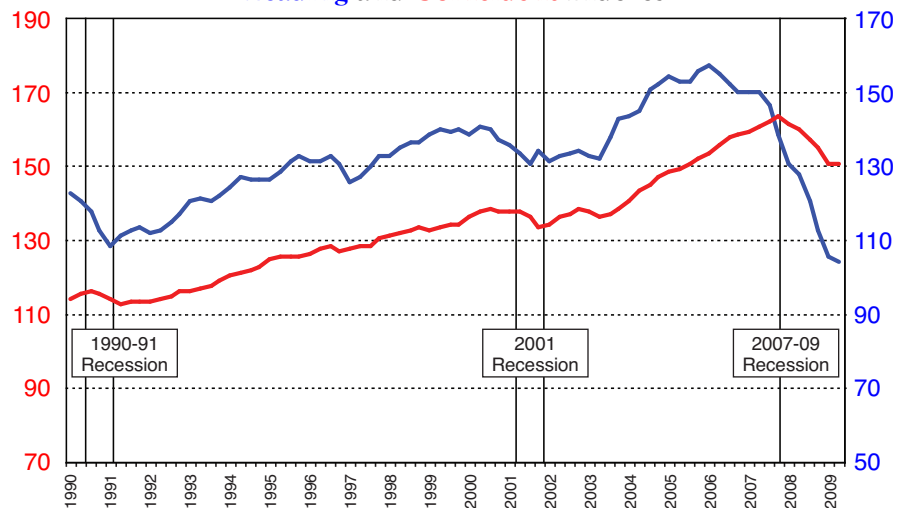
Losses in seasonally-adjusted regional employment moderated during the second quarter as 1,400 jobs were eliminated. Total employment in the region was 156,000 workers. Employment remains about 2.6 percent below year-ago levels. Of the 1,400

jobs lost during the quarter, two-thirds were in construction and retail trade. Manufacturing employment remained relatively stable, shedding only 100 workers during the quarter. The resiliency of the regional manufacturing sector is notable. While the national manufacturing sector has lost 14 percent of its job base during the recession, the Savannah area industrial sector has lost only 600 workers, a 4 percent loss.

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.

(continued on next page)

Coastal Empire Economic Indicators
Leading and Coincident Indexes



(continued from front)

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.

U.S. Economy Falls Again in Second Quarter

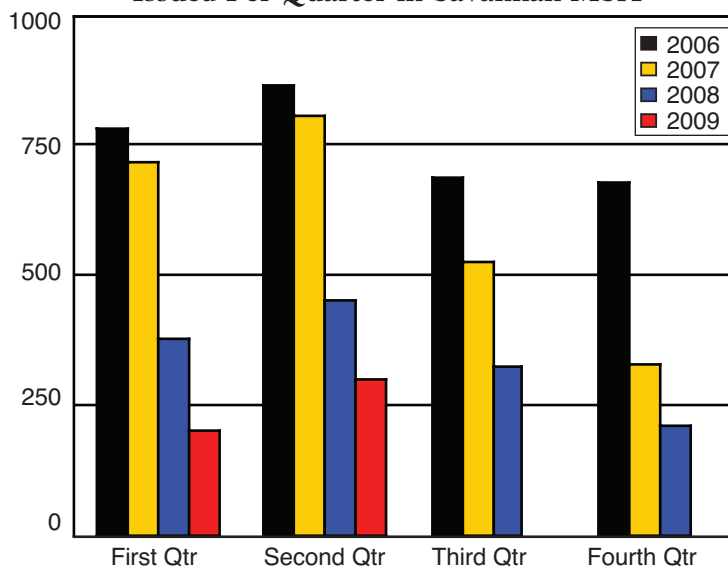
U.S. economic output (GDP) contracted at an annualized pace of 1 percent in the second quarter, a substantial improvement from the downwardly revised 6.4 percent rate of decline during the first quarter. Weak consumer expenditures continued to weigh on the economy's performance, having fallen at a 1 percent pace. Business investment in capital equipment declined again, falling by 8.9 percent, as compared to the staggering loss of 36 percent in the first quarter. Declining exports were less of a drag on GDP growth during the quarter – they fell by 5 percent. Increased government expenditures at the local, state and federal level helped support nationwide economic activity, but losses among other sectors caused overall GDP to fall by 1 percent.

The Federal Reserve maintained the target rate for the federal funds rate at 0 to ¼ percent, and expects the rate to remain low for an extended period of time. Before the end of the year, the Federal Reserve intends to purchase a total of up to \$1.25 trillion of agency mortgage-backed securities as well as up to \$200 billion of agency debt in order to help support mortgage lending and housing markets. By the end of October, the Fed will have also purchased \$300 billion of Treasury securities. The Fed is expecting a smooth transition in markets due to the slowed pace of the transactions.

Forecasting Index Falls, But By Smaller Amount

The Coastal Empire leading economic index decreased by 1.3 percent during the quarter, falling from 105.6 (revised) to 104.2. The rate of decay slowed substantially during the quarter. During the previous three quarters, the rate of loss average approximately 6 percent. While this represents a substantial improvement, underlying weakness remains in place for half of the six leading indicators.

Single Family Home Building Permits Issued Per Quarter in Savannah MSA



The regional home construction industry began to show life during the second quarter. While construction activity usually swings upward during spring, the sector staged something of a recovery, pulling back up to two-thirds of year-ago levels. This represents a gain when considering that construction activity recently stood at one-half its year-ago level. The number of building permits issued for single family homes in the three-county Savannah metro area increased to 303, up from 199 in the previous quarter. The average value of a single family home building permit issued declined by 8.4 percent (to \$154,000) during the quarter and reflects activity in the first-time buyer market as new homeowners were enticed into the market by substantial federal tax credits. This impetus will wane during the later half of the year as the credit expires.

The leading indicators from the regional labor market are beginning to improve slightly, even as the unemployment rate continues to rise. The number of seasonally-adjusted initial claims for unemployment insurance fell by 12 percent to 1,926 claims, while the volume of help-wanted advertising increased by 7 percent. In the absence of any other effects, this portends increasing economic activity in the near future, however the claim data are likely to worsen during the third quarter as the effects of the furlough at Gulfstream feed through it. Bear in mind that the unemployment

rate is a *lagging* indicator and tells us where the economy has been, not where it is going.

Wrapping up, the leading index continues to point toward weak economic conditions during the next several quarters. However, the slowing rate of decline in the forecasting index continues to suggest that the worst of the recession is behind us. The coincident indicators are sending a message that the economy may be entering the initial phase of stabilization prior to recovery, but that the foundation for an immediate recovery is not yet present.

Kathryn Smith provided research assistance.

A Note From the Director

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