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Coastal Empire Economic Monitor, 3rd Quarter, 2010

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Coastal Empire ECONOMIC MONITOR

EXPANSION CONTINUES, FORECASTING INDEX LEVELS OFF

The Savannah metro economy continued to expand through the third quarter of 2010, but at a slower rate than in the previous quarter. The economy's growth was supported primarily by the tourism industry while other indicators of current regional economic performance deteriorated.

The Coastal Empire leading economic index leveled off during the quarter, registering no gain. Upward movement in the forecasting index has been squeezed out by poor conditions in the residential real estate market. The forecasting index is now signaling that economic growth in the region will continue into early 2011, but may slow by mid-year.

Further, the toll of state government budget cuts was readily apparent in the data with a drop in state government employment of 500 workers appearing in July, the first month of the new fiscal year for Georgia. On the positive side, employment in the health care and private education sector increased by 300 workers. Other marginal gains of 100 workers were scattered across several other sectors.

The regional tourism industry experienced solid growth and played a defining role in maintaining economic growth during the third quarter. In the City of Savannah, seasonal- and inflation-adjusted hotel sales increased 8.5 percent from the previous quarter and year-to-date activity is about 10 percent

higher as compared to last year. This is consistent with the 7 percent quarterly increase in the number of tourists on buses, trolleys, and other tours. Through September, the hotel occupancy rate was 61.1 percent, an increase of 2.9 percent compared to year-ago data.

The third quarter marks an important watershed month with respect to the over-the-year comparison of regional employment data. For the first time in nearly three years, the employment level in the third quarter exceeded its comparable figure from one year ago by 533 workers, or 0.35 percent (see the chart on next page). At its low point, the over-the-year loss in employment reached 5.2 percent.

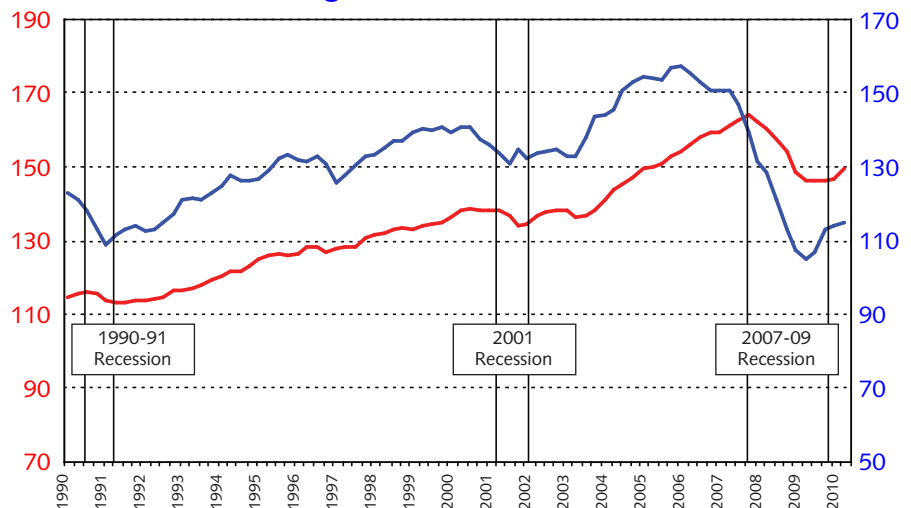
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Continued Regional Growth

The Coastal Empire coincident economic index increased 0.7 percent to 149.9 from 148.8 (revised) during the third quarter. Tourism is what kept the economy growing. Employment, electricity sales, consumer confidence and consumer spending all modestly declined from the previous quarter.

Seasonally-adjusted employment in the Savannah metro area fell by 100 workers, dipping slightly to 151,100. The most notable losses were in the government sector. Federal government employment dropped by 200 because the Census program temporary workers were

Coastal Empire Economic Indicators Leading and Coincident Indexes



Slow, but Continued U.S. Economic Growth

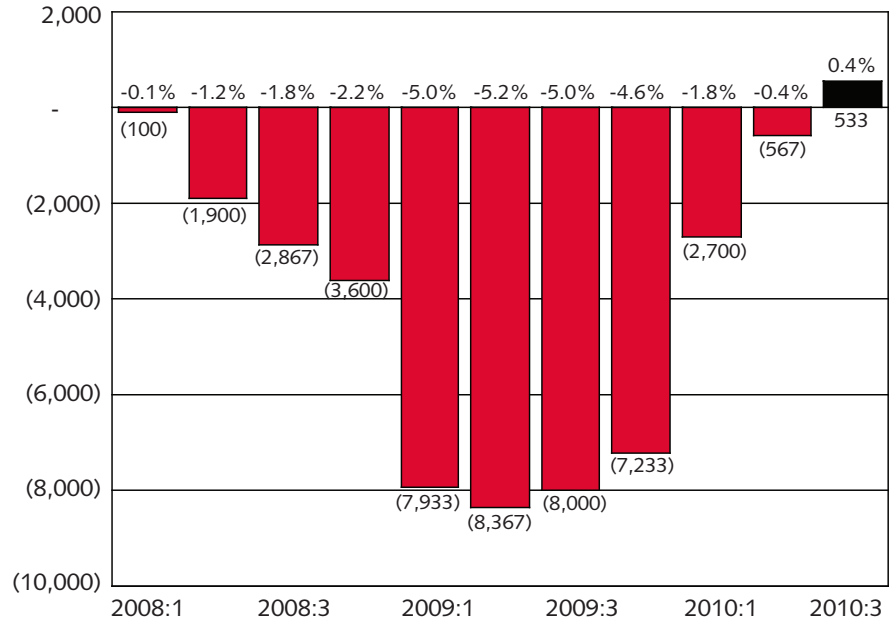
The U.S. economy grew at an annualized rate of 2.0 percent, up from the downwardly revised rate of 1.7 percent in the second quarter. Growth in consumer spending increased at an increasing rate for the third consecutive quarter, reaching a growth rate of 2.6 percent, the most robust in nearly four years. Given that consumer spending accounts for about 70 percent of all economic activity, this is good news. Unfortunately, residential home construction plummeted during the quarter. However, business spending on software and capital equipment increased at a 12 percent rate. Consensus estimates for GDP growth in 2011 fell slightly to 2.9 percent.

The Federal Reserve maintained the federal funds interest rate between zero and 0.25 percent. The Fed recently announced a second round of quantitative easing (QE2), which is a \$600 billion purchasing program of longer term U.S. government debt. This announcement has stirred quite a bit of controversy and hyperbole about hyper-inflation and other potentially serious adverse economic outcomes. The likely result of this round of monetary easing, however, will be a slight positive effect on GDP growth and a marginal, but not explosive, increase in inflation.

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.

Savannah MSA Employment Change and Growth Rate as Compared to Previous Year Data



Forecasting Index Loses Steam

The Coastal Empire leading economic index held steady during the quarter to remain at 114.3. Conditions in the labor market were mixed, but extended weakness in the regional housing market halted upward movement of the index.

The residential construction sector continued to struggle. The number of permits issued for single family homes increased about 18 percent to 214 units during the quarter, but remains 23 percent below year-ago levels. Further, the average value of a residential building permit issued fell nearly 12 percent to \$143,300 from \$161,900.

The leading indicators from the regional labor market were mixed. The posting of help wanted advertising increased about 10 percent for the second consecutive quarter, but was not large enough to offset the effect of 2,042 initial

claims for unemployment insurance filed during the quarter. This figure spiked upward as a result of the usual summer furlough at Gulfstream and because of the 500-person reduction-in-force by state government in the Savannah metro area. These are both transitory effects that will dissipate in fourth quarter data. The forecasting index is expected to resume its upward climb by year's end.

While the winning streak for the forecasting index came to an end, the forecast for near-term economic activity remains favorable. Modest growth will continue through 2010 and into 2011, but may slow somewhat by the spring quarter. The economy remains on track for continued expansion, but requires improved consumer confidence and spending to remain comfortably in growth mode.

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A Note From the Director

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