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Coastal Empire Economic Monitor, 4th Quarter, 2012

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Coastal Empire ECONOMIC MONITOR

ECONOMY GROWS. FORECASTING INDEX POWERS UPWARD

Fourth quarter growth in the Savannah metro area continued, but its pace slowed as compared to the previous six months of healthy increases. Tourism took the headlining role, and along with improved consumer confidence, boosted activity in the closing quarter of the year.

The Coastal Empire leading economic index extended a now four quarter string of solid gains. Continued healing in the regional housing market boosted the forecasting index. This points to an upswing in regional economic activity in 2013.

Slowing Regional Growth

The Coastal Empire coincident economic index increased at an annualized pace of 1.2 percent in the fourth quarter, rising to 154.4 from 153.9 (revised). Since the start of 2012, the index of current activity increased by 2.2 percent. The pace of growth, however, slowed in the fourth quarter, mirroring the slowdown in U.S. economic growth. Increases in tourism-related economic indicators provided the most lift in support of the gains. Modest growth in employment, retail sales, and electricity sales played secondary supporting roles, offsetting lackluster performance at the port.

After exceptional growth in the third quarter, employers took some time to catch their collective breath and turned down the pace of hiring. Approximately 700 workers were added to payrolls, raising the quarterly average to 154,500 (seasonally adjusted). It is noteworthy that the December employment figure was 155,000 workers, the highest level of employment recorded in four years.

The service sector of the economy mostly benefitted from employment growth, while the goods-producing side of the economy added 100 jobs. Tourism-related employment gained 400 workers, along with government (+300) and trade/transportation/utilities (+200). Business and professional services reduced payroll by 200 workers, after having added 500 workers the previous quarter.

The goods-producing side of the economy added a hundred workers, split between manufacturing and construction, to rise to 20,300 workers. Manufacturing employment stands at 14,600, while construction employment is 5,700.

Tourism activity underpinned growth in the economy as the year ended. Hotel/motel tax receipts jumped to a record level of \$1.3 million per month, an 11 percent gain as compared to the previous quarter, and 14.3 percent higher than fourth quarter data from one year

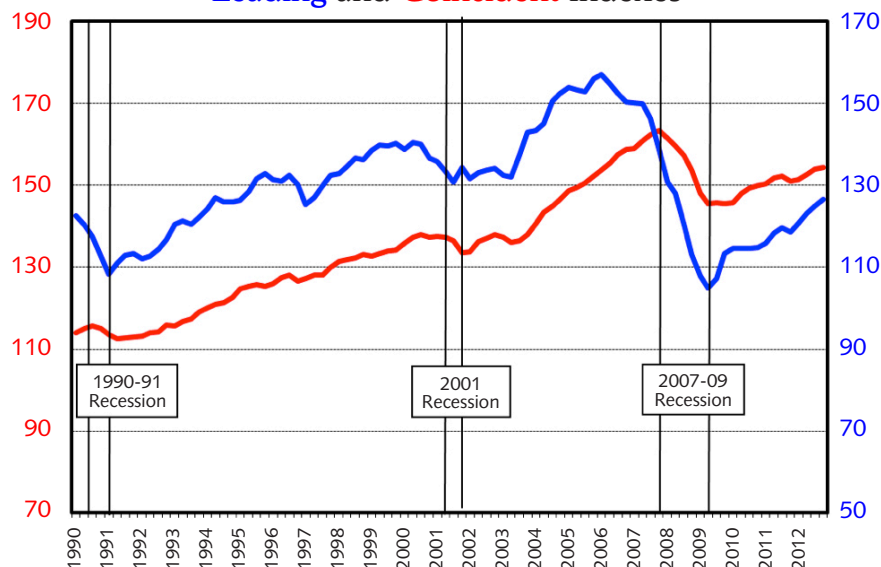
ago. For the year, hotel and motel sales taxes in Savannah and the unincorporated portion of Chatham County generated \$13.6 million for local government, an increase of approximately 8 percent from 2011. Employment in the hospitality sector supports 21,100 workers. Boardings at the airport increased 3.2 percent from the previous quarter and are nearly 5 percent higher than year-ago data. Sales tax receipts on alcohol and auto rentals increased by about 5 percent from the previous quarter.

U.S. Economy Slows

U.S. economic activity grew at an annualized rate of 0.1 percent during the fourth quarter, slowing from 3.2 percent growth in the previous quarter. The slowdown in growth is primarily attributable to declines in federal, state, and local government spending, along with exports. Personal consumption

(continued)

Coastal Empire Economic Indicators
Leading and Coincident Indexes



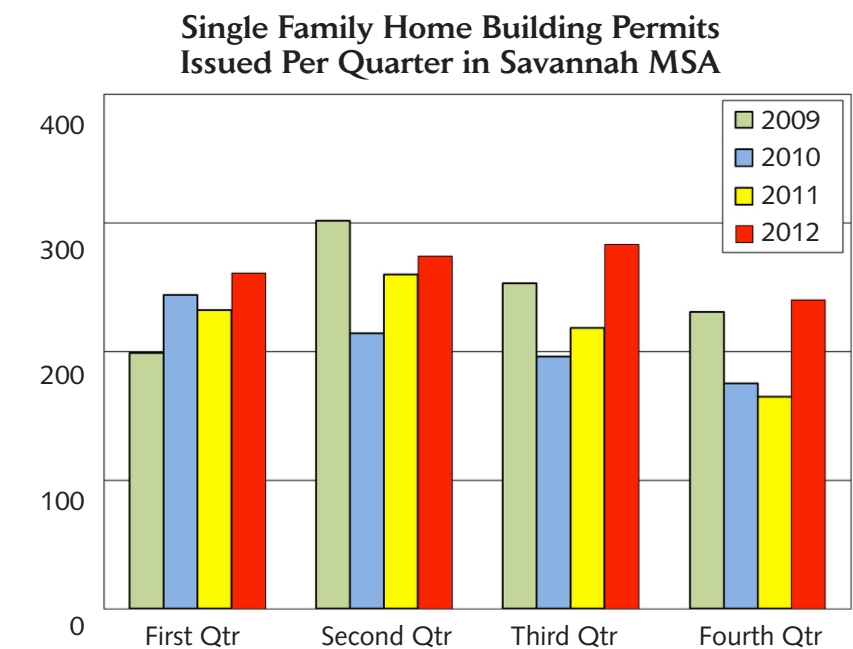
expenditures provided support to the economy, growing at an annual rate of 2.1 percent, accelerating from 1.6 percent in the third quarter. Continued recovery in both the nationwide housing market and office/industrial construction boosted GDP growth. Also, business spending on equipment and software increased substantially, as compared to the previous quarter.

The Federal Reserve plans to maintain a low interest rate environment until 2015, as long as the national unemployment rate is greater than 6.5 percent. Toward the end of 2012, the Fed announced that it will purchase additional mortgage-backed securities and longer term treasuries at the combined rate of \$85 billion per month. This, in part, has fueled gains in equity markets as investors seek out higher yields than afforded by bond markets. Slow economic growth is expected in the near term, along with relatively low inflation rates of approximately 2 percent to 2.5 percent for the next several years.

Forecasting Index Rises Sharply Again

The Coastal Empire leading economic index increased at an annualized growth rate of 5.4 percent, rising to 126.6 from 124.9 (revised) in the previous quarter. This extends the rapid pace of growth through four consecutive quarters. The index was supported by general improvement in housing market conditions.

The seasonally adjusted number of new residential homes permitted for construction was 267, closing out the year sharply above (40 percent higher) year-ago data. For the year, 1,058 permits were issued, a 21 percent increase over 2011, and the best year since 2008. The average value of a residential building permit issued during the quarter increased nearly 10 percent to \$167,130 from



Source: U.S. Census Bureau. Not seasonally adjusted.

\$152,200. This is nearly 20 percent higher than comparable figures from the last quarter of 2011.

In the labor market, initial claims for unemployment increased modestly (+20 claims) to 1,087 per month. December was a good month, with the number of claims falling below 1,000 to 919. The seasonally adjusted unemployment rate was 8.2 percent during the quarter, well below the 9 percent rate recorded at the end of 2012. Expect the regional unemployment rate to continue to fall through 2013.

Wrapping up, the coincident index increased modestly, while the forecasting index continued to power along. The pace of growth in the regional economy is expected to increase through the first three quarters of 2013.

Lastly, the vastly hyped rhetoric about the impacts of the sequestration of Federal government spending will prove to be mostly that. Although an \$85 billion reduction is slated for the current

fiscal year, given typical spending patterns, this translates into about \$42 billion in actual cuts through the first nine months of 2013. This is because funds may be obligated for a specific reason, say the purchase of a submarine, but actual spending is spread out over several years while the submarine is constructed. The \$42 billion spending cut amounts to pocket change in a \$15.7 trillion U.S. economy (\$42 billion is \$0.042 trillion) and represents about a 1 percent cut in federal government expenditure.

About the Indicators

The Coastal Empire Economic Indicators are designed to provide continuously updated 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.

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A Note From the Director

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