

NESA Quarterly Economic Overview

Second Quarter 2009



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U.S. and South Carolina Economic Overview

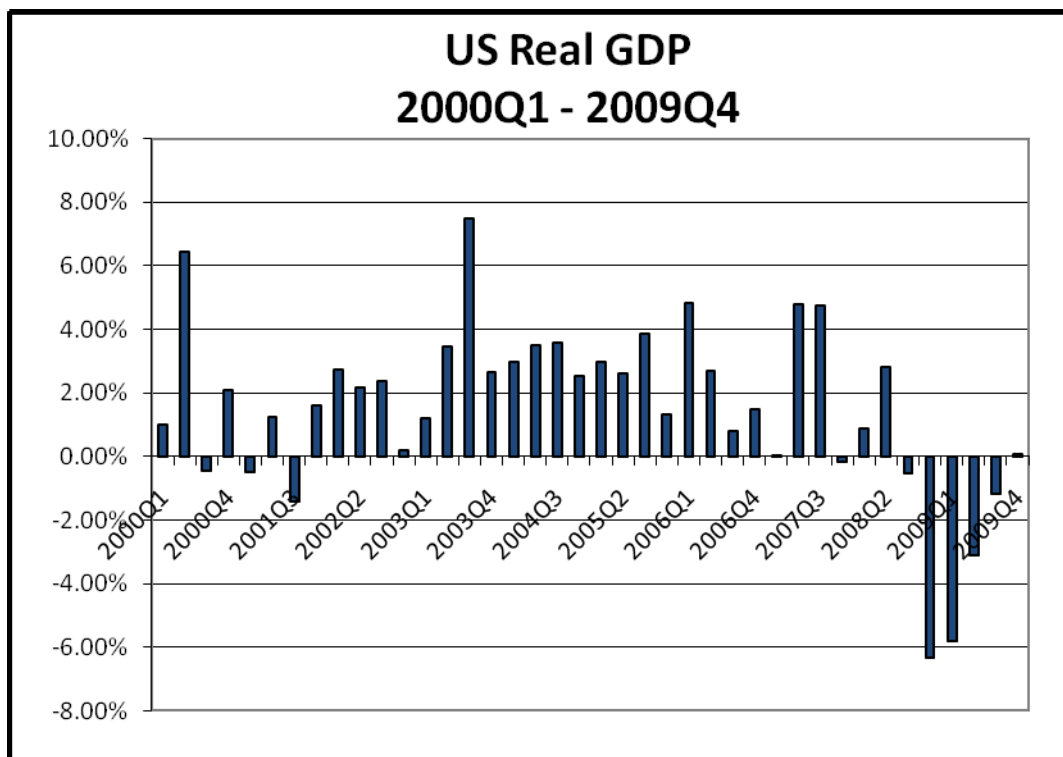
As of May 2009, the local, state, national and global economies find themselves mired in a deep recession. Job losses, particularly since September 2008, have been massive. Between December 2007, the official beginning of this recession, and March 2009, the U.S. economy has lost a total of 5.1 million jobs and the unemployment rate has climbed from 4.9 percent to 8.5 percent. From the national to the local level, we are currently seeing unemployment rates at their highest level since the early 1980s, and the current forecast calls for these jobless rates to rise even higher in the coming quarters.

The events leading to this deep recession have been widely analyzed, dissected, reported and discussed. In short, the national economy experienced a lengthy period of relatively strong economic growth, fueled largely by consumption and construction, going back to the mid-1980s. However, throughout the early 2000s, much of this growth was financed by ultimately unsustainable factors, including increasing household debt, falling savings, and an over-reliance on credit – the availability of which was fueled in part by rising home prices.

The Federal Reserve has implemented numerous programs in addition to the standard tools of monetary policy, to try to soften and shorten the recession. Similarly, the Federal Government is essentially taking a three-pronged approach to trying to spark economic recovery. First, the government passed the much-discussed \$787 billion stimulus package. Ultimately, this package is geared towards propping up aggregate demand. Second, the government is working on plans to target foreclosures and the housing market. Third, the government is trying various approaches to stabilize the financial system. Pieces of these plans will likely help the economy, while others may not. Indeed, all of the government and Federal Reserve's actions will entail some benefit for the economy, but will also entail some costs. Ultimately, will the benefits outweigh the costs? Unfortunately, this is a question that could take many years to fully answer.

In the short-term, however, the current forecast shows the U.S. economy suffering a sharp drop in real Gross Domestic Product (real GDP) in 2009. Specifically, real GDP is projected to decline 3.3 percent in 2009. The economy may turn positive at the very end

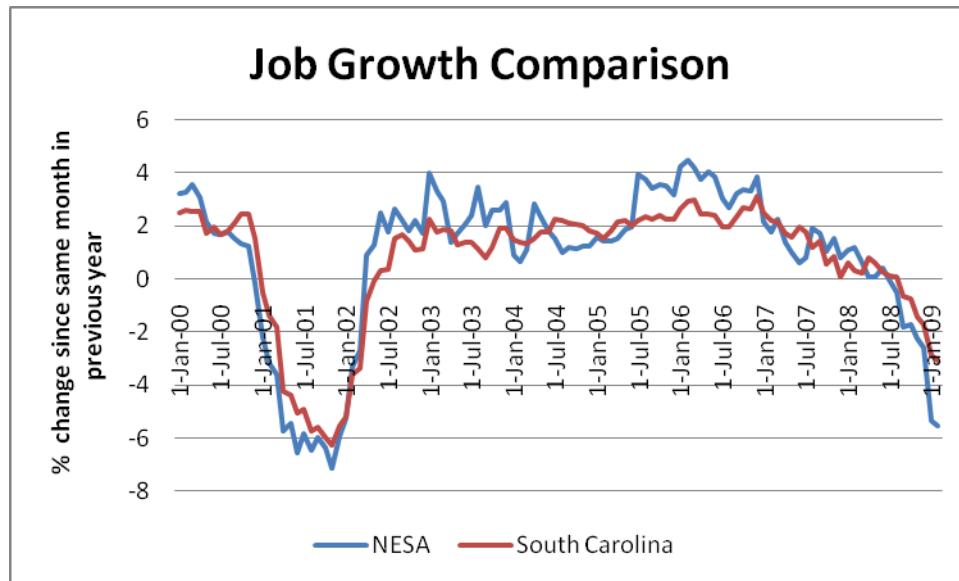
of 2009 before registering an anemic 0.6 percent gain in 2010. As difficult as it is to pin down the timing of the turnaround, it is even more challenging to project the strength of the coming recovery. Much of this will depend on the future course of consumption in the coming years. Will U.S. consumers return to their old ways and be willing to take on additional debt and reduce savings to finance consumption? Or, will consumers remain relatively thrifty for an extended period? The answer to this fundamental question will largely determine whether the economy will see a strong recovery or a sluggish one. Given the scale of the issues facing the economy today, the current forecast relies on a relatively conservative view on future consumption growth. This view leads to an economy that does begin to recover in 2010, but will perhaps see below average growth for several years. The real GDP in the U.S. from 2000Q1 to 2009Q4 can be seen in the graph below.



The South Carolina economy has been hit very hard by the current recession. As of early 2009, the state is registering nearly the fastest pace of job losses on record, and the state's unemployment rate is already at levels not seen since the early 1980s. Looking at the current forecast, total employment in South Carolina is expected to fall by about 4.2 percent in 2009. The pace of job losses will then slow late in 2009 and into 2010, but total employment for all of 2010 is also expected to decline by about 1.6 percent. Right now, South Carolina is not expected to return to positive job growth until 2011, which would leave the state with three consecutive years (2008, 2009 and 2010) of job losses.

NESA Region Economic Overview

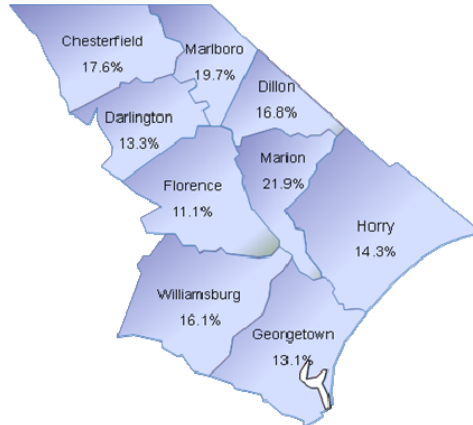
The employment picture in the NESA Region grew increasingly troublesome as 2008 drew to a close. The labor market contracted sharply in the latter half of the year. Until then, the region had not experienced a significant period of negative job growth since the recession, nearly a decade earlier, ended in 2002. During that recession the area saw sixteen straight months of negative year-over-year job growth. This February marks the eighth month of job loss in the region. A comparison of job growth between the NESA Region and the state from January 2000 to January 2009 can be seen in the graph below.



The year ended with job losses totaling slightly over 12,000, a 4% decline in employment (2007Q4 to 2008Q4). During 2008 the unemployment rate climbed 3.5 percentage points to 10.7%, the area's highest unemployment rate since the second quarter of 1994. In comparison, South Carolina's unemployment rate rose 3 percentage points to 8.5%. Although the increase in the unemployment rate was larger in the NESA coverage area relative to the state as a whole, the number of unemployed persons in South Carolina increased by a larger percentage (58.2%) relative to the NESA Region (50.6%). In fact, the number of unemployed persons in the NESA Region increased by a smaller margin when compared to Georgia (54.9%) and North Carolina (63.2%).

The increase in the unemployment rates of each of these areas is the product of substantial increases in the number of unemployed residents in each area. However, the fact that the NESA Region's unemployment rate has increased by a larger percentage is attributable to changes in the size of each area's respective labor force. The labor forces of South Carolina, North Carolina, and Georgia have managed to expand slightly over the past year. Meanwhile, labor force growth in the nine NESA counties has remained stagnant. February 2009 unemployment rates for each of the nine NESA counties can be

seen in the chart below.



The beginning of 2009 has proven even less kind than the previous year. The number of unemployed persons in the NESAs Region jumped to 47,160 in February, an increase of 20% since December 2008 and 105% since February 2008. The month marks the eight straight month of negative job growth. The weakened labor market pushed the region's February unemployment rate to 14.4%, almost twice as high as it was in February 2008 (7.3%). Employment trends in the region have echoed the statewide employment situation. In February, South Carolina posted the nation's second highest unemployment rate (11%) behind only Michigan (12%). This rate is 5.3 percentage points higher than one year ago.

Industrial Sectors

Examining the region's two major metropolitan areas (MSAs) gives an indication of the stress different sectors of the regional economy are under. From December 2007 to December 2008, the Myrtle Beach MSA saw a decline in every major nongovernmental industry sector¹. The hardest hit sectors included Leisure and Hospitality (-11%), Goods Production (-6.4%), and Retail Trade (-3.3%). The Florence MSA fared somewhat better. However, it too saw contractions in its Goods Production (-6.1%) and Retail Trade (-4.5%). The entire service industry in the Florence MSA saw a slight increase in employment of less than one percent. Even though the service sector is not experiencing tremendous growth, because it encompasses over eighty percent of the Florence MSA employment base, it has provided some stability to the regional economy in the wake of the recession.

Unemployment by County

Unemployment rates are listed below for each of the nine NESAs counties. Marion County continues to have the highest rate of unemployment of any NESAs county. However, the county also represents the only county in the region to see its unemployment rate decrease from January. Horry County and Chesterfield County have

¹ Data provided by the South Carolina Employment Security Commission.

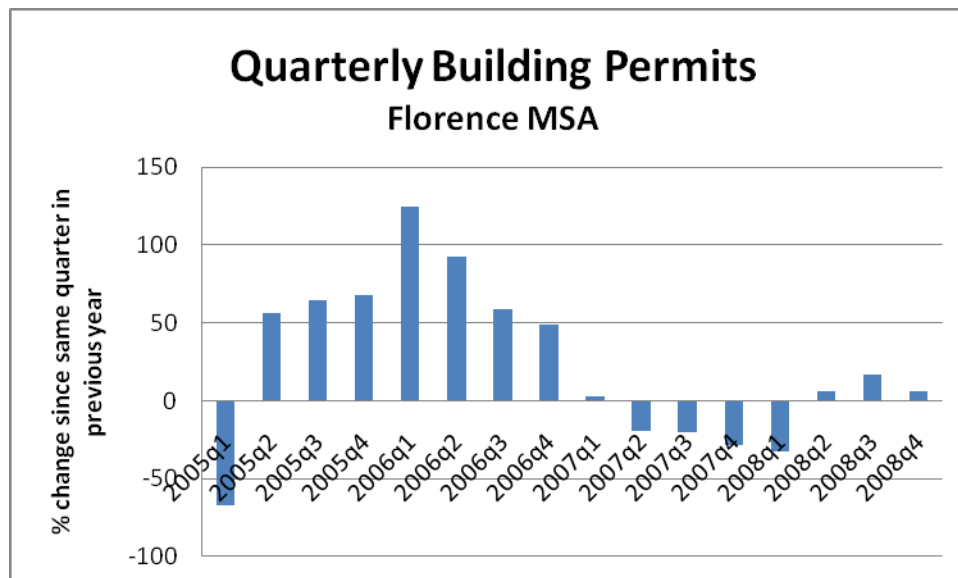
seen their unemployment rates more than double over the past year. The month of February offered some relief to Horry County however, as the county's unemployment rate did not increase from January. The NESAs Region's largest increase in unemployment has been in Chesterfield County. Its unemployment rate has increased over 140% from February 2008, and is up over 5.4% since January 2009.

Unemployment

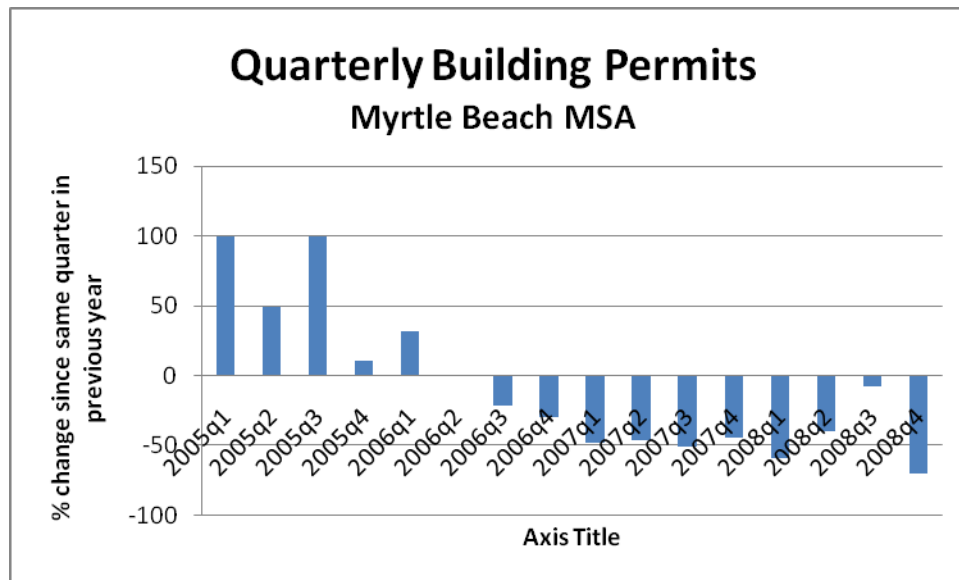
<u>County</u>	<u>Previous Month %</u>			<u>Previous Year %</u>	
	<u>Feb-09</u>	<u>Jan-09</u>	<u>Change</u>	<u>Feb-08</u>	<u>Change</u>
Chesterfield	17.6	16.7	5.4%	7.3	141.1%
Darlington	13.3	12.9	3.1%	7	90.0%
Dillon	16.8	16.2	3.7%	9.3	80.6%
Florence	11.1	10.5	5.7%	6	85.0%
Georgetown	13.1	12.9	1.6%	7.1	84.5%
Horry	14.3	14.3	0.0%	6.7	113.4%
Marion	21.9	22.1	-0.9%	12.2	79.5%
Marlboro	19.7	19.5	1.0%	10.8	82.4%
Williamsburg	16.1	15.6	3.2%	9.3	73.1%
NESA Region	14.4	14.1	2.1%	7.3	97.3%

NESA Region Housing Permits

The number of building permits issued in the Florence MSA in 2008Q4 was 6% greater than were issued in 2007Q4. This represents the third consecutive quarter in which building permit issuance was higher than the same quarter in the previous year. The first two months of 2009 offer inconclusive evidence as to whether this trend will continue. There was a small decrease in January, but a similarly sized increase in the number of housing permits issued in February.



The Myrtle Beach MSA, however, continues to see significant declines in its housing market. Building permit issuance was 70.5% lower in 2008Q4 when compared to 2007Q4. The fourth quarter of 2008 represented the tenth straight quarter of negative, year over year growth in building permit issuance. The first quarter of 2009 isn't shaping up much better. January and February issuances are down 59% and 63%, year over year, respectively.

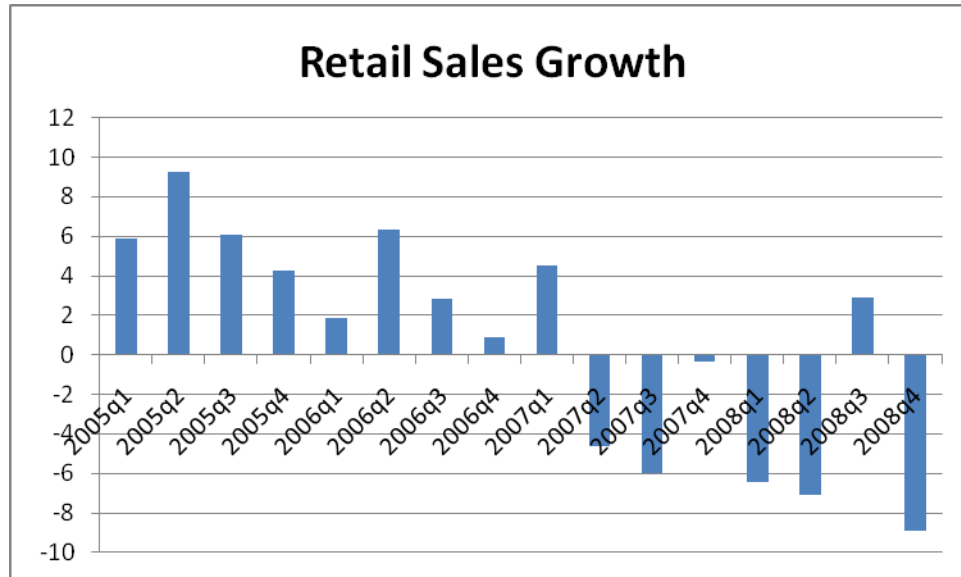


NESA Region Retail Sales

Fourth quarter retail sales were 8.9% lower in 2009 compared to the same quarter a year ago. The decline in retail sales during the fourth quarter was driven by sluggish sales in October and November as consumers begin to digest the deluge of poor economic news. Last minute holiday shopping did mitigate some of the losses from the two previous months as consumers made purchases that they had previously put off. This pushed December retail sales higher than the 2007 December totals. In January, retail sales in the region continued to grow. However, retailers were unable to reach the same to level of sales they enjoyed in January 2008. February saw an end to the two month hiatus in retail sales declines. In fact, during February inflation adjusted retail sales in the NESA Region reached a seven year low.

While the economy is generating substantial uncertainty and anxiety, it is important to note that *whether* the economy will recover is not at question. Through a combination of natural economic forces and government monetary and fiscal policy, the economy will turn the corner. The important questions right now relate to the strength of the coming recovery. The answers should come into focus over the coming quarters as we gauge developments in key indicators such as home sales and household savings and spending

patterns. Retail sales growth for the NESAs Region from 2005Q1 to 2008Q4 can be seen in the chart below.



NESA Regional Indicators

	2003	2004	2005	2006	2007	2008	2009
Population (thousands)	636.6	644.6	654.5	668.6	680.3	689.2	695.4
% change		1.2%	1.5%	2.2%	1.7%	1.3%	0.9%
Labor Force (thousands)	304.8	308.1	315.8	324.4	323.6	328.3	329.9
% change		1.1%	2.5%	2.7%	-0.2%	1.4%	0.5%
Employment (thousands)	280.1	282.5	290.2	301.2	302.9	301.3	284.7
% change		0.9%	2.7%	3.8%	0.6%	-0.5%	-5.5%
Unemployed (thousands)	24.7	25.6	25.7	23.2	20.8	27.0	45.3
% change		3.4%	0.4%	-9.5%	-10.5%	30.1%	67.3%
Unemployment Rate	8.1%	8.3%	8.1%	7.2%	6.4%	8.2%	13.7%
Personal Income (\$billions)	15.2	16.0	16.9	18.2	19.0	19.4	19.6
% change		5.5%	5.9%	7.2%	4.7%	2.2%	0.9%
Wages and Salaries (\$billions)	7.8	8.1	8.6	9.2	9.6	9.8	9.9
% change		4.7%	5.3%	7.3%	4.7%	2.2%	0.6%
Per Capita Income	\$23,829	\$24,821	\$25,876	\$27,160	\$27,949	\$28,189	\$28,189
% change		4.2%	4.3%	5.0%	2.9%	0.9%	0.0%
Average Wages	\$27,318	\$28,169	\$29,077	\$30,213	\$31,175	\$31,869	\$32,156
% change		3.1%	3.2%	3.9%	3.2%	2.2%	0.9%
Average Compensation (wages + employer benefits)	\$33,674	\$34,650	\$35,955	\$37,295	\$38,413	\$39,182	\$39,534
% change		2.9%	3.8%	3.7%	3.0%	2.0%	0.9%
Average Compensation, Manufacturing	\$47,140	\$47,765	\$50,913	\$53,421	\$55,237	\$56,452	\$57,073
% change		1.3%	6.6%	4.9%	3.4%	2.2%	1.1%

Notes:

All data throughout this report have been compiled jointly by Dr. Schunk of the BB&T Center for Economic and Community Development at Coastal Carolina University and Dr. Munn of the School of Business at Francis Marion University, except for forecasts that were prepared by Dr. Schunk of Coastal Carolina University. These forecasts are current as of April 2009.

Labor force, employment, unemployed, and unemployment rates are provided by the U.S. Bureau of Labor Statistics. Population data are provided by the U.S. Census Bureau.

All Income, wage, and compensation data are from the U.S. Bureau of Economic Analysis and are actual data through 2006 and estimates for 2007 and 2008.