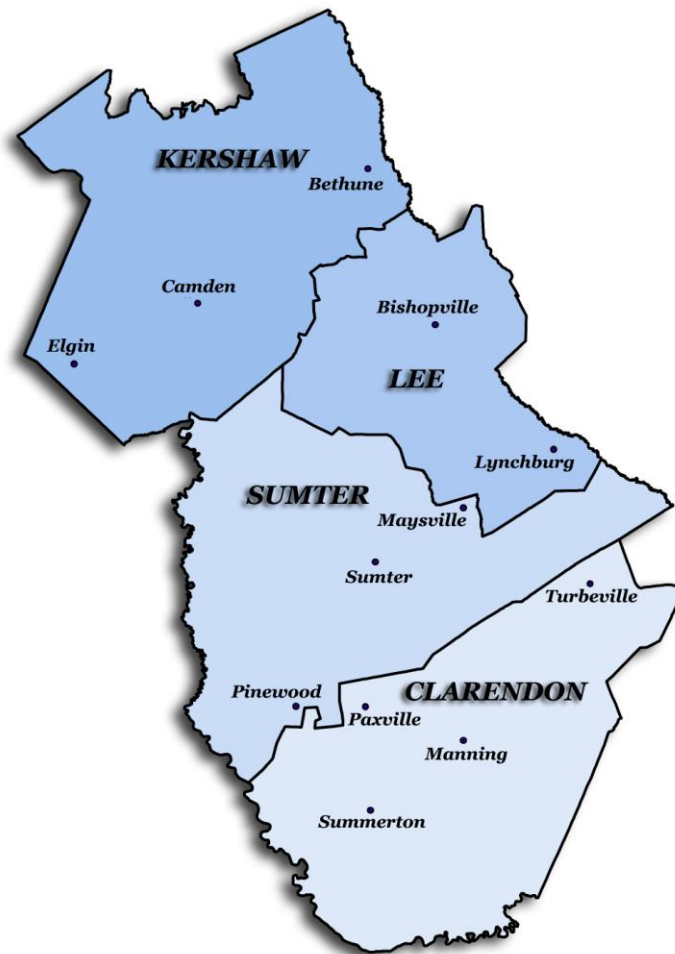


Santee-Lynches Economic Forecast 2009-2010



Presented by:

**Santee-Lynches Regional
Council of Governments
and
The BB&T Center for Economic
and Community Development
at Coastal Carolina University**

SANTEE-LYNCHES ECONOMIC FORECAST

In the current age of global markets and technological innovation, economic forecasting is becoming a necessity for decision makers at all levels of business and government. Santee-Lynches Regional Council of Governments welcomes the opportunity to provide an economic forecast for use by decision makers in the region.

The 2009-10 Santee-Lynches Economic Forecast is the ninth in an ongoing series of annual reports designed to chart the economic future of the four-county region. The forecast was initiated by Santee-Lynches Regional COG to assist business and governmental leaders in Clarendon, Kershaw, Lee and Sumter counties in planning for the short-term future. The region-specific forecast addresses economic factors that impact the entire U.S. and South Carolina but within the framework of the unique economic environment of the Santee-Lynches Region.

The economic forecast is the product of a partnership of the COG, the BB&T Center for Economic and Community Development at Coastal Carolina University, the Santee-Lynches Regional Development Corporation and the Santee-Lynches Workforce Investment Board. The forecast process includes quarterly economic updates in addition to the annually published two-year forecast. The forecast is based on local, state and national data collected and analyzed by the COG and the BB&T Center at Coastal Carolina. The data is used in an economic model specifically for the Santee-Lynches Region designed by Dr. Don Schunk, the center's research economist.

No meaningful economic forecast for the region would be possible without the support and oversight of the cross-section of local business leaders and economic development professionals who compose the Santee-Lynches Economic Outlook Board. The board meets with Dr. Schunk quarterly to review and evaluate the region's economic forecast. The board's knowledge of on-going and planned local economic activity provides for a more regionally focused forecast. The Economic Outlook Board members are the key elements in ensuring the forecast remains specifically focused on the four-county region.

We hope you find the 2009-10 forecast to be informative and useful. Some of the material in the economic database may be preliminary and could be revised slightly as agencies adjust totals. If you have any questions or concerns regarding the data, contact Bruce Mills, research analyst at Santee-Lynches Regional COG, at (803) 775-7381.

METHODOLOGY

The purpose of an economic forecast is to provide its users with a reasonable projection of the future. While any forecast will entail errors, the goal of developing an economic forecast is to try to consistently minimize these errors. Economic forecasts are best viewed as a benchmark scenario. This economic forecast for the Santee-Lynches Region, for example, is intended to provide a reasonable baseline for economic conditions across the region over the next two years. Unforeseeable events likely will occur over this period that will cause parts of this forecast to be off, though hopefully any misses will be relatively small. Yet – for this reason – remember this forecast is an attempt to project historical trends and relationships, coupled with knowledge of the current local economy, into the future.

Overall, this forecast is generated as part of a larger forecast program maintained by Dr. Schunk at Coastal Carolina. Schunk tracks and forecasts developments in both the U.S. and state economies monthly. These national and state-level forecasts are then used, along with historical local data, to drive the forecasts for the Santee-Lynches Region's economy. This is accomplished using a set of structural and times-series econometric models that are constantly under review to secure they are performing as reliably as possible.

OVERVIEW

The Santee-Lynches Region is composed of Clarendon, Kershaw, Lee and Sumter counties and provides a pleasant mix of Southern living with a strong business and industrial base. The four counties are located in close proximity to Columbia, the Grand Strand area, and the ports in Charleston and Georgetown.

In the latter half of the 20th century, the historically agricultural region transitioned to the industry-oriented New South economic model. While agriculture still plays a role in the region's economy, the service, manufacturing and government sectors are now the region's dominant industrial engines accounting for nearly 70 percent of the area's total employment. During the last decade, the service sector has grown in both number and size of facilities and is now the major employment sector in the four-county area. Jobs in this category include professional and business services, education, health care, leisure and hospitality, and other services.

The region has struggled since 2000 with losses in the lower-skill, lower-wage manufacturing sector totaling 7,606 jobs through the third quarter of 2008 according to average monthly employment figures. Conversely, the four counties have added 2,010 non-manufacturing jobs in the same timeframe. Sumter County has long been the region's industrial center and Kershaw County has made significant progress by capitalizing on its location on the Interstate 20 corridor and proximity to the Columbia metropolitan area.

In 2008 Sumter County had one major new investment of \$10 million when metal fabrication firm Olympic Steel broke ground on a new facility with 60 new jobs expected in '09 and about 100 total jobs over a five-year period. Safe Rack, a manufacturer of loading racks, also completed construction of a headquarters (\$1 million investment) that will eventually house 40 employees, primarily in sales and engineering. Manufacturers PhibroTech and Monti also announced expansions totaling about \$11 million.

Kershaw County featured two expansions in 2008 totaling \$100 million and 15 jobs. Target Distribution Center in Lugoff announced a \$75 million building addition. WeylChem, a chemical firm in Elgin, also announced a \$25 million expansion and 15 additional jobs.

Clarendon and Lee counties have also aggressively recruited both national and international companies with some success. Last year Clarendon had one new investment and one expansion totaling \$6.3 million and about 110 jobs. In the spring IntraBond, a manufacturer of building panels for use in commercial signage and buildings, decided to locate in the county and create 45 jobs. Also in the spring, Manhattan Holdings – an international supplier of molding and millwork products – announced a \$2.5 million expansion, creating 65 jobs.

Lee County had one expansion last year that featured about 56 new jobs at fiber-based manufacturer Ahlstrom. The total investment was \$9.4 million.

The region's success is largely attributed to the concentrated efforts of the counties' economic development leaders operating as allies. Over the last few years, all four counties have joined the Central SC Alliance. This alliance combines economic development efforts in Columbia with several of the surrounding counties and municipalities. As members of the largest economic development alliance in the state, these counties attempt to expand the industrial base throughout the region.

Increases in the region's service and retail trade sectors were expedited by the 1990 U.S. Census designation of Sumter County as a Metropolitan Statistical Area (MSA). The designation spotlighted the region's potential with national hospitality, food, retail and business service industries. The MSA designation identifies a significant concentration of people in a geographic area and this resulted in several national chains moving into the Santee-Lynches market during the 1990s. This trend continues with more national chains expressing interest in locating in the region.

Shaw Air Force Base and BRAC 2005

A major ingredient of the economic well-being of the region is Shaw Air Force Base in Sumter County. Shaw occupies 16,071 acres in the county and is the home of the 9th Air Force and the 20th Fighter Wing. Shaw currently accounts for about 7,400 workers when including active duty, civilian and support facility employees. In addition, thousands of military retirees and their families have settled in the community over the decades to be near the benefits available to them at the military facility. This large, military-associated population provides a significant consumer base, a high-quality labor force and an expanded tax base for the region when including dependents. About 35 percent of the Sumter County economy is directly tied to Shaw, according to published reports.

In Fall 2011 the base is expected to become the new home of the U.S. Army Central Command or ARCENT, which will be moving from two forts near Atlanta. With the transfer, Shaw is required by law to add about 872 new military jobs and will have a total population growth of 3,000 to 3,500 when using a multiplier of 2.5 to 2.8 for dependents. According to military reports in early 2009, a very small influx of Army soldiers to Shaw will likely begin in Fall 2010. Construction of several new facilities for ARCENT, including a headquarters, visiting officers quarters, child development center, temporary living facilities and a fitness annex, is scheduled to begin in Summer 2009. When construction is complete in 2011 or later, ARCENT will begin moving soldiers to Shaw. The military influx into Shaw could reach about 1,500 new active-duty military and civilian jobs according to retired Maj. Gen. Tom Olsen, who serves as executive director of the Sumter Base Defense Committee. This total results in population growth of about 5,200 to 5,700 for Sumter and the region, which could extend to the greater Midlands area.

BRAC -- By the numbers

New jobs: A minimum of about 872 jobs and up to about 1,500.

When: 2011 or later.

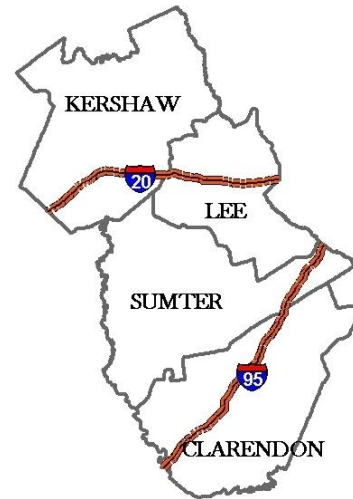
Projected population growth: 3,000 to 5,700 when including dependents.

Initial BRAC announcements in 2005 pegged the Army's move to Shaw for 2008, but due to the continuing military focus on major and regional wars abroad and some funding issues, timelines for BRAC changes were pushed back across the nation. Sept. 15, 2011, has become the new deadline for BRAC 2005 moves. The only question that now exists at Shaw is will construction be complete by 2011?

Military officials emphasize planning is difficult because of present-day global threats. Military planning is much more difficult than planning for a company; instead it's planning for our country and the military will always be looking to transform. In the future, there will certainly be more rounds of BRAC.

Transportation network

The region's transportation network includes both Interstates 95 and 20. I-95 is the main North-South artery along the Eastern Seaboard, and I-20 serves as the connector from I-95 in Florence through Columbia to Atlanta and to points southwest. The region is also situated in close proximity to Charleston, the largest container port in the Southeast, as well as the ports of Georgetown and Savannah, Ga. The region is also in close proximity to commercial airports in Columbia and Florence. The extensive transportation network is a key ingredient in the growth of the region's industries and their ability to maximize their role in the global economy. Additionally, the region's accessibility from large national population centers attracts visitors and retired couples to the charm of Southern living.



Education

The higher education institutions in the region provide residents the opportunity to gain technical competence and compete in the ever-expanding "knowledge economy." In this emerging and long-term economic system a premium is placed on adaptive and highly skilled workers.

The University of South Carolina Sumter, Morris College and the colleges and universities affiliated with Shaw Air Force Base provide a wide range of undergraduate and graduate degrees for residents of the region. In recent years Troy University expanded its Shaw campus and currently offers graduate courses in the city of Sumter. The higher education system is complemented by Central Carolina Technical College in Sumter and its sub campuses in Clarendon, Kershaw and Lee counties as well as at Shaw. The technical college provides the local business community with trained workers in a wide variety of industrial and Para-professional occupations and has increased its enrollment in recent years.

The region has also allotted significant funding to insure youth are better prepared to meet the challenges of the current and future economy. During the late '90s, four modern high schools were built in the region. These high schools, along with several new elementary schools, are important elements that the various school districts have used to provide the caliber of education that will produce a technically skilled, trainable workforce.

Healthcare and amenities

The healthcare system within the four-county region boasts a newly modernized regional hospital in Sumter and two high quality county hospitals in Kershaw and Clarendon counties. Additionally the area has Medi-Vac air access to the highly specialized medical facilities in Columbia and Charleston.

The region's numerous lakes are nationally recognized for game fishing and water recreation. The area surrounding the major population centers is a patchwork of picturesque towns, small farms, wetlands, and pine and hardwood forests. Golf, fishing, hunting, boating and horseback riding are some of the many recreational activities available.

The region has several annual special events that rank among the best in the state and garner attention throughout the Southeast. Kershaw County's Carolina Cup and Colonial Cup steeplechase races and the Iris Festival centered around Sumter's renowned Swan Lake-Iris Gardens draw visitors and entrants from throughout South Carolina and other states. Lee County's Cotton Festival and the Clarendon County Striped Bass Festival are other major events that bring visitors into the area. Additionally there are numerous local festivals, historic re-enactments and art shows that occur year round throughout the region.

SANTEE-LYNCHES ECONOMIC OUTLOOK BOARD

A special thanks is extended to the members of the Santee-Lynches Economic Outlook Board for their time and energy in ensuring the region's Economic Forecast is grounded in local informed data.

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Bruce Mills	Santee-Lynches Regional COG
Don Schunk, Ph.D.	BB&T Center for Economic and Community Development at Coastal Carolina University

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REGIONAL STATISTICS

Regional population:

County	2000 Census	2008 estimate	% change (2000-08)
Clarendon	32,502	33,149	2.0%
Kershaw	52,647	58,901	11.9%
Lee	20,119	19,891	(-1.1%)
Sumter	104,646	104,148	(-0.5%)
Santee-Lynches	209,914	216,089	2.9%

Regional labor force:

County	2007 average	2008 average	% change (2007-08)
Clarendon	12,660	12,472	(-1.5%)
Kershaw	29,627	30,095	1.6%
Lee	8,150	8,108	(-0.5%)
Sumter	44,591	43,132	(-3.3%)
Santee-Lynches	95,028	93,807	(-1.3%)

Total employed:

County	2007 average	2008 average	% change (2007-08)
Clarendon	11,614	11,220	(-3.4%)
Kershaw	28,053	28,103	0.2%
Lee	7,489	7,331	(-2.1%)
Sumter	41,479	39,420	(-5.0%)
Santee-Lynches	88,635	86,074	(-2.9%)

Total unemployed:

County	2007 average	2008 average	% change (2007-08)
Clarendon	1,046	1,252	19.7%
Kershaw	1,574	1,992	26.6%
Lee	661	777	17.5%
Sumter	3,112	3,712	19.3%
Santee-Lynches	6,393	7,733	21.0%

Gross retail sales:

County	2007 sales	2008 sales	% change (2007-08)	% "Real" change
Clarendon	\$400,499,881	\$419,194,060	4.7%	+0.7%
Kershaw	\$1,539,388,167	\$1,308,288,221	(-15.0%)	(-18.2%)
Lee	\$219,236,313	\$235,900,401	7.6%	+3.3%
Sumter	\$1,772,564,960	\$1,711,781,386	(-3.4%)	(-7.1%)
Santee-Lynches	\$3,931,689,321	\$3,675,164,068	(-6.5%)	(-10.1%)

COUNTY BUILDING PERMIT TOTALS & VALUES

New Single-Family Home Permits

<u>Area</u>	<u>2007</u>	<u>2008</u>	<u>% Change 2007-08</u>
Clarendon Co.	240	105	(-56.3%)
Camden	27	27	0.0%
Kershaw Co.	483	289	(-40.2%)
Lee Co.	22	12	(-45.5%)
City of Sumter	310	123	(-60.3%)
Sumter Co.	287	176	(-38.7%)
Region	1,369	732	(-46.5%)

New Single-Family Home Permit Values

<u>Area</u>	<u>2007</u>	<u>2008</u>	<u>% Change 2007-08</u>
Clarendon Co.	\$29,268,558	\$10,218,971	(-65.1%)
Camden	\$5,026,000	\$5,083,000	1.1%
Kershaw Co.	\$47,647,729	\$29,802,135	(-37.5%)
Lee Co.	\$2,828,610	\$1,434,994	(-49.3%)
City of Sumter	\$40,834,486	\$18,073,003	(-55.7%)
Sumter Co.	\$33,503,873	\$21,066,156	(-37.1%)
Region	\$159,109,256	\$85,678,259	(-46.2%)

New Manufactured & Mobile Home Permits

<u>Area</u>	<u>2007</u>	<u>2008</u>	<u>% Change 2007-08</u>
Clarendon Co.	272	192	(-29.4%)
Camden	0	0	0.0%
Kershaw Co.	165	168	1.8%
Lee Co.	26	21	(-19.2%)
City of Sumter	19	20	5.3%
Sumter Co.	255	208	(-18.4%)
Region	737	609	(-17.4%)

New Non-residential Permits

<u>Area</u>	<u>2007</u>	<u>2008</u>	<u>% Change 2007-08</u>
Clarendon Co.	27	13	(-51.9%)
Camden	2	4	100.0%
Kershaw Co.	27	15	(-44.4%)
Lee Co.	2	0	(-100.0%)
City of Sumter	28	37	32.1%
Sumter Co.	64	48	(-25.0%)
Region	150	117	(-22.0%)

New Non-residential Permit Values

<u>Area</u>	<u>2007</u>	<u>2008</u>	<u>% Change 2007-08</u>
Clarendon Co.	\$6,433,773	\$4,851,931	(-24.6%)
Camden	\$205,000	\$1,034,000	404.4%
Kershaw Co.	\$3,981,165	\$26,655,848	569.5%
Lee Co.	\$1,243,100	\$0	(-100.0%)
City of Sumter	\$9,714,499	\$22,903,779	135.8%
Sumter Co.	\$6,498,200	\$15,657,134	140.9%
Region	28,075,737	\$71,102,692	153.3%

AT A GLANCE

Geography

The Santee-Lynches Region is comprised of Clarendon, Kershaw, Lee and Sumter counties. The region is located in the upper Coastal Plain of South Carolina and is east of the capital city of Columbia.

Area

2,533.4 square miles

Distance from key cities

Atlanta	240 miles
New York	620 miles
Miami	590 miles
Charleston (port)	65 miles

Climate

Average annual temperature 64.1° F
Average annual rainfall 48.4"

Per Capita Personal Income (2006)

Area		Pct. of state avg. (U.S.)
Clarendon	\$22,350	75.1% (60.9%)
Kershaw	\$30,067	101.0% (81.9%)
Lee	\$21,601	72.6% (58.8%)
Sumter	\$26,242	88.2% (71.5%)
Santee-Lynches	\$26,229	88.1% (71.4%)
South Carolina	\$29,767	--- (81.1%)
U.S.	\$36,714	---

Average Annual Wages Per Worker (2007)

Clarendon	\$26,107
Kershaw	\$31,851
Lee	\$28,264
Sumter	\$30,273
Santee-Lynches	\$30,082
South Carolina	\$35,386

Sector employment (1st thru 3rd Qtr. 2008)

Average monthly employment	65,842
Services	29.0%
Professional/Business	5.9%
Educational/Health	11.3%
Leisure/Hospitality	9.0%
Other services	2.8%
Government*	21.6%
Manufacturing	18.6%
Wholesale/Retail Trade	15.4%
Construction	6.7%
Transportation/Warehouse/Utilities	3.1%
Finance/Insurance/Real Estate	2.9%
Natural Resources/Mining	1.8%
Information	1.0%

* Doesn't include active duty military

Major Employers

Shaw Air Force Base
Pilgrim's Pride
Tuomey Healthcare System
INVISTA
Target Distribution Center
BD
Santee Print Works
Kershaw County Medical Center
Clarendon Memorial Hospital
Cooper Tools
Eaton Electrical
Haier America

Data sources

U.S. Census Bureau
S.C. Employment Security Commission
S.C. Department of Revenue
U.S. Bureau of Economic Analysis
U.S. Bureau of Labor Statistics (Quarterly Census of Employment and Wages)

RETAIL SALES

Gross retail sales in the region totaled \$3.675 billion last year, representing a 6.5 percent decrease from the 2007 level of \$3.932 billion. Various factors influenced the reduced sales totals in 2008 including fewer employed residents in the region, a tightening of the consumer credit market, and a reduction in housing construction. Another contributing factor to reduced sales was possibly a small “correction” in reported sales from 2007 for one county in the region.

First and foremost, average monthly employed residents in the four counties fell by 2,561 people, or 2.9 percent, in 2008 to 86,074 from 2007 levels. This decrease, which was reflected by a 1.5 percent spike in the region’s unemployment rate, likely greatly influenced the reduced consumer spending. Coinciding with increased unemployment was a general tightening of the credit market in 2008 across the U.S., limiting many consumers from buying homes and other big-ticket purchases such as furniture and appliances. The big drop-off in housing construction in the region may have also curtailed retail sales, but this wasn’t necessarily apparent when looking at state totals. For South Carolina as a whole, new housing construction fell by 37 percent in ’08 but gross retail sales inched up by about 2 percent.

Gross Retail Sales
(\$ billions)



Finally, the region’s reduced 2008 gross retail sales may have been impacted possibly by a “correction” in state Department of Revenue reported sales for Kershaw County. Occasionally with smaller counties in the state including Kershaw, year-over-year gross retail sales are difficult to gauge because certain events can greatly impact the overall totals. In larger counties, like Sumter, gross retail sales totals are generally less volatile. In 2006, Kershaw’s reported gross retail sales were \$1.13 billion according to DOR. In 2007, the county total jumped 36.6 percent to \$1.54 billion. In ’08, Kershaw’s DOR gross retail sales were \$1.31 billion – a growth figure more in line with the 2006 total. Comparing ’08 to ’07 shows a \$231 million sales reduction, or 15.0 percent, in the county.

When comparing 2008 regional gross retail sales to 2006 levels (to remove the possible Kershaw over-count in 2007), “real retail sales” were down by about 4 percent in 2008 compared to ’06 when accounting for year-to-year inflation and the volatile nature of gasoline prices. This indicates the local economy is being hit by the current recession. Average monthly employed residents in the region were more than 3,000 less in 2008 from ’06 totals.

As mentioned, state gross retail sales increased by about 2 percent in 2008 over 2007. When accounting for inflation, “real retail sales” in the state were down about 1.7 percent in 2008. (Since price is theoretically controlled in this calculation, “real retail sales” shows the volume differences in purchases.) For the region, “real retail sales” in ’08 were down about 10 percent but again this total may have been partially affected by a possible Kershaw “correction.”

A closer look at the annual totals in the other counties in the region shows Sumter experienced a 3.4 percent decrease in gross retail sales in 2008 versus ’07, slipping from \$1.773 billion to \$1.712 billion. When accounting for inflation, the county’s “real retail sales” fell by about 7 percent in ’08. Sumter’s

gross sales also fell during 2007 compared to 2006. Year 2006 was a record year for the county however with \$1.852 billion in gross retail sales. State employment data shows about 2,000 fewer employed residents in Sumter in 2008 compared to '07, likely contributing greatly to reduced sales.

Despite reduced gross retail sales in Sumter and Kershaw, the region's two more rural counties – Clarendon and Lee – had increased sales in 2008. Clarendon's gross sales increased 4.7 percent over 2007 and Lee's rose by 7.6 percent. Being very small in population, Clarendon and Lee were probably impacted very slightly by the overall correction in the housing market in 2008. Through recent years, both counties have shown consistent and solid retail growth.

The recent declines in regional gross retail sales appear to be continuing and intensifying during the first months of 2009. This is consistent with current readings on retail sales statewide and nationally.

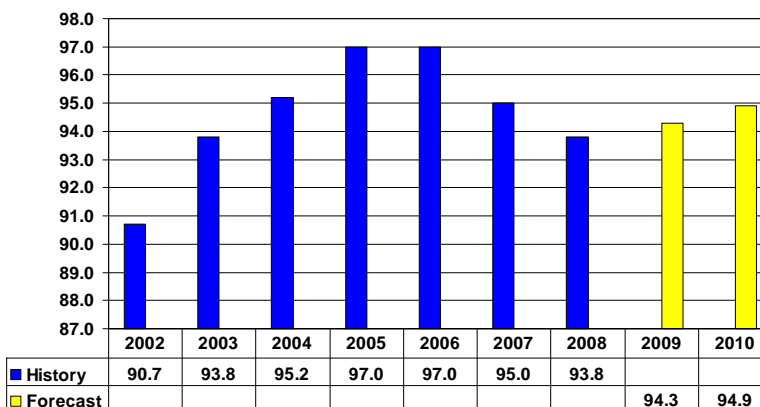
While the pace of declines is expected to slow throughout the year, gross retail sales are still projected to decline by 11.7 percent in 2009. There remains considerable uncertainty concerning the potential strength of the overall economic recovery that is expected to occur in the coming years. In particular, consumers have dramatically pulled back in recent months, but it's not yet clear whether this will represent a long-term shift towards increased savings and reduced spending, or whether consumers will return to the more rapid spending habits of the past. Favoring a relatively conservative view that consumer spending may remain soft even as the economy begins to recover, the forecast for 2010 also indicates a dip in regional gross retail sales. Currently, regional sales are projected to decline by 0.3 percent in 2010. These potential declines in sales would result in gross retail spending similar to levels last seen during the 2004/2005 period.

THE LABOR MARKET

Total employment in the region in 2008 fell by 2,561 workers from 2007 levels, according to data from the state Employment Security Commission. In 2007 the region's average monthly employment was 88,635, which was near the record year of 2006 (89,652). In '08, total workers fell to 86,074, representing a 2.9 percent decrease from '07. The latter part of 2008 was markedly worse than the first eight months. From January through August, the region's average monthly employment was 86,737; from September through December, average monthly employment fell by nearly 2,000 workers to 84,746. (These employment totals represent all workers except active-duty military personnel who live in the four counties – whether these individuals work in the region or commute out of the region to Columbia, Florence or another location for work. The employment statistics don't include Shaw Air Force Base's 6,100 active-duty personnel, the majority of which live in the region.)

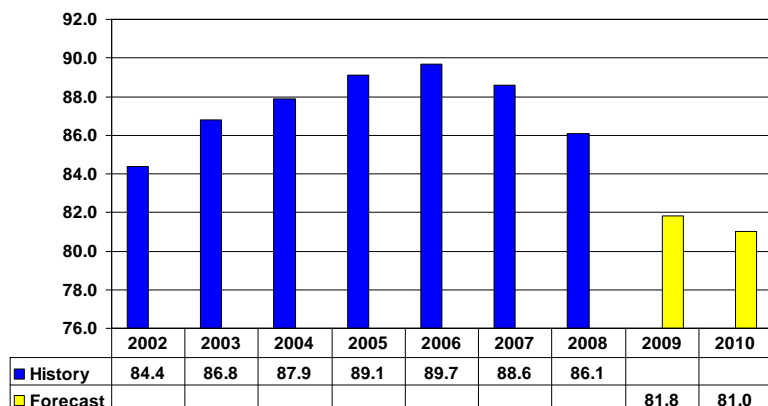
Labor Force

(thousands)



Total Employment

(thousands)



Kershaw County was the lone county in the region with more employed residents in 2008 compared to '07, inching up 0.2 percent from 28,053 to 28,103. The other three counties had less employed residents. Clarendon's employed residents shrunk by 394, or 3.4 percent, from 11,614 to 11,220. Lee suffered a 2.1 percent drop-off from 7,489 employed to 7,331. Sumter County experienced the biggest decline with 5.0 percent less employed residents in '08 compared to '07, dipping over 2,000 people from 41,479 to 39,420.

Roughly half (48 percent) of the region's lost workers either stayed in the region and gave up looking for

employment – via retirement or another reason – or moved out of the region to seek employment in another county, which isn't a good sign. A total of 1,221 lost workers in 2008 dropped out of the region's labor force for one of these reasons. The remaining 1,340 lost workers, or 52 percent, were added to the region's unemployment total as unemployed residents increased from 6,393 in 2007 to 7,733 in '08.

The most labor force leakage occurred in Sumter County with a loss of 1,459 workers. According to ESC data, these individuals either stayed in the county and gave up looking for employment for

whatever reason or moved out of the county to seek employment somewhere else. Similar to Sumter, Clarendon's labor force dipped by 188 during '08, and Lee's fell by 42 workers. Kershaw again was the bright spot with a labor force increase of 468 or 1.6 percent to 30,095.

Of the additional 1,340 unemployed residents in the region in 2008, Sumter added 600 people to the unemployment ranks over year 2007 (3,112 to 3,712), Kershaw added 418, Clarendon 206 and Lee 116.

With fewer employed residents and more unemployed the region's unemployment rate increased by 1.5 percent from 6.7 percent in 2007 to 8.2 percent in '08. Again, 2008 could be described in two parts. From January through August, the average monthly unemployment rate was 7.6 percent. From September through December, the rate soared to 9.6 percent. The 8.2 percent annual rate was the largest since 2005 when it reached 8.1 percent. Kershaw featured the smallest county unemployment rate in '08 at 6.6 percent. Sumter was next at 8.6 percent; Lee and Clarendon posted similar totals with 9.6 percent and 10.0 percent, respectively. Research shows if active-duty military were included in ESC labor force totals, Sumter's unemployment rate would be about 0.8 percent smaller in recent years; while the region tally would be about 0.4 percent smaller.

The region's 8.2 percent unemployment rate was above the state average of 6.9 percent in '08, and considerably higher than the U.S. average of 5.8 percent.

The region's rate is also considerably higher than it was in the late 1990s and 2000 when it ranged from 4.3 percent to 6.1 percent. A major reason for the significant spike in unemployment in the region since 2000 has been continual job losses in the manufacturing sector. According to the Quarterly Census of Employment and Wages, the region's four counties lost about 7,606 manufacturing jobs from 2000 through the third quarter of 2008. (QCEW is the most precise job data available by county, but it does lag by about six months.)

<u>Manufacturing losses from 2000 to 3rd Q '08</u>		
<u>Area</u>	<u>Jobs lost</u>	<u>Unemployment increase</u>
Region	-7,606	+3.9% (4.3 to 8.2)
State	-100,879	+3.4% (3.5 to 6.9)

Many of these job losses have been in the lower-skilled, lower-wage manufacturing sector that in the present economy faces constant threats from greater accessibility to cheap overseas labor. Some of the manufacturing job losses are also due to increased technologies that necessitate fewer workers. The Santee-Lynches Region, like much of rural South Carolina and the Southeast, has traditionally depended on the lower-skilled, lower-wage manufacturing sector for its economic livelihood for decades. Many regions throughout the Southeast are facing similar dilemmas. The state of South Carolina as a whole lost 100,879 manufacturing jobs from 2000 through the third quarter of '08 and nearly 133,000 jobs since 1995, according to QCEW.

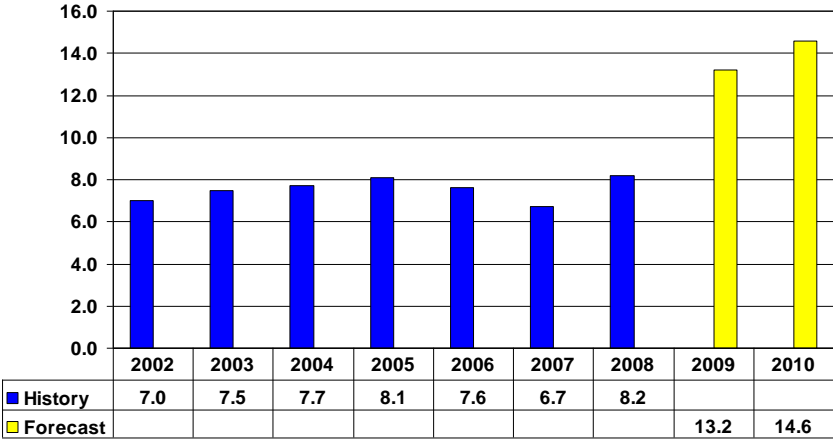
The service sector now outpaces manufacturing for total jobs within the region with 29.0 percent. Manufacturing jobs currently encompass about 18.6 percent of the four-county labor market after achieving a high mark of nearly 28 percent in 2000.

The decreasing role of manufacturing is likely to continue locally and at the state and national levels due to cheaper labor-related overseas operating costs and technological advances. Growth areas in manufacturing will involve value-added products with a technically skilled workforce. Demand for lower-skilled workers will continue to decline in the U.S. The region must adapt to these changing trends in the manufacturing sector to be competitive. The four counties must also attempt to train the future workforce for growth sectors in non-manufacturing industries, such as health care, construction and transportation.

The region is currently experiencing a sharp deterioration in labor markets caused by the interplay of longer-term structural issues related to the challenging shift from manufacturing to services as well as

the shorter-term cyclical issues surrounding the current deep recession. The final months of 2008 saw a dramatic increase in job losses and unemployment. Total average monthly employment in the region is currently projected to fall by 4,300, or a loss of roughly 5.0 percent during 2009. A projected sluggish recovery will then lead to further job losses in 2010 as regional employment declines by an expected 800, or 1.0 percent. The region’s jobless rate is currently expected to rise throughout all of 2009 and into 2010. The unemployment rate is projected to average 13.2 percent for all of 2009 and 14.6 percent during 2010. The pattern is expected to be one of rising unemployment during all of 2009 with a slight decline in unemployment finally occurring later in 2010.

Unemployment Rate (percent)



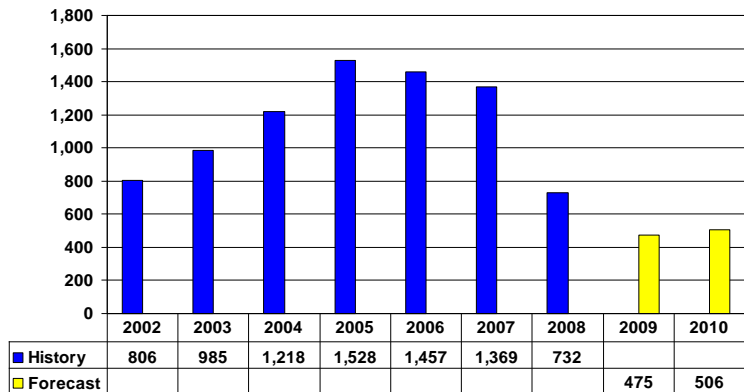
REAL ESTATE

Residential

The region as a whole experienced a 46.5 percent drop-off in the housing market in 2008 from 2007, falling from 1,369 new permits for single-family homes to 732. By comparison the state overall had about a 37 percent decline in new housing construction in 2008 versus 2007. As would be expected all four counties experienced major declines in new residential construction in '08 due largely to excess inventory on the market created by the recent years' housing boom and associated low-interest rates and various financing options. Almost 40 percent of the region's new housing in 2008 (289 permits) was constructed outside of Camden in Kershaw County. Most of this activity was in West Wateree area near Columbia. The 289 permits still represented a big decline from 2007 levels for the area. Camden added another 27 permits in 2008 for a county overall total of 316.

Single Family Building Permits

(# of permits)

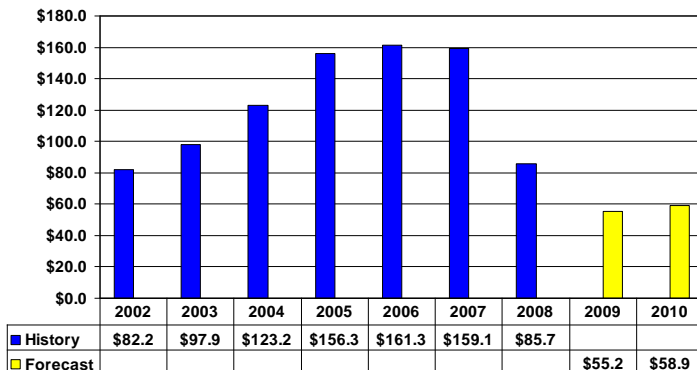


The city of Sumter and the county combined for 299 new single-family permits in 2008, representing 41 percent of the 732 region total. In 2007, new single-family permit totals were double in the city and county at 597. Year 2006 was a record year for Sumter with a combined 760 permits. Many factors influenced construction in Sumter that year including the initial Base Realignment and Closure (BRAC) announcement in 2005 of two Army forts in Georgia transferring to Shaw Air Force Base. Early estimates had the military transfer pegged for 2007-08, but current timelines have the Army influx slated for 2011 or 2012.

Clarendon County also had a big drop in residential construction with 105 new residential permits during 2008.

Single Family Permits Value

(\$millions)



Even though permits dropped off extensively last year, it's important to emphasize that recent years had record tallies for the region. In 2005, there were a record 1,528 new single-family permits in the four counties and in 2006 another 1,457 permits. In 2004, there were 1,218 permits.

Similar to the drop-off in residential permits, the region's estimated new home construction value fell by about 46.2 percent to \$85.7 million. The region's new home construction value in 2007 was \$159.1 million, which was near 2006's record tally of \$161.2 million.

Many real estate brokers feel overall construction activity in the region will drop further in 2009 and pick up in 2010 due in part to excess inventory still on the market.

The number of single-family building permits is expected to fall for the fourth consecutive year in 2009. Specifically, permits are projected to decline by 35.1 percent for a total of just 475 permits issued for the full year. This total would represent about 31 percent of the number of permits issued at the peak of the housing boom in 2005. In terms of home sales, 2009 should see some stabilization. However, excess inventory on the market will keep new construction activity weak. The number of building permits is expected to pick up slightly in 2010, rising about 6.5 percent to 506 permits. The total dollar value of this new construction is expected to follow suit. Total value should fall about 35.6 percent in 2009 before rising 6.7 percent in 2010.

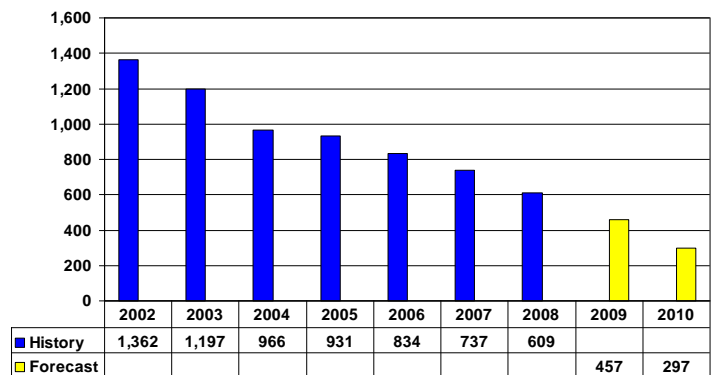
Manufactured / Mobile homes

New manufactured homes in the region continued to decline last year. Dating back to 2001, mobile home permits have fallen by an average of 12.8 percent annually from the previous year. The 2008 permit total of 609 for the four counties was only one-third of the 2000 year total of 1,848. The significant drop-off is due to zoning restrictions on mobile home parks and the aforementioned low-interest rates on conventional housing giving potential homebuyers more alternatives.

This downward trend is expected to continue. Manufactured and mobile home permits are projected to fall 25 percent in 2009 to 457. In 2010, permits are currently projected to fall another 35 percent to stand at 297.

Manufactured/Mobile Home Permits

(# of permits)



Nonresidential

In 2008 there were 117 nonresidential construction permits in the region – a drop-off of 33 permits and 22 percent from 2007. The decline was somewhat expected given the current recession, which started to have a strong impact on the state in the second half of 2008 and has caused many major retailers to put potential projects on hold. The region’s year 2006 total of 170 permits was a high mark for this decade.

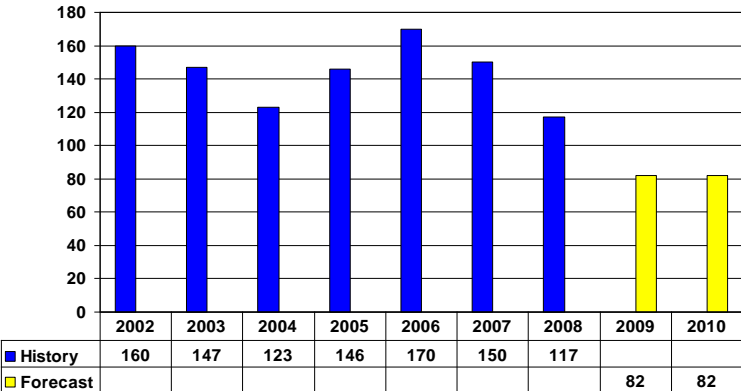
Despite fewer permits last year, a few major projects increased overall construction value substantially over 2007 totals. Nonresidential permit values totaled \$71.1 million in 2008. Major new nonresidential building projects last year included a \$16.6 million expansion of the Target Distribution Center in Kershaw County and a \$10.1 million new investment by metal fabrication firm Olympic Steel in Sumter. Other new noteworthy construction projects were an expansion of the Kershaw County Medical Center valued at \$7.9 million and a new shopping center in Sumter County pegged at about \$7.2 million. In 2007, there were no similar-scale projects in the region and overall construction value was only \$28.1 million. Given that a few large investments can dramatically change overall totals, nonresidential construction values are generally the most difficult indicator to measure and forecast.

Also contributing to the complexity of gauging nonresidential projects is that additions and alterations to existing businesses don’t qualify as new construction, and these totals can be significant at times. For example, Sumter County has featured large volumes of additions and alterations in recent years. In 2006, Sumter had about \$17 million in new nonresidential construction and \$40.2 million in additions/alterations. Similar tallies were recorded in '07 in the county with \$16.2 million in new construction and \$42.4 million in additions and alterations.

The heightened level of uncertainty in the economy is expected to continue to delay new nonresidential construction projects. The number of nonresidential permits is projected to fall 29.9 percent in 2009 bringing the total number of permits issued to 82 for the year. The total value of nonresidential construction is expected to fall 53.9 percent in 2009 to \$32.8 million. While the economy should be showing signs of recovery in 2010, commercial construction in the region may lag other areas as businesses will continue to be very cautious about ramping up investment plans until the local economy shows clear signs of improvement. In 2010, the number of new nonresidential permits is expected to be unchanged at 82, while the total dollar value of new construction rises about 9.8 percent to \$36 million.

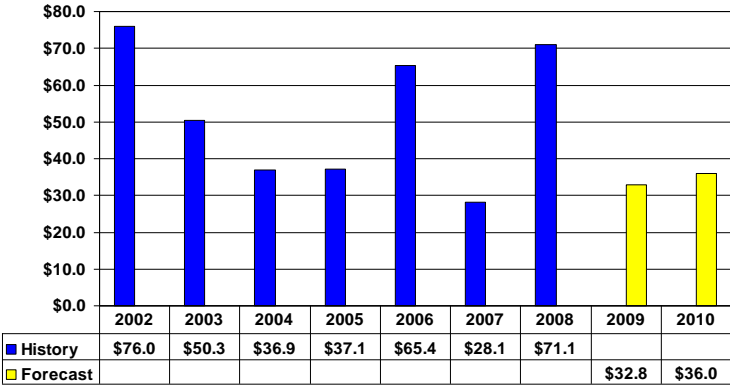
Nonresidential Building Permits

(# of permits)



Nonresidential Permit Value

(\$millions)



NATIONAL AND SOUTH CAROLINA OUTLOOK

As of April 2009, the local, state, national and global economies find themselves mired in a deep recession. Indeed, in many respects, this has turned out to be among the worst economic downturns since the Great Depression. 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.

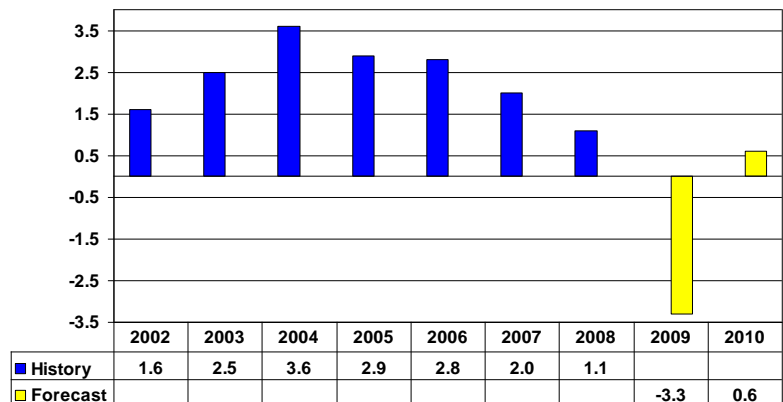
The events leading to this deep recession have been widely analyzed, dissected, reported and discussed. In short, the national economy experienced a lengthy period of relatively strong economic growth, fueled largely by consumption and construction, going back to the mid-1980s. However, throughout the 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 first cracks began to appear for the economy with the downturn of the U.S. housing market in late 2005 and 2006. This downturn in housing remained generally contained until the effects of falling home values and rising defaults began to have real consequences for financial firms. The real tipping point was reached in

September 2008 with the collapse of Lehman Brothers, followed days later by the government rescue of AIG. These events brought the normal and necessary flow of credit throughout the economy to a standstill. Through the final months of 2008 and the first months of 2009, the economy was buffeted by the drying up of credit that hampered household, business and government borrowing, the escalating rate of job losses, the uncertainty and anxiety surrounding massive government intervention in the economy, and the global spread of economic deterioration.

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 probably will not. Indeed, all of the government and Federal Reserve 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.

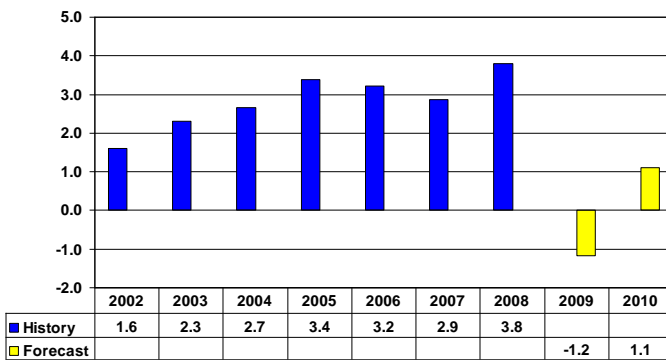
GDP Growth Rate
(percent)



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.

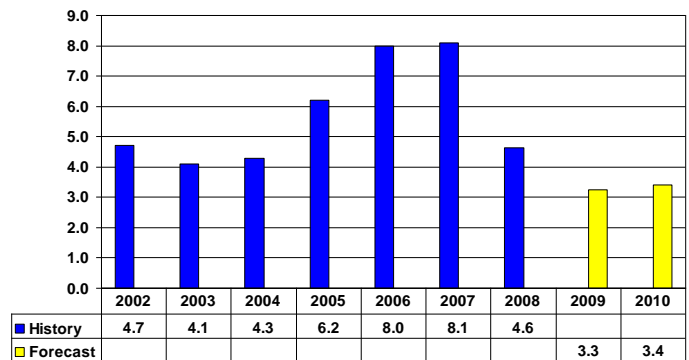
CPI Inflation Rate

(percent)



Prime Rate

(percent)



U.S. inflation is expected to post a slight annual decline in 2009, before turning slightly positive in 2010. Meanwhile, little movement is projected for interest rates. Whether looking at short or long-term rates, the level of interest rates is expected to be somewhat lower in 2009 than in 2008. As the economy begins to recovery later in the forecast period, there is projected to be some upward pressure on interest rates. At some point down the road, there will likely be more substantial upward pressure on rates, but this is not expected to occur until 2011 and beyond.

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. South Carolina's economy is in this precarious position because of our reliance on tourism, manufacturing, and construction and other housing-related industries. Also, because each of these sectors may be slow to recover, the state's economy could be poised for an extended period of job losses followed by only modest job growth down the road.

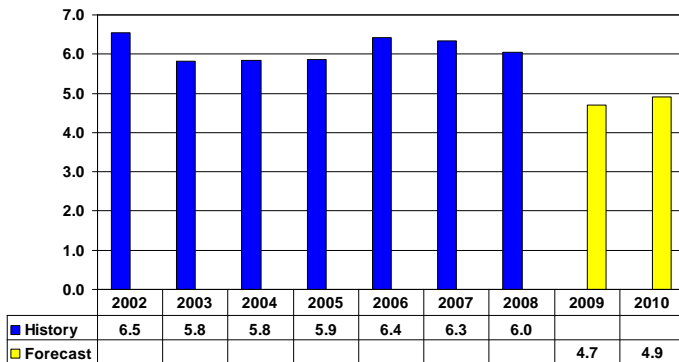
Looking at the current forecast, total employment in South Carolina is expected to fall by about 4.2 percent in 2009. The pace of job losses will then slow late in 2009 and into 2010, but total employment for all of 2010 is also expected to decline by about 1.6 percent. Right now, South Carolina is not 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.

Meanwhile, the state's unemployment rate is projected to climb throughout all of 2009 before reaching a peak in mid-2010. For all of 2009, the jobless rate is projected to average 12.8 percent, while the

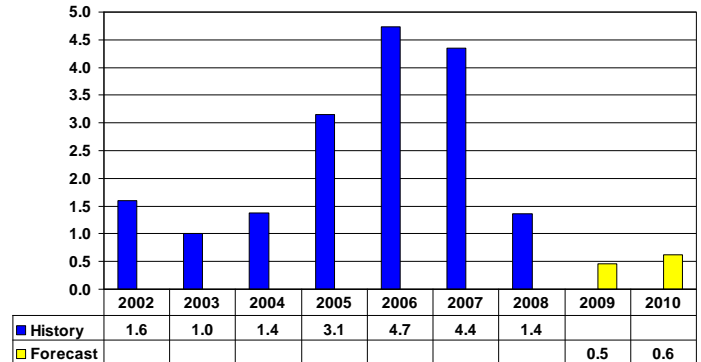
average will climb to 14.1 percent in 2010. Again, it will likely be 2011 before the state's jobless rate begins to post a sustained improvement.

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.

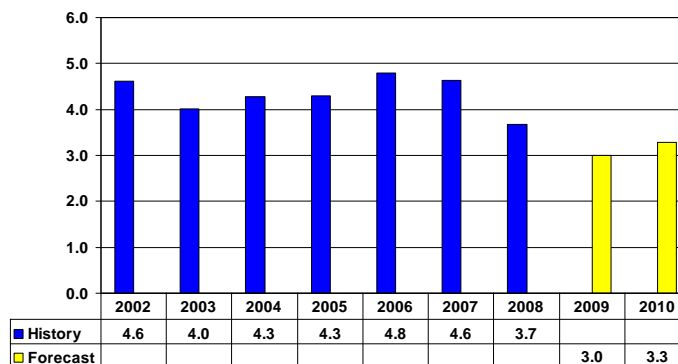
30-Year Conventional Mortgage Rate (percent)



3-Month Treasury Rate (percent)

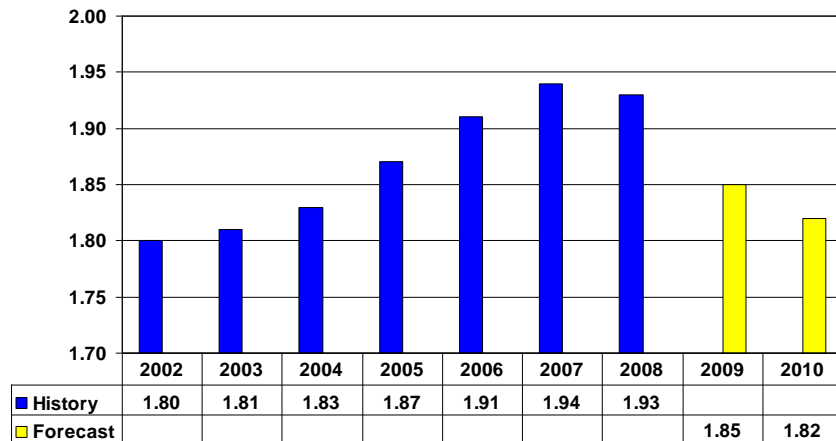


10-Year Treasury Rate (percent)



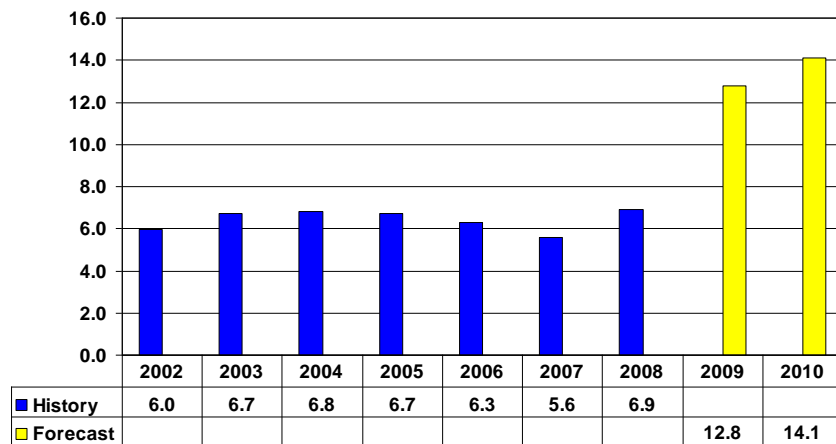
South Carolina Total Employment

(millions)



South Carolina Unemployment Rate

(percent)



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