SANTEE-LYNCHES ECONOMIC FORECAST

In the current age of the global economy 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 2011-12 Santee-Lynches Economic Forecast is the 11th 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 Office of Economic Analysis at the College of Charleston, 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 Office of Economic Analysis at the College of Charleston. The data is used in an economic model specifically for the Santee-Lynches Region designed by Dr. Frank Hefner, the center's director.

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. Hefner 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 2011-12 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. Hefner and the Office of Economic Analysis at the College of Charleston. Hefner and the office track and forecast developments in both the U.S. and state economies quarterly. 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 times-series econometric models that are constantly under review to secure that 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 competitive 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 about 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 manufacturing sector totaling 9,977 jobs through the third quarter of 2010 according to average monthly employment figures. Many of these job losses were in the lower-skilled, lower-wage category. Conversely, the four counties featured net gains through most of the last decade in non-manufacturing, or service-sector, jobs until 2009 and the continual shedding of jobs associated with the most recent recession. In 2010, the region started slowly adding back service-sector employment.

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. Kershaw's population grew by 17.2 percent during the last decade or about 9,000 residents. Its growth rate was 11th-best of the 46 counties in the state from 2000 to 2010. Clarendon and Lee counties have also aggressively recruited both national and international companies with some success over the years.

During 2010 the region did experience investment and expansion activity. In Sumter, SYKES call center added about 400 employees during the year following its initial startup in 2009 with 100 workers. In the manufacturing sector, Sumter's Kaydon Corp. completed an $8.9 million expansion and added 75 jobs in 2010.

In Kershaw County in 2010, biomass firm Southeast Renewable Energy announced it would build a new renewable energy facility in the county and generate 20 new jobs in 2012. As far as existing firms in Kershaw, New South Lumber announced the expansion of its lumber mill in Camden in 2010, which led to reinstituting a second shift at the facility. Kawashima, a leading fabric manufacturer for the automotive industry, also announced a $9 million expansion and 50 new jobs at its Lugoff facility.

In Clarendon County, non-woven manufacturer Treleoni Group announced a $7.75 million new investment in Manning in 2010 that will eventually create 100 jobs in the county by 2012. Building product manufacturer Georgia Pacific also purchased the former Grant Forest Products' oriented strand board (OSB) facility in Alcolu in 2010. The plant was expected to begin a 150-employee operation in late 2011. Clarendon Health System also began its hospital expansion in 2010, which includes a new emergency room, 24 new patient rooms and will add health care jobs in the county.

The region's success over the years is largely attributed to the concentrated efforts of the counties' economic development leaders operating as allies. During the last decade, all four counties 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.

<u>Shaw Air Force Base and Third Army</u>

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. In September 2011, Shaw will also become the official home of the Third Army as stipulated in the 2005 Base Realignment and Closure process (BRAC). Third Army's previous headquarters was in Atlanta.

Among Air Force personnel, the base has about 7,020 workers when including active duty, civilian and support facility employees. By August 2011, Shaw personnel will also include about 1,500 Third Army jobs when including active-duty soldiers, civilians and contractors. As of spring 2011, about 230 Army personnel had been assigned to Shaw with major transfers scheduled for June and July 2011 before the September BRAC deadline. Additionally, thousands of Air Force retirees and their families have settled in the community over the decades to be near the benefits available to them at the military facility. The 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 regards to the Third Army, projecting the immediate economic impact in the region is somewhat of a moving target due to the uniqueness of the transfer. Due to a heavy overseas deployment schedule, Third Army consists of many "geographic bachelors" – where the military member moves to his/her various assignments but the spouse and children stay in one location over time. This scenario obviously clouds a population multiplier effect on the transfer into the region. Given "geographic bachelors," relatively short rotation schedules, and various other factors including current macro-economic housing conditions, the majority of Third Army personnel are expected to look into the rental housing market for residence. However, the region's rental market wasn't considered in strong supply in 2011. This may force many Third Army families to look outside the four-county region to Columbia for residence where a bigger rental market is available. Also given current deployments, some Third Army personnel might not consider moving their families until they return from an overseas tour later in 2011 or '12.

Still the region could expect about 2,000 more residents by August 2011 from the beginning of the year associated with Third Army and dependents, with additional military families coming into the area during 2012 and later based on rental housing availability. The greater the percentage of Third Army families living in the region will result in a greater impact on the local economy.

Construction of several new facilities for the Third Army, including the headquarters, visiting officers' quarters, a child development center and a fitness annex, are expected to be completed by spring 2011. Caddell Construction of Alabama is the General Contractor for the project.

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.

Military officials emphasize planning for domestic installation movements 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, one of the largest container ports 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 for 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 experienced tremendous enrollment growth in recent years due to various factors, including job loss in the most recent recession and people choosing the technical college route as a lower-cost "bridge" to a four-year university. In Fall 2010, Central Carolina also opened a new Health Sciences facility to serve the ever-growing health care sector in the four-county region.

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 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.

NAME	POSITION	ORGANIZATION
John Brabham	Broker	John M. Brabham Real Estate
Randy Brown	Senior Vice President	The Citizens Bank
Jeff Burgess	Executive Director	Lee County Development Alliance
Bill Buyck	Chairman	Bank of Clarendon
Jay Davis	President	Coldwell Banker Commercial Cornerstone
Bill Day	Broker	Executive Realty Center
Jule Eldridge	Managing Partner	Sunbelt Management Co.
Rick Farmer	Dir. of Communications & Strategic Initiatives	Sumter Development Board
Jim Giffin	Business Consultant	USC Small Business Dev. Center
Louis Griffith	Chief Financial Officer	Bank of Clarendon
Barry Ham	Vice President	Bank of Clarendon
Maj. Gen. Dutch Holland (Ret.)	Executive Director	Shaw-Sumter Partnership for Progress
Greg Newman	Broker In Charge	Century 21 (Kershaw County)
Ray Reich	Commercial Dev. Mgr. & Downtown Dev. Mgr.	City of Sumter
William Renwick	Vice President	Tuomey Healthcare Systems
Louis Tisdale	President	Black River Land Services
John Truluck	Executive Director	Clarendon Co. Development Board

STAFF

Bruce Mills	Santee-Lynches Regional COG
Frank Hefner, Ph.D.	Office of Economic Analysis at the College of Charleston

SPECIAL THANKS TO OUR SPONSORS

SANTEE-LYNCHES
WORKFORCE INVESTMENT BOARD

OFFICERS

Chairman	Mr. Sid Isler	Kershaw
Vice Chairman	Ms. Ginny Dority	Sumter

CLARENDON COUNTY
Mr. Charlie Gavin
Ms. Gail Duke
Ms. Beverly Moberg
Mr. John Tindal
Mr. Dan Yount

KERSHAW COUNTY
Mr. Mike Bunch
Dr. James Coleman
Ms. Jean Duncan
Mr. Ed Garrison
Mr. John Hornsby
Mr. Joe Redfearn
Mr. Dean Riddle
Mr. Craig Smith

LEE COUNTY
Mr. Thaddeus Dickey
Dr. Cleo Richardson
Mr. Troy Santoscoy

SUMTER COUNTY
Mr. Bobby Anderson
Mr. Ryan Cagle
Mr. Rob Fauvie
Ms. Jeannine Gamble
Mr. Tom Garrity
Dr. Tim Hardee
Ms. Hyacinth Kinley
Mr. George Kosinski
Mr. Rick Levy
Mr. David Merchant
Mr. Joe Perry
Rev. William Randolph
Ms. Sharon Teigue
Mr. Gerald Vaughn
Ms. Anita White
Mr. Donald Witherspoon

SANTEE-LYNCHES
REGIONAL DEVELOPMENT CORPORATION

OFFICERS

President	Mr. Jay Schwedler	Sumter
Vice President	Mr. Bobby Boykin	Sumter

CLARENDON COUNTY
Mr. Barry Ham
Mr. Billy Timmons
Mr. John Truluck

KERSHAW COUNTY
Mr. Nelson Lindsay
Alfred Mae Drakeford

LEE COUNTY
Mr. Jeff Burgess
Mr. Janson Cox
Mr. Fred Sandy

SUMTER COUNTY
Mr. Randy Brown
Mr. Bob Galiano
Mr. Earl Wilson
Ms. Tammy Kelly

REGIONAL STATISTICS

Regional population:

County	2000 Census	2010 Census	% change (2000-'10)
Clarendon	32,502	34,971	7.6%
Kershaw	52,647	61,697	17.2%
Lee	20,119	19,220	(-4.5%)
Sumter	104,646	107,456	2.7%
Santee-Lynches	**209,914**	**223,344**	**6.4%**

Regional labor force:

County	2009 average	2010 average	% change (2009-'10)
Clarendon	12,892	12,889	0.0%
Kershaw	30,178	29,898	(-0.9%)
Lee	8,585	8,335	(-2.9%)
Sumter	45,285	45,563	0.6%
Santee-Lynches	**96,939**	**96,685**	**(-0.3%)**

Total employed:

County	2009 average	2010 average	% change (2009-'10)
Clarendon	10,939	10,954	0.1%
Kershaw	26,959	26,789	(-0.6%)
Lee	7,350	7,174	(-2.4%)
Sumter	39,668	40,146	1.2%
Santee-Lynches	**84,916**	**85,062**	**0.2%**

Total unemployed:

County	2009 average	2010 average	% change (2009-'10)
Clarendon	1,952	1,936	(-0.8%)
Kershaw	3,219	3,109	(-3.4%)
Lee	1,235	1,162	(-5.9%)
Sumter	5,617	5,416	(-3.6%)
Santee-Lynches	**12,023**	**11,623**	**(-3.3%)**

Regional unemployment rate:

County	2009 average	2010 average	% change (2009-'10)
Clarendon	15.2%	15.0%	(-0.2%)
Kershaw	10.7%	10.4%	(-0.3%)
Lee	14.4%	13.9%	(-0.5%)
Sumter	12.4%	11.9%	(-0.5%)
Santee-Lynches	**12.4%**	**12.0%**	**(-0.4%)**

COUNTY BUILDING PERMIT TOTALS & VALUES

New Single-Family Home Permits

Area	2009	2010	% Change 2009-10
Clarendon Co.	90	55	(-38.9%)
Camden	48	23	(-52.1%)
Kershaw Co.	212	221	+4.2%
Lee Co.	10	11	+10.0%
City of Sumter	168	143	(-14.9%)
Sumter Co.	217	142	(-34.6%)
Region	**745**	**595**	**(-20.1%)**

New Single-Family Home Permit Values

Area	2009	2010	% Change 2009-10
Clarendon Co.	$9,507,309	$5,869,758	(-38.3%)
Camden	$7,429,000	$3,160,950	(-57.5%)
Kershaw Co.	$22,144,322	$27,165,130	+22.7%
Lee Co.	$732,792	$1,304,306	+78.0%
City of Sumter	$18,325,616	$16,246,997	(-11.3%)
Sumter Co.	$25,564,818	$16,070,377	(-37.1%)
Region	**$83,703,857**	**$69,817,518**	**(-16.6%)**

New Manufactured & Mobile Home Permits

Area	2009	2010	% Change 2009-10
Clarendon Co.	147	133	(-9.5%)
Camden	0	0	0.0%
Kershaw Co.	114	129	+13.2%
Lee Co.	9	8	(-11.1%)
City of Sumter	22	12	(-45.5%)
Sumter Co.	245	194	(-20.8%)
Region	**537**	**476**	**(-11.4%)**

New Non-residential Permits

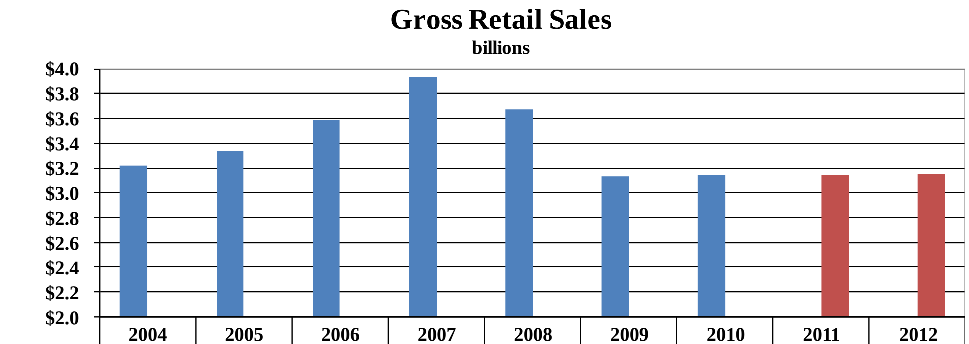
Area	2009	2010	% Change 2009-10
Clarendon Co.	3	14	+366.7%
Camden	4	3	(-25.0%)
Kershaw Co.	10	10	0.0%
Lee Co.	3	1	(-66.7%)
City of Sumter	20	18	(-10.0%)
Sumter Co.	38	37	(-2.6%)
Region	**78**	**83**	**+6.4%**

New Non-residential Permit Values

Area	2009	2010	% Change 2009-10
Clarendon Co.	$779,934	$12,567,965	+1511.4%
Camden	$2,549,000	$1,011,000	(-60.3%)
Kershaw Co.	$9,025,377	$1,725,133	(-80.9%)
Lee Co.	$871,862	$219,000	(-74.9%)
City of Sumter	$5,607,613	$9,299,007	+65.8%
Sumter Co.	$2,283,674	$2,759,896	+20.9%
Region	**$21,117,460**	**$27,582,001**	**+30.6%**

Gross retail sales in the region totaled $3.142 billion last year, representing only a 0.4 percent increase from the 2009 level of $3.131 billion. During the last two years, gross sales have taken a sharp dive due to the Great Recession as employed residents in the region have decreased, the consumer credit market has been tightened, and a general lack of consumer confidence has caused “fear-induced savings.” Current gross retail sales levels in the region were last seen in year 2004.

In 2010, average monthly employed residents in the region only increased by an estimated 146 people from the recession-low levels of 2009. The result has been a stubbornly high regional unemployment rate of 12.0 percent or higher during the last two years, which has likely greatly influenced the reduced consumer spending. In 2007, the region experienced a record gross sales tally of $3.932 million, and employment in the region was about 3,100 higher than in 2010. The regional unemployment rate in 2007 was 6.8 percent.



	2004	2005	2006	2007	2008	2009	2010	2011	2012
History	$3.22	$3.34	$3.59	$3.93	$3.67	$3.13	$3.14		
Forecast								$3.14	$3.15

Continued tightening of the credit market in 2010 across the U.S. and locally also limited many consumers from buying homes and other big-ticket purchases such as furniture and appliances.

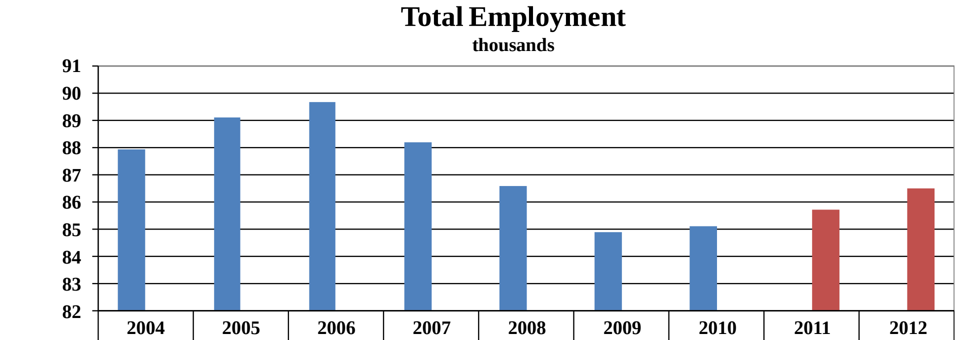
A third key factor contributing to reduced retail sales in the last two years was low consumer confidence, which has resulted in fear-induced savings. With negative economic news throughout the majority of the two years, many employed people became increasingly pessimistic about the economy, possibly fearing the loss of their own jobs, and built up their savings levels while spending very conservatively. Across the U.S., Americans were feeling deep uncertainty related to the economy in both years.

Generally, economists link retail sales to consumer confidence, jobs and income. Unfortunately, all three have been in short supply recently. Consumer debt has been reduced by circumstances rather than by choice. What will encourage consumers to increase spending? A rosier outlook coupled with job and income gains. The rosier outlook is subject to an increasing amount of volatility.

Regional retail sales were basically flat during 2010 from ‘09. The forecast continues that trend, with 2011 at $3.14 billion followed by $3.15 billion in 2012. Gasoline and food price increases will put a damper on other purchases for the rest of 2011. The influx of Army personnel and their families into the region will certainly help. Additional jobs in the area will also. However, many analysts believe that households have adjusted their spending patterns so that they are more cautious.

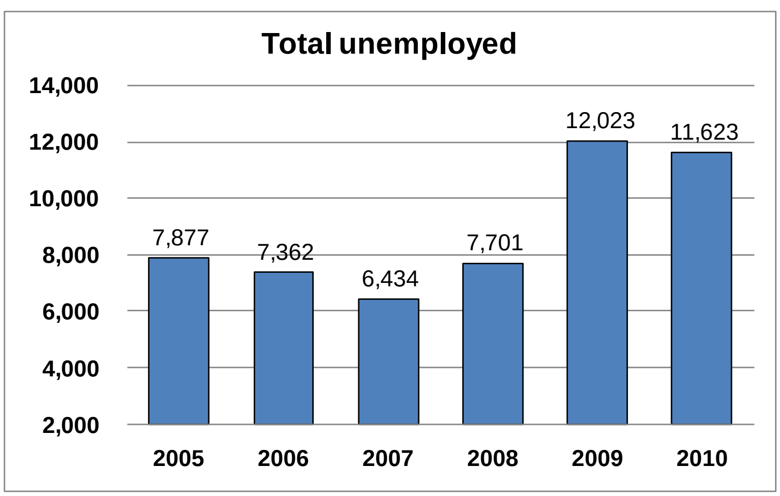
THE LABOR MARKET

After total employment reached its lowest level in several years in 2009, the region experienced a very mild recovery of sorts and slight overall gains in 2010. The total number of employed residents in the region grew by an estimated 146 workers in 2010 over 2009, according to data from the state Department of Employment and Workforce. In 2009, the region's average monthly employment was 84,916. In '10, total workers edged up to 85,062, representing a 0.2 percent increase from '09. Total employment during 2010 was fairly balanced throughout the year with job totals swelling somewhat in the spring and summer months -- which is often the case -- before employment slowed in the final quarter to be similar to the first quarter levels. During the previous peak years in the middle of the decade, employment had reached the 89,000 level. (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 over 6,000 active-duty Air Force and Army personnel, the majority of which live in the region.)



	2004	2005	2006	2007	2008	2009	2010	2011	2012
History	87.9	89.1	89.7	88.2	86.6	84.9	85.1		
Forecast								85.7	86.5

Sumter County, the region's population center, showed the biggest employment gains in 2010 with an estimated increase in employment of 478 workers – or 1.2 percent – from recession-low levels of 2009. Clarendon and Kershaw counties experienced only slight employment changes from 2009, according to state Employment and Workforce data. Clarendon had a net increase of 15 employed residents, or 0.1 percent; while Kershaw featured a decrease of 170 workers or -0.6 percent. Lee County, the smallest county in the region by employment base, experienced a 2.4 percent reduction in workers with 176 less employed residents in 2010 over 2009. Statewide total employment changes were also slight in '10, decreasing by 0.3 percent from 2009 levels.



The estimated unemployment rolls in the region decreased by 400 residents last year, but this was only partially achieved through added employment as average monthly employment grew by just 146 residents from '09. The remainder of the unemployment reduction was due to a 254 decrease in the regional labor force. Total unemployed residents in the region stood at 11,623 in 2010. In 2009 the unemployed tally was 12,023 residents, the highest total on record. Prior to the most-recent recession, the unemployed resident total was generally in the 7,000 range in the four-county region.

With slightly more employed residents than '09 and less unemployed residents, the region's unemployment rate decreased by 0.4 percent from a record 12.4 percent in '09 to 12.0 percent in 2010. Kershaw featured the smallest county unemployment rate in '10 at 10.4 percent. Sumter was next at 11.9 percent; Lee and Clarendon followed at 13.9 percent and 15.0 percent, respectively.

The region's 12.0 percent unemployment rate was above the state average of 11.2 percent in '10, and considerably higher than the U.S. average of 9.6 percent.

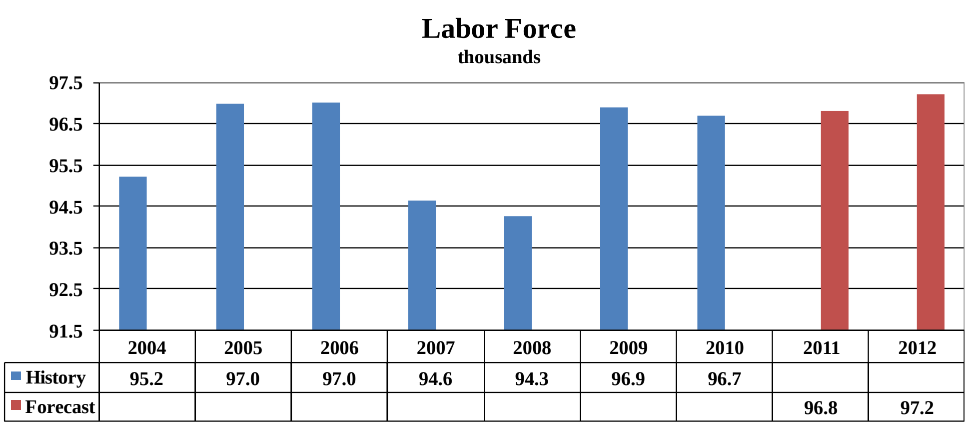
The region's rate is also markedly higher than it was in the late 1990s and 2000 when it ranged from 4.3 percent to 6.1 percent. A major reason for the significant spike in unemployment in the region since 2000 has been continual job losses in the manufacturing sector. According to the Quarterly Census of Employment and Wages, the region lost about 9,977 manufacturing jobs within its county boundaries from 2000 through the third quarter of 2010. (QCEW is the most precise job data available by county, but it does lag by about six months.) 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. Other manufacturing job losses are due to increased technologies and automation 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 137,850 manufacturing jobs, or 39.9 percent, from 2000 through the third quarter of '10. The state lost 170,000 manufacturing jobs, or about 45 percent of its base, since 1995.

Manufacturing losses from 2000 to 3rd Qtr. '10

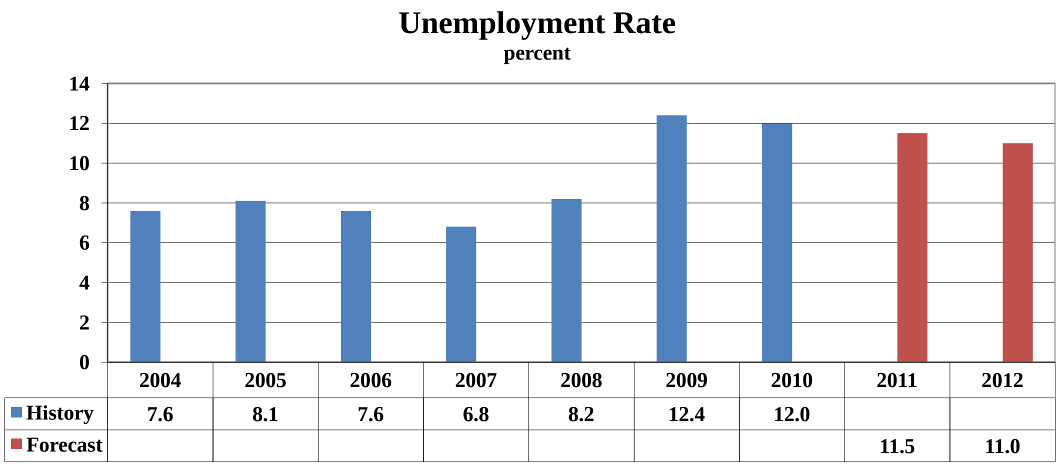
Area	Yr. 2000 jobs	Yr. 2010 jobs	Jobs lost
Region	19,868	9,891	(-9,977)
State	345,152	207,302	(-137,850)

The service sector now outpaces manufacturing for total jobs within the region when including Education, Health Care, Professional and Business Services, Leisure/Hospitality and other services. Manufacturing jobs currently encompass about 16.2 percent of the four-county labor market after achieving a high mark of nearly 28 percent in 2000.

Lower-skilled manufacturing employment will likely continue to be at risk locally and at the state and national levels in the future due to cheaper labor-related overseas operating costs and technological advances. Growth areas in manufacturing 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 by increasing educational attainment levels to be competitive and attract more industry. The four counties must also attempt to train the future workforce for growth sectors in non-manufacturing industries, such as health care, transportation and professional and business services.



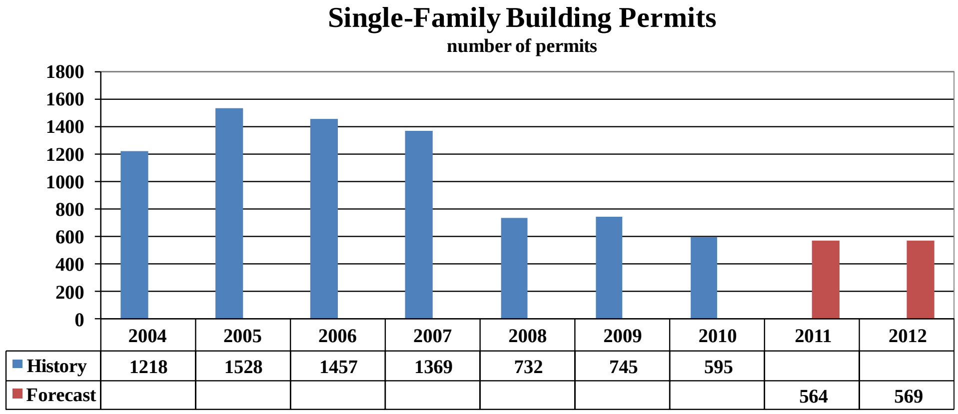
In regards to the forecast, there has been recent positive activity in the region. Besides the Third Army transfer to Shaw Air Force Base, existing manufacturing firms are starting to add back workers. Additionally, there are a few new plant openings and some expansions. The regional employment trend had been consistently downward since the beginning of 2007. We think the recent positive factors signal the bottom of the cycle for the region. The forecast for employment is slight improvement from an average monthly employment total of 85,100 in 2010 to 85,700 in 2011 with a further increase in ’12 to 86,500. The regional unemployment rate is expected to drop from 12.0 percent in 2010 to 11.5 percent in 2011 and 11.0 percent in ’12 for two reasons in particular – job growth and a slow increase in the labor force.



REAL ESTATE

Residential

Residential construction in the region took another dive in 2010, seeing a 20.1 percent drop in new single-family construction permits from 2009 levels. New permit activity had seemed to stabilize in 2009 in the region with totals on par with ’08 “post-housing boom” levels. The 2010 regional total of 595 new single-family permits was the lowest since at least 1994, when regional statistics began to be tallied.

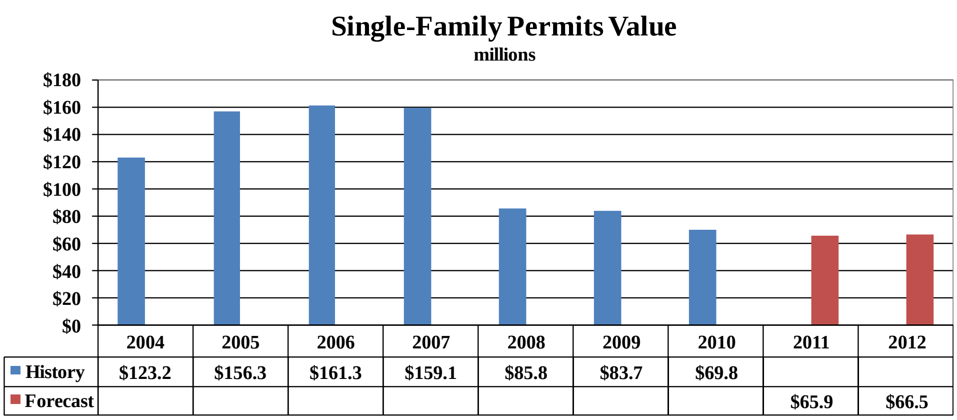


	2004	2005	2006	2007	2008	2009	2010	2011	2012
History	1218	1528	1457	1369	732	745	595		
Forecast								564	569

Similar to state and national trends, new home construction activity in the four-county region had soared in the early-to-middle part of the decade, reaching 1,528 new single-family permits issued in 2005. In ’06, 1,457 permits were issued in the region, followed by 1,369 in 2007. Declines since 2008 in the region and across the U.S. have been the result of the end of the housing boom and associated low-interest rates and various financing options, which had previously increased homeownership rates.

As would be expected, the leading housing markets in the region (Sumter and Kershaw counties) featured weak construction tallies in 2010. The City of Sumter and Sumter County combined for 285 new single-family construction permits last year. The county has only experienced one year with a lower tally since 1994, when statistics began to be generated, and that was 2000 when 281 total permits were issued in Sumter. Kershaw County’s 2010 permit total of 244 was its lowest since 1996. Both counties have experienced weak overall construction activity since 2008, which is when the greater housing correction began throughout the U.S. Sumter’s high mark during the “housing boom” years was 760 permits issued in 2006. Kershaw’s high mark was 613 permits in ’05.

The story was similar in Clarendon’s smaller residential market with only 55 new construction permits in 2010, which was off by 35 permits from ’09. During the boom years in the middle of the decade, Clarendon featured at least 122 permits per year.



	2004	2005	2006	2007	2008	2009	2010	2011	2012
History	$123.2	$156.3	$161.3	$159.1	$85.8	$83.7	$69.8		
Forecast								$65.9	$66.5

Statewide, new single-family construction was down about 4.8 percent in 2010 from ’09 levels with 13,128 permits issued last year. But – like the Santee-Lynches Region – state permit tallies are nowhere near the “housing boom” years’ tallies. In 2005, 43,599 permits were issued across the state followed by 41,111 permits in ’06.

As 2010 new permit activity declined from 2009, the region’s estimated total new home construction values dropped from the previous year. The estimated value of new single-family residential construction in the region in 2010 was $69.8 million. Given the major declines in housing in recent years, this value was in the range of year 2000 and 2001 total construction values.

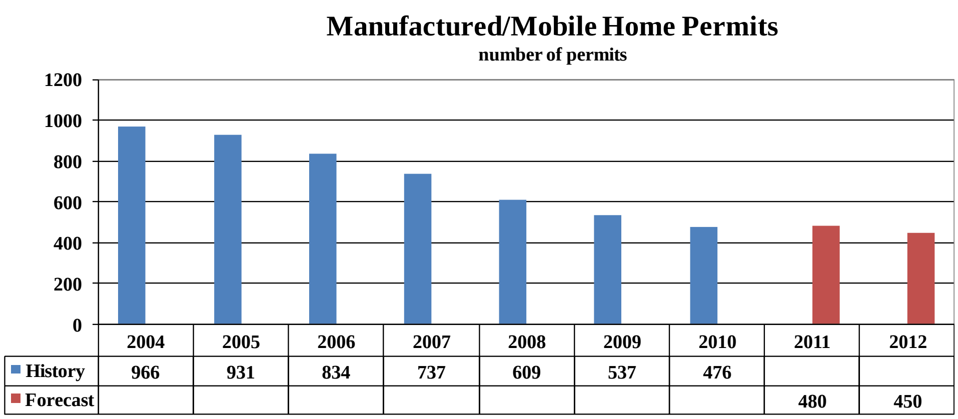
Although mortgage rates have been at all-time lows, housing construction activity throughout the state and the Santee-Lynches Region has not been as robust as one would hope. Locally, there are a number of positives that signal a more stable housing market in the years to come. The 2011 forecast is for 564 permits, which would be 31 off the 2010 total of 595. Our view is that this is a conservative forecast given the influx of families from the Third Army transfer to Shaw Air Force Base. However, we must guard against being overly optimistic. For example, last year's forecast for 2010 was for 780 permits, while the actual total came in at 595. This was most likely due to the expectation that lower interest rates would spur more housing. New construction has started in anticipation of the military transfer. For example, Mungo Homes and other larger builders are currently building in Sumter.

New construction should remain stable with slight improvement in 2012 with a forecasted 569 permits in the region. The increase is in part due to Shaw Air Force Base's housing-privatization effort, which should be in full swing by next year. A private national builder that specializes in military housing will be overseeing the project, which is to construct about 125 units per year over five years on the Base. The housing units will be a mixture of single-family detached, townhouses, duplexes, and other units and will all be rentals.

The total value of single-family permits is forecasted to be $65.9 million in 2010 and $66.5 million in 2011.

<u>Manufactured / Mobile homes</u>

New manufactured homes in the region continued to decline last year. Dating back to 2001, mobile home permits have fallen by an average of 12.6 percent annually from the previous year. The 2010 permit tally of 476 for the four counties was only 26 percent of the year 2000 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. The general trend has been downward since 2000. The forecast anticipates a leveling off with 480 permits in 2011 before another reduction in 2012 to 450 permits.

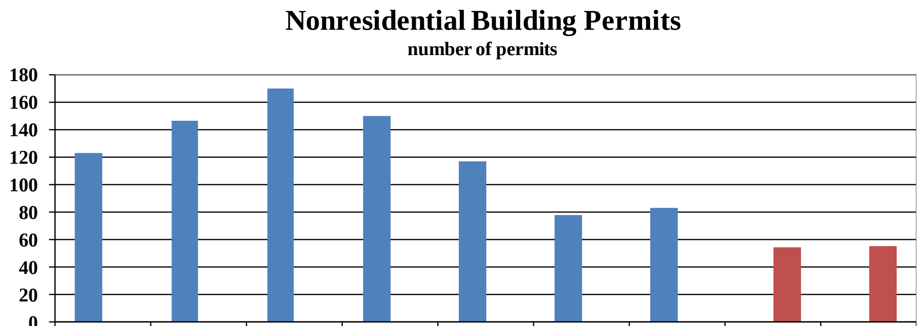


	2004	2005	2006	2007	2008	2009	2010	2011	2012
History	966	931	834	737	609	537	476		
Forecast								480	450

<u>Nonresidential</u>

In 2010 there were 83 new nonresidential construction permits issued in the region, representing a 5-permit increase from a recession-low tally of 78 in 2009. New nonresidential construction has dropped considerably since the early and middle of the decade when the region averaged 149 permits per year from 2001 through '07. The recession has had a heavy impact on the state in recent years and caused many private sector businesses to hold back on expansion efforts. Also, many closures in recent years have added to the amount of existing vacant space, which reduces the need for substantial amounts of new construction.

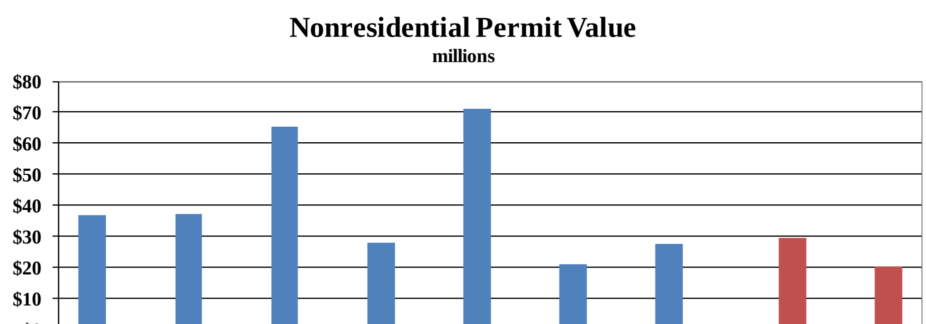
The biggest industrial construction project in 2010 in the region was the expansion of Clarendon Health System in Manning valued at about $10.3 million. The hospital expansion costs represented about 37.5 percent of total new nonresidential construction values for the region for 2010. The remainder of the year's projects was generally small commercial construction. The total annual new nonresidential construction value of $27.6 million in 2010 was about $6.5 million above the recession-low 2009 tally of $21.1 million. Year 2008's total of $71.1 million was a high-water mark for nonresidential construction in the region and included a few large investments that unfortunately didn't come to fruition due to the recession and changing economic climate. Given that a few large investment projects can dramatically change overall totals, nonresidential construction values are generally the most difficult indicator to measure and forecast.



	2004	2005	2006	2007	2008	2009	2010	2011	2012
History	123	146	170	150	117	78	83		
Forecast								54	55

One major nonresidential construction project in Sumter in recent years that was not subject to the regular permitting process is the current construction of the new Third Army headquarters at Shaw. A national contractor from Alabama is overseeing the project that is estimated at $90 million. Construction began in the summer of 2009 and is expected to be complete in spring 2010. Some local subcontractors and skilled workers are being used in the construction, which is helping local employment levels to a small degree. Many local subcontractors have had difficulties in obtaining work on the project, given the bonding, licensing and bidding issues related to such a large government project. Other government projects at Shaw are not subject to the regular permitting process either and aren't included in regional nonresidential totals. In the spring of 2010, Shaw construction also included a new headquarters building for the 9th Air Force and a new base commissary. Some local subcontractors and crews were involved in the work.

Nonresidential building is difficult to forecast. In general, statistical models are picking up the lingering weakness in the national, state and local economies. We expect the state to start seeing business expanding. Locally, there are some sprouts popping up. Several new expansions have been announced in 2010. Additionally, there have been more prospects looking at the area. Due to lots of vacant commercial and industrial space, many new operations or business expansions are able to move into existing facilities, which limits new permit and construction activity. Through the first quarter of 2011, new nonresidential permit activity in the region has been slow. However, we are aware of some large new construction projects later in the year, including a Coke expansion in Lee County and a new upscale hotel in Sumter. We anticipate for the year that nonresidential construction activity will be slow with 54 permits valued at $29.5 million. In 2012, the forecast calls for 55 permits valued at $20.1 million.

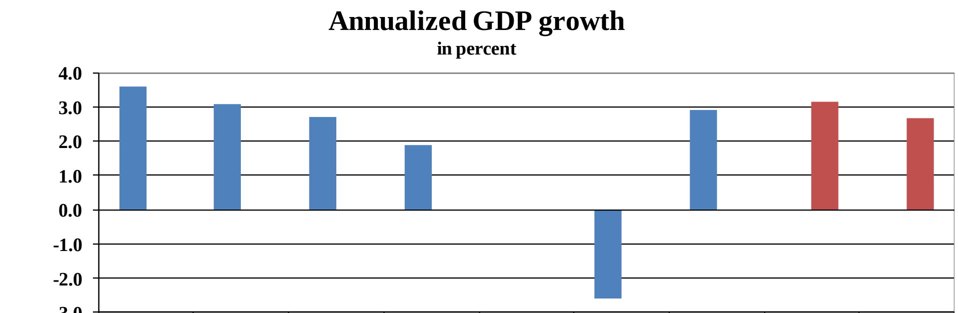


	2004	2005	2006	2007	2008	2009	2010	2011	2012
History	$36.9	$37.1	$65.4	$28.1	$71.1	$21.1	$27.6		
Forecast								$29.5	$20.1

NATIONAL OUTLOOK

The recovery, which began officially with the end of the recession in June 2009, has been characterized as another "jobless recovery." Unemployment rates in the U.S. and in South Carolina have remained stubbornly high. Economic growth, measured by growth in real Gross Domestic Product (GDP), was a flat zero in 2008 while the unemployment rate was 5.8 percent. Although the recession ended in June 2009, GDP for the year was -2.6 percent and unemployment soared to 9.3 percent in the U.S.

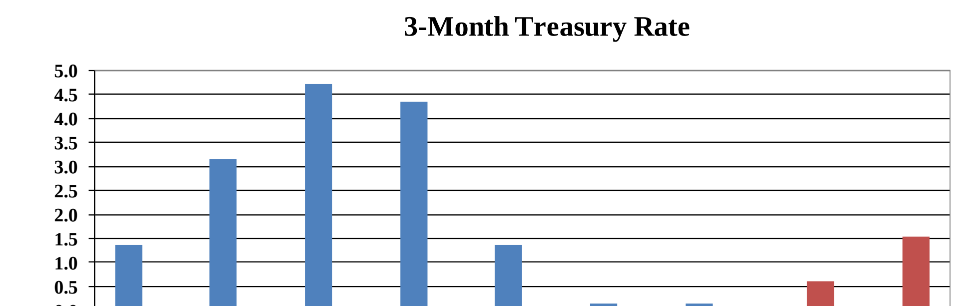
In 2010, GDP grew 2.9 percent and unemployment continued to climb to 9.6 percent. The major drivers for economic growth are consumer spending, capital investment (new plants and equipment), government spending and exports. The fiscal stimulus package was supposed to 'kick start' the economy with increased government spending. At 9.6 percent unemployment, it clearly didn't work and -- as we're discovering -- it's not sustainable. Consumer spending has been restrained with the drag of stock market uncertainty and housing market doldrums. On the plus side, business investment has picked up and until the Japanese disasters and the unrest in Egypt and Libya, the financial markets seemed to be rebounding. Now that the world seems to have become more volatile, a heightened sense of uncertainty and risk cast a shadow on all forecasts. As one commentator recently noted: "There is nothing quite like a natural catastrophe and war in the Middle East to mess up your forecasts!"



	2004	2005	2006	2007	2008	2009	2010	2011	2012
History	3.6	3.1	2.7	1.9	0.0	-2.6	2.9		
Forecast								3.2	2.7

Having said that, we are predicting a slight uptick in growth in 2011 to 3.2 percent followed by 2.7 percent in '12. In making this forecast we did not anticipate $4 per gallon gasoline with the potential that it could go even higher. An oil price shock has always slowed growth in the U.S.

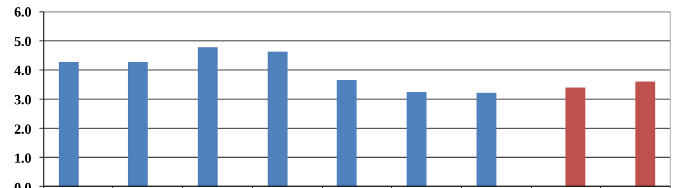
Short-term interest rates (3-month bond) are expected to rise over the next two years for three potential reasons. One, economic conditions stabilize. Two, the Federal Reserve bond buying program comes to an end. Three, rising inflation discourages bond holding. Ideally, inflation won't be a major problem in the next two years but this depends in part on the actions of the Federal Reserve. Because of the stabilizing economy, there will be pressure on the Federal Reserve to start raising rates from their historical highs. Typically, the Fed signals in the briefings from their meetings their own biases towards lower or higher rates. We anticipate the Federal Reserve will begin to signal higher rates near April or May with increases in the rate in the 3rd or 4th quarter of 2011.



	2004	2005	2006	2007	2008	2009	2010	2011	2012
History	1.4	3.1	4.7	4.4	1.4	0.2	0.1		
Forecast								0.6	1.5

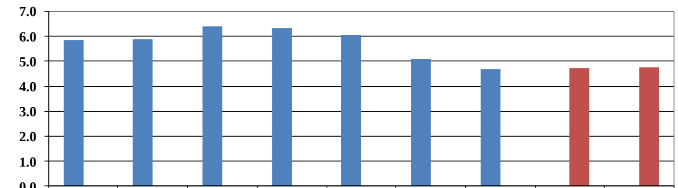
Our forecast assumes that the Federal Reserve will follow a decision system known as the “Taylor Rules.” However, there is some recent evidence that suggests the Federal Reserve may not follow the “Taylor Rules” and instead bear a bias toward lower rates and higher inflation. Long-term interest rates, exemplified by the 10-year bond and the associated 30-year mortgage rate, are expected to fall within relatively tight trading ranges. Again, this forecast is predicated on the Federal Reserve acting to forestall inflationary pressures. If prices begin to increase and the Federal Reserve does not act, then inflationary pressures will cause higher long-term interest rates than forecasted here.

10-Year Treasury Rate



	2004	2005	2006	2007	2008	2009	2010	2011	2012
History	4.3	4.3	4.8	4.6	3.7	3.3	3.2		
Forecast								3.4	3.6

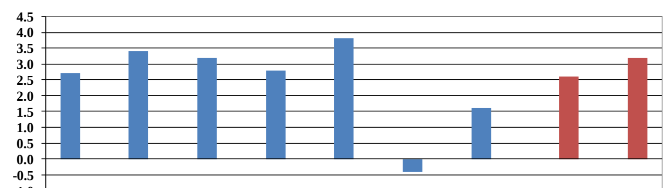
30-Year Conventional Mortgage Rate



	2004	2005	2006	2007	2008	2009	2010	2011	2012
History	5.8	5.9	6.4	6.3	6.0	5.1	4.7		
Forecast								4.7	4.8

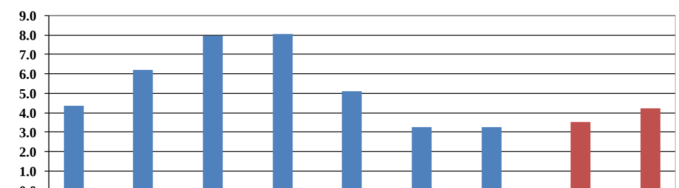
The Consumer Price Index (CPI) measures the inflation of the typical basket of goods bought by a household. Forecasts suggest relatively moderate inflation more in line with historical averages compared to the very low inflation rates seen in 2009 and 2008. In fact, the forecasted CPI inflation rates for 2011 and ‘12 are very similar to the inflation rates for 2010. While many have been anticipating very high inflation due to Federal Reserve quantitative easing and record governmental deficits, our forecasts assume the Federal Reserve will begin to tighten monetary policy by the end of the year and restrain inflation. For example, commodity prices of grains are already near the record highs of 2008; typically, when asset prices reach record highs they have a tendency to fall again. However, if food and oil supply concerns outside of the United States are realized, then CPI inflation may be higher than forecasted here.

CPI Inflation Rate



	2004	2005	2006	2007	2008	2009	2010	2011	2012
History	2.7	3.4	3.2	2.8	3.8	-0.4	1.6		
Forecast								2.6	3.2

Prime Rate



	2004	2005	2006	2007	2008	2009	2010	2011	2012
History	4.3	6.2	8.0	8.1	5.1	3.3	3.3		
Forecast								3.5	4.2

SOUTH CAROLINA OUTLOOK

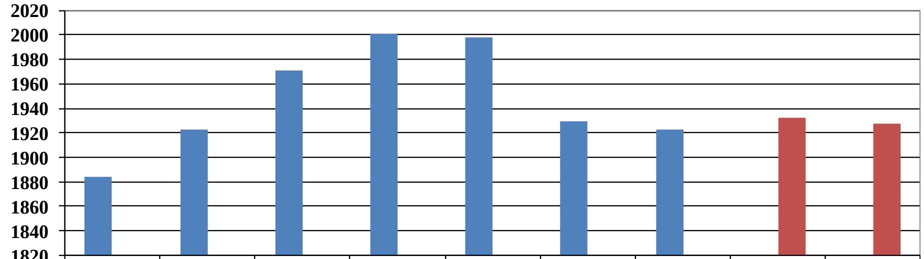
The state operates in the global and national context. Given the current state of the economy, it’s difficult to recall that the unemployment rate in South Carolina was 3.6 percent in 2000. This was followed by the recessionary rate of 5.2 percent in 2001. Unemployment was persistent ranging from 5.6 percent to 6.9 percent in 2008, just before the financial meltdown. Since then, we have seen 11.3 percent in 2009 and 11.2 percent in 2010. This wasn’t due to the housing market. The housing market collapse caused a financial collapse, which retarded growth nationally in all sectors. Indeed, the world’s economy slowed down so exports from the state declined. Manufacturing in the state also declined.

As the national economy picks up steam, we anticipate that South Carolina will also see positive gains. We are forecasting unemployment to come in at 10.8 percent for 2011 and 10.5 percent for

2012. The most recent report, March, indicates that unemployment has dipped below 10.0 percent for the state. This is clearly better news. However, it’s due to a combination of more jobs (a positive) and fewer people in the workforce (a negative). So far we have seen three years of negatives in job growth. We anticipate that 2011 will see positive growth for the first time, although it will be anemic. This is followed by a slight drop in 2012.

S.C. Employment

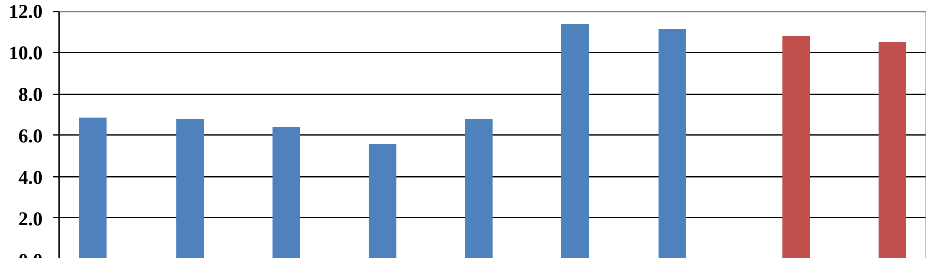
thousands



	2004	2005	2006	2007	2008	2009	2010	2011	2012
History	1884	1923	1971	2001	1998	1929	1923		
Forecast								1932	1928

S.C. Unemployment Rate

percent



	2004	2005	2006	2007	2008	2009	2010	2011	2012
History	6.9	6.8	6.4	5.6	6.8	11.3	11.2		
Forecast								10.8	10.5

Published by:

Santee-Lynches Regional Council of Governments

P.O. Box 1837
36 West Liberty St.
Sumter, SC 29151
(803) 775-7381

www.santeelynchescog.org

&

The Office of Economic Analysis at the College of Charleston

School of Business
College of Charleston
66 George St.
Charleston, SC 29424

http://sb.cofc.edu/centers/economicanalysis