

Mississippi Gulf Coast Regional Brief

Fourth Quarter 2009

Published February 22, 2010

This report contains statistics and commentary relative to the events and news that shaped the Mississippi Gulf Coast economy in the fourth quarter of 2009. This report is not comprehensive but provides insight on various issues, including the labor force, the overall economy, housing, tourism, and infrastructure. For more information regarding this report, please contact Brian Sanderson at the Gulf Coast Business Council Research Foundation at 228-897-2020.

Executive Summary

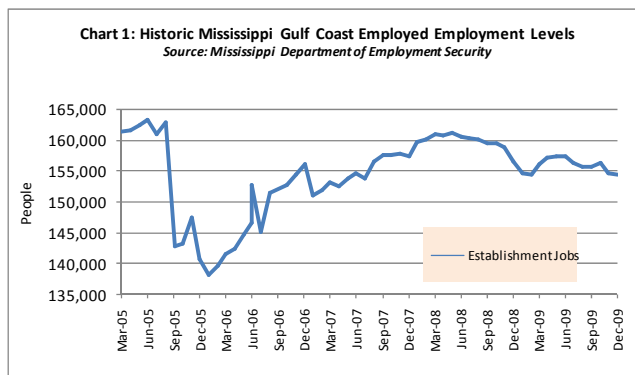
The economy on the Mississippi Gulf Coast advanced in the fourth quarter 2009 when referencing results from economic indicators such as sales tax diversions and home sales, while employment levels worsened slightly at the end of the year. Weighing these results with other indicators, such as the CEO & Business Owner Survey that was administered at the end of the quarter, and anecdotal information, shows slight progress was made within the overall economy of the Mississippi Gulf Coast.

This report contains information and commentary reflective of the Mississippi Gulf Coast and is intended to provide a regional perspective of economic conditions during the fourth quarter of 2009 and expectations for the coming months. The Regional Brief will provide the reader with a better understanding of the challenges facing the region and can be used to help make informed decisions to tackle obstacles and meet opportunities. Below are some of the key findings from this report.

- Unemployment levels remained stable during the fourth quarter but rose in December. While more than 14,000 residents were reported as unemployed on the Mississippi Gulf Coast in December, the rate at which establishment jobs were lost was at a 12 month low in the last month of 2009, suggesting that job declines are narrowing. Comparing December 2009 to prior year, the Mississippi Gulf Coast only accounted for 9% of all jobs lost in the state, while the Mississippi Gulf Coast represents nearly 15% of overall Mississippi non-farm employment.
- The total value of commercial permits dropped in the fourth quarter relative to the third quarter, but remained higher than those applied for in the same quarter 2008. Comparing the latter half of 2009 to that of 2008 demonstrates that activity picked up by 20%.
- Sales tax diversions for the fourth quarter of 2009 were down 7% from prior year after average declines of 10% for the prior three quarters. The 700,000 square foot Promenade development in D'Iberville, which is anchored by Target and Dick's Sporting Goods, has been a large success, and D'Iberville's sales tax proceeds were up by 33% in the fourth quarter. The success of this project bodes well for investors looking to invest in similar projects on the Mississippi Gulf Coast.
- While the Mississippi Gulf Coast is still challenged by high insurance costs, the volume of homes sold increased for the second consecutive quarter and reached its highest level since 2007. Despite the uptick in sales, legislators and community leaders should continue to seek long term solutions for insurance.

Employment

Year-over-year declines in employment continued on the Mississippi Gulf Coast in the fourth quarter, but the rate at which jobs declined on the Coast diminished significantly during the latter half of 2009. Whereas the Mississippi Gulf Coast generally accounts for about 15% of all Mississippi non-farm employment, the number of jobs lost in December compared to prior year (2,240) only accounted for 9% of all Mississippi jobs lost.



The unemployment rate of 9.2% on the Mississippi Gulf Coast in December 2009 was unexpected when compared to prior month trends and was the highest since June 2006, with more than 14,000 residents reported as being unemployed. Notably, year-over-year growth in Hancock County's December establishment reported jobs grew for the eighth consecutive month and the declines reported in Harrison and Jackson counties (1.8% and 2.1%, respectively) were the lowest reported in calendar year 2010.

Table 1: Mississippi Gulf Coast Establishment Jobs

Comparing Historical Levels in December

Source: Mississippi Department of Employment Security

	December '09	December '08	Change	% Change	Sep '09	% Change
Manufacturing	21,000	20,510	490	2.4%	20,900	2.4%
Agri., Forestry, Mining, Utilities	1,590	1,770	(180)	-10.2%	1,630	-10.2%
Construction	9,010	11,210	(2,200)	-19.6%	9,750	-19.6%
Wholesale Trade	2,420	2,270	150	6.6%	2,480	6.6%
Retail Trade	17,360	18,470	(1,110)	-6.0%	16,990	-6.0%
Transportation and Warehousing	3,600	3,440	160	4.7%	3,640	4.7%
Information	2,420	2,490	(70)	-2.8%	2,470	-2.8%
Finance & Insurance, Real Estate	6,010	5,810	200	3.4%	6,130	3.4%
Professional Services	6,210	6,680	(470)	-7.0%	6,180	-7.0%
Management of Companies	780	1,060	(280)	-26.4%	810	-26.4%
Waste Mgt.	11,290	10,810	480	4.4%	11,600	4.4%
Educational Services	580	540	40	7.4%	620	7.4%
Health Care	10,490	10,460	30	0.3%	10,400	0.3%
Arts, Entertainment, and Recreation	160	160	0	0.0%	140	0.0%
Leisure & Hospitality	25,000	24,570	430	1.8%	25,130	1.8%
Other Services and Government	3,140	3,170	(30)	-0.9%	3,240	-0.9%
Government and Education	33,350	33,230	120	0.4%	33,500	0.4%
Total Establishment jobs	154,410	156,650	(2,240)	-1.4%	155,610	-1.4%

The number of non-farm jobs on the Mississippi Gulf Coast generally accounts for 14% of all Mississippi non-farm employment, but the number of jobs lost on the Mississippi Gulf Coast only accounts for 9% of all jobs lost in Mississippi in December when compared to prior year.

As stated in previous Regional Briefs, while the employment picture on the Mississippi Gulf Coast stabilized in the latter half of 2009, continued year-over-year declines in employment are likely to continue during the first half of 2010. Sectors that are poised for rebounds include Construction, Retail Trade, and Leisure & Hospitality. The Government sector, which has actually added jobs throughout the recession and throughout the state, will likely see declines in employment as state and local budgets are trimmed and certain Katrina-related programs meet their goals and phased out.

The Economy

As has been the trend in recent quarters, indicators such as sales tax diversions, commercial and residential permit data, and home sales continued to show mixed signals of progress and stability. Other indicators such as the CEO & Business Owner Survey, demonstrated that while current conditions reported by various sectors were generally flat from prior quarter, optimism for the ensuing six months continued to climb. A significant breakthrough signal will be when both the six month outlook *and* current performance show significant improvement. Below are anecdotal highlights from the fourth quarter and potential milestones for 2010.

- At the state level, the Mississippi SBA office made more loans in FY 2009 than in FY 2008 and in FY 2007, with over \$144 million being loaned. Generally, one job is retained or created for every \$50,000 worth of SBA backed loans, inferring that nearly 3,000 jobs were impacted in FY 2009. Notably, in the fourth quarter of 2009 loans made in Harrison County represented more than 50% of the total that was loaned in all of FY 2009¹.
- In 2010, Pass Christian's multi-purpose complex, Biloxi's library and community center, Moss Point's City Hall and central fire station, and Gulfport's Small Craft Harbor projects are expected to be completed.
- Waterfront projects that will take place in 2010 include: Pascagoula will move the base of the Round Island Lighthouse to a new location, and construction of eight miles of boardwalk along the beach in Harrison County will continue that will make it possible to walk the 26 miles of beachfront from the Bay St. Louis Bridge to the Biloxi Bay Bridge. Pascagoula and Ocean Springs are also enhancing their beach and boardwalk infrastructure².
- In 2009 capital investment in Mississippi was valued at nearly \$5 billion. Some of the largest projects in the entire state were located on the Mississippi Gulf Coast: the \$1.5 billion Gulf Liquefied Natural Gas plant in Pascagoula, the \$175 million A-3 Test Stand in Hancock County, and more than \$1 billion in Harrison County³.
- Palace Casino Resort announced a more than \$50 million expansion project that will add significant gaming space and new non-gaming entertainment including a spa and fitness center⁴.
- In D'Iberville the 700,000 square foot retail complex, which is anchored by the likes of Target and Dick's Sporting Goods, opened during the fourth quarter. Reported sales tax diversions for the fourth quarter to that city increased by nearly 33%, with retail-related spending increasing by almost 40% in November. D'Iberville is also considering substantial improvements to and development of its downtown area.
- The Super Wal-Mart that opened in October in Pass Christian nearly tripled Pass Christian's sales tax proceeds for the fourth quarter.
- More than \$320 million in new-market tax credits were awarded during the fourth quarter to companies interested in projects in Mississippi, some of which are likely on the Mississippi Gulf Coast⁵.

Leading up to the fourth quarter of 2009, the rate at which year-over-year sales tax diversions were declining had averaged 10%. During the fourth quarter sales tax diversions were only down 6% along the Mississippi Gulf Coast and this trend of narrowing declines should continue to narrow during the first half of 2010. Local governments, which have been faced with falling sales tax collections for nearly three years, should make budget decisions with increased confidence that levels are nearing the bottom.

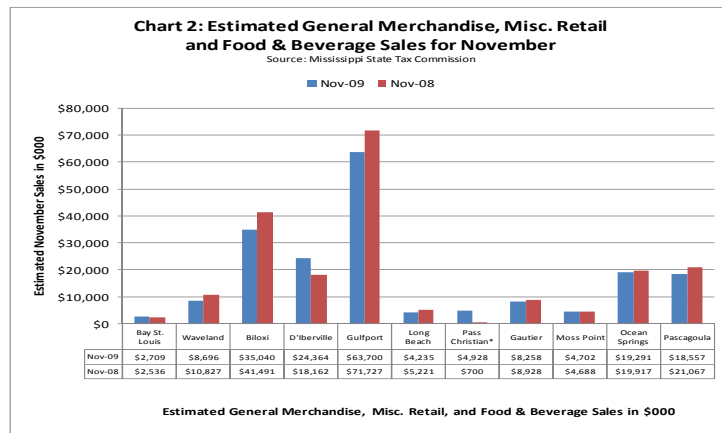
Table 2: Historic Fourth Quarter Sales Tax Diversions
Source: Mississippi State Tax Commission

	4th Q - 2009	4th Q - 2008	2009 vs 2008	4th Q - 2004	2009 vs 2004
BAY ST LOUIS*	276,860	694,679	-60%	311,605	-11%
BILOXI	2,355,566	2,698,894	-13%	3,168,442	-26%
D'IBERVILLE	1,465,514	1,100,803	33%	888,814	65%
GAUTIER	595,816	665,165	-10%	575,585	4%
GULFPORT	4,720,007	5,129,931	-8%	4,606,141	2%
LONG BEACH	322,893	316,667	2%	363,667	-11%
MOSS POINT	393,927	407,838	-3%	351,120	12%
OCEAN SPRINGS	1,110,154	1,115,959	-1%	957,709	16%
PASCAGOULA	1,322,692	1,463,993	-10%	1,362,475	-3%
PASS CHRISTIAN	232,980	83,267	180%	326,373	-29%
WAVELAND	511,472	679,434	-25%	568,136	-10%
Combined Cities	\$13,307,881	\$14,356,630	-7%	\$13,480,066	-1%

After declining at an average rate of 10% for the last several quarters, overall sales tax diversions were only down 6% in the fourth quarter when compared to prior year.

*In 2009 Bay St. Louis began receiving diversions for a recently annexed area - they received a lump sum payment initially.

It is still too early to assess the impacts that retail expansions such as the Promenade in D'Iberville will have on the Mississippi Gulf Coast, but over time it is likely that the retail industry will grow as a result of those investments.



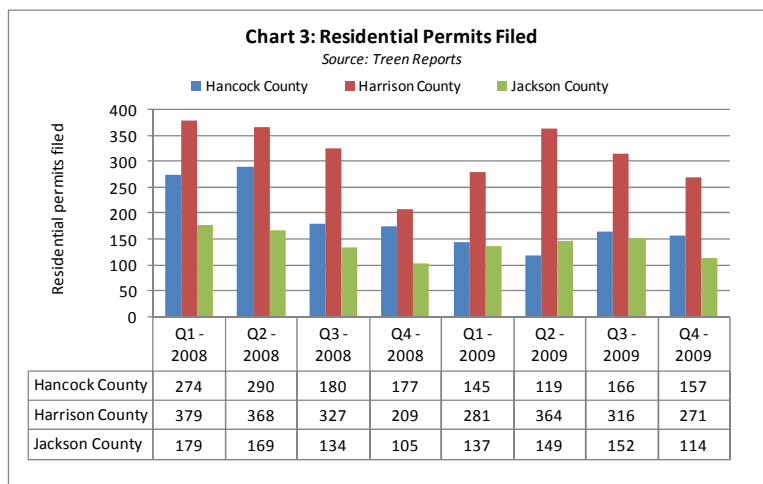
It is still too early to tell the overall impact on retail-related spending that the new Promenade and Super Wal-mart in D'Iberville and Pass Christian, respectively, will have on the Mississippi Gulf Coast. Based on initial data, much of the growth that occurred in D'Iberville and Pass Christian was a result of at least some cannibalization from other markets on the Coast, but it is likely that over time the retail market will grow on the Mississippi Gulf Coast as a result of these investments, as each opened up during a time that is historically a low-point for out-of-town visitors.

After reaching a six-quarter high during the third quarter, the total value commercial permits fell during the fourth quarter, a common trend⁶ in the fourth quarter. Notably, certain public or government projects are included in the data presented in Table 3, so it is possible that private investment may be increasing while government investment is decreasing. Regardless, the permits that were filed in both the third and fourth quarters will impact construction jobs in 2010, and activity that took place in the latter half of 2009 represented a 20% increase from the latter half of 2008.

Table 3: Summary Estimates of future commercial contracts

	Q1 - 2008	Q2 - 2008	Q3 - 2008	Q4 - 2008	Q1 - 2009	Q2 - 2009	Q3 - 2009	Q4 - 2009
Hancock County	\$33,053,000	\$23,038,000	\$19,786,000	\$16,199,000	\$31,620,000	\$7,455,000	\$37,387,000	\$5,386,000
Harrison County	\$200,525,000	\$113,592,000	\$145,033,000	\$67,463,000	\$23,368,000	\$106,238,000	\$204,458,000	\$49,332,000
Jackson County	\$24,979,900	\$52,012,000	\$12,009,000	\$10,547,000	\$19,661,500	\$20,924,000	\$19,200,000	\$13,174,000
Totals	\$258,557,900	\$188,642,000	\$176,828,000	\$94,209,000	\$74,649,500	\$134,617,000	\$261,045,000	\$67,892,000

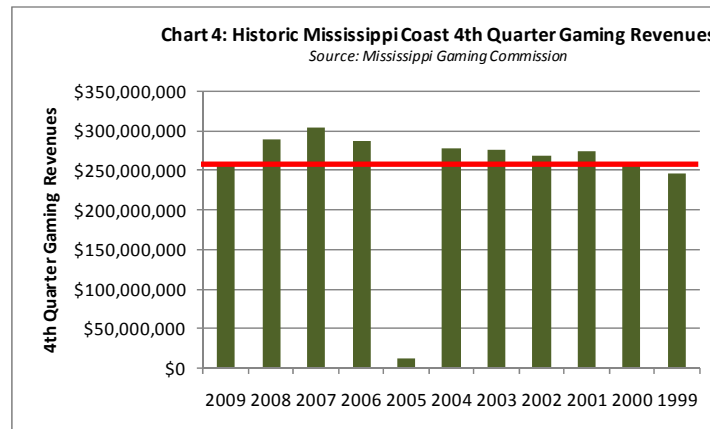
Compared to prior year, the number of residential permits applied for on the Mississippi Gulf Coast increased during the fourth quarter. As home improvements represent a significant source of consumer spending, this increase also bodes well for the current state of the economy. Reference Chart 3 for recent historical trends in residential permit activity.



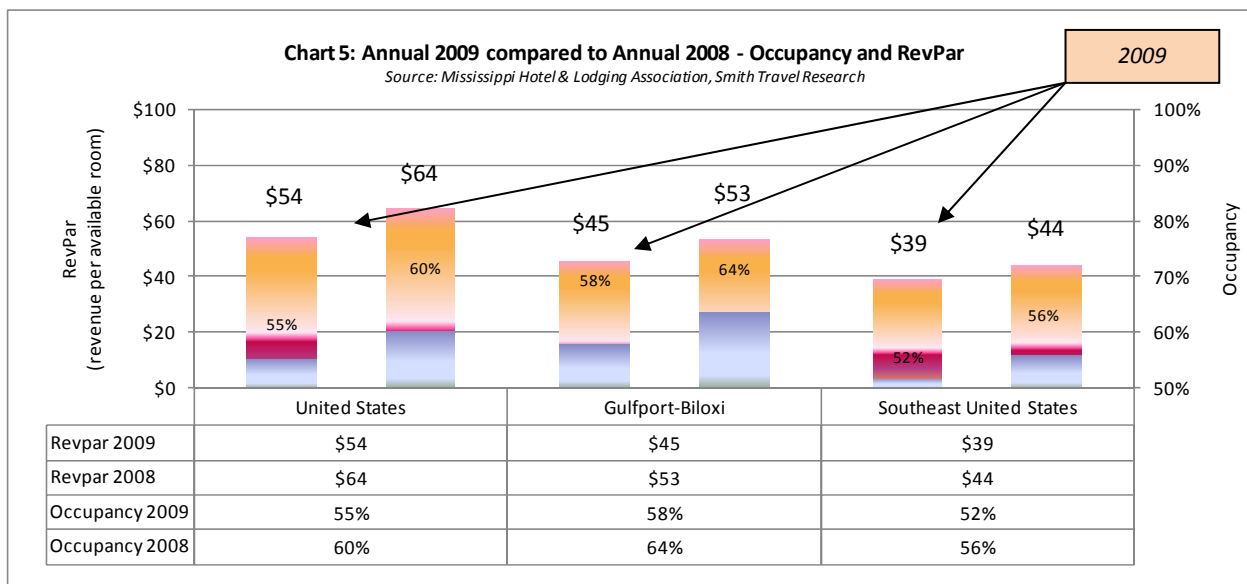
Increases in both the value of commercial permits applied for during the latter half of 2009 and the volume of residential permits compared to the same time period of 2009 are indicators that the first half of 2010 will bring better economic data. Though hard to quantify, many projects that were underway in 2009 will be complete in 2010 and increase the quality of life along the Mississippi Gulf Coast. Tourism is a critical key to our economic recovery and will be discussed in the following section.

Tourism

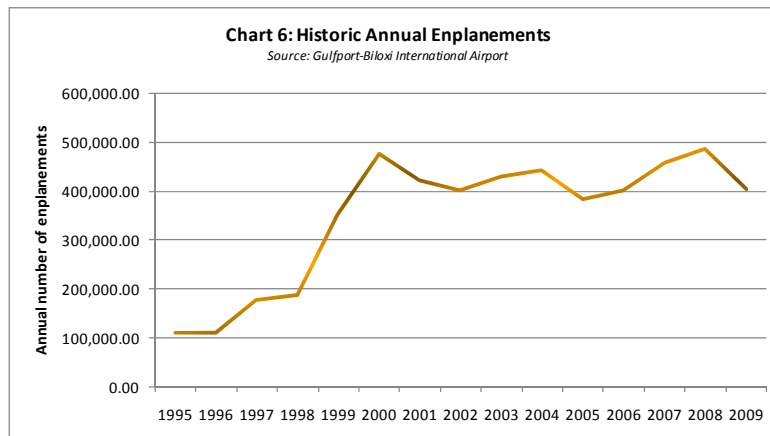
Gaming anchors the Coast’s tourism industry, and 2009 was not a good year for casinos along the Mississippi Gulf Coast. Collectively the Coast’s 11 casino operators generated \$1.1 billion in 2009, representing an 11% decline from prior year and the lowest non-hurricane adjusted output since 2000. While the bulk of the Coast’s decline in gaming revenues resulted from the national recession, it is likely that a recently expanded tribal casino in Atmore, Alabama and a growing slots market in south Florida also contributed the decline on the Coast. Chart 4 summarizes historical gaming revenue data from the fourth quarter.



Regarding a timeline for recovery for the local gaming industry, it is likely that 2010 levels are similar to those reported in 2009, but that recovery likely will not begin until at least the second quarter. Until regional job levels reverse recent declines, any short-term growth is not sustainable. Below, Chart 5 compares overall hotel occupancies for the Gulfport-Biloxi MSA to the United States and to the region.



Accounting for a tourism industry during a recession will almost never yield positive results, as leisure budgets are the first to be cut when the economy struggles. It is important not to lose sight of long term progress. Much like the gaming industry on the Mississippi Gulf Coast set records in 2007, the Gulfport-Biloxi International Airport has made significant progress over the last 15 years. While 2009 was a down-year for enplanements, Chart 6 reflects the substantial increase in capacity the airport can accommodate compared to prior years.



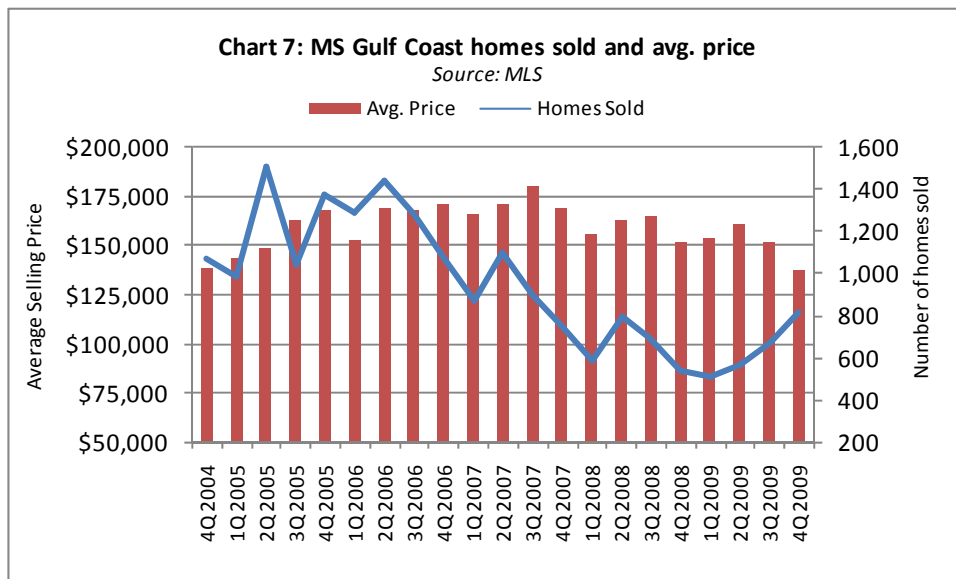
Referencing other successful tourism markets, in order to sustain long term growth in revenues, capacity plays a crucial role. While the Mississippi Coast can now accommodate more visitors that fly, the supply of total hotel rooms remains at only 75% of pre-Katrina levels. When the national and regional economies improve, the Mississippi Gulf Coast must replenish these hotel rooms in order to accommodate the expected increase in visitorship. This challenge can be interpreted as a real opportunity.

Examples of existing opportunities that are already being realized on the Mississippi Gulf Coast include the following:

- The Palace Resort Casino will be expanding, adding gaming space and other amenities.
- The inaugural Mississippi Gulf Resort Classic, a PGA Champions Tour event, will take place at the Beau Rivage's Fallen Oak Golf Course this spring. Notably, Fallen Oak and three other golf courses (Grand Bear, the Bridges, and the Preserve) on the Mississippi Gulf Coast were listed in Golf Week's top 40 casino golf courses in America, with Fallen Oak ranking second in the nation.
- The Four Points by Sheraton will be opening in Biloxi and a Courtyard Marriott will open in D'Iberville.
- The Ohr-O'Keefe Museum in Biloxi and the Infinity Science Center in Hancock County are almost completely funded.

Housing and Insurance

High insurance costs and scarcity in availability has had a profound impact on the housing market on the Mississippi Gulf Coast since Hurricane Katrina. Tens of thousands of homeowners were forced into the state-managed wind pool as a result, with annual increases in premiums that placed negative influences on selling prices and continue to hamper development along the southern part of all three counties. Solutions including a Coastal Plan from Travelers Insurance (see www.coastalplan.com) and variations from Congressman Gene Taylor's multi-perils legislation are still being explored. While the private market has yet to return and certain carriers like State Farm have sought further rate increases (19.5%⁷), there are signs that recent subsidies to the state wind pool and discounts offered to building stronger are having a positive effect on housing. Perhaps the best news is the recent increase in the volume of home sales, as evidenced in Chart 7.



Programs such as MyHome MyCoast, which was launched in April 2009 and offers down payment assistance, financing options, and credit counseling, are also helping to stimulate the housing market. From an inventory standpoint, recently housing stock levels are about the same as prior quarter, but

Table 4: Snapshots of Available Home Inventories

Price Range	Feb-10	Oct-09	Jun-09
Less than \$130K	1,540	1,405	1,100
Between \$130K and \$200K	1,227	1,296	1,241
Greater than \$200K	1,103	1,177	1,252
Total Homes on Market	3,870	3,878	3,593

Source*: Multiple Listing Services

*Information in this database changes frequently

there are signs that the average selling price is seeing downward pressures. Looking ahead, 2010 home sales activity should continue to increase in volume, but any opportunities for short-term appreciation are likely minimal, at least from an aggregate standpoint. Legislators and community leaders should continue to focus on solutions to making insurance more affordable.

Military

In October the Aerospace Alliance, a 501(c)(6) organization, was created to promote a four-state collaboration that will advocate for policies, programs, and specific projects on the local, state, and national level to enhance growth of the aerospace sector, which stretches along I-10 from New Orleans to Florida⁸. Examples of projects that the Alliance will continue to support include the \$40 billion KC-45 tanker project that would be located in Mobile and have a significantly positive impact to the Mississippi Gulf Coast. In November Senator Cochran's office announced that the Military Construction and Veteran's Affairs Appropriations bill diverted \$9.8 million for an Air Force Reserve Aerial Port Squadron facility at Keesler Air Force Base⁹. Led by Keesler Air Force Base and the Naval Construction Battalion Center, servicemen and women from the Gulf Coast were deployed to assist in the recovery efforts in Haiti following that country's devastating earthquake.

Education

According to the Mississippi Department of Education, Pass Christian's school districts received the highest rating possible, the "star" rating. Other "high performing" districts included Bay St. Louis, Biloxi, Long Beach, and Ocean Springs. Gulfport, Hancock County, Harrison County, Jackson County, and Pascagoula all received "successful" grades¹⁰. While Coast schools overall performed very well in recent rankings, many districts are challenged by funding. The city of Long Beach was short nearly \$1 million in property tax collections from prior year and many cities on the Mississippi Gulf Coast are facing similar challenges¹¹.

In February the Gulf Coast Business Council Research Foundation published its *Introductory Study of Later School Start Dates in Mississippi*. The study is not an endorsement of moving school start dates back in Mississippi, but it is a call for educators, legislators, and other stakeholders to explore all facets of the issue in an open and honest dialogue. Below are some of the highlights from the paper.

- A scientific poll administered by an independent research firm found that 76% of Mississippians that have an opinion on school start dates support moving start dates back to the end of August.
- At least 12 states already have school start laws in place, including Texas, Florida, North Carolina, South Carolina, Virginia, and Missouri.
- The total economic output associated with moving school start dates back in Mississippi might exceed \$150 million annually, with over \$100 million in new tourism spending, more than 1,500 jobs created, and increases to local and state government budgets.
- States like Florida and Texas, which both passed laws moving school start dates back in 2006, have seen standardized tests scores improve since those laws were passed. While these results are likely not a direct result of moving start dates back, they do suggest that moving school start dates back alone will not have a negative impact on standardized test scores.

While the report is an important piece of factual information related to the issue of school start dates, it is understood that it is not the only information which is important to the dialogue and it is paramount

that all other points of view and data points are fully explored in a broad process by appropriate stakeholders. The full report can be downloaded at www.msgcbc.org/research.

Currently leadership from the Gulf Coast Business Council is working with superintendents from along the Mississippi Gulf Coast to understand the challenges and opportunities that local school districts might face with should school start dates be moved.

Legislative

The current legislative session that is underway in Jackson is characterized by falling state revenues and further budget cuts. Progress is being made, however, to address these deficits, and items that are currently under consideration that will have an impact on the Mississippi Gulf Coast include a tourism bond bill that will result in needed funding to complete the Ohr-O'Keefe Museum in Biloxi and the Infinity Science Center in Hancock County. In the next Regional Brief a summary of 2010 legislation that will impact the Mississippi Gulf Coast will be completed. In Washington, lawmakers are looking to extend GO Zone related incentives, including bonus depreciation, by two years.

Healthcare

In November Singing River Health System broke ground on a 70,000 square foot medical park that will house The Neuroscience Center, a medical laboratory, outpatient imaging, cardiac rehabilitation, and a medical wellness center. The \$20 million facility is scheduled to be complete in 2011. Also in November, Memorial Hospital in Gulfport and Keesler Medical Center in Biloxi announced a partnership to offer several medical subspecialties to Mississippi Gulf Coast residents for the first time. Also in Gulfport, surgeons at Garden Park Medical Center performed that facility's first laparoscopic surgery using new technologies to treat gallstones. The procedure was the first of its kind performed on the Mississippi Gulf Coast.

Quality of Life

In the fourth quarter Gulfport implemented an environmental court that will address issues such as blighted properties, tree ordinance violations and other issues¹². Notably, Gulfport was ranked Mississippi's "best place to raise your kids" by *BusinessWeek*; the study was limited to towns with at least 45,000 residents. Also in Harrison County, Mississippi's largest planned community, Tradition, is working to launch the Village at Tradition, focusing on commercial development in the community's Town Center. In Hancock County Habitat for Humanity is building 42 energy efficient houses on 27 acres. Ocean Springs is embarking upon a \$5 million streetscape project that will enhance its downtown area.

CEO & Business Owner Confidence

In early January 2010 chief executives and business owners within the counties of the Mississippi Gulf Coast were asked to complete a survey regarding their perceptions of the regional economy, reviews of the fourth quarter of 2009, and an outlook for the proceeding six months. The survey is administered by the Gulf Coast Business Council Research Foundation at the end of each survey through a partnership between local Chambers of Commerce. The cumulative score of the quarterly survey increased slightly from the previous survey administered in fall 2009 and the outlook for the six months ahead increased to the highest level on record. The overall measure of business confidence remains above neutral. The survey has been administered for six consecutive quarters. To view the results of this and previous CEO & Business Owner Confidence surveys, please visit www.msgcbc.org/research.

Closing Remarks

At the onset of 2009, the economy on the Mississippi Gulf Coast was declining and the nation was on the heels of one of the worst financial meltdowns in modern history. The local economy stabilized during the second quarter and remained static for the remainder of the year. A year later, the economy on the Mississippi Gulf Coast appears to be nearing a turning point, and while the outlook for 2010 is cautiously optimistic, it exhibits marked improvements compared to this time a year ago. At the state level, further budget cuts are likely for FY 2011, and that will have an impact that is felt throughout the state, but on the private side activity should slowly begin to pick up during 2010, and the Mississippi Gulf Coast economy should begin to improve.

If you have any questions about this report or about any future reports please contact the Gulf Coast Business Council Research Foundation.

The Gulf Coast Business Council Research Foundation will continue to partner with area chambers of commerce to administer and report its quarterly **CEO and Business Owner Confidence** surveys with the goal of assessing current economic conditions and expectations each quarter and contrasting those positions to the prior quarter. The next survey will be conducted in early April 2010.

¹ SBA Gulfport Branch Office

² *Sun Herald*, January 2, 2010

³ *Mississippi Business Journal*, December 11, 2009

⁴ *Sun Herald*, November 19, 2009

⁵ *Clarion Ledger*, November 3, 2009

⁶ Commercial and residents permits are compiled using data from Treen Reports out of Slidell.

⁷ *Sun Herald*, November 30, 2009

⁸ *Alliance Insight*, January 2010, Volume III Issue IV

⁹ *Clarion Ledger*, November 18, 2009

¹⁰ WLOX, November 23, 2009

¹¹ *Sun Herald*, November 23, 2009

¹² *Sun Herald*, October 28, 2009