

Mississippi Gulf Coast Regional Brief

Second Quarter 2009

Published August 5, 2009

This report contains statistics and commentary relative to the events and news that shaped the Mississippi Gulf Coast economy in the second 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

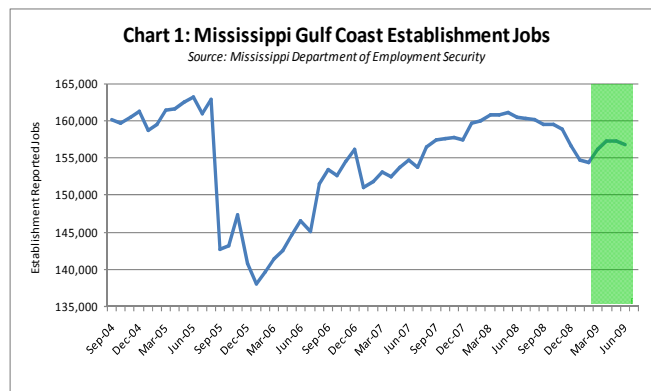
In the second quarter CEO & Business Owners' Confidence Survey, which was administered at the end of June, perceptions of the economy on the Mississippi Gulf Coast improved significantly relative to the first quarter of 2009. The data compiled in this report substantiates those perceptions. The evidence presented here suggests that the worst of the recession may be over for the Mississippi Gulf Coast but that many challenges remain. The remainder of 2009 and beginning of 2010 likely will be characterized by making up lost ground on the way to a full recovery from Hurricane Katrina and a stronger 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 second 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 on the Mississippi Gulf Coast stabilized in the second quarter. Compared to June 2008, approximately 3,610 net establishment jobs have been lost on the Mississippi Gulf Coast, and the Mississippi Gulf Coast likely will not reach 2008 levels until at least January 2010. The Retail and Leisure & Hospitality job sectors have been hit particularly hard, and a sustained recovery of those jobs will not occur until spring 2010.
- Sales tax diversions received by six of eleven municipalities exceeded pre-Katrina levels. When comparing the aggregate totals collected for all eleven cities on the Mississippi Gulf Coast, total sales tax diversions for the second quarter fell short of 2005 levels for the first time since the third quarter of 2005. Notably some cities that have enjoyed increased sales tax revenues have also been burdened with increased expenses.
- The national recession has significantly impacted the local tourism industry as the discretionary spending budgets of tourists on the Mississippi Gulf Coast have shrunk. This phenomenon is not unique to the Mississippi Gulf Coast.
- Significant strides are being made to address housing and insurance challenges to the Mississippi Gulf Coast. At the end of the second quarter Governor Barbour signed a bill containing a \$20 million appropriation for the Wind Pool that will help to keep the more than 42,000 wind pool policies on the Mississippi Gulf Coast as reasonable as possible while long-term solutions are explored.

Employment

During the second quarter of 2009 the overall employment level for the Mississippi Gulf Coast stabilized after falling in the last quarter of 2008 and the beginning of the first quarter of 2009. The chart to the right illustrates historical trends in reported establishment jobs for the Mississippi Gulf Coast. In aggregate, overall establishment reported jobs are down 2% from June 2008 and 4% from June 2005.



Comparing June 2009 to June 2008, the job sectors that have been hit hardest during the local economic slowdown are Construction, Retail Trade, and Leisure & Hospitality; notably, total reported construction jobs on the Mississippi Gulf Coast remain far above those levels reported before Hurricane Katrina. Table 1 compares employment levels in June 2009 to June 2008 and also includes benchmarks from June 2005.

Table 1: Mississippi Gulf Coast Establishment Jobs
Comparing Historical Levels in June
Source: Mississippi Department of Employment Security

	June '09	June '08	Change	% Change	June '05
Manufacturing	20,680	20,980	(300)	-1.4%	21,660
Agri., Forestry, Mining, Utilities	1,680	1,920	(240)	-12.5%	2,070
Construction	10,150	11,410	(1,260)	-11.0%	7,170
Wholesale Trade	2,550	2,450	100	4.1%	2,250
Retail Trade	17,620	18,510	(890)	-4.8%	18,990
Transportation and Warehousing	3,460	3,250	210	6.5%	3,800
Information	2,400	2,500	(100)	-4.0%	2,860
Finance & Insurance, Real Estate	5,990	5,750	240	4.2%	5,890
Professional Services	6,270	6,560	(290)	-4.4%	5,940
Management of Companies	820	1,210	(390)	-32.2%	1,360
Waste Mgt.	10,340	9,690	650	6.7%	9,140
Educational Services	610	550	60	10.9%	550
Health Care	10,420	10,730	(310)	-2.9%	11,970
Arts, Entertainment, and Recreation	300	320	(20)	-6.3%	280
Leisure & Hospitality	26,880	28,210	(1,330)	-4.7%	33,680
Other Services and Government	3,210	3,210	0	0.0%	3,540
Government and Education	33,500	33,240	260	0.8%	32,080
Total Establishment jobs	156,880	160,490	(3,610)	-2.2%	163,230

From the standpoint of overall recovery from Hurricane Katrina, both the Retail Trade and the Leisure & Hospitality job sectors lost the most ground over the last twelve months.

Going into the third quarter of 2009, the overall employment picture is similar to that of the summer of 2008. Rather than being in a well defined incline or decline, employment levels on the Mississippi Gulf Coast are in a relative range. Other than typical seasonal hiring adjustments such as casinos reducing staffing levels after Labor Day, it's likely that the **overall employment picture remains stable in the third quarter of 2009**, with overall reported establishment job levels expected to continue to fall short of 2008 levels.

The Economy

Like recent employment numbers, most indicators on the overall economy have been mixed during the second quarter of 2009. Among the improvements in statistical indicators that occurred in the second quarter of 2009 relative to the previous quarter were increases in applications for commercial and residential permits. Below are examples of progress that were announced or occurred in recent months.

- Northrop Grumman Shipbuilding reports that it has increased its Pascagoula employment level by nearly 800 people and its Gulfport installment by 100, bringing those respective totals to 12,145 and 336 people. Northrop Grumman also earned a \$214 million cost-plus-fixed-fee advance procurement contract relating to the *USS San Antonio* and delivered to the U.S. Navy one of the nation's newest and most advanced ships, the amphibious-assault ship *Makin Island*.
- VT Halter Marine Inc. received three grants worth more than \$2.87 million as part of the U.S. Department of Transportation's Assistance to Small Shipyards program¹. The two grants will be split between VT Halter's Pascagoula and Moss Point shipyards.
- Beginning in August, American Airlines/American Eagle will add its fourth daily flight between Gulfport-Biloxi International Airport (GPT) and Dallas Ft. Worth International Airport (DFW). Other expanded or new services announced in 2009 include the following cities: Atlanta, Charlotte, Jacksonville, and Tampa.
- Hancock County's Chamber of Commerce has partnered with the Mississippi Development Authority to offer 2% loans to qualified businesses that were operating prior to Hurricane Katrina and wish to rebuild within defined boundaries in Bay St. Louis and Waveland.
- The Mississippi Enterprise for Technology at John C. Stennis Space Center in Hancock County now has 22 high-tech resident companies. One of those companies, NVision, is working with NASA to offer its All-Hazards Network, or HazNet, to NASA facilities across the country. HazNet uses a system of maps, aerial photos, databases, and information from sensors that lets first responders monitor conditions and activities in real time.²
- The Mississippi Development Authority's "New and Expanded Facilities Summary" for January – April 2009 included the Gulf Liquefied Natural Gas in Pascagoula (\$1.5 billion) and the A-3 Test Stand at Stennis Space Center in Hancock County (\$175 million). The Margaritaville Resort project in Biloxi was also mentioned³.
- Prime Outlets in Gulfport reported an increase in the second quarter of 2009 relative to 2008 in overall traffic of 7% and sales of 5%. The Nike Factory Store reported the second highest level of sales since fiscal year 1997 and five new stores were added to the retail destination's tenant list, including J Crew and Pass Christian Soap Co.
- The Palace Casino in Biloxi announced plans for a 110,000 square foot property expansion with an estimated completion date in spring 2011. The expansion will include a 300-seat buffet and bring total gaming space to over 38,000 square feet.

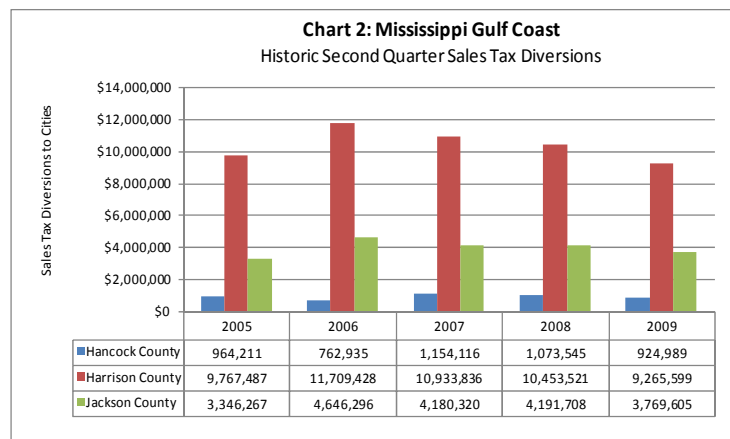
Overall reported sales tax diversions for the second quarter of 2009 also showed mixed signals, as six out of eleven Mississippi Gulf Coast cities continue to receive sales tax diversions greater than those collected during the same period of 2005. When comparing sales tax revenues to prior periods, it's important to consider that in many cases, such as Gulfport, expenses have also increased. In total, the sales tax diversions to the eleven municipalities were down ten percent from 2008 and down about one percent from 2005. The second quarter of 2009 was the first calendar quarter since the third quarter of 2005 where overall sales tax diversions to the eleven cities on the Mississippi Gulf Coast did not exceed pre-Katrina levels. In Table 2 and Chart 2 below a breakdown of historic second quarter sales tax diversions is presented.

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

	2009	2008	2007	2006	2005
BAY ST LOUIS	323,013	334,870	359,073	296,512	378,959
BILOXI	2,551,836	3,041,387	2,932,302	2,620,214	3,355,940
D'IBERVILLE	1,128,175	1,193,513	1,261,345	1,425,348	941,055
GAUTIER	699,383	738,560	713,538	895,446	526,605
GULFPORT	5,140,509	5,679,759	6,139,856	7,089,435	4,754,406
LONG BEACH	351,233	442,992	423,843	454,644	389,527
MOSS POINT	427,124	464,812	429,538	455,912	381,674
OCEAN SPRINGS	1,197,885	1,238,927	1,304,006	1,368,024	987,202
PASCAGOULA	1,445,213	1,749,410	1,733,237	1,926,914	1,450,786
PASS CHRISTIAN	93,846	95,871	176,491	119,788	326,559
WAVELAND	601,976	738,675	795,043	466,423	585,252
Combined Cities	\$13,960,193	\$15,718,774	\$16,268,273	\$17,118,659	\$14,077,966

Six of eleven Mississippi Gulf Coast cities continue to receive sales tax diversions greater than those collected in 2005.

Relative to 2005 levels in the second quarter, Jackson County has fared better in sales activity.



In the coming months both Pass Christian and D'Iberville should benefit from significant retail additions to their communities. Nonetheless, expect for overall sales tax diversions in the third quarter of 2009 to register below 2008 numbers, with the year over year losses narrowing considerably in the fourth quarter, potentially reversing the trend of ten consecutive quarters of overall sales tax declines.

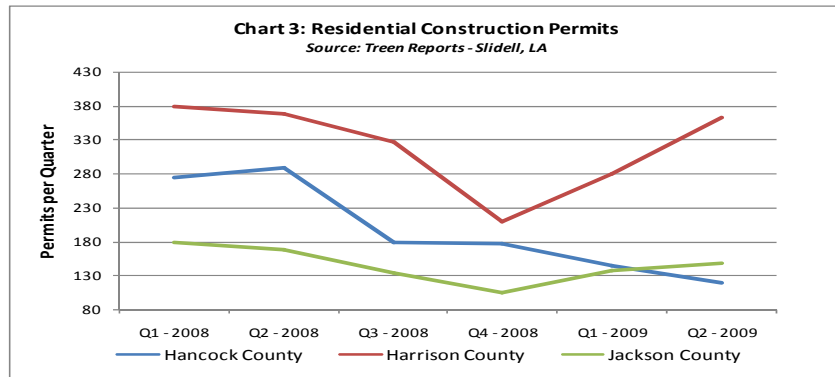
One of the key components to reinvigorating the economy on the Mississippi Gulf Coast will be the further easing of national credit markets. Table 3 below demonstrates that while the overall value of future commercial permits on the Mississippi Gulf Coast has increased relative to the prior two quarters, aggregate levels remain lower than in the first half of 2008. Interestingly, the drop off in volume is highly correlated with the grinding slowdown of national credit markets in the third and fourth quarters of 2008.

Table 3: Summary Estimates of future commercial contracts

	Q1 - 2008	Q2 - 2008	Q3 - 2008	Q4 - 2008	Q1 - 2009	Q2 - 2009
Hancock County	\$33,053,000	\$23,038,000	\$19,786,000	\$16,199,000	\$31,620,000	\$7,455,000
Harrison County	\$200,525,000	\$113,592,000	\$145,033,000	\$67,463,000	\$23,368,000	\$106,238,000
Jackson County	\$24,979,900	\$52,012,000	\$12,009,000	\$10,547,000	\$19,661,500	\$20,924,000

Source: Treen Reports - Slidell, LA

There is also evidence that residential investment is increasing on the Mississippi Gulf Coast, as the number of residential permits filed in the second quarter continued to trend upwards, almost exceeding year over year levels. This increase in investment may be a result of the challenging real estate market. Regardless of the reason for the increase, the long-term implications of such investment represent a positive for the Mississippi Gulf Coast.



As mentioned in the previous Regional Brief, more than \$1 billion in appropriated Katrina recovery projects will be underway or in the immediate pipeline at the end of 2009. This additional investment on the Mississippi Gulf Coast is not reflected in Table 3 above and will create jobs and help stabilize the local economy. An even greater economic driver is the restoration of the State Port at Gulfport which will create over 16,000 direct and indirect jobs⁴. In addition to this influx of jobs, the project is anticipated to generate \$1.6 billion in direct revenue to the local economy.

In the third quarter it is likely that the mixed signals that have characterized the better part of the first and second quarters of 2009 will likely continue with the positive trends becoming stronger. During the fourth quarter there is a significant potential for a more consistent improvement in overall economic conditions.

Tourism

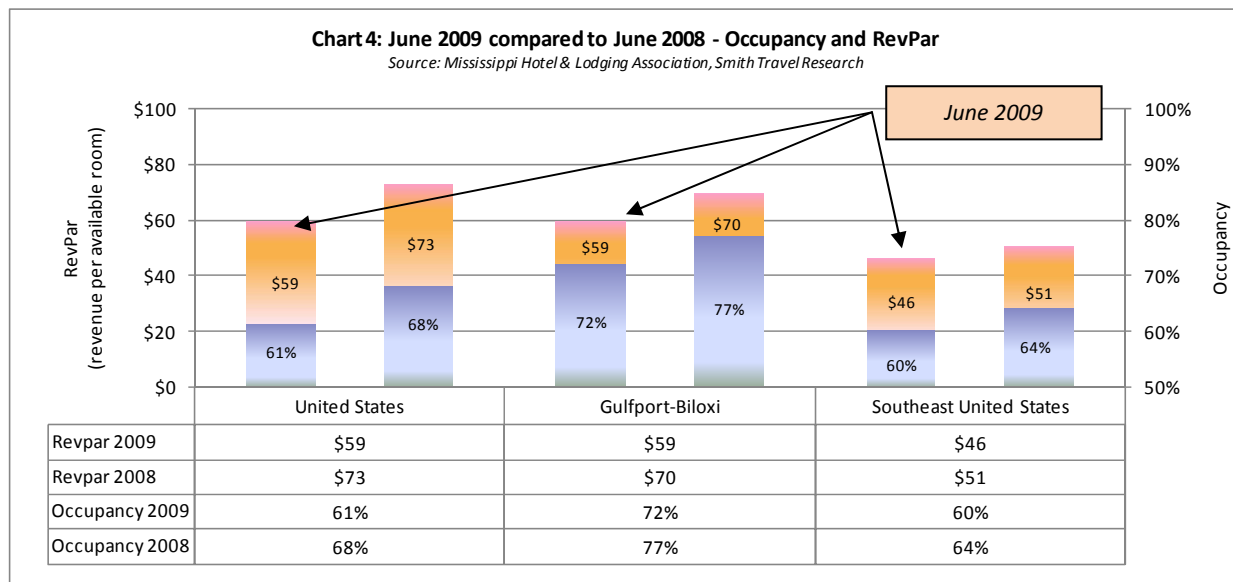
The second quarter of 2009 began with an record breaking attendance air show at Keesler Air Force Base, the event being the first of its kind in almost two decades. Though occurring in July, the National Governor’s Association Summer Meeting put the Mississippi Gulf Coast in the national spotlight at the end of the quarter, with at least 25 governors from across the United States registered for the event. Many of the governors, their staffs, and the large media contingent were visiting the Mississippi Gulf Coast for the first time and toured many areas of the region following the event.



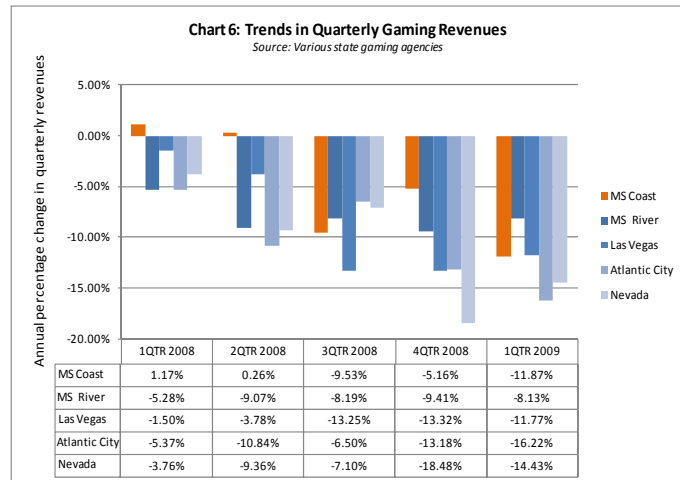
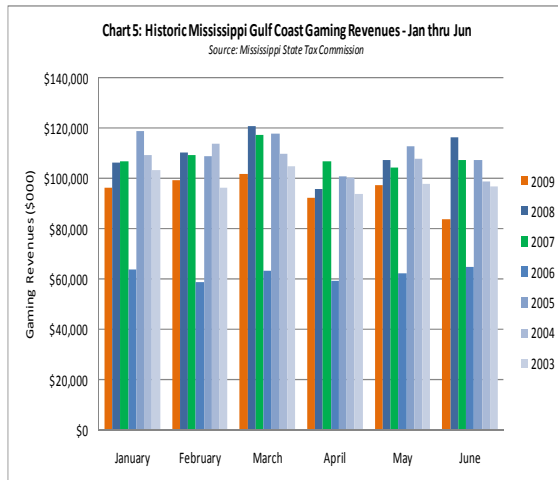
National Governors Association

Coinciding with the Governors’ Conference was the opening of the expanded Mississippi Coast Coliseum, which now features over 400,000 square feet of convention space. This summer also represents the first summer since 2005 that Beach Boulevard is not undergoing extensive hurricane repairs. A \$10 million concrete walkway that will stretch much of the 26 mile along the beach in Harrison County is also nearing completion while the City of Ocean Springs began construction of the new Fort Maurepaus Park on Front Beach. The airport has added additional flight services and welcomed new locations while the Coast Transit Authority has unveiled new “Beachcomber” trolleys.

While the Mississippi Gulf Coast has made significant long-term investments to improve its ability to accommodate tourists, the national and regional economies have had a significant impact on the tourism economy on the Mississippi Gulf Coast in the short-term. According to the Mississippi Hotel & Lodging Association, reported overall occupancy levels were lower than June 2008. Notably, this trend is reflected for much of the United States, as evidenced in Chart 4 below.



Coast casinos experienced a continued downturn in June and year-to-date numbers suggest that overall gaming revenues reported in 2009 will likely retreat to levels not seen since 2002-2003. Chart 5 compares January-June revenues for the Mississippi Gulf Coast. When comparing the Mississippi Gulf Coast gaming market to other markets, however, similar year over year declines have occurred. Reference Chart 6 below where the Mississippi Gulf Coast is represented by the orange column. The New Orleans market, which is not featured in the chart below, has also experienced recent decreases in revenue. Harrah's in the French Quarter was down over 15% in June from 2008⁵.



Nearly four years after Hurricane Katrina, the tourism industry on the Mississippi Gulf Coast is increasingly challenged by a recessed national economy and less challenged by circumstances related directly to Hurricane Katrina. This is not to suggest that the impacts of Katrina no longer exist, as it is clear that many of the tourism offerings on the Mississippi Gulf Coast, particularly those on the non-gaming side of tourism, have not returned. In order for new tourism investment to occur on the Mississippi Gulf Coast, the regional and even the national demand for tourism must be stimulated, as those markets will ultimately drive new investment on the Mississippi Gulf Coast.

The Mississippi Gulf Coast cannot control the national economy or the size of the potential tourism market, but steps can be taken to more effectively market the resources that the Mississippi Gulf Coast currently offers and to also attract additional investment based on the vast potential of the Mississippi Gulf Coast as a Tier One Tourism destination. Existing tourism agencies and groups such as the Mississippi Gulf Coast Attractions Association are already working diligently to market the region, but additional resources and more regional collaborations are needed.

Housing and Insurance

The overall housing picture on the Mississippi Gulf Coast continues to be challenged by the availability of affordable insurance and the lending market. There are many efforts underway to address these challenges, and progress continues to be made.

- At the end of the second quarter Governor Barbour signed legislation to appropriate an additional \$20 million in the state Wind Pool. This money will be earmarked to purchase reinsurance and should ultimately reduce the amount that the more than 42,000 wind pool policy holders on the Mississippi Gulf Coast would have to pay for future insurance. This legislation was very important to the Mississippi Gulf Coast and will help ease the burden of high insurance costs while long-term solutions are implemented.
- In July Mississippi Insurance Commissioner Mike Chaney hosted a Catastrophe Preparedness and Insurance Forum in Biloxi. The event was well attended and included representatives from various state insurance departments, re-insurers, and large insurance companies such as Travelers. Among the items discussed were mitigation programs from other states and the proposed program for Mississippi, the national flood insurance program, coastal restoration, coastal wind pools and re-insurance, and the proposed Travelers coastal plan.
- In June the Mississippi Windstorm Underwriters Association (Wind Pool) announced a discount program where qualified homes can be eligible for up to a 20% discount on the policy.⁶
- The Gulf Coast Renaissance Corporation's *MyHome MyCoast* program has exceeded expectations since being unveiled spring 2009. The call center has received over 9,000 calls inquiring about the program and there are currently over 3,000 applicants actively engaged, with more than 100 of those in the process of finalizing details and closing on a home. The program is designed to benefit households with income up to 120% of area median income in the lower six counties and represents a collaboration with local lenders.
- The United Way of South Mississippi announced that it would be investing more than \$1.2 million in programs addressing affordable housing, education, and healthy families in South Mississippi.⁷

There are also signs that the overall supply of housing is becoming more rounded. In August the Gulf Regional Planning Commission will publish the results from a comprehensive apartment survey that was administered by W.S. Loper & Associates in May 2009. The survey, which included more than 15,000 market rate and 6,500 assisted units on the Mississippi Gulf Coast, will demonstrate that overall rental vacancy levels for the Mississippi Gulf Coast now exceed 12%, which is higher than the normal four to six percent rate, and that some of the increases in rental price that occurred with the addition of new or refurbished units over the last three years have subsided, though not to pre-Katrina levels. Regarding public housing availability, the Mississippi Development Authority's (MDA) Disaster Recovery website⁸ estimates that the current supply of public housing units on the Mississippi Gulf Coast now stands at

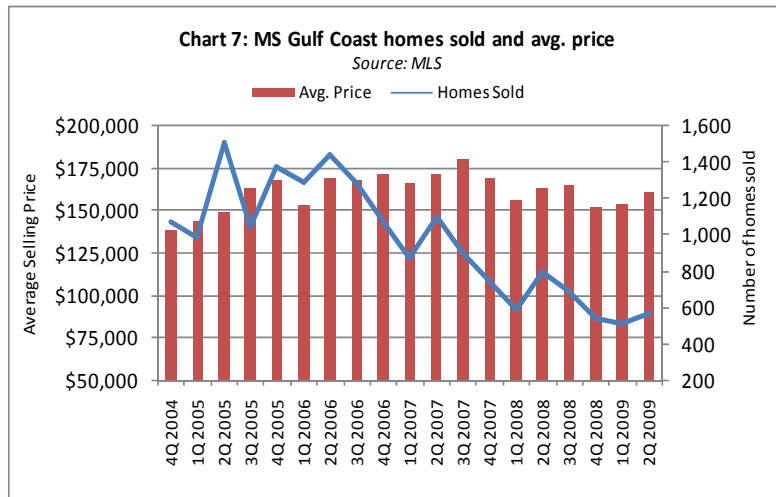
2,415 compared to 2,215 before Hurricane Katrina. MDA also notes that 7,877 long term workforce housing units have been proposed.

There are signs of progress within the real estate market on the Mississippi Gulf Coast. The average selling price for a home in the combined three coastal counties was over \$160,000, the highest level since the third quarter of 2008 and 11% higher than the three quarters surveyed prior to Hurricane Katrina. Table 4 presents inventories at the end of the second quarter 2009; each of those respective levels are below levels reported in September 2008.

Table 4: Home inventories as of June 30, 2009

County	Under \$130,000	\$130,000 - \$200,000	Over \$200,000
Hancock	181	239	243
Harrison	553	557	604
Jackson	366	445	405
Totals	1,100	1,241	1,252

Source: MLS



Even considering the recent progress within the local real estate market, the impacts of high insurance costs along the Mississippi Gulf Coast have been profound. In a sample study of over 18,000 home sales transactions dating back to 2004, Chart 7 compares the average selling price to the average number of closings. Interestingly, the average selling price has remained stable while the volume of homes sold has decreased considerably.

The recent reductions in inventories and slight increase in volumes may be a sign of good things to come, but ultimately the long term success of the Mississippi Gulf Coast real estate market will require collaboration between stakeholders that include the insurance industry to develop a viable solution that will make affordable insurance a reality.

Military

The economy on the Mississippi Gulf Coast has a long history of multiple benefits from a strong military presence. In the second quarter a \$320 million recapitalization project continued at the Naval Construction Battalion Center in Gulfport. The Seabee base also held a soft opening of its new Navy Exchange facility and put on its largest ever Seabee Day event, drawing over 12,000 people. In early July it was announced that Keesler Air Force Base has been chosen as the site for the new Undergraduate

Cyberspace Training Unit for the United States Air Force, and the largest military housing project in Air Force history is now 81% complete at Keesler. In Gulfport, the Mississippi Air National Guard Aviation Classification Repair Activity Depot is currently planning for a potential \$103 million facility expansion that would double the existing size of its current facility.

Education

Public education in Mississippi is increasingly challenged with reductions in state funding as a result of the recent economic downturn. Mississippi Gulf Coast Community College (MGCCC), which has enjoyed increased enrollment levels during tough economic times, has taken measure to address budget shortfalls by increasing tuition while remaining competitive with other community colleges in the state. MGCCC is also focusing more on assisting local businesses and industries in workforce training, while the University of Southern Mississippi is partnering with the Mississippi Gulf Coast Chamber of Commerce in similar efforts. The University of Southern Mississippi has also created a Logistics Management and Technology (LMT) curriculum that is available both in Hattiesburg as well as the University's locations on the Mississippi Gulf Coast. The LMT program will be of particular benefit to employers affiliated with the State Port at Gulfport and is one of the only programs of its kind in the United States. The William Carey University's new campus at Tradition is set to open in fall 2009. Enrollments at the primary and secondary public school levels have increased for some areas on the Mississippi Gulf Coast while others have been challenged. In the next Regional Brief 2009 enrollments will be analyzed pending availability of data.

Legislative

In early June representatives from the Gulf Coast Business Council arranged for a Legislative Fly-in to Washington D.C., where meetings were held with all six members of Mississippi's Congressional delegation. Among the topics discussed were insurance, the State Port at Gulfport, extending GO Zone deadlines, and a Supplemental Appropriations Act. Later in the month the joint Conference Committee agreed to funding as proposed by Senator Cochran for several items critically important to the Mississippi Gulf Coast. Among the accomplishments: \$49 million for the Mississippi Army Ammunition Plant (MSAAP) at Stennis Space Center; \$80 million for new housing vouchers for areas impacted by Hurricane Katrina; \$439 million for restoration of Mississippi's barrier islands; and an Extension of FEMA disaster housing case management for the State of Mississippi.

CEO & Business Owner Confidence

In June 2009 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 second quarter of 2009, and an outlook for the proceeding six months. The survey is administered by the Gulf Coast Business Council at the end of each survey through a partnership between local Chambers of Commerce. The cumulative score of the quarterly survey improved by over 28% from the previous

survey administered in March 2008 and was the highest reflection of CEO confidence in the Mississippi Gulf Coast in the survey's one year history. To view the results of this and previous CEO & Business Owner Confidence surveys, please visit www.msgcbc.org/research.

Closing Remarks

While the Mississippi Gulf Coast has not been fully insulated from the national economic downturn, many of the current challenges stem from unaffordable and unavailable insurance coverage and evolving land use policies resulting from Hurricane Katrina. Tools are being used to mitigate these systemic obstacles, such as innovative housing financing programs and the continuation of Go Zone and other development incentives. Most indicators point to a continued stability in local economic sectors as the national economy begins to heal with more healthy growth patterns emerging in the beginning of next year.

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

The Gulf Coast Business Council 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 late October 2009.

¹ *Sun Herald*, July 9, 2009

² Mississippi Enterprise for Technology, July 2009 Volume II, Issue II

³ *Mississippi Business Journal Online*, May 26, 2009

⁴ Port Alliance for Jobs and Community Development

⁵ *The Times Picayune*, July 22, 2009

⁶ MWUA Bulletin 09-01, June 4, 2009

⁷ *The Sun Herald*, July 10, 2009

⁸ http://www.msdisasterrecovery.com/documents/MDA_PMO_CDBG_Summary_Points_final_2009703.pdf