

# Mississippi Gulf Coast Regional Brief

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Fourth Quarter 2008

**Published February 6, 2009**

This report contains statistics and commentary relative to the events and news that shaped the Mississippi Gulf Coast economy in the fourth quarter of 2008. 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

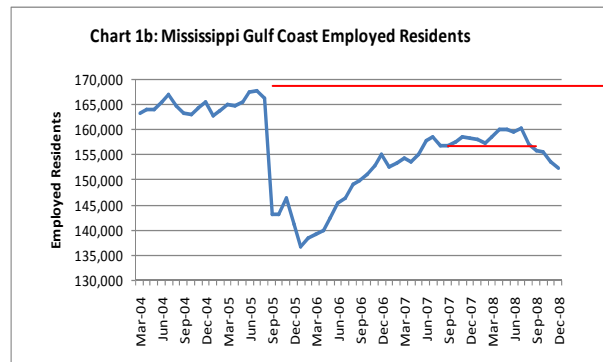
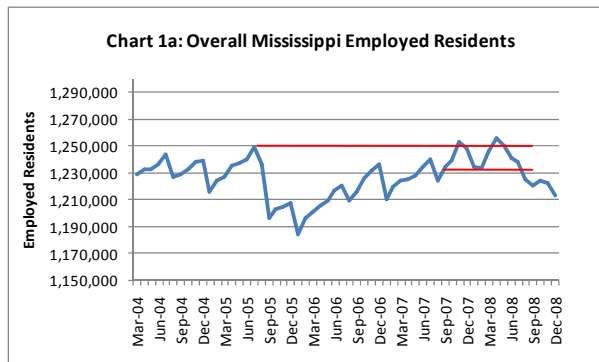
In the recent fourth quarter CEO & Business Owner Confidence Survey directed by the Gulf Coast Business Council Research Foundation in partnership with local chambers of commerce, respondents confirmed that confidence in the overall economy on the Mississippi Gulf Coast fell slightly in the fourth quarter of 2008. While similar national business confidence surveys reached all-time lows in December, respondents to the CEO & Business Owners from the Mississippi Gulf Coast demonstrated a reserved optimism for the local economic outlook for the next six months. This contrast does not signal that the economic slowdown on the Mississippi Gulf Coast is over but does demonstrate that our economy is viable with the potential for another boom on the distant horizon. Before that potential is recognized, however, several hurdles must be addressed.

This report contains information and commentary reflective of the Mississippi Gulf Coast and is intended to provide a regional perspective of economic conditions in the latter half of 2008 and those on the horizon in 2009. This Regional Brief will provide the reader with a better understanding of the challenges facing the region in the coming months and can be used to help make informed decisions to tackle those obstacles. Below are some of the key findings from this report.

- In September 2008, the overall level of employed residents on the Mississippi Gulf Coast began to decline year-over-year for the first time since the initial months that followed Hurricane Katrina. These levels likely will not rebound until the overall economy on the Mississippi Gulf Coast improves. Evidence also exists that a growing number of people who work in the three coastal counties actually live outside those counties, which underscores the need to focus on housing solutions.
- Insurance remains unaffordable for thousands of residents of the Mississippi Gulf Coast. There is a short term solution that would involve appropriating additional state funds into the wind pool that a commissioned study has proved will help to stimulate the lagging real estate market and provide a needed push to the local economy.
- There is significant commercial and infrastructure investment underway on the Mississippi Gulf Coast that will help to drive the economy, even in these challenging economic times. Sales tax diversions have decreased recently but are still buoyed by construction related investment.
- Industries like manufacturing, shipbuilding, and tourism continue to prove resilient. While manufacturing and shipbuilding depend on national demand and government contracts, tourism will be heavily influenced by local leadership and a completed Highway 90 and convention center expansion.

## Employment

The previous Regional Brief covering third quarter 2008 noted that growth in employment on the Mississippi Gulf Coast had slowed and was showing signs of possible contraction. This was based on data through July 2008. Current data shows that both the Mississippi Gulf Coast and the entire state of Mississippi followed national trends and reported year-over-year declines in overall employment in the fourth quarter, with downward trends beginning in September.



The MS Gulf Coast has yet to fully recover from Katrina

While the Mississippi Gulf Coast has been challenged by the national recession and a private insurance market that has yet to return, bright spots remain. Reference the “establishment<sup>1</sup>” jobs reported for Mississippi Gulf Coast in December 2008 as compared to previous years in Chart 2. Table 1 contains industry classes that experienced the most significant change in six-month average employment between 2007 and 2008.

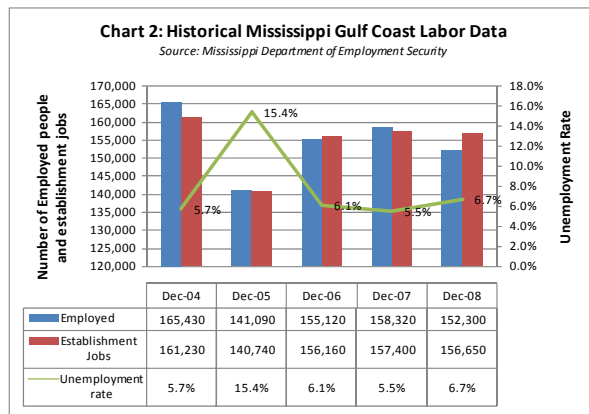


Table 1: Top five job classes when contrasting July through December averages: 2008 compared to 2007

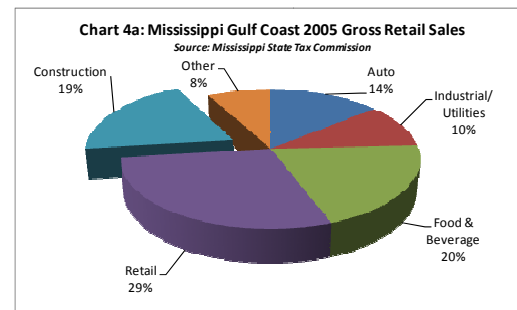
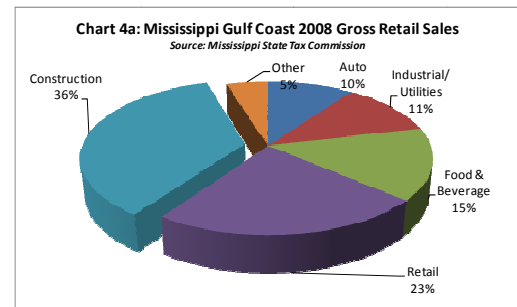
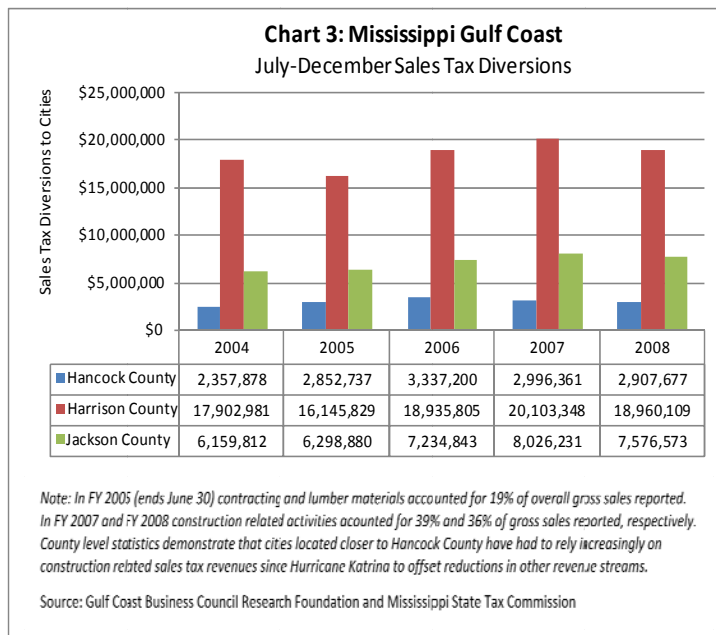
	Added jobs	Lost Jobs	
Waste Management	865	Accommodation & Food Service	-1,257
Healthcare	842	Manufacturing	-580
Government	830	Retail Trade	-167
Professional Services	533	Wholesale Trade	-80
Construction	393	Transportation & Warehousing	-40

Source: MDES Annual Labor Reports

While gaming and food & beverage businesses adjusted their payrolls during the latter half of the year (relative to 2007) to operate more efficiently in the economic slowdown, it is evident that other key industries on the Mississippi Gulf Coast maintained their investments in payroll. The manufacturing sector, which is cyclical and directly impacted by future contracts, decreased its payroll, but the professional and business services sector increased employment levels. The latter trend did not occur statewide.

## The Economy

The slide in year-over-year sales tax diversions continued during the latter months of 2008, but overall sales tax diversions remain higher than pre-Katrina levels. As noted in the last Regional Brief, this data point is not necessarily reflective of each industry in the area; construction investment continues to drive the economy in South Mississippi. Reference the charts below.



In 2008 non-residential construction slowed on the Mississippi Gulf Coast. The precursors to the slowdown include escalating fuel costs that drove up material prices, high insurance costs, and the national credit crisis. Table 2 summarizes spending contracts. While the pace is not as great as in the years immediately following Katrina, a significant amount remains along the entire Mississippi Gulf Coast. Areas like the retail corridor on Highway 49 in Gulfport, Promenade in D'Iberville, the new Highway 67 corridor, and parts of Jackson County should continue to grow, but opportunities also abound along all of Highway 90 in Harrison County as well as in Hancock County.

Table 2: Non-residential construction contracts

Counties	2008	2007	% Change
Hancock, Harrison, and Stone	581,536,000	741,493,000	-22%
Jackson and George	123,280,000	121,359,000	2%

Source: McGraw-Hill Construction, Sun Herald

Table 3: Number of Businesses Operating on Highway 90

	2009	2005	% Change
Biloxi	17	82	-79%
Gulfport	133	339	-61%
Total	150	421	-64%

Source: Estimates obtained from cities

The following page lists significant projects that are either in progress in planning stages. When the reconstruction of the Mississippi Gulf Coast resumes its pace, another boom should ensue.

Reconstruction projects remain in abundance on the Mississippi Gulf Coast. Below are several projects that not only reflect reconstruction, but also overall progress.

- The state recently awarded an additional \$60 million in grant money for projects in Hancock County<sup>2</sup>. This amount is added to the \$145 million previously designated for Hancock County.
- The NASA Stennis Space Center will provide propulsion acceptance testing for the Taurus II space launch vehicle, and a new \$250 million A-3 rocket engine test stand (pictured at right) is under construction. Construction also recently began on the \$30 million INFINITY science center. The Harrison County Development Commission is also actively involved in promoting the aerospace corridor that exists along Interstate 10. The Mississippi Enterprise for Technology reports at least six high-tech start-ups are either in the works or in progress.
- Long Beach is set to begin construction on its new City Hall, and its small craft harbor is nearly complete.
- Pass Christian's Super Wal-Mart is slated to open in November, and the city has also received \$25 million for a harbor expansion.
- Gulfport recently saw a new Sam's Club and Best Buy open, and 88 buildings in its downtown area are undergoing façade renovations.
- The Coast Coliseum expansion to over 413,000 square feet of expansion space in Biloxi should be complete mid-2009. This new capacity will allow the Mississippi Gulf Coast to compete for 85% of the national conventions that are held each year<sup>3</sup>.
- D'Iberville's Promenade and new construction of 700,000 square feet of retail, which will be anchored by Target, is underway. D'Iberville also is now connected to the Coast Transit Authority system.
- Keesler is home to over 6,900 military personnel and 3,900 civilian personnel and will be a critical point for upcoming cyber training for the United States Air Force.
- In December ground was broken on the \$1.5 billion Gulf LNG terminal in Jackson County.
- Pascagoula has at least \$15 million dedicated to ten major infrastructure projects.
- Ocean Springs continues to build its tourism niche and also acquired additional land for parking in its bustling downtown area.



With all of the above investments being made despite the sluggish economy, the Mississippi Gulf Coast remains a viable economy and is poised for another boom in the coming years. As national credit markets are restored and with solutions to insurance costs currently being implemented, this boom could very well be on the near horizon.

## Housing and Insurance

A turnaround in the housing market must occur for the economy in the region to regain its momentum. The national credit crunch exacerbated the lack of affordable insurance in 2008, and contributed to the significant drop off in volume of homes sold. Reference Table 4 below for historic residential sales volume figures. Perhaps more startling than the decrease in home sales is that recent establishment jobs reported on the Mississippi Gulf Coast have exceeded the number of employed residents, demonstrating that a small but growing portion of the workforce in the Mississippi Gulf Coast is actually living in the counties to the north and in south Louisiana and Alabama (see Chart 2).

Table 4: Summary of Residential Home Closings on the Mississippi Gulf Coast

	2004	2005	2006	2007	2008
Hancock County	887	879	773	462	385
Harrison County	2,442	2,644	2,884	2,103	1,535
Jackson County	1,668	1,843	2,028	1,474	1,061
<b>Totals</b>	<b>4,997</b>	<b>5,366</b>	<b>5,685</b>	<b>4,039</b>	<b>2,981</b>
Year over year change		7%	6%	-29%	-26%
Change from 2004		7%	14%	-19%	-40%

Source: MLS \*

*\*Data pull was conducted in mid January 2009 and is subject to variation)*

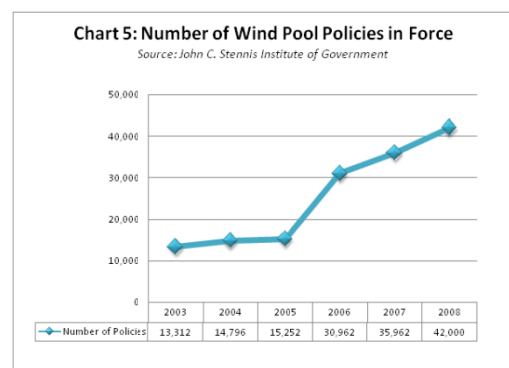
While housing supply is still an issue for the lowest income households and in parts of east Jackson County and a few other pockets of the Mississippi Gulf Coast, an even greater challenge has been the tightened credit market and insurance costs that remain high. While the existing inventory of homes grew in 2008, the volume of transactions decreased significantly from 2007, at a rate (26%) greater than the national slowdown of 13%<sup>4</sup>. These trends will reverse only when insurance becomes more affordable and when credit becomes more available.

Despite these circumstances, significant progress has been made with regard to affordable housing. Newly appointed Gulf Coast Housing Director Gerald Blessey has been working diligently with both non-profit and for-profit developers, housing authorities, and local governments to reestablish the housing market. Focusing on housing needs for the very low- to moderate-income level, he has facilitated discussions and working groups to accomplish a variety of tasks. Among the accomplishments: assisting local counties and cities in adopting new zoning regulations to allow Mississippi Cottages as permanent residents in defined areas; facilitating MDA's \$1 million grant for a wind hazard mitigation analysis to develop a \$40 million retrofit program that will strengthen homes and reduce insurance rates; allowing public authorities to partner with private interests in developing new affordable housing; and, proposing a revolving loan fund that would involve local banks and assist in providing affordable mortgages. Other notable progress includes the work of the Gulf Coast Renaissance Corporation, which has already

awarded \$2.7 million in scholarships that will help 267 police and fire personnel, teachers and other public-sector employees, to qualify for \$40,000 in affordable housing assistance funds.

As of January 2009, there are significant efforts underway to address the high costs of insurance on the Mississippi Gulf Coast. The wind hazard mitigation program will have an impact on rates but will likely take two to three years to have a real impact, assuming funding is secured. There are also proposed multi-peril solutions being explored, but these face federal hurdles at least two to three out. Collaborating with surrounding states and forming zones that would help to spread the risk is another option but still only in planning stages. Recent news that State Farm<sup>5</sup>, Florida's largest insurer, opted drop 1.2 million policies there is a vivid reminder that Mississippians cannot rely alone on the private insurance market returning, so short term solutions need to be employed.

The Mississippi Windstorm Underwriting Association (the "wind pool") which was created in 1987<sup>6</sup> to be the insurer of last resort has quickly become the insurer of only resort for far too many residents of the Mississippi Gulf Coast since 2005. Reference the chart to the right for evidence of the rapid growth in participation. In 2007 the Mississippi Growth and Economic Development Act (HB 1500) was passed and authorized appropriating \$20 million into the wind pool over a four year period. This resulted in a



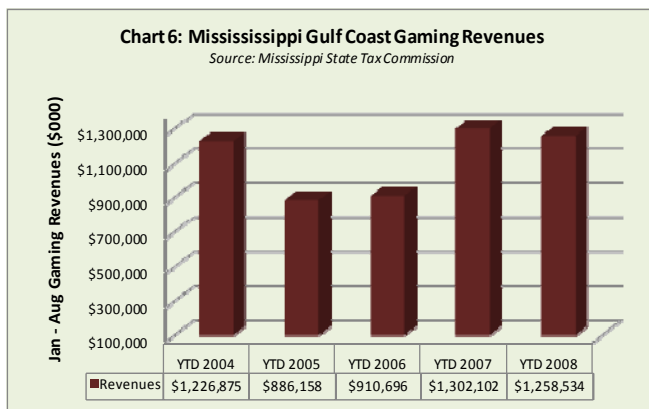
decrease in premiums in June 2008 of 7.7% for residential properties closest to the beach and up to 20% for properties furthest. Commercial impacts were similar. While this appropriation produced significant results, average rates remain high along the Mississippi Gulf Coast, and significant opportunities for rate reductions exist, as the average household earning \$60,000 must still pay as much as \$1,800 more annually for insurance coverage than a family in other parts of the state.

A study commissioned by the Gulf Coast Business Council Research Foundation and conducted by the John C. Stennis Institute of Government at Mississippi State University demonstrates that in addition to aiding the completion of reconstruction this **\$20 million in state funding (above funds appropriated in 2007) will more than pay for itself** as a result of **NEW tax revenues to the state of Mississippi.**

The proposed solution is straightforward: appropriate an additional \$20 million into the wind pool and the insurance affordability gap along the Mississippi Gulf Coast will be narrowed, resulting increased revenues to the general fund and allowing the Mississippi Gulf Coast to complete its recovery and continue to be a major economic driver for the entire state of Mississippi. In the coming weeks the Mississippi Gulf Coast Business Council Research Foundation will be publishing a summary paper that will discuss this solution in more detail.

## Tourism

Tourism continues to be a chief economic driver of the Mississippi Gulf Coast economy. In 2008, particularly the latter half, tourism was impacted adversely by the slowing economy as well as two Hurricanes that threatened Mississippi. High gas prices had an impact on gaming revenues and the quickly deteriorating national and regional economies also impacted bottom lines. Overall the Mississippi Gulf Coast gaming market was down only 3.3% from 2007 but still managed to report better overall numbers than any year pre-Katrina, this with only 85% of the supply of slot machines and tables, and only 73% of pre-Katrina hotel rooms<sup>7</sup>. In New Orleans, Harrah's was down more than 10% year over year, and national markets such as Las Vegas and Atlantic City were also impacted in the range of 8% to 10%.



*Airline passenger traffic reported by the Gulfport-Biloxi International Airport slowed in the latter half of 2008, but was still up by 6.5% when compared to total passenger traffic in 2007. Management at the airport continues to invest in its infrastructure and also to partner with the tourism industry to make the Mississippi Gulf Coast accessible to travelers from all over the country.*

Even with the national recession continuing into 2009, there are several bright spots on the horizon for the Gulf Coast tourism industry.

- Reconstruction of Beach Boulevard in Harrison County is near completion. For the past three years it has been under a major renovation and often riddled with headaches. Having it restored will leave positive impressions on out of town visitors.
- The Coast Coliseum is undergoing a \$70 million expansion that should be complete Summer 2009, doubling the convention space capacity from 180,000 sq ft to over 413,000 under one roof.
- The National Governors Association will hold its annual meeting in July in Biloxi. This will draw thousands of policy workers, lobbyists, business leaders, and journalists.
- In April, Keesler will host an air show that will include the Thunderbirds.
- Gulfport Biloxi International Airport is investing another \$60 million into its infrastructure. It completed a \$50 million expansion in 2008.
- The Mississippi Gulf Coast Golf Association reports that rounds of golf tied to a room night were up 45% the last seven months of 2008.
- The Mississippi Hotel and Lodging Association reports that overall 2008 occupancy levels were down only slightly from 2007 for the Mississippi Gulf Coast (66.5% from 66.9%), compared to Mississippi (59.9% from 61.0%) and national (60.4% from 63.1%) occupancy levels.

### **Ports, Airports, and Transportation**

Chiquita will begin expansion by March 2009 at the State Port at Gulfport. The State Port expects overall cargo to be increased in 2009 over 2008. Coast Transit Authority also is working on brand new “comfort stations” that will dot Beach Blvd along sand beach. The Gulfport-Biloxi International Airport has announced \$60 million in additional infrastructure investment in 2009. The brand new \$15 million parking garage is also now open at the recently expanded airport. In January the paving project from Highway 67 at Interstate I-110 in D’Iberville opened up all the way to Highway 49. Jackson County completed significant paving projects, and Hancock County plans to restore its beach drive.

### **Education**

Construction of the new West Harrison High School and D’Iberville High School should be complete in 2009. The University of Southern Mississippi (USM) Gulf Coast campus had record enrollment in the fall 2008 semester, and is seeking approval from the Mississippi Institutions of Higher Learning (IHL) to offer a Master’s degree program in Logistics, Trade, and Transportation. On top of its plans to build an additional campus at Cross Creek, USM is also undergoing substantial renovations at its campus in Long Beach. Mississippi Gulf Coast Community College reported overall enrollments for spring 2009 were up from spring 2008, and William Carey University reported that fall enrollments were up significantly from 2007. The Bay St. Louis and Waveland public school systems remain challenged by enrollment levels, reporting only 70% of pre-Katrina levels as much of the population has migrated to northern parts of Hancock County.

### **Healthcare**

Memorial Hospital now employs over 2,800 staff and highly qualified physicians as compared to 2,400 in 2005. In October 2008 Memorial began construction of a new medical oncology clinic, and in spring 2009 Memorial will complete construction of a new medical office building to include: a radiology room, ultrasound, PET/CT, and a C-Arm. Keesler is expanding its healthcare facilities to include a new birthing center and Singing River Health System is involved in an effort to increase information systems capabilities to connect all six southern counties of South Mississippi with easily accessible medical records – this effort is very much on the forefront of medical information technology.

### **Nonprofits**

The John S. and James L. Knight Nonprofit Center, one of its only kind in the nation and Mississippi’s only such facility, opened its doors in January 2009. This 73,000 square foot facility will accommodate over 20 nonprofits, offering synergies and resources to benefit the entire nonprofit system on the Mississippi Gulf coast. United Way of South Mississippi (UWSM) continues to provide leadership to mobilize resources in South Mississippi to address issues of affordable housing, child and youth development, and mental health. From July 2005 to August 2008, UWSM distributed \$6 million to support 40 local organizations that provided over 70 programs. The International Relief and Development (IRD) U.S. service center has helped over 2,500 individuals since Katrina; job training and placement through our federally funded YouthBuild program. IRD Plans are underway to build and/or repair over 100 affordable houses in the next 18 months. The Mississippi Gulf Coast Sports Commission recently announced its Quarterly Health & Fitness Challenge for 2009.

The Gulf Coast Business Council Research Foundation will be publishing its next Regional Brief in May 2009. 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 April.

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<sup>1</sup> Establishment jobs are jobs located in each county that are reported to MDES by actual businesses that reside in each county. These jobs are not necessarily filled by residents of those respective counties.

<sup>2</sup> *Sun Herald*, January 29, 2009

<sup>3</sup> *The Journal of South Mississippi Business*, December 15, 2008

<sup>4</sup> *Wall Street Journal*, January 26, 2009

<sup>5</sup> TampaBay.com, January 28, 2009

<sup>6</sup> Revamping the Wind Pool, Ron Peresich. *Mississippi Law Journal* Spring 2008 Vol. 77 Number 3

<sup>7</sup> Mississippi Hotel and Lodging Association