

Birmingham Area Economic Report

Home Prices Fall Back to Earth

Much has been said in the past year about the effect of the troubled housing market on the national and local economy. During the run up earlier this decade, our nation witnessed unprecedented double-digit growth in home building, home buying and home prices. One didn't have to be a Wall Street wizard to realize what goes up would come down, particularly when housing prices were rising faster than incomes.

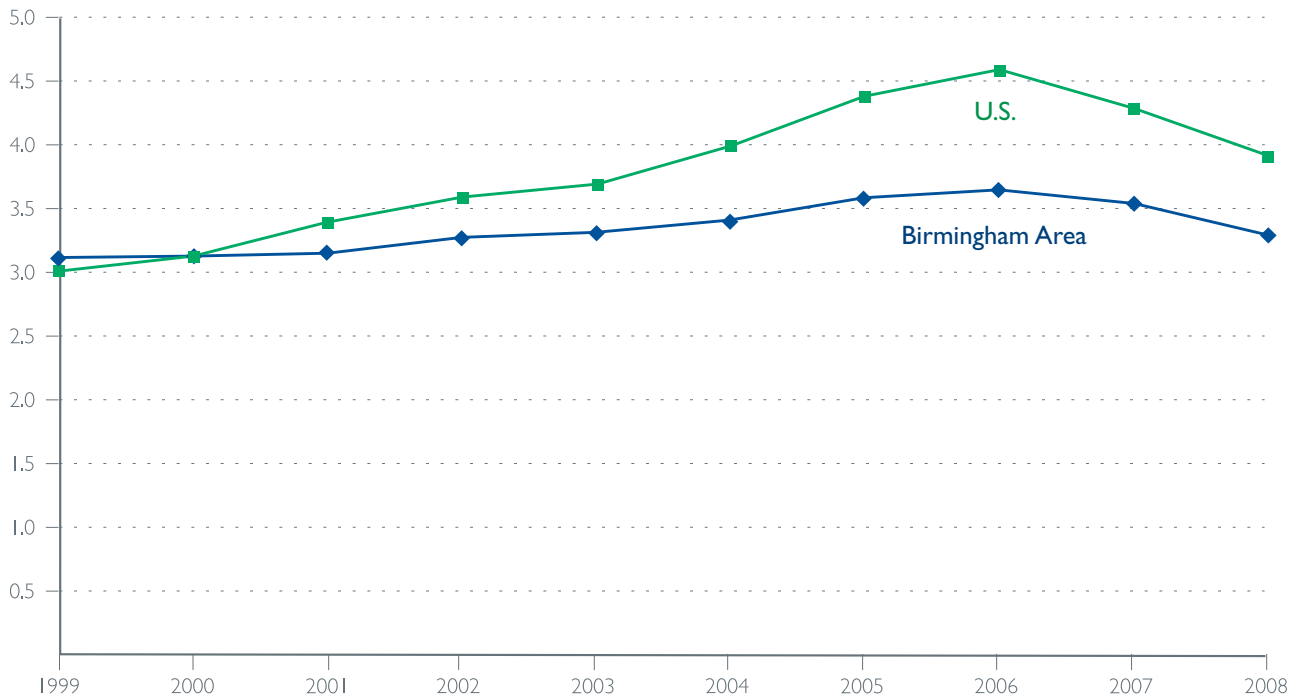
The relationship of home price to income, as measured by median home price to median household income, has averaged around 3.0-to-1.0 in the U.S. since 1980. Between 2000 and 2006, the ratio jumped to a 26-year high of 4.6. While we do not have data going

back to 1980 for the Birmingham market, the data we have since 1999 show a similar (but not as pronounced) trend. The following graph compares the increase in the home price-to-income ratio in the U.S. and the Birmingham area since 1999.

The graph below shows that the home price-to-income ratio was also around 3.0 in the Birmingham area in 1999. Between 1999 and 2006, the ratio in Birmingham increased from 3.1 to a peak of 3.7. The movement of the ratio in Birmingham has mirrored the movement of the ratio in the U.S., but the increase and decline have not been as drastic. In 2008, the average home price in the

Continued on page 2

Ratio of Home Price to Income
Median Price to Median Household Income



Note: U.S. data from the National Association of Realtors. Local data represents the average monthly median price, as published by the Alabama Center for Real Estate. Birmingham MSA median household income data from the Census Bureau and Claritas, with PWCo estimating years not published.

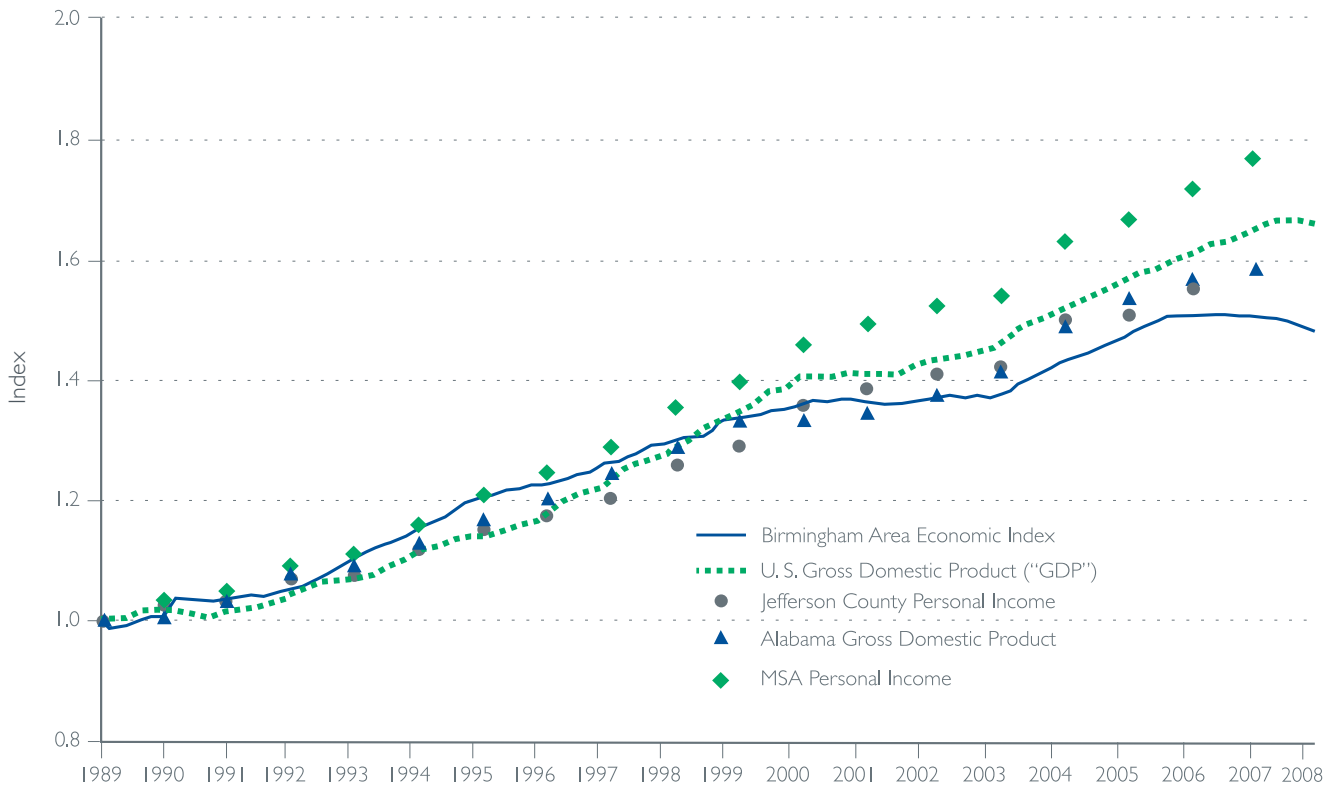
Continued from page 1

Birmingham area declined by almost five percent, while the median price declined by 4.3 percent.

If a ratio of 3.0 is indeed the long-term sustainable ratio (and there is no law in economics that deems this ratio should be as high as 3.0) both the U.S. and

Birmingham area housing markets will continue to experience additional corrections, with the U.S. facing a much greater price correction. As unemployment continues to increase both locally and nationally, we can expect income to stagnate, which will continue to put more downward pressure on the median home price.

Measures of Economic Activity



Notes: GDP and the Birmingham Area Index are rolling indices, which include 12 months (or in the case of GDP four quarters) of data. The data is graphed according to the midpoint, which for the 12 months ending December 31, 2008, would be June 2008. The other indicators (MSA Personal Income, Jefferson County Personal Income and Alabama GDP) are only available on an annual basis, and the data availability lags by at least one year. Those indicators are the actual annual numbers.

The Local Economy

The local economy continues to suffer. The graph above shows that PWCO's Birmingham Area Economic Index is declining. Most of the indicators used to compile the Index have declined in recent quarters, and those that haven't declined in current dollars, have been dragged down by higher inflation over the past 12 months (as indicated by several GDP price deflators used to adjust the data).

Jobs are shrinking, unemployment is growing, and other economic indicators continue to show weakness. The biggest losers continue to be home sales and new

residential construction, with the total dollars and units experiencing double-digit losses in 2008. Nonresidential construction also declined in Birmingham in 2008, with total dollar value down 13 percent. Retail sales in Jefferson County and Alabama were down in 2008, while up in the City of Birmingham, although the December 2008 sales were well below December 2007 sales in Birmingham. Energy consumption has declined, as electricity usage was down slightly in the Birmingham area, and sales of gasoline were down

Continued on page 4

Porter, White & Company, Inc.
Birmingham Area Economic Indicators
December 2008

	% Change from Previous 12 Months	Twelve Months Ending		Month Ending	
		December 2008	December 2007	December 2008	December 2007
Local Indicators					
Jefferson County Retail Sales (000) (1)	-3.6%	\$9,316,893	\$9,669,425	\$922,808	\$995,403
Jefferson County Hotel Revenues (000)(1)	0.3%	\$195,181	\$194,514	\$12,024	\$13,336
Jefferson County Occupational Tax Collections (000) (1)	2.0%	\$68,894	\$67,539	\$6,674	\$6,107
Jefferson County Gasoline Tax Collections (000) (1)	-4.4%	\$4,780	\$5,002	\$385	\$465
City of Birmingham Retail Sales (000) (2)	3.2%	\$3,764,768	\$3,649,442	\$244,077	\$250,808
City of B'ham Occupational Tax Collections (000) (2)	3.5%	\$78,922	\$76,262	\$7,885	\$5,114
City of Birmingham Hotel Revenues (000) (2)	-7.0%	\$91,749	\$98,699	\$7,324	\$7,263
Birmingham Area Housing Sales (3)					
Total Dollar Sales (000)	-31.8%	\$2,368,886	\$3,473,301	\$139,624	\$226,081
Average Sales Price	-4.8%	\$188,552	\$198,011	\$174,968	\$193,067
Number of Units	-28.8%	12,454	17,483	798	1,171
Birmingham-Hoover MSA Single-Family Housing Starts (4)					
Total Dollar Value (000)	-49.4%	\$424,548	\$838,520	\$19,708	\$27,994
Number of Units	-49.3%	2,434	4,799	110	160
Birmingham MSA Nonresidential Building Contracts (3)					
Total Dollar Value (000)	-13.0%	\$918,795	\$1,056,098	\$36,983	\$65,739
Birmingham Airport Passengers Boarded (5)	-3.7%	1,555,884	1,615,847	117,811	129,388
Birmingham Division Commercial & Industrial Electricity Sales (GWH) (6)	-1.6%	9,829	9,987	701	790
State Indicators					
Alabama Income Tax Collections (7)					
Corporate Tax (000)	-5.6%	\$497,762	\$527,204	\$89,148	\$130,332
Individual Tax (000)	1.9%	\$3,592,278	\$3,525,480	\$212,492	\$253,278
Alabama Retail Sales (000) (7)	-2.3%	\$56,187,469	\$57,490,605	\$4,522,654	\$5,115,239
Alabama Gasoline Tax Collections (000) (7)	-2.7%	\$401,002	\$412,275	\$31,703	\$33,055

	% Change from Previous Year	Current Year		Previous Year	
		December 2008	November 2008	December 2007	November 2007
City Employment					
Birmingham Unemployment Rate (8)	2.9%	7.3%	6.9%	4.4%	4.1%
Hoover Unemployment Rate (8)	1.4%	3.7%	3.3%	2.3%	2.0%
Birmingham-Hoover MSA Employment					
Goods-Producing Employment (000) (8)	-3.6%	79.3	79.8	82.3	82.6
Service-Providing Employment (000) (8)	-1.6%	447.1	449.2	454.4	453.0
Unemployment Rate (8)	2.3%	5.7%	5.2%	3.4%	3.0%
State of Alabama Employment					
Goods-Producing Employment (000) (8)	-5.1%	399.8	403.8	421.5	422.0
Service-Providing Employment (000) (8)	-1.3%	1,583.4	1,593.8	1,603.6	1,601.2
Unemployment Rate (8)	2.6%	6.4%	5.9%	3.8%	3.5%
Average Manufacturing Per-Hour Wage (8)	-1.8%	\$15.53	\$15.56	\$15.81	\$15.76
Average Manufacturing Work Week (Hours) (8)	-1.0%	40.0	40.0	40.4	40.3
Alabama Indicators					
Bloomberg Alabama Index (9)	-35.5%	247.1	229.5	383.0	385.8
National Indicators					
Consumer Price Index (9)	0.1%	210.2	212.4	210.0	210.2
Unemployment Rate (8)	2.3%	7.1%	6.5%	4.8%	4.5%
S&P 500 Index (9)	-38.5%	903.25	896.24	1,468.36	1,481.14

(1) Jefferson County Department of Revenue (2) City of Birmingham, Finance Department (3) Alabama Center for Real Estate (4) U.S. Census Bureau (5) Birmingham Airport Authority (6) Alabama Power Company (7) Alabama Department of Revenue (8) Bureau of Labor Statistics (9) Bloomberg Financial Markets.

Porter, White & Company

P. O. Box 12367

Birmingham, Alabama 35202-2367

Continued from page 2

nearly three percent in Alabama in 2008 and over four percent in Jefferson County. PWCO has added the per-gallon county tax to its list of indicators on the table on page 3 this quarter.

Unemployment in Alabama and local areas continues to worsen. Local unemployment rates are below the national rate of 7.1 percent, with the exception of the City of Birmingham, which was at 7.3 percent in December 2008.

The nation's GDP, the total output of all goods and services in the U.S., took a serious downward turn in the fourth quarter of 2008, with real GDP declining at an annual rate of 6.2 percent, according to the preliminary estimates. Alabama's GDP, depicted in the graph on page 2, has not yet been released for 2008. When it is released later this year, we would expect to see a decline, and similar declines in both Birmingham MSA and Jefferson County personal income.

A more detailed description of the BAE Index and issues of this newsletter are available at <http://www.pwco.com/library.html> under "Economic Articles."

Porter, White & Company

www.pwco.com

15 Richard Arrington Blvd. North • Birmingham, Alabama 35203 • P. O. Box 12367 • Birmingham, Alabama 35202-2367

(205) 252-3681 • FAX (205) 252-8803

Porter, White & Company, Inc. (Member NASD and SIPC) • Porter White Real Estate Company, Inc. (Licensed Real Estate Broker)

PW Advisers, Inc. (Registered Investment Advisor) • Porter White Investment Company, L.P. (Merchant Banking)