Georgia Takes Problems in Stride

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A rebound in manufacturing will help Georgia's economy grow faster than the nation's again in 1987, despite construction slowdowns and an ailing farm sector.

Georgia's economy grew faster than the nation's in 1986,in spite of a lagging manufacturing sector, farm woes, and slackening construction activity. The state's economic expansion will probably continue exceeding that of the United States and most of the Southeast in 1987, but the pace will again slow and growth will become more uneven than in the recent past. No striking departures from the pattern of 1986 trends are predicted for 1987.

Economists expected advances to taper last year from the brisk rate in 1985, and the number of new jobs created dropped dramatically from 117,000 in 1985 to an estimated 79,000 in 1986. The balance of strengths and weaknesses in the state provided some surprises, nonetheless. Employment in wholesale and retail trade showed the most gains. The cheaper dollar, however, did not deliver the benefits anticipated by Georgia's large manufacturing sector, which barely edged ahead. The service sector, usually a boon

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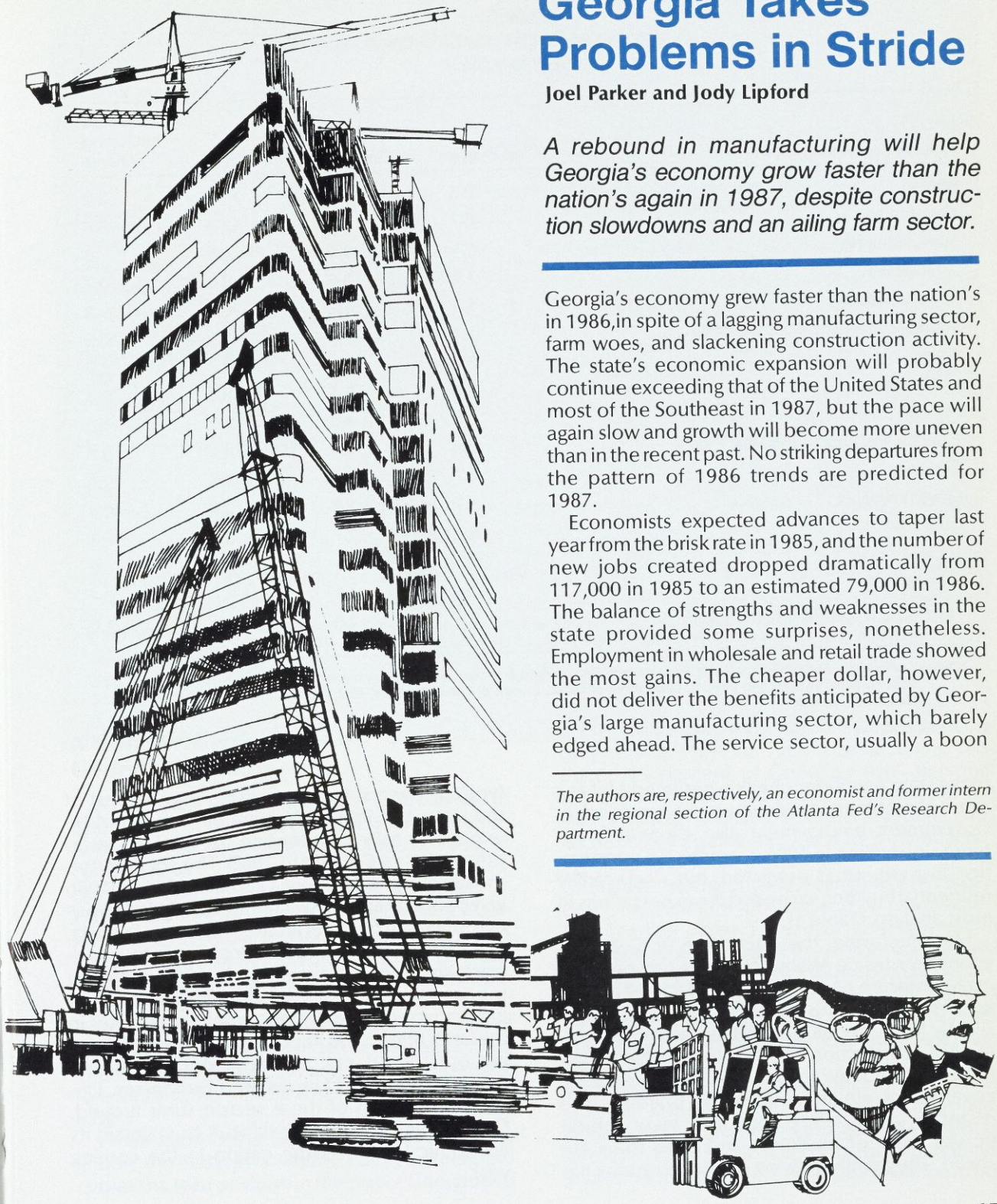


Table 1.
Percent of Employment Growth
(1985 to 1986)

Employment Categories	United States	Georgia	Atlanta	Georgia excluding Atlanta
Mining	-10.6	3.9	14.3	2.0
Construction	6.7	7.9	12.9	2.8
Manufacturing	-0.1	0.3	0.9	.0
Durables	-1.1	0.5	2.0	-0.7
Nondurables	1.3	0.2	-0.2	0.3
Transportation and Public Utilities	1.1	1.5	2.1	0.5
Trade	3.0	4.1	4.3	3.9
Wholesale	2.8	2.4	3.4	0.4
Retail	3.1	4.8	4.7	5.0
Finance, Insurance, and Real Estate	5.8	4.4	4.1	5.0
Services	4.7	3.8	4.5	2.8
Government	1.7	1.3	2.6	0.4
Federal	n/a	2.7	3.5	2.1
State	n/a	-0.1	0.9	-0.6
Local	n/a	1.4	2.7	0.4
TOTAL NONFARM EMPLOYMENT	2.5	2.8	3.9	1.8

Source: Computed by Federal Reserve Bank of Atlanta from January through November 1986 data released by the Georgia Department of Labor, Labor Statistic System and the U.S. Department of Labor, Bureau of Labor Statistics, *BLS 790 Monthly Report on Employment, Hours, and Earnings.*

to the state's economic health, hesitated a bit as a result of problems in agriculture and construction. Government employment also expanded, but more slowly than in 1985. Commercial construction lost ground as predicted, but single-family residential building exceeded the expectations of most analysts (Table 1).

Manufacturing, the backbone of Georgia's economy outside Atlanta, faces the prospect of a ragged mixture of advances and declines among its component industries and can count on only slightly faster overall growth than last year. Commercial construction will slow further. Nevertheless, the combined influences of trade, services, government, single-family home building, and Atlanta's moderating economic vigor should bolster areas of weakness and push the state ahead. The rapidly growing Atlanta economy has typically been strong enough to draw the rest of the state, but its decelerating pace may not be enough to fully compensate for weaknesses in other parts of Georgia in 1987. The solid performance of some of Georgia's smaller cities in 1986 gives hope that they will reinforce Atlanta's positive influence on other areas of the state. Augusta, Columbus, Macon, and Savannah recorded moderate employment expansion in 1986. Although job growth in Augusta failed to match unusually high gains recorded in 1985, employment rates in the latter three cities improved from 1985. Advances outside Atlanta, however, still depend on manufacturing and farm-related businesses. Unless one or both of these sectors turns around, Georgia may find it more difficult to maintain its economic lead over the nation in the coming year.

Table 2.
Distribution of Nonfarm Employment in Georgia
(1986)

Employment Categories	Georgia		Atlanta		Georgia Excluding Atlanta	
	Number of Employees (thousands)	Percent Distribution	Number of Employees (thousands)	Percent Distribution	Number of Employees (thousands)	Percent Distribution
Mining	8.3	0.31	1.4	0.11	6.9	0.52
Construction	157.2	5.96	82.9	6.27	74.3	5.64
Manufacturing	556.1	21.07	184.7	13.98	371.4	28.19
Durables	218.7	8.29	97.3	7.36	121.4	9.21
Nondurables	337.4	12.78	87.4	6.61	250.0	18.97
Transportation & Public Utilities	164.9	6.25	106.8	8.08	58.1	4.41
Trade	674.5	25.56	379.9	28.75	294.6	22.36
Wholesale	202.7	7.68	136.0	10.29	66.7	5.06
Retail	471.8	17.88	243.9	18.46	227.9	17.30
Finance, Insurance, & Real Estate	143.1	5.42	93.0	7.04	50.1	3.80
Services	480.9	18.22	291.0	22.02	189.9	14.41
Government	453.1	17.17	181.6	13.74	271.5	20.61
Federal	96.6	3.66	39.6	3.00	57.0	4.33
State	104.3	3.95	35.6	2.69	68.7	5.21
Local	252.2	9.56	106.3	8.05	145.9	11.07
TOTAL NONFARM EMPLOYMENT	2,638.7	100.00	1,321.3	100.00	1,317.4	100.00

Source: Computed by Federal Reserve Bank of Atlanta from January through November 1986 data released by the Georgia Department of Labor, Labor Statistic System and the U.S. Department of Labor, Bureau of Labor Statistics, *BLS 790 Monthly Report on Employment, Hours, and Earnings.*

A Concise Guide to the Georgia Economy

Wholesale and retail trade play a greater role in Georgia's economy than they do in the nation's. About 25 percent of the state's jobs in 1986, as compared to 23.5 percent in the United States, came from businesses in those sectors (Table 2). Trade accounts for 15 percent of Georgia's personal income (Table 3). More than half the state's trade workers live in the 18-county metropolitan Atlanta area, which serves as a regional distribution center for the state and the Southeast and maintains a high concentration (67 percent) of Georgia's wholesale employment. Atlanta's role in distribution makes the entire state responsive to economic conditions elsewhere in the Southeast.

While trade is the largest employer in Atlanta and in the state as a whole, manufacturing occupies the lead position in the rest of Georgia and is likely to be the swing factor in Georgia's economy during 1987. In 1986 manufacturing produced 15 percent of Georgia's total personal income and employed about 21 percent of the state's nonfarm workers. Textile and apparel firms account for 12 percent of the state's manufacturing jobs and hold a strategic position in the Georgia economy outside Atlanta, where 28 percent of all nonfarm jobs depend on manufacturing. Textiles claim a share of employment in Georgia five times that of the nation, and apparel employment is nearly twice its proportion nationally. In Atlanta, where only 14 percent of the jobs are in manufacturing, producers of automobiles and aircraft form the single most important manufacturing group.

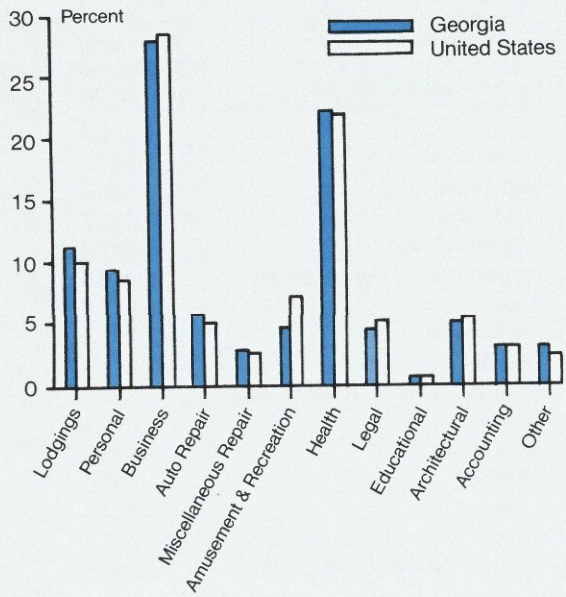
The wide range of activities included in "other services" constitute the third largest component of Georgia's economy and supplied 18 percent of its jobs in 1986. Services account for 22 percent of Atlanta's employment, just slightly less than in the

Table 3.
Sources of Personal Income in Georgia
(Second quarter 1986, seasonally adjusted annual rate)

	Total ($ million)	Percent of Total
Mining	572	0.7
Construction	4,295	5.2
Manufacturing	12,504	15.0
Durables	5,805	7.0
Nondurables	6,699	8.0
Transportation, Communication and Public Utilities	5,663	6.8
Trade	12,271	14.7
Retail Trade	6,424	7.7
Wholesale Trade	5,847	7.0
Finance, Insurance, and Real Estate	4,131	5.0
Services	11,505	13.8
Government	10,581	12.7
Farming	713	0.9
Dividends, Interest, and Rent	10,658	12.8
Transfer Payments	10,418	12.5
	83,311	100.0

Source: U.S. Department of Commerce, Bureau of Economic Analysis.

Chart 1.
Employment Distribution in Miscellaneous Services
(Georgia versus United States, 1982)



Source: Computed by Federal Reserve Bank of Atlanta from data released in U.S. Department of Commerce, Bureau of the Census, *1982 Census of Service Industries, Geographic Area Studies, Georgia,* November 1984.

United States as a whole. Outside Atlanta, however, as is the case in trade, services provided only 14 percent of all nonfarm jobs, lagging behind manufacturing and government. This group of businesses appears to exert a stabilizing influence on employment. Major segments of the service category, such as automotive and other repair as well as medical and legal services, provide relatively steady work and depend more on population growth and demographic factors than on business cycles (Chart 1). Atlanta, with its large share of service jobs, has benefited most from that stability in the past. However, as the city increases its share of more cyclically sensitive service providers such as advertising firms, architects, engineers, consultants, and convention and tourist businesses, it becomes more vulnerable to national and international events such as business cycles and changes in the dollar's value.

Government has been one of the most stable elements of Georgia's economy, though its employment share has declined in recent years. By 1986, it had slipped behind services to fourth place in share of total nonfarm employment but still almost matched services in percent of the state's personal income.

Although trade, manufacturing, services, and government together account for over 80 percent of Georgia's nonfarm workers, the remaining industries often exert an important influence on the state's economy. Two of the smaller employment categories that remain relatively stable are the transportation, communication, and public utilities industries as well as finance, insurance, and

real estate. Though employment gains in transportation have slowed and communications employment has been cut back as an efficiency measure in response to increased competition, this area has nevertheless remained steady. Employment in finance has enjoyed more rapid but similarly stable growth.

Construction and agriculture are strongly cyclical. Though these two sectors employ a relatively small proportion of the state's labor force, their influence is magnified by their strong responses to changes in factors affecting them. Construction typically responds sharply to statewide changes in income and to over- or undersupply of buildings. Agriculture, which exerts a significant influence on the economy of rural Georgia, likewise reacts to external influences such as weather, the dollar's value, and the level of farm output in other areas of the world.

Georgia's Recent Progress and the 1987 Outlook

Over the past several years, trade, transportation, and the services orientation of Atlanta's economy have combined to fuel a growth rate in Georgia faster than the nation's. Because of this economic strength, Georgia yearly attracts and employs large numbers of new residents, who in turn contribute to the state's prosperity by adding to income and increasing demand. Slowing economic growth has tapered the inflow somewhat, but it remains substantial. Georgia's economy created enough new jobs in 1985 and 1986 to employ newcomers to the work force from outside and inside the state as well as to help reintegrate some of the state's unemployed. Georgia's unemployment rate has declined from 6.5 to 6.0 percent over the last two years.

Even though the margin between Georgia's growth rate and that of the nation has been diminishing yearly, the state will probably continue expanding at a pace slightly faster than the nation's in 1987. Weaknesses in manufacturing and construction seem likely to worsen, but momentum or even acceleration in other segments of the state economy should ensure progress.

This forecast for Georgia depends on the assumption that the real gross national product will grow between 2.5 and 3.0 percent in 1987. It also assumes a weaker dollar vis-a-vis other major currencies will raise the price of imported goods and precipitate a moderate shift toward consumption of domestically produced goods as well as strengthen exports.

Manufacturing. Because the outlook for wholesale and retail trade, services, and government is relatively stable, manufacturing will exert a powerful influence on any changes in overall economic performance. Georgia's manufacturing, in turn, responds to external forces, since most of the state's manufactured goods are consumed elsewhere. A turnaround in the nation's foreign trade deficit would benefit many Georgia manufacturing firms; still, they could well respond sluggishly, because most measures of the dollar's value abroad reflect only moderate exchange rate movements against some important foreign competitors. Thus, this large segment of the state's manufacturing sector may see slight improvement at best.

Despite the fact that manufacturing jobs in Georgia expanded faster than in the nation, they have grown more slowly than total nonfarm employment in the state for a number of years. The former strength of the dollar on foreign exchange markets contributed to manufacturing's torpor and especially hurt Georgia's important textile, apparel, and automobile producers. The dollar's decline since early 1985 has not thus far provoked a response in import prices sufficient to shift consumer purchases dramatically toward domestic goods or to stimulate exports. Exporters to the United States have apparently cut their profit margins to maintain competitive prices, and the dollar's value has not dropped against the currencies of some Asian nations competing vigorously for textile and apparel market share. Although in the rest of the nation lumber and wood products and chemicals showed signs of improved foreign demand, these industries have not yet picked up in Georgia.

The number of jobs in nondurables and durables industries grew at markedly different rates in 1986. Nondurable industries, including textiles, apparel and paper, account for 61 percent of the state's manufacturing jobs. With the exception of printing and publishing, they are registering poor gains. Recent influxes of textile and apparel imports as well as implementation of labor-saving technology limited expansion of employment in these industries to a lethargic 0.2 percent over the 1985-86 period.

In contrast, most segments of the durable goods industries performed relatively well; employment in this category jumped 19 percent over the last 3

years, propelled by a major defense contract with an Atlanta aircraft manufacturer and expansion and modernization of automobile assembly plants. The state's transportation equipment industry, which employs almost 2 percent of Georgia's work force, boasted 42 percent job growth from 1983 to 1986. Employment in the state's stone, clay, and glass firms also advanced during this period in response to brisk demand from the then vibrant construction industry.

Growth in manufacturing varied throughout the rest of Georgia, showing some signs of new activity. Columbus, for example, will soon be home to the headquarters of an automobile battery factory that will create new jobs. A new paper plant in Effingham County, near Savannah, will employ approximately 1,000 workers when construction is completed. Augusta, the state's most rapidly growing city outside Atlanta, continues to enjoy strong employment gains from new industries and expansion of existing ones. The Macon area is developing a base of defense industries. However, in areas of Georgia with high concentrations of textile and apparel firms, the long-run outlook is lukewarm at best, and more plant closings are likely.

The impact of the dollar's decline on the competitive position of Georgia manufacturers in worldwide markets is a critical factor in the fate of this sector. The stimulative effects of the falling dollar were not fully realized in 1986; if they materialize in 1987, Georgia's manufacturing sector will be a primary beneficiary. Some economists believe prices for imports will rise as foreign producers become increasingly unable to absorb losses of market share by cutting profits. Third quarter 1986 data on import prices reveal significant increases for autos, equipment, and softwood lumber. Imported textile prices have risen moderately, but prices for the apparel component have held steady. These price movements should favor Georgia's lumber and machinery production as well as textiles. The outlook for the state's apparel firms remains unimproved, though. Georgia's manufacturing will remain particularly susceptible to competition with textile and apparel exporters like Korea and Taiwan. Because the shift in the dollar's value has barely affected exchange rates with these nations, manufacturing in Georgia may not gain as much from the dollar's decline as it does in the United States as a whole.

Even though imported car prices rose, the high volume of sales generated by financing incentives in 1986 will probably prevent a surge of sales in 1987. Inventory clearance made room for 1987 models on dealers' lots, but brisk sales in 1986 absorbed some 1987 demand. Georgia's automobile manufacturing employment should be stable in 1987 unless excessive inventories become a problem. Then, employment in late 1987 and 1988 could decline.

Finally, Georgia's textile industry is heavily concentrated in carpet production, and much of the textile rebound in 1986 was due to strong housing sales and office construction, which prompted the demand for carpet. While single-family construction should continue stimulating carpet demand, barring a rise in mortgage rates, the curtailment of multi-family construction and most types of commercial building will weaken the carpet segments of the textile industry in the coming year. Combined, these effects will still bolster manufacturing employment in Georgia, but the support will be modest.

Construction. An expected decline in the construction industry will be the second most important factor in Georgia's 1987 economic outlook. Construction in the state faced slower expansion in 1986, but its rate of employment gain was higher than most other industries. Single-family residential building, propelled by falling interest rates, starred in this show, taking off at a pace exceeding that of 1984 and 1985 (Table 4). The average effective rate on 30-year fixed rate mortgages in Atlanta dipped below 10 percent in 1986, the lowest level since 1974. Vigorous population and employment gains, both exceeding the national averages, further stimulated demand for housing. Of the state's six largest metropolitan areas, only Savannah failed to show a strong increase in residential building during 1986.

Georgia's store and industrial construction showed surprising tenacity and strength as well. The retail building pace accelerated throughout 1986, while industrial construction gains slowed but maintained a healthy level. New store construction was motivated partly by the need to serve the state's expanding residential neighborhoods and partly by speculation. Though current demand may be insufficient to support many recently constructed malls and shopping centers, retailers are reserving space on the basis of anticipated demand. Additional store space stimulated building of more warehouse and distribution facilities. This flurry of construction has resulted in a superabundance of both retail and industrial facilities, especially in Atlanta.

Table 4.
Construction Permits
(Annual percentage growth of dollar value)

	United States	Georgia
TOTAL:		
1983	39.66	59.58
1984	14.08	23.75
1985	12.16	12.94
1986	-5.90	6.02
Single-family Residential:[1]		
1983	65.79	57.86
1984	3.55	4.90
1985	3.32	6.91
1986	14.06	14.08
Multifamily Residential:[1]		
1983	56.21	96.32
1984	8.62	5.01
1985	1.80	3.89
1986	-13.14	-10.12
Offices:		
1983	3.43	97.51
1984	17.96	25.43
1985	16.94	-2.37
1986	-18.32	-38.39
Stores:		
1983	33.78	88.99
1984	36.35	88.81
1985	17.63	8.61
1986	7.78	60.89
Industrial		
1983	8.65	12.23
1984	58.56	15.69
1985	-0.89	67.22
1986	0.75	11.39

[1]Annual percent growth of units.

Source: Computed by Federal Reserve Bank of Atlanta from data in U.S. Department of Commerce, Bureau of the Census, *Housing Units Authorized by Building Permits and Public Contracts (C-40).* 1986 figures represent a comparison between data from January to November 1986 and January to November 1985.

Not surprisingly, office and apartment construction declined from 1985 levels; for offices, 1986 was the second consecutive year of decline. Both office and apartment markets in the state, and particularly in Atlanta, had developed excess capacity that forced down effective lease rates and, thus, profitability. This factor alone would have eventually triggered construction slowdowns; however, imminent tax reform sealed the issue and precipitated office and apartment development decreases in Georgia as well as the nation. Buildings that could scrape along financially with 70 percent occupancy will need higher levels under the new tax law. As a result, construction activity tumbled.

Construction-related employment and personal income in Georgia during the coming year are expected to be below their 1986 levels. Single-family residential activity, though difficult to anticipate for 1987, will probably finish the year below its 1986 level. This prognosis is based on the fact that population and total employment growth, two key factors in housing demand, are expected to increase more slowly in 1987 than 1986. Atlanta may nevertheless show some single-family housing growth because it generates more jobs than the rest of the state and attracts a disproportionately large share of new Georgia residents.

Multi-family residential and office construction in Georgia will decline again during 1987. For the most part, lenders will be hesitant to fund new development. During 1987, and perhaps 1988, these two real estate categories will be absorbing current excess space. Vacancy rates, especially in Atlanta where much of the activity has been in the past, are so high that little new activity is likely.

Trade. Trade, services, and government should anchor Georgia's economic prosperity in 1987. Each segment will probably advance more slowly than in 1986, though. Trade sector job growth in Georgia slackened from a strong 7 percent average annual rate between 1983 and the end of 1985 to a little over 4 percent during 1986. This rapid deceleration may have been partially in response to Atlanta's tapering general merchandise sales growth, which dipped from 7.6 percent in 1985 to 6.2 percent in 1986. The drop in sales growth suggests that the rapid 7 percent yearly trade employment advances would have been unsustainable over the long haul, since the pool of personnel would then have grown faster than the demand for their services.

Trade activity and employment will move ahead in 1987 but less vigorously than in 1986. The overall economic expansion expected for the state should pull trade activity along with it. The state's vibrant single-family housing market has been an important source of trade growth in past years because recent home buyers, allowing for some lag time, tend to make major purchases of appliances and home furnishings as well as secure the services of lawyers, real estate agents, inspectors, landscapers, and decorators. Despite the marginal decline in demand expected for single-family units, there is still room for a relatively brisk level of sales in 1987. The improvement anticipated in the state's manufacturing sector could also generate income growth and fuel retail and wholesale sales and employment growth. Lower income tax rates will give consumers more disposable income to spend as well.

On the negative side, lack of vigorous growth in the regional economy will slow employment gains in the state's wholesale trade. Tax reform legislation, because it eliminates the deductibility of interest on revolving credit and charge card accounts used to finance an important segment of retail sales, could also constrain spending. However, gains in population and income should balance these hindrances to reinforce trade sector growth.

Services. Almost as surprising as the manufacturing sector's weak response to the falling dollar was slower growth in Georgia's usually stalwart service industries. Services employment expanded at an average annual rate of over 6 percent from 1983 through 1985, but the pace tapered to 4 percent from 1985 through 1986. The nation experienced a similar but smaller slowdown.

The damper on Georgia's services growth can be traced to the state's 1986 drought, continuing agricultural recession, and the beginning of a decline in commercial construction, all of which cut into demand for business services. Business services such as advertising, credit reporting, employment agencies, and data processing firms constitute the state's single largest service component, accounting for 28 percent of all service employment. Much-needed rain and the resulting resurgence of Georgia's farm industry in the fall of 1986 boosted services demand by the agricultural sector, but the market for business services among real estate and construction firms slowed throughout the year. The state economy's less vigorous rate of advance in 1986 also acted as a general drag on services. Though the lodging and amusements components of the service industries performed well, riding the crest of a strong wave of tourism, this strength was not sufficient to overcome weakness among business services.

Setbacks in the service sector were more severe in Georgia than the United States as a whole because the precipitating industries, farming and construction, constitute larger parts of the state's economy than the nation's. Georgia's farm sector accounts for about 4 percent of total state employment, compared to roughly 3 percent for the nation, and construction's share of 1986 employment in Georgia is 22 percent above the national norm.

The tempo of services expansion during 1987 is not likely regain its previous pace. Weaknesses in the state's construction and agriculture industries are not expected to improve much in 1987; indeed, they may worsen. The vigor anticipated in lodging and amusements will not be enough to lift services expansion in 1987 above its level in 1986.

Tourism. Georgia tourism reinforces demand for services as well as goods sold by the state's retailers and wholesalers. Tourism enjoyed an excellent year in 1986, thanks to a variety of economic developments. The home mortgage refinancing surge of 1985 and 1986 may have created discretionary funds, often channeled toward vacations and other non-essentials. Some contend that the 1986 stock market surge caused a "wealth effect," which loosened consumers' purse strings by giving them a cushion of appreciating equities. A national inflation rate of less than 2 percent in 1986 combined with moderate personal income growth also enabled households to budget more for travel. In addition, the dollar's decline relative to many other currencies and the threat of terrorism against Americans abroad made international travel more expensive and risky.

Tourists are expected to spend even more in the state in 1987 after a good year in 1986. The dollar's fall will probably continue to inhibit foreign travel. Moderate gasoline prices and effective advertising at the state level have boosted prospects for car travel in the State of Adventure, and concern about violence to Americans traveling in Europe may divert many vacation dollars to domestic travel.

Government. In contrast to trade and services, government has captured a declining proportion of Georgia's jobs and income. Over the period

from 1983 to 1986, government employment in the state grew 1.3 percent annually, compared to a 5 percent increase for total nonagricultural employment. Total personal income gains likewise outstripped growth in personal income from government sources by more than four percentage points over the same period.

To finance its expenditures, Georgia relies on sales tax receipts for almost 50 percent of its total tax revenues; individual income taxes account for 38 percent; and corporate income taxes supply another 9 percent. Compared with state governments across the nation, Georgia's reliance on individual and corporate income taxes is relatively high; its dependence on sales tax revenues is comparable to that of other states. Unadjusted for income differentials, Georgia ranks 37th (one being the highest) in per capita taxes.

Though Georgia has not changed its tax rates in recent years, its tax revenues have grown rapidly in response to strong population and per capita personal income gains. The state's faster-than-national population growth alone would increase personal income and tax revenues; however, the substantial rise in revenues is largely the result of marked advances in per capita personal income. Both have led to hefty increases in sales and individual income tax receipts.

Georgia revenue collections will be tempered in the future by slowing income growth and possible reductions in federal revenue sharing. As Georgia's per capita income growth regresses towards the national average, tax collections may slow as well. The availability of federal funds is also in question as congressional concern about reining in federal deficits casts a shadow over federal transfers to all levels of government. Georgia's 1987 budget assumes the same federal funding as in 1986, which means that state general revenues could be reduced if federal revenue sharing cutbacks are implemented.

Transportation, Communication, and Public Utilities. Paralleling the deceleration of government jobs, the state's transportation, communication, and public utilities industries fell from a 4 percent annual average rate of employment increase between from 1983 and the end of 1985 to just short of 2 percent from 1985 to 1986. This sluggishness, largely attributable to slower expansion by long distance telephone carriers and electric utilities, has also resulted in a falling share of Georgia employment for transportation, communication, and public utilities. The weak growth experienced in 1986 is expected to continue in 1987. No developments appear on the horizon to accelerate growth in this usually sedate group of industries. Still, these industries are too small a part of the state's economy to hamper overall state growth significantly.

Finance, Insurance, and Real Estate. Finance, insurance, and real estate industries are another relatively small group of employers in the state, which have nonetheless added jobs at a fast, consistent pace.

Employment growth in this industry group shows no signs of peaking yet, though the national growth rate exceeded the state's early in 1986 for the first time in several years. The outlook for this component of Georgia's economy is for continuing, though slowing, growth during the coming year.

Finance, insurance, and real estate jobs in Atlanta constitute a higher percentage of the area's employment than in the nation as a whole, indicating some saturation may be taking place. Atlanta's employment growth in these industries stood at 4 percent compared to national figures of almost 6 percent over the same period in 1986, suggesting that opportunities for expansion in Georgia's financial segment may be better outside the capital city.

Agriculture. Georgia agriculture continues to endure hard times. Personal income from farming plummeted a dramatic 40 percent in 1985 to reach a five-year low of $2.7 billion. Totals for 1986 will probably show further losses. Unprofitably low yields and government acreage reduction programs have slashed the number of acres planted by 33 percent since 1981, when 6 million acres were in production. Over the past 3 years, an estimated 6,000 Georgia farms have either ceased operation or been absorbed into other farms. The financial distress of Georgia's farm sector has had an adverse impact on the entire state economy, especially in rural counties.

A combination of factors has led to the difficulties facing Georgia's agricultural sector. Low prices as a result of excess world supplies have been at the root of Georgia farmers' misfortune. The price of soybeans, for example, has dropped nearly 30 percent over the past two years. Lower crop and livestock revenues reduced farm cash receipts by 14 percent during 1985. The summer of 1986 brought still another disastrous drought, the worst in recent years, prompting cattle herd sell-offs that depressed beef prices. Compared with 1985, estimated yields per acre for peanuts, cotton, and corn were down substantially. High

production in other areas of the nation ruled out an increase in crop prices and further hurt farm revenues. Although government aid has mitigated the effects of the drought, weather-related losses by the state's farmers are still estimated at $339 million.

Barring another drought, Georgia farmers can look for improvement in 1987. Current liquidations are painful, but they will reduce the supply of agricultural commodities and consequently improve prices. A strong government program during 1987 will also help boost farm incomes. Prospects for farm exports are more promising because the falling dollar and lower support prices should begin stimulating demand for U.S. agricultural commodities.

Conclusion

Georgia's economic performance was mixed in 1986. Typically strong sectors such as retail trade, single-family residential construction, and financial services advanced markedly. Last year's employment growth in each of these industry groups exceeded the average rate for the three previous years. Stung by setbacks in commercial construction and agriculture, services employment, which has been among the state's fastest growing industry groups, slipped well below its usual pace in 1986. Strong performances among transportation equipment firms helped Georgia manufacturing escape the decline suffered by that sector nationally, but expansion was weak by any other standard. Demand for domestically produced goods accelerated less vigorously than expected in response to the rising costs of imports. Overall, the state's growth was moderately above the nation's.

Georgia's economy will probably advance in 1987 but less briskly than in 1986. Slowing commercial construction, waning automobile demand, and the continuing strength of the U.S. dollar against some Asian currencies will hold the economy back. Atlanta's strong service base and its expanding role as a financial center should anchor growth there, and a moderate turnaround in manufacturing will spur some progress in the state's smaller towns. Perhaps just as important, the state's image as a land of opportunity will continue to draw newcomers, spark employment, and contribute to the income gains that fuel the state's economy. If Georgia can avoid further farm distress and escape federal revenue sharing cuts, the state's economy should sustain some lead on national growth.