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In This Issue

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FEATURES

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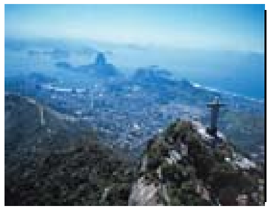

Brazil's Policy Changes Dampen Outlook for Latin America

Brazil is a key part of Latin America's economy, and in recent years it has become a more important trading partner with the United States. But how closely are the hemisphere's economies tied to Brazil's? To provide some answers, the Atlanta Fed offers a perspective on Brazil's recent monetary policy changes and how these changes may affect Latin America and the United States.

DEPARTMENTS

A New Perspective

We are proud to present this inaugural issue of *EconSouth*, the Atlanta Fed's regional economics and business magazine. This publication features articles, research summaries, data and policy perspectives on topics pertinent to the Southeast. We are excited about this vehicle for sharing our ideas, and we hope you enjoy reading it as much as we enjoy preparing it.

The year ahead

In April 1999 we will enter the ninth year of U.S. economic expansion — the second-longest since World War II. That we have come this far is a testament to the dynamism and flexibility of our economy and to the fiscal and monetary policies that have served as the foundation for this growth.

Like the past few years, 1999 should feature a solid economy albeit less spectacular than in 1997 and 1998. Gross domestic product (GDP) growth is likely to be somewhat slower on an average annual basis, while inflation as measured by the consumer price index should be slightly higher in 1999. Unemployment should remain low, in a range similar to 1998.

I do have concerns, however. While it appears that the severe economic contraction in many Asian economies will bottom out this year, I do not see a strong recovery there in 1999. The outlook for Latin America, which was already unspectacular, has certainly deteriorated since the recent turmoil in Brazil. These developments have negative implications for the U.S. outlook, but the exact extent to which they will affect growth here is unknown. By and large, the U.S. outlook is relatively resilient to those events, given the United States' limited trade exposure to those trading partners and the overall good balance in the domestic economy over the last five years.

During this time, our economic expectations for each year have consistently been surpassed. Real GDP growth has been stronger than forecast, and unemployment and inflation have also been lower. In the midst of this good performance, I have one concern: the institutionalization of unrealistic expectations, that is, the assumption that our economic performance will continue along a smooth path indefinitely and that each year's economic statistics will exceed the previous year's.

This mind-set worries me because it may create a demand for economic policy to eliminate every bump in the road, and this expectation simply sets up policy for failure. While economic policy is extremely important for creating an environment in which markets work their best, it cannot smooth over every rough spot. In fact, monetary policy is ineffective in addressing many economic challenges — and in some instances it can prove harmful by contributing to a high-inflation environment. Thus, I do not believe that monetary policy is always the best medicine for all of our ills. But as a monetary policymaker, I know that low inflation is a critical component to create and maintain a strong, balanced economy, and I am committed to policies that keep inflation low.

While we should not have unrealistic expectations for our economy, we should expect that the world we live in will continue to change rapidly. In this issue of *EconSouth*, we focus on some of these changes.

A changing world of business

One of the most recent dramatic technological developments is the widespread use of the Internet. In this issue, we examine how the Internet is changing business, looking at the online efforts of several southeastern companies.

The unusual number of natural disasters in the Southeast recently has reminded us of such disasters' toll not only in human suffering but also through the havoc they wreak on businesses and the economy. In this issue we look at how some businesses are preparing themselves to minimize the effects of such disasters.

Finally, we examine Brazil's recent policy changes and their potential effects on the Latin American region, an area that has become an increasingly important trade partner with the United States.

Let us know what you think

We are pleased to present *EconSouth* and trust you find it accessible and useful. Your views are important, so please let us know what you like, don't like or would like to see added in upcoming issues.

By Jack Guynn, president and chief executive officer of the Federal Reserve Bank of Atlanta

COVER STORY

THE INTERNET: CHANGING BUSINESSES' APPROACH TO BUSINESS

To see how big Internet commerce and marketing are becoming, one can simply go online and find companies hawking everything from computers to hunting boots to airline tickets to automobiles to banking and financial planning services.

Surfin' the Internet isn't just for kicks anymore — it's big business as more and more companies catch the online technology wave and advertise and sell their products in cyberspace. But are online services, online marketing and online retailing — sometimes called e-commerce or Internet commerce — really affecting the way companies do business? Industry experts offer a resounding "yes." In fact, some online experts have gone so far as to predict that the Internet will reshape the global economy during the next five years.

Whether or not that prediction becomes a reality remains to be seen. Whatever happens, however, it is clear that the Internet is providing companies new opportunities to reach consumers and other businesses in fresh and creative ways most executives never dreamed were possible five to 10 years ago.

Where will the Internet take business?

While still in its infancy, the Internet has taken on an almost over-the-rainbow appeal to companies worldwide as they rush to market and sell products and services in cyberspace. But currently, statistics don't show that consumers are beating down the door to purchase products over the Net.

Companies engaged in online retailing represent some of the most commercially visible Internet businesses. Estimates vary for 1998 U.S. online retail sales, but firms like Forrester Research,

which specializes in information-technology-related trends, generally place the figure in the $5 billion to $8 billion range. And while $8 billion may seem an impressive figure, it represents less than 1 percent of total retail sales for 1998.
Odyssey, a San Francisco marketing company, estimated in late 1998 that 88 percent of all U.S. households and nearly 57 percent of U.S. households with online access would not purchase anything over the Internet during that year. One obstacle to greater Internet sales, some experts say, may be a consumers' perception that they lack privacy and security in Internet transactions. Other factors inhibiting greater usage include limited Internet access and consumers' concerns about customer service.

But these potential obstacles have not cooled businesses' Internet infatuation. In fact, while current Internet usage and sales statistics may be a turnoff to some companies, these figures apparently highlight the seemingly limitless potential of Internet commerce to others. As a result, many companies have begun to launch not only their marketing efforts but also their sales into cyberspace. Online Christmas sales in 1998 offer additional hope for many companies. The holiday's 1998 sales — approximately $2.3 billion — exceeded many expectations and represented an increase of 77 percent over 1997.

To see how big Internet commerce and marketing are becoming, one can simply go online and find companies hawking everything from computers to hunting boots to airline tickets to automobiles to banking and financial planning services. Other companies have found that they too can better reach their business customers through the Internet.

> *We've recognized that more and more car buyers are doing their automotive research online.*
>
> — Bill Betts, Manager of Corporate Communications Saturn Corp.

Taking business by storm

A 1998 survey conducted by PricewaterhouseCoopers LLP found that 77 percent of the 446 product and service companies that are identified as the fastest-growing in the United States have at least one Web site. Most of these companies, 94 percent, use their Web sites to advertise their products, while 85 percent provide in-depth product or service information on their sites and 71 percent obtain new sales leads through their sites. Only 32 percent of the companies surveyed use their Web sites for online sales.

However, online sales will continue to expand as use of the Internet becomes more widely accepted, according to Forrester Research. The firm predicts that Internet commerce sales worldwide may grow to as much as $3.2 trillion dollars in 2003 — representing nearly 5 percent of all global sales.

Internet sales and marketing spread to southeastern companies

While many Internet service providers, like MindSpring, based in Atlanta, and other online support businesses based in the Southeast have seen their stock prices increase phenomenally during the last few years, more traditional southeastern companies also have joined the rush to the Internet. Several southeastern companies are taking a lead in their respective industries in developing online marketing and sales efforts.

Saturn Corp., the General Motors subsidiary that produces its automobiles in Spring Hill, Tenn., rolled out a new television advertisement in the fall of 1998 that compared ordering a car online to ordering a pizza and having it delivered to your door. While cars cannot be purchased online from Saturn at this time, a consumer can visit the company's Web site (www.saturn.com) and interactively select the specific options, color, warranty and financing she wants for her own vehicle. The Web site then calculates a price for the vehicle and gives the consumer a list of Saturn retailers (dealers) in her area who will contact her if requested.

"Five years ago when we brought up our Web site, we recognized that the Internet would play a vital role in business," said Bill Betts, manager of corporate communications for Saturn. "Now we believe our site has developed into something unique in the auto industry by closely matching our

Internet experience with the retail buying experience for consumers. Since Saturn has a no-haggle-pricing philosophy for our vehicles — and you can calculate that price online — we probably come closer than any other car company to matching these two experiences." A customer wanting to make a trade-in, however, still has to visit a Saturn retailer to have his car appraised.

Saturn, which bills itself as "a different kind of car company," has seen a dramatic shift in the way customers get information about their cars. "When we started Saturn in 1990, we had an 800 number that customers could call to request information on our vehicles," Betts said. "At the time, 80 percent of the information we provided to customers came from requests to this phone number. We now receive 80 percent of the requests for vehicle information over the Internet."

But Betts added that the company's Internet site, while quite successful, is not a stand-alone concept. In fact, he said, Saturn works to ensure that its television, print and Internet messages all build awareness of Saturn's products and special customer relationship. As an example of how the different media can work together, Betts pointed out that after the Saturn commercial touting the company's Web site first aired last fall, visits to the site more than doubled within days. While site usage is down slightly since that time, it remains 70 percent to 80 percent higher than before the television advertisement ran.

"We've recognized that more and more car buyers are doing their automotive research online," said Betts. He estimates that some 25 percent of all new car buyers are now doing their research online. Used car companies in the Southeast are also beginning to advertise their car inventories online.

Taking off: The travel industry online

Other industries are also reaping the rewards of the Internet. Atlanta-based Delta Air Lines has established an online flight ticketing service called SkyLinks, which can be accessed from the company's Web site (www.delta-air.com). Through SkyLinks, airline travelers can book flights, check flight arrival information and change frequent flyer account information, thus reducing paper distribution costs, the airline's second-highest expense, and the need to talk with one of the company's reservation operators in person. Both of these services are quite expensive for the company.

"We've had excellent success with our online booking product," said Kevin Dunn, Delta's product manager of e-commerce sales. As a result, he said, Delta has realized a very good return on investment since introducing its Web site in 1996.

A 1998 SURVEY FOUND THAT 77 PERCENT OF THE 446 PRODUCT AND SERVICE COMPANIES THAT ARE IDENTIFIED AS THE FASTEST-GROWING IN THE UNITED STATES HAVE AT LEAST ONE WEB SITE.

Since then, Delta has seen its Web site's usage increase by triple digits year over year. While in 1998 SkyLinks accounted for only about 1 percent of Delta's overall ticket sales, Dunn said that it has provided a greater impact in terms of lower costs in distribution and customer service.

To attract customers to online ticketing, Delta has developed several incentives, ranging from additional frequent flyer miles to special fares and discount tickets, available only on the Internet. For example, in recent months Delta offered online ticket users $20 off any fare to Vail, Colo., and two free ski lift tickets good for two days of skiing at the resort. And on Feb. 8 Skylinks introduced weekly Web fares that allow last-minute weekend travel at significant discounts up to 40 percent to 50 percent off published rates.

To recoup some of its rising costs for traditional booking methods done through phone calls or with paperwork, Delta recently added a $2 surcharge to fares for domestic round-trip bookings, except those made on its Internet site. Within a month, however, Delta repealed the surcharge because no airlines matched it, leaving Delta with slightly higher fares.

The online potential for travel-related businesses and online travel options for consumers should continue to grow. According to Jupiter Communications, a media research firm specializing in Internet commerce, the travel industry booked $911 million in online revenue in 1997; Jupiter predicted that amount will increase to $11.7 billion in 2002. While airline travel makes up the

majority of this total, the firm indicates that the airline portion of total online travel bookings will decrease from about 84 percent to approximately 59 percent during this period as other travel options such as cruises, resort packages and tours come online.
Sensing the potential, Walt Disney World in Orlando, Fla., has jumped on the online travel-booking bandwagon. Disney World's Web site (www.disney.go.com/DisneyWorld/index2.html) provides travelers with a vast array of information touting the company's Florida attractions and the option of booking vacations online. Besides tickets to Disney theme parks, the site features a variety of all-inclusive vacation packages for Walt Disney World theme parks in the Orlando area as well as Disney cruises, which were introduced in 1998.

Banking online, not in line

In addition to travel-related businesses, other industries, such as banking and financial services, are well suited to online business. In fact, the Internet has become increasingly popular with both large and small banks in the Southeast. Today many banks' Web sites allow customers to complete a variety of transactions online — paying bills, receiving and reconciling bank statements, checking balances, applying for certain types of loans, and opening checking and savings accounts.

In addition to an Internet connection, to bank online customers must have a financial software package, such as Microsoft Money or Quicken, that allows them to interface with the bank. To handle online payments, most banks use a third-party financial service provider like Check Free Corp., based in Norcross, Ga. Ironically, third-party service providers often pay the business that is owed money by cutting a paper check. The bank's account is then debited, and the bank in turn then debits the customer's account.

"Online banking is helping us reach new segments of customers who would rather bank electronically versus coming into a branch location," said Charles Bretz, senior vice president for alternative delivery at Compass Bank, based in Birmingham, Ala. Compass Bank launched its Web site (www.compassweb.com) in mid-1995 and began to offer online banking services later that year. In addition to these services, the bank offers customers online trading of stocks and securities through Compass Brokerage.

"We've had a very favorable experience with online banking and brokerage, and our customers have found banking online to be a very robust way to complete their transactions," according to Bretz. He added that online banking might in time provide savings to banks by reducing the amount of paper and postage required for checks and billing statements.

In highlighting the growth of online banking services at Compass, whose advertising slogan is "bank online, not in line," Bretz said that in 1995 all of Compass' consumer loan applications originated by customers coming into their bank branches. Today approximately 30 percent of Compass' consumer loan applications originate online or via phone through the bank's Sales Call Center, a phone center launched in 1995. All of these efforts provide customers — consumers and businesses — with more options.

Letting the customer drive the system

As more consumers and businesses go online, companies may find that the way they do business with their customers has changed, especially since consumers and businesses can now more easily comparison shop for the best pricing.

With the increased availability of product and pricing information, some products may become more like commodities and in doing so generate lower and lower prices for consumers. Still, most companies see the upside potential as being greater than the downside possibilities. But the rules of business are changing for many, including middlemen, as consumers have more say-so in the process.

"Since the Internet allows consumers to go directly to the source for getting the best prices and service, the role of intermediaries is being altered in many instances," said Dr. Frederick Riggins, a researcher in the Center for Management in Electronic Environments at the DuPree College of Management at the Georgia Institute of Technology in Atlanta. "In some industries, the Internet

has created new opportunities for intermediaries by providing opportunities for them to interact with consumers. In other industries we are observing a trend toward disintermediation, where manufacturers are using their Web sites to sell directly to the customer."
United Parcel Service (UPS), the shipping giant based in Atlanta, has recognized the potential of the Internet to change business, particularly the role of intermediaries, and is adapting what it does to meet the demands of the online world.

The company has been online for several years; its Web site (www.ups.com) features products such as a document exchange program designed to securely deliver electronic documents over the Internet; a system that allows companies to connect their mainframe computers to UPS' computers to manage production cycles, fulfillment, payables and receivables; and an online package tracking system.

James P. Kelly, UPS' chairman and chief executive officer, discussed in a recent speech the company's Internet efforts and the changes the customer-driven approach is creating. According to him, moving to a customer-driven system creates a much more efficient supply chain, which has benefits not only for receivers but also for shippers. To tap into the benefits of electronic commerce, UPS has put in place a physical and virtual infrastructure that allows the company to establish direct connections with millions of customers.

UPS' investment has paid off as more than half of the company's package volume is now shipped by customers electronically connected to the company, using products like UPS' online package tracking, according to Kelly. UPS has found that these efforts have benefited business customers, who have seen their shipping volumes increase by 10 to 20 percent, a fact that the company believes will provide a more loyal customer base.

> *In some industries, the Internet has created new opportunities for intermediaries. . . . In other industries we are observing a trend toward disintermediation, where manufacturers are using their Web sites to sell directly to the customer.*
>
> — Dr. Frederick Riggins, Center for Management in Electronic Environments, Dupree College of Management, Georgia Institute of Technology

Eyes on the future

While there are many questions and uncertainties about the relationship between the Internet and business, there is little doubt that the Internet is providing a world of opportunity in increased sales and marketing of products and services.

But will the current online craze really change businesses' approach to doing business, like the transformation in the travel industry? In many ways the Internet already has changed business, and there are signs that it will continue to change the way both large companies like UPS and small companies like the sporting goods store around the corner interact with their customers, not only in the Southeast, but worldwide. As a result, companies will have to determine how the Internet fits their current business, as Saturn or Compass Bank have done, or how it could change and improve what they do.

For some, the process may be simple; for others it may involve reshaping their operations and relationships with customers. Such is the power of cyberspace.

Sure It's Great for Business, but What About Consumers?

With all the hype about the Internet and its benefits for businesses and consumers, it's easy to lose sight of potential downsides. The Internet provides consumers more choices, more control over purchasing decisions and, in many cases, lower prices. But these features represent a mixed bag of benefits and potential problems.

"At this time, I see Internet commerce going in two possible directions for the consumer," said Suzanne E. Boas, president of Consumer Credit Counseling Service Inc. in Atlanta and a member of the Federal Reserve Bank of Atlanta's board of directors. "The Internet will help a segment of consumers in comparison shopping and deciding on the best price for a certain product. On the other side, however, because the Internet is so accessible and is perceived by many consumers as a form of entertainment, I believe it plays to the impulsive, and at times compulsive, side of consumer spending as well, much like the television home shopping phenomenon."

Suzanne Boas
President, Consumer Credit Counseling Service Inc.

The Internet's easy accessibility poses some serious concerns for the consumer. "There is much less physical effort involved in shopping in front of a computer than in trudging off to a mall, so it's easy for people to just shop and shop," she continued. "Another concern is that young people, who are quite savvy when it comes to the Internet, are also a group that has typically exercised less restraint with their personal finances."

More control for better or worse

This downside of consumers' access to the Internet may be compounded by increased access to credit options. In the past, Boas said, consumers did not have such unlimited control over their finances, as banks and credit card companies set strict credit lines and limited access to credit. Today, however, because of the competitiveness of the credit market, consumers have greater access to more credit. "We've seen that when the consumer has more control over credit decisions there is a segment of the consumer market that doesn't exercise self-control," Boas said.

The upside

But not everything about the Internet raises concern for consumers, according to Boas. In fact, with the Internet, consumers are able to comparison shop for better prices more easily. Since businesses should be able to reduce overhead costs by using the Internet, consumers should see lower costs passed along to them when they shop online.

For instance, one of the hottest e-commerce segments, online travel bookings, provides a real opportunity for consumers, Boas said. "Online travel bookings represent a definite upside for consumers. If you think about airline and vacation travel bookings, that's not the type of purchase most people make impulsively. This is definitely an area where prices should come down for consumers as online service delivery expands."

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REGIONAL FOCUS

Preparing for a Natural Disaster: A Business Perspective

Preplanning can help mitigate disaster damages, saving both lives and considerable costs associated with these unplanned events.

It used to be that the words "natural disaster" evoked, in many Americans' minds, visions of earthquakes, fires or mudslides on the West Coast. But that perception has changed during the 1990s — and particularly during the past year — as numerous natural disasters wreaked havoc on the southeastern United States.

Consider these southeastern disasters: Hurricanes Andrew (1992), Opal (1995), Earl (1998) and Georges (1998), which caused significant damage to the Atlantic and Gulf Coast areas; the floods in south Georgia (1994); wildfires in northern Florida (1998); and severe tornadoes in Alabama, Georgia, Mississippi and Tennessee (1998 and 1999). While everyone has viewed or read in the media about the human toll and suffering associated with such disasters, there is another side to their destructive nature: the business perspective and how businesses prepare for and recover from a natural disaster.

Being prepared: Contingency planning

When Mother Nature strikes, any business in her way may be affected — from mom-and-pop stores to multibillion-dollar corporations. But businesses can take precautions to ensure that they are better prepared for a potential disaster by implementing an emergency management process in advance (see Making the Case for Emergency Management).

"WE ESTIMATE THAT FOR EVERY DOLLAR WE SPEND ON PREVENTION WE SAVE $2 ON DISASTER RECOVERY"

Kim Fuller, spokesperson for FEMA's Project Impact

According to the Federal Emergency Management Agency (FEMA), emergency management is the process of preparing for, mitigating, responding to and recovering from an emergency situation, be it a natural or manmade disaster, a loss of computer or communications systems or a hazardous materials incident.

Many organizations have emergency management or contingency plans in place. The Federal Reserve, for instance, has contingency plans for many disaster situations, including hurricanes.

The Fed put these plans into action when Hurricane Andrew, one of the strongest hurricanes ever to hit the United States, struck south Florida on Aug. 24, 1992. "In advance of the storm when we knew we might be hit, we began to implement our contingency plan," said Jay Curry, vice president of the Atlanta Fed's Miami branch. "First, we wanted to ensure that our employees were safe and taken care of. To do that, we opened our doors to our employees and their families, and many decided to stay at our branch building during the storm."

After the storm, nearly all local businesses required that customers use only cash. Miami branch personnel went to work to ensure that cash was delivered to local financial institutions so that the Miami area's economy would continue to function.

On the day after the hurricane struck, the Miami branch paid out five times more cash than during a normal day — an amount that is still the one-day cash payout record for the branch. Since many of the branch's employees were unable to make it to work because of the severe damage in the area, the branch manually paid out this record total with only eight employees, half the number that would normally process cash by machine.

While the branch lost electricity, a backup generator kept critical systems like lights and the security system running. Other branch functions, such as U.S. government securities, wire transfers, automated clearinghouse transactions and checks, were transferred to the Atlanta headquarters. These functional transfers are a crucial aspect of the Federal Reserve's contingency plans, which provide for critical services to be sent to another Federal Reserve location to ensure the continued function of the local area's, region's and nation's payment system.

"Our contingency plans were quite comprehensive, but as we reviewed our performance after the hurricane we were able to add in some procedures that would make things go more smoothly in the event of another disaster," said Curry. These procedures included improving methods of communications and stocking supplies. As in the past, the branch continues to routinely update its contingency plans to ensure that they remain current.

Preparing for impact

Being more versus less prepared for a disaster can clearly pay off, according to Kim Fuller, spokesperson for FEMA's Project Impact program, which partners with communities, citizens and businesses in emergency management preparedness. "We estimate that for every dollar we spend on prevention we save $2 on disaster recovery," said Fuller. "That is why preparedness is so important. We've seen that when you put in the time and money up front it can significantly save money for businesses and communities in the long run."

Preplanning can not only help to mitigate disaster damages but can also reduce moral hazard issues related to disasters. Moral hazard is the condition often associated with an insurance arrangement whereby the existence of insurance encourages risky behavior — like building on flood-prone land — and protects individuals and organizations from the consequences of this behavior. In the case of natural disasters, critics have levied this charge against public aid for rebuilding multiple times in areas that are continually susceptible to disasters such as floods. Another example is allowing uncontrolled construction and development in coastal areas that are prime targets for damage from tropical storms or hurricanes and then providing disaster relief for rebuilding. By requiring individuals and organizations to implement preparedness efforts, however, moral hazard can be reduced.

While no community or business can control when a natural disaster occurs, communities and businesses can control their level of preparedness, helping to ensure a timely

Preplanning and preparedness efforts recently made a big difference in Pascagoula, Miss., a Project Impact community, when Hurricane Georges roared through in late September 1998, packing winds of more than 105 mph. Pascagoula is a city of 27,000 located on the Gulf Coast in a low-lying area that is susceptible to hurricanes, tropical storms and flooding. Earlier in 1998 the community's businesses, citizens and governments began preparedness efforts, such as implementing a disaster vulnerability awareness campaign.

resumption of public works and business activities after a disaster.

"Instead of one or two weeks, most businesses were back up and running within days after Hurricane Georges — preparedness saved time and money," said Jim Foster, Pascagoula's Project Impact coordinator. "We believe businesses opened back up faster because they were more prepared, as were the public works and utilities people. Up until just recently, people thought about preparing for a disaster when a storm was approaching. Now businesses and the community are preparing for disasters in advance. That makes a difference when a disaster occurs."

Businesses opening sooner rather than later means that disruptions are more limited not just for businesses but for the communities as well, Foster emphasized. "It's important to understand how different groups within the community are linked, especially during a time of crisis. For instance, if employees' homes aren't prepared for a disaster and are severely damaged, then the employees can't work. If they can't work, businesses can't operate, which is a drain on the individual businesses and the local economy. Governments' and public works agencies' preparedness is also important so that they can act quickly to clear damage and restore electricity or water services after a storm. All three groups are connected and must work cooperatively."

Making disaster preparedness a regulatory issue

Disaster recovery plans are now becoming a regulatory requirement for many industries. To be prepared, each business should determine the regulatory requirements of their individual industry regulator or association to help avoid fines, penalties or negative press associated with noncompliance.

Health care is one industry that within recent years has begun to require that hospitals and similar facilities have disaster recovery plans in place. The Joint Commission on Accreditation of Healthcare Organizations (JCAHO) sets standards for operating a health care organization and evaluates the industry to ensure that these standards are met. Beginning in 1997, JCAHO began to evaluate health care organizations' disaster recovery plans as they relate to computer systems that might be damaged in the event of a natural disaster or foul play. Documented and tested disaster recovery plans that address items such as theft, vandalism, loss of critical data, provision of emergency power, and file and flood recovery are now required.

Bouncing back from a disaster

Unfortunately, disasters are a fact of life, particularly in some susceptible areas, like coastal communities. But no area, regardless of its geographic location, is immune to disasters, and communities throughout the Southeast, such as Albany, Ga., Sylvan Springs, Ala., Clarksville, Tenn., or Dunwoody, Ga., to name a few, have proved this point during the 1990s.

While communities or businesses can't control when a natural disaster occurs, they can control their level of preparedness, helping to ensure a timely resumption of public works and business activities after a disaster.

Making the Case for Emergency Management

The Federal Emergency Management Association (FEMA) points out a number of reasons for businesses to implement an emergency management plan. In its Emergency Management Guide for Business and

Industry, FEMA says that emergency management

- helps companies fulfill their moral responsibility to protect employees, the community and the environment;
- facilitates compliance with regulatory requirements of federal, state and local agencies;
- enhances a company's ability to recover from financial losses, regulatory fines, loss of market share, damages to equipment or products, or business interruption;
- reduces exposure to civil or criminal liability in the event of an incident;
- enhances a company's image and credibility with employees, customers, suppliers and the community; and
- may reduce insurance premiums.

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INTERNATIONAL FOCUS

Brazil's Policy Changes Dampen Outlook for Latin America

It's too early to gauge the full impact of the central bank's decision to change its foreign exchange policy. One can, however, begin to map out some of the implications that the *real* devaluation will have for Brazil as well as the rest of Latin America and the United States.

Recent changes in Brazilian monetary policy have received significant attention in both financial markets and economic policy circles. Indeed, Brazil's importance should not be minimized — it is the world's eighth-largest economy and represents more than 40 percent of Latin America's gross domestic product (GDP). Almost certainly, the recent developments in Brazil will have implications beyond its borders. The key to sorting through these developments is to examine the policy measures Brazil's government has recently taken and then determine how they might affect the remainder of Latin America as well as the United States.

Floating the *real*

On Jan. 13, Brazilian authorities modified the *Real* Plan (see sidebar) by eliminating the inner trading band that it used to micromanage the currency's value. This modification effectively devalued the currency by 9 percent, to 1.32 *reais* per dollar.

On Jan. 15, the Brazilian central bank announced that it would no longer intervene in the foreign exchange market, effectively ending the *Real* Plan. The *real* quickly fell as low as 1.61 per dollar and closed the day at 1.45 *reais* to the dollar — a decline of over 20 percent from the predevaluation level. As of the end of February, the *real* had declined to approximately 2 *reais* per dollar, a 69 percent devaluation. Prior to Brazil's policy changes its currency had been trading at 1.21 per dollar.

Although some observers had long predicted or recommended a devaluation, and many had noted the increasing likelihood of such a move in 1999, the timing of the devaluation was a surprise. The $41.5 billion financial assistance package sponsored by the International Monetary Fund (IMF) in November 1998 and the progress being made in the government's reform agenda seemed to indicate that Brazil was working through its problems.

Brazil's underlying fiscal imbalances will be aggravated as a result of the devaluation.

But several negative developments occurred in the days preceding the decision to float the currency, developments that made it more difficult for Brazil to finance its budget deficit. Approximately $5.5 billion left Brazil in the first two weeks of 1999. By the end of January, Brazil had about $36 billion in reserves compared to just over $70 billion in August 1998. The Standard and Poor's ratings agency downgraded Brazil's foreign debt rating, and the Bovespa, Brazil's leading stock index, fell by just over 27 percent in the

week before Brazil's announcement to float its currency. At the same time, short-term interest rate futures doubled to 56 percent.
Important political developments also preceded Brazil's announcement. Conflict increased between state governors and the federal government over the issue of state-level debt owed to the federal government. Following the lead of newly elected Itamar Franco, governor of Minas Gerais, the opposition-controlled state government of Rio Grande do Sul sought relief from federal debt payments, gaining a state Supreme Court injunction allowing it to temporarily suspend a 31.2 million *real* payment. This conflict raised concerns over the federal government's ability to meet its fiscal targets as well as its capacity to mobilize political support for further economic reforms. Another salient development was the unexpected resignation of central bank president Gustavo Franco, one of the designers of the *Real* Plan.

It is too early to gauge the full impact of the central bank's decision to change its foreign exchange policy. One can, however, begin to map out some of the implications that the *real* devaluation will have for Brazil as well as the rest of Latin America and the United States.

The effects on Brazil

EVEN BEFORE THE DEVALUATION, MOST PRIVATE FORCASTS PROJECTED A RECESSION FOR BRAZIL IN 1999, LARGELY BECAUSE OF THE COUNTRY'S AUSTERITY MEASURES AND THE HIGH-INTEREST-RATE ENVIRONMENT.

The decision to float the *real* ended the growing uncertainty over Brazil's currency regime. The move to a free float should help Brazil lower interest rates and achieve a sustainable recovery in the near term. At the same time, though, the devaluation has negative implications for Brazil's short-term economic performance.

Even before the devaluation, most private forecasts projected a recession for Brazil in 1999, largely because of the country's austerity measures and the high-interest-rate environment. Growth forecasts are now being lowered further, and Brazilians will experience an even more difficult year than expected. The consencus forecast for Brazilian real GDP growth was revised down to -3.9 percent from -1.5 percent in December.

One of the most obvious effects of the devaluation is the increase in Brazil's foreign debt burden, mostly from the private sector since it has a much greater short-term foreign debt exposure than does the country's public sector. Leading Brazilian companies have long borrowed abroad in order to obtain better terms than have been available domestically, and those companies will now have to adjust their payments for the changes in the exchange rate.

Brazil's underlying fiscal imbalances will be aggravated as a result of the devaluation. While the bulk of public sector debt is *real*-denominated, it is nonetheless vulnerable to foreign exchange swings as well as prevailing economic conditions.

In recent months, the federal government has issued short-term domestic debt indexed in foreign currency but payable in local currency. This type of issue helps attract investors who might otherwise be skittish about the *real*. The devaluation increases the debt burden in *reais* because it is paid out in local currency but valued in foreign currency. Much of the public sector's domestic debt is also keyed to short-term interest rates, which have remained high for some time.

Interest rates may not immediately come down because the central bank may want to keep rates high in the short term to help stem capital outflows, which have continued despite the float (see Chart 1). While high rates help entice investors to maintain their capital in Brazil, they also tend to dampen economic growth. There are also potential

ANTI-INFLATIONARY MEASURES IN BRAZIL'S *REAL* PLAN

trade-offs between supporting domestic recovery with lower interest rates and keeping any resurgent inflation at bay. The devaluation also has important implications for Brazil's exports. Although exports from Brazil will increase in 1999 as a result of the devaluation, Brazil cannot ship enough abroad to offset the effects of the recession. Exports represented only 6.7 percent of Brazil's GDP in 1997. There is still considerable uncertainty over the outlook for global demand. Continued growth in the United States, Europe and the rest of Latin America will be pivotal for Brazilian exports. Data for 1997 showed exports to these markets representing 1.2 percent, 1.8 percent and 1.9 percent of Brazilian GDP, respectively.

The *Real* Plan, launched in July 1994, used two primary mechanisms to lower inflation:

- removing the link between prices and the return on financial instruments and an automatic adjustment in inflation, and
- linking the *real* to the dollar and maintaining a tight monetary policy, actions that created and maintained a strong currency.

The *Real* Plan was successful in lowering inflation. Monthly inflation fell from over 40 percent in the first half of 1994 to less than 2 percent by year's end. Annual inflation in 1998 was 2.5 percent.

But economic stability had huge costs for the government, which could no longer mask high government spending through inflation or by printing money. Furthermore, even with lower inflation, Brazil had to keep interest rates very high to attract capital.

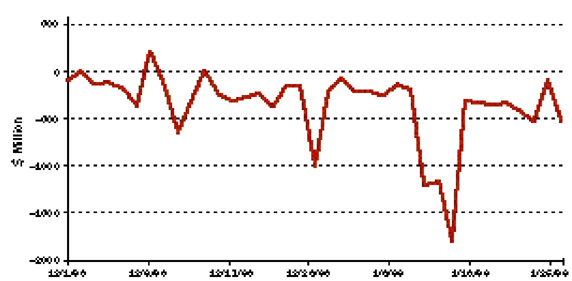
Short-term economic conditions have deteriorated as a result of the devaluation; for example, unemployment in São Paulo, Brazil's leading industrial city, is already very high at 18 percent. It is unclear whether this deterioration will lessen President Fernando Henrique Cardoso's political support. Most observers correlate the *Real* Plan's success in reducing inflation with President Cardoso's strong political support over the last four years. The deepening financial difficulties, however, have already facilitated more rapid legislative approval of the president's proposed fiscal reforms.

The impact on Latin America

While most countries in Latin America have been achieving progress with economic reform during the 1990s, the Asian-induced turmoil of 1997 and the Russian default spillover in August 1998 precipitated additional policy responses in the region. These new measures included raising interest rates to stem capital outflows and instituting budget cuts to account for decreased government revenues. The combination of monetary and fiscal tightening, as well as the steep drop in commodity prices in 1998 — especially for oil and metals, which a number of Latin countries depend on for export earnings — had led to a deterioration in the region's economic outlook for 1999.

Overall, the decision by Brazilian authorities to float the *real* will have a negative impact on the region's outlook. The 1999 outlook for Latin America prior to the devaluation was already rather negative. The near-term implication of the deeper-than-expected recession in Brazil is for even slower growth in selected Latin American economies, most notably in Argentina. The 1999 forecast from Consensus Economics was revised down to -1.2 percent in February from 0.5 percent in December. In 1998, regional growth was 2.2 percent and in 1997 it was 5.4 percent.

Chart 1: Brazil's Daily Foreign Exchange Flows



Source: Brazilian Central Bank and Federal Reserve Bank of Atlanta

Chart 2: Latin American Stock Indexes

Recent events in Brazil have increased speculation of a contagion effect that could harm other Latin economies. While Brazil is the largest economy in the region, its connection to other Latin American economies has perhaps been overstated, particularly as related to trade.

Except for Argentina, trade ties between Brazil and the rest of Latin America are limited, suggesting that the devaluation in Brazil will not have a severe impact on regional trade balances. Argentina, which sends some 30 percent of its exports to Brazil, has a small export sector as well (about 8 percent of its GDP). Nonetheless, many analysts have revised down Argentina's 1999 GDP growth projection to less than 1 percent, while some are even forecasting a mild recession for the year. The automotive and other manufaczturing sectors in Argentina will be particularly affected by a recession in Brazil.

Source: The Emerging Markets Companion and Federal Reserve Bank of Atlanta's Latin America Research Group

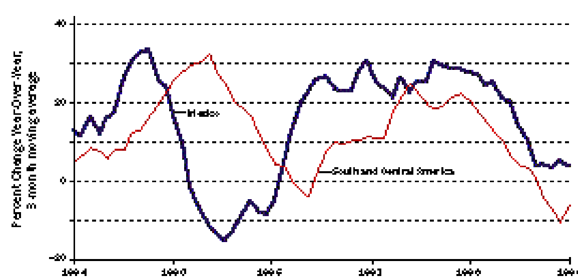
Future regional performance may depend heavily on the ability of individual countries to differentiate their economic fundamentals from Brazil's or insulate themselves from any contagion effects. In recent months, continued uncertainty about emerging markets in general and Brazil in particular has tended to cast a shadow on financial markets throughout Latin America (see Chart 2).

Mexican authorities have already publicly noted their "negligible" trade relationship with Brazil, emphasizing instead its strong connection to the U.S. economy. Argentina, meanwhile, can draw upon the considerable policy credibility it has gained over the last several years, especially regarding the maintenance of its "convertibility plan," which links its *peso* to the U.S. dollar and prohibits money growth not backed by foreign reserves. Argentine authorities can also point to a greatly strengthened banking system with significant foreign participation.

IMF authorities have already expressed willingness to assist Mexico and Argentina with additional funding should these countries need it. Argentina still has a $2.8 billion IMF facility, on which it has not drawn, as well as a $6.1 billion credit line with a consortium of international banks.

And for the United States . . .

Chart 3: U.S. Exports to Latin America



Source: U.S. Department of Commerce and Federal Reserve Bank of Atlanta

Throughout Latin America, economic liberalization, among other developments, has increased the trade ties between the region and the United States. While total U.S. exports have grown 45 percent over the last five years, U.S. exports to Latin America have risen 81 percent. This growth has pushed Latin America's share of total U.S. exports from 17 percent to 21 percent, just under the individual shares of Europe and Canada. While the growing trade relationship with Mexico explains much of the rise, trade with the rest of the region is expanding rapidly as well.

Although direct U.S. trade exposure to Brazil is not significant (some 2.3 percent of U.S. exports go to Brazil), the impact of the *real* devaluation slightly worsens an already poor U.S. export outlook. Other factors, such as the beginnings of recovery in several Asian economies, could help mitigate the negative implications of weaker demand from Latin America. U.S. exports to Latin America were already weakening prior to the devaluation in Brazil (see Chart 3).

Financial ties between the United States and Latin America have also grown, and direct U.S. investment in Latin America has risen from $17 billion to $23 billion during the last four years. Brazil is now the leading destination for U.S. direct investment to the region, surpassing Mexico in 1995. Commercial bank lending from the United States to Latin America has also picked up. In mid-1994, total U.S. bank exposure to Latin America was $41 billion. By September 1998, that figure had risen to $65 billion, with Brazil accounting for 28 percent of the total.

Economic growth in the United States' Latin American trading partners will likely be weaker in 1999 than anticipated prior to Brazil's currency devaluation. The devaluation's overall impact on the U.S. trade outlook is therefore expected to be modest, though negative on balance.

THE IMPLICATIONS FOR THE U.S. ECONOMY, WHICH HAS DEEPENED ITS TIES WITH LATIN AMERICA OVER THE LAST DECADE, ARE MODESTLY NEGATIVE.

Although the trade impact by itself is not likely to be overwhelming, the devaluation of the *real* will be felt more acutely by sectors with heavy exposure to Brazil. For instance, Florida's tourism-related businesses may suffer as a result of fewer visitors from Latin America. In addition, Florida's exports, totaling $2.6 billion in 1997, may decelerate since Brazil is the main destination for the state's exports. Another area of potential spillover to the United States is the impact on corporate earnings and equity values for companies that are heavily involved in Brazil. At the same time, the devaluation in Brazil should improve the longer-term outlook by promoting lower interest rates.

THE NEAR-TERM IMPLICATION OF THE DEEPER-THAN-EXPECTED RECESSION IN BRAZIL IS FOR EVEN SLOWER GROWTH IN SELECTED LATIN AMERICAN ECONOMIES, MOST NOTABLY IN ARGENTINA.

Uncertainty continues

In Brazil the devaluation will worsen an already negative outlook in 1999. Moreover, the move propels the country into another period of uncertainty, the full impact of which cannot yet be known. The devaluation should improve the outlook for long-term growth by making lower interest rates and increased exports more attainable.

While the devaluation in Brazil will have a limited but negative impact on the rest of Latin America, the outlook for the region in 1999 remains decidedly negative. Real economic growth looks set to decelerate throughout Latin America, and some countries, such as Brazil, will likely experience outright recession. The implications for the U.S. economy, which has deepened its ties with Latin America over the last decade, are modestly negative.

This article was researched and written by analysts in the Atlanta Fed's Latin America Research Group.

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Research Notes

Research Notes highlights some of the research recently published by the Federal Reserve Bank of Atlanta. For complete text of these articles or papers on this Web site, see the links below.

Venture capital is drawn to the Southeast

Venture capital investment throughout the United States and in the Southeast in particular has grown dramatically in recent years. Edgar Parker and Phillip Todd Parker, in a recent article, examine the history, structure and evolution of the national venture capital industry and then focus on current developments in the Southeast, including state policies promoting such investment.

Pension funds, bank holding companies, insurance companies, investment banks and nonfinancial institutions all invest venture capital to pursue high returns and diversify investment risks. But returns from such investment have been mixed over the industry's relatively short history. As more investors pour more assets into venture capital and as state and local governments seek to attract this capital and the industries it fosters, the potential benefits will grow, but not without raising public policy issues.

The authors observe that venture capital, starting from a small base just a few years ago, has become integral to new business formation in the Southeast. They note that clear evidence on the impact of state venture capital support is lacking, and the role of public support of funds and projects may still be questioned. But, they conclude, technological advances, business opportunities and entrepreneurial needs should continue to spur development of the region's venture capital industry.

ECONOMIC REVIEW
FOURTH QUARTER 1998

Data vintages affect forecast performance

The data on economic variables are usually estimates, and these estimates may be revised many times after their initial publication. Most historical forecast evaluation exercises are conducted using the latest available or most revised vintage of historical data — that is, using estimates that may have been unavailable to a forecaster in real time. Such evaluations thus can give a misleading picture of the forecast performance that can be expected in real-time situations. This fact is particularly relevant if a forecasting model's performance is compared to published real-time forecasts' performance.

A practical question is whether using the data set that was available to a forecaster in real time would lead to inferences that differ substantially from those made using the latest available vintage of data. A related question is whether it matters which vintage of data the forecasts are evaluated against.

In a recent article, John C. Robertson and Ellis W. Tallman argue that the choice of data vintage can have both a quantitative and a qualitative influence on forecast and model comparisons, at least over short horizons. This influence is illustrated by examining the performance of the composite index of leading indicators as a forecaster of alternative measures of real output. More research, however, is required to determine whether the results can be generalized to forecasts of other series that are subject to revision, such as the various money aggregate measures.

ECONOMIC REVIEW
FOURTH QUARTER 1998

How does monetary policy affect the economy?

Many of the studies attempting to sort out how monetary policy affects the economy were inspired by the work of Milton Friedman and Anna Schwartz in the early 1960s. Friedman and Schwartz documented the correlation of monetary aggregates with both output and prices and tried to deduce monetary policy's effect from this correlation. James Tobin later cautioned against this practice, and empirical evidence has since established the unreliability of treating monetary aggregates as a monetary policy gauge.

In a recent working paper, Christopher A. Sims and Tao A. Zha offer critical views on the unreasonable assumptions in existing policy work. They contend that careful economic argument is needed about which assumptions can best identify monetary policy's effects.

The authors argue against the notion that models for policy analysis need not fit the data well and that well-fit models necessarily sacrifice economic interpretability. With the model they present in their paper, they show that it is possible to create a good economic model — useful for policy analysis — that fits the data.

Sims and Zha conclude that U.S. monetary policy in the postwar period has been systematically responding to the changing state of the economy and that the real effects of monetary policy are much less certain than is commonly believed.

WORKING PAPER 98-12
JULY 1998

Atlanta Fed revises dollar index to include euro

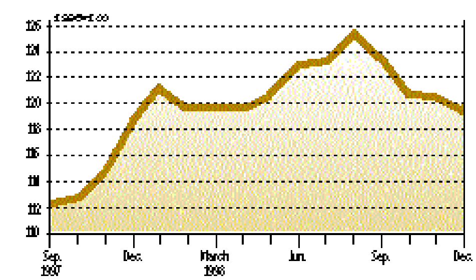
The Atlanta Fed recently revised its monthly trade-weighted dollar index to include the euro, the currency of the European Monetary Union (EMU), as well as currencies in several Latin American countries and Malaysia.

Two key areas that have been revised are the trade weights used to calculate the index and the countries included in the index. The original Atlanta Fed dollar index used trade weights from 1984. In order to update the dollar index to reflect more current trading patterns, the revised dollar index is now calculated using average weights from 1995-97.

In addition, to accurately reflect the scope of the euro, five countries included in the first wave of the EMU are included in the revised index. These countries are Austria, Finland, Ireland, Luxembourg and Portugal. Brazil, Malaysia and Mexico have also been added, while Sweden is deleted. With these changes, the revised dollar index includes the United States' top 15 trading partners.

To maintain as much continuity as possible with the previous dollar index, the subindexes of the revised index remain largely the same. In the revised index, however, the Canadian subindex is renamed the Americas subindex to reflect the addition of Brazil and Mexico.

ATLANTA FED DOLLAR INDEX



During the October-December 1998 period, the dollar declined slightly versus the 15 major currencies tracked by the Atlanta Fed. This decline followed a five-month rise that peaked in August 1998.

Note: The Atlanta Fed's Dollar Index was revised in January 1999, and the chart above is based on the revised index. See the article below for more details about changes in the Atlanta Fed's Dollar Index. For more detailed, monthly updates and historical data on the dollar index, see the Atlanta Fed's Dollar Index.

The other subindexes are the European, the Pacific, the Pacific-excluding-Japan and the classic. The European subindex includes the EMU, Switzerland and the United Kingdom. The Pacific subindex includes Australia, China, Hong Kong, Japan, Korea, Malaysia, Singapore and Taiwan. The Pacific-excluding-Japan subindex includes the countries in the Pacific subindex minus Japan.

To provide a basis for comparison with the original dollar index, a new subindex, called the classic, is included in the revised index. The classic subindex includes all of the countries in the original dollar index with the exception of Sweden. This subindex is calculated going back to 1973, giving it the same time range as the original Atlanta Fed index. The countries in the classic subindex are Australia, Canada, China, the EMU, Hong Kong, Japan, Korea, Saudi Arabia, Singapore, Switzerland, Taiwan, and the United Kingdom.

The methodology for calculating the dollar index is unchanged. However, the data set used to calculate the revised dollar index has changed, and the historical data set used to calculate the original index has been truncated. Data used to calculate the revised dollar index include information back to Jan. 3, 1995, and are indexed so that 1995 equals 100.

For information see the Dollar Index

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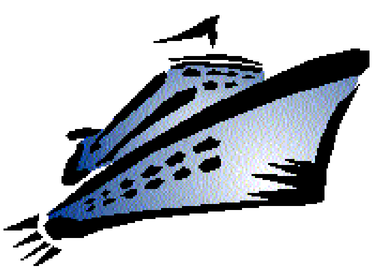
The State of the States

Recent events and trends from the six states of the Sixth Federal Reserve District

Alabama

- The northern and metropolitan areas of the state continue to grow at rates comparable to the region and nation, while the rest of the state remains slow.
- The northern and metropolitan areas of the state continue to grow at rates comparable to the region and nation, while the rest of the state remains slow.
- Although some industries in the state are still enjoying expansions, the apparel assembly and pulp and paper industries continue to languish because of overseas competition and lower prices and demand, respectively.



Florida

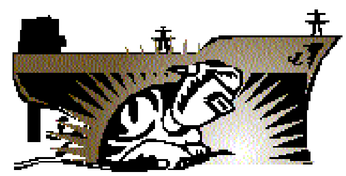
- Florida's economy remains strong, but there are significant concerns over recent developments in Latin America since that region is one of the state's largest trading partners.
- Tourist traffic from Latin America during the Christmas holidays was disappointing to some destinations in Florida, and concerns for the future have increased. At the same time, though, bookings primarily from domestic sources are up, and on balance winter tourist traffic looks quite good.
- The cruise industry continues to operate at high booking rates even with its recent expansion of capacity in the state.
- Labor market tightness remains an issue in metropolitan areas in the central and northeastern parts of the state. Anecdotal accounts suggest that some firms have found Jacksonville's tight labor supply a factor in relocation decisions.

Georgia

- At the end of 1998, Georgia was growing in line with regional and national averages.
- The surge that began in the winter of 1998 in the Atlanta area has abated, and the city is now performing in line with the rest of the state.
- On a year-over-year basis, manufacturing employment growth in the state remains positive, in contrast to the contraction seen overall in the region and the nation. Georgia's positive manufacturing growth can be attributed in part to the fact that the weak apparel industry accounts for only a comparatively small share of the state's manufacturing mix.
- Expansion in the service sector provided the bulk of the state's strength.

Louisiana

- Louisiana's economy continues to suffer from low oil prices, which have led to substantial reductions in employment in the relatively high-wage drilling portion of the oil industry and related support activities. In New Orleans many oil-related firms have either laid off workers or consolidated operations, moving employment outside the state.
- In addition to causing employment dislocations, low oil prices have constrained state tax revenues by lowering overall economic activity and reducing severance tax income generated by the oil industry.
- Shipbuilding continues at a strong pace although the merger of Newport News Shipbuilding and Avondale Industries has raised some concerns for the future.

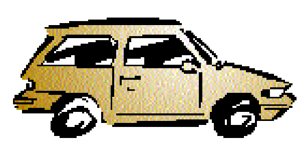


Mississippi

- Mississippi's economic performance continues to be determined largely by gambling-industry developments, which have strengthened local economies on the Gulf and Mississippi River while other areas have remained relatively weak. The state ended 1998 with job growth of less than 1 percent year over year.
- Construction employment is strong partly because of casino-related projects and a temporary boost from repairs associated with Hurricane Georges.
- Employment conditions remain varied, with low rates of unemployment along the Gulf and higher rates in northern and central portions of the state.

Tennessee

- Tennessee's economy appeared rather weak at the end of 1998 mostly as a result of temporary weakness in the manufacturing sector, particularly around Nashville. For Nashville, however, much of this weakness is offset by booming construction.



	" Manufacturing is contracting relatively fast — more than in either the region or the nation. Apparel industry losses, which are probably permanent, and auto industry weakness, which is probably temporary, account for much of this contraction. " Despite the apparent weakness in manufacturing, the long-term outlook for this sector is good. The auto industry continues to move toward an area centered on Tennessee, and existing auto assemblers in the area are switching to or adding production of car models that are currently popular.	
Compiled by the regional section of the Atlanta Fed's research department		

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Southeastern Economic Indicators

		Alabama	Florida	Georgia	Louisiana	Mississippi	Tennessee	6th District	United States
Total Payroll Employment (thousands)[a]	**1998Q4**	**1,889.1**	**6,764.7**	**3,772.9**	**1,889.4**	**1,124.2**	**2,639.6**	**18,079.9**	**126,811.0**
Percent change from	1998Q3	0.2	0.8	0.9	0.3	0.1	0.7	0.7	0.5
Percent change from	1997Q4	1.0	3.6	2.6	1.2	1.0	1.5	2.4	2.3
Manufacturing Payroll Employment (thousands)[a]	**1998Q4**	**369.2**	**490.0**	**593.2**	**189.6**	**239.5**	**506.5**	**2,388.0**	**18,587.7**
Percent change from	1998Q3	–1.0	–0.3	0.4	0.2	0.1	–0.6	–0.2	–0.4
Percent change from	1997Q4	–2.5	–0.3	0.7	–0.5	–0.6	–2.1	–0.8	–0.9
Civilian Unemployment Rate	**1998Q4**	**4.2**	**4.3**	**3.9**	**5.2**	**5.1**	**4.1**	**4.3**	**4.4**
Percent change from	1998Q3	8.6	0.8	–1.7	–13.8	–0.7	0.8	–1.2	–2.2
Percent change from	1997Q4	–11.3	–7.1	–5.6	–10.9	–6.2	–21.3	–9.9	–5.7
Single-Family Building Permits (units)[b]	**1998Q4**	**15,910**	**101,095**	**75,672**	**15,574**	**9,687**	**29,259**	**247,196**	**1,278,164**
Percent change from	1998Q3	8.0	1.8	8.1	10.0	13.9	3.9	5.3	7.8
Percent change from	1997Q4	22.2	6.5	23.1	15.2	26.8	8.9	13.7	17.6
Multifamily Building Permits (units)[b]	**1998Q4**	**4,619**	**65,025**	**24,542**	**1,408**	**5,609**	**6,425**	**107,628**	**468,027**
Percent change from	1998Q3	–31.5	25.7	76.5	–38.2	–6.1	–1.2	23.5	10.5
Percent change from	1997Q4	14.8	54.2	30.7	–3.7	145.0	–12.6	41.5	18.5
Personal Income ($ billions)[b]	**1998Q3**	**93.5**	**386.0**	**190.1**	**94.2**	**51.9**	**129.1**	**944.7**	**7,149.5**
Percent change from	1998Q2	1.1	1.4	0.9	1.0	1.0	0.9	1.2	1.1
Percent change from	1997Q3	4.3	5.5	5.7	5.4	4.8	5.3	5.3	5.0

		Atlanta	Birmingham	Jacksonville	Miami	Nashville	New Orleans	Orlando	Tampa
Total Payroll Employment (thousands)[a]	**1998Q4**	**2,055.0**	**475.6**	**548.8**	**987.7**	**639.5**	**620.3**	**849.8**	**1,132.8**
Percent change from	1998Q3	1.3	0.5	1.2	0.3	0.3	–0.1	1.2	1.0
Percent change from	1997Q4	2.8	2.2	3.9	2.2	1.2	0.4	4.6	4.5

Civilian Unemployment Rate	**1998Q4**	**3.1**	**2.8**	**3.0**	**6.6**	**2.8**	**4.2**	**3.0**	**3.0**
Percent change from	1998Q3	–3.6	5.1	–0.8	5.8	8.3	–14.3	–0.4	–1.5
Percent change from	1997Q4	–8.2	–10.7	–13.8	–5.1	–17.7	–17.2	–10.5	–14.0

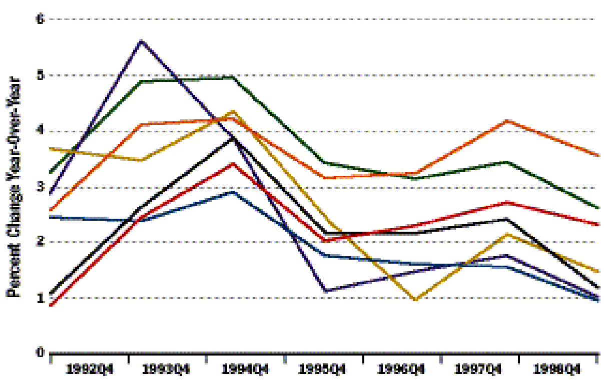
[a] Seasonally adjusted

[b] Seasonally adjusted annual rate

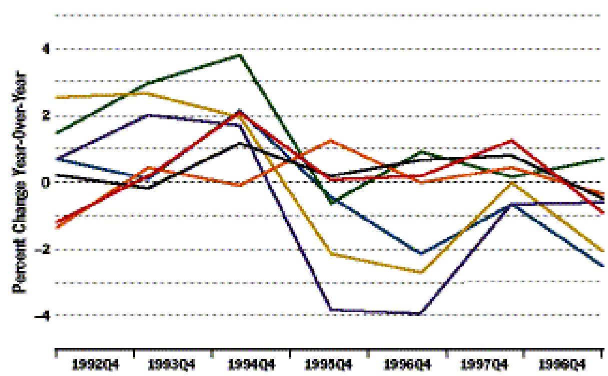
Sources: Payroll employment and civilian unemployment rate: U.S. Department of Labor, Bureau of Labor Statistics. Initial unemployment claims: U.S. Department of Labor, Employment and Training Administration. Single- and multifamily building permits: U.S. Bureau of the Census, Construction Statistics Division. Personal income: Bureau of Economic Analysis. Quarterly estimates of all construction data reflect annual benchmark revisions. All the data were obtained and seasonally adjusted by Regional Financial Associates. Small differences from previously published data reflect revisions of seasonal factors.

For more extensive information on the data series shown here, see the Southeastern Economic Indicators.

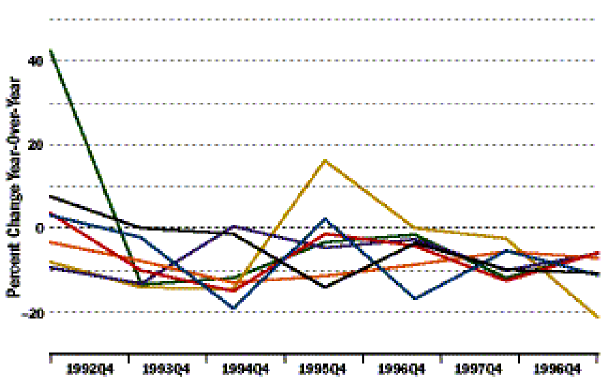
Total Payroll Employment



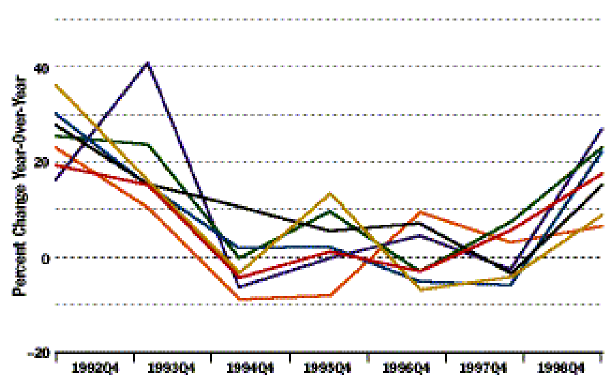
Manufacturing Payroll Employment



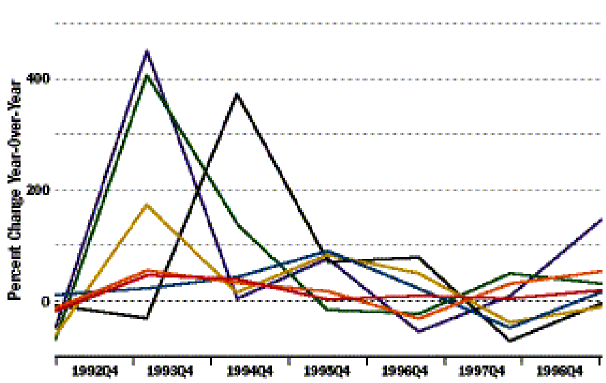
Civilian Unemployment Rate



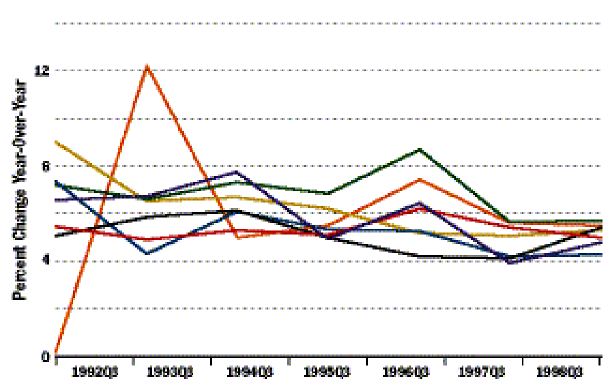
Single-Family Building Permits



Multifamily Building Permits



Personal Income



Alabama
Florida
Georgia
Louisiana
Mississippi
Tennessee
United States

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Southeastern Manufacturing Survey

Below are highlights from the monthly survey of southeastern manufacturers conducted by the Federal Reserve Bank of Atlanta in February.

"Current indicators for the region's manufacturing activity generally strengthened in January after months of sluggishness.

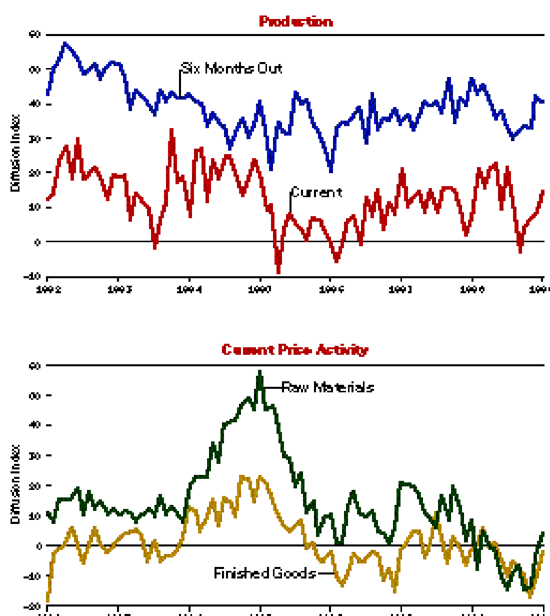
"The current production index jumped to 14.2 from 8.4 in December.

"Other current indexes improved overall. The number of employees index edged up while the indexes for new orders, materials and finished goods inventories, and new export orders rose more noticeably. The shipments and backlog indexes remained steady, but the average workweek index slipped.

"Current price indexes rose; the prices received index remained negative, as it has for eight months, and the prices paid index posted its first positive number in 10 months.

"Outlook indexes were mixed after notable improvement in December. The indexes for number of employees, materials and finished goods inventories, and prices rose slightly, and the shipment index showed little change. The production index fell slightly while the indexes for new orders, backlogs and capital expenditures declined more steeply.

SOUTHEASTERN MANUFACTURING INDICATORS
(through January 1999)



For more complete, monthly information see the Southeastern Manufacturing Survey index.

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