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In This Issue

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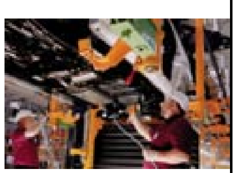
CURRENT ISSUE

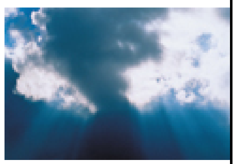
COVER STORY

Barring any significant economic shock, the unprecedented national expansion of the last eight and a half years should continue in 2000. As this article indicates, while the nation's economy will grow more slowly than its rapid pace of the past few years, both the nation and the region should remain on solid economic footing in the coming year.

FEATURES



What's on tap economically for the Southeast in 2000? According to the Atlanta Fed's regional research staff, the region's economic performance in the coming year should be quite similar to that of 1999. This article details what the new year holds for each of the region's six states.



Latin America Hopes for Brighter Prospects in New Year

After experiencing many economic blows during the past several years, Latin America looks to improve economically in 2000 as conditions appear to be easing slightly in the region. As the Atlanta Fed's Latin America Research Group indicates, while the outlook appears more positive for the coming year, continued economic reforms by the region's leaders may be important to improving long-term performance.

DEPARTMENTS

Recognizing Economic Shifts Is Key to Effective Policy

The current U.S. economic expansion, now in its ninth year, represents the longest peacetime expansion in the nation's history. For much of this period, professional forecasts as well as those of the Federal Reserve have tended to underestimate the strength of the economy, overestimate the propensity for it to overheat and exaggerate its vulnerability to unwanted inflation.

Because of uncertainties about the reliability of these forecasts, however, the Federal Open Market Committee (FOMC) has pursued a cautious path — being mindful of the inflation warnings being sent by the economic models but not overreacting and thereby potentially choking off the expansion. The result has been low inflation with uninterrupted prosperity. Unemployment is lower than it has been in decades, and more Americans are participating in the labor force than ever before.

A number of reasons, besides good monetary policy, have been cited for this extraordinary performance, including sound fiscal discipline and favorable external shocks. These factors have put downward pressure on both aggregate demand and prices and have temporarily enabled the United States to finance a growing trade deficit with short-term capital inflows at declining interest rates and an appreciating exchange rate.

Questions for policymakers

Today, policymakers face new potential challenges to sustaining the expansion while keeping inflation tightly controlled. Three questions are at the heart of the policy issues facing the FOMC as it contemplates the economic outlook entering the 21st century. Is the current rate of growth sustainable and consistent with a noninflationary environment? When and under what conditions will observed increases in prices constitute simply relative price changes that should be left to natural market forces to work their way through the economy? Finally, what is the current state of monetary policy, and is it consistent with a low-inflation environment?

The clues to answering these questions will surely lie in issues the Fed has grappled with for some time. These answers center on the prospects for a continuation of strength in consumer spending, business investment, potential inventory accumulation and productivity growth.

Nationally, indications are that real gross domestic product (GDP) growth in the third quarter of 1999 rebounded from its 1.9 percent level in the second quarter to more than 5.5 percent. This pace is clearly above the 3.3 percent average real GDP growth that has been experienced over the current expansion. The driving factors behind this growth include strength in consumer demand, a somewhat more expansionary fiscal situation, the continued high level of housing activity, strength in business investment spending and apparent growth in productivity.

Considering inventory levels

It is widely expected — based upon past norms for the economy — that the rundown in inventories and the decline in inventory-to-sales ratios to very low levels will lead to a round of inventory accumulation and a consequent boost to real GDP growth. The Federal Reserve has tried to determine the extent to which business people feel that this inventory rundown is temporary or permanent. Interestingly, the overwhelming consensus is that the rundown is likely permanent.

The chief reasons given for this belief are based on the spread of technology, advances in communications and the use of more sophisticated analytic approaches to inventory management. Equally interesting is the fact that most business people feel the process is not yet nearly complete and, moreover, not driven in the short term by concerns about Y2K. Thus, the short-term offset may be less aggressive inventory accumulation but with the benefit of lower inventory overhang following any future downturn.

Productivity gains

On the productivity side, it is becoming increasingly clear — especially given the recent upward revisions of GDP statistics by the Bureau of Economic Analysis — that real economic growth during this expansion has been greater than thought, the personal savings rate has not been as low as feared, inflation has been even lower than the statistics suggested, and increases in productivity have surely been undermeasured. These GDP revisions help to reconcile the anecdotal reports of increased productivity, tight labor markets and the inability to raise prices that seem inconsistent with the predictions of formal analytical models. In particular, the increased estimates of real GDP growth reverse what had been thought to be nearly zero productivity increases in financial services and other segments of the service industry.

The revisions that change the treatment of government employee retirement funds to parallel treatment of private funds have boosted personal income and converted what had appeared to be a negative personal savings rate to a positive number in the 2 percent range, albeit still a low number. The increase in personal income, combined with a recent flattening of consumer debt burdens and improvements in consumer credit quality, now helps to resolve a puzzle about where the strength in consumer demand may be coming from — if not from a drawdown in personal wealth, including homeowners' equity and stock market profits. What does all this mean?

All of these factors tend to suggest that the economy is probably not subject, at least for now, to the same old speed limits that have historically applied before an outbreak of inflation appears. Detecting incipient inflation is made even more difficult in a low-inflation environment. Research has shown that low inflation does not mean that some prices won't increase. Indeed, with low inflation some prices will increase while others will decrease, thus making it critical for the Fed to disentangle movements in current inflation measures that result solely from changes in relative prices from broader underlying forces.

These issues with inflation represent a critical challenge for the forecaster and economic analyst. For example, it is clear that the favorable declines in commodity and energy prices in 1998 are being reversed, and this development will drive up measures of inflation in the short term because of the way that price indexes are constructed. But these relative movements in commodity and energy prices will be translated into an across-the-board increase in prices only if the movements can somehow be passed on to producers and consumers and then sustained without triggering subsequent moves to economize and shift to cheaper energy sources. Such an overall price level increase can happen only if monetary policy is somehow too accommodating.

Determining whether or not policy is too accommodating can be done only in the context of projections about the economy and the course for inflation. Waiting for actual signs that inflation is evident before a policy change is made is not an option. Because of the length of policy lags, once inflation is visible it will be, almost by definition, too late to effectively control it easily, and the required responses will be stronger and will surely cause lower growth and tighter market conditions than many would like or would have been necessary if policy had been more proactive.

Being a policy adviser at this point in our economic history is without question exciting and challenging. We all want the unprecedented economic expansion to continue indefinitely, and experience has shown that the best way the Federal Reserve can help to do that is by remaining vigilant in looking for signs of inflation and striving to sustain growth. All this must be done while charting a course through a different-looking economic landscape than we have experienced in the past.

By Robert A. Eisenbeis, senior vice president and director of research of the Federal Reserve Bank of Atlanta

U.S. and Southeastern Economies to Remain on Solid Ground in 2000

THE SOUTHEASTERN ECONOMY, ALONG WITH THE NATION, SHOULD DECELERATE SOMEWHAT DURING 2000, BUT OVERALL THE REGIONAL AND NATIONAL ECONOMIES WILL CONTINUE TO EXPAND AT A HEALTHY RATE.

Both the nation and the Southeastern United States should continue to enjoy a strong economy in the coming year. Barring any significant economic shock, the current national expansion will officially become the longest in the post–World War II period in 2000, and the Southeast will have performed at or above national growth rates during most of the expansion. In 2000, the Southeast should grow at about the same rate as the nation, but both the regional and national economies should decelerate some from the pace of the last few years.

Whatever deceleration in growth that has occurred during the last few years happened against the backdrop of tight labor markets, which have been a serious constraint in several Southeastern states, extraordinary growth in productivity and a personal savings rate that has been low by historical standards. National economic growth in the coming year should slow from the 3.5 percent to 4 percent range of 1999 but remain healthy.

NATIONAL ECONOMIC GROWTH IN THE COMING YEAR SHOULD SLOW FROM THE 3.5 PERCENT TO 4 PERCENT RANGE OF 1999 BUT REMAIN HEALTHY.

There is likely to be some acceleration in inflation during 2000, however. Part of this acceleration is simply the reversal of some favorable price shocks that began in 1998. For instance, prices for health care and basic commodities like energy have risen since the late spring of 1999, but these increases do not necessarily imply the start of a systematic increase in inflation rates. The Fed's monetary policy moves in 1999 were aimed at avoiding an acceleration in inflation; but since monetary policy has only a lagged affect on inflation, some increase in measured inflation is likely to occur next year.

Turning from these broad measures of economic performance to look more specifically at the individual sectors that make up the economy is probably best done by shifting focus to the regional level. Since the Southeast is now more than one-seventh of the nation's economy, there are few pronounced differences between an individual sector's Southeastern and national outlook.

Services growth to slow but remain strong

The largest and fastest-growing segment in the economy is the miscellaneous service sector — an all-inclusive designation for businesses, such as accounting, legal work and consulting, that do not produce a physical product and are not involved with the ultimate distribution of goods or finance.

The strong pace of growth in the Southeast's large service sector slackened somewhat in 1999 and is expected to continue to moderate in 2000 as the regional economy moves toward national averages. With over 30 percent of the region's total employment, however, the service sector continued to add more people to employment rolls in 1999 than any other sector. Service sector employment grew 4.1 percent from the third quarter of 1998 through the third quarter of 1999, following 5.5 percent growth in 1998 and 5.1 percent growth in 1997.

Business services continued to pace the service sector expansion with double-digit gains in Florida and continued strong growth in all other Southeastern states. Business services related to computers were in particularly high demand as companies prepared for Y2K, and personnel firms came under pressure to provide workers in the Southeast's tight labor markets. Representing nearly a quarter of service sector employment, the health services industry posted moderate growth in 1999, following restructuring and consolidations in the region.

The tourism and hospitality industry will continue to boost economic growth in the Southeast's service sector in 2000. Occupancies and tourist traffic for hotels and amusement and gaming industries were at historically high levels in parts of the region in 1999. The opening of new and expanded attractions in central Florida and the addition of casinos and lodgings along the Mississippi Gulf Coast brought in record-breaking receipts. Cabin utilization rates on cruise ships out of Florida were at high levels even though capacity rates were up by double-digits over 1998 for some cruise lines.

A falloff in Latin American visitors to south Florida because of poor economic conditions in those countries held back tourism somewhat in the state, but a large number of domestic and European visitors helped take up the slack. Convention activity was especially strong in the region in 1999.

The outlook is mostly positive for the tourism and hospitality industry in 2000. The ongoing expansions of central Florida theme parks should attract more visitors to the state even while raising some concerns about overbuilding. Recovering Latin American economies should also boost tourism to south Florida in 2000.

THE YEAR 2000 IS NOT EXPECTED TO OFFER MUCH GROWTH FOR THE MANUFACTURING SECTOR IN THE SOUTHEAST.

Overall, the outlook for the service sector is for positive but moderating growth. As the national economy slows and the Y2K problem becomes a memory, there will be less demand for business services, and the boom in recreational and amusement services will slow as consumer spending growth flattens. Demand for health services, however, should expand, stabilizing service sector employment in the coming year.

Manufacturing to slow

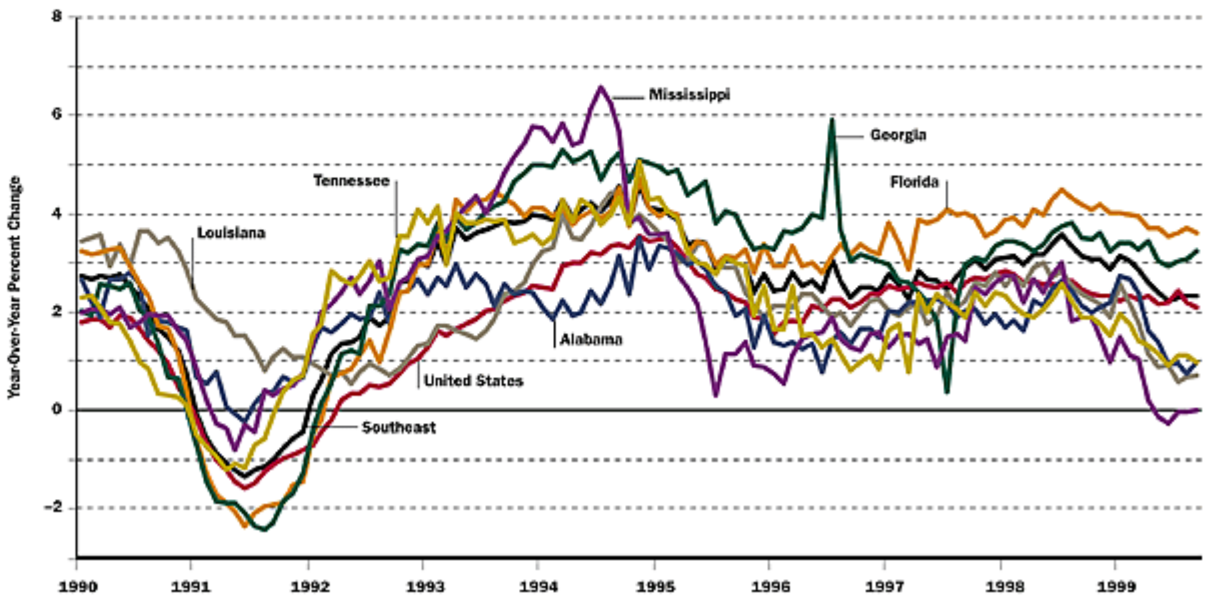
Manufacturing activity is likely to slow in 2000 to growth that is in line with national trends. Although manufacturers employ only about 13 percent of the region's workers, the relatively high wages paid by some manufacturers add to this sector's importance.

Factory employment growth declined moderately in the region from the third quarter of 1998 through the third quarter of 1999, following little growth during the previous two years. Most of the job losses were concentrated in nondurable industries, which lost 27,000 jobs over the year. The apparel industry accounted for more than 21,000 of these job losses — the most of any factory industry — as relavely high domestic costs took their toll. The paper industry also weakened because of excess world supplies.

While durables manufacturing jobs grew during the same period, growth was slower than in each of the previous two years.

Durables industries in the region benefited from robust housing and commercial building markets. Lumber and wood employment posted strong growth during 1999. Employment in industries producing building materials such as stone, clay and glass also grew. Strong consumer spending stimulated the transportation equipment sector, helping regional car, light truck and auto parts producers. Employment rolls grew in electrical and electronic equipment industries as the region's high-tech industries expanded. The metals industry, however, retrenched, losing employment because of competition from cheap foreign imports.

Total Nonfarm Employment in the Southeast and the United States



Source: Calculated by the Federal Reserve Bank of Atlanta using monthly data (not seasonally adjusted) from Regional Financial Associates. Data for 1999 are through the third quarter.

The year 2000 is not expected to offer much growth for the manufacturing sector. Weakening housing markets will adversely affect the durable goods manufacturers that did well in 1999. Although the contraction of the apparel industry will slow as the weeding out of the weaker companies slows, producers will continue to move facilities offshore to take advantage of lower wages. If consumer spending slows, the region's auto, light truck and auto parts market will be disproportionately affected in an adverse way. More positively, improvement in foreign economies will help regional exporters, and new laws protecting domestic steel makers should help ensure their survival. Large contracts currently being signed will continue to boost the region's shipbuilding industry.

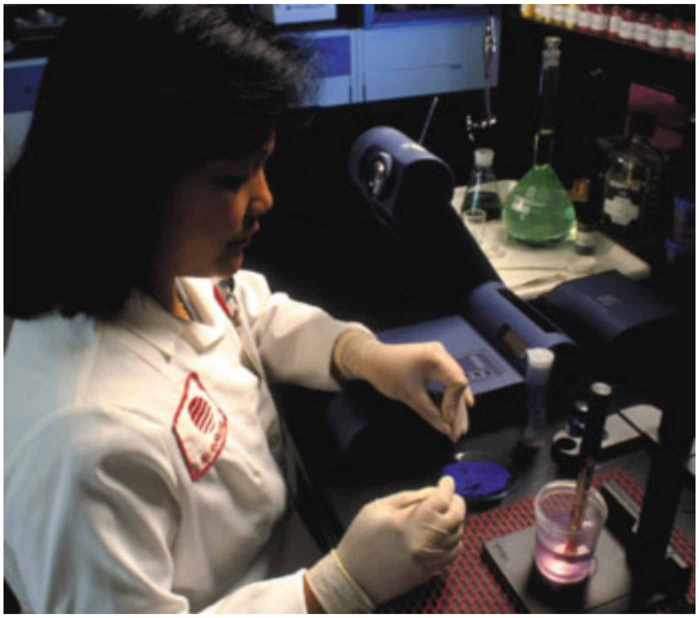
Retail competition remains strong

For the most part, retailers said that sales matched expectations and that inventories were balanced during most of 1999. Women's and children's apparel sales were strong through the third quarter of 1999, while men's apparel sales were weaker. Home-related product sales were mixed across the region. The year 2000 should feature more of the same, with growth in retail sales remaining modest in line with personal income growth.

REPRESENTING NEARLY A QUARTER OF SERVICE SECTOR EMPLOYMENT, THE HEALTH SERVICES INDUSTRY POSTED MODERATE GROWTH IN, FOLLOWING RESTRUCTURING AND CONSOLIDATIONS IN THE REGION.

Construction to moderate in 2000

The single-family home market continued to operate at historically high levels in 1999. Through the first three quarters, however, existing home sales remained steady and strong but below 1998's rate of growth. In the coming year, single-family permits and home sales will likely continue to slow along with overall growth but remain at historically high levels.



Through the third quarter of 1999, the pace of multifamily construction in the region was up modestly from the previous year and well above the national growth rate. Permit growth remained strong in Florida, which accounts for almost two-thirds of the region's activity. Louisiana also posted strong permit growth in 1999, but growth was down in Alabama, Georgia, Mississippi and Tennessee compared to 1998. In 2000, growth will continue to moderate somewhat overall in the region's multifamily housing construction market in line with overall economic performance.

Commercial construction also remained at relatively high levels in 1999, but growth in terms of square footage through the third quarter of 1999 was less than 1998's increase. Through the third quarter of 1999 the region's performance was slightly better than the nation's. Several key markets in the region have experienced rising office and industrial vacancy rates in 1999. The Atlanta and Tampa markets had high vacancy rates in both office and industrial space while Nashville and Orlando had high office vacancy rates. With some rising vacancy rates, commercial construction should decrease in the coming year but will remain at a relatively high level.

Financial services continue transformation

The ongoing transformation of the Southeast's financial services sector will continue. Legislative changes, technological advances, and intense regional, national and international competition have fueled this structural change. These trends will continue to drive consolidation and innovation in the financial services sector well into the next century.

The present consolidation movement has not come without raising questions about some potential difficulties, however. In addition to temporary employment dislocations, customers and businesses have complained of problems such as diminished services and higher fees. As consolidation continues, intense competition and innovations should ameliorate these problems.

Agricultural exports to increase

The drought of 1999 had a mixed impact on the national and regional agricultural sector. While 1999's yields and aggregate production in most of the region's agricultural products increased over 1998 levels, per acre yields in some key crops and prices of many more agricultural commodities fell to low levels. As a result, many of the region's farmers find themselves in a financial bind.

The drought is currently forecast to last at least through the spring of 2000, causing a great deal of concern throughout the agricultural sector and adding to the usual uncertainties of domestic and international supply-and-demand issues and input costs. Stronger international economic growth, especially in Asia, should lead to a modest increase in national and regional agricultural exports in 2000, food prices should increase only modestly in the coming year.

Editor's note: Throughout this issue, Southeast refers to the six states that, in whole or in part, make up the Sixth Federal Reserve District: Alabama, Florida, Georgia, Louisiana, Mississippi and Tennessee. This article was written by Tom Cunningham, David Avery, Whitney Mancuso, Edgar Parker and Gustavo Uceda of the Atlanta Fed research department's regional research group.

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FEDERAL RESERVE BANK of ATLANTA

Economic Research

REGIONAL FOCUS

Southeast Set to Sustain Economic Pace in 2000

THE ARRIVAL OF THE YEAR 2000 IS CAUSING ANXIETY FOR MILLIONS OF PEOPLE, BUT IN ECONOMIC TERMS THE YEAR PROMISES TO BE MORE OF THE SAME FOR THE NATION AND THE SOUTHEAST. THE NATIONAL EXPANSION IS EXPECTED TO CONTINUE AND REMAIN BALANCED, BUT THE ECONOMY WILL PROBABLY SLOW DOWN SOMEWHAT BECAUSE OF CONSTRAINTS SUCH AS TIGHT LABOR SUPPLIES AND MATURE REAL ESTATE MARKETS. IN THE SOUTHEAST, WHICH ENTERED THE EXPANSION EARLIER AND HAS ADDED JOBS AT A FASTER PACE THAN THE NATION, THESE ISSUES WILL BE MAGNIFIED. FACING THE SAME RESTRAINTS AND THE SAME GENERAL RESOURCE DEMANDS AS THE NATION, THE SOUTHEAST SHOULD ENJOY A SIMILAR PERFORMANCE — SLOWER BUT HEALTHY OVERALL.

Alabama | Florida | Georgia | Louisiana | Mississippi | Tennessee

ALABAMA

OUTLOOK MIXED FOR 2000

Alabama continued to perform at a respectable level overall in 1999. While 2000 will feature slower growth in some sectors, such as services and manufacturing, the fundamentals of the state's economy should support modest growth.

Services to remain steady in the year ahead
The state's service sector, with about 24 percent of the state's total nonfarm employment, enjoyed moderate growth in 1999. Service employment growth slowed from 4.6 percent in 1998 to 1.9 percent from the third quarter of 1998 through the third quarter of 1999.

Representing nearly 10 percent of the state's service sector employment, hospital employment declined modestly during the year as the result of a general consolidation within the health care industry. The decline has been significant to the Birmingham area, where a number of health care facilities are concentrated. While the deceleration in the national economy may cause a cutback in business service growth, health care should provide a moderating influence to the service sector. Demand from the aging population will support Alabama's health care component despite slowing economic growth.

The success of Vision Land, Alabama's first theme park, has led to park expansions that should help boost the visitor count in 2000. This development may help balance the overall slowdown in hotel and lodging growth in the state during 1999.

Overall, Alabama's service industry should grow at about the same rate as in 1999, continuing on the sector's basic long-term growth path.

Mixed performance expected in manufacturing
Alabama's manufacturing employment fell by 3.1 percent from the third

WHILE 2000 WILL FEATURE SLOWER GROWTH IN SOME SECTORS, THE FUNDAMENTALS OF ALABAMA'S

quarter of 1998 through the third quarter of 1999; the nation's manufacturing employment dropped 2.2 percent. This decline was significant for Alabama since the factory sector accounts for 19 percent of the state's payroll employment compared with 13 percent across the Southeast.

ECONOMY SHOULD SUPPORT MODEST GROWTH.

As in the past, the employment falloff was concentrated in the nondurable goods industries although durable goods employment also fell. Weakness in nondurables was due mainly to a decline in the beleaguered apparel industry, which lost about 5,400 jobs — more than 15 percent — in 1999. Over the past three years Alabama has lost nearly 13,000 apparel jobs, mostly to low-wage foreign competition. Although many of Alabama's apparel plants continue to be shuttered, about 30,000 workers are still employed in the state's apparel sector.

In contrast with apparel, employment in Alabama's high-tech industries remained nearly unchanged over the year. But other major manufacturing employers such as paper, textiles, machinery and primary metals suffered declining employment. Primary metals such as steel were hit particularly hard by competition from cheap foreign imports; one major producer, in fact, went bankrupt. The pulp and paper industry has also been hurt by both international competition and a falloff in international demand. Industries linked to the remarkably strong national housing industry, such as lumber and wood, however, expanded and added jobs.

But if housing markets nationwide slow further, as expected, these industries linked to housing will obviously contract as a result. Certain segments of the state's textile industry will be expanding, though. A large producer of household textiles is building a new manufacturing facility near Montgomery.

The likely flagging of national consumer spending may slow the impressive gains in the transportation equipment sector, where auto and auto parts production has been expanding. This slowing would be especially evident among the parts suppliers for the Mercedes plant in Vance.

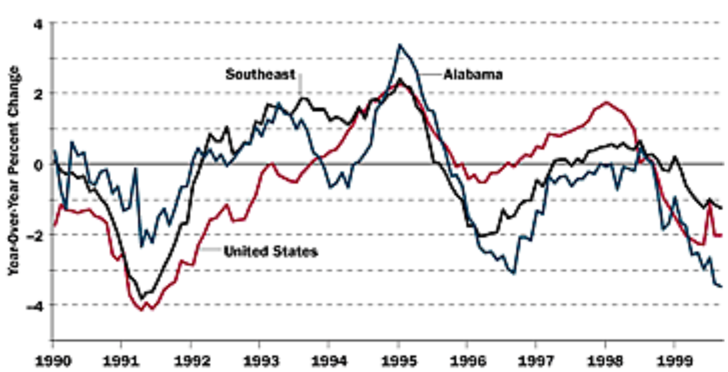
The most positive news for Alabama's auto industry is that Honda Motor Co. has announced plans to build a new plant in Lincoln, between Birmingham and Atlanta. The $400 million plant will eventually hire about 1,500 workers and produce sport utility vehicles or minivans, depending on market conditions.

New trade protection laws will limit further deterioration in the primary metals sector, and improving overseas economies may stimulate exports. The contraction of the apparel sector may slow as fewer weak firms remain.

Construction to decline

The single-family home market got off to a strong start during the first quarter of 1999 with a year-over-year growth rate of 15.2 percent. Activity slowed somewhat in the second quarter. The pace of single-family construction permits declined sharply in August but rebounded strongly during September, resulting in another quarter of strong growth. Year over year, growth was 12.2 percent in the third quarter compared to the region's rate of 3.1 percent.

Alabama Manufacturing Employment



Source: Calculated by the Federal Reserve Bank of Atlanta

Around the state, permit growth in 1999 was strongest among the smaller municipalities such as Anniston, Dothan and Tuscaloosa while larger cities such as Birmingham, Huntsville and Mobile experienced anemic growth after enjoying relative strength in the last two years. Existing home sales were at historically strong levels in 1999, but growth began to moderate somewhat in the second quarter. The pace of construction in Alabama's single-family home market will continue to moderate as the overall economy expands more slowly.

Multifamily construction in 1999 was down significantly from 1998. Among the states in the region, Alabama experienced the sharpest decline in permit growth. In 2000, construction will probably stabilize but at low using monthly data (not seasonally adjusted) from Regional Financial Associates. Data for 1999 are through the third quarter.

levels consistent with slower economic growth.

Commercial construction, as measured by square footage, dropped in 1999 from strong levels in 1998. Following an auto-related surge ending last year, construction activity in the state through the third quarter of 1999 was well below year-earlier levels. In the coming year, commercial construction activity will continue to decline but at a slower rate than in 1999 as activity stabilizes to more modest growth.

Agriculture faces challenges

Weather and international conditions are the main factors that will affect Alabama's farmers in 2000. Chicken broilers are Alabama's number one agricultural commodity based on total cash receipts of $1.8 billion in 1998, 55 percent of the state's agricultural commodity total. Total egg production and the number of broiler chicks hatched are forecast to increase slightly in Alabama and the nation as a whole compared to 1999's levels. While domestic demand should continue to grow moderately in 2000, international demand from Asia will rebound as that region recovers economically.

Cattle and calves represent Alabama's second-largest agricultural commodity, with receipts totaling $375 million in 1998. Drought and poor grazing conditions forced many farmers nationally to go to market early with cattle for slaughter in 1999, resulting in downward pressure on cattle prices. Because many farmers sent cattle to slaughter early, there should be lower growth in the commodity in 2000.

top

FLORIDA

TO SHOW CONTINUED GROWTH

Florida, the region's largest economy, continued to pace the Southeast economically in 1999 with job growth of 3.6 percent compared with 2.3 percent regionally and 2.2 percent nationally. The diversity of Florida's economy provides stability to its overall outlook. For 2000, the state's economy is positioned to remain quite strong with continued strength in service employment associated with the state's sizable tourism and health care industries.

Services to remain healthy

With 2.5 million workers, about one-third of all workers in the state, the service sector represents Florida's largest job category. Service industries registered continued strong growth in 1999, up 5.5 percent, or 135,000 workers, from 1998.

Theme park expansions, along with associated hotel and motel additions, added to service employment over the year, but the main generators of jobs were business services and, to a lesser extent, health services. Employment in business services, such as computer services and personnel supply services, increased by 12 percent — 81,000 jobs — from the third quarter of 1998 through the third quarter of 1999. Business services continue to be very important to Florida's economy; in fact, since 1997 the business service category has been the state's largest service industry.

Florida's large health service sector posted moderate gains in 1999, surpassing gains from the previous year. Industry consolidations did not hit Florida as hard as they did Alabama in 1999 because Florida's health service sector underwent consolidations in earlier years.

The remarkable pace of Florida's service sector growth is likely to slow somewhat in 2000 as national and state demand slows, but services should continue to outperform other sectors. Ongoing expansions of central Florida theme parks will boost employment rolls. Additionally, health care industries will continue to expand because of demands from aging baby boomers and senior citizens, who make up a large share of Florida's population. The state's business services are unlikely to continue to grow as quickly as the national economy decelerates and product demand slows.

South Florida tourism suffered from weakness in Latin American economies, which reduced the number of visitors from abroad. Increases in domestic visitors, however, helped to make up for the shortfall. Strong consumer confidence bolstered by factors such as surging equity markets and low unemployment stimulated spending on vacations

FOR 2000, FLORIDA'S ECONOMY IS

in 1999. Central Florida theme parks reported strong business throughout the year boosted by special promotions such as Disney's 15-month millennium celebration. The opening of several new parks in the state also attracted large numbers of vacationers.

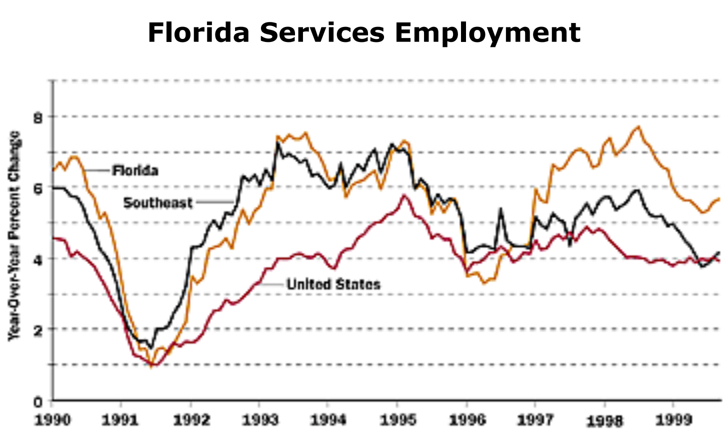
POSITIONED TO REMAIN QUITE STRONG WITH CONTINUED STRENGTH IN SERVICE EMPLOYMENT.

Tourism officials said that precautionary coastal evacuations for hurricanes caused only short-lived, minor disruptions to Florida's tourism industry in 1999 although this cautionary stance did include the first-ever closing of some parks in the Orlando area. Cruise ships were filled with vacationers despite capacity additions.

In 2000, as the national economy cools, so should the state's tourism industry although the expected improvement in Latin America may take up the slack. In addition, the ongoing expansion of central Florida theme parks and special events should help to attract more visitors to the state. But there are some concerns about overbuilding, especially in the short run. The Orlando area now has seven major theme parks. Disney is adding and upgrading some attractions, and Sea World has announced plans for expansion. In Miami, a new $185 million arena for the Miami Heat and for special events should add appeal to the area when it opens in early 2000.

Manufacturing to remain steady overall

Although it represents only about 7 percent of the state's total nonfarm employment, Florida's manufacturing sector, with nearly 500,000 workers, is larger in absolute terms than that of Alabama, Louisiana or Mississippi. About 60 percent of Florida's factory workers are employed in durable goods production, such as lumber, machinery, electrical and electronic equipment, and transportation equipment.



Source: Calculated by the Federal Reserve Bank of Atlanta using monthly data (not seasonally adjusted) from Regional Financial Associates. Data for 1999 are through the third quarter.

Florida's factory sector posted few changes in its overall employment in 1999. Most of the job gains in durables industries were registered in those aligned with construction. Lumber and wood employment grew by more than 2.2 percent during the year; stone, clay and glass employment was also up notably. In addition, the transportation equipment sector posted job increases in part because of employment increases in the aircraft parts and engines and aerospace industry. Machinery and electrical and electronic equipment employment declined slightly. Among the nondurables industries, employment in the state's large printing and publishing industry held steady.

Florida's factory sector may weaken slightly in the new year. If housing growth stalls nationally as anticipated, the lumber and wood industry will contract. Recent announcements of cutbacks by south Florida's airplane parts producers also do not bode well for 2000. Thousands of aircraft jobs are slated to be eliminated in the Palm Beach area as two major producers leave. Additionally, a slower-growing national economy will mean less demand for machinery as companies increase spending for capital equipment at a much slower pace. Strong recreational boat production in the state may falter as consumers retrench in the decelerating economy.

Printing and publishing will likely remain a bright spot, however, because of continued strong national consumer demand for printed materials. The high-tech sector should also continue to grow, especially on Florida's Gulf Coast. For instance, a high-tech firm, IMRglobal Corp., plans to open a new facility employing 1,000 in Clearwater in early 2000.

Strength to continue in construction sector

In 1999, single-family construction permits started strong in the first quarter, but growth moderated throughout the remainder of the year, largely in line with national trends. Permit growth year-to-date in the third quarter of 1999 was 7.4 percent, above the region's 6.2 percent and the nation's 4.9 percent rates. Year-to-date permit growth in the third quarter of 1999 was strong in Miami, Orlando and Tampa while permit numbers declined in the Pensacola area. Conversely, as construction slowed, existing home sales experienced even stronger growth rates in 1999. In the third quarter, existing home sales were up 24.6 percent compared to the previous year, well above the region's rate of 13.5 percent. In 2000, Florida's single-family home sales and construction will remain at strong levels but will likely moderate somewhat in line with the state economy.

THE SERVICE SECTOR, INCLUDING TOURISM-RELATED BUSINESSES, CONTINUES TO BE A BIG DRIVER OF THE SOUTHEAST'S ECONOMY, REPRESENTING MORE THAN 30PERCENT OF THE REGION'S TOTAL EMPLOYMENT.

Multifamily construction in Florida was extremely strong during the first three quarters of 1999 despite moderating growth. Permit growth exceeded 1998 levels by a healthy margin. Strong gains in Miami and Orlando were sufficient to overcome declines in the Jacksonville, Pensacola and Tampa-St. Petersburg markets. In 2000, multifamily construction in Florida is likely to taper slightly from its current torrid pace but remain at robust levels overall because of the continued strong demand of a healthy economy that brings in new workers.

Commercial construction in Florida accounts for the largest portion of the region's construction activity — a little over 40 percent — somewhat more than the state's overall share of the Southeastern economy. The construction growth rate in terms of square footage declined somewhat from 1998 but remained healthy and continued to be above both the regional and national rate. In 2000, construction activity will slow in line with the overall economy.

Agriculture to hold steady
Oranges, which brought in over $1.3 billion in Florida in 1998, are the state's number one agricultural commodity in terms of cash receipts. The initial forecast of 1999's Florida orange crop is for 211 million boxes — 14 percent higher than 1998's total. Nationally, the crop is forecast to increase 22 percent, which should put some downward pressure on prices. Florida is forecast to produce 75 percent of the national crop.

While the total number of sugarcane acres harvested in Florida increased slightly in 1999, the yield fell, resulting in very little change compared to 1998's total production of 17.8 million tons. Florida's output is forecast to represent 48 percent of the national sugarcane crop in 1999.

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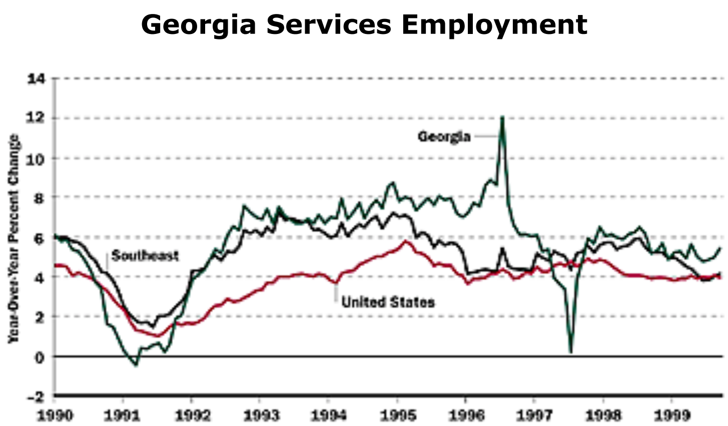
GEORGIA

OUTLOOK REMAINS BRIGHT

Along with Florida, Georgia remains a solid driver of the region's economy. The state's growth during the current expansion has been impressive and has consistently outdistanced the national pace. While growth in 2000 may be slightly slower than in 1999, Georgia should again have a strong showing in the coming year.

Services success to continue
Georgia's service sector employment increased by 5.1 percent from the third quarter of 1998 through the third quarter of 1999. Of the region's states, only Florida's service sector grew faster than Georgia's. Business service growth posted a

strong 6.7 percent growth rate by adding nearly 20,000 jobs over the period. Georgia's large health service industries also added jobs but at a more moderate rate. According to the Georgia Department of Industry, Trade and Tourism, Atlanta's convention activity was especially strong in 1999, stimulated by the strong national economy.



Source: Calculated by the Federal Reserve Bank of Atlanta using monthly data (not seasonally adjusted) from Regional Financial Associates. Data for 1999 are through the third quarter.

In the year 2000 the pace of Georgia's service industry growth may slow. As the national economy decelerates, businesses will be less aggressive on convention-oriented travel, possibly contracting the growth of convention attendance. In fact, following a record year for convention attendance in 1999, bookings are down for 2000 because of competition from other cities. Expansion of the Georgia World Congress Center is ultimately expected to lure back some of the lost convention business.

As business activity retrenches somewhat in 2000, expansion of the typically small firms that provide business services such as personnel supply and computer services will slow. But this slowing will be at least partly offset by high-tech Internet-related companies, which are becoming significant employers in the state. For example, an Internet stock brokerage has said that it will add about 2,000 jobs in Alpharetta in the next few years, and Amazon.com announced a new warehouse facility in McDonough, just south of Atlanta, that will eventually employ 2,000 people. Georgia's health service industries, which have already completed a consolidation phase, should also continue to be a relative source of strength in the coming year because of continued demand.

A new wildlife park and related facilities in the works for the Brunswick area are expected to eventually employ 1,700 workers. Savannah will benefit from a new $80 million Georgia Trade and Convention Center linked to a new luxury hotel and riverfront walkway as development continues in the Hutchinson Island area. In the hospitality sector, the city of Atlanta will host the Super Bowl as well as baseball's 2000 All-Star Game. Both these events should bring city businesses significant tourism-related dollars.

Manufacturing mixed for 2000

Georgia's factory employment growth rate declined 0.4 percent in 1999 from a positive 0.8 percent growth rate in 1998 based on third quarter over third quarter results. Of the six states in the region, only Georgia and Florida registered manufacturing employment declines less than 0.5 percent over that period.

WHILE GROWTH IN 2000 MAY BE SLIGHTLY SLOWER THAN IN 1999, GEORGIA SHOULD AGAIN HAVE A STRONG SHOWING IN THE COMING YEAR.

Durable goods, making up only about 43 percent of the state's total manufacturing employment, posted most of the job gains. Sectors linked to construction, such as lumber and wood and stone, clay and glass, fared especially well because of the national building boom. Industrial machinery, electrical equipment and transportation equipment also added to job rolls in 1999.

Georgia's nondurables manufacturers did not fare as well, with weakness especially pronounced in the troubled apparel sector. Apparel employment fell by nearly 12 percent from third quarter 1998 through third quarter 1999 as foreign competition forced firms to either move production to other countries to take advantage of cheap labor or go out of business. Textile employment also weakened moderately. Northeast Georgia's large carpet component actually added to job rolls mostly because of strong national demand from new residential housing and refurbishing of older houses.

The outlook for Georgia's factory sector in 2000 is mixed at best. The labor-intensive apparel sector will continue to contract because of its inability to compete with foreign producers. Slowing housing and commercial construction markets will adversely impact carpet, carpet tile, lumber and wood, and household textile producers. The aerospace industry will take a hit as Marietta's Lockheed Martin cuts 2,000 jobs from its payrolls because of lagging sales of its C-130J transport and pressures to hold down costs of the F-22 jet fighter program. More positively, a new initiative to make Georgia a leader in microchip design is attracting high-tech firms to the state.

MANUFACTURING REMAINS A LARGE PART OF THE SOUTHEASTERN ECONOMY. DURING THE PAST DECADE, THE AUTO AND PARTS PRODUCTION INDUSTRIES HAVE GROWN IN IMPORTANCE IN THE REGION.

Construction to continue at a healthy pace
In 1999, single-family residential construction permits were strong in the first quarter, but growth slowed from that point through the rest of the year in line with national trends. Existing home sales in Georgia remain at historically high levels. Growth was strong and steady during the first half of the year but faltered in the third quarter. As in the nation, Georgia's single-family home sales and construction in 2000 will likely continue to moderate somewhat during the year along with the state economy.

Through the third quarter of 1999, multifamily construction in Georgia was down from a year ago despite a pickup in activity late during the second quarter. The decline in Georgia's multifamily permits can be attributed in large part to a decline in the Atlanta metro area after several years of heavy construction that has resulted in rising vacancy rates. In the coming year, permits in the state will stabilize but remain at historically healthy levels as Atlanta's growth stabilizes along with the economy.

Commercial construction slowed in 1999 as compared to 1998. In the coming year, construction will likely continue to slow to a more usual rate of growth, especially in light of the completion of two megamalls constructed in metro Atlanta.

Chickens lead Georgia agriculture
Chicken broilers are Georgia's number one agricultural commodity based on total cash receipts of $2.4 billion in 1998, 44 percent of the state's agricultural total. The number of broiler chicks hatched in 1999 should increase slightly in Georgia and the nation as a whole compared to 1998's levels to meet domestic demand, which should continue to grow moderately. International demand from Asia should rebound as that region continues its economic recovery.

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L O U I S I A N A

TO CONTINUE EXPANSION IN 2000

Louisiana's economy remained in good shape as business in the oil industry began to pick up in the Gulf Coast during 1999 after a slowdown in 1998 and early 1999. Statewide employment growth from the third quarter of 1998 through the third quarter of 1999 was 0.7 percent. While growth in the state's service sector should be slower during 2000, the manufacturing sector should hold steady. Overall, the state will perform at about the same level as 1999.

Slower but continued services growth
Louisiana's service sector employment grew by 2.2 percent, or more than 11,000 workers, from the third quarter of 1998

through the third quarter of 1999, slowing slightly from the previous year's growth. This sector accounts for more than 25 percent of all nonfarm employees in Louisiana. Business services grew by nearly 5 percent during 1999. Amusement and recreation services also added to employment rolls as casino gambling and gaming places expanded. Employment in health services, representing nearly 30 percent of the state's service workers, held steady after falling in 1998. Hotel and motel job growth slowed in 1999 following rapid expansion for the previous two years, when thousands of new hotel and motel rooms were added in the state, mostly in the New Orleans area.

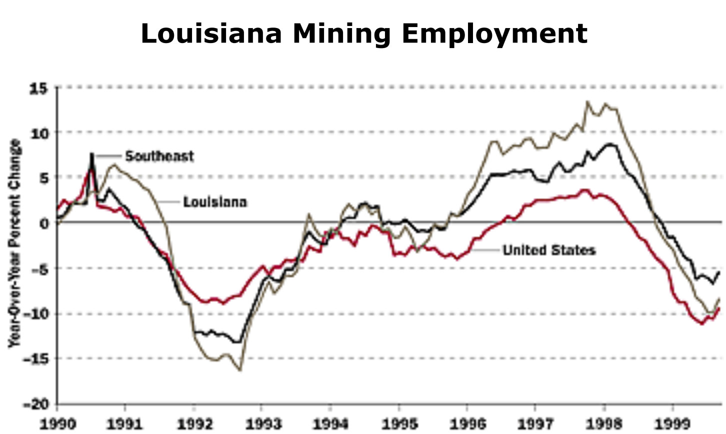
The outlook for the state's service industry in 2000 is for slow growth. Hotel and motel service employment will moderate as the building spurt for those facilities plays out. The recent opening of Harrah's, the only land-based casino in New Orleans, should attract more visitors to the city, but there is concern about casino competition from Mississippi's Gulf Coast. The casino reportedly intends to employ 2,500 people.

The recent expansion of the Ernest Morial Convention Center will draw larger numbers of business travelers and larger conventions to New Orleans in 2000. Health service growth will remain stable because of continued basic demand.

In business services, the New Orleans area was especially hard hit with hundreds of job losses reported by Amoco following its merger with BP and by Mobil, which was purchased by Exxon, as well as by Shell and Texaco. There is general concern about the effects of industry consolidation on New Orleans as many office jobs supporting the oil business have been lost to consolidation or to relocation to Texas. The energy industries had posted strong gains in the previous two years. The firms that supply business services to the energy extraction industry will expand in 2000 if oil prices either stabilize near current levels or continue to rise.

Manufacturing outlook includes ups and downs

Louisiana's factory employment shrank by 0.5 percent from the third quarter of 1998 through the third quarter of 1999. The state employs fewer manufacturing workers than any other state in the region, but the value added by Louisiana's manufacturers is relatively high. The capital-intensive chemical and energy extraction industries illustrate this point. Chemical industry employment weakened, and employment in the energy extraction industries fell by about 9.5 percent, or nearly 5,500 workers, during 1999 as oil prices declined early in the period and oil companies consolidated and restructured. The transportation equipment industry, however, expanded on the strength of large shipbuilding contracts.



Source: Calculated by the Federal Reserve Bank of Atlanta using monthly data (not seasonally adjusted) from Regional Financial Associates. Data for 1999 are through the third quarter.

The new year holds little promise for much change in Louisiana's factory sector. While overall the energy sector is cutting back on capital investments, investment spending in the chemical industry continues to be a bright spot with announcements of new expansion plans in the state, although the chemical industry accounts for only a small percentage of the state's total manufacturing employment. Large long-term shipbuilding contracts will help buoy the transportation equipment sector, and the paper and pulp industry may revive somewhat as Asian economies continue to recover.

Construction to maintain pace of 1999

Single-family residential construction permits in 1999 declined during the second quarter after a strong start in the first quarter. Permit growth rates in the third quarter were 2.6 percent above the year-earlier level but below the regional rate of 3.1 percent. Year-to-date permit growth in 1999 was strong in both New Orleans and Baton Rouge. Existing home sales during the first half of 1999 were below year-ago figures but rebounded to a 7.2 percent growth rate in the third quarter. Permit growth in Louisiana during 2000 should moderate somewhat after last year's surge.

Multifamily construction in the state through the third quarter of 1999 was extremely strong, surpassing the weak levels of the previous year. In 2000, growth will moderate to a lower rate in the face of moderate employment gains and as previous investment meets demand.

Commercial construction growth, as measured by square footage, was slower during the first half of 1999 but rebounded somewhat in the third quarter to levels nearly equal to 1998's. In 2000, construction levels will remain nearly the same as 1999 levels, closely following the overall growth in the economy.

Agriculture production improves
Sugarcane is Louisiana's largest agricultural commodity based on total cash receipts in 1998 of $334 million, representing 18 percent of the state's total. A total of 465,000 acres of sugarcane is forecast to be harvested in Louisiana in 1999 compared to 435,000 acres in 1998. The state's average sugarcane yield for 1999 is forecast to increase slightly to 34 tons per acre, and total state production should increase 22 percent to 15.81 million tons, outperforming the nation's crop total, which should increase by 7 percent. Louisiana's output is forecast to represent 41 percent of the national crop.

With receipts of $265 million in 1998, rice ranks as Louisiana's second-largest cash crop. A total of 625,000 acres of rice should be harvested in 1999 compared to 620,000 acres in 1998. The state's average rice yield for 1999 is forecast to increase 10 percent to 5,000 pounds per acre while total state production should increase 11 percent. Worldwide competition for both crops should diminish if commodity prices increase around the world.

Southeastern Financial Sector to Remain on Course in 2000

The financial sector in the Southeast in 1999, like the national financial sector, continued to reap the benefits of the nation's longest peacetime expansion, to undergo consolidation and to search for ways to gain efficiencies. For 2000, the sector should continue to grow, though at a slightly slower pace, as the fundamentals of the nation's economy ease in the coming year.

Mortgage growth to slow slightly in 2000
In 1999, mortgage demand and refinancing activity slowed as interest rates edged upward. Demand in 2000 will continue to be more subdued as single-family construction slows. Credit quality should continue to improve throughout the region in 2000 as the number of both business and personal bankruptcies continues to fall, following a trend established in 1998 as a result of protracted income growth.

Steady growth ahead

During 1999, financial sector employment essentially held steady in the Southeast with a slightly lower growth rate than in 1998. In the Southeast in 1999, Florida employed the largest share of workers in the financial sector while Georgia's financial sector witnessed the highest employment growth rate.

Buoyed by fee income and loan growth, a moderate economic expansion, and efficiencies generated by acquisitions and consolidations, financial institutions in the Southeast should generally continue to post strong profits in 2000. Strong consumer loan demand should continue well into next year, and commercial loan growth should continue.

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M I S S I S S I P P I

COAST FLOURISHES, REST PLAYS CATCH-UP

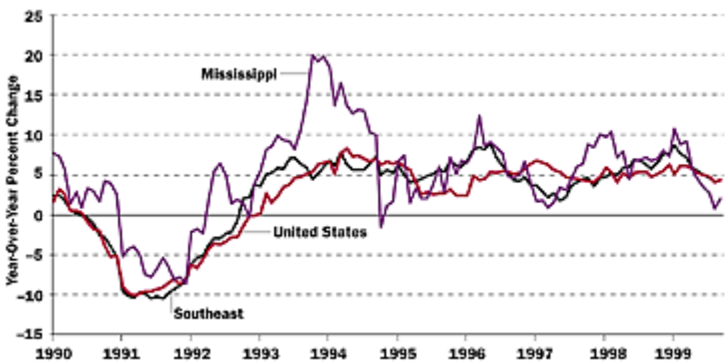
Mississippi's Gulf Coast continues to flourish while the remainder of the state struggles to keep pace. Although casino construction is slowing from its previous fast pace, employment growth remains strong in the Gulf Coast area. For 2000, Mississippi should perform at a level similar to 1999's, but the reasons for this performance vary from those in 1999.

Service sector growth to slow

Employment in Mississippi's service sector was little changed from the third quarter of 1998 through the third quarter of 1999 following two years of solid growth. Health and hospital service employment declined moderately in 1999 following little change in 1998, and growth in hotel and lodging employment slowed after posting double-digit increases in 1997 and 1998.

But this slowing does not mean that overall growth in the casinos has stalled. In fact, 30 casinos in Mississippi employ about 33,000 people. Mississippi gambling tax revenues were up 12 percent for fiscal year 1998–99 over the previous fiscal year, and revenues should continue to increase as casinos that were previously announced come on line.

Mississippi Construction Employment



Source: Calculated by the Federal Reserve Bank of Atlanta using monthly data (not seasonally adjusted) from Regional Financial Associates. Data for 1999 are through the third quarter.

Biloxi's newest and largest casino is attracting large crowds, and there are plans for a new $270 million casino resort at a Biloxi site. Areas along the state's Gulf Coast will reportedly receive millions in federal funds through the Transportation Equity Act to improve features like boardwalks, which are important to tourism. Labor shortages, however, continue to plague the state's coastal casino operations. Growth in the state's gaming sector will slow in 2000 as the casino and lodging construction associated with the casino building boom declines.

Manufacturing heavily dependent on outside forces

Employment in Mississippi's manufacturing sector fell moderately from the third quarter of 1998 through the third quarter of 1999 even though the state's factory job rolls increased in the previous year. Both durables and nondurables industries lost jobs during 1999; the bulk of the job losses were in nondurables, particularly apparel. Apparel employment fell by over 14 percent, or 3,000 workers, during the year and has declined by about 30 percent in the past three years because of fierce, mostly foreign, competition. The paper industry also posted declining employment rolls because of weak export demand and resulting excess supplies. Industries tied to the housing cycle expanded. The state's large furniture sector especially benefited from the boom in residential construction.

STRONG RETAIL SALES HAVE PLAYED AN IMPORTANT ROLE IN THE CURRENT ECONOMIC EXPANSION, BOTH IN THE UNITED STATES AND THE SOUTHEAST.

The year 2000 may bring further slowing to Mississippi's factory sector. Industries linked to housing demand will weaken as national housing construction softens. Improvement in Asian markets, however, should help exports of lumber and wood products in the coming year because Mississippi generally exports a larger share of these products overseas than other Southeastern states. And declines in the apparel sector may at least slow as fewer noncompetitive firms remain. Large contracts will continue to provide stable employment in the

shipbuilding industry. Ingalls Shipyard in Pascagoula recently signed a contract to build two 1,900-passenger cruise ships, with an option to build a third.

Construction to slow in 2000
Growth in single-family housing construction permits was extremely strong during the first quarter of 1999 but slowed dramatically in the second quarter. Still, permit growth rates through the third quarter of 1999 were well above year-ago rates and remain above regional and national rates. In 1999, single-family construction growth in the state remained strongest along the Gulf Coast but moderated significantly from the high levels earlier in the year. Existing home sales during the first three quarters of 1999 were moderately above year-earlier levels. Single-family permit growth in Mississippi during 2000 should slow somewhat coming off the previous year's boom but remain at a historically high rate largely because of demand from migration to the state's Gulf Coast.

Through the third quarter of 1999, multifamily permits declined from strong levels through the same period in 1998. In 2000, permits should continue to grow at a relatively slow pace similar to 1999's.

Commercial construction slowed in 1999 in terms of square footage after an extraordinary 1998. Construction activity in the coming year will likely stabilize at lower levels in the post–casino boom building environment.

Chickens and cotton figure large in Mississippi's agriculture
Chicken broilers are Mississippi's main agricultural commodity based on total state cash receipts of $1.4 billion in 1998, representing 40 percent of the state's total agricultural receipts. The number of broiler chicks hatched should increase slightly in Mississippi and the nation as a whole compared to last year's levels. Domestic demand should continue to grow moderately, and international demand from Asia should rebound as that region continues its economic recovery.

With receipts of $585 million in 1998, cotton ranks as Mississippi's second-largest cash crop. A total of 1.18 million acres of cotton should be harvested in 1999 compared to 940,000 acres in 1998. The average cotton yield for 1999 is forecast to decline 3 percent to 716 pounds per acre, while total state production should increase 22 percent to 1.76 million bales.

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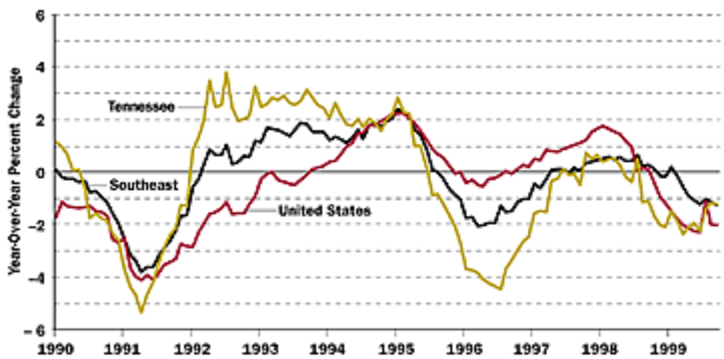
TENNESSEE
POISED FOR CONTINUED BUT SLOWER GROWTH

While Tennessee's employment growth slowed in services and contracted in manufacturing in 1999, the state continued to perform at a solid level of overall growth although behind district averages. Tennessee, like much of the Southeast, continues to find strength in the auto industry, including auto and auto parts production. The state is also luring other industries, including high-tech manufacturers, and these industries help lessen the state's dependence on a single industry. For 2000, Tennessee should continue its solid performance even though it may mimic the national economy and slow somewhat from the past few years' pace.

Services remain stable
The service sector employs about 25 percent of Tennessee's workers. Service employment growth slowed from over 3

Tennessee Manufacturing Employment



Source: Calculated by the Federal Reserve Bank of Atlanta using monthly data (not seasonally adjusted) from Regional Financial Associates. Data for 1999 are through the third quarter.

percent in 1997 and 1998 to about 2 percent from the third quarter of 1998 through the third quarter of 1999. Employment growth in business services in 1999 was about half of 1998 levels and a third of 1997 levels. Health service employment growth declined in 1999 compared to moderate increases for the previous two years as industry consolidations squeezed jobs. Hotel and motel employment growth remained stable at about 1 percent from the third quarter of 1998 through the third quarter of 1999.

Tourism numbers have slumped since the closing of Opryland theme park early in 1999, but new attractions are expected to eventually compensate for that void. The expansion of Nashville's airport will also make the area more attractive to visitors. A new $43 million conference center in Chattanooga should draw business from Atlanta and other nearby cities in the region. Overall, service sector performance in 2000 should maintain a solid, though not overwhelming, pace because of good tourism and a stable health care industry, but business service industries will continue to be constrained by labor shortages.

Manufacturing mixed but steady

Tennessee's factory employment contracted from the third quarter of 1998 through the third quarter of 1999. Manufacturing lost about 6,300 jobs, a drop of 1.2 percent, during that period compared to decreases of 0.6 percent and 0.3 percent for 1997 and 1998. Most of the recent job losses occurred in nondurables industries. Durable goods production, which is concentrated in autos, accounts for nearly 60 percent of the state's factory workers. Durable goods employment was virtually unchanged over 1999.

Weakness again appeared in the apparel sector, which declined at double-digit rates for the second year in a row as labor-intensive companies moved operations offshore or closed because of foreign competition. Paper producers in the state cut back operations because of weak foreign markets and excess capacity. Employment by chemical producers also declined. Employment growth was posted in the lumber and wood sector because of the national strength of residential housing markets. The important transportation equipment industry also added to job rolls.

AGRICULTURE IN MUCH OF THE REGION STRUGGLED WITH DROUGHT CONDITIONS IN 1999. IN 2000, THE SECTOR SHOULD EXPERIENCE SOME IMPROVEMENT PROVIDED WEATHER CONDITIONS MODERATE.

Manufacturing activity in Tennessee will be mixed in the year 2000. The apparel sector will continue to contract as weaker firms succumb to foreign competition. The decelerating national economy and weaker consumer spending and housing markets will be bad news for suppliers of building materials, such as lumber and wood for housing, and for auto and auto part production, including the Nissan and Saturn assembly plants and many parts producers in the state. Other bad news for the auto sector is that at least one large Tennessee auto parts producer is moving production to Mexico to take advantage of low-priced labor.

Some good news balancing these developments is that the high-tech sector will get a boost from the new Dell computer plant near Nashville. The plant will eventually employ 3,000 people. Economic development officials have said that the new plant could be the beginning of Tennessee's new "auto industry." There are concerns, however, that a labor shortage could be a problem. The printing and publishing sectors are likely to expand because of increased demand for music and religious publications.

Construction to remain stable
Year-over-year growth was strong for single-family residential construction permits during the first quarter of 1999 but slowed significantly in the second quarter. Permit growth in the third quarter of 1999 was 3.3 percent above the year-earlier level, similar to that of the region. Growth remains strong in both Nashville and Knoxville. Existing home sales growth remained strong through the first three quarters of 1999, up 10.9 percent in the third quarter compared to the same period in 1998. As with the region, permit gains in Tennessee during 2000 should moderate somewhat based on slow labor force growth despite solid income gains.

Multifamily construction continued to decline in 1999 as the state experienced slower growth through the third quarter. In 2000, growth will continue to moderate, but only modestly, and permit levels are likely to be similar to 1999's, again because of the slow growth in the state's labor force.

FOR 2000, TENNESSEE SHOULD CONTINUE ITS SOLID PERFORMANCE EVEN THOUGH IT MAY SLOW SOMEWHAT FROM THE PAST FEW YEARS.

Commercial construction in Tennessee, with the addition of new tourism-related projects, remained healthy in 1999 with a notably strong third quarter. Projects currently under way in Nashville will boost the state's totals. Upcoming improvements include the Center for Visual Arts, the Country Music Hall of Fame and a $20 million expansion of the city's zoo. Industrial construction markets are very tight in middle Tennessee. Bulk distribution has been the most active category, almost doubling last year's performance. At the same time, Nashville's office vacancy rate has been rising. For 2000, commercial construction should maintain a solid pace based on decent, but not spectacular, economic growth in the state.

Agriculture outlook mixed
Cattle and calves are Tennessee's largest agricultural commodity, with receipts totaling $376 million in 1998. Drought and poor grazing conditions forced many farmers to send their cattle to market early for slaughter in 1999, causing downward pressure on cattle prices. Because many cattle were sent to slaughter early, there will likely be lower growth in the commodity in 2000.

Chicken broilers are Tennessee's number two agricultural commodity, based on total state cash receipts of $282 million in 1998. Total egg production and the number of broiler chicks hatched are forecast to increase slightly in Tennessee and the nation as a whole compared to 1998's levels. While domestic demand should continue to expand moderately, international demand from Asia should rebound as that region continues its economic recovery in 2000.

Southeast's Trade Outlook Improves Slightly Over 1999

Southeast exporters generally had a lackluster 1999, but as many international economies begin to recover, the region's international trade sector should see some improvement in 2000. Limited progress in key export markets, including Japan and Brazil, however, suggests that the region's exporters will see only a modest recovery during the year.

International trade in 1999

The Southeast's top export markets are Canada, Japan and Mexico, accounting for 17 percent, 8 percent and 7 percent of the region's shipments, respectively, in 1998. As a group, Latin American economies, which are currently undergoing a period of readjustment, still account for almost two-fifths of the Southeast's exports.

Although international trade has been growing in importance in Alabama, the state's export sector weakened in 1999. The value of state exports as a share of gross state product (GSP) dropped slightly to 6.2 percent in 1999 from nearly 6.4 percent in 1998. (Exports and GSP data are based on forecast estimates from Regional Financial Associates.) Three industries — transportation equipment, chemicals and paper — produced about half the state's exports in 1999.

The economic downturn in Latin America was clearly reflected in Florida's international trade patterns during 1999; exports were 7 percent below 1998 levels, while imports were up 14 percent in the first nine months of 1999 over the same period in 1998. Nearly half of Florida's exports in recent years have been to the five Latin American markets of Brazil, Venezuela, Argentina, Colombia and Chile. About half of Florida's exports are produced by three industries: industrial machinery and computers, electronic equipment and transportation equipment.

Exports accounted for about 5.7 percent of Georgia's GSP in 1999, a slight drop from the previous year. This decline was led by weakness in demand from Japan and other Asian countries. Together, the transportation equipment, industrial machinery and computers, and paper products industries account for about 40 percent of Georgia's exports. Nearly half the state's exports in 1999 were to four countries: Canada, Japan, Mexico and the United Kingdom.

The Asian crisis seriously affected Louisiana, through whose ports much of the Midwest's vast agricultural exports are shipped. The crisis prompted a sharp drop in prices and the volume of grains and intermediate products exported, and this drop, in turn, was accompanied by a surge in imports of key commodities such as steel. New Orleans handled nearly two-fifths of the foreign trade through Southeastern ports in 1999. Imports increased 5 percent and exports dropped 6 percent below 1998 levels. Exports as a share of Louisiana's GSP fell from 15.8 percent in 1997 to about 12.6 percent in 1999. Over 40 percent of the value of Louisiana's exports comes from three industries: chemicals, food, and petroleum and coal products.

In Mississippi, export values dropped 2 percent in 1998 and 10 percent in 1999. State exports as a share of GSP declined from 5 percent in 1996 to approximately 3.7 percent in 1999. Almost 40 percent of Mississippi's exports in 1999 went to Canada and Mexico. Canada has recently generated strong demand for the state's fabricated metals and electronic equipment, and exports to Mexico have also increased, led by paper products and industrial machinery and equipment. But exports to Japan and the rest of Asia have declined.

Foreign trade and investment have recently been a pillar of Tennessee's economy. Exports accounted for 6.6 percent of the state's GSP in 1999, down from 6.9 percent in 1998. Nearly 48 percent of the state's exports consists of transportation equipment, chemicals, and industrial machinery and computers. Canada, Mexico and Japan account for more than half the state's exports. The weakened Asian economies and the uncertainties in Latin markets have been detrimental to the state's recent export performance. Exports in 1999 did not increase from 1998 levels as gains in exports to Canada, New Zealand and some European countries were cancelled by declines in Japan, Mexico and Brazil.

Looking to 2000

In 2000, the region's trade sector should gradually recover as the economies of the Southeast's key export countries begin to improve. State economies should also continue to benefit from the growing liberalization of international trade. The continued expansion of the North American Free Trade Agreement should translate into increased trade with Mexico and Canada in 2000. And trade with China could open up if that country joins the World Trade Organization.

Editor's note: This article was written by Tom Cunningham, David Avery, Whitney Mancuso, Edgar Parker and Gustavo Uceda of the Atlanta Fed research department's regional research group.

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Latin America Hopes for Brighter Prospects in New Year

While 1999 was a tough period for Latin America, the region looks to improve economically in the year 2000.

It's been a tough year for most Latin American countries. For the region as a whole, 1999 was the worst year in terms of real GDP growth since 1983 (see the chart). But the outlook for Latin America in 2000 is cautiously optimistic as conditions throughout the region are expected to improve.

Not least among the reasons for this optimism are the improved political stability in many of these countries and the success many of them had in dealing with real or threatened economic and financial crises during the past year or more. Continued progress by Latin American governments in working toward economic reforms may be important to improving the region's performance.

The great diversity among Latin American economies makes it difficult to provide a unified forecast for the region. But by analyzing the major countries' individual economies and the interactions among them it's possible to identify some common factors that signal an improved outlook for the region in 2000.

Containing the crisis in 1999

After months of global financial crisis that had begun in Asia in 1997 and then quickly spread throughout Latin America, the Brazilian central bank announced in January 1999 that the nation's currency, the real, would be allowed to float. The real had been closely managed from mid-1994 as part of the Real Plan, which introduced the new currency and was designed to stabilize Brazil's exchange rate and promote economic stability. While the Brazilian devaluation was widely viewed as a spillover from the Asian crisis and the Russian default in August 1998, it had more to do with Brazil's domestic economic and financial conditions — most important, the government's growing fiscal deficit.

Events in Brazil prompted speculation about a "contagion effect" that might harm other Latin economies. But, for a number of reasons, Brazil's crisis did not spread throughout the region and was contained with considerably less cost than was feared in January. While Brazil is the largest economy in the region, its connection to other Latin economies has perhaps been overstated, particularly as related to trade. Barring Argentina and the small bordering economies of Uruguay and Paraguay, trade ties between Brazil and the rest of Latin America are limited, suggesting that the devaluation in Brazil was unlikely to have had a severe impact on regional trade balances.

Perhaps the greatest fear raised by Brazil's crisis was that financial contagion could cause rapid capital flight not only from Brazil but from other Latin markets as well if investors saw Brazil's neighbors as vulnerable to the type of crisis it was experiencing. To counter these fears, many Latin countries were able to draw upon credibility gained over the previous several years by maintaining solid economic policies. In Argentina, for example, that credibility was based on the maintenance of its "convertibility plan," which links Argentina's peso to the U.S. dollar and prohibits money growth not backed by foreign reserves. Argentine authorities could also point to a greatly strengthened banking system with significant foreign participation.

The Argentine case is one example of how policy credibility and sound economic management allowed international investors to make important distinctions among Latin markets. This differentiation can be seen not only in the fact that the Brazilian crisis was contained but also in the spreads between U.S. and Latin American bonds, which did not move uniformly throughout 1999, indicating investors did not treat all counties the same.

DESPITE THE REGION'S ABILITY TO AVOID A GENERALIZED FINANCIAL CRISIS, ECONOMIC CONDITIONS WERE NEVERTHELESS NEGATIVE THROUGHOUT MOST OF LATIN AMERICA IN 1999.

Building on policy credibility in 1999 was perhaps the most noteworthy development in the region. Policymakers throughout Latin America acted quickly to stem the threat of contagion by implementing sound adjustments to fiscal and monetary policies. In most countries, budget deficits were trimmed and interest rates were increased to prevent capital outflows. The move toward a more balanced budget was part of a longer-term approach toward policy credibility, and interest rate hikes were a short-term policy adjustment. While interest rates have since been relaxed as the threat of financial crisis has waned, the effort to bring fiscal accounts more in balance has remained a cornerstone of many Latin American economic policies.

It can also be argued that multilateral financing, coordinated by the International Monetary Fund, helped stem the spread of Brazil's troubles. Although IMF funds were not enough to prevent Brazil's difficulties, the IMF had led the establishment of lines of credit to Mexico and Argentina that were available in the event of a run on these countries' assets. IMF backing may have assured investors that Brazil would be able to meet its commitments and therefore helped prevent massive capital outflows that otherwise might have occurred.

In addition, investors' realization that the problems leading to the real's devaluation were specific to Brazil helped prevent a general flight from Latin investments in the wake of the devaluation. The IMF is forecasting a rise in capital flows into Latin America in 2000.

Recession and recovery

Despite the region's ability to avoid a generalized financial crisis, economic conditions were nevertheless negative throughout most of Latin America in 1999. Growth had begun to weaken in mid- to late 1998 as a result of the Asian crisis' effects, including, most notably, rising interest rates, weak commodity prices, declining export demand and weakening banking sectors in some countries.

In Argentina, real GDP began to decline in the third quarter of 1998 and continued through the second quarter of 1999. Chile's economy also contracted from mid-1998 through mid-1999. Venezuelan output was hit by low oil prices and weak domestic demand, and Ecuador was also affected by low oil prices and the floods and poor fishing caused by the El Ni–o weather phenomenon. Meanwhile, Colombia fell into its worst recession since the 1930s and allowed its currency to float in September. In contrast to most of Latin America, Mexico and Peru have ridden out the international financial turbulence over the past two years; output in both these countries continued to expand in the first half of 1999 after a brief dip in the last quarter of 1998.

In Brazil, real GDP, after contracting in the second half of 1998, began to recover in the first half of 1999. Several factors account for this improved performance. Inflation remained relatively contained, reaching 6.4 percent in September 1999, and the government maintained policy credibility by controlling its spending. By controlling inflation and spending, the government was able to lower interest rates and thus fuel the recovery. Finally, Brazil's banking system was strong enough to withstand the negative effects of the devaluation, preventing the kind of generalized financial meltdown that had occurred in several Asian countries in 1998.

Real GDP Growth in Latin America

By mid-1999, signs began to emerge that an economic recovery was under way in other Latin American countries as well. Throughout the region, the nascent recovery has been spurred by declining interest rates, a pickup in commodity prices, rising capital inflows, an improving export picture and the implementation of stabilization policies in many countries.

Cautious optimism for 2000

Source: IMF

Because of the divergent trends in recent Latin American economic developments, forecasts have shifted somewhat. For the region as a whole, a mild contraction was predicted earlier in the year, but real GDP is now expected to be flat in 1999; the projection for growth in 2000 has been revised up slightly to 4 percent. The positive outlook for the region is dependent on several country-specific developments, described below; the latest forecast data are shown in the table.

Argentina should benefit from the end of political uncertainty brought by October elections; incoming president Fernando de la Rua has pledged to continue the economic policies of his predecessor, a development that has calmed markets. Industrial production, which had been declining since mid-1998, began to rise in the third quarter of 1999, and the positive effects of the weaker dollar on Argentine exports should also provide some support. (Since Argentina's currency is pegged to the dollar, a depreciation of the dollar results in a depreciation of the peso.) The IMF is forecasting real GDP growth of 1.5 percent in 2000, following an estimated 3 percent contraction in 1999. The upturn in growth is dependent on firm policy responses to the challenges posed by Argentina's fiscal deficit and structural imbalances, especially in the labor market. Unemployment is not expected to worsen in 2000, so consumption should remain steady.

Although Brazil's government has made short-term adjustments, its lack of a long-term strategy to deal with its fiscal difficulties continues to dog the outlook. The IMF is forecasting real GDP growth of 4 percent in 2000 after a 1 percent contraction in 1999.

The recent rebound in copper prices — up 25 percent from summer 1999 lows — has improved conditions in Chile. Copper accounts for 40 percent of Chile's exports. Recoveries in Chile's Asian export markets and the effects of stimulative fiscal and monetary policies should also boost growth prospects in 2000. The IMF forecasts Chile's real GDP to expand by 5.5 percent in 2000 after experiencing a modest decline in 1999.

Colombia continues to suffer a decline in GDP. The fiscal imbalance has worsened, with the deficit accounting for nearly 5 percent of GDP, and the nation's banking sector has been weakened by the ongoing recession. The strength in oil prices in 1999 (up more than 111 percent since December 1998, from under $11 per barrel to over $23 dollars per barrel) should provide support given the growing importance of the oil sector in Colombia's economy. The IMF forecasts 2.6 percent real GDP growth in Colombia in 2000 following flat growth in 1999.

The rise in oil prices should also boost Ecuador's economy, but its economy is currently so damaged that higher prices for its chief export provide little solace. Ecuador continues to be mired in recession, and there is little chance of recovery until some time in 2000. The country's August default on its Brady bond obligations means that little in the way of capital flows will be coming into the economy until new repayment terms are worked out. Ecuador's government has not developed a sustainable set of economic policies, and this lack of progress has also hurt their economic performance. The IMF forecasts real GDP growth of 1.5 percent in 2000 following a 7 percent contraction in 1999.

Comparative Estimates and Forecasts for Real GDP in Latin American Countries

	1999		2000	
	IMF	Consensus*	IMF	Consensus*
Argentina	-3.0	-3.4	1.5	2.7
Brazil	-1.0	0.0	4.0	3.0
Chile	-0.4	-0.7	5.5	5.2
Colombia	0.0	-4.0	2.6	2.3
Ecuador	-7.0	-6.5	1.5	1.5
Mexico	3.0	3.2	5.0	4.0
Peru	3.0	3.2	5.0	4.0
Venezuela	-7.6	-6.2	1.6	2.4
Latin America	0.1	-0.5	3.9	3.2

Venezuela will also benefit from higher oil prices although the uncertainty surrounding the current government's economic policies, especially those dealing with foreign investment, continue. Low real interest rates are helping support the economy. The IMF is forecasting growth of 1.6 percent in 2000 after 1999's 7.6 percent decline. Strong oil prices should prevent a renewed downturn.

Mexico continues to set the economic pace for Latin America, posting positive GDP throughout 1999. Growing ties with other strong North American markets have helped Mexico over the past few years, so the outlook for the United States in particular has become particularly important. The IMF predicts Mexican growth of 5 percent on the heels of 1999's 3 percent growth. The August 2000 presidential election in Mexico may cause some nervousness because recent presidential elections in Mexico have been followed by financial crisis. But the kind of economic and financial imbalances that surrounded these earlier elections are considered to be much less of a concern this time around, and economic policy appears likely to remain stable regardless of the election's outcome.

Peru's economy appears to have slowed a bit in the third quarter of 1999 because of weak fishing and construction activity, but its outlook remains positive. The IMF sees real GDP growth in Peru of 5.5 percent in 2000 after 1999's 3 percent growth. Presidential elections scheduled for April 2000 should not alter Peru's outlook since the major candidates support Peru's current economic regime.

An important factor for all Latin American countries in achieving a positive performance in 2000 will be continued progress toward developing open, market economies.

The inflation outlook in Latin America is positive, with only a few countries expected to register double-digit inflation rates for 2000. Economic stabilization programs, like Argentina's Convertibility Plan and Brazil's Real Plan, have helped bring consumer price increases down from over 1,000 percent annually in the early 1990s to an estimated regional average of between 8 percent and 9 percent in 1999. The devaluations in Brazil and Colombia in 1999 did not lead to a spike in inflation, a result, in part, of weak economic activity and tight monetary policies. Ecuador's inflation rate did jump in 1999 partly because of that currency's devaluation but also because a serious stabilization program has not been implemented.

Forecast uncertainties

Every forecast incorporates possible developments that can derail it, and there are several key caveats to the generally positive outlook for Latin America in 2000. The strength of the U.S. economy has been an important counterweight to the recent recessions in Latin America; trade and financial flows between the United States and Latin America were an important stabilizing factor in 1999. In 2000, most forecasters predict the U.S. economy will slow somewhat from the 3.5 percent to 4 percent growth rate of 1999. One risk to the positive Latin outlook lies with the possibility that the U.S. economy may slow more than expected or that the slowdown may begin before the predicted Latin recoveries are fully under way.

Perhaps the most significant risk to the forecast revolves around the ability of Latin American policymakers to maintain (or, in some cases, establish) credible economic policies. The last few years have been quite trying for the region; economic stabilization and restructuring were supposed to bring widespread benefits to Latin citizens. Economic and financial difficulties during these years have hampered this goal, but policymakers have for the most part stuck to the path of economic reform.

Still, in spite of these uncertainties, the outlook for most Latin American countries is that 2000 will be a much better year than 1999 has been. An important factor for all Latin American countries in achieving a positive performance in 2000 will be continued progress toward developing open, market economies.

> *This article was researched and written by Mike Chriszt, Stephen Kay and Elizabeth McQuerry 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.

What can asset prices tell us about the future?

It is fairly obvious that in market-based economies prices act as a constraint on individual behavior, providing a means by which goods and services flow to those most willing and able to pay for them. But prices play an additional role in the economy — that of signaling the present and expected future state of affairs. Having accurate forecast information is particularly important to policymakers, who are concerned with acting in advance to avoid bad economic outcomes rather than simply reacting to events.

In a recent article, Stephen Smith reviews the theoretical literature regarding the extent to which asset prices aggregate information and examines evidence on the ability of financial asset prices to forecast inflation, real output or consumption, and recessions. Given the available evidence, Smith finds it difficult to argue that monetary policymakers should give more weight to financial market variables. What can be argued is that, according to theory, financial asset prices should aggregate at least some information about future performance of economically important variables.

The author concludes that more work is needed along both theoretical and statistical lines for collectively figuring out what role, if any, financial asset prices or yields should play in forecasts used in conducting policy. Meanwhile, these variables will remain at most a source of information that policymakers can choose to use as a supplement to more traditional indicators.

ECONOMIC REVIEW
THIRD QUARTER 1999

Mexico's banking sector rescue spawns political tensions

In Mexico, the devaluation of the peso in December 1994 provoked a profound economic downturn and revealed a fragile banking sector. Fearful that the financial system would collapse under a rising level of past due loans, the Mexican government mounted a rescue of the banking sector by intervening in the daily operations of some problem banks while establishing a series of capitalization and restructuring programs available to all banks.

A recent article by Elizabeth McQuerry examines Mexico's bank rescue efforts (1995–98) with a particular focus on the role of the deposit insurance fund, the Bank Fund for the Protection of Savings. According to the author, the governmental rescue programs prevented a systemic collapse of the banking sector but cost more than $55 billion dollars. The rescue was not entirely successful in restoring the banking sectors' credit function to a productive role in the Mexican economy.

The article also attempts to place the overall rescue effort within a larger context by looking at its economic and political consequences. The Mexican experience suggests that country-specific factors can profoundly affect the success of government policies. The outcome of the bailout in Mexico was significantly shaped by the process of political democratization under way there. The polemical debate surfacing out of the legislative battle over the costs of the bank rescue demonstrates the need for governments to pay more attention to political matters, even when the problems appear economic or technical in nature.

ECONOMIC REVIEW

THIRD QUARTER 1999

Which type of settlement is best in wholesale payments networks?

Most people are familiar with retail payments systems such as checks and credit cards. Less familiar are wholesale payments systems, which consist of electronic networks used for sending large sums among banks. A feature common to all wholesale networks is that settlement is carried out by exchange of funds held in banks' reserve accounts at a central bank, though the rules for settlement vary.

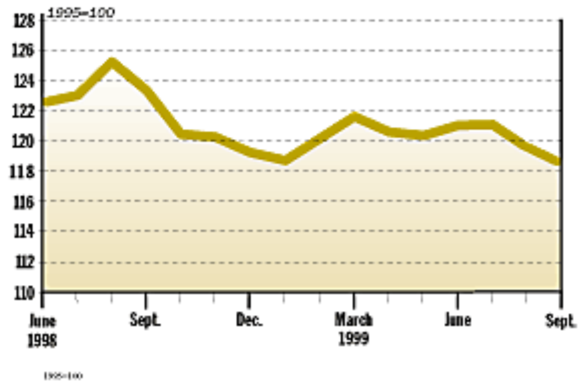
In a recent article, Charles M. Kahn and William Roberds consider the question of what is the best design for a wholesale payments system, in particular whether it should settle on a net or a real-time gross basis. They also consider some of the difficult policy questions facing both participants and regulators of wholesale systems.

For the benchmark case in which bank asset quality is fixed and bank assets can always be liquidated at book value, the authors show that the advantages of some type of net settlement dominate real-time gross settlement. However, the optimal net settlement scheme may necessarily involve some chance of default. If the quality of bank assets is a choice variable, the authors find that the potential costs of net settlement rise because of negative effects on bank asset quality.

Kahn and Roberds conclude that the design of a wholesale payments system must take into account numerous policy trade-offs, the most critical being the one between the costs of liquidity versus the costs of default.

ECONOMIC REVIEW
THIRD QUARTER 1999

ATLANTA FED DOLLAR INDEX



After edging up in July, the dollar dropped slightly in August and September versus the 15 major currencies tracked by the Atlanta Fed. During the three-month period, the dollar declined consistently against currencies in the Pacific subindex — which includes Australia, China, Hong Kong, Japan, Malaysia, Singapore, South Korea and Taiwan — while its performance versus the Americas and European currencies was mixed.

Note: For more detailed, monthly updates and historical data on the dollar index, see the Atlanta Fed's World Wide Web site at www.frbatlanta.org/econ_rd/dol_index/di_index.cfm.

Capital flow barriers may improve welfare

Until recently, the trend in world capital markets has been toward increasing globalization. Recent events in Latin America and Asia have caused many in policy-making circles to question whether this trend should be wholly, or at least partially, reversed. It is commonly argued that, at a minimum, countries should be given the discretion to erect such barriers, at least in certain circumstances.

Recent events, then, have forced a rethinking of the desirability of unrestricted world capital flows. The general presumption appears to be that the "victims" of highly volatile capital flows should be allowed to limit or restrict inflows and outflows of funds. But outflows of funds from smaller and less developed economies often represent inflows of funds to larger and more developed economies. This outcome raises the issue of whether there would be benefits associated with larger and wealthier economies taking actions to limit capital mobility.

A working paper by Marco Espinosa-Vega, Bruce Smith and Chong Yip presents a formal analysis of erecting barriers to international capital flows. The authors find that, in contrast to conventional thinking, when there are substantial differences in per capita GDP across countries, long-run output in all countries can be increased by having wealthier economies erect some partial barriers to capital mobility. Wealthier economies need not persuade poorer economies to cooperate: by implementing an appropriately selected tax on capital flows it will often be the case that the wealthy economy can unilaterally obtain a higher steady state welfare level for businesses, households and other economic agents in all economies.

The authors also show that these same barriers need not eliminate endogenously arising volatility in income, capital flows and asset returns. Under some circumstances, then, if it is desirable to reduce such volatility, this reduction must be accomplished by other means. However, the case for imposing barriers on capital flows does not depend critically on the ability of these barriers to eliminate excess volatility.

WORKING PAPER 99-6
July 1999

Southeastern Economic Indicators

		Alabama	Florida	Georgia	Louisiana	Mississippi	Tennessee	6th District	United States
Total Payroll Employment (thousands)[a]	**1999Q3**	**1,934.6**	**6,969.3**	**3,875.3**	**1,918.3**	**1,137.0**	**2,679.0**	**18,513.4**	**128,915.7**
Percent change from	1999Q2	0.1	1.1	0.8	0.1	0.4	0.5	0.7	0.5
Percent change from	1998Q3	0.9	3.6	3.1	0.6	0.0	1.1	2.3	2.2
Manufacturing Payroll Employment (thousands)[a]	**1999Q3**	**367.7**	**497.5**	**590.6**	**190.8**	**240.6**	**507.6**	**2,394.8**	**18,397.0**
Percent change from	1999Q2	-0.8	-0.1	-0.6	0.1	0.3	0.3	-0.2	-0.2
Percent change from	1998Q3	-3.2	-0.3	-0.4	-0.5	-1.6	-1.2	-1.1	-1.7
Civilian Unemployment Rate	**1999Q3**	**4.4**	**3.9**	**3.8**	**4.9**	**4.6**	**3.5**	**4.0**	**4.2**
Rate as of	1999Q2	4.6	4.1	3.3	4.6	4.6	3.7	4.1	4.3
Rate as of	1998Q3	4.1	4.2	4.2	5.9	5.3	4.1	4.4	4.5
Single-Family Building Permits (units)[b]	**1999Q3**	**16,158**	**105,301**	**68,703**	**14,117**	**8,994**	**29,215**	**242,490**	**1,220,063**
Percent change from	1999Q2	-2.3	2.4	0.4	-0.2	-3.3	3.1	1.2	-1.6
Percent change from	1998Q3	12.2	4.6	-0.5	2.6	6.2	3.3	3.4	3.1
Multifamily Building Permits (units)[b]	**1999Q3**	**3,589**	**54,733**	**13,722**	**5,093**	**3,103**	**3,049**	**83,290**	**390,148**
Percent change from	1999Q2	79.9	3.1	-30.7	39.1	13.0	-57.6	-5.9	-2.2
Percent change from	1998Q3	-45.9	8.6	-3.2	57.4	-18.9	-42.7	-0.4	-4.7
Personal Income ($ billions)[b]	**1999Q3**	**96.5**	**401.1**	**203.9**	**96.0**	**53.9**	**133.4**	**984.8**	**7,492.8**
Percent change from	1999Q2	0.8	1.4	1.4	1.3	0.8	1.2	0.0	1.3
Percent change from	1998Q3	3.8	4.5	7.4	2.8	4.0	4.6	4.8	5.4

		Atlanta	Birmingham	Jacksonville	Miami	Nashville	New Orleans	Orlando	Tampa
Total Payroll Employment (thousands)[a]	**1999Q3**	**2,118.4**	**482.3**	**551.9**	**1,001.0**	**660.7**	**620.2**	**883.1**	**1,190.5**
Percent change from	1999Q2	1.1	0.2	0.7	0.7	0.5	-0.4	1.2	1.4
Percent change from	1998Q3	3.7	1.4	3.2	1.8	1.4	-0.5	4.5	4.9

Civilian Unemployment Rate	**1999Q3**	**3.0**	**2.9**	**2.9**	**5.8**	**2.3**	**4.3**	**2.7**	**2.7**
Rate as of	1999Q2	3.0	2.9	3.2	6.3	2.4	3.8	2.9	2.8
Rate as of	1998Q3	3.3	2.9	2.9	6.2	2.5	5.0	2.9	2.9

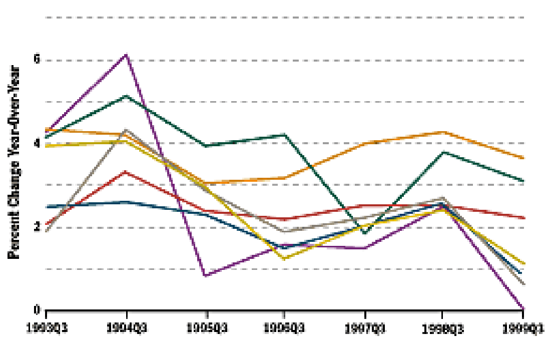
[a] Seasonally adjusted

[b] Seasonally adjusted annual rate

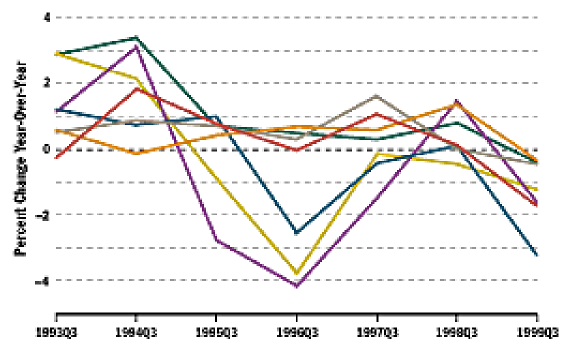
Sources: Payroll employment and civilian unemployment rate: U.S. Department of Labor, Bureau of Labor Statistics. Initial unemployment claims: U.S. Department of Labor, Employment and Training Administration. Single- and multifamily building permits: U.S. Bureau of the Census, Construction Statistics 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.

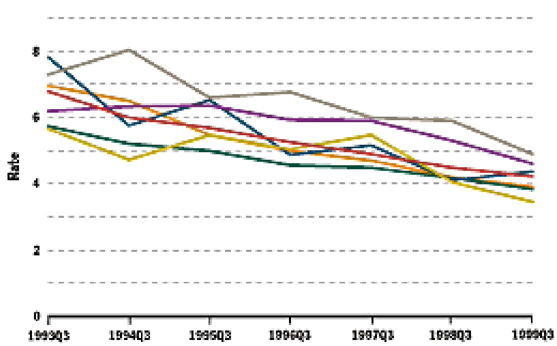
Total Payroll Employment



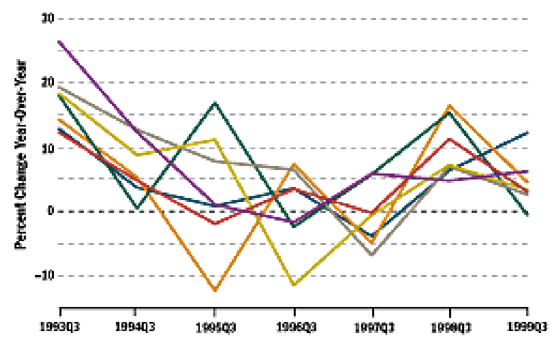
Manufacturing Payroll Employment



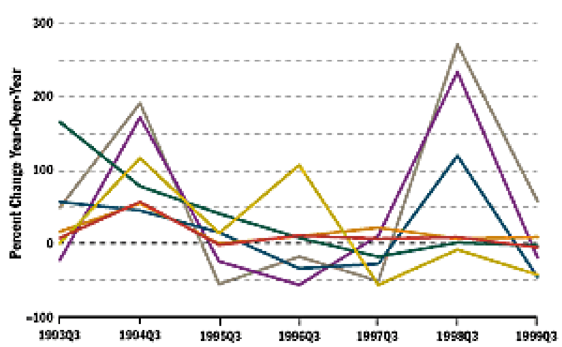
Civilian Unemployment Rate



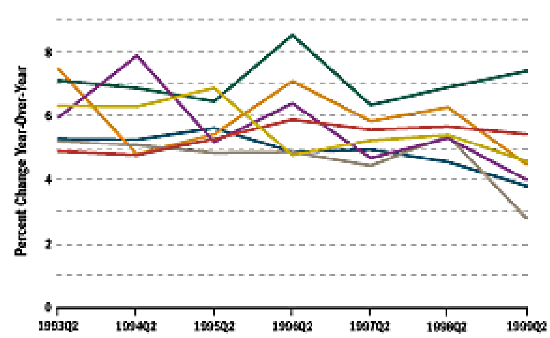
Single-Family Building Permits



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 November.

•Current indicators of manufacturing activity in the region in October showed an upward shift in production, shipments and inventories, possibly to meet Y2K-related requests.

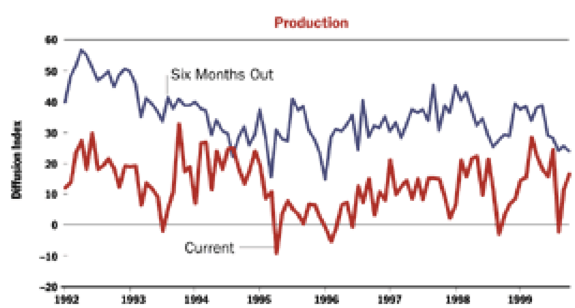
•The current production index rebounded to 16.4 from 11.5 in September.

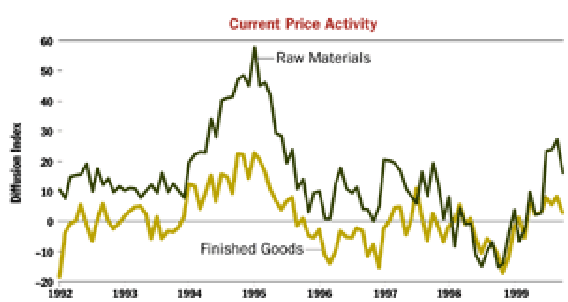
•Other current activity indicators suggest moderate underlying momentum for the region's manufacturing sector. Production may be concentrated on immediate shipments as the shipments index jumped to 23.9 from 16.5 in September. Current inventory indexes rebounded weakly to more typical levels as manufacturers appear to be trying to keep inventories from declining further.

•Outlook indexes were flat or slipped incrementally in October. Despite some slippage in the majority of outlook indexes, the number of employees outlook index rose slightly, suggesting a mild vote of confidence by manufacturers for orders and production next year.

•For both the current and outlook series, prices paid indexes declined in October after three strong months. The outlook index for prices received rebounded to a recent high even though the current prices received index declined moderately.

SOUTHEASTERN MANUFACTURING INDICATORS
(through October 1999)





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

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