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Inflation: The Central Challenge For U.S. Monetary Policymakers

As a monetary policymaker, I work with other members of the Federal Open Market Committee (FOMC) to help achieve the long-term goals Congress has given the Federal Reserve. These goals include maximum employment, price stability and moderate long-term interest rates. Through a combination of factors, our economy has operated like a well-oiled machine in recent years — high productivity, low inflation, low unemployment and strong consumer confidence have worked together to bring about the longest economic expansion in U.S. history.

In addition to sound monetary policy, several other developments have contributed to our economic success during the last few years, including a bottoming out of energy prices and an international economic environment that helped keep prices low in the United States.

These developments widened the trade deficit, and they usually would have contributed to a decline in the dollar. With the uncertainties associated with economies in Asia and Latin America, however, foreign investors sought the dollar as a safe haven. The result was an appreciation of the dollar, an inflow of funds and a decline in U.S. interest rates.

The central challenge for monetary policy

Taken alone, any one of these developments would have provided a powerful assist to achieving the Fed's economic goals. Taken together, they constitute a central banker's wildest anti-inflationary dreams. Today, however, all of these developments are mostly gone. Therefore, the central challenge for monetary policymakers in the coming year will be to keep inflation low.

The importance of low inflation

Low inflation facilitates business investment in durable equipment and technology, allowing businesses to work smarter, empower their workers to produce more goods and employ just-in-time methods to manage inventories. During the low-inflation environment of the 1990s, business investments doubled, a development that in retrospect clearly contributed to the increase in productivity. The lesson here is that low inflation encourages businesses to persist — and prevail — in their quest to create value through investment. But investment spending would not have grown as rapidly as it did if the 1990s had been a high-inflation environment.

Low inflation also has other less quantifiable, but equally important, benefits. Certainly, it has played a critical role in nurturing the entrepreneurial spirit that so characterizes our economy. Low inflation encourages entrepreneurs to have the courage of their convictions, to pursue their dreams and, above all, to take sensible risks.

If you're like me, you probably know one or two young people (and maybe even a few 40-year olds) who have recently traded the security of a familiar job for the chance to create something new and, of course, strike it rich. Most of the folks I know who have taken this leap have done it with their eyes open — they know the odds are long. But they also know they've got a nest egg or the prospect of finding another job in a red-hot market to fall back on if things don't work out.

These folks are, of course, the foundation of our economy and the envy of the world. But if you ask them what they think about inflation, what you get is a blank stare. And that's how it ought to be. Because if you think inflation will erode your nest egg or undermine the return on your investment, then you quit taking risks altogether.

As I participate with my colleagues in FOMC policy deliberations this year, I assure you that I will work to keep inflation low and our expansion on track in the year ahead.

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

COVER STORY

IMMIGRATION: Bane or Benefit For the Southeast's Economy?

The debate over immigration has been strong and quite heated recently. During the past 20 years, the number of immigrants has risen steadily in the nation and the Southeast. Whether or not immigrants make a positive contribution to the economy is still questioned. Analysis of statistics on immigrants, though, seems to show that in the Southeast immigrants are generally well-educated, self-supporting contributors to the region's economy, very similar to the native population.

In a nation of immigrants that has long prided itself on being a melting pot, the topic of immigration has again recently sparked a heated national debate. In the 2000 presidential race, a Reform Party candidate has made immigration reform a focus of his campaign, arguing for reducing the number of legal immigrants allowed to enter the United States each year and pledging to halt illegal immigration. The debate is even reaching areas of the country that have small immigrant populations. Population-Environment Balance, a Washington-based political action committee, ran ads before the Iowa presidential caucuses calling for drastic reductions in current immigration totals. Economists who study immigration contradict one another, and news coverage feeds the fire.

These debates about the value of immigration to the U.S. economy come at a time when the number of foreign-born persons has reached the highest levels in the post–World War II period. According to the U.S. Census Bureau, as of July 1998, foreign-born residents accounted for approximately 9 percent of the U.S. population, compared with around 8 percent in 1990. The number of foreign-born residents grew from approximately 20 million in 1990 to about 25 million in 1998. Census data show that the foreign-born population grew 27 percent between 1990 and 1998 while the native population grew only 7 percent.

Research fuels debate

The national debate on immigration and the economy is being fueled by conflicting conclusions by economic researchers. Some have concluded that a switch from a national origin system to a relative-based system changed the characteristics of immigrants. One of the opponents of current immigration law is George Borjas, the Pforzheimer Professor of Public Policy at the John F. Kennedy School of Government at Harvard University and an immigrant from Cuba. His studies focus on immigrants' contributions to the U.S. economy. In numerous articles and books, Borjas concludes that since the change in immigration law in 1965 from a national-origins quota system to a system based on family ties, immigrants entering the United States are not as able to contribute to the country's economic welfare and, in fact, may be a drain on the economy.

Barry R. Chiswick, research professor and head of the economics department of the University of Illinois at Chicago, draws similar conclusions. He argues that visas issued largely on the basis of kinship with a U.S. citizen or resident alien — as opposed to a visa system that stresses the immigrant's likely contribution to the U.S. economy — result in immigration of less productive workers, who then compete for the same jobs as low-skilled or socially disadvantaged natives.

Other researchers argue that immigrants have had a positive impact on the U.S. economy. Frank D. Bean, former director of immigration research for the Urban Institute in Washington, D.C., concluded in a recent study that immigration even under current rules has a positive effect on the economy. And, in a 1995 study for the Cato Institute, the late Julian Simon, former professor of business administration at the University of Maryland, found that "immigrants do not cause native unemployment, even among low-paid or minority groups." In fact, Simon found that immigrants help create jobs by spending their wages.

Others, such as Federal Reserve Chairman Alan Greenspan, believe that immigration has helped meet the labor demands of the U.S. economy during the current record expansion as the pool of available workers has grown relatively smaller. In a recent speech, Greenspan noted that "extra demand can only be met with increased imports or with new domestic output produced by employing additional workers either from drawing down the pool of those seeking work, or from increasing net immigration."

The work of these and other prominent scholars and authorities is often quoted in articles that seek to sway public opinion on the subject of immigration reform. Yet the conclusions of these experts may not be as pertinent to the Southeast, which has some important differences from the national picture of immigration.

Immigration, Southern style

In comparison to the nation as a whole, the Southeast has a slightly smaller share of foreign-born individuals. Data from the Census Bureau's March 1998 Current Population Survey indicate that the foreign-born share of the nation's population is about 10 percent, while the foreign-born population represents only 7 percent of the Southeast's population. There is, of course, a population of illegal immigrants in the nation and the Southeast, but the size of these groups and their characteristics are not known. Arguments could be made that illegal immigration is a drain or a benefit to the economy. Absent any data, however, it is difficult to determine the impact of illegal immigration, and this article does not address that topic.

Within the Southeast, Florida has the largest foreign-born population share, at about 16 percent, followed by Georgia and Louisiana, 3 percent; Alabama and Tennessee, 2 percent; and Mississippi, 1 percent (see Table 1).

TABLE 1
Percentage of Native and Foreign-Born Population Shares in the Southeastern States in 1980, 1990 and 1998

	1980		1990		1998	
	Native	Foreign-born	Native	Foreign-born	Native	Foreign-born
Alabama	99	1	99	1	98	2
Florida	89	11	87	13	84	16

Georgia	98	2	97	3	97	3
Louisiana	98	2	98	2	97	3
Mississippi	99	1	99	1	99	1
Tennessee	99	1	99	1	98	2

Note: The foreign-born population includes legal immigrants, undocumented immigrants and temporary residents such as students and workers on business visas.

Source: U.S. Census Bureau, March 1980, 1990 and 1998 Current Population Surveys.

Not only is the foreign-born population smaller in the Southeast than in the West and Northeast, but the population also immigrated from a different mix of countries. In the Southeast, approximately 23 percent of the foreign-born population is from Cuba, whereas nationally only 3 percent of the foreign-born population is from that island nation. South Florida has the largest concentration of Cuban immigrants in the Southeast. Nationally, however, the largest percentage (27 percent) of the foreign-born population is from Mexico. In the Southeast, only 6 percent of the foreign-born population is from Mexico. In fact, the Southeast has a higher percentage of immigrants from Haiti, 8 percent, than from Mexico (see Table 2).

TABLE 2
Top Five Countries of Origin for Foreign-Born People in the Southeast and the United States*

Southeast		United States	
Cuba	23	Mexico	27
Haiti	8	Philippines	5
Mexico	6	Vietnam	4
Columbia	5	Cuba	3
Nicaragua	4	China	3

*By percentage of total foreign-born population

Source: U.S. Census Bureau, March 1998 Current Population Survey

Many have claimed that the foreign-born population living in the United States is less well educated than the native population. But Census Bureau data do not support this claim. In the Southeast, the percentage of natives and foreign-borns with a high school education or less is 55 percent for both groups. The percentage of foreign-born individuals with graduate degrees is higher than natives, 8 percent compared with 7 percent. Nationwide, 41 percent of the foreign-born population have had at least some college or more education; in the Southeast this figure is 45 percent. The Southeast has a higher percentage of foreign-born individuals with a college or graduate degree — 26 percent compared with 20 percent of the native population. Nationally, 26 percent of the foreign-born population have a college or graduate degree compared with 24 percent of the native population.

Critics have also claimed that the foreign-born population is heavily dependent on public assistance. The numbers in the Southeast counter this view. Overall, in the Southeast the fraction of households headed by an immigrant that receive public assistance is slightly lower than the number of households headed by a native that receive public assistance — 18 percent compared with 19 percent, respectively. Nationwide the numbers are quite different, with 24 percent of the households headed by immigrants receiving some type of benefits and only 16 percent of the households headed by natives receiving public assistance (see the chart).

Foreign-born workers in the Southeast

IN COMPARISON TO THE NATION AS A WHOLE, THE SOUTHEAST HAS A SLIGHTLY SMALLER SHARE OF

Many perceive that the majority of foreign-born workers are employed in low-wage, low-skilled jobs. Again, the data for the Southeast do not support this perception. According to Census Bureau data, the highest proportions of foreign-born workers in the Southeast are executives, administrators and managers, at 9 percent; clerical and other administrative support workers, 7.4 percent; and sales workers, retail and personal services, 6.6 percent (see Table

3). These job categories are the same as the top three for native workers in the Southeast although the region's foreign-born workers have a slightly smaller percentage of workers in two of these categories.
Though the top occupations for the Southeast's foreign-born workers are professional, the region has many foreign-born workers employed in occupations that do not require an advanced degree or specialized knowledge.

FOREIGN-BORN INDIVIDUALS.

Like the rest of the country, the hotel industry in the Southeast is experiencing a shortage of workers. Some hotels have taken an innovative approach to filling employment vacancies. In recent years, the Opryland Hotel in Nashville and other lodging enterprises in the region have brought in workers under specialized temporary worker visas.

According to Wynn Merryman, manager of staffing services for Opryland Hotel and Attractions, during the 1980s Opryland began working with specialized agencies and other governments to place immigrants in temporary jobs in the United States. Some of these immigrants have come from Vietnam, Jamaica and Kosovo. These workers, who fill housekeeping, dishwashing, culinary and banquet set-up positions, often take steps to extend their visas while working with Opryland. Merryman said that the hotel also has a training program for hospitality students and has had international students from Switzerland, Ireland and other countries obtain temporary worker visas for this program.

MANY HAVE CLAIMED THAT THE FOREIGN-BORN POPULATION LIVING IN THE UNITED STATES IS LESS WELL EDUCATED THAN THE NATIVE POPULATION. BUT CENSUS BUREAU DATA DO NOT SUPPORT THIS CLAIM.

In some industries, foreign-born workers are filling factory jobs. Carpet mills in Dalton, Ga., and poultry processing plants in Gainesville, Ga., have hired many foreign-born workers. And, throughout the region, immigrant workers harvest labor-intensive crops.

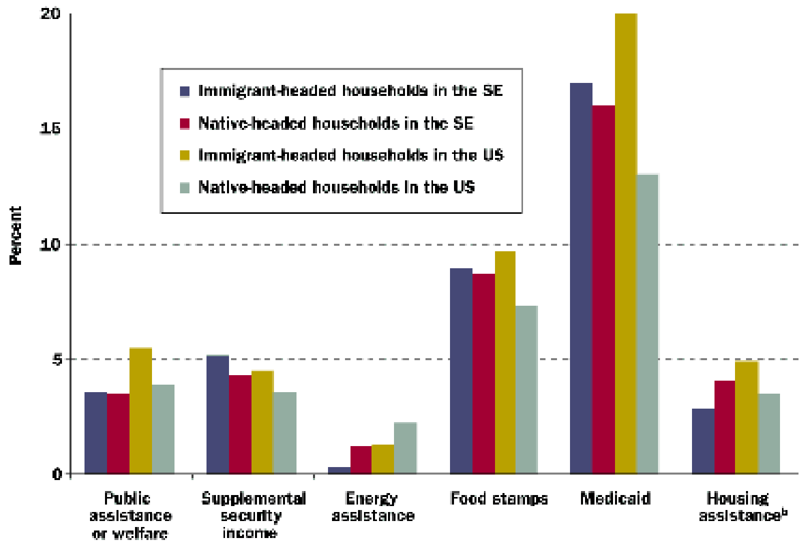
Construction has also seen an influx of immigrant workers in the Southeast. John Wieland, chief executive officer and chairman of John Wieland Homes and Neighborhoods, one of the Southeast's largest builders, says that without immigrant workers "you would not have a construction industry in the Southeast." He noted that his company has a number of Hispanic and Asian workers that are directly on the payroll. In fact, John Wieland Homes and Neighborhoods has translators for the company orientation, prints how-to manuals in Spanish, and provides a Spanish course in construction-specific terms to its field managers. Wieland points out that, in addition to immigrants working for domestic contractors, there are also many immigrants in business for themselves as subcontractors.

Percentage of Immigrant and Native Households in the Southeast and the United States Receiving Public Assistance[a]

Self-employed immigrants

Areas that have higher concentrations of foreign-born workers often find immigrants opening businesses that cater to the immigrant and native populations. In many sections of Atlanta, Miami and other metropolitan areas in the region, for instance, specialty restaurants, food markets, and clothing stores that appeal to the tastes of the foreign-born population have proliferated.

One of the arguments given by supporters of immigration is that immigrants have a high



[a]As a percentage of total Southeastern or U.S. households headed by an individual 13 or older. Immigrant households are those headed by a foreign-born individual.

[b]Includes rent subsidies and public housing.

rate of self-employment. Recent research by the Center for Immigration Studies found that immigrants from different parts of the world have very different rates of self-employment. For example, 6 percent of the foreign-born population from Mexico are self-employed compared to 15 percent of the immigrants from Cuba and 33 percent of the immigrants from Korea. The study also found that for the first time since 1960, the fraction of workers who are self-employed is slightly higher in the native population than in the foreign-born population. In the Southeast, however, data from the Census Bureau show that a slightly higher percentage of immigrant workers aged 25–64 are self-employed — 12 percent of foreign-born nonagricultural workers compared with 11 percent of native nonagricultural workers.

In his book *The Other Americans: How Immigrants Renew Our Country, Our Economy, and Our Values*, Joel Millman provides examples of how different ethnic groups tend to choose different types of businesses. Many hotels are now owned by immigrants from India, and many small farms in the Southwest and Northeast are owned by Asian and Hispanic immigrants. In the Southeast, aside from the hotel industry, many of the self-employed immigrants are centered near immigrant populations.

Immigration helpful to Southeast

While immigration on a national level is a topic of heated debate and controversy, legal immigration in the Southeast appears to have a positive impact on the economy.

Although the region does have some immigrants who receive public assistance, the percentage of immigrant households receiving public assistance is less than the percentage of native households receiving public assistance. Immigrants in the region are also, on average, at or above comparable education levels with the native population and fill a number of highly skilled jobs. Lower-skilled immigrants

TABLE 3
Top Five Occupations for Foreign-Born and Native Workers in the Southeast

Occupation	Percent of Workers
Foreign-Born	
Executives, administrators and managers	9.0
Clerical and other administrative support	7.4
Sales workers, retail and personal services	6.6
Food service	5.7
Mechanics and repairers	5.1
Native	
Executives, administrators and managers	10.1
Clerical and other administrative support	8.3
Sales workers, retail and personal services	5.4
Construction trades	4.8
Food service	4.3

Note: The foreign-born population includes legal immigrants, undocumented immigrants and temporary residents such as students and workers on business visas.

Source: U.S. Census Bureau, March 1998 Current Population Survey are helping fill employment vacancies in some industries that are crucial to the region’s economy, particularly during the current economic expansion. Through business ownership, immigrants are also helping provide an important link in the region’s economy and fulfilling their version of the American dream.

All told, many negative generalizations about immigration appear unfounded. Legal immigrants provide additional skills and workers and, as consumers, greater purchasing power to the U.S. economy, particularly in the Southeast.

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. The uncited statistics used in this article are from the March 1998 Current Population Survey.

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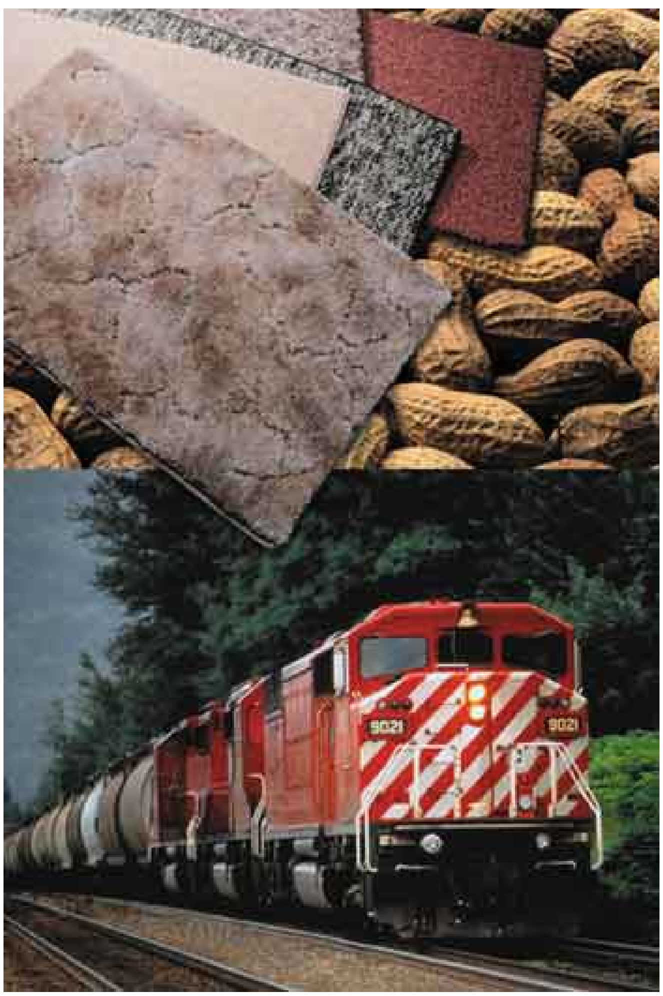
REGIONAL FOCUS

The New Economy at Work in Traditional Southern Industries

THE PRODUCTIVITY GAINS BROUGHT ABOUT BY TWO ASPECTS OF THE NEW ECONOMY — NEW TECHNOLOGY AND GLOBALIZATION — HAVE BENEFITED MANY BUSINESSES IN THE SOUTHEAST. NOT ONLY HAVE NEW HIGH-TECH FIRMS SPROUTED UP THROUGHOUT THE REGION, BUT EVEN SOME OF THE SOUTH'S OLDEST INDUSTRIES ARE EMBRACING ASPECTS OF THE NEW ECONOMY AS TRADITIONAL SOUTHERN COMPANIES STRIVE TO SURVIVE IN TODAY'S COMPETITIVE BUSINESS WORLD.



What would Erskine Caldwell think? The author of such early 1930s novels as *Tobacco Road* and *God's Little Acre*, Caldwell perfected literature's southern misery genre. His characters were the archetypal dirt farmers and hardscrabble laborers, toiling away at barren land and in broiling sweatshops, expecting little and earning even less.

Even accounting for artistic liberties, Caldwell's stories resonated with a ring of truth. The South, generally, was poorer than the rest of the country, and the rural South was destitute. The economy was, in a word, old — mostly natural resource-based and highly dependent on unskilled labor. The region's economy was the envy of no one.

At the turn of the 21st century, the South has come a long way. The region led the nation in job growth throughout the 1990s as investors from the United States and abroad, including auto manufacturers, high-tech firms and service-related industries, poured hundreds of billions of dollars into the Southeast. All those new jobs translated into a better standard of living for Southerners both in absolute terms and in improvements relative to other Americans. Between 1970 and 1998, the national per capita personal income ranking of every Southern state improved except for Mississippi and Florida, which remained 51 and 20, respectively. During these years, Alabama's ranking improved from 49 to 41, Georgia's from 38 to 24, and Tennessee's from 42 to 34.

To be sure, the South generally remains poorer than the rest of the United States. And just as certainly, Caldwell himself would recognize the pockets of desperation that remain in some areas of the Southeast.

Still, compared to Caldwell's day — and to even just 30 years ago — the South is new. In that sense, the South's new economy is analogous to, say, Asia's, with its millions of workers progressing from the most rudimentary forms of natural resource processing to basic manufacturing and on into sophisticated manufacturing and knowledge-based services. This transition occurred mostly because both regions are relatively cheaper places to conduct business and have had a relatively abundant supply of workers.

But what else is new about the South's economy? Four old Southern industries — peanuts, short-line railroads, textiles and apparel — offer insights into how some companies are changing to remain competitive in today's business world.

Getting your arms around the new economy

There are varying opinions about and definitions of the new economy. *Business Week* Editor in Chief Stephen B. Shepherd was among the earliest and most enthusiastic proponents of the new economy. In a 1997 editorial (see the sidebar), Shepherd defined the new economy as two relatively new and broad trends.

The first, Shepherd noted, is the globalization of business; the second is the revolution in information technology. These simple but far-reaching trends provide a standard, although not universally accepted, definition of the new economy.

Something old, something new

If there is a staple — or, perhaps, an official snack — of the Old South's old economy, it surely is peanuts. For more than 50 years, peanut farming has been among the nation's most protected industries — prices and domestic tonnage have been dictated by the descendants of New Deal-era agricultural programs, and imports of peanuts and peanut-containing products have been essentially prohibited.

Without a doubt, as U.S. growers adopted higher-yielding seed varieties and implemented other production improvements, peanut growers' productivity improved. In fact, American peanut growers have been the most productive in the world, although the United States ranks far behind India and China in total production.

> AT THE TURN OF THE 21ST CENTURY, THE SOUTH HAS COME A LONG WAY. THE REGION LED THE NATION IN JOB GROWTH THROUGHOUT THE 1990s AS INVESTORS FROM THE UNITED STATES AND ABROAD ENTERED THE AREA.

Nevertheless, because imports were prohibited and manufacturers paid the same price for raw peanuts, there was almost no competition where it mattered most — on the supermarket shelves — except from peanut substitutes. On the peanut aisle, at least, the declining unit costs brought by improving productivity showed up only partially.

All of this began to change with the more recent introduction of foreign competition. Under provisions of the North American Free Trade Agreement and the Uruguay Round of the General Agreement on Trade and Tariffs, imports of peanuts and peanut paste (roasted, ground peanuts) were authorized for the very first time. Granted, imports comprise a small fraction of all peanuts consumed in the United States — well below 10 percent. Still, even this small amount was enough to bring some measure of competition to the peanut industry, and in 1996 the statutory price for American-grown peanuts was reduced for the first time in the history of the peanut support program.

But if competition was just beginning to heat up in the U.S. peanut market, it was reaching full boil overseas. According to the American Peanut Council, an industry trade group, U.S. peanut exports declined from nearly 300,000 metric tons in 1995 to less than 200,000 metric tons in 1998. By 1997 India had actually surpassed the United States in peanut exports, replacing China, which increasingly consumes its own crop, as the leader, with Argentina close behind.

The United States' competitive situation at home and abroad was compounded by public concerns about the high fat content of peanuts. The concerns contributed to an approximately 200 million pound decline — more than 10 percent — in total U.S. peanut consumption between 1992 and 1996.

The industry's response to all of these developments was equal parts marketing and technology. The industry addressed health concerns with various research initiatives designed to show the nutritional benefits of peanuts. Individually, manufacturers introduced a variety of reduced-fat peanut products, which now account for as much as 10 percent of all peanut product sales.

Certainly, the domestic peanut market in no way resembles the information technology industry described by Shepherd earlier. As long as imports are limited and the price of peanuts is set by the government, it seems unlikely that PC-style price wars will ever break out in the supermarket peanut aisle.

Nevertheless, for the threat facing the peanut market in the United States, technology was an appropriate response. Productivity may not have necessarily improved, but value most certainly was added through the introduction of reduced-fat products and through a comprehensive marketing campaign by the industry. U.S. consumption, meanwhile, rebounded by nearly 100 million pounds between 1996 and 1999.

In export markets, U.S. peanut producers pursued a similar technology-enhanced, value-added strategy. The United States is not the low-cost producer of peanuts; it has instead positioned itself as the leading quality supplier to world markets by emphasizing those aspects of the American product that should appeal to candy and snack nut manufacturers: production research, seed development, and mechanization in shelling, manufacturing, warehousing and storage. In addition, the industry's lot identification system and its aflatoxin detection and control initiatives have given it a certain advantage in markets with stringent quality regulations. It appears that all of these technological efforts contributed to a significant increase in U.S. peanut exports after years of decline, from less than 200,000 metric tons in 1998 to nearly 350,000 in 1999.

A VIEW OF THE NEW ECONOMY

In 1997, *Business Week* Editor in Chief Stephen B. Shepherd wrote about the new economy in an editorial titled "The New Economy: What it Really Means." Shepherd defined the new economy as follows:

> By the new economy, we mean two broad trends that have been under way for several years. The first is the globalization of business. Simply put, capitalism is spreading around the world — if not full-blown capitalism, at least the introduction of market forces, freer trade, and widespread deregulation. It's happening in the former communist countries, in the developing world of Latin America and Asia, and even in the industrialized West — with economic union in Europe and North America's free-trade agreement. For the United States, this means international trade and investment play a much greater role in our economic life than before....
>
> The second trend is the revolution in information technology. This one is all around us — fax machines, cellular phones, personal computers, modems, the Internet. But it's more than that. It's the digitization of all information — words, pictures, data, and so on. This digital technology is creating new companies and new industries before our eyes....
>
> [E]ntrepreneurial energy is transforming corporate America. You can argue about whether there is a new economy, but there sure as hell is a new business cycle. Housing and autos used to drive the U.S. economy. Now, information technology accounts for a quarter to a third of economic growth. And remember, this is an industry that pays very good wages. And it is an industry, bless its heart, in which prices actually fall every year. How's that for noninflationary growth? Furthermore, information technology affects every other industry. It boosts productivity, reduces costs, cuts inventories, facilitates

electronic commerce. It is, in short, a transcendent technology — like railroads in the 19th century and automobiles in the 20th.

No longer passing the time away

The arrival of the new economy is even more apparent in the short-line railroad industry. As the name suggests, short-line railroads make the final haul between the national Class I carrier, like CSX or Norfolk Southern, and the cargo customer. Considering that a short line may be singularly dependent on a big carrier and that the industry is more susceptible to truck competition, the viability of short-line railroads might be questionable. But instead, short lines are thriving. Their success is due in no small measure to the opportunities presented by technology and globalization.

Atlanta-based Railcar Management Inc. (RMI) was among the first companies to provide computer software to the short-line industry. Like most software, RMI's packages are intended to improve short-line productivity by giving management better information. According to Paul Pascutti, vice president of strategic product development at RMI, "Our software is oriented toward backoffice functions, but it also provides management with the information it needs for day-to-day operational decisions," including yard inventory, track movement history and car repair billing.

More recently, RMI has also begun to offer some of the same services online. So not only are short lines able to do more, they're able to it with fewer people. As a result, these information technologies are having a direct impact on the profitability and competitiveness of short-line railroads.

But so is globalization. At first this seems surprising. Short-line railroads, after all, are defined by the local markets they serve. How can they compete globally? In fact, the answer has less to do with competition than with management.

The 1990s saw the rise of a number of highly diversified short-line railroad holding companies. San Antonio-based RailTex operates short lines in New England, the Southeast, the Great Lakes and Canada. Greenwich-based Genesee and Wyoming owns services in several U.S. states, as well as Canada, Mexico and Australia. Boca Raton-based RailAmerica operates short lines in the United States, Canada, Australia and Chile.

By accumulating short-line holdings, holding companies are able to reduce costs by consolidating back-office functions and diversifying their commodity mix. Diversification helps make railroads "recession-proof," as RMI's Pascutti put it. "A company that is heavily dependent on steel can protect itself from a downturn in the steel industry by acquiring a line with a heavy agricultural commodity mix." In this way, globalization improves costs and revenues.

Not always a cut above the rest

In one of oldest Southern industries, the new economy is doing to the South what the South did to New England decades ago. Employment in the apparel manufacturing industry has been falling across the South for years. In Georgia, apparel employment plummeted from nearly 58,000 in 1990 to fewer than 28,000 in 1999. Similarly, in Alabama apparel employment dropped from 52,000 in 1990 to 28,000 in 1999.

> WHILE THE LONG-TERM VIABILITY OF EVERY TRADITIONAL SOUTHERN INDUSTRY REMAINS TO BE DETERMINED, IT IS CLEAR IN THE SHORT TERM THAT GLOBALIZATION AND TECHNOLOGY PRESENT AS MANY OPPORTUNITIES AS BARRIERS.

The decline in apparel employment is, of course, almost entirely a function of international wage competition. Apparel production is highly labor intensive, and as cut-and-sew operations have proliferated in low-cost labor markets, manufacturers in this extremely competitive market have not failed to exercise this comparative advantage. Today, most firms that remain are companies that rely on more automated processes or are niche product producers.

But it would be wrong to assume that the closely associated textile industry has mirrored the job exodus of the apparel industry because of globalization. While apparel employment may have plummeted since 1990, textile manufacturing in general seems to have stabilized. And, over the same period, carpet manufacturing employment has actually increased. The difference is most certainly technology. Unlike apparel, carpets and other textiles are manufactured in long production runs that lend themselves to mechanization and automation. And indeed, to visit the average Southern textile plant is to witness the very latest technology from Switzerland, Germany or Japan, managed by textile engineering graduates from Clemson, North Carolina State or Georgia Tech. Unquestionably, textile employment is not what it was a few decades ago — not even close. Nevertheless, the hemorrhaging caused by wage competition and globalization appears to have subsided, and the industry remains intact.

Long-run prospects for old Southern industries

In the 1990s, the new economy had a significant impact on many traditional Southern companies. While the long-term viability of every traditional Southern industry remains to be determined, it is clear in the short term that globalization and technology present as many opportunities as barriers.

What the New Economy Means for Policymakers

In a January speech on the economy, Jack Guynn, president and CEO of the Federal Reserve Bank of Atlanta, discussed the new economy and what it means for policymakers. While acknowledging the new economy has various interpretations, he said that “its central principle is that globalization, productivity and any number of other things have dramatically extended the U.S. economy’s capacity for sustainable growth.”

What about the economy has not changed

Although he acknowledged that productivity has recently improved, Guynn said that policymakers still have a lot to learn about the various effects of globalization and its implications for conducting monetary policy. Personally, he said he particularly struggles with the idea that globalization has permanently rid the economy of inflation.

“Globalization does create relentless price competition,” Guynn said. “And yes, globalization has indeed played a role in keeping inflation low in the U.S. economy the last couple of years. But we need to keep in mind that the extraordinary loss of pricing power that many U.S. firms experienced was intensified by slack demand in many of our trading partners and an appreciating dollar.”

He added that while globalization can more quickly transmit a positive shock back to the U.S. economy, it can also transmit negative shocks that exert upward pressure on prices. “To what extent, I’m not sure. But it is entirely possible that globalization has not changed the economy quite as much as the last several years’ experience might suggest,” he said.

What has changed

Productivity has clearly increased, though, and that means that companies are working smarter, Guynn said. It also means that companies are empowering their employees to produce more goods more efficiently by investing hundreds of billions of dollars in computers, data processing networks, telecommunications and other equipment.

“The accelerated productivity seen since 1996, combined with labor force growth, does explain how the economy has been able to grow with negligible inflation over the last two years," Guynn said. "And in my view, productivity gains show no signs of slowing down in the short run. In the long run, however, if productivity gains or labor force growth should slip, then the economy cannot continue to grow as quickly without a rise in inflation or a corresponding change in monetary policy."

The importance of low inflation

Therefore, Guynn said, the labor market is at least as great a source of concern as the long-term sustainability of productivity growth. "Now while putting more people to work is surely one of the great dividends of the current expansion, there absolutely are limits. And when we finally are unable to bring new workers into the labor pool, growth will have to slow. Unless, of course, productivity can continue to accelerate. And it's here where low inflation is absolutely vital."

For the complete text of Guynn's speech, see the Atlanta Fed's Web site at www.frbatlanta.org/sp_press/speeches/sp012400.htm.

INTERNATIONAL FOCUS

Imbalances in Latin American Fiscal Accounts: Why the United States Should Care

Why should the United States and its businesses be concerned with fiscal policies in Latin America? Because fiscal policies affect more than just the domestic performance of the country in question and because unsustainable fiscal policies can impact investment opportunities and trade relationships among other countries.

Large public sector deficits in some Latin American countries have received considerable attention over the past few years. Indeed, in spite of gains achieved during the early 1990s, the recent trend in public sector accounts in many countries has been toward larger deficits rather than toward reducing shortfalls. Weaknesses in government accounts and the failure to extend liberalizing reforms to governments themselves have made Latin American countries especially vulnerable to financial market swings. Amid the Asian economic crisis and investor uncertainty toward emerging markets, these swings played a role in increasing deficits and, in some cases, precipitating currency crises in Latin America.


Latin American governments have ample experience with belt tightening. Cost cutting and structural adjustment programs were the norm during the 1980s as countries struggled against high inflation and worked to restructure their economies along market lines.

From a U.S. perspective, the topic has important relevance because of the growing relationship between Latin America and the United States. Public sector finance can significantly influence economic performance and play a role in triggering financial difficulties. Thus, knowing the issues and problems associated with public sector finance in Latin America is important information for U.S. businesses and policymakers.

What's all the fuss?

An important trend in most Latin American countries over the past decade has been toward an improved budget balance as measured by the primary balance (revenues minus expenditures only). The primary deficit in Latin America and the Caribbean (comprising 26 countries) was substantially reduced to an unweighted average of 1.7 percent of gross domestic product (GDP) in 1997 from 5.7 percent in 1988, and major economies in Latin America performed slightly better than the region as a whole (see Chart 1). These results place the region in a position only modestly worse than the advanced industrial countries, which in 1997 averaged a deficit of 1.1 percent of GDP. Why then does the fiscal position of Latin American governments receive so much scrutiny? The answer lies mainly in the region's potential to undergo rapid economic swings, which ultimately bring budgetary shifts. These swings, which often require additional debt financing, are reflected in the real economy as well as government accounts.

Determinants of policy credibility

Despite gains in the past few decades, fiscal concerns continue to plague the region — and fiscal deficits in some Latin American countries have worsened. But why, despite so many efforts during this time, have regional governments been unable to implement effective and sustainable fiscal adjustment? Latin American governments have ample experience with belt tightening. Cost cutting and structural adjustment programs were the norm during the 1980s as countries struggled against high inflation and worked to restructure their economies along market lines. One study in the 1980s noted, however, that all these adjustment efforts failed to give a convincing signal of an underlying change in the economic policy regime.

ANOTHER CONSIDERATION IN THE DEBT QUESTION IS THE RECENT INCREASE IN DOMESTIC DEBT ISSUED BY THE PUBLIC SECTOR IN THE REGION.

Going forward, fiscal policy too must implement fundamental changes in order to be enduring, effective and credible. Since many other structural adjustment measures have already been put into place, fiscal policy is often a missing link in economic policy credibility.

The notion of sustainable public sector finance connotes more than producing short-term surpluses from favorable economic fundamentals or through harsh cuts. It also implies identifying the debt burden and structure that is manageable for each individual country's output and spending needs, an achievement that necessarily looks toward a medium-term horizon.

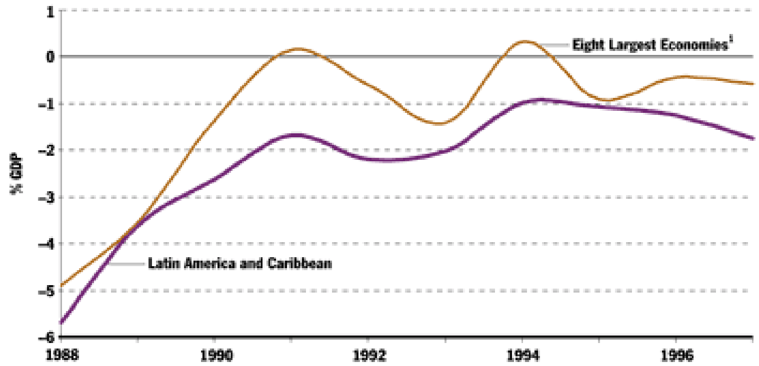
While Latin American countries are generally considered to be highly indebted, most countries substantially reduced and restructured their debt load in the 1980s. As a result, the average ratio of external debt to gross national product (GNP) fell from 65 percent in 1987 to 35 percent in 1997. Among the larger economies in Latin America, only Ecuador had a ratio of external debt to GNP exceeding 60 percent. The average external debt ratio in all Latin American countries was considerably lower at 37 percent of GNP in 1998 (see Chart 2).

But interest and principal payments on this debt weigh heavily on government accounts despite the comparatively lower debt loads and restructurings. In 1996, the average debt service ratio for Latin American countries was almost 38 percent, meaning that the interest payments on foreign debt were equivalent to nearly two-fifths of exports of goods and services. According to the World Bank, Argentina (52 percent), Brazil (46 percent), Mexico (45 percent) and Peru (40 percent) carried the highest burdens in the region.

When they project budget shortfalls, Latin American governments must resort to new deficit financing, often paying the higher premiums demanded by market participants in exchange for the increase in sovereign or transfer risk. Funds of this sort are often short-term loans, which can create problems if investors begin to shy away from that country's debt, as happened in Asia in 1997 and Russia in 1998.

CHART 1
Fiscal Deficits in Latin America

Another consideration in the debt question is the recent increase in domestic debt issued by the public sector in the region. Latin America's economic stabilization in the 1990s led to increased use of domestic financial markets. Although most countries still rely on external borrowing for the bulk of their financing needs, domestic



[1]Argentina, Brazil, Chile, Columbia, Ecuador, Mexico, Peru and Venezuela.

[2]Source: ADB Statistics and Quantitative Analysis Unit based on official statistics of member countries; data for Brazil (1994–97) from Brazilian Central Bank.

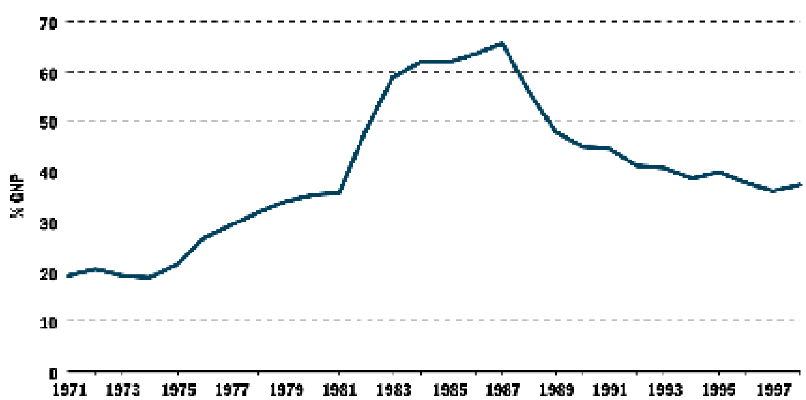
debt has been increasing. Between 1995 and 1998, domestic debt in Brazil rose from 43 percent to 54 percent of GDP; in Chile it rose from 29 percent to 34 percent of GDP. The percentage more than doubled in Colombia and Ecuador, although from a much smaller base. Even though default risk on sovereign domestic debt is generally quite low and transfer risk is not present, the rapid increase in public sector domestic debt presents potential concerns. For countries that do issue domestic debt, the danger of short-term issuance is also present. For instance, it was the refusal of investors who held domestic debt in Mexico in 1994 to roll over their paper that contributed to the peso crisis. Nevertheless, the limited nature of capital markets and banking systems, as well as low domestic savings, means that domestic borrowing is not a significant option in most Latin countries.

Mechanics of a budget

Countries run budget deficits when their spending outpaces revenue, similar to a person with a checking account. But unlike individuals who earn salaries, countries can rarely depend on a steady state in revenue. Additionally, Latin American governments must cope with volatility in the domestic and, sometimes, the global economy. Central government revenue has grown substantially in absolute terms since 1980; but the predominant experience has been a pattern of erratic revenue increases, often growing more slowly than expenditures and less sustained by tax collection than in the industrialized countries. Relative to the overall size of the economy, though, there has been considerable volatility and variation among countries. Fluctuations in economic performance have produced a situation in which growth has been punctuated with significant swings even in the countries where revenue increased as a percentage of GDP.

A study of government revenue in countries that are members of the Organisation for Economic Cooperation and Development (OECD) found that these countries take in more revenue relative to the size of their economies and are better at collecting taxes than their counterparts in Latin America. While the more industrialized countries averaged tax revenue collection equivalent to 23 percent of GDP, governments in Latin America collected less than two-thirds of that amount — or approximately 15 percent of GDP. The disparities were marked for income tax and social security tax collection; OECD governments collected at least twice the amount taken in by Latin American governments as a share of GDP. But Latin American governments performed better in some areas, collecting slightly more indirect taxes and considerably more nontax revenue.

CHART 2
Average Latin American External Debt
As a Percent of Gross National Product



Source: World Bank

Spending patterns in the region also reflect a high degree of volatility although this pattern has calmed somewhat since some countries have achieved price stability. Once high or hyperinflation was halted, Latin American governments lost the use of an important adjustment tool that could be used without regard to legislative approval. In the past, governments could reduce their debts by postponing payment until inflation had reduced the value of the obligation. Governments now face the more politically problematic task of implementing cuts in public spending.

In Argentina, Brazil and Peru, the pattern of volatility ended once relative price stability was achieved and expenditures reached a plateau. The plateau effect may well reflect the absence of the inflation tax as a means of fiscal adjustment after achieving relative price stability, but it also signals the difficulty that governments have encountered in making cuts. In Colombia, Ecuador and Venezuela, expenditures continued to rise through 1997 without clear evidence of topping out. Of this group, oil-dependent Venezuela is the most erratic, with a sharp rise in expenditures since 1995.

Chile and Mexico made dramatic spending cuts between 1984 and 1990. Chile cut expenditures from 32.5 percent to 20.3 percent of GDP, a level they have maintained since then. Mexico cut its nominal expenditures in half between 1987 and 1993, with only a slight subsequent rise.

There are several important differences between spending patterns in Latin America and the OECD countries. In Latin America, interest payments and wage payments take on a proportionally greater weight than in the OECD countries. Interest payments are the result of previous borrowing decisions and will rise along with interest rates. Meanwhile, it is politically difficult to reduce wage expenditures because powerful public sector unions work to preserve wages and employment levels, especially where the private sector does not provide much alternative. The lower level of social welfare spending in Latin America reflects less developed social welfare systems, although there is a wide range of spending levels in the region.

Why budget deficits matter

How exactly do budget deficits affect the economy? In previous decades, some Latin American governments resorted to printing more money to finance their budget shortfalls. This policy option promoted higher inflation and reduced economic stability in those countries. More prudent debt management policies are the norm today. In this environment, the main consideration of budget deficits is that they reduce national savings — the sum of public and private savings (after-tax income that is saved rather than spent).

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A decline in national savings has a negative effect on the overall economy because it leads to a drop in investment or net exports or a combination of both. This decline is brought about largely through interest rate channels. Interest rates rise because a decline in national savings results in a decrease in the supply of loans to private borrowers; as savings dwindle, there is simply less money available to make loans. The falloff in the supply of loans raises the cost and thus pushes up the interest rate, causing some private borrowers to curtail their investment plans.

Net exports are also affected by higher interest rates, which attract more investors, both domestic and foreign. Since investors must first purchase a country's currency in order to purchase assets from that country, demand for the currency increases. Greater demand results in a higher price for the currency, and a stronger currency, in turn, means that domestic goods are more expensive for foreigners and foreign goods are cheaper for domestic consumers. The resulting rise in imports and drop in exports turns the trade account toward deficit.

Concerns for U.S. businesses

If protracted, slumps in exports have a negative impact on a country's national output. On the investment side, persistent declines reduce growth in a country's capital stock and thus hamper the country's ability to produce goods and services. Persistent deficits in net exports also hurt output as more and more income from domestic production flows overseas to service the debt. So persistent budget deficits lead to a reduction in output because either fewer goods are produced or less of the production stays at home.

The higher interest rates associated with weak fiscal positions also make it harder for businesses to borrow money. If the high rates are protracted, productive investment will decline and consumers will be deterred from many purchases; these developments tend to induce a recession or worsen an existing economic downturn. Consumers in Latin America, in turn, tend to buy fewer goods imported from the United States and other countries. U.S. exports to Latin America fell in 1999 as many countries experienced high fiscal deficits and recessions. Factoring out Mexico, which did not suffer the type of problems occurring in most other Latin American countries, U.S. exports to Latin America fell an estimated 13 percent in 1999 compared to the previous year.

Persistent deficits in net exports hurt output as more and more income from domestic production flows overseas to service the debt.

This set of conditions can have a greater impact on areas with even closer trade and investment ties. For example, U.S. exports to Brazil fell an estimated 12 percent in 1999. Although the decline in exports was greater to some other countries (U.S. exports to Chile and Colombia fell an estimated 24 percent and 28 percent, respectively), the larger size of the Brazilian economy and the close commercial relationship between Florida and Brazil mean that the impact may be greater on Florida businesses.

What's more, the growing interdependence of some Latin economies can also cause a chain effect. The recession in Brazil worsened conditions in Argentina, its neighbor and closest trading partner in Latin America. The Argentine economy also experienced a recession in 1999, which in turn helped produce a 17 percent decline in U.S. exports to Argentina.

Future prospects

The increasing interdependence of economies poses challenges to countries with fiscal problems. Markets can effectively transfer risk, or perceived risk, across national boundaries in a matter of minutes. And national finances may be subject to detrimental market oscillations from other countries with unsustainable policies.

The nature of economies in Latin America suggests that the region will continue to experience macroeconomic volatility as well as fluctuating degrees of access to capital markets. This volatility will continue to be reflected in government accounts, especially in revenue and interest payments. These factors highlight the need for policymakers to continue pursuing credible economic policy mixes that will balance public sector accounts and help shield the domestic economy from short-term market contagion. Sustainable fiscal policies will help insulate regional economies from greater volatility and smooth out economic swings.

Amid the challenges Latin American governments face, however, there are signs of optimism. Patterns of best practices are emerging as countries differentiate themselves in the management of public sector accounts, coming up with innovative institutional and legal approaches to curbing future problems.

Editor's note: This article is excerpted from a paper prepared for a recent Federal Reserve Bank of Atlanta conference on sustainable public sector finance in Latin America. The article was researched and written by analysts in the bank's Latin America Research Group.

Research Notes

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

Using economic models to evaluate monetary policy effects

Because of limited knowledge about how the actual, complex economy operates, policymakers depend on models for understanding its workings. For models to be usable for evaluating monetary policy effects, modelers must recognize that fluctuations or shocks in the actual economy are often driven by developments beyond the central bank's control. There are no simple rules, nor is there a single model that represents the exact interactions between monetary policy and the rest of the economy. How good a model is depends on particular criteria.

In a recent article, Tao Zha assesses the usability of a specific economic model for policy evaluation on the basis of certain criteria the economic literature recognizes. He uses the model as an example to address a set of recurring questions regularly asked by policymakers — questions concerning projecting multiple key macroeconomic variables under alternative policy scenarios at the time when the policy decision has to be made.

The discussion focuses on the two conceptual issues that are central to answering these questions: the baseline forecast and policy shifts. Zha concludes that use of a baseline forecast serves only as a convenient technical tool for computing a menu of policy projections under alternative scenarios. The important message is that a combination, not a separation, of baseline forecast and identified policy shifts provides economically coherent ways of evaluating the effects of monetary policy.

Economic Review
Fourth Quarter 1999

Social security systems — fully funded or pay-as-you-go?

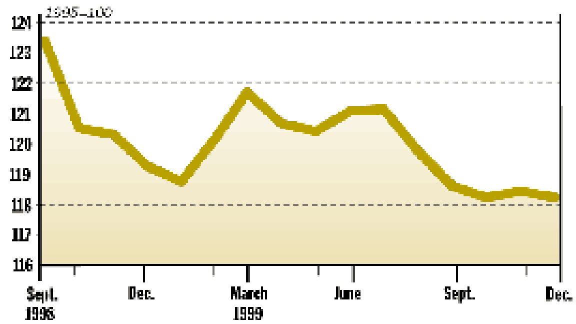
Governments of countries around the world, including the United States, are considering implementing social security reform programs. In most cases, one of the principal goals of such programs is to convert a pay-as-you-go social security system into a fully funded system. Most economists believe that the long-run macroeconomic benefits of a successful transition to a fully funded system are likely to be large relative to the benefits from social security reforms of other types.

Marco Espinosa-Vega and Steven Russell describe, in a recent article, the basic differences between pay-as-you-go and fully funded systems and explain why these differences are important. They also point out, using Mexico as an example, that it may be difficult to determine which type of social security system a country actually has and even harder to predict whether it will succeed in switching from one type of system to the other.

The authors believe there may be some room for doubt that Mexico's new social security system is or ever will be fully funded. Instead, the new system may be a pay-as-you-go system of a somewhat different type. This same possibility also applies to other countries that are conducting social security reforms. The authors conclude that the information needed to determine whether these countries are likely to succeed in setting up fully funded systems will be revealed only slowly over time.

Economic Review
Fourth Quarter 1999

ATLANTA FED DOLLAR INDEX



From October through December 1999, the dollar registered a slight overall decline versus the 15 major currencies tracked by the Atlanta Fed despite a small upturn in November. During the three-month period, the dollar fell 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/index.html.

Benefits of large bank mergers still in doubt

In more than 3,844 mergers and acquisitions between 1989 and 1999, acquiring institutions purchased more than $3 trillion in assets. A number of reasons have been advanced for such a surge in acquisitions, including the need to consolidate to achieve cost savings and operational efficiencies, to be better able to compete in the global market place or to provide for the controlled exit of inefficient firms from the financial services industry.

In a recent article, Simon Kwan and Robert A. Eisenbeis explore the question of whether the various expected performance and earning benefits of mergers are in fact realized by analyzing consolidations between 1989 and 1996. Examining recent data allows considering evidence of efficiency or other gains from the wave of acquisitions flowing from the erosion and final elimination of the MacFadden Act.

Consistent with the findings of the limited number of earlier studies, Kwan and Eisenbeis' results point to mixed efficiency and performance effects. For example, evidence suggests that even though the better-performing institutions tended to target the higher-performing targets, the resulting mergers did not significantly improve profit performance or efficiency. In addition, the authors find only weak evidence that the market viewed acquisitions with favor. The overall conclusion is that the widely touted earnings, efficiency, and other performance and earning benefits of mergers of large banks still remain in doubt.

Economic Review
Fourth Quarter 1999

Economic policy trends in Latin America since World War II

Economic disturbances in Latin America in recent years — particularly the currency crises in Mexico in 1994–95 and Brazil in 1998–99 — have prompted significant research and debate over financial sector reforms and appropriate monetary and fiscal policy for the region. The recent discussion over dollarization is but one of many such debates.

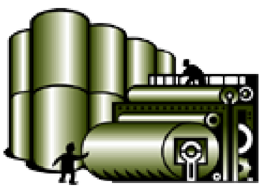
Author Carlos Lozada demonstrates, in a recent article, that the current rethinking of economic policy in Latin America is only the latest chapter of a much longer story. Well before the recent episodes of financial turmoil, Latin American economies had already proven vulnerable to external economic shocks. These factors interacted with — and in some cases prompted — frequent changes in the region's economic policy orientation, resulting in high volatility of key indicators like inflation.

Lozada surveys the evolution of economic policy and performance in Latin America in the post–World War II period. He highlights the impact of certain economic shocks the region experienced, including the declining terms of trade in the early postwar period, the oil shocks of the 1970s, the debt crisis of the 1980s and the more recent emerging markets crisis of 1997–99. The author concludes that the recovery time from the recent crisis is expected to be briefer than for previous crises, with Latin America proving more resilient under the market framework of the 1990s than under the state-led economic policies of earlier decades.

Economic Review
Fourth Quarter 1999

The State of the States

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



Alabama

- The performance of the paper and pulp industry continues to improve. Kimberly-Clark announced plans to invest $82 million in a tissue plant located in Mobile. Additionally, workers who were previously laid off are being called back to work as the company ramps up production.
- A moderate amount of speculative commercial construction is either planned or under way in Birmingham, where the leasing market is expected to remain strong this year. Bulk warehouse space is in strong demand, with occupancy rates around 97 percent.
- Ogihara America Corp., a producer of automobile body panels and the largest supplier to Mercedes-Benz's Tuscaloosa plant, is undertaking a $35 million expansion of its Birmingham facility. The expansion was prompted by contracts from two other auto makers.

Florida

- Some hotels and motels and cruise ships were adversely affected by tourists' Y2K concerns, but advance bookings for February through April 2000 are reportedly strong. Twelve new hotels are scheduled to open in Miami this year, adding almost 2,500 rooms to the market.
- A Chinese delegation recently toured Florida's citrus fields and facilities to look at how the industry controls fruit-fly infestations. The delegation expressed interest in purchasing the state's grapefruit and citrus products. An agreement could be finalized soon and would reportedly allow state growers to send the first shipment of a $150 million-a-year deal to the virtually untapped Chinese market.
- Residential markets have slowed in much of the state, with sales of existing homes notably weaker than a year ago. Construction of single-family homes has also declined in most areas.

Georgia

- Lockheed-Martin confirmed that Italy has ordered more C-130J transports, produced in Marietta, and that deals with Kuwait and Denmark are under way. The Pentagon also approved buying two dozen C-130Js over the next five years. The firm continues to lay off workers, however, with the elimination of 800 additional positions.
- Corporate downsizing by the Coca-Cola Co. is resulting in the loss of 2,500 of the company's 6,200 jobs in Atlanta. BellSouth announced that it will eliminate approximately 1,300 of the company's 21,000 jobs in Atlanta.
- The Atlanta office market remains strong. Construction of both office and industrial space is expected to slow. Experts anticipate another

strong year for retail construction, featuring new shopping centers developed near malls and the expansion of major anchors in malls.

Louisiana

- Oil and natural gas prices remain at strong levels. According to the Louisiana Department of Natural Resources, the number of active rigs in areas under state jurisdiction continued to decline in 1999 as more firms invested resources into the outer continental shelf in the Gulf of Mexico. The seasonally adjusted rig count in Louisiana rose from 146 in December 1998 to 164 in December 1999, its highest level since August 1998, when the count was 172.
- The volume of general cargo exports passing through the port of New Orleans in 1999 was down 5 percent from 1998, but export values posted small gains. Through late 1999, imported steel, the port's most valuable commodity in terms of revenue and local jobs, was down 40 percent from very high 1998 levels. This decline is national in scope and related to anti-dumping restrictions imposed on steel imports.

Mississippi

- The job market on the Mississippi Gulf Coast remains tight. Recent job fairs in the area are attracting numerous firms, including casinos, hospitals and fast food establishments, which are all seeking new workers.
- Ingalls Shipbuilding in Pascagoula has signed a final contract for two Aegis destroyers, ensuring job security for the facility's 10,500 employees.
- During 1999 Mississippi's seasonally adjusted unemployment rate ranged from 4.3 percent to 5.3 percent. December's unemployment rate of 5.3 percent was about equal to the 5.2 percent rate in December 1998. Nonfarm payroll employment fell by 0.3 percent from the third through the fourth quarter of 1999, with weakness appearing mostly in the manufacturing sector. The finance and service sectors posted job growth during the same period.

Tennessee

- Saturn shut down its small car plant in Spring Hill for about one week in January to install equipment for the new SUV line. Sales of Saturn's small cars have been slow, down 14 percent from a year ago because of sluggish demand.
- High-tech companies continue to expand in the region. Dell announced that it would include manufacturing of its Inspiron model notebook PCs at its middle-Tennessee operation. Previously, only desktop computer manufacturing and a technical support center had been scheduled for that plant.
- The state government continues to discuss ways to balance its budget. The governor has proposed a 3.75 percent flat income tax, while the legislature has recommended instituting a 1 percent sales tax on some currently untaxed items and cutting state spending.

Compiled by the regional section of the Atlanta Fed's research department

Southeastern Economic Indicators

		Alabama	Florida	Georgia	Louisiana	Mississippi	Tennessee	6th District	United States
Total Payroll Employment (thousands)[a]	**1999Q4**	**1,932.7**	**7,039.8**	**3,928.2**	**1,925.1**	**1,132.0**	**2,678.4**	**18,636.5**	**129,608.7**
Percent change from	1999Q3	–0.1	1.0	1.3	0.3	–0.3	0.0	0.7	0.5
Percent change from	1998Q4	0.7	3.9	3.8	0.6	–0.2	0.9	2.5	2.2
Manufacturing Payroll Employment (thousands)[a]	**1999Q4**	**366.3**	**497.0**	**590.0**	**190.0**	**237.6**	**505.5**	**2,386.4**	**18,357.3**
Percent change from	1999Q3	–0.4	0.0	–0.1	–0.4	–1.3	–0.4	–0.3	–0.2
Percent change from	1998Q4	–2.5	–0.2	–1.0	–0.9	–2.9	–0.9	–1.2	–1.5
Civilian Unemployment Rate	**1999Q4**	**4.5**	**3.9**	**3.6**	**4.9**	**5.0**	**3.7**	**4.1**	**4.1**
Rate as of	1999Q3	4.4	3.9	3.9	4.9	4.6	3.5	4.0	4.2
Rate as of	1998Q4	4.1	4.2	4.0	5.3	5.2	4.1	4.3	4.4
Single-Family Building Permits (units)[b]	**1999Q4**	**16,710**	**107,119**	**71,889**	**13,128**	**8,701**	**30,387**	**247,935**	**1,219,133**
Percent change from	1999Q3	3.5	1.7	4.6	–6.8	–3.5	4.3	2.3	0.0
Percent change from	1998Q4	7.8	6.2	–4.6	–10.4	–7.4	2.9	1.1	–3.5
Multifamily Building Permits (units)[b]	**1999Q4**	**2,386**	**64,949**	**28,287**	**2,290**	**4,031**	**9,424**	**111,366**	**440,260**
Percent change from	1999Q3	–34.2	20.0	103.7	–53.5	34.6	213.5	34.9	13.0
Percent change from	1998Q4	–49.4	5.6	34.8	16.1	–39.2	73.4	10.0	–2.6
Personal Income ($ billions)[b]	**1999Q3**	**98.1**	**411.1**	**207.0**	**96.4**	**54.8**	**135.9**	**100.3**	**7,601.8**
Percent change from	1999Q2	1.2	1.8	1.5	0.9	1.2	1.6	1.5	1.3
Percent change from	1998Q3	4.4	5.4	6.7	2.7	3.9	5.2	5.2	5.6

		Atlanta	Birmingham	Jacksonville	Miami	Nashville	New Orleans	Orlando	Tampa
Total Payroll Employment (thousands)[a]	**1999Q4**	**2,164.4**	**481.6**	**556.9**	**1,003.9**	**663.7**	**624.0**	**894.1**	**1,209.3**
Percent change from	1999Q3	2.1	–0.2	0.9	0.2	0.5	0.6	1.2	1.6
Percent change from	1998Q4	4.9	0.9	3.4	1.8	1.6	–0.5	4.5	5.2
Civilian Unemployment Rate	**1999Q4**	**2.9**	**3.0**	**3.2**	**5.6**	**2.6**	**4.4**	**2.8**	**2.9**
Rate as of	1999Q3	3.0	2.9	3.0	5.8	2.3	4.3	2.7	2.7

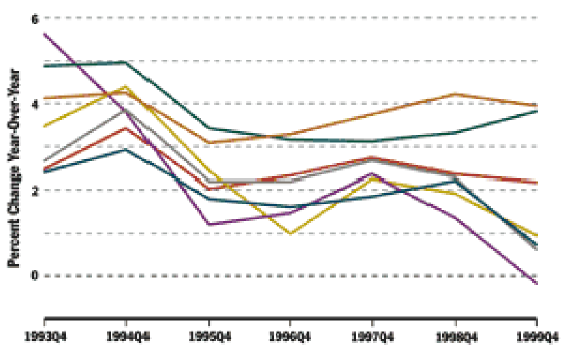
Rate as of	1998Q4	3.1	2.8	3.0	6.5	2.8	4.5	2.9	2.9

[a] Seasonally adjusted
[b] Seasonally adjusted annual rate

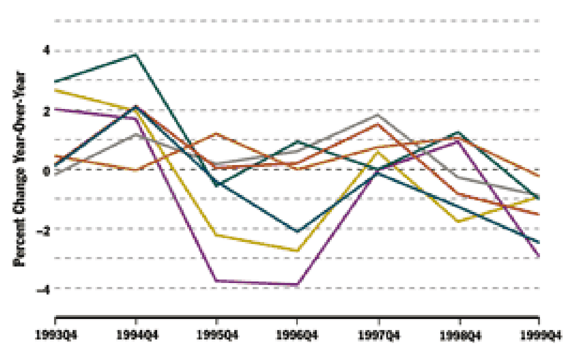
SOURCES: Payroll employment and civilian unemployment rate: U.S. Department of Labor, Bureau of Labor Statistics. Initial unemployment claims: U.S. Department of Labor, Employment and Training Administration. Single- and multifamily building permits: U.S. Bureau of the Census, Construction Statistics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

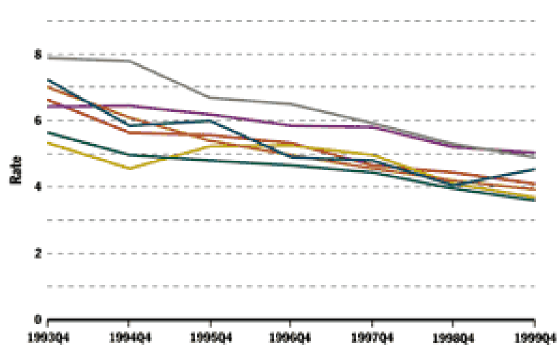
Total Payroll Employment



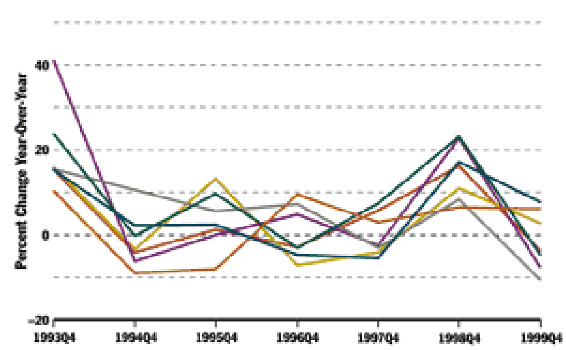
Manufacturing Payroll Employment



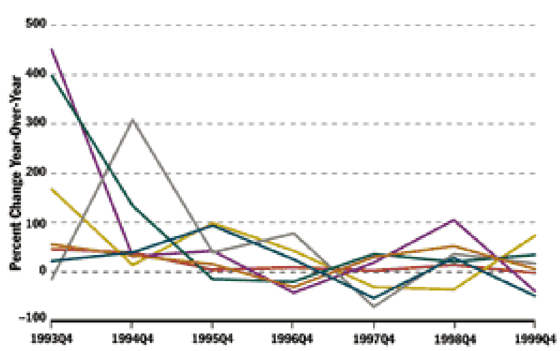
Civilian Unemployment Rate



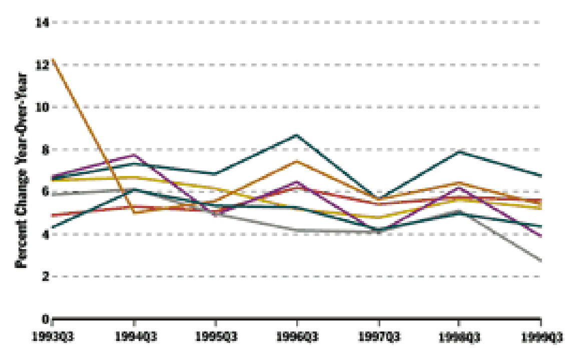
Single-Family Building Permits



Multifamily Building Permits



Personal Income



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Southeastern Manufacturing Survey

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

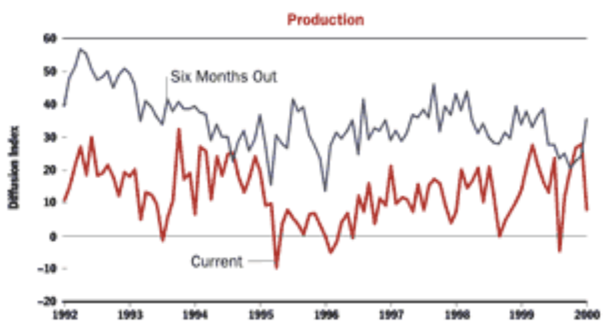
•Current indicators of manufacturing activity in the region declined in January from relatively strong levels in the fourth quarter of 1999, suggesting that manufacturing took a brief post-Y2K pause.

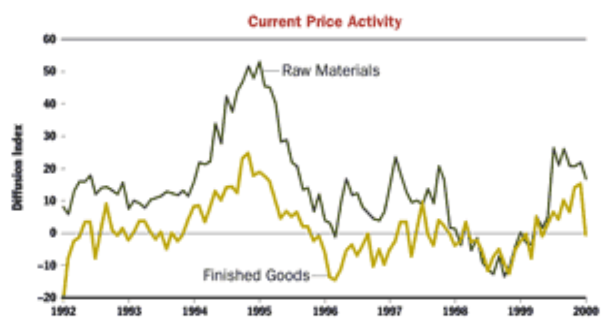
•The current production index dropped to 7.9 from 27.9 in December. Most of the other current activity indicators declined more moderately.

•Several of the outlook indexes turned up sharply from December, an indication that many manufacturers believed the softness was temporary. The outlook index for production jumped to 35.2 from 24.1 in December. The outlook indexes for shipments, new orders and the average workweek also surged. The capital expenditures outlook index rose notably after being somewhat volatile in recent months, perhaps reflecting manufacturers' optimism after a relatively uneventful century date change.

•The current prices received index plunged sharply and was negative after a strong November and December — another apparent Y2K effect. The current prices paid index was also down but remained at a moderately strong level, reflecting greater price pressure on commodities. The outlook indexes for prices received and for prices paid rebounded significantly to their highest levels since the first half of 1995.

SOUTHEASTERN MANUFACTURING INDICATORS
(through January 2000)





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

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