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DEPARTMENTS

Fed's Regional Structure Provides Unique Insight into the Economy

One of the by-products of the unique structure of the Federal Reserve System is the role the 12 regional banks play in gathering grassroots economic information from their respective regions. The most familiar evidence of this effort is found in the Fed's *Beige Book*, a set of summaries of current economic conditions from each region that, collectively, span the nation's economy.

The view from the Southeast

The contributions to the formulation of monetary policy that can be made by the regional sections of the Atlanta Fed's research department extend beyond a simple recitation of current developments and expectations. The Atlanta Fed's Southeast region, for example, represents a significant piece of the U.S. economy. As such, not only does regional performance, by itself, carry considerable weight in national performance, but there are theoretical reasons why regional trends can provide insights into the performance of the rest of the economy.

Theoretically, it is useful to think of the Atlanta Fed's region as an open economy that trades with the rest of the world, mostly the rest of the United States. Economists have a rich set of models and results that apply to small, open economies, but in the real world few countries can match up to the theoretically pure case. The Southeast comes close, however, because it really is an integrated part of the larger economy, and goods, capital and labor flow freely in and out of the region.

Regional trends have national implications

One example of how this way of thinking about the Southeast can inform national judgments is in single-family housing. The Southeast has a disproportionate share of its manufacturing concentrated in production of items for single-family homes — building products, carpets, textiles, furniture and major appliances. Thus any assessment of national housing has disproportionate implications for the Southeast, and vice versa.

The surge in new housing construction that occurred at the beginning of this economic expansion boosted employment and income disproportionately in the Southeast because of this concentration. Similarly, capital investment in Southeastern plants eased materials shortages that hampered national construction in the mid-1990s. Whatever is going on in the relevant portions of district manufacturing serves as a check on the larger view of the national housing market. Another example is tourism, where national income growth and confidence in future income growth play a disproportionate role in the Southeast's hospitality sector.

Since the Southeast region is quite large, the Atlanta Fed has branches across the region, in Miami, Jacksonville, Nashville, Birmingham and New Orleans. Each branch has its own board of directors, whose members provide economic reports that are used by the Atlanta Fed's research department. Often, the anecdotal data gathered from directors and their business contacts precede national developments, where data are available only with a lag. For example, reports from our Jacksonville branch of tightening credit standards preceded the national "credit crunch" associated with the downturn in the early 1990s by more than a year.

Implications for monetary policy

Clearly, the unique regional structure of the Federal Reserve can be an important tool in forming monetary policy. To be sure, policy cannot be targeted at a particular sector or geographic region, but regional information is still important to an evaluation of national conditions. Thus, an understanding of how the regional and national economies interact is a central feature in the formulation of sound monetary policy.

By Thomas Cunningham, vice president of regional research for the Federal Reserve Bank of Atlanta

Americans have been on a spending spree lately. Is this big spending the result of the so-called wealth effect, as some have argued, brought on by appreciating values in stocks, 401(k)s and home values?

During the current record U.S. economic expansion, particularly over the last few years, Americans have been spending — a lot — and then spending some more. In fact, since 1995 real personal outlays in the United States increased at a strong pace — on average, about 4.1 percent per year.

Strong consumer confidence from a robust economy and a low-inflation environment are surely contributing to Americans' quest to buy goods. But something else may be encouraging people to spend, and it's probably not personal income, which grew on average about 3.3 percent between 1995 and 1999. The question is, What?

The wealth effect

Many people believe that the sustained increase in consumer spending out of current income may be the result of a "wealth effect." While this wealth effect was a somewhat remote concept bandied around in the past by those in economic circles, today it's being discussed by many Americans, particularly people seeking an explanation for the recent consumer spending spree.

In economic terms, the wealth effect under discussion is an increase in aggregate expenditures brought on by increases in household financial and nonfinancial asset holdings. Expressed another way, for every dollar someone gains in asset appreciation, she will spend part of it even if she doesn't realize the appreciation by selling the asset.

Taking stock

Research suggests that people have historically spent three to four cents out of every additional dollar of stock market wealth. Some believe that the increase in outlays in excess of increases in income have added, on average, about 1 percentage point to the annual growth of gross domestic purchases in the past five years. In 1999, 1 percent of GDP equaled approximately $92.5 billion, which is serious spending.

And more people appear to own stock — either outright or through mutual funds, 401(k) retirement accounts or other managed assets — than in previous decades. The Federal Reserve Board's 1998 Survey of Consumer Finances shows the dramatic change. According to the findings, approximately 48 percent of the families participating in the survey either directly or indirectly held stock in 1998 versus approximately 31 percent in 1989. Half of that gain took place between 1995 and 1998.

Not surprisingly, family asset values increased considerably, at least on paper, during that same period. Based on calculations from Federal Reserve Board and U.S. Census Bureau data, families' unrealized capital gains — on assets such as businesses, real estate and stocks — rose annually by a per family mean of approximately 39 percent between 1995 and 1998. Unrealized gains are gains in the value of assets that are yet to be sold.

So while more Americans own stock and while their assets have by and large appreciated considerably during the past several years, does that mean that people will automatically spend more of their current income based on the assumption of a future return?

TABLE 1
Reported Effects of Trends in Stock Prices on Saving and Spending in the Past Few Years

Reported effect	Percent of stockowners reporting each effect
No effect	**85.0**
Spend more/save less	**3.4**
Not specified	2.6
Bought a car	0.4
Bought a house	0.1
Gave more to charity	0.1
Took more vacations	0.1
Spend less/save more	**11.6**
Not specified	7.2
Invested in the stock market	3.3
Increased 401(k) contributions	0.7
Increased mortgage payments	0.4

Note: Stock-owning households were asked, “Have you [has your family] changed the amount of money you spend or save as a result of the trend in stock prices during the past few years?” If yes, they were asked, “How has your spending or saving changed?” and the response was recorded verbatim.

Sources: Federal Reserve Board of Governors Working Paper 1998-20 and Michigan Survey of Consumers

Not according to Martha Starr-McCluer, an economist at the Federal Reserve Board, who in a 1998 working paper evaluated several monthly surveys from the University of Michigan’s Survey of Consumers conducted in 1997. In her research, Starr-McCluer mentions that the vast majority — 85 percent — of stockholders reported no appreciable effect of stock prices on their spending or saving (see Table 1). Only 3.4 percent of the household stockholders in the survey said that they increased their spending or lowered their saving as a result of higher stock prices. Interestingly, in those same University of Michigan surveys, approximately 70 percent of the respondents owning stocks said that they had no plans to liquidate assets to make purchases or to save less in the next year. The most common response by participants was that they were saving for retirement (see Table 2).

The stock market and consumer spending, however, may be related, but only passively. That’s because, as Starr-McCluer reasons, the stock market is a passive predictor of information. Stock prices, she argues, may simply lead aggregate economic activity, with the market anticipating a pickup in production and employment that eventually translates into higher consumer spending.

Clearly, consumers have been on a buying binge, but Starr-McCluer’s research seems to back up the belief of many economists and even some manufacturers (see sidebar) that wealth gains have only a modest impact on current spending. Instead, she says that her results support the life-cycle view that predicts only modest effects of wealth gains on current spending, as spending gains would be distributed over a household’s lifetime.

TABLE 2
Reasons for Not Liquidating Assets or Lowering Savings in the Next 12 Months

Reason	Percent of stockowners with no plans to liquidate assets or lower saving
Saving for retirement	45.0
Don’t need the money right now	33.9

Saving for precautionary reasons	17.6
Illiquidity of gains	9.7
Saving for major purchase	7.9
Saving for education	7.6
Saving to buy a home	3.5

Note: Figures are computed for the 69.5 percent of stockholders reporting no plans to liquidate assets or lower saving in the next 12 months. Respondents could give more than one reason. The category "illiquidity of gains" includes "cannot withdraw till retirement," "would have to pay taxes on money," "would have to pay penalties for early withdrawal" and "would lose interest if withdrew money early."

Sources: Federal Reserve Board of Governors Working Paper 1998-20 and Michigan Survey of Consumers

What are the policy implications?

Aside from consumers, policymakers with their finger on the pulse of the nation's economy have also been intrigued by the concept of the wealth effect, particularly as spending has remained so strong during the current record economic expansion. A key question for policymakers considering the impact of the wealth effect is whether the historic relationships between changes in wealth and expenditures still hold.

If the wealth effect is pushing consumer spending, there are some questions that policymakers must ask themselves, such as how they should assess the macroeconomic effects of increased consumer spending and whether personal saving is out of balance with spending.

IF THE WEALTH EFFECT IS PUSHING CONSUMER SPENDING, THERE ARE SOME QUESTIONS THAT POLICYMAKERS MUST ASK THEMSELVES, SUCH AS HOW THEY SHOULD ASSESS THE MACROECONOMIC EFFECTS OF INCREASED CONSUMER SPENDING AND WHETHER PERSONAL SAVING IS OUT OF BALANCE WITH SPENDING.

In describing how the wealth effect has worked in the U.S. economy, Fed Chairman Alan Greenspan summed it up this way in a speech earlier this year: "A substantial part of the excess growth of demand over potential supply owes to a wealth effect, induced by the rising asset prices that have accompanied the run-up in potential rates of return on new and existing capital. The rise in stock prices, as well as in the capital gains on homes, has created a marked increase in purchasing power without providing an equivalent and immediate expansion in the supply of goods and services. That expansion in supply will occur only over time."

But does that mean that the wealth effect is causing a significant imbalance, one that could bring on inflationary pressures if demand is growing faster than supply? Going a step further, would this potential imbalance be enough to cause the Federal Reserve to take some measure to lessen the run-up in wealth, such as targeting a level for the stock market?

Not according to Greenspan, who in that same speech said, "The persuasive evidence that the wealth effect is contributing to the risk of imbalances in our economy does not imply that the most straightforward way to restore balance in financial and product markets is for monetary policy to target asset price levels. Leaving aside the deeper question of whether asset price targeting is an appropriate governmental function, there is little, if any, evidence that monetary policy aimed at achieving that goal would be successful."

Along similar lines, some people have also expressed concerns about whether consumers are spending too much and saving too little. Based on Federal Reserve Bank of Atlanta estimates, the personal savings rate may not be as low as some contend: unrealized gains in people's net financial assets, including an appreciation of 401(k) funds, if marked to market would boost the estimated personal savings rate to nearly 12 percent. If these estimates are correct, the rate of personal savings may not be as significant a concern as some suspect. What's more, the increase in consumer debt may not reflect a worrisome burden if balance sheets are strengthened by increases in wealth holdings.

Whether or not the wealth effect is encouraging consumers to spend more is a question for debate. What is clear, though, is that consumers continue to spend at very high levels, levels that show few signs of declining.

No Wealth Effect Here

Typically, you might associate the good times in yacht sales with wheelers and dealers who are flush with confidence from a significant gain in their dot com stocks or a recently completed merger. Conversely, you might relate the down times in the yacht business to a significant stock market correction, but those assumptions don't seem to hold water with Trinity Yachts, based in New Orleans.

They'll still buy

According to John Dane III, president of Trinity Yachts and a member of the board of directors at the Federal Reserve Bank of Atlanta, "If there's a big [stock market] correction, our clients might buy a smaller boat, but they'll still buy."

Trinity Yachts, until recently a division of Friede Goldman Halter Inc., builds three or four boats a year, ranging in size this year from 118 to 177 feet and in price from $8 million to $21 million. Dane says Trinity Yachts' sales have increased every year since its early 1990s establishment but that there are practical limits on how many yachts the company's 218 employees can build each year. "You can't really mass produce these boats because quality will suffer."

ACCORDING TO JOHN DANE III, PRESIDENT OF TRINITY YACHTS AND A MEMBER OF THE BOARD OF DIRECTORS AT THE FEDERAL RESERVE BANK OF ATLANTA, "IF THERE'S A BIG [STOCK MARKET] CORRECTION, OUR CLIENTS MIGHT BUY A SMALLER BOAT, BUT THEY'LL STILL BUY."

Dane says a new golden age of yachting has arrived in the United States, brought about by communications technology and the market for high-end charters. "The previous golden age was just before the Great Depression, with the Astors, the Vanderbilts, the Whitneys. But to use their boats, they had to walk away from their businesses for months at a time; they were out of touch." Now, of course, satellite and other communications technologies have obviated that problem. In fact, Dane says, "Every boat we've delivered has been used for business purposes."

Surging demand for charter boats from movie stars, dot com millionaires and others who can afford the rate of up to $100,000 per week (for a 150-foot boat) has also helped the industry, Dane says. Charter income helps owners justify the initial purchase. It also frequently helps the owner finance the purchase of a larger boat. Finally, charters bring new potential customers to the industry. "If you like it, you can probably buy it," Dane says.

As an investment, Dane says yachts can be very competitive; they can appreciate dramatically, especially for the first owner in the first three to four years after delivery. It also helps that the market is literally mobile. Dane says that when demand falls because of economic conditions in one part of the world, it picks up in another. Delivery, of course, is not an issue.

Considering wealth

As for the wealth effect, "Our clients can never come close to spending their net worth," Dane says. "The stock market doesn't seem to have an impact." Still, the wealthy are having an effect in New Orleans and other coastal cities, namely by keeping maritime industries alive. Dane speculates that in the United States, yacht construction employs more people than supply boat or tug construction, and he is unequivocal that the work is steadier. In fact, he says that worldwide there are more than 300 yachts over 80 feet long under construction today.

For Trinity Yachts, then, the wealth effect is altogether distinct from the one that acts on the national economy because it is permanent. In that respect, too, it is altogether more preferable.

REGIONAL FOCUS

As with any major public or commercial establishment in a small to medium-sized city, expenditures by an academic institution and by a core population of employees and patrons fuel the economy in a university town.

Higher Education Translates Into Big Business

The Unique Economies of University Towns

Many people associate university towns with memories of studying, partying and attending big games. But universities are more than just that. In fact, universities generally contribute significantly to their local communities' economies by making direct expenditures, such as those for payroll, by attracting associated support industries and by bringing in students and staff who spend money locally. These and other factors, including a university's sources of funding, help to differentiate the economy of a university town from other communities.

Graced with tree-lined campus thoroughfares, traversed by seas of students moving between classes and invaded periodically by cheering crowds of exuberant sports fans, university towns seem to exist in a world apart from other urban venues. Music clubs, pizza parlors, fast food stops and microbreweries coexist peacefully beside used bookstores, tiny import shops, art galleries and gourmet vegetarian take-out concessions. These towns hum along madly from September to May but fall into deep lulls when most students pack for home. To what extent does the economy of a university town mirror its unique atmosphere?

Studies by the business centers of three state-funded universities — the University of Georgia in Athens, the University of Alabama in Tuscaloosa and the University of Florida in Gainesville — suggest that these institutions, all of which are housed in smaller cities of 200,000 people or less in the metro area, provide some unusual benefits to their host communities.

Fueling the local economy

As with any major public or commercial establishment in a small to medium-sized city, expenditures by an academic institution and by a core population of employees and patrons fuel the economy in a university town. According to University of Georgia economist Jeffrey Humphreys, however, spending by universities is marked by an especially strong "multiplier" effect; that is, every dollar spent by the institution and its affiliates generates more indirect spending than another kind of business might in a similar-sized town. Humphreys speculates that the labor-intensive nature of an academic enterprise and the extensive interaction between the university and the surrounding community intensify the multiplier effect.

While university towns experience volatile seasonal swings in economic activity because of the shifting student population, academic institutions appear to provide host cities with some cushion during times of recession. Cutbacks in university funding, which tend to lag the business cycle by three to six months, can nonetheless have an adverse affect on local economies.

Intangible benefits accrue from the presence of a university as well, such as an educated and skilled workforce, access to advanced technologies and sophisticated cultural events, and, eventually, individuals who are destined to earn significantly more than they would have earned had they not received their university diplomas.

These benefits are not, however, without costs. State appropriations supply significant amounts of university funding. Students not only incur the cost of their education but also give up income they might have earned during the time spent pursuing their college degrees. Additionally, the presence of a state university or college may have an adverse effect on local revenues since a university requires significant infrastructure but is tax exempt. Studies by the University of Alabama's Center for Business and Economic Research indicate that, despite these costs, the presence of the university is on the whole a big benefit for the host community and for the state that funds the university.

Money, money, money

Academic institutions are significant local spenders. The University of Georgia in Athens registered initial spending of $979.6 million in 1999. Much of this amount remained in the local area. Humphreys' research indicates that initial expenditures are magnified through re-spending so that every dollar spent generates an additional 56 cents.

Looking at Georgia's university system as a whole, which comprises 34 institutions statewide, Humphreys found that initial spending by the institutions and students of roughly $5 billion in 1999 expanded to a total output impact of $7.7 billion. Value-added impacts, which exclude expenditures related to domestic and foreign trade and thus provide a more accurate indicator of in-state economic benefits, constituted $4.5 billion of the total output impact — an amount equal to almost 2 percent of Georgia's gross state product. Labor income received by the residents of host communities equaled $3.6 million, or 78 percent of the value-added impact. Georgia institutions as a whole thus tend to enhance the economies of their host towns.

Ahmad Ijaz, an econometric analyst at the University of Alabama's Center for Business and Economic Research, estimates a multiplier effect of 1.5 for expenditures by his institution, indicating that each dollar spent by the university and its students results in another 50 cents for the local economy. Ijaz calculates that the total impact of the institution on the local economy of Tuscaloosa County in 1998 was $619.3 million, a figure that represents about 19 percent of Tuscaloosa's total personal income. Of this amount, 41 percent was generated by student expenditures, 33 percent by the university's payroll and 26 percent by institutional purchases. Local economic impacts for the University of Georgia and the University of Alabama do not include amounts spent by visitors on sporting or other special events.

WHILE UNIVERSITY SPENDING IS EVENTUALLY AFFECTED BY RECESSIONS, THE IMMEDIATE IMPACT OF RECESSIONS MAY NOT BE EXPERIENCED AS SEVERELY IN UNIVERSITY TOWNS AS IN OTHER PARTS OF THE STATE.

In 1993–94, which represents the last year a comprehensive economic impact study for the University of Florida was conducted, the university accounted for expenditures of $1.8 billion. Of that amount, $986 million went to salaries and benefits, $567 million applied to operating expenses, $263 million was spent by students off-campus, $58 million was spent in construction, and $19 million was spent on visitors. Thus, much of this amount remained in the Gainesville area, and 95 percent stayed within the state.

Recession-proof?

While university spending is eventually affected by recessions, the immediate impact of recessions may not be experienced as severely in university towns as in other parts of the state. Since state-funded institutions are significantly dependent on tax revenues, local recessions are more likely to be felt three to six months after the start of a recession as the tax base shrinks and funding cuts take effect, says Humphreys. These cutbacks can be particularly sharp in states like Alabama, where state funding for its educational trust is allocated as 90 percent of sales tax — a type of revenue that can be hard-hit by decreased spending associated with recessions.

According to Ijaz, universities do not typically respond to cutbacks by laying off existing employees. Crimps in funds are more likely to be reflected through decisions by administrators to leave positions vacant, through elimination of departments with low enrollments or through the postponement of capital and research projects. Thus, employment within the institution may remain stable relative to that of other types of industries or even other state-funded agencies. The multiplier effect, however, is doubtless affected by curtailments in university spending. The extent to which these kinds of cutbacks affect the host community depends largely on the diversification of the local employment base, Humphreys notes.

During the 1981–82 recession, Auburn and Tuscaloosa in Alabama, Athens, Ga., Gainesville, Fla., and Oxford, Miss. — all of which are home to major academic institutions — enjoyed significantly lower percent changes in levels of unemployment than did their respective states (see the table). The same pattern held true during the economic dip of 1990–91, with the exception of Gainesville, which experienced a slight decline in employment as compared with a slight increase in Florida as a whole, and Tuscaloosa, which experienced a decline in employment sharper than the state's.

Athens typically enjoys lower rates of unemployment than other Georgia cities, according to Humphreys. This lower unemployment rate occurs, he says, because students are not counted as unemployed while they are in school. Additionally, students often leave Athens to return home after graduation so they do not show up among the ranks of the locally unemployed. Despite apparently low levels of unemployment, however, the labor market in Athens is not tight, explains Humphreys. On the contrary, he notes an abundance of potential labor. Nonetheless, he argues that businesses placing a high premium on the availability of labor in selecting a location might tend to avoid a city like Athens, which registers low official unemployment rates despite large pools of highly skilled professional talent.

Percent of Employment Change During Recessions in University Towns vs. State*

	Jan. 1980–July 1980	July 1981–Nov. 1982	July 1990–March 1991
Auburn	–2.5	–1.3	6.4
Tuscaloosa	–1.9	–3.0	–4.3
Alabama	–1.2	–5.5	–1.7
Athens	1.9	1.8	–1.4
Georgia	1.4	–0.3	–4.4
Gainesville	6.3	7.8	–0.3
Florida	–2.2	2.8	1.0
Oxford	–6.6	–2.4	2.5
Mississippi	–0.1	–5.2	–2.3

*Employment change measured from peak to trough during these recessions and derived from unemployment insurance coverage

Source: Bureau of Labor Statistics

The availability of skilled and educated labor nonetheless remains a draw for high-tech and information-based businesses. The academic specialties of the university affect the types of businesses that locate in the area. Margaret Wagner Dahl, director of the University of Georgia's Research, Development and Technology Alliance, reports strong synergies in the Athens area for the development of bio-tech enterprises based on soil, crop and dairy sciences. While many of these enterprises are spawned by faculty members within the university, they help to provide the infrastructure that attracts companies from outside. For example, a producer of veterinary pharmaceuticals recently located in Athens, attracted by the research potential provided by the university's school of veterinary medicine. Dahl was recruited by the University of Georgia from Austin, Texas, and she sees similarities between the two communities.

According to Robert Wells, assistant academic vice president for research at the University of Alabama, the presence of the university and the potential for shared projects in research and management training was significant in the package of incentives that convinced Mercedes-Benz to locate in Tuscaloosa County.

Job incubators

Universities provide significant numbers of jobs in their state and local economies. In 1996 the University of Alabama at Tuscaloosa was the largest employer in its county, hiring approximately 3,403 full-time workers, or approximately 5 percent of Tuscaloosa County's total workforce. Ijaz explains that the university's share of the total number of jobs has actually dropped in the last decade — from 7.7 percent of the county's total wage and salary employment in 1990 to 4.8 percent in 1998. (These figures do not include indirect impacts.) This drop is explained by the fact that employment and wage growth are increasing at a pace much slower at the university than in the county as a whole, particularly when compared with the private sector, Ijaz says.

Despite the decline in the university's share of jobs overall, its share of total income in Tuscaloosa County has risen significantly in the last decade, from around 4 percent in 1990 to around 7 percent in 1998. This change reflects the fact that most of the job growth in the county has been in retail and service-related businesses, which tend to pay less than manufacturing firms, which played a larger role in the economy a decade ago.

Athens researchers estimate that collectively the 34 institutions of Georgia's university system generated an employment impact of approximately 94,700 jobs in fiscal year 1998 and nearly 100,000 jobs in fiscal year 1999 — an increase of 5.6 percent. This figure, which includes part-time jobs and indirect employment as a result of institutional and student spending, accounts for 2.7 percent of all the jobs held by Georgians, or about one in 37 jobs in the state. Each million dollars of initial spending by the university system in fiscal 1999 resulted in 20.1 jobs.

The University of Georgia, the largest employer among the 34 state institutions, accounted for a total employment impact of 19,708 in the 1998–99 fiscal year. This number equals about 16 percent of the jobs in the six-county area that comprises the Athens economic region included in Humphreys' study. Of these jobs, 14,443 were related to salaries and institutional operating expenses paid by the university, 828 were related to capital expenditures and 4,447 were related to students' personal expenditures.

MANY UNIVERSITIES DRAW SIGNIFICANT RESOURCES FROM OUTSIDE THE REGION AND THE STATE. THESE CONTRIBUTIONS MAY COME FROM OUT-OF-STATE STUDENTS, VISITORS TO THE CITY, RESEARCH GRANTS, OR OTHER FEDERAL AND PRIVATE FUNDS.

Though most of the University of Florida's 37,559 employees were located on campus in Gainesville, employment impacts extended throughout the state through county offices of the cooperative extension service, regional research and education centers, and other off-campus programs. According to 1993–94 data, 4,486 of these employees were faculty, 9,915 were staff, 16,900 were students employed part-time and 3,587 were employees at Shands Teaching Hospital. An additional 2,672 worked at the University Medical Center in Jacksonville. Excluding student workers, who are typically not counted on employment rolls, University of Florida employees made up nearly 30 percent of the total number employed in Alachua County. This figure does not account for university employees who may live in adjacent counties.

Since both employment and expenditure impacts are directly correlated with the number of students enrolled at an institution, according to Humphreys, one might reasonably expect the economies of university towns to follow student demographics. In other words, when student populations increase, whether because of greater accessibility of education (such as that produced by the Hope Scholarship in Georgia) or greater numbers of university-aged students, the economies of university towns may be stimulated; conversely, a drop in student enrollment because of dwindling numbers of university-aged students or factors that limit the accessibility of university education could cause contraction.

Many universities draw significant resources from outside the region and the state. These contributions may come from out-of-state students, visitors to the city, research grants, or other federal and private funds. In 1993–94, out-of-state students contributed over $31 million to the University of Florida in tuition and other fees, approximately 33 percent of total fees of $95 million. Visitors to the University of Florida spent $19.2 million in 1993–94 to attend athletic, cultural, commencement and other activities. This estimate is conservative, says the University of Florida's David Mulkey, an economist who worked on the 1994 study. Athletic events drew the most visitors by far — 327,500 of the 458,000 total (see sidebar). Federal research support provided more than $94 million in 1993–94, and federal financial aid provided nearly $75 million to students from within the state. The University of Alabama attracted $38 million in federal grants, most of which was spent in the region.

Retirees may eventually become an important feature of the university town. The University of Florida has recently planned a retirement village for alumni and faculty in Gainesville and reports a waiting list for occupancy. While Florida has a special appeal for retirees, they are increasingly moving to other areas of the

Southeast as well. The University of Georgia is also aware of the potential to attract retirees and is currently building a retirement center. Universities that include medical care also offer older residents state-of-the-art health treatment facilities.

Live, graduate, pay taxes

The short-term benefits of the presence of a major academic institution are clearly significant for their host communities, but long-term impacts may be even more important for the state and the region.

In a 1995 study, the University of Alabama's Center for Business and Economic Research calculated the value a degree from the university added to the lifetime income of its graduates. A graduate with a bachelor's degree would earn $408,696 more over his or her lifetime than a graduate with a high school degree; a graduate with a master's degree would earn $131,487 more than a graduate with a bachelor's degree; and a graduate with a doctorate would earn $236,797 more than a student with a master's degree.

Return on investment is calculated by dividing the value added by the approximate cost of the degree. The cost of the degree considers not only the actual cost of tuition and living expenses while in school but also the cost of forgoing income appropriate to one's educational level. The average annual return on investment for a bachelor's degree was 21.3 percent; for a master's degree, 10.7 percent; and for a doctorate, 13.3 percent on top of the previous degree.

While state institutions often rely heavily on tax dollars for the cost of their operation, they also generate taxes through consumer spending and faculty and staff incomes, the higher incomes of their graduates and their capacity for retaining individuals who might otherwise go outside the state to seek an education. University of Alabama economists found that the state invested a total of $103.6 million in the graduating class of 1995. Sales taxes and income taxes collected from faculty and staff during the period of the students' residency provided $63 million to help offset this amount. Taxes collected as a result of "value added" to the class of 1995 by the university would provide another $116 million, representing a gain by the state of over $75 million, or an average annual real rate of return of 4.3 percent. In 1995 about 65 percent of the University of Alabama's alumni resided in state while 66 percent of Florida's alumni remained living and working in Florida as of 1994.

Despite seasonal fluctuations, vulnerability to funding cuts and the effects of shifting student demographics, universities appear to provide a relatively stable economic base for their host cities. Over the long term, universities' educated labor pools can be expected to draw technologically oriented and information-intensive businesses. Although graduates' higher salaries do not have a direct impact on local economies, graduates who remain in the state will contribute to the states' revenues that in turn support universities.

Visitors Provide Pay Dirt to University Towns

Flag-waving, horn-honking carloads of rowdy sports fans may cause headaches for residents of university towns, but they keep the wheels of the local economy spinning through their expenditures on lodging, food, tickets and souvenirs. Visitors may also be drawn to university towns for cultural events, graduations or special occasions, but athletic events — particularly football games — exert the largest draw and economic impact by far.

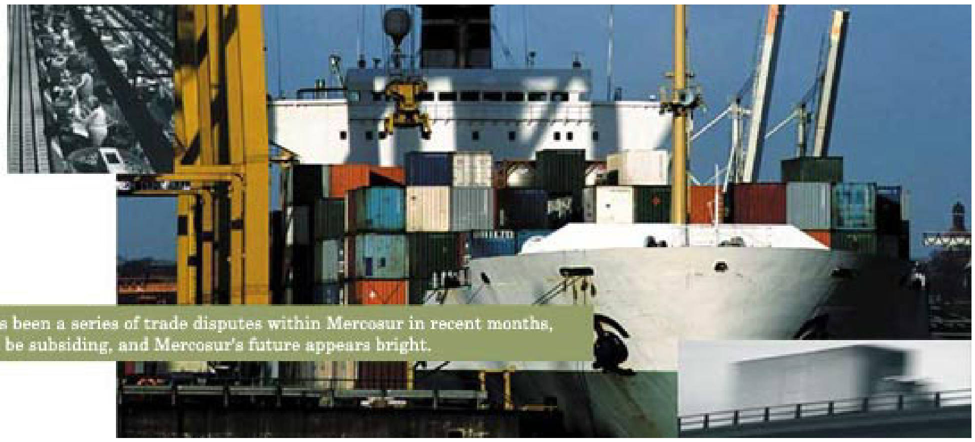
Visitors to the University of Alabama had a total economic impact of $57.5 million in 1998, according to recent studies by the University of Alabama's Center for Business and Economic Research. Of this amount, $42 million went toward attendance at athletic events. The four-home-game football season alone drew $38.2 million, or approximately $9.6 million per game. Each college football fan spent an estimated $114 per game. Other sporting events such as basketball, baseball, gymnastics and swimming drew about $3.8 million in visitor spending. These totals do not include the expense of staffing athletic programs or building and maintaining facilities. Visitors for commencement, alumni weekends, band concerts, academic and business conferences, and educational programs provided about $15.5 million to Tuscaloosa's local economy.

The University of Florida drew nearly half-a-million visitors to its campus in 1993–94, and they spent an estimated $19.2 million during their stay. Football drew the biggest crowds — 240,000 fans spent $13.6 million to cheer for their favorite teams. Another 87,000 visitors spent about $1.4 million to see basketball, baseball, track and other sporting events. Cultural events attracted about 70,000 visitors and $800,000 dollars, while commencement alone accounted for 30,000 visitors who spent $2.2 million to celebrate graduations. The cost of staging these events is not included in the analysis.

The athletic association at the University of Georgia generated expenditures of at least $30 million in 1998. Of that amount, $6.3 million went to salaries and benefits, $6.9 million supported operating expenses and $4.3 million paid for construction projects. Sports spectators were, however, the biggest spenders by far. In a conservative estimate, economist Jeffrey Humphreys places football revenues at $11.4 million. Basketball and gymnastic spectators spent a much more modest $1.4 million attending events.

INTERNATIONAL FOCUS

Mercosur: Back on Track?



Although there has been a series of trade disputes within Mercosur in recent months, tensions appear to be subsiding, and Mercosur's future appears bright.

Dozens of regional trading blocs, touted by member countries as boons to global free trade, have sprung up around the world in the past 15 years. But do such regional trading arrangements (RTAs) promote or impede trade with countries outside the bloc? Supporters of RTAs argue that they foster internal economic reform and liberalization that ultimately enhance global trade. One RTA, Mercosur in South America, has been hard hit by internal squabbles, but ultimately Mercosur seems to be a viable and effective trading bloc.

The emergence of Mercosur, which includes Argentina, Brazil, Paraguay and Uruguay (with Chile and Bolivia as associate members), has led to deeper economic ties within South America and has coincided with a rapid expansion of trade between the United States and the Mercosur countries. The success of Mercosur is an important step toward the eventual development of a hemispherewide Free Trade Area of the Americas agreement. Although there has been a series of trade disputes within Mercosur in recent months, tensions appear to be subsiding, and Mercosur's future appears bright.

Disagreement

After a year of deteriorating trade relations, the process of economic integration in the Southern Cone of South America appears to be back on track. Mercosur experienced its worst crisis in its short history after Brazil's currency devaluation in January 1999. After the devaluation, Argentina and Brazil, which account for 90 percent of Mercosur's collective gross domestic product (GDP), found themselves involved in a series of trade disputes.

The devaluation sparked conflict within Mercosur over issues that had been simmering for some time. Brazil's currency lost as much as 42 percent of its value following the devaluation, while Argentina's currency remained pegged to the U.S. dollar. These developments made Argentine exports more expensive in Brazil and Brazilian exports cheaper in Argentina. This disparity, along with an economic slowdown in the region, contributed to a 28.5 percent drop in Argentine exports to Brazil in 1999; Brazilian exports to Argentina fell 20.5 percent during the same period.

Nevertheless, Argentina still maintained a $325 million trade surplus with Brazil. After the devaluation, some Argentine firms complained that they could not compete with cheaper Brazilian imports and requested government protection. The government responded by imposing import restrictions on Brazilian footwear, paper, pulp and textiles. Brazil protested the measures, and before long the two countries were engaged in a series of trade disputes that have now been mostly resolved, although a number of Argentine firms continue to petition the government for protection.

Perhaps the most sensitive sector of trade within Mercosur has been the automotive sector. Commerce in autos between Argentina and Brazil accounts for more than 30 percent of bilateral trade flows. The 58 percent drop in Argentine auto exports in 1999, largely due to a decline in exports of auto parts and components to Brazil, underscored the urgency of reaching an agreement. The situation was further aggravated by reports in the Argentine press that many firms were relocating at least part of their Argentine production to Brazil in order to take advantage of lower production costs.

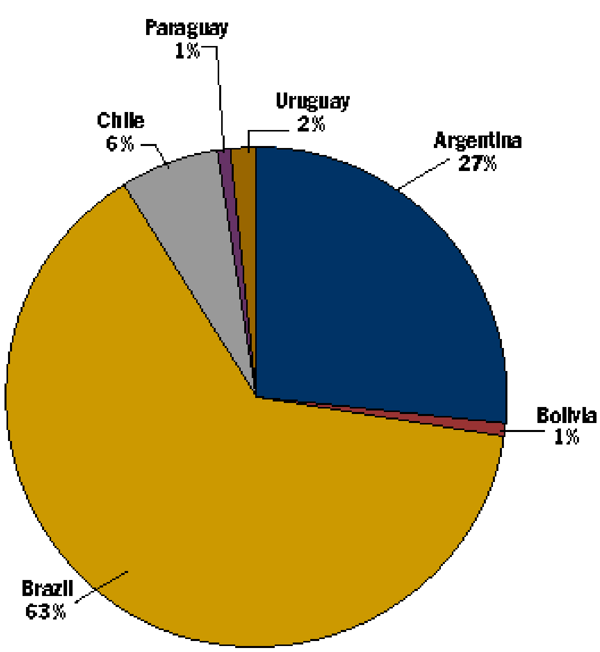
The fact that several Brazilian states had been developing incentive packages to attract automotive firms to relocate production to their states caused further tension within Mercosur. The so-called fiscal war became a significant point of contention within Brazil when Ford decided to open a new plant in the northeastern state of Bahia rather than in the state of São Paulo, where it already had production facilities. In addition to causing tension between individual Brazilian states, the Argentine government complained that the incentives provided an unfair advantage to Brazilian producers. Some Argentine firms cite Brazilian state subsidies when they argue that their government should provide similar incentives in Argentina.

Underlying problems

The tensions that emerged within Mercosur during these trade disputes in 1999 underscored Mercosur's main structural weaknesses. First, Mercosur lacks an adequate institutional framework to deal with trade disputes between individual members. So when Brazil reached an impasse with Argentina over restrictions on textiles, it took the dispute to the World Trade Organization because there was not an adequate dispute resolution process within Mercosur.

Furthermore, Uruguay and Paraguay periodically voice objections to Argentina and Brazil's dominance of Mercosur and their tendency to reach bilateral policy agreements without consulting the two smaller countries. Uruguay produces only about 2 percent of Mercosur's GDP while Paraguay produces about 1 percent (see Chart 1). The most recent example of this problem came when Brazil and Argentina were negotiating over the automotive sector. Uruguay objected to being excluded from the process, and both Uruguay and associate member Chile claimed that the final agreement did not serve their national interests. The fact that there is such a significant disparity between the sizes of the Mercosur economies means that Argentina and Brazil will continue to dominate Mercosur's policy agenda, and such dominance will likely lead to periodic disagreements with the smaller countries.

CHART 1
Country Share of Mercosur GDP



Source: Economist Intelligence Unit

The most serious policy obstacle to the process of integration within Mercosur has been the general failure to coordinate macroeconomic policies. As discussed earlier, Argentina's and Brazil's disparate exchange rate policies took their toll on trade relations within Mercosur in 1999. The Mercosur member nations have discussed coordinating common deficit, debt and inflation targets, much like the European Union did in the Maastricht Treaty. Such an arrangement could eventually pave the way for a single Mercosur currency. But reaching such policy goals does not appear likely anytime soon given disagreement over exchange rate policy and the lack of progress in fiscal harmonization. For example, Argentina is not considering departing from its fixed exchange rate policy, which has been in place since 1991, and Brazil has no plans to alter its flexible exchange rate. Consequently, any move to a single currency appears to be a long way off. Meanwhile, there is concern in Argentina over the potential fallout from further devaluation of Brazil's currency.

Reconciliation

Despite the recent tensions within Mercosur, there are signs that the crisis has eased. The recent elections of President Fernando De la Rua in Argentina and Jorge Batlle in Uruguay have brought a renewed impetus to "re-launch" Mercosur. In early 2000, Mercosur's leaders agreed to take steps toward creating a permanent tribunal for dispute settlement. They also declared that they would move toward greater macroeconomic coordination but, in the meantime, would not let the differences in

Argentina's and Brazil's exchange rates serve as an obstacle. The Mercosur governments have plans to share and standardize macroeconomic data and set common inflation and fiscal goals in order to help avoid shocks like Brazil's 1999 devaluation. Furthermore, Brazil's President Cardoso has issued a call for more cross-investment and joint marketing of Mercosur-produced goods.

Mercosur's re-launching was further boosted by the announcement in late March that, after several years of negotiation and conflict, Argentina and Brazil agreed to establish a common automotive trade policy. The new rules will gradually reduce restrictions on trade in cars and trucks before eliminating restrictions entirely in 2006. Under the agreement, cars imported from outside Mercosur will face a 35 percent tariff, and for cars to be considered manufactured in Mercosur, they must have 60 percent Mercosur content.

What Is Mercosur?

While Mercosur officially came into being with the Treaty of Asunción in 1991, it had its origins in the Latin American Free Trade Association (1960) and the Latin American Integration Association (1980). In 1988, Argentina and Brazil set the goals of eliminating tariff barriers, harmonizing macroeconomic policies and establishing a common market between the two countries. The arrangement, which eventually became Mercosur, came to include Uruguay and Paraguay. Chile and Bolivia became associate members in 1996 and 1997, respectively, and have signed free trade agreements with Mercosur.

Mercosur represents a combined market of 210 million people, with a GDP of over a trillion dollars. The Mercosur countries produce 50 percent of Latin America's GDP and contain 43 percent of its population and 59 percent of its total landmass. The per capita GDP of its four countries is 30 percent higher than that of Latin America as a whole. Argentina and Brazil dominate Mercosur, accounting for over 90 percent of the trading bloc's GDP.

Mercosur operates a customs union with largely tariff-free intra-bloc trade. It operates around a set of common external tariffs that range between 0 percent and 20 percent and apply to around 90 percent of tradable goods. Each country can maintain a list of exceptions of up to 300 items, but these are scheduled to be phased out by the end of 2000. There is an additional list of exceptions, including autos, sugar, telecommunications equipment, computer equipment and capital goods, that are scheduled to converge toward the common external tariff between 2004 and 2012. The average tariff for Mercosur member countries is 14 percent.

The ultimate goal of Mercosur is to create a common market that would allow the free mobility of all production factors and goods and services as well as the harmonization of macroeconomic policies and the elimination of all tariff barriers. In addition to being a trading bloc, Mercosur also played an important political role in the region when its member countries acted in unison to oppose military coups in Paraguay and Ecuador.

Economic recovery

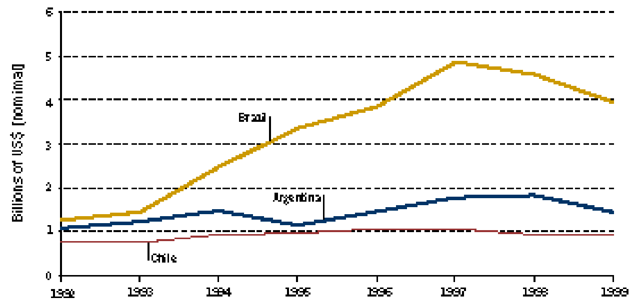
Recent economic indicators suggest that the region's economies are recovering, and improved economic performance will certainly contribute to relieving some of the trade disputes within Mercosur. Argentina's economy is expected to grow 3.4 percent in 2000 compared to –3.1 percent in 1999 while Brazil's economy is projected to grow 4 percent compared to just 0.5 percent in 1999. In March 2000, Argentine exports to Brazil were up 26.4 percent compared to March 1999 while automobile production was up 70 percent. Furthermore, with the automotive agreement settled and a renewed commitment from the Mercosur governments to coordinate macroeconomic policies and strengthen Mercosur's institutional framework, it appears that relations within Mercosur have improved.

Looking ahead, Mercosur could expand if Chile or Bolivia seeks full membership. Chile has expressed serious interest in becoming a full member of Mercosur, but its membership is unlikely to come about under the current tariff structure. Chile is engaged in a multiyear process of lowering its external tariffs, which were cut from 15 to 11 percent in 1991 and are currently scheduled to drop to 6 percent in 2003. Mercosur's average common external tariff remains significantly higher, at 14 percent. Bolivia has expressed interest in full membership but only as a long-term goal. Bolivia is already a member of the Andean Community, which is itself negotiating an agreement with Mercosur.

The negotiations with the Andean Community are an example of how Mercosur has sought to expand through negotiating trade agreements with other regional trading blocs. Participating in a hemispherewide Free Trade Area of the Americas (FTAA) agreement is a goal for Mercosur. But while FTAA negotiations appear stalled, Mercosur is actively pursuing trade agreements with the Andean Community, the European Union (EU) and South Africa.

Negotiations with the EU aim to liberalize trade in goods and services by 2005. Mercosur imports from the EU quadrupled from U.S.$6.1 billion to $26.6 billion between 1990 and 1998 while exports grew more slowly, from $14.4 billion to $20 billion (dollar amounts are not inflation-adjusted). The Mercosur countries want greater access to the EU market for their agricultural products, and Mercosur's demand that the EU lower agricultural subsidies will no doubt be a politically sensitive bargaining point as negotiations move forward.

CHART 2
Annual Exports to Argentina, Brazil, and Chile from Sixth Federal Reserve District States, 1992–99



Source: Regional Financial Associates

The United States and Mercosur

The renewed spirit of cooperation within Mercosur is a positive development for the United States. In recent years U.S. foreign direct investment in the Mercosur countries and exports to the region have grown significantly. Foreign direct investment in Argentina, Brazil and Chile reached $46 billion in 1998, while U.S. exports to the Mercosur countries have grown almost 250 percent since 1991. South America is one of the few areas where the United States has run a trade surplus in recent years.

The Southeast is no exception to the trend. Exports to Argentina, Brazil and Chile from the Sixth Federal Reserve District states (Alabama, Florida, Georgia, Louisiana, Mississippi and Tennessee) have grown considerably since 1992 (see Chart 2). Exports to Brazil more than tripled from 1992 through 1998 while exports to Argentina grew nearly 80 percent during the same period.

The range of exports to the Mercosur countries from the Southeast includes both manufactured goods and primary products. Exports of chemical products, primary metals and tobacco products to Mercosur expanded rapidly in the 1990s. Tennessee saw tremendous growth in exports of paper and rubber and plastic products to Argentina; in Mississippi, exports of transportation equipment to Brazil surged. As in the rest of the country, overall levels of exports from the Southeast to the Mercosur countries declined in 1999. But current indicators suggest that exports to the region will recover in 2000.

THE RANGE OF EXPORTS TO THE MERCOSUR COUNTRIES FROM THE SOUTHEAST INCLUDES BOTH MANUFACTURED GOODS AND PRIMARY PRODUCTS. EXPORTS OF CHEMICAL PRODUCTS, PRIMARY METALS AND TOBACCO PRODUCTS TO MERCOSUR EXPANDED RAPIDLY IN THE 1990S.

A promising future

The year 1999 was by no means easy for Mercosur, but it is important to place it in perspective. If one considers that only 10 years ago Mercosur did not exist and the region was emerging from the "lost decade" of the 1980s (characterized by slow growth and the debt crisis), remarkable progress has been made. Governments in Latin America have now ended decades of closed, protectionist, state-led development and embraced freer trade and open markets. Inefficient state-owned enterprises are being privatized, and the region has reopened itself to foreign investment. Inflation has been lowered dramatically, and trade has expanded rapidly. From this perspective, recent trade disputes within Mercosur seem like a minor bump in the road, and there is every reason to believe that economic integration within Mercosur will deepen.

This article was written by Stephen Kay, a senior economic analyst in the Atlanta Fed's Latin America Research Group.

Regional Versus Multilateral Trade
Which Is Better?

Regional trading arrangements (RTAs) like Mercosur and NAFTA have sprung up all over the globe in recent years: 46 were created between 1986 and 1994. But do RTAs contribute to or detract from global free trade? There is an ongoing debate over this issue. A fundamental principle of free trade is that countries cannot discriminate against foreign producers. But while RTAs liberalize trade within the bloc, by definition they discriminate against countries outside the trading area. The World Trade Organization recognizes that world trade can be enhanced through RTAs but states that the purpose of such agreements should be to facilitate trade within the bloc and not to raise barriers to trade with countries outside the bloc.

Furthermore, trading blocs simultaneously create trade, which is considered welfare-enhancing, and divert trade, which has a welfare cost. Trade creation takes place when lower-cost producers within the bloc replace a higher-cost domestic producer while trade diversion takes place when a lower-cost nonmember country is replaced by an otherwise higher-cost domestic producer protected by the trading bloc's barriers. If the amount of trade creation exceeds the amount of trade diversion, the members of the trading bloc are considered better off. If not, the members are worse off.

Economists are currently engaged in a debate over the merits of RTAs. Some argue that RTAs are biased toward trade diversion and that the current trend toward regionalism is creating obstacles to deepening global free trade. Others see RTAs much more positively, arguing that they are part of a deeper process of structural economic reform and a means through which countries undergoing economic liberalization can enter into the global trading system.

As these debates rage on, RTAs continue to thrive. For example, trade within Mercosur expanded by over 300 percent from 1990 through 1998, and Mercosur is currently negotiating a trade agreement with the European Union.

Research Notes & NEWS

Research Notes & News highlights recently published research as well as other news from the Federal Reserve Bank of Atlanta. For complete text of summarized articles and publications, see the links below.

Looking at social security reform in Mexico

Recent projections of a number of countries with pay-as-you-go pension systems have shown significant future actuarial imbalances. As a consequence, several of these countries, including Mexico, are engaged in redesigning their pension systems. From the U.S. perspective, Mexico's reform is of particular interest because of the similarities of its program to some proposals for the U.S. system. The Mexican government claims that it has started a move to a fully funded system. As proof, it points out that since 1997 Mexico has adopted a privately managed defined-contribution system. However, a pension system can be privately administered without being fully funded. It is the adoption of a fully funded system that would have the most significant macroeconomic effects in an economy: an increase in domestic savings and a drop in interest rates.

In a recent article, Marco Espinosa-Vega and Tapen Sinha contend that after reviewing the new system, one cannot tell whether the government is switching to a fully funded system. They review some potential gains and losses of the change in style of the system. However, they argue that regardless of whether the reform is a change of style or substance, additional information is required to effectively assess its net gains. They conclude that Mexico is in dire need of further research to guide it through its decision of whether and how to switch to a fully funded pension system.

Economic Review
First Quarter 2000

Atlanta Fed to publish Latin American research volume

The task of balancing public sector budgets and reducing debt burdens is paramount among the economic reforms under way in Latin America. In pursuit of greater fiscal balance, policymakers have cut spending, raised taxes and relied upon revenue from privatization. This goal has become all the more pressing as governments struggle with the aftermath of the global economic crisis.

To offer a perspective on these issues, the Atlanta Fed sponsored the conference *Sustainable Public Sector Finance in Latin America* in November 1999. Research discussed at the conference included papers and commentaries by leading experts on the varied aspects of fiscal policy, including political constraints, administrative reform, social spending, efforts to confront fiscal imbalances, deficit finance, and international lending and capital flows.

As a follow-up to the Atlanta Fed's conference, the bank is preparing a volume of conference proceedings. The free volume will be available in July. If you would like more information about the topics covered in this collection, visit the Atlanta Fed's Web site at www.frbatlanta.org/research/larg/index.htm. You may also order the publication online.

Atlanta Fed updates currency and coin brochure

Have you ever wondered how U.S. currency is printed, how much money is in circulation or what the symbols on your cash and coins stand for? These are just some of the topics covered in the Atlanta Fed's new *Dollars and Cents* brochure, which updates and replaces two discontinued brochures — *Fundamental Facts about U.S. Money* and *Counterfeit?*

Dollars and Cents includes all the historical information from the *Fundamental Facts about U.S. Money* brochure, which, since its introduction in the 1980s, has been the Atlanta Fed's most popular publication and the most visited page on its Internet site. In addition to an updated look, *Dollars and Cents* features the new U.S. currency and coin designs, including the new state quarters, the golden dollar coin and the new $5 and $10 bills.

Other topics include the types of U.S. money, currency features, coin information, the circulation of money, tips for spotting counterfeit currency and rules about reproducing money. *Dollars and Cents* is also available on the bank's Web site at www.frbatlanta.org/publica/brochure/fundfac/money.htm.

To order copies of this brochure (1–50 copies free), contact the Atlanta Fed's Public Affairs Department, 104 Marietta Street, N.W., Atlanta, Georgia 30303-2713; call 404-521-8020; or use the online order form.

ATLANTA FED DOLLAR INDEX

After declining slightly in January, the dollar rebounded somewhat in February and remained unchanged in March versus the 15 major currencies tracked by the Atlanta Fed. During the three-month period, the dollar's performance versus the currencies in most of the subindexes was mixed, but its net gains were strongest against currencies in the European subindex, which includes the European Monetary Union, Switzerland and the United Kingdom.

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/publica/dol_index/index.html.

New video on the Federal Reserve

"Money — it certainly does make the world go around. And the reason it's able to do so is that we trust these little pieces of paper," says well-known radio and television commentator Charles Osgood, holding up a $20 bill. Thus begins a new video that tells the story of how the Federal Reserve System does its work.

Building on this theme of trusting our money, *The Fed Today* explains that the Federal Reserve System was created by an act of Congress in 1913 to establish and maintain the public's confidence in the U.S. monetary and banking system. That mission has grown over time to include responsibility for providing a stable, healthy and growing economy.

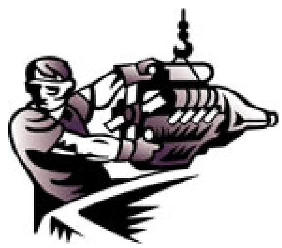
The video also discusses the Fed's public/private structure as a decentralized central bank, with the Board of Governors representing the public side and the 12 Federal Reserve Banks representing the private sector.

The Fed's three main functions — setting monetary policy, supervising and regulating banks, and providing payment services for financial institutions and the government — are also addressed. The discussion of monetary policy includes a look at the Federal Open Market Committee and how it guides open market operations. The video also examines the Fed's role in the payments system and how that system has evolved through technological advances.

The Fed Today was commissioned by the Federal Reserve System to serve as an educational tool for teachers and the general public. To order the free 15-minute video from the Atlanta Fed, call 404-521-8020.

THE STATE OF THE STATES

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

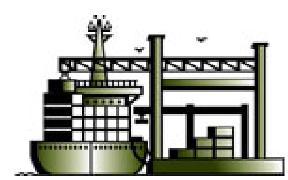


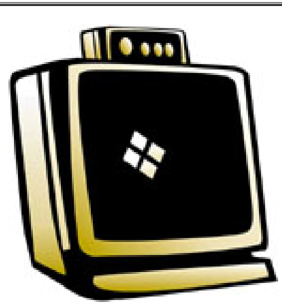
Alabama

- Fiat of Turin, Italy, announced that it will open a new automotive parts plant to be located in Sylacauga, Ala. The new facility will produce engine parts for Ford, General Motors and Daimler Chrysler and employ about 400 workers when operations begin in 2002.
- Honda Motor Co. recently announced a decision to build sport utility vehicles at its new $400 million plant in Lincoln. Production is slated to begin in 2001.
- Strong demand for prescription drugs is benefiting some regional drug manufacturers. Vintage Pharmaceuticals Inc. announced that the company will expand its Huntsville plant and hire more than 300 additional employees. Capital investment for the project is $56 million. The plant will manufacture tablet and capsule medicines.

Florida

- Exports to Brazil, Florida’s top export market, are up 7 percent this year as the country emerges from a business slump. Florida officials have recently signed 30 firms for a trade show in São Paulo this summer. Officials estimate that exports to Brazil this year could top $6 billion, matching the peak level of the early 1990s. Among the products expected to sell well in Brazil are high-tech goods, pharmaceuticals, medical supplies and sports equipment.
- Bookings for south Florida hotel and motel rooms may result in a record summer season, according to some reports. Miami posted the highest occupancy rates and the third-highest room rates in the nation for the first quarter. About 7,900 new hotel rooms valued at $1.4 billion are being planned for Miami, most of which are in the luxury category, according to the Greater Miami Convention and Visitors Bureau.





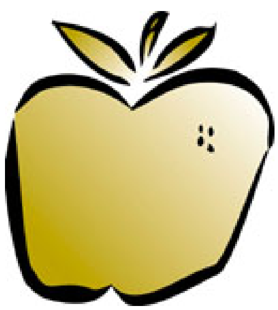
Georgia

- Strong orders continue to boost the bottom line for Norcross, Ga.-based Scientific Atlanta, the second-largest manufacturer of television set-top boxes for cable. The company is ramping up production because of strong demand.
- Savannah has been selected as a new import distribution center for Dollar Tree Stores Inc. The company’s $35 million investment will join other distribution giants in Savannah, such as Pier 1 Imports and Home Depot.
- Travel and tourism officials are confident that a newly opened convention center in Savannah will attract more visitors to the

city. The $100 million funding for the center, located on Hutchinson Island, came from federal, state and local governments and covers development of the island's infrastructure and ferries to take visitors to the city's historic district across the Savannah River.

Louisiana

- Jazzland theme park opened this spring. The $100 million project, located near New Orleans, features Louisiana themes. The 140-acre park features 31 rides and specific theme areas including a music hall, gardens and Mardi Gras simulation. Jazzland officials expect about 1.5 million visitors for the park's first season. Opened by Ogden Entertainment, Jazzland was sold to Alfa Alfa Holdings, S.A., of Greece at the end of May.
- The oil industry in the state continues its recent improvement. As a result, Louisiana's rig count rose for the eighth consecutive month to 180 in April from 176 in March. The rig count a year ago was 135. Some reports have indicated that smaller drilling companies are having problems keeping their rigs running because of a labor crew shortage.



Mississippi

- Mississippi's legislature approved a multiyear teacher pay raise package that commits the state to a six-year program to raise the average teacher salaries to the regional average by the year 2006.
- More hotel rooms, increased marketing and additional flights to the Gulfport-Biloxi Airport helped produce record-setting casino revenue figures for the first quarter in Mississippi. Revenues were up 14 percent for the first three months of the year over the record set for the first quarter of 1999. New hotels are slated to continue to come on line on the coast in the near future.
- Litton Ingalls Shipbuilding in Pascagoula announced the largest expansion of the shipyard since it was built in 1968. The company has an agreement to design and likely build at least two 1,000-passenger cruise ships. A new ship systems service center will employ 700.

Tennessee

- High fuel prices appear to be affecting some manufacturers. Orders are reportedly soft for new truck tractors for Nashville's Peterbilt Corp. The company is reducing production of new tractors and is laying off an undisclosed number of workers.
- Stanley Tools, a manufacturer of items such as hammers and saws, will close its Shelbyville, Tenn., facility, idling 185 workers. The production lines are being moved to Mexico so that the company can compete with low-cost producers.
- Nissan North America's facility in Smyrna has increased its factory workweek, including Saturday work, to keep up with demand for the Xterra sport utility vehicle and the Frontier, a four-door pickup truck. General Motors will invest $1.5 billion in Saturn's Spring Hill plant to launch a Saturn sport utility vehicle. Production is expected to begin next year.

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]	**2000Q1**	**1,945.5**	**7,059.9**	**3,981.0**	**1,904.7**	**1,159.4**	**2,702.7**	**18,753.1**	**130,462.7**
% change from	1999Q4	0.4	1.0	1.0	–0.1	0.1	0.5	0.7	0.7
% change from	1999Q1	1.7	4.2	4.1	0.3	1.2	1.5	2.9	2.2
Manufacturing Payroll Employment (thousands)[a]	**2000Q1**	**366.2**	**487.5**	**605.4**	**186.8**	**243.6**	**507.2**	**2,396.7**	**18,367.7**
% change from	1999Q4	–0.1	0.4	0.9	–0.3	0.2	–0.5	0.2	0.0
% change from	1999Q1	–1.4	–0.8	1.2	–1.5	–0.9	–0.1	–0.3	–0.9
Civilian Unemployment Rate	**2000Q1**	**4.6**	**3.7**	**3.5**	**4.9**	**5.4**	**3.5**	**4.0**	**4.1**
Rate as of	1999Q4	4.7	3.8	3.7	4.5	5.1	3.8	4.0	4.1
Rate as of	1999Q1	4.6	4.0	4.2	5.7	5.1	4.2	4.4	4.3
Single-Family Building Permits (units)[b]	**2000Q1**	**17,402**	**108,073**	**69,965**	**14,054**	**9,339**	**28,177**	**247,010**	**1,276,555**
% change from	1999Q4	4.1	1.2	–2.6	7.1	7.6	–7.2	–0.2	4.9
% change from	1999Q1	9.2	0.5	–2.2	–3.9	–10.6	–7.1	–1.4	0.3
Multifamily Building Permits (units)[b]	**2000Q1**	**3,287**	**39,905**	**27,632**	**1,474**	**1,190**	**9,519**	**83,008**	**444,438**
% change from	1999Q4	37.8	–38.3	–1.6	–33.2	–69.5	1.6	–24.9	1.7
% change from	1999Q1	–43.1	–39.4	–68.9	–62.0	–48.9	98.0	–16.1	–5.0
Personal Income ($ billions)[b]	**1999Q4**	**101.9**	**434.4**	**217.4**	**101.2**	**58.1**	**143.5**	**1,056.5**	**7,959.0**
% change from	1999Q3	1.2	2.1	2.2	1.9	2.0	1.6	1.9	1.9
% change from	1998Q4	4.0	6.1	6.7	3.1	4.3	5.7	5.6	5.8

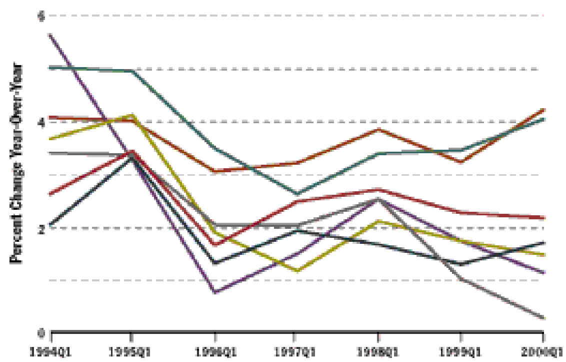
		Atlanta	Birmingham	Jacksonville	Miami	Nashville	New Orleans	Orlando	Tampa
Total Payroll Employment (thousands)[a]	**2000Q1**	**2,210.6**	**490.9**	**548.2**	**1,004.3**	**678.5**	**622.6**	**911.8**	**1,192.3**
% change from	1999Q4	0.8	0.9	0.8	0.1	1.1	0.3	1.3	1.4
% change from	1999Q1	5.1	2.8	3.0	2.3	2.5	–0.1	5.9	4.7
Civilian Unemployment Rate	**2000Q1**	**2.9**	**3.1**	**3.1**	**5.6**	**2.5**	**4.5**	**2.6**	**2.8**
Rate as of	1999Q4	2.9	3.0	3.2	5.6	2.6	4.4	2.8	2.9
Rate as of	1999Q1	3.3	2.7	3.0	6.7	2.8	4.4	3.0	2.9

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

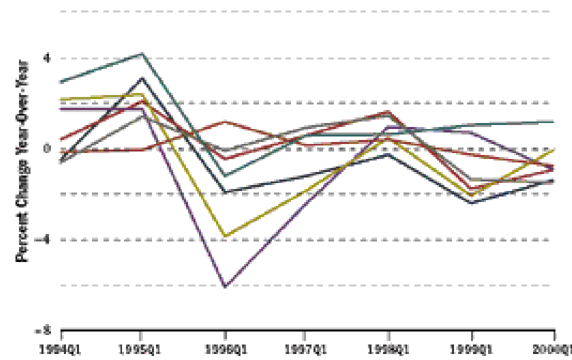
SOURCES: Payroll employment and civilian unemployment rate: U.S. Department of Labor, Bureau of Labor Statistics. Initial unemployment claims: U.S. Department of Labor, Employment and Training Administration. Single- and multifamily building permits: U.S. Bureau of the Census, Construction Statistics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

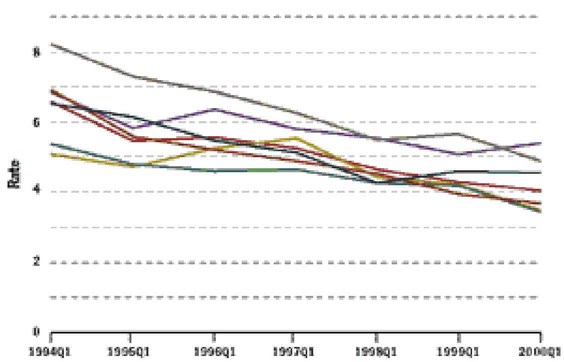
Total Payroll Employment



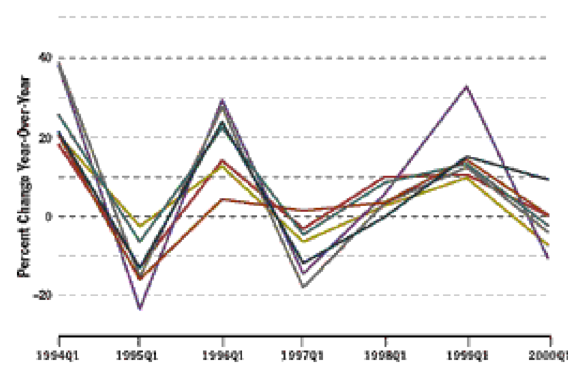
Manufacturing Payroll Employment



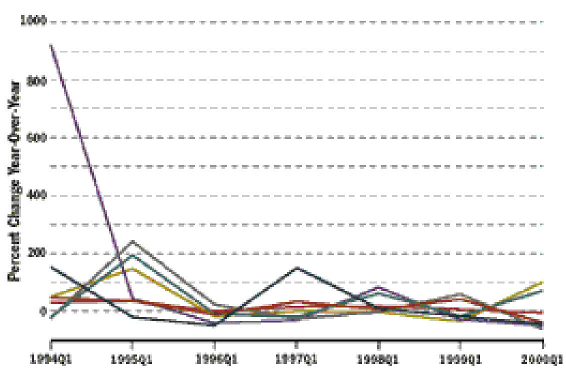
Civilian Unemployment Rate



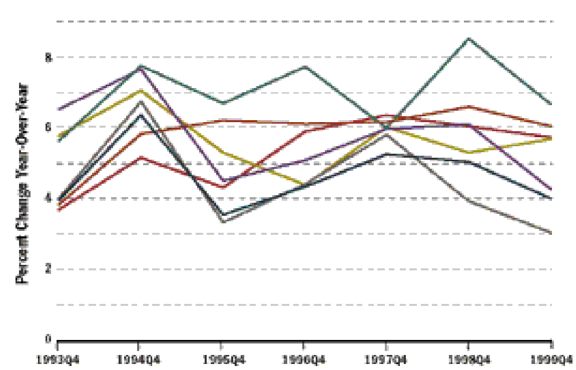
Single-Family Building Permits



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 April.

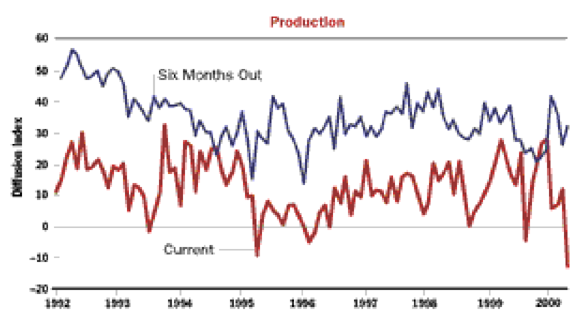
•Current indicators of manufacturing activity in the region remained soft in March, continuing a pattern observed since the end of 1999.

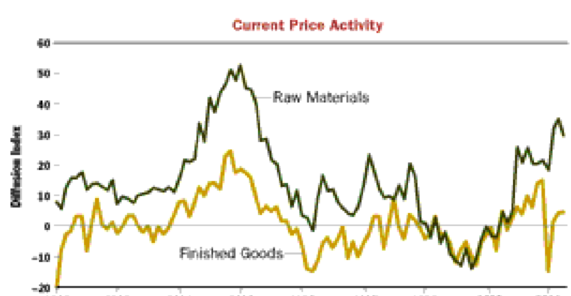
•The current production index posted a moderate rise to 10.4 after a dip of nearly equal magnitude to 6.8 in February. Other current activity indexes were soft.

•Most of the outlook indexes declined in March following some weakening in February, but levels generally remained in the moderate range. The outlook index for production fell to 23.4 from 35.9 in February. Outlook indexes for shipments and new orders posted similar declines but remained moderately strong. Southeastern manufacturers still anticipate maintaining a close watch on inventory levels even though outlook inventories were up marginally. The outlook index for capital expenditures fell sharply to its second-lowest level for the series but remained slightly positive.

•Current price indexes rose somewhat, continuing a recent trend of relatively firm price indexes. The prices paid index was at its highest level since April 1995. The outlook indexes for prices received and prices paid were down somewhat after high levels in January and February.

SOUTHEASTERN MANUFACTURING INDICATORS
(through April 2000)





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