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In This Issue

Volume 2, Number 4, Fourth Quarter 2000

CURRENT ISSUE

[Living in an 800 MHz Economy](#)

COVER STORY

[Nation and Southeast Set for
Slower but Solid Growth in 2001](#)

Growth in both the nation and the region in 2001 is likely to be slower than the rapid pace experienced during the latter part of the 1990s and the first half of 2000, but no serious economic setbacks are expected in the coming year.



FEATURES

[Southeast Stays on Course
For 2001: Slow but Steady](#)

As the nation goes, so goes the Southeast — economically speaking, that is. Like the nation, the Southeast enjoyed a strong economic performance in 2000. For 2001, solid economic growth is still on deck for the region although at a slower rate than experienced for much of the past few years. This article looks at what's in store for each of the region's six states.

[Recoveries in Latin America
Promise More Growth in 2001](#)

In 2000 many Latin American economies rebounded strongly from a rough year in 1999. The region as a whole should continue this economic improvement in 2001. Economic ties between Latin America and the United States should

3,006.62	38.97 ▲
2,649.71	33.35 ▲
807.90	2.93 ▲
10,744.54	96.03 ▲
1,367.40	13.28 ▲

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ISSN 0899-6571

photographs in "[Nation and Southeast Set for Slower but Solid Growth in 2001](#)" courtesy of Mercedes-Benz

strengthen as U.S. businesses seek out further opportunities in Latin America's expanding economies.

DEPARTMENTS

[Research Notes & News](#)
[Dollar Index](#)

[Southeastern Economic Indicators](#)

CURRENT ISSUE

Living in an 800 MHz Economy

Computers are a big deal. To be convinced, just think about how much money U.S. businesses spend on them. Through the first nine months of 2000, the Bureau of Economic Analysis estimated that, out of the approximately \$780 billion spent by U.S. businesses on all types of equipment, over one-third was devoted to computer and software purchases.

Moreover, the share of equipment expenditures going toward computing power has increased during the past decade. Since 1992, annual expenditure growth on general industrial machinery averaged 7 percent. In contrast, dollar expenditures on computer hardware increased at an average annual rate of 12 percent between 1992 and 1999 and by over 20 percent during 2000. At the same time, outlays on computer software increased at an average pace of 10 percent from 1992 to 1996 and at over 20 percent annually since that time. While much of the ramp up in software expenditures in the late 1990s was related to Y2K preparation, Y2K investments in many cases also provided firms with an opportunity to improve upon outdated technologies. Interestingly, growth in both computer and software spending for 2000 remained strong.

Better, faster, stronger

Computer technology has also been an important source of real growth in the U.S. economy. Since 1995 computer and software spending has contributed an average of eight-tenths of 1 percent to quarterly real gross domestic product growth, more than doubling computer and software’s average contribution between 1992 and 1995. Indeed, much of the productivity surge in nonfarm business witnessed over the latter 1990s is attributable to computers. This surge is related not just to productivity advances and quality improvements in computer manufacturing, which have clearly been an important part of the story, but also to the fact that workers in a wide range of businesses use improved or more efficient technology.

How recent experience is different

The current combination of productivity and wage gains with relatively low inflation stands in stark contrast to the economic conditions in the 1970s. During that decade, an inflationary wage-price spiral occurred while productivity gains were low and labor costs per unit of output were increasing rapidly. In the 1990s and into 2000, higher labor productivity has been an important noninflationary source of strong wage growth. Unlike the 1970s, increases in unit labor costs have largely been balanced with labor productivity gains.



On the horizon in 2001

But some developments could upset this balance. For instance, between 1996 and 1998 the prices for computer hardware decreased around 25 percent annually, but in 2000 prices declined by only 10 to 15 percent. This development could slow the pace of investment in information technology. In addition, the price of software has been rising for the first time since 1996 and at a pace not seen for almost 20 years.

If these price trends continue in 2001, they could erode real investment growth unless businesses allow nominal outlays to increase even more rapidly. The most likely scenario is that expenditures on computer-related equipment and software will continue to be strong in 2001 even if growing at a

slightly slower pace than in 2000 as firms continue to seek ways to increase productivity and control costs.

*By John C. Robertson, assistant vice president of regional research of the
Federal Reserve Bank of Atlanta*

[Return to Index](#) | [Next](#)

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COVER STORY

Nation and Southeast Set For Slower but Solid Growth in 2001

Growth in both the nation and the region in 2001 is likely to be slower than the rapid pace experienced during the last several years, but no serious economic setbacks are anticipated in the coming year.



The year 2000 marked the tenth year of the current economic expansion — the longest in the post–World War II period — but growth moderated somewhat during the year in comparison to the hectic pace in 1999. In the face of declining rates of return in the stock market, higher real oil prices and the shift of interest rates to historical norms, economic growth in the latter part of 2000 was more subdued than earlier in the year. Economic growth in 2001 for the Southeast and the nation as a whole should match the rate of solid but more moderate growth seen over the latter part of 2000.

As anticipated (see [cover story](#), *EconSouth* Fourth Quarter 1999), there was some acceleration in the overall rate of consumer price inflation in 2000. In large part, this increase represented a reversal of the favorable shocks the U.S. economy experienced in 1998. Prices for health care and oil-related products and services, in particular, rose considerably through 1999 and 2000. But these price increases have so far remained largely self-contained, and measures of price inflation that exclude these costs have risen only slightly.

By reducing liquidity and reinforcing the public’s expectation that monetary policy is committed to maintaining a low inflation rate, the Fed’s monetary policy initiatives in 1999 and 2000 were aimed at avoiding a sustained acceleration in inflation. Going forward into 2001, the Fed will continue to guard against the threat of inflation.

The outlook for the states of the Southeast reflects the considerable diversity in the array of economic activities across the region. For example, Florida’s economy is service-oriented, while Alabama’s is relatively more dependent on manufacturing. When the variety of economic activities is aggregated across the Southeast, however, the region’s industry is broadly similar to the nation’s as a whole. This similarity is not surprising since the Southeast accounts for about 15 percent of the nation’s economy. Thus, there are few pronounced differences between the overall outlook for the nation and the Southeast in the individual economic sectors, but certain differences do emerge in the outlook for individual states.

Services to continue broad strength

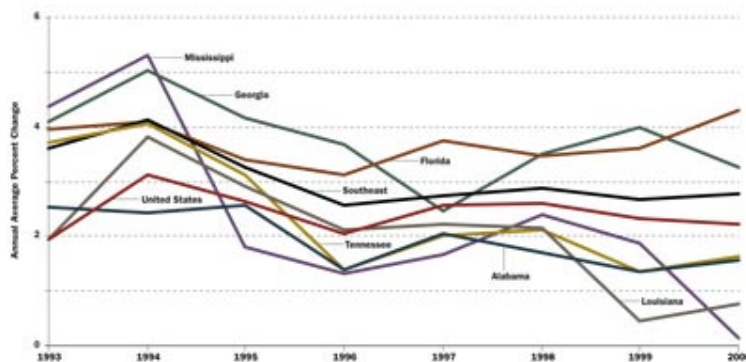
The service sector, comprising activities such as hotels, recreation, health care and business services, accounts for more than 30 percent of total nonagricultural payroll employment in the Southeastern and national economies. During the last 30 years, the share of employment in this sector in comparison to the economy as a whole has almost doubled. Also, between 1992 and 1998 the inflation-adjusted gross state product for

Southeastern states increased at an annual average rate of over 4 percent, with nearly a fifth of that growth directly attributable to the output of the services sector.

The region's service sector employment growth held steady at just under 5 percent in 2000, outpacing the nation's growth in this sector by over a percentage point. In fact, slightly more than half of the nonfarm jobs created in the region during the year occurred in the service sector. The Southeast's business services category posted especially strong growth. Business services, which include personnel supply services and computer-related services, among others, increased total payroll by 9.8 percent in 2000. Florida's business services sector was particularly strong, adding jobs at a double-digit rate for the third consecutive year.

Continued tight labor markets stimulated strong demand for temporary labor agencies and computer services as companies sought ways to become more efficient and competitive. Another driving force behind the surge in overall business services employment in the Southeast has been the rapidly expanding number of call centers, such as customer or client support service centers, which tend to be very labor intensive.

Total Nonfarm Employment in the Southeast and the United States



Source: Calculated by the Federal Reserve Bank of Atlanta using monthly Bureau of Labor Statistics data provided by Regional Financial Associates. Data for 2000 are through the third quarter.

Employment in health care services registered slightly over 2 percent growth during 2000. While still low, this figure was up notably from the modest 0.5 percent growth rate experienced in 1999, when a number of consolidations and reorganizations took place.

Amusement and recreation services added many jobs in 2000 as a result of newly completed amusement parks and park expansions in the region. Although estimates are preliminary, the visitor count to Florida should reach a record high in 2000 following a record year in 1999. New theme park attractions, good weather and liberal consumer spending helped to keep Florida theme parks, cruise ships, beaches and resorts full of tourists throughout the year. Additional hotel rooms, increased marketing and more visitors helped produce record-breaking casino revenue figures in Mississippi for the first part of 2000. In addition, new attractions stimulated tourism activity in the New Orleans area. Overall, though, the rate of growth in the region's hotel and motel services employment dropped off slightly in 2000 compared with 1999, largely as a result of slower growth in Mississippi's gaming industry relative to the dramatic growth seen in 1999.

The outlook for the region's service sector in 2001 is for solid but slower growth than during the last two or three years. If the U.S. economy expands more slowly and labor markets loosen somewhat, there may be less demand for the services of firms supplying personnel as well as business services such as accounting and management consulting. Also, a decline in consumer spending growth, coupled with high fuel prices, may discourage some travel and tourism activities. Absent further consolidation in the health care industry, the expansion of the region's aging population should continue to provide for moderate growth in the health services industry.

Manufacturing will continue to retool

Southeastern manufacturing employment declined for the second consecutive year in 2000. The number of factory jobs fell by 0.2 percent following a 1 percent job loss in 1999. Although the region is becoming less

dependent on manufacturing as a source of jobs — with manufacturing's percentage of total employment in the region falling from nearly 14.5 percent to 12.5 percent during the past four years — the area's changing mix of factory employment is an important factor. While durable goods producers have been adding slightly to employment rolls over the past three years, employment in the manufacture of nondurable goods has continued to shrink.

The same pattern applies to factory output. Between 1992 and 1998, manufacturing's dollar value share of total output in the Southeast fell from 16.5 percent to 14 percent. In 1992, about 45 cents of every dollar of manufacturing output was related to durable goods production, with the remaining 55 cents attributable to nondurables. But by 1998 the durable and nondurable sector shares of output value were evenly split. In part, this shift reflects the expansion of the transportation and equipment industry, which includes auto, truck and ship production, and the continued contraction of the apparel industry.

THE DROUGHT OF 2000 TOOK A SIGNIFICANT TOLL ON AGRICULTURAL PRODUCTION THROUGHOUT THE SOUTHEAST. MANY PARTS OF THE REGION WERE DECLARED FEDERAL AGRICULTURAL DISASTER AREAS.

Apparel employment in the region fell by nearly 40 percent, or 73,000 workers, over the past four years, while the transportation equipment industry added 22,000 workers during that time. Other manufacturing industries linked to residential construction slowed in 2000, with lumber and wood producers as well as furniture and fixture manufacturers posting employment payroll declines.

The manufacturing outlook features some slowing, broadly in line with the national economy but with certain industries outperforming others. Lower demand for housing, increased lumber processing capacity in the United States and weak exports brought about by greater competition from northern European producers will continue to depress lumber prices. Slowing consumer spending may also affect industries, like carpet and furniture manufacturing, that are linked to residential building. Further layoffs are expected in the beleaguered apparel industry as companies continue the trend of shuttering inefficient operations or moving operations offshore to remain competitive.

On a more positive note, the outlook remains strong for the Southeast's vehicle production industry. Mercedes-Benz, Honda, Saturn and Nissan plan to invest a total of over \$2 billion and hire about 5,500 workers over the next few years at auto plants in Alabama, Mississippi and Tennessee. Information technology companies are poised to continue to expand and locate in the region, predominantly in Florida and Georgia. New military and cruise line contracts will boost shipyard activity. The likelihood of continued high energy prices, even if prices remain somewhat below their peak in 2000, will boost production of oil field equipment.

Retail trade to slow in line with consumption

Retail trade accounts for around 19 percent of employment in the Southeast. During 2000, regional employment in the retail sector grew at a faster clip than nationally. The main source of overall growth in the industry came from discount retail outlets. Nationally, consumer expenditure growth eased slightly during 2000, with expenditures on durable goods, in particular, slowing from the double-digit growth seen in 1999. This pattern is also reflected in the national and regional retail sales data.

After record-breaking end-of-year retail sales figures in 1999 in the Southeast, growth in both same-store sales and total sales was slower after the first quarter of 2000. Apparel sales were mixed in 2000, and home-related product sales weakened from their strong levels over the past several years. Consolidations in the retail industry continued in 2000, with several chain stores filing for bankruptcy and others scaling back operations or exiting markets because of strong competition. Maintaining same-store sales growth in 2001 will continue to be difficult for retailers, but the situation may be aided in some markets by further consolidations. Total sales growth will likely be more subdued in the coming year than in 2000 as retailers scale back on the number of new stores entering the market.

Construction slower but at a high level

After peaking during the first quarter of 1999, the region's single-family home construction activity slowed through 2000. Permit issuance for new construction fell below year-ago levels in the first quarter and

continued to decline through the remainder of the year. During the third quarter of 2000, permits in the Southeast were almost 9 percent below the year-ago level compared to a national decline of close to 8 percent. But the slowdown has not been evenly distributed across the Southeast. Building activity remained strong in Florida, which accounts for nearly half of the region's single-family residential construction, but declined significantly in Louisiana, Mississippi and Tennessee.

Existing and new home sales also slowed somewhat during 2000. Price concessions began to be more widespread during the second half of the year, and inventory levels rose in some markets. In the coming year the pace of construction and home sales will remain slower than in the first half of 2000 in most parts of the Southeast. The new home market through the third quarter of 2000 was generally balanced. Going into 2001, builders seem committed to hold supply in check as they move ahead at a more cautious pace.

ALTHOUGH THE REGION IS BECOMING LESS DEPENDENT ON MANUFACTURING AS A SOURCE OF JOBS. THE AREA'S CHANGING MIX OF FACTORY EMPLOYMENT IS AN IMPORTANT FACTOR.

Significant signs of overbuilding in the commercial real estate market have not emerged in 2000, and markets around the region have experienced lower levels of nonresidential construction during 2000 than in previous years. Vacancy rates have not increased substantially in most markets, and there continues to be little risk of a serious downturn in commercial real estate markets over the next year. But most industry experts anticipate that construction levels will continue to soften during 2001.

Financial sector to hold its own

Buoyed by growth in fee income, efficiencies generated by recent acquisitions and consolidations, and modest expansion in loan activity, Southeastern financial institutions should continue to perform relatively well in 2001. Net returns on assets, however, will likely fall below current average levels as loan-deposit interest rate spreads remain narrow. The current high levels of consumer and commercial loan activity should generally decline in the coming months, while mortgage demand and refinancing activity will continue to be subdued. Overall credit quality is anticipated to remain healthy even though the levels of nonperforming loans will possibly increase slightly in 2001.

Drought stunts growth in agriculture

The drought of 2000 took a significant toll on agricultural production throughout most of the Southeast. Many parts of the region were declared federal agricultural disaster areas, making many of the region's farmers eligible for low-interest government loans.

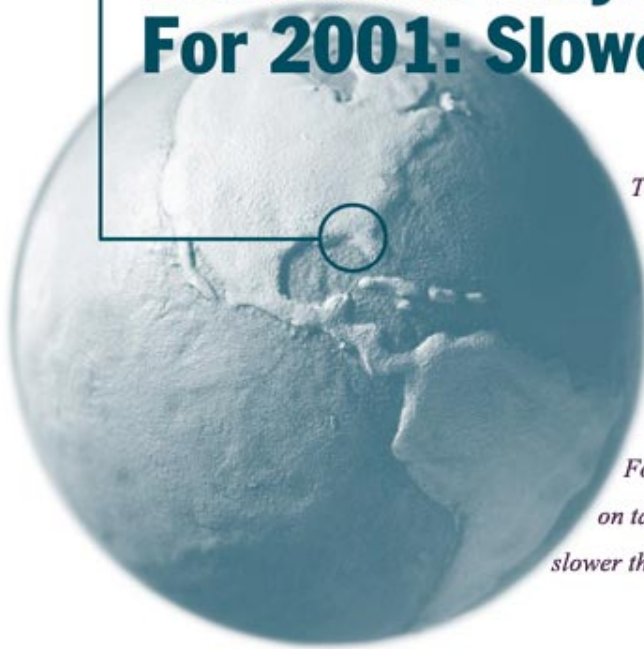
Although the impacts of the drought varied according to location and type of agricultural commodity, the total cost in lost production and income has been tremendous. In addition to lost production, farmers in the Southeast have been forced to contend with increased irrigation and fuel costs. Strengthening international economic growth, especially in Asia and Latin America, should lead to a modest increase in national and regional agricultural exports during 2001, while food prices are expected to post small increases.

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

[Return to Index](#) | [Next](#)

REGIONAL FOCUS

Southeast Stays on Course For 2001: Slower but Steady



The Southeastern economy enjoyed a strong performance in 2000. As in the nation, however, the torrid pace of growth in the region's economy early in 2000 moderated as the year progressed. For 2001, solid economic gains are still on tap for the region, but growth will likely be slower than it has been for the past several years.

[Alabama](#) | [Florida](#) | [Georgia](#) | [Louisiana](#) | [Mississippi](#) | [Tennessee](#)

ALABAMA

POISED FOR CONTINUED BUT SLOWER GROWTH



During 2000, Alabama's economic performance was mixed. The state's largest service industry, health care services, had little growth during the year, and overall factory employment fell. Nonetheless, the state did experience several positive developments with announcements of plant expansions and new plant construction from auto manufacturers and suppliers. Provided consumer spending levels remain healthy, the state should experience moderate growth in 2001.

Services to remain healthy

Employment in Alabama's service sector — excluding retail and wholesale trade, government, finance and utilities — grew just under 2 percent from the third quarter of 1999 through the third quarter of 2000. This growth is in line with the state's 1.8 percent service employment increase during 1999.

Nationally, the service sector accounts for around 30 percent of total nonfarm employment, and in 1998, the last year for which data are available, services represented 24 percent of the dollar value of national private industry output. But Alabama is less dependent on its service sector, which makes up approximately 24 percent of the state's nonfarm employment of nearly 2 million people and 20 percent of the dollar value of the state's private industry output.

Data through the third quarter of 2000 show that the state's large hospital service sector experienced stable employment levels in 2000. This stability represents a significant improvement over the almost 7 percent decline in jobs the industry experienced from 1998 to 1999. The strongest employment growth continued to be generated in business services.

Demand from aging baby boomers should help provide moderate growth for Alabama's health care services in 2001. Business services linked to vehicle production should grow along with the state's transportation equipment industry. Although Alabama is the Southeastern state least dependent on tourism, visitor attractions could be negatively impacted by a slower economy as consumers tighten purse strings.

Manufacturing performance mixed

In 1998, manufacturing accounted for 19 percent of the total dollar value of the nation's private sector output. In Alabama, however, manufacturing was comparatively more important, representing 24 percent of the dollar value of the state's private sector output.

A similar pattern exists in manufacturing employment shares. Currently, around 19 percent of Alabama's nonfarm payroll, or 360,000 workers, is employed in manufacturing. In contrast, manufacturing represents 14 percent of the nation's total nonfarm employment. Both in the state and nation, these shares have been declining for some time. Alabama's manufacturing payrolls continued to decline in 2000 but at a slower pace than in 1999. Average factory employment in Alabama over the first three quarters of 2000 was 1 percent lower than the 1999 average following a more than 2 percent decline from 1998 to 1999.

Firms producing durable goods currently employ just under 200,000 workers in Alabama, and employment levels in durable goods production were relatively flat in 2000 compared with 1999. Of the durable goods, transportation equipment registered the largest employment gains with an almost 4 percent increase from 1999 to 2000. Employment in the relatively large primary metals industry, however, declined for the third year after increasing slightly in 1997.

Employment in nondurable production in 2000 fell almost 2 percent below 1999's levels. Among nondurable producers, who employ approximately 170,000 workers in the state, weakness continued in the labor-intensive apparel industry, which lost an average of around 3,000 jobs, or more than 10 percent of its employment base, compared with 1999. Textile manufacturing, which relies more heavily on high-tech production techniques than apparel manufacturing, even registered a modest 2 percent employment gain in the first nine months of 2000, lifting the state's textile employment numbers to close to 40,000.

The 2001 outlook for the state's manufacturing sector is mixed. Long-term trends, particularly regional shifts in production, are favorable for the transportation equipment industry. As new production facilities open, expansion in vehicle production should boost employment and production. Mercedes-Benz announced that it will double its production capacity at its plant in Vance, Ala., with completion of the addition expected in 2003. Mercedes-Benz's investment will likely total \$600 million, and total employment at the plant will more than double with the addition of 2,000 jobs. Industries associated with the plant will also add jobs. In addition, Honda Motor Co. has begun hiring the first workers for its \$440 million minivan and engine plant in Lincoln, Ala. Company projections are for the plant to manufacture approximately 120,000 Odyssey minivans per year when the plant reaches full production in late 2001.

Alabama Manufacturing Employment



Source: Calculated by the Federal Reserve Bank of Atlanta using monthly Bureau of Labor Statistics data (not seasonally adjusted) provided by Regional Financial Associates. Data for 2000 are through the third quarter.

A Boeing Co. decision to move fabrication and manufacturing work on its Delta III rockets from plants in Huntington Beach, Calif., to its plant in Decatur, Ala., will result in additional work for the Decatur plant. The plant currently has approximately 525 employees, but the company estimates the facility will employ 2,000 people by 2004.

Bender Shipbuilding and Repair of Mobile, Ala., and Austal Limited of Perth, Australia, will develop a new shipyard on the Mobile River to produce aluminum ferries and other vessels. The shipyard could eventually employ as many as 1,000 workers.

Lockheed Martin's Huntsville operation will get a large portion of the development work on the U.S. Army's \$4 billion contract for a battlefield anti-missile system. The state's primary metals industry will be stimulated by new activity in energy extraction. Slowing residential construction, however, will adversely affect the state's large lumber and wood segment. Labor-intensive apparel jobs will continue to be eliminated as companies close down or shift operations offshore.

Pace of construction to contract

During 1999 Alabama experienced low rates of single-family construction growth compared to the rest of the Southeast. Permit issuance rebounded strongly, however, during the first quarter of 2000.

Construction activity slowed during 2000. In the third quarter of the year permits fell to almost 2 percent below the level in the third quarter of 1999, in contrast with an 8 percent decline in the rest of the Southeast over the same period. Somewhat surprisingly, permits have been softer in the state's metropolitan areas as third-quarter permits also fell below the previous year's level in Birmingham, Huntsville and Mobile. As the economy grows at a more moderate pace in 2001, the pace of residential construction and home sales will likely remain subdued but still at relatively high levels.

After a first-quarter rebound in terms of square footage, nonresidential construction expansion waned in the remainder of 2000, falling below comparable levels in 1999. In 2001, the slower pace of consumer spending and business activity will probably lead to some moderation in the growth of commercial construction in Alabama.



Florida's economy continues to be strong and diversified. In 2000, the state's economy, following the nation's, remained on a course of expansion, though growth was slower than in previous years. For 2001, Florida will continue its expansion based on the vitality of its service sector, including the state's strong health services and tourism industries.

Service industry key to Florida's economy

Florida's already large service sector expanded rapidly in 2000. Compared with an average employment level of 2.5 million in 1999, service employment grew by almost 7 percent during the first three quarters of 2000. In six out of the last eight years, service employment growth rates have annually averaged over 6 percent.

Florida Services Employment

The importance of Florida's service sector is reflected by its number of employees, who represent 38 percent of the state's total nonfarm workforce. The sector also

accounts for nearly 28 percent of the dollar value of private industry output in the state. Both the labor share and the output value share for Florida's service industries are higher than the national service sector's labor and output value shares.

Business services, such as computer services and personnel services, continued to post double-digit gains in 2000, up more than 13 percent from 1999 average levels. Employment growth for the hotel and motel industry as well as the amusement and recreation industry also accelerated from 1999, with growth rates in excess of 2 and 4 percent, respectively. The state's large health service industries, with over half a million workers, registered employment growth of almost 2 percent during 2000 after remaining flat during most of 1999.



Source: Calculated by the Federal Reserve Bank of Atlanta using monthly Bureau of Labor Statistics data (not seasonally adjusted) provided by Regional Financial Associates. Data for 2000 are through the third quarter.

Tourism and hospitality indicators were mostly positive for Florida in 2000. Hotel and resort operators in south Florida indicated that the summer months generated better revenues and occupancies than in 1999 and that fall bookings were ahead of 1999's pace. Domestic passenger traffic in 2000 was above 1999 levels for Orlando International Airport, and international traffic at the airport set a record. Overall hotel and motel occupancy rates in Orlando were up nearly 5 percent from 1999 despite added capacity. Through the third quarter of 2000, Orlando Convention Center attendance was 10 percent above the previous year's attendance for the same period.

Services should continue to be Florida's leading growth industry in 2001. The business service component, however, is likely to slow somewhat. The outlook for Florida's tourism and hospitality industry remains mostly upbeat, but growth rates in 2001 will probably not equal those for 1999 and 2000. Expansions of theme parks, including Universal Studios' and Disney's parks in Orlando, along with the possible development of a new theme park in northeast Florida, are in the works.

About 7,900 new hotel rooms, valued at \$1.4 billion, are being planned for the Miami area. In addition, thousands of new hotel and motel rooms are planned or under construction in the Orlando and Tampa areas. West Palm Beach plans to add a new \$55 million convention center, and Orlando plans to double the size of its existing convention center by 2003.

Overall cruise line bookings out of Miami and Port Canaveral were at record levels in 2000. With a substantial increase in its cruise ship passenger volume, Port Canaveral, the second-busiest cruise port in Florida after Miami, may construct another terminal to handle the largest ships. The Jacksonville Port Authority also plans to build a cruise terminal. Potential overcapacity in the cruise industry and higher energy prices remain concerns for 2001.

Manufacturing to remain steady

Although factory employment accounts for less than 10 percent of the state's total employment, Florida's almost 500,000 manufacturing workers still make up over 20 percent of the Southeast's total factory employment. Overall factory employment in Florida was largely stable in 2000, reflecting continued demand for high-tech products and fabricated metal products, after declining 1 percent in 1999.

ALTHOUGH FACTORY EMPLOYMENT ACCOUNTS FOR LESS THAN 10 PERCENT OF THE STATE'S TOTAL EMPLOYMENT, FLORIDA'S ALMOST 500,000 MANUFACTURING WORKERS STILL MAKE UP OVER 20 PERCENT OF THE SOUTHEAST'S TOTAL FACTORY EMPLOYMENT.

Almost 300,000 workers are involved in durable goods production in Florida. Durable goods manufacturing jobs increased slightly during 2000. The strongest growth occurred in fabricated metals and electronic equipment production firms as businesses expanded or added productivity-enhancing equipment to remain competitive. The lumber and wood industries trimmed employment rolls by an average of 2 percent in 2000 in response to slowing single-family residential construction.

Nondurable industries, such as apparel and textiles, also continued to contract over the year because of fierce foreign competition. The paper, printing and publishing industries, however, began to revive following a downturn in 1998 and 1999. Printing and publishing establishments represent the single largest factory employer group in Florida with a workforce of almost 65,000.

Florida's factory sector is expected to expand less rapidly in 2001. The lumber and building products industry will continue to be adversely affected by slowing single-family residential construction. As the national economy slows, businesses will have less need for new equipment and fabricated metals. Growth in Florida's recreational boat production, which has been booming as a result of the nation's strong economy, will slow in 2001 as consumers adjust spending plans. The state's large printing and publishing industry, however, should provide a stabilizing influence for Florida's manufacturing sector because of continuing strong demand for printed materials.

U.S. Navy aircraft contracts will help stabilize employment at St. Augustine's Northrop Grumman plant, which had previously been slated for downsizing. Orlando and Ocala will reap benefits from a \$1.2 billion U.S. Army contract to manufacture an antitank weapons system for Raytheon and Lockheed Martin. Florida's high-tech future seems bright with the creation of two network access points in south Florida to help ease Internet congestion, particularly from Latin America.

Construction to slow somewhat

In 2000 the single-family home construction industry remained healthy despite a slowdown in permit growth. During the third quarter of 2000, new permit issuance declined 3 percent from the previous year's level. This decline was still less than the almost 8 percent decline experienced across the Southeast as a whole.

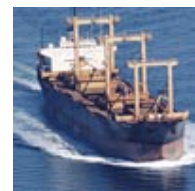
Within the state, major metropolitan areas generally experienced declines in permit growth during 2000 with the notable exceptions of Fort Myers, Lakeland and Sarasota. Existing and new home sales followed similar patterns. Florida's housing market should remain strong during 2001 with a continued modest slowdown in home sales and construction in line with the slower growth anticipated for the national economy.

From its remarkable high in 1998, the pace of nonresidential construction in Florida has slowly declined during the past two years. First-quarter activity in 2000 was strong but fell below previous-year levels in both the second and third quarters. Consequently, through the third quarter of 2000, total nonresidential construction was slightly below the total for the first three quarters of 1999, especially in major markets, including Jacksonville, Miami, Orlando, Pensacola and Tampa-St. Petersburg. Average vacancy rates through the third quarter of 2000 were at low levels across most of the state, but there has been increasing evidence that in the latter part of 2000 space has not been leasing as quickly as earlier in the year. While Florida's new nonresidential construction in 2000 has been down compared with building activity in 1999, Florida has performed better than the Southeast overall.

In 2001, nonresidential construction should continue to slow across the state, though not dramatically, since most Florida markets appear to be generally well balanced and diversified.

Southeastern Trade Outlook for 2001 Shows Promise

Import growth continued to outstrip exports in the United States during 2000. Nonetheless, as imports have flooded U.S. regional ports in the last two years they have also revitalized many port communities and trade-related businesses. In 2001, the prospects for regional exports are brighter after the granting of normal trade status to China, a development that provides the Southeast's exporters potential access to a consumer market of more than 1 billion people.



International trade in 2000

Exports from Southeastern ports experienced a modest recovery in 2000 thanks to strong demand from North American Free Trade Agreement (NAFTA) countries and Asian markets. This strong demand offset lower demand from several Latin American countries and Europe. During the first half of 2000 the top export markets for the Southeast were Canada, Mexico, Japan, Brazil and the United Kingdom,

which together accounted for about 40 percent of the value of the region's exports. Exports to much of Western Europe were about 10 percent lower compared with the same period in 1999.

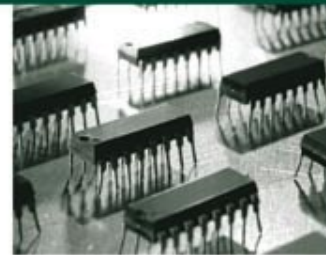
A key development for exporters in 2000 was the decision by the U.S. Congress to grant permanent normal trade relation status to China. This decision should lower tariffs and eliminate other trade barriers for a number of regional exports to China starting in 2001. Currently, Southeastern trade with China is primarily in intermediate industrial and agricultural commodities.

Optimistic outlook for trade in 2001

International traders in the Southeast have reasons to be optimistic about 2001 as the process of liberalizing world trade continues. In addition to increased trade with China, the NAFTA tariff elimination schedule will enter its seventh year in 2001, and export volumes should increase to important markets such as Canada and Mexico. Both of these developments should help ensure continued export growth from the Southeast in 2001. However, given the strength of the U.S. economy, domestic suppliers will likely continue to feel pressure from strong import demand in 2001.

GEORGIA

REMAINS ON GROWTH TRACK



Georgia's economy continues to grow, though at a slower pace than in 1999. A balanced economy, with healthy service and manufacturing sectors, was key to Georgia's economic success throughout the last decade. During 2001 the fundamentals of Georgia's economy should again steer the state toward respectable growth, but, like the rest of the region and the nation, Georgia will see some slowing versus recent years.

Services and tourism strong

Georgia's service sector employs around 1.1 million workers, approximately 28 percent of the state's total nonfarm employment. Average employment in Georgia's service sector increased 3.5 percent during the first nine months of 2000 compared with the average level in 1999, but this figure is down considerably from the growth rate of almost 7 percent in 1999. Most of this slowdown occurred in business services, which is the largest portion of the service sector with over 320,000 jobs, as companies shed some employees following the resolution of the Y2K issue. The next-largest service industry, health services, generated employment gains of over 3 percent in 2000, nearly matching 1999's growth.

The tourism and convention businesses remain solid performers in Georgia. A new convention center opened in Savannah. The \$100 million funding for the center, located on Hutchinson Island on Savannah's riverfront, came from federal, state and local governments and includes development of the island's infrastructure and ferries to take visitors to the city's historic district across the Savannah River.

The occupancy rates at Atlanta hotels posted little growth in 2000 because of a decrease in the number of large conventions being held in the city. The decline in the city's convention business was blamed mostly on competition from expanded convention centers in Orlando and New Orleans. Despite the slowdown in 2000, the Atlanta Convention and Visitors Bureau expects 2001 to be a record year for large conventions based on current bookings.

Manufacturing mixed but steady

Manufacturing firms accounted for almost 20 percent of the dollar value of Georgia's private sector output in

1998, about the same as the U.S. manufacturing sector's share of the national economy. The value of Georgia's manufacturing output, however, was weighted considerably more toward nondurable good production than the nation's — 55 percent in Georgia versus 42 percent nationally. Similar trends exist in manufacturing employment. Currently, manufacturing establishments account for around 15 percent of Georgia's nonfarm payroll, about the same as the national average share. In Georgia, though, 57 percent of the state's manufacturing employment is in nondurable goods production, primarily textiles and food processing. This figure is 17 percentage points more than the average nondurable share of manufacturing employment for the nation as a whole.

Compared with 1999, Georgia's factory employment through the third quarter of 2000 grew by just under 1 percent, matching the average rate of increase of the last two years. The state's nondurable component led manufacturing job growth. Although employment in the apparel industry declined more than 7 percent, employment in the carpet and rug industry was up more than 4 percent for 2000. The apparel industry has lost over 15,000 jobs since 1996 while the carpet and rug industry has added more than 5,000 jobs. Paper, machinery and electronic equipment industries added to employment rolls during that period while employment in the transportation equipment industry declined moderately.

Similar to last year, the outlook for Georgia's factory sector is mixed. Slowing housing markets will adversely affect those industries tied to construction activity, such as lumber and wood and carpets. The apparel industry will continue to trim employment rolls because of lower-cost foreign competition. Slowing auto sales may affect employment in the state's vehicle assembly plants, such as the Ford and General Motors plants in the Atlanta area.

High-tech and communications equipment production, however, should continue to give the manufacturing sector a boost in 2001. For instance, Lucent Technologies Inc. and Motorola Corp. are making significant investments in plants just north of Atlanta.

Lucent will invest an additional \$150 million in its Norcross, Ga., optical fiber plant, while Motorola Corp. will build a new corporate campus in Suwanee, Ga., creating new high-paying technology jobs. Strong orders continue to boost the bottom line for Norcross-based Scientific Atlanta, which is the second largest manufacturer of television set-top boxes for cable. The company is ramping up production because of expected strong demand.

U.S. military contracts will also help stabilize the state's manufacturing employment rolls. In particular, Lockheed Martin's decision not to transfer final assembly of its F-22 stealth fighter to Texas from its plant in Marietta, Ga., and new contracts for the C-130 produced at the Marietta plant will help maintain employment levels.

Construction to slow modestly

Georgia continued to experience a slowdown in its housing market during 2000, but activity was nonetheless at strong levels. State permit activity closely mirrored the overall slowdown exhibited in the region and the nation. Third-quarter permits for 2000 fell just over 10 percent below the levels of a year earlier.

Atlanta, which accounts for more than two-thirds of the state's single-family construction activity, experienced new permit levels that were similar to year-earlier levels during the first half of 2000. But Atlanta's permit issuance during the third quarter of 2000 declined 7 percent below the previous year's level. For the first three quarters of 2000, permit growth was positive in Macon while permits declined in Albany, Augusta, Columbus and Savannah.

Both existing and new home sales have experienced some slowing in 2000. The Georgia housing market will remain subdued in 2001 while home sales and residential construction continue to decelerate modestly.

After slowing somewhat during 1999, the state's nonresidential construction rebounded during the early part of 2000 but subsequently slowed again in the third quarter, although less sharply than in the region as a whole.

Georgia Services Employment



Source: Calculated by the Federal Reserve Bank of Atlanta using monthly Bureau of Labor Statistics data (not seasonally adjusted) provided by Regional Financial Associates. Data for 2000 are through the third quarter.

Overall, the Atlanta commercial real estate market remains strong, with good absorption and relatively low vacancy rates. Construction should continue at a slower pace in 2001.

Southeast's Financial Sector Will Continue Modest Expansion in 2001



The overall performance of the banking industry in the Southeast in 2000 has been solid in the face of numerous challenges. Downward pressure on the margin between lending and deposit interest rates, along with sluggish overall deposit growth, has been the norm. But increased loan growth, fee income from nonlending services, and cost efficiencies emerging from previous acquisitions and consolidations have contributed to the overall growth observed in the banking industry in 2000.

In 2001 the Southeast's financial institutions will likely continue to perform well as the economy continues to expand at a modest pace. Mortgage demand and refinancing activity slowed in 2000 in line with the pace of single-family construction, and demand next year will continue to be subdued. The currently robust commercial loan demand is also expected to slow somewhat in 2001. Financial modernization and expansion should continue at a brisk pace in 2001 as the barriers that separate the banking, insurance and securities industries have been partially removed via recent federal legislation. The trend toward greater consolidation will continue as banks expand into trust services and seek strategic alliances in new markets.

LOUISIANA

TO SHOW CONTINUED GROWTH



Louisiana's economy improved considerably in 2000 over its performance in 1999, when employment levels were flat primarily because of its depressed energy industries. While performance was still mixed in 2000 in most sectors of Louisiana's economy, some industries, including the state's large oil and gas extraction business, found renewed strength. For 2001 the state appears to be positioned to continue the recovery process, particularly if the energy industry remains buoyed by strong demand and higher oil and natural gas prices.

Mixed performance is forecast for service industries

The service sector is an important source of employment and expenditures in Louisiana's economy, accounting for approximately 28 percent of the state's 1.9 million workers and 19 percent of the dollar value of the state's private industry output.

Through the third quarter of 2000, service employment was almost 2.5 percent above the 1999 average level of about 520,000 workers. Between 1998 and 1999, average service employment increased by slightly less than 3 percent. Business services, with almost 100,000 workers, generated solid growth, as did hotel and motel services. Amusement and recreation services posted employment gains of over 10 percent during 2000, topping the 1999 average increase of 8 percent. In addition to expansions at casinos during 2000, Jazzland, an amusement park, and the National D-Day Museum opened as new attractions in the New Orleans area.

Health care services, representing the largest overall service employer in Louisiana with more than 150,000 jobs, contracted slightly during 2000 after holding steady in 1999. Health care services are down considerably from their peak in 1997. Home health care agencies have been hit especially hard by the change in federal funding of these activities from an actual-cost basis to a fixed-cost approach.

The outlook for the state's service sector is for some slowing in reaction to the slowing national economy. However, business service industries that support energy extraction companies will see more activity as the energy industry continues to revive.

New Orleans tourism officials expressed some concern that convention bookings were down during the summer of 2000, but they are hopeful that the newly opened attractions will help to offset any possible future declines.

Prospects for the state's gambling industry are mixed. The good news is that Harrah's land-based casino in New Orleans, which employs about 3,000 of the state's 22,000 casino workers, recorded its best revenue month so far in September 2000. Harrah's also recently began chartering flights to bring in gamblers from across the country to help boost attendance. On a less positive note, the disproportionate taxation treatment of land-based versus water-based casinos continues to be a problem affecting Harrah's long-term prospects. New Orleans' hotel industry plans to add as many as 5,000 new rooms over the next few years, and a major addition to the downtown convention center is planned in an attempt to attract larger conventions.

In the state's large health care industry, further employment declines are anticipated in 2000, particularly in rural hospitals and home health care agencies, because of the pricing pressures placed on health care providers.

Manufacturing outlook brightens

Louisiana's factory sector employs slightly less than 10 percent of the state's total nonfarm workforce. Louisiana's 185,000 manufacturing employees represent the smallest total of manufacturing employees among the Southeastern states.

Despite the small workforce, Louisiana's manufacturing sector contains a number of high-value and relatively capital-intensive industries. In 1998, manufacturing accounted for 17 percent of the dollar value of Louisiana's total private sector output. This value was weighted mainly toward nondurable goods, representing 74 percent of the state's manufacturing output total. The state's primary industries in this sector are chemicals and petroleum products as well as paper and printing.

Through the third quarter of 2000, overall employment in the state's factory sector fell by about 1 percent for the second consecutive year. Declines persisted in capital-intensive chemicals, industrial equipment and transportation equipment manufacturing. In contrast, building material producers, such as lumber companies and stone, clay and glass producers, added slightly to payrolls over the year.

The outlook for the state's manufacturing sector is quite positive for industries associated with energy extraction. While orders for rig fabrication, machinery, transportation equipment and primary metals contracted as a result of the slowdown in the oil and gas extraction industries in 1999 and into 2000, the recent pickup in oil field activity has spurred new activity in these associated industries. These industries anticipate busier times in 2001 provided that oil and gas prices remain at the comparatively higher levels seen in 2000. Already, fabricators that build drilling rigs, production platforms and other equipment for oil and gas wells, such as Petrex Inc. located near New Orleans and UNIFAB International of New Iberia and Lake Charles, have started to see more bid inquiries.

The transportation equipment industry should also get a boost from shipbuilding contracts and the \$700 million expansion of a General Motors' auto plant near Shreveport. General Motors will add its own stamping plant and a new assembly plant and body shop. Industries dependent on residential construction, including

Louisiana Mining Employment



Source: Calculated by the Federal Reserve Bank of Atlanta using monthly Bureau of Labor Statistics data (not seasonally adjusted) provided by Regional Financial Associates. Data for 2000 are through the third quarter.

building product and lumber producers, may experience some slowdown in activity next year because of less demand for housing.

A continuation of higher oil and gas prices will raise costs for the state's chemical and plastics producers, which use natural gas and petrochemicals as inputs. Some plans for expansion in the plastics industry, however, have been announced in response to somewhat higher domestic prices. Environmental concerns remain one of the major impediments to further expansion in the chemicals industry.

Construction slows

Single-family construction activity continued to slow during 2000. The decline in permits was more pronounced in Louisiana than in the Southeast as a whole. During the third quarter of 2000, permit issuance for Louisiana was 12 percent lower than at the same time in 1999. Housing construction activity was generally slower in New Orleans and Baton Rouge than in 1999. Home sales declined as well. In 2001, construction and sales activity will continue to slow, but the declines are not expected to be as significant as those experienced during the latter part of 2000.

Nonresidential construction in Louisiana was strong early in 2000 but also slowed noticeably in the third quarter. Both the New Orleans and Baton Rouge markets were generally healthy, however. Hotel construction, including the conversion of unused office space, was extremely strong in and around New Orleans. Commercial construction will likely continue to soften somewhat in 2001, following the general slowing in economic activity. However, hotel construction activity is likely to continue, and refueled interest in Gulf of Mexico oil and gas prospects will offset some of the overall slowing. Expansion plans in the chemicals industry will likely boost industrial construction as well.

Southeastern Agriculture Plows Ahead to a Better Year in 2001

Agricultural production in the Southeast, which accounts for around 1.5 percent of the dollar value of the gross product of the Southeastern states, was hit hard by drought in 2000. In fact, many parts of the region were declared federal agricultural disaster areas. Stronger economic growth abroad, particularly in Asia and Latin America, should give a slight boost to national and regional agricultural exports and farm incomes in 2001.



Poultry rules the roost

Chicken broilers are the primary agricultural product for many Southeastern states. Broilers accounted for \$1.9 billion in Alabama and \$2.3 billion in Georgia — 54.7 percent and 43.8 percent, respectively, of these states' total agricultural receipts in 1999 (the latest year for which data are available). In Mississippi, broilers are the leading agricultural commodity, bringing in \$1.3 billion, or 42 percent of the state's 1999 total agricultural income. Broilers are Tennessee's number two agricultural commodity, with cash receipts of \$268 million in 1999.

In response to expanding demand, egg production and the number of broiler chicks hatched are likely to increase by 1 to 2 percent in the Southeast and the nation in 2000. Poultry producers have been plagued by increased costs and falling prices resulting from reduced export demand and some overproduction. The situation has improved in 2000 as production and inventories continued to moderate and international demand from Asia, and Russia has made an impressive rebound. These trends are expected to continue well into 2001.

Cotton production holds steady

Cotton is no longer king, but it still ranks as the second-largest cash crop in many Southeastern states. In Georgia, cotton generated cash receipts of \$437 million in 1999. It is expected that 1.3 million acres of cotton will be harvested in 2000, virtually unchanged from the previous year, but with a slightly higher yield. In Louisiana, cotton receipts were \$241 million in 1999. The number of acres harvested in 2000 is expected to increase to 700,000 from 610,000 acres in 1999, and overall output should increase despite an anticipated drop in yields.

Mississippi's cotton receipts were \$474 million in 1999. Production in 2000 is likely to be down slightly from 1999 levels at around 1.7 million bales, with increased acreage being offset by lower yields. Cotton is also a significant commodity in Alabama, with receipts of \$163 million in 1999. However, drought significantly affected Alabama's cotton production in 2000 and led to considerable crop abandonment. A harvest of 540,000 acres is expected in 2000 compared to 561,000 acres in 1999, and the average yield per acre for 2000 is expected to be 9 percent lower. Higher yields nationally are likely to keep cotton prices in check for the foreseeable future.

Cattle producers hang tough through drought

Cattle and calf production is Tennessee's most important agricultural activity, with receipts of \$391 million in 1999. In Alabama, cattle and calves represent the second-largest commodity, with receipts of \$414 million in 1999. Lower feed prices resulting from record corn and crop harvests in the Midwest allowed farmers to compensate somewhat for their drought-devastated pasturage. Decreasing cattle inventories and growing export demand have helped to stabilize prices, and this trend is likely to continue in 2001.

Citrus growers squeeze past problems

Oranges, Florida's number one agricultural commodity, brought in more than \$1.6 billion in 1999, representing almost 23 percent of the state's total agricultural cash receipts. Florida's crop was once again seriously threatened by citrus canker, an incurable bacterial disease that cannot harm humans but seriously damages citrus fruit. A state and federally funded eradication program should be completed sometime next year. While the potential risk to the state's citrus groves is tremendous, officials have been able thus far to limit the damage. The initial forecast for Florida's orange crop this season is 240 million boxes, 3 percent higher than 1999's total. Florida is expected to produce 75 percent of the national crop.



Sugarcane outlook is semisweet in 2001

Sugarcane is Louisiana's main agricultural commodity, bringing in \$342 million during 1999. A total of 490,000 acres of sugarcane is due to be harvested in Louisiana in 2000 compared to 465,000 acres in 1999, while the average yield per acre should fall slightly in 2000. Louisiana's output represents around 40 percent of the national sugarcane crop, with total U.S. production meeting around 85 percent of domestic demand under current import quota arrangements. To remain viable, the industry will likely continue to be reliant on federal support programs.

MISSISSIPPI

CONTINUED SLOWING IN 2001



In recent years, Mississippi's economy has been rejuvenated by the strong performance of tourist attractions and construction along the state's Gulf Coast. During 1999, much of this construction was completed and growth in the state's gambling industry leveled off. As a result, the state's economy experienced a slowdown in associated construction and new service employment in 2000. The state's manufacturing sector also slowed some in 2000, but some positive developments are on the horizon for Mississippi's manufacturing sector.

Nissan Motor Co. announced plans to build a plant in Mississippi that is scheduled to open in 2003. In addition, shipbuilders in the state are in line for several new projects.

Some slowing in service employment

Mississippi's service sector employment growth slowed notably from 1999 to 2000. Services account for around 24 percent of Mississippi's current total nonfarm payroll of over 1.1 million employees. While this share has increased notably over the last decade, it is below the national average share of approximately 31 percent. Similarly, the dollar value of Mississippi's service sector output is below the national average at 20 percent of the state's total private sector output.

During the first nine months of 2000, average employment in Mississippi's service sector grew by less than 1 percent over average 1999 levels and represented the state's slowest employment growth since 1984.

Service sector employment growth in 2000 was held back by a slowdown in job creation in the hotel and motel industry. As new casinos and resorts came on line in the state, hotel employment grew by an average 12 percent in 1998 and by almost 20 percent in 1999. After peaking at the beginning of 2000, hotel employment levels fell slightly during the remainder of the year, and average employment for the year is likely to be close to the 1999 average level of around 33,000 workers. Despite the stall in hotel employment growth, additional hotel rooms, expanded marketing and increased flights to the Gulfport-Biloxi Airport helped produce strong casino revenue growth for the first half of 2000.

The state's service sector should see some slowing in 2001 related in part to subdued consumer spending and less gaming industry development. Some new hotels are slated to come on line along the Gulf Coast in the near future, but overall the pace of development will continue to slow. A new \$30 million to \$40 million tourist attraction featuring Mississippi's technological achievements has been proposed for Hancock County, near the Stennis Space Center.

THE STATE'S SERVICE SECTOR SHOULD SEE SOME SLOWING IN 2001 RELATED IN PART TO SUBDUED CONSUMER SPENDING AND LESS GAMING INDUSTRY DEVELOPMENT. SOME NEW HOTELS ARE SLATED TO COME ON LINE ALONG THE GULF COAST IN THE NEAR FUTURE, BUT OVERALL THE PACE OF DEVELOPMENT WILL CONTINUE TO SLOW.

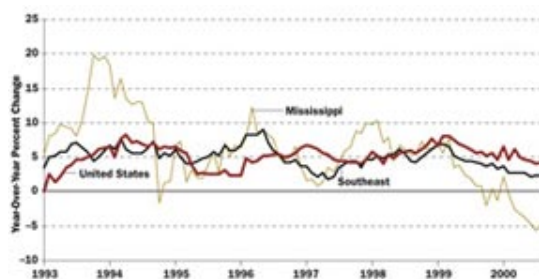
Outlook remains mixed for manufacturing

Manufacturing remains the bedrock of the Mississippi economy. After remaining largely unchanged during 1999, Mississippi's overall factory employment fell by 1 percent in 2000. In 1998, manufacturing accounted for 26 percent of the dollar value of Mississippi's private sector output. Over 21 percent of Mississippi's nonfarm payroll is currently involved in manufacturing. While this employment share has been declining over time, it still represents the largest proportion for manufacturing among the Southeastern states.

Most of Mississippi's manufacturing job losses during 2000 were in the nondurable segment although employment declined slightly in durable goods manufacturing as well. Apparel employment fell by almost 7 percent during 2000 following double-digit percentage declines in 1998 and 1999. Building materials manufacturers, such as lumber producers, and transportation equipment producers also experienced job losses during 2000 after expansions in 1999.

The state's factory outlook is mixed for 2001. Litton-Ingalls Shipbuilding in Pascagoula announced in 2000 the largest expansion of the shipyard since it was built in 1968. The company has an agreement in place to design, and likely build, at least two 1,000-passenger cruise ships. These ships would represent the largest pleasure boats ever built in the United States. As part of the expansion, the company's ship systems service center will employ 700 new workers.

Mississippi Construction Employment



Source: Calculated by the Federal Reserve Bank of Atlanta using monthly Bureau of Labor Statistics data (not seasonally adjusted) provided by Regional Financial Associates. Data for 2000 are through the third quarter.

Nissan Motor Co. has announced plans to construct a new \$900 million plant near Canton that will manufacture pickup trucks, sport-utility vehicles and minivans. The plant, scheduled to open in 2003, will employ 3,300 workers initially and 4,400 workers when the plant expands to full capacity.

Some furniture producers in the state will be adversely affected as demand from the residential home market slows. With over 30,000 workers, furniture production is the largest single segment of Mississippi's manufacturing sector in terms of employment. In the manufactured home industry, Fleetwood Homes of Mississippi closed one of its manufacturing lines as a result of slowing demand in 2000. Some recent buildup in inventories could continue to affect the state's producers of manufactured housing in 2001.

Construction to continue sluggishness

After several years of permit growth, single-family construction activity slowed considerably during late 1999 and continued to slow into 2000. The overall decline in permits was more pronounced in Mississippi than in the Southeast as a whole. Third-quarter permits for new construction were down 18 percent from year-ago levels compared to the average decline of 8 percent across the Southeast. The slowdown is primarily the result of reduced activity along the Mississippi Gulf Coast and in Jackson, where construction had been particularly strong in recent years. Home sales also declined notably. In 2001, construction and home sales are anticipated to continue to slow, but the declines are not expected to be as significant as those experienced this year.

Nonresidential construction remains weak across the state as activity in hotel and motel services as well as the casino industry waned. During 2001 the state will probably experience continued low levels of commercial construction in line with only modest economic expansion in the state.

TENNESSEE

TO CONTINUE GROWTH IN 2001



Tennessee's economy remained solid in 2000 as growth in individual sectors of the economy was in the slow to moderate range. The health care, auto and high-tech industries continue to be bright spots in Tennessee's economy. The tightness of the labor market is not as big an issue in Tennessee as it had been in the recent past, although the short supply of qualified labor is still a concern. For 2001, the state's economy should continue to grow although at a somewhat subdued pace relative to that experienced over recent years.

Services to remain steady

The service sector in Tennessee was on track to average more than 730,000 jobs in 2000, an increase of nearly 2.5 percent over the 1999 average level. About 25 percent of Tennessee's workers are employed in the service sector, and over half of these work in either health services or business services. In 1998 Tennessee's service sector represented 24 percent of the dollar value of the state's nonfarm private industry output, in line with the national average.

Health services employment, comprising the largest component of the state's service sector with around 200,000 jobs, should increase by a bit less than 2 percent in 2000, reversing the slight decline of the previous year. Somewhat lower demand has dampened employment growth in the second-largest segment, business services. Business service jobs grew at about a 2 percent annual pace in 2000 following over 5 percent annual growth in the previous three years. Other services, such as the amusement and recreation industry and hotel and motel services, added moderately to employment rolls in 2000.

The outlook for the state's service and tourism and hospitality industries is for some deceleration in line with slower national economic activity. As business activity slows, the business service sector may experience softer demand, particularly for employment agencies, advertising and computer services. Health services are likely to continue to post moderate employment growth because of the demands of the aging population. The

tourism and convention business may get a boost from new attractions. A \$45 million aquarium has recently opened in Gatlinburg, and the revamping of Nashville's Grand Ole Opry is likely to bring more visitors to the city.

THE SERVICE SECTOR IN TENNESSEE WAS ON TRACK TO AVERAGE MORE THAN 730,000 JOBS IN 2000, AN INCREASE OF NEARLY 2.5 PERCENT OVER THE 1999 AVERAGE LEVEL. ABOUT 25 PERCENT OF TENNESSEE'S WORKERS ARE EMPLOYED IN THE SERVICE SECTOR, AND OVER HALF OF THESE WORK IN EITHER HEALTH SERVICES OR BUSINESS SERVICES.

Manufacturing remains well diversified

Tennessee's factory employment in 2000 is likely to be flat or to decline slightly compared with 1999 employment. With over 500,000 manufacturing jobs, Tennessee has the largest number of factory workers in the Southeastern states, slightly ahead of Florida. Approximately 19 percent of workers in Tennessee are employed in manufacturing. Tennessee's manufacturing payrolls are concentrated mainly in durable goods, with around 300,000 workers, primarily in the production of fabricated metals, industrial machinery, electronic equipment and automobiles.

Employment at industrial machinery firms and in the transportation equipment industry has fallen back to around average 1999 levels after having risen during the latter part of 1999 and early 2000. Weakness persisted in the apparel industry. Through the third quarter of 2000, apparel industry employment fell about 13 percent below 1999 levels, or by almost 4,000 jobs. Tennessee's apparel employment has shrunk by more than half since 1995. The chemicals industry also continued to post job losses during 2000 but at a slower rate than over the last two years. Production of heavy trucks, including tractor-trailers, fell substantially through the year as companies laid off employees in response to high fuel prices and flagging demand.

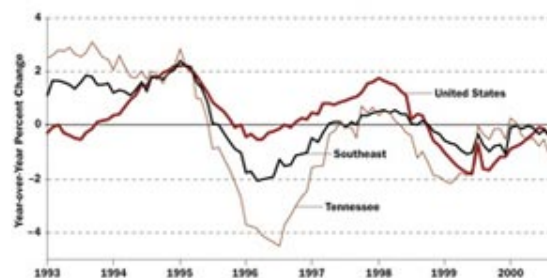
The outlook for Tennessee's manufacturers in 2001 varies considerably across industries. Declines in the apparel industry may continue but are likely to be less dramatic than over the last few years as the industry consolidates. Large new projects will give a substantial boost to the auto industry. Saturn Corp. announced plans to spend \$1.5 billion for improvements at its Spring Hill plant. While the company did implement some job cuts as a result of slower sales of the Saturn cars produced at its Tennessee plant, employment should rebound as the plant begins production of a new sport-utility vehicle. Nissan Motor Co. announced its plans to spend \$1 billion over the next four years, expanding its engine manufacturing plant in Decherd and increasing the output of its assembly plant in Smyrna. The company expects to hire 2,000 new workers as part of the expansion. Increasing production will also mean more work for Nissan's suppliers in middle Tennessee and elsewhere.

The high-tech sector will continue its rapid expansion in Tennessee. Dell Computer's new operation in Nashville, which builds notebook computers, is expanding and adding to employment rolls in the area. Companies that support Hewlett-Packard in middle Tennessee are increasing their activities. Also, strong demand for religious and music publications should continue to stimulate the state's printing and publishing industry.

Construction to continue slowing

Single-family construction in the state slowed notably in 2000, with permit issuance falling well below year-ago levels through the first three quarters of 2000. The slowdown has been somewhat more pronounced in Tennessee than in the Southeast as a whole. In the third quarter of 2000, permits were 20 percent lower than for the third quarter of 1999. Permit activity in Knoxville and Nashville generally mirrored that of the state as a whole. Home sales also experienced a decline as the year progressed. In 2001 there will continue to be less construction and home sales activity, but the declines should not be as large as those experienced in 2000.

Tennessee Manufacturing Employment



Source: Calculated by the Federal Reserve Bank of Atlanta using monthly Bureau of Labor Statistics data (not seasonally adjusted) provided by Regional Financial Associates. Data for 2000 are through the third quarter.

Nonresidential construction also slowed in 2000 from the highs set during early 1999. During the third quarter of 2000, construction was down moderately from the level during the same quarter of 1999. Office vacancy rates in Nashville remained low while absorption rates slowed. The pace of nonresidential construction will continue to ease somewhat during 2001 as the national and regional economies grow at a more moderate pace.

This article was written by John Robertson, David Avery, Whitney Mancuso, Edgar Parker and Gustavo Uceda of the Atlanta Fed research department's regional research group.

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INTERNATIONAL FOCUS

Recoveries in Latin America

Promise More Growth in 2001



Ties between Latin America and the United States continue to strengthen. Trade flows have never been stronger, and total U.S. direct investment throughout the region is at an all-time high. Now more than ever, economic conditions in Latin America will affect the United States and U.S. businesses. This article reviews the economic performance of Latin America in 2000 and describes the outlook for 2001.

3,006.62	38.97 ▲	1.27%
2,649.71	33.35 ▲	0.36%
807.90	2.93 ▲	0.90%
0,744.54	96.03 ▲	0.98%
1,367.40	13.28 ▲	0.76%
626.42	4.70 ▲	0.79%
61.33	0.49 ▼	

In Latin America, economic growth in 2000 was positive but uneven. The region as a whole should grow 3.8 percent after no growth in 1999 (see the [table](#)), and real gross domestic product (GDP) growth should continue to increase at its current pace through 2001 (see [chart 1](#)). Brazil and Chile achieved strong recoveries in 2000 and are likely to lead the region in growth in 2001. The oil-exporting countries of Colombia, Ecuador and Venezuela recovered from recession in 2000 and are expected to continue to improve in 2001.

Meanwhile, Mexico's projected 6.8 percent growth in 2000 is forecast to slow to under 5 percent in 2001 as monetary policy tightens and the rate of economic growth in the United States slows. Finally, Argentina's economic performance in 2000 was a major disappointment. The economy was expected to spring back from 1999's recession, but real GDP growth in 2000 is now projected to be less than 1 percent while the 2001 Consensus Forecast (from Consensus Economics) stands at 2.8 percent.

Argentina looks to regain investor confidence

Argentina's political situation and lackluster economic performance are the most immediate areas of concern for the international financial community. In October, Argentina's Vice President Carlos Alvarez unexpectedly resigned from office. His departure prompted concern over whether or not the left-center Alianza coalition led by President Fernando De la Rúa would survive; the coalition's failure could in turn jeopardize the reform process. The market responded with a sell-off of Argentine bonds as some observers began to express concern

about the extent to which Argentina would have access to international financial markets. Improving relations within the Alianza, the passage of a government fiscal stimulus plan and the likelihood of rapid legislative approval of an austere 2001 budget at least temporarily calmed the markets. In mid-November President De la Rúa announced a series of emergency economic measures, and the International Monetary Fund (IMF) announced that an assistance package would be forthcoming.

The country's poor economic performance led some analysts to voice concern about Argentina's burdensome debt commitments, which amount to approximately 50 percent of GDP when provincial debt is included. Standard & Poor's cited lower growth forecasts when it downgraded Argentina's long-term foreign currency rating from BB to BB- in November (but left the short-term B rating unchanged). Analysts are concerned about the extent to which Argentina can generate sustained economic growth over the next few years (see [chart 2](#)). Clear signals that the economy is recovering will be key to restoring investor confidence.

Real GDP in Latin American Countries

	1999	2000 (Estimate)		2001 (Forecast)	
	Actual	IMF	Consensus*	IMF	Consensus*
Latin America	0.3	4.3	3.8	4.5	4.0
Argentina	-3.1	1.7	0.9	3.7	2.8
Bolivia	0.6	NA	3.0	NA	3.5
Brazil	1.0	4.0	3.8	4.5	4.3
Chile	-1.1	6.0	5.5	3.8	5.7
Colombia	-4.5	3.0	2.8	6.5	3.2
Costa Rica	8.3	NA	5.2	NA	4.6
Dominican Republic	8.3	8.4	6.5	6.5	6.1
Ecuador	-7.3	0.5	1.2	3.5	3.2
Guatemala	3.5	3.6	NA	3.0	NA
Mexico	3.5	6.5	6.8	4.8	4.7
Panama	3.3	NA	3.3	NA	3.6
Paraguay	2.3	NA	2.3	NA	3.0
Peru	1.4	4.0	4.4	6.0	2.9
Uruguay	-3.2	2.0	1.2	4.0	3.2
Venezuela	-7.2	2.5	2.7	3.0	3.9

*Consensus represents an average of private forecasters as published by Consensus Economics.

Sources: International Monetary Fund, September 2000 World Economic Outlook; Consensus Economics, Latin American Consensus Forecasts, October 2000.

Strong performers pace the region

Brazilian economic fundamentals improved in 2000 and appear set to continue on a positive track. Real GDP growth is forecast to increase 3.8 percent in 2000. According to Consensus Forecast, inflation should come in at just over 6 percent (down from 8.9 percent last year), and unemployment has finally begun to decline. The forecast for 2001 projects 4.3 percent GDP growth and inflation below 5 percent. Despite a much-hoped-for trade surplus, the country is likely to experience a trade balance near zero in 2000 as import growth outpaced export growth because of higher oil prices and low international prices for Brazilian commodities. Nevertheless, exports are increasing as the trade deficit totaled U.S.\$6.6 billion in 1998 and fell to U.S.\$1.2 billion in 1999.

In 2000 Brazil made substantial progress toward reducing its fiscal vulnerabilities. Fiscal restraint imposed by recent legislation, expenditure cuts and improved tax collection is expected to lead to a decline in public sector borrowing in 2000 (the current projection is a deficit of 3.8 percent of GDP compared to 9.5 percent in 1999). Tax and social security reforms have yet to be completed, and the government has also failed to reach its ambitious poverty-reduction goals.

Brazil's trade balance in 2000 was not significantly affected by Argentina's poor economic performance. While Argentine consumption of Brazilian goods fell a hefty 20.5 percent in 1999, Brazil's exports to Argentina were up 19 percent in the first nine months of 2000 over the same period in 1999. Furthermore, Brazil is not as economically dependent on its neighbor as Argentina is on Brazil. Argentina does purchase the overwhelming majority of Brazil's exports to Mercosur countries, but only 11 percent of Brazil's total exports go to Argentina. Much larger shares go to the European Union (29 percent) and to the United States (23 percent). Conversely, around 30 percent of Argentina's total exports go to Brazil.

Chile's economy recovered strongly in 2000: real GDP is forecast (by Consensus Forecast) to grow 5.5 percent, compared to -1.1 percent in 1999. Growth for 2001 is forecast at 5.7 percent. Chile's growth has been largely export-led as domestic demand has remained moderate. This relative weakness in domestic demand resulted in unemployment remaining high despite the economic recovery. The unemployment rate reached 10.5 percent during the third quarter of 2000, up from 8.2 percent in the first quarter. Lowering the high unemployment rate is a top priority for President Ricardo Lagos' administration.

In its first six months in office, the Lagos administration pushed through key reforms to liberalize financial markets and appears set to resume the pace of reform after several months of sending out contradictory signals. The government seeks to pass labor reform legislation in 2001 as well as a bill regulating public share offers in order to protect minority shareholders. The administration has targeted a fiscal surplus of 1 percent of GDP every year through 2005 and an inflation target of 3.5 percent. Higher oil prices have led to a projected inflation rate of 4.7 percent in 2000, but core inflation is expected to be more modest.

Mexico's economic growth accelerated in 2000 to an estimated 6.8 percent from 3.7 percent in 1999. In 2001, the Consensus Forecast projects real GDP growth to decelerate to 4.7 percent, a growth rate that should rank among the strongest rates in the region. The relative slowdown from 2000 is largely a result of a likely deceleration in U.S. economic growth and tighter fiscal and monetary policies in Mexico. The new administration of President Vicente Fox is not expected to alter Mexico's market-oriented economic policies. Inflation is expected to slow from 8.6 percent in 2000 to just below 8 percent in 2001.

On the political front, 2001 will inaugurate a new period in the country's history. Mexico will have its first administration not led by the PRI (Partido Revolucionario Institucional) since 1929. The transition is proceeding smoothly and is evidence that the process of democratization in Mexico is moving forward. While past presidential transitions often resulted in economic crises, no such post-transition crisis is expected in the coming year.

Midsize economies keep step

Colombia faces a series of obstacles — fiscal imbalance, concerns over the reform agenda, and a protracted insurgency — that will continue to dampen the economic outlook even as the economy returns to growth. After rebounding from recession in 1999 (the first in 60 years), the Colombian economy experienced sustained but low growth in 2000. The economy is on track to reach 2.8 percent real GDP growth in 2000 after contracting by over 4 percent in 1999, and inflation is forecast to be under 10 percent this year for the first time since the early 1970s. The Consensus Forecast is for growth to reach 3.2 percent in 2001.

CHART 1
Latin American Real GDP Growth



Sources: International Monetary Fund, September 2000 World Economic Outlook; Latin American Consensus Forecasts, October 2000

CHART 2
Argentina Real GDP



Sources: International Monetary Fund, Consensus Economics. Data for 2000 are an estimate; data for 2001 are from Consensus Forecasts.

But despite near-term improvement in the economic indicators, Colombia still finds itself in the midst of a political and economic crisis. Structural reform has stagnated amidst political gridlock. Real GDP growth averaged less than 1 percent between 1996 and 2000. During the 1990s, drug cultivation and the underground economy expanded, as did the toll from guerilla and paramilitary violence. During late 1999 and



ECONOMIC RECOVERY AND GROWTH WILL CONTINUE IN LATIN AMERICA IN 2001, BUT THERE WILL BE SIGNIFICANT DIVERGENCE WITHIN THE REGION. THE POLITICAL SITUATION IN SEVERAL ANDEAN COUNTRIES AND UNCERTAINTY IN ARGENTINA CLOUD AN OTHERWISE POSITIVE REGIONAL FORECAST.

2000, the civil war appeared to enter a new phase as public safety deteriorated even further and private investment declined. Since the announcement of Plan Colombia, the government's new effort to combat drug production and promote peace, the conflict has escalated (the U.S. government has approved U.S.\$1.2 billion in assistance for Plan Colombia). Growth prospects for Colombia remain limited as long as concerns about public safety continue to deter private investment.

The Ecuadorian economy has shown remarkable signs of recovery after a disastrous performance in 1999, when the economy contracted 7.5 percent. The turnaround followed a brief political crisis and the January announcement of a plan to dollarize the economy. Defying most expectations, the economy showed signs of recovery during the first half of 2000. Dollarization, the signing of an IMF standby agreement and higher oil prices contributed to consumer confidence and an increase in domestic demand. The monetary stability brought about by dollarization increased the purchasing power of Ecuadorians and lowered real interest rates. However, despite an improving macroeconomic picture, structural reform has lagged, prompting the IMF to delay a scheduled \$42 million installment of standby credit until the government makes progress toward cutting subsidies and instituting financial sector reform and tax reform. The current IMF agreement expires in April, and lack of progress toward reform could jeopardize a new agreement. An increase in consumption and investment, as well as higher revenues from oil exports, is forecast to result in real GDP growth of 1.9 percent in 2000 and between 2 and 3 percent in 2001.

Peru experienced a political crisis in 2000 when President Alberto Fujimori made a successful bid for a third presidential term that critics charged was illegitimate. The crisis culminated when President Fujimori was removed from office following a scandal involving one of his top advisers. (Fujimori's letter of resignation was rejected by the Congress, which instead dismissed him for being "morally unfit to serve.") On Nov. 22, opposition leader Valentin Paniagua was sworn in as interim president. New presidential elections are scheduled for April 2001, and the winner will be inaugurated in July. Paniagua faces the difficult challenge of restoring confidence and economic stability to Peru.

The forecast for Peru's real GDP growth for 2000 has been revised down to 4 percent and to around 3 percent for 2001 largely because of the uncertain political climate and a drop-off in foreign investment. Peru's year-over-year inflation rate is forecast to be near 4 percent, the same as in 1999. The inflation forecast for 2001 is around 3 percent.

During the first half of 2000, Venezuela's economy recovered from its 1999 recession. Led by higher oil revenues and increased fiscal spending, the Venezuelan economy should grow 2.7 percent in 2000 — well up from the 7.2 percent contraction in 1999.

Dependence on oil export revenues will continue in Venezuela, leaving the country vulnerable to a decline in oil prices. The Consensus Forecast sees oil prices declining to \$26 per barrel by October 2001, a decline of roughly 20 percent from October 2000. Nonetheless, forecasters expect Venezuela's real GDP growth to accelerate slightly to 3.9 percent in 2001 largely because of expected ongoing stimulus from fiscal policy. Inflation is forecast to accelerate modestly in 2001 to 17.7 percent from 2000's estimated increase of 16.8 percent. On the political side, President Chavez continues to consolidate political power as exemplified by the fact that the legislature, which is dominated by his supporters, recently granted him unprecedented power to make policy through executive decrees.

Central America and the Caribbean gain ground

Central America's real GDP growth is forecast to be 3.1 percent for 2000 and 3.8 percent for 2001. Weaker prices for the region's principal exports of sugar, coffee and bananas and higher prices for imported oil put a damper on economic growth in 2000.

Costa Rica's economy is projected to expand 5.2 percent in 2001, led by growth in the export-oriented free-trade zones. A more positive outlook may turn on legislative approval for the privatization of state-owned energy and telecommunications firms. In Guatemala, weak domestic demand and moderate growth in exports should result in 3.6 percent real GDP growth in 2000 and 3 percent in 2001. Panama's projected 2000 real GDP growth remains subdued at 3.3 percent in the aftermath of the U.S. military's departure and storm damage that weakened agricultural output. In order to comply with an IMF standby arrangement, President Mireya Moscoso must negotiate structural reform with an opposition-led legislature.

In the Caribbean, the Dominican Republic's new president, Hipólito Mejía, is seeking legislative approval for an ambitious structural reform program. Tighter monetary policy will lead to a slowdown in real GDP growth, which is forecast at 6.5 percent in 2000 and 6.1 percent in 2001.

Varied progress on horizon for Latin America in 2001

Economic recovery and growth will continue in Latin America in 2001, but there will be significant divergence within the region. The political situation in several Andean countries and uncertainty in Argentina cloud an otherwise positive regional forecast. U.S. trade and investment flows appear poised to continue, and opportunities clearly exist for U.S. business to further expand into Latin America's liberalizing economies.

This article was researched and written by Mike Chriszt, Stephen Kay, Elizabeth McQuerry and Myriam Quispe-Agnoli of the Atlanta Fed's Latin America Research Group.

[Return to Index](#) | [Next](#)

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.

Sizing up dollarization

In January of this year, Jamil Mahuad, then president of Ecuador, startled his compatriots by proposing to eliminate the national currency, the sucre. Instead, Mahuad advanced, the U.S. dollar would replace the sucre for all purposes. Although a popular uprising forced him out of office a week later, the succeeding government actually implemented his proposal and announced that U.S. dollars will have completely replaced the sucre by September 2000.

The question remains as to whether the Ecuadorian plan will be successful and, more generally, whether other countries will follow Ecuador's lead. But one thing is clear: proposals to replace the domestic currency with the U.S. dollar, or to "dollarize" the economy, have taken center stage in Latin America and other developing regions. To illustrate why dollarization has risen from neglect to such a central role, an article by Roberto Chang discusses the currently fashionable proposals for dollarization in Latin America and other developing regions.

Chang places special emphasis on identifying and analyzing various arguments for and against dollarization in the light of existing economic theory and evidence. He compares the relative significance of the costs and benefits. Observing that measurement problems are significant, Chang concludes that, remarkably, the popular belief that dollarization is a desirable reform has been reached in spite of widespread uncertainty about its economic benefits.

[Economic Review](#)
[Third Quarter 2000](#)

A credit-supply cycle case study "down under"

There is ongoing debate about how the banking sector's financial condition affects the supply of credit to business and, ultimately, general macroeconomic conditions. The United States does not generate sufficient data to provide satisfactory answers to these questions, given the low frequency of credit cycles. But the experiences of other developed countries may provide additional insight. A recent article by Ellis W. Tallman and Nargis Bharucha investigates the 1986–93 credit cycle in Australia. A comparison of key differences and similarities between the U.S. and Australian banking systems allows a useful analysis of the Australian experience as it relates to the general economic issue of supply-based loan contraction.

Australian bank lending between 1986 and 1993 is of particular interest because it was the first credit cycle following financial deregulation in that country. Emerging from a regulated era, Australian banks had limited experience in managing portfolios that included risky commercial loans. During the downswing of the cycle, a decrease in loan growth followed the recognition of loan losses — but was the decrease due to lower borrower demand or at least partially to lower supply?

The results suggest that while demand-side factors account for much of the credit cycle, evidence is consistent with the argument that supply-side elements also played a role. Tallman and Bharucha conclude that there is a relationship, albeit a relatively weak one, between the loan-loss experience of the early 1990s and subsequent constrained lending behavior.

[Economic Review](#)
[Third Quarter 2000](#)

Weighing the benefits of portfolio diversification

The Gramm-Leach-Bliley Act sweeps away most of the barriers limiting the affiliation of banks with nonbank financial services providers. The focus now shifts to financial services executives who must decide which combinations provide the best opportunities to increase shareholder wealth. Existing empirical evidence suggests that an important consideration in this decision is the potential gains from portfolio diversification into new activities. The empirical evidence also suggests that the potential for such gains clearly exists.

In a recent article, Alan K. Reichert and Larry D. Wall review studies of the potential gains from diversification and summarize the legal changes resulting from passage of the Gramm-Leach-Bliley Act. Building on earlier studies, particularly a 1993 article by Wall, Reichert and Sunil Mohanty, the authors update the 1993 analysis of return on assets using data from the Internal Revenue Service (IRS) to cover the 1991–97 period and examine returns on equity from 1991 to 1997.

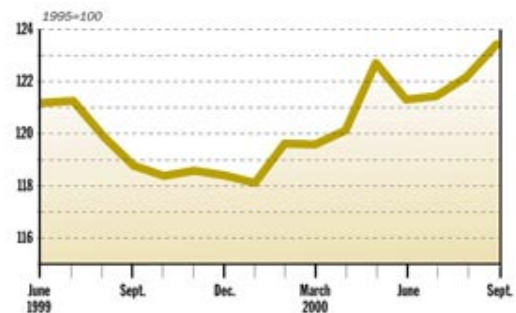
The new empirical results are consistent with the prior study in finding substantial potential gains from diversification using IRS data. The results also support the earlier finding that the efficient combinations (lowest risk for any given level of return) vary through time, perhaps for reasons such as the macroeconomic environment or technology. For bankers, one positive change in the 1991–97 period over the 1970s and 1980s is that banks have become a larger part of the efficient financial services portfolio.

[Economic Review](#)
[Third Quarter 2000](#)

Analyzing tax policies is a Laffer

Any number of U.S. politicians owe their success to emphasizing tax cutting. According to logic, voters are opting for fewer government services or for changes in the mix of services rendered. It is at this point that things become complicated, however, because what happens to expenditures influences how much revenue a government needs to collect.

ATLANTA FED DOLLAR INDEX



From July through September 2000, the dollar rose steadily versus the 15 major currencies tracked by the Atlanta Fed. During the three-month period, the dollar rose and fell slightly against currencies in most of the subindexes but registered consistent strong gains against the 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/econ_rd/dol_index/index.html.

According to an article by Zsolt Becsi, a good place to start in understanding the impacts of tax policy is with what is popularly known as the Laffer curve. This curve became famous early in the 1980s when tax rates fell but tax revenues did not rise as the curve predicted and the United States resorted to deficit spending. Becsi examines the macroeconomic and conceptual issues that may have made a difference.

Because most analyses of the Laffer curve occur in a static framework that has proved inadequate, Becsi's analysis presents a simple dynamic model useful for analyzing the long-run effects of tax policies. The model also can easily be extended to analyze the disposition of government revenues and the consequent effects on national income. It turns out that how the government spends its tax revenues — on consumption, investment or transfers — is important for understanding the Laffer curve. In fact, a different Laffer curve is associated with the different ways revenues are spent, and it is important to know which curve one is operating on when designing tax policies.

[Economic Review](#)
[Third Quarter 2000](#)

[Return to Index](#) | [Next](#)

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Southeastern Economic Indicators

		Alabama	Florida	Georgia	Louisiana	Mississippi	Tennessee	6th District	United States
Total Payroll Employment (thousands)^a	2000Q3	1,948.7	7,198.6	4,010.5	1,911.1	1,150.1	2,721.8	18,940.7	131,619.3
% change from	2000Q2	-0.1	0.8	0.1	0.0	-0.6	0.2	0.3	0.1
% change from	1999Q3	0.9	4.2	2.4	0.7	-1.0	1.4	2.4	2.0
Manufacturing Payroll Employment (thousands)^a	2000Q3	363.3	490.0	603.3	185.9	242.3	504.9	2,389.8	18,447.7
% change from	2000Q2	-0.7	0.1	-0.4	-0.3	-0.2	-0.4	-0.3	-0.2
% change from	1999Q3	-1.4	0.7	0.6	-1.2	-1.5	-1.1	-0.4	-0.4
Civilian Unemployment Rate	2000Q3	4.3	3.7	3.6	4.8	5.1	3.7	4.0	4.0
Rate as of	2000Q2	4.1	3.8	3.6	4.7	5.8	3.7	4.0	4.0
Rate as of	1999Q3	4.8	3.7	4.0	4.9	5.0	4.0	4.2	4.2
Single-Family Building Permits (units)^b	2000Q3	14,669	102,504	63,430	13,003	7,738	23,527	224,871	1,154,761
% change from	2000Q2	-8.3	-3.0	-5.9	5.8	4.1	-1.5	-3.4	-1.3
% change from	1999Q3	-1.8	-3.2	-10.2	-11.9	-18.3	-21.2	-8.4	-7.0
Multifamily Building Permits (units)^b	2000Q3	2,667	44,326	23,165	1,409	4,536	5,742	81,845	376,352
% change from	2000Q2	-43.7	-11.5	-10.9	191.1	64.6	-20.7	-10.4	-7.1
% change from	1999Q3	-37.3	-18.1	60.0	-75.0	26.8	47.1	-4.8	-4.2
Personal Income (\$ billions)^b	2000Q2	103.9	441.6	228.1	103.6	59.3	148.3	1,084.9	8,237.8
% change from	2000Q1	1.6	2.1	1.7	1.5	1.3	1.8	1.8	1.7
% change from	1999Q2	3.9	5.7	8.0	3.9	4.3	6.4	5.8	6.7
		Atlanta	Birmingham	Jacksonville	Miami	Nashville	New Orleans	Orlando	Tampa
Total Payroll Employment (thousands)^a	2000Q3	2,234.7	497.9	558.3	1,022.8	691.6	622.4	931.7	1,218.4
% change from	2000Q2	0.3	0.7	0.7	0.8	1.1	0.2	1.0	1.0
% change from	1999Q3	3.3	3.0	3.6	2.5	3.8	0.6	5.1	4.8
Civilian Unemployment Rate	2000Q3	2.9	2.8	3.4	5.5	2.6	4.3	2.6	2.7
Rate as of	2000Q2	2.9	2.8	3.3	5.5	2.4	4.3	2.7	2.8
Rate as of	1999Q3	3.1	3.1	3.0	5.6	2.7	4.3	2.5	2.6

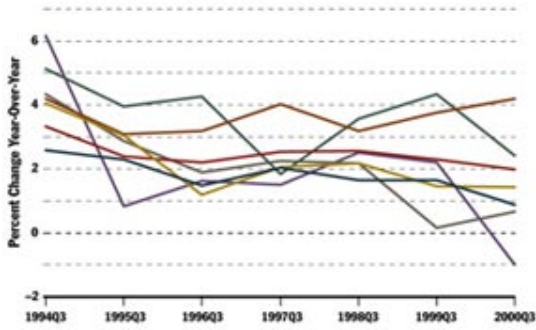
^a Seasonally adjusted

^b Seasonally adjusted annual rate

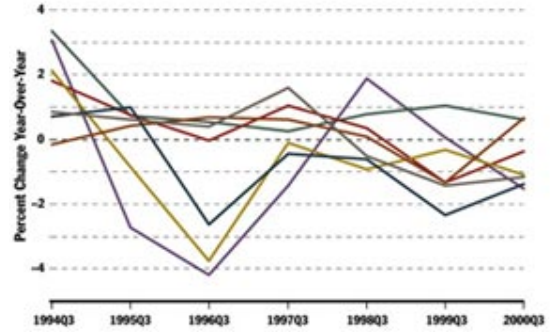
SOURCES: Payroll employment and civilian unemployment rate: U.S. Department of Labor, Bureau of Labor Statistics. Initial unemployment claims: U.S. Department of Labor, Employment and Training Administration. Single- and multifamily building permits: U.S. Bureau of the Census, Construction Statistics 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 Atlanta Fed's World Wide Web site at www.frbatlanta.org/publica/econ_south/2000/q4/dist_data.htm.

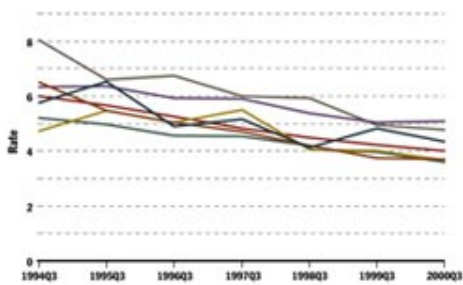
Total Payroll Employment



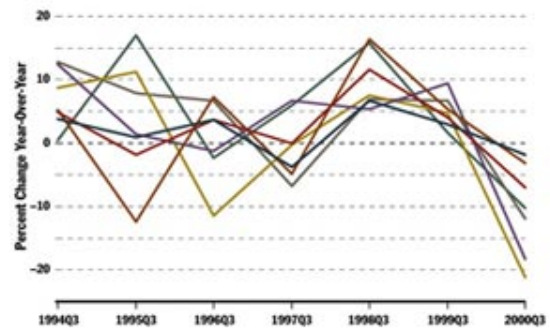
Manufacturing Payroll Employment



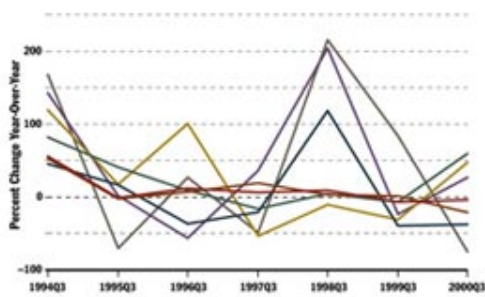
Civilian Unemployment Rate



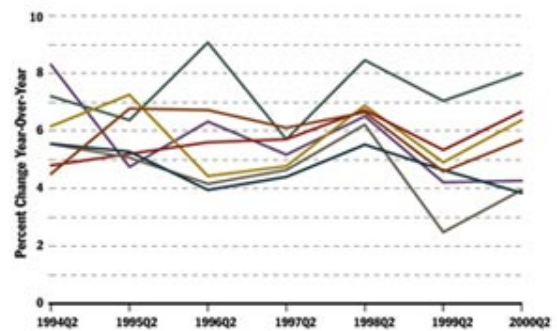
Single-Family Building Permits



Multifamily Building Permits



Personal Income



- Alabama
- Florida
- Georgia
- Louisiana
- Mississippi
- Tennessee
- United States

[Return to Index](#)