Federal Reserve Bank of Atlanta

EconSouth

STAFF

Lynne Anservitz
Editorial Director

Lynn Foley
Nancy Pevey
Managing Editors

Elizabeth McQuerry
Contributing Editor

Jean Tate
Lee Underwood
Staff Writers

Harriette D. Grissom
Stephen Kay
Myriam Quispe-Agnoli
Contributing Writers

Carole Starkey
Peter Hamilton
Designers

EDITORIAL COMMITTEE

Bobbie H. McCrackin
VP and Public Affairs Officer

Thomas J. Cunningham
VP and Associate Director of Research

Pierce Nelson
AVP and Public Information Officer

John C. Robertson
AVP, Research Department Regional Section

Free subscriptions and additional copies are available upon request to

Public Affairs Department
Federal Reserve Bank of Atlanta
1000 Peachtree Street, N.E.

In This Issue

Volume 4, Number 1, First Quarter 2002

CURRENT ISSUE

Drop in Personal Savings Rate Won't Forestall Recovery

COVER STORY

Southeast Banks Weather Current Downturn

Banks have been faring much better in the current economic downturn than they did during the 1990–91 recession. To date, bank failures have been minimal, the ratio of noncurrent loans to total loans has been healthier and profits have not fallen precipitously. What accounts for the relative health of financial institutions during this time of economic stress?

FEATURES

Now and Then: Dissecting Regional Differences During Recessions

Not all recessions are the same. A look at the differences in the nature of recessions over time and variations in the economic environment across regions reveals as many differences as similarities. A comparison of the 1990–91 recession and the one beginning in March 2001 highlights such similarities and differences and their effects on the Southeast.

Argentina: The End of Convertibility

Argentina's economic future looked rosy following the 1991 implementation of the Convertibility Plan, but the country's economy was soon hit with a series of external shocks. A recession followed, and the Convertibility Plan was finally scrapped in 2002. Today, Argentina is in the midst of a severe financial crisis, and convertibility's limitations have become apparent.

Atlanta, Georgia 30309-4470
or by calling **404/498-8020**

Change of address notices, along with a current mailing label, should be sent to the Public Affairs Department.

The views expressed in *EconSouth* are not necessarily those of the Federal Reserve Bank of Atlanta or the Federal Reserve System.

Reprinting or abstracting material from this publication is permitted provided that *EconSouth* is credited and a copy of the publication containing the reprinted material is sent to the Public Affairs Department.

ISSN 0899-6571

Photographs in international focus courtesy of Jennifer Weissman

DEPARTMENTS

Research Notes & News
  Dollar Index

The State of the States

Southeastern Economic Indicators

FEDERAL RESERVE BANK of ATLANTA

Economic Research

CURRENT ISSUE

Drop in Personal Savings Rate Won't Forestall Recovery

The personal savings rate in the United States declined substantially over the last decade. During the portions of 1990 and 1991 when the last recession took place, annual personal saving as a percentage of disposable income was 7.8 percent and 8.3 percent, respectively. In 2000 and 2001, by contrast, it was 1.0 percent and 1.6 percent, respectively (and many economists believe that tax refunds temporarily boosted last year's rate).

Apart from the very long-term repercussions for retirement, personal savings are thought to have two important implications. First, along with income growth, personal savings are believed to be the means for supporting new spending. Second, personal savings are considered an important capital source for business investment.

Using savings as a crystal ball

On the surface, then, the low savings rate in the United States seems to portend a weak recovery. To the extent that economic growth will be driven by pent-up consumer demand, the apparent lack of savings suggests that consumers may not have the means to spend. And to the extent that the recovery will be led by businesses, the low savings rate implies there might not be sufficient capital for investment.

But it would be a mistake to infer too much from the current savings rate. For one thing, the role of pent-up demand may be more limited in this recovery because consumption has remained strong throughout the downturn, and there are many sources of business capital in addition to individual savings, including especially foreign capital. For another, the particular way in which the savings rate is calculated — although entirely consistent with accounting conventions — makes consumers appear to be in worse financial shape than they're actually in.

Quirks in the calculation

The savings rate is defined by the national income and product account (NIPA) as after-tax income less spending. This definition may concur with most individuals' understanding of saving, but there are several areas in which the NIPA's treatment of income and spending probably wouldn't agree with most consumers' expectations.

First, because capital gains are generated by asset appreciation and not by so-called current production, they're not counted as income; however, since capital gains taxes must be paid, they are counted as an expense. Thus the official savings rate is squeezed from both sides of the equation.

Likewise with pensions: Because pension benefits are considered to be transfer payments — since they also aren't generated by current production — they're not counted as income. If they were counted, income and therefore savings would be higher.

Finally, the argument is often made that durable goods such as automobiles should be counted as investment rather than consumption because they are long-lived assets. In this way, too, the savings rate would be higher because only that portion of the asset that depreciated in a year would be treated as consumption.

Not clear that lower savings rate is a problem

To be sure, the measured savings rate remains useful as an indicator of Americans' inclination to save. Because of it we know that savings have almost certainly declined in the United States. But to focus narrowly on this particular statistic

without also recognizing the limits of its construction may distort its real significance. With these measurement limitations, it is not clear that the lower savings rate will forestall an economic recovery, especially in view of the offsetting high inflows of foreign capital.

By Bobbie McCrackin, vice president and public affairs officer of the Federal Reserve Bank of Atlanta

Return to Index | **Next**

FEDERAL RESERVE BANK of ATLANTA
Economic Research

COVER STORY

Southeast Banks Weather Current Downturn

Buffeted by a difficult economic climate, banks in the Southeast are tolerating the current economic uncertainty better than they did the previous downturn in the early 1990s.

During the last economic downturn, in 1990–91, banks were hard hit. Their lines of business were less diverse, they felt the pinch of a slumping and overbuilt real estate market, and their risk-management systems were less stringent than they are today. By comparison, banks across the nation to date have been faring much better in the current recession, which began in March 2001. Bank failures have been minimal during the current cycle of contraction, the ratio of noncurrent loans to total loans has been much healthier, and profits, though reduced, have not fallen precipitously.

As many as 205 banks failed in 1989, representing 1.64 percent of all banks at the time, followed by 160 failures in 1990 and 109 failures in 1991. In contrast, only three banks, 0.04 percent of the much smaller field of banks overall, failed in 2001. At press time, however, the entire number of bank failures for all of 2001 had already been eclipsed by the number of failures in early 2002.

Still, financial institutions have not been as severely shaken by deterioration in credit quality during the current downturn. In 1991 the ratio of noncurrent loans to total loans was 2.45 percent as compared with 0.94 percent in the third quarter of 2001. Despite challenges to banks' profitability, the average return on assets (ROA) for all U.S. commercial banks was 1.04 percent in 2001, much better than the 0.64 percent posted in 1991.

What accounts for the relative health of the nation's financial institutions despite continuing economic stresses? One reason appears to be fundamental changes in the structure of banking.

Large banks positioned for stability in downturn

Large banks — those with assets of $10 billion or more — are entirely different operations today than they were during the last downturn because they are far better diversified geographically and across product lines. In addition, risk-management systems have been improved significantly, and bank capital has been strengthened.

Like large banks nationwide, those in the Southeast are better positioned to ride out the current downturn, thanks in part to new flexibility and potential resulting from deregulation in the late 1980s and the 1990s. With the advent of the Riegle-Neal Interstate Banking Act of 1994, which permits branching across state lines and allows banks to diversify geographically, banks have become better able to avoid problems caused by weaknesses in particular industries or areas of the nation.

Diversification across traditional boundaries allows banks to offset shaky holdings in a given region or in a geographically specific industry with stronger holdings in another. "It's a matter of spreading the pain," says Larry Wall, senior financial economist and policy adviser for the Atlanta Fed's research department.

Birmingham's Compass Bank, for example, has reaped benefits from expansion into markets in Texas, Arizona, Colorado and New Mexico. According to Randy Haines, Compass' Alabama Corporate Banking Executive and Birmingham City President, "demographics in these regions are better than in the rest of the United States." He notes that the Southeast overall hasn't been as severely affected by the economic downturn as heavy manufacturing and high-tech areas, thanks to a more diverse economic base.

The ability to provide new financial products such as brokerage and insurance has also created a source of bank revenue that is less dependent on spreads between lending and saving rates. Banks that offer an array of services in addition to the traditional ones have been better able to maintain profitability despite tightening interest margins.

"Relationship banking is one thing we may do a little better in this part of the country," states Haines. He says that anticipating the kinds of support services that will augment profitable relationships is an important strategy at Compass and other Southeastern financial institutions.

Richard Hickson, president and CEO of TrustMark Corp., a midsized bank with assets of $7 billion in Jackson, Miss., agrees on the importance of cross-selling financial services. "Traditional banking just doesn't provide enough growth. And customers are smarter and more demanding. They expect more products and a broader line of services."

Increasingly sophisticated risk-management tools are another key element in large banks' ability to hold their own despite the downturn. "After a few near-death experiences in the 1980s and the 1990s, banks are learning to manage risk more effectively," says Wall.

Haines observes that he is aware of many Birmingham bankers who are controlling individual borrower exposure much more tightly than in the past. "Once we set a limit, we don't deviate," he says, pointing out that limits are based on customers' risk ratings. Computer technology has been an important factor in improving banks' ability to calculate risk rates. He explains that computers enhance the availability of information and provide banks with the means to get data more frequently, allowing the banks to make more informed decisions.

Advances in computer technology not only play an important role in giving bankers the capacity to assess risk more effectively but also help in determining what financial instruments will be most effective in offsetting risk. Sophisticated new systems for analyzing risk factors allow bankers to see problems developing and to respond more quickly. Then risk can be compensated for through a variety of tools that allow banks more room to maneuver.

Credit derivatives, loan sales markets, and the buying and selling of credit risk provide hedges, and bankers have become much more receptive to using these approaches with the evolution of computer support. The sale of deteriorating syndicated loans also helps institutions manage the level of problem credit on their books.

More stringent capital requirements, which had just begun to take effect in the 1980s, have further positioned banks to maintain stability during the current downturn. Wall adds that an extended period of economic growth has made it possible for banks to rebuild and reinforce their capital holdings.

Despite the prospects for large banks to maintain profitability during this cycle of economic contraction, most bankers acknowledge that 2002 may be a difficult year for financial institutions, and some will experience the pain more than others.

Large Southeastern banks faring better

In addition to enjoying new resilience as a result of changes in bank regulations, large banks in the Southeast may have a further advantage over their peers outside the Sixth Federal Reserve District. Reported increases in delinquent loans (loans past due more than 30 days) during this economic downturn have been more modest for large banks in the Sixth District than for large banks outside the region. Specifically, large Sixth District banks posted about 1.9 percent of loans past due in the third quarter of 2001, up from 1.7 percent in the first quarter of 2000. Outside the district, loan quality slipped more as delinquent loans rose from about 1.9 percent in the first quarter of 2000 to 2.8 percent in the third quarter of 2001. The difference can be attributed in part to differences in loan composition.

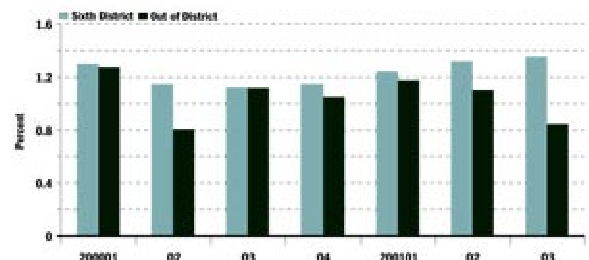
Sixth District banks are relatively more concentrated in real estate lending and are less focused on commercial and industrial lending than banks outside the district. As a result, losses related to trouble spots like Argentina, or troubled companies like Enron and Kmart, and other syndicated loans have been and are expected to be more moderate at Sixth District banks. While all large banks have experienced varying degrees of credit deterioration since the economy began to slow in 2000, most of the weakness to date has been in loans to businesses and sectors that have suffered the most in the downturn — industrial machinery, chemicals, fabricated metals, textiles, apparel and telecommunications.

Large bank portfolios in the Sixth District include, on average, about 24 percent commercial and industrial holdings as opposed to 32 percent outside the region. On the other hand, Sixth District bank lending is more heavily weighted in real estate, especially commercial real estate and construction loans. Sixth District commercial real estate loans account for about 15 percent of all loans compared with about 8 percent outside the District. Likewise, construction loans make up roughly 10 percent of Sixth District portfolios, versus about 3 percent outside the region.

Favorable credit quality at the large Sixth District banks has also been reflected in earnings performance. Large banks' earnings in the Sixth District have moved upward since the third quarter of 2000, from about a 1.1 percent ROA to about 1.3 percent in the third quarter of 2001. Large out-of-district banks, in contrast, have experienced ROA declines during the last year — from about 1.1 percent in the third quarter of 2000 to 0.8 percent in the third quarter of 2001 (see chart 1). In addition, Sixth District banks have not been as affected by declines in financial market-related fee income and private equity holdings when compared to large banks outside the district.

Generally speaking, bankers in the Southeast seem to concur with the interpretation of the ROA data though they also agree that commercial real estate still could pose challenges in some areas of the region.

CHART 1
Large Bank Return on Assets



Source: Bank Consolidated Reports of Condition and Income

Community banks not as diversified

Larger banks in the Southeast are strengthened by geographic diversity, but community banks — institutions with assets of less than $1 billion — face a different situation, particularly from a consumer perspective. That's because many community banks in the Southeast are located in less economically diversified areas that have been more affected by plant closings and layoffs in textiles, apparel, steel, auto parts and trucking.

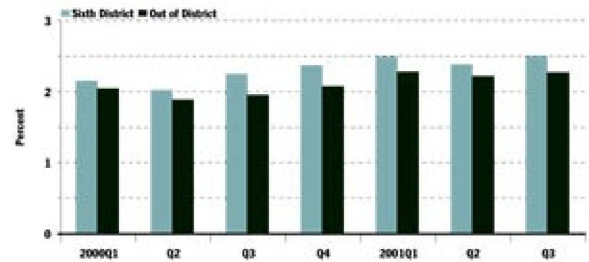
As a result, many community banks in these areas have experienced more problem loans than their counterparts nationwide. In the third quarter of 2001, community banks in the Sixth District registered past due loans of nearly 2.5 percent of their portfolios whereas community banks outside the district posted about 2.2 percent (see chart 2).

Hickson notes that Mississippi's community banks have felt the sting of the recession more acutely than banks in urban areas. He explains that the recent decline in interest rates and the absence of loan demand have made it difficult for smaller institutions to compensate for the narrowing spread between the cost of lending and the cost of borrowing. Many banks, he points out, have not been able to reprice their deposits, and, unlike larger banks, smaller banks typically aren't able to augment their earnings by diversifying the products they offer.

Mississippi has been hard hit by declines in manufacturing jobs, losing more than 20,000 in the last 24 to 30 months. Most of the manufacturing losses have been in rural areas served by smaller community banks. Hickson says, however, that despite the absence of loan growth, community banks have retained a solid foundation: their loan-loss

CHART 2
Community Bank Past Due Loans

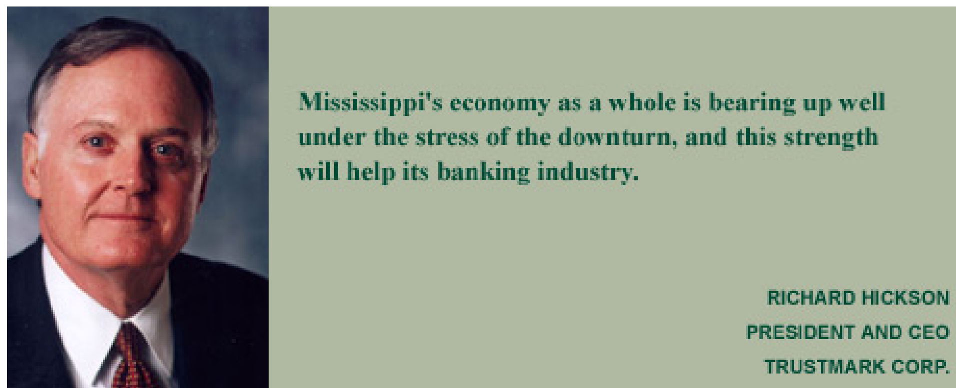
reserves are for the most part strong, and they have quite a bit of equity relative to their assets — partly due to the absence of lending opportunities.



Source: Bank Consolidated Reports of Condition and Income

Hickson believes that Mississippi's economy as a whole is bearing up well under the stress of the downturn, and this strength will help its banking industry. He says that for Mississippi the loss of jobs in manufacturing has been gradual, and businesses have been able to anticipate the contraction and adjust. Despite a slowdown in government spending for highways and building, for example, there haven't been new bankruptcies in construction. Homebuilding, he says, has held up better than expected, and the construction of the Nissan plant in central Mississippi has been a source of "euphoria" since it will provide many jobs in the region. However, Hickson is concerned about the duration of the current cycle of contraction and wonders how long it will take for companies to return to profitability.

Many community banks employ time-honored strategies to maintain credit quality and profitability. For Red River Bank in Alexandria, La., a conservative lending policy is the central strategy for negotiating the downturn. Blake Chatelain, the bank's president, describes Alexandria's economic climate as "slow and steady." While the economy is not booming, neither is it suffering excessively during the current contraction. Chatelain attributes his bank's stability to a strong credit culture. Most of the bank's customers are small businesses in the area.



"We act as advisers to our customers," says Chatelain. "We help them structure their transactions, and we really become a business partner to the extent they will let us. Knowing our customers is absolutely the most critical thing we have to do." He points out that Red River Bank underwrites every loan, avoiding computer models of creditworthiness and pre-approved credit. He believes that the personal relationship community banks maintain with customers not only helps customers make better decisions about borrowing but also encourages them to be more conscientious about paying down debts.

Community banks in metropolitan markets in the Sixth District have not been as affected by the layoffs in the manufacturing sector as the rural community banks have, but the metropolitan community banks do have a greater construction lending concentration, especially in residential construction. Therefore, if the housing market weakens, banks with heavy concentrations in this type of lending could see some deterioration in their portfolios. But to date, the housing sector has remained quite strong.

Community banks in Florida face a different set of challenges. For instance, some community banks in south Florida have extensive ties to Latin America. Thus Argentina's current economic crisis could exacerbate the problems that confront this area's financial institutions, though bank analysts say direct lending exposure to Argentina by banks in the Sixth District is not substantial. The crimp in trade and tourism created by contraction in Latin American economies as well as fallout from Sept. 11 will also affect banks in both south and central Florida. While there is some indication that Latin American tourists are returning to Florida, European travel to the region remains limited.

Banker William Smith Jr. of Capital City Bank in Tallahassee, Fla., remains optimistic about the overall condition of Florida's banking industry and economy in general. Although he acknowledges that Florida has suffered from declines in tourism in the wake of Sept. 11, he believes Florida's economy is resilient.

"We have warm weather — and we can rely on people to keep moving here. And they will buy houses, automobiles and groceries. All that keeps the economy healthy," says Smith. He notes that, overall, problem loans for banks in the state are at low levels and that capital reserves are generally good.

Exposure to commercial real estate

While the current recession has not been a commercial real estate recession, commercial real estate exposure may still pose problems for some highly exposed Southeastern banks. But analysts believe the situation should be less severe than in the 1990s. Hotels and office and industrial properties are nevertheless of some concern.

"Unfortunately, the travel-related impact of the recession and the Sept. 11 attacks come at a time when there is a large pipeline of hotels under construction in markets like Orlando, Miami and New Orleans. It's uncertain how these markets will absorb the amount of new rooms that will be delivered over the next 12 to 18 months," says John Robertson, who leads the Federal Reserve Bank of Atlanta's regional research section.

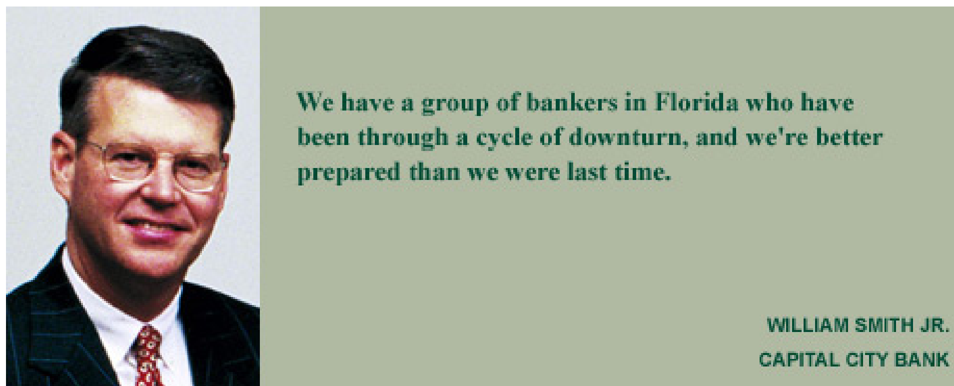
Smith believes Florida bankers are in a better position to cope with commercial real estate problems than they were in the past. "We have a group of bankers in Florida who have been through a cycle of downturn, and we're better prepared than we were last time. We also have a much better understanding of risk and how to control risk exposure," he says, referring specifically to the potential problem of commercial loans to hotels. "We have much better internal controls. Technology alone has made us a much more sophisticated group of lenders."

Office and industrial properties also show signs of weakening because of a fall in demand, but the extent of overbuilding seems to be less than in past cycles. Part of the excess space has been created by vacating dot-com firms in Atlanta and south Florida, but these markets have not been affected nearly as seriously as the technology-intensive areas of California, Boston or Washington, D.C.

"The real news of this cycle so far seems to be the health of bank portfolios in the face of weakened commercial real estate markets," Robertson notes. He says that discipline imposed by the capital markets, tax policies that don't reward unnecessary development and less willingness by banks to compete for commercial real estate loans through lax underwriting have all served to limit the impact of soft commercial real estate markets.

According to Haines, the Birmingham area hasn't seen the kind of speculative commercial real estate development that was widespread in the 1970s and '80s. "Banks are conservative," he says, "but so are developers. They just aren't pursuing speculative deals, though they are still fairly active in retail and multifamily development."

"We do not think we're looking at a repeat of the early 1990s in real estate lending," Robertson reassures.



Not like last time

The banking system headed into the current downturn in better shape than during the earlier economic crunch. The systemic weaknesses that afflicted the banking industry in the early 1990s are absent. Larger banks in particular are more diversified geographically and across product lines. They have developed better risk-management systems and been subjected to more stringent market discipline. In addition, most banks are maintaining higher capital levels, higher levels of coverage for problem loans and lower percentages of nonperforming loans.

The economic climate is nonetheless challenging. Credit quality has weakened somewhat, loan growth has slowed and earnings are under pressure. Community banks, banks with international exposure and those banks with high exposure to commercial real estate, especially projects begun late in the business cycle, are likely to suffer more acutely than others.

"The silver lining so far," says Robertson, "is that, despite all the bad news on the economy, the problems in the banking sector remain isolated." Banks are not entirely out of the woods, however, as credit cycles typically lag economic cycles. Because of this lag, most banking analysts expect 2002 to be a challenging year for banks even as the nation's economy improves.

Supporting data and commentary for this article were provided by the Atlanta Fed's Supervision and Regulation Department's Policy and Supervisory Studies Group.

Federal Reserve Bank of Atlanta, 1000 Peachtree Street NE, Atlanta, GA 30309-4470 Tel. (404) 498-8500

EconSouth (First Quarter 2002)

REGIONAL FOCUS

Now and Then:
Dissecting Regional Differences
During Recessions

Looking at national and regional patterns in economic data during recessions can be useful in learning about their effects. But because of differences in the nature of recessions over time and variations in the economic environment across regions, comparisons of recessions can point out as many differences as similarities. A comparison of the 1990–91 recession and the one beginning in March 2001 highlights such similarities and differences and their effects on the Southeast.

The level of aggregate employment is an important statistic for gauging the health of the national economy because it is the broadest available monthly measure. However, aggregate national data do not provide the full story of how individual regions of the country weather a recession.

Remarkable," "a dynamo," "a well-oiled machine" were some of the words and phrases used to describe the U.S. economy during the nation's longest post-World War II expansion, which began around April 1991. During 2001, however, a dramatic change occurred as the U.S. economy experienced a sustained contraction in aggregate economic activity, the first in a decade. According to the National Bureau of Economic Research (NBER), a peak in business activity occurred in March 2001, and while economic conditions were showing signs of improvement in early 2002, an end to the current recession had not been announced at press time for this article.

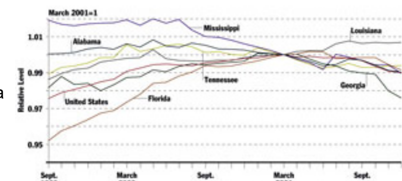
Defining recessions

A recession begins just after the economy reaches a peak of activity and ends as activity reaches a trough. Between trough and peak — after surpassing pre-recession levels — the economy is in an expansion. To determine the beginning and end of a recession, the NBER looks at several factors, including the pace of wholesale and retail sales and personal income less transfer payments like welfare. But the most important variable is the level of aggregate employment. In the current downturn, total payroll employment growth gradually began losing momentum (growing at a slower rate), from the summer of 2000. The number of jobs reached a peak in March 2001 and subsequently declined.

The level of aggregate employment is an important statistic for gauging the health of the national economy because it is the broadest available monthly measure. However, aggregate national data do not provide the full story of how individual regions weather a recession because national employment statistics do not equally represent regional economic activity. Each recession affects regions differently depending on the local economic conditions at the time. A comparison of the Southeast to the nation in the current recession as well as a comparison of the region's performance in the current recession versus the 1990–91 recession illustrates these types of variations.

Employment data reveal disparity

CHART 1
Payroll Employment 1999–2001



Source: Bureau of Labor Statistics, seasonally adjusted (March 5, 2002, release)

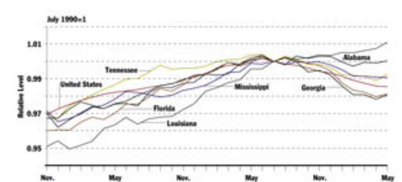
Chart 1 displays employment levels in the United States and the six states in the Southeast from fall 1999 until December 2001. To best compare turning points and the relative pace of change before and after the turning point, employment levels have been scaled so that employment is equal to 1 in March 2001.

The data indicate that aggregate U.S. employment peaked in March 2001 although it did not decline significantly until September of that year. As is usually the case, a turning point in the level of economic activity is discernible from the data only well after the event.

In the Southeast, there was considerable diversity among the six states in the timing of peak employment levels. In Mississippi, for instance, employment peaked in August 2000 — well before the beginning of the current recession — whereas in Florida it did not peak until mid-2001. Louisiana's employment has been relatively stable during the current recession. However, the state started with a much weaker employment base, which has displayed little growth since mid-2000. In contrast, Georgia's employment was growing at about the same pace as the nation's before peaking in April 2001, but it has subsequently declined more sharply than the nation's.

If this type of disparity were typical of recessions, then it could be used to infer the likely regional effects. But recessions differ in their sources, depth and duration.

CHART 2
Payroll Employment 1988–91



This difference is illustrated by comparing employment data for the period 1989 to mid-1991 (see chart 2) with data from the current recession. Like chart 1, the employment levels in chart 2 are normalized to 1 as of July 1990, which was the beginning of the last recession, according to the NBER. This comparison highlights several differences between the two most recent recessions. For example, in the last recession, employment at the state level, except in Louisiana, more closely tracked the national trend, with much less divergence in the timing of the peaks.

An exception to this trend was Louisiana, where employment continued to rise during that recession. Louisiana's divergence from the national trend can be attributed to the state's economic dependence on the oil industry, which

experienced a boom as a result of the higher prices for oil brought about by the Gulf War.

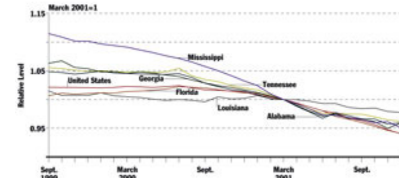
Source: Bureau of Labor Statistics, seasonally adjusted

Manufacturing sparks different reactions

But there are other differences between the two most recent recessions. Part of this difference stems from the experience of the manufacturing sector.

For the nation as a whole, manufacturing employment, which represents around 14 percent of total employment, began to decline in the fall of 2000, as did industrial production (see chart 3). Broadly speaking, a similar pattern developed in the manufacturing sectors in Alabama, Florida, Georgia and Tennessee. Louisiana's manufacturing employment was stable through early 2001, supported by robust oil and gas activity in the state.

CHART 3
Manufacturing Employment 1999–2001



Source: Bureau of Labor Statistics, seasonally adjusted (March 5, 2002, release)

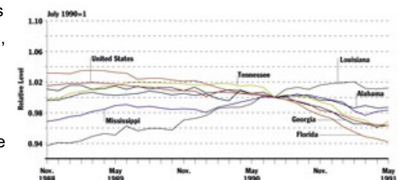
The other regional exception to the general pattern is Mississippi, where employment in manufacturing had declined steadily for more than a year before the beginning of the current recession in March 2001. This development is particularly important because of the relatively high concentration of manufacturing employment in Mississippi, which represents around 20 percent of all payroll jobs in the state.

Part of the decline in Mississippi's manufacturing sector is due to the secular contraction of the state's apparel industry in the face of strong foreign competition and weakening domestic demand. But part of the decline is also cyclical. In 2001, Mississippi's producers of capital equipment such as electronic equipment and industrial machinery experienced a greater percentage of job loses than did the apparel industry.

Notably, since the onset of the current recession, the decline in the Southeast's manufacturing payrolls has generally been less severe than in the nation as a whole. Aggregate manufacturing employment for the nation declined by some 6 percent during the nine months between March and December 2001 compared with an average 4 percent decline in the Southeastern states. One reason for this difference is that the current recession has taken a particularly heavy toll on producers of durable consumer and capital goods, industries that are less concentrated in the Southeast than in the nation as a whole.

The nation, in fact, has one-third more people employed in durable goods industries than in nondurable goods industries whereas in the Southeast the durable goods sector currently employs about the same number of people as the nondurable goods sector. But times have changed. In 1990, by contrast, the Southeast employed around 10 percent more people in nondurable goods production than in durable goods production. Over time, this relative concentration has been changing gradually as some nondurable industries, such as apparel, have contracted and durable goods industries, such as autos, have expanded in the Southeast.

CHART 4
Manufacturing Employment 1988–91

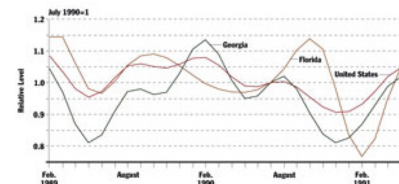


Source: Bureau of Labor Statistics, seasonally adjusted

The manufacturing sector's overall performance in the region has also been different during the current recession in comparison to the previous recession. In the 1990–91 recession, manufacturing employment in the Southeast was stable before the recession and actually grew in some states during the recession (see chart 4). For instance, it is particularly notable that Mississippi's manufacturing sector was not in sharp decline prior to that recession, and the impact of the recession was relatively small on the state's manufacturing sector. Of course, the fact that the recession largely swept past Mississippi, having only modest negative effects, does not imply that the state's economy was in great shape. Mississippi at that time, in fact, had the region's highest civilian unemployment rate.

In Louisiana, as noted earlier, manufacturing employment grew during the 1990–91 recession because of the domestic oil boom brought about by the Gulf War. The other Southeastern states more or less tracked national trends although Alabama's manufacturing sector, like Mississippi's, was relatively unaffected by the recession. Florida's manufacturing sector was particularly hard hit during that recession by cutbacks in aerospace defense spending and a decline in demand for building materials.

CHART 5
Existing Single-Family Home Sales 1989–91



Source: Economy.com, seasonally adjusted

During the nine-month period of the 1990–91 recession, aggregate employment in manufacturing declined by only 4 percent, the smallest percentage decline in any postwar recession. One reason for the relatively mild impact on manufacturing both nationally and regionally was that the recession was concentrated more in real estate and related industries like banking (see chart 5).

Residential real estate

The experience of the Southeast's two largest markets for existing home sales, Florida and Georgia, illustrates several facets of the 1990–91 recession's impact on real estate markets.

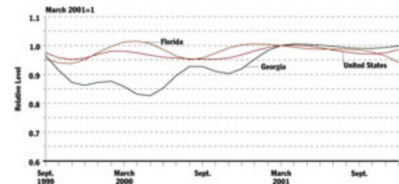
First, there was substantial volatility in home sales before and during the recession. The nation experienced a 10 percent decline in the rate of home sales during the recession, and Georgia and Florida experienced even larger declines. In these two states problems in the real estate sector were evidenced by an almost 50 percent decline in single-family building permits from their cyclical highs in the mid-1980s. The flood of speculative construction during the 1980s led to a glut of housing inventory, but by the end of the recession the pace of home sales had recovered both nationally and locally.

In contrast to the 1990–91 recession, the current downturn has had a relatively small effect on housing markets thus far (see chart 6). National and Southeastern residential real estate markets have displayed much less volatility and, in fact, have held up quite strongly even as the recession has unfolded. This relative strength is due in part to the favorable interest rate environment and in part to the fact that workers' incomes, in the aggregate, have held up well even in the face of weakening labor markets.

CHART 6
Existing Single-Family Home Sales 1999–2001

Typically, housing demand wanes during a recession as incomes stagnate and homebuyers postpone their purchasing decisions. Residential investment contracted considerably in the years leading up to the 1990–91 recession and then into

the recession, starting with a 0.5 percent decline in 1988 and culminating in a 13 percent decline during 1990–91. In contrast, residential investment grew nearly 0.8 percent in 2000 and 1.4 percent in 2001.



Source: Economy.com, seasonally adjusted

If residential real estate markets remain relatively strong into 2002, housing may not provide the kind of cyclical boost that it has typically done as a recession ends because there is less pent-up demand for housing.

Variations on a theme

While recessions are defined in terms of declining aggregate employment, industrial production, sales and income, each recession also has its own individual identity. This individuality is particularly evident when looking across regions of the country and can be attributed at least partly to differences in the industry mix between states and the nature of the economic shocks hitting the economy at a given time. Understanding local or regional economic activity during a particular recession requires looking beyond national trends.

If residential real estate markets remain relatively strong into 2002, housing may not provide the kind of cyclical boost that it has typically done as a recession ends because there is less pent-up demand for housing.

In addition to the difference between regions, there can also be considerable variation between different time periods. Because the mix of industries changes only rather gradually at a regional level, this type of variation can be attributed mostly to differences in the nature of the economic downturn. While the current recession has been heavily concentrated in the manufacturing sector, with some spillover into other sectors, the 1990–91 recession was concentrated primarily in real estate and financial sectors with a spillover to manufacturing.

When comparing the depth of the current recession with the previous one, it seems the current recession is less severe overall and has witnessed lower retrenchment in traditionally highly cyclical sectors such as housing and automobile manufacturing. If this recession is indeed milder than the last, then the pace of recovery will likely not be boosted by the traditionally pro-cyclical sectors such as housing and automobiles, which are already operating at a robust level. For that reason, one might suspect that the pace of the ensuing economic recovery this year may be more moderate and more gradual than has often been the case in previous recoveries.

EconSouth (First Quarter 2002)

INTERNATIONAL FOCUS

Argentina:
The End of Convertibility

Argentina appeared to have found the solution to its financial problems with the implementation of the Convertibility Plan in 1991. However, in the following years the picture changed from rosy to troubled, and today Argentina is in the midst of a severe recession. What role did convertibility play in the country's current economic predicament?

Prior to its current crisis Argentina seemed to be in an enviable position; after undergoing structural reform, the country had made a break with its troubled financial past. The centerpiece of this reform, the Convertibility Plan, linked the Argentine peso to the U.S. dollar at one-to-one parity. After convertibility's introduction in April 1991, the Argentine economy prospered as its gross domestic product (GDP) grew rapidly, inflation was subdued and foreign investment flowed into the country. The Argentine economy was hit with series of external shocks beginning with the 1995 Mexican peso crisis, however, and the rigidities and limitations of the Convertibility Plan became apparent.

"Don't pay the external debt," reads the street-corner graffiti. Similar messages have been spray-painted in Argentina as financial woes have plagued the country.

A recession followed and the Convertibility Plan was finally scrapped in January 2002. By early March the peso had lost more than 50 percent of its value, and the Argentine government was struggling to put together a viable economic recovery plan.

The Convertibility Plan

On the heels of the debt crisis and a series of failed stabilization programs in the 1980s, the Argentine economy went through a severe recession and hyperinflation. In 1989 GDP shrank 6.9 percent and the inflation rate was more than 3,000 percent. Economy Minister Domingo Cavallo's 1991 Convertibility Plan fixed the exchange rate at one Argentine peso per U.S. dollar and required the central bank to back two-thirds of the monetary base with international reserves.

As a quasi-currency-board arrangement (that is, domestic currency can be issued only in exchange for a specified foreign currency at a fixed rate) the Convertibility Plan eliminated the possibility of inflationary financing of fiscal deficits and limited the role of the central bank as lender of last resort. In other words, fixing the exchange rate meant that monetary policy could no longer be an instrument for other economic policies.

Convertibility provided instant credibility in that it prevented the government from printing money to finance deficit spending, a policy that had led to hyperinflation in the past. The sustainability of the Convertibility Plan depended upon fiscal discipline, a stable financial sector to support investment and savings, and a positive balance of international reserves.

The Convertibility Plan was accompanied by reforms that sought to strengthen the financial sector and open the economy to international capital markets. Tax reform and the privatization of public enterprises were aimed toward creating a more efficient public sector while trade liberalization brought the reduction of tariffs and elimination of import quotas. To promote trade, Argentina joined with Brazil, Paraguay and Uruguay to form the Mercosur customs union. Renewed investor confidence in Argentina was demonstrated as the government was once again able to raise capital through international financial markets.

Strengthening the banking sector was fundamental to the Convertibility Plan's success because convertibility imposed strict limitations on the central bank's ability to act as the lender of last resort. Consequently, the government initiated a series of reforms that encouraged competition, strengthened supervision and regulation, and invited foreign entry into the banking sector. In addition, because of Argentina's past history of macroeconomic volatility, central bank regulations imposed capital requirements that were stricter than international banking standards. Many officials argued that the presence of foreign banks would provide depositors with an extra level of confidence, and by 2001 nine of the 10 largest private banks were foreign-owned.

Volatile economic growth

From 1991 through 2000 the Argentine economy grew an average of 4.2 percent per year. During the same period inflation fell from 171 percent to deflation of 0.9 percent, and the interest rate paid on deposits fell from 61.7 percent to 8 percent. As Argentina opened to the international economy, exports increased 5.1 percent per year on average between 1992 and 2000.

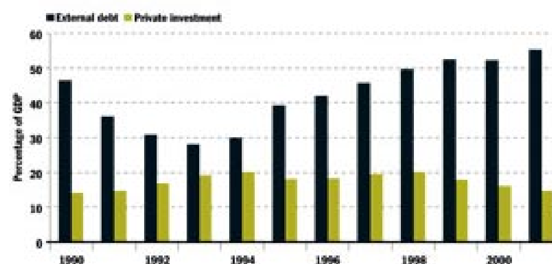
By 1994 large state-owned firms in the telecommunications, airline, railway, petroleum, steel and defense sectors were all privatized. Unlike Mexico and Chile, Argentina did not exclude strategic sectors such as petroleum and mining from its privatization program. Attracted by the sale of state-owned firms, foreign direct investment averaged $7.8 billion between 1991 and 2000, 11 times greater than average foreign direct investment between 1980 and 1990.

The revenues from the privatization process enabled the government to run fiscal surpluses in 1992 and 1993. But in 1994 the fiscal deficit began to rise, financed by increased borrowing. In fact, total external debt rose 130 percent between 1991 and 2001 to $150 billion. The total external debt to GDP ratio increased from 33 percent of GDP to 55 percent of GDP in the same period (see chart 1).

Vulnerability to external shocks

A series of economic shocks beginning in 1995 made convertibility's limitations apparent. Early that year, following Mexico's devaluation of its currency in December 1994, Argentina experienced a run on bank deposits, a loss of international reserves and, ultimately, a recession. The drop in business confidence and the economic slowdown led to adoption of a tough adjustment program involving tax increases and a drastic reduction in government expenditures. Several financial reforms were introduced that, along with multilateral commitments, restored investor confidence.

CHART 1
External Debt and Private Investment in Argentina



Source: International Monetary Fund International Financial Statistics

Real GDP declined 2.8 percent in 1995, but the economy recovered in 1996. The growing fiscal deficits of the country's provinces — which had never undergone structural adjustment — then became a growing concern for the federal government. Imposing austerity upon the provinces, however, met with stiff political resistance, and provincial debt rose to over $23 billion by the end of 2001.

Additional shocks occurred in 1998 with the Asian and Russian crises and again in 1999 when Brazil devalued its currency. Initially the devaluation of the *real* raised some doubts in Argentina about the sustainability of the country's currency board system, which now faced renewed competitive pressure from its Mercosur partner Brazil. Brazilian exports realized benefits from a cheaper *real* while Argentine exports were tied to a steadily appreciating dollar.

Yet Argentina's successful emergence from the Mexican peso crisis, the strength of the financial system, the country's continued access to international financial markets and the government's steadfast commitment to the currency board were all signs that convertibility could withstand the crisis. President Carlos Menem talked openly of the possibility of dollarization, and recognition of the costs of a devaluation in a highly dollarized economy led many to believe that Argentina would dollarize its economy before it would ever devalue its currency.

However, as debt levels continued to climb, the government's loose fiscal policy began to undermine confidence in convertibility. The unwillingness of the government to address the fiscal problem — compounded by the recession that began in late 1998 and the fact that 1999 was an election year — led to uncertainty, a loss of credibility among investors, and capital outflows. The country risk premium increased, hurting the performance of domestic financial markets and raising the cost of accessing funds in the international markets. All of these factors exacerbated the recession. In December 2000 the International Monetary Fund (IMF) approved a $39.7 billion package of financial assistance designed to restore credibility to Argentina's economic program.

President Fernando De la Rua, elected in 1999, expected that the new funds and accompanying structural reform measures would reduce the country risk premium. Reforms were largely scuttled, however, by resistance from labor unions and provincial governors. By late 2000 investor concern about the government's ability to repay its foreign debt caused Argentina's risk premium to rise again.

Chronology of the collapse

While it is difficult to pinpoint one event as the starting point of Argentina's downward spiral, the political crisis within the De la Rua administration commenced in earnest when Vice President Carlos Alvarez resigned in October 2000 in protest of the president's handling of a senate bribery scandal. Financial markets fell sharply because of concern over a break-up of the ruling Alianza coalition. Two months later, Argentina secured the aforementioned assistance from the IMF. By the end of January 2001, the package appeared to have been successful as capital returned to the country and central bank reserves grew by $1.3 billion.

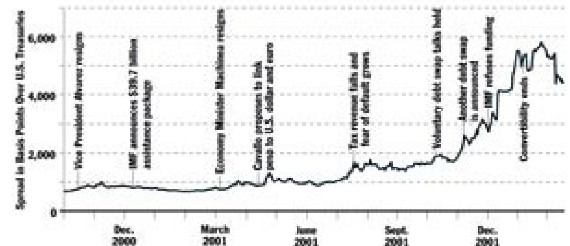
Unfortunately, confidence in Argentina quickly eroded again in February when the Turkish financial crisis erupted and Argentine Central Bank President Pedro Pou was accused of malfeasance in prosecuting money-laundering cases. In March Finance

Minister Jose Luis Machinea resigned and was replaced by Ricardo López Murphy, who resigned after less than two weeks in office out of frustration with the lack of political backing for his austerity plan. Domingo Cavallo, the original architect of convertibility, succeeded López Murphy. Cavallo was granted special policy-making authority to implement financial, fiscal and administrative reforms. His return, viewed by many as the last, best hope for rescuing Argentina, was initially well-received.

Cavallo almost immediately eroded this goodwill by making proposals to tinker with the Convertibility Plan. He suggested linking the peso to a currency basket composed of both the dollar and the euro; the arrangement would take effect if and when the euro achieved parity with the dollar. The logic behind the proposal was that the peso would be less adversely affected by the dollar's appreciation if the peso were linked to an average of the dollar and the euro.

Although this plan would not have gone into effect until an unspecified future date, it was interpreted as a sign that the government no longer held convertibility sacrosanct and that devaluation was now possible. In effect, Cavallo's future plan had done irreparable damage to the Convertibility Plan's reputation. The spread of Argentine long-term bonds over U.S. Treasuries surged to 1,500 basis points in April 2001, the highest level since Brazil's January 1999 devaluation of the *real* (see chart 2).

CHART 2
Bond Spreads During Convertibility's Final Months



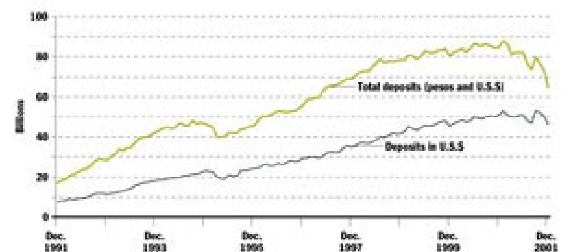
Source: JP Morgan

The downward slide

In another effort to boost confidence, bring down interest rates and provide breathing room for the economy to recover, the government initiated a $29.5 billion debt swap in June that was designed to save $16.4 billion over five years. Initial market reaction was positive, and bond spreads dropped to 700 basis points. The swap, however, did nothing to alleviate the growing fiscal burden, and, as tax revenue fell, fears grew over whether or not Argentina could meet its short-term obligations. Banks were hit with another wave of withdrawals (see chart 3), and bond spreads rose sharply. In response the government implemented the zero-deficit policy, which called for an immediate end to fiscal deficits via budget cuts and tax hikes. This plan included an unpopular 13 percent cut in public sector salaries and in pensions of over $500 per month.

The already reeling De la Rua administration was weakened even further when the opposition Peronist party won a resounding victory over the ruling Alianza coalition in the October 2001 legislative elections. The government announced yet another debt swap of $16 billion worth of high-yield government bonds held by local banks and pension funds for lower-paying securities guaranteed by tax revenue. Though the debt-swap was considered voluntary, bondholders had no choice but to participate since they would clearly be worse off in a default.

CHART 3
Total Deposits Versus Deposits in U.S. Dollars



Source: Central Bank of Argentina

In November the government announced that another debt swap for up to $53 billion worth of foreign-held debt would be held in two to three months, saving the government $4 billion. By this time, though, Argentina had lost all international credibility as investors began to see the debt swaps as thinly veiled defaults. Bond spreads surged past 3,000 basis points, and bank deposits fell an additional $7 billion in October and November (to a total of $67.5 billion).

The final blow came in early December 2001. After the IMF refused to release a $1.2 billion dollar funding tranche, the government announced restrictions on bank withdrawals to halt the accelerating run on deposits. Violent protests erupted, and Domingo Cavallo and Fernando De la Rua resigned. Interim President Adolfo Rodríguez Saá then announced the largest sovereign default in history: Argentina would no longer pay interest or principal on its $150 billion total external debt. Ten-plus years of convertibility ended in early January 2002 when newly sworn-in President Eduardo Duhalde announced that the Argentine congress would repeal the Convertibility Law. By February the peso was set to float freely against the dollar, although the government reserved the right to intervene in the foreign exchange market when it deemed it necessary.

INTERIM PRESIDENT ADOLFO RODRÍGUEZ SAÁ ANNOUNCED THE LARGEST SOVEREIGN DEFAULT IN HISTORY: ARGENTINA WOULD NO LONGER PAY INTEREST OR PRINCIPAL ON ITS $150 BILLION TOTAL EXTERNAL DEBT.

Repercussions of the collapse

The economic, financial and social costs of the collapse of convertibility have been drastic and will endure for many years. While U.S. trade exposure with Argentina is limited (in 2000 just 0.6 percent of U.S. exports went to Argentina), the Argentine collapse raises a series of questions about the future of reform in the region. Still unclear is what impact the Argentine crisis will have on investment in Latin America. While limited financial market contagion thus far is a hopeful sign for the future, the risk of contagion in the region could increase if the crisis endures for a long period.

The impact on foreign direct investment is also uncertain. For example, in recent years the strong foreign presence in the Argentine banking sector was believed to have strengthened the financial sector. The foreign banks' reluctance to recapitalize their local subsidiaries in the wake of the devaluation, however, raises new questions about their willingness to commit to a particular country or region in the face of an adverse shock.

Finally, while it is clear that Argentina did not fully implement its reform agenda (most notably with respect to fiscal and labor reforms), the crisis in a country that was once considered the model reformer could conceivably generate a backlash against the process of structural reform in the region.

Upcoming elections in Colombia, Ecuador and Brazil will provide some indication of what impact, if any, the Argentine crisis might have on policy debates in other countries. Meanwhile, the Argentine government is working (with assistance from the IMF and other multilateral lending agencies) to construct a viable economic recovery program in the wake of convertibility's demise. Argentina's return to growth and stability will likely take some time as most analysts forecasts project a sharp economic contraction in 2002.

This article was written by Myriam Quispe-Agnoli and Stephen Kay of the Atlanta Fed's Latin America Research Group.

Return to Index | Next

Federal Reserve Bank of Atlanta • 1000 Peachtree Street NE • Atlanta, GA 30309-4470 • Tel: 404.498.8500 • webmaster@frbatlanta.org

FEDERAL RESERVE BANK of ATLANTA
Economic Research

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.

How does immigration affect productivity?

The growing influx of immigrants into the United States has prompted concerns about potential negative effects on native workers, especially the less skilled. Such concerns have not been borne out by many studies of the effect of immigration on wages. However, the typical theoretical negative effect of immigration flows on wages may be offset by changes in other aspects of the economy, including output mix, productivity and capital.

In a recent article, Myriam Quispe-Agnoli and Madeline Zavodny examine the relationship between immigration and three factors — output mix, labor productivity and capital — in the skilled and unskilled sectors in the U.S. manufacturing sector at the state level. The authors develop a simple two-sector model of the effect of immigration on these three factors and then test the model's predictions using data from the 1982 and 1992 Census of Manufactures and other sources.

The results indicate that changes in labor supply induced by immigration caused labor productivity in both the low- and high-skilled sectors to increase more slowly in states that attracted a larger share of immigrants during the 1980s than in other states. This slower growth may result from the gradual assimilation process many immigrants undergo as they acquire language skills and familiarity with U.S. institutions, Quispe-Agnoli and Zavodny believe, and they call for further study of immigration's longer-term effects on productivity.

Economic Review
First Quarter 2002

Reforming deposit insurance and FDICIA

Current discussions about deposit insurance reform center on issues such as the size of insurance premiums, the size of the fund and the size of the coverage limits — all issues that reflect a concern with how to allocate the losses arising from bank failures. Authors Robert A. Eisenbeis and Larry D. Wall argue that such issues, while important, do not affect the performance of the deposit insurance system nor should they be the focus of deposit insurance reform. They suggest that reform efforts should be directed toward strengthening the incentives to enforce the least cost resolution provisions of the Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA).

Eisenbeis and Wall make the case that the large losses the FDIC has borne with some bank failures were due to supervisory forbearance. They suggest that a useful step forward would be to carry out FDICIA's mandate to develop and implement market value–type disclosures of the value of banks' assets and liabilities. Increasing the transparency of bank risk taking, as academics have long argued, would improve regulators' ability to monitor bank risk exposure.

These reforms, combined with a different approach to risk-based premiums and measures to strengthen market discipline, such as expanded use of subordinated debt, merit further consideration as potential partial solutions to the problem of implementing FDICIA.

Economic Review
First Quarter 2002

Race, computers and online shopping

The issue of whether the United States faces a "digital divide" — whether minorities and other socioeconomically disadvantaged groups have less access to computers and the Internet than whites and middle- and upper-income groups do — has received considerable attention from policymakers. Investigating the extent, causes and consequences of a digital divide is important because of the rising use of computers and the Internet in workplaces, schools and homes. In addition, there is widespread concern that inequalities in access and usage may limit opportunities for employment, education and political participation among certain demographic groups.

In a recent working paper, Hiroshi Ono and Madeline Zavodny examine racial and ethnic differences in computer ownership and Internet usage. They focus on online shopping, the fastest-growing segment of Internet usage in the United States, because few studies have examined racial and ethnic differences in e-commerce behavior. The authors find that African Americans and Hispanics are less likely to own or use a computer than are non-Hispanic whites but are not less likely to shop online. Indeed, African Americans appear to shop online more frequently and to spend more than non-Hispanic whites do.

Ono and Zavodny write that one possible explanation for this finding is that, as shown in previous research, minorities may experience price discrimination in face-to-face retail transactions. Because Internet transactions are race-blind, minorities may shop online more frequently and spend more than whites. Indeed, recent research suggests that minorities and whites who buy a car over the Internet pay similar prices, whereas minorities pay more at dealerships than whites do, on average.

WORKING PAPER 2002-01
JANUARY 2002

ATLANTA FED DOLLAR INDEX

The dollar continued its rise in October 2001 against the 15 major currencies tracked by the Atlanta Fed. Gains were registered on all subindexes except the Americas subindex, which was unchanged. In November, a decline against the Pacific-excluding-Japan subindex was offset by gains versus the European and other subindexes. The dollar rose again in December as a result of gains versus the Pacific and Pacific-excluding-Japan subindexes although the Americas and European subindexes registered declines.

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

Atlanta Fed co-sponsors conference on technology, growth and the labor market

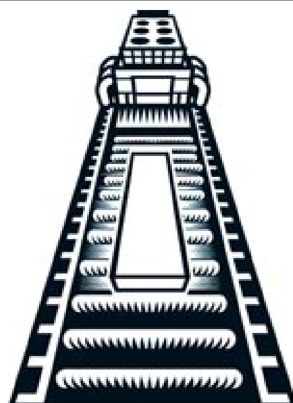
The impact of technology on the U.S. economy is a hotly debated topic. Key questions include whether the United States has transitioned to a "new economy" with fundamentally different economic principles and how information technology affects workers and their families.

To offer a perspective on these issues, the Federal Reserve Bank of Atlanta and the Georgia State University Andrew Young School of Policy Studies sponsored the conference *Technology, Growth, and the Labor Market* in January 2002. Research discussed at the conference included papers and commentaries led by leading experts on a range of issues related to the impact of technology on economic growth and the labor market, including the role of technology in the "new economy," macroeconomic and microeconomic implications of technological change, and the effects of technology on worker productivity.

As a follow-up to the conference, several of the papers presented will be published in the Atlanta Fed's third quarter 2002 *Economic Review*. For more information about the conference agenda, visit the bank's Web site at http://www.frbatlanta.org/news/news_newsrouter.cfm?news_type=CONFERENCES.

THE STATE OF THE STATES

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



Alabama

- The state’s apparel industry continues to struggle. Russell Corp. announced the elimination of 200 additional jobs. Last year the company closed several Alabama plants and eliminated about 800 jobs. One bright spot for some apparel firms has been the growth in military clothing contracts.
- Toyota Motor Corp. recently began construction of its new V-8 engine plant in Huntsville. The first engines should roll off the production line in 2003.
- Fibercore Inc. plans to build a $30 million fiber optic cable plant in Auburn, employing about 200 people.
- Alabama’s primary metals industries eliminated some 2,000 jobs in 2001 after cutting more than 3,000 jobs over the prior three years. Steel prices firmed somewhat in February after having declined steeply through most of 2001.

Florida

- Florida’s hospitality and tourism sector continued to recover from post-Sept. 11 lows, but hotel/motel and resort occupancies remained well below year-ago levels during the first two months of 2002. A key factor in south and central Florida has been the persistent decline in European traffic.
- Central Florida’s commercial real estate market turned down significantly during 2001. The office market was affected by increasing vacancies and sublease space, and more recently the hotel market has come under considerable pressure. Reports suggest that occupancy rates at some Orlando hotels are at especially low levels. Orlando is Florida’s biggest lodging market.
- Central Florida’s defense contractors have received several large contracts, including Lockheed’s Orlando-based missile division, Sparton Defense Electronics and Harris Corp.

Georgia

- Weak market conditions have resulted in the closing of a Jonesboro plant that produced aluminum doors and frames for commercial buildings. The plant employed approximately 250 workers.
- Hotel occupancy is down and several new hotel construction projects in metro Atlanta have been shelved. One factor has been the weakness in demand because of lower levels of business travel.
- In Savannah, Ga., Gulfstream Corp. has been awarded several new contracts for specialized aircraft. Customers have included the Israeli Ministry of Defense, the Japanese Coast Guard and the National Center for Atmospheric Research.

- Following signs of economic recovery, production cuts scheduled for March at Ford Motor Co.'s Hapeville plant have been postponed. An estimated 275 assembly jobs would have been lost.

Louisiana

- The recent merger of oil giants Chevron Corp. and Texaco Inc. has added almost 180,000 square feet of office space to the sublease market. The addition of this space has significantly affected downtown New Orleans' office market.
- Both the U.S. and Louisiana rig counts declined for the seventh consecutive month in February. The Louisiana rig count in February was 164, down from the year-ago level of 221. The U.S. rig count declined to 825 in February from 1,136 a year ago.
- Despite the decline in natural gas prices, weak market conditions continue to adversely affect the state's chemical producers. Less demand for fertilizer, vinyl and PVC pipe has kept plants operating below capacity and has led to several layoffs.

Mississippi

- Apparel employment in Mississippi fell by 40 percent, or by nearly 8,000 jobs, from December 1998 through December 2001. The latest casualty, Burlington Industries Inc., plans to cut 850 jobs and cease operations at its Stonewall plant by the end of March of this year.
- According to the state's tax commission, gross revenues at the 30 state-regulated casinos rose 2 percent to $2.7 billion in 2001. Revenue in December 2001 was up some 17 percent at the 12 casinos on the Gulf Coast. Visitor numbers returned to near normal levels soon after Sept. 11, apparently because most of the casino's patrons live within driving distance.
- A second wave of suppliers, representing an additional $110 million of investment and 1,000 jobs, was announced recently as part of Canton's $930 million Nissan automotive assembly plant project.

Tennessee

- AdvancePCS will reportedly open a customer-service center near Knoxville. The center, set to open in July, will employ 400 people as part of the company's prescription service.
- Strong demand kept production lines busy at Nissan's Smyrna automotive plant in 2001. Nissan assembled almost 150,000 Altimas in Smyrna last year. The plant employs about 6,700 people and expects to add 300 more next year, when the plant begins to produce the Maxima.
- The planned closure of Federated Department Store's Fingerhut retailing unit, the country's largest direct marketer of retail goods, will cost about 1,300 jobs in Tennessee as the company shutters its call center and distribution operations there.
- Black & Decker Corp. plans to close its Nashville operations, which currently employ 270 people, as part of the company's decision to shift its manufacturing emphasis overseas.

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

FEDERAL RESERVE BANK of ATLANTA

Economic Research

Southeastern Economic Indicators

		Alabama	Florida	Georgia	Louisiana	Mississippi	Tennessee	6th District	U.S.
Total Payroll Employment (thousands)[a]	**2001Q4**	**1,907.2**	**7,329.1**	**3,946.0**	**1,941.4**	**1,132.0**	**2,753.0**	**19,008.7**	**131,502.0**
% change from	2001Q3	–0.6	0.1	–1.7	–0.1	–0.7	–0.2	–0.5	–0.6
% change from	2000Q4	–1.6	2.3	–1.7	0.0	–1.8	0.1	0.2	–0.6
Manufacturing Payroll Employment (thousands)[a]	**2001Q4**	**339.9**	**475.7**	**558.2**	**176.2**	**213.8**	**480.8**	**2,244.5**	**17,173.7**
% change from	2001Q3	–1.3	–1.1	–1.4	–1.1	–1.1	–1.2	–1.2	–2.2
% change from	2000Q4	–4.8	–2.2	–4.3	–3.4	–6.7	–4.8	–4.2	–6.6
Civilian Unemployment Rate[a]	**2001Q4**	**5.7**	**5.3**	**4.3**	**6.2**	**6.1**	**4.7**	**5.2**	**5.6**
Rate as of	2001Q3	4.7	4.3	3.7	5.1	4.9	4.1	4.3	4.8
Rate as of	2000Q4	4.6	3.6	3.4	5.8	5.4	4.2	4.1	4.0
Single-Family Building Permits (units)[b]	**2001Q4**	**17,677**	**126,917**	**64,099**	**13,539**	**8,215**	**24,970**	**255,418**	**1,220,506**
% change from	2001Q3	12.5	9.8	–2.8	–1.5	10.4	–0.1	4.9	1.4
% change from	2000Q4	35.5	17.6	–5.3	7.7	17.0	11.8	10.8	2.5
Multifamily Building Permits (units)[b]	**2001Q4**	**1,853**	**43,046**	**21,398**	**2,620**	**2,433**	**1,995**	**73,345**	**396,422**
% change from	2001Q3	–56.5	–13.8	–2.1	–18.5	59.1	–68.1	–15.8	3.7
% change from	2000Q4	–63.7	–20.9	4.0	31.3	–42.8	–72.5	–21.7	5.8
Personal Income ($ billions)[b]	**2001Q3**	**110.1**	**477.7**	**241.2**	**108.2**	**62.1**	**156.3**	**1,155.7**	**8,761.4**
% change from	2001Q2	0.6	1.0	0.3	0.7	0.8	0.9	0.8	0.6
% change from	2000Q3	5.2	6.2	4.9	4.5	4.0	5.1	5.4	4.6

		Atlanta	Birmingham	Jacksonville	Miami	Nashville	New Orleans	Orlando	Tampa
Total Payroll Employment (thousands)[a]	**2001Q4**	**2,173.3**	**482.7**	**585.0**	**1,044.5**	**688.7**	**627.7**	**944.9**	**1,261.2**
% change from	2001Q3	–1.7	–0.1	0.4	–0.5	–0.4	–0.2	0.4	0.0
% change from	2000Q4	–1.9	–1.2	2.4	2.0	0.0	–0.4	3.1	3.3
Civilian Unemployment Rate[a]	**2001Q4**	**4.1**	**4.0**	**4.5**	**7.8**	**3.3**	**5.5**	**5.1**	**4.1**
Rate as of	2001Q3	3.4	3.0	3.9	6.2	3.0	4.3	3.6	3.4
Rate as of	2000Q4	2.7	3.0	3.2	5.4	3.1	5.2	2.6	2.6

[a] Seasonally adjusted

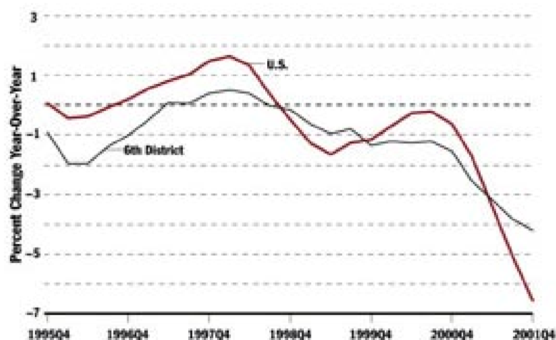
[b] Seasonally adjusted annual rate

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.

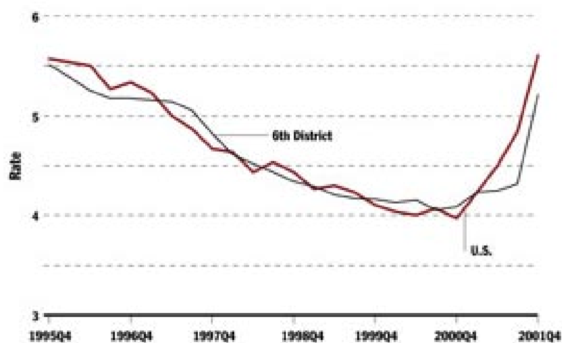
For more extensive information on the data series shown here, see the Atlanta Fed's World Wide Web site at www.frbatlanta.org/publica/econ_south/2002/q1/dist_data.htm.

Total Payroll Employment

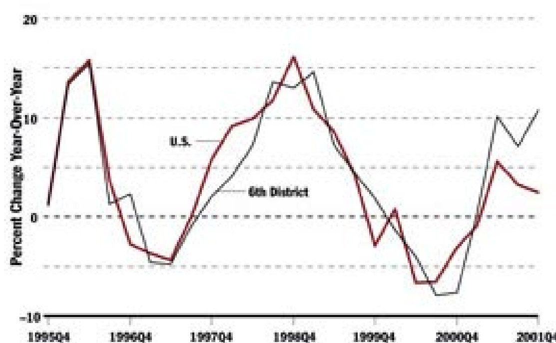
Manufacturing Payroll Employment



Civilian Unemployment Rate

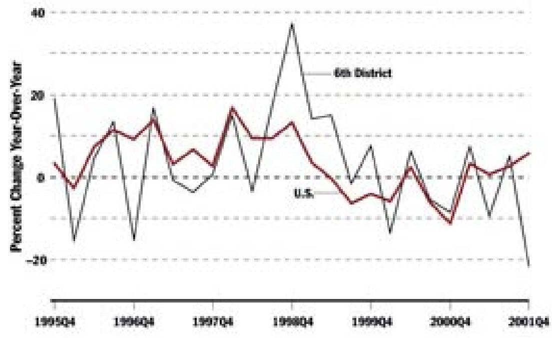


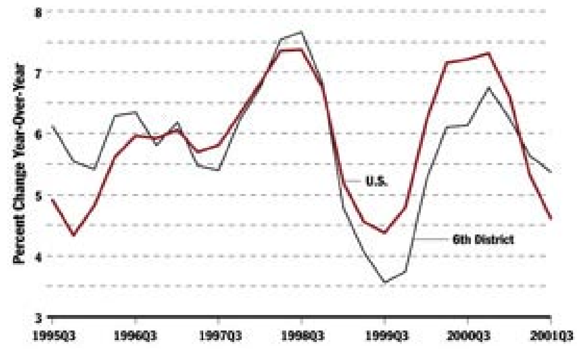
Single-Family Building Permits



Multifamily Building Permits

Personal Income





Return to Index

Federal Reserve Bank of Atlanta, 1000 Peachtree Street NE, Atlanta, GA 30309-4470 Tel. (404) 498-8500