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Consumer Debt: How Much Is Too Much?

Consumer spending drives the U.S. economy, and consumers shoulder record levels of personal debt. Determining when household debt becomes too heavy, however, is no simple matter. Whether consumers are struggling with their obligations or are managing their debt adequately depends on the criteria used to measure household debt.

Southeastern Exports: Engine for Growth

Agriculture, manufacturing, and automobiles lead the surge that Southeastern exports have recently experienced. The Southeast's exports overall are expanding faster than those of the rest of the nation, and the outlook for continued growth is promising.

Georgia Coast Braces for G-8 Whirlwind

With the G-8 Summit in June, representatives of the world's leading economies—along with vast media coverage—will converge on an isolated barrier island off Georgia's coast. Local leaders are hoping to capitalize on the publicity windfall while avoiding the strife that has marred some past summits.

DEPARTMENTS

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Economic Research

Consumer Debt:
How Much Is Too Much?

When does household debt become too heavy? With consumer spending central to economic vitality, the question is frequently asked. The answer is elusive and can vary depending on how it is measured.

Almost daily, news outlets report information about the staggering amount of personal debt Americans have accumulated. Is it safe to conclude that consumers' debt has become unmanageable—that the spending spree threatens to become a burden that could depress economic growth? Depending on the criteria used to assess consumer debt, not necessarily.

When does household debt become problematic? In times of exuberant economic expansion, consumers count on increasing asset values and incomes to offset the cost and potential risk of holding debt. During economic slowdowns, though, red ink can spell trouble for households overextended on credit.

Photo by Flip Chalfant

While some measures of household debt are rising, it is very difficult to determine the point at which consumer debt levels threaten continued economic growth. In fact, by some economic yardsticks, the financial stress on American households has not increased but has remained stable.

In contrast to patterns during previous recessions, consumer borrowing did not ease during the 2001 recession or the ongoing recovery, which has thus far been characterized by weak employment growth. And lenders have persisted in lending, reaching ever deeper into the risk pool to extend credit. The good news is that consumer spending has steered the nation's economy in recent years. The bad news is that household debt could further dampen the recovery. And some evidence—namely, an uptick in bankruptcies, delinquencies, and foreclosures—shows that excessive debt may be stressing some consumers. These measures were up between 2000 and 2003, both nationally and in the Southeast.

While these numbers are generally rising, it is very difficult to determine the point at which consumer debt levels threaten continued economic growth. In fact, by some economic yardsticks, the financial stress on American households has not increased but has remained stable.

A snapshot of U.S. household debt

Household demand has been the main engine for growth in real gross domestic product (GDP) since the 2001 recession, accounting for 2 percentage points of the overall 2.5 percent average annual gain in GDP between December 2001 and June 2003. But as household spending has grown, so have debts: Consumers racked up $1.1 trillion in new mortgage and consumer debt between the end of 2001 and the third quarter of 2003, bringing the total of consumer and mortgage loans held by Federal Deposit Insurance Corp. (FDIC)–insured institutions to $2.6 trillion, according to the FDIC.

Foreclosures and
the Housing Market

Recent spikes in home foreclosures are attributable to two factors, according to Suzanne Boas, head of Consumer Credit Counseling Service of Greater Atlanta Inc. One factor is lenders' growing willingness to reach deeper into the risk pool to grant loans to individuals who would not previously have qualified, and the other factor is low down payment requirements that permit buyers to enter the market with fewer resources.

The feasibility of overextending to buy a home, choosing interest-only mortgage options, or cashing out home equity rests entirely on the premise that home values will continue to rise. While the Southeast's housing market has thus far remained a bright spot in the economy, after a long boom it is likely poised for some moderation in growth. Most commercial forecasters believe that higher interest rates are inevitable as the economy strengthens, and studies indicate that higher interest rates slow home sales.

In Georgia, growth in home sales and in home price appreciation, especially in urban areas, has begun to decelerate. In contrast, median prices for homes in Florida metropolitan areas continue to rise at more than twice the national average of approximately 5 percent. FDIC economists observe that Florida's rapidly appreciating house prices could put homes out of the reach of some consumers.

To be sure, debt expanded significantly during the 1998–2001 period as well. But income growth and asset appreciation, fueled by increases in the value of homes and equity holdings, reduced the ratio of debts to assets so that the proportion of a typical family's earnings devoted to debt repayment actually decreased, according to a study of U.S. family finances in the January 2003 *Federal Reserve Bulletin*. But, according to other Federal Reserve data, household net worth dropped $4.2 trillion between the beginning of 2000 and the end of 2002, largely as a result of declining stock values. In addition, many consumers used home equity to pay down credit card debt or finance further spending.

How serious are the current accumulations of debt and the rising levels of bankruptcies, delinquencies, and foreclosures? Clearly, some households now appear to be more vulnerable to the impact of job instability, fluctuations of the housing market, and rising interest rates.

A resumption of significant job creation and income growth would make it possible for consumers to navigate their red ink. But looking ahead, some analysts have doubts that consumer spending will be as big a driver of economic growth as it has been during the past few years, even if the employment and earnings situations improve. One reason is that some resources that consumers would spend on general purchases will be diverted to the cost of servicing debt, which in some cases could rise if interest rates move up as the U.S. economy gains strength.

Debt has expanded despite the recession

During previous recessions, the growth rate of household debt dropped as consumers retrenched and cut back on spending. But during the most recent recession, low interest rates and flexible loan arrangements attracted many first-time home buyers and encouraged home refinancing.

According to the FDIC, about 90 percent of the credit expansion between 2001 and 2003 was for first-time home loans and refinancing. About 50 percent of the consumers refinancing their homes took cash-outs that averaged around $27,000, thus decreasing the equity in their homes. Those who have not yet accrued significant equity or who have cashed out equity are heavily dependent on sustained rates of growth in the housing industry. Will Roberds, a vice president and economist in the Atlanta Fed's research department, notes that 20 percent of all home loans are over 90 percent loan-to-value ratios, suggesting that some owners are vulnerable to potential declines in house values.

Growing consumer debt can also affect lenders. Credit has become easier to obtain than it has been traditionally as lenders have been extending it to families and individuals who would not have qualified during earlier periods.

A slowdown in the housing industry because of market saturation or higher interest rates could adversely affect homeowners and lenders. However, as Federal Reserve Chairman Alan Greenspan noted in a speech in February, "the financial obligations of homeowners have stayed about constant because mortgage rates have remained at historically low levels." Greenspan also pointed out that homeowners' financial obligations ratios have remained relatively constant despite very rapid growth in mortgage debt, partly as result of the enormous wave of refinancings of existing mortgages at lower interest rates.

Increased risks to lenders?

Growing consumer debt can also affect lenders. Credit has become easier to obtain than it has been traditionally as lenders have been extending it to families and individuals who would not have qualified during earlier periods.

Automated credit scoring has expanded and expedited access to credit, and risk-based pricing has made it possible for institutions to extend credit to subprime (higher-risk) markets at higher rates to compensate for losses they may incur. According to a report in the Feb. 3, 2003, issue of *Inside B&C; Lending*, subprime assets at FDIC-insured institutions nearly doubled between 1999 and 2002, rising from $29 billion to $54 billion. Subprime mortgages also have risen dramatically, from $35 billion in 1994 to $213 billion in 2002. In addition, the highest increase in credit card usage between 1989 and 2001 was by families in the lowest and second-lowest income quintiles, according to the FDIC.

Subprime borrowers account for 30 to 40 percent of the $1 trillion in credit card debt nationwide and for 15 to 20 percent of the overall $8 trillion to $9 trillion in mortgage debt. Though credit card companies and lenders are throttling back loans to the subprime market, exposure in this category is still significant, says Roberds. Delinquency rates on subprime and high loan-to-value loans have typically been higher than on conventional loans, but in 2001 subprime delinquencies spiked dramatically and remained high into 2003. However, lending institutions expect to reap high profits from subprime borrowers paying high interest rates and late fees as long as default rates are not higher than lenders anticipate.

In addition to extending credit to new markets, credit card companies have intensified their marketing efforts. According to data from Synovate Mail Monitor, credit card companies issued 5 billion solicitations by mail, about 50 for every American household, in 2001—five times as many as in 1990.

Increases in bankruptcies may point to stressful levels of consumer debt (see sidebar). Nonbusiness bankruptcies increased by about 30 percent in the United States between 2000 and 2003. Many analysts have pointed to higher bankruptcy rates as a symptom of a significant consumer debt problem. But in his February speech Greenspan noted problems with using bankruptcy rates alone as a measure of consumer debt. "Elevated bankruptcy rates are troubling because they highlight the difficulties some households experience during economic slowdowns. But bankruptcy rates are not a reliable measure of the overall health of the household sector because they do not tend to forecast general economic conditions, and they can be significantly influenced over time by changes in laws and lender practices."

Where the Southeast stands

There's no doubt that the U.S. economy continues to grow, at least in terms of GDP. But what is the current financial condition of consumers in the Southeast?

Declining numbers of jobs during the recession and weak job growth since the end of the recession have largely been the result of ongoing losses in the manufacturing sector. These forces have quelled job numbers in states that have a large manufacturing presence, and especially in rural areas where many manufacturing plants are located.

Because it has a relatively small manufacturing base, Florida has been one exception to this trend. Ongoing growth in housing construction and a rebound in the state's important tourist sector have also boosted Florida's economic performance.

In contrast, according to Bureau of Labor Statistics (BLS) estimates, Alabama, Georgia, Louisiana, Mississippi, and Tennessee have averaged an annual decline of more than 4 percent in their levels of manufacturing employment since 1999. These losses have been devastating for many individuals and communities, especially since many of these manufacturing jobs are unlikely to return. Indeed, the most recent BLS employment projections for the United States have forecast no net growth in the number of production jobs over the next decade. The severity of the unemployment situation in rural areas is in sharp contrast with the situation for urban areas: As of the fourth quarter of 2003, about four out of five metropolitan areas in the Southeast had unemployment rates lower than their respective state average.

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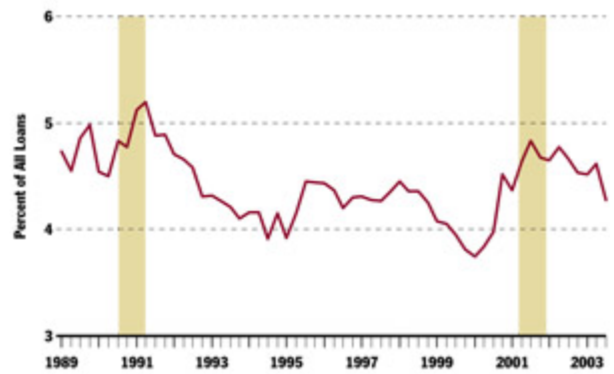
States hit hardest by losses of manufacturing jobs show the highest ratios of nonperforming loans to total loans. For instance, FDIC studies show that banks in Mississippi and Tennessee held the nation's highest percentages of delinquent loans in the third quarter of 2003. The national average then was 2.2 percent while Mississippi banks registered 4 percent and Tennessee banks, 3.3 percent. Past-due loans stood at 2.7 percent of total loans in Alabama. But despite those high percentages of past-due loans, the levels of delinquent loans appear to be stabilizing in all three states.

Another indicator of financial distress—mortgage delinquencies—is especially relevant since home building has been a major economic engine in many parts of the Southeast in recent years. In Florida, in-migration combined with low interest rates has stimulated housing demand. These trends in turn have supported spending, buoying the region's economy.

According to data from the Mortgage Bankers Association, delinquency rates on all types of mortgages increased in the United States with the onset of the recession and have remained elevated, up about 75 basis points to 4.5 percent from their low in the first quarter of 2000 (see chart).

Interestingly, coming out the last recession in 1992 delinquency rates fell steadily. The Southeast traditionally has delinquency rates above the national average, and in some states, such as Mississippi and Louisiana, the rates are

Past Due U.S. Residential Mortgage Loans



Note: Seasonally adjusted U.S. total delinquency rates of one- to four-unit residential mortgage loans
Source: Mortgage Bankers Association, Haver Analytics

typically around 2 to 3 percentage points higher than the national rate. In the Southeast, most states have recently been tracking the trends for the United States as a whole, much as they did in the early 1990s. Notably, Florida's delinquency rates, the lowest in the Southeast, have shown signs of declining further since the end of the recession. As of the third quarter of 2003, Florida's mortgage delinquency rate stood at almost the same level as the nation's.

Home foreclosures are another statistic analysts watch closely. Especially in the metro Atlanta area, foreclosures continue to skyrocket (see sidebar). According to EquiSystems LLC, which monitors Atlanta-area real estate foreclosures, between 2001 and 2003, the number of homes in foreclosure in metro Atlanta rose from 19,732 in 2001 to 34,842 in 2003, an increase of more than 76 percent. A lackluster job market could make homes less affordable and dampen the housing market. Another view, however, is that a resurgence in employment and earnings will keep housing markets on track.

In the long run, says Roberds, job and income growth will be critical to the economy's ability to process the accumulation of debt. The big question, he says, is "When is the job market going to come back? It hasn't yet—it's just quit bleeding. If we see a return in jobs, I believe that we can feel better."

Making sense of household financial obligations

Are consumers being engulfed by their accumulated debt, one mishap away from financial calamity? Or are they managing their debt adequately through the steady appreciation of their assets? Depending on the criteria you use for evaluation, either scenario is possible.

During the economic expansion of the 1990s, Greenspan noted, both debt service ratios and financial obligations rose modestly. But in the past two years, he points out, both ratios have been essentially flat. These patterns seem to show that households are managing their debt. "Overall, the household sector seems to be in good shape," he said, "and much of the apparent increase in the household sector's debt ratios over the past decade reflects factors that do not suggest increasing household financial stress."

> When it comes to consumer debt, opinions and data series point in various directions, and it's important to maintain a nuanced perspective on consumers'situations.

Particularly during periods of recovery, it's difficult to determine the point at which household debt burdens become a significant problem that could affect the nation's overall economy. When it comes to consumer debt, opinions and data series point in various directions, and it's important to maintain a nuanced perspective on consumers' situations.

Some Consumers Are Especially Vulnerable to Debt

Problem debt comes in two basic forms, according to Suzanne Boas, head of Consumer Credit Counseling Service of Greater Atlanta Inc., an organization that works to help households resolve debt issues (see Q&A; article). Behavioral debtors are people who habitually overspend: compulsive and impulsive shoppers, gamblers and risk-takers, and those who can't distinguish wants from needs. Situational debtors are people who become overly reliant on credit when they're confronted with life crises such as illness, accidents, the loss of a spouse, divorce, or unexpected job losses. Boas says sometimes the two categories merge. People who are managing to juggle high levels of debt can slide into insolvency rapidly when faced with a blow to household finances.

Many households live from paycheck to paycheck, she says. "They have no cushion to respond when an emergency hits," she notes. "Given the low savings rate among Americans, too many households are just a paycheck away from serious financial problems."

Boas, whose organization also serves some markets in south Florida, observes increasing numbers of elderly people accruing debt. For example, senior citizens, particularly in Florida, are opting for reverse equity home loans to compensate for stock market losses and to cope with the rising cost of health care. A climate of low interest rates has also compromised the investment income many seniors depend on.

> Some consumers face particularly large financial obligations. For example, while homeowners' debt service ratios have remained relatively stable, the rise in the ratios for renters has been steep.
>
> Alan Greenspan
> Federal Reserve Chairman

Students are another vulnerable group. In addition to using credit cards to finance their living expenses, educational debts are increasingly onerous. The average student loan debt among full-time students who borrowed for college in 2000 was $17,000, compared to $9,200 in 1992, according to the American Council on Education. In 1993, only 5 percent of seniors graduating from college had debts of $20,000 or more whereas 33 percent of seniors graduating in 2000 had debts of that amount.

Angela Lyons, an assistant professor of economics at the University of Illinois who has researched students' finances extensively, says increasing numbers of students are assuming responsibility for the financial burden of their educations. At the same time, education costs are rising, and financial aid grants are drying up.

Some consumers face particularly large financial obligations. For example, while homeowners' debt service ratios have remained relatively stable, the rise in the ratios for renters has been steep, said

Federal Reserve Chairman Alan Greenspan in a speech in February. He noted that in recent years, renters, who typically are younger and have lower incomes than homeowners, have been using a higher fraction of their incomes for payments on student loans and used-car debt. “This trend might be worrisome if it indicates greater difficulties in becoming financially established,” he said.

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Center photo courtesy of Mercedes-Benz

Southeastern Exports:
Engine for Growth

Agriculture, manufacturing, and automobiles have helped boost Southeastern exports recently. In fact, exports from most of the region's states are expanding faster than those from the rest of the nation, and the outlook is promising for continued growth.

Exports from Southeastern states have risen steadily in recent years. During the 1997–2003 period, exports from Alabama, Florida, Georgia, Louisiana, Mississippi, and Tennessee rose 2.5 percent annually while the nation's exports rose 1.2 percent (see chart 1). Transportation equipment and other high-value-added manufacturing led much of the expansion in Southeastern exports.

For the Southeast and the United States as a whole, a few industries and destination countries make up the bulk of exports. In 2003, more than 70 percent of the value of the region's exports came from five industries: food and farm products, chemicals and plastics, transportation equipment, computer and electronic products, and machinery excluding electrical equipment (see chart 2). These industries accounted for a similar total share of exports nationally, but the nation's share of food and farm products was smaller and its share of computer and electronic products was larger than the Southeast share.

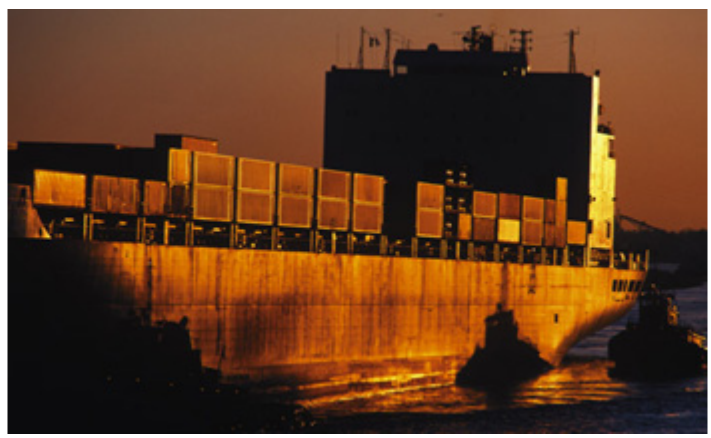


Photo by Flip Chalfant

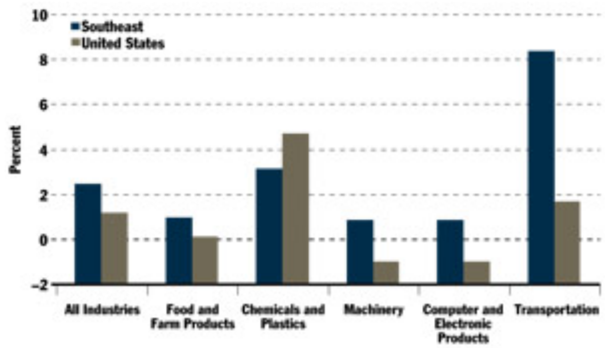
The region's exports are still relatively concentrated in primary goods, such as agricultural products, and intermediate products. But exports from advanced manufacturing industries—particularly the transportation equipment sector—have increased considerably in recent years.

Nearly half of Southeastern exports go to Canada, Mexico, Japan, China, Brazil, Germany, and the United Kingdom (see chart 3). Not surprisingly, these seven countries are also among the United States' leading trade partners. Mexico, Germany, and China have been the fastest-growing export markets for the Southeast, each averaging 12 percent growth annually during 1997–2003. Japan and Brazil, in contrast, posted nearly flat export growth during that period.

Free trade agreements and low foreign tariffs have been key to export growth. When the North American Free Trade Agreement (NAFTA) was signed 10 years ago, the agreed-upon schedule of tariff eliminations was touted as a boon for trade between the United States, Canada, and Mexico. Demand from NAFTA partners has indeed led much of the growth in regional exports even though this demand softened in 2001 and 2002 as those countries' economies weakened. Exports to

Canada and Mexico have accounted for about one-fourth of all Southeastern shipments in recent years.

Chart 1
Average Annual Growth Rate of Exports, Southeast and United States, 1997–2003



Note: Machinery does not include electrical machinery.
Source: Calculations by the Federal Reserve based on data from Haver Analytics

Advanced manufacturing industries—relatively high value-added industries—compose a large and rising share of Southeastern exports to these countries. Exports to Canada are relatively concentrated among motor vehicles and computer/electronic products while Mexico demands computer/electronic products and transportation equipment and parts.

China and Japan are also significant export destinations from the Southeast. Both countries demand similar types of exports: agricultural products and intermediate products such as paper, lumber, and chemicals. During 1997–2003, Japan accounted for more than 18 percent of the Southeast's agricultural exports, and China accounted for 5 percent. Southeastern exports to China have yet to live up to analysts' hopes for the dramatic increase predicted before China was granted permanent normal trade relations status beginning in 2002. But the country is still emerging as much faster-growing export market than the more established Japanese market.

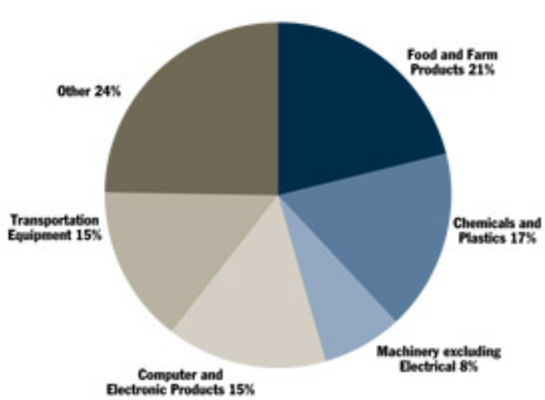
Exports vital to farm and factory

Exports play a large role in the region's agricultural sector, accounting for nearly 20 percent of the Southeast's farm income in recent years. Although food and farm exports are important to rural communities, their export performance tends to vary significantly by export market and product.

Poultry, the leading income-producing farm sector in the Southeast, is highly dependent on a few global markets, particularly Russia. Poultry exports to Russia have varied considerably in recent years because of political and trade frictions with the United States. However, the market gained some stability in 2003 when the United States and Russia signed an agreement guaranteeing U.S. exports for the next five years.

Cotton exports were up strongly in 2003 because of both the global economic recovery and a poor crop in China. This development particularly has helped cotton farmers in areas of Alabama, Georgia, and Mississippi and is in marked contrast to 2001 and 2002, when cotton prices dropped sharply and exports declined.

Chart 2
Shares of Major Industries in Southeastern Exports, 2003



Note: Machinery does not include electrical machinery.

Exports may help the region retain some factory jobs in the face of the long-running decline in manufacturing employment. Manufacturing exports in 2001 accounted for about 13 percent of the value of industrial shipments from the Southeast, up slightly from 12 percent in 1997. Manufacturing jobs, which make up over 10 percent of all nonfarm payroll jobs in the Southeast, are highly concentrated in a few export industries, namely, transportation equipment, machinery, and computer and electrical equipment. These three industry groups averaged an annual growth rate of about 4 percent during the 1997–2003 period, far exceeding performance at the national level.

Intermediate products such as lumber and pulp and paper are still important exports in most Southeastern states. But these products' export growth rates are highly variable, and their shares of total exports have not been as dominant recently as in past decades. Meanwhile, despite continued declines in domestic production, textile and apparel exports are

Source: Calculations by the Federal Reserve Bank of Atlanta based on data from Haver Analytics

strengthening in some areas thanks to growing intraindustry trade with Mexico and Caribbean countries.

Southeast auto exports zooming

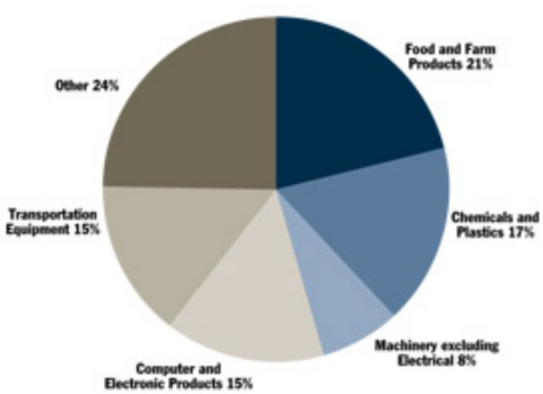
Automobiles dominate the Southeast's fastest-growing industrial export segment—transportation equipment. Most major global producers, including Ford, General Motors, Daimler-Chrysler, Honda, Nissan, and Hyundai, have set up plants in the Southeast in recent years, and many have been exporting part of their production. The value of regional exports of transportation equipment rose at an annual average of 8.4 percent between 1997 and 2003. Transportation equipment made up at least one-fifth of all Southeastern shipments to Germany, the United Kingdom, Brazil, and Mexico in recent years.

Regional ports, transportation companies, and trade support services have all benefited from the growth of auto-related exports. During the early 1990s, auto imports dominated incoming shipments at the ports of Jacksonville, Fla., and Brunswick, Ga. While autos continue to make up an important part of imports, auto exports are now adding to port revenues. Port officials estimate that exports currently account for about one-fourth of all autos processed at Brunswick and one-third at Jacksonville. The leading export vehicles from district ports are Mercedes M-class SUVs (assembled in Alabama and headed to Europe) and Fords (assembled in Georgia and other states and shipped to Australia, New Zealand, and Southeast Asia, among other destinations).

Exports may help the region retain some factory jobs in the face of the long-running decline in manufacturing employment.

Exports are driving the $600 million expansion of the Mercedes U.S.A. plant in Tuscaloosa, Ala., which plans to double its production and workforce by the end of this year. According to industry analysts, demand is growing worldwide for the M-class SUV and the Vision Grand Sports Tourer, a hybrid all-wheel-drive vehicle recently added to the production lineup for late 2004.

Chart 3
Shares of Major Countries in
Southeastern Exports, 2003



Source: Calculations by the Federal Reserve Bank of Atlanta based on data from Haver Analytics

Good prospects for continued export growth

If recent trends continue, the Southeast's exports will remain a positive factor in the region's economic growth. The region's exports are still relatively concentrated in primary goods, such as agricultural products, and intermediate products. But exports from advanced manufacturing industries—particularly the transportation equipment sector—have increased considerably in recent years. This rapid growth in high value-added shipments benefits regional manufacturers and support services, such as ports, the transportation sector, and distribution companies.

One key concern in assessing exports' contribution to regional economic growth is the high volatility of export demand and prices in many sectors. Agricultural exports depend on global market conditions and weather, and exports from advanced manufacturing industries have traditionally been tied to business cycles. The dollar's value relative to other currencies also plays a key role in export growth; its sharp fall in value in recent months has boosted exports, but a sustained rise could ultimately put a damper on continued export growth.

New trade policies, such as the U.S.-Central American Free Trade Agreement (CAFTA) and the Trade Promotion Authority (TPA) Act, are positive recent developments for regional exports. CAFTA will gradually reduce trade barriers in four Central American countries and potentially boost exports from the Southeast to those nations. The TPA Act, which allows the president to negotiate regional trade agreements with other countries, should boost regional exports by reducing tariffs overseas. In addition, trade barriers with Canada and Mexico continue to fall under the terms of NAFTA. This year, tariffs will be eliminated on nearly $1 billion of traded goods, encouraging additional growth in the Southeast’s exports.

This article was written by Gustavo A. Uceda, an economic analyst in the Atlanta Fed's research department. The exports data used here are from “Origin of Movement of Export Shipments,” produced by the U.S. Department of Commerce and adjusted by MISER. The data are subject to error because of difficulty ascertaining where exports originated. For a discussion of the methodology and data limitations, see www1.miser.umass.edu/trade/miserdesc.pdf.

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Economic Research

Georgia Coast Braces for G-8 Whirlwind

When representatives of the world's leading economies meet in Georgia this summer, those associated with the Golden Isles' economy are positioning themselves to reap a windfall.

The G-8 Summit will take place this June over only three days at Sea Island on Georgia's coast, but state officials are working to make sure the event makes a favorable and lasting impression on the local economy.

The June 8–10 summit—which will bring together representatives of eight of the world's major economies—is projected to boost the state economy by about $250 million to $500 million, said Loretta Lepore, a spokesperson for Georgia Gov. Sonny Perdue. Most of the additional dollars will flow into coastal area hotels, restaurants, and shops. In all, Lepore added, the summit is expected to create an additional 2,500 jobs.

Photos courtesy of Sea Island Convention and Visitors Bureau

Sea Island, the site of the upcoming G-8 Summit, is a narrow five-mile barrier island and the site of The Cloister, a resort with a reputation for making VIPs feel comfortable. The Cloister is nestled between scenic marshes and the Atlantic Ocean beachfront.

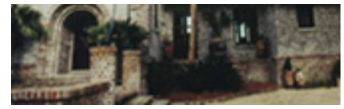
But officials caution that these numbers are rough estimates, based on previous G-8 summits. As a point of reference, Lepore cites a study after the 2002 G-8 Summit in Alberta that assessed the economic impact of that event at US$201.8 million to the Canadian province.

The main point Georgia officials emphasize is that the G-8 event will boost the area economy noticeably and probably raise the profile of Georgia's barrier islands—or Golden Isles, as residents call them—as a tourist destination.

Jeffrey Humphreys, of the Terry College of Business at the University of Georgia, said the coastal economy stands to gain because many of those coming for the G-8 have generous expense accounts and will freely open their wallets. Savannah stands to get an extra boost from about 100 planning staff who relocate there for several months before the event.

Indeed, projecting how many visitors will show up and then guessing how much of the money in the local economy can be attributed to their presence is a difficult exercise involving several assumptions. But much is at stake in the projections. Meetings and conventions were a $102.3 billion industry nationally in 2001, and spending in the nation's travel and tourism industry in

2002 was $1.3 trillion, accounting for more than 6.5 million jobs, according to Meeting Professionals International.



Complex logistics

The business of attracting conventions and tourism is extremely competitive, and economic impact projections can help persuade government officials to spend sometimes large sums of money on events and to marshal public support for needed help with logistics.

Major conventions typically involve coordination of many public and private agencies with an interest in maximizing the economic impact on a particular area.

But the G-8 summit is unlike any other large-scale event (see sidebar). It's a one-of-a-kind whirlwind of activity in which the leaders of the world's largest industrialized countries meet to discuss political, economic, and other high-level international issues. From the vantage point of the participants, it involves socializing and policy work sessions in a generally formal setting. Outside, the summit produces a potentially volatile mix of protesters and media.

In terms of logistics, G-8 events are complex. Each nation sends a large delegation, and organizers must ensure that everyone's needs are met in line with formal diplomatic protocols. Plenty of pomp and ceremony are included, and great care is given to managing the arrival of the world leaders along with catering to their personal preferences.

Security is another concern. During the event, U.S. naval vessels and military aircraft will patrol Georgia's coast, and some 10,000 state, federal, and local law enforcement personnel are charged with protecting the leaders and minimizing disruptions. The U.S. Congress allocated $25 million for G-8 security costs, and the state kicked in $1.3 million to pay for some road improvements near Sea Island and Brunswick.

Sea Island is a narrow, five-mile barrier island and the site of The Cloister, the resort that will host the G-8 delegates. Nestled between scenic marshes and the Atlantic Ocean beachfront, The Cloister is of one of the nation's top-ranked resorts, with a reputation for making VIPs feel comfortable.

In addition to serenity, Sea Island offers security. The only way to get there on the ground is to cross the marshes via a two-lane causeway, past checkpoints that will be heavily armed during the event.

Protests a wildcard

Protection is needed to insulate leaders from the maelstrom of activity outside the conference. As the only regular gathering of the world's top leaders, the G-8 is the Super Bowl for protest groups around the world. U.S. organizers are bracing for an influx of thousands of people with a broad array of grievances.

> U.S. officials hope protest violence won't break out in nearby Savannah, with its historic brownstones and colonial-era squares.

Most of the protests at past summits have been peaceful although events on the periphery of prior meetings have gotten out of hand. Some 100,000 protesters swarmed into Geneva, Switzerland, to send a message to the leaders gathered at nearby Evian, France, in 2003. Some of the protesters there went on violent rampages, and at least one death and more than 100 injuries occurred during protests in Genoa, Italy, in 2001.

U.S. officials hope protest violence won't break out in nearby Savannah, with its historic brownstones and colonial-era squares designed by Gen. James Oglethorpe, the founder of Georgia. The city has become increasingly popular as a tourist destination and is known for attracting hundreds of thousands for St. Patrick's Day festivities in March.

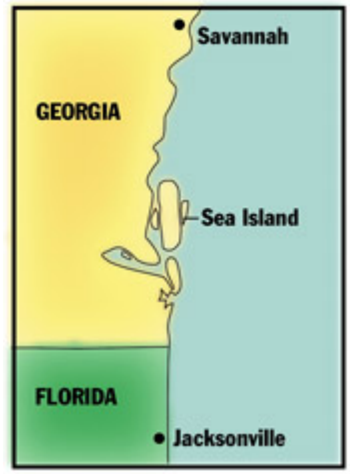
A grander scale

The G-8 Summit will be by far the largest convention Savannah has ever hosted, said Melissa Yao of the local convention bureau. Press conferences and other activities will take place in the city's 365,000 square-foot convention center. Organizers also have booked 5,000 of the city's 11,000 hotel rooms to accommodate credentialed media and government support staff. Savannah tourism officials project the convention's impact on their city will be $40 million.

June is a popular time to visit coastal Georgia, and hotel rooms during the G-8 week along Coastal Georgia will be scarce. Officials said they are trying to relocate or reschedule weddings and other events planned for that time.

The plan is for the official G-8 delegations to arrive from overseas at nearby military bases and then take a helicopter flight to Sea Island. Increased traffic also is likely at the commercial airports in Savannah and Jacksonville, and some G-8 visitors are expected to fly into Atlanta and make the 300-mile road trip to the coast.

As a coastal island with limited access, Sea Island provides an ideal location for the G-8 Summit, which requires high security for attendees.



Courting the media

Altogether, about 7,000 official staff and personnel are expected for the G-8, and that number does not include as many as 3,000 credentialed media and their staff. At any one time, only about 150 media staff will be at the summit on Sea Island. The rest will be in Savannah, filing stories and following up on press releases.

Georgia officials are trying to make the most of the worldwide media exposure, valued at an estimated $10 million. They plan to emphasize Georgia's unique coastal environment with the goal of boosting tourism and investment over the long term. Already, plans are afoot to build a memorial to the three-day G-8 event near a historic lighthouse on St. Simons Island, adjacent to Sea Island.

Because the visiting media may have some downtime, Georgia officials have devised a plan to keep them busy. They have recruited several executives to speak with reporters and are offering tours of key areas of interest, from the Okefenokee National Wildlife Refuge to Gulfstream Aerospace Corp.'s manufacturing facilities in Savannah.

"Most people around the world don't even know that Georgia has a coast," said Barry Bennett of Sea Island Summit, a planning organization.

"There will be a really positive economic impact," said Humphreys. But the University of Georgia economist wonders whether some media and visitors will be deterred by the isolation of the summit, with the leaders sequestered remotely on Sea Island. Also, the actual numbers may not be as large as projected, he added. Still, with the eyes of the world on Georgia's coast in June, there is little doubt that the region will enjoy a globally heightened profile that could bring enduring economic benefits.

Factoring Economic Impact of Events an Inexact Science

In addition to the G-8 conference, the Southeast has hosted more than its share of big events over the years, from political conventions to large-scale trade shows to sporting events. These events, particularly high-profile national sports events, give officials plenty of cases to study how visiting crowds influence a local economy. But measuring their true economic impact presents some challenges.

The ultimate sports event in terms of dollars is the Summer Olympics, which boosted Georgia's economy by a whopping $5.1 billion between 1989 and 1996, when the games took place. University of Georgia economist Jeffrey Humphreys calculated the Olympics' impact to include related visitation over seven years, the formation of the Atlanta Committee for the Olympic Games, and the cost of various major construction projects.

Four years later, the Super Bowl gave the Atlanta area an economic boost. The 2000 NFL championship pumped an estimated $292 million into the local economy, said Matt Garvey, director of communications for the Atlanta Sports Council.

Aside from the Olympics, the Super Bowl's impact is "far and away the biggest of any sporting event," Garvey noted. The weeklong event generates a lot of money for the local economy because the vast majority of fans are from out of town, and many arrive several days before the kickoff and spend lots of money.

"The biggest single driver for the local economy is out-of-state dollars," Garvey added, noting that the impact of a Falcons game is relatively small because the vast majority of ticket holders live in the area and would have spent money in the local economy in any event.

> An event, particularly if it is large enough to matter, will displace some activity that otherwise would have taken place.
>
> Tom Cunningham
> Associate Director of Research
> Federal Reserve Bank of Atlanta

College football games also draw big crowds in the Southeast. The annual Georgia-Florida game in Jacksonville is dubbed "the world's largest cocktail party." Citing informal estimates, the event attracts 50,000–60,000 people to the area for the weekend and adds $18 million–$25 million to the local economy, said Michael Sullivan, director of sports development for the Jacksonville Economic Development Commission.

Another high-profile event in Atlanta was the 2003 NBA All-Star Game, which added $34.2 million to the Atlanta economy, Garvey said. Although it took place in Philips Arena, with a capacity of only 18,000, the game attracted some 30,000 to the Atlanta area, with non-ticket holders jamming area streets for much of the weekend.

In calculating the economic impact, the Atlanta Sports Council hires economists and other experts to count and then analyze the money spent on transportation, lodging, meals, retail sales outside the arena, and sales at the event such as tickets and programs. The Atlanta model also factors a multiplier of about 1.4 to project how the money moves through the economy.

"It's an inexact science," Garvey said. "You take your best guess and do what you can with it."

But some economists believe that there are problems with this type of measurement. Tom Cunningham, associate director of research for the Federal Reserve Bank of Atlanta, cited one such concern: that not all of the countable economic activity associated with an event is a net gain to the locality.

"An event, particularly if it is large enough to matter, will displace some activity that otherwise would have taken place," he said. "The hotel or restaurant that is completely filled because of a Super Bowl would not have been completely empty otherwise. Single big events may push out many smaller events. So even at the local level where the positive economic impact is most concentrated, the net overall gain may be considerably less than the spending generated by the event."

Clearly, large-scale events have a real economic impact on the area where they are held, but measuring their effect is difficult.

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FEDERAL RESERVE BANK of ATLANTA

Economic Research

FED @ ISSUE

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

Don't Short the Long Term

When discussing the economy, economists and policymakers sometimes distinguish the short term from the long term. This distinction can help in framing discussions about the economic outlook, but it also can help monetary policymakers describe their respective views of the U.S. economy.

Using policy to cushion short-term swings

I am among those who believe that monetary policy should be anchored in clear, long-term objectives. However, I also believe that monetary policy should be used to cushion short-term economic swings when needed. That's how the Federal Reserve's Federal Open Market Committee (FOMC) used its monetary policy tools in 2001 when the economy began to cycle down after the record-long economic expansion of the 1990s.

But there were some differences in this past economic cycle from others in recent decades. Chiefly, inflation was low, and consumers and businesses expected inflation to remain that way throughout the entire economic cycle. Thus, the Fed was able to ease policy aggressively through 13 separate actions that moved the fed funds rate target from 6.5 percent in late 2000 to 1 percent in early 2004 with no threat to the low inflation environment.

As a result of these moves, U.S. monetary policy has been very accommodative during the past few years. One indication is the real funds rate, which can be roughly estimated by subtracting the current rate of inflation from the nominal fed funds rate. This measure of the real funds rate has recently been at, or even below, zero. In other words, borrowing short-term money has been very cheap. If the economic expansion continues to build momentum and breadth in 2004, which is what I expect, I believe it will be appropriate at some point to bring policy back to a longer-run setting that is more consistent with noninflationary, sustainable growth. To me, that's what central banking is all about.

Economic time versus calendar time

During the past decade, the U.S. economy has, without question, reaped the rewards of effective price stability, which the FOMC fought quite hard to achieve. Most measures of inflation expectations today clearly suggest that financial markets and decision makers expect the FOMC to do what it can and should do to maintain low inflation. As a monetary policymaker, I am pleased the FOMC has that kind of credibility with markets, businesses, and individuals.

At the risk of disappointing some folks who might wish to profit from advance hints about the exact timing of future monetary policy changes, I strongly believe that the timing of policy actions should not hinge on "calendar time" but rather "economic time." What's economic time, you may wonder? I define economic time as "real time"—that is, as changes occur—in comparison to calendar time, which is measured in days, months, quarters, or years.

The distinction between calendar and economic time is important because changes can occur in the economy at any time. Unexpected shocks, the accumulation of new anecdotal information, or routine shifts of data may require the FOMC to reinterpret economic conditions at any point, thus calling for a different policy stance than many might have forecast based on previous FOMC statements.

I believe it is critical for the FOMC to make changes in policy based on what we see happening just in front of us versus outcomes we expected in our forecasts and FOMC statements from six months ago. Don't get me wrong: Forecasting is extremely important, but forecasts can change, sometimes considerably, on the basis of the accumulation of new data and anecdotal information.

Looking ahead

Given the forecasts we have at this time, I see little threat that inflation is poised to rise significantly. One reason I'm not expecting a quick turnaround in the inflation outlook is the considerable amount of so-called slack that is judged to exist in many product and service markets. And today we have to think in terms of worldwide capacity and slack. Slack means that there are no shortages of plants, equipment, or labor, and this unused capacity helps stabilize the price of output from these resources.

But what complicates the outlook for inflation is the great difficulty of measuring the actual amount of slack. As we've seen, this measure can change quickly as some excess capacity is determined to be economically obsolete and closed down or written off. But how quickly current slack will be absorbed, or taken out of the market, depends upon both the rate of growth of final demand and technological developments.

While I don't see significant inflationary threats currently, it's important for monetary policymakers always to keep in mind that conditions can change. Therefore, I think we must remain on the lookout for any inflationary pressures that may begin to surface because once inflation emerges it can be difficult to control.

Again, I want to stress my view that it's the role and responsibility of monetary policymakers to make sure that we keep sight of the longer run. The Fed's mandate is to use monetary policy to sustain long-term, noninflationary economic growth, which in turn serves the other policy goals of job creation and an improved standard of living.

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GRASSROOTS

Anniston, Alabama:
A Company Town

In 1872 Anniston was born an ironmaking company town and, in many ways, remains a company town today.

Photo courtesy of the Calhoun County Chamber of Commerce

The Anniston Army Depot is a centerpiece of Anniston's economy, employing more than 5,000 people and contributing more than $1 billion to Calhoun County's economy.

Much, however, has changed in the ensuing 132 years. The Alabama city of about 23,000 today relies more on the U.S. military's big iron than on its own manufacturing. Leaders of the city and surrounding Calhoun County hope it stays that way: The area's biggest employer, the sprawling Anniston Army Depot, directly employs more than 5,000 people and generates a total annual economic impact of $1.1 billion, 11 percent of all economic activity in the county, according to the Jacksonville State University Center for Economic Development and College of Commerce and Business Administration.

To appreciate how critical the depot is to the local economy, consider that Calhoun County's total retail sales in 2002 came to $975 million. Locals like Don Hopper, executive director of the Calhoun County Economic Development Council, are crossing their fingers that the depot is not shuttered in the next round of base closings the Pentagon is contemplating.

"It's a tremendous economic engine out there," Hopper said of the depot, which refits tanks and armored personnel carriers. "We definitely want to do everything we can to ensure its stability and growth."

A bad rep

As Hopper points out, Anniston and Calhoun County have taken their lumps already. Another local military installation, Fort McClellan, closed in 1999. At its peak, McClellan employed 10,000 people. If that base closing weren't enough, Anniston has seen its image tarred by national media coverage of two complicated episodes. First, massive PCB contamination of local soil resulted in Monsanto Corp. subsidiary Solutia and others agreeing to a $700 million settlement with Anniston citizens. Second, in August 2003 the U.S. Army began burning chemical weapons at the depot.

"Some of the press has been terrible—very distressing," says W. Mark Hearn, associate professor of management at Jacksonville State, which is in Calhoun County. "And for people who try to sell

Anniston, Ala.

Population:	23,332
Households:	10,135
Avg. Household Income:	$40,423
County:	Calhoun

Source: Economic Development Partnership for Alabama (2002 estimate)

the county, it's made it very difficult.”

He adds that the reality doesn't quite match that bleak perception. Hopper, one of those who sell the county, acknowledges having to sometimes reassure skeptical industrial prospects. But he says now that the incinerator has operated safely for several months, and with the Solutia PCB cleanup under way, those problems are receding in the minds of executives considering locating operations in Calhoun County.

Selling the strong points

“We look at it as there are a lot of industrial communities, and Anniston is a longtime industrial city,” Hopper says. “We know our problems. We know where they are, and they're being addressed. That has resonated, I think, with our prospects and the companies that have located here.”

To be sure, Anniston and Calhoun County have felt the sting. Population, workforce and retail sales have shrunk slightly since the late 1990s. But the county's unemployment rate in December 2003 was under the national and Alabama figures.

And there's reason for hope. A Honda auto assembly plant in nearby Lincoln, just across the border in Talladega County, is set to add an assembly line this year that will double the plant's employment to 4,300. The three-year-old plant has also brought several suppliers to Calhoun County, including Hunjan International, Atlantic Tool and Die and Bridgewater Interiors.

The old Fort McClellan has even become a source of optimism for the local area. The 46,000-acre base is being redeveloped as a mixed-use residential and commercial complex, a 9,000-acre wildlife preserve, and homeland security and National Guard installations.

“We have had challenges,” Hopper says, “but we have tremendous assets, and I think that's what keeps us moving forward.”

Anniston's Past

- For almost a decade after its 1872 founding, the city was a private company town called Woodstock, built to support the Woodstock Iron Co.
- Those not associated with the company were barred from settling in Woodstock. The town was not open to the public until July 3, 1883.
- In 1900, Anniston became Calhoun County's seat, which had been Jacksonville.
- Its slogan is “the Model City.”

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FEDERAL RESERVE BANK of ATLANTA

Economic Research

The State of the States

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

- Honda's Talladega County plant made 167,884 minivans in 2003, 55 percent above the previous year's production levels. The plant employs about 3,000 people. Completion of a second assembly line by April will bring Honda's investment in Alabama to more than $1 billion and a full-capacity workforce of 4,300.
- GKN Aerospace, an airplane parts supplier with facilities in Montgomery and Tallassee, has received a new contract for a wing panel for an Airbus aircraft under development. The Tallassee plant will add about 100 people to its current 425-person workforce as production ramps up.
- Carnival Cruise Line's decision to use Mobile as a home port should add about $12 million each year to the local economy. The city is building a terminal and parking decks to accommodate the ship, which will sail to Mexican ports starting in October.

- Expansions in the hospitality industry are back on track. Disney's new Pop Century Resort recently opened; the sharp downturn in attendance at Disney World after 9/11 led the company to delay the scheduled December 2001 opening. The Ritz-Carlton South Beach in Miami also recently opened after years of delays.
- A Miami Convention and Visitors Bureau spokesman says tourism in many areas is approaching or exceeding pre-9/11 levels. Spokespeople for the Fort Lauderdale Convention and Visitors Bureau agree that prospects are strong, with winter convention bookings up from the past few seasons.
- Despite analysts' caution, strong sales are encouraging developers to plan or move forward with high-end condo projects in Miami and downtown Jacksonville and along the St. Johns River.
- Harris Corp. of Melbourne recently added 700 jobs. The company makes communications equipment for fighter aircraft, satellites, and national security agencies.

- One of Albany's oldest factories, Flint River Textiles, closed in March, eliminating 230 jobs. In addition, WestPoint Stevens, the Georgia textile maker that is operating under bankruptcy court protection, will close plants in Georgia that employ 550 workers.
- Another firm is relocating its home office to Georgia. Rayovac, the Wisconsin maker of batteries and electric razors, will move about 25 employees, including top executives of the firm, to the Atlanta area this spring.
- Convention bookings in Atlanta in 2004 are up over last year. Travel and trade spokesmen are optimistic about the coming year, but filling the city's growing number of hotel rooms could be problematic.

- Although new office and warehouse construction in Georgia is expected to remain weak, medical facilities and retail developments next to new subdivisions are bright spots in commercial construction.

- Lockheed Martin Space Systems' Michoud facility, which employs more than 2,000 people, hired 125 new workers in New Orleans to help modify the space shuttle's external fuel tank.
- Although travel industry officials have said that the New Orleans convention business will be down in 2004, developers anticipate a comeback. New projects in New Orleans will add more than 1,500 rooms to the 37,000-room hotel market.
- A multimillion-dollar Northrop Grumman contract to build an amphibious transport dock ship for the U.S. Navy will keep workers employed at the Avondale shipyard. The bow stem of the ship—the *New York*—will be made from 24 tons of melted steel from the World Trade Center.
- The closure of a credit card customer service center in New Orleans in October will eliminate 847 jobs.

- Textron Fastening Systems, a $1.65 billion business unit of Textron, is locating a plant in Greenville. The operation will manufacture a broad range of engineered fastening and assembly products for its automotive and industrial customers. The project represents a capital investment of $35 million and is expected to employ 500 workers.
- The Madison Furniture Co. of Canton is closing, laying off 241 people. Production at the plant began phasing out in January. Nearly 27,000 people in Mississippi—about 24 percent of the state's durable manufacturing sector—work in furniture manufacturing.
- Progress on construction of the Hard Rock Casino in Biloxi as well as expansions and renovations at hotels and casinos are expected to prop up the state's hospitality market. A spokesman for the Mississippi Gaming Commission expects the state's gaming revenues to remain stable overall in 2004 following a 1 percent increase in gaming revenues in fiscal year 2003.

- A contract for Camel Manufacturing to make the next generation of tents for the U.S. Armed Forces is expected to create jobs and spur economic growth in Campbell County.
- Officials of Clarcor Inc., a marketer and manufacturer of consumer and industrial packaging and filtration products, announced plans to move its headquarters to the Nashville area.
- On its first day, the Tennessee lottery recorded sales estimated at $10.8 million, about $1.87 per capita. Of that amount, the state made $3 million in profits, all of which go toward education.
- Nissan North America continues to ramp up hiring at its Smyrna plant, adding 700 jobs so far since announcing plans to produce the Pathfinder SUV there. The plant produced about 454,000 vehicles last year, up 11 percent from 2002's figures.
- Carrier Corp. recently announced that by the end of 2005 it will close its manufacturing facility in McMinnville, eliminating about 1,300 jobs.

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

Illustrations by Jay Rogers

Q & A

Coping With Credit

An Interview with Suzanne Boas of Consumer Credit Counseling Service of Greater Atlanta

Suzanne E. Boas

Title	President
Organization	Consumer Credit Counseling Service of Greater Atlanta Inc. (CCCS)
Function	CCCS is a nonprofit community service agency that provides, among other services, budget and debt-management counseling for individuals and families who are overextended.
Web Site	www.cccsatl.org
Other	Boas also serves on the board of directors of the Federal Reserve Bank of Atlanta

Educating consumers about debt is one of the missions of the Consumer Credit Counseling Service. Recently, *EconSouth* talked with Boas about her organization and about the state of consumer debt today.

EconSouth: *How did you get into the credit counseling business?*

Suzanne Boas: I spent 16 years at the retailer Macy's South as vice president of credit and consumer affairs. That's how I knew of the good work of CCCS and, in time, I joined its board of directors. Eventually, I was attracted to move into the nonprofit arena with CCCS. It's been such a rewarding experience, meeting and helping people in need. I've also enjoyed being able to use my business skills in a humanitarian way.

ES: *Is CCCS a truly nonprofit, community service organization?*

Boas: Yes, it is. CCCS was incorporated 40 years ago by business and civic leaders concerned about the growth of unsecured consumer credit. The mission of CCCS today is the same as it was then: to serve distressed consumers and help them succeed financially. We spend each day providing honest, professional advice in a caring, helpful way.

Our organization contrasts with many of the commercial or pseudo-nonprofit credit counseling services that you see advertising so heavily on television and the Internet today. These organizations emerged after deregulation of the telecommunications industry drove down long-distance rates. Suddenly, it was cost effective to provide counseling over the telephone and to export services outside an organization's immediate market. Unfortunately, operating remotely also made it possible to avoid the oversight of a concerned board of directors with an interest in serving their local community. As a result, many of these rogue nonprofit organizations today serve themselves and their employees far more effectively than they serve the consumers who turn to them for help. It is very disturbing to us at CCCS that these groups are marketing in a heavy-handed way to people who are very vulnerable, to people who are so stressed they cannot recognize that promises that sound too good to be true generally are.

ES: *Briefly, how does the CCCS counseling process work for consumers?*

Boas: Our counseling delivery is very much tailored to the individual consumer. We offer counseling on the Internet, by telephone, or in person and in English, Spanish, or American Sign Language. We have branch offices throughout north Georgia as well as in three locations in south Florida that are open during normal business hours. Our telephone and Internet operations are open 24 hours, every day of the year.

Essentially, we ask any consumer who turns to us for help to collect their financial documents—bills, pay stubs, a list of expenses—and fill out a financial history, much like a medical history. A CCCS counselor then tries to paint a complete and objective picture of the client's current financial life.

Boas says there are essentially two types of debtors that come to CCCS for assistance. One is situational debtors, whose circumstances may have gotten them into debt trouble. The other is behavioral debtors, who are compulsive shoppers and spend impulsively.

Armed with this profile, we work with the consumer to find ways to increase their income, decrease their expenses—or both—and to develop a budget. Finally, we make practical suggestions on the best ways to reduce their debt. Typically, about a third of the people who come to us for help elect to enter a structured debt repayment plan with our agency. The other two-thirds of our clients, armed with advice from their counselor, are encouraged to try to resolve their debt problems without entering a repayment plan.

ES: *What trends do you see in consumer debt today?*

Boas: We've identified about four major trends among the clients we serve.
First, the average age of our clients continues to increase as older Americans take on more and more debt. Sadly, we are starting to see many couples carrying significant debt loads into retirement.

Second, the democratization of credit continues at a fast face, particularly in the mortgage lending arena. With low interest rates and the many special mortgage products that have been developed in recent years, more young people and minorities are realizing the American dream of owning their own home. According to the U.S. Census Bureau, the rate of homeownership in this country now stands at around 68 percent in the fourth quarter of 2003, up from about 64 percent in the fourth quarter of 1993.

Third, financial institutions have become increasingly willing to lend to riskier consumers. Consumers in the Southeast on average are higher credit risks than in other parts of the country. Experian, one of three national credit reporting agencies, ranks states by credit scores, and no Southeastern state currently ranks above 34th on an aggregate credit score basis.

Finally, there has been a continuing trend toward destigmatizing bankruptcy. That is particularly true in the southern crescent of the United States, where bankruptcy rates are consistently among the highest in the country.

ES: *What are the biggest issues concerning consumers who find themselves in credit counseling?*

Boas: The single biggest issue is unsecured credit, basically credit card debt. There are two types of debtors who come to us for help. One is what we term situational debtors; these clients may have good financial planning skills,

Assuming any increase in interest rates is gradual and accompanied by improved employment, I don't believe we will see a serious increase in consumer problems.

but because of an unfortunate circumstance—divorce, job loss, an auto accident, or a death in the family—they have gotten into credit problems. The second type of financially challenged consumer has more of a behavioral problem. They may not know how to manage money or they may be people who see spending money and shopping as entertainment or who spend impulsively rather than after careful planning.

ES: *If interest rates begin to rise, do you expect consumer credit problems to escalate?*

Boas: Assuming any increase in interest rates is gradual and accompanied by improved employment, I don't believe we will see a serious increase in consumer problems. People who have taken on more debt—both unsecured and housing debt—helped shore up the economy during the recent recession. Consumers remained very optimistic during that time, and they continue to be generally positive about their financial future. When interest rates start to float up, however, there will be some consumers who will get caught by the cost of increased payments. These are the people we worry about.

ES: *Are we as a nation doing enough to educate consumers, especially young consumers, about sound personal financial management?*

Boas: I am sure you are not surprised when I tell you that at CCCS we believe that our society places far too little emphasis on financial education. Not only do we need more education, we need to develop awareness of responsible behavior among consumers. True education involves not only information transfer but, as importantly, conforming behavior in healthy and constructive ways. Parents need to both teach their children the basics of money management and model financial responsibility for them.

Unlike smoking or, worse, drunk driving, there is generally no sympathetic victim in financial disability and ruin. Yet, when money is seriously mismanaged, there are silent victims. We all pay for bankruptcies in higher prices. And families are destroyed by financial problems every single day. In our opinion, serious financial troubles tear at the very fabric of community and family life.

ES: *When your counselors see individual consumers, what kind of debt does your team find most troubling?*

Boas: It's less about the kind of debt and more about its impact on the people sitting across the desk from us. It is very hard for our counselors to look into the eyes of someone 64 years old who realizes for the first time he can't retire and keep his home or to look at a young family being destroyed by arguments over money.

ES: *If you had to give one capsule of advice to a consumer regarding personal debt, what would you say?*

Boas: Live beneath your means.

Research Notes and News

Research Notes and News highlights recently published research as well as other news from the Federal Reserve Bank of Atlanta.

Atlanta Fed president foresees steady growth

Jack Guynn, president and chief executive officer of the Federal Reserve Bank of Atlanta, discussed his outlook for the remainder of 2004 in a March 4 speech to real estate executives. Guynn said he sees a "pattern of solid and sustainable growth" and anticipates 2004's economic growth to differ from 2003's. "Residential investment and spending on durable goods—cars, refrigerators, furniture, and other kinds of items that are sensitive to interest rates—shouldered a disproportionately large share of last year's overall growth," he said. "And it's clear that low interest rates, tax cuts and tax refunds helped to fuel aggressive spending by households. While I see no reason to expect a sharp falloff in housing and durable goods spending this year, I don't think we can expect to see these sectors continue to grow at some of the rates we saw last year."

Concerning job growth, Guynn anticipates that unemployment rates will decrease some in the coming months although businesses may add new employees at a slower pace than in other recent business cycles. "Despite the uncertain pace of job growth, there's evidence that businesses are feeling more pressure to expand payrolls," he said. "On top of continued strength in consumer spending and renewed vigor in business capital spending, we're starting to see rebuilding of inventories—a sign of expanding final demand. Exports also appear poised to grow further after a strong fourth quarter."

Guynn said monetary policy remains targeted at keeping inflation low. "One of the Fed's goals with regard to inflation is to remove it as a factor in the economy so that you don't have to think about it or adjust your plans because of large and unexpected changes in inflation or interest rates," he said, adding that the Fed's accommodative monetary policy will require adjustment as the economy strengthens. "While we've seen how accommodative monetary policy can cushion the downside of an economic cycle, it will be appropriate at some point to get back to a more neutral policy setting consistent with an expanding economy."

In Japan, women less tech savvy than men

The prevalence of women in part-time and contingent jobs in Japan has contributed to Japanese women having lower levels of information technology skills than Japanese men. In particular, Japan has larger gender differences in wages, labor force participation, and occupational distribution than the United States does. The lack of computer skills can lead to social exclusion as well as economic penalties, and groups that have reduced levels of IT skills risk being excluded from job and educational opportunities as well as losing political influence as computers and the Internet become increasingly important to how people live and work.

Authors Hiroshi Ono and Madeline Zavodny considered the 1997–2001 period to examine differences and trends in computer and Internet usage in the two countries. Their results indicate that there were significant gender differences in computer and Internet usage in both countries during the mid-1990s. By 2001, these gender differences had disappeared or were even reversed in the United States but remained in Japan. In both countries, people not currently working have lower levels of IT use and skills regardless of gender, but working women in Japan have lower levels of IT use and skills than working men, a difference that generally does not occur in the United States.

Ono and Zavodny's research then explores several potential reasons for this gender gap in Japan, focusing on the role of

work. Their results indicate that the prevalence of women in “bad jobs” (part-time work and contingent jobs) plays a significant role in the gender gap in information technology usage in that country.
Working Paper 2004-2
January 2004

Mexico builds secondary mortgage market

Traditionally, the market for housing securitizations in Mexico has been dominated by the government. But now some Mexican mortgage-backed securities (MBS) are being denominated in dollars and aimed at U.S. investors. The details of the transaction have yet to be announced, but if the transaction is successful, it will no doubt signal an important step forward for the development of Mexico’s MBS market, according to an article by Michael Padhi, Jaime del Rio Castillo, and Stephen J. Kay. Mexican President Vicente Fox has set an ambitious goal of building 750,000 new housing units annually beginning in 2006. If Mexico’s MBS market begins to thrive (and manages to attract foreign investment), it would mark an important step toward bridging the housing gap in Mexico.

By providing partial mortgage guarantees, the Mexican government is expected to boost the secondary mortgage market. Investors are likely to be encouraged by the government’s assumption of a significant amount of the credit risk, and issuers will face lower transaction costs. Since the Sociedad Hipotecaria Federal (SHF)—a limited-purpose finance company funded by the Mexican government—assumes the risk for the loan’s first loss, less overall credit enhancement will be needed to meet a given rating standard. These SHF guarantees are similar to those provided in the United States by the Veterans Administration or private mortgage insurers.

The next major step in the development of an MBS market in Mexico will come when the massive National Workers Housing Fund (INFONAVIT), the home loan agency that holds 65 percent of Mexico’s $50 billion in outstanding mortgages, issues its first-ever MBS transaction. INFONAVIT recently received investment-grade ratings for both peso- and foreign currency–denominated debt issuance, which will facilitate the sale of these securities.
Financial Update
First Quarter 2004

Recent corporate scandals focus attention on directors

Heightened attention has been focused on the role of corporate directors in the wake of governance scandals. Scrutiny of directors and expectations of their accountability have never been greater, according to an article by Lynn Woosley and Brian Bowling. Today, the authors maintain, integrity and oversight responsibilities prevail over directors’ ability to generate business. The central role that banks occupy in the U.S. economy and federal deposit insurance subsidies give bank directors the added responsibility of ensuring that banks operate safely and soundly and with adequate capital for the risks they assume. A banking governance failure of the magnitude of what has occurred recently in other industries could severely disrupt the financial and payment systems.

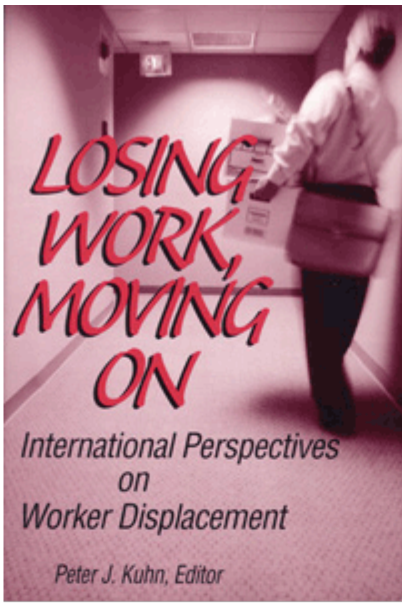
Woosley and Bowling identify five core principles to which corporate directors should adhere: Directors should have the skills, integrity, knowledge, and experience appropriate to fulfill their responsibilities; directors must be trustworthy and guard the confidentiality of proprietary, regulatory, and customer information; directors must commit adequate time and attention to overseeing the bank’s activities; directors, not management, determine the company’s risk appetite and strategic direction; and directors must be diligent in managing conflicts of interest between the institution and its board, management, principal shareholders, and affiliates.

The authors also point out that bank directors have several unique risk management responsibilities that arise from banks’ critical role in the U.S. economy and the payment system. Regardless of their institutions’ size and complexity, bank directors must understand and manage certain types of risk, including credit risk, operational risk, market risk, liquidity risk, and legal and reputational risk.
Financial Update
First Quarter 2004

FEDERAL RESERVE BANK *of* ATLANTA

Economic Research

BOOK REVIEW



Reviewed by Julie L. Hotchkiss, an Atlanta Fed research economist and associate policy adviser

Examining the Job Loss Phenomenon

Job displacement and wage loss have become staples of the national dialogue as politicians, mindful of the approaching election, attempt to capitalize on the strong feelings the issues arouse. Although this topic has become a hot-button issue in the United States only as the so-called jobless recovery has gone on, the situation has been going on for years and in many different countries. *Losing Work, Moving On* is editor Peter Kuhn's attempt to move past the visceral emotions of the phenomenon and look at issues associated it.

This edited volume of five separate empirical analyses is concerned with job displacement and wage loss in 10 different developed economies. The countries analyzed are the United States, the Netherlands, Japan, Canada, France, Germany, Australia, Belgium, Denmark, and the United Kingdom. While the book contains independent research efforts, Kuhn provides an exhaustive summary and synthesis of the research results in the introductory chapter.

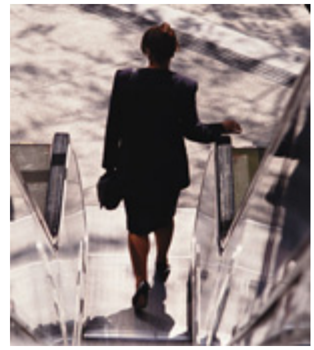
For anyone interested in learning more about the condition of displaced workers in different work environments and the empirical issues that confront a researcher trying to characterize those conditions, this book is a must-read. Indeed, the book was named an Outstanding Academic Title by *Choice* magazine in 2003. Since the data from several countries in the study are rather dated, however, it is not as useful for learning about the current environment in which displaced workers find themselves.

The book sets out to address two fundamental questions: How similar or different are the experiences of displaced workers in the United States and other developed economies, and what can we learn from these similarities and differences? The goal in answering these questions is to determine whether there are fundamental features common to industrialized economies that result in similar experiences among displaced workers and whether these differences point to differences in effectiveness of various policies directed toward displacement.

Lessons learned

The studies in the book show there is tremendous variation in the combination of institutions that have an impact on displacement across countries. Kuhn offers methodological lessons for conducting cross-sectional international comparisons of labor market dynamics. These lessons include the need for consistency of definitions (for example, what "displaced" means) and understanding the nuances of different languages crucial to the comparison across countries. Also, while a common set of causal factors can be important for cross-country statistical comparisons, an expanded set of causal factors, according to the text, should also be exploited when available. Kuhn points out some controversy about how important it is to have a "control group"—workers from the same firm who were not laid off—when trying to measure the impact of displacement.

The book outlines what seem to be some universal patterns of displacement experiences across the employment protection law environments of different countries.



The analyses suggest that consideration of post-displacement experiences should allow for more narrowly defined outcomes than merely labor market withdrawal and re-employment. For example, early retirement, formal disability, and nontraditional forms of employment are found to be important outcomes worthy of further examination to fully capture the breadth of a displaced worker's experience.

Common ground

The book outlines what seem to be some universal patterns of displacement experiences across different employment protection law environments. While the outcomes may not be novel in and of themselves, their universality across countries is notable. Women, for example, experience a lower incidence of displacement, greater post-displacement joblessness, and about the same post-displacement wage loss as men. Younger workers experience a greater incidence of displacement, less post-displacement joblessness, and lower post-displacement wage loss than older workers.

An assessment across all dimensions and countries points to the greatest burden of displacement being borne by older and unskilled workers.

An assessment across all dimensions and countries points to the greatest burden of displacement being born by older and unskilled workers. Another notable finding is that the longer a displaced worker is unemployed, the harder it becomes for him or her to escape joblessness.

These findings show that there are limited consistent relationships between displacement experiences and labor market structures and policies. Across the book's five studies, total displacement rates are remarkably similar in countries with very different employment protection laws. The experience of post-displacement joblessness, however, does vary dramatically across countries.

Finally, while post-displacement wage gains among workers with low tenure are found across countries, the large wage losses experienced by more senior workers, according to the studies, are concentrated in Canada, the United States, and the United Kingdom. The primary characteristics that set these three countries apart from the others are their decentralization of wage-setting institutions (for example, less unionization) and the presence of greater wage inequality.

Overall, there doesn't seem to be any connection between strong employment protection laws and the incidence of displacement, but strong employment protection laws are shown to have a greater impact on the form of displacement (for example, layoffs versus mandatory outplacements) and on the consequences of displacement (such as joblessness and wage loss).

Worth a read

Losing Work, Moving On is an impressive compilation of five significant studies. The only drawback to the work presented is the dated nature of the data on some countries. For the reader who wants to understand the complex issues of job displacement on a global stage, however, the book is worthwhile. This subject will continue to gain attention in the fastevolving, globally integrated economy, and readers can benefit from Kuhn's dispassionate analysis of the relevant data.

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Southeastern Economic Indicators

		Alabama	Florida	Georgia	Louisiana	Mississippi	Tennessee	6th District	U.S.
Total Payroll Employment (thousands)[a]	**2003Q4**	**1,873.8**	**7,350.4**	**3,973.4**	**1,894.9**	**1,129.6**	**2,670.6**	**18,892.7**	**130,004.7**
% change from	2003Q3	0.0	0.5	0.4	0.0	0.4	-0.2	0.3	0.1
% change from	2002Q4	–0.7	1.4	1.7	-0.1	0.1	0.2	0.9	-0.2
Manufacturing Payroll Employment (thousands)[b]	**2003Q4**	**294.9**	**393.1**	**449.8**	**157.6**	**178.7**	**413.7**	**1,887.8**	**14,369.3**
% change from	2003Q3	0.3	1.1	-0.5	0.7	0.8	-0.2	0.2	-0.6
% change from	2002Q4	-3.4	-2.7	-4.3	-1.9	-3.6	-1.8	-3.0	-4.3
Civilian Unemployment Rate[a]	**2003Q4**	**5.7**	**4.8**	**4.2**	**5.6**	**5.2**	**5.7**	**5.0**	**5.9**
Rate as of	2003Q3	5.6	5.4	4.7	6.9	6.3	5.2	5.4	6.1
Rate as of	2002Q4	5.9	5.3	5.3	6.2	7.0	4.9	5.5	5.9
Single-Family Building Permits (units)[c]	**2003Q4**	**20,709.0**	**150,750.0**	**77,846.0**	**16,568.0**	**10,241.0**	**32,658.0**	**308,772.0**	**1,427,921.0**
% change from	2003Q3	2.4	4.3	4.2	4.7	6.3	3.7	4.2	2.3
% change from	2002Q4	10.5	18.6	5.7	12.9	17.0	10.2	13.3	8.7
Multifamily Building Permits (units)[c]	**2003Q4**	**3,720.0**	**52,831.0**	**16,315.0**	**4,078.0**	**1,889.0**	**4,820.0**	**83,653.0**	**407,917.0**
% change from	2003Q3	18.6	2.5	-8.4	4.8	-12.9	23.5	1.5	0.9
% change from	2002Q4	7.3	-1.3	-28.0	26.2	12.1	0.0	-6.4	1.7
Personal Income ($ billions)[d]	**2003Q3**	**117.7**	**517.5**	**256.8**	**118.9**	**67.5**	**165.5**	**1,244.0**	**9,248.0**
% change from	2003Q2	1.3	1.2	1.6	1.3	1.4	1.3	1.3	1.1

% change from	2002Q3	4.2	4.4	4.3	4.3	4.7	3.9	4.3	3.6

		Atlanta	Birmingham	Jacksonville	Miami	Nashville	New Orleans	Orlando	Tampa
Total Payroll Employment (thousands)[b]	**2003Q4**	**2,249.3**	**483.9**	**572.4**	**1,037.0**	**682.1**	**619.2**	**940.1**	**1,246.5**
% change from	2002Q4	3.1	0.5	1.0	0.7	0.3	0.6	2.3	1.3
Civilian Unemployment Rate[b]	**2003Q4**	**4.2**	**4.4**	**4.9**	**6.5**	**4.2**	**5.1**	**4.6**	**4.0**
Rate as of	2003Q3	5.0	4.4	5.6	7.4	3.9	6.3	5.1	4.6
Rate as of	2002Q4	5.3	4.6	4.9	7.3	3.7	5.4	4.9	4.5

[a] Seasonally adjusted

[b] Not seasonally adjusted

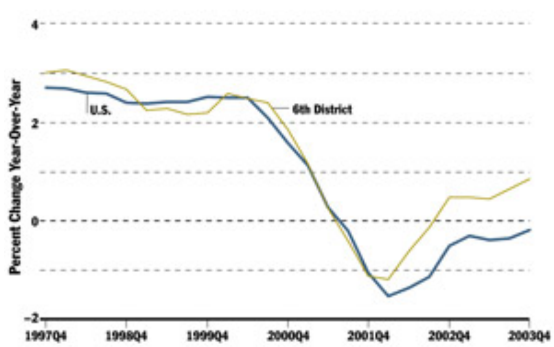
[c] Not seasonally adjusted four-quarter totals

[d] Seasonally adjusted annual rate

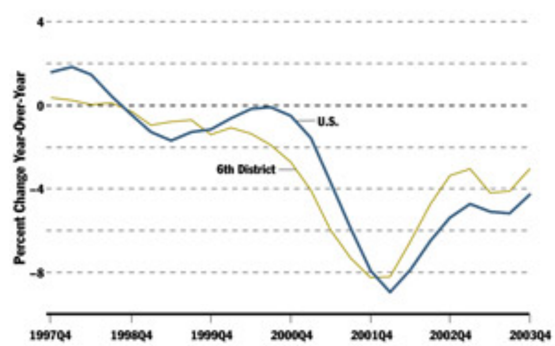
SOURCES: Payroll employment and civilian unemployment rate: U.S. Department of Labor, Bureau of Labor Statistics. Single- and multifamily building permits: U.S. Bureau of the Census, Construction Statistics Division. Personal income: Bureau of Economic Analysis. Quarterly estimates of all construction data reflect annual benchmark revisions. All the data were obtained by Haver Analytics.

For more extensive information on the data series shown here, see www.frbatlanta.org/publica/econ_south/2004/q1/dist_data.htm.

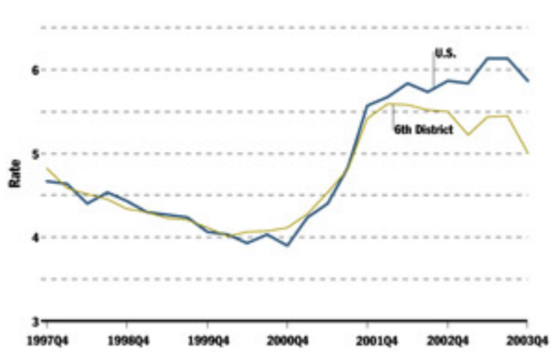
Total Payroll Employment



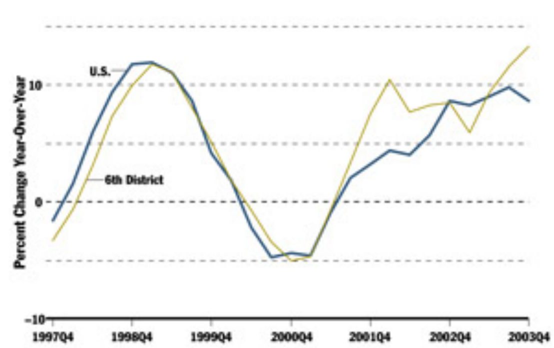
Manufacturing Payroll Employment



Civilian Unemployment Rate

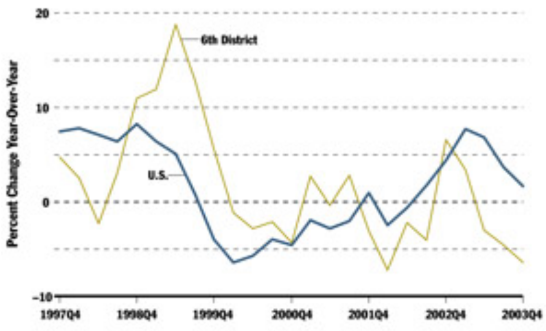


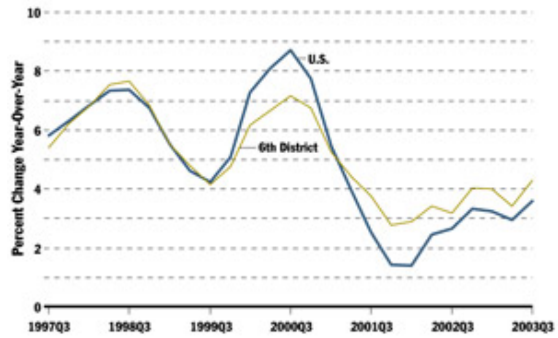
Single-Family Building Permits



Multifamily Building Permits

Personal Income





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Economic Research

BACK GROUND

Back Ground

The Federal Reserve Bank of Atlanta's regional economics publications have gone through many changes over the years—like the Southeast's economy. With this redesign of *EconSouth*, the Bank continues its tradition of providing insight into trends in the Sixth Federal Reserve District, which covers much of the Southeastern United States.

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Economic Research

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