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Economic Research

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Trucking: Where the Rubber Meets the Road

Trucking firms that survived the painful shakeout following the 2001 recession are enjoying a robust recovery. These survivors still face some stiff challenges, though, including increases in fuel prices, skyrocketing insurance premiums, and driver shortages.

Paradise Found (or Lost)?

Florida holds continued allure as a destination for both retirees and young newcomers. While the population surge brings affluence, it is also accompanied by overdevelopment, worsening traffic, environmental damage, and a graying citizenry that will increase the burden on the state's resources for years to come.

Banks and the Growing Remittance Market

Hispanic immigrants in the United States send billions of dollars annually to their home countries. Most of this money bypasses the banking system in favor of other remittance methods such as wire transfers or mailed money orders. Banks are working to gain a larger presence in this growing arena.

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The trucking industry today is on the upswing after a deep and difficult shakeout following the 2000 recession. The surviving carriers are enjoying higher profits and a rising demand for their services. But to remain in business over the long haul, trucking firms must continue to innovate to meet the persistent challenges of driver shortages and rising costs.

You'd think Frankie Willis would be jumping for joy. The president of Trucks Inc., a Jackson, Ga.-based trucking firm that operates 320 tractor-trailers, Willis is turning away business every day. Like truckers across the nation, Trucks Inc. is so busy hauling goods for retailers, manufacturers, and other customers that the firm has too few trucks and drivers to meet the surging demand.

"In the last four months, every customer I've had has called saying, 'Can you handle this?'" Willis said. Some shippers—the trucking firms' customers—are even paying higher rates to secure space on trucks in the traditionally busy fall shipping season, industry executives and analysts report.

From all indications, trucking firms have rarely been busier. Analysts at the securities firm Morgan Stanley reported this summer that as of late spring trucking was experiencing "some of the best industry fundamentals in 20 years." Trucking concerns, Morgan Stanley said, have been able to selectively raise rates and pass along much of their rising fuel costs to customers through surcharges. Indeed, the Bureau of Labor Statistics' producer price index shows that prices rose in each month of 2004 through July in the long-distance freight trucking industry.

Truckers try to keep "shiny side up"

Trucking firms in turn are widening their traditionally paper-thin profit margins. Bob Costello, chief economist for the American Trucking Associations (ATA), said multiple carriers have reported to him that they are making more money in 2004 than in any year in the past 20.

Buckhead Beef, a large, privately owned meat purveyor based in Atlanta, faces the same headaches as other trucking companies in running its own truck fleet throughout the Southeastern states and beyond.

Still, thorny issues remain, among them a persistent driver shortage, ever-rising costs, and pricier but less fuel-efficient engines mandated by federal environmental standards. (The engines emit less pollution but burn more fuel. According to industry experts, devices that limit emissions, like the engines themselves, also burn diesel, thus using more total fuel.)

Thus in a business with literally an array of moving parts, good times can seem fraught with peril. It's this thought that keeps Willis from celebrating too much. Even the current trucking resurgence was born, in part, of a brutal shakeout that eliminated large chunks of the industry's capacity, helping create an imbalance between supply and demand. A confluence of recession, high fuel prices, and soaring insurance premiums from 2000 through early 2003 killed some 12,000 trucking companies, according to Costello, and that number doesn't count potentially tens of thousands of failures among outfits with fewer than five trucks.

With that load on their minds, Willis and her fellow trucking pros find plenty to fret over even amid an upturn. Scott White, the president of Alabama Motor Express Inc. in Dothan, Ala., said even as shakeout survivors like his firm squeeze out a shade more profit, trucking remains a "pennies and nickels business" that rises and falls with the general economy.

"It seems like something pops up every time we get our head above water," he said.

A bumpy road in fuel costs and insurance premiums

What's popped up lately are diesel fuel prices and insurance premiums. Diesel prices had risen by late August to an average nationally of $1.87 a gallon, according to the Department of Energy (DOE) (see chart). That price was 37 cents higher than a year before and tops the previous high of $1.77 in March 2003 just before the Iraq war began.

Fuel is typically a trucking firm's third-biggest cost, behind salaries and payments to owners and operators of trucks and trailers. According to several filings with the Securities and Exchange Commission, fuel accounts for 12 to 16 cents of each expense dollar at publicly traded trucking firms. Overall, according to Costello, the industry consumes more than 30 billion gallons of diesel fuel a year. So a penny-a-gallon price increase translates to $300 million on the industry's annual fuel bill.

That's obviously a lot of money, but through surcharges truckers today can recoup 60 to 70 percent of their fuel costs above a certain threshold. With few alternative truckers to call on, customers generally agree to the charges.

Commercial Carrier Corp. of Auburndale, Fla., for example, has for the past four years applied fuel surcharges on every load its 1,000 trucks haul, said Bud Coleman, the company's president. The surcharges cover 60 to 70 percent of Commercial's cost above a benchmark tied to the DOE's diesel price index. But the charge is calculated based on the preceding month's numbers, and as rapidly as prices have moved recently, that lag generally leaves the company's surcharge behind current fuel prices, Coleman figures.

"If you didn't have it today," he said of the fuel surcharge, "you'd be underwater."

Despite the surcharges, truckers track fuel costs intently. Alabama Motor Express, a midsized operator with 325 trucks that doesn't have the resources of the largest carriers, has a staffer whose sole responsibility is to check prices across distributors and retailers. Using that data, the company compiles a network of preferred fuel vendors and rewards drivers for

buying fuel within the network.

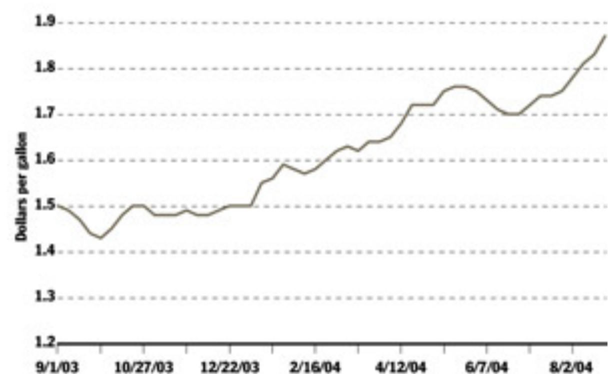
While soaring diesel prices are a more recent problem, insurance premiums have long been a headache for truckers. In June, G.I.Trucking Co., a California firm, said it planned to raise its rates in part to cover “significantly increased costs in health and liability insurance.” Many firms, especially smaller ones, have begun taking on policies with higher deductibles to keep premiums manageable. But this tactic leaves a firm vulnerable to a major accident that can instantly cost six figures.

“A lot of carriers, especially the smaller guys, have taken on a lot more risk,” Costello said. “So if they have a bad wreck or two, they are out of business.”

Truck tech paves the way for success
To help police costs and improve efficiency, carriers are turning to information technology as the preferred tool. Today’s trucking firms amass and process detailed data on every facet of their operations—for instance, average fuel economy and engine down time for each truck, time spent hauling empty trailers, or revenue per mile for each truck or salesperson. From her personal computer at Trucks Inc., Willis monitors 10 such key indicators that are updated every 10 minutes.

If, for example, a trip is booked that will result in a trailer being empty for more than Trucks Inc.’s maximum of 20 percent of the time it’s on the road, the system automatically e-mails Willis. She can then ask the dispatcher why he or she agreed to haul the load and perhaps cancel it. These so-called deadhead percentages are among the quarterly goals the company sets for its dispatchers.

Average U.S. Retail On-Highway Diesel Fuel Prices



Source: Energy Information Administration, Department of Energy

To make systems like Willis’ “dashboard” work, computers have become as ubiquitous in truck cabs as on desktops. Drivers receive e-mail instructing them where their next load is and giving explicit directions to reach it from their present location. Calling from pay phones is a thing of the past. “It’s all about saving time,” Costello said. “The more a truck is sitting there empty, waiting, it’s losing money. You’ve got to keep those assets filled and moving.”

All the while, customers demand to know where their cargo is, Willis said. So companies like hers use systems similar to those that allow UPS or FedEx customers to go online and locate their packages. Trucks Inc.’s information system, tied in with global positioning system (GPS) gear in each truck, automatically e-mails customers when their cargo is within 100 miles of its destination.

Theft of loads has also become more common, making it still more important to track the location of cargo. That’s where GPS comes in. Installing GPS equipment in trucks is a substantial investment, especially for midsized and smaller trucking firms like Trucks Inc. It cost the firm about $350,000 to outfit its 320 trucks, plus a monthly maintenance fee of about $12,000, Willis said. Because of the expense, the company delayed adopting the systems as long as possible.

But as the technology has advanced, enough additional capabilities have emerged to make it worthwhile, Willis noted. Her company uses GPS capability to communicate with drivers, to locate lost trucks and freight, and even to diagnose, from the home office, engine problems in a crippled truck on the roadside. “All the value-added features are the main reason we’re doing it,” Willis said.

Also in the name of cost control, many trucking firms employ online services that alert drivers to the location of fuel stations

with below-average diesel prices. Trucking equipment is also increasingly sophisticated. Commercial Carrier deploys radar systems that alert drivers to potential hazards, such as a stopped or slow-moving vehicle, at night or when visibility is otherwise low. Alabama Motor Express outfits trucks with a system that automatically inflates trailer tires to the optimum level when that trailer is hooked to a truck. This system maximizes gas mileage and minimizes tire wear.

“They have to keep figuring out how to be more productive, more efficient,” Costello said.

While technology is critical in the drive for efficiency and productivity, operating methods are also part of that mix. For instance, a method known as “drop and hook”allows carriers to reduce the time their trucks and drivers spend waiting for a trailer to be unloaded. Many large companies, Costello noted, are buying extra trailers so that a driver can deliver a load and, rather than waiting for the same trailer to be unloaded, then reloaded, immediately hook up a different trailer and depart.

Jacking up rates

Meanwhile, some firms have found that this time of high demand and truck scarcity has allowed them to raise rates. Commercial Carrier ties its prices to benchmarks such as the producer price index, making the timing and amount of increases clear and therefore more palatable to customers, Coleman said. That arrangement, he points out, also means that Commercial Carrier lowers prices to customers when the index drops.

Nationally, several large carriers in May and June announced rate hikes of about 5.9 percent, including FedEx Freight, ABF Freight System Inc., and G.I. Trucking. Truckers appear to be instituting rate increases in 2004 that aren’t much higher than those of 2003, but because of surging demand for trucking services, the increases are coming several months earlier, according to a June survey of 1,500 shippers by the securities firm Smith Barney, a unit of Citigroup.

Smith Barney notes that carriers, because of limited supply and surging demand, hold the upper hand in rate negotiations. But raising prices is not easy, according to executives and shippers interviewed for this story.

SP Newsprint Co., a supplier of newsprint to newspapers, uses three carriers it retains on long-term contracts, one of which expires at the end of 2004. As that deal winds down, SP Newsprint will negotiate with its current carriers as well as send bid packages to others to sample the market, said Tod Glenn, SP Newsprint’s transportation manager for the Southeast region, which includes a mill in Dublin, Ga.

“We try to play hardball as much as we can,” Glenn said. “But we’re also cognizant of the relationships we’ve built over the years.”

SP Newsprint’s cost consciousness is typical of commodities shippers, which make up a big portion of trucking customers. In a time of static demand for newsprint, it is nearly impossible, Glenn said, for SP Newsprint to raise its prices to offset higher shipping costs. Consequently, the company tries intently to keep its own costs in check, a task that includes driving a hard bargain with its truckers. So while companies like SP Newsprint might stomach a rate increase when they have to, they do so reluctantly.

Keeping it in high gear

If the current industry dynamics persist, eventually the number of trucks in the marketplace might increase, bringing supply

more in line with demand. Indeed, in late July the truck manufacturer Freightliner announced plans to add a second shift and 700 workers at its Portland, Ore., plant because of stronger truck demand nationwide. Data gathered by Eaton Corp., a large maker of truck drive trains and other systems, show that heavy-duty truck production in Mexico, Canada, and the United States was up 41 percent in the second quarter of 2004 compared to the same period in 2003, according to *Fleet Owner*, a trucking trade magazine.

As long as the economy, especially the tangible goods and manufacturing sectors, is healthy, the trucking industry should be stable, Costello said. Take, for example, Commercial Carrier, the Auburndale, Fla., truckline. Coleman, the company's president, notes that Florida's booming construction business keeps his trucks humming with loads of concrete. Likewise, continued population growth in the Sunshine State means more water consumption, which in turn creates more demand for the lime that water treatment plants use to balance the pH level in water. Commercial Carrier hauls lime to the plants.

Coleman said that even though the company's core business is very strong, he has diversified the carrier's mix of cargo to add more consumer-oriented goods such as plastic water bottles and cardboard for soft drink cases.

Such moves are typical of the kind of far-sighted strategies trucking firms must employ. Even in happy times they cannot afford to ignore cost pressures and inevitable economic shifts. Consequently, industry experts predict ongoing consolidation as bigger firms acquire smaller operators. Failures will also no doubt continue, though it appears most firms today are lean and clever enough to stay on the road.

"We've gone through such a shakeout in the last few years," said Willis, "that the companies that have survived are probably here for the long haul."

Finding and Retaining Drivers Is a Steep Climb

The most nettlesome problem facing trucking companies today is a chronic shortage of qualified drivers. The root of the problem is simple but difficult to overcome: truck drivers, especially long-haul truckers, usually spend at least a week at a time away from their families. It's hard to find people who want to do that. In addition, federal law requires big-rig drivers to be at least 21, so the industry has a tough time luring younger people into its ranks, said Bob Costello, the American Trucking Associations' (ATA) chief economist.

Qualified drivers are especially scarce during an economic recovery when greater numbers of other jobs are available. Costello noted that in mid-2004, because of a weak pool of applicants, large carriers were rejecting about eight of 10 people who applied for driver jobs even as the companies were scrambling to fill their positions.

In addition to forcing carriers to leave trucks idle, driver scarcity breeds fast food industry-like turnover as drivers jump from job to job for a better paycheck and cash signing bonuses. In the first quarter of 2004, turnover at large carriers averaged 109 percent, meaning that in a year the equivalent of a company's entire staff of drivers would leave, according to the ATA. For smaller carriers, the turnover rate was more than 90 percent. High turnover means, among other problems, high training costs, according

to Frankie Willis, president of Trucks Inc. in Jackson, Ga.

It also leaves expensive trucks sitting. Swift Transportation, a large trucking firm based in Phoenix, Ariz., stated in a filing with the Securities and Exchange Commission that its first-quarter 2004 earnings dipped to $6.4 million from $8.9 million in first quarter 2003, a 28 percent drop, primarily because of driver availability issues. The company began 2004 with approximately 400 trucks without drivers, and that number climbed above 600 during the first quarter.

“The driver shortage is the biggest challenge facing any truckline today,” said Bud Coleman, president of Commercial Carrier Corp. in Auburndale, Fla.

Trucking firms are trying an array of tactics to lure and retain drivers. Increasing pay is an obvious one. The average annual trucker’s salary in 2003 was about $43,000, up from $40,000 in 2000, after it dipped during the shakeout, Costello said. In late 2003, several big carriers—including J.B. Hunt Transport Services, Heartland Express, Schneider National, and Swift Transportation—announced increases in their per-mile driver pay.

Like many firms, Commercial Carrier pays $1,000 bonuses to new drivers and a $750 payment for a referral. In addition to those incentives, the company Web site recently promoted a “hiring event” in Chattanooga, Tenn. The company, Coleman said, spends “a substantial amount of money” wooing prospective drivers with newspaper and radio ads and this year introduced its first television commercials. The firm also maintains a department that focuses exclusively on driver recruiting and retention.

And this is a company whose drivers cover shorter routes, mainly within Florida, so they are at home almost every day. The trick is to fashion predictable schedules for drivers, Coleman explained.

Alabama Motor Express Inc., reflecting an industry trend, is experimenting with ways to get drivers home more often. One idea is to divide long routes among different drivers, allowing one to pick up the same load from another. But it’s hard for the Dothan-based company to hire drivers in the Northeast or Midwest because union pay scales are higher than the company’s typical pay scale for drivers, 85 to 90 percent of whom live within 200 miles of Dothan, said Scott White, the company’s president.

What’s more, shifting from driver to driver idles tractor-trailers, creating costs that trucking firms try desperately to minimize. “It gets complicated,” White said.

The persistent driver shortage and revolving-door turnover are in fact so complicated that the industry has discovered no reliable way to remedy these problems, Costello said. Better pay and benefits help, Costello and other executives noted, but have so far not been a panacea. The ATA has commissioned a group of labor economists to examine the issue and try to formulate strategies to combat it.

“I don’t know the answer,” said White. “We’ve got to find something to make it more attractive for these younger guys. We all think money will help, but I don’t know if that’s the total answer.”

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Paradise Found (or Lost)?

The tide of older Americans moving into the Sunshine State is rising. While the newcomers bring affluence, policymakers are confronting the issues caused by their rapidly swelling ranks.

Located off Interstate 75 near Ocala, the Villages of Florida is an archetype for one of the hottest trends in retirement: the active adult community. Some 45,000 people call the Villages home, but only people 55 and older can live there. They are lured by the sales pitch of a "hometown" lifestyle in the sun that involves driving golf carts to various leisure activities, including golf, tennis, and dancing.

In many ways, the booming Villages community—whose growth belies its humble origins in 1983 as a small mobile home park—parallels Florida's swift transformation in recent decades from a land of orange groves and sleepy towns into an economic powerhouse in the sand. As the state's population swells, Florida has enjoyed rapid growth and an influx of wealth as it grapples with the problems that accompany such changes: overcrowding in some areas, compromised environmental quality, and rising health care costs.

Florida's fast growth

Florida's population increased by more than 3 million during the 1990s to nearly 16 million, an increase of 23.5 percent, according to 2000 U.S. Census data analyzed by the Federal Reserve Bank of Atlanta. During the same period, the U.S. population grew by 13.2 percent.

Moreover, because of Florida's famously agreeable climate, the character of growth in the state has been unlike growth anywhere else in the nation. The state has a moderate rate of natural population growth by birth, and the percentage of residents who were born there is low: 32.74 percent, a statistic that contrasts sharply with the 60 percent of the national population who reside in the states in which they were born. Florida's population growth is notable for its massive rate of in-migration and the relatively high average age of this population. In 2000, more than 22 percent of Florida's population was 60 or older, compared with 16.3 percent for the United States as a whole. This figure has held steady in Florida, where 23.6 percent of residents were 60 or older in the 1990 Census. Moreover, the state is becoming grayer as people live longer: Florida's population over age 80 increased from almost 4 percent in 1990 to more than 4.6 percent in 2000, whereas 2.8

percent of Americans are over 80.

Migration into Florida is expected to gain momentum as the baby boomer generation, born between 1946 and 1964, moves into the active adult demographic range. By 2015, 77 million Americans will be 50-69 years old, and about 45 million of this group are likely to relocate, according to Del Webb, a division of Pulte Homes that specializes in developing active adult communities.

“Because the peak of the baby boomers just turned 50, you’re going to have another 10 or 15 years with huge numbers of young elderly moving into Florida,” said Stanley K. Smith, director of the Bureau of Economic and Business Research at the University of Florida in Gainesville.

Because jobs have been available in Florida at a time of weak employment in many other parts of the country, the state has also become a destination for young families, many of whom end up providing services to retirees in one way or another. (This influx is apparent in the Florida population in the 30Ð49 age range, a group that increased by nearly 30 percent from 1990 to 2000.) As a result, in many parts of Florida, residents barely noticed the 2001 recession because of strong demand for services, especially in health care, education, and tourism.

Catering to the boomers

There is a strong business case to build communities for the glut of aging Americans who consider themselves young at heart. Fresh from their peak income years, many are financially secure. They rarely have children who are still in school, and they require fewer health care services than people over 70.

But too often developers overlook the harsh reality that baby boomers won’t be active forever. As baby boomers age, the fun-loving communities now under construction may have to accommodate both nursing care and fitness centers.

“Thirty years down the road, people’s retirement needs will change,” said Andrew Kochera, a senior policy adviser for the American Association of Retired Persons Public Policy Institute. “My question is, will the communities be able to change in terms of what they’re offering?”

Perhaps no other state has an economy that depends on retiree influx as much as Florida. A vast service-based economy has developed to support these affluent new residents who demand housing, retail, recreation amenities, health care, roads, and other government services. “Retiree migration is a growth industry, and it’s an impetus to other types of growth,” Smith said.

Because retirees often have relatively steady incomes from pensions, social security, and interest on savings, Florida banks reap the benefits of a rock-solid depositor base. In contrast to younger customers who normally have a lot of money and debt tied up in their homes, typical retirees move to Florida after years of saving and bring along plenty of liquid assets—on average, $1,000 cash for every year of employment.

William G. Smith, president and chief executive of Capital City Bank Group in Tallahassee and a member of the board of directors of the Atlanta Fed, described the influx of deep-pocketed residents as “an amazing phenomenon that provides for a lot of stability.”

Deals with older customers who offer tens of thousands of dollars in cash on the spot are not uncommon for Florida car dealers and

As they age, Floridians will increasingly strain federal Medicare programs for the elderly, and more and more people may draw from the largely state-funded Medicaid programs.

homebuilders. “Retirees don’t drive around in junkers,” he said.

In 2000, direct spending by Floridians who were 50 and older, along with the value of their federal health benefits, was estimated at $150 billion, according to the Destination Florida Commission, which was created by Florida Gov. Jeb Bush to explore Florida’s future as a retirement destination. Because retirees don’t typically use schools and they pay a large sales tax (Florida has no income tax), they represent a net benefit to the state of $2.8 billion in taxes. “A healthy retirement industry is critical for the overall current and future prosperity and well being of the state of Florida,” the commission’s 2002 report states.

Shadows in the sunshine?

But money is not enough to offset a growing perception that growth has diminished the appeal of Florida as a retiree destination, a concern that prompted Gov. Bush to form the commission to study the issue. Some 59,000 “mature” residents left Florida in 2000, according to the report.

Apart from challenging lifestyle questions, difficult issues of dependency confront Florida policymakers. As they age, Floridians will increasingly strain federal Medicare programs for the elderly, and more and more people may draw from the largely state-funded Medicaid programs for low-income households.

Given these pros and cons, more longtime Floridians are ambivalent about the retiree influx and the economic growth that comes with it. For example, while they enjoy more options for shopping, they cope with worsening traffic.

Growth along central Florida’s Interstate 4 corridor and elsewhere has sparked increasingly testy debates about growth. A vocal antigrowth movement is winning adherents with an agenda to slow the pace of in-migration, ease the paving of rural land, and preserve as much of Florida’s natural environment as possible.

States compete for retirees

As Florida grapples with sprawl and other social issues, neighboring states are boosting their efforts to gain a larger share of retirees. In part because of the migration of older Americans, the Southeast grew faster than the rest of the country. Between 1990 and 2000, population for the six Southeastern states increased 18.5 percent to nearly 42 million, or 15 percent of the country. By contrast, the United States as a whole, with a population of 281 million, grew approximately 13 percent during the same period. The states with the highest rate of out-migration included New York, Illinois, California, New Jersey, Michigan, Ohio, Pennsylvania, Massachusetts, and Connecticut.

Migration shifts are evident at Houston Springs, a new community now under construction in Perry, Ga. About 150 miles north of the Florida line off I-75, Houston Springs targets the same active adult demographic segment that many Florida developments do. Developers plan to build 2,000 units (for 4,000 people) on 494 acres with homes costing $100,000–$400,000, prices that are lower than those of comparable communities in Florida, especially along the oceanfront.

“Middle Georgia is usually not viewed as a retirement destination,” said Jeff Moredock, managing director of Houston Springs. “But the reality is that many retirement destinations are saturated as well as expensive. When you look at the folks who are moving, not all are terribly wealthy. A large segment is middle income. They’re not in a position to buy a beachfront condo in Florida, so there’s an

opportunity for us here."

Migration shifts are evident at Houston Springs, a new community now under construction in Perry, Ga., which targets the same active adult demographic segment that many Floridian developments do.

Officials in nearly every Southeastern state set goals and budget money to attract retirees, either through national advertising campaigns or through programs such as Mississippi's Certified Retirement Cities. In that program, the state offers tax breaks and other incentives for residents over 65 who live in qualified communities.

Mississippi officials justify the tax breaks on the grounds that each retirement household brings to the state disposable income equal to 3.7 factory jobs. Each relocated retiree household brings an average of $320,000 in assets and has median annual income of about $33,000. Moreover, that money tends to stay close to home since some 90 percent of retiree income is spent locally for goods and services.

"We are not about age restriction here," said Diana O'Toole, program manager for the Mississippi Development Authority. "We are looking for people who want to be assimilated into our communities."

Retirement patterns change

Despite the backlash against growth and the increasing competition from other states, Florida remains a top destination for retirees. But, added Susan MacManus, professor of political science at the University of South Florida in Tampa, "We're going to see a completely different pattern of retirement."

Having pretty well saturated the southeast coastal region of Florida between Miami and Palm Beach, more retirees are moving out of that part of the state than are moving into it.

But Florida is a big state; its diverse geography still offers plenty of open spaces that are attractive to older people. For example, the St. Joe Co. owns 825,000 largely uninhabited acres primarily in northwest Florida, including miles of oceanfront. The company's Web site said this land is planned for development that will eventually become "as unique, special and evocative as Nantucket, Napa Valley or Santa Fe."

In the few years since the 2000 Census, the University of Florida's Smith said the state's population growth actually gained momentum, and he projects this decade's growth rate will surpass that seen during the 1990s. According to Smith, Florida's population is expected to increase by 3.4 million between 2000 and 2010, with an estimated 89 percent of that growth coming from in-migrants.

Homebuilder Del Webb ranked Florida as the top state baby boomers are most likely to consider moving to. And three Florida destinations made the list of the Retirement Living Information Center's Top 10 "hot counties" for active adult homebuyers.

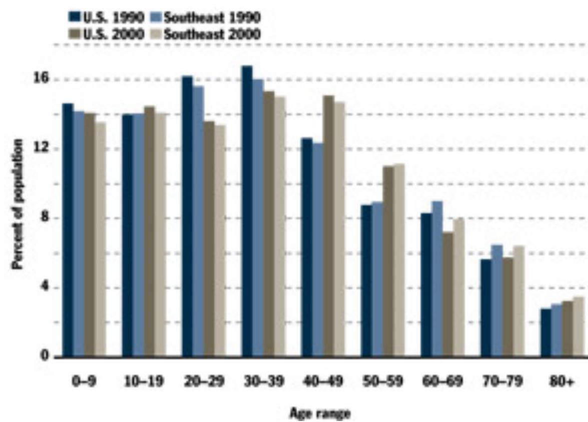
The top destination in the United States is Florida's Sumter County, home to part of the Villages. The booming community, which sprawls across three counties and encompasses 25,000 acres, sees about 300 homes on average built each month. The Villages is about halfway to its capacity of 100,000 people, and in light of the projected growth in Florida, the developers have good reason to believe they will reach their final goal.

Said Professor Smith, "I keep waiting for growth to slow down, and it hasn't happened yet."

Aging Boomers, Population Influx Reshape Southeastern Demographics

Age Trends in the Southeast and the United States

As Americans have steadily moved southward, the Southeast's population growth has outpaced the nation's. This influx of people has also



Source: U.S. Census Bureau

changed the demographic profile of the region. Data from the 2000 U.S. Census and the 2002 American Community Survey, a new nationwide study from the Census Bureau, paint a fresh picture of the region.

Key demographics, including age, educational level, poverty rate, household income, racial identity, and immigration trends, show that the composition of each Southeastern state varies widely. Taken as a whole, however, the data help explain how rapid economic and population growth have affected the region.

Population growth

While Louisiana has an unusually high percentage of native-born residents (nearly 80 percent compared to 62 percent for the U.S. population), the Southeast overall is an increasingly diverse, fast-changing area.

Between 1990 and 2000, the population for the six Southeastern states increased 18.5 percent to nearly 42 million people; the population in the rest of the country grew at just over 13 percent during the same period. Florida added the most population of any Southeastern state, gaining more than 3 million new residents for an increase of 23.5 percent. Georgia, which gained 1.7 million new residents since the 1990 Census, experienced the largest percentage growth (26.4 percent) of any state in the region. Many of these newcomers were lured by Atlanta's strong economy.

Diversity and aging

The Southeast's population has grown not only larger but also more diverse. The Hispanic community grew dramatically, increasing in every state in the region. In just 10 years the Latino population grew from 1.2 percent to 5 percent in Georgia and from 11.7 percent to 16.5 percent in Florida. At the same time, the percentage of white residents declined slightly in each of the region's states.

Like the rest of the United States, the Southeast's median age is increasing as the baby boomers age. In both the Southeast and the United States, the percentage of the population aged 30-39 shrank from 1990 to 2000 while the percentage of the population aged 40-59 grew (see the chart).

Income and education

After the end of the Civil War, the Southeast struggled for a century to keep pace with the rest of the country in terms of income and education. Since the 1960s, however, the region has made great strides, and data from the 2000 Census show that the area continues to catch up. In 2000, for the first time in 20 years, a state in the Southeast—Georgia—surpassed the national average for median household income. Measured in 2000 dollars, Georgia's 1999 median household income was $43,357, up more than 17 percent during the 1990s. Mississippi's growth was even greater as median household income rose nearly 25 percent during the same period, nearly twice the rate of the rest of the country. Despite this growth, however, Mississippi still ranks near the bottom nationally in median household income.

New data also offer encouraging signs about the progress of education in the Southeast. The 2000 Census shows that the percentage of residents 25 and older without a high school diploma fell sharply in all six Southeastern states. In 1990, 29.4 percent of the region's residents 25 and older lacked a high school diploma, according to Census data; that figure declined to just over 22 percent in 2000. At the same time, the percentage of people in the Southeast who attended or completed college and who attended or completed graduate school increased. Census data indicate that in 1990, 41 percent of Southeastern residents 25 and older had some college education, but in 2000, 48 percent had some college education.

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Banks and the Growing Remittance Market

As the immigrant population in the United States booms, the amount of money sent out of the country is skyrocketing. Banks are taking steps to enter the lucrative remittance market despite significant cultural barriers.

In recent years, payments sent by immigrant workers back to their home countries have soared. According to the Inter-American Development Bank (IDB), in 2003 Latin America received $38 billion of those payments, up from $32 billion in 2002. Of that sum, immigrants in the United States sent approximately 75 percent.

The southeastern United States contains four of the top 10 remittance-sending states. Latin American immigrants in this country, like the dos Santos family of Decatur, Ga., sent nearly $30 billion to their home countries in 2003, and that figure is expected to rise.

The size of this flow of money from the United States corresponds to the increase in the Hispanic population living and working in the United States; according to the U.S. Census Bureau, their numbers grew by 50 percent from 1990 to 2000 and in 2003 totaled 39.9 million. The majority of Hispanics in the United States come from Mexico, the world's largest remittance-receiving country; a 2003 Pew Hispanic Center report says that 18 percent of all adults there receive remittances originating in the United States.

Remittances—noncredit payments, which are often sent to a distant place—can have an even larger impact on smaller countries (see the table). The 2003 Pew report indicates that in El Salvador 28 percent of the adults receive remittances, and those remittances are equivalent to 18 percent of the country's gross domestic product. According to the IDB, remittances sent to countries in Latin America in 2003 totaled more than the combined amount of foreign direct investment in and official development assistance to Latin America.

Choosing among remittance methods

Migrants have a choice of how they transfer their money back to their homeland. Informal—and often less secure—means such as sending cash with a courier or through the mail remain the choice of 17 percent of Latin American remitters, according to the Pew report, though this figure has been on the decline. Wire transfer companies currently dominate the remittance market, with 70 percent of Latin American remittances sent through companies such as Western Union and Moneygram. These companies have gained the trust and loyalty of the Hispanic community and have adapted to the needs of this community by offering convenient locations, hours, and a comfortable business environment for Hispanic immigrants.

In recent years, banks have entered this market and are competing with these traditional vendors. Wells Fargo, the first bank to enter the remittance market, began offering remittance services in 1995. Since then, U.S. and Mexican banks have partnered to provide services specifically designed for the Mexican immigrant population. In 2002 Bank of America partnered with Grupo Financiero Santander Serfin, and Citibank entered into a partnership soon afterward with Banamex. Earlier this year, the Federal Reserve System initiated FedACH International, an automated clearinghouse that enables any financial institution in the United States to send payments to Mexico.

Payments in the Americas Conference

On Oct. 7–8, the Federal Reserve Bank of Atlanta will hold a conference on payments in the Americas. The conference will focus on the challenges and opportunities of the burgeoning remittance market and the policy objectives of facilitating electronic payments and reducing costs to consumers. The conference will provide a forum in which key participants in the remittance market can collaborate.

Conference attendees, including policymakers, financial sector leaders from throughout the Western Hemisphere, and payment system specialists, will discuss experiences and applications with automated clearinghouse (ACH) and other electronic payment systems.

A panel of experts will present a survey of low-value payment systems and discuss the growing volume of remittance payments, which is driving policymakers and private-sector providers to identify ways to reduce the cost of transferring funds. Another panel presentation will focus on the experiences of building cross-border payment exchanges in Asia and Europe, with particular emphasis on their lessons for the Americas. This panel will also examine the international ACH connections the Federal Reserve System has developed for making low-cost, electronic cross-border payments to Canada, Mexico, and Europe. In addition, conference participants will assess regulatory concerns and policy challenges that lie ahead.

Seeing banking's benefits

An increase in banking among Hispanics provides benefits to banks as well as to Hispanic customers. Banks benefit by having the potential to tap into a large market. Customers benefit since bank accounts help address some problems that Hispanic immigrants often encounter concerning money. Many recent immigrants do not have bank accounts, so they often carry around large amounts of cash or keep large amounts of it in their homes. This practice makes them targets for theft. Banks provide, among other things, a place where Hispanic immigrants can keep their money and earn interest on it.

Building a relationship with a bank can provide a number of additional benefits for immigrants. Savings accounts help immigrants establish a financial foothold that in turn gives them access to loans with competitive interest rates that can encourage the purchase or construction of homes. Banks can also help immigrants finance the establishment of small and medium-sized businesses.

One of the most important benefits that banks can provide to immigrants is lower transaction costs for remittances. According to a 2004 Pew Hispanic Center report by Manuel Orozco, senior researcher for the study of international migration at Georgetown University, the average value of a remittance is $400, and currently the majority of these transactions occur outside the financial system. Sending money through a wire transfer company can involve high transaction costs in addition to high exchange rate margins between the United States and the destination. By offering programs involving debit card withdrawals from ATMs, banks can offer lower transaction fees. As competition has increased in recent years, the overall cost to immigrants of sending remittances has come down.

According to Orozco's 2004 study, the average cost of remitting $400 has declined to 4.4 percent in 2004, down from 6.29 percent in 2001. The cost of sending a smaller amount has also decreased, falling by 50 percent since the late 1990s. The study added that the majority of the decrease, however, occurred between the late 1990s and 2001, when the rate dropped from about 15 percent to approximately 8 percent. The rate of decrease has slowed considerably in the past three years.

Although banks can demonstrate an array of benefits to remittance senders, they face many challenges in entering this market. Banks' influence on lowering transaction costs has been diminished because they have not been able to attract more of the remittance market. Currently only 11 percent of Latin American remittance senders use banks to send money back to their native country, according to the 2003 Pew report. In fact, only 3 percent of Mexican immigrants conduct their remittance transactions through banks, Orozco's 2004 study indicates. Taking full advantage of the potential banks have to

lower or eliminate transaction costs requires a bank account on both ends of the remittance transaction. Still, costs can be reduced somewhat even if only one party in the remittance transaction has a bank account.

Many Mexicans in the United States are unaccustomed to having bank accounts. A July 27, 2004, *Wall Street Journal* article states that only 20 percent of Mexicans living in Mexico have a bank account, and almost 30 percent have no access to financial services. This low participation rate stems from a traditional distrust of banks and citizens' unfamiliarity with the banking sector since Mexican banks have traditionally focused their services on the wealthy. This distrust extends to Mexicans' attitudes toward banking in the United States.

Because banks have not regarded rural neighborhoods as financially attractive markets, rural Mexicans are often underserved by banks. However, these rural and less affluent areas are significant recipients of remittances. U.S. banks, partnered with Mexican banks, are beginning to expand banking access to the poor and rural populations of Mexico.

Remittances in Selected Latin American Countries in 2003 (in millions of $U.S.)	
Cuba	1,194
Dominican Republic	2,217
El Salvador	2,316
Guatemala	2,106
Jamaica	1,425
Mexico	13,266
Source: Inter-American Development Bank	

Exploring immigrants' low banking participation

In his 2004 Pew study, Orozco found that of Hispanic remittance senders in the United States, 43 percent do not have checking or savings accounts. Only 25 percent of Mexican immigrants have any bank account. Research using data from the Mexican Migration Project, a collaboration between researchers at universities in Mexico and the United States, suggests reasons that affect a Mexican immigrant's decision to open a bank account in the United States. The probability of an immigrant opening a bank account increases when a combination of factors exists: the immigrant is paid with a check, speaks English, has migrated more recently, stays in the United States for a longer period of time, and has more exposure to banks. Also, immigrants who are better savers are more likely to open a bank account; those who don't save money, conversely, tend not to open an account they don't need.

Data from the Mexican Migration Project also point to factors that influence a Mexican immigrant not to open a bank account. Immigrants who have been in the United States for a short time believe that they will be returning to their home country soon and feel that a bank account is unnecessary. Immigrants with limited exposure to banks are often suspicious of banks' pricing and feel that banks may take advantage of them. By addressing the factors that make opening an account less likely, banks will be better able to attract this growing market.

Some immigrants' undocumented status discourages them from opening bank accounts. Undocumented immigrants fear that opening a bank account will reveal their status. The Mexican government has begun issuing an identification card—the *matricula consular*—that many banks have begun to accept as a form of identification, allowing Mexican immigrants to open bank accounts without revealing their immigration status. In 2001 Wells Fargo was the first bank to accept this form of identification, and within two years the number of accounts opened at Wells Fargo using the *matricula consular* surpassed a quarter of a million. Nevertheless, the vast majority of undocumented immigrants still do not have bank accounts.

Banks also have other obstacles to overcome to attract immigrants. Banks need to provide more convenient locations and hours of operation, overcome cultural and language barriers, and gain the community's trust and loyalty. Orozco's research into the banking habits of immigrants predicts that as banks gain more experience and insight into attracting these new customers, their share of the remittance market will increase.

This article was written by Kasey Maggard of the regional group of the Atlanta Fed's research department.

Remittances in the Southeast

The South is one of the largest

sources of remittances, with four of the top 10 remittance-sending states: Florida (fourth), Georgia (seventh), North Carolina (eighth), and Virginia (10th). According to the Inter-American Development Bank, in 2004 immigrants in the states of the Sixth Federal Reserve District, which covers much of the Southeastern United States, will send about $3.76 billion in remittances to Latin America, more than 13 percent of total remittances from the United States. And although Florida and Georgia are both among the highest-remitting states, they display very different remitting patterns.

Georgia's Hispanic population is relatively new compared to Florida's. It increased by 17 percent from July 2000 to July 2002, making it the fastest-growing Hispanic population in any state in the country. The vast majority of these immigrants are from Mexico. In contrast, Florida is a well-established home to a large and diverse Hispanic population. There, more than 31 percent of the Hispanic population are Cuban and more than 37 percent are categorized as "other Hispanic," meaning neither Mexican, Cuban, nor Puerto Rican.

Remittance Facts from Florida and Georgia, 2004

	Georgia	Florida
Total amount of remittances to Latin America (in U.S.$ millions)	$947	$2,450
Number of Latin American adult immigrants	345,253	1,796,959
Average amount sent per Latin American adult immigrant per year (in U.S.$)	$2,743	$1,363
Percentage of immigrants that send money regularly	81	47

Source: Inter-American Development Bank

The distinct remitting habits of these different groups are apparent in the percentage of immigrants remitting as well as the amount that the individuals remit. A greater percentage of Georgia's immigrants send remittances, and the average remittance size is larger than that of the average remittance sent by an immigrant in Florida (see the table). Studies show that recent immigrants are more likely to send remittances than those who have been in the United States for a long time.

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Economic Research

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Andrew Bauer (left) and Nicholas Haltom are senior economic analysts in the macropolicy section of the Atlanta Fed's research department.

Regarding the Components of Inflation

The topic of rising inflation has crept back into many Americans' minds recently. Rising prices for milk, steel, and gasoline—among other items—have fueled many articles in the press. These price developments have contributed to a considerable shift in the inflation outlook. As recently as last year, deflation—generally defined as a broad-based decline in prices often associated with weakening aggregate demand—was seen by some as a possibility.

By the end of 2003, core consumer inflation rates, or inflation rates excluding volatile food and energy components, had declined to their lowest levels since the early 1960s. By contrast, commentary during the past several months has dwelt on the prospects of accelerating inflation as core inflation rates turned sharply upward in the early part of this year.

The devil is in the details

As core consumer inflation rates moved lower in 2003 and higher earlier this year, an increasing and probably undue amount of attention was placed on each monthly aggregate inflation number in news headlines. The aggregate inflation rate is limited in the information it provides, especially with regard to the sources of its movements. It is generally difficult to know whether changes in aggregate inflation result from broad-based price changes or from significant and perhaps idiosyncratic price changes in only a few goods or services.

Analysts often attempt to confront this issue by examining price changes of major inflation components and then making inferences about the impact of those changes on the aggregate inflation rate. However, such inferences are imprecise. A more rigorous approach is to provide a precise decomposition of the inflation rate by calculating percentage point contributions of components to the aggregate, a technique commonly used to analyze U.S. gross domestic product (GDP).

By highlighting the composition of aggregate inflation, we gain greater insight into the underlying trends in inflation and can make more informed inferences about inflation's near-term direction. This method is particularly important because it allows analysts to distinguish broad-based changes in inflation from changes due to movements of only a few components.

Accounting for recent inflation movements

Let's reconsider all the talk about deflation in 2003. Analysis shows that from November 2001 (when core inflation peaked at 2.8 percent as measured by the consumer price index, or CPI) to December 2003, two

main CPI components—residential rent and used vehicle prices—drove the decline in CPI core inflation. The combined contribution of rent and used vehicles to CPI core inflation dropped by 1.1 percentage points and accounted for a considerable portion of the 1.6 percentage point decline in the core CPI. What's more, these price changes did not reflect a fundamental weakening in housing and vehicle demand but instead showed the dynamic effects of interest rates on consumer demand for homeownership and new vehicles. Downward pressure on rental prices mainly resulted from an increase in demand for owning homes, which was spurred by historically low mortgage interest rates. The price declines of used vehicles largely reflected increasing demand for new vehicles in response to rebates and record-low financing. This deeper look at the inflation data suggests that the concern and discussion regarding overall price deflation were perhaps overstated.

Looking forward

In the first half of 2004 there was a great deal of commentary and concern when core inflation rates rose sharply. CPI core inflation rose from its low of 1.1 percent in December 2003 to 1.8 percent in April—to some a startling increase in just four months. Does this sharp increase indicate that inflation is roaring back? A look at the sources of the increase shows that isolated, distinct movements in a few components were responsible. Prices of apparel and nonhome lodging, such as hotels and motels, accounted for more than half of the increase. Since April, the dramatic increases in those components have moderated, and the overall core inflation rate has stabilized. Though prices of some goods and services other than hotels and clothing have risen slightly, there is little indication that persistent inflation will rear its ugly head in the near future.

Of course, simply looking at the details underlying the headline inflation numbers by no means gives a perfect understanding of inflation. Inflation is a notoriously difficult economic variable to forecast. Still, by looking at the contributions to inflation by specific components, we can gain a better understanding of movements in aggregate inflation rates as well as make more informed inferences about future inflation.

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GRASSROOTS

Morgan City, Louisiana:
Cajun Catch and Black Gold

The unofficial capital of the Cajun coastline of Louisiana, Morgan City is a small town with big industry and flat growth. With a population of less than 13,000, the community's future is tied to two liquids: oil and water. From the town's black gold rush—launched in 1947 when an offshore rig owned by a company named Kerr-McGee struck oil—to the shrimp fleets that haul in thousands of pounds of shrimp annually, the largest city in St. Mary Parish is thoroughly Cajun.

Morgan City's leaders hope that its distinctive and colorful heritage—a mix of Cajun, Creole, and European influences—helps propel the town's revitalization. Past reliance on shrimping and petroleum has led to boom-and-bust cycles.

Located southwest of New Orleans at the confluence of the Atchafalaya River and the Gulf Intercoastal Waterway, the town was given its Cajun flavor by French and Acadian settlers. Originally called Tigre Island because U.S. surveyors spotted some large cats as they scouted the area, the town was renamed Brashear in 1860. Charles Morgan, a rail and steamship magnate, saw the area's potential and dredged the Atchafalaya Bay Ship Channel so that oceangoing vessels could navigate to port. Grateful for the new port, the community changed its name in 1876 to Morgan City.

Oil, jobs ebb and flow

Since the founding of its offshore oil industry, Morgan City's fortunes have been closely tied to petroleum, and recently this industry has not been faring well in the area. According to Anthony Greco of the University of Louisiana at Lafayette's business school, the local oil business is not growing these days. Greco noted that the J. Ray McDermott offshore fabrication facility announced 600 layoffs last April.

Morgan City, La.

Population:	12,703
	(St. Mary Parish: 53,500)
Households:	5,627
Median Household Income:	$28,072

The potential for additional job loss in the oil business looms, but the city is trying to compensate with the development of new businesses such as Conrad Industries, a marine vessel construction company, which chose Morgan City over a Texas location last year. This facility will create 200 new jobs, according to a Louisiana Economic Development study. Additionally, Argus Health Products will open a cosmeceutical research and manufacturing facility that will

Parish:	St. Mary

Source: U.S. Census Bureau (2000)

employ 50 people.

Fishing in the Gulf of Mexico is also a major contributor to Morgan City's economy. The shrimping industry is limited to two seasons, Greco noted, and the 600-plus shrimp boats have dwindled to fewer than 150 since the 1990s mainly as a result of increases in shrimp imports. But numerous shrimp fleets and independently owned trawlers still deliver catches to local packing plants. A new shrimp packing plant due to open across the river from Morgan City within the next year promises to help restore the shrimp boat fleets, noted Frank Fink, director of economic development for St. Mary Parish. The packers add value to the shrimp harvest. Since they pack only local shrimp, the new plant will spur fishing in the area. Shipyards and a thriving oyster industry also contribute to the local economy, as do tourists who visit for boating and fishing.

The unique marriage of oil and shrimp

In the vicinity of rivers, bayous, and cypress swamps, Morgan City sits just south of Bayou Teche and the vast sugarcane fields that spread out to its north and east. The city today is a cultural melting pot of Cajun, Creole, and European influences. Its downtown Main Street, a registered historic district, reflects its 19th century heritage. The streets erupt with festivities every Labor Day weekend when nearly 150,000 people—more than 10 times the town's population—attend one of the oldest and most unusual harvest festivals in the country: the Louisiana Shrimp and Petroleum Festival.

The festival began in 1936 to celebrate the deepwater shrimpers. Celebrating Morgan City's economic lifeblood—shrimping and petroleum (the latter added to the festival's scope in 1967)—the annual festival features Cajun food (including fried alligator), music, and the blessing of the fleets. The event is a shot in the arm to the local economy and, according to Time magazine, is "one of the best, most moving and most fun festivals the country has to offer."

Too many eggs in one basket

The city puts so much effort into its festival to offset the economic suffering it experienced in the 1980s, when the oil industry bottomed out. Vowing to reinvigorate its shrimping industry and reduce its dependence on petroleum employment, the city tried to dig its way out. Morgan City's natural beauty disguises a decidedly less rosy economic snapshot of the region. The city and the surrounding area lost population over the past 10 years, according to the U.S. Census, and the median income from 2000 to 2003 hovered well below the national average. Unemployment has remained near the 8 percent mark, while the rate statewide dropped from 6.1 percent to 5.9 percent in the first half of 2004.

A river runs through it

In every direction, water remains central to the city's economic life. Morgan City's port has been an avenue for both domestic and international trade since 1957. The port receives international cargo bound for markets throughout the United States. Via the Intercoastal Waterway and the inland rivers of the Upper Mississippi River Valley, 37 states are accessible from the port, and Morgan City is the only medium-draft harbor between New Orleans and Houston. The 400-foot-wide channel is maintained to a depth of 20 feet by the U.S. Army Corps of Engineers, and the port docking facility has a rail spur of the U.S. and Union Pacific railway as well.

Call me Mr. Charlie

Morgan City is also home to an unusual museum—the International Petroleum Museum and Exposition, a nonprofit facility with a mission to save, preserve, and interpret artifacts and information about the offshore petroleum industry. Its focal point is Mr. Charlie, the first transportable, submersible oil drilling rig and the springboard for offshore rig technology. Accommodating a crew of 58, the rig was used from 1953 to 1986. Mr. Charlie is now the only offshore rig in the world that the general public

can walk aboard.

Looking toward tomorrow

The future of Morgan City remains tied to the petroleum industry despite efforts to reduce its dependence on oil. As the local economy shrinks, so does the population—St. Mary Parish lost 2 percent of its population from 2000 to 2003, and, as of the 2000 U.S. Census, more than 20 percent of its residents live below the poverty line. As Morgan City celebrates its storied past, it looks optimistically toward an unclear future.

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The State of the States

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

- Huntsville International Airport announced plans for an $87 million expansion that will increase the airport's passenger capacity. Construction begins this fall and will take five years.
- Automotive parts supplier Mando America Corp. announced plans to spend $35 million in an expansion of its Opelika plant. The company will add 170 jobs to its current workforce of 150. It will also move its headquarters from Detroit, Mich., to Opelika. The plant will make parts for Montgomery's new Hyundai plant as well as for other automakers.
- Kronospan, a German wood flooring firm, will invest $200 million–$300 million in a new plant in north Alabama, creating about 400 jobs.
- Northrop Grumman in Huntsville will support production of the U.S. Army's Viper Strike weapon system, designed to destroy targets without damaging nearby objects. DRS Technologies, also in Huntsville, received a $30 million contract to provide diagnostic systems for the Army's Bradley Fighting Vehicle.

- Tourism officials say Florida's summer season has been strong as international visitors took advantage of the weak dollar and good weather. Hotel occupancy, restaurant sales, and theme park attendance were up over year-ago levels. But tourism activity declined significantly in late August and September as a series of hurricanes deterred visitors.
- South Florida residential builders and real estate agents report that June and early July construction was up slightly compared to last year while sales jumped significantly. Although prices for some building materials rose, builders have reportedly been able to pass the costs along to buyers.
- Damage estimates from hurricanes Charley and Frances range from $22 billion to $30 billion. The Insurance Information Institute estimates that the insurance industry will pay $6.5 billion in claims from Charley alone. Flood damage caused much of the uninsured losses. Rebuilding efforts will boost the construction industry. Damage to citrus crops is expected to significantly affect farm proprietors' income.

- The state's transportation equipment sector continues to expand. Fleetwood Enterprises, the world's second-largest producer of motor homes and travel trailers, opened another manufacturing plant in Georgia to meet rising demand. The company's Alma plant, which opened in August, employs about 150 workers. TI Automotive, an auto parts maker, will build a $30 million plant and create 100 jobs in northeast Georgia by 2006.
- About 1,400 employees at the Brown & Williamson Corp. cigarette factory in Macon lost their jobs in mid-August as the company completed a merger with R.J. Reynolds Tobacco Co. The factory was middle Georgia's largest manufacturing plant.
- The state's carpet and floor covering industry is enjoying continued strength in the residential remodeling market, and industry executives report seeing increased demand for carpet in the commercial segment.

- Union Tank Car Co., one of the nation's largest railcar leasing firms, announced that it will construct a new $100 million manufacturing plant with a weekly production capacity of about 70 tank cars per week at England Industrial Air Park and Community, located in Alexandria. About 700 manufacturing jobs are expected to be created by the project, which is anticipated to be open by 2006.
- The average Louisiana oil rig count held at 167 in July compared to 158 a year earlier while the national rig count climbed by 37 to 1,213. The average price of Louisiana sweet crude rebounded in July to $40.22 per barrel from June's $38.26 rate. While the price of Louisiana natural gas came down modestly in July, analysts expect prices to remain high because of declining domestic reserves, import difficulties, and higher demand.

- Gross revenue in Mississippi casinos increased 5.9 percent during the first six months of 2004 compared to the same period in 2003. The opening of a second casino in Natchez will bring 300 to 400 new jobs to the city and will reduce the impact of the recent closing of the nearby International Paper plant.
- A Pascagoula company, Rolls Royce Naval Marine, has been awarded a contract to manufacture aircraft carrier propellers for the U.S. Navy. The plant is constructing an 18,000-square-foot expansion to accommodate the new business.
- Magnolia Label Co., a producer of labels for food products and consumer goods, will more than double its plant size by the end of the year and add about nine employees when it constructs a new facility in Byram. The company ships labels to domestic firms as well as to companies in China, Israel, Japan, and Vietnam.

- Tennessee tractor and trailer manufacturing plants are running at maximum capacity. Trucking firms are increasing rates to offset several increasing expenses—new tractors and trailers, fuel, insurance, and drivers' wages. High demand for trucking is allowing firms to pass along these increased costs in the form of rate hikes.
- Next to its Decherd facility, Nissan will construct a $47.3 million plant that will build crankshaft forgings for all vehicles the automaker produces in the United States. The new plant is expected to employ 70 people.
- Quebecor World Inc. will cut 450 jobs at its Kingsport printing plant, which currently employs 950 people.
- State Farm Insurance Co. will add about 400 jobs at its Murfreesboro operations center to expand its claims, billing, and customer service operations.

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

Illustrations by Jay Rogers

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Q & A

Trucking Rolls Along

An Interview with Beth Dortch Franklin of Star Transportation

The trucking industry is experiencing the classic good news/bad news scenario: The recent shakeout in the industry has resulted in healthy demand for trucking, and carriers have been able to raise rates accordingly. But diesel prices remain high, insurance rates have soared, and keeping quality drivers is a persistent problem. Like every other trucking line, Star Transportation Inc., based in Nashville, Tenn., juggles these concerns in its business decisions. Star is a privately owned carrier with a fleet of 600 tractors and operates in the continental United States although its primary lanes are east of Dallas. Beth Franklin, Star's chief executive officer, spoke with *EconSouth* about the industry's challenges and opportunities.

BETH DORTCH FRANKLIN

Title	Chief Executive Officer
Organization	Star Transportation Inc.
Function	Star, founded in 1980, is a family-owned, irregular route truckload carrier. The company has facilities in Nashville, Memphis, and Knoxville, Tenn.; Jackson, Miss.; and Atlanta.
Web Site	www.startransportation.com
Other	Franklin is serving her second term as a director of the Nashville Branch of the Federal Reserve Bank of Atlanta. She is also a member of the Tennessee Trucking Association, the American Trucking Associations, the Nashville Chamber of Commerce, and the Interstate Truckload Carriers Conference. She is involved in community activities including the Junior League of Nashville, the Cumberland Science Museum, and the Vanderbilt-Ingram Cancer Center.

EconSouth: *How would you characterize the current state of the trucking industry?*

Beth Franklin: I'm cautiously positive. Carriers that have survived the last couple of years are good operators, or they wouldn't still be in business. I do believe, however, that we'll continue to see people exiting from the transportation business.

ES: *How have insurance costs affected your business?*

Franklin: The excess insurance markets [where trucking companies get their insurance] have had huge increases. A few years ago, you could buy $20 million in coverage for $50,000, and now that amount of coverage can cost over a million dollars. It's hard to find quality insurance companies to even quote the excess market for truckers. Many small carriers have

built their grassroots trucking companies from a single truck. They may have a company that has grown to have several million dollars in assets. All of that is at risk if they can't afford adequate umbrella insurance policies. They could literally be one serious accident away from losing everything. These companies are exploring exit strategies. If exiting the industry is a goal, now is the time to consider your options. This creates acquisition opportunities for carriers like Star Transportation who want to increase their fleets.

ES: *What factors do you see affecting the cost of doing business in the near term?*

Franklin: Our industry is on the brink of experiencing dramatic increases in costs. Most trucklines with buying power have pricing locked in for equipment for one and a half to three years. Increases in the price of steel, engines, and other components are driving equipment costs up by 10 to 15 percent. These increases are starting to become reality. At Star, for example, our current price for trailers is good through 2004, but heaven help us next year. The costs of tires, driver wages, and fuel continue to rise, and those costs will have to be passed on to our customers. The trucklines that don't achieve the rate increases will eventually be out of the market.

"Carriers that have survived the last couple of years are good operators, or they wouldn't be in business. I do believe, however, that we'll continue to see people exiting from the transportation business," said Franklin.

We've lost several weak carriers during the past couple of years. Soaring insurance costs and an inability to secure adequate rates and fuel surcharges took a lot of owner-operators and marginally profitable trucking companies off the road. Losing these carriers is one reason we've seen capacity tighten.

ES: *Can you describe the current pricing environment for the trucking industry?*

Franklin: We've been successful in achieving rate increases—our rates went up 4 to 5 percent in the first six months of 2004, and we expect an additional 3 percent increase by the end of the year. That's dramatic, but we predict we'll have to duplicate these rate increases next year to maintain healthy profit margins. The fuel surcharge is extremely important. The successful carriers have added surcharges to their contracts. When the Department of Energy's average reaches $1.30 per gallon, surcharges kick in. Most trucking companies base rates on $1.25–$1.35 per gallon and then add a surcharge scale. As contracts expire, base rates may use a higher DOE average because it's unlikely we'll see substantial reductions in the price of diesel in the near future. Auto companies are famous for covering only half of an increase in fuel. Because carriers can't absorb this additional cost, many trucking lanes for hauling production parts for autos are going back on the market.

Carriers drastically affected by the rise in fuel prices are the ones with a larger percentage of empty miles, or miles driven without hauling anything. Empty mile percentages can vary from 5 or 6 percent to more than 20 percent for flatbed carriers. I am not aware of any customer who pays a trucking company for fuel on the miles you run empty unless it is a dedicated, round-trip move.

ES: *How does a trucking company minimize its empty miles?*

Franklin: There are optimization software programs to help minimize empty miles. Another strategy is to focus on a certain area; increase density of your fleet in specific lanes rather than spreading yourself too thin. If you can consistently offer power in a region, you will be much more likely to command a greater rate per mile and improve your empty-mile percentage. Several years ago, Star had a much smaller fleet and a much larger service area. It did not work out nearly as well as our current strategy does.

ES: *A year ago, how would your view of the trucking industry have been different?*

Franklin: I would have said things were very challenging. Trucking companies were being pulled in many different

directions. There were so many areas that needed attention it was hard to prioritize—hours-of-service regulations, changes in engines, soft freight volumes. Twelve months ago price increases were much more difficult to secure. One positive factor during a slow economic environment for some companies in the trucking industry is lost capacity due to carriers exiting the industry. This opens the door for rate increases with customers when the economy starts to strengthen. Customers are more willing to work with you—they listen when you go to them with issues such as excessive loading or unloading times. When there are more shipments than trucks, customers protect their quality carriers.

ES: *How accurate a gauge of overall economic activity is the trucking industry?*

Franklin: That's an excellent question. My family has been in the trucking business all my life—I've always been told it's a leading indicator of the economy. But its role as a gauge has changed. Corporate America has changed its strategy in some ways. For example, companies now depend on a just-in-time inventory strategy. Orders placed on Dec. 19 can still get to a customer's shelves before Christmas. Still, monitoring trucking volumes will continue to be a useful tool for helping the Fed gauge economic activity. In today's world we may use our industry more effectively as a tool if we compare more recent volumes, such as 30 days or less rather than quarter to quarter. To account for seasonal trends, it may be helpful to compare to the same month of the previous year.

ES: *How do trucking companies deal with downturns?*

Franklin: Different companies have different strategies for dealing with periodic downturns. Ours is pretty simple: Don't let any customer be more than 10 percent of your business, and don't let any industry be more than 20 percent. The automobile industry is an addictive one, but plants can shut down for a month if a particular model's sales slow down. For example, we just experienced a month-long shutdown with a large domestic manufacturer. On the flipside, a smaller manufacturer only shut down for a week. You want to align yourself with successful industries so you can grow with them.

ES: *What effect, if any, have clean-air regulations had on your cost structure?*

Franklin: They've had a huge impact. Because of the new engines, we've lost four-tenths of a mile per gallon, and that increases costs by 1 percent. It's unbelievable. Engine manufacturers can promise up to eight miles to the gallon, but realistically you're lucky to get six. The new engines cost between $3,500 and $5,000 more than those before these regulations. That's a substantial increase in costs for our equipment.

ES: *How do the hours-of-service rules affect the trucking industry?*

Franklin: A great deal. One of the most costly differences in the rules is the off-duty hours. Prior to January 2004, a driver could log waiting time as off-duty. Currently those hours are being counted against his road time. This costs the driver and the company because it can affect our utilization. The crazy thing is, the Department of Transportation just announced that it is going to change these rules again. Our industry spent millions of dollars on detention monitoring systems [which track the amount of time spent at a client's location] and retraining our drivers and operation folks. Customers and truckers are anxiously waiting for the new rules.

ES: *Driver turnover is a persistent issue for trucking companies. How does Star strive to increase driver retention?*

Franklin: Driver retention is our biggest challenge. Star has more employees in the recruiting department than we do in sales. For every 100 applicants, we average hiring one driver because our standards are so high. The good news is our insurance costs and our driver qualities go hand in hand. We find if we keep the qualifications for our drivers above industry standards we have greater control of our insurance costs.

The other thing Star focuses on is getting our drivers home every week. Lots of companies claim they offer weekly home time, but few live up to the commitment. Our sales team solicits truckloads in areas where the drivers live. I've had drivers say they have been offered more money but will not leave Star because of this perk. It's not always about the total dollar. Expenses are higher on the road, and you can't have a quality family life. We also have employees who are liaisons for the drivers. Their position is designed to help drivers or their wives with health insurance claims, etc., while they are out on the road. It's kind of like having a personal assistant, and this program works well for us.

ES: *What new technologies have changed the way you do business?*

Franklin: Prepass technology, which allows drivers to bypass weigh stations, is in all of our trucks. It increased our production, and we decided to put that system in because of driver retention. Anything positive you can do for drivers is worth considering. Not having to downshift and stop for weigh stations saves drivers a lot of time, and they love that. We also use detention-monitoring software. Detention monitoring ties in with the Qualcomm communication software. This technology gives you the ability to automate a notice to your customer, allowing them to get the truck in and out in the most efficient manner. The faster you can get the truck unloaded and loaded, the better off you are. Even if the hours of service change back to the old rules, the detention monitoring system was not a waste of money. Now we can hold customers accountable for our time. We can monitor the crews in warehouses and report via fax, e-mail, and phone to the traffic department. These reports let them know the actual loading and unloading times. Since they now have to pay for that time, it's important to be able to document it.

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FEDERAL RESERVE BANK of ATLANTA

Economic Research

Research Notes and News

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

Will privacy concerns prolong money use?

As the cost of credit-based payment systems continues to decline, some economists argue that money will gradually fall into disuse. But money affords one function that credit-based payment systems do not: It preserves the purchaser's privacy. Money's role as an imperfect recorder of transactional histories is a strength when the purchaser wishes to retain his anonymity because a purchase made with money does not reveal the purchaser's identity as a credit purchase does. This distinction is likely to keep money in use, according to authors Charles M. Kahn, James McAndrews, and Williams Roberds.

The authors construct a model of a simple trading economy that allows for various forms of moral hazard, especially the theft of a purchaser's identity. In a scenario in which information about a purchaser is available following a credit-based payment, the possibility of theft exists since the purchaser's address and other information become known. Such information is not available following a cash payment. The analysis shows that in an economy with imperfect safeguards against this sort of hazard, the anonymity that money confers on the user is also its advantage, solving the problem of transactional privacy.

Despite advances in theory that cast doubt on money's value in technologically sophisticated economies, Kahn, McAndrews, and Roberds conclude that "the 'demotion' of money to a poor cousin of credit-based arrangements may have been premature."

Working Paper 2004-18
August 2004

Measuring 9/11's impact on working hours

In the aftermath of the terrorist attacks of Sept. 11, 2001, the popular press predicted that Americans would reassess their priorities. Workers, it was thought, would choose to spend more time with their families and less time at work. These restructured priorities, if pursued, would amount to a shift in preferences toward more leisure time, lower incomes, reduced consumer demand, and lowered productivity growth. Authors Julie Hotchkiss and Olga Pavlova explore whether a strengthened commitment to personal life has in fact led to a broad, far-reaching change in the behavior of the American workforce.

Using data from the Current Population Survey, the authors find that when the analysis controlled for the economic weakness following 9/11, weekly hours worked actually increased during that period. The number of hours worked increased most among women with children less than six years old, Hotchkiss and Pavlova find. They also note that the number of hours worked in New York City decreased in September, a fact they attribute to the general disruption of life there. However, the number of hours worked in New York City quickly rebounded to pre-9/11 levels. The increased working hours, they speculate, might be evidence that when people are uncertain about the future they might work more as insurance for bad times.

Results suggest that the terrorist attacks did not result in a diminished commitment to the workplace. To the contrary, Hotchkiss and Pavlova conclude that one thing the events of 9/11 failed to do is dampen the American work ethic.

Working Paper 2004-16
July 2004

Retirement plans,
investment options explained

Questions about the long-term status of the Social Security system are becoming more critical because baby boomers are approaching retirement age and will place unprecedented burdens on the system. Workers' uncertainty about their retirement income has heightened interest in employer-sponsored retirement plans and other retirement investment options.

Authors Ramon P. DeGennaro and Deborah L. Murphy explore retirement vehicles such as 401(k), 403(b), and 457 plans, each of which has risks of its own. Such plans have become more popular in the United States than defined benefit plans, in which employers bear the investment risk and are obligated to make up any shortfall if the investment income does not meet the obligations of the plan.

Although defined contribution plans place a greater burden of risk on the employee, the authors argue that risk can be mitigated by viewing them as only a part of the employee's portfolio and by applying standard portfolio management techniques, particularly diversification. These investment plans also have restrictions and rules associated with them, and DeGennaro and Murphy explore these constraints and explain strategies for circumventing them.

Retirement savings should be viewed as only one part of an investment portfolio, the authors conclude. Understanding the inherent risks, potential benefits, and limitations of each investment option will allow investors to maximize their expected returns and minimize their risks.

Working Paper 2004-21
August 2004

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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]	**2004Q2**	**1,880.0**	**7,432.7**	**3,880.3**	**1,910.9**	**1,123.6**	**2,687.9**	**18,915.4**	**131,118.7**
% change from	2004Q1	0.1	0.8	-0.1	0.1	0.4	0.0	0.3	0.6
% change from	2003Q2	0.3	2.4	0.8	0.4	1.1	1.0	1.4	1.0
Manufacturing Payroll Employment (thousands)[b]	**2004Q2**	**289.0**	**387.4**	**450.9**	**155.6**	**180.4**	**413.1**	**1,867.5**	**14,399.7**
% change from	2004Q1	0.1	0.6	0.4	1.3	1.5	-0.1	0.5	1.2
% change from	2003Q2	-2.3	-0.5	-0.8	-0.3	0.8	-0.2	-0.6	-1.2
Civilian Unemployment Rate[a]	**2004Q2**	**5.7**	**4.7**	**3.9**	**6.0**	**5.3**	**4.7**	**4.8**	**5.6**
Rate as of	2004Q1	5.8	4.7	3.9	5.8	5.1	5.0	4.8	5.6
Rate as of	2003Q2	5.9	5.3	4.8	6.8	6.8	5.8	5.6	6.1
Single-Family Building Permits (units)[c]	**2004Q2**	**23,063**	**168,558**	**84,119**	**17,153**	**11,181**	**35,796**	**339,870**	**1,528,644**
% change from	2004Q1	5.9	6.8	3.4	1.9	3.2	3.4	5.2	3.5
% change from	2003Q2	21.2	23.3	15.2	11.9	25.0	18.2	19.9	13.2
Multifamily Building Permits (units)[c]	**2004Q2**	**5,279**	**58,017**	**17,497**	**3,775**	**1,818**	**6,798**	**93,184**	**421,945**
% change from	2004Q1	8.6	2.4	6.4	-16.3	-14.4	6.7	2.4	2.4
% change from	2003Q2	66.7	8.8	3.1	-5.9	12.1	46.9	11.3	3.5
Personal Income ($ billions)[d]	**2004Q1**	**123.4**	**536.4**	**265.4**	**121.1**	**70.2**	**172.7**	**1,289.2**	**9,510.1**
% change from	2003Q4	1.6	1.5	1.8	1.4	1.8	1.7	1.6	1.4

% change from	2003Q1	5.5	5.6	5.3	4.9	5.5	5.6	5.5	5.2

		Atlanta	Birmingham	Jacksonville	Miami	Nashville	New Orleans	Orlando	Tampa
Total Payroll Employment (thousands)[b]	**2004Q2**	**2,175.1**	**474.8**	**572.1**	**1,016.9**	**686.8**	**614.9**	**944.2**	**1,244.1**
% change from	2003Q2	1.0	0.2	2.6	1.1	1.2	-1.1	2.3	1.5
Civilian Unemployment Rate[b]	**2004Q2**	**4.0**	**4.4**	**5.2**	**6.6**	**3.6**	**5.4**	**4.4**	**3.9**
Rate as of	2004Q1	4.0	4.3	5.0	6.5	4.0	5.5	4.5	4.0
Rate as of	2003Q2	5.1	4.5	5.4	7.5	4.3	5.8	5.1	4.5

[a] Seasonally adjusted

[b] Not seasonally adjusted

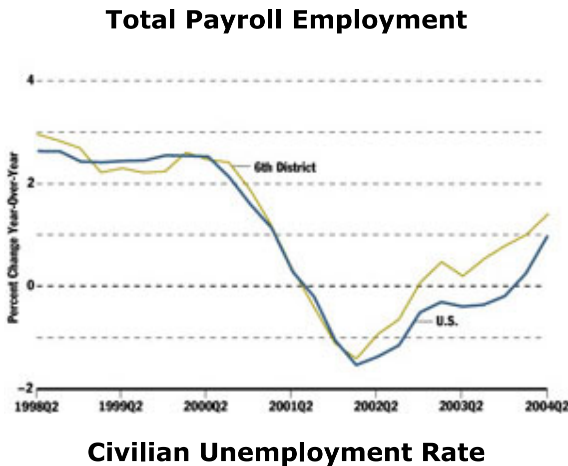
[c] Not seasonally adjusted four-quarter totals

[d] Seasonally adjusted annual rate

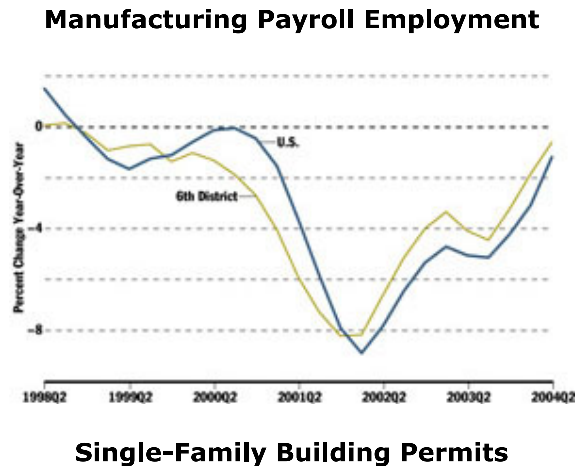
SOURCES: Payroll employment and civilian unemployment rate: U.S. Department of Labor, Bureau of Labor Statistics. Single- and multifamily building permits: U.S. Bureau of the Census, Construction Statistics Division. Personal income: Bureau of Economic Analysis. Quarterly estimates of all construction 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/q3/dist_data.htm.

Total Payroll Employment

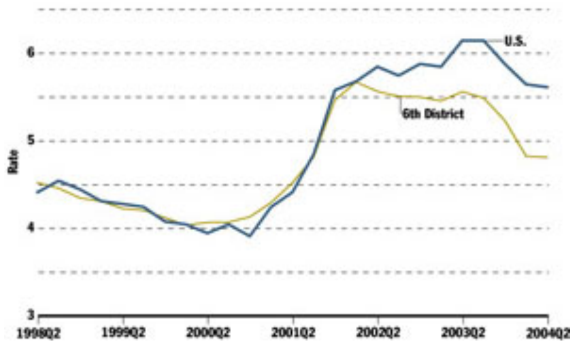


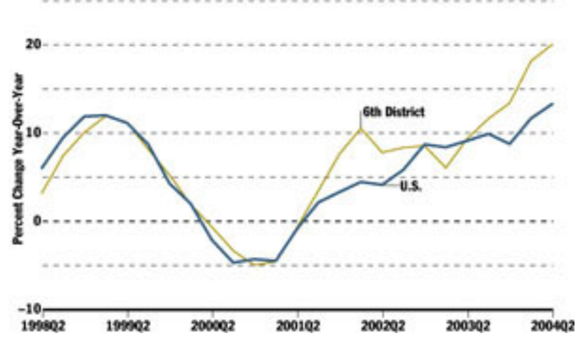
Manufacturing Payroll Employment



Civilian Unemployment Rate

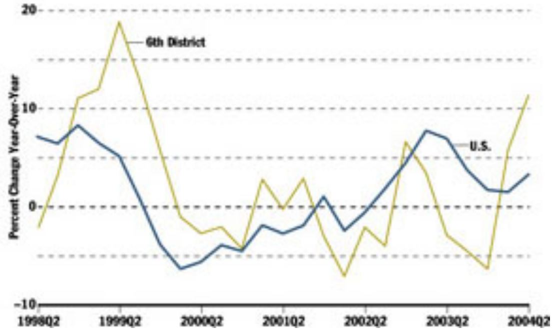
Single-Family Building Permits

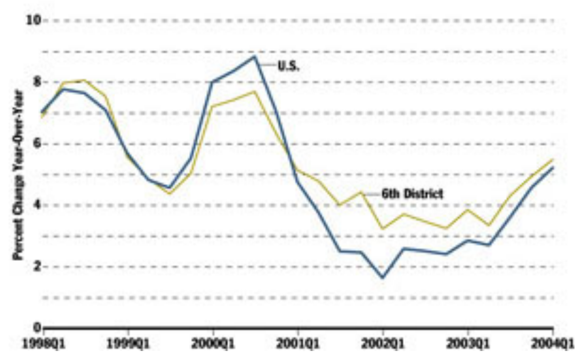




Multifamily Building Permits

Personal Income





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BACKGROUND

Back Ground

Trucking has long played a central role in allowing the American economy to flourish. This truck from the Benedict Warehouse & Transfer Co. hauled household furnishings in 1916.

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