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Economic Research

Federal Reserve Bank of Atlanta

ECON SOUTH

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A Special Message

Our thoughts are with all those who continue to suffer from the destruction of Hurricane Katrina.

Florida Housing: Blueprint for Success?

A number of geographic, economic, and demographic factors have sent Florida's property values spiraling upward, creating a dynamic housing market. But can this brisk pace continue?

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Southeast Transit Inches Ahead

Though the South's traffic has increased along with its population, regional mass transit has waged an uphill battle to gain riders. As population density increases in the region, operators hope commuters take a longer look at public transportation.

Reaching for the Stars: Southern States Vie for Film Productions

Southern states are avidly pursuing movie and television productions, eager to reap the economic benefits that come with crews that pump millions of dollars into their host economies.

DEPARTMENTS

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A Special Message

On August 29, 2005, Hurricane Katrina cut a swath of destruction through Louisiana, Mississippi, and Alabama. The toll of this natural disaster, the largest in U.S. history, is still being counted: the loss of life, the displacement of entire cities and communities, and the destruction of homes, businesses, and infrastructure. Our thoughts are with all those who continue to suffer from this tragedy.

At this time, it is too early to attempt a meaningful analysis of the economic implications of the storm's devastation. In our 2006 outlook in the fourth quarter issue of *EconSouth,* we will include a special focus on Hurricane Katrina's short- and longer-term impact on the Southeastern and national economies.

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Florida Housing:
Blueprint for Success?

Encouraged by continued population growth, a strong economy, and enthusiastic foreign investment, builders in Florida are breaking ground at a record pace on luxury high-rises and planned beachfront communities. And home buyers, eager to ride the wave of soaring property values, are snapping up properties that are still on the drawing board. Can the real estate market sustain this torrid pace?

Lined with many international banks and upscale, high-rise properties, Miami's Brickell Avenue is sometimes called the Wall Street of the South. But in recent months much of this lively downtown neighborhood has become a construction zone, a transformation that marks Brickell Avenue as one of Miami's most popular sites for new development.

Across the city, some $5.5 billion in construction is under way. As of July 31, 2005, 60 construction projects encompassing 14,134 residential units were rising from the sidewalks and reshaping the city's famed waterfront skyline, according to the Miami Downtown Development Authority.

The supply of new housing now becoming available in Miami exceeds what was built in the past decade (9,152 units) and does not include another 212 projects encompassing 57,392 residential units that developers have proposed throughout the city.

While few analysts expect that all of these projects on the drawing board will be completed, the rush to build condominiums in Miami has raised concerns about the potential for an imbalance in the most active segments of the local housing market. “Miami is high on the risk chart,” said Brad Hunter, director of the south Florida division of Metrostudy, a real estate data firm.

A well-timed boom

But, offsetting concerns about overbuilding, others note that Miami's construction boom has occurred during a time when the economic and demographic conditions throughout Florida have been generally favorable to housing.

Growth in per capita incomes in Florida has kept pace with that in the United States as a whole over the last decade while the rate of population growth has consistently been about a percentage point ahead of the overall U.S. rate. The influx of new residents has put pressure on a limited supply of land—especially in desirable locations—and thus pushed housing prices up.

In the 12 months before June 2005, the statewide median sale price for homes rose 31 percent, according to the Florida Association of Realtors. By comparison, the median home price for the United States as a whole increased 14.7 percent—still strong by historical standards but well short of Florida's recent performance. Of the nation's 30 hottest housing markets (as defined by an increase in the home-price-to-income ratio since 1980) identified in a June 2005 report by Merrill Lynch, four are in Florida, with Miami number one in the “white hot” category.

Global investment flows to Florida

Photo courtesy of St. Joe Co.

As a financial and transportation gateway between the United States and Latin America, Miami has long attracted plentiful international investment. But in recent years the flow of overseas money into Florida has become a torrent as investors flush with cash from economic growth in Latin America seek to capitalize on the state's soaring property values, according to real estate analysts. South Florida is a popular destination for Europeans, and portfolio managers in many countries tend to view Miami beachfront property as a bargain even at current prices, especially in comparison to sky-high property values in Europe, and when purchased with dollars that are weak relative to the euro and other major currencies.

According to the National Association of Realtors, foreign investment now accounts for about 15 percent of all home sales in Florida, with the figure estimated to be much higher in Miami. Much of this money is going into mixed-use developments that blend high-rise residential units with some office, retail, and hotel construction. Although some Florida-based financial institutions have stopped financing new condominium projects in Miami, larger national and international banks have been active lenders in the south Florida housing market.

And the building boom has spread beyond the concentration of new housing near Brickell Avenue. In nearby Palm Beach 7,095 housing starts were reported in the first quarter of 2005 compared with 2,837 starts a year earlier, and in Broward County 10,811 starts were reported in the first quarter of 2005 compared with 3,466 starts in all of 2004.

New products spark rising demand

The strong demand and competition among buyers have led to the development of new products. For example, Web-based marketplaces such as condoflip.com allow investors to bid on contracts for units in luxury residential high-rises in Miami before ground is broken. Although many of the properties so far exist only as blueprints, buyers have continued to bid up prices. For their part, developers have responded by hiring renowned architects and promoting increasingly large and lavish waterfront properties that offer towering views and feature amenities such as gourmet dining, upscale shopping, heated pools, and high-speed Internet access.

"We've had a growth in demand that's very real and based on economic fundamentals," said Florida-based real estate consultant Lewis Goodkin. "But that growth has been greatly enhanced by something that has very little relationship to it, and that is speculation, or investment buying. There's a sense of urgency in the marketplace that accelerates moves on the part of buyers."

Some of the factors driving the run-up in housing prices are national in scope, including low mortgage rates and more flexible financing terms. Last year, adjustable rate mortgages accounted for 46 percent of the value of new mortgages originated, up from 29 percent in 2003, according to the Mortgage Bankers Association. The trend toward more flexible financing options has accelerated in recent months, effectively lowering barriers to homeownership. As a result, buyers who are willing to take on additional risk are able to get more house for less money, at least initially. Even with rapidly appreciating home prices, the rate of homeownership in Florida has climbed steadily to 72 percent from about 67 percent 10 years ago, according to the U.S. Census Bureau, slightly more than the current national rate of just above 68 percent.

Photo courtesy of St. Joe Co.

Rooms With a View Going Fast

No two real estate markets are exactly alike because regional fundamentals vary. But some of the issues affecting Miami's housing market are present in other key Florida markets.

Central Florida: Homebuilders respond to strong demand

Demand for housing in Tampa has been strong, and developers have responded by adding 20,000 houses in the area during the past year. The recently completed Suncoast Parkway, a 43-mile toll road, has fostered new development northeast of Tampa. The Office of Federal Housing Enterprise Oversight (OFHEO) house price index for Tampa-St. Petersburg during the most recent 12-month period increased nearly 20 percent.

The story is similar in Orlando, which gained some 18,000 jobs in the past year, according to the BLS, and the travel and hospitality industry has seen strong growth. Orlando's house price index during the past year rose 18.6 percent.

South Florida: Rapid appreciation on the coast

In this region, economic growth and construction have been strong. The Miami–Fort Lauderdale area added 37,000 nonfarm jobs in the past year, and 196,000 jobs have been created since 2000, according to the BLS. In the 12 months before March 2005, the house price index for Miami increased 21 percent, according to the OFHEO, and for nearby West Palm Beach, 27 percent.

Along Florida's southwest coast, the Fort Myers–Cape Coral area has seen 11,000 jobs created since January 2004 and 43,600 jobs since January 2000, according to the BLS. The housing price index for the Fort Myers market appreciated more than 23 percent during 2004 and more than 92 percent over the past five years.

Northeast Florida: Employment gains bolster new home construction

Jacksonville's economic development efforts have helped raise the city's profile over the past 10 years, during which the metro area added 104,000 jobs, a 26 percent increase for the decade; 26,100 jobs were added since January 2004 to bring the area's total employment to 593,600 in June 2005, according to BLS data. The area's cruise industry has been growing, and the Jacksonville Port Authority generates a significant economic impact.

This steady job growth has encouraged many of the nation's largest builders to establish footholds in the area. Development of the beachfront throughout northeast Florida has been strong. Jacksonville had 13,976 housing starts in the previous 12 months, according to first quarter 2005 data. Over the past six years, the number of new homes started in Jacksonville has increased about 100 percent, according to Metrostudy, a real estate data firm. In the 12 months preceding June 2005, Jacksonville's house price index increased 18.1 percent, according to the OFHEO.

Northwest Florida: Investors, retirees bid up beachfront property values

Northwest Florida is the state's least populous area, but in recent years its abundant white sands and turquoise waters have attracted many investors and homebuilders. In 2004 buyers snapped up some 1,500 condo units in the Panhandle, and another 15,000 units are in some phase of development, according to financial industry estimates. Builders have erected many vacation homes and condominiums along the Panhandle near the beach in recent years. Although employment growth has been moderate (the Destin area added about 4,000 jobs last year), the house price index in 2004 for the Fort Walton Beach–Crestview–Destin metropolitan statistical area increased about 33 percent as aging baby boomers have migrated into planned, waterfront-area communities that promote active lifestyles.

Economic factors undergird housing

But Florida's housing market possesses other unique factors. Because of the state's warm climate and absence of a state income tax, Florida has been a longtime retirement destination, home to relatively few native-born residents and a large percentage of newcomers compared with the rest of the country. Only about 33 percent of Florida residents were born there, whereas 60 percent of people nationwide reside in their birth states. But with a steady influx of new residents, Florida has seen its population increase in 2004 by about 400,000 people to 17.4 million, said Stanley K. Smith, director of the Bureau of Economic and Business Research at the University of Florida in Gainesville.

Florida doesn't attract just retirees who bring their wealth; it also attracts a growing number of younger people who move there to work.Since the beginning of 2003, Florida has added 536,700 nonfarm jobs through August, bringing the total number of nonfarm jobs in the state for August 2005 to about 7.8 million, according to the U.S. Bureau of Labor Statistics (BLS). During that same 29-month period, Florida's important leisure and hospitality industry alone has added approximately 83,000 jobs while solid growth has occurred in education and health services, professional and business services, and financial services.

As the growth in housing demand continues to outpace supply, Florida is attracting more and more homebuilders.

Too high a price tag?

While homeowners reap the gains of rising asset prices, housing affordability has become an important issue across Florida (see the sidebar). In Orlando and Tampa, more than 60 percent of residents in a recent survey by the National Association of Realtors said they were very concerned about the cost of housing. Five years ago, the median sale price of a home in Florida was lower than the national average. But in June 2005 the median price of a home in Florida was $248,700, well ahead of the national median ($204,600). Still, housing in Florida costs less than in some states from which residents are relocating, such as Maryland ($287,439). During the past five years, Florida's median home price increased more than 108 percent, according to the National Association of Realtors.

One reason why Florida's real estate has appreciated faster than the national average is the strong and persistent growth in the market for second homes, which are abundant across the state. In 2004 second-home sales in the United States were a record 2.82 million units, up 16.3 percent from 2003, and for the same period vacation-home sales increased 19.8 percent, according to the National Association of Realtors. Foreign investment is helping to boost this demand as 75 percent of the overseas buyers in Florida said that their property there is for vacation purposes or rental income, according to the National Association of Realtors.

Finding the right vacation home in Florida can be difficult because many areas have geographical restrictions that limit the supply of available land and lead to sharp price increases in the event of rising demand. For instance, southeast Florida's real estate supply is constrained by the Atlantic Ocean on the east and the Everglades National Park and Big Cypress National Preserve in the west. The supply of land for single-family homes remains especially tight, Goodkin said.

As the growth in housing demand continues to outpace supply—a key factor in price increases—Florida is attracting more and more homebuilders. Even Atlanta, which leads the Southeast in new home construction, can't match the rate of growth in many key markets of Florida. While second quarter 2005 data show that Atlanta had 54,300 housing starts in the previous 12 months (a 55 percent increase in five years), Metrostudy shows that Orlando has 35,312 annual housing starts, a nearly 100 percent increase since the first quarter of 2000, and Jacksonville has posted similar gains. In smaller markets such as the "Treasure Coast," with fast-growing St. Lucie, housing starts in the past five years have risen 164 percent.

Speculators could face surprises

Four hurricanes in 2004 weren't enough to inflict permanent damage to the foundations of Florida's housing growth: job and population growth. But Goodkin and others are concerned that market dynamics could change if mortgage rates increase, causing homeowners who hold adjustable rate debt to struggle to make higher payments. Goodkin notes warily that in Miami a growing percentage of condominium buyers—more than 80 percent, he estimates—are buying solely to reap continued price appreciation and have no intention of living in the units.

Attempting to capitalize on an expected glut of Miami condos, some investors have started to put money into "vulture funds" that jump into a weakened real estate market where properties are offered at reduced prices, according to a *Miami Herald* report and consultant Goodkin.

Moreover, as of mid-2005, many of the deals in the Miami condominium market had not yet closed. Investors who buy planned or under-construction condominiums typically cannot resell the unit until the entire building is finished; only at that point can buyers close on their units and gain title.

The condoflip.com Web site offers the following cautionary note: " 'Closing' refers to the time that the buyer takes over the deed to the property. At that time, the developer also expects to have the balance of the amount owed remitted. So, until that time, you really don't own the condo. You merely have a non-cancelable interest in the condo that ultimately becomes your condo at closing."

But a condominium project going from start to finish can take years. With many condominium units "sold" in buildings that are still in the planning stages or are nowhere near completion, how or when many of Florida's condo transactions will resolve is unclear.

Adjustment ahead?

Many factors are involved in determining housing demand and asset values, but the recent pace of activity in the hottest markets in Florida is unlikely to continue for the long term. "The housing boom will inevitably simmer down," Federal Reserve Chairman Alan Greenspan said in August 2005. "As part of that process, house turnover will decline from currently historic levels, while home price increases will slow, and prices could even decrease. As a consequence, home equity extraction will ease and with it some of the strength in personal consumption expenditures."

How the market will react to this sort of adjustment is anyone's guess. Florida's recent housing boom has been both a cause and an effect of the state's strong economy, and it's been a long time since certain markets there have experienced significant slowdowns. But while the dynamics of the state's housing marketplace will vary from place to place, the fundamental factors that sustain economic growth in Florida appear set.

Milestones in Florida's Development: A Century of Rapid Growth

Early 1900s: Oil magnate Henry Flagler begins developing the Florida East Coast Railway in 1885, connecting swampy frontier land to Jacksonville and the rest of the country. Flagler builds several hotels along the line, including the Breakers in Palm Beach. In 1895 the railroad reaches Biscayne Bay, where Flagler lays the groundwork for Miami by dredging a channel, building streets, instituting water and power systems, and financing a newspaper. The railway is completed in 1912, when it reaches Key West, then Florida's most populous city.

1920s: A few years after the end of World War I, Florida becomes an attractive vacation destination accessible to "tin canners" who arrive in growing numbers via automobile. Northern newspapers promote Florida's growth potential, and waterfronts sprout many lavish hotels. Land prices increase sharply during the early 1920s as investors from across the country pour money into Florida real estate. But the real estate market begins to weaken in 1925 followed by a collapse in 1926, the year a hurricane kills 243 people and destroys more than 3,000 homes in south Florida.

1940–50s: The U.S. military develops training bases in Florida during World War II and expands Florida's network of paved roads. Later, wider toll highways such as "Alligator Alley" and multilane interstate highways extend into Florida, speeding the flow of cars carrying vacationers and retirees from the North.

1960–70s: During the late 1960s Walt Disney secretly accumulates 43 square miles of mostly agricultural land in central Florida. After announcing the development of a huge entertainment and hotel complex near Orlando, Disney undertakes the world's largest private construction project. In 1971 the Walt Disney World theme park opens to the public, propelling central Florida's rapid development. Statewide, the population grows and becomes more diverse with an influx of not only retirees but also immigrants from Latin America and the Caribbean.

2000s: Florida's residential construction industry booms with increased demand for waterfront vacation homes and the emergence of discount air travel into key Florida markets. An antigrowth movement emerges, but with employment growth and real estate price appreciation strong, Florida's population grows more rapidly than ever.

This article was written by William Smith, a staff writer for EconSouth.

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Southeast Transit
Inches Ahead

Despite the headaches brought on by gridlocked car commutes, Southerners have been reluctant to hop on public transportation's buses and trains. Neither rising gas prices nor clogged highways have pushed people to the fare box. Motivating the region's commuters to get on board is transit's challenge.

The Southeast has long been known for its wide open spaces. Land is plentiful and relatively cheap, and the region's booming economic opportunities have attracted new residents by the millions. As the growth of the suburban South has accelerated in recent years, unprecedented traffic loads have strained the road systems of many metropolitan areas.

Despite these overloaded roadways, Southerners have been slow to embrace public transportation. This resistance is likely linked to the region's longtime reliance on automobiles, state governments' reluctance to impose land-use decisions on their regional governments, and the urban sprawl of many Southern cities.

Photo courtesy of Metropolitan Atlanta Rapid Transit Authority

As the Southeast's population continues its growth, will the region's residents embrace public transportation as a solution to gridlock, air pollution, and access to jobs?

U.S. transit ebbs and flows

Yet, surprisingly, the United States once led the world in the use of public transportation, according to a 2001 study by the Transportation Research Board (TRB). With cities' populations exploding in the early 20th century, electric streetcar systems grew to meet the burgeoning demand for transportation. According to the TRB study, the average American living in an urban area in 1920 took more than 250 transit trips annually.

But as cars became mass-produced and more affordable, Americans largely traded their streetcars for sedans. The suburban lifestyle effectively ended the heyday of public transportation. According to the American Public Transportation Association (APTA), transit use peaked in the United States in 1946, when 141 million Americans took 23.4 billion trips on trains, buses, and trolleys. In 2003, 291 million Americans took 9.4 billion transit trips.

Despite this decrease in ridership, U.S. investment in transit systems remains considerable. According to a March 2005 APTA study by economists Robert Shapiro and Kevin Hassett, the value of current assets in U.S. public transportation systems totaled more than $363 billion in 2003, with $37 billion in bus systems and $326 billion in rail. American government at all levels spent more than $41 billion on transit in 2003, according to the study.

Southern cities are geared toward cars

While transit continues to play an essential role in the lives of millions of Americans, the car remains king, especially in the South. The region's many rural areas and suburban developments work against the population density that once allowed transit to thrive.

"Southern cities generally have lower population densities," said Steve Polzin, transit research program director for the

Photo courtesy of HARTline

A HARTline streetcar serves Tampa, Fla., transit riders.

Center for Urban Transportation Research at the University of South Florida in Tampa and a consultant for Tampa's HARTline transit system. "The cities grew up in the post-auto era and have an ample parking supply and decent streets. It's a lot harder to find a parking spot in Boston, Chicago, or New York than in a city in the South."

A transit official seconds that point of view. "In the South, there's a big love for the auto," said Jack Stephens, deputy executive director of the South Florida Regional Transportation Authority (SFRTA), which operates 72 miles of commuter rail in Broward, Dade, and Palm Beach counties. "We know that people love their cars, but people moving to Florida from other parts of the country are used to having transit as an option."

Still, the design of employment centers in many large Southern cities is a challenge to effective transit service. For example, the city of Atlanta's share of jobs in the 20-county metropolitan area fell from 40 percent to 28 percent from 1980 to 1990, according to a 2001 joint study by the Progressive Policy Institute and the Center for Regional Economic Issues at Case Western Reserve University. "Many Southern cities are not as focused on their downtown as other transit-oriented cities," Polzin notes. "Suburban office parks, which have no sidewalks, don't invite transit riderships. Southeastern cities have dispersed employment, which has been a hindrance for transit."

Polzin said his studies show that many Florida cities have fewer than 20 percent of workers in downtown areas. "That share makes it difficult to attract commute-trip users."

Will bad traffic drive us to drive less?

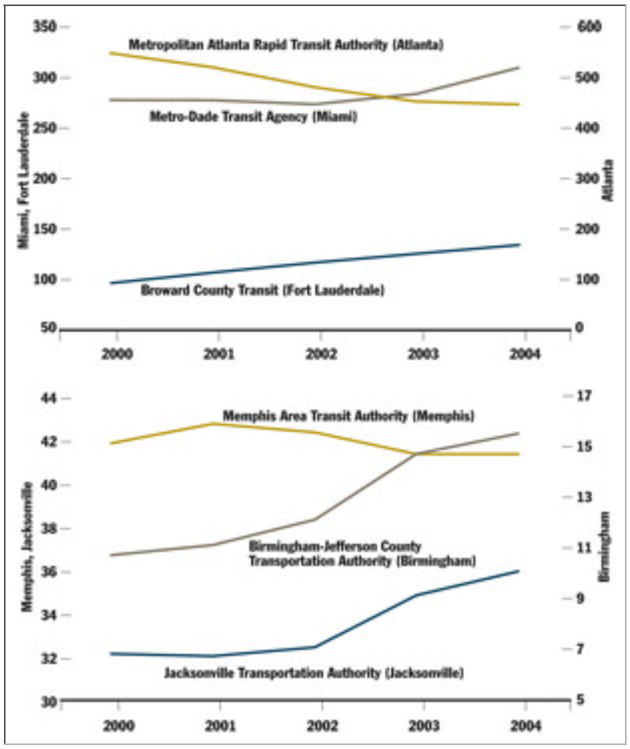
Congested roads are the number one factor in persuading commuters to board a bus or a train. "It's no secret that traffic in the metro Atlanta region is terrible," said John Keys, director of external affairs for the Georgia Regional Transportation Authority (GRTA), the state body that coordinates transportation alternatives and reviews development impact in 11 metropolitan Atlanta counties. "Our population is growing in part because people want to live in this area, but you don't want to sprawl out everywhere and kill what makes you a desirable place to live in the first place. The need for transit and transportation alternatives is everywhere around here."

Because the expansion of the Metropolitan Atlanta Rapid Transit Authority (MARTA)—metro Atlanta's primary transit provider and the Southeast's largest system—is a politically sensitive issue, GRTA began coordinating commuter bus service in 11 metropolitan counties in June 2004 with three routes. "Transit is changing. A lot of suburbs now want transit," Keys said. "People would rather pay $5 for a round trip and have the time to read a book than deal with the traffic." Keys said GRTA's current plan calls for 27 commuter bus routes by the end of the decade.

Average Weekly Boardings for Selected Southeast Transit Systems

SFRTA's Stephens said south Florida's population boom has also led to an increase in transit use, which presents an opportunity. "South Florida has experienced an intense demand for homes and housing," Stephens said. "There's just not enough housing to accommodate the number of people we expect to move in, so density and mobility are going to be key for the state to be able to handle this surge."

Ridership numbers in one south Florida system support that view. In March 2004, Palm Beach County's Palm Tran service carried an average of 27,297 passengers each weekday on its bus routes, surpassing its previous record of 25,903. Broward County Transit expanded service to portions of Broward, Palm Beach, and Dade counties in 2004, increasing the route's ridership that year by 43.6 percent since 2000.



Note: Numbers represent thousands of weekly boardings.
Source: American Public Transportation Association

APTA's ridership figures show that commuters' use of transit in some Southeastern cities is rising only modestly at best (see the chart). While some transit industry observers anticipated that higher gasoline prices would persuade auto drivers to rely more on transit, the spike in oil prices that began in 2002 was not accompanied by a corresponding jump in transit ridership. In fact, a July 2004 APTA study of fuel prices' effect on transit services found that transit operators attribute a ridership increase of less than four-tenths of 1 percent to increased fuel costs. "Price is not the advantage of transit," said Brendon Hemily, a Toronto-based transit industry consultant. "When you drive a car, you're not paying out of pocket. When you pay for transit, you pay every time you get on. If you want people to take transit, you have to offer more than price."

Local planning can hinder transit

Historically, transit systems have thrived in an environment of strong state support and unified regional planning, conditions often lacking in the Southeast, where local jurisdictions traditionally control development. "In the South, you still have a lot of territoriality," Stephens said, adding that political concerns can make broad regional cooperation difficult. "It's difficult for a county commissioner from Palm Beach to tell his constituents that a project in Miami-Dade should be the number one project," he noted.

This Southern tradition of local land-use policies poses a challenge to broadening transit, Stephens believes. "Florida has recently passed a growth-management bill that creates some financial incentives for regionalization, but we've yet to see how that will work out," he said.

On June 24, 2005, Florida Gov. Jeb Bush provided some incentive when he signed into law the Transportation Regional Incentive Program. Under this program, the state Department of Transportation will pay up to 50 percent of the nonfederal share of public transportation facilities, so local jurisdictions will have to come up with only half as much money as they did before.

GRTA's Keys said much of his job is focused on educating Atlanta-area developers and small governments about the impact of different types of development. "We talk a lot about the economics of bad land use and bad public policy choices," he said. "We explain that different transportation modes feed each other. If you build only asphalt, you spread out and work against transit." He added that Atlanta's business community is largely pro-transit, but the political support to expand public transportation is currently lacking.

One service doesn't fit all

It's not only suburbanites facing crowded roads who need other transportation options; immigrants and the elderly, whose populations are growing rapidly within the region, are prime candidates for transit. The Hispanic population in the Southeast grew from 1.8 million in 1990 to 4 million in 2003, according to the U.S. Census Bureau. Hemily said this group is a strong constituent for transit use. "Since [many immigrants] come from countries where transit is used more, it may be easier to attract them," he said.

Polzin agrees that immigrants are heavy transit users, at least initially, until they establish themselves economically and buy a car. He stressed the importance of providing access to transit near immigrant population centers.

Whereas 14.3 percent of the South's residents were over 65 in 2000, Census data project that figure to grow to 22.5 percent by 2030, and this elderly population will require transportation services as well. Especially in Florida, with its large numbers of retirees, transit should play an increasingly significant role, but planners will have to anticipate older people's needs. "We don't look for anything like a landslide use of transit by the elderly," CUTR's Polzin said. "There is a presumption that this group represents a booming opportunity for transit as folks age and are no longer able to drive." But, he noted, "The vast majority of people drive well into their older years."

Capturing the senior market could be even trickier because the elderly population is so spread out geographically. "The baby-boom generation is the first one that's been predominantly auto-oriented and suburban," Hemily said. "It's going to be a shock to elderly suburbanites because the suburbs are geared to serving families with kids, and the infrastructure is not geared to seniors."

Getting people to work is job one

Transit's primary function of getting people to and from work will become even more important as service jobs in areas with increasing housing costs continue to grow. "Lack of affordable housing for the work force is causing problems," Stephens said, citing the importance of affordable housing for clerical, secretarial, and government workers. "Those people are no longer going to be able to afford houses near where they work. You used to have situations like that in places like Aspen, Colo., but it's becoming a problem down here." Stephens said transit is becoming a tool that communities are using to create greater access to affordable housing.

Polzin said it's also important for transit systems to make service available near where low-wage workers reside because these individuals are often dependent on transit to get to their jobs.

Photo courtesy of Tri-Rail

Vying for Uncle Sam's dollars

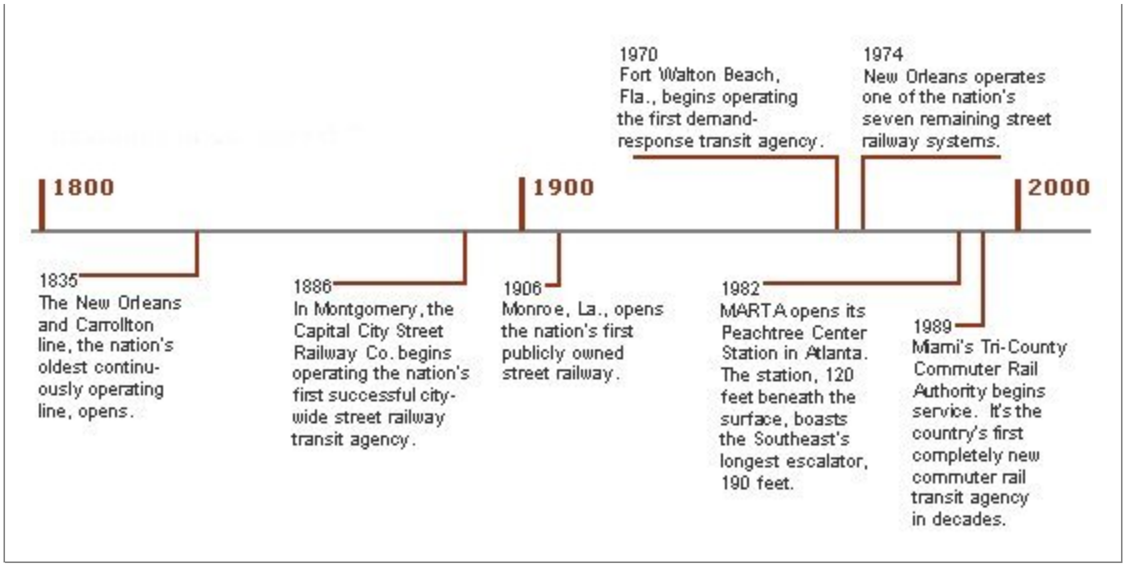
Applications for federal transit dollars to construct new systems and expand existing ones are fiercely competitive and will become more so. Keys said that 15 years ago there were 12 to 15 transit systems beginning service nationwide that received federal dollars, but the number of new starts in the United States has risen to nearly 200 now. While this growth is encouraging, he noted, "it's very challenging for the systems to get the federal share [of money] that makes their projects feasible."

As the competition for federal funding heats up, new systems will likely rely increasingly on cheaper methods of transit such as express bus service and light rail. One mode that is gaining support in transit circles is bus rapid transit (BRT). Sometimes referred to as "training wheels for rail," BRT involves running buses along corridors with dedicated lanes so they sidestep the traffic that can slow down a regular bus. This mode is widely used in many South American cities, and U.S. transit experts have been studying its feasibility here.

Still, rail transit—regarded as the transit mode most likely to lure riders out of their cars—will continue to spread in the Southeast. Political and business leaders in central Florida are considering a $73.5 million, 60-mile commuter rail line that would serve four counties in the Orlando area. Last November, Tennessee began work on a project that includes a $39 million, 32-mile commuter rail line from Nashville to neighboring Lebanon as well as a network of five regional corridors that will eventually cover 145 miles in the Nashville area.

Whatever transit's form, numerous factors at work in the Southeast—population growth, traffic congestion, the air pollution caused by auto emissions—may win new converts to transit. "You can only do so much widening of the roads," Stephens said. "At some point, transit becomes the solution."

Milestones in Southeast Transit



This article was written by Tom Heintjes, a managing editor of EconSouth.

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Movie, TV, and video production companies operating outside of Hollywood bring states glitz and global exposure, but, more importantly, they infuse millions of dollars into local and regional economies. Some Southern states have been a quick study in creating attractive incentive programs and are trying to upstage each other to lure the film industry.

You don't often read about states competing for film production companies the way they do for automobile assembly plants. Unlike car plants or microchip factories, a television or movie production typically opens without government subsidies and smiling politicians snipping ribbons.

That could be changing. Courting the film business is taking on the trappings of traditional economic development. States in the Southeast are coming to view movie and television productions as more than just glamorous curiosities. Following the example of Canada in the early 1990s and Louisiana in 2002, every state in the region has fashioned an economic incentive program designed to lure Hollywood to the South.

The thinking is as straightforward as an action-adventure flick formula. As many of the region's traditional employers such as textile and furniture makers have shrunk and as competition for auto assembly plants has become fierce and expensive, Southern states have begun to pursue jobs and dollars in movies and TV and even in computer game development. Economic developers approach film studios just as they would manufacturing executives who shop the world for the cheapest place to build a factory. In effect, studios are doing the same thing—seeking the most profitable site to do business—and Southern states are trying to be that place.

When Ward Emling left Los Angeles and returned to his native Mississippi to head the state's film office, he set about convincing skeptical colleagues and civic groups that he was one of them. The film business, he told them, needs the same ingredients their businesses do: a trained work force, good transportation, support services, and maybe even a little financial carrot.

"The way I explained it was, a film is just a little factory," Emling said. "They select a site, they create an office, they create a product for interstate commerce, then they downsize and go away. And they hire a lot of people, and they spend a lot of money."

The secret of Louisiana's film success

Louisiana's incentive plan is the one other states in the South and elsewhere aim to emulate. In late 2002 Louisiana began offering a tax credit equal to 15 percent of the production cost of movie and TV productions valued at $8 million or more. Since then, film crews have shot 60 movies in the state, spent $286 million there, and paid Louisianans another $90 million in salary and wages, said Alex Schott, director of the Louisiana Governor's Office of Film and Television Development.

Several more films are shooting or have "wrapped" since those numbers were tallied, he said. Without the state rebate, Schott figures, 98 percent of the films, including all the larger productions, would have shot elsewhere.

"Louisiana, along with New Mexico, just clearly overtook 99 percent of the United States with their incentives," said Michael D. Barnes, commissioner of the publicly funded East Tennessee Television and Film Commission.

In a sense, Louisiana's rebate plan has worked almost too well. The $100 million the state has paid in credits to film producers has caused some legislators to worry that the state is forgoing too much revenue. That thinking led the Louisiana legislature this year to trim the tax credits to apply only to money spent within the state rather than to all production spending, as was the case before.

How green was my incentive plan

Under state incentive packages, makers of feature films, television movies, documentaries, commercials, and short films receive rebates and tax breaks generally pegged to how many locals they hire and how much they spend locally. Around the South, other states have similar programs: Georgia's legislature passed the Georgia Entertainment Industry Investment Act during its 2005 session, and Mississippi created the Mississippi Motion Picture Incentive Program in 2004.

Tennessee has a smaller incentive program in place, and Barnes and other state film boosters are backing a plan to expand the program. They hope it will pass the state's legislature in 2006 after failing to make headway this year. The current program refunds out-of-state motion picture production companies' sales and use taxes. Alabama established a similarly minor incentive program in 1991 that was due to expire Sept. 30, 2005, but was recently extended a year.

Linda Swann, acting director of the Alabama Film Office, hopes the state legislature will enact a tax credit next year to encourage production outfits to hire Alabamians. The measure died in the legislature this year.

Meanwhile, in August, Swann's office launched a program designed to help Alabama county and city economic development agencies market themselves to film production companies. And an economic development group in Birmingham, the Metropolitan Economic Development Board, is setting up a film office there this summer or fall, Swann said, bringing Birmingham in line with most similar-sized and larger cities.

In Florida, legislation for an Entertainment Industry Financial Incentive program passed in 2003, but because of a budget crunch it wasn't funded until 2004. For the 2005–06 fiscal year, the state's budget includes $10 million for the program.

All these incentives are aimed at luring some of the "runaway" productions that go to Canada or other countries, where filming is inexpensive. "Whether we're in the Southern United States, the South of France, or South Africa," Emling said, "our charge is finding ways to make our jurisdiction more attractive for this industry."

Incentives matter to filmmakers. A group of small Los Angeles–based production companies probably wouldn't be filming in Georgia this summer without them, said David Koplan, one of the producers of the comedy film "Randy and the Mob."

"It makes an enormous, enormous difference," he said. "It's a really big deal for a small movie. It can make the difference in [our] being able to come to a city or not."

The color of money

When the movies come, the economic impact can be pervasive. In Louisiana, for example, workers on a movie set generally earn between $25 and $30 an hour for carpentry, pulling cameras, and setting up equipment and lighting, Schott said. Louisiana construction jobs, by comparison, paid an average of about $16 an hour based on a 40-hour

Photo courtesy of Louisiana Governor's Office of Film and Television Development

week in 2003, according to data from the Louisiana Department of Labor.

When Warner Bros. spent six months in Canton, Miss., filming "A Time to Kill," the 1996 adaptation of John Grisham's best-selling novel, the production staff spent $250,000 a week on food, lodging, equipment, wages, transportation, and other services, Emling said. "O Brother, Where Art Thou?" paid 1,483 Mississippians $2.5 million in salaries and fringe benefits during two-and-a-half months of filming in the summer of 1999. The Coen Brothers' production spent a total of $5.15 million in the state, including $594,318 just on lodging.

Big cities in the region such as Atlanta and Miami have long enjoyed the fruits of local film production. Granted, the activity there is small compared to the major North American centers of Los Angeles, New York City, and Vancouver and by all accounts has tapered off in recent years as productions fled to Canada and other lower-cost locales.

Florida's most recent comprehensive survey of the state's film industry, conducted by Economics Research Associates in February 2003, showed that film, television, and video production paid more than $372 million to Florida workers in 2001. From 1995 to 2001, employment in such productions grew by 94 percent, according to the survey.

Miami accounts for much of that activity. Through the first seven months of 2005, 1,375 film, TV, music video, and photography productions obtained permits from the Miami-Dade Mayor's Office of Film and Entertainment and the cities of Miami and Miami Beach. The productions spent a combined $81 million and hired 20,850 locals for at least brief work, according to FilMiami, the city's film commission.

In July alone, 46 productions were being filmed in the Miami area, including 17 TV series and made-for-TV movies. Six Spanish-language television programs were in production, along with the fourth season of CBS's "CSI: Miami." Universal Pictures was shooting a "Miami Vice" movie starring Jamie Foxx and Colin Farrell.

Part of the genesis for Georgia's recently enacted film industry incentive package was the drop in the number of movies filming in Georgia recently as other states like Louisiana began dangling larger incentives. In 2004, 252 productions, including movies, TV episodes, commercials, and music videos, injected $123.5 million into Georgia's economy, according to the Georgia Film, Video & Music Office. As far back as 1991, movie productions generated about $300 million annually for Georgia's economy.

Tennessee TV

Meanwhile in east Tennessee, television production has become a significant industry since Scripps Network bought Knoxville-based Cinetel Productions in 1994. A unit of the E.W. Scripps Co., Scripps Network's holdings include Home & Garden Television (HGTV) and the Food Network. Scripps develops much of the programming for those networks in Knoxville, employing 600 people. HGTV reaches about 87 million U.S. television households and the Food Network about 86 million. Just as important for Knoxville, Scripps Network has helped to spawn an industry that includes more than 30 TV production companies, according to a survey by the East Tennessee Television and Film Commission.

A more generous incentive plan would attract more moviemakers to the state and complement the experienced production crew base that Tennessee, especially Knoxville, has amassed, Barnes figures.

How to succeed in the film business by really trying

But incentives alone aren't enough. Experienced workers, caterers, and camera and equipment rental houses are essential if incentives are to have any lasting effect, film recruiters said. Low costs alone will not sustain a film industry. Consequently, Louisiana is beginning to amass just such an infrastructure of people, facilities, and suppliers as the state's film industry matures, Schott said. The state of Mississippi has set aside a 25-acre "Film Enterprise Zone" north of Jackson—which Emling calls "an industrial park for the film industry"—where work is scheduled to start this year on a film crew training center.

To be sure, the South is unlikely to ever rival Hollywood or New York as a locus of the film and television industry. But if states' recent actions are a guide, many believe entertainment can be a legitimate cog in the economic wheel of the region. "It's really about the bottom line," said Schott. "If we get those productions here, they spend a lot of money and you get global exposure."

Take My Picture

Southern states offer filmmakers a variety of incentives, and notable movies have been filmed in each state.

Louisiana

•Under the revised plan, tax credits are granted equal to 25 percent of a production company's Louisiana production spending.

•An employment tax credit of up to 20 percent is available.

Notable movies: "Ray," "The Dukes of Hazzard," "Failure to Launch"

Florida

•The state reimburses 15 percent of qualified Florida expenditures up to a maximum of $2 million on motion pictures, $450,000 on television movies and pilots, and $150,000 for individual television episodes.

•Digital media companies are eligible for reimbursement on qualified Florida expenditures of 5 percent of annual gross revenues with a maximum reimbursement of $100,000.

Notable movies: "The Blair Witch Project," "The Godfather: Part II," "There's Something About Mary"

Georgia

•Tax credits of 9 percent of production expenditures in Georgia are provided.

•Another 3 percent tax credit is available for all Georgians hired and 3 percent on qualified spending in poorer counties.

Notable movies: "Driving Miss Daisy," "Midnight in the Garden of Good and Evil," "Diary of a Mad Black Woman," "Smokey and the Bandit"

Tennessee

•A refund of sales and use taxes is available provided that the production company has spent more than $500,000 in connection with filming in Tennessee and that filming has been completed in less than 12 months.

Notable movies: "Hustle & Flow," "Wag the Dog," "The Green Mile"

Alabama

•Abatements are available for sales and use taxes for certain projects on all materials and equipment purchases and leases for documentaries, videos, and commercials with expenditures in Alabama of $100,000 or more or for feature-length films with more than $1 million in Alabama expenditures.

• A lodging tax exemption is provided.

Notable movies: “Big Fish,” “Norma Rae,” “Close Encounters of the Third Kind”

Mississippi

• A 10 percent tax credit is available on local payroll.

• A 10 percent rebate is provided on all other local production expenditures.

Notable movies: “A Time to Kill,” “O Brother, Where Art Thou?” “My Dog Skip”

Sources: State film commissions

This article was written by Charles Davidson, a staff writer for EconSouth.

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Related Links

Related Links on Other Sites

- Louisiana Film and Video Commission
- Mississippi Film Office
- Florida Governor’s Office of Film and Entertainment

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Economic Research

FED @ ISSUE

John C. Robertson is assistant vice president in charge of the regional group of the Atlanta Fed's research department.

On and Off the Information Technology Rollercoaster

If the information technology (IT) sector were a rollercoaster, it would have provided quite a ride over the past decade. Businesses' use of and investment in IT contributed significantly to the U.S. economy's rapid growth during the 1990s. Between 1996 and 2000, the IT-producing sector was responsible for an estimated 1.4 percentage points of the nation's average annual real gross domestic product (GDP) growth of 4.6 percent. Since 2000, however, the IT sector has struggled. The level of IT manufacturing output declined sharply as business investment spending on IT retrenched during the 2001 recession. The Economics and Statistics Administration estimates that in 2002 IT-producing industries contributed only 0.1 percentage points to the economy's 2 percent annual growth.

IT's boom rolled through labor markets

The boom in demand for IT products and services during the 1990s led to a dramatic rise in employment in IT-producing industries, and the subsequent IT retrenchment resulted in a large decline in employment in the early 2000s. And because the IT-producing sector is concentrated in a few locations such as California, Texas, Massachusetts, Washington, and Georgia, the IT boom and bust had disproportionate regional impacts.

Such extraordinary movement in the labor market presents unusual incentives and opportunities as well as challenges for workers. For instance, the IT boom may have led some workers to invest in training that may not be easily transferred to other industries. Other workers may have enjoyed wider opportunities derived from having worked in the sector during the boom.

Experience pays off—maybe

A recent Federal Reserve Bank of Atlanta study, "Earnings on the Information Technology Rollercoaster: Insight from Matched Employer-Employee Data" (Working Paper 2005-11), used matched employer-employee data for the state of Georgia to examine workers' average earnings during the IT industry's employment boom and bust. The study documents the significant wage premium that workers in IT-producing industries earned during the boom relative to their non-IT counterparts. The research also shows that, after the boom ended in 2000, IT workers who were able to remain employed in the IT sector could expect to maintain this higher pay level and that those who took a job outside the IT sector experienced a large pay cut.

According to the study, workers transitioning from the IT service sector likely earned higher wages than comparable workers who had no IT experience during the boom. In other words, having worked for an IT service provider during the boom appears to have boosted those workers' post-boom, non-IT earnings. For IT manufacturing workers, however, having produced high-tech goods during the boom seems to have brought no wage benefit, probably because manufacturing experience is not typically transferable to jobs in nonmanufacturing industries.

Following the boom to Georgia

One restrictive feature of the study is that it focuses only on the dynamics of job-to-job transitions. But many workers in IT industries lost their jobs when IT's boom went bust, and some moved out of Georgia to seek employment elsewhere. In a related study, Atlanta Fed researchers examined worker flows into and out of the Georgia workforce before, during, and after the IT boom. This analysis finds evidence that the IT boom pulled workers into Georgia's workforce to take advantage of the increase in IT jobs, especially in the software and computer services industry.

Interestingly, though, the decline of the IT sector did not cause a disproportionately large shift out of the Georgia workforce. In fact, Georgia's IT boom brought a net migration of skilled workers into the state, and many of them have remained in Georgia even if they are now working at businesses whose primary activity is not IT-related.

While these results are compelling, more research is needed. For instance, the nature of the data used in these studies restricted the analysis to workers classified by industry. But not all workers in IT-producing industries have IT occupations, and many non-IT industries, such as finance or healthcare, have a large pool of IT workers. Indeed, it is likely that the demand for IT service workers such as computer programmers or network administrators in non-IT industries generates the relatively higher wages for workers who had IT-industry experience during the boom. In contrast, the absence of IT manufacturing occupations outside the IT sector explains why workers transitioning out of such jobs experience relative drops in wages.

Not everyone, it seems, enjoys a rollercoaster ride.

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Economic Research

GRASSROOTS

City of Palms Living Up to Edison's Enthusiasm

Located on the banks of the Caloosahatchee River, Fort Myers, Fla.—the City of Palms—promotes itself as a gateway to the Gulf of Mexico. Despite suffering hurricane damage in 2004, this growing community in southwest Florida appears to be on economically firm footing today, like so much of Florida, with just 3 percent unemployment, according to the U.S. Bureau of Labor Statistics.

Photo courtesy of Edison & Ford Winter Estates

The neighboring winter estates of Thomas Edison and Henry Ford are preserved in Fort Myers. Edison demonstrated the area's first electrical light in his lab there in 1887.

Fort Myers is the county seat of Lee County, which in 2004 was the 59th-fastest-growing county in the United States. To make the most of this growth, the city's leaders have undertaken ambitious plans for development and redevelopment.

From fort to fishing to four irons

Originally inhabited by Calusa Indians, the Fort Myers area was explored by Ponce de Leon in 1513 and 1521. The original settlement was a federal fort built to protect the new settlers during the Seminole Indian wars. By the 1800s the area had gained prominence as a fishing mecca for wealthy guests who flocked to Gulf waters, especially in the winter months. They fished for a rich menu of kingfish, channel bass, sea trout, Spanish mackerel, and silver king tarpon.

Wealth followed wealth to this part of Florida when Thomas Edison, cruising Florida's west coast in 1885, was captivated by Fort Myers and decided to build a home and laboratory there. Edison's friend Henry Ford, the auto magnate, shared Edison's enthusiasm for the area and eventually built a home next door.

These homes still stand today, attracting more than 325,000 tourists each year to the historic Edison and Ford Winter Estates. Preserved on the estates is Edison's original rubber lab, which he named the Seminole Lodge. Edison and others who followed him planted royal palms along what is now McGregor Boulevard, which today is lined with more than 2,000 of the trees.

Fort Myers, Fla.

Population:	51,028 (city only)
Households:	19,885
Median Household Income:	$37,287

During the 1920s, a land boom in Florida—coupled with the completion of the Tamiami Trail, running from Tampa through Fort Myers to Miami—caused rapid residential growth. Since the end of World War II, growth in the Fort Myers area has continually pushed out from the center of the city to create new communities focused on golf and beaches, including North Fort Myers, Cape Coral, Lehigh, Fort Myers Beach, Sanibel and Captiva Islands, Pine Island, and Bonita

Source: U.S. Census Bureau

Springs.

Rebounding and redeveloping

After an economic downturn in the 1970s and deterioration, particularly in downtown Fort Myers, restoration efforts in the area began in earnest at the start of the 21st century. As part of the Southwest Florida Enterprise Center, Fort Myers is redeveloping its downtown, changing not only how it looks but how it is being used.

According to Donald Paiglet, executive director of the Downtown Redevelopment Agency, over 3,200 new high-rise condominium units—with prices ranging from $350,000 to over $1.5 million—have been approved for the downtown Fort Myers waterfront; 90 percent of the units that have come on the market have been sold.

In 2003 Fort Myers adopted a redevelopment plan to address the economic viability of the city. The comprehensive plan, created by international architect and planner Andreas Duany, notes that while Fort Myers lacks the coastal beaches and upscale demographics of neighboring Naples and Sanibel, the downtown area does boast a waterfront and a walkable main street, albeit with 40 percent of the land owned by the city itself.

To succeed at redevelopment, according to Duany's plan, the city needs to attract developers and merchants by offering long-term ground leases and thus improve the city's business climate. Data on commercial permits from the Southwest Florida Enterprise Center show that new businesses are already beginning to locate downtown. Florida-based Publix has agreed to open a 40,000-square-foot grocery store downtown, and WCI Communities Inc. is planning a mixed-use waterfront project, said Paiglet.

High marks for quality of life

Fort Myers is a residential powerhouse helping to fuel the economic engine of southwest Florida. New residential units are going up around the city, and existing residential areas are being rejuvenated. In its most recent quarterly survey of 149 U.S. metro areas, the National Association of Realtors found that single-home prices in the Cape Coral/Fort Myers area posted the second-highest gain over the preceding year, rising 45 percent to a median price of $266,800.

Fort Myers consistently ranks high on the "best places to live" lists of a number of major publications because of year-round good weather, low crime rates, and generally affordable housing along with acres of golf courses and waterfront properties. The area is also becoming a major melting pot, according to the Fort Myers *News-Press*, which notes that "specialized social groups for Hispanics, Germans, Asians, and specific nationalities are popping up around the region."

Facts about Fort Myers
• The Fort Myers–Cape Coral MSA has a population of 487,000, according to the U.S. Census 2003 estimate. • Seventy-eight percent of the area's population drive to work alone instead of carpooling or using mass transit • The tropical botanical garden at the Edison and Ford Winter Estates is one of the most complete in America, featuring more than 1,000 varieties of plants from around the world.

Driving forces for a thriving economy

In terms of employment, the Milken Institute's report "Best performing cities: Where American jobs are created and sustained" ranked the Fort Myers–Cape Coral metropolitan area number one nationally in 2004. This ranking bests neighboring Naples, which was 17th. The Milken index is based on a range of components including job growth, wage and salary growth, entrepreneurial capacity, and a high technology quotient.

The local economy is buoyed not only by tourism and residential growth but also by large employers. Florida Gulf Coast University (located within two miles of Interstate 75, the region's major north-south roadway) provides significant employment to the area and plays a major role in training the local workforce. A 19-acre Florida Gulf Coast Technology and Research Park under development near the university will offer office space and research facilities for high-tech companies and research firms as well as classrooms for students. The development is a public-private partnership of the university, Lee County, and Alanda, Ltd.

Another employer with significant impact on the local economy is Southwest Florida International Airport, where a new Midfield Terminal Complex will open in 2005. The $438 million project includes a 798,000-square-foot terminal, a new taxiway, and a parking garage.

This article was written by Lynne Anservitz, editorial director of *EconSouth*.

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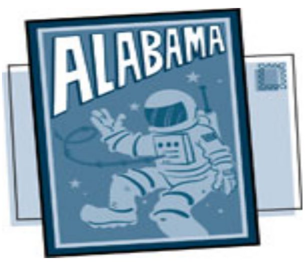
FEDERAL RESERVE BANK *of* ATLANTA

Economic Research

The State of the States

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



- EADS North America has selected Mobile as the site for a $600 million factory that will produce an aerial refueling plane for the U.S. Air Force. The plane will be EADS' tanker version of its passenger jet.
- GKN Aerospace in Tallassee said it will increase its payroll by 50 percent—to about 800 workers—and spend $20 million to expand its factory there, which makes parts for civilian and military aircraft.
- According to a United Van Lines report, Alabama ranked fourth on the list of states with the largest number of inbound moves.
- Officials at Goodrich Corp., an aerospace manufacturer, said that strong sales and new contracts with major airlines in the Americas and the U.S. military will allow the company to expand its Baldwin County operations and hire 88 workers by year's end.

- International tourism boosted passenger traffic at Orlando International Airport by 20 percent in June 2005 compared to last June, according to a report from the Greater Orlando Aviation Authority.
- SeaWorld Orlando announced a new water park attraction that will add about 1,000 employees to the current workforce of 5,000.
- WinDoor of Orlando expects to finish constructing a new manufacturing plant by the end of the year. The plant, which will make hurricane-resistant windows and doors, will more than double the company's employment to 300.
- Mitsui OSK Lines, a major Japanese shipping company, will build a $200 million terminal in Jacksonville, doubling the port's container capacity. The terminal, which will serve as a major Southeast hub for growing regional trade with Asia, will create about 1,800 jobs and is expected to have an $870 million economic impact.

- AE Group, a German company, plans to spend $50 million to build offices and a manufacturing plant in LaGrange, adding 300 jobs to the area over the next five years. The project will include a manufacturing facility that makes and sells components for the aerospace and automotive industries.
- Gainesville-area development officials expect several million dollars in capital improvements and expansions at Wrigley Co.'s plant there. The plant, which makes chewing gum products, already employs 800 people and is the company's largest U.S. plant.
- According to Smith Travel Research, metro Atlanta's hospitality and group travel business has maintained steady levels of growth. Occupancy rates are up 5.5 percent, reflecting increased attendance at conventions and a steady return of business travel.

- General cargo activity at the Port of New Orleans climbed more than 18 percent in the first quarter of 2005 compared with the same period last year. Exports grew by more than 16 percent while imports rose 19 percent. The port recently announced a $20 million plan to expand the facility.
- DuPont Dow Elastomers will proceed with a planned expansion of its LaPlace plant now that a federal agency has committed to maintaining tariffs on rubber imports from Japan. Ending the tariffs would have jeopardized the expansion, which is projected to have a $100 million economic impact on the state.
- The U.S. Army plans to order 724 more armored vehicles from Textron Marine and Land Systems for use by American troops and security forces. The contract will require hiring about 400 employees for the new assembly-finishing plant in Slidell and the primary plant in eastern New Orleans.

- Chevron Global Refining has unveiled plans to increase the capacity of the Pascagoula Refinery's fluid catalytic cracking unit by approximately 25 percent. Its current capacity is 63,000 barrels per day.
- SteelCorr recently announced the construction of a new mill in Lowndes County that will turn scrap iron into high-grade steel for the auto industry. The new plant represents a $725 million investment and is expected to create 450 new jobs.
- June was a strong month for Gulf Coast casinos as gross gambling revenues topped $107 million, an 8.6 percent increase over year-earlier levels. But July revenues dipped because some casinos had to shut down for Hurricane Dennis during what would have normally been a busy weekend.

- Louisville Ladder Group is closing its 20-year-old Smyrna plant, moving production of wooden attic ladders to a Monterrey, Mexico, factory and eliminating 110 jobs.
- Russell Stover Candies Inc., America's third-largest chocolate manufacturer, plans to cut about 400 jobs at its Cookeville factory.
- Poultry company Perdue Farms recently announced a $17 million expansion of its processing facility in middle Tennessee. The expansion, which will add about 400 jobs, is expected to begin operation in mid-November. The plant employs more than 1,800 workers.
- Twin Solutions, a CD and DVD replication and packaging company, will open a new facility in Nashville, initially creating 45 jobs. The company plans to add 120 jobs over the next five years.

This information was compiled by Dave Avery, a senior economic analyst at the Atlanta Fed.

Editor's note: At press time it was too early to assess the economic impact of Hurricane Katrina on Alabama, Louisiana, and Mississippi. We will examine the effects of the storm in future issues of EconSouth.

Illustrations by Jay Rogers

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Q & A

Boomers Keep Florida's 'Edge' Hot

An Interview with Jerry M. Ray of St. Joe Co.

Jerry M. Ray is senior vice president of corporate communications for the St. Joe Co., the largest private landholder in Florida. St. Joe owns 820,000 acres of low-cost land, most of it in northwest Florida, including 300,000 acres within 10 miles of the Gulf of Mexico. Alfred I. du Pont, scion of the family that founded the DuPont Chemical Co., bought most of this land in the 1930s for dollars an acre. Today, St. Joe is a developer of resorts, residential communities, and commercial and industrial properties and is also involved in real estate services and timber.


Photo courtesy of St. Joe Co.

	JERRY M. RAY
Title	Senior vice president of corporate communications
Organization	St. Joe Co.
Function	Florida's largest real estate operating company, St. Joe Co. is also the state's largest private landowner.
Web site	http://www.joe.com
Other	Prior to joining St. Joe in 1997, Ray was a founding member of Powell Tate, a Washington, D.C.–based communications firm. From 1981 to 1988, he was press secretary to U.S. Senator Howell Heflin of Alabama. He was also coordinator of media services and assistant director of university relations for Auburn University.

EconSouth: *What are the demographic factors that affect your business?*

Jerry M. Ray: When you ask about demographics in Florida, we think of demand. And right now we see our business at an almost perfect moment in time with the arrival of baby boomers. We're talking about 76 million people born between 1946 and 1964. The number of Americans between 45 and 64 reached a record low in the 1980s and has been steadily climbing for 20 years. We project the number of baby boomers who are planning retirement will hit a record high in 2111 and stay strong for another 10 or 11 years. As their lives are unfolding, the baby boomers are having profound effects on this country and our business.

ES: *What does the aging of the baby boomers mean to Florida and St. Joe?*

Ray: At this point, baby boomers are beginning to buy second homes and migrate to warm climates. There are millions more people today who are thinking about moving to Florida for a place in the sun than there were three years ago. There will be millions more. This trend is not going to stop for 10 years unless there is some huge impediment.

ES: *What is your forecast for growth in Florida?*

Ray: The population of Florida will grow 80 percent in the next 20–30 years. That's 12 million people, or the same as the entire population of Pennsylvania moving here on top of the population here now. That means from 1,000 to 1,100 people a day moving to Florida.

ES: *What does this migration mean to Florida's economy?*

Ray: Let's compare Florida and Texas. Both places are growing rapidly, but in Texas you have more births and less migration. There is much less population growth in Florida from natural births. But there's no wealth created when a baby is born; in fact, after a baby is born, wealth gets consumed for quite a while. But the people immigrating to Florida are transferring their wealth here. We call them "splitters"—people who take 10 years splitting a home in one place with a second home in Florida. For a while, they go back and forth, and they take JetBlue or another discount airline. Eventually, they move and take their wealth out of their old home and move it into Florida. Every couple that relocates here creates 1.8 jobs. Then the population grows again because of that transfer of jobs. Demand is strong and growing stronger.

ES: *Is there enough land in Florida to accommodate all of the people who are moving there?*

Photo courtesy of St. Joe Co.

Ray: Florida is a hollow state where you have about 82 percent of the population within 10 miles of salt water. And if you take out Orlando that figure is close to 90 percent. Basically, there's a ring around Florida because the fact is people like to be close to the water.

ES: *What about beachfront land?*

Ray: We call the 10-mile-wide coastal zone "the edge," and there's not much left [undeveloped]. Miami, Fort Lauderdale, and much of south Florida are already developed. There are some swamps, and they're inaccessible. Huge portions are owned by the government—the U.S. Forest Service, water management, and defense [agencies]—and people can't live there. We've plotted a map with the available developable acres in that edge zone, and we've catalogued every coastal lot. If you look at this database, you'll see there's no more beachfront. Excluding what St. Joe owns, there's only one parcel that's suitable for a master plan community within the 1,700 miles of Florida's coastline. There are fewer than 50 lots left. Yes, there are condo pads. But there's virtually no beachfront land left except what St. Joe owns. We own 39 miles along the beach. Our longest piece is in Gulf County, and it's 3.5 miles. We'll start selling next year. Being along the edge is what makes something rare and expensive.

ES: *Why are housing prices in Florida appreciating so rapidly?*

Ray: At the same time you have increasing demand, supply is very constrained and becoming more so. That's why you see prices increasing. It's straightforward economics. Now, a further constraint on supply is the approval process. St. Joe's entitlements pipeline is 35,000 units. That's the actual supply number where we can build. Everybody has trouble getting approvals. The timeframe is getting longer. Approvals, or entitlements, are so precious that they're moving up the value chain. We don't think there's a bubble.

ES: *Why is it becoming harder to gain approval to build in Florida?*

Ray: There are parts of society that wish to stop growth. Some parts of the state haven't done well responding to growth, so you get resistance. There are legitimate concerns about managing people, health care, schools, and transportation. There's a hometown democracy growing in response to these issues. All of this is being tested.

ES: *Are you concerned that Florida is becoming spoiled by growth?*

Ray: There are huge parts of the state that are very rural. In northwest Florida we have an opportunity to get ahead of the curve. We think we're excellent planners. We're looking out a full generation, maybe two generations, and thinking about how the infrastructure needs to be accommodated. We're in this for the long term, and we have a high-quality approach. Looking ahead, we see a trend that we call "new ruralism," which is all about baby boomers moving into a phase of their lives where they're at the end of primary parenting and they want to connect with something, maybe nature or community. This idea is about diversifying our property for different groups. It's a concept that has the potential to increase the value of our holdings and make northwest Florida very interesting.

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

Research Notes and News

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

Examining the pros and cons of credit cards

The digital age has seen a proliferation of identity theft—the malicious use of personal identifying data. Although the media have focused on a few incidents in which hackers gained access to large amounts of personal data, the more pervasive problem is smaller in scale: the theft of credit card numbers or Social Security numbers. Policymakers have been reluctant to address this problem because the collection of personal data is central to the effective allocation of credit.

A recent working paper by Charles M. Kahn and William Roberds explores the advantages and disadvantages of payment instruments such as credit cards. The credit card's main advantage, the authors note, is its economy for the merchant, who can cheaply verify it without having to verify the identity of the individual using the card. The card's advantage also opens the door to its disadvantage: the introduction of the possibility of fraud and identity theft.

Kahn and Roberds construct a theoretical model of money and payments that shows that the advantage of payment instruments such as credit cards outweighs the disadvantage of the possibility of identity theft. They suggest that identity theft could be better controlled by more intense initial monitoring of individuals' identities and that the use of money could reduce the incidence of transaction fraud since an individual's identity is not associated with money. But it is up to society, they argue, to determine the acceptable equilibrium between convenient credit card use and the fraud that can arise from credit transactions.
Working Paper 2005-19
May 2005

Canadian ambassador emphasizes trade ties with Georgia and U.S.

Speaking at the Atlanta Fed in June, Canada's ambassador to the United States, Frank McKenna, extolled the importance of trade between the two neighboring countries. "Everybody wins with respect to freer trade between Canada and the United States," said McKenna, who noted that Canada purchases one-fourth of all U.S. exports.

During his remarks to 100 Atlanta-area business leaders and visitors, McKenna expressed concern, however, about a growing backlash against free trade in the United States. "We can't lose our nerve on globalization," he said. Specifically, McKenna decried the "Byrd Amendment," or the Continued Dumping and Subsidy Offset Act, informally named after Sen. Robert Byrd of West Virginia. This legislation directs the distribution of antidumping duties collected by the U.S. government to the businesses that petitioned for trade protection. "The Byrd Amendment is a silent killer of jobs," McKenna said. "The only big winners are the lawyers."

He cited growing commercial ties between Georgia and Canada. Trade between Georgia and Canada totals nearly $9 billion a year, McKenna said, and these transactions have created about 152,000 jobs in the state. Canada is Georgia's leading trading partner, and trade with Canada amounts to more than the combined volume of Georgia's trade with Japan, the United Kingdom, and the Netherlands. Lumber is an important component of the trade between Georgia and Canada, McKenna said, noting that "Canada does more business with Home Depot here in Atlanta than with all of France."

McKenna also touted Canada's role as a steady source of energy during a time of geopolitical instability in the oil-rich Middle East. He noted that Canada is currently the largest supplier of natural gas and petroleum to the United States. "Your biggest energy supplier is a mature, stable democracy," he said.

How risky are private Social Security accounts?
In the ongoing debate over Social Security, private accounts have been recommended as one part of the resolution of the funding difficulties the system faces in coming years. In a recent article, Gerald P. Dwyer Jr. discusses what private accounts can and cannot do for individuals who choose to use them and for future Social Security deficits.

Under current proposals, private accounts would give account holders personal ownership rights and could be willed to heirs at death. Most proposals would limit the range of assets that can be held but would permit account owners to determine their investments based on personal risk preferences. To the extent that financial asset returns can be higher than returns on Social Security, private accounts can be more worthwhile for those with a longer time until retirement because any difference in returns can compound over a longer period.

Private accounts carry the risks inherent in holding financial assets, Dwyer notes, but Social Security carries a real risk of lower benefits in the future. Holders of private accounts would be trading one type of risk for another.

Dwyer concludes that the creation of private accounts can reduce Social Security's future problems if the reductions in benefits in exchange for deposits in private accounts reflect the initial deposit plus interest earned.
Economic Review
Third Quarter 2005

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Economic Research

		Alabama	Florida	Georgia	Louisiana	Mississippi	Tennessee	6th District	U.S.
Total Payroll Employment (thousands)[a]	**2005Q2**	**1,931.0**	**7,714.5**	**3,909.4**	**1,933.2**	**1,137.4**	**2,723.8**	**19,349.2**	**133,426.3**
% change from	2005Q1	0.5	0.7	0.2	0.3	0.2	0.2	0.4	0.5
% change from	2004Q2	1.8	3.0	0.5	0.7	1.2	0.9	1.7	1.6
Manufacturing Payroll Employment (thousands)[b]	**2005Q2**	**297.1**	**391.8**	**440.0**	**151.2**	**180.1**	**412.5**	**1,872.8**	**14,305.7**
% change from	2005Q1	1.3	0.9	0.5	0.8	1.1	0.8	0.9	0.7
% change from	2004Q2	2.1	0.3	–1.7	–1.1	–0.3	–0.1	–0.1	–0.3
Civilian Unemployment Rate[a]	**2005Q2**	**4.4**	**4.1**	**5.2**	**5.3**	**7.0**	**6.0**	**4.9**	**5.1**
Rate as of	2005Q1	5.1	4.5	5.0	5.7	7.0	5.9	5.1	5.3
Rate as of	2004Q2	5.6	4.8	4.6	5.8	5.9	5.4	5.1	5.6
Existing Single-Family Home Sales (thousands of units)[c, d]	**2005Q2**	**125.6**	**583.5**	**242.9**	**84.4**	**64.1**	**167.8**	**1,268.3**	**7,217.0**
% change from	2005Q1	1.5	3.1	9.7	1.9	6.8	6.0	4.6	5.6
% change from	2004Q2	14.7	4.9	13.2	4.4	7.6	8.8	7.2	4.6
Single-Family Building Permits YTD (units)[b]	**2005Q2**	**12,359**	**105,642**	**45,385**	**10,483**	**5,833**	**20,109**	**199,811**	**844,588**
% change from	2004Q2	–0.5	12.6	0.6	16.7	1.5	3.9	7.8	5.2
Personal Income ($ billions)[c]	**2005Q1**	**132.1**	**577.1**	**277.6**	**129.2**	**74.0**	**184.9**	**1,375.0**	**10,090.9**
% change from	2004Q4	0.9	0.9	0.8	1.0	0.6	1.1	0.9	0.7
% change from	2004Q1	7.3	8.4	6.7	5.6	5.6	6.9	7.3	6.8

		Atlanta	Birmingham	Jacksonville	Miami	Nashville	New Orleans	Orlando	Tampa
Total Payroll Employment (thousands)[b, e]	**2005Q2**	**2,276.1**	**513.0**	**594.7**	**2,342.8**	**723.2**	**622.8**	**1,008.0**	**1,305.9**
% change from	2004Q2	0.6	0.6	2.5	2.1	1.7	0.6	4.1	2.7
Civilian Unemployment Rate[b, e]	**2005Q2**	**5.1**	**3.9**	**4.2**	**4.3**	**4.8**	**4.8**	**3.8**	**4.0**
Rate as of	2004Q2	4.6	4.6	5.0	5.2	4.2	4.5	4.6	4.6
Office Vacancy Rate[b]	**2005Q2**	**22.1**	**—**	**16.6**	**13.9**	**9.9**	**—**	**13.0**	**14.2**
Rate as of	2004Q2	23.4	—	17.0	14.7	14.8	—	15.3	16.9
Median Existing Home Sale Price (thousands of $U.S.)[b]	**2005Q2**	**166.5**	**156.1**	**166.6**	**371.6**	**159.7**	**152.6**	**232.2**	**195.0**
Median price as of	2004Q2	156.8	149.5	154.5	282.1	147.4	137.5	170.1	158.2

[a] Seasonally adjusted

[b] Not seasonally adjusted

[c] Seasonally adjusted annual rate

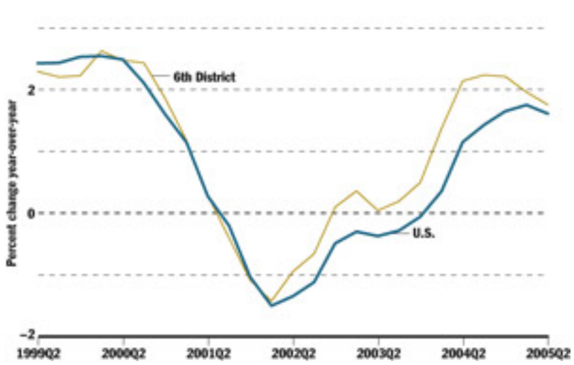
[d] Data include recent rebenchmarking and other data revisions.

[e] The Bureau of Labor Statistics has redefined some MSAs, adding more counties. Payroll and household statistics for some areas may be larger than previously reported.

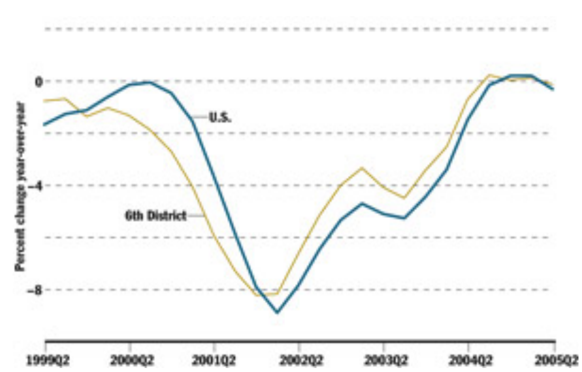
SOURCES: Payroll employment and civilian unemployment rate: U.S. Department of Labor, Bureau of Labor Statistics. Existing home sales and median existing home sale price: National Association of Realtors. Single-family building permits: U.S. Bureau of the Census, Construction Statistics Division. Personal income: Bureau of Economic Analysis. Quarterly estimates of all construction data reflect annual benchmark revisions. Office vacancy rate: CB Richard Ellis. Most data were obtained from Haver Analytics.

For more extensive information on the data series shown here, see www.frbatlanta.org/publica/econ_south/2005/q3/dist_data.cfm.

Total Payroll Employment

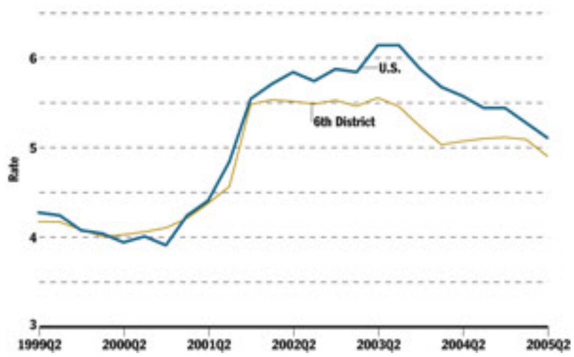


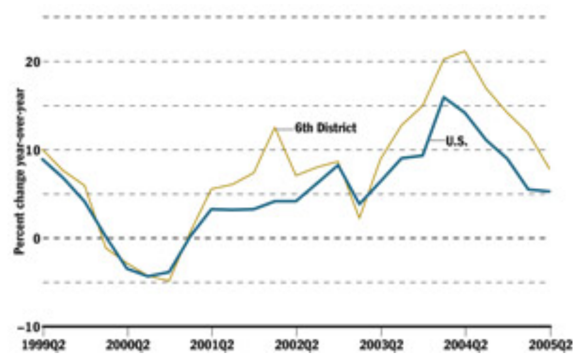
Manufacturing Payroll Employment



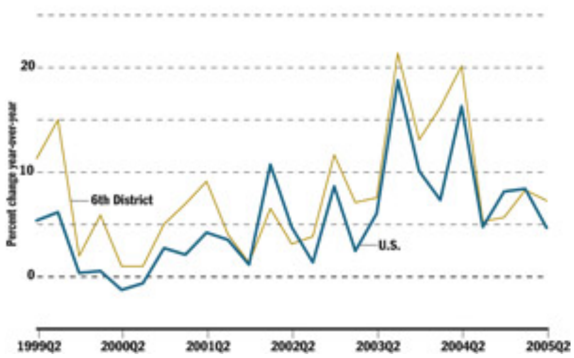
Civilian Unemployment Rate

Single-Family Building Permits YTD

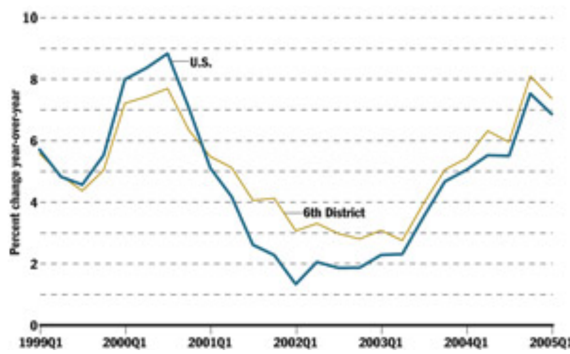




Existing Home Sales



Personal Income



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Editor's note: Throughout this issue, *Southeast* refers to the six states that, in whole or in part, make up the Sixth Federal Reserve District: Alabama, Florida, Georgia, Louisiana, Mississippi, and Tennessee.

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BACK GROUND

Photo courtesy of the Florida Memory Project

Back Ground	New railroads and highways contributed to a 1920s boom in Florida real estate. The state's population experienced a dramatic surge between 1921 and 1926.

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